

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Wine and Spirits Monitor
December 2011 - Volume 4

In this Issue:

Overview 4

Recent Appraisal Trends 7

Monitoring Points 7

Pricing Trends 8

Reference Sheet 12

Introduction

Welcome to the December 2011 issue of the *Wine and Spirits Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market values and industry trends for a variety of wines and spirits. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. Due to the commodity nature of bulk wine and spirits, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Wine and Spirits Monitor* relates information covering most wine and spirits, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the wine and spirits industry. Please feel free to utilize our contact information shown in this and all *Wine and Spirits Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

Year-over-year collateral updates of wine and spirits appraisals indicated increasing net orderly liquidation values (“NOLVs”) and mixed recoveries for the most recent three months, versus the respective 2010 periods. Values in the three-month period have increased as much as three percentage points and decreased as much as four points. Other indicators are increasing or mixed.

Trend Tracker

NOLVs: **Increasing**

Sales Trends: **Increasing**

Gross Margin: **Increasing**

Inventory: **Mixed**

Pricing: **Mixed**

GA internally tracks recovery ranges for similar wine and spirits products, including a wide range of specialty items, as well as raw materials such as bottles, barrels, and equipment, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Wine and Spirits Monitor*, GA also provides clients with industry expertise in the form of monitors for the food, automotive, metals, building materials, and chemicals/plastics industries, among many others.

Headquarters:

21860 Burbank Blvd.
Suite 300 South
Woodland Hills, CA 91367
800-45-GREAT
www.greatamerican.com

Atlanta
Boston
Chicago
Dallas
London
Los Angeles
New York
San Francisco

EXPERIENCE

GA was involved in the liquidation of Havens Wine Cellars and Billington Imports LLC and has liquidated several national and regional grocery stores that included wine and spirits such as A&P, Andronicos, Cost Cutter, Food Pavilion, and The Markets. GA has also worked with and appraised numerous companies within the wine and spirits industry. While our clients remain confidential, they include industry leaders, including large distributors and specialty retailers of alcoholic beverages, producers of wine and beer, and national and regional grocery stores. Products have included a wide variety of value-priced, mid-tier, premium, and ultra-premium brands throughout the industry including highly recognizable and reputable names. GA's extensive list of appraisal experience includes:

- Leading regional distributors of spirits, wine, and beer with products such as vodka, whiskey, cognac, rum, brandy, scotch, tequila, various wines, craft beers, and non-alcoholic beverages such as mixers, water, and carbonated drinks.
- Producers and rectifiers of whiskey and other distilled spirits, including vodka, gin, tequila, liqueurs, and absinthe, which are sold under well-recognized, nationally distributed brands.
- One of the largest specialty retailers of alcoholic beverages in the West that offers more than 3,000 types of wine, 1,500 types of spirits, and 1,200 types of beer.
- A producer and distributor of private label wine, beer, and spirits for large retailers primarily in the U.S. and the U.K.
- One of the largest distributors of wine and spirits in the U.S. with revenues of over \$1.5 billion and servicing liquor stores, grocery stores, restaurants, and bars, as well as casinos and reservations.
- National and regional grocery stores that sell a wide variety of beer, wine, and spirits.

EXPERIENCE

In addition to wholesalers of case and bulk wine, including those mentioned on the previous page, GA also maintains extensive appraisal experience with numerous domestic wineries, allowing for additional specialization:

- A bottler and distributor of wines under several proprietary labels, with varietals including cabernet sauvignon, chardonnay, meritage, and zinfandel, sourced from California and internationally.
- A well-known producer of ultra-premium, luxury wines from estate vineyards in Napa Valley and Anderson Valley, as well as from vineyards in the Russian River Valley and Sonoma Valley.
- A producer of moderate- to high-end wines, with varietals including pinot noir and chardonnay and sourced from its three estate vineyards in the Carneros American Viticulture Area, while the remainder is sourced from growers primarily in the same AVA in Napa and Sonoma counties.
- A Napa Valley producer of high-end wines sold under its well-known proprietary labels, with over 99% of its grapes sourced from its 235-acre estate vineyard in Rutherford, California.
- A producer of wines originating primarily from California's North and Central Coasts, as well as from the Lodi AVA in the Central Valley, which are sold under its well-known labels throughout the U.S. and the world.
- A producer and marketer of moderate- to high-end wines in the Napa Valley and Sonoma County, all of which are produced with estate-grown fruit and sold under three owned brands.
- A producer of moderate- to high-priced wines in the Pacific Northwest and California including eight well-known brands with an annual production of over half a million cases.
- A high-end producer of wines, including Bordeaux-style blends and varietals such as merlot, chardonnay, and pinot noir, which are sourced from its own 100-acre vineyard near Napa, California, while the remainder is from several California vineyards.
- Numerous importers and marketers of more than 100 foreign and domestic brands of wine.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the wine and spirits industry that we utilize for insight and perspective on recovery values.

APPRAISAL & VALUATION TEAM

BUSINESS DEVELOPMENT

Mike Marchlik

National Sales & Marketing Director
mmarchlik@greatamerican.com
818-746-9306

Drew Jakubek

Vice President - Southwest Region
djakubek@greatamerican.com
972-265-7981

Ryan Mulcunry

Senior Vice President - Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
617-692-8310

David Seiden

Executive Vice President - Southeast Region
dseiden@greatamerican.com
770-551-8114

Bill Soncini

Vice President - Midwest Region
bsoncini@greatamerican.com
312-777-7945

OPERATIONS

Ken Bloore

Chief Operating Officer
kbloore@greatamerican.com
818-884-3737

Daniel Keyes

Project Manager, Wine and Spirits Specialist
dkeyes@greatamerican.com
818-746-9342

OVERVIEW

Consumers appear to believe that economic doldrums are best cured with a drink. The wine and spirits industry is continuing to grow steadily, if unremarkably, despite stubbornly high unemployment rates and limited job growth. The winter holiday season promises to boost consumption of all forms of alcohol further as consumers stay home and do more entertaining.

There are a couple trends emerging from the drawn-out economic downturn that may explain the continued solid performance of wine and spirits. First, financially strapped consumers are increasingly taking “staycations,” vacations spent at home rather than traveling. While a large portion of vacation budgets go to expenses such as gas money or plane tickets, staycations allow a greater portion to be spent on consumption.

Second, consumers are increasingly doing their fine dining at home. Among the unemployed or underemployed, this is largely due to the economic recession. A third trend, unrelated to the country’s economic health, is also at work: a burgeoning food movement which is spurring many consumers to experiment with their own culinary creations, including making cocktails and mixed drinks. All these factors are contributing to increased sales of wine and spirits.



OVERVIEW

WINE

Consumers continue to buy wine even as wages stagnate and trouble brews in Europe. Off-premise wine sales increased 3.2% for the four weeks ended November 12, 2011 versus the same period one year earlier, according to data tracked by The Nielsen Company (“Nielsen”). The rise does not appear to be a flash in the glass: for the 13 weeks ended the same date, wine sales rose 3.3%.



Dollar sales of domestic wine climbed 5.5%, while imported wine sales dropped 2.5% for the four-week period, reported Nielsen. The trend holds firm when examined by case volume: domestic wine sales increased 3.1%, while imports fell 3.7%.

Sales of wine bottles priced at \$20 or more grew the most for the month, rising 13.7% versus the prior year, according to Nielsen data. The next highest rates of growth were achieved by bottles in the \$15.00-to-\$19.99 and \$12.00-to-\$14.99 segments, which grew 9.9% and 9.5%, respectively. Volume gains were similar over the same time frame.

Fine wine sales have increased despite the current economic malaise, based on the latest results from top international auction houses. Christie’s International, plc.’s (“Christie’s”) year-to-date wine sales have already reached \$77.7 million, versus \$70 million last year, and holiday season auctions in Amsterdam, London, and Hong Kong have yet to take place, reports the wire service *Reuters*. Sotheby’s wine sales of \$82 million are slightly behind last year, but are expected to leapfrog 2010’s year-end total after a major London auction scheduled near the end of the year.

