2017
WINE INDUSTRY

FINANCIAL BENCHMARKING SURVEY

MOSSADAMS

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Today’s Agenda

- Highlights from 2017 Wine Industry Financial Benchmarking Survey

- Discussion between myself, Steve Tamburelli, President of Clos Du Val and Dennis Groth, Co-Founder of Groth Vineyards & Winery on key issues facing our wine industry.

Background

- Most winery and vineyard businesses = privately held.

- Access to financial information to gauge your business' performance against is almost non- existent.

- To bridge this information gap we began conducting periodic benchmarking surveys in 2008. Every 4 years. All info provided is kept strictly confidential and aggregated to maintain the anonymity of individual operations.

- To increase the data's relevance, we produce common-size financial information- i.e grouping wineries by case sales volume and by average revenue per case.

- Today – we'll highlight 2016 survey results, key topics and issues raised.

- The full, detailed report of 2016 Survey is slated for release in early November.

Types of Respondents

- **Negociant**: a wine brand without your own winery facility, also known as a virtual winery
- **Producer**: a winery, but without any of your own vineyards
- **Integrated winery**: a fully-integrated winery with your own vineyards
- **Grower**: a winegrape grower

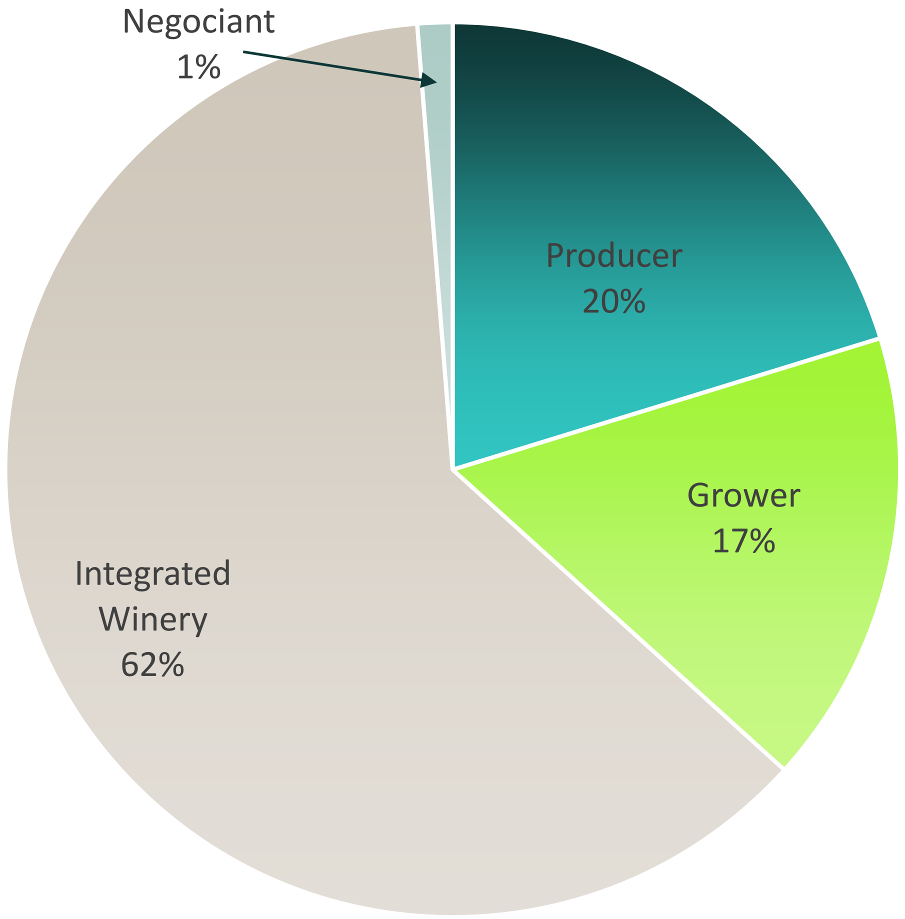
2017 Survey Respondents by Type

Negociant: a wine brand without your own winery facility, also known as a virtual winery

