Winegrape Market Update

Allied Grape Growers

California Grape Supply and the Winegrape Market- What to expect as we move forward...

Jeff Bitter & Kyle Collins

April 6, 2023

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AGG Winter Report - 2023

Apprehension

According to *Oxford Languages* (Google's on-line dictionary), the definition of the word apprehension is "anxiety or fear that something bad or unpleasant will happen." Interestingly, this word is one we have been using to describe the actions (or lack thereof) of most grape buyers contemplating future grape purchases since the end of the 2022 harvest.

In 2021, it seemed that the second the last grape was delivered, wineries throughout the state were tripping over themselves to procure supply for 2022 and beyond. We negotiated (and renegotiated) hundreds of grape purchase agreements starting in November of 2021, with sales activity remaining strong throughout the winter and into the spring of 2022. The 2022 grape market ended up cleaning up very nicely for almost 100 percent of the varieties and regions, stimulated by the April frost and that horrendous heat wave the week of Labor Day.

Grape buyer attitudes this post-harvest have exhibited much more, well…… apprehension. Why the apprehension all the sudden? What exactly are the buyers anxious about or fearful will happen to them that is bad or unpleasant? Given the state of the economy, there's likely a number of things that are on their minds when it comes to market stability. We know the majors: inflation, recession, interest rates and generally waning consumer confidence over the last year.

On top of that, we have "state of the wine world" issues regarding grape/wine supply and demand. The majors here are the strength of the U.S. dollar, the China/Australia debacle, Europe's ever-declining consumption and South America's current hunger to dump red wine. And then we consider the "state of the consumer." The majors here are no alcohol/low alcohol trends, alternative drinks preferences, dominating spirits categories, and an "indifferent-to-wine" Gen Z and younger Millennial crowd (ages 21 to mid-30s).

Failing to provide any tailwind, 2022 California wine shipments were flat - again. That means the only way to grow in this environment is to steal someone else's share. It's harder to take something from someone than it is to grow along side them. Throw the never-forecasted-to-end war in Ukraine as some icing on the headwind-cake and suddenly the newly developed apprehension posture seems a bit more understandable.

Most of these same challenges (or threats) actually existed a year ago, but somehow today it feels more unstable. The biggest factor contributing to buyer appreh… may be something that wasn't even mentioned in the laundry li… that's grape price.

www.alli…

Definition of Apprehension

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"Anxiety or fear that something bad or unpleasant will happen"

Source: Oxford Languages, 2023

Why Apprehension?

- Economic Pressures
  - ✓ Interest Rates
  - ✓ Inflation (increasing costs)
  - ✓ Recession Potential
  - ✓ Waning Consumer Confidence

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Why Apprehension?

- Global Pressures
  - ✓ Strength of US Dollar
  - ✓ Declining World Consumption
  - ✓ Geopolitical Issues
  - ✓ Logistics Challenges

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Why Apprehension?

- Consumer/Beverage Market Pressure
  - ✓ No/Low Alcohol Popularity
  - ✓ Alternative Drink Options
  - ✓ Demographic/Generational Concerns
  - ✓ Lack of Industry Growth (Volume)

Why Apprehension?

Grape Prices Are

….and supply is generally tighter

What's been securing supply/demand stability?

Three short crops

Anchoring pessimism regarding weather/perils

Modest planting rates

"Reduced" impact from imports

More contracted grapes, less on spot market

Common Theme: <u>Supply Limitation</u>

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.....And what's threatening supply/demand stability today?

Economic uncertainty

Global competition/pressure of various kinds

No material proof of a growing consumer base

"Under-performance" of the largest wineries

Common Theme: Demand Pessimism

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The current state of our grape market is a function of challenged demand being offset by limited supply.

Annual Nursery Survey Review

and

Vineyard Removal Estimates

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2023 Survey of Grapevine Nurseries

