

# Executive Summary

*Grapevault Wine Fund No. 1 GmbH & Co. KG*

*” An investment combining the security of top quality vineyard real estate with a portfolio of rare wines and timely innovations for the wine industry “*

***Our goal:***

*To exploit investment opportunities throughout the entire value chain for the premium and luxury wine segment*

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## Foreword

Winemaking is one of the oldest cultural practices of mankind, reaching back to 6 BC. From its believed origin in the border region of Georgia and Iran, wine-making spread towards Mediterranean, becoming an important part of both the Greek and Roman cultures. The Roman Empire and the accompanying spread of Catholicism ensured its adoption through much of Europe, as well as in both Latin America and California. Winemaking regions such as Bordeaux and Burgundy have continually reinvented themselves setting the benchmark for all, but other regions such as the Rheingau and the Mosel in Germany, or Toscana in Italy have all lost a reputation for quality at some point and have had to work hard to regain their past glory. Top winemakers in California and Australia have joined the premium wine segment, and more recently, winemakers in Spain, Chile, Portugal, and Greece are increasing quality rapidly, leading to the rewards of recognition, higher margins, and greater sales.

Today the finest collectible and rare wines are an established asset class for investment, but only wines of the very best quality can join this select group. Once in, a growing demand for a product of limited production can only lead to climbing prices, and, when combined with well-executed marketing strategies, ultimately to successful branding as part of the luxury consumer segment. Through focussed branding Lafite-Rothschild, one of the oldest and best-known Château in Bordeaux, has positioned itself above the other four Premier Crus in Bordeaux, and thus command a premium price in a very exclusive market. However, success is not dependent on a long history. A good example of younger success is Screaming Eagle in California which has combined superb quality with branding to reach the luxury price class and cult status, having only started in 1992.

An examination of the entire value chain of the wine industry reveals that wine-making itself can be exceptionally profitable, if one concentrates on the premium end of the market. Today top wines are prestigious, sexy, and increasingly seen as playing an important and growing role in the high-end consumer segment. However, the wine industry is still very fragmented and largely undercapitalised. Many winemakers subsidise their production of loss-making generic table wines through the profits earned for their premium wines, thus locking themselves into an unsustainable business model. By contrast, a focus on only producing top quality wines and avoiding the production of generic table wines can achieve mouth-watering margins and high profitability.

Although extremely important to establishing a brand, the majority of winemakers can not afford their own marketing and sales operations. Equally lacking are professional business models and modern financial structures. This results in a large numbers of very good winemakers simply being overwhelmed by the increasing pressures of a rapidly changing industry.

A winemaker can not tend his vines, make high quality wines, and still find the time to develop his own marketing and distribution strategies. As a result, most remain dependent on their small primarily local clientele and the uniform pricing policies of their neighbors in the region, while failing to capitalize on the greater opportunities presented by a an international market for their wines.

The small number of professional "wine corporations" represent only a small part of the entire premium winemarket, as the majority are primarily focussed on the production and distribution of mass-market wines driven by beverage industry marketing strategies.

However, successful producers of premium wines are increasingly seen in the portfolios of luxury companies and more recently pension funds and private equity funds in the United States. The vineyards that produce the grapes for such high quality wines are usually limited in size, and only rarely expandable. As a result, the price of established premium parcels of vineyard real estate is rising at a rate well above land dedicated to other agricultural use.

In France, vineyards are found in the portfolios of insurance companies (i.e. AXA), banks (i.e. Societe Generale) as well as wealthy industrialists. In the USA, wine real estate is now found in the investment portfolios of Real Estate Investment Trusts (REITs) and as well as pension funds (i.e. CalPERS). Such properties can produce solid income through the sale of premium quality wine grapes or through lease agreements with high quality winemakers, but the far greater attraction lies in the price appreciation of much-sought exclusive property. Government records in both of the above mentioned countries document long-term returns of **over 10 % p.a.** for such choice vineyards.

