State of the Industry
– the Demand Side

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Brager Beverage Alcohol Consulting

January 25, 2023
Sacramento, California
1. The Consumer
2. The Competition
3. Wine sales trends
Consensus around... slipping Wine category volume growth flat to declining...
WE DON’T WANT THIS TO HAPPEN

# of U.S. Wineries


7,658  8,185  8,638  9,069  9,645  9,997  10,445  11,053  11,282  11,691
WINE PRICE INCREASES MUCH LOWER THAN MOST OTHERS - AND YOUR COSTS; ON PREMISE HIGHER

**Inflation Rates by category (Dec 2022)**

<table>
<thead>
<tr>
<th>Category</th>
<th>AT HOME</th>
<th>AWAY FROM HOME</th>
</tr>
</thead>
<tbody>
<tr>
<td>CPI</td>
<td>6.5%</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>10.4%</td>
<td>11.8%</td>
</tr>
<tr>
<td>Non Alc Bev</td>
<td>12.6%</td>
<td>8.3%</td>
</tr>
<tr>
<td>Alcohol</td>
<td>5.8%</td>
<td>5.3%</td>
</tr>
<tr>
<td>Beer (at home)</td>
<td>8.6%</td>
<td>6.8%</td>
</tr>
<tr>
<td>Wine (at home)</td>
<td>3.9%</td>
<td>7.8%</td>
</tr>
</tbody>
</table>

**Source:** Bureau of Labor Statistics

Top 2,50 + items; 13 w.e.. December 31, 2022

WINE PRICE INCREASES AT RETAIL (WHAT THE CONSUMER PAYS) – GENERALLY IN THE +4 TO 5% RANGE, BUT LOWER (2 TO 3%) IN THE HIGHLY COMPETITIVE $10-$20 RANGE
More than ever...complicated & demanding

- Consuming across Beverage Alcohol
- Drinking “better”, not more
- Seeking convenience
- Flavor seekers
- Health Conscious/Socially Conscious
- Transparency
- Tied to their devices
- Diverse - across Generations; Race/Ethnicity
YOUR CONSUMER HAS MANY CHOICES

WHAT TO BUY

WHERE TO BUY
AGE/GENERATIONAL CHALLENGES for WINE

Age: Share of Adult Population vs Share of Wine Volume

- **Adults (Share of 21+ Pop'n)**
- **Wine (Share of Volume)**

Source: Spectra/Simmons (2022)
THE GENERATIONAL CHALLENGE FOR WINE

Source: WMC – U.S. Wine Consumer Segmentation Surveys, Fall 2021/Spring 2022 Combined

- **Core Wine Drinker**: once a week or more often
- **Marginal Wine Drinker**: less than once a week, but more than once every 2-3 mos
- **Alcohol, but NOT Wine**: only drinks beer, spirits, or other non WINE alcohol
- **Infrequent Alcohol**: drinks any alcohol less than every 2-3 mos
- **Abstainer**
U.S. CONSUMER INCREASING MULTI-CULTURAL

U.S. Population – Share of Each Age Band

- Non Hispanic White
- Hispanic White
- Black
- Asian
- Other
- Two or more races

75% of High Frequency/High End consumers are Non-Hispanic White*

U.S. census data as compiled by

*U.S. Wine Consumer Segmentation Survey, October-November 2021
THE MULTI-CULTURAL CHALLENGE FOR WINE

- Total 21+
  - Core Wine Drinker: 18%
  - Marginal Wine Drinker: 15%
  - Non-Adopter: 15%
  - Infrequent Alcohol: 29%
  - Abstainer: 10%

- Latinix 21+
  - Core Wine Drinker: 15%
  - Marginal Wine Drinker: 11%
  - Non-Adopter: 11%
  - Infrequent Alcohol: 39%
  - Abstainer: 11%

- Black 21+
  - Core Wine Drinker: 15%
  - Marginal Wine Drinker: 17%
  - Non-Adopter: 13%
  - Infrequent Alcohol: 27%
  - Abstainer: 28%

Source: WMC – U.S. Wine Consumer Segmentation Surveys, Fall 2021/Spring 2022 Combined
ALCOHOL SPENDING FLAT AT YOUNGER LDA END; SLOWS CONSIDERABLY AT SENIOR END

