

20TH ANNUAL VINEYARD ECONOMICS SEMINAR

MAY 8, 2019

Updates on the Grape and Bulk Wine Market

Change is here – a new market Reality?





CIATTI

GLOBAL WINE & GRAPE BROKERS

PROFESSIONAL BROKERS IN 9 COUNTRIES



LOCALLY BASED TO HELP BUILD YOUR BUSINESS WORLDWIDE

POINTS TO DISCUSS

- ❖ SALES DEMAND
- ❖ BULK MARKET
- ❖ 2018 CRUSH
- ❖ GRAPE MARKET
- ❖ THOUGHTS



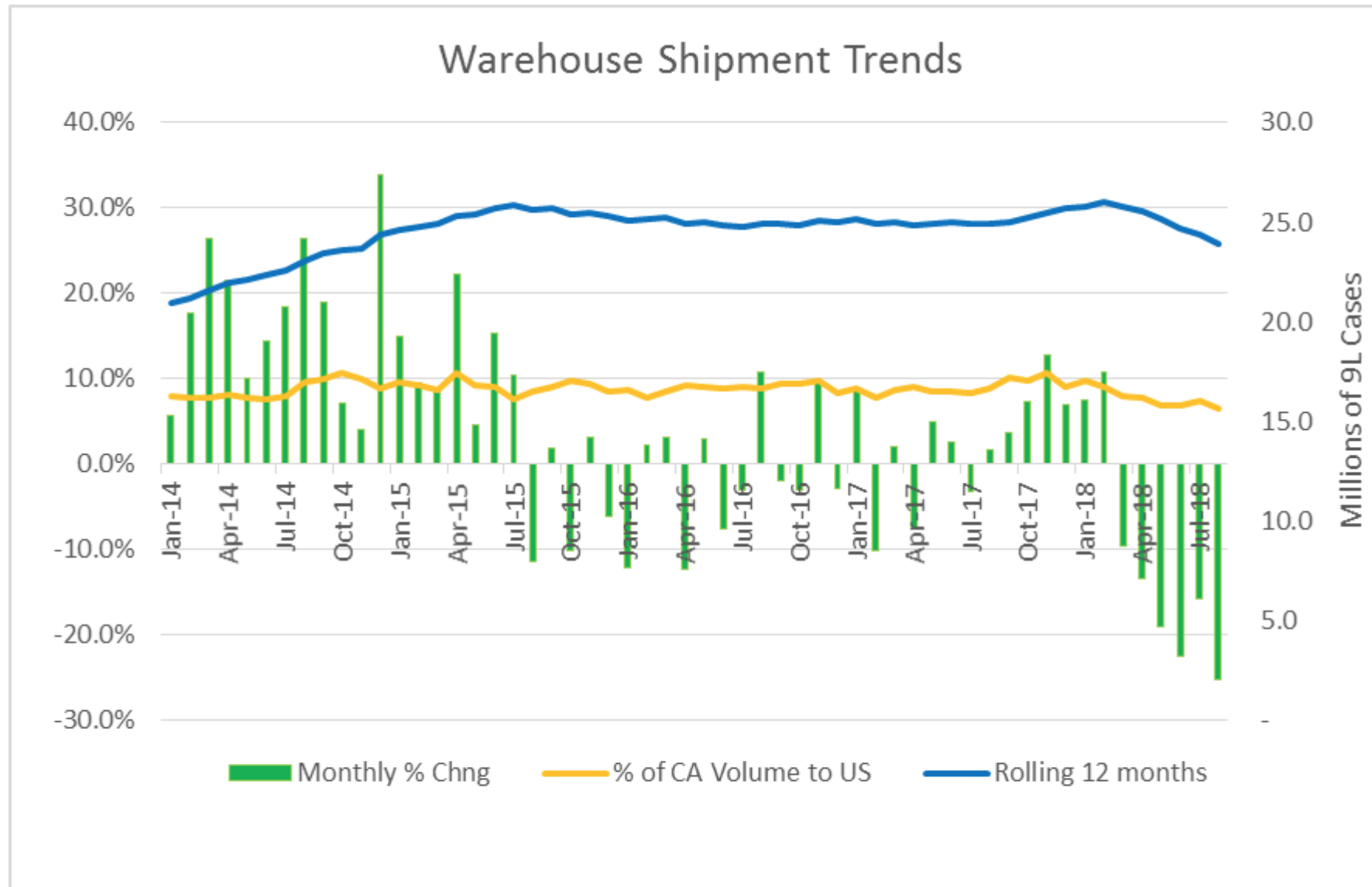
CALIFORNIA MARKET OVERVIEW

- ❖ SLUGGISH SALES GROWTH
- ❖ HISTORIC 2018 CROP
- ❖ BULK MARKET ACTIVITY SLOW
- ❖ BULK INVENTORIES INCREASING
- ❖ **MARKET IS ADJUSTING TO NEW REALITY**