Producer: a winery but without any of your own vineyards

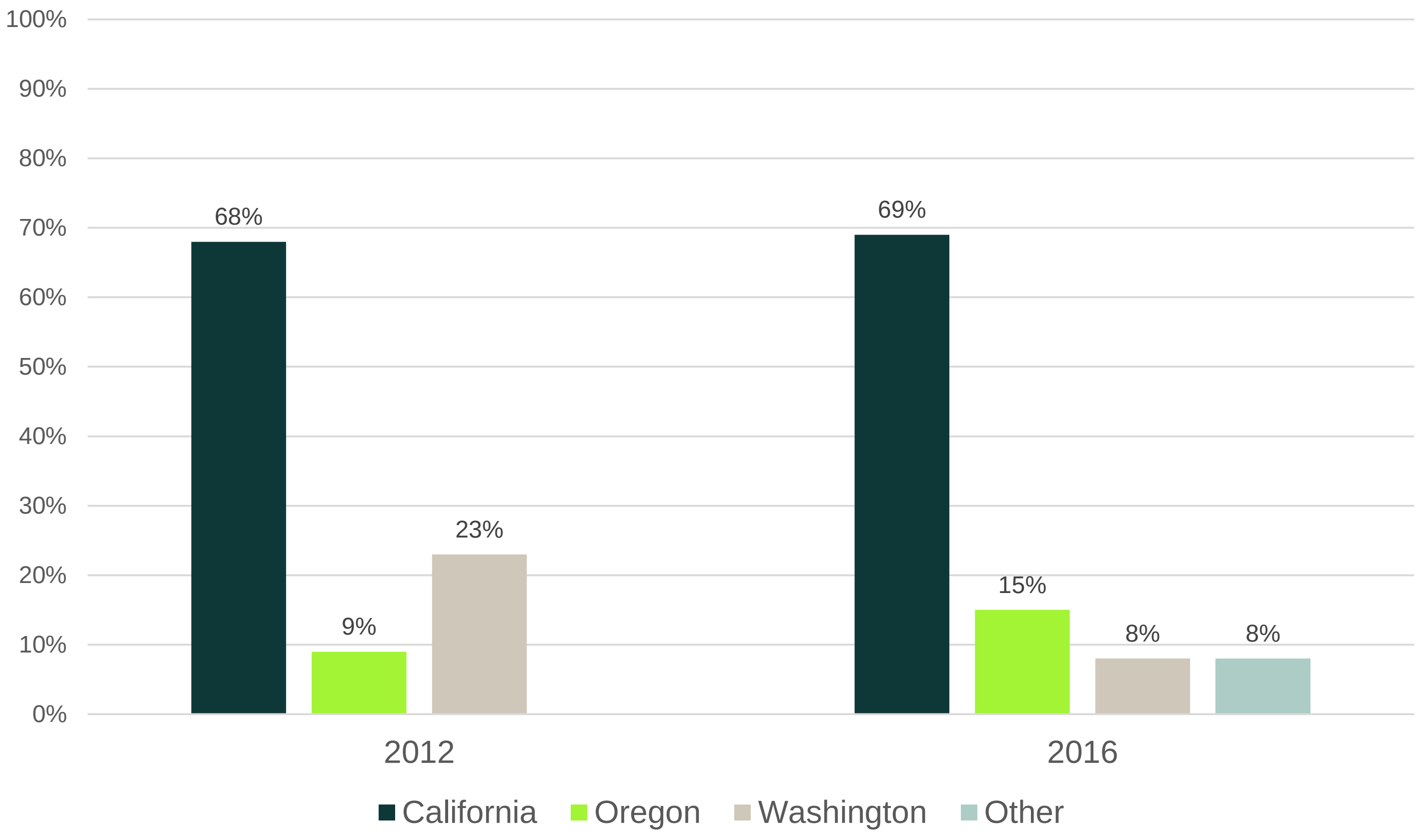
Integrated winery: a fully-integrated winery with your own vineyards

Grower: a winegrape grower



Respondents by State

As in previous years, the majority of respondents were from California, comprising nearly 70% of all respondents.



