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Recommended Citation
Gilinsky, Armand; Lopez, Raymond H.; and Castaldi, Richard, "The Globalization of Beringer Blass Wine Estates" (2004). *Case Studies*. Paper 5.
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CASE STUDIES

No. 28 May 2004

The Globalization of Beringer Blass Wine Estates

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THE GLOBALIZATION OF BERINGER BLASS WINE ESTATES

by

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ACKNOWLEDGEMENTS

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The authors gratefully acknowledge a Business and International Education (BIE) grant from the U.S. Department of Education and a matching grant from the College of Business at San Francisco State University in partial support of this research. We also gratefully acknowledge the financial support of the Wine Business Program at Sonoma State University, which made possible the contributions of student researchers Elizabeth Rice and Garrett Savage.

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ABSTRACT

The Beringer Blass Wine Estates Corporation was created by the $1.5 billion purchase of U.S.-based Beringer Wines Estates by Australia-based Foster's Brewing Group. Each firm, operating independently until to the time of their deal, had expanded in their industries through internal growth via development of premium wine brands and external growth via acquisitions of new brands. In September 2002, Walt Klenz, president of the wine operations of the firm, privately contemplated how to guide Beringer Blass towards its strategic goals in an industry that was rapidly consolidating on a global basis.

INTRODUCTION

In late September 2002, Walt Klenz was deciding whether Beringer Blass Wine Estates should pursue internal growth via development of its current premium wine brands or external growth via acquisitions of new brands. Klenz was ending his first year as Beringer Blass's managing director and twelfth year as Beringer's president.

Two years earlier, he had overseen a merger between the Australia-based Foster's Brewing Group and California-based Beringer Wine Estates, a move that had triggered a wave of similar consolidation transactions around the world of premium wines. Rumors abounded in the industry that larger rivals such as E. & J. Gallo, Constellation, and Diageo were actively seeking acquisitions of premium wineries to increase global market share.

As Klenz prepared his notes for a presentation called "Globalization of the Wine Industry" to over 300 attendees at an annual wine industry conference in Napa, California, he privately wondered how he was going to guide Beringer Blass towards globalization in the future.

Beringer's History

In 1875 two German emigrants, Jacob and Frederick Beringer, purchased property in St. Helena, California, for $14,500. During the following year, Jacob began working his new vineyards and started construction of a stone winery building. He employed Chinese laborers to build limestone-lined aging tunnels for his product. In 1880, Frederick opened a store and a wine cellar to accommodate the sale of wine in New York. The Beringer Brothers commenced an education and marketing program to introduce Napa Valley wine to the East Coast market. Their specialty, even in those early years, was premium table wines.

Beringer family members continuously owned the winery until 1971, when they sold it to the Nestlé Company, which renamed the Beringer subsidiary, "Wine World Estates." Over the next 25 years, Nestlé hired management to implement an expansion strategy that included the purchase and development of 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 Wine World to control a source of high quality, premium wine grapes at an attractive cost.

In a series of sweeping moves, Wine World's winemaker, Myron Nightingale, overhauled operations, retooled the winery, acquired new vineyard properties, negotiated long-term leases for additional vineyard capacity, and refocused production on the development and sale of world-class wines. Michael Moone became CEO in 1984 and oversaw the operations of Wine World. Moone pursued expansion through acquisitions and start-ups of new brands. In addition to the acquisition of Chateau Souverain, located in the Sonoma Valley, in 1986, Wine World also launched a new brand, Napa Ridge. In 1988, Wine World's Estrella River Winery in Paso Robles was refurbished and renamed Meridian Vineyards. Results of these initiatives began to bear fruit by the late 1980s. New private reserve wines won accolades throughout the industry

and, overall, wine quality rose rapidly. Wine World had thus begun the process of redefining itself as a top-quality producer, slowly but steadily shedding its prior image for making "ordinary wines." In 1990, Moone relinquished his CEO position to Walter Klenz. Klenz had been hired by Nestlé and joined Wine World in 1976, first working in marketing and then in financial operations.

The Leveraged Buyout

In early 1996, Moone re-entered the market with a private company named Silverado Partners. Moone and dealmaker David Bonderman, who headed the El Paso-based Texas Pacific Group (TPG), engineered a leveraged buyout of Wine World Estates. TPG acquired all the outstanding common stock of Beringer Wine Estates Company. The total purchase price was approximately $371 million, which included net cash paid of $258 million, short-term mezzanine financing provided by the seller of $96 million, and acquisition costs of $17 million. The deal resulted in the business going back to its roots, with the new name of Beringer Wine Estates.

In addition to paying down acquisition debt, one of the most important goals of venture capital sponsored leveraged buyouts was an "exit strategy" to realize positive returns on investment. The principals of TPG had chosen the Beringer operations and completed their acquisition with this goal in mind. In addition to its strong brand recognition in the product marketplace, it was expected that, when a public sale of shares was eventually completed, the stock would be well received by investors, especially those familiar with the wine industry.

On April 1, 1996, the company acquired the net assets of Chateau St. Jean from Suntory International Corporation. Net cash paid to the seller amounted to $29.3 million, with acquisition costs of $1.9 million, for a total purchase price of $31.2 million. In order to pay for this acquisition, the company issued 945,000 Class B common shares for a net proceeds of $4.725 million. Subsequently, in September 1996, the company issued 11,980 Class A shares and 224,380 Class B shares to investors, resulting in net proceeds of $825,000.

On February 28, 1997, Beringer acquired Stags' Leap Winery, Inc. from Stags' Leap Associates and various individuals. Net cash paid to the sellers amounted to $19.2 million; with a note due to the seller aggregating $2.85 million. The total purchase price amounted to $23.2 million, which included transaction expenses of $1.15 million.

Beringer's strategies at the time included internal growth, through brand development, and external growth through mergers and/or acquisitions. A publicly traded company would create the greatest financial flexibility in order to accomplish its goals as well as to provide liquidity for its owners. This meant preparing Beringer for life as a public company. Management information systems needed to be enhanced; accounting, reporting, and control systems needed to be put into place; and Beringer needed to keep its records on a quarterly basis, in order to comply with SEC requirements. Doug Walker had been hired in 1996 to implement many of these systems, but the final piece of the puzzle was the hiring of a chief financial officer, whose job was to coordinate the financial and reporting activities as well as to develop a plan for future operations.

THE INITIAL PUBLIC OFFERING

Early in June 1997, Peter F. Scott was hired as a senior vice president for finance and operations. Scott had spent seven years with Kendall-Jackson Winery, most recently as senior vice president, finance and administration. He had also spent six years as a management consultant and eight years with a nationally known public accounting firm. Scott was pleased to learn of Beringer's planned initial public offering (IPO) and from the outset become intimately involved with their preparation.[1]

In a 2001 interview, Klenz described the rationale behind taking Beringer public:

> We made a conscious decision to proceed with the IPO based on our feeling that, in the wine industry you need to be either very big or very small — you can't be a "tweener." Becoming big provided economies of scale and the ability to have a critical mass of products and volume for distributors — and access to them. The major pluses for an IPO included improving our balance sheet, providing us with an opportunity to grow even faster via acquisitions, and establishing first-mover advantage on the way to becoming a big premium winery. Now we could compete with the top four or five wineries in the world, rather than 300-400 other small wineries. It also enabled us to provide for employee ownership, not to mention the liquidity to "monetize" their ownership down the road.[2]

As of 1997, however, only three American wine businesses, Canandigua (New York), Chalone Wine Group (Napa), and Robert Mondavi Corporation (Napa), were publicly traded. Klenz had been inspired by their success as public companies:

> Were we selling 25 percent of our company to the public too cheap? Some people on our team did argue, "Why not wait one or two years and sell at $40 per share rather than the $26 per share IPO price." Yet October 1997 was in the middle of a hot market for company IPOs, and we couldn't control for external market factors. We didn't know how long the window would stay open for IPOs, especially for relatively small companies like Beringer Wine Estates. Financial people — Wall Street — were at the time interested in the high growth story in the premium wine segment. The wine industry had recently experienced sustained double-digit growth for over a decade, unique in beverages. We felt that mid-teen growth rates in sales were sustainable throughout the future. We also offered downside protection in terms of real sales, real inventories, real consumers, and real assets, including real estate. [3]

Despite the sell-off in the U.S. financial markets and dampened trading conditions due to the worsening Asian financial crisis in the late summer of 1997, Beringer continued on course towards its IPO. Beringer was initially listed on Nasdaq[4] on October 29, 1997, at $26 per share.

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[1]Scott was subsequently appointed Chief Financial Officer of Foster's Group in November 2003.
[2] Interview with casewriters on April 23, 2001.
[3] *Ibid.*
[4]As NASDAQ ticker symbol BERW.

According to Klenz, the stock offering was oversubscribed, despite some last-minute jitters in the U.S. stock markets, attributed to the financial crisis in Asia:

> We waited 24 hours past the original IPO date due to a collapse in the Asian financial markets. Only two IPOs were done that day, which was unusual, as nearly 20 IPOs were done per day at that time. Our IPO deal, as it turned out, was 8x oversubscribed. We raised $135 million net from the IPO. That gave us currency that we attempted to use over the next couple of years to do a couple of major acquisition deals – which, as it later turned out, we were unsuccessful at doing.[5]

Continued Diversification

In April 1998, Beringer's stock price reached an all-time high of $55.00 per share. Beringer had by then become one the most popular wine companies in the world, with six award-winning wines and one exporting company. Its Beringer Estates'-branded wines were among the fastest-growing in the premium wine segment.

