

Innovations & Change in the Global Supply Chain

Wine Industry Technology Symposium



Benjamin Gordon
Managing Director
BG Strategic Advisors, LLC

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Agenda

- Introduction: Rising Fuel Costs
- State of the Supply Chain industry
- The Quickening Pace of Consolidation
- Strategies for Winners

Introduction: Rising Fuel Costs

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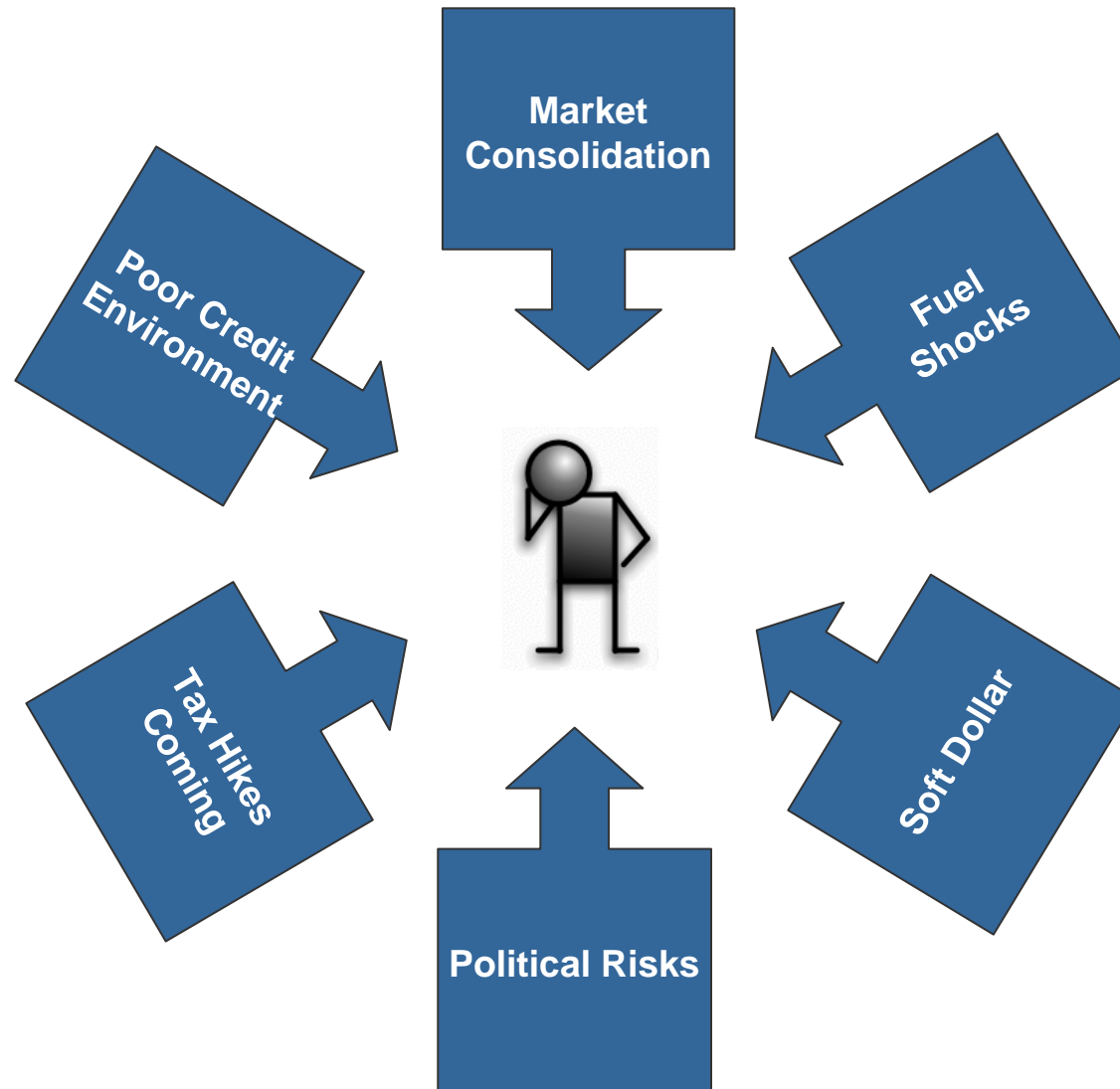


Representative Clients and Relationships



The Logistics Market Today:

Key Challenges

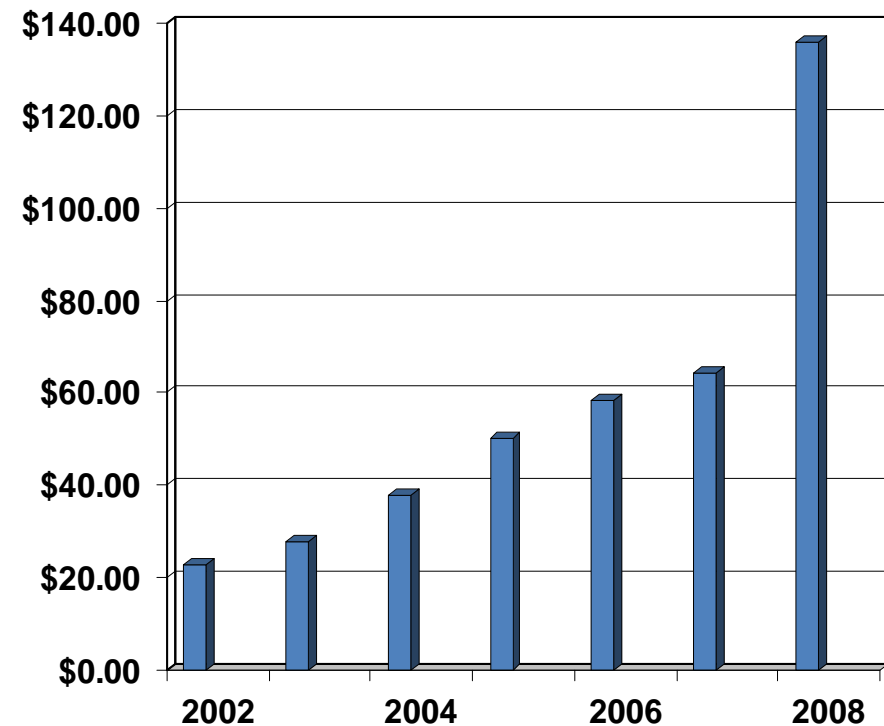


Challenging Market Conditions:

Rising Fuel Costs Causing Slow Down in Transportation

- Fuel costs are eroding profits and changing the dynamics of the transportation industry
- Consumers are reducing demand for shipping
- High fuel costs are causing some to move freight by sea rather than by air, or by rail rather than by truck
- Truck driver turnover growing above 100% blamed on energy costs and increasing federal regulations
 - Disrupting delivery schedules
 - Causing companies to spend more money on replacing workforces
 - Contributing to cost inflation
 - Frustrating customers
- Distributors having relationships with rail and sea transport will be better positioned to thrive despite changing market demands

Crude Oil Prices: National Average (\$ Billions Per Barrel)

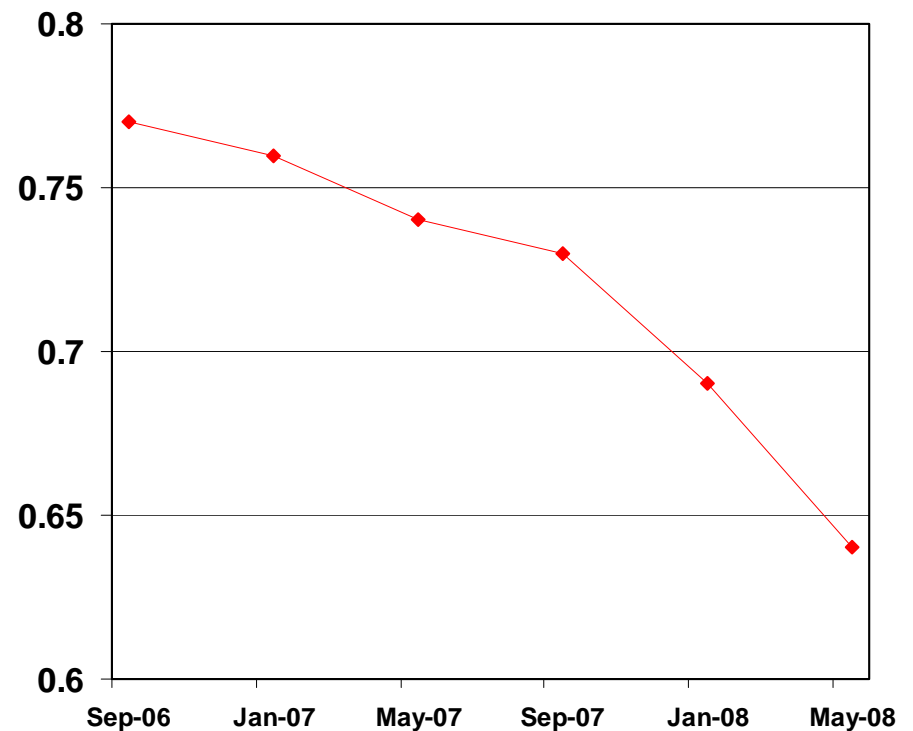


Challenging Market Conditions:

Weakening of the Dollar and Trade Imbalances

- Imports are decreasing due to the decline of the dollar
- This harms import-focused businesses
- American wines are currently less expensive for international buyers
- Wine distributors that seek opportunities in high export geographies, such as China, the Middle East, and Europe, are better positioned to survive in an economic down turn

