

# **Selling a B.C. Winery – Lessons From Recent Transactions**

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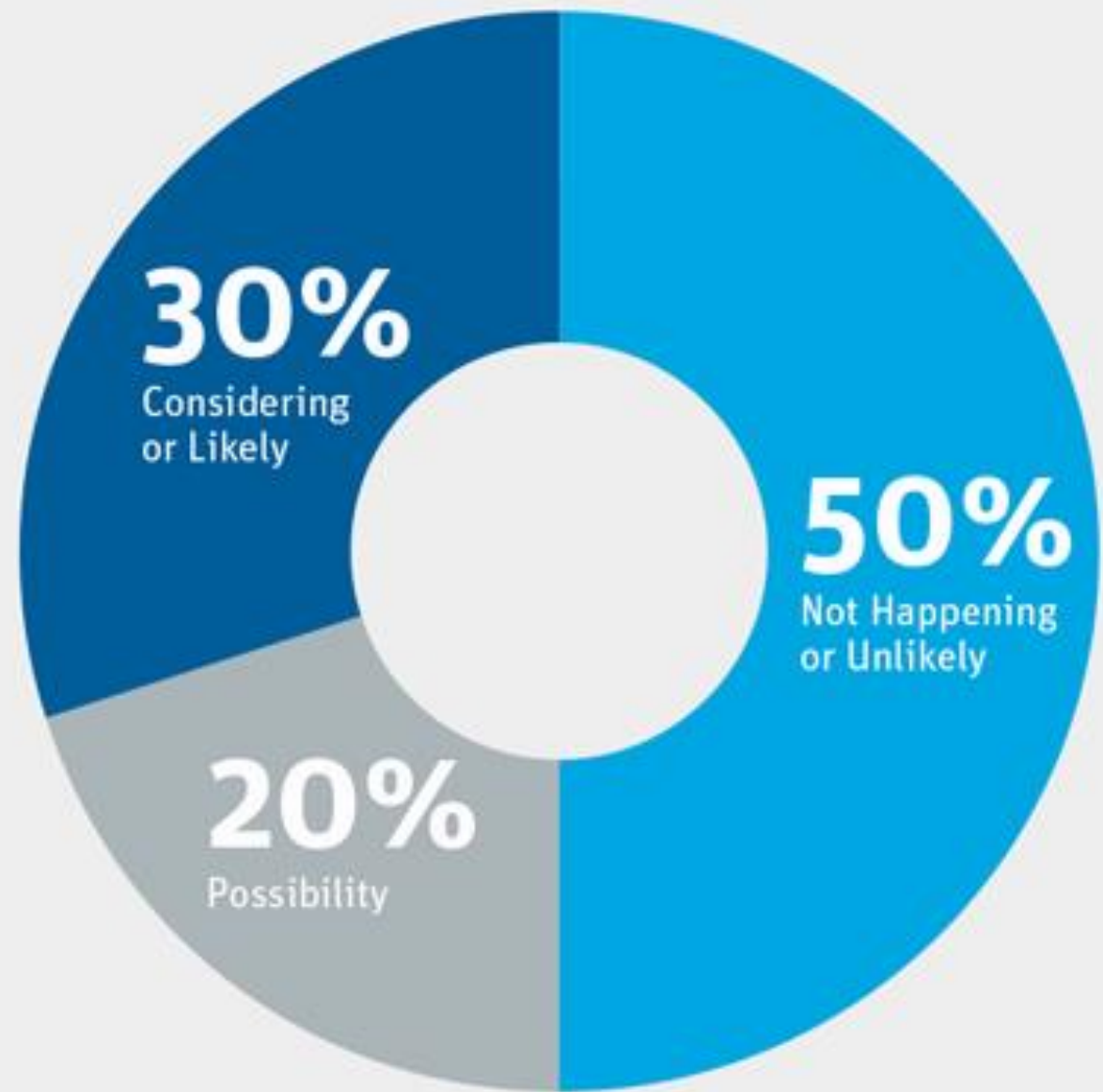
# Recent Prominent Transactions

