

# Monitor

## Wine & Spirits



VOLUME  
**226**

## CONSUMERS SEEK PREMIUM OPTIONS

### WINE

Overall U.S. wine sales continued to post strong growth in August 2016.

### SPIRITS

Strong growth for every whiskey segment for the second straight year.

### BEER

Craft brewing continues to grow market share relative to big brewers and mass craft brewers.

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**ON THE**  
**MONEY.**

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# Trend Tracker

	Producers		Distributors	
	Wine	Spirits	Wine	Spirits
<b>NOLVs</b>	Mixed $\updownarrow$	Mixed $\updownarrow$	Increasing $\blacktriangle$	Increasing $\blacktriangle$
<b>Sales Trends</b>	Mixed $\updownarrow$	Mixed $\updownarrow$	Increasing $\blacktriangle$	Increasing $\blacktriangle$
<b>Gross Margin</b>	Increasing $\blacktriangle$	Mixed $\updownarrow$	Mixed $\updownarrow$	Mixed $\updownarrow$
<b>Inventory</b>	Increasing $\blacktriangle$	Increasing $\blacktriangle$	Increasing $\blacktriangle$	Increasing $\blacktriangle$

	Market Prices	
	Three Months	12 Months
<b>Bulk Wine</b>	Increasing $\blacktriangle$	Increasing $\blacktriangle$
<b>Bulk Spirits</b>	Mixed $\updownarrow$	Mixed $\updownarrow$
<b>Corn</b>	Decreasing $\blacktriangledown$	Decreasing $\blacktriangledown$
<b>Wheat</b>	Decreasing $\blacktriangledown$	Decreasing $\blacktriangledown$

- NOLVs:** NOLVs were mixed for producers over the previous quarter and increased for certain producers due to increases in gross margin for premium products, while NOLVs decreased for others as weeks of supply increased. Certain producers of spirits, as well as their distributors, experienced increased NOLVs due to the popularity of brown spirits, as American bourbon, in particular, continued its growth.
- Sales Trends:** Sales trends were mixed for producers due to increased sales of new product releases and continued growth in the brown spirits market, as well as decreased sales for certain producers due to seasonally slower sales for select spirits varieties. Distributor sales increased due to consolidation and the popularity of premium products.
- Gross Margin:** Gross margin increased for wine producers due to more higher-end product lines that garner higher prices and continued preferential consumer perception of premium wines. Margins for spirits producers were mixed due to increased demand for higher-end, higher-margin spirits for certain companies, while other producers experienced margin depressions due to increased sales of lower-margin private label product. Gross margin was mixed for distributors due to changes in the product mix for certain companies.
- Inventory:** Inventory levels increased for wine and spirits producers and distributors, as they make room for the current harvest and prepare for the upcoming holiday selling season.
- Pricing:** Pricing increased for bulk wine due to lower yields and also increased for bulk brown spirits due to continued demand for brown spirits, though pricing for other spirits remained consistent. Corn and wheat prices have continued to decrease amidst large stockpiles and abundant harvests.



# Overview

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Consumers are turning to specialty products, whether wine or spirits, for their alcohol beverages. These alcohol markets are also being impacted by key demographics, such as Millennials and women, research notes. The Millennial generation is one of the largest demographic groups since the Baby Boomers and numbers more than 75 million.

The alcoholic beverage industry has undergone numerous transactions over the past year. In the wine segment, private equity firm TSG Consumer Partners is purchasing a controlling stake of Duckhorn Wine Co. from GI Partners. In June 2016, GI Partners purchased Far Niente Wine Estates. In addition, the expected sale of Jaffurs Wine Cellars in Santa Barbara County to Daniel Green, the winemaker and co-owner of Conarium Wines, was announced in August 2016, as well as the sale of Cerise Vineyards in Anderson Valley to Kosta Browne in Sebastopol, California. On August 30, 2016, auction firm, Spectrum, purchased 6,580 cases of wine from the bankrupt California retailer, Premier Cru.

In the spirits segment, Kentucky-based Brown-Forman purchased The BenRiach Distillery Company Limited and its well-respected Scottish brands of single malt Scotch whiskey: The GlenDronach, BenRiach, and Glenglassaugh.

Anheuser-Busch InBev and SABMiller, the world's two largest brewers, are in the final stages of a \$100 billion-plus merger. The deal, the largest ever in the consumer industry, would combine AB InBev's Budweiser, Stella Artois, and Corona with SABMiller's Castle Lager. In addition, MillerCoors has made big moves in 2016, and more private equity firms are getting into the craft beer game by purchasing majority stakes in small companies and spearheading mergers.