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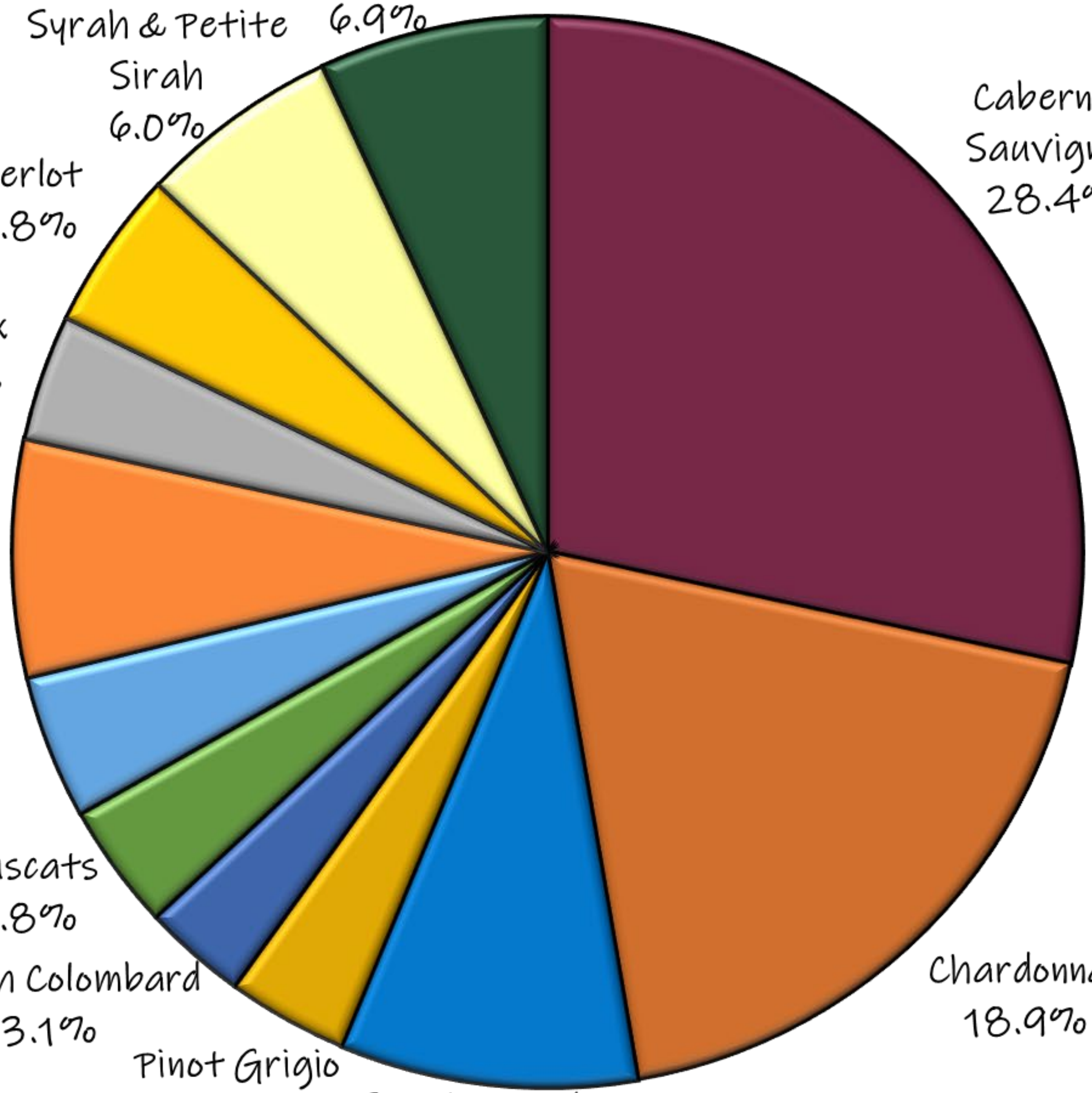
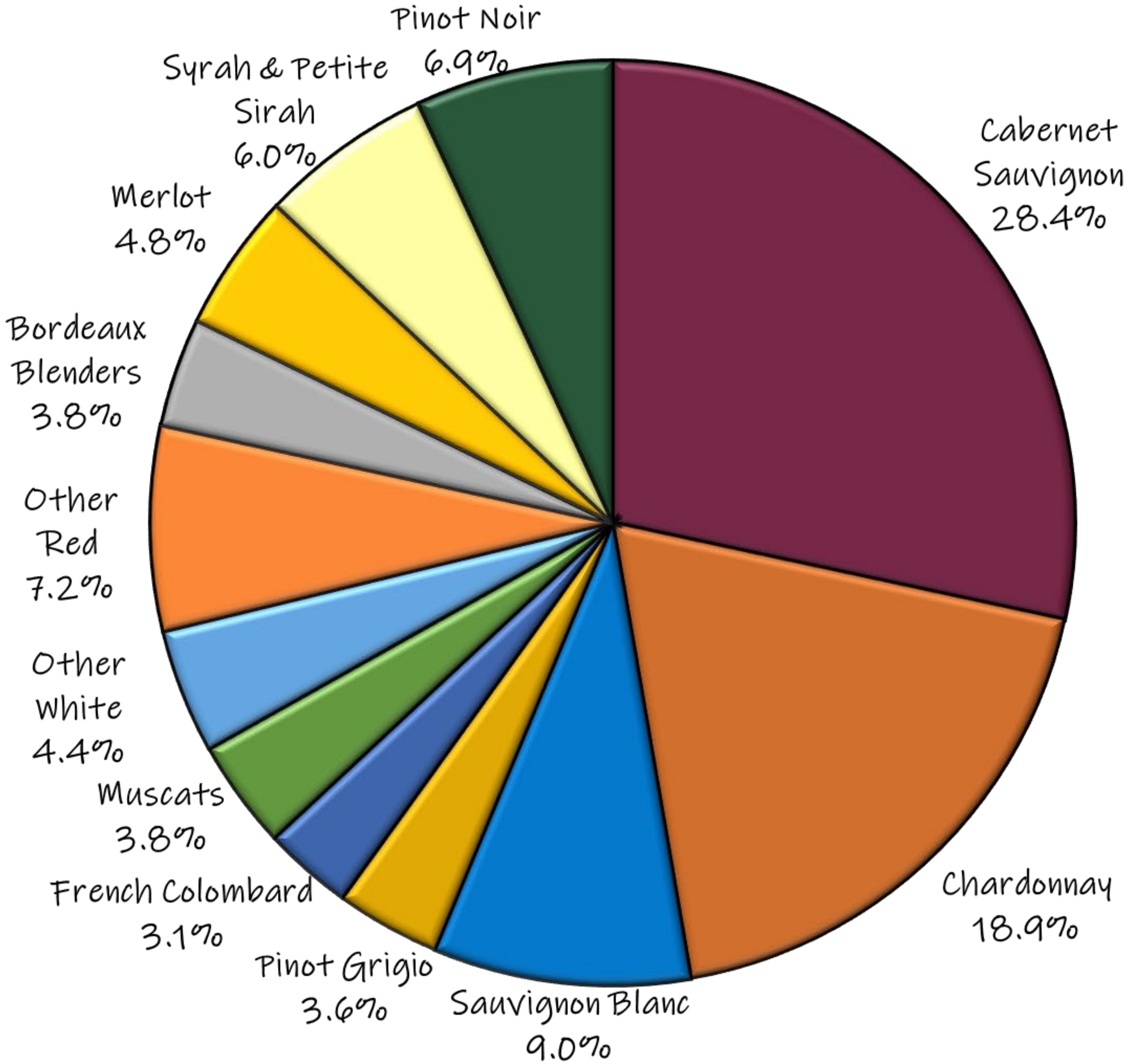
11 nurseries
18 million vines sold
20,000 acres planted

