

PROFITABILITY, GROWTH AND CORPORATE VALUE OF THE WINE COMPANIES

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Abstract

This paper aims at an integrated interpretation of the results of two researches on the financial profiles of the wine companies that the author made and presented between the end of 2004¹ and the beginning of 2005².

The first one has analyzed the financial statements and the market value of all the companies listed in the international stock exchanges whose activities are mainly in the wine industry. The second research, entirely produced at the Dipartimento di Scienze Aziendali of the University of Florence, has studied the financial data of the main Italian wine companies divided in four groups based on the different level of sales turnover.

Despite these two researches have analyzed two different clusters, they have produced some relevant common features that may explain the profitability, the growth and the corporate value of the firms which operate in the wine industry. Besides, the results of these two researches may support to forecast the evolution of the wine industry at a local and global level and to design the guidelines of the future strategies for the wine companies that really want to achieve, improve or consolidate their competitive advantages and their financial performances.

Introduction

This paper aims at an integrated interpretation of the results of two researches on the financial profiles of the wine companies. Despite these two researches have analyzed two different clusters, they have produced some relevant common features that may explain the profitability, the growth and the corporate value of the firms which operate in the wine industry. Besides, the results of these two researches may support to forecast the evolution of the wine industry at a local and global level and to design the guidelines of the future strategies for the wine companies that really want to achieve, improve or consolidate their competitive advantages and their financial performances.

The first research has analyzed the financial statements and the market value of all the companies listed in the international stock exchanges whose activities are mainly in the wine industry. The first version of this research was developed which is the main Italian merchant bank and it produces a yearly research on the aggregate data of the Italian wine industry since five years.³ This research, together with the Research Department of Mediobanca s.p.a., has also produced the first stocks index of the wine companies listed in the international stock markets.⁴ In this paper there are the updated outcomes of this research based on the evolution of this cluster – with the indication of the companies that are currently listed and the ones that have gone out of the stock markets because of acquisitions or financial distress – and the most recent financial indicators related to the last financial statements and the current quotes and market values of the listed wine companies.⁵

The second research, entirely produced by the author, has studied the financial data of 160 Italian wine companies, divided in four groups of 40 units each based on the different level of sales turnover to analyze the possible different economic and financial structures and performances of the wine companies related to corporate dimension which is becoming more critical in this industry due to evolution of the markets and the strong concentration process that has been carried out in the USA and in Australia in these last years. Also this research had a first release at the beginning of 2005⁶ based on the financial statements of Italian wine companies from 2000 to 2003. In this paper, the indicators and the outcomes of the research take into account also the data of 2004 financial statements.

The wine companies listed in the international stock markets

These research has aimed at the understanding of the features and the determinants of the financial and profitability profiles of the wine companies. Besides, the analysis of the market values and the financials of the listed companies have provided a contribution, based on empirical data on two themes relevant themes in the wine industry at the moment in Europe which has a more traditional financial system and has a more fragmented wine industry structure: the real capacity of the wine businesses to create value for the investors; the possibility that the listing at the stock markets may be an advantageous way for the financing and the development of the wine companies.

This research has considered as wine listed companies just the ones with a turnover produced by the wine activities of at least around the 50% of the overall consolidated revenues. At the moment this research was developed (second half 2004), it has analyzed the 42 wine companies listed in one of the international stock markets at the end of June 2004. From these cluster were excluded: a) Majestic Wines, listed at the London Stock Exchange, which is not a wine producer but a wine distributor in UK market; b) Asconi, listed at the Amex in the USA, and Federico Paternina, listed at the Madrid Stock Exchange, and Simon Gilbert Wines, listed at the Australian Stock Market, because their financial data and results show that these companies have business profile quite different from the other analyzed companies in a way out of the objectives of the this research.

At an aggregate, this cluster of listed wine companies, based on the 2004 financial reports had these data converted in euros at the end of December 2004: revenues 9.953 mln; total assets 16.578 mln; shareholders' equity 8.075 mln; operating income 1.546 mln; net income 943 mln. Since some companies of the cluster operate also in other beverage sectors, the data related just to the wine activities at the end of 2004, as to the exchange rates at the end of December '04, are estimated in: revenues 8,5 billion euros; net assets 13,3 billion euros. As the overall wine revenues, nearly the 50% was made up by the four largest companies: Foster's, Constellation Brands, Southcorp, Robert Mondavi. The overall market value of these companies was, at the of 2004, 14.180 mln euros.

In the last two years, the composition of the listed wine companies has greatly changed, mainly because of some important acquisitions made in the USA and in Australia. In the USA, Chalone Wine Group was acquired by Diageo, Golden State Vintners by Wine Group and Mondavi by Constellation Brands. In Australia, Peter Lehmann was bought by Hess Group and Southcorp by Foster's Group. More recently, Constellation Brands has finalized the acquisition of Vincor International, the major Canadian company. In Australia, Xanadu Wines has faced a dramatic financial crisis, it has changed its name in Global Wine Ventures and, despite officially it is still listed at the Australian Stock Exchange, for the moment this company must be considered unlisted because its quote is nearly nil and its share untraded. On the other side, in China, besides Yantai Chiangyu Pioneer Wine, from the beginning of 2005 was listed Dynasty Fine Wines, a joint venture between Tianijn City Grapes Garden and Remy Cointreau.

As to the 2005 financial statements and the exchange rates at the end of December 2005, the total data of current listed wine company custer, converted in euros are: revenues 10.594 mln euros; total assets 17.975 mln euros; shareholders' equity 8.786 mln euros; operating income 1.884 mln euros; net income 1.141 mln euros.⁷ The overall market value of these companies was, at the of 2005, 17.975 mln euros.

