# February 2020: M&A Market Stable

February 2020

| US Wine Sales +4% | Off-Premise +1% | DTC Shipments +8% | Winery Jobs -1% |
|---|---|---|---|

[12 month change]
An oversupply of grapes, moderating growth in wine sales and the threat of recession are pushing buyers to be more discriminating when it comes to evaluating potential acquisitions in the wine industry. Yet steady deal activity in 2019 means that wineries that can make a defined case for themselves have a good chance at finding a new owner.

## Demand Strong for Long-Term Value

> Buyers are becoming more cautious as overall wine sales growth slows.
>
> Sellers need to groom their properties for sale to stand out from others on the market.
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> Buyers are taking a range of variables into account, including earnings, margins and location.

"If they were going to do it, now could be viewed as an attractive year," said Andrew Milanez, a vice president with advisory firm Zepponi & Co. in Santa Rosa, Calif.

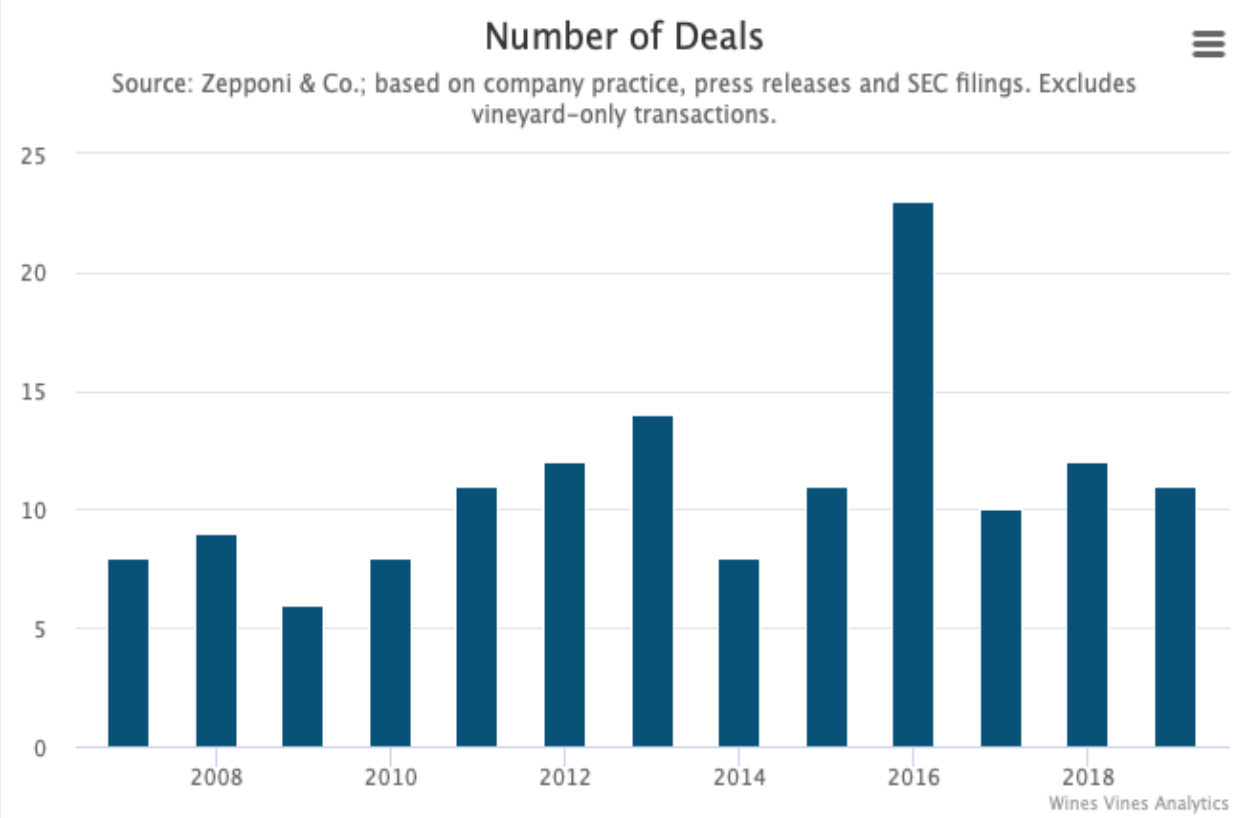
Zepponi reported 11 winery deals in the U.S. worth more than $10 million last year. The aggregate value was $967 million, the second-highest tally of the decade.

“It’s been a steady market, and everybody’s been waiting for the shoe to drop and things to slow down in the general economy, but it hasn’t happened,” Milanez said. “It doesn’t seem like we’re seeing a major change in trend.”

However, there’s a noticeable anxiety in the air about how wineries will address the massive supply of wine from the 2018 and 2019 harvests and the prospects for the 2020 vintage. Add in mounting economic concerns given the length of the current expansion — now the longest of the postwar era — and caution is a watchword. Although the industry appeared to receive a bit of reprieve recently as U.S. trade officials announced Feb. 14 they will not enact another round of tariffs on European wines but are holding in place the existing tariffs on most French, Spanish and German wines.

“People are looking at the economy being where it is, and if you’re going to do something, you’re running out of time to do it, potentially, if you’re a seller,” Milanez said. “You’re probably going to see buyers be more selective.”

Recent years have seen buyers focus on growth opportunities. Buyers like Vintage Wine Estates in Santa Rosa, Calif., have focused on rounding out their portfolios, filling gaps with wineries deemed to have good growth prospects. “We look where there are synergies within our operations, and geographic holes in our portfolio where we might be able to fill a different niche,” Pat Roney, president and CEO of Vintage, told a panel on brand development at the Unified Wine & Grape Symposium in Sacramento, Calif., earlier this month.

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Vintage bought Layer Cake in 2017, boosting its presence in the $15-$18 a bottle price segment, and the same year picked up Firesteed Cellars in Rickreall, Ore. It acquired Tamarack Cellars of Walla Walla, Wash., in 2018, expanding its geographic footprint and presence in the $20 price range. “We think there’s some solid wines coming out of the Willamette Valley and all of the state of Washington,” Roney said at the time Tamarack was acquired. “It gives us a bit more of a foothold in the market.” This past year saw Vintage acquire Northwest winery Owen Roe, as well as Central Coast wineries Alloy Wine Works and Laetitia Vineyard and Winery.

**Oregon in high demand, private equity takes a break**

While sales of Oregon wines continue to shine, overall sales growth is moderating, and buyers are taking a closer look at the long-term ability of wineries and brands to move product. The strength of the brand and the loyalty of customers are now center stage.

An early indicator of this is the withdrawal of private equity firms from the buyer pool.

“We didn’t really see much private equity activity last year, and we haven’t really seen that

pick up yet this year, which is interesting," Milanez said. "Given the slowing growth dynamics overall, we wouldn't necessarily have expected new private equity entrants to take an interest."

Vineyard transactions have been hit particularly hard by the slowdown. "We just haven't seen a lot of activity lately," said Tony Correia, an appraiser based in Sonoma, Calif. "The big question is, 'Will the grapes have a home?' because we hear of a lot of folks having their contracts cancelled. … Most folks aren't interested in buying the vineyards if there's no contracts for the grapes."

Wineries, which had been the primary buyers of vineyards as growth accelerated after 2012, are no longer scrambling to secure fruit. Growers such as Silverado Investment Management Co. have backed off some deals, though company president and CEO Matt Parker told an audience at Unified that his team continues to scout opportunities. "We are out in the market, active and looking for deals," he said. Among its acquisitions in 2019 was the Jaeger vineyard in Oak Knoll, purchased for $25 million.

The pause in transaction activity likely heralds a softening in land prices, Correia added. With the price of bulk wine dropping, impacting grape prices and contracts, land prices will follow suit. "It is a buyer's market," he said, and it may take sellers time to adjust to the new reality. "But eventually deals will get done and we'll see where prices shake out."

Premier properties will hold value better than others, but the long-term prospects for vineyard land are firm in his view. It typically delivers a rate of return twice that of other types of farmland, so interest promises to outlast the tough times.

### RECENT, HIGH-VALUE ACQUISITIONS

| Acquisition | Entity | Location | Buyer | Date |
|---|---|---|---|---|
| Niven Portfolio of Wines | Tangent, Baileyana, Zocker and True Myth brands | Central Coast | WX Brands | January 2020 |
| Bonny Doon Vineyard | brand | Central Coast | WarRoom Ventures | January 2020 |
| Flora Springs estate | winery, 58-acre vineyard (Komes, Garvey families retain brand) | Napa County | Chateau Smith-Haut-Lafitte | January 2020 |
| Pahlmeyer and Jason by Pahlmeyer | brands | Napa County | E. & J. Gallo Winery | November 2019 |
| Owen Roe | brand, winery and estate vineyard | Oregon/Washington | Vintage Wine Estates | September 2019 |
| Greenwood Vineyards | 56-acre vineyard | Napa County | Ste. Michelle Wine Estates | July 2019 |
| Wildwood Vineyard | 51-acre vineyard | Napa County | Heitz Wine Cellars | July 2019 |
| Starmont | winery | Napa County | Orsi Family Vineyards | July 2019 |
| Cooper's Hawk | winery, brand and restaurant locations | Illinois and other states | Ares Management Corp. | July 2019 |
| Grace Family Vineyards | winery, brand | Napa County | Kathryn Green | April 2019 |
| Laetitia Vineyard & Winery | winery and 680 acres of vineyards | Central Coast | Vintage Wine Estates | March 2019 |

Source: Zepponi & Co.; based on company practice, press releases and SEC filings and sorted by when acquisition was announced.

Buoying activity is the fact that stock markets have been generally robust and interest rates remain low, favoring buyers who require financing. But with overall market growth slowing, wineries need to offer buyers a compelling story that supports valuations.

This is where wineries need to demonstrate their value, not only having their houses in

order but also their facts. Erik McLaughlin, CEO of Walla Walla-based advisory firm Metis, regularly encourages owners considering a sale to groom their portfolios and make sure they're delivering value. "Profitability would be the number-one objective," he said. "Wineries shouldn't presume that a bigger balance sheet means more enterprise value. Building out more assets or a broader portfolio or more inventory does not necessarily equate for a higher exit value."

Wineries need to be building value, demonstrating it, but also communicating it. "What is your reason to exist? In an increasingly fragmented marketplace, having some unique, relevant reason to exist … something that is uniquely relevant and resonant with people is really important," he said. "We work in an industry that frankly suffers from a lot of me-too-ism. A lot of people see what they think as being the dominant way of doing business and try to replicate it, when more people should be going the other way and trying to differentiate."

Differentiation is critical as the market becomes more competitive, giving wineries an edge in the battle for market share, and in turn growing the kind of revenue that can make it a good long-term investment for buyers. "With less growth to go around overall, you have to effectively be taking share from other parts of the market, and to do that you need to be well-differentiated," said Milanez.

Speaking as part of the brand development panel at Unified, Jim Regusci of Regusci Winery in Napa, Calif., agreed. Weathering shifting market conditions requires a strong and distinctive reputation built on an ability to deliver.

"It's more important for me to build longevity," he said, rejecting the temptation to pursue short-term survival strategies. Whether farming grapes for others or selling wine, properties that establish and maintain a distinctive, dependable reputation in the market will always be in demand.

Hardy Wallace of Dirty & Rowdy Family Winery in Santa Rosa was even more blunt during the symposium's final session on paths to market for small wineries: "If you cannot tell your customers what you do, you enter into a commodity market."

Daniel and Florence Cathiard, owners of Chateau Smith-Haute-Lafitte in Bordeaux, France, announced their purchase of the Flora Springs estate, seen here, in Napa Valley in January. The Komes and Garvey families, which founded the winery in 1978, retained the brand.

**Metrics for valuing and evaluating a potential purchase or sale**

Data is often tipped as helping chart a path to market for wine, with tools available to pinpoint potential markets. But data, financial and otherwise, can also help a winery stand out to prospective buyers.

EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) is the most common measure of the value of a mature business. Charts exist that lay these out, with the enterprise value of alcoholic beverage firms pegged at about 16 times EBITDA in one chart posted by a professor at the Leonard N. Stern School of Business at New York University.

But there are other ways of evaluating a business. When businesses are experiencing rapid growth, the contribution margin can be a useful tool to determine its potential. The contribution margin is the selling price per unit minus variable costs, such as costs of production. For example, a $20 bottle of wine that costs $15 to produce could see better margins if production increases because overhead costs would be spread over a greater number of bottles. “If a business is growing rapidly, it can scale into the cost base over time,” Milanez said. “Somebody might be willing to buy a business with a view in mind that … the economics work even if they’re not making money on (EBITDA) today.”

McLaughlin cautioned, however, that many wineries may aspire to this kind of growth, but miss the mark if they're not paying attention to net margins. "When we look at a winery's financials, the first thing we do is dashboard them then benchmark them," he said. "They can grow their volume and grow their top line revenue without growing, and potentially even shrinking, what their net margin is."

