Wine Australia providing insights for Australian Wine

Are we there yet?

Long road to recovery

Murray Valley
March 2017

Introduction

Australia competes in a global alcohol beverages market.

We are up against other beverages and other wine producing countries.

We have numerous challenges to overcome but many headwinds are turning to tailwinds.

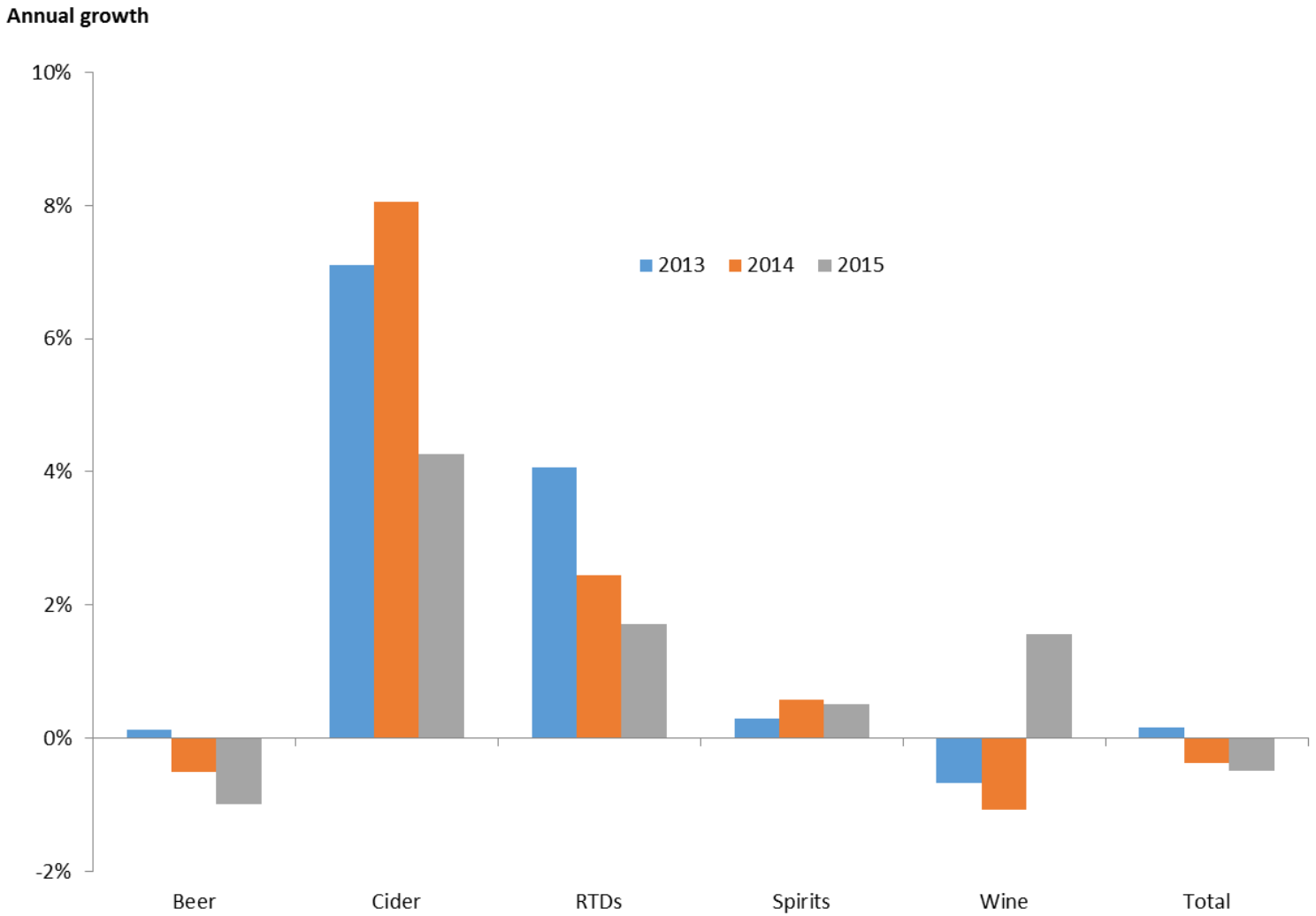
There are opportunities around the globe to grow demand for Australian wine

A coordinated effort is needed

- GLOBAL SITUATION
- AUSTRALIAN SUPPLY AND DEMAND
- TRENDS BY VARIETY
- KEY MARKETS
- SUMMARY

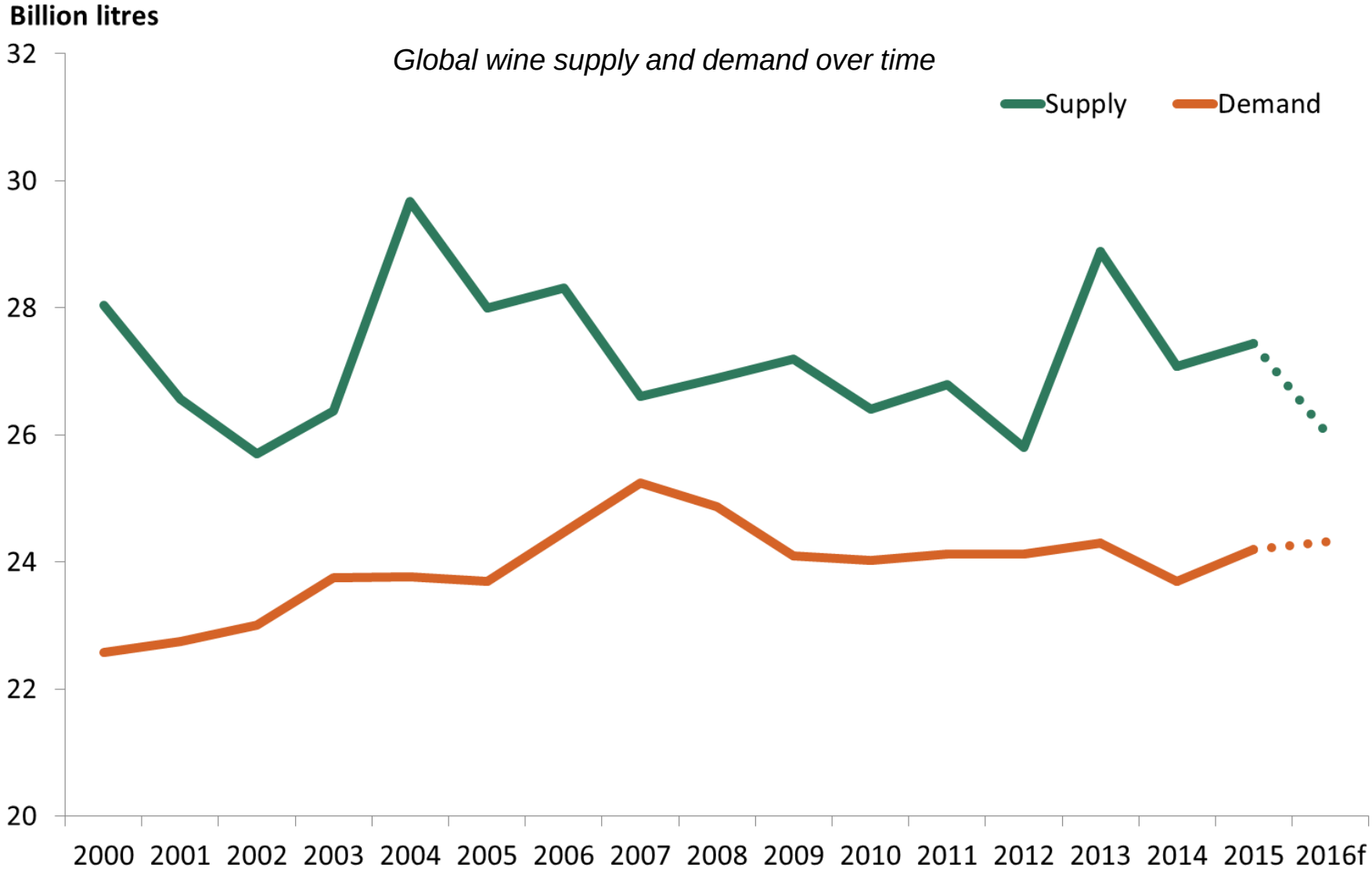
Alcohol consumption globally is flat, while consumers are switching to cider

2015 growth by beverage type



Source: Euromonitor

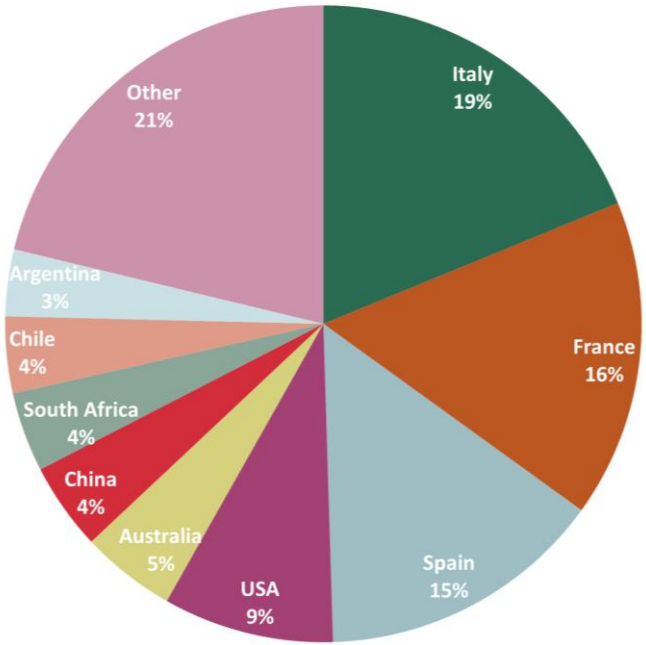
Supply and demand have moved closer together since recent poor vintages

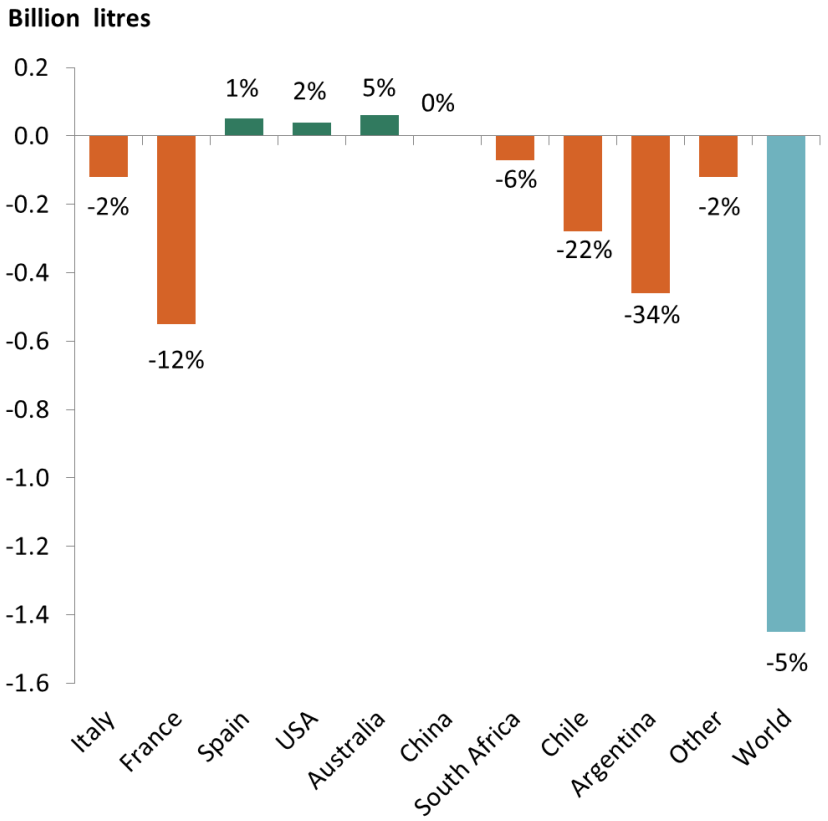


Source:

A large Australian 2016 vintage was offset but losses by over producers

2016 Global Wine Production





Source: OIV

2017 update – Southern Hemisphere

- **Australia** – Riverina up 3% to 313kt, some damage in Riverland while coastal SA likely to be slightly down

