INTERNATIONAL BULK WINE & SPIRITS SHOW · SF

BULK WINE MARKET DYNAMICS

(TOO MUCH, TOO LITTLE, JUST RIGHT?)

STEVE DORFMAN

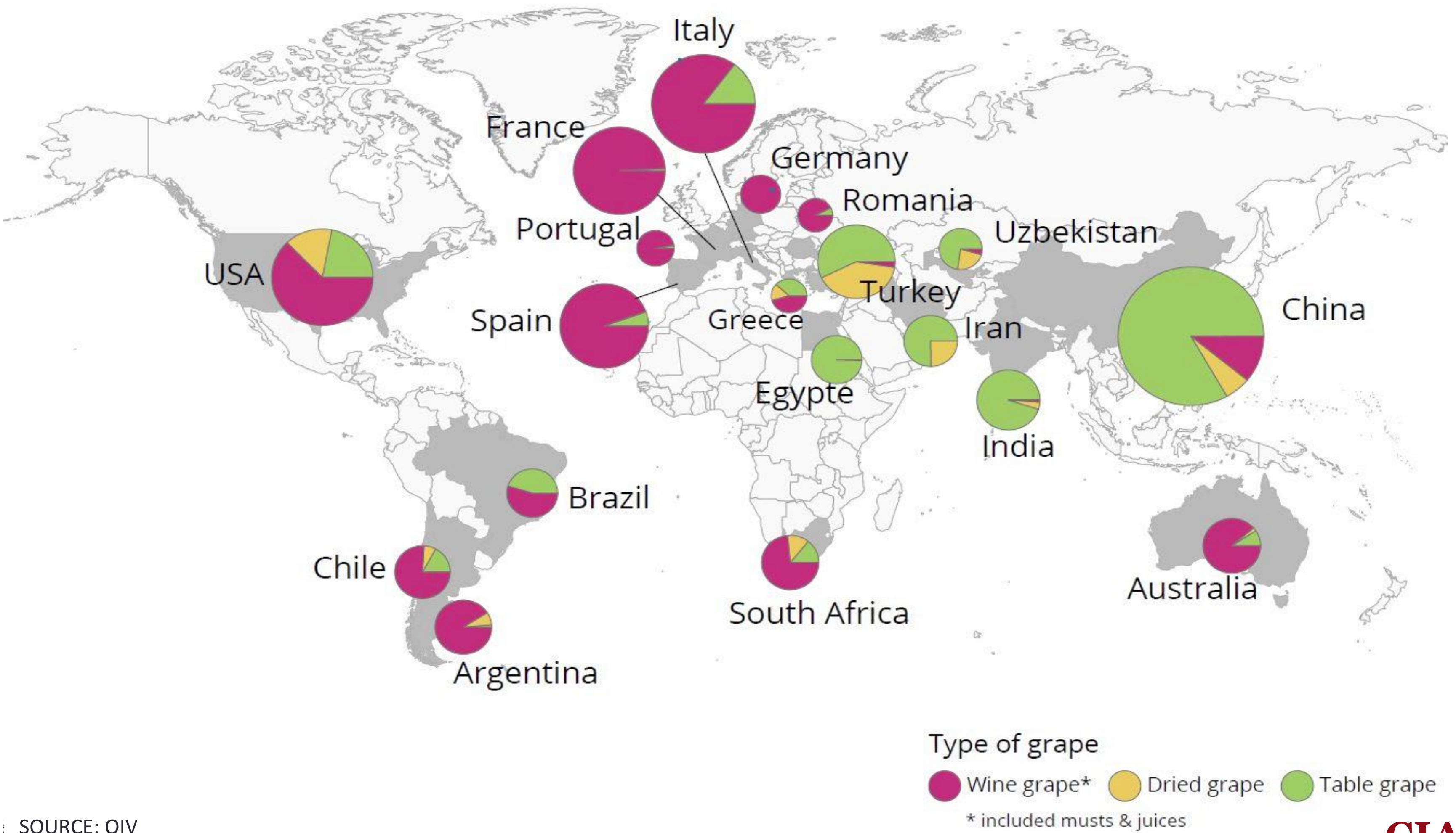
CIATTI
GLOBAL WINE & GRAPE BROKERS

JUNE 23, 2019

WHAT WE KNOW

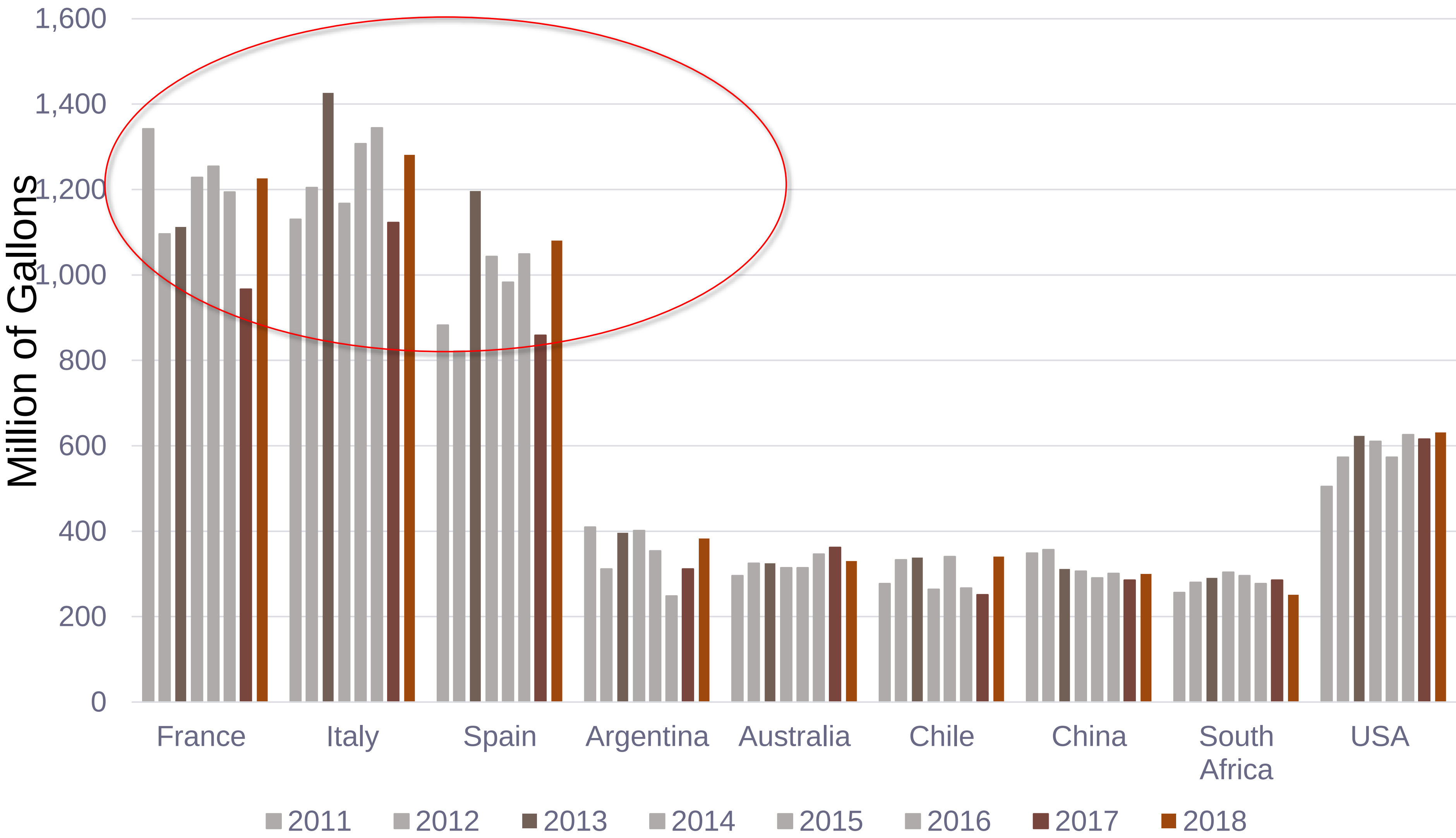
- GLOBAL PRODUCTION IS UP
- GLOBAL CONSUMPTION IS FLAT & COMPETITION IS EXPANDING
- BULK WINE FLOW INCREASING GLOBALLY
- ALL COUNTRIES HAVE OPPORTUNITIES & RISKS
- WHILE **CHINA GROWS** CONSUMPTION
  THE **US** REMAINS THE **LARGEST MOST PROFITABLE** TARGET
- CONSOLIDATION IS HAPPENING AT ALL LEVELS
- CONSUMER: AGE, IDEALS, AND DESIRES CONTINUE TO CHANGE
- THERE ARE OPPORTUNITIES AND SPEED IS CRITICAL

