

Danny Brager

WINE INDUSTRY
Financial
SYMPOSIUM

State of the Business

November 16 & 17, 2022

CIA @ Copia, Napa



State of the **B**usiness

Bifurcated

Blurry



AZUR
ASSOCIATES



IT'S THE CONSUMER IN CHARGE, & CHANGING!!!

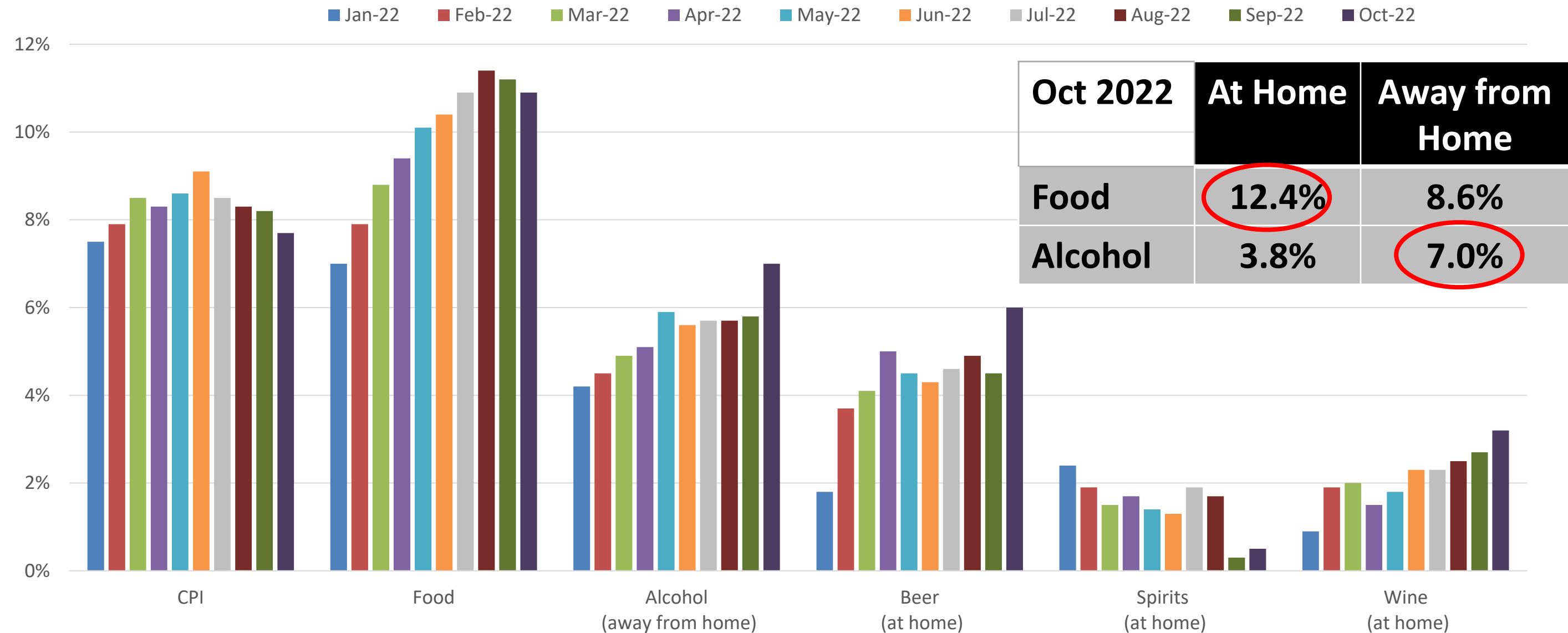
1	Total Beverage	▶	Growing cross category drinking/blurring of lines		
2	Experience	▶	Authenticity; Discovery; Entertainment		
3	Flavors	▶	Flavor seekers		
4	Convenience	▶	Shopping/buying	Right pack type/size	
5	Wellness – for ‘me’ & ‘we’	▶	Healthier choices/ desire for transparency	Sustainability/CSR	
6	Trading up	▶	Drinking “better” – inflation impact?		
7	Demographics	▶	Gender	Age/Generation	Multi-cultural

A few measurement sources referred to today

		 WINES VINES ANALYTICS 
Retail sales scan data: selected <u>off premise</u> selected channels	3 tier depletions; Wine & Spirits both <u>off and on trade premise</u> channels	Direct to consumer WINE shipments – projected to TOTAL DtC shipments
<ul style="list-style-type: none"> • Food, Drug, Mass Merch, Club (excl Costco), Military • Liquor (8 state/market geographies & 20 Liquor chains) • Convenience 	Breakthru, Columbia, Fedway, Great Lakes, Heidelberg, Henry A Fox, Kentucky Eagle, Lipman, Major Brands, Martignetti, RNDC/Youngs, Southern Glazers, Virginia Imports	Aggregate of... <ul style="list-style-type: none"> • online orders placed at Winery website • winery wine club shipments to their members • tasting room purchases shipped to consumers
Coming in 2023: <ul style="list-style-type: none"> • California Liquor channel • Omni channel reporting 	Coming in 2023: <ul style="list-style-type: none"> • Several more wholesalers • Additional region/subregion reporting • Custom reporting 	

WITHIN BEV ALC, BEER PRICING LEADS, WELL AHEAD OF WINE & SPIRITS, BUT WELL BELOW OVERALL INFLATION

Inflation Rates by category (2022 by month)

