

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Wine and Spirits Monitor
September 2011 - Volume 3

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Introduction

Welcome to the September 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 wine 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

Net orderly liquidation values (“NOLVs”) for the wine and spirits industry continued to rise in the second and third quarters. Year-over-year updates of wine and spirits have revealed NOLV increases of between two and five points. Increases in sales contributed to the rise in values.

Trend Tracker

NOLVs: **Increasing**

Sales Trends: **Increasing**

Gross Margin: **Consistent**

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 industries, among many others.

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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:

- 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.
- 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.
- National and regional grocery stores that sell a wide variety of beer, wine, and spirits.

EXPERIENCE

GA also maintains extensive appraisal experience with numerous domestic wineries, as well as related wholesalers of case and bulk wine, allowing for additional specialization:

- A producer and distributor of moderate to high-end wines in the Napa Valley, all of which are produced with estate-grown fruit and sold under three owned brands.
- A producer of moderate to high-end wines under its proprietary label, with grapes 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 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 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 Napa Valley producer of high-end wines sold under its well-known proprietary labels, of which over 99% of its grapes are 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 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.

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OVERVIEW

The wine and spirits industry has experienced numerous M&A activity over the last several years, as increasing operational costs have limited some companies, the opportunities to expand brands have increased, and as outside interests recognize the appeal of such businesses.

Some of the more recent transactions include the sale of Seghesio Family Vineyards, one of California's oldest family-owned wineries, to Crimson Wine Group ("Crimson"), a Napa-based luxury wine brand company, in May 2011. Crimson is a subsidiary of the New York investment group, Leucadia National, which has previously acquired numerous other wineries.

In addition, in April 2011, Gary Farrell Wines, Inc., one of Sonoma County's best-known producers, was sold to The Vincraft Group, while Fetzer Vineyards was sold to Chilean wine producer Viña Concha y Toro S.A.

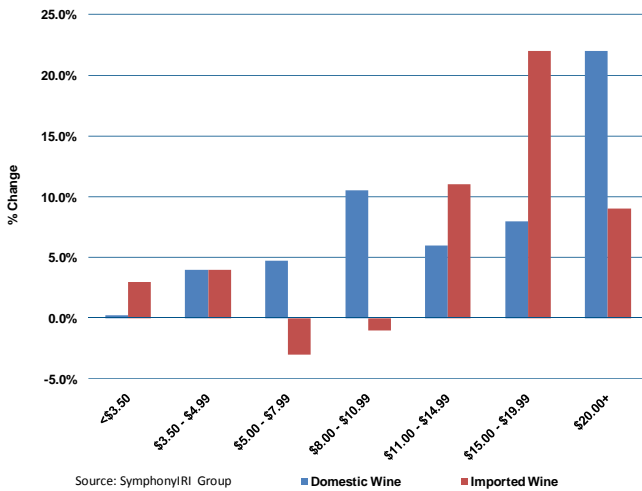
In other transactions, Fortune Brands, Inc. ("Fortune"), seeking to capitalize on the emerging market of low-calorie cocktails, has acquired the Skinnygirl brand created by reality-television star Bethenny Frankel. Fortune's Beam Global Spirits & Wine, Inc. unit aims to build on the rapid growth of Skinnygirl Margarita—a bottled cocktail that boasts 100 calories per four-ounce serving—by expanding its distribution and introducing other drinks under the label.

OVERVIEW

WINE

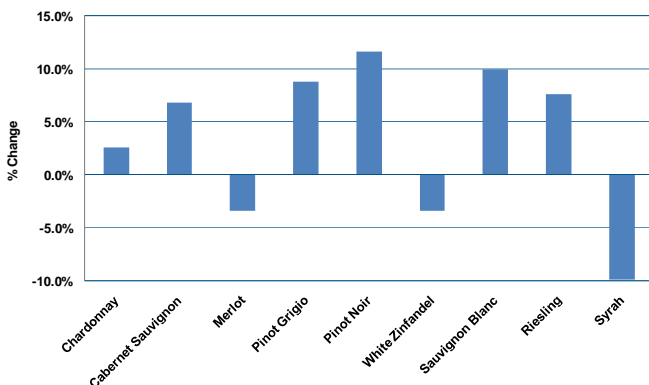
Sweltering summer temperatures have hardly slowed down domestic wine sales. After registering 10% growth in May, sales stayed just as hot in July, increasing 9.1% versus the prior year. That brought the 12-week growth rate to 9%, according to check stand scan data from major U.S. food and drug stores analyzed by market research firm SymphonyIRI Group (“SIRI”). The numbers add up to a sustained surge for the industry, which until March had seen consistent but modest growth for more than a year.

