

# WINE BUSINESS MONTHLY

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## 2022 YEAR IN REVIEW

- *GROWING SEASON*
- *M&A DEALS*
- *NEWS STORIES*
- *PEOPLE MOVES*

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**Seven Stages of Winemaking over a Calendar Year**

**Viticulture Trial: Leaf Area vs. Crop load**

**Bag in Box for Small and Medium Sized Wineries**

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# 2022 Year In Review

## M&A Market Remains Active in 2022 in California and Pacific Northwest

### Headwinds Include High Interest Rates

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**BROKERS AND WINE INDUSTRY CONSULTANTS** reported plenty of mergers and acquisitions in 2022, despite concerns over rising interest rates and other worldwide crises.

Pat DeLong, founder and principal at Azur Associates, said in October that the M&A market had slowed since last year. However, he and others noted that 2021 was a particularly active year for mergers and acquisitions.

Brokers interviewed in October expected to close significant deals before year's end.

"So far, 2022 has been a continuation of the trends started in 2021," noted Andy Steinman, an Oregon-based M&A advisor with Global Wine Partners. "Inflation and interest rates have caused concerns throughout the economy, and against these new headwinds, I've been surprised by the resilience of M&A interest in the wine industry."

While he anticipates continued interest in strategic assets, "rising interest rates and recession fears may slow the market," Steinman added.

Cody Jennings, a senior vice president with Zepponi & Co., said there was far more optimism in the wine industry at the start of 2022 than later in the year. "Obviously, there are far more questions now in late-2022 regarding the health of the economy, both in the U.S. and globally," he observed. "But the U.S. wine market has historically proven to be fairly resilient, and we're continuing to see strategic buyers remain active despite an uncertain economic outlook."

### WHAT WERE THE MOST SIGNIFICANT M&A DEALS IN 2022?

Brokers said buyers have included domestic wineries, international companies, private equity firms and families interested in entering the wine industry.

According to Jennings, the major wine industry transactions in 2022, as in past years, can be attributed to "large-scale wine companies looking to rebalance their brand portfolios to match mid- to long-term consumer trends" and "mid-scale wine companies acquiring attractive brands with the goal of attaining greater share of mind and relevance in a highly consolidated marketplace."

DeLong, who is based in Napa, highlighted four significant transactions in 2022—three in the Napa Valley and one in Oregon. These marquee transactions included the sale of Shafer Vineyards to South Korea's Shinsegae Property for \$250 million in February 2022, Joseph Phelps Vineyards' acquisition by international luxury group LVMH Moët Hennessy Louis Vuitton in June 2022 and Silverado Vineyards' sale to Foley Family Wines, also in June.

Erik McLaughlin, CEO at Metis LLC, said deals in the Pacific Northwest have been driven by "in-region strategics," trying to support growth. As of October, the biggest transaction was the September sale of A to Z Wineworks of Oregon to Ste. Michelle Wine Estates, now owned by the private equity firm Sycamore Partners. Sycamore Partners purchased Ste Michelle Wine Estates for \$1.2 billion from tobacco giant Altria Group Inc. in 2021.

Ste. Michelle Wine Estates sells 60 percent of Washington state's wine production, according to public reports, but McLaughlin said the company wants to expand its Oregon market share.

"With the bolt-on acquisition of A to Z this year, it appears likely that Sycamore will look to bolster Ste. Michelle's regional dominance in the Pacific Northwest before monetizing its investment," Jennings confirmed.

Brokers noted private equities have invested in the wine industry for years. In 2007, Menlo Park-based GI Partners invested in Duckhorn, grew the wine company and in 2016, sold it to another private equity firm, TSG Partners. TSG then took Duckhorn public in 2021.

Healdsburg-based custom wine producer Rack & Riddle received an investment from California-based private equity firm, SBJ Capital in 2022.

"A leading producer of custom sparkling wines for many well-known California wineries, Rack & Riddle has benefited from the outsized performance of the sparkling wine category in recent years," Jennings stated.