In the following list, there is the summary of the main outcomes of this research regarding the profitability and financial profiles of the listed wine companies and their capacity to create value for the investors, and the possibility that the listing at the stock markets may be an advantageous way for the financing and the development of the wine companies:

- As a whole, the listed wine companies have had a net return on equity (Roe) at a lower level compared to the ones that constitute the Standard & Poor's 500 index. The average Roe of S&P 500 companies from 2001 and 2005 has been 18.4% which is 1.7 percentage points more than the best five year average Roe of the wine listed companies (Baron de Ley, 16.7%). The Roe of the listed wine companies are more similar to the ones of the companies included in the S&P 400 and S&P 600 indexes that are made up of companies with a medium and a smaller market capitalization: the compounded five year average Roe of the companies included in these two indexes have been 13.3% and 12.3%. The companies that show a more comparable equity profitability with the listed wine companies are the ones that are classified in the "Value" segment of S&P 400 and S&P 600 that operate in industries that have economic and financial structures similar to the wine industry: the compounded five year average Roe of the companies included in these two indexes have been 9.2% and 8.1%;⁸
- For the listed wine companies, the equity profitability measured in terms of cash flows (the cash flow Roe) is much higher than the accounting Roe due to the relevant contribution of the depreciation and amortization to the cash flows produced by the very high fixed capital intensity that is a key characteristic of these companies. The profitability measured on cash flow Roe shows that the wine companies have a stronger capacity to remunerate the shareholders and to finance the business growth and it may explain – besides other factors – the market value multiples (price to earnings, price to book value, price to sales) and the acquisition prices of these companies that look well higher the ones assessed on the base of the accounting Roe;
- Also, the operating profitability (Roi, operating income to operating investments) of the wine companies has had performances lower than the ones of the chosen benchmarks (Table 2/1). The lower operating profitability is produced by a lower return on sales (Ros, operating income to revenues) and by a very low investments productivity (revenues to investments) or very high investments intensity;
- The operating return on sales (Ros) of these companies is far lower than the one of other industries (Table 2/1). Provided that the wine companies have a gross margin on sales better than average, the main reason of the lower return on sales is a higher weight of the general costs (due to services, personnel, fixed capital) on the revenues. One of main outcomes of this research is the indication that for nearly all the wine companies, the increase of the gross margin on sales has not produced an increase of the return on sales because of an equivalent increase of the general costs on the revenues. In this sense, the strategy to improve the gross margin on sales through the production of good with a higher quality and price is offset by the costs related to the development of this strategy;
- Another factor that looks even more relevant to explain the operating profitability of the wine companies is the low investments turnover (the ratio between investments and revenues). The low investments turnover (Table 2/1) is a structural limit to better operating profitability that may be overcome if it would be possible to reach better performances as to the return on sales which, in the wine industry, looks very difficult as we have just analyzed. On this issue we have to add that nearly all the wine companies with a higher gross margin on sales have lower performances as to the investments productivity;
- The better levels of operating profitability are made by the wine companies which manage to create a balanced combination of average performances as to the return on sales and the investments productivity. The companies that pursue a strategy to have a higher investments productivity (with a business structure based on lower investments in fixed capital) have poorer performances on the return on sales. On the other hand, the companies that aim at having higher return on sales are tied to a lower investments productivity. In addi-

tion, the results of this research show that the wine companies with the lowest levels of return on sales are the ones with the highest investments intensity;

- Higher levels of revenues may generate better results as to the net and operating profitability. In particular, if we measure the revenues leadership on a local basis (related to the same production context), the companies with a higher level of turnover have the best or among the better performances of profitability;
- On average the ratio between the shareholders equity and net assets of the listed wine companies is at quite high levels (Table 2/2). This situation creates a stronger financial structure and a lower corporate risk that may offset the poorer profitability performances as to the corporate value objective. The contexts in which there are the higher ratio between the shareholders equity and the net assets are Chile and Spain. In the other European countries, we have lower equity financing that may be explained by companies with a more traditional stockholdership structure, still controlled by family groups and with a more limited shares float;
- As to the issue of the listing in the stock market for the wine companies, the outcomes of the research may indicate that possible advantages are related to the overperformance of the market value compared to the economic and financial “fundamentals”, to the quantity and the cost of additional financing, to the possibility of growth through mergers and acquisitions. This research has not given any indication that the stock market listing may contribute to a better management and better financial performances;
- The market to book value multiples of the wine companies have shown a “value premium” on the one that may be justified by the Roe and the earnings growth of these companies (Table 2/2). This value premium may be explained by: a) an additional value tied to the fixed investments, in particular the landed property, and the forecast income produced by the wine inventory; b) the much higher levels of the cash flow Roe than the accounting Roe which indicate a better capacity of these companies to remunerate the investors and to finance the activities growth; c) the lower cost of capital because of the lower risk that is attributed to these companies by the stock market investors. As to this last point, the beta indexes⁹ of the listed companies (Figure 1) are, on average, at a very lower lever than 1 indicating that the stock markets perceive a lower investment risk for these companies¹⁰.

The Italian wine companies

After having analyzed the listed wine companies, it was assumed to develop a research project focused on the Italian wine companies that could help to study some key issue of this specific wine system: a) the structure and the evolution of Italian wine industry through a methodology that it is supposed be more effective compared to other more “aggregated” approaches and more corresponding to the principles and the logics of the business economics and the financial analysis; b) the strengths and the weaknesses of the different kinds of Italian wine companies; c) the development guidelines of the Italian wine industry and of its different kinds of company profiles.

This research is based on the analysis of the financial statements, from 2000 to 2004, of 160 Italian companies with economic and financial profiles typical of firms that have the objective of creating value per the shareholders’ equity. In this sense, as to the cooperative firms – that are a relevant part of the Italian wine industry – in the cluster are included just the ones that have financial profiles comparable to firms that have legal structures which aim at the profitability and at remuneration of the capital investors (spa o srl).

The analyzed 160 companies have been classified in 4 groups of 40 units each, taking into account the different level of revenues: more than 30 million euros (group A, the large companies); among 13 and 30 million euros (group B, the medium size companies); among 7 and 13 million euros (group C, the intermediate companies); among 2 and 7 million euros (group D,

the small companies). It has been decided to use this method of classification because: a) it is the most objective to cluster the different types of wine companies; b) it is the most common parameter that the financial community considers to differentiate companies belonging to a common industry; c) the “business size” is considered by the business administration theory and practice as one of the most critical factors to explain the corporate performances, in particular when the markets are in evolution phases of stronger maturity and competition as it is the wine industry.

The analysis of the Italian wine companies is based on the financial statement ratios referred to the different components of the business management that may explain the corporate performances: the profitability; the productivity and efficiency of the operating and industrial resources; the financial strength; the growth capacity.

Taking into account the 2004 financial statements, the total data of the whole group of the analyzed Italian companies are: revenues 3,889 million euros; total assets 5,249 million euros; shareholders equity 1,766 million euros; operating income 198 million euros; net income 76 million euros. Based on the revenues, this cluster is supposed to represent the 54% of the whole Italian wine industry.¹¹ The relative weights of the groups of companies on the whole revenues are: group A 67.3%; group B 18.7%; group C 9.6%; group D 4.4%.

