Lausanne 2024 Abstract Submission

**Title**
Wine Grower and Producer Mergers & Acquisitions

**I want to submit an abstract for:**
Conference Presentation

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**Keywords**
wine, finance, competition, regulation

**Research Question**
What are the microeconomics and competitive effects of grape grower and wine producer mergers and acquisitions?

**Methods**
Built a deal log of 30 wine-related mergers and acquisitions during 2023. Evaluated roles of FTC and DOJ in wine M&amp;A. Analyzed microeconomics and competitive effects of those transactions.

**Results**
Consolidation is underway. M&amp;A objectives include vertical integration, horizontal integration, economies of scale, and market power.

**Abstract**
Summary: Mergers and acquisitions among wine grape growers and wine producers are common. Transactions involve horizontal integration, vertical integration, consolidation, and other changes that lead to economies of scale, diversification, market power, and growth in assets and earnings. Transactions can also affect competition, prices, quality, employment, and innovation. Those effects are public policy issues, and the Federal Trade Commission and the Department of Justice have caused some transactions to be restructured.

I. Introduction
The aggregate value of global mergers and acquisitions (M&amp;A) among wine grape growers and wine producers exceeded five billion dollars during 2023, and the value of M&amp;A in the North Coast American Viticultural Area (AVA) alone exceeded $600 million. That activity achieves various economic objectives for buyers and sellers, and it has various impacts on competition, prices, quality, employment, and innovation. Some transactions and their impacts are reviewed by the U.S. Federal Trade Commission (FTC) and the U.S. Department of Justice (DOJ). Those agencies enforce antitrust laws, and those agencies have caused some wine-industry transactions to be changed to reduce their potential anticompetitive results. The economic benefits of M&amp;A are numerous, but the potential for anticompetitive and other deleterious results remains.

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II. M&amp;A Background
A simple definition of M&A is that a merger is a combination of two firms into a new firm and an acquisition is the purchase of one firm by another. That definition conceals, based on the author’s more than 30 years of experience as an investment banker, what are sometimes complex and multi-part transactions that can involve partial ownership interests, numerous agreements, real and tangible and intangible property, and more than two legal entities. Accordingly, “M&A” and “transaction” and “deal” in this article will refer to whatever transaction it is through which some or all ownership interests in two separate business entities become owned, at some level in an ownership hierarchy, by one business entity.

Participants in transactions have diverse motives. McGee (1989, p. 45-51) described M&A as responses to deregulation and competitive pressures. Filipovic et al. (2014) described six waves of international M&A during the 1890s through 2013 that were driven by economic responses to world wars, economies of scale, regulatory pressures on monopolies, input costs, costs of capital, output price competition, conglomerate valuations, leveraged buyout opportunities, and globalization.

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Constellation Brands proposed to sell a collection of six wineries, nine brands, and other assets to E & J Gallo in 2020. According to FTC (2021), the asset purchase agreement originally included Constellation’s (1) entry-level on-premise sparkling wine branded J Roget, (2) low-priced sparkling wine branded Cook’s, (3) low-priced brandy branded Paul Masson, (4) low-priced port and sherry branded Taylor, and (5) unbranded high color concentrates. The FTC found that Gallo was one of the few material competitors to Constellation in each of those markets, and that barriers to entry for new competitors included capital and expertise. Following a revision of the initially proposed transaction, the FTC ultimately consented to a multi-part transaction in which (1) Constellation retained Roget, (2) Constellation retained Cook’s, (3) Constellation sold Paul Masson to Sazerac, (4) Gallo sold its Taylor competitor to Precept, and (5) Constellation sold its color concentrate business to Vie-Del.

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III. Imperfect Competition

Competition among buyers and among sellers in grape grower and wine producer M&A is imperfect. Of the five to twelve assumptions concerning perfect competition that are often discussed in microeconomics textbooks, how five of those are violated is discussed below.

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In sum, the assets traded in wine-related M&A are heterogeneous, buyers’ information is imperfect, there are barriers to entry and exit, and there are transaction costs. Those factors affect buyers’ and sellers’ respective bargaining powers and the ultimate terms of a transaction.

IV. Grower and Producer M&A Activity

As an example of wine grape grower and wine producer M&A activity, a log of transactions during 2023 that involved assets in the North Coast American Viticultural Area (AVA) appears in Appendix A. The North Coast AVA is dominated by Napa, Sonoma, and Mendocino counties and it contains many sub-appellations. The sample in Appendix A is those transactions that were reported in the wine-trade press so it may exclude some unreported transactions. Nevertheless, the sample does appear to include deals that reflect the full range of assets sold for a full range of economic reasons. Appendix A contains information on 30 transactions, and that M&A activity is summarized in Table 1 below.
Table 1.
Summary of 30 Wine-Related Transactions Listed in Appendix A

Target
Buyer Seller Value
Assets Sold Published Economic Motivations

30 targets

26 buyers
30 sellers Aggregate value not disclosed but over $600 million.

Undeveloped land
Planted vineyards
Fallow vineyards
Wineries
Hospitality venues
Caves
Homes & Inns
Inventory
Grape contracts
Employment contracts
Distribution contracts
DTC program
Brands
Integrated estate

For Sellers:
- Monetize income stream, re-deploy capital
- Restructure or optimize portfolio
- Reduce working capital and financing costs
- Resolve distress, bankruptcy, litigation
- Age out, generational transfer, succession

For Buyers:
- Integrate horizontally
- Integrate vertically
- Improve portfolio, fill gaps in offerings
- Obtain or increase expertise
- Increase bargaining power with distributors and on-premises customers
- Realize economies of scale
- Grow, increase assets and net income
- Decrease risk, decrease volatility
- Obtain artistic expression or lifestyle

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V. Discussion & Conclusions
M&A involving wine grape growers and wine producers is common. Analysis of 30 transactions in the North Coast AVA during 2023 shows that M&A activity achieves various economic objectives for buyers and sellers. Buyers pursue horizontal integration, vertical integration, consolidation, and other changes that lead to economies of scale, diversification, market power, and growth in assets and earnings. Sellers reallocate capital, restructure,
reduce costs, and escape distress. Those actions can affect competition, prices, quality, employment, and innovation. While the FTC and DOJ do regulate and have changed some transactions to reduce the potential for anticompetitive impacts, small transactions and complex interactions not addressed by the FTC and DOJ may still have adverse effects on markets, consumers, and employees.
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