2017 WINE INDUSTRY

FINANCIAL BENCHMARKING SURVEY

EXECUTIVE SUMMARY

MOSSADAMS

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HOW DOES YOUR BUSINESS COMPARE?

Credible wine industry financial data is scarce, which makes it a struggle for owners and managers to compare their business performance against their peers. Knowing where your business is competitive, where you have a competitive advantage, or, just as importantly, a disadvantage can be vital to shaping your management strategies and your company's future. While the industry consistently seeks more data, it's also difficult to compile because most wine businesses are largely privately held.

To help bridge this information gap, we've published industry financial information three times since 2009 with relevant trends and survey data for wineries, grape growers, and producers. It provides benchmarks to help explore important questions about the comparable performance of individual businesses as well as a high-level view of the industry.

We're pleased to present the results of our 2017 Wine Industry Financial Benchmarking Survey™. Data supporting the results in this report was provided by wine businesses predominantly in California but also spanning Oregon and Washington. Winery participants ranged in size from those that produce less than 5,000 cases to those with over 700,000 in annual case sales.

While the results reflect the pool of respondents—mostly higher-end, integrated wineries from the North Coast of California—that doesn't negate the strength of the report's information. It's still very much relevant and useful to the industry as a whole, particularly when considered in the context of the previous surveys.

A Snapshot: Trends and Survey Results

PREMIUMIZATION

Since the 2008–2009 recession, consumers have increasingly purchased higher-priced wines—above $10 per bottle. While our survey results show an increase in the average case sales price, most wineries still find it challenging to raise bottle prices.

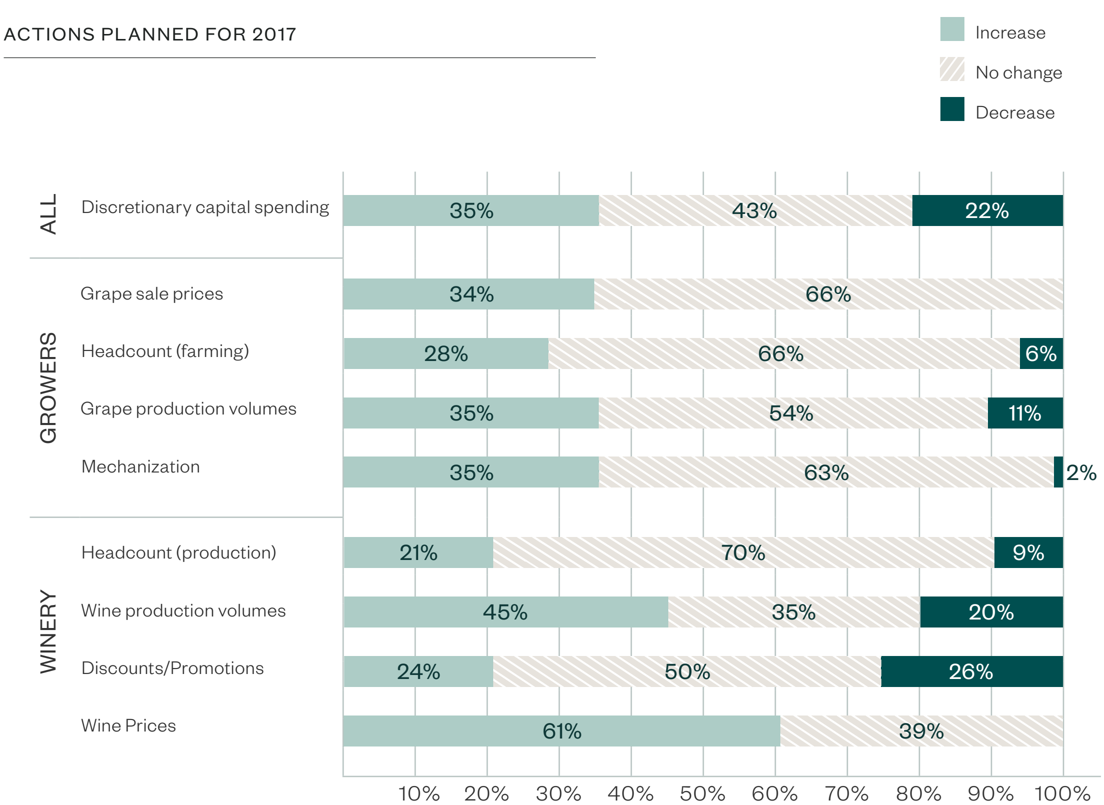
As a result, large wineries that have traditionally operated in the under-$10-per-bottle retail segments have strategically been acquiring successful wine brands in higher-priced categories and launching new, higher-priced brands of their own.

