

2008-2009 STATE OF THE WINE INDUSTRY



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FORWARD

In the 1939 movie “The Wizard of Oz” the main character, Dorothy, finds herself caught outside the storm cellar with a twister approaching. No where to go, she runs to her room just as the whole house is lifted off its foundation and swept violently up into the clouds. Once the commotion stops, she steps outside of her predictable sepia and white toned existence clutching her little dog

and finds herself in another world. In wonderment, she utters the famous line, “Toto, I’ve a feeling we’re not in Kansas anymore.”

The wine business has long been a bastion for the creative soul seeking refuge in a rural lifestyle, but with a nose of Provence or the Côte d’Or. Today however, the wine industry is experiencing both short term cyclical and economic

shocks to its bucolic roots as well as longer term structural impacts. The industry has been transported from a once cottage-based part-time industry, into a high-growth \$30 billion business supporting M&A activity in the hundreds of millions of dollars. Hence, “we’re not in Kansas anymore.”

2008 - 2009 STATE OF THE WINE INDUSTRY

Each year Silicon Valley Bank (SVB) researches critical issues that face the wine industry and summarizes the findings in our annual *State of the Wine Industry Report*. At times, real and relevant information is difficult to come by since this is largely a private industry. Therefore, in addition to our proprietary data, unique experience and knowledge of the wine industry, Silicon Valley Bank conducted an extensive survey to gather information on a variety of topics including pricing, marketing, sales strategies and the challenges vintners face today. Nearly 500 surveys were completed. This report lends insight to current conditions and trends that are affecting the industry as well as a forecast for what may lie ahead in the coming year. For those interested in our view of the wine industry's future, we invite you to read on.

EXECUTIVE SUMMARY

Despite the current and well-reported down-trending economic conditions in the U.S., we feel the next 12 months will be generally positive for the wine industry as a whole. We expect to see a small deterioration in business conditions in the fine wine segments as supply is running in-balance to short. The opportunity to raise prices will be limited, except for wineries selling on allocation or largely direct. Financial performance of the fine wine segment will be marked with moderate growth rates falling from last year's cyclical highs, along with

slightly decreasing gross and net profit margins.

We anticipate growers that produce grapes for higher volume wine production will experience improving trends as the weakening economy forces value-conscious buyers into lower-priced moderately-positioned price segments. Supply, which has been consistently long for some time, will start to experience a boost as fine wine producers seek alternative sourcing for what is becoming a short market in premium wine grapes.

Overall consumption of both foreign and domestic wines in the U.S. has reached \$30 billion. This growth is attributed to strong consumer acceptance of foreign wines, an increasing number of younger consumers across all wine segments, and increasing sales at higher price points, according to the Wine Market Council.¹ Improved conditions for growers selling into the higher volume segments are expected this year. This is due to a weaker U.S. dollar (USD) slowing bulk imports, lower volumes in the tank from prior harvests, and a strong demand for wines in the \$9 - \$14 range. However, growers producing grapes destined for wines with price points under \$8 will likely find business conditions more difficult in the long term.

For fine wine, we expect 2008 growth rates in the low-teens and slightly lower profits. Concerns in this segment include everything from

high costs of sought after vineyard properties, foreign competition, brand proliferation, a weak USD, grape shortages, distribution over-consolidation, regulatory processes impacting free trade, and evolving — yet still inefficient — Internet and consumer sales models. However, in the long term, we expect sales growth to be in the 4-6 percent range for the wine industry as a whole.

Despite the concerns mentioned, output from the SVB Wine Conditions Survey show winery owners believe 2008 will be a far better than average year on most fronts, and *outside of recession fears, the industry is optimistic. While we generally support their optimistic view, we suggest many may be overly optimistic and we offer a note of caution.* A recession is upon us and sales growth rates will likely moderate. In addition, many of the fundamental precepts that wine businesses have relied on in the past are presently moving under foot. We believe the margin squeeze many wineries feel today may not be a short term trend.

That said, the negative impact will be winery specific and depend on several factors including price points, brand strength, appellation, volume produced, and most importantly, the sales strategy. A wide disparity between winery business models continues to emerge, making an “average winery” even more difficult to define today. This increases the risk for owners and investors

significantly, as you will see in this report. Understanding the factors that affect your winery is critical now. We recommend seeking out industry experts' views that enhance and support the strategic planning process.

BOTTLE PRICING

Dorothy: Now which way do we go?
Scarecrow: Pardon me; this way is a very nice way.
Scarecrow: [points other way] It's pleasant down that way, too.
Dorothy: That's funny. Wasn't he pointing the other way?
Scarecrow: [points both ways] Of course, some people do go both ways.

Each year, wineries are faced with the same question: how should I price my wines in the market? If I guess high, I might not sell all my wine. But if

I guess low, I will leave hard-earned profit on the table." It is not an easy choice and many times, the decisions are made with pure instinct and few analytics. You may be feeling a little unsure as to what information you should use to make your decisions. As the Wizard says, "You, my friend, are a simply a victim of disorganized thinking." Let us help you become a little more organized.

When the fine wine segment was surveyed in March of 2008 for the SVB Annual Wine Conditions survey, sales growth expectations for the industry were approximately 17 percent. However, when asked about price increases, most reported that they planned to leave their pricing unchanged or only increase the price to keep abreast of inflation. That means many of the respondents expect to see their sales growth estimates realized through volume growth, not price

change. That notion is supported by long term trends that suggest much stronger growth opportunities in the sales of wines at higher price points versus lower. It is contradicted though by a grape supply that is trending to shortage for fine wine. *It is difficult to grow sales by volume if there is no volume in the tank.*

As previously noted, winery owners appear to be optimistic about their fortunes for this year. They are aware demand has been in a strong growth mode for some time and largely expect the year to be a good one. So how can one explain the logical disconnect between an industry largely determined to keep prices flat, against the backdrop of a robust industry with strong growth and expectations for a good year? *Most companies would pass on higher costs if they could, but our survey data suggest that the higher costs of production are not being passed on.*

FIGURE A

We plan to _____ in the next 12 months.

| Case Production | 1-1,000 | 1,001-5,000 | 5,001-10,000 | 10,001-25,000 | 25,001-50,000 | 50,001-100,000 | >100,001 |
|---------------------------------|---------|-------------|--------------|---------------|---------------|----------------|----------|
| decrease prices by more than 8% | 3% | 1% | 0% | 0% | 0% | 0% | 0% |
| decrease prices between 3-8% | 0% | 1% | 0% | 0% | 0% | 0% | 0% |
| decrease prices less than 3% | 1% | 1% | 0% | 0% | 0% | 0% | 0% |
| keep prices mostly unchanged | 68% | 57% | 45% | 34% | 48% | 57% | 38% |
| increase prices less than 3% | 9% | 15% | 23% | 29% | 18% | 30% | 31% |
| increase prices between 3-8% | 16% | 18% | 24% | 33% | 30% | 13% | 24% |
| Increase prices by more than 8% | 3% | 7% | 8% | 4% | 5% | 0% | 7% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

2008 - 2009 STATE OF THE WINE INDUSTRY

The seeming contradiction can be reconciled. Pricing changes in the fine wine segment are largely influenced from four primary sources at present: the over or under supply of grapes and wine, expectations of the economy, competition from imports and the ability to sell wine through traditional channels or direct to market.

SUPPLY OF GRAPES

Cowardly Lion: [Noticing the snow that killed the poppies] Unusual weather we're having, ain't it?

Supply is impacted by planting, demand, cultural practices and weather. Some have noted that the historic freezes experienced in Washington have moderated, and the total degree days in Oregon have increased. Some wonder if higher alcohol wines in Napa and Sonoma are the result of global warming or winemaking changes, or if the record freeze in Napa and Sonoma in April

2008 was a one-time event. No matter, it is a fact that the 2005 harvest was a record year in California and one has to wonder if unusual or widely moderating weather might lead to changes in supply going forward because historically, grape supply has been the largest determinant of wine business conditions. When there is abundance, distributors ask for larger promotions and discounts, competition for shelf space increases, and for the fine wine segment, the consumer places a premium on hard to find wines.

