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Wine Market Report

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California Dominates Third Annual IRI Best-Performing Wine Brands

Whither Imports? [yellow tail] plunges from 3rd to 23rd; Cavit, 2nd to 28th

The nationwide marketplace performance of U.S. wine brands as measured by a special matrix of sales figures and financial ratios was so positive last year that it knocked the three leading imported producers out of the top 10 ranks.

The brand rankings were unveiled Wednesday at the **Central Coast Insights** wine-business conference in San Luis Obispo, CA., by **Information Resources Inc**. (IRI), which compiles laser-scanning data and other information to develop projected monthly revenues and volume sales on all consumer packaged goods. The wine data included specially developed sales results from club stores and specialty retailers like Trader Joe's, which have become a major force in wine retailing nationwide.

"California is now clearly leading the pack when it comes to doing a good, great, maybe even tremendous job in the U.S. wine market," said Bump Williams, IRI's executive vice president for alcohol beverages.

The top 30 best-performing brands are ever more critical to the industry's overall performance, accounting for nearly one of every three dollars spent by consumers and one of every four or five bottles sold at retail in U.S. food and drug stores.

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Information Resources — Supermarket, Grocery, Drug Store Wine Sales Trends-2006

2006 Table Wine Top 10 *New* Power Brands

	Brand	Supplier	Origin	Sales$	Wks Sold
1	Trove	Constellation / Centerra	California	$1,892,541	40
2	Cycles Gladiator	Hahn Estates Winery	California	$1,118,595	47
3	Little Black Dress	Brown-Forman	California	$1,094,755	32
4	Bohemian Hwy	Foster's Group	California	$858,862	40
5	Marq	Marq Vineyards	California	$700,232	44
6	Red Guitar	Constellation / Pacific Wine	Spain	$659,225	30
7	Lost Vineyards	Brothers Intern/ation/al	Portugal	$541,357	44
8	Matties Perch	E&J Gallo	Australia	$517,157	15
9	Rebeus Of Lore	Winery Exchange (CA based)	OR/WA	$499,576	48
10	French Rabbit	Boisset America	France	$470,869	48

Overall 2006 Table Wine Top 30 Power Brands

	Table Wine Brand	Supplier	Origin	2005 Rank
1	Barefoot	E & J Gallo	California	n/a
2	Francis Coppola	Rubicon Estate (Coppola)	California	16
3	Sterling Vintners Collection	Diageo	California	n/a
4	Chateau Ste Michelle	Ste Michelle Wine Estates	OR/WA	24
5	Crane Lake	Bronco Wine Co	California	8
6	Bogle Vineyards	Bogle Vineyards	California	n/a
7	Smoking Loon	Don Sebastiani & Sons	California	1
8	J Lohr	J Lohr	California	19
9	Mirassou	E & J Gallo	California	11
10	La Crema	Majestic Fine Wines	California	5

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Overall, the dollar sales and volume growth of the combined 30 best-performing wine brands were just over 20 percent compared to the prior year. That is virtually double the 2006 table wine category dollar sales growth and more than six times the growth of table wine volume last year.

No imported wine brand made it into the top 10 rankings this year, and the two leading import wine brands—[yellow tail] of Australia and **Cavit** of Italy—fell into the bottom quartile of the top 30 list, replaced by Sterling Vintners Collection from **Diageo's** California operations and Bogle Vineyards from **Bogle**, also from California. The two imports had held spots in the ranking since the list was first compiled for the 2004 calendar year. A fourth import, E. & J. Gallo's Red Bicyclette, did not meet this year's best-performing criteria. The highest ranked imported brand to make it onto this year's list, **Foster's** The Little Penguin, fell to 11th from its 7th spot ranking last year.

"The California wine industry in particular has a great image in the consumer mind of its products and has built that consumer appeal not just among their home-grown consumers in California but across the nation," added Williams.

Williams said the California wine industry's positive image and effective product messages are reflected not only in revitalized traditional brands, but in the assortment of new products, a category that just a few years ago was dominated by creative marketing teams of foreign producers.

"I am, in fact, shocked and more than a little surprised at how well Californian and even American wines are doing against their once formidable competition from abroad," said Williams.

[yellow tail], an Australian import that actually is a joint venture between the Casella family in Australia and New York's **W.J.Deutsch & Sons**, saw its ranking plunge on the overall best-performing list from third place in 2006 (for the 2005 year) to 23rd in this ranking. Cavit fell from 2nd place to 28th.

