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VINCOR AND THE NEW WORLD OF WINE

On September 16, 2002, Donald Triggs, chief executive officer (CEO) of Vincor International Inc. (Vincor) was preparing for the board meeting to discuss the possible acquisition of Goundrey Wines, Australia. Vincor had embarked upon a strategic internationalization plan in 2000, acquiring R.H Phillips and Hogue in the United States. Although Vincor was the largest wine company in Canada and the fourth largest in North America, Triggs felt that to be a major player, Vincor had to look beyond the region. The acquisition of Goundrey Wines in Australia would be the first step. Convincing the board would be difficult, as the United States was a close and attractive market where Vincor had already spent more than US$100 million on acquisitions. In contrast, Australia was very far away.

THE GLOBAL WINE INDUSTRY

Wine-producing countries were classified as either New World producers or Old World producers. Some of the largest New World producers were the United States, Australia, Chile and Argentina. The largest of the Old World producers were France, Italy and Spain (see Exhibit 1). The world's top 10 wine exporters accounted for more than 90 per cent of the value of international wine trade. Of those top 10, half were in western Europe, and the other half were New World suppliers, led by Australia (see Exhibit 2).

France

France had been a longtime world leader in the production of wine, due to historical and cultural factors. France was the top producer of wine in the world (see Exhibit 1). The French had developed the vins d'appellation d'origine contrôlée (AOC) system centuries ago to ensure that the quality of wine stayed high. There were many regions in which quality grapes could be grown in France. Some of their better known appellations were Bordeaux, Burgundy and Champagne. France was the second largest exporter of wine (see Exhibit 2).

Italy

Italy, like France, also had a very old and established wine industry that relied on the appellation method to control the quality. Italy was the second largest producer of wine in the world (see Exhibit 1) and the largest exporter (see Exhibit 2).

Australia

Grape vines were first introduced to Australia in 1788. The wine "industry" was born in the 1860s when European immigrants added the skilled workforce necessary to develop the commercial infrastructure. The Australian wine industry grew after 1960 with the development of innovative techniques to make higher quality wine while keeping costs down. Australia was the sixth largest producer of wine in the world (see Exhibit 1). Australia had 5.5 per cent of the total export market and was ranked fourth in the world for its export volume (see Exhibit 2).

Chile

The first vines were introduced to Chile in the 16th century. Due to political and economic instability, the wine industry was not able to develop and take on a global perspective until 1979 when Chile began to focus on the exporting of natural resources to strengthen its economy. Despite being only the 10th largest producer, Chile had 4.5 per cent of the total export market and was ranked fifth in the world (see Exhibit 2).

Argentina

Argentina had a long history of making wine. However, the quality of the wine from Argentina was never as high, due to the small area of land that was capable of producing high quality grapes. Argentina was the fifth largest producer of wine in the world (see Exhibit 1), but did not feature in the top 10 exporters of wine.

All of the countries, with the exception of Argentina, were capable of shipping brands that could compete at a wide range of price points. The French wines typically were capable of competing in the higher price classes, and could retail for more than US$100 per bottle.

MAJOR WORLD MARKETS

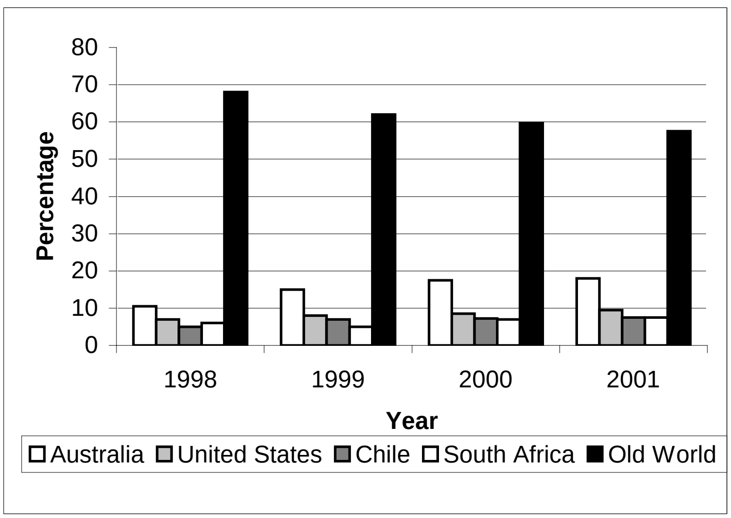
After a 2.2 per cent gain in 2001, the global wine market was estimated to have increased another 1.2 per cent in 2002 to 2.55 billion cases, according to *The Global Drinks Market: Impact Databank Review and Forecast 2001 Report.* Wine consumption was projected to expand by 120 million cases by 2010. Most of the growth was expected to come from major wine-consuming nations, such as the United States, United Kingdom, Australia and South Africa, as well from less developed wine markets, such as China and Russia.