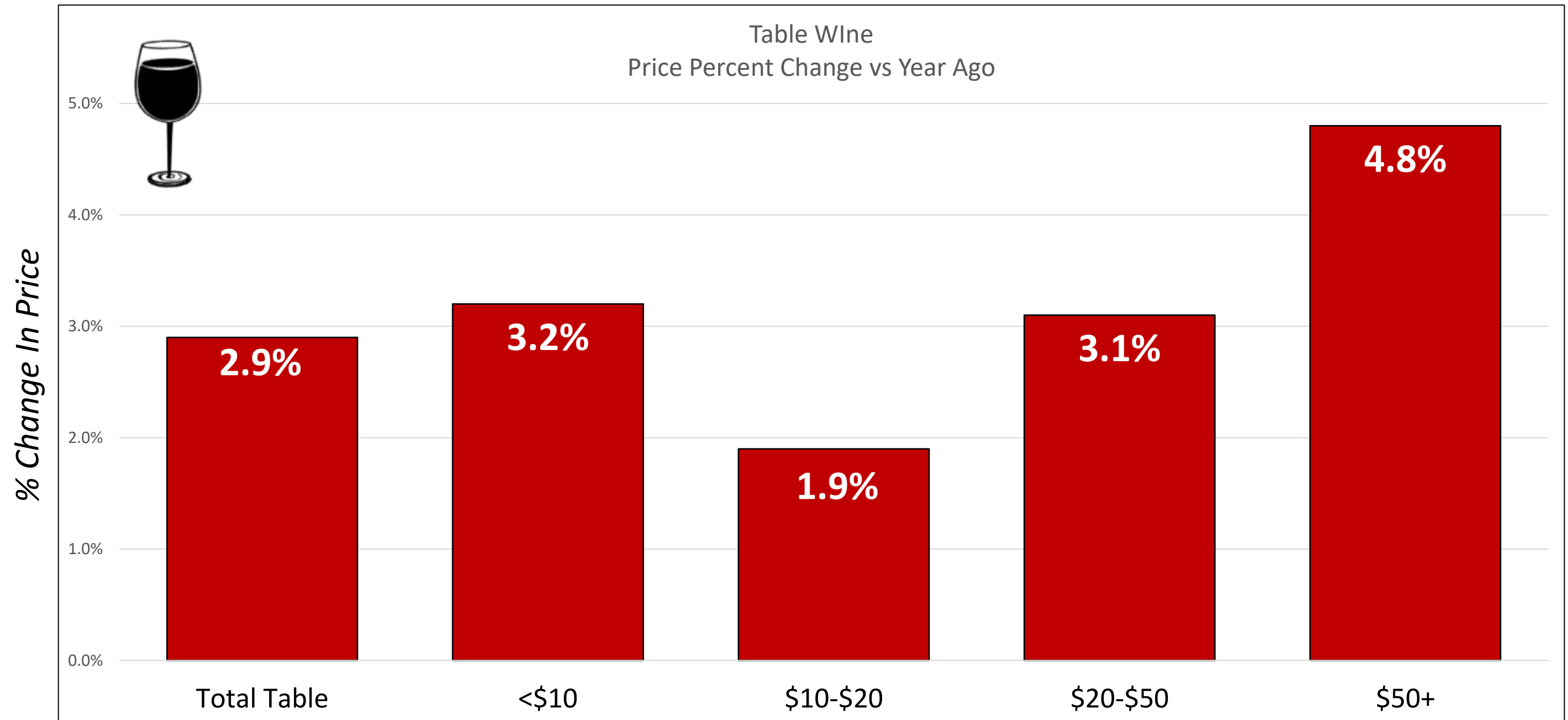


Nielsen +4%

Source: Bureau of Labor Statistics



WINE PRICE INCREASES LARGER AT HIGHER ENDS, BUT VERY LOW in HIGHLY COMPETITIVE \$10-\$20 TIER

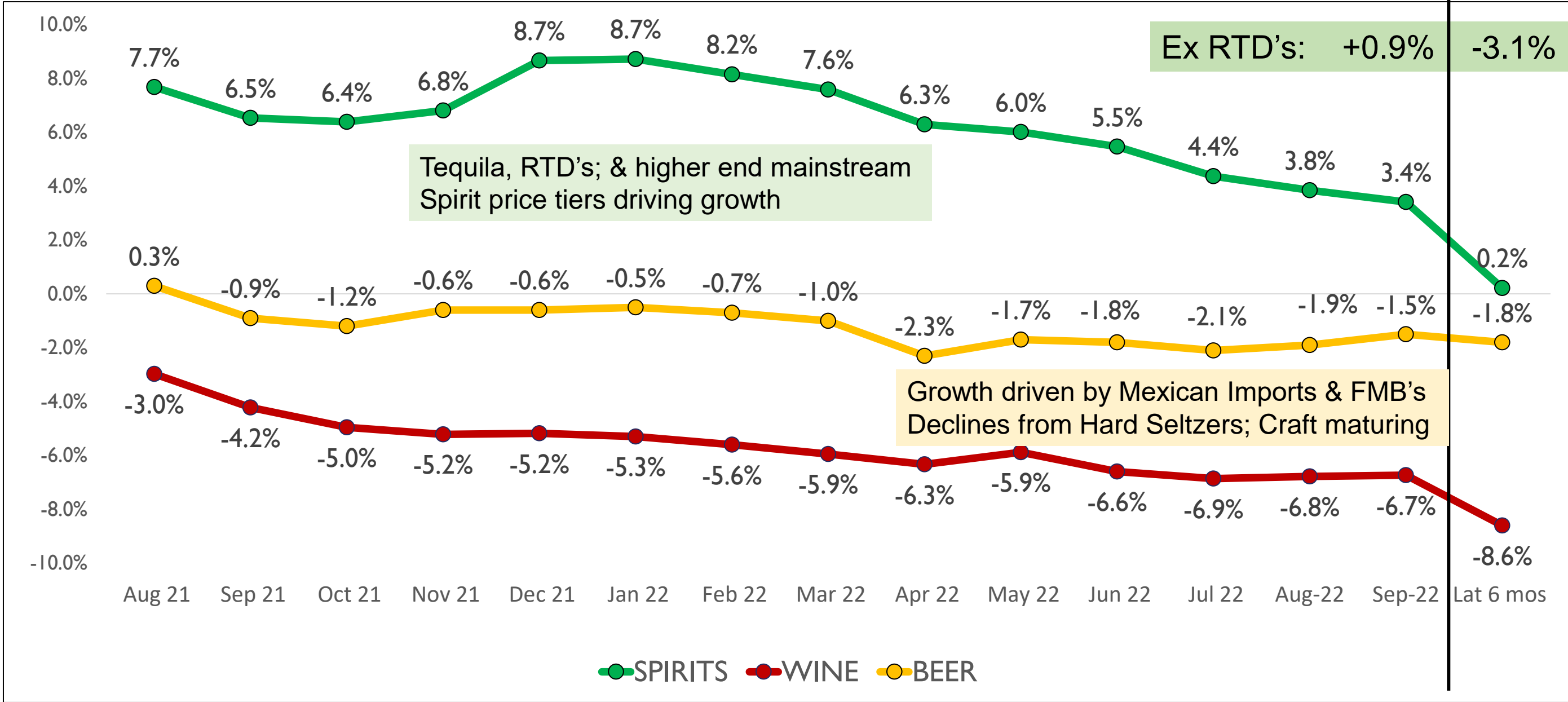


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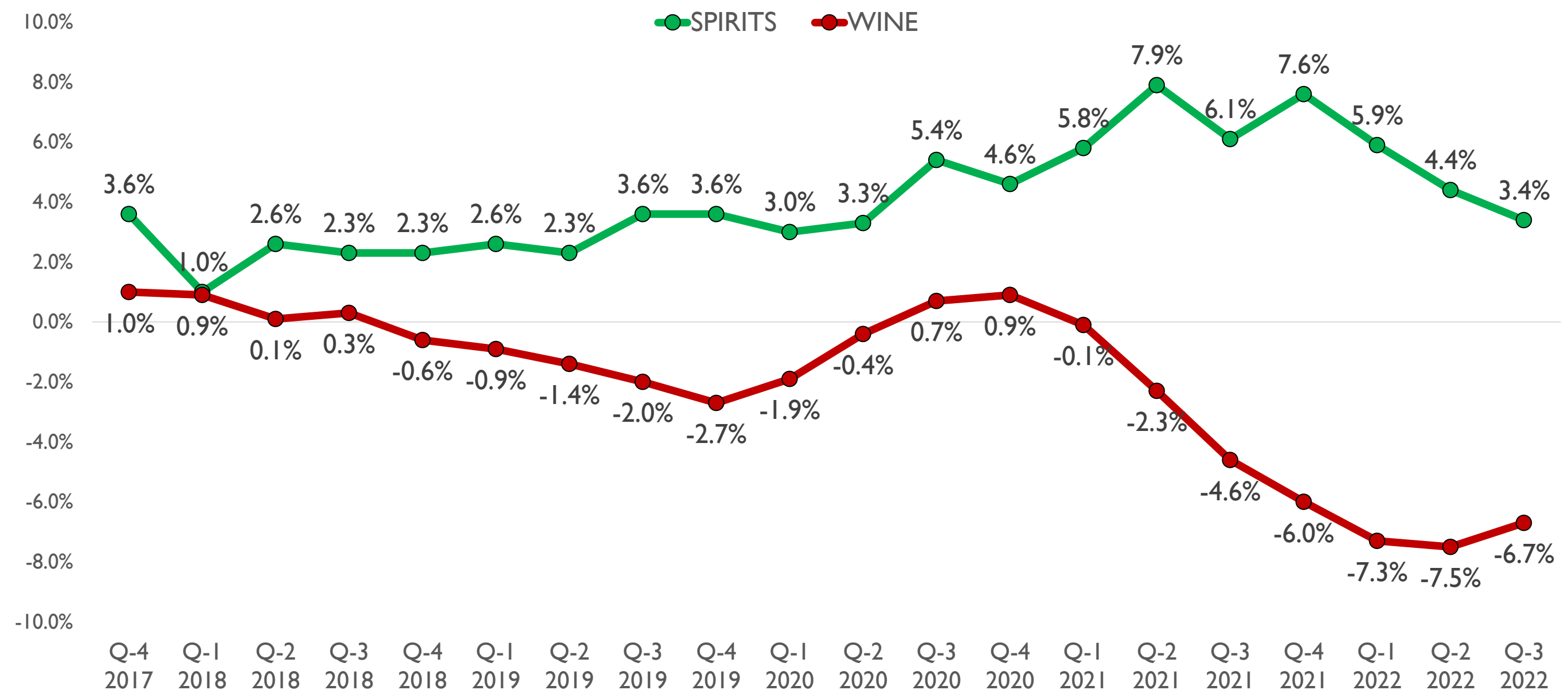
SPIRITS LEAD, BUT GROWTH ABATING; WINE TRAILING; BEER IN THE MIDDLE

TOTAL U.S. – 3 TIER: ON + OFF PREMISE



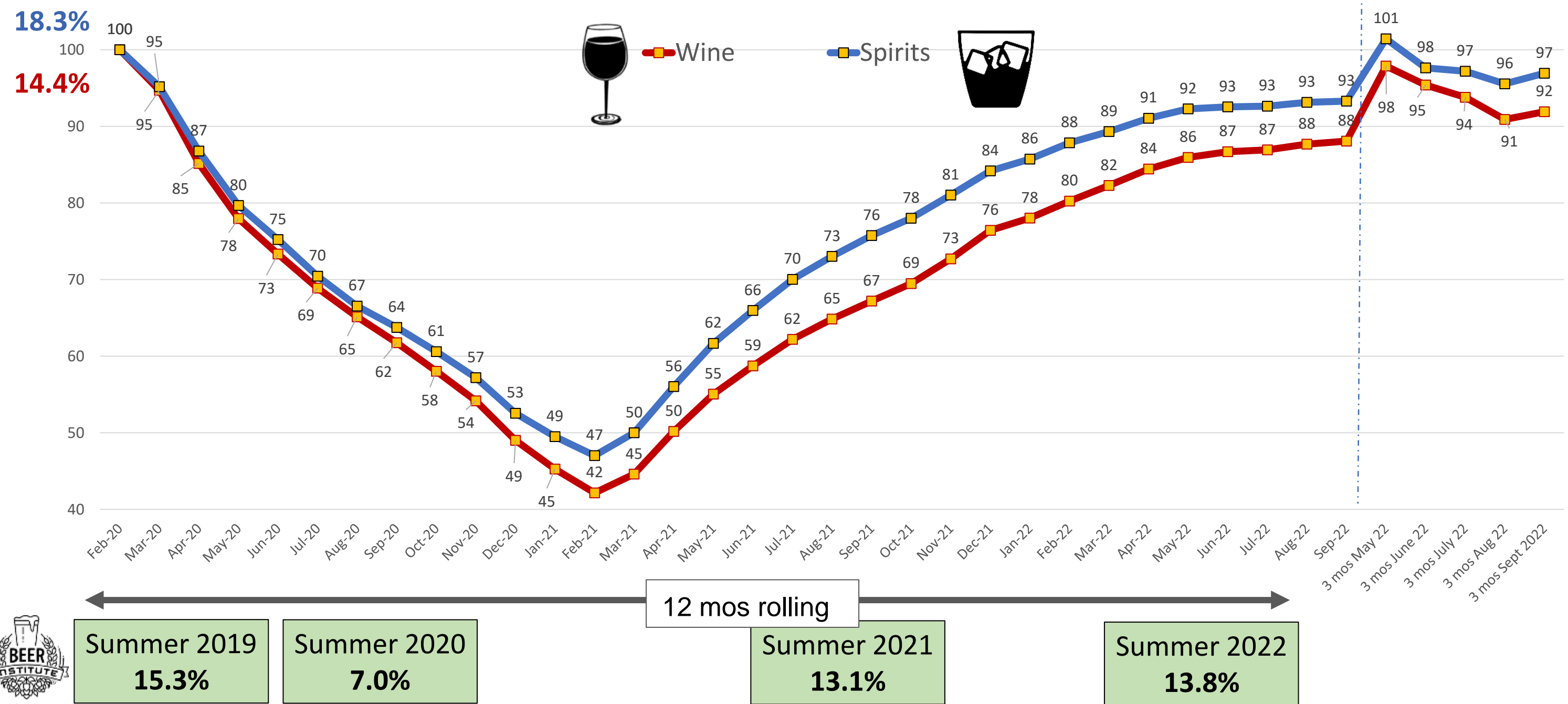
SPIRITS SUSTAINED GROWTH – & GROWTH GAP vs WINE - IS UNPRECEDENTED

Spirits have a 51.6% share of volume, a gain of 740-basis points since 2017



ON PREMISE STILL BELOW PRE-COVID SHARE LEVELS – WILL IT GET BACK?

