



Ripening opportunities

Wine industry benchmarking and insights 2017

New Zealand

December 2017

Contents

Ripening Opportunities	1
Key findings	3
Market insights: Where New Zealand wine went in 2017	4
Survey results: Profitability	6
Survey results: Financial position	9
Survey results: Ratios and returns	11
Survey results: Return on assets	13
Market insights: Wine - the regional story	14
Survey results: Vineyards and yields	16
Survey Results: Distribution channels	17
Market insights: The opportunity at home	18
Survey results: Issues and challenges	20
Survey results: Opportunities and advantages	22
Where to from here	24
Key contacts	25
About and further information	26

Ripening Opportunities

The wine industry in New Zealand continues to go from strength to strength. Whilst our benchmarking results showed our smallest participants reporting an average loss for 2017, we continue to see opportunities for wine businesses of all sizes through new and emerging export markets as well as domestic tourism and online channels.

The combination of our benchmarking results with the broad economic and deep industry insights from ANZ bring the industry a clearer picture of how wine businesses have fared over the years as well as the opportunities ahead.

We would also like to note the contribution of the wine sector to New Zealand as a whole, supporting not only the major centres, but also the regions with its economic contribution and levels of employment.

We sincerely thank those businesses who participated in the exercise. You've made this year's results as representative as ever with 45 wineries taking part. We gladly provide you with the insights from your own individual benchmarking reports, which we hope will support the best possible decision making for your businesses.

Peter Felstead
Partner
Deloitte

Welcome to the 2017 wine industry benchmarking Survey conducted in conjunction with the Deloitte and, for the first time, ANZ Bank.

The involvement of ANZ represents another step forward in the Survey's evolution and brings to it an exciting new dimension. We look forward to a long partnership with both Deloitte and ANZ.

This year has seen a record level of winery involvement in the Survey. That means the results will be even more robust and valuable to individual members and the industry as a whole in terms of benchmarking, risk assessment and forward planning.

This 2017 Survey would not be possible without the participation of the wineries who have supplied the data. As in past years, thank you for the time and commitment you have invested in this project. We trust the insights you gain represent a good return on your investment.

Best wishes for a successful and profitable 2018.

Philip Gregan
CEO
New Zealand Winegrowers

In the pages of this report you'll find evidence of a New Zealand wine producing community largely in good shape. Aggregated survey results suggest business profitability has improved steadily over the last five years, and balance sheets appear to be well positioned for future growth opportunities.

Whilst the production base remains very much Marlborough-centric, one of the highlights of this report is the diverse contribution from the industry to regional communities across New Zealand via wineries, cellar doors, and growing operations spread across ten regions. Furthermore, the synergistic relationship between the Wine and Tourism industries is exciting and rapidly evolving.

We're grateful for the opportunity to collaborate on this year's survey and thank Deloitte, New Zealand Winegrowers and the participating businesses. We're great believers in the power of information to help businesses assess their own performance and identify opportunities for growth. In the interests of ongoing collaboration and success, we look forward to further discussion with businesses and the wider industry.

John Bennett
General Manager Central Region
ANZ Commercial & Agri

Total value of exports in 2017

\$1.66 billion

Return on assets ratio for largest wineries

8.6%

200+ million

254 million

Total litres exported to 'big three' markets of Australia, UK and US in 2017 for the first time ever

Litres of wine exported vs 54 million sold in New Zealand

New markets

Top-ranking opportunity for wineries with less than \$5m in revenue

7,349

Wine industry employees in New Zealand

Sales margins

Volume of grapes harvested per local resident in Marlborough in 2017

6.5 tonnes

Ranked as the biggest challenge and one of the biggest opportunities for participant wineries

247

Number of cellar doors across New Zealand's wine regions

Key findings

New Zealand's wine markets in 2017

Export volumes of New Zealand wine to the 'big three' markets (Australia, UK and USA) topped 200 million litres for the first time in 2017. With the jump in NZD against GBP, there was incentive for larger operators to package exports in-market. Growth opportunities remain from new generations of consumers as well as 'premiumisation' and 'quality over quantity'. In Australia, where retail channels dominate, we also see online retailers changing the landscape, increasingly stocking unique premium labels. Offshore markets outside of the 'big' three' also grew in volume while experiencing a 34% higher price point than the 'big three'.

Profitability

The profitability levels in the Survey showed positive outcomes for all sized tiers, except for those with less than \$1.5m in annual revenue. As winery size increases, so do net returns, as cost controls likely associated with economies of scale have greatest impact on bottom lines. Analysis of profitability amongst smaller operators shows vastly more variable profits than their larger counterparts over the last 12 years.

Financial position

Participant results suggest that balance sheets have been strengthening in recent years, with long term debt levels showing a slight downward trend over the

last 12 years, most notably from 2013 to 2016. Participants in the \$5-10m category reported the lowest debt levels for 2017 while also having the highest level of debtors and inventory.

The Survey results also show the higher relative investment in land that smaller producers have, which appears to be funded by equity rather than debt. Larger operators featured high levels of equipment to process their larger volumes of bought grapes. The relative level of debtors increases with scale up to \$10m in revenue, but then decreases thereafter. This is likely due to typical cashflow cycles when initially expanding into export markets.

Selling prices

The surveyed ratios showed that smaller producers achieved more premium selling prices (\$17.49/l) compared to their larger counterparts (\$7.67/l).

Return on assets

The returns on assets for participants showed a range of 1.0% for the \$0-1.5m tier to 8.6% for \$20m+. An indicator of Marlborough grower returns showed an average of 6.6%, which indicates that extending further up the value chain may not always generate a higher return on investment. However, we are mindful that many other factors will influence returns.

The regional story

An overview of the country's wine regions notes Hawkes Bay dominating North Island production, with Auckland being home to a large number of wineries and 'head office' employees. A propensity for wineries having a cellar door also shows through in Auckland and Wairarapa. The South Island includes the vastly-dominant region of Marlborough, which produced over 300,000 tonnes in 2017 (almost 80% of NZ total vintage) with a small workforce of local residents. Interestingly, Central Otago contains an almost equal number of wineries and cellar doors as Marlborough, despite only producing 8,300 tonnes in 2017.

Vineyards and yields

Survey results show grape yields increase with participant size, from 6.5 t/ha to 13.2 t/ha. This is likely due to the strong demand for Marlborough Sauvignon Blanc, which is high yielding and larger operators making use of the opportunity. Many smaller producers appear to take a diversification strategy when it comes to grape varieties with an intentional focus on lower yields.

Distribution channels

Participants up to \$10m in revenue sell between 13% and 28% of volumes through direct-to-consumer (DTC) channels. They also sell about 27% of volume to supermarkets, with that growing to over 70% for those with over \$20m in revenue.

Wine tourism

Wine tourism remains a key growth market for New Zealand's wineries and is particularly accessible to smaller producers. Wine tourists spend an average of \$4,500 per visit to New Zealand which is higher than the average of \$3,200. The tourism outlook is bright on a number of fronts including airline arrivals and spend, notably with China becoming New Zealand's most-important market by total tourist spend. Some ways to make the most of the opportunity could include creating lasting, authentic experiences and specialties that drive product loyalty. Engaging online and with mobile is also a necessity.

Challenges and opportunities

Amongst the issues that wineries face, sales margin pressure ranked highest once again and interestingly succession rated as the lowest. On the opportunities front, sales margins, somewhat conversely also featured highly, as did sales volume growth from existing products, both in new and existing markets.

Where New Zealand wine went in 2017

Wine companies put in a strong export performance in 2017 to shift the large 2016 vintage. Export volumes to the 'big three' also grew 19% to crack the 200+ million litre mark for the first time.

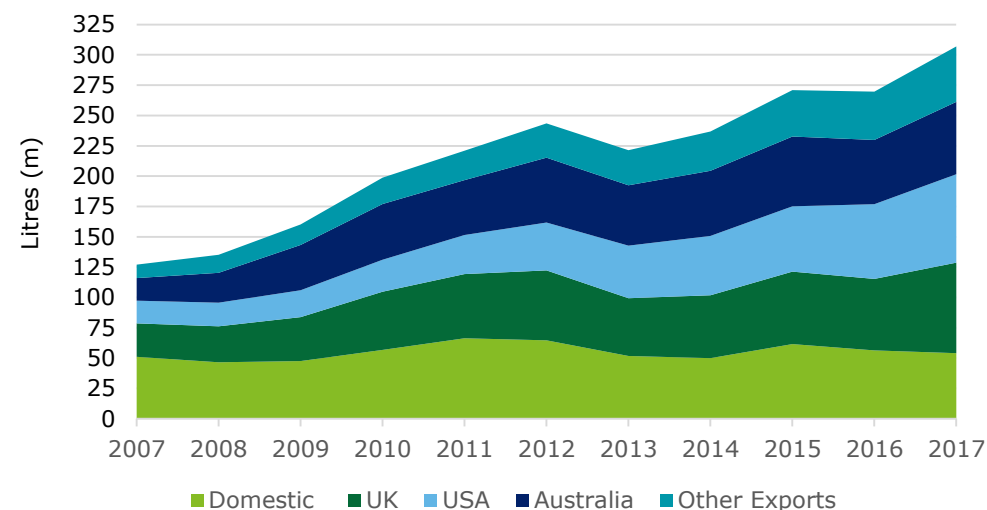
In terms of volume growth, the UK lead the way increasing 27% y/y (year on year) to nearly 75 million litres. A big part of this involved bulk wine exports, which lifted 48% y/y to account for nearly 50% of total UK exports. This is likely to have been a deliberate strategy from larger wine companies to minimise the financial impacts of a higher NZD/GBP caused by the Brexit vote, to overcome capacity issues due to the large vintage and earthquake damage, as well as to keep supply chain costs low. The end result of the 25% y/y jump in the NZD/GBP was a 19% y/y decline in local returns (on per litre basis). The extra financial incentive to ship bulk wine that was then packaged in-market would have been to reduce net earnings in pounds that were then exchanged back into NZDs, or another currency. The end result is better local company earnings for larger sized wineries than otherwise would have been the case. This is reflected in the surveyed wineries with bulk wine revenue being at a historical high of 18.6% for \$20m+ sized participants.

Overall, the standout market remained North America, where total export earnings cracked the \$600+ million mark for the first time. Export volumes grew 17% y/y and in-market returns remained stable despite this outstanding growth. A strong US economy and wine companies marketing investments in recent years are both providing tailwinds. Yet there is scope for more growth from consumers looking for sophisticated foods and beverages, a new generation of younger consumers coming through as well as a trend towards 'premiumisation'. Health concerns around the amount of alcohol being consumed are having an impact too. However, many consumers appear to have opted for a 'quality over quantity' attitude. All of these trends suit New Zealand's existing market positioning, however wineries have also indicated that they see growth opportunities from existing products in new markets in the Survey results seen later in this report.

Rounding out the 'big three' is Australia, which despite reaching a more mature stage in recent years, saw volume growth of 13% y/y in 2017. Interestingly most of the growth was driven by a 25% y/y increase in packaged wine exports, whereas bulk wine exports dropped 2% y/y. Australia was the only major market where bulk wine exports declined in 2017. However, the price outcome (-21% y/y on per litre basis) and stronger NZD completely cancelled out the effect of better packaged sale volumes with total revenue down -2% y/y. There was some salvation with the constrained bulk export volumes seeing NZD prices lift 25% y/y

helping support overall returns. While the retail channel continues to dominate in Australia, times are changing with increased penetration through online channels. Online wine retailers are increasingly stocking premium, niche and independent wine labels that are not available from the major retailers. The major growth is in the AUD10-25/bottle price segment (or NZD15-37/l). Consumers are also attracted by online wine clubs, offering members better deals and the chance to be a part of wine events, creating an immersive wine experience.

New Zealand wine sales



Source: ANZ, Statistics NZ

The growth in exports (+15% y/y in volume) to other international markets didn't quite keep pace with the 'big three' in 2017. However, the picture over a 10-year horizon is far more favourable with higher volume growth and better returns helping to compensate for the extra costs associated with market development and distribution. Looking over a 10-year period shows these other markets have grown at 17% per annum compared with the 'big three' at 14% per annum. Perhaps even more compelling is the average local returns have been \$9.4/l over this period, which was 34% higher than the 'big three'.

