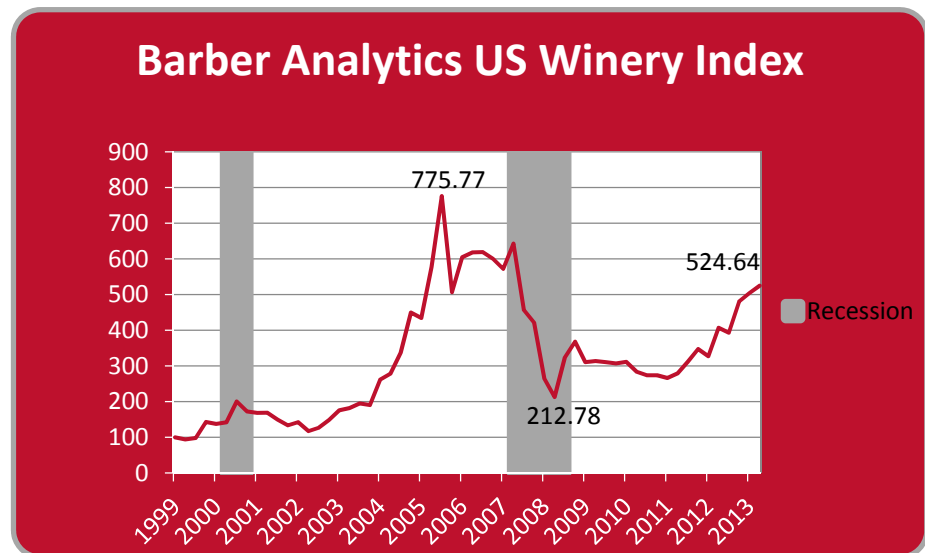


Valuation Update

...it's instructive for everyone in the wine industry to see how the publicly-traded wineries are valued, and how they've performed as an investment....



Barber Analytics US Winery Index

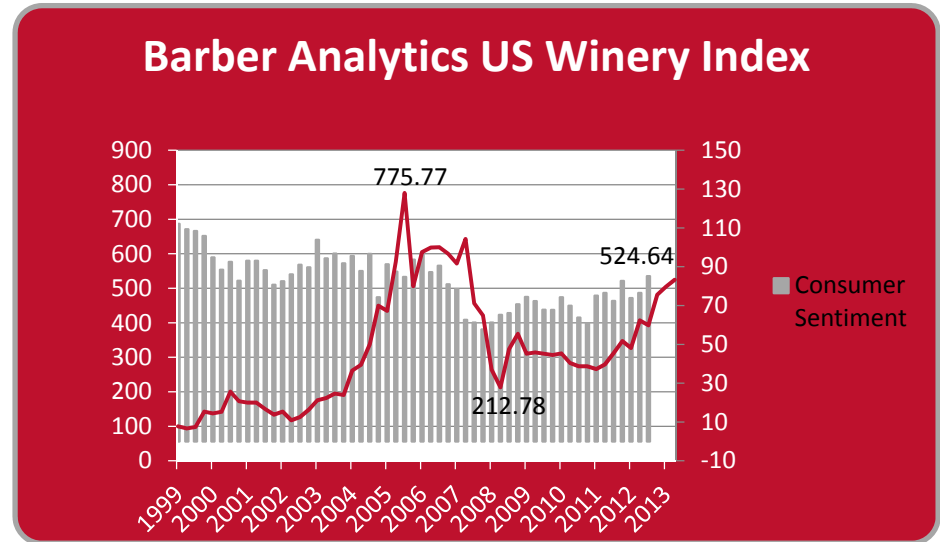
There have only been about ten US wineries that have traded on major stock exchanges, which may explain why no US winery indexes exist (indexes measure the performance of a group of stocks). However, it's instructive for everyone in the wine industry to see how the publicly-traded wineries are valued, and how they've performed as an investment, so I created my own.

The BA Winery Index begins on December 31, 1999 at a value of 100, is equal-weighted (each company counts the same) and is adjusted for dividends (US wineries generally don't pay dividends, so it has little impact). The high for the index occurred in June of 2006 before the Great Recession at 775.77. Since then, the index bottomed out in March of 2009 at 212.78, a 72.6% decline! Wineries operating during that time know how difficult they were. But from the bottom of the Great Recession, the index has climbed slowly but surely to 524.64 today - an increase of 146.6%. Over all, wineries have proven to be a good investment for minority shareholders. Over the 14.25 years the index is measured, it has produced a compounded annual return of 12.3%, compared to the Dow Jones Industrials index, which produced only a 2.6% annual return period.

