

# The U.S. Wine Market – Yesterday, Today, Tomorrow

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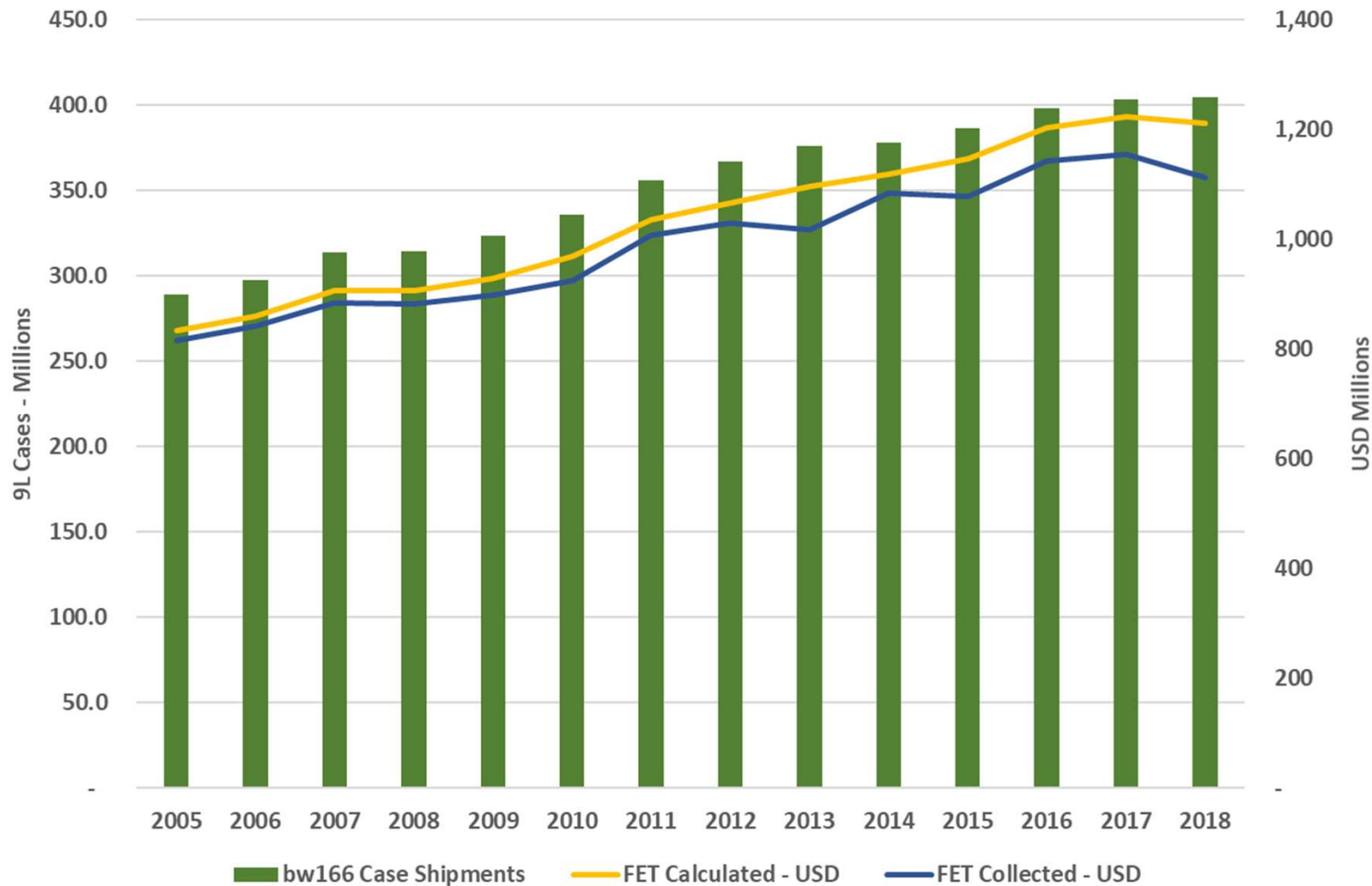
MARCH 10, 2020

# Opening Comments

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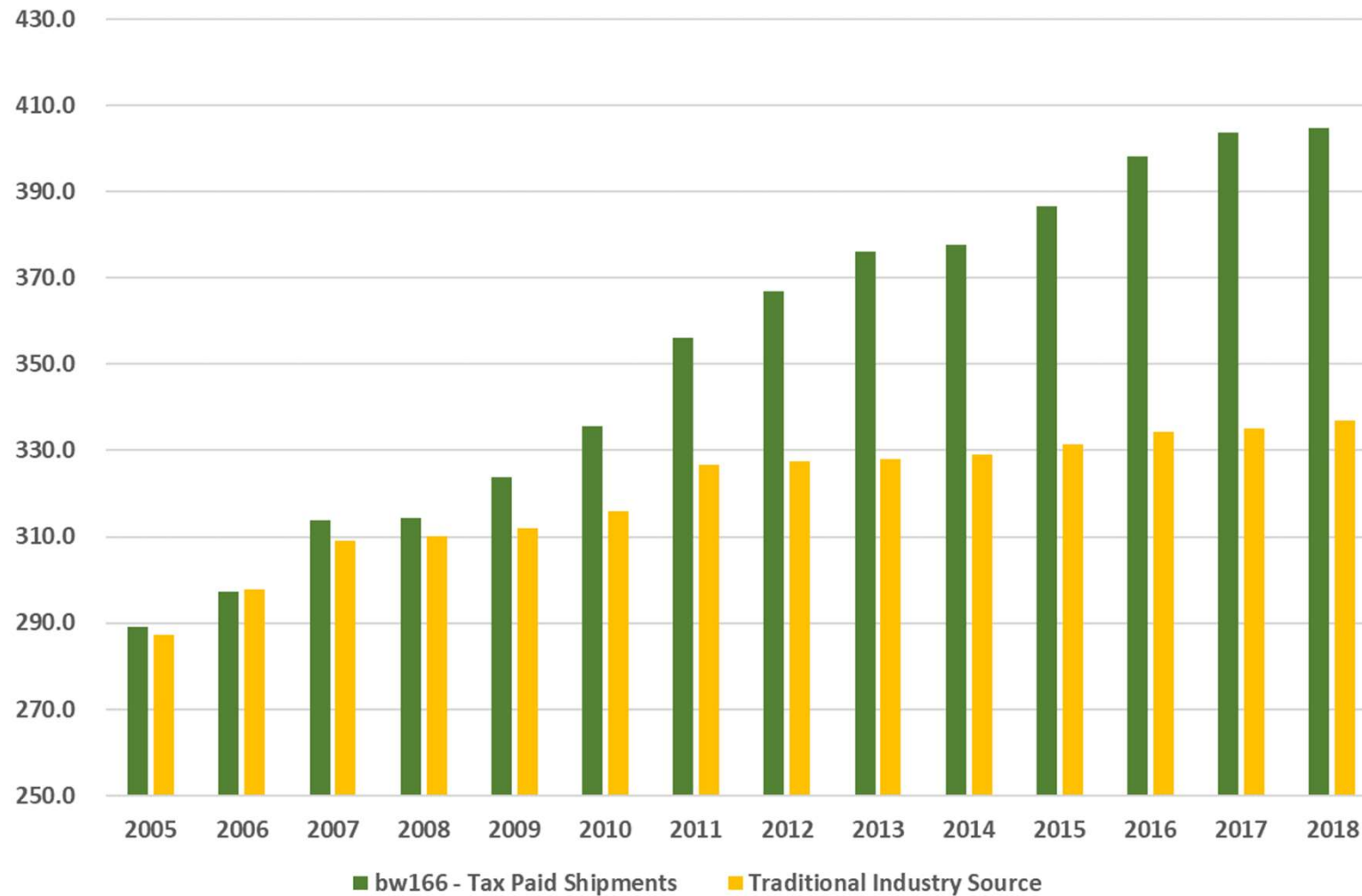
1. The wine market is evolving....it has always evolved.
2. That past was not as good as it is remembered....The present is not as dire as current comments.
3. It is the Baby Boomers fault....It is the Millennials fault....See point 1.
4. The U.S. Wine Market grew for 25 years at an average annual rate of 3.3% while Total Beverage Alcohol was growing at 1.2%.
5. Wine has premiumized at a rate faster than Beer or Spirits.
6. The Wine Industry will need to work harder to grow the market:
  1. 1992 – Bill Clinton / James Carville – “The Economy, Stupid”.
  2. 2020 – Wine Producers – “Market Share – Stupid”.

## Wine Federal Excise Tax



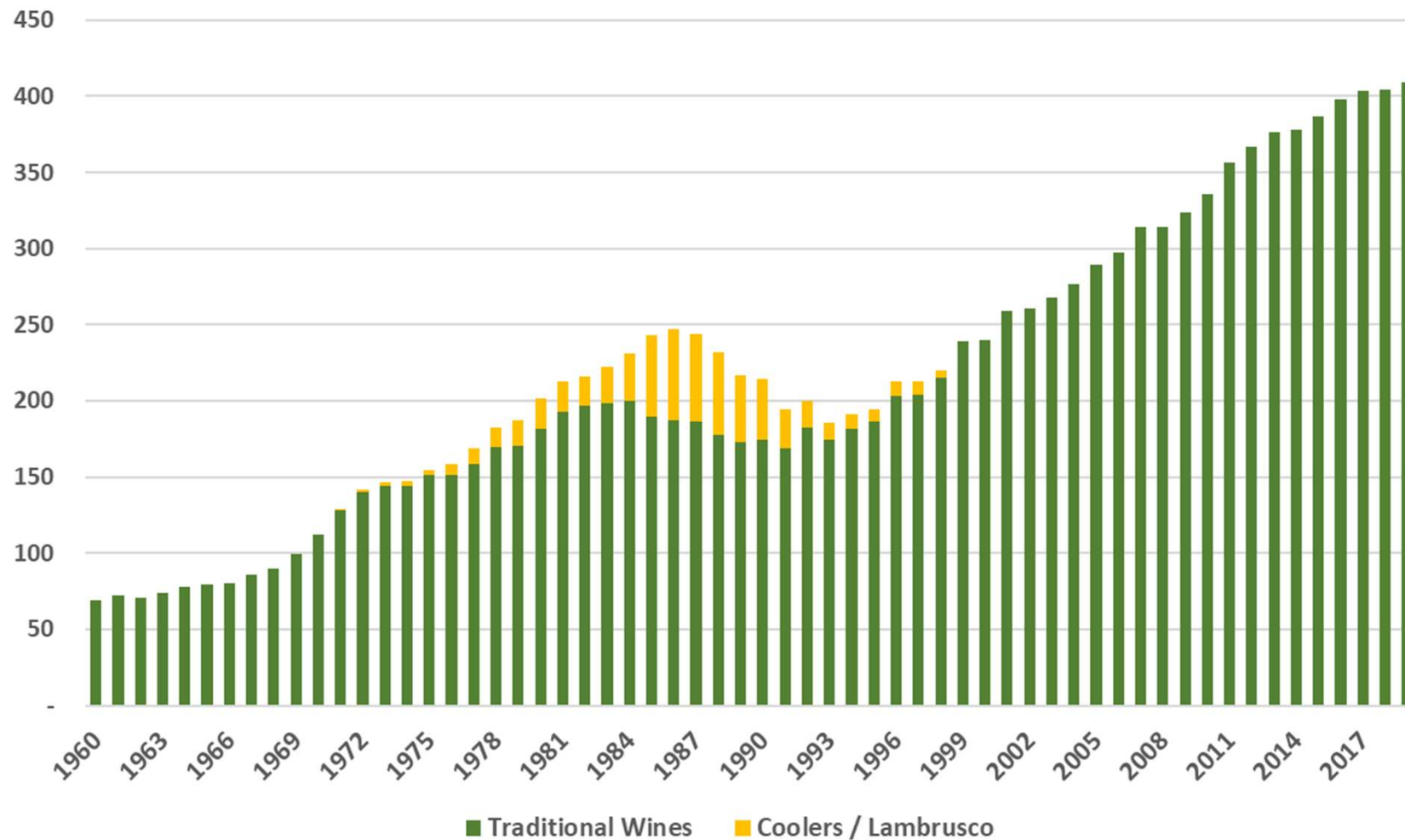
- GFA / bw166 market measurement uses tax paid shipments entering the market.
- Variance of Calculated FET vs. actual due to small producer credit.
- Larger variance in 2018 due to Craft Beverage Modernization Act.

## US Wine Market (9L Cases- Millions)



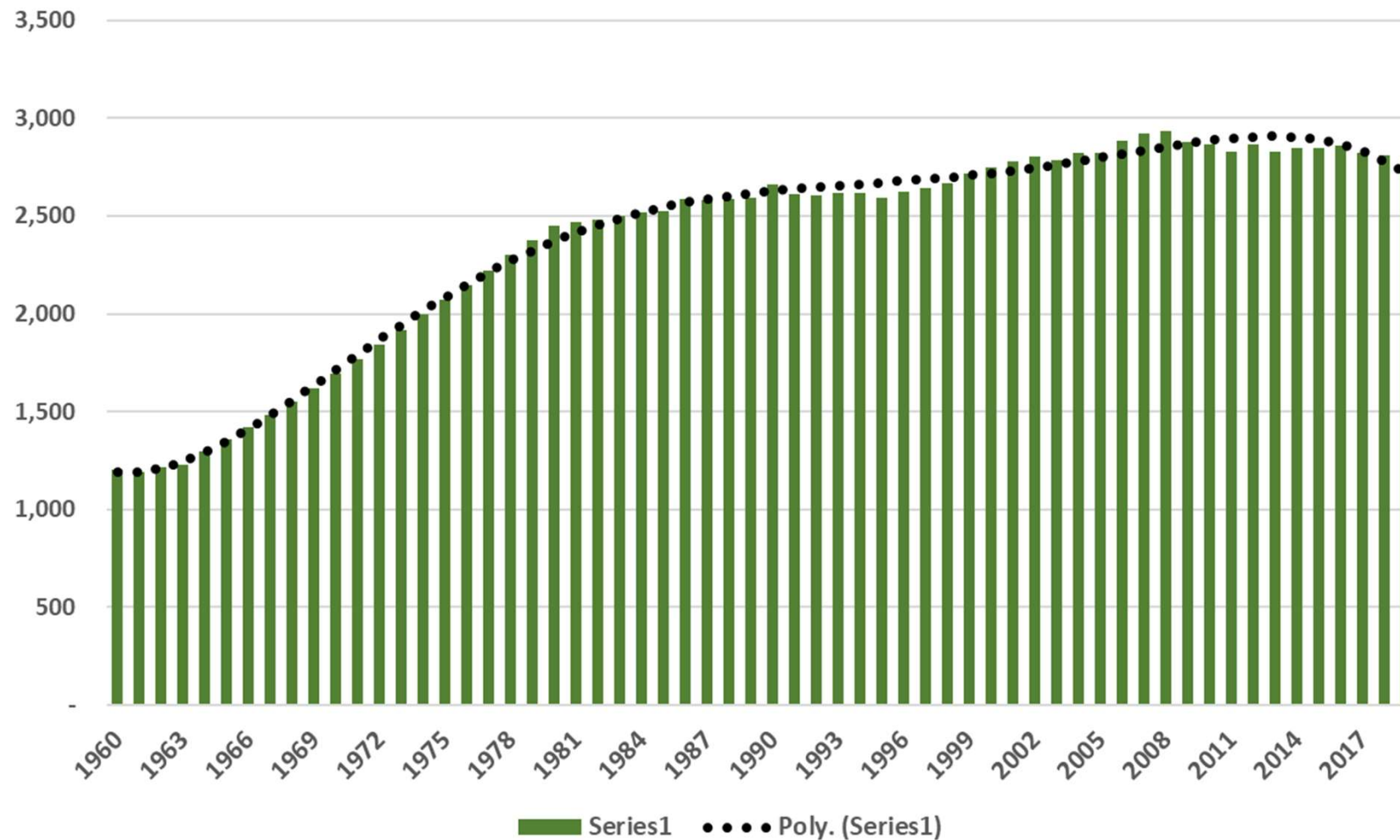
- Traditional industry sources often estimate depletions or consumer consumption.
- Tax Paid Shipments relative to the traditional industry sources for wine have diverged dramatically.
- Many Traditional Industry Sources are understating the size of the US Wine Market.
- GFA / bw166 CAGR = 2.62%
- Trad. CAGR = 1.23%