Chart shows percentage of <u>all vines sold</u>, by variety/category



2023 Survey of Grapevine Nurseries

- 43% White, 57% Red
- Cabernet Sauvignon and Chard still King & Queen
- Pinot Noir pulls back significantly once again
- Merlot, Syrah and Petite Sirah plantings continue to be relatively strong
- SB planting increases significantly again, more than doubling in 2022



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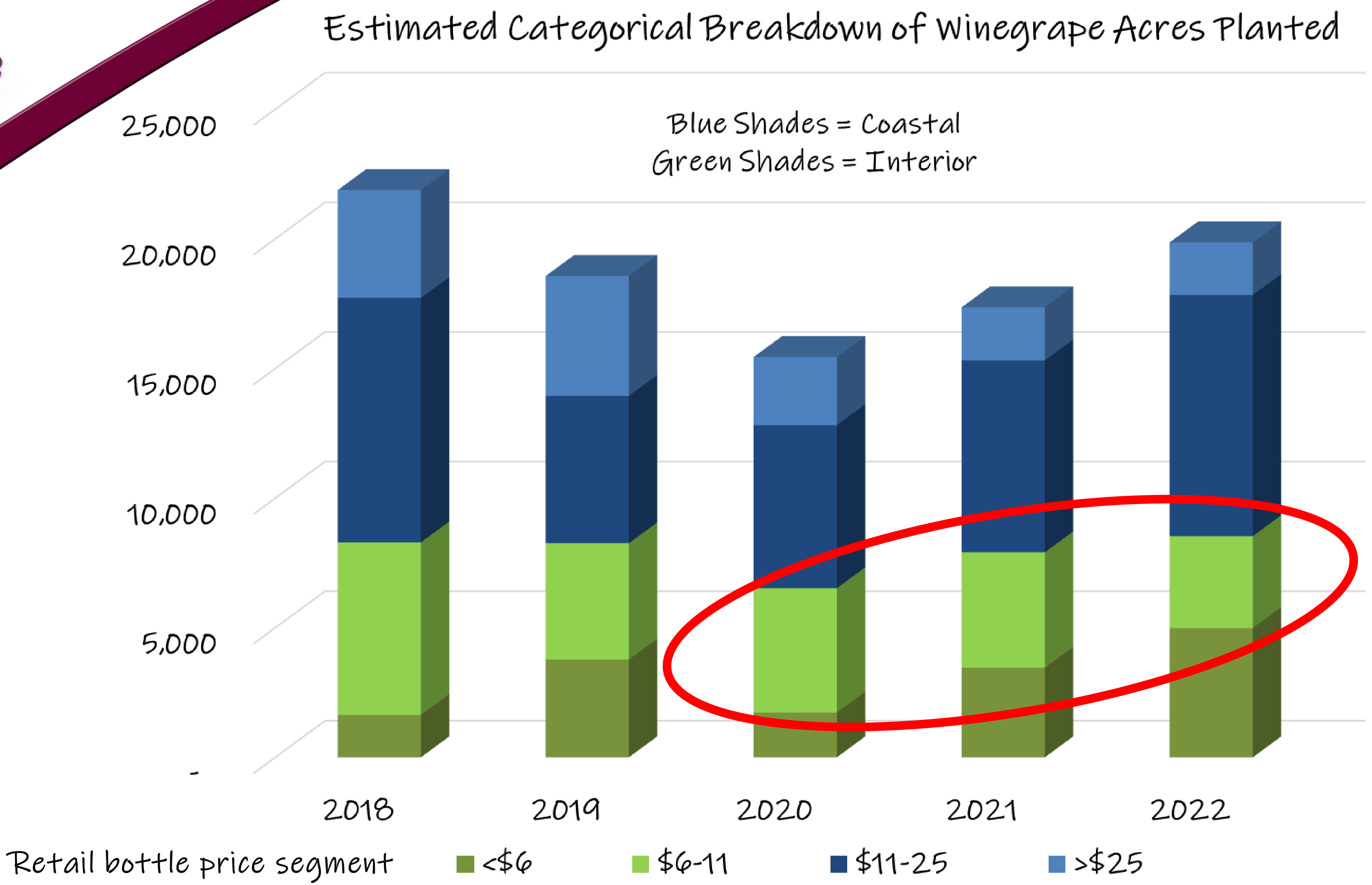
2022 Plantings as a percentage of bearing acres, by variety and category