In the early 2000s, we began to point out the disparity of nonbearing acreage in the fine wine segment versus the growth rate in consumer demand. Because of that disparity, in last year's forecast we said, "With nonbearing acreage only a small percentage of planted acreage, we expect the surplus created by the large 2005 crop to fall into the rear view mirror, as vintners start to feel grape shortages across most major varietals

in the premium wine growing regions starting with the 2007 harvest." That statement is largely an accurate depiction of the grape planting and supply in 2007.

CELLAR SUPPLY

In the SVB Wine Conditions Survey in March 2008, we asked wineries throughout California, Oregon and Washington how they viewed their cellar inventory. For reference purposes, 60 percent of the respondents to the survey sell wine with an average shelf price between \$15 and \$40.

By appellation, 42 percent of Oregon wineries feel they are short on wine followed closely by Washington then Sonoma. Napa respondents reported having the largest imbalance: 24 percent reported having too much inventory. That said, from our survey data, broker discussions and client interviews, we believe the highest priced grapes in Napa are running short at present.

FIGURE B

Overall we _____ inventory for our anticipated sales demand in 2008.

| Case Production | 1 - 1,000 | 1,001 - 5,000 | 5,001 - 10,000 | 10,001 - 25,000 | 25,001 - 50,000 | 50,001 - 100,000 | >100,001 |
|-----------------|-----------|---------------|----------------|-----------------|-----------------|------------------|----------|
| Excessive | 7% | 2% | 1% | 1% | 0% | 0% | 0% |
| Too Much | 18% | 21% | 23% | 14% | 3% | 9% | 14% |
| About Right | 47% | 44% | 46% | 54% | 60% | 52% | 55% |
| Too Little | 20% | 26% | 22% | 26% | 30% | 26% | 31% |
| Very Short | 8% | 7% | 8% | 4% | 8% | 13% | 0% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

Overall, 80 percent of industry respondents said they have either adequate or short supplies in the cellar. Less than 18 percent said they have slightly too much. Interestingly, this is approximately a 10 percent shift from the last year's survey when close to 90 percent said they had sufficient amounts and only 6 percent said they had a surplus. This can be explained by expectations of recession and weakening restaurant sales since actual supply has been reduced through average-sized harvests combined with continuing strong demand. When we

interviewed clients, we found some making early decisions to lower their own growth estimates and hedge their bets against lower-than-hoped-for sales growth this year by bulking off some of their 2007 vintage.

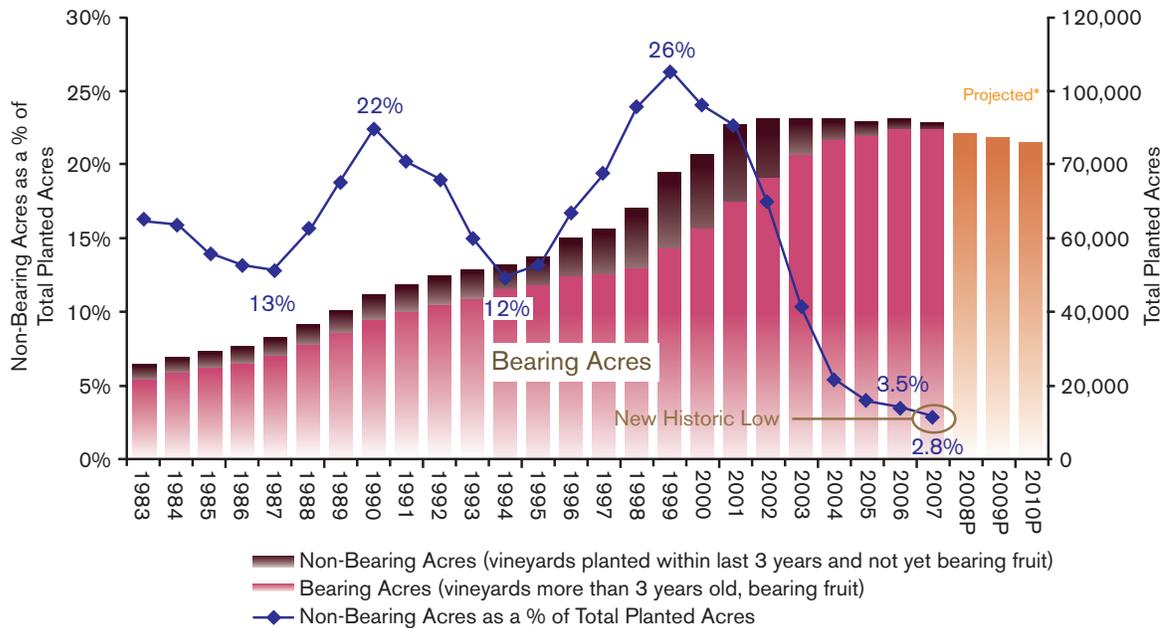
GROWER SUPPLY

To get a better perspective on supply, we need to look past the inventories at the winery level, and into both the anticipated growth in supply from producers and growers versus the demand for varietals.

According to the most recent grape-acreage report, nonbearing acreage in the coastal regions of California reached an all-time low last year of 2.8 percent. Put simply, if all nonbearing acreage were to bear fruit this year, there would be a 2.8 percent growth in volume from the coastal regions, presuming unchanged yields. Given demand for fine wine is running between 15-20 percent currently, it is likely that domestic production for wine will not meet domestic demand for at least the next several years.

FIGURE C

Historical Bearing & Non-Bearing Acres



Includes: Napa Cabernet Sauvignon, Napa Merlot, Napa Cabernet Franc, Sonoma Cabernet Sauvignon, Sonoma Chardonnay, Sonoma Merlot, Sonoma Pinot Noir, Mendocino Pinot Noir, Santa Barbara & San Luis Obispo (District 8) Chardonnay and Santa Barbara & San Luis Obispo (District 8) Pinot Noir.

Source: California Agricultural Statistics Service.

* Projected bearing acres based on 2007 non-bearing acres maturing into bearing acres, less 2% annual replacement of old vines (assumes 50 year average life of vines).

Source: California Agricultural Statistics (Grape Acreage Report), Premier Pacific Vineyards (2008)

2008 - 2009 STATE OF THE WINE INDUSTRY

BROKER VIEW OF SUPPLY

Understanding that a winery is in balance is not sufficient because it is a winery's business to stay in balance. The way it stays in balance is by selling off bulk wine in the secondary market. Understanding what that market looks like and comparing that with current retail consumption can reveal current supply trends in the market.

Figure D uses Trade Pulse scan data through March 7, 2008, and places the growth rate for 2007 with the

trend in supply since 2006. (A note regarding bias — the scan data are skewed to grocery stores, and higher price point wines are subject to larger analytic volatility due to a smaller base.) Further, brokers generally have a view of the lower priced wines even in the fine wine regions and fail to notice many exchanges that occur between wineries without broker assistance. Regardless, varietal growth rates for fine wine remain strong. The growth rate in Chardonnay continues its strong trend, as do Cabernet Sauvignon and Pinot Noir.

OUR VIEW ON OVERALL SUPPLY

Dorothy: *I'm frightened, Auntie Em! I'm frightened!*

[Auntie Em's image appears in the crystal ball]

Auntie Em: *Dorothy? Dorothy? Where are you? It's me, Auntie Em! We're trying to find you! Where are you?*

Dorothy: *I'm here in Oz, Auntie Em! I'm locked in the witch's castle, and I'm trying to get home to you, Auntie Em!*

[Auntie Em's image fades out]

Dorothy: *Oh, Auntie Em, don't go away! I'm frightened! Come back! Come back!*

[the Wicked Witch's image appears in the crystal ball]

Wicked Witch of the West: *Auntie Em! Auntie Em! Come back! I'll give you Auntie Em, my pretty! Heh heh heh heh heh heh!*

FIGURE D

| Varietal | Varietal Growth Rate Above \$20 FYE 2007 | Relative Supply Positions in Fine Wine | | |
|--------------------|---|--|----------------|----------------|
| | | 2006 | 2007 | 2008 |
| Chardonnay | 17.4% | Green | Diagonal lines | Diagonal lines |
| Sauvignon Blanc | -8.9% | Green | Green | Green |
| Cabernet Sauvignon | 17.0% | Green | Diagonal lines | Yellow |
| Merlot | 9.6% | Green | Green | Green |
| Pinot Noir | 14.2% | Red | Red | Red |
| Syrah | 41.6% | Green | Green | Green |
| Zinfandel | 5.5% | Green | Yellow | Diagonal lines |
| Overall Premium | 22.3%* | Green | Diagonal lines | Yellow |

* SVB Analytics

| | |
|----------------|-------------------|
| Red | Short |
| Diagonal lines | Short to balanced |
| Yellow | Balanced |
| Diagonal lines | Long to Balanced |
| Green | Long |

Sources: Trade Pulse, California Agricultural Statistics (2007 Grape Crush Report), Turrentine Wine Brokerage, SVB Analytics

When we examine our crystal ball, and add our expectation of reduced sales growth from a recession and slowed restaurant sales, we do not think there is anything to truly fear. The facts suggest that fine wine is trending to shortage as it relates to supply. We forecasted as much in our 2007 and 2006 reports: “Given strong sales growth in many instances, the large harvest of 2005 will probably mask a shortage that will start to show itself in 2007 and be fully evident in 2008.”

