

## What's Impacting the Wine M&A Landscape

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2019 has certainly been a busy year on the M&A front. A panel at the recent Wine Industry Financial Symposium discussed what's happening in the wine industry marketplace and where they see it heading, particularly over the next 12-18 months.

### *THE IMPACT OF GALLO/ STZ DEAL*

You can't discuss the current M&A landscape without mentioning Constellation Brands' sale of 30+ wine and spirits brands to E&J Gallo. The deal hasn't closed yet, but last we heard, it's on track to close by the end of fiscal 2020.

When asked about the impact of the pending deal on the M&A marketplace, Deutsch Family Wine & Spirits president Tom Steffanci said, "I think it's a seismic shift" for both Gallo and Constellation. "Gallo typically hasn't done big deals" so they're "going to have their hands full digesting all of that," he added.

From a timing perspective, Zepponi & Co. vp Andrew Milanez said this deal "takes two big players out of the market."

### *COULD THE DEAL FALL THROUGH?*

"I think it's unlikely that it doesn't get done," said Tom. Though he said, if it did fall through, regulatory issues won't be the reason, adding that brand performance provisions could kill the contract.

"I think they'll find a way to push it over the line," added Andrew. "Gallo has the position to scale those brands better than anyone else."

### *WHAT'S IN A VALUATION?*

Multiple factors go into determining valuations, and there's not really a one-size-fits-all strategy.

Generally, Andrew said, "In our experience, people tend to look a bit more simplistically," i.e. EBITDA multiples.

"EBITDA multiple is the least terrible way to determine value," added Erik McLaughlin, ceo of METIS, an M&A advisory firm.

"We look at payback," said Tom, adding for wine deals specifically, their goal is to make their money back in 4-5 years. "Once we build that model, then we look at what kind of multiple."

### *LARGER SPIRITS COMPANIES BACKING OUT OF WINE*

In recent years, large spirits companies have been dropping wine brands/assets. Recall, Diageo exited the wine business in 2015, and more recently, Pernod Ricard was rumored to be exploring a sale of its wine brands.

The lack of spirits companies "leaves a gap" in the wine marketplace. When asked if private equity would fill the void, Erik said private equity companies "want to look at wine deals, until they look at wine deals," which got a big laugh from the audience.

Indeed, Andrew said there are two key issues inhibiting PEs: 1) slowing category growth and 2) it's very capital intensive. That "can be daunting," said Andrew.

"I think spirit companies have had their fill of wine deals," said Tom. It "will be interesting to see what the beer guys do. I would have said the Babe acquisition [by Anheuser-Busch InBev] would have been a trend."

### *THE WHERE*

When asked where the panelists anticipate seeing M&A activity, they said the Pacific Northwest, but that there's still interest in California.

"One area I've been surprised to not see more deals is in the Pacific Northwest," so "will probably see more activity there," said Andrew, adding he "still see[s] a ton of interest in Napa, especially from foreign buyers."