

2022 Wine Industry Forum

Grapes and Wine: Balancing Supply and Demand Now and in the Future

Jeff Bitter

Allied Grape Growers

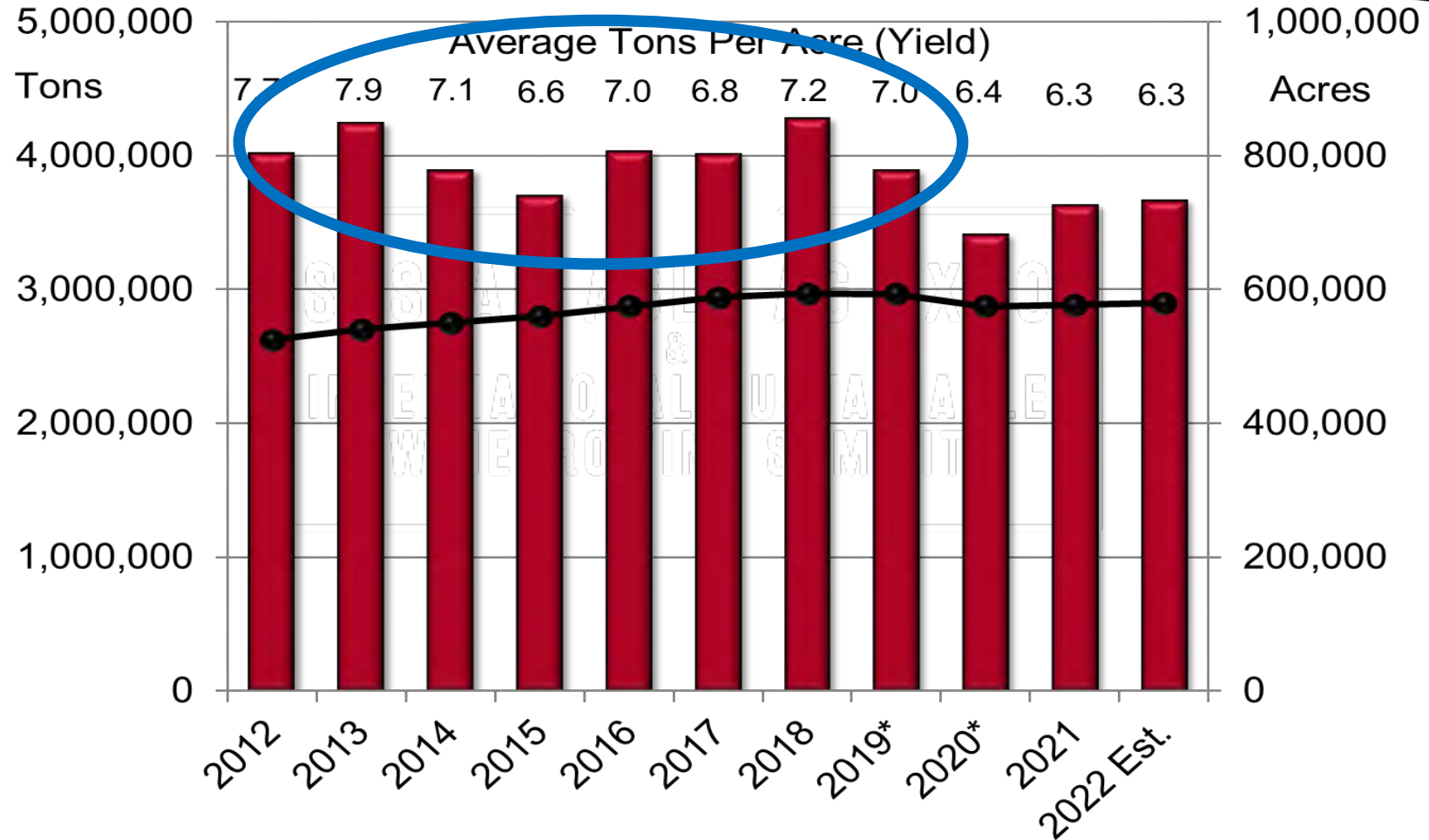
November 30, 2022



*Yesterday....
looking back for context.*

SUSTAINABLE AG EXPO
INTERNATIONAL SUSTAINABLE
WINEGROWING SUMMIT

California Winegrape Crush



■ California Winegrape Tons Crushed/Estimated
● Estimated California Bearing Winegrape Acres

*For crop years 2019 & 2020, yield was estimated due to material amounts of unharvested grapes

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Grape glut raises stakes in California wine in



Betsey Guzior, Bizwomen Editor

Feb 7, 2020, 10:28am EST

GO-WINE™

FOOD & BEVERAGE KNOWLEDGE PORTAL

Oversupply Of Grapes In California Could Mean Lower Bottle



Posted: Feb 21, 2020

California Grape Glut Starts to Bite

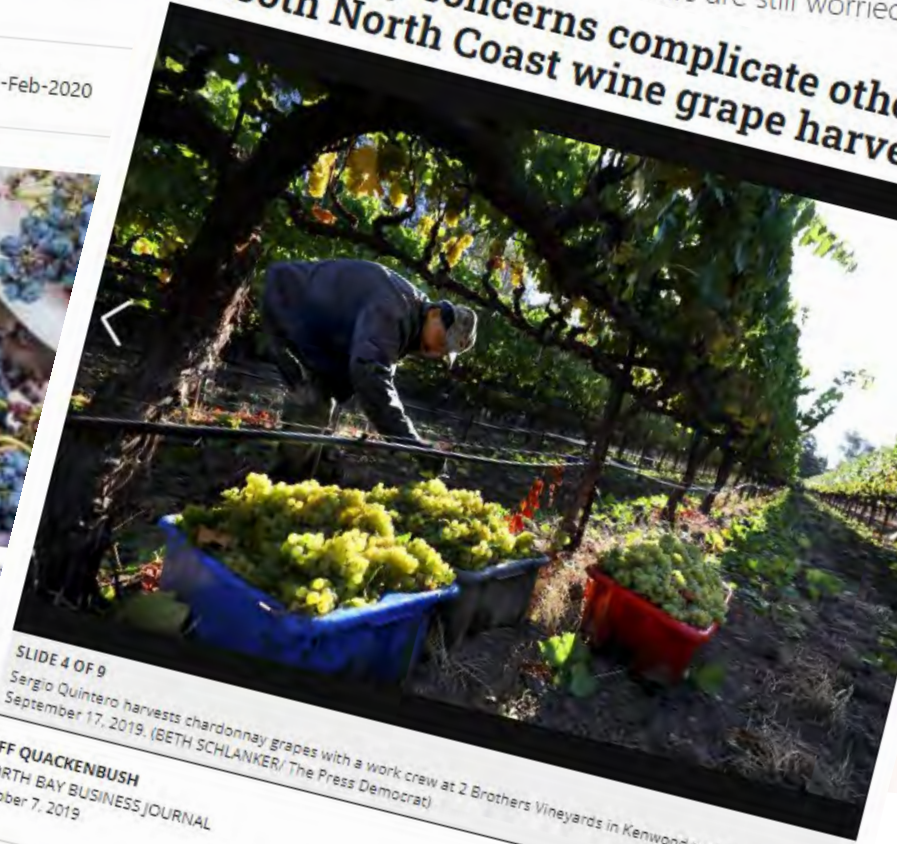
The 2019 crush was smaller than last year's, but growers are still worried about oversupply.

W. Blake Gray • Tuesday, 11-Feb-2020



© Shutterstock | As much as 10 percent

Oversupply concerns complicate other smooth North Coast wine grape harvest



SLIDE 4 OF 9
Sergio Quintero harvests chardonnay grapes with a work crew at 2 Brothers Vineyards in Kenwood on Tuesday, September 17, 2019. (BETH SCHLANKER/The Press Democrat)
JEFF QUACKENBUSH
NORTH BAY BUSINESS JOURNAL
October 7, 2019

As October began, the California wine grape harvest was running a few days behind the typical schedule with picking over half-way done in the warmer inland regions and less than half in the coastal areas.



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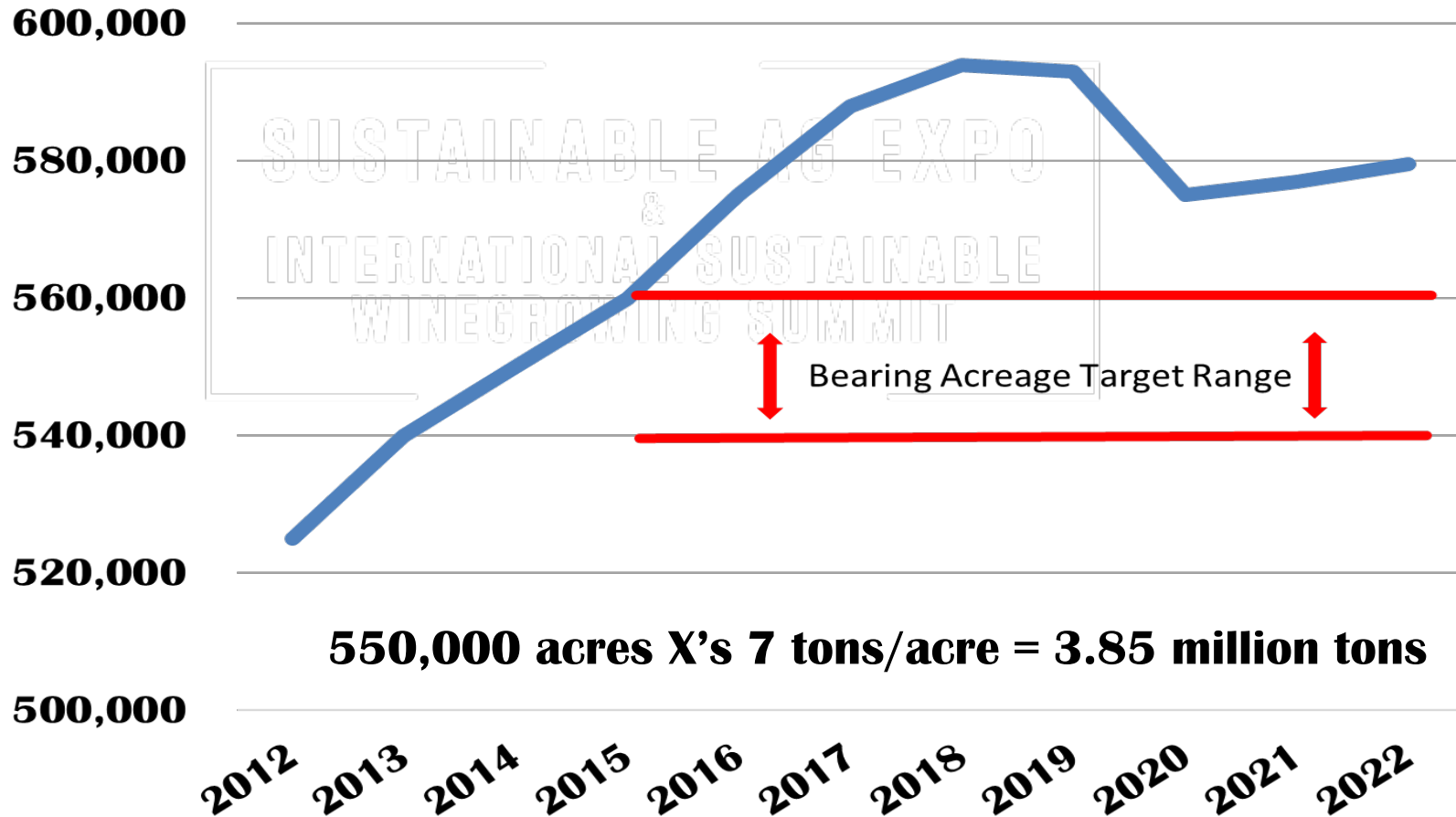
California Grape Glut Helps Send Wine Prices Plummeting

