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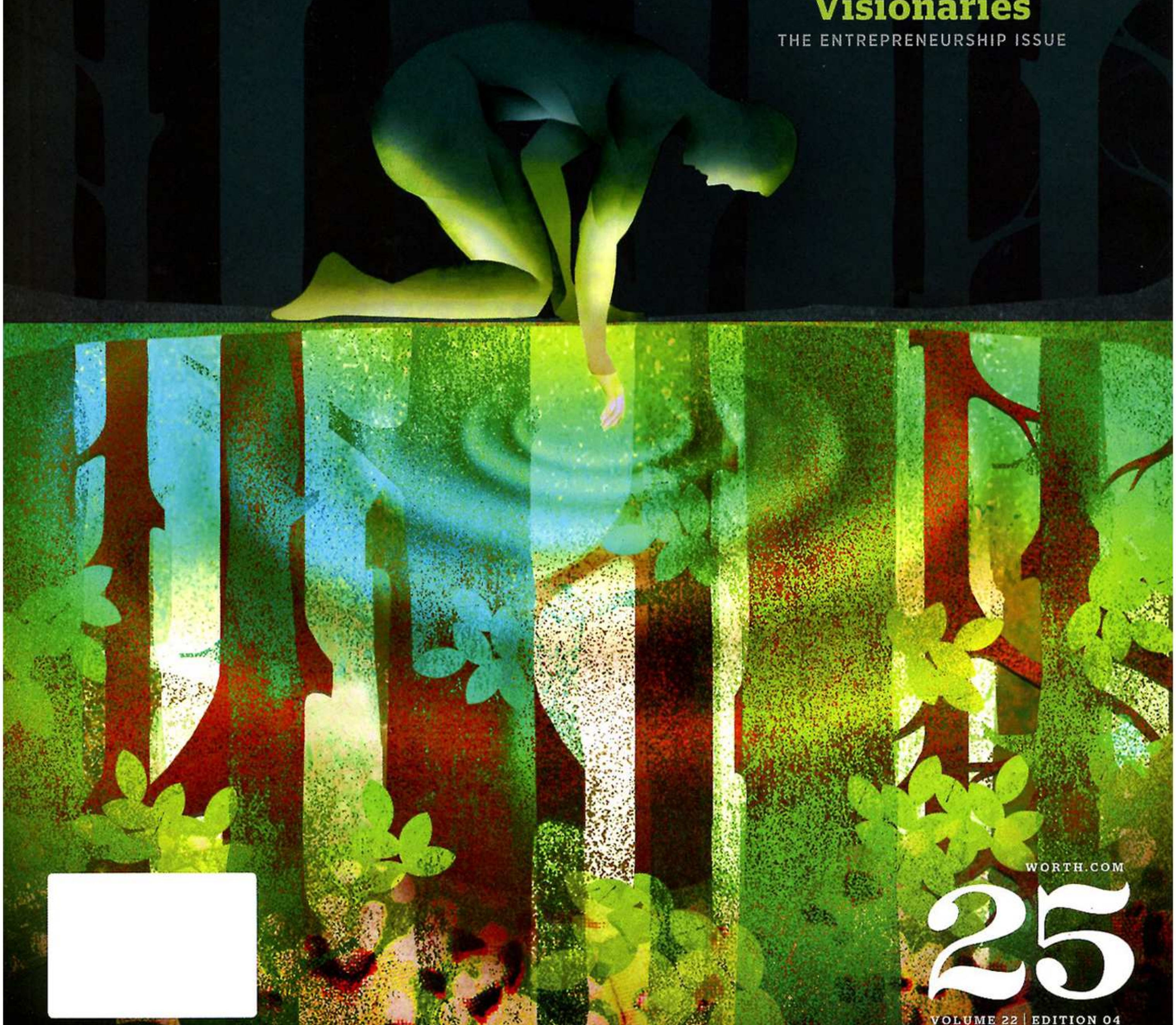

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HOW TO BUY A WINERY

BY CATHY HUYGHE

HOW DO YOU MAKE A SMALL FORTUNE IN NAPA VALLEY? YOU START WITH A BIG ONE. FOR SOME INVESTORS, THAT OLD JOKE REMAINS SADLY TRUE. BUT IT DOESN'T HAVE TO BE THAT WAY. HERE'S HOW TO BUY A WINERY WITHOUT POURING AWAY YOUR MONEY.