## Wine 9L Cases (Millions)



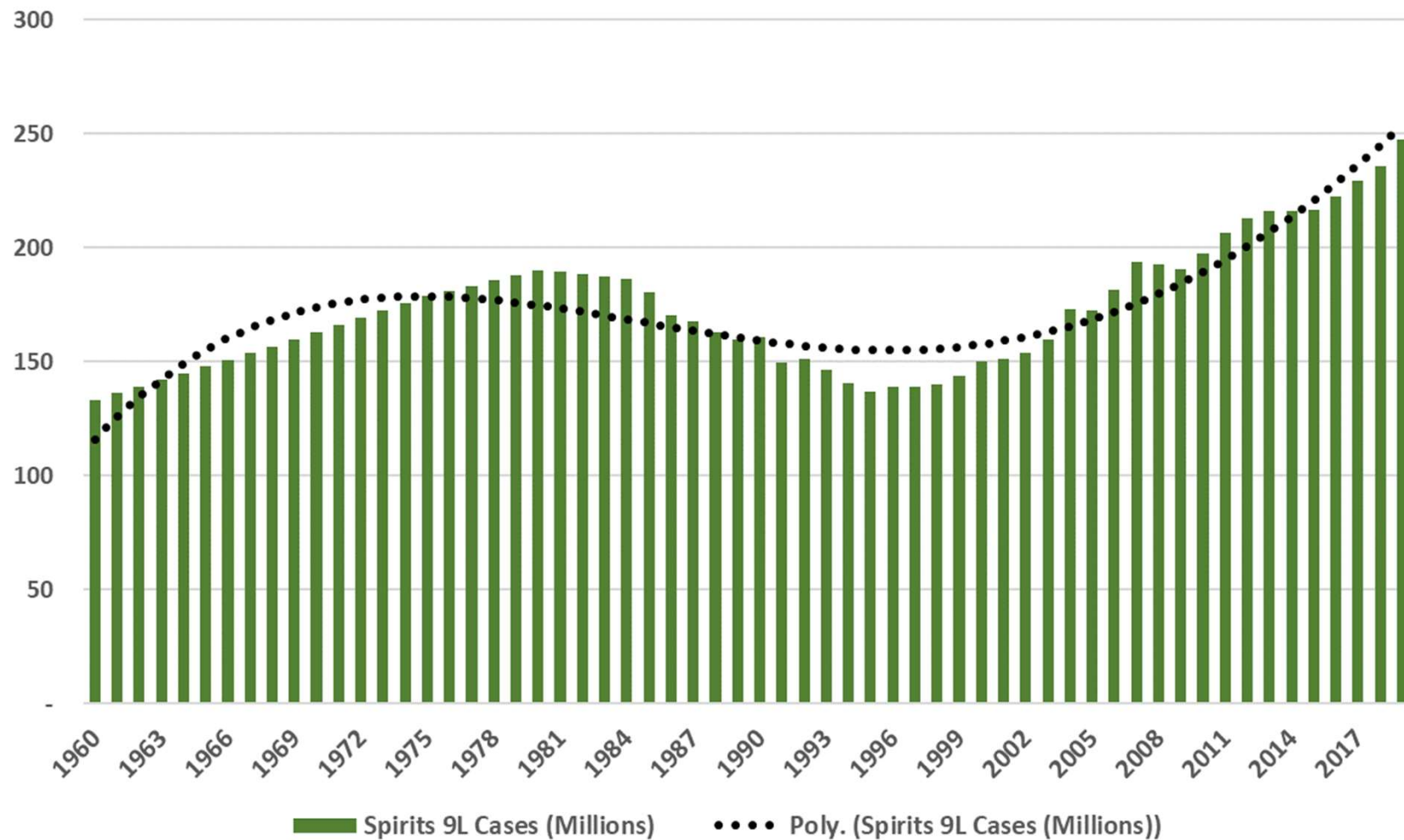
- Still wines first outsold fortified wines in 1967.
- Traditional wines declined from 1985 to 1992
- Industry has been growing since 1993
- 1993 to 2018 – CAGR was 3.2%

### Beer 2.25 Gal. Cases (Millions)



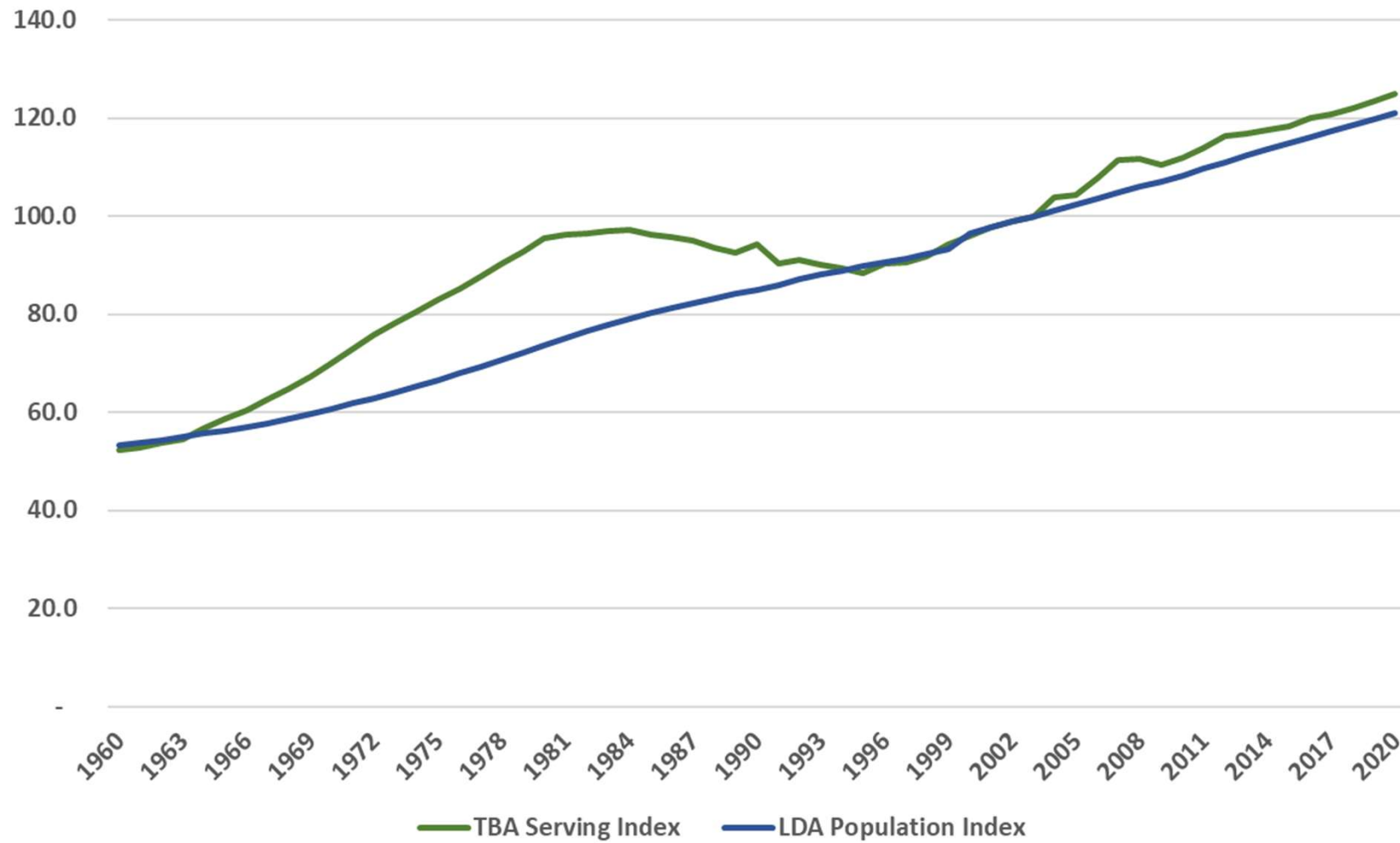
- Beer saw growth from 1960 to 1990.
- Somewhat slower growth from 1990 to 2008.
- Since 2008 flat to decline.
- The past few years has seen a slow decline, even with new products such as Hard Seltzers.

## Spirits 9L Cases (Millions)



- Spirits were in decline from 1980 to 1996.
- The category has been seeing fairly steady growth since then.
- This is the category that consumers are currently migrating towards.

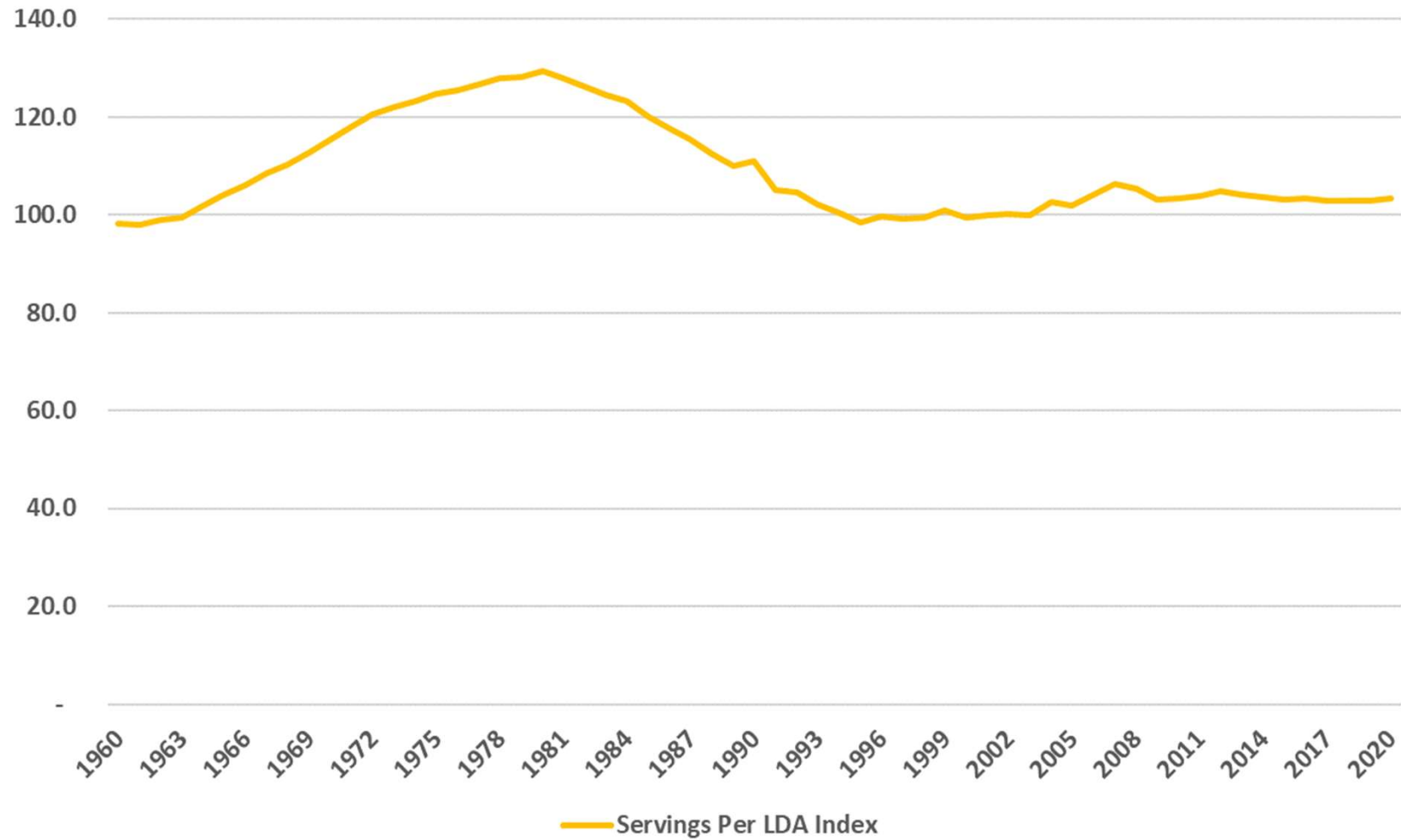
bw166 Indices (2003 = 100)



- This chart compares growth in servings over time versus Legal Drinking Age population.
- The trends have mirrored each other for 25 years.
- Servings CAGR = 1.22%
- LDA CAGR = 1.20%



## Servings per LDA Index (2003 = 100)

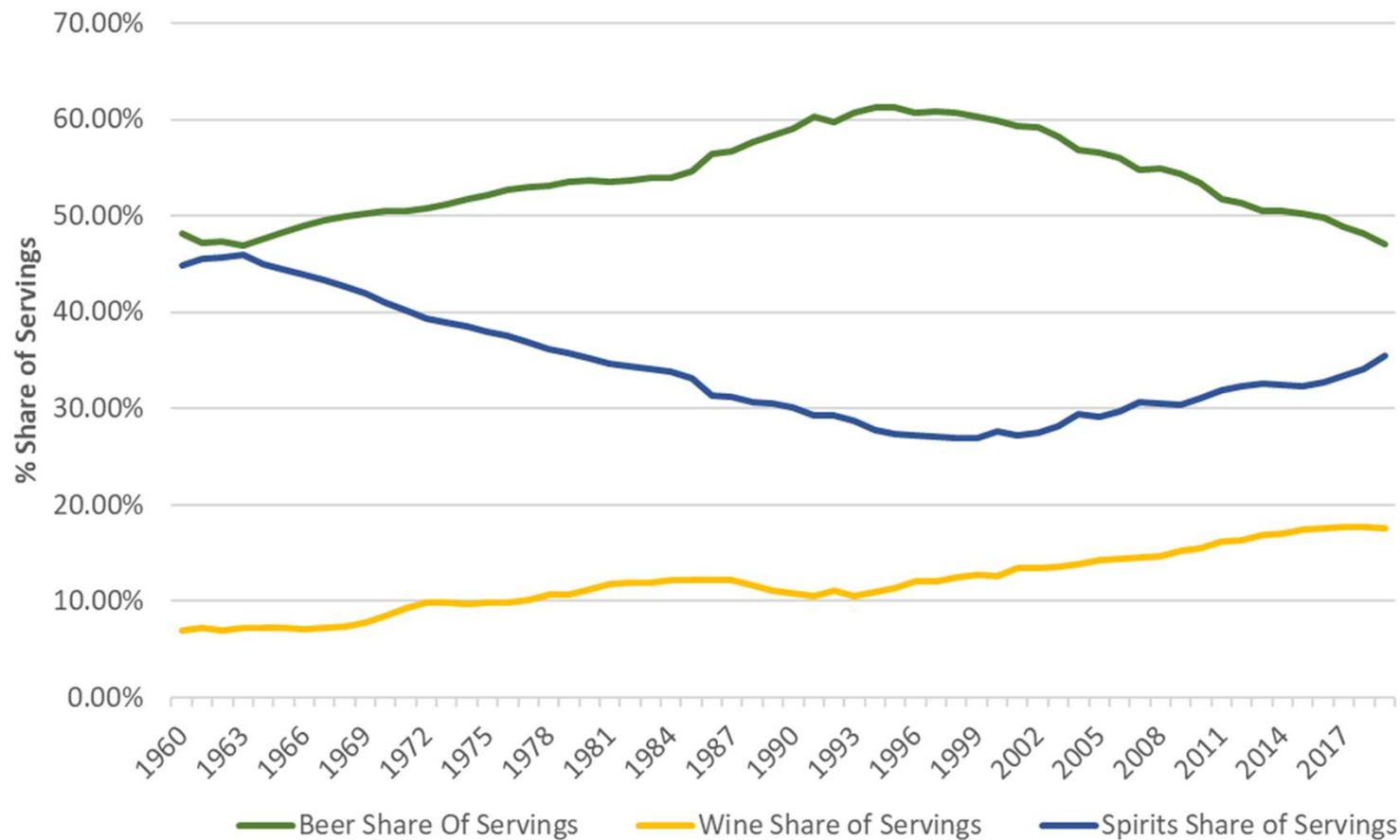


### CAGR - Compound Annual Growth Rates

Years	Servings	Population
25	1.30%	1.20%
20	1.36%	1.26%
15	1.16%	1.13%
10	1.11%	1.12%
5	0.96%	1.07%

