

8-1-2003

Wine World Estates

Armand Gilinsky, Jr.
Sonoma State University

Raymond H. Lopez
Pace University

Follow this and additional works at: http://digitalcommons.pace.edu/business_cases

Recommended Citation

Gilinsky, Jr., Armand and Lopez, Raymond H., "Wine World Estates" (2003). *Case Studies*. Paper 4.
http://digitalcommons.pace.edu/business_cases/4

This Article is brought to you for free and open access by the Lubin School of Business at DigitalCommons@Pace. It has been accepted for inclusion in Case Studies by an authorized administrator of DigitalCommons@Pace. For more information, please contact rracelis@pace.edu.

WINE WORLD ESTATES



by

Armand Gilinsky, Jr., Ph.D.

and

Raymond H. Lopez, Ph.D.

Armand Gilinsky, Jr., Ph.D. is Professor of Business Administration at Sonoma State University.

Raymond H. Lopez is Professor of Finance at the Lubin School of Business, Pace University.

INTRODUCTION

“I have heard reports that the wine business could be up for sale in the ‘not-too-distant’ future. What might happen to our employees and management team under a new owner? Maybe we could put together a buyout group before a sale is finalized, but where does one come up with more than \$300 million in a relatively short period of time?”

Walter T. Klenz, President
Wine World Estates
Division of Nestle S.A.

Walt Klenz, president of the wine operations of Nestle, shared these thoughts with his division’s top managers in the summer of 1995. He had been producing excellent operating results for the parent company and found it hard to believe they might sell this growing and profitable business. Over the last three fiscal years, sales grew by over 14 percent annually and net income more than doubled. The division had established itself as one of the largest sellers of premium wine products in the United States. Plans had been formulated to continue to expand in this market segment through internal development of brands as well as the purchase of premium brand wineries in the California region.

WINE WORLD ESTATES

This wine producing business of Nestle had its origins going back more than 100 years. It was in 1875 that two German emigrants, Jacob and Frederick Beringer, purchased property in St. Helena, California, with a plan to produce wine. For \$14,500 they were able to plant vineyards and begin the building of a stone winery building. Jacob was in charge of this project and employed Chinese laborers in constructing the winery building connected to aging caves burrowed into the Napa hillside, thereby establishing the Beringer Brothers Winery.

Frederick was involved with marketing their products and in 1880 opened a store and wine cellar in New York to support the business. The brothers commenced an education and marketing program to introduce and expand sales of Napa Valley wine products to East Coast markets. Even in those early years of the industry in the United States, their specialty was premium table wines.

In 1883 the brothers built a Victorian mansion, the Rhine House, which became a well-known site in St. Helena. By 1889 the winery gained worldwide recognition for its wines by winning a Silver Medal at the Paris Exposition.

The years of prohibition in the United States presented a challenge for all producers of alcoholic beverages. This era lasted for thirteen years – yet the Beringer operation



survived. It continued to produce sacramental wine until broader markets opened once again.

In 1934, as part of a new marketing initiative, Beringer Brothers Winery became the first Napa Valley winery to open its doors to the public. Tours were arranged for visitors, as well as tastings of the firm's products.

In 1967 Beringer Vineyards was named a Historical Landmark by the State of California. A few years later, in 1971, Nestle, a global food and beverage company, purchased the firm from the Beringer family and commenced an expansion and investment program. Their activities included the acquisition and development of additional wineries and brands. They also purchased, leased, and developed extensive acreage positions in prime growing regions of Napa, Sonoma, Lake, Santa Barbara and San Luis Obispo counties in California. Ownership of these vineyards enabled the firm to control its sources of high quality premium wine grapes at attractive cost levels. Winemaking, another critical component of a successful firm, was overseen by veteran winemaker, Myron Nightingale.

Five years later, in 1976, Ed Sbragia began his career at Beringer as Nightingale's assistant. He was responsible for the launch of two very successful programs that resulted in the development of Private Reserve Cabernet Sauvignon and Chardonnay. Upon Nightingale's retirement in 1984, Sbragia was named winemaker.

In 1984 Michael Moone took over control of Wine World operations and spearheaded an acceleration of the firm's transformation. Moone pursued expansion via both acquisitions and start-ups of new brands. Chateau Souverain, which had been relocated to the Alexander Valley of Sonoma County in 1973, was acquired in 1986. The historic Italian Swiss Colony property in Asti, California, acquired earlier, was now used to produce a new brand, Napa Ridge, launched in 1986 under the direction of winemaker David Schlottman. The Estrella River Winery in Paso Robles on California's central coast was revamped as Meridian Vineyards in 1988. Wine World also acquired substantial vineyard acreage in Santa Barbara County. The Meridian product offerings were launched as a super premium brand in the early 1990s. A variety of smaller vineyard and brand acquisitions brought Wine World acreage up to the 9,000 level with 6,000 of those located in prime coastal regions.

Results of these initiatives began to bear fruit in the late 1980s. New private reserve wines were winning accolades throughout the industry and overall wine quality was

rising rapidly. Wine World had redefined itself into a top quality producer, slowly but steadily shedding its prior image (in the years before the Nestle purchase) for making “ordinary wines.”

Walter Klenz took over the position of chief executive officer of Wine World in 1990. He had joined the firm in 1976, first working in marketing and then in financial operations. For the next five years he expanded the product line, enhanced operating efficiency, and guided the business to new heights of competitiveness and success in the premium segment of the industry.

In early 1995, Wine World expanded its brand portfolio by proudly announcing that it had been appointed the importer for Castello di Gabbino, one of the leading brands of Chianti sold in the United States. “This new alliance is an exciting addition to our current portfolio of imported wines” stated Walter Klenz. Wine World already imported Travaglini Gattiano, the leading Gattiano wine in the United States, and Cune Rioja wines from one of Spain’s most respected wineries. “This is an outstanding property. It is the perfect blend of old and new – great vineyards producing wines in the traditional Chianti style, and a modern, state of the art winery equipped to make Gabbino a leader in Tuscany both today and tomorrow.”¹

The outstanding operating performance of Wine World Estates can be seen clearly in its financial statements (Exhibits 1 and 2). Revenues grew consistently in the early 1990s. The balance sheet showed a relatively conservative and prudent use of debt and equity that financed growing investments in plant and equipment as well as inventories of premium wines.