SUPPLY DEMAND DYNAMICS

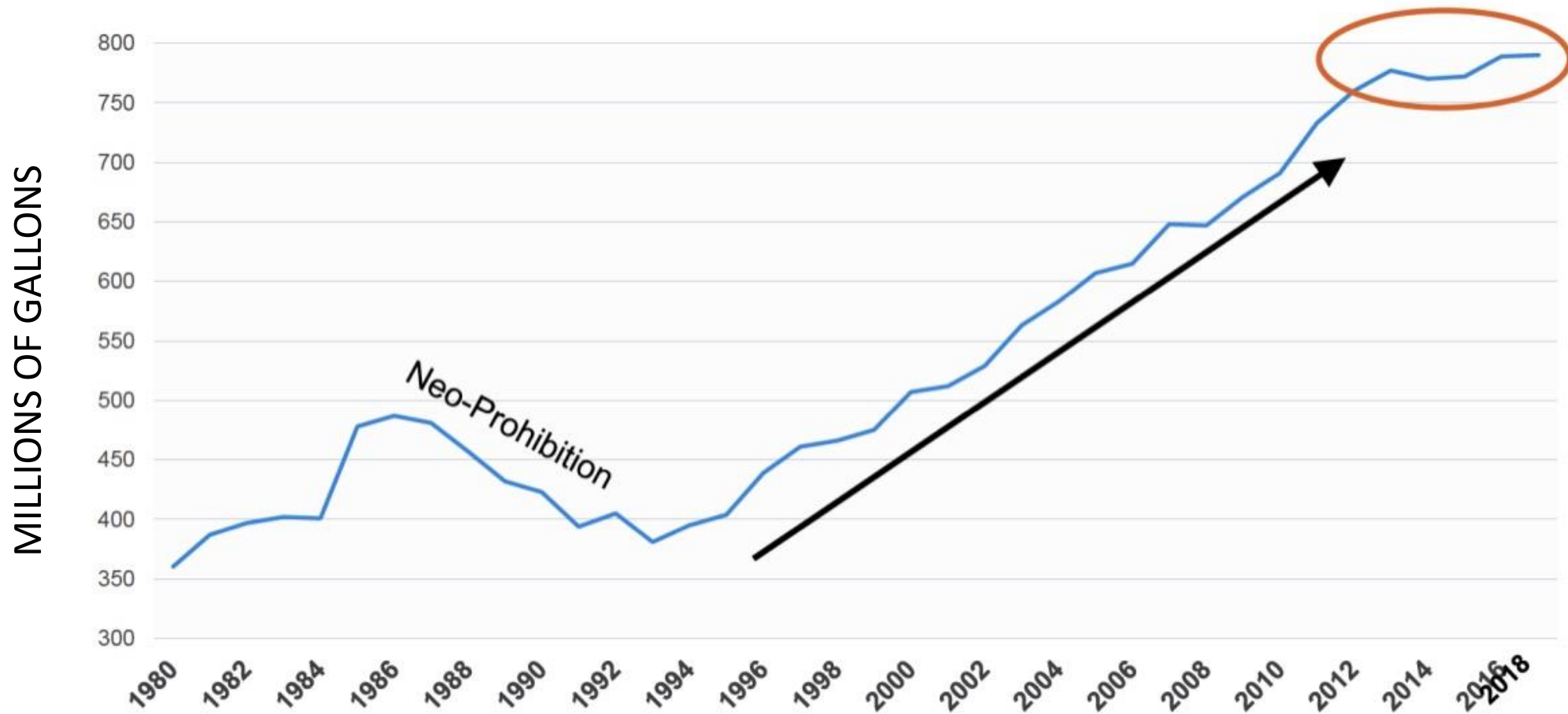
WAREHOUSE SHIPMENT TRENDS



Source: Gomberg-Fredikson through Aug 2018, Silicon Valley Bank

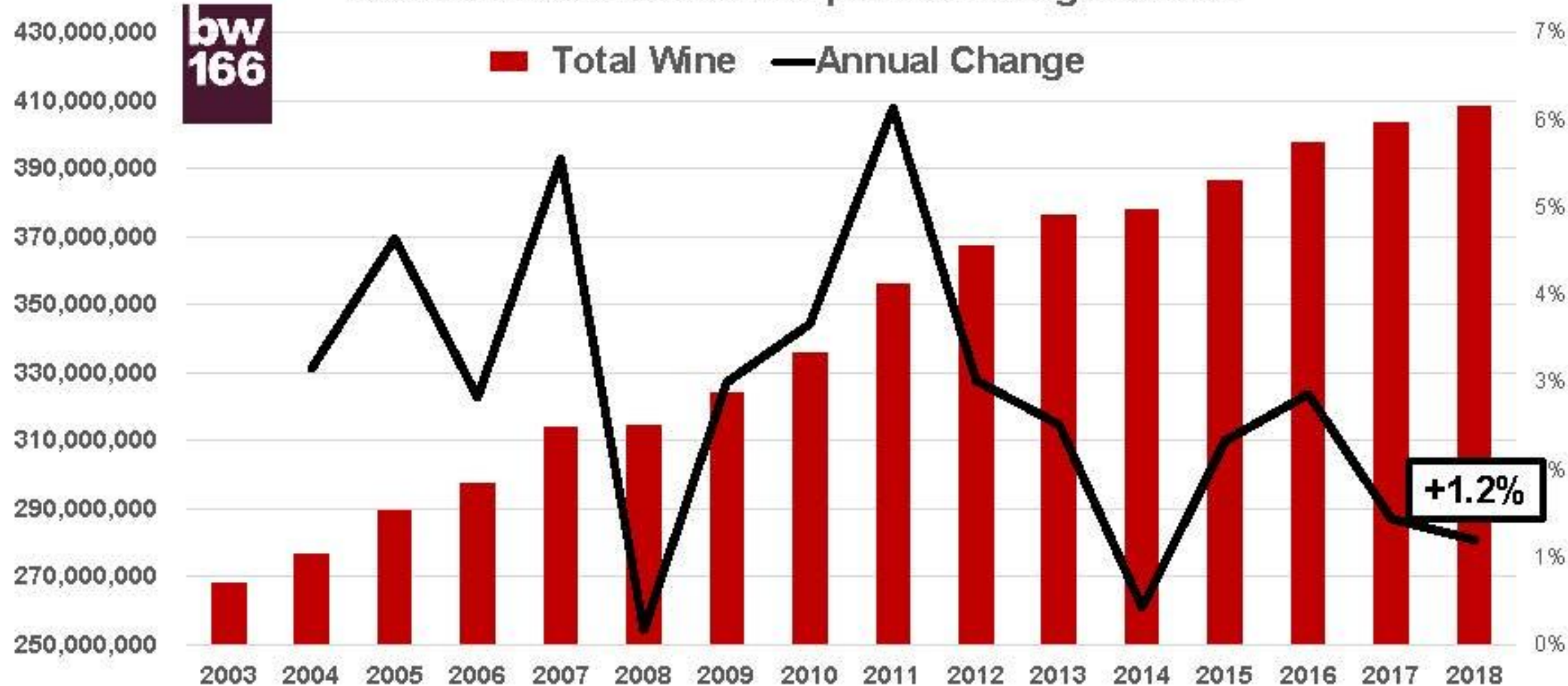
NON-GROWING US WINE CONSUMPTION?

US wine consumption



Wine Market Still Growing, But at a Lower Rate

Annual Wine 9L Cases and percent change vs YAG

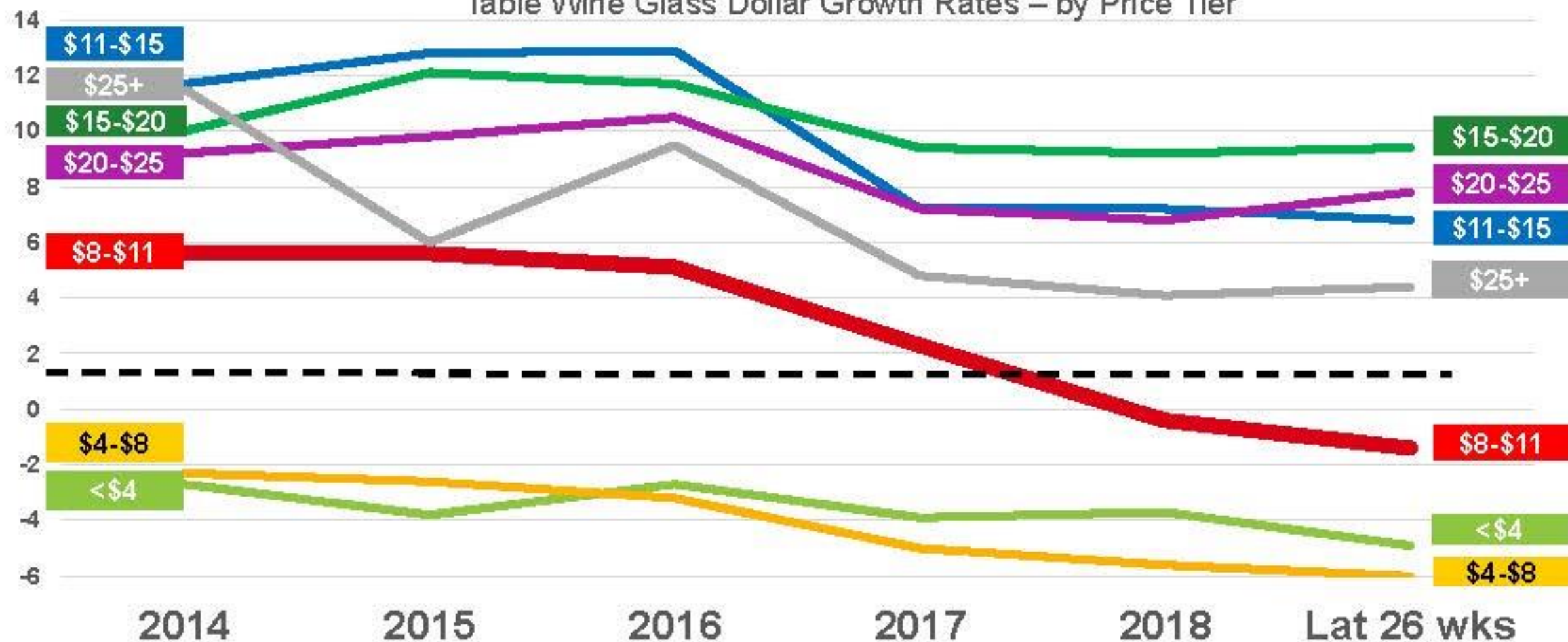


Source: BW166

Slowing Growth Across Several Price Tiers

\$8-\$11 with the biggest drop...

Table Wine Glass Dollar Growth Rates – by Price Tier



Shipments from largest CA producers

Winery	Millions of gallons	Change year over year	Percent change
E. & J. Gallo Winery	132,006	-5,511	-4.2%
The Wine Group	78,686	2,359	3.0%
Constellation Brands	62,624	-1,055	-1.7%
Trinchero Family Estates	28,994	1,458	5.0%
Treasury Wine Estates	19,800	213	1.1%
Delicato Family Vineyards	18,985	1,384	7.3%
Bronco Wine Company	13,047	-1,178	-9.0%
	354,142	-2,330	-0.7%

2018 CALIFORNIA SHIPMENTS

JAN. 2019

TOTAL CA WINE

2%

16%

DOMESTIC

3%

18%

EXPORTS (-14% Bottled; +2% Bulk)

(-5%)

(-10%)

IMPORTS

CASEGOODS

0%

5%

BULK

(-15%)

(-19%)

