

MARAN CAPITAL MANAGEMENT



Unconventional Investment Management

Targeting Unconventional

- That Is, Superior -

Results



Scheid Vineyards (SVIN) Presentation

January 19, 2018



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MARAN CAPITAL MANAGEMENT

We are:



Value-Driven

“

All intelligent investing is value investing.

- Charlie Munger

Concentrated

“

Diversification is protection against ignorance. It makes very little sense to those who know what they are doing.

- Warren Buffett

Small

(and committed to stay that way)

“

It's a huge structural advantage not to have a lot of money.

- Warren Buffett

Patient

(with like-minded partners)

“

Having clients with a long-term orientation is crucial.
Nothing else is as important to the success of an investment
firm.

- Seth Klarman

An aerial, high-angle photograph of a wide, multi-lane city street, likely in New York City, showing heavy traffic. The street is filled with cars, taxis, and trucks, including a prominent blue Hanjin truck. Tall brick buildings line both sides of the street, and the scene is bathed in a warm, golden light, suggesting late afternoon or early morning. A semi-transparent dark box is overlaid on the right side of the image, containing white text.

Most
Investors
Focus on
the Same
Large
Stocks

We Focus on What We Think Are
Inefficient Corners of the Market –
Where Others Can't or Don't Look



Our Hunting Ground: Small/Micro Cap Stocks and Special Situations

“

Before figuring out how you will win the game, figure out
which game to play.

- Michael Mauboussin

- ✓ Spin-offs, M&A transactions, broken deals, divestitures, asset sales, IPOs/broken IPOs, rights offerings
- ✓ Change in capital structure, management, ownership, shareholder composition, or corporate governance
- ✓ Distress, bankruptcy, post-emergence, restructuring, or reorganization
- ✓ “Dark” or unregistered securities
- ✓ Change in industry structure or corporate strategy
- ✓ Smaller cap stocks that are uncovered, ignored, or unloved
- ✓ Where others can’t look – institutional restrictions (explicit or implicit); forced sellers



We eat our own cooking



Scheid Vineyards (SVIN)



It is better to be
vaguely right than
precisely wrong.

A good thesis should
be so concise it fits
on a cocktail napkin.

Land:	\$100mm
Winery:	\$75mm
Inventory:	\$50mm
“Hidden” Assets:	\$25mm
Debt:	(\$75mm)
<hr/>	
Fair Value:	\$175mm
Price:	\$35mm

1. Overview
2. Asset Approach
3. Operating Approach
4. Industry / Macro
5. Summary / Conclusion

1. Overview

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Vertically Integrated Wine Company



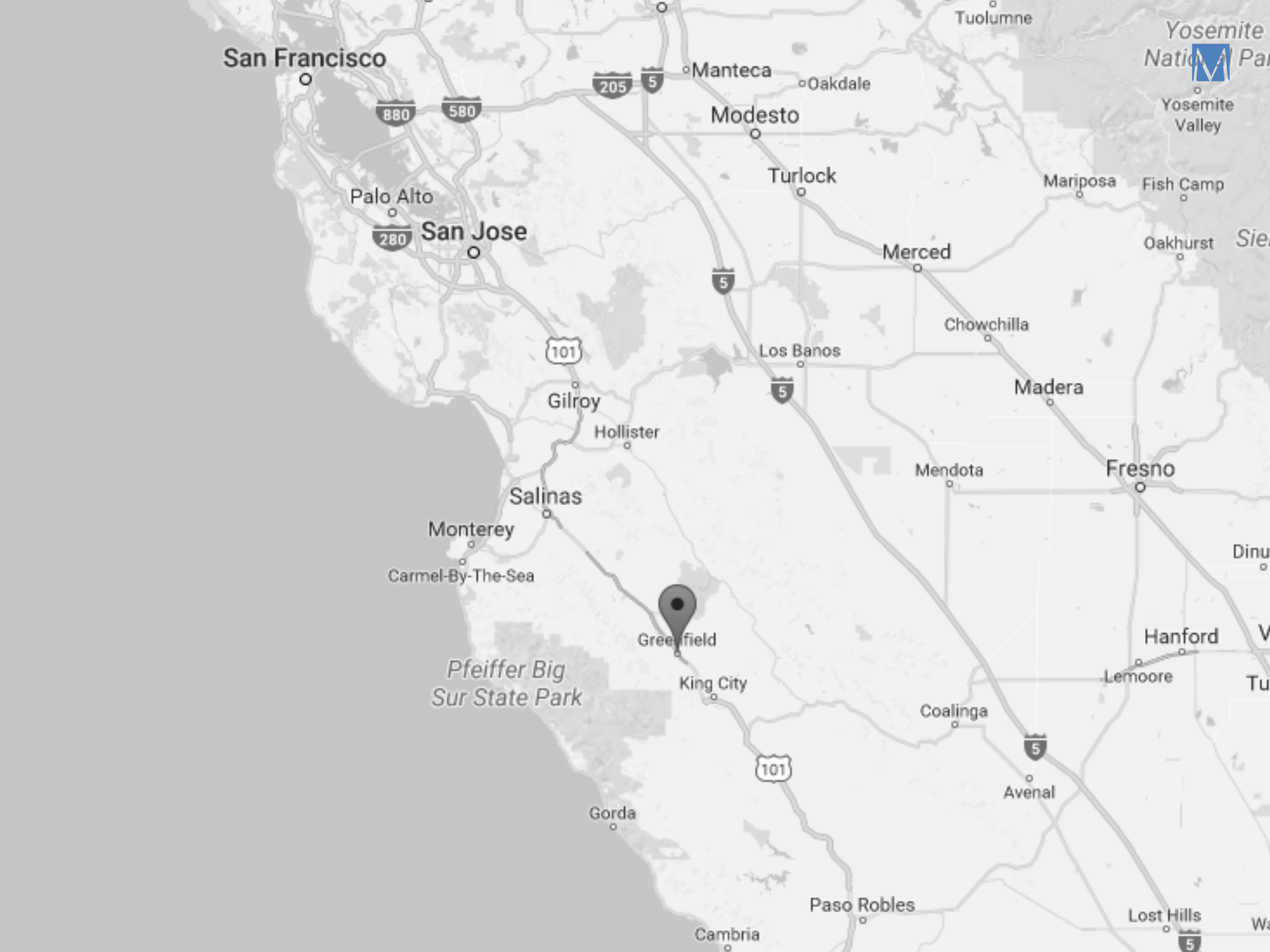
- ~4k acres of owned/leased vineyards



- ~30k ton, fairly new, state of the art winery



- Rapidly-growing cased goods business



San Francisco

Palo Alto

San Jose

Manteca

Modesto

Turlock

Merced

101

Gilroy

Hollister

Salinas

Monterey

Carmel-By-The-Sea

Greenfield

King City

Pfeiffer Big Sur State Park

Gorda

Cambria

Paso Robles

101

Coalinga

Avenal

Chowchilla

Madera

Mendota

Fresno

Hanford

Lemoore

Mariposa

Fish Camp

Oakhurst

Oakdale

Tuolumne

Yosemite National Park

Yosemite Valley

Sie

Dinu

V

Tu

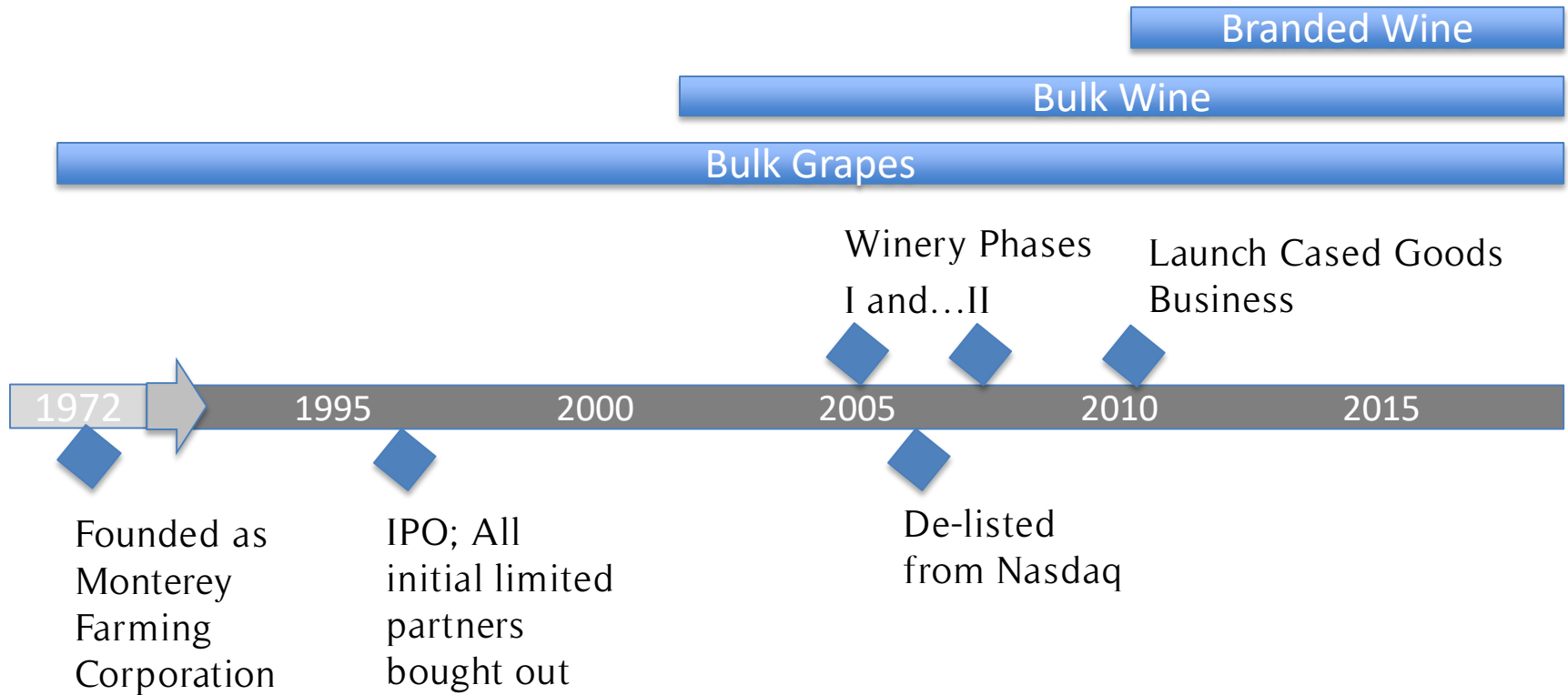
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THE VINEYARDS & REGIONS of SCHEID VINEYARDS

