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Wine & Spirits *Monitor*

Sales of craft beer, premium wine, and distilled spirits are on the rise.



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Trend Tracker



	Producers	Distributors
NOLVs	Mixed ⇅	Mixed ⇅
Sales Trends	Increasing ↑	Increasing ↑
Gross Margin	Mixed ⇅	Mixed ⇅
Inventory	Increasing ↑	Consistent
Pricing	Mixed ⇅	

NOLVS

- NOLVs were **mixed** for producers over the previous quarter due to shifts in the weeks of supply, increases in sales due to the holiday season, and changes in levels of currently released products. NOLVs were also **mixed** for distributors over the last year due to changes in product release schedules.

SALES TRENDS

- Sales trends **increased** overall due to the traditional holiday season, as this is typically the biggest time of the year for producers and distributors. Sales for producers' private label business declined, however, as they exit this market due to downward pricing pressures from customers. Sales **increased** for some producers as they have acquired smaller craft distillers to expand brand presence. Producers and distributors of spirits continue to see growth in the brown market.

GROSS MARGIN

- Gross margin was **mixed** due to operational efficiencies for some producers and distributors and the exiting of the lower-margin private label business; however, certain producers and distributors were seeing downward pressures on gross margins due to higher-cost vintages and increased costs to procure raw materials.

INVENTORY

- Inventory levels **increased** for wine producers due to the recent through harvest, while inventory levels remained **consistent** for distributors.

PRICING

- Pricing was **mixed** for bulk wine depending on the demand of specific varietals and appellations, specifically with low supplies of Napa Valley Cabernet Sauvignon. Corn and wheat prices **increased** over the last quarter.

Overview

Sales of craft beer, premium wine, and distilled spirits are on the rise, seizing market share from “commercial” beer and lower-priced wine. According to the Brewers Association, sales of craft beer increased 22% in dollar value to \$19.6 billion and 18% in volume to 22.2 million barrels in 2014 versus 2013. The overall beer market, in contrast, increased only 0.5% in 2014, with the major players, Anheuser-Busch and MillerCoors, representing approximately 45% and 25%, respectively, of the U.S. beer market.

In the wine segment, sales of wines priced at \$10 a bottle and above are continuing to grow, while wines priced at \$9 a bottle or less have been declining since late 2011, according to Jon Fredrikson, president of the Gomberg, Fredrikson & Associates. Premium wines saw big volume gains, particularly at the \$10 to \$14 per bottle range, which jumped 12%, while super-premium (\$14 to \$20) volume increased by 10%.

The growth of premium wines is expected to grow further based on the high quality vintages and record wine grape harvests from 2012 through 2014.

Distilled spirits has also continued its steady sales growth. According to the Distilled Spirits Council of the United States (“DISCUS”), supplier sales increased 4% to \$23.1 billion in 2014, and total U.S. volume growth increased 2.2% to 210 million cases.

DISCUS estimated that overall retail sales of distilled spirits in the U.S. market is nearly \$70 billion. It attributes growth in distilled spirits to a continued fascination with American whiskeys in the U.S. and abroad, innovations in flavors, especially flavored whiskeys, premiumization across all spirits categories, and the growth of small distillers.