Over the next two years Beringer developed a portfolio of brands to compete across different price segments of the wine business. This led to a rumored bid to acquire privately-held Kendall-Jackson Estates in 2000, however, terms of the deal could not be agreed-upon by both parties. Kendall-Jackson, based in Sonoma County, California, also rebuffed friendly takeover offers from Diageo, Brown-Forman, and Allied Domecq. Meanwhile, plans were underway to diversify Beringer's product line at the low end of the market, previously dominated by its White Zinfandel, by introducing new varietal wines to its portfolio such as a White Merlot and a Red Zinfandel.[6]

Klenz recalled:

> Our diversification challenge at this time was to build a company across two major price points: mass-market premium and ultra premium. The mass-market premium segment, wines selling for $5 – $10, was a very competitive market and for this segment we needed scale economies. The ultra premium segment, wines selling for $20 – $40, was represented by our Stag's Leap, Chateau St. Jean, and St. Clement winery acquisition in 1999. We hoped to build a large portfolio of ultra premium wines. This would give us an enormous benefit with the wine trade (not the consumer), in that we could become a "one-stop shop" for wholesalers and distributors. Being a big wine company would provide access to international markets.[7]

Klenz intended to expand Beringer's distribution into international markets. By the early 21st century, exports to Europe, Canada, and Asia were forecast to represent approximately 10

[5]Interview with casewriters, April 23, 2001.
[6]In 1983, laws in the United States had taken effect controlling what wineries could put on their labels. A *varietal wine* meant one variety of grape—the name of a single grape could 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.
[7]Interview with casewriters, April 23, 2001.

percent of Beringer's operating income. [See **Exhibit 1** for Beringer's financial and operating highlights from 1995 to 1999.]

Foster's Deal

Over the past six years, Foster's had transformed itself from an Australian-centric brewing company into a "global premium branded beer and wine company." While during the 1990s beer and wine consumption around the world had been declining by 1-2 percent a year, consumption of premium wines (those costing over $5 a bottle) had been rising steadily — by over 5 percent a year — in selected markets such as Britain and America.[8] In 1996, Foster's, Australia's biggest brewer, bought its first wine company, Mildara Blass of Australia. Since then it had acquired more than 20 wine producers — the largest being Beringer of St. Helena, California.

On August 29, 2000, Foster's Brewing Group announced a friendly merger agreement to buy Beringer Wine Estates for $1.5 billion, comprising $1.2 billion in cash for 100 percent of Beringer's outstanding stock and the assumption of $300 million in debt.[9] Foster's completed the acquisition of Beringer Wine Estates in October 2000, which was subsequently merged with Foster's existing wine business, Mildara Blass, and renamed Beringer Blass Wine Estates. According to a Beringer Blass press release, "Our new name signals our future direction, which is to maximize our combined strengths in high-return, high-growth wine markets worldwide."

In September 2001, Foster's bought Napa Valley producer Etude Wines and 51 percent of New Zealand's Matua Valley Wines. By 2002, Beringer Blass claimed to be the second most profitable wine producer in the world, after E. & J. Gallo of California. Wine now accounted for 40 percent of Foster's profits.

The deal offered both shareholder value and synergy, according to Klenz:

> Globalization was already a key aspect of our diversification strategy, but could we afford to do it by ourselves using internally-generated funds? The U.S. was the largest premium wine market in the world and by far the most profitable in the world. We'd already become the low-cost producer in the wine industry. That part was easy to replicate elsewhere, but gaining access to distribution channels was a different proposition. Synergy in our industry meant having trade credibility, and trade credibility meant having access to distribution channels around the world. It was difficult to build this access. It was better to buy access. When Foster's approached us, we thought this deal would give them access to distribution here in the U.S. and us access to distribution in Europe and Asia. Foster's got geographical diversification, financial diversification (lowering its currency risk), and product diversification. We got the high multiple and deeper pockets to pursue globalization.[10]

The merger resulted in the creation of the largest premium wine company in the world: with combined revenue of nearly $886 million in fiscal year 2000. At the time, its Mildara Blass

[8]Himelstein, L. (2002, September 30). "This Merlot's for you," *Business Week:* 66-68.
[9]All amounts in U.S. dollars, unless otherwise stated. Exchange rate: Australian $1 = U.S. $0.56.
[10]Interview with casewriters, April 2001.

operating unit possessed 25 percent of Australia's super-premium wine market segment (over A$10.00 per bottle in U.S. dollars or about $5.00–$6.00), and its main export markets were the U.S., the United Kingdom (U.K.), and Europe. With its purchase of Beringer, Foster's hoped to leverage its U.S. distribution channels for Australian wines as well as its Australian distribution channels for California wines. Foster's Brewing Group was renamed "Foster's Group," reflecting its desire to shed its former image as a brewing company.

Distribution Channels

As was the case with other producers of alcoholic beverages, Beringer Blass's wine was sold in the U.S. through a "three-tier" distribution system. See **Exhibit 2** for a diagram depicting the three-tier distribution system. Wineries or importers (the first tier) sold wine to wholesalers and distributors (the second tier), who provided legal fulfillment of wine products to local retail businesses (the third tier) within a certain state. Wine was a controlled substance, and laws in each state differed regarding how it could be sold. Typically, wine passed through the second tier via wholesalers and distributors, making direct shipping to retailers or selling wine through the Internet and wine-buying clubs difficult or impossible in all but 13 states. Three major distributors, Southern Wine & Spirits, Charmer/Sunbelt, and National dominated alcoholic beverage distribution. Three other dominant distributors included Glazer and Republic (in Texas) and Young's Market (in California). According to *Impact Databank*, these distributors together controlled nearly 50–60 percent of all wine distributed in the U.S. Over the past decade nearly 1,000 smaller distributors had become marginalized or acquired due to the advantages of scale and scope afforded to the three largest distributors. Similar consolidation was underway in the third tier, primarily on the retail ("off-premises") side.

The third tier of the distribution system consisted of retail and non-retail outlets. According to *Adams Wine Handbook*, supermarkets, convenience stores, club stores, mail order and Internet retailers, specialty stores, and wine clubs accounted for 78 percent of total sales volume.[11] In the U.S. supermarkets alone accounted for 41 percent of retail wine sales and the largest chains — including discount retailers such as Costco, Wal-Mart, and Trader Joe's — were very influential in wine distribution. They had become dominant in food and drink retailing and made one-stop shopping an appealing concept for consumers. Furthermore, supermarkets and discount retailers had considerable bargaining leverage with wholesalers. The role of specialty stores — independent wine shops — in wine distribution diminished due to the increasing power of supermarkets. Specialty stores' share of retail wine sales was about 23 percent in the U.S. Nevertheless, specialty stores were unlikely to disappear soon because they provided superior knowledge of wine and customer service. Specialty stores tended to carry specialty brands and limited production labels, attracting wine connoisseurs and enthusiasts. "On-premises" sales, via non-retail outlets such as restaurants, hotels, and airlines, accounted for the remaining 22 percent of wine volume in the U.S., according to *Adams Wine Handbook*.

[11] Adams Media (1999). *Adams Wine Handbook*, New York: Adams Business Media.

BERINGER BLASS' WINE BUSINESS STRATEGY

Following the merger, Beringer Blass's new mission statement declared a "focus on becoming the most valuable premium wine company in the world by providing a quality wine experience to every customer in every market." **Exhibit 3** presents Beringer Blass's mission statement and strategy.

The integration of the Beringer and Blass international operations into a unified operating unit commenced in 2001. Related to the challenge of building a global wine business was identifying and leveraging the capabilities previously developed by the two wine businesses, in essence redefining them as multi-country "centers of excellence." Broadly speaking, a center of excellence could be defined as an organizational unit that embodied a distinctive set of capabilities that were recognized as an important source of value creation, with the intention that its capabilities be leveraged by and/or disseminated to the other parts of the firm.[12] With increased value creation in mind, Beringer Blass began its strategic reorganization plan. This plan entailed the creation of distinct operating divisions to recognize a consumer-based, trade channel, and product mix focus: premium wine, luxury wine, on-premise sales, and consumer direct sales. According to Foster's 2001 *Annual Report*, "initial synergies were expected by 2002."

Beringer Blass's wine business strategy consisted of using three separate channels in its efforts to become a major international wine producer: Wine Trade, Clubs, and Services.

1) *Wine Trade.* Its Wine Trade strategy was to make and market to institutional ("on-premises") and retail ("off-premises") customers the world's leading portfolio of international premium wine brands. In September 2001, Beringer Blass completed the $35 million buyout of Italian producer Castello di Gabbiano and the purchase of California's Etude Wines. On September 4, 2002, Beringer agreed to purchase the Carmenet brand of wines from Chalone Wine Group in Napa, California, for $5.4 million. Top priority was placed on increasing export sales of Beringer Blass's portfolio brands, particularly to the U.K., by combining Mildara Blass and Beringer Blass's existing networks of international distributors. Beringer Blass set up expanded sales offices in each of its major markets (U.S., Europe, and the Pacific Rim), targeting five-star hotels, up-market restaurants and premium liquor outlets. Signaling its strong commitment to further developing its European wine business, on February 20, 2002, Beringer Blass appointed John Philips to the newly created position of Managing Director, Europe, Middle East, and Africa. Philips had previously been president of Diageo's UDV/Guinness Wine Group. "John's appointment is consistent with our strategy of establishing strong geographic

[12]Adapted from Frost, T.S., Birkinshaw, J.M. & P.C. Ensign. (2002)."Centers of excellence in multinational corporations," *Strategic Management Journal* 23, 997-1018. This paper examines the conditions under which centers of excellence emerge in foreign subsidiaries of multinational firms and their impact on firm performance. The authors conclude that achieving internal recognition as a center of excellence and the resultant impact on firm performance are largely a function of parent company investment.

bases from which we can drive our trade business forward throughout the world," commented Klenz.[13]

2) *Wine Clubs.* The Wine Club strategy aimed to reinforce and further develop Beringer Blass's position as the world's leading consumer-direct merchant for premium wine and wine-related products. Wine Clubs, such as the Australian Wine Club in the U.K. and Wine Buzz in Japan, were set up across the world to cater to premium wine consumers. The clubs offered members access to quality wines, outstanding customer service and other benefits such as cellar management software and wine accessories. Its Wine Clubs served more than one million customers worldwide and was positioned to become one of the world's leading direct wine merchants. On July 4, 2001, Beringer Blass acquired International Wine Accessories (IWA), to assist in keeping accessories' costs down for its wine club members. These accessories included wine glasses, bottle openers, and decanters. The purchase price was $18.0 million (A$35 million U.S. dollars) and was expected to be EPS positive from day one. The acquisition:

- provided a lower cost base for Beringer Blass's wine clubs to achieve positioning as a one-stop shop for wine and wine-related products in all countries;
- created significant opportunities to cross market to IWA's quality database of wine accessory buyers;
- enabled Beringer Blass to review opportunities to offer Australian and European wine trade customers a significant sales opportunity in high-end wine merchandise (In the U.S., almost one quarter of IWA's sales revenue was generated from the retail wine trade, ranging from wine shops to hotels and restaurants); and
- served Beringer Blass's aim to continuously upgrade its Australian cellar doors by improving the range and standard of wine merchandise available for sale to visitors. Offering a substantial range of wine-related merchandise was a focal point for the company's highly successful Californian "cellar door program."[14]

3) *Wine Service.* The goal for the Wine Service business was to be the leading supplier of premium packaging and warehousing services to the wine industry on a global level. In September 2001, Beringer Blass purchased Tarac Bottlers for A$15.5 million ($8.7 million), enabling it to become the world's largest contract wine bottler. In that same month, Beringer Blass also formed partnerships with François Frêres, the world's second largest cooperage. A cooperage was a manufacturer of barrels used in the aging of wine. The joint venture was expected to more than double Beringer Blass's oak barrel sales to 37,000 annually and to create the potential to increase its oak barrel production in both Australia and the U.S.A.