THE BEVERAGE INDUSTRY IN THE UNITED STATES

Beverage consumption had grown steadily in the United States in 1990s. Total consumption per capita expanded from 154.3 gallons in 1991 to 160.5 gallons in 1995 (Exhibit 3). By far the largest beverage category was soft drinks. At a level of 51.2 gallons per capita in 1995, they represented 30.3 percent of total beverage spending at retail. Soft drinks also represented one of the few beverage categories that was growing in both absolute and relative terms in the 1990s. Only bottled water, which grew at 4.9 percent per year, showed a better relative performance.

Coffee, milk, beer, and bottled water were the four largest beverage categories after soft drinks. Nestle had strong positions in all of them except beer, and its products were positioned to grow not only in the U.S. market but also on a global basis.

U.S. Wine Consumption

Wine consumption per capita had grown steadily in the late 1970s and early 1980s, peaking at 2.43 gallons per capita in 1985 and 1986. Following expectations for continued per capita growth, Nestle and many other wine producers in the U.S. expanded

production and vineyard acreage, consolidated and upgraded facilities, and prepared for continued success in the market place. As may be seen quite clearly from data in Exhibit 4, these expectations did not take place. Consumption per capita trended downward for the next few years and rebounded to 1.79 gallons per capita in 1995.

On the basis of retail spending, the wine market represented six percent of the beverage industry in 1995. Although down from the 6.5 percent level of the early 1990s, it showed how these higher value products ranked in importance at the retail level. (Exhibit 5)

THE U.S. WINE INDUSTRY

California was the source of the vast majority of wine produced in the United States. In the 1990s, growth in consumption of California table wine had grown significantly, from 105.3 million cases in 1991 to an all-time high of 125.3 million cases in 1995. (Exhibit 6)

In the United States, wine was distributed in a “three-tier” distribution network. Most wineries sold their products to distributors, who typically sold dozens to hundreds of individual wine brands, as well as distilled spirits, beer, and non-alcoholic beverages to retail liquor and food stores and for consumption “on-premise” in restaurants and hotels. A distributor generally had the right to sell a brand within a specific geographic area and typically employed a sales staff, which serviced all classes of retail outlets. Larger wineries with multi-brand product portfolios would constitute a large percentage of a distributor’s sales, generally employ a large sales staff, and have a competitive advantage at the distribution level.



California table wine shipments had been growing steadily from 43.4 percent of the industry in 1985 to 60.8 percent in 1995. Wine production from other U.S. states had grown even faster, by 80 percent in that 10 year period, yet still accounted for only 4.4 percent of U.S. shipments in 1995. Reflecting the changing tastes and preferences of the American consumer, the category “Sparkling Wine Coolers and Other” declined from 41.7 percent of wine shipments in 1987 to 22.5 percent in 1995.

The key growth segment of the California table wine industry may be found in the significant shift in consumption to the various “premium” categories defined and discussed below. Revenues at the wholesale level show even stronger growth in these

premium categories, implying that prices had been robust, resulting in faster growth in revenues than in physical case shipments.

U.S Wine Production

The internal structure of the wine industry in the United States had been undergoing fundamental changes in terms of product, especially within the table wine category. As the largest segment of production and value of shipments at approximately 80 percent in 1995, these wines were produced in response to changes in the tastes and preferences of consumers for higher quality premium wines. (Exhibit 7)

“Table” wines are those with 7 to 14 percent alcohol content by volume and are traditionally consumed with food. This is in contrast to other wine products such as sparkling wines (champagnes), wine coolers, pop wines, and fortified wines, which are typically consumed as stand-alone beverages. Table wines that retail for less than \$3.00 per 750 ml. bottle are generally considered to be generic or “jug” wines, while those selling for more than \$3.00 per bottle are considered “premium” wines.

The grapes used to produce table wine are of varying quality. Varietals are delicate thin-skinned grapes whose vines usually take approximately four years to begin bearing fruit. As defined by the Bureau of Alcohol, Tobacco and Firearms truth-in-labeling standards, one variety – the name of a single grape – may be used if not less than 75 percent of the wine was derived from grapes of that variety, the entire 75 percent of which was grown in the labeled appellation of origin. Appellation denoted that “...at least 75 percent of a wine’s volume was derived from fruit or agricultural products and grown in place or region indicated...”²

To develop the typical varietal characteristics that result in enhanced flavor, taste, and finish could take another two to three years. These additional growing periods increased both investment costs and product quality. Once the vines have matured, they were expected to have a productive life of 25 to 30 years.

Premium wines generally have a vintage date on their labels. This means that the product was made with at least 95 percent of grapes harvested, crushed, and fermented in the calendar year shown on the label and used grapes from an appellation of origin (i.e. Napa Valley, Sonoma Valley, Central Coast, etc.). Within the premium table wine category, a number of market segments have emerged, based on retail price points. Popular premium wines generally fall into the \$3.00 to \$7.00 per bottle range, while super premium wines retail for \$7.00 to \$14.00. The ultra premium category sells for \$14.00 to \$20.00 per bottle. Any retail price over \$20.00 per bottle is considered luxury premium. (Exhibit 8)



Structure of the U.S. Wine Industry

There were a growing number of wine producers in the United States in the 1980s and early 1990s. Most were quite small in terms of vineyards farmed and/or annual production and were located in the state of California. Of the approximately 1,500 wineries operating in 1995, the top 20 produced almost 90 percent of all American wines. Of the larger firms, probably the most widely known was E & J Gallo Wine Company headquartered in Modesto. Known primarily for its jug wines in the 1970s and 1980s, the firm had, in recent years, established a premium varietal winery – Gallo of Sonoma, which had been expanding rapidly in the 1990s.

Consolidation among wineries began to accelerate in the 1980s as smaller wineries decided to sell to larger ones in order to achieve greater economies of scale in marketing and economics of scope in gaining access to distribution channels. The “consolidators” were generally public firms that were able to offer predominantly family-run wine businesses a means to greater liquidity of their investment in a larger, more diversified operation. These firms could also offer the sellers a more diversified choice of financial instruments in order to complete a transaction. Concurrently, the attractiveness of California’s wine industry to entrepreneurs continued unabated as new, small boutique operations were started each year.

