California wine companies are doing what hasn't been done in 20 years: go on the stock market

After several famous California winery IPO failures, Vintage Wine Estates and, reportedly, Duckhorn will go public this spring

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Two Bay Area wine companies, Santa Rosa's Vintage Wine Estates and Napa Valley's Duckhorn Vineyards, are planning to do something this spring that no major California winery has attempted since the late 1990s: go public.

Unlike their counterparts in the tech industry, the few California wineries that have gone public seldom found happy endings. Robert Mondavi Winery faced a hostile takeover by beverage giant Constellation; no Mondavi family members are involved anymore. Chalone Wine Group ended up in the hands of a spirits corporation that turned some of its once-great wines into bulk labels. Ravenswood Winery has been all but abandoned, and it's unclear whether its new owner, Gallo, will resuscitate it.

Yet there's reason to believe that Vintage Wine Estates and Duckhorn could turn the Wall Street winery narrative around, and industry experts say both are poised for success as publicly traded companies. (Bloomberg reported the Duckhorn plans, but the company has not confirmed its plans and declined to comment for this story.)

The fact that the deals to take them public may occur around the same time is partly a reflection of the current financial market, one enjoying low interest rates and flush with capital. But it's also an illustration of how California wine has changed over the past 20 years: An industry built on romantic, family-run estates has morphed into something a little more corporate.

There are many reasons why local wineries have had a tough go with public shareholders. Wine is seasonal, with a product that can be made only once a year. Like any agricultural business, it's volatile; in 2020, for example, many California wineries saw their entire crop ruined due to wildfire smoke. It's also slow: From planting a vineyard to selling the first bottle of wine can be five or more years. And it's deeply linked to real estate, specifically vineyards, an investment that can take decades to deliver returns.

That's partly why the first American wine company to go public, Chalone Wine Group, didn't act as a typical public company after its 1984 IPO, said Tom Selfridge, its CEO from 1998 to 2005. Most of the shareholders were individual wine drinkers who, in lieu of dividends, got to come to a big party at the winery every year. They weren't buying the stock to sell it.

"It was a big wine club basically. That was the dividend," Selfridge said.

Answering to public shareholders can also seem at odds with the ethos of a certain type of high-end winery, especially one that's family-owned: Increasing volume, which is usually necessary to deliver shareholder returns, can detract from wine quality.

"Economics and control don't always go hand in hand," said Mario Zepponi, a wine industry merger-and-acquisition adviser. **If a family wants access to the public market's capital, he continued, it may have to give up some control of the wine.**

That can be its downfall. In 2004, spirits giant Diageo bought Chalone, and quality didn't keep up; Diageo has since gotten out of the wine business entirely. (The various wineries owned by the Chalone Wine Group are scattered to the wind or defunct; its flagship winery, Chalone Vineyard, is owned by Foley Family Wines.) After the partners at Ravenswood, an acclaimed Zinfandel producer that went public in 1999, failed to raise enough money to appease investors, it sold to Constellation against the wishes of the founder. In the years since, Constellation closed the tasting room, sold the winery facility and finally sold the whole brand to Gallo in a package deal with dozens of low-priced wine brands.

Vintage Wine Estates CEO Pat Roney acknowledged these challenges.

“Wine is so capital intensive, and it’s got so many fluctuations with harvest, that it’s hard to report consistent quarterly earnings,” he said.

Naturally, Roney said he thinks his situation is different. And it is: His company bears little resemblance to Chalone, Mondavi or Ravenswood. Those businesses were each built around a single flagship, upscale wine brand, and their reputations depended in large part on the charisma of a founding winemaker — Chalone’s Dick Graff, Ravenswood’s Joel Peterson, Robert Mondavi. Vintage Wine Estates, by contrast, is an empire already, producing about 2 million cases of wine a year under 50 different brands. It’s diversified, with both mass-market wines (Layer Cake, Cameron Hughes) and luxury-tier estate wines (Clos Pegase, B.R. Cohn), plus spirits brands like No. 209 gin.