- Consumption per capita has been flat for 25 years.
- Societal impacts can be seen from 1964 to 1993.
- Some surveys indicate a move away from alcohol but serving figures do not bear this out.
- Approximately 30% of LDA do not drink alcohol.
- 1.60 – 2.25

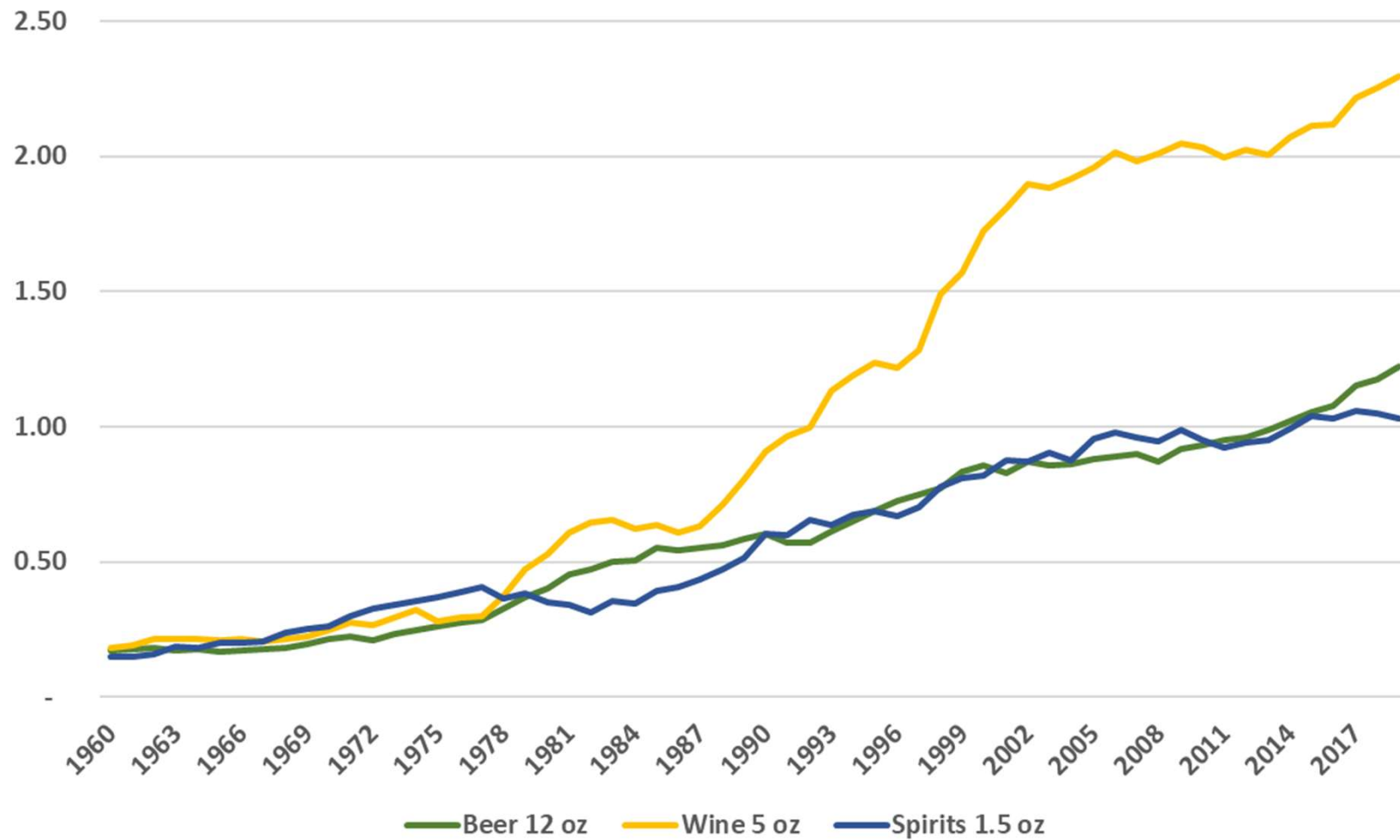
## Share of Servings



Source: US Commerce Department

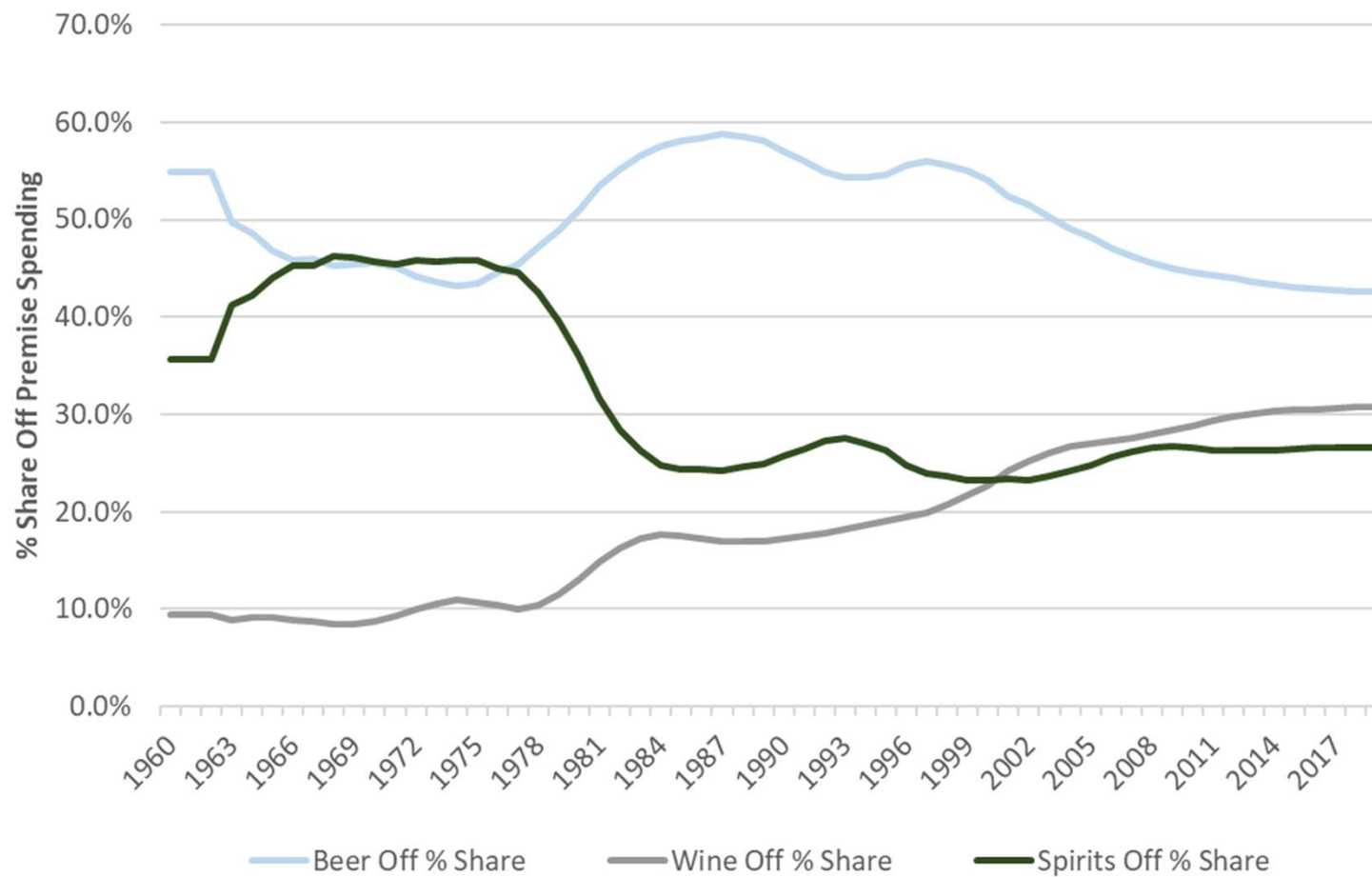
- Servings Index to more easily compare categories.
- Beer has been losing share of servings since the mid 1990's. One serving = 12 ounces.
- Wine began to grown share of servings in the 1993 but these gains have slowed in the last few years. One serving = 5 ounces.
- Spirits began to grow share in 2000 and these share gains continue. One serving = 1.5 ounces. 2.7% CAGR

## Off Premise Cost per Serving USD



- Over the past 30 years Wine has been more successful, than Beer or Spirits, to increase cost per serving.
- This has been one of wine's greatest strengths, but it may now also be a weakness for younger consumers

## U.S. Consumers - Share of Off Premise Spend



Source: US Commerce Department

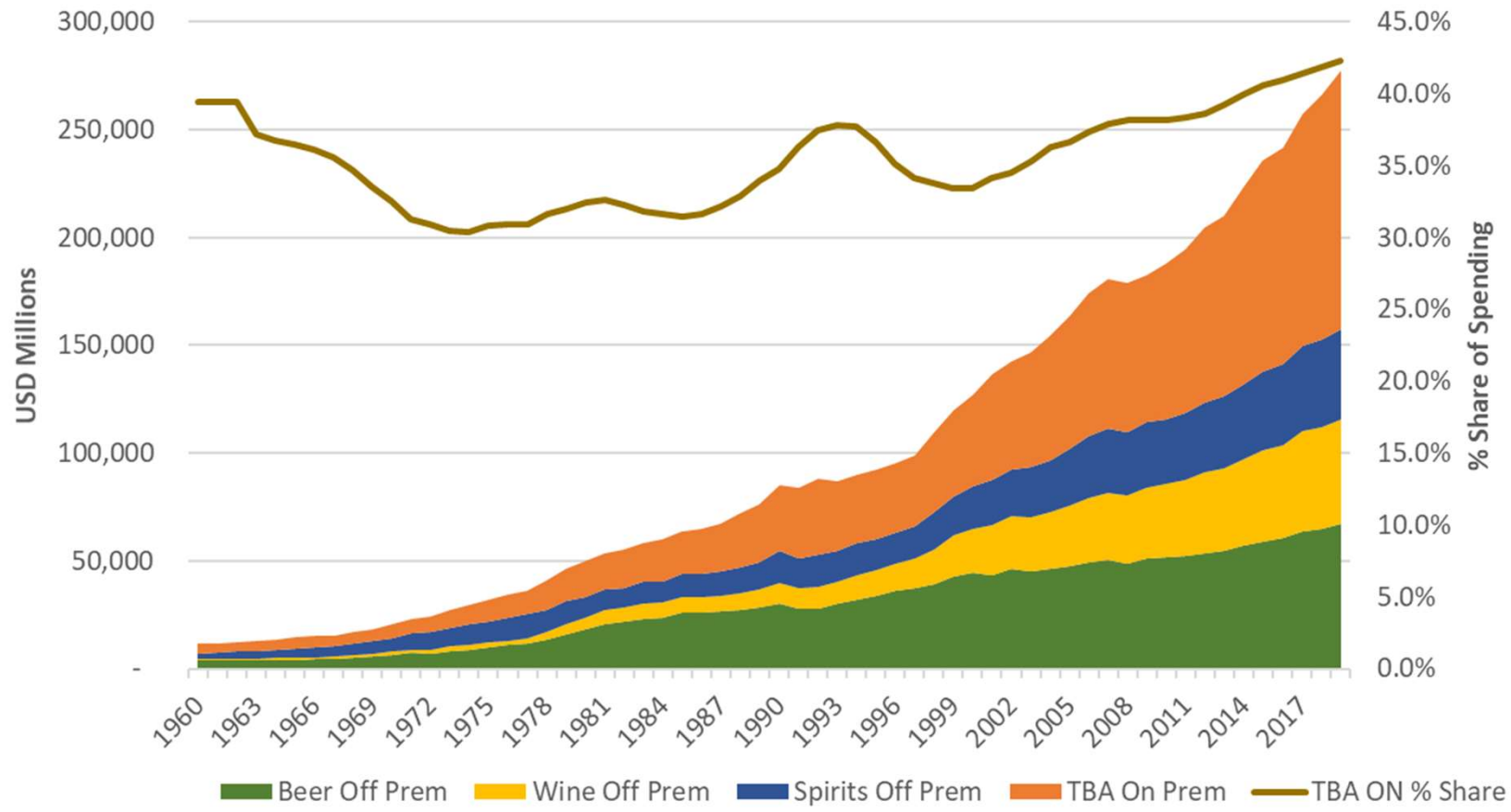
- Beer has been losing share of consumer spending in the off-premise.
- Wine has gained share, but has stabilized at about 31%.
- Spirits has been stable at about 27% of Off-Premise consumer spending.
- Spirits command a much greater share of On-Premise consumer spending.

Hard Seltzer Estimates (Millions)			
	2019	2018	% Change
<b>White Claw</b>			
Cases - Millions	65.03	16.67	290.0%
<b>Share</b>			
Hard Seltzer Market	67.00%	45.00%	
	97.06	37.05	161.9%
<b>Other Brands</b>			
	32.03	20.38	57.2%
<i>From Industry Reports</i>			
<b>2019 Beer Market</b>			
<b>Beer Market</b>			
	2019	2018	% Change
Total Barrels	201.8	204.1	-1.1%
Cases (2.25 gal)	2,780.4	2,812.0	-1.1%
<b>Growth Drivers</b>			
Constellation	307.5	289.6	6.2%
White Claw	65.0	16.7	290.0%
Other Seltzers	32.0	20.4	57.2%
All Others	2,375.8	2,485.4	-4.4%
<i>White Claw &amp; Truly 82.5 Million cases IWSR - December 2019</i>			
<i>White Claw and Truly 75% of category, White Claw 60% - Anthony Von Mandl Septemebr 2019</i>			
<i>White Claw Share 67% TY, up 22 Points - Phil Rosse - December 2019</i>			
<i>Assume White Claw and Truly 85% of Market at 12/31/19</i>			
<i>Constellation data sourced from SEC Data for 12 months ending Nov. 2019.</i>			

## • Market Share

- Beer is a soft category but it is a good example of how market share can be captured.
- Hard Seltzer is a hot category and taking share.
- The Constellation Beer portfolio is also gaining share.
- This means weak trends for the balance of the beer segment, but there are other winners as well.
- Beer Business Daily recently reported some research on White Claw.
- Half of the growth is coming from Wine and Spirits, slightly more from wine.
- This means 24 million cases of White Claw have come from Wine and Spirits.
- Roughly 13 million cases from Wine. Given difference in servings, this equates to 5 million cases of wine or 1.2% of wine market growth.
- 11 Million cases from Spirits. Given difference in servings, this equates to 1.3 Million cases or 0.5% of Spirits market growth.