- Arterra acquisitions of Culmina and Laughing Stock
- Peller acquisitions of Black Hills, Grey Monk and Tinhorn Creek
- Backyard Vineyards sale to Diamond Estates
- Sea Star (David Goudge) purchase of Saturna (Larry Page)
- Mt. Boucherie/Rustico- receivership sales
- Time sale to Phantom Creek
- Church and State sale to Chinese buyers
- Foxtrot sale to Douglas Barzelay
- Phantom Creek purchase of Road 13 Vineyard from C.C. Jentsch
- Road 13 lease of the Blind Creek Vineyard
- Oakanagan Crush Pad acquisition of Seacrest Mountain vineyards (50 acres)
- Purchase of Kaleden vineyard by Black Market Wine Co.
- Sale of Stags Hollow to Bench 1775
- Sale of Wild Goose
- Sale of Terrafina
- Wineries currently for sale include Time, Seven Stones, Young & Wyse •



## Generational issues motivating sellers

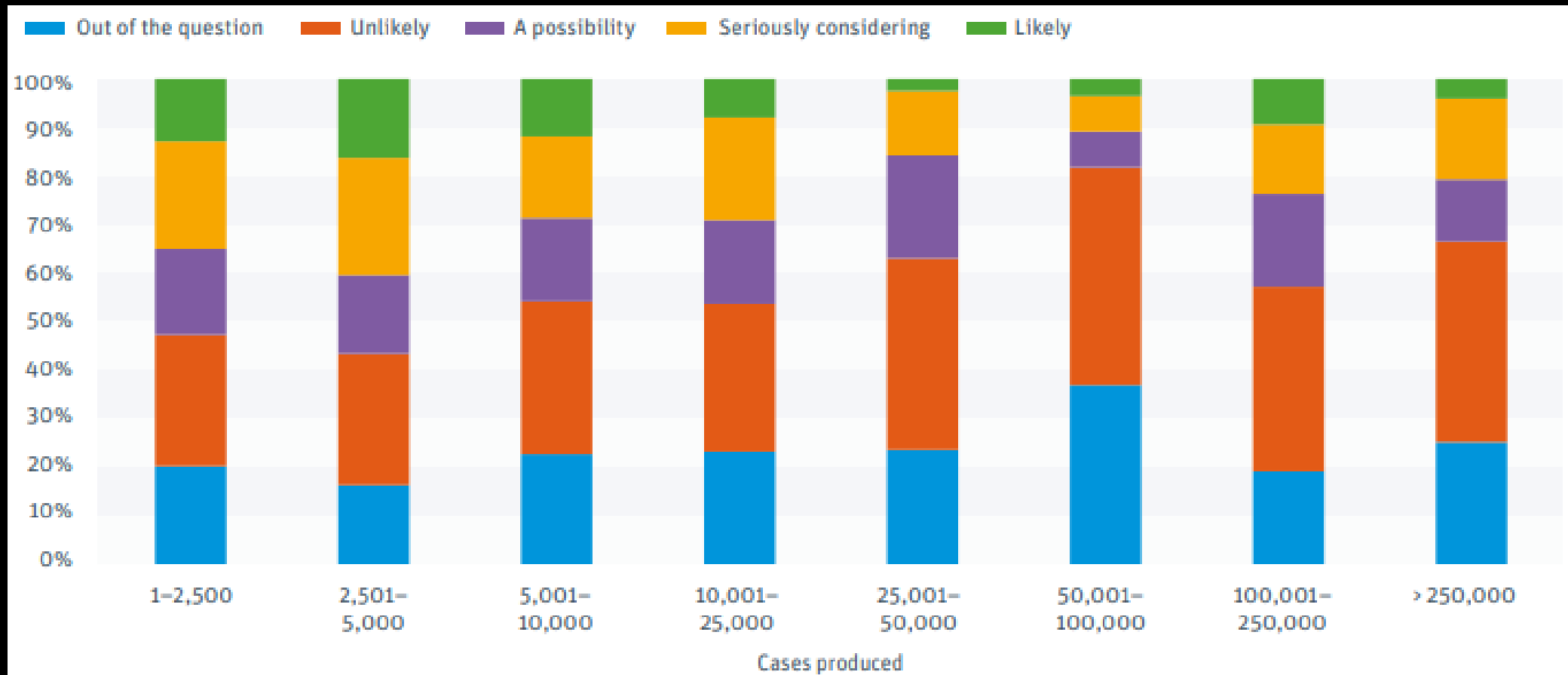
- \$1.9 trillion of Canadian business assets will change hands over the next 5 years
- 60% of business owners, age 55-64 have not yet discussed their exit or succession plans
- 50% of vineyards will change hands in the next five years (Silicon Valley Bank)



