Pacific Northwest Wine Industry
Market Update
July 2009

The Big Picture

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Recent Winery M&A

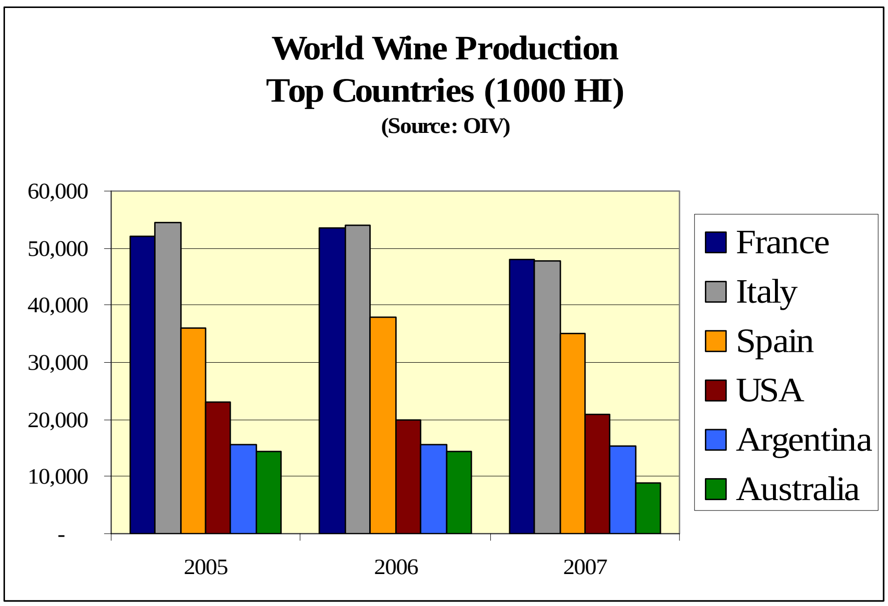
Special Q&A with Industry Insider

EXVERE Inc.
Private Investment Banking

The Big Picture

Most analysts predict that 2009 - 2010 will be one of the most challenging periods that the wine industry has faced in recent years. The trend towards consumers trading up to premium labels was markedly slower in 2008, and is expected to remain slow through 2010. World wine consumption is projected to have fallen 1% in 2008, to 2.65 billion 9-liter cases, according to *The Global Drinks Market* research paper. The main growth in 2008 was seen in off-premise, value-priced wines. The value of wine imported to the U.S. posted a decline of 1.7% due to the effects of the recession, weak value of the dollar and a grape surplus in Australia. While overall wine imports decreased, there was some positive momentum in countries such as Argentina, Chile and New Zealand. Both Argentina and Chile have made significant inroads into the U.S. market with their moderately priced, good quality red wines. This import pressure could continue due to the strengthening dollar and the fact that some international wine makers are liquidating inventories to generate much needed cash flow.

Despite this news, domestic wine production is predicted to increase 4% from now until 2012 while consumption grows at 6%. Currently, the U.S. accounts for 8.4% of world wine production (4th after France, Italy and Spain). This is accomplished on only 4.8% of the world's vineyard acreage, demonstrating the superior conditions for grape growing in the U.S.



In the U.S., the ability to weather the economic downturn is supported by steadily growing sales and a lack of new plantings, eliminating excess supplies and keeping inventories in relative balance. U.S. grape prices during the current economic downturn are stabilized by two things: the 2008 production shortfall coupled with the fact that fewer growers planting new vines.

The most pronounced trend currently affecting the industry is that consumers are trading down, notably from the $40 - $100 range, to more value-oriented bottlings. This is shown in the fact that sales by value in the U.S. fell for the first time in 15 years. However, volumes actually climbed in 2008, indicating that recession-hit consumers are buying a greater number of lower-priced wines, rather than forgoing wine altogether. This is a particular boon to brands whose price-point falls below $25. Most established wineries have the ability to shift their product mix to target lower-end markets; however, new wineries are having a difficult time as their ability to sell a $40 bottle is constrained by lack of marketing dollars and volume.