U.S. Dollar Value to the Euro



Challenging Market Conditions:

Uncertain Political Landscape

Card Check

- The Employee Free Choice Act would require the National Labor Relations Board to recognize a union if the majority of employees vote for unionization by a public Card Check process
- Upon receiving a list of majority employees' signatures declaring themselves pro-union, employers would no longer be able to request an election
- Threats of increased unionization and costs could cripple mid-sized businesses

Changing Security Regulation

- Unfunded Congressional mandates require 100% screening of air cargo by August 2010
- Private sector will likely carry costs of the mandates, increasing costs to shippers

Threats to NAFTA

- Cross-border trade threatened
- Companies with a strong U.S. and international presence can thrive despite changes in domestic politics

Tax Increases Likely

- Tax increases likely as current tax cuts under the Bush administration are scheduled to sunset
- Strong likelihood that capital gains will be taxed more heavily
- The time to acquire or sell may be before tax increases

Challenging Market Conditions:

Capital Gains Tax Increases Likely

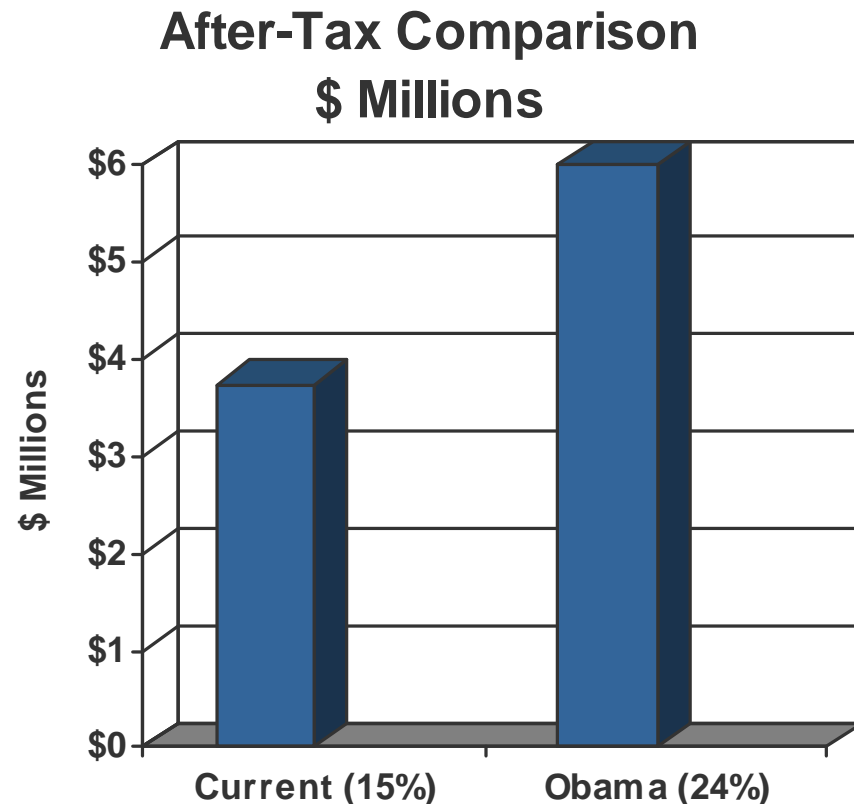
An example:

If you own a mid-sized company, how would your after-tax results compare?

Let's assume that

1. You generate \$5 million of earnings before interest, taxes, depreciation, and amortization (EBITDA)
2. A buyer pays you a 6x multiple for \$30 million
3. You have a cost basis of \$5 million

All things being equal, you would be taxed on a capital gain of \$25 million. The graph to the right compares after-tax results.



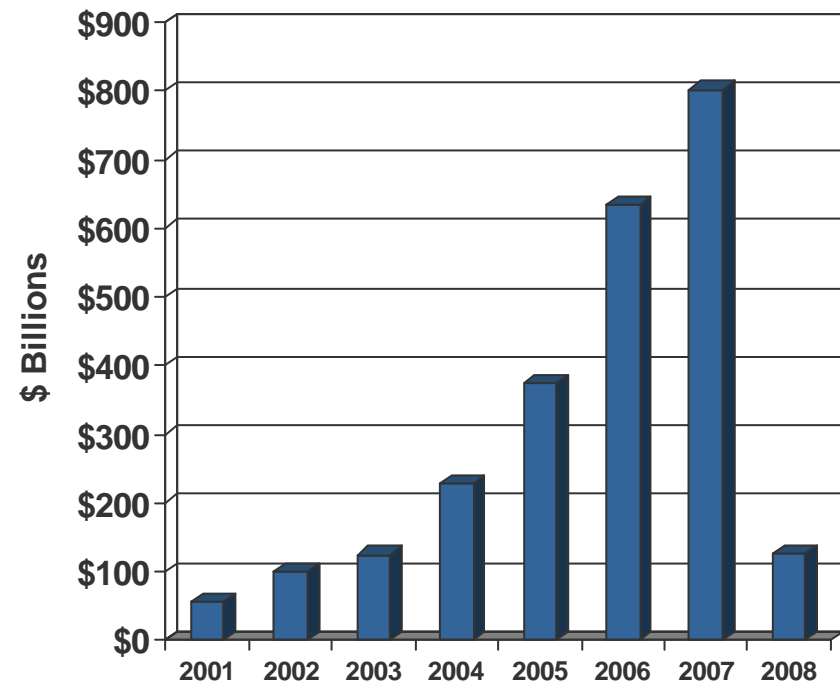
** (McCain- unknown)