Select transactions include MillerCoors' majority-stake purchases of Oregon's Hop Valley and Terrapin; Cigar City's majority-stake sale to Boston-based private equity firm Fireman Capital; the merger of Victory and Southern Tier under a new parent company, Artisanal Brewing Ventures; and AB InBev's purchase of Virginia-based Devils Backbone. In a direct response to these mergers and acquisitions, Stone Brewing's CEO Greg Koch announced in April that he would start his own investment firm with \$100 million secured by independent investors. The goal of the fund would be to acquire minority stakes in independent breweries that need money to grow.

In the distribution segment, in July 2016, Southern Wine & Spirits of America, Inc. and Glazer's, Inc. completed their merger to form Southern Glazer's Wine and Spirits, LLC ("Southern Glazer's"). Southern Glazer's is now the largest North American wine and spirits distribution company, distributing more than 150 million cases of wine and spirits annually, and employing more than 20,000 team members with operations in 44 states plus the District of Columbia, the Caribbean, and Canada.

# Overview

## WINE

U.S. off-premise wine sales increased 5.6% for the four weeks ended June 18, 2016 versus the prior year, according to data from Nielsen. Domestic and imported wine sales increased 5.9% and 4.9%, respectively. During the same period, domestic and imported case volume increased 3.4% and 3.5%, respectively.

Sales for wine at price points between \$15 and \$19.99 had the most growth, increasing 13.9% in sales and 14.2% in volume. Nearly all price point categories had good growth, with the \$9 to \$11.99, \$12 to \$14.99, and over \$20 segments all growing between 6.5% and 14.0% in sales and volume.

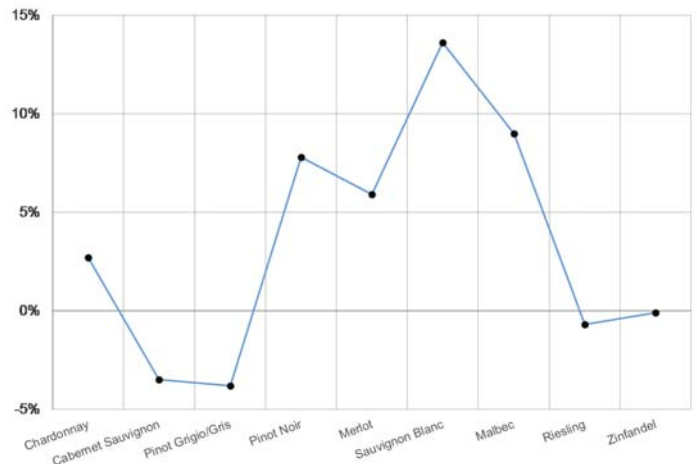
Chardonnay continued to represent the top-selling varietal, maintaining 19.6% of the market share in sales and 20.0% in volume. During the four weeks ended June 18, 2016, chardonnay grew 2.7% in sales and 1.1% in volume. The second-largest varietal, cabernet sauvignon, represented 16.3% of sales and 13.7% of case volume. Over the same four-week period, cabernet sauvignon fell 3.5% in sales and 4.6% in volume. Rosé table wine above \$7.99 experienced a 58.0% increase in sales and a 59.1% increase in volume in the four weeks ended June 18, 2016.



Overall U.S. wine sales continued to post strong growth in August 2016, rising 4% over sales in August 2015.

According to data collected by Wines & Vines Analytics and ShipCompliant, sales through all channels, including on-premise, off-premise, and direct-to-consumer, totaled \$2.8 billion. The 12-month sales picture was similar, with tallies for domestic table and sparkling wines as well as repackaged bulk imports rising 3% to \$39.2 billion. On-premise sales growth was 6%, nearly double that of off-premise. Imports grew by 4%.

### 1 Off-Premise Wine Sales by Varietal (% Change) Four Weeks Ended June 18, 2016 versus 2015



Wine shipments from U.S. wineries to consumers across the country have continued to increase. Direct-to-consumer (“DtC”) shipments increased 39% to \$112 million in August 2016 versus 2015. This was the largest year-over-year gain since 2012, due partly to the month having five Mondays, which are popular shipping days. DtC shipments increased 14% to \$2.2 billion for the 12 months ended August 2016 versus 2015.