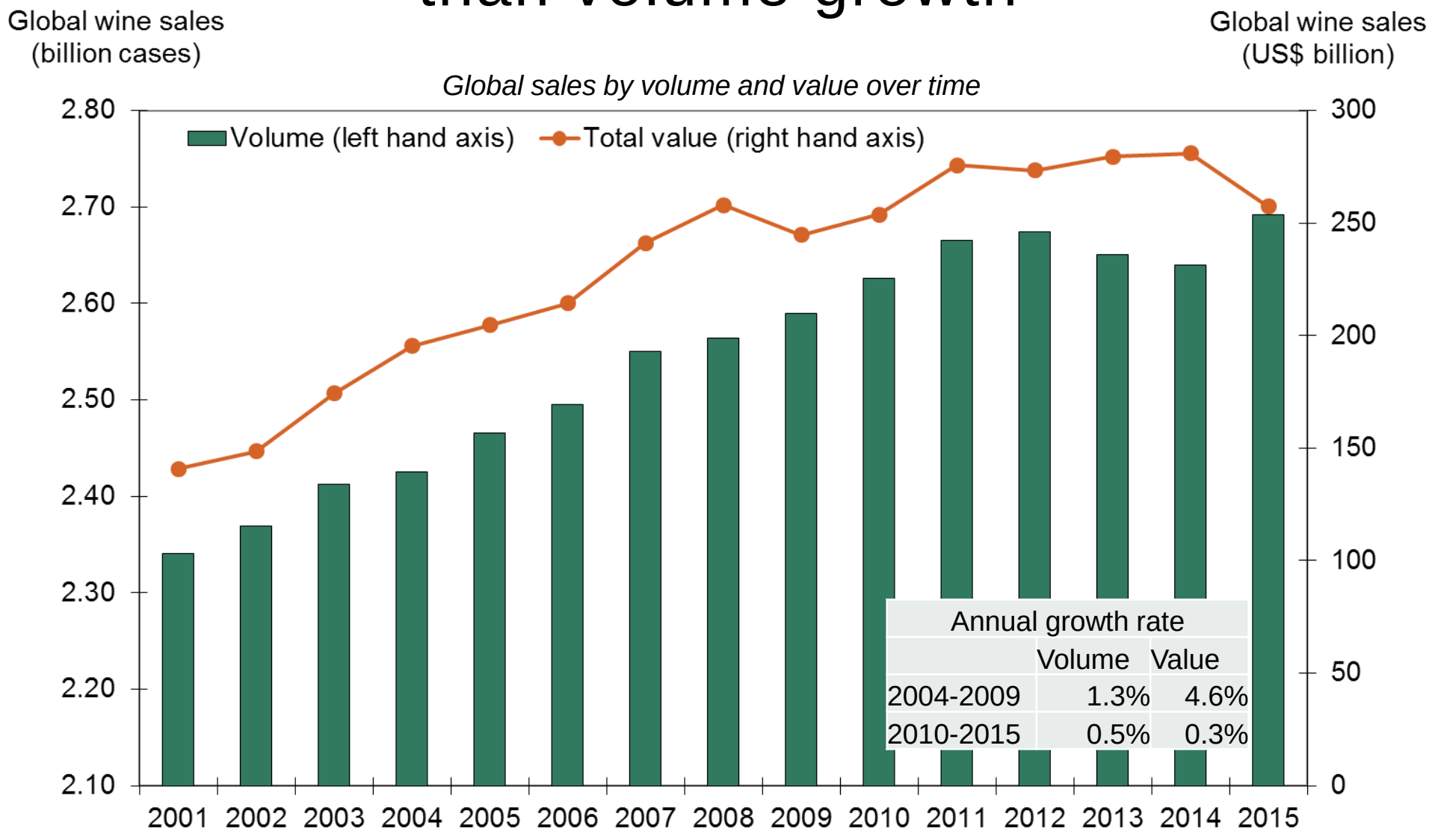
- **Argentina** – The government forecasts a harvest between 2 and 2.2 million tons, down on the average but better than last year's very short 1.7 million ton

- **Chile** – January's harvest estimate of 1.4 million tonnes remains unchanged (up 10%)

- **South Africa** - The overall crop size is expected to come in at very close to last year's 1.4 million tonnes

