So You Want to Make a Small Fortune in the Winery or Brewery Business?

START WITH A LARGE ONE!!

Whether a winery or a brewery, the common trait is Capital Intensive
Starting the Valuation Process

- Understand the current global and regional economic conditions and their effect on risk and values
  - Consumer spending and tourism
  - Nonfinancial services
  - Manufacturing
  - Real Estate and Construction
  - Banking and Finance

- Understand the current global and regional economic conditions and their effect on risk and values
  - Agriculture and Natural Resources
  - Employment (Federal and California)
What is going on in the Wine Industry?

- Per capita alcohol consumption on the increase
- Demand for both wine and beer is on the increase
- Demand from bars and nightclubs is on the increase
- Industry Outlook is positive – next 5 years’ growth projected to average 4.9% per year

What is going on in the Wine Industry?

- Generally three tiers

  Premium
  Fighting varietals ($3 - $7 bottle)
  Popular to mid-premium ($7 - $14)
  Ultra premium ($14 - $25)
  Luxury (over $25)

  Jug

  Other (sparkling)
What is going on in the Wine Industry?

- Price of fruit
  - Major effect on profitability
  - Sensitivity through climatic issues, potential glut in the marketplace
  - Growing your own fruit vs purchasing from an unrelated third party
  - Other

Performing the Financial Analysis

- Prepare a minimum of 5 years comparison
- Focus on debt structure
Valuation Issues

- Basics are similar to any business
- Consider all three approaches
  - Market
  - Income
  - Asset

Market Approach

- Guideline Public Company method
  - Problems with relevancy and lack of meaningful information
  - Big difference between small wineries and large conglomerates
Market Approach (cont’d)

• Transaction method
  • Problems with relevancy and lack of meaningful information
  • Most transactions are private; very difficult to get pricing, terms, other stats on private transactions
  • Get to know the M&A people in your community
  • Zepponi and Company are leaders in the Sonoma County wine transaction arena

Income Approach

• Most commonly used approach for operating companies
  • Capitalized Cash Flows
  • Discounted Cash Flows
Income Approach (cont’d)

- Invested Capital methodologies and EBITDA multiples
  - Can be high depending on the brand value
  - 7x to 10x is not unusual
  - Can exceed 12x with exclusive integrated estate wineries, when brand and real property assets are included
- When using invested capital model, subtract debt from EBITDA multiples

Asset Approach

- Fair market value of assets less liabilities = value
- Most often used approach for wineries
  - Due to lack of cash flow and earnings
- Can even be used for underperforming wineries
  - Would require a royalty payout if certain performance benchmarks were achieved
Goodwill and Brand Value

- Misperception that all wineries have goodwill and brand value
- What makes brand value is a special product that cash flows
  - Then brand value is synergistic value to a potential acquirer and can command big $$
- Brand value can either be the winery in total (not likely) or one or two special wines (more likely)

Breweries (cont’d)

- Currently a $25 billion industry [per IBIS Industry Research]
- 84% of sales in US is wrapped up in 2 companies:
  - Anheuser Busch
  - MillerCoors
Breweries (cont’d)

• Overall growth is slow
  • Revenue forecasted to grow 1% per year over the next five years, compared to nearly 5% for wine

Breweries (cont’d)

• Craft breweries
  • 5.8% per year growth over the past five years
  • Due in large part to the younger beer drinkers (21-25 years)
  • Account for nearly 99% of all US breweries
  • But only represent about 13% of industry revenues
Breweries (cont’d)

- Craft brewers will continue to drive employment and will continue to grow in value similar to well brand boutique wineries
- The two major players in the brewery industry will continue to struggle, reduce work forces, and streamline operations