### PREMIUMIZATION EFFORTS CONTINUED IN 2022

In October, Constellation Brands sold six of its more affordable brands to The Wine Group to focus investment on premium wines and craft spirits. The brands sold to The Wine Group included Charles Smith Wines, The Dreaming Tree, Cooper & Thief, Crafters Union and 7 Moons.

"This transaction will enable us to focus and shift our portfolio towards the higher end, positioning ourselves to continue delivering industry-leading growth and shareholder value with the right portfolio for our ambitions," said Robert Hanson, executive vice president and president of Constellation Brands' wine and spirits division, in a written statement. "In turn, The Wine Group is acquiring great brands that complement its current strategy of continuing to build a premium wine portfolio."

In a sale eventually worth \$810 million, Constellation Brands also sold five wineries and 30 brands primarily priced at \$11 a bottle and below to E. & J. Gallo Winery in January 2021. In April 2022, Constellation Brands purchased Lingua Franca, the Willamette Valley winery founded by sommelier Larry Stone.

Treasury Wine Estates, another publicly-traded wine giant, sold off assets in 2021, also with the goal of pursuing a premiumization strategy. In December 2021, the company acquired Napa Valley's Frank Family Vineyards.

The ongoing premiumization efforts make high-end areas, like Napa, a draw. "As has been the case for the past several years, luxury wine brands are in the crosshairs of the market, with Napa continuing to remain the focal point of the category and an attractive investment for both domestic and international companies," Jennings noted in early October.

"Beyond the largest producers, there is appetite from mid-sized domestic wine companies for brands of scale," Jennings added. These companies want to grow their portfolios, through acquisitions, for "greater attention and relevance" as distributors and retailers continue to consolidate. "High-growth

brands, or those which fulfill a company’s particular portfolio white space, are ideal bolt-on targets.”

Napa County’s property assessment roll grew by a record \$3.5 billion in 2022 to reach \$48.8 billion. Vineyards accounted for more than \$4 billion of the total assessment roll, according to longtime Napa County assessor John Tuteur. The assessed value for vineyards was \$3.5 billion a year earlier.

Tuteur has witnessed the acquisition of many privately-owned Napa Valley wineries, vineyards and brands over the years. “They have been falling like dominoes,” he remarked. These are very scarce assets, he added, referring to top Napa Valley wineries and vineyards. “You’re paying a lot of money for them.”

In Sonoma, Foley Family Wines acquired Winner’s Circle Vineyard for more than \$220,000 an acre, “the highest per-acre value” for a Russian River vineyard, said Robert Nicholson, principal at International Wine Associates.

The Pacific Northwest has also been attractive for investments thanks to lower land costs, brokers noted.

The Willamette Valley, particularly the Eola-Amity Hills and Dundee Hills wine regions, attract the most buyers in Oregon, Steinman said. In Washington state, there is ongoing interest in Walla Walla, where a number of transactions have taken place.

Washington state produces excellent Cabernet, Merlot and Syrah-based wines, Steinman pointed out, and their wines can be produced far more

