MOMENTUM 2017

State of the Lake County Wine Industry

Information Provided By:

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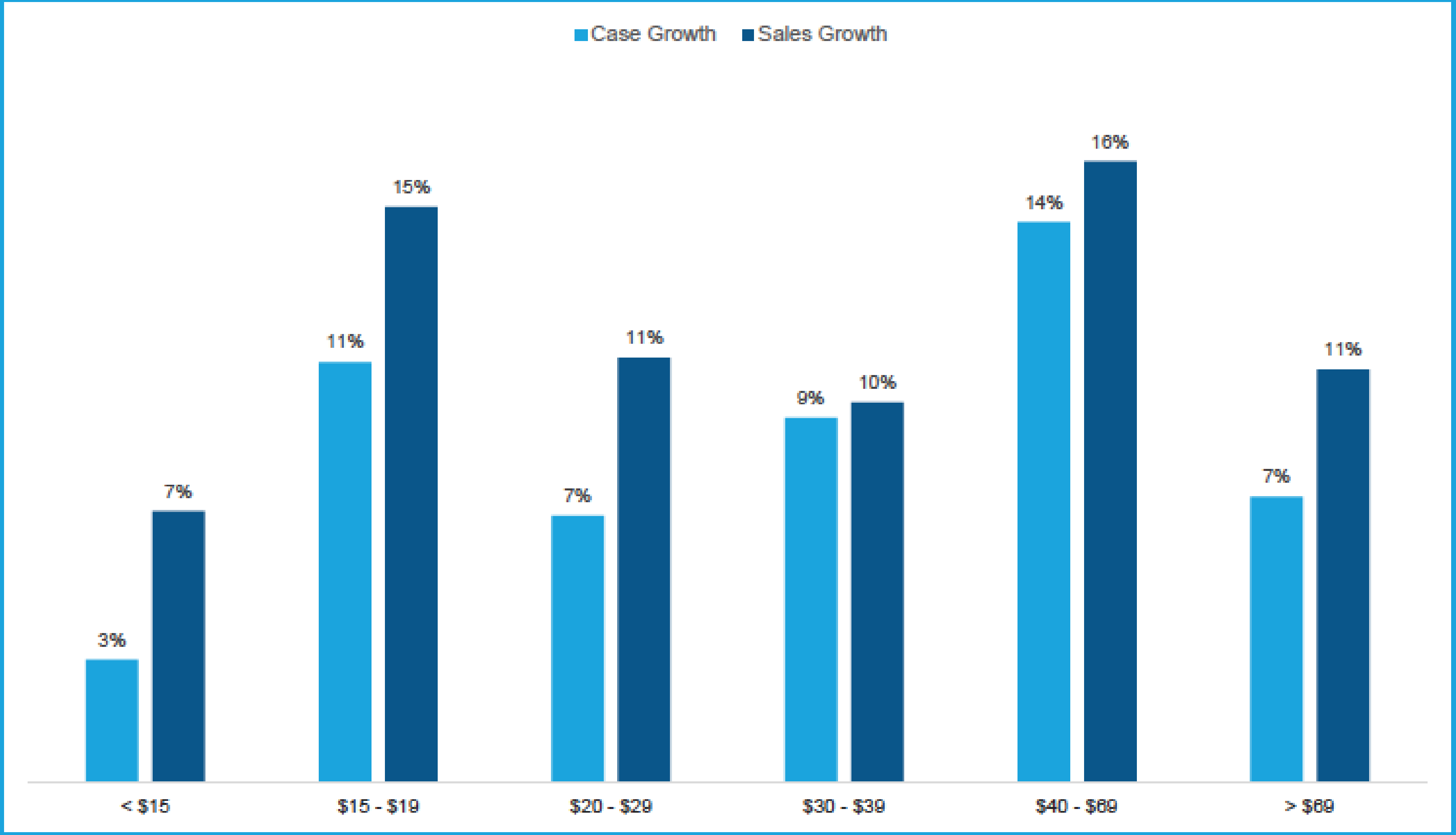
22 DEDICATED BROKERS IN 8 COUNTRIES

