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"State of the Industry"

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

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Jeff Bitter

January 25, 2023



Presentation Themes

- Apprehension (2023)
- Recovery (2022)
- Uncertainty (2021)
- Correction (2020)

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- Apprehension (2023)
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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 apprehension may be something that wasn't even mentioned in the laundry list of factors that's grape price.



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
 - ✓ "Long" Southern Hemisphere
 - ✓ Conflict in Ukraine

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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)

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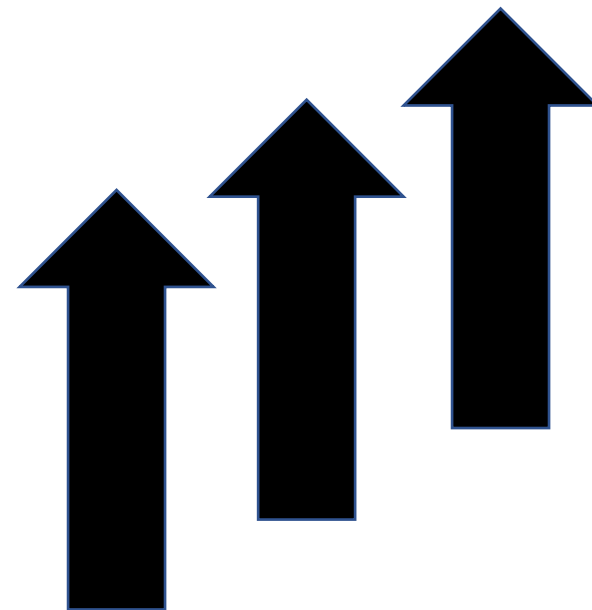
Why Apprehension?

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Grape Prices Are



...and supply is generally tighter



Why Apprehension?

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and also, there's the news....

Home / News / Wine News / US Wine Market Flattens Out

US Wine Market Flattens Out

SECTIONS CITIES

BOOZE | JANUARY 18, 2023 11:35 AM

Younger People Are Making Wine According to a New Study

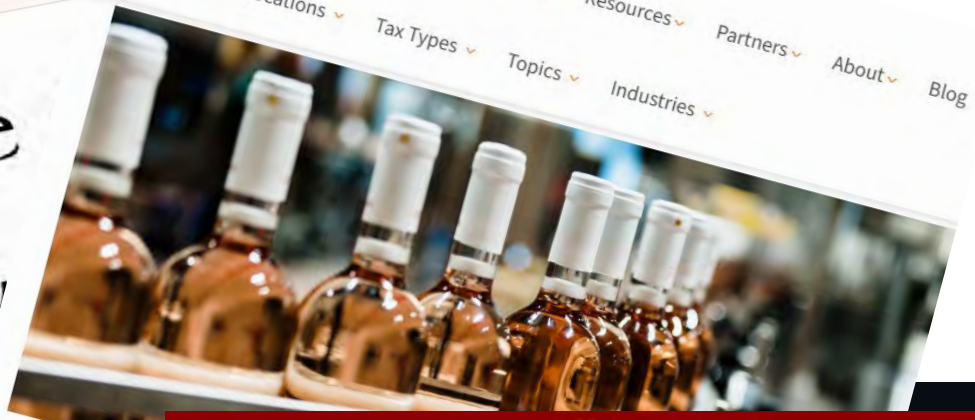
Gen Z and Millennials

US wine sales figures show that younger drinkers still make up a significant portion of the market.

W. Blake Gray

The Wine Industry's Economic Challenges

Exploring the Impact of Market Flattening



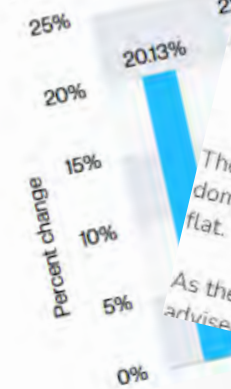
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US Wine Market Shows Signs of Recovery

Wine Consumption in the US

January 19, 2023 | Filed under Daily Data | Post

Figure 13: Change in US Wine Consumption



The total U.S. wine market is likely to remain flat as the ongoing fight for market share continues.

As the ongoing fight for market share continues, wineries are advised to be pragmatic in their growth strategies.

Napa Valley Register

E-Edition News Obituaries

JUST IN

Share: f t in 8

Gail Co

NEWS

What Can You Expect from Wine in 2023?

Wines sales are slowing; the big question is how long the dip will last.

What will wine offer in 2023? Sales are slowing, but inflation is still a concern.

Wine's Decline: Marketing Idiots or Something Else?

Thoughts on the new "State of the Industry" Report and the youngsters that hate wine

4

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by sources



So, there's lots of
"glass-half-empty"
talk these days...

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What our headlines should be.....

"California wine industry bobs, weaves and plows through pandemic, with level shipments and increased sales..."

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"California vineyards sustain environment with minimal carbon footprint and limited water use..."

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"California wine.....the natural choice - low in sugar, carbs and calories..."

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What's been securing supply/demand stability?

Three short crops

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Anchoring pessimism regarding weather/perils

Modest planting rates

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"Reduced" impact from imports

More contracted grapes, less on spot market

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Common Theme: Supply Limitation



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

Economic uncertainty

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Global competition/pressure of various kinds

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No material proof of a growing consumer base

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"Under-performance" of the largest wineries

Common Theme: Demand Pessimism



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

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Moving into the data.....

Annual Nursery Survey Review

and

Vineyard Removal Estimates

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Nursery Survey Participants

Wonderful
nurseries™



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2023 Survey of Grapevine Nurseries

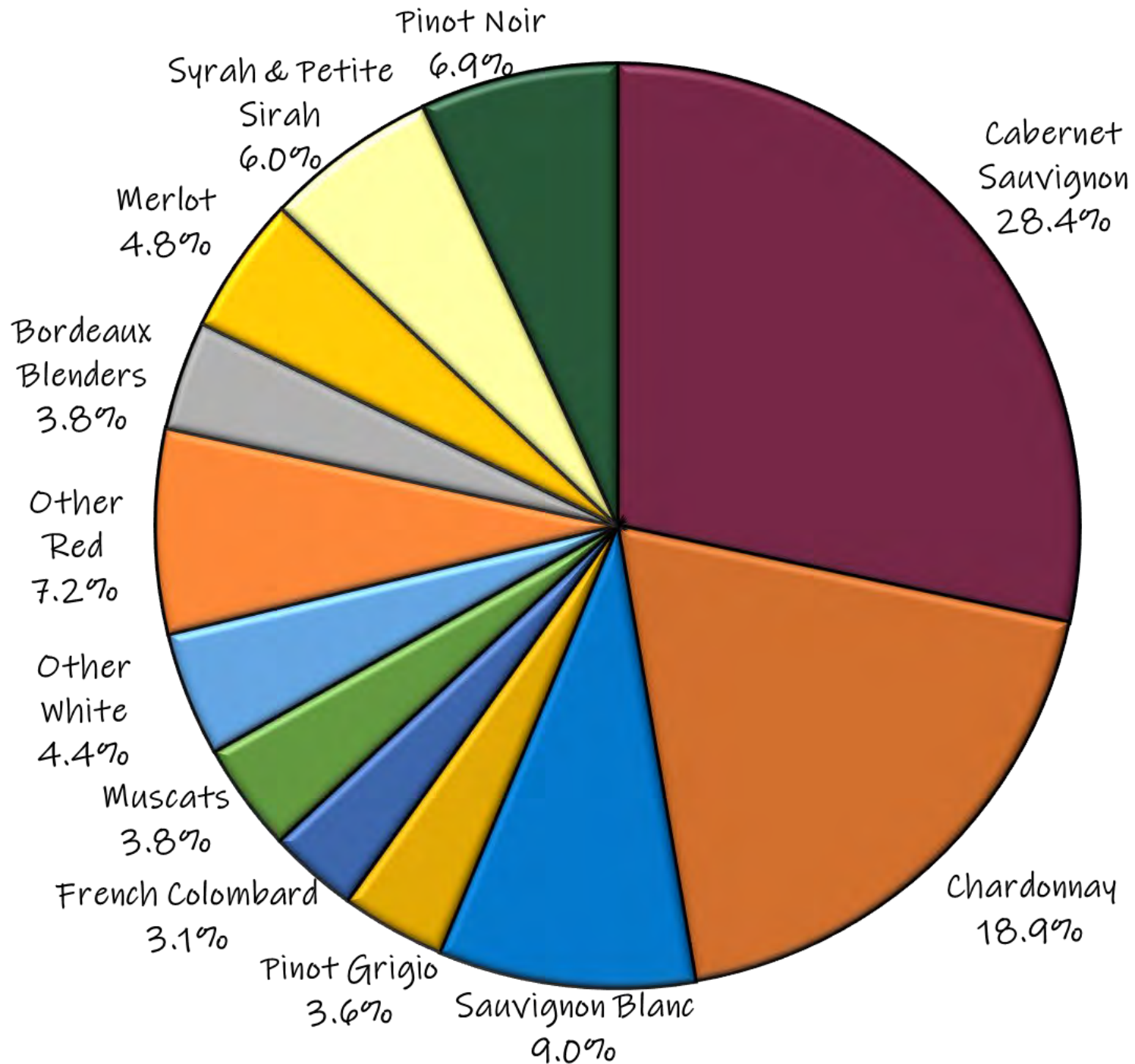
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11 nurseries
18 million vines sold
20,000 acres planted