On Premise CSI (Channel Shifting Index)* thru Sept 2022

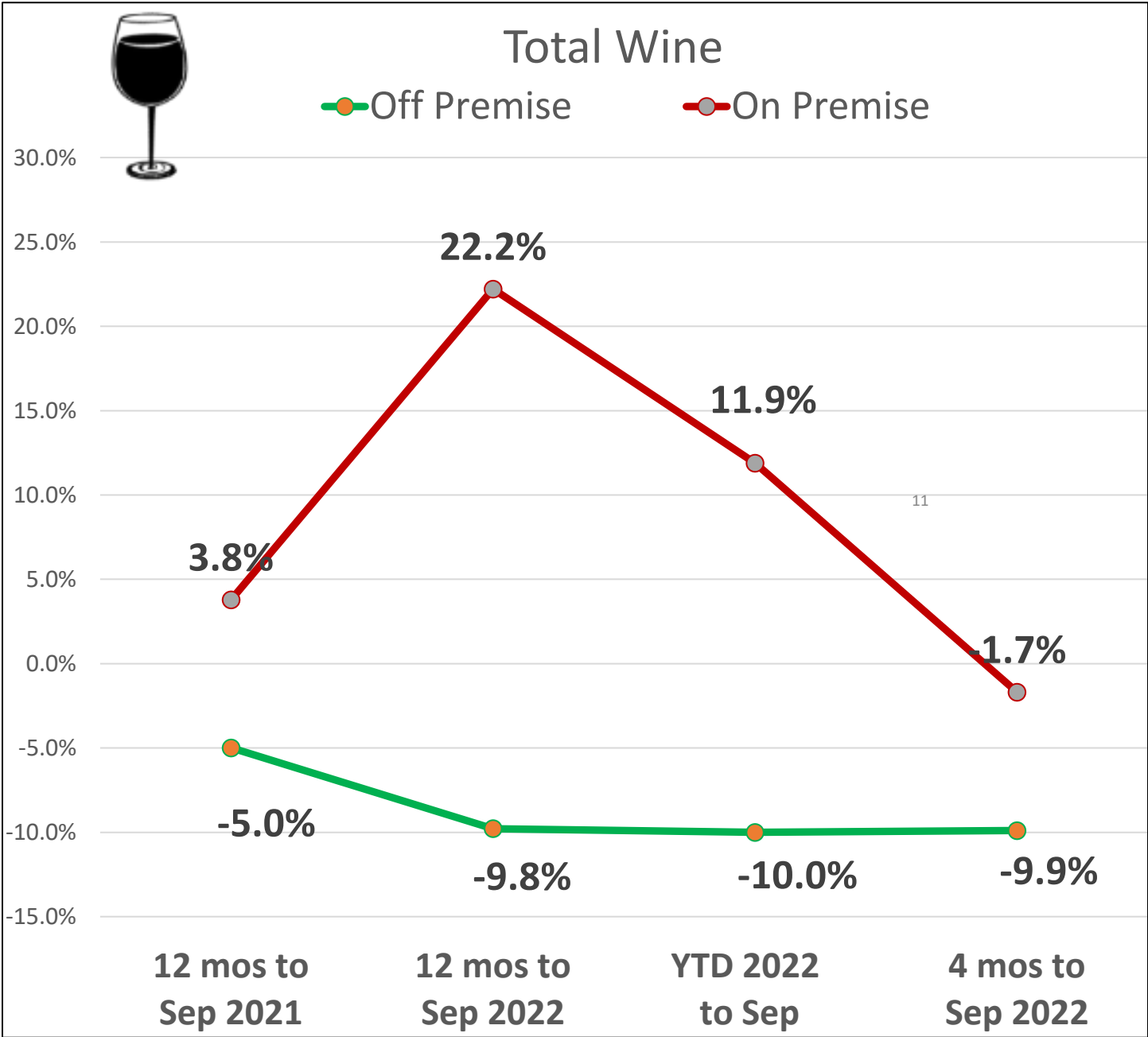


*On Premise share indexed to its 12 mos ending Feb 2020 share (volume)



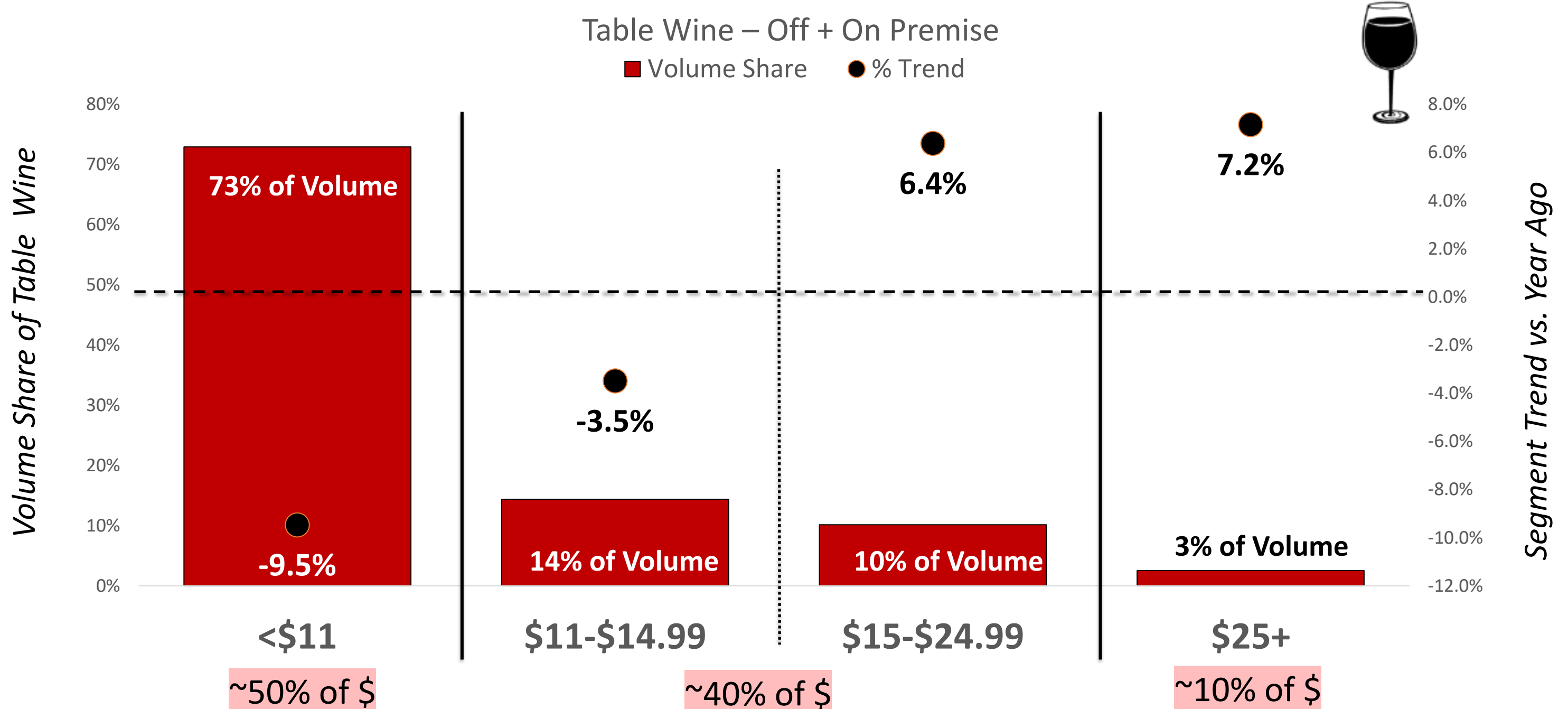
Beer STR's
*Summer: May, June, July, Aug

COVID RECOVERY HAD PROVIDED TAILWINDS TO ON-PREMISE, BUT ITS TRENDS ARE NORMALIZING; WHEN/WILL OFF PREMISE TURN POSITIVE?



On Premise % of Volume (20%+)				
20-25%	25-30%	30-35%	35-40%	>40%
Red (Other*) White (Other*)				
\$15-\$25				\$25+
France Argentina S Africa		Champagne		
Vermouth	Prosecco DM Sparkling	Sherry		Cava Sake

