

WINE BUSINESS INSIDER

The Leading Source for Analysis of the Wine Industry

June 16, 2016

Volume 26, Number 10

Wine Business Insider

Published by Wine Communications Group, Inc. (ISSN 1057-8544)
35 Maple Street, Sonoma, CA 95476

Subscription Rates:
(email) \$295/Year

Editor: Cyril Penn
Managing Editor: Rachel Nichols
Assistant Editor: Erin Kirschenmann
Production & Design: Scott Summers

Copyright 2016. All Rights Reserved. Short passages may be quoted without permission if attributed to Wine Business Insider.

To contact Wine Business Insider,
email insider@winebusiness.com
or call 800-895-9463, 707-940-3920

winebusiness.com

Mid-year Purchase Update:

Wineries Bolster Premium Portfolios

A look at 2016 winery purchases with George Coope

Erin Kirschenmann

THE YEAR IS NOT even half over and already there has been a flurry of winery purchasing activity. Two common themes were evident as news, seemingly constantly, broke: This year, large wineries made big plays to strengthen high-end, luxury brands while mid-sized wineries made moves to secure future grape supplies with vineyard purchases. For the most part, these acquisitions are just continuations of trends we saw in 2015—but 2016 brought about an amplification of their pursuits.

In the December 2015 issue of *Wine Business Monthly*, **George Coope**, senior vice president at mergers and acquisitions advisory firm **Zeponi & Company**, wrote “We anticipate continued strength in the M&A market in 2016, particularly in the vineyard sector in the wake of the smaller 2015 harvest as wineries move to secure future sources of supply. With the premiumization trend in consumer purchasing behavior apparently here to stay, we expect that acquirers will continue to show a high degree of interest in premium brands positioned over \$20 per bottle, especially those demonstrating rapid growth and strong distribution.”

It appears that his predictions have held up in the first six months of the year.

“Things have continued to be very, very hot as far as the number of transactions. It’s a very active market,” Coope said. “The mix between winery brand transactions and vineyard transactions will vary depending on the availability of properties and luck of the draw. Overall, it continues to be a hot market.”

Jackson Family Wines is leading the charge so far this year in making premium winery purchases with its acquisitions of **Penner-Ash Cellars** in Oregon and **Copain Wines** in Sonoma. With the 12,000 case Penner-Ash winery purchase, JFW also received shored up another 15 acre Pinot Noir vineyard—**Dussin Vineyard**. It’s a continuation of its Oregon expansion, which included 1,400 acres in the Willamette Valley prior to the purchase.

In addition to its winery purchases, JFW also finalized a \$4.6 million deal in January to purchase the former **Evergreen International Airlines** corporate headquarters in McMinnville, Oregon. JFW beat out other bidders at a bankruptcy auction in October 2015, and has plans to develop a wine production facility, though no established timeline has been released.

"We're committed to making world-class wines in Oregon, and we've been consistently impressed by the quality of grapes, the refined wines and collegiality of the local winemaking community. The central location of the Evergreen site is convenient to all our Willamette Valley vineyards," said **Aimee Sands**, director of communications for Jackson Family Wines.

As part of the Copain purchase, Copain Wines will continue to operate and produce as it does currently, with **Wells Guthrie** remaining in his role as winemaker, with control over winemaking decisions, including grape sourcing. Jackson Family Wines will focus its efforts on providing enhanced sales, marketing, distribution and back-office administrative support. Copain Wines will be sold and distributed through Jackson Family Wines' West Burgundy Wine Collective. The Copain Wines tasting room will remain open to visitors by appointment.

In a similar move, **Ste. Michelle Wine Estates** acquired renowned Sonoma winery **Patz & Hall** for an undisclosed amount. Included in the sale is the inventory, winemaking facility and visitor's center in Sonoma. Grapes will continue to be sourced from the Hyde, Hudson, Dutton Ranch, Chenoweth Ranch, Gap's Crown and Alder Springs vineyards. The four founding winemakers will remain on hand to assist winery operations.

Other Notable Purchases

Target	Acquirer	Transaction Type	Region
Envolve Winery	Lake Sonoma Winery	Brand, facility	Sonoma
Hop Kiln Winery	Landmark Vineyards & Winery	Brand, facility and vineyards	Russian River Valley
Graton Ridge Cellars	Furthermore	Brand, facility and vineyards	Russian River Valley
Seven Hills Winery	Crimson Wine Group	Brand, facility	Walla Walla
Colson Canyon Vineyard	Joey Tensley	Vineyard	Santa Maria Valley
Gamache Vineyards	Sagemoor Vineyards	Vineyard	Columbia, WA
Santa Lucia Highlands Vineyard	Delicato Family Vineyards	Vineyard	Santa Lucia Highlands
Acacia Vineyard	PEJU Province Winery	Facility	Carneros
Hartwell Estate	Realm Cellars	Facility, partial vineyard	Stag's Leap

3

“Ste. Michelle has ‘string of pearls’ strategy for fine wine, trying to acquire best of the best as far as high-end, distinctive wines,” said Coope. “They were really looking for the Sonoma counterpart to their Napa property (**Stag’s Leap**), and they found that in Patz & Hall.”

According to a statement released to the media, the Patz & Hall owners were “not entertaining acquisition offers at the time Ste. Michelle expressed an interest in adding the winery...but its four partners were intrigued by Ste. Michelle’s strong reputation.”

Coope said that it’s not the only acquisition like this he’s seen this year, and it is likely to continue.

“Pricing of assets has been pretty strong. Owners who might not have wanted to sell a few years ago are seeing high pricing. They’re taking the plunge,” he said.

Earlier this month, **E&J Gallo** purchased Napa Valley’s **Orin Swift Cellars** for an undisclosed amount—a deal Zepponi & Co. advised on. The sale includes the brand, inventory and tasting room in St. Helena.

“A lot of these acquisitions—like Patz & Hall, Orin Swift, Copain, Penner Ash—they’re all very high-end brands,” said Coope. “It’s a continuation of the premiumization trend with acquirers like Gallo and Jackson Family continuing to move the center of gravity in their brand portfolio upscale. We’ll see a continuation of that during the year.”

Does he see premiumization ending? In a word, no. According to Coope, premiumization is a long-term trend that is occurring in a lot of industries, not just in wine, craft beer and spirits. Thought it slowed down a bit during the 2010 recession, it picked up again.

“Barring any unseen world events, I don’t think it is going to end,” he said.

Look to the December 2016 issue of *Wine Business Monthly* for a complete run-down of the mergers and acquisition activity in 2016. **WBI**