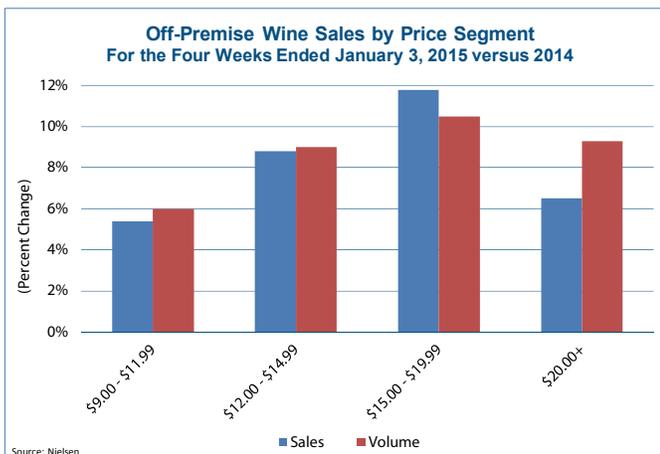


Overview

WINE

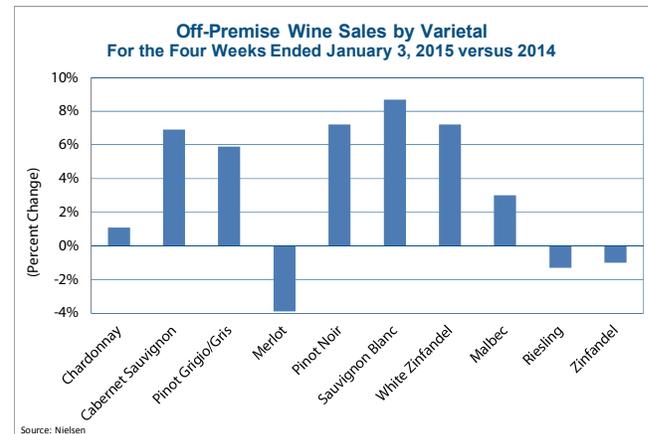
Wine shipments in the U.S., including imports, increased 1% to 375 million cases in 2014, according to Jon Fredrickson, president of the Gomberg, Fredrikson & Associates. California wineries remained on top, increasing shipments 4% to 224 million cases.

U.S. off-premise wine sales increased 2.3% for the four weeks ended January 3, 2015 versus the prior year, according to data from Nielsen. Domestic wine sales increased 3.4%, while imported wine sales decreased 0.5%. In case volume during the same period, domestic case volume increased 2.0%, while imported case volume decreased 3.0%.



Sales for wine at price points above \$9 increased, with the \$15 to \$19.99 price point segment exhibiting the most growth, increasing 11.8% in sales and 10.5% in volume. The \$9 to \$11.99, \$12 to \$14.99, and over \$20 segments all grew between 5% and 9% in sales and volume. Price points under \$9 fell in both sales and volume.

Chardonnay continued to represent the top-selling varietal, maintaining 17.5% of the market share in sales and 18.1% in volume. During the four weeks ended January 3, 2015, chardonnay grew 0.3% in sales and fell 0.3% in volume. The second-largest varietal, cabernet sauvignon, represented 17.0% of sales and 14.0% of case volume. Over the same four-week period, cabernet sauvignon grew 5.8% in sales and 4.1% in volume.



Wine shipments from U.S. wineries to consumers across the country hit all-time highs in value and volume in 2014, according to the 2015 Direct To Consumer (“DtC”) Wine Shipping Report created by ShipCompliant and *Wines & Vines*. The value of these DtC shipments surpassed \$1.8 billion, more than 15% above the 2013 total. Volume grew almost as quickly, reaching 3.9 million cases.

DtC shipments increased 4% to \$132 million in February 2015 versus 2014, and increased 14% to \$1.8 billion for the 12 months ended February 2015 versus 2014.

Overview

SPIRITS

The whiskey market's dominance continues without any signs of a slowdown. According to DISCUS, total whiskey volume increased 7.3% in 2014, the best performer among all the key spirits categories, with the greatest gains for blended whiskey (up 42%) and Irish whiskey (up 9.1%). U.S.-produced bourbon and Tennessee whiskey also fared well, increasing 7.4%.

Revenue for bourbon and Tennessee whiskey increased across all price points and for both flavored and traditional products. Jack Daniel's Tennessee Honey and Fireball Cinnamon Whisky are among the flavors that have fared particularly well, although many major manufacturers have sought to appeal to rising interest in flavors by creating their own blends.



While the whiskey boom has garnered the most attention in the distilled spirits segment in recent years, sales for tequila has recently grown. Tequila sales by volume increased 5% in 2014, which was that was fueled by sales of the priciest bottles, which saw a jump in demand of nearly 15%.