Pinot Noir is currently short. Chardonnay is short for the highest price points and the moderate price points are trending to shortage.

There is a shortage of the best quality Cabernet fruit but there is still adequate supply for the current market. Merlot is still long, but the excess is being whittled down both as a result of varietal consumption and blending. Syrah remains significantly long across the board.

We see a large and growing gap between planted acreage and the increasing demand for fine wine grapes. To meet the demand, wine will come from emerging appellations that have historically seen their grapes go into lower priced wines, and imports from traditional and new world wine-producing countries that do not mind

taking a hit on the exchange rate to establish market share. We believe, at least for the fine wine segment, additional planting is needed to meet domestic demand. Investment in those plantings has to be done in a manner that supports a reasonable market return, or the high costs of real estate will create a high floor under the domestic wine industry. Appellation building will be even more important should such a long term trend emerge, and cooperation between growers and wineries will be vital through associations and quality initiatives to ensure regional brand strength over the long run.

FIGURE E

I expect our biggest hurdle(s) to sustained or improved profitability in 2008 will be _____.

| Case Production | 1 - 1,000 | 1,001 - 5,000 | 5,001 - 10,000 | 10,001 - 25,000 | 25,001 - 50,000 | 50,001 - 100,000 | >100,001 |
|---|-----------|---------------|----------------|-----------------|-----------------|------------------|----------|
| a recession | 31% | 32% | 39% | 34% | 45% | 40% | 47% |
| inadequate distribution | 15% | 22% | 12% | 17% | 9% | 13% | 13% |
| tightening credit availability due to the sub-prime mess | 7% | 5% | 7% | 4% | 6% | 8% | 0% |
| the weak dollar | 2% | 3% | 7% | 8% | 6% | 13% | 7% |
| inadequate staffing | 6% | 5% | 4% | 6% | 5% | 5% | 3% |
| inadequate labor supply | 2% | 3% | 1% | 3% | 2% | 5% | 10% |
| problems with direct sales channels | 18% | 10% | 9% | 9% | 5% | 0% | 3% |
| the evolving regulatory environment and unsettled laws regarding the sale of wine | 15% | 14% | 11% | 8% | 6% | 5% | 10% |
| Other | 6% | 6% | 7% | 11% | 17% | 13% | 7% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

2008 - 2009 STATE OF THE WINE INDUSTRY

EXPECTATIONS ON THE ECONOMY

Dorothy: Your majesty, if you were king, you wouldn't be afraid of anything?

Cowardly Lion: Not nobody. Not nohow.

Tin Woodsman: Not even a rhinoceros?

Cowardly Lion: Imposeroos!

Dorothy: How about a hippopotamus?

Cowardly Lion: Why, I'd thrash him from top to bottomus.

Dorothy: Supposing you met an elephant?

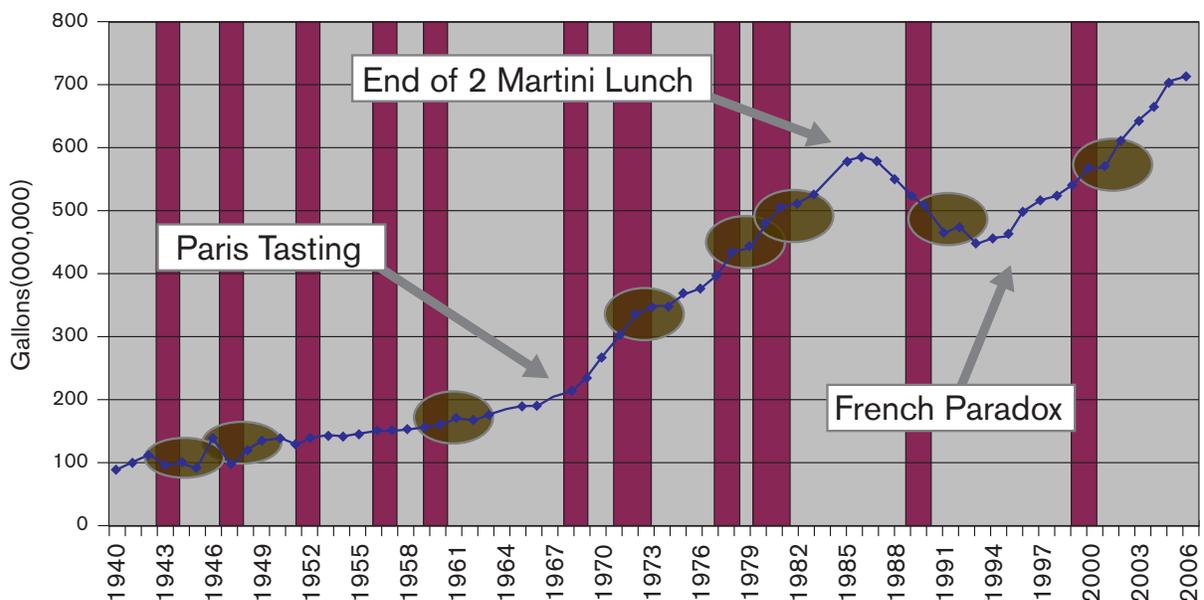
Cowardly Lion: I'd knot him up in cellophant.

Respondents to the SVB Wine Conditions Survey called a recession the greatest current threat to sustained profitability. *There has always been debate about wine, and fine wine in particular: is it counter-recessionary or subject to recessionary impact?* The answer is that it is a little of both. People still drink wine, but sales typically drop off normalized growth rates as restaurant sales slow, and those wines are then forced through alternative channels. The normal shift is to see cases transition from on-premise to off-premise. The volumes removed from restaurant sales are spread between mass merchandisers, chains and specialty retailers. It takes time for cases to be physically repositioned, and even

more time for consumers to grow accustomed to seeing a new product in a location and to see it gain traction. Yet overall, wine is still an affordable luxury even in a bad economy. So while wine is not recession-proof — like electricity and visits to the doctor — people still continue to consume wine even during difficult times, and our experience is that wine continues to demonstrate volume growth.

Clearly, pricing decisions this year will follow the patterns mentioned above and are already being impacted to some degree by the fears of a recession. To better understand what might happen if a recession is prolonged, a look at past recessions is helpful.

FIGURE F



Source: Wine Institute, National Bureau of Economic Research

FIGURE G

| Price Point Growth Rates | |
|--------------------------|-------------|
| Price Points | Growth Rate |
| \$ 0.00-\$2.99 | 0.10% |
| \$ 3.00-\$5.99 | 2.30% |
| \$ 6.00-\$8.99 | 4.80% |
| \$ 9.00-\$11.99 | 13.60% |
| \$12.00-\$14.99 | 15.70% |
| \$15.00-\$19.99 | 6.40% |
| \$20.00+ | 11.90% |

Has been above 20% for some time
 Has been around 15%

Source: Trade Pulse Scan Data. 52 weeks ended Feb. 9, 2008.

Figure F depicts the growth in domestic wine sales by volume, starting in 1940. Recession periods are highlighted by the vertical bars. Most of the recessions correspond with a change in the direction of the slope of consumption. Since the chart is volume-based, the USD-based sales changes are likely more severe in those periods, particularly if the industry started the recession with an over-supply.

Silicon Valley Bank's proprietary data provides a more refined view of recent history in fine wine sales, particularly with respect to the last recession that began in March of 2001. SVB Peer Group Data showed sales growth dropped from the low- to mid-20 percent range in 2001, down to about 5 percent for the fiscal year ending in 2002. Those numbers do not necessarily mean that sales

dropped. In fact, overall sales for wine have continued a long term and consistent growth pattern since the mid-90s. The sales growth rates did drop; however, the sudden change in demand is important to consider in an industry that has to forecast demand nine to 18 months in advance.