“Despite the bleak news of the weak economy globally and last week’s markets, I have to tell you, I’m still encouraged. There is a lot of interest and a lot of buyers for wines that can sell for tens of thousands of dollars a bottle,” Robin Kelley O’Connor of Christie’s told *Reuters*.



The California wine industry could be shaken up by several recently passed laws and regulations. Changes include a new direct-to-consumer retail license and an allowance for on-premise infusion of wine or spirits with flavoring elements.

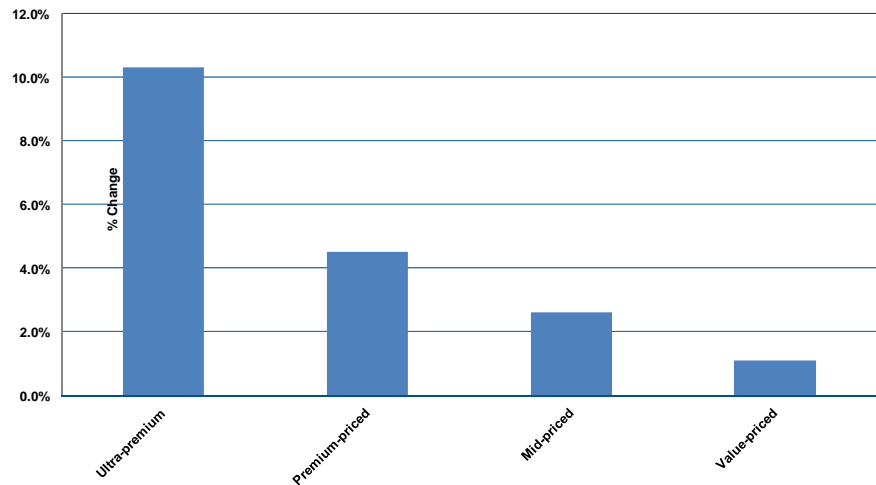
State liquor licensees interested in selling wine to consumers via Internet, phone, or mail order used to be required to obtain two licenses from the California Department of Alcoholic Beverage Control (“ABC”), one of which required the operation to make sales to a licensed retailer at least every 45 days. A new, all-encompassing license will do away with that requirement. An amendment will also permit wine to be infused with fruits or flavoring, which was formerly prohibited.

OVERVIEW

SPIRITS

Like wine, spirits sales continue to grow despite the lackluster economy. Off-premise spirits sales rose 3.5% and total spirits sales increased 2.8% by volume for the 52 weeks ended November 12, 2011 versus 2010, based on the latest figures from Nielsen. There was no change at the top, with vodka, rum, bourbon, and cordials/liqueurs holding the top spots. However, prepared cocktails, flavored vodkas, and Irish whiskey all achieved double-digit growth.

Percentage Change in Spirit Sales
52 Weeks Ended November 12, 2011 versus 2010



Source: Nielsen

Consumers' shifting tastes have provided a flood of new sales in the ultra-premium category. Comprised of bottles with an average price of more than \$35.00 per 750-ml., ultra-premium spirits account for less than 5% of the overall spirits sales volume, but were the fastest-growing price segment, increasing 10.3% on a volume basis over the year-long period, reported Nielsen. Premium-priced spirits, which have an average price of more than \$18.00 per 750-ml., rose 4.5% in the same period.



The bottom-of-the-barrel alcohols achieved the worst sales. Mid-priced and value-priced brands managed 2.6% and 1.1% growth, respectively, according to Nielsen, which concludes that consumers are willing to upgrade their off-premise purchases, despite the continued economic stagnation. The rise in premium sales may be credited in part to gin. Upscale gin is a small sliver of the spirits market, but is growing its small base about 5% annually. The major player is William Grant & Sons' Hendrick's, which retails for approximately \$30.00 per 750-ml. Consumers are moving away from classic "London Dry" styles, which are considered less accessible, to "fruit-forward" gins, of which Hendrick's is the standard-bearer.

RECENT APPRAISAL TRENDS

WINE PRODUCERS

Recovery values for wine producers have been mixed, with some up between one and two percentage points against cost, and others down between three and five percentage points over the most recent three months versus 2010. Sales trends for wine producers have been relatively strong, with those with improved recovery values generally seeing the most robust sales figures, in some cases despite increased stocks. Margins are strong as pricing pressure dissipates, high-margin sales increase, and producers shift to sales of lower-priced vintage wines. Inventory levels are falling in line with the bottling schedule.