Wine imports were highly concentrated. The 10 top importing countries accounted for all but 14 per cent of the value of global imports in the late-1980s. In 2001, half the value of all imports were purchased by the three biggest importers: the United Kingdom (19 per cent), the United States (16 per cent) and Germany (14 per cent).

France and Italy were the number one and two countries in the world for per capita consumption (see Exhibit 3). However, the consumption rate in France was relatively stagnant, while Italy was showing a decrease. Italy, unlike France, had a very small market for imported wines. The import market sizes for France and Italy were respectively 13.4 per cent and 2.8 per cent in 2001, based on volume.

The United Kingdom's wine market was considered to be the "crucible" for the global wine market (Wine Market Report, May 2000). The United Kingdom had very small domestic wine production and good relationships with many of the wine-producing countries in the world. This coupled with the long history of wine consumption, resulted in an open and competitive market. The United Kingdom was ranked number seven for consumption in 2001 with a trend of increasing consumption. The United Kingdom wine market was dominated by Old World country imports, however New World imports had grown as Australian wines replaced French wines as the number one import (see Figure 1).

Figure 1— United Kingdom Wine Market Share



Source: Company files.

Other Countries

In 2001, Canada was ranked number 30 in the world for per capita consumption with an increasing trend. Japan had seen a steady increase in the size of its imported wine market. Asia presented a great opportunity for wine producers around the world because it had populous markets that had yet to be tapped.

THE U.S. WINE INDUSTRY

The international image of the U.S. wine industry until the mid 1970s was that of a low quality jug wine producer. This changed in 1976 during a blind wine-tasting contest in France where California wines from

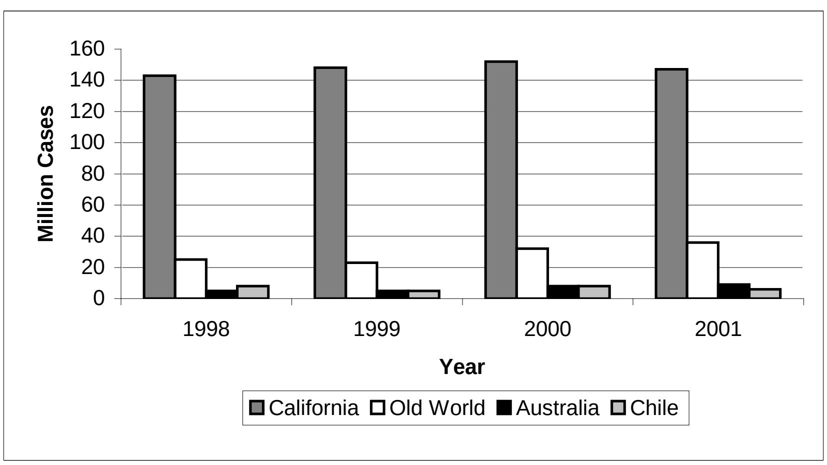
Napa Valley beat out several well- established European wines for the top honors. From that time forward, there has been a focus on developing high quality wines that could compete in the international market from the northern California appellations, such as Napa Valley and Sonoma County. The United States was the fourth largest producer of wine (1.98 billion litres) in 2001 (see Exhibit 1), with California wines accounting for 90 per cent of production volume. There were more than 3,000 wineries in all 50 states. The nation's top wine-producing states were California, New York, Washington and Oregon.

The United States saw huge gains in the total volume and value of its wine exports, increasing from US$85 million in 1988 to US$548 million in 2002. The major markets for U.S wines included the United Kingdom, Canada and Japan. Together they represented 66 per cent of the total export market value for the United States (see Exhibit 4).

The United States was the third largest wine market in the world, consuming 2.13 billion litres a year in 2001. It was also one of the biggest untapped wine markets in the world; seven per cent of the U.S. population accounted for 86 per cent of the country's wine consumption. The total wine market in the United States in 2001 was $21.1 billion with an average growth rate of six per cent since 1994. Of this, approximately $10 billion were sales of New World wines.

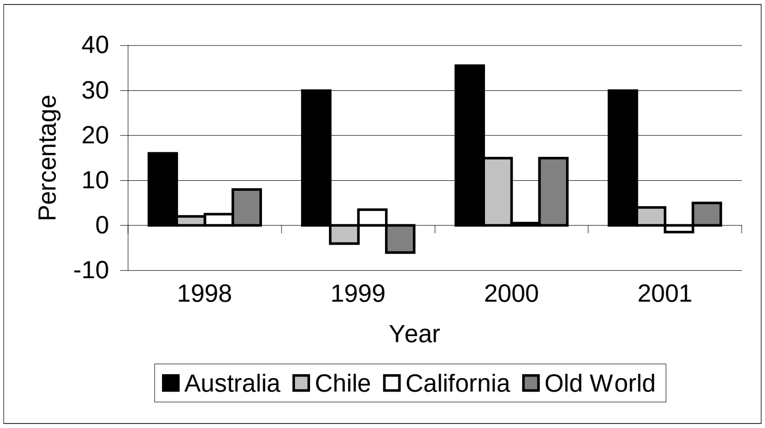
While California wines dominated the domestic market (67 per cent market share) due to the ideal growing conditions and favorable marketing and branding actions taken by some of California's larger wineries, imports were on the rise. The United States had one of the most open markets in the world for wine, with low barriers to entry for imports. Imports represented 530 million litres for a 25 per cent share of the market. By 2002, wine imports grew by 18 per cent (see Figures 2 and 3).