Consumer Expenditure Survey – Alcohol Annual Expenditures

- 45% of GEN Z LDA’s CLAIM TO NOT CONSUME ALCOHOL*
- 37% of 70+ ARE ABSTAINERS*

* Gen Z Study (2022)

** WMC – U.S. Wine Consumer Segmentation Surveys, Fall 2021/Spring 2022 Combined
### CUSTOMER AGE, SHARE OF DIRECT TO CONSUMER MARKET

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>21-30</td>
<td>6.5%</td>
<td>6.1%</td>
<td>6.0%</td>
<td>5.8%</td>
<td>6.5%</td>
<td>6.1%</td>
<td>6.7%</td>
<td>9.4%</td>
<td>9.3%</td>
<td>8.7%</td>
<td>8.3%</td>
<td>7.5%</td>
<td>8.8%</td>
<td>6.6%</td>
<td>20.2%</td>
</tr>
<tr>
<td>30-40</td>
<td>19.2%</td>
<td>18.3%</td>
<td>17.5%</td>
<td>17.0%</td>
<td>17.0%</td>
<td>17.2%</td>
<td>17.2%</td>
<td>17.9%</td>
<td>18.4%</td>
<td>18.5%</td>
<td>18.0%</td>
<td>18.0%</td>
<td>18.4%</td>
<td>17.9%</td>
<td></td>
</tr>
<tr>
<td>40-50</td>
<td>27.8%</td>
<td>26.8%</td>
<td>25.9%</td>
<td>24.4%</td>
<td>24.4%</td>
<td>23.8%</td>
<td>22.9%</td>
<td>21.7%</td>
<td>20.8%</td>
<td>20.2%</td>
<td>19.8%</td>
<td>19.4%</td>
<td>19.7%</td>
<td>20.2%</td>
<td>20.4%</td>
</tr>
<tr>
<td>50-60</td>
<td>28.1%</td>
<td>28.5%</td>
<td>28.5%</td>
<td>27.9%</td>
<td>27.9%</td>
<td>27.8%</td>
<td>26.9%</td>
<td>26.3%</td>
<td>25.0%</td>
<td>24.1%</td>
<td>23.3%</td>
<td>23.2%</td>
<td>23.2%</td>
<td>21.6%</td>
<td>22.6%</td>
</tr>
<tr>
<td>60-70</td>
<td>14.2%</td>
<td>15.7%</td>
<td>17.0%</td>
<td>18.1%</td>
<td>18.1%</td>
<td>18.6%</td>
<td>18.6%</td>
<td>19.2%</td>
<td>18.5%</td>
<td>18.7%</td>
<td>19.0%</td>
<td>19.6%</td>
<td>19.9%</td>
<td>18.4%</td>
<td>19.7%</td>
</tr>
<tr>
<td>70-80</td>
<td>19.0%</td>
<td>19.6%</td>
<td>19.9%</td>
<td>18.4%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
<td>19.7%</td>
</tr>
<tr>
<td>80+</td>
<td>3.5%</td>
<td>3.7%</td>
<td>4.7%</td>
<td>4.9%</td>
<td>4.9%</td>
<td>5.3%</td>
<td>6.0%</td>
<td>6.5%</td>
<td>6.5%</td>
<td>7.1%</td>
<td>8.2%</td>
<td>8.9%</td>
<td>9.2%</td>
<td>8.8%</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

**Change in Share 2007-2021**

- 80+: +2.0
- 70-80: +6.5
- 60-70: +5.5
- 50-60: -5.5
- 40-50: -7.4
- 30-40: -1.3
- 21-30: +0.1

Source: Customer Vineyard, Sovos/ShipCompliant
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
Black 21+ Blacks represent 11.5% of LDA population; 9.7% of wine volume
Latinix 21+ Latinix represent 16.7% of LDA population; 14.4% of wine volume

Spectra/Simmons (2022)
COMPETITION
• The percentage of Wine drinkers that only drink Wine; 82% drink Wine + others

• The percentage of Wine drinkers that drink Wine + Spirits + Beer + the “4th” category

* 4th Category includes sangria, spritzers, fruit flavored wines, hard seltzers, premixed RTD’s, hard cider, hard tea, kombucha