In sum, it is unclear what taxes will be in 2009, but it seems likely that they will be higher. Hence, for tax-savvy company owners, many will consider a potential sale in advance of the probable capital gains tax hikes.

Challenging Market Conditions: The Poor Credit Environment

- Private equity financiers have backed only \$126B in transactions so far in 2008, compared to nearly \$800B in 2007
- Interest in deals remains high by small to mid-sized company owners, as many are acting before expectations of capital gains tax increases
- Tough credit environment naturally selects the most prepared and financially-stable companies

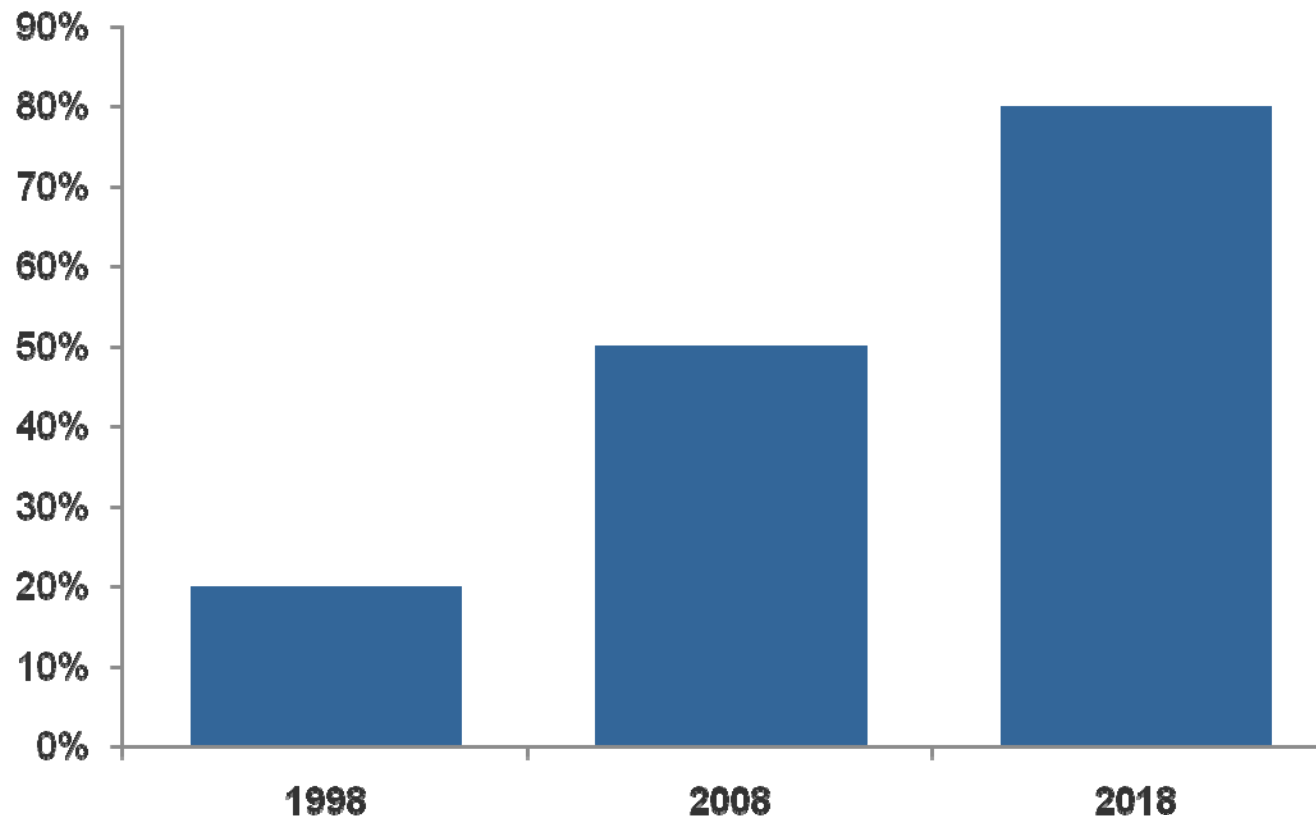
Private Equity-Backed Transactions



**Source: FactSet

The Quickening Pace of Consolidation: Global Giants Are Increasing Their Share

Top 50 Market Share



- The top 50 logistics providers are taking a larger and larger share of the overall market
- How do you ensure your company's continued participation and relevance in the long term?