Awards and Honors

According to Foster's 2001 *Annual Report*, Beringer Blass's wines won numerous awards in 2001. At the international wine and spirits competitions at VinExpo in Bordeaux, France, Beringer Blass was awarded the Schenker Trophy for Best Australian Wine Producer for

[13]Media Release (2002, February 20). "Beringer Blass Wine Estates appoints new Managing Director, Europe—John Philips tapped for new position." www.beringerwineestates.com/investors/fr_newsrelease.html
[14]Australian Associated Press (2001, July 4). "Beringer Blass continues bolt-on acquisition strategy with wine clubs' purchase."

its Annie's Lane, Jamieson's Run, Wolf Blass, and Saltram brands. Australian subsidiary Wolf Blass was named winner of the Maurice O'Shea Award, the most prestigious in the Australian wine industry, for the introduction of new winemaking techniques, marketing strategies, and development of new export markets.

Beringer Blass's California and imported wines won over 300 medals in U.S. competitions, including 63 Gold or Best of Class Medals. Three California wineries, Beringer Vineyards, Stags' Leap, and Chateau St. Jean, were included in the "Top 50" on-premise wine brands published by *Wine & Spirits* magazine. Two luxury portfolio California wines, Beringer Vineyards' 96' Private Reserve Cabernet and Chateau St. Jean's '97 Cinq Cépages, received the tasting scores of 90 or above from *The Wine Spectator* and *Wine Advocate*, influential U.S. trade publications. Chateau St. Jean's '97 Cinq Cépages was named as the outstanding wine of the year by *The Wine Spectator* in 2001.

Recent Financial Performance

In fiscal year 2001, sales for the combined wine division more than doubled to A$1,359.7 million ($761.4 million) reflecting nine months of Beringer's contribution to Foster's wine business sales (A$667.7 million or $373.4 million). Earnings before interest, taxes, and amortization (EBITA) for the combined operations were A$342.1 million ($191.6 million), up 121.7 percent Excluding Beringer, EBITA for the wine division increased to A$176.2 million ($98.7 million), a 14.2 percent improvement over fiscal year 2000. EBITA for the Australian wine trade business, comprising domestic and export sales, increased 11 percent to A$107.7 million ($60.3 million). Improved earnings for the Australian wine operations were driven by increased outsourcing, lower production costs, gross margin improvement, the rationalization of under-performing brands, and better inventory management. International EBITA growth was driven by increases in volumes of 20 percent. Notably, case shipments of wine increased more than 20 percent in the U.S., Canada, and the U.K. Return on capital employed (ROCE) for the newly combined Beringer and Mildara Blass wine operation was between 13 and 15 percent; with the acquisition premium taken into account, combined returns dropped to slightly below 9 percent.

In fiscal year 2002, Beringer Blass's EBITA contribution was A$486.6 million ($272.5 million), up 30.1 percent over FY 2001 (FY 2001 EBITA included only nine months of Beringer contributions). Global volumes increased 25.8 percent to nearly 17 million nine-liter cases shipped. **Exhibit 4** shows year-on-year comparisons of Beringer's financial results in FY 2001 and FY 2002. On a divisional basis, Wine Trade EBITA rose 36 percent over FY 2001 to A$401.0 million ($224.6 million). Wine Clubs EBITA fell 7.6 percent to A$54.9 million ($27.5 million). Wine Services EBITA rose 54.3 percent to A$30.7 million ($17.2 million). According to company reports, Foster's return on capital employed (ROCE) increased 30 basis points to 13.4 percent, about 280 basis points above the group's weighted average cost of capital. The restructuring of Beringer's global Wine Trade businesses was completed and regional businesses were now in place in the three key world wine markets: North America, Asia Pacific, and U.K./Europe.

On May 1, 2001, Beringer Blass introduced a new brand called Stone Cellars, featuring Cabernet/Shiraz, Chardonnay, and Merlot, and selling in the $6.00 to $8.00 (A$11.50 to A$15.30) bracket. Beringer Blass aimed for case sales of one million in the first year. Notably, Stone Cellars achieved sales volumes of nearly one million cases in the first 15 months following its introduction into the North American and U.K./European markets.

Exhibit 5 shows Foster's historical and projected financial statements from 1997-2005. **Exhibit 6** lists Beringer Blass's portfolio wine brands in 2002. **Exhibit 7** lists Beringer Blass's key vineyard holdings in 2002.

Markets and Competition

Beringer Blass competed with two major types of businesses: stand-alone wineries and conglomerates. Beringer's primary stand-alone winery competitors in the US included publicly-traded Robert Mondavi, and the privately held E&J Gallo, Kendall-Jackson, and a host of small- to medium-size wineries primarily based in Northern California. Large conglomerate competitors included Allied Domecq, Brown-Forman (Wine Estates division), Constellation Brands (Canandigua division), Diageo (Chateau & Estates division), Fortune Brands, Louis Vuitton Möet Hennesey (LVMH), and UST (formerly known as U.S. Tobacco). Recent comparative financial data for several publicly traded wine industry rivals are shown in **Exhibit 8**. Stand-alone wine competitors, their key brand holdings, and estimated case sales are shown in **Exhibit 9**.

Beringer Blass faced intense global competition in the premium and ultra-premium wine segments. Rival beverage conglomerates such as Allied Domecq, Brown-Forman, Constellation, and Diageo sought to build wine portfolios through acquisitions and partnership arrangements. Beringer Blass's conglomerate competitors had historically expanded their wine portfolios through acquisitions of independent wineries as well as purchases of majority interests in the beverage divisions of other conglomerates. From 2000 to 2002, several conglomerates began divesting those subsidiaries that diverted resources from their core beverage businesses, notably Diageo's and Allied Domecq's sales of their food operations, capped by Diageo's $1.5 billion sale of its Burger King fast-food subsidiary to an investment group in December 2002.[15]

The beverage conglomerates' redeployment of assets and investment dollars into wine brands was also driven by predictions that premium brand wine consumption would continue to grow faster than other alcoholic beverages such as beer and spirits, despite the challenges of economic uncertainty, consolidation, and oversupply of grapes.[16] According to Chris Carson, the chief executive of BRL Hardy (Europe):

> With the advent of brands there is more profit being made and there are several companies in the world making attractive returns on investments at the sort of level that is interesting to the spirits

[15] *Business Wire* (2002, December 13). "Diageo agrees the sale of Burger King." Interestingly, the group that purchased Burger King from Diageo included Texas Pacific Group (TPG). TPG was the same leveraged buyout firm that had purchased Wine World Estates from Nestlé in 1996.

[16] Anon. (2001, November 21)."Turning to the bottle," *Marketing Week:* 25.

> companies. They are looking for a 15% return and there are several wine companies at that level. We are now one of the key players…. I think what will emerge is half a dozen very strong global wine businesses. Whether they will tuck in with Diageo, Lion Nathan, Allied Domecq and Fortune Brands, or be stand-alone operators such as Gallo and Constellation [formerly Canandigua] remains to be seen.[17]

Other wine industry experts predicted that an accelerating trend of worldwide consolidation in the producer, distributor, and trade segments for premium wines would be more than offset by several factors. These factors included the continuing increase in the number of small wineries, a fundamental increase in consumer demand, the increasing affluence of the wine-buying public, and the results of decade-long efforts directed toward improving quality in production, sales, and service.[18]

The Globalization Challenge

From 2000 to 2002, several prominent American-based wineries and beverage conglomerates such as Constellation Brands' Canandigua division (with BRL Hardy), Brown-Forman Wine Estates (with McPherson and Chateau Tahbilk), Kendall-Jackson (with Yangarra Park) and Mondavi (with Southcorp) set up joint ventures with other "New World" wineries from Australia. Traditional "Old World" producers were located in Europe: Austria, France, Italy, Germany, Portugal, and Spain. The purpose of these joint ventures was to enable California wineries to increase market share; create synergy with distribution channels, marketing and sales; diversify production sources and growing seasons; and reduce costs.[19]

Imports of Australian wines to the U.S. rose dramatically from 1997-2001 [see **Exhibit 10** for recent statistics on the top five markets for Australia's wine exports]. Of note, Southcorp's Lindemans and Rosemount Estates wines held the number one and two positions among the fastest growing wine brands in the U.S. in 2001 [see **Exhibit 11** for a profile of Southcorp]. Additionally, two Australian imports, Pernod Ricard's Jacob's Creek and Canandigua's Alice White, were ranked among the top ten fastest-growing U.S. wine brands in 2001. Three other Australian brands (Greg Norman Estates, McPherson, and Stonehaven) were considered by the industry to be "rising stars," ranked by recent volume growth [see **Exhibit 12** for 1997-2001 rankings of wine brands in the U.S.].

Since 1992, trade imbalances in wine had grown as a result of a strengthening dollar as well as the rising value of imported wines. U.S. wine producers' exports softened in 2000 and 2001. **Exhibit 13** presents bottled U.S. table wine exports by country in 2001 and 2002. **Exhibit 14** presents U.S. wine balance of trade statistics from 1984-2001

[17]Anon, (2001, March 10). "Wine: in for the kill," *The Grocer*, 35.
[18]Arno, A. (2002). "Globalization of the wine industry." Wine Business Monthly 9:4, May.
[19]Prial, F. (2002, September 25). "A surplus of grapes is a boon for buyers." *The New York Times*, p. D4.