Relative Growth by Price Segment
% Change 52 Weeks Ended July 10, 2011



In addition, in the 52 weeks through August 7, domestic table wines grew 6.7% by value and 5.4% by volume and increased 7.6% by value and 6.1% by volume over the past 12 weeks, according to SIRI.

Sales by Varietal
% Change 52 Weeks Ended June 12, 2011



White wines continued to outpace reds, with whites’ dollar sales up 7.4% compared with reds’ 6.8% increase in the past 12 weeks.

Consumers have also been increasing their purchases through the direct-to-consumer (“DtC”) channel, which increased more than 11% in both volume and value for the 12 months ended April 2011 versus 2010. Napa Valley wines remained one of the best-selling items, with cabernet sauvignon being the most popular varietal and receiving the highest price per bottle. Despite the popularity of Napa Valley and Sonoma County wines, those from outside these regions enjoyed the fastest growth, with a 43% increase in DtC case volume.



Based on results presented at ShipCompliant’s annual conference, the entire DtC shipment market represented 2.75 million cases approximating \$1.2 billion, with purchases spread among wine clubs, online/phone sales, and tasting room purchases shipped to homes by the wineries.

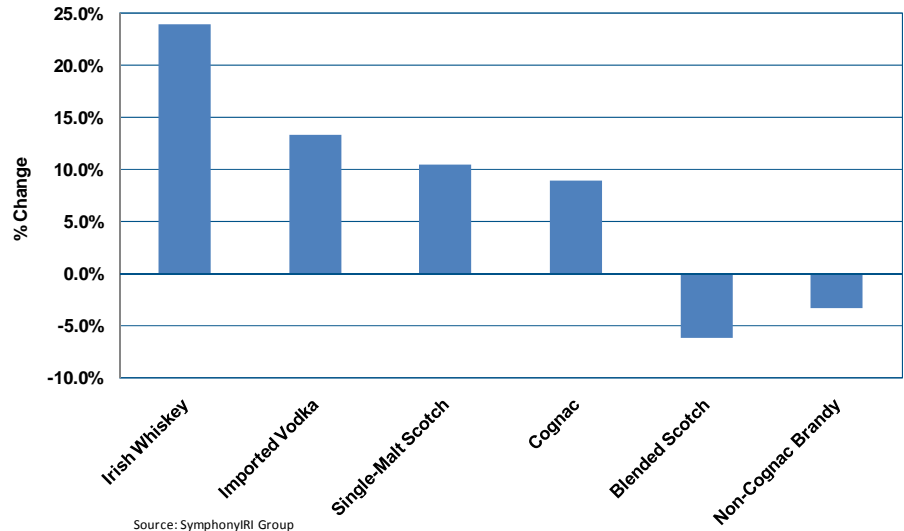
The wine industry job market is just as sizzling as sales. Winery job activity registered its largest increase of the year in June, increasing 23% from 2010, according to WineJobs.com. Aside from a brief dip in mid-February, job activity in 2011 has consistently outpaced last year.