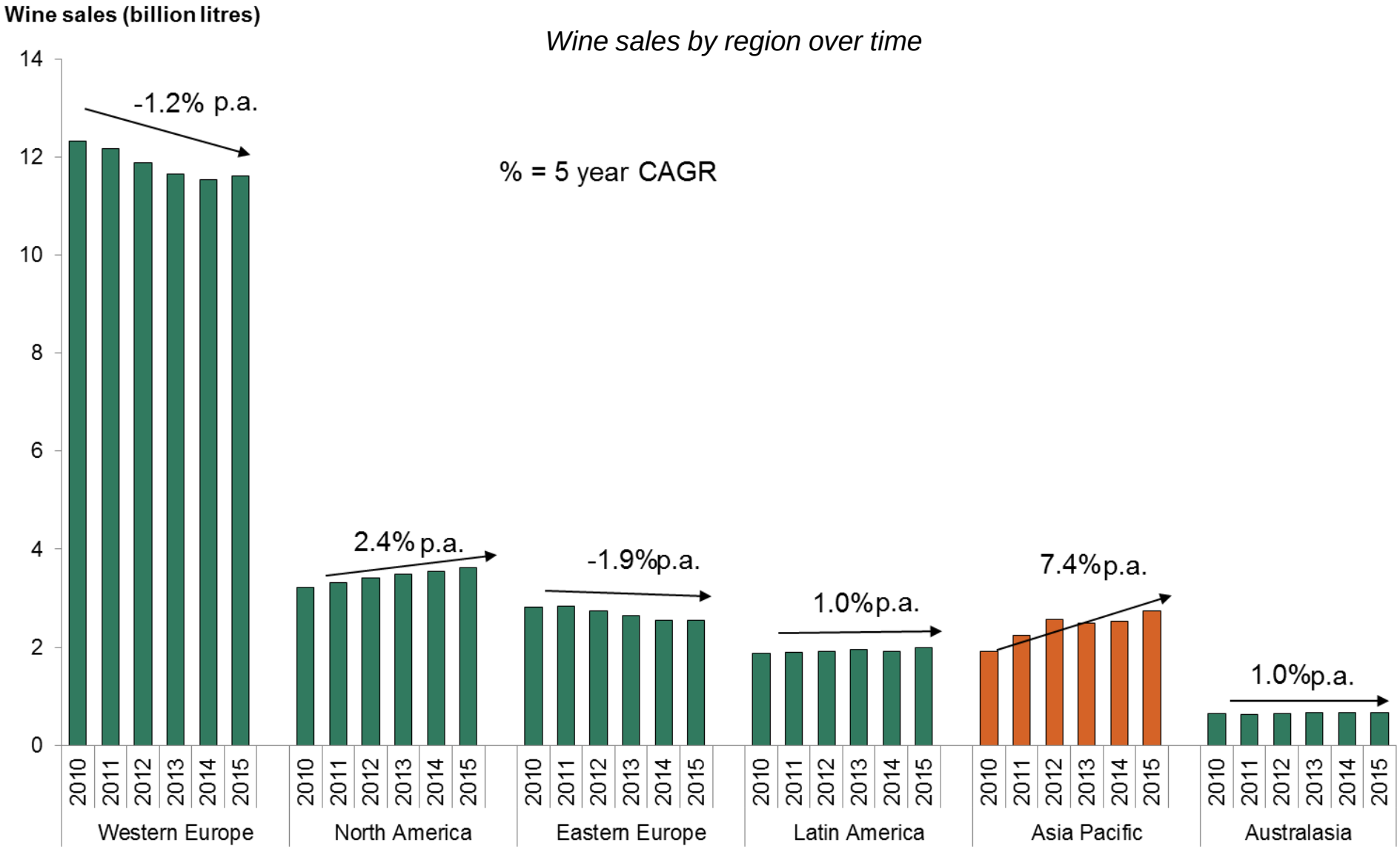
Source: Ciatti

Global wine sales value growth stronger than volume growth



Source: Euromonitor International

Asia Pacific the fastest growing region



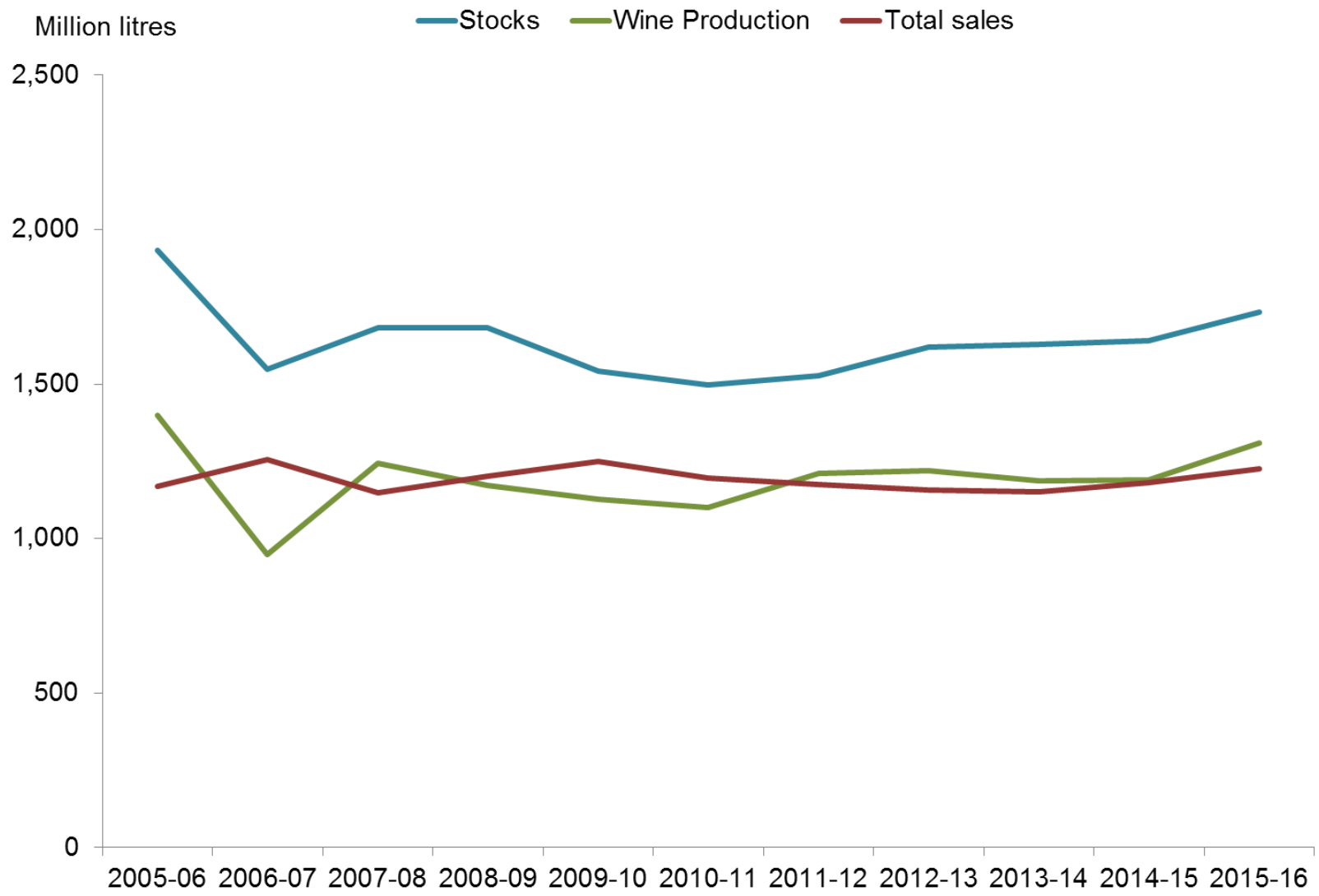
Source: Euromonitor International

- GLOBAL SITUATION
- AUSTRALIAN SUPPLY AND DEMAND
- TRENDS BY VARIETY
- KEY MARKETS
- SUMMARY

Crush and wine production in 2016 highest since 2008

Source: ABS, Wine Australia

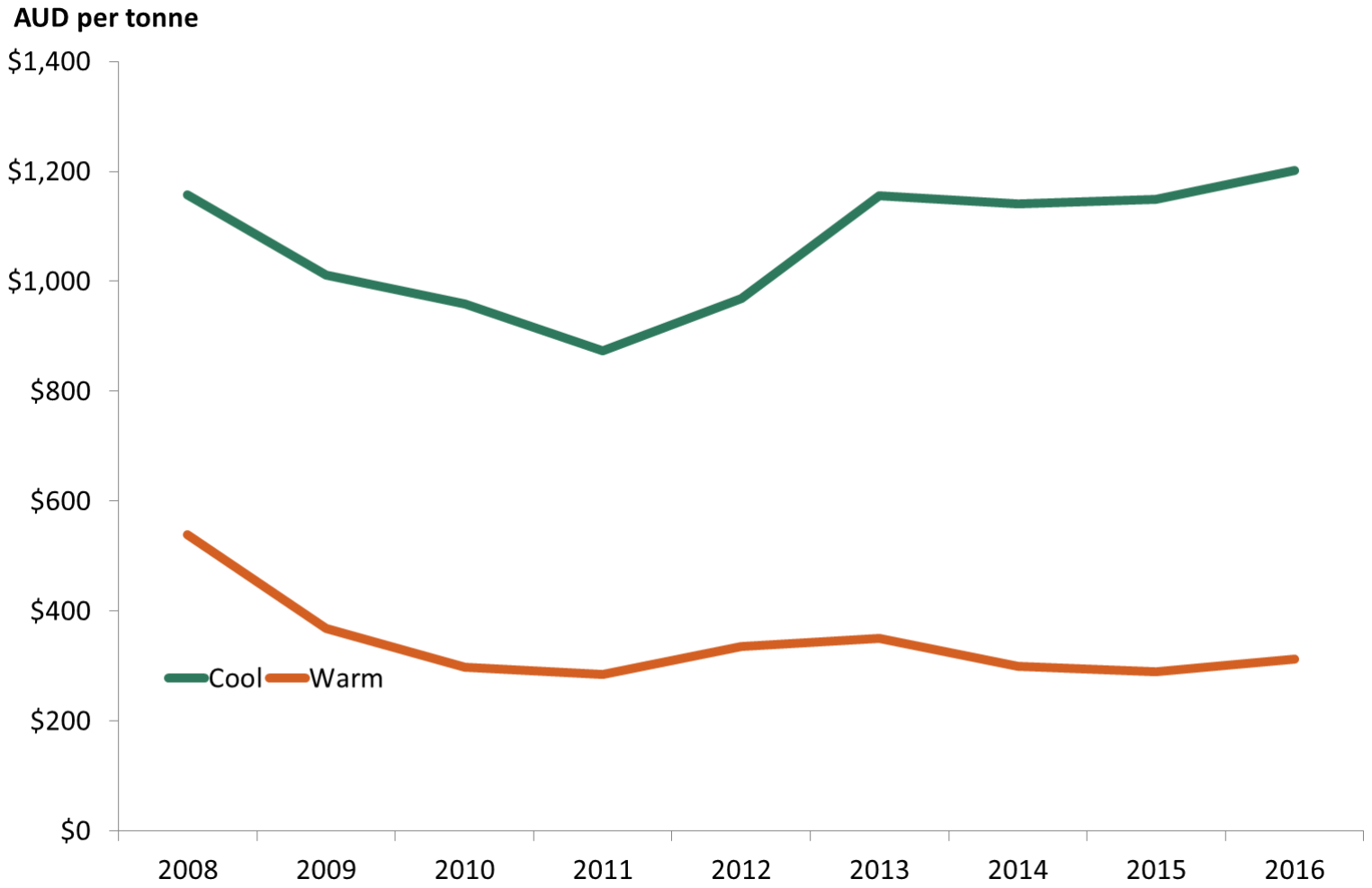
Production and sales tracking reasonably closely since 2007-08 but stocks gradually increasing



Source: ABS, Wine Australia

Prices are firming due to ‘premiumisation’ trend and tightening of supply

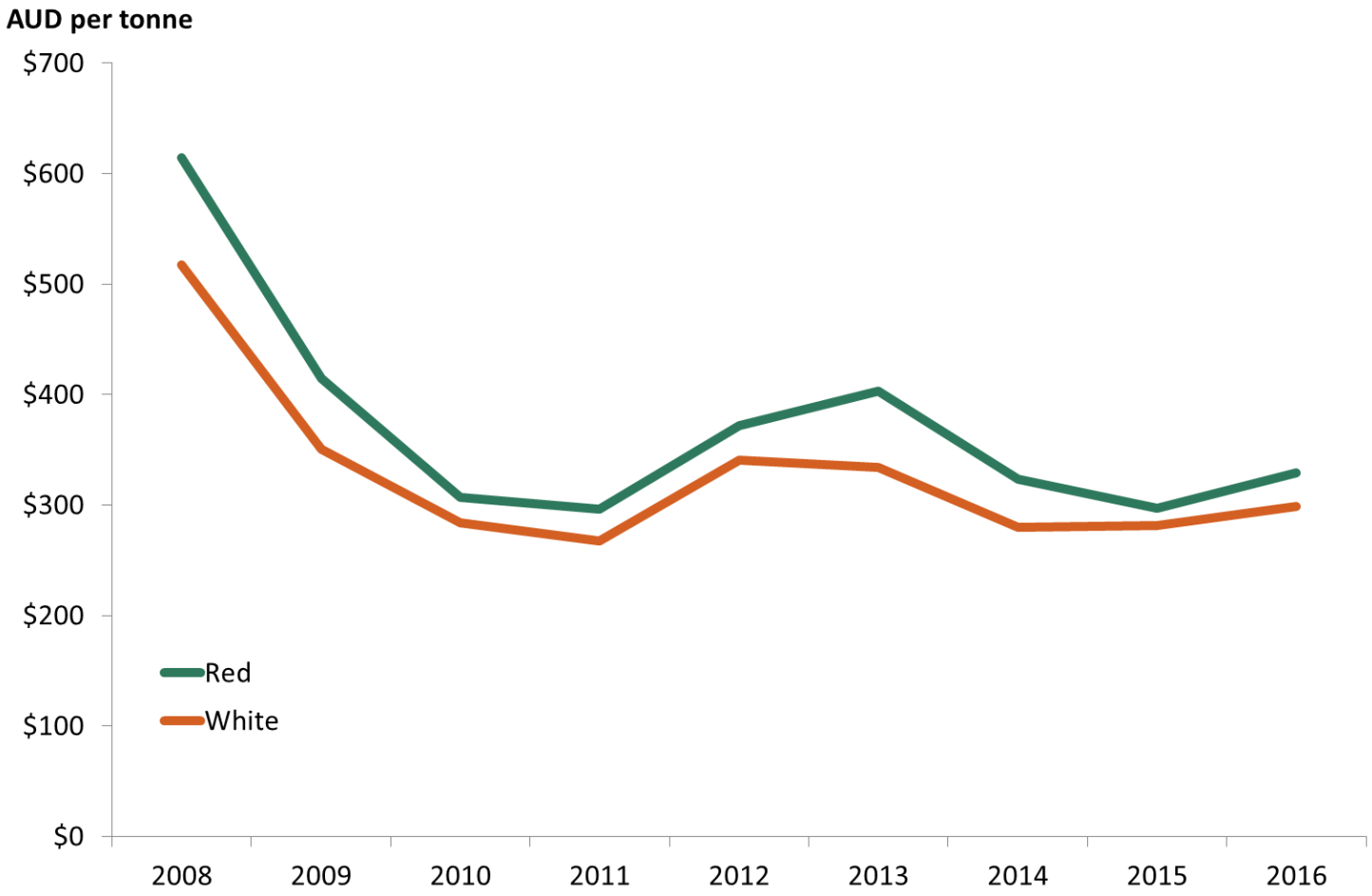
Australian winegrape purchase prices over time, warm vs. cool



Source: Wine Australia

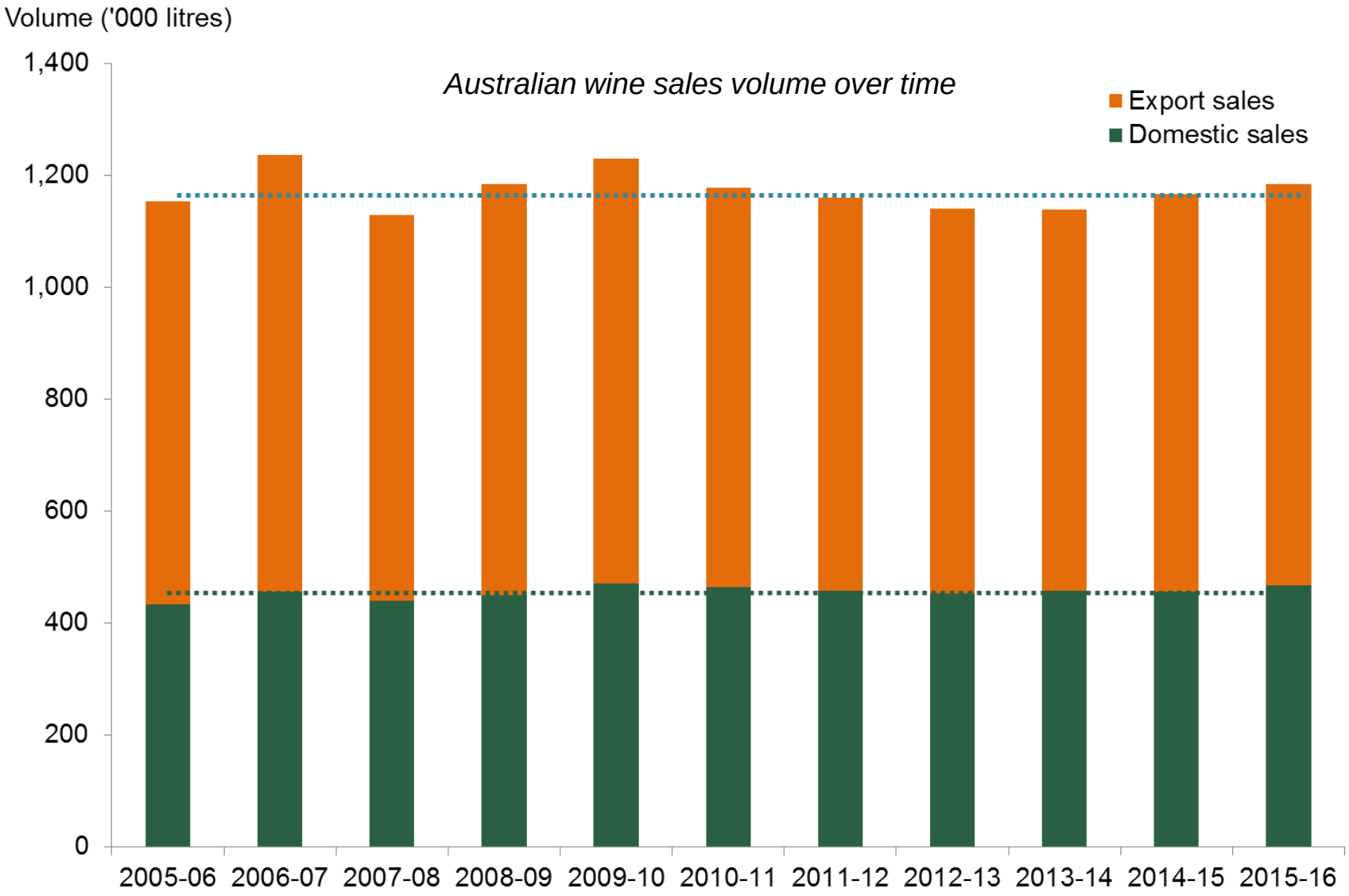
MD-SH winegrape prices have climbed off a low base (2017 likely to be up)

MD-SH winegrape purchase prices over time, warm vs. cool



Source: Wine Australia

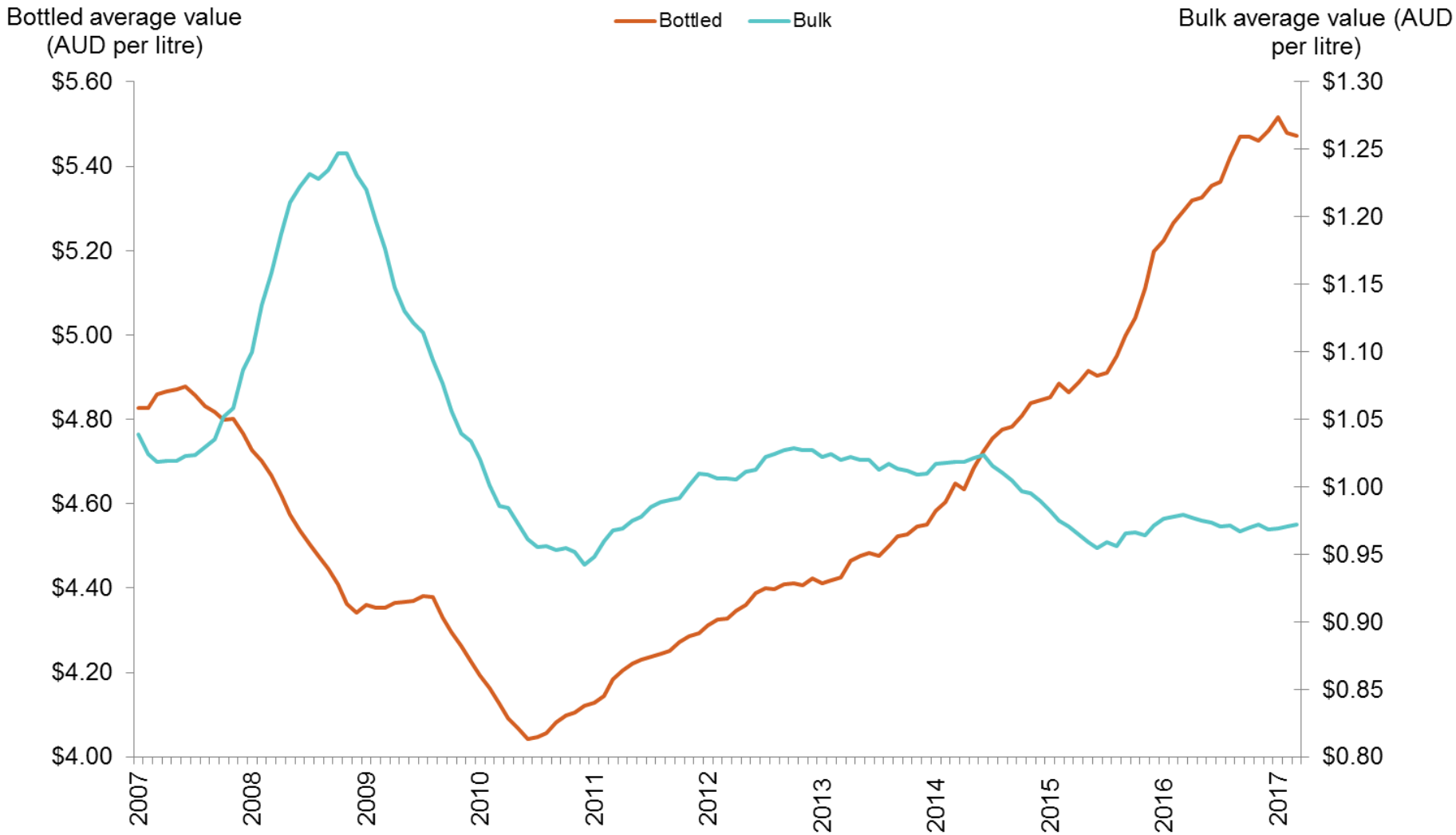
Sales relatively flat since 2005-06 in terms of volume