A small number of U.S. wineries had completed or were known to be in the process of offering their stock to the public as a means of raising capital and achieving greater investment valuation and liquidity. Schein Vineyards, Ravenswood Winery, and Chalone Winery were three smaller firms with IPO plans in the early 1990s. Canandaigua Wine Company and Brown-Forman Corporation were public firms with wine divisions as part of much larger beverage businesses. The Robert Mondavi Corporation had been a public corporation since 1993, was about the same size as Wine World in terms of revenues, and followed similar product marketing strategies. It would prove to be a useful model for valuing Nestle’s wine making business by Walter Klenz and his investor groups.

The Robert Mondavi Corporation. The Robert Mondavi Company was founded in 1966 by its eponymous owner and winemaker, Robert Mondavi, to produce quality premium table wines that would compete with the finest wines in the world. Its strategy was to sell its wines across all principal price segments of the premium wine market. The company also sold wine under importing and marketing agreements with other business entities.³ Recent financial data for Robert Mondavi are shown in Exhibits 9-12.

Products were sold through a global network of over 200 leading distributors in the U.S. and 90 countries around the world. These distributors then resold the product to restaurants and retail outlets. A substantial portion of Robert Mondavi's wine sales were concentrated in California and, to a lesser extent, the states of New York, New Jersey, Texas, Pennsylvania, Florida, and Massachusetts. Export sales accounted for approximately 8 percent of net revenues, with major markets in Canada, Europe, and Asia. Several international joint ventures allowed the company to market wines from Italy, France, and Chile, as well as those from California vineyards.

Robert Mondavi had been expanding its holdings of prime wine producing acreage over the last few years, to a current level (1995) of over 4,600 acres. In addition, it had solidified excellent long-term relationships with grape-growing partners.

For more than three decades, the Robert Mondavi name had been synonymous with wine producing excellence, marketing innovation, and environmental integrity. Together, these translated into extraordinary brand equity for the firm and its principal wine products. Brand strength and the firm's ability to maintain and build on its strength had been among Mondavi's most important assets and considered key to its continued success.

In the 1990s there had been a proliferation of wine brands and expectations were that this trend would continue into the foreseeable future. In such an environment only brands with a clear quality image and strong consumer franchise were likely to succeed and grow in market share and profitability. The brands in the Robert Mondavi portfolio had precisely these characteristics. Each of the firm's nine brands had a distinct personality, served a defined market niche, and leveraged the company's global reputation, distributor network, and infrastructure.

From a marketing perspective, the Robert Mondavi portfolio served the broad spectrum of consumer demand. There were brands that appealed to the first-time wine drinker as well as to the experienced oenophile (wine connoisseur). Brands were sold at supermarkets and club stores as well as fine wine shops and restaurants. Brands were created for every day enjoyment of consumers, as well as for those "special occasions."

The company had a clear-cut formula for its current success and future competitiveness in the wine market. It obtained the finest grapes available, maintained state-of-the-art production facilities, and utilized innovative marketing strategies. A powerful distribution network resulted in growing acceptance of Robert Mondavi's well-defined brands in the competitive market environment of the 1990s.

Nestle USA, Inc.

Currently one of the largest divisions of Nestle S.A., Nestle-USA was, in 1995, one of the largest food and beverage companies in the United States, with sales of \$8 billion. Nestle brought together many of the nation's best known brands into a single family. Some of its most successful products included Nestle Crunch, Nestle Butterfinger, Nestle Baby

Ruth, Stouffer's frozen entrees, Hills Bros. Coffee, Taster's Choice freeze-dried and Nescafe instant coffees, Perrier bottled water, Carnation infant formulas, Libby's canned pumpkin, Contadina refrigerated pastas and sauces, Friskies cat food, Alpo pet food, Nestle Sweet Success products, Ortega products, and Drumstick frozen novelties.⁴

In announcing plans for sale of the Nestle wine business, Joseph Weller, chairman of Nestle USA, said, "The high quality of Wine World Estates brands has been an important part of Nestle's family of products. However, we believe the future opportunity for Nestle will be greater with strategic investments in the other food and beverage categories in which we compete."⁵ In a press release from the parent company, a spokesman specified that greater long-term financial returns could be "obtained by investments in other strategic food and beverage related areas in the U.S."⁶ To make the Nestle position perfectly clear, Mr. Helmut O. Mancher, its 67-year-old chief executive officer, opined, "Wine is one of those little things one can have or not have."⁷

Corporate Strategies at Wine World Estates

A number of initiatives had been taken over the last decade that resulted in the exemplary operating performance of Wine World Estates. One of these was the efficient and effective management of a multi-brand portfolio of products. Currently, the firm's portfolio included six brands from major California premium growing areas across all premium price segments. This multi-brand portfolio provided opportunities for growth at various price points without diluting the value of any individual brand. This portfolio approach offered consumers a choice of familiar and appealing products that were differentiated by varietal, region, and price, while providing distributors with a broad assortment of brands for their selling efforts. To supplement its domestic brands and successfully meet the growing United States demand for premium wine, the company had been working with winemakers in Italy, Chile, and France to produce high quality wines to be imported into the domestic market.

Wine World Estates had focused its product portfolio on high quality wines that were an excellent value at each price segment of the premium wine market. Currently, the firm employed 14 experienced winemakers who used high quality premium grapes and state-of-the-art equipment at every stage of the winemaking process. The company's success was evidenced by the acclaim afforded to its entire brand portfolio by a number of leading wine writers, as well as being represented consistently in the annual publication "Wine Spectator's Top 100" wines of the world.

The most important determinant of wine quality and a significant component cost were the premium varietal grapes grown in the vineyards. Wine World now produced a larger percentage of its own grape requirements than most of its competitors. This strategy enabled the company to control the most important component of cost and contribute to continuity of grape supply. Currently, Wine World owned or controlled, through long-term lease agreement, approximately 9,000 plantable acres in California prime wine growing regions.

Wine World had and would continue to pursue strategic acquisitions. Purchasing attractively positioned wineries allowed the firm to augment its brand portfolio and achieve operating efficiencies by integrating sales, marketing, and administrative functions of the acquired properties with those of its existing wineries, resulting in significant cost savings. The company's strong professional management team could often improve wine quality and increase productivity of acquired wineries, thereby enhancing sales and profitability.

Consumer marketing initiatives were an integral component of the firm's success in enhancing market share. Wine World used sophisticated marketing strategies, more typically employed by consumer packaged goods companies, that included advertising, product publicity and packaging initiatives in consumer marketing, as well as extensive trade marketing targeted at distributors and retail channels. The Beringer brand had been advertised on radio since 1984, while Meridian had been seen on television since 1994.