# Overview

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## SPIRITS

According to the Distilled Spirits Council, Washington, D.C., the distilled spirits category experienced another year of steady growth in 2015, with supplier sales up 4.1%, volume up 2.3%, and estimated retail sales of nearly \$72 billion. Additionally, the council reports strong growth for every whiskey segment for the second straight year, with revenues up 8%. Premium and value spirits sub-segments are also experiencing strong growth, most notably across vodka, whiskey, and tequila. However, gin, lower-end vodka, and other specialty spirits have been relatively flat and might see declines going forward. The ready-to-drink cocktail segment is faring well in the U.S., with a growth rate greater than 9%.

Similar trends for specialty craft beers are impacting spirits. Consumers, particularly Millennials, seek more choices and authentic stories, for which they are willing to pay a premium. Small and independent distilleries are helping meet that demand, and, increasingly, large companies, such as Bacardi, Diageo Beam Suntory, and Constellation Brands, want in on the action, either through outright acquisitions, smaller strategic investments, or offering new variations on familiar products. This has resulted in a wide variety of options on liquor store and supermarket shelves.

In 2015, there were 5,805 brands of spirits selling in the U.S., up from 5,149 in 2013, an increase of 13%, according to Dan Wandel, principal of beverage alcohol client insights for IRI, a Chicago-based market research firm. That increase reflects the boom of craft distillers, as well as the surge of line extensions and flavored liquors launched by large spirits companies to appeal to Millennial consumers.

## BEER

According to data from the Brewers Association, craft brewing continues to grow its market share relative to big brewers and mass craft brewers. Flavored beer is growing in popularity as brewers continue experimenting with different combinations.

Continuing the booming trend for craft beer, there are now more U.S. breweries than at any other point in recorded American history, according to the Colorado-based Brewers Association. A new trend for the segment has emerged, however, as certain breweries have grown so fast that the supply chain is unable to keep up. Creature Comforts Brewing Co., based in Athens, Georgia, for example, has been having difficulty finding enough of a special type of hops called citra (the plant that gives its popular Tropicália ale its bitter flavor and fruity aroma) that it has been forced to reject orders for about 8,000 barrels of beer during the past year.

A host of smaller, regional brewers, including Wicked Weed Brewing of Asheville, North Carolina and MadTree Brewing of Cincinnati, Ohio, have run into similar constraints. The shortages are contributing to the sudden slowdown in craft beer sales. During the first half of the year, independent brewers' volumes grew about 8%, ending six years of double-digit growth, according to the Brewers Association.

The problem lies with the rapid proliferation of tiny beer brands from a fiercely competitive and rapidly expanding craft beer industry. Beer drinkers now have an estimated 30,000 different choices from 4,000-plus brewers to pick from, compared with about 20,000 beers from 2,000 brewers five years ago.

It takes hop and barley producers several years to cross-pollinate the beer-flavoring plants and grains to create proprietary varieties with unique flavors and aromas. Only about 10 hop varieties, for example, are central to many of today's popular IPAs, and more than 4,000 brewers are battling for them, says Wicked Weed co-owner Luke Dickinson. When a new hop style takes off, like citra has, "it's hard to keep up," said Amy Matthews, brand manager at Select Botanicals.

# Recent Appraisal Trends

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## WINE AND SPIRITS PRODUCERS

NOLVs for wine and spirits producers have been mixed over the previous quarter. Values for certain wine producers have increased due to increased gross margin for higher-end product lines and continued preferential consumer perception of premium wines. NOLVs for certain wine producers were negatively impacted by increased weeks of supply, as they bottled bulk wine to make room for the current harvest. Certain spirits producers were positively impacted by continued growth in the brown spirits market and improvements in weeks of supply and gross margins. Other spirits producers were negatively impacted by continued margin compression for private label products.

Sales trends for wine producers were mixed due to higher sales volumes of lower-priced products and increased sales of new product releases. Producers of spirits continue to see growth in the brown market and craft varieties; however, certain producers have exhibited reduced sales due to seasonally slower sales for select spirits varieties.

Gross margins increased for wine producers due to more higher-end product lines that garner higher prices and continued preferential consumer perception of premium wines. Spirits producer gross margins are mixed due to increased demand of higher-end spirits, while certain producers experienced margin depressions due to increased sales of lower-margin private label product.

Based on the cyclical nature of wine production, aging, and release, producers maintain increased levels of bulk wine due to the current wine grape harvest. For spirits producers, inventory levels have increased due to the preparation of the higher sales associated with the holiday season.

