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WINE INDUSTRY FINANCIAL BENCHMARKING SURVEY HIGHLIGHTS TRENDS

Increases in direct-to-consumer sales,
social media usage reported

Credible financial data about the wine industry isn't easy to find, which makes it difficult for owners and managers to compare their business performance against the competition. That's why Moss Adams LLP and its sponsors, the Farm Credit Alliance and Turrentine Brokerage, conducted the 2013 Wine Industry Financial Benchmarking Report. It was designed to offer wineries, grapegrowers and negociants key insights, with data collected from 166 wine-related businesses across California, Oregon and Washing-

ton. Let's look at some of the data and what it reveals about important trends affecting wineries and growers.

DISTRIBUTION CHANNEL STRATEGIES

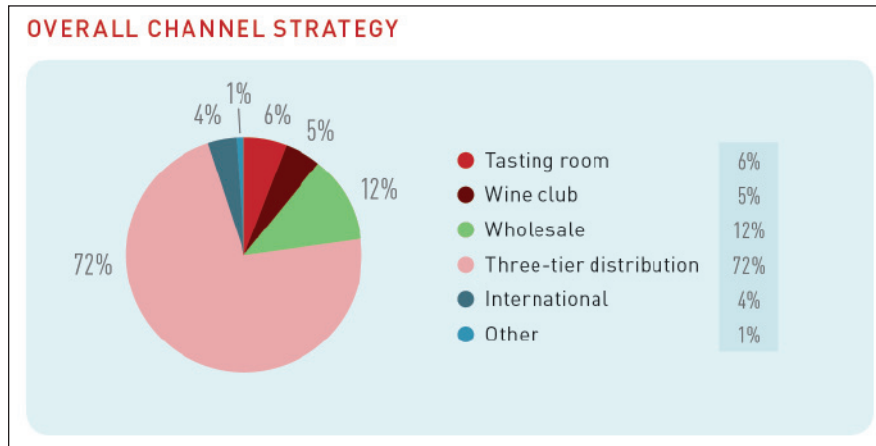
Given the ongoing changes in consumer buying behavior, it's important to understand the channels wineries are selling through and whether certain channel strategies are gaining better traction than others. This is particularly true of the direct-to-consumer (DTC) channel, which is receiving increasing attention

from the industry. Overall, 72% of respondents' sales volume in 2012 flowed through the three-tier distribution system, compared with 82% in the 2009 report.

includes tasting room, wine club, mailing list, and online sales – accounted for 12% of total sales among 2013 survey participants, particularly smaller producers. This

improved economic climate compared with the data reported in 2009, largely due to an improving economy and increased demand for wine.

However, more than 40% of survey participants reported experiencing increased production costs, price erosion and the accompanying gross margin compression. These responses are consistent with general industry data on the increasing costs of grapes and other production items and the difficulty wineries experience when they increase their prices, particularly in the three-tier distribution channel.



The direct-to-consumer channel accounted for 12% of sales among 2013 survey participants, up from 6% in 2009.

The wholesale channel (direct sales to retailers and restaurant accounts) accounted for another 12%. The DTC channel – which

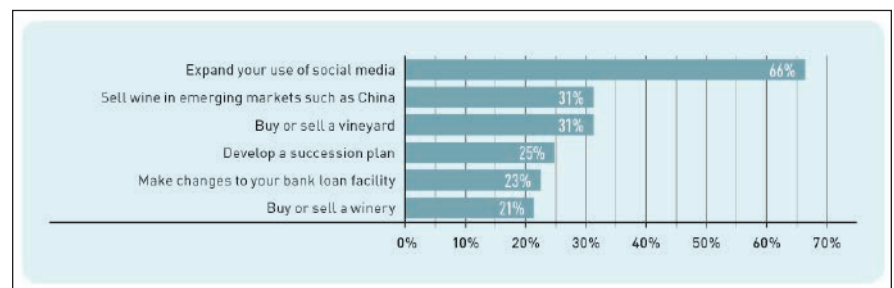
indicates a significant gain compared with the results of the 2009 survey, at which time the DTC channel accounted for only 6% of total sales. These survey results show that many small producers are now generating greater than

FUTURE GROWTH STRATEGIES

Survey participants were also asked to share their future strategies – specifically, which actions they plan to take in the next three years. Almost 70% of participants said they plan to expand their use of social media. This isn't surprising given the emphasis on making deeper connections with wine consumers via Facebook and Twitter; it's part of the increased focus on DTC sales among wineries of all sizes.