GLOBAL GRAPE PRODUCTION



SOURCE: OIV

GLOBAL WINE PRODUCTION BY COUNTRY



Source: OIV 2018, Ciatti Estimates

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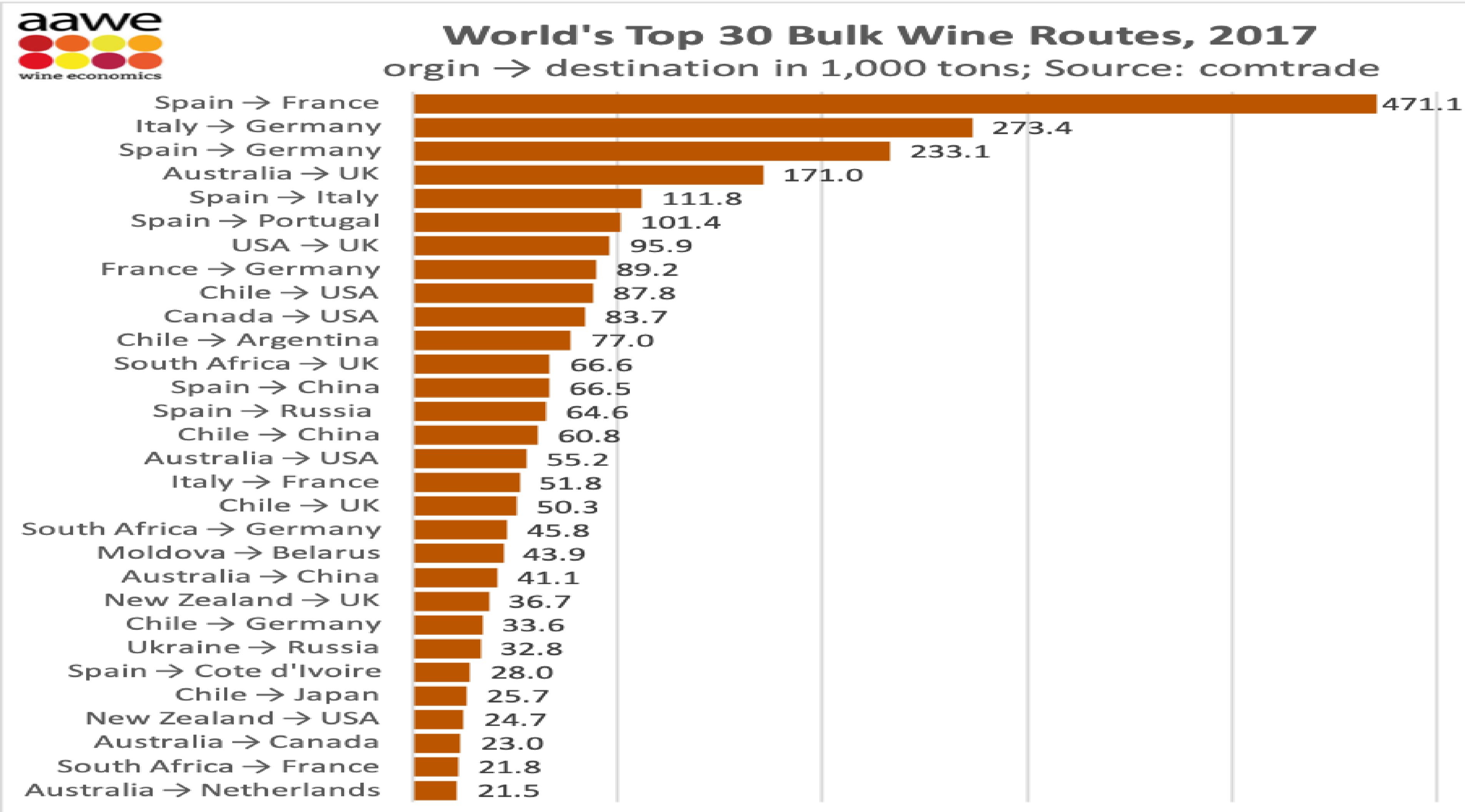
WHERE DOES IT ALL GO?

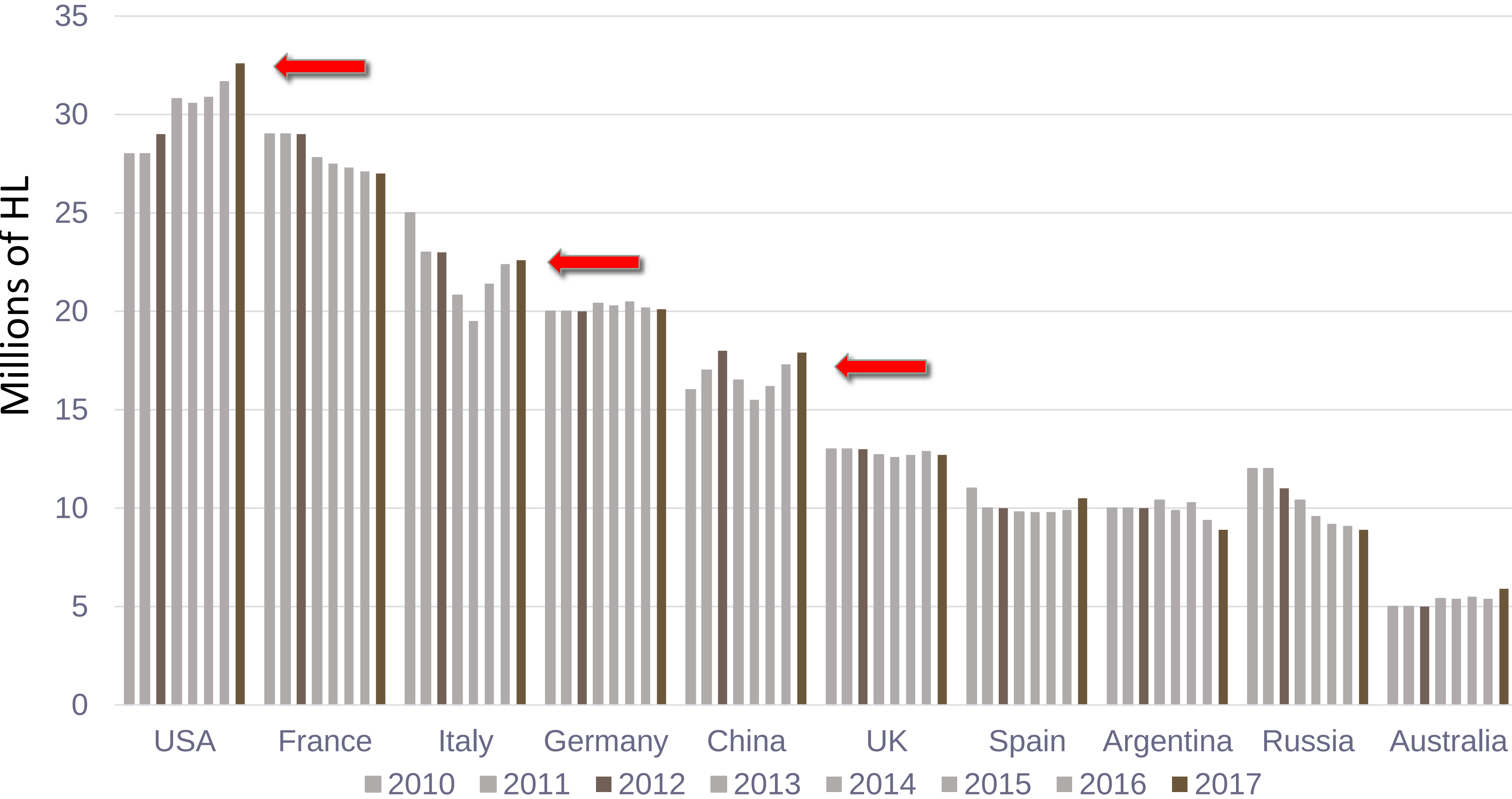


GLOBAL ACREAGE TRENDS

COUNTRY	2013-17 % Δ	COMMENTS
SPAIN	-1%	HIGHER PRODUCTIVITY
FRANCE	-1%	REMOVED YIELD RESTRICTIONS – VDF APPELLATION
ITALY	-1%	
CHINA	+15%	WINE GRAPE PLANTING SLOWING
USA	-3%	HIGHER PRODUCTIVITY / OTHER CROPS
ARGENTINA	-1%	MORE REMOVALS EXPECTED
CHILE	+4%	CABERNET SAUVIGNON, SAUVIGNON BLANC, MERLOT, PINOT NOIR
AUSTRALIA	-8%	TREND COULD REVERSE GIVEN DEMAND? OTHER CROPS
SOUTH AFRICA	-6%	DROUGHT ISSUES
NEW ZEALAND	+4%	SAUVIGNON BLANC, PINOT NOIR