## WINE AND SPIRITS DISTRIBUTORS

NOLVs increased for wine and spirits distributors over the last six months due to increased sales of premium wines and craft spirits, as well as a correlating decrease in weeks of supply. Values were also positively impacted by increases in margins for core product lines for certain distributors. NOLVs for distributors of spirits have been positively impacted by the popularity of brown spirits, particularly American bourbon, as well as tequila and vodka.

For the companies that GA appraised, sales increased due to a rise in sales for wine priced over \$10 a bottle, additional brand awareness, and growth with the continuing popularity of sparkling wine products. Sales were positively impacted for distributors due to continued growth in the brown market and premium distilled spirits. Furthermore, major distributors, including the recently merged Southern Glazer's, have expanded their markets.

Gross margin was mixed for distributors, positively impacted by changing consumer preferences for higher-priced and higher-margin core products and negatively impacted by changes in the product mix for certain companies.

Inventory levels have increased for most distributors, as wine distributors have been receiving newly bottled wine from producers to make room for the current harvest and due to spirits distributors stocking up in advance of the higher sales associated with the holiday season.



# Pricing Trends

## BULK WINE

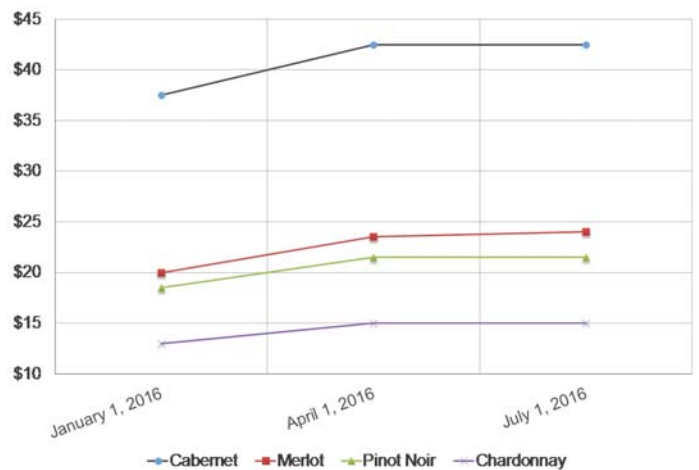
The U.S. includes approximately 8,000 wineries, with half of them located in California. California accounts for nearly 90% of American wine production totaling four million tons per year. The state's winemakers have ridden a roller coaster since the start of the drought five years ago. The 2012 and 2013 vintages were generally good years, with growing conditions resulting in increased crops with very good quality. The yields in 2014 slipped, however, as the long-term effects of the drought began to show. By 2015, there was cause for concern, as the start of the harvest was one of the earliest on record, and some vintners called the year disastrous, with yields down 40% to 90%.

According to Jeff Bitter, vice president of operations for Allied Grape Growers cooperative, California's 2016 wine grape production could total no higher than average. The prospect of a light crop has left some buyers scrambling to line up fruit, pushing up prices on the spot market from last year and holding out the promise of restoring balance to the state's wine industry, which currently is sitting on excess supplies of some varietals.

For the 2016 harvest, California's earliest pickings began in July in the far south end of the Central Valley. As of mid-September 2016, the harvests throughout Napa and Sonoma valleys have been in full effect. Based on early observations, the general consensus is that the 2016 crop is healthy with average yields and good quality.

Between April 1 and July 1, 2016, Ciatti values for Napa Valley bulk wine remained consistent for most varietals, including cabernet sauvignon, pinot noir, and chardonnay, though values increased approximately 2% for merlot. In Sonoma Valley, pinot noir and chardonnay remained consistent, while cabernet and merlot increased between 8% and 19%. In Central Valley, most varietals remained consistent.

## 2 Napa Valley Bulk Wine Price per Gallon January 1, 2016 to July 1, 2016



GA relies on bulk wine prices from the nation's two leading brokerage companies, Ciatti Company and Turrentine Brokerage. According to John Ciatti, Ciatti Company completes over 4,000 transactions globally on over 100 million gallons of bulk wine annually. In addition, 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.

