2022 Sustainable Ag Expo

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

Jeff Bitter
Allied Grape Growers

November 16, 2022

SUSTAINABLE AG EXPO
&
INTERNATIONAL SUSTAINABLE
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Yesterday....
looking back for context.

California Winegrape Crush

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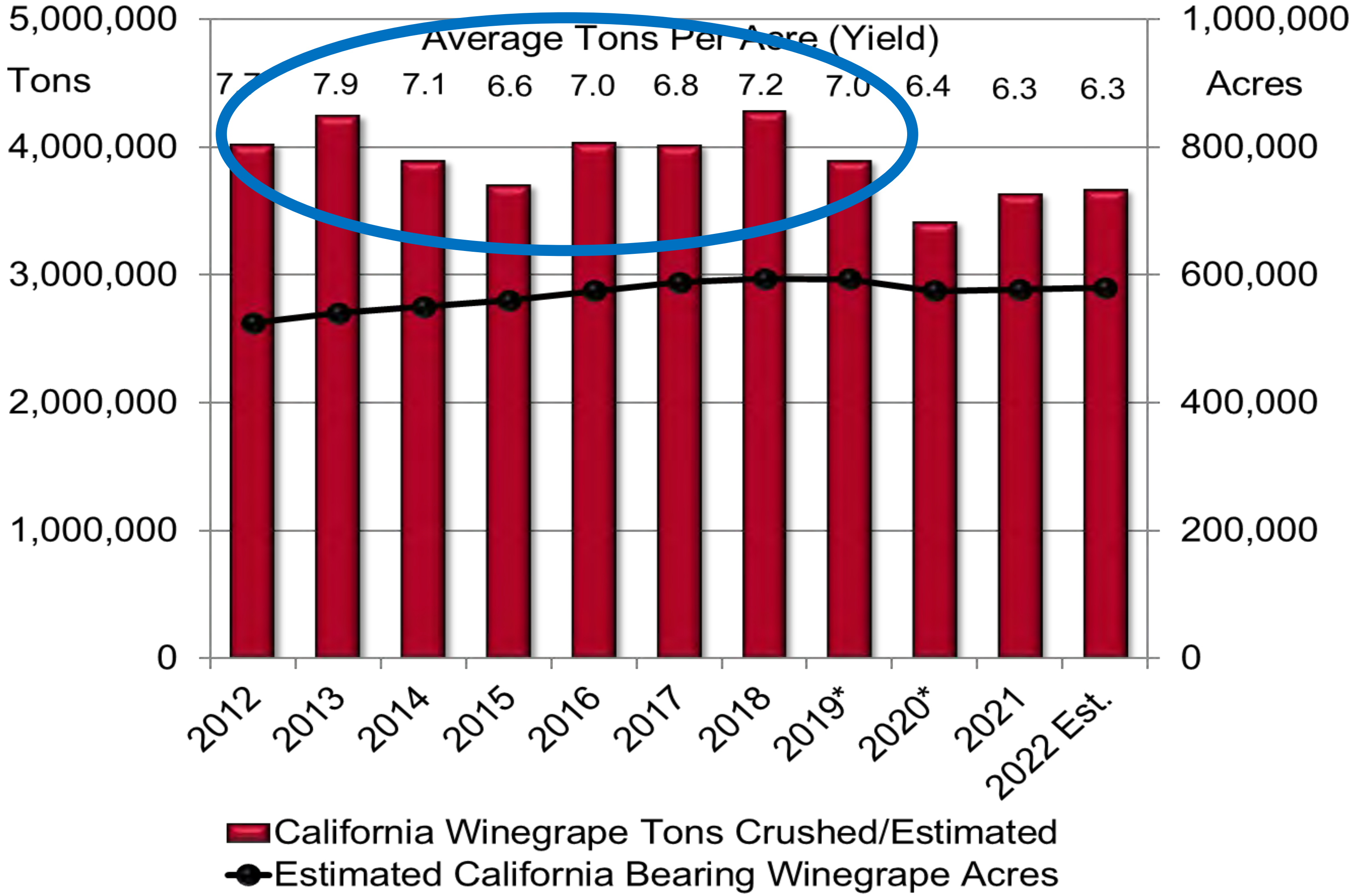


*For crop years 2019 & 2020, yield was estimated due to material amounts of unharvested grapes

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 Californ Could Mean Lower Bottle

Posted: Feb 21, 2020

may be a

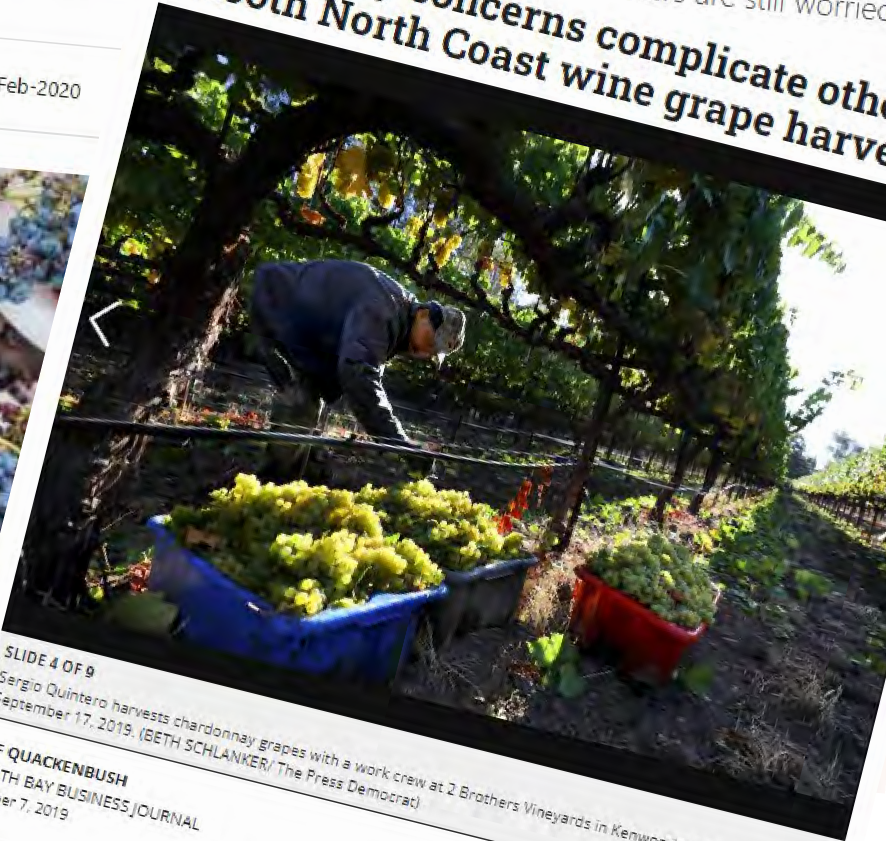
California Grape Glut Starts to Bite

The 2019 crush was smaller tha … but growers are still worrie about oversupply.

