

# PACIFIC NORTHWEST WINE INDUSTRY

MARKET UPDATE

JUNE 2011



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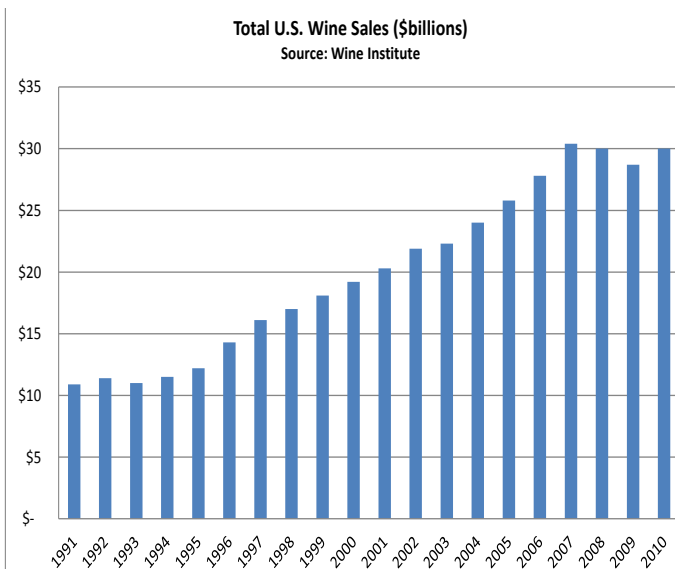
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**EXVERE** inc.  
PRIVATE INVESTMENT BANKING

## AN OVERVIEW OF THE NATIONAL WINE MARKET

In 2010, approximately 276 million cases of table wine was consumed in the U.S., representing an increase of 0.9 percent over 2009. This increase represents the 17th consecutive year of growth in a period of time that includes two recessions. Wine consumption continues to grow steadily, even in periods of recession.



Overall, 20.4% of U.S. adults (over the age of 21) or 46 million adults are considered “core” wine drinkers—those who drink wine at least once a week—and account for 91 percent of all wine consumption.

The over 65 age group has the largest proportion of daily wine drinkers at 12%, but the Millennial and Generation X wine drinkers are driving the market growth with 42% and 35%, respectively, reporting that they are consuming more on average than five years ago. Nearly half of the wine consumers are satisfied with the selection of wines at their local retail stores, with 43% offering this as a reason for not buying directly from wineries, and 52% saying it’s why they have not joined a wine club.

In 2010, the market for fine wines began to rebound and showed a strong positive trend at the end of the year. In a recent report, Silicon Valley Bank is predicting growth rates for the fine wine segment in the range of 11 to 15 percent in 2011. This would represent back-to-back double digit growth and is a

particularly positive signal for the fine wine market segment. The wine industry and specifically, fine-wine segment, still face several obstacles. While the fine wine category as a whole is projected to grow; winery-specific issues will determine near and long-term success. Grape sourcing, wine quality, brand strength, size, and sales strategy are all factors that individual wineries need to constantly fine-tune.

The U.S. surpassed France as the world's largest wine-consuming nation in 2010. According to Gomberg, Fredrikson & Associates, wine shipments in the U.S. from California and other states and to the U.S. from foreign producers grew 2% from the previous year to nearly 330 million cases, a record high for the industry. The estimated retail value of these sales was \$30 billion, up 4% from 2009. Total French consumption was 320.6 million cases in 2010.

U.S. wine exports rebounded to a new record of \$1.14 billion in winery revenues in 2010, an increase of 25.6 percent over 2009 wine exports. Volume shipments rose 1.9 percent to 425.5 million liters or 47.3 million nine-liter cases.

Thirty-eight percent of U.S. wine exports by value were shipped to the 27-member countries of the European Union, accounting for \$435 million in revenue, up 14 percent from 2009. Volume shipments to the EU reached 27.6 million cases in 2010, up 11 percent from the previous year. Changes in the dollar exchange rate, a gradually recovering economy, high wine quality and California’s effective marketing campaigns have aided the rebound of exports.