TOTAL US Market

IMPORT & DOMESTIC

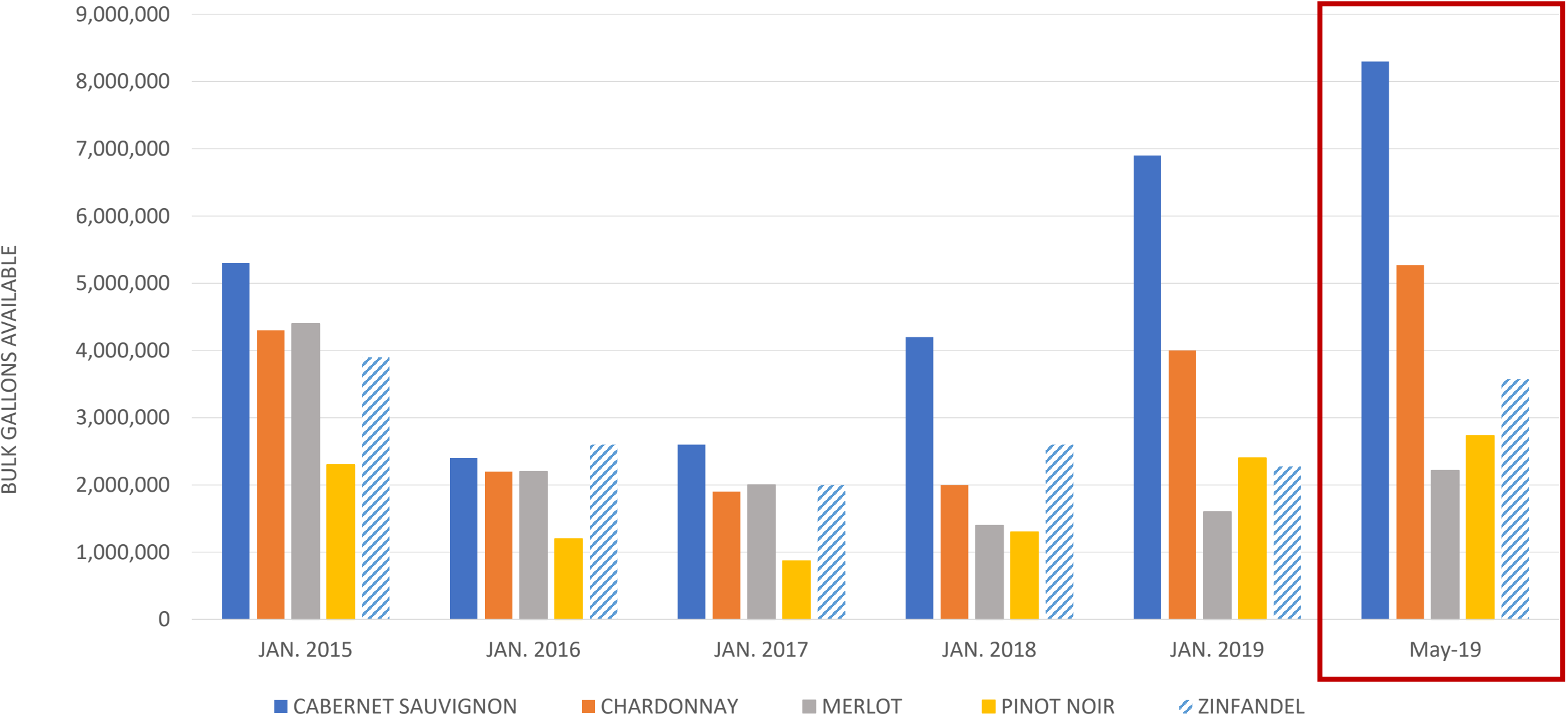
1%

11%

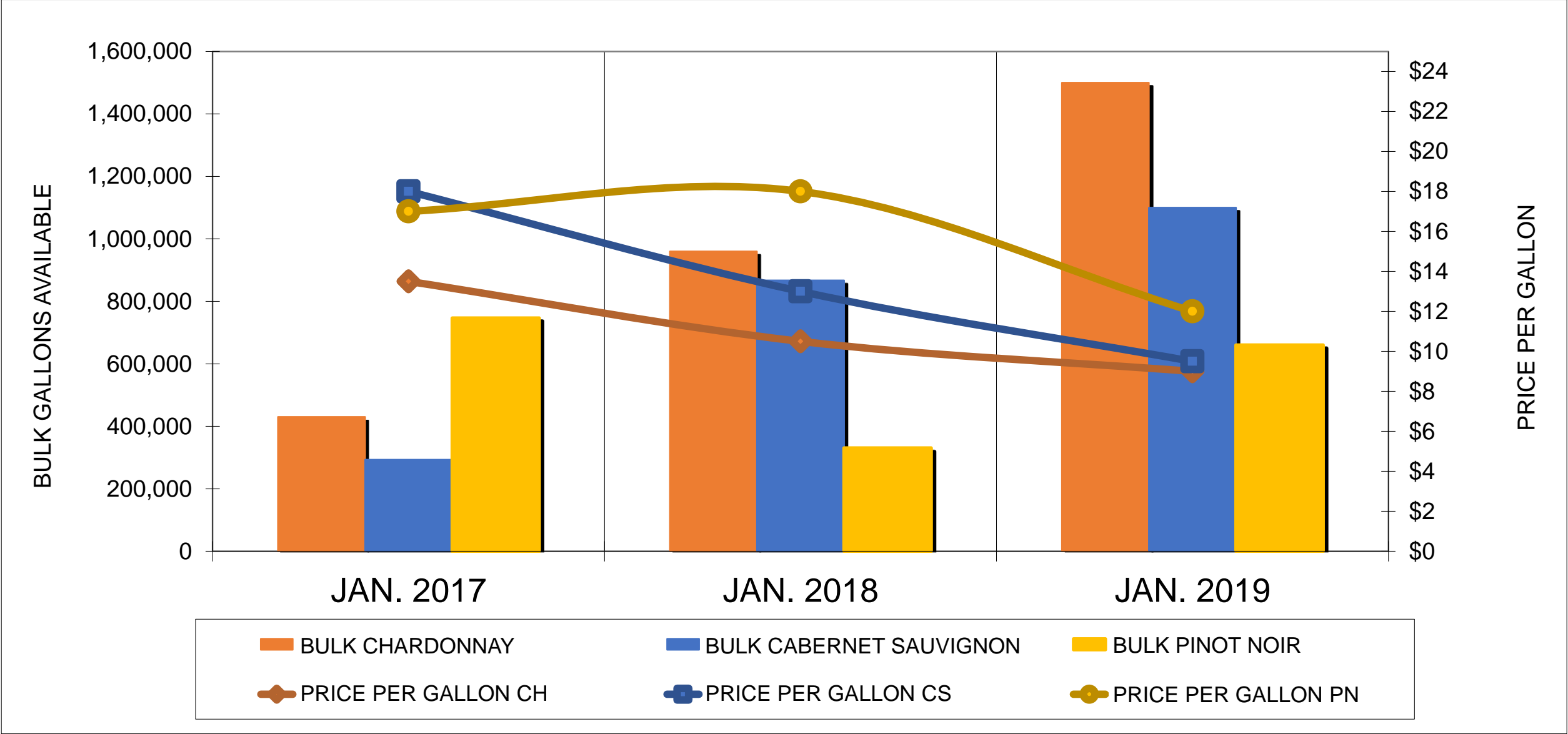


CALIFORNIA BULK MARKET

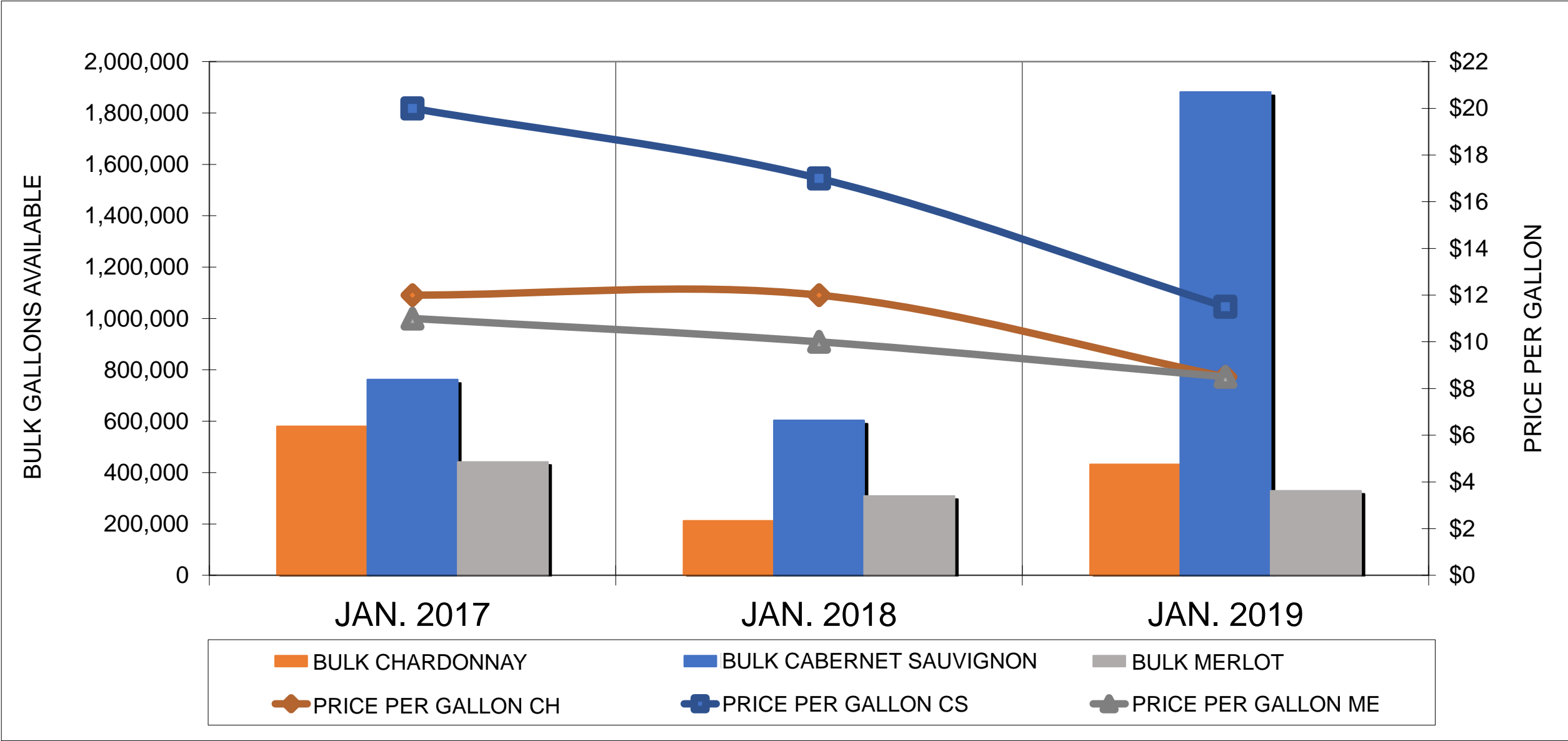
CALIFORNIA BULK WINE INVENTORY

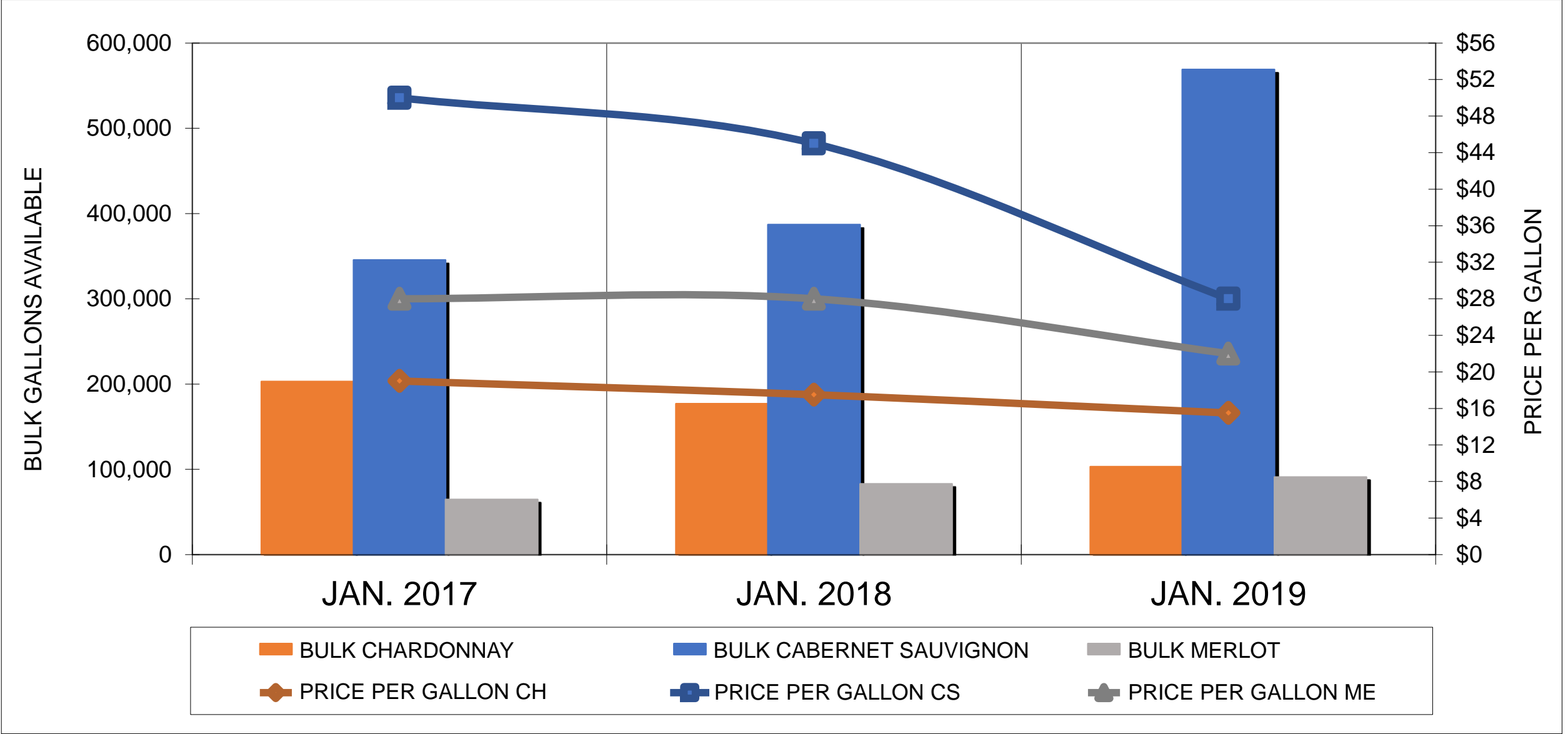


CENTRAL COAST

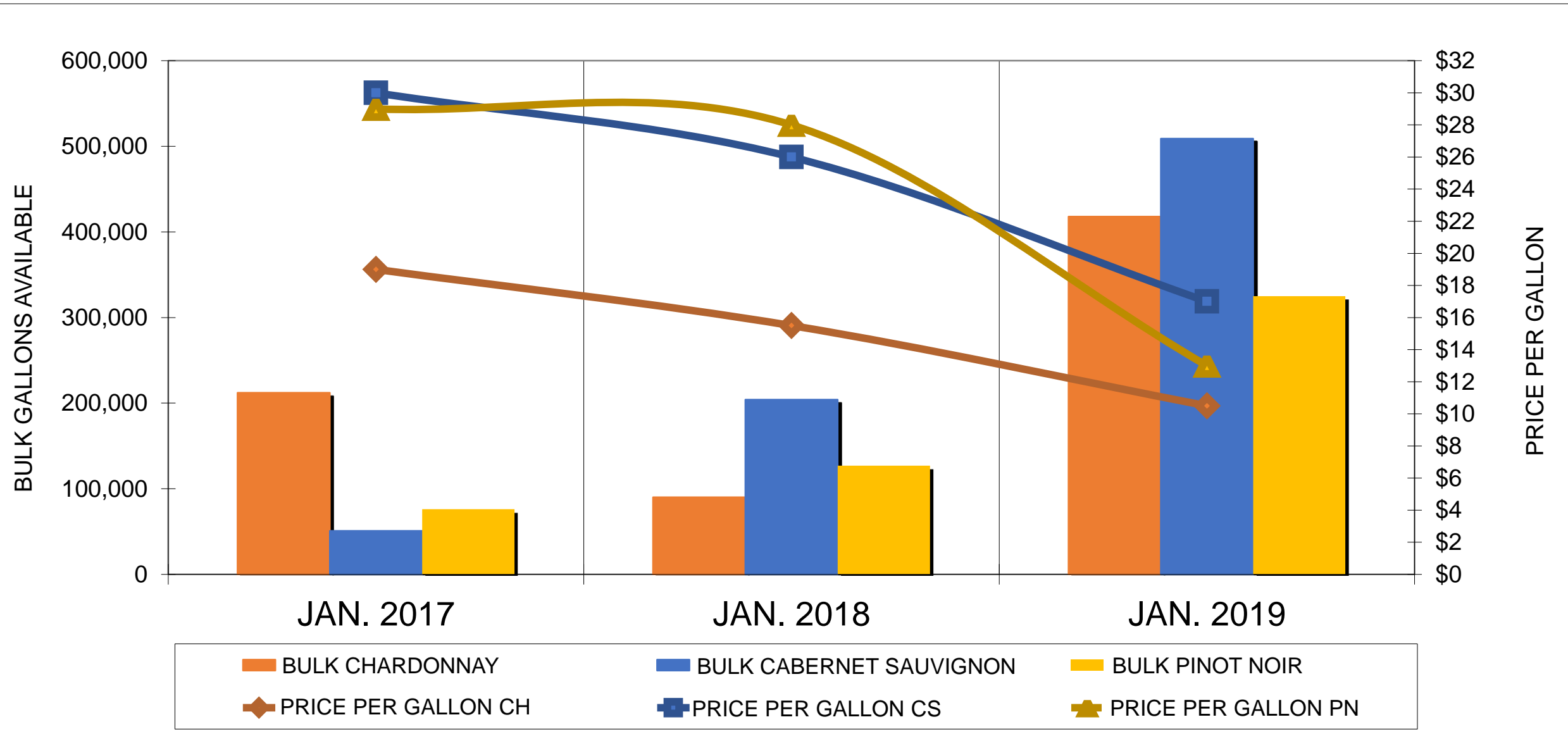


LAKE / MENDOCINO