GLOBALLY BASED TO BUILD YOUR BUSINESS
WORLDWIDE

Market Dynamics

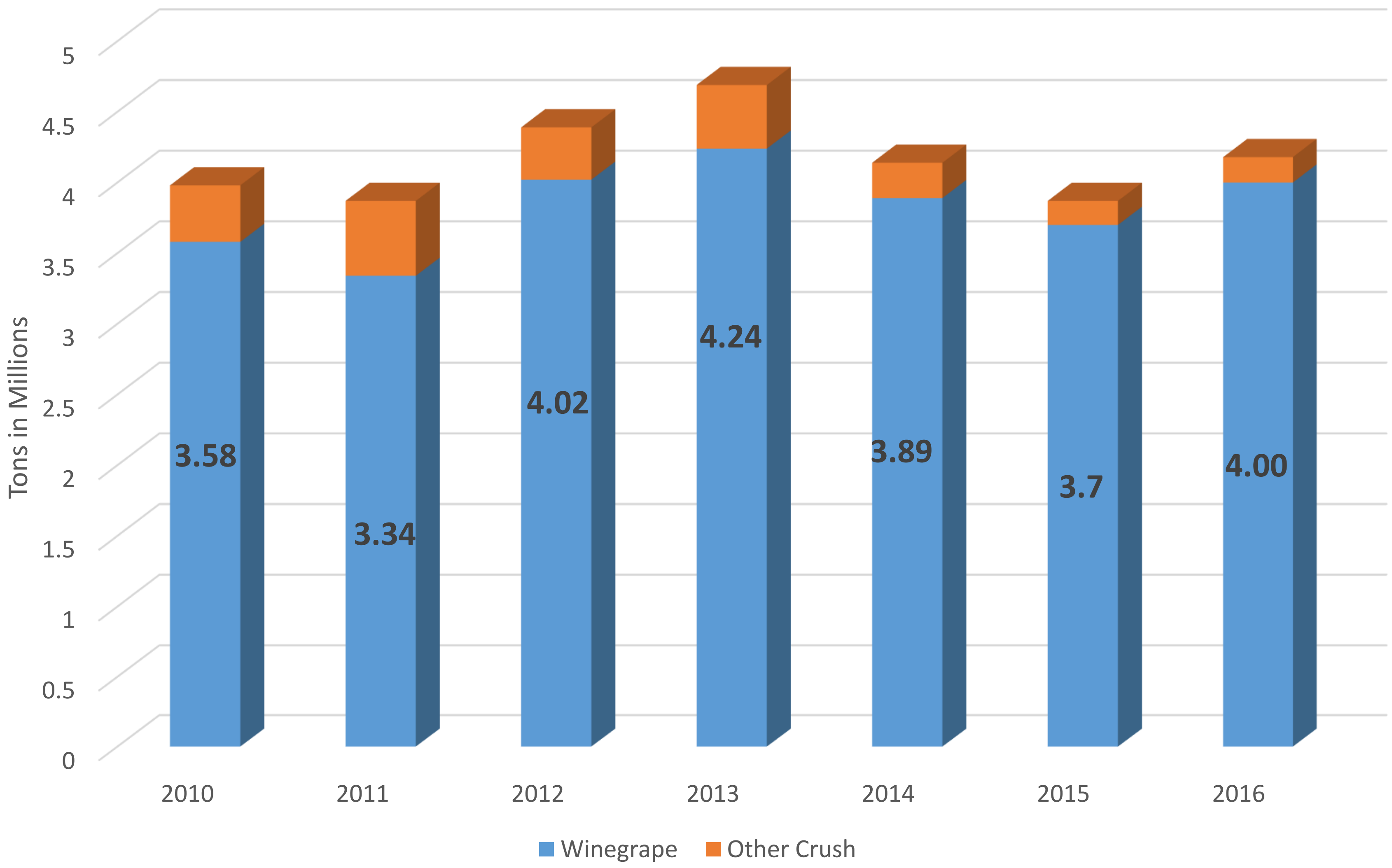
2016 Estimated Sales and Case Growth by Price Point

