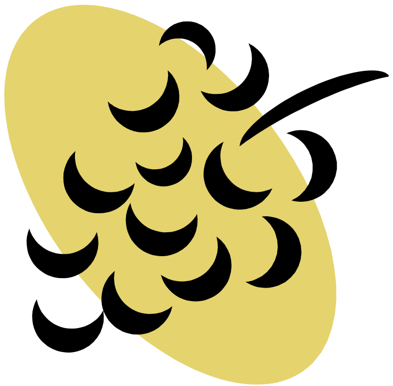
Business Assessment of the Emerging NJ Wine Market



Peter Leitner

OCPVA Symposium

April 9, 2011

Winemaking is quite a simple business. Only the first 200 years are difficult.

Baroness Philippine de Rothschild

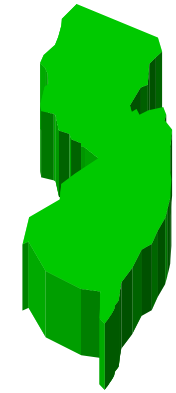
Scorecard

STRENGTHS	WEAKNESSES	
OPPORTUNITIES	THREATS	

Scorecard

STRENGTHS Population Industry Growth Tipping Point	WEAKNESSES	
OPPORTUNITIES	THREATS	

Population



Size:

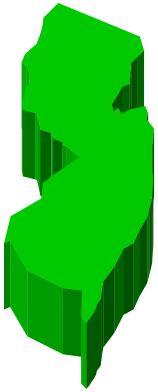
New Jersey	8.8 million
New York City	8.0 million
Philadelphia	1.5 million
Combined Metro	25.0 million

Source: U.S. Census Bureau

Culture: Ancestry (Italians, Germans, Jews, etc.) equates wine with family, food, faith and life.

Industry Growth

	2002	2007	CAGR	2012P
NJ Acres	551	1,043	14%	1,975

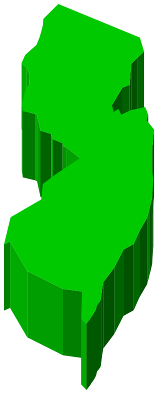


Source: USDA Agricultural Census 2007

Industry Growth

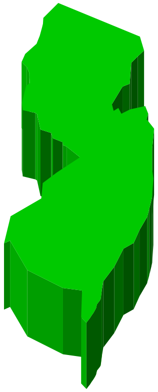
	2000	2010	CAGR
NJ Wineries	15	43	11%

Source: NJ ABC



Industry Growth

	2000	2010	CAGR
NJ Gallons Produced	1.2 m	1.5 m	2%
Growth Rate			3x CA 2x US total



Source: TTB

Tipping Point

Critical Mass x Varietal Focus = Acceleration

State	Act	Tipping Point	Varietal Focus	2011 Wineries	AVA
NY	1976	2000	Riesling (Finger Lakes) Bordeaux Varietals (North Fork)	344	9
VA	1980	2005	Bordeaux Varietals Northern Italian varietals	192	6
NJ	1981	2011	?	43	3

Sources: TTB; NJ-ABC; NY Liquor Authority; Virginia Wine.org

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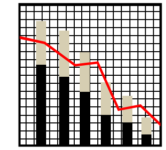
Scorecard

STRENGTHS Population 10 Industry Growth 10 Tipping Point 8 28	WEAKNESSES	
OPPORTUNITIES	THREATS	
		28

Scorecard

STRENGTHS	WEAKNESSES	
Population 10 Industry Growth 10 Tipping Point 8 28	Grape Prices Market Maturity Direct Shipping	
OPPORTUNITIES	THREATS	
		28

Weaknesses



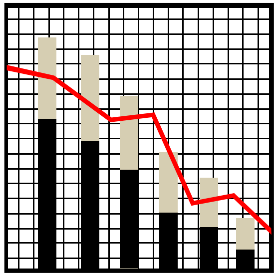
Grape Price Bear Market

Highly Disruptive and Distorting the NJ Market

	1999	2009	CAGR	2009 Bottle
CA (100%)	$1,097	$1,096	~	$11.00
Napa (16%)	$1,937	$2,830	4%	$28.00