MONTEREY COUNTY



History of Scheid



The Scheid “Gang of Four”



Heidi Scheid
EVP
- Joined 1992

Scott Scheid
CEO
- Joined 1986



Kurt Gollnick
COO
- Joined 1988

Al Scheid
Founder and Chairman
- Founded 1972

➡ Management and BOD Owns ~55% of the Company

1. Overview

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- Land – Owned & Leased Vineyards

- 1892 Owned Vineyard Acres
- 1842 Leased Vineyard Acres
- 122 Owned Acres with Residential Development Potential



- Winery

- 30k ton (2mm case equivalent) Winery
- Built in 2005/2007
- Phase III permitted



- Inventory

- \$40mm at cost



SCHEID VINEYARDS WINERY

DEDICATED OCTOBER 7, 2005

Scheid

*"Quality is never
an accident.
It is always the result
of intelligent effort."*

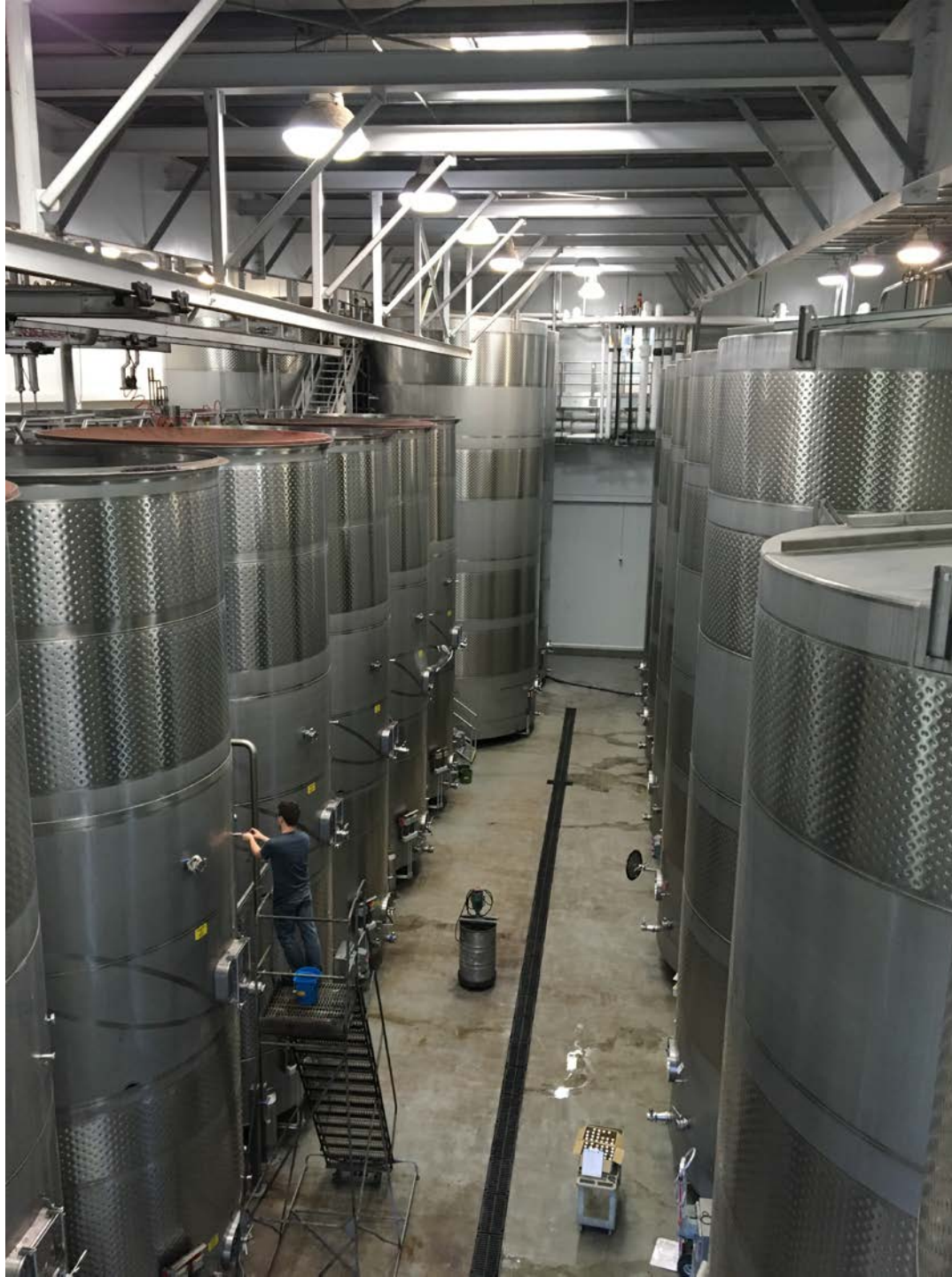
- John Ruskin, 1819 - 1900



VINEYARDS

PREMIER WINE GRAPES SINCE 1972







Various Approaches to Valuing the Assets



	Current Estimated Fair Value			2012/13 Appraisal Value	Tax Assessment Value	Tangible Book Value
	Low	Base	High			
Owned Acres	1,892	1,892	1,892	1,892	1,892	
\$ Per Acre	40,000	50,000	60,000	34,355	14,271	
Vineyard Land Value	75,680,000	94,600,000	113,520,000	65,000,000	27,000,000	
Inventory	40,000,000	50,000,000	60,000,000	40,000,000	40,000,000	
Winery (at cost)	80,000,000	80,000,000	80,000,000	80,000,000	80,000,000	
Residential Potential	2,000,000	10,000,000	12,000,000	2,000,000	1,000,000	
Leasehold Improvements	-	27,000,000	46,000,000	-	-	
Debt	(75,000,000)	(75,000,000)	(75,000,000)	(75,000,000)	(75,000,000)	
Total Equity Value	122,680,000	186,600,000	236,520,000	112,000,000	73,000,000	49,700,000
Per Share	139	211	268	127	83	56



STOCKHOLDERS' EQUITY:

Preferred stock, \$.001 par value; 2,000,000 shares authorized; no shares issued and outstanding	
Common stock,	
Class A, \$.001 par value; 4,000,000 shares authorized; 735,117 shares outstanding at February 28, 2017 and February 29, 2016	
Class B, \$.001 par value; 2,000,000 shares authorized; 147,469 shares issued and outstanding at February 28, 2017 and February 29, 2016	1
Additional paid-in capital	22,435
Retained earnings	39,005
Less: treasury stock; 466,539 Class A shares at cost	(11,720)
Total stockholders' equity	<u>49,721</u>
	<u>\$ 145,203</u>

...Greatly understates the current value of the land



5. PROPERTY, PLANT AND EQUIPMENT, net

Property, plant and equipment consists of the following:

	<u>February 28, 2017</u>		<u>February 29, 2016</u>
	(in thousands)		
Vineyard land and buildings	\$ 12,141		\$ 12,146
Vineyard improvements	51,668		48,547
Vineyard improvements under development	2,656		6,321
Vineyard machinery and equipment	11,051		10,705
Equipment under capital lease	1,785		1,236
Winery buildings	46,044		45,950
Winery machinery and equipment	31,148		30,237
Construction in progress	290		623
Tasting room building and equipment	1,789		755
Office furniture and equipment	2,833		2,129
Leasehold improvements	452		445
Total	<u>161,857</u>		<u>159,094</u>
Accumulated depreciation and amortization	(73,931)		(68,969)
Accumulated depreciation – vineyard and winery equipment under capital lease	(290)		(149)
Property, plant and equipment, net	<u>\$ 87,636</u>		<u>\$ 89,976</u>