Wine World was exceptionally proud of the commitment of its professional and experienced management team. It was deep in experience in both the wine and branded consumer goods industries, critical components for the firm's successful growth plans. Since its acquisition from the Beringer family in 1971, this team had generated exceptional operational and financial performance. The average term of senior management in the wine industry was currently 17 years, while their average term at the company was 12 years.

The combination of strategies utilized by Wine World over the last decade strongly supported the views of Walt Klenz. He had stated, "Quality builds brand loyalty, loyalty builds market share, and market share drives financial results."

Nestle's Exit From the Wine Industry

Early in 1995, management of the Nestle company determined that their Wine World Estates operation did not fit in with their global strategies. A sale would "fit in with Nestle's desire to focus on more global brands."⁸ Richard Maher, former president of Beringer and Seagram Wine Company and currently an industry consultant opined, "The wine industry is very asset intensive and Nestle is probably concerned about return on investment. In addition, Beringer is not a global brand."⁹

Since the 1970s there had been an increased focus in corporate boardrooms on strategy, and the Nestle corporation was no exception. Their board recognized that the corporation had an identifiable corporate culture and could conduct certain activities better than others. Over the years, it had become more and more difficult to be successful in many diverse businesses; they recognized that they could manage groupings of synergistic business more efficiently than a more varied corporate portfolio of businesses. Periodically they reviewed their operations to identify strengths and weaknesses and realign their efforts in a more focused manner.

Divesting target businesses that no longer “fit” with the firm’s strategy may be identified by a variety of characteristics. Divisions generating inadequate rates of return could be a reason for divestiture. Wine World Estates did not fall into this category, especially since Nestle had spent significant sums to support and enhance its operations over the last quarter century.

In fact, Wine World Estates had generated an adequate return on equity for Nestle. As Mr. Weller indicated, it simply no longer fit into the long-term strategic plans of its parent.

Interest in Wine World Estates

A number of inquiries were made to Nestle concerning the sale of Wine World Estates. Canandaigua, a New York based producer of Paul Masson, Inglenook, as well as other wine and spirits products was one bidder. Another was Brown-Forman Corporation, the producer of Jack Daniels Tennessee Whiskey. As recently as 1992, they had purchased Fetzer Vineyards in Mendocino County.”¹⁰

There was also an unconfirmed report that the giant E & J Gallo Winery in Modesto, by far the largest wine producing firm in the United States, had also bid on the Nestle properties. Since 1977, Gallo had acquired approximately 4,000 acres in Sonoma County, with half already fully developed and in production. In just the past few weeks, Gallo had purchased 320 acres of pastureland on the west side of California Highway 101 by Cotati, California for a reported \$2 million, with plans to convert it into vineyards.¹¹

Another firm that showed an interest in Wine World operations was Silverado Partners. It was a private investment company operating out of San Francisco.

Silverado Partners and Associates

Founded in 1992, Silverado arranged acquisitions in the wine industry. Many vintners were growing old and passing on their estates. This could involve voluntary or involuntary sales of valuable businesses and real estate in the wine growing regions of California, and the partners had the experience and expertise to assist in these endeavors.

E. Michael Moone was one of those partners and had also been president of Nestle’s Wine World Estates division from 1984 through 1990. He was currently an owner of Napa Valley Kitchens, a group that sold products such as fancy mustards, oils, and flavored vinegars.¹²

Other members of the Silverado group were David Freed, president of UCC Vineyards, Napa attorney Richard Lemon, and George Vail, former head of Henry Wine Group. Currently the group controlled 2,000 acres, but completion of a transaction for Wine World would be their first major deal.¹³

Moone and his partners were quite sure that they would need other sources of funds to complete a deal for Wine World Estates. They quickly contacted representatives of Texas Pacific Group (TPG), a private investment partnership with offices in both San Francisco, California, and Fort Worth, Texas.

Formed in 1973, TPG had a broad portfolio of investment holdings, including stakes in airlines, healthcare, food, entertainment, waste management, and telecommunications industries. Principals in the firm were David Bonderman and James G. Coulter, former associates of the Bass family in Fort Worth and William S. Price, a former senior executive with G.E. Capital Corp.¹⁴

Texas Pacific Group was “a sector investor that puts its money in areas that it feels will outperform the overall industry for three to five years.” Its investors included wealthy individuals, pension funds, banks and insurance companies.¹⁵

Moone envisioned that industry expertise would be provided by both himself and Walt Klenz, while TPG would provide most of the financing, either directly from their own portfolios or from other financial institutions. He was convinced of a very successful undertaking for all parties to a deal.

A Challenge and/or An Opportunity

Walt Klenz walked back to his office after his meeting with Mr. Weller, Chairman of Nestle U.S.A. He had just been formally informed of the decision by Nestle management in Belgium that a new strategy had been approved for developing global brands in their beverage, food, and confectionary businesses. It was also confirmed that Wine World Estates, the division he had managed so successfully from early 1990 until August of 1995, had been identified as “non-strategic” and therefore would be sold in the near future. Mr. Weller also mentioned that he had already been in preliminary discussions with at least two large diversified companies that had significant wine producing divisions and seemed interested in completing a transaction by year-end.

Although unprepared for these shocking developments, Walt quickly asked Weller, “If I brought together a proposal for a management-led buyout of Wine World Estates, is there still a chance that Nestle management would evaluate it, along with the other offers?” Somewhat surprised, but seemingly pleased at the idea, Weller assured Walt that any deal he proposed would be “on the table” with all the others. “However, you know, Walt, that we are talking about more than \$300 million – where can you find that kind of money?”

As Walt left Weller’s office, the information he had just learned presented a challenge and perhaps the opportunity of a lifetime. The challenge would be to continue as CEO of a much larger business if Wine World were sold to another producer. However, he would have to compete for that position with whoever was currently managing wine operations at the buying firm. The opportunity was to become the independent CEO of the fourth largest premium wine producing firm in the United States, that could itself grow through internal development of brands as well as externally through mergers and acquisitions.

He immediately thought of an old colleague, Michael Moone, former CEO of Wine World Estates and currently a principal of Silverado Partners. Moone's new firm had been specializing in financial deals in the wine industry and Walt believed Silverado could guide him in a purchase of Wine World Estates.

