

# Making your wine business attractive to buyers

There is an upside in this turbulent market for investors seeking a winery brand, facility or vineyard, and for those sellers who have what investors want.

The still struggling, shifting economic environment has made it difficult for winery producers and grape growers to sell their wares, and it has lowered the barriers for those who want to enter the wine industry. This would seem to place investors in control, but sellers can maximize their attractiveness to interested parties by knowing what kind of investors are out there, how those investors make their decisions and then structuring realistic terms and conditions for a successful sale.

## The sellers

There are primarily three types of winery sellers during downward markets:

- Those forced to sell due to financial duress.
- Those who feel compelled to sell due to succession issues within the winery's ownership or management structure.
- Those who elect to sell due to concerns about growth in sales and profitability; an anticipated need for additional capital expenditures to feed growth; and, as a result, the effect on future valuation of the winery.

## The buyers

There are generally three types of buyers in today's market environment:

- The quality investor is prepared to pay a valuation premium for a winery investment with a unique quality or unique market identity, and for the quality of the winery assets.
- The value investor has the threshold expectation of purchasing winery assets that are discounted from their historically higher market valuations.
- The cash flow investor looks to see if there is enough cash flow to support an acquisition as a free-standing investment.

It could be assumed that the quality investor has retreated in this current economic

environment, but they are out there. They seek luxury-tier producers (greater than \$35 per 750 ml bottle retail), with moderate cased goods volume (2,500 to 20,000 cases), a strong direct sales revenue stream and mailing list (greater than 50 percent) and with desirable, strategic placements and relationships in on-premise restaurant accounts.

Identifying those special winery investment opportunities that are not regularly available in the marketplace (e.g., an acquisition opportunity like Screaming Eagle) is a challenge, however, because winery owners who fit this acquisition criteria most likely will wait out the current economic downturn, then consider partial or total sale offers.

However, this is not always the case if the winery is plagued by succession issues or concerns about the future economic and wine industry environment. The value investor seeks the discounted valuation that can be realized on a purchase of winery assets and is not deterred even if the assets have minimal cash flow because their primary motivation is to "get a deal" on the acquisition price.

The value investor's targets are free-standing winery production facilities, a winery facility not associated with a profitable brand, a winery brand that has upside potential but is struggling (due to capital constraints or a lack of sales and marketing resources) or an average-quality vineyard that is not secured with long-term grape contracts. These investors are currently very active in the market.

The cash flow investor, a very disciplined deal maker, wants acquisitions that satisfy a return-on-investment rate and looks carefully at historical and projected cash flow statements, efficiencies that can be achieved in the cost of goods sold structure and any incidental acquisition efficiencies to be realized from the purchaser's existing business infrastructure. The investors in recently

closed winery-brand transactions tend to fit this profile.

## Buyer 'types'

Most buyers have a clear idea of what they need or want. They may want a pinot noir brand, or more specifically a pinot noir brand in Russian River Valley. There are six distinct buyer types: multinationals, major wine companies, large independent wineries, small independent wineries, financial institutions and high-net-worth groups or individuals.

Buyers are not only motivated by acquisitions that meet their specific financial and business criteria; they also consider value opportunities associated with a deal. This sometimes subjective perception of a company's or brand's potential value or growth may be at odds with the seller's subjective perception. And an element like location of a winery's land can positively influence a buyer's desire to make a deal. Land is a critical element in high quality wine deals because its proximity to a unique market (Sonoma, Napa, etc.) can have a major positive impact on a brand or on a winery's operations.

Buyers are looking for the right investment opportunities. If you're considering putting yourself on the market, think like a buyer, get an updated and expert valuation of your assets and make yourself too good to ignore.

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