Around the world, changes in consumer perception about wine, an oversupply of wines and an economic recession combined to depress sales of premium wines. The market had moved from connoisseur elite French and Eurocentric wines (such as Bordeaux, Burgundy, Champagne) to generic or varietal types (such as Chardonnay, Chenin Blanc, Cabernet Sauvignon, Pinot Noir, and Merlot). Despite their growth in the last decade, California wines continued to lose market share to imports.

The long cycle of growth for the premium wine segment of the industry during the 1990s had resulted in the expansion of grape growing acreage at a faster rate than the growth of demand. Yet supplies of wine grapes had only recently begun to grow rapidly due to the characteristics of vine development. It normally took five to six years for newly planted grapevines to mature and start to produce quality grapes. Premium varietal wines typically required further aging prior to bottling, from one year for Chardonnay to up to three years for Cabernet Sauvignon. The wine supply chain had globalized, as grapes could now be purchased almost anywhere and in season (that is, from growing regions in the Southern Hemisphere). By the turn of the century, imports of quality premium wines from "new world" growing regions such as Australia, Argentina, and Chile were competing quite successfully with California wines' share of an increasingly price-conscious market.[20]

Vic Motto, of Motto Kryla, Fisher, a wine industry consultant, commented on these trends:

> Globalization has created a world market with a trend towards worldwide normalization of taste and stylistic standards. Global communication networks have also created the potential for small brands to access the same consumers as large ones. However, no one has succeeded in building a global brand—yet.[21]

Statistics on worldwide wine consumption, trended from 1990 to 2002, are shown in **Exhibits 15** and **16**. **Exhibit 17** presents worldwide production statistics by country. In response, the U.S. wine industry created a Globalization Task Force to address the challenge of growing the U.S. producers' share in worldwide wine markets [see **Exhibit 18** for the U.S. Wine Industry Globalization Task Force position paper]. David Freed, a co-founder of Beringer Wine Estates after its leveraged buyout from Nestlé, headed up the industry's globalization task force. In his introduction of Klenz as keynote speaker to the Wine Industry Sympsium, Freed commented:

> [Wine producers] in California have to recognize that we're not the low-cost producers. We cannot compete in a global marketplace based upon price. So, if we can't compete on price, then it seems we have to compete on value. Value can either be perceived value, for example, the value attached to a strong brand like Sony in electronics or Nike in tennis shoes, or the price/value of the product/deliverable.[22]

[20] Echikson, W. *et. al*. (2001). "Wine war." *Business Week*, September 3, 54-60.
[21] PR Newswire (2002, June 21)."World wine market keynote highlights impact of globalization on U.S. wine market."
[22] Freed, D., Wine Industry Symposium, Napa, California, September 18, 2002.

FUTURE GROWTH STRATEGIES

Leaning on the lectern and delivering what instantly became known in the industry as a controversial presentation, Klenz propounded that a truly global premium wine business might:[23]

- become roughly three times the current size of Beringer Blass;
- produce 50 million cases of wine each year;
- generate $3 billion in annual revenues;
- hold a 20 percent market share of the global "commercial premium" segment;[24]
- rival the size of some of its trade customers, like Kroger's and Safeway;[25] and
- achieve a market capitalization of $8 to $10 billion or greater.

"A truly global wine business would be equivalent in size to every spirits company with the obvious exception of Diageo [about $17 billion in sales in 2002] and equal to or bigger than most beer companies besides Heineken and Anheuser-Busch," Klenz told the stunned wine business conference attendees.

Klenz ended his speech by saying:

> Nobody has a global wine company as I define it, but we are developing a blue print for how to do that going forward. I actually believe it's gonna happen – somebody's gonna do it. But are we [Beringer Blass] ready for another set of consolidation transactions? We also need to balance between global values, that is, building a brand that is common to all markets, while adapting to what every local market needs. How do we develop a series of core global brands at different price points, create a globally-oriented organizational culture, revamp our product line to make it more accessible to a new generation of wine consumers, and build internal communications systems to support an increasingly complex production/marketing interface? We're still struggling with these issues, though we have made some progress. We still have a long way to go to become the first global wine business.[26]

Nevertheless, an emerging glut of wine due to bountiful grape harvests, worldwide political instability, and economic uncertainty combined to increase Beringer Blass's operating risk in late 2002. In light of these adverse conditions, Klenz and his fellow 3,800 employees worldwide needed a strategy to retain its first-mover advantage in the race to become the first global wine business.

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[23] Klenz, W., "The Globalization of Beringer Blass Wine Estates," speech to Wine Industry Symposium, Napa, California, September 18, 2002.

[24] This segment consisted of bottles of wine priced at $5-$6 and $10-$12, or brands priced to produce profits that could attain mass distribution and mass exposure in key retail channels.

[25] These supermarket chains had market capitalizations of $12 and $14 billion, respectively, in 2002.

[26] As quoted in Penn, C. (2002). "Walt Klenz on developing a global wine business," Wine Business Monthly 9:10, (October), 31.

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EXHIBITS

Exhibit 1—Beringer Wine Estates, Financial and Operating Highlights, 1995-1999

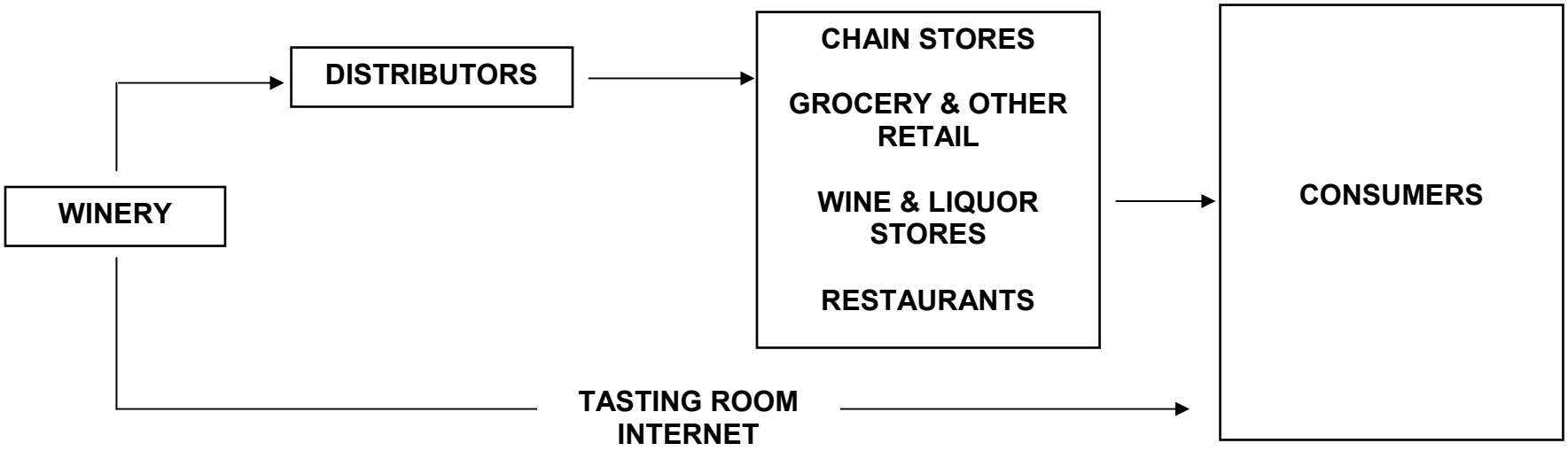
(all data in millions)

Fiscal Year Ended June 30	1999	1998	1997	1996	1995
Net Revenue	$376.2	$318.4	$269.5	$231.7	$202.0
Adjusted Gross Profit	194.6	163.7	134.9	116.1	100.7
Adjusted Operating Income	83.0	70.5	56.3	43.9	34.8
Adjusted Net Income	39.3	29.5	15.1	15.6	16.8
Volume (9-liter case equivalent)	6.8	6.1	5.4	5.0	4.6
Total Assets	$644.3	$543.6	$467.2	$438.7	$289.9
Total Debt	$328.0	$277.2	$319.1	$289.2	N/A

N/A = not available

Source: Beringer Wine Estates, *1999 Annual Report*.

Exhibit 2—The "Three-Tier" Distribution System for Wine in the U.S.



Source: Justin Faggioli, Chief Financial Officer, Ravenswood Estates, Sonoma, CA

Exhibit 3—Beringer Blass Wine Estates' Mission and Strategy, 2002

Mission

Our mission at Beringer Blass Wine Estates is to be clearly recognised as the 'most valuable' premium wine company in the world, by providing a quality wine experience to every customer in each market and segment in which we operate.

Strategy

Focus on premium end of the global wine market

We differentiate ourselves from competitors by focusing on the premium end of the global wine market.

Our Wine Trade business makes and markets an outstanding international portfolio of premium regional varietal wines. Our approach is to offer a balanced, multi-brand, multi-price-point portfolio, ensuring that the brand values and reputations of our icon wines are preserved and leveraged throughout the entire brand range. This balanced approach creates value and affords a natural hedge against economic trends. In addition, our continuing, defined program of new product development maintains vitality in the portfolio, providing growth opportunities over and above the organic growth of our base brands.

Recognising that fine wines consumers value distinctiveness and diversity, we actively cultivate and promote the unique heritage and style of each of our wineries around the world, with individual wine brands being championed by individual winemakers. We also tailor our portfolio and marketing investment to local market demand and opportunities wherever we operate. For our flagship international retail wines (including Wolf Blass, Beringer Vineyards, Black Opal and Greg Norman Estates), brand management is led from the primary market, with our global brand development panel setting overall brand priorities and protecting brand integrity across all markets.

Targeting premium wine consumers who want the conveniences and other benefits of buying direct, our Wine Clubs seek to differentiate themselves from competitors by offering exclusive quality wines, outstanding customer services and comprehensive member benefits such as personal cellar management software, wine cellaring services and wine accessories.

Many of our Wine Clubs across the world are highly awarded wine producers in their own right, and increasingly the Wine Clubs channel is leveraging its ability to supply wines from across the world to enhance member offers.