Source: Wine Australia, ABS

Asian demand has increased the average value of bottled shipments – but the increase appears to have eased

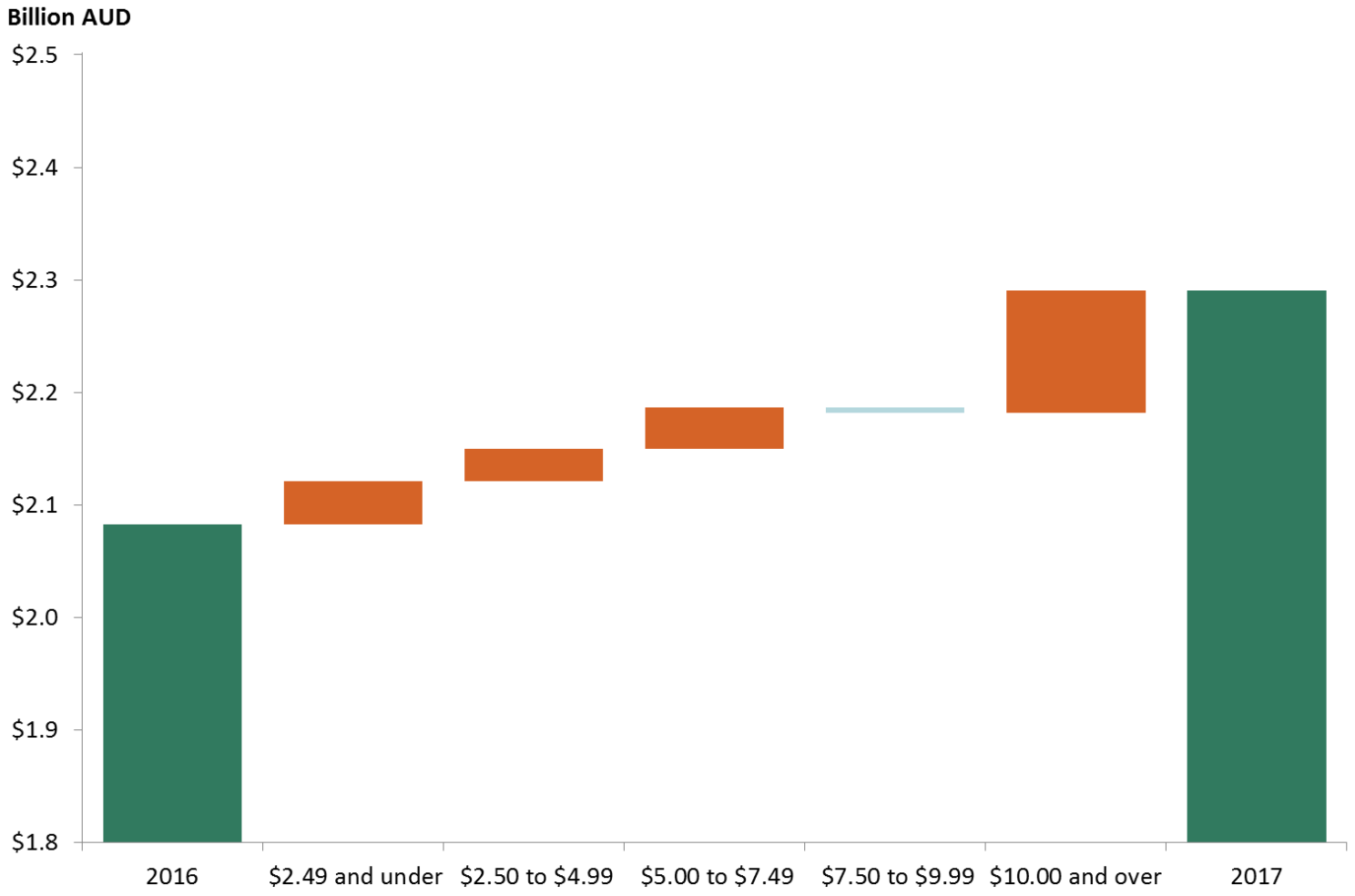
Average value of Australian bottled and bulk shipments over time



Source: Wine Australia

Growth in export value a result of higher demand for premium wine

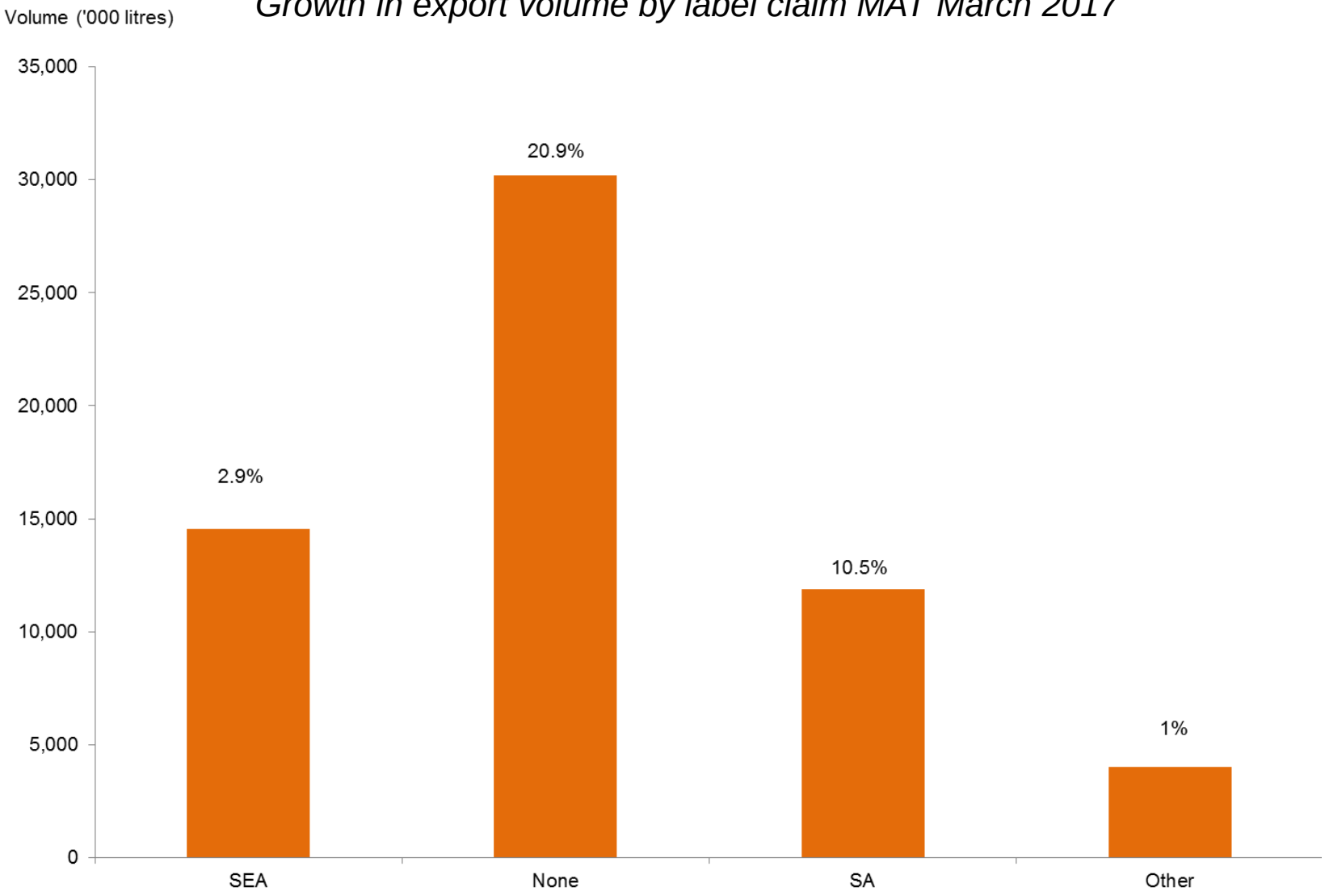
Australian wine export value growth by price point



Source: Wine Australia

Growth also in bottled wine <$5 per litre

Growth in export volume by label claim MAT March 2017

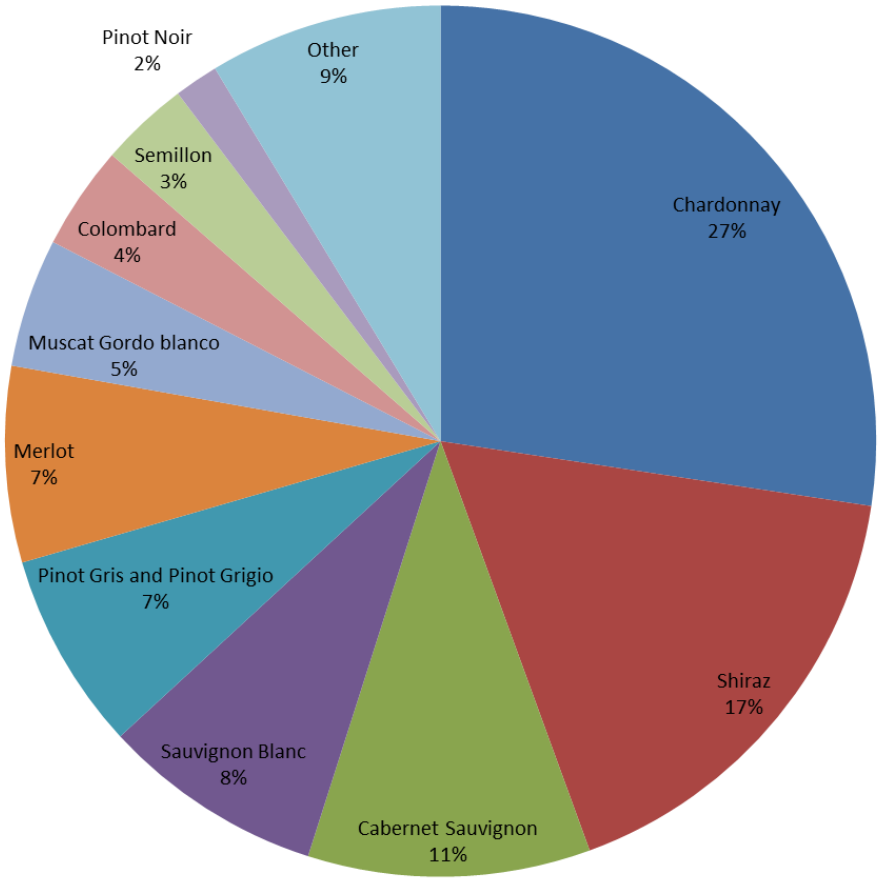


Source: Ciatti

- GLOBAL SITUATION
- AUSTRALIAN SUPPLY AND DEMAND
- TRENDS BY VARIETY
- KEY MARKETS
- SUMMARY

MD-SH white focus lessens its leverage to the Chinese market

2017 crush by variety

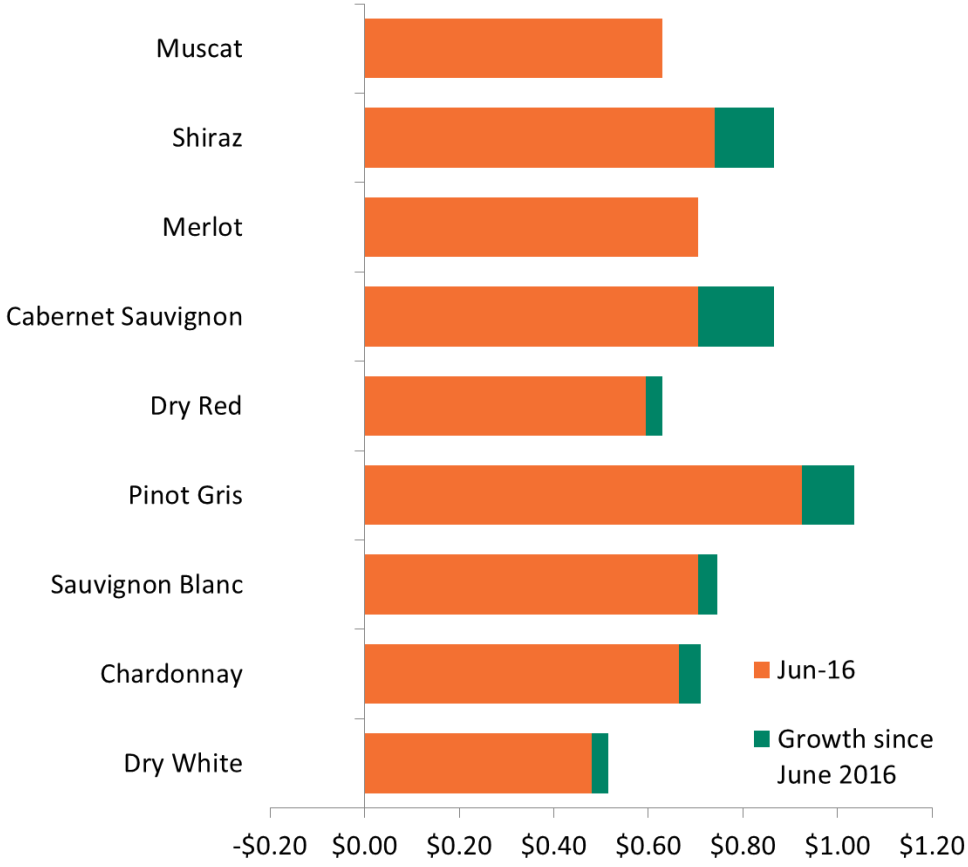


Source: Wine Australia

Pricing in the bulk wine market is improving

Ciatti bulk wine prices (USD per litre)