AT A GLANCE

- + The 2013 Wine Industry Financial Benchmarking Report was designed to allow wineries and grape-growers to compare their business performance against their competition.
- + The direct-to-consumer channel accounted for 12% of total sales among 2013 survey participants, compared to 6% of participants in 2009.
- + More than 40% of survey participants reported experiencing increased production costs, price erosion and gross margin compression.
- + Almost 70% of participants said they plan to expand their use of social media.



Sixty-six percent of survey participants said they plan to expand their use of social media.

75% of their sales through direct channels. Overall, nearly 50% of respondents reported being more focused on increasing DTC sales in 2013, with an even greater focus going forward.

ECONOMIC IMPACT

Survey respondents were asked how current economic conditions have impacted their business. The overall sentiment was of an

Nearly a third of participants are focusing on selling wine in emerging markets (such as China), and a third are focusing on buying a vineyard. For the past several years there has been a growing interest in selling wine into emerging markets – a new and potentially lucrative sales channel. Given the high concentration of family-owned and -operated wineries, approximately 25% of respondents said they planned to develop a succession plan.

YIELD TRENDS BY REGION

Overall yield averaged 4.6 tons per acre, which is a substantial increase from the 3.4-ton average yield reported in 2009. This amount includes both pure growers and integrated winery and vineyard operators, and it reflects 2012's very large harvest, particularly in California, where the average yield was 5 tons per acre compared with 4.1 in Washington state.

On a separate basis, pure growers had an average yield of 5.5 tons per acre; integrated winery and vineyard operators had an average

yield of 4.1 tons per acre. Consistent with 2009 survey results, yields are higher for pure growers than integrated operations, suggesting a stronger motivation among pure growers to maximize tonnage.

ECONOMIC IMPACT

Two survey responses stand out from the others and clearly indicate that growers will pursue strategies to increase production volumes while raising prices. Closely related is a strategy to renegotiate contracts. From these two points, it's clear that growers intend to capital-

ize on improved economic conditions and the growing demand for wine through strategies to increase their revenues and profitability. Given that California in particular has experienced two very large back-to-back harvests and there's currently an above-average supply of grapes, navigating these strategies may prove somewhat tricky.

FUTURE GROWTH STRATEGIES

Nearly 80% of participants said they planned to buy or sell a vineyard, and close to 50% planned to work on succession planning over the next three years. Buying or selling a winery was a distant third response.

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Steve Fredricks, president of Turrentine Brokerage, joined the firm in 1991 as a bulk wine broker. Over the years he has established himself as an expert in the sale of grapes and wines in bulk and market cycles. Turrentine Brokerage brokers wine grapes from all California regions and wines in bulk from California and around the world.

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Bill Rodda is vice president of Farm Credit Alliance, which manages both commercial and capital markets portfolios. He has been with the company since 1981, and has been involved in many North Bay business financing projects. The Farm Credit System is a national network of banks and retail lending associations that provide financing, leasing, insurance and other financial services to agriculture, agribusinesses and the nation's rural economy.

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Comments? Please e-mail us at feedback@vwmmmedia.com.

ABOUT THE SURVEY

The survey was conducted online between May 20 and Aug. 15, 2013, with respondents from wineries and growers in California, Oregon and Washington state. Operating and financial data was generally collected for the fiscal or calendar year 2012. Winery participants ranged in size from those that produce less than 1,000 cases per year to those with 720,000 in annual case sales volume, with an average of 79,000 cases. Participant average revenue per case varied from a low of \$69 to as high as \$795, with an average of \$222 per case (compared with \$176 in the 2009 report).

The operating criteria used to classify participants into meaningful groups included business model (integrated winery and vineyard, grower,

negociant, and stand-alone winery), annual case sales volume, and average price per case. Financial data collected in the survey included summary balance sheet and income statement data. This information was used to produce a variety of financial ratios and other important performance measures. The 2013 report provided common-size financial statements based on case volume, average price per case and winery business models. Also included were separate common-size financial statements for growers.

Survey participants received a complimentary copy of the complete 2013 Wine Industry Benchmarking Report. For all others, the full report is available for \$495 through www.mossadams.com/winesurvey.



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