CBS NEWS BAY AREA

FEBRUARY 16, 2020 / 10:44 AM / CBS SAN FRANCISCO

Bearing Acreage History

**Estimated California Bearing Winegrape Acres
2012 - 2022**



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Source: Gomberg Fredrikson & Associates Webinar Series - March 24, 2022

California Winery Data 9L Cases

Domestic Shipments	2017	2018	2019	2020	2021	1 Yr % Chng
Shipped CA Case TP	49,954,337	55,578,809	51,649,082	47,144,380	47,632,839	1.0%
Shipped OS Case TP	161,305,430	160,925,232	156,442,680	164,387,983	154,352,971	-6.1%
Shipped OS Case IB	53,715,958	50,988,095	47,684,033	48,215,267	57,680,261	19.6%
Shipped OS Bulk IB	2,278,880	1,777,638	2,220,078	2,212,004	3,729,809	68.6%
Total Out of State	217,300,269	213,690,965	206,346,791	214,815,253	215,763,041	0.4%
Total Domestic Shipments	267,254,606	269,269,774	257,995,872	261,959,634	263,395,880	0.5%
Bulk Import Portion	22,865,164	20,404,067	18,958,137	20,816,865	21,748,761	4.5%
California Wines to US	244,389,442	248,865,706	239,037,735	241,142,768	241,647,119	0.2%
Export Shipments	2017	2018	2019	2020	2021	% Change
Case Exports	17,939,604	15,646,800	12,442,969	11,526,840	13,059,290	13.3%
Bulk Exports	20,805,178	22,281,580	21,509,226	27,386,221	25,738,410	-6.0%
Total Exports	38,744,781	37,928,379	33,952,196	38,913,060	38,797,700	-0.3%
Total Shipments	305,999,387	307,198,153	291,948,068	300,872,694	302,193,580	0.4%
Winery Inventory BOE	2017	2018	2019	2020	2021	% Change
Bulk Inventory	396,585,117	392,500,433	492,307,018	457,918,488	425,464,855	-7.1%
Case Inventory	58,708,205	52,878,634	60,290,742	62,922,117	62,033,709	-1.4%
California Inventory	455,293,439	445,375,857	552,597,760	520,840,676	487,498,564	
Est Bulk Imp Inventory	7,801,833	5,219,695	6,992,935	6,543,490	9,447,678	44.4%
Total Inventory	463,095,272	450,598,762	559,590,696	527,384,166	496,946,242	-5.8%
Days Inventory	552	535	700	640	600	

Source: Gomberg Fredrikson & Associates Webinar Series - September 27, 2022

Bureau of Economic Analysis Inflation Statistics

12 Mos to	Personal Consumption Expenditures	Off Premise Food & Bev (Non-Alc)	Spirits	Wine	Beer	Full Service Rest - Food	On Premise Alcohol
Aug-12	99.738	99.955	99.917	101.080	99.693	100.166	100.192
Aug-13	101.351	100.994	101.358	101.119	102.148	102.395	102.460
Aug-14	103.171	103.355	101.762	100.302	102.510	105.018	104.106
Aug-15	103.441	104.454	101.723	99.936	103.829	107.808	106.524
Aug-16	104.218	102.695	102.146	99.961	105.572	110.273	108.437
Aug-17	105.844	102.861	101.444	99.609	107.176	112.849	110.707
Aug-18	108.427	103.210	101.633	100.850	108.573	115.610	112.989
Aug-19	110.074	103.893	104.043	102.437	111.279	119.372	114.610
Aug-20	111.221	108.828	103.773	102.635	115.213	122.936	116.374

Percent Change

Aug-13	1.6%	1.0%	1.4%	0.0%	2.5%	2.2%	2.3%
Aug-14	1.8%	2.3%	0.4%	-0.8%	0.4%	2.6%	1.6%
Aug-15	0.3%	1.1%	0.0%	-0.4%	1.3%	2.7%	2.3%
Aug-16	0.8%	-1.7%	0.4%	0.0%	1.7%	2.3%	1.8%
Aug-17	1.6%	0.2%	-0.7%	-0.4%	1.5%	2.3%	2.1%
Aug-18	2.4%	0.3%	0.2%	1.2%	1.3%	2.4%	2.1%
Aug-19	1.5%	0.7%	2.4%	1.6%	2.5%	3.3%	1.4%
Aug-20	1.0%	4.8%	-0.3%	0.2%	3.5%	3.0%	1.5%

CAGR 12 - 20

1.4%

1.1%

0.5%

0.2%

1.8%

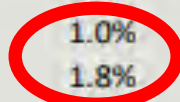
2.6%

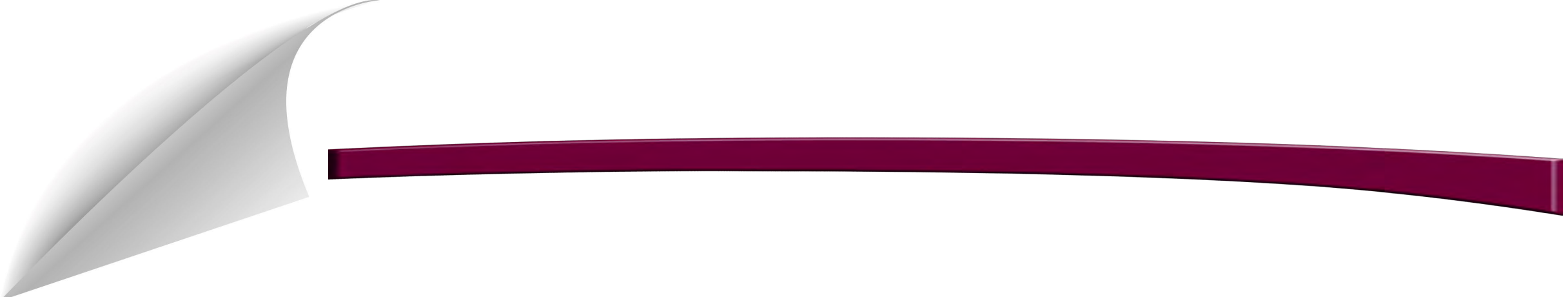
1.9%

Source: Gomberg Fredrikson & Associates Webinar Series - September 27, 2022

Bureau of Economic Analysis Inflation Statistics

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Aug-19	110.074	103.893	104.043	102.437	111.279	119.372	114.610
Aug-20	111.221	108.828	103.773	102.635	115.213	122.936	116.374
Aug-21	115.847	111.507	107.026	103.615	117.690	128.171	120.215
Aug-22	123.121	126.533	109.030	105.527	123.318	139.529	127.117
Percent Change							
Aug-13	1.6%	1.0%	1.4%	0.0%	2.5%	2.2%	2.3%
Aug-14	1.8%	2.3%	0.4%	-0.8%	0.4%	2.6%	1.6%
Aug-15	0.3%	1.1%	0.0%	-0.4%	1.3%	2.7%	2.3%
Aug-16	0.8%	-1.7%	0.4%	0.0%	1.7%	2.3%	1.8%
Aug-17	1.6%	0.2%	-0.7%	-0.4%	1.5%	2.3%	2.1%
Aug-18	2.4%	0.3%	0.2%	1.2%	1.3%	2.4%	2.1%
Aug-19	1.5%	0.7%	2.4%	1.6%	2.5%	3.3%	1.4%
Aug-20	1.0%	4.8%	-0.3%	0.2%	3.5%	3.0%	1.5%
Aug-21	4.2%	2.5%	3.1%	1.0%	2.1%	4.3%	3.3%
Aug-22	6.3%	13.5%	1.9%	1.8%	4.8%	8.9%	5.7%
CAGR 12 - 20	1.4%	1.1%	0.5%	0.2%	1.8%	2.6%	1.9%
10 Year CAGR	2.1%	2.4%	0.9%	0.4%	2.1%	3.4%	2.4%





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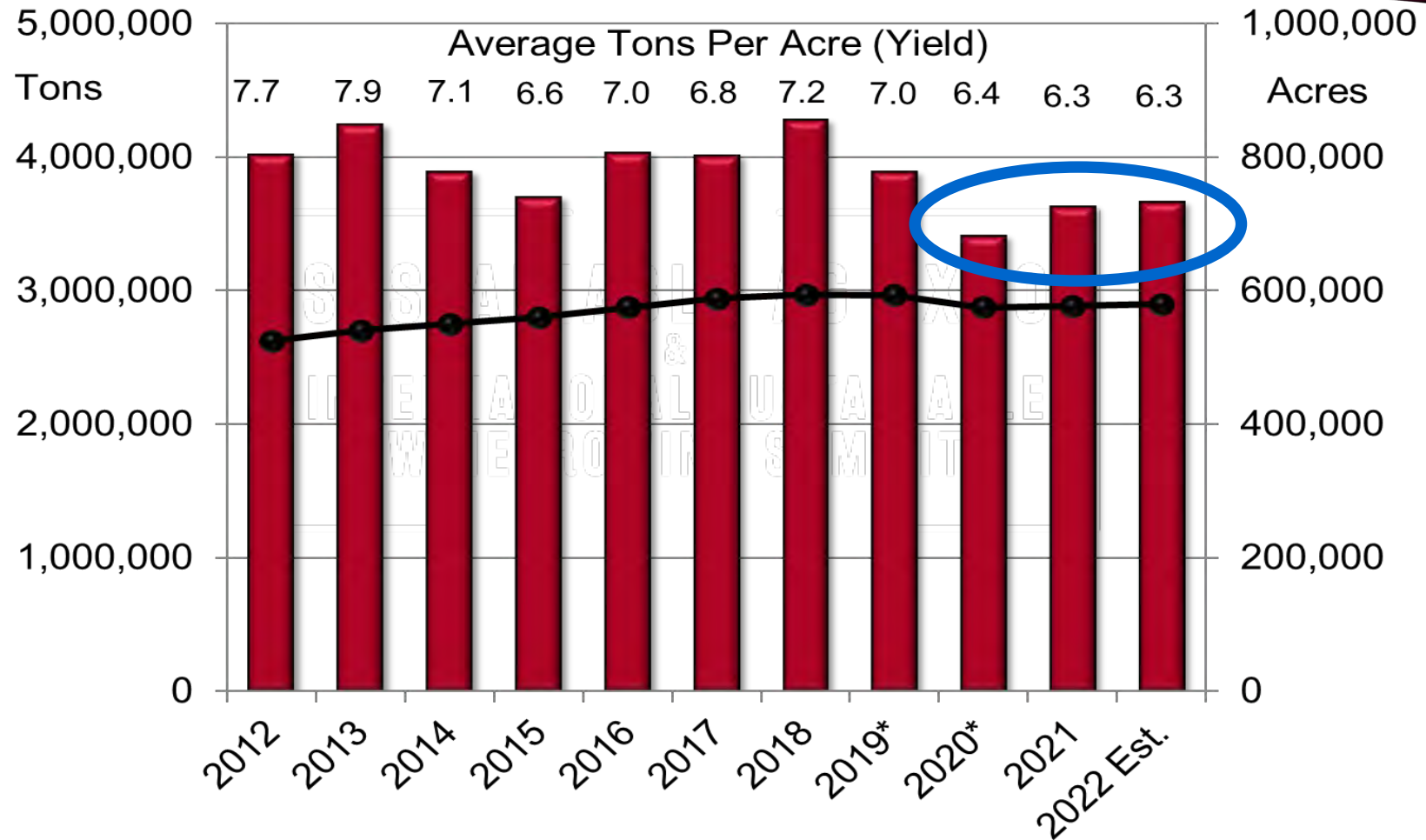
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The Saving Grace.....

