U.S. WINE MARKET

Steve Lanier – President

January 2018

Company Profile

AMERICAN WORLD SERVICES

- Based in Washington, D.C.
- Over 20 years of experience
- 6 employees
- Ongoing industry relationships

AWS offers over 20 years of

successful US international marketing services.

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Our Clients

SWITZERLAND GLOBAL ENTERPRISE

Wine Australia

Castilla-La Mancha

ipex

Wines of South Africa

CCI International Aquitaine

vini portugal

Prodeca
Promotora d'Exportacions Agroalimentàries

WINES of URUGUAY

PROMOS

PORTUGAL FOODS
From Knowledge to Change

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US Wine Market Overview

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US Wine Sales

- US is the Largest Wine Market Worldwide by value since 2010
  - $59 billion in sales in 2016
  - 399 million cases of wine shipped in 2016

- ….and largest in the world by volume

  - almost 36 million hectoliters in 2016

  - France - 27.2 million hectoliters in 2015

  (decrease from 27.9million in 2014)

Source: Wine Institute

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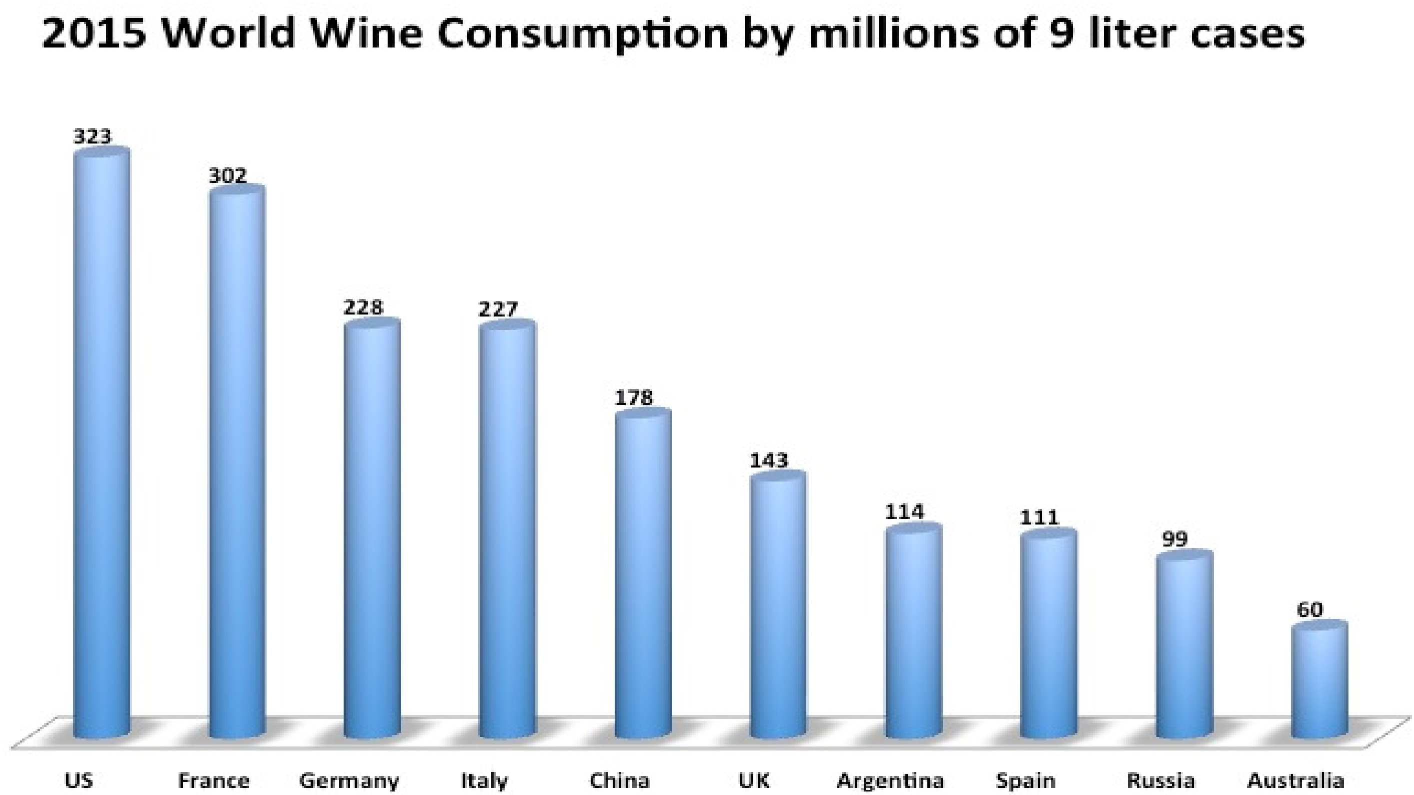
World Wine Consumption



Source: *Impact Databank Report 2016*

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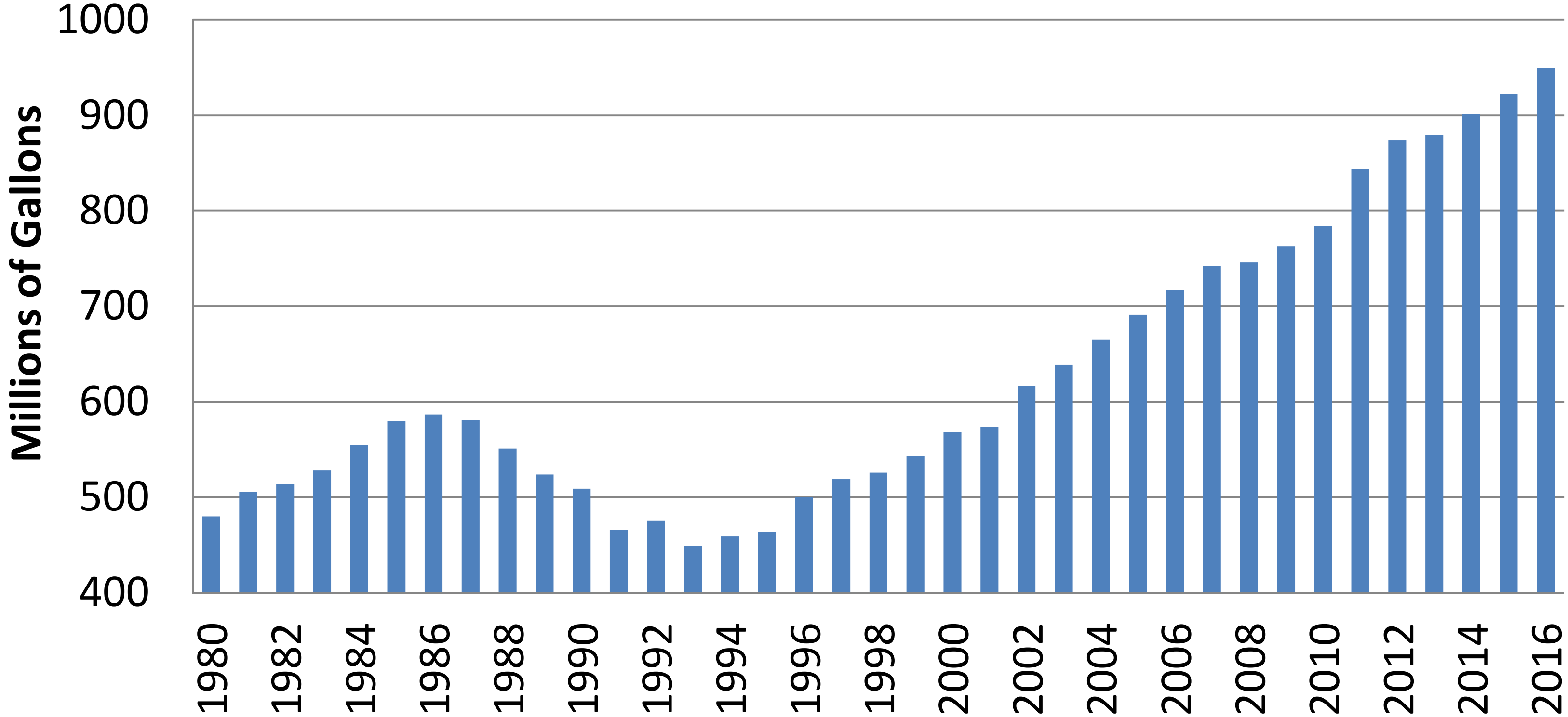
US Wine Consumption Over Time



Source: Wine Consumption in the US (Revised April 2016)

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US Wine Consumption

- In 2016, Wine sales came from:
  - Import: 33%
    - Italy: 33% of amount imported
    - France: 23% of amount imported
  - Domestic: 67%
    - California: 84% of gallons produced
    - Other States: remaining 16% of gallons produced
- Per capita wine consumption:
  - US #42 at approximately 11.13 L / Person in 2016