The Logistics Land Grab

The logistics industry is consolidating along three different pathways:

Full Logistics Suite	Service Specialization	Industry Specialization
<ul style="list-style-type: none">• Leaders have acquired companies to offer an end-to-end solution for its customers<ul style="list-style-type: none">- UTi Worldwide: Market Industries, SLi, Standard- Kuehne & Nagel: USCO, ACR Logistics- Deutsche Post: DHL, Exel, Danzas, AEI	<ul style="list-style-type: none">• Major consolidators have established leadership<ul style="list-style-type: none">- C.H. Robinson Worldwide: truck brokerage- Expeditors International: freight forwarding	<ul style="list-style-type: none">• Logistics companies have developed an industry expertise<ul style="list-style-type: none">- Kuehne & Nagel: leadership in high tech and telecom strengthened by USCO acquisition- Ceva (fka TNT): leadership in automotive strengthened by CTI purchase

- The marketplace rewards leadership with exceptional valuations
 - Expeditors and C.H. Robinson are the most highly valued publicly traded logistics companies at 20.7x and 19.5x, respectively
 - USCO and CTI were among the highest priced logistics acquisitions garnering multiples of 9.7x, and 14.0x, respectively

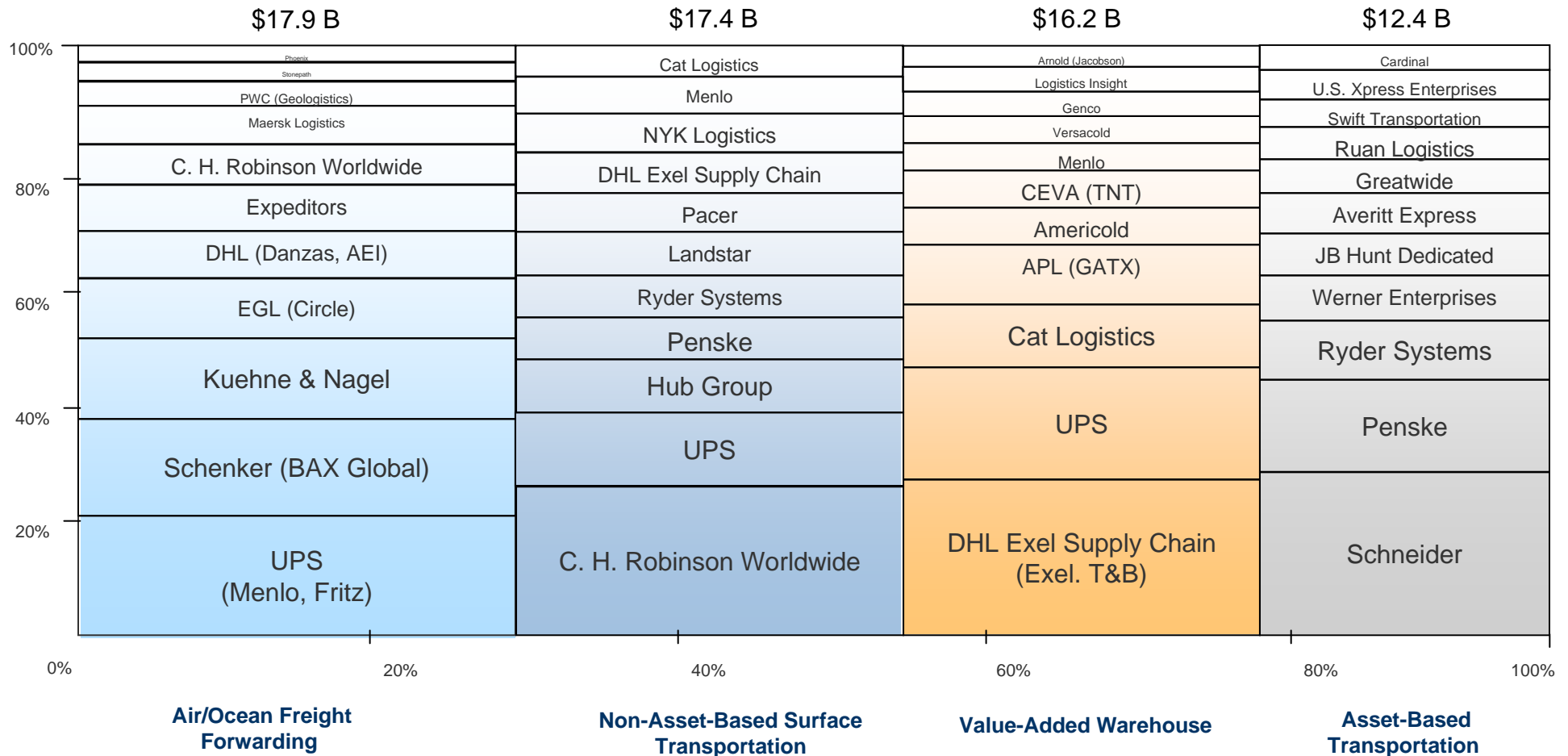
Leadership is highly valued from both the perspective of the public markets as well as in a transaction scenario. Those companies who have successfully established leadership, through acquisition and organic growth, are highly valued and sought after.