The Call

Back in his office, Walt composed himself, took a deep breath and called Moone. "Hello, Michael" he said. "How has your new business at Silverado been working out?" "Fine," replied Moone, "and how is Wine World performing these days?" "Also quite well," said Walt. "Those purchases of vineyards and wineries we made in the 1980s are developing well and our revenue growth per year is approaching 15 percent. We are really enhancing our competitive position in the premium wine industry here in the United States."

"There is another reason for this call, Michael. I have just confirmed that our division is up for sale. I need your assistance and expertise in putting together a management-led financial package to buy Wine World Estates from Nestle."

Moone had already heard through the "grapevine" that Nestle was talking to potential buyers. "Walt," he said, "do you know the size of a deal like this -- north of \$300 million? All our deals here at Silverado have been under \$50 million. We would need some heavy hitters to get involved and that would be quite costly in terms of fees and equity participation. I have some names in my files and I will make some calls if you are really serious about this deal."

"I have never been more serious in my life," replied Walt. "I know this business and we both know the way Nestle has financed operations. There are undervalued assets that can support a higher company valuation. I am confident that the Nestle people would also look favorably on a proposal to maintain the independence of our business rather than have it folded into a larger division of an even larger corporation."

"Walt, you seem very confident that a deal could work out successfully," said Moone. "I'll make some calls, talk to some associates, and be back to you in the next ten days."

"Thanks for your assistance," said Walt. "It would be great for us to work together again after all these years. I'll put together a presentation we can use for your investors."

Ten Days Later

In another critically important conversation, Michael Moone had some additional questions for Walt Klenz.



“Walt, I have been in contact with a variety of funding sources and a few key concerns have been voiced. The secured lenders are interested in the asset position of Wine World, in addition to cash flows needed to make interest payments. Unsecured lenders, as well as venture capitalists, are stressing projected cash flow levels for the next three years. Finally, private equity investors, as well as the venture capitalists, are interested in valuation of the business and potential capital gains over the next five years. I hope your business plan can satisfy them.”

In response, Walt had already contemplated some of these questions and had prepared preliminary data needed to respond to each group. “Michael,” replied Walt, “our balance sheet at current market values has assets of over \$400 million. Cash flows for the next year or two will be tight, especially since we expect to continue our programs for expanding brands and production. We will probably require shorter term funding of inventories as the business grows, and you never know when an acquisition opportunity might come along.”

“As for the equity investors and VC’s, cash dividends are not in anyone’s plan in the foreseeable future. However, in a few years, our cash flows and normalized earnings could support an IPO that should provide for a very respectable return on their investments. I’ll have a plan ready for you to evaluate in three weeks!”

“That sounds fine, Walt,” said Moone. “Call me when its ready and we’ll have a working lunch.”

ENDNOTES

1. Wine World Estates Press Release, 16 January 1995.
2. Title 27 Part 4 of the Code of Federal Regulations, Bureau of Alcohol, Tobacco and Firearms, Regulatory Agency, United States Department of the Treasury.
3. The Robert Mondavi Corporation, *Annual Report*, 1995.
4. Groves, Martha, and Dan Berger, "Nestle to Sell Its California Wine Holdings to Group of Private Investors," *The Los Angeles Times*, 22 November 1995.
5. Business Wire, op. cit. 22 November 1995.
6. "Nestle 10 Month Sales 45.7 Billion Swiss Francs vs. 45.9 Billion Swiss Francs," *Extel Examiner*, 22 November 1995.
7. "Nestle to Sell California Wineries to Focus on Its Core Businesses," *The New York Times*, 23 November 1995.
8. Groves, Martha, and Dan Berger, "Nestle to Sell Its California Wine Holdings to Group of Private Investors," *The Los Angeles Times*, 22 November 1995.
9. Sinton, Peter, "Nestle Selling Wines," *The San Francisco Chronicle*, 9 November 1995.
10. Groves, Martha, and Dan Berger, "Nestle to Sell Its California Wine Holdings to Group of Private Investors," *The Los Angeles Times*, 22 November 1995.
11. Sinton, Peter "Nestle Selling Wines," *The San Francisco Chronicle*, 9 November 1995.
12. Groves, Martha and Dan Berger, "Nestle to Sell Its California Wine Holdings to Group of Private Investors," *The Los Angeles Times*, 22 November 1995.
13. Sinton, Peter, "Texas Pacific Group Will Buy Beringer, Premium Vineyards From Nestle," *The San Francisco Chronicle*, 22 November 1995.
14. "Nestle Announces Sale of Entire Interest in Wine Business to Texas Pacific Group and Silverado Partners," *Business Wire*, 22 November 1995.
15. Sinton, Peter, "Texas Pacific Group Will Buy Beringer, Premium Vineyards From Nestle," *The San Francisco Chronicle*, 22 November 1995.

EXHIBITS

EXHIBIT 1

Wine World Estates Income Statements (in millions)

	<u>Years Ended June 30th</u>				
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Gross Revenue	129.4	147.4	168.4	191.3	213.7
Less: Excise Taxes	<u>7.0</u>	<u>8.0</u>	<u>9.2</u>	<u>10.5</u>	<u>11.7</u>
Net Revenues	122.4	139.4	159.2	180.8	202.0
Cost of Goods Sold	<u>63.2</u>	<u>69.8</u>	<u>79.9</u>	<u>90.0</u>	<u>101.3</u>
Gross Profit	59.2	69.6	79.3	90.8	100.7
Operating Expenses (selling, general, administrative)	44.4	51.3	58.4	65.4	64.0
Amortization of Goodwill	<u>00.0</u>	<u>00.0</u>	<u>00.0</u>	<u>00.0</u>	<u>1.8</u>
Operating Income (EBIT)	14.8	18.3	20.9	25.4	34.9
Other Income	00.0	00.0	00.0	.5	1.0
Interest Expense	<u>(6.1)</u>	<u>(6.8)</u>	<u>(7.6)</u>	<u>(7.0)</u>	<u>(5.7)</u>
Net Income Before Taxes	8.7	11.5	13.3	18.9	30.2
Income Taxes	<u>3.3</u>	<u>4.9</u>	<u>6.2</u>	<u>8.5</u>	<u>13.4</u>
Net Income	5.4	6.6	7.7	10.4	16.8

EXHIBIT 2

Wine World Estates Balance Sheets (in thousands)

