

COVID-19 and the California Grape Harvest

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Wine Grape Processing

Wine Grapes are typically crushed in the fall of each year.

The wines produced from each crush will be sold on a sliding time horizon. Some wines may be released within four months of crush, while others may be processed and aged for three years or more.

COVID-19 has materially slowed wine sales in certain channels of trade. The result of the slowdown is that certain wines will not sell in their expected timeframe.

Given this slowing of sales, wineries will adjust their purchases of wine grapes from the 2020 harvest, likely reducing total purchases from wine grape growers.

Growers will incur these lost sales of their grapes this fall.

The impact of these lost sales is estimated at \$437 Million.

Wine Industry Overview

The California wine industry grew at a 3.4% compound annual growth rate by volume for 25 years. Recently the annual growth in wine sales has slowed to roughly 1.0%

The industry has struggled to adjust to slower growth in consumer demand. At the end of 2019 the industry was sitting on approximately 10% excess inventory due primarily to a large 2018 grape crop. COVID-19 is exacerbating this problem.

Wine sales by volume are reported as Nine Liter (9L) cases, which represents 12 bottles of 750ml volume. The wine industry tracks sales in Off-Premise and On-Premise market channels. Off-Premise includes major supermarkets, club stores, wine and spirits shops, winery tasting rooms, etc. On-Premise includes restaurants, hotels, stadiums, etc.

The Nielsen channels report wine sales by major Off-Premise retailers. These channels have lower retail prices and have been showing significant sales growth during the COVID-19 pandemic. In 2019 Nielsen channels represented 53% of Off-Premise wine sales by volume, but only 36% of Off-Premise wine sales by value. In contrast, sales through other higher value channels, such as restaurants and winery tasting rooms, have been severely disrupted.

Assuming a slow re-opening of the economy, the retail value of California wine sales over 12 months can be expected to decline by -\$3.6 Billion. The value of the decline is calculated as if all wines were sold in the Off-Premise. However, On-Premise typically has much higher prices, so the decline in consumer spending will be much greater.

The impact on California wine grape growers is projected at a minimum of -\$437 Million lower revenue for the 2020 crop. When the full effect of the current excess inventory position is considered, the economic impact for growers could be as large as -\$832 Million for the 2020 crop.

California Grape Crush

Year	Tons Purchased (000)	Value (USD Million)	Winery Tons (000)	Est Value Winery Tons (USD Millions)	Tons Crushed (000)	Total Value (USD Millions)
2010	3,286	\$1,781	697	\$720	3,983	\$2,501
2011	3,239	\$1,897	632	\$658	3,871	\$2,556
2012	3,626	\$2,662	758	\$977	4,383	\$3,639
2013	3,858	\$2,729	838	\$1,040	4,696	\$3,769
2014	3,331	\$2,462	808	\$1,006	4,139	\$3,468
2015	3,203	\$2,139	662	\$769	3,865	\$2,908
2016	3,454	\$2,581	734	\$994	4,188	\$3,575
2017	3,460	\$2,675	762	\$1,061	4,222	\$3,735
2018	3,629	\$3,009	872	\$1,345	4,501	\$4,354
2019	3,116	\$2,454	959	\$1,306	4,075	\$3,760
2020 Projected Availability	3,400	\$2,720	950	\$1,283	4,350	\$4,003
COVID-19 Impact	(100)	(\$291)	(50)	(\$146)	(150)	(\$437)
2018 Carryover Impact	(335)	(\$304)	(100)	(\$91)	(435)	(\$395)
2020 Projected Winery Needs	2,965	\$2,125	800	\$1,046	3,765	\$3,171

Data obtained from the California grape crush reports.

The value in the grape crush report only represents purchases from growers unaffiliated with wineries.

Winery tonnage is total crush less tons purchased.

Value of winery tonnage based on average by district by varietal.

The 2020 estimates illustrate the potential losses to address the COVID-19 impacts as well as excess inventory from 2018.

The COVID-19 impact has a much higher value per ton due to the sales channels most affected.

California Wine Sample Grape Share of Retail Price

	USD Value	Share of Retail
Retail Price per 750 ml Bottle	\$10.00	
Retail Price per 9L case (12 X 750 Bottle)	\$120.00	100.0%
Retailer Margin 33.33% (50% Mark-up)	\$40.00	33.3%
Wholesale Price	\$80.00	66.7%
Wholesaler Margin 25% (33.33% Mark-up)	\$20.00	16.7%
Winery FOB	\$60.00	50.0%
Winery Margin 50%	\$30.00	25.0%
Cost of Goods	\$30.00	25.0%
Winemaking, Packaging etc	\$15.00	12.5%
Grape Cost	\$15.00	12.5%
<i>The above represents the average economics for a bottle of California wine.</i>		
<i>With over 4,000 wineries in California the economics can vary by winery.</i>		
<i>On an industry average, grapes represent 12.5% of the value of a bottle of wine at retail.</i>		

California Wine US Sales - 12 months to February 2020

Price Bracket / 750ml eqv.	Nielsen Volume 9L (Thousands) ¹	Nielsen Share ²	Total Market Volume 9L (Thousands) ³	Total Retail Value USD (Millions) ⁴
Under \$4.00	36,322	55%	66,039	\$2,457
\$4.00 to \$7.00	42,513	55%	77,297	5,332
\$7.00 to \$10.00	17,081	55%	31,057	3,641
\$10.00 to \$12.00	8,506	45%	18,903	2,802
\$12.00 to \$15.00	7,623	35%	21,779	3,891
\$15.00 to \$20.00	5,529	25%	22,116	5,061
\$20.00 to \$50.00	2,366	13%	18,260	7,151
\$50.00 Plus	212	10%	2,116	2,006
Total	120,152	47%	257,566	\$32,341

Value of all wine purchased by US consumers. Value based on if all wine was sold in Off-Premise.