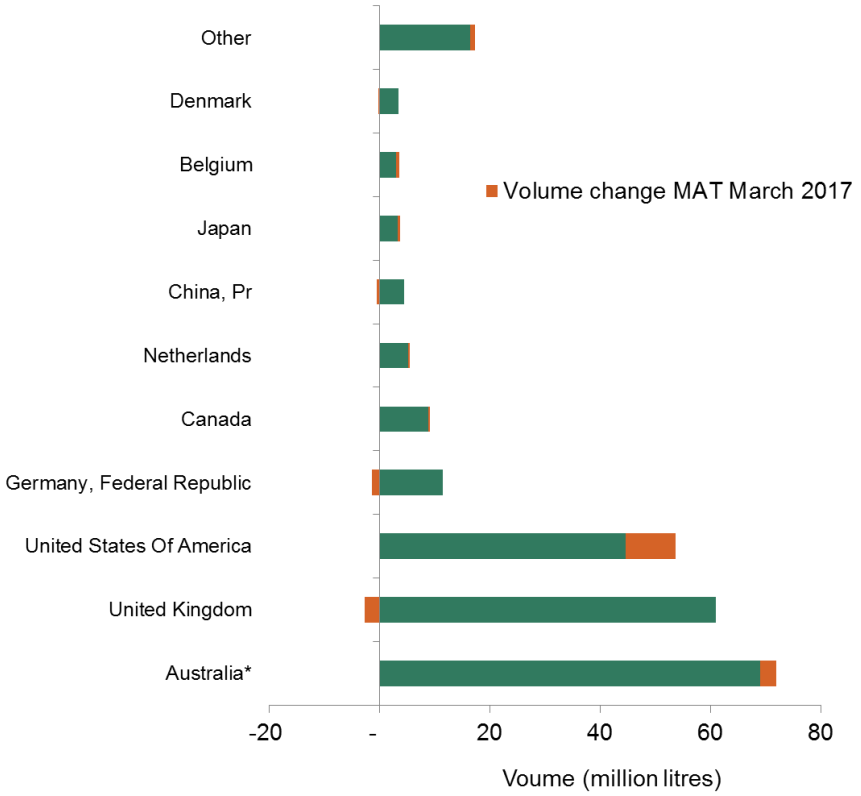
	June 2016		February 2017		
	Bottom end	Top end	Bottom end	Top end	Movement
Dry White	$0.44	$0.52	$0.46	$0.57	↑ $0.04
Chardonnay	$0.63	$0.70	$0.65	$0.77	↑ $0.05
Sauvignon Blanc	$0.67	$0.74	$0.69	$0.80	↑ $0.04
Pinot Gris	$0.89	$0.96	$0.96	$1.11	↑ $0.11
Dry Red	$0.56	$0.63	$0.57	$0.69	↑ $0.03
Cabernet Sauvignon	$0.67	$0.74	$0.77	$0.96	↑ $0.16
Merlot	$0.67	$0.74	na	na	na
Shiraz	$0.70	$0.78	$0.77	$0.96	↑ $0.13
Muscat	$0.59	$0.67	$0.57	$0.69	↑ $0.00



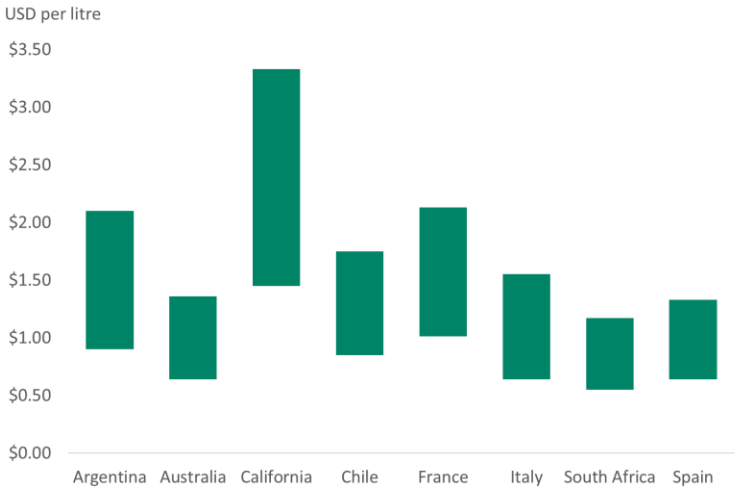
Source: Ciatti

Chardonnay in Australia has arrested a decade long decline

Australian Chardonnay key markets



Bulk price range – Mar '17

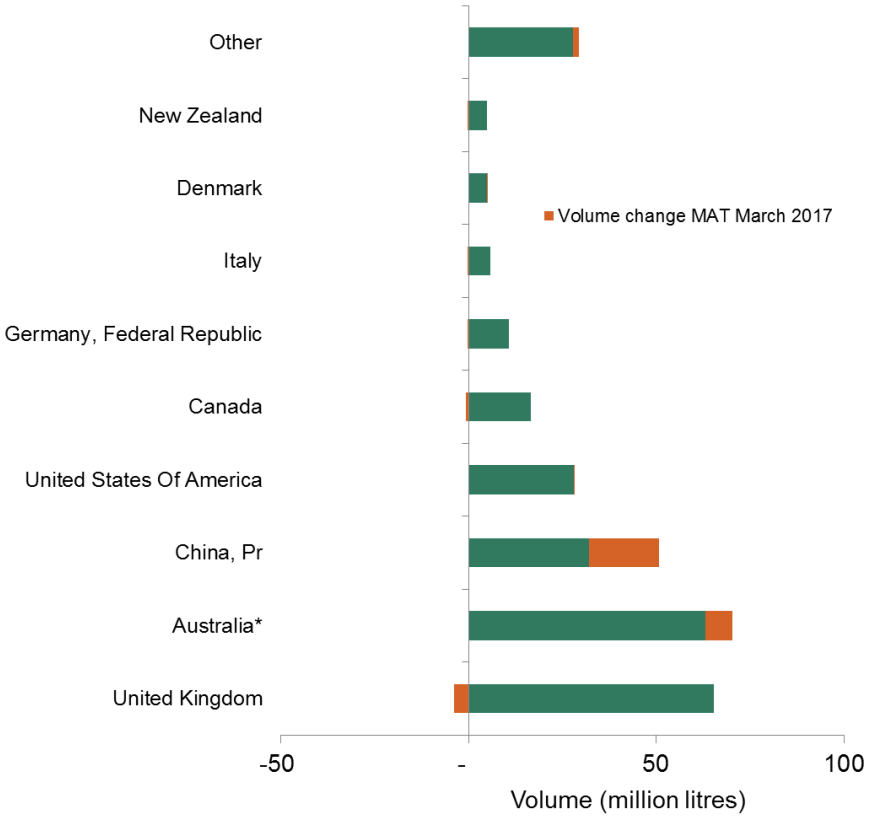


Annual bulk price change

Source: Wine Australia, Ciatti

Shiraz pricing driven by domestic and Chinese demand

Australian Shiraz key markets



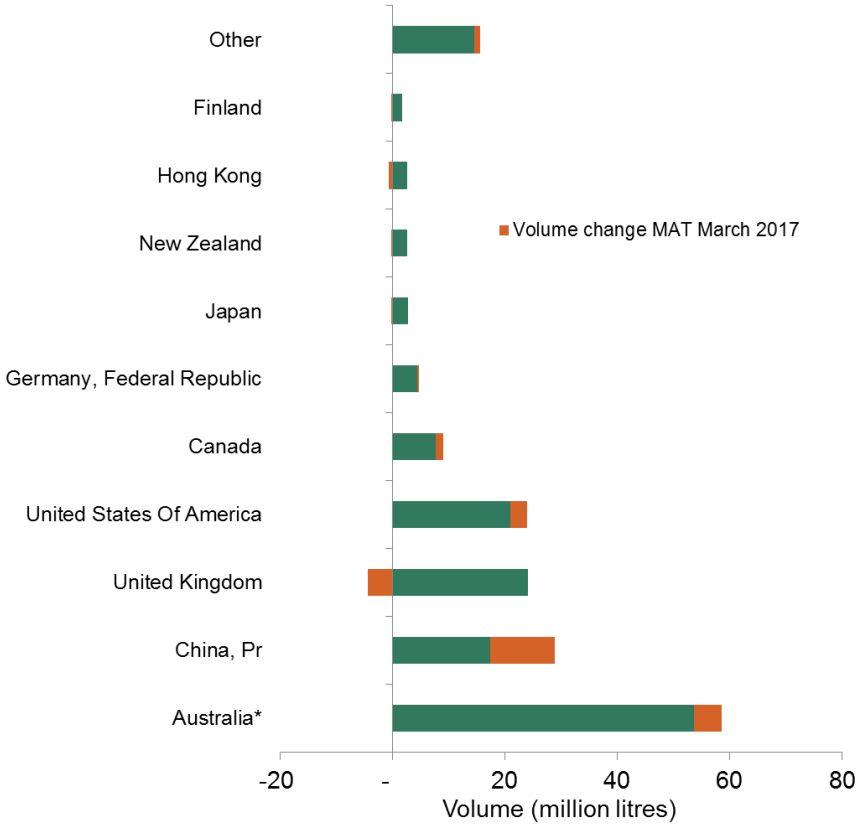
Bulk price range – Mar '17

Annual bulk price change

Source: Wine Australia, Ciatti

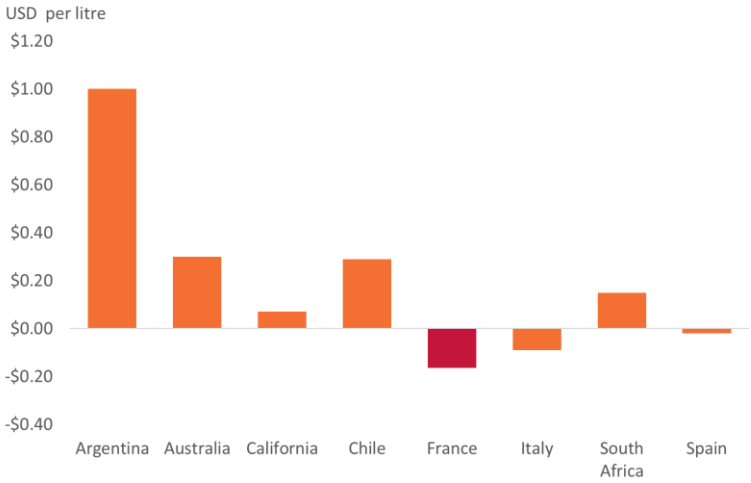
Australian Cabernet beginning to take hold in the USA