	June 30 th				
	<u>1991</u>	<u>1992</u>	<u>1993</u>	<u>1994</u>	<u>1995</u>
Current Assets					
Cash and Short Term Securities	\$ 5.2	\$ 5.5	\$ 6.2	\$ 7.6	\$ 8.2
Accounts Receivable	11.7	13.4	15.2	14.7	15.4
Inventories	95.6	106.2	112.5	124.8	133.2
Prepaid Expenses	<u>3.6</u>	<u>3.8</u>	<u>3.9</u>	<u>4.1</u>	<u>4.2</u>
Total Current Assets	<u>\$116.1</u>	<u>\$128.9</u>	<u>\$ 137.8</u>	<u>151.2</u>	<u>\$161.0</u>
Property, Plant and Equipment (net)	93.4	101.2	105.8	117.2	124.5
Other Assets	<u>3.7</u>	<u>3.9</u>	<u>4.1</u>	<u>4.2</u>	<u>4.4</u>
Total Assets	<u>\$213.2</u>	<u>\$234.0</u>	<u>\$247.7</u>	<u>\$272.6</u>	<u>\$289.9</u>
Current Liabilities					
Accounts Payable (trade)	\$ 5.5	\$ 5.7	\$ 5.8	\$ 6.0	\$ 6.2
Accrued Expenses	4.0	4.0	4.1	4.3	4.4
Deferred Taxes (current)	2.7	3.1	4.7	9.2	9.8
Nestle Working Capital Loan	<u>77.6</u>	<u>86.2</u>	<u>94.6</u>	<u>91.3</u>	<u>95.8</u>
Total Current Liabilities	<u>\$ 89.8</u>	<u>\$104.0</u>	<u>\$109.2</u>	<u>\$110.8</u>	<u>\$116.2</u>
Deferred Tax Liabilities	6.6	6.6	7.4	20.3	15.4
Stockholders' Equity (Nestle Investment)	<u>116.8</u>	<u>123.4</u>	<u>131.1</u>	<u>141.5</u>	<u>158.3</u>
Total Liabilities and Capital	<u>\$213.2</u>	<u>\$234.0</u>	<u>\$247.7</u>	<u>\$272.6</u>	<u>\$289.9</u>

EXHIBIT 3

**Consumption of Beverages
in the United States
(gallons per person)**

1991-1995

Beverage Category	1995	1994	1993	1992	1991
Soft Drinks	51.2	49.6	48.8	48.0	47.8
Coffee	29.9	29.5	28.4	26.6	26.6
Milk	24.8	25.0	25.1	25.2	25.5
Beer	22.4	22.7	22.8	22.9	23.2
Bottled Water	11.0	10.3	9.5	9.0	8.8
Tea	6.6	6.9	6.9	7.0	7.1
Juices	6.4	6.5	6.5	6.5	6.4
Powdered Drinks	5.2	5.2	5.2	5.3	5.6
Wine	1.8	1.8	1.7	1.9	1.9
Distilled Spirits	1.2	1.3	1.3	1.4	1.4
Totals	160.5	158.8	156.2	153.8	154.3

Source: *Adams/Jobson's Wine Yearbook, 1996, Adams/Jobson's Publishing Corp.*
New York, NY 10036
Beverage Industry Annual Manual

EXHIBIT 4

**Wine Consumption in the
United States**

1980-1995

Years	Total Wine (millions of gallons)¹	Total Wine (per capita)³	Total Table Wine (millions of gallons)²	Total Table Wine (per capita)³
1995	469	1.79	408	1.56
1994	459	1.77	395	1.52
1993	449	1.74	381	1.48
1992	476	1.87	405	1.59
1991	466	1.85	394	1.56
1990	509	2.05	423	1.70
1989	524	2.11	432	1.74
1988	551	2.24	457	1.86
1987	581	2.39	481	1.98
1986	587	2.43	487	2.02
1985	580	2.43	378	1.58
1984	555	2.34	401	1.69
1983	528	2.25	402	1.71
1982	514	2.22	397	1.71
1981	506	2.20	387	1.68
1980	480	2.11	360	1.58

Notes: ¹All wine types including sparkling wine, dessert wine, vermouth, other

special natural and table wines.

²Table wines include all still wines not over 14 percent alcohol content.

³Per capita consumption based on the resident population of the U.S.

Source: The Wine Institute, <http://www.wineinstitute.org>
Gomberg, Fredrikson & Associates

EXHIBIT 5

**United States Beverage Market Shares
Per Retail Dollar
(in percents)**

1991-1995

Beverage Category	1995	1994	1993	1992	1991
Soft Drinks	30.3%	29.7%	29.6%	28.7%	28.5%
Beer	25.6	25.8	26.7	27.0	26.8
Distilled Spirits	16.2	16.3	15.9	16.1	16.5
Milk	8.5	8.7	8.6	8.6	8.5
Juices	6.4	6.5	6.1	6.5	6.5
Wine	6.0	6.0	6.1	6.5	6.5
Coffee	3.9	3.9	3.8	3.6	3.9
Bottled Water	2.2	2.0	2.0	1.9	1.9
Tea	.6	.6	.6	.6	.7
Powdered Drinks	.4	.4	.5	.5	.5
Totals	100%	100%	100%	100%	100%

Source: *Adams/Jobson's Wine Yearbook, 1996, Adams/Jobson's Publishing Corp., New York, NY 10036 Beverage Industry Annual Manual*



EXHIBIT 6

**Wine Shipments
in the United States
(in millions of cases)**

1985-1995

Year	California Table	Sparkling Wine Coolers, Other	Other States	Bulk and Bottled Imports	Totals
1995	125.3	46.4	9.0	25.3	206.0
1994	116.8	43.5	7.9	24.4	192.6
1993	112.4	47.1	7.7	21.8	289.0
1992	113.3	54.8	7.7	24.3	200.1
1991	105.3	62.8	7.9	20.1	196.1
1990	108.4	77.6	6.8	21.3	214.1
1989	109.3	81.4	5.6	24.3	220.6
1988	112.1	89.0	5.6	25.2	231.9
1987	109.2	101.9	5.5	27.7	244.3
1986	107.0	98.8	5.9	35.1	246.8
1985	105.9	85.1	5.9	47.1	244.0

Note: A case contains 9 liters of product.