\$6k/acre

Due Diligence: Monterey County GIS Mapping & Data Website



Details

PERMNUM
2700898

PERMITTEE
SCHEID VINEYARDS INCORPORATED

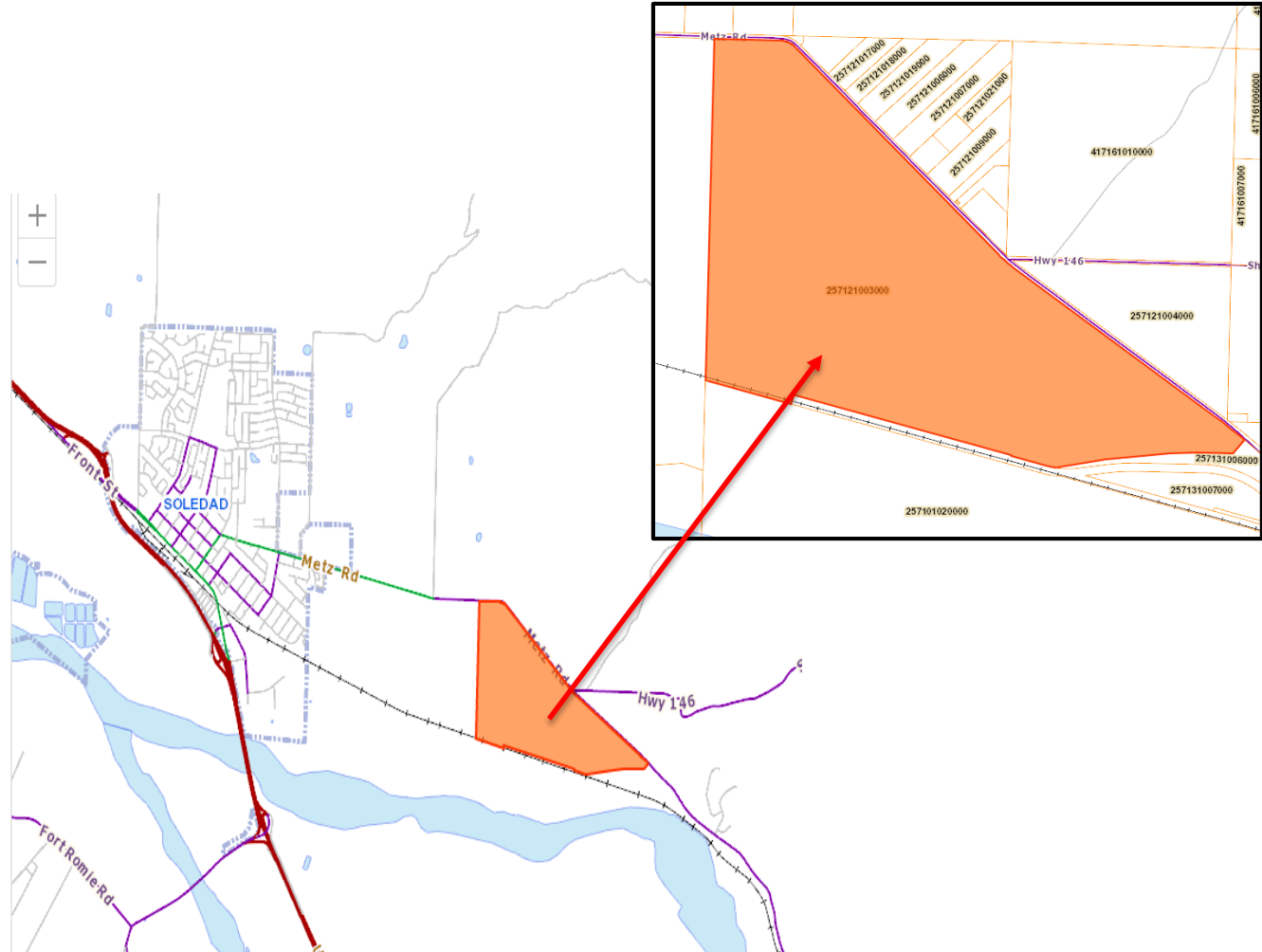
RANCHNAME
RIVER VIEW VINEYARD RCH. R1

SITEID
R1

RMUSE
y

CROPLIST
GRAPE, WINE, Rotational Crops

ACRES
376.081018595



Due Diligence: Monterey County Assessor's Office Database



Roll Values	
Land	2605943
Structure	1674757
Fixtures	0
Growing	4143870
Total Land and Improvements	8424570

Ownership	
SCHEID VINEYARDS CALIFORNIA INC	100.000000%

Assessed Value Summary...Also Understates Current Market Value



Per MCM Research (Assessors Office, GIS Map Data, etc)

	Acres	Assessment value	Assessed Value per Acre	Assessment Number
Owned Vineyards				
Riverview	372.27	8,420,000	22,618	257121003000
Viento	228.6	3,400,000	14,873	221061002000
Baja Viento	175	2,200,000	12,571	221011031000
Elm				
San Lucas	552	8,577,000	15,538	237091002000
San Lucas Section 4	69.3	1,367,000	19,726	237091001000
San Lucas Section 1	63.8	1,234,000	19,342	237091004000
Total Owned San Lucas	685.1	11,178,000	16,316	
San Lucas Recent Land Deal				
Isabelle Development				
Hacienda	147	76,716,000		221081009000
Total Owned		25,198,000	16,950	

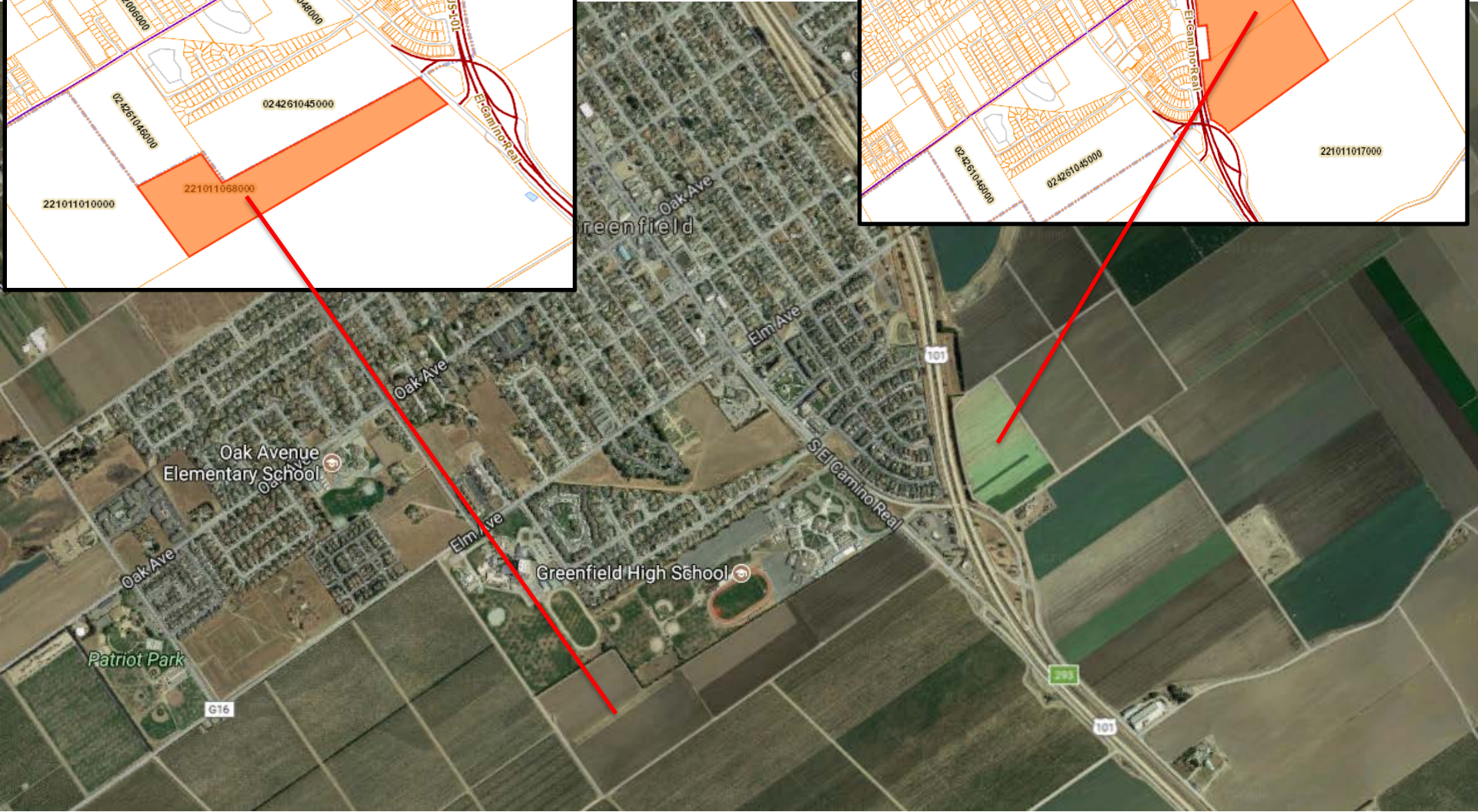
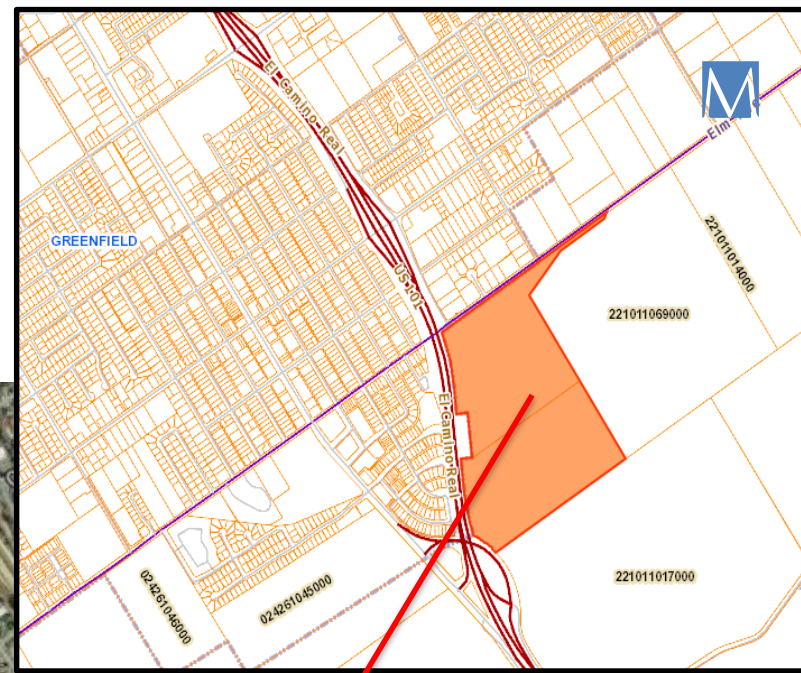
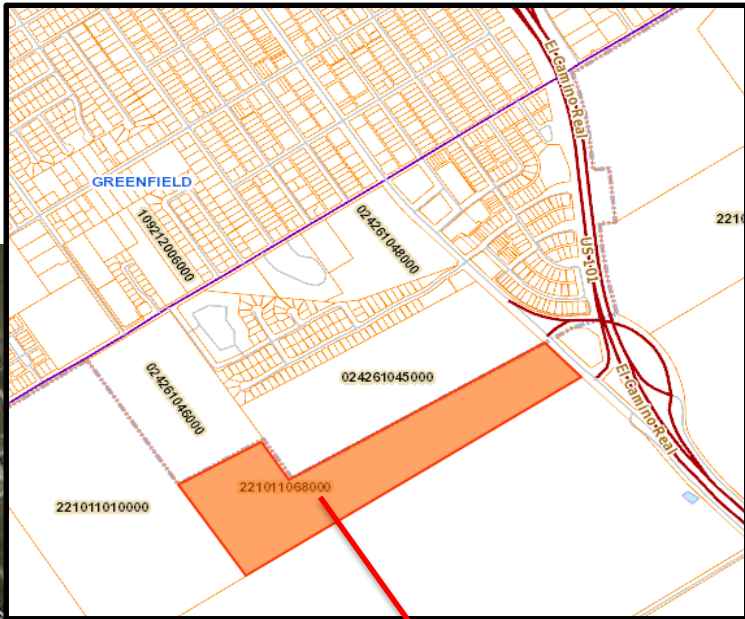
2012/2013 Company Appraisal – Getting Closer, But Still Five Years Stale