OVERVIEW

SPIRITS

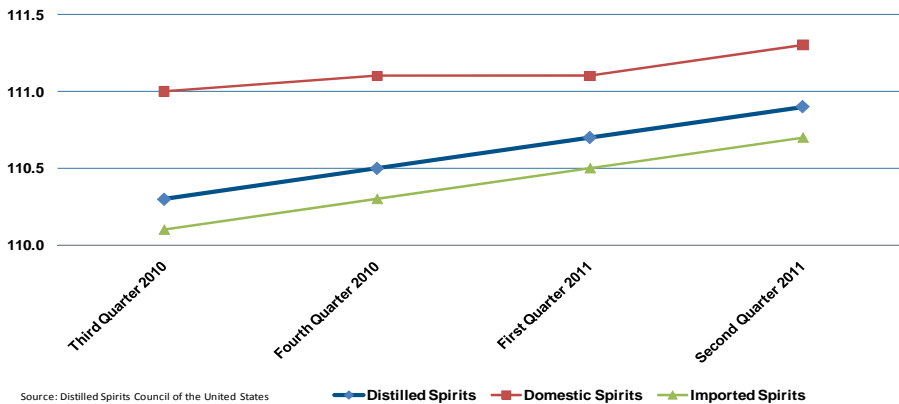
Consumers are still buying spirits as the economic recovery falters, but their purchases have slowed to a dribble. Spirits sales increased just 2.1% for the 52 weeks ended May 15 and 2.6% for the 52 weeks ended June 12, according to data analyzed by SIRI. Spirits sales at drugstores have been lackluster, particularly when measured against other types of alcohol, growing just 1.2% versus 6.9% for beer and 21.9% for wine.

**Percentage Change in Spirit Sales
52 Weeks Ended May 15, 2011**



The Distilled Spirits Council of the United States’ (“DISCUS”) Supplier Price Index for all distilled spirits rose 1.2% in the second quarter of 2011 versus the previous year and 0.2% over the previous quarter. Prices for domestic spirits were up 1.1% versus the previous year and 0.2% over the previous quarter.

**2010 - 2011 Supplier Price Index
Major Components
2005 = 100**



Business analysis firm AlixPartners, LLP (“AlixPartners”) predicts sales of spirits will rise in coming months, though rising commodity prices could hamper margins. Almost nine in 10 consumers plan to spend as much or more on alcoholic beverages over the coming 12 months as the past year, versus seven in 10 a year ago. Yet the firm still sees the industry’s glass as half-empty.

“Though demand is on the upswing for most beverage types, the industry players across both sectors face significant challenges in managing their cost structures,” said David Garfield, managing director and head of the Consumer Products Practice at AlixPartners.

RECENT APPRAISAL TRENDS

WINE PRODUCERS

Sales trends for wine producers have increased over the last quarter and year-over-year due to increased sales of products at higher price points. Recovery values have also increased between two and five points due to reductions in and improved management of inventory levels.



SPIRITS PRODUCERS

Revenues for spirits producers have increased over the last three months, including for the top 10 spirits producers, and have also increased versus the prior 12 months.

Finished goods from well-known premium brands posted relatively high recovery values, with most raw materials recovering at significantly reduced rates. Recovery values for proprietary and specific raw materials were even lower.

WINE AND SPIRITS DISTRIBUTORS

As transportation costs have fallen, gross margins have increased for wine and spirits distributors. Sales trends, meanwhile, have been mixed, with most showing positive long-term trends but some registering poor recent sales.

Gross recovery values for distributors are largely in line with the respective producer types. For wine, recovery values were most robust for higher-price-point bottles priced and weakest for lower-price-point bottles, which is in contrast to the first quarter. Spirits registered somewhat more uniform recovery values.

MONITORING POINTS

Monitoring Points	Impact
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.
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 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 declines over time as a percentage of cost.

MONITORING POINTS

Monitoring Points	Impact
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 alcohol sold to customers in the U.S. with greater than 14% alcohol content. Lenders should be aware of outstanding balances due for grower liens and excise taxes.
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 his inventory, negatively impacting margins and recovery values. In addition, reducing a target retail price point may prevent future vintages from realizing that same level of trade.
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.

PRICING TRENDS

BULK WINE

Continuing from the first and second quarters of 2011, the California bulk wine and grape markets remain active. Frost hit parts of the Central Coast in April, while wind gusts and rains hampered the bloom over much of the Northern Interior and North Coast in May and June, interfering with berry set for many varieties. As a result, grape growers have reduced crop projections, and prices have tightened accordingly. In addition, mildew has also been prevalent in the Interior.

Based on preliminary field reports from grape brokers, all signs point to yields which will be below 2010 and below normal.