In part this reflects a lower proportion of bulk wine exports (23% vs 42%) and as mentioned higher costs, but these factors don't completely explain the difference. In terms of who are some of these 'other' hottest markets they include: the Netherlands, China, Belgium, France, Singapore, Sweden and Canada with a piggy back from US growth.

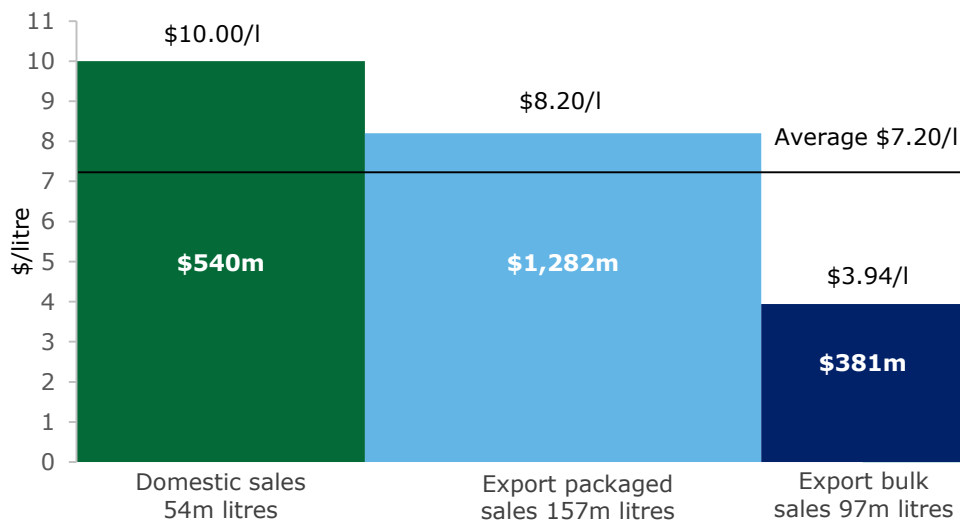
Lastly this leaves the domestic market, which accounted for around a fifth of total supply in 2017. This makes it an important market and particularly so for smaller wineries, which are more reliant on cellar door sales and tourism activities.

This is highlighted by wineries with less than \$1.5m turnover deriving 54% of their revenue from local market sales. By all accounts the domestic market has remained fairly stable in recent years, with consumption ranging from 90-95 million litres, or 20-21 litres per capita. Imported product has accounted for anywhere from 35% to 45% of total consumption with Australia the main competition in the reds space.

An influential consumer trend is around health and wellness, which is leading to more low-alcohol wines and smaller servings. Legislative changes lowering the alcohol limit for driving has also supported a similar trend in New Zealand bars and restaurants. These trends, alongside a more knowledgeable consumer, are driving an increase of domestic product sales at the premium end as consumers 'trade up'. The other driver is tourism with spending increasing by 50% since June 2014 and 22% of international tourists visiting a winery on their tour down under. All of these trends are likely to present opportunities for wine businesses of all sizes, but particularly so for smaller producers with a premium and domestic market focus. These producers can be seen in the Survey benchmarks with lower proportions of export revenue, but also higher price points with better revenue per litre ratios.

The strong sales performance means only a small 3 million litre surplus* (1% of sales) from New Zealand's second-largest crop ever is carried over into the new season. If a similar performance were maintained with the smaller 2017 crop, a deficit of 26 million litres (8% of sales) would be created. This is why the surveyed wineries ranked too much grape supply in their bottom three concerns. So expectations are that the industry will likely be trying to produce a larger 2018 crop to replenish stocks, which we have falling to the lowest level since 2012.

New Zealand wine sales for 2017



Source: ANZ, Statistics NZ, New Zealand Winegrowers

**Surplus takes the size of vintage (in litres) and deducts export and domestic sale volumes the following year to provide an indicator of the size of surplus or deficit carried over.*

Profitability

The economies of scale in the industry continue to be present in this year's results. However, interesting trends also appear in the sales mix of participants at varying levels, both between domestic and export as well as bulk and labelled product.

The mix of revenue reported by participants may be considered unsurprising to those familiar with the industry.

Domestic sales feature highly for the \$0-1.5m tier at 57.4% of their total revenue with exports lowest of all tiers at 21.7% of revenue. For the smaller producers, domestic sales are attractive as they are easier to access at smaller scales, offer higher margins, lower distribution costs and shorter cash cycles, with zero currency risk.

Export sales feature in higher proportions among the larger tiers who have more established channels to offshore markets. In addition, we also see higher levels of bulk wine sales which may include some sales of product offshore for in-market bottling and packaging.

With the domestic market in New Zealand ranging between \$500-600 million and wine export values growing past \$1.6

billion, it is not surprising that larger wineries are targeting exports where demand exists in greater volumes when compared to that of the domestic market.

Net grape sales contributing to revenue is also a theme amongst the smaller tiers, as they supplement wine sales revenue with grape sales to other producers.

In line with previous year's results, we see the impact of economies of scale enabling larger operators to experience a lower relative level of cost of goods sold and overheads as a proportion of revenue.

We see this effect in these results with costs reducing as a proportion of revenue as scale increases. The smallest tier on average spent 62.2% on costs of goods sold expenses and 30.7% on overheads. This contrasts with the largest tier with 55.2% and 17.0% being spent on direct costs and overheads respectively.

Income Statement 2017

	\$0-1.5m	\$1.5-5m	\$5-10m	\$10-20m	\$20m+
Wine Sales					
Domestic wine sales	57.4%	33.3%	30.0%	33.1%	22.2%
Export sales (own label)	21.7%	33.6%	52.9%	39.5%	53.7%
Export sales (buyers label)	3.1%	3.9%	0.2%	10.7%	2.8%
Bulk Wine Sales	1.6%	8.9%	5.5%	9.1%	18.6%
Total Wine Sales	83.8%	79.7%	88.5%	92.5%	97.3%
Other Revenue					
Other operating revenue	4.7%	7.9%	11.2%	7.0%	2.3%
Grape Sales	11.5%	12.3%	0.4%	0.5%	0.4%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of Sales					
Less cost of goods sold	62.2%	62.2%	61.3%	54.8%	55.2%
Gross Profit	37.8%	37.8%	38.7%	45.2%	44.8%
Other Expenses					
Sales and marketing	14.1%	13.4%	11.9%	11.4%	10.6%
Other expenses	16.6%	11.9%	14.8%	9.1%	6.4%
Total expenses	30.7%	25.3%	26.7%	20.5%	17.0%
EBITDA	7.1%	12.5%	12.0%	24.7%	27.9%
Net profit/(loss)					
Less depreciation	(4.3%)	(3.4%)	(1.5%)	(3.4%)	(5.5%)
Less interest expense	(6.8%)	(4.9%)	(3.2%)	(6.1%)	(5.1%)
Other income	0.9%	1.1%	2.7%	1.0%	3.3%
Profit/(loss) before tax	(3.1%)	5.3%	9.9%	16.3%	20.6%

The volatility of profit before tax margins for the \$0-1.5m tier has often been highlighted. This is shown in the below left chart, where the variability of average profit for the smallest tier continues in 2017, with all larger tiers showing more stable margins over recent years.

With the average results of this Survey subject to a somewhat changing mix of participants each year, we can also look further into the variability of margins

among the different size tiers through an analysis of the quartile values. As shown in the below right chart, the black line indicates the median (or 'middle') profit margin with the shaded bars capturing the profit margins of the 'middle' 50% of participants.

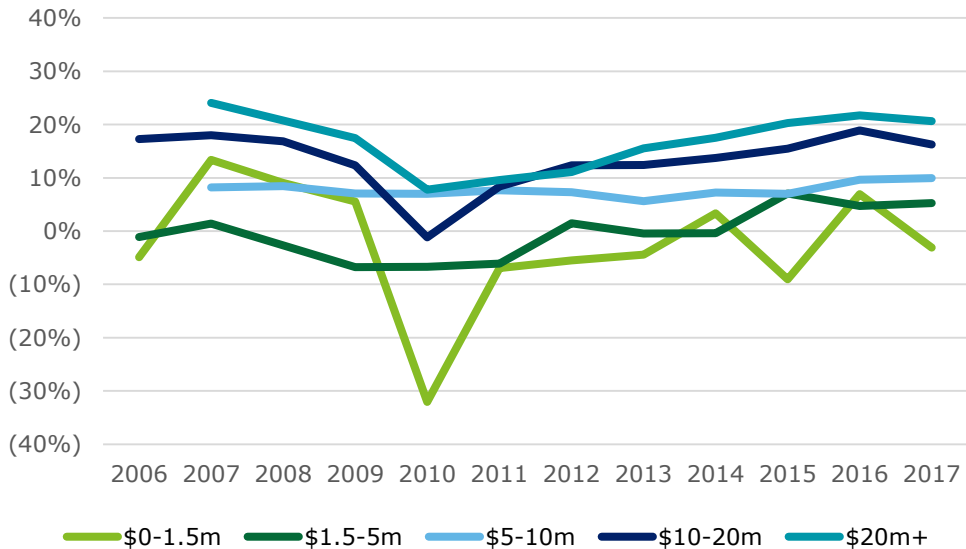
As shown by this analysis, the results (which are aggregated across participants of all sizes) show that quite commonly, all sizes of participants report positive

profit results. However, we also see that there is significant variability in the profit margins, as indicated by the shaded bars, most notably during the period following the global financial crisis, in 2009. This shows a significant negative year followed by a gradual improvement in 2010 and 2011.

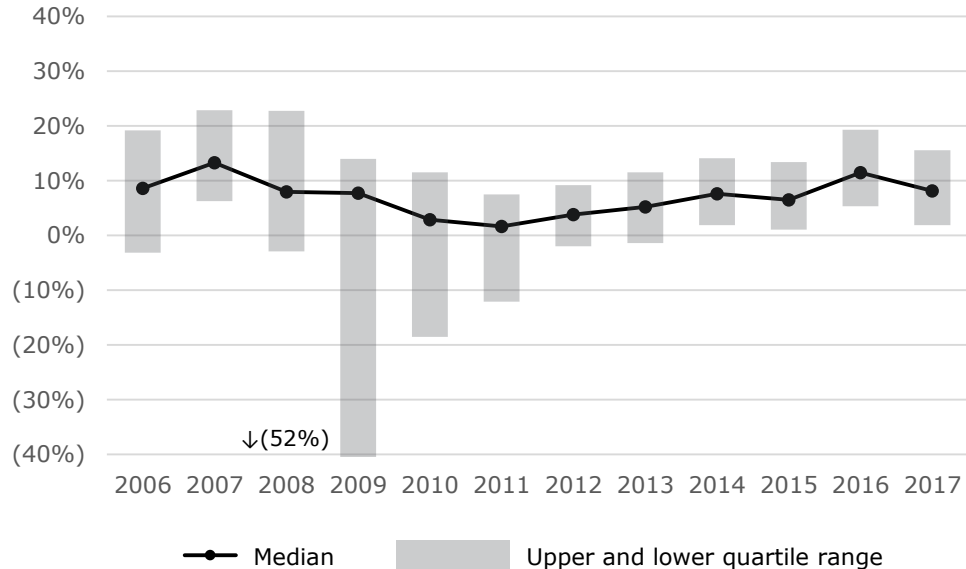
The steady improvement in profitability since 2011, both in median and range, is very encouraging and reflects a lot of

hard work, over many years, from wineries and industry supporters to build strong businesses well positioned for future growth.