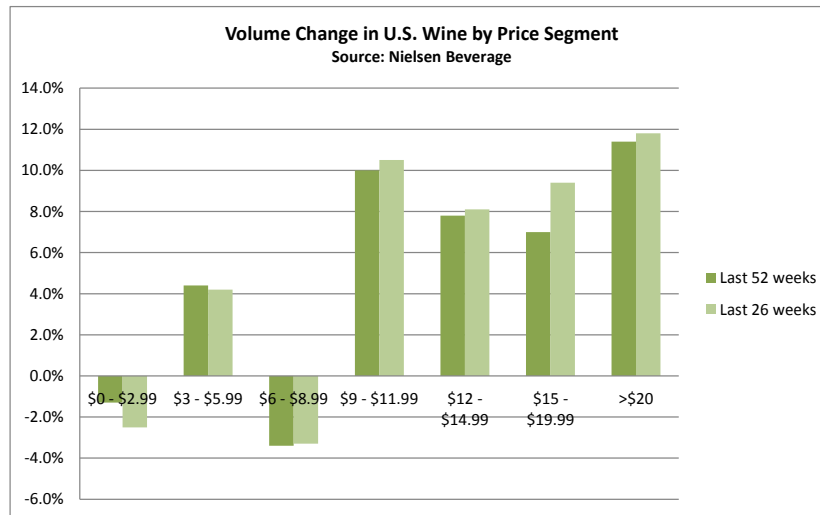


Other top markets were: Canada, \$308 million; Hong Kong, \$116 million; Japan, \$76 million; and China, \$45 million.

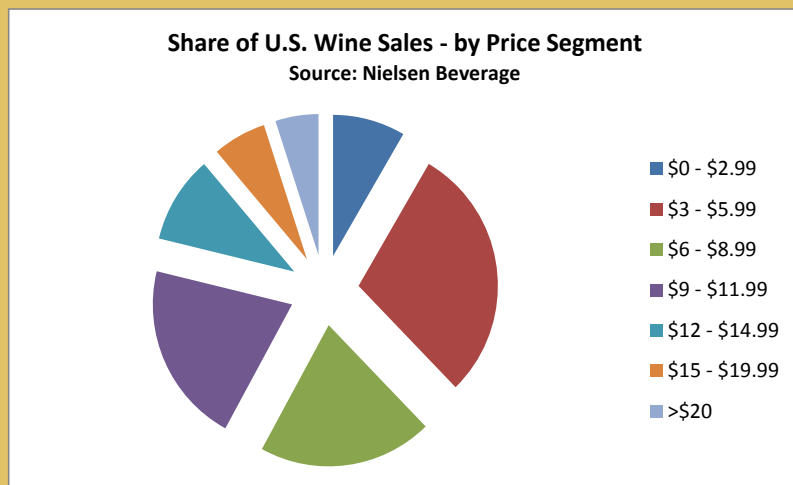
Wine consumption as a whole has experienced remarkable change and positive growth in the last decade:

- In 2000, 43% of U.S. wine drinkers were core wine consumers and 57% were “marginals”, while in 2010, those numbers are the reverse with 57% core wine consumers and 43% “marginals”;
- In proportion to total U.S. adults, the core wine drinking segment has doubled since 2000;

- Consumers are drinking wine more often than they did ten years ago;
- The number of consumers who reported drinking wine every day increased by 80% in comparison to 2000;
- Twenty-nine percent of consumers reported drinking wine a few times a week in 2010 compared to 21% in 2000, while there has been a significant decline in the populations that drink wine at lower frequencies (2-3 times/month, once/month, once every 2-3 months).



Throughout the recession wine drinkers were attracted to lower price points, although recent data suggests this trend is reversing. According to Nielsen Beverage, the over \$20 price point has been the fastest growing segment of the wine industry with 6-month and 12-month growth rates of 11.8% and 11.4%, respectively. This represents roughly 5% of the total market for wine, but the trend is still encouraging. All wines priced above \$9 have shown growth in excess of 7% over the past 12 months, which represents nearly 45% of the total market for wine sales.



## WASHINGTON



Washington now has over 40,000 acres of wine grapes under cultivation and more than 700 wineries.

Washington is currently the nation's No. 2 producer of premium wine, though a distant second behind California.

Spectator Grand Award-winning Spago restaurant in Beverley Hills, believes that the best Washington wines can compete with Bordeaux super-seconds and famous Napa Valley Cabernets, which typically cost at least \$125 at retail."