When tequila first became popular in the U.S. in the 1980s, the spirit was known for its harsh flavor and low price tag. But manufacturers have worked hard to change how Americans view tequila today and those efforts are paying off. Patron, for example, debuted three new pricier tequilas in 2014 under the "Roca" line to court greater interest in the beverage, which is gaining traction at bars and restaurants.



Sales of vodka, which has been the backbone of the spirits industry, has continued its popularity due to the rise in flavored varieties. Flavored vodkas now account for approximately 22% of all vodkas sold, according to DISCUS. This highly mixable beverage is found in such well-known drinks as vodka martinis and the ever-popular Screwdriver.

Flavored spirits, whether vodka, rum or whiskey, grew by 1.9 million cases in 2014.

Overview

BEER

Small U.S. beer labels had a big year in 2014. Craft brews accounted for 11% of all U.S. beer sales by volume, marking the first time that small and medium-sized breweries have topped double-digit production levels in a market that has been long dominated by a handful of large brewers.



Craft beer's share last year was up sharply from the 2013 level of 7.8%. In addition, the number of American craft brewers grew by 19% in 2014, according to the Colorado-based Brewers Association trade group, which defines a craft brewer as an outlet that produces six million barrels of beer or fewer per year. In addition, the owners must be independent and use traditional methods of brewing. American craft brewers now produce about one out of every 10 beers sold in the country.

Craft brewers are an even bigger part of the market when measured in dollars rather than volume. Craft beer sales in 2014 amounted to \$19.6 billion, representing 19.3% of the beer industry's total \$101.5 billion retail value in the U.S.

Craft brews typically are more expensive than macro ones for reasons of scale, but prices may have been even higher in 2014, reflecting the cost of a hops shortage caused by an explosion in demand. The average U.S. hops price was \$3.83 per pound in 2014, an increase of 17.2% from the 2012 price of \$3.17 per pound, according to the USDA's *National Hop Report*.

"With the total beer market up only 0.5% in 2014, craft brewers are key to keeping the overall industry innovative and growing," said Bart Watson, chief economist at the Brewers Association.

Beer Type	% Change vs. Prior Year	
	Dollars	Cases
Total Beer	4.5%	1.8%
Craft	18.5%	15.1%
Cider	57.9%	59.3%
Import	4.7%	3.4%
Domestic Super Premium	7.0%	5.5%
Domestic Premium	0.1%	(0.6%)
Domestic Sub-Premium	(1.5%)	(2.7%)

Source: IRI total U.S. multi-outlet 52 weeks ended 1/4/15

Part of the reason the nation is drinking more craft beer is rooted in the fact that millennials are driving sales. Craft beer consumption is highest among people ages 25 to 34, a majority of whom tell pollsters that the beer they drink is a reflection of their identity, according to market research by Mintel.

Recent Appraisal Trends

WINE AND SPIRITS PRODUCERS

NOLVs for wine and spirits producers have been mixed over the previous quarter due to shifts in the weeks of supply, increases in sales due to the holiday season, and changes in levels of currently released products.

Sales trends have increased overall due to the traditional holiday season, as this is typically the biggest time of the year for producers and distributors. Sales in the private label business continues to decline for producers due to downward pressures on pricing from customers.



Gross margins increased for certain producers due to operational efficiencies and exiting of the lower-margin private label business and decreased for other companies due to higher-cost vintages and increased raw material costs.

Based on the cyclical nature of wine production, aging, and release, producers maintain increased levels of bulk wine due to the recent wine grape harvest.

WINE AND SPIRITS DISTRIBUTORS

NOLVs were mixed for distributors over the last year due to changes in product release schedules.

For the companies that GA appraised, sales increased due to the holiday season and popularity of certain distilled and flavored spirits.

Gross margins have increased for certain distributors due to improved operational efficiencies and decreased for other due to increased costs.