W. Blake Gray • Tuesday, 11-Feb-2020

© Shutterstock | As much as 10 percent

Oversupply concerns complicate othe smooth North Coast wine grape harve



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

Order Article Reprint

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

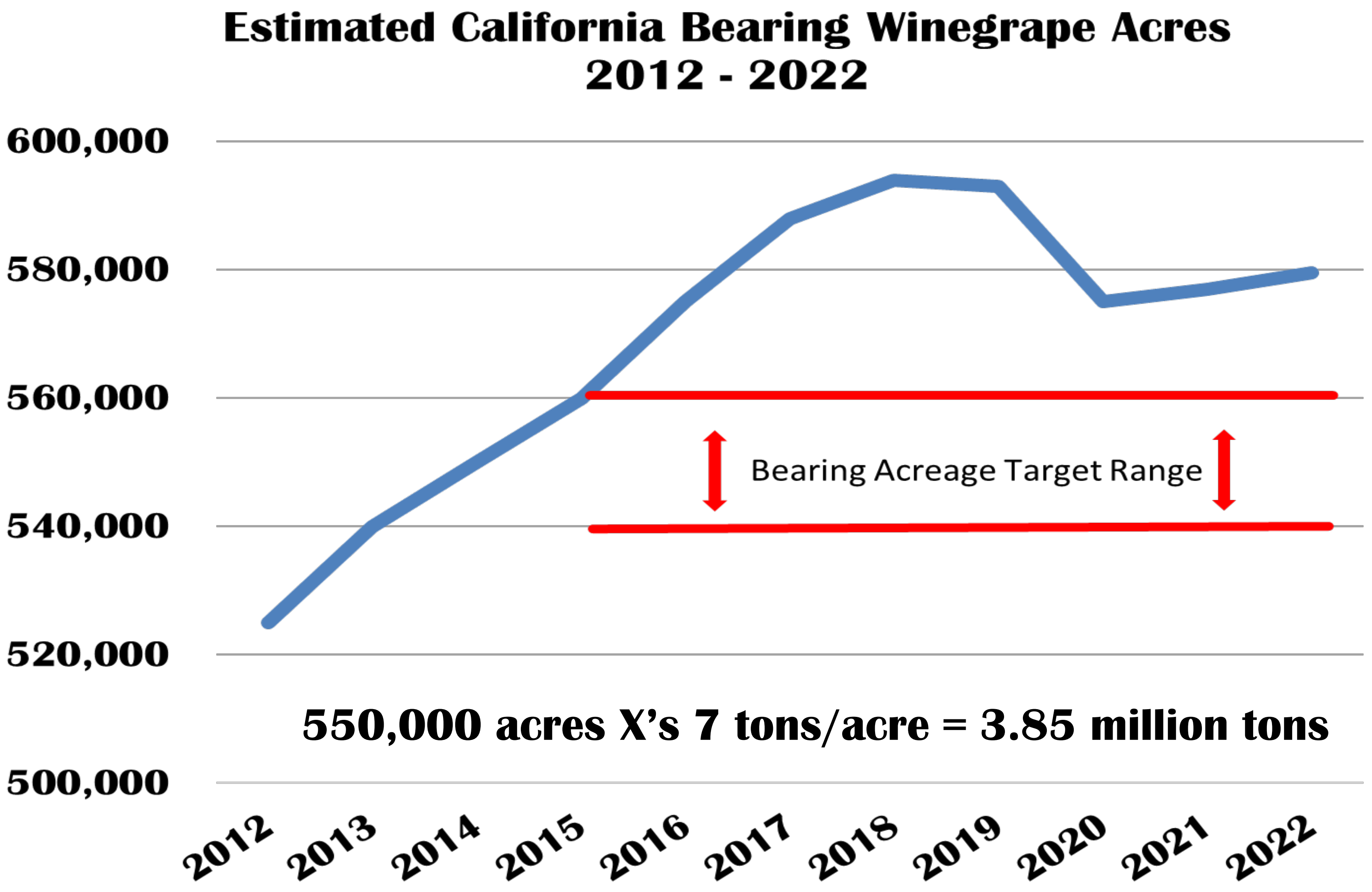
LOCAL NEWS ›

California Grape Glut Helps Send Wine Prices Plummeting

CBS NEWS BAY AREA

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

Bearing Acreage History



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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	**[illegible]017**	**2018**	**2019**	**2020**	**[illegible]021**	**% Change**
Bulk Inventory	396,585,[illegible]	392,500,433	492,307,018	457,918,488	[illegible]25,464,855	-7.1%
Case Inventory	58,708,205	52,878,634	60,290,742	62,922,[illegible]	62,033,709	-1.4%
California Inventory	455,293,439	445,3[illegible]	552,597,760	[illegible]20,840,676	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

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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%
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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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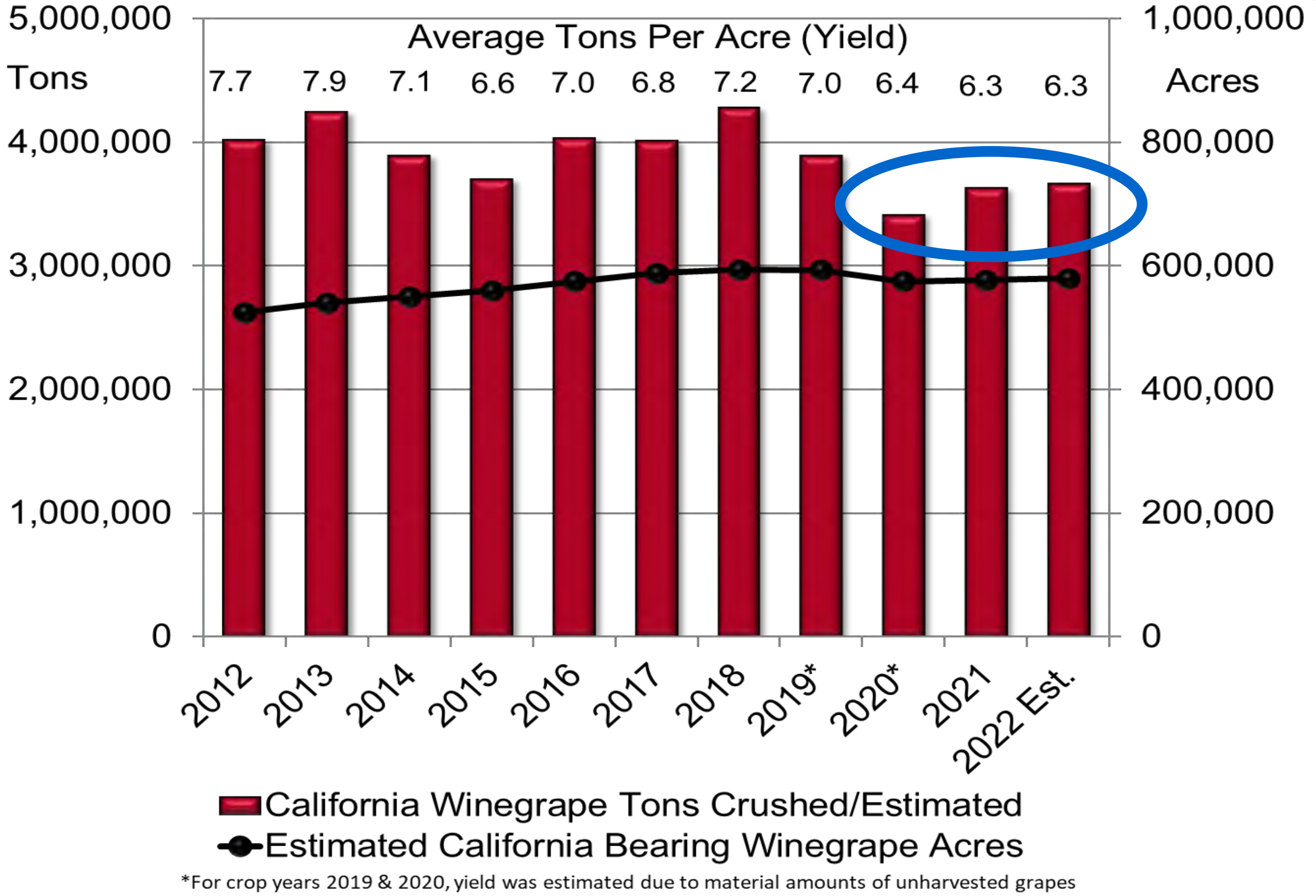
The Saving Grace.....

California Winegrape Crush



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"Yesterday" Summary

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- Significant Bearing Acreage Growth 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
- Three short crops offset our structural oversupply

Today…..where we are at now.

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Vine Planting,
Vineyard Removals
and Today's Consumer…..