Australian Cabernet Sauvignon key markets



Bulk price range – Mar '17

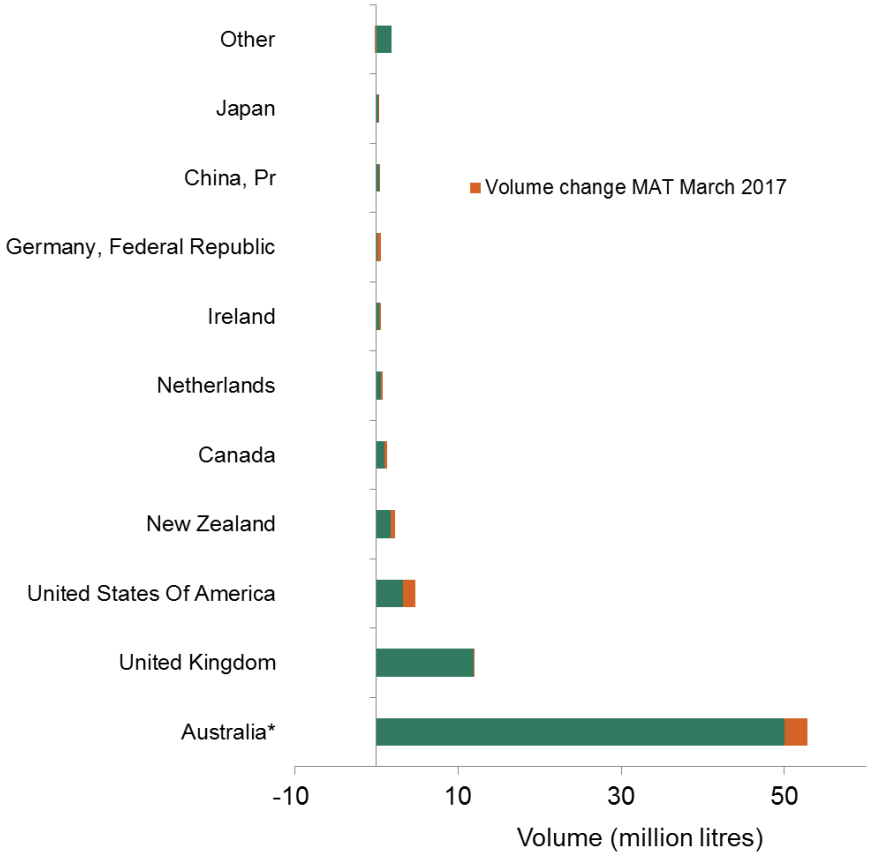
Annual bulk price change



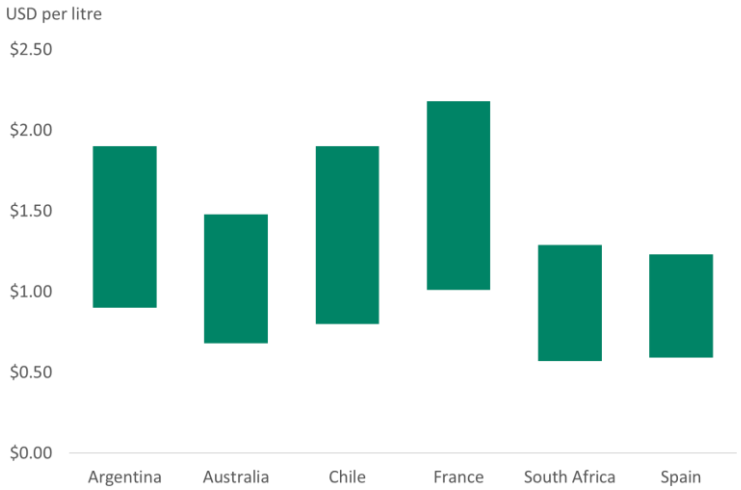
Source: Wine Australia, Ciatti

Australian Sauvignon Blanc has followed the trend set by Marlborough

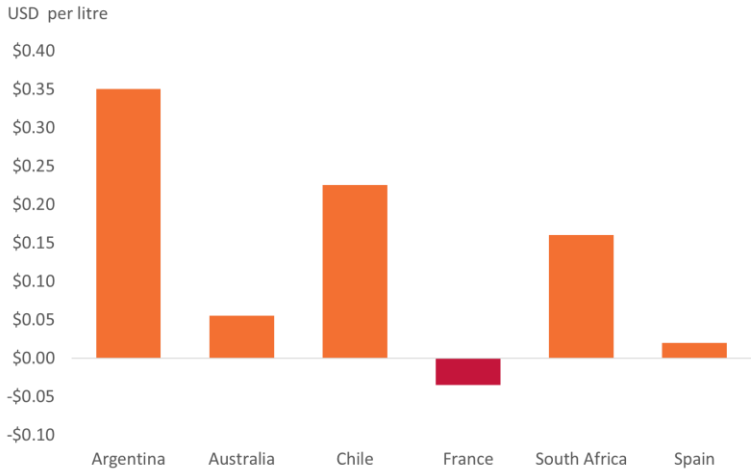
Australian Sauvignon Blanc key markets



Bulk price range – Mar '17



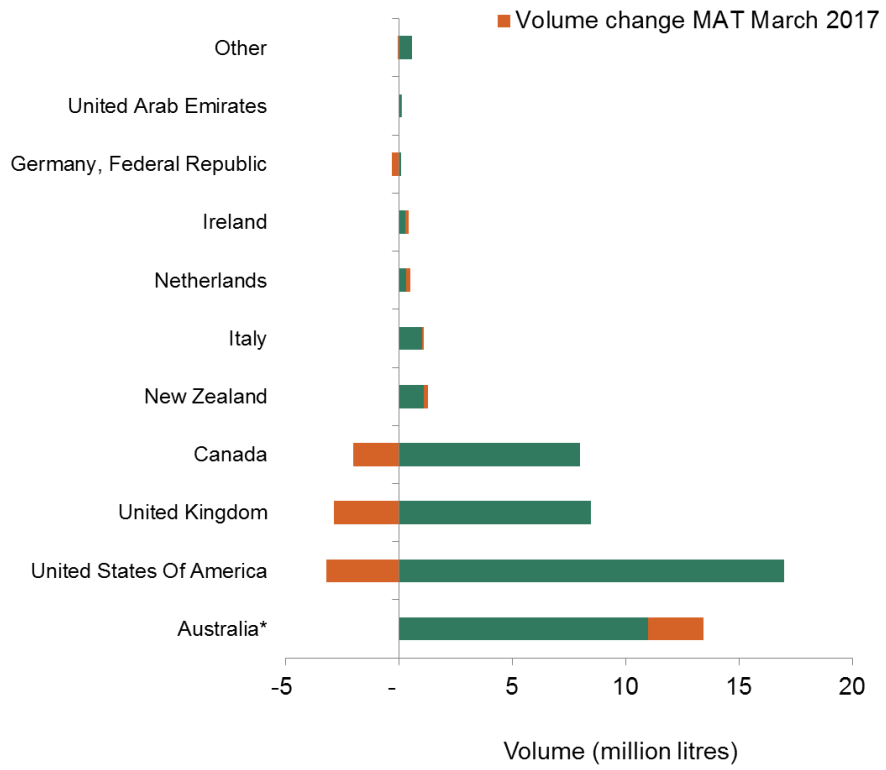
Annual bulk price change



Source: Wine Australia, Ciatti

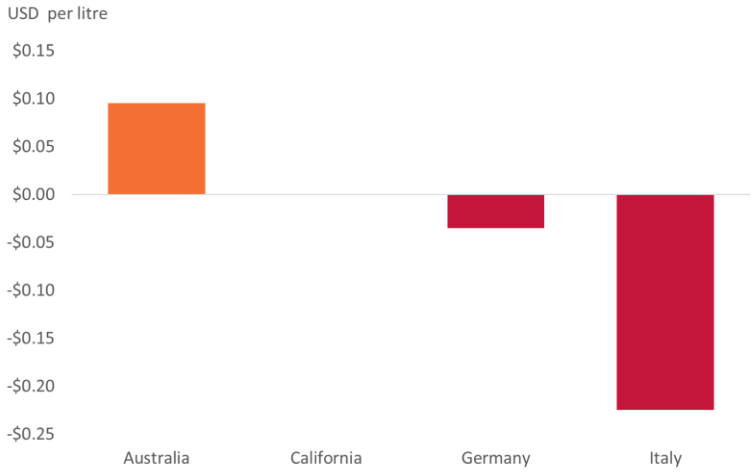
Lower supply of PG/G and Australian demand effecting export volumes