Domestic sales in the $10–$20 retail price category continue to grow, primarily for leading red varietals such as Cabernet Sauvignon and Pinot Noir. Chardonnay continues to be the most prevalent varietal produced among all varietals.

Rising costs of production and marketing are creating pressure on wineries to increase prices. Of our respondents, 61% reported they were inclined to increase wine prices in 2017. Half of all respondents plan to maintain current discount levels, 26% plan to increase them, and 24% plan to decrease discounts.

While consumers are trading up and buying more wine in the $10–$20 per bottle range and higher, the under-$10 per bottle segment is still a strong contender. It accounts for the vast majority of total wine sales in the United States among major varietals.

ACTIONS PLANNED FOR 2017



DIRECT TO CONSUMER (DTC)

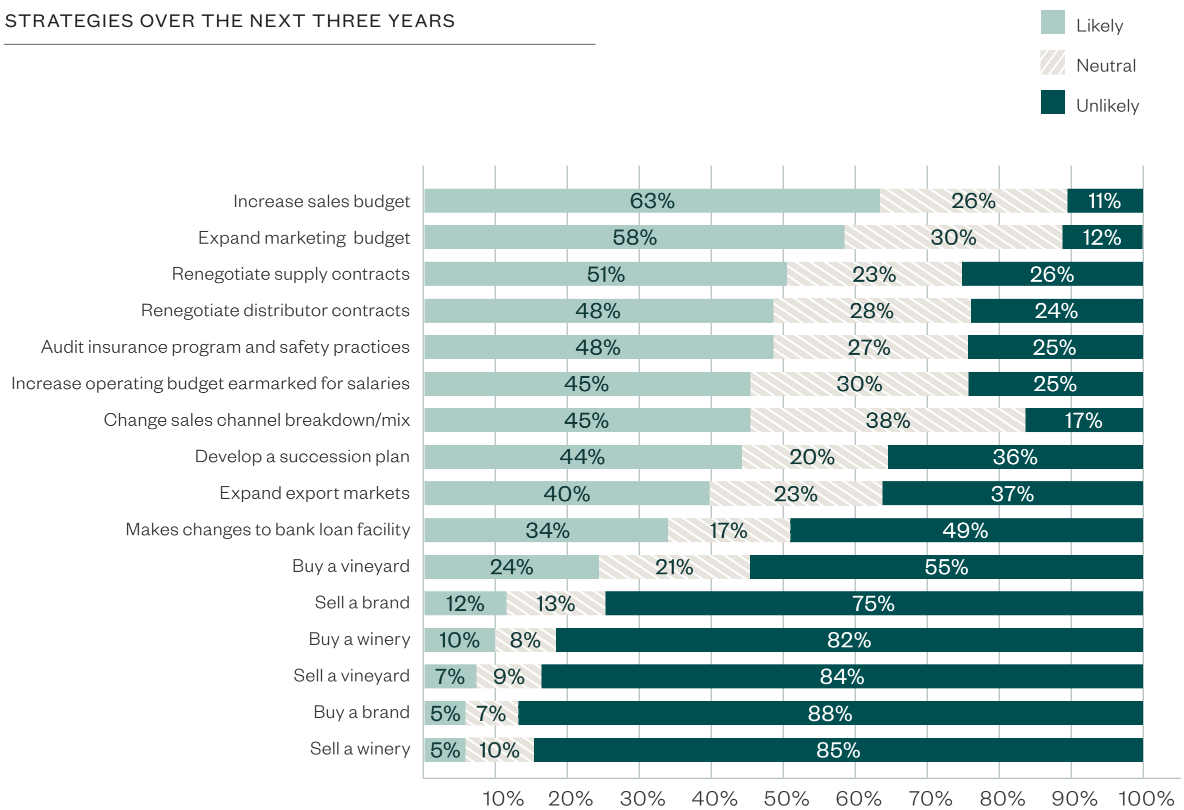
In addition to premiumization, the move to DTC sales continues. Unable to compete with larger wineries and find space amid the consolidation of retailers and distributors, smaller wineries remain focused on DTC sales by increasing investments in tasting rooms, wine clubs, and social media outreach with an emphasis on delivering a unique, memorable experience for their guests.

While our survey shows that three-tier distribution and wholesale are still the predominant ways to sell wine—largely reflective of our participant pool—DTC is a significant part of the conversation and considered by both large and small wineries to be an important part of the future for the wine industry.

The overall market share of DTC case sales in United States is still small, but the rate of growth in DTC sales volume is strong. Most wineries in our survey ranked the DTC sales channel as their top priority and emphasis for 2017.

Reflecting the challenges of selling wine in the hyper-competitive US market, wineries ranked increasing their sales and marketing budgets as the top two components of their strategies over the next three years.