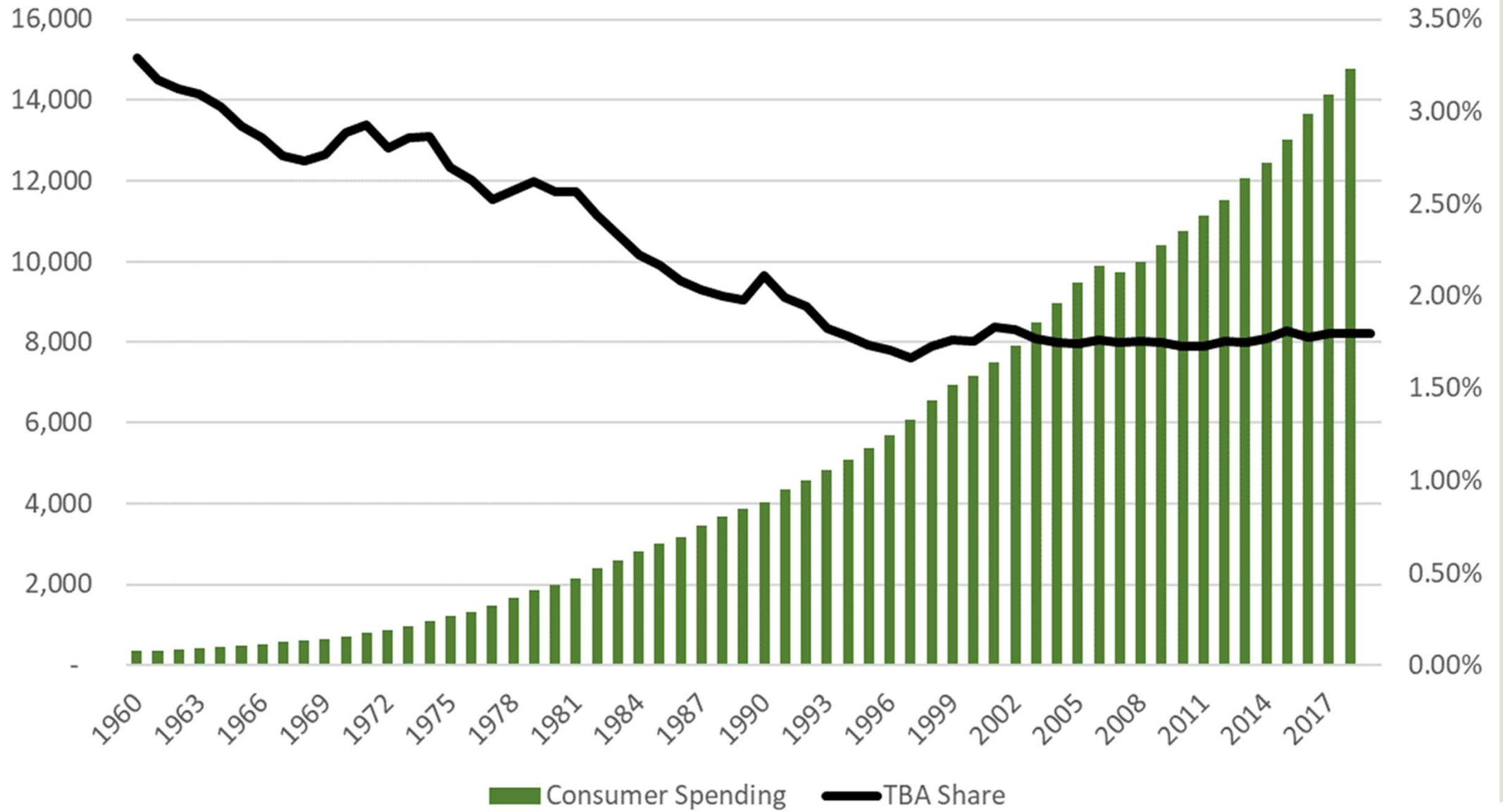
## U.S. Consumer Expenditures Beverage Alcohol



Source: US Commerce Department

- Unlike servings, consumer expenditures on Beverage Alcohol have been consistently growing since 1960.
- All categories have been growing.
- Over the last 20 years consumers have been shifting more of their spend to the On- Premise.

# US Consumer Expenditures (USD Billions)



### 2019 Average Cost per Serving

Class	Brand / Item	Size	Price	Ounces	Serving Size (Ounces)	Servings / Pack	Cost / Serving
Malt	Modelo Especial	12 Pack	16.99	144.00	12.0	12.00	1.42
Malt	White Claw	12 Pack	16.99	144.00	12.0	12.00	1.42
Malt	Average Retail Price Dec 2019	24 Pack	29.28	288.00	12.0	24.00	1.22
Malt - Value	Pabst Blue Ribbon	30 Pack	19.99	360.00	12.0	30.00	0.67
Spirits	Jack Daniels	750 ml	21.99	25.36	1.5	16.91	1.30
Spirits	Tito's	750 ml	19.99	25.36	1.5	16.91	1.18
Spirits	Jack Daniels	1.75 L	39.99	59.17	1.5	39.45	1.01
Spirits	Average Retail Price Dec 2019	750 ml	13.52	25.36	1.5	16.91	0.80
Spirits	Tito's	1.75 L	29.99	59.17	1.5	39.45	0.76
Spirits - Value	Popov	1.75 L	13.99	59.17	1.5	39.45	0.35
Wine	La Marca Prosecco	750 ml	13.99	25.36	5.0	5.07	2.76
Wine	Kendall Jackson Chardonnay	750 ml	11.99	25.36	5.0	5.07	2.36
Wine	Josh Cab Sauv	750 ml	11.99	25.36	5.0	5.07	2.36
Wine	Average Retail Price Dec 2019	750 ml	11.11	25.36	5.0	5.07	2.19
Wine	Bota Box Cab Sauv	3.0 L	18.99	101.44	5.0	20.29	0.94
Wine - Value	Franzia White Wine	5.0 L	14.99	169.07	5.0	33.81	0.44
Average Beer/Wine/ Spirits Serving							1.24

- Note: just a survey of one high-volume liquor store.
- Indicative of comparative prices.
- For consumers who are cost-conscious, wine is at a competitive disadvantage for popular brands across segments.



TTB Label Approvals				
Year	Beer	Wine	Spirits	Total
2013	14,369	98,024	9,679	122,072
2014	17,662	98,799	10,498	126,959
2015	21,686	103,478	10,789	135,953
2016	26,838	106,688	12,660	146,186
2017	32,570	115,358	14,005	161,933
2018	37,832	120,215	14,536	172,583
2019	41,263	123,007	16,091	180,361

- Looking at the Beverage Alcohol Market, one needs to remember it is a highly fragmented market.
- Wine consistently has more new labels introduced each year as opposed to Beer and Spirits.
- Not all Beer labels need to be approved by TTB so understates Beer items.
- Possibly 400,000 Beverage Alcohol items available in the US.

# Demographics

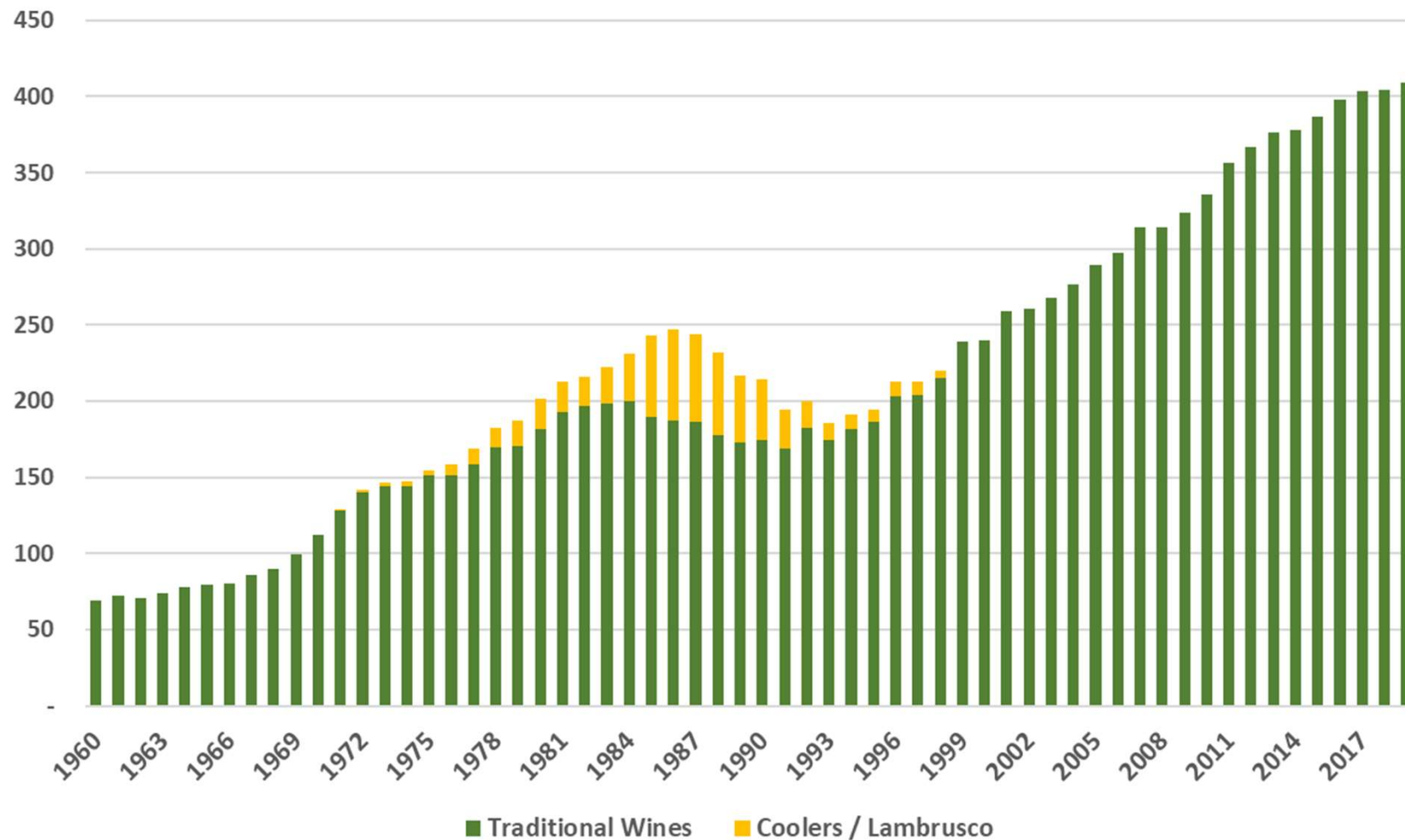
Population data from Census Bureau

## 2019 US Population

Generation*	First Year	Last Year	# of Years	Min Age	Max Age	2019 LDA Pop	2019 Total Pop
Older Gen	**	1945	**	74	Plus	24,999,575	24,999,575
Baby Boomers	1946	1964	19	55	73	72,488,328	72,488,328
Gen X	1965	1976	12	43	54	49,133,018	49,133,018
Millennials	1977	1994	18	25	42	80,702,614	80,702,614
Gen Z	1995	2009	15	10	24	17,693,255	63,908,163
Future Gen	2010	**	**	0	9		40,652,288
Total						245,016,790	331,883,986

\* Generation Ranges from American Demographics

## Wine 9L Cases (Millions)



- 1989 – Average Boomer was 33.6 Years old
- Coolers and Lambrusco's were very popular.
- Light Beers were also very popular.
- Fighting Varietals were still in their infancy.
- The Fine Wine market was minimal.
- 2019 – Average Millennial was 33.2 years old.
- What should be expected of Millennials today?

## Wine Market Council Core Wine Drinkers (1X or more per week)

	2000 Data		2019 Data	
	Total	Core	Total	Core
TOTAL	5,379	593	5,662	1,163
21 - 29	1,244 23.1%	81 13.7%	874 15.4%	164 14.1%
30 - 39	836 15.5%	84 14.2%	1,075 19.0%	246 21.2%
40 - 49	946 17.6%	134 22.6%	1,003 17.7%	210 18.1%
50 - 59	760 14.1%	131 22.1%	1,050 18.5%	204 17.5%
60 or over	1,161 21.6%	163 27.5%	1,640 29.0%	339 29.1%
Total LDA Population		197,486,329		245,016,790
Core Wine Drinkers		21,771,592		50,327,539
Core Share of LDA Population		11.02%		20.54%

- Wine Market Council has been tracking consumer wine trends since the mid-1990's.
- Have comparable data between 2000 and 2019 on core wine drinkers.
- Drink wine more than once a week.
- Generally younger drinkers are more accepting of wine today versus 20 years ago.

## Wine Market Council High Frequency Wine Consumers

	iGen	Millennials	Gen X	Baby Boomers	74 Plus	Total
<b>LDA Population</b>	17.7	80.7	49.1	72.5	25.0	245.0
<b>Wine Drinkers</b>						
High Frequency	1.7	10.7	7.0	12.4	1.7	33.6
% of High Frequency	5.0%	32.0%	21.0%	37.0%	5.0%	100.0%
% of Generation	9.5%	13.3%	14.3%	17.1%	6.7%	13.7%

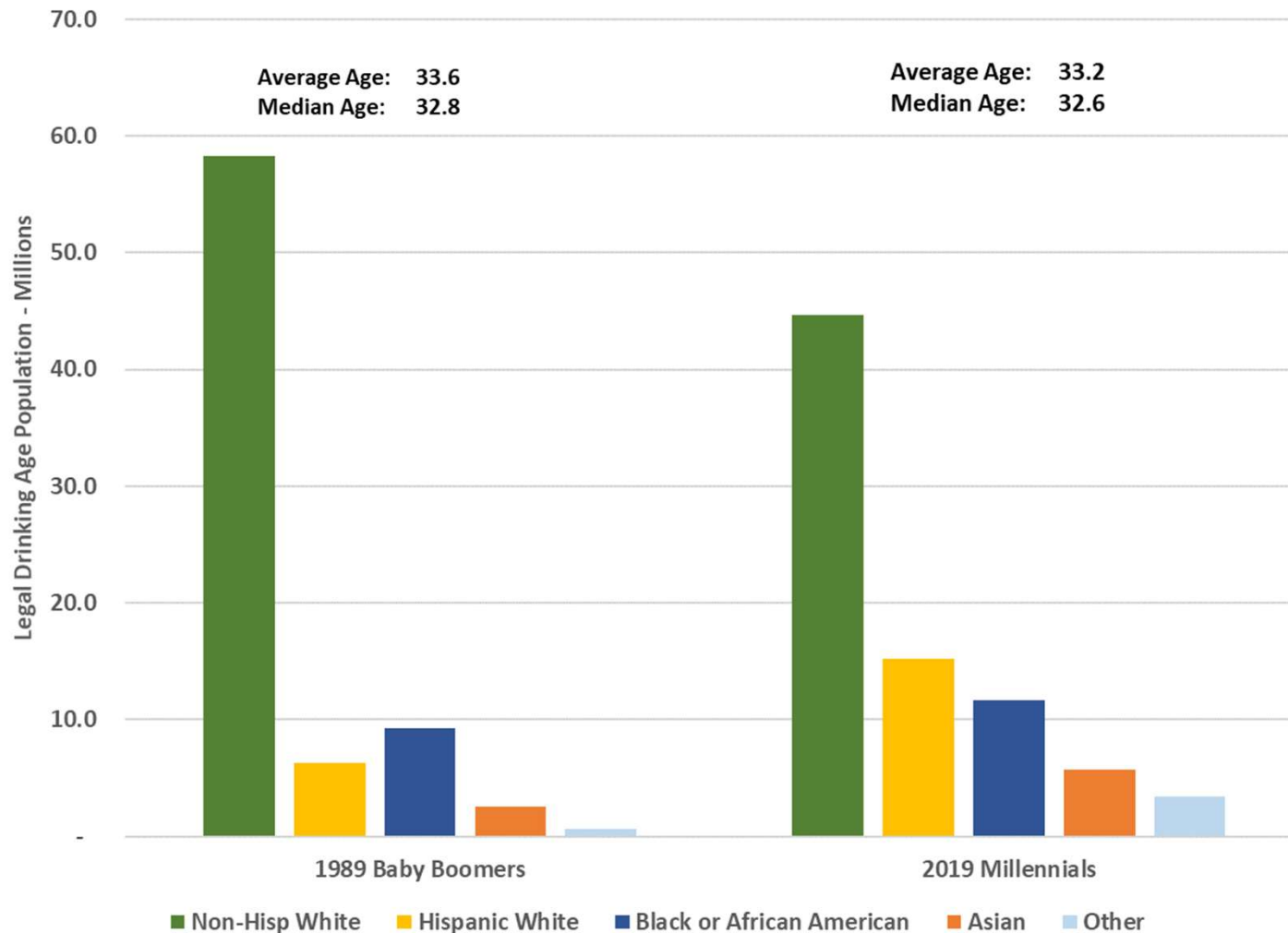
## Hypothetical Bottles per Year per High Frequency Consumer

Wine - Times / Week	2	3	4	5	6	7
<b>Glasses per Day - 5 Ounces</b>						
One	21	31	41	51	62	72
Two	41	62	82	103	123	144
Three	62	92	123	154	185	215

*High Frequency Wine Consumers drink wine more than once a week.*

- Data from 2019 survey
- Good news, adoption of wine by Millennials
- High frequency consumers can have vastly different annual consumption
- Convince more consumers to be high frequency wine consumers.
- Convince wine is appropriate for more occasions.
- Dining out and Branded Business.