As to the listed companies, the main outcomes of this research regarding the financial profiles of the Italian wine firms are summarized in the following list:

- The Italian wine industry shows the typical indicators of the maturity stages and the ones related to a stronger competition: decreasing growth rates; increasing differentiation of the performances among the companies of the cluster; lesser profitability; growth rates of the investments in the fixed assets higher than the growth rates of the revenues. The larger firms (group A and B) have systematic better performances in terms of profitability, growth and financial capacity than the ones of the intermediate and the smaller companies (group C e D). Despite these indicators, the industry has still a very high level of fragmentation although the larger companies have increased their market shares in these last years. After the expansion – which has lasted from the beginning of the '90 decade to the first years of this decade – characterized by a deep production repositioning and innovation, and by a high growth of the activities and the sales in the international markets, it is very likely that in the next years the Italian wine industry will undertake a phase of restructuring which will take to a firms concentration and integration and a stronger focus of the companies on the management, commercial and the financial issues in order to develop better skills to compete in the global market;
- The four groups of companies are characterized by a significant differences in terms of main features which may describe the financial profiles: the fixed capital intensity (the ratio between the fixed capital and the revenues); the costs of structure intensity (the ratio between the labour and depreciation costs and the revenues); the gross margin on sales. The data of the average fixed capital intensity in the last five years of the four groups have been: group A 0.40, group B 0.29, group C 0.55, group D 0.75. The data of the average costs of structure intensity have been: group A 32.1%, group B 29.9%, group C 36.4%, group D 41.7%. The average data of the gross margin on sales have been: group A 36.7%, group B 35.6%, group C 41%, group D 48.5%. As to these data, we observe that on one side there is the profile of the D group companies characterized by the highest levels of the gross margin on sales and the fixed capital and the costs of structure intensity as a consequence of a production based only on owned vineyards and raw materials, a limited products range, a market positioning in the high quality and price segments. On the other side, there is the profile of the B group companies characterized by the lowest levels of the gross margin on sales and the fixed capital and costs of structure intensity because in these group there is a higher percentage of companies with a more flexible production structure based

on limited investments in owned vineyards and products made with raw materials bought by external suppliers. As to the previous data, the financial profile of group A looks more similar to one of group B as to the market positioning and the relative gross margin on sales but with a higher level of vertical integration which increases the amount of investments in owned vineyards and the relative number of employees. The financial profile of group C is more similar to the one of group D as to the production structure, based mainly on owned vineyards, but with a significant lower gross margin on sales due to a wider products range to cover larger market segments with lower quality and price contents;

- In these last years the intermediate and the small companies (group C and D) have had a very strong worsening of their financial performances much stronger than the whole industry. Despite that in these two groups there are companies with very positive financial performances and capable to compete successfully in the future, there are many which are to undertake very deep strategic and financial restructurings or they are to be acquired because they cannot cope with the evolution of the industry with this business model;
- Up to 2003, the group D has had performances lower but comparable to the ones of groups A and B but in last financial year the performances have dramatically reached the worst levels of the four groups. These data may indicate that this group of companies is losing the advantages given by the positioning in the high quality and price segments, the product specialization and the direct control of the production factors that, in the past, have offset – in terms of gross margins on sales and more limited costs for the products promotion and the distribution – the diseconomies of scale and the weaker financial structure related to the smaller size;
- Group C has had a weakening of financial performances before and in a more relevant impact than the other groups because of its typical business model which has features – as to the business size, the product positioning and the production structure – which are just in the middle between the large and medium sized companies (group A and B) and the ones of the smaller companies (group D). The intermediate companies have fixed capital and costs of structure similar to the smaller companies and a market position which are more similar to the ones of the larger companies but with a lower level of revenues that increase the commercial, promotional and organizational diseconomies. Besides, this group has a very low capacity to cover the financial costs and the debt reimbursements.
- Group B is the one which has the best performances of the whole industry. Despite a lower revenues growth rate than the one of the large companies, this group has the highest performances in terms of profitability and financial stability and solvency. After a period of decreasing performance as the whole industry, this group in the last financial year has improved its profitability and financial structure. The main reason of this situation is the higher business flexibility because of a lower level of production which is more critical when the markets become more mature and competitive as it is in the wine industry;
- Group A, it has been the one with the highest rates of revenues growth. Until 2000, in the expansion phase of this industry, had had the best profitability performances. From 2001 and 2003, it has had financial performances lower but comparable to the ones of group B. In the last financial year its profitability and its financial position have still decreased despite it has been the only group of companies with a positive revenues growth and the gross margin and the value added have recovered after the negative results in 2003. These financial data are explained by an increase of the costs for services, employees and fixed capital that have offset the better performances at the industrial level. In these terms, the group A has managed to increase its sales with a stronger effort as to the costs for the promotion, commercial and distribution activities and it may indicate that these companies – in particular the bigger ones – do not have reached the business size which to sustain the

production, financial and organizational skills that are required by the new market and competitive challenges.

- o The study on the Italian wine companies, more than the one on the wine listed companies, show that the business size and the business model are becoming more relevant to explain the competitiveness and the financial performances in the wine industry. In this industry there is a growing performances polarization with the larger companies and the ones with a more flexible business model that have better levels of growth, profitability, financial stability and solvency, self-financing.

The financial outlook of the wine companies

To make a financial outlook of wine companies, the starting point is the assumption that the wine industry is getting to a more mature and competitive stage. Despite that in some emerging countries and in some specific market segments there can be attractive opportunities, the whole industries has slowing growth rate and there are new and very aggressive competitors in areas where there are advantages as to the production costs and the market values of the landed properties.

The wine companies located in the Continental Europe are also facing other challenges because of the institutional changes such as the euro strenght, the opening of the EU to the European Eastern countries, the introduction of the Basel II parameters in the banking activities, the growing market power of the distribution chains. In this context, one issue that has to be solved is the offer fragmentation which is becoming more and more a structural limit for the future growth of this industry. The high fragmentation is creating an excessive production surplus, a decrease of the industrial margins, a lower level of the assets turnover, an increase of the costs for the promotion, commercialization and distribution activities.