	Per Appraiser		
	Acres	Appraisal Overall	Appraisal per Acre
Owned Vineyards			
Riverview	372	14,000,000	37,634
Viento	231	9,800,000	42,424
Baja Viento	175	6,200,000	35,429
Elm	60	1,600,000	26,667
San Lucas			
San Lucas Section 4			
San Lucas Section 1			
Total Owned San Lucas	707	24,000,000	33,946
San Lucas Recent Land Deal	200	4,300,000	21,500
Isabelle Development		650,000	
Hacienda	147	4,410,000	30,000
Total Owned	1892	64,960,000	34,334

Appraisers Indicate SVIN's Land is worth \$40k - \$60k per Acre Today

“Hidden Value” - Residential Potential



“Hidden Value” – Leasehold Improvements



- 1842 Leased Acres under 24 – 30 year leases
- Options to renew of 10 – 20 years
- 15 – 30 years remaining on leases
- Scheid estimated in the mid-2000s that it cost \$15k - \$18k to develop a vineyard
- Current estimate is \$22k for a new vineyard (slightly less for redevelopment)
 - Hose, stakes, trellis wire, plants, labor, fertilizer/chemicals, diesel, etc
 - 3-4 years before productive

Leased Vineyards		Appraised	
		Leasehold Value	Leasehold Value per Acre
Scheid	352	5,500,000	15,625
Mesa del Rio	788	13,000,000	16,497
San Lucas	167	2,900,000	17,365
Hames	535	9,000,000	16,822
Total Leasehold	1842	30,400,000	16,503.80

Summary of Valuation Approaches – Base Case Fair Value = \$200+/sh



	Current Estimated Fair Value			2012/13 Appraisal Value	Tax Assessment Value	Tangible Book Value
	Low	Base	High			
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Residential Potential	2,000,000	10,000,000	12,000,000	2,000,000	1,000,000	
Leasehold Improvements	-	27,000,000	46,000,000	-	-	
Debt	(75,000,000)	(75,000,000)	(75,000,000)	(75,000,000)	(75,000,000)	
Total Equity Value	122,680,000	186,600,000	236,520,000	112,000,000	73,000,000	49,700,000
Per Share	139	211	268	127	83	56

Asset Value / Liquidation Approach – Base Case Assumptions: Owned land is worth \$50k/acre, the middle of the current appraised value range (implicit in this is an estimate of raw land value of ~\$30-35k/acre + \$15-20k of vineyard improvement value). Inventory is worth more than cost in liquidation (given SVIN's healthy gross margins). Winery at cost. 122 acres of Greenfield residential potential land at ~\$80k/acre. Leasehold improvements at 13.5k/acre (this is somewhat conservative I think).

Sanity Check - Unit Example



Bulk Grapes

1 Acre

7 Tons/Acre (SVIN uses 726 – 792 vines/acre spacing)

\$1100/Ton For Bulk Grapes

= Revenue of \$7700/Acre

Direct Costs of \$4250/Acre

= Gross Profit of \$3450/ Acre

Land Cost of \$30k/Acre + \$22k/Acre of vineyard improvements = \$52k/Acre

Return to Land-Owner = $\$3450 / \$52000 = 6.6\%$ Cap Rate [before overhead]

1. Overview

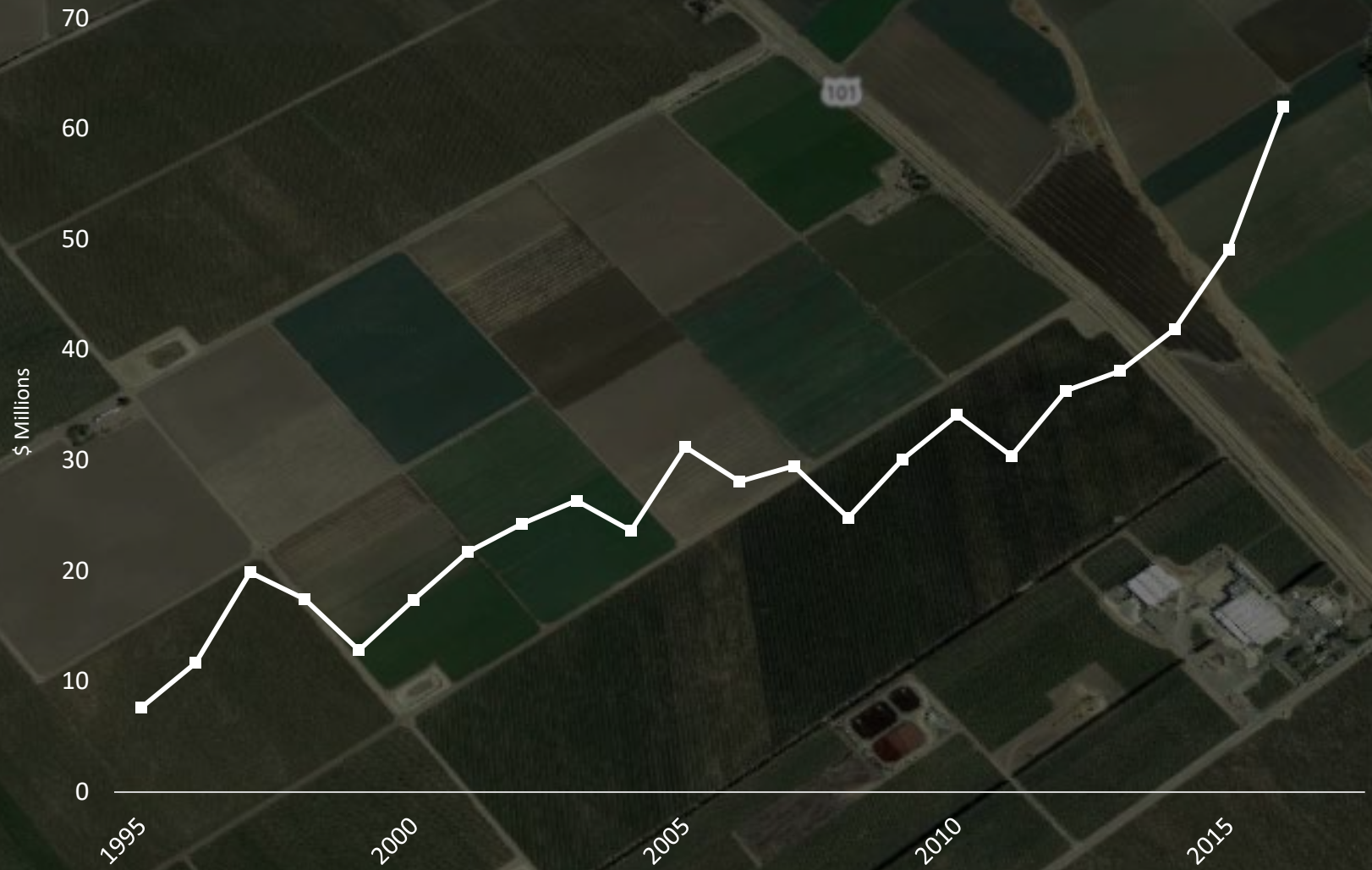
2. Asset Approach

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Scheid Revenue | 22-year CAGR: 10%