| DATE   | TARGET                                       | ASSET TYPE                 | BUYER                         | SELLER                  |
|--------|--|----------------------------|-------------------------------|-------------------------|
| Oct-22 | Premium Brand Portfolio (Six Brands)         | Brand Portfolio            | The Wine Group                | Constellation Brands    |
| Sep-22 | A To Z Wineworks                             | Brand and Winery           | Ste. Michelle Wine Estates    | A To Z Wineworks        |
| Aug-22 | Sage Canyon Vineyard                         | Vineyard                   | Precision Vineyards           | Gallo Vineyards Inc.    |
| Aug-22 | Oso Vineyard                                 | Vineyard                   | Plumpjack Group               | Mondavi family          |
| Aug-22 | Methven Family Vineyards                     | Integrated Estate          | Domaine Drouhin               | Methven family          |
| Aug-22 | Winner's Circle Vineyard (Russian River)     | Vineyard                   | Foley Family Wines            | Private Investors       |
| Aug-22 | Archer Roose                                 | Brand (Minority Interest)  | Constellation Brands          | Archer Roose            |
| Jul-22 | Wellsona Road vineyard, Paso Robles          | Vineyard / Real Estate     | Metz family                   | Plummer family          |
| Jul-22 | Platt Vineyard                               | Vineyard                   | AXA Millésimes                | Russian River Partners  |
| Jul-22 | Wildefoote Vineyard                          | Vineyard/ Real Estate      | Shafer                        | Arlie Jean Phillips     |
| Jul-22 | Joseph Phelps Vineyards                      | Integrated Estate          | LVMH                          | Joseph Phelps Vineyards |
| Jun-22 | EOS Estate Property                          | Vineyards / Real Estate    | Halter Ranch                  | Foley Family Wines      |
| Jun-22 | Silverado Vineyards                          | Integrated Estate          | Foley Family Wines            | Disney-Miller family    |
| Jun-22 | Houyi Vineyard and Nine Suns Winery          | Integrated Estate          | Realm Cellars                 | Chang family            |
| May-22 | Orcutt Road Cellars, San Luis Obispo         | Winery Facility            | Daou Vineyards LLC            | Niven family            |
| May-22 | Force Canyon Vineyard, Arroyo Seco, Monterey | Vineyard                   | Kylix Vineyards California    | Gallo Vineyards Inc.    |
| Apr-22 | Witness Tree Vineyard, Eola-Amiti Hills AVA  | Vineyard/Real Estate       | Jay Mason and Matt Felton     | Confidential            |
| Apr-22 | Mill Creek vineyard, Walla Walla, Wash.      | Vineyard                   | Jackson Family Wines          | Abeja Winery            |
| Apr-22 | Lingua Franca                                | Integrated Estate          | Constellation Brands          | Larry Stone             |
| Apr-22 | Beau Joie                                    | Brand (Minority Interest)  | Deutsch Family Wine & Spirits | Beau Joie               |
| Mar-22 | Rabbit Ridge vineyard                        | Vineyards / Real Estate    | Riboli Family Wines           | Rabbit Ridge Vineyard   |
| Feb-22 | Black Walnut Inn & Vineyard                  | Vineyard/Real Estate       | Foley Entertainment Group     | Rick Miller             |
| Feb-22 | Shafer Vineyards                             | Integrated Estate          | Shinsegae Property            | Shafer Vineyards        |
| Feb-22 | Paso Robles Wine Services Facility           | Winery Facility            | Riboli Group                  | Miller family           |
| Feb-22 | Tertulia, Walla Walla, Wash.                 | Winery Facility/Vineyard   | Patterson Cellars             | Capri Walla Walla       |
| Feb-22 | Rack & Riddle                                | Custom Winemaking Business | SBJ Capital                   | Rack & Riddle           |
| Jan-22 | Meier's Beverage Group                       | Custom Winemaking Business | Vintage Wine Estates          | Meier's Beverage Group  |
| Jan-22 | Edge Hill Winery                             | Integrated Estate          | Joel Gott Wines               | Rudd Estate             |
| Jan-22 | Roco Winery                                  | Brand and Winery           | Santa Margherita USA          | Roco Winery             |

SOURCES: GLOBAL WINE PARTNERS, INTERNATIONAL WINE ASSOCIATES, ZEPPONI & CO., METIS LLC, AZUR, JENNY HEINZEN REAL ESTATE, PUBLIC RECORDS



economically than in the Napa Valley. “This allows wine companies to add Washington brands (or SKUs) at more modest retail price points as part of their portfolio,” Steinman added.

### BUYERS DRAWN TO TOP-RATED PROPERTIES

The sale of high-value Joseph Phelps and Shafer Vineyards indicates that in “challenging financial times, very high-value luxury wine industry transactions will still take place,” Nicholson said.

Paso Robles-based real estate broker Jenny Heinzen has remained very busy selling vineyards, wineries and homes. Before 2020, she concluded one deal a month on the Central Coast on average. In the first half of 2022, she worked on more than 15 transactions.

Many top wine companies, such as Daou, Halter Ranch and E. & J. Gallo, have made deals or are in the process of making moves on real estate and/or wine brands, Heinzen reported. Most of the activity is in Paso Robles. The area has gained worldwide recognition as a quality wine producer, Heinzen said, adding “people want to own it,” including big agricultural companies, institutional investors, wine companies and lifestyle purchasers.