US imports could reach 40% to 45% by 2025! Wine Economist

Sources: Statista; Dr. Liz Thach, MW; Wine Institute

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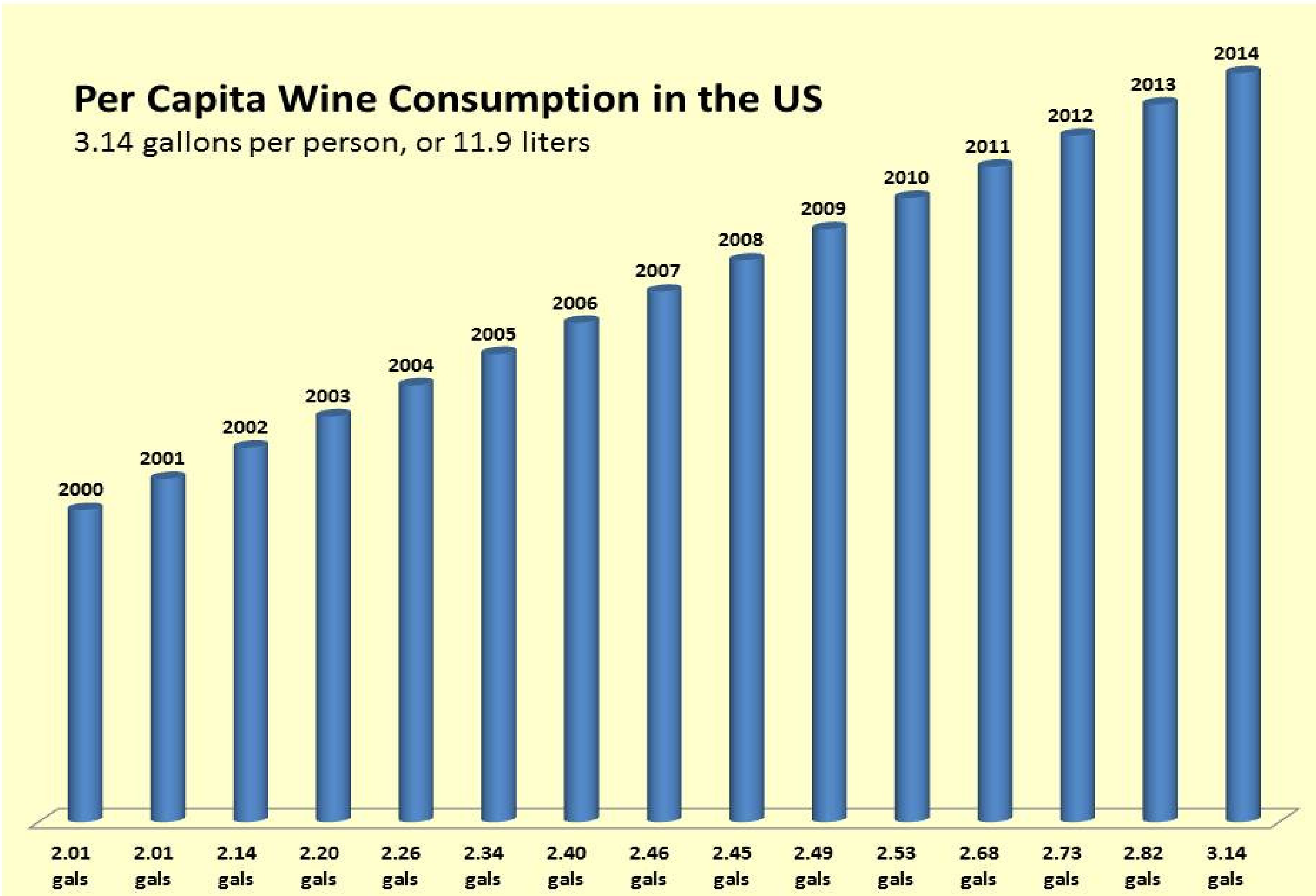
Change in per capita Wine Consumption



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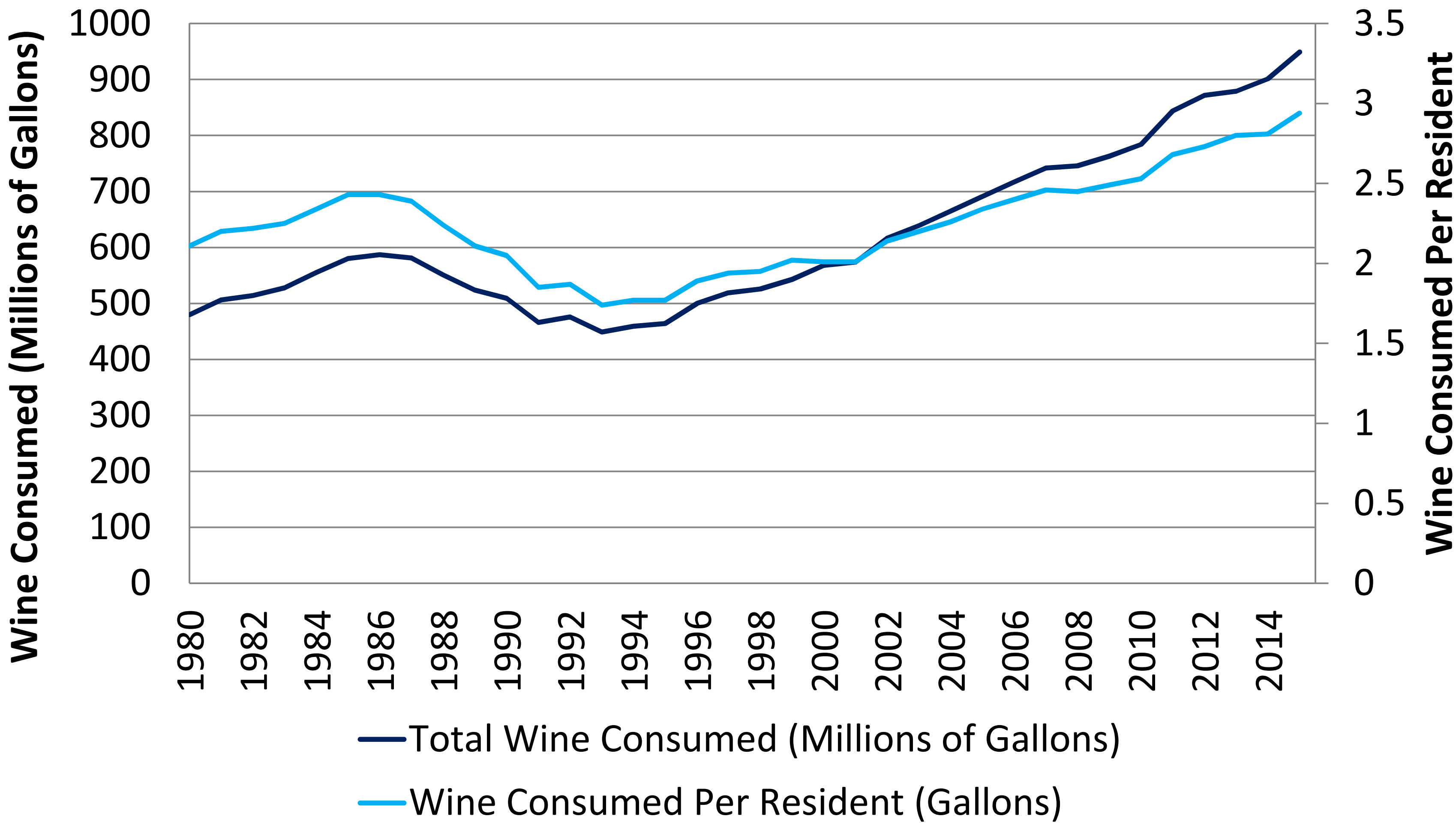
Historical Market Growth



