THE NORTH BAY
Business Journal
NORTH SAN FRANCISCO BAY AREA: *SONOMA, NAPA AND MARIN COUNTIES*

427 MENDOCINO AVE., SANTA ROSA, CA · 707-521-5270 · WWW.NORTHBAYBUSINESSJOURNAL.COM · REPRINTED FROM JULY 23, 2012 · PAGES 17 AND 10

For foreign investors, U.S. winery assets look increasingly attractive

BY GUEST CONTRIBUTOR
MARIO ZEPPONI

Currency differentials accelerate interest in domestic wine market

Historically, we tend to think of countries such as France, Italy and Spain as leading producers and consumers of wine. But in fact, the United States overtook France as the world's leading wine consumer in 2011.

At the same time, the United States ranks 53rd when measured on a per capita wine consumption basis, at slightly less than 13 bottles per person. In other words, Americans as a whole drink a lot of wine, but on our own we could be drinking a lot more. As it is, demand is outpacing domestic production, particularly in light of the shortage of grapes and bulk wine available on the market. It is no surprise that a considerable number of European, South American and Australian wine companies are focused on accessing the United States' wine market, with its tremendous potential for consumption.

If we review sales activity over the past 18 to 24 months, we can see how the role of foreign investment in the U.S. wine industry has evolved. Broadly speaking, there are three general categories of foreign investment in the United States wine market from which to gauge activity: "strategic"; "financial"; and "lifestyle" investments.

Strategic investors are motivated by a desire – usually on the part of a foreign wine producer – to access wine distribution channels in the United States. The large wine producers of the world recognize that the U.S. is an important market; however, it is also one of the most difficult markets to penetrate. They often find it easier to own an American brand or winery than to try and import their wines without any local presence. The development or acquisition of a domestic brand can boost a foreign wine producer's relevance in the three-tier system, as well as create a sales and marketing avenue to channel imported wine products into the U.S. market.

A prime example of this is Chilean producer Concha y Toro's acquisition of Fetzer Vineyards in 2011 for $238 million. With the purchase of Fetzer, Concha y Toro obtained a brand with over 3.1 million cases in sales and significant vineyard holdings in Mendocino County and Paso Robles. In doing so, not only did Concha y Toro gain a stake in the rising tide of California wine, but also they were able to leverage an existing sales and marketing platform to strengthen the company's presence in one of their primary export markets.

In 2011, Boisset Family Estates made two key acquisitions of California winery assets. In April, Boisset acquired Buena Vista, expanding upon its growing portfolio of North Coast brands. Six months later, the Burgundy-based company acquired Lockwood Vineyards, a well-known Central Coast brand with annual sales in excess of 75,000 cases. Boisset, which had established a presence in the United States with its prior acquisitions of Lyeth, Deloach Vineyards and Raymond Vineyards, was able to expand its varietal and geographic diversity on an existing business platform. By increasing its clout in the domestic market, the company's imported wines stand to benefit as well.

Similarly, Lion Nathan, a subsidiary of Japanese parent Kirin, acquired MacRostie Winery in 2011, in order to add a California brand to its limited United States portfolio. Lion Nathan already owned Argyle, a small winery based in Oregon's Dundee Hills region. Here again, this purchase was mostly about expanding the geographic diversity of the company's existing presence in the United States market – a platform from which it sells imported wines from Australia and New Zealand.

The second investment category is the financial buyer, an opportunist who is intrigued by the possibilities of acquiring winery assets at a value that will generate an attractive return on investment, especially at a time when the United States economy is floundering. Such was the case of Sierra Foothills winery Renwood, which was sold out of bankruptcy in 2011 to a private Argentine investor. Even though Renwood was viewed as a distressed winery asset, the 80,000-case brand had significant upside and represented a particularly strong value play for the investor.

In the third category, the foreign lifestyle investor is drawn to America for a number of reasons; the prospect of acquiring winery assets at a discount; the benefits of getting preferred residency status in the United States; as well as other intangibles. To lifestyle investors, the United States is still viewed as a stable market, in which to diversify one's asset holdings.

Napa Valley's Frazier Winery (Chinese investor) and the Eos Estate winery facility in Paso Robles (Iranian investor) both met these criteria. One notable transaction that had a number of "lifestyle" elements was the purchase of Napa Valley's Sloan Estate by a Hong Kong publicly traded company in 2011. The winery brand and related real estate assets were sold for 50 million dollars, representing a substantial premium for one of Napa Valley's most decorated cult wine labels. This acquisition represented not only a trophy investment, but also an opportunity to obtain an American luxury brand that could be exported to the wealthy elite in Mainland China.

For all international buyers, regardless of category, the opportunity to exploit currency differentials has only accelerated interest in the United States wine market. The declining value of the dollar relative to other currencies over the past 10 years means that investors from regions such as the Eurozone, Chile, China and Australia get an additional enhancement to already-depressed U.S. winery assets.

Today, the United States is the most attractive country in the world to foreign investors seeking to invest in winery assets. The dollar is depressed; American wine assets are relatively cheap; the domestic wine consumer is thirsty; and demand will only grow. In an increasingly global market this adds up to an irresistible opening for international investors who acquire United States wine assets with a variety of motives. And unless there is a strengthening in the U.S. dollar or a weakening in the exchange rates of competing currencies, the current hunger for American wine assets seems likely to continue for some time.

Zepponi & Company (www.zepponi.com) is a global wine industry mergers and acquisitions advisory firm headquartered in Santa Rosa, California. The firm's three principals, Mario Zepponi, Matt Franklin and Joe Ciatti, are established wine industry veterans, with expertise in strategic transaction analysis, valuations and creativity in structuring complex transactions. Zepponi & Company specializes in advising on ultra-premium and luxury wine brands, estate wineries and vineyards, such as Kenwood Winery, Chalk Hill Estate, Diageo Chateau & Estate Wines, Jackson Family Wines, Four Vines, Black Stallion and Kuleto Estate.