**State of the Wine Industry 2017, Figure 16**

Source: 2016 SVB Annual Wine Conditions Survey

# Likelihood of Selling Winery in the Next 5 Years



Source: SVB State of the Wine Industry Survey

# The Succession Alternative

- Many returning owners aspire to transfer ownership to the next generation
- More often than not this aspiration is not realized:
  - Next generation does not have the inclination or the aptitude to own and operate a winery; or
  - There are insufficient family assets to both transfer ownership of the winery to interested children and to fund both retirement and bequests to other children



# Transitioning to the Next Generation

Transferring a family business to the next generation is often more complex than owners expect. Family dynamics, such as your children's interest in the business, as well as their qualifications and capabilities, play a role. So does their capital preparedness.

What will happen if one child wants to take over the business and another doesn't? How will you compensate any children brought into the business? Will they receive a salary or dividends (or both)? If a child gets married or has a common-law relationship, to what extent will his or her spouse have a stake in the business?

Often difficult to balance your cash flow requirements in retirement and your commitments to ensure the success and continuation of the family business as it passes to future generations.

You need to be willing to get the difficult conversations out of the way now, so you can avoid surprises and family upheaval down the road.

# Other Factors Driving Sales Activity

DESIRE OF LARGEST PRODUCERS TO ACQUIRE SUPER PREMIUM BRANDS OR ADDITIONAL VINEYARDS

CHALLENGES OF ACHIEVING SCALE ECONOMIES IN A FRAGMENTED INDUSTRY

DESIRE TO DIVERSIFY BY REGION AND VARIETALS

- ENTER INDUSTRY THROUGH PURCHASE OF AN EXISTING OPERATION

# Market conditions are currently extremely favourable

- Remarkably, 12 continuous years of strong economy and markets
- Price/earnings ratios are at a cyclical high
- Low interest rate environment
- High growth rate of wine consumption in Canada
- Strong growth in the premium price category
- Increasing international recognition of Okanagan for the quality of its wines and as a premier tourist destination
- Shortage of acreage in the Valley suitable for quality grapes and inflating land values
- Ongoing trend towards consolidation in the industry





# Are storm clouds gathering?

**Prospects of Recession**

**Removal of excise tax exemption**


**Competition from Legal Cannabis**

**Prohibitions on DTC to customers in other provinces**

**Loss of exclusivity for VQA wine in grocery and other trade challenges**

**Climate change/Forest Fires**

**Shifting age cohorts, slowing of premiumization trend**

A scenic landscape at sunset or sunrise. The sky is filled with soft, orange and yellow clouds, transitioning to a darker blue at the top. The foreground shows a dark, silty or sandy area, possibly a dry riverbed or a construction site, with some sparse vegetation on the left. A white rectangular text box is centered in the upper half of the image.

*We predict the M&A market will continue at a reduced volume of transactions compared to 2018 and prior. There should be more sellers who discover they have waited just a little too long to begin the marketing process.*



# Top prices are being paid for premium wineries

## Andrew Peller's purchases of 3 leading Okanagan wineries (2017)

	Annual Revenues	Employees	Vineyards	Selling Price
Black Hills Estate Winery	\$6 million	16	50 acres	\$31.3 million
Gray Monk Cellars Ltd.	\$11 million	50	50 acres	\$34.5 million
Tinhorn Creek Vineyards Ltd.	\$7 million	50	150 acres	\$28.9 million

### Peller's 5 Year Forecast

Sales

\$24.5

\$35

EBITDA

\$8.2

\$15

BJCP [Average price for the 3 sales was 11.6 X EBITDA]



# Your business is worth more to a strategic buyer

- Distribution capability
- Vineyard holdings
- E-commerce platform
- Ability to shift production to other facilities
- Capital to grow the business
- Administrative efficiencies and reduced overhead