Australian Pinot Gris/Grigio key markets



Bulk price range – Mar '17

Annual bulk price change

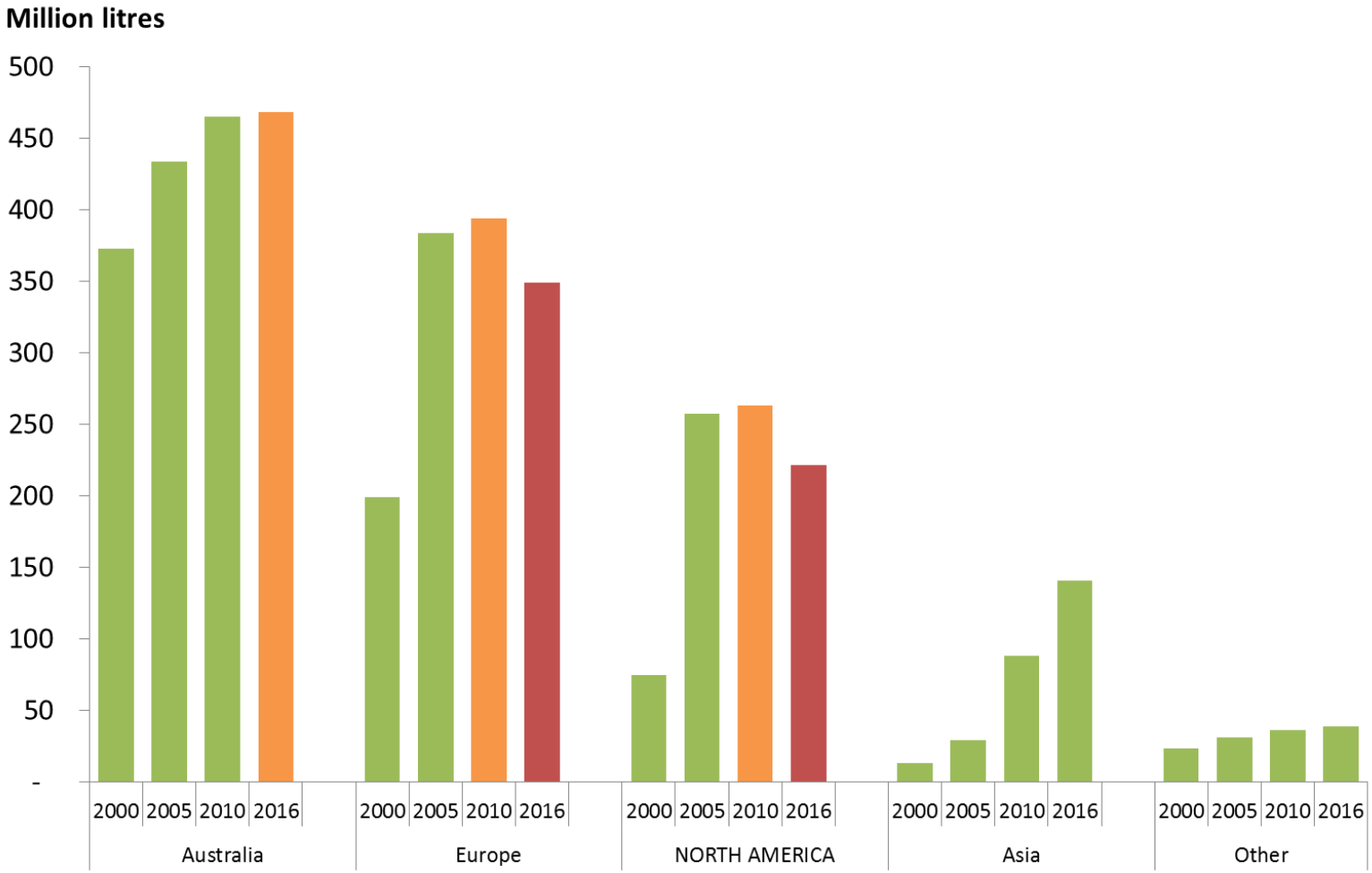


Source: Wine Australia, Ciatti

- GLOBAL SITUATION
- AUSTRALIAN SUPPLY AND DEMAND
- TRENDS BY VARIETY
- KEY MARKETS
- SUMMARY

Australia's major markets have been in decline, with Asia driving growth

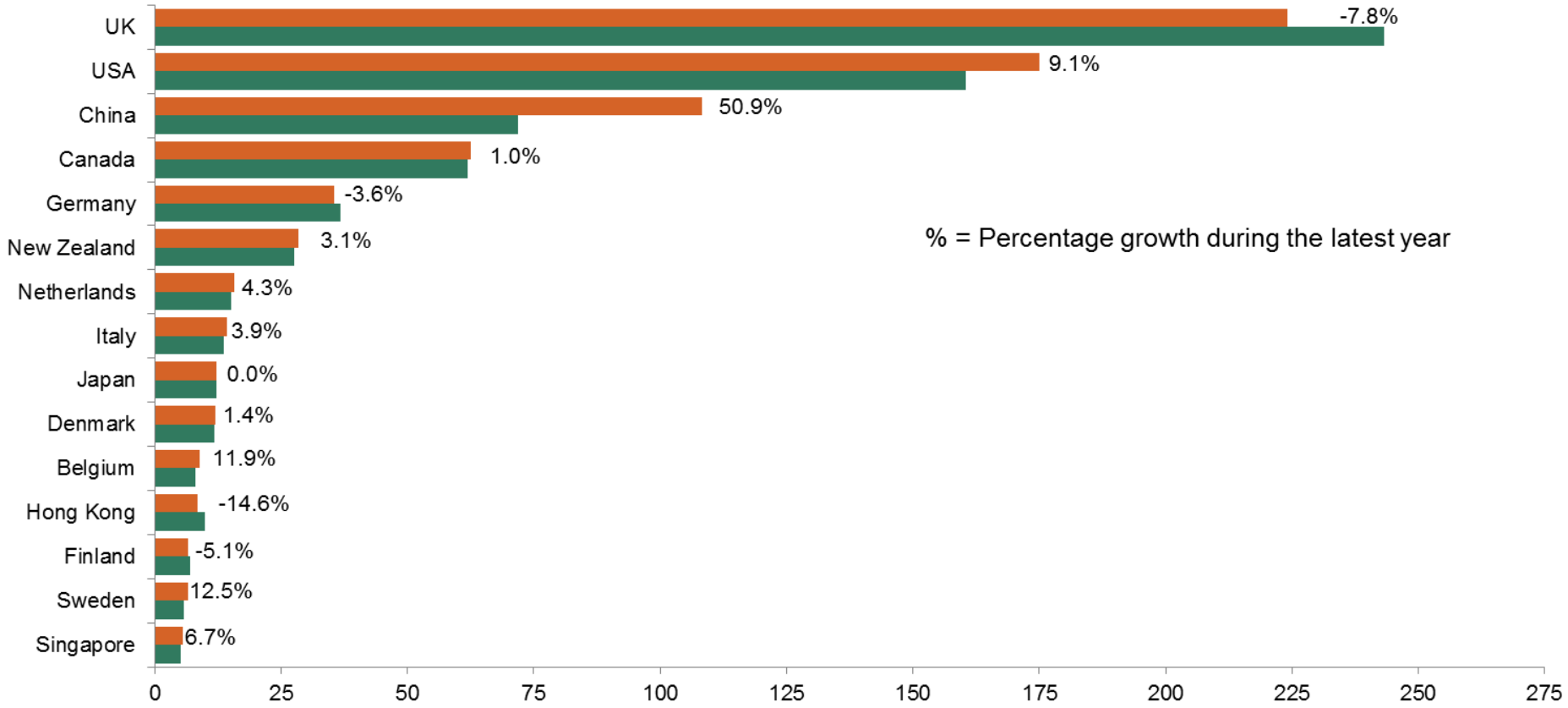
Australian wine sales/exports by destination region



Source: Wine Australia, ABS

United Kingdom is still the number one export market by volume

Australian wine exports (million litres) – MAT March 2017



Source: Wine Australia

SWOT Analysis

Strengths

- Dominant in market for obvious geographical reasons
- Shiraz consumption continues to grow in both volume and value
- Consumers recognize regional wines and diversity
- Growing food and wine tourism opportunity with lower AUD increasing visitor numbers
- Growing consumer confidence

Weaknesses

- Cask dry white is declining in popularity
- Bottled Cabernet Merlot and Semillon Sauvignon Blanc are declining in consumption as well
- Supply over-capacity

Australia

Opportunities

- Highest % value growth of all alcoholic categories in 2014
- Direct to consumer & online channels
- Declining AUD

Threats

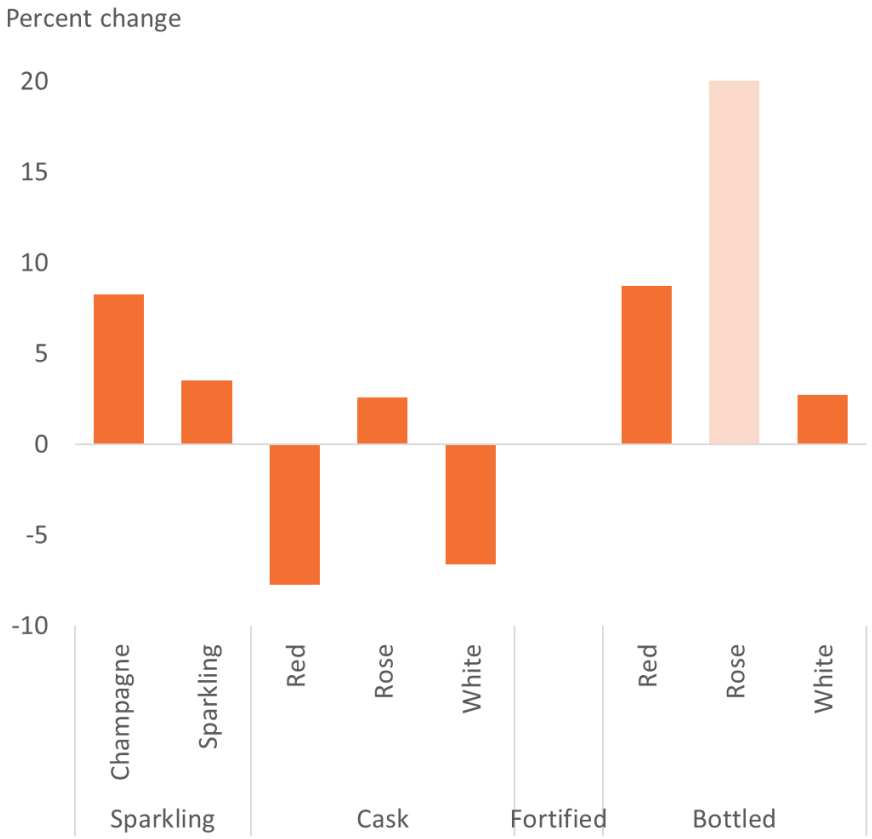
- Wine consumption in volume has decreased, Australians are drinking less
- Consumption of imported wine is growing
- Health regulations
- Retail consolidation

<u>General market comments:</u>

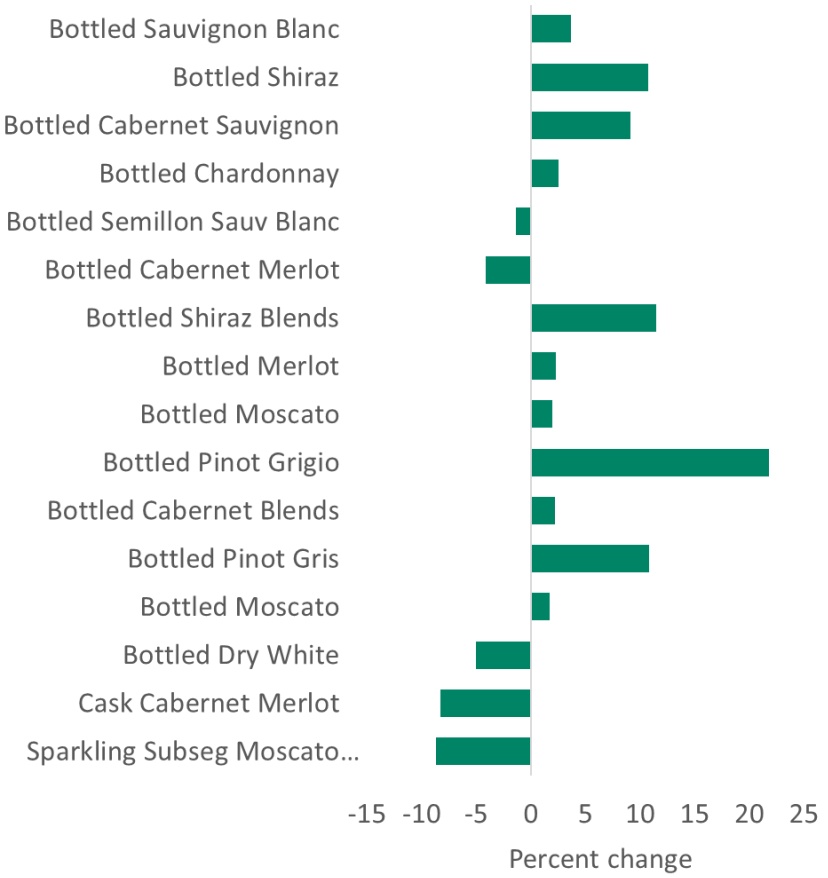
- Decline in volume and increase in value indicates Australians are trading up their wine consumption
- Little upside in per capita consumption

Consumers moving into premium categories. Dry whites in long-term decline

Value growth by category



Value growth by variety



SWOT Analysis

China

Strengths

- China was Australia's fastest growing market over last five years
- China remains Australia's largest market for super premium wines
- China Australia FTA signed so Australian wine can be more competitive
- Huge population

Weaknesses

- France has a more premium image
- Less recognition for premium whites
- Wine is still out of reach for most consumers
- Consumers have limited knowledge on wine in general

Opportunities

- Significant upside in wine per capita consumption (1 litre per head v 24 litres in Australia)
- Potentially 345 million wine consumers but only 19 million currently drink imported wine
- Online channel

Threats

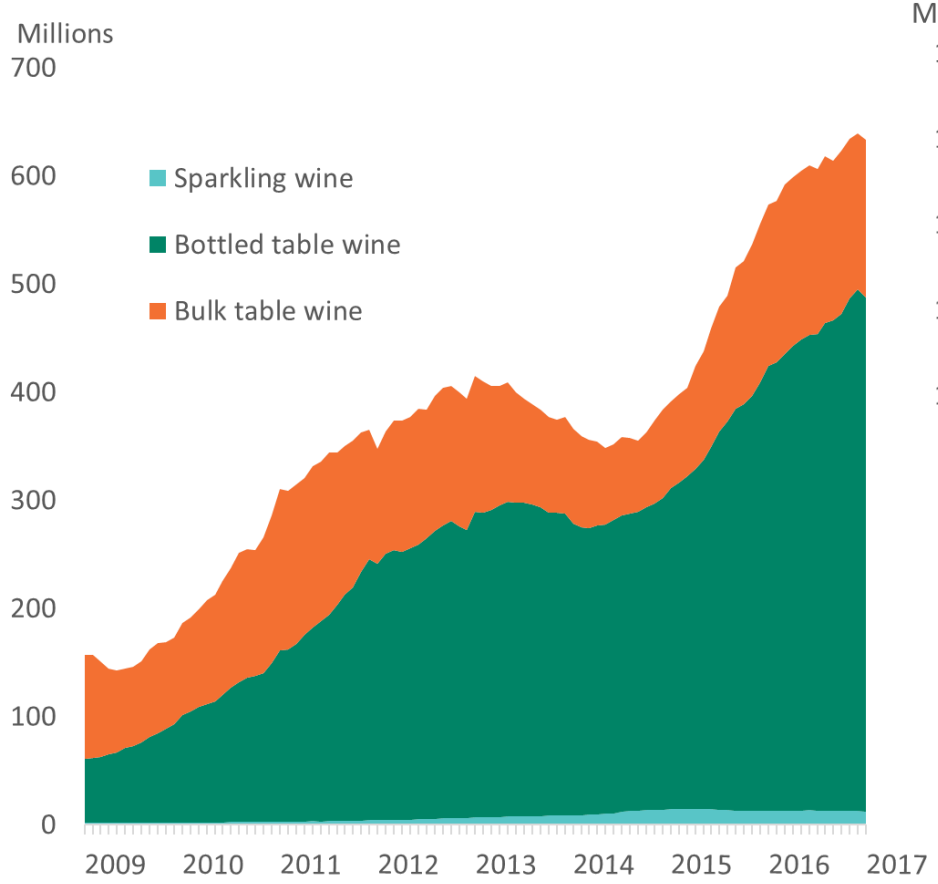
- Complicated regulations, varying between provinces
- Pricing comparison hurting grocery/hypermarket
- High import and distribution margins increasing the price of wine for consumers
- Counterfeit wine

General market comments:

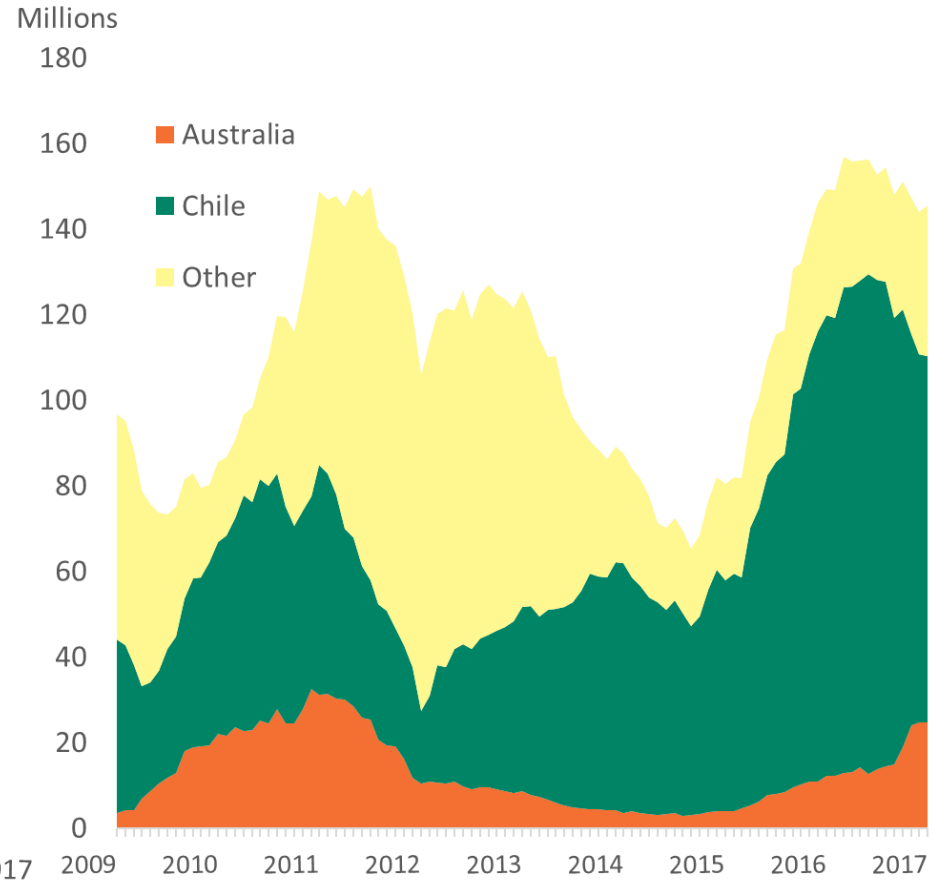
- Free Trade Agreement now in place, bottled tariff to be eliminated in five stages
- Some recent concerns over the stability of the Chinese economy

