2021

Winegrape Market Update in Light of the Pandemic

Insights into the California winegrape market in these uncertain times…

Jeff Bitter

February 2021

Why Uncertainty? 2021

LONG

In 2020, we knew what we needed:

We needed a quick supply reduction to "fix" our industry oversupply.

SHORT

2020 Crop/ Wildfires:

The market is positively affected via immediate supply fix.

Upper-end balancing.

SHIFT

Pandemic:

Consumers channel shift.

Supply-balanced regions become in demand.

Three "competing" dynamics

Framing the Presentation 2021

- **PART 1**
    - **Consumer Behaviors from 2020**
- **PART 2**
    - **2020 Nursery Survey results**
- **PART 3**
    - **Varietal acreage growth by price segment**
- **PART 4**
    - **Forecasting overall winegrape supply**
- **PART 5**
    - **The current grape market**

Part 1 2021

Consumer Behavior

Defining Consumer Trends 2021

OVERALL	COMMENTS
COVID channel shifting	• On to Off Premise ('homebody' economy) • E-commerce/digital explosion • ON the premises to more delivery/take-out – but not significant
Price Trade Up/Down	• Trading up: Off Premise Retail • Trading down: On to Off premise shifting over & down; DtC
Uneven Consumer Impacts	• Economic impacts: Constrained vs Insulated spenders? • Health/Safety impacts: (Self) Confined vs Unconfined?
Omni Consumer Factors	• Safety, Health & Wellness/Social Moderation, Transparency Convenience (where, what), Experience
Uneven Industry Impacts	• Depending upon prior channel mix, and ability to pivot
Bev Alc sales volume per capita up minimally	• Spirits winning, along with Beyond Core table wine and beer • Core Table wine flattish

Many UNDERLYING/PRIOR factors have NOT changed, or just ACCELERATED

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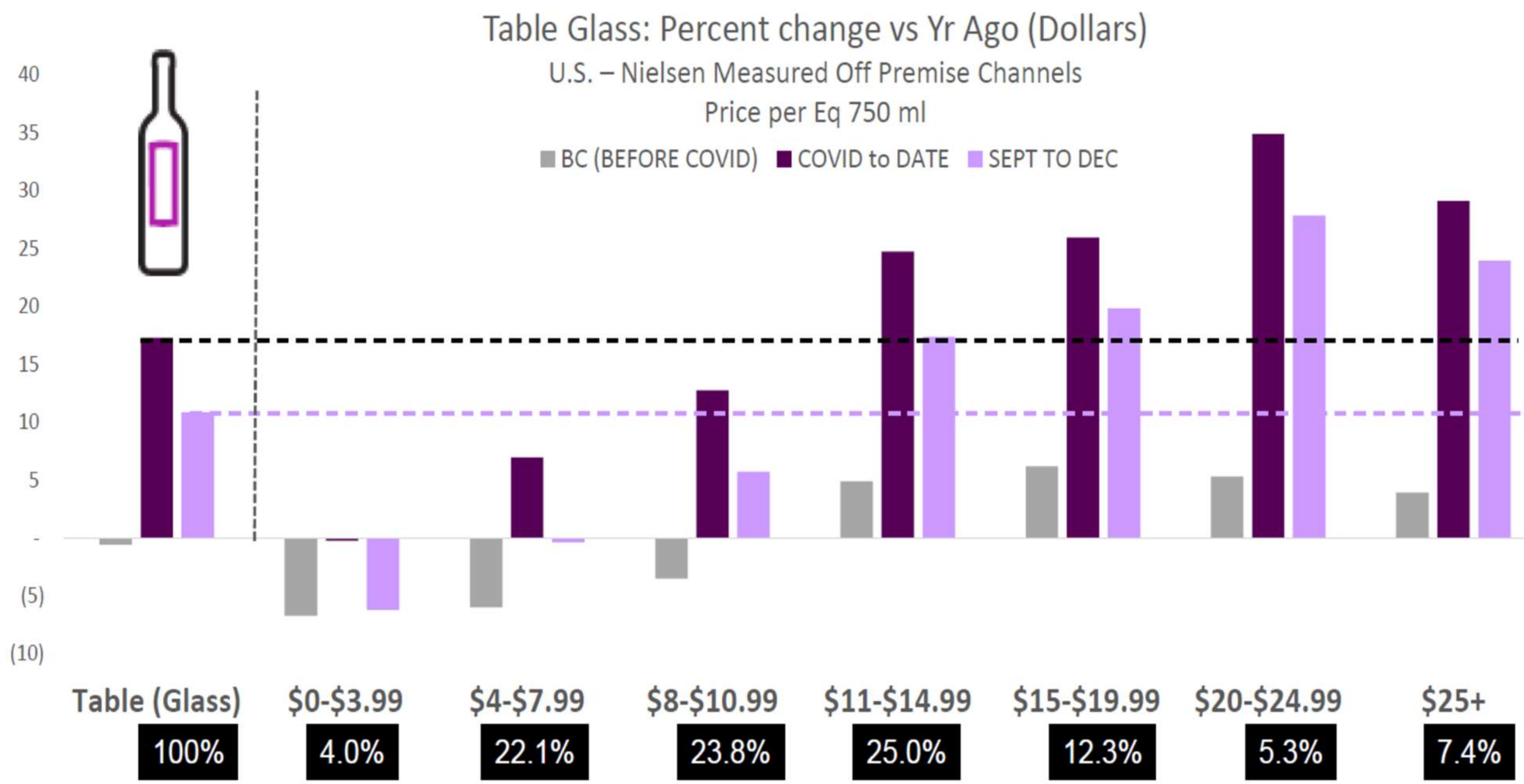
Defining Consumer Trends 2021



NielsenIQ Source: Nielsen Measured Off Premise Channels; Total U.S. (Dollars); Pre-COVID (52 w/e 2-29-2020); COVID YTD (w/e 3/7/2020 thru w/e 1/2/2021)

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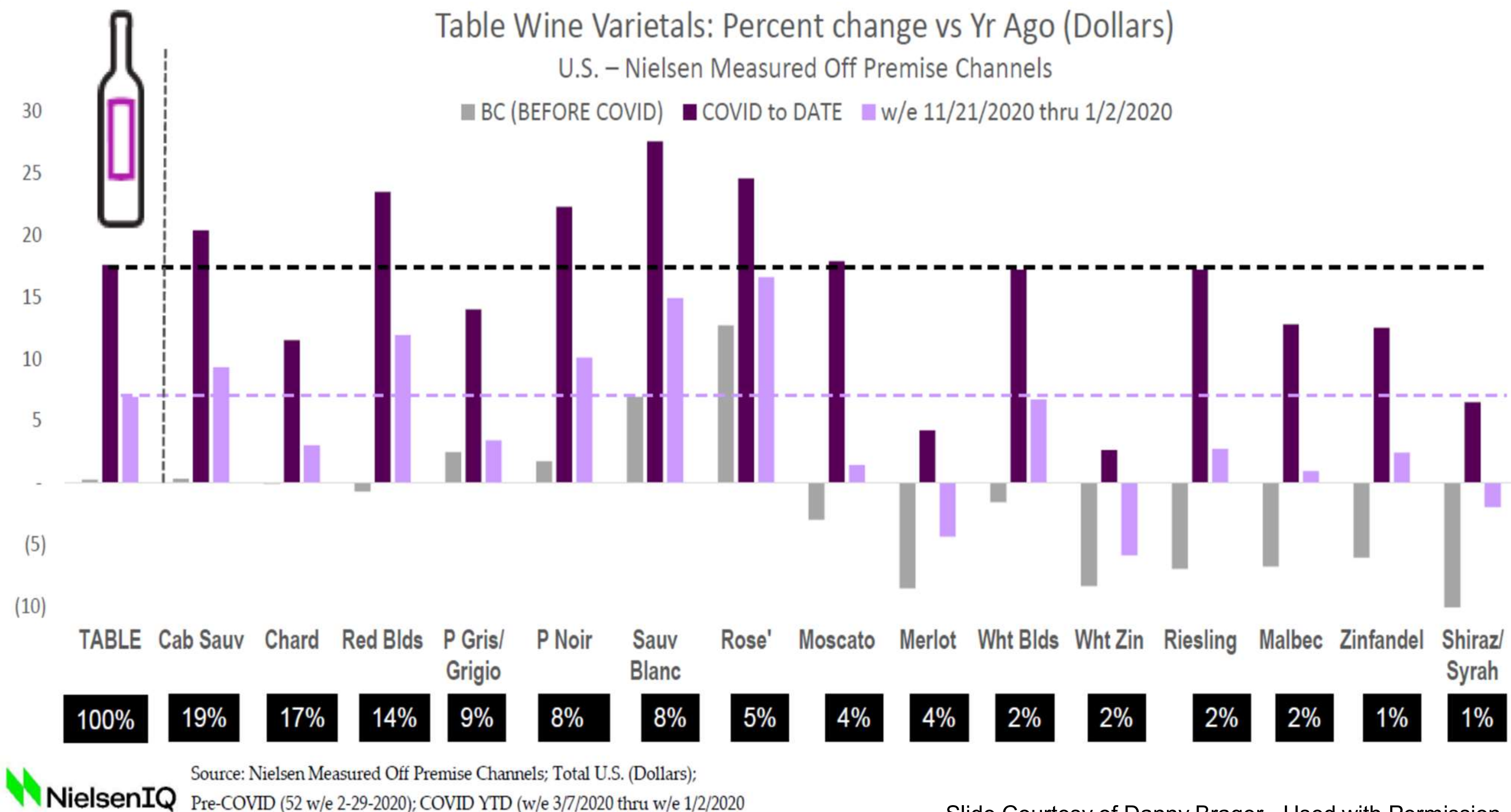
Defining Consumer Trends 2021



