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Big Thinking On Small Caps: Champagne - The Bubble Has Burst, but Ultimately the Fizz Is Likely to Return

Highlights

This report forms part of Bernstein's "Big Thinking on Small Caps" strategy series. These regular reports highlight potential investment themes for the small-cap market, drawing upon our ongoing sector research. In this piece, we look at the champagne business.

- Long-term demand for champagne has shown a healthy volume growth rate of 2.2% CAGR over the last 20 years, with growth of 3.3% in 2002-07. France remains the largest volume market by far, accounting for 55% of global consumption. The UK is the second largest market (12%) and the USA the third (6%). However, the export markets are growing much faster: 4.2% (2002-07 CAGR) for the UK, 3.5% for the US, and 18% for Japan compared to 1.4% for France.
- Production of champagne is limited because only certain designated plots of land are permitted to grow grapes within the broader Champagne region. With virtually all eligible land planted, permitted yields have been creeping up. A process is underway to extend the permitted area, but new production from this land is unlikely to come on the market before 2020 at the earliest. So until this year, medium-term supply looked tight.
- Geographic exclusivity and decades of investment in advertising and publicity have enabled Champagne houses to charge a significant premium compared to other sparkling wines. For example, the major houses are able to charge 2-3x more for champagne than their own sparkling wines. Much of this economic surplus has accrued to the grape growers who own 89% of the land, such that champagne vineyards are now worth €1m/ha, compared to €5,000/ha for neighbouring agricultural land, a factor of 200x! However, the champagne houses also have high net margins and RoICs, well in excess of global wine norms.
- Constrained supply and rising demand has in recent years led to pricing well in excess of inflation in € terms, which has been compounded at a retail level by weak $ and £. The champagne industry has an unfortunate track record of taking high price increases just ahead of economic crises, and 2008 is no exception. The average revenue growth for the five "public" houses was 9% in 2007. But we have seen an exceptionally rapid unwinding in 2008, with average revenue growth of 6% in Q108, 1% in Q208, and -6% in Q308.
- Our best guess is that 2008/2009 will end up looking a lot like 1990/1992. We expect the sharp fall in demand to continue into 2009. The strong $ will provide relief on US consumer pricing. But contrary to the protestations of some houses, we believe that there must be some unwinding of recent price increases—perhaps in the form of off-invoice rebates or currency adjustments—in order to save face. Pressure on gross margins will be reflected in grape prices to growers. Net margins will inevitably fall due to lower operating leverage. In the longer-term, we expect the industry to recover as the cachet of champagne remains undiminished. Ultimately, the fizz will return, but it could take three-to-five years.

Details

What makes champagne special?

At its simplest, champagne is a sparkling wine made from grapes grown in a specified area in Northern France.

The process starts with the production of a base wine. There are three permitted grape varieties: pinot noir (which gives body), pinot meunier (which gives fruit) and chardonnay (which gives elegance). So champagne is one of the few examples in the world of a white wine that is made from red grapes. The first critical factor is that Champagne region is right at the northern climatic limit of where it is possible to reliably ripen grapes. As a result, the base wine is very, very acidic and often low in natural sugar so that is often chaptalized i.e. extra sugar is added to give sufficient substrate for the yeast to increase the alcohol content by up to an extra 1.5% to reach 10.5%-11%. Another feature of champagne is that yields per hectare of land are very high compared to other fine wine regions. Current regulations permit production in good years of up to 15,500kg/hectare which equates to just under 100hl/hectare, compared to 40hl/ha that is typical in other regions. Furthermore, this is the average yield; the maximum per individual plot is 21,700kg/hectare equivalent to 140hl/ha.

The wines are generally fermented in stainless steel but some of the luxury cuvées are fermented in oak barrels. This is most notably the case for Krug and Bollinger and produces very full-bodied wines.

Next come the bubbles. The base wine is turned into sparkling wine by a secondary fermentation. The wine is filled into bottles, a mixture of wine sugar and yeast *(liqueur de tirage*) is added, and the bottle is sealed, typically with a crown cap. The yeast turns the sugar into alcohol (bringing the ABV up to 12%) & CO_2, which makes the bubbles. The yeast die, fall to bottom of bottle and decompose. Although it sounds a bit messy, this so-called autolysis is very important part of achieving the right flavour profile and gives champagne its characteristic biscuity aromas.

Champagne is aged for a minimum of 15 months to enable the secondary fermentation to complete and for the flavour profiles to harmonize. Most champagne sees only 15 months of ageing but vintage champagne must be aged for 3 years and some de luxe champagnes are aged up to 10 years. In general, the longer the ageing, the smaller the bubbles. When the secondary fermentation is complete, the bottle is slowly inverted & turned over course of several weeks, so that all the sediment settles on top of the cap (a process known as *remuage*). After all the sediment has settled, the neck of the bottle is frozen, the cap is removed and the frozen plug pops out. The bottle is then refilled with a mixture of wine and sugar (the so-called *liqueur de dosage*) and corked. Nearly all champagne, whether sweet or dry, contains some sugar to balance the intense natural acidity. For instance Brut champagne can contain up to 6g sugar/litre.

The final particularity of champagne is that most champagne is non-vintage (NV). Because Champagne is in an area of marginal production for grapes, the weather and hence the quantity and quality of grapes can vary enormously from one year to the next. The actual liquid that goes into the secondary fermentation is typically a vertical blend of wines across vintages and the wine is labelled NV. The major firms will typically use between 10% and 50% of wines from previous vintages to ensure consistency across the years. In good vintages (at least in theory only in good vintages), the best wines are bottled as vintage champagne, with only wines from that year going into the blend. Furthermore, all the major houses have ultra-premium products, known as de luxe or prestige cuvées. Arguably the first of these was Cristal from Roederer which was created for the Russian Imperial court at the end of the 19th century. Perhaps the most famous of the prestige cuvées is Dom Pérignon which was launched in 1928 using the 1921 vintage.

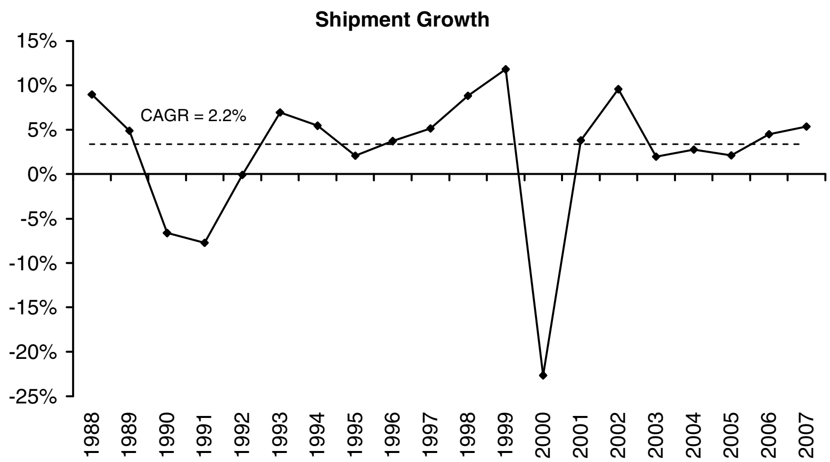
The industry is divided between champagne houses and growers

The most famous representatives of champagne are the large champagne houses who own well-known brands such as Moët et Chandon and Laurent Perrier. However, the big producers do not in general own the land. Only 11% of the champagne vineyards are owned by the champagne houses. The rest is owned by over 15,000 growers. This makes access to sufficient quantity of high quality grapes critical to success, especially since the bought-in grapes make up approx 75% of the costs of making champagne. As well as the big houses who produce 70% of volume and 90% of exports, there are two other major types of producers: owner-producers (i.e. growers who make champagne under their own label) and the co-operatives (e.g. CVC who own the Nicholas Feuillatte brand)

Long-term supply-demand prospects positive

Over there last twenty years, there has been an underlying steady increase in demand for champagne, with average volume growth of 2.2% per annum (**Exhibit 1**). However, the pattern of growth has been interspersed by regular crises. In 1990, the price of grapes was de-regulated (see below) and grape prices rose 18%. The champagne houses attempted to recoup their cost by raising their prices, right in the teeth of a global recession and demand fell by 14% over two years. Even after subsequent falls in both grape prices and the price of champagne, it took until 1996 before the high water mark of 1989 was passed.