California Winegrape Crush

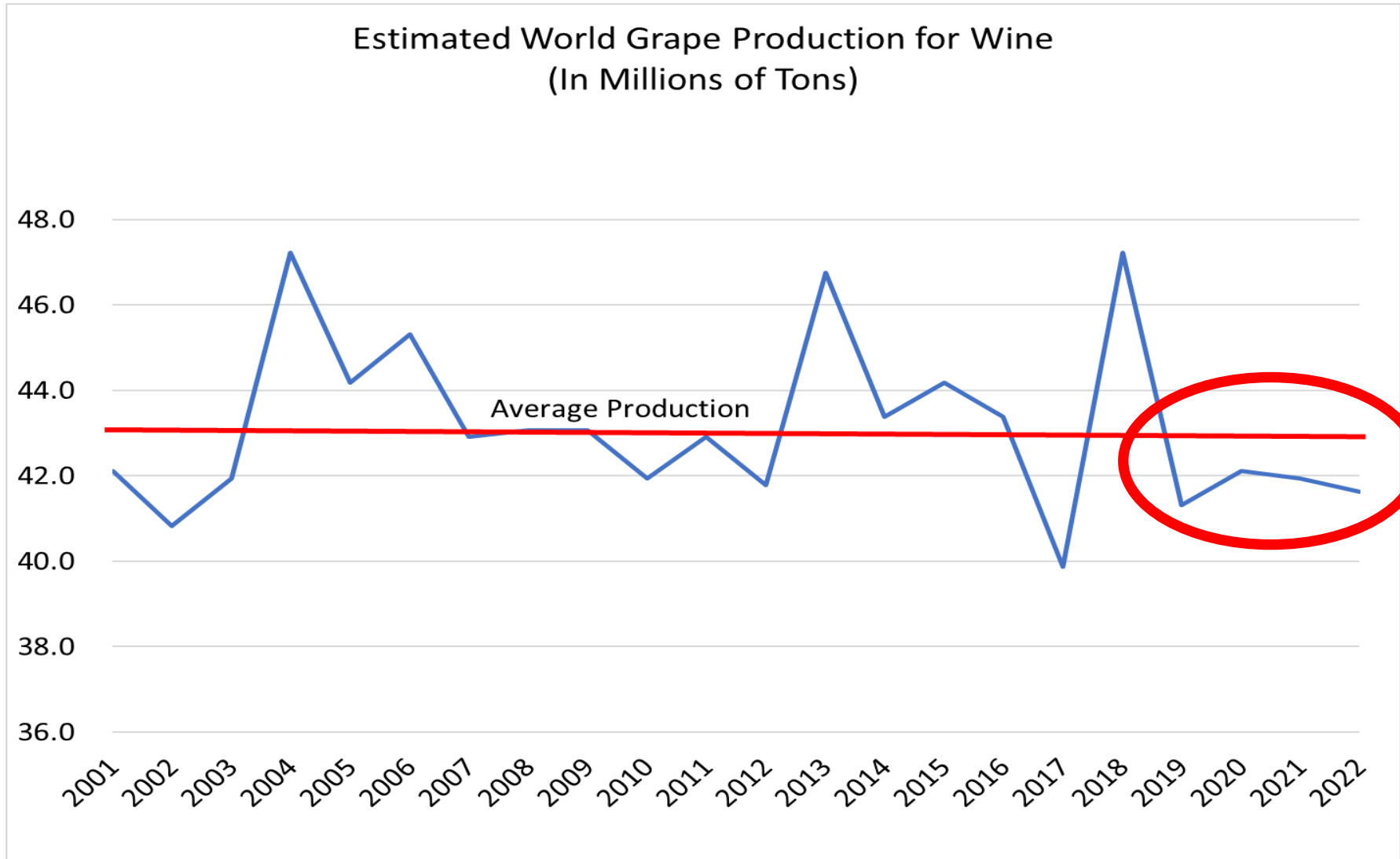


■ California Winegrape Tons Crushed/Estimated
● Estimated California Bearing Winegrape Acres

*For crop years 2019 & 2020, yield was estimated due to material amounts of unharvested grapes

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World Production



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"Yesterday" Summary

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- Significant Bearing Acreage Growth (coastal) through 2019
- Production averages 4M tons annually through 2019
- Decades-long wine volume growth trend flattens after 2016
- Wine returns don't increase – pricing is flat
- Oversupply plagues industry heading into pandemic
- Pandemic brings major market channel disruptions
- Short crops offset our structural oversupply



Today.....where we are at now.





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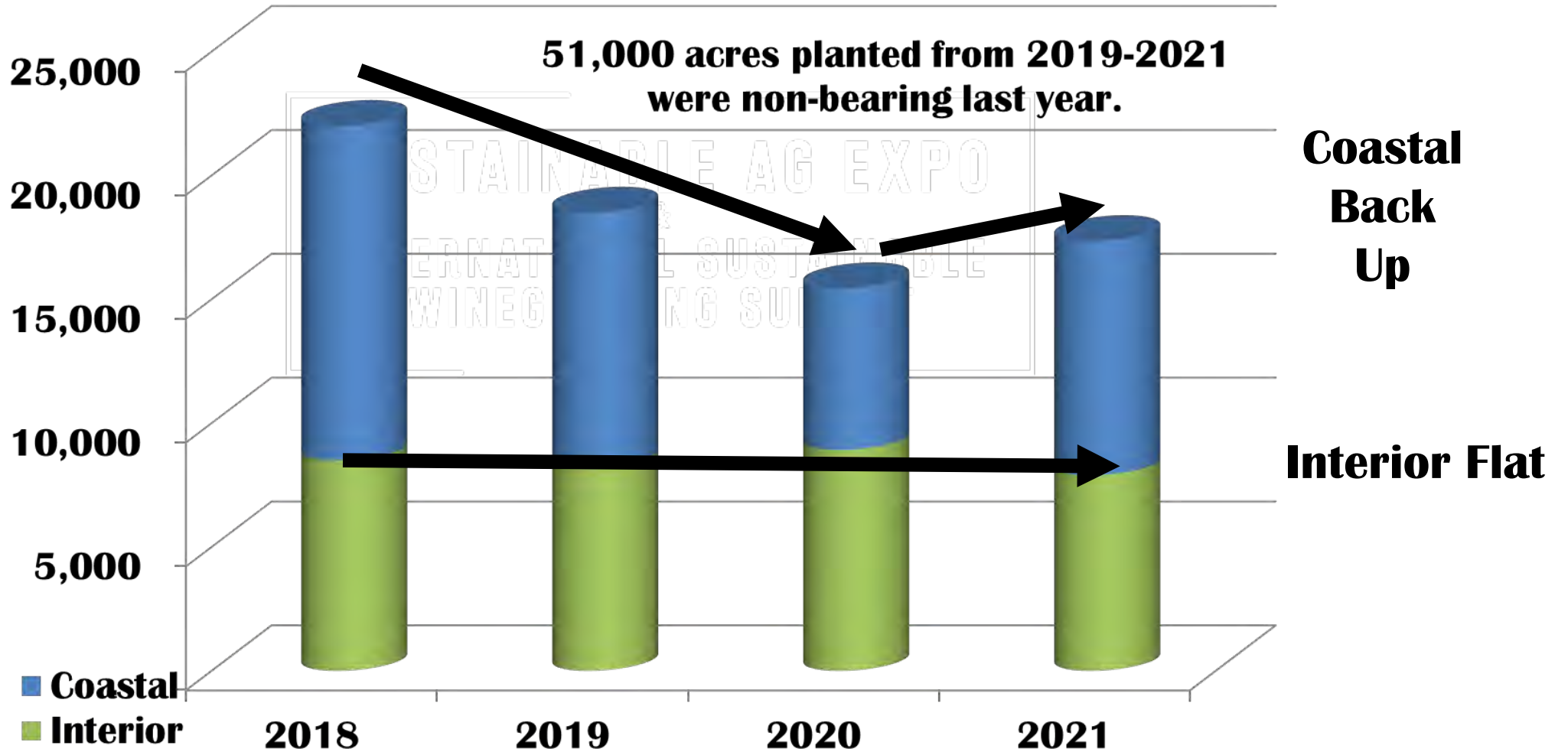
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Vine Planting,
SUSTAINABLE AG EXPO
&
INTERNATIONAL SUSTAINABLE
VINEYARD REMOVALS
Vineyard Removals

and Today's Consumer.....

California Planting Trends

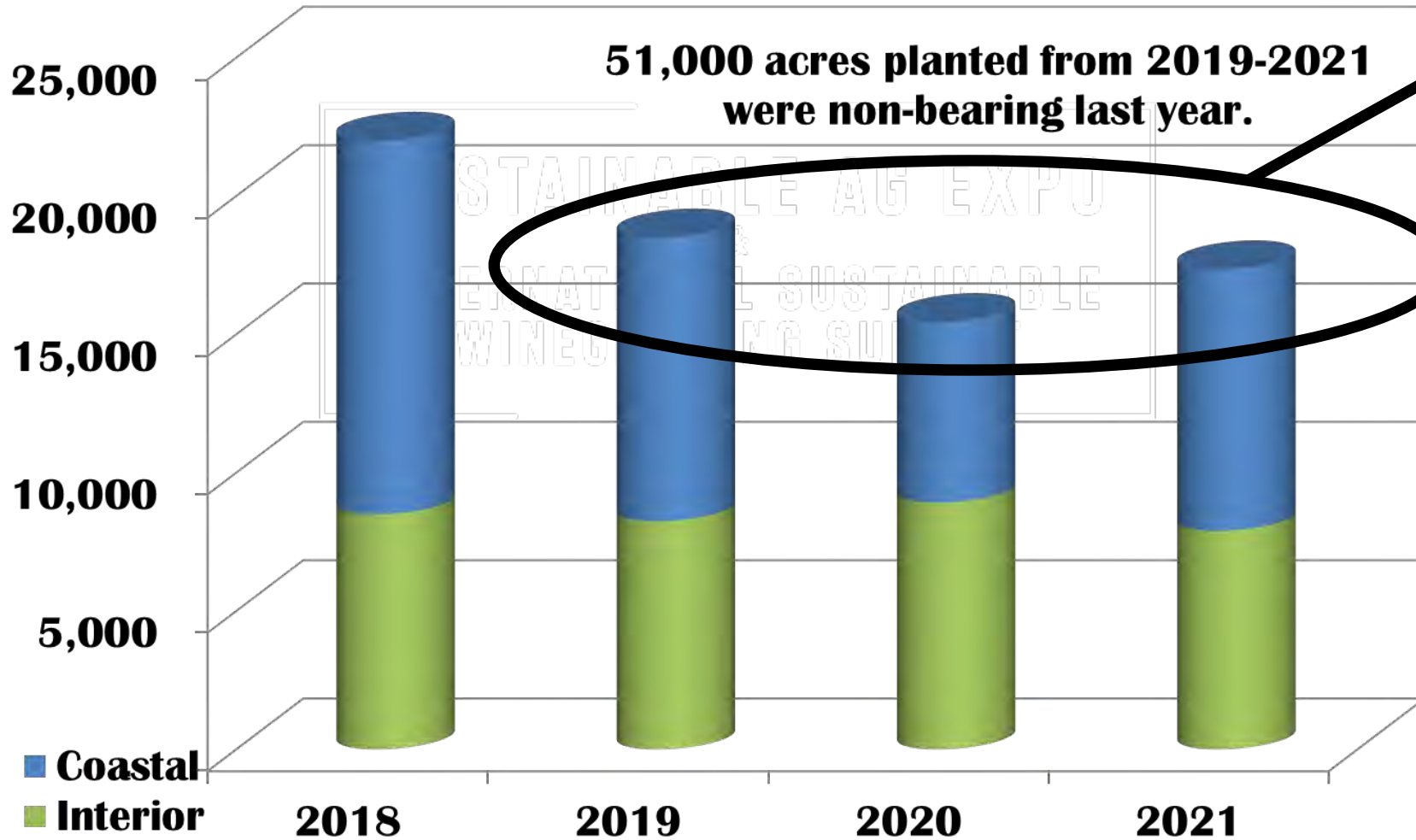
Estimated California Winegrape Acres Planted By Year



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California Planting Trends

Estimated California Winegrape Acres Planted By Year



This is good:

We should be planting approximately 15,000 to 18,000 acres a year, given “normal” attrition.