Categorized Wineries By Size (2016 case sales volume)

For 2016 the respondent's were grouped as follows:

Winery case sales volume 9L ->	<15 k	15-50 k	50-100 k	100-300 k	>300 k	Average

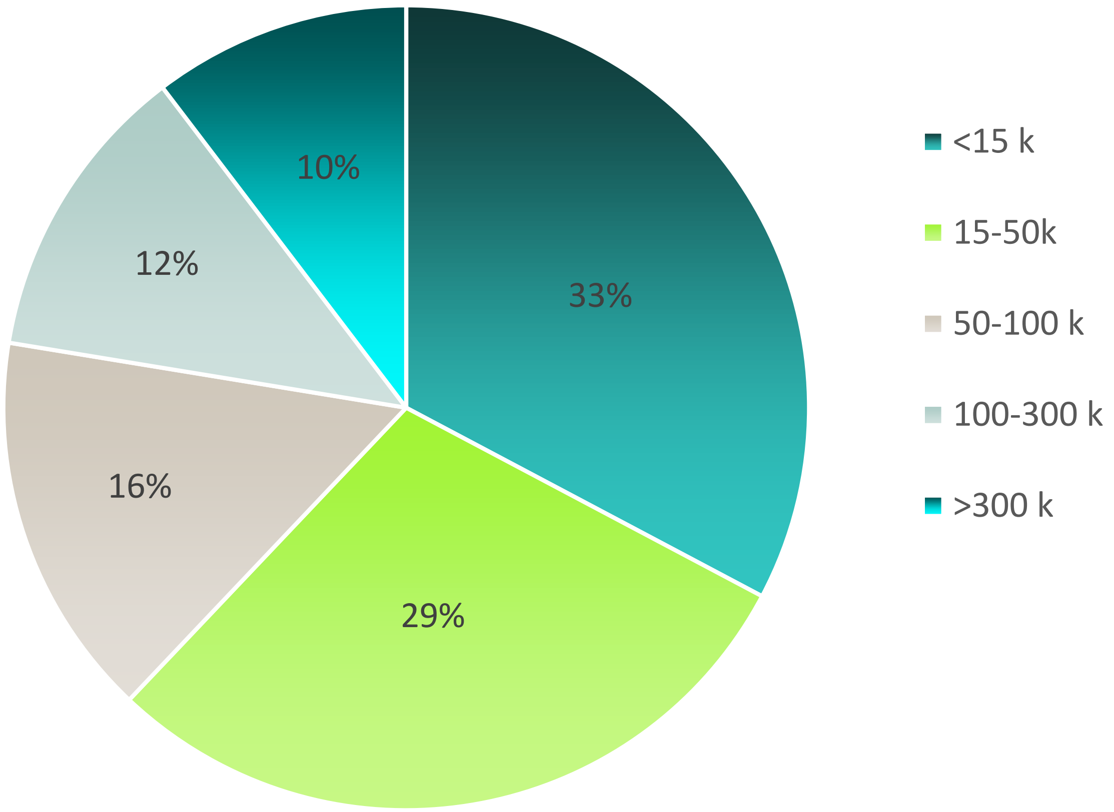
Some of the ways we analyzed each size group:

- Number of full time employee's by department
- Revenue per full time employee
- Average revenue, COGS & expense per case
- Costs & expenses as a percentage of total revenue
- Income statement result

Respondent Profile by 2016 Case Sales Volume Categories

One third of wineries respondents sold under 15,000 cases. Close to one third sold between 15,000 to 50,000 cases. The other third was split between wineries selling 50,000 to 100,000, 100,000 to 300,000 and over 300,000 cases.

Wineries under 50,000 cases in size comprise ~96% of the 9,000+ domestic U.S. wineries. In our 2016 survey, <50K groups made up 62% of the winery respondents, so our survey pool contained a relatively higher proportion of wineries selling over 50,000 cases than the general winery population.



Average FTE's for Wineries Under 15,000 Cases

In answer to: How should we be staffed?