Profit/(Loss) before tax averages
(as a % of sales)



Profit/(Loss) before tax quartiles
(as a % of sales) - All Tiers

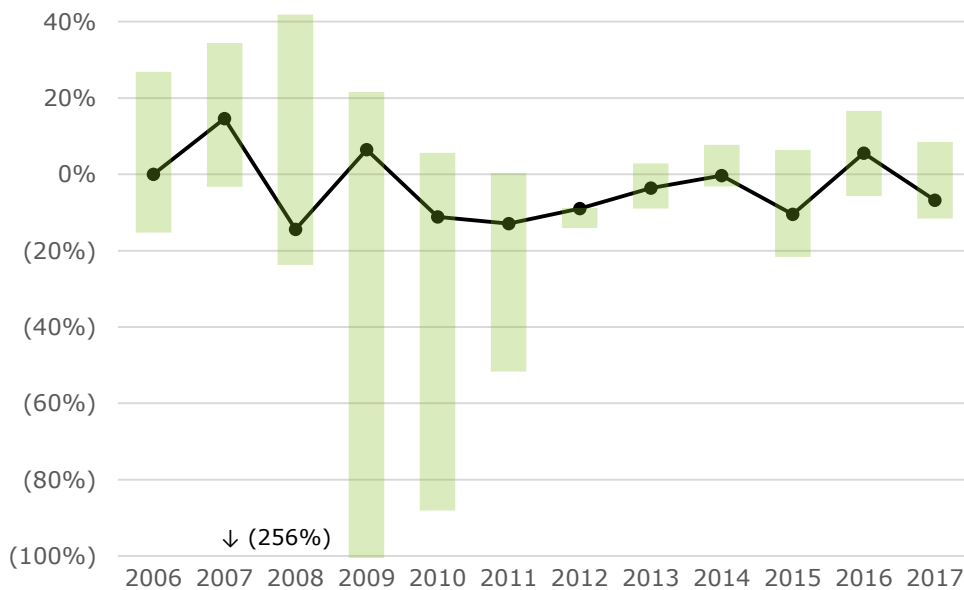


With a picture of the historical variability of profit margins aggregated across all sizes of participants, we also sought to dig deeper to understand how the volatility of profit margins may vary between smaller and larger participants. It is through this further analysis that we found that the variability of returns is markedly greater for wine businesses with revenue less than \$1.5m.

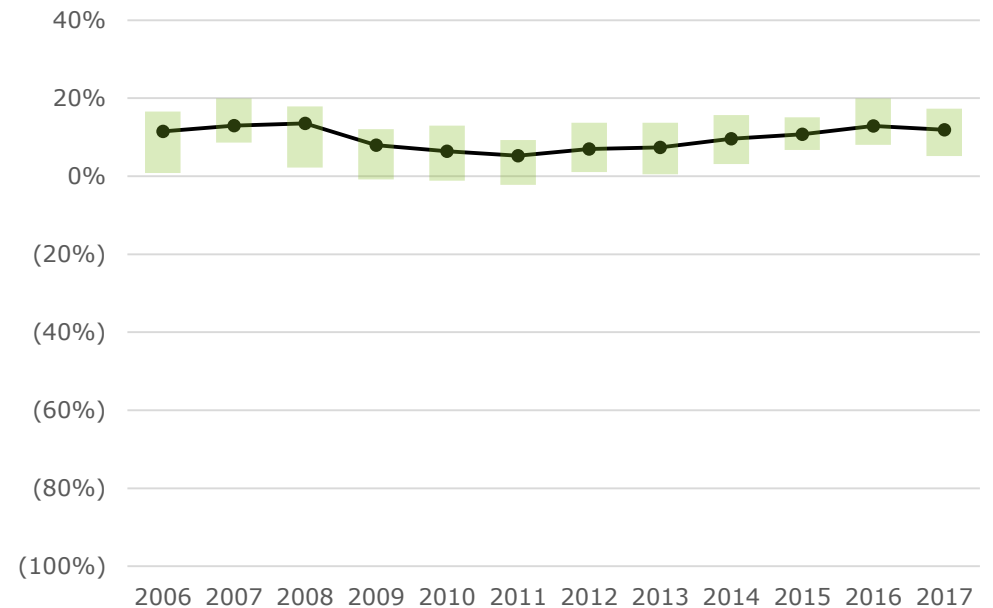
In the below left chart, we see the median profit before tax results of wine businesses with revenue less than \$1.5m, plotted with the variability of the middle 50% of the market indicated by the shaded bars. Here we can see significant variability of reported profit in the years leading up to 2012, with notable increases between 2009 and 2011, being the years following the global financial crisis (and also periods of oversupply in New Zealand).

Most notably, it is when the profit margins of wine businesses with revenue over \$1.5m are analysed in the same way, that the contrasts are clear. As presented in the bottom right chart, we see a much lower volatility in reported profit margins for larger wine businesses, even through periods such as the GFC and oversupply where only very slight variation is observed (via the shaded bars).

Profit/(Loss) – Revenue \$0-1.5m



Profit/(Loss) – Revenue \$1.5-20m+



Financial position

A review of the balance sheet data from Survey participants shows different tiers are applying capital in quite different ways regarding asset investments.

The reported balance sheets of participants are presented in the adjacent table as a proportion of total assets. From these results an insightful view of the average asset, liability, debt and equity position can be seen among wine businesses of different sizes.

A clear trend in land investment can be seen with higher relative amounts of capital residing within this asset among the smallest tier. Interestingly, the second-largest tier (\$10-20m) also reported a high level of land investment. For the \$0-1.5m tier, this correlates to high levels of grape sales. This is a likely result of harvests that are surplus to the requirements of their own brands and/or capacity.

Plant and equipment investment, which largely consists of winemaking equipment, as a portion of assets, is shown to increase with size. This will likely be the result of a number of factors including capacity requirements for larger volumes, operating cost controls and flexibility.

Long-term debt levels appear to vary between tiers with the largest reporting an average of 34.9% of assets. The lowest average was reported by the \$5-10m tier at 18% and all other tiers were close to 30% of assets.

Equity levels for each tier, including shareholder loans, all report average levels above 50% of assets. It could be considered that in some cases equity levels provide an opportunity for further leverage.

Shareholder loans have been included here as 'quasi equity' in that they reflect capital contributed by shareholders, similarly to contributions via share capital. However it must be noted that shareholder loans shouldn't be considered as equity by default, with the terms surrounding these amounts determining the most appropriate treatment.

Further analysis on debt as well as shareholder loans are included within the ratios section of this report.

Balance Sheet 2017

	\$0-1.5m	\$1.5-5m	\$5-10m	\$10-20m	\$20m+
Current Assets					
Cash	0.0%	2.9%	0.0%	0.5%	1.1%
Receivables/Debtors	5.4%	6.0%	14.9%	7.5%	7.3%
Inventories	26.2%	22.7%	35.5%	20.9%	20.5%
Other current assets	3.3%	0.5%	4.4%	0.3%	2.7%
Total current assets	34.9%	32.0%	54.8%	29.3%	31.5%
Fixed Assets					
Land	42.7%	28.4%	17.2%	34.1%	14.8%
Vineyards / biological assets	10.9%	23.7%	5.7%	13.7%	16.5%
Plant and equipment	9.6%	10.8%	14.5%	16.6%	35.8%
Total fixed assets	63.2%	62.8%	37.4%	64.5%	67.1%
Other Non-current Assets					
Other non-current assets	1.9%	5.1%	7.7%	6.2%	1.4%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Current Liabilities					
Other current liabilities	1.5%	1.9%	4.7%	2.5%	3.0%
Trade payables and accruals	5.2%	5.4%	5.5%	2.3%	7.1%
Total current liabilities	6.8%	7.3%	10.2%	4.8%	10.2%
Term Liabilities					
Long term debt	30.8%	29.6%	18.0%	31.2%	34.9%
Other non-current liabilities	0.4%	6.0%	0.0%	0.3%	4.1%
Total Liabilities	37.9%	42.9%	28.2%	36.3%	49.2%
Equity					
Shareholder loans	27.5%	14.4%	12.9%	22.3%	0.7%
Share Capital	44.4%	8.5%	16.8%	6.0%	19.8%
Retained earnings	(9.7%)	34.2%	42.2%	35.3%	30.4%
Total Equity	62.1%	57.1%	71.8%	63.7%	50.8%
Total liabilities and equity	100.0%	100.0%	100.0%	100.0%	100.0%

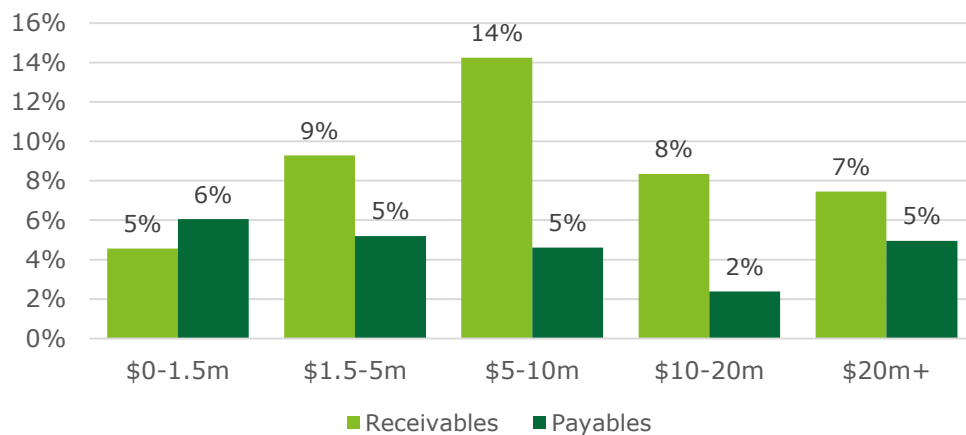
A trend commonly observed in this Survey's results is the relative level of assets made up by receivables. This appears to increase with size in the middle tiers of the market.

We suspect that the drivers behind this trend could be that smaller producers have a higher percentage of direct to consumer (or 'cash') sales, as well as net grape sales, which both typically experience shorter trade terms than trade sales of labelled inventory.

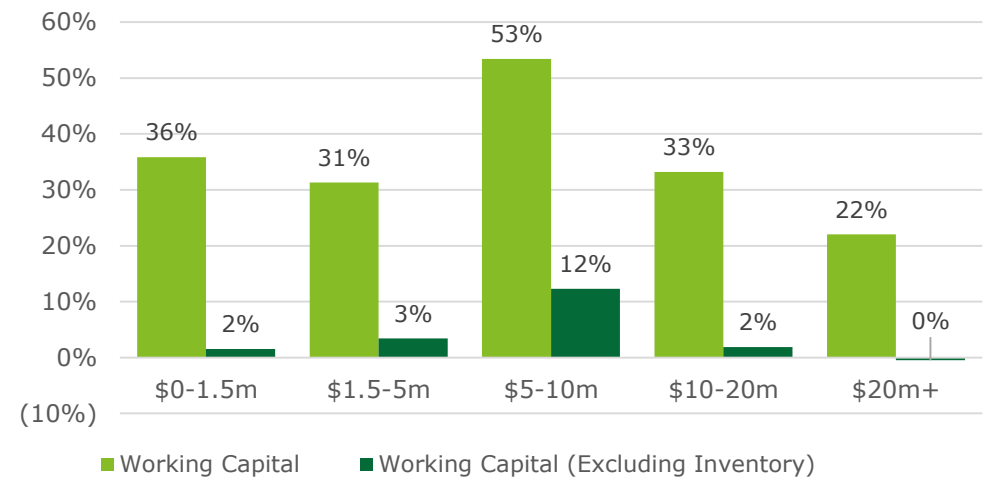
Furthermore, as size increases, distribution channels can often become more efficient, trade terms more favourable with greater scale as well as the effectiveness of financial processes (that support more timely collection of receivables).

We also see that the median level of trade payables as a proportion of assets remains relatively consistent at 5-6%, with the exception of the \$10-20m category at 2%.

Median Debtors and Creditors



Median Working Capital



In the chart above we see working capital (being current assets less current liabilities) peaking again in the \$5-10m tier at 53% of assets, which is driven by their higher levels of trade debtors, but also slightly higher levels of inventory than the other tiers.

With the exception of the \$5-10m tier, it is here we also see that relative working capital levels (including inventory) remain relatively consistent through the four smallest tiers, ranging between 31% and 36% and the \$20m+ category reporting 22%. It can be said again that this trend may likely be a result of the larger

operators maintaining more sophisticated and efficient processes, policies and procedures to manage lower required levels of working capital than their smaller counterparts, which we find with many businesses is often underpinned by more established supply and distribution agreements that allow greater predictability around their working capital requirements.

Interestingly, there are also similarities between the level of assets made up by working capital excluding inventory among producers below \$5m of turnover and greater than \$10m.