One of the reasons for this good performance is that five of the eight wineries that make up the index were acquired. When this happens, the

price of the acquired winery increases fairly dramatically, increasing the index, before the acquired winery is dropped from the index.

The current positive consumer outlook indicates an attractive economic environment for wineries.

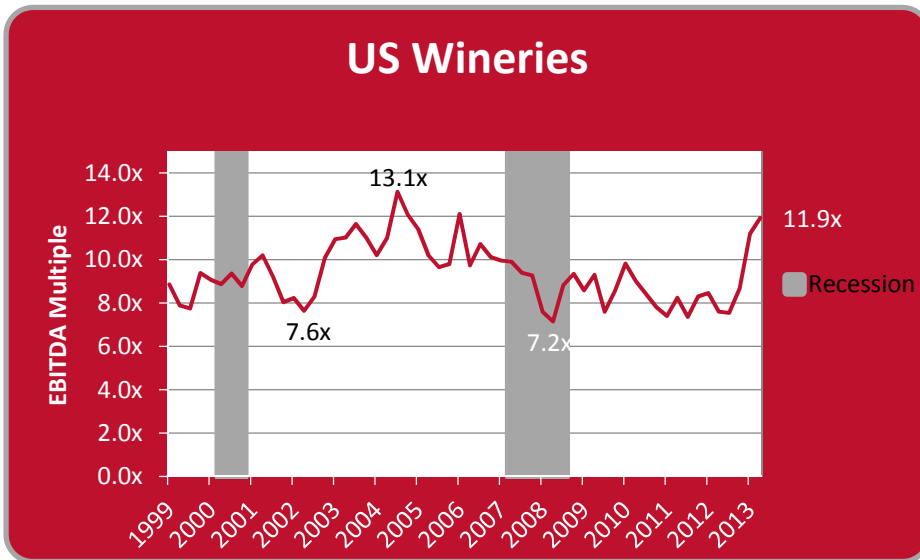


One of the economic indicators that is a good guide of where the index is going is the Consumer Sentiment Index. As a luxury good, most high-priced wines are quite sensitive to how consumers are feeling about their future financial circumstances. As should be clear from the graph above, the BA Winery Index generally rises and declines with the Consumer Sentiment Index. The current positive consumer outlook indicates an attractive economic environment for wineries.



Haven't you ever seen California wine being made before?

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Currently the industry EBITDA multiple is 11.9x, the highest it has been since June 2005.

Current Values

Another interesting industry statistic to follow is the current trading multiples of US wineries. Multiples are derived by dividing some measure of value (which is determined by minority investors by setting the prices of shares) by a level of financial performance of the winery. In the graph above I have tracked the EBITDA multiple of US wineries over the same period as the index. EBITDA stands for earnings before interest, taxes and depreciation & amortization. It's a mouthful, but it's a simple measure of cash flow from which a company can pay its debt holders and equity investors. As you can see from the graph, the EBITDA multiple tends to increase and decrease with the index and consumer sentiment. Currently the industry EBITDA multiple is 11.9x, the highest it has been since June 2005. The median (similar to average) multiple over the entire period is 9.3x.



**"Is it better to invest during a bull market or bear market?
Depends...would you rather be gored or mauled?"**

Company Name	Enterprise Value (EV)	Stock Price	Debt/ EV	EBITDA		Norm. EPS		EV / EBITDA		Price / Norm. EPS	
				LTM	2014	LTM	2014	LTM	2014	LTM	2014
US Wineries											
Crimson Wine Group, Ltd.	\$192.7	\$8.85	0.0%	\$11.6	na	\$0.122	na	nmf	na	nmf	na
Truett-Hurst, Inc.	\$29.3	\$4.98	40.1%	\$0.5	\$1.9	(\$0.01)	\$0.15	nmf	nmf	neg	nmf
Willamette Valley Vineyards Inc.	\$36.3	\$6.49	16.0%	\$3.0	na	\$0.30	na	11.9x	na	21.4x	na
Mean								na	na	na	na
Median								11.9x	na	21.4x	na
Other Wineries											
Andrew Peller Limited	C\$309.9	\$13.60	33.0%	C\$32.9	na	\$0.88	na	9.4x	na	15.4x	na
Australian Vintage Limited.	A\$188.9	\$0.36	58.1%	A\$24.4	A\$31.8	\$0.044	\$0.052	7.7x	5.9x	8.0x	6.8x
Delegat's Group Limited	NZ\$518.4	NZ\$3.65	30.0%	NZ\$70.7	NZ\$68.8	\$0.34	\$0.31	7.3x	7.5x	10.7x	11.7x
Treasury Wine Estates Limited	A\$2,595.1	\$3.53	13.0%	A\$96.4	A\$294.0	\$0.001	\$0.215	nmf	8.8x	nmf	16.4x
Vina Concha y Toro S.A.	\$1,965.0	\$2.05	24.6%	\$110.5	\$139.0	\$0.07	\$0.11	17.8x	14.1x	nmf	19.3x
Mean								10.6x	9.1x	11.4x	13.6x
Median								8.6x	8.2x	10.7x	14.0x