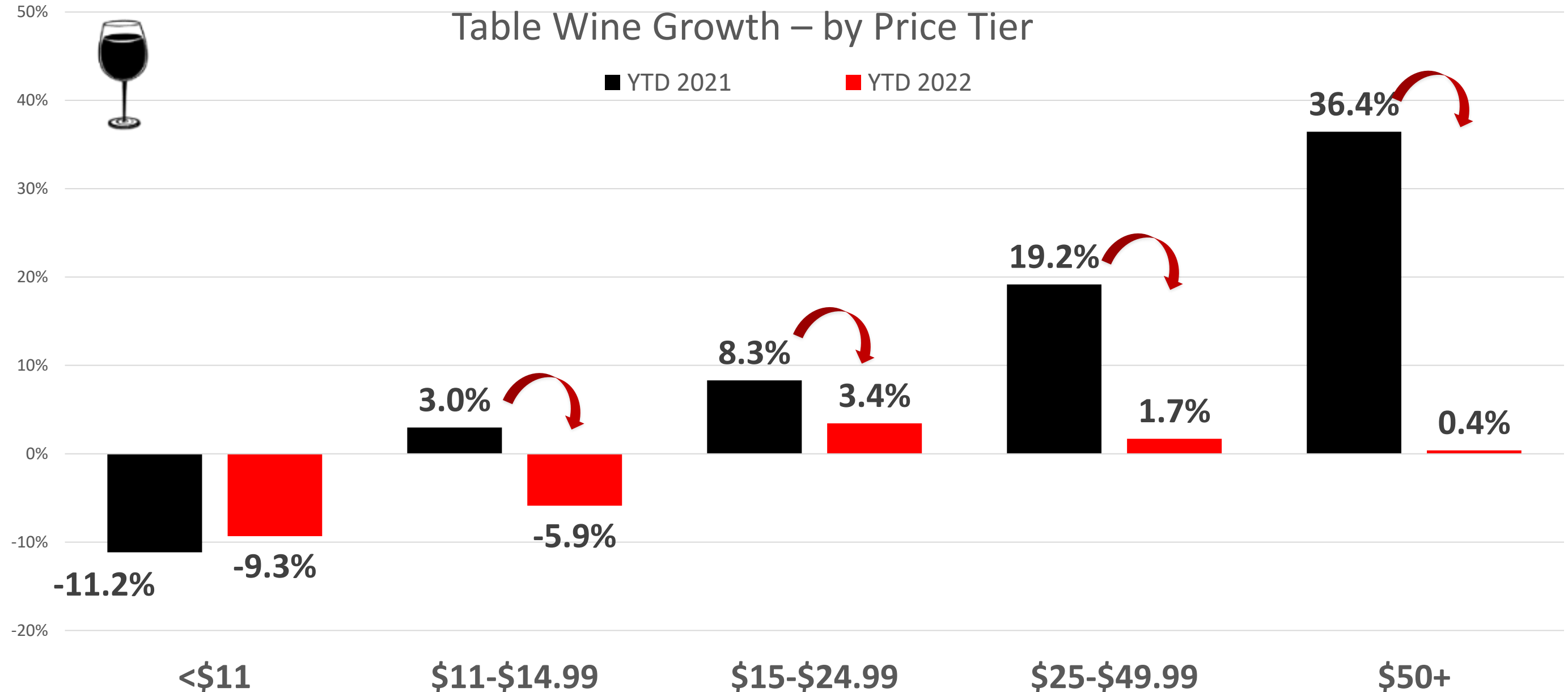
"HIGH END" TABLE WINE GROWTH POSITIVE



KEY VARIETALS PICTURE OVER \$15 IS STRONG

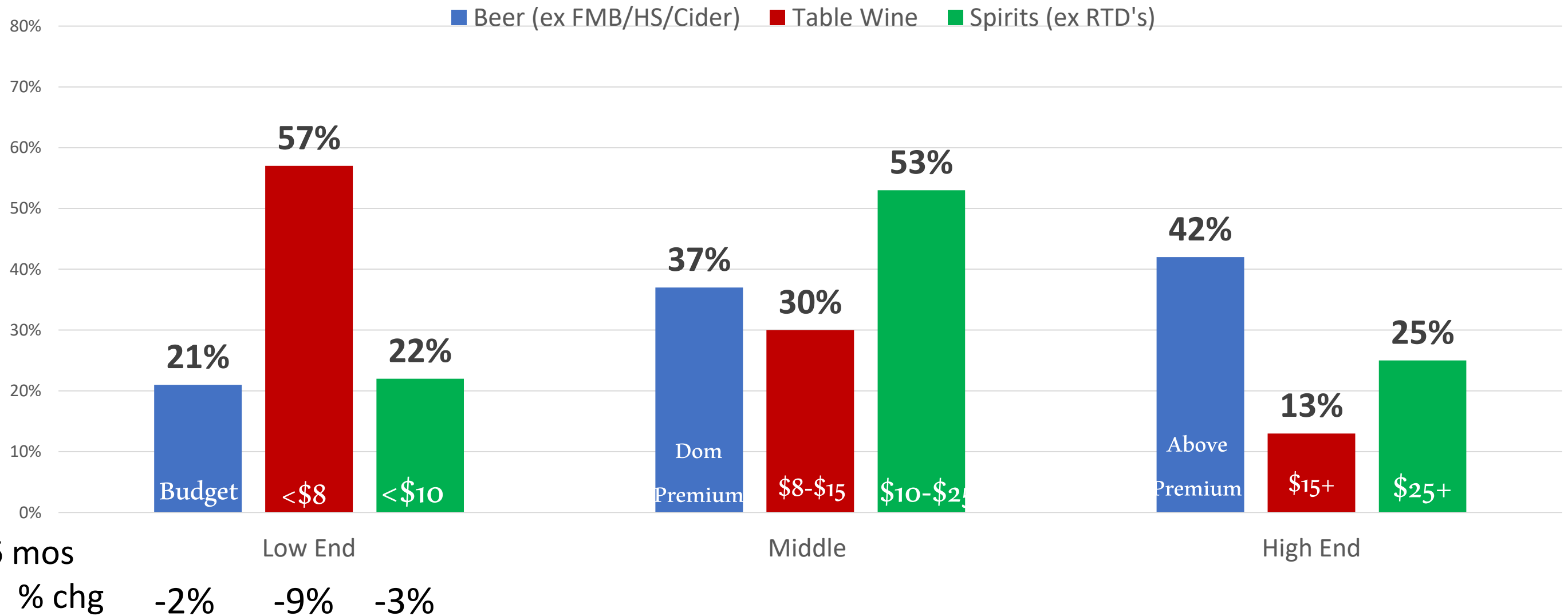
\$11-\$15*			\$15-\$25*			\$25+*		
Varietal	Share*	% Chg vs Year Ago	Varietal	Share*	% Chg vs Year Ago	Varietal	Share*	% Chg vs Year Ago
Chard	18.9%	+1.7%	Cab Sauv	27.5%	+3.8%	Cab Sauv	44.4%	+6.3%
Sauv Blanc	18.0%	+6.2%	Pinot Noir	19.4%	+5.9%	Red Blends	16.4%	+8.4%
Cab Sauv	17.3%	-4.7%	Chard	17.1%	+6.0%	Pinot Noir	11.6%	+4.8%
Red Blends	16.6%	-14.4%	Red Blends	7.6%	+11.2%	Chard	10.9%	+5.8%
P Noir	5.0%	-7.8%	Rosé	7.0%	+9.1%	Sauv Blanc	4.3%	+15.2%
Rosé	4.8%	-14.2%	Sauv Blanc	6.6%	+15.4%	Red – Other	4.1%	+10.7%
Pinot Grigio	4.5%	+10.9%	Pinot Grigio	5.2%	+12.3%	Merlot	2.3%	+7.5%
Moscato	2.9%	-12.1%	White - Other	2.5%	+16.2%	Zinfandel	2.1%	-9.6%
Merlot	2.8%	-2.7%	Red - Other	2.3%	-8.9%			
Red – Other	2.7%	-5.3%	Merlot	1.7%	+1.0%			
White Blends	1.8%	+29.4%	Zinfandel	1.5%	-7.9%			

HIGHER END PRICE TIER GROWTH HAS DECELERATED SHARPLY, BUT VS HUGE COMPS OF YEAR AGO



WINE CATEGORY VOLUME STILL HIGHLY CONCENTRATED AT LOW END; WINE PREMIUMIZATION SHOULD STILL HAVE LEGS!

Volume Contribution by Price Tier to Each Category (3 Tier)



1	2	3	4	5	6	7	8	9	10
<div>Top 100 Power Wall</div> <div>(Brands with highest \$ gains in 3 Tier Off Premise)</div>									
91	92	93	94	95	96	97	98	99	100

BRANDS/REGIONS POWERING LARGEST GAINS

1

2

3

4

5

6

7

8

9

10

Josh

BuzzBallz

LaMarca

Decoy

Beatbox

Meiomi

**Black
Box**

Daou

**Kim
Crawford**

Liqs

+\$50MMM

+\$35 to \$40MM

+\$17 to \$25MM

+\$10 to \$12MM

①

Central Coast
(led by Paso)

②

Sonoma

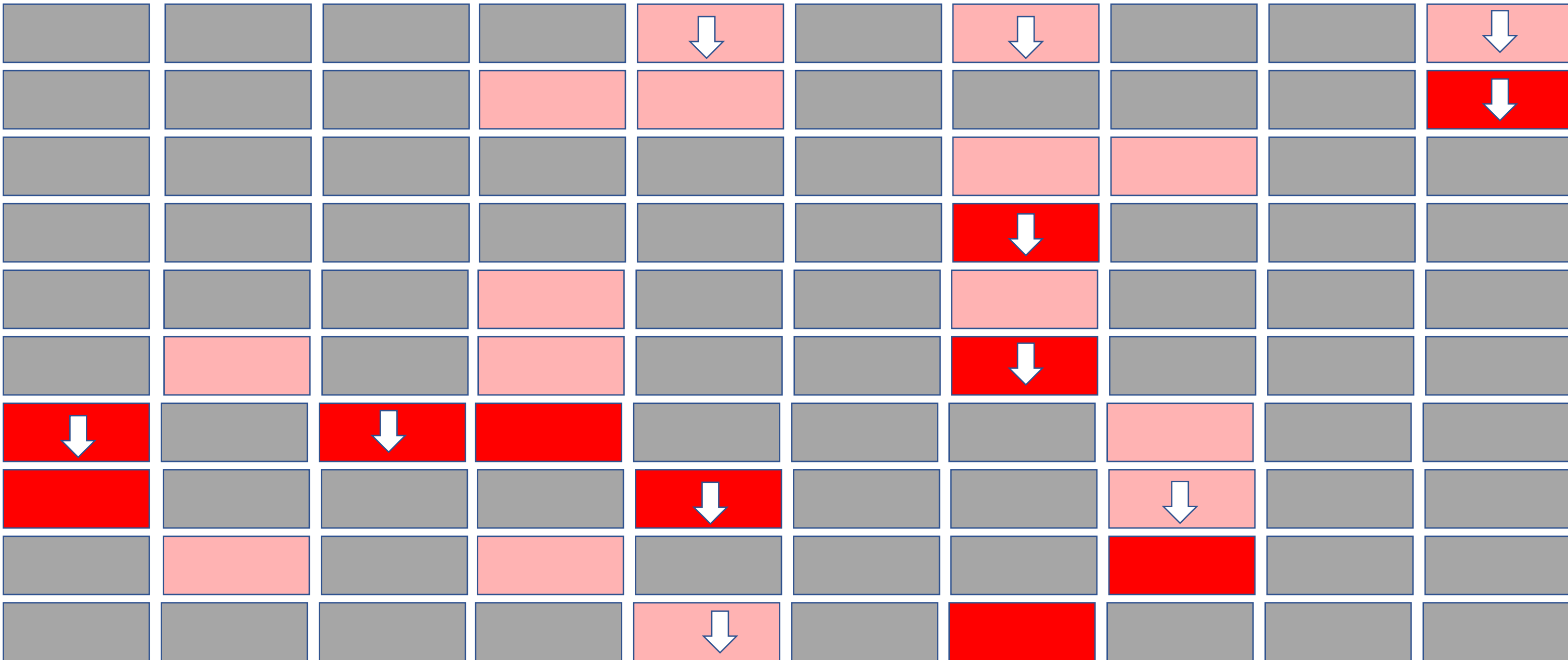
③

Napa Valley

④

Oregon
(longer term)