Source: Wine Institute

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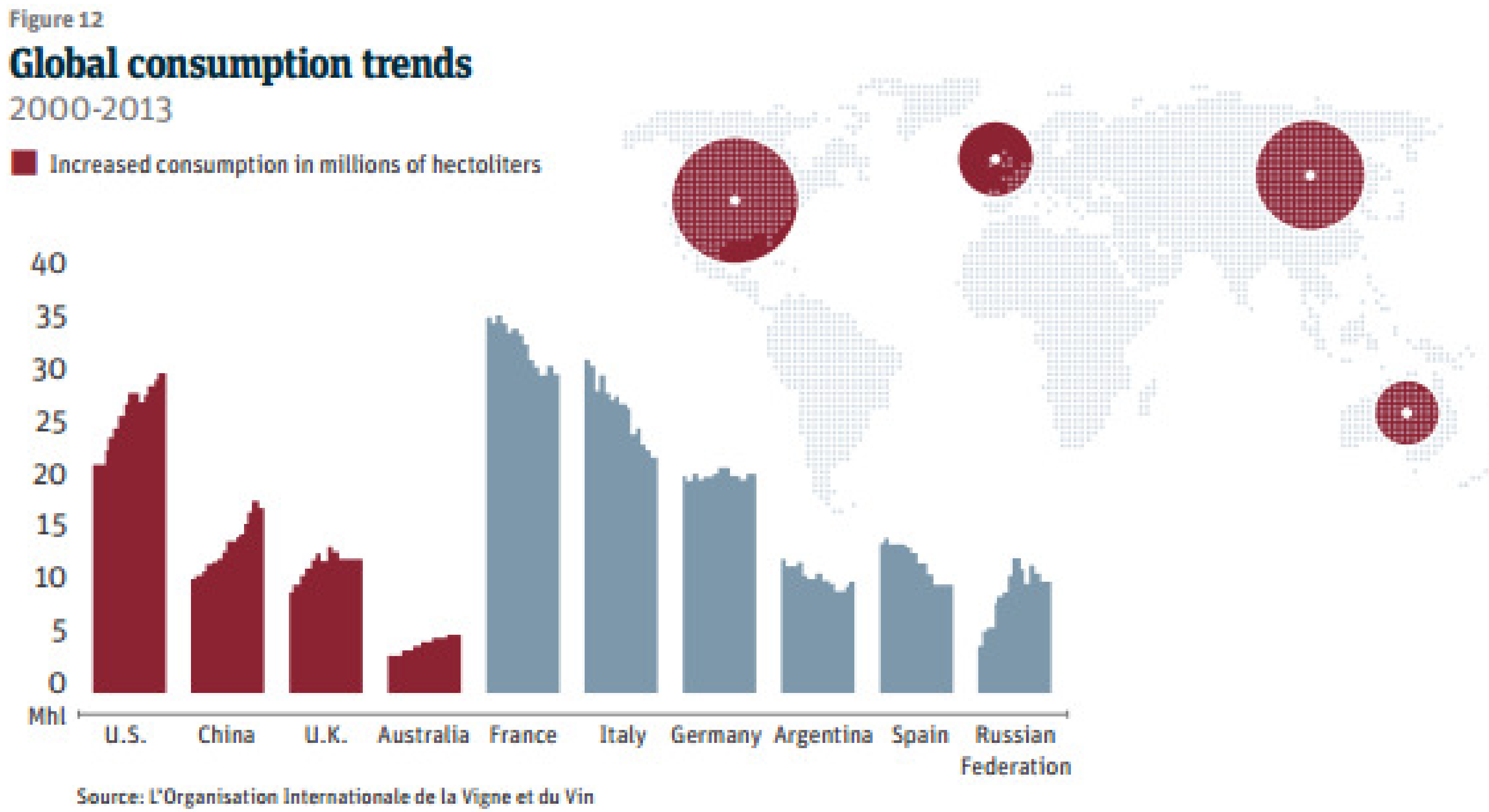
Consumption Trends by Country



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Consumer Trends

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Age and Demographic Trends

- Approximately 120 million of the almost 330 million people in the US drink wine

- Generational consumption among "high frequency" wine drinkers (accounts for 90% of wine consumed)
  - Millennials (age 20-40): 30%
    - Includes Gen Y (age 30-40)
  - Generation X (age 40-55): 20%
  - Baby Boomers (age 55-70): 38%
  - Matures (age 70+): remaining 12%

Sources: Dr. Liz Thach, MW; Decanter; CNN.com; Wine Spectator

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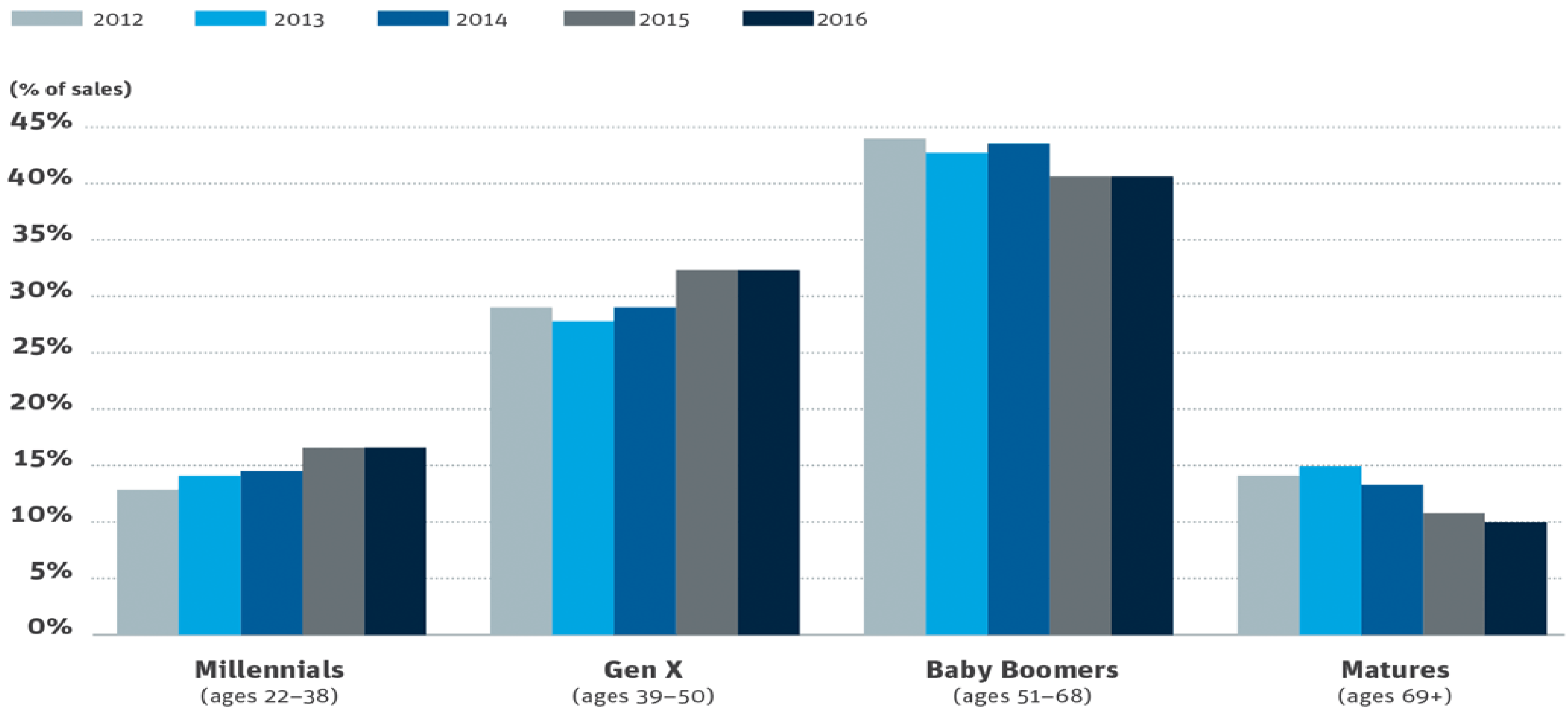
Age and Demographic Trends

Wine Sales by Age Group as a Percentage



State of the Wine Industry 2017, Figure 23
Source: SVB Annual Wine Conditions Survey

Source: Silicon Valley Bank, State of the Wine Industry Report 2017

Age and Demographic Trends

Millennials:

- Adopt wine fast
- Little brand loyalty since they love to experiment
- Marketing: authentic experience & hip, modern packaging
- WOM rather than industry professionals
- Will move out of blends and into varietals and imports as their incomes increase
- Will become largest part of market by 2026