Source: Frank, Rimerman + Co, LLP

Weaknesses



Grape Price Bear Market

Adjusted for Inflation

	1999	2009	2009A	Δ
CA	$1,097	$1,096	$1,412	- 22%
Napa	$1,937	$2,830	$2,494	+ 13%

Sources: Frank, Rimerman + Co, LLP; US Bureau of Labor Statistics

Weaknesses

Immature Market

Small Size: 7th in U.S. wine production, but that's ¼ of 1% of the U.S. Total

Wine Production 2010, Gallons (1,000s)

1	CA	606,449	89.5%
2	NY	25,248	3.7
3	WA	19,788	2.9
4	OR	4,907	<1.0
5	KY	2,247	<1.0
6	FL	2,019	<1.0
7	NJ	1,520	<1.0
		662,178	97.7% of U.S. Total
	US	677,491	

Source: TTB

Weaknesses

<u>Overly Diversified Plantings</u>

- 40+ varieties in New Jersey
- 10+ varieties in small vineyards here
- Legacies (French American Hybrids, poor Vinifera/site choices, experimental stuff) with limited commercial potential

Lack of varietal focus saps market power

♦

"Jack of All Trades, Master of None"

Weaknesses

<u>Scarce Essential Resources</u>

Skills	Viticulture Oenology Marketing
Support Services	Vineyard Management Mobile Bottling
Capital	Equity Mezzanine Debt

Weaknesses

Direct Shipping Morass

National Embarrassment

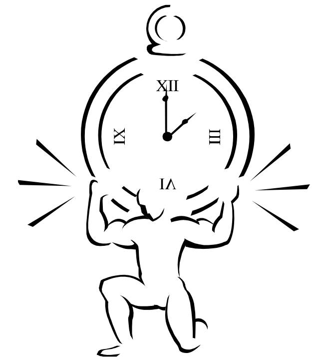
Scorecard

STRENGTHS Population 10 Industry Growth 10 Tipping Point 8 28	WEAKNESSES Grape Prices - 8 Market Maturity - 10 Direct Shipping - 5 - 23	5
OPPORTUNITIES	THREATS	
		5

Scorecard

STRENGTHS		WEAKNESSES		
Population	10	Grape Prices	- 8	
Industry Growth	10	Market Maturity	- 10	
Tipping Point	8	Direct Shipping	- 5	
	28		- 23	5
OPPORTUNITIES		THREATS		
		10-year Cash Cycle		
		Suitable Sites		
		Underpricing		
				5

Threats



Long Cash Cycle – 10 Years

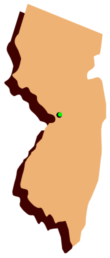
Year	Milestone
1	Plan/Prep Site
2	Plant
4	Harvest first crop (small)
7	Vines Reach Steady State (4th vintage)
9	4th Vintage is Bottled
10	4th Vintage sells (or not…)

Threats

Suitable Sites Disappearing

251,000 Acres Lost in New Jersey in 20 Years

	Cropland	Pasture
1987	705,000	175,000
2007	488,000	141,000
Δ	217,000	34,000
%	-31%	-19%



Source: Natural Resources Conservation Service, USDA, 2007 National Resource Inventory

Threats

Under Pricing Grapes & Wine

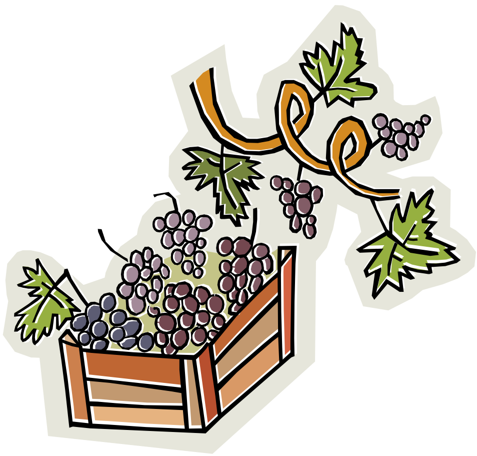
Land	$20,000	
Vineyard	$25,000	
Total Capital	$45,000	A
Vineyard Maintenance		$3,000
Total Cost/Acre		$3,000
Grape Revenue: 3 tons @$1,500/ton		$4,500
Grower's Profit (Loss)		$1,000
Theoretical Bottle Price		$15.00