SONOMA



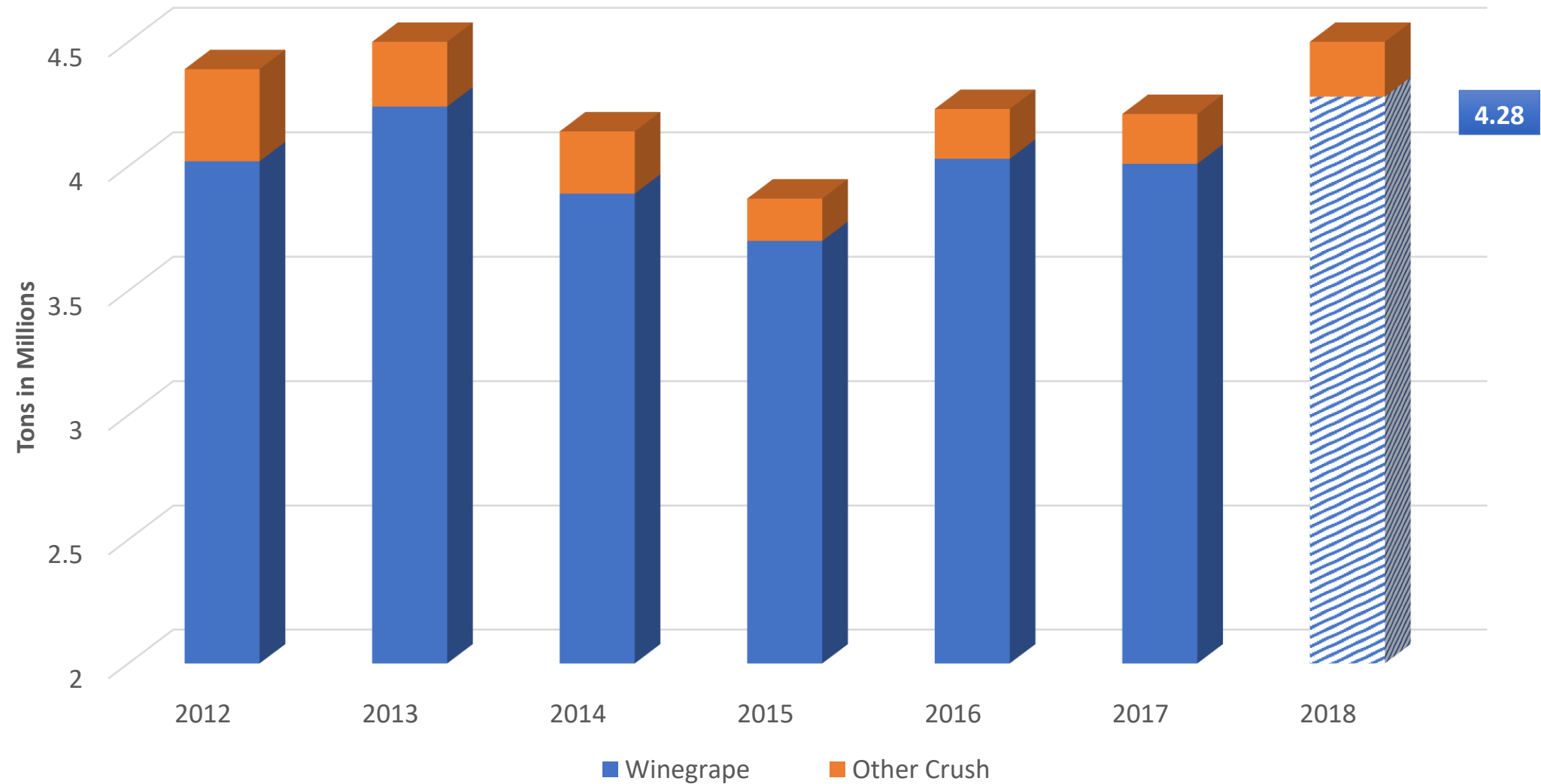
BULK MARKET

- ❖ ACTIVITY HAS BEEN SLOW AND PRICING HARD TO PIN DOWN
- ❖ BUYERS ARE LOOKING FOR DEALS WITH LOWER PRICING
- ❖ RENEWED ACTIVITY BY NEGOTIANTS IN THE LAST FEW MONTHS
- ❖ BULK SELLERS HAVE STARTED TO REALIZE NEW MARKET REALITY
- ❖ WINERIES ALSO LOOKING TO MOVE EXCESS INVENTORY

