

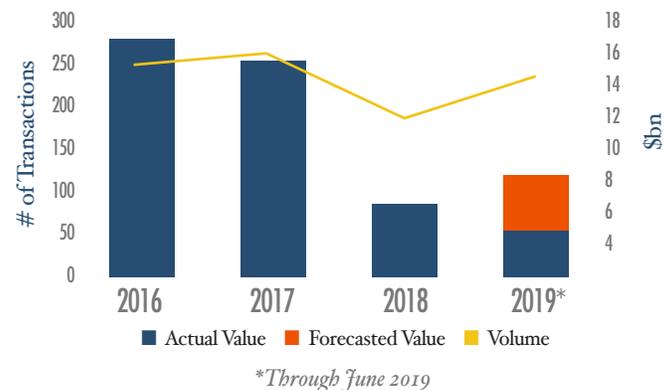


## I. CONTINUED MOMENTUM IN THE GLOBAL SPIRITS AND ALCOHOLIC BEVERAGE INDUSTRIES

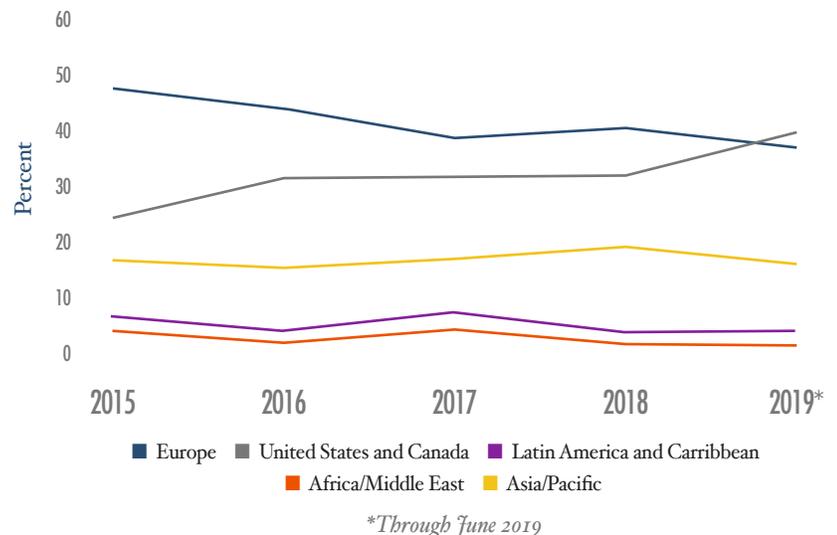
**Global spirits industry mergers and acquisitions activity as measured by transaction volume is forecasted to increase 23% in 2019 to 231 transactions.** There have been 116 announced transactions in the spirits industry during the first half of 2019, compared to only 96 during the same time period in 2018. Of the 116 transactions, 77% were in Europe (37%) and North America (40%). Over the past five years, North America has seen a significant increase in M&A activity. In 2015, transactions involving North American Targets represented only 24% of the market, compared to 40% in 2019. While North American volume has increased over the past five years, European volume has seen a decline from a high of 48% in 2015 to a low of 37% in 2019. Should this trend continue, 2019 may be the first year that North American transaction volume exceeds European volume.

Transaction deal value in the first half of 2019 totaled \$3.1bn. Based on prior year trends, total full-year transaction deal value for 2019 is forecasted to be \$7.1bn, a significant 45% increase over 2018 results. This increase is driven by large active acquirers looking for expansion into new geographic markets and segments.

**Chart I: Global Spirits and Alcoholic Beverage M&A Activity (2016-2019)**



**Chart II: 2015-2019 Global Spirits and Alcoholic Beverage M&A Transaction Volume by Region**



## II. GLOBAL INDUSTRY TRANSACTIONS

The global M&A Market has been active with a number of high profile spirits industry mergers and acquisitions. In 2018-2019, the ten largest spirits and alcoholic beverage transactions represented approximately \$6.4bn in transaction value. Of the top ten transactions, five originated in Asia, four in Europe and one in North America. In the last eighteen months, the largest announced transaction was E&J Gallo Winery, Inc.'s \$1.7bn acquisition of 30 wine and spirits brands including six winemaking facilities. These brands are mostly comprised of lower cost brands that retail for under \$11 a bottle and include brands such as Ravenswood, Clos du Bois, Hogue Cellars, Franciscan and Mark West. The deal is currently being reviewed by the US Federal Trade Commission and, if approved, is expected to close in the second half of 2019.

The second largest transaction in 2018-2019 was the \$940m partial tender offer of the Chinese baijiu company (liquor made from grain) Sichuan Swellfun Co., Ltd (SHSE:600779) by Diageo