Growing and maintaining a healthy net margin (as defined by GAAP, generally accepted accounting principles) will position a winery or brand for sale. "I get excited when I see margins of 60% or greater. I think there's a sustainable business if you see a margin of 50% or greater," McLaughlin said. "But under 50% gross margin, it's really difficult to create a business, and under 40% gross margin it's really difficult to create a sustainable business."

The growing importance to wineries of direct-to-consumer sales is also opening new horizons in terms of valuing a business. The growth of DtC activity in the past decade has corresponded with Gen X entering its peak years for buying wine and the ascendance of millennials. Boomers, meanwhile, remain a force to be reckoned with, but also a significant variable. "Buyers are maybe starting to do a little more diligence on the mailing list and trying to better understand who the customer base is than they might have previously," Milanez said. "But that's more of an emerging topic that I think people are still getting a handle on. … A lot of people don't necessarily track those metrics within their mailing list, so sometimes you just don't have that data to point to in a definitive way even though there's obvious utility."

While smaller wineries may not spend a great deal of time analyzing their customer base, key figures such as customer age, length of association and purchasing history can be simple and helpful data that can help potential buyers understand who they'll have as customers. It may be a more diverse cohort than the major distributors offer, but this increases the need to define its composition.

This is where companies like Quini, a software firm in Vancouver, British Columbia, can help. Quini helps wineries benchmark the performance of their wines in the marketplace. On the sales side, the information can point them to key market segments that boost revenues. It can also provide data documenting the performance and potential of their portfolios to potential purchasers.

"Quini's ability to capture and analyze, deep, rich wine consumer sensory and behavior data helps wineries to document and highlight the performance of their portfolio," said Roger Noujeim, CEO of Quini.

The company gathers its data from regular tasting events in select markets, gathering thousands of consumer reviews in as little as two weeks. These can serve as a counter to industry accolades and other indicators of how the wines should perform.

“In an M&A scenario, it is greatly beneficial to see the full picture in the due diligence process beyond total sales and accolades,” Noujeim explained. “[Parties] negotiate based on a good view of consumer preference for a winery’s products and brands, discounting portfolio laggards a smart buyer would rather stay away from, based on consumer sensory feedback and data. … A winery can easily document and highlight real consumer sentiment of their wines, and key competing products, to better position their own winery for the acquisition, and justify a fair, even higher valuation.”

But most companies will take a host of data points into consideration when evaluating a potential deal, not just one.

“We’re not looking for any one particular metric that says that’s a winner, that’s a loser,” said Rick Tigner, CEO of Jackson Family Wines, which had a quiet 2019 but continues to scout opportunities.

A critical element for future consideration is climate change and the extreme weather that’s putting key growing areas at risk.

“We have to look at alternative locations from a real estate standpoint to future-proof our vineyard and real estate assets,” he said. “We’re looking for world-class areas to make an investment.”

Kevin O’Brien, a principal and senior vice president with Zepponi & Co.’s Portland Ore. office, says Oregon has performed well and is well-positioned to continue doing so. The state’s wines have seen sales growth that’s outpaced the national average over the past five years, especially for premium wines. While premiumization has taken place across the country, Oregon has benefitted more than most. In turn, so have winery owners.

“Those who invested back in 2015 have seen some pretty nice results,” he remarked, despite consolidation at the distributor level making the route to market a challenge for many wineries.

Strong sales performance, as well as the desire to escape the “draconian” regulations and high land prices in California mean many buyers find Oregon appealing. The current moment particular favors mid-tier players, as many large buyers are waiting on the sidelines, either digesting past purchases (like Jackson Family Wines) or assessing options. “The larger folks are sitting on the sidelines. They want to be here, they’re just waiting for the right play,” he said.

O’Brien expects buyers from California and Europe to lead the next wave of investment. “We know that there’s going to be more [investment] forthcoming from Europe,” he said. “We know they want in, it’s just a matter of time.”

He called out the Dundee Hills and Eola-Amity as top regions for investment. While the past year was quieter for vineyard investment, he noted, “There will always be space for land plays.” While “not everything is transactable,” O’Brien is optimistic regarding Oregon.

“We’re very bullish on Oregon. There’s room to grow,” he said. “There’s a lot of positive momentum.”
— *Peter Mitham*

## Wine in Desperate Need for New Consumers

> The wine industry has grown too reliant on a small number of high-frequency wine drinkers.
>
> Hard seltzers are just one of many new, competitive beverage options for consumers who are more interested in a healthier lifestyle.
>
> Millennials want to buy wine, but out-of-touch marketing for expensive products have continued to make them feel excluded.

San Francisco — If the wine industry were to have a meeting with its hypothetical financial advisor, that advisor would likely have some blunt advice on how to improve its portfolio.

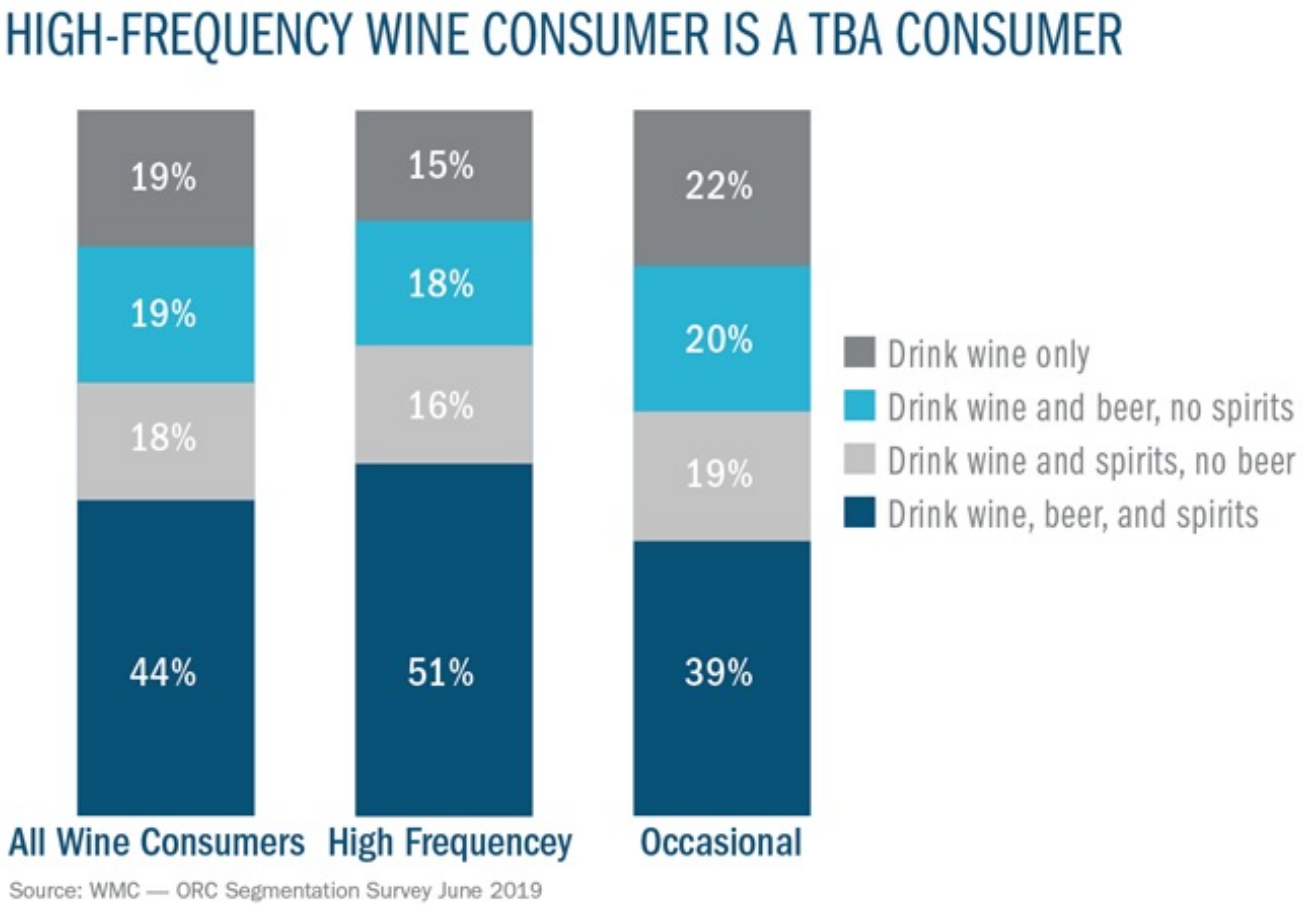
“If wine consumers were financial assets and we went to talk to a financial analyst, their first piece of advice would be diversify,” Dale Stratton told the audience at the recent annual meeting of the Wine Market Council. “You’ve got to diversify your portfolio. We need to bring more people into the category, get more people participating.”

Stratton has replaced Steve Burns as the council’s president and has more than 35 years in the beverage alcohol industry. Prior to joining the council, Stratton was the vice president of commercial insights for Constellation Brands’ beer, wine and spirits divisions.

Drawing from the council’s survey data on wine consumers, Stratton said it appears that while more consumers are active in beverage alcohol overall, the wine industry continues to rely on the small portion of “high-frequency” wine drinkers. “The reliance on the high-frequency wine consumer is growing,” he said. “We’re putting more pressure on the 14% of wine consumers out there to drive our industry.”

There’s little hope of engaging the quarter of Americans who eschew alcohol completely, and Stratton said occasional drinkers appear more likely to pick wine when they do drink, which is encouraging. He identified an opportunity in people ages 21 to 29, about half of whom reported they don’t particularly like the taste of wine. Such consumers could be

drawn into wine with new products that are effectively marketed to them and made with their palates in mind. “That’s an opportunity for the category to target and grow and get them to like wine.”




Taking into account that the overall market for beverage alcohol in the United States is essentially flat, however, the real fight is to ensure wine doesn’t lose out to the other categories. “It’s going to be a battle over occasion, it’s going to be a battle over mood, and what is the consumer going to choose?” Stratton asked. “I’ve looked at data from multiple sources … and the one thing that is clear to me is that right now spirits are winning.”

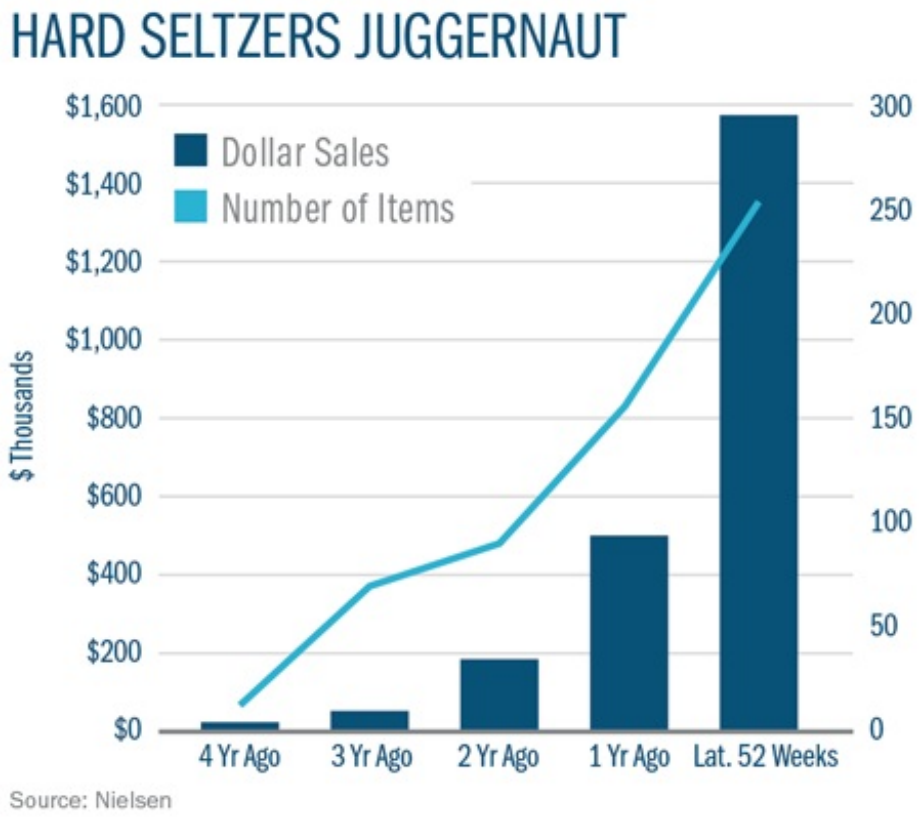
Danny Brager, senior vice president of Nielsen’s beverage alcohol and cannabis practices, noted the strength of spirits in the off-premise channel while also detailing hard seltzers’ explosive growth, which does not appear to be slowing at all. Brager covered retail trends at both the Wine Market Council meeting and later at the Unified Wine & Grape Symposium on Feb. 5 in Sacramento, Calif.