Williams said professional skills for dealing with retailers was the key driver behind the growth in dominance of the California wine brands. For example, an increase in merchandising support by wineries contributed to the success of the top 30 brands. All top-performing brands showed an increase in weeks of merchandising-related support from retailers and the majority of brands had significant incremental sales gains from promotion.

Williams said California vintners have reached a level of sophistication that he's never seen. Rather than resembling a good 'ol boy network, wine distribution across the country increasingly is adopting other consumer packaged goods retailing strategies. These include everything from making sure that brands are always in stock to using statistical data to convince a retailer of a particular brand's profitability in that store or chain.

Overall 2006 Table Wine Top 30 Power Brands (continued)

	Table Wine Brand	Supplier	Origin	2005
11	The Little Penguin	Foster's Group	Australia	7
12	Rex Goliath	Constellation Wines Pacific	California	n/a
13	Kendall-Jackson Vintners Rsv	Majestic Fine Wines	California	n/a
14	Fish Eye	The Wine Group	California	n/a
15	Pepperwood Grove	Don Sebastiani & Sons	California	13
16	Blackstone	Constellation Wines - Pacific	California	14
17	Lindemans	Foster's Group	Australia	n/a
18	Five Oaks	E & J Gallo	California	n/a****
19	Sutter Home	Trinchero	California	27
20	Clos Du Bois	Beam Wine Estates	California	28
21	Rancho Zabaco Dancing Bull	E & J Gallo	California	n/a
22	Rodney Strong	Rodney Strong Vineyards	California	30
23	Yellow Tail	WJ Deutsch/Casella	Australia	3
24	Black Box Wines	Constellation Wines – Pacific	California	23
25	Columbia Crest	Ste Michelle Wine Estates	OR/WA	21
26	Estancia	Constellation Wines - Icon	California	15
27	Chateau St Jean	Foster's Group	California	n/a
28	Cavit	Cavit -Palm Bay Imports**	Italy	2
29	Jacobs Creek	Pernod Ricard	Australia	n/a
30	Foxhorn	The Wine Group	California	22

*Based on brands with >100,000 9L cases sold in Total U.S. Food and Drug 52 Weeks Ending December 31, 2006 **U.S. Importer/Marketer ***was 6th for 2005 top new performers

California vintners generally are steadfastly refusing to cut their prices—even after rejection.

"Price slashing is not a last resort strategy and that's a tactic that California and Washington wine brands have adopted and they are holding to it," said Williams. "Selling only on price will destroy branding in the end and California and Washington are putting their money where their mouth is on this."

Additionally, 28 out of 30 brands, increased their presence at retail with an increase in distribution.

Other highlights of the third annual performance list included:

√ The Top 30 Table Wine Brand Performers combined for a 22.2 percent dollar sales increase and a 22.3 percent volume sales increase versus year ago.

√ The Top 30 Table Wine Brand Performers account for 29.3 dollar share of table wine and 22.7 volume share among all U.S. food and drug stores. Collectively, they gained 2.9 dollar share points and 3.5 volume share points of the table wine category.

√ 26 of 30 brands that made the ranking grew double-digits or more in dollars over the 52 week period, and 26 out of 30 brands grew double-digits in volume.

√ 22 of the top 30 brands are domestic table wines from Califor-

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nia, one spot more than last year. Imports lost one spot, totaling five in 2006.

√Eighty-three percent of the brands were priced at $5.50 and above.

√**Constellation Wines** and Gallo dominated the ranking again in 2006, with four brands making the ranking from each supplier.

√Of the newly launched top-performing wine brands, only one of the top ten was truly a foreign brand. While three others were from overseas, the were sourced and developed by U.S. companies and some bottled onshore.

√Two of the Top 10 New Table Wine Brands were from Constellation Wines: Trove and Red Guitar. E&J Gallo launched Matties Perch in 2006 and with only 15 weeks of sales in total food and drug stores was able to achieve the No. 8 ranking.

√Similar to 2005, the majority of the top 10 New Table Wine Brands in 2006 have creative, eye-catching packaging. Both the # 1 new brand, Trove, and the #10 brand, French Rabbit, utilize non-traditional Premium Box packaging.