Additionally, consumers are eating out less and are also drinking less expensive wines at home. These changes in consumer habits hurt wine retailers and distributors but could be good news for club stores like Costco and BevMo. Wine clubs and other direct-to-consumer sales are down, but this is still an avenue that new wineries can exploit to

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THE BIG PICTURE

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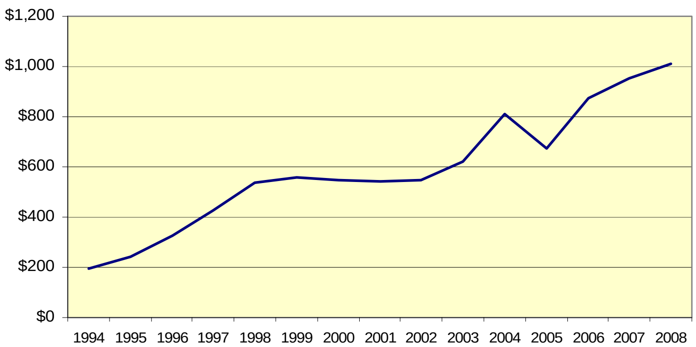
their advantage. The good news is that the U.S. is predicted to become the world's largest consumer of wine by 2012. Favorable growth indicators include:

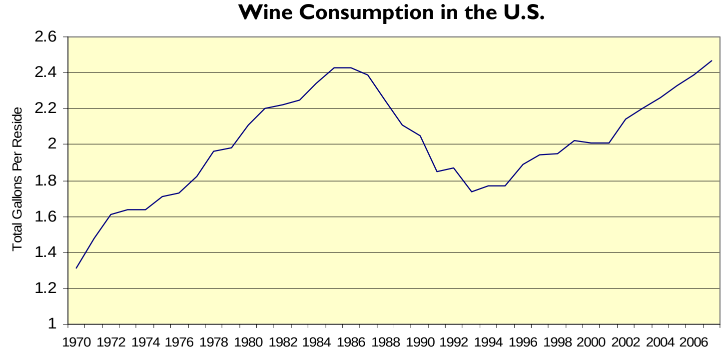
- Approximately 30% of wine consumed in the U.S. is imported, leaving a large market share yet to be captured by U.S. based wineries.
- Per capita consumption is low compared to other developed countries, but is expanding (see graph).
- Wine consumption in the United States, which registered its 15th consecutive annual gain last year, is at its slowest rate gain since 2001, the last time the U.S. economy suffered a recession.
- Wine sales actually outpaced both beer and distilled spirits in the U.S. in 2008, which is in contrast to the global trend where beer and spirits consumption have out-performed wine in each of the past three years.

U.S. Wine Export Revenues ($ Millions)



Surprisingly, nearly half of U.S. exports are sent to the European Union, growing at 2% in sales revenue compared with 9% in volume shipments. This is a result of the continuing trend of producers exporting bulk wine for bottling overseas to save on freight charges for bottles and other packaging. The next leading markets were Canada ($260 million); Japan ($61 million); Hong Kong ($26 million) and Mexico ($23 million). China in particular showed significant growth, with Hong Kong contributing enormously with a 244% increase, after a repeal of the local import tax on wine.

Wine Consumption in the U.S.