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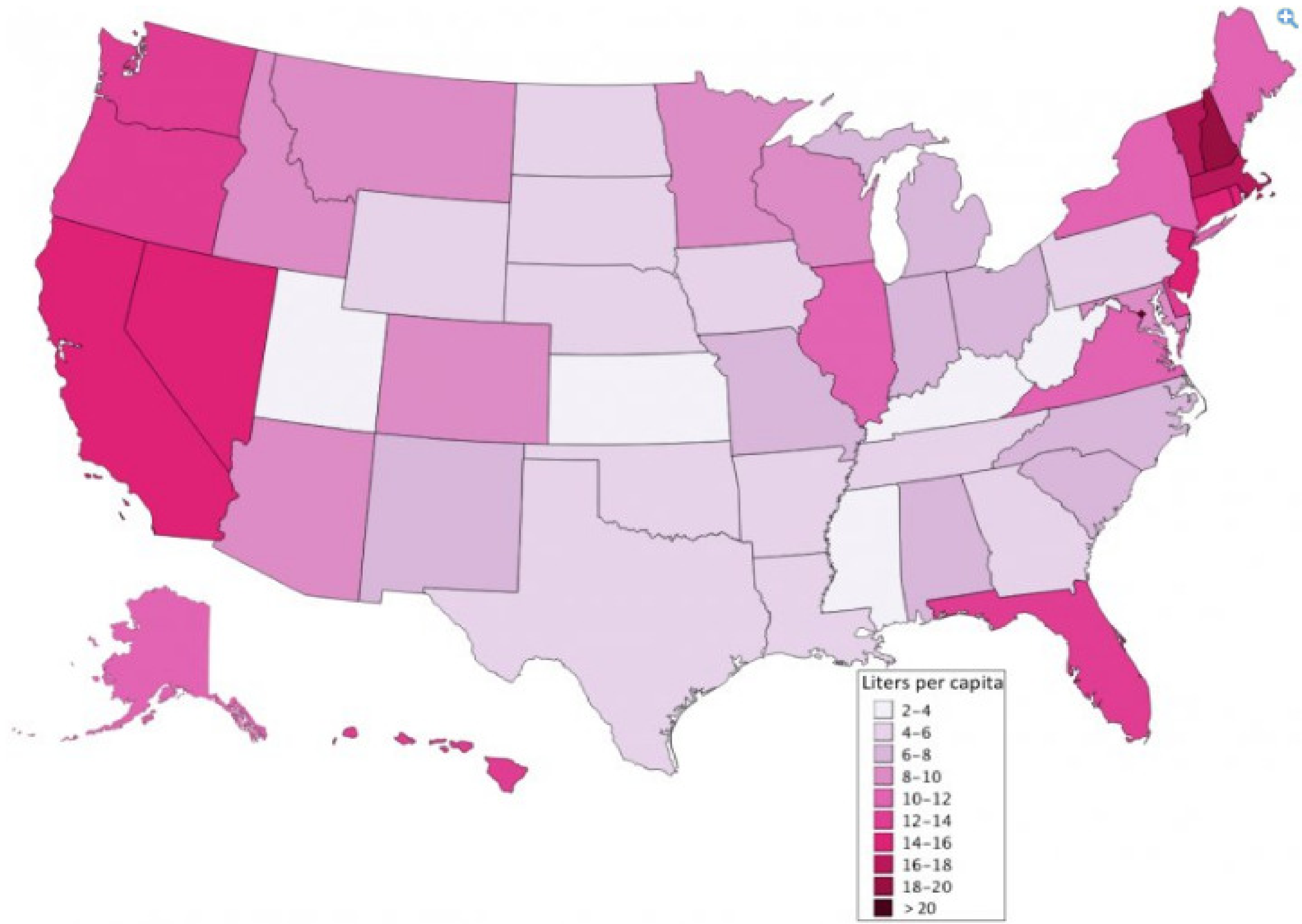
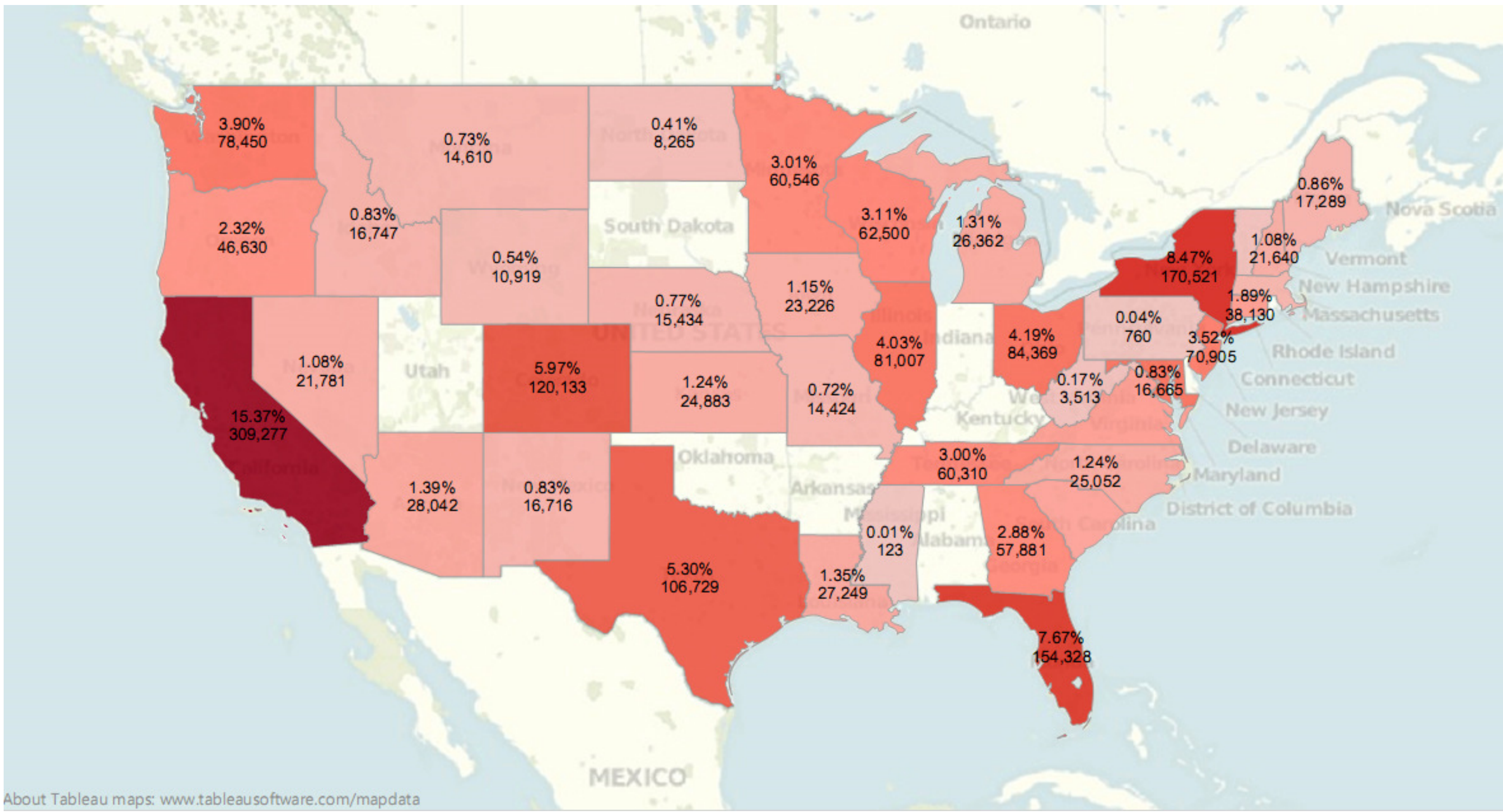
Liters per capita by State (2013)



Business Insider/Andy Kiersz, data from the Beverage Information Group

Regional Consumption

Top 10 states account for 61.5% of U.S. wine volume consumed



Source: Business Insider (April 2015)

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Regional Consumption

Source: US Drinks Conference, Beverage Trends Report 2012

Top 10 Wine States (000 9-Liter Cases)			
State	Cases	Share	Growth
California	56,408	18.1%	3.0%
Florida	25,760	8.2%	1.2%
New York	24,951	8.0%	2.2%
New Jersey	14,153	4.5%	2.3%
Texas	14,017	4.5%	2.3%
Illinois	13,912	4.5%	2.2%
Massachusetts	12,048	3.9%	2.3%
Washington	9,745	3.1%	2.9%
Virginia	9,156	2.9%	3.5%
Ohio	8,730	2.8%	2.9%
Top 10 Total	**188,882**	**60.5%**	**2.5%**
U.S. Total	**312,360**	**100.0%**	**1.9%**

Top 10 Wine states for the first 6 months of 2014 according to NakedWines.com

State	Share
California	15.4%
New York	8.5%
Florida	7.7%
Colorado	6.0%
Texas	5.3%
Ohio	4.2%
Illinois	4.0%
Washington	3.9%
New Jersey	3.5%
Michigan	3.1%
Top 10 Total	61.6%