SPIRITS PRODUCERS

Spirits producers have seen most indicators remain stable in recent months. Sales trends have continued to rise, led by increased sales of higher-priced products, while gross margins are slightly up. Distributor inventory levels are relatively unchanged. Similar to wine producers, spirits producers have registered mixed recovery values, some up during the last three months versus 2010 due to sales outpacing inventory levels, others down due to excessive stocks. However, 12-month recovery values are rising.

WINE AND SPIRITS DISTRIBUTORS

Sales have been reasonably healthy for wine and spirits distributors as the economy has sputtered, although sales of lower-priced wines are no longer accelerating. Distributors' inventory levels have increased, following operators' sales trends. Margins for many producers remain thin, in part due to increased direct-to-consumer sales, particularly for wine. Three-month recovery values are mixed versus 2010, though a distributor's inventory mix and business history can sway the results.

MONITORING POINTS

Monitoring Points	Impact
Monitor consumer confidence and disposable income levels.	As alcoholic beverages are discretionary items, changes to consumer confidence and disposable income levels would impact the industry's revenues and gross margins.
Monitor annual harvest yields and production cycles.	Bulk wine and spirits yield differing recovery values than their bottled form. Based on the time of year and production and release schedules, inventory levels, composition, and demand could significantly vary and impact recovery values. In addition, for some wineries, bulk wine incurs labor and overhead as it ages, while per-gallon values remain relatively consistent. As a result, recovery values for bulk wine decline over time as a percentage of cost.
Monitor bulk wine and spirits prices.	Prices for bulk wine and spirits fluctuate based on supply and demand, and changes in prices could impact gross margins and recovery values.

MONITORING POINTS

Monitoring Points	Impact
Monitor inventory levels among wine and spirits producers and distributors.	Low inventory levels and slow-downs in production capacity often cause run-ups in demand, and therefore recovery valuations. Conversely, inventory restocking and overstocking in preparation for a rebound in consumer spending and consumption would cause a decrease in valuations, should the market fail to improve.
Monitor on-hand vintages and release schedules.	A buildup of multiple vintages and slippage in release dates could negatively impact recovery values. Although quality concerns typically apply only to older-vintage white wines, releasing vintages behind competitive peers indicates overstock. Discounts would be required to move through this inventory, negatively impacting margins and recovery values.
Monitor the amounts of grower liens and excise taxes.	When applicable, growers maintain priority payment in the event of a default. In addition, the U.S. Federal Government and all states require excise tax payments for all beverages with greater than 14% alcohol content sold to customers in the U.S. Lenders should be aware of outstanding balances due for grower liens and excise taxes.

