

## **Opening comments to conference call of Hawesko Holding AG**

### **Nine-month interim report**

**2 November 2000**

**Mr Alexander Margaritoff, Chief Executive Officer**

**Mr Sven Ohlzen, Chief Financial Officer**

[operator] "Good afternoon and welcome to the conference call of Hawesko Holding AG. The conference call will now begin. At the customer's request, this conference will be recorded. You can listen to this conference for the next 48 hours. May I now hand you over to Mr Margaritoff."

**Welcome, this is Alexander Margaritoff.** Thanks to all of you for taking part, in addition to those of you from Germany we also have participants in London and New York, which is the reason we are holding this call in English.

I am joined by my colleague Sven Ohlzen and our Investor Relations manager, Thomas Hutchinson.

The nine-month interim report was sent to you all by email and has been available on our hawesko.com corporate site, we have isolated the third quarter with respect to the P&L figures to help your analysis.

Looking back on the third quarter and the first nine months of this year, we are proud of the great performance of Jacques' Wein-Depot and of the good progress on the projects we described on pages 34 and 35 in the annual report: in building up E-Commerce under Winegate, in building up Tesdorpf as a premium wine house and in going into Austria. On the other hand, the developments in the main part of the mail-order business, in *Hanseatisches Wein- und Sekt-Kontor*, have been disappointing and have led us to revise our estimates for this year downward. I will come back to this in a minute.

The highlights of the third quarter were:

- First, the acquisition of the Bordeaux wine trader *Le Monde des Grands Bordeaux*.
- Second, Jacques' wine shops are continuing their great performance with strong like-for-like gains and new openings, including the first new openings in Austria before Christmas
- Third, online wine sales continue to do well and we are comfortably within our targets for this year.

I will speak about the outlook for the rest of this year and touch on next year a little bit, but first I would like to ask Mr Ohlzen to go into some more detail on each of the segments:

**Mr Ohlzen:**

The Hawesko **Group** posted sales of DM 91,3 million in the third quarter, an increase of 28.1% against the third quarter of 1999. If we factor out the Wein Wolf acquisition, the Group posted an increase of 15.1% against the third quarter of 1999. I would like to remind you that we are reporting this year under International Accounting Standards, so the acquisition of Wein-Wolf just come into the comparable numbers for last year late in the third quarter, from September.

In the sequential analysis against the first and second quarters of 2000 you will see that the third quarter has taken its typical position as the weakest of the year; not so typical was the strength of the second quarter against the first quarter. This is an indication of the special situation this year after the millenium.

Gross margin on the Group level in the third quarter of 2000 was down by 2.7 percentage points against last year's third quarter to 41.4%, mostly due to the first consolidation of Wein Wolf with its wholesale margins. Taking out the effect of Wein Wolf, gross margin increased by 0.1 percentage points to 47.4%.

Going down to operating profit, it is important to see the negative effect on EBIT because of new activities which totalled DM 4.0 million in the third quarter.

Mostly as a result of this, the group's operating result in the third quarter – EBIT – was a negative DM 4.9 million with Wein Wolf, and a negative DM 5.1 million without Wein Wolf. The EBIT in 1999's third quarter was DM 1.0 million.

After deducting finance expenses of DM 1,8 million and adding back a notional tax refund of DM 0.8 million, the group showed a net loss for the third quarter in 2000 of DM 5.9 million.

We won't go into the full nine-month data, because it is basically all in the report. I would just like to add that online wine sales through the internet for the nine months totalled DM 6.2 million.

The business lines developed as follows:

- **Mail-order/E-commerce** had sales of DM 33.6 million in Q3, up 14.4% on the third quarter of 1999, of which sales over the internet were DM 2.2 million (up twelve times against the same quarter of last year). Sales of *Hanseatisches Wein- und Sekt-Kontor* were DM 29,8 million (Q3 1999: DM 28.3 million) Tesdorpf sales amounted to DM 2.7 million (Q3 1999: DM 1.0 million), and the Austrian start-up sales were DM 0.5 million.  
Mail-order/E-Commerce EBIT in the third quarter was a negative DM 6.7 million, against a negative DM 1.2 million in Q3 of 1999. The effect on net profit from new activities was DM 4.0 million as mentioned above.

For the full year 2000 on mail-order/E-commerce EBIT we now expect to come out at about break-even, which would be the net sum after structural costs for developing this part of the business.

- **Wine shop sales (Jacques' Wein Depot)** were DM 31.9 million in the third quarter, up 15,2% on third-quarter 1999, the EBIT was up by 7.8%. The EBIT did not up in the same measure as sales because of higher advertising costs [associated with a new customer magazine....] Five new depots were opened, against 2 new openings in the third quarter of 1999. The Jacques' loyalty card continues to be a great success; we are now moving into the period where the effect of loyalty card is in the comparable numbers. For the full year of 2000 we expect the EBIT margin to be above the 10% level.
- In **wholesale** the biggest effect was again the first-time inclusion of Wein Wolf, boosting sales in the third quarter to DM 25.9 million. Our existing business, CWD Champagner Wein Distribution, had sales of DM 4.2 million, up 19.4% on third quarter of 1999. This organic growth was due to more detailed customer service and tailoring product offer to customer demand.

The EBIT margin including Wein Wolf was 0.4% of sales in third-quarter 2000. Our existing wholesale business showed a negative EBIT of DM 0.3 million without Wein-Wolf. In the wholesale segment we continue to expect landing at something above 5 % on segment sales for the full fiscal year 2000.