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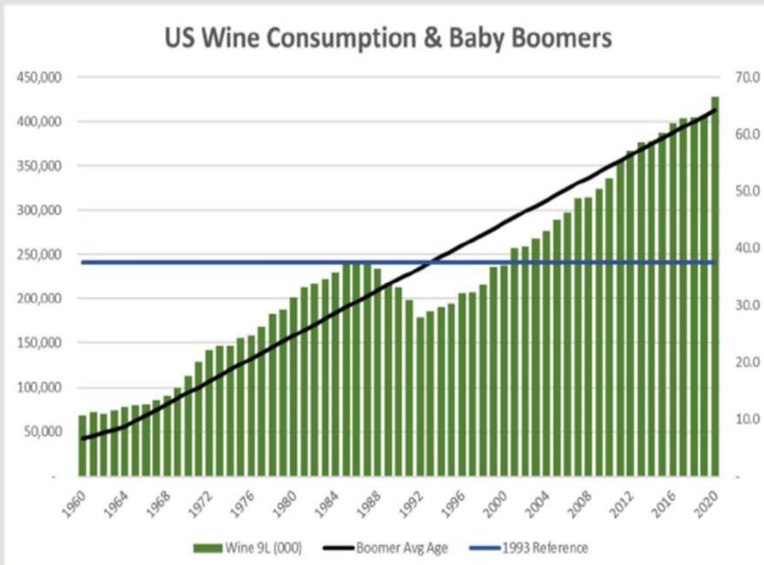

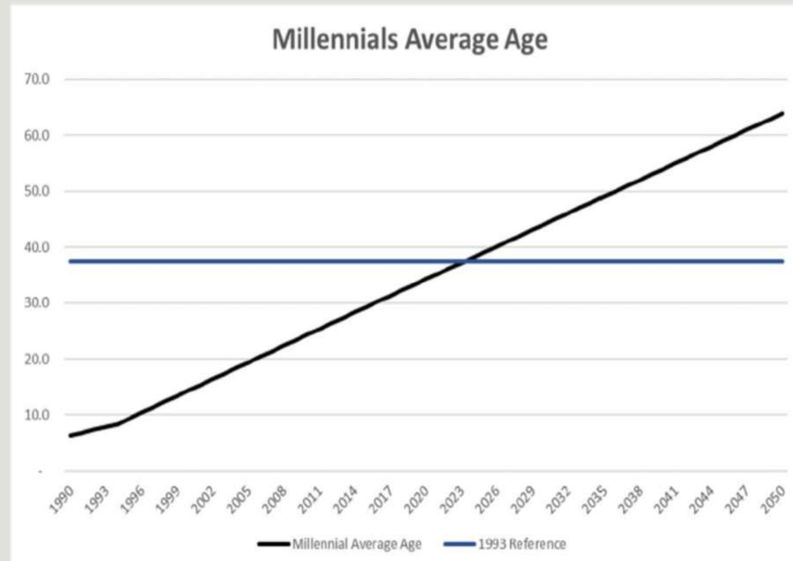

- Wine volumes have been growing since 1993. (+3.2% CAGR)
- Growth has slowed in past few years. (+1.0% CAGR)
- Boomers have driven category beginning in 1993 when they averaged 37 years of age.
- Evolution: Coolers to Fighting Varietals to Premium Varietals etc.
- Millennials will average 37 years of age in 2023.

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Defining Consumer Trends 2021

All Wines Entering US Distribution 9L (Millions)

All Wine Entering US	2018	2019	2020	19 vs 18	20 vs 18
Traditional Still Wines	335.31	335.40	341.25	0.0%	1.7%
Sparkling Wines	27.65	29.05	27.70	5.0%	-4.6%
Sub - Total	362.96	364.44	368.96	0.4%	1.2%
Bulk Imports	23.30	21.84	24.55	-6.3%	12.4%
Vermouth	2.95	3.16	6.31	7.0%	99.7%
Flavored Wine Products	15.40	16.90	32.18	9.7%	90.4%
Sub - Total	41.65	41.89	63.03	0.6%	50.5%
Total All Wines	404.61	406.34	431.99	0.4%	6.3%

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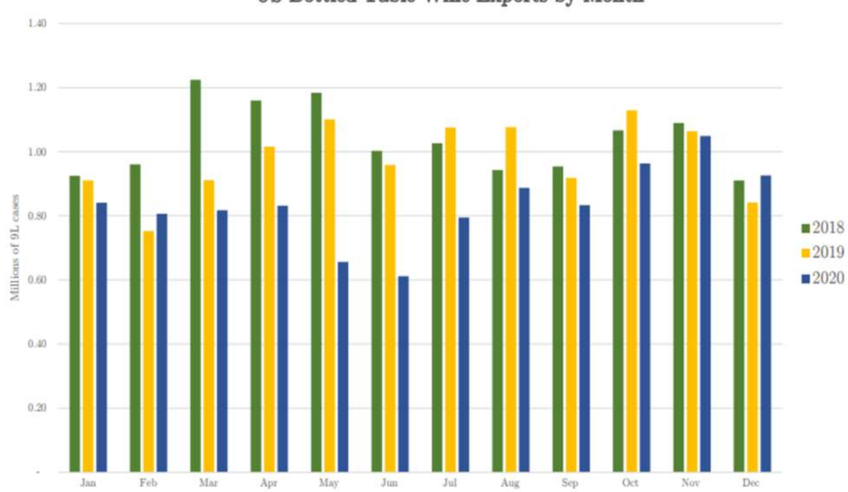
Defining Consumer Trends 2021

Domestic Wine Entering US Distribution 9L (Millions)					
Domestic Production	**2018**	**2019**	**2020**	**19 vs 18**	**20 vs 18**
Traditional Still Wines	255.06	255.23	262.61	0.1%	2.9%
Sparkling Wines	12.75	12.44	12.18	-2.5%	-2.1%
Sub - Total	267.81	267.67	274.79	-0.1%	2.7%



Source: U. S. Department of Commerce.

Summary by Wine Category

Description	9L Cases LYTD	9L Cases YTD	Case Change	% Change
Bottled Table Wines	11,756,615	10,022,169	(1,734,445)	-15%
Bottled Dessert Wine	3,145,427	2,997,765	(147,662)	-5%
Sparkling Wine	285,342	272,281	(13,061)	-5%
Effervescent Wine	693,179	190,720	(502,460)	-72%
Bottled Vermouth	198,780	240,953	42,173	21%
Sangria / Coolers	1,752,319	1,646,977	(105,342)	-6%
Bottled Cider	335,457	232,133	(103,323)	-31%
Sub Total Bottled	**18,167,118**	**15,602,998**	**(2,564,121)**	**-14%**
Bulk Table Wines	22,391,866	25,371,953	2,980,088	13%
Bulk Dessert Wines	254,657	785,470	530,813	++
Bulk Vermouth	357,403	140,957	(216,447)	-61%
Grape Must	7,721	19,257	11,536	149%
Sub Total Bulk	**23,011,647**	**26,317,637**	**3,305,990**	**14%**
Total Exports	**41,178,765**	**41,920,635**	**741,870**	**2%**

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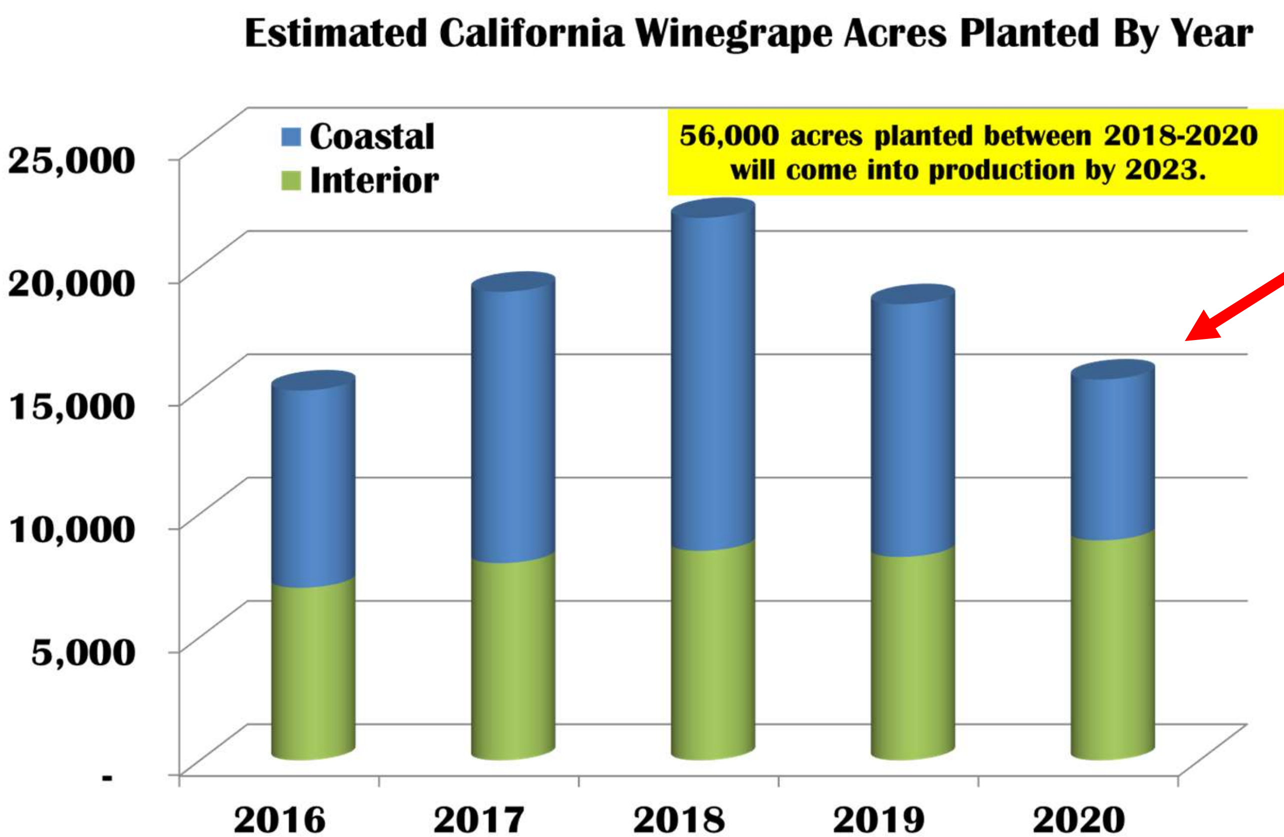
Part 2 2021