# Can You Achieve This Pricing?

- Have you developed a 'flagship' wine worthy of a super premium price point?
- Have you maximized sales through high margin sales channels – DTC, wine club, internet, restaurants
- Are your grape supplies secure – high quality, healthy vineyards focused on popular varietals and clones
- Have you maximized the production volumes of your premium labels from your existing production facilities?
- , offsite barrel storage
- Have you developed a second or 'flanker' brand to lever off flagship brand at lower price point and high volumes

# How to price your winery

1. LTM Normalized EBITDA multiple (6-12X)

2. Asset Value

- Appraised value of vineyards
- Book value of buildup and equipment
- Inventory at cost
- Goodwill:
  - One time annual sale
  - Two times EBITDA

3. Future Value

- Top line growth of sales and revenues (CAGR)
- Scalability of the business

4. Fashionable product category

5. Market timing





# Pricing: What is your winery worth?

- **EBITDA Multiple** – range 5-12X – recent Peller acquisitions - 11.6X
  - LTM
  - Adjusted for non-recurring income or expenses eg. SHRED credits; and excluded assets
  - Normalized (*scrubbed to remove personal and non-recurring expenses*)
    - Shareholders discretionary expenses
    - Shareholder remuneration
    - Is it well managed by a financially astute operator – evidenced by high margin and EBITDA
- **Asset Value** – value of vineyards, plant and equipment, residence, goodwill
- **CAGR of sales and revenue** – Top line growth is a key indicator of a solid market penetration of the brand and growth potential
- **Comparable market transactions**

# Ultimately, the price is what a buyer is willing to pay

- Too many variables in business models and asset structures for any single metric to be truly predictive
- EBITDA multiple is only a simple proxy for what is really a very complex issue
- Not really paying for EBIT – because cost synergies for selling and administrative overhead are quickly realized
- Real world drivers include
  - Market timing – Is the market at a strategic inflection point?
  - Is the business scalable – both from a production and marketing standpoint?
  - Is the product category fashionable?
- Ultimately, the only real determinate of value is what will the buyer pay!

# Noteworthy exits are not available to everyone

Sellers whose brands are marginally profitable, lack product focus or are severely underscaled will face strong headwinds



# Newsworthy exits are not available to everyone

- Most Okanagan wineries don't have the scale and profitability required to garner top dollar pricing
- Sellers whose brands are marginally profitable, lack product focus or are poorly prepared to go to market will likely face increasing headwinds
- Prerequisites include strong top line revenue growth and strong earnings history and high margins derived by super-premium pricing and high margin DTC sales channels
- Sufficient scale to attract buyer interest
- Growth opportunities
- Asset backed – high quality vineyards, production facilities and tasting room/event center

# Consolidated industry income statement (2015)

	Bottom quartile (\$30,000- 120,000)	Lower middle (\$120,000- 255,000)	Upper middle (\$255,000- 650,000)	Top quartile (\$650,000-5 million)
<b>Total Revenue</b>	<b>70.5</b>	<b>177.2</b>	<b>410.6</b>	<b>1,688.5</b>
<b>Cost of Sales (direct expenses)</b>	<b>26.7</b>	<b>67.6</b>	<b>179.1</b>	<b>740.5</b>
<b>Operating Expenses (indirect expenses)</b>	<b>70.6</b>	<b>112.0</b>	<b>232.9</b>	<b>863.9</b>
<b>Total Expenses</b>	<b>97.3</b>	<b>179.6</b>	<b>412.0</b>	<b>1,604.4</b>
<b>Net Profit/Loss</b>	<b>-26.8</b>	<b>-2.4</b>	<b>-1.4</b>	<b>84.0</b>

# Available alternatives are driven by your circumstances

1. Profitable, sufficiently scaled business
2. Unmatured business with potential for the current owner to continue to add value
3. Non-profitable and underscaled winery
4. Wineries owned by investment syndicates
5. Established multi-generational business
6. Opportunistic sellers





# Are there other exit strategies for small wineries ?

- Real estate sale
- Saxon Winery/Bottega Wine Studio
- Tarrabella Wineries



# The universe of buyers

- Large industry buyers
- Middle sized players with strong balance sheets
- Investment syndicates
- Private equity buyer
- Chinese and other Asian buyers
- Romantic lifestyle buyer