The Supply Chain Market 2008:

As Consolidation Continues, How Should you Respond?

U.S. Logistics Market Map: Top 50 Companies

Total = \$63.9 Billion



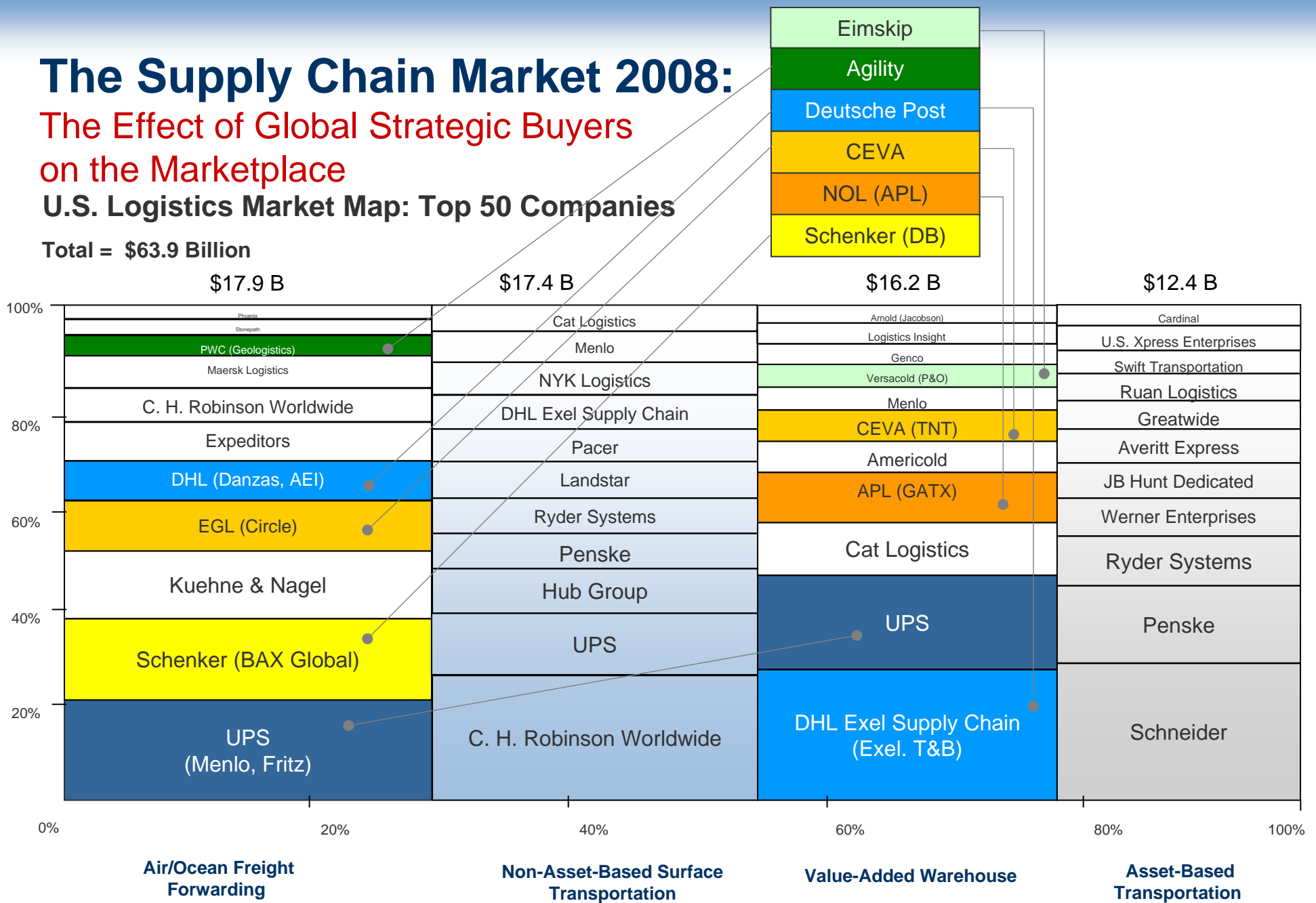
Note: Only includes the top-50 companies, or \$64 billion.
Total U.S. logistics market is actually over \$110 billion.

