

Constellation's good Fortune?

12 Nov 2007 by JR

We passed on reports that [Fortune was fed up of wine](#) last week but thought that Beam Wine Estates' remaining brands would go to Diageo - before being passed on to Foster's or Constellation.

I bumped into a director of Diageo socially at the weekend and got the distinct impression that their bid had not been high enough (not that he or she was remotely explicit). Sure enough, today it was announced that Constellation has paid \$885 million for their assorted wine brands. Here's the official announcement:

Deerfield, Illinois, November 12, 2007 – Fortune Brands, Inc. (NYSE: FO) and Constellation Brands, Inc. (NYSE: STZ) today announced a definitive agreement for the sale of Fortune Brands' U.S. wine business to Constellation Brands. The sale includes brands such as Clos du Bois, Geyser Peak, Wild Horse, Buena Vista Carneros and Gary Farrell, as well as the associated vineyards, winemaking assets and sales organization. The purchase price is \$885 million. Fortune Brands estimates it will realize net proceeds of approximately \$840 million after taxes, and the company estimates it will also realize an after-tax gain of \$50-60 million on the sale.

"Positioning our businesses for higher returns is a key part of Fortune Brands' strategy to maximize shareholder value," said Norm Wesley, chairman and chief executive officer of Fortune Brands. "Because the wine industry is lower margin and more capital intensive than spirits, it's naturally a lower return segment relative to our spirits business. This sale increases our financial flexibility and will enable us to more sharply focus resources on the higher return premium spirits segment of our business.

"While our Beam Wine Estates unit is one of the most attractive businesses in the U.S. wine industry, a long-term strategic review concluded that focusing resources on the higher return premium spirits segment rather than wine is the right capital allocation strategy for Fortune Brands going forward. Given the combination of the future capital requirements for our wine business, its lower returns relative to spirits, and significant interest from potential buyers, we believe this is the right move for long-term shareholder value," Wesley added.

Because Fortune Brands' spirits and wine brands each have separate sales organizations, the company does not expect the sale to be disruptive to its spirits portfolio. Fortune Brands will retain the Harveys sherry and Cockburn's port brands.

The wine brands included in the transaction had sales in 2006 of 2.6 million 9-liter cases and revenues of \$214 million including excise taxes. The majority of the volume is driven by Clos du Bois, the #2 super-premium U.S. wine brand. Fortune Brands' wine unit, Beam Wine Estates, is based in Sonoma County in California.

Fortune Brands initiated a sale process after a strategic review of the wine business. The process resulted in multiple offers for the wine business and the agreement announced today. The sale is subject to customary closing conditions and is expected to close in the current quarter. Fortune Brands expects the sale to be slightly dilutive to 2008 earnings.

Love that expression 'slightly dilutive to earnings'. Wasn't that what 2005 bordeaux were for us wine lovers who succumbed to temptation?