Supplying wine producers, our Wine Services channel also focuses on the premium end of the market. Growth is driven by the increasing trend among premium wine producers to differentiate their brands through more sophisticated packaging material and higher quality contract bottling services.

Global Presence

Global distribution strength is the second plank of our strategy.
No other table wine company in the world has better market depth than Beringer Blass across the key premium wine markets of North America, Australia and Europe.

We have a decentralised approach to global distribution, locating managers within their region of responsibility to ensure that business decisions are based on local market conditions and individual customer requirements. Our Trade sales offices are located in the USA, Australia, United Kingdom, Switzerland, Canada, New Zealand, Singapore, Hong Kong and Japan.

Our clubs operate in Australia, New Zealand, Germany, Netherlands, France, Belgium, UK, USA and Japan.

Our Wine Services businesses operate in Australia, New Zealand and France.

Unique multiple-channel approach

We are unique among the world's major wine producers in operating three separate business channels - Trade, Clubs and Services.

- Our Wine Trade strategy is to make and market the world's leading portfolio of international premium wine brands.
- Our Wine Clubs channel aims to reinforce and further develop its position as the world's leading consumer- direct merchant for premium wine and wine-related products.
- In Wine Services, our goal is to be the leading supplier of premium packaging and warehousing services to the wines industry, globally.

With relatively low capital requirements, our Clubs and Services businesses achieve strong capital returns, giving us greater strength and flexibility for the company's continuing overall growth in the word's premium wines markets.

In the more capital-intensive Trade business, our investment is targeted to premium vineyards and wineries, which supply and produce our high-end wines. For some entry-level wines in our portfolio, we limit our capital exposure by purchasing and processing fruit externally, under the close supervision of our winemakers.

Source: http://www.beringerblass.com/about/index.asp, accessed 11/15/02.

Exhibit 4—Beringer Blass Wine Estates' Segment Data, FYEs June 30, 2001 and 2002

	Revenue *A$ millions*			**Earnings before interest, tax, and amortization (EBITA)** *A$ millions*		
Year ended 30 June	**2002**	**2001**	% Change	**2002**	**2001**	% Change
Results by division						
Wine Trade	1,326.2	1,015.3	30.6%	401.0	294.8	36.0%
Wine Clubs	398.1	346.3	15.0%	54.9	59.4	-7.6%
Wine Services	246.8	178.4	38.3%	30.7	19.9	54.3%
Less: Intra-division sales	(37.3)	(27.1)				
TOTAL	1,933.8	1,512.9	27.8%	486.6	374.1	30.1%
Wine Trade Division, by geographic region						
North America				316.6	215.0	47.4%
Asia Pacific				67.9	65.0	4.1%
UK/Europe				16.5	14.8	11.6%
TOTAL				401.0	294.8	36.0%

Source: Foster's Group 2002 *Financial Report*

Exhibit 5—Foster's Group, Selected Financial Highlights and Projections, 1997-2005

Profit & Loss Statement (A$million)	**2005e**	**2004e**	**2003e**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Sales revenue	5,468.0	5,118.0	4,797.0	4,572.0	4,079.0	3,408.0	3,012.0	3,058.0	2,780.0
EBITDA	1,409.2	1,328.4	1,246.7	1,210.4	1,041.6	759.5	708.5	641.6	505.9
EBITDA margin	25.8%	26.0%	26.0%	26.5%	25.5%	22.3%	23.5%	21.0%	18.2%
Depreciation & Amortization	(235.2)	(227.4)	(219.8)	(224.5)	(175.0)	(108.9)	(122.0)	(106.8)	(79.1)
EBIT	1,174.3	1,101.3	1,027.2	986.2	866.9	650.8	586.7	535.0	427.0
EBIT margin	21.5%	21.5%	21.4%	21.6%	21.3%	19.1%	19.5%	17.5%	15.4%
Net interest expense	(155.2)	(160.6)	(165.8)	(182.4)	(172.1)	(65.0)	(61.1)	(111.4)	(90.1)
Profit before tax	1,019.3	940.9	861.6	804.0	695.0	586.0	525.8	423.8	337.0
Tax expense	(317.3)	(291.0)	(262.2)	(240.6)	(199.7)	(154.5)	(158.2)	(150.8)	(70.9)
Miinority interests	(7.0)	(6.4)	(5.8)	(5.5)	(4.1)	(3.4)	(2.0)	2.6	2.5
Net profit after tax	695.0	643.5	593.6	557.9	491.2	428.1	365.6	275.6	268.6
Abs & extras (after tax)				3.5	(25.5)		4.0	171.4	(17.8)
Reported Profit	695.0	643.5	593.6	561.4	465.7	428.1	369.6	447.0	250.8
% of Revenues	12.7%	12.6%	12.4%	12.3%	11.4%	12.6%	12.3%	14.6%	9.0%
Segment Analysis (A$million)	**2005e**	**2004e**	**2003e**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
EBITA									
Australian Brewing	485.3	467.3	450.1	430.5	410.8	391.8	387.6	369.6	324.7
International brewing ex-Asia	50.3	44.9	40.1	35.8	30.8	19.3	11.0	2.1	(3.2)
Asian Brewing	3.3	1.4	(1.1)	(4.4)	(5.4)	(12.7)	(24.2)	(42.2)	(19.0)
Spirits	9.6	9.2	8.8	10.7	15.4	-	-	-	-
Gaming Clubs (ALH)	135.6	127.7	119.7	114.4	105.9	111.3	82.7	55.2	43.0
Wine -Trade	457.4	412.2	373.0	356.8	269.1	88.9	83.0	66.8	61.9
Wine -Clubs	66.4	62.6	58.7	54.9	59.4	55.6	40.5	17.4	-
Wine - Services	41.5	37.9	34.6	30.7	19.9	11.1	9.0	8.2	-
EBITA margins (selected divisions)									
Australian Brewing	29.1%	28.7%	28.3%	27.6%	26.5%	26.4%	26.8%	26.0%	24.3%
Wine-Trade	26.8%	26.8%	26.8%	26.9%	26.5%	28.8%	32.2%	27.2%	28.6%
Wine - Clubs	13.9%	14.0%	13.9%	13.8%	17.2%	19.8%	17.7%	16.2%	-
Per Share Data (A$)	**2005e**	**2004e**	**2003e**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Avg. diluted shares outstanding	2,146	2,119	2,081	2,040	1,910	1,724	1,750	1,803	2,017
Reported EPS (fully diluted)	$ 0.324	$ 0.304	$ 0.285	$ 0.274	$ 0.257	$ 0.249	$ 0.211	$ 0.158	$ 0.137
Growth rate in EPS (%)	6.7%	6.4%	4.4%	6.3%	3.5%	17.8%	34.0%	14.6%	-9.0%
Dividends per share	$ 0.20	$ 0.19	$ 0.18	$ 0.17	$ 0.16	$ 0.15	$ 0.13	$ 0.11	$ 0.11
Dividend payout (%)	62.0%	62.0%	62.0%	62.0%	60.0%	58.0%	62.0%	70.0%	80.0%

Sources: Company reports and Salomon Smith Barney estimates, November 13, 2002.

Exhibit 5—Foster's Group, Selected Financial Highlights and Projections, 1997-2005 (continued)

Balance Sheet FYE June 30 (A$million)	**2005e**	**2004e**	**2003e**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
Cash & deposits	277	277	277	277	543	508	165	300	120
Inventories	1,916	1,736	1,547	1,679	1,565	718	485	415	307
Debtors	1,301	1,214	1,123	1,187	942	337	329	292	279
Other assets	643	597	554	518	555	269	202	316	1,205
Property, plant & equipment	3,535	3,448	3,360	3,267	3,351	1,937	2,200	1,715	1,699
Elders Finance Group	-	-	-	-	-	-	253	216	322
Intangibles	2,439	2,487	2,535	2,584	2,669	1,333	1,275	1,166	1,013
Total Assets	**10,111**	**9,759**	**9,396**	**9,512**	**9,625**	**5,102**	**4,909**	**4,420**	**4,945**
Creditors	1,203	1,175	1,146	1,166	1,079	518	503	490	309
Provisions	793	780	764	748	655	517	378	504	483
Borrowings	3,131	3,151	3,251	3,385	4,081	1,759	1,171	907	1,255
Total Liabilities	**5,127**	**5,106**	**5,161**	**5,299**	**5,815**	**2,794**	**2,052**	**1,901**	**2,047**
Shareholders' funds	**4,984**	**4,653**	**4,235**	**4,213**	**3,810**	**2,308**	**2,857**	**2,519**	**2,898**
Cash Flow Statement (A$million)	**2005e**	**2004e**	**2003e**	**2002**	**2001**	**2000**	**1999**	**1998**	**1997**
EBITDA	1,409	1,328	1,247	1,210	1,042	760	709	642	506
Change in working capital	(239)	(252)	(192)	(212)	(162)	(16)	(53)	(222)	(28)
Net interest paid	(155)	(161)	(166)	(182)	(172)	(65)	(61)	(111)	(90)
Tax paid	(317)	(291)	(262)	(241)	(200)	(155)	(158)	(151)	(71)
SGARA revenues reversed out	(76)	(86)	(93)	(136)	(72)	(33)	-	-	-
Other (additional provisions)	19	19	19	33	(39)	(3)	(113)	(68)	(27)
Net Operating Cash Flow	**641**	**558**	**553**	**472**	**397**	**488**	**323**	**89**	**290**
Capital Expenditures	**(285)**	**(285)**	**(285)**	**(285)**	**(323)**	**(210)**	**(196)**	**(158)**	**(196)**
Asset sales	41	41	41	81	33	13	39	-	18
Acquisitions	-	-	(54)	(130)	(3,049)	(264)	(491)	(519)	(105)
Elders Finance Group net recoveries	-	-	18	35	35	134	72	44	60
Divestitures/other	**23**	**24**	**73**	**330**	**(300)**	**(50)**	**25**	**1,639**	**208**
Investing Cash Flow	(221)	(220)	(207)	31	(3,604)	(377)	(551)	1,006	(15)
New equity issues	-	-	(41)	96	1,025	(112)	(70)	(626)	-
Dividends paid	(416)	(387)	(360)	(319)	(256)	(240)	7	(188)	(216)
Dividends reinvestment program	8	149	180	165	150	-	-	-	-
Equity cash flows	(408)	(238)	(180)	(154)	(106)	(240)	7	(188)	(216)
Change in net cash	12	100	166	349	(3,313)	(129)	(221)	907	59

Sources: Company reports and Salomon Smith Barney estimates, November 13, 2002

Exhibit 6—Key Brands Marketed by Beringer Blass Wine Estates

California	*Australian / Asia-Pacific*	*Europe*
Beringer	Wolf Blass	Gabbiano
Carmenet (acquired 9/02)	Black Opal	Campanile
Chateau St. Jean	Jamiesons Run	
Chateau Souverain	Yellowglen (Sparkling)	
Meridian	Annie's Lane	
St. Clement	Matua Valley (New Zealand)	
Stags' Leap Winery	The Rothbury Estate	
Etude	Greg Norman Estate	

Source: http://www.beringerblass.com/about/index.asp, accessed 11/15/02.