Beer & Spirit drinkers don’t just drink Beer & Spirits – many drink Wine they’re your target consumer too!!!
Servings per LDA relatively flat since 1990’s; within, SPIRITS expanding share
PROLIFERATION OF THESE (BWS)

～50% of Bev Shoppers have purchased one kind or another
Consumers don’t know what to call these products or generally care (including what the BASE Liquid is)
$10 BILLION TOTAL – and GROWING. WINE A VERY SMALL PLAYER – BUT HIGH NOON/GALLO THE LARGEST RTD SPIRIT

Alternative Beverages/RTD Dollars ($MM) – Total U.S. Measured Off Premise Channels

- Hard Seltzers
- FMB's
- RTD Spirits
- Wine RTD<750 ml
- Traditional Wine<750 ml

Lat 13 wk % chg
- 20% +
- 3% -
- 29% +
- 68% +
- 11% -

Source: NielsenIQ Scan Off-Premise Channels; period ending Dec 31, 2022 (Dollars)

Traditional wines – incl table, sparkling, dessert, sangria, flav bev wines
Consumers

serves a broad demographic range

Alternative Beverages

BLURRING LINES

Categories Across BWS

Competitors
OUR KEY DEMAND CHALLENGE:
HAVING YOUNGER LDA’S CHOOSE WINE ON MORE OCCASIONS
BUILD ON RAMPS

EXTEND OFF RAMPS
WINE SALES TRENDS

Channels

Price Tiers
During the pandemic & immediate aftermath

- Many had more disposable income
- Many had more free time - with less options to spend on ‘services’; more spending on ‘stuff’
- Less inclined to go out – bought at off premise prices
- Low levels of inflation back then

- Premiumization was on steroids!!! then fueled further by return to On Premise

2021 high price tier growth levels not replicable nor sustainable for many

2023 end of year for comps to normalize
**COVID ACCELERATED DTC GROWTH; FALLEN BACK SINCE TO MORE TRADITIONAL GROWTH**

DTC Shipments – 2018 thru 2022

- **2022**
  - **Dollars**
    - Total: -2%
    - <$50: -13%
    - $50-$99: -2%
    - $100+: +15%
  - **Volume**
    - Total: 10%
    - <$50: -14%
    - $50-$99: -2%
    - $100+: +8%

- **Straight line projection**

<table>
<thead>
<tr>
<th>Year</th>
<th>Dollars</th>
<th>Volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>2017</td>
<td>$2,691,717,000</td>
<td>5,788,489</td>
</tr>
<tr>
<td>2018</td>
<td>$3,003,318,112</td>
<td>6,304,470</td>
</tr>
<tr>
<td>2019</td>
<td>$3,224,688,824</td>
<td>6,601,773</td>
</tr>
<tr>
<td>2020</td>
<td>$3,705,842,605</td>
<td>8,385,907</td>
</tr>
<tr>
<td>2021</td>
<td>$4,201,450,284</td>
<td>8,507,189</td>
</tr>
<tr>
<td>2022</td>
<td>$4,135,109,565</td>
<td>7,630,338</td>
</tr>
</tbody>
</table>

- **COVID ACCELERATED DTC GROWTH; FALLEN BACK SINCE TO MORE TRADITIONAL GROWTH**
ON PREMISE RECOVERING, BUT STILL BELOW PRE-COVID LEVELS; WINE LAGGING

Some COVID impacts may be longer lasting...

- Shifts from Out of Home to “Hometainment”
- Meal delivery to the home
- Alcohol “to go” in many states
- Business travel unlikely to return to pre-pandemic levels
- Many more working out of their homes
- Shorter restaurant operating hours (6.4 less hrs/week$^1$)
- Staffing/labor issues
- 15-20K less on premise accounts vs pre-COVID; in particular Independents$^2$
- Consumers more sensitive to significant pricing up-charges On premise; now On Premise pricing rising faster than Off Premise

$^1$ Beer Institute STR and SipSource, powered by VIP, 3 months ending Nov 2022 vs 2019 on-premise volume share
COVID SHRUNK ON PREMISE ASSORTMENTS – BIG NAME BRANDS STAND OUT EVEN MORESO