A process of concentration in this industry may be achieved through three ways which are, in some way, interrelated:

- a) The exit from the industry of the companies that are have a systematic and growing negative profitability and the ones that are unwilling to cope with a tougher competition, a growing risk and investments beyond their financial availabilities;
- b) A deep restructuring of the production processes which creates a better segmentation and cooperation between the vine-growing and the industrial activities. In these last years, because of the expansion of the industry, many vine-growers have tried to develop their business becoming vine-bottlers underestimating the costs and the investment attached to this strategy. On the other side, many larger vine-bottlers have invested huge resources in the acquisition of new landed properties assuming to achieve better performances as to the quality control and the sales in the higher prices market segments. As indicated previously, this strategy has not produced the desired results because of a higher fixed capital intensity, a weaker financial structure and lower than expected economic margins because of the lower prices and higher costs related to the slowing market growth and the stronger competition. Besides, in these last years, because of the better quality standards at the vine-growing stage in the market there is a larger offer of premium raw materials also at cheaper prices that can be bought to produce higher quality products;
- c) The firms integration through mergers and acquisitions, preferably among the larger companies, to achieve the sizes and the corporate structures needed to compete in the global markets, to negotiate with the distribution chains and the international distributors, to develop commercial and promotion activities that may support the sales in the domestic and the international markets.. In the last years, this way to the industry concentration has been very strong in the USA ed in Australia due to financial difficulties of some of the major local companies (Southcorp and Robert Mondavi are the most relevant ones) and the growth strategy through acquisitions pursued by larger wine companies: Constellation Brands,

Wine Group, Foster's Group. In these two countries, more than 70% of the local wine production is made up by the first 3-4 companies. In Europe, this process of integration is yet not relevant because, mainly, the companies ownerships are not willing to sell, wholly or partially, their businesses or to open the equity to the investments of financial partners, as it is usually required to develop these strategies, due to personal, family and patrimonial reasons.

While in the wine industry there will still be positive financial results for the smaller companies which will successfully manage to have a very focused market position in the higher quality-price segments with a strong image and a very selective sales and distribution process, the larger companies are to pursue growth strategies because their current sizes and market positions are becoming more inadequate to compete in the contemporary markets characterized by a growing globalization, an increasing pressure on the sales prices, a stronger market power of the distribution chains and the foreign importers.

For this group of wine firms, the investments tied to the growth strategies in the new global markets require larger financial resources than the ones generated by the operating self-financing and the more limited funds from the banking system because of their excessive financial indebtedness. In this scenario, the larger companies are the ones with have more urgent reasons to decide whether and how to grow and to keep up their market leadership and, consequently, how to increase their financial resources, in particular how to increase the equity availabilities.

The listing at the stock markets is not the only way the wine companies may increase their equity resources to support the growth strategies and the additional debt financing. Many of these companies are not yet ready to fulfill the legal, the administrative, the economic and the managerial requirements to be listed at the stock markets.

Besides the possible strategic and financial alliances with the major groups operating in the wine or the alcoholic beverages industries, the wine companies that want to expand and to renew their activities and to hold the current management may open the shareholders' equity to the private equity funds and/or to the holding companies which want to develop financial strategies in the wine industry. This way to increase the shareholders' equity looks as the most feasible for the wine industry because it may give the wine companies the needed financial resources and, at the same time, it may hold the current ownership and management adding the required the financial skills to satisfy the investors objectives and the more advanced financial processes to cope with the growth challenges. Moreover, this solution may prepare the wine companies to the requirements for a future listing at the stock markets that may be managed as an additional increase of the financial resources and the growth capacity.

Table 1: The main financial data of the listed wine companies - last financial year

Listed wine companies		2005 financial statements – data in euros; Market values in euros on January, the 2 ^o , 2006					
		Revenues	Assets	Equity	Eat	Ebit	Market value
Boizel Chanoine	FRA	97,130	199,245	60,210	7,940	14,890	84,750
Cottin Frères	FRA	47,503	52,817	23,156	890	2,024	17,867
Henri Maire	FRA	30,500	32,336	7,155	-250	152	7,100
JeanJean	FRA	144,160	97,712	20,500	2,000	4,600	18,675
Laurent-Perrier	FRA	213,419	480,610	137,940	13,420	33,770	202,159
Vranken Pommery Monopole	FRA	250,539	808,830	185,457	14,780	41,227	217,506
Baron de Ley	SPA	80,531	228,209	163,186	21,090	25,974	321,182
Bodegas Riojanas	SPA	16,712	54,495	24,590	3,506	1,935	48,906
CVNE	SPA	43,448	125,541	85,023	6,551	13,759	176,700
Bodegas Bilbainas	SPA	12,219	39,344	32,028	1,714	2,678	26,784
J. Boutaris	GRE	30,050	74,997	17,742	636	2,717	19,979
Ktima Kostas Lazaridis	GRE	6,350	36,705	27,043	1,400	1,770	20,230
Schloss Wachenheim	GER	264,835	248,680	43,240	8,346	14,215	81,734
Hawesko	GER	287,049	237,292	102,342	15,652	27,627	214,240
Foster's Group	AUS	2,465,889	7,291,142	3,069,154	581,104	780,309	7,332,975
McGuigan Simeon Wines	AUS	228,475	423,037	224,277	22,283	34,306	285,846
Evans & Tate	AUS	59,832	133,963	31,931	-31,182	8,931	69,691
Cockatoo Ridge Wines	AUS	10,513	42,710	27,351	1,573	2,870	13,891
New Zealand Wine Co.	NZL	5,583	17,960	11,782	564	1,022	10,096
Oyster Bay Marlborough	NZL	4,450	23,216	10,903	570	1,168	17,878
Andrés Wines	CAN	122,135	118,630	63,510	6,221	11,191	97,610
Vincor International	CAN	476,437	853,814	481,406	35,475	59,352	744,777
Magnotta Winery	CAN	16,163	31,773	19,107	1,876	3,517	21,314
Constellation Brands	USA	3,902,221	6,273,247	2,521,972	267,407	564,652	4,876,557
Scheid Vineyards	USA	26,456	76,227	35,617	3,738	7,146	31,188
Willamette Valley Vineyards	USA	11,586	12,484	8,244	981	1,695	18,857
Vina Concha y Toro	CHI	333,109	509,441	281,470	31,495	41,086	898,207
Vina San Pedro	CHI	138,719	219,440	131,310	526	3,419	188,062
Vina Santa Rita	CHI	137,501	220,240	153,232	2,226	6,221	249,231
Santa Emiliana	CHI	18,589	49,506	39,239	15	549	147,393
Vina Undurraga	CHI	32,565	45,215	36,799	2,989	4,600	63,901
Yantai Changyu	CIN	182,765	252,258	191,310	32,203	45,454	763,154
Dynasty Fine Wine	CIN	99,522	167,259	137,194	18,801	24,091	379,238
Distell Group	SAF	797,292	667,901	380,796	64,599	95,463	854,097

Figures 1: Some betas of the listed wine companies. Source: Cordero di Montezemolo S.; I profili finanziari delle società vinicole; FUP; 2005, pag. 74.