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California Planting Trends

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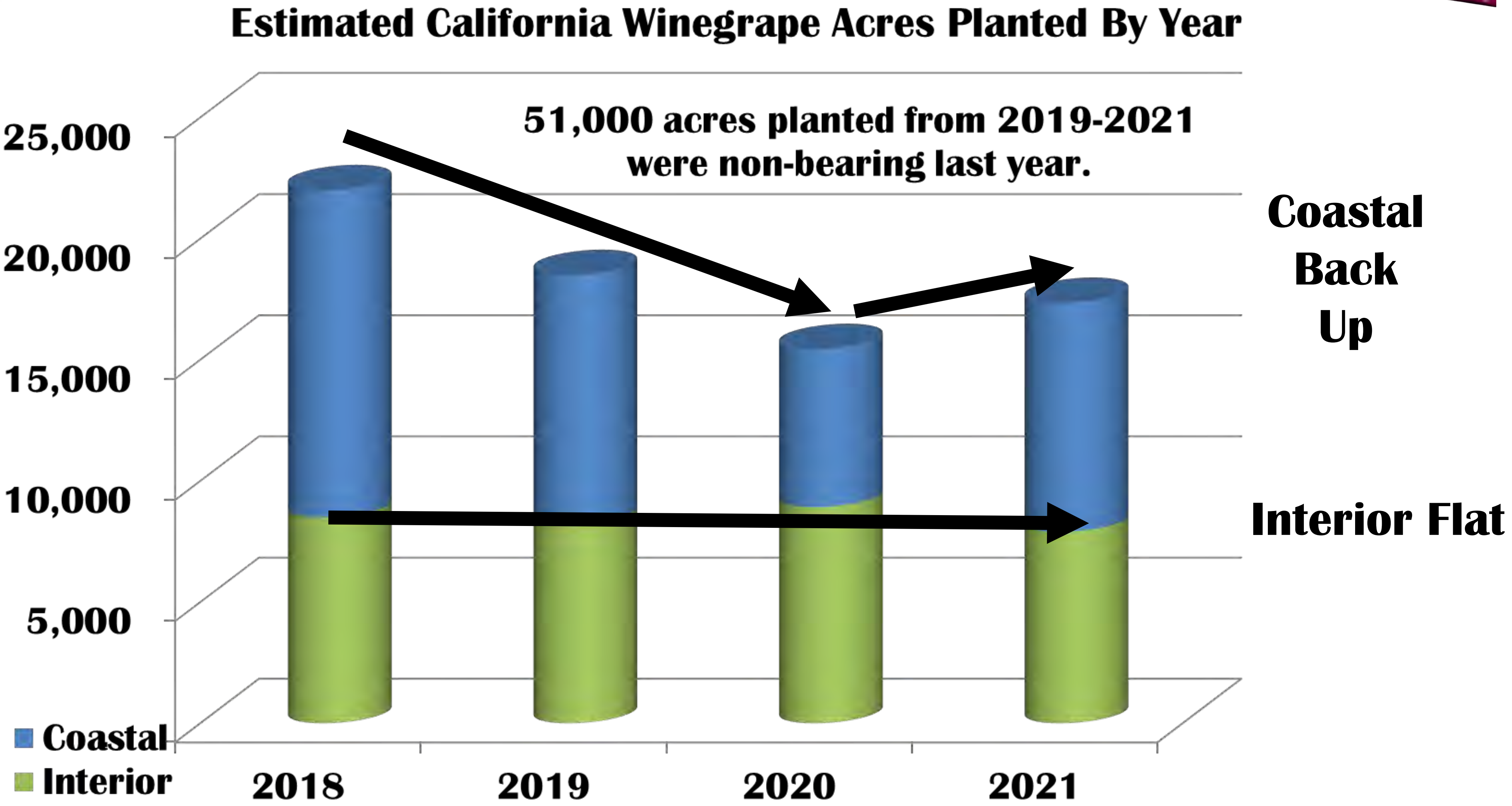

California Planting Trends

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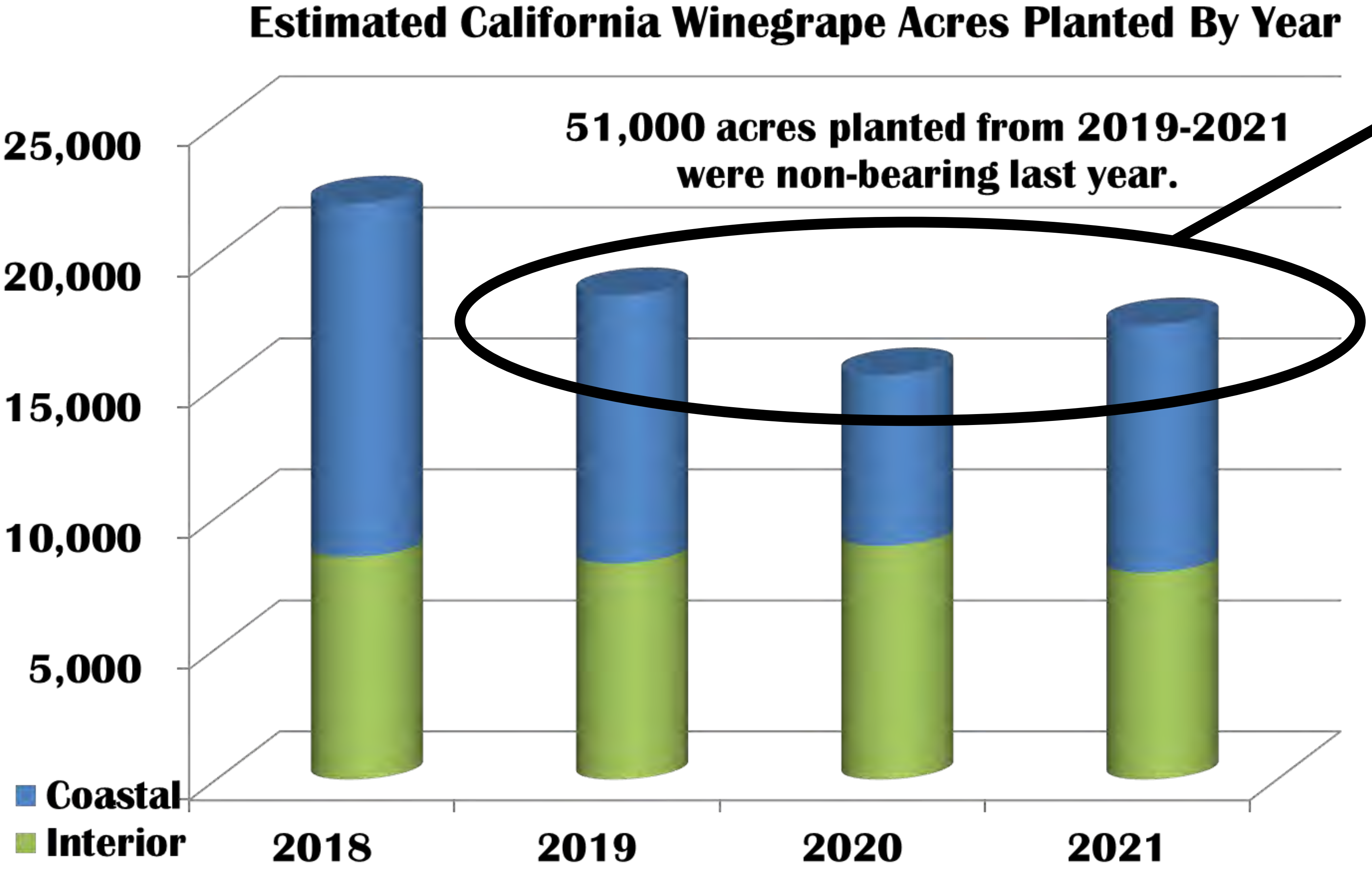

This is good:

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

California Vineyard Removals

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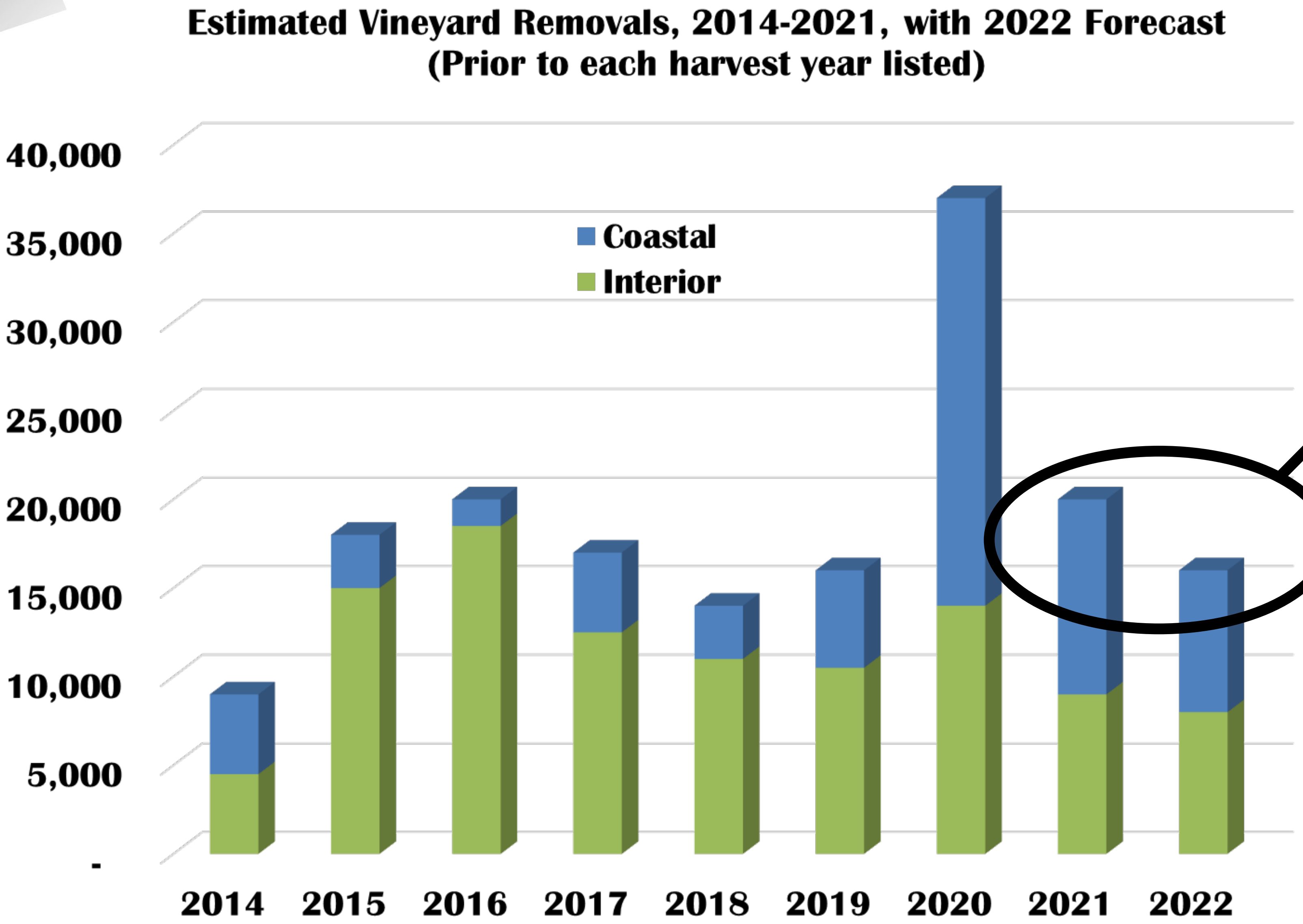

This is good:

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

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

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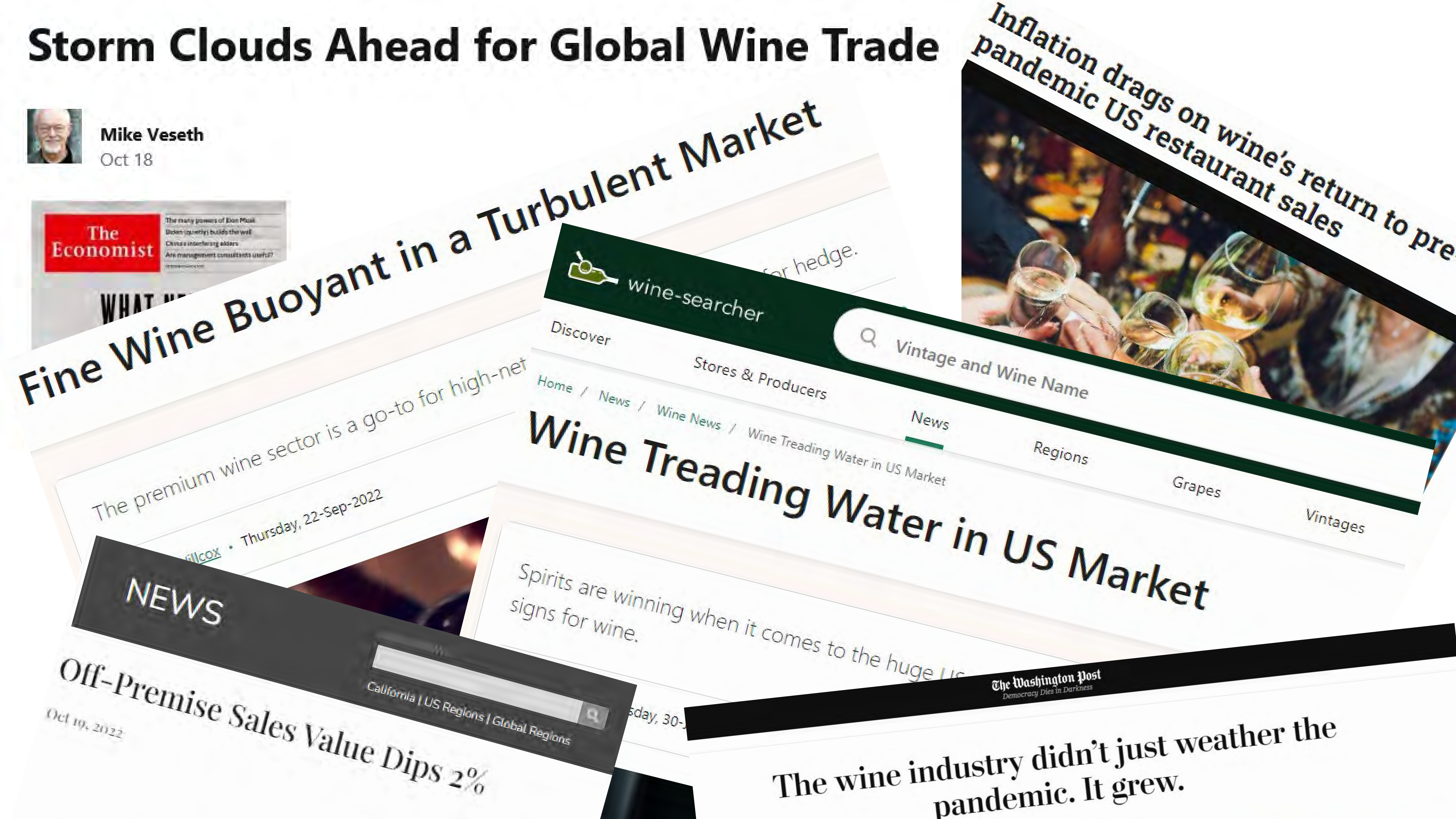
Wine Market Headlines.....