Exhibit 1
Over there last twenty years, there has been average volume growth of 2.2% per annum



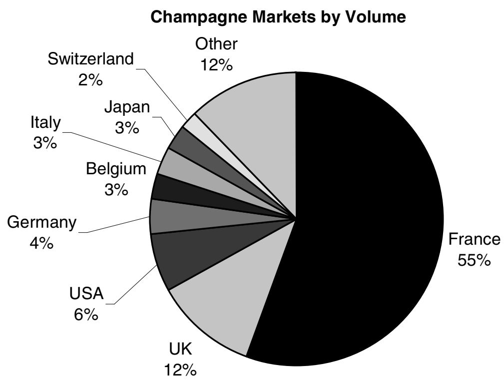
Source: Company Reports CIVC, Bernstein Analysis

The next crisis came ten years later. Shipments in 1998 and 1999 were strongly influenced by the hype surrounding the Millennium New Year's Eve. However, the degree of optimism on consumption was unwarranted and there was massive channel overstocking, leading to a 23% fall in 2000 shipments. After these three years of boom and bust, 2001 came in at much the same level as 1997.

The French market remains extremely important to the champagne industry

France remains the largest market by far, accounting for 55% of global volumes (**Exhibit 2**). However, its value share is much lower because most of the consumption is supermarket exclusive brands and growers' own brands rather than *grandes marques*. The UK is the second biggest market by volume, with 12% of shipments and the USA #3.

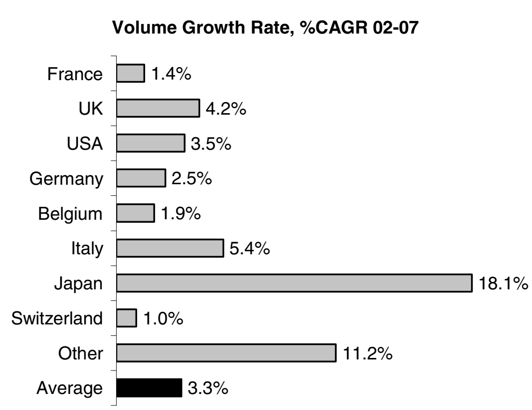
Exhibit 2
France remains the largest volume market by far



Source: CIVC, Bernstein Analysis

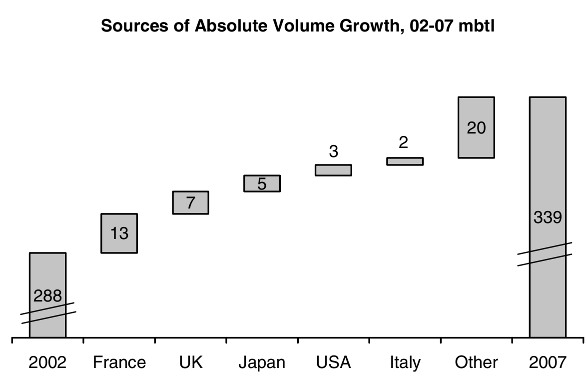
Although France is the biggest market, growth rates are much higher elsewhere, with the UK and the USA averaging 4% growth over the last five years (**Exhibit 3**). Of the top markets, the country which has seen the most spectacular growth is Japan, averaging 18% growth. However, even though France has seen much more modest growth, its sheer scale as a market means that it was still the largest absolute contributor to volume growth (**Exhibit 4**), with the UK in second place and Japan in third.

Exhibit 3
Even though France has grown more slowly than the average….



Source: CIVC, Bernstein Analysis

Exhibit 4
…it is still easily the largest contributor to volume growth, followed by the UK and Japan



Source: CIVC, Bernstein Analysis

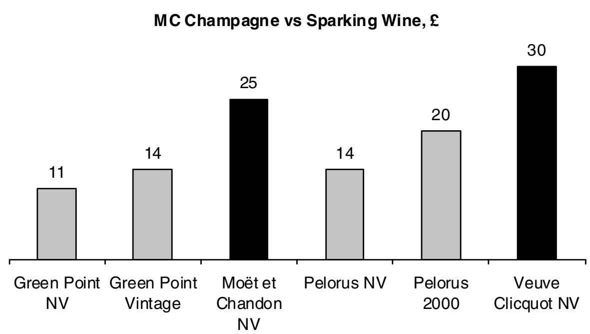
Small-Cap Strategy

Power of the champagne brand

The champagne houses have invested huge time and effort over the last century and a half in building the image of the 'Champagne' brand. The history of champagne is littered with amazing characters such as the widow (Veuve in French) Cliquot who during the Napoleonic Wars established her wine in royal courts throughout Europe, notably that of Imperial Russia. After the widow came a wave of young entrepreneurs from the Rhineland, including Messrs Krug, Bollinger, Mumm and Roederer. Perhaps the most famous *champenois* of German ancestry was the original Champagne Charlie, Charles Heidsieck who is credited with popularizing Champagne in the USA in the mid-19th Century.

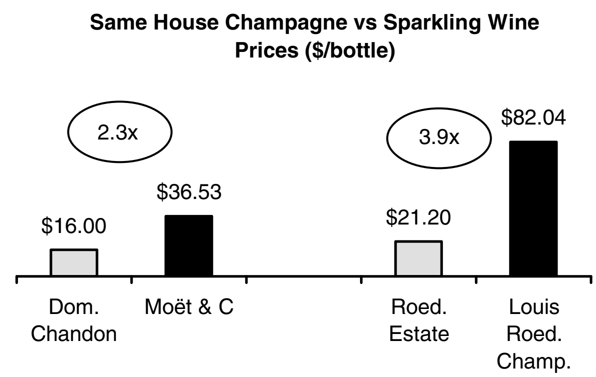
This sustained investment in advertising and publicity has enabled the champagne houses to charge significant premium vs other sparkling wines. Particularly noticeable is the premium vs their own brands. For example, Moët & Chandon established a winery in the relatively cool-climate Yarra valley of Australia where they make grapes from the classic champagne varieties. Veuve Cliquot (now part of LVMH) own Cloudy Bay in New Zealand which also makes a champagne-style sparkling wine called Pelorus. Yet both these wines sell at a substantial discount to their mother brands (**Exhibit 5**). No doubt soil structures and climates are somewhat different from Champagne. But we suspect that the main cause of the price differential is higher grape prices in champagne (reflected in eye-wateringly expensive land and grape growers who drive Mercedes) as well as the cost of A&P and most likely higher net margins

Exhibit 5
MC's sparkling wines brands sell at a substantial discount to their champagne brands



Source: Wine Searcher, Bernstein Analysis

Exhibit 6
Champagne is sold at a considerable premium to its sparkling wine cousin

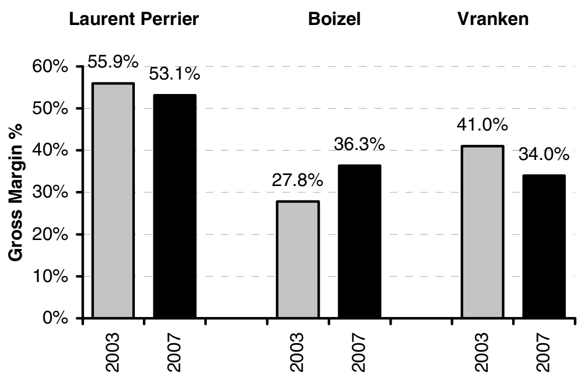


Source: AC Nielsen, Bernstein Analysis

Much of the benefit of robust pricing has been eaten up by increased grape costs and other input costs so that gross margins have been broadly stable (**Exhibit 7**). However, the increased price and steady volume growth had lead to substantial operating leverage and net operating margins have steadily expanded (**Exhibit 8**).