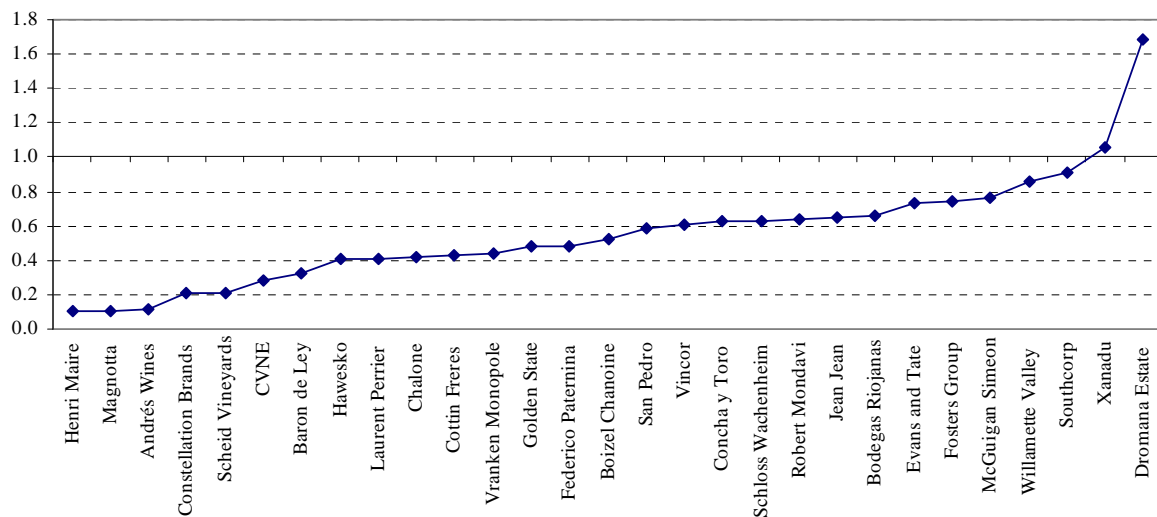


Table 2/1: The main financial ratios of the listed wine companies

Listed wine companies	ROE				ROI				ROS				Gross margin on sales				Investments turnover			
	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03
Boizel Chanoine	10.7	14.8	12.4	8.5	8.3	9.8	8.8	7.7	13.7	15.3	13.1	12.7	34.0	36.8	35.3	27.8	0.60	0.59	0.66	0.60
Cottin Frères	4.2	3.9	-8.0	4.4	5.5	4.8	-4.7	5.3	4.5	4.3	-4.9	4.8	26.6	25.2	24.6	24.2	1.13	1.20	0.95	1.13
Henri Maire	-3.3	-3.4	1.7	-6.2	1.9	1.1	2.5	2.1	1.2	0.5	1.8	1.5	63.8	81.4	85.4	80.4	1.46	1.32	1.39	1.44
JeanJean	10.4	10.3	2.7	13.8	10.8	8.2	6.5	13.6	3.5	3.2	2.4	4.0	32.5	32.1	33.6	34.4	2.93	2.74	2.60	2.97
Laurent-Perrier	10.7	10.0	8.8	9.9	10.7	9.1	9.0	11.0	17.5	15.8	16.6	17.0	54.9	51.4	55.9	54.5	0.58	0.56	0.46	0.64
Vranken Pommery Monopole	8.2	9.4	8.0	8.8	8.3	7.2	8.0	8.5	16.7	16.5	15.8	17.1	32.9	34.0	32.2	34.3	0.47	0.41	0.48	0.48
Baron de Ley	16.7	13.1	14.7	17.1	14.8	14.0	14.3	16.4	32.4	32.3	31.9	33.2	59.6	59.8	59.9	59.5	0.44	0.44	0.42	0.48
Bodegas Riojanas	7.3	15.1	5.0	4.9	5.6	4.4	5.5	4.9	16.7	11.6	14.9	14.3	56.7	54.2	52.0	53.2	0.34	0.39	0.35	0.34
CVNE	11.3	7.9	10.6	11.9	9.9	13.2	6.6	8.6	24.5	31.7	17.5	22.2	65.7	63.8	62.8	69.0	0.39	0.44	0.36	0.37
Bodegas Bilbainas	9.6	5.5	21.6	7.1	7.6	7.4	7.3	6.6	23.3	21.9	21.8	23.5	59.4	61.6	61.4	54.1	0.29	0.34	0.35	0.29
J. Boutaris	-5.0	2.7	-10.6	-5.0	4.1	9.5	2.6	4.3	4.4	9.0	4.4	4.3	42.8	41.2	37.6	45.4	1.09	1.69	0.86	0.98
Ktima Kostas Lazaridis	11.0	5.3	8.8	10.7	8.4	6.0	5.6	7.9	25.9	27.9	24.3	25.5	49.5	49.7	49.8	48.6	0.30	0.23	0.19	0.30
Schloss Wachenheim	11.0	21.5	17.8	0.6	10.3	12.7	12.3	7.9	4.5	5.4	4.5	3.0	35.8	36.5	31.3	32.9	2.40	2.31	2.74	2.91
Hawesko	10.9	15.9	8.7	9.6	16.3	20.2	16.7	15.0	5.9	6.6	5.8	5.4	42.1	41.6	41.9	42.0	2.83	3.21	2.92	2.78
Foster's Group	15.0	19.6	17.6	10.6	13.3	14.8	13.8	11.4	23.4	31.6	24.3	17.3	50.3	49.9	48.3	49.6	0.55	0.40	0.56	0.70
McGuigan Simeon Wines	4.7	10.3	13.3	12.8	13.7	10.8	14.2	14.1	17.7	15.0	21.7	20.1	30.1	24.8	29.1	26.1	0.71	0.68	0.63	0.63