Current sales trends reveal consumption behavior suggesting we are already in a recessionary pattern. Figure G is Trade Pulse scan data and shows the purchasing patterns of consumers in the past 52 weeks ending Feb. 9, 2008. We can see in this view that growth, which has been in the 20 percent range above \$15 last year, has slowed for this period, and the consumer sweet spot has narrowed to the \$9 - \$15 price range. SVB Peer Group Analysis has yet to see this decrease in growth rates, but the pattern shows pain will be first felt at the retailer level. It is possible

that re-orders have yet to slow in the wine industry, and our data from FYE 2007, simply do not yet reflect the slowdown.

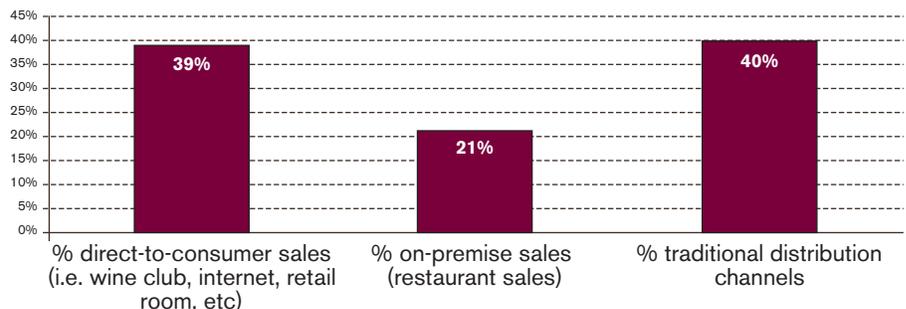
RESTAURANT SALES

Coroner: [singing] I thoroughly examined her... She's not only merely dead... She's really most sincerely dead.

Restaurant sales may not be dead. It is not like a house fell on the economy or anything ... or did it? The housing crisis, along with other economic shocks, has the restaurant trade at least checking its pulse. Since 21 percent of the SVB Annual Conditions Survey (see Figure H) responded that their sales are coming from on-premise accounts, perhaps it is worthwhile to check in on the patient — restaurant sales.

FIGURE H

Please estimate the approximate percentage of revenue (sales) derived from the following sales channels. The total of all three sales channels should equal 100.



Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

2008 - 2009 STATE OF THE WINE INDUSTRY

In a recession, purchase patterns favor “needs” over “wants.” While people still “need” to eat during a recession, they may not “want” to frequent restaurants as often. High-end and independent restaurant sales suffer the most from the changed consumer patterns that are normally combined with reduced corporate business development expenses.

Hudson Riehle, senior vice president of research for the National Restaurant Association, says the weakness in the U.S. economy will extend at least through the first half of 2008. He says, “Fine dining in general mirrors the overall industry, so we expect to see a moderation in growth.”² According to restaurant analysts, starting in the summer of 2007, consumers began to shift their preference from fine dining establishments to quick service restaurants. In addition, the NPD Group, a consumer marketing research firm, found that less than 40 percent

of meals purchased in restaurants are currently eaten on-premise. Take out food orders have a direct impact on high-end operations. If this trend continues, the on-premise sales of wine will shift more into direct or off-premise purchases for home consumption. Countering the negative trends, *Nations Restaurant News* forecasts fine dining in major tourist destinations, such as New York City, will be better off than many locations as a direct consequence of the weak USD which is encouraging travel and entertainment.³

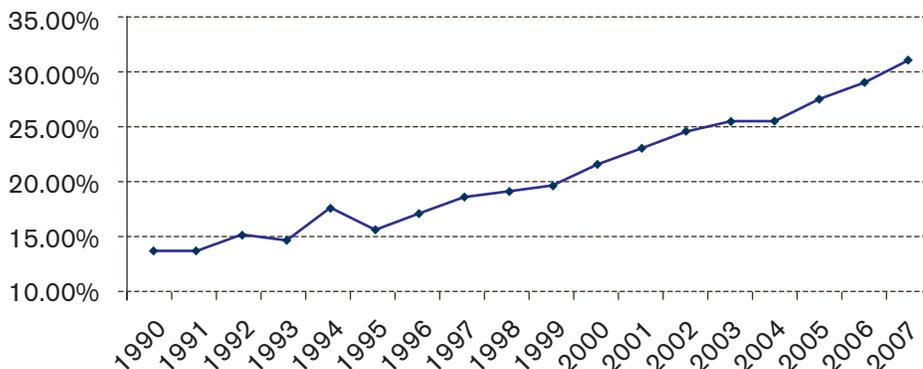
How long will a down turn be felt in fine dining? Analysts support specific regional weakness in Nevada, Florida, Michigan and California — all four were also among the highest mortgage default rates per household in the country.⁴ This is particularly meaningful for West Coast wineries as many sell a large percentage of their on-premise wines in California.

Furthermore, according to information from New Vine Logistics, over 40 percent of consumer direct shipments are made to California consumers.⁵ During past cycles, restaurants have taken 22 weeks on average to recover from valley to peak. The 2002 sell-off took 46 weeks to recover from valley to peak according to a Jeffries and Co, analyst report. This suggests that restaurant sales, particularly in California, may not recover to more favorable levels for more than a year.

As we review the impact of the changing economy, there is one major difference between the last two recessions and the current one. Supply is currently in balance or short in most major varietals. As a consequence, *while we do expect the normal disruption as the venues of wine sales shift, we expect prices to hold better than during the past recessions, and imports will have a more difficult time filling demand gaps because of the weak USD.* The bottom line is that we believe the overall impact of a recession will be moderated at the winery level.

FIGURE I

Import Share of U.S. Market



Source: Gomberg, Fredrickson & Associates

INTERNATIONAL

Dorothy: Do you think there could be wild animals in here?

Tin Woodsman: Perhaps.

Scarecrow: Even ones that, that eat... straw?

Tin Woodsman: Some, but mostly lions and tigers and bears.

Dorothy: Lions?

Scarecrow: And tigers?

Tin Woodsman: And bears.

Dorothy: Oh my!

The international scene is a brave new world and there are scary levels of production and commitment from offshore producers that operate in largely stagnant markets. The 15 year steady growth in U.S. wine consumption has made these producers view the U.S. as the “Enchanted Land of Oz.” However, the U.S. has courageous wine producers of its own that are eager to conquer new markets. The weak USD presents an opportunity for these ambitious entrepreneurs — the “lions and tigers and bears” (India and China and Russia) are untapped markets for growth. While these are exciting prospects, they come with significant challenges. We encourage you to keep Dorothy’s concluding revelation in mind, “There’s no place like home.”

IMPORTS

While it would be natural to presume that the weak USD would lead to a drop in imports for fine wine, the exact opposite appears to be true of last year — a continuing trend that began in 1992. As of this writing, the Euro (EUR) was trading at all-time record highs to USD, which is also weak against most importing countries. Yet, according to consulting firm Gomberg, Fredrickson & Associates (see Figure I), *foreign wine imports have reached an all-time high of 31 percent of total U.S. wine sales while foreign wine companies work into higher price point segments and continue to penetrate this market despite the many obstacles.*

That said, the weakening USD is proving to be troublesome for importers, especially given more cautious buyers. Over the long term, if the USD remains weak and nominal pricing of foreign wine continues to climb, the increased cost of shipping may become so great that it will begin to deter imports. That may slow the onslaught of imports temporarily; however, foreign producers continue to make progress in this market at a time when all the signs indicate they should not. The U.S. wine market remains a top target market for importers. Any abatement in this trend will likely occur when the economic conditions in the U.S. improve. In the meantime, *we would not be surprised to see imports slow which could provide more elbow room in the U.S. market for domestic producers.* It is an opportunity that should not be taken lightly.

EXPORTS

According to the Wine Institute, U.S. wine exports totaled \$951 million and 453 million liters (120 million gallons) in 2007, an increase of 8.6 percent in value and 12 percent in volume, compared to 2006. In Europe, where the U.S. ships more than half of its sales, exports totaled \$474 million. Wine exports to Canada were \$234 million, up 23 percent compared to the previous year. The long-term trend of California wine exports shows steady expansion, with the 2007 number representing a 77 percent increase in exports by monetary value in the last decade.