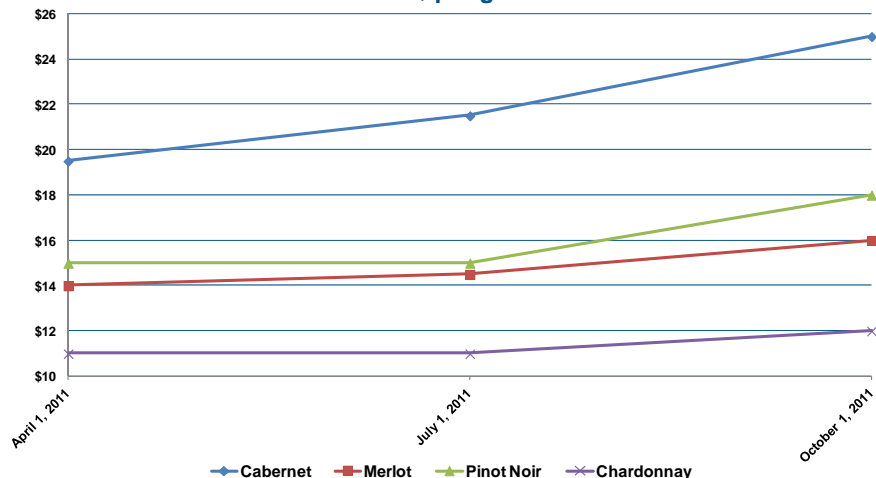
PRICING TRENDS

BULK WINE

This past harvest season challenged winemakers' adage that the longer a grape hangs on a vine, the better. Time on the vine generally helps develop wine flavor, but the grapes must stay dry and the leaves must survive. In 2011, rain and moisture kept grapes wet and many grape leaves did not survive to perform the required photosynthetic processes. As a result, not all grapes reached the desired sugar levels and some were lost to mildew and Botrytis spores. Analysts expect this year will produce many wines with developed flavors but lower alcohol levels.

Wine industry observers are particularly uncertain how the bulk wine market will play out this year. Last year there were many indicators that inventories were limited, particularly in California. Yet many buyers assumed that the excess capacity of recent years would continue, and they waited until the end of the season to purchase grapes, hoping for bargains. But a light crop combined with resurgent demand pushed prices up. High-quality bulk wine was hard to find even at high prices.

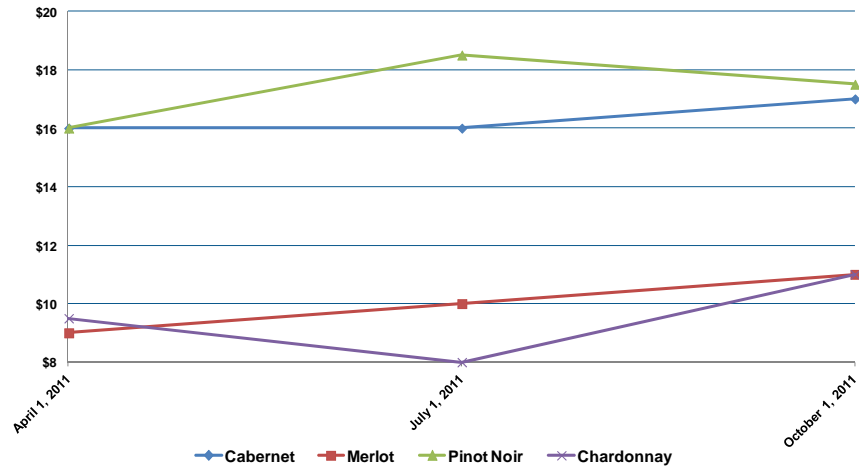
**Napa Valley
California Wine Varietals Pricing Trends
April 1 to October 1, 2011
\$ per gallon**



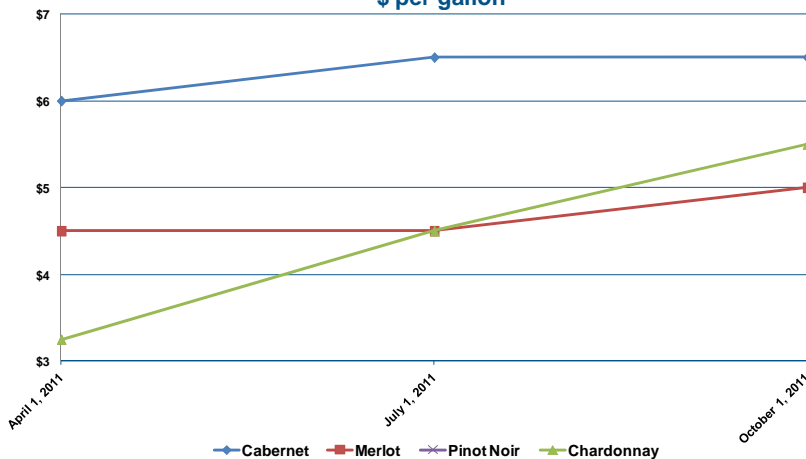
PRICING TRENDS

According to data from the Ciatti Company (“Ciatti”), chardonnay will continue commanding the highest prices among 2011 vintage California white wines. Across multiple regions, including Napa, Sonoma, North Coast, and Central Coast, average prices range from \$5.25 to \$13.50 per gallon. However, the varietal earned middling scores on ease of sales. Staple varietal sauvignon blanc is predicted to garner lower prices than chardonnay, with averages starting at \$4.00 and reaching \$10.50. However, the former’s ease of sale may be marginally better.