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

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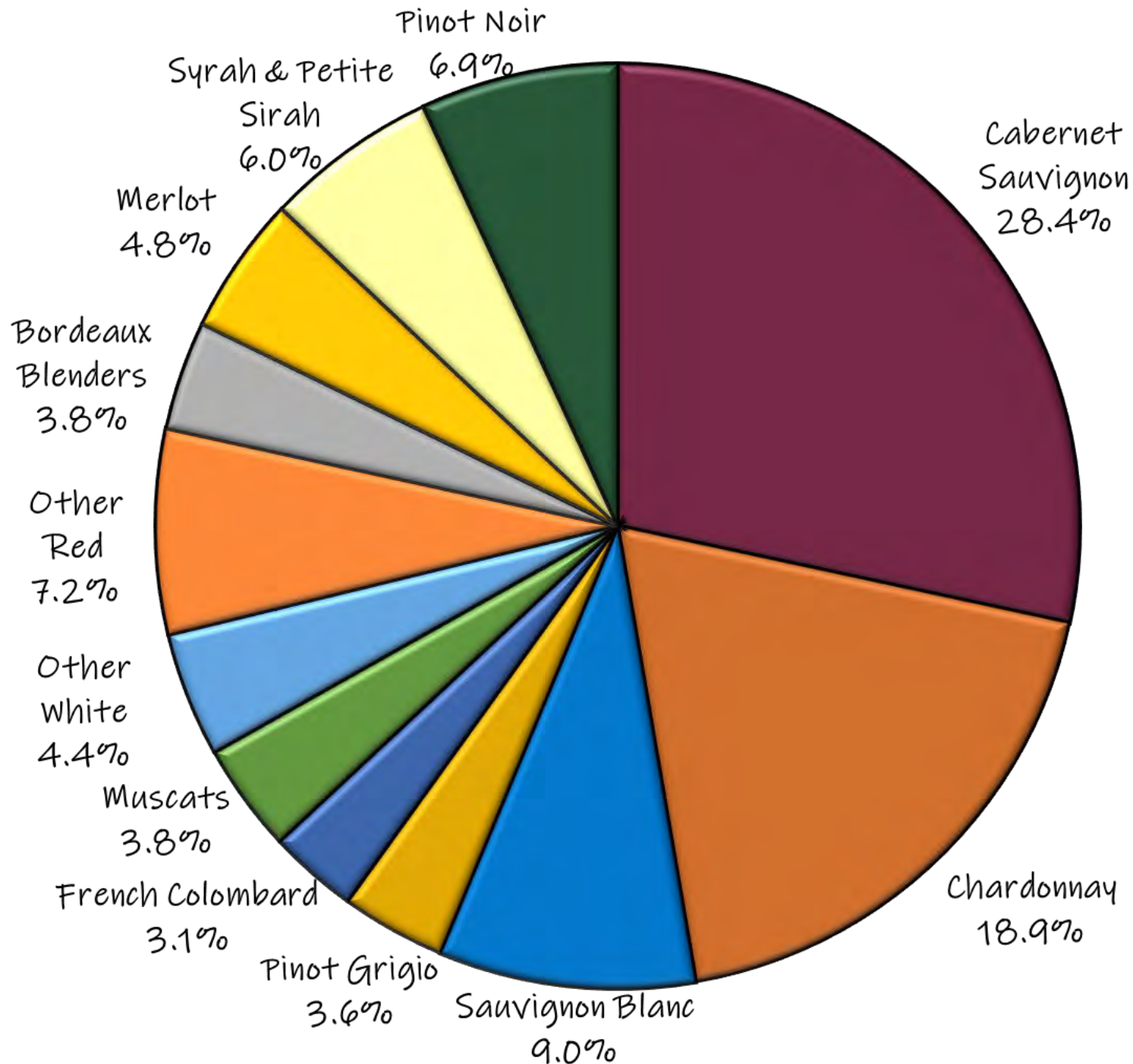




2023 Survey of Grapevine Nurseries

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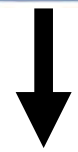
2022
Plantings as a
percentage of
bearing acres,
by variety
and category

	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%



Oregon vineyard acreage, with 2022 planting estimates

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2021 Crop Year (Over 500 acres)	Planted Acres	Harvested Acres	Planted Est. 2022
Chardonnay	2,724	2,291	113
Pinot Gris	5,740	5,485	48
Cabernet Sauvignon	1,592	1,560	13
Merlot	817	808	4
Pinot Noir	25,123	23,707	543
Syrah	1,739	1,657	18
Other	4,165	3,576	295
Total	41,900	39,084	1,034



Washington
vineyard
acreage,
with
2022
planting
estimates

2021 Crop Year (Over 350 acres)	Total Acres 2021	Planting Est. 2022
Chardonnay	7,823	354
Pinot Gris	1,958	14
Riesling	5,548	N/A
Sauvignon Blanc	2,394	54
Viognier	385	N/A
Other White	1,224	123
Cabernet Franc	1,133	28
Cabernet Sauvignon	20,904	168
Malbec	816	15
Merlot	9,755	53
Pinot Noir	351	171
Syrah	5,411	134
Other Red	1,899	126
Total	59,601	1,240

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Focus on California....