Figure 2 — United States Wine Markets 1998 to 2001



Source: Company files.

Figure 3 — United States Wine Market Growth Rates



Source: Company files.

Wine was the most popular alcoholic beverage in the United States after beer, which accounted for 67 per cent of all alcohol consumed. The table wine category represented 90 per cent of all wine by volume, dessert wine was six per cent and sparkling wine accounted for four per cent. U.S.-produced table wine held an 83 per cent share of the volume and 78 per cent of the value. Premium wine ($7 and more per 750 ml bottle) sales increased eight per cent over 2001, accounting for 30 per cent of the volume but a sizeable 62 per cent of winery revenues. Everyday value-priced wines selling for less than $7 per bottle grew about 1.5 per cent by volume. This segment represented 70 per cent of all California table wine shipments and 38 per cent of the value.

The United States wine industry was fragmented with the largest producer E. & J. Gallo, supplying 30 per cent and no other producer supplying more than 15 per cent by volume in 2002.

In the United States, a law mandated the implementation of a three-tier distribution system. The wine producers were required to sell to a wholesaler, who then sold to an established customer base of grocery stores, liquor stores, hotels and restaurants. Wineries were capable of using a two-tier distribution system, which allowed wineries to sell directly to the customers through gift shops located at the winery. The role of the distribution channel was growing and taking on greater strategic importance as the trend towards international and domestic consolidation grew.

THE CANADIAN WINE INDUSTRY

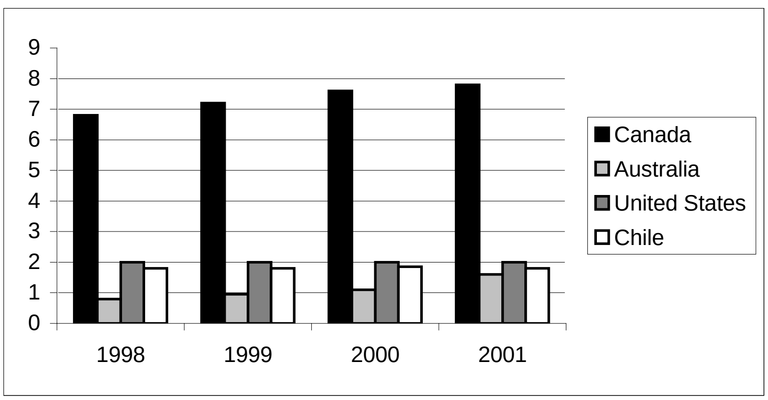
Canadians had been making wine for more than two centuries, but Canada’s modern day success in the production of high quality vinifera-based wines went back only a quarter century. The signing of the North American Free Trade Agreement in 1988, together with a ruling under the General Agreement on Tariffs and Trade (GATT) required Canada to abandon the protection it offered its wine industry. While many producers felt threatened, many more responded by reaffirming their belief in their capacity to produce premium wines, and redoubled their efforts to prove it. New vineyards were planted with only the finest varieties of grapes: Chardonnay, Riesling, Sauvignon Blanc, Pinot Gris, Gewürztraminer, Pinot Noir, Cabernet Sauvignon, Merlot and others.

During 1988, the Vintners Quality Alliance (VQA) was launched in Ontario, culminating six years of voluntary initiatives by the leaders of Ontario's wine industry. This group set the standards, to which they agreed to comply, to elevate the quality of Canadian wines and provide quality assurances to the consumer. British Columbia adopted similar high standards in 1990, under the VQA mark.

The 1990s was a decade of rapid growth. The number of commercial wineries grew from about 30 in 1990 to more than 100 by the end of the decade, and consumers began to recognize the value represented by wines bearing the VQA medallion. Canadian vintners continued to demonstrate that fine grape varieties in cooler growing conditions could possess complex flavors, delicate yet persistent aromas, tightly focused structure and longer aging potential than their counterparts in warmer growing regions of the world.

In Canada, despite increasing import competition, sales of Canadian quality wines were increasing as consumers moved up the quality and price scale (see Figure 4).

Figure 4 — The Canadian Wine Market



Source: Company files.