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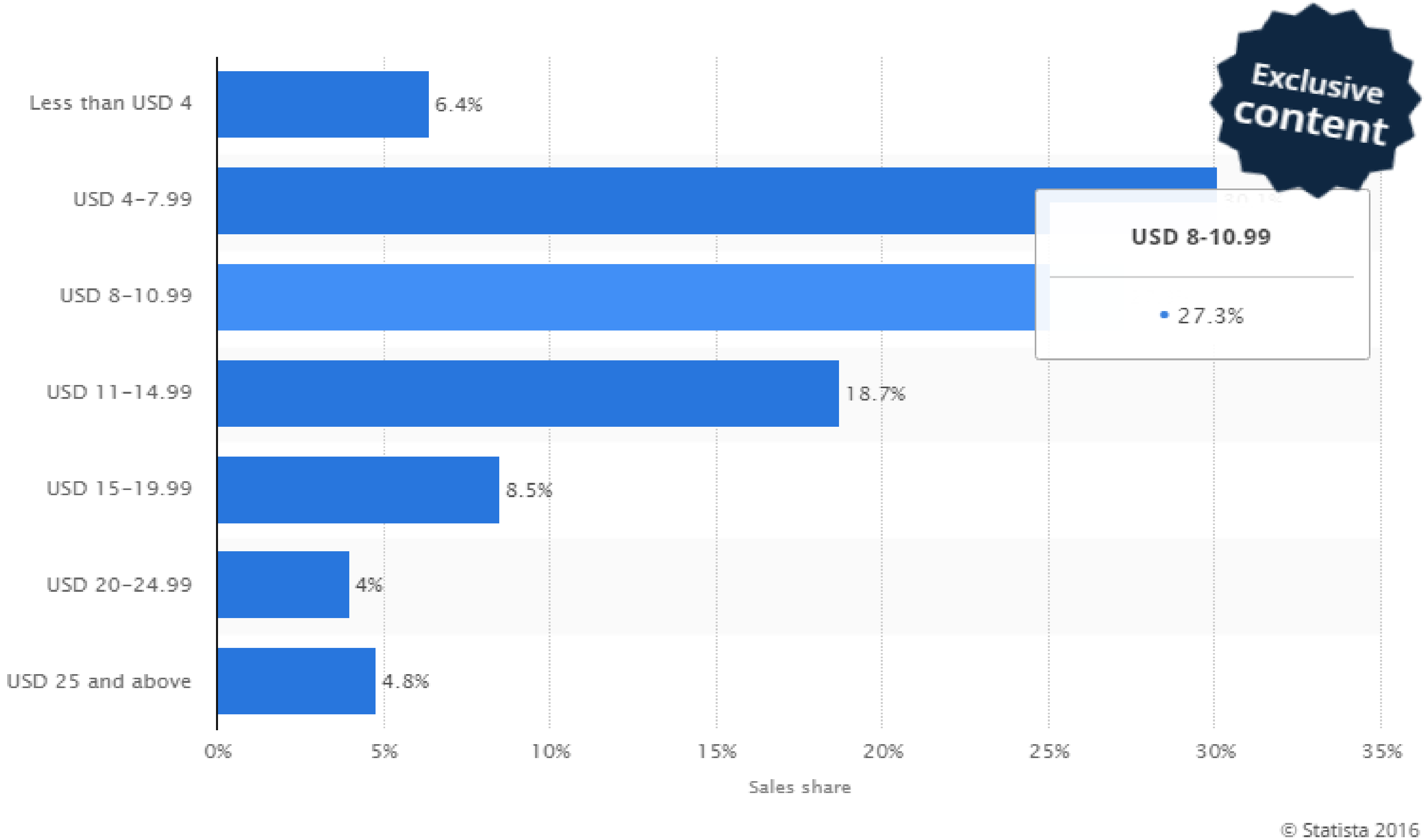
2015 Wine Sales Share By Bottle Price Range



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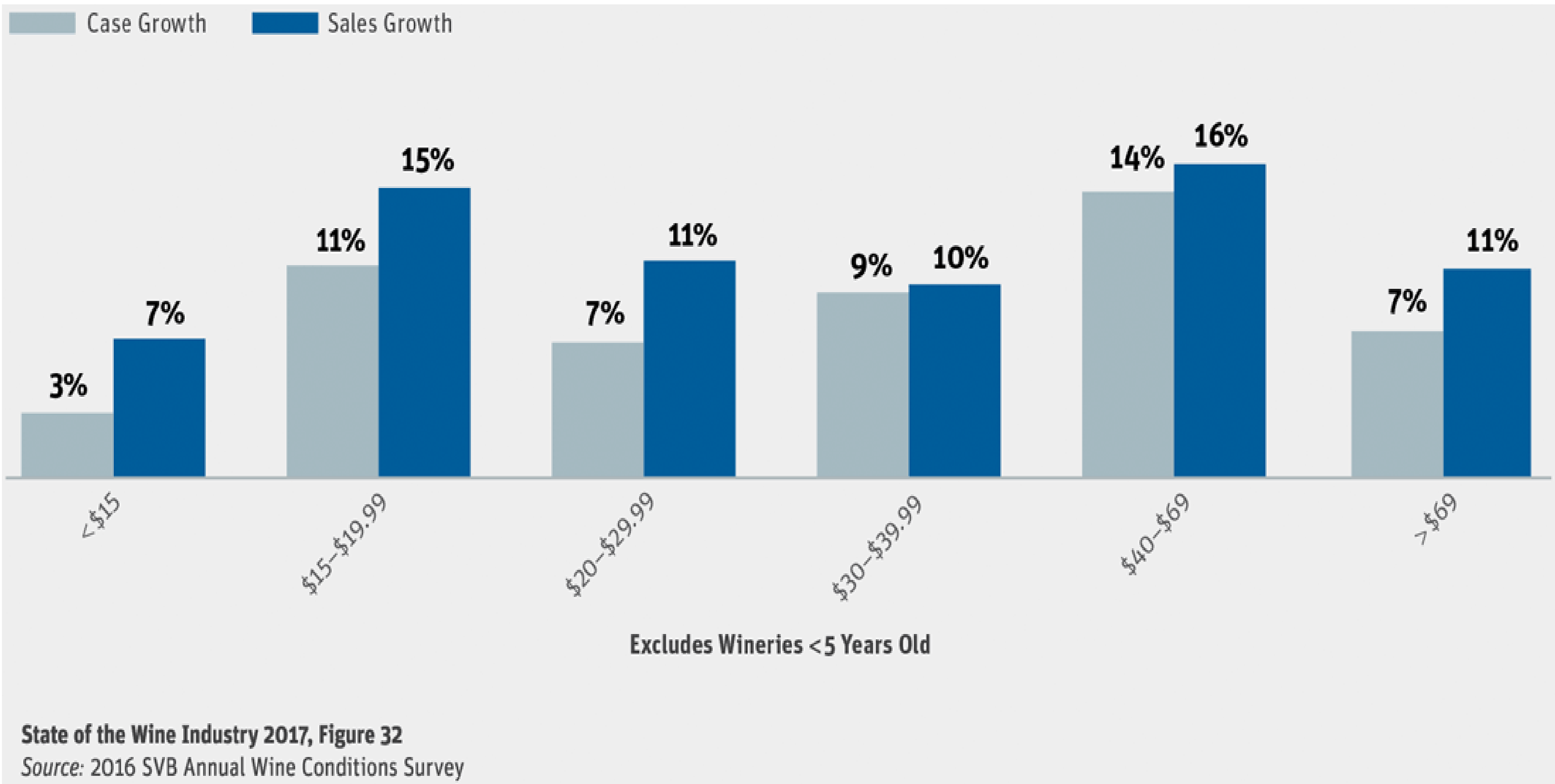
US Wine Retail Pricing



Source: SVB State of the Wine Industry 2017

US Varietal Sales by percent and average price

Varietal	Sales Share: Value %	Sales Share: Volume % (9L EQ Share)	Value % Change (YOY)	Volume % Change - 9L EQ Share (YOY)	Average Price/750ML
Table Wine	100	100.0	4.5	1.4	$6.82
Chardonnay	19.0	19.4	2.9	0.7	$6.71
Cabernet Sauvignon	16.2	13.4	7.9	5.1	$8.28
Red Blends	13.3	12.9	8.7	3.2	$7.01
Pinot Grigio / Pinot Gris	8.9	9.1	6.7	6.7	$6.66
Pinot Noir	7.0	4.8	8.7	6.7	$9.91
Merlot	6.7	7.9	-3.0	-3.9	$5.74
Sauv Blanc/Fume	5.5	4.2	11.8	9.1	$8.98
Muscat/Moscato	4.6	5.9	4.1	4.9	$5.38
White Zinfandel	2.7	4.6	-6.3	-7.6	$3.99
Malbec	2.2	1.7	3.7	2.5	$8.72
Riesling	2.2	2.0	-0.8	-0.8	$7.44
Zinfandel	1.9	1.3	0.7	-2.1	$10.11

Source: Nielsen (2015)

