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## Pandemic brings California wine marketing, M&A deal-making back to basics



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Hugh Davies, proprietor of Napa Valley's Schramsberg Vineyards, conducts a private virtual tasting via video conference in 2020. Direct-to-consumer marketing experts say that remote tastings have been a critical lifeline for small wineries dependent on tasting rooms to connect with customers, but these consultants say that these virtual experiences should be part of an overall strategy of customer acquisition and retention. (courtesy of Schramsberg Vineyards)

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The economic shock to the wine business from the coronavirus pandemic has brought wine marketers back to key priorities for brand growth, and the economic recovery is starting to bring back sizable wine industry mergers and acquisitions.

These are some of the trends discussed by panelists Tammy Boatright of VingDirect, Mike Holden of Clos Du Val and Mario Zeponi of Zeponi & Company at the Business Journal's [Wine Industry Conference](#) on July 14.

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Wine businesses that survive major economic shocks, such as the recession set in motion by public health restrictions during the corona virus pandemic, are those that recognize when they have to take quick action because the market has changed radically, according to Boatright, a direct-to-consumer marketing consultant, and Holden, CEO of the Napa Valley winery.

"We took the time to, like every other wine company, engage in virtual tastings, both with consumers but also with corporate employees," Holden said. "Many corporations were looking at ways to keep their organizations together as they were on lockdown, and wine tasting was one of those fun elements that they used as a vehicle."

But key to that shift was to use it as a tool to directly communicate with consumers and with distributor salespeople, who also are shifting more to video conferencing and other digital tools

to communicate with brand representatives, Holden said.

And smaller vintners in the North Coast also have learned to leverage virtual tastings with “social listening” on digital media platforms to build connections between consumers and brands.

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“What's going to be important going forward is developing relationships,” Boatright said, noting the importance of these digital tools to make connections with distant consumers. “The winery doesn't have to be huge, be profitable or to be successful, if the winery has a focus on acquiring new customers and then finding marketing tools to help them retain those customers.”

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## M&A market reawakens

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Wine industry mergers and acquisitions deals are on the upswing after a pandemic pause, according to panelist Mario Zepponi, whose Santa Rosa-based Zepponi & Company brokers many such transfers in the North Coast and along the West Coast.

Transaction activity was robust heading into 2020, and then activity stopped, he noted. Key sources of revenue for vintners — tasting rooms, restaurants, bars, hotels, cruise ships — were idled under public health orders that rippled around the globe in an attempt to contain the spread of the virus.

But as economies are emerging from the pandemic, so too is deal-making. So far in 2021, there have been a half-dozen notable wine business transactions that have happened, five of which Zepponi said were "mega deals," big deals with big players making moves such as going public, buying another large portfolio of wine brands to "premiumize."

Key deals include E. & J. Gallo Winery's \$880 million purchase of lower priced wines from Constellation Brands, initial public offerings by Duckhorn Portfolio and Vintage Wine Estates, and Delicato Family Wines acquisition of Francis Ford Coppola and Virginia Dare wineries, a deal estimated to be between \$500 million and \$1 billion.


"Overall, the market is strong, and it gets stronger in the second half of this year and into 2022," Zepponi said. The return of air travel from Europe, where key buyers live, will help with that too, he said.

But there have been some wine M&A deals that struggle to get buyer interest. A lot of that stalling of activity could come down to valuation, Zepponi said. Buyers may be skeptical about coming back into the market for transactions, and sellers are seeing eye-popping valuations on deals that are happening.

“Who can blame a seller?” Zepponi asked. “They look at Duckhorn going public, trading at 28 to 30 times earnings, and they look at themselves and they go, ‘OK, well, I should have a premium to my business to the extent that I have any earnings.’ That’s been a little bit of a disconnect.”

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While agricultural land in general has been enjoying a bump in deals valuations over the past year, with commodities prices up generally 30% and food costs up 60%, pricing for vineyards hasn’t had that same push, Zepponi said. He noted that going into 2020 the West Coast was facing an oversupply of wine, and there were efforts to cut back on inventory and grape purchases.



But that supply situation changed dramatically, first with a flurry of beverage alcohol purchases in the first months of the pandemic and then with massive wildfires up and down the western seaboard. “Pantry stuffing” led to a surge in demand for excess wine, and the fires led to hundreds of thousands of tons of wine grapes not being brought into production facilities because of concerns over smoke damage.

“Slowly the vineyard market is rebounding, and after taking a hiatus, I think it’ll be even stronger in 2022,” Zepponi said.

Zepponi & Company was one of the underwriters of the Wine Industry Conference, along with Farella Braun + Martel, Moss Adams and Wells Fargo.

Jeff Quackenbush covers wine, construction and real estate. Before the Business Journal, he wrote for Bay City News Service in San Francisco. He has a degree from Walla Walla University. Reach him at [jquackenbush@busjrnl.com](mailto:jquackenbush@busjrnl.com) or 707-521-4256.

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