Number of Full Time Employees	
Dept.	<15 k
Vineyard Production	3.1
Wine Production	2.7
Sales & Mktg - DTC	2.9
Sales & Mktg - 3tier	0.9
Admin/financial	1.6
Avg Total FT EE's	11.2

Key Metrics by Dollar per Case Sold

Developed for each winery case sales volume group

Income Statements (2016)	$ Per Case
Winery case sales volume 9L ->	15-50 k
Total Revenue	$220
Total COGS	109
Gross Margin	111
Sales and Mkt	21
G&A	14
Total Operating Expenses	35
Operating income	76
Other income/(expenses)	(9)
Net income (loss)	67

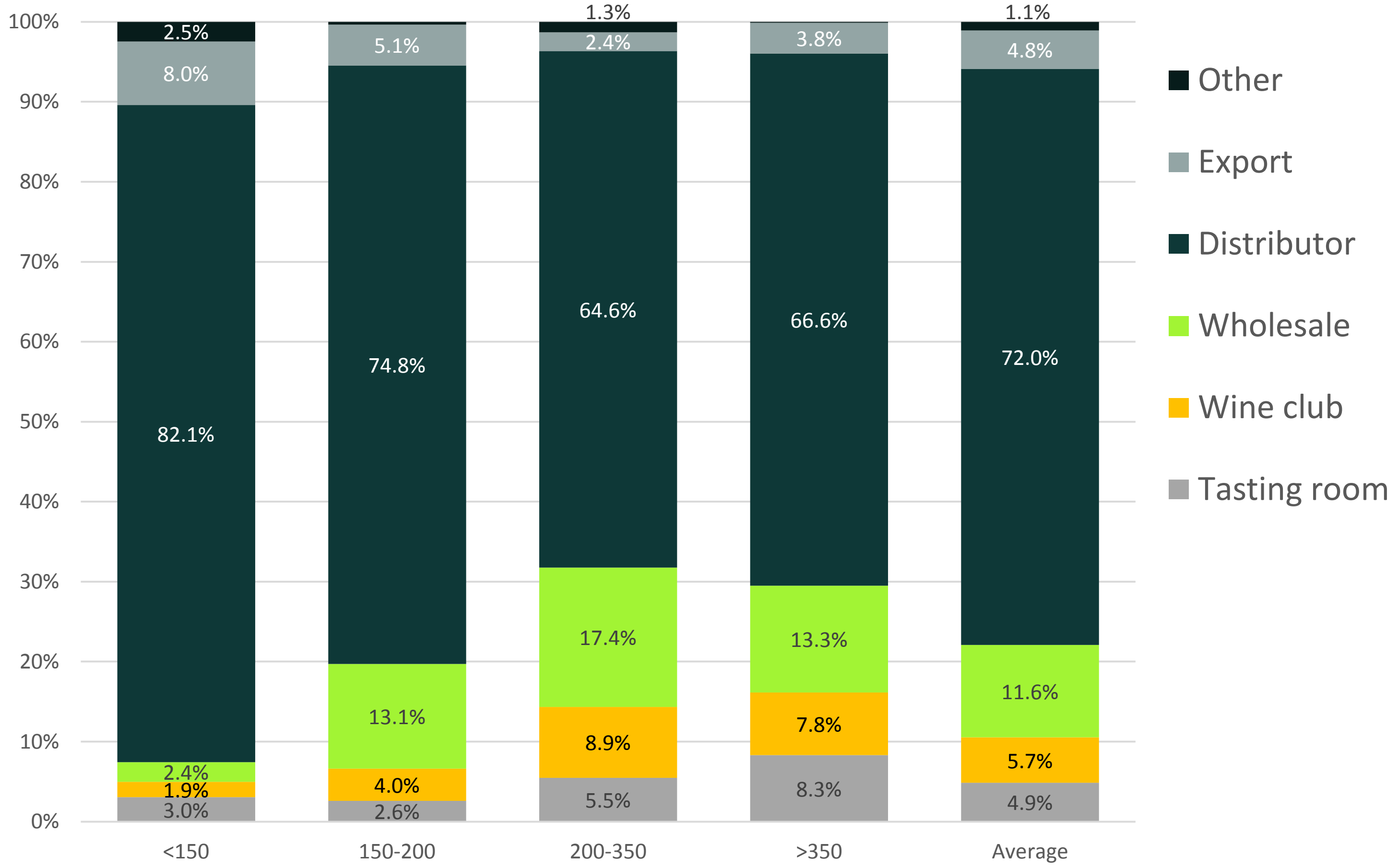
Categorized Wineries By Average Revenue Per Case

Average Sales Price Per Case Categories			
<$150	$150-200	$200 - 350	>$350

Some ways we analyzed each 2016 Sales Price per Case category:

- Distribution by sales channel
- Comparison of income statement results- (gross margin, net income, return on assets)

Channel Strategy by Avg. Case Price (2016)



Distribution via Distributors and Wholesale sales to trade accounts remain the predominant sales channels – in part reflective of our survey pool; however, wineries of all sizes envision the Direct to Consumer (DTC) channels to play an increasingly important role in the future.