Roney said he’s growing fast enough, with a compounded average annual growth rate of 20% over the past decade, that delivering to shareholders won’t be a problem.

The fact that most of the company’s products fall in the $10-$20 range is also an advantage, since that’s the fastest-growing segment in the wine market, according to Rob McMillan, vice president of Silicon Valley Bank’s wine division, who does not have any ties to Vintage Wine Estates. The company “is a bit of an exception to the rule” that wineries going public usually fail, he said.

The Vintage Wine Estates business model is about constant, relentless growth, which comes from acquiring other wineries. Roney, who owned Napa’s Girard Winery for years, started the company in 2008 by buying a second winery. Now, it is the 14th-largest wine company in the U.S., according to Wine Business Monthly — with well-known wines like Qupe, Owen Roe and Laetitia.

The main reason Vintage wants to become public is to have more money to buy more wineries and brands, said Roney.

“We’re very profitable right now, but now we’ll have about a billion dollars worth of acquisition capital” to make those purchases, he said. Although he’s taken on private equity investments in the past, he said that often comes with more onerous strings attached than he expects to find in the public market.

Vintage is not pursuing a conventional initial public offering. Instead, it is pursuing a merger with an already-public special purpose acquisition corporation or SPAC. Also known as blank-check companies, SPACs are businesses that go public to raise money for the sole purpose of acquiring an existing company. SPAC deals have recently become popular with technology investors, who see them as a faster and less cumbersome route to the public markets.

The proposed deal, likely take place in April or May, would see Vintage Wine Estates combine with Bespoke Capital. The deal values the new company at $690 million.

Roney's financial plan projects one new winery acquisition per year, but "we're probably going to do three or four," he said. "And they'll probably be larger." He expected that within a few years, Vintage Wine Estates might be one of the country's 10 largest wine companies, "about the size of KJ," referring to Jackson Family Wines, which does 6 million cases.

The other company reportedly going public, Duckhorn, is a little smaller, with 1.1 million cases produced annually, and is oriented toward more expensive wines. Like Vintage Wine Estates, it started out as a single winery in Napa Valley, then spun off a series of other brands (all of them a waterfowl wordplay: Decoy, Migration, Paraduxx). In recent years, with private-equity backing, the company has acquired two prestigious wineries, Calera and Kosta Browne.

An initial public offering may be partially a reflection of the private-equity investors' expectation to cash out — and the fact that Duckhorn has grown so much under the new investment in recent years that it is unlikely to find a buyer in the private sector, according to Zepponi.

"With Duckhorn, they have become so successful that they have outgrown their natural buyer pool," he said. **"At some level, you get so profitable that even the people who would want to buy you wouldn't pay the fair market price."**

Whereas the stories of the past winery offerings feel immensely sentimental — beloved winery loses its soul — the tone for Vintage Wine Estates and Duckhorn is much more pragmatic. Private equity, acquisition capital, sales growth: It doesn't exactly constitute the romantic Wine Country narrative that some drinkers love to hear, but it's evidence, for better or worse, that the California wine industry has grown more business-savvy over the past 20 years.

To Zepponi, it's healthy for the wine industry to engage with the public markets, to answer to new levels of business acumen. It shows a natural maturing of an industry that, pre-Prohibition history notwithstanding, is only about 50 years old.

"These two candidates run their company more in a corporate fashion than in a private family business fashion," Zepponi said. **"Going public won't be that much of a shock. That makes them well suited to going public."**

Still, for wineries, unlike many other types of businesses, some of those tensions between the economics and the control will always remain, no matter how corporate they become. The product will still take years to make, will still be subject to the whims of meteorology. However poor their returns in the short term, it will still require investment in land — in vineyards.

"The struggle will always be: How do you make consistently good wine without just making Coca-Cola?" McMillan said. "Vineyards really are a drag on assets. And yet you can't have a great winery without them."

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