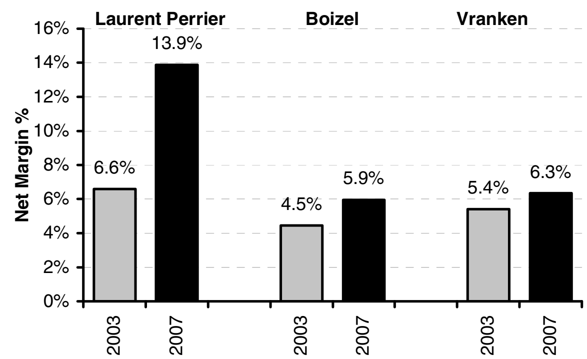
Small-Cap Strategy

Exhibit 7
Gross margins have been broadly stable…



Source: Company Reports, Capital IQ, Bernstein Analysis

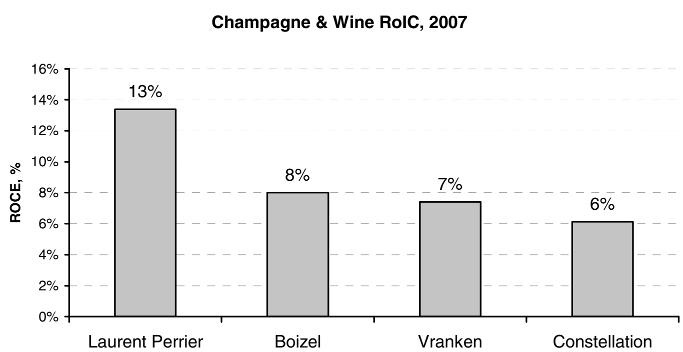
Exhibit 8
…but operating marhins have expanded



Source: Company Reports, Capital IQ, Bernstein Analysis

These strong net margins have given champagne a level of RoIC that is unusually high by the standards of the wine world; with premium players such as Laurent Perrier have much stronger RoIC's than global giants such as Constellation (**Exhibit 9**).

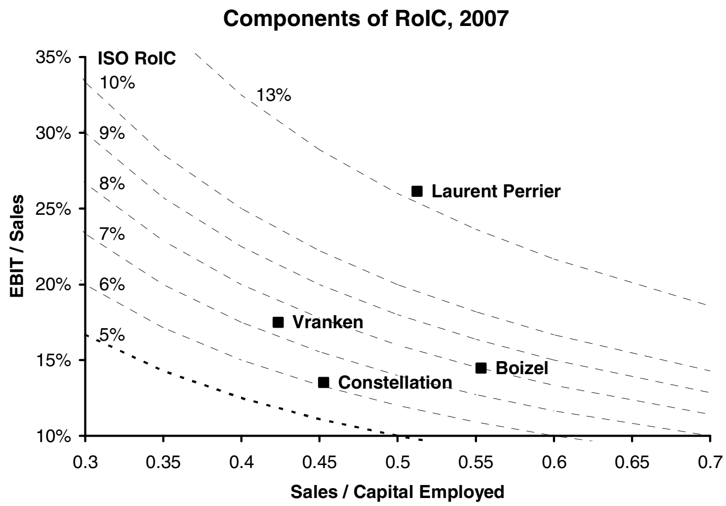
Exhibit 9
RoIC's are unusually high by the standards of the wine world, particularly for premium players



Source: Source: Company Reports, Capital IQ, Bernstein Analysis

Buying in grapes keeps invested capital low and asset turns reasonably high, so that high net margins translate into high RoIC's (**Exhibit 10**).

Exhibit 10
Components of RoIC



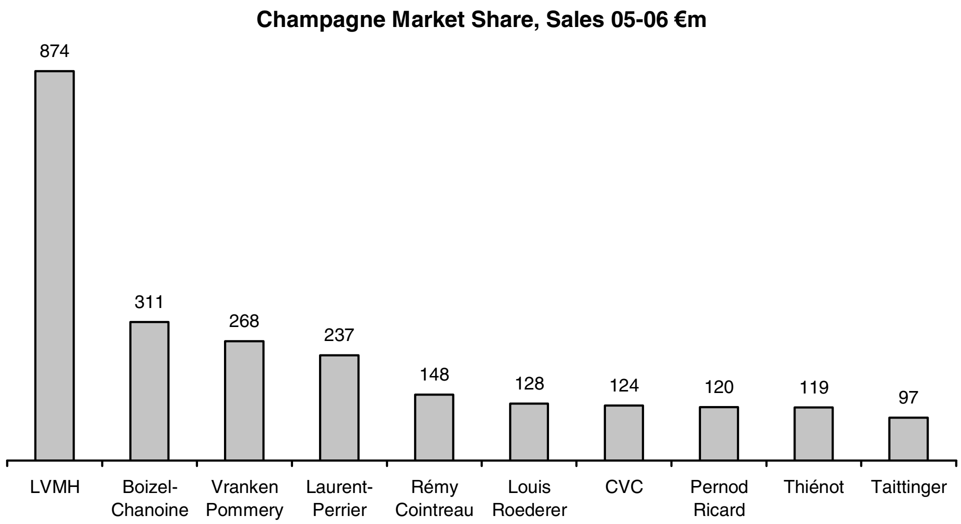
Source: Company Reports, Capital IQ, Bernstein Analysis

The industry is dominated by LVMH's Moët et Chandon

LVMH's champagne division Moët et Chandon is the clear leader in champagne, commanding >18% of the market in volumes terms, three times larger than the runner-up, Boizel. In value terms LVMH is even more dominant, making up 22% of the industry (**Exhibit 11**). As a very crude segmentation the leading champagne houses fall into four categories.

- Moët et Chandon is the big kahuna. As well as the eponymous brand, the group also produces Dom Pérignon and owns Veuve Clicquot, Mercier, Ruinart and Krug, giving it a range of brands which runs from lower mass market (Mercier) to ultra-premium (Krug)
- Tier 2 global branded, encompassing Pernod (Mumm and Perrier-Jouët) and Rémy Cointreau (Piper Heidsieck and Charles Heidsieck)
- 'Niche' premium. Roederer, Bollinger, Taittinger, Laurent Perrier (esp Rosé & Grand Siècle)
- Predominantly mass market. Vranken (Pommery), Boizel (Lanson), CVC (Nicholas Feuillate), Thiénot (Canard Duchêne). Though each of these houses has their own premium cuvées

Exhibit 11
LVMH is three times the size of its nearest competitor

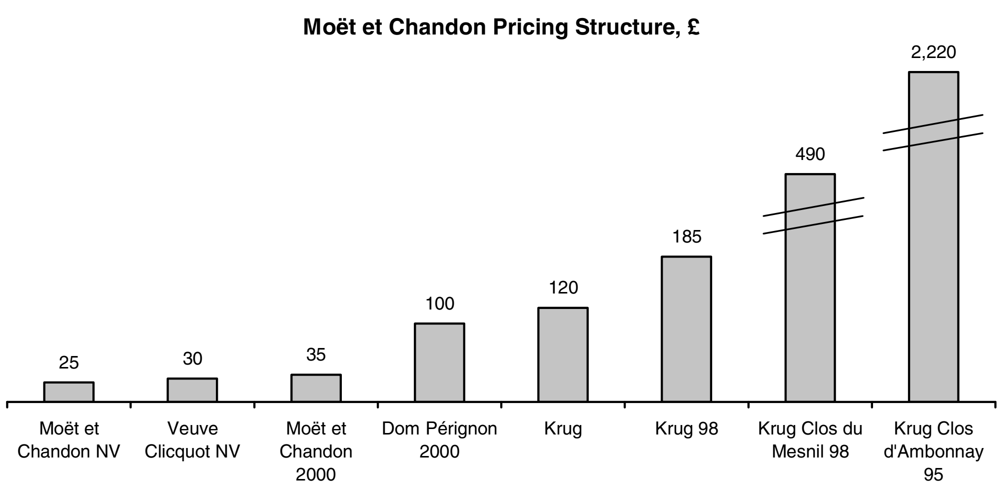


Source: Company reports, Bernstein analysis and estimates

Key drivers of profitability

One of the reasons for the success of the Moët et Chandon group is that it covers an extraordinary range of price points, from the core brand which is the global bench-mark to eye-wateringly expensive single vineyard champagnes from Krug, including the recently launched Clos D'Ambonnay at over £2,000 per bottle.