The bulk wine market typically slows down at harvest as winemakers conserve resources to accommodate incoming fruit. Although this year, analysts indicate too many brands have subscribed to sourcing bulk inventory just-in-time, while the impact of potentially damaging weather conditions has heightened concerns about future supply. Bulk inventory levels have therefore declined, while prices have tightened and selection has diminished.

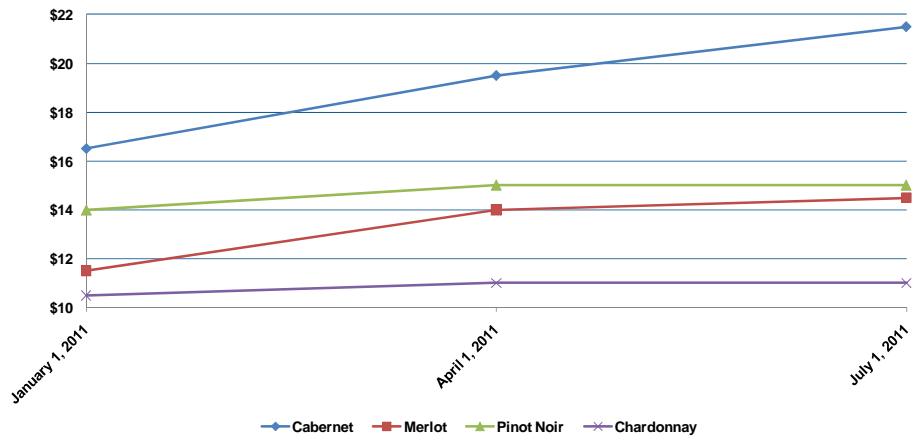


PRICING TRENDS

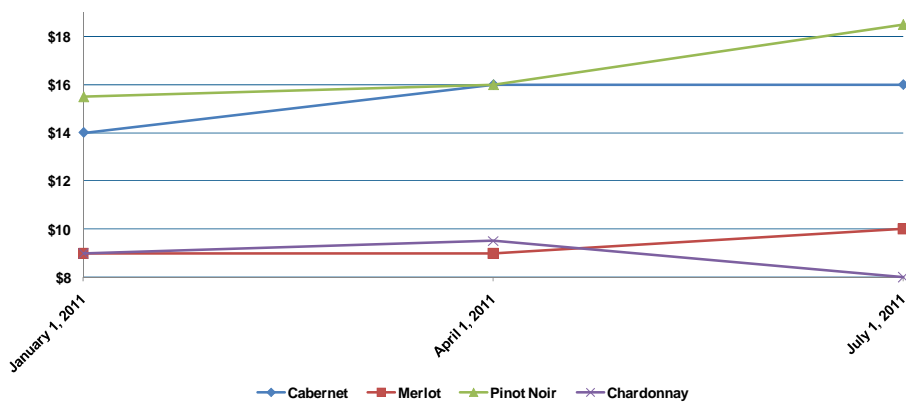
The market for bulk cabernet sauvignon continues to be the most active, with strong demand for all regions. After sellers reduced their high asking prices of over \$30 per gallon, brokers have recently been selling Napa Valley cabernet sauvignon for \$25 to \$30 per gallon.

With supplies short, demand and prices for cabernet sauvignon from Sonoma County, Paso Robles, Mendocino County, and Lake Count have also increased, with prices in the high teens for the 2009 and 2010 vintages and even above \$20 per gallon for certain exceptional lots.