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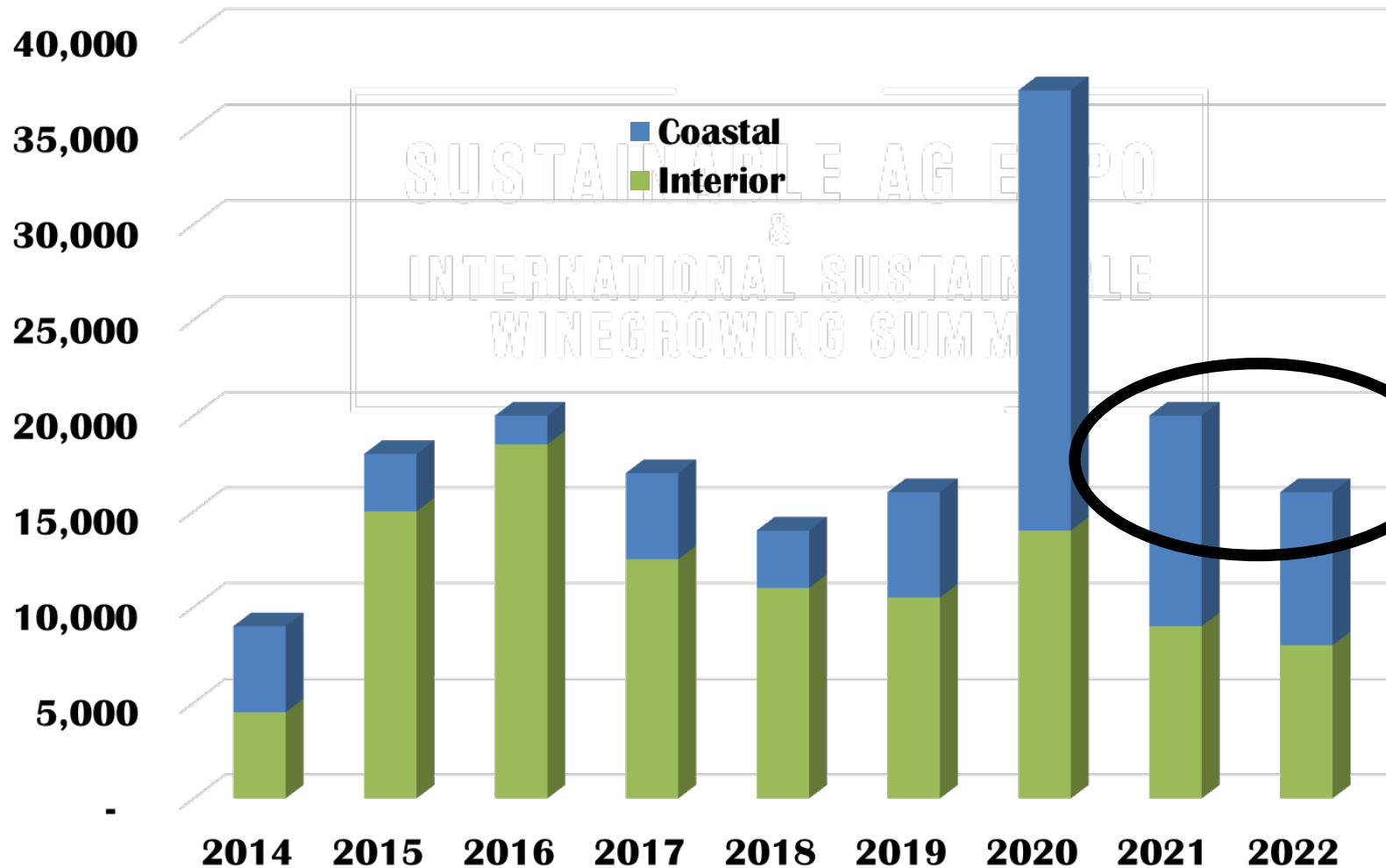
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California Vineyard Removals

**Estimated Vineyard Removals, 2014-2021, with 2022 Forecast
(Prior to each harvest year listed)**



This is good:

**We should
be removing
approximately
15,000 to
18,000 acres
a year based
on current
bearing acres.**

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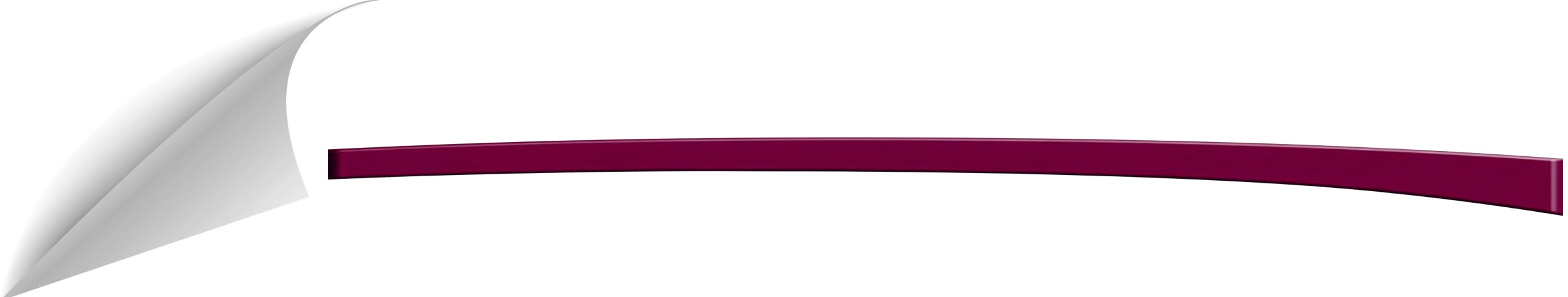
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It's a fair statement
to say bearing acreage
will remain flat....





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Wine Market Headlines.....



Storm Clouds Ahead for Global Wine Trade



Mike Veseth

Oct 18

The Economist

The many powers of Elon Musk
Biden (quietly) builds the wall
China's interfering elders
Are management consultants useful?

WHAT IS

Fine Wine Buoyant in a Turbulent Market

The premium wine sector is a go-to for high-net

Willcox • Thursday, 22-Sep-2022

NEWS

Off-Premise Sales Value Dips 2%

Oct 19, 2022

California | US Regions | Global Regions

Wine Treading Water in US Market

Spirits are winning when it comes to the huge US
signs for wine.

The Washington Post
Democracy Dies in Darkness

The wine industry didn't just weather the pandemic. It grew.

Inflation drags on wine's return to pre-pandemic US restaurant sales



wine-searcher

Discover

Stores & Producers



Vintage and Wine Name

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Wine Treading Water in US Market

News

Regions

Grapes

Vintages

Wine Market

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- Lots of data out there; don't be confused by terms:
 - "U.S. wine market" (often includes imports)
 - "Wine" shipments (might include sake, cider, flavored, etc.)
 - "California winery" (could include foreign sourced wine)
- Volume flat, but value is up (Premiumization)
- Channel shifting back to "on-premise" increases value
- Highest end of the market continues to perform strong
- "Middle market" very crowded and VERY competitive
- 11K+ Wineries, 25K+ brands & 300K+ SKUs estimated in US
- Anything below \$11/bottle is continuing to decline
- The only stable/growing segment over three years is DTC
- Wine costs about twice that of beer/spirits, per serving

Today's Consumer



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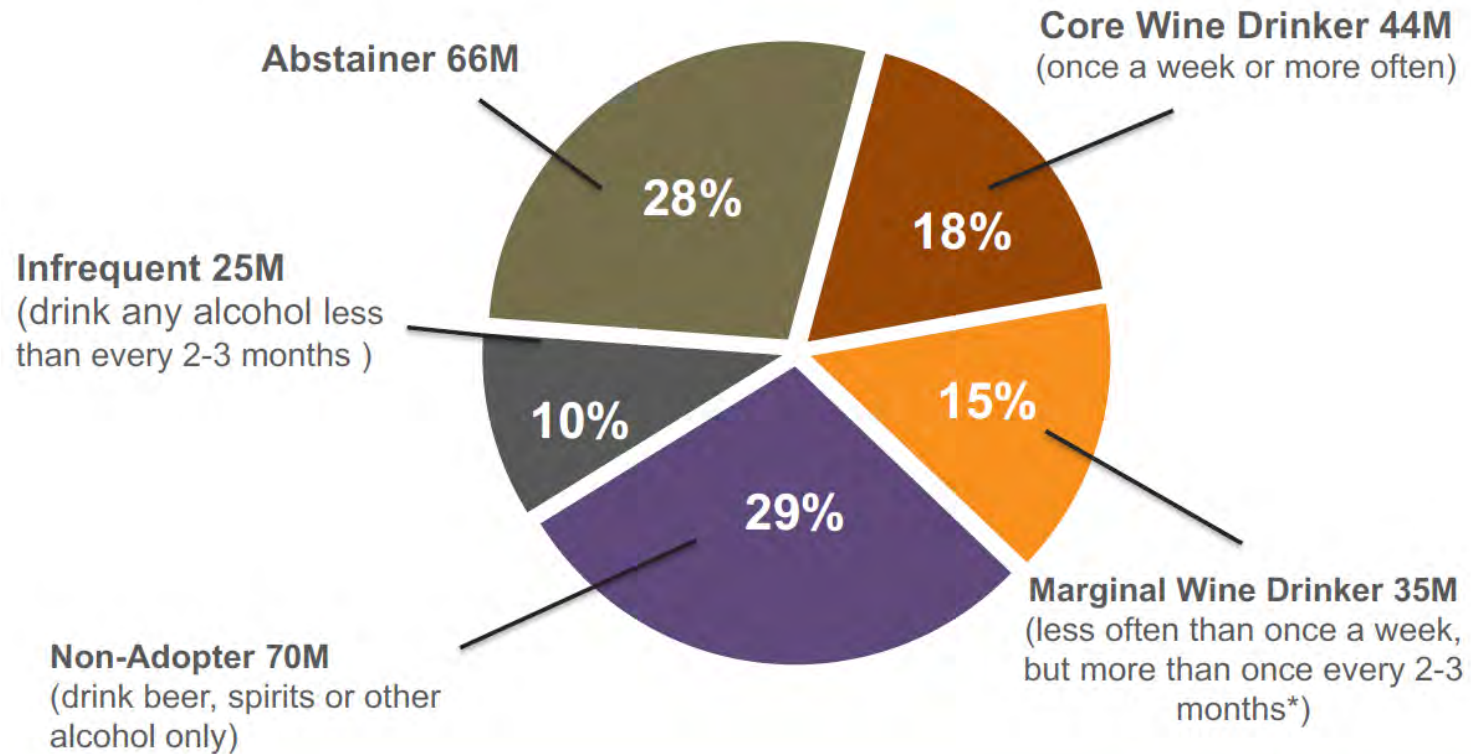
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**2021-2022 Wine Market Council
U.S. Wine Consumer Segmentation Slide Handbook**