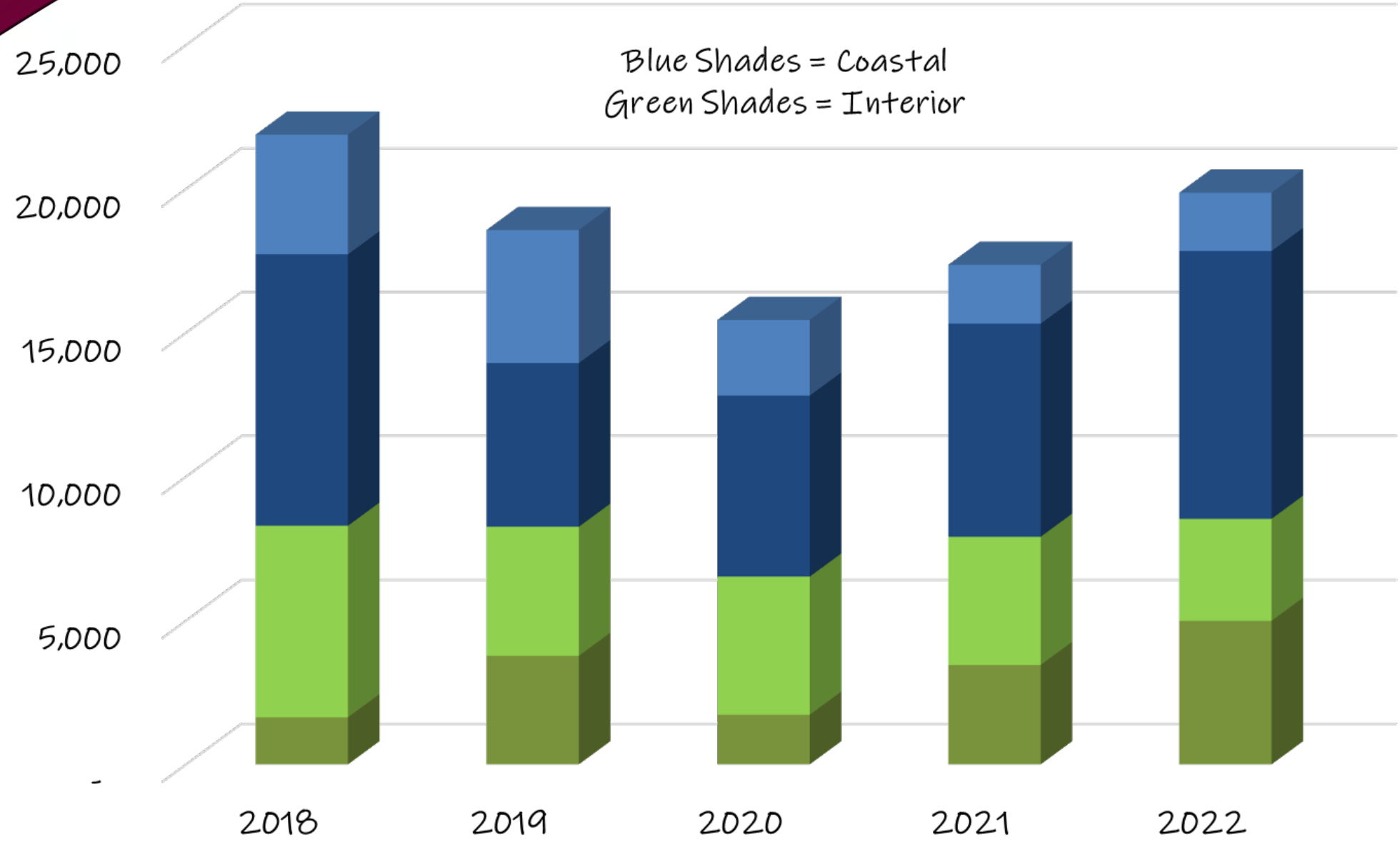
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Estimated Categorical Breakdown of Winegrape Acres Planted

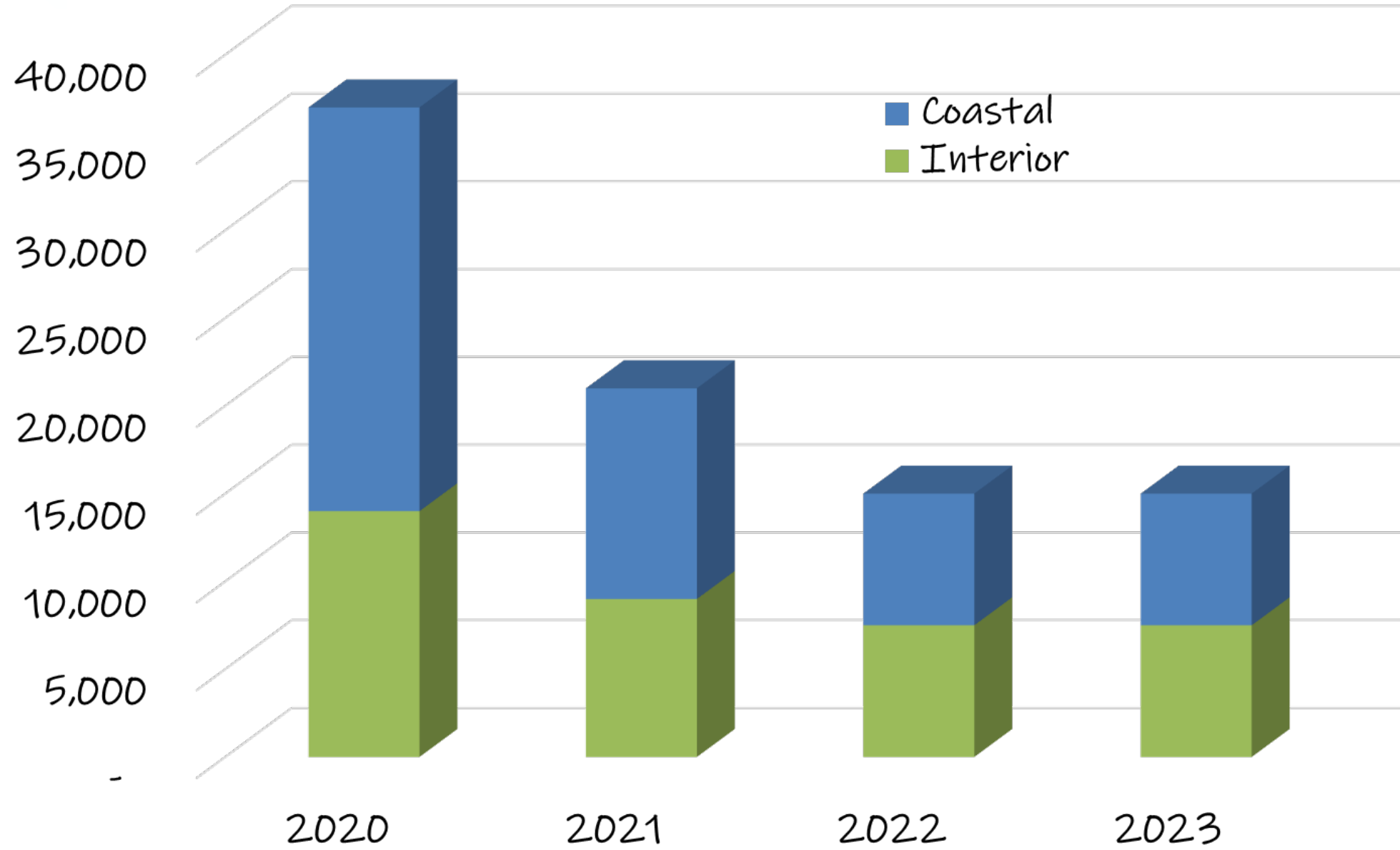


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Retail bottle price segment ■ <\$6 ■ \$6-11 ■ \$11-25 ■ >\$25



Estimated/Forecasted Pre-harvest Vineyard Removals, 2020-2023 (In Acres)