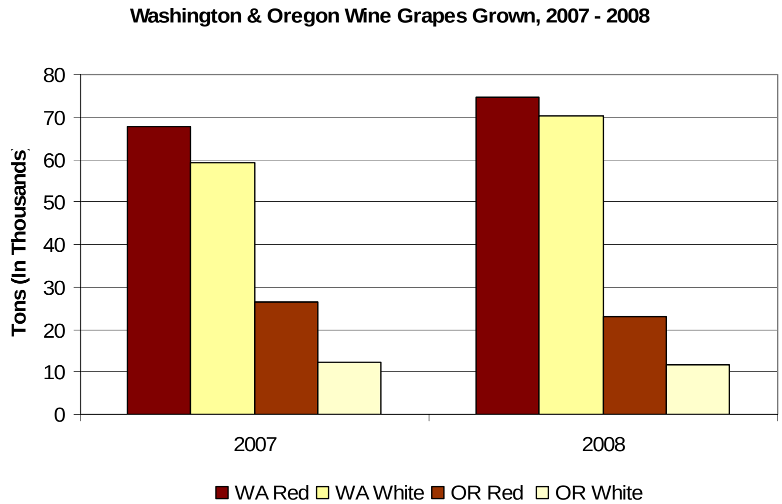


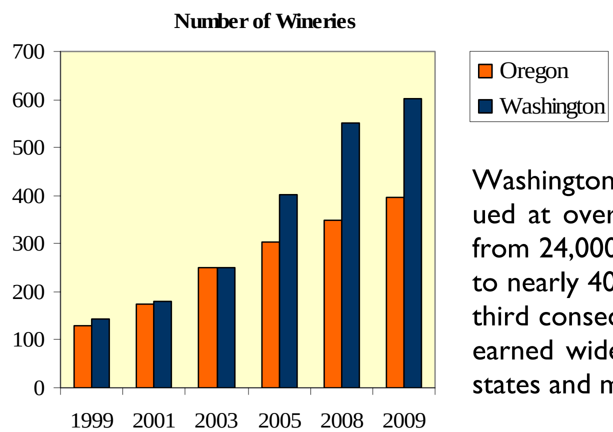
- Millennial consumers represent the largest potential market. As 20-30 year-olds acclimate their tastes towards wine, the potential to tap into a market with a large amount of disposable income is significant.
- U.S. wine exports, of which approximately 90% come from California, passed the $1 billion mark in 2008, representing a 6% increase from 2007. As the chart shows, wine exports have steadily increased over the past 15 years as the U.S. becomes a recognized player in the global wine market.

US WINE EXPORTS			
	Value		*Variance '08 v '07*
Partner Country Ranked by 2008 Value	**2008**	**2007**	**Percent**
European Union Total	$486,122	$475,108	2%
Canada	$260,167	$234,703	11%
Japan	$61,125	$63,205	(3%)
Hong Kong	$25,579	$7,438	244%
Mexico	$23,104	$23,841	(3%)
China	$21,709	$16,162	34%
Switzerland	$18,253	$26,111	(30%)
Austria	$13,687	$10,476	31%
South Korea	$12,811	$18,039	(29%)
Singapore	$11,041	$8,755	26%
Other Countries	$74,661	$70,674	6%
World Total	**$1,008,259**	**$954,512**	**6%**

Focus on the Pacific Northwest

The Pacific Northwest is increasingly recognized as a major player both for production of wine grapes, and high-quality wines. Washington State is the second leading producer of wine grapes in the country, trailing only California. Washington now has 11 AVAs, (recently adding Snipes Mountain and Lake Chelan) while Oregon has 6 AVAs. Both Washington and Oregon have received numerous awards and accolades and are gaining a worldwide reputation.





Washington is now home to over 600 wineries, and its economic impact is valued at over $3 billion. The number of grape plantings in the state increased from 24,000 acres in 1999 to an estimated 33,000 this year. Oregon has grown to nearly 400 wineries, and grape acreage grew by over 1,500 acres in 2008, the third consecutive year of record plantings. Washington and Oregon wines have earned wide acclaim and now appear on wine lists and store shelves in all 50 states and more than 40 countries worldwide.

Currently, one of the Northwest wine industry's biggest challenges is effective promotion of the region and its wines. A way to address this challenge is by featuring the specific AVA on the label, a growing trend. This allows consumers to identify wines with individual AVAs rather than just the state where the grapes were grown, building consumer awareness for a particular region.

M&A Valuations & Trends

The recession appears to have spurred current financing activity in the wine industry which may result in increased M&A activity in the short-term. In previous economic downturns high-end wines were relatively unaffected, but now the decreased demand for wines with price-points above $25 a bottle presents a new challenge for the wine world. Although industry experts expect few vintners to go under during this slump, we predict that numerous wineries will find it necessary to seek additional capital to finance their operations.

Local investment trends will be positively affected by the legislative changes passed earlier this year. Formerly, the functions of manufacturing, distributing, and retailing were separate tiers, which prohibited one person to hold a financial interest in more than one tier. The Washington state legislature found this tier system "unduly restrictive" and now allows for financial interest across tiers in most instances.