Source: OIV 2018

GLOBAL WINE CONSUMPTION TRENDS



Source: OIV 2018

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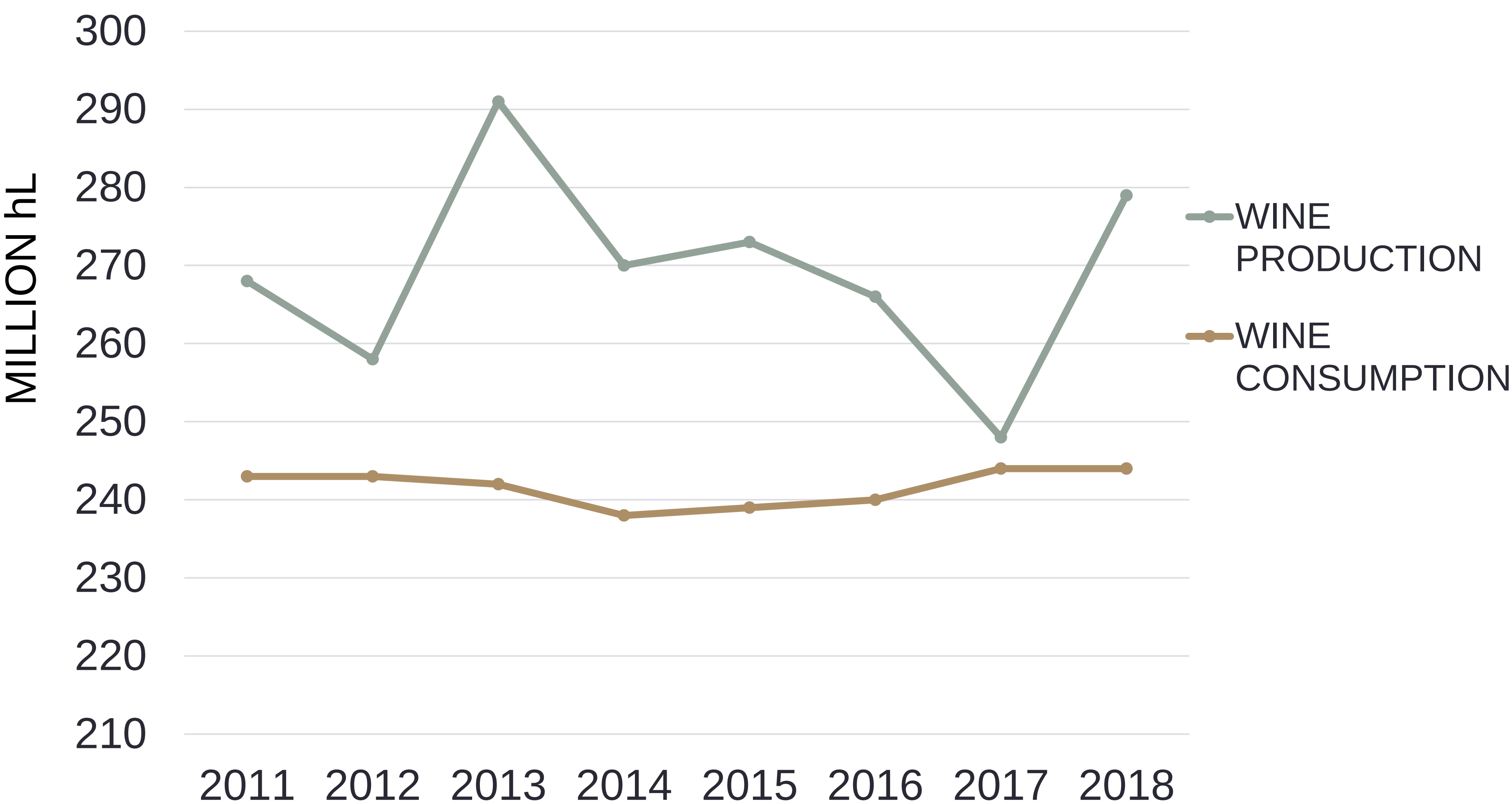
GLOBAL SUPPLY / DEMAND



Source: OIV 2018, Ciatti Estimates

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ARGENTINA

2018

- KEY HIGHLIGHT: Open for business
- PRICING: Generic White $0.36/L
  Generic Red $0.53/L
  Malbec (basic) $1.10/L
  Malbec (prem) $1.35/L
- OPPORTUNITIES: Low cost, high quality
- RISKS: Inflation
  Consumer confidence

2019

- KEY HIGHLIGHT: Quality & Price
- PRICING: Generic White $0.23/L
  Generic Red $0.27/L
  Malbec (basic) $0.70/L
  Malbec (prem) $0.90/L
- OPPORTUNITIES: Sales to low supply countries like SA
- RISKS: Another large harvest

CHILE

2018

- KEY HIGHLIGHT: Congested harvest
- PRICING: Generic White $0.77/L
  Generic Red $0.77/L
  Cabernet (basic) $1.15/L
  Cabernet (prem) $1.30/L
  Sauvignon Blanc $1.25/L
- OPPORTUNITIES: Stable pricing
- RISKS: Variable quality - Great to average
  Active domestic market
  Global buyers: Ja, Ko, Ta, Ch,Eu

2019

- KEY HIGHLIGHT: Cold weather low rain fall
- PRICING: Generic White $0.57/L
  Generic Red $0.57/L
  Cabernet (basic) $0.75/L
  Cabernet (prem) $0.90/L
  Sauvignon Blanc $1.25/L
- OPPORTUNITIES: Stable pricing
- RISKS: Shorter supply: CH, PG
  Below average rainfall
  China slowdown

NEW ZEALAND

2018

- KEY HIGHLIGHT: Challenging/ Promising
- PRICING: Sauv. Blanc (M) $2.80/L
- OPPORTUNITIES: Consistent demand
- RISKS: Vineyard land availability
  Higher pricing w/ less vineyards

2019

- KEY HIGHLIGHT: Smaller 2019 harvest increasing price
- PRICING: Sauv. Blanc (M) $2.80/L
- OPPORTUNITIES: Consistent demand
- RISKS: Vineyard land availability
  Higher pricing/ exchange rate holding price down

AUSTRALIA

2018

- KEY HIGHLIGHT: China, China
- PRICING:

Chardonnay	$0.66/L
Sauvignon Blanc	$0.87/L
Pinot Gris	$1.03/L
Cabernet	$1.10/L
Shiraz	$1.10/L

- OPPORTUNITIES: Cool climate wines
- RISKS: China
  Vineyard cost basis

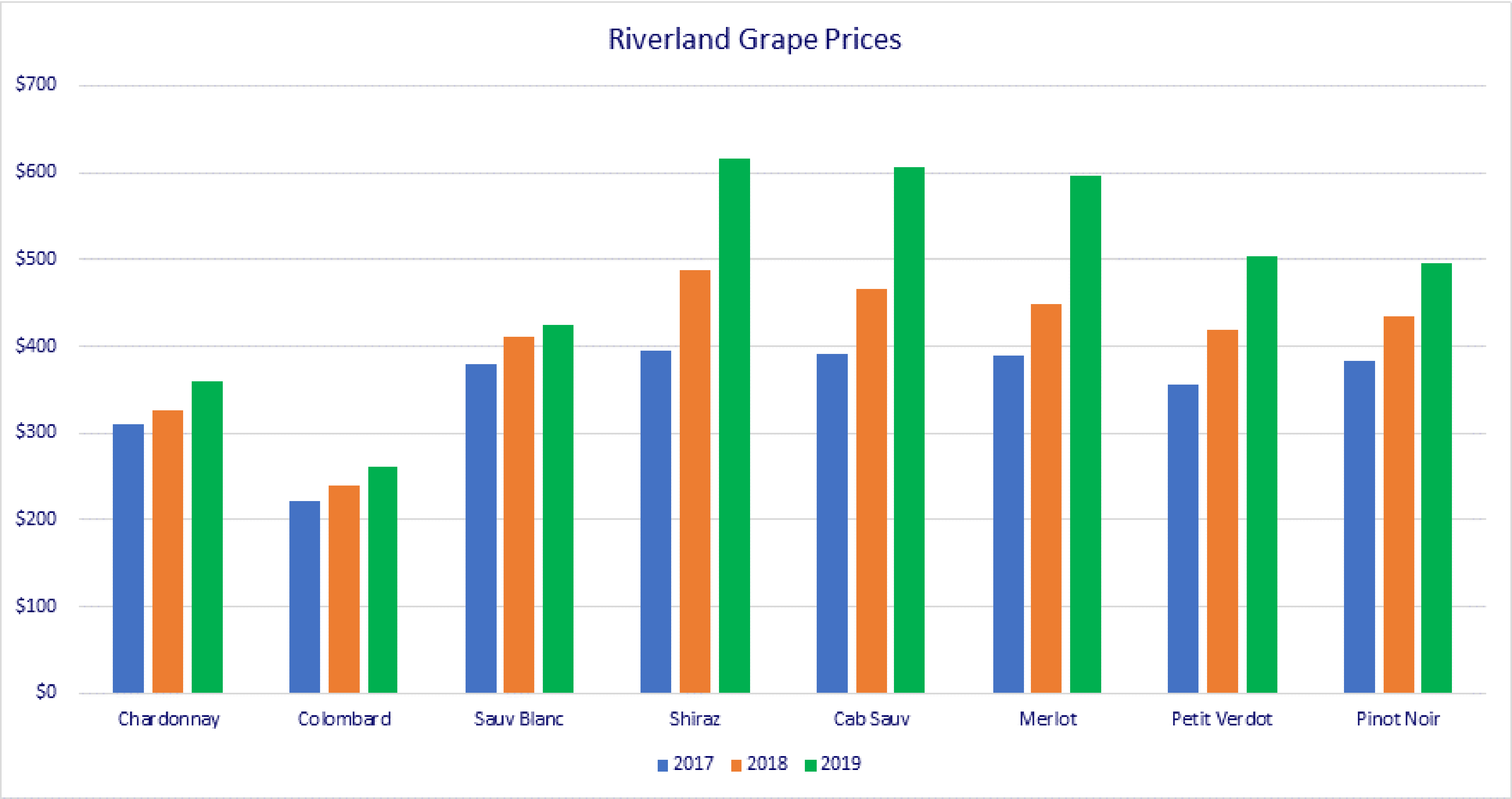
2019

- KEY HIGHLIGHT: China, China
- PRICING:

Chardonnay	$0.75/L
Sauvignon Blanc	$0.87/L
Pinot Gris	$1.03/L
Cabernet	$1.10/L
Shiraz	$1.10/L

- OPPORTUNITIES: Other markets: US
- RISKS: China slowdown
  Competition in China
  Vineyard cost basis
  Wine & Grape prices

2019 AUSTRALIA GRAPE PRICES



SOUTH AFRICA

2018

- KEY HIGHLIGHT: Be ready to buy
- PRICING:

Generic White	$0.52/L
Generic Red	$0.65/L
Sauvig. Blanc	$0.79/L
Chenin Blanc	$0.54/L

- OPPORTUNITIES: Low cost, high quality
- RISKS: Drought - continuation
  International demand is high

2019

- KEY HIGHLIGHT: Tentative optimism
- PRICING:

Generic White	$0.55/L
Generic Red	$0.65/L
Sauvig. Blanc	$0.79/L
Chenin Blanc	$0.60/L

- OPPORTUNITIES: Price maintained
- RISKS: Drought - continuation
  International demand loss

ITALY

2018

- KEY HIGHLIGHT: Looking ahead
- PRICING:

Generic White	$0.64/L
Generic Red	$0.64/L
Pinot Grigio	$1.22/L
Prosecco	$2.32/B

- OPPORTUNITIES: Prices should come down
- RISKS: China - Reds
  Trade tariffs

2019

- KEY HIGHLIGHT: HEAT, quality
- PRICING:

Generic White	$0.53/L
Generic Red	$0.65/L
Pinot Grigio	$1.57/L
Prosecco	$1.75/B

- OPPORTUNITIES: Stable price, good quality
- RISKS: Prosecco limitations
  Price resistance creates uncertainty
  Trade tariffs

FRANCE

2018

- KEY HIGHLIGHT: Adverse weather, heat and hail
- PRICING:

Generic White	$0.84/L
Generic Red	$0.78/L
Cabernet	$1.22/L
Rose	$1.34/L

- OPPORTUNITIES: Rose
- RISKS: China - Reds
  Trade tariffs
  Rose demand up, volume down

2019

- KEY HIGHLIGHT: VERY HOT affecting bulk areas
- PRICING:

Generic White	$0.73/L
Generic Red	$0.82/L
Cabernet	$1.10/L
Rose	$1.34/L

- OPPORTUNITIES: Mid-range varietal supply is good
- RISKS: Languedoc affected by heat
  Drought concerns
  Rose demand up, volume down

SPAIN

2018

- KEY HIGHLIGHT: Market stabilizing
- PRICING:

Generic White	$0.67/L
Generic Red	$0.76/L
Chardonnay	$1.10/L
Syrah	$1.05/L
Varietal Rose	$0.93/L

- OPPORTUNITIES: 2018 harvest - contract
- RISKS: Trade tariff
  Fungal pressure – reduced harvest

2019

- KEY HIGHLIGHT: Heat but not like France
- PRICING:

Generic White	$0.40/L
Generic Red	$0.50/L
Chardonnay	$0.95/L
Syrah	$0.75/L
Varietal Rose	$0.61/L

- OPPORTUNITIES: Price competitive with Argentina
  Rose
- RISKS: Drought concerns
  Trade tariff
  Global demand up – ie. S. Africa

CHINA

2018

- KEY HIGHLIGHT: Huge growth buyer
- PRICING: All price ranges with value dominating
- OPPORTUNITIES: Bulk
  Mini-Labels
- RISKS: Government interference
  Imitation
  Fraud

2019

- KEY HIGHLIGHT: Huge growth buyer
- PRICING: All price ranges with value dominating
- OPPORTUNITIES: Bulk
  Mini-Labels
  New players
- RISKS: Economic slowdown
  Changing tastes
  Imitation & Fraud

CALIFORNIA

2018

- KEY HIGHLIGHT: Sluggish bulk market
- PRICING:

Generic White	$0.92/L
Generic Red	$1.15/L
Pinot Grigio	$1.45/L
Cabernet	$1.72/L
Pinot Noir	$1.85/L

- OPPORTUNITIES: Supply on most all
- RISKS: Trade tariffs
  Large harvest

2019

- KEY HIGHLIGHT: Premiums hit the wall
- PRICING:

Generic White	$0.90/L
Generic Red	$0.95/L
Pinot Grigio	$1.45/L
Cabernet	$1.45/L
Pinot Noir	$1.85/L

- OPPORTUNITIES: Coastal programs
- RISKS: EU Trade tariffs
  Another large harvest
  Demand competition

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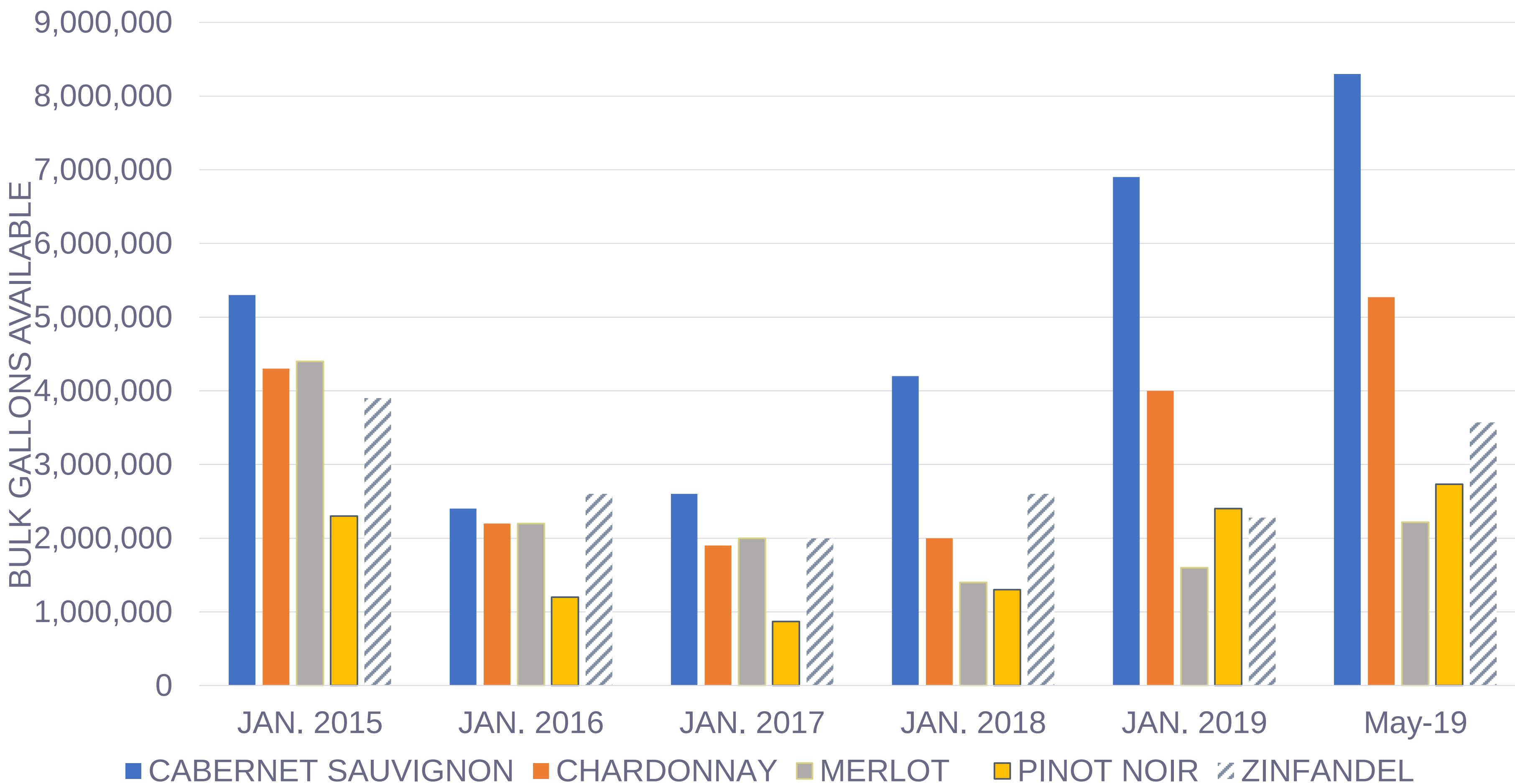
CALIFORNIA BULK WINE INVENTORY