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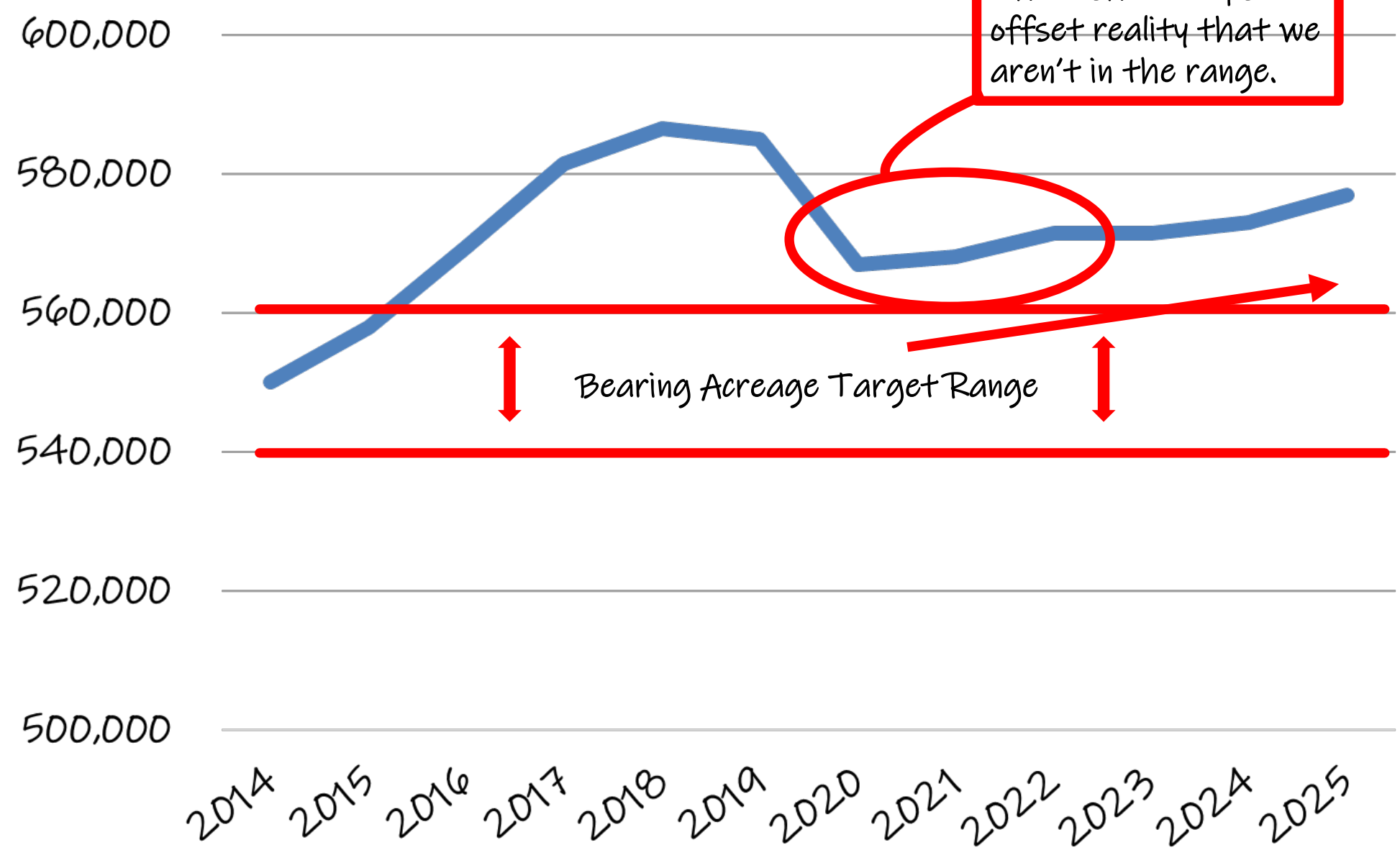
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Estimated/Forecasted Bearing Winegrape Acres CALIFORNIA





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*California
Production
& Yield*

Crop Year	California Winegrape Tons Crushed/Estimated	Estimated California Bearing Winegrape Acres	Estimated Winegrape Tons/Acre
2014	3,894,397	550,000	7.1
2015	3,704,571	558,000	6.6
2016	4,031,147	569,500	7.1
2017	4,015,792	581,500	6.9
2018	4,281,112	586,500	7.3
2019*	3,890,253	585,000	7.0
2020*	3,410,886	567,000	6.6
2021	3,631,749	568,000	6.4
2022 Est.	3,714,750	571,500	6.5
2023 Est.	4,000,500	571,500	7.0
2024 Est.	4,011,000	573,000	7.0
2025 Est.	4,039,000	577,000	7.0

*2019 & 2020 yields estimated due to grapes left unharvested



Forecasted Bearing Acres,
by Variety and Price Point.....