Recent Winery Mergers and Acquisitions

Date	Target	Buyer	Location
06/12/2009	Access Beverage, Inc. (OTCPK:ASBV)	Guangzhou Du Ye Trading Company, Ltd.	Santa Ana, California
02/27/2009	Greenfield Winery Company Custom Crush Arm	Sonoma Wine Company	American Canyon, California
02/26/2009	Kuleto Estate Family Vineyards	William Foley (70% stake)	St. Helena, California
01/21/2009	Cecchetti Wine Company, Inc.	Racke USA, Inc.	Sonoma, California
12/19/2008	Sebastiani Vineyards, Inc.	Foley Family Wines	Sonoma, California
12/07/2008	Boisset SA, Canadian Assets	Maison des Futailles	Canada
12/01/2008	Brown-Forman Corporation Bolla & Fontana Candida Italian Wine Brands	Gruppo Italiano Vini Scarl	Louisville, Kentucky
10/03/2008	Three Vineyard Sites in the Willamette Valley	Willamette Valley Vineyards, Inc. (NASDAQ CM:WVVI)	Oregon
08/29/2008	William Grant & Sons USA Non-Proprietary Wine Portfolio in US	Total Beverage Solution, LLC	Edison, New Jersey
08/25/2008	De Sousa Wine Cellars	Diamond Estates Wines & Spirits, Ltd.	Beamsville, Ontario
08/25/2008	Domaine Alfred Winery	Crimson Wine Group, Ltd.	San Luis Obispo, California
07/31/2008	Vintage Winery Trust Inc. Wine & Vineyard	Rob Rossi & Bill Swanson	San Rafael, California
07/08/2008	20 Bees Winery	Diamond Estates Wines & Spirits, Ltd.	Virgil, Ontario

Exvere's Featured Insider - Glenn Coogan
Vice President, Ascentia Wine Estates

Glenn Coogan joined Ascentia Wine Estates (AWE) when AWE purchased several brands from Constellation Wines in 2008. Glenn served as Vice President of Operations for Constellation since 2002 in the Northwest. In his current role, Glenn is responsible for Columbia Winery in Woodinville, Covey Run in Eastern Washington and Ste. Chapelle winery in Idaho, overseeing all operations, grower relations, and winemaking.

Glenn served as Vice President of Operations for Ste. Michelle Vintners and Estates prior to joining Constellation. He led Ste. Michelle through a major expansion phase of their Washington operations, including fermentation, barrel storage, vineyard development, distribution and bottling at multiple sites from 1997 to 2002.

Prior to joining Ste. Michelle Vintners, Glenn was employed by Ocean Spray Cranberries as the Division Manager-West Coast Manufacturing. He held positions in both the cranberry and citrus divisions during his fifteen years with that organization.

Glenn currently serves on the Washington Wine Commission, and is also on the Board of Directors for the Washington Wine Industry Foundation. A native of Washington, Glenn received his Bachelor of Economics degree from Portland State University. He resides in Woodinville, Washington.

Up Close with Glenn Coogan

Q: Have you seen any decrease in the number of new wineries?

A: No. There is a new winery being established in Washington State every few days. There might be a decrease next year, but right now the wine industry in the Pacific Northwest (PNW) and in Washington in particular, is growing at a steady pace. The annual growth rate has been about 14% per year over the last ten years.

Q: Do you think the wine industry is becoming saturated due to this growth in the number of new wineries?

A: No, I do not. The last I heard, there are over 55,000 brands of wine worldwide. What other product can you think of that has over 55,000 brands? Without question, this is the most competitive consumer product in the marketplace. Consumers want choices, and they certainly have them in the wine category, no matter what price-point they are shopping in.

Q: How are PNW wines perceived in the world market?

A: Pacific Northwest Wines are no longer an emerging wine region. Washington and Oregon wines are recognized worldwide throughout the wine industry. Consumer awareness still needs to be our focus and where we place resources.

Q: What trends do you see in consumer preferences between Old World and New World wines/winemaking?

A: There is no question that the trend is currently towards New World wines, especially from and within the West Coast. In the northeast there still exists a healthy market for wines with more of an Old World style.

UP CLOSE WITH GLENN COOGAN

Q: Do you think New World wines are more approachable than Old World ones, and if so, why?

A: They may be more unique and interesting, although Old World wines generally have lower alcohol levels and are considered more food friendly.

Q: The trend in the U.S. is to list the AVA on the bottle of wine. What influence do you think this has on sales or consumer awareness of viticultural regions?

A: It certainly depends on the knowledge and experience of the consumer. More experienced consumers may have visited a wine region, and will associate a sub-appellation with a more focused style of wine, whether this is correct or not. We have seen many new sub-appellations in Washington State over the last 3-4 years.