Inventory levels remained consistent for most distributors.

Pricing Trends

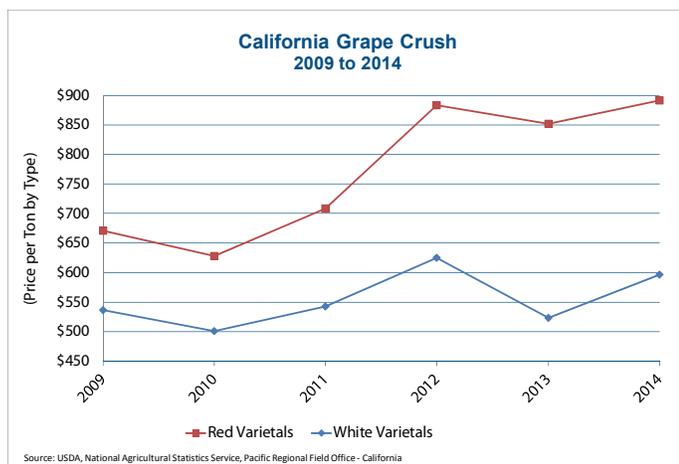
BULK WINE

According to the USDA's Final Grape Crush Report, California's 2014 wine grape harvest yielded 4.1 million tons. Despite a 12% decline in volume compared with the Golden State's 4.7 million ton harvest in 2013, the most recent crop still ranks as the third largest on record.

Red wine varieties accounted for the largest share of all grapes crushed, at 2.1 million tons, which was down 12% from 2013. White wine varieties crushed totaled 1.8 million tons, down 4% from the prior year.

The 2014 average price per ton of all varieties was \$743.07, representing a 4% increase from 2013. Red wine grapes averaged \$892.06 per ton, an increase of 5% from 2013, while white wine grapes averaged \$595.61 per ton, a decrease of 4% from 2013.

Washington's 2014 wine grape harvest registered a new record for the state, increasing 8% to reach 227,000 tons in 2014 from 210,000 tons in 2013. The state is the second-largest premium wine producer in the U.S. and includes 13 recognized American Viticultural Areas ("AVAs"), with over 350 wine grape growers and over 850 wineries.



Chardonnay accounted for the largest percentage of the total crush volume with 17.3%, and cabernet sauvignon came in second with 12.3% of the total crush.

Between October 1, 2014 and January 1, 2015, Ciatti values for Napa Valley bulk wine increased between 3% and 11% for cabernet sauvignon, merlot, and pinot noir varieties, though remained consistent for chardonnay. In Sonoma Valley and Central Valley, prices for chardonnay decreased between 5% and 9%, while most other varieties remained consistent.

GA relies on bulk wine prices from the nation's two leading brokerage companies, Ciatti Company and Turrentine Brokerage. Turrentine claims that its broad range of values covers approximately 95% of sales, while its most likely range applies to roughly 80% of sales. However, estimates from neither brokerage are guaranteed to reflect actual market prices.

