Global Wine Sector Update

Murray Valley Winegrape Conference 2011

August 2011

Australian Economic Update

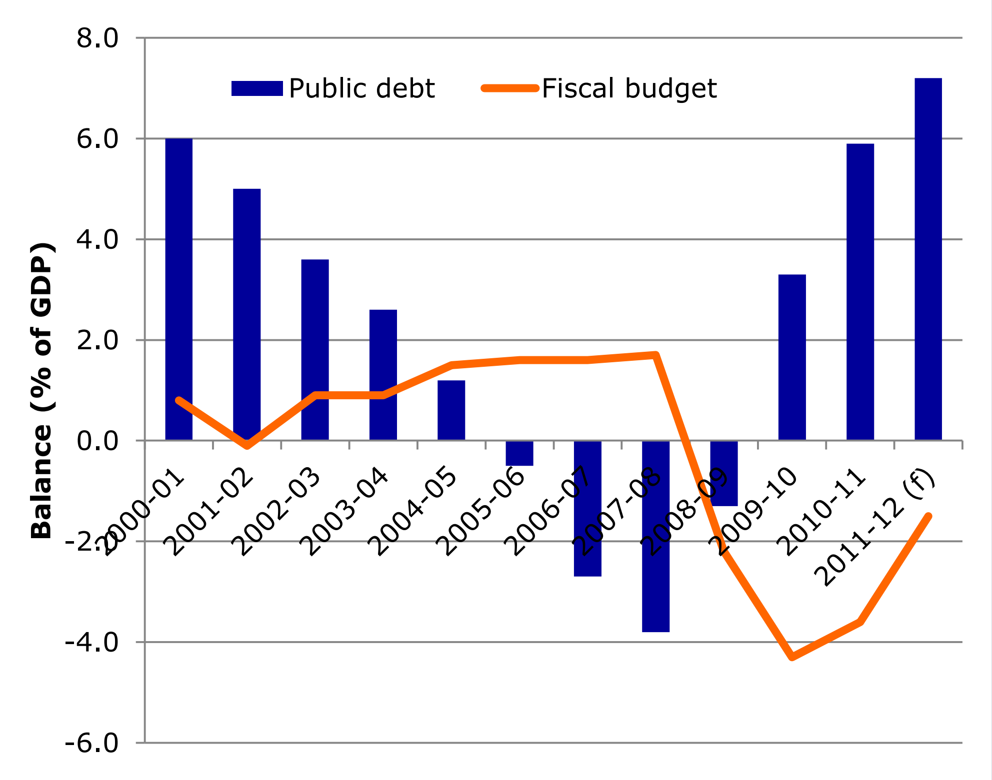
Global Wine Supply Developments

Global Wine Market Developments

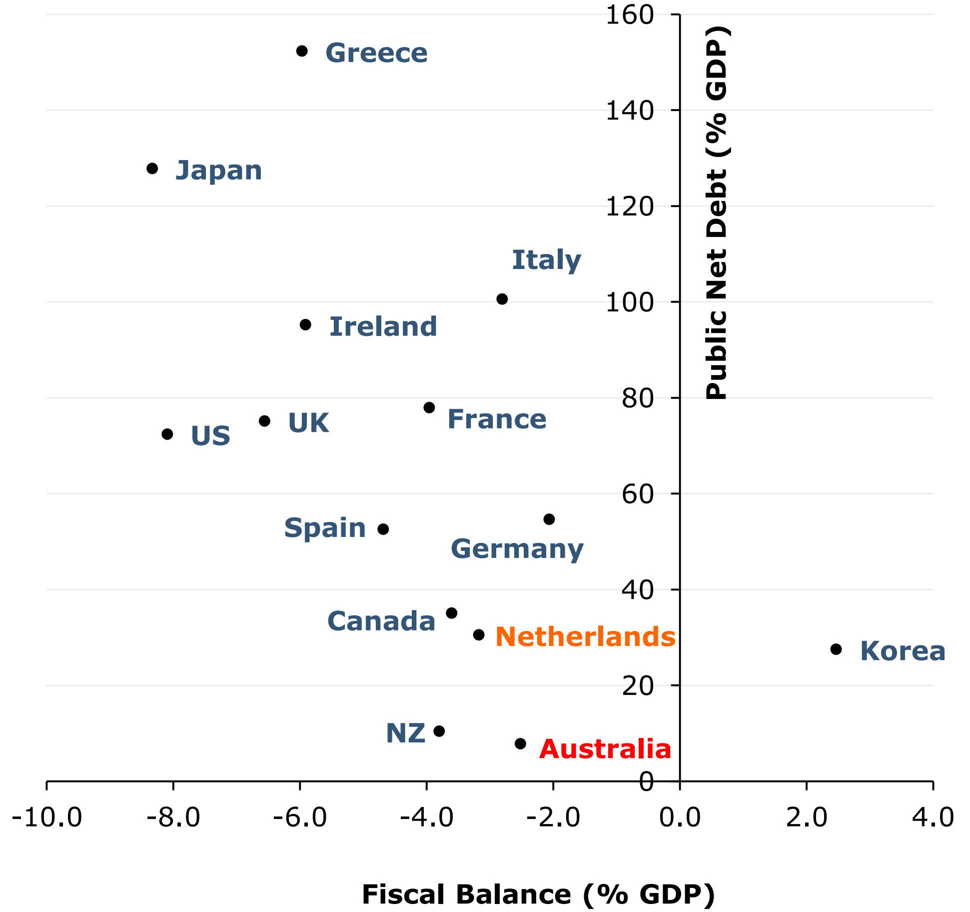
Australian Fiscal Policy Outlook

Heading back to black despite major emergency spending programs during the GFC

Australian Public Sector Debt



Government spending & debt – 2011 IMF forecasts