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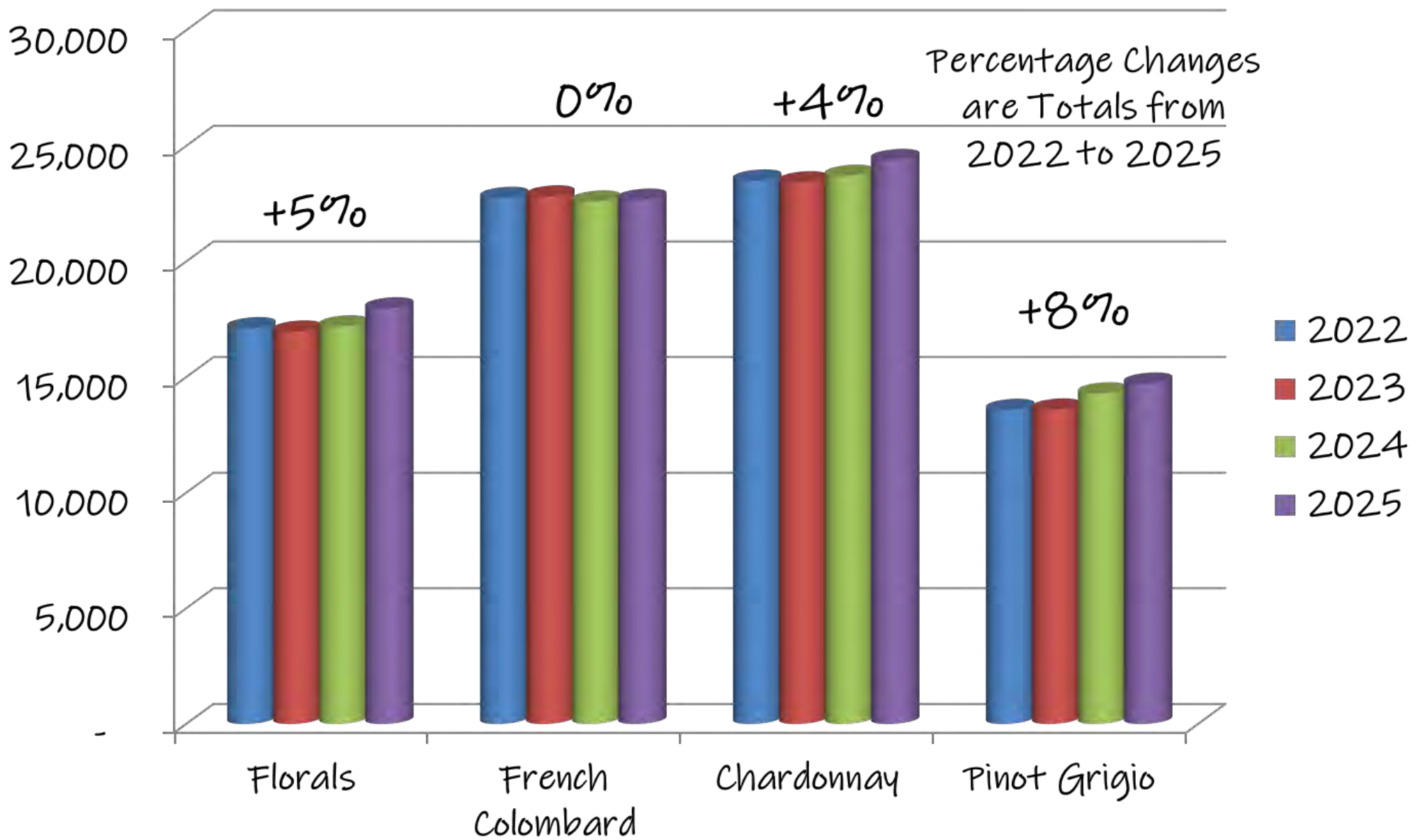
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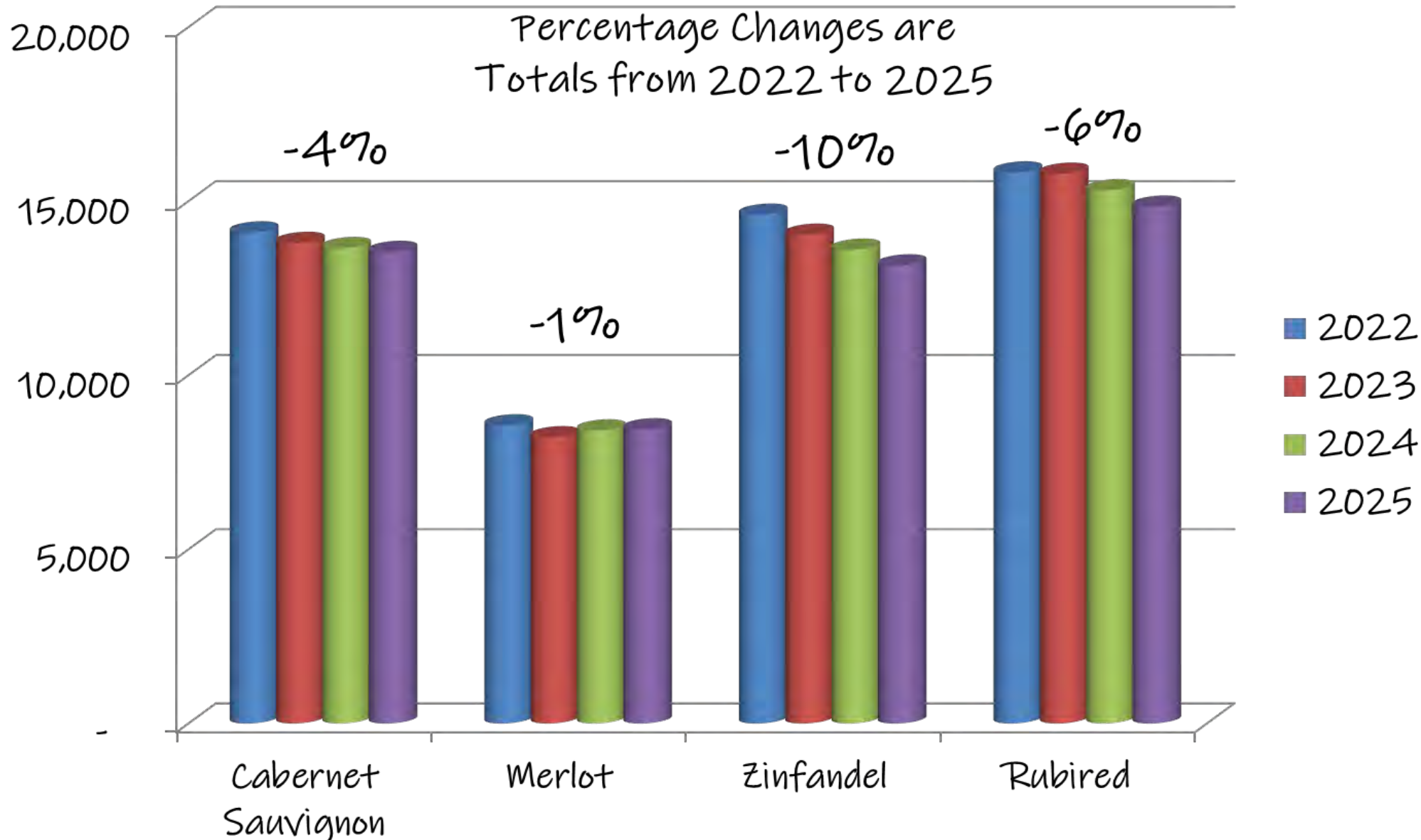
Estimated California White Winegrape Bearing Acreage (for regions likely producing wines <\$6/bottle)



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



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Comments and Considerations

For Regions Likely Producing Grapes for Wines <\$6

- ✓ Very few grapes available on spot market; supply mostly contracted
- ✓ Development skews toward varieties that have above average production, are easily “mechanized” and likely to be harvested early
- ✓ Market dynamics, water limitations and vineyard removal regulation will continue to encourage overall reductions in acreage
- ✓ Opportunity comes from need for low-cost grapes, not from growth of wines <\$6

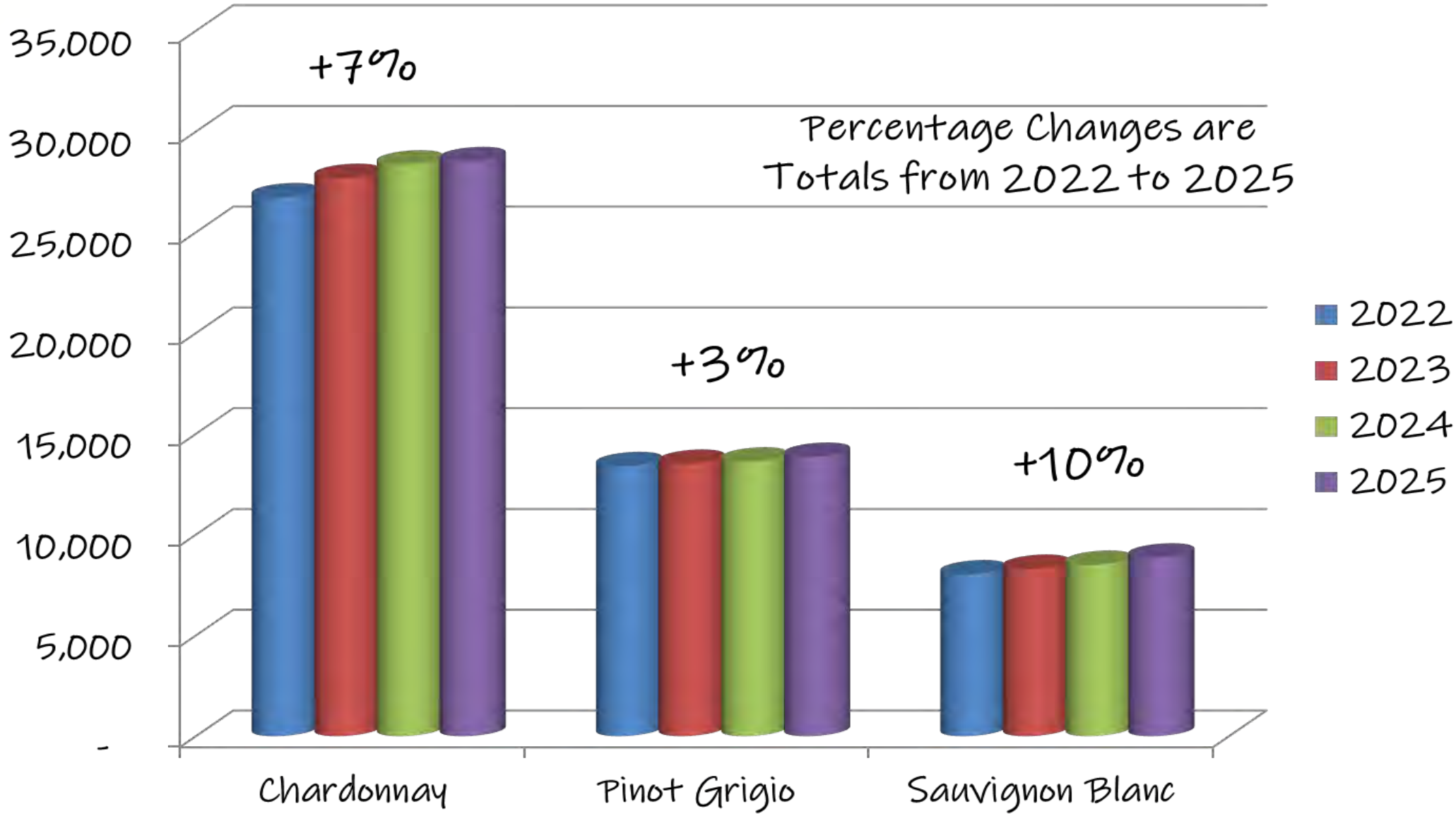
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Estimated California White Winegrape Bearing Acreage (for regions likely producing wines \$6-11/bottle)