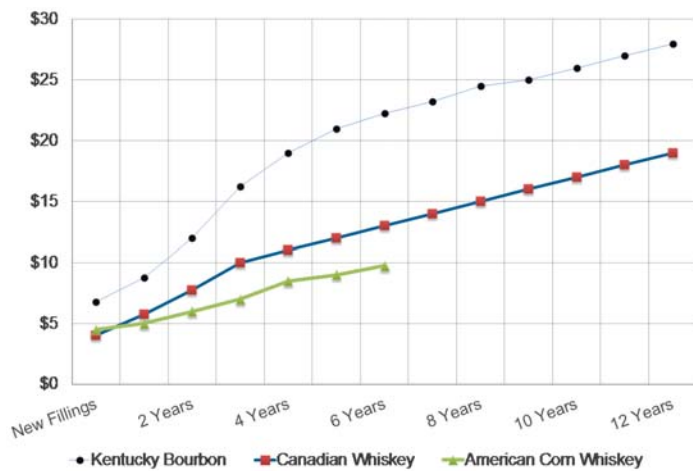


# Pricing Trends

## BULK SPIRITS

Bourbon and whiskey are aged for multiple years and become more valuable as they age. Current market prices for bulk Kentucky bourbon range from \$6.75 to \$28 per original proof gallon (“OPG”), depending on the barrel age, while Canadian whiskey prices range from \$4 to \$19 per OPG. While American corn whiskey tends to require less barrel age, its value increases over time in a consistent manner with Kentucky bourbon and Canadian whiskey. Market prices have increased over the last year due to tight supplies related to increased demand.

**3** Bulk Container Prices, FOB Distillery (\$ per OPG) Summer 2016

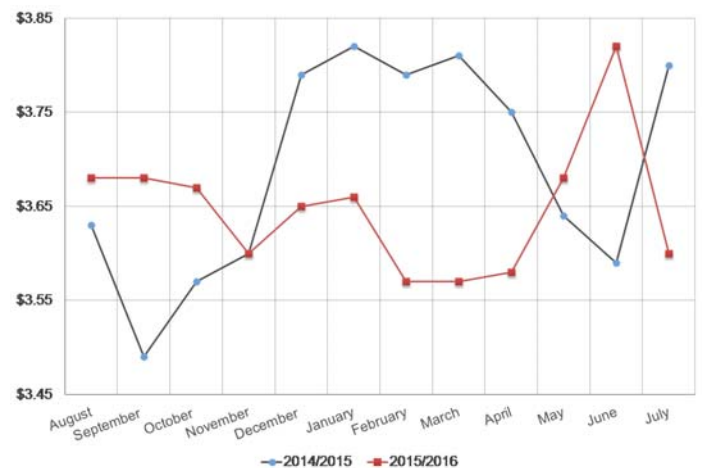


Bulk spirits prices rise and fall with the market prices of the agricultural commodities used in the production of spirits. The most commonly used raw materials include corn and wheat. Depressed oil and gas prices combined with large global stockpiles of these raw materials have decreased prices for agricultural commodities over the last year.

## CORN

As mentioned in prior editions of the *Wine & Spirits Monitor* and the most recent *Food Monitor*, corn prices plummeted from late 2012 through the summer of 2014, when drought conditions drove prices to more than \$7.60 per bushel in June 2012. Since August 2014 to date, however, corn prices have generally stabilized between \$3.45 and \$3.85 per bushel. Corn prices averaged \$3.60 per bushel in July 2016, decreasing 5.3% from the prior year, though remaining within the mentioned range over the last year.

**4** U.S. Corn Average Farm Price Received per Bushel 12 Months Ended July 2016 versus 2015



U.S. farmers are expected to harvest a mammoth corn crop this fall due to a large planted acreage and good growing conditions. Unlike 2015, when corn growing conditions in the eastern Corn Belt were poor, this year, pretty much the entire U.S. had favorable weather for corn production. Corn growing conditions in other parts of the world were also generally good this year, and the USDA raised foreign production estimates by 2.1 million metric tons.

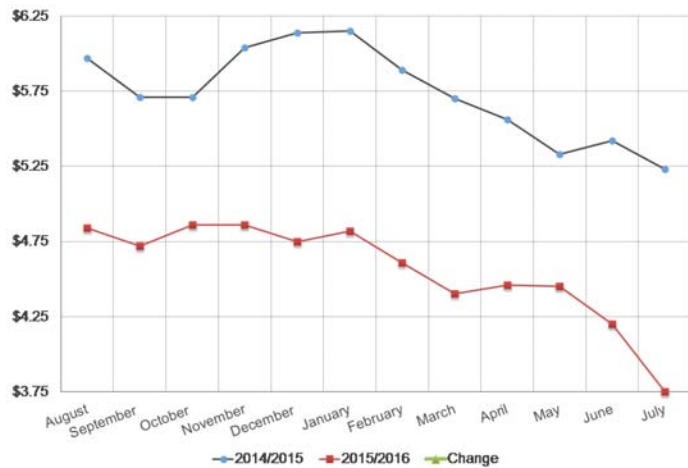
# Pricing Trends

The USDA estimates the 2016 corn harvest will total 15.2 billion bushels, which would be the largest on record. As of late summer, the USDA estimated that yields would average 175.1 bushels per acre, 6.7 bushels per acre more than last year and 4.1 bushels per acre higher than the previous record yield set in 2014, according to the agency's August 12 crop production report.