1 - Nielsen volume is reported in their xAOC and LiquorPlus channels.

2 - Nielsen share is the percentage of Nielsen reported volume relative to total US wine sales of California wines by volume.

3- Total market is based on tax paid shipments and analysis of various data sources to allow segmentation by price point.

4 - Retail value is base on analysis of price points of major brands as well as price allocations for smaller brands by appellation

Three Year Average California Grape Crop (2017 to 2019) USD Millions

\$3,950

Grape Purchases Share of Retail Value (Similar to estimates on Page 5)

12.2%

US Sales of California Wines by Volume - 12 Months to Feb. 2020 - 9L (Thousands)

Price Bracket	Off Premise	On Premise	Wine Club	Tasting Room	Total
Under \$4.00	59,435	6,604	0	0	66,039
\$4.00 to \$7.00	67,248	10,049	0	0	77,297
\$7.00 to \$10.00	25,777	4,659	0	621	31,057
E. \$10.00 to \$12.00	14,744	3,403	0	756	18,903
F. \$12.00 to \$15.00	15,681	4,791	436	871	21,779
G. \$15.00 to \$20.00	13,270	5,308	1,327	2,212	22,116
\$20.00 to \$50.00	7,852	5,478	2,191	2,739	18,260
\$50.00 Plus	635	846	212	423	2,116
Total 9L CA Wine	204,642	41,137	4,165	7,622	257,566

Projected US Sales of California Wines by Volume - 12 Months to Feb. 2021 - 9L (Thousands)

Price Bracket	Off Premise	On Premise	Wine Club	Tasting Room	Total
Under \$4.00	65,379	2,642	0	0	68,020
\$4.00 to \$7.00	73,973	4,019	0	0	77,992
\$7.00 to \$10.00	28,355	1,863	0	248	30,467
E. \$10.00 to \$12.00	16,219	1,361	0	302	17,882
F. \$12.00 to \$15.00	17,249	1,917	392	348	19,906
G. \$15.00 to \$20.00	14,597	2,123	1,194	885	18,799
\$20.00 to \$50.00	8,637	2,191	1,972	1,096	13,896
\$50.00 Plus	698	339	190	169	1,396
Total 9L CA Wine	225,106	16,455	3,749	3,049	248,359

Off Premise - Major retailers, liquor stores, club stores, etc.

On Premise - Restaurants, Hotels, Stadiums, etc.

Wine Club - Volumes sold on a recurring basis to consumers and shipped to the consumers home.

Tasting Room - Volumes sold to consumers when they visit wineries.

12 Month COVID-19 Impact on Volumes of California Wines - 9L (Thousands)

Price Bracket	Off Premise	On Premise	Wine Club	Tasting Room	Total
Under \$4.00	5,944	-3,962	0	0	1,981
\$4.00 to \$7.00	6,725	-6,029	0	0	696
\$7.00 to \$10.00	2,578	-2,795	0	-373	-590
E. \$10.00 to \$12.00	1,474	-2,042	0	-454	-1,021
F. \$12.00 to \$15.00	1,568	-2,875	-44	-523	-1,873
G. \$15.00 to \$20.00	1,327	-3,185	-133	-1,327	-3,317
\$20.00 to \$50.00	785	-3,287	-219	-1,643	-4,364
\$50.00 Plus	63	-508	-21	-254	-719
Total 9L CA Wine	20,464	-24,682	-417	-4,573	-9,208

12 Month Retail Value Impact of COVID-19 - USD (Millions)

Price Bracket	Off Premise	On Premise	Wine Club	Tasting Room	Total
Under \$4.00	\$221	(\$147)	\$0	\$0	\$74
\$4.00 to \$7.00	464	(416)	0	0	48
\$7.00 to \$10.00	302	(328)	0	(44)	(69)
E. \$10.00 to \$12.00	219	(303)	0	(67)	(151)
F. \$12.00 to \$15.00	280	(514)	(8)	(93)	(335)
G. \$15.00 to \$20.00	304	(729)	(30)	(304)	(759)
\$20.00 to \$50.00	308	(1,287)	(86)	(644)	(1,709)
\$50.00 Plus	60	(482)	(20)	(241)	(682)
Total CA Wine	\$2,157	(\$4,205)	(\$144)	(\$1,392)	(\$3,584)
COVID-19 Impact (Grape share of Retail Value Impact)					(\$437)
2018 Carryover Impact					(\$395)
Total California Grape Grower Risk					(\$832)

COVID-19 Assumptions

The wine market will not move towards a full recovery until a vaccine is widely available.

An optimistic timing for a vaccine is the first quarter of 2021.

Consumers will purchase more of their wines at retail, but restaurant sales and winery visits will significantly decrease.

The market will see a gradual increase in restaurant sales and winery visits beginning in June 2020.

From March 2020 to February 2021 the forecast volume impact on sales channels are:

- Off Premise channels: +10%
- Restaurant channels: -60%
- Winery Wine Clubs: -10%
- Winery Tasting Rooms: -60%