Source: The Wine Institute, <http://www.wineinstitute.org>
Gomberg, Fredrikson and Associates

EXHIBIT 7

**California Table Wine Shipments
in the United States
(in millions of cases)**

1985-1995

Year	Jug	Popular Premium	Super Premium	Ultra Premium	Luxury	Total Higher Premium	Totals
1995	65.8	41.0	14.5	3.4	.6	18.5	125.3
1994	63.3	37.5	12.3	3.2	.5	16.0	116.8
1993	62.9	35.5	10.7	2.9	.4	14.0	112.4
1992	66.3	34.3	9.7	2.7	.3	12.7	113.3
1991	65.3	28.7	8.5	2.6	.2	11.3	105.3
1990	73.4	24.5	8.0	2.3	.2	10.5	108.4
1989	79.1	21.9	6.1	2.0	.2	8.3	109.3
1988	83.8	20.7	5.6	1.9	.1	7.6	112.1
1987	84.8	17.7	5.0	1.6	.1	6.7	109.2
1986	86.3	14.4	4.7	1.5	.1	6.3	107.0
1985	89.7	11.1	3.9	1.1	.1	5.1	105.9

Note: A case contains 9 liters of product.

**Source: The Wine Institute, <http://www.wineinstitute.org>
Gromberg, Fredrikson and Associates**

EXHIBIT 8

California Table Wine Revenues (in billions of dollars)

1985-1995

Year	Jug	Popular Premium	Super Premium	Ultra Premium	Luxury	Total Premium	Totals
1995	\$.921	\$1.394	\$1.015	\$.351	\$.130	\$2.890	\$3.811
1994	.887	1.238	.849	.320	.101	2.508	3.395
1993	.865	1.154	.728	.287	.079	2.248	3.113
1992	.912	1.096	.650	.269	.059	2.074	2.986
1991	.898	.918	.570	.251	.046	1.785	2.683
1990	.863	.686	.528	.224	.036	1.474	2.337
1989	.811	.591	.399	.193	.029	1.212	2.023
1988	.841	.538	.364	.178	.024	1.104	1.945
1987	.848	.443	.320	.149	.020	.932	1.780
1986	.875	.360	.290	.138	.018	.806	1.681
1985	.905	.271	.234	.106	.015	.626	1.531

Source: The Wine Institute, <http://www.wineinstitute.org>
Gomberg, Fredrikson and Associates

EXHIBIT 9

Robert Mondavi Corporation Selected Consolidated Financial and Operating Data

	<u>Year Ended June 30th</u>		
	(in thousands, except per share data)		
	<u>1995</u>	<u>1994</u>	<u>1993</u>
Income Statement Data			
Gross Revenues	\$210,361	\$176,236	\$177,748
Less: excise taxes	<u>10,892</u>	<u>8,209</u>	<u>9,608</u>
Net Revenues	199,468	167,027	168,140
Cost of goods sold	<u>97,254</u>	<u>88,102</u>	<u>92,979</u>
Gross Profit	102,215	78,925	75,161
Operating Expenses	<u>64,160</u>	<u>56,198</u>	<u>52,191</u>
Operating Income	38,055	22,727	22,970
Other Income (Expense):			
Interest	(8,675)	(6,698)	(7,486)
Other	<u>215</u>	<u>(305)</u>	<u>(1,020)</u>
Income before income taxes	29,595	15,724	14,464
Provision for income taxes	<u>11,775</u>	<u>6,212</u>	<u>5,801</u>
Net Income	<u>\$17,820</u>	<u>\$9,512</u>	<u>\$8,663</u>
Earnings per share	<u>\$1.39</u>	<u>\$.75</u>	<u>\$.83</u>
Weighted average number of common shares and equivalents outstanding	<u>12,787</u>	<u>12,731</u>	<u>10,385</u>
Operating Date (Unaudited)			
Cases sold ⁽¹⁾	4,550	3,873	3,991
Average net selling ⁽²⁾	\$43.42	\$42.70	41.73

Notes: (1) Case information based on industry standard 9-liter case, in thousands.

(2) Average net selling price is reported on a per-case basis and represents net revenues, excluding net revenues from bulk wine and grape sales, divided by the total number of cases sold during the period.

Source: *Annual Report*, Robert Mondavi Corporation, 1995

EXHIBIT 10

**Robert Mondavi Corporation
Consolidated Balance Sheets
(in thousands, except share data)**

ASSETS	June 30 th	
	1995	1994
Current Assets:		
Cash	\$900	\$393
Accounts receivable-trade (net)	32,601	32,100
Inventories	113,375	118,413
Prepaid income taxes	-	-
Deferred income taxes	-	-
Prepaid expenses and other current assets	<u>770</u>	<u>688</u>
Total Current Assets	<u>\$147,762</u>	<u>\$151,594</u>
Property, plant and equipment (net)	120,934	102,449
Investments in joint ventures	11,792	10,269
Other assets	<u>1,826</u>	<u>2,192</u>
Total Assets	<u>\$282,314</u>	<u>\$266,504</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable to banks		\$46,200
Accounts payable – trade	\$9,411	6,008
Employee compensation and related costs	9,247	6,684
Other accrued expenses	1,986	1,754
Current portion of long-term debt	6,071	5,307
Income taxes payable	1,160	-
Deferred revenue	1,493	1,859
Deferred income taxes	<u>4,195</u>	<u>11,170</u>
Total Current Liabilities	<u>30,893</u>	<u>78,982</u>
Long-term debt, less current portion	113,017	55,902
Deferred income taxes	1,495	6,132
Deferred executive compensation	5,839	5,323
Other liabilities	<u>665</u>	<u>694</u>
Total Liabilities	<u>\$157,752</u>	<u>\$147,033</u>
Commitments and contingencies (Note 10)		
Shareholders' equity:		
Preferred Stock: Authorized-5,000,000 shares		
Issued and outstanding number of shares	-	-
Class A Common Stock, without par value:		
Authorized-25,000,000 shares		
Issued and outstanding-7,499,024 and 7,281,529 shares	33,441	-
Class B Common Stock, without par value:		
Authorized-12,000,000 shares	-	-
Issued and outstanding-7,676,012 shares	13,364	
Paid-in capital	-	-
Retained earnings	<u>76,757</u>	
Total Liabilities and Shareholders' Equity	<u>\$282,314</u>	<u>\$266,504</u>

Source: *Annual Report, Robert Mondavi Corporation, 1995*

EXHIBIT 11

Robert Mondavi Corporation Consolidated Statements of Cash Flows (in thousands)