Excludes wineries < 5 years in business

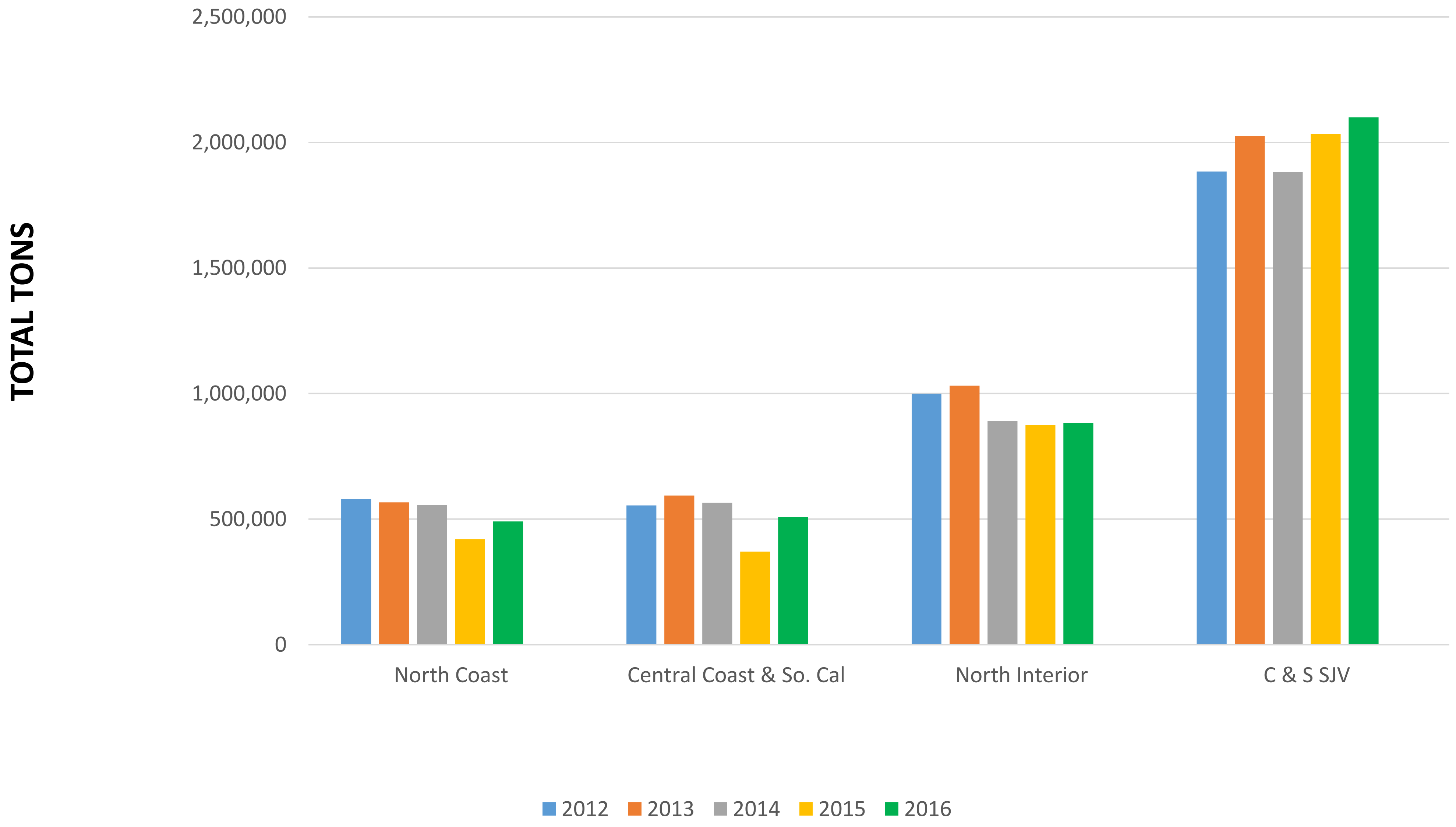


Source: SVB 2016 Annual Wine Conditions Survey

Statewide Grape Crush

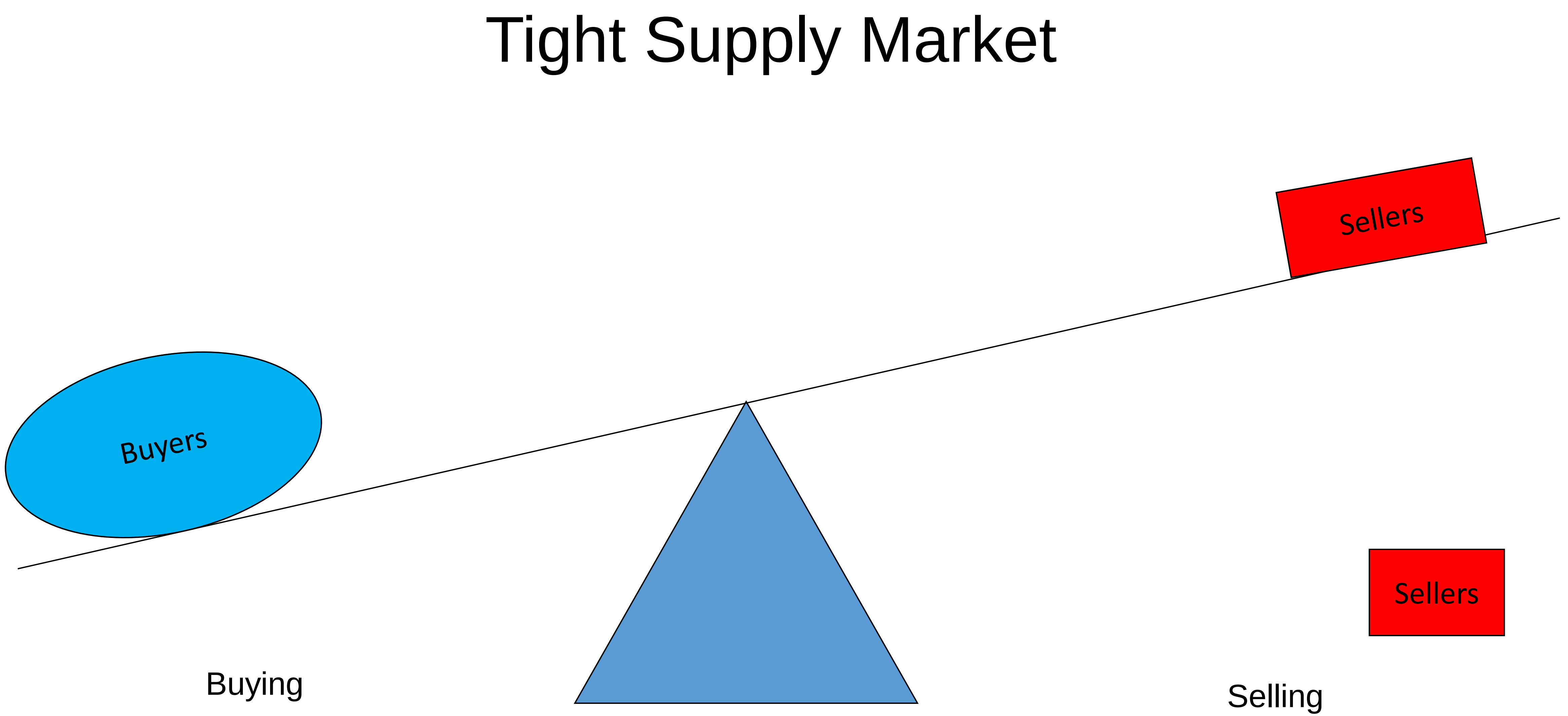


State Regional Total Tons



2016 GRAPE MARKET

North Coast Supply/Demand Dynamics