In summary, the majority of the wine industry lacks the wide range of professional skills needed to execute truly successful business models. The potential for profits through professionalisation is perhaps greater than any other part of the luxury consumer segment because it is still open to investment at an early stage in the evolution of the industry.

Grapevault Wine Investments GmbH is dedicated to providing a professional model that can take advantage of developments in the wine industry and deliver attractive investment vehicles to investors, who would not normally be able to participate in this market. In times of financial turbulence, erratic stock markets, and low interest rate returns, the combination of valuable solid real estate, along with the opportunity to partake in a professional approach to an important segment in the high-end consumer market, could make for a powerful and timely investment opportunity.

***The principals of Grapevault Investments GmbH have developed models for each of the 5 investment areas.***

**The 70 % of the fund targeted for investments in vineyards, wine production, and sales and marketing are driven by a proprietary valuation model that:**

1. determines the fair value of existing vineyards and winemaking operations,
2. establishes the potential for margin growth,
3. defines a bandwidth of potential returns and increase in vineyard value based on stress-testing all inputs and variables,
4. compares viability and potential for any vineyard worldwide,
5. determines a sales and marketing strategy to maximise sales and margins through a best fit market execution.

**The 20 % of the fund targeted for investments in collectible and rare wines, as well as wine arbitrage is driven by:**

1. first hand experience in valuation, purchasing, pricing, and arbitrage of fine wines,
2. a proprietary database with, wine and pricing information for over 5,000 collectible wines,
3. search and find expertise (*wine scouting for collectors*),
4. in-house trend analysis, *et*
5. a growing international network of sommeliers, dealers and collectors who represent increasing acquisition and placing power, confirmation of pricing and trends, as well as opinion leadership in "new" premium wines.

**The 10 % of the fund targeted for investments in wine technology is driven by the professional expertise to define and evaluate new wine technologies through:**

1. in-house technical expertise in microprocessors
2. in-house expertise in wine chemistry and manufacturing processes
3. built in test and end-user market through Grapevault partner wineries

## Overview

The management of the Grapevault Wine Fund No. 1 GmbH & Co. KG (hereafter The Fund) intends to combine the financial security afforded by owning highest quality vineyard real estate investments with the opportunities created through a professional and replicable business model in this high-end consumer segment. The Fund was launched as a blind pool, as the exact investments, were not yet visible, although the quality standards had been defined. Today the first three deals are in various stages of completion, and several other properties are in the Due Diligence phase. The management expects to profit from all three segments of the value chain in the wine industry. These three parts are defined as:

- 1. Vineyard Real Estate (wine grape production)**
- 2. Wine Production**
- 3. Marketing & Distribution**

As a result of its fragmented nature, the wine industry offers opportunities for success in all three segments of the value chain, and the establishment of the Grapevault brand as a “seal of quality” in the premium wine segment. The management plans to allocate the capital of the Fund to three business units as follows:

**70% in vineyard real estate, wine making, and marketing & distribution**

**20% in collectible and rare wines investments**

**10% in company development for solutions to wine industry challenges  
(venture capital)**

**The capital allocated to each of these business segments can vary by +/- 10%.**

The Fund was established as a registered closed-end fund in Germany with no set wind-up date. However, the management believes that the successful execution of the Business Plan will lead to an exit through an Initial Public Offering, once the fund has reached consistent profitability. This would allow investors to cash out and/or remain invested in a listed premium wine company.

## Financial Data

**Investment Target:** 20 € Mio. to maximum 50 € Mio.

**Minimum Investment:** 20.000,- €

**Front load commission:** Max. 5%, fully rebated to institutional investors

**Projected payout from operations:** 1% climbing to 19% in Year 10, net of Management Profit Sharing, and not including goodwill or the price appreciation of real estate investments