42,000 accounts today

Top 12 brands: # of On Premise placements

By the Bottle

1. Veuve Clicquot
2. Duckhorn
3. Caymus
4. Cakebread Cellars
5. Kendall Jackson
6. Dom Perignon
7. Prisoner
8. Sonoma Cutrer
9. Moet Chandon
10. Chateau Ste Michelle
11. Kim Crawford
12. Silver Oak

By the Glass

1. Kendall Jackson
2. Chateau Ste Michelle
3. Meiomi
4. Kim Crawford
5. Duckhorn
6. Ruffino
7. LaMarca
8. Sonoma Cutrer
9. J Lohr
10. Josh
11. Beringer
12. La Crema
A LOOK BACK to 2021 PRICE TIER GROWTH

Table Wine – Volume % Growth - 12M Nov 21
Total U.S. (On + Off Premise)

Based upon retail price per eq 750 m)
Table Wine – 12 mos Volume % Growth (On + Off Premise)

<table>
<thead>
<tr>
<th>Price Range</th>
<th>12M Growth Nov 21</th>
<th>12M Growth Nov 22</th>
</tr>
</thead>
<tbody>
<tr>
<td>&lt;$8.00</td>
<td>50%</td>
<td>-5%</td>
</tr>
<tr>
<td>$8-$10.99</td>
<td>23%</td>
<td>-10%</td>
</tr>
<tr>
<td>$11-$14.99</td>
<td>14%</td>
<td>10%</td>
</tr>
<tr>
<td>$15-$24.99</td>
<td>15%</td>
<td>3%</td>
</tr>
<tr>
<td>$25-$49.99</td>
<td>9%</td>
<td></td>
</tr>
<tr>
<td>$50+</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Volume Share: 73%

AND NOW IN 2022 - vs TOUGH COMPS

Based upon retail price per eq 750 m)
## KEY VARIETAL PICTURE OVER $15 IS DECIDEDLY MORE FAVORABLE

12 months to November 2022 (volume)

<table>
<thead>
<tr>
<th>Domestic</th>
<th>&lt;$11</th>
<th>$11-$15</th>
<th>$15+</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cab Sauvignon</td>
<td>-7.4%</td>
<td>-5.4%</td>
<td>+0.6%</td>
</tr>
<tr>
<td>Chardonnay</td>
<td>-5.5%</td>
<td>-1.4%</td>
<td>+4.5%</td>
</tr>
<tr>
<td>Merlot</td>
<td>-12.6%</td>
<td>-4.3%</td>
<td>-5.8%</td>
</tr>
<tr>
<td>Moscato</td>
<td>-11.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Pinot Gris/ Grigio</td>
<td>-2.7%</td>
<td>+10.8%</td>
<td>+3.8%</td>
</tr>
<tr>
<td>P Noir</td>
<td>-7.8%</td>
<td>-9.6%</td>
<td>+1.1%</td>
</tr>
<tr>
<td>Red Blends</td>
<td>-11.2%</td>
<td>-12.9%</td>
<td>+6.3%</td>
</tr>
<tr>
<td>Riesling</td>
<td>-14.2%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Rosé</td>
<td>-19.6%</td>
<td>-17.5%</td>
<td>-3.1%</td>
</tr>
<tr>
<td>Sauv Blanc</td>
<td>+1.6%</td>
<td>+2.0%</td>
<td>+9.0%</td>
</tr>
<tr>
<td>White Blends</td>
<td>-6.7%</td>
<td>+53.5%</td>
<td></td>
</tr>
</tbody>
</table>

Share within each Price Tier; Varietals 1.0% or larger
PREMIUMIZATION STILL IS & WILL BE A DRIVER LONG-TERM, BUT RATE SLOWED IN 2022

Table Wine Share by Price Tier (Dollars)
Total U.S. – Nielsen Measured Off Premise

2018 2019 2020 2021 2022

Total U.S Measured Scan Off-Premise Channels; period ending Dec 31, 2022; Dollars (price per eq 750 ml)
Overall wine category health still very tied to lower end, much more so than others.