As one might expect, the higher price per case categories sell a higher proportion of volume through DTC channels such as a Tasting Room or Wine Club.

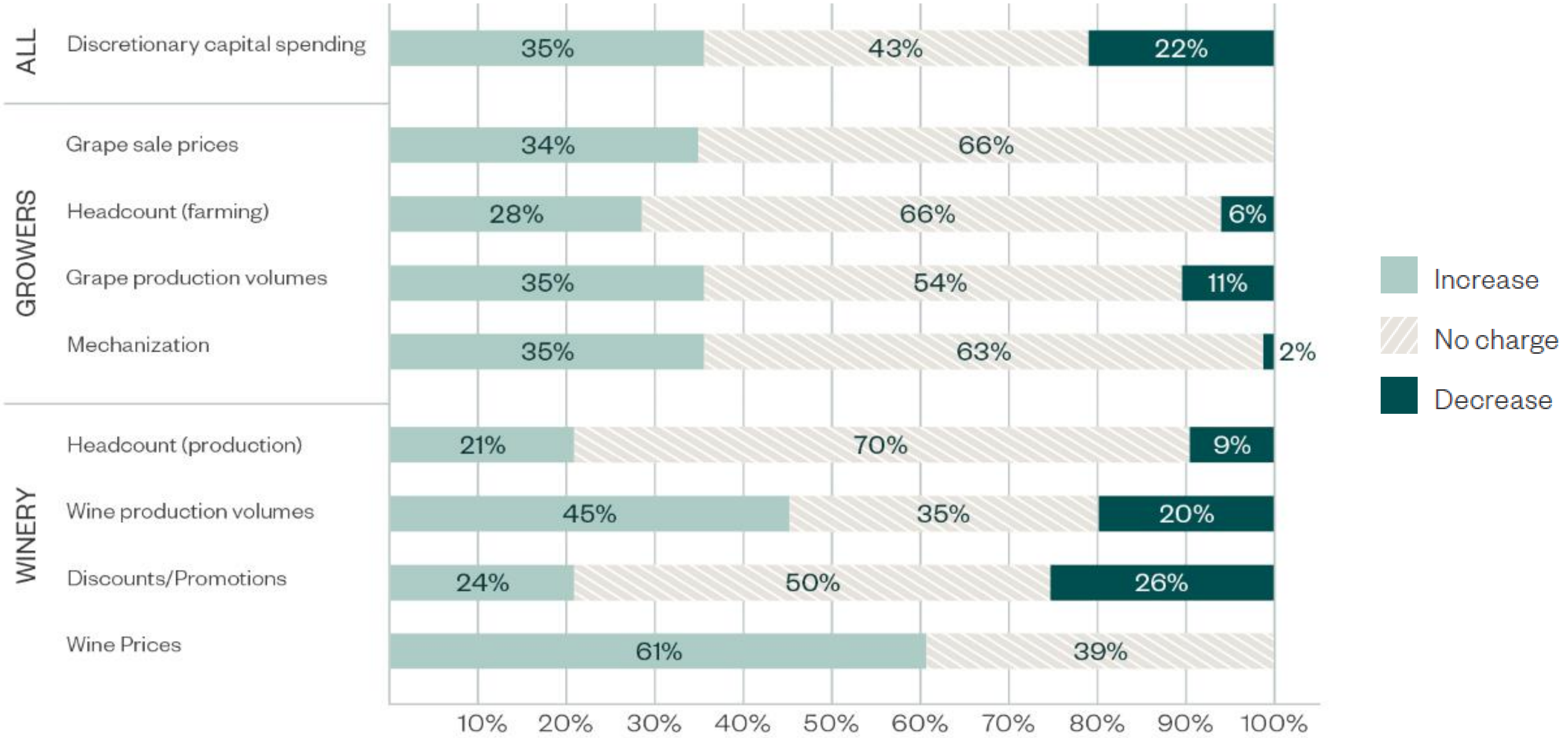
Historical Comparison Across Three Surveys