Exhibit 7—Key Vineyard Holdings of Beringer Blass Wine Estates

Country	Hectares	Acres	% Developing	Key Regions
USA (California)	5,000	12,300	19	Napa Valley, Sonoma County, Central Coast, Lake County
Australia	3,500	8,700	14	75% of plantings in South Australia's premium regions, including Coonawarra, Wrattonbully, Barossa Valley, Clare Valley, Langhorne Creek and McLaren Vale
New Zealand	250	650		Auckland, Gisborne, Hawkes Bay and Wairarapa in the North Island and Marlborough in the South Island
Italy	50	100		Tuscany's Chianti Classico zone
Total	8,800	21,750		

NOTE: The group controls a total of 8,800 hectares (21,750 acres) of vineyard plantings in Australia, NZ, California and Europe.

Source: http://www.beringerblass.com/about/index.asp, accessed 11/15/02.

Exhibit 8—Comparative Financial Data for Publicly-Traded Australian and International Wine Companies, 2000-2002

Company name		BRL Hardy	Foster's Group	Southcorp	Allied Domecq	Diageo	Constellation Brands	Robert Mondavi
Country		Australia	Australia	Australia	UK	UK	USA	USA
Year end		Dec	Jun	Jun	Aug	Jun	Feb	Jun
Ticker symbol		BRL	FGL	SRP	ALLD	DGE	STZ	MOND
Stock price 10/02		A$7.68	A$4.72	A$5.35	£3.93	£7.39	US$24.82	US$31.39
Market cap. 10/02		A$1,345m	A$9,881m	A$3,955m	£4,150m	£23,744m	US$2,184m	US$497m
P/E Ratio								
2000	(X)	18.0	18.6	15.6	14.3	19.9	23.7	12.4
2001	(X)	16.9	17.6	19.6	12.7	27.3	19.1	10.6
2002	(X)	15.5	16.8	18.6	12.4	17.0	15.8	13.1
Core EPS Growth								
2000	(%)	19.4	15.3	10.8	(32.2)	8.5	35.3	17.1
2001	(%)	6.4	5.2	(20.2)	13.1	15.1	20.3	16.1
2002	(%)	9.2	5.3	5.2	2.6	1.6	17.5	(18.6)
EBIT margins								
2000	(%)	16.2	18.1	18.8	18.0	18.1	10.0	17.8
2001	(%)	16.1	21.3	28.7	12.8	18.9	11.2	18.0
2002	(%)	15.9	21.6	16.4	16.6	20.3	12.1	19.0
ROI								
2000	(%)	15.0	18.3	13.7	34.7	19.3	14.6	11.8
2001	(%)	13.2	16.4	10.8	24.2	20.1	16.2	12.2
2002	(%)	12.3	13.8	9.9	19.1	18.4	n/a	n/a
Dividend yield								
2000	(%)	2.3	3.1	3.9	2.8	2.8	-	-
2001	(%)	2.6	3.3	3.9	3.1	3.0	-	-
2002	(%)	2.9	3.6	4.1	3.4	3.2	-	-

n/a = not available

Sources: Company reports and Salomon Smith Barney estimates, October 25, 2002.

Exhibit 9—Wine Companies: Key Brands and Estimated Cases Shipped, 2002

Company	Allied Domecq PLC		Beringer Blass		Brown-Forman		Canandigua		Diageo PLC		E & J Gallo	
Headquarters:	London, England Healdsburg, CA (Allied Domecq Wines USA)		Australia (Foster's) St. Helena, CA (Beringer)		Louisville, KY Healdsburg, CA (Brown-Forman Wine Estates)		Freeport, NY (Constellation Brands)		London, England Napa, CA (Diageo Chateau & Estates)		Modesto CA Healdsburg, CA (Gallo of Sonoma)	
Est. Annual Worldwide Production:	24 million cases		17 million cases		9 –10 million cases		45 million cases		*		65 million cases 2 million in premium wine	
Key Brands:	Atlas Peak	40,000	Beringer Vineyards	3,500,000	Fetzer (incl.Bel Arbor & Bonterra)	3,600,000	Batavia Wine Cellars	1,800,000	Barton & Guestier (US sales only)	750,000	Louis M. Martini	150,000
	Callaway Coastal Vineyards	340,000	Carmenet, Sonoma	(in transition)	Jekel Vineyards	150,000	Canandigua Winery	7,000,000	Beaulieu Vineyards	400,000	Mirassou Vineyards	105,000
	Clos du Bois	1,600,000	Chateau St. Jean	300,000	Sonoma-Cutrer	95,000	Columbia Winery	160,000	BV Coastal	1,100,000	Gallo of Sonoma	*
	William Hill	115,000	Chateau Souverain	150,000			Franciscan Vineyards	130,000	Blossom Hill	4,000,000	Turning Leaf	*
	Mumm Cuvée Napa	200,000	Etude Wines	9,000			Mission Bell Winery	18,900,000	The Monterey Vineyard	300,000	Indigo Hills	*
			Meridian Vineyards	1,250,000			Ravenswood	535,000	Painted Hills	50,000	Gossamer Bay	*
			Stags' Leap Winery	60,000			Turner Road	7,300,000	Sterling Vineyards	380,000	Peter Vella	*
			St. Clement	30,000			Widmer Wine Cellars	2,500,000				
			Windsor	300,000								
Key Wineries/ Brands outside the U.S.	Argentina	Bodegas Balbi, Graffigna	Australia	Greg Norman Estates, Wolf Blass, Yellow Glen	Australia	Chateau Tahbilk, Geoff Merrill, Owens Estate	Australia	Alice White				
	France	Perrier Jouet, Champagne Mumm	Italy	Castello di Gabbiano, Travaglini	France	Michel Picard						
	New Zealand	Brancott Vineyards, Montana Wines			Italy	Bolla, Fontina Candida						
	Portugal	Cockburn's Port										
	Spain	Marques de Arienzo, Bodegas y Bebidas, Harveys Bristol Cream Sherry										

*unknown

Exhibit 9—Wine Companies: Key Brands and Estimated Cases Shipped, 2002 (continued)

Company	JFJ Bronco		Kendall-Jackson		Robert Mondavi		Southcorp		Vincor		The Wine Group	
Headquarters:	Ceres, CA		Healdsburg, CA		Napa, CA		Australia		Canada		San Francisco, CA	
Est. Annual Worldwide Production:	4 – 5 million cases		*		*		13.9 million cases		8 million cases		20–22 million cases	
Key Brands:	Forest Glen	*	Kendall-Jackson Vineyards & Winery	400,000	Arrowood	30,000	Lindemans	6,000,000	Hawthorne Mountain	36,000	Colony	*
	Napa Ridge		La Crema	150,000	Byron Vineyards & Winery	28,200	Penfolds	2,800,000	Hogue Cellars	450,000	Concannon	80,000
	Napa Creek	300,000										
	Rutherford Vintners		Cardinale		Robert Mondavi Napa	268,000	Rosemount	5,000,000	Inniskillin Wines	130,000	Corbett Canyon	*
	Charles Shaw	*										
			Edmeades	12,000	Robert Mondavi Private Selection	1,400,000	Wynns Coonawarra Estate	100,000	Jackson-Triggs Niagara Estate	100,000	Franzia	*
					Opus One	30,000			R.H. Phillips	600,000	Glen Ellen	*
					Woodbridge	7,100,000			Sumac Ridge Estate	55,000	Lejon	*
											M.G. Vallejo	*

Exhibit 9—Wine Companies: Key Brands and Estimated Cases Shipped, 2002 (continued)

											Mogen David Summit	* *
Key Wineries/ Brands outside the U.S.			Argentina Australia Chile Italy	Tapiz Yangarra Park Calina Villa Arcena	Chile Italy	Caliterra Luce, Danzante					Argentina Australia Italy	Altamonte Austin Vale Casarsa, Marrasutti

*unknown

Source: L. Walker. (2003). "Who Owns What?" *Wines & Vines*, **84**:1, January, p. 34. The Hiaring Companies, San Rafael, CA.