**Napa Valley
California Wine Varietals Pricing Trends
\$ per gallon**



**Sonoma Valley
California Wine Varietals Pricing Trends
\$ per gallon**

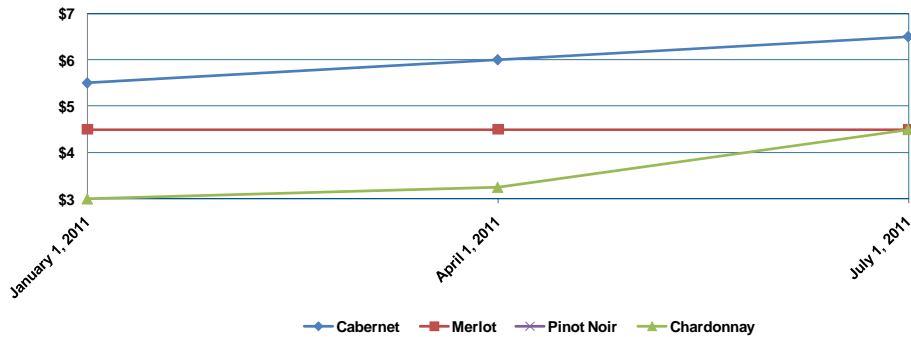


Market activity for other varietals is moderate or slowly gaining strength. For chardonnay, there have been more buyers and lower volumes actively for sale. In addition, contrary to the usual trend at this time of year, prices have increased over the last few weeks for both 2010 and the remaining gallons of 2009 wine.

Recent prices for Napa Valley chardonnay were in the range of \$12 to \$15 per gallon, while Sonoma County lots recently sold for between \$9 to \$12 per gallon. The exact price per deal depended on the quality and lot size.

PRICING TRENDS

**Central Valley
California Wine Varietals Pricing Trends
\$ per gallon**



Buyer activity for pinot noir has been active for most of the year, primarily due to increase the blend size of popular brands in the \$15-per-bottle range. As a result, supply has lagged behind demand all year.

Demand for bulk wine has been strong for all red wines including zinfandel, petite sirah, petite verdot, syrah, and merlot, with supply limited and prices increasing.

Bulk wine prices in the U.S. are reported by two primary brokerage companies, Ciatti Company and Turrentine Brokerage, as well as a few smaller brokers. As these companies only represent a fraction of the total wine produced in the market, the relationship between bulk wine prices and retail selling prices may not be highly correlated.

In addition, the vast majority of wine is initially purchased in the form of, and produced by wineries from, bulk fruit. Furthermore, as bulk wine must be aged in barrels, tanks, or bottles before it is sold, it can take multiple years for bulk wine purchase prices to be reflected in the case goods selling price.

Year-over-year selling prices per case are largely down, although companies are selling more products that are at higher price points.

BULK SPIRITS

Bourbon and whisky are aged for multiple years and become more valuable as they age. Bulk spirits prices rise and fall with the market prices of the agricultural commodities used in the production of spirits. The most commonly used raw materials include corn, wheat, and rye, prices for which have increased over the last year. Bulk spirits prices have followed suit and increased on both an annual and quarterly basis.



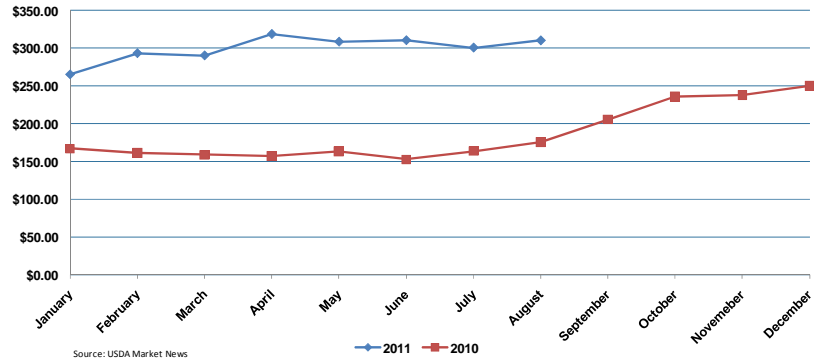
PRICING TRENDS

CORN

Prices for corn have increased steadily over the past few years, reaching a three-year high in August 2011, according to the USDA.