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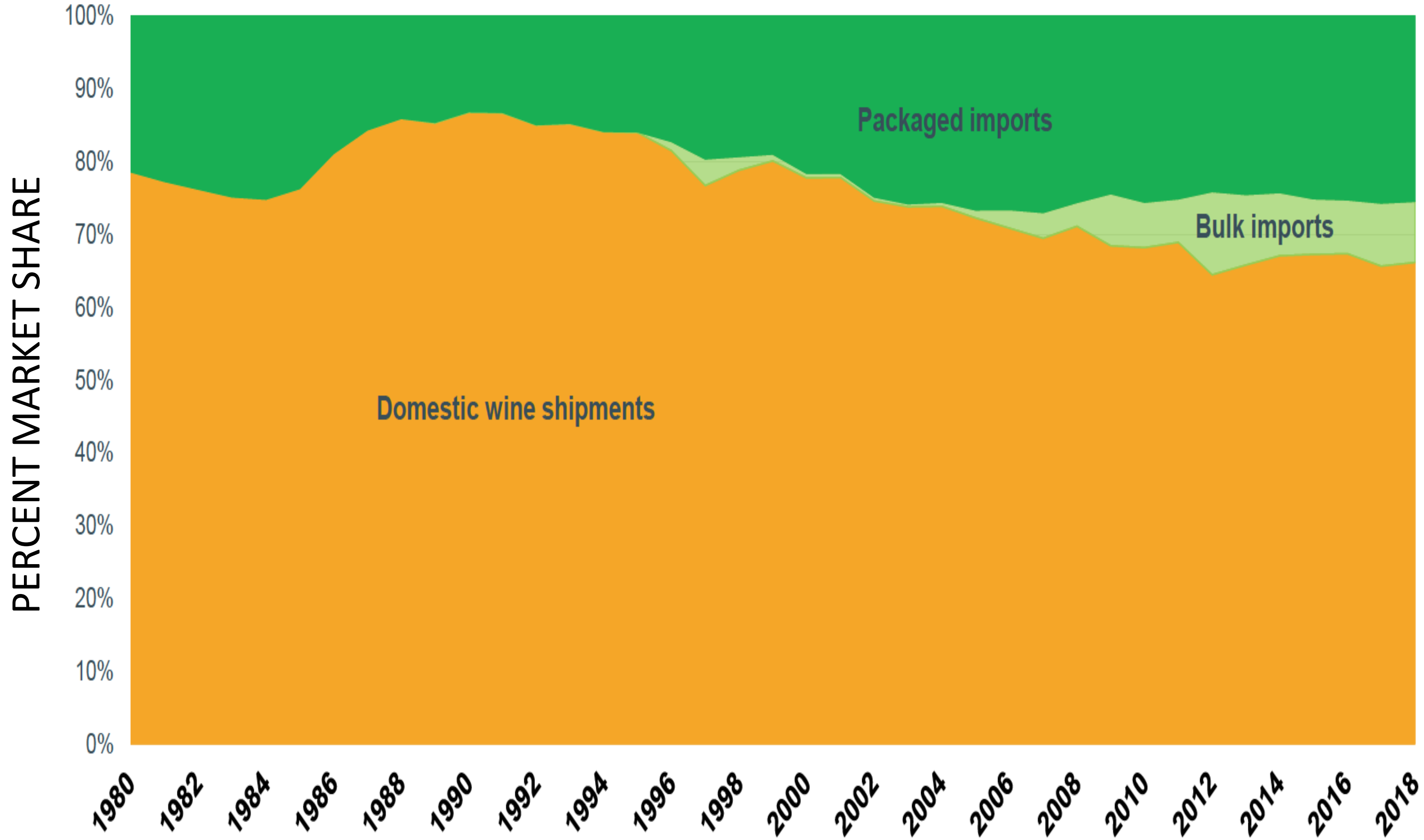
IMPORTS STILL GROWING



Estimated data for 2018
Source: Gomberg-Fredrikson, November 2018 Issue

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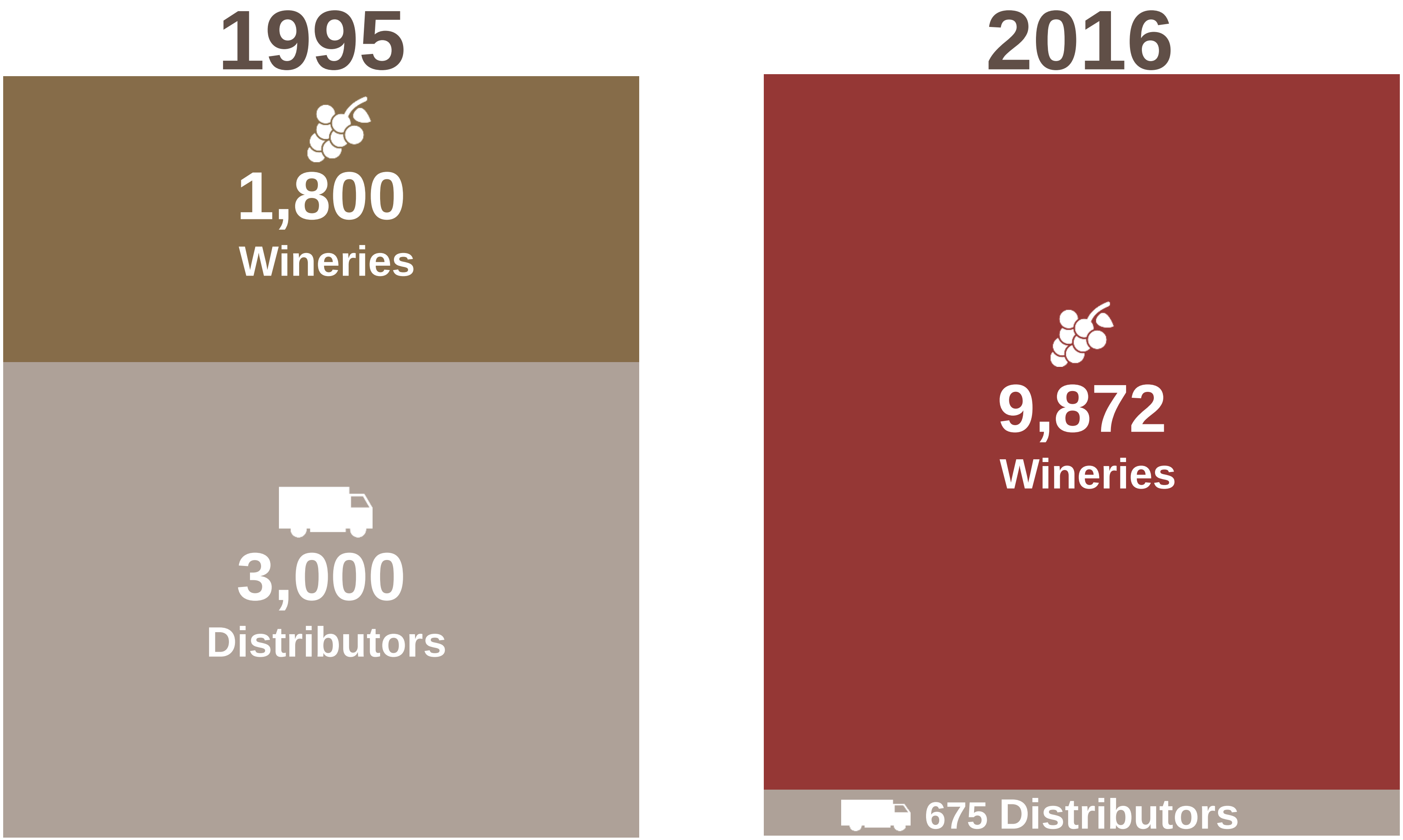
Rise in Suppliers & Distributor Consolidation



Source: Wine Vine Analytics

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Top 9 Suppliers Have a 77% Share of Volume

Total Suppliers 303.3M Cases (excludes Bottled Imports)