Exhibit 10—Australian Wine Exports: top five markets, by volume (1999-2005e)

	United Kingdom	United States	New Zealand	Canada	Germany	Rest of World	World
VOLUME shipments							
Fiscal year	**('000 litres)**	**('000 litres)**	**('000 litres)**	**('000 litres)**	**('000 litres)**	**('000 litres)**	**('000 litres)**
1998/99	102,374	37,383	21,320	9,229	5,857	40,063	216,226
1999/00	139,689	50,030	20,119	12,597	9,393	55,739	287,567
2000/01	164,992	67,661	21,351	14,962	11,805	58,195	338,966
2001/02	202,354	94,910	25,145	18,687	11,919	64,252	417,267
2002/03E	232,707	118,637	27,156	22,425	13,707	69,592	484,224
2003/04E	260,632	144,737	28,514	24,667	17,819	75,008	551,377
2004/05E	286,695	170,970	29,940	27,134	23,165	80,709	618,613
VOLUME growth							
1999/00	36.4%	33.8%	-5.6%	36.5%	60.4%	39.1%	33.0%
2000/01	18.1	35.2	6.1	18.8	25.7	4.4	17.9
2001/02	22.6	40.3	17.8	24.9	1.0	10.4	23.1
2002/03E	15.0	25.0	8.0	20.0	15.0	8.3	16.0
2003/04E	12.0	22.0	5.0	10.0	30.0	7.8	13.9
2004/05E	10.0	18.1	5.0	10.0	30.0	7.6	12.2
CAGR 1999-02	**21.3%**	**32.5%**	**8.2%**	**19.5%**	**33.0%**	**n/a**	**20.4%**
CAGR 2002-05E	**12.3%**	**21.7%**	**6.0%**	**13.2%**	**24.8%**	**7.9%**	**14.0%**
Average VALUE/litre							
Fiscal year	**(A$)**	**(A$)**	**(A$)**	**(A$)**	**(A$)**	**(A$)**	**(A$)**
1998/99	4.36	5.77	2.83	5.51	4.25	n/a	4.58
1999/00	4.23	6.33	3.25	5.85	4.35	n/a	4.70
2000/01	4.18	6.17	3.61	6.10	4.24	n/a	4.76
2001/02	4.16	6.14	3.37	6.61	4.03	n/a	4.79
2002/03E	4.08	5.65	3.44	6.87	4.03	n/a	4.69
2003/04E	4.00	5.42	3.51	7.01	4.11	n/a	4.65
2004/05E	3.92	5.31	3.51	7.01	4.19	n/a	4.58
CAGR 1999-02	**2.6%**	**4.4%**	**6.4%**	**8.1%**	**0.9%**	**n/a**	**5.3%**
CAGR 2002-05E	**-2.0%**	**-4.7%**	**1.4%**	**2.0%**	**1.3%**	**n/a**	**-1.5%**

n/a = not available

Sources: Australian Wine Export Council and Salomon Smith Barney estimates, November 11, 2002.

Exhibit 11—Southcorp Wines: A Profile

Australia-based Southcorp Wines is the world's largest premium branded wine company and the maker of three leading international premium brands—Penfold's, Rosemount and Lindemans. Over the past 35 years, Southcorp has evolved into a major global wine producer via organic growth and through a series of corporate transactions, culminating in its March 2001 merger with Rosemount Estate, Australia's premier family-owned winery.

- Southcorp produces more than 22 million cases and 18 brands of wine each year, accounting for nearly one-third of Australian domestic wine production and wine exports.

- Southcorp accounts for 65% of the total of Australian wines sold in the U.S. A total of 9.6 million cases of its global brands were sold worldwide in 2001/02, comprising more than half of the 18.5 million cases of all Southcorp brands sold worldwide.

- Southcorp operates 12 wineries across the major wine-producing regions in New South Wales, Victoria, South Australia and West Australia, as well as one winery in France.

- Southcorp's 2001/02 net profit increased 45% to US$170 million from US$117.6 million in the prior year, partially reflecting the one-time gain on sale of its water heater business. Excluding that sale, net profits were US$95.5 million.

- Southcorp's joint venture with U.S. winemaker Robert Mondavi will launch a new range of super-premium wines (priced in the $13-$15 range) in February 2003, with prestige reserve wines in the $60-$80 range expected to be released in late 2003.

- At an investor's conference in New York on October 2, 2002, Southcorp presented its strategy of focusing on three core brands (Penfolds, Lindemans and Rosemount) and forecast growth of its core Earnings per Share (EPS) of +10% for fiscal year 2003 and 17% for FY 2004.

Southcorp's International Sales Growth, 1994-2001 (A$ millions)

Fiscal year end 6/30	**1994**	**1995**	**1996**	**1997**	**1998**	**1999**	**2000**	**2001**
Europe	66	74	90	108	142	159	217	291
US/Canada	27	35	47	71	104	122	156	311
Asia	12	16	18	21	27	32	35	40
TOTAL EXPORTS	105	125	155	200	273	313	408	642

Sources: L. Walker, "International Management Style: a conversation with Southcorp's John Gay," *Wines & Vines*, October 2002, pp. 16-21, and Salomon Smith Barney Estimates, October 25, 2002.

Exhibit 12—Fastest-Growing U.S. Wine Brands, by volume of cases shipped, 1997-2001

			— thousands of 9-liter cases —						
Brand	Appellation of origin	Supplier	1997	1998	1999	2000	2001	'00-'01 % Chg	'97-'01 CAGR
FAST Track Brands [top ten, ranked by 2001 case sales][1]									
Lindemans	Australia	Southcorp	959	1,145	1,421	1,414	1,597	12.9%	13.6%
Rosemount Estate	Australia	Southcorp	540	760	920	1,251	1,492	19.3%	28.9%
Clos du Bois	California	Allied Domecq	750	890	1,092	1,192	1,325	11.2	15.3
Robert Mondavi - Coastal	California	Robert Mondavi	649	805	914	1,142	1,265	10.8	18.2
Cavit	Italy	Palm Bay Imports	275	375	475	575	780	35.7	29.8
Luna di Luna	Italy	A.V. Imports	265	202	412	535	665	24.3	25.9
Jacob's Creek	Australia	Pernod Ricard	186	207	272	423	573	35.5	32.5
Pepperwood Gove	California	Cecchetti Sebastiani	104	180	272	302	365	20.9	36.9
Alice White	Australia	Canandaigua Wine	16	77	136	221	260	17.6	100.8
Camelot	California	Kendall-Jackson	10	29	61	114	192	68.4	109.3
RISING Stars [top ten, ranked by 2001 case sales][2]									
Arbor Mist	California	Canandaigua Wine	--	1,280	3,500	4,050	4,230	4.4%	nmf
Foxhorn	California	The Wine Group	--	--	755	1,026	1,245	21.3	nmf
Sterling Vintner's Collection	California	Diageo Chateau & Estates	--	--	--	80	190	137.5	nmf
Greg Norman Estates	Australia	Mildara Blass	--	--	15	138	160	15.9	nmf
McPherson	Australia	Brown-Forman Wine Estates	--	--	21	106	141	33.0	nmf
Sycamore Lane	California	Trinchero Family Estates	--	11	43	62	140	125.8	nmf
Belmondo	Italy	A.V. Imports	--	15	90	103	121	17.5	nmf
Stonehaven	Australia	Banfi Vintners	--	--	--	100	110	10.0	nmf
Trinchero	California	Trinchero Family Estates	--	--	29	75	103	37.3	nmf
Monterra	California	Delicato Family Vineyards	--	25	43	70	88	25.7	nmf
ESTABLISHED Growth Brands [top ten, ranked by 2001 case sales][3]									
Almaden	California	Canandaigua Wine	7,600	7,660	9,200	9,380	9,730	3.7%	6.4%
Woodbridge	California	Robert Mondavi	4,239	4,702	5,504	6,376	6,563	2.9	11.5
Beringer	California	Beringer Blass Wine Estates	4,000	4,473	4,920	5,850	6,000	2.6	10.7
Boone's	California	E & J Gallo Winery	2,600	3,000	4,000	4,500	4,650	3.3	11.6
Peter Vella	California	E & J Gallo Winery	3,400	3,800	3,800	4,200	4,350	3.6	3.4
Turning Leaf	California	E & J Gallo Winery	1,800	2,300	2,500	2,750	3,025	10.0	13.9
Beaulieu Vineyard	California	Diageo Chateau & Estates	770	860	944	1,243	1,325	6.6	14.5
Burlwood	California	E & J Gallo Winery	550	650	800	1,200	1,300	8.3	24.0
Casarsa	California	Gary Raden & Sons	1,050	1,150	1,208	1,210	1,275	5.4	5.0
Meridien	California	Beringer Blass Wine Estates	630	842	1,030	1,150	1,200	4.3	17.5

Notes
[1]Brands at least five full years of age that exceeded 100,000 9-liter cases in 2001, with double-digit growth over each of the past four years.
[2]Brands less than five full years of age that have exhibited substantial growth over the past few years.
[3]Top-selling brands which have grown moderately or substantially over the past four years.

nmf = not meaningful figure

Source: Adapted by casewriters from Richard Brandes, *Beverage Dynamics*, March 2002, 114(2): 14-24.

Exhibit 13—Bottled U.S. Table Wine Exports: top five markets, by total value and volume (2000 and 2001)

	United Kingdom	Canada	Netherlands	Japan	Belgium	Rest of World	World
VOLUME shipments (liters 000)							
Fiscal year							
2000	60,047	24,929	30,932	26,883	4,422	53,152	200,365
2001	77,642	23,446	32,762	21,476	8,767	41,940	206,033
Variance '01 vs. '00	17,595	(1,483)	1,830	(5,407)	4,345	(11,212)	5,668
Percent change	29.3%	-5.9%	5.9%	-20.1%	98.3%	-21.1%	2.8%
VALUE of shipments ($000)							
2000	131,389	73,399	73,200	43,925	8,486	106,783	437,182
2001	154,508	66,883	65,671	38,037	15,900	79,290	420,289
Variance '01 vs. '00	23,119	(6,516)	(7,529)	(5,888)	7,414	(27,493)	(16,893)
Percent change	17.6%	-8.9%	-10.3%	-13.4%	87.4%	-25.7%	-3.9%
Average VALUE/liter (U.S. $)							
Fiscal year							
2000	2.19	2.94	2.37	1.63	1.92	---	2.18
2001	1.99	2.85	2.00	1.77	1.81	---	2.04
Variance '01 vs. '00	(0.20)	(0.09)	(0.37)	0.14	(0.11)		(0.14)
Percent change	-9.1%	-3.1%	-15.6%	8.6%	-5.7%		-6.4%

Sources: California Wine Export Program, January 2003, from statistics compiled by the U.S. Department of Commerce, Stat-USA.