<\$10 BRANDS



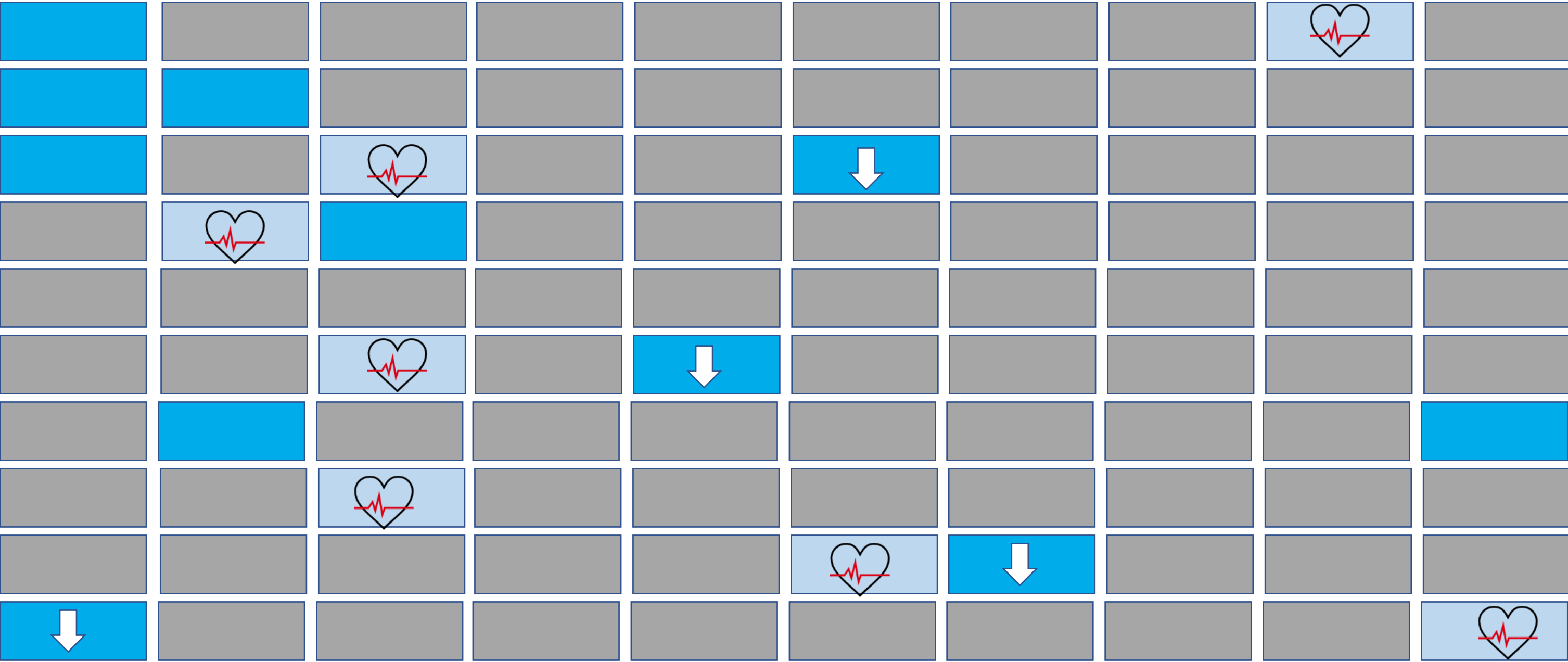
NON 750 ml Table Wine



↓ Price Decrease vs YAG



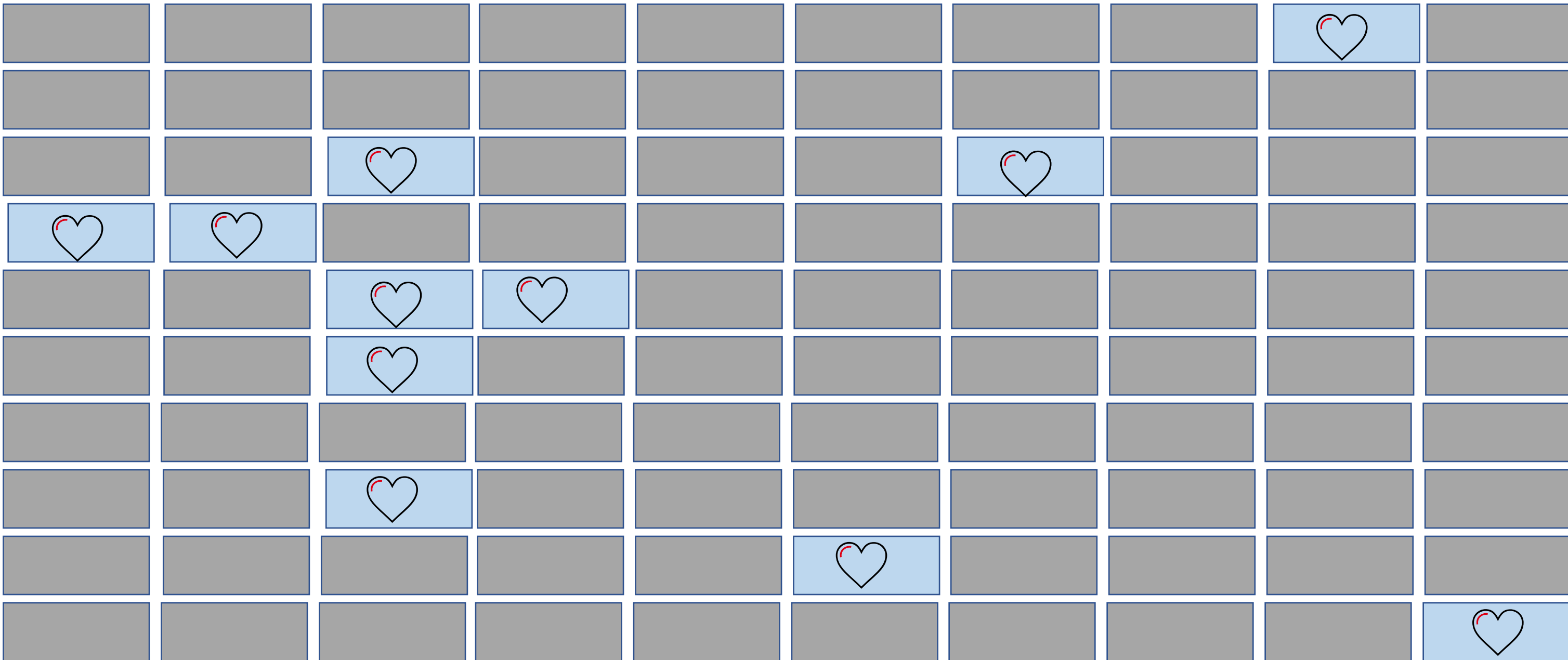
Source: NielsenIQ Scan Off-Premise Channels; 52 w.e period ending Oct , 8, 2022
Price per equiv 750 ml (Price per equiv 750 ml)