Ratios and returns

There are telling trends in the ratios reported, namely the per litre revenue rates which indicate key differences in average price points of producers.

These ratios reported by participants offer further insights into volumes and financial performance.

The per litre revenue for labelled wine indicates that on average, larger participants experience lower selling prices than their smaller-sized counterparts. Aside from smaller wineries targeting smaller premium volumes and larger wineries targeting larger volumes at more accessible price points, other factors such as access to different distribution channels and markets may also affect the averages reported. As an example, those participants targeting markets via intermediary distributors would experience lower price points for the same product sold locally by way of distributor margins. Other levels of duties and taxes may also have an impact in offshore markets.

It is also in these ratios where we can once again observe the effect of the economies of scale on sales and overhead expenses, with the smallest tier reporting the highest rates per litre and the largest tier the lowest.

The average current ratio reported by participants were all reporting multiples in excess of two times (2x). The debtors to sales ratio has been reported as relatively constant among all tiers at 0.2 times, with a lower ratio indicating shorter cashflow cycles. Interest cover ratios appear low for the two smallest tiers with both of these falling below the 2-3 times commonly required by lenders.

Inventory turnover appears to stay close to 1 times per year, as is common for wine businesses given the annual production of each annual vintage.

	\$0-1.5m	\$1.5-5m	\$5-10m	\$10-20m	\$20m+
Average Litres					
Litres Sold ('000)	38	264	634	1,899	11,760
Revenues and expenses per litre					
Revenue per L (labelled)	\$18.45	\$13.23	\$12.47	\$9.74	\$9.09
Revenue per L (bulk)	\$4.72	\$3.51	\$3.85	\$2.81	\$4.63
Revenue per L (total)	\$17.49	\$10.09	\$10.95	\$7.83	\$7.67
Gross margin per L	\$7.89	\$4.78	\$4.79	\$3.83	\$3.54
Profit / (loss) per L	(\$0.65)	\$0.67	\$1.23	\$1.38	\$1.63
Sales expenses per L	\$2.94	\$1.69	\$1.47	\$0.96	\$0.83
Other expenses per L	\$3.47	\$1.51	\$1.84	\$0.77	\$0.51
Solvency ratios					
Current ratio	5.2x	4.4x	5.4x	6.1x	3.1x
Debtors to sales ratio	0.2x	0.2x	0.3x	0.2x	0.2x
Interest cover ratio	0.4x	1.8x	3.2x	3.5x	4.4x
Efficiency ratios					
Inventory turnover	0.8x	0.9x	1.0x	0.9x	1.0x
Fixed asset turnover	0.6x	0.5x	1.5x	0.5x	0.6x
Asset turnover	0.4x	0.3x	0.6x	0.3x	0.4x
Profitability ratios					
EBIT margin	2.8%	9.1%	10.5%	21.3%	22.4%
EBIT to assets	1.0%	3.1%	6.0%	7.4%	8.6%
EBT to equity	(1.8%)	3.1%	7.9%	8.9%	15.6%
EBT to net wine sales	(3.7%)	6.6%	11.2%	17.6%	21.2%

As we touched on in the financial position section of this report, through analysis of liabilities and equity reported by participants as a proportion of assets, we can gain insights into how wine producers choose to fund their assets and operations.

The table above right shows that long-term debt levels appear to decrease up to the \$5-10m tier, who reported this funding at an average of 18% of assets, then increasing to the \$20m+ tier at 34.9% of assets. This also corresponds with the \$5-10m tier reporting the highest level of equity as a proportion of assets at 71.8% as well as the lowest level of total liabilities as a proportion of assets at 28.2%. However it is also worth noting that this tier reports the highest level of assets made up by both inventory and trade debtors, which are seemingly funded more so by equity, rather than debt.

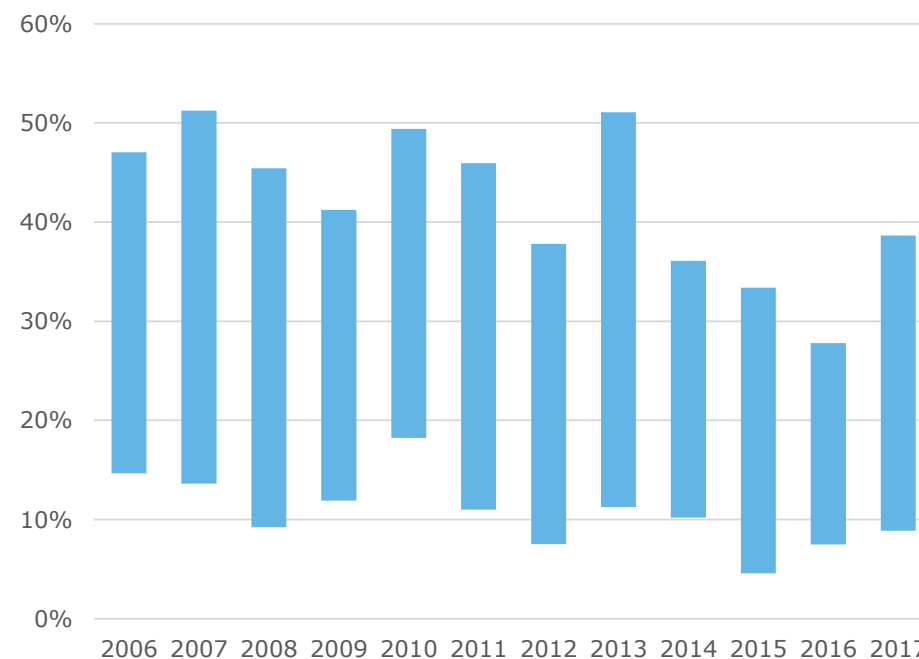
Whilst the 2017 Survey results provide an insightful indicator of how participants fund their businesses at a point in time, by analysing results over the twelve years we can also review trends that appear over a longer term.

The chart to the bottom right shows the range in long term debt levels of all size categories of participants as a proportion of assets. The upper and lower quartile ranges indicated by the vertical bars can be said to reflect the 'middle' 50% or most common results of participants. Here we do see a somewhat slight downward trend, notably from 2013 to 2016.

It is also worth noting that viewing other liabilities as sources of debt funding such as trade payables, would present results inverse to the equity ratios reported above in the range of approximately 30-50%. This increases to 40-65% with shareholder loans considered as liabilities rather than equity.

	\$0-1.5m	\$1.5-5m	\$5-10m	\$10-20m	\$20m+
Average as a proportion of assets:					
Long term debt	30.8%	29.6%	18.0%	31.2%	34.9%
Liabilities (total)	37.9%	42.9%	28.2%	36.3%	49.2%
Equity (incl. shareholder loans)	62.1%	57.1%	71.8%	63.7%	50.8%
Equity (excl. shareholder loans)	34.6%	42.7%	59.0%	41.4%	50.1%

Long Term Debt Ranges (All tiers, excluding Shareholder Loans)



Return on assets

Analysis of return on assets for wineries reveals significant variation across the tiers, with larger wine producers generally experiencing greater returns than smaller wineries. A comparison to grower returns (in Marlborough only) reveals some interesting insight.

In capital-intensive and land-rich businesses such as integrated wine businesses with their own vineyards, a useful measure of the performance of the business' assets is the return on assets.

Whilst there are a number of ways to measure this return, we have opted for EBITDA (earnings before interest, tax, depreciation and amortisation) divided by total assets for the returns by Survey participants.

From our 2017 Survey, we saw an average of this return range from 1% for our \$0-1.5m participants to 8.6% for those with revenue in excess of \$20m. This alone can be useful for comparisons (i.e. risk free interest rate and returns on alternative land uses).

A comparison that may provide some further insight was to compare the returns of pure contract grape growers to those producing wine, with or without an investment in vineyards.

To provide this, we have included the average Marlborough vineyard return (excluding capital gains) as reported by Colliers International in the 2017 Overview of Marlborough Vineyard Values of 6.6%, which is based on EBIT divided by capital land value (CV).

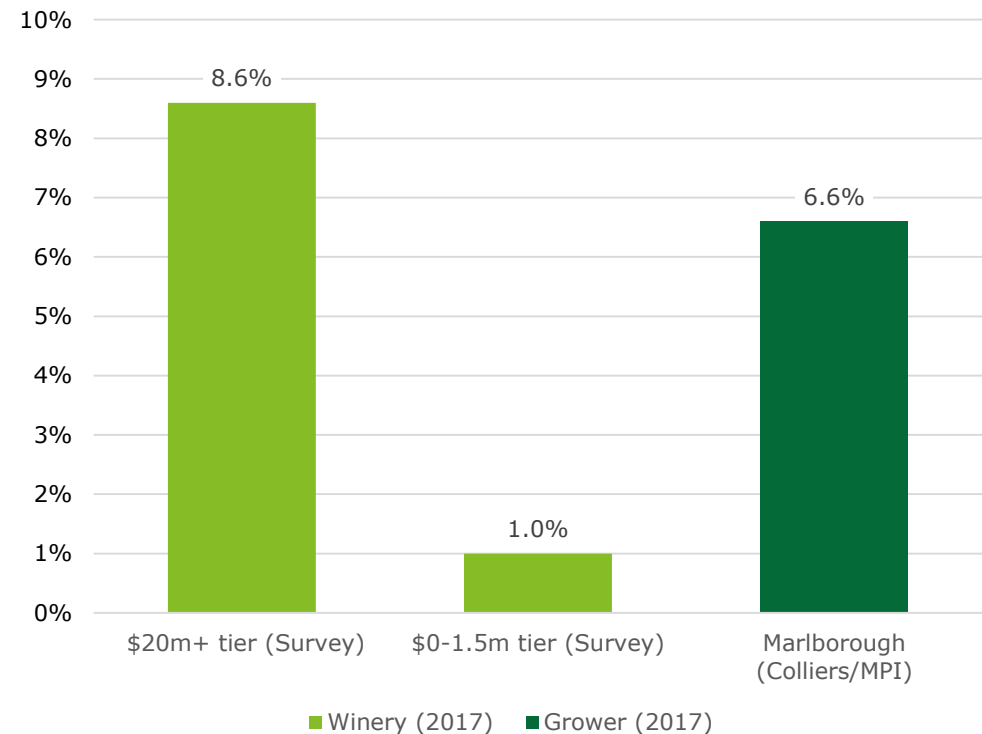
It should also be noted that there are limitations in this comparison in that many participants recognise their land assets at cost, as opposed to market value, which is the basis of calculating the indicator of grower returns.

In addition, Survey participants will also have other non-land assets included in their calculation, which we see as appropriate to include given the additional investment required to produce wine from grapes.

To the extent that these results are indicative of the returns experienced by both wine producers and grape growers, it could be said that extending further up the value chain may not always generate a higher return, however this generally would depend on scale.

With these results representing 'cash' returns to business operators, we note that these may also be supplemented by capital growth in both land value for those with vineyards or by the goodwill built up by the business that is supported by sustainable future profitability.

Comparison of Returns on Assets



Source: Deloitte, Colliers International

Wine - The regional story

A map tells a story and for the wine sector, the story is a local tale read by an international audience. New Zealand's regionally-diverse climate has a pronounced effect on the flavour of New Zealand wines, giving rise to tourism and employment opportunities around the country.

The **North Island** is smaller in wine volume and high in cellar doors, as wine companies look to engage domestic and international tourists in the unique experience of enjoying wine at its source.

Hawkes Bay is clearly the largest-producing region in the North Island with over twice the production of the next largest region (Gisborne).

We have also included the number of cellar doors by region on this map, as an indicator of the opportunities present for visitors to experience each region's wineries. In this respect, Auckland, Hawkes Bay and Wairarapa are noted as containing the most cellar doors. However both Auckland and Wairarapa stand out as having a high number of cellar doors relative to production, likely as a result of an aim to cater for visitors from the larger nearby population centres and travel destinations of Auckland and Wellington.