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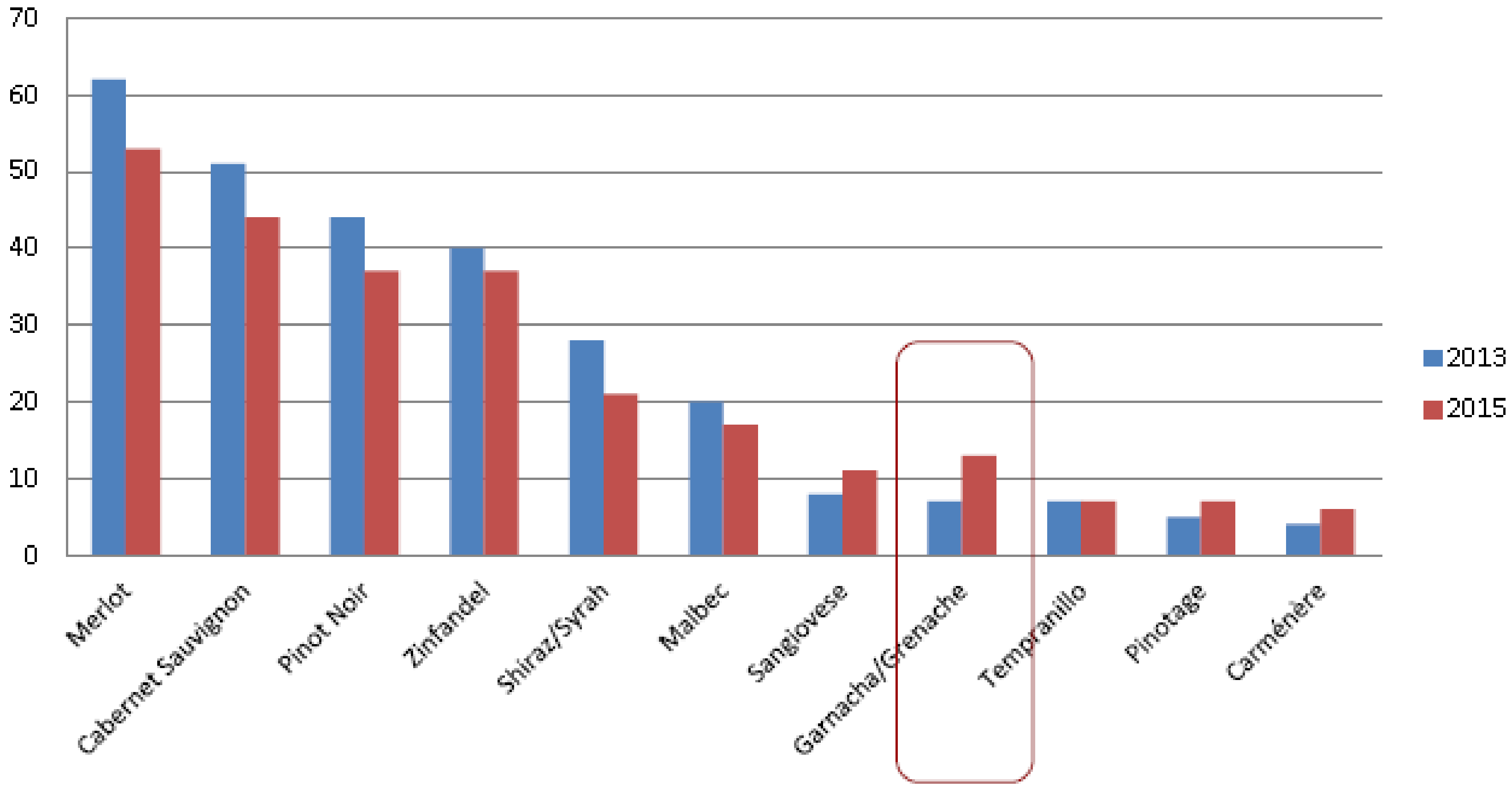
Sangiovese/Grenache Awareness is Growing

% US consumers who recall consuming - by varietal 2013/2015



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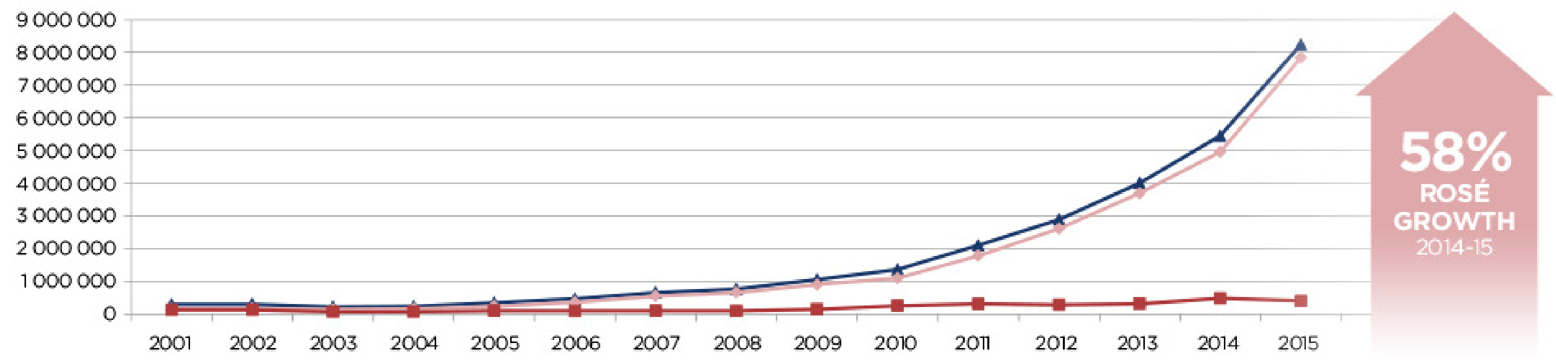
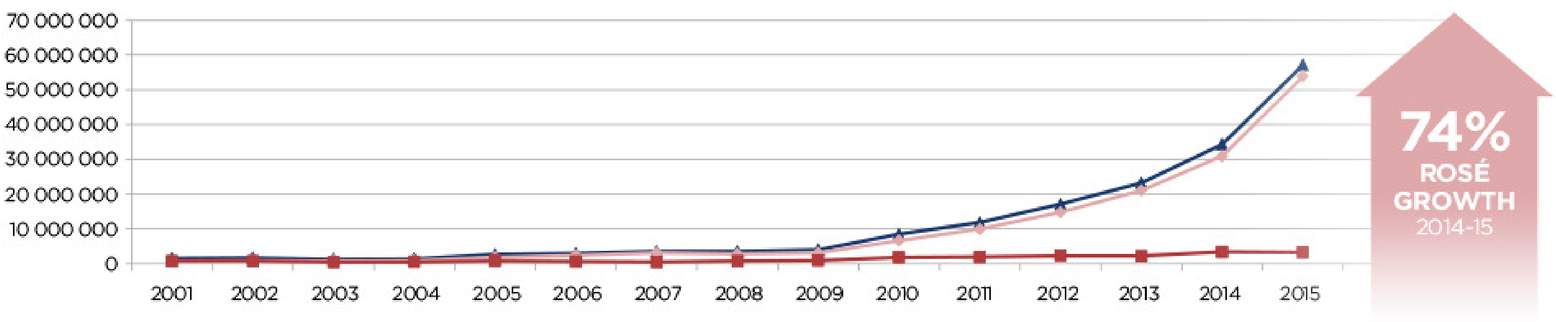
US Rosé Sales

Evolution of VOLUMES of Provence Rosé Exported to the USA *in litres (Customs – CIVP)*



Evolution of VALUES of Provence Rosé Exported to the USA *in Euros (Customs – CIVP)*