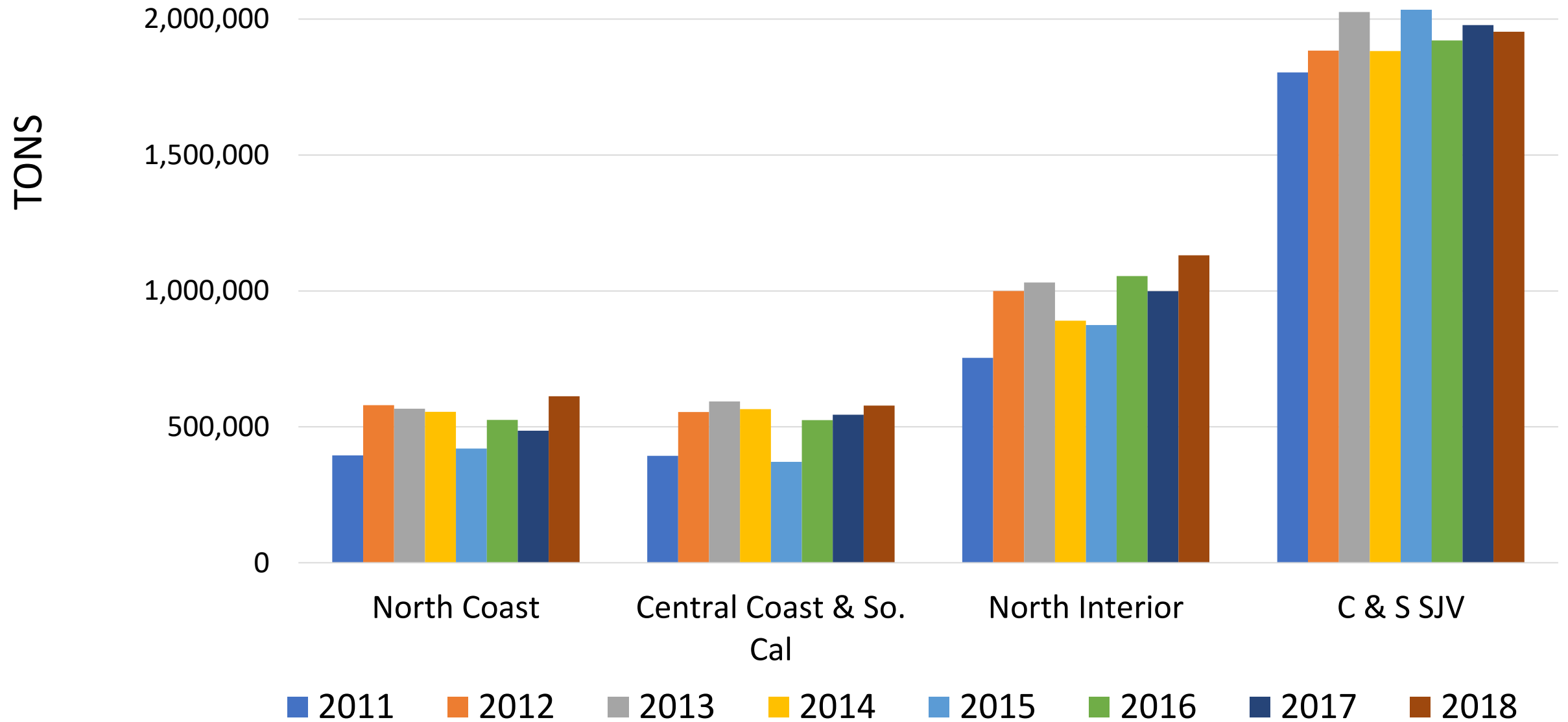


2018 CRUSH

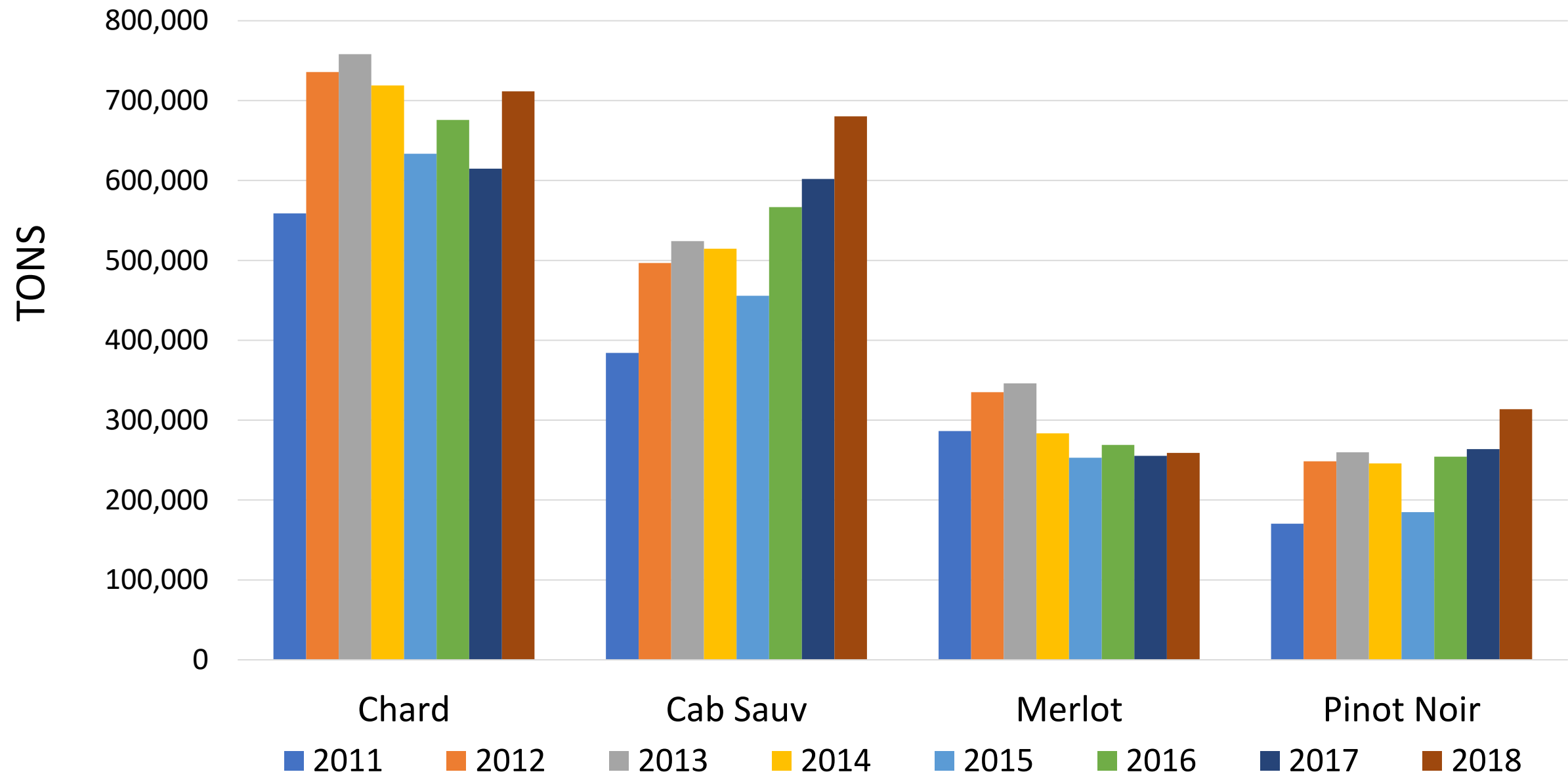
CALIFORNIA STATEWIDE GRAPE CRUSH



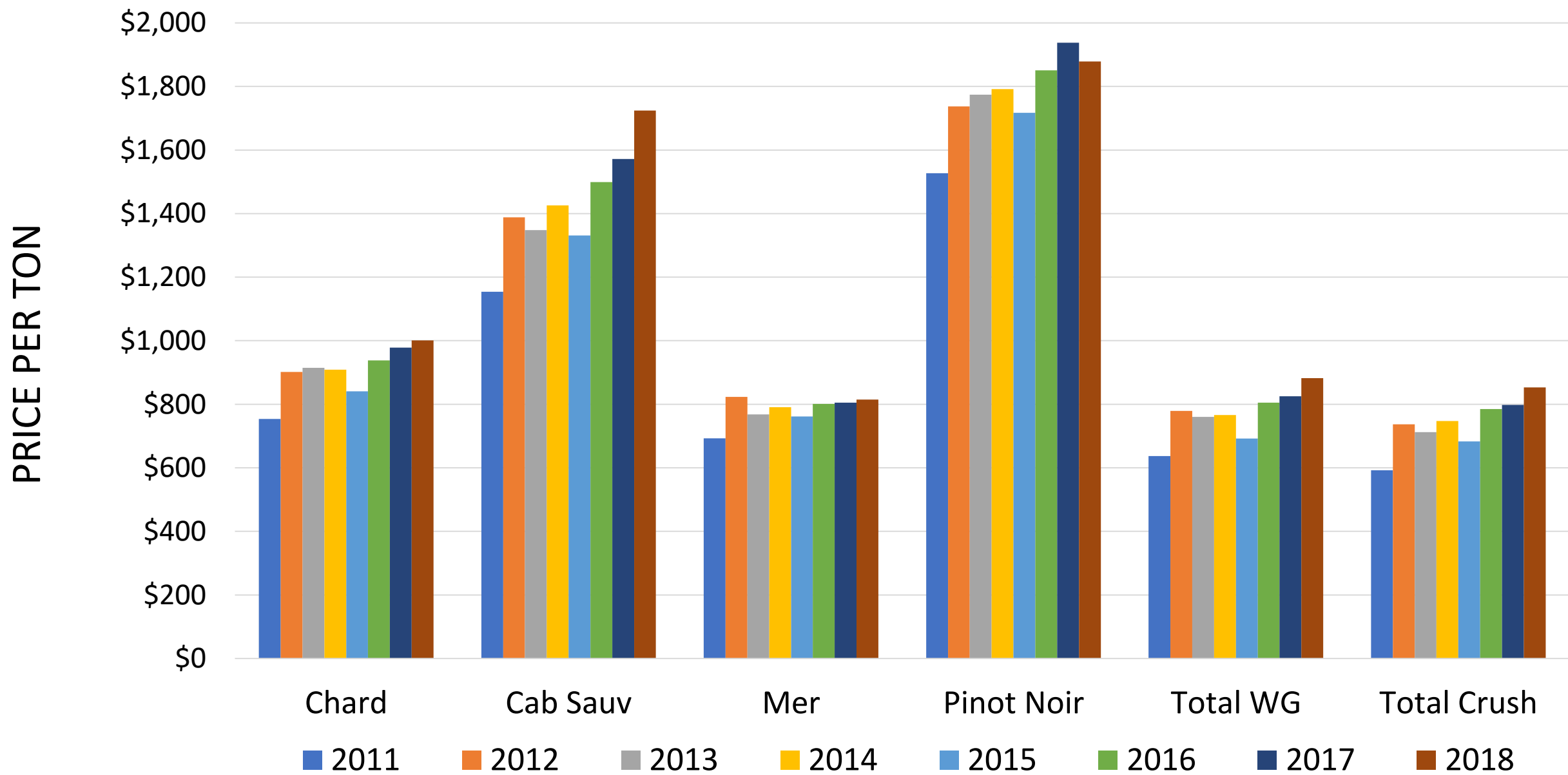
STATE REGIONAL TOTAL TONS



STATE TONNAGE TOTAL BY VARIETY



STATEWIDE AVERAGE PRICES



THE “BIGGESTS”