CHOOSING YOUR BUSINESS MODEL

There are two common paradigms for the luxury wine business, says Chuck McMinn, a Silicon Valley entrepreneur who, along with his wife, Anne, purchased Napa's Vineyard 29 in 2000. The first is to produce a cult wine to be sold in small volumes at whatever price the market will bear; you treat the winery as a very sophisticated hobby or as one element in a larger business. You aspire to turn a profit, but if you don't, well, there are at least tax benefits that the umbrella business can use.

Second is the château model, which first-growth Bordeaux properties follow, where you sell multiple high quality wines in greater volume at lower prices per bottle.

IT TOOK STANLEY AND HELEN CHENG A DECADE TO PLANT 56 ACRES OF VINES AND BUILD ALL THE NECESSARY FACILITIES.

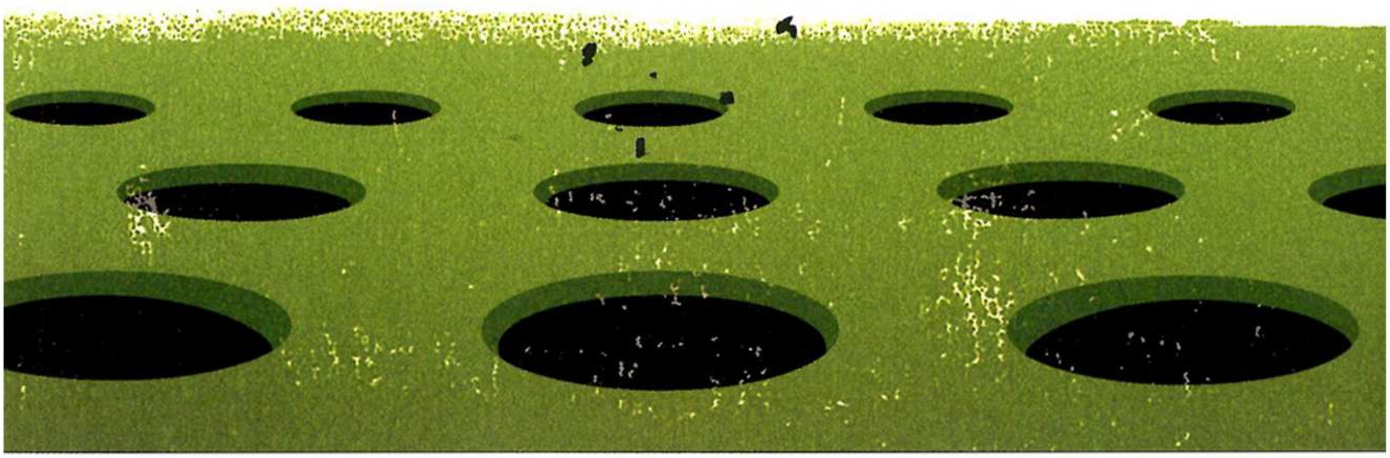
Either way, a winery is an extremely capital-intensive business: In your early years of ownership, expect to invest three to five dollars for every dollar of sales, according to Vic Motto, CEO of Global Wine Partners, an investment bank in St. Helena, Calif.