Exhibit 12
The Moët et Chandon group covers an extraordinary range of price points

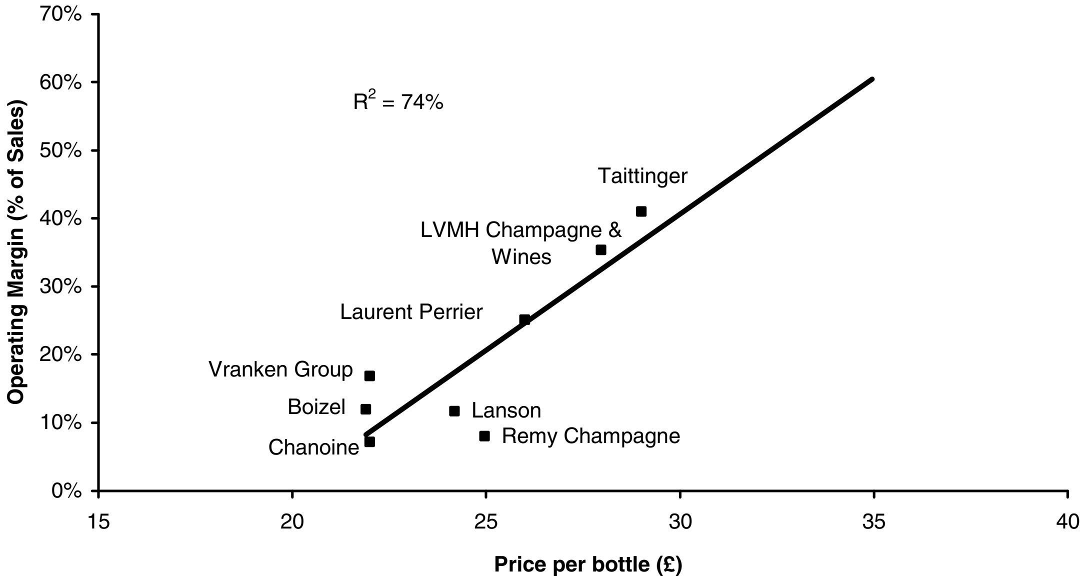


Source: Wine Searcher, Bernstein Analysis

Small-Cap Strategy

We have collected retail prices for non-vintage and generally available champagnes from Wine Searcher for the selected brands. We found strong correlation between operating margins and average retail price per bottle. This would indicate a similar operating cost structure between players in this category (**Exhibit 13**).

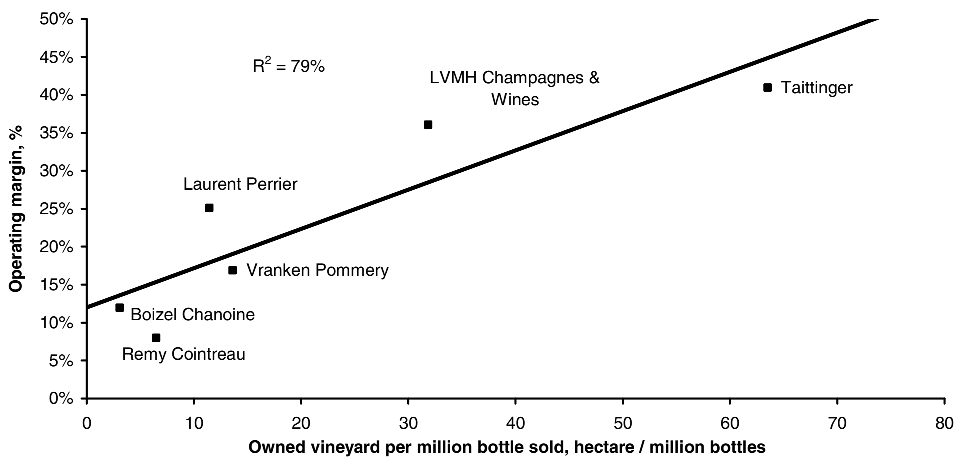
Exhibit 13
Operating Margin vs. Average Price – Champagnes



Source: Company reports, Wine Searcher, Bernstein analysis and estimates

A high degree of upstream-integration seems to correlate positively to operating margins (**Exhibit 14**).

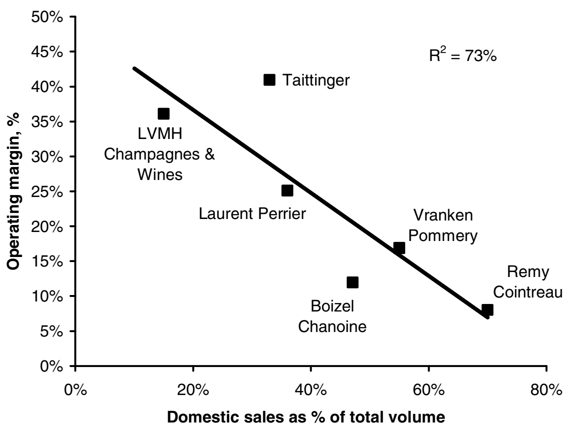
Exhibit 14
Operating Margin vs. level of Vertical Integration – Champagnes



Source: Company reports, Just-Drinks, Bernstein analysis and estimates

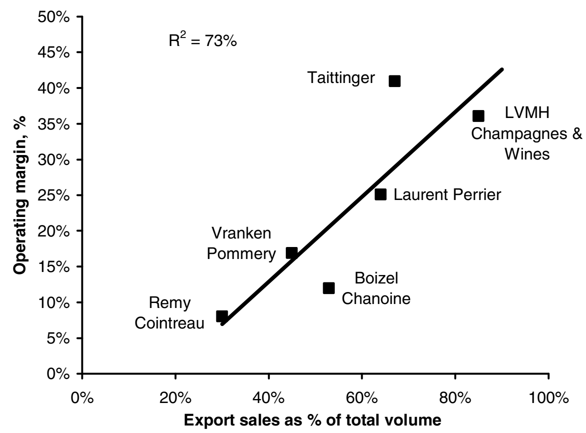
Strong international distribution allows LVMH to have materially higher market share abroad – e.g. >50% in the US, and c.80% in Asia – than in France, as international markets are both growing faster and less price competitive. This produces higher margins as champagne and wine sales in France are primarily channelled through supermarkets, which have significant purchasing power. Conversely, champagne and wine products are sold at full prices in international markets with a higher proportion of on-trade (**Exhibit 15** and **Exhibit 16**).

Exhibit 15
Operating Margin vs. % of Domestics Sales



Source: Company reports, Just-Drinks, Bernstein analysis and estimates

Exhibit 16
Operating Margin vs. % of Export Sales



Source: Company reports, Just-Drinks, Bernstein analysis and estimates

Production close to maximum

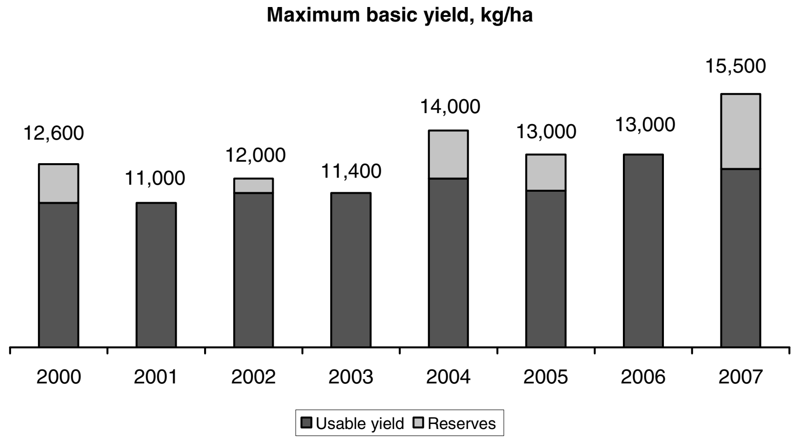
The boundary for the Champagne area was set in 1927. The theoretical maximum area that can be planted in Champagne is approx 35,000 ha (**Exhibit 17**). At the end of the seventies only 20,000-25,000ha was under vine. This has steadily increased to 30,000ha at the end of the nineties, and today stands at 32,7000ha.

Exhibit 17
The Champagne vineyards

Source: CIVC, Bernstein Analysis

As the area under vine approaches its theoretical maximum, pressure has grown to increase yields. Fortunately, this has coincided with a series of bumper harvests where warm weather ensured both quantity and quality. This gave the authorities the excuse to lift the permitted maximum yields (Exhibit 18). Furthermore, the maximum permitted yield in any one year has been raised from 13,000kg/ha to 15,500kg/ha.