Canadian quality wines began to capture both domestic and international recognition not only in sales but also by garnering an impressive list of significant wine awards, beginning in 1991 when Inniskillin won the Grand Prix d'Honneur for its 1989 icewine at the prestigious VinExpo, in Bordeaux, France. New access for Canadian wines, especially icewine, in the European market, and expanding market opportunities in the United States and Asia were giving Canadian wines greater market exposure.

THE AUSTRALIAN WINE INDUSTRY

The Australian wine industry was structured to be able to deliver large quantities of high quality branded wine to the world's major markets, at costs less than many of their Old World and New World competitors. Since Australia had a very limited domestic market (population of only 17 million), the wineries realized that if the industry was to continue to grow it would have to do so internationally.

As a result, Australian wineries had gained, and were expected to continue to gain, market share. Growth had been in exports as well as domestic sales (see Exhibits 5 and 6). Australia had recently overtaken France as the largest exporter to the United Kingdom, where seven of the top 10 wine brands were Australian. Exports to North America had grown at 27 per cent by volume in 2001. Consumption of

Australian wine in Canada was up 24 per cent and in the United States consumption was up 35 per cent. The growth trends were expected to continue. Export growth had been driven by sales of premium red wine which accounted for 53 per cent of Australia's wine exports.

Domestic wine consumption had grown from 296 million litres in 1991 to 398 million litres in 2001, an annual growth rate of four per cent. The Australian domestic market was relatively unregulated compared to North America, although alcohol taxes were high (42 per cent). Wineries were allowed to have their own retail outlets and sell directly to retailers or on-premise customers. The 7,500 licensed liquor retail outlets accounted for 56 per cent of wine sales while the 28,000 licensed on-premise outlets accounted for 44 per cent of wine sales.

Although there were 1,300 wineries in Australia, the industry was the most concentrated of any major wine region, with 80 per cent of production being accounted for by four players: Southcorp Wine, Beringer Blass, BRL Hardy and Orlando Wyndham. The large wineries had their own sales forces, as well as warehouses in the major markets.

Southcorp Wines was Australia's largest winery and vineyard owner, with sales of AUD$1.5 billion. Beringer Blass was owned by the Fosters Group and had wine revenues of approximately AUD$800 million (seven million cases). The purchase of Beringer (for AUD$2.6 billion) provided the company with significant growth and U.S. market access.

BRL Hardy had revenues of more than AUD$700 million. The company had several top brands and a very strong U.K. market position. A recent joint venture in the United States with Constellation brands had improved their United States market access. Orlando Wyndham was owned by Pernod Ricard, a French publicly traded spirits company.

TRENDS IN THE GLOBAL WINE INDUSTRY

Wine was unique among alcoholic beverages in that its top 25 brands represented only seven per cent of the global market. In 2002, Martini vermouth was the world's most widely distributed wine, while Gallo's E. & J. Wine Cellars was the largest-selling brand, at 25 million cases annually, with most of those sales in the United States.

Globally, vermouth and other fortified wines were projected to continue their long-term decline, but this would be more than offset by expected growth in table wines, which accounted for more than 90 per cent of total wine consumption. The hottest sales category was Australian wines, with brands such as Rosemount Estate, Jacob's Creek and Lindemans showing double-digit growth rates.

The North American market was expected to exhibit annual growth rates of three per cent. There were positive demographics with the 20 to 39 age group having a per capita consumption at 7.9 1itres and the 40+ age group having a per capita of 14.0 litres. The ongoing trends were a shift in consumer preference to red wines and premium wines (see Exhibit 7, 8).

The global wine market was consolidating in terms of its retail, wholesale and production operations. One key to success seemed to be distribution and marketing. Globalization was also altering the structure of firms both within the wine industry and among those distributing and retailing wine. Rapid growth in supermarkets and in concentration among distributors was driving wine companies into mergers and acquisitions to better meet the needs of those buyers and their customers. Since information about the various niches and the distribution networks in foreign markets was expensive to acquire, new alliances between wine companies were being explored with a view to capitalizing on their complementarities in such knowledge.

Recent examples of such alliances included the purchase by the owner of Mildara Blass (Fosters Brewing Group) of Napa Valley-based Beringer, the alliance between Southcorp/Rosemount and California's Mondavi, BRL Hardy's joint venture with the second largest U.S. wine company, Constellation Brands (to operate as Pacific West Partners) and the purchase by New Zealand's biggest wine firm (Montana) of the country's second largest winery (Corbans). See Exhibit 9 for the 10 largest wine companies worldwide.

VINCOR INTERNATIONAL INC.

Vincor International Inc. (Vincor) was formed as a combination of a number of Canadian wineries: Barnes Wines, Brights Wines, Cartier Wines, Inniskillin Wines and Dumont over the period from 1989 to 1996. Vincor began operations in 1989 with a management buyout of Ridout Wines (Ridout) from John Labatt Ltd. The Ridout management team, led by Allan Jackson, Peter Graigner and John Hall, sought out Donald Triggs to lead the purchase and become CEO. They raised more than Cdn$2 million in equity, largely from personal finances, and borrowed $25 million to buy out Ridout. The new company was renamed Cartier Wines and Beverages.