“The region has reached a compelling phase for all types of buyers,” Heinzen observed.

### RISING INTEREST RATES SPUR CAUTION AMONG BUYERS

Jennings predicted that rising interest rates will “likely have a dampening effect on investments by wineries looking to control production assets (vineyards, production facilities) through outright acquisitions.”

Still, there is “a fairly robust pool of institutional investors with ample capital to deploy thanks to rising interest in alternative investments,” Jennings added.

“Softening competition from wineries for production assets will likely benefit deal flow to these investment groups.”

A surging U.S. dollar will affect foreign investments in the wine industry, Jennings said. “A strengthening U.S. dollar will make it far more difficult for international buyers to acquire U.S. assets,” he noted. “This is particularly true among European countries which have seen the euro drop to a 20-year low in recent weeks due to heightened fears of a worsening energy crisis.”

McLaughlin of Metis LLC anticipated he would close more deals, before the end of 2022, even though increasing interest rates were “tightening things up.”

As of October, “Rising interest rates have put significant pressure on deals, especially in the latter half of the year,” stated McLaughlin. “We’ve already seen three deals not get done over the rising cost of capital. We have several deals scheduled to close in the fourth quarter, but interest rate hikes aren’t making them easy to finish.”

Higher interest rates translate into an increased cost of capital—and greater risk for buyers, according to DeLong. They also mean lower valuations than expected. “In higher risk economic environments, prudent buyers often turn to a ‘protect the core’ strategy and a flight to safety, which means simply avoiding risk as much as possible,” he said, adding that they pursue top brands and estates.

Estates in the “A-Grade” category include “brands with history” and estates in top locations with “well-maintained facilities and vineyards,” added DeLong.

“Buyers will typically think differently about ‘A-Grade’ estates and brands because those are scarce and will typically provide durable cash flow over the long term,” he continued. “This can lower the risk a buyer sees and result in less impact to the valuation.”



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Estates and brands “with soft cash flow, deferred maintenance and/or less desirable locations” may receive lower valuations than anticipated and are likely not to sell, DeLong explained.

Nicholson, of International Wine Associates, also said high interest rates have dampened interest in “lower value deals with nominal cash flow” or brands with no strong following. Transactions that involve “strong luxury wine businesses” will continue in 2023, Nicholson predicted. “All others may have difficulty.”

Heinzen said high interest rates have affected lifestyle transactions the most. Most of the deals she has worked on over the past six months are cash transactions, Heinzen reported in October. She predicted that the 2023 M&A market will have a continued focus on Paso Robles properties with a premium placed on Paso Robles’ west side, as well as more cash-based transactions.

David Ashcraft, a broker at Vintroux, has sold small wineries and their brands. While the first half of 2022 was still very active, he observed a notable shift occurred during the second half of 2022. “Interest rates are making an impact when winery CFO’s break out their calculators and spreadsheets,” he pointed out. That said, decisions are still being made. “They have to adjust their projections for each opportunity and go from there,” he stated.

“At this point we have to keep in mind that current interest rates are not bad, historically speaking,” Ashcraft added. “Rates have been low for so long that people forgot what ‘normal’ interest rates look like.”

Winegrape prices in Napa and Sonoma may remain strong due to lighter than average harvests, Ashcraft said. “This bodes well for growers and might help limit some backsliding on real estate values,” he observed.

A significant rise in interest rates can affect transactions. “That said, blue-chip quality vineyards, top-shelf quality brands and excellent locations will always maintain superior value even during challenging economic times,” Ashcraft added.

Publicly-traded companies’ stock have declined this fall. Still, companies have publicly stated they are determined to expand.

In an investors’ conference call on Sept. 13, Vintage Wine Estates’ CEO Pat Roney reiterated the publicly-traded company’s growth strategy, which includes more acquisitions. “We are actively advancing our acquisition pipeline and believe that fiscal 2023 will be another strong year for Vintage Wine Estates as we transform the company into a much larger, more significant player in the wine industry.”

## CONCLUSION

While the M&A market was active in 2022 and brokers believe that will continue through the rest of the year, high interest rates and other factors have the potential to dampen the market in 2023, particularly for lifestyle buyers.

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