Pricing Trends

CORN

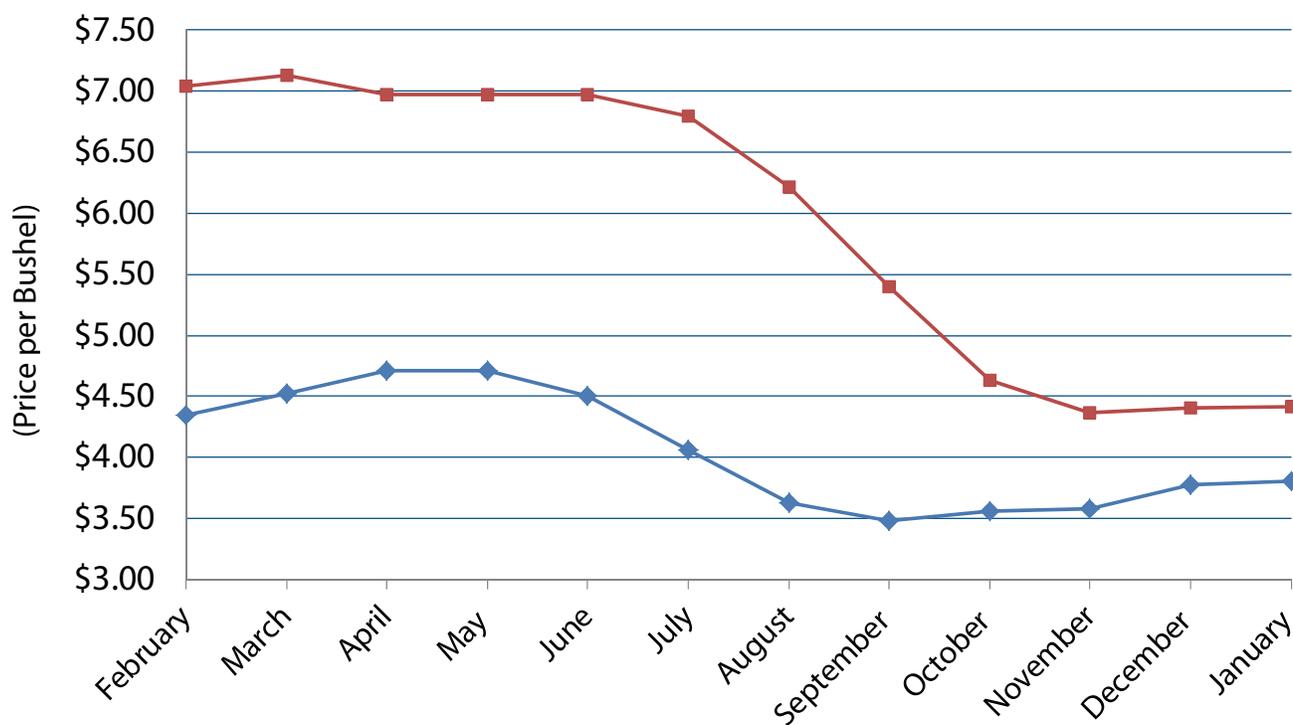
Corn prices fell to five-year lows in September 2014 to \$3.48 per bushel, decreasing 55.2% from \$5.40 per bushel in September 2013, due to back-to-back record harvests and larger-than-expected stockpiles. The price remained relatively low at \$3.81 per bushel in January 2015.

According to the USDA's most recent *World Agricultural Supply and Demand Estimates*, the season-average farm price for corn is projected to be \$3.50 to \$3.90 per bushel.

On March 31, the USDA released its influential and widely watched *Prospective Plantings* report, which is based primarily on a survey of 84,000 farm managers in the first two weeks of March. The report can have a big impact on crop prices, particularly when estimated acreage of a crop is higher or lower than markets had expected. Price swings, in turn, can encourage farmers to fine-tune their final planting plans.

The report indicated that corn acres will fall for the third consecutive year to 89.2 million acres, representing a decrease of 2% from last year and the fewest acres since 2010.