## 1989 - Boomers vs. 2019 Millennials



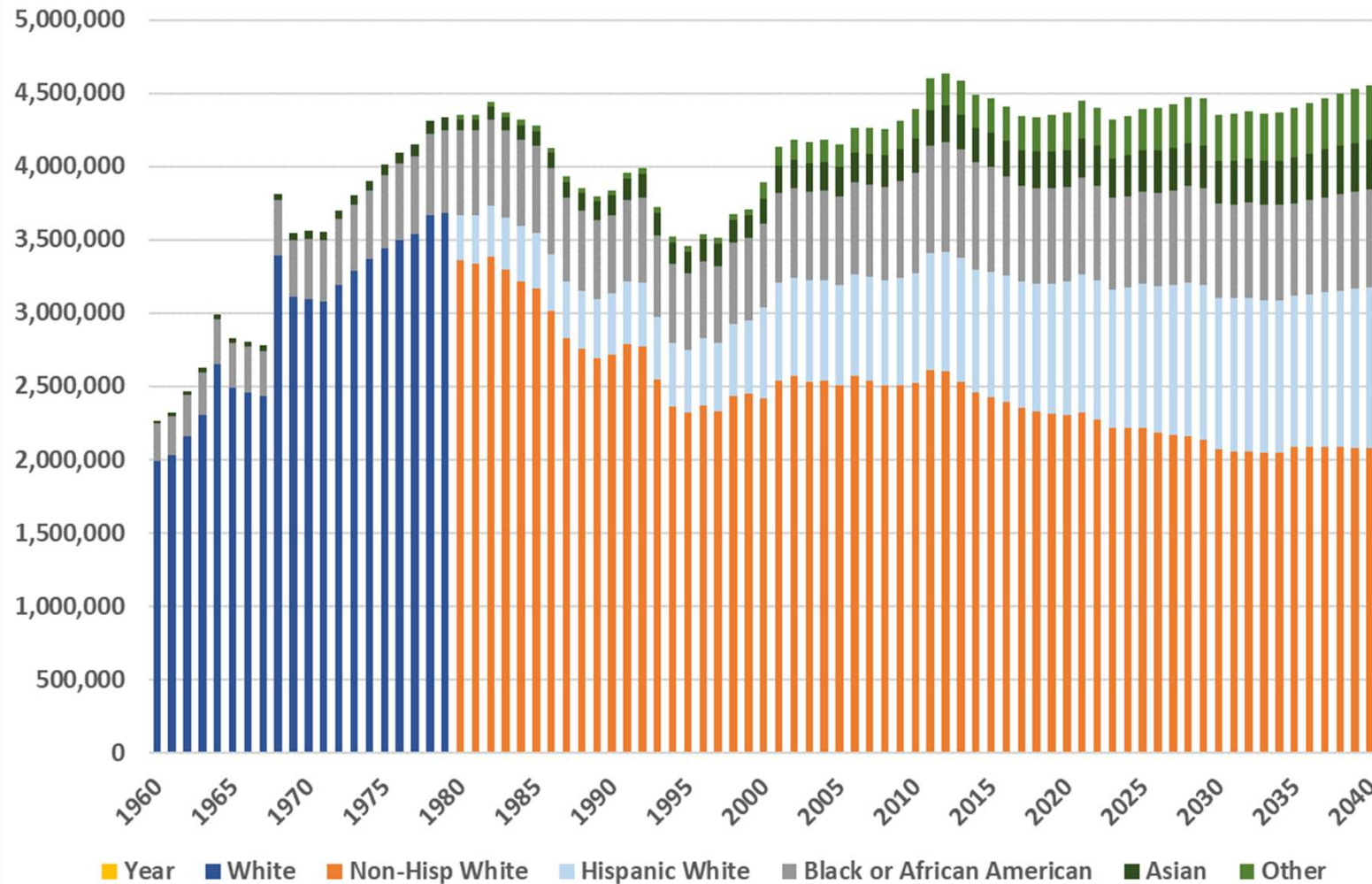
- Well accepted that Boomers have driven the growth of the wine market.
- Millennials are a more diverse generation.
- Marrying later.
- Buying houses later.
- Having Children later.
- Food types and dining have changed.

Trip Advisor Top 20 Restaurants in Davis California	Yelp Top 20 Restaurants in Davis California
1. De Vere's Irish Pub – Irish, Bar	1. Nugget Markets
2. Burgers & Brew – American, Bar	2. Sam's Mediterranean Cuisine - 14
3. The Mustard Seed – American (Open Table)	3. Tacqueria Davis - 8
4. Dos Coyotes Border Café – Mexican, Southwestern	4. Four Seasons Gourmet Chinese Restaurant
5. Osteria Fasulo – Italian (Open Table)	5. Zumapoke & Lush Ice
6. Paesano's – Italian	6. Blaze Fast-Fire'd Pizza
7. Mikuni Japanese Restaurant & Sushi Bar – Japanese, Sushi	7. Tommy J's Grill and Catering
8. Taqueria Davis – Mexican	8. Temple Coffee Roasters
9. Black Bear Diner – American, Diner	9. Tea List
10. Season's Davis – American (Open Table)	10. Tacqueria Guadalajara - 17
11. Sophia's Thai Kitchen – Asian, Thai	11. Zia's Delicatessen - 16
12. Woodstock's Pizza Davis – American, Pizza (Open Table)	12. Shah's Halal Food
13. Wok of Flame – Chinese, Asian	13. Fish's Wild Island Grill
14. Sam's Cuisine – Mediterranean, Middle Eastern	14. Village Bakery
15. Thai Nakorn – Asian, Thai	15. In-N-Out Burger
16. Zia's Delicatessen – Italian, Deli	16. Davis Food Co-op
17. Taqueria Guadalajara Grill – Mexican, Latin	17. Konditorei Austrian Pastry Café
18. Kathmandu Kitchen – Indian, Nepal	18. Chickpeas Kitchen
19. Dumpling House – Asian, Chinese	19. Raja' Tandoor
20. Zen-Toro – Japanese, Sushi	20. T-Kumi Ramen & Rice Bowl

- Napa is not comparable to most of the US
- Restaurant examples from Davis, CA.
- High end dining has changed.
- Great recession impact on fine dining.
- Many changes in the off premise as well.

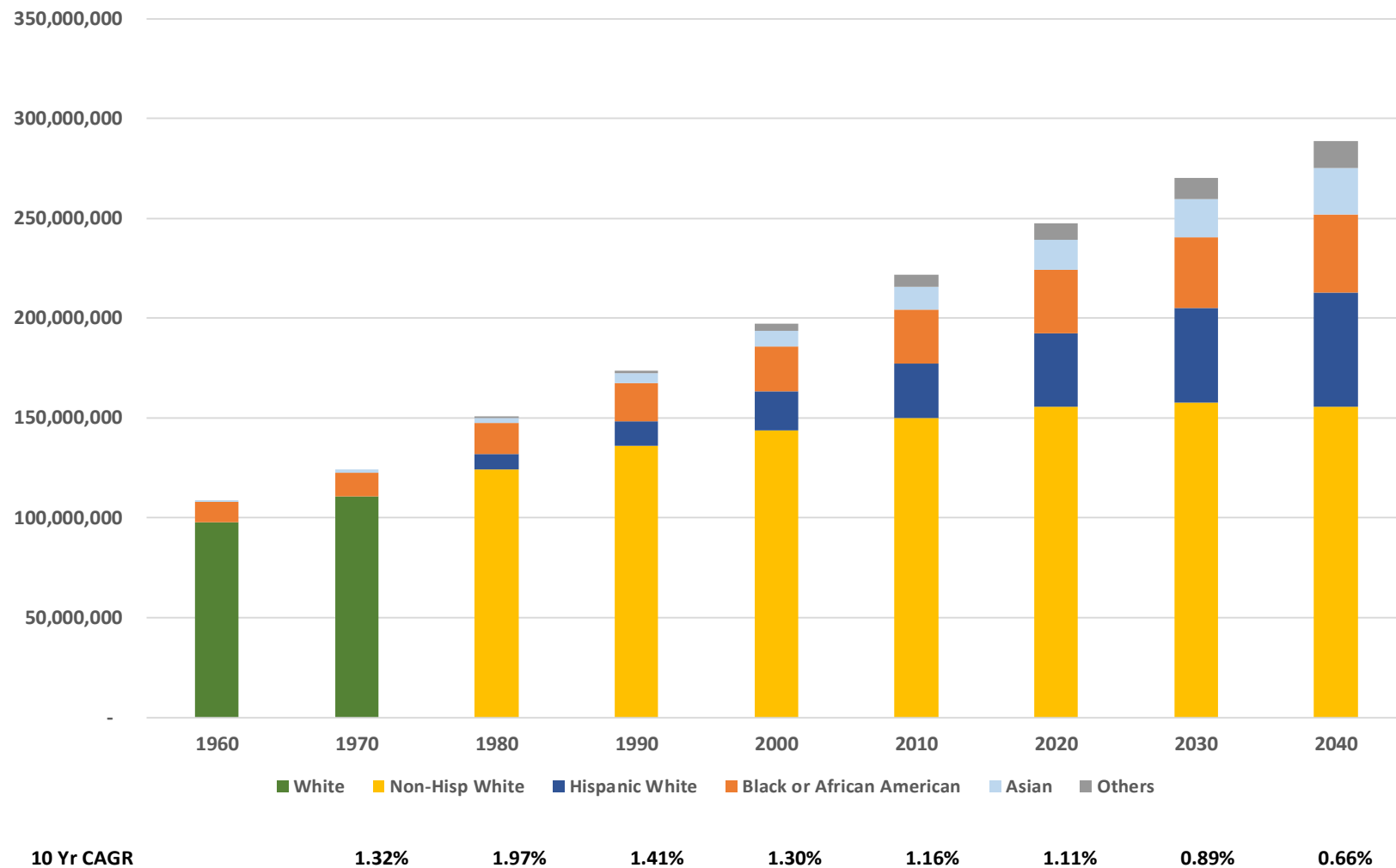


## 21 Year Olds by Year



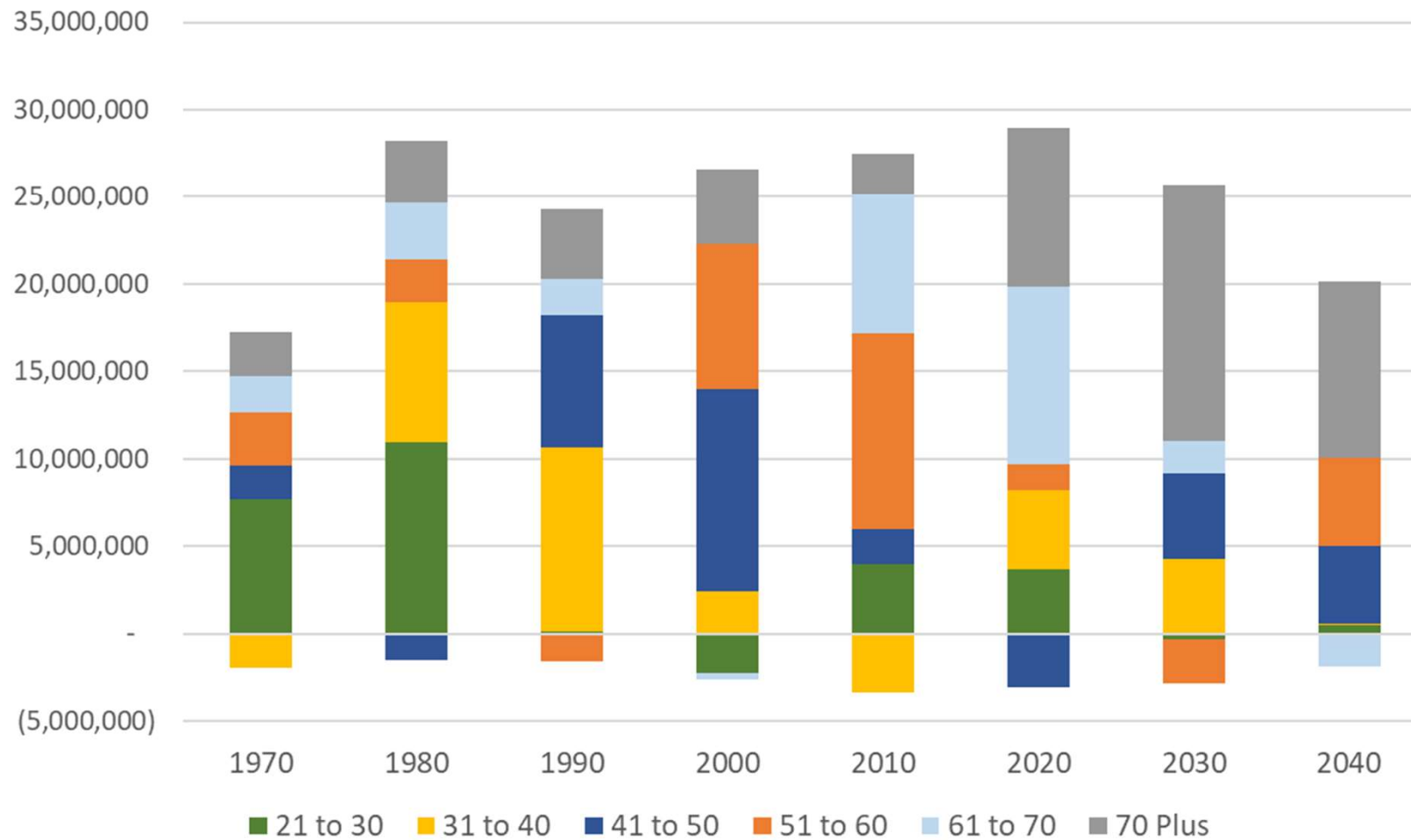
- Moving forward, the number of new legal drinking age adults is stable each year.
- Obviously will have different expectations over time but not likely a growth driver for Beverage Alcohol.

## US Legal Drinking Age Population



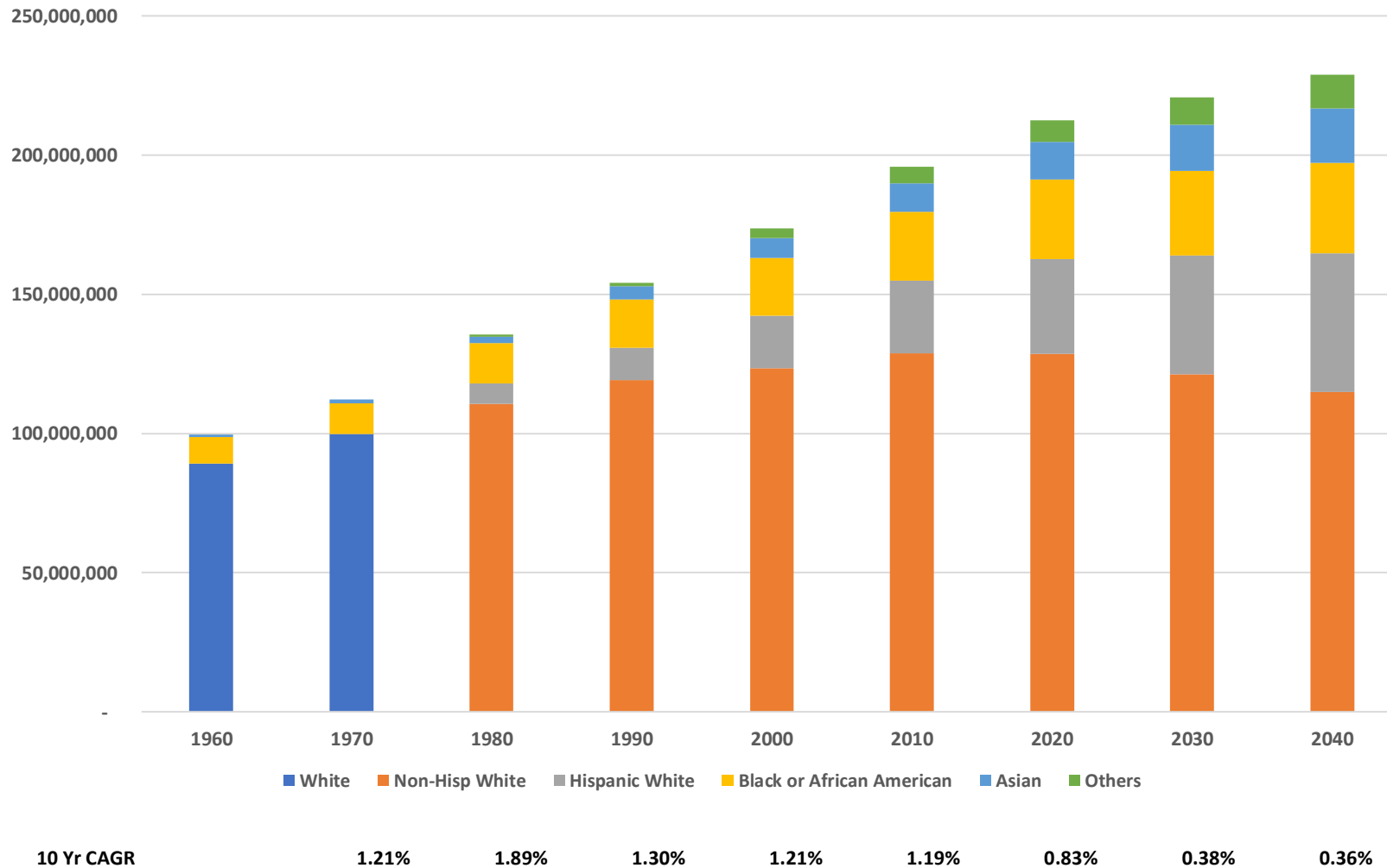
- Following comments on Population will have impacts across society and all consumer categories.
- Beverage Alcohol servings have grown in tandem with LDA growth.
- Slowing in LDA growth would indicate slowing of Beverage Alcohol servings growth.