Evans & Tate	-7.1	-78.5	11.8	9.3	12.2	8.2	11.3	11.2	23.6	14.9	25.2	27.4	44.1	39.4	46.3	51.0	0.48	0.57	0.43	0.30
Cockatoo Ridge Wines	5.6	5.9	9.3	11.2	7.9	7.9	11.8	15.1	29.9	27.3	36.5	39.7	44.4	44.3	47.1	50.0	0.53	0.26	0.28	0.33
New Zealand Wine Co.	7.2	5.0	4.4	8.0	8.6	6.3	5.6	8.9	22.0	18.3	17.9	24.8	na	na	na	na	0.35	0.34	0.30	0.30
Oyster Bay Marlborough	3.0	5.2	7.1	-2.3	3.2	5.2	7.4	-1.4	10.3	26.2	37.8	-15.6	na	na	na	na	0.12	0.20	0.18	0.08
Andrés Wines	9.3	10.1	12.4	9.8	11.2	11.7	12.5	12.3	8.8	9.2	9.5	9.6	39.9	42.3	41.8	40.4	1.24	1.23	1.24	1.34
Vincor International	9.2	7.5	8.7	9.7	11.4	9.3	11.6	12.3	14.6	12.5	16.4	16.4	47.5	44.2	50.7	50.1	0.69	0.66	0.62	0.76
Magnotta Winery	11.2	10.3	10.9	11.1	12.4	12.1	11.9	13.0	22.0	21.8	21.3	22.7	48.9	48.0	49.0	47.4	0.54	0.54	0.54	0.57
Constellation Brands	14.4	11.9	11.4	12.1	13.9	11.7	11.3	14.2	14.0	14.5	13.9	13.7	27.7	28.8	27.9	27.5	0.91	0.80	0.73	0.80
Scheid Vineyards	7.6	11.1	3.5	8.3	8.9	13.2	5.1	9.7	21.3	27.0	12.0	22.4	42.3	43.5	34.9	45.2	0.41	0.40	0.47	0.44
Willamette Valley Vineyards	4.7	13.0	5.9	1.8	7.5	15.7	7.6	3.3	9.6	14.6	10.8	6.2	49.4	46.7	48.8	48.1	0.66	1.14	0.70	0.55
Vina Concha y Toro	13.4	11.5	15.5	14.1	12.8	10.3	15.4	12.9	15.0	12.3	16.1	14.3	37.7	34.8	38.9	38.6	0.81	0.78	0.88	0.85
Vina San Pedro	6.1	0.4	3.8	3.5	6.8	1.8	5.1	4.0	8.5	2.5	6.8	5.1	33.4	30.2	31.7	31.7	0.75	0.71	0.72	0.78
Vina Santa Rita	7.9	1.4	9.9	4.9	8.7	3.2	8.9	9.2	12.1	4.5	11.6	12.9	34.7	30.4	35.3	36.5	0.70	0.71	0.74	0.72
Santa Emiliana	9.3	0.0	2.2	4.5	10.1	1.2	0.0	7.5	17.8	3.0	0.1	15.3	31.8	21.7	17.3	31.1	0.49	0.43	0.42	0.49
Vina Undurraga	10.3	8.2	10.8	9.1	14.1	12.7	15.1	13.4	15.0	14.1	15.9	14.7	35.5	33.6	36.4	39.7	0.92	0.88	0.91	0.90
Yantai Changyu	11.5	16.6	10.2	10.7	16.4	23.5	15.4	15.2	23.5	24.9	22.7	22.3	55.5	58.5	56.2	53.7	0.68	0.96	0.63	0.66
Dynasty Fine Wine	35.8	20.7	36.3	50.4	48.0	26.3	48.3	69.3	25.4	24.2	27.9	24.2	51.9	51.8	53.1	50.9	1.34	0.73	1.85	1.43
Distell Group	14.9	18.7	16.2	11.4	16.5	19.5	16.9	15.3	9.7	12.0	10.7	10.4	30.3	32.6	30.6	32.0	1.59	1.55	1.61	1.45