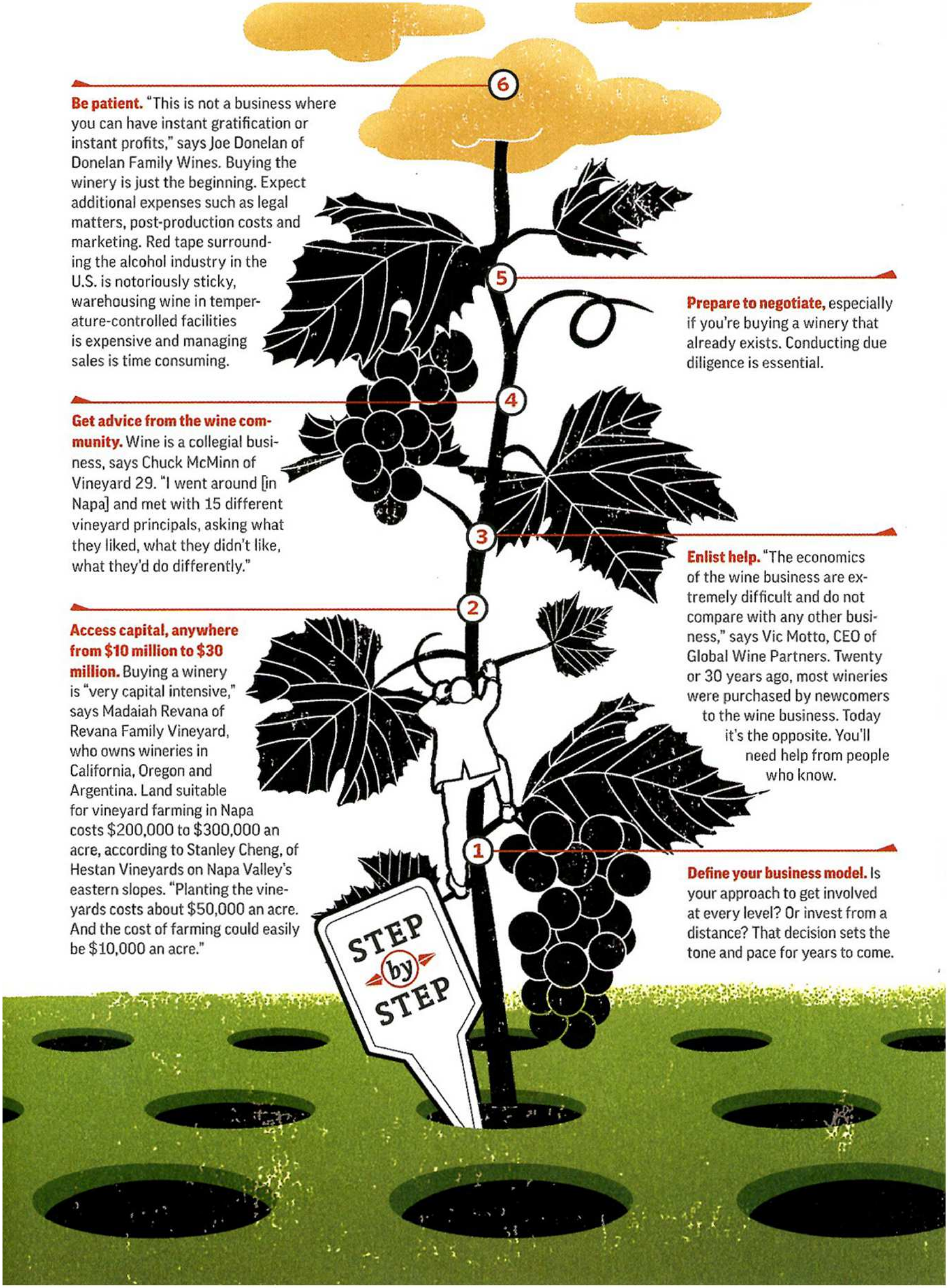
If you want a stake in the wine business without rolling up your sleeves, you could also consider a partnership in a wine investment fund. New York-based wine retailer Sergio Esposito directs the Bottled Asset Fund, which has invested $9 million in wineries, mostly in Italy. Started in 2010, the fund claims a total return of some 35 percent since then. Esposito aims to raise $25 million to launch a second fund this year.

SITE SELECTION

More than anything else, winery investment is a real estate deal, and like any real estate deal, luck and timing can play a huge role. McMinn found an extant vineyard after six months of searching; for Stanley Cheng, of Hestan Vineyards in Napa, the process took far longer. "We started out with the idea that we want to have a very nice property," Cheng says. "We bought a nice piece of land, with rolling hills and a lake on it. There was nothing there." It took Cheng and his wife, Helen, a decade to plant 56 acres of vines and build all the necessary facilities, as well as a beautiful, castle-like home for themselves.

For McMinn—who built a wine cellar in his home as a gift to himself when his company went public—and Cheng, who has made a fortune as head of cookware giant Meyer Corp., buying property in Napa was primarily a lifestyle choice; neither man felt all that much pressure to turn a profit. If buying property is more of a financial decision, current buyers can look to the struggling markets of Europe. "It's a buyer's market, and a playground for anyone looking to invest in distressed assets," Esposito says. "Be careful—the market is sliding downward. But there is a lot up for grabs."





1. **Define your business model.** Is your approach to get involved at every level? Or invest from a distance? That decision sets the tone and pace for years to come.

