

## Winery buyers reveal expansion plans

By NATHAN HALVERSON

**F**ive of the most likely buyers of California's premier wine brands gathered in Santa Rosa on Thursday to discuss the future of the industry.

They sat on a podium in a hotel ballroom like prize fighters before the championship fight, all five of them answering questions and explaining how they plan to conquer a slice of the wine industry.

Bill Foley, owner of Foley Family Wines and probably the most active buyer, explained he was looking for hard assets like wineries and vineyards — not just virtual brands — and his goal was to build a wine business that sold 2 million cases a year.

“I really have a long-term perspective. This is a legacy for my family,” said Foley, who in



Bill Foley, president and CEO of Foley Family Wines, discusses his expansion plans during a panel discussion Thursday

2007 decided to invest heavily in the business and has grown his once meager winery holdings into a company that produces about 850,000 cases a year.

Foley said that because the wine industry was hit hard by the recession, he has been able to acquire a portfolio of wineries that he “could never have put together five or 10 years ago.”

He paid about \$70 million last year for Chalk Hill Winery, bought Sebastiani Winery in 2008 and bid unsuccessfully this year for Fetzer Vineyards in Mendocino County, which sold to a Chilean producer for \$238 million. He is still looking to acquire a flagship winery on Highway 29 or Silverado Trail in Napa County and is growing his brands in New Zealand and Australia.

He is trying to create a large enough portfolio of brands to give him clout with distributors, whose sales teams are often responsible for getting a producer's wine in the best retail outlets.

“To get the attention of the distributor network is so hard,” he said. “I think it might take a couple million cases to be really effective with them.”

Roughly 450 people gathered in the Hyatt Vineyard Creek Hotel for the North Bay Business Journal's annual Wine Industry Conference to listen to Foley and his fellow panelists speak about mergers and acquisitions.

Dan Leese, who co-founded the V2 Wine Group last year to market and produce wine,

said his company is looking to acquire or partner with wineries to create a portfolio of wine brands that have a combined annual production of about 1 million cases.

“We need to be big enough to field a national organization,”

Leese said.

Pete Scott, chief executive of The Vincraft Group,

which acquired coveted pinot noir producer

Kosta Browne in 2009 for an estimated \$40 million, spoke on the panel even as the ink dried on his deal to buy the 25,000-case Gary Farrell Winery in Healdsburg.

“We are definitely focused on the top end of the market,” Scott said. “We will never be the size and case quantity that either Bill or Dan will be.”



Dan Leese, president & co-founder of V2 Wine Group



Pete Scott, CEO of The Vincraft Group.

The Vincraft Group is focused on small production brands that can be sold directly to consumers or restaurants, he said.



Stewart Resnick, owner and chairman of Roll Global.

& Winery in Paso Robles in December.

Stewart Resnick, whose \$2 billion Roll Global company owns Fiji Water, the Pom Wonderful juice brand, and a lot of agriculture businesses, bought Justin Vineyards

in Paso Robles in

“I’m the newest one here, I’ve only been in this business for four months now,” Resnick said. “(But) we’ve tended to dominate the agriculture businesses we’ve gotten into.”

His company already has a distribution network for Fiji Water and Pom Wonderful, and he will use that to expand the production and sales of Justin, which now is about 80,000 cases annually.

The Winery Exchange, which specializes in creating custom brands sold in specific retailers,

is interested in acquiring brands that have few assets, or even none at all, said Byck, whose company bought Echelon Vineyards in Napa this year. “I’m happy that everyone is looking for assets, because maybe then I get the scraps of the deals that these other guys don’t want,” he said.



Peter Byck, co-founder, CEO and president of Winery Exchange.

Monday, April 11, 2011

By Jeff Quackenbush, Business Journal Staff Reporter

## Wine Industry Conference 2011: Questions for the M&A panel

There is a “huge wave” of wine-related mergers and acquisitions coming, according to one lender to the industry.

“There will continue to be a significant amount of divestitures of large players that have made portfolio acquisitions and discovered they do not have the bandwidth and distributors do not have the desire to support all the brands,” said Mike Silva, senior vice president and San Francisco group manager for Comerica Bank. “On the flip side, there is a lot of capital on the sidelines, interested in building brands.”

Deals for distressed or deteriorating brands that were hard to finance conventionally in the past couple of years seem to be giving way to situations more attractive to lenders, he said.

“With a general rebound in the economy, people are more comfortable about spending money,” Mr. Silva said. “That translates into increasing [sales] volumes, and those situations are much easier to finance.”

The possibility of significantly increasing interest rates on financing later this year might encourage activity in coming months, he added.

It’s in this environment that the BUSINESS JOURNAL asked several significant and diverse players in California wine mergers and acquisitions market about their strategies for building portfolios. They will be part of the Mergers and Acquisitions discussion panel at the Business Journal’s Wine Industry Conference 2011 on April 28.

Panel members will include the following:



Peter Byck



Dan Leese



Pete Scott



Stewart Resnick

**Peter Byck** is co-founder, chief executive officer and president of [Winery Exchange](#) in Novato. Earlier this year, the global wine, beer and spirits corporate brand builder acquired Echelon from Diageo Chateau & Estate Wines for a new division of its own national brands.

**William Foley II** is president and chief executive officer of [Foley Family Wines](#) in Healdsburg. He acquired Chalk Hill Winery from celebrity trial attorney Fred Furth to add to a portfolio that includes more than a dozen North Coast, Central Coast, Washington and New Zealand wine brands plus two hotels.

**Dan Leese** is president and co-founder of [V2 Wine Group](#) in Sonoma. The firm has been forging strategic marketing agreements with several wine producers since launching last year.