The Washington wine industry has seen a great deal of attention directed its way in recent years. Boasting rave reviews in major publications and accredited sources, Washington wineries are in the spotlight. From Quilceda Creek's multiple 100 point wines, to Cayuse's 100 point rating in Wine Enthusiast for its 2007 En Chamberlin and seven page write-up in Wine Spectator Magazine, the Washington wine industry is beginning to receive the attention it deserves. An Analysis performed by Wine Spectator validates this excellence, showing Washington State with not only the highest percent of 90+ point rated wine, but as one of the best values as well.

Despite this good news, some Washington wineries were unable to withstand the financial downturn and were forced to close their doors. Notable recent closures include Whitman Cellars, Nicholas Cole Cellars, Lost Mountain Winery, Yellow Hawk Cellar, Olsen Estates, and E.B. Foote. In addition, recently sold Canoe Ridge and Sagelands closed their tasting rooms.

2011 should be a solid year for Washington's wine industry. Grape prices have rebounded since 2010 and are expected to continue to increase in 2011. Grape prices may rise even more significantly depending on crop losses from the November freeze.

Washingtonians have been aware of these statistics for some time, but it's reassuring to see the national media slowly accepting it as fact. From the Wine Spectator article, "Chris Miller, sommelier at the Wine

### WINE SPECTATOR SCORE ANALYSIS BY REGION

Location	Scores 90+ (percent)	Average Cost	# of Wines Reviewed
Washington	44%	\$42	579
California	30%	\$64	3,050
New York	3%	\$35	422
Oregon	37%	\$50	328
Other U.S.	1%	\$45	84
Italy	34%	\$69	2,915
France	38%	\$100	4,719
Argentina	15%	\$54	576
Australia	34%	\$68	688
Austria	27%	\$58	94
Chile	12%	\$47	587

## MERGERS AND ACQUISITION TRENDS

Merger and acquisition activity is beginning to heat up in 2011. Transaction volume is expected to increase to pre-recession levels. Deals for distressed or deteriorating brands that were hard to finance conventionally in past years seem to be giving way to more attractive propositions for lenders. Additionally, the potential threat of increased interest rates later this year might encourage activity in the coming months.

Recent results support the outlook for this anticipated increased activity. The 10 transactions reported in the first half of 2011, represent an increase of 25% from the same period in 2010.

### **Key Criteria that Attract Buyers:**

- Significant Volume (8,000 cases or more)
- High DTC component / average price
- Land - estate vineyard
- Focus on core varietals
- Real value is created when an acquirer can leverage their existing DTC wine channel and national/international distribution with a winery who has a complementary profile.

### **Strategic Buyers**

There should be plenty of activity from strategic buyers as larger multinationals shed labels that are not part of their core operations or strategy. Meanwhile, high-end boutique labels seem to be attracting interest from established mid-market wineries seeking to complement current organic growth. Wine groups are trending towards a portfolio with several core varietals, little overlap in price point, and similar sales channels and distribution philosophy.

own wineries and are principals in the industry, allowing them to act like strategic buyers. Activity from the private equity market is likely to increase as banks become more willing to accommodate higher debt levels necessary to increase investment returns. There is a significant amount of capital waiting to be invested as private equity investments were down significantly in 2008 and 2009. This anticipated increase in financial buyer activity will lead to more prospective buyers and a more competitive market for well-positioned, wineries.

### **Financial Buyers**

Private equity groups have not been very active in the wine industry due to their inability to leverage purchased assets. However, there appears to be increasing interest from lenders in winery investments. Firms such as The Vincraft Group, based in Sonoma, are private equity investors who already

## SUMMARY

Today, the wine industry is considered an attractive investment opportunity. Widely available wine information has assisted in the education of the

American consumer, while increasing interest in younger generations has created strong future growth opportunities.