Vincor had grown in three stages to become Canada's largest wine company in 2002. The first stage of growth had been a leveraged buyout (LBO) in turbulent times (1989 to 1995), followed by a period of consolidation and rationalization-Building Canada's Wine Company (1990 to 2000). The third stage of growth was Building an International Wine Company (2000 onwards).

The first stage had seen the formation of Vincor and wine company acquisitions. From 1995 to 2000, Vincor acquired eight wineries, integrated its sales, marketing, production and accounting and merged two wine kit companies. This lead to economies of scale and a 21 per cent market share in 2000.

During this period, Vincor developed Canada's first premium wine brands: Jackson-Triggs, Inniskillin and Sawmill Creek. The Canadian wine market had seen a shift from popular (less than $7 retail price) to premium ($7 to $10 retail price), leading Vincor to start focusing on the premium and super premium ($10 to $15 retail price) segments. They developed vineyards and re-capitalized wineries to support premium growth. Product coverage was also achieved in the growing ultra premium ($15 to $20 retail price) and specialty (more than $20 retail price) segments. The year 2000 saw Vincor at a strategic crossroad. Triggs recalled:

> We were faced with three options. We could choose to be a cash cow by further developing our dominant Canadian position. A second option was to develop a diversified Canadian beverage conglomerate. A third option was to expand to the United States and perhaps beyond.
>
> We went for option 3. The move was driven by opportunities as well as threats. In terms of opportunities, the global trend was one of strong growth and premiumisation. There was an industry consolidation favoring global brands. The market was fragmented with the largest player only having one per cent market share. The markets for New World wine were growing. The dynamics in the U.S. market were highly profitable with very high profit margins. We were already #5 in North America and #22 globally.

> On the risk side, wine was an agricultural industry and as such susceptible to changing weather conditions. A diversified portfolio in terms of production and markets would only be an asset.

Triggs and Vincor decided to go international. The company's mission statement was drafted to reflect the new strategic plan:

> To become one of the world's top-10 wine companies, producing Vincor-owned New World, premium branded wines, which are marketed and sold through Vincor-controlled sales and distribution systems in all major premium wine consuming regions.

Where Were the Big Markets?

According to Triggs:

> The United States was the largest market with New World wine sales of $10 billion followed by the United Kingdom and Australia at $3.7 billion each. Canada and the rest of Europe were next at $700 million. Japan was the sixth largest with sales of about $500 million. To be a New World market player, Vincor needed to be in five to six markets.

In 2002, the company's strategy was formulated for each region. In Canada, the aim was to build share in premium segments, to develop export capability and to generate cash and improve return on capital employed. In the United States, Vincor decided to focus on portfolio migration to high-end super-premium, enhancement of sales capability, product innovation and a shift to consumer marketing. Vincor's international strategy was to develop new geographic markets for core brands, specifically for icewine, a signature product for Canada that had attained world recognition. It was a luxury product in terms of pricing and margins and one of the top-five wine brands in select Asian duty-free stores. The U.S. launch was in F'01 in 1,850 high-end restaurants. By 2002, Inniskillin was being sold in 3,300 premium restaurants across the United States. The European launch of Inniskillin was slated for F'02.

U.S. ACQUISITIONS

R.H. Phillips

On October 5, 2000, Vincor acquired R.H. Phillips, a leading California estate winery, which produced a range of super premium wines. The aggregate purchase price, including acquisition costs, was US$56.7 million. In addition, R.H. Phillips' debt of US$33.8 million was assumed and refinanced by the company. The Phillips acquisition and the refinancing of the assumed debt were funded entirely through borrowing from the company's senior lender.

R.H. Phillips was established in 1981 by John and Karl Giguiere. It was located in the Dunnigan Hills Viticultural Region near the wine regions of Napa and Sonoma. R.H. Phillips specialized in the production of super premium wines, marketing its products under the brands R.H. Phillips, Toasted Head, EXP and Kempton Clark. Its wines were sold throughout the United States and in several other countries, including Canada. In 2001, its brands generated sales revenues of approximately US$25 million for Vincor. Its wines were distributed across the United States by a network of 13 sales executives, distributors and brokers.

The Phillips acquisition established a presence for Vincor in the U.S. wine market, in addition to adding strong brands, which were well-positioned in the super premium category, one of the fastest growing segments of the wine market. With its national network of distributors and sales professionals, R.H. Phillips provided a platform for future acquisitions in the United States (such as the Hogue acquisition), while also facilitating the marketing of Vincor's products in the United States.