**Management Fee:** None, only actual approved costs

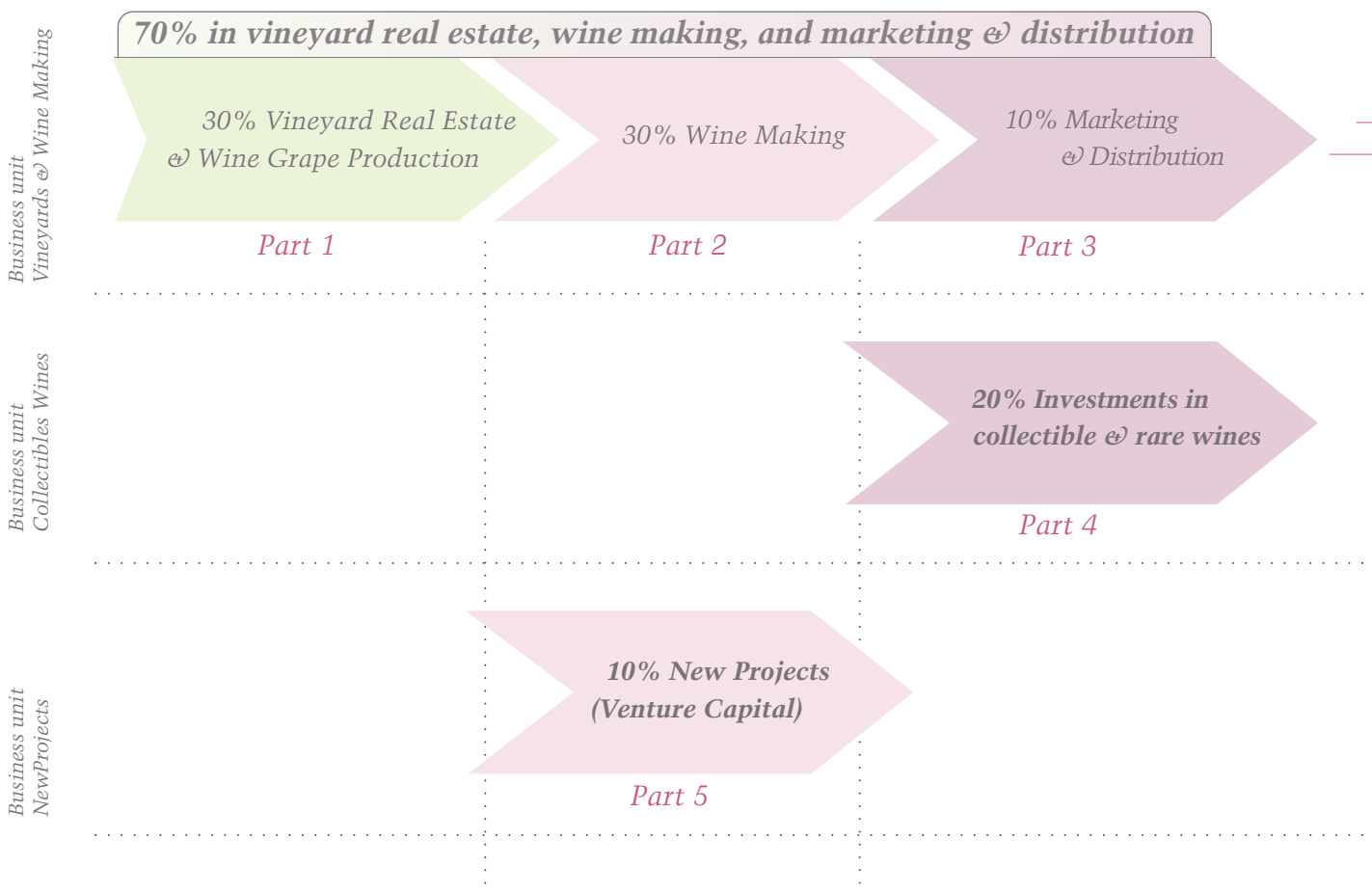
**Management Profit Sharing:** 20%

## Strategic Overview

### Value Chain



Expected allocation of the three business units of the fund over the value chain



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## Part 1: Investments in Vineyard Real Estate & Wine Grape Production

### I Strategy

**Purchase, Lease or Rent of existing premium vineyards with the potential to rapidly realise greater value creation through:**