## KEY M&A TRANSACTIONS

Date	Target/Issuer	Sellers	Buyers/Investors	Target Location
04/28/2011	Gary Farrell Wines, Inc.	Eight Estates Fine Wines, LLC	Vincraft Group	Healdsburg, California
04/28/2011	Buena Vista Carneros	Eight Estates Fine Wines, LLC	Boisset Family Estates	Healdsburg, California
04/28/2011	Sonoma-Loeb Wines	-	Chappellet Winery, Inc.	New York, New York
04/14/2011	Westernmost Vineyard in Sta Rita Hills AVA, La Encantada	-	Hillside Road, LLC	California
04/07/2011	Betz Family Winery LLC	-	Individuals	Woodinville, Washington
04/07/2011	Kluge Estate Winery & Vineyards	Farm Credit Bank Of Texas	Donald Trump	Charlottesville, Virginia
03/01/2011	Fetzer Vineyards	Brown-Forman Corporation (NYSE:BF.B)	Vina Concha y Toro S.A.	Nashville, Tennessee
02/14/2011	Canoe Ridge / Sagelands	-	Precept Brands	Paterson, Washington
02/04/2011	MacRostie Winery and Vineyards	-	Lion Nathan USA Inc.	Sonoma, California
01/05/2011	Consentino Winery, LLC	Physicians' Reciprocal Insurers, Inc.	Vintage Wine Estates Inc.	Yountville, California
01/04/2011	Pacific Rim Winemakers, Inc.	-	Banfi Products Corporation	West Richland, Washington
12/05/2010	Justin Vineyards & Winery, Inc.	-	Fiji Water Company LLC	Paso Robles, California
09/20/2010	Noble House Wine	-	Gotham Wine Group	New York City, New York
08/22/2010	August Briggs, Winery at 333 Silverado Trail in Calistoga	August Briggs	Aubert Wines	Calistoga, California
08/17/2010	Steelhead Wines	-	V2 Wine Group LLC	Sonoma, California
07/14/2010	Evesham Wood Vineyard & Winery, Inc.	-	Erin Nuccio and Jordan Nuccio	Salem, Oregon
06/24/2010	Clarksburg Wine Company, LLC	-	Investment Group	Clarksburg, California
06/23/2010	Freeman Beverage Company, Several Wine Brands	Freeman Beverage Company, Inc.	Republic National Distributing Company, LLC	Fredericksburg, Virginia
06/23/2010	Diageo Chateau & Estate Wines, Sterling Vineyards Winery and Beaulieu	Diageo Chateau & Estate Wines Company, Inc.	Realty Income Corp. (NYSE:O)	California
06/22/2010	17-acre Monument Tree Vineyard	-	Twomey Cellars LLC	California
06/10/2010	Chalk Hill Estate Winery LLC	-	Foley Family Wines, Inc.	Healdsburg, California

# ABOUT EXVERE INC.

## SERVICES

Exvere represents private companies in major capital transactions (partially listed below). Exvere Directors work closely with their clients to target and strategically select qualified financial counterparties, employing time-tested processes to maximize value for clients, throughout the entire transaction process, from the first conversation to a timely and efficient closing.

## TRANSACTION TYPES

- Acquisitions
- Business Sales (Stock & Assets)
- Business Unit Divestitures
- Equity Placements
- Management Buy-Outs
- Merger of Equals
- Private Equity Recapitalizations
- Structured Financings

## INDUSTRIES SERVED

- Aerospace & Defense
- Building Products
- Computer Hardware
- Construction
- Consumer Products
- Distribution
- Energy Efficiency
- Food & Agribusiness
- General Business Services
- Healthcare Services & Medical Devices
- Manufacturing
- Telecommunications
- Wine & Beverage

## THE EXVERE EDGE

Founded in Seattle, WA in 1991, Exvere has served as adviser in over 100 capital transactions. In 2006, Exvere formed Exvere Securities, LLC, a FINRA broker-dealer, in order to expand the range of services it offers to Northwest business owners.

**Strategic Assessments** - Many owners haven't prepared comprehensive, operational, or exit plans for their businesses. Exvere assists with producing near and long-term strategic direction in order to maximize exit values, utilizing their extensive analytical and research capabilities. Exvere also helps business owners assess timing considerations by examining the entire process through the eyes of a potential acquirer or target. The Strategic Assessment identifies company strengths and weaknesses in order to provide third-party insight and direction, which results in a higher valuation at the chosen time of exit.

**Valuation Expertise** - Exvere's professional staff includes an Accredited Valuation Analyst (AVA), ensuring quality and accuracy in valuations and fairness opinions.

**FINRA Member** - Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA broker-dealer. As such, we are subject to rigorous regulatory compliance and financial standards. This qualification allows Exvere to provide a greater array of options to their clients, such as partnering with international and domestic investment banks, sharing extensive research resources, and providing the broadest potential market exposure.

For more information, please visit [www.exvere.com](http://www.exvere.com) or call us at (206) 728-1800.