❖ NAPA

- ❖ TOTAL HARVEST
- ❖ CS

❖ SONOMA

- ❖ TOTAL HARVEST
- ❖ CHARD, SB, CS, PN

❖ MENDOCINO

- ❖ TOTAL HARVEST
- ❖ CS, PN

❖ LAKE COUNTY

- ❖ TOTAL HARVEST
- ❖ CS

❖ CLARKSBURG

- ❖ TOTAL HARVEST
- ❖ CHARD, PN, PG, SB, PS

❖ TOTAL STATE

- ❖ TOTAL HARVEST
- ❖ PG, CS, PN, PS

❖ LODI

- ❖ TOTAL HARVEST
- ❖ CS, PN, PG, SB, PS

❖ MONTEREY

- ❖ TOTAL HARVEST
- ❖ PN

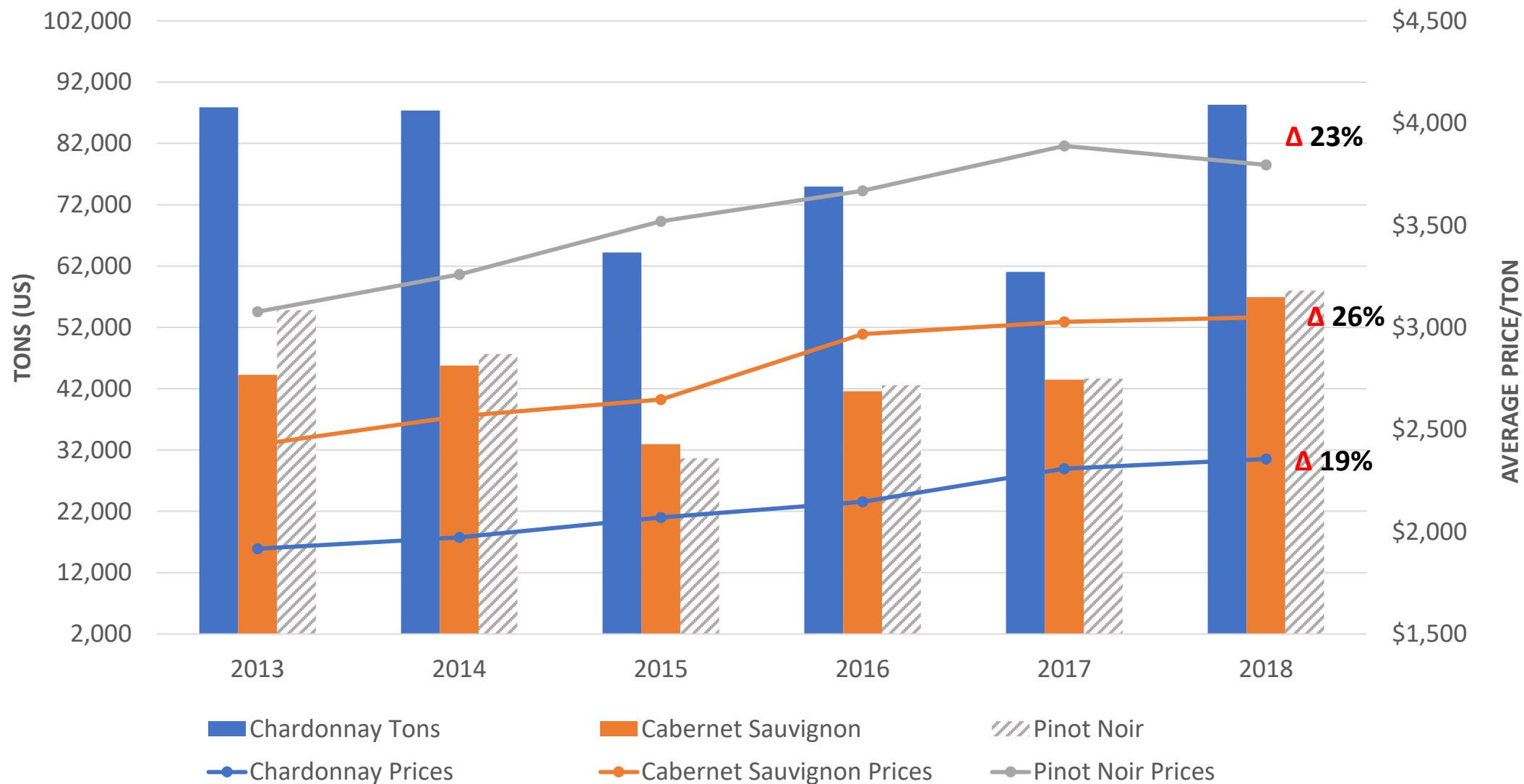
❖ SAN LUIS OBISPO/SANTA BARBARA

- ❖ TOTAL HARVEST
- ❖ CS, PN

2018 HARVEST – CROP SIZE

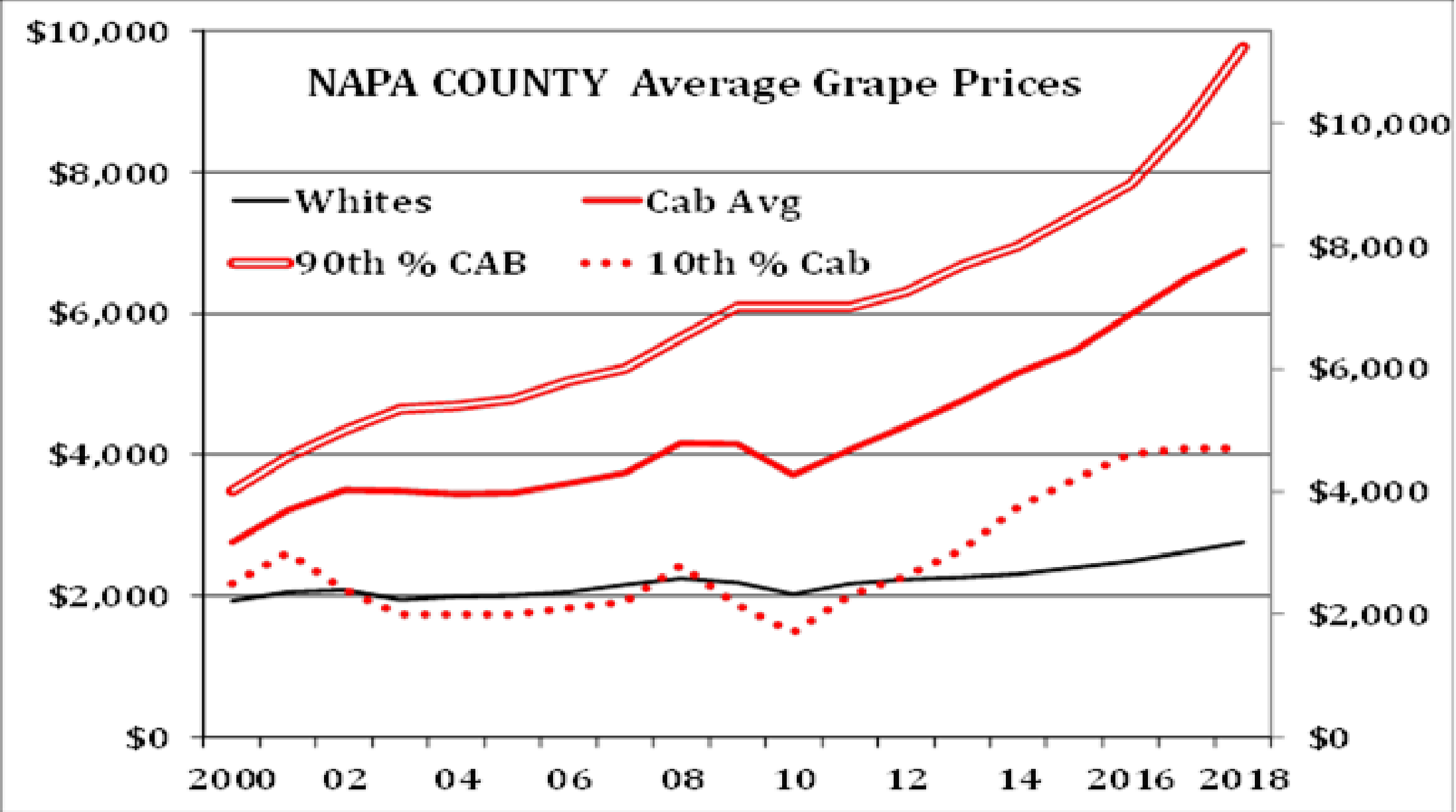
AVERAGE CHANGE IN WINE GRAPE YIELDS (2017-2018)	
REGION	CHANGE
NAPA	29.5%
SONOMA	33.3%
MONTEREY	5.9%
LODI	14.4%
FRESNO	-1.2%
CALIFORNIA STATE	6.6%