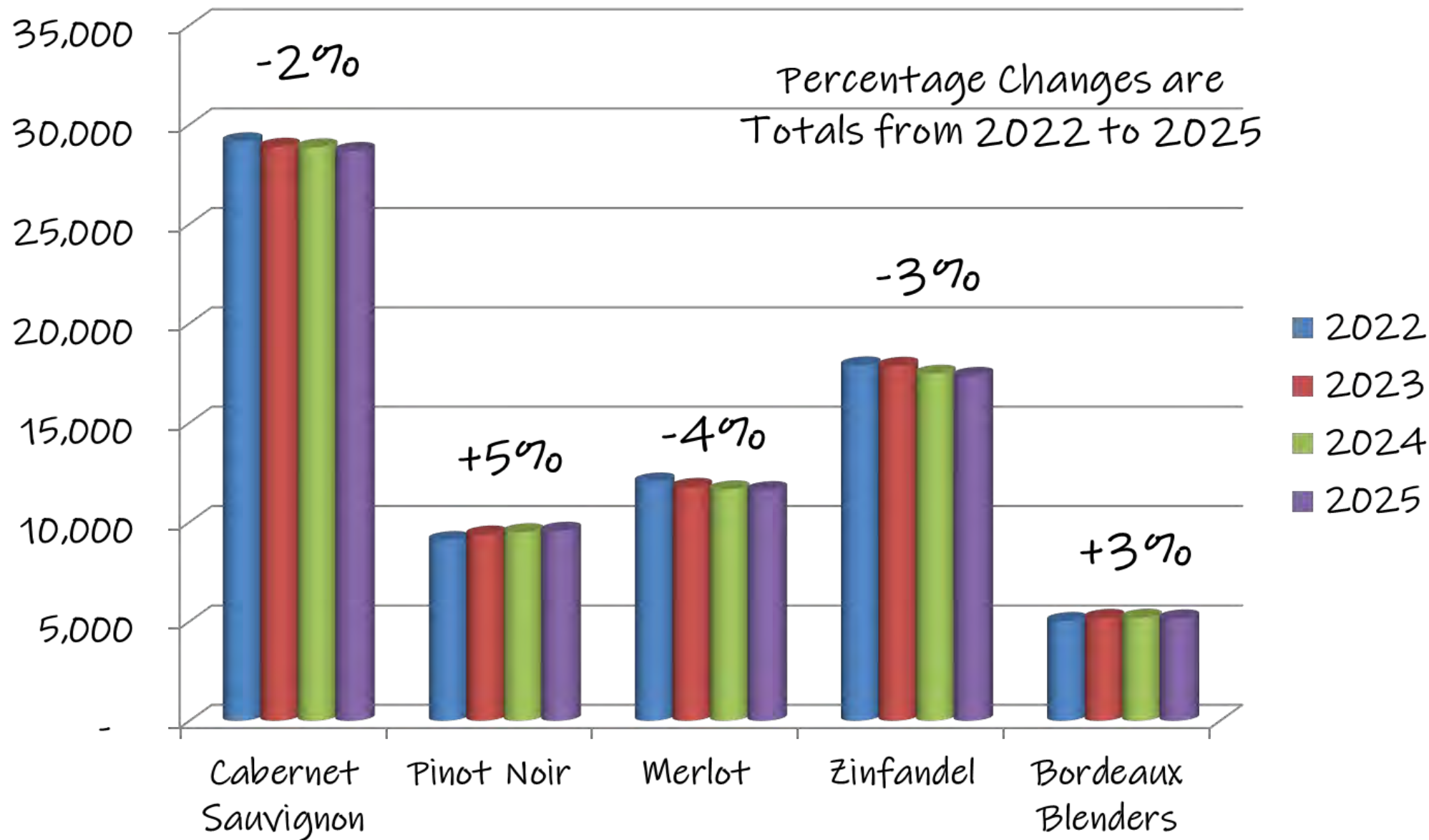


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Estimated California Red winegrape Bearing Acreage (for regions likely producing wines \$6-11/bottle)

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Comments and Considerations

For Regions Likely Producing Grapes for Wines \$6-11

- ✓ Some buyers adjusting inventory by selling grapes
- ✓ Pressure to commoditize varietal grape production
- ✓ Increasing opportunities to provide lower cost supply for wineries producing wines >\$11
- ✓ Gap is widening between grower and winery price expectations
 - (Creates disagreements about "market value" of grapes)
- ✓ Lack of re-investment persists amongst "traditional" growers