2. **Access capital, anywhere from $10 million to $30 million.** Buying a winery is "very capital intensive," says Madaiah Revana of Revana Family Vineyard, who owns wineries in California, Oregon and Argentina. Land suitable for vineyard farming in Napa costs $200,000 to $300,000 an acre, according to Stanley Cheng, of Hestan Vineyards on Napa Valley's eastern slopes. "Planting the vineyards costs about $50,000 an acre. And the cost of farming could easily be $10,000 an acre."

3. **Enlist help.** "The economics of the wine business are extremely difficult and do not compare with any other business," says Vic Motto, CEO of Global Wine Partners. Twenty or 30 years ago, most wineries were purchased by newcomers to the wine business. Today it's the opposite. You'll need help from people who know.

4. **Get advice from the wine community.** Wine is a collegial business, says Chuck McMinn of Vineyard 29. "I went around [in Napa] and met with 15 different vineyard principals, asking what they liked, what they didn't like, what they'd do differently."

5. **Prepare to negotiate,** especially if you're buying a winery that already exists. Conducting due diligence is essential.

6. **Be patient.** "This is not a business where you can have instant gratification or instant profits," says Joe Donelan of Donelan Family Wines. Buying the winery is just the beginning. Expect additional expenses such as legal matters, post-production costs and marketing. Red tape surrounding the alcohol industry in the U.S. is notoriously sticky, warehousing wine in temperature-controlled facilities is expensive and managing sales is time consuming.

NEGOTIATING A DEAL

Sometimes the two motivations—lifestyle and financial—converge, as they did for Philippe Lejeune of Château de Chambert in the Cahors region of France. "[Buying a winery] was a life project that can't be measured by only rational numbers," he says. "But I did pick my estate based on financial data. Going for a dream doesn't mean diving into hell."

Lejeune spent a year negotiating and conducting due diligence before closing the deal. The final contract included clearly defined phases for releasing the remaining 20 percent of the purchase based on milestones; it also accounted for incorrect figures, overvalued stocks and insurance against previous owner errors.

Joe Donelan of Donelan Family Wines faced a similar situation in Santa Rosa, Calif., when he began buying grapes via long-term leases, primarily in Sonoma. "You never know what you're actually buying," he says, "until you've done a tremendous amount of due diligence."

CAUTIONARY POINTS

Charles Banks of Terroir Selections, which owns wineries on three continents, cautions against the "lifestyle myth of gentlemen farmers." There's a world of difference, Banks says, between the myth of owning a winery and the reality of finding yourself "in a dingy room lit by fluorescent lights trying to convince a bunch of salespeople at a distributor that your story matters."

The length of time before winery investors see returns can also come as a shock. "Expect three to seven years of writing checks before seeing anything back," says McMinn.

It could be longer. Lejeune expects approximately 10 percent profitability in 2015, eight years after buying the property in France. Carlos Beirão da Veiga, CEO of Herdade da Comporta in Portugal, expects a positive ROI in 2014, 12 years after his first investment in the vineyard. ROI in the wine business comes more from capital appreciation than operating profits, says

THE LENGTH OF TIME BEFORE WINERY INVESTORS SEE RETURNS CAN COME AS A SHOCK.

Motto. "It's as much or more about capital preservation than about making current returns."

Finally, it's a well-known adage in the business that making wine is the easy part; it's selling it that's hard. Marketing your wine, managing the ups and downs of the weather and negotiating legal red tape are additional realities. But the process outlined here can guide you through the first steps of a challenging, and potentially very satisfying, adventure.

For more information, contact: Charles Banks, Terroir Selections, sburton@terroirselections.com, terroirselections.com; Carlos Beirão da Veiga, Herdade da Comporta, adeega@herdadedacomporta.pt, 351.265.499.942, herdadedacomporta.pt/en; Stanley Cheng, Hestan Vineyards, ann@hestan.com, 707.551.2882, hestan.com; Joe Donelan, Donelan Family Wines, jpd2@donelanwines.com, 203.658.1248, donelanwines.com; Sergio Esposito, Bottled Asset Fund, sergio@italianwinemerchants.com, thebottledassetfund.com; Philippe Lejeune, Château de Chambert, 33.5.6531.9576, chambert.com; Chuck McMinn, Vineyard 29, chuck@vineyard29.com, 707.963.9292, vineyard29.com; Vic Motto, Global Wine Partners, 707.967.5315, globalwinebank.com; Madaiah Revana, Revana Family Vineyard, info@revanawine.com, 707.967.8814, revanawine.com.