The hard seltzer market has grown in just four years from essentially zero to nearly $1.6 billion, which is about three times the total hard cider market and more than the entire IPA segment of craft beer. According to Nielsen CGA, seltzers have also exploded in the on-

premise sector where total sales came to more than $1.2 billion in the 52 weeks ended Dec. 28, 2019 and that is more than four times what the beverages did in the previous 12-month period.

He said seltzers came onto the market just as more and more consumers were growing more interested in low-calorie beverages with moderate alcohol. The range of flavors also appears to have resonated with consumers, some of whom are new to beverage alcohol but most of whom are opting for seltzers over beer, spirits and wine. Brager called seltzers an "equal opportunity stealer of business" and said consumers also seem to be sticking with seltzers after making the switch. "From the trial and repeat rates we've looked at, the repeat rates are really favorable, so it feels like it's a category that people are trying and coming back to, which says it's got some momentum that will continue," he said. "It's not like people are trying and giving up."

While he said the wine category is certainly challenged, Brager added, "the sky is not falling, not everything is down, in fact there are lots of segments that are growing and growing well."




Sales of table wines priced more than $10 remain solid and growing, while sparkling wine and rosé continue to see strong growth. Brager noted sales of wine-based cocktails have also doubled in the past four years to more than $100 million, and flavored wine beverages have grown by about 10% in the past two years to reach about $275 million. Wine in 3-liter

boxes also remains strong, and Oregon wine is as popular in off-premise as it is in the direct-to-consumer segment. Canned wine also continues to grow, surpassing $120 million in the latest 52 weeks and is on pace to account for 1% of total wine sales.

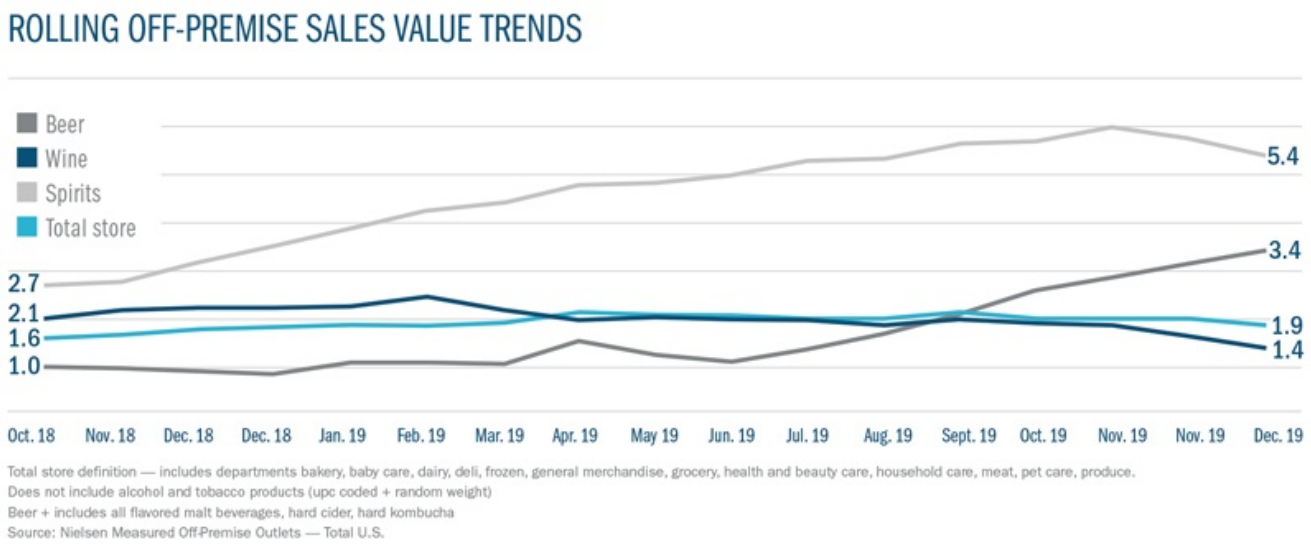
Cans are a good example of the wine industry putting its products in the hands of more consumers in a wider variety of occasions.

But Brager said the wine industry needs to do much more in building “on-ramps” for new consumers to discover wine. This is becoming even more urgent as beer, spirits and other beverage producers get more aggressive in marketing their products as a replacement to wine. “I almost feel like they sense some vulnerability, and they’re kinda going after you,” he said.

Curtis Mann, director of alcohol and beverage for the Raley’s Family of Fine Stores grocery store chain, told the *Wine Analytics Report* during the Unified symposium that it does appear as if seltzer is having a direct affect on wine. While acknowledging, there’s some “noise in the data” because seltzers are so new, he said, the most telling data point is that 75% of households that purchased the two leading seltzer brands, White Claw and Truly, “cross shopped” with wine, or purchased both items within the same year. Most other beer brands have a cross-shop rate with wine of 30% to 40%. “This suggests high interaction between the wine category and hard seltzer.”

Mann said the newness of seltzer also makes it hard to quantify if the fizzy new drinks are directly correlated to the volume declines in wine. “But anecdotally, there are a lot of consumers in our stores looking for low-carb options and seltzer is doing a great job telling that story versus wine.”

He said is hunch is that consumers are trying seltzer for the fewer carbohydrates and calories and then shifting their spending on beverage alcohol products. “Probably not completely leaving wine, but dedicating more of their spend to seltzer than they would have in the past, replacing wine dollars.”




The seltzer disruption also has surprised even those who have previously disrupted the industry.

During a panel at Unified, Jordan Kivelstadt, founder and former CEO of Free Flow Wines was asked his thoughts on the challenges facing the wine industry as someone who successfully disrupted it via wine in kegs. He admitted that he had been blindsided by the success of seltzers. “I can tell you that I certainly didn’t see that coming,” he said. “When you look back, because hindsight is always 20/20, when you look at some of the social trends it does actually make sense. But you have a category that five years ago essentially didn’t exist that at this point … is just growing like wildfire. I think it’s really interesting because that much consumer is a lot broader than a lot of us believe.”

Kivelstadt, who after leaving Free Flow purchased a restaurant space in southern Sonoma County and has plans to open an eatery and wine tasting lounge in April, said he believes seltzers are poaching wine’s business and typical consumers. “It’s actually overlapping with wine a lot more than we think: it’s more affluent, it’s college-educated, the age range is a lot wider. In fact, the fastest-growing seltzer consumption group is the 41-55 [year old]. Think about that.”

**Consuming weed, unengaged and sober curious**

Much of the concern regarding flattening wine sales has come in tandem with the understanding that American consumers are ever more mindful of their health.

It is ironic that this new-found focus on health seems to have helped fuel the growth of a wholly artificial beverage — hard seltzer — at the expense of wine, which is arguably the world’s oldest natural beverage. Nonetheless, Americans continue to spend more every year on products they feel will support and bolster their focus on healthy eating and drinking.

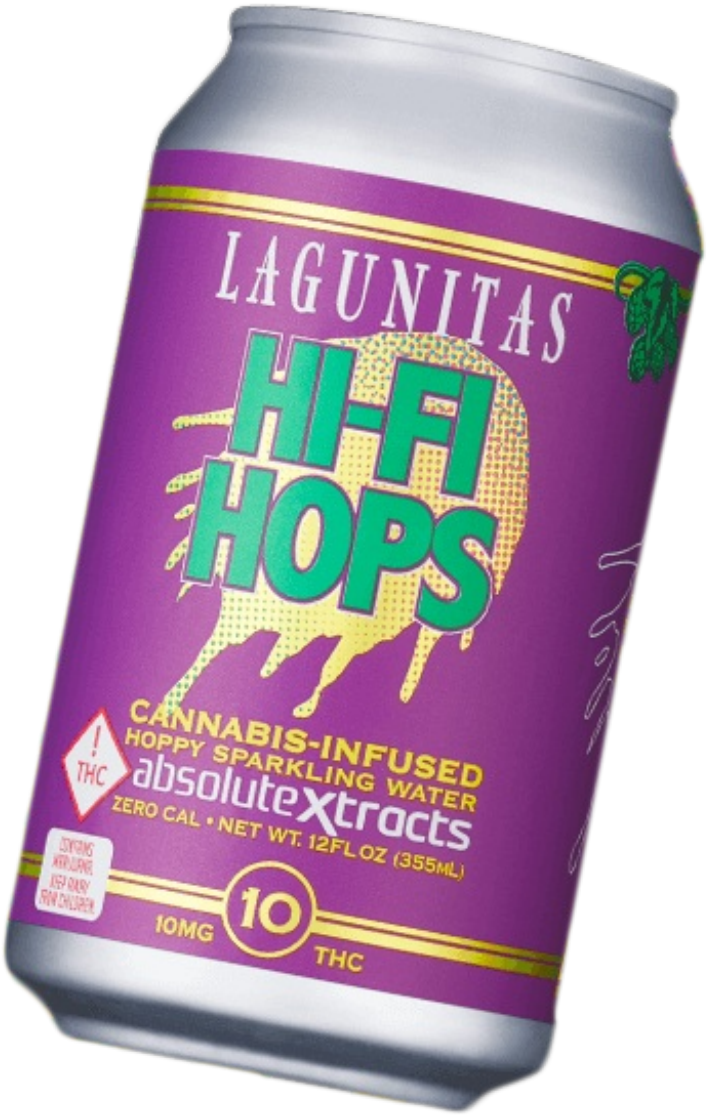
“These rocket-fuel brands, whether we like them or not, speak the language of the interest in wellness of the consumer,” Rebecca Hopkins said in a session at the Unified symposium.

Hopkins is the vice president of communications and partner in Folio Fine Wine Partners in Napa Valley and is also the founder of A Balanced Glass, a group intended to help those in the beverage alcohol industry maintain a healthy relationship with the products they sell.

She said the industry is largely blind or willfully ignores overconsumption and unhealthy drinking, so it’s no wonder that it’s been caught flat-footed by this new interest in a healthier, “sober curious” lifestyle. “Health and wellness shouldn’t be a trend, it should be our culture,” she said. “If we look at the next 10 years, those health and wellness trends aren’t going away.”

Before he became the president at CannaCraft — one of California’s leading producers of cannabis products — Bill Silver was the dean of the School of Business and Economics at Sonoma State University, where he headed up the school’s Wine Business Institute.

Silver said he knows the industry is anxious to determine if adults are going to be drinking less wine now that smoking, ingesting or even drinking cannabis is an option. “I think we’re asking the wrong question,” he said. “The question we need to ask is more existential and that is: Why drink wine at all when there’s weed?”




He said there were at least 115 companies seeking to disrupt the beverage industry with cannabis-infused products, and CannaCraft is one of those. The company partnered with the Lagunitas beer company in developing a sparkling water flavored with hops and infused with psychoactive cannabis. Dubbed "Hi-Fi Hops," the product has proved quite popular, as it's been able to ride both the seltzer and cannabis trends. "We didn't realize how big, how fast this would get," he said.

Such products hit the niche of providing the relaxing, mood-altering benefits of wine without the calories or hangover. "It's not just share of buzz, it's buzz and health and wellness, it's really about share of life, Silver said."

Cannabis is also being marketed effectively in terms of how it makes a user feel and what mood or state of mind it can create, rather than using an esoteric language of sensory attributes that can intimidate new or unfamiliar consumers. Silver cited Leafly as an

example of a company making it easy for consumers to explore the world of cannabis and find what is best suited for them.

He said it doesn't seem as if the wine industry has been able to reinvent how it describes or sells its products to consumers in way that is as impactful. "There are good reasons, but I don't know if you're communicating well to your consumer," he said. "We're going after that very same consumer and telling them to consume cannabis."

**Engaging millennials**

Although Juliana Colangelo works with a variety of wine companies as the West Coast director of the public relations firm Colangelo & Partners, at Unified she was speaking on behalf of her fellow millennials.

Colangelo said millennials haven't engaged with wine as much as expected because it is still relatively more expensive per serving, and they are interested in healthier living or using cannabis as an alternative. She said they also don't feel as if wine has been effectively marketed to them in ways that appeal to their values or are easy to understand. "I still have friends who text me the wine list from restaurants and ask me what to buy," she said.

Younger consumers want to feel as if they support brands that are created with real products by real people who are connected to their community. It should be easy for them to find more information on wine online and to purchase it.

Millennials are also not impulse buyers and often conduct deep internet research before making a purchase, yet the most effective influences on them are recommendations by their friends and family. She said wineries must communicate, regardless of channel, in a consistent and identifiable voice so people understand and trust the brand. "Font, color, tone of voice, all of those things matter," she said.