## Ten Year Population Change



- Growth in LDA Population migrating to 70 Plus.

## US 21 to 70 Population



- Referenced earlier that LDA population growth had been 1.20% from 1993 to 2018.
- Servings of Beverage Alcohol growth had been 1.22% during this same period.
- Growth has likely been driven by population under 70.
- Much slower LDA population growth going forward to drive Total Beverage Alcohol growth.

# US Wine Trends

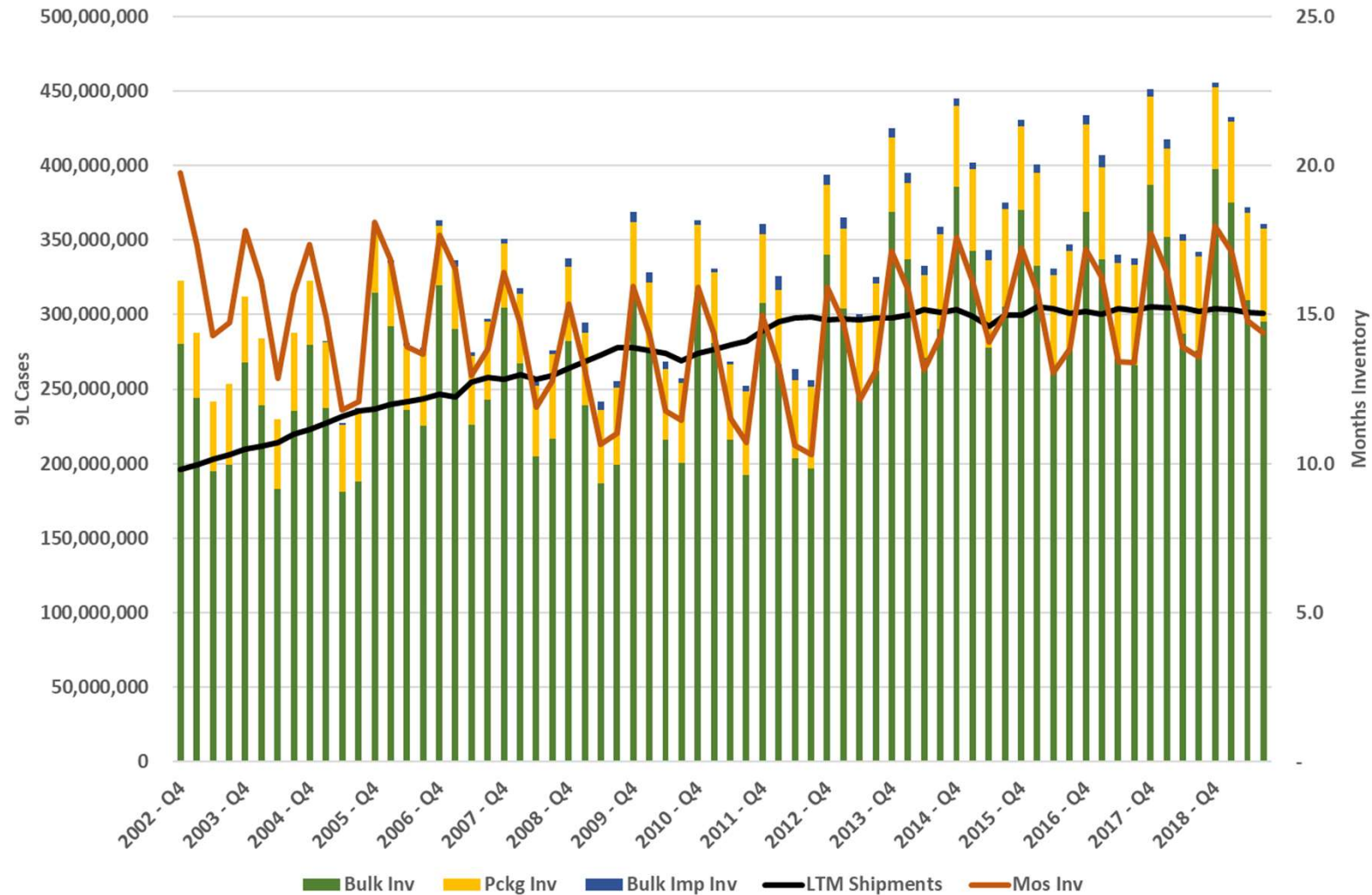
## California Wine Producers

## 2019 US Wine Market - Cases Millions

	2018	2019	Change
<b>Total Market</b>	404.6	409.1	4.5
<b>Components of Change</b>			
Domestic Still Wines			1.4
Domestic Sparkling Wines			0.2
Domestic Sangria / Coolers/ Other			(1.2)
Bulk Imports Bottled in US			(1.5)
Imported Still Wines			0.7
Imported Sparkling Wines			1.7
Imported Sangria / Coolers / Other			3.1
Total Change*			4.4
<i>* Variance due to Rounding</i>			

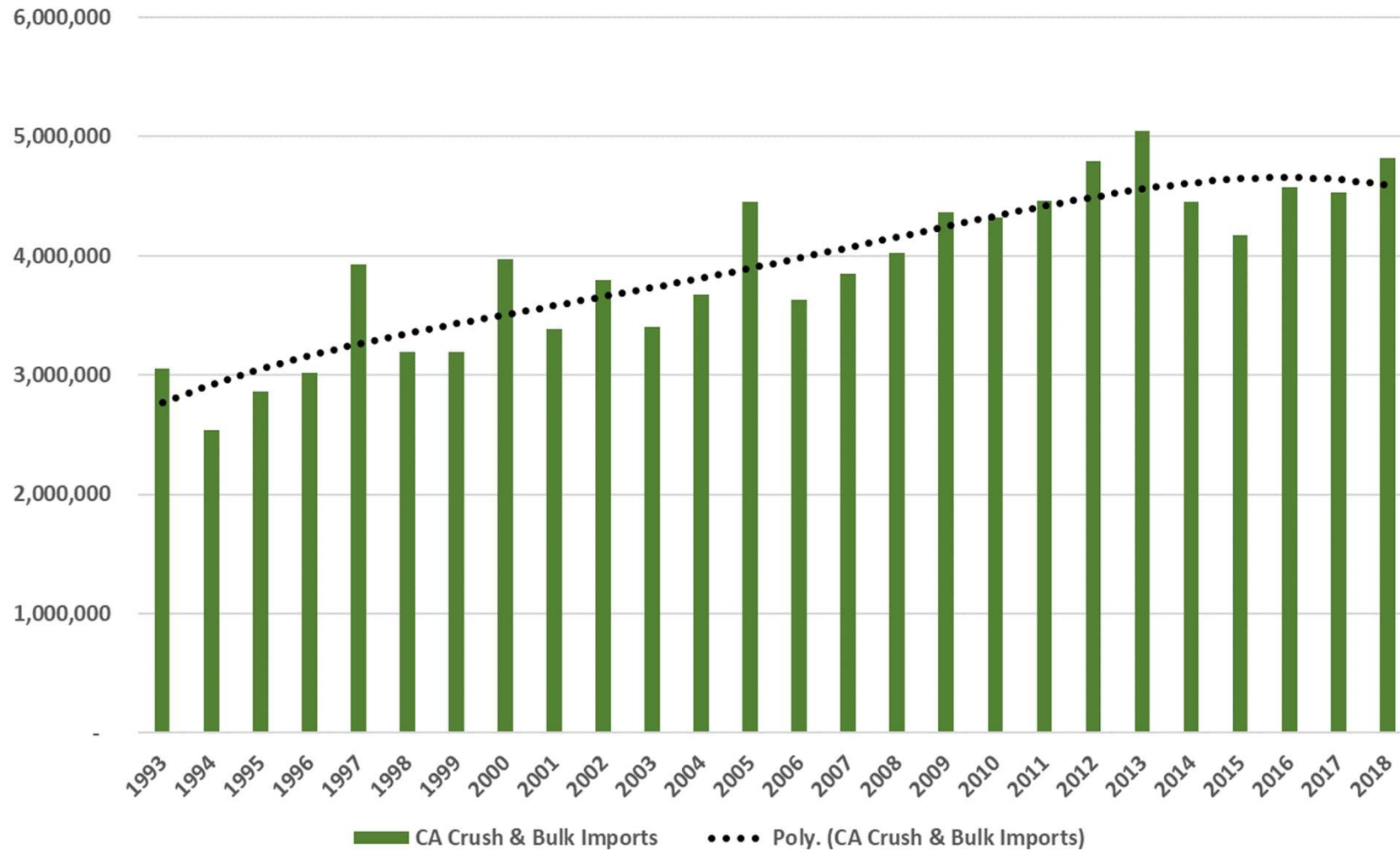
- Another year of slow growth.
- Growth driven by Imports
- Wine has been gaining share of Beverage Alcohol but growth has slowed to overall Beverage Alcohol trend.
- Hot categories
  - Prosecco
  - Champagne
  - NZ Sauv. Blanc

California Inventory, Shipments and Months Inventory



- Inventories are not an easy issue to solve.
- Compares LTM Quarterly CA shipments from GFA (Domestic & Export) with TTB CA inventory.
- As of September 2019 Industry had 14.4 Months of Inventory. Historically have 13.4 months so 1 month long.
- For a single winery not an issue but for the industry much more significant.
- With slow growth it is a 375K ton issue, 24 Million cases.
- This is roughly 8% excess inventory in the state.
- With slow market growth, a bigger issue. Trickle Down.

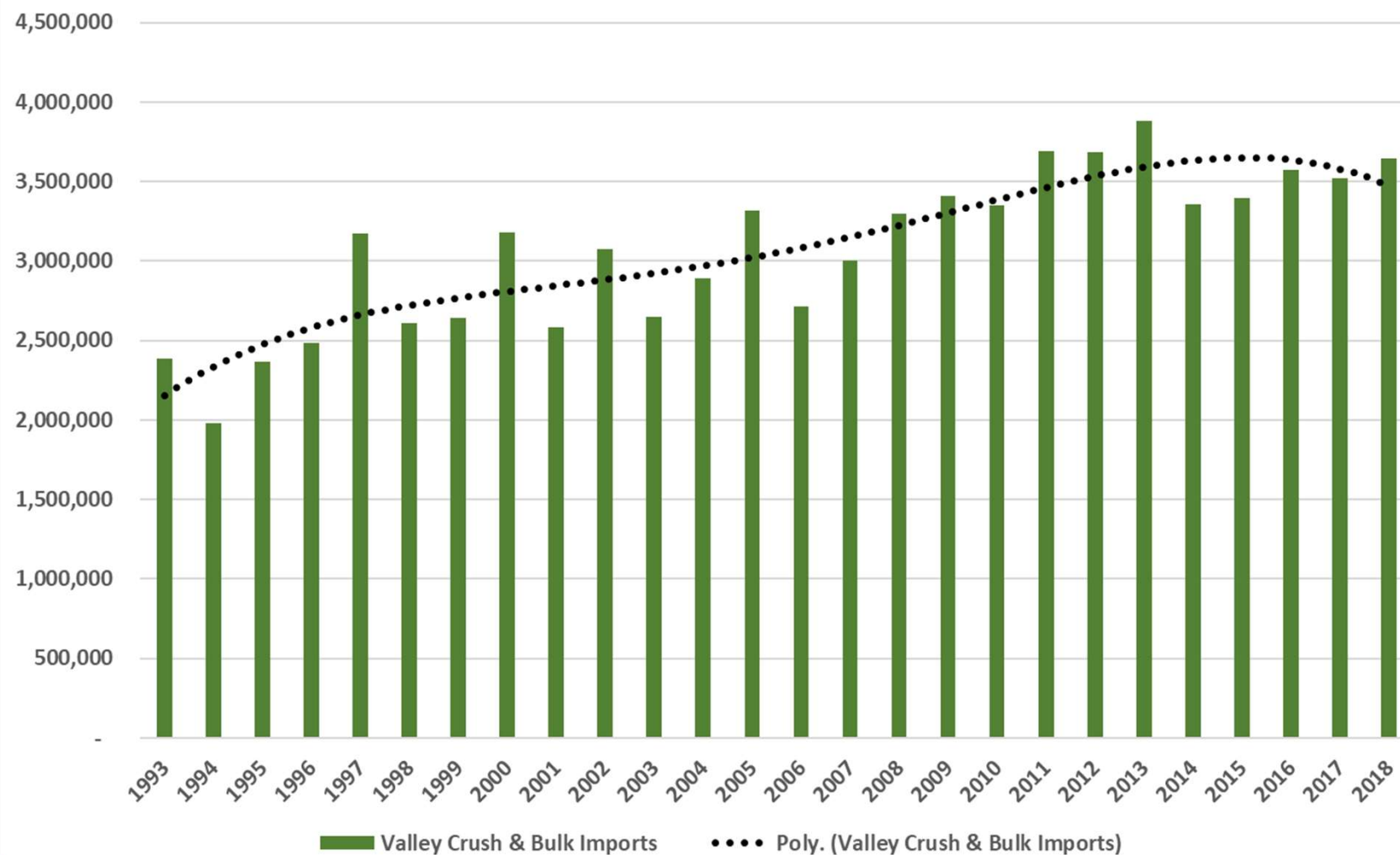
### Total California Crush & Bulk Imports - Tons



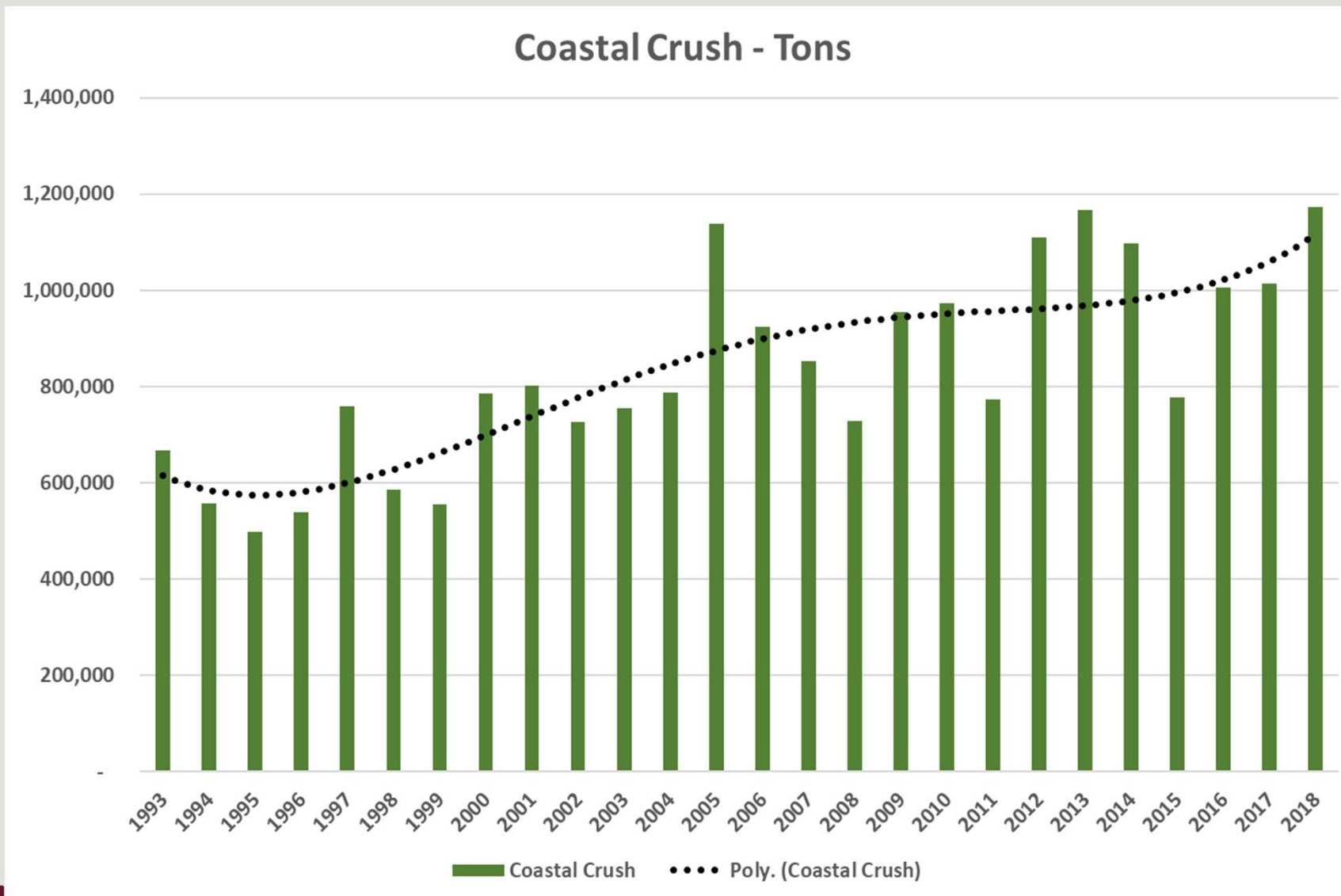
- To evaluate California Production, bulk imports needs to be considered.
- Over the past few years the industry has been reducing bulk imports which has moderated the trend on supply.