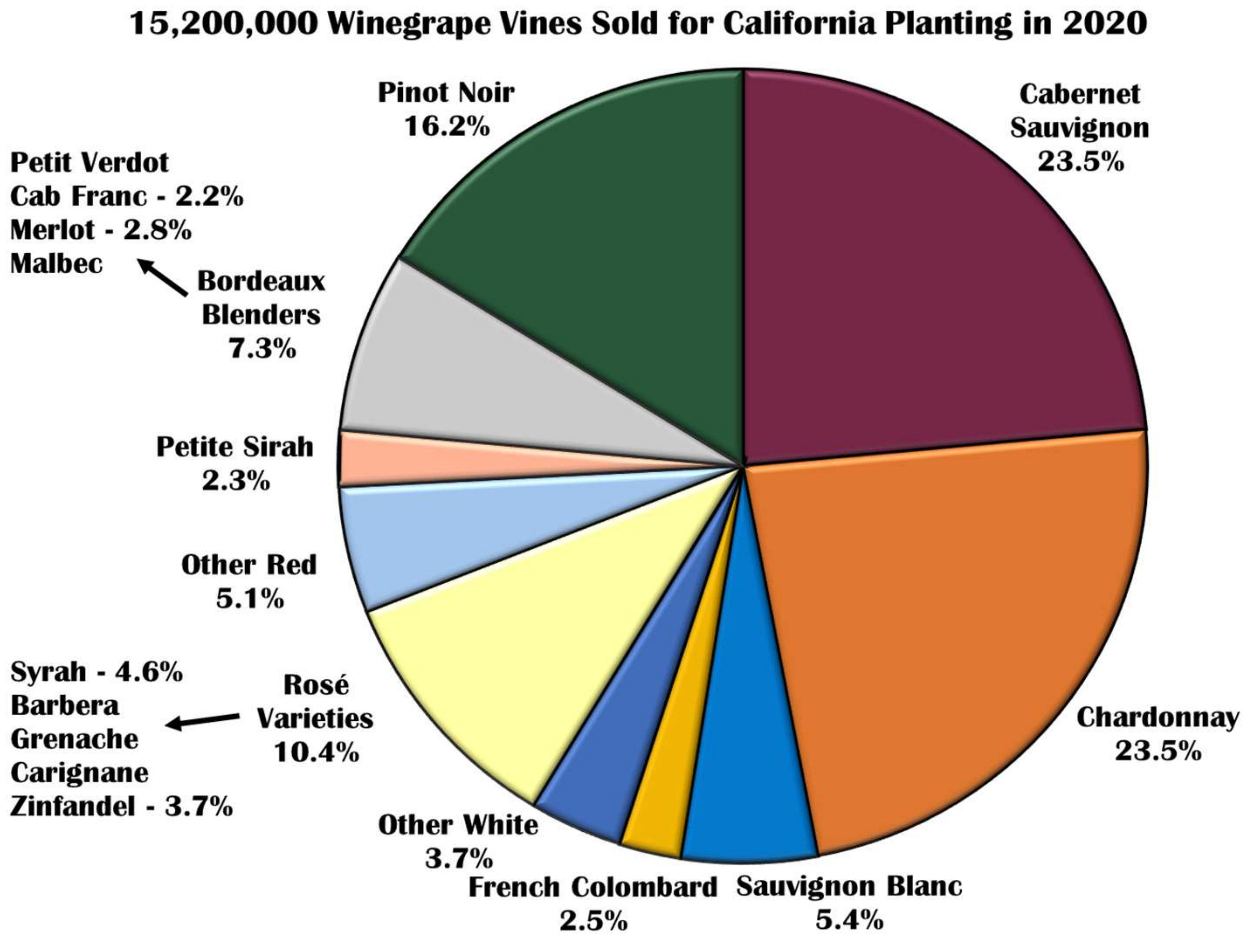
2020 Nursery Survey Results

Planting Trends 2021



- **Over 15,000 acres planted in 2020**
- **Coastal planting slows while interior increases slightly**
- **Non-bearing acres are about 10% of total acres**

Planting Trends 2021



- **35% White 65% Red**
- **Planting behavior hasn't changed much in recent years**

Planting Trends 2021

LDGGA

Over 70% of all current non-bearing acres consists of these four varieties.

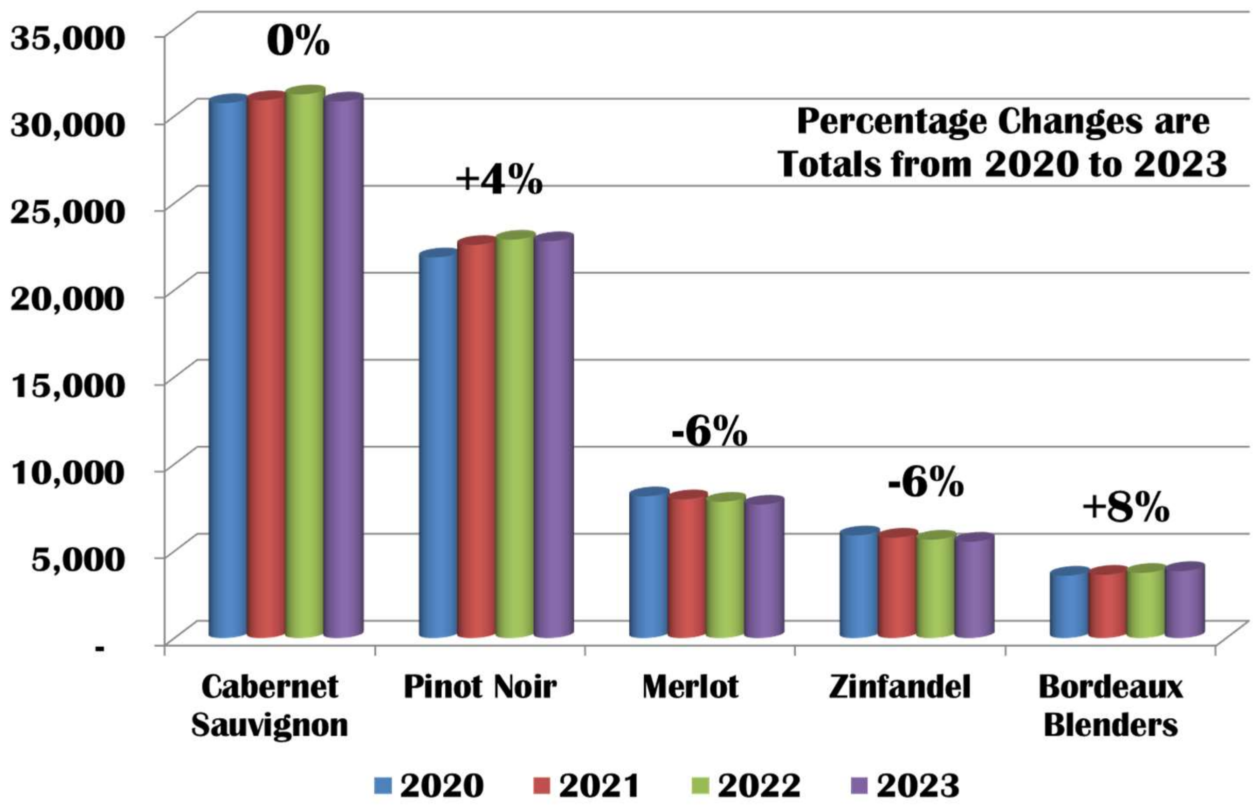
	Cabernet Sauvignon		Pinot Noir		Chardonnay		Sauvignon Blanc	
	Acres Planted	% of Vines	Acres Planted	% of Vines	Acres Planted	% of Vines	Acres Planted	% of Vines
2020	3,184	23.5%	2,207	16.2%	3,838	23.5%	894	5.4%
2019	4,425	27.1%	2,301	14.8%	4,281	22.4%	1,362	7.1%
2018	6,086	30.6%	5,080	25.6%	4,493	18.9%	1,848	7.2%
Totals:	13,695		9,588		12,612		4,104	