2017 Expected Grape Market

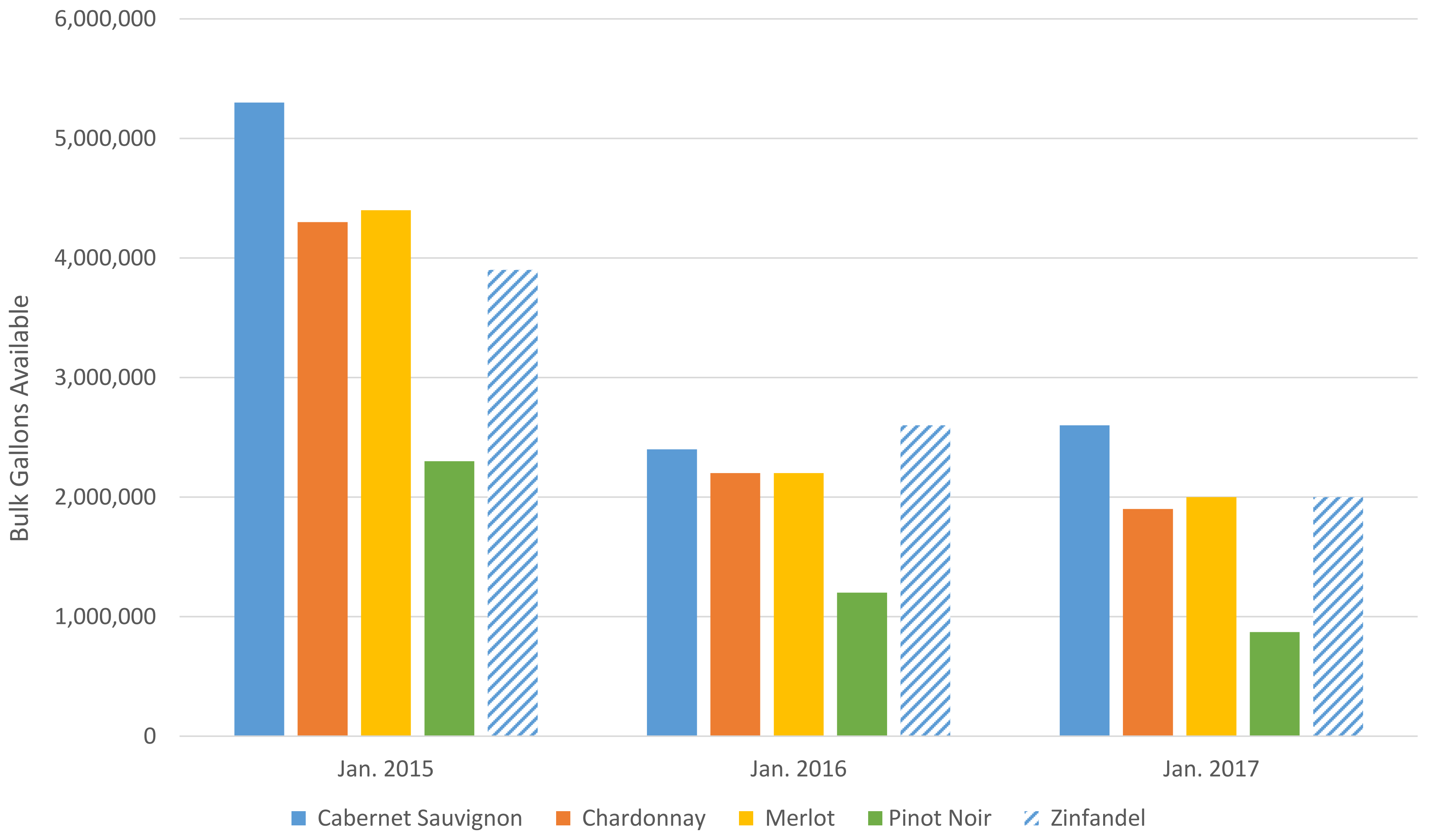
- Buyer activity has been early, very similar to last year
- Chardonnay, Pinot Noir, Cabernet Sauvignon all in high demand, Zinfandel lagging
- Sellers have been reluctant to commit early – waiting to better understand the market
- Limited number of open grapes – majority under long term contract
- Grape market should remain strong
- Buyers considering sourcing options because of availability and pricing constraints – Challenge to future demand?