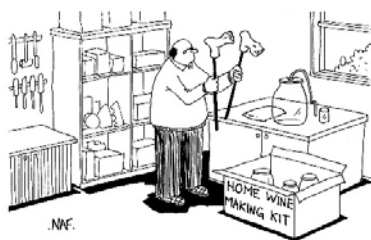
The table above shows trading and financial data for the three US wineries that are publicly-traded. As the two newest publicly-traded wineries are not generating a "normal" amount of earnings (Crimson and Truett-Hurst began trading in 2013), their earnings multiples are distorted. Investors are likely forecasting what a normal level of earnings is for these two wineries, and paying a stock price discounted from that expectation. Willamette, although trading at 11.9x EBITDA (a healthy multiple for it historically), appears to be earning a normal level of income, making its multiples valid.

As there are only three publicly-traded US wineries, I often supplement their trading data with multiples of other New World wineries from Canada, New Zealand and Australia. As can be seen in the table, most of these wineries are generating a normal level of earnings and are trading at multiples consistent with historical norms. Although I have shown only two trading multiples (EBITDA and earnings per share), it is also quite common for analysts to look at value relative to total revenues when earnings fall below norms. In fact, Crimson and Truett-Hurst could both be valued currently using a revenue multiple.

Let's review the operations and current results of the three US wineries as it helps us understand why multiples vary from winery to winery.

Crimson Wine Group, Ltd.

Crimson, operating since 1991, was a subsidiary of Lucinda National Corporation until it was spun out in a tax-free dividend on February 25, 2013. Two board members hold about 18.5% of the common shares. Crimson produces and sells premium, ultra-premium and luxury wines and is headquartered in Napa, California. Crimson owns four wineries: Pine Ridge Vineyards located in Napa Valley, California with 165 producing acres; Archery Summit located in the Willamette Valley in Oregon with 113 producing acres; Chamisal Vineyards in Edna Valley, California with 82 producing acres; and, Seghesio Family Vineyards located in Sonoma County, California with 281 producing acres. Most of Crimson's sales are made through independent domestic distributors,



with the balance being sold through direct channels (12%) and export (9%). About 38% of the company's grape needs are met internally. Pine Ridge Vineyards flagship 2010 Cabernet Sauvignon sells for \$250 per bottle. Although earnings are still depressed over the previous 12-months, Crimson's 2013 4Q showed improvement which caused the stock to rise to the \$9.00 level from the \$8.00 range.

Truett-Hurst, Inc.

Truett-Hurst has a completely different operating strategy than Crimson in that they own almost no producing vineyards, with almost all of their grape needs being contracted for. The Company was founded in 2012, began trading on the NASDAQ in June 2013, and is based in Healdsburg, California. About 15% of shares are held by insiders. Truett-Hurst has developed a reputation for developing innovative new brands and working closely with their retail partners to develop brands that cater to customer demands, and that permit their retail partners to increase consumer traffic. Approximately 80% of the company's revenue is made through this channel. Truett-Hurst also holds a controlling interest in thewinespies.com, an internet retailer specializing in short-lived "flash" sales. Although the 4Q of 2013 showed some improvement, the company still has a way to go before current earnings support the share price.



"Stocks rose sharply today on news that this sort of thing still happens once in a while."

Willamette Valley Vineyards Inc.

Willamette was formed in May 1988 to produce and sell premium, super-premium, and ultra-premium varietals and is headquartered south of Salem, in Turner, Oregon. About 60% of grapes are purchased under contract, with the balance coming from three vineyards located in Willamette Valley, Oregon. Under its Willamette Valley Vineyards label, the company produces and sells its flagship Pinot Noir for \$22 to \$100 per bottle. About 23% of shares are held by insiders, including the founder James Bernau. Willamette sells about 72% of its wine through distributors and brokers, with the balance sold either at the winery or over the internet. The company continues to post good earnings gains from increasing gross margins, although the shares have yet to return to their high before the Great Recession.



1 Sansome Street, Suite 3500
San Francisco, CA 94104

Phone: 415.946.8914

Website: www.barberanalytics.com

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