Storm Clouds Ahead for Global Wine Trade
Mike Veseth
Oct 18
The Economist
Fine Wine Buoyant in a Turbulent Market
The premium wine sector is a go-to for high-net
Thursday, 22-Sep-2022
wine-searcher
Discover
Stores & Producers
Vintage and Wine Name
News
Regions
Grapes
Vintages
Home / News / Wine News / Wine Treading Water in US Market
Wine Treading Water in US Market
Spirits are winning when it comes to the huge
signs for wine.
Inflation drags on wine's return to pre
pandemic US restaurant sales
NEWS
California | US Regions | Global Regions
Off-Premise Sales Value Dips 2%
Oct 19, 2022
The Washington Post
Democracy Dies in Darkness
The wine industry didn't just weather the pandemic. It grew.

Wine Market

- 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 stable, 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

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Today's Consumer

WINE MARKET COUNCIL

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

June 2022

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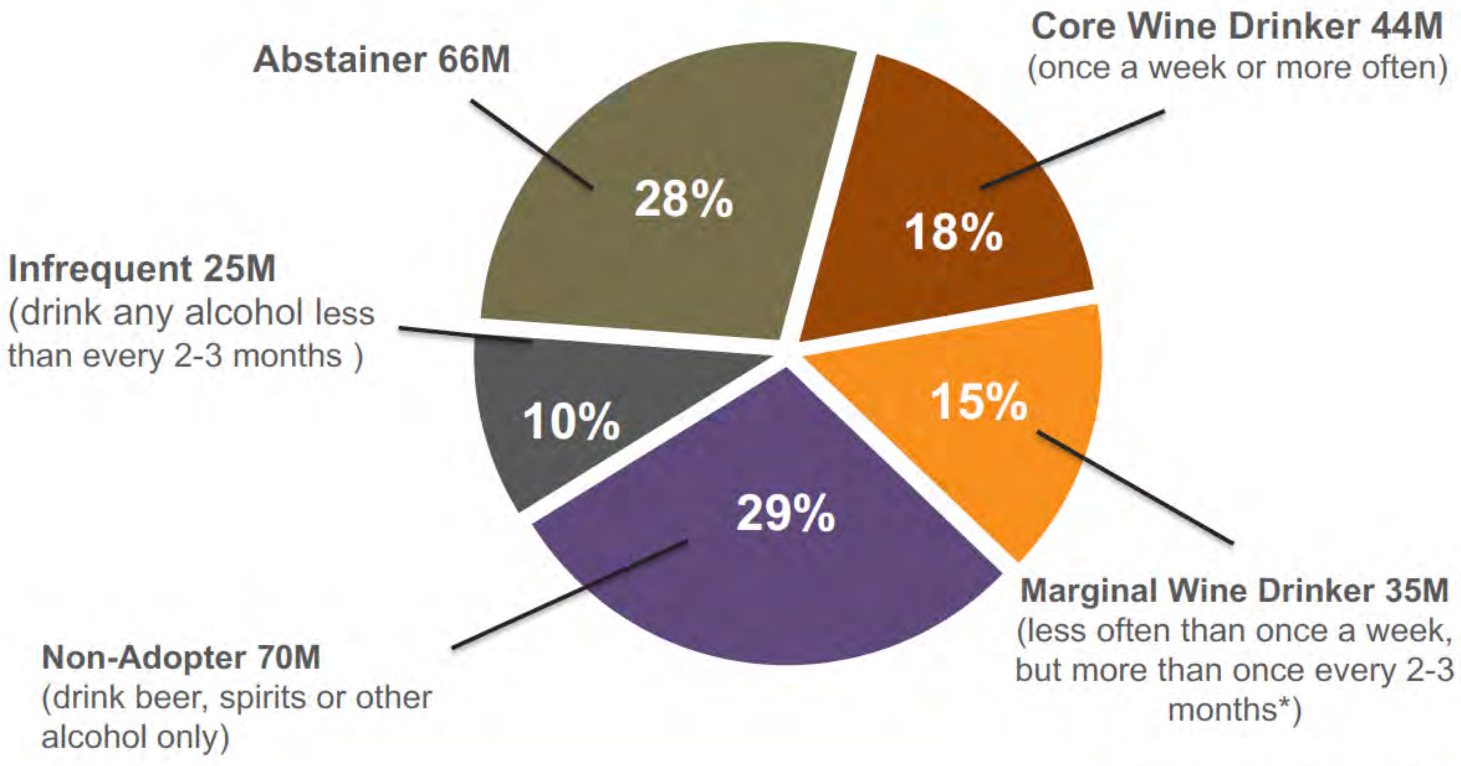
Beverage Alcohol Consumption Among U.S. Adults 21+ (with estimated population in millions)



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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 2021 11

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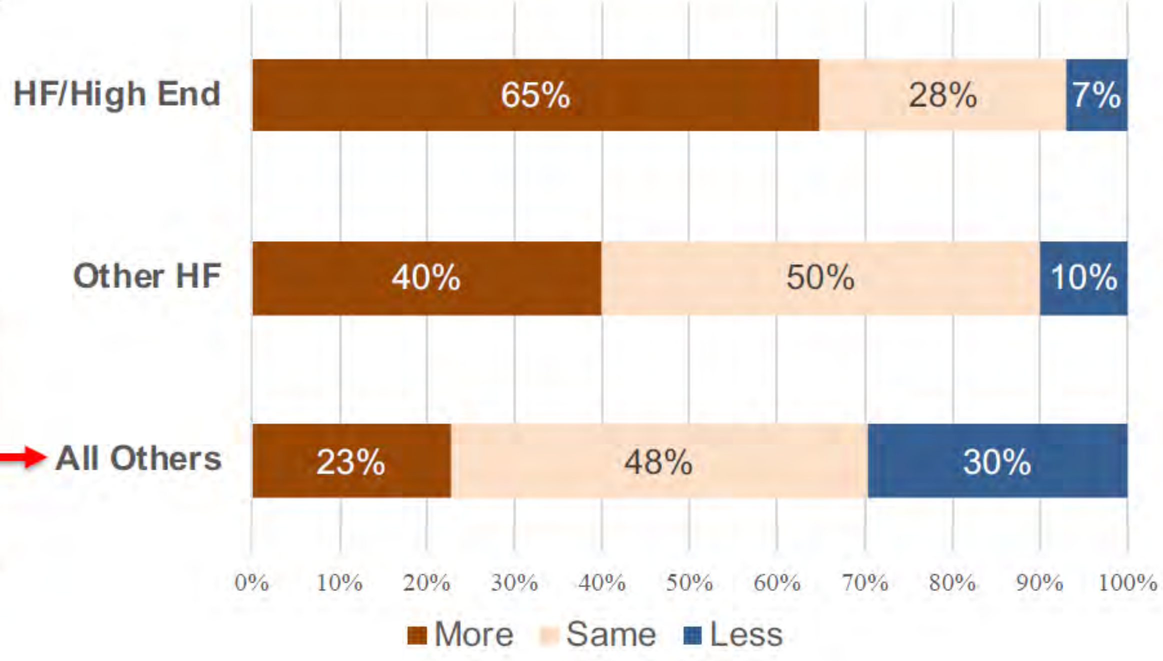
Change in Wine Consumption vs. "A Couple of Years Ago" Among High Frequency/High End Wine Drinkers*



NOTE: About 1/5 of Marginal Wine Drinkers dropped out of category since 2019.