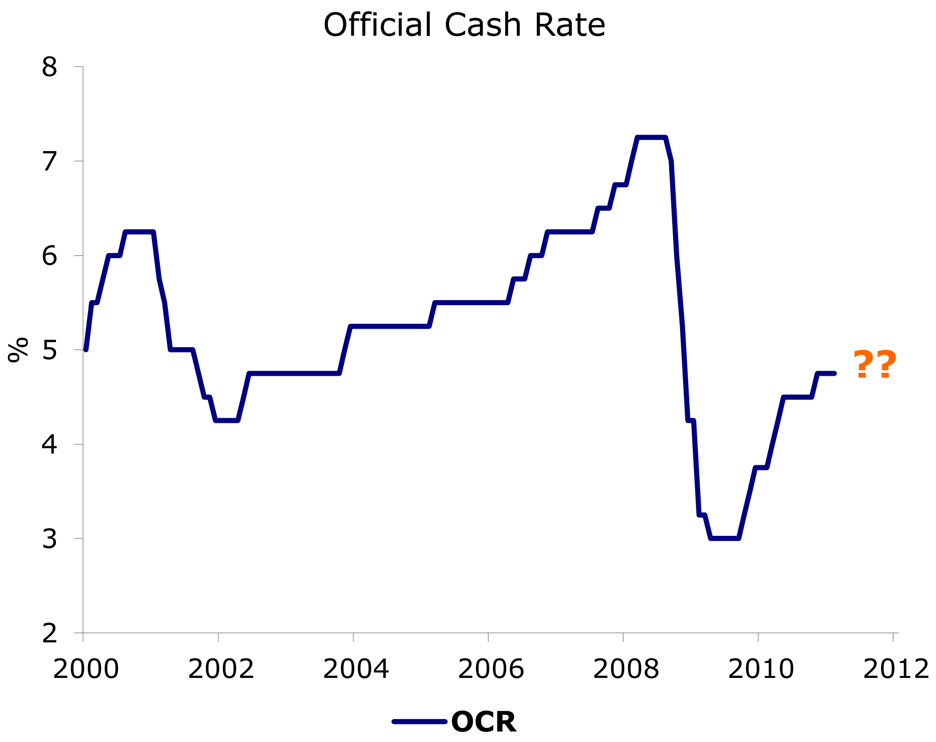
The Australian Federal Budget is currently forecast to return to surplus by 2012-13

Source: Aust. Govt. Treasury Dept. & IMF, 2011

Australian Monetary Policy Outlook

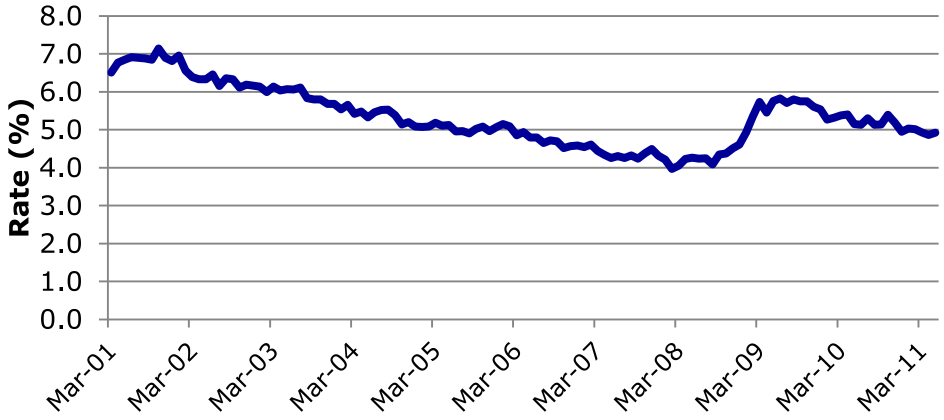
Looking to keep a tight rein on inflation

Monetary Policy Outlook

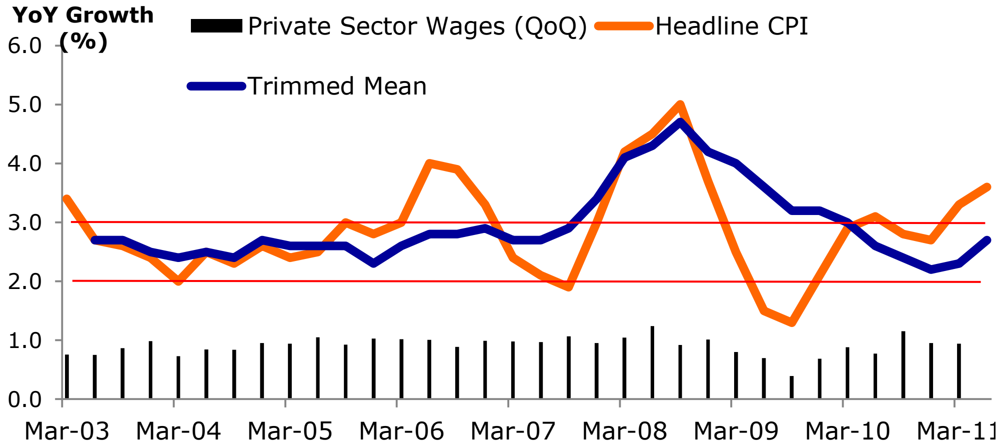


The RBA <u>was</u> expected to continue tightening its policy rate in Q4 2011

Unemployment



Inflation & Wages