Distributor consolidation prevents many wineries from getting proper representation, but the weak USD makes domestically produced goods a better value off-shore, creating an opportunity for U.S. producers. According to the 2008 SVB survey irrespective of appellation, more than 40 percent of survey respondents said they wanted to start to export their wines out of the U.S. Needless to say, exports in the fine wine business has become a hot topic in this industry segment. According to our historical data, this segment has exported less than 5 percent of its fine wine production. We are not implying that 40 percent of fine wine will be exported in the near term, but this figure may illustrate future distribution changes. Wineries are beginning to evaluate and plan for the opportunity presented. That planning will have to include foreign consumers’ acceptance of U.S. made premium wine, distributor and importer relationships, country tariffs and the travel cost of building and supporting a brand in a market that may have already been penetrated by Australian and European imports.

BOTTLE PRICE MAPPING

At any given time, the market supports certain price segments over others. The favored segments are difficult to identify with precision, but this year we believe we see a pattern emerging that is nominally descriptive. *What appears to be taking place is solid growth in the far ends of the spectrum: value-priced premium wines and very expensive premium wines.*

FIGURE J

Overall we _____ inventory for our anticipated sales demand in 2008.

| Bottle Price | <\$10.00 | \$10 - 14.99 | \$15 - 24.99 | \$25 - \$39.99 | \$40 - \$64.99 | \$65 - \$99.99 | >\$100 |
|-------------------------------------|----------|--------------|--------------|----------------|----------------|----------------|--------|
| have way too much inventory | 0% | 0% | 4% | 1% | 2% | 3% | 0% |
| have a little too much inventory | 0% | 14% | 17% | 20% | 11% | 27% | 0% |
| have just about the right amount of | 0% | 61% | 49% | 49% | 52% | 33% | 27% |
| are a little short on | 0% | 25% | 30% | 24% | 18% | 21% | 45% |
| are going to be very short on | 0% | 0% | 1% | 5% | 16% | 15% | 27% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

The results from both the our survey (see Figure J) and Trade Pulse scan data point to strong demand and growth in the \$10 - \$25 price range as well as wines selling for more than \$100 a bottle. A slowdown in restaurant sales and a more cost conscious consumer would seem to explain the lower trend. Strong brands, relatively few domestic choices, affluent buyer behavior and direct sales of allocated wines are likely explanations for the strength in wines priced above \$100. *The \$65 - \$100 segment appears to be particularly troublesome and is not delivering intuitive results.*

This segment, characterized by a higher percentage of on-premise sales and a relatively higher number of SKUs is an area where you find strong, well-known brands alongside brands that are trying to get traction and leading with limited production wines. Without the pull from restaurant sales or strong ratings for those players, this will probably remain an undefined and risky price segment graced with both

star performers (from companies with well thought-out and executed sales strategies) and disasters. In the 90s, the dominant competitive issue was making wine. If you made good wine and were able to attract good ratings, you would sell your wine. Since the early 2000s, the dominant competitive issue has changed. Today, you can make great wine or average wine and still be successful or unsuccessful. *The dominant competitive issue is a winery's ability to market and sell its wine effectively.*

INDUSTRY PROFITABILITY

Professor Marvel: *Better get under cover, Sylvester. There's a storm blowin' up, a whopper. Just speakin' the vernacular of the peasantry.*

In 2007, the wine glut storm was just leaving the Central Valley while in the fine wine segment, there is a "storm blowin' up" that will be bracketed by falling restaurant sales, distributor consolidation, increased

prices for components like grapes and French Oak, and changing consumer preferences. Sounds gloomy does it not? Perhaps, but we are confident it will not feel as bad as the 2001 recession.

HIGH VOLUME PRODUCTION

Wine is one of the few consumer products that has a demand curve that is considered a commodity at one end of the curve and also considered a

FIGURE K

| Price Points | Growth Rate |
|-----------------|-------------|
| \$ 0.00-\$2.99 | 0.10% |
| \$ 3.00-\$5.99 | 2.30% |
| \$ 6.00-\$8.99 | 4.80% |
| \$ 9.00-\$11.99 | 13.60% |
| \$12.00-\$14.99 | 15.70% |
| \$15.00-\$19.99 | 6.40% |
| \$20.00+ | 11.90% |

Source: Trade Pulse Scan Data (February 2008)

luxury good at the other. Growers in the high-volume end of the grape growing industry, primarily located in California's Central Valley, have suffered through several years of poor returns as large scale wine companies extended their traditional sourcing to include foreign bulk wine, replacing grapes historically purchased from domestic growers. Combined with declining demand in the lowest priced wines and a large crop in 2005, the market was over-supplied with grapes that did not always find a purchaser. Since the start of the last recession, over 100,000 acres were permanently removed from production.

This year circumstances have changed for the better since increasing overall demand has lowered inventories in the tanks, and the outsized drop in the value of the USD has increased the cost of internationally sourced wine. Along with several programs that focus on increasing quality and differentiation from grapes destined for higher volume wines, there is some hope among many Central Valley growers that grower profitability may be sustainable at least for the short term. Several knowledgeable industry sources have cautiously suggested that planting the right varietals in the

right locations (as long as you have a contract) may be warranted.

FINE WINE PRODUCTION

The fine wine segment has experienced entirely different conditions. For the past four years it has shown a strong rate of growth and profitability, and 2007 was no exception as gross margins and pretax profits reached a cyclical high-point from the last recession. That said, there are exceptions in a market that is increasingly more difficult to navigate successfully. There is a wider range of results with some wineries doing exceptionally well and others not doing well at all. As we noted earlier, the "average winery" is difficult to define and hard to find these days.

Given Silicon Valley Bank's market share of premium wine clients, we are able to construct reasonable industry profitability metrics using our proprietary Peer Group Analysis metrics (see Figure L). This database includes West Coast wineries with an average bottle price of about \$33 retail and case production ranging from 5,000 to 250,000 cases.

The fine wine segment in 2007 continued to show sales growth at a rate of approximately 20 percent, with accrual pretax profitability and gross margins reaching cyclical high points of 17.3 percent and 57.3 percent respectively. The improvement in margins is due to lower overall grape costs from the large 2005 harvest and those wines now reaching the

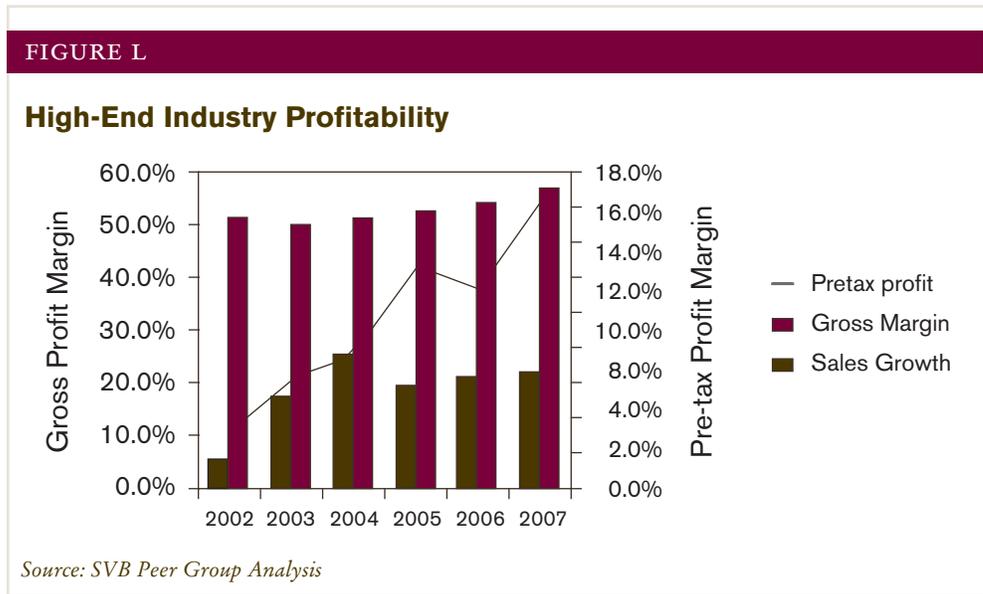


FIGURE M

| | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 |
|---------------|-------|-------|-------|-------|-------|-------|
| Sales Growth | 5.2% | 17.6% | 25.5% | 19.4% | 21.2% | 22.3% |
| Gross Margin | 51.5% | 50.2% | 51.5% | 52.8% | 54.5% | 57.1% |
| Pretax Profit | 3.2% | 6.3% | 7.6% | 12.6% | 11.3% | 16.3% |