- Restoration and professional tending of the vineyards
- Sale of wine grapes to external winemakers until the necessary quality has been reached for producing our own wine
- Alternatively, lease purchased properties to other winemakers until the grape quality has reached our standard
- Focus on grape varieties indigenous to each wine region with unique marketing potential
- Advantageous purchasing power investing in vineyards experiencing generational changes or suffering from the financial crisis

### II Target regions

#### Primary

- Germany (*Mosel, Nahe, and Rheingau*)
- Austria (*Kamptal, Kremstal, Wachau, Weinviertel & Burgenland*)
- California (*Napa Valley, Sonoma Valley, & Central Coast*)

#### Secondary

- France (*Burgundy, Champagne, Rhône Valley*)
- Italy (*Piedmont & Toscana*)

### III Business Model

- Improve the quality of grapes, in order to produce premium quality wines that will earn higher prices and expanded margins
- Secure top vineyards in order to expand production of premium quality wines

### IV Projected Returns\*

- up to 10%, not including price appreciation of the property

### V Estimated Level of Risk\*\*

- Very low risk for depreciating value of real estate
- Moderate annual risk of adverse weather effecting the quality and size of harvest



\*) Projected returns for this investment segment, as estimated by the Management

\*\*) See Disclaimer, page 11

## Part 2: Investments in Wine Production

### I Strategy

***Develop projects through take-over, minority participation, or joint-venture with winemakers who; are already established on the market; and who may own or not own wine property; in order to:***

- Realise the potential to grow the premium wine segment through process optimisation of existing winemaking operations
- Develop and optimise sales channels
- Increase the marketability of young “shooting-star” winemakers, who have the potential to produce Premium Wines, but lack the capital to operate on their own
- Build or modernize the production and cellaring facilities necessary to make premium quality wines
- Increase existing Brand recognition
- Bridge the personal and/or financial challenges brought about through family circumstances and a change of generational control
- Profitably support winemakers who are suffering as a result of the credit crisis
- Purchase properties in bankruptcy proceedings

***Grapevault Wine Investors has already identified a number of interesting projects and the first investments are being finalized.***

### II Business Model

- Improve wine quality through better vineyard care, reduced grape yields & better cellar processes
- Increase profit margins through the development of own brands and increase international distribution
- Expand production volumes of premium wines through the purchase of additional vineyards when possible
- Increase property values through the successful branding and expand margins of wines made from specific highly desired vineyard parcels

### III Projected Returns\*

- up to 30 % per annum, excluding property value appreciation

### IV Estimated Level of Risk\*\*

- Extremely low risk of real estate values depreciating
- Low to moderate annual risk of adverse weather effecting the quality and size of harvest



\*) Projected returns for this investment segment, as estimated by the Management

\*\*) See Disclaimer, page 11



## Part 3: Investments in Marketing & Distribution

### I Strategy

***Expansion of the existing network of wine distributors and dealers in order to sell own wines, and the development of marketing and branding activities in order to generate higher sales volumes and margins***

### II Business Model

- Increase the level of contact with existing network of European as well as overseas distributors, with a focus on the USA, China, and greater Asia (*also see Part 4*)
- Conclude contracts with established distributors and/or eventually invest in existing distributors outside of Europe
- Centralise Marketing and Distribution activities for *Grapevault* properties in a single Profit Center in order to realise synergy effects in the distribution of all properties' wines where possible
- Continue development of the *Grapevault* Wine data bank of over 7000 tasting notes to include the ratings and tasting remarks of all relevant critics in the market (*through license agreements when necessary*) in order to enhance the *Grapevault* brand and name recognition
- Develop an Internet presence as part of the marketing strategy for our own wines and in combination with the business model for investing in Collectible and Rare Wines as described in Part 4.