The Supply Chain Market 2008:

The Effect of Global Strategic Buyers on the Marketplace

U.S. Logistics Market Map: Top 50 Companies

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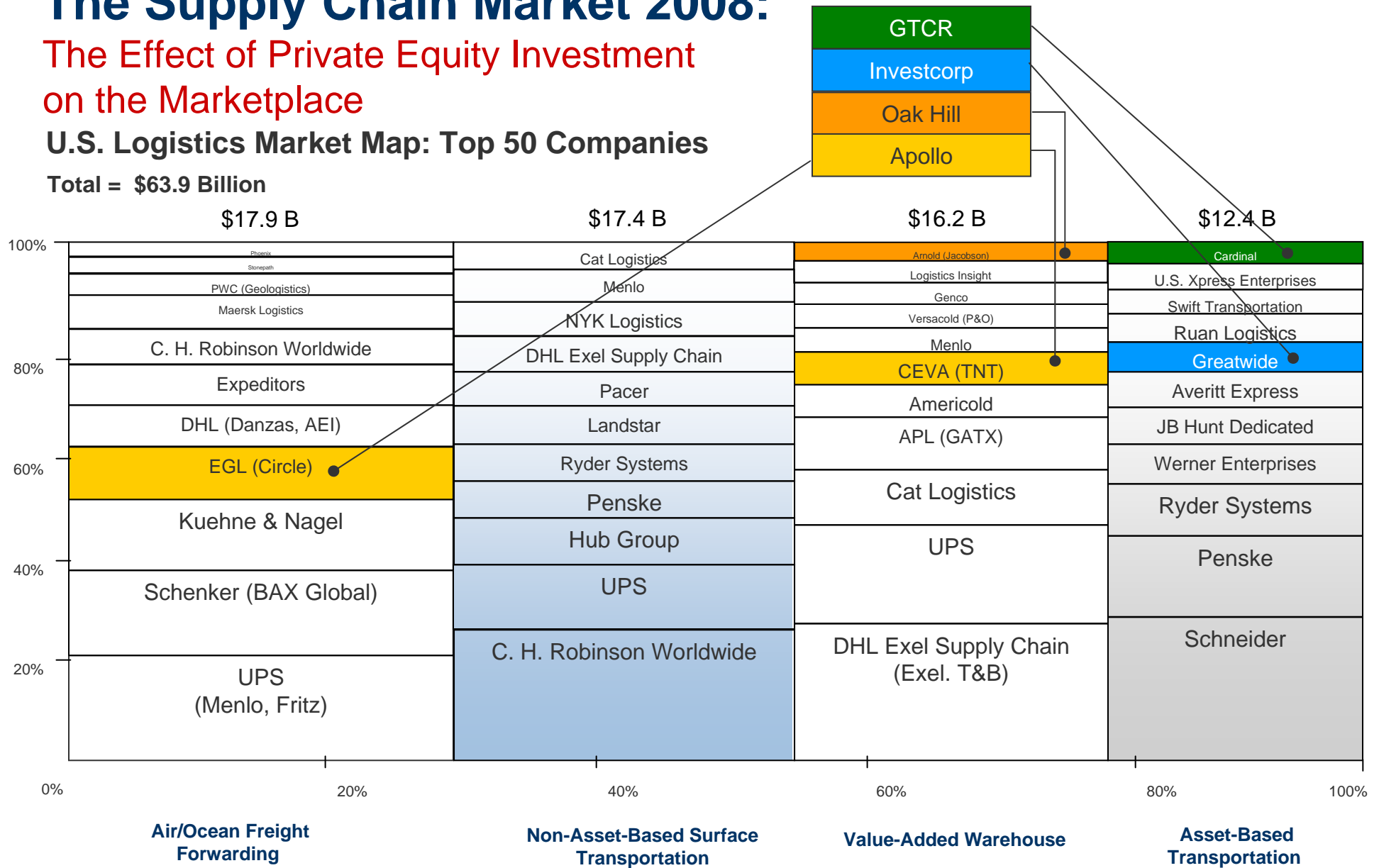
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The Supply Chain Market 2008:

The Effect of Private Equity Investment on the Marketplace

U.S. Logistics Market Map: Top 50 Companies

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Case Study: Vertical Solutions Leader in High Tech Sector

- New Breed
 - Formerly a \$1.5 million trucking company
- Pursued an expansion of the business through value-added services, IT, and design
- Expanded Opportunities
 - USPS: designed a network of 22 DCs to inspect, repair, and re-distribute mail transport equipment
 - Structured a centralized supply chain to minimize costs and provide network-wide standards and reporting
 - Saved the USPS \$500 million
 - Boeing 787 Dreamliner- New Breed will receive, store, provide inventory control, kit, package, distribute, and transport 787 parts, tools, and supplies to designated locations within Boeing's facility
 - Verizon Wireless: Helps to streamline distribution, returns processing, refurbishment and repair, and logistics technology infrastructure
 - Siemens Medical Systems: Provides guaranteed delivery of critical service parts nationwide in 2 to 6 hours
- Results
 - Became a \$350 million provider of supply chain network solutions
 - Operates five million square feet of warehouse/repair/distribution space, employs 5,000 people nationwide, distributes 3,500 trailer loads of orders each day, and processes \$6 billion per year
 - Provides clients with real-time visibility across their entire supply chain with unique web-based IT application