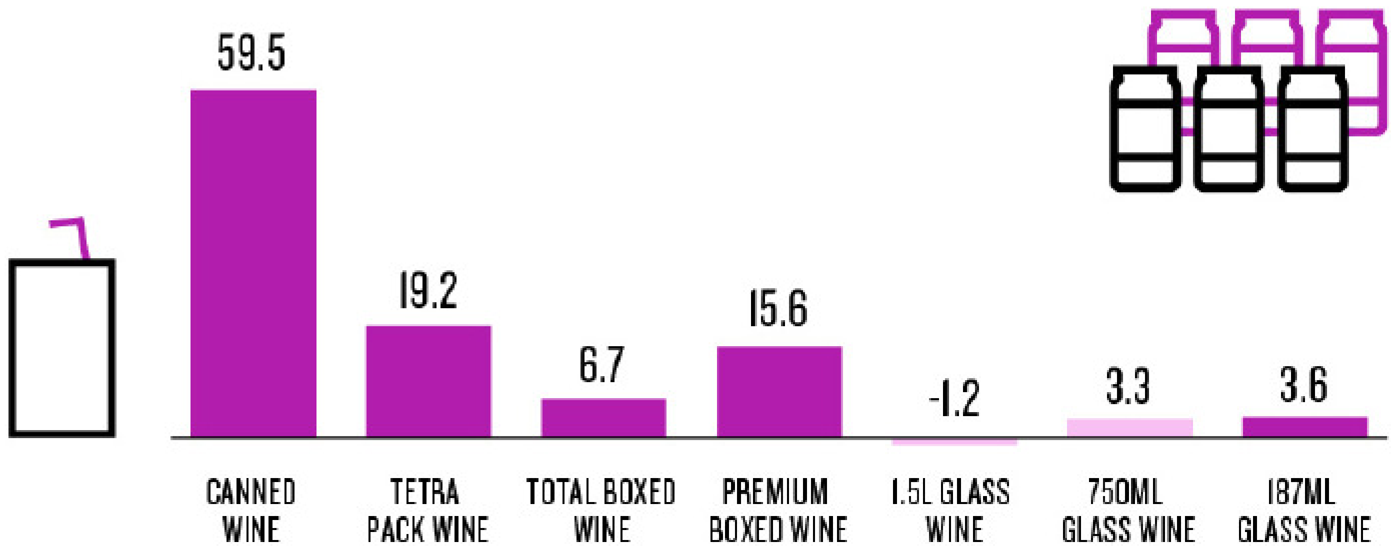


Rouge & Rosé   Rosé   Rouge

Innovative Packaging is trendy

“Alternative” packaging is growing fastest

WINE PACKAGING: DOLLAR % CHANGE VS. YEAR AGO



$ SHARE OF TOTAL WINE	0.2%	1.0%	6.5%	3.1%	15.4%	72.5%	1.1%

Source: Nielsen, Total U.S., Off-Premise Outlets, 52 weeks ended 09/30/2017

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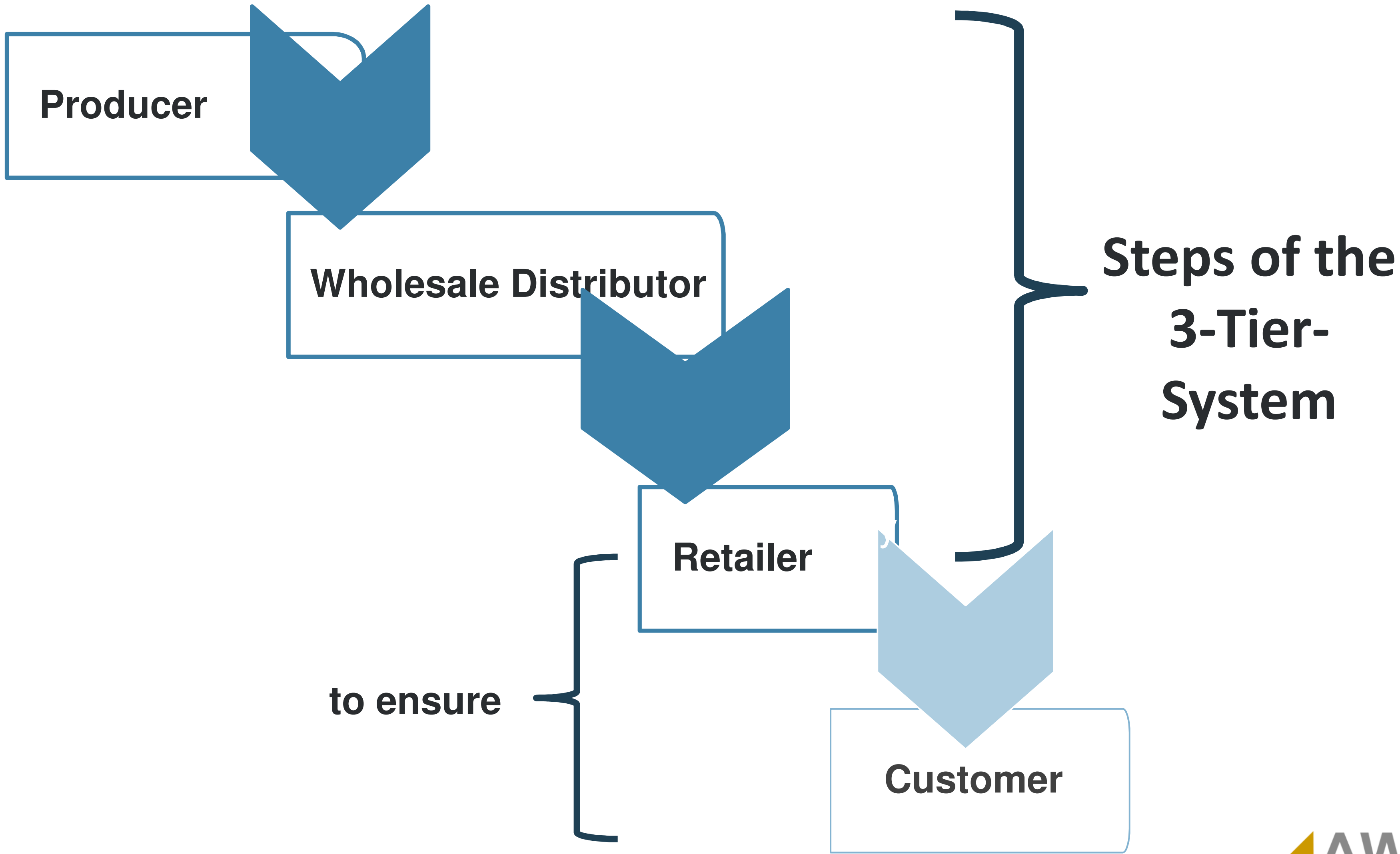
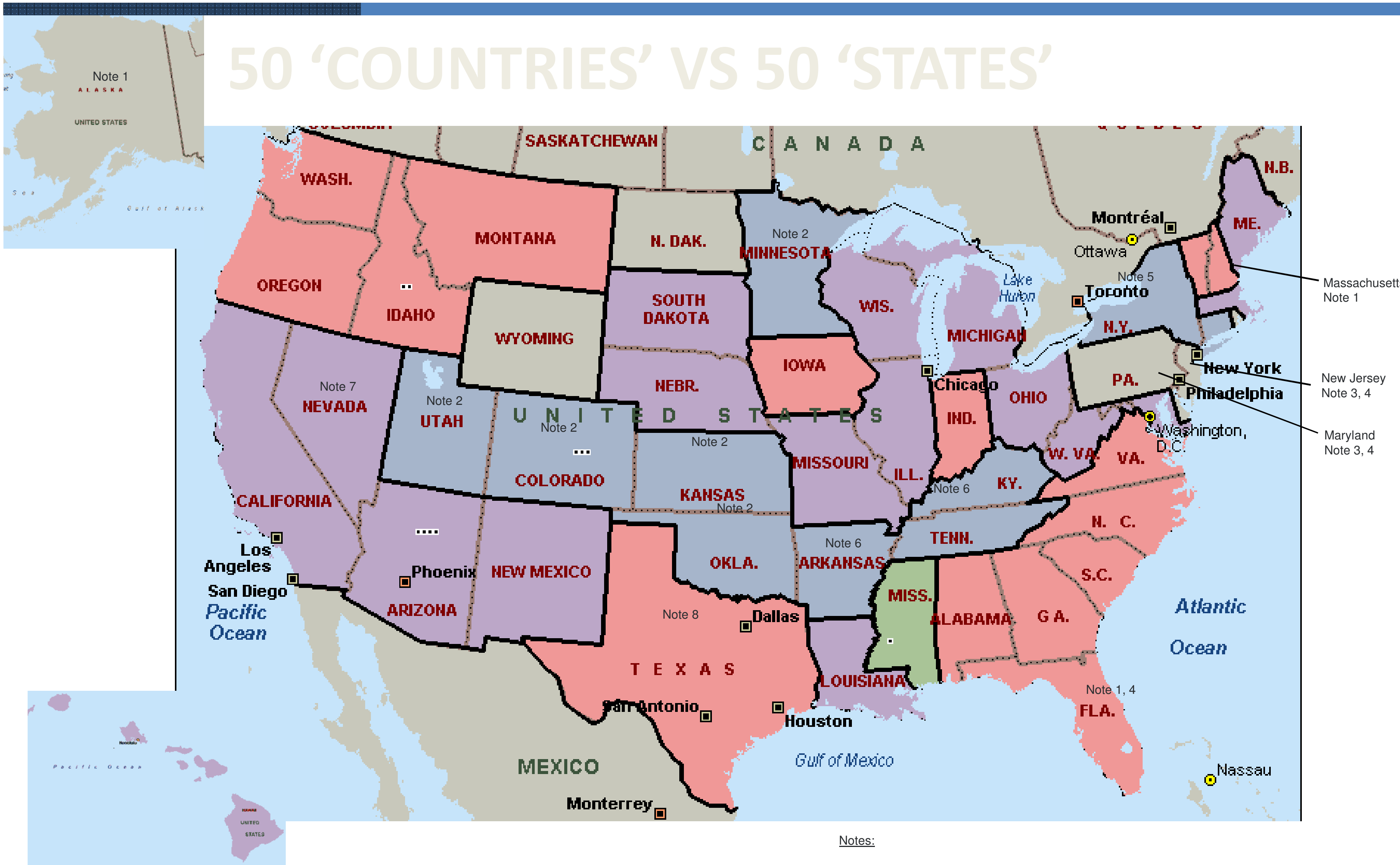
Distribution

3-Tier-System



50 ‘COUNTRIES’ VS 50 ‘STATES’



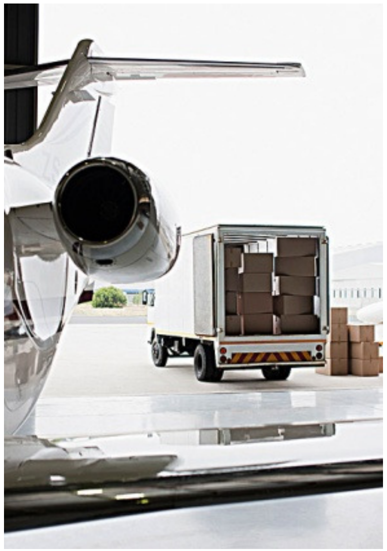
- Wine, Liquor and Beer available in grocery stores.
- Wine and Beer available in grocery stores. No Liquor can be sold in grocery stores.
- Beer available in grocery stores. No Wine or Liquor can be sold in grocery stores.
- No Alcoholic Beverages can be sold in grocery stores.
- Wine and Beer less than or equal to 5% ABW available in grocery stores. No Liquor or Products greater than 5% ABW can be sold in grocery stores.