**U.S. Corn Average Farm Price Received
For the 12 Months Ended January 2015 versus 2014**



Source: USDA, National Agricultural Statistics Service

◆ 2014/2015 ■ 2013/2014

Pricing Trends

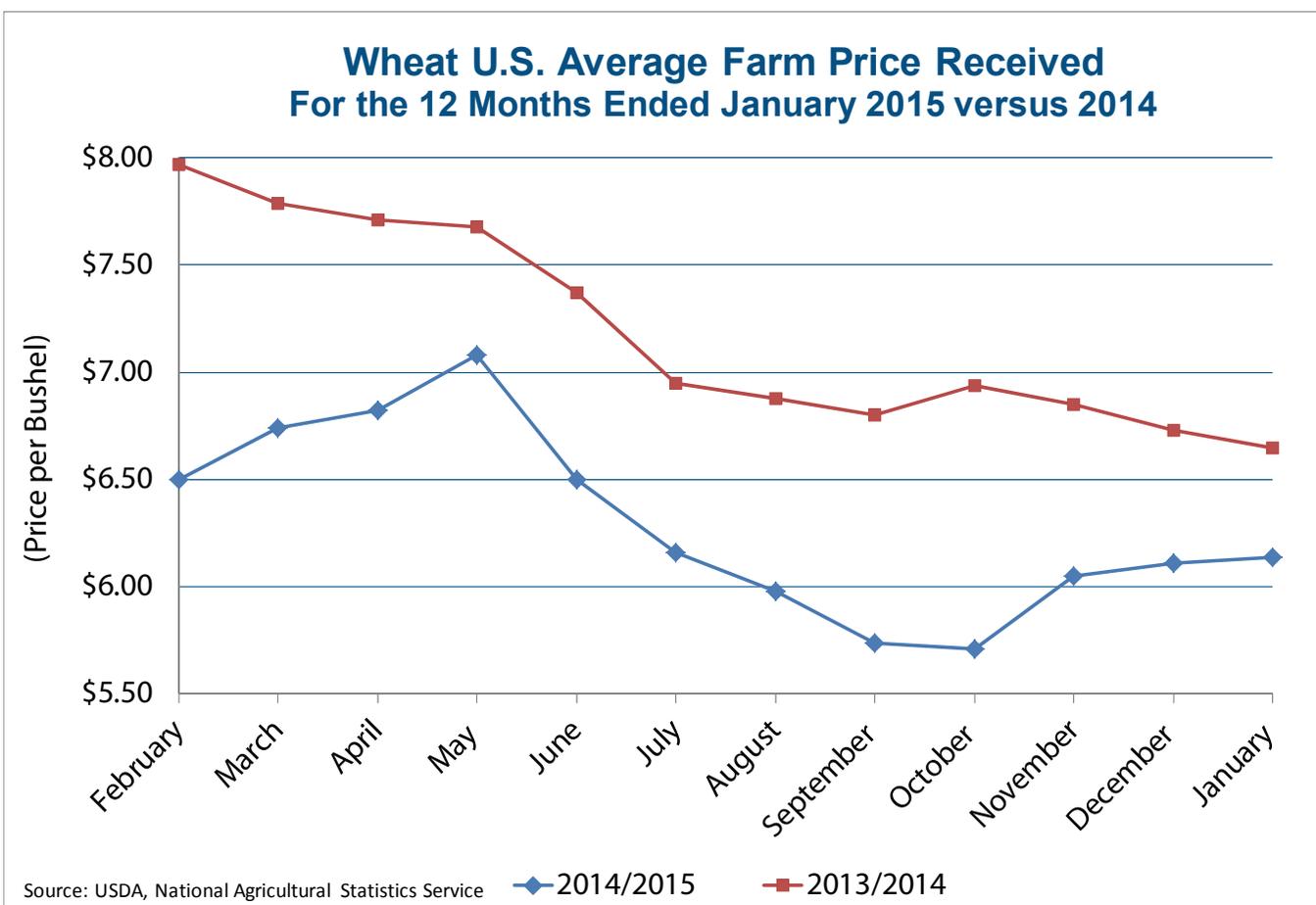
WHEAT

Wheat prices reached four-year lows in late 2014 due to sluggish demand for U.S. supplies amid abundant global stockpiles. The monthly average farm price received for wheat was \$5.71 per bushel in October 2014, or 21.5% lower than in October 2013, according to the USDA's *Wheat Outlook*.

The price increased to \$6.14 per bushel in January 2015 due to concerns over dryness in the southern U.S. Plains. The projected season-average farm price range for the 2014/2015 season is \$5.90 to \$6.10 per bushel.

In the most recent *Wheat Outlook*, projected U.S. wheat supplies for the 2014/15 season decreased one million bushels to 691 million bushels, with an increase in expected seed use.