# Buyer Motivations

**Premiumization**

**Scale and  
Diversification**

**Cash Flow**



# WHAT ARE ACQUIRERS LOOKING FOR?



# U.S. winery sales - 2017

Closing Date	Target	Acquirer	Assets Acquired	Location
January	Cameron Hughes Wine, Inc.	Vintage Wine Estates	Brand and Inventory	California
April	Jamieson Ranch and Reata Brands	WX Brands	Brand and Inventory	Napa, California
April	Bread & Butter	WX Brands	Brand and Inventory	California
April	Blossom Hill Winery	Delicato Family Vineyards	Facility	Central Coast, California
April	Stagecoach Vineyard	E&J Gallo	Vineyard	Napa, California
April	Geyserville Facility (Silver Oak Cellars)	Michael-David Winery	Facility	Sonoma, California
April	Klipsun Vineyard	Terlato Wines International	Vineyard	Red Mountain, Washington
April	Beaux Frères	Maisons & Domaines Henriot	Brand, Facility and Vineyards	Newberg, Oregon
April	Ovid Napa Valley	Silver Oak Cellars	Brand, Facility and Vineyard	Napa, California
May	Brewer-Clifton	Jackson Family Wines	Brand, Vineyards and Facility Lease	Sta. Rita Hills, California
June	Firesteed Cellars	Vintage Wine Estates	Brand and Inventory	Willamette Valley, Oregon
June	Bartolucci – Stice Lane Vineyard	Raymond Vineyards/ Boisset Collection	Vineyard	Napa, California
June	Schrader Cellars	Constellation Brands	Brand and Inventory	Napa, California
June	Hawks View Cellars	Ponte Family Estate	Brand, Facility and Vineyard	Sherwood, Oregon
June	Standing Stone Vineyards	Hermann J. Wiemer Winery	Brand, Facility and Vineyards	Finger Lakes, New York
August	Calera Wine Company	Duckhorn Wine Company/ TSG	Brand, Facility and Vineyards	Central Coast, California
August	Germain-Robin	E&J Gallo	Brand and Inventory	Mendocino, California
September	Prince Hill Vineyard	Silver Oak Cellars	Vineyard	Willamette Valley, Oregon



# Selected Closed M&A Transactions in 2019

Closing date	Target	Acquirer	Assets acquired	Location
January	BRAND Winery & Estate	Private investors (Bean/O'Sullivan)	Brand, facility and vineyards	Pritchard Hill, California
January	Renwood Winery Facility	Rombauer Vineyards	Facility and vineyards	Shenandoah Valley, California
January	Jaeger Oak Knoll Vineyard (-85 acres)	TIAA-CREF	Vineyard	Oak Knoll, California
February	Merry Edwards	Louis Roederer	Brand, facility and vineyards	Russian River Valley, California
March	Laetitia Vineyard & Winery	Vintage Wine Estates	Brand, facility and vineyards	Arroyo Grande, California
March	TEXTBOOK Brand	Distinguished Vineyards & Wine Partners	Brand	Napa, California
April	Grace Family Vineyards	Private investor (Kathryn Green)	Brand, facility and vineyards	Napa, California
April	Conner Lee Vineyard	Josh Lawrence and Tom Merkle	Vineyard	Othello, Washington
April (announced)	Constellation Value Wine Portfolio	E. & J. Gallo Winery	30 brands and 6 facilities	California, Washington, New York
May	Iron Corral Vineyard (-420 acres)	Hess Collection	Vineyard	Pope Valley, California
June	Starmont Winery	Orsi Family Vineyards (leased to Duckhorn Wine Company)	Facility	Carneros, California
June	Wildwood Vineyard (-50 acres)	Lawrence Family (Heitz Cellar)	Vineyard	Rutherford, California
June	Shirttail Creek Vineyard (-320 acres)	TIAA-CREF	Vineyard	Monterey, California
July	Greenwood Vineyard (-45 acres)	Ste. Michelle Wine Estates	Vineyard	Calistoga, California
July	Panorama Vineyard (-300 acres)	Jackson Family Wines (previously leased)	Vineyard	Arroyo Seco, California
July	Santa Lucia Highlands Vineyard (-450 acres)	AgIS Capital	Vineyard	Santa Lucia Highlands, California
August	Chalk Hill Vineyard	Foley Family Wines	Vineyard	Sonoma, California