Q: How do you see consolidation in the wine industry affecting profits, and diversity in the range of brands and types of wines on the market?

A: There has been a great deal of consolidation already in the wine industry in the U.S. over the last ten years. Simply put, consolidation increases profits by lowering overall costs, including production and distribution costs, and redundancy in management. While consolidation is taking place on the winery side, we are also seeing consolidation with the retailers and distributors – it's an ever-changing landscape. In California, it is difficult to keep track of who is making wine for each winery. Consumers want something unique about the winery though – this is what attracts them to the brand – *they want a good story.*

Q: Costco is now one of the largest wine retailers in the U.S. as more consumers are purchasing wine with their groceries rather than going to local specialty stores that only sell wine. Do you see this trend as one that will ultimately drive small local wine shops out of business, or just a sign of maturity and sophistication with buyers having access through a variety of channels?

A: For the small specialty stores, it really depends on their marketing and outreach. If the stores don't branch out, then yes, they may ultimately be driven out of business. It's important for the small specialty stores to host wine tastings, start wine clubs, etc., and get a lot of activity going around the wine and their store in particular. Offer superior customer service and follow up with their loyal consumers. Be agile and able to offer a unique experience that you cannot receive with a large box retailer.

Q: What keeps you up at night?

A: Regulation. It's a challenge that all wineries face, both large and small. I also have a concern that the growth in our industry is not matched with the skills needed to produce, market, or sell high quality wines.

Q: What is Washington's Achilles heel in terms of growing grapes?

A: The frost that we get about every 6 years that can reduce production in our vineyards up to 30-40%. Otherwise, Washington has the perfect climate to grow grapes in terms of soil, sunshine, water, and talented vineyard winegrowers.

Q: Any other comments or observations?

A: Now is an exciting time in the wine business for consumers. There is a dearth of wines out there that are reasonably priced and accessible. There are great quality wines from the PNW that have sky-rocketed over the last few years. Also, PNW wineries are starting to experiment with different varietals, especially Washington State - Malbecs, Syrahs, Sangiovese, Petite Verdot to name a few. Red Blends are also starting to take a serious place amongst consumers. They give the winemaker the ultimate flexibility to make the best wine of the vintage each year.

About Exvere Inc.

Services

Exvere represents owners of companies in major capital transactions (see partial list of transaction types below). We work closely with our clients to develop targeted lists of strategic and financial counterparties who are qualified to complete the transaction. Exvere employs time-tested processes to maximize value for our clients, and we are active participants in the entire transaction process, from the first conversation through an efficient and timely closing.

Transaction Types

- Acquisitions
- Business Sales (Stock & Assets)
- Business Unit Divestures
- Management Buy-Outs
- Merger of Equals
- Private Equity Recapitalizations

Industries Served

- Aerospace & Defense
- Building Products
- Computer Hardware
- Construction
- Consumer Products
- Distribution
- Food & Agribusiness
- General Business Services
- Healthcare Services
- Manufacturing
- Telecommunications / Networking
- Wine & Beverage

History

Founded in Seattle in 1992, Exvere has advised on over 100 capital transactions. In 2006, Exvere formed Exvere Securities, LLC, a FINRA broker-dealer. The firm has established a significant reputation by representing Northwest business owners on mergers and acquisitions, recapitalizations, valuations, and financing. Exvere's success rate is over 90% for each contracted engagement.

The Exvere Edge

Strategic Assessments - Many owners have not yet developed comprehensive, long-range plans for their businesses. Exvere assists with producing near- and long-term strategies to maximize exit values utilizing our extensive research and analytical capabilities. We also help owners assess appropriate timing considerations and see the business through the eyes of a potential acquirer: normalizing earnings, determining strengths and weaknesses – all of which provides valuable insight and direction resulting in higher valuation at the chosen time of exit.

FINRA Member - Exvere, through its wholly owned subsidiary, Exvere Securities, LLC, is a FINRA broker-dealer. As such, we are subject to high regulatory and financial standards, setting us apart from most M&A firms. Importantly, this qualification allows us to provide a greater array of options to our clients, such as partnering with international investment banks, sharing these banks' extensive research resources, and providing fairness opinions.

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

In-House Counsel - Exvere's staff also includes an attorney, resulting in better and more timely counsel on legal and contractual matters.

For more information please visit **www.exvere.com** or call us at (206) 728-1800.