Threats

Under Pricing Grapes & Wine

		A	B
Land	$20,000		
Vineyard	$25,000		
Total Capital	$45,000		
Cost of Capital @ 10%		$ 0	$4,500
Vineyard Maintenance		$3,000	$3,000
Total Cost/Acre		$3,000	$7,500
Grape Revenue: 3 tons @$1,500/ton		$4,500	$4,500
Grower's Profit (Loss)		$1,000	($3,000)
Actual Cost Per Ton			$2,500
Theoretical Bottle Price		$15.00	>$25.00

Threats



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Threats

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Theoretical Bottle Price		⇒	$15.00	$25.00

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		-18

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OPPORTUNITIES Vast Untapped Market 100% New Jersey Fruit Real Estate Crisis	THREATS Cash Cycle - 9 Suitable Sites - 5 Under Pricing - 9 -23	-23
		-18

Opportunities

Vast Untapped Market

25 million people don’t yet know that
New Jersey can make premium or super premium wines
from New Jersey-grown grapes.
($20.00+/bottle)

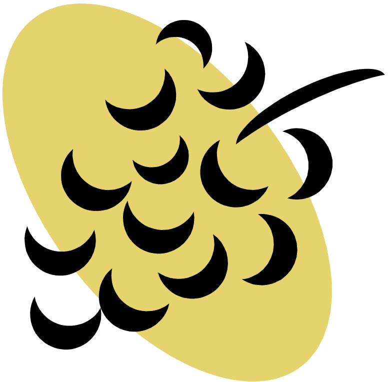
Opportunities

<u>100% New Jersey Fruit</u>

Bullet-proof market differentiator, If…

- Site
- Vine choices
- Vineyard practices
- Winemaking

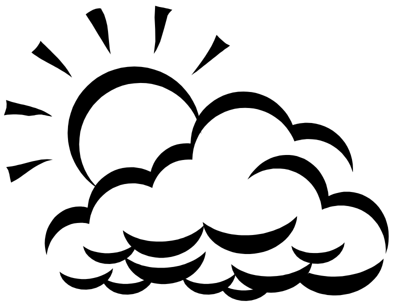
…Are Top Notch



Opportunities

Real Estate Crisis

- Options for land sales are now limited, for the moment
- Deals to buy or lease prime sites are happening



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100% New Jersey Fruit	9	Suitable Sites	- 5	
Real Estate Crisis	10	Under Pricing	- 9	
	29		-23	6
	57		- 46	11

Strategic Conclusions

1. Aim for <u>world class wine</u>, and settle for nothing less

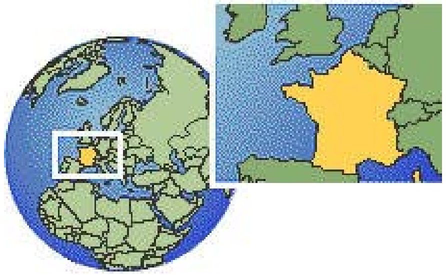
California rivals Bordeaux in Cabernet Sauvignon

Oregon rivals Burgundy in Pinot Noir

Finger Lakes rival Germany/Austria in Riesling

What Shall it Be for New Jersey?

Strategic Conclusions



2. Think Like Burgundians:

- Small plots of land (one or more sites)
- One or two varieties per site
- Labor-intensive vineyards, but high quality fruit
- Terroir-driven wines
- Premium and super-premium bottle prices

Strategic Conclusions

3. Under promise, and over deliver.

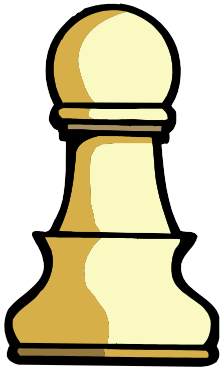
Let the Market Underestimate Us

And then

Beat Expectations

The essence of great strategy is sacrifice.

Patrick McGrath, Founder/CEO
Jordan McGrath Case & Partners
One of the Real Madison Avenue "Mad Men"



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