**Table I: Largest Announced Global Transactions from 2018-2019**

Announcement Date	M&A Closed Date	Target	Buyers	Total Transaction Value (\$m)	Sector
04/03/2019	Pending	Portfolio Of Wine And Spirits Brands And Six Winemaking Facilities of Constellation Brands, Inc.	E. & J. Gallo Winery, Inc.	1,700.0	Wine & Spirits
06/25/2018	08/11/2018	Sichuan Swellfun Co.,Ltd (SHSE:600779)	Diageo plc (LSE:DGE)	940.26	Wine & Spirits
02/04/2018	06/29/2018	Shanxi Xinghuacun Fen Wine Factory Co.,Ltd. (SHSE:600809)	CRE Yang Company Limited	819.2	Wine
04/05/2018	06/01/2018	Accolade Wines Australia Limited	The Carlyle Group L.P. (NasdaqGS:CG)	768.17	Wine
11/12/2018	12/20/2018	Nineteen Brands of Diageo plc	Sazerac Company, Inc.	550.0	Spirits
01/23/2019	03/22/2019	ORION BREWERIES, LTD.	Ocean Holdings Co., Ltd.	437.21	Beer
01/25/2019	04/27/2019	The Fuller's Beer Company Ltd	Asahi Europe Ltd	329.36	Beer
08/03/2018	04/29/2019	China Operations of Heineken N.V.	China Resources Snow Breweries Limited	300.0	Beer
02/15/2018	03/31/2018	VIACER - Sociedade Gestora de Participações Sociais Lda.	Violas - Sociedade Gestora De Participações Sociais, S.a	290.96	Beer
03/16/2018	07/31/2018	Freixenet, S.A.	Henkell & Co. Sektkellerei KG	270.3	Wine
<b>Total (\$m)</b>				<b>6,405</b>	



plc (LSE:DGE) as Diageo looks to expand further into China. Diageo increased their holding in Sichuan Swellfun Co., Ltd from 39.71% to 60%. In April 2019, Diageo announced that it had completed another partial tender offer, expanding its shareholding to 63.14%.

Other notable transactions included Carlyle Group's April 2018 acquisition of Accolade Wines Australia for \$768m and Sazerac Company Inc.'s November 2018 \$550m acquisition of nineteen brands of Diageo plc. Accolade Wines maintains a portfolio of 50 brands and delivers approximately 34 million cases to 140 countries. Carlyle is acquiring the company from Champ Private Equity, which created Accolade in early 2011 after buying two wine divisions from Constellation Brands Inc. for \$290m. Since that deal, Constellation has remained a 20% owner of Accolade and has agreed to sell its shares to Carlyle.

### **III. CONTINUING PREMIUM BRAND TRENDS**

Dollar volume of sales for premium (\$15-\$25 per 750ml) and ultra-premium (>\$25 per 750ml) spirits has increased over the past year in place of both mid- and lower-priced offerings. This is consistent with trends in both the beer and wine sectors, where sales of craft beers and premium wines have outpaced mid and lower-priced options. Within the premium spirits sector, the ultra-premium gin, cognac, scotch and mezcal market has seen significant growth in 2019. The gin market has witnessed tremendous growth that has been driven by sales in flavored gin, specifically pink variants. In the United States, mezcal consumption has increased by 32% in 2018. Millennial consumers particularly have been drawn to high-end spirits and make up 32% of the spirits market in 2018 by value.

### **IV. CONCLUSIONS**

Over the past five years, spirits and alcoholic beverages have consistently demonstrated the ability to grow in dollar sales volume in both established and emerging markets. We anticipate that the spirits, wine and beer industry will continue to grow in 2019-2020. We offer the following observations:

- Key industry conglomerates will continue to acquire innovative and emerging brands in developed and developing markets, which should continue to drive M&A volume and value in the foreseeable future, bolstered by the prevalence of low interest rate financing worldwide.
- European M&A will rise in the second half of 2019 and 2020 with the resolution of Brexit in the U.K. and the resolution of proposed tariffs on French wine as mentioned by President Trump in July.
- Global consumption will continue to rise over the next five years, and premium brands will continue to be a major factor within the industry as increased disposable income from stronger global economies drives demand higher for premium brands.



- Low and no-alcohol drinks will continue to be a market for expansion for the global spirits and alcoholic beverage industry as consumers focus on mindful and health conscious lifestyles.
- In addition to large strategic buyers such as Diageo, LVMH, Pernod Ricard, Campari, Distell, Anheuser-Busch InBev and Brown-Forman, there are an increasing number of small to mid-sized companies in the sector and private equity firms that are seeking to capitalize on the growth of the spirits and alcoholic beverage industries. These buyers will continue their cross border activities to extend their complementary brand amalgamations.
- Spirits M&A activity will continue to increase across the premium and ultra-premium spirits market, driven primarily by the fragmented brand landscape and the continuation of the consumer trend to perceive premium alcoholic beverages as an affordable luxury and thus to seek quality over price.

## ABOUT WINCHESTER CAPITAL

Founded in 1986, Winchester Capital is one of the most active international advisory boutiques in the spirits and alcoholic beverages sector. We have initiated, researched, and managed transactions for clients in 40 countries. Our services include both buy-side and sell side research for family offices, multinational companies, private equity and strategic owners of spirits and alcoholic beverage companies. We are based in London and New Haven, Connecticut adjacent to the Campus of Yale University. We have received six Distinguished International Awards by our industry peer group. Our focus continues to be delivery of the highest quality research and value to strategic parties who wish to capitalize on the global industry growth.

If you are reviewing potential strategic options and require research, please contact our Managing Director, Dr. David Bowen at [David.Bowen@WinchesterCapital.com](mailto:David.Bowen@WinchesterCapital.com). Please also visit our website at [www.WinchesterCapital.com](http://www.WinchesterCapital.com).

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