Source: SVB Peer Group Analysis

FIGURE N

In terms of overall business success, 2007 was _____.

| Case Production | 1 - 1,000 | 1,001 - 5,000 | 5,001 - 10,000 | 10,001 - 25,000 | 25,001 - 50,000 | 50,001 - 100,000 | >100,001 |
|----------------------------|-----------|---------------|----------------|-----------------|-----------------|------------------|----------|
| our best year ever | 31% | 41% | 38% | 33% | 48% | 43% | 21% |
| a very strong year | 18% | 27% | 38% | 35% | 30% | 30% | 53% |
| an average year overall | 39% | 18% | 19% | 20% | 8% | 26% | 5% |
| a slight disappointment | 8% | 14% | 5% | 12% | 15% | 0% | 21% |
| very disappointing overall | 3% | 1% | 0% | 0% | 0% | 0% | 0% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

market, combined with slightly higher average selling costs. Overall, pretax profitability was enhanced late in the year with declining short term interest rates that are vital to this asset intensive industry.

According to our survey results, the increasing costs for barrels, fuel, stainless steel and grapes will likely reduce 2008 profitability. Furthermore, most wineries say they cannot increase price, creating a cost

squeeze on margins. As noted in Figure N, more than half of the respondents to SVB's January 2008 survey report that 2007 was their best year ever. This is consistent with the SVB Peer Group Analysis results.

Figure O reveals that expectations for lower priced or lower volume producers are not as robust as the higher volume and higher average price point producers. In our experience, the most difficult business models are

producers that make less than 10,000 cases and produce wines with average price points below \$30, unless they have advantages of cost that can be discovered in appellations that have lower priced land. Based on higher component costs (i.e. barrels, steel and increasing grape prices) and the decreasing fine wine sales velocity, we predict 2008 will be a good year, but not quite as good as the past several years.

FIGURE O

At this point, I believe 2008 will likely be _____.

| Case Production | 1 - 1,000 | 1,001 - 5,000 | 5,001 - 10,000 | 10,001 - 25,000 | 25,001 - 50,000 | 50,001 - 100,000 | >100,001 |
|---|-----------|---------------|----------------|-----------------|-----------------|------------------|----------|
| perhaps our best year ever | 36% | 33% | 38% | 35% | 38% | 22% | 21% |
| a very strong year | 34% | 38% | 38% | 41% | 33% | 35% | 41% |
| about an average year in terms of overall success | 26% | 24% | 22% | 22% | 28% | 35% | 21% |
| a slight disappointment | 4% | 4% | 3% | 3% | 3% | 9% | 17% |
| very disappointing overall | 0% | 1% | 0% | 0% | 0% | 0% | 0% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

**DISTRIBUTOR
CONSOLIDATION**

Auntie Em: *[Sternly] Elmira Gulch. Just because you own half the town doesn't mean that you have the power to run the rest of us. For twenty-three years I've been dying to tell you what I thought of you! And now... well, being a Christian woman, I can't say it!*

Auntie Em cannot say it, but we can: Large scale distribution companies continue to act as if they own half of town, and want to run the rest of it. On one hand, they are less and less interested in the smaller-sized vintners, and on the other hand, they support lobbying groups that limit free trade under the guise that they are protecting minors against the evils of the products they distribute. (Did you ever notice that Elmira Gulch played two roles in the movie? Interesting parallel, no?)

There are varying statistics regarding the number of brands in the U.S. and the number of distributors selling those brands. In part this is because the number of brands increases almost daily and distributors are continuously consolidating. This is a trend that continues and is unlikely to abate soon. The most recent available data suggest there are 4,929 U.S. wineries producing, conservatively, about 7,000 brands. Those brands have to squeeze through an estimated 600 distributors — half the number of 10 years ago — or find alternative distribution channels to reach the roughly 76 million wine consumers in

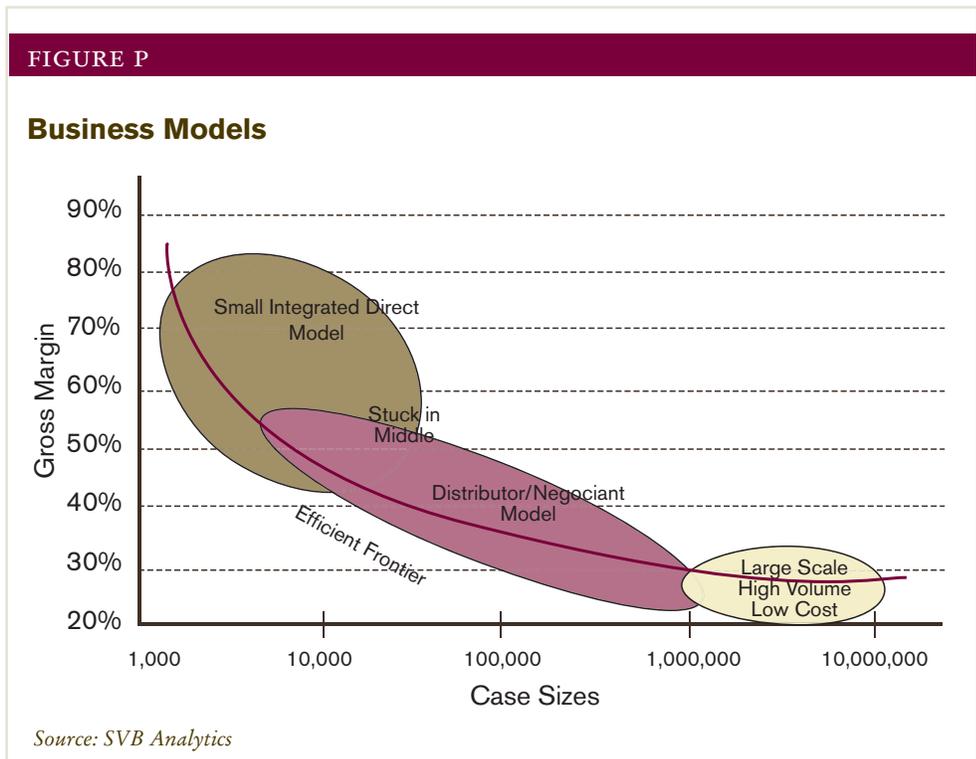
the U.S. According to estimates from Gomberg, Fredrickson & Associates, the top 10 wine companies account for 82 percent of total domestic shipments. Therefore, the other 4,919 wine companies have to compete for the remaining 18 percent of available space in wholesale channels.

While there are numerous start-up distributors trying to pick up the pieces and the brands left in the cold after a merger, those distributors are often undercapitalized and have to fight for accounts against the larger distributors that have more influence with the end retailer.

The practical impact of this channel constriction takes two forms, as seen in Figure P. Distributors seek producers with higher volume production that

is more efficient to sell, or they seek wineries with high scores or established brands that pull product through their accounts at a higher margin to the wholesaler without the distributor dedicating time to the sale. It is a daunting task for a small producer and most find they have zero pricing power with distributors given the multitude of competitors willing to replace them.

This is causing rapid structural changes in the industry. When SVB began its dedicated wine practice in 1994, it was common to see successful models in nearly all volume segments and price points. Micro-brands seemed to thrive right along with estate operations and 50,000 case wineries. There have always been some more successful than others, but the opportunity was there to



2008 - 2009 STATE OF THE WINE INDUSTRY

manage a small winery in a marginally profitable manner. Today, the landscape is evolving due to consolidation of distribution, high growth rates in fine wine, changing buying patterns of younger consumers, the Internet, and the evolution of the private equity industry supporting M&A activity in the wine business.

Figure Q represents the pricing power the industry believes it has now. A winery that is between 10,000-100,000 cases has a choice to make. It can try to continue to fight the tide of distributor consolidation (a workable solution for many established brands), it can be acquired and rolled up into a larger brand, or it can shrink lower priced labels that are more fitting for a higher volume producer and sell more direct at higher margins. This situation is creating winners and losers.