Source: Gomberg Fredrikson Report Dec. 2018

ASSUMES GALLO/CONSTELLATION DEAL CONCLUDES

Large & Small Distributor Consolidation

Total Market $59B – Now Top 3 Distributors Control 60% of the Market

Southern Wine & Spirits of America Inc. + Glazer's

44 States + Wash, DC
$19B (32%)

Breakthru Beverage Group

15 States
$5.5B
(9.3%)

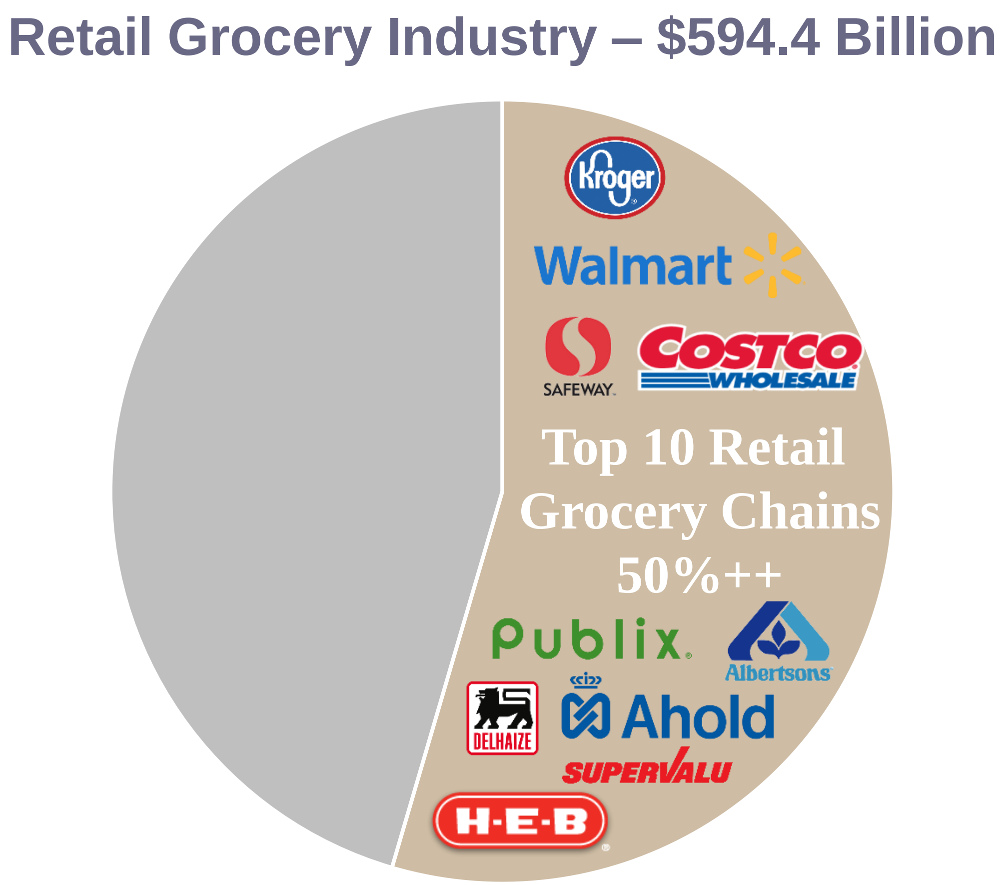
Republic National Distributing Company + Young's Market Company

33 States
$11.0B (18.6%)

A/O
$23.5B (40%)
Other Distributor Consolidation:
Johnson Bros.: $2.5B (23 Markets)
Martignetti: $1.3B (5 Markets)
Winebow: $800k (22 Markets)

Source: Shanken Impact(*2018 figure)
**RNDC Merger on Hold

Top 10 Retail Grocery Chains Account for almost 60% of Grocery Sales



Source: Super Market News

TOP 15 RETAILERS

RANK	RETAILER	BANNERS	SIZE (B)
1	**KROGER**	KROGER, SMITH'S, OFC, PAYLESS, FRED MEYER, RALPH'S, FOOD 4 LESS + 25 OTHERS	$105.1
2	**COSTCO**	COSTCO	$93.0
3	**ALBERTSONS**	SAFEWAY, ALBERTSON'S, VON'S, ACME, SHAW'S JEWEL-OSCO, A&P, RANDALLS	$59.4
4	**ROYAL AHOLD DELHAIZE**	FOOD LION, GIANT, HANNAFORD, PEAPOD,	$43.2
5	**PUBLIX**	PUBLIX, GREEN WISE	$34.6
6	**ALDI**	ALDI	$25.0
7	**HEB**	HEB, CENTRAL MARKET	$21.9
8	**WALMART**	WALMART, SAM'S (514 B)	$17.1
9	**WHOLE FOODS**	WHOLE FOODS	$15.4
10	**TRADER JOES**	TRADER JOES	$10.0
11	**HY-VEE**	HY-VEE	$13.0
12	**GIANT EAGLE**	GIANT EAGLE, GET GO	$9.0
13	**WEGMAN'S**	WEGMAN'S	$8.9
14	**TOTAL WINE**	TOTAL WINE	$3.0
15	**BEVERAGES & MORE**	BEV MO	$0.5

National On-Premise Consolidation

LANDRY'S
DINING • HOSPITALITY • ENTERTAINMENT • GAMING

MORTON'S THE STEAKHOUSE
MASTRO'S RESTAURANTS
MITCHELL'S FISH MARKET SEAFOOD RESTAURANT & BAR
McCORMICK & SCHMICK'S SEAFOOD RESTAURANTS
Vic & Anthony's STEAKHOUSE

DARDEN

THE CAPITAL GRILLE
Eddie V's PRIME SEAFOOD
LONGHORN STEAKHOUSE
Yard House

MARRIOTT

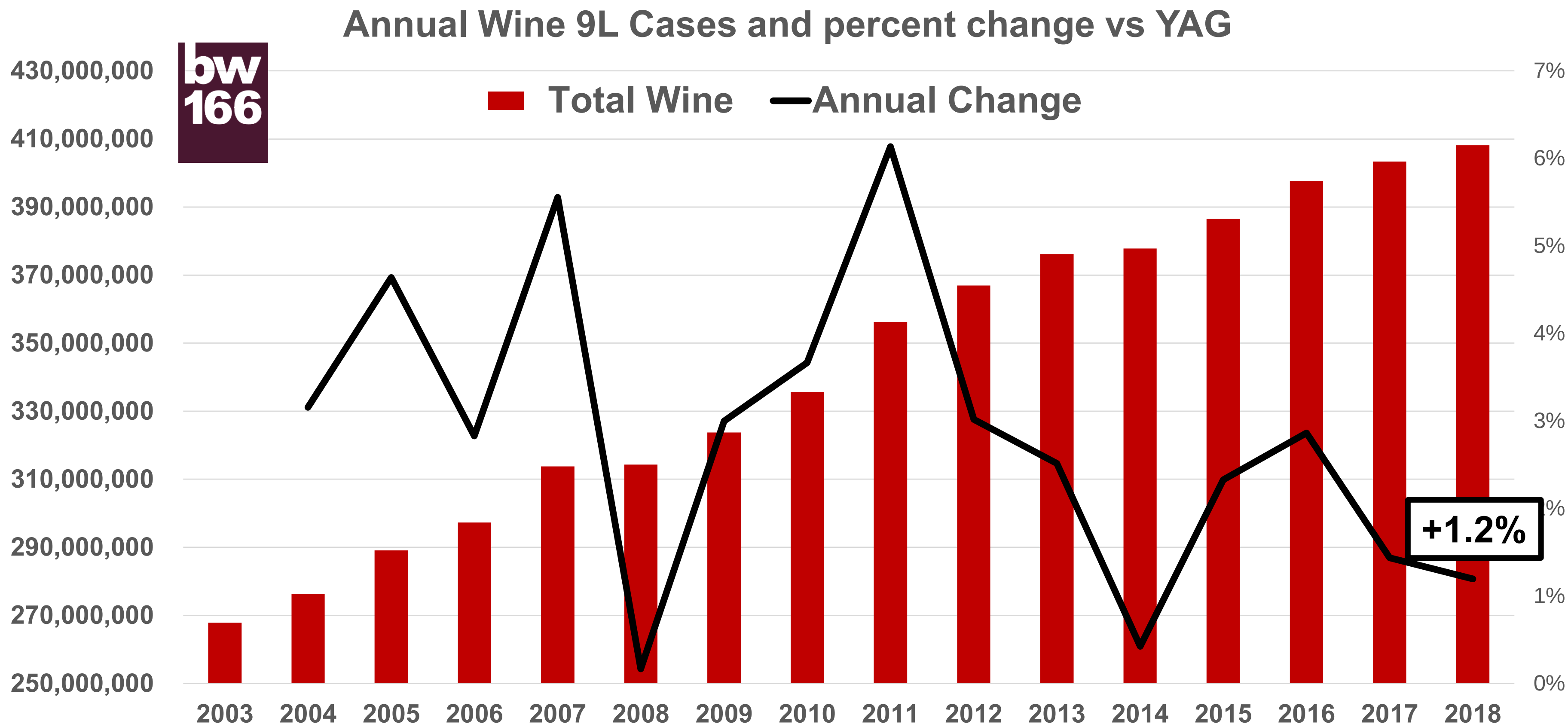
JW MARRIOTT
RENAISSANCE HOTELS & RESORTS
Residence Inn
COURTYARD
FAIRFIELD INN & SUITES
SPRINGHILL SUITES

starwood Hotels and Resorts
WESTIN HOTELS & RESORTS
W HOTELS
Sheraton
Le MERIDIEN
FOUR POINTS
aloft
ST REGIS