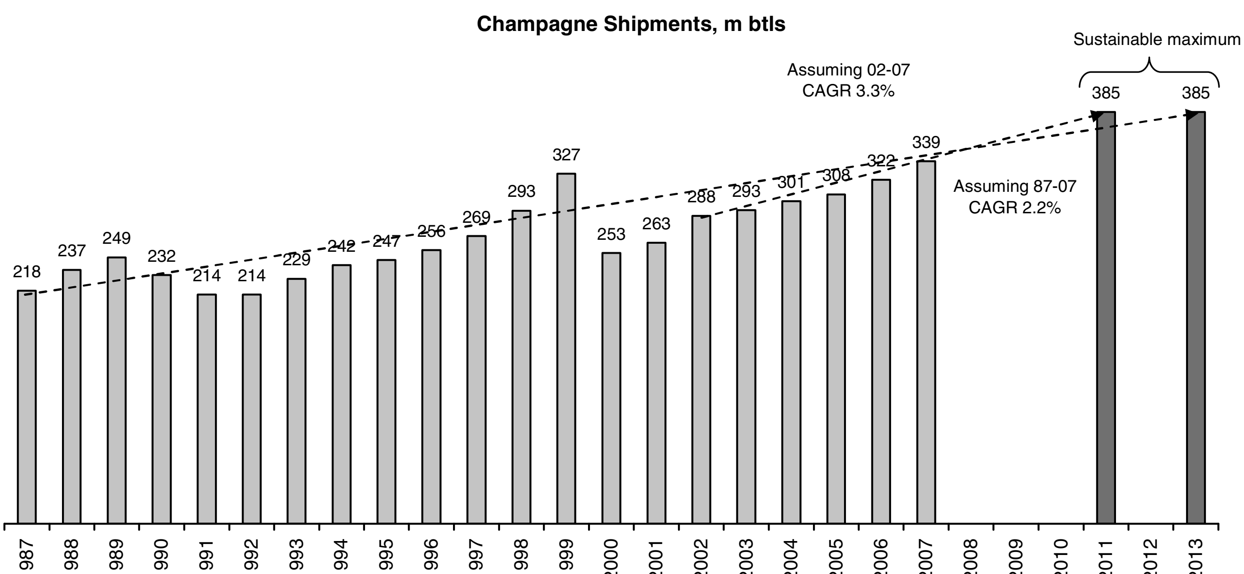
Exhibit 18
Maximum permitted yields have risen in recent years



Source: Company Reports CIVC, Bernstein Analysis

However, champagne is still facing medium-long term supply constraints. Assuming that all the 35,000ha is planted at an average yield of around 13,000kg/ha, this equates to approx 385m 75cl bottles per annum. If one uses 2007 shipments as a base (which as we shall see may be optimistic), then shipments would reach their sustainable maximum in 2011-2013 (**Exhibit 19**). Assuming 14,000kg/ha average yield would postpone the date to 2014-16.

Exhibit 19
If one uses 2007 shipments as a base, shipments would reach their sustainable maximum in 2011-2013



Source: Company Reports CIVC, Bernstein Analysis

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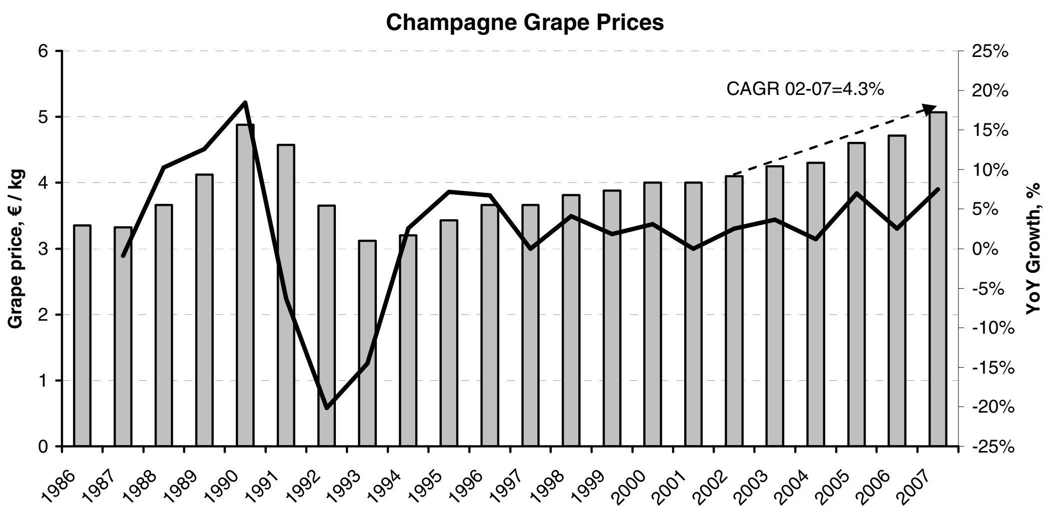
In the late eighties, contract prices between growers and the champagne houses were liberalized, leading to very significant increases. However, this coincided with the recession of 1990/91 and volume declined sharply, and champagne prices fell back to approximately the same level that they had been at in 1986. (**Exhibit 20**). The prospects of increasingly tight supply have lead to a sharp up-tick in grape prices, with prices increasing an average of 4.3% from 2002 to 2007 and 7.5% in 2007 alone. The supply situation has been exacerbated by growers holding back grapes to make and bottle their own champagne which is then sold unlabelled to larger producers who put their own label on the bottle – the so-called *vins sur lattes.* This practice has been banned by the association of large houses but not by the growers and co-operatives.

Exhibit 20
Grape price have risen steadily since the nadir of 1994



Source: Company Reports CIVC, Bernstein Analysis

An expansion of the vineyard area is planned but will not bring new supply to the market before 2020 at the earliest

In order to address the long-term supply issues, a plan has been drawn up to extend the area where it is permissible to grow grapes for champagne. A committee of experts took four years to draw up a list of 40 new villages to be added to the existing 319 villages within whose boundaries champagne can be produced (and two villages to be removed). This report has been approved by the national body governing appellations (INAO) and now goes to the governmental Conseil d'État for approval, most likely in early 2009.

Assuming the council agrees, this is when the hard work begins – the revision of the so-called "*zone parcellaire"* – that is, within the new villages, which plots of land are eligible for approval. This could well be very litigious because of the money at stake. There is an enormous difference between value of normal agricultural land (approx €5,000/ha) and approved delimited land (€1,000,000) i.e. a factor of 200x. Industry estimates are that this process could take until 2015.

Even after new areas are agreed and planted, it will take a minimum 3 years until the vines are sufficiently mature to produce grapes. Then the wine will have to mature for at least 15 months. So it will probably be at least 2020 until the first bottles are opened made from grapes in the new areas.

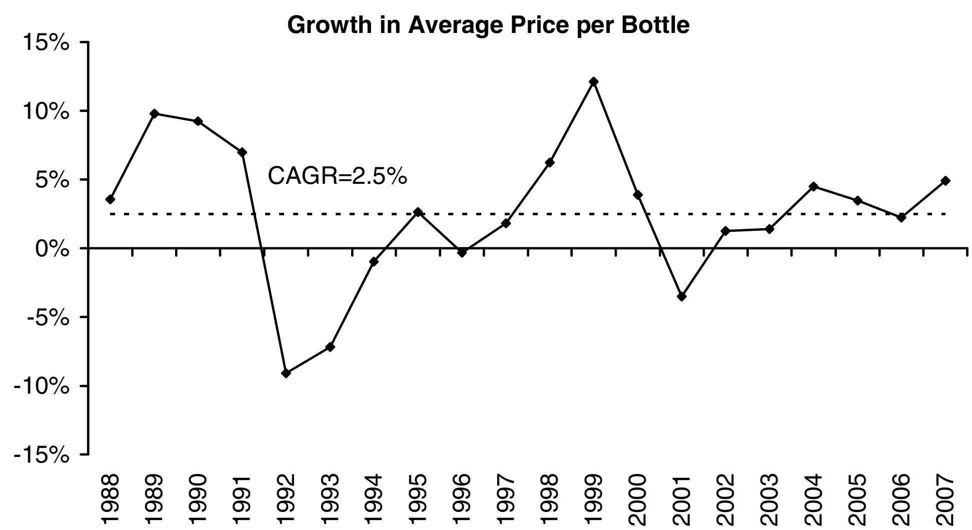
It is also uncertain how much capacity will be added. The number of villages will rise by 12% but industry estimates of the increase in surface area range up to a 30% rise.

Net-net: rising demand and significant supply constraints leading to robust value growth. At the start of this year, the outlook for champagne was exceptionally rosy – or should that be rosé?