Social responsibility is also very important, and Colangelo said wine needs to stress its sustainability, health benefits and ties to the local community. Most importantly, though, the industry really needs to stop wringing its hands about millennials and make a concerted effort to engage them. "We talk a lot about these problems, but we really need to start making changes."

— *Andrew Adams, Peter Mitham*

## DtC Strong but No Longer an Easy Path to Profit

> Direct-to-consumer wine shipments remain one of the strongest segments in the wine industry gaining 7.4% in value and nearly 5% in volume over the previous year in 2019.
>
> As the DtC market grows more competitive, wineries need to leverage external and internal data plus the latest tech in marketing to retain existing customers and attract new ones.
>
> An engaging, well-run tasting room remains one of the most powerful ways to connect with consumers.

Concord, Calif. — U.S. wineries continue to sell more wine direct to consumer year over year, and 2019 was no exception.

Even as the off-premise market slows in total sales volume, U.S. consumers are buying more wine directly from wineries. On Jan. 22, Wines Vines Analytics/Sovos ShipCompliant released the 10th annual Direct to Consumer Wine Shipping Report, which reported that total shipments increased 7.4% in value to $3.2 billion and rose 4.7% in volume to 6.6 million cases.

That growth is less than in previous years, which saw double-digit gains, and such dramatic increases in value and volume likely won't be matched soon, as there are no more key states such as Pennsylvania and Massachusetts remaining to be opened to DtC shipments.

Despite the slowing growth rate, DtC remains robust compared to the rest of the wine market. Most wineries would likely be thrilled to see their wholesale brands enjoy a 7% increase in sales value in the coming year. The entire DtC report can be downloaded for free at sovos.com.

With retail sales expected to be more challenging in the future, that means more wineries will be directing resources to where margins are more reliable and better: the DtC segment. The past year also saw the largest increase in the value and volume of shipments by wineries producing more than 500,000 cases a year. Not all of the largest U.S. wineries are active in the channel, but those that are can direct considerable and targeted marketing resources to a vast swath of wine drinkers.

As DtC grows more competitive, wineries need to turn to new technology and refine their marketing message to resonate with consumers most likely to buy their wines. That was a key theme at the Direct-to-Consumer Wine Symposium, held Jan. 22-23 in Concord, Calif.

All DtC experts recommend creating a personal connection between a winery and consumers, and this type of connection is, they say, even more important for younger wine drinkers who seek authentic, credible brands.

Increasingly this conversation is being done via text message, and Seth Greenfield, CEO of Imperson, said during a keynote session at the DtC symposium that a chatbot can create such text exchanges even better than a human.

## STATES RANKED BY VALUE SHARE OF DTC SHIPMENTS

| Rank | Destination State | Rank | Destination State |
|---|---|---|---|
| 1 | California | 24 | Nevada |
| 2 | Texas | 25 | South Carolina |
| 3 | Florida | 26 | Kansas |
| 4 | New York | 27 | Louisiana |
| 5 | Washington | 28 | Washington D.C. |
| 6 | Illinois | 29 | Idaho |
| 7 | Oregon | 30 | Indiana |
| 8 | Pennsylvania | 31 | Nebraska |
| 9 | Colorado | 32 | Idaho |
| 10 | Georgia | 33 | Oklahoma |
| 11 | Virginia | 34 | New Mexico |
| 12 | Arizona | 35 | Hawaii |
| 13 | North Carolina | 36 | New Hampshire |
| 14 | Massachusetts | 37 | Montana |

| | | | |
|---|---|---|---|
| 14 | Massachusetts | 37 | Montana |
| 15 | Michigan | 38 | South Dakota |
| 16 | Ohio | 39 | Maine |
| 17 | New Jersey | 40 | Wyoming |
| 18 | Missouri | 41 | Alaska |
| 19 | Minnesota | 42 | Virginia |
| 20 | Tennessee | 43 | Arkansas |
| 21 | Connecticut | 44 | North Dakota |
| 22 | Maryland | 45 | West Virginia |
| 23 | Wisconsin | 46 | Rhode Island |

Source: Wines Vines Analytics/Sovos by ShipCompliant, ranking based on total value of DtC shipments to that state in the past 12 months ended January 2020.

**Texting with new tech**

Greenfield said text messages have better open rates, higher engagement and are more likely to garner repeat users. “I don’t know any other medium in which you get such an immediate response,” he said, and it’s much more efficient than trying to train a call center to be as responsive. “It would next to impossible to have real people do this.”

When run by an efficient chatbot that isn’t spamming consumers, Greenfield said, texting enables people to interact when convenient, further increasing the engagement rate. He said Moët Hennessy conducted a highly successful campaign to connect with bartenders and waitstaff extolling the higher average tabs and tips when selling Hennessy Cognac. Belvedere vodka conducted a similarly successful campaign using targeted texts run by a chatbot but featuring a well-known Instagram influencer providing suggestions on throwing the perfect brunch party with Belvedere. An auto manufacturer saw a 90% sign-up rate for more information through its website when that site featured an engaging chatbot, Greenfield said.

He stressed that an effective chatbot needs to be managed with the best practices of any marketing campaign: Essentially, don’t spam people. “It needs to be balanced with the

current rules you're employing now and giving value to somebody," he said, adding that trying to mimic or "fake" a real person also doesn't work.

The texts should be on message and in a consistent voice that supports brand strategy. Machine learning and artificial intelligence provide a way to enhance the messaging and effectiveness of a chatbot. Greenfield said a good chatbot should be able to handle a modest range of questions aside from brand information — a typical one from consumers is "tell me a joke" — but not be expected to simulate a broad conversation. "A good chatbot knows the domain it's supposed to know."

**Put your faith in e-commerce**

According to Napa, Calif.-based Wine Direct, which provides wineries with end-to-end DtC services, its clients saw a 30% increase in orders from mobile devices from 2017 to 2018. In 2018, website visits from mobile devices accounted for 49% of all winery website traffic, growing from 44% in the previous year.

Adrienne Stillman, Wine Direct's director of marketing, discussed the modern consumer in a session with Vivino chief operating officer Carrie Welch and e-commerce expert Matt Schow.

While e-commerce and DtC are the most economical way to grow a wine business, and more consumers are buying more consumer packaged goods online — with "grocery" expected to grow by 25% to 30% this year, according to Digital Commerce 360 — such sales still account for only about 10% of an average winery's total sales.

To engage with today's consumers, wineries should seek to be technologically relevant, create trust and engagement, offer seamless experiences, deliver on price and content, "demystify" products through education, and provide a clear, direct path to purchase. Welch said Vivino has recorded 7.4 million impressions of its wine portfolio through email opens, label scans and webpage views in the last year. She said few wineries have the resources to leverage such a vast amount of consumer engagement data to find areas of opportunity.

Schow, who overhauled and managed the e-commerce platform for Men's Wearhouse, stressed that wineries need to optimize their websites for mobile and to make the transaction process basic and easy to understand.

**Still starts in the tasting room**

John Keleher is the founder and CEO of Community Benchmark, which provides client wineries with data on how their tasting rooms perform relative to similar wineries in their region. During a session on the future of the traditional winery tasting room, he cited Silicon Valley Bank survey data that found about 80% of winery DtC sales come from people who have already visited the tasting room.

Of all the tasting rooms Community Benchmark tracks, about 60% had a growth year in 2019, and the average growth rate was 3% to 5%. “Growth rates are sexy in other channels,” Keleher said of DtC overall and some regions in particular, “but if you look at the source for the first introduction to a brand it’s probably the tasting room.”

Joining Keleher on the panel discussion were Colin MacPhail, the founder of Vinfabula, and Chris Puppione, director of sales and hospitality for Passalacqua Winery in the Russian River Valley of Sonoma County. The three discussed whether the traditional tasting room is headed for obsolescence like the defunct Blockbuster chain of movie rental stores, which was killed by the dawn of the streaming video age.

Puppione said Blockbuster could never let go of late fees, which were lucrative but essentially punished their customers. He said tasting fees can be viewed in a similar light, and while Passalacqua does charge a fee, Puppione said, “if we collect a lot of tasting fees, I say it’s a failure.”

Even if 15% to 20% of tasting room visitors just pay a fee to cover their tasting, Puppione said, something just didn’t come together and the opportunity to forge a connection and waive those fees with a bottle purchase was lost. “I want to see zero fees every day.”

MacPhail said simply having a tasting room set amid the natural beauty of wine country is no longer novel enough for wine consumers. The ever-increasing number of wineries has made such an experience rote, and consumers are bored with simply having a tasting room menu slapped down in front of them when they step up to a bar. “We’re not as fashionable as we once were,” he said.

That means wineries need to create an experience that is as unique as it is hospitable, and they also need to connect with consumers in a way that is effective and natural for them. MacPhail strongly recommended communicating with visitors via SMS text message as it’s easy and generally the preferred method of communication among younger consumers in particular.

Keleher said wineries need to do more with their tasting room data, figuring out who their “top converters” are or how often customers leave after paying only the tasting room fee. He said using tasting room data doesn’t require an elaborate system but just a basic CRM to understand who your best clients are.

**Target with social**

Jenny Kelly Yesilevskiy manages the social media program for Rodney Strong Vineyards in Sonoma County. She said most wineries have yet to fully capitalize on the basics of running targeted marketing via social media.

She said she primarily uses Facebook and Instagram to parlay consumers' interests and any possible existing connection to the winery to run targeted campaigns that can be quite narrow in focus or scaled up to reach broad segments of wine drinkers.

In addition to the basic demographic information such as geographic region, income, gender, age and marital status, Yesilevskiy said, you can dig into other interests and how consumers relate to and purchase wine. "All of that together can help you create a very targeted audience," she said.

Using a recent project as an example, Yesilevskiy said she started with U.S. consumers ages 25 to 38 with an interest in wine and then added a specific interest in Pinot Noir and Chardonnay. This provided her with about 140,000 Facebook and Instagram accounts, and she whittled that down further by adding an interest in wine clubs, frequent travelers who had visited California and were in a relationship and possibly looking to buy a gift. That provided her a much smaller pool of 34,000 accounts but of people far more likely to respond to a marketing message about giving the gift of wine.

Yesilevskiy said Rodney Strong also has a trove of internal data from which she's been able to glean insights about the winery's customers. The winery ran a qualitative and quantitative analysis on its own customer data and found that for the most part its understanding of how customers viewed Rodney Strong wines was correct.

Some of the more interesting findings regarded what motivated these consumers. Yesilevskiy said most typically enjoyed wine on specific "special" occasions that involved family, such as graduations, birthdays and retirements.

It likely wasn't a surprise that these consumers were making wine part of their family celebrations, but the data confirmed it so the marketing messaging could be tailored to use that message with the confidence it would resonate with these consumers. "You want to make sure you're always thinking of your campaigns in an organized way and working in a structure that works for you and you're documenting it," she said.

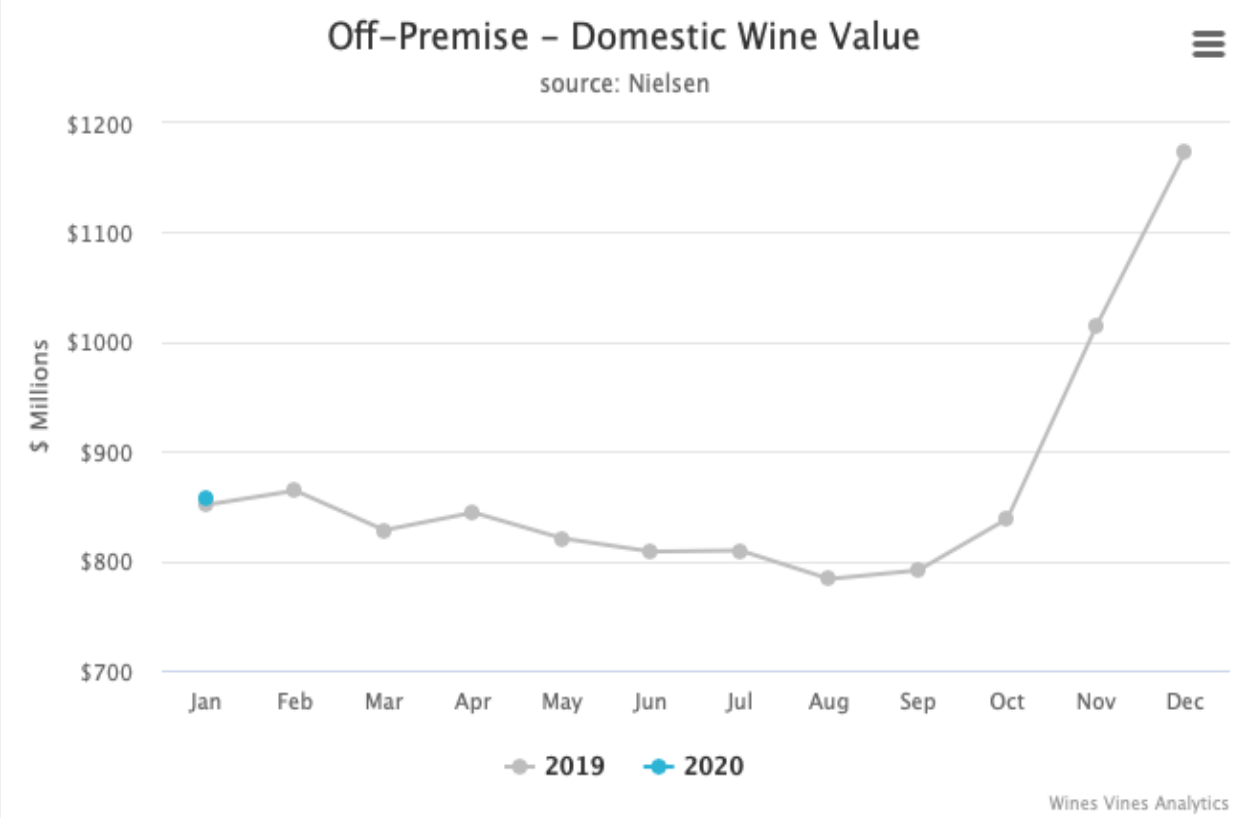
— *Andrew Adams*

## Wine Industry Metrics: Table Wines up 6%

U.S. wine sales increased more than 4% to $48.8 billion in the 12 months ended January, according to market research firm bw166. Off-premise sales tracked by Nielsen remained flat in the four weeks ended Jan. 25 at $857 million as volumes continued to slide. On-premise sales in the 52 weeks ended Dec. 28 rose 1.3% to more than $18 billion. Direct-to-consumer (DtC) shipments increased 8% versus a year ago to $136 million in January. Winejobs.com's Winery Job Index rose 14% versus a year earlier to 383 in January.