Part 3 2021

Forecasting by Price Segment

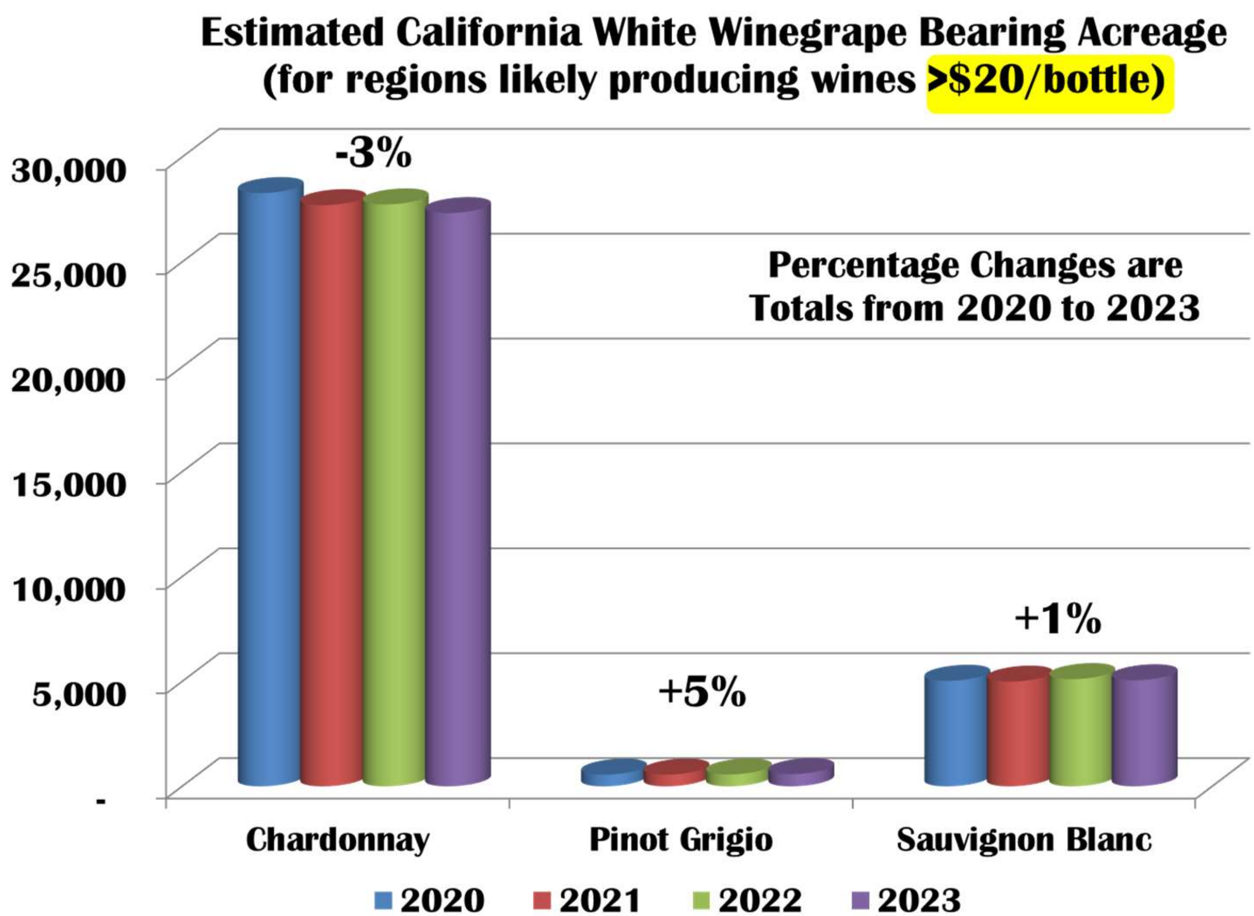
Forecasting Acreage 2021

Estimated California Red Winegrape Bearing Acreage (for regions likely producing wines >$20/bottle)



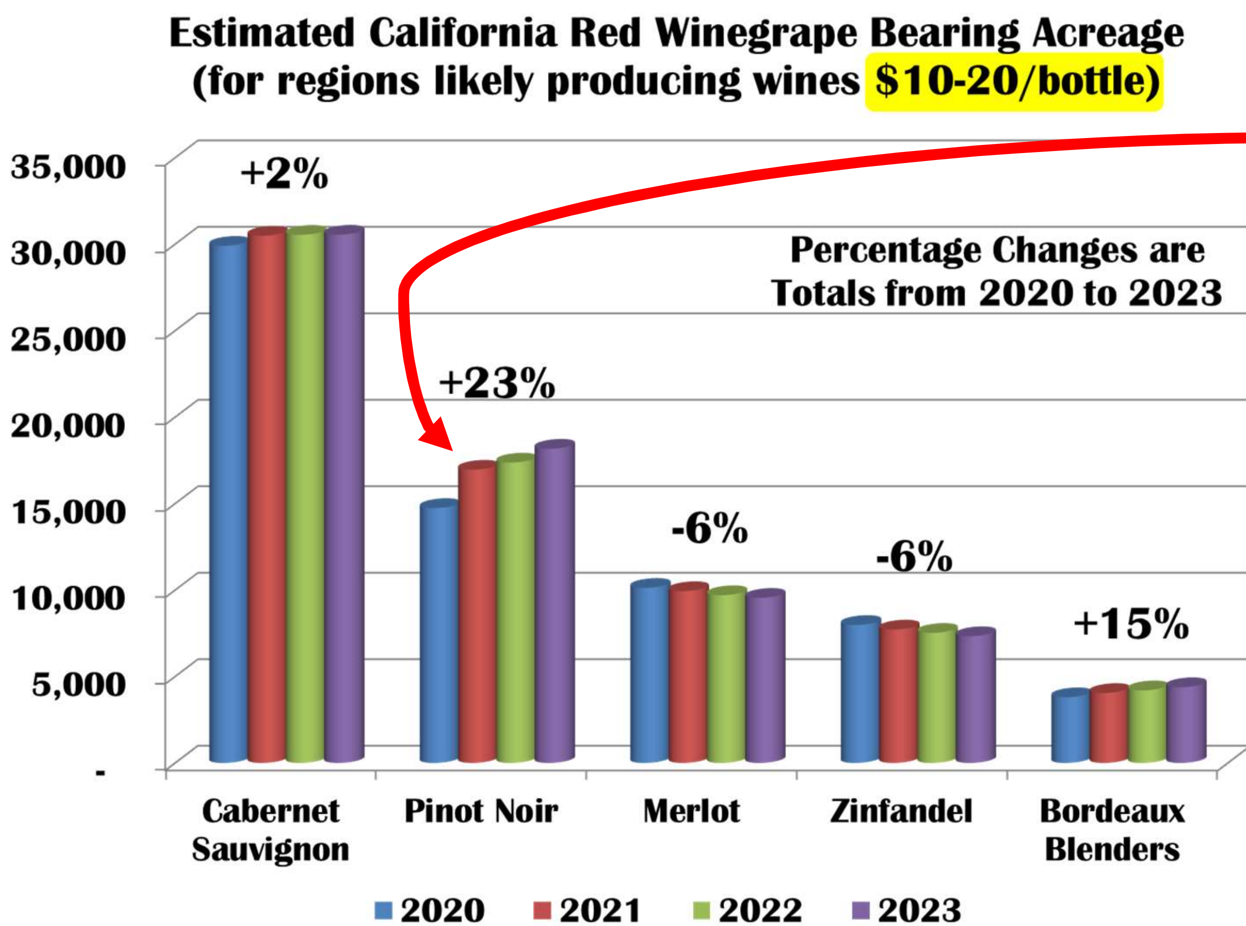
- **No double digit growth forecasts**
- **Most acres planted are "replacement" acres**
- **Supply/demand balance for >$20/bottle is based more on demand**

Forecasting Acreage 2021



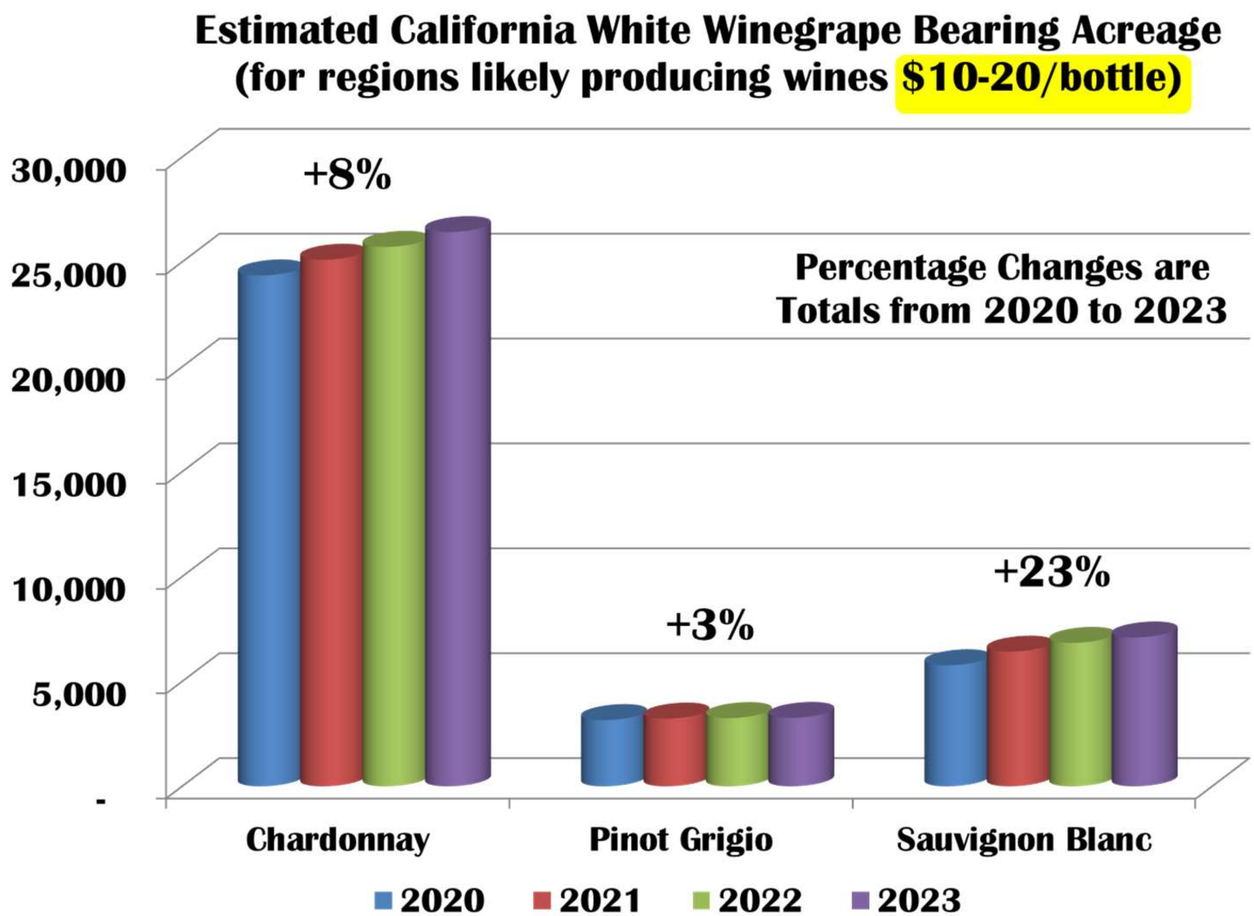
- No double digit growth forecasts
- Most acres planted are "replacement" acres
- Supply/demand balance here is based more on demand