	Acres Planted 2022	% of Bearing 2021
Chardonnay	3,868	3.8%
Sauvignon Blanc	1,744	8.4%
Muscats	958	6.6%
French Colombard	784	3.3%
Pinot Grigio	886	2.9%
Cabernet Sauvignon	5,043	4.5%
Bordeaux Blenders	592	4.0%
Syrah & Petite Sirah	1,263	3.8%
Pinot Noir	1,308	2.6%
Merlot	995	2.5%
Zinfandel	569	1.2%
Rubired	19	0.1%
All Others	1,835	2.9%



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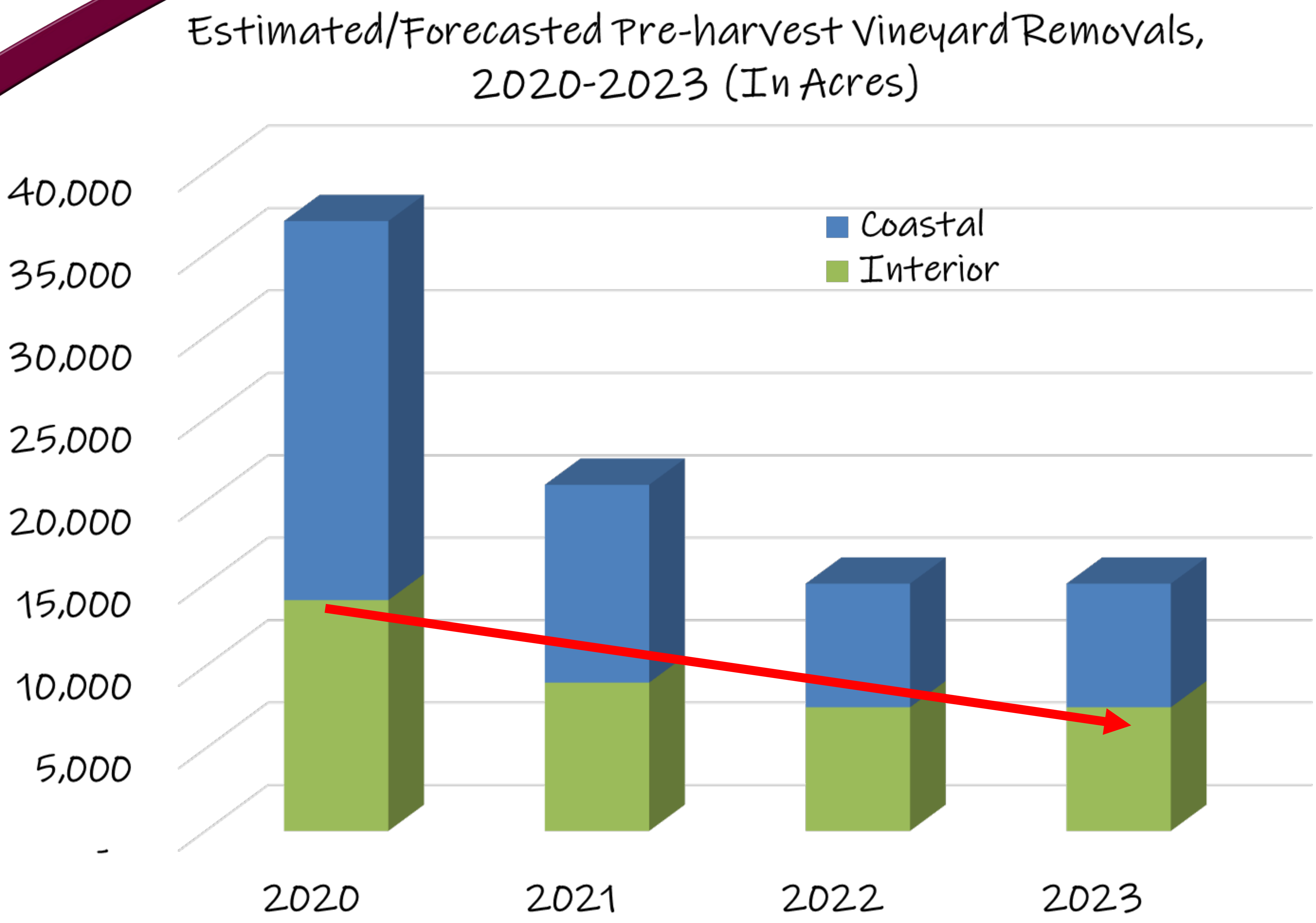