SONOMA COUNTY PRICING DYNAMICS



▲ Average Growth % 2013 to 2018

NAPA COUNTY PRICING TRENDS



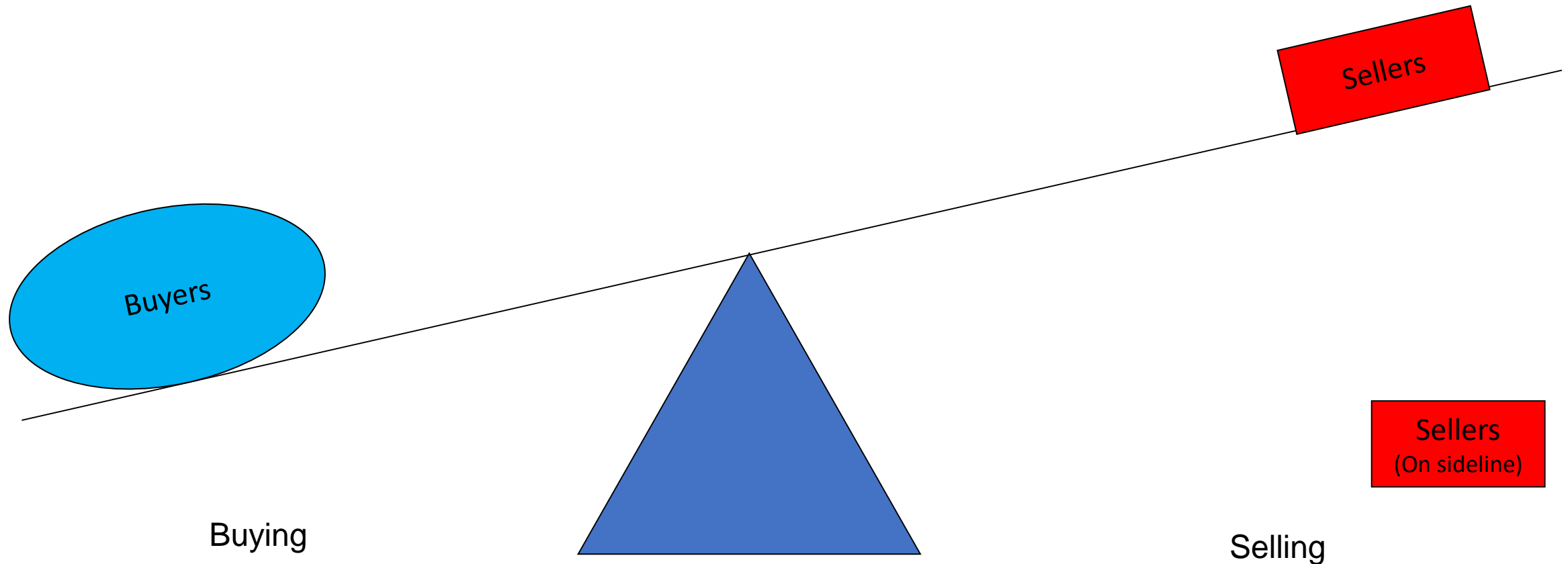
Source: The Correia Company

A stylized illustration of a bunch of grapes in the background. The grapes are represented by circles in shades of olive green and tan, with grey leaves interspersed among them.

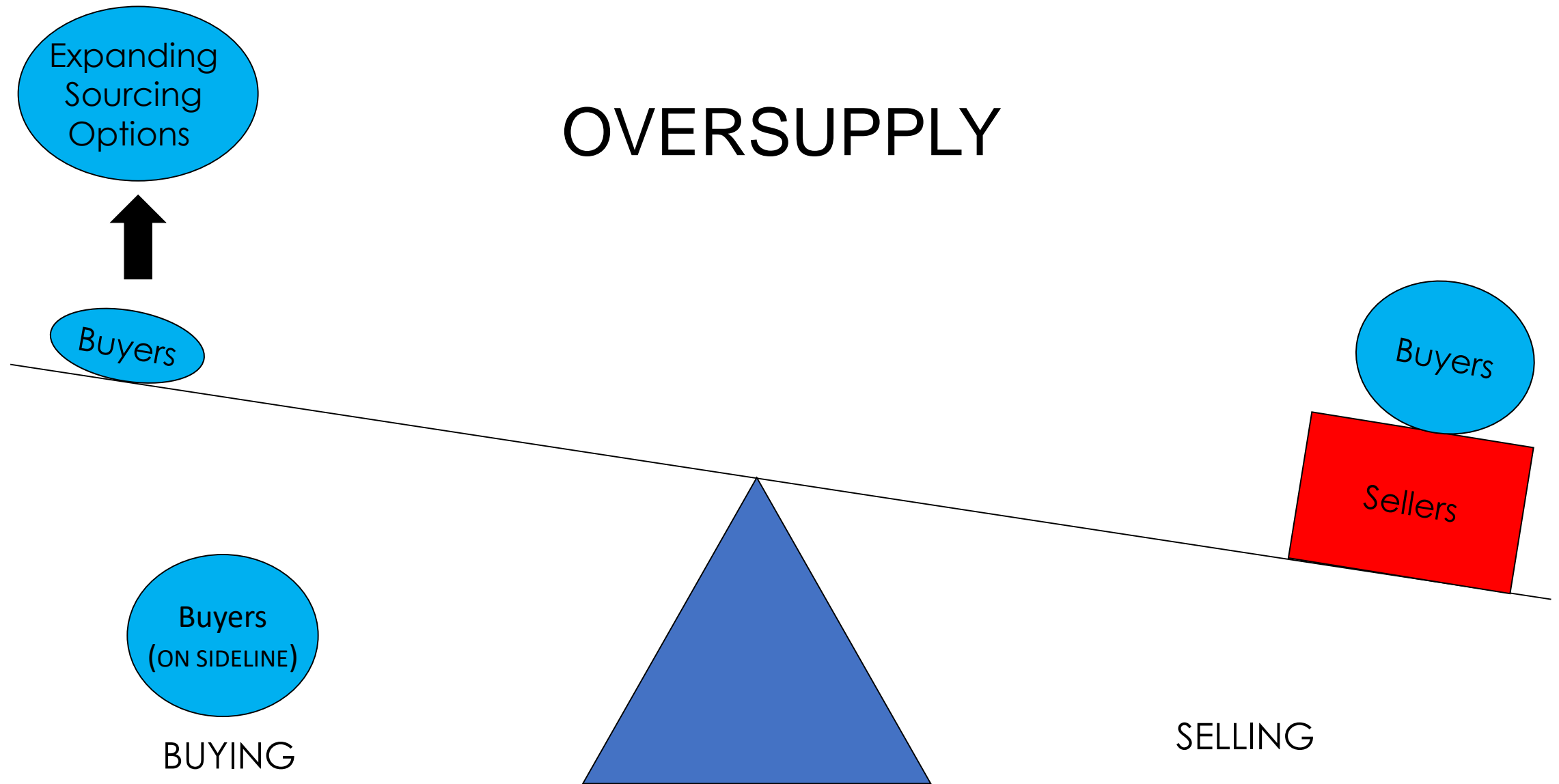
2019 GRAPE MARKET

SUPPLY/DEMAND DYNAMICS 2016 – EARLY 2017

Tight Supply Market



SUPPLY/DEMAND DYNAMICS TODAY

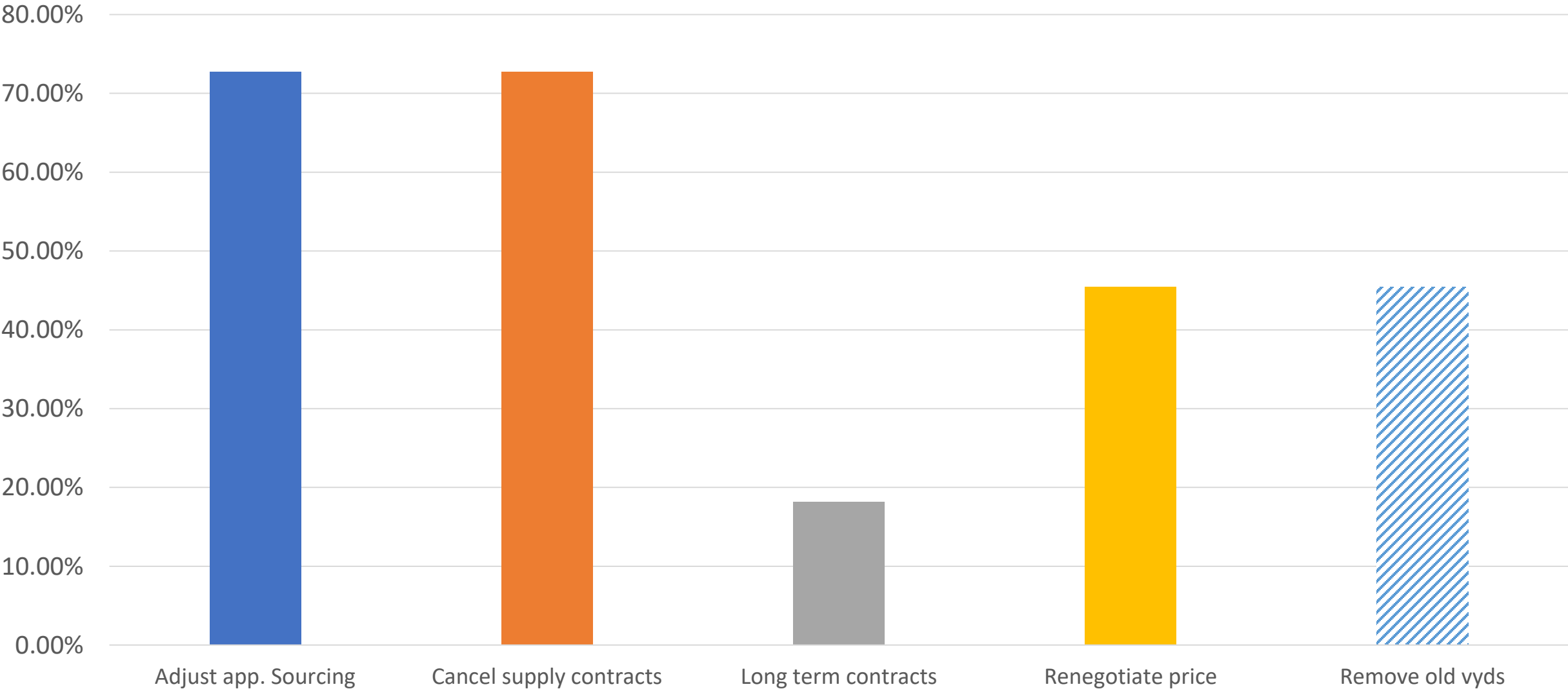


**NEW
REALITY!
MARKET HAS
CHANGED**



MARKET SURVEY 2019

How have your grape purchasing strategies changed



2019 GRAPE MARKET

- ❖ EARLY MARKET HAS BEEN EXTREMELY SLOW
- ❖ WINERIES GRAPPLING WITH INVENTORY FROM LARGE 2018 HARVEST, AND IN MANY CASES ARE SELLERS THEMSELVES
- ❖ MORE SPOT MARKET AVAILABILITY AS WINERIES HAVE GIVEN CONTRACT NOTICES
- ❖ BUYERS RELUCTANT TO BUY UNTIL THEY KNOW THEY HAVE A REAL NEED, OR THE 2019 CROP DICTATES IT
- ❖ DELAYED CRUSH REPORT AND THE GALLO/CONSTELLATION TRANSACTION HAVE ALSO CAUSED MARKET HESITATION



GLOBAL MARKET

GLOBAL MARKET

❖ LARGE 2018 HARVEST CHANGED MARKET BACK QUICKLY!