Source: National Restaurant Association

SLOWING GROWTH

Wine Market Still Growing, But at a Lower Rate



Source: BW166

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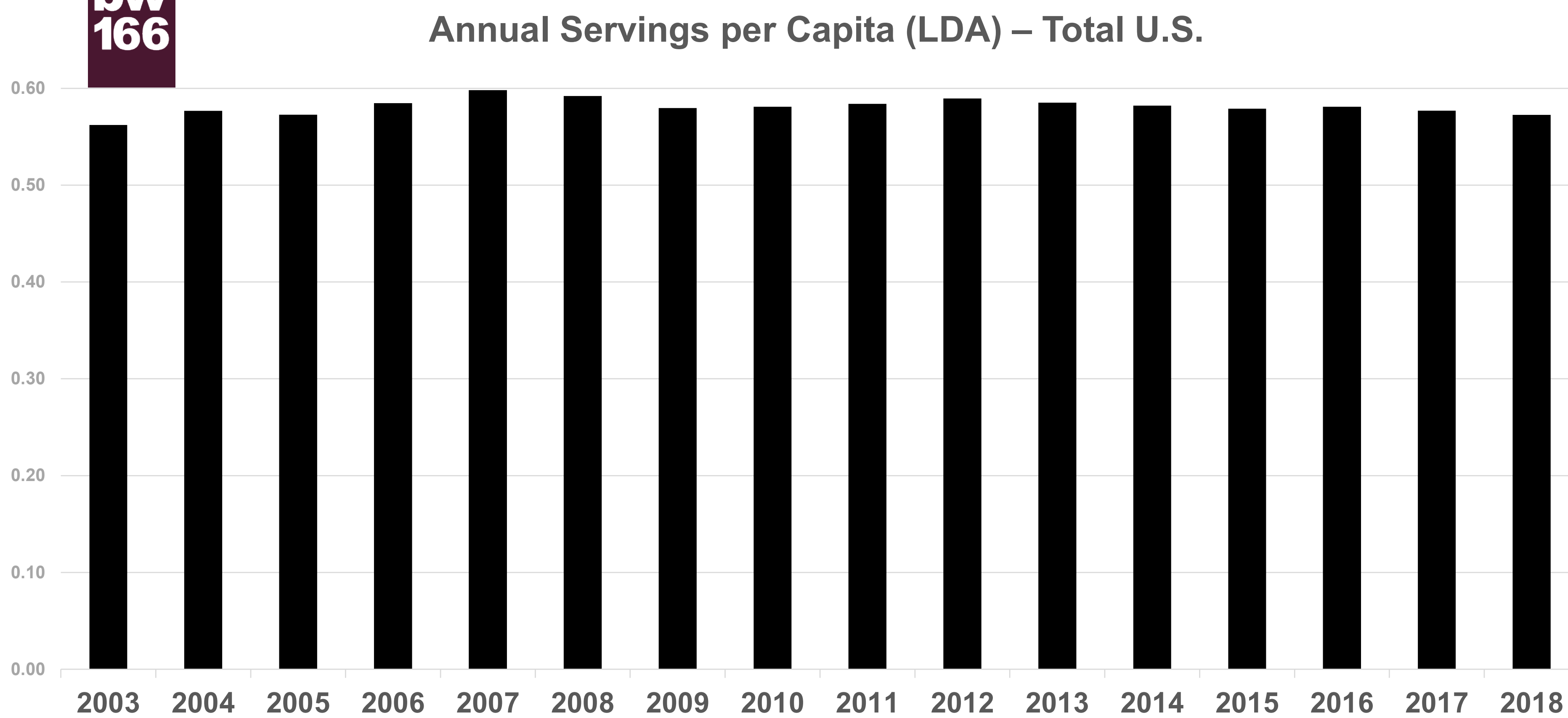
ALCOHOL CONSUMPTION FLAT

Per Capita Alcohol Consumption Flat

Battle for SHARE



Source: BW166

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DIRECT TO CONSUMER

DtC Shipments Still Growing Well, But Less Than In Prior Years

Average bottle price - $40

=10% of Domestic Off Premise Retail $

Source: WINES&VINES SOVOS INTELLIGENT COMPLIANCE

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Shelf Space is at a Premium

FIGHTING FOR ATTENTION

Who are all these consumers?

Baby boomers

Baby Boomers (*1946-1964*)

- Brand Loyal
- Prefers Monetary Rewards
- Traditional
- More likely to do in-store shopping
- Wine Clubs

Gen-X

Gen X "Whatever!"

GENERATION X TRANSITIONS

MOVED FROM:

- Ambivalent
- Cynical
- Slackers
- Cocktail Drinkers

TO:

- Self-Reliant
- Pragmatic
- Hardworking
- Wine Drinkers

<u>Gen X(*1965-1980*)</u>

- Self-professed savers
- Values experiences
- Great work-life balance
- $633/Year on alcohol
- $4330/Year on dinning out
- Prefers technology that
- enhances their daily lives

Millennials

Millennials (*1981-1995*)

- Tech-inclined
- Highly visual
- Seek innovation
- Loves delivery, curated experiences, and authenticity
- $521/Year on Alcohol
- Make up 20% US population
- 84% influenced by user content

Top 10 Alcohol Brands

1A. Craft Beer Brands
1B. Wine Brands
2.Budweiser
3.Corona
4.Smirnoff
5.Tito's
6.Jack Daniels
7.Barcardi
8.Absolut
9.Craft Cider
10.Angry Orchard

Millennial Math in Action: "While the #1 wine of the year is usually $100+, you can buy the #1 whiskey in the world for around $30. And you don't have to finish the bottle in one night." - LeBeau

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Get Ready: Generation Z (*1996-2007*)

Our future or newest customers, also known as iGen's Command ~$40 billion in buying power

They make up 32% of global population

TRENDS

Soda has hit 30 year low

70% spend more than 2 hrs. a day on YouTube

8 second attention Span

Consumes 13 hours of digital media per day

Alcohol Free Drinks

Anything that has CBD

77% Believe doing good should be central part of running a business.

63% Shop on-line because it saves time

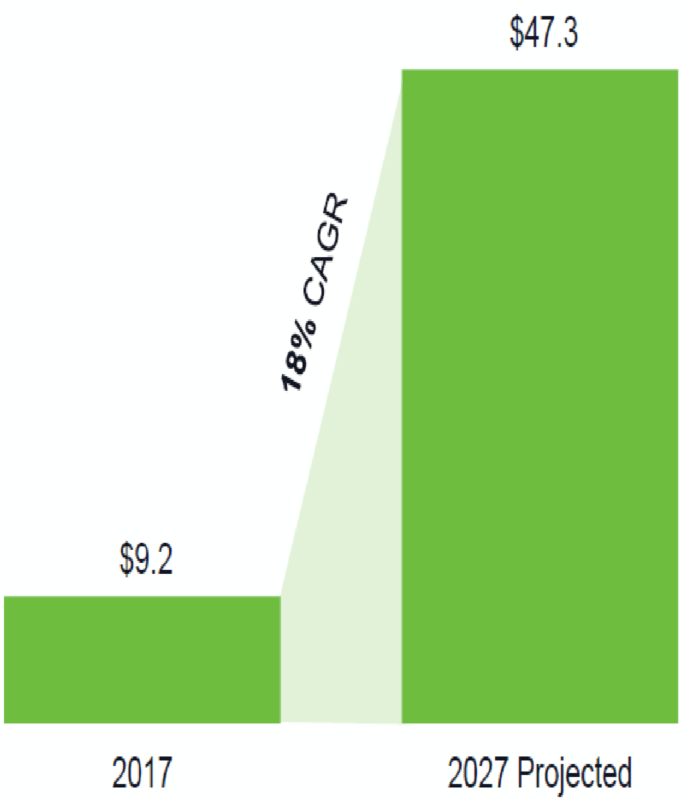
Cannabis Consumers

Consumers skew younger (ages 21-34), high-income (over $100k), well-educated (graduate school), urban without children and extremely valuable shoppers.

79% of consumers are also consuming alcoholic beverages.

STATISTIC OF THE DAY: 2017
Diapers revenue $6.1 billionLegal Cannabis revenue $9.2 billion.