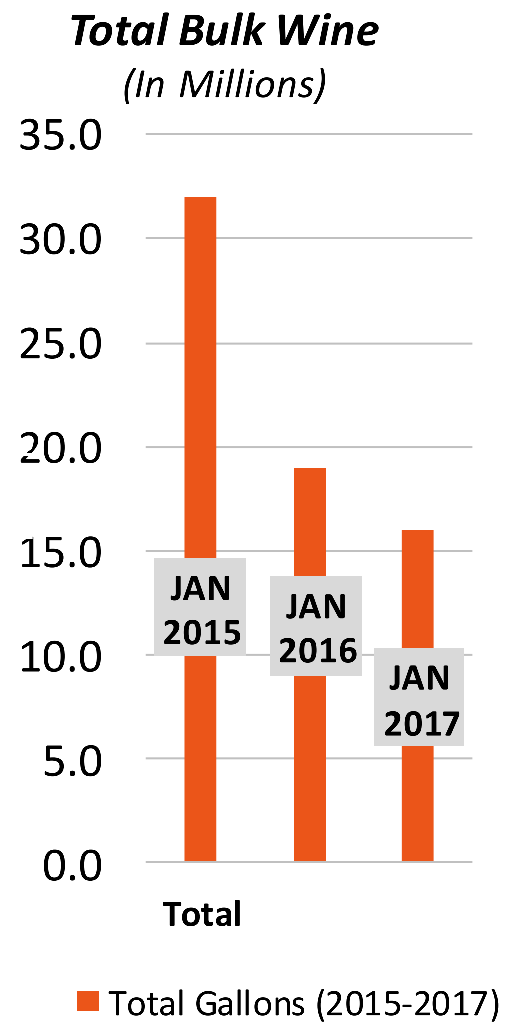
2016 Spot Market Grape Pricing

	Sonoma	Napa	**Lake / North Coast**
Chard	$1,700 – 2,700	$2,300 – 3,000	**$1,200 – 1,600**
Sauv Blanc	$1,500 – 1,850	$2,000 – 2,700	**$900 – 1,500**
Cab Sauv	$2,800 – 3,800	$4,700 – 9,000	**$1,900 – 3,000**
Pinot Noir	$2,700 – 4,800	$2,800 – 3,800	**$1,900 – 2,600**
Merlot	$1,650 – 2,000	$2,800 – 3,700	**$1,300 – 1,700**
Zinfandel	$2,400 – 3,000	$3,600 – 4,500	**$1,400 – 1,800**