Forecasting Acreage 2021



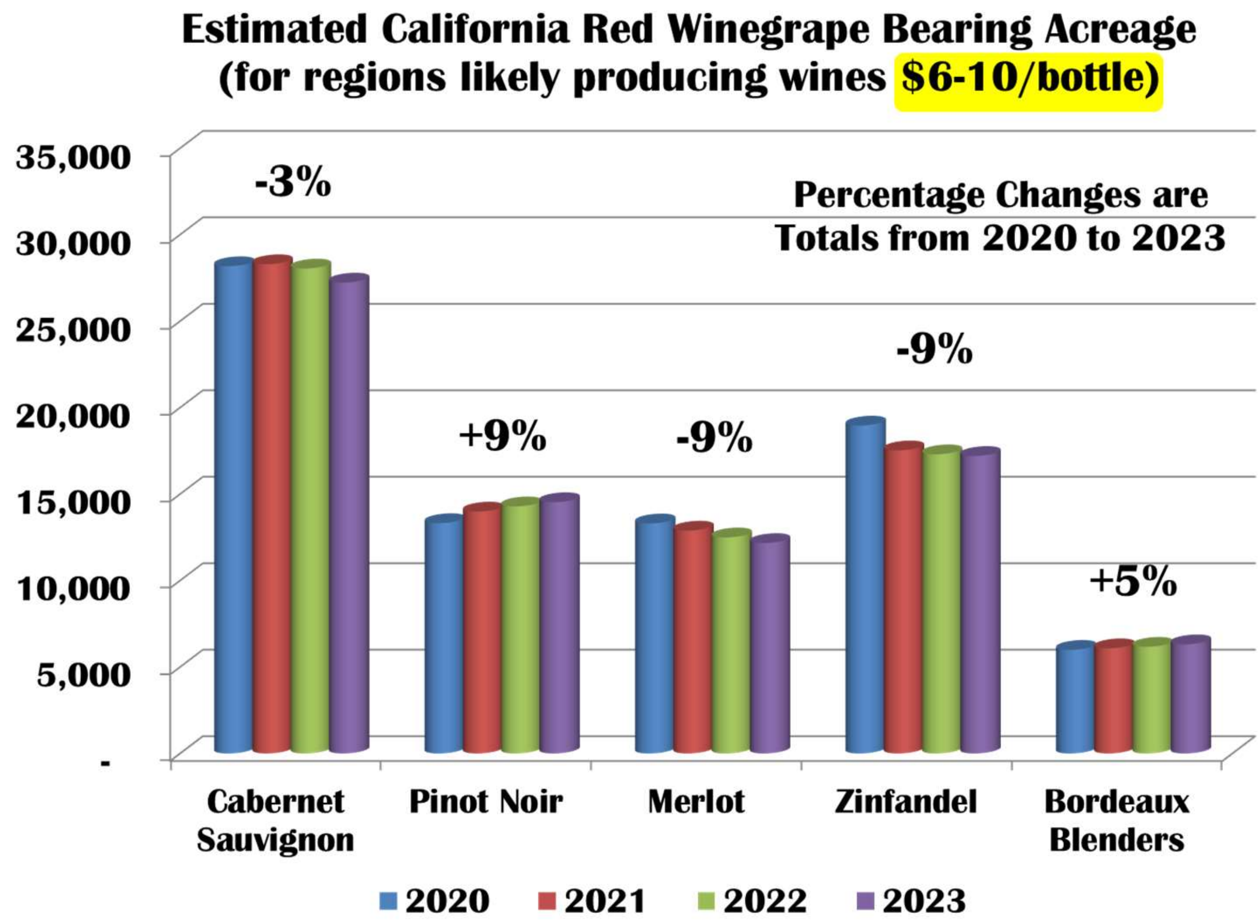
- Pinot Noir growth substantial, particularly this year
- Cabernet Sauvignon no longer double digit growth rates
- Blenders get honorable mention here

Forecasting Acreage 2021



- **Modest growth in Chardonnay and strong growth for Sauv Blanc**
- **Sauvignon Blanc not at market capacity yet – still room to grow?**

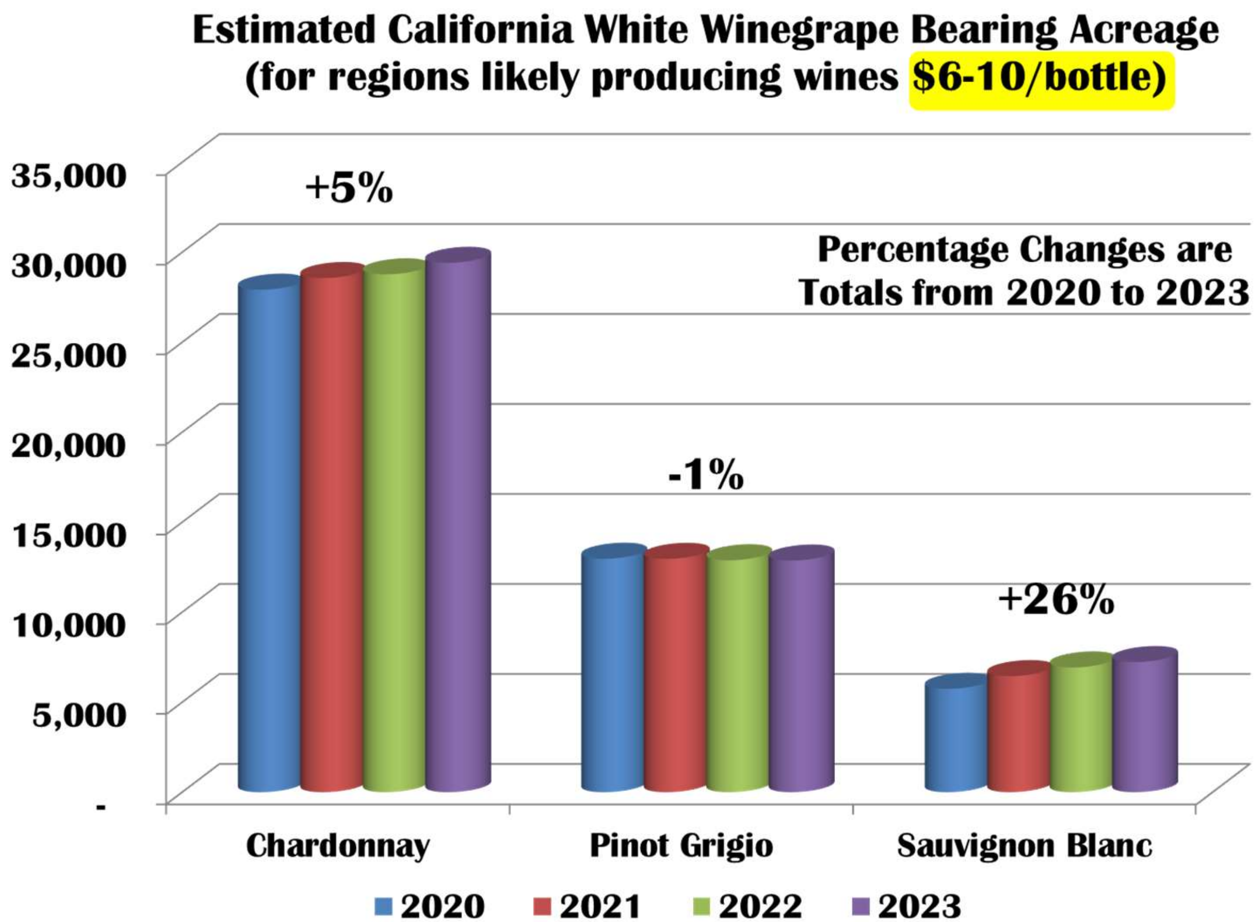
Forecasting Acreage 2021



- **This "no growth" scenario hits at a time where supply is desired**
- **Pinot Noir shows growth potential but probably least variety needed**