The Hogue Cellars

On September 1, 2001, Vincor acquired Hogue Cellars for US$36.3 million. Hogue was the second largest wine producer in Washington state, well-known for its super premium wine. Hogue was a family controlled and family operated winery founded in 1982 by Mike and Gary Hogue.

The Washington state wine industry had emerged as the second largest producer of premium wines in the United States, after California. Hogue produced red varietals, including Cabernet Sauvignon, Merlot and Syrah, as well as white varietals, including Chardonnay, Sauvignon Blanc, Riesling and Pinot Gris. In 2001, sales of Hogue-produced premium wine were 415,400 cases. In addition to its owned brands, Hogue was the U.S. agent for Kim Crawford wines of New Zealand and Heritage Road wines from Brian McGuigan wines of Australia.

The Hogue acquisition added 11 sales people nationally and immediately increased Vincor's annual U.S. sales volume to more than one million cases and its annual U.S. revenues to more than US$60 million.

INTEGRATION WITH R.H. PHILLIPS

Vincor's management believed that Hogue was an excellent complement to the R.H. Phillips portfolio, as Hogue was primarily a super premium brand, with approximately 88 per cent of its volume in the super premium category. The strength of the Hogue product range lay in different varietals from the R.H. Phillips range. Different appellations greatly reduced portfolio overlap, as the character and taste of the wines were clearly distinct. Given the price and quality positioning of both businesses, customers were similar and opportunity existed to improve the efficiency and effectiveness of the sales force, while simultaneously developing incremental sales for all brands in the combined portfolio. Vincor incurred expenses of US$4 million from the integration of Hogue and R.H. Phillips and from transaction costs related to the Hogue acquisition. It was management's objective that the integration of Hogue and R.H. Phillips would result in the realization of annual synergies of US$2.8 million.

VINCOR IN 2002

In 2002, Vincor was Canada's largest producer and marketer of wines with leading brands in all segments of the market in Canada. Vincor had a 22 per cent market share and sales of Cdn$376.6 million (see Exhibit 11 for Financials). Andrés Wines Ltd., the second largest winery in Canada, had approximately an 11 per cent market share. Vincor was North America's fourth largest wine producer in terms of volume and the world's 22nd largest wine producer in terms of revenue.

The company had wineries in British Columbia, Ontario, Quebec, New Brunswick, California and Washington state, marketing wines produced from grapes grown in the Niagara Peninsula of Ontario, the Okanagan Valley of British Columbia, the Dunnigan Hills of California, the Columbia Valley of

Washington state and other countries. The company's California and Washington wines were available throughout the United States and in parts of Canada. (see Exhibit 10 for Corporate Structure).

Canada's government liquor distribution systems and the company's 165-store Wine Rack chain of retail stores sold Vincor's well-known and industry-leading brands: Inniskillin, Jackson-Triggs, Sumac Ridge, Hawthorne Mountain, R.H. Phillips, Toasted Head, Hogue, Sawmill Creek, Notre Vin Maison, Entre-Lacs, L'Ambiance, Caballero de Chile, Bellini, Spumante Bambino, President Canadian Champagne, Okanagan Vineyards, Salmon Harbor and other table, sparkling and fortified wines, Vex and the Canada Cooler brands of coolers, and the Growers and Vibe brands of cider.

In the United States, R.H. Phillips, Toasted Head, EXP, Kempton Clark and Hogue wine brands were distributed through a national network of more than 127 distributors, supported by eight brokers and 40 sales managers. The company's icewines were sold in the United States through a dedicated team of sales managers and internationally, primarily through the duty-free distribution channel. The company had seven employees outside of Canada engaged full-time in the sale of icewine.

Vincor's portfolio had evolved as per Table 1.

Table 1 — Evolution of Vincor's Portfolio — Table Wine

	F'95		F'02	
	% By Vol	% by $	% By Vol	% by $
Popular	83	80	47	28
Premium	17	20	53	72

Source: Company files.

The company's objectives in 2002 were to obtain a top quartile return on capital employed (ROCE) of 16 per cent to 20 per cent and to achieve sales of Cdn$1 billion and an earnings per share (EPS) increase of more than 15 per cent. At the time these objectives were to be met as per Table 2.

Table 2 — Company Sales Objectives (Cdn$ millions)

	Current	5 Years
Canada	300	400
United States	100	200
Icewine	15	50
Acquisitions	0	350
Total	415	1,000

Source: Company files.

GOUNDREY WINES PTY. LTD.

Goundrey Wines was one of the pioneer winery operations in Western Australia. The Goundrey family had established the vineyard in 1972, and the first vintage was produced in 1976. By 1995, the business had grown to approximately 17,000 cases in annual sales and was sold to Perth businessman Jack Bendat. Bendat expanded both the vineyards and the winery to reach 2002 sales levels of 250,000 cases annually and revenues of AUD$25 million. Goundrey was one of the largest wineries in Western Australia selling under two labels, Goundrey and Fox River (see Exhibit 12 for Financials).