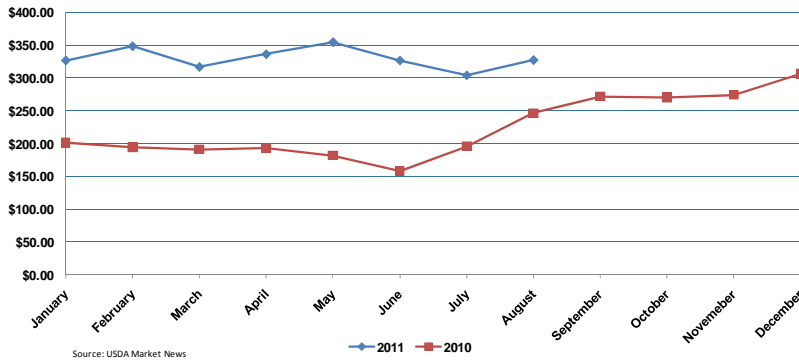
The recent price increase reflects a forecasted sharp drop in U.S. corn production, according to the USDA. U.S. corn production for the 2011/12 season is expected to be 556 million bushels lower than the previous season due to unusually high temperatures and below-average precipitation in July 2011 across much of the Corn Belt, which sharply reduced yield prospects.

Corn Prices
No. 2 Yellow, FOB Gulf of Mexico Prices
\$ per metric ton



Although corn production by other countries is increasing, the decrease in corn production in the U.S. is projected to result in a net decrease in corn production worldwide. Over the long-term, the increase in corn pricing has been driven by increased global demand for corn in livestock feed, biofuel, and food products.

Wheat Prices
No. 1 Hard Red Winter, FOB Gulf of Mexico
\$ per metric ton



WHEAT

According to the USDA's August 2011 figures, average wheat prices are rising. The price increase is driven, in part, by higher projected prices for corn. Prices are significantly higher than 2010's figures. U.S. wheat supplies for the 2011/12 season were lowered 30 million bushels by the USDA in August, as higher forecasted winter wheat production was more than offset by lower production levels for durum and other spring wheat.

Total projected worldwide wheat use was lowered by 30 million bushels as well, with a reduced outlook for U.S. exports due to competition from other wheat-producing countries more than offsetting an expected increase in domestic use. U.S. wheat exports are projected to be down 50 million bushels due to the increased competition, primarily from Europe. The 2011/12 season outlook for world wheat trade is essentially shaped by growing supplies of wheat and tighter supplies of corn, a competitor grain, in the U.S.

PRICING TRENDS

RYE

Rye is a grain in the wheat tribe that is grown primarily in eastern, central, and northern Europe, with little of the grain grown in the U.S. A bushel of rye sold for \$5.25 on the open market during the 2010/2011 season, according to preliminary data from the USDA's Economic Research Service. World production of rye in the 2011/12 season is expected to increase by 15% as production recovers in eastern Europe, according to Agriculture and Agri-Food Canada.

World carryout stocks are forecast to decrease slightly even though production will be higher. Strong demand will see the industrial use of rye increase by 26%. In early September 2011, Russia, one of the largest producers of rye, experienced rye price increases of 11%, according to news agency Bloomberg.



WINE AND SPIRITS REFERENCE SHEET

Pricing Trends

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

Region	2011 Date	Varietal			
		Cabernet	Merlot	Pinot Noir	Chardonnay
Napa Valley	July 1	10%	4%	7%	(14.0%)
	April 1	18%	22%	7%	5%
	January 1	10%	44%	12%	11%
Sonoma Valley	July 1	0%	11%	16%	(16%)
	April 1	14%	0%	3%	6%
	January 1	17%	13%	11%	13%
Central Valley	July 1	8%	0%	0%	38%
	April 1	9%	0%	-	8%
	January 1	10%	6%	-	(8%)

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

Corn, No. 2 Yellow	January	February	March	April	May	June	July	August
2010	\$167.21	\$161.63	\$159.01	\$157.66	\$163.77	\$152.87	\$163.92	\$175.60
2011	\$265.29	\$293.40	\$290.43	\$318.74	\$308.58	\$310.54	\$300.83	\$310.34
Change	58.7%	81.5%	82.6%	102.2%	88.4%	103.1%	83.5%	76.7%

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

Wheat, No. 1 Hard Red Winter	January	February	March	April	May	June	July	August
2010	\$201.51	\$194.54	\$191.07	\$192.82	\$181.88	\$157.67	\$195.82	\$246.25
2011	\$326.55	\$348.15	\$316.75	\$336.12	\$354.47	\$326.45	\$303.88	\$327.09
Change	62.1%	79.0%	65.8%	74.3%	94.9%	107.0%	55.2%	32.8%