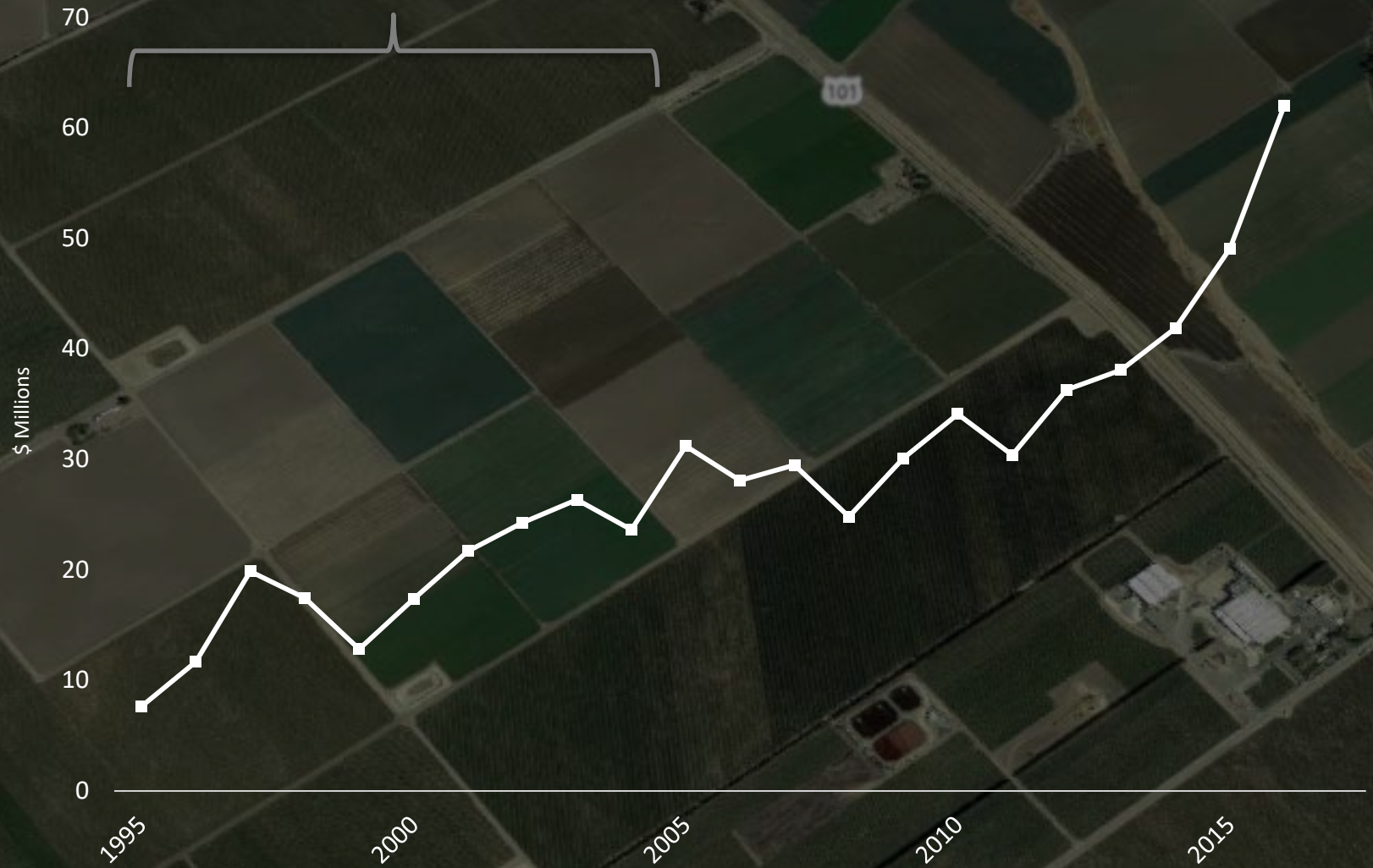


Source: SVIN historical financials, MCM estimates

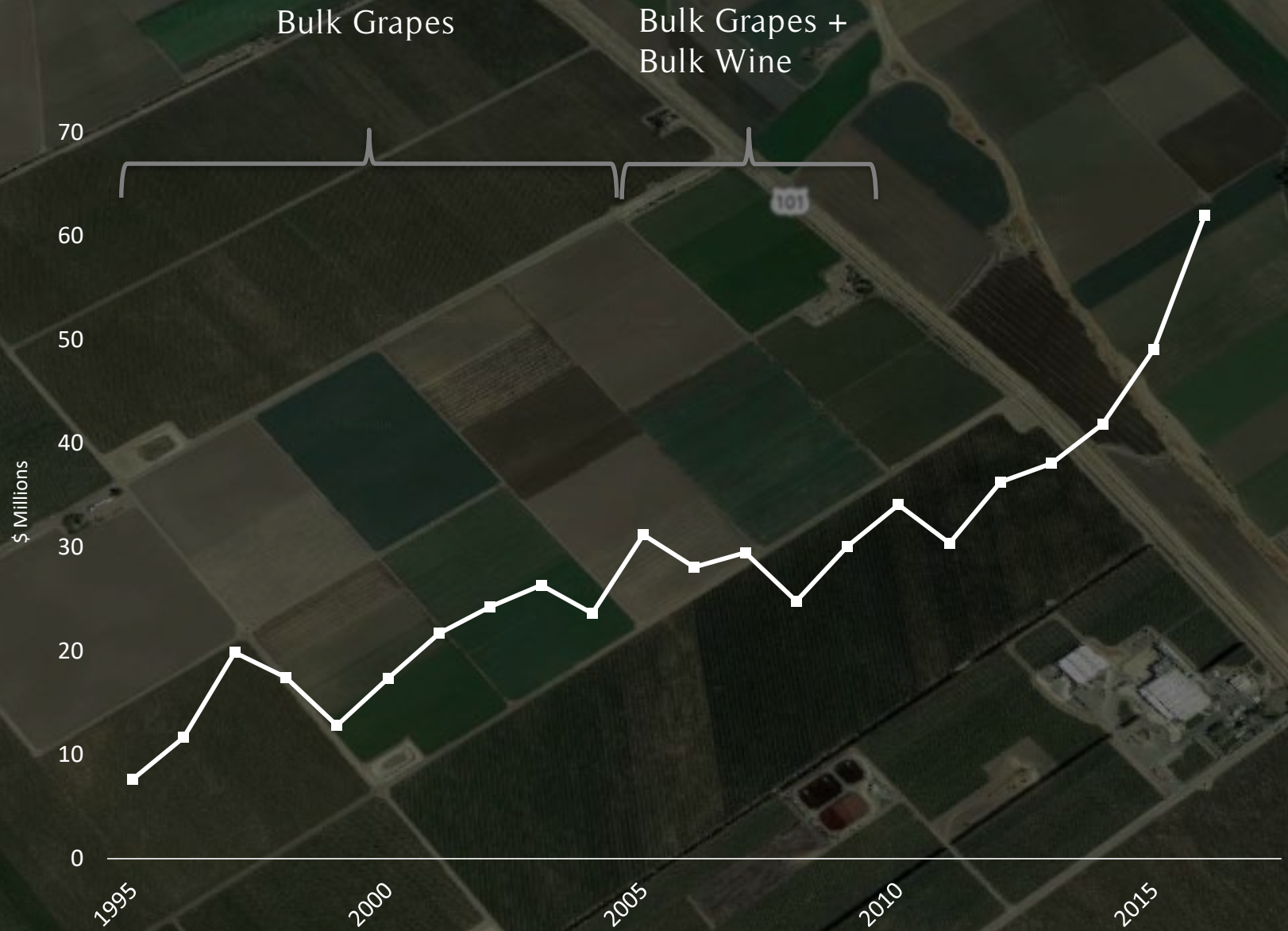
Scheid Revenue | 22-year CAGR: 10%



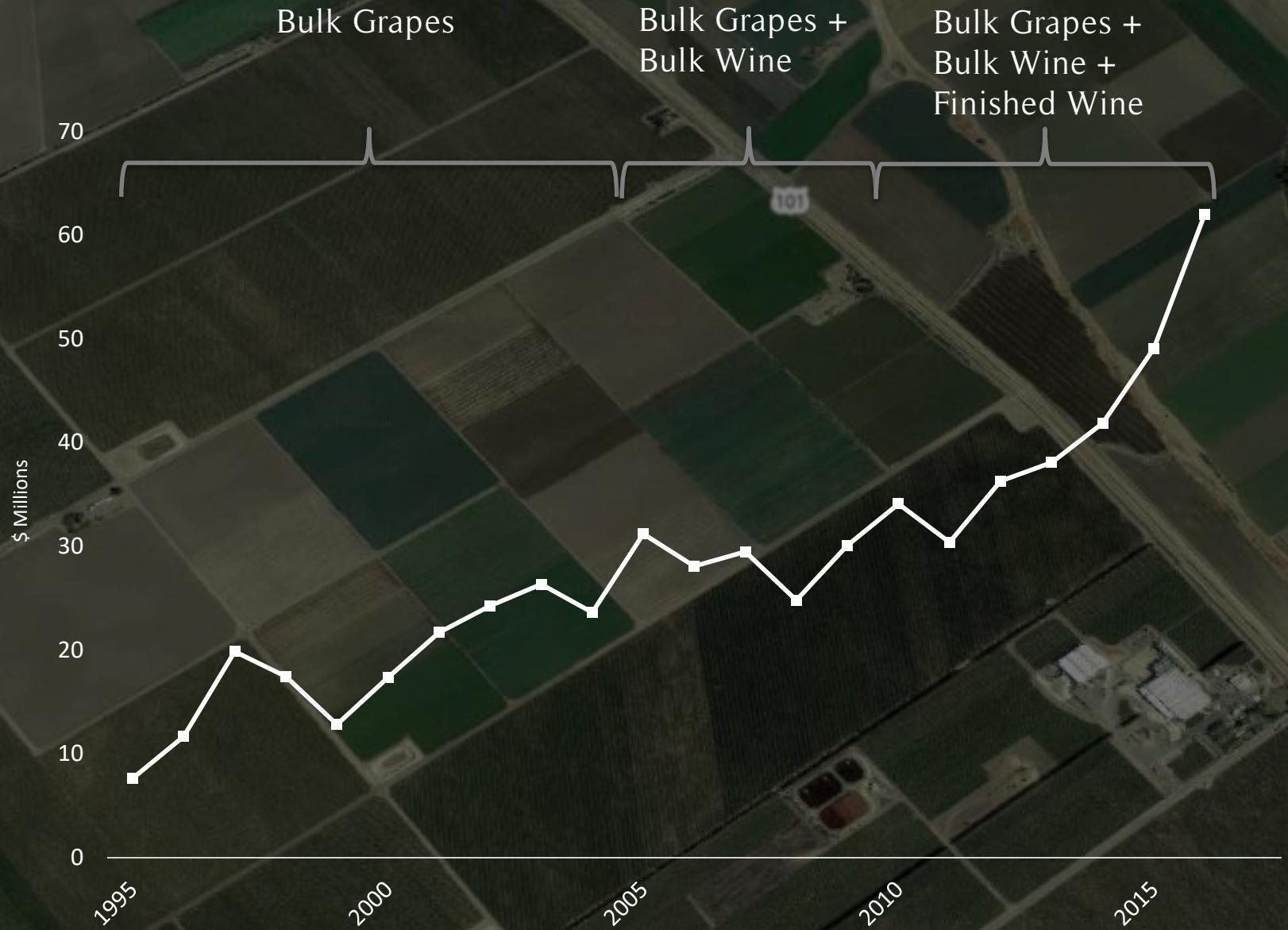
Bulk Grapes



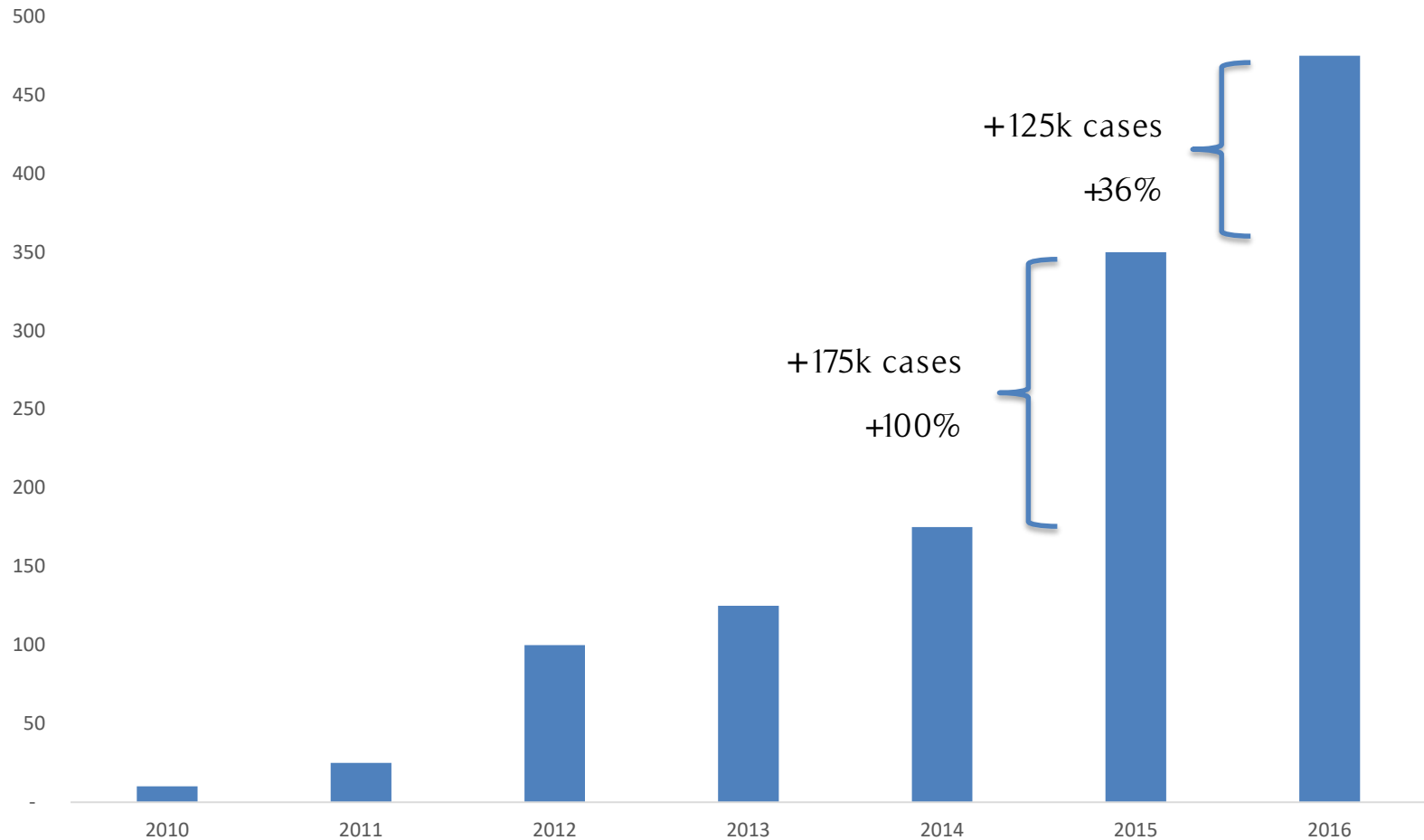
Scheid Revenue | 22-year CAGR: 10%



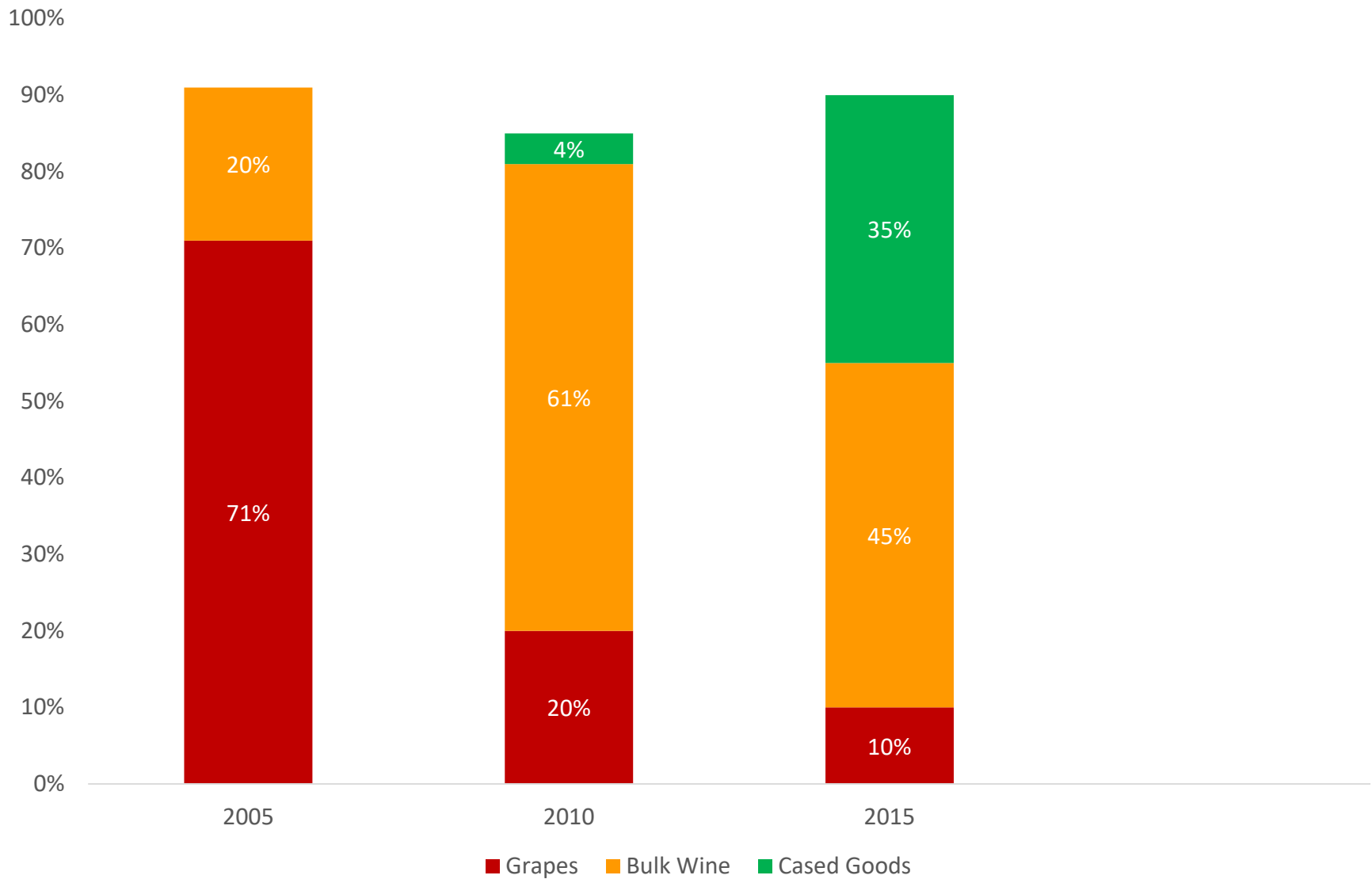
Scheid Revenue | 22-year CAGR: 10%



Cased Goods – From a Standing Start to Half a Million Cases in Five Years

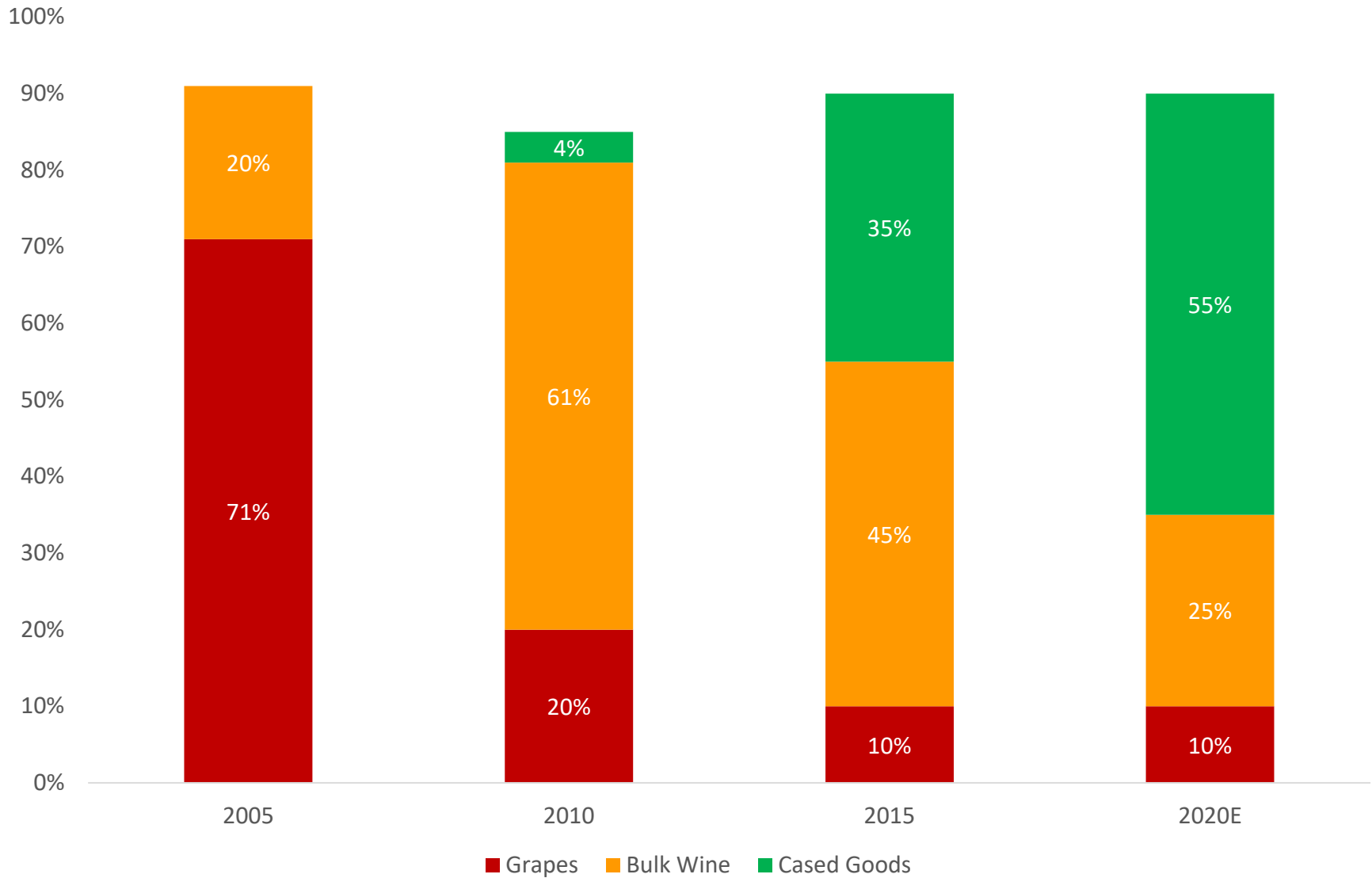


Cased Goods – Shift to Higher Revenue Per Gallon and Higher Margin Mix



Source: SVIN historical financials; MCM estimates. Ancillary revenue sources such as storage, vineyard management, etc, not shown.

Cased Goods – Shift to Higher Revenue Per Gallon and Higher Margin Mix