Table 2/2: The main financial ratios of the listed wine companies

Listed wine companies	Financial debts to Equity				Equity to Net assets				Investments growth				Revenues growth				Market to book value			
	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03	5ya	'05	'04	'03
Boizel Chanoine	2.05	1.74	1.94	2.09	0.24	0.30	0.26	0.24	3.4	18.9	4.9	3.0	8.8	6.5	14.5	10.8	1.14	1.41	1.26	0.88
Cottin Frères	0.79	0.70	0.94	0.71	0.40	0.44	0.40	0.40	-0.6	-10.5	2.0	-4.3	-2.7	13.0	-13.6	-8.5	0.85	0.77	0.76	0.86
Henri Maire	1.80	1.88	1.85	1.87	0.24	0.22	0.23	0.24	-16.4	-66.1	0.8	-4.8	-3.9	3.5	-2.6	-5.9	0.82	0.99	0.91	0.79
JeanJean	1.67	1.57	2.24	1.83	0.22	0.21	0.20	0.20	8.1	-12.3	12.3	31.9	5.5	-7.6	-1.8	16.8	1.11	0.91	1.09	1.31
Laurent-Perrier	1.41	1.79	1.79	1.09	0.31	0.29	0.29	0.27	14.6	6.6	41.2	2.9	5.5	28.5	2.0	8.0	1.45	1.47	1.29	1.44
Vranken Pommery Monopole	2.81	2.27	3.22	2.94	0.20	0.23	0.16	0.18	15.7	12.6	11.9	6.8	17.2	-2.7	11.1	-1.5	1.20	1.17	1.30	1.27
Baron de Ley	0.24	0.13	0.18	0.17	0.66	0.72	0.68	0.67	8.8	-0.7	16.3	7.4	9.9	4.1	1.4	18.4	2.01	1.97	1.84	2.06
Bodegas Riojanas	1.04	0.76	1.06	1.05	0.42	0.45	0.41	0.42	3.0	-3.9	6.7	-1.9	5.1	4.6	9.8	0.2	2.14	2.05	2.37	2.08
CVNE	0.33	0.17	0.35	0.36	0.61	0.68	0.61	0.60	6.3	-8.4	6.1	7.9	7.4	9.9	3.0	5.6	2.36	2.08	1.91	2.17
Bodegas Bilbainas	0.47	0.13	0.17	0.58	0.65	0.81	0.77	0.59	110.5	0.9	-9.3	-3.6	115.1	-2.6	10.5	15.2	0.17	0.84	0.00	0.00
J. Boutaris	0.61	0.00	0.39	1.00	0.33	0.24	0.43	0.30	-7.0	-55.2	-48.3	3.7	-11.0	-11.9	-54.7	2.6	1.07	1.13	0.97	1.01
Ktima Kostas Lazaridis	0.47	0.23	0.26	0.58	0.66	0.74	0.73	0.58	21.8	-16.3	59.8	10.2	12.3	4.6	1.1	-30.1	2.79	0.75	0.97	3.03
Schloss Wachenheim	2.51	1.65	2.19	2.68	0.15	0.17	0.15	0.14	-4.2	4.6	-1.4	-16.5	1.7	-11.9	-7.3	11.6	1.64	1.89	1.71	1.57
Hawesko	0.57	0.28	0.50	0.52	0.38	0.43	0.39	0.42	-4.8	-8.6	-2.4	-0.3	4.4	0.4	2.5	4.3	1.51	2.09	1.55	1.40
Foster's Group	0.79	1.02	0.52	0.51	0.45	0.42	0.55	0.47	17.4	43.0	2.6	-10.5	6.7	1.6	-17.4	3.5	2.33	2.39	2.12	1.94
McGuigan Simeon Wines	0.49	0.49	0.45	0.66	0.50	0.53	0.53	0.48	107.7	11.6	7.8	24.2	53.0	20.4	7.9	185.0	1.85	1.27	1.53	1.42
Evans & Tate	1.60	2.26	1.37	2.19	0.34	0.24	0.36	0.26	42.6	-7.4	7.3	114.6	39.4	22.7	55.5	67.4	1.78	2.18	1.36	1.13
Cockatoo Ridge Wines	0.22	0.46	0.27	0.28	0.77	0.64	0.76	0.72	352.0	21.8	41.8	32.2	79.2	15.7	17.3	242.6	1.13	0.51	0.92	1.19
New Zealand Wine Co.	0.48	0.41	0.46	0.49	0.63	0.66	0.63	0.63	22.5	5.5	4.2	42.7	12.1	16.3	4.4	9.3	1.04	0.86	0.99	1.29
Oyster Bay Marlborough	0.71	1.07	1.02	0.85	0.59	0.47	0.49	0.52	15.4	0.8	17.5	32.2	55.7	9.4	168.8	28.5	1.39	1.64	1.34	1.19
Andrés Wines	0.61	0.56	0.54	0.52	0.53	0.54	0.55	0.55	5.6	8.6	13.9	-8.5	4.7	7.5	5.4	6.4	1.19	1.54	1.39	1.10
Vincor International	0.64	0.49	0.20	0.33	0.57	0.56	0.72	0.63	40.9	28.0	34.3	-1.5	19.9	37.3	9.5	15.4	2.08	1.55	1.58	1.63
Magnotta Winery	0.80	0.57	0.65	0.74	0.52	0.60	0.57	0.52	7.2	5.7	5.5	1.0	5.0	4.8	0.6	4.6	1.18	1.12	1.00	1.20
Constellation Brands	1.16	0.94	1.42	0.86	0.46	0.40	0.42	0.74	26.8	3.3	26.5	81.3	15.9	12.6	15.1	30.0	1.21	1.93	1.37	0.77
Scheid Vineyards	0.70	0.85	0.34	0.58	0.52	0.47	0.57	0.57	7.3	55.0	-16.9	-0.9	13.4	32.1	-10.4	8.5	0.66	0.88	0.75	0.73
Willamette Valley Vineyards	0.67	0.23	0.65	0.73	0.51	0.66	0.50	0.48	-3.0	-10.9	1.4	-6.7	17.3	45.6	28.6	21.9	1.37	2.29	1.35	1.24
Vina Concha y Toro	0.36	0.52	0.38	0.31	0.61	0.55	0.60	0.63	12.3	16.2	20.3	13.3	15.2	3.1	24.0	21.5	2.97	3.19	3.54	2.51
Vina San Pedro	0.34	0.50	0.43	0.36	0.65	0.60	0.62	0.63	8.3	1.4	8.9	3.7	10.3	-0.1	0.1	10.7	1.67	1.43	1.48	1.49
Vina Santa Rita	0.31	0.26	0.24	0.29	0.67	0.70	0.70	0.66	7.5	0.1	8.8	0.2	6.2	-3.6	12.3	8.0	1.91	1.63	1.65	2.35
Santa Emiliana	0.14	0.11	0.14	0.14	0.77	0.79	0.77	0.77	2.9	-5.6	1.5	-1.3	-6.8	-3.7	-13.9	-10.5	2.63	3.76	2.21	2.46
Vina Undurraga	0.03	0.00	0.00	0.00	0.77	0.81	0.77	0.80	4.4	2.7	9.8	3.7	1.6	-0.2	11.1	-2.1	1.10	1.74	0.93	1.02
Yantai Changyu	0.00	0.00	0.00	0.00	0.83	0.76	0.92	0.83	6.8	-2.3	16.2	7.6	17.4	48.4	11.3	22.5	2.54	3.99	1.92	1.95
Dynasty Fine Wine	0.01	0.00	0.04	0.00	0.66	0.82	0.52	0.63	94.1	200.1	-11.8		15.7	17.8	13.6		3.95	2.76	9.09	
Distell Group	0.70	0.35	0.49	0.68	0.45	0.57	0.48	0.45	20.8	11.3	-3.4	2.0	28.1	7.0	7.2	5.8	1.64	2.24	1.28	1.40

Table 3: The main financial data and ratios of the whole Italian wine company cluster

Financial data	'mln euros					Financial ratios	%				
	'04	'03	'02	'01	'00		'04	'03	'02	'01	'00
Revenues	3,889	3,780	3,584	2,555	3,018	ROE net	4.6	5.6	9.1	8.5	9.2
Gross margin	1,439	1,359	1,357	1,246	1,146	ROE gross	8.5	10.4	13.9	14.8	17.1
Value added	733	701	733	682	626	Cash flow ROE	15.5	16.3	20.2	19.9	20.3
Operating income	198	206	259	250	239	ROA	5.4	6.6	8.7	9.3	10.2
Net income	76	89	135	112	100	ROI	5.5	6.3	8.8	9.8	10.7
Total assets	5,249	4,952	4,600	4,116	3,578	ROS	5.1	5.5	7.2	7.7	7.9
Fixed assets	2,003	1,706	1,597	1,394	1,130	Ebitda / Revenues	9.9	10.0	11.9	12.3	12.0
Financial debts	1,539	1,504	1,251	1,116	1,034	Cost of fin. debts	4.8	5.9	7.2	7.2	7.0
Equity	1,766	1,637	1,552	1,427	1,192	Cost of tot. debts	3.1	3.8	4.5	4.9	5.1