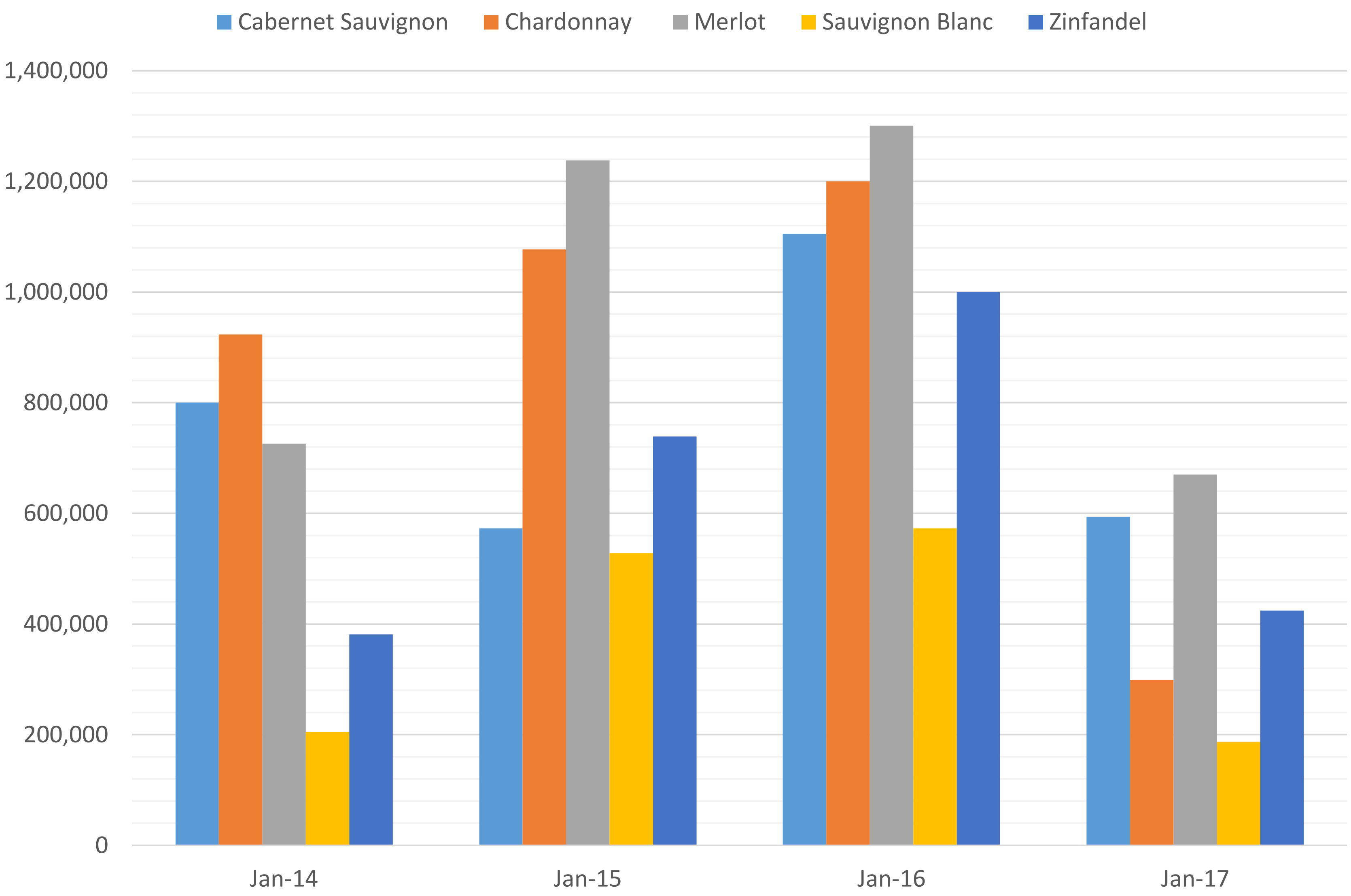
BULK MARKET

California Bulk Wine Inventory





NORTH COAST BULK WINE INVENTORY 2014 - 2017



Current North Coast Bulk Market:

- CH – high demand for RRV and other areas (MENDO/LAKE!!)
- SB – Large demand, Light 2015 and 2016 crops hinder availability… 2016 Lake County was different
- ME – Older vintages mostly gone; moderate demand for current
- ZN – Large 2013 vintage still looms; bulk market slow
- PN – Short in all areas of CA
- CS – High Demand, especially Sonoma & Napa. Napa may have peaked in Q2 2016

Bulk Market

- Overall balanced market statewide.
- 2016 crop helped (some) after a severe shortage from 2015 crop.
- Challenge for buyers to find the right wine at the right price from the right appellation.
- After three years of larger harvest and expanding premium programs from available bulk, the short 2015 crop flipped the dynamics
- Q1 2016: Depleted bulk inventories and prices shot up almost over night
- "The Pendulum Never Swings Slowly"
- Buyers feel they're paying too much. Sellers feel they're selling too cheaply.

Bulk Market Pricing

	INTERIOR	COASTAL	SONOMA	NAPA
CHARDONNAY	$3 - 5 $5 - 8	$7 - 9 $10 - 14	$9 - 15 $15 - 20	$10 - 14 $15 - 20
SAUV. BLANC	$3 - 5 $6 - 8	$5 - 8 $8 - 11	$6 - 8 $12 - 15	$7 - 10 $14 - 28