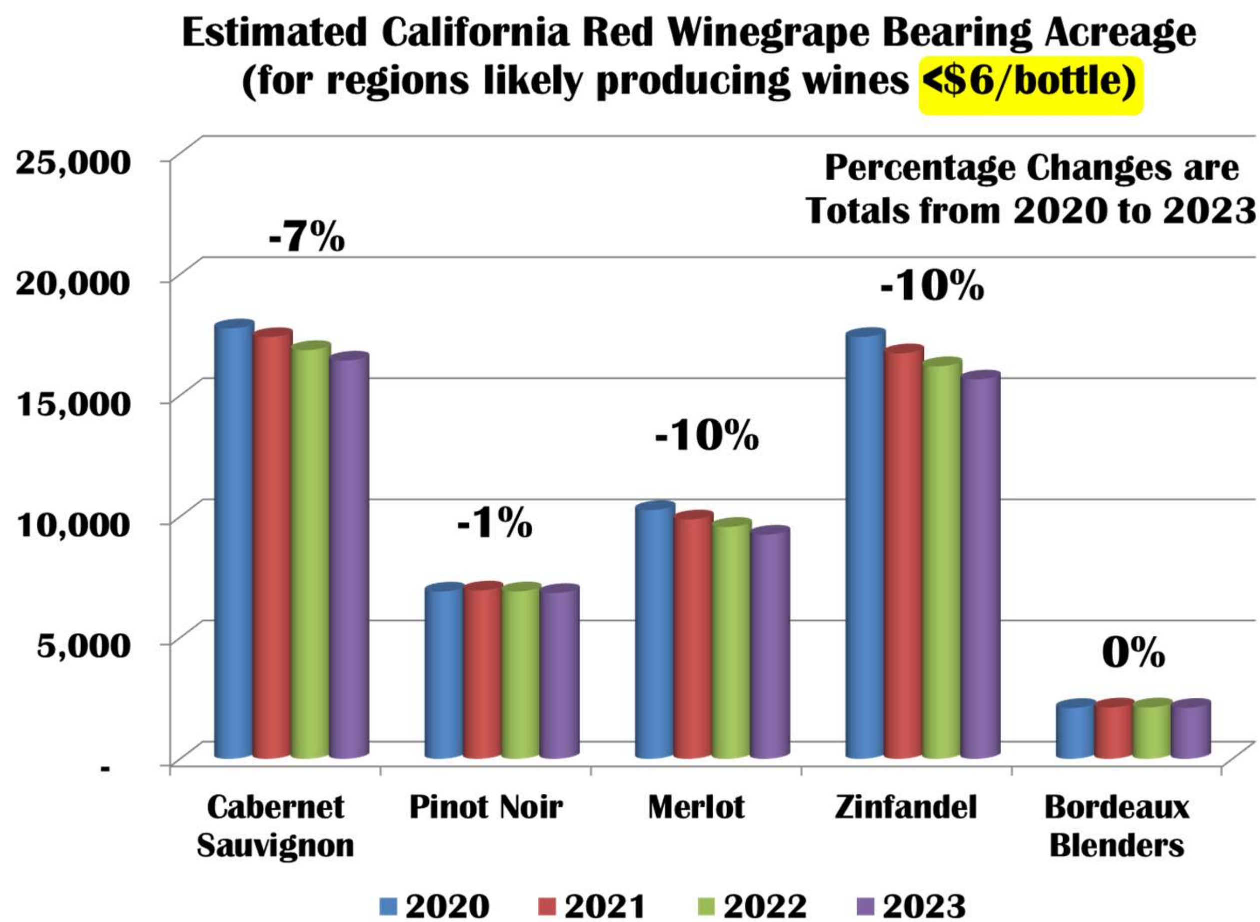
Forecasting Acreage

2021



- Similar numbers as the $10-20 segment
- Modest growth in Chardonnay and strong growth for Sauv Blanc
- Sauvignon Blanc not at market capacity yet – still room to grow?

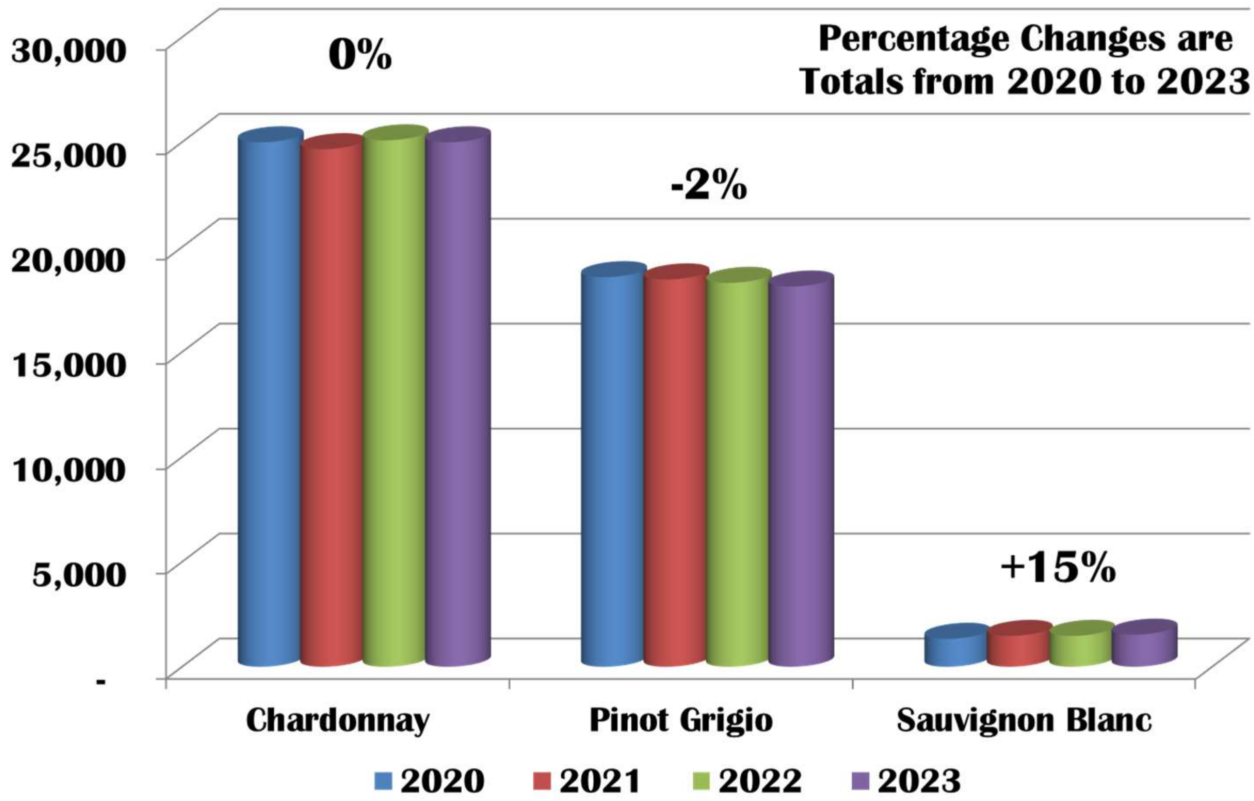
Forecasting Acreage 2021



- Declines across the board, as old vineyards are removed
- No new red varietal vineyards
- Planting is honed to include varieties suited for the interior

Forecasting Acreage 2021

Estimated California White Winegrape Bearing Acreage (for regions likely producing wines <$6/bottle)



- **Varieties that may experience increased production in the future are:**
  - **French Colombard**
  - **Muscat Alexander (florals)**
  - **Chardonnay**
  - **Pinot Grigio?**

Part 4 2021

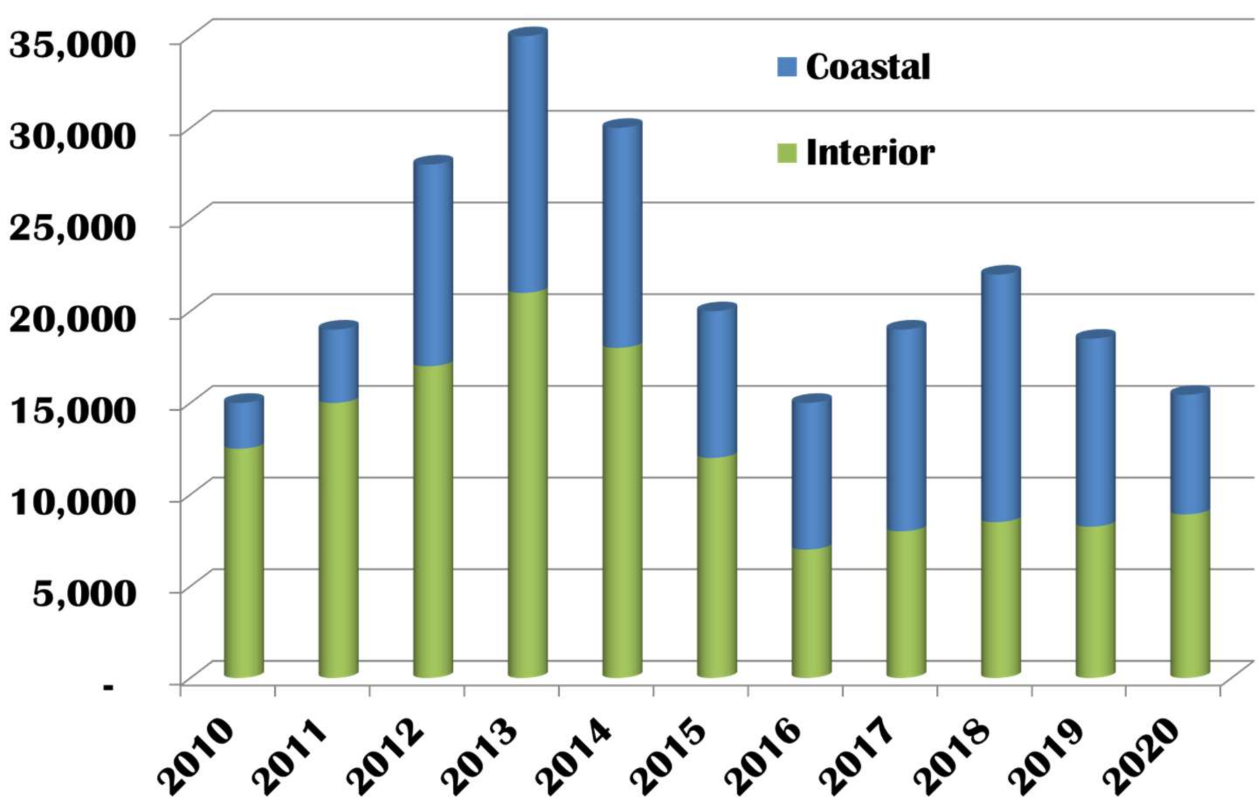
Forecasting Future Supply

2021

We will look at future production potential as a total, but it's worth noting that within the industry there are almost always areas of excess and shortage, regardless of the larger industry cycles.