Bendat was 77 years old, and health and family concerns had resulted in his recent decision to sell the business. Vincor believed it would be able to purchase the assets of Goundrey for AUD$46 million plus working capital at close (estimated at AUD$16.5 million) plus transaction costs of AUD$2 million for an enterprise value of AUD$64.5 million.

The majority of the Goundrey brand volume (85 per cent) was sold in the AUD$15 to AUD$30 super premium segment of the Australian market. The ultra premium segment ($30 to $50) accounted for seven per cent of sales and the premium ($10 to $15) for the remaining eight per cent. The company's sales were almost entirely in the domestic market with three per cent export sales. When asked what was Goundrey's export strategy, Bendat said, "I answer the phone."

Goundrey employed its own sales force in Queensland and New South Wales, with a total of 13 sales reps and four sales managers in two states. In other states, Goundrey had appointed distributors. In all regions, Goundrey was the most important winery for the distributor. Goundrey had tighter control of its distribution capability in Australia than most of its competitors. Goundrey consumption was running at more than 26 per cent year over year growth versus 2001.

Located 350 km south of Perth, the winery could process 3,500 tonnes of grapes. The winery also had its own bottling capability, enabling it to support an export business where each export market has different labeling requirements.

Triggs felt the Goundrey acquisition would be an important strategic move for Vincor. He saw several major advantages. First, the acquisition would be a significant step in achieving Vincor's strategy of converting from a North American to a global player. The Australian wine industry had captured market share in the world's new wine markets and was poised to continue to do so. Second, the Western Australia region had an established reputation for super and ultra-premium wines. Although the grape harvest was a mere four per cent of the Australian total, more than 25 per cent of Australia's super-premium wines were sourced from that state. Third, the company had developed its own sales force in Queensland and New South Wales. Triggs wanted the proposal to go through.

Exhibit 1

TOP 10 PRODUCERS OF WINE IN THE WORLD 2001

Country	Wine Production* (million litres)	Share of World Production (%)
France	5,330	19.9
Italy	5,090	19.0
Spain	3,050	11.4
United States	1,980	7.4
Argentina	1,580	5.9
Australia	1,020	3.8
Germany	900	3.4
Portugal	770	2.9
South Africa	650	2.4
Chile	570	2.1
World	27,491	

** Does not include juice and musts (the expressed juice of fruit and especially grapes before and during fermentation; also the pulp and skins of the crushed grapes).*

Note: 1 litre = 0.26 gallons; each case contains 12,750 mil bottles = 9 litres.

Source: G. Dutruc-Rosset, Extract of the Report on World Vitiviniculture, June 24, 2002.

Exhibit 2

TOP 10 EXPORTERS OF WINE IN THE WORLD 2001

Country	Wine Production* (million litres)	Share of World Exports (%)
Italy	1,830	26.5
France	1,580	22.9
Spain	990	14.4
Australia	380	5.5
Chile	310	4.5
United States	300	4.3
Germany	240	3.5
Portugal	200	2.9
South Africa	180	2.6
Moldavia	160	2.3
World	6,897	

Source: G. Dutruc-Rosset, Extract of the Report on World Vitiviniculture, June 24, 2002.

Exhibit 3

TOP 10 WINE CONSUMING NATIONS
2001

Country	Wine Consumption (millions litres)	Share of World Consumption (%)
France	3,370	15.4
Italy	3,050	13.9
United States	2,133	9.7
Germany	1,966	9.0
Spain	1,400	6.4
Argentina	1,204	5.5
United Kingdom	1,010	4.6
China	580	2.6
Russia	550	2.5
Romania	470	2.1
World	21,892	

Source: G. Dutruc-Rosset, Extract of the Report on World Vitiviniculture, June 24, 2002.

Exhibit 4

U.S. WINE EXPORTS
Top Countries
(By Dollar Value in 2002)

Country Ranking by 2002 Dollar Value	Value ($000)	Volume (litres 000)
United Kingdom	188,895	95,446
Canada	92,571	50,348
Japan	81,199	32,342
Netherlands	53,201	26,388
Belgium	18,791	10,884
France	13,326	5,943
Germany	11,818	8,634
Ireland	10,153	5,380
Switzerland	7,199	3,914
Denmark	5,710	3,933
Mexico	5,001	3,705
Taiwan	4,868	2,736
South Korea	3,865	2,439
China	3,370	2,537
Singapore	3,002	1,822
Sweden	2,782	1,145
Hong Kong	2,393	1,140

Source: Wine Institute and Ivie International using data from U.S. Dept. of Commerce, USA Trade Online. History revised. Numbers may not total exactly due to rounding.