Central Coast Surprises

By coincidence at the Central Coast Insights conference, the top five newly launched wine brands that made their own separate best-performing list using most of the same criteria had wine lines almost entirely from California's Central Coast region.

Brian Lechner, client director for beverage alcohol with **ACNielsen**, presented a study of food, drug and liquor sales of Central Coast wines. Food, drug and liquor store wine sales amount to anywhere from one quarter to one-third of total U.S. wine sales. (*In the study, all brands were assigned to a region regardless of whether all wine lines originated in that region, i.e. all Robert Mondavi wines were assigned to Napa because of the historic affiliation with that area and because the wines are not separated in original data by appellation.*) Key findings for the 52-weeks were:

√The Central Coast has the highest average price ($10.80 in 2006 vs. a all-

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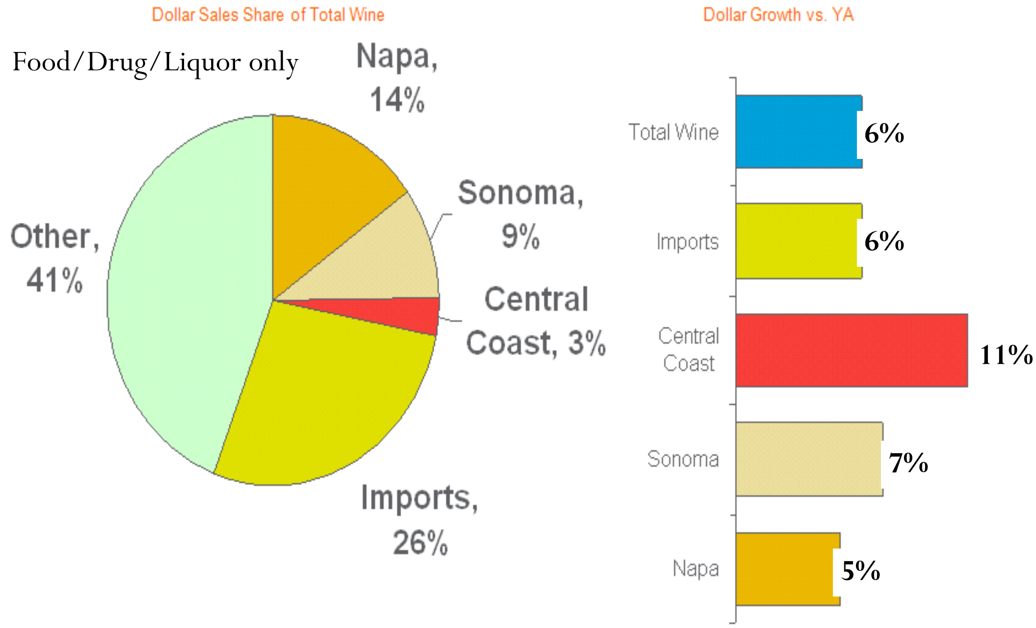
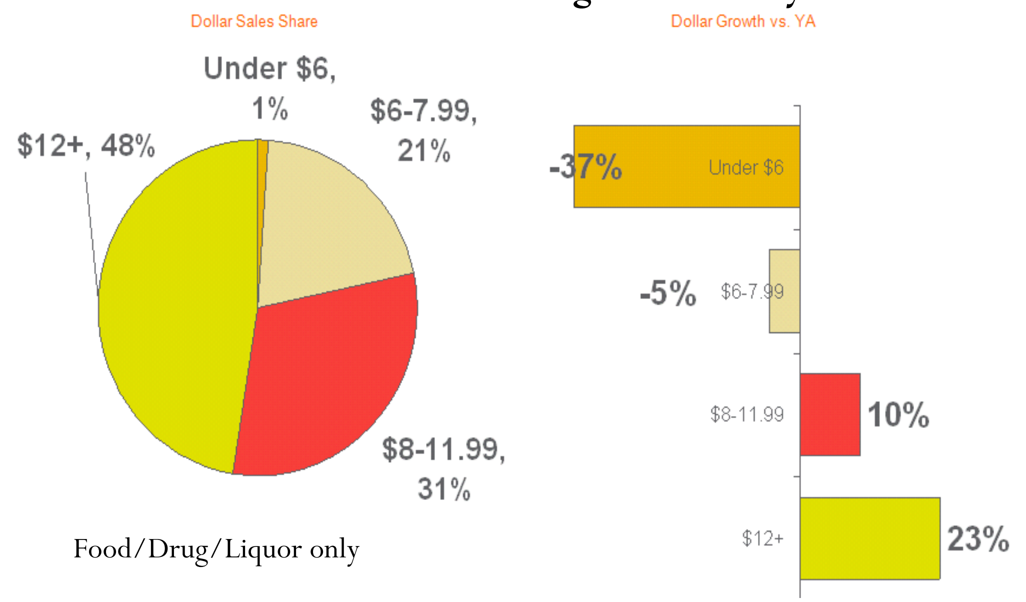
Central Coast wine marketshare and growth vs. others