Income Statement metrics as % of Revenue			
	2008	**2012**	**2016**
Sales revenue	100%	100%	100%
COGS	55%	49%	51%
Gross Margin	45%	51%	49%
Sales and Mkt costs	19%	11%	18%
G&A	18%	34%	12%
Total operating expenses	37%	45%	29%
Operating income	8%	6%	20%
Net income	2%	2%	17%

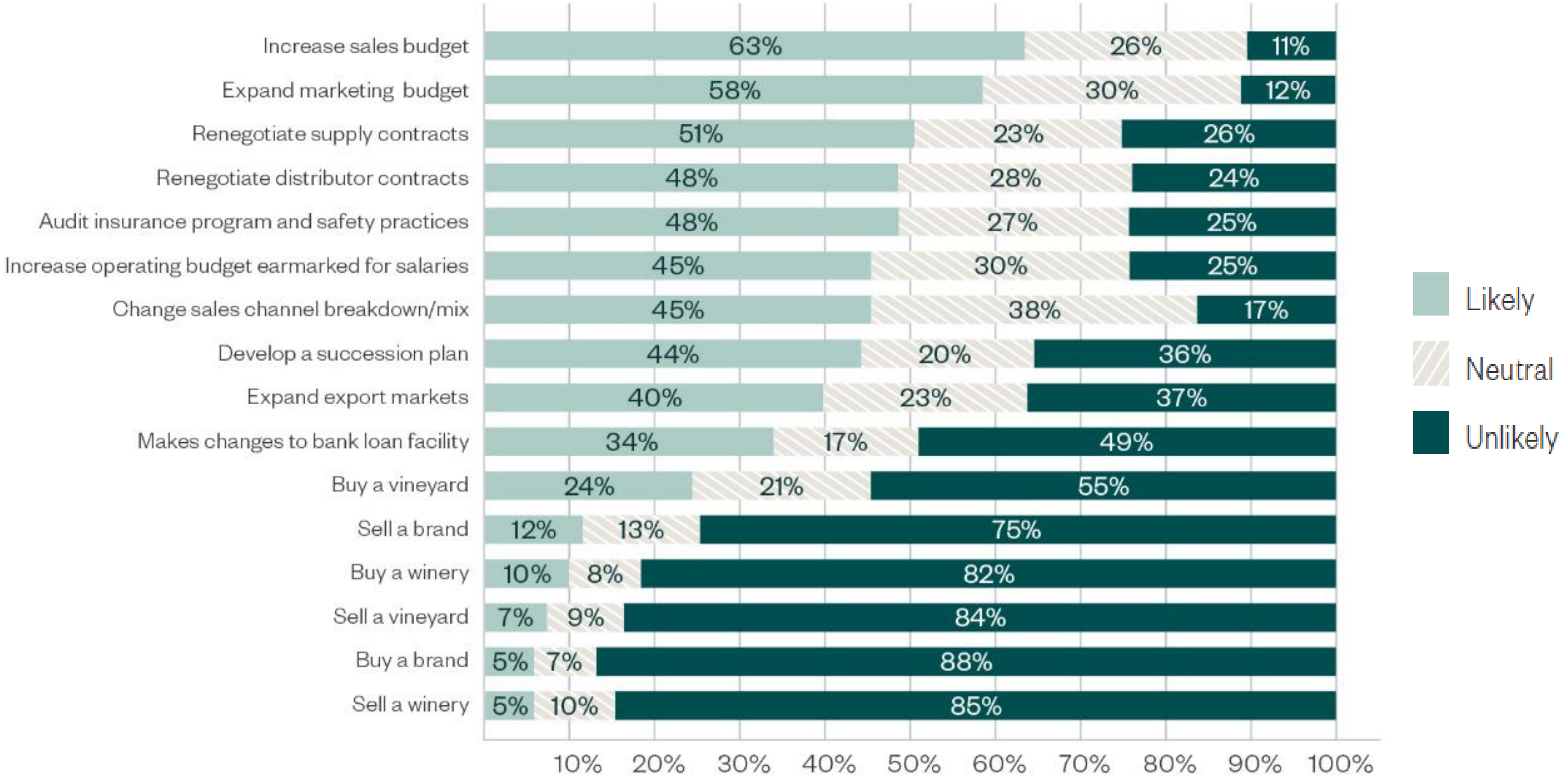
Top Of Mind Issues

- Growing labor shortage fueling wage increases and increased mechanization
- Premiumization - consumers trading up to higher priced wines
- Crowded, hyper-competitive sales environment = difficult to raise prices
- Mounting costs of production, sales and marketing = pressure to raise prices