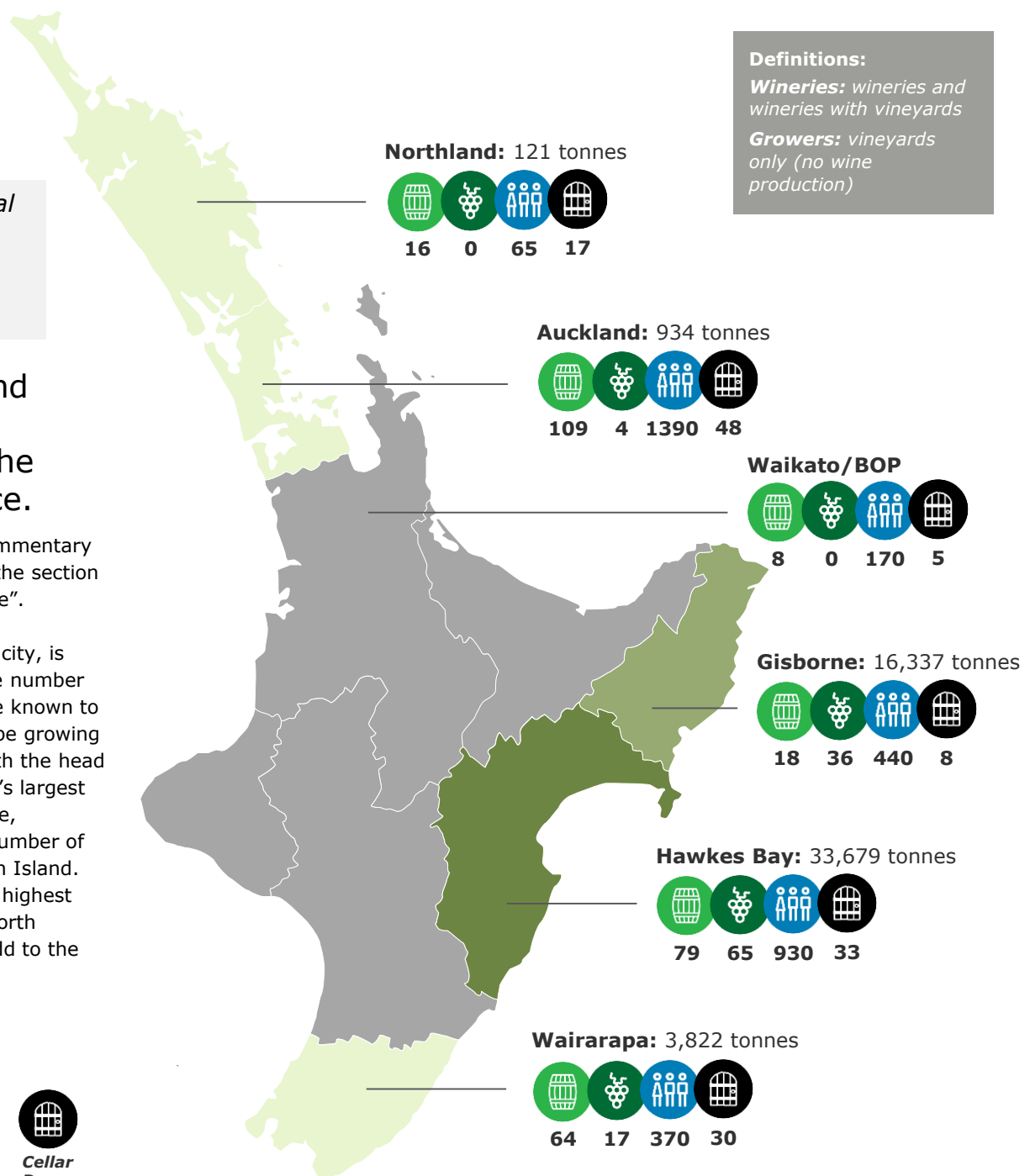
Tourism has been noted as having driven transformative growth to a number of operators in various regions. It is noted that further opportunities from tourism are likely present for New Zealand's

wineries. You can find more commentary further on in this report under the section titled: "The opportunity at home".

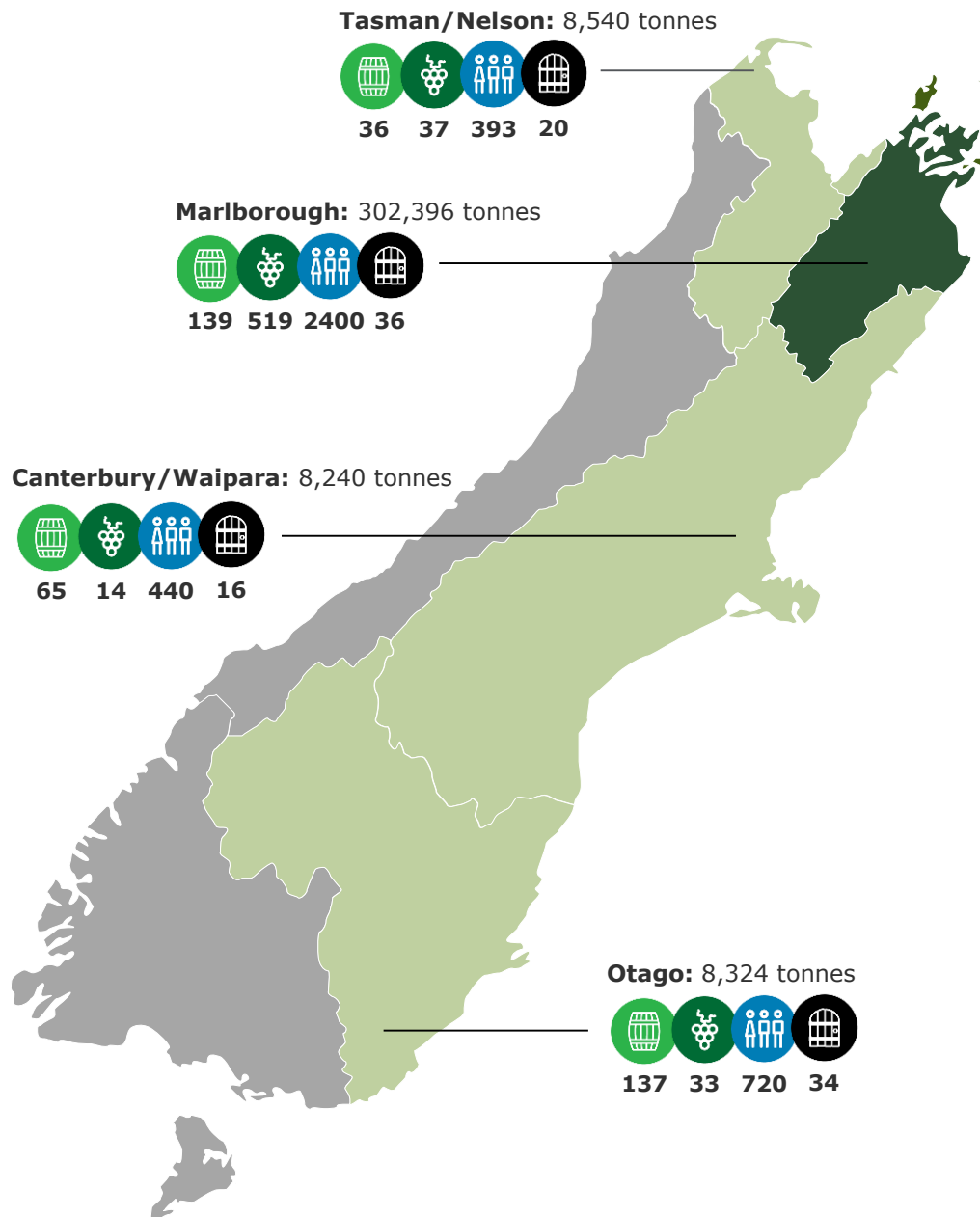
Auckland, the country's largest city, is also noted as containing a large number of wineries. However, many are known to house their production and grape growing operations in other regions. With the head offices of some of New Zealand's largest wine businesses also based here, Auckland includes the largest number of industry employees in the North Island. Furthermore, Auckland has the highest number of cellar doors in the North Island, which is also likely to add to the industry employees.



Definitions:
Wineries: wineries and wineries with vineyards
Growers: vineyards only (no wine production)



Source: Deloitte, New Zealand Wine, Statistics NZ



Source: Deloitte, New Zealand Wine, Statistics NZ

The **South Island** of New Zealand is home to the vastly dominant producing region of Marlborough. Other regions such as Central Otago are also present in smaller volumes and more specialised wine varieties.

It can be surprising to some that the region of Central Otago, contains almost as many wineries as Marlborough, despite producing a fraction of the volume. Both regions are also comparable on their total number of cellar doors. But Marlborough includes a much higher proportion of pure grape growers who sell their grapes to wine producers, which is not present to the same volume and extent in any other region in New Zealand.

It is with reference to the Marlborough region and industry employment statistics that we can also explore the regional labour intensity and requirements for the industry's output. As the country's biggest producer of wine, it is not surprising for this region to also have the largest number of industry employees in New Zealand.

The labour requirements of the wine industry in Marlborough are also unique in terms of the output of production compared to the population of local residents as an indicator of locally available talent and labour.

One way to illustrate, is to look at the volume of production compared to the local population, as a rate of production per resident. It is with this measure that we see Marlborough stand out in the intensity of its labour requirements with over 6.5* tonnes produced per local resident, and the next-highest regional rate being under 0.4* tonnes per resident in Gisborne.

"Marlborough's a very small community with a big international industry. We need to bring labour into the region, whether that's Kiwis - and we always want Kiwis first - or we need to fill the worker numbers by bringing in people from overseas."

**Marcus Pickens,
Wine Marlborough**

* Marlborough=302,396 tonnes/46,200 residents, Gisborne=16,337 tonnes/48,500 residents

Vineyards and yields

Average vineyard yields reported by each tier of participants can provide a useful complement in terms of context to the results reported in other sections of this report. When compared alongside results such as margins, per litre price points and turnover ranges, a view can be formed on what constitutes an 'average' or 'typical' wine business for each tier.

With the results reported alongside we see that, as has been reported previously, yields do tend to increase on a per hectare basis as the wine business size increases.

To illustrate a comparison, we have included the 2017 results from the viticulture benchmarking exercise undertaken by the Ministry for Primary Industries, by region and variety.

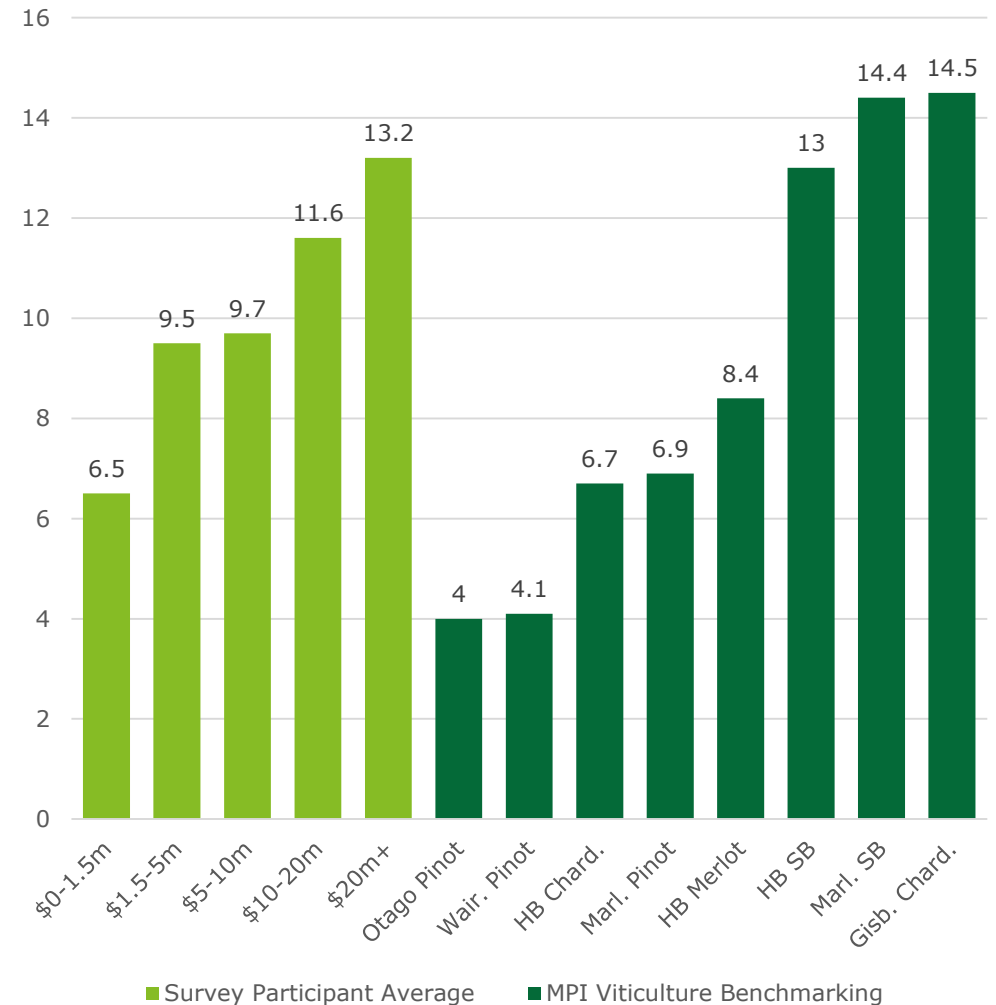
Here we see it indicated that, as previously reported, larger wine businesses tend to have more of a presence in the higher-yielding regions and varieties such as Marlborough Sauvignon Blanc as opposed to Central Otago Pinot Noir.