	June 30 th	
	<u>1995</u>	<u>1994</u>
Current flows from operating activities:		
Net Income	\$17,820	\$9,512
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Deferred income taxes	710	1,126
Depreciation and amortization	8,854	7,995
Equity in net income of joint ventures	(1,547)	(973)
Other	687	(305)
Changes in assets and liabilities:		
Accounts receivable-trade	(501)	2,566
Inventories	(17,230)	(10,377)
Prepaid income taxes	-	-
Other assets	(353)	431
Accounts payable-trade and accrued expenses	6,625	(799)
Income taxes payable	733	(1,912)
Deferred revenue	(366)	41
Deferred executive compensation	516	(188)
Other liabilities	<u>(29)</u>	<u>(134)</u>
Net cash provided by (used in) operating activities	<u>15,919</u>	<u>6,963</u>
Cash flows from investing activities:		
Acquisitions of property, plant and equipment	(27,823)	(19,088)
Distributions from joint ventures	482	681
Contributions to joint ventures	<u>(458)</u>	<u>(571)</u>
Net cash used in investing activities	<u>(27,799)</u>	<u>(18,978)</u>
Cash flows from financing activities:		
Net additions (repayments) under notes payable to bank	(18,050)	18,950
Proceeds from issuance of long-term debt	43,547	7,557
Principal repayments of long-term debt	(13,818)	(14,335)
Proceeds from issuance of Class A Common Stock	182	65
Exercise of Class A Common Stock options	208	-
Other	<u>318</u>	<u>(84)</u>
Net cash provided by financing activities	<u>12,387</u>	<u>12,153</u>
Net increase (decrease) in cash	507	138
Cash at the beginning of the year	<u>393</u>	<u>255</u>
Cash at the end of the year	<u>\$900</u>	<u>\$393</u>

Source: *Annual Report, Robert Mondavi Corporation, 1995*

EXHIBIT 12

The Robert Mondavi Corporation Financial & Market Data

	<u>Fiscal Year Ending June 30, 1995</u>
Stock Price – (High)	17 ½
– (Low)	6 ½
Earnings Per Share (Diluted)	1.39
Number of Shares Outstanding	12.787 m
Book Value Per Share	9.74
Price/Earnings Ratio – (High)	12.6
– (Low)	4.7
Market Value (High)/Book Value	1.8
Market Value (Low)/Book Value	.7

**Source: Standard & Poor's Reports
Annual Report Robert Mondavi Corp.**

APPENDIX

Appendix A

Proposal From Texas Pacific Group to Walter T. Klenz, Chief Executive Officer of Wine World Estates

Pursuant to our recent conversations regarding a leveraged buyout offer to the Nestle Company for its Wine World Estates operations, we are enclosing herewith a variety of funding sources and options. They cover the terms and conditions for both secured and unsecured instruments of a fixed income nature as well as sources of equity funding. We are prepared to discuss final details with you at your earliest convenience.

The banking syndicate has arranged a term loan package of up to \$150 million secured by all plant, equipment, and other company assets. With the current prime rate of 8 ¼%, they will charge an average of 8 ¼% interest, payable quarterly, with a 10 year duration. The rate will be adjusted semi-annually. Principal repayments will commence April 1, 1997.

Another \$35 million of subordinated notes is also available, secured by all plant, equipment, and other company assets. These funds originate with a venture capital group that requires 12 ½% interest, payable quarterly and due to be repaid January 10, 2006. These investors also expect to receive 300,000 warrants to purchase Class A common stock at a price of \$.01 per share and 125,000 warrants to purchase Class B common stock at a price of \$.01 per share. These warrants would have a life of five years from the date of a deal closing.

A revolving credit agreement for working capital advances and standby letters of credit for up to \$150 million is also available. Interest will be 8 percent per annum, payable quarterly, on any funds used, with a .5 percent per annum commitment fee, also payable quarterly. This agreement will expire January 16, 2001.

In order to support the anticipated borrowings to be used by your firm at the time of closing, an equity base will be required. We are prepared to offer the following terms for both preferred and common stock.

We suggest that your new corporate entity authorize 2,000,000 shares of Series A preferred stock. Our investors require a semi-annual cash dividend payout of 7 percent of the \$100 liquidation value of each preferred share. Dividends would be cumulative, accrued and payable semi-annually. If you use not more than \$30 million of these shares at the time of closing the deal, investors will agree to accept the first ten interest payments in additional shares of Series A preferred stock, in order to reduce cash outflows for the firm in the early years of transition to an independent entity. The dividends would revert to cash payments commencing with payment number 11 and continue for the remaining years the preferred shares are outstanding. All outstanding Series A preferred shares shall be redeemed at liquidation value of \$100 plus accrued interest in January 2008.

We advise the creation of two series of common stock, Class A and Class B, for a total of 40,000,000 shares. There would be authorized 2,000,000 shares of Class A stock with each share having 20 votes, and 38,000,000 shares of Class B stock with each share having one vote. We have private investors who will provide up to \$75 million for these shares in a ratio of approximately 1 to 10; for each one share of Class A stock sold, another 10 shares of Class B stock will be sold. Both classes of shares would be sold to investors at \$5 per share.

Finally, we recommend to your Board of Directors that additional Class B shares be made available upon closing of this deal. Not more than 800,000 shares should be available for key operating managers and executives of the firm and another 800,000 shares for fees to compensate Silverado Partners for their efforts in this deal. The exercise price for these shares is suggested to be \$6.00 each.

As may be surmised from the financing sources and amounts, the term loan and senior subordinated notes make up the largest component of a financing package. You will need to provide documentation that there will be assets on your books of amounts that are able to support these loans. Generally, our lending group will value accounts receivable at a maximum of 80 percent of book value for collateral purposes, inventories at 70 percent, and fixed assets at 65 percent.

The revolving line of credit is provided as a substitute for the loans currently being provided by Nestle to Wine World Estates operations. It may be utilized as you determine. In deciding on the extent of the use of common stock and/or preferred stock as the equity component of your new capital structure, please be advised that our common stock investors have determined that at least a 30 percent per year expected rate of return is required to compensate them for the perceived risks inherent in this venture. When you make your presentation to them, your pro forma statements should be able to support these rates of return over the next five years. It is highly probable that a public offering of the firm will be required to reach this goal within this time frame. Be prepared to show how the performance you expect from Wine World Estates operations as a newly independent corporation will generate a valuation high enough to reach this goal.

Respectfully submitted by:
James G. Coulter, Partner, TPG
David Bonderman, Partner, TPG
William S. Price III, Partner, TPG