### III Projected Returns\*

- up to 30 % per Annum, depending on the model developed for each winery and the option of receiving payment in cash or payment in wine that could be sold at a higher margin

### IV Level of Risk\*\*

- Moderate to high, fully dependent on the success in increasing the sales volumes and profit margins of our wineries through the activities of a centralised Profit Center for marketing and distribution



\*) Projected returns for this investment segment, as estimated by the Management

\*\*) See Disclaimer, page 11

## Part 4: Investments in Collectible & Rare Wines

### I Strategy

***Purchase, storage, and resale of collectible and rare wines, which through an ongoing professional analysis of the market can be expected to rise in value. The following categories have been defined by the management as offering significant potential for capital appreciation:***

- Historical bottles, which through their rarity or historical significance can be expected to climb in value as existing bottles are drunk and new wine collecting markets create a greater demand for a falling number of bottles. Although the quantities of these wines are small, they offer potential margins well in excess of 100%. Expected holding period: 1 to 5 years.
- Premium wines that, although not yet of historical significance, are highly valued by collectors based on their high rating from critics and/or their rarity. Expected holding period: 5 to 7 years.
- Wines that can be arbitrated from one market to another where they command a higher price (*i.e. older German Rieslings being resold in the USA*). Expected holding period: 1 to 6 months.

### II Business Model

- Source desired wines from private cellars, business liquidations, wine auctions, wine agents, and direct from wineries, utilizing the long-time and comprehensive experience of the management. The financial resources committed to this business unit should enable the fund to purchase entire cellars quickly for cash, and therefore at a discount to their sum value.
- Continue expansion of existing network of wine dealers, agents and auction houses both in Europe and abroad for the purchase and sale of such wines.
- Continue development of a proprietary data bank and the establishment of a research process that captures price and market trends in order to support each of the defined segments.
- Lease a secure climate controlled storage facility
- Tag all bottles through a digital RFID inventory system that minimizes duplicated work and simplifies accurate inventorying of all wines owned by the Fund.

### III Projected Returns\*

- up to 25% per Annum, depending on speed of turnover and market trends

### IV Level of Risk\*\*

- Low to moderate based on the experience of the management team, but dependent on wine trends, market cycles, and market liquidity.



\*) Projected returns for this investment segment, as estimated by the Management

\*\*) See Disclaimer, page 11

## Part 5: Investments in New Projects

### I Strategy

***A detailed analysis of the wine industry unveils latent challenges that present significant threats to the makers of premium wines. Successful solutions for these problems could be extremely rewarding in relationship to the small investments that the management team believes are needed for such projects.***

***Current projects include:***

- The development of an alternative bottle closure, due to the growing problem of chemical taint in natural corks, caused by the premature harvesting of a natural substance in increased demand, and the lack of acceptance for existing alternative closures such as screw-top caps or glass tops.
- The development of a digital solution to counteract the growing problem of counterfeiting in the Premium- and Superpremium wine segment, which would allow the tracing of a bottle of wine from its origin through changes in ownership and to its eventual consumption.

The development of a „Grapevault“ wine bottle that incorporates the above innovations as a „seal of quality“

### II Business Model

- Finance and/or form small project specific companies, which, as a result of a successful development, could hold a quasi-monopoly on production processes, and or patents that could result in ongoing income through licensing agreements and/or proprietary production.
- Develop a portfolio of product Licensing Rights and Patents
- Cross-sell processes and products to Grapevault partner properties, as well as to other wineries

### III Projected Returns\*

- up to 50% per Annum, if successful

### IV Level of Risk\*\*

- Moderate to high, completely dependent on the successful development and acceptance of the wine industry for any single project.



\*) Projected returns for this investment segment, as estimated by the Management

\*\*) See Disclaimer, page 11

## The Partners

**Stanley W. Bronisz, M.B.A.** is an advisor to investment fund companies for investment fund allocation and risk strategies. He was responsible for establishing Fidelity Investments in the German-speaking markets and later was Managing Director of Pioneer Investment's marketing and sales operations in Europe.

**Dr. Wolfgang E. Frank** holds a doctorate in electrical engineering and began his career in the microprocessor industry. Today he specialises in process optimisation, corporate restructuring, and leading 6 Sigma quality management projects in the chemical industry. Additionally, Dr. Frank maintains a data bank with over 7.000 wine-tasting notes and has authored articles for wine publications in Germany.