Not surprisingly, SVB's survey found that smaller wineries (with less than 10,000 cases) are less optimistic about their ability to raise prices. Many under 10,000 cases are entirely

shut out of distributor markets and are evolving their direct approach as quickly as possible. Interestingly, wineries between 10,000 and 25,000 cases are the most optimistic about their ability to raise prices today. A closer look at the data reveals that many of those wineries sell at higher price points and have established brands. More than likely, this segment comprises more allocated direct-to-consumer models. Unfortunately, fine wine producers are faced with a mountain of compliance issues to ship direct, and a cold shoulder from the national distribution system.

CONSUMER DIRECT SALES

NATIONAL BACKGROUND

Mayor of Munchkin City: Then this is a day of independence for all the Munchkins and their descendants.

Mayor of Munchkin City: Let the joyous news be spread. The wicked witch at last is dead!

The repeal of Prohibition put a stake in the heart of the Wicked Witch of the Temperance Movement, and the 2005 Granholm decision was to be a day of independence for all wineries throughout the land to be unleashed from the bondage of Neo-Prohibitionists. There was singing and dancing in the streets as consumers could finally have their favorite Pinot Noir delivered directly to their door — but wait, not so fast. As the Wicked Witch herself said, “These things must be done delicately,” and painfully slowly, we might add.

The Three-Tier System was established by numerous states after the 18th Amendment to the U.S. Constitution was repealed by the 21st Amendment in 1933. For decades the wine industry grudgingly went along with the new model, but only in the last 20 years have there been increasingly successful efforts to overturn provisions in the state systems that prohibited direct shipment of wine. The most recent major ruling was the 2005 Granholm decision that began a cascade of state

FIGURE Q

We plan to _____ in the next 12 months.

| Case Production | 1-1,000 | 1,001-5,000 | 5,001-10,000 | 10,001-25,000 | 25,001-50,000 | 50,001-100,000 | >100,001 |
|---------------------------------|---------|-------------|--------------|---------------|---------------|----------------|----------|
| keep prices mostly unchanged | 68% | 57% | 45% | 34% | 48% | 57% | 38% |
| increase prices less than 3% | 9% | 15% | 23% | 29% | 18% | 30% | 31% |
| increase prices between 3-8% | 16% | 18% | 24% | 33% | 30% | 13% | 24% |
| Increase prices by more than 8% | 3% | 7% | 8% | 4% | 5% | 0% | 7% |

Source: Silicon Valley Bank's Annual Wine Conditions Survey (March 2008)

actions that created new market access for wineries, but also created heavy compliance and regulatory obstacles. Combined with the advent of the Internet, the game for the small winery today is direct-to-consumer, direct-to-trade, wine club and tasting room sales.

Stonebridge Research estimates that the direct-to-consumer portion of the U.S. wine market represents only about 3 percent of the market (see Figure R). For the fine wine market, that number is obviously much higher. Our survey revealed that nearly 40 percent of sales are currently from direct-to-consumer efforts.

On the surface, it appears that the direct sales route is the solution, yet significant issues exist. Many winery owners find themselves inexperienced and overwhelmed by Internet-based consumer marketing and sales tactics. It is a huge challenge for wineries to keep up with the continuously evolving e-commerce trends as service providers

develop new and exciting programs and procedures almost weekly. Owners have to adapt to the changing market while they adopt emerging tools and evolve their direct strategies. On top of all that, they also need to worry about regulatory compliance.

Though more than 37 states allow direct shipping today, laws change daily. According to New Vine Logistics, if a winery shipped a case to each of the 37 states that are presently open to all winery forms (as of March 2008), just remaining in compliance with the existing sales, excise and state taxes would require the preparation and submission of 725 separate forms.

In addition, while there seems to be an endless and growing supply of consumers willing to buy fine wine online, the Internet makes direct marketing more of a challenge by making price and quality comparisons for consumers easier than ever. This means increased market traction for foreign producers resulting in

more competition for the high-end domestic producer. According to the Wine Market Council's 2007 report on consumer trends, 45 percent of Generation Y consumption is from imported wine as these consumers are more likely than older generations to try new things. The downside of Generation Y's open-mindedness is that they are less likely to be brand loyal.

OPERATIONAL REALITY

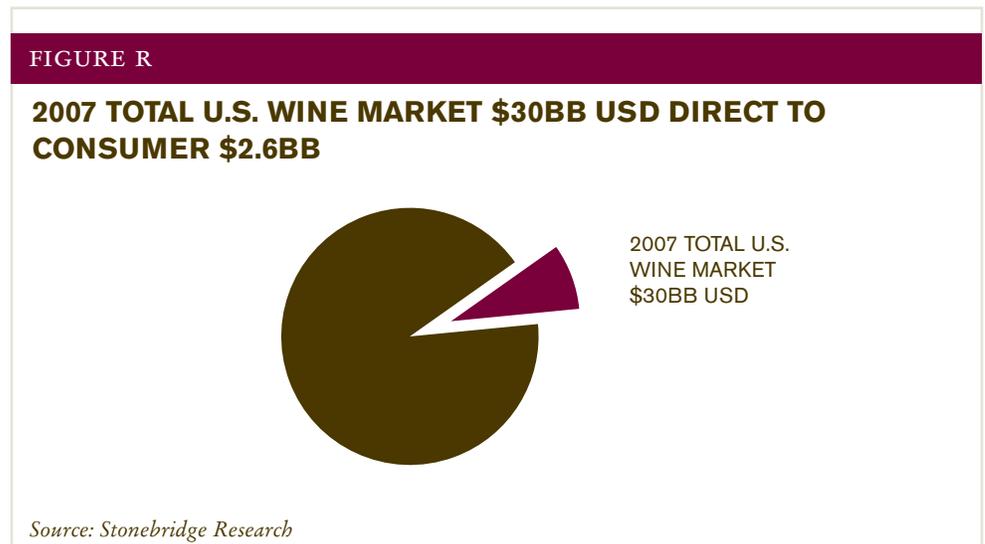
Dorothy: [as the Wizard's balloon goes off without her] Come back! Come back! Don't leave without me! Come back!

Wizard of Oz: I can't come back! I don't know how it works! Good-bye folks!

Like the Wizard, the terrain of cyber-opportunity is moving under the feet of wineries. Events and circumstance have moved so quickly that winery owners are barely holding onto the tether as the balloon is leaving Oz.

According to Inertia Beverage, there are currently six major barriers to executing a consumer direct sales model successfully:

- A lack of trained experts
- A lack of a consumer direct plan
- A lack of time and resources
- A limited database of consumers
- Compliance with state and federal regulations
- Disparate and nonexistent customer relationship management (CRM) databases



2008 - 2009 STATE OF THE WINE INDUSTRY

While we find many wineries attempting to invest in personnel and tools to capitalize on new sales opportunities, *we frequently find that small fine wine producers are simply stuck in the past. They are enslaved in habits of being in too many markets with too many distributors, or managing their club sales without any knowledge of their customers' preferences.*

Building a Web site is not e-commerce as many believe. For years we have been asking clients and prospects about their Web sites and online sales, we often receive answers such as, "I have a friend who updates my site for free," or, "We don't have a shopping cart but people can fax us." Just having a Web site does not result in sales. Internet sales require the same marketing effort as traditional wholesale marketing, if not more. Getting buyers to your Web site, understanding their preferences, managing their information and creating a positive experience are vital to a Web-based wine marketing and sales plan. According to Inertia Beverage, based on its experience, a simple plan can increase consumer direct business 30 - 1000 percent.

FOREIGN EXCHANGE

The exchange rate has several potential effects on the wine business. In the 1980s, a strong USD made French and Italian wine imports relatively inexpensive and made conditions in the fine wine segment difficult. Today,

the weak USD makes import costs more expensive. French Oak is used extensively in the fine wine segment, and over the course of 2007, that price increased as the EUR crossed the \$1.50 mark, causing French Oak to climb to \$1,200 per barrel. That is bad for wineries that were not hedged in their EUR obligations. European fine wine imports have also had a difficult time with the weak USD, leaving a little more breathing room for domestic producers.