The USDA's *Prospective Plantings* report projects a 3% decrease in U.S. wheat acreage to 55.37 million acres, decreasing from 56.82 million acres last year and below pre-report estimates of 55.61 million acres.



Wine and Spirits Reference Sheet

PRICING TRENDS

Bulk Wine (California Varietals) – Percent change in varietal prices from the previous period

Region	Date	Varietal			
		Cabernet	Merlot	Pinot Noir	Chardonnay
Napa Valley	January 1, 2015	11%	3%	6%	0%
	October 1, 2014	(10%)	0%	0%	0%
	July 1, 2014	0%	0%	(3%)	0%
Sonoma Valley	January 1, 2015	0%	0%	3%	(9%)
	October 1, 2014	2%	0%	0%	0%
	July 1, 2014	0%	0%	0%	0%
Central Valley	January 1, 2015	0%	0%	-	(5%)
	October 1, 2014	0%	(9%)	-	12%
	July 1, 2014	0%	0%	-	0%

U.S. Corn – Farm Price Received (\$ per bushel)

Marketing Year	June	July	August	September	October	November	December	January
2014/2015	\$4.50	\$4.06	\$3.63	\$3.48	\$3.56	\$3.58	\$3.78	\$3.81
2013/2014	\$6.97	\$6.79	\$6.21	\$5.40	\$4.63	\$4.37	\$4.41	\$4.42
Change	(54.9%)	(67.2%)	(71.1%)	(55.2%)	(30.1%)	(22.1%)	(16.7%)	(16.0%)

U.S. Wheat – Farm Price Received (\$ per bushel)

Marketing Year	June	July	August	September	October	November	December	January
2014/2015	\$6.50	\$6.16	\$5.98	\$5.74	\$5.71	\$6.05	\$6.11	\$6.14
2013/2014	\$7.37	\$6.95	\$6.88	\$6.80	\$6.94	\$6.85	\$6.73	\$6.65
Change	(13.4%)	(12.8%)	(15.1%)	(18.5%)	(21.5%)	(13.2%)	(10.1%)	(8.3%)

Experience

GA was involved in the liquidation of Havens Wine Cellars and Billington Imports LLC and has liquidated several national and regional grocery stores that included wine and spirits such as A&P, Andronicos, Cost Cutter, Food Pavilion, and The Markets. GA has also worked with and appraised numerous companies within the wine and spirits industry. While our clients remain confidential, they include industry leaders, including large distributors and specialty retailers of alcoholic beverages, producers of wine and beer, and national and regional grocery stores. Products have included a wide variety of value-priced, mid-tier, premium, and ultra-premium brands throughout the industry including highly recognizable and reputable names. GA's extensive list of appraisal experience includes:

- Leading regional distributors of spirits, wine, and beer with products such as vodka, whiskey, cognac, rum, brandy, scotch, tequila, various wines, craft beers, and non-alcoholic beverages such as mixers, water, and carbonated drinks.
- Producers and rectifiers of whiskey and other distilled spirits, including vodka, gin, tequila, liqueurs, and absinthe, which are sold under well-recognized, nationally distributed brands.
- A producer and distributor of private label wine, beer, and spirits for large retailers primarily in the U.S. and the U.K.
- One of the largest specialty retailers of alcoholic beverages in the West that offers more than 3,000 types of wine, 1,500 types of spirits, and 1,200 types of beer.
- One of the largest distributors of wine and spirits in the U.S. with revenues of over \$1.5 billion and servicing liquor stores, grocery stores, restaurants, and bars, as well as casinos and reservations.
- National and regional grocery stores that sell a wide variety of beer, wine, and spirits.