Near-term crisis, as aggressive pricing takes the fizz out of volume growth

2008 has seen a remarkable turnaround in the fortunes of the champagne industry. During the course of 2007, pricing accelerated (**Exhibit 21**), partly reflecting approx a 7.5% increase in grape costs. At the same time the $ was weak against the Euro. But global volume growth remained robust; so the major house pushed through 5%-10% price increases.

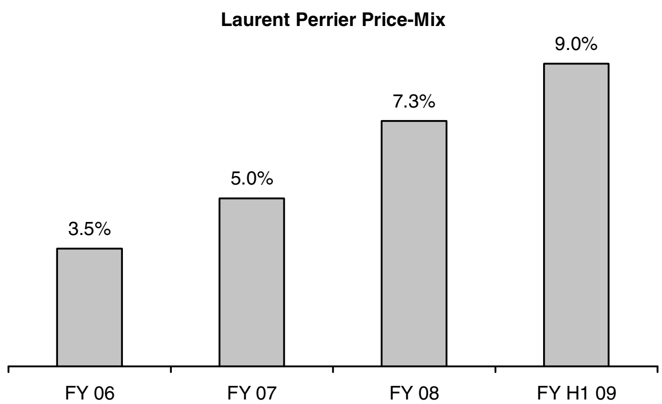
Exhibit 21
Industry pricing accelerated in 2007….



Source: Company Reports CIVC, Bernstein Analysis

Laurent Perrier was a prime example of this where price-mix has accelerated from 3.5% in FY06 to 9% in H1 FY09 i.e. Q2 & Q3 of 2008 (**Exhibit 22**).

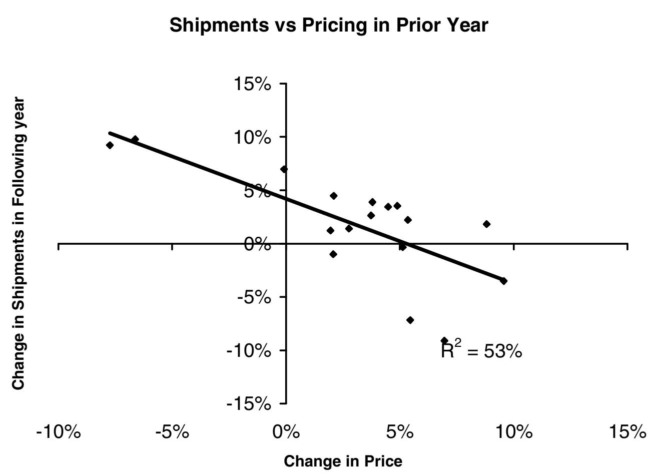
Exhibit 22
….as champagne houses sharply increased prices, notably Laurent Perrier



Source: Company Reports, Bernstein Analysis

However, in so doing, the champagne houses appear to be ignoring the lessons of history, with a very strong correlation between the growth in shipments and the increase in prices in the prior year (**Exhibit 23**).

Exhibit 23
Growth in shipments is strongly correlated with pricing in the prior year



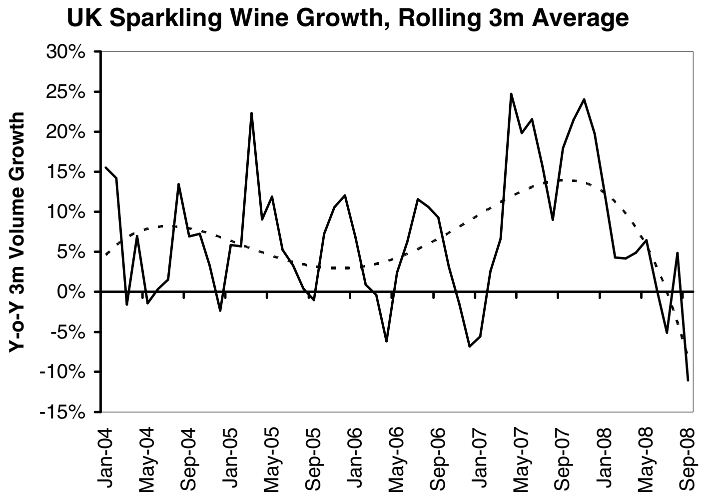
Source: Company Reports CIVC, Bernstein Analysis

Indeed, the champagne industry seems to have an un-erring ability to jack up prices just as the world is about to enter an economic slowdown (e.g. 1989/1990, 1999/2000) and then suffer the consequences in a sharp fall in volume. Once again, consumers are voting with their wallets.

HMRC data on shipments of sparkling wine show a rapid deceleration over the course of 2008 (**Exhibit 24**), in Q3 08, the sector declined 10% in volume terms vs Q3 07.

Exhibit 24

Sales of UK sparkling wine appear to have entered sharp decline

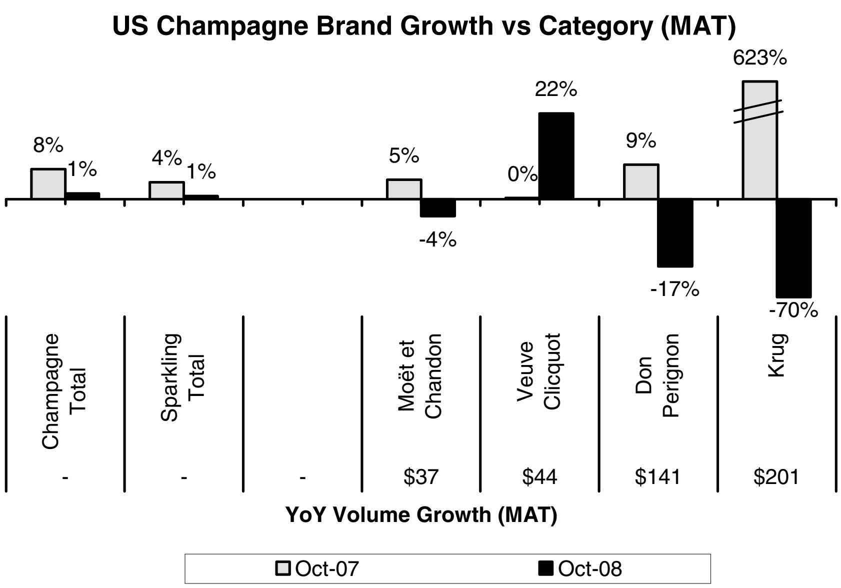


Source: HMRC, Bernstein Analysis

In the US, ACNielsen data indicates a similar negative trend (**Exhibit 25**) with a significant slowdown in the latest rolling 12-month period over the year ago numbers.

Exhibit 25

Total champagne has declined substantially YoY



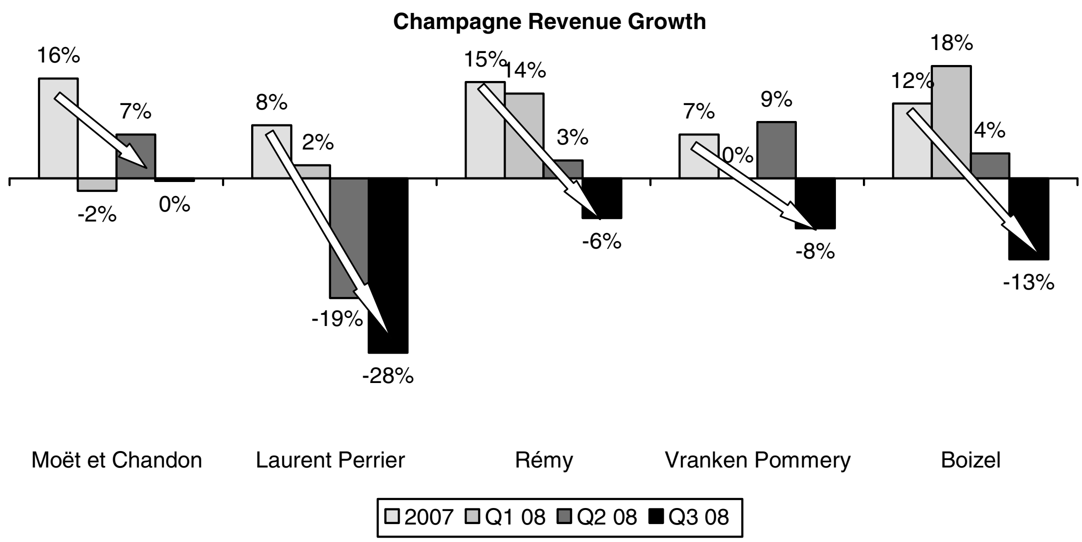
Source: ACNielsen, Bernstein Analysis

This worrying off trade data from Nielsen is backed up by anecdotal evidence from champagne importers who report that restaurant sales dried up in October as the restaurants horded cash and ran down stocks. It is perhaps more of a comment on the state of the London economy but the author recently noticed a poster for a promotion offering Lanson champagne for £20/bottle in a London pub.

