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2021 YEAR IN REVIEW

Top M&A Deals

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IF THE PANDEMIC YEAR of 2020 year forced merger and acquisition activity in the wine industry into retreat in the interest of "living to fight another day", then 2021 has been the celebration of the arrival of that day, and then some. The 2021 wine industry transaction market has been marked by the announcement of one big deal after another. This year's market through October has been dominated by bold moves revolving around three themes: think big, go public; think big, acquire scale; and refocus strategic priorities and rationalize portfolios.

Think Big, Go Public

The wine industry's greatest success stories of 2021 involved the public market listings of Duckhorn Wine Company and Vintage Wine Estates. We have not seen successful ventures into the public market since the era of Robert Mondavi and Ravenswood. Since the financial performance of Duckhorn is now public, it is more apparent that the company's rampant increase in market value outpaced the appetite and capacity of the pool of potential strategic acquirers in the alcohol beverage industry, leaving Duckhorn with very few M&A exit options. Rather than navigate the valuation limitations imposed by virtue of a limited buyer pool, the company wisely pushed beyond this transaction valuation ceiling by going public. Duckhorn launched its IPO with an initial market capitalization of approximately $2 billion. At its 2021 apex, the stock was trading at an astonishing approximately 25 times trailing 12 months EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization). Although impressive, these financial valuation benchmarks are certainly more of an outlier and should not be misinterpreted as setting market valuation norms for other private brands and companies that may be exploring exit strategies. Duckhorn's financial sponsor, TSG Consumer Partners, recently signaled that it may be on a slow path of divestment from its private ownership stake in Duckhorn by virtue of its recent announcement to list an additional 10 to 15 percent of its interest in the company.

While Duckhorn's IPO may have grabbed the attention of the wine industry, Vintage Wine Estates was the first company to announce its intention to access the public markets. In February, Vintage Wine Estates said it would enter into a transaction with Bespoke Capital, a Special-Purpose Acquisition Company, or "SPAC". Commonly referred to as "blank-check" companies, SPACs are non-operating, publicly listed companies whose purpose is to identify and purchase a private company, thereby allowing the acquisition target to have publicly listed stock through a reverse merger. Vintage Wine Estates' reason for pursuing a public market listing was to access capital for the company's future organic growth and business acquisitions. In addition, Vintage Wine Estates was able to secure a liquid market exchange for equity investment in its company. Given the proliferation of SPACs within the last several years, the Vintage Wine Estates transaction has captured the attention of other privately owned wine companies who have designs on accessing public markets.

Think Big, Acquire Scale

Despite the attention brought about by the Duckhorn and Vintage Wine Estates public listings, perhaps the most stunning announcement of 2021 was Delicato Family Winery's acquisition of Francis Ford Coppola's namesake brand and flagship Coppola Diamond Collection wine portfolio. The Coppola acquisition gives Delicato an additional approximately 1.2 million cases in annual sales, but more importantly gives it a well recognized wine brand in Coppola that will help accelerate the premiumization of Delicato's wine portfolio and provide it with a foothold into Sonoma County via the Francis Ford Coppola Winery and Virginia Dare facilities.

The aspect of the Coppola transaction that is deserving of further attention is the perception that a winery can never achieve enough scale in order to be relevant with distributors, retailers and the wine trade. Since the mid 1990s, the wine industry has witnessed significant changes in the route to market wholesale channel. Through attrition and consolidation, the number of distributors has dwindled from roughly 3,000 in the mid 1990s to approximately one third of that today, while the number of wineries in the U.S. has grown from less than 3,000 to approximately 11,000 during the same time span. A winery today has fewer options for accessing consumers who purchase wine through conventional on and off premise channels. This dynamic has been compounded by the fact that retailers are tightening the amount of shelf space devoted to wine products. Hence, the overall takeaway is that wineries must pursue a strategy of maintaining relevance with the wine trade by acquiring high growth wine brands and achieving greater scale.

The Coppola transaction may also have been influenced by succession planning motives, especially due to the looming challenges posed to the family in managing the growth of Coppola's large, commercial operations. It is notable that the transaction allowed Francis Ford Coppola to retain his smaller, but more luxury positioned winery assets, including Inglenook in the Napa Valley and Domaine de Broglie in Oregon's Willamette Valley.