STRATEGIES OVER THE NEXT THREE YEARS



REAL ESTATE AND GRAPE SUPPLY

The supply and availability of vineyards in both Napa and Sonoma is very limited and little land is available for new vineyard development.

With grape prices continuing to rise, the value of vineyard land in these locations is increasing. The economics of record prices and tight supply of vineyards in Napa and Sonoma have increased interest in, and movement to, Oregon, Washington, and other coastal areas of California. One benefit of the 2008 recession is that wineries and growers are more measured and less speculative when investing. This will likely help moderate some volatility of supply shifts in the near future.

Strategically, successful wineries are looking to secure their future grape supply and mitigate risk. Nearly a quarter of wineries—24%—reported they were likely to buy a vineyard over the next three years. In addition to Oregon and Washington, prospective buyers are looking at the Central Coast, Lake County, and Mendocino County.

REDEVELOPMENT OF ACRES

Acres in Napa and Sonoma are being redeveloped with higher value varietal plantings—usually Cabernet Sauvignon—and planted at higher vine density per acre. Even with a restricted number of acres available, there's still some growth in key varietal supplies because of the increase in yield per acre due in part to the higher vine density of the replantings.

GRAPE GROWING PRACTICES

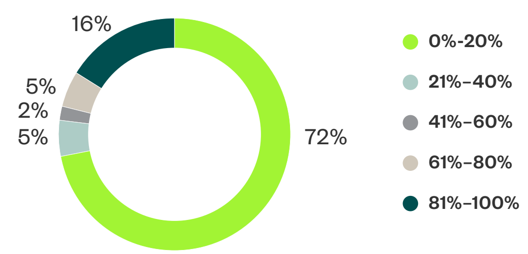
	% of Acres	Average Acreage
New development and planting	23%	37
Replanting	39%	22
Used machine harvesting	40%	57

LABOR SHORTAGE AND MECHANIZATION

A growing shortage of labor has driven an increase in automation and mechanization, though not for all of a vineyard's acres. Driven by the continued tightening of the labor supply, this shift to mechanization is being considered in the design and replant of vineyards. Planting an acre by machine can sometimes be 2.5 to five times less expensive and more efficient compared to planting an acre by hand.

The percentage of acres being harvested by machine continues to rise, with 16% of those with vineyards reporting that over 80% of their bearing acres are machine harvested. Meanwhile, 28% of respondents reported that over 40% of their bearing acreage is machine harvested. We anticipate an increase in mechanization as labor resources continue to tighten.

PERCENTAGE OF TOTAL BEARING ACRES MACHINE HARVESTED



LEARN MORE IN THE FULL REPORT

Operating and financial data was collected for the calendar year 2016. Recognizing the sensitivity of the information provided to us, we kept all data strictly confidential and reported on it only in the aggregate, sorting and analyzing it by business model, case volume, price point, distribution channel, varietal focus and region. We also looked at sales and marketing results. The final report will also include the common size financials, which will highlight year-over-year comparisons of all three surveys.

Survey participants will receive a complimentary copy of the complete 2017 Wine Industry Financial Benchmarking Survey™. For all others, the full report is available for purchase. Please email **wine@mossadams.com** to be notified when the final report is available.

In the meantime, if you have questions or would like us to analyze how your strategies and results stack up against your peer groups as defined in our study, please contact us.

ABOUT US

MOSS ADAMS provides some of the world's most innovative companies with specialized accounting, consulting, and wealth management services to help them embrace emerging opportunity. With more than 2,600 professionals across 20-plus locations in the West and beyond, we serve more than 300 wineries and vineyards. We provide a full spectrum of wine-industry specific solutions, including international tax, benchmarking, business valuations, ownership transition, management succession, and estate planning.

TURRENTINE BROKERAGE specializes in the brokerage of wine grapes and wines in bulk from all regions of California and from around the world. Turrentine Brokerage works with thousands of client wineries worldwide, including all of the major brands headquartered in California, and more than 1,500 growers, including most of the major vineyard holders in the state. With over 40 years of service, and an experienced team of brokers and analysts, Turrentine Brokerage is the reputable source for exclusive and superior bulk wine and grape market information.

AMERICAN AGCREDIT was founded in 1916 and is the sixth largest Farm Credit lending cooperative in the United States with assets in excess of $7.3 billion with more than 18% of that portfolio in wine grapes and wineries. As part of the Farm Credit System, American AgCredit specializes in providing financial services to farmers and ranchers as well as to capital markets and agribusiness operators across the country.

HEFFERNAN INSURANCE BROKERS offers tailored risk-management strategies that guide CFOs in identifying how much risk their company should transfer or retain. Cutting edge strategies are explored during a proprietary risk management audit process that CFOs say is a pathway to helping clients increase their pretax profit.