<table>
<thead>
<tr>
<th>Category</th>
<th>Low End</th>
<th>Middle</th>
<th>High End</th>
</tr>
</thead>
<tbody>
<tr>
<td>Wine</td>
<td>$&lt;8</td>
<td>$8-$15</td>
<td>$+15+</td>
</tr>
<tr>
<td>Beer</td>
<td>Below Prem</td>
<td>DM Premium</td>
<td>Sup Prem, Craft, Import</td>
</tr>
<tr>
<td>Spirits</td>
<td>$&lt;10</td>
<td>$10-$25</td>
<td>$25+</td>
</tr>
</tbody>
</table>

Table Wine: 57% Low End, 30% Middle, 13% High End
Spirits (ex RTD's): 21% Low End, 53% Middle, 25% High End
Beer (ex FMB/HS/Cider): 22% Low End, 36% Middle, 42% High End

12 mos ending Nov 2022

NielsenIQ 52 w.e. Dec 3, 2022
CA SHARE GENERALLY EXPANDING; OPPORTUNITY FOR MORE GAINS in $20-$25

California share of Table Wine (Glass) Price Tier – Dollars
Annual 2022

NielsenIQ Measured Off Premise Channels – Total U.S.; w/e 12-31-2022
CA SHARE GENERALLY EXPANDING; EXCEPT FOR SPARKLING & ROSE’

California share of Table Wine (Glass) Price Tier – Dollars
Annual 2022

NielsenIQ Measured Off Premise Channels – Total U.S.; w/e 12-31-2022
Wine inherently viewed as a healthier alcoholic beverage

<table>
<thead>
<tr>
<th>Statement</th>
<th>Wine</th>
<th>Beer</th>
<th>Spirits</th>
<th>Hard Seltzer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Is low calorie</td>
<td>10</td>
<td>9</td>
<td>9</td>
<td>24</td>
</tr>
<tr>
<td>Is low carb</td>
<td>11</td>
<td>7</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Contains less sugar</td>
<td>9</td>
<td>13</td>
<td>14</td>
<td>21</td>
</tr>
<tr>
<td>Is a good option when dieting or watching what I eat</td>
<td>18</td>
<td>4</td>
<td>9</td>
<td>18</td>
</tr>
<tr>
<td>Is healthier than most alcoholic beverages</td>
<td>34</td>
<td>6</td>
<td>5</td>
<td>13</td>
</tr>
<tr>
<td>Is lower in alcohol</td>
<td>14</td>
<td>23</td>
<td>1</td>
<td>22</td>
</tr>
</tbody>
</table>

Q21. Which type or types of alcoholic beverages, if any, would you most closely associate with each statement? Please select as many types of alcoholic beverages as apply...

GROWTH IN H&W POSITIONED BRANDS

Wine (Dollar Sales - $MM) – Selected Label claims

Source: NielsenIQ Scan Off-Premise Channels; 52 week period end December 2022
<table>
<thead>
<tr>
<th>Across Bev Alc</th>
<th>LOW ALC</th>
<th>NON ALC</th>
</tr>
</thead>
<tbody>
<tr>
<td>% said they’ve bought xxx Wine during the past 12 mos</td>
<td>22%</td>
<td>12%</td>
</tr>
</tbody>
</table>

Top 3 Reasons
1. Reduce my alcohol intake
2. Stay in control
3. Avoid effects of alcohol in general

4 of 5 Non Alc beverage buyers also purchase Alcohol

...the no and low category is “actually stealing share from traditional non-alcoholic drinks” like water and soda (IWSR)
• Many positives – Premiumization, California share growing, niche segment growth, ‘leadership’ in DtC space; but long-term challenges

• Chief among those is converting Wine interest among younger LDA’s of all color - into engagement/involvement - choosing WINE on more occasions
  – What’s important to their lifestyles, culture, traditions, and the particular ‘occasion’
  – Not just where you are, but where they are – where they live, shop, eat/drink
  – They are “open” to new things

• Wine highly associated with…timelessness, elegance, romance, formal events, pairings - but how about fun, casual, convenient

• Go after Beer and Spirit drinkers of all ages – they’re your target market too!

• Not losing in On Premise – can any of these help: wine cocktails, greater wine BTG programs / wine in kegs, creative approaches to what the consumer pays

• Embrace what your consumers are looking for
LET’S DO IT!!!

THANK YOU

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