\$10 to \$15...MAINSTREAM TABLE WINE

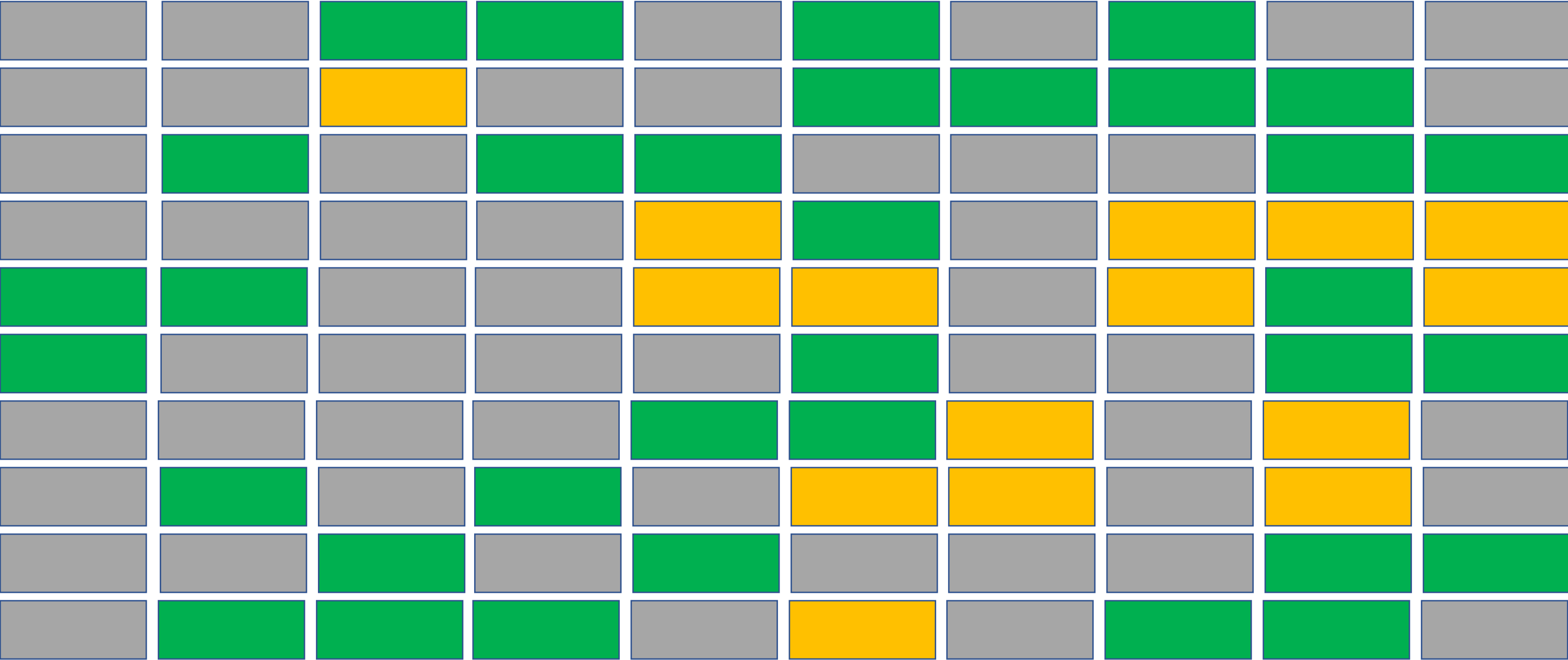


H&W Characteristics   Price Decrease vs YAG

WINE BRANDS - HEALTHIER LIFESTYLE ATTRIBUTES



BRANDS \$15+



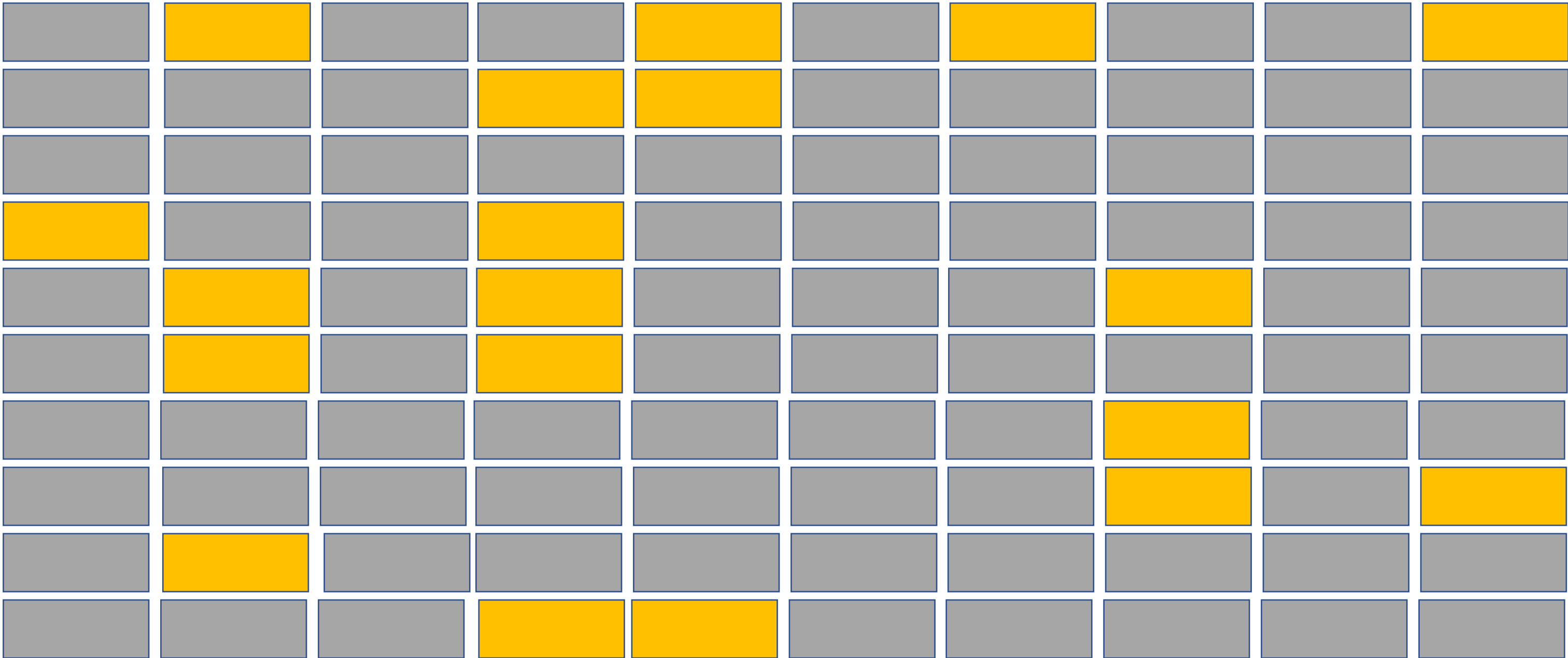
\$15-\$25

\$25+

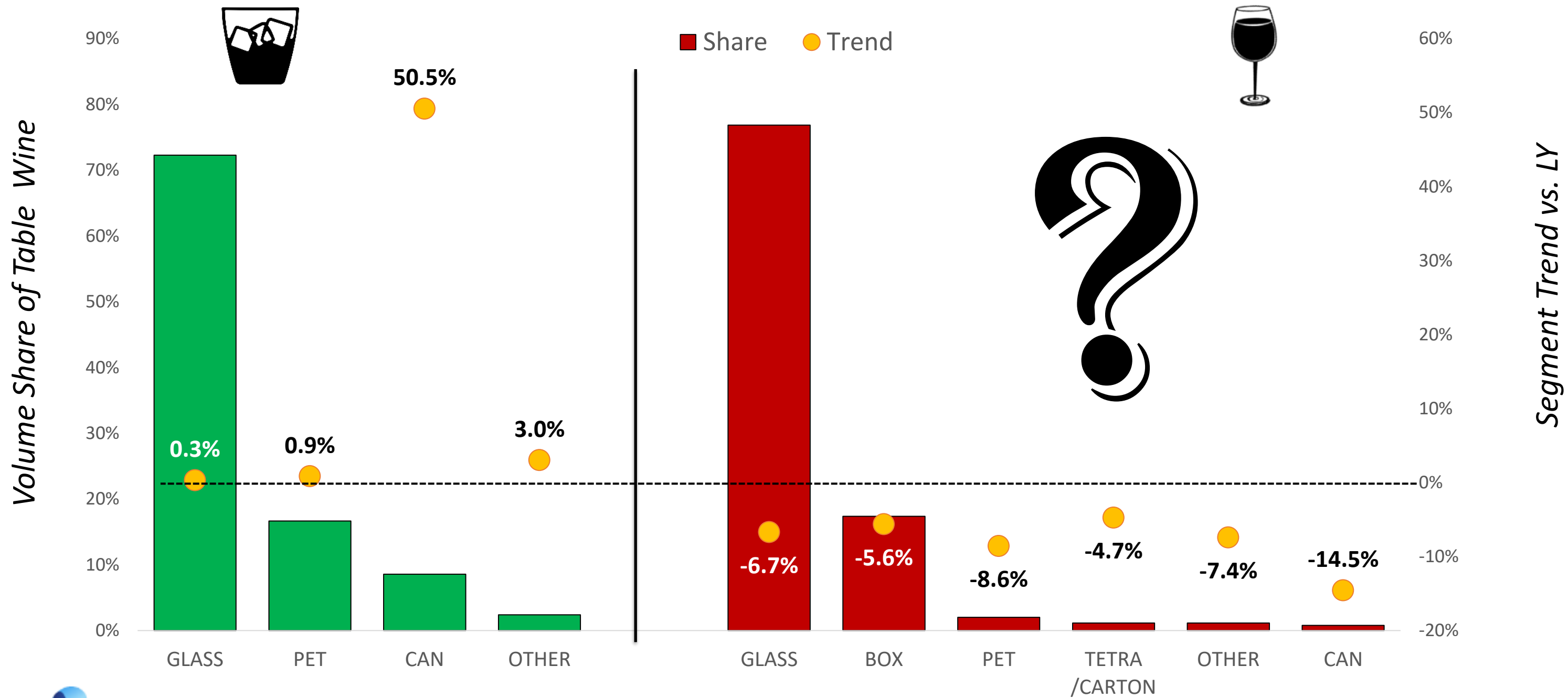


Source: NielsenIQ Scan Off-Premise Channels; 52 w.e period ending Oct , 8, 2022
Price per equiv 750 ml

NON TRADITIONAL WINE TYPES OR PACKAGING



RTD CANS DRIVING SPIRITS GROWTH; NOT SO FOR WINE BOX IS BIG, BUT ALTERNATIVE PACKAGING NOT DRIVING CATEGORY GROWTH

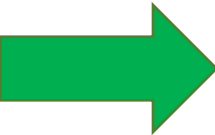


DtC WINE SHIPMENTS – YTD 2022

Dollars: +0.5%

Volume: -9.2%

Avg Price: \$45 (+\$4 vs YA)