We also note that there are exceptions to these averages, with a number of wine producers focusing on lower, more selective yields in regions and varieties where higher yields are possible.

Viticulture perspectives from Nick Dalgety, Ministry for Primary Industries:

- 1 *Different wine regions in New Zealand possess unique terroir suited for particular grape varieties. For example Gisborne is suited for Chardonnay, Marlborough for Sauvignon Blanc and regions like the Wairarapa and Central Otago for Pinot Noir.*
- 2 *Given the strength of international market demand for Marlborough Sauvignon Blanc, it is not surprising for it to be an opportunity of focus by major commercial interests in the wine sector. It would also then be expected that major companies taking advantage of this opportunity would have a yield profile reflective of Sauvignon Blanc. Chardonnay's large yields we believe are also processed by larger-scale wineries and as a result, larger wine businesses report higher yields in the Survey results.*
- 3 *Smaller wineries with more of a specialist (boutique) focus, tend to have a greater proportion of varieties other than Sauvignon Blanc (for example Pinot Noir and red blends). Given that these varieties typically carry lower yields per hectare, yield profiles for these smaller wineries with less than \$10m in revenue are lower which the Survey results reflect.*

Average Grape Yields
(Tonnes per hectare)



Source: Deloitte, MPI

Distribution channels

Conversations with wine businesses are often focused on the topic of distribution channels. It is the means by which product is sold as well as a key determinant of both profit margins and trade terms (with varying distributor margins, trade terms and customer markets).

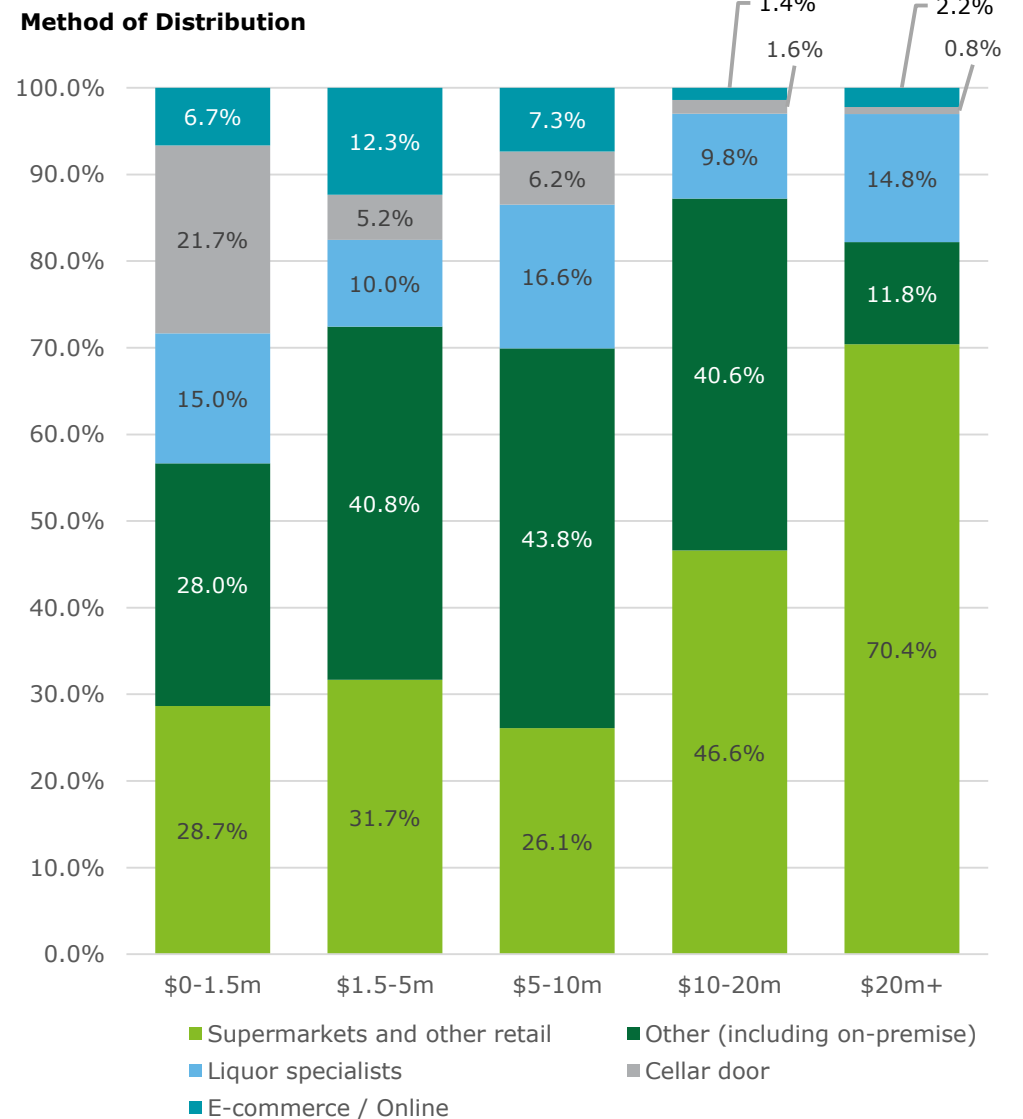
For the 2017 Survey exercise, we revised the data sought from participants in terms of the proportions of volume distributed by each channel. Furthermore, we sought to ask about the channel beyond distributors, which we appreciate was not always readily available. The reasoning for this was to provide a picture of the proportions of volume sold at the end consumer level, since ultimately it is customer preference at the end of the particular distribution channel that determines demand for producers.

As observed in the adjacent chart, the 2017 volumes reported as sold to supermarkets were relatively similar among participants with less than \$10m of revenue, ranging from 26.1% to 31.7% of their total. This channel also tends to increase in proportion with size thereafter with 46.6% of volume for the \$10-20m category and 70.4% for \$20m+.

One prominent trend we have seen in our results is increasing volumes via direct-to-consumer (or DTC) channels, particularly by smaller producers. Although the channel titled 'other/on premise' may be regarded as DTC in some proportion, it can be seen here that combining cellar door and online sales ranges between 13.5% and 28.4% for those with less than \$10m of revenue.

"There remains great upside potential in growing sales of our mainstream varietals to our traditional export markets, in particular the USA, but there continue to be challenges in achieving this growth. To become motivated to list a new brand or to focus rapid sales growth on a brand, distributors need to see a disproportionate level of investment from the brand owner. The best way to view this is as a capital investment in the brand and the market (for a two to three year duration) as the spend level won't necessarily make sense on a per case operational basis."

David Babich, Babich Wines



The opportunity at home

Wine tourism is already big business with a recent run of hot form, but *you ain't seen nothing yet* with further growth to come.

Total international visitor arrivals hit 3.2 million with spending over \$10 billion in 2017. Of these visitors, 22% or 710,000 visited a vineyard or winery. Those visiting wineries are the type of tourist New Zealand wants to attract more of too as on average they spend \$4,500 per visit, which is significantly higher than the average (about \$3,200). Primarily this is because they stay longer (23 nights) and visit more places (4-5 regions).

The outlook is bright with MBIE forecasting international visitor arrivals to grow to 4.9 million in 2023 (from 3.5 million in 2016). This actually assumes that the pace of arrivals, which has been running at close to a 9% annual pace over the past three years, moderates going forward. The near-term outlook seems especially strong as new airline routes and airline capacity should be supportive of increased arrival numbers.

In fact, there are around 30 international airlines flying to these shores, which is up from 19 in 2014. There has been particularly strong growth in new Asian and North American (now NZ's top

market) carriers. History has shown that it is new airline supply that is the biggest driver of arrivals growth, given New Zealand's position in the Southern Pacific.

Most importantly, total visitor spending is forecast to increase strongly too. MBIE estimate that total international visitor spend (excluding airfares) could top \$15 billion in 2023 – a 52% increase. While increased visitor numbers are a big part of this, it is also assumed that visitors spend more per person on average. Interestingly, China is forecast to become New Zealand's most important market (by tourist spend) within the next four years and total spending to reach \$4.3 billion by 2023 – easily surpassing Australia.

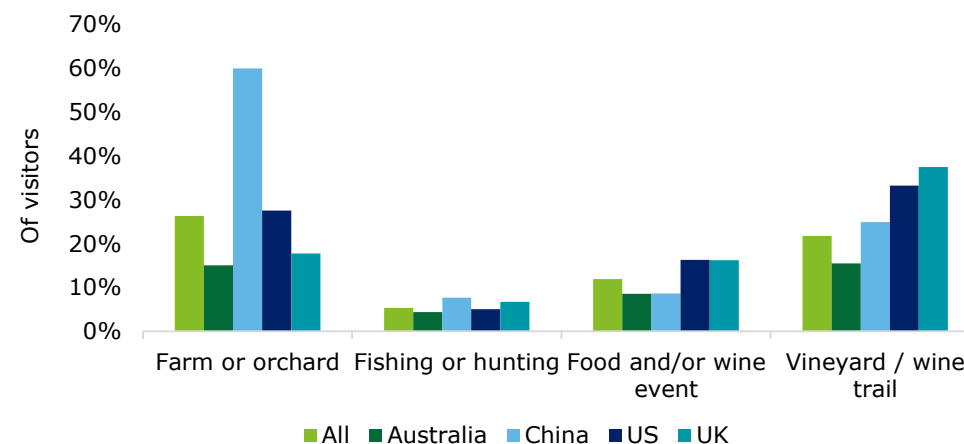
With this positive backdrop the question then becomes: is the wine sector doing enough to make the most of this opportunity? Some thoughts include:

- Looking at collaborating with others in the food and beverage sectors to develop more specialised stores or unique shopping experiences.

Examples could include more specialty stores in high-volume tourism thoroughfares and areas that stock only uniquely New Zealand food and beverage products. This can include a range of products, or focus on specific category (i.e. beverages). Equally, there would seem to be greater opportunities to give tourists a controlled experience of the entire production process (growing, harvesting, processing etc) that is then followed up with a shopping, dining, or other event experience. There are certainly some examples of this occurring, but with lifting tourism spending there feels like scope for more.

- Tourists are often attracted to authentic local specialities on menus and when attending events. So there is a need to showcase and market New Zealand's unique food dishes and matching wines that have been the hallmarks of the country's cuisine for many generations. There can also be regional (Marlborough Sauvignon Blanc, Otago Pinot Noir, Hawkes Bay Syrah) or cultural overlays. But it isn't just about the one-off sale. These products then need to be available to purchase as a gift to take home, or delivered direct when a tourist arrives home. This drives repeat purchasing.

Visitor activities by country



Source: Deloitte, ANZ, MBIE

“In our industry, you’re selling Brand New Zealand first, and your own brand after.”