Exhibit 14—U.S. Wine Balance of Trade: 1984-2001

Year	Exports		Imports		Balance of Trade	
	Value ($ million)	Volume (Liters 000)	Value ($ million)	Volume (Liters 000)	Value ($ million)	Volume (Liters 000)
1984	25	23,002	954	539,738	(929)	(516,736)
1985	28	23,869	1,010	518,108	(982)	(494,239)
1986	35	27,493	1,030	411,969	(995)	(384,476)
1987	61	44,995	1,017	364,981	(956)	(319,986)
1988	85	64,184	954	307,077	(869)	(242,893)
1989	98	83,031	937	287,911	(839)	(204,880)
1990	126	99,719	923	254,544	(797)	(154,825)
1991	146	117,448	819	232,096	(673)	(114,648)
1992	194	145,746	759	176,819	(565)	(31,073)
1993	231	142,320	1,006	252,559	(775)	(110,239)
1994	195	133,383	1,084	280,294	(889)	(146,911)
1995	242	146,895	1,209	291,560	(967)	(144,665)
1996	327	177,099	1,478	364,891	(1,151)	(187,792)
1997	426	228,585	1,759	462,662	(1,333)	(234,077)
1998	537	272,311	1,916	420,723	(1,379)	(148,412)
1999	561	291,420	2,244	424,458	(1,683)	(133,038)
2000	548	295,555	2,319	495,731	(1,771)	(200,176)
2001	542	305,935	2,344	532,698	(1,802)	(226,763)
Compound Annual Growth Rates						
1984-2001	20%	16%	5%	0%	nmf	nmf
1984-1996	24%	19%	4%	-3%	nmf	nmf
1996-2001	11%	12%	10%	8%	nmf	nmf

nmf = not meaningful figure

NOTE: Includes both bulk wine and bottled wine.

Sources: California Wine Export Program, January 2003, from statistics compiled by the U.S. Department of Commerce, Stat-USA.

Exhibit 15—Per-Capita Wine Consumption in the Top 15 Countries, Ranked by Volume, 1990, 1995, and 2000-2002
(litres per capita)[1]

Country	Population Year 2000	1990	1995	2000	2001	2002	Average Annual Compound Growth Rate		Percent Change[2]		Volume Rank
							1990-1995	1995-2000	2000-2001	2000-2001	
France	59,329,691	72.56	62.94	55.54	56.68	55.05	-2.8%	-2.5%	2.1%	-2.9%	1
Portugal	10,048,232	50.73	60.51	50.12	49.79	49.22	3.6	-3.7	-0.7	-1.1	10
Italy	57,634,691	62.07	62.13	49.89	48.87	48.16	0.0	-4.3	-2.0	-1.5	2
Spain	39,996,671	42.08	38.76	36.33	35.07	35.07	-1.6	-1.3	-3.5	0.0	5
Argentina	36,955,182	54.46	38.81	33.73	32.11	31.60	-6.6	-2.8	-4.8	-1.6	7
Germany[3]	82,797,408	20.53	22.75	23.85	23.97	23.87	2.1	0.9	0.5	-0.4	4
Australia	19,357,594	18.06	18.25	20.32	20.48	21.19	0.2	2.2	0.8	3.5	12
Romania	22,411,121	25.77	29.11	23.24	21.00	21.16	2.5	-4.4	-9.6	0.8	11
United Kingdom	59,508,382	10.95	12.38	16.32	17.36	20.87	2.5	5.7	6.4	20.2	6
Netherlands	15,892,237	16.08	14.01	19.38	19.46	19.67	-2.7	6.7	0.4	1.1	15
South Africa	43,421,021	9.93	10.31	8.99	9.03	8.79	0.8	-2.7	0.4	-2.7	13
United States	275,562,673	6.26	6.40	7.25	7.28	7.64	0.4	2.5	0.4	4.9	3
Russia[4]	146,001,176	13.53	4.22	3.99	4.01	4.04	-20.8	-1.1	0.5	0.7	9
Brazil	172,860,370	1.95	1.94	1.95	2.09	2.06	-0.1	0.1	7.2	-1.4	14
China	1,261,832,482	0.03	0.32	0.43	0.45	0.49	60.5	6.1	4.7	8.9	8
Average - Top 15		**27.00**	**25.52**	**23.42**	**23.18**	**23.26**	**-1.1%**	**-1.7%**	**-1.0%**	**0.4%**	
Rest of World	3,784,338,702	1.23	1.22	1.20	1.19	1.16	-0.2%	-0.3%	-0.8%	-2.5%	
World Average		**4.39**	**3.90**	**3.61**	**3.58**	**3.57**	**-2.3%**	**-1.5%**	**-0.8%**	**-0.3%**	

[1]Based on total population.
[2]Based on unrounded data.
[3]1990 includes West Germany only.
[4]1990 includes the entire (former) Soviet Union.

Sources: Wine Institute, 2003, www.wineinstitute.org/communications/statistics/keyfacts_worldwineconsumption02.htm; data also extracted from *Impact Databank 2003*, M. Shanken Publications, New York, NY, p. 504.

Exhibit 16—Share of World Wine Consumption, Top 15 Countries, Ranked by 2002 Share

		World Share[1]					Share Point Change[2]			
Rank	Country	1990	1995	2000	2001	2002	1990-1995	1995-2000	2000-2001	2000-2001
1	France	17.8%	16.5%	15.0%	15.3%	14.8%	-1.3%	-1.5%	0.3%	-0.5%
2	Italy	15.3	16.1	13.1	12.8	12.5	0.8	-3.0	-0.3	-0.3
3	United States	6.9	7.7	9.4	9.5	9.9	0.8	1.7	0.1	0.4
4	Germany[3]	7.1	8.4	8.9	8.9	8.8	1.3	0.5	0.0	-0.1
5	Spain	7.2	6.9	6.6	6.4	6.3	-0.3	-0.3	-0.2	-0.1
	Total Top 5	**54.3%**	**55.6%**	**53.0%**	**52.9%**	**52.3%**	**1.3%**	**-2.6%**	**-0.1%**	**-0.6%**
6	United Kingdom	2.7	3.3	4.4	4.7	5.6	0.6	1.1	0.3	0.9
7	Argentina	7.7	6.1	5.7	5.5	5.4	-1.6	-0.4	-0.2	-0.1
8	China	0.2	1.8	2.5	2.6	2.8	1.6	0.7	0.1	0.2
9	Russia[4]	8.7	2.8	2.6	2.6	2.6	-5.9	-0.2	0.0	0.0
10	Portugal	2.2	2.7	2.3	2.3	2.2	0.5	-0.4	0.0	-0.1
	Total Top 10	**75.8%**	**72.3%**	**70.5%**	**70.6%**	**70.9%**	**-3.5%**	**-1.8%**	**0.1%**	**0.3%**
11	Romania	2.6	3.0	2.4	2.1	2.1	0.4	-0.6	-0.3	0.0
12	Australia	1.3	1.5	1.8	1.8	1.9	0.2	0.3	0.0	0.1
13	South Africa	1.5	1.7	1.8	1.8	1.7	0.2	0.1	0.0	-0.1
14	Brazil	1.2	1.4	1.5	1.6	1.6	0.2	0.1	0.1	0.0
15	Netherlands	1.0	1.0	1.4	1.4	1.4	0.0	0.4	0.0	0.0
	Total Top 15	**83.4%**	**80.9%**	**79.4%**	**79.3%**	**79.6%**	**-2.5%**	**-1.5%**	**-0.1%**	**0.3%**
	Rest of World	16.6%	19.1%	20.6%	20.7%	20.4%	**2.5%**	**1.5%**	**0.1%**	**-0.3%**
	Total World	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**				

[1]Based on total population.
[2]Based on unrounded data.
[3]1990 includes West Germany only.
[4]1990 includes the entire (former) Soviet Union.

Source: *Impact Databank 2003*, M. Shanken Publications, New York, NY, p. 505.

Exhibit 17—World Wine Production by Country in Hectoliters (000), 1996-2000

Country[1]	Hectoliters[2] 1996	1997	1998	1999	Average 1996-1999	2000	% Change 2000 v 1996-99
France	57,047	53,561	52,671	60,435	55,929	57,541	2.9%
Italy	58,772	50,894	54,188	56,454	55,077	51,620	-6.3
Spain	31,000	33,218	31,175	33,723	32,279	41,692	29.2
United States	18,840	21,606	20,504	19,050	20,000	23,300	16.5
Argentina	12,681	13,500	12,673	15,888	13,686	12,538	-8.4
Germany	8,642	8,495	10,834	12,123	10,024	9,852	-1.7
Australia	6,734	6,174	7,415	8,511	7,209	8,064	11.9
South Africa	8,739	8,115	7,703	7,968	8,131	6,949	-14.5
Portugal	9,712	6,124	3,750	7,859	6,861	6,694	-2.4
Chile	3,824	4,549	5,475	4,807	4,664	6,419	37.6
China	3,000	3,200	3,550	5,200	3,738	5,750	53.8
Romania	7,663	6,688	5,002	6,054	6,352	5,456	-14.1
Brazil	3,128	2,743	2,782	3,190	2,961	3,704	25.1
Greece	4,109	3,987	3,826	3,680	3,901	3,558	-8.8
Hungary	4,188	4,472	4,334	3,339	4,083	3,000	-26.5
Total, Top 15 Producing Countries	**238,079**	**227,326**	**225,882**	**248,281**	**234,892**	**246,137**	**4.8%**
Rest of World	32,452	34,133	30,517	28,890	31,498	29,755	-5.5%
Total World Production	**270,531**	**261,459**	**256,399**	**277,171**	**266,390**	**275,892**	**3.6%**

[1]Ranked by production in year 2000.
[2]Conversion: After adding three zeros to the figures to get hectoliters, multiply hectoliters times 26.418 to convert to gallons.

Source: Wine Institute 2003, www.wineinstitute.org/communications/statistics/keyfacts_worldwineproduction02.htm

Exhibit 18—How the U.S. Wine Industry Defines Success in Global Markets

WineVision
American Wine in the 21st Century

GLOBAL TASK FORCE

Meeting Notes

Napa Marriott Inn

October 25, 2002

10:30 a.m. -1:30 p.m.

Our definition of becoming successful globally includes:

- Having a defined position for American wines and conveying it consistently in the global market
- Having a World presence - not just a few global markets
- Achieving a 20 percent increase in global sales by 2006
- Developing (possibly) a California brand
- Helping smaller wineries enter the global market
- Thinking strategically and taking measures to be in the global market long term
- Creating regional associations to provide global encouragement and support
- Targeting specific markets, understanding the desires of their consumers and ultimately having a significant presence in the targeted markets

Source: David Freed, WineVision Globalization Task Force