**Sonoma Valley
California Wine Varietals Pricing Trends
April 1 to October 1, 2011
\$ per gallon**



**Central Valley
California Wine Varietals Pricing Trends
April 1 to October 1, 2011
\$ per gallon**



Among California 2011 vintage red wines, reserve and regular cabernet sauvignon are forecast to command the highest prices, with averages ranging from \$9.25 to \$31.00 per gallon, reports Ciatti. Pinot noir, zinfandel, and merlot are clustered in second, topping out at \$15.50 per gallon and coming in as low as \$5.13 per gallon.

GA relies on bulk wine prices from the nation’s two leading brokerage companies, Ciatti Company and Turrentine Brokerage. Turrentine claims that its broad range of values covers approximately 95% of sales, while its most likely range applies to roughly 80% of sales. However, estimates from neither brokerage are guaranteed to reflect actual market prices.

BULK SPIRITS

Bulk spirits are composed of core agricultural commodities. The most commonly used raw materials include corn, wheat, and rye. Prices for bulk spirits are expected to ease in the coming months as commodity price volatility of the past year subsides. However, renewed uncertainty, which could occur as hedge funds seek refuge in commodities from stock market stagnation, would renew the upward pressure on bulk spirits prices.

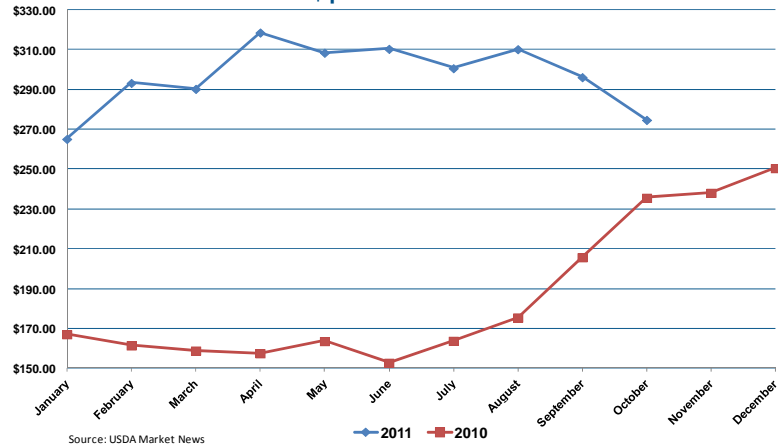
PRICING TRENDS

CORN

Corn prices fell in September and October following several months of market up-and-downs, according to the U.S. Department of Agriculture (“USDA”).

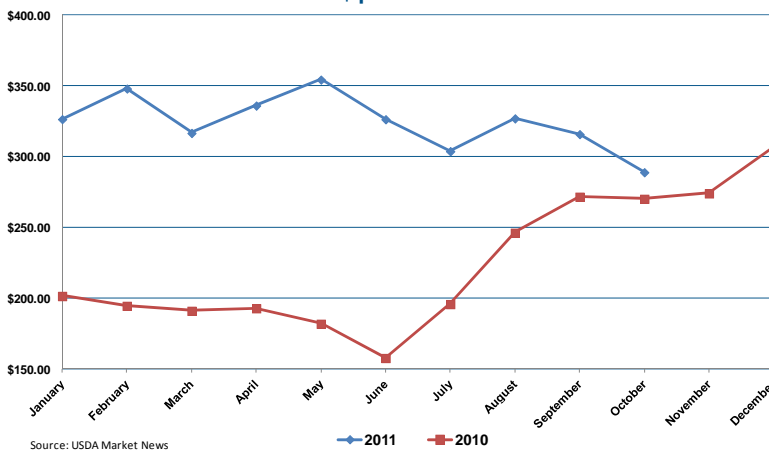
As of December 5, 2011, No. 2 Yellow was selling for \$0.40 to \$0.60 higher per bushel than a year before, versus nearly a dollar differential earlier in the year, according to the USDA’s *Daily National Grain Market Summary*. Year-to-date production was nearly 45 thousand bushels below the previous year, though some sources suggest those estimates may be inaccurate.