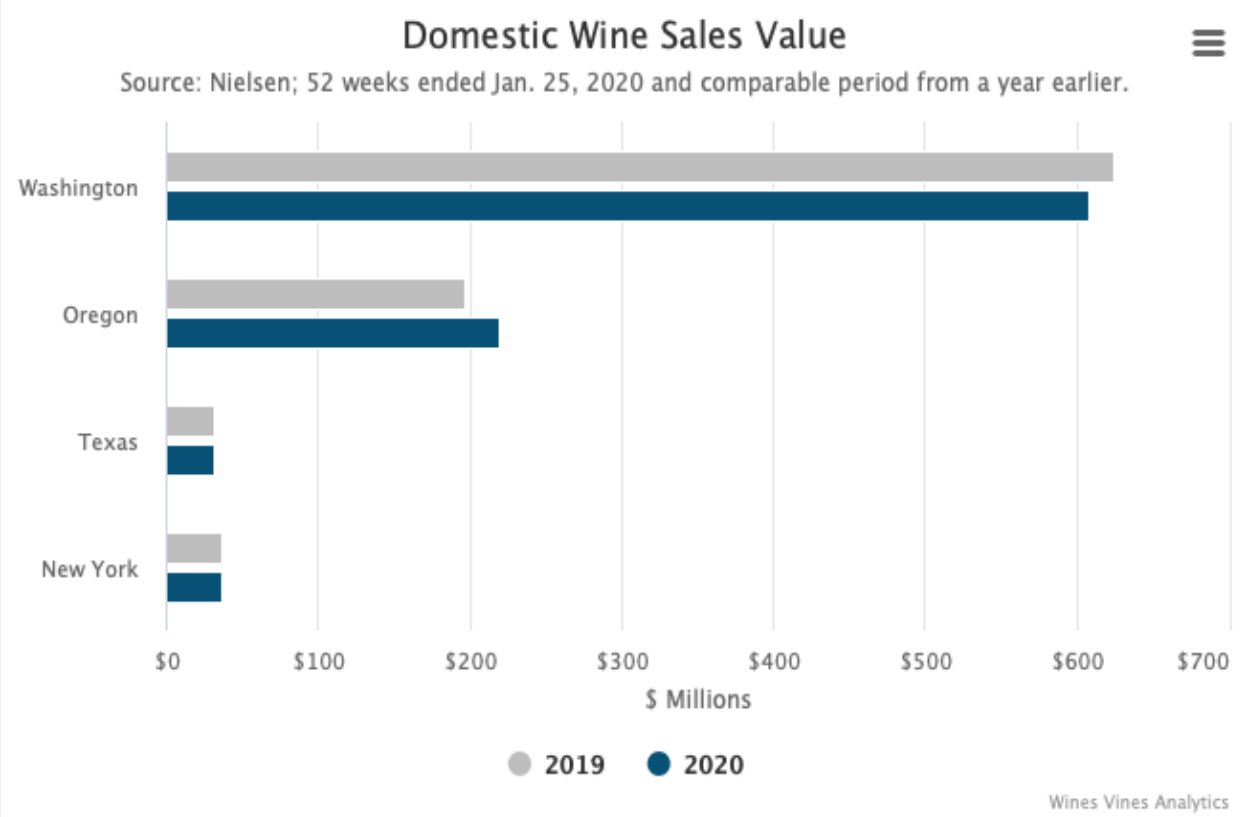

End of interactive chart.
Domestic wine sales, including bulk imports, rose 4% to $48.8 billion in the 12 months ended January. Sales totaled $4.04 billion in the month of January.
Sales of U.S. table wines posted the greatest increase, rising nearly 6% to $44.1 billion while sparkling wines increased 2% to $2.2 billion. Bulk imports continued to decline, falling 6% to $1.6 billion. Domestic wines led the category during the period, with nearly $2.1 billion in additional sales. This was more than three times the growth in packaged imports, which added $610 million in sales for growth approaching 3%. The activity helped boost the total wine market in the U.S. by 4% to $74.7 billon in the latest 12 months.

Sales of packaged imports in the latest 12 months totaled more than $24 billion, or about half the value of domestic table wine sales. Unlike domestic wines, however, packaged imports saw a greater increase in volumes, which rose 5% to the equivalent of nearly 110 million cases. Table wines account for more than 78% of packaged imports by value and 85% by volume.




End of interactive chart.
Off-premise sales of domestic table and sparkling wines totaled nearly $857 million in the four weeks ended Jan. 25, even with a year ago.
End of interactive chart.
Off-premise case volumes totaled 9.3 million in the four weeks ended Jan. 25, down more than 2% from a year ago.
Sales of domestic table and sparkling wines at off-premise outlets Nielsen tracks rose 1% versus a year ago to more than $11.3 billion in the 52 weeks ended Jan. 25. Table wine sales increased by half a percentage point to $10.6 billion as case volumes dropped more than 2%. Sparkling wine sales gained 3% in value to more than $693 million as case volumes stood even with last year. Both types of wine saw average bottle pricing rise versus a year ago as buyers continued to trade up.

The latest four weeks, often a period of moderation following the holidays, saw the value of table and sparkling wine sales remain even with last year $857 million and volumes decline nearly 3% to the equivalent of 9.3 million cases. The activity accentuated the premiumization phenomenon while highlighting challenges facing the market.

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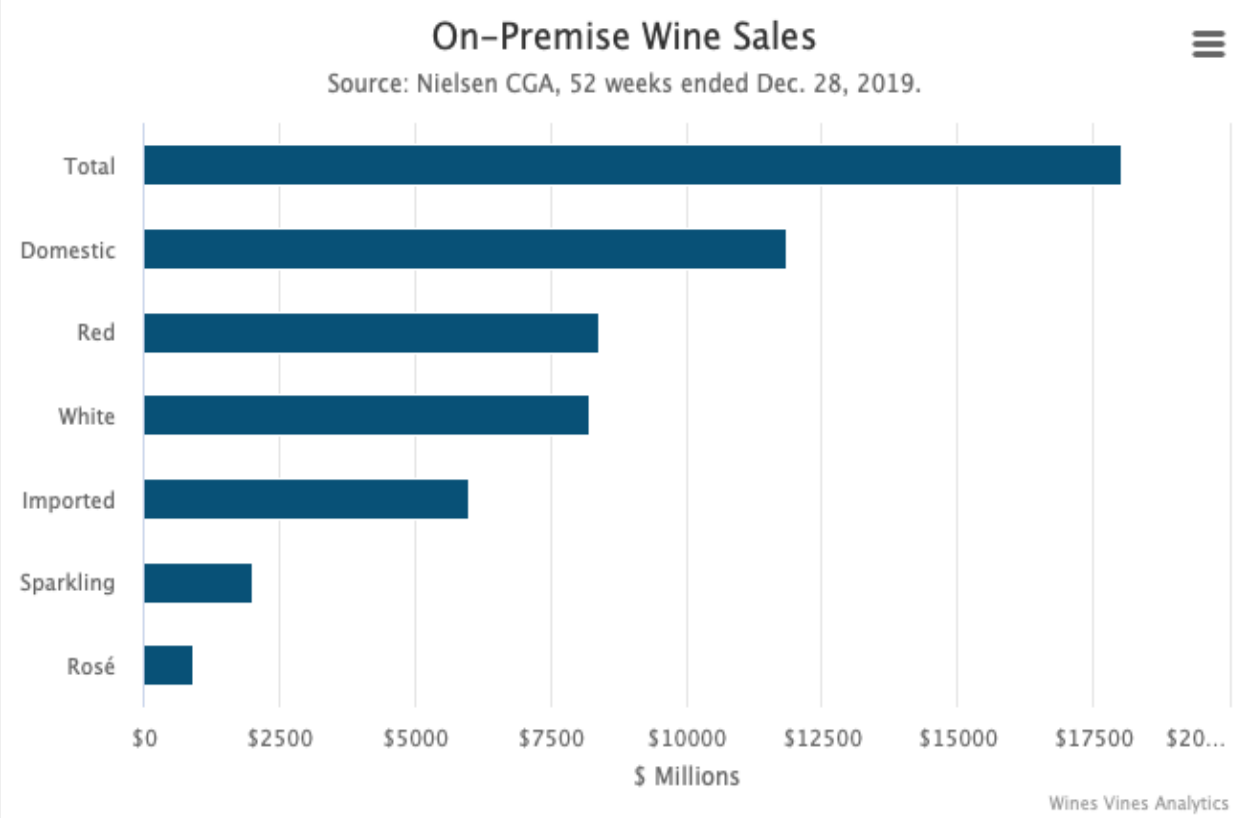
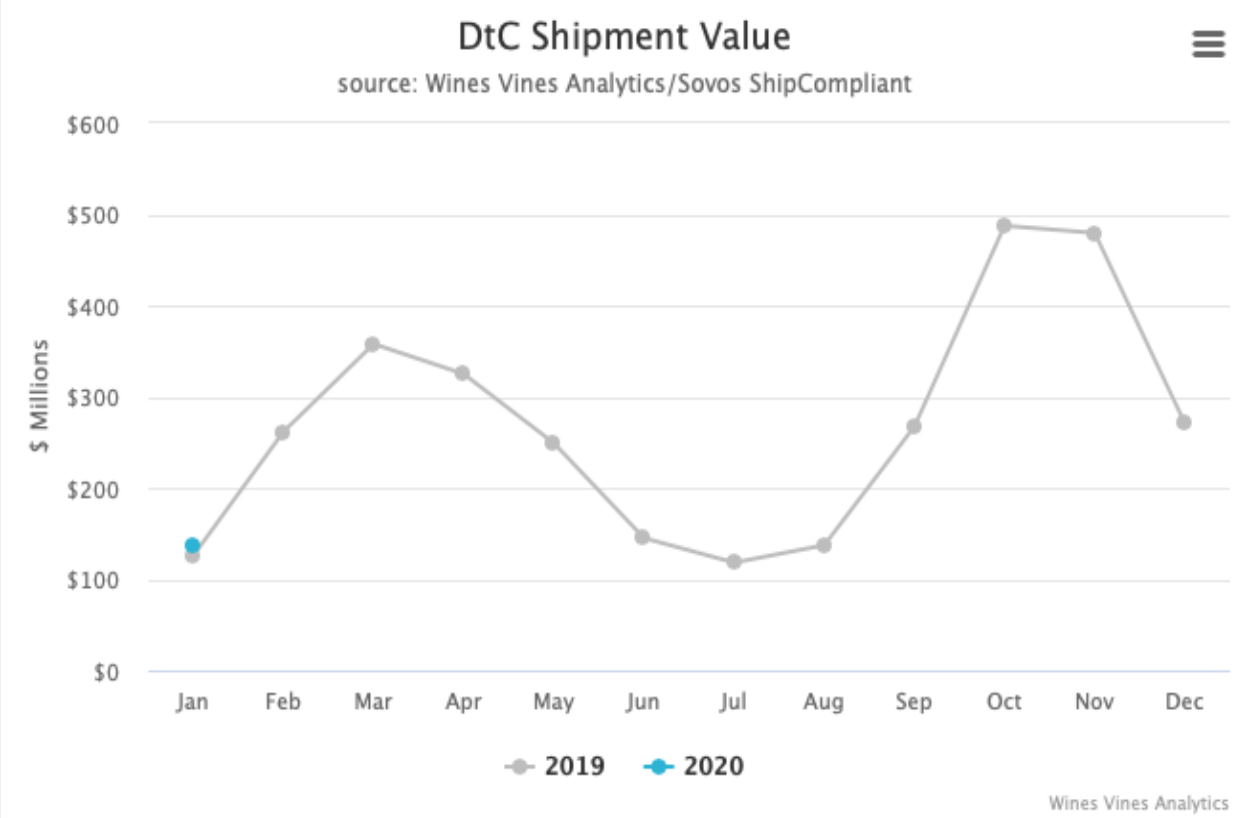
Oregon saw the strongest growth of any domestic wine-producing region, rising to $220 million in sales in the 52 weeks ended Jan. 25, 2020. This accounted for just 2% of domestic table wine sales through Nielsen off-premise outlets, where California holds 90% of the market.