## WHEAT

Facing a similar trajectory as corn, U.S. wheat prices have declined steadily since November 2012, when the average price received by farmers was \$8.47 per bushel. Since the start of 2016, wheat prices have exhibited a downward trend, decreasing from \$4.82 in January to \$3.75 per bushel in July 2016, which is a year-over-year decrease of 28.3% for July.

### 5 U.S. Wheat Average Farm Price Received per Bushel 12 Months Ended July 2016 versus 2015



The world wheat crop in 2016 set an all-time high of 27.3 billion bushels, up from 27.0 billion bushels in 2015 and the fourth world record wheat crop in a row. Wheat use in the 2016 marketing year is also a record high, 26.9 billion bushels. With production exceeding use by 400 million bushels, world wheat ending stocks swelled to 9.3 billion bushels, also a record. The stocks-to-use ratio stands at 34.5%, the highest since the 2001/2002 marketing year.



# Reference Sheet

## CALIFORNIA BULK WINE

Percent change in varietal prices per gallon from the previous period

Region	2016	Varietals			
		Cabernet	Merlot	Pinot Noir	Chardonnay
Napa Valley	July 1	0%	2%	0%	0%
	April 1	13%	18%	16%	15%
	January 1	15%	21%	16%	0%
Sonoma Valley	July 1	8%	19%	0%	0%
	April 1	0%	8%	15%	22%
	January 1	0%	14%	0%	0%
Central Valley	July 1	0%	0%	0%	0%
	April 1	8%	10%	0%	0%
	January 1	0%	0%	0%	0%

## U.S. CORN

Average farm price received per bushel

Marketing Year*	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
2014/2015	\$3.63	\$3.49	\$3.57	\$3.60	\$3.79	\$3.82	\$3.79	\$3.81	\$3.75	\$3.64	\$3.59	\$3.80
2015/2016	\$3.68	\$3.68	\$3.67	\$3.60	\$3.65	\$3.66	\$3.57	\$3.57	\$3.58	\$3.68	\$3.82	\$3.60
Change	1.4%	5.4%	2.8%	0.0%	(3.7%)	(4.2%)	(5.8%)	(6.3%)	(4.5%)	1.1%	6.4%	(5.3%)

\*U.S. marketing year for corn is from September to August.

## U.S. WHEAT

Average farm price received per bushel

Marketing Year*	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL
2014/2015	\$5.97	\$5.71	\$5.71	\$6.04	\$6.14	\$6.15	\$5.89	\$5.56	\$5.56	\$5.33	\$5.42	\$5.23
2015/2016	\$4.84	\$4.72	\$4.86	\$4.86	\$4.75	\$4.82	\$4.61	\$4.40	\$4.46	\$4.45	\$4.20	\$3.75
Change	(18.9%)	(17.3%)	(14.9%)	(19.5%)	(22.6%)	(21.6%)	(21.7%)	(22.8%)	(19.8%)	(16.5%)	(22.5%)	(28.3%)

\*U.S. marketing year for wheat is from June to May.



# Experience

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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.
- A vertically integrated distributor of a recognized vodka brand.
- 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 U.S. distributors of wine and spirits with revenues of over \$1.5 billion and servicing liquor and grocery stores, restaurants, bars, casinos, and reservations.
- National and regional grocery stores that sell a wide variety of beer, wine, and spirits.
- 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 AVA, 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, and meritage, 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, 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 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:

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.



# Appraisal & Valuation Team

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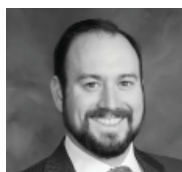
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# Monitor Information

GA's *Wine & Spirits Monitor* relates information covering most wine and spirits, including industry trends and market pricing, and their relation to our valuation process. 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.

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. GA does not make any representation or warranty, expressed or implied, as to the accuracy or completeness of the information contained in this issue. Neither GA nor any of its representatives shall be liable for use of any information in this issue or any errors therein or omissions therefrom.

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