Elsewhere in the world of luxury and fine liquor, China appears to holding up well so far. But although this market is very important for cognac, it is relatively insignificant in terms of champagne

Last but not least, we can clearly see the bubble burst in the revenue results of the champagne houses, who have universally reported sharp declines in Q3 (**Exhibit 26**). The only partial exception to this was Moët et Chandon who reported flat% revenue growth but sharp underlying volume decline, offset by strong pricing. It is also interesting to note that the house which has been most aggressive on price (Laurent Perrier) is also the house that has seen the biggest fall in revenue

Exhibit 26
All the major Champagne houses have seen steep falls in revenue growth and most are in decline



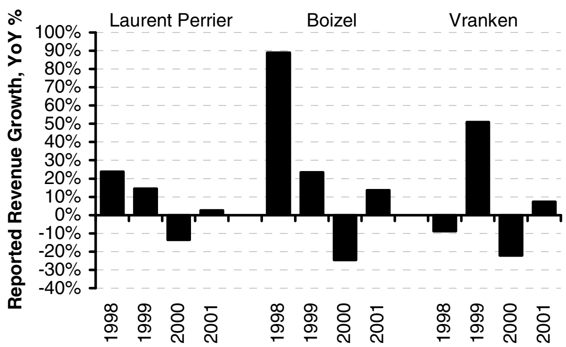
Source: Company Reports, Bernstein Analysis

Outlook for 2009 and beyond

For the moment, the champagne industry appears to be in denial – in public at least – with cries of "*Crise? Quelle crise*?" echoing around Rheims and Épernay. Indeed, some industry actors are saying that they intend to keep on raising prices to compensate for the lost volumes and to "continue the repositioning" of their brands. This to us seems to be ignoring the lessons of history.

In 2000, admittedly an exceptional set of circumstances, revenue fell in the order of 15-25% before recovering to low single-digits in 2001 (**Exhibit 27**).

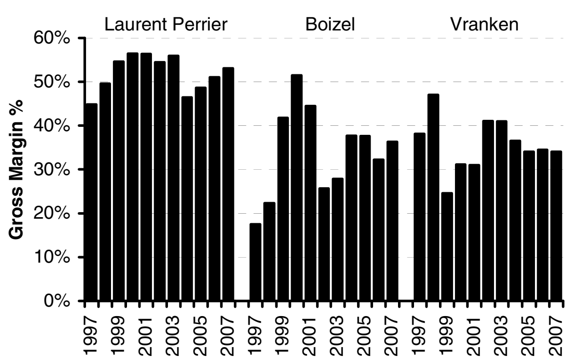
Exhibit 27
Revenue growth in 98,99, 00, 01



Source: Company reports, Capital IQ, Bernstein analysis and estimates

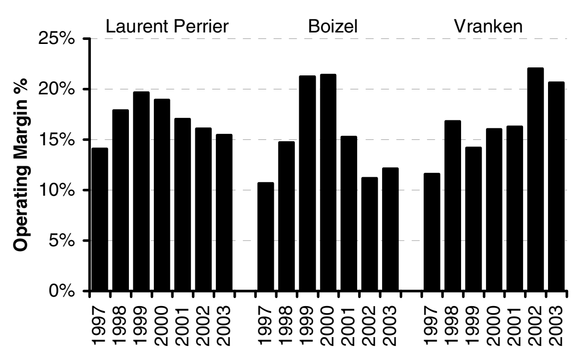
Gross margins remained broadly stable (**Exhibit 28**), indicating that the fall in average price that we saw in **Exhibit 22** was due to mix - most likely because it was higher value export markets that were grossly over-stocked. However, net margins tumbled due to lower operating leverage (**Exhibit 29**).

Exhibit 28
Gross Margins over Time (98-07)



Source: Company reports, Capital IQ, Bernstein analysis and estimates

Exhibit 29
Operating margins were stable in 97-03



Source: Company reports, Capital IQ, Bernstein analysis and estimates

Small-Cap Strategy

Our best guess is that 2008/2009 will look more like 1990/1991 than 1999/2000. The sharp fall in demand will likely continue into 2009. Despite the protestations of some houses, we also expect some unwinding of the price increases that have been pushed through perhaps in the form of off-invoice rebates, or currency adjustments in order to preserve face. Although, a strong $ should take the pressure off the US market without the houses having to take a big hit in € price.

Pressure on gross margins will be reflected in negotiations on grape prices which will at best be flat next year and may fall depending on the intensity of the pricing pressure. And net margins will fall due to reduced operating leverage.

In the longer term, we expect that champagne will recover, as it always has. The product remains very attractive (if somewhat over-priced) and the cachet unrivalled. Ultimately, the fizz will return but it may take three-to-five years.

Thumb-nail sketches of small caps

Exhibit 30
Laurent Perrier financials

Laurent Perrier (€m)	FY04	FY05	FY06	FY07	FY08
Revenue	**166.10**	**191.00**	**208.10**	**236.65**	**249.43**
COGS	73.20	102.30	106.90	115.95	117.09
Gross Income	92.9	88.7	101.2	120.7	132.34
Operating Expenses	67.3	53.7	59.3	65.44	67.17
EBIT	**25.6**	**35.0**	**41.9**	**56.66**	**65.81**
Interest Expense				9.95	12.24
PBT	25.6	35	41.9	46.71	53.57
Tax	14.6	18.7	19.4	16.36	18.83
NI	**11**	**16.3**	**22.5**	**30.35**	**34.74**
EPS (Basic)	**1.89**	**2.82**	**3.87**	**5.11**	**5.88**
EPS (Diluted)	**1.89**	**2.8**	**3.81**	**5.06**	**5.81**

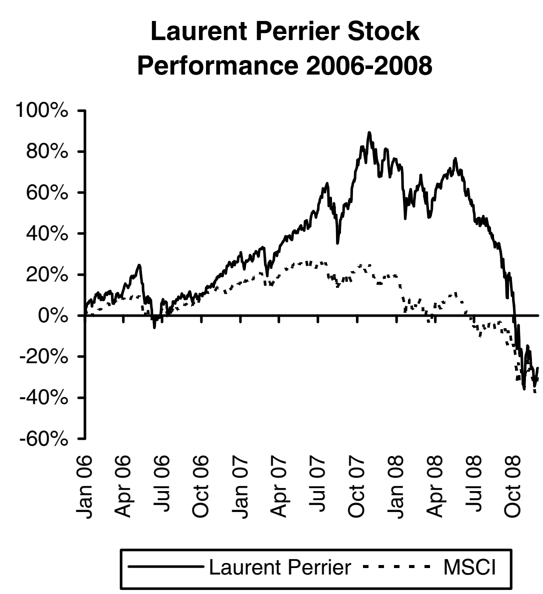
Gross Margin	56%	46%	49%	51%	53%
Operating Margin	15%	18%	20%	24%	26%
Net Margin	7%	9%	11%	13%	14%

Market Cap (€m)	324.05
Revenue (03-07 CAGR)	11%
EBIT (03-07 CAGR)	27%
Net Income (03-07 CAGR)	33%
Closing P/E (TTM)	11.1x