Compared to the end of the first quarter, the **balance sheet** mainly shows the effects of capital spending to enlarge the logistic center in Tornesch, the expansion of Jacques' Wein-Depot and the typical increase of inventory in front of the Christmas season. Enlarging the logistic center in Tornesch will be financed through sale- and leaseback, which will be done in the second half of this year. The Group will regain DM 1.4 million in liquidity.

All in all, the nine-month figures still show the effects of the post-millennium first quarter and structural costs. The sales growth that we saw improving after Q2 turned out not to be as robust as we had thought, especially in the main business of *Hanseatisches Wein- und Sekt-Kontor*.

I now hand over to Alexander Margaritoff.

**Mr Margaritoff:**

At this point, after the third quarter, we thought it prudent to revise our forecast for 2000 downwards. Although we had seen a stabilization of sales in the second quarter and at the beginning of the third

quarter in the main mail-order business, this trend did not continue through the end of August and September, we are now forecasting total group sales for 2000 at around DM 450 million.

? I think what is first and foremost on everyone's mind is the state of the mail-order/e-commerce segment.

The Christmas business this year, as in every year, will be decisive for the year-end figures. We are now expecting Christmas present business a couple of million DM below last year's level of about DM 46 million. However, we expect to be able to process orders better because we will not have the smaller delicatessen items of the Megakatalog, we will avoid the peak of last year by not mailing out a wave of Christmas present catalogs at the beginning of December, and we will not do a customer reactivation mailing at the beginning of December, as we had done last year.

The classic print catalog and advertising business under Hanseatic Wine and Sekt Kontor is not developing as we had expected. We think this is due on the one hand to the effect of the millenium, where we think customers may have bought some more bottles in the premium wine segment but did not necessarily drink any more. On the other hand, it seems there is an increasing competitive pressure in the market, as the premium wine market becomes more popular, and very localized players begin to bring more fragmentation into the market. We know that Hanseatic Wine and Sekt Kontor is not alone among the big players in the mail-order wine market to experience a difficult trading environment. The challenge will be to pull the wine consumers' focus back to our mail-order print catalog and advertising, which we will do.

The high-end *Carl Tesdorpf* catalog business will probably end 2000 with sales of about DM 9 million, next year we expect over 10% growth with this line. In our analysis of customer purchase patterns between Tesdorpf and Hanseatic Wine and Sekt Kontor, we are convinced that there is practically no cannibalization

The Austrian mail-order business will probably end 2000 with sales of about DM 3 million, we are observing different response rates in Austria than we are accustomed to in Germany.

When we look out to 2001, sales in the whole mail-order/E-commerce segment should climb by between 5% - 10%, which means that we will continue to be cautious about our expectations in the classic print catalog/advertising part of the business under Hanseatic Wine and Sekt Kontor, and see growth in 2001 coming mainly through the E-commerce business under Winegate as well as increases at Tesdorpf and in Austria.

? Winegate and the online wine sales continue to do well, and Winegate remains the undisputed number one online-wine site in Germany. We feel confident that our online wine sales will be comfortably within our published forecast range between DM 8 million and DM 12 million.

The advertising campaign in Germany has reached its highest point; we think we will place more emphasis on marketing cooperations. Page impressions are running at about 1 million per month, visits are over 40 thousand per month, the conversion rate (number of orders per total visits) is about 2,5%.

The English-language site under winegate.co.uk has started, we will not have a big print campaign, but will try to go into marketing partnerships with the site to reach exactly the right target groups.

? Jacques' Wein-Depot continues to expand strongly both on like-for-like sales as well as new openings. We are still confident that we will have 200 Depots in operation by the end of the year in Germany. The first locations have been secured in Austria and will open in the next couple of weeks. Margins remain good.

Jacques' is starting on some innovative new marketing activities, including a new customer magazine sent to the loyalty-card holders and new wine-appreciation courses.

? In wholesale the deal with Antinori is a coup for the Hawesko Group. Antinori is one of the most highly-respected wine producers in the world, and the fact that they have decided to move their business to Hawesko is a testament to our principles and marketing concepts: Namely, that Hawesko maintains a high level of quality in the marketing of wine as a unique product to a demanding group of customers. From 2001 this will bring business of about 2 million bottles per year to our Group and is the first significant synergy of the bigger Hawesko Group. The segments operating previously and independently could not offer the same advantages to Antinori as the Hawesko Group does today.

? In the back side of our operations, we will pull together the logistics of the Wein-Wolf Group and the mail-order segment in our distribution and logistics center in Tornesch in the second half of 2001. The similar handling and size of deliveries in these two parts of the business make it sensible to bring the function together and realize some more of the synergies of the whole Hawesko Group. In the course of creating a more dynamic product assortment and increase private labels, we are beginning to integrate the purchasing function across the group as well, working region-by-region of the wine producing areas.

Now we would like to take your questions, and I would like to ask the operator to open the lines.

**Closing statement:**

Thank you for joining us on this call.

Notwithstanding the cautious view out towards the end of the year, we are still very bullish on the premium wine market in general and see the fragmentation in the market as a great opportunity for a group with all of the skills in the wine business like Hawesko. We hope that you will stick with us if you are a shareholder during this time of building up the company, and if you are not a shareholder, we think this is an attractive time to get in. The wine business, with all its special points, is a market just asking to be structured, and we think Hawesko is the best play on it. Thank you.