The most robust segment of the domestic market was Oregon, with both the value and volume of table wine sales rising more than 13% in the 52 weeks ended January 25. This kept average bottle price in check, however, at $16.37, a cent lower than last year. This earned Oregon the distinction of being the only region from which wines became more affordable at off-premise.

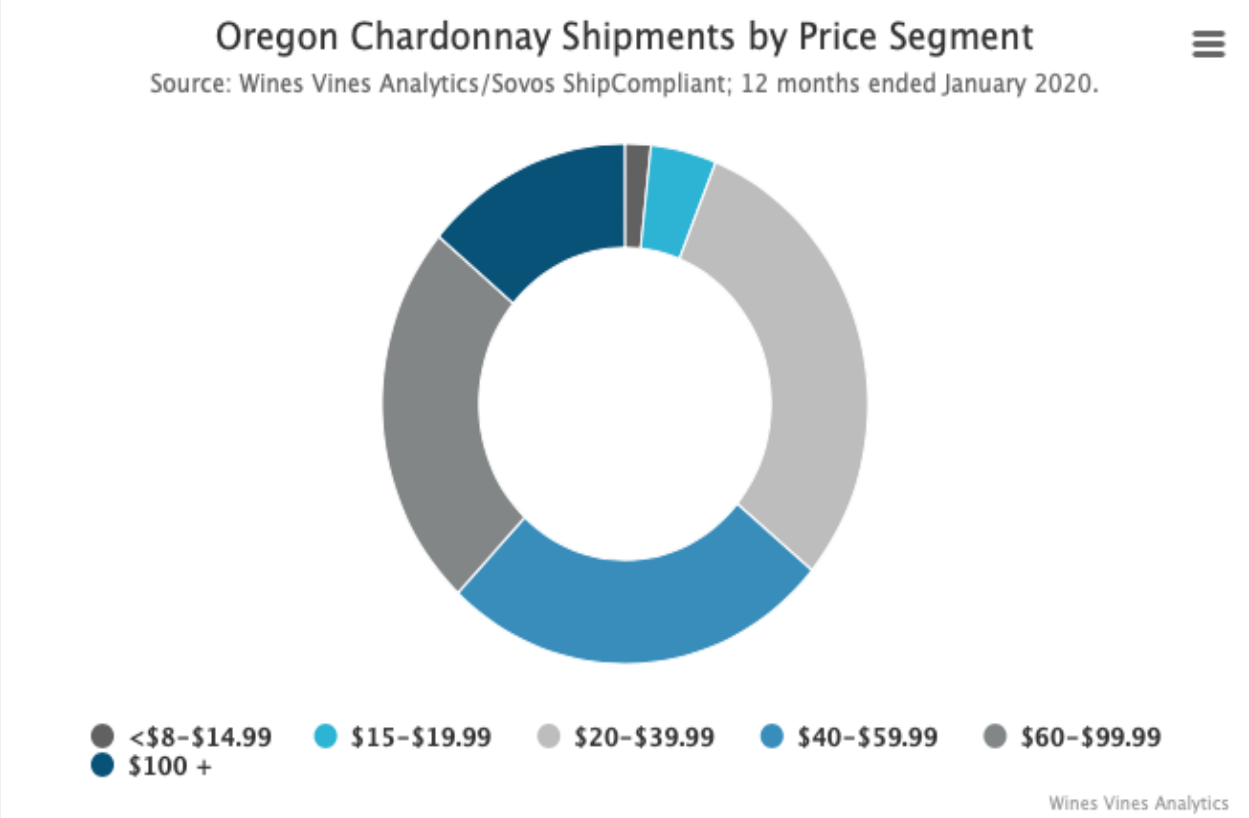



End of interactive chart.
On-premise sales increased more than 1% to more than $18 billion in the 52 weeks ended Dec. 28, 2019.
End of interactive chart.
Data from Nielsen CGA shows on-premise sales growing more than 1% in the 52 weeks ended Dec. 28, 2019, slightly faster than off-premise sales. On-premise accounts rang through more than $18 billion worth of wine in the period. The most dynamic wine types are sparkling (up 8.6% to more than $2 billion) and rosé (up 4.3% to $916 million). Price gains have been tough to secure at on-premise outlets, however.

In its most recent analysis, Nielsen CGA included hard seltzers in its beer report and found that the beverages surpassed rosé wines and accounted for $1.2 billion in total sales in the 52 weeks ended Dec. 28, 2019.  Even in on-premise seltzers are enjoying explosive growth, gaining 462% in value to $1.2 billion in sales while volumes grew by 443% over the previous 12-month period. Total beer grew by 3.4% but to more than $43 billion in the same period.




End of interactive chart.
DtC shipment value totaled more than $136 million in January, up 8% versus a year ago.
End of interactive chart.
DtC shipment volume totaled 331,496 cases in January, up 4% versus a year ago.
Dry January didn't dampen direct-to-consumer (DtC) shipments, which increased 8% versus a year ago to top $136 million in the month, according to Wines Vines Analytics/Sovos ShipCompliant. Shipment volumes grew at half that rate, rising 4% to 331,496 cases. The strong growth in shipments reflected the ongoing strength of the channel, particularly among consumers willing to purchase more expensive wines. The average bottle price of shipments during the month was $34.23, up 4% from last year and the strongest January pricing seen over the past five years.




End of interactive chart.
Chardonnay valued at $20-$39.99 a bottle accounted for 30% of Oregon DtC shipments in the latest 12 months.
End of interactive chart.
Pinot Noir valued at $40-$59.99 a bottle accounted for 32% of Oregon DtC shipments in the latest 12 months.
The strong showing by Oregon in 2019 continued in January. The state's wineries shipped more than $212 million worth of wines in 2019, with an average value of $41.12 a bottle up 3.6% from a year earlier. Approximately 76% of those shipments were the Burgundian varietals Chardonnay and Pinot Noir, the state's flagship variety. This amounted to an outsized portion of the channel, given that the two grapes account for 65% of the state's harvest.

The 12 months ended January saw $19 million worth of Chardonnay shipped DtC with an average value of $40.64 a bottle. Pinot Noir claimed the majority of shipments, with 233,411 cases valued at $143 million, or $50.89 a bottle.

The majority of Pinot Noir and Chardonnay shipped DtC from Oregon were priced above $20 a bottle. Shipments of Chardonnay tended to be more affordable, however, with 6% of

shipments priced below $15 and the largest proportion of shipments (30%) in the $20 to $39.99 price band. Pinot Noir skewed higher, with the largest proportion (32%) priced at $40 to $59.99 a bottle and just 3% priced less than $15 a bottle.


End of interactive chart.
Winejobs.com's Winery Job Index rose 14% to 363 in January versus a year earlier.
End of interactive chart.
Demand for winemaking and production roles increased 7% to 326 in January versus a year ago.
End of interactive chart.
Demand for sales and marketing positions rose 18% to 288 in January versus last year.
End of interactive chart.
The subindex for direct-to-consumer positions, including tasting room and retail staff, rose 8% to 491 in January versus a year earlier.
Winejobs.com's Winery Job Index leapt 14% to 363 in January versus a year ago as hiring activity in all subcategories increased. The three major subindices posted solid gains, led by 18% greater demand for sales and marketing staff. The index for direct-to-consumer

positions, including tasting room and retail staff, increased 8% to 491 followed closely by winemaking and production roles, up 7% to 326.

The largest gains were posted by the relatively small categories of general administration (up 35%) and finance staff (up 33%). The largest single component of the overall index during the month was vineyard positions, which increased just 3% to an index reading of 577.

While the activity partly reflected the optimism of a new year, it is a promising start in a sector where a condition of full employment continues to dog employers. Solid demand underscores the opportunities qualified workers have even as the wine industry grapples with the need to adjust to a shifting production and sales landscape. Strong demand for labor reflects the lack of alternatives for many roles.

Matt Parker, president and CEO of Silverado Investment Management, told an audience at the Unified Wine & Grape Symposium this month that while mechanization is showing progress in the vineyard, “it’s not an easy answer.”

(*Editor’s Note: This story was updated at 12:31 p.m. Feb. 19 to replace outdated content on winery hiring activity with content related to January Winery Job Index data.*)

## Growers Urged to Pull Vines

Picking bins filled with pulled stakes and trellis wires sit on the edge of a Napa County vineyard that was ripped out following the 2019 harvest.

> California vineyard acreage appears to have peaked at around 590,000 acres, but current demand would likely be met by just 560,000 acres or less.
>
> The Allied Grape Growers is urging members to remove vineyards to help surmount the industry's oversupply of grapes and wine.
>
> Private labels and new brands are helping to draw down some of the excess wine, but more work is needed to stimulate consumer demand.

Sacramento, Calif.—The 2019 harvest came in lighter than projected and that offers some relief to California's ongoing oversupply situation, but growers are being urged to rip out vineyards this year to at least bring the supply side of the industry into balance.

According to the preliminary grape crush report issued Feb. 10, California growers produced 3.9 million tons of wine grapes, comprising 2.14 million tons of red varieties and 1.76 million tons of whites.

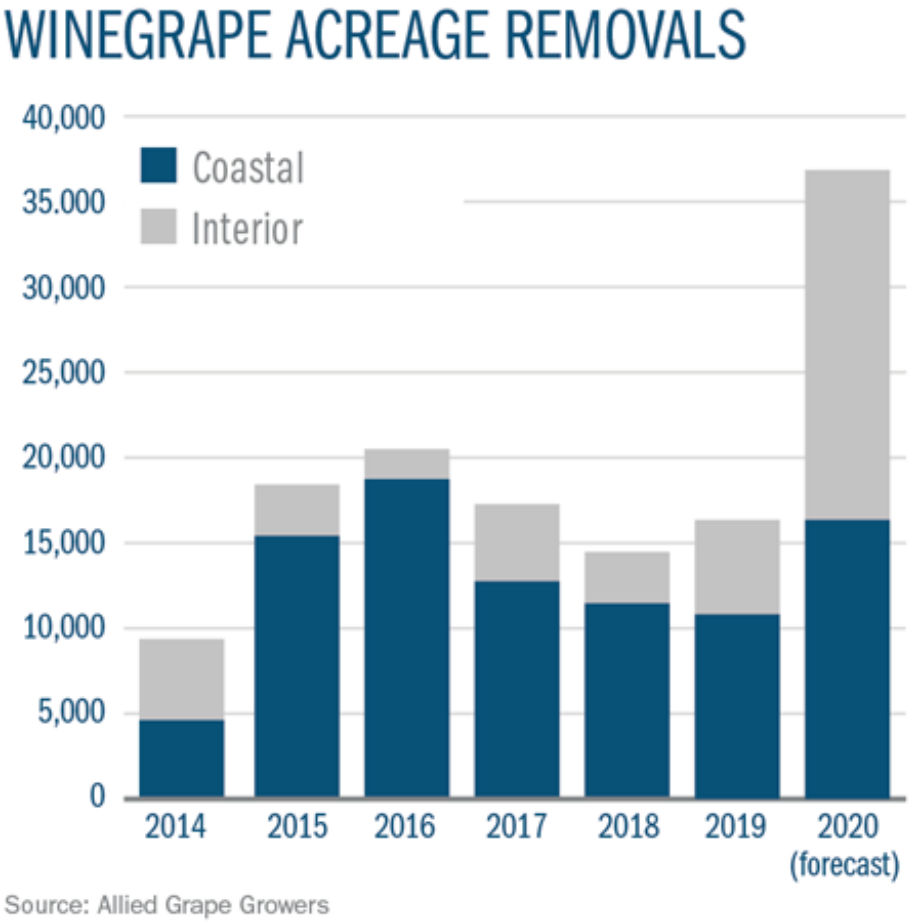
That may be less than what was expected — or feared, considering the remaining glut from 2018 — but California is still overplanted with vineyards, according to the president of Allied Grape Growers, which represents about 500 independent growers throughout the state. During his remarks in the annual State of the Industry keynote session at this year's Unified Wine & Grape Symposium, Jeff Bitter said the 2019 crop was likely closer to 4.4 million tons if one were to take into account the number of tons left on the vine or on the ground in many of California's top growing regions.