June 2022

Today's Consumer

Beverage Alcohol Consumption Among U.S. Adults 21+ (with estimated population in millions)



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Base: U.S. Adults 21+, n=7,569

Source: WMC – U.S. Wine Consumer Segmentation Survey, Fall 2021/Spring 2022 Combined based to US Census Estimate December 2021¹

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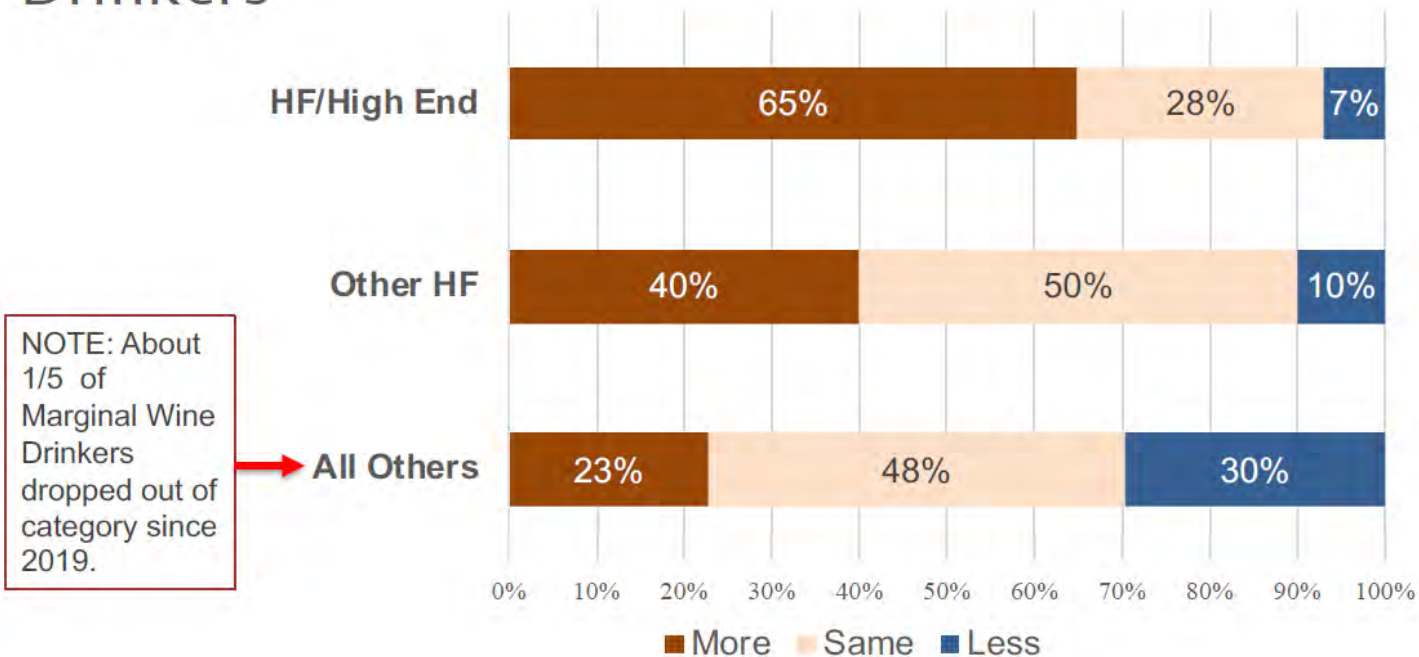
Today's Consumer

Change in Wine Consumption vs. "A Couple of Years Ago" Among High Frequency/High End Wine Drinkers*

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*High Frequency High End – Drinks wine weekly+ and purchases \$20+ 750ml wine monthly+
High Frequency- Drinks wine weekly+ but does not purchase \$20+ 750ml wine monthly+

WINE MARKET COUNCIL

Today's Consumer

Wine Purchase Frequency Among Total Wine Drinkers by Price Category - 2021 vs. 2019

2021	Weekly	Monthly	Several times a year	Once a year or less	Never
Under \$10	16%	22%	23%	13%	27%
\$15 - \$20	8%	20%	31%	21%	20%
\$50+	2%	4%	10%	20%	64%
2019					
Under \$10	17%	21%	24%	13%	24%
\$15 - \$20	9%	17%	33%	20%	21%
\$50+	2%	4%	7%	14%	73%
Point Change					
Under \$10	-1	+1	-1	0	+3
\$15 - \$20	-1	+3	-2	+1	-1
\$50+	0	0	+3	+6	-9

Some rows do not add to 100% due to rounding.

WINE MARKET COUNCIL

Base: U.S. wine drinkers, n=1,772. March waves not included
 Source: WMC - U.S. Wine Consumer Segmentation Survey, October-November 2021

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Today's Consumer

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Today's Consumer

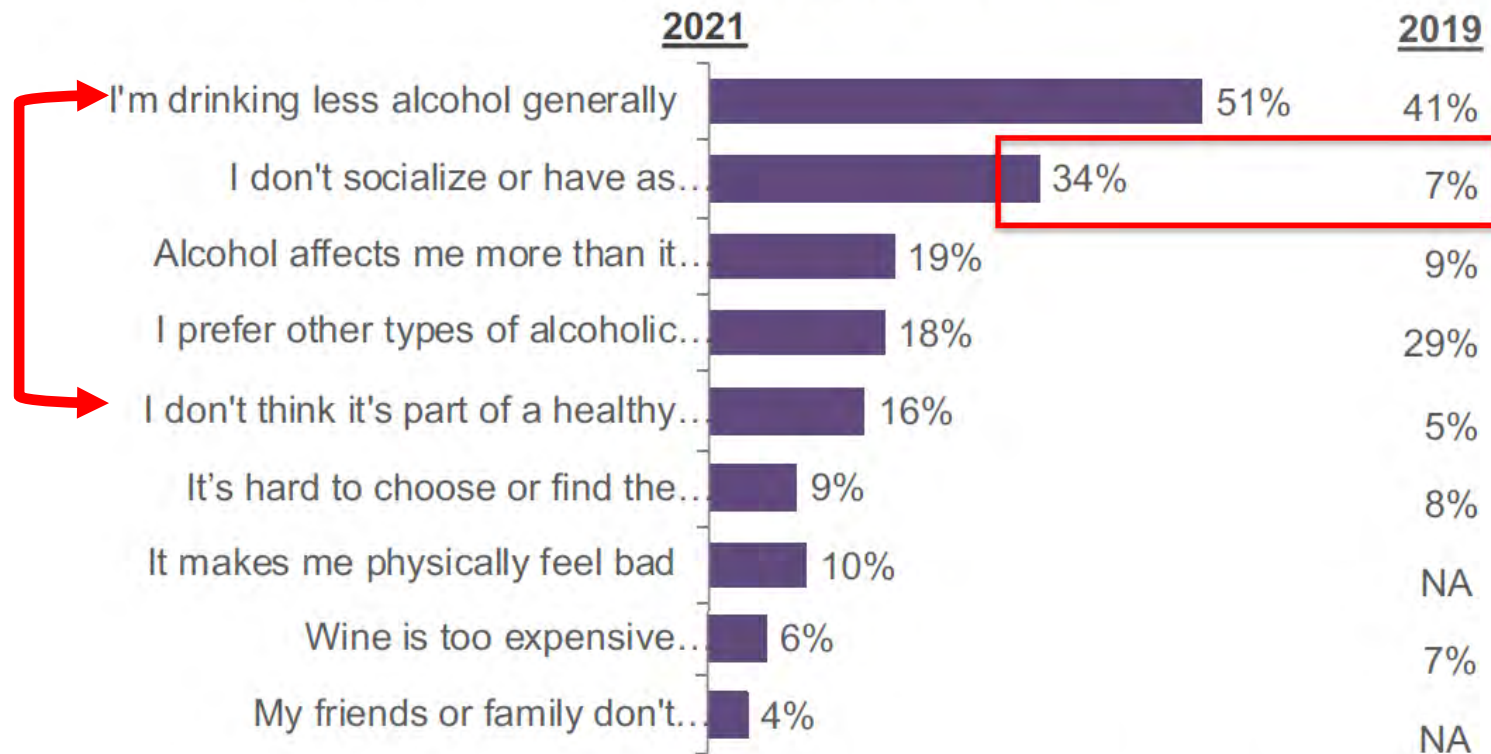
Reasons for Drinking Less Wine vs. "A Couple of Years Ago" 2021 responses vs. 2019 Responses

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Can be
addressed
through
marketing/
promotion



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Today's Consumer

Basic Consumer Segments:

	2019	2021		
SEGMENTS	Core Wine Drinker (Drink wine once/week+)	21%	18%	—
	Marginal Wine Drinker (Drink wine less than once/week but at least every 2-3 months)	17%	15%	—
	Non-Adopter (Drink beer/spirits/other alcohol but no wine)	26%	29%	+
	Infrequent Alcohol (Drink alcohol less often than every 2-3 months)	10%	10%	
	Abstainer (Do not drink alcohol)	25%	28%	+

May not add to 100% due to rounding

WINE MARKET COUNCIL

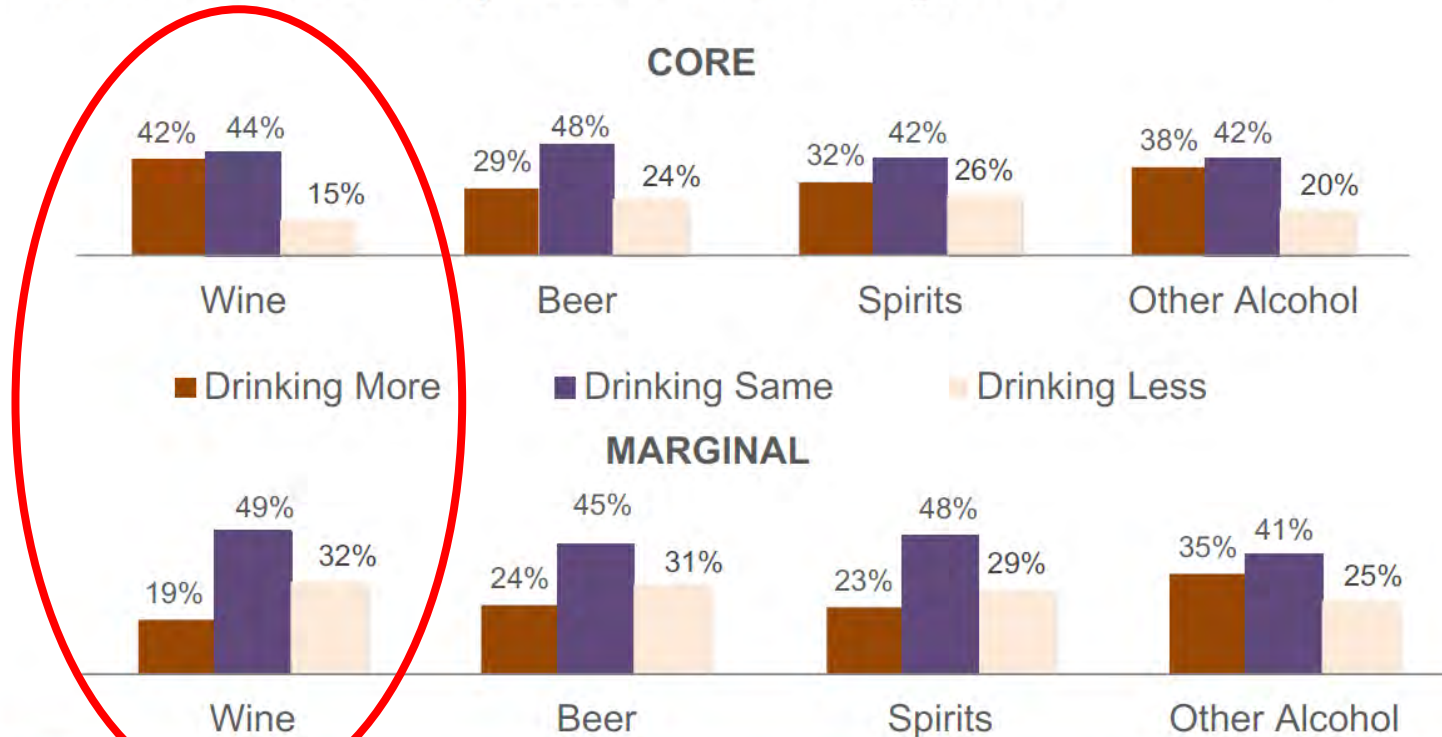
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Today's Consumer

Change in Consumption vs. "A Couple of Years Ago" For Wine Drinkers - By Wine Drinker Segment



Core drinkers say they are drinking more...