Note: Financial year-end is June 30

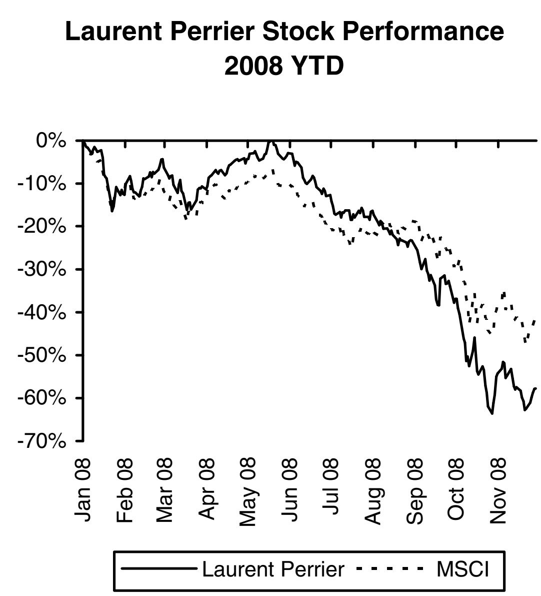
Source: Company Reports, CapitalIQ, Bernstein Analysis

Exhibit 31
Laurent Perrier Stock Performance (2006-2008)



Source: Bloomberg, Bernstein Analysis

Exhibit 32
Laurent Perrier Stock Performance YTD



Source: Bloomberg, Bernstein Analysis

Exhibit 33
Boizel Chanoine financials

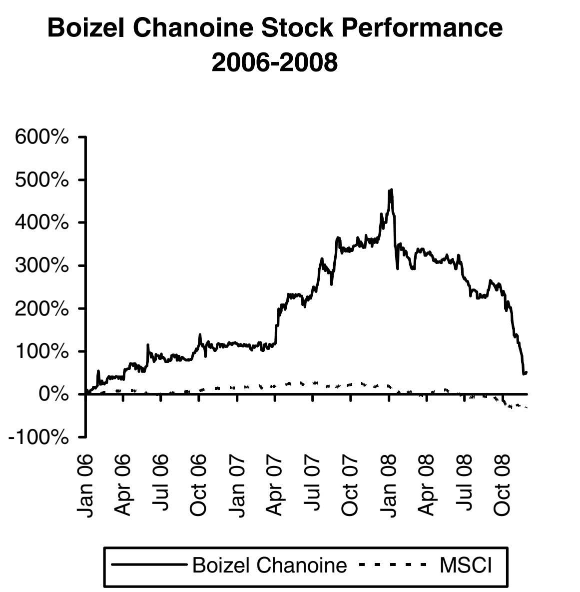
Boizel Chanoine	CY03	CY04	CY05	CY06	CY07
Revenue	**88.00**	**97.10**	**311.30**	**359.4**	**327.3**
COGS	54.90	60.60	211.10	228.9	195.1
Gross Income	33.1	36.5	100.2	130.5	132.2
Operating Expenses	20.4	21.6	64	78.5	76.4
EBIT	**12.7**	**14.9**	**36.2**	**52**	**55.8**
Interest Expense	2.5	2.7	15.1	19.5	19.2
PBT	10.2	12.2	21.1	32.5	36.6
Tax	3.6	4.3	7.4	11.1	13.4
NI	**6.6**	**7.9**	**13.7**	**21.4**	**23.2**
EPS	**1.46**	**1.76**	**3.24**	**4.66**	**5.06**
EPS	**1.46**	**1.76**	**3.02**	**4.26**	**4.62**

Gross Margin	38%	38%	32%	36%	40%
Operating Margin	14%	15%	12%	14%	17%
Net Margin	8%	8%	4%	6%	7%

Market Cap (€m)	137.75
Revenue (03-07 CAGR)	39%
EBIT (03-07 CAGR)	45%
Net Income (03-07 CAGR)	37%
Closing P/E (TTM)	6.67x

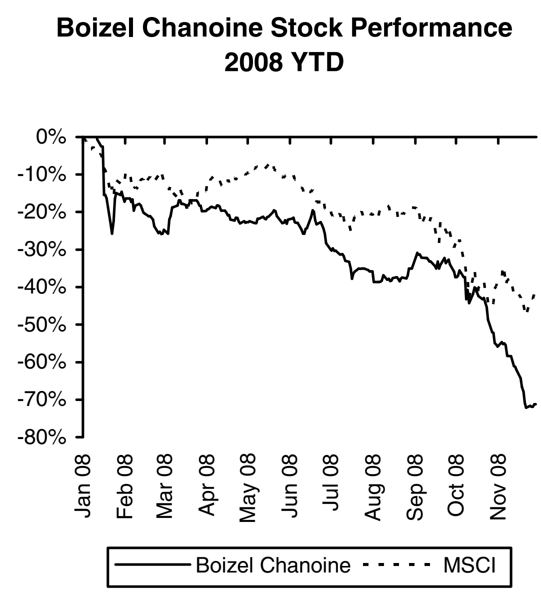
Source: Company Reports, CapitalIQ, Bernstein Analysis

Exhibit 34
Boizel Chanoine Stock Performance (2006-2008)



Source: Bloomberg, Bernstein Analysis

Exhibit 35
Boizel Chanoine Stock Performance YTD



Source: Bloomberg, Bernstein Analysis

Small-Cap Strategy

Exhibit 36
Vranken Pommery financials

Vranken-Pommery	2003	2004	2005	2006	2007
Revenue	**227.5**	**250.5**	**268.3**	**286.8**	**289.8**
COGS	144.6	165.3	175.8	189.4	187.7
Gross Income	82.9	85.2	92.5	97.4	102.1
Operating Expenses	44.9	45.1	47.4	47.3	48.2
EBIT	**38.0**	**40.1**	**45.1**	**50.1**	**53.9**
Interest Expense	16.2	16	18.3	23.6	27.4
FX gains (losses)	-2.7	-0.2	1.1	1.2	1.8
Other Charges	-0.3	-2.5	-3.3	-0.3	-0.6
PBT	18.8	21.4	24.6	27.4	27.7
Tax	6.9	6.4	8.2	8.9	9.2
Minority Interests	-1.8	-0.3	-0.1	-0.3	-0.2
NI	**10.1**	**14.7**	**16.3**	**18.2**	**18.3**
EPS	**2.19**	**3.24**	**3.13**	**3.49**	**3.51**
EPS	**2.19**	**3.24**	**3.13**	**3.49**	**3.51**

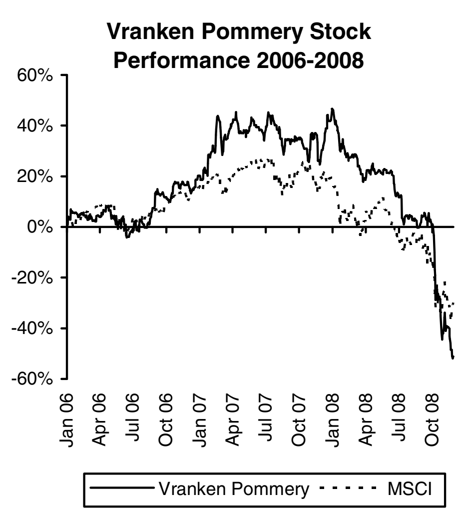
Gross Margin	36%	34%	34%	34%	35%
Operating Margin	17%	16%	17%	17%	19%

Market Cap (€m)	107.96
Revenue (03-07 CAGR)	6%
EBIT (03-07 CAGR)	9%
Net Income (03-07 CAGR)	16%
Closing P/E (TTM)	5.83x

Note: Financial year-end is June 30

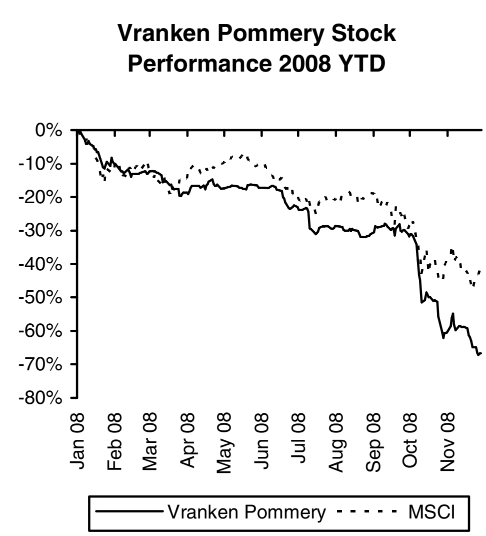
Source: Company Reports, CapitalIQ, Bernstein Analysis

Exhibit 37
Vranken Pommery Stock Performance (2006-2008)



Source: Bloomberg, Bernstein Analysis

Exhibit 38
Vranken Pommery Stock Performance YTD



Source: Bloomberg, Bernstein Analysis

Small-Cap Strategy

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