Source: SVIN historical financials; MCM estimates. Ancillary revenue sources such as storage, vineyard management, etc, not shown.

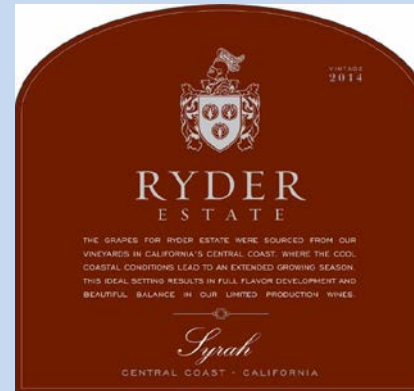
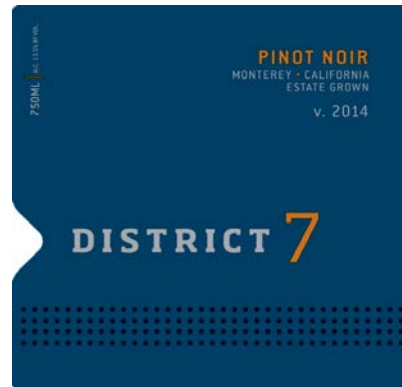
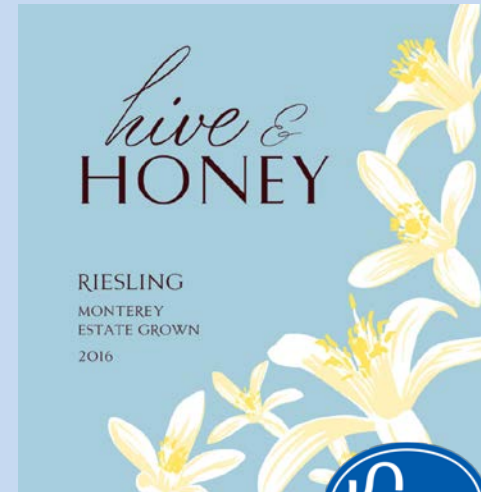
Scheid Brands



50+ "Exclusives"



BevMo!
EXCLUSIVE



Branding / Marketing



- Authentic Heritage
- Estate Made
- Sustainability
- Lifestyle

Sales Initiatives

- Grow/improve distribution capabilities
- More feet on the street
- Use exclusives/private label as “toehold” to get Scheid brands into retail chains
- Celebrity Partnerships (GIFFT)

Income Statement Model



Scheid Vineyards Income Statement

(\$ mms)	2016	2017	2018E	2019E	2020E
Revenue	49.1	62.3	64.2	75.1	84.1
growth	17%	27%	3%	17%	12%
COGS	32.6	40.2	41.1	47.3	52.1
Gross Profit	16.5	22.1	23.1	27.8	32.0
gross margin	34%	35%	36%	37%	38%
SG&A	11.4	13.7	15.5	16.5	17.5
EBIT	5.1	8.4	7.6	11.3	14.5
operating margin	10%	13%	12%	15%	17%
Interest Expense	2.4	3	3	3	3
Pre-Tax	2.7	5.4	4.6	8.3	11.5
Tax	1	2.5	1.4	2.9	4.0
Net Income	1.7	2.9	3.2	5.4	7.4
EPS	1.93	3.29	3.65	6.10	8.43
S/O	0.883	0.883	0.883	0.883	0.883
D&A	5.7	6.3	6	5.5	5
EBITDA	10.8	14.7	13.6	16.8	19.5
margin	22%	24%	21%	22%	23%
Capex	6.3	3.6	3	3	3
FCF	1.1	5.6	6.2	7.9	9.4
FCF per share	1.2	6.3	7.0	8.9	10.7

Source: Scheid Vineyards, Maran Capital Management estimates; indicative model only – business can be volatile year to year given weather, etc.

Cash Flow-Based Valuation



	2017	2018E	2019E	2020E
FCF/sh	6.3	7.0	8.9	10.7
Fair Value at 15x	95	106	134	161
Fair Value at 20x	127	141	179	214

Source: Scheid Vineyards, Maran Capital Management estimates; indicative model only – business can be volatile year to year given weather, etc.