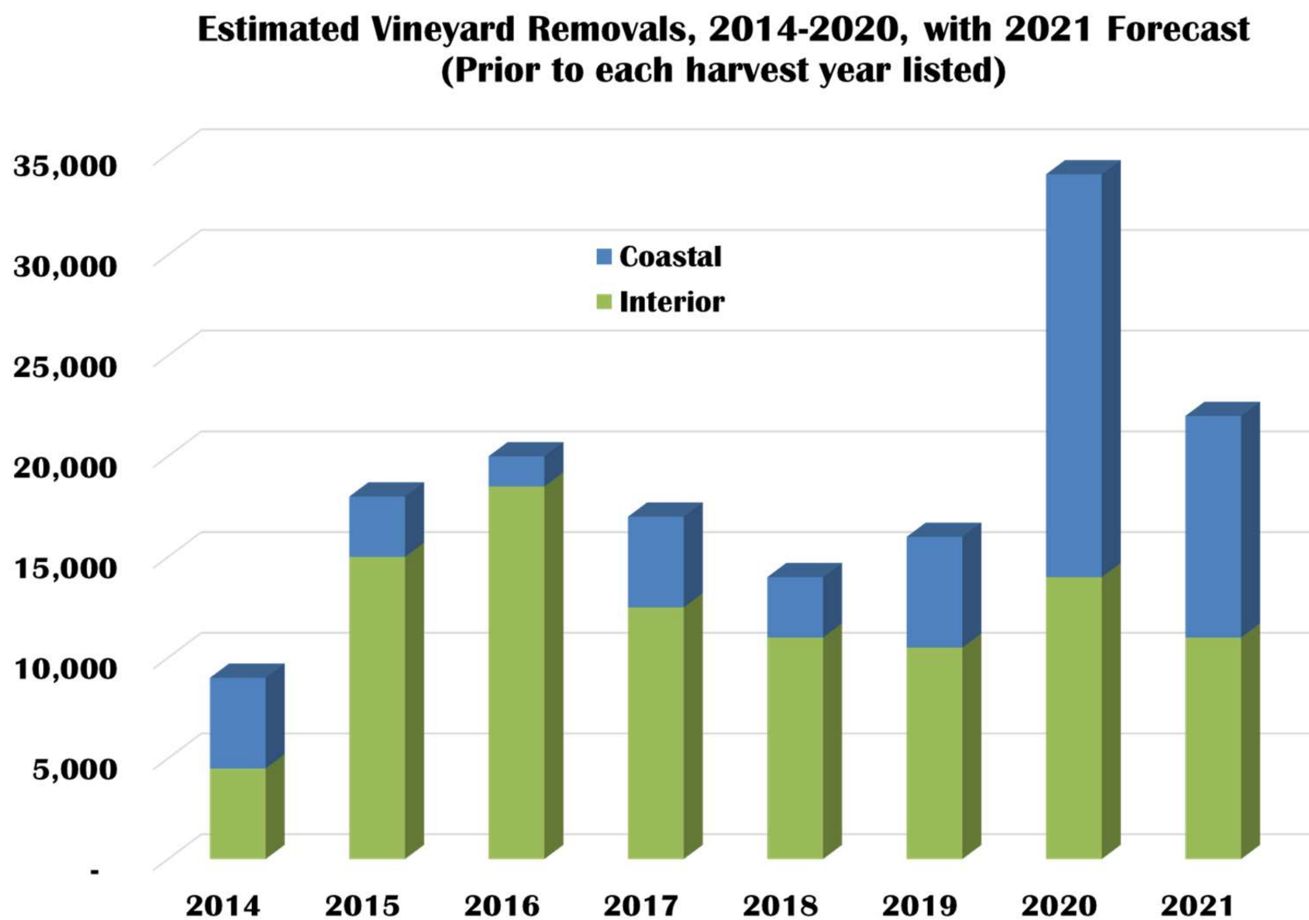
Planting Trends 2021

Estimated California Winegrape Acres Planted Annually



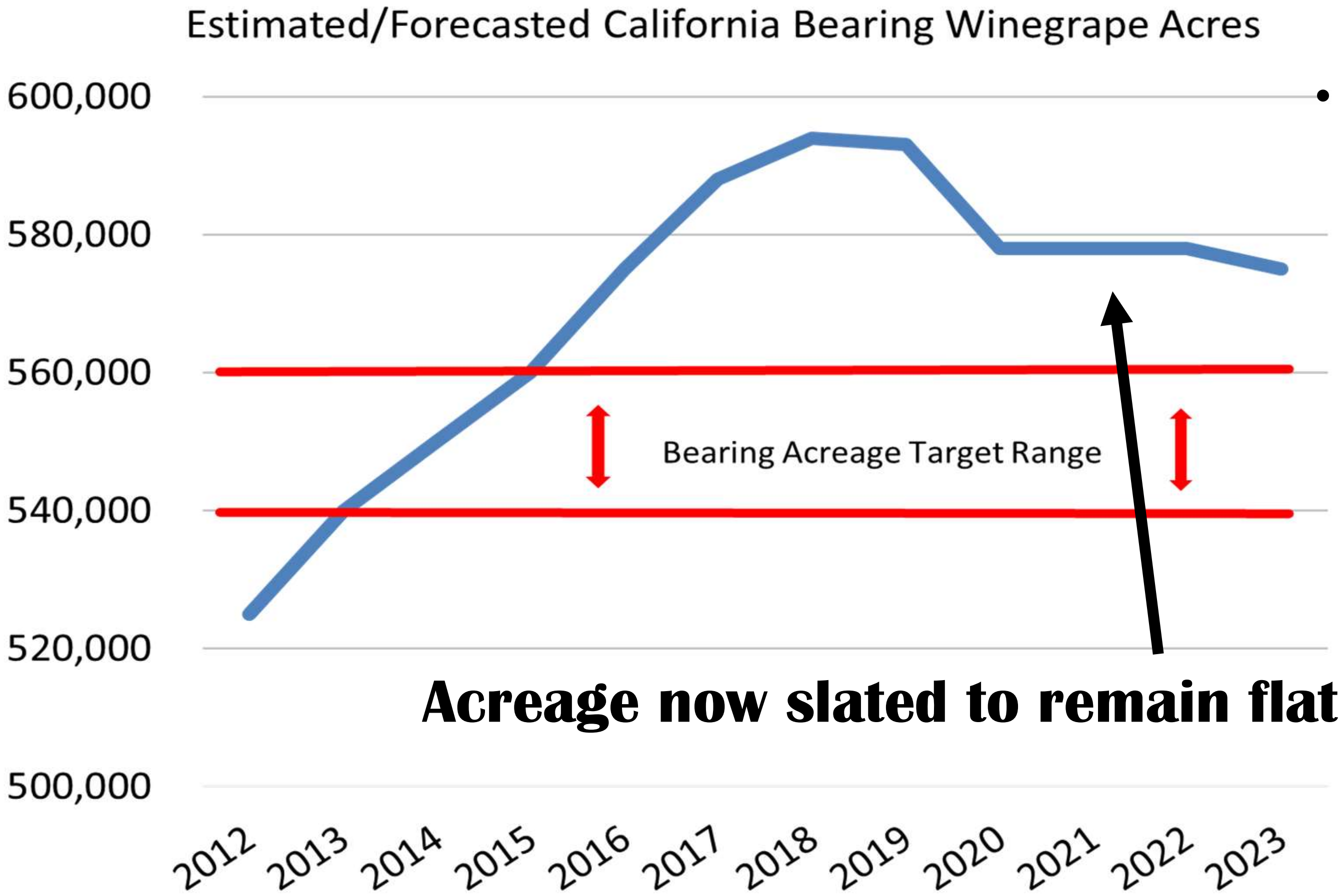
- **237,000 acres planted over 11 years.**
- **Assuming 33-year vineyard life, 11 years of planting should yield <200,000 acres on our current acreage base.**
- **We've overplanted by about 20% <u>during this period</u>**

California Winegrape Removals 2021



- A reduction in removals seems apparent in 2021.
- The interior regions are on par with recent years' removal amounts.
- Coastal areas slowed from 2020, but are still higher than previous years.