### Valley Crush & Bulk Imports - Tons

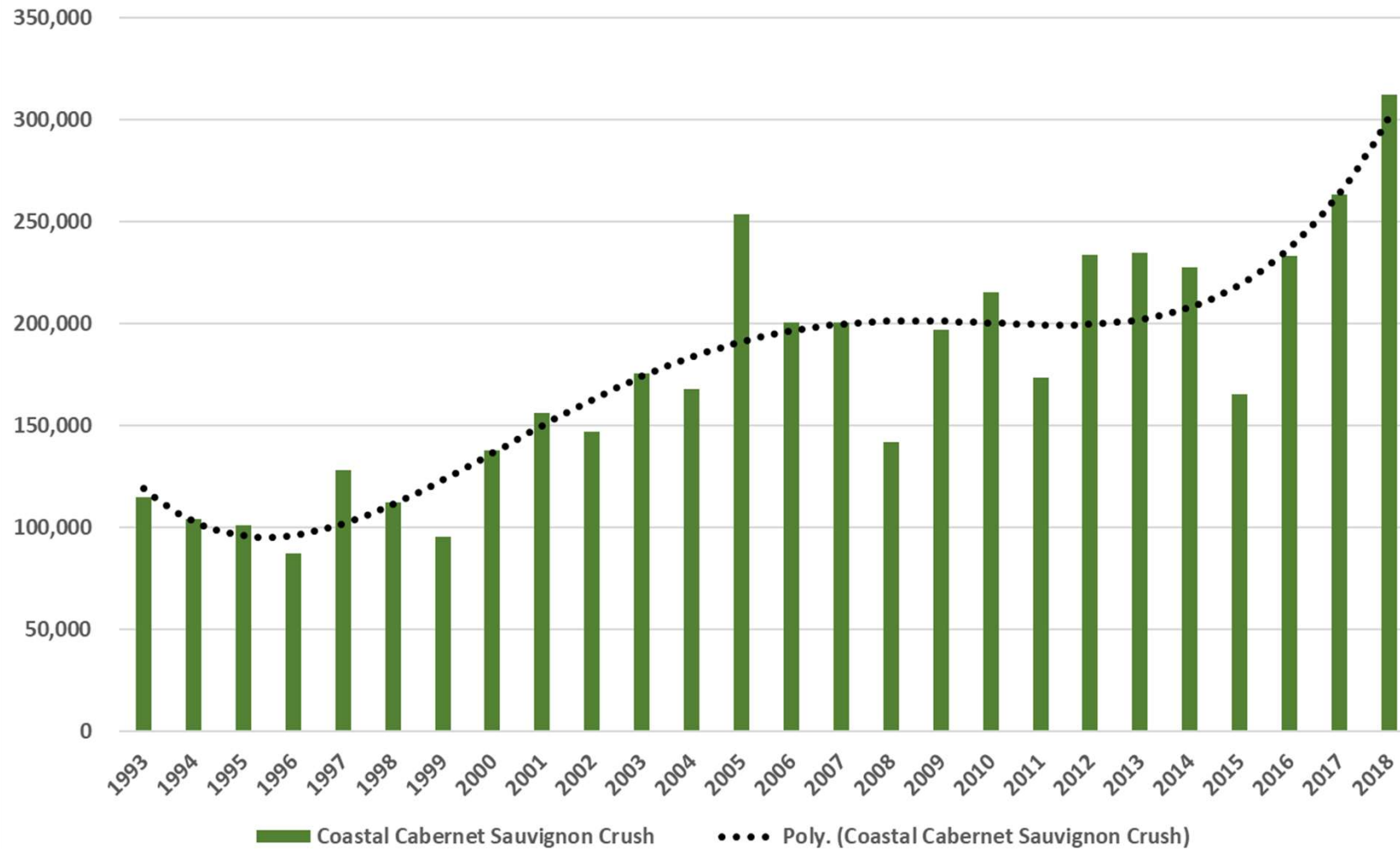


- The Central Valley is where most grapes are sourced supplying sub \$9.00 wines.
- These price points are showing slow declines.
- The industry has moderated the crush of these grapes but the 2018 vintage did drive somewhat higher inventories.
- Blending down of Coastal fruit will delay inventory balancing in the central valley.



- In Coastal areas the 2018 harvest was about 175K tons more than needed. 16% excess or 11 Million cases.
- These wines can be blended down to replace Valley fruit at significant cost.
- Wineries reduced intake in 2019 and likely may continue in 2020 to avoid the cost.

## Coastal Cabernet Sauvignon Crush - Tons



- The Cabernet crush has seen a significant uptick that is faster than overall sales trends.
- This is the most significant issue to address, but they are all significant if you are a grower and don't have any buyers.
- Will take until 2023 to work through without a short crop.

## Possibilities of Bulk Pricing

	Producer \$70.00 / Gal	Opportunistic \$16.00 / Gal
Bulk Wine - \$ 16.00 / Gallon	166.43	38.04
Wine Finishing	-	3.00
Packaging	20.00	14.00
Total Cost of Goods	186.43	55.04
Producer Margin - 50% / 30%	188.93	24.66
Federal Excise Tax	2.50	2.50
FOB Production Facility	377.85	82.20
Freight & State Tax	6.00	6.00
Distributor Laid In Price	383.85	88.20
Distributor Margin - 25%	127.95	29.40
Wholesale Price	511.81	117.60
Retailer Margin - 33.3%	255.90	58.80
Retail Price per Case	767.71	176.40
Retail Price per Bottle	63.98	14.70

*Note: \$7,500 / Ton Grapes = Grape Value of \$50.00 per Gallon*

- Napa Cabernet can be sourced on the bulk market for \$16.00 per gallon.
- Chart is sample of possible opportunistic products compared to the economics for a Napa producer.
- Will likely see negociant / private label Napa brands at \$15.00 to \$20.00 per bottle.
- Have seen these historically but market was growing at a faster rate.
- Will steal volume from existing \$15.00 to \$20.00 market
- Trickle-down impact will put pressure on wines from other regions.

# Closing Comments – MARKET SHARE

The US wine market is a 400 million + case market. Consumer Spending totals \$77 Billion.

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The industry has been fortunate to grow at a faster rate than Total Beverage Alcohol for 25 years. CAGR – 3.2% vs. 1.2%. Total Beverage Alcohol growing in line with LDA growth.

Per capita consumption of beverage alcohol flat for 25 years.

Wine share of Servings: 1960 – 7%, 1993 – 10%, 2019 – 17%. (30% share of retail spend)

Wine price per serving significantly higher than beer or spirits.

Highly fragmented category

Millennial concerns overblown, but different generation than Boomers

LDA population will present challenges

Current oversupply. 3 to 5 years to work through unless have a short crop similar to 2015.

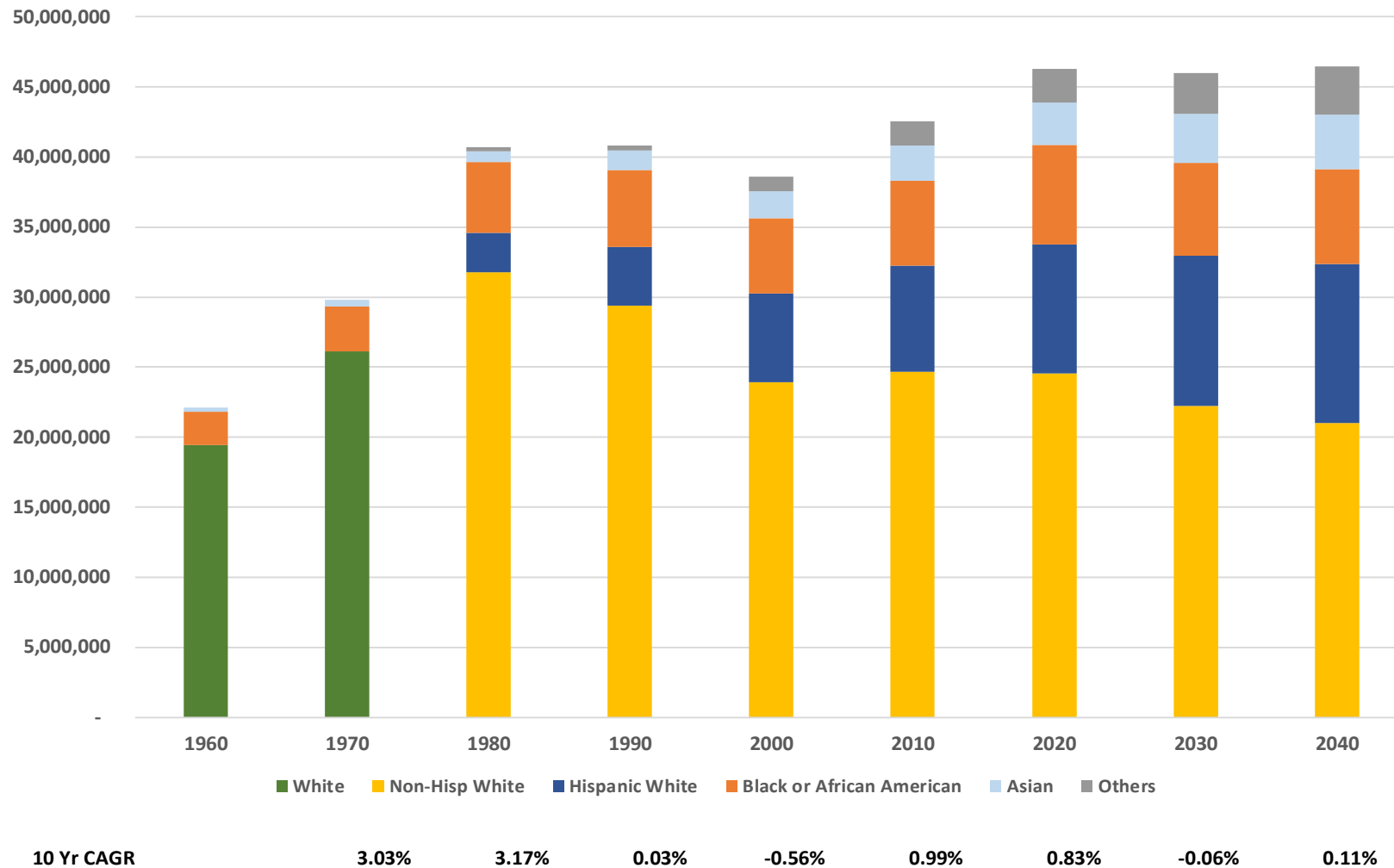
# Questions Discussion

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# Appendix

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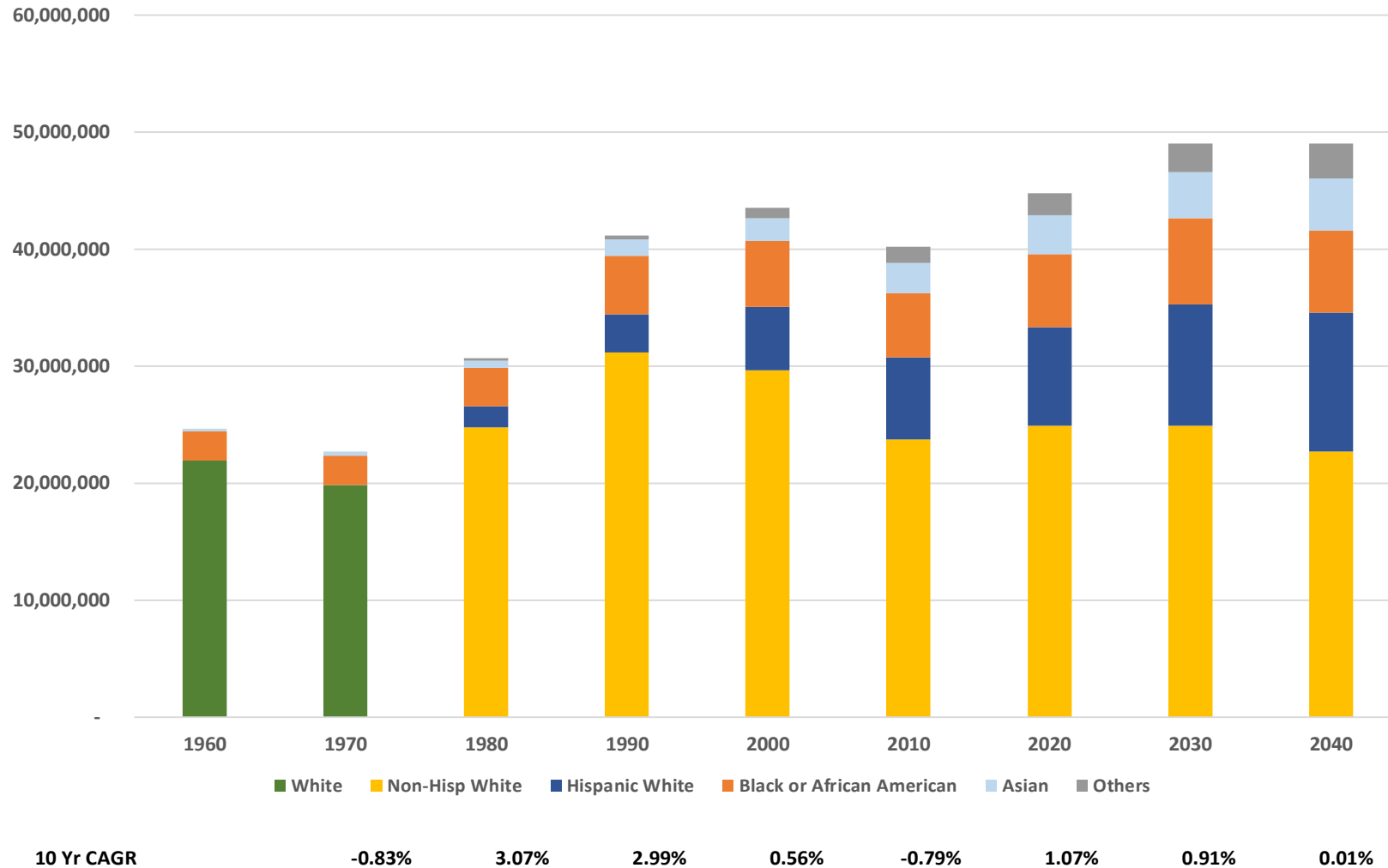
## US 21 to 30 Year Old Population



- Implication of lack of growth of Twenty Somethings.