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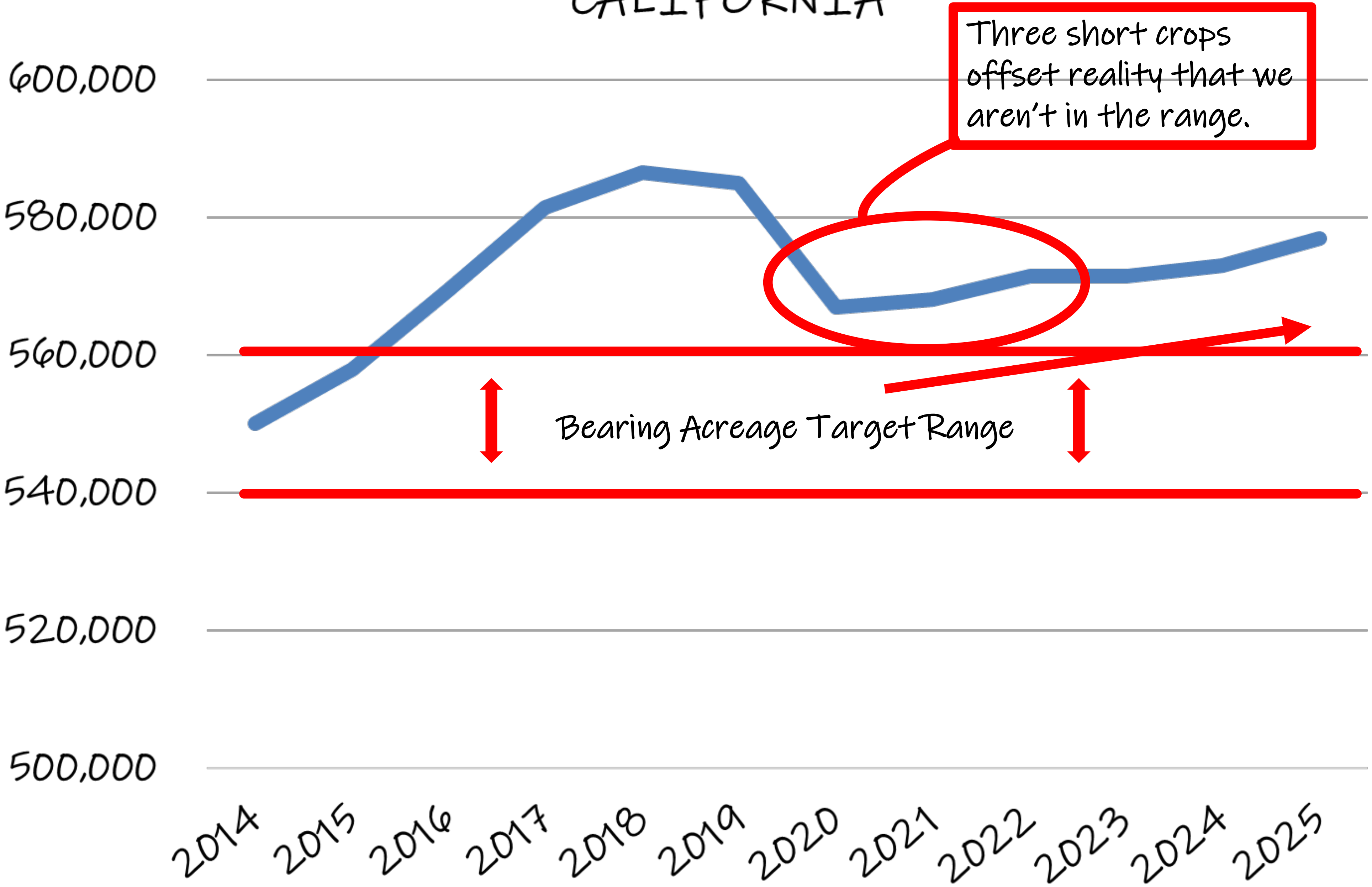
Estimated/Forecasted Bearing Winegrape Acres CALIFORNIA



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California Production & Yield

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Crop Year	California Winegrape Tons Crushed/Estimated	Estimated California Bearing Winegrape Acres	Estimated Winegrape Tons/Acre
2012	4,018,237	525,000	7.65
2013	4,244,891	540,000	7.86
2014	3,894,397	550,000	7.08
2015	3,704,571	558,000	6.64
2016	4,031,147	569,500	7.08
2017	4,015,792	581,500	6.91
2018	4,281,112	586,500	7.30
2019*	3,890,253	585,000	7.01
2020*	3,410,886	567,000	6.59
2021	3,631,749	568,000	6.39
2022	3,376,134	571,500	5.91
2023 Est.	4,000,500	571,500	7.00
2024 Est.	4,011,000	573,000	7.00
2025 Est.	4,039,000	577,000	7.00