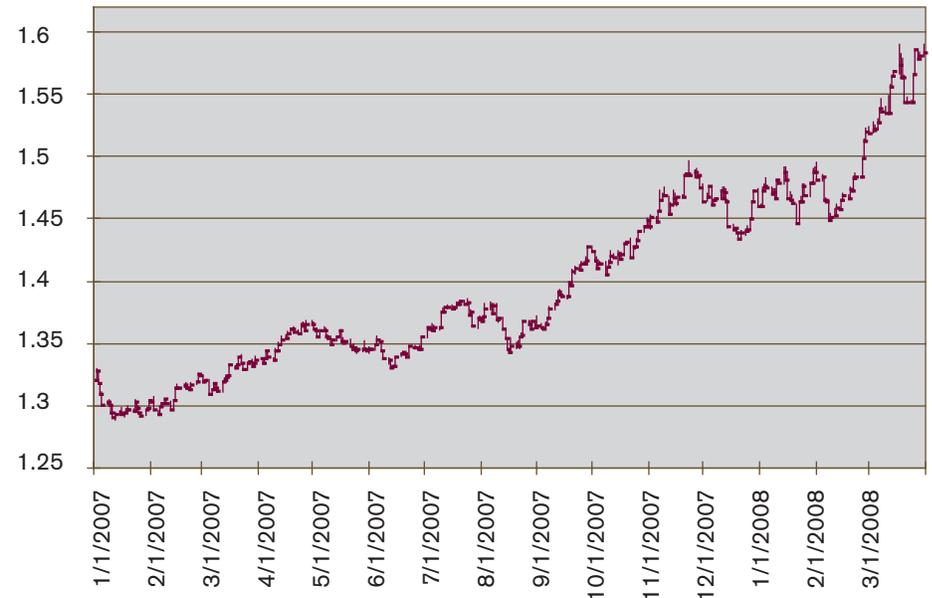
What is in store for the future? The USD has declined by about 35 percent against the EUR since November 2005 (see Figure S). Despite many

forecasts predicting a USD rally, it has yet to happen and we believe the USD may have further to fall in the near-term, though it could rebound later this year.

The U.S. economy continues to struggle, fueled by a continuing, rapid decline in the housing market, a widening credit crunch, sagging consumer sentiment and a softening job market. The credit crisis has impacted a much wider section of the economy than initially projected. Many thought it was an isolated sub-prime mortgage issue. With the collapse of Bear Stearns, and other

FIGURE S

EURO SPOT



Source: Yahoo!

financial institutions reporting huge losses and eroding capital bases, it could be some time before credit availability rebounds.

The housing market continues to weaken, but there are signs it might be approaching the bottom. The critical issues for the next few months are the labor market and consumer spending. While the real economy is doing relatively well and the U.S. export sector has been bolstered by a weak USD, the labor market faces headwinds from the housing, retail and financial sectors. Consumer spending has slowed significantly and consumption accounts for more than two-thirds of the U.S. economy. Future economic growth is closely tied to the consumer. Oil prices continue to remain extremely high and will add to the burden on the consumer, while rising commodity prices are fueling inflation and making the Fed's job even more difficult. Despite concerns about inflation, we believe the Fed will continue to cut rates in response to slowing growth and tight credit. We expect the Fed Funds to be cut by another 50 basis points or more from the current level of 2.25 percent before the Fed ends its monetary easing.

European growth is slowing too, but not nearly as rapidly as in the U.S. The European Central Bank is concerned about inflation and is likely to be cautious about aggressive monetary easing. We expect rates to stay at the current level of 4 percent for now, with cuts possible later this year, but at a much slower pace. As a result,

interest differentials should continue to work in favor of the EUR for some time.

In the near term, widening interest differentials, slower U.S. growth and slowing capital inflows to the U.S. will continue to pressure the USD. However, as the U.S. economy and interest rates bottom while Europe begins to slow, the USD should rally on better relative economic prospects and in response to its current undervaluation.

We see USD trading in the 1.53 to 1.60 range in the near-term and believe there is a chance that the upper end of the range could be tested or broken. A USD rally will likely not happen until the second half of the year, and for now, there are no signs of that happening. We look for the USD to end 2008 at around 1.50 per EUR, with a further drop to 1.40 or possibly lower by the end of 2009.

For clients that have near-term EUR payables (barrels and equipment), we recommend locking in rates on any dip in the EUR toward 1.54, with the goal to be as fully hedged as possible for the next three to six months — forward rates are lower than spot rates and that is a benefit. For longer-term payables it is possible to wait somewhat longer, though not hedging is a more risky strategy. All forecasts are uncertain by definition, but we believe the balance of risks favor the EUR weakening slightly from current levels by year-end, though it could rise in the near-term.

SUMMARY

Dorothy: *Oh, but anyway, Toto, we're home. Home! And this is my room, and you're all here. And I'm not gonna leave here ever, ever again..... oh, Auntie Em — there's no place like home!*

Certainly the wine companies of the world know there is no place like home, and they are ready to move into yours. We have truly become an industry that can no longer only look to our own backyard. Offshore producers and component suppliers present both a threat and an opportunity, but that is not the end of the turbulence pounding at the doorstep.

The fine wine industry will need to deal with a recession concurrent with a cost squeeze, as increased prices for raw materials will not be passed on to consumers at most price points easily. Getting to market will continue to be a large problem as there are fewer willing distributors on the one hand, and costly and evolving direct sales models and regulatory obstacles on the other. The good news near term is that the wine supply, for the most part, is in-balance and will moderate the volume bulge that generally characterizes the start of a slower economic period.

Long-term, there are additional challenges to face. Joint research conducted by Silicon Valley Bank and Scion Advisors in a report released in January this year suggests that 51

percent of family-owned businesses in the industry will change ownership within the next 10 years. This is going to result in a “brain drain” at the very time that experience may be needed the most.

RECOMMENDATIONS

How can you protect your label from getting ripped off its foundation? With a cost squeeze comes a greater need to manage costs. For many, that means investing in better accounting systems, upgrading personnel, and mining better information from reliable business partners to assist you in making good short- and long-term decisions. In some cases, it may be time to consider a formal board, advisory board or a board of advisors to ask you the hard questions or support management’s area of weakness. In addition, having some form of governance can also provide a platform for family stakeholders to openly voice their own perspectives.

We see a lack of understanding in the area of cost accounting and the application of costs in pricing decisions and profitability modeling. For the vast majority of producers, a deeper level of commitment to understanding the real and burdened costs of production to ensure the wines being produced are generating an appropriate margin. While there is not much that can be done about increasing component costs, there are measures you can take to better protect your margins. For example, those who use French oak should be using foreign exchange hedging

strategies as a standard operating procedure. In addition, producers who buy grapes need to ensure their best margined and most important grape sources are locked in under long-term contracts to avoid price and availability problems.

Finally, for many, Professor Marvel is an applicable analogy with regard to sales strategies. He could change hats and take advantage of any sales opportunity that blew across his covered wagon. With shrinking distribution, increasing direct opportunities and export markets opening, there are certainly as many opportunities as there are threats for a calculating and informed risk-taker. We recommend diligent strategic planning to weigh the risks and plot your own yellow brick road to an optimum solution.

APPENDIX

Silicon Valley Bank’s Proprietary Peer Group Metrics. Silicon Valley Bank’s Peer Group Analysis program is a benchmarking tool the company developed to track and compare a variety of financial measures among premium wineries. Due to the company’s niche focus and significant market share of premium wineries, it is able to develop meaningful benchmarking information and it makes the data available to its clients. The data, based on financial information from over 100 premium wineries over several years, also allows Silicon Valley Bank to monitor industry trends.

Wizard of Oz: Pay no attention to that man behind the curtain.

Statement of the Obvious. We would be remiss if we did not mention that the above comments amount to our educated guesses and are for informational purposes only. Our recommendations too, are just our opinions. No forecast is 100 percent correct, and no data are perfect. Furthermore, our predictions are based on generalizations about the average winery. (Of course, we know there is no such thing as an average winery.) Each winery has a different financial situation, a different model and different competitive pressures; each needs to evaluate its strategy with that in mind. Nevertheless, we hope this dialogue helps you plan and evaluate in the coming year.

¹ Wine Market Council's 2007 Consumer Tracking Study

² National Restaurant News, "Upscale operators face not-so-fine predictions," (January 2008)

³ National Restaurant News, "The NRN 50: Dressed down," (January 2008)

⁴ Jefferies & Company, Inc., "State of the Growth Restaurant Union: Seeking Fundamental Inflection Point," (March 2008)

⁵ New Vine Logistics, "Market Trends in the Consumer-Direct Distribution Channel," (February 2008)

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