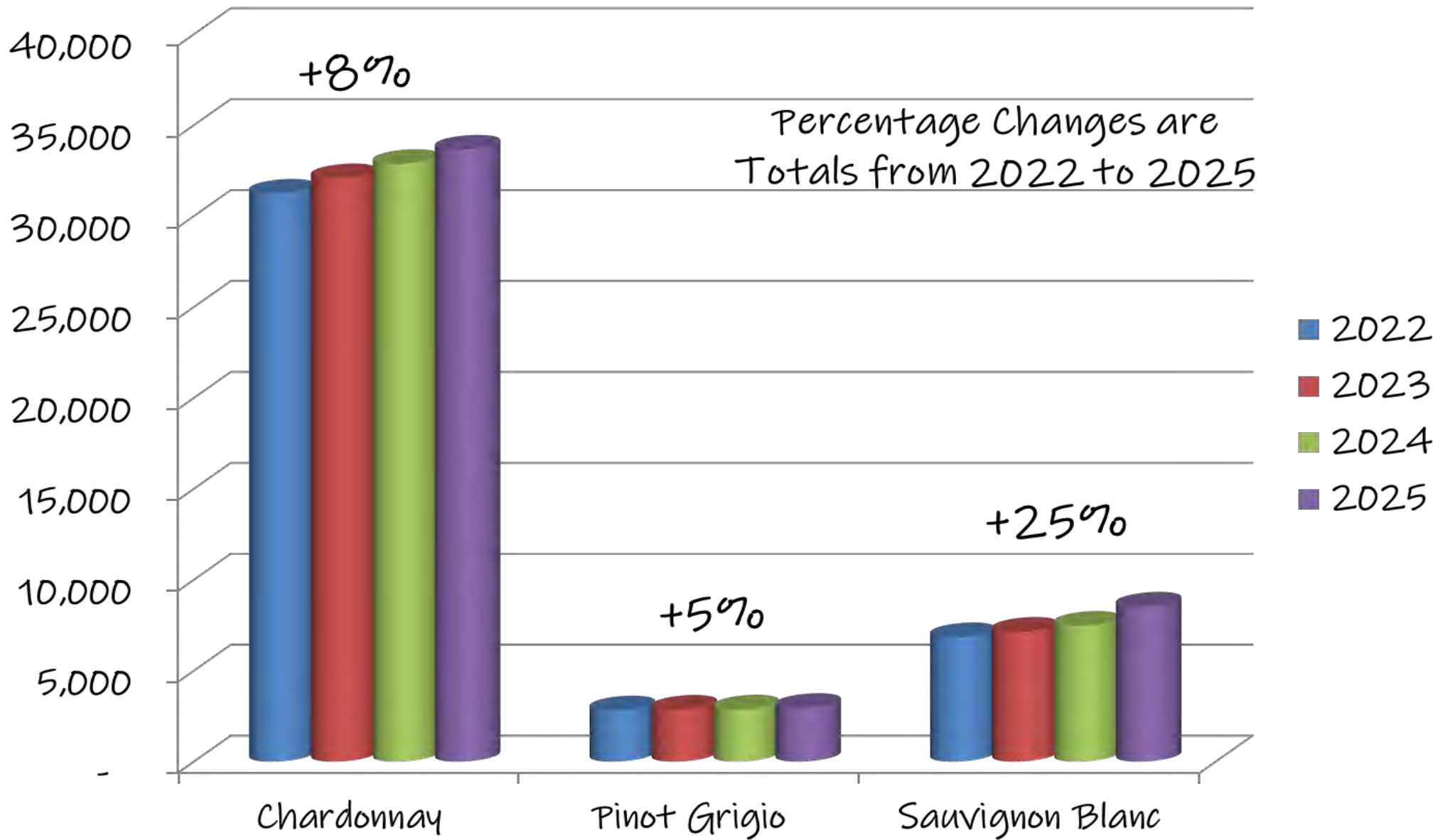
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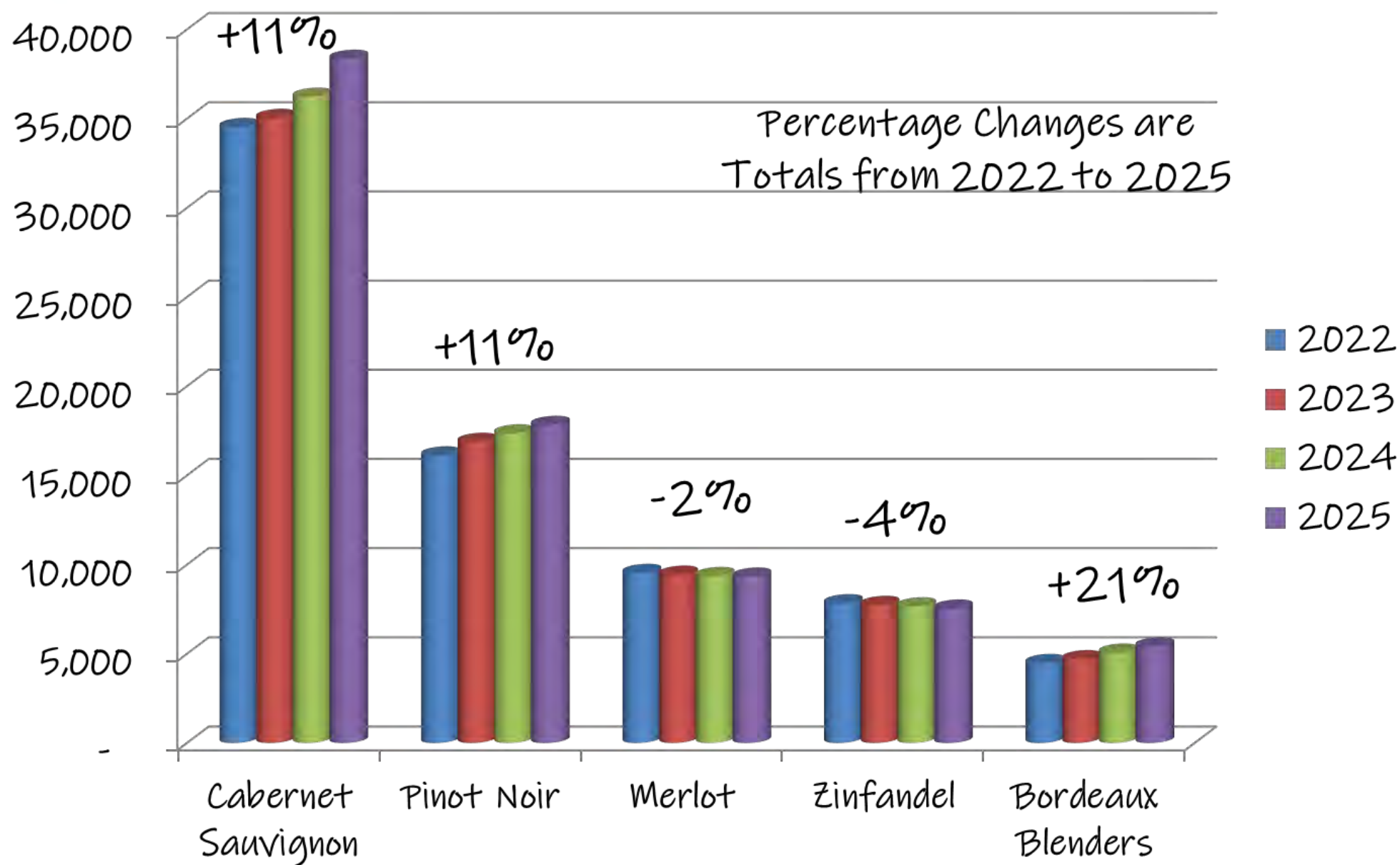
Estimated California White Winegrape Bearing Acreage (for regions likely producing wines \$11-25/bottle)



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



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Comments and Considerations

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

- ✓ Continuing opportunities exist to provide lower cost supply for wineries producing wines >\$25
- ✓ Simultaneous growth in supply and demand can create imbalance, making for unpredictable markets
- ✓ With Pinot Noir widely felt to be in oversupply, focus shifts back to Cabernet Sauvignon, Chardonnay and now Sauvignon Blanc
- ✓ Vineyard expansion continues to be mostly tied to private investment money and wineries, but not independent growers