Chinese wineries have responded to foreign competition by increasing imports of bulk wine

Chinese wine imports by category

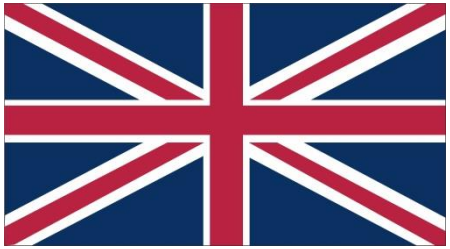


Bulk wine imports by source



Source: GTA

SWOT Analysis



Strengths

- Australia number one supplier to off-trade for over a decade
- Strong brand investment in UK in marketing
- 6 of top 16 brands are Australian
- Australia is 3rd in market share in on trade

Weaknesses

- Australia has lost momentum above £10
- Only the 5th largest in value in the online channel
- Australia is not recognised for fine wine, or a long history of wine making.
- 'Brexit' was a blow to the Riverland

UK

Opportunities

- The market is growing at all price points above £5
- Increase in independent retailers
- ¼ of wine drinkers are under 35 and open to experimenting

Threats

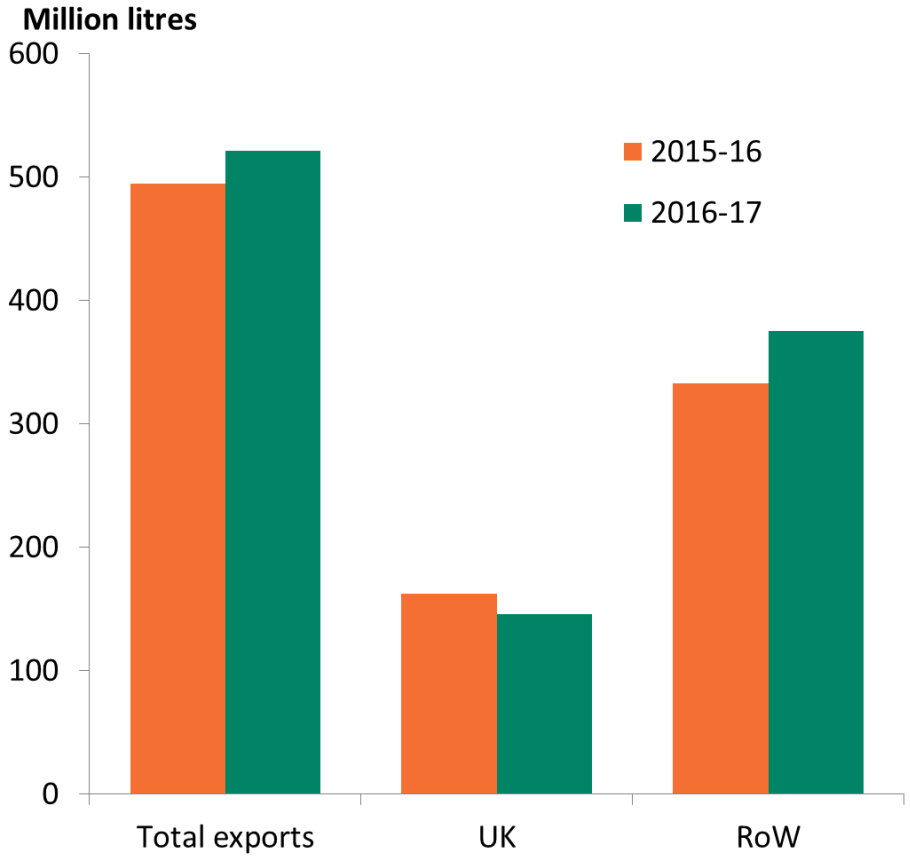
- Retail consolidation reducing range of products
- Price wars bringing down average price per bottle
- Government regulation
- 59% of population are regular drinkers, not much upside left in consumption

General market comments:

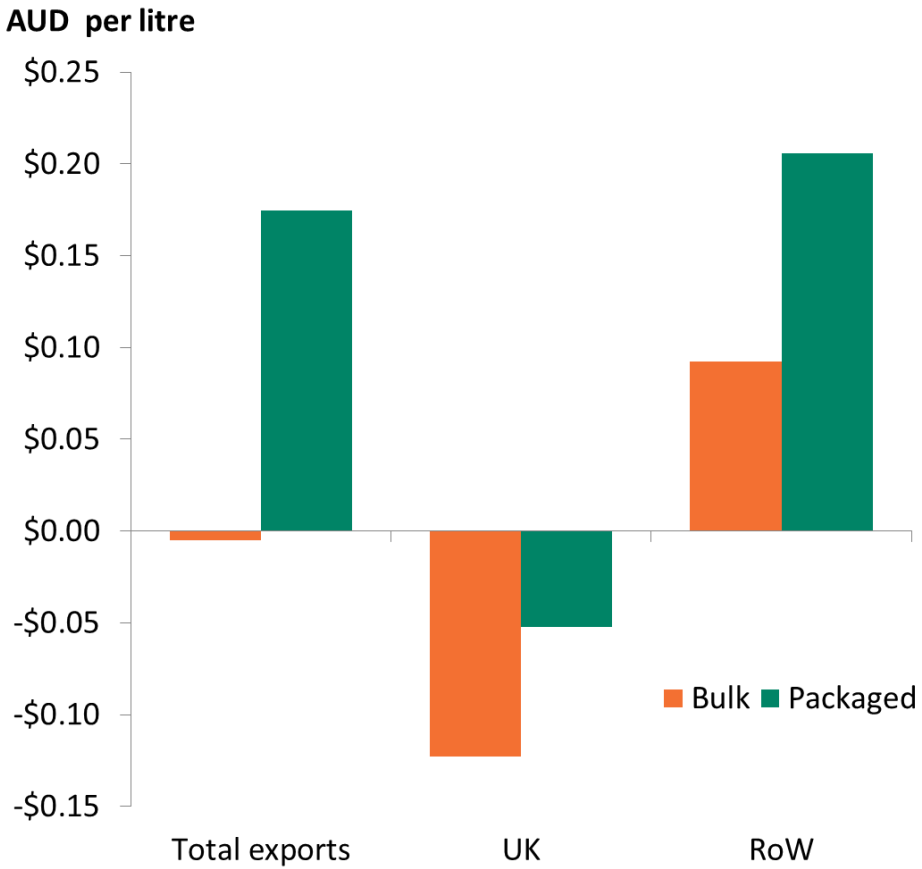
- Economy is improving, consumer confidence growing
- 'Brexit' must be considered
- Removal of excise duty escalator offers some relief

‘Brexit’ has and the associated weakened pound has hurt exports

Exports in the (first eight months 15-16 vs 16-17)



Change in pricing (first eight months 15-16 vs 16-17)



Source: Wine Australia

SWOT Analysis

Strengths

- Australian wine second largest import by volume behind Italy
- Declining Australian dollar versus the greenback
- Importers reporting success in Australian premium wine sales $11-$14 and $15-$19.99 and above

Weaknesses

- Australian wine image remains connected to entry-price points or rich wine styles; both areas suffered from negative association.
- Shiraz is declining in popularity

USA

Opportunities

- Large and growing premium wine market - $15-$25 best opportunity for Australia
- Perceptions of Australian wine are changing
- Receptive audience: new consumer, trade, distributor and importers ready for premium Australia.

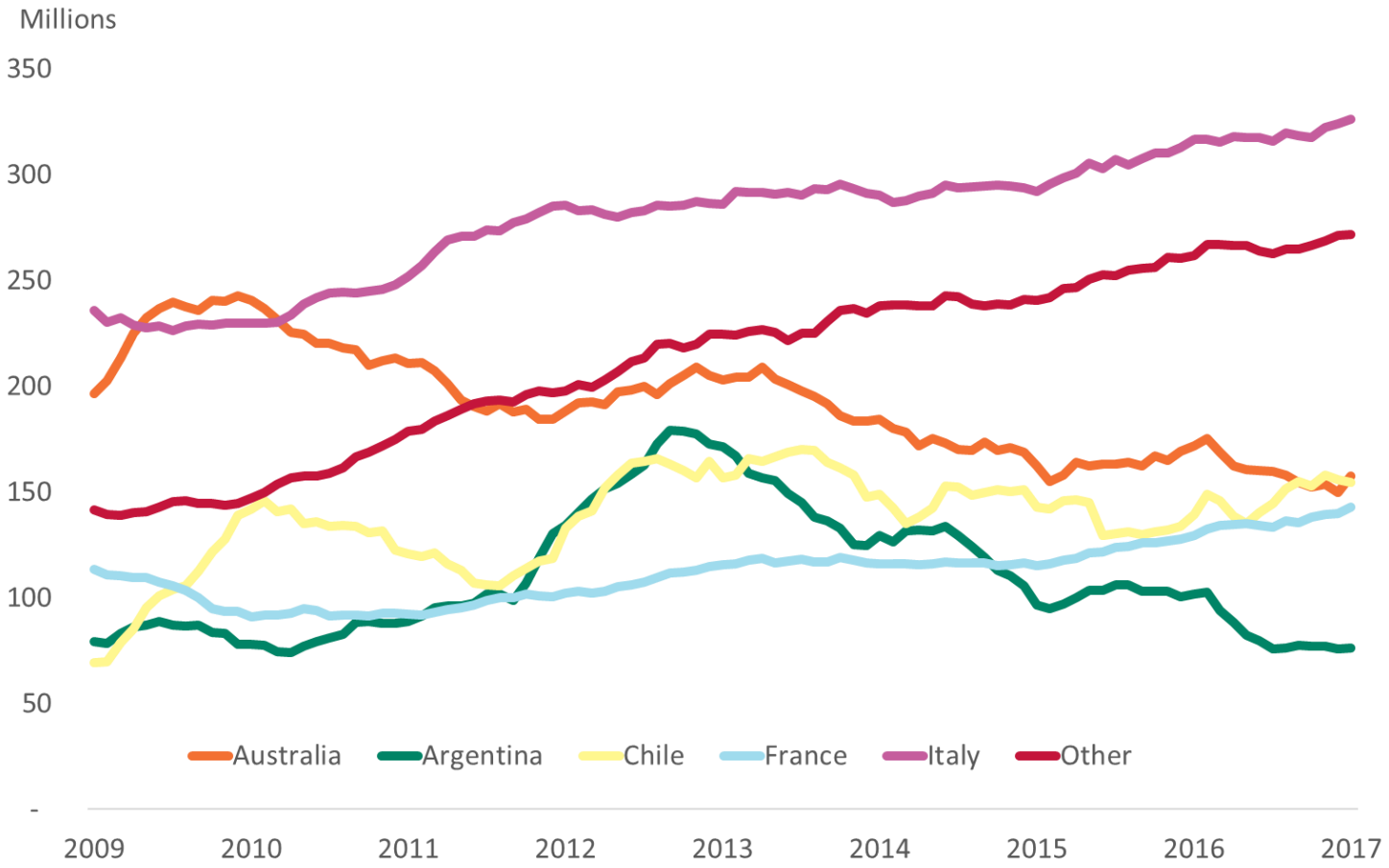
•Threats

- Australia can continue to lose market share.
- European Union's increasing proportion of funds
- Active & well-funded domestic category (70% market share)

<u>General market comments:</u>

- Largest consumer of wine in the world
- The economy is moving in the right direction (GDP up, unemployment down, personal consumption up, household debt service ratio down)

Italy has outperformed in the USA



Source: GTA

- GLOBAL SITUATION
- AUSTRALIAN SUPPLY AND DEMAND
- TRENDS BY VARIETY
- KEY MARKETS
- SUMMARY

Key takeaways– macro/global

- Lower global supply has helped improve bulk wine pricing
- Grape pricing is a lagging indicator
- ‘Brexit’ has offset the positive effect of the FTA in China
- The China story is strong and real, however competition will be fierce
- Premium wine segments are outperforming in major markets
- Australian wine in the US is still losing share