Central Coast wine sales growth and by tier



Dollar Sales marketshare of regions

Market and Dominant Channel	Total	Central Coast	Imports	Australia	Italy	Napa
California – Food	12	23	5	6	5	15
Chicago – Food	2	1	2	2	2	2
Denver – Liquor	4	5	5	4	3	2
Florida – FDL	8	6	10	9	9	9
New York – Liquor	7	5	11	7	14	6

Source: *ACNielsen Scantrack Food, Drug, Liquor -52 w/e 1/13/07*

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Innovation in Wine Launched: Wine That Loves....Fish, Steak, Pizza?

An example of how U.S. wine companies are trying to resolve issues and adopt new concepts with a renewed innovative spirit is evident in the upcoming release of a new wine line that attempts to ease food and wine pairing, a great fear of many occasional and novice wine drinkers,

The Amazing Food Wine Company of New York is launching a "Wine That Loves" brand, which is being done by working with one of the country's top sommeliers.

"The whole idea is to ensure that wine parings enhance the foods Americans enjoy most often," said Tracy Gardner, president of The Amazing Food Wine Company. And, to convey that information quickly and simply.

Sommelier Ralph Hersom, formerly at Le Cirque 2000 and now wine director for The Amazing Food Wine Company, believes wine and food pairing "shouldn't be as difficult" as many U.S. consumers find it.

"The wine industry is on the wrong track by not recognizing that food comes first in people's minds," Gardner says, "We want to recreate that lovely experience you have in a small European town when you order the local specialty and "some red wine" and they bring you the wine that works wonders with that dish.

To make the point, the front labels show only a chicken, pizza or other popular meal, along with the brand name of the wine. So a bottle of red wine might read, "Wine that Lovews Grilled Steak," or 'Wine That Loves Roasted Chicken' or the other entrees.

Mandatory labeling language, including country of origin, goes on the back. Currently the wine is being sourced from Italy, Spain and Chile, Suggested retail price is around $11.99, but will vary across the country.

Gardner's vision for running the company comes from his belief in the importance of breakthrough innovation.

"My goal is to double wine consumption in this country by solving the most difficult issue consumers face, 'what goes with what?' 'Wine That Loves' solves the problem."

The wines are now beginning to enter distribution, as the company finds distributors in major markets. **[wmr]**

(IRI Top Brands continued from page 3)

wines average of $5.67 and averages in the $7-$8 range for Napa, Sonoma and imports).

√While its share of total wine revenues in food, drug and liquor outlets is small at just 3 percent, the wines as a category grew roughly twice as fast last year as other key categories.

√While the volume of Central Coast wines selling at greater than $12 per bottle retail in food, drug and liquor stores is small, Central Coast wines nonetheless commanded nearly half of the total dollar value in that category.

√There was double-digit revenue growth as high as 23 percent for the two price categories of Central Coast wines selling above $7.99, under which the revenues in food, drug and liquor stores of Central Coast wines declined.

√Central Coast wines are strong in California food stores with the highest percentage of dollar sales of regional categories, but disproportionately weaker outside the state.

Note: *Qualifying brands met a minimum requirement of 100,000 9L cases sold in in food an drug stores in 2006. There were 89 brands that were considered for inclusion and ranked according to the following measures: Volume Sales, Volume Sales Actual Chg YA, Volume Sales % Chg YA, Volume Share of Price Segment Chg YA, Incremental Volume Sales, Incremental Volume Sales % Chg YA, Dollar Sales Actual Chg YA, Dollar Sales % Chg YA, Incremental Dollar Sales % Chg YA and Weighted Average Base Price per Volume. Brands were ranked for each measure (high to low) and points were awarded.* **[wmr]**

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