**Hans Friedrich** is a long-year dealer in rare wines and collectible timepieces. He is co-owner of the Munich Wine Company, a leading wine auction house based near Munich, Germany.

**Michael Phillips, M.B.A.** began his career in the chemical industry. Today he is a partner in APAX Private Equity and serves as their Managing Director in Germany. Mr. Phillips is also active as a direct private investor in numerous companies, and is a passive anchor investor in Grapevault, serving on the Investment Committee.

**Stefan Sedlmeyr** is a professional Sommelier and Auctioneer. Before founding the Munich Wine Company with Mr. Friedrich, he led the wine department at Hampel Art Auctions in Munich, Germany.

## Experience and Competence

The five partners in the *Grapevault* Wine Investments GmbH, manager of the *Grapevault* Wine Fund No. 1 bring a broad range of business experience along with their keen interest in Premium quality wines. Competencies include:

Wine Industry	Company Management & Leadership	Corporate Finance
<ul style="list-style-type: none"> <li>\\ Expertise in the valuation of collectible &amp; historical wines</li> <li>\\ Expertise in the tasting, evaluation &amp; commentary of wines</li> <li>\\ Wine chemistry &amp; analysis</li> <li>\\ Broad network of contacts with vineyard owners, winemakers, wineries &amp; sommeliers</li> <li>\\ Broad network of contacts to wine distributors in Europe and abroad</li> <li>\\ Broad network of contacts to sommeliers &amp; the gourmet restaurant industry in Europe</li> <li>\\ Professional wine storage &amp; inventory systems and controls</li> </ul>	<ul style="list-style-type: none"> <li>\\ Corporate level Operations</li> <li>\\ Corporate level Sales &amp; Marketing</li> <li>\\ Corporate level Human Resources</li> <li>\\ Private Equity Fund management</li> <li>\\ Managing operations abroad</li> <li>\\ Optimization of business &amp; production processes</li> <li>\\ Black Belt level in Six Sigma project leadership</li> </ul>	<ul style="list-style-type: none"> <li>\\ Corporate Budget Processes</li> <li>\\ Company valuation models &amp; Due Diligence</li> <li>\\ Corporate Financial Restructuring</li> <li>\\ Takeovers, Mergers, &amp; Acquisitions</li> <li>\\ Asset Sales &amp; Spinoffs</li> <li>\\ Initial Public Offerings</li> </ul>

## *Disclaimer:*

|| This Executive Summary is a free translation of the German original. It contains opinions, business models, financial projections and expectations specific to the wine industry based on current market research, expectations, assumptions and projections of third parties, as well as the offering party of the *Grapevault Wine Fund No. 1 GmbH & Co. KG* (hereafter referred to as „The Fund“), which contain a degree of known as well as unknown risk to their accuracy under actual business conditions, and, based on currently unforeseeable circumstances, could vary widely from the assumptions and projections expressed herein. Past returns are neither an indicator nor guarantee for future returns.

|| An investment in The Fund is a business investment that includes a broad spectrum of risks, including the risk of a total loss of invested capital. An extensive description of the possible risks associated with an investment in the Fund is covered in Chapter 2.3 in the original German-language Prospectus.

|| A decision to invest in The Fund should only be reached following a careful examination and reading of the original German-language Prospectus, which is available at no cost to interested parties. The Executive Summary is not an offering document.

|| The offering party recommends that interested parties who are not German residents for tax purposes seek financial as well as tax advice before making a decision to invest in The Fund, as all financial projections for The Fund are based upon tax treatment in Germany. The tax treatment of The fund and resulting investment returns for a non-German investor's home country may differ from the projections made by the offering party, and as such the offering party makes no claims and accepts no liabilities arising therefrom.

|| The offering party makes no claims regarding the legality or investment suitability of the The Fund for non-German parties living under the jurisdiction and financial laws of another country, and accepts no liabilities arising therefrom. The Fund is not registered for sale in any country outside of Germany, and therefore makes no Public Offer of sale outside of Germany. A decision by a non-German party to invest in The Fund can only be made when as a Private Placement.



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