**Stewart Resnick** is co-owner of Fiji Water and expanded his agricultural investments recently with the purchase of Justin Winery and Vineyards in Paso Robles.

**Pete Scott** is chief executive officer of [The Vincraft Group](#) in Sonoma. Since 2009 he and fellow former Beringer wine group top executive Walt Klenz have been assembling a number of high-end “boutique” brands, including Kosta Browne.

### **What is the focus of your wine business and your approach to reaching that goal?**

**Peter Byck:** Winery Exchange is the only full-service, value-added, corporate brand beverage alcohol company that sources beer, wine and spirits from the finest regions worldwide. We are focused on organic growth in domestic and international markets and the acquisition of brands to build up our [newly developed national brand division](#). We [recently opened an office in the United Kingdom](#) to strengthen our business and explore opportunities in other European markets.

**Bill Foley:** Driving quality growth, both in the U.S. and internationally. Continuing to build our wine brands so that they provide the best value within their particular segment. Continuing to be fiscally responsible while allowing the winemaking team to be autonomous and make the best wines that they can.

**Dan Leese:** Our vision is to build the most respected wine company in the U.S. through unparalleled brand-building capabilities and our unfettered access to market. Therefore, we believe the two most valued pieces for our success, assuming quality of product, is the development of strong, relevant brands and our ability to get them to consumers.

**Pete Scott:** The Vincraft Group’s objective is the acquisition and operation of a portfolio of small-production, fine wine businesses. Our team is made up of experienced professionals with extensive knowledge of the industry. We are well-capitalized, have successfully opened the portfolio with the acquisition of Kosta Browne and are actively looking at follow-on, complementary deals.

### **How active are you in pursuing acquisitions? What are you looking for?**

**Peter Byck:** Winery Exchange is quite actively looking for acquisitions at this time. We are looking for established and growth opportunities mostly in the premium-price segments that will complement our newly acquired Echelon brand.

We are searching for asset-light brands that will expand our national brand portfolio beyond Echelon, which is a Central Coast pinot noir brand. We are looking for opportunities in varietal-focused brands — preferably not pinot noir, as we have Echelon.

We are also looking for opportunities in other appellations in California — other than the Central Coast — and also internationally.

We are not adverse to partnering with other companies to make an acquisition.

**Bill Foley:** Very actively pursuing acquisitions. Seeking premium brands that will improve our overall portfolio.

**Dan Leese:** We want to build a “strategic portfolio.” What this means is a portfolio that represents the most important regions of the U.S. and a few key ones from around the world and has little overlap in price point, appellation and varietals and is important to consumers, distributors and retailers because of its quality brands and growth potential.

We are always looking for opportunities to achieve this portfolio strategy through either acquisition or agency relationship.

**Pete Scott:** Very active. We’re looking to acquire or partner with high quality wineries to create a collection that includes a mix of varietals at premium price points from Sonoma, Napa and the Central Coast.

**How do you see the future of the wine business, compared with that for beer, spirits, etc.?**

**Peter Byck:** We see more growth in the wine category when compared to both the beer and spirits categories. We expect beer to be relatively flat as the large domestic category is not growing. We do expect the craft segment to perform well.

We also think there will be select opportunities in spirits.

Across the board, we anticipate the wine business to have strong growth in both the international and domestic markets.

**Dan Leese:** Wine will continue to lead the way as to growth, due to continued demographic evolution. Incidence of consumption — percentage of the population drinking wine — is growing in total, as is every generational group (Millennials, Gen Xers and Baby Boomers).

Craft beers are fueling the beer industry and should continue as consumers look for new and different experiences.

**Pete Scott:** We continue to be optimistic about the future of the wine business. That optimism is based on a view that consumer demand for wine will continue to grow at an attractive rate. We recognize that agricultural cycles impact the wine industry to a potentially greater degree than they do other beverage

alcohol categories, but we see continued intermediate- and long-term growth in demand for wine outpacing those other categories.

### **How significant will wine-related businesses be in investment portfolios?**

**Peter Byck:** We think there will be increased interest in the wine category for investors. Wine is a growing consumer category, and investors will continue looking for growth in the U.S. economy.

**Dan Leese:** The large multibrand beverage alcohol companies such as [Brown-Forman](#), [Diageo](#), [Foster's](#) and [Constellation](#) seem less enamored with the wine industry currently than they were five to seven years ago. This is borne out in their write-downs, asset sales and/or lack of investment in the sector.

While it is usually described as a “strategic” shift, it is usually caused by economic changes. These companies in the past were buyers and are now sellers.

The new buyers filling the void left by the large guys who are sitting on the sidelines now seem to be pure wine companies (e.g., [Vina Concha y Toro buying Fetzer](#)) or individuals and families (e.g., [Foley Family Wines](#)).

While there has been buzz in the industry from private equity, outside a couple smaller deals, they haven't yet gotten in in a sizeable way. I think the deals over the next couple years will continue to be smaller wineries, given the prolonged economic recovery that is projected.

**Pete Scott:** As always, the answer depends on the investor. Historically, large investors have invested or divested in cycles. We believe those cycles will continue, primarily because of the long-term growth in wine demand and the relatively strong margin structures. Corporate investors typically have a more difficult time with the industry's lower return on capital.

Yet wine will always be an attractive investment to a subset of private investors. It is an inherently fascinating business, blending consumer product sales and marketing, agricultural influences and a sort of custom “manufacturing.” Wine is an interesting intersection of creativity and discipline.

### **What would you like to add?**

**Dan Leese:** The wine industry is exciting. The demographics, social acceptance of the product and the continuous adaptation of wine into everyday life bodes very well for the future. As wine appears on more and more tables and further into everyday life, opportunities for innovation in the industry will increase.