Marginal drinkers say they are drinking less....

NOTE: Substantial numbers of Marginal Wine Drinkers switched to drinking mostly/all beer, spirits or other since 2019 survey. Adjusting for this, our estimate is that More/Same/Less for Marginal wine consumers would be 15/39/46; and % drinking More in the other categories should be higher by 5-10%.

* % point difference between drinking more and drinking less

**Such as hard spritzers, flavored alcoholic beverages, hard cider, wine-based mixed beverages

WINE MARKET COUNCIL

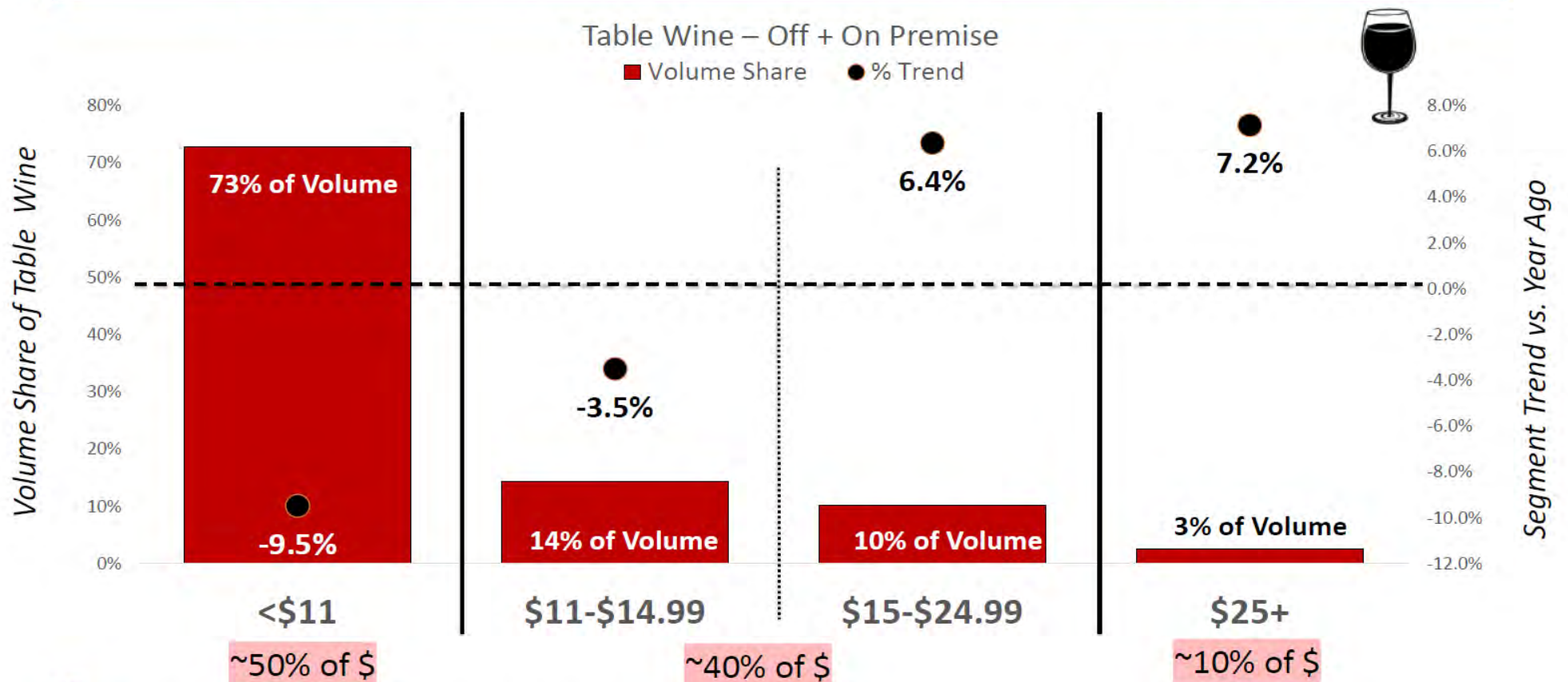
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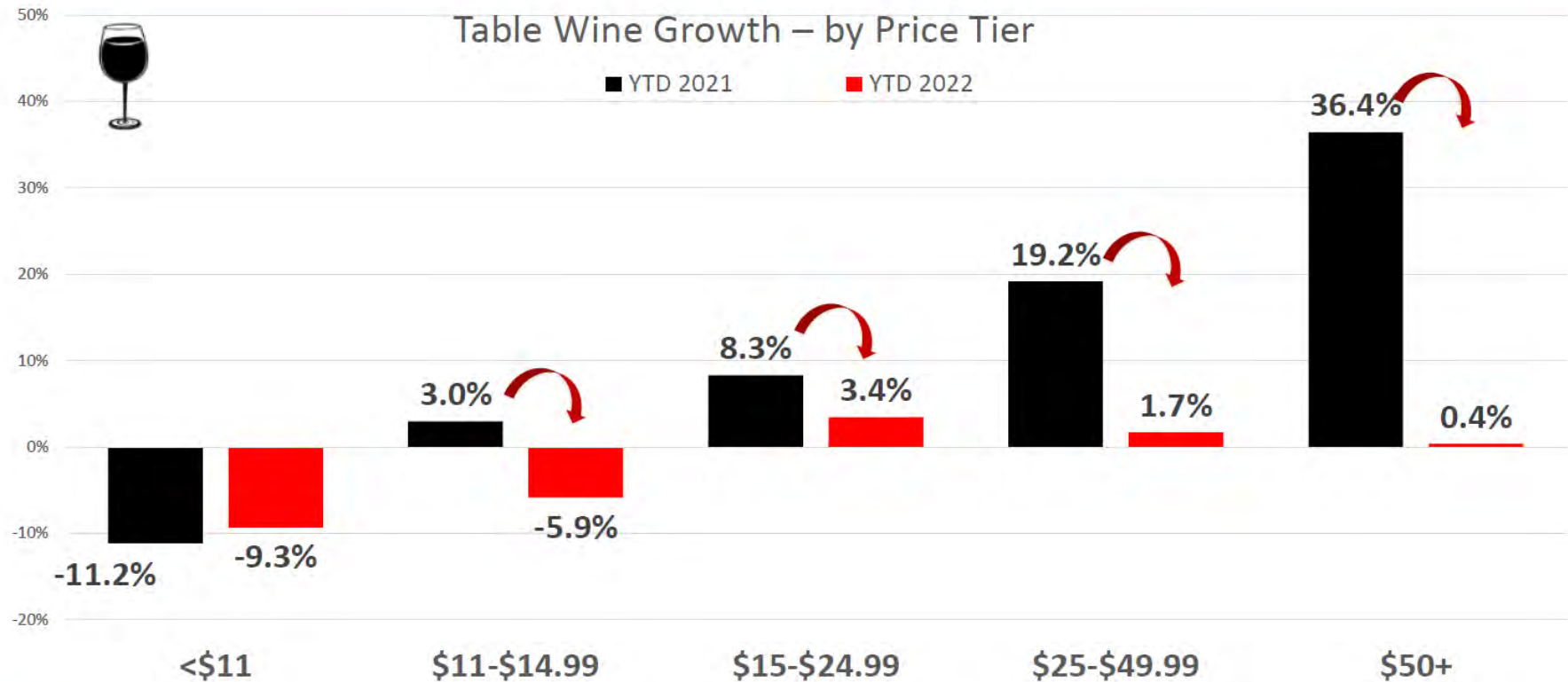
Today's Consumer

"HIGH END" TABLE WINE GROWTH POSITIVE



Today's Consumer

HIGHER END PRICE TIER GROWTH HAS DECELERATED SHARPLY,
BUT VS HUGE COMPS OF YEAR AGO



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Source: Gomberg Fredrikson & Associates Webinar Series - September 27, 2022

US Wine Market Trends - 2022 Forecast

	2017	2018	2019	2020	2021	2022 Est	2022 Chng
Domestic							
Still Wines	250,583	255,251	255,403	266,820	265,325	267,050	0.6%
Sparkling Wines	12,519	12,752	12,748	12,714	14,381	14,812	3.0%
Wine Flav Beverages	9,315	9,235	7,483	6,796	3,796	2,657	-55.0%
Vermouth	511	458	373	370	304	289	-5.0%
Bulk Imports	27,382	23,302	21,838	24,550	26,284	30,226	15.0%
Sub Total Dom Bottled	300,311	300,999	297,844	311,250	310,090	315,035	1.6%
% Change		0.2%	-1.0%	4.5%	-0.4%		
Imports							
Still Wines	82,290	80,322	80,194	78,270	83,124	80,630	-3.0%
Sparkling Wines	13,846	14,900	16,609	15,819	22,098	23,203	5.0%
Wine Flav Beverages	5,534	6,168	9,632	24,481	27,602	12,145	-56.0%
Vermouth	2,215	2,684	2,977	5,946	8,415	5,049	-40.0%
Bulk Imports	-	-	-	-	-	-	-
Sub Total Pckg Imports	103,885	104,075	109,411	124,516	141,239	121,027	-14.3%
% Change		0.2%	5.1%	13.8%	13.4%		
Total US Wine Market							
Still Wines	332,873	335,574	335,597	345,090	348,449	347,680	-0.2%
Sparkling Wines	26,365	27,653	29,357	28,532	36,479	38,016	4.2%
Wine Flav Beverages	14,849	15,403	17,115	31,277	31,398	14,802	-52.5%
Vermouth	2,726	3,143	3,349	6,317	8,719	5,338	-38.8%
Bulk Imports	27,382	23,302	21,838	24,550	26,284	30,226	15.0%
Total All Wine	404,196	405,074	407,256	435,767	451,329	436,061	-3.4%

"Today" Summary

What's securing
supply/demand stability today?

- Series of short crops
- Anchoring pessimism regarding weather/perils
 - Modest planting rates in recent years
 - "Reduced" availability of bulk imports
 - Lack of spot market grapes

Note: These all have to do with supply control.

"Today" Summary

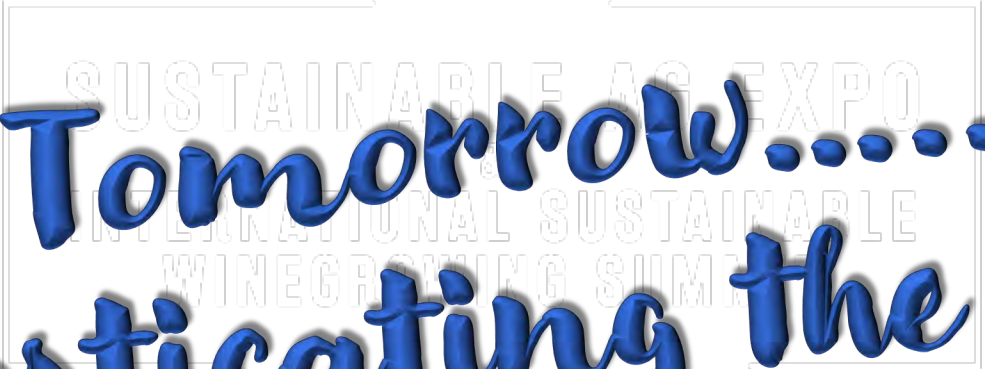
And what's threatening supply/demand stability today?

- Economic outlook/recession/inflation
- "Under-performance" of the largest wineries
- No material proof of a growing consumer base

Note: These all have to do with demand pessimism.



**Tomorrow.....
prognosticating the future.**



Forecasting Grape Supply

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A Look at
Future Production Potential
by Variety and Price Point....

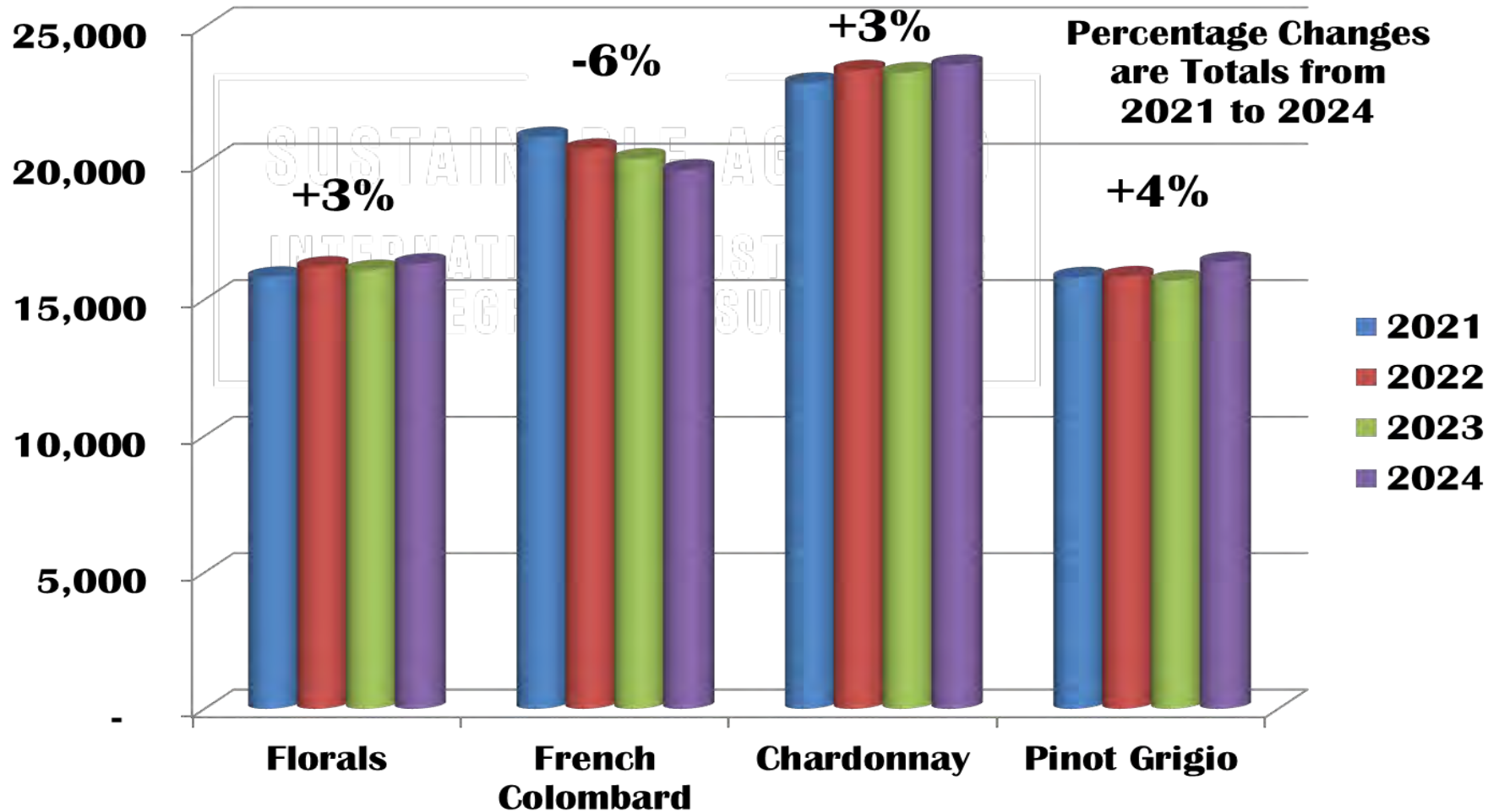
Forecasting Grape Supply

What do the numbers tell us?



Forecasting Grape Supply

**Estimated California White Winegrape Bearing Acreage
(for regions likely producing wines <\$6/bottle)**



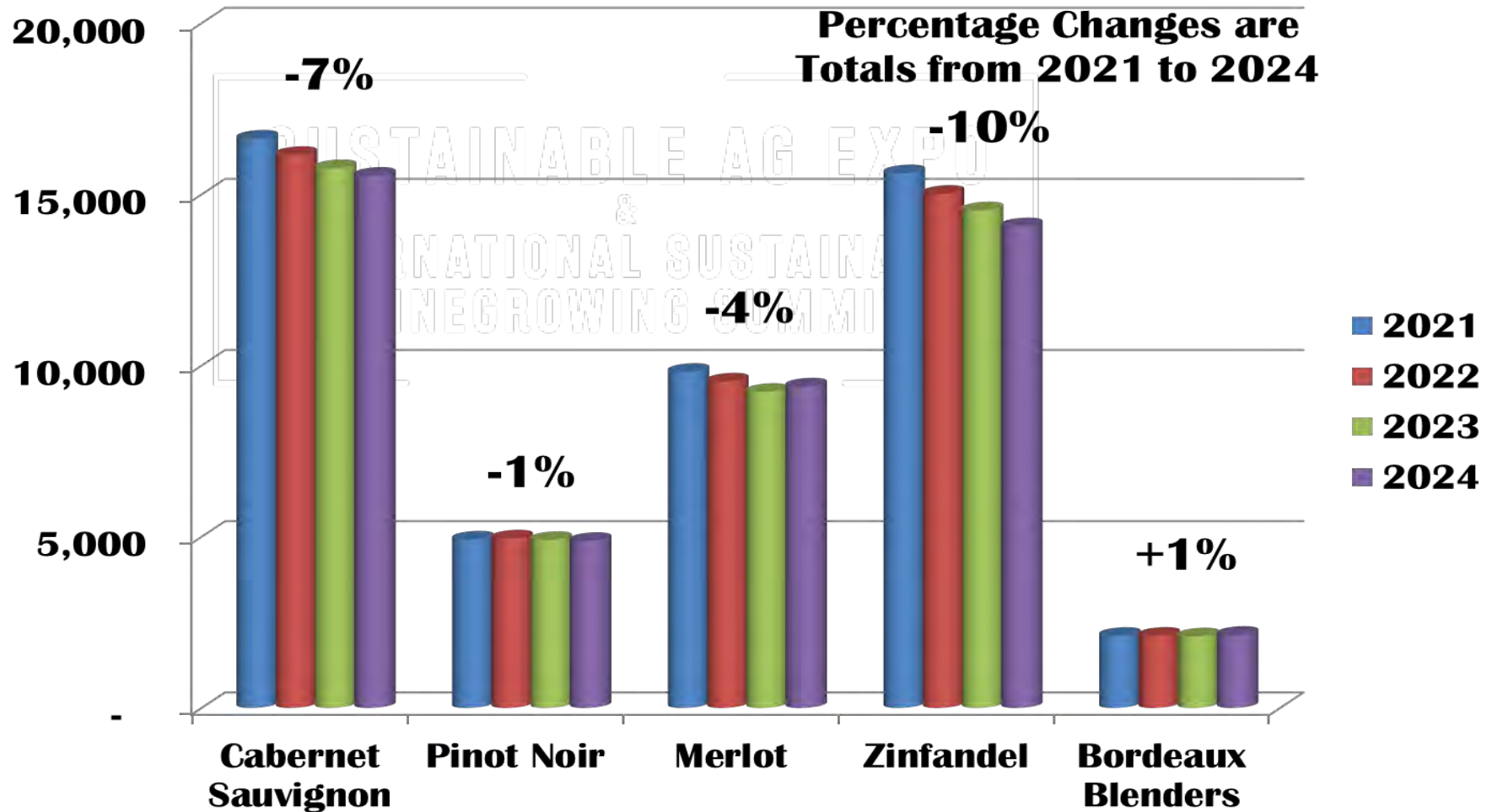
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Forecasting Grape Supply

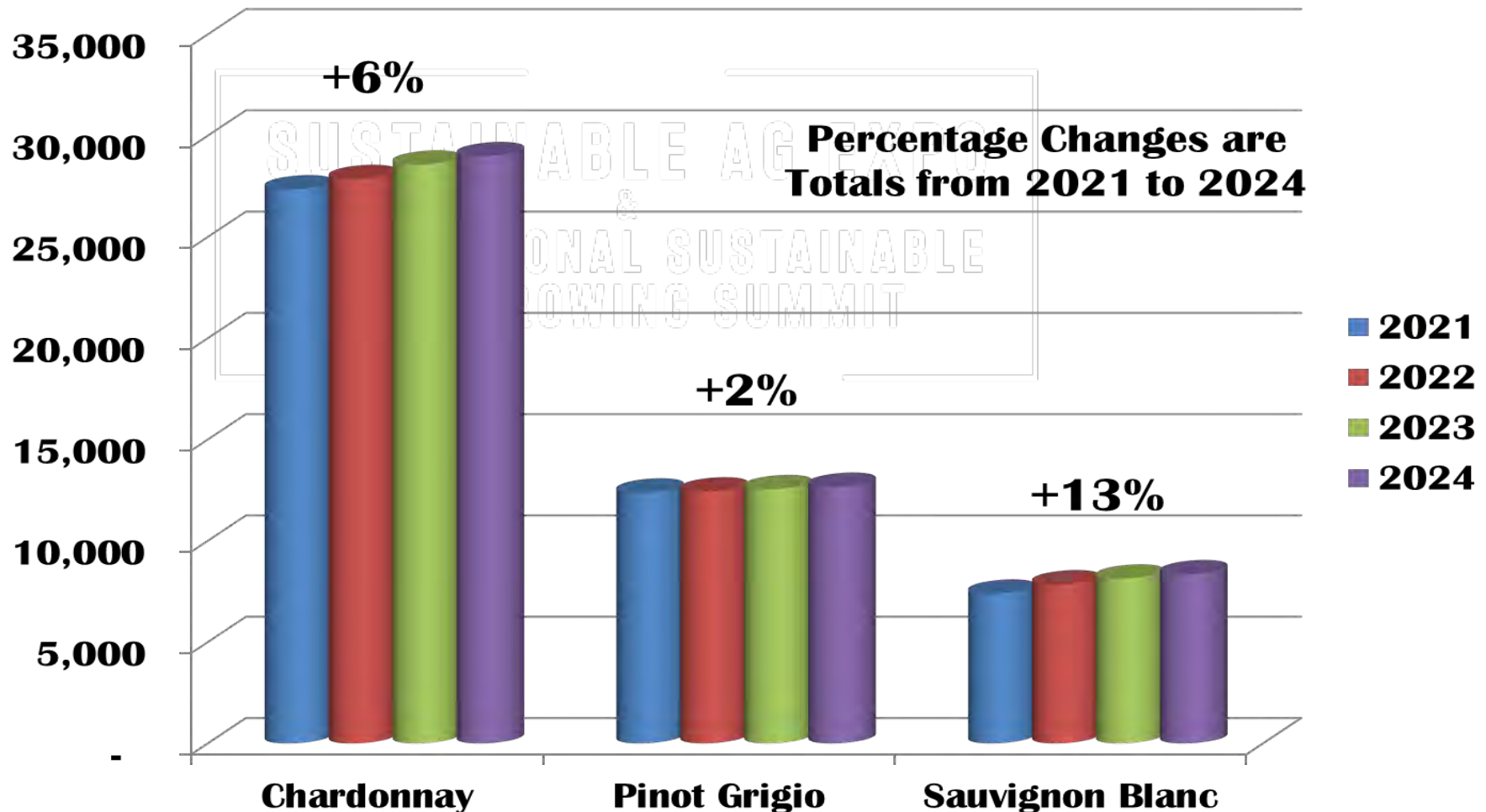
Estimated California Red Winegrape Bearing Acreage
(for regions likely producing wines <\$6/bottle)



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Forecasting Grape Supply

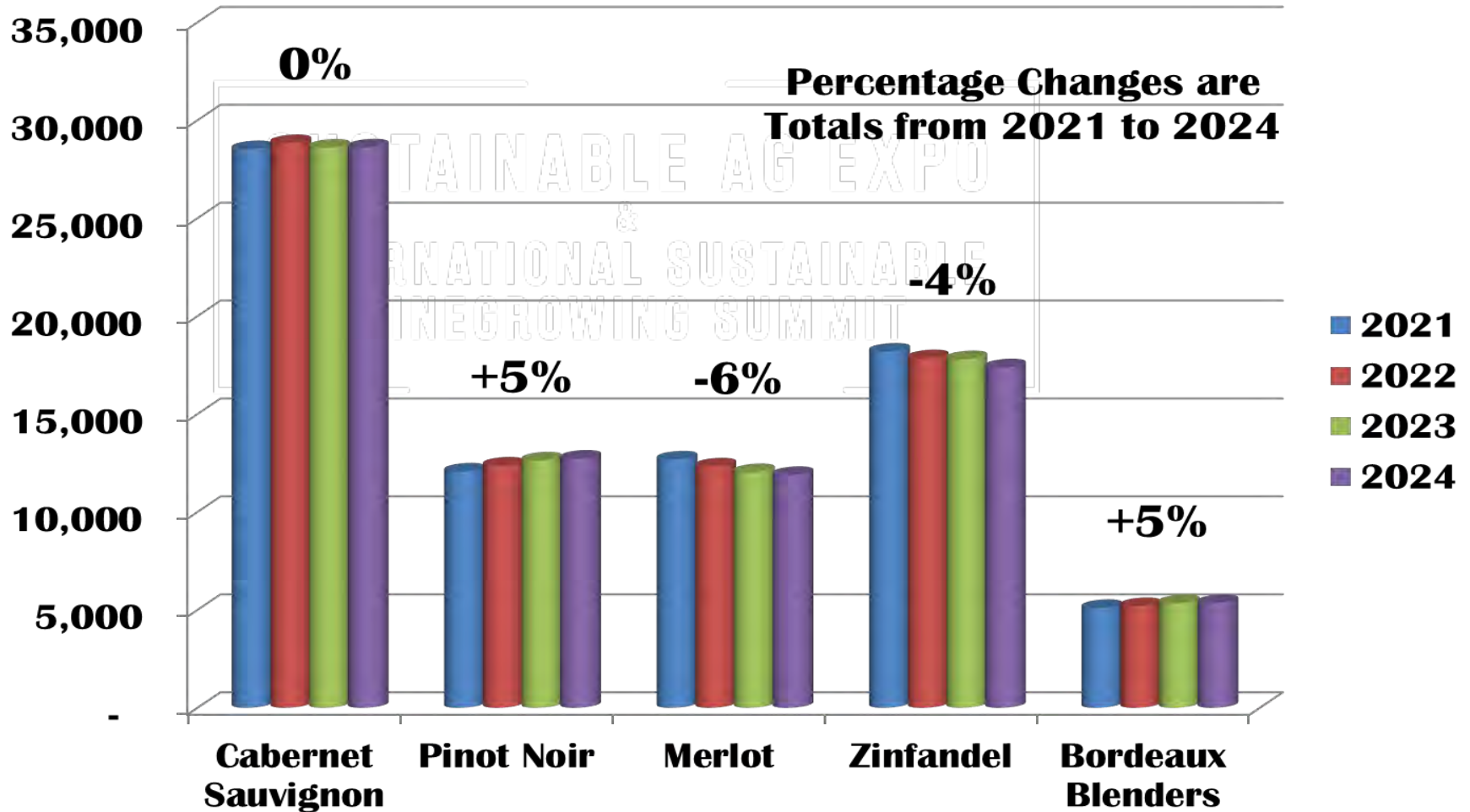
Estimated California White Winegrape Bearing Acreage
(for regions likely producing wines **\$6-11/bottle**)



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Forecasting Grape Supply

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



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What are the numbers **not** telling us?

For interior regions (wines mostly below \$11)...

- ✓ Newest planting contract activity is not reflected in these numbers.
- ✓ Water availability and cost are impossible to quantify and forecast.
- ✓ Ag burn prohibition may have an impact on vineyard removal decisions.
- ✓ Contract offers have either no "max tons" clause at all or growers are allowed to forecast their production and assign their own max.
- ✓ There's less margin today for growers and wineries to share.
- ✓ Alternative crops now exist in Lodi and the Delta, just like Fresno.

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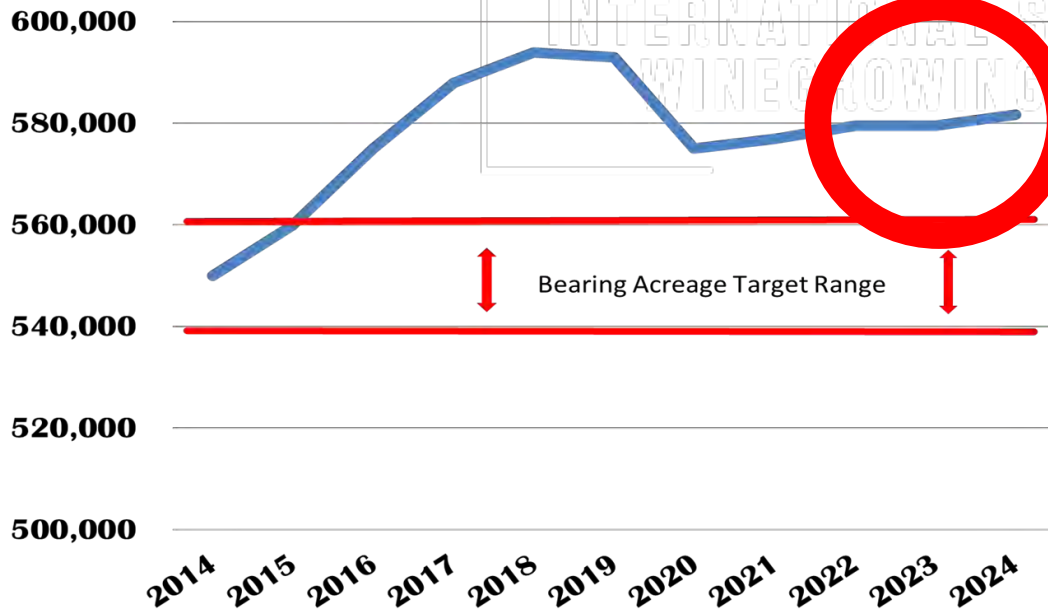
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Production Potential...

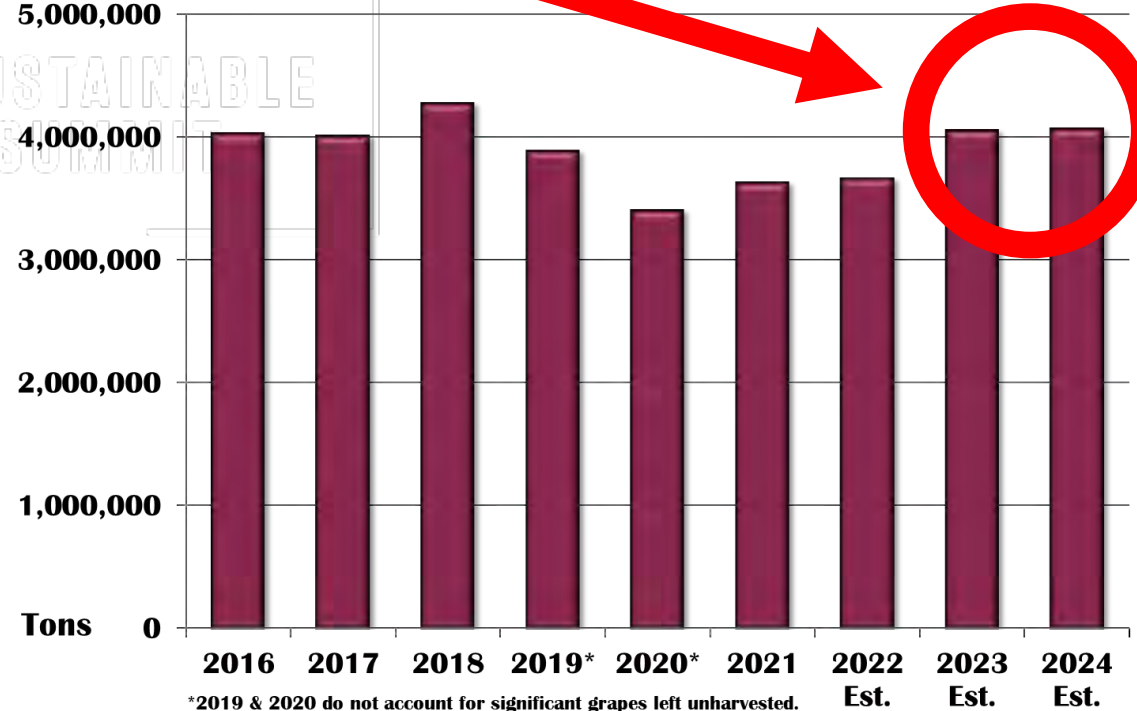
Don't under-estimate this!

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Estimated/Forecasted Bearing Winegrape Acres
CALIFORNIA



California Winegrape Crush, 2016-2021,
With Estimates and Projections thru 2024



*2019 & 2020 do not account for significant grapes left unharvested.

The Nature of the California Winegrape Market

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- Start/Stop; Hot/Cold; Up/Down
 - This isn't over a period of years; this is in reference to the coming months, weeks, and sometimes even days!
- Reasons:
 - Evolving Consumer/Fierce Competition/Global "Challenges"
 - It's a game of market share, not market growth
 - General lack of buyers & sellers for "large" SJV quantities
 - Three "P's" - Planned Program Purchases
- Result/Outcome:
 - Produces winners and "Non-winners"

Factors Countering Loss of Market Share.....

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- ✓ Utilization of “low-cost” grapes to control cost & maintain margin
- ✓ Vineyard removals abound in Central Valley, particularly on west side (water and burn restrictions contribute)
- ✓ Weather perils (mostly drought) continue to limit production.
- ✓ Concern from grape buyers regarding permanent loss of vineyards
- ✓ Evidence exists that consumers “trade down” in recessions.
- ✓ Focus on production/efficiency take top priority in vineyard development

Thank you!

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