Grapes went unsold and unused throughout all coastal regions. And in the Central Valley, Bitter said, it was a disappointing surprise that even the concentrate, brandy and high-proof distillate markets had no need for additional grapes.

Four million tons appears to be what the industry can pull through to the market at the moment, leading him to say that 30,000 acres need to come out of the ground, in addition to the regular amount removed each year because of attrition. "We're in a very difficult supply situation, as we all know," he said.

Bitter noted that AGG projected California would be producing more than 4 million tons back in 2016, but what the group — and industry — failed to predict was the flattening of wine sales in recent years. "This is no surprise; we were talking about it four years ago," he

said. “What we didn’t know back then is that wine shipments would flatten out.”



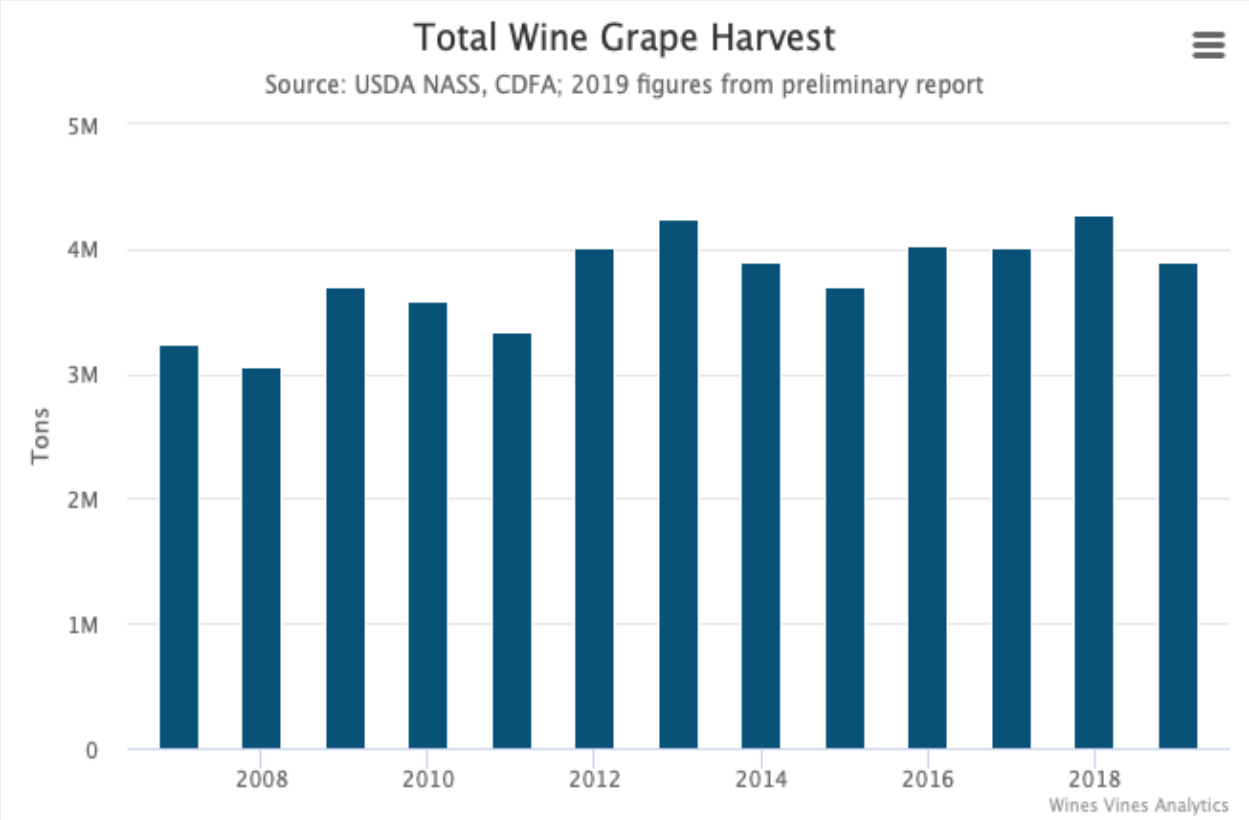

Even with a high number of vineyard acres expected to be removed in the coming year, the Allied Grape Growers group reports California would need to remove more to bring the market into balance.

Rather than pinning their hopes on the market turning around and the industry growing out of its oversupply, Bitter said, the answer is to cull California’s vineyards down to 560,000 acres or less. The 30,000 figure he cited represents about 5% of the state’s total acreage, so he described it as a relatively modest adjustment. “It sounds like a lot, but we don’t have that far to move the dial to move us into balance.”

Because of removals that began in 2018 through the start of this year, Bitter said California’s bearing acreage peaked at around 590,000 tons but the big question is where the state will go next. Based on AGG’s nursery survey, there were 19.5 million vines sold in 2019 and that translates to about 18,500 non-bearing acres.

Between 15,000 to 20,000 acres have been planted in the past three years each and so for California to really get a handle on its oversupply growers will need to remove sufficient acres for attrition this year plus the additional 30,000 that the AGG is recommending be removed. “We really need 50,000 acres to come out this year to really bring us back in to balance,” he said.

Bitter said all vineyards with viruses, especially Cabernet Sauvignon, need to come out of the ground as well as generic reds or any vineyard requiring human labor in the Central Valley or other “production” areas. He recommended pulling any Pinot that had been planted in areas not well-suited for the variety and any “yield-challenged” vineyards, particularly low-yielding Chardonnay. “The battle cry to pull out vineyards is legitimate,” Bitter said. “We have plenty of supply behind the pullouts.”

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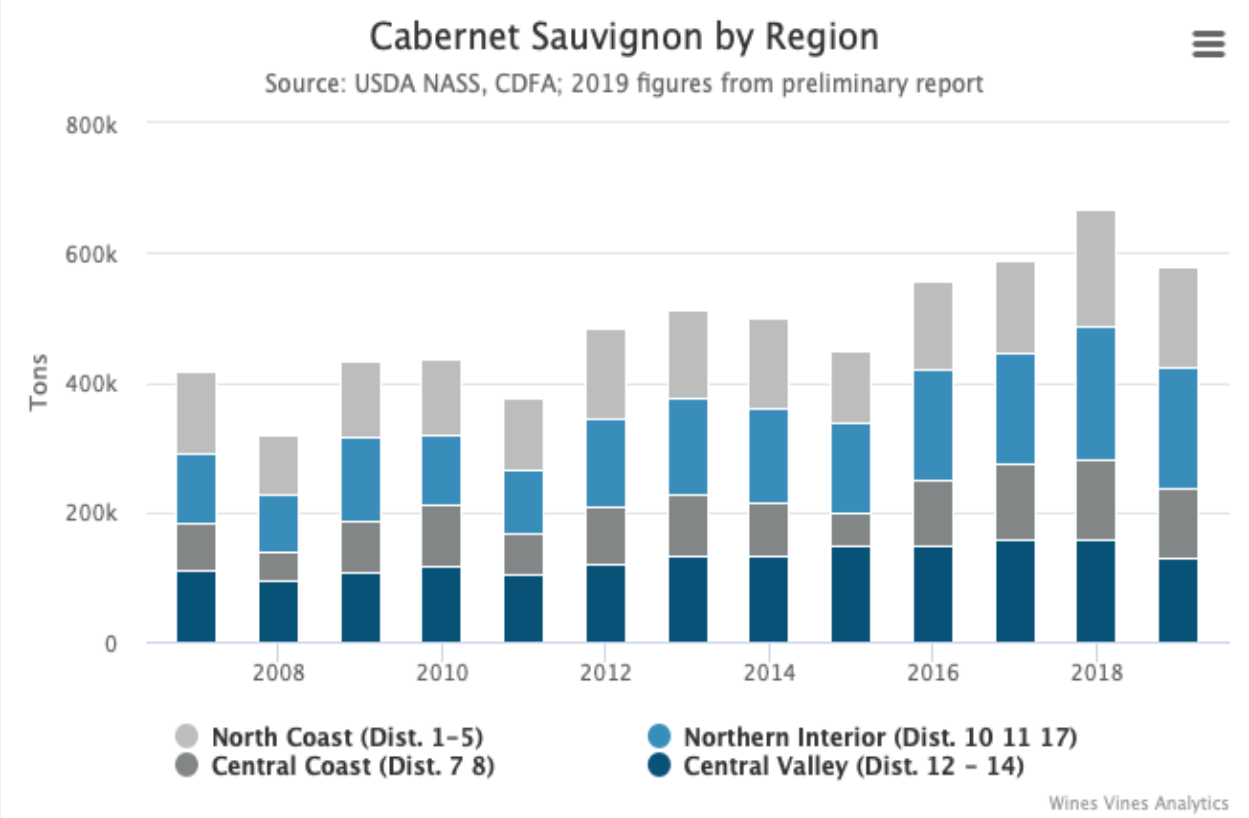


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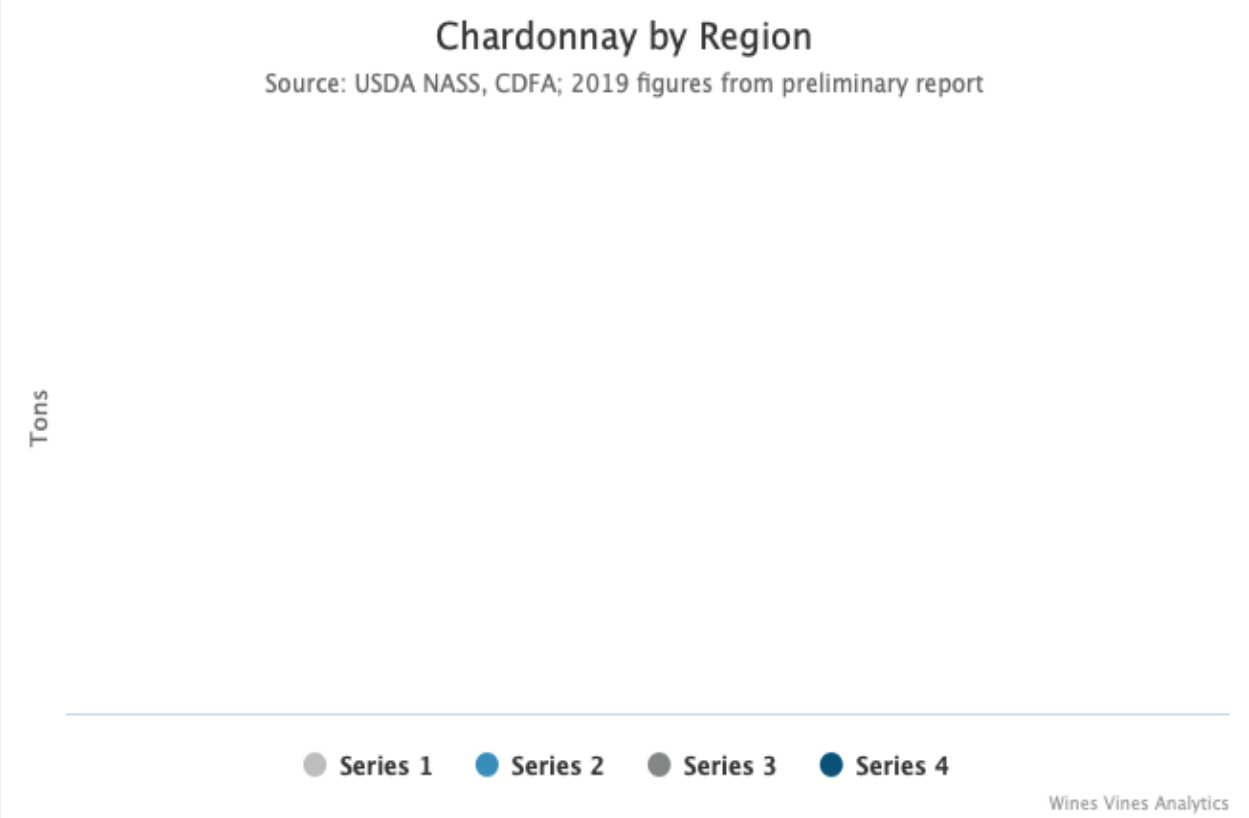
Steve Fredricks, president of Novato, Calif.-based Turrentine Brokerage, joined Bitter during the state of the industry panel and spoke with *Wine Analytics Report* after the preliminary crush report was released.