Judy Finn, Neudorf Vineyards

- Consumers are increasingly being reached through the internet, mobile apps and social media, so an online presence is a necessity. The ability of tourists to repeat purchase products once back in their home country is important when they want to relive their holiday experience. The changing nature of sale channels through the internet, mobile apps and social media is allowing this to occur more easily (both in time and cost) than has historically been the case. Many wineries already have an online presence, but what is perhaps more interesting is that a recent Winegrowers survey showed only six had a Chinese language capacity. And yet this is the country that is set to become our top tourist earner in the near-term!
- Develop entirely new products with the international tourist specifically in mind. This could take a range of avenues, but should be targeted at the natural growth areas of Asia and North America. The two groups have quite different wine tastes, food preferences and cultural drivers.
- Look at joint ventures with some top accommodation providers that give options of winery stays or eco-type accommodation with nice vistas. This would potentially help alleviate capacity constraints at key times of the year and tourist hot spots.
- Encourage or incentivise tour operators to include agri tourism experiences within their packages, perhaps marketed as the “all NZ” experience. This could include visits to farms, orchards, vineyards, tasting rooms etc. Dedicated farms could perhaps be “developed” for this purpose. Encouragingly, the number of Chinese tourists visiting farms or orchards is already high. However, their penetration for food and wine events and vineyards is below average. It’s the reverse for US and UK visitors.
- Creating lasting authentic experiences that drive future product loyalty. Cultural experiences, such as experiencing the great outdoors, New Zealand’s natural scenery and Māori traditions etc need to

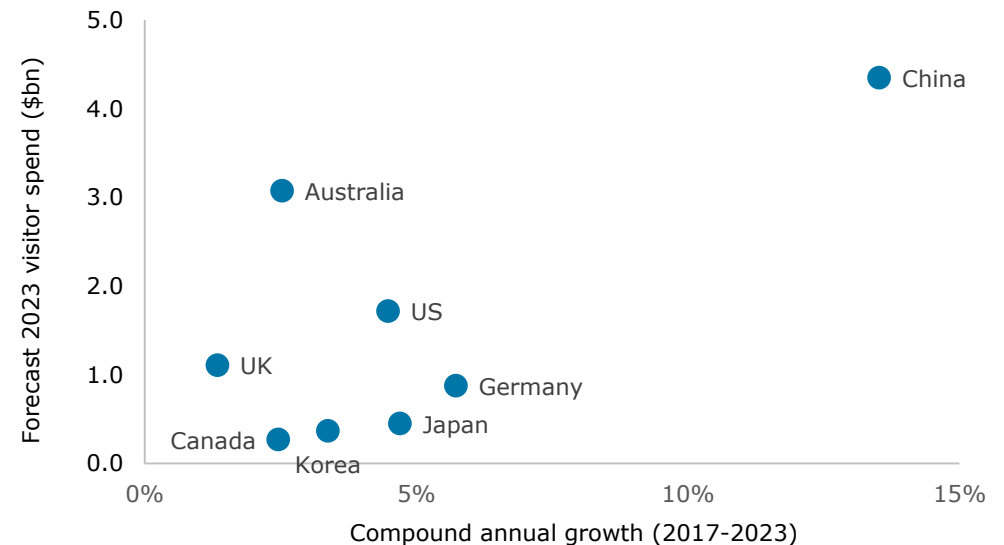
be combined into all products and services being offered to international visitors. This can help drive brand loyalty and repeat purchases of New Zealand food and beverage products once they return home.

- Offering opportunities for extended stays (subject to visa requirements) to help with day-to-day tasks on orchard and in wineries. This could be particularly useful in providing some labour to help with

seasonal requirements, completing certain projects, or on smaller/lifestyle type operations.

While much has already been done by the viticulture sector to ride the tourism wave there is scope for even more. Some key areas are greater collaboration on new initiatives with others in the food and beverage sector, or tourism providers. Adapting product offerings to where future growth is set to come from (namely Asia and North America) is also important.

MBIE Total visitor spend forecasts



Source: Deloitte, ANZ, MBIE

Issues and challenges

The Survey results we receive on industry issues and challenges is typically one of the most conversation provoking. This year we saw a very similar order from 2016 in terms of how participants rank issues and challenges seen in the industry.

In terms of those ranked most highly, distribution and sales margin pressure continue to feature as issues among wine producers of all sizes. Exchange rates featured strongly in the past and continues to do so this year.

Those receiving average rankings with the bottom three, (reflecting those issues that participants feel are of less concern) include too much grape supply, access to capital and interestingly, succession.

Exchange rate risk is one item that commonly features highly. However we recognise there may be multiple interpretations as to how participants find this a challenge or issue.

To the extent that those exporting find their offshore price points are impacted by gradual movements in currency rates, this can indeed be a challenge, especially in an industry with commonly long cashflow cycles and high levels of fixed costs. The other possibility is the effect of shorter-term currency fluctuations that may be impacting participants as a result of unhedged movements. For those that experience these issues, there are a number of options to mitigate these effects through hedging and other currency strategies.

“From our perspective we are always looking for new markets as it’s good to diversify market risk. Being a mature NZ wine brand, we are well established in the traditional NZ wine markets, however we have seen competition grow exponentially over time. With growth limitations in traditional markets, we feel it is good business practice to ensure we have a presence in new markets as well as the traditional.”

Pip Goodwin, Palliser Estate

Top issues and challenges	
Top 3 ranked issue or challenge	Bottom 3 ranked issue or challenge
\$0-1.5m	
<ol style="list-style-type: none"> 1. Distribution including marketing product overseas 2. Sales margin pressure 3. Government and other compliance costs 	<ol style="list-style-type: none"> 1. Grape supply (too much) 2. Succession 3. Grape supply (too little) or affordability of land
\$1.5-5m	
<ol style="list-style-type: none"> 1. Sales margin pressure 2. Distribution including marketing product overseas 3. Exchange rates 	<ol style="list-style-type: none"> 1. Succession 2. Access and/or cost of capital including interest rates 3. Grape supply (too much)
\$5-10m	
<ol style="list-style-type: none"> 1. Sales margin pressure 2. Distribution including marketing product overseas 3. Exchange rates 	<ol style="list-style-type: none"> 1. Access and/or cost of capital including interest rates 2. Succession 3. Grape supply (too much)
\$10-20m	
<ol style="list-style-type: none"> 1. Sales margin pressure 2. Distribution including marketing product overseas 3. Exchange rates 	<ol style="list-style-type: none"> 1. Access and/or cost of capital including interest rates 2. Succession 3. Grape supply (too much)
\$20m+	
<ol style="list-style-type: none"> 1. Sales margin pressure 2. Distribution including marketing product overseas 3. Exchange rates 	<ol style="list-style-type: none"> 1. Succession 2. Grape supply (too much) 3. Access and/or cost of capital including interest rates

Most options do require some predictability of foreign cashflow, however partial hedging strategies are also very common. Generally there is no "one size fits all" approach to managing foreign exchange risk, with the need for each business to balance certainty and flexibility.

We find the low ranking of succession particularly interesting given, anecdotally, we understand many view this as an

important issue in the wine industry, similar to other agricultural industries in New Zealand.

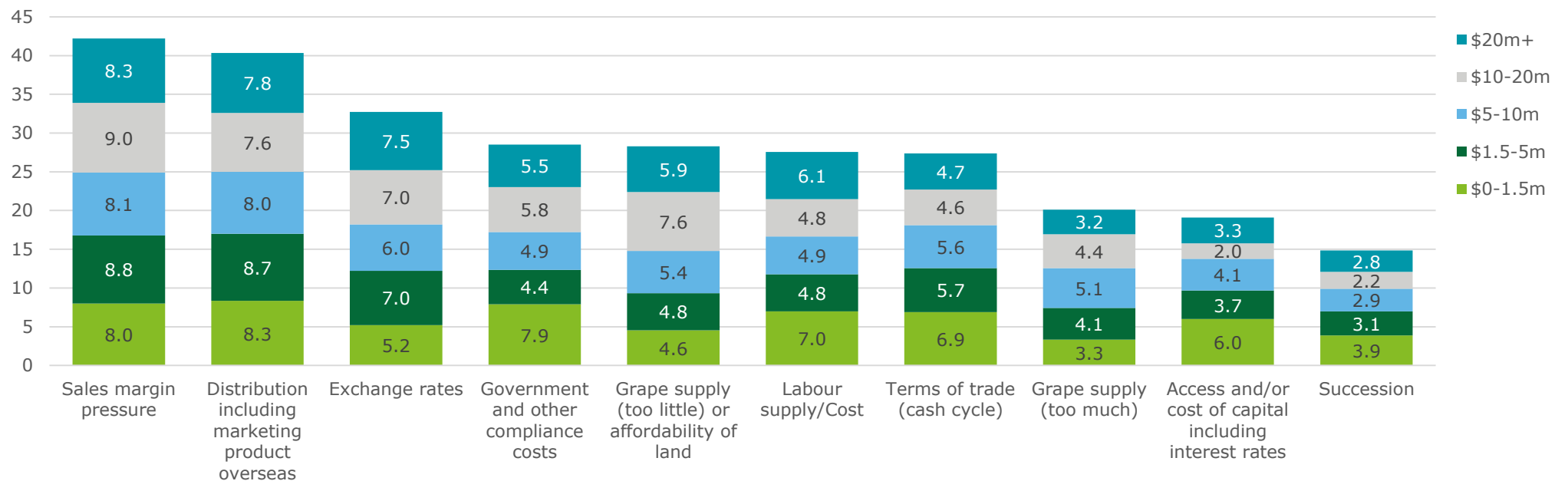
With the age of the country's farmers sitting at an average of 48 and with 15% over 65*, it is worth considering the extent to which this also impacts the wine industry. While consolidation in the industry can have positive effects, we see the potential for many business owners having to settle for less (lower sale

prices) in unplanned succession events, as opposed to those who are planned early and properly.

Whilst some foreign ownership restrictions are in place, we see no reason for businesses not to take the first step of assessing their financial position and value of the business. This usually paves the way for what is needed to follow, including strategies to maximize value and undertake steps such as separating

the roles of ownership, management and governance.

Average scores from participants



*Statistics NZ, Age distribution of people working in the agriculture industry in New Zealand, based on census 2013 data.

Opportunities and advantages

To both balance out what participants felt were the issues and challenges in the industry we asked participants to rank their views on industry opportunities and advantages.

The results this year reflected very little change from the results received in 2016. Regardless, a point of interest to note was that increasing sales margins continues to feature highly. This is an interesting result given sales margin pressure also ranked highly as an issue or challenge. Sales volume growth from both existing markets and existing products also again featured strongly against the lower ranking growth from new markets and new products. Also featuring highly was growth in new markets from existing products.

Interestingly the development of the industry talent pool was ranked low again however we suggest that this is a result of the already strong level of expertise and growth as well as the existence of multiple programs present in the New Zealand industry. In reference to this, we note that while labour is an issue, the broad appeal of the sector has meant no shortage of recruits for winemaking. The industry is to be commended for activity that maintains that flow such as new education opportunities and celebrating success by young winemakers.

“With the concentration and consolidation of both production and retail to an ever decreasing group, the sales margins for genuine artisans in the wine industry continue to be squeezed. Without the ability to compete on scale (and the efficiencies it brings) the opportunity for niche players centres around connecting directly to end consumers. The market is ripe for innovation/disruption in this space - we are yet to see an Uber equivalent, it's something the smaller players desperately need.”

James Dicey, Ceres Wines

Top opportunities and advantages	
Top 3 ranked	Bottom 3 ranked
\$0-1.5m	
<ol style="list-style-type: none"> 1. Sales volume growth from new markets & existing products 2. Sales volume growth from existing markets & existing products 3. Increasing sales margins 	<ol style="list-style-type: none"> 1. Development of industry talent pool 2. Collaboration opportunities 3. Production efficiencies
\$1.5-5m	
<ol style="list-style-type: none"> 1. Sales volume growth from new markets & existing products 2. Sales volume growth from existing markets & existing products 3. Increasing sales margins 	<ol style="list-style-type: none"> 1. Development of industry talent pool 2. Marketing including 'Brand New Zealand' and channels such as social media 3. Sales volume growth from new markets & new products
\$5-10m	
<ol style="list-style-type: none"> 1. Increasing sales margins 2. Sales volume growth from existing markets & existing products 3. Sales volume growth from new markets & existing products 	<ol style="list-style-type: none"> 1. Development of industry talent pool 2. Collaboration opportunities 3. Marketing including 'Brand New Zealand' and channels such as social media
\$10-20m	
<ol style="list-style-type: none"> 1. Sales volume growth from existing markets & existing products 2. Increasing sales margins 3. Sales volume growth from new markets & existing products 	<ol style="list-style-type: none"> 1. Development of industry talent pool 2. Collaboration opportunities 3. Production efficiencies
\$20m+	
<ol style="list-style-type: none"> 1. Sales volume growth from existing markets & existing products 2. Increasing sales margins 3. Sales volume growth from new markets & existing products 	<ol style="list-style-type: none"> 1. Development of industry talent pool 2. Collaboration opportunities 3. Marketing including 'Brand New Zealand' and channels such as social media

Tourism has been noted as a particular growth area and indeed an opportunity for many wineries who may not see such accessible or equivalent growth in export markets. It is worth noting however that tourism and exports can be complementary in many ways, especially when wine businesses are able to provide a memorable experience and continued connection to their brands once they return home.