*2019 & 2020 yields estimated due to significant grapes left unharvested

Forecasted Bearing Acres, by Variety and Price Point……

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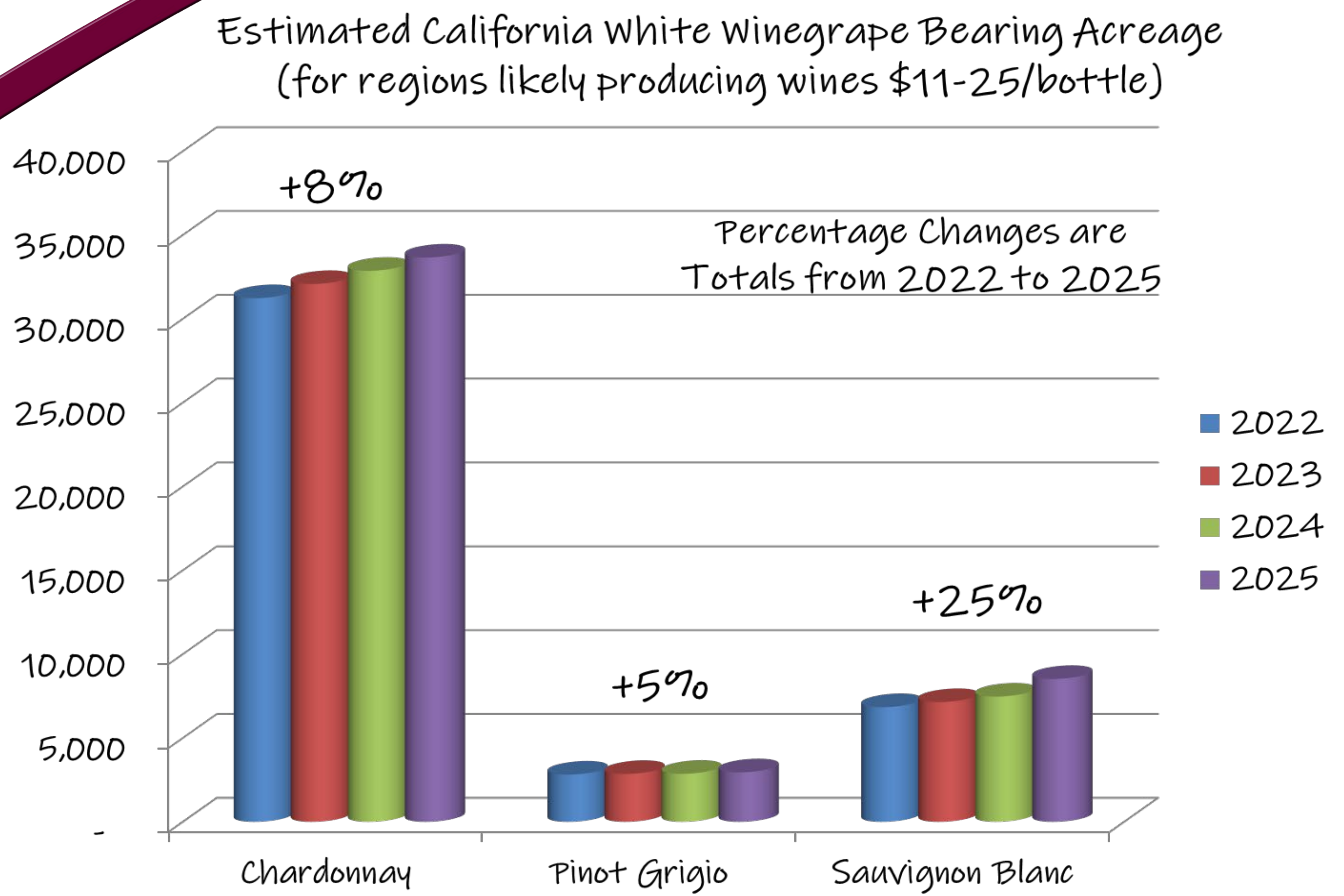

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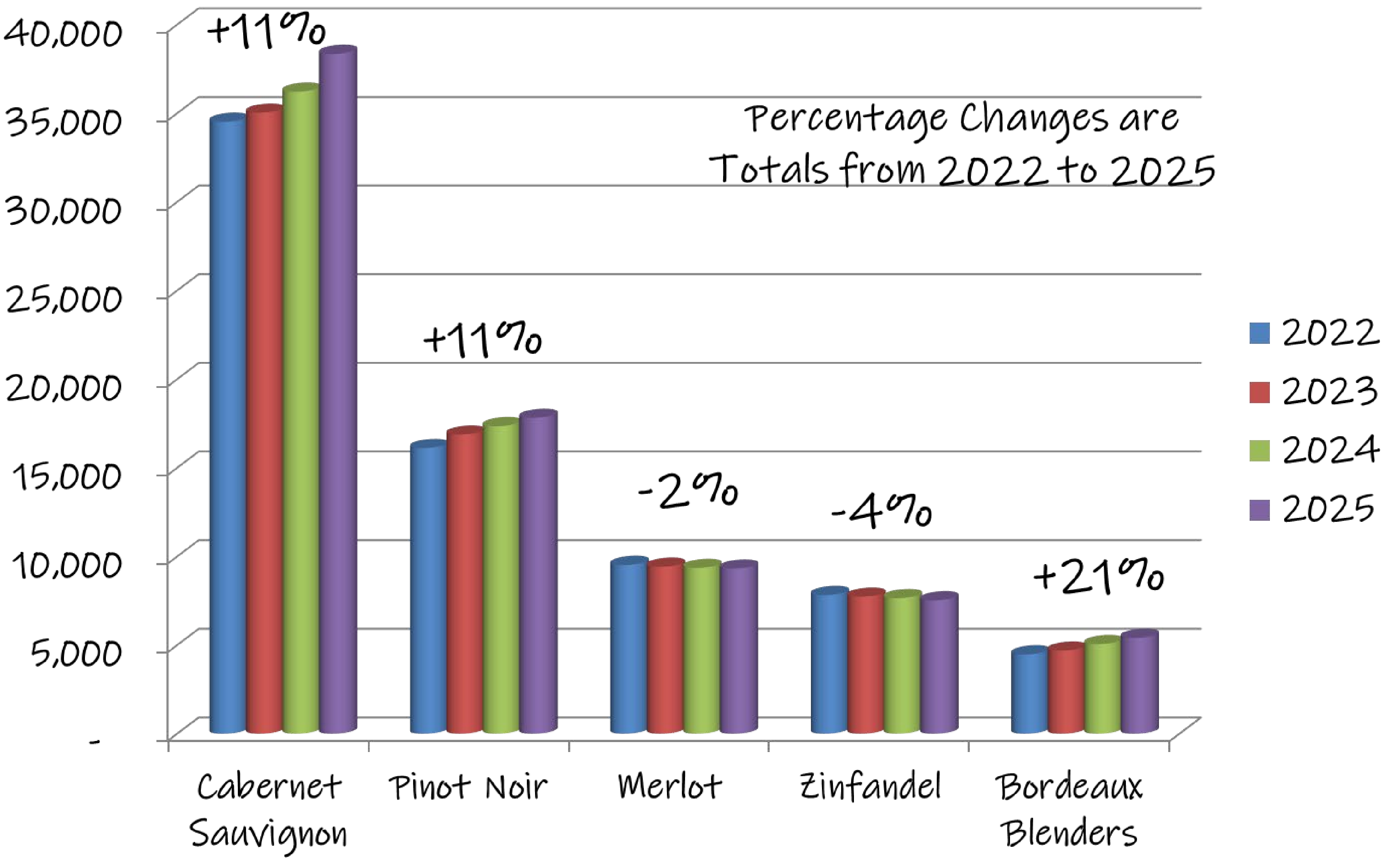
Estimated California Red Winegrape Bearing Acreage
(for regions likely producing wines $11-25/bottle)