❖ 2017

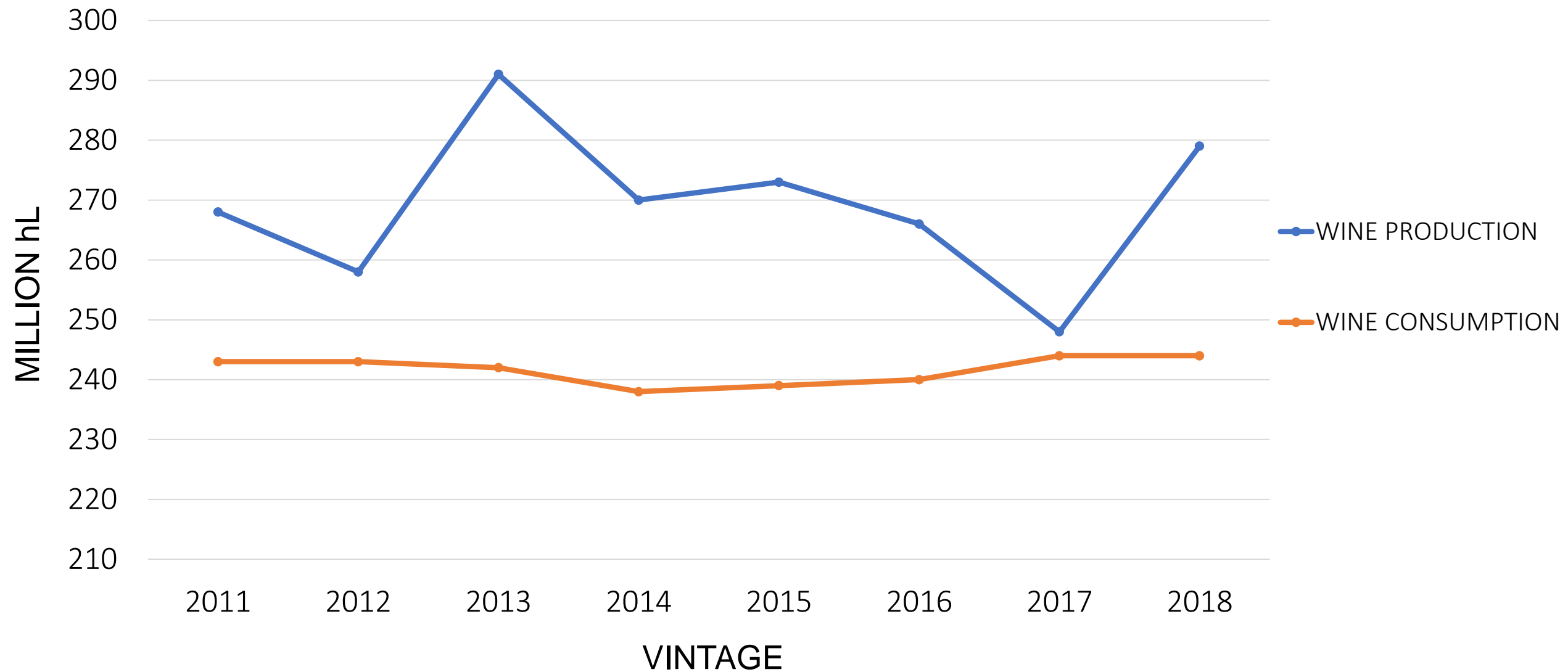
- VERY SMALL 2017 HARVEST CAUSED MARKET TO TIGHTEN
- DEMAND/PRICES INCREASED

❖ 2018

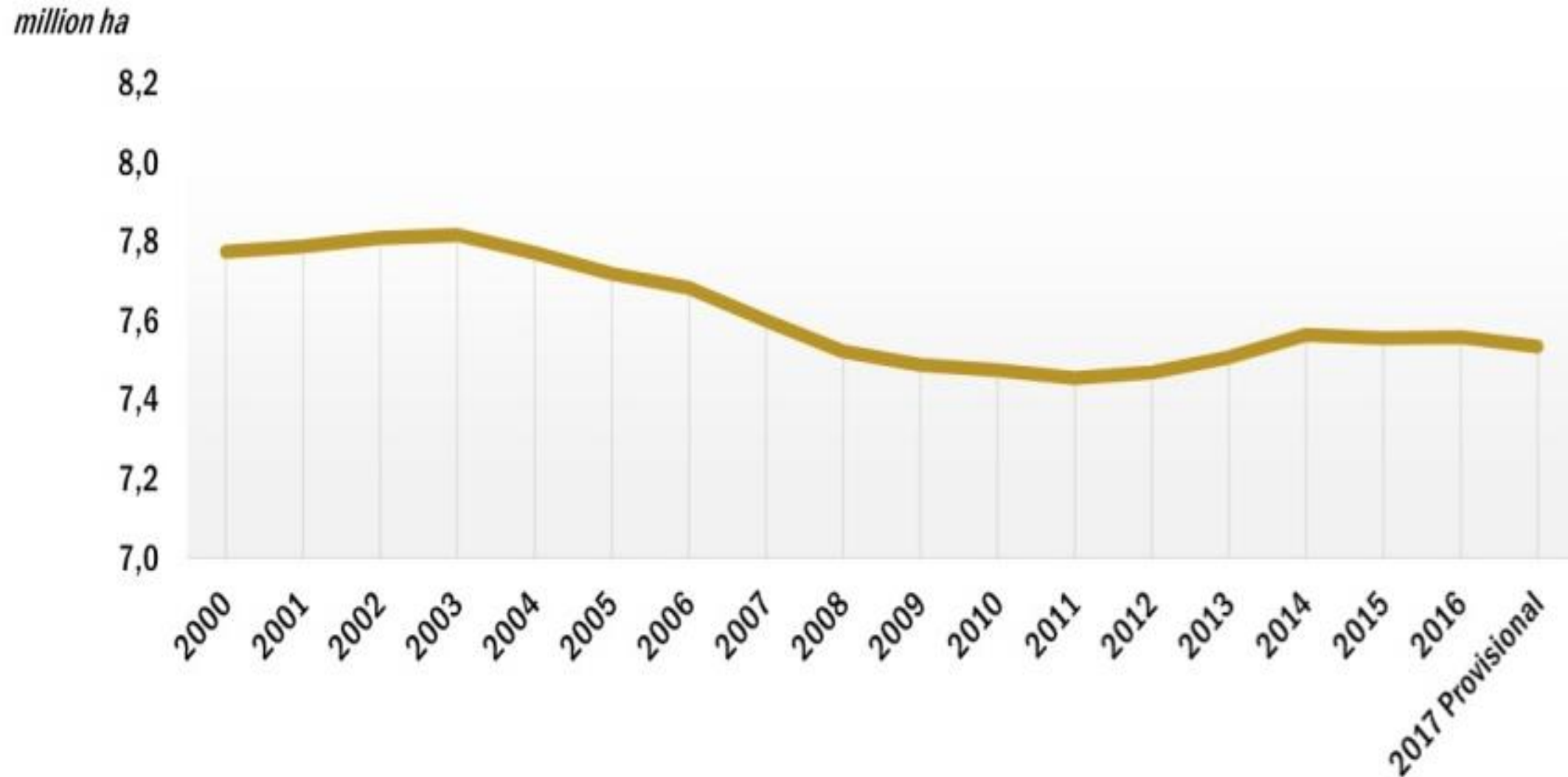
- YIELDS UP 13%
- PRICES AND DEMAND FOR BULK WINE HAVE DECLINED IN ALMOST ALL REGIONS

❖ **BACK TO NORMAL?**

GLOBAL SUPPLY / DEMAND



GLOBAL GRAPE ACREAGE



7.5 MILLION HA
(18.5 million acres)

CHILE

'14	'15	'16	'17	'18	'19 Est.
1.5 M	2.0 M	1.5 M	1.4 M	2.0 M	1.7

	\$ / GAL. DLVD	TREND
CABERNET SAUVIGNON	\$3.00 – 4.10	→
MERLOT	\$3.10 – 4.20	→
CHARDONNAY	\$3.60 – 4.20	↑
PINOT NOIR	\$4.10 – 5.10	→

- ❖ QUALITY CONTINUES TO IMPROVE, ESPECIALLY ON THE HIGH END
- ❖ STRONG PLAYER IN CS, ME, PN, AND SB FOR US MARKET
- ❖ ACTIVE SALES SEASON
- ❖ FREE TRADE WITH MOST COUNTRIES

THOUGHTS?



ACTIONS TO TAKE

- ❖ ADJUST YOUR EXPECTATIONS - BE OPEN TO THE REALITIES OF THE NEW MARKET PLACE
 - ❖ SOMETIMES THE FIRST OFFER IS THE BEST OFFER
- ❖ STRENGTHEN RELATIONSHIPS WITH CURRENT BUYERS – RECOGNIZE THEIR NEEDS
- ❖ MANAGE INPUTS AND ASSETS TO MAINTAIN PROFITABILITY
- ❖ DEVELOP A STRATEGY : SHORT TERM – ADAPT AND ADJUST
LONG TERM – PROSPERITY AND PROFITABILITY

SUMMARY/CONCLUSION

- ❖ WE HAVE BEEN THROUGH THIS BEFORE
- ❖ CONSUMERS WILL CONTINUE TO DRINK CALIFORNIA WINE
- ❖ PREMIUM SALES GROWING – BUT AT SLOWER RATES
- ❖ NEW BRAND OPPORTUNITIES EXIST TO UTILIZE THIS AVAILABLE SUPPLY
- ❖ CAPITALIZE AND INVEST IN THOSE OPPORTUNITIES
- ❖ *MANAGE INVENTORY!!!!!! HIGH COST INVENTORY IS NOT A POSITIVE IN OUR INDUSTRY – ESPECIALLY NOW!*

FINAL THOUGHT

DON'T BE FEARFUL

TODAY'S CHALLENGES ARE TOMORROW'S OPPORTUNITIES

THANK YOU



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