STATE OF THE WINEGRAPE INDUSTRY

JOHNNY LEONARDO

NOVEMBER 6, 2018

CIATTI
GLOBAL WINE & GRAPE BROKERS
GLOBALLY BASED TO BUILD YOUR BUSINESS WORLDWIDE

21 DEDICATED BROKERS IN 8 COUNTRIES

GLOBALLY BASED TO BUILD YOUR BUSINESS WORLDWIDE
INTRODUCTION

- CIATTI CO → 8 REGIONAL OFFICES WORLDWIDE
  - WINE, GRAPES, & CONCENTRATE, ETC
  - PROCESSING AND STORAGE

- GLOBAL PERSPECTIVE
  - WORLD APPROACH – LOCAL KNOWLEDGE
CALIFORNIA STATEWIDE GRAPE CRUSH

Tons in Millions

Winegrape | Other Crush


4.01
REGIONAL MARKET
- **HARVEST**
  - LATER THAN RECENT YEARS
  - MILD WEATHER

- **MARKET**
  - BETTER DEMAND FOR WHITES AND GENERICS
  - VARIETAL REDS SLOW
  - WHITE ZIN A CHALLENGE
NORTHERN INTERIOR

- HARVEST
  - LATER THAN RECENT YEARS
  - COOL GROWING SEASON
  - LINGERING WITH LIMITED TANK SPACE

- MARKET
  - CHARDONNAY AND SAUV BLANC STRONG EARLY
  - OVERALL SLOW SPOT MARKET
  - ZIN QUIET; MORE REMOVALS
- **HARVEST**
  - LATE CROP
  - COOL WEATHER; TOO COOL?

- **MARKET**
  - SLOW MARKET, QUIET
  - MARKET SUSCEPTIBLE WHEN CROP IS BIG (PASO ROBLES)
  - TOO MUCH CAB PLANTED?
NORTH COAST

- **HARVEST**
  - LATE AND COOL
  - LATE SEASON RAIN
  - FIRES AN ISSUE
  - GRAPES SIZED UP LATE

- **MARKET**
  - EARLY CAB BUYERS
  - SLOWED SIGNIFICANTLY
  - CAPACITY ISSUE
  - WINERIES BECOMING SELLERS
  - WINERY PRESSURE ON QUALITY
KEY VARIETIES
- **GRAPES**
  - YIELDS LOOK GOOD
  - BIG ON NORTH COAST
  - MARKET RELATIVELY STRONG
  - AGING VINES

- **BULK WINE**
  - BALANCED INVENTORY
  - MOSTLY COASTAL
  - PRICE DROPPED BUT STABLE

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**CHARDONNAY**

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### 2013-2018

<table>
<thead>
<tr>
<th>Year</th>
<th>Est.</th>
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<tbody>
<tr>
<td>2013</td>
<td>725,000</td>
</tr>
<tr>
<td>2014</td>
<td></td>
</tr>
<tr>
<td>2015</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td></td>
</tr>
<tr>
<td>2018</td>
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</tr>
</tbody>
</table>
GRAPES
- PROBABLY RECORD CROP
- DEMAND SLOW FOR SPOT MARKET

BULK WINE
- INVENTORY BALANCED
- ALMOST ALL CA APP
- MARKET SLOW; DECREASED PRICE

PINOT GRIGIO
SAUVIGNON BLANC

- **GRAPES**
  - ABOVE AVERAGE CROP
  - GOOD MARKET DEMAND
  - NEW PLANTINGS/GRAFTINGS

- **BULK WINE**
  - COASTAL INVENTORIES
  - DEMAND GOOD; STABLE
  - MORE 2018 THAN 2017 ALREADY

![Graph showing Sauvignon Blanc production from 2013 to 2018 with an estimated increase to 125,000.](image-url)
- **GRAPES**
  - RECORD CROP
  - ACREAGE MATURES
  - NEW PLANTINGS PRODUCING
  - DEMAND SLOWED

- **BULK WINE**
  - LARGEST INVENTORY
  - DEMAND AND PRICE DROP
  - BIGGEST POTENTIAL FOR INVENTORY BACKUP

Graph showing the estimated crop acreage for Cabernet Sauvignon from 2013 to 2018, with a significant increase in 2018 estimated at 635,000 acres.
- **GRAPES**
  - Quiet Market
  - Acreage in Balance

- **BULK WINE**
  - Slow Demand
  - Relatively in Balance
  - Mostly Coastal
PINOT NOIR

- **GRAPES**
  - Big crop in all regions
    - Particularly north coast
  - Big demand drop on coast

- **BULK WINE**
  - Inventory was balanced
  - 2018 will see lower price
  - Almost all coastal