Projected Growth:



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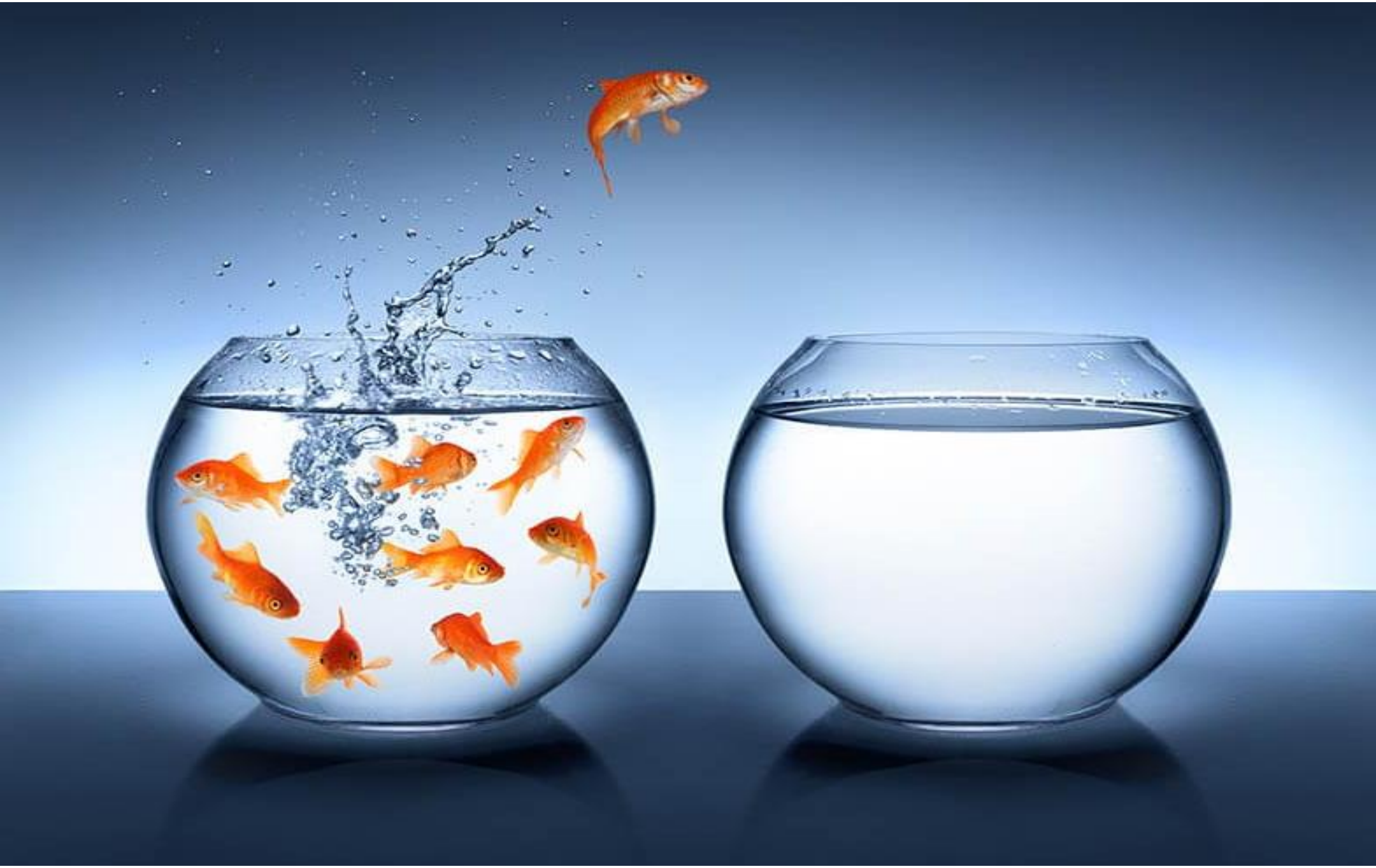
WHERE IS THE OPPORTUNITY NOW?



VARIETAL TRENDS

Cabernet Sauvignon

- Will continue to be #1
- Cabernet outsold Chardonnay by over $31.3MM
- Chardonnay sales are up +0.2%
- Cabernet Sauvignon is growing +3.5%

Pinot Noir

- Sales could surpass those of Pinot Grigio
- Pinot Grigio is the #4 ranking varietal but down 0.5%
- Pinot Noir Ranks #5 and is growing +2.2%

Rose is here to stay

- By Country

France	45%
US	45%
Italy	5%
Other	5%

By Price

<$5	7.4%	+40.4%
$5-8	12.2%	+64.1%
$8-11	21.8%	+32.0%
$11-15	32.5%	+43.8%
$15-20	13.1%	+54.1%
$20+	13.0%	+19.1%

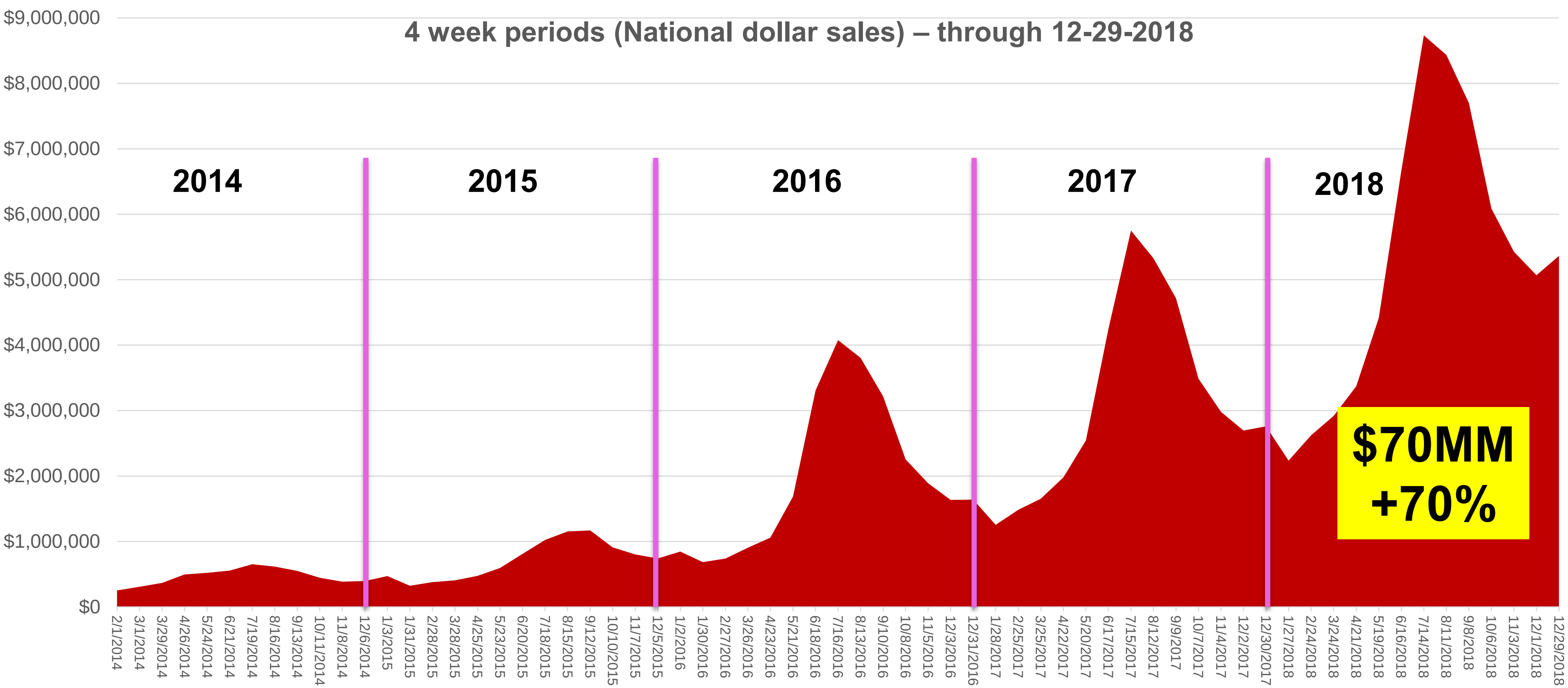
Source: Nielsen TTL US Food/Liquor, 52 Weeks ending 12.29.18

Sustainability

- **66% of consumers** are willing to pay more for sustainable products
- **72% of millennials** are willing to pay more for sustainable products
- …sales of consumer goods from brands with a demonstrated commitment to sustainability have **grown more than 4% globally**, while those without grew less than 1%.
- **1/3** of all consumers buy brands based on social/environmental impact

YES WE CAN

Canned Wine - More than a Fad



Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52 w/e 12-29-2018

KEY TAKE - AWAYS

- Innovation and creativity
- Premiumization at all levels and Alternative Packaging
- Sustainability- consumer want a reason to buy
- Understand consumer trends and adapt marketing
  - Social influencers extremely important
  - Users generate content
- Direct to Consumer Growth – Experience beyond the tasting room
- Education & Data
- United front to combat negative press around wine

THANK YOU

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