Exhibit 5

AUSTRALIA WINERIES

	1998 to 1999	2000 to 2001
Wineries (number)	1,150	1,318
Hectares under vine	122,915	148,275
Wine grape production	793	1,035
Wine consumption	373	398
Wine exports		
million litres	216	339
AUD$ million	$ 991	$ 1,614
Wine imports		
million litres	24	13
AUD$ million	$ 114	$ 92

Source: Company files.

Exhibit 6

AUSTRALIA — TOP EXPORT MARKETS 2001

	Million Litres	AUD$ Million
United Kingdom	183	762
United States	78	457
Canada	17	106
New Zealand	23	83
Germany	13	55
Other	61	301
All Markets	375	1,764

Source: Company files.

Exhibit 7

THE WINE MARKET — CANADA Fiscal 2002

	Retail Price	% By Volume	Trend	% By Sales
Popular	< $7	33%	-5%	20%
Premium	$7 - $10	35%	5%	30%
Super Premium	$10 - $15	24%	19%	33%
Ultra Premium	$15 - $20	6%	31%	15%
Specialty	>$20	2%	45%	6%

Source: Company files.

Exhibit 8

THE U.S. MARKET FOR CALIFORNIA WINE
Fiscal 2002

	Retail Price	% By Volume	F'02 Trend*	% By Sales
Jug	<$3	36%	-4%	12%
Premium	$3 - $7	36%	-2%	27%
Super Premium	$7 - $15	18%	8%	28%
Ultra Premium	>$15	10%	3%	33%

** Total U.S. table wine market +1%; imports +9%; states other than California +4%*

Source: Company files.

Exhibit 9

TOP 10 WINE COMPANIES AND SALES IN 2002
(US$)

Company	Country	Wine sales ($ million)
E. & J. Gallo Winery	United States	1,500
Foster's Group	Australia	818
Seagram	Canada	800
Constellation Brands	United States	712
Southcorp	Australia	662
Castel Freres	France	625
Diageo	Britain	590
Henkell & Sonlein	Germany	528
Robert Mondavi	United States	506

Note: Excludes France's LVMH, which earned more than 75 per cent of its $1.6 billion in wine sales from champagne.

Source: Direction des Etudes/Centre Français du Commerce Exterieur.

Exhibit 10

VINCOR'S SIGNIFICANT LEGAL SUBSIDIARIES
2001 (all wholly owned)

Subsidiary	Jurisdiction of Incorporation
Hawthorne Mountain Vineyards (2000) Ltd	Canada
The Hogue Cellars, Ltd	Washington
Inniskillin Wines Inc.	Ontario
Inniskillin Okanagan Vineyards Inc	British Columbia
R.H. Phillips, Inc	California
Spagnol's Wine & Beer Making Supplies Ltd	Canada
Sumac Ridge Estate Winery (2000) Ltd.	Canada
Vincor (Quebec) Inc	Quebec

Source: Company files.

Exhibit 11

VINCOR CONSOLIDATED FINANCIALS
(1998 to 2002)
(Cdn$ millions)

						Average Annual Growth	
	F'98	**F'99**	**F'00**	**F'01**	**F'02**	**F'01-02**	**F'98-02**
Revenue	206.4	253.2	268.2	294.9	376.6	27.7%	17.7%
EBITDA	28.1	35.0	37.9	49.5	70.5	42.4%	26.1%
% Revenue	13.6%	13.8%	14.1%	16.8%	18.7%		
Net Income	10.8	11.7	13.3	14.3	26.9	40.1%	25.6%
Avg.Capital Empl'd	145.5	191.6	222.1	310.4	468.2		
ROCE (EBIT)	14.5%	13.8%	12.7%	13.1%	12.5%		
Funds Employed							
Receivables	30.4	33.3	35.7	37.4	55.1		
Inventory	65.1	83.1	70.7	125.9	175.6		
Working Capital	57.8	73.3	67.9	111.9	184.9		
Net Fixed Assets	45.2	60.0	73.3	165.9	178.8		
Other Assets	59.8	87.1	82.7	133.4	161.5		
Funds Employed	162.8	220.4	223.9	411.2	525.2		
Turnover	1.2x	1.1x	1.2x	.7x	.7x		
Financing							
Debt (net)	50.9	92.5	80.5	254.5	110.1		
Deferred Tax	9.6	12.1	14.1	11.4	18.3		
Equity*	102.3	115.8	129.3	145.3	396.8		
Financing	162.8	220.4	223.9	411.2	525.2		

Note: EBITDA — Earnings Before Interest, Taxes, Depreciation and Amortization
*Increased in 2002 due to the fact two equity issues were completed that year.
Source: Company files.

Exhibit 12

GOUNDREY FINANCIALS
(for years ending June 30)
AUD$ (000s)

	1999	**2000**	**2001**
Sales (000)	16,280	21,509	20,942
EBITDA	3,102	6,014	3,548
EBITDA%Sales	19.1%	28.0%	16.9%

Source: Company files.