Actions Planned For 2017



Strategies Over The Next Three Years



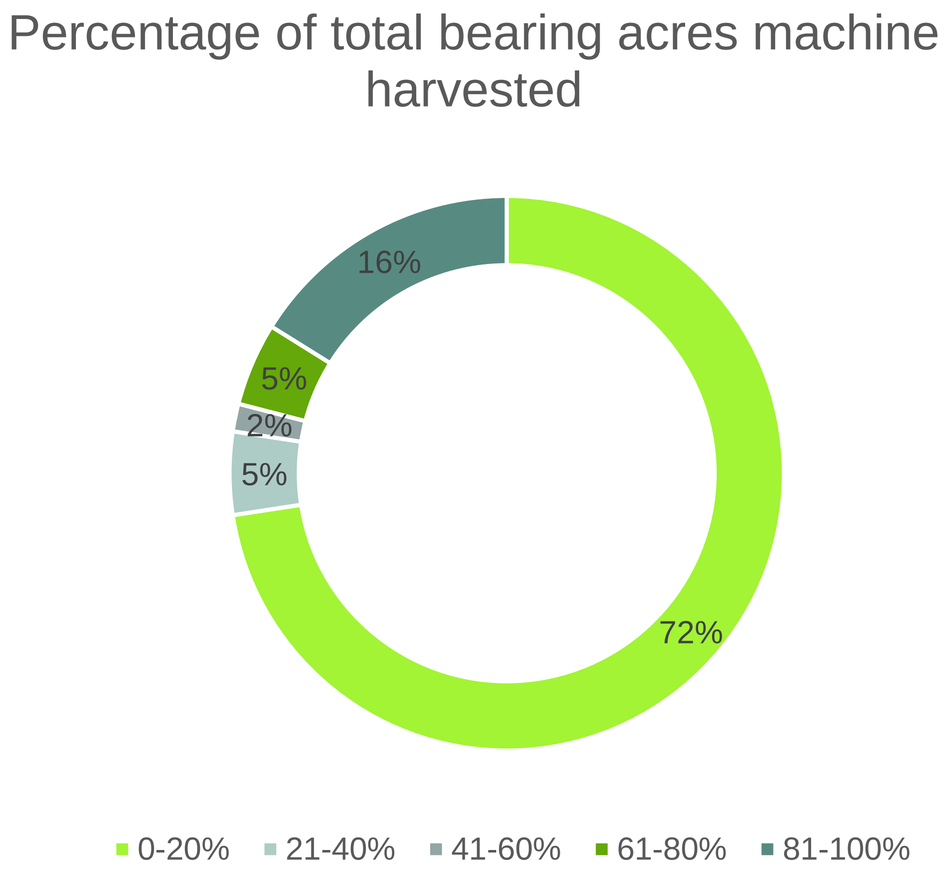
Mechanization – a key consideration

A growing labor shortage and innovations in technology are driving an increase in automation in vineyards and in wineries.

16% of respondents report between 81% to 100% of their bearing vineyard acres are machine harvested.

28% reported that over 40% of their bearing acres are harvested mechanically.

Optical sorting technology increasingly accepted.



Panel Discussion

- Bill Vyenielo, Senior Business Advisor – Wine, Beer & Agriculture, Moss Adams
- Steve Tamburelli, President, Clos du Val Winery, Napa Valley
- Dennis Groth, Co-Founder Groth Vineyards & Winery, Napa Valley

In Closing

Survey participants will receive a complimentary copy of the complete 2017 Wine Industry Financial Benchmarking Survey. For all others, the full report will available for purchase. Scheduled release = end of October.

Please email wine@mossadams.com to be notified when the final report is available.

THANK YOU

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Wine, Beer and Agriculture

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