*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+

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Base: U.S. wine drinkers, n=1,772
Source: WMC – U.S. Wine Consumer Segmentation Survey, October-November 2021

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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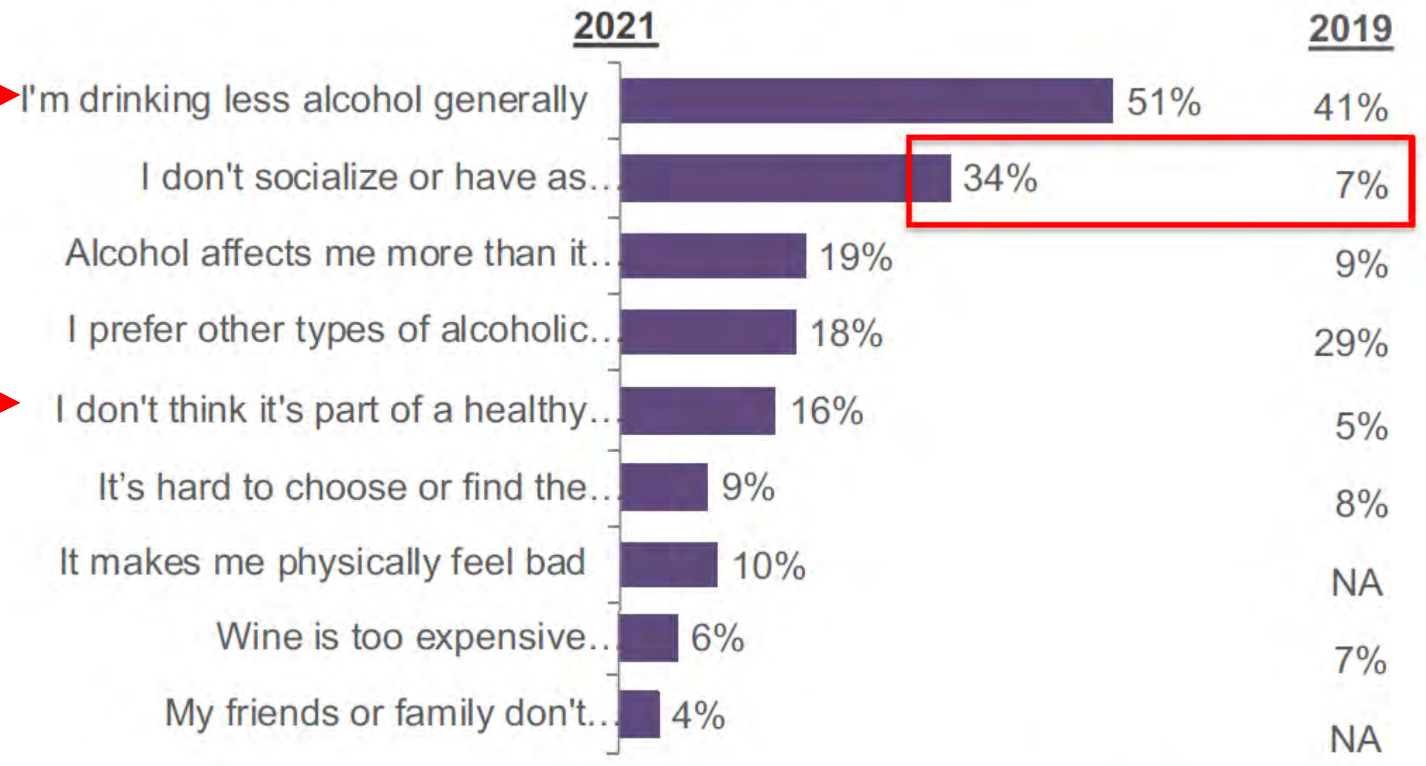
Can be addressed through marketing/promotion

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



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Base: U.S. wine drinkers who say they are drinking less wine than a couple of years ago, n=402 Source: WMC
– U.S. Wine Consumer Segmentation Sur Survey, October-November 2021

Today's Consumer

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Basic Consumer Segments:

	2019	2021	
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

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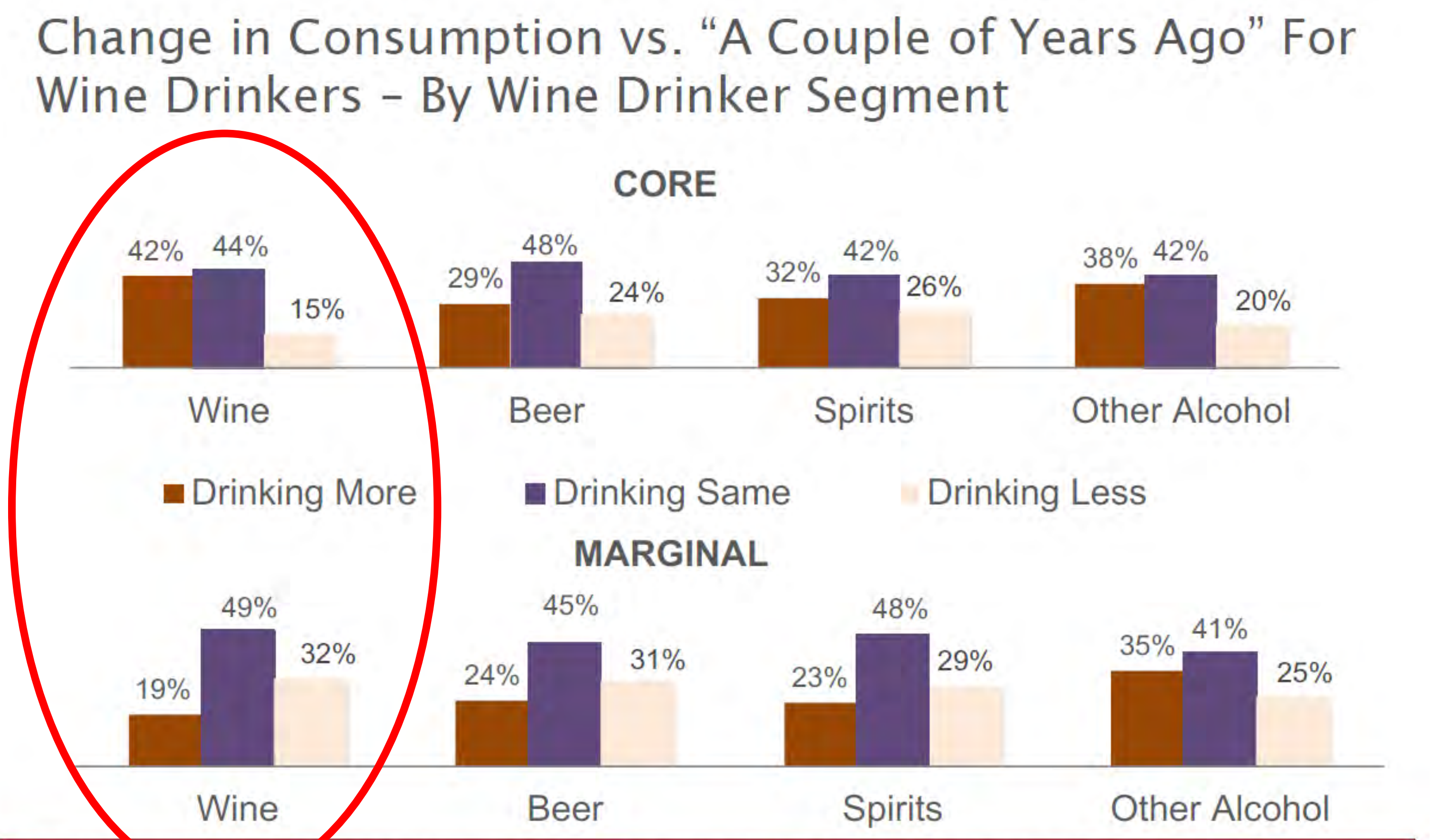

NOTE: Substantial numbers of Marginal Wine Drinkers switched to drinking mostly/all beer, spirits or other since 2019 survey . Adjusting for this, our estimate is that More/Same/Less for Marginal wine consumers would be 15/39/46; and % drinking More in the other categories should be higher by 5-10%.