Refocus Strategic Priorities and Rationalize Wine Portfolios

The circumstances in 2021 presented a prime opportunity for companies to take inventory of their wine portfolios and reevaluate the nature of their commitment in the wine industry. This was driven in large part by market forces – in particular, the continued growth of above $12 retail priced wines at the expense of lower price categories. In January 2021, the much anticipated Constellation Brands E. & J. Gallo Winery transaction closed following lengthy delays from the Federal Trade Commission over antitrust concerns. The transaction represented Constellation's divestment of the preponderance of

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Notable Transactions Completed in 2021

Closing Date	Target	Assets Acquired	Acquirer	Location
January	Constellation Brands Low-End Wine Portfolio	Integrated Estate	E. & J. Gallo Winery	California
January	Nobilo Wine	Brand	E. & J. Gallo Winery	New Zealand Sourced
February	Armand de Brignac (Ace of Spades champagne)	Brand	LVMH	France
March	Duckhorn Wine Company	Integrated Estate	IPO	California
March	Oliver Winery & Vineyards	Integrated Estate	NexPhase Capital	Indiana
March	Beringer Low-End Portfolio License (Main & Vine, Founders', Coastal, Meridian)	Brands	The Wine Group	California
April	Ponzi Vineyards	Integrated Estate	Bollinger Family	Oregon
May	La Fête du Rosé	Brand	Constellation Ventures	Florida (French Sourced)
June	The Sommelier Company	Service Provider	Vintage Wine Estates	Virtual
June	Sapere Aude	Brand	Constellation Brands	California
June	Vintage Wine Estates	Integrated Estate Portfolio	SPAC Merger (Bespoke Capital Acquisition Corp)	California
August	NW Wine Company	Integrated Estate	Casparian Partners	Oregon
August	WX Brands	Brand Portfolio	Terold (Bemberg Family)	California
August	Francis Ford Coppola Winery	Integrated Estate	Delicato Family Vineyards	California
September	Lewis Cellars	Business (IP & inventory)	Stewart & Lynda Resnick, The Wonderful Company	Napa Valley
September	Vinesse, LLC	Online, DTC Wine Club	Vintage Wine Estates	Virtual
September	Sovereign Brands (Luc Belaire)	Brand	Pernod Ricard	New York City (French Sourced)
October	Redwood Ranch Vineyards	Vineyard, Business	Silverado	Alexander Valley

Editor's Note: This is a list of the most notable and some of the largest transactions completed in 2021. Not all transactions were arranged by Zepponi & Co.

its below $12 wine portfolio and repositioned the company as a luxury and fine wine producer. Initially announced at a valuation of approximately $1.3 billion, the transaction underwent significant restructuring to meet antitrust concerns, resulting in a lower cash closing value, with the possibility for receiving additional consideration through performance earnouts.

Treasury Wine Estates made a similar move toward premiumizing its wine portfolio with the divestment of several lower-priced, “commercial tier” wine programs to The Wine Group. Largely structured as an earnout, the transaction was part of an ongoing plan to streamline Treasury’s North American wine operations. The Melbourne based company has made similar proclamations as Constellation in that it wants to reposition its wine portfolio to meet consumer demands for more premium priced wine products. It has been challenged in executing this initiative since being unwittingly pulled into a political dispute between China and Australia, the result of which has effectively shut down Treasury’s wine sales to China.

Yet, thus far, the hallmark transaction of 2021 has been Altria’s sale of Washington based Ste. Michelle Wine Estates to the private equity firm Sycamore Partners, as reported for approximately $1.2 billion. Altria, a world leading tobacco company, had long been rumored to be not fully committed to its investment in the wine industry. The timing of this transaction was surprising in that Ste. Michelle was in the midst of a 3 to 5 year repositioning of its wine portfolio. However, Altria’s investment in the wine industry likely became expendable as a result of earnings pressures from increased regulatory challenges in selling tobacco products, as well as its failed investment in e cigarette maker Juul. Although the Ste. Michelle wine portfolio is heavily weighted to Washington wines, the company has well respected winery assets in California and Oregon, including Stag’s Leap Wine Cellars, Patz & Hall and Erath. It also has a dynamic agency portfolio of international wine brands. The conventional wisdom is that Sycamore Partners will pursue a reorganization and premiumization path for the portfolio, particularly since the majority of Ste. Michelle’s Washington wine portfolio is positioned below $12 per bottle.

Takeaway Observations

If the major transaction themes of 2021 can be summarized in a single phrase, it might be “think big AND think premium”. More often than not, the quest for increased scale went hand in hand with a refocusing of strategic priorities on higher retail price segments. In addition, 2021 witnessed a broadening of the wine industry buyer pool, as well as an increase in companies’ options for raising capital and achieving shareholder liquidity. Over the past decade, wine industry owners have become increasingly concerned that continued consolidation in the industry is shrinking the strategic buyer pool, resulting in fewer exit options and increased acquirer negotiating leverage. Recently however, more private equity funds and other types of private investment vehicles are evaluating opportunities at all levels of the wine industry. For larger companies with attractive growth prospects and strong management teams, public offerings have resurfaced as a viable option for growth capital and liquidity. **WBM**