Implications for Wholesalers, Distributors, and Supply Chain Technology Providers: **Specialization**

- Niche Specialization
 - Pick a specialty and be the best
 - Examples
 - Varietals
 - Premiums
 - Regions/geographies
 - Specialty foods
 - Restaurant
 - Tours
 - Superstores or boutiques
- Industry/Vertical Specialization
 - Much like New Breed has become for high tech logistics
 - Examples
 - Wine and liquor bottling, branding, labeling
 - Processing and distributing
- What will you do to create differentiated leadership?
 - Reposition brand
 - Create new brand
 - Acquire established brand

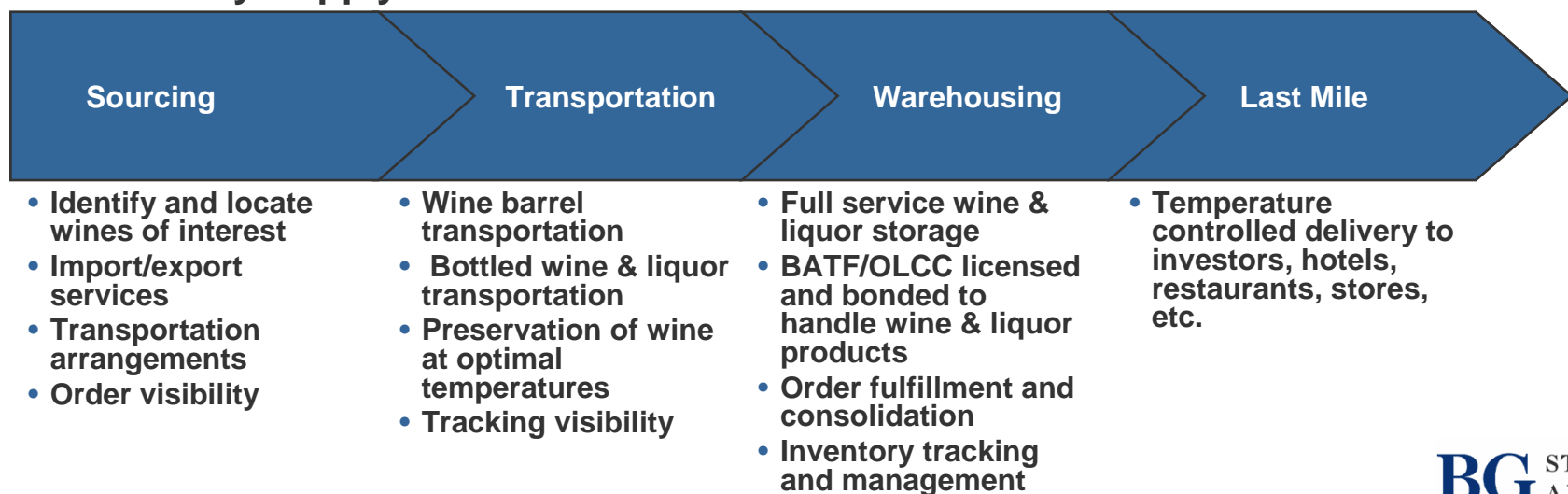


Implications for Wholesalers, Distributors, and Supply Chain Technology Providers:

Provide End-to-End Solutions

- Broaden your services up and down the wine supply chain to increase revenue touch points with existing customers. Become a one-stop solution.
- Deepen your relationship with existing customers
 - Offer more value-added, specialized services
 - Become an essential producer, distributor, marketer, or retailer
 - What needs do your customers have that you are currently not providing?
 - What markets and industries are currently competing with your business?
- Partner with a global company
- Ensure future relevancy and gain entrance to new markets, customers and services

Wine Industry Supply Chain



Implications for Wineries and Retailers: Choosing Supply Chain Partners

- Chose supply chain partners that are positioned to be winners
- What are your partners doing to increase market share and maintain relevancy? Are they pursuing...
 - End-to-end solutions?
 - Niche strategies?
 - Vertical specialization?



Strategies for the Wine Sector: Make Strategy-Led Investments

Make aggressive strategy-led investments that clarify your unique value proposition

- Who are your target customers and what unique services do you provide?
- How much will you spend on national and global scale?
- How much will you invest in technology?
- Will it be enough relative to your competitors?
- Are you choosing the right partners?



***Amidst great market uncertainty,
2008 is a year for clear decisions***

Contact Information



Contact us:

Benjamin Gordon
Managing Director
BG Strategic Advisors
(561) 932-1601
Ben@bgsa.com
www.bgsa.com