California Winegrape Acreage 2021



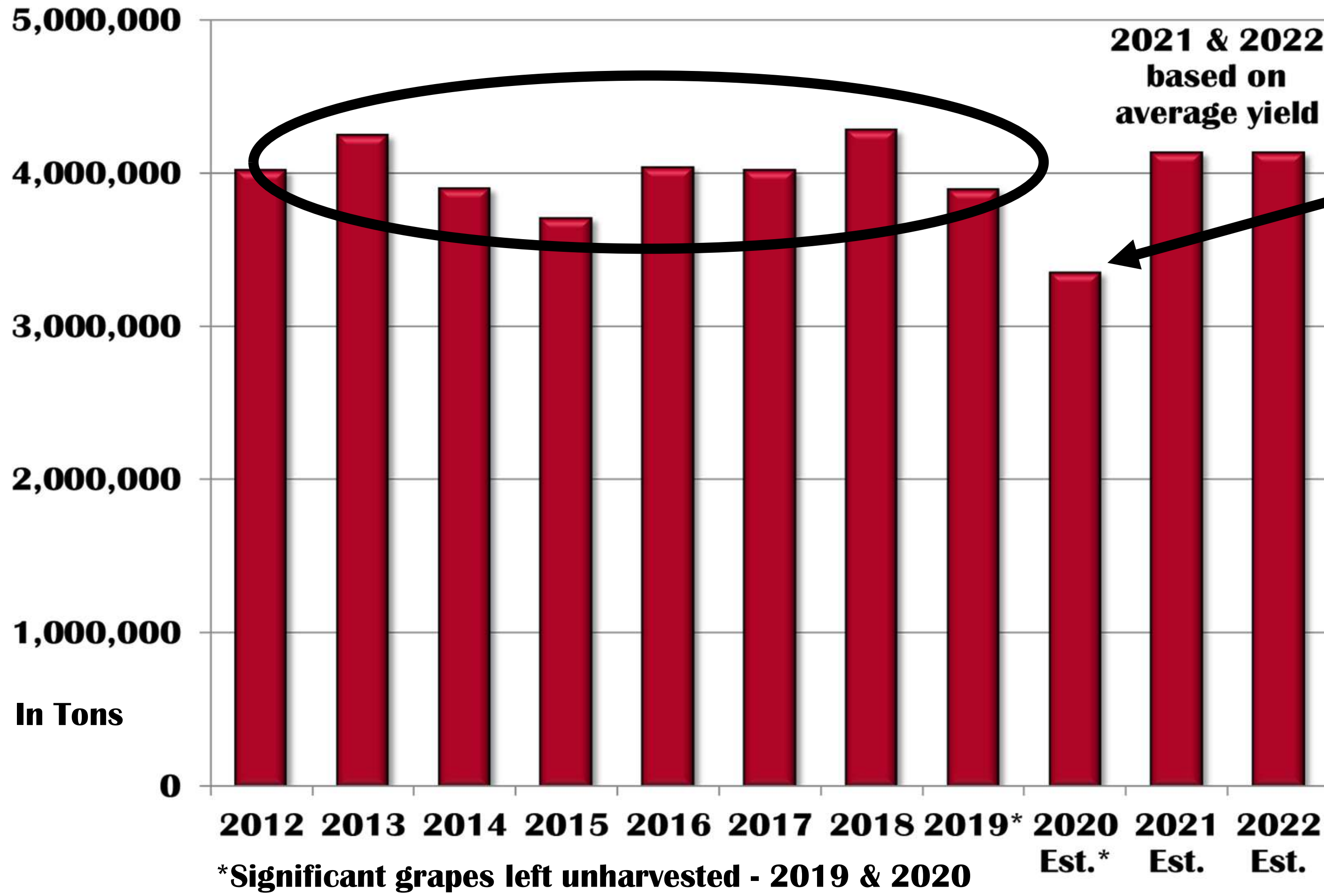
- **Considerations**
  - **New acres are more productive than those being removed**
  - **Plantings skewed "coastal" – lower production than interior removals**

Acreage Summary 2021

The structural oversupply issue that existed a year ago still exists today (but to a lesser degree)……

However, the manifestation of that issue is "down the road."

California Winegrape Crush 2021



This buys us time to make the corrections we discussed last year.

The question is, "How much time?"

This year's crop size will play a big role in determining the answer to that question.

We are still capable of producing over 4 million tons annually.

The Risk for Growers 2021

The short 2020 crush corrected our oversupply, but.....

if we don't experience wine shipment growth
coming out of the pandemic
AND/OR
we don't reduce our bearing acreage base further,
beyond 2021....

it's not a matter of "if" we become oversupplied again,
it's just a matter of "when"....

Framing Uncertainty 2021

Two Extreme Scenarios:

#1: 2021 yields match that of 2013, and we produce 4.5 million tons on our current acres. This fully backfills our shortage and immediately casts us into acreage removal mode again for 2022 and beyond.

#2: 2021 yields are below average by 10% and we produce well under 4,000,000 tons. This exacerbates the shortage. Vineyards stay in production, while we strive for shipment growth that justifies our current base of acres. (i.e., it buys us some time.)

Part 5 2021

The Current Market

Understanding the Message 2021

I'm not throwing cold water on the market....

What's Happening Today? 2021

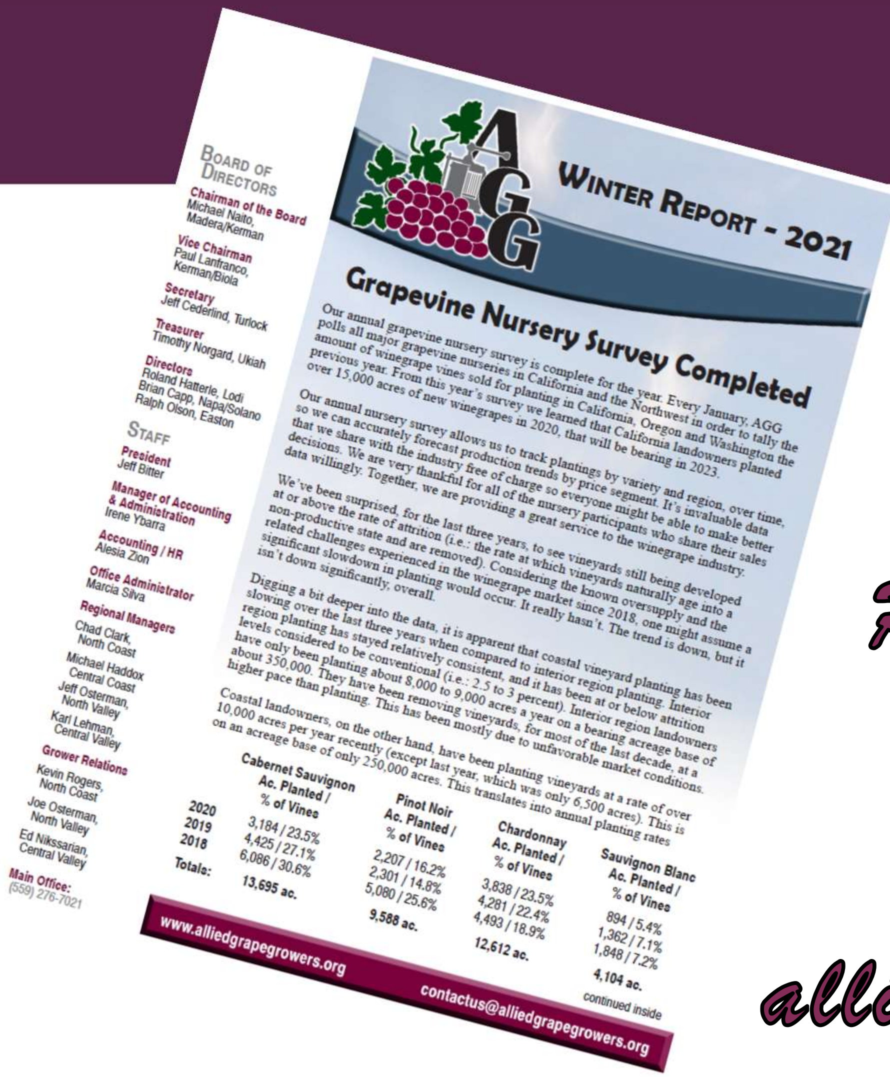
- Grape market activity is brisk in the interior regions and "improved" in the coastal regions.
- Buyers/sellers are playing "musical chairs", which adds to the perception and reality of market activity.
- Outside of another smoke event or a bumper crop, it's unlikely any substantial amount of 2021 winegrapes will go unsold/unharvested.
- Grape buyers are active to avoid being short on supply. In this market, going short means you don't simply lose opportunity, you lose "share."
- Prices have been stabilizing at levels that cover cost of production but don't necessarily provide a return on investment.
- The much industry-publicized Gallo/Constellation "deal" closed recently, providing additional stability to the market.
- Limited return of planting contracts….

What's Happening Today? 2021

- Smoke Exposure is at the Forefront….
  - New clauses surfacing in contracts
  - Clauses written to benefit/protect buyers
  - Rejection with detection is extreme
  - Some buyers recommending or even "requiring" crop insurance
  - Smoke exposure concerns are a function of the market

Rejection With Detection

2021



Winter Report - 2021

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Main Office:
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Grapevine Nursery Survey Completed

Our annual grapevine nursery survey is complete for the year. Every January, AGG polls all major grapevine nurseries in California and the Northwest in order to tally the amount of winegrape vines sold for planting in California, Oregon and Washington the previous year. From this year's survey we learned that California landowners planted over 15,000 acres of new winegrapes in 2020, that will be bearing in 2023.

Our annual nursery survey allows us to track plantings by variety and region, over time, so we can accurately forecast production trends by price segment. It's invaluable data that we share with the industry free of charge so everyone might be able to make better decisions. We are very thankful for all of the nursery participants who share their sales data willingly. Together, we are providing a great service to the winegrape industry.

We've been surprised, for the last three years, to see vineyards still being developed at or above the rate of attrition (i.e.: the rate at which vineyards naturally age into a non-productive state and are removed). Considering the known oversupply and the related challenges experienced in the winegrape market since 2018, one might assume a significant slowdown in planting would occur. It really hasn't. The trend is down, but it isn't down significantly, overall.

Digging a bit deeper into the data, it is apparent that coastal vineyard planting has been slowing over the last three years when compared to interior region planting. Interior region planting has stayed relatively consistent, and it has been at or below attrition levels considered to be conventional (i.e.: 2.5 to 3 percent). Interior region landowners have only been planting about 8,000 to 9,000 acres a year on a bearing acreage base of about 350,000. They have been removing vineyards, for most of the last decade, at a higher pace than planting. This has been mostly due to unfavorable market conditions.

Coastal landowners, on the other hand, have been planting vineyards at a rate of over 10,000 acres per year recently (except last year, which was only 6,500 acres). This is on an acreage base of only 250,000 acres. This translates into annual planting rates

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continued inside

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Read more in our Winter Report on-line at alliedgrapegrowers.org