As with all industries in today's environment, technological and digital disruption also presents opportunities in a number of areas for wine businesses. A recent Deloitte report commissioned by Google explored the relationship between engagement in digital technology and outcomes for small-to-medium business. The results found that those with a high level of digital maturity experienced increased levels of revenue as well as their propensity for employment.

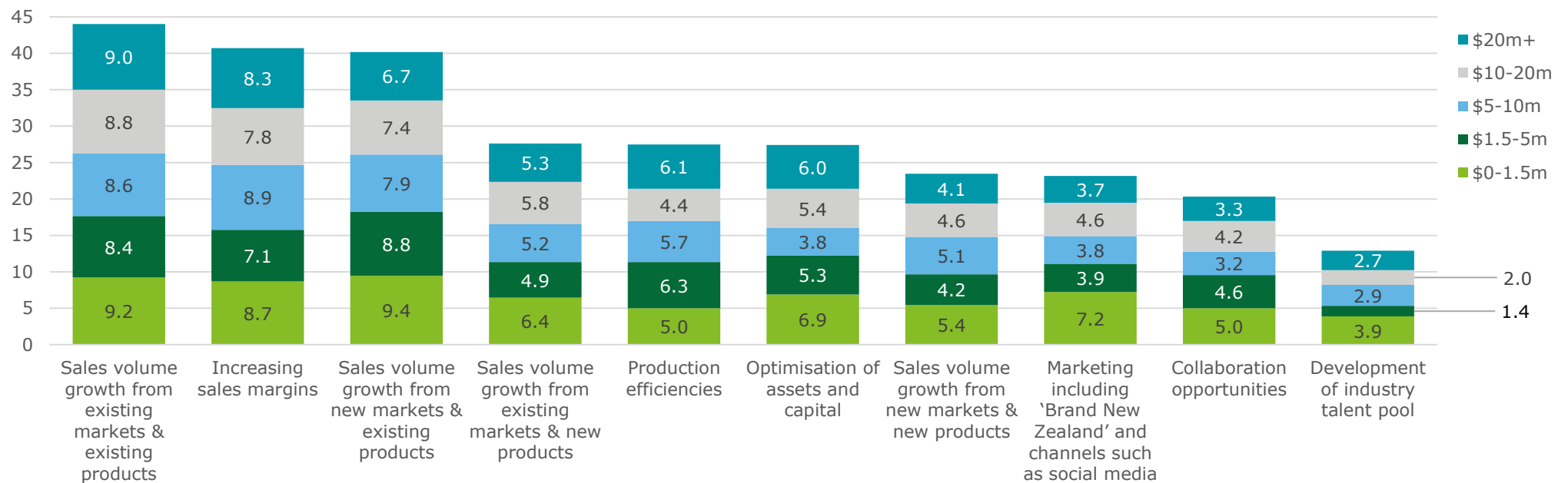
Most interestingly, the 2017 report found a 60 % increase in their revenue per employee, from those with a high level of digital engagement as opposed to those with a low level.

Primarily, effective use of digital technology can provide a mechanism for growth through ongoing and direct engagement with consumers, especially with the experiential nature of wine. However digital technology is not only

customer facing, with opportunities also being present in operational efficiencies.

The internet of things (IoT) is one such technology that will see adoption across the industry and supply chains. This is being driven by a combination of the decreasing cost of sensors and cloud based infrastructure as well as increases in the computing power to more effectively collect, analyse and drive insights from data in wine businesses.

Average scores from participants



Where to from here

Increasing consumer interest in quality experiences, whether enjoyed from the bottle or at a cellar door, indicate ripening opportunities. For wine businesses of all sizes, the key to capturing opportunity will be in gleaning a deep understanding of the value drivers.

Do we see further opportunity for the New Zealand wine sector ahead? Absolutely yes, as global consumers balance health and lifestyle interests by opting for quality over quantity. Likewise the consumer trend of seeking authentic experiences will tie the food and beverage sector to tourism in ways where New Zealand's passionate wine sector is extremely well positioned.

Many years of a focus on quality via production and marketing have led to wines from New Zealand gaining a premium reputation and premium price-points. Given that New Zealand's grape production costs, when compared to a range of wine-producing countries, are 2 to 3 times higher, an ongoing premium focus will be essential to maintaining margins and ensuring sustainable, ongoing industry success.

The theme of how to extract sustainable value from opportunity is the driver for this study.

Owners of wine businesses should expect a return on their investment that facilitates their long-term involvement and we hope the financial information contained in this report helps to investigate the key drivers of profit irrespective of scale. Looking at the effects of changes in volume, pricing and resourcing on profitability and cash-flow is an exercise we recommend to all wine businesses.

We believe part of the value of benchmarking information comes from discussing the context and implications with peers in the sector. During 2018 we will be hosting discussion events to investigate the themes contained in this study. If you're interested in being part of the discussion, please get in touch (see contact details on the concluding page). We were delighted to be able to present a more reflective view of the industry's performance with the largest number of respondents in the history of the Survey this year.

We hope participation will only grow, as we see collaboration and growth opportunities come from sharing of insights and ideas.

Acknowledgements

In preparing this report we spoke to many people involved in this phenomenal sector. We'd like to thank the New Zealand wine community for their willingness to share their information and views to help the whole sector grow, most especially the people who invested time in participating in this annual Survey.

Recommended reading

- Previous issues of this report: <http://www.deloitte.com/nz/wine>
- ANZ Research: In your internet browser, search ANZ / Business Insights Wine, or, Agri Focus
- New Zealand Winegrowers Annual Report: www.nzwine.com/en/news-media/statistics-reports/

- New Zealand Winegrowers Wine Tourism Resources: <https://www.nzwine.com/members/sell/wine-tourism-resources/>

New Zealand Wine Benchmarking Industry Report 2017 co-authors and contributors

Anteni Schalken (principal author), Con Williams, Rob Simcic, Josh Hawkey, Linda Townsend, Peter Felstead, Mike Millard, Bevan Holdaway, Murphy Turner, Philip Gregan

Key Contacts

Deloitte

Peter Felstead

Managing Partner, Tax & Private

Deloitte New Zealand

Tel: +64 9 303 0860

Email: pfelstead@deloitte.co.nz

Anteni Schalken

Associate Director

Deloitte New Zealand

Tel: +6421 141 5907

Email: aschalken@deloitte.co.nz

Andrew Gibbs

Head of Primary Industries & Partner, Corporate Finance

Deloitte New Zealand

Tel: +64 4 470 3639

Email: agibbs@deloitte.co.nz

Mike Millard

Deloitte Digital Practice Lead

Deloitte New Zealand

Tel: +64 9 306 4495

Email: mimillard@deloitte.co.nz

ANZ

John Bennett

General Manager – Central Region Commercial & Agri

ANZ

Tel: +6427 491 5813

Email: john.bennett@anz.com

Rob Simcic

Food & Beverage Specialist Commercial & Agri

ANZ

Tel: +6427 475 4690

Email: rob.simcic@anz.com

Jane MacDonald

Senior Relationship Manager Commercial & Agri

ANZ

Tel: +6427 232 3940

Email: jane.macdonald@anz.com

Con Williams

Agri Economist

ANZ

Tel: +64 4 802 2361

Email: Con.Williams@anz.com

New Zealand Wine

Philip Gregan

Chief Executive Officer

New Zealand Winegrowers

Tel: +64 9 306 5555

Email: philip@nzwine.com

Andrea Svendsen

Communications Manager

New Zealand Winegrowers

Tel: +64 9 306 5553

Email: andrea.svendsen@nzwine.com

About and further information

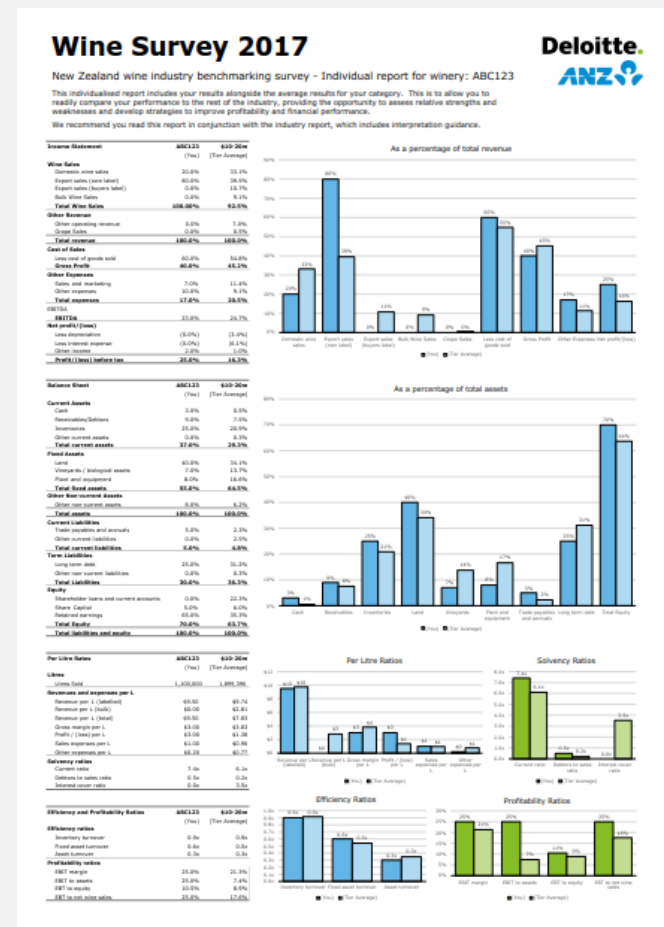
Deloitte has conducted this annual financial benchmarking Survey in conjunction with ANZ and New Zealand Winegrowers. The Survey was conducted between September 2017 and November 2017 and is based upon 2017 financial statements. The Survey is designed to assist wine businesses by providing an insight into the relative efficiency and financial performance of their business – information to aid decision-making, to support and sustain growth, or assist capital raising initiatives.

Survey questionnaires were sent to all members of New Zealand Winegrowers. Comments made in this report are based on the responses of 45 Survey participants, which account for approximately 56% of the New Zealand wine industry by litres of wine produced and 41% by export sales revenue generated for the 2017 year. Respondents either own or lease 46% of the 37,129 producing hectares currently under vine in New Zealand. To assist the comparison of different sized wineries, respondents have been categorised based on total annual revenue as follows:

- \$0-\$1.5m
- \$1.5m-\$5m
- \$5m-\$10m
- \$10m-\$20m
- \$20m+

Participant information is treated with high confidentiality. The results are reported in aggregate form with no disclosure of the names of the individual participants, nor how many participants existed in each category. Where appropriate we have also commented on the results. Though the Survey response level is reasonable this Survey cannot be considered completely representative of the whole of the New Zealand wine industry. Care must therefore be taken when analysing the state of the industry based on the information set out in this Survey, although we believe it does provide an indication of industry performance and trends. Figures presented have not been adjusted to eliminate rounding variances.

All participants receive a customised benchmarking report, comparing their own results to others of their revenue size







Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see www.deloitte.com/about for a more detailed description of DTTL and its member firms.

Deloitte provides audit, consulting, financial advisory, risk management, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 245,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

Deloitte New Zealand brings together more than 1200 specialist professionals providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website www.deloitte.co.nz.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.