

The remarkable story of Patrón Tequila - Focus

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26 January 2018

Earlier this week, Bacardi announced its agreement to acquire full control of Patrón Spirits International for \$5.1bn. Here, just-drinks looks at the history of the company - famed for its namesake ultra-premium Tequila portfolio - and charts Bacardi's journey from stakeholder to outright owner.

Patrón was founded back in 1989 by two entrepreneurs, Martin Crowley and John Paul DeJoria, who perceived the opportunity for tequila to be much more than just for making margaritas. Crowley was the operating partner, while DeJoria - best-known for co-founding the Paul Mitchell line of hair

products - was the financial partner. The company, which initially sole-sourced the liquid for Patrón from a third-party distiller, signed an exclusive distribution deal for the U.S. with Seagrams. The pair grew disillusioned with their brand's performance, and moved to cancel the agreement.

A financing push in 2002 orchestrated by LA-based investment banking firm Greif & Co. allowed Patrón not only to cover the cost of its litigation with Seagrams - which was successful in terminating the distribution agreement including a stock purchase warrant Seagrams held to acquire a minority interest in Patrón - but also to build its own distillery in Mexico - Hacienda Patrón in Atotonilco.

Patrón then partnered with Southern Wine & Spirits for its distribution in the U.S. Subsequently, performance started to meet - then wildly exceed - the owners' expectations.

A year later - 2003 - Martin Crowley suffered a fatal heart attack. Crowley's 50% holding in Patrón was inherited by a newly-formed California charity, The Windsong Trust, established to provide for the educational needs of indigent children worldwide.



Few brands have as colourful a history as Patrón Tequila

Prior to his death, Crowley and DeJoria had put in place a buy-sell agreement for each other's stake. DeJoria attempted to exercise the agreement in 2004, but Windsong did not view his offer as representing fair market value and declined it. The charity contacted Greif & Co. to generate an alternative offer for the stake.

Greif & Co. approached Bacardi, which quickly stepped up with a markedly higher offer - thought to be for around US\$250m - that Windsong deemed acceptable. Cue litigation between DeJoria and Windsong as the latter looked to cancel the buy-sell agreement.

The legal row lasted for four years, during which time Patrón's performance sky-rocketed. A meeting of minds in 2008 between the two sides, which would see DeJoria take full control for a reported \$755m, focused Bacardi's mind, with the group flagging it had already agreed a deal in 2004. Bacardi, DeJoria and Windsong eventually came to a negotiated settlement that Bacardi would buy 30% of Patrón - at a price that reflected the increase in the brand's value since 2004 - and DeJoria would acquire the remaining 20%.

"By the time the deal occurred in 2008," an industry observer told just-drinks this week, "the stake had trebled in value.

"The \$755m value of the stake in 2008 valued the company at around \$1.5bn," our observer notes. Bacardi's purchase this week of DeJoria's 70% gives Patrón an enterprise value of \$5.1bn, reflecting an additional more-than-trebling in value - this time over ten years (2008-2018) rather than four (2004-2008).

Following Monday's announcement from Bacardi, just-drinks spoke to Lloyd Greif, founder & CEO of Greif & Co., to ask why he believed the time had finally arrived for Patrón to move to Bacardi.

"We all knew that once Bacardi was there," he says, "nothing was going to shake them loose. It was only a matter of time before Bacardi bought the rest of the company.

"They had to catch DeJoria at the right time with the right price. In 2008, JP wasn't a seller; he was a buyer. He would have preferred to buy all of the 50%, not just 20%. His desire after Martin passed away was to own 100% of Patrón."

So, why now? "There's always one thing that sooner or later makes people decide to sell," Greif says, "and that's the passage of time. None of us is getting any younger (DeJoria is 73). That, and chances are Bacardi made him an offer he couldn't refuse!

"This is a great time to be a seller."

Of relevance now, more than before, is Patrón's growth opportunities, which are more international today than before, when it was all about the US. Greif concurs.

The landscape of the category has changed as well - consider Diageo's purchase of Casamigos. Although the Patrón brand continues to grow, it's not expanding as rapidly as before.

"The immense growth potential going forward for Patrón isn't in the U.S., it's international," he says. This, Greif believes, made this week's acquisition all the more inevitable. "From Bacardi's standpoint," he concluded, "it wouldn't want to substantially increase the global distribution of the brand and have DeJoria derive 70% of the benefit!"