$PRE HARVEST 2015 PRICES

$PRE HARVEST 2016 PRICES

Bulk Market Pricing

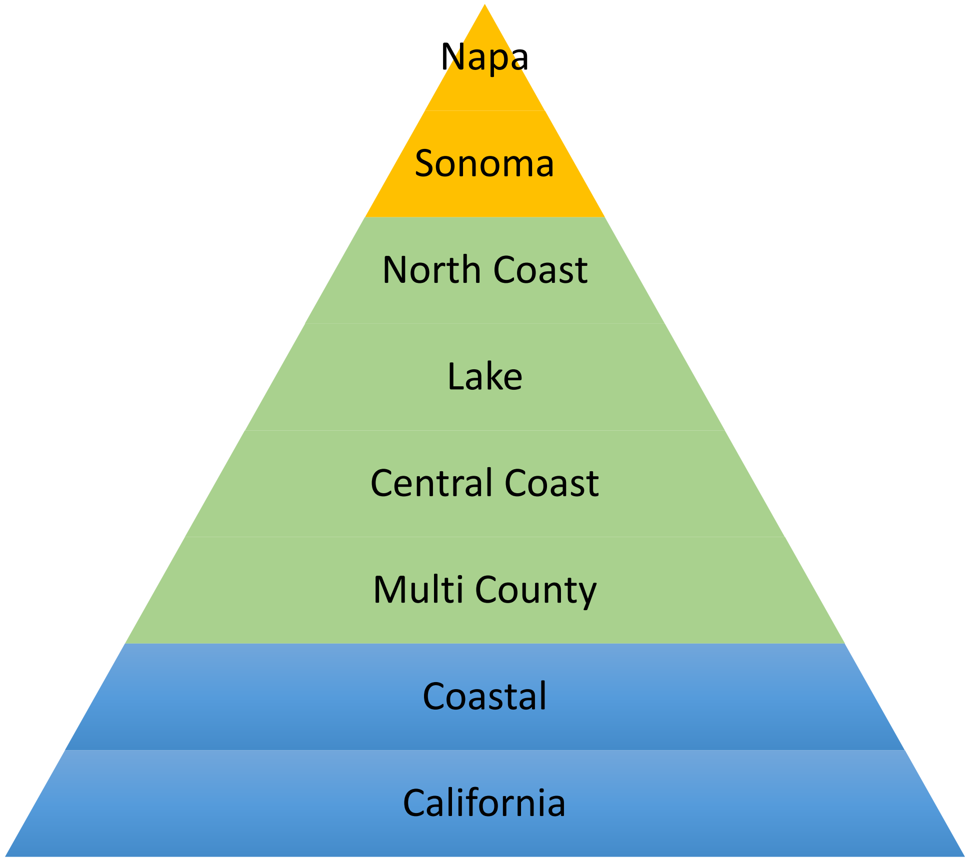
	INTERIOR	COASTAL	SONOMA	NAPA
CAB SAUV	$6 - 8 $7 - 10	$11 - 16 $15 - 20	$21 - 26 $24 - 32	$32 – 40 $38 - 50+
MERLOT	$3 - 5 $5 - 7	$6 - 8 $9 - 13	$8 - 14 $13 - 17	$13 - 18 $22 - 27
ZINFANDEL	$5 - 7 $7 - 9	$7 - 11 $12 - 16	$14 - 18 $16 - 22	$15 - 20 $20 - 25
PINOT NOIR	$6 - 8 $7 - 10	$9 - 14 $15 - 18	$15 - 23 $24 - 32	$16- 20 $20 - 28

$PRE HARVEST 2015 PRICES $PRE HARVEST 2016 PRICES

Brand Adjustments Thoughts

- New and Vibrant Supply Market
- Wineries Rationalizing Supply & Brand Positioning
- Maintain Margin/Brand Growth
- <u>Options Considered</u>
  - Raising Bottle Price – Limit Sales Growth
  - Adjust Sourcing Strategy
  - New Premium Brands with California sourcing
- Competitive Wine Market
  - Top 7 account for 73%

Appellation Migration



Summary / Conclusion

- New and Vibrant Market Place
- All brands looking to getting creative in their sourcing to find a sustainable margin
- Grape Pricing: looks stable into the future.
- But there's a ceiling and "no trees grow to the sky"
- Is this an opportunity for *more* premium imports?
- New World "appellated" wines may be seen as new and interesting…again to fill a gap in the premium sector

Ciatti Reports / Publications

- California Market Report
- World Report- included in your packet
- www.ciatti.com

THANK YOU

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