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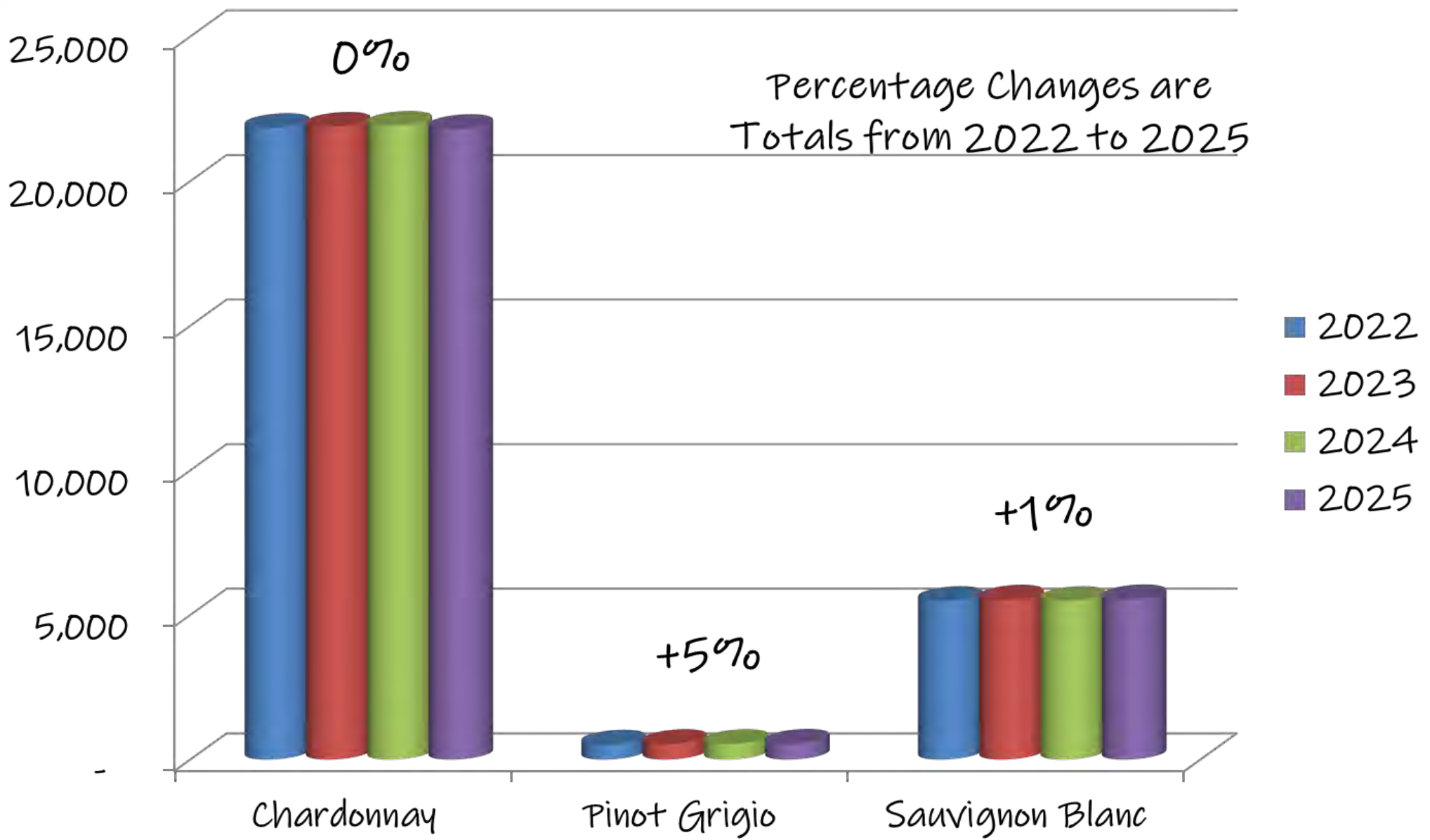
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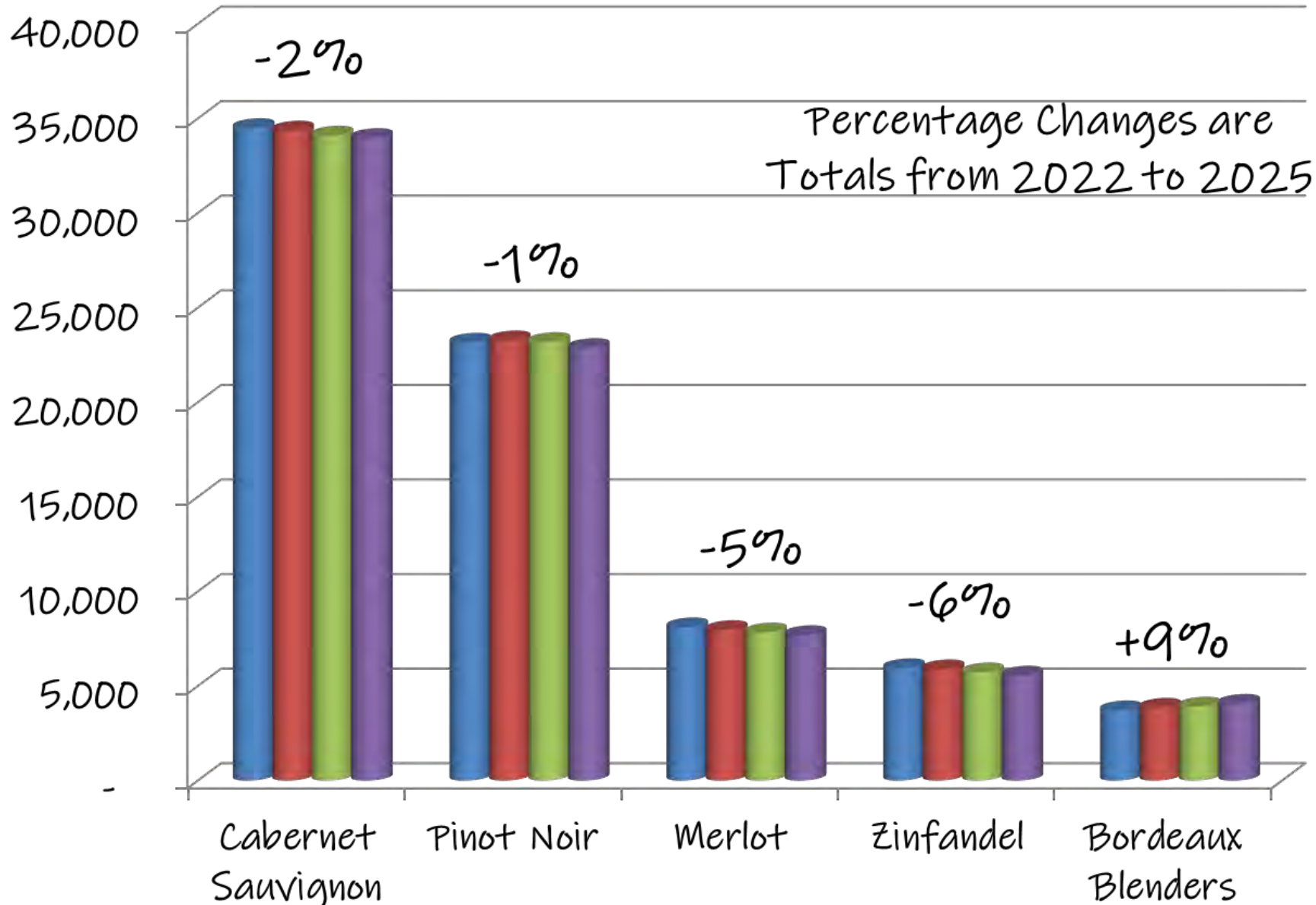
Estimated California White Winegrape Bearing Acreage (for regions likely producing wines >\$25/bottle)



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Estimated California Red winegrape Bearing Acreage (for regions likely producing wines >\$25/bottle)



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Comments and Considerations

For Regions Likely Producing Grapes for Wines >\$25

- ✓ AVA-based programs continue to move to “coastal” or even “California” due to rising grape cost and limited supply
- ✓ Overall acreage will not be increasing; grape demand/pricing will be mostly driven by smaller, high-end programs/labels
- ✓ Pressure for production to homogenize around a few key varieties within regions will continue – mostly shifting to reds
- ✓ Drastic changes in the economy or stock market are of concern

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Wrapping it up:
conclusions & cautions

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In General.....

- ✓ 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
- ✓ Planting remains moderate, concentrated in growth areas
- ✓ An above-average crop can still cause market disruption
- ✓ Any significant market disruption will likely spur vineyard removals

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*For more information,
visit us at booth 304...*



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