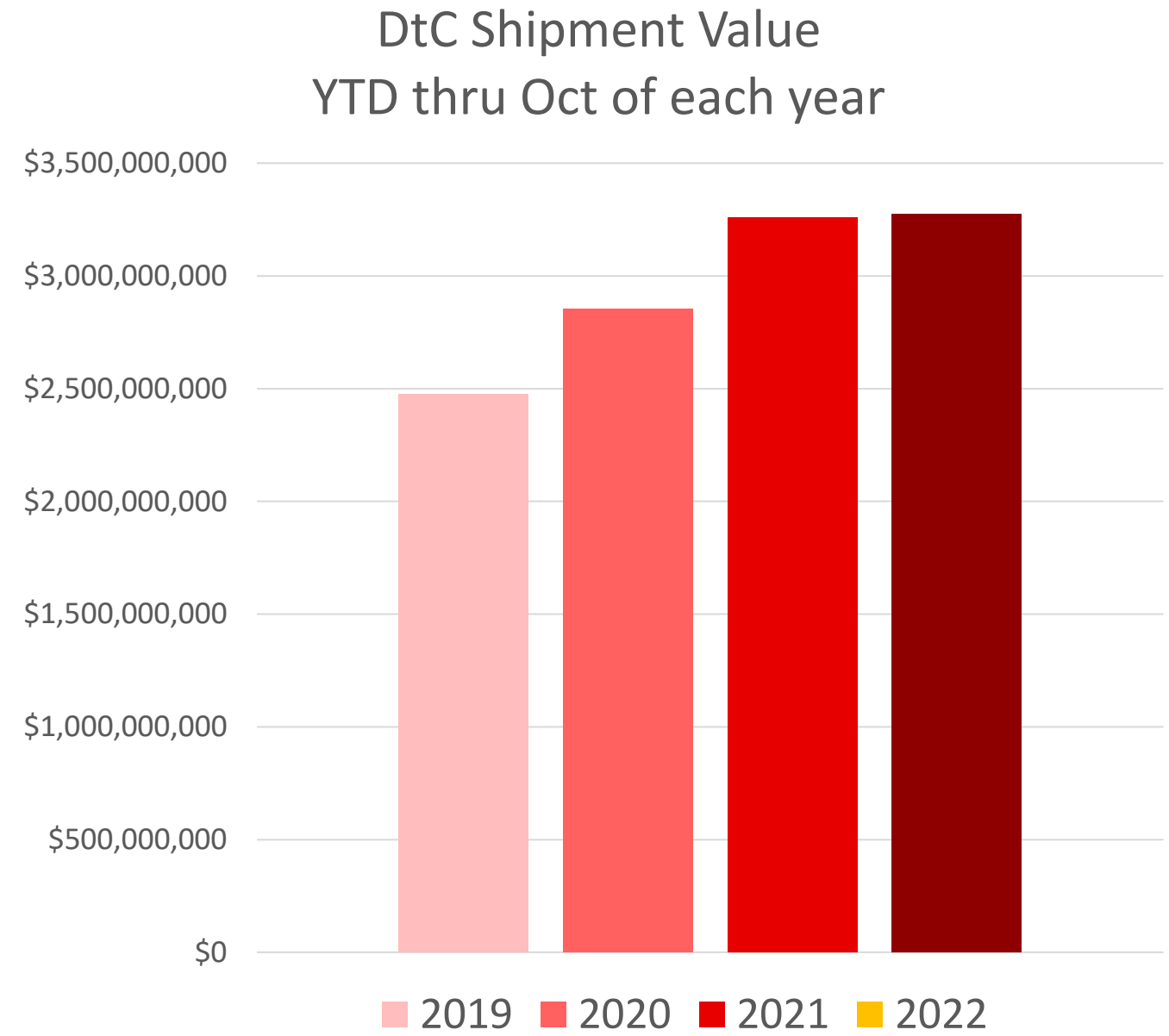
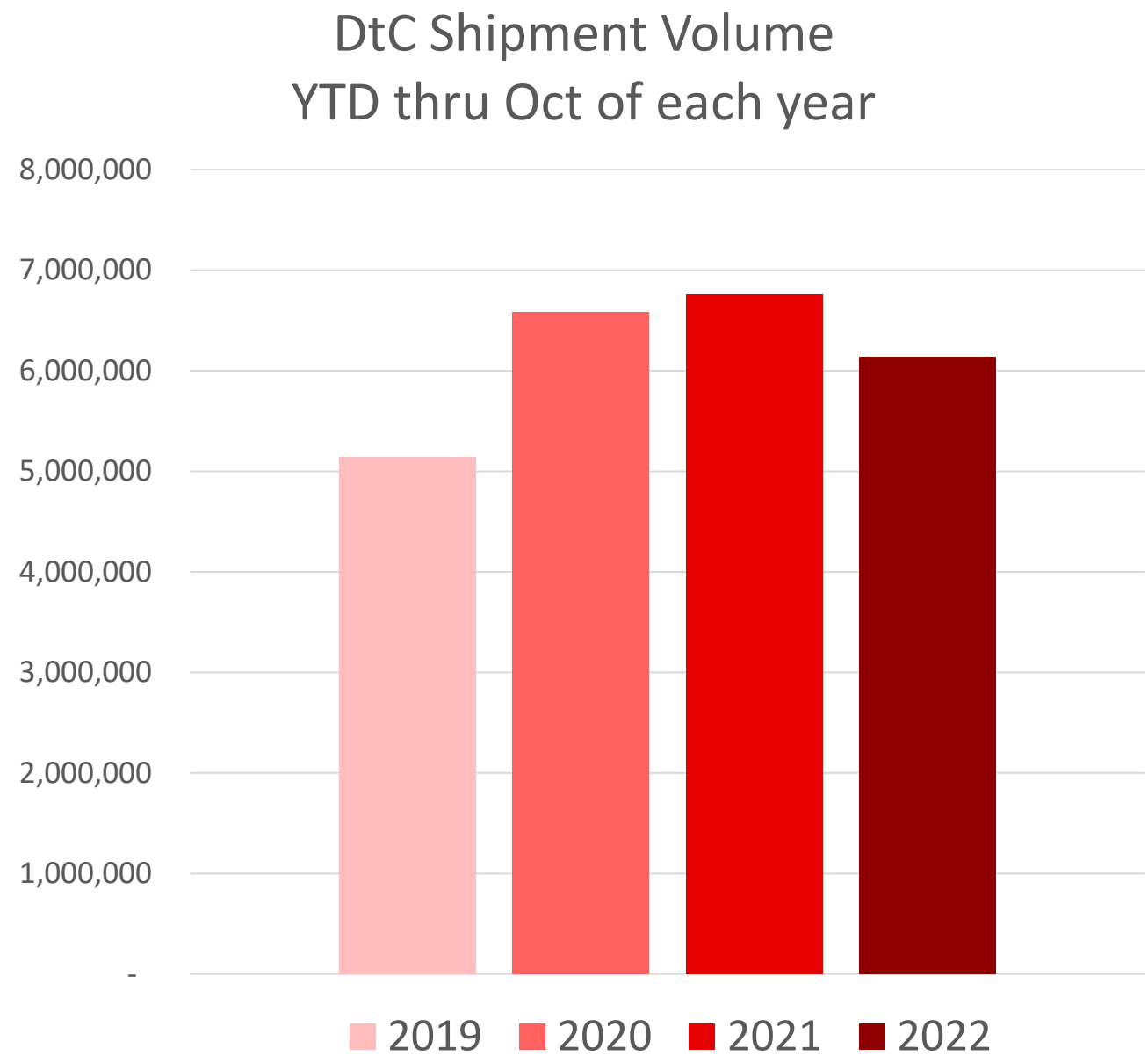


YTD 2022 to October	Dollar percent chg vs Yr Ago	Share of Dollars
<\$50	-12%	38%
\$50-\$99.99	+/-0%	29%
\$100+	+22%	32%

Annual 2022, DtC Shipments will likely be...

- just over **\$4 Billion**
- just under **8MM** 9L cases

YEAR ON YEAR, DTC SHIPMENT VOLUME DOWN BUT DOLLARS FLAT; BOTH UP VS PRE-COVID (C COAST THE MOST!)





Consumers

IT'S BLURRY



Categories

Competitors

MOST CONSUMERS DON'T DRINK JUST ONE CATEGORY – THEY'RE MAKING OCCASION BY OCCASION CHOICES



Source: Wine Market Council Segmentation Study (2021)
* Drinks the category at least once every 2-3 months

**includes...cider, fruit flavored wine, hard seltzers, flavored alcoholic beverages, hard kombuchas, sangrias, spritzers & RTDs*

OFTEN LESS ABOUT BASE LIQUID



Key consumer drivers: convenience, flavor, experience, "better for you"

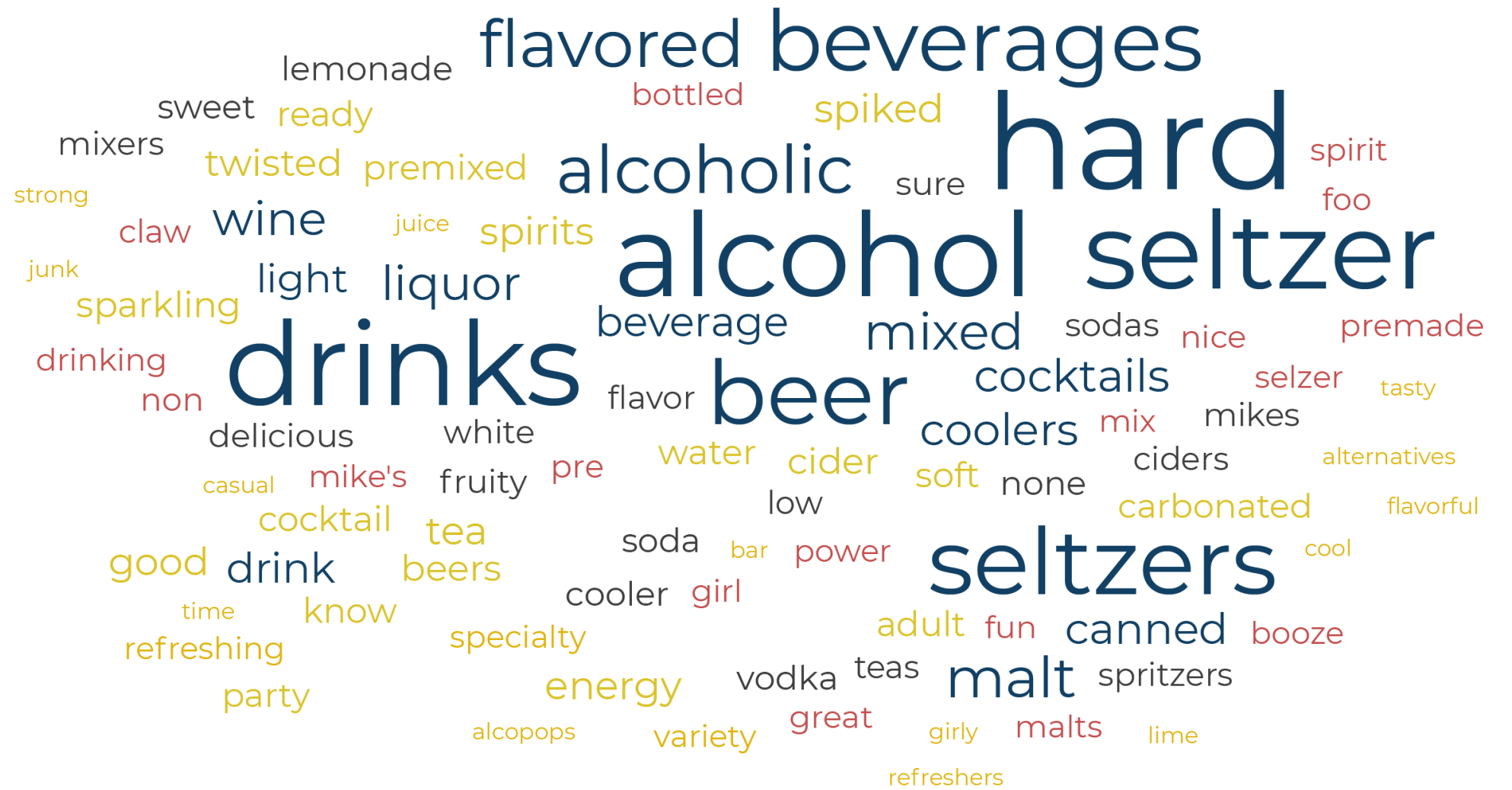


Malt-base

Wine-base

Spirits-base

Drinkers don't know
what to call these
products; and
without a strong
preference either
way for Spirits vs
Malt-based products



There is no statistically significant difference in preference for spirits vs malt-RTDs



Source: Online surveys conducted by The Harris Poll on behalf of **Beer Institute**, September 21-23, 2022, among U.S. adults ages 21 and older..