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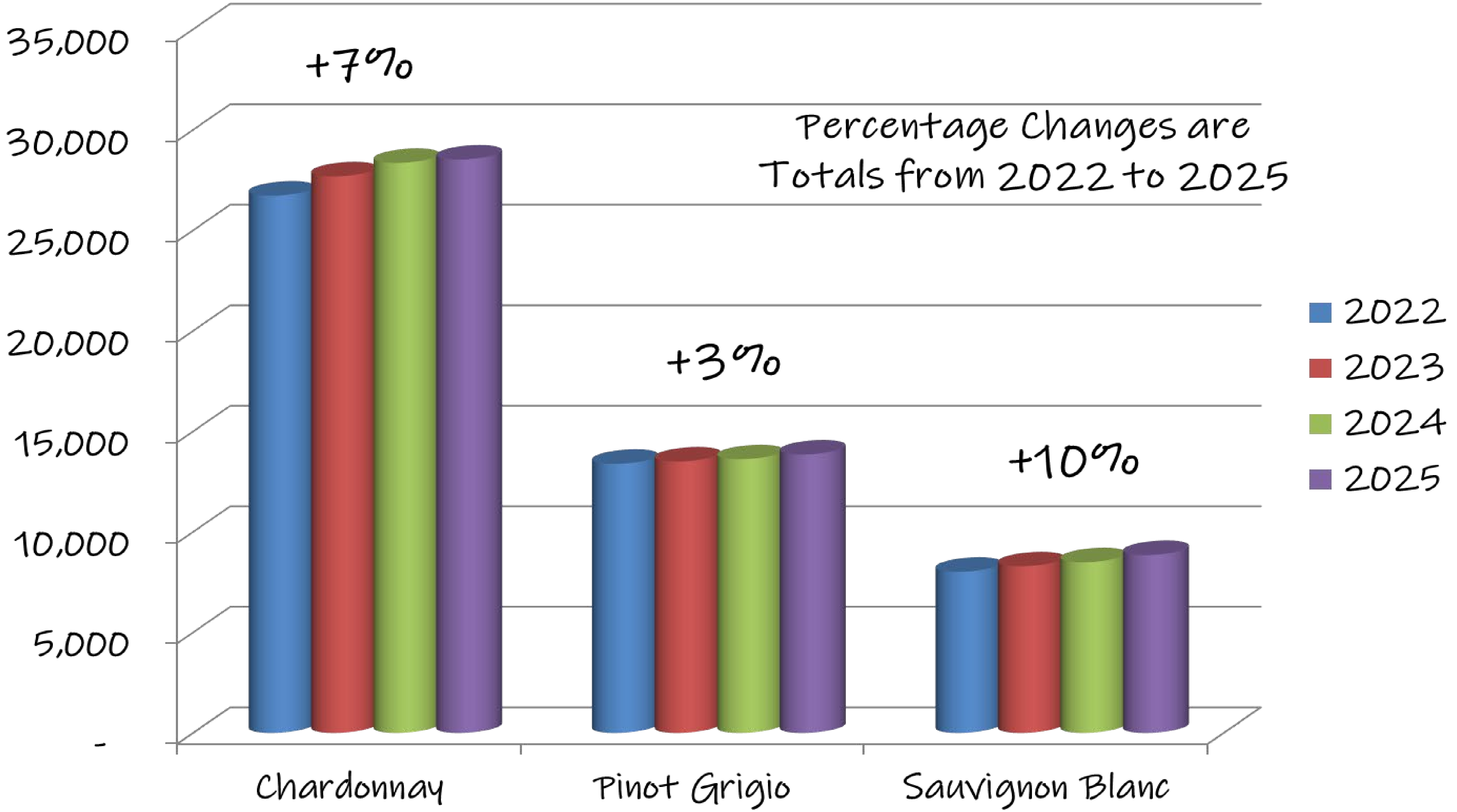
Estimated California White Winegrape Bearing Acreage
(for regions likely producing wines $6-11/bottle)