Corn Prices
No. 2 Yellow, FOB Gulf of Mexico
January 2010 to October 2011
\$ per metric ton



A *Wall Street Journal* analysis found that government reports about the U.S. corn crop have become increasingly unreliable over the past two years, which has contributed to price volatility. Government predictions have been less accurate over the previous 24 months than any such period in the last 15 years, according to the newspaper. Furthermore, the estimates of the nation’s stockpile have varied dramatically: for instance, on September 30, 2011, the USDA survey indicated stockpiles 23% higher than the agency estimated earlier that month. Corn prices dropped 6.3% in the futures market that day.

Wheat Prices
No. 1 Hard Red Winter, FOB Gulf of Mexico
January 2010 to October 2011
\$ per metric ton



WHEAT

Like corn, the average price for a bushel of wheat fell in September and October, and for four of the five months ended October 2011, according to the USDA. But recent activity may reverse the long slide.

Wheat prices rose 6.2% in early December, as hedge funds wagered the commodities market would rise as the U.S. economy improves. The increase marked the biggest gain for the grain since mid-July.

The U.S. wheat crop is experiencing considerable competition from international producers. Moreover, harvested acreage in 2012 could exceed 2011 by several million acres, due to fewer prevented plantings, less abandonment, and a decline in the USDA’s Conservation Reserve Program. A return to traditional yields in 2012 in combination with more acreage would result in a significantly increased supply.

PRICING TRENDS

RYE

Rye yields are expected to decrease in 2011/2012 to 26.1 bushels per acre from 28.0 in 2010/2011, according to USDA's National Agricultural Statistics Service. However, total rye stocks are expected to rise in 2011/2012, from 800,000 bushels to 900,000 bushels, with peak supply reaching 12.7 million bushels, down from 13.9 in 2010/2011. Approximately 3.3 million bushels will be consumed in food production, according to the USDA's World Agricultural Outlook Board.

News from abroad indicates that prices may rise due to constricted supplies. Ukraine, a major rye producer, has seen "unfavorable" or "critical" weather conditions for the development of winter grains, reported news agency *Bloomberg*. As of late November, winter grains had sprouted on 75% of the planted areas, according to the country's Agriculture Ministry. A limited harvest is expected, which would push up grain prices. Meanwhile, in Russia, milling rye prices have been climbing steadily, including a 4.5% increase in late November, the news agency reported.



WINE AND SPIRITS REFERENCE SHEET

Pricing Trends

Bulk Wine (California Varietals) – Percent change in varietal prices from the previous period

Region	2011	Varietal			
		Cabernet	Merlot	Pinot Noir	Chardonnay
Napa Valley	October 1	16%	10%	13%	26%
	July 1	10%	4%	7%	(14.0%)
	April 1	18%	22%	7%	5%
Sonoma Valley	October 1	6%	10%	(5.0%)	38%
	July 1	0%	11%	16%	(16%)
	April 1	14%	0%	3%	6%
Central Valley	October 1	0%	11%	-	22%
	July 1	8%	0%	0%	38%
	April 1	9%	0%	-	8%

Corn – FOB Gulf of Mexico (\$ per metric ton)

No. 2 Yellow Corn	April	May	June	July	August	September	October	November
2010	\$157.66	\$163.77	\$152.87	\$163.92	\$175.60	\$205.84	\$235.70	\$238.24
2011	\$318.74	\$308.58	\$310.54	\$300.83	\$310.34	\$296.30	\$274.85	-
Change	102.2%	88.4%	103.1%	83.5%	76.7%	43.9%	16.6%	-

Wheat – FOB Gulf of Mexico (\$ per metric ton)

No. 1 Hard Red Winter Wheat	April	May	June	July	August	September	October	November
2010	\$192.82	\$181.88	\$157.67	\$195.82	\$246.25	\$271.69	\$270.23	\$274.08
2011	\$336.12	\$354.47	\$326.45	\$303.88	\$327.09	\$315.92	\$289.01	-
Change	74.3%	94.9%	107.0%	55.2%	32.8%	16.3%	6.9%	-