IT'S A
BLURRY
WORLD

From Alc Bev companies
that generally stayed in
their **SPECIFIC** BWS lanes

TO

Bev Alc companies playing
ACROSS BWS space
- directly, & via partnerships

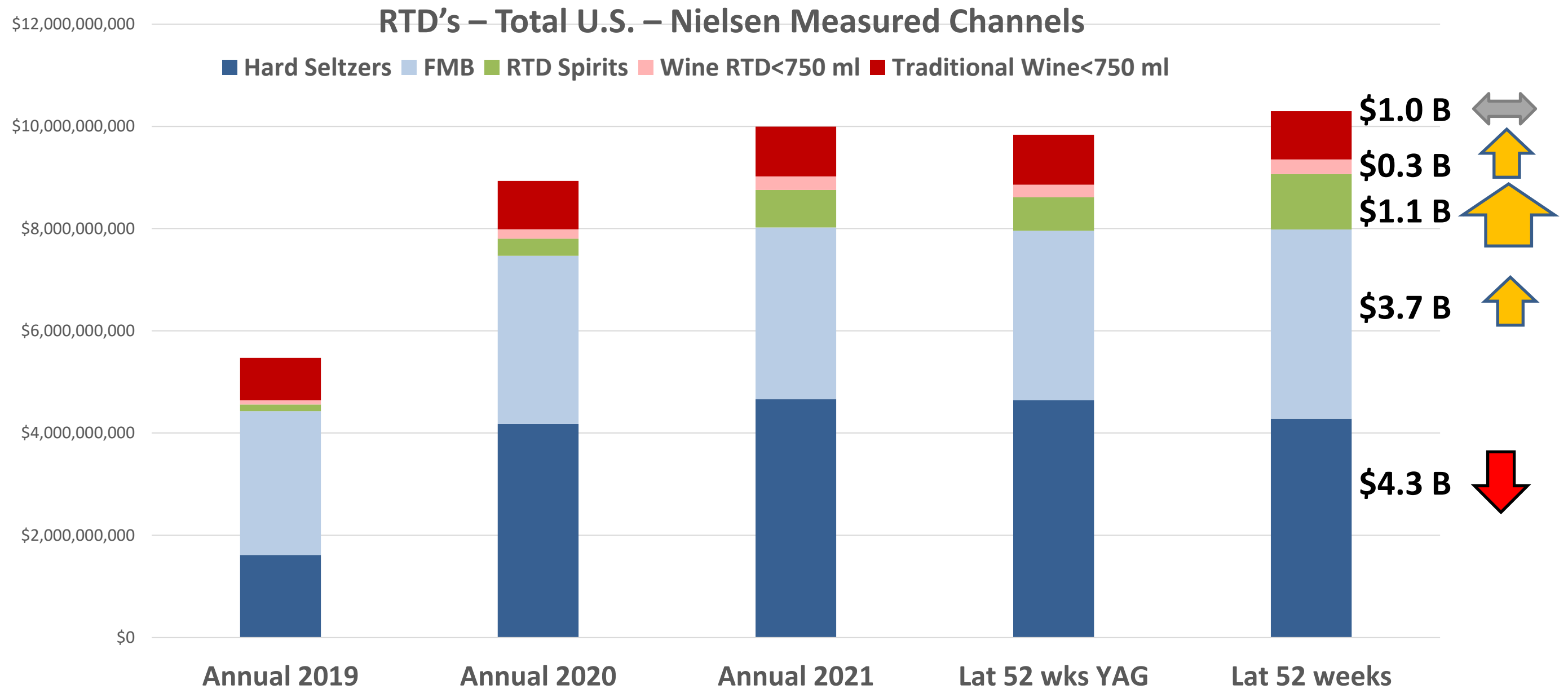
Non Alc Bev companies
playing in BWS space

"HARD" Beverages



OVER \$10 BILLION OVERALL

While Hard Seltzers are now declining, other segments (FMB's, RTD Spirits) are growing



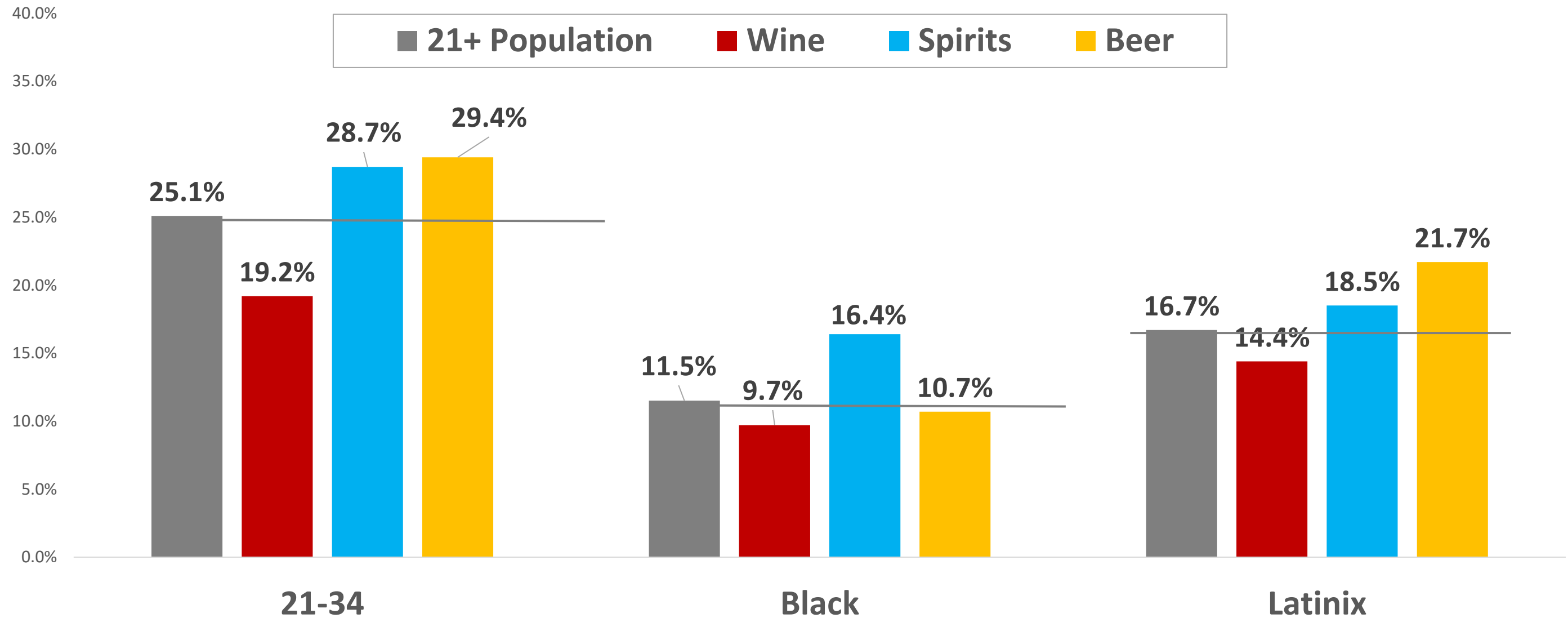
LET'S END WITH THE CONSUMER



- **The Core & Marginal Wine consumer base has shrunk**
 - **the core wine consumer is drinking more + 'better' wine (but there are less of them)**
 - **the marginal wine consumer is drinking less wine**
- **Wine consumers are increasingly buying across the Bev Alc spectrum; especially younger LDA consumers**
- **The 'non' Wine "Adopter", and 'Abstainer' numbers are increasing**
- **The high end/high frequency Wine consumer is decidedly non-Hispanic white**

WINE IS COMPETITIVELY DISADVANTAGED AMONG YOUNGER LDA's (21-34) AND MULTI-CULTURAL CONSUMERS

21-34 and Multi-Cultural – Share of population vs share of category volume



21–34-year-olds are 25.1% of LDA population;
19.2% of wine volume

Blacks represent 11.5% of LDA population;
9.7% of wine volume

Latinx represent 16.7% of LDA population;
33% of wine volume

A FEW THINGS TO CONSIDER

1. Premiumization is a good thing – but lower tier losses are large. How do you bring **younger LDA's INTO** the category for long-term growth?
2. Are you keeping pace with the **rapid multi-cultural** societal changes?
3. Have you considered reaching out **across the Bev Alc** aisle?
4. What does your **Innovation** pipeline look like? Does it include any elements of “**better for you AND we**”?
5. Are we maximizing our **DtC** and **e-commerce** advantage? What do we know about our **current** AND **potential** consumers to maximize our business?

THANK YOU!!!

For more information, contact

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