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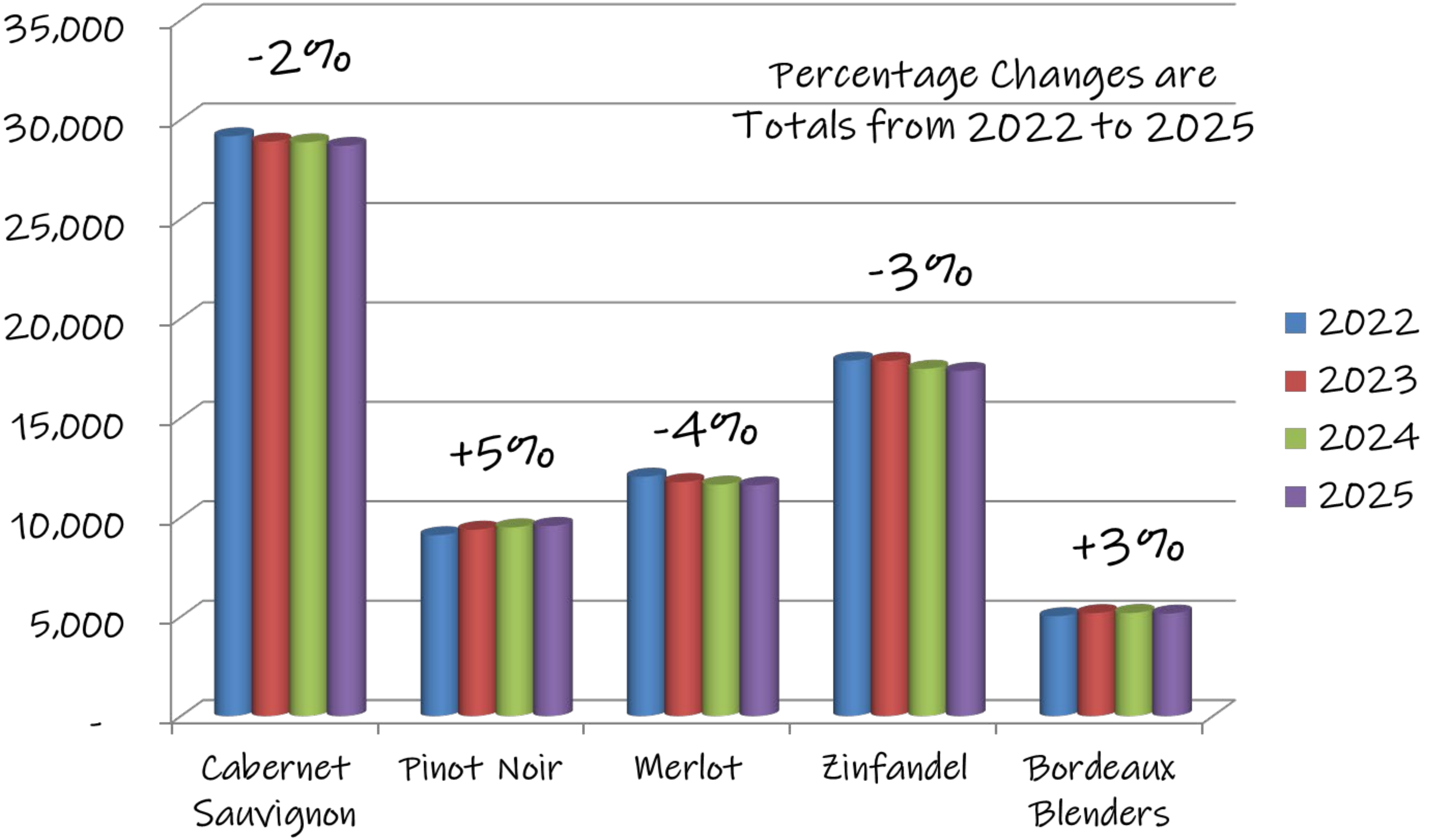
Estimated California Red Winegrape Bearing Acreage (for regions likely producing wines $6-11/bottle)



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Summing up the Big Picture.....

- ✓ The winegrape market might be frustrating in 2023
  - hot/cold, up/down, start/stop
- ✓ "Apprehension" is currently tempering buyer response
- ✓ Opportunities exist side-by-side with challenges
- ✓ Buyers look to maintain margins by buying "down"
- ✓ Planting remains moderate, concentrated in growth areas
- ✓ An above-average crop would cause market disruption

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Lodi: Speaking Plainly

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- ✓ Identify the pitfalls, their context, and call them out by name.
- ✓ Opportunities: Seize them.
- ✓ "The Obstacle is the Way"

Obstacles

- ✓ Continuing decline in COVID Retail sales – now showing in wines +$15/bottle
- ✓ "Light Crops" *do not* equal "Short Crops"
- ✓ Commoditization of market = Commoditization of buyers
- ✓ Fundamental shift in philosophy of largest buyers
  - Winery → Beverage Alcohol Company

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Current Conditions

- ✓ Rebuilding of bulk inventory to ~20M gallons statewide
- ✓ Red Blenders and Zinfandel in peril
- ✓ Bordeaux varieties in limbo
- ✓ There will be no quality breaks this year
    - Get ripe, stay clean
- ✓ Do not expect generosity in overage
- ✓ Buyers are still sellers

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Opportunities

- ✓ White Varieties
  - Sauvignon Blanc
  - Pinot Grigio
  - Chardonnay
- ✓ Small lot Grape Sales – Embrace the suck, farm to quality
- ✓ Utilize your leverage where and when you have it.
- ✓ Individual vineyard production capacity
- ✓ Loosening import bulk pressure from light '23 vintage in S Hemisphere

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"The Obstacle is the Way"

- ✓ The game *has* changed—because the consumer changed it!
- ✓ Lodi is uniquely situated to meet the expectations of the young consumer and drive brand creation.
- ✓ Diversify the buyer pool when and where you can.
- ✓ Seek out competitive advantage – get ahead of the market
    - Certify, Certify, Certify

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Questions and Discussion?

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