![Bar graph showing Pinot Noir wine production from 2013 to 2018 with an estimated 285,000 cases in 2018.](image-url)
- **Grapes**
  - Spotty Yields
  - Acreage Matures
  - Removals
  - Market Quiet

- **Bulk Wine**
  - Slow Movement
  - Most is Lodi Appellation
## USA SHIPMENTS – 6 months ending June

**TOTAL CA WINE**  
(LAST 6 MONTHS)  
- **DOMESTIC**  
  (-1%) (-1.6M CASES)  
- **EXPORTS**  
  (-13%) (-1.2M CASES)

**IMPORTS (6 months)**  
- **CASEGOODS**  
  (+1%) (+0.7 M/CASES)  
- **BULK**  
  (-19%) (-3.8M/CASES)

**TOTAL US Market (YTD)**  
- **IMPORT & DOMESTIC**  
  (-0%) (-0.7 M/CASES)

Source: Gomberg-Frederickson
### 2018 FIRST HALF - CA TABLE WINE VOLUME

<table>
<thead>
<tr>
<th>Retail Price/750ml Eqv.</th>
<th>Price Segment</th>
<th>Volume Change</th>
<th>Volume Share</th>
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<tbody>
<tr>
<td>Under $4</td>
<td>Economy</td>
<td>- 5.5%</td>
<td>21%</td>
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<tr>
<td>$4 - $7</td>
<td>Popular</td>
<td>- 5%</td>
<td>29.9%</td>
</tr>
<tr>
<td>$4 - $7 – 3L</td>
<td>Popular (Box)</td>
<td>+ 13.1%</td>
<td>6.7%</td>
</tr>
<tr>
<td>$7 - $9</td>
<td>Popular Plus</td>
<td>- 4.8%</td>
<td>10.6%</td>
</tr>
<tr>
<td>$9 - $12</td>
<td>Premium</td>
<td>+ 1.9%</td>
<td>18.4%</td>
</tr>
<tr>
<td>$12 - $15</td>
<td>Premium Plus</td>
<td>+ 7.6%</td>
<td>6.9%</td>
</tr>
<tr>
<td>$15 - $20</td>
<td>Super Premium</td>
<td>+ 8.5%</td>
<td>4.2%</td>
</tr>
<tr>
<td>Over $20</td>
<td>Luxury</td>
<td>+ 8.5%</td>
<td>2.3%</td>
</tr>
<tr>
<td>TYPE</td>
<td>% SHARE</td>
<td>% CHANGE</td>
<td></td>
</tr>
<tr>
<td>------------</td>
<td>---------</td>
<td>----------</td>
<td></td>
</tr>
<tr>
<td>BEER</td>
<td>47.9%</td>
<td>-2.7%</td>
<td></td>
</tr>
<tr>
<td>SPIRITS</td>
<td>34.0%</td>
<td>+2.7%</td>
<td></td>
</tr>
<tr>
<td>WINE</td>
<td>18.1%</td>
<td>+2.5%</td>
<td></td>
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</table>

Source: Gomberg-Frederickson
<table>
<thead>
<tr>
<th>VARIETAL</th>
<th>% SHARE</th>
<th>% CHANGE</th>
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<tbody>
<tr>
<td>CHARDONNAY</td>
<td>20%</td>
<td>0%</td>
</tr>
<tr>
<td>CABERNET</td>
<td>15%</td>
<td>+3%</td>
</tr>
<tr>
<td>PINOT GRIGIO</td>
<td>10%</td>
<td>+4%</td>
</tr>
<tr>
<td>MERLOT</td>
<td>7%</td>
<td>-6%</td>
</tr>
<tr>
<td>PINOT NOIR</td>
<td>6%</td>
<td>+7%</td>
</tr>
<tr>
<td>SAUVIGNON BLANC</td>
<td>5%</td>
<td>+8%</td>
</tr>
<tr>
<td>RED BLENDS</td>
<td>5%</td>
<td>+2%</td>
</tr>
<tr>
<td>MUSCAT</td>
<td>5%</td>
<td>+2%</td>
</tr>
</tbody>
</table>
CALIFORNIA MARKET SUMMARY

- OVERALL AN IDEAL SEASON IF GRAPES WERE CONTRACTED
- VERY CONSISTENT ALL YEAR – MARKET, WEATHER, TIMING
- SPOT GRAPE MARKET ACTIVITY VERY QUIET
- BULK WINE MARKET SOFTENED; INCREASED INVENTORIES
- OPPORTUNITIES FOR NEW BRANDS
THANK YOU FOR YOUR TIME AND ATTENTION

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