Notes:

1. Separate entrance for alcoholic beverage sales required. (For liquor in FL, wine & beer in AK).
2. Beer sales limited to <=3.2% alcohol by weight.
3. Selected accounts sell wine & beer, varies by local ordinance.
4. Selected accounts sell liquor, varies by local ordinance.
5. Wine coolers & beer are permitted in grocery stores.
6. Beer sales limited to 5.0% alcohol by weight.
7. However, each county may have different licensing requirements for wine, beer, and distilled spirits.
8. Beer that is >4% and <=17% alcohol by weight can be sold in any outlet that has a wine or wine/beer license.

Partnership Types

▪ Large Importer:



- Advantages
  - Has capacity to manage large volumes
  - Can offer national coverage
- Disadvantages
  - Most often will not “pioneer” a product
  - Often little capacity or desire to market niche products
  - Controls marketing and branding
  - Large importers list a product among hundreds
  - Requires significant marketing budget

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Partnership Types

▪ Small & Midsized Importer

- Advantages
  - Will work with new and niche products
  - Can develop a partnership relationship
  - Fewer references

- Disadvantages
  - Often smaller orders – especially to begin
  - Cannot offer national coverage

Partnership Types

▪ Agent

- Advantages
  - Will pioneer a new product
  - Has capacity to work with niche products
  - Motivated by commission

- Disadvantages
  - Typically charges a monthly fee plus commission
  - Often does not warehouse and import products

Partnership Types

▪ Distributor

- Advantages
  - Has regional and local expertise
  - Can boost your current importer’s efforts

- Disadvantages
  - Must be used in conjunction with an importer – no direct selling
  - Has significant power at local level

Industry Consolidation

Continued Distributor Consolidation

Distributor	Markets	Sales Revenue 2013E	Sales Revenue 2014P	% Chg.	Market Share 2014E	Market Share 2013P
Southern Wine & Spirits of America	AL, AL, AZ, CA, CO, DE, FL, HI, ID, IL, IN, IA, KY, ME, MD, MI, MN, MI, MT, NV, NH, NM, NY, NC, OH, OR, PA, SC, UT, VT, VA, WA, DC, WV, WY	$ 11,390	$ 11,750	3.2%	22.1%	22.3%
Republic National Distributing Co.	AL, AZ, CO, FL, GA, IN, KY, LA, MD, MI, MI, NE, NM, NC, ND, OH, OK,	$ 6,095	$ 6,480	6.3%	11.8%	12.3%
Charmer Sunbelt Group	AL, AZ, CO, CT, DE, FL, MD, MI,	$ 5,380	$ 5,575	3.6%	10.4%	10.6%
Glazer´s Family of Companies	AL, AZ, AR, IN, IL, IA, KS, LA, MS, MO, OH, OK, TN, TX	$ 3,475	$ 3,655	5.2%	6.7%	6.9%
Young´s Market Co.	AK, AZ, CA, HI, ID, MT, OR, UT, WA, WY	$ 2,820	$ 2,925	3.7%	5.5%	5.6%
Wirtz Beverage Group	IL, IA, MN, MO, NV, WI	$ 1,775	$ 1,860	4.8%	3.4%	3.5%
Johnson Brothers Liquor Co.	AL, AZ, CA, CT, FL, HI, IL, IN, IA, KY, MA, MN, NE, NV, NM, NY, NC,	$ 1,660	$ 1,735	4.5%	3.2%	3.3%
Martignetti Companies	MA, ME, NH, RI, VT	$ 1,200	$ 1,200	0.0%	2.3%	2.3%
Allied Beverage Group	NJ	$ 750	$ 775	3.3%	1.5%	1.5%
Fedway Associates	NJ	$ 735	$ 760	3.4%	1.4%	1.4%
		$35,280	***$36,715***	***4.1%***	***68.4%***	***69.7%***
		$16,300	***$15,975***	***-2.0%***	***31.6%***	***30.3%***
		$51,580	***$52,690***	***2.2%***	***100.0%***	***100%***

Source, Impact, April 1, 2015

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Price Mark-up

Winery → Importer/ Agent → Distributor → Retailer/ Restaurant → Customer

- Mark-ups occur between each distribution channel
  - -The highest markup is between the retailer/restaurant and the end-user

- Restaurant and retail mark-ups depend on overhead costs and state alcohol taxes

<u>Traditional Mark-up Rates in the United States</u>

Importer/Agent - Distributor	25%-40%
Distributor – Retailer/Restaurant	25%-30%
Retailer-Customer	40% or more
Restaurant – Customer	200%-300%

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Strategy Development

Prior to the meeting

<u>Checklist</u>

English language:

- Speaking Capabilities
- Marketing Brochure
- Technical Sheets
- Tasting Notes
- Website

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Prior to the meeting

<u>Checklist</u>

- Export and/or sales manager to handle the US market?

  (who is the contact person for exports)

- Export pricing list ready? Ex cellar prices per reference and vintage, volumes available for US market

- Business Card with country code

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Prior to the meeting

<u>Develop your Story</u>

- History of winery – family-owned, how started, passion for the business
- Points, awards, press info (Americans love points – unfortunately)
- Current well-known clients – high-end restaurants, retailers, (Example: White House)
- Differentiating factors - organic, fair trade, bag in box, interesting varietals, rosé

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Prior to the meeting

<u>Develop your Story</u>

- Your target market in the U.S.

  - high-end restaurants, large supermarkets, specialty stores

    (will be based on volume available and pricing)

- Your target consumer

  - Millennials, boomers

"Elevator Pitch" – tell your story in 2 minutes

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Prior to the meeting

Do Your Research

- Know the Trends in the US market
    - Imported Rosé is growing
    - Baby boomers are largest market

- Develop proposed marketing plan and budget

    (visits, tastings - marketing budget can range from zero to 1 euro a bottle)

Prior to the meeting

Review importers website:

- Identify the type of wine carried – countries and varietals
- Identify prices (if available)
- Identify current client base

- Allows you to identify niche in which your wine falls in
- Show importer how your wine is complementary to their current wines and activities

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During the Meeting

- Tell your story
- Smile, be positive and show interest in the importers
- Ask questions about:
  - Importer’s experience with Italian wine
  - Importer’s current portfolio
  - Importer’s story, activity
  - Importer’s needs - What is the buyer seeking

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During the Meeting

- Don’t be afraid of the straight forward and direct way to talk

  - will ask price immediately

- Don’t be surprised by informal nature

  - use first name immediately

- Listen and then make suggestions how your wines fit into their current activities and needs

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During the Meeting

- Take notes so that specific points are remembered
- Exchange business cards – get contact info
- Discuss a potential marketing budget and the strategies importers will use when implementing it
- Set-up follow-up and next steps at end of meeting
  - have points to follow-up on at the end of the meeting ("I will send you samples", etc.)

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After the Meeting

- Follow up, follow up!!! (phone, e-mail)
- “No answer” doesn’t mean “no interest”
- Be persistent

  (Americans believe that this is a good business trait)
- Try to set up next steps

  – What’s next to move forward, what is needed to move forward?

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After the Meeting

- Be flexible
  - May not reach objective right away
  - Most important elements: listen, adapt, get first order
- Plan visit (2/year)
- Discuss points from meeting
- Always provide interested importers with updates

  (new harvesting techniques/machines, presence at shows)

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After the Meeting

If contract signed:

- Plan several visit in the US to see importer(s)
- Train their sales team
- Provide insightful suggestions regarding your allocated marketing budget
- Come with new stories about your wines and your activities
- Bring: small giveaways

  (bottle opener, decanters, glasses with your logo)
- Invite your importer to visit facility regulary

Outlook and Lessons Learned

Summary

❖ USA is the largest market in the world and open to imports

❖ Wine consumption continues to increase but market is competitive

❖ Consumers are sophiscated and market is open to new imported

- products - market is large, diverse and fragmented

❖ It is important to tell your story and find the niche

❖ Follow-up and adaptability are key to move into the market

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Outlook Of Young Consumers

- Millenial (young) drinkers are a key to the future of wine sales

  - represents 20 million new consumers

  - But Baby Boomers still dominate for higher-end

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Lessons Learned

▪ Partner:

- No “right” solution – each option has positive and negative aspects
- Important to complete systematic research and evaluate potential partners
- Do not get married too soon

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CONTACT

Thank You!

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