Table 4: The main financial data of the four groups of Italian wine companies

Data in 'mln euro	Group A			Group B			Group C			Group D		
	'04	'03	± %	'04	'03	± %	'04	'03	± %	'04	'03	± %
Revenues	2,618	2,499	4.8	727	730	-0.4	375	379	-1.3	169	172	-1.5
Gross margin	946	876	8.0	259	250	3.5	154	151	1.4	81	83	-1.6
Value added	480	451	6.4	134	124	7.9	79	76	4.5	40	50	-18.9
Operating earnings	130	136	-5.0	46	37	22.9	17	17	0.1	5	15	-65.9
Net earnings	59	65	-10.0	20	17	13.4	3	1	226.1	-3	5	-161.9
Total assets	3,363	3,159	6.5	880	849	3.6	617	584	5.6	389	359	8.4
Fixed assets	1,303	1,093	19.2	274	236	16.0	265	228	15.8	161	147	8.5
Financial debts	946	927	2.1	269	253	6.1	189	177	6.9	136	147	-6.5
Equity	1,156	1,074	7.6	267	234	13.6	236	219	7.6	107	110	-4.5

Table 5: The main financial ratios of the four groups of Italian wine companies

Data in %	Group A			Group B			Group C			Group D		
	'04	'03	5y	'04	'03	5y	'04	'03	5y	'04	'03	5y
ROE after tax	5.3	6.3	7.9	7.8	7.6	9.9	1.1	0.4	3.2	-3.1	5.0	5.1
ROE before tax and extra results	8.9	11.4	13.6	14.3	12.0	16.9	3.9	4.1	7.0	0.2	9.4	9.1
Cash flow ROE	16.7	16.9	18.9	18.9	20.1	22.8	9.9	9.4	12.4	7.6	15.9	16.6
Ordinary results on net assets	5.6	7.1	8.5	7.8	7.1	9.3	3.6	4.0	5.6	1.8	5.5	5.9
ROI	5.7	6.5	8.6	8.3	7.3	9.8	3.8	4.1	5.9	1.8	6.0	6.3
Cost of financial debts	5.0	6.5	6.8	4.7	5.6	6.0	4.8	5.5	6.2	3.8	4.0	5.1
Cost of total debts	3.1	3.9	4.3	3.3	3.9	4.4	3.4	3.9	4.4	2.6	3.2	3.8
ROS	5.0	5.5	6.7	6.4	5.2	6.6	4.6	4.5	5.9	3.0	8.6	8.1
Ebitda on sales	9.8	9.9	11.2	10.2	9.1	10.5	9.8	9.6	10.8	9.9	15.5	14.8
Gross margin on sales	36.3	35.0	36.7	35.6	34.2	35.6	41.0	39.9	41.0	47.8	47.9	48.5
Value added on sales	18.4	18.0	19.5	18.5	17.0	18.5	21.2	20.0	21.4	23.6	28.7	27.7
Revenues growth	5.6	6.0	7.8	-0.4	5.9	5.3	-1.3	3.9	4.1	-1.5	0.1	3.7
Fixed capital growth	18.0	3.7	14.9	13.0	11.1	15.6	15.9	3.9	14.6	8.1	10.5	14.6
Net assets turnover	1.14	1.19	1.26	1.30	1.42	1.47	0.84	0.91	0.97	0.61	0.69	0.75
Fixed capital turnover	0.45	0.43	0.40	0.35	0.31	0.29	0.66	0.59	0.55	0.91	0.82	0.75
Receivables turnover	0.29	0.29	0.29	0.34	0.33	0.34	0.36	0.34	0.34	0.33	0.32	0.31
Inventories turnover	0.30	0.30	0.29	0.33	0.32	0.31	0.40	0.39	0.38	0.57	0.51	0.51
Equity / Total assets	0.34	0.34	0.34	0.29	0.28	0.28	0.38	0.38	0.37	0.29	0.32	0.31
Equity / Fixed assets	0.81	0.82	0.86	0.91	0.92	0.94	0.86	0.89	0.89	0.59	0.63	0.67
Equity + LT debts / Fixed assets	1.28	1.31	1.31	1.42	1.43	1.46	1.18	1.18	1.21	1.10	1.14	1.20
Current assets / Current liabilities	1.46	1.51	1.50	1.52	1.47	1.50	1.28	1.26	1.32	1.17	1.28	1.39
Liquid assets / Current fin. debts	0.26	0.28	0.27	0.27	0.24	0.21	0.17	0.13	0.14	0.08	0.10	0.11
Net debts / Equity	1.35	1.32	1.26	1.47	1.54	1.53	1.14	1.09	1.12	1.87	1.62	1.62
Financial debts / Equity	0.84	0.80	0.80	1.04	1.06	1.10	0.80	0.78	0.80	1.29	1.27	1.20
Leverage ratio	3.14	3.23	3.50	3.92	3.02	3.55	2.00	1.97	2.37	1.04	2.83	2.42
Gross solvency ratio	1.31	1.44	1.48	1.47	1.28	1.49	1.05	1.04	1.20	0.75	1.28	1.21
Net solvency ratio	0.49	0.55	0.57	0.43	0.38	0.45	0.26	0.27	0.31	0.15	0.26	0.33

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Notes

¹ Il Valore del Vino; Università di Firenze, Aula Magna; 2 dicembre 2004.

² Investire nel Vino; Vinitaly 2005; Verona, 9 aprile 2005.

³ I profili finanziari delle società vinicole; Cordero di Montezemolo S.; Firenze University Press; 2005.

⁴ The Wine Companies World Index was conceived by the author who also identified the criteria of selection and the single wine companies take into account in the Index. The Research Department of Mediobanca has developed, elaborated, it owns the rights of the Index and it is responsible for the updating. http://www.mbres.it/ita/download/az_indice_vino.pdf; page 7.

⁵ The last financial statements are the one that are related to the 2005 and 2004-2005 financial years (depending on the end year period in which the companies close their accounting balances. As to the current quotes and market values, the data are the ones traded at the end of March 2006.

⁶ Osservatorio finanziario sulle società vinicole italiane; Working paper; Investire nel Vino; Vinitaly 2005; Verona, 9 aprile 2005.

⁷ The difference of the financial data between 2004 and 2005 is largely due to the different exchange rate.

⁸ Source: S&P Barra Indexes.

⁹ The beta index is a measure of the systematic risk of an equity investment – stock, mutual fund, or portfolio – measured as the relative volatility of the its quotes to the ones of overall market, usually the stock market indexes (such as, S&P500, Mibtel, Cac 40, Ftse 100). A beta above 1 ($\beta > 1$) indicates that the investment is more volatile than the overall market, while a beta below 1 ($\beta < 1$) is less volatile.

¹⁰ Sources: Bloomberg, Reuters.

¹¹ As to estimates of Federalimentare (the Italian association of the beverage and food companies), in the 2004 the overall revenues of the Italian wine industry were around 7,200 million euros.