In addition to wholesalers of case and bulk wine, including those mentioned on the previous page, GA also maintains extensive appraisal experience with numerous domestic wineries, allowing for additional specialization:

- A well-known producer of ultra-premium, luxury wines from estate vineyards in Napa Valley and Anderson Valley, as well as from vineyards in the Russian River Valley and Sonoma Valley.
- A producer of wines originating primarily from California's North and Central Coasts, as well as from the Lodi AVA in the Central Valley, which are sold under its well-known labels throughout the U.S. and the world.
- A producer of moderate- to high-end wines, with varietals including pinot noir and chardonnay and sourced from its three estate vineyards in the Carneros American Viticulture Area, while the remainder is sourced from growers primarily in the same AVA in Napa and Sonoma counties.
- A bottler and distributor of wines under several proprietary labels, with varietals including cabernet sauvignon, chardonnay, meritage, and zinfandel, sourced from California and internationally.
- A Napa Valley producer of high-end wines sold under its well-known proprietary labels, with over 99% of its grapes sourced from its 235-acre estate vineyard in Rutherford, California.
- A producer and marketer of moderate- to high-end wines in the Napa Valley and Sonoma County, all of which are produced with estate-grown fruit and sold under three owned brands.
- A producer of moderate- to high-priced wines in the Pacific Northwest and California including eight well-known brands with an annual production of over half a million cases.
- A high-end producer of wines, including Bordeaux-style blends and varietals such as merlot, chardonnay, and pinot noir, which are sourced from its own 100-acre vineyard near Napa, California, while the remainder is from several California vineyards.
- Numerous importers and marketers of more than 500 foreign and domestic brands of wine.

In addition to our vast liquidation and appraisal experience, GA maintains contacts within the wine and spirits industry that we utilize for insight and perspective on recovery values.

Monitor Information

The *Wine & Spirits Monitor* relates information covering most wine and spirits, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the wine and spirits industry. Due to the commodity nature of bulk wine and spirits, timely reporting is necessary to understand an ever-changing marketplace. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole. GA welcomes the opportunity to make our expertise available to you in every possible way. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer using the contact information shown in this and all *Wine & Spirits Monitor* issues.

GA's *Wine & Spirits Monitor* provides market value and industry trend information for a variety of wine and spirits. The information contained herein is based on a composite of GA's industry expertise, contact with industry personnel, liquidation and appraisal experience, and data compiled from a variety of well-respected sources believed to be reliable. We do not guarantee the completeness of such information or make any representation as to its accuracy.

Appraisal & Valuation Team

BUSINESS DEVELOPMENT



Mike Marchlik
National Sales and Marketing Director
mmarchlik@greatamerican.com
(818) 746-9306



Ryan Mulcunry
Executive Vice President, Northeast Region, Canada & Europe
rmulcunry@greatamerican.com
(617) 692-8310



David Seiden
Executive Vice President, Southeast Region
dseiden@greatamerican.com
(770) 551-8114



Bill Soncini
Senior Vice President, Midwest Region
bsoncini@greatamerican.com
(312) 777-7945



Drew Jakubek
Managing Director, Southwest Region
djakubek@greatamerican.com
(972) 996-5632



Jennie Kim
Vice President, Western Region
jkim@greatamerican.com
(818) 746-9370



Daniel J. Williams
Managing Director, New York Region
dwilliams@greatamerican.com
(646) 381-9221

OPERATIONS

Lester Friedman
Chief Executive Officer
lfrieman@greatamerican.com
(818) 746-9364

Ken Bloore
Chief Operating Officer
kbloore@greatamerican.com
(818) 746-9341

Paul Arceri
Director, Wine and Spirits Specialist
parceri@greatamerican.com
(818) 746-9334

Timothy Sands
Associate Project Manager, Wine and Spirits Specialist
tsands@greatamerican.com
(818) 746-9319

RESEARCH

Steven Reiner
Managing Director, Head of Consumer Investment
Banking (B. Riley)
sreiner@brileyco.com
(310) 689-2229

About Great American Group

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Headquarters

21860 Burbank Blvd. Suite 300 South
Woodland Hills, CA 91367

800-45-GREAT

www.greatamerican.com