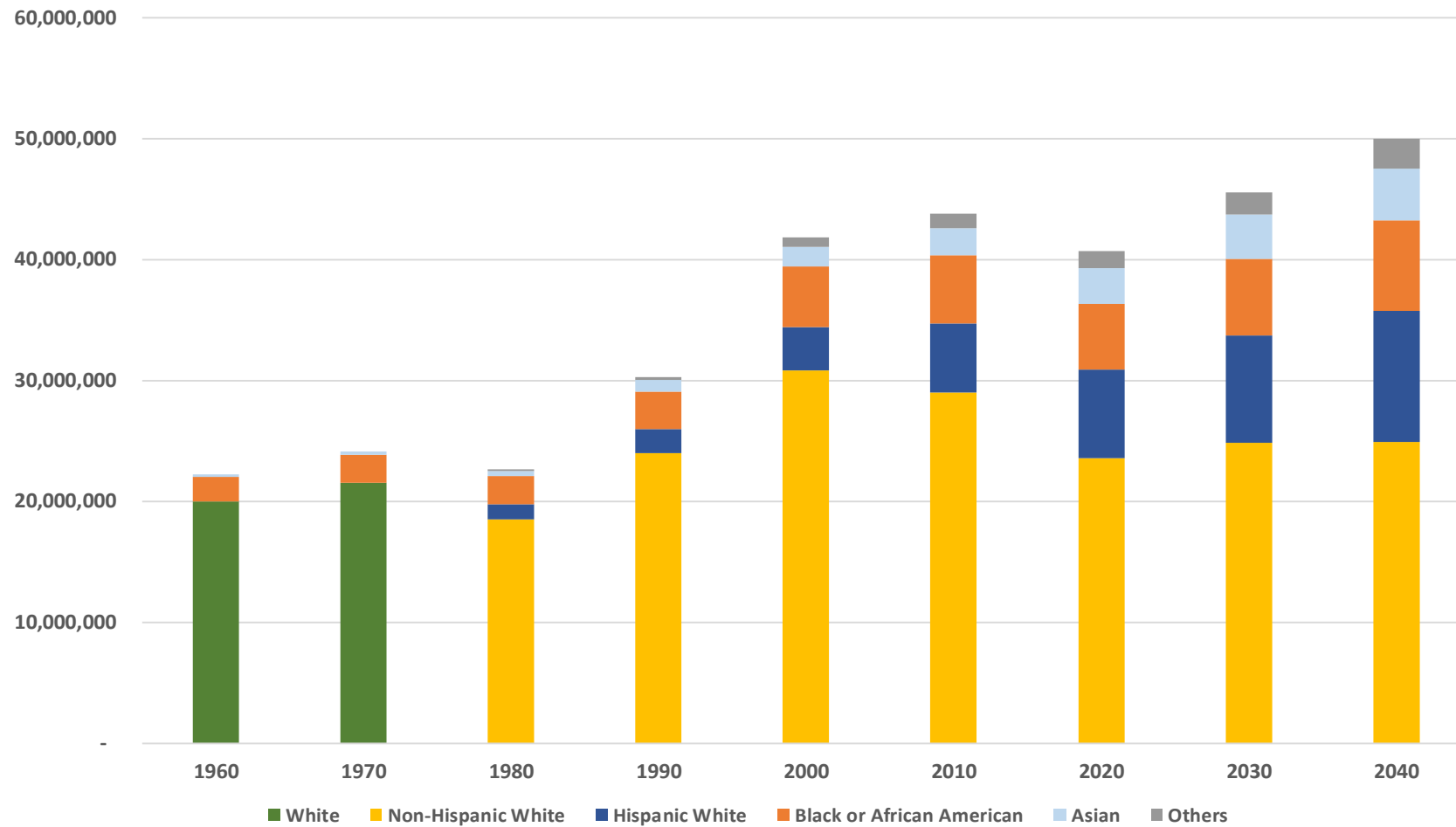


## US 31 to 40 Year Old Population



- Implication of slowdown of growth Thirty Somethings.

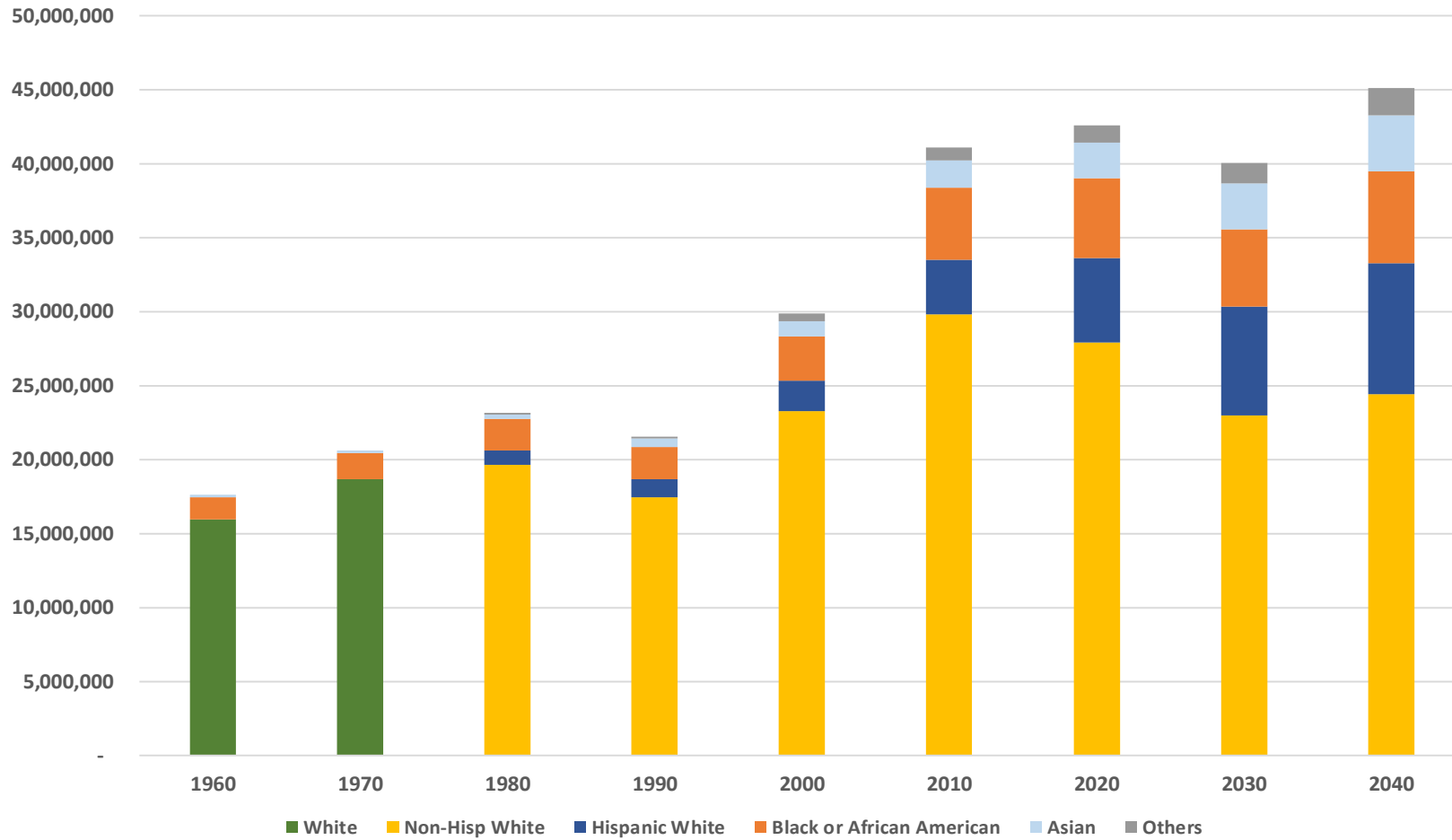
## US 41 to 50 Year Old Population



10 Yr CAGR      0.84%      -0.64%      2.94%      3.30%      0.46%      -0.73%      1.14%      0.94%

- Rebound of Forty Somethings.
- Increasing disposable income.

## US 51 to 60 Year Old Population



10 Yr CAGR

1.60%

1.14%

-0.71%

3.32%

3.24%

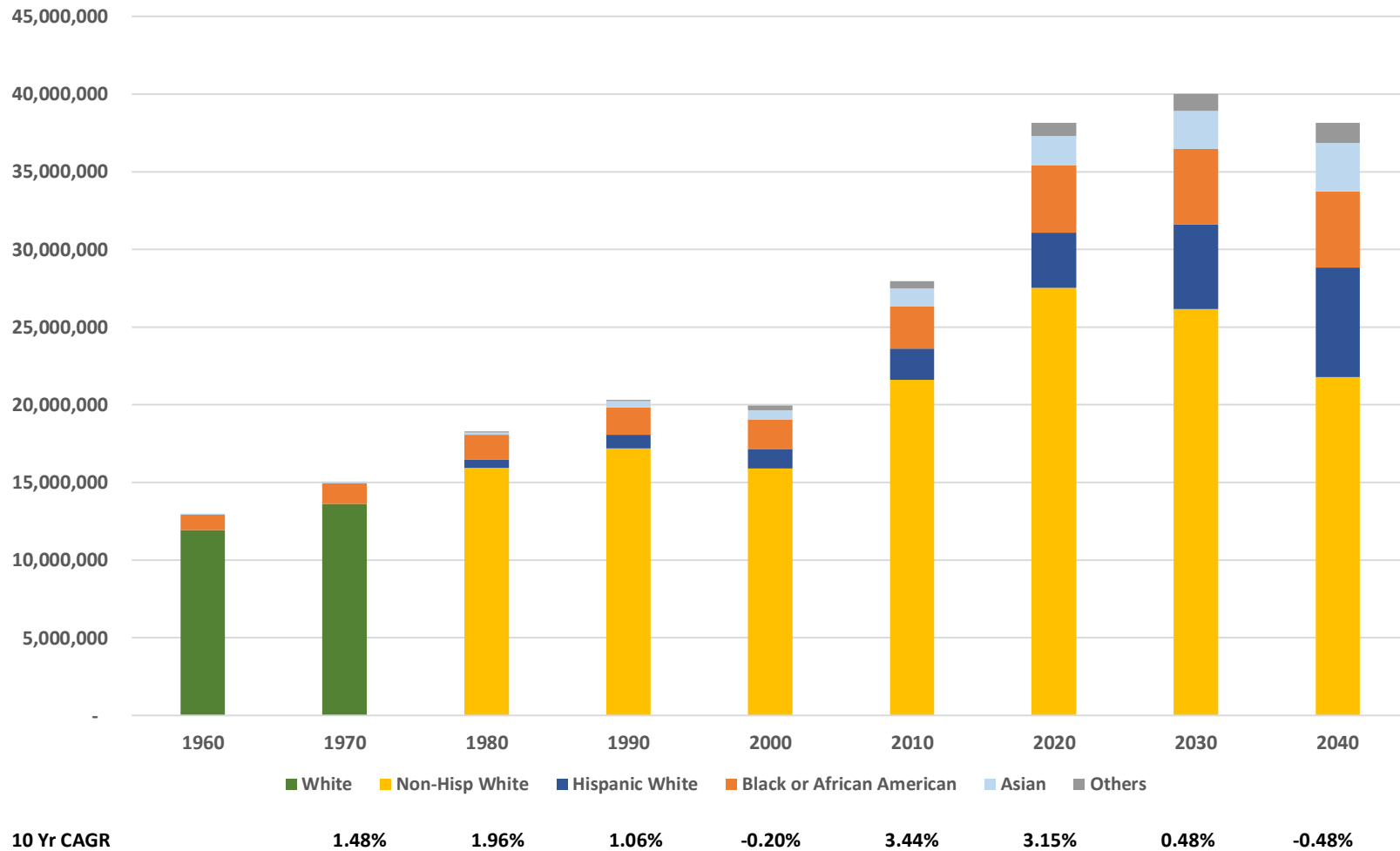
0.35%

-0.61%

1.19%

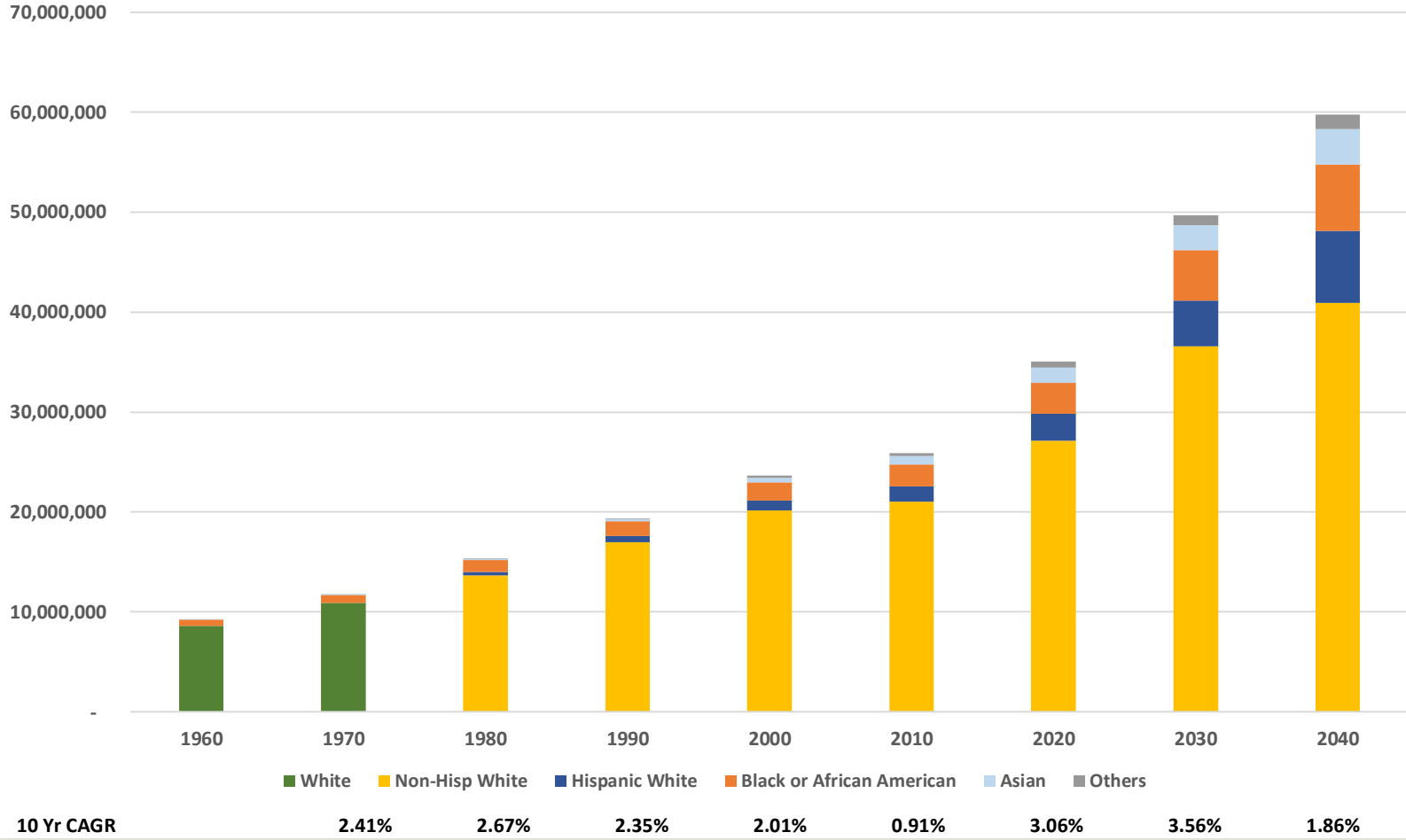
Temporary softness in  
Fifty Somethings.

### US 61 to 70 Year Old Population



Medium term growth in Sixty Somethings.

### US 71 Plus Population



- Largest LDA growth in Seventy Plus
- Implications for beverage alcohol.