# U.S. winery sales – buyer motivations

Target	Acquirer	Premiumization	Assets to Support Growth	Mid-tier Players Building Scale	Geographic Diversification	Private Equity Platform
Orin Swift	E&J Gallo	•				
Robert Hall Winery	O'Neill Vintners & Distillers			•	•	
Duckhorn Vineyards	TSG Consumer Partners					•
Charles Smith Wines	Constellation Brands				•	
WillaKenzie Estate	Jackson Family Wines				•	
Bread & Butter	WX Brands			•		
Stagecoach Vineyard	E&J Gallo		•			
Beaux Frères	Maisons Domaines Henriot				•	
Ovid Napa Valley	Silver Oak	•				
Schrader	Constellation Brands	•				
Calera Wine Company	Duckhorn Vineyards			•	•	

# Successful Acquisition Models



Successful  
Models

GI  
Partners

Ste.  
Michelle

Vineyard  
Funds

# St Michelle - String of Pearls Model

St. Michelle owns a portfolio of premium wineries which are operated separately from the parent and which produce distinctive wines from authentic estate vineyards. In each case, the corporate parent provides capital for the financing of vineyard and winemaking operations, together with administrative and marketing support.



# The GI Partners Model

- Flagship wine
- Max volumes of flagship brand
- Develop secondary or flanker brand
- Max sales through high margin channels
- Experience center
- Secure quality grape supply



# The role of private equity

- Most prominent Canadian example is Ontario Teachers Pension Plan purchasing Constellation Canada
- Silverado Investment Management Company – one of the most active vineyard investors in California
- PE investors struggle with the question of how they can add value to a brand in an industry where winners determined by scale and distribution leverage
- One successful model - GI Partners (eg acquisition of Duckhorn, Far Niente)
  - Invest in a strong brand at the luxury end of the market – a brand with high price points, a strong reputation for quality and a loyal following through DTC – such brands have an intrinsically high margin and value notwithstanding their lack of scale or strength in traditional high volume channels
  - Pump dollars into areas that will increase growth and profitability
    - high quality estate vineyards
    - state of the art equipment and production facilities
    - showcase hospitality facilities
    - marketing talent
    - web portals to grow high margin DTC and internet sales
    - ‘flanker’ brands that benefit from the flagship brand’s reputation but at a lower price point and greater volume potential (eg Decoy)

# Farm land funds

New York-based TIAA-CREF (the initials stand for Teachers Insurance and Annuity Association and College Retirement Equities Fund) owns more than 20,000 acres of vineyards, which in turn produce grapes for more than 190 vintners, including Stag's Leap, CakebreadCellars, Robert Mondavi, Sutter Home, and others.

TIAA-CREF manages much of its wine operations through Silverado Premium Properties, a Napa, Calif.-based investment and management company it owns that purchases and plans the development of vineyards and seeks to maximize the revenue it can extract from its harvests.



# Preparing to sell

- Are you psychologically and financially ready to sell?
- Have you done everything you can to exploit near term and low risk growth opportunities?
- Have you optimized your tax structure?
- Organize your business in a manner that will permit sheltering gains with simultaneous access to
  - Principal residence exemption
  - Lifetime capital gains exemption
  - Lifetime farming capital gains exemption
- Estate planning
  - Estate freeze
  - Income sprinkling
- Inter-generational transfer – Have you extracted enough cash for retirement?

# Key due diligence issues

- Record keeping
- Vineyards healthy, being properly farmed and maintained, with berry counts and estimated yields consistent with prior years
- Access to sufficient high-quality third party grapes to meet production forecasts
- All inventory saleable with no material obsolescence
- Buildings and equipment adequate and appropriate for continued operation, in good condition
- Sale to a commercial winery
  - Inter-provincial shipments
  - Sales of kegs and other non-VQA formats to hospitality

# Conclusions

- Build your business with a view to future sale
- The path to a successful sale depends on what you have to sell and the universe of potential buyers
- Advance preparation is key, as is hiring the right advisors
- Don't underestimate the time and effort involved in achieving a successful exit



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