Public Comps



- Crimson Wine Group, Treasury (Australia), Willamette Valley Vineyards
 - \$70k – \$250k/acre, 2 – 4x sales, and 10 – 25x EBITDA
- Constellation, Diageo
 - 5 – 6x sales, ~25x P/E
 - Gross margins in the 60s for wine businesses

- SVIN trades at:
 - \$33k/owned acre
 - 1x Sales
 - 9x EBITDA
 - 11x FCF



Large public companies would have significant synergies in a buy-out of SVIN

Recent Transactions – The Power and Value of Brands

- Meiomi - \$315mm for 700k case/year brand (\$450/case/yr)
- “The Prisoner” - \$285mm for 170k case/yr brand (\$1675/case/yr)
 - Neither included any vineyards/winery facilities

- SVIN trades at:
 - \$130/case/yr on 500k cases of branded/finished goods

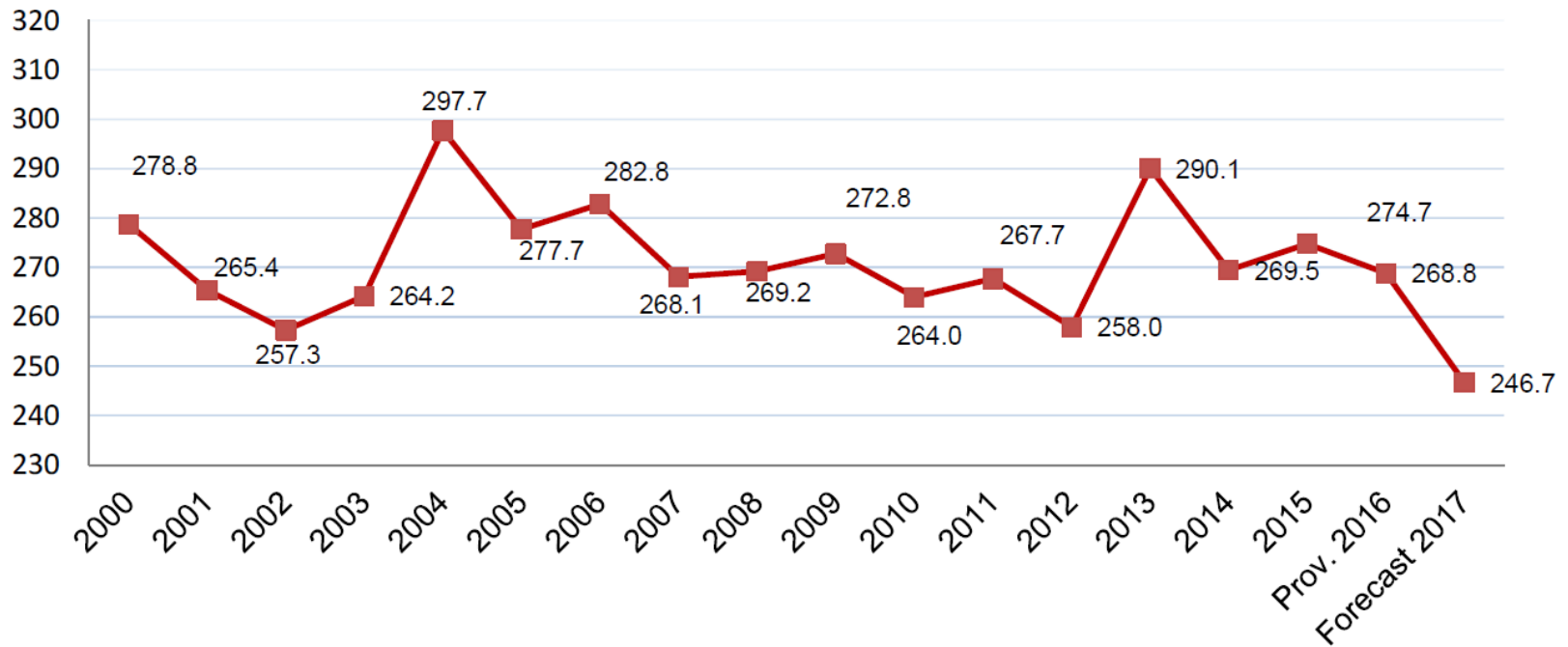
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World wine production 'to hit 50-year low' - BBC News



mhl

**World wine production
(excluding juice & musts)**



Sources: OIV

“Asking prices for imported bulk wines are higher than they were a few months ago and likely to stay that way, resulting in what is likely to be greater demand for California wines.”

- Turrentine Brokerage

(Nov 1 Market Update)

Sonoma Fires





WINE BUSINESS.com
THE SOURCE FOR GRAPES & BULK WINE

✉ Sign Up! Email Alerts

search results

Product Type: Grapes
Sourced from: CA - Sierra Foothills
[\[reset search\]](#)

Results: 1 - 8 of 8

Varietal	Type	Appellation	Qty	Price	Date
'17 Cabernet Franc	Grapes	CA – Fair Play	5 ton	\$1400/ton	10/29
'17 Mourvèdre	Grapes	CA – Sierra Foothills	5 ton	\$1900/ton	10/16
'17 Barbera	Grapes	CA – Sierra Foothills	3 ton	\$2000/ton	10/16
'17 Petit Verdot	Grapes	CA – Sierra Foothills	3 ton	\$1900/ton	10/16
'17 Sangiovese	Grapes	CA – Fiddletown	4 ton	\$1200/ton	10/14
'17 Zinfandel	Grapes	CA – El Dorado	15 ton	\$1100/ton	10/12

Crop year	Red wine type		White wine type		Total wine type		1
	Thousand tons	\$/ton	Thousand tons	\$/ton	Thousand tons	\$/ton	
1988	760	409	1,356	238	2,117	297	
1989	872	410	1,272	297	2,144	342	
1990	804	355	1,331	277	2,135	306	
1991	840	383	1,289	319	2,129	344	
1992	888	438	1,209	364	2,097	395	
1993	979	430	1,327	316	2,306	365	
1994	936	462	1,242	317	2,177	379	
1995	1,052	515	1,175	351	2,277	429	
1996	1,079	611	1,094	469	2,172	540	
1997	1,461	656	1,433	546	2,893	603	
1998	1,333	643	1,194	521	2,527	586	
1999	1,422	649	1,195	518	2,617	590	
2000	1,816	628	1,503	500	3,319	571	
2001	1,706	680	1,300	491	3,006	601	
2002	1,817	614	1,288	432	3,105	538	
2003	1,634	609	1,230	429	2,864	534	
2004	1,639	627	1,136	487	2,775	571	
2005	2,235	634	1,521	507	3,756	583	
2006	1,874	637	1,263	503	3,136	583	
2007	1,875	627	1,372	482	3,248	565	
2008	1,676	661	1,338	543	3,015	609	
2009	2,078	671	1,625	536	3,703	612	
2010	2,051	628	1,538	501	3,589	574	
2011	1,920	708	1,427	542	3,347	637	
2012	2,292	884	1,726	625	4,018	773	
2013	2,417	852	1,829	623	4,246	754	
2014	2,141	893	1,753	596	3,894	759	
2015	2,041	790	1,664	540	3,705	679	
2016	2,279	918	1,753	598	4,031	780	

https://www.nass.usda.gov/Statistics_by_State/California/Publications/Grape_Crush/Final/2016/201603gcbt_b00.pdf



1. Overview
2. Asset Approach
3. Operating Approach
4. Industry / Macro
5. Summary / Conclusion

Conclusion:

Good Business, Good Price, Aligned Management, Large Margin of Safety 

Land: \$100mm

Winery: \$75mm

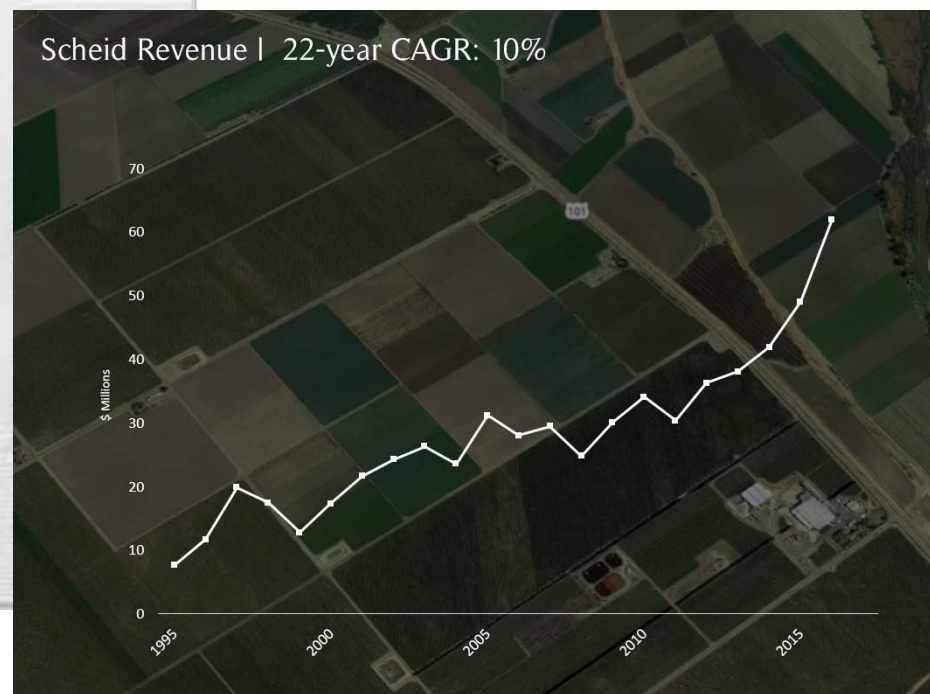
Inventory: \$50mm

“Hidden” Assets: \$25mm

Debt: (\$75mm)

Fair Value: \$175mm

Price: \$35mm



*Price = Market Cap as of initial Maran Capital write-up July 24, 2017 | Closing price 1/18/2018: \$73/sh (\$65mm market cap)



Questions?





MARAN CAPITAL MANAGEMENT

Unconventional Investment Management

Targeting Unconventional

- That Is, Superior -

Results



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