“We need on-ramp wines, and on-ramp wines are not $20 wines,” he said, adding that there are several négociant and established wine companies that have developed new brands or retailer-exclusive brands to offload some of the state’s excess wine from 2018 and 2019. More still needs to be done to get the industry out of this current cycle of oversupply.

During his presentation at Unified, Danny Brager, vice president of Nielsen’s beverage alcohol and cannabis divisions, said private, or retailer-exclusive, brands account for nearly 18% of the entire retail market. Within wine, such brands accounted for more than $600 million in total sales in the most recent 52 weeks. In 2016, private labels accounted for about $450 million, according to Nielsen.


Chardonnay by Region
Source: USDA NASS, CDFA; 2019 figures from preliminary report
Tons
Series 1
Series 2
Series 3
Series 4
Wines Vines Analytics


Fredricks said the private-label segment will continue to grow, but he doesn't expect such brands to dominate retail anytime soon, as the three-tier system is a challenge to scaling such brands.

He said the largest grape and wine buyers have still not returned to the open market, and that indicates they are still dealing with excess inventories themselves. These companies, as well as smaller négociant firms, have all been trying to develop new brands or retailer exclusives to deal with the excess wine.

Ultimately, though, the industry needs to do a better job of marketing the quality of California wine to a broader group of consumers and at a wider variety of price points. Fredricks noted that two of the strongest brands, Bota Box and Black Box wine, come out to around $5 per 750 ml.

"We had a long run up, and we planted a lot as we do every time," Fredricks said. "It's going to be more challenging for us to get through to the consumer if we're not really tackling the sales side."

— *Andrew Adams*

# Metis CEO Sees Deals Rebound in 2020

As CEO and managing partner of Walla Walla, Wash.-based Metis, Erik McLaughlin leads a team based in Oregon and Washington that provides management consulting and advisory services on mergers and acquisitions to clients in the alcoholic beverage and hospitality industry throughout the Northwest. McLaughlin's resume covers 25 years working in wine and hospitality, including senior management roles for multiple publicly traded and private wine companies.

Metis CEO Erik McLaughlin says his firm has received "significant" interest in Oregon wine properties from prospective buyers in Europe and Asia and expects more deals in 2020 after a "reset" during 2019.

In recent years, Metis advised the sellers in M&A transactions in the Northwest including the acquisitions of Firesteed Winery, Owen Roe Winery and Tamarack Cellars by Santa Rosa, Calif.-based Vintage Wine Estates; Abeja Inn, Vineyards & Winery by Columbia Hospitality; and Walla Walla Vintners by a group of private investors.

McLaughlin has been involved in industry groups in Oregon, Washington and Idaho and has lectured on the business of wine. He graduated from Linfield College in the Willamette Valley of Oregon and is a fourth-generation native of the Pacific Northwest. In 2019, *Wine Business Monthly* named him one of the Top 50 Wine Industry Leaders.

**Q:** What's the current status of mergers and acquisitions activity in the Northwest for vineyards, wineries and brands?

**Erik McLaughlin:** 2019 was a reset year where there was a lot of interest from buyers and sellers, a lot of talking and less deals actually happening. In 2019 in general, the wine industry started absorbing the information from the media and from the wine statistics about the slowdown in the wine industry. And I think a lot of people took 2019 to reset their strategy and figure out what it is that they really want to do. So we saw more sellers coming forward in 2019, and we saw about the same number of buyers still in the market, but the buyers are becoming more conservative, more picky and less sure about what it is that they want. We worked on a ton of deals relative to the number of deals that actually closed. So we think 2020 is going to be the year where all of that shifting from 2019 becomes factored in, and people start getting back to doing more deals again.

**Q:** What types of deals are you expecting to close?

**McLaughlin:** We're seeing no abatement of interest in A-plus opportunities. And growing interest in distress opportunities. I think most of the deals that are going to be done in the next few years are going to divide between A-pluses or somebody getting a deal.

**Q:** What is primarily driving the sellers of wineries and vineyards in the Northwest?

**McLaughlin:** It's first-generation owners or second-generation owners who don't have a legacy plan and are now looking at selling because they don't have kids or management that are interested in or capable of taking over the business. Of course, there are also plenty of people interested in selling because their businesses aren't performing, but there's not a lot of buyers for those.

**Q:** What's driving buyers?

**McLaughlin:** Oregon just continues to have outstanding performance as a category, particularly for Pinot Noir, and is outpacing the performance of the entire rest of the industry. So investors and strategic operators, whether they be in California or Europe or elsewhere, if they're a multi-winery operator, they're at the point where they feel like they need that in their portfolio. And for both Oregon and Washington, the cost of doing business is so much less (than in California). The land acquisition costs are less, the regulatory environment is more friendly, the business environment is more friendly, the water issues are much more easily dealt with. They enable businesses to produce wines at prices that are difficult to compete with from other regions and still generate great margins.

**'A+' APPELLATIONS IN THE NORTHWEST**

**Oregon**
Dundee Hills
Ribbon Ridge

**Washington**
Red Mountain
Walla Walla

**Q:** How are vineyard land prices changing in the Northwest?

**McLaughlin:** We're seeing a bifurcation of land pricing where the most desirable vineyard land continues to increase in value. Most desirable largely being in the most prestigious sub-AVAs. In Oregon, the A-plus areas would be Dundee Hills and Ribbon Ridge and to some

extent some of the Willamette's other sub-AVAs. In Washington, that would be Red Mountain and Walla Walla. Whereas at the baseline, whether that be a less desirable sub-AVA or the general Willamette Valley or Southern Oregon or Columbia Valley, land prices are falling. It's really natural. It's happened in every other mature wine region of the world. People figure out where the best places are, and those decouple from the baseline.

> The most active buyers in the market are California multi-winery operators, or single-winery operators looking to add another brand or another location.

**Q:** What is A-plus planted vineyard acreage going for in Oregon and Washington?

**McLaughlin:** At the high end we're seeing values in Ribbon Ridge and Dundee Hills approaching six figures an acre. There's even been one transaction above six figures an acre. For general Columbia Valley vineyard acreage now, let's call it $25,000 per planted acre. Whereas Red Mountain, that's going to be more like $75,000 and Walla Walla more like $60,000. Right now there's so much distress in the Washington wine industry there will be vineyards sold for less than that. There's so much oversupply because of the contraction at Ste. Michelle (Wine Estates), which is over 60% of the Washington wine market. Ste. Michelle was growing at a very, very strong rate for many, many years, and that growth rate inverted for a while and went negative. Now they're doing better, but it's not the same growth rate that they were at before.

**Q:** In mergers and acquisitions, where are the serious buyers coming from?

**McLaughlin:** The most active buyers in the market are California multi-winery operators, or single-winery operators looking to add another brand or another location. There's also a significant amount of high net worth individuals that are regional players. These are people that often live in the Northwest. We're seeing significant increased interest from foreign investors, both European and Asian, more strongly in Oregon than in Washington.

> Almost everybody that's looking to buy something is looking to grow it.

**Q:** What considerations are smart buyers and sellers emphasizing in potential acquisitions?

**McLaughlin:** Paramount is financial performance, not only historical financial performance but what will the financial performance be when you plug it into somebody else's system? They're looking at performance trend lines. Has a winery's performance line been stable over the years? Has it been growing, has it been shrinking? Wineries that are declining in sales are very, very difficult to get people to be interested in. A secondary consideration seems to be direct-to-consumer business and direct-to-consumer growth potential.

Buyers are also looking at what does a growth runway look like? Is there enough physical capacity at the current facility to enable more growth or would there have to be additional facilities leased, built or bought to enable growth or outsourcing production to enable growth? Almost everybody that's looking to buy something is looking to grow it.

Another important thing is, who's going to be running the winery in the future? Is the founder the winemaker? Is the founder going to remain involved in the future? People are very concerned to make sure that there is a continuity of management and talent through a transition.

**Q:** Speaking of founders, do you help with deals where the current owner needs to bring in equity partners to expand?

**McLaughlin:** We do a lot of recapitalizations, but typically we do majority recapitalizations, meaning that a majority of the equity changes hands. A lot of wineries want an equity investor who's going to give them a couple million dollars and not tell them what to do. You're basically selling lifestyle investment at that point rather than real business investment. But we do majority recapitalizations all the time. I think that's going to be an increasingly common deal structure in the future, where owners remain involved as minority partners.

— *Jim Gordon*

## Upcoming Events

**Feb. 26-28, 2020: B.E.V. NY Trade Show**

B.E.V. NY is New York's annual conference for the grape and wine industry, combining the resources of Cornell's Extension Enology Lab, the Finger Lakes Grape Program, and the Charles H. Dyson School of Applied Economics and Management at the Rochester Inn & Convention Center in Rochester, N.Y. bevny.org

**Feb. 27, 2020: Innovation + Quality**

IQ2020 in Napa, Calif., features wine trials, educational sessions and tastings as well as hands-on demonstrations of the latest equipment and techniques curated by the editors and publishers of *Wine Business Monthly*. Join more than 50 exhibitors and sponsors for intimate conversations with leading wine industry professionals at the IQ Salons throughout the day as well as experience the latest innovations in packaging, equipment, barrels and lab analysis all aimed at improving wine quality in ultra-premium wineries. na.eventscloud.com

**March 2, 2020: VinExpo N.Y.**

Wine and spirits producers from all over the world will present their products to buyers in North America. Two days of tastings, education, networking and business will take place at the Javits Center in New York. vinexponewyork.com

**March 2-5, 2020: Washington Winegrowers Convention and Trade Show**

Join the winegrape industry from all the Pacific Northwest in Kennewick, Wash., to learn more about and leverage the opportunities that abound for Washington wine. wawinegrowers.org

**March 3-5, 2020: Wine Marketing and Tourism Conference**

The Wine Marketing & Tourism Conference is an industry conference designed for those working in the wine and tourism industries. The conference, to be held at the Valley River Inn in Eugene, Ore., provides concrete, actionable information to help attendees enhance marketing skills and develop a progressive tourism position. winetourismconference.org

**March 9-11, 2020: Women of the Vine & Spirits Global Symposium**

Women of the Vine & Spirits, the world's leading membership organization dedicated to empowering and advancing women in the alcohol beverage industry, will hold its annual symposium at the at the Meritage Resort and Spa in Napa, Calif. womenofthevine.com

**March 10-12, 2020: Eastern Winery Exposition**

The largest industry event east of the Pacific states**,** EWE takes place at the Lancaster County Convention Center & Lancaster Marriott at Penn Square in Lancaster, Penn. easternwineryexposition.com.

**March 22-26, 2020: UC Davis Wine Executive Program**

In its 20th year, the University of California, Davis, Wine Executive Program is designed to teach the fundamentals of winemaking and management skills necessary to be profitable in today's challenging and dynamic wine industry. Sessions are tailored to help industry leaders grow their businesses by expanding on such topics as building one's financial acumen and expanding a company's current marketing and branding strategies. eiseverywhere.com

**March 24, 2020: Central Coast Insights**

The economic and financial conference in Paso Robles, Calif., for the wine industry of California's Central Coast. eiseverywhere.com/website/4856/

**March 25, 2020: WiVi Central Coast**

WiVi Central Coast, is the premier wine and viticulture symposium and trade show for the wine industry of California's Central Coast. Now the largest wine industry event south of San Francisco, WiVi takes place in Paso Robles, Calif., and features nearly 200 exhibits and hundreds of new products, product demonstrations, educational seminars and networking opportunities for winemakers, grape growers, winery owners and managers. This one-day conference and trade show features sessions by top industry leaders on regional viticulture, enology and DtC topics and gives attendees the opportunity to understand and experience new trends and technology. na.eventscloud.com/website/5082/

**April 21-23, 2020: Wine & Spirits Wholesalers Annual Convention & Exposition**

The WSWA Convention will be hosted at Caesar's Palace in Las Vegas to provide an opportunity for distributors to seek out new beverage products, meet with existing partners and look for services to enhance internal operations. wswaconvention.org

**Sept. 1, 2020: Winejobs.com Summit**

Winejobs.com Summit is a forum for HR professionals to connect with their peers and discuss the hiring, retention and training of winery employees. The event is a full-day conference taking place at The Archer Hotel in Napa, Calif. eiseverywhere.com

**Sept. 15, 2020: Wine Industry Technology Symposium**

The Wine Industry Technology Symposium is the only conference focused on successfully deploying technology solutions in the wine industry. The conference takes place at the CIA Copia in Napa, Calif. eventscloud.com

**Sept. 15-16, 2020: Wine Industry Financial Symposium**

The Wine Industry Financial Symposium is the premier event covering the financial, business and strategic issues of the wine industry. Attendees to the financial symposium can also attend sessions of the Wine Industry Technology Symposium, which will take place concurrently at the CIA Copia in Napa, Calif., on Sept. 15. eventscloud.com