* % point difference between drinking more and drinking less
**Such as hard spritzers, flavored alcoholic beverages, hard cider, wine-based mixed beverages

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Base: Core Wine drinkers, n=991; Marginal wine drinkers, n=700
Source: WMC – U.S. Wine Consumer Segmentation Survey, October-November 2021

67

Core drinkers say they are drinking more...

Marginal drinkers say they are drinking less....

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	-30.0%
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.[illegible]%
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%

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"Today" Summary

So what's securing supply/demand stability today?

- Three short crops in a row
- Anchoring pessimism regarding weather/perils
- Modest planting rates in recent years

Note: These all have to do with <u>supply control.</u>

"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 <u>demand pessimism.</u>

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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

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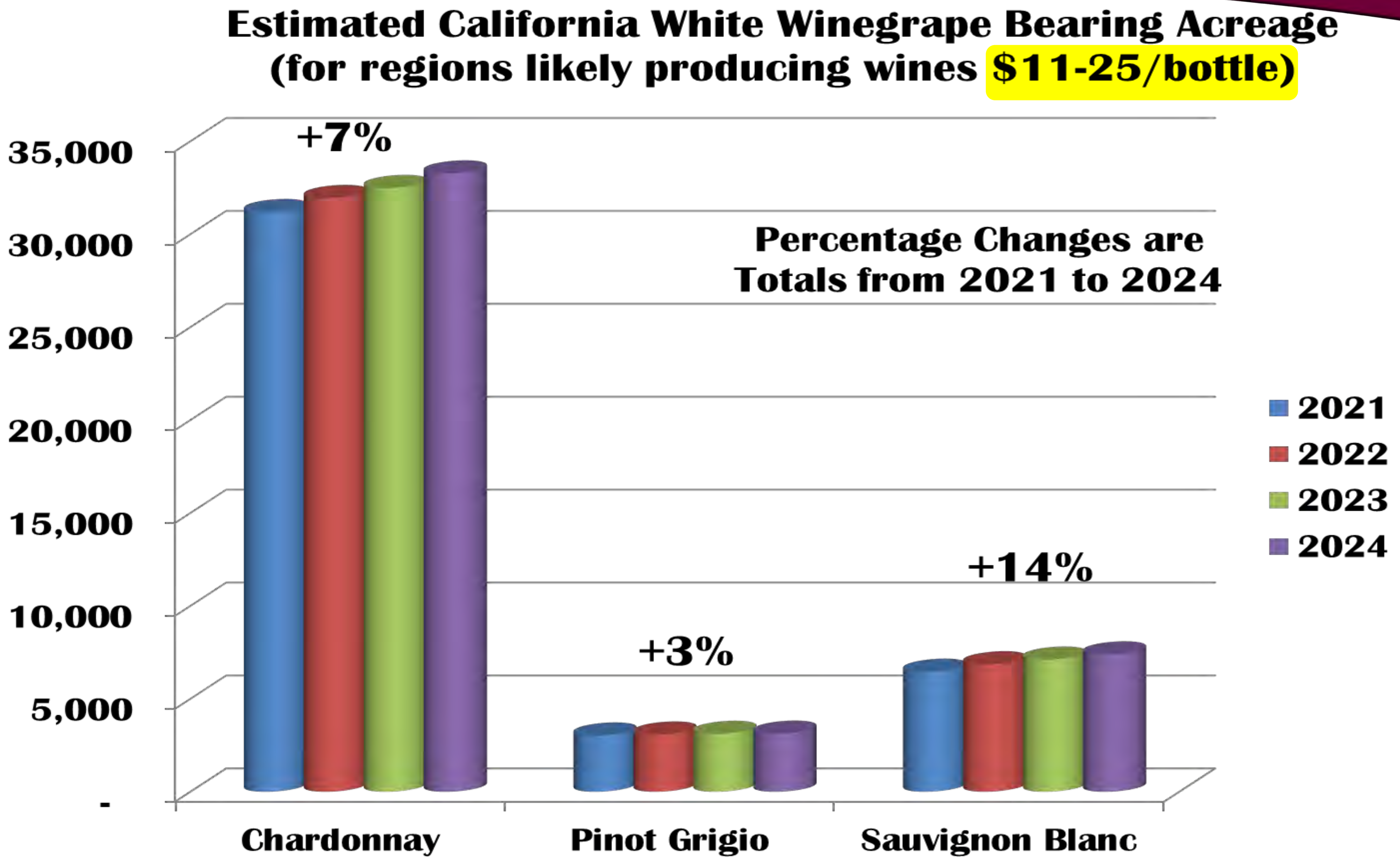

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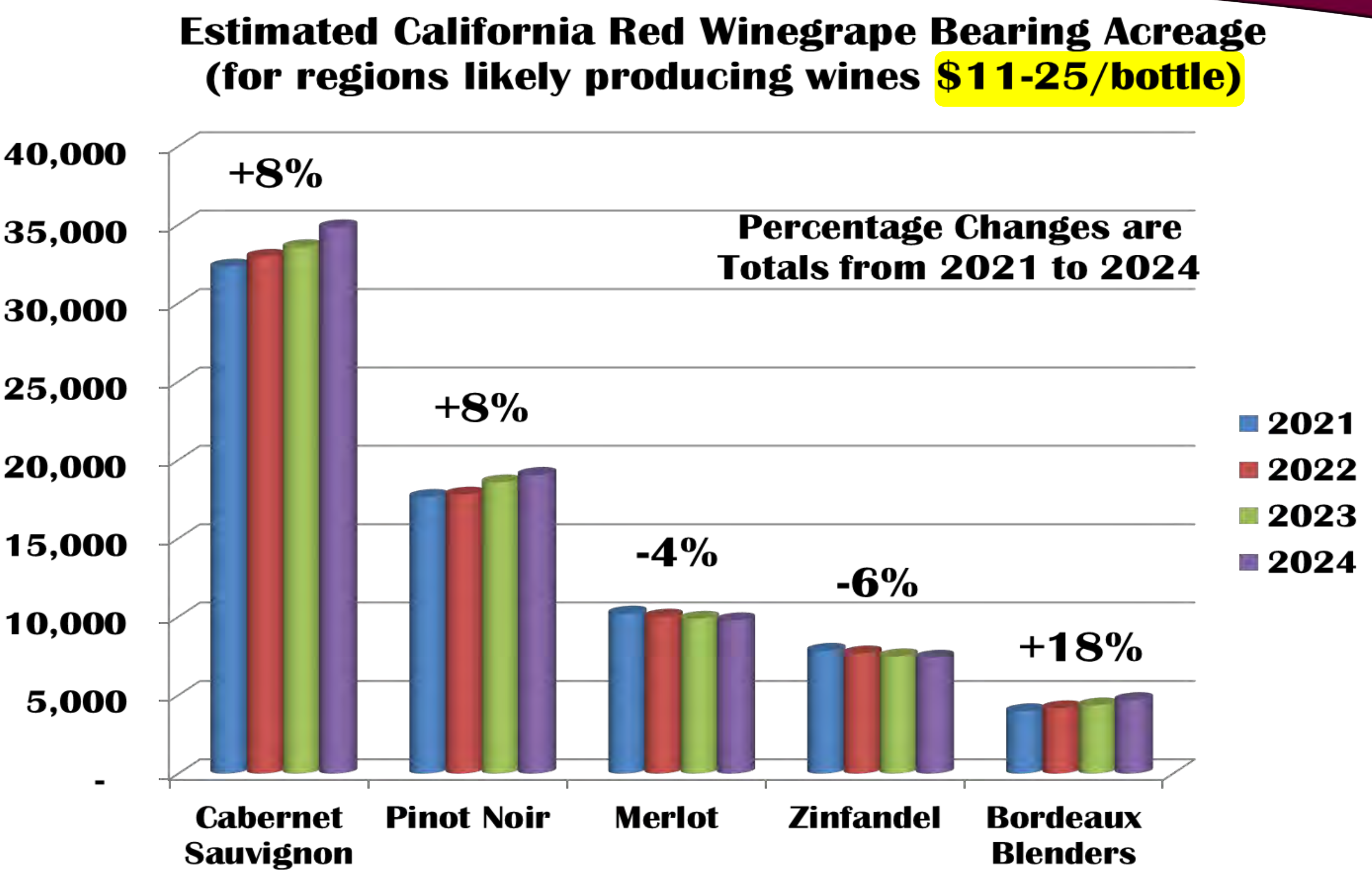
Forecasting Grape Supply



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What do the numbers tell us?

For Regions Likely Producing Grapes for Wines $11-25...

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- ✓ Sauvignon Blanc is the fastest growing variety by percentage.
- ✓ Using a 3% attrition rate, Chardonnay, Pinot Noir and Cabernet Sauvignon all shows decent growth (7-8% total) over three years.
- ✓ Merlot and Zinfandel continue in decline.
- ✓ Pinot Noir's big acreage jump was in 2021; with lots of young healthy Pinot Noir vineyards in the coast, production will continue strong.
- ✓ In 2021, there was a shift away from Pinot planting and toward Cab.

What are the numbers not telling us?

For coastal regions (wines above $11/bottle)…

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- ✓ Freeze, heat and drought "damaged" vines may continue to struggle.
- ✓ Challenges associated with labor and transportation are significant.
- ✓ Smaller grape buyers look to go "outside the norm" regarding varieties and growing practices (organic, glyphosate-free, etc.)
- ✓ Supply is only half the equation. "Significant" demand changes are a huge threat.
- ✓ Grape buyers looking to maintain margins continually shop "cheaper."
  - Coastal shopping interior or Napa/Sonoma going to "other" coastal

Production Potential....

Don't under-estimate this!

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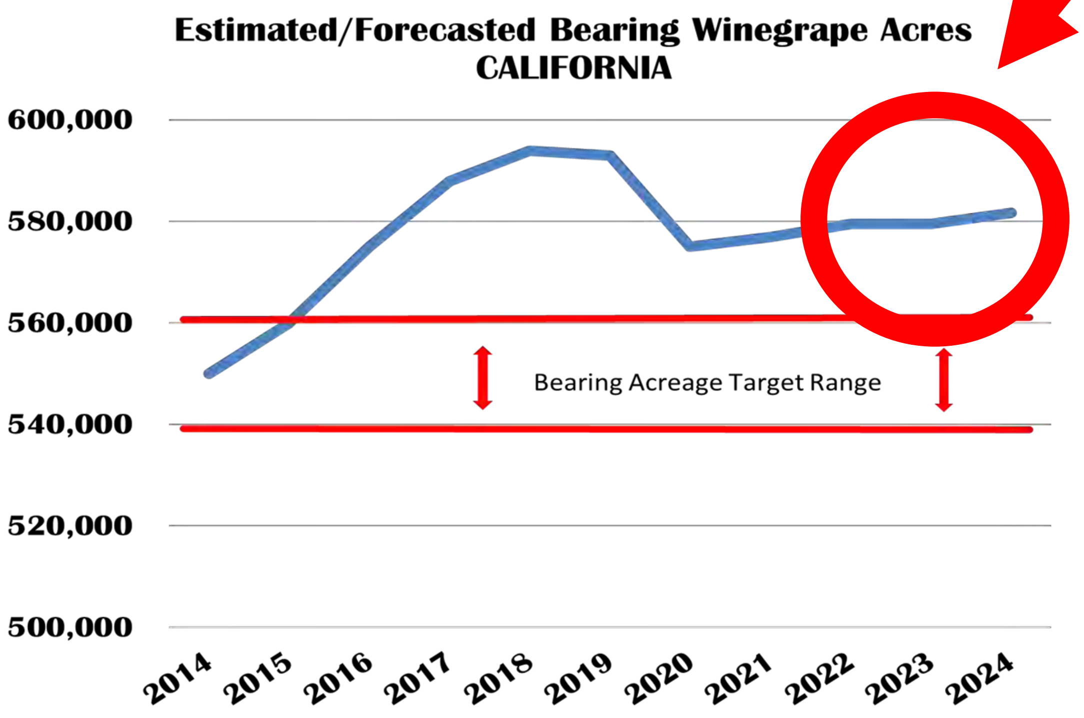

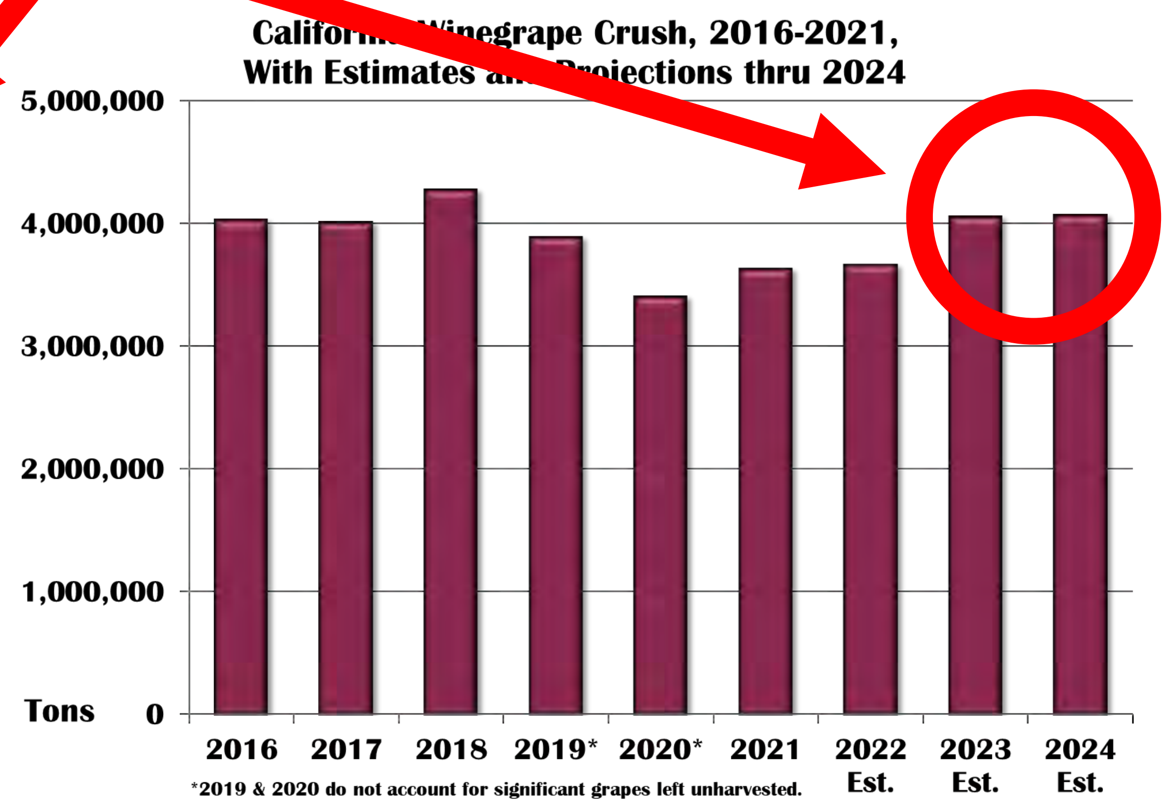

Tomorrow's Winegrape Market

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" Efficiencies
  - It's a game of market share, not market growth
  - Three "P's" – Planned Program Purchases
- Result/Outcome:
  - Produces Winners and "Non-winners"

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Winegrape Market

Preparing for the next few years.....

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- ✓ Assuming reasonable vineyard attrition, it is unlikely California will grow it's bearing acreage base over the next three years.....
- ✓ Drought, frost. wildfires, excessive heat, etc. have the potential to severely moderate our supply in the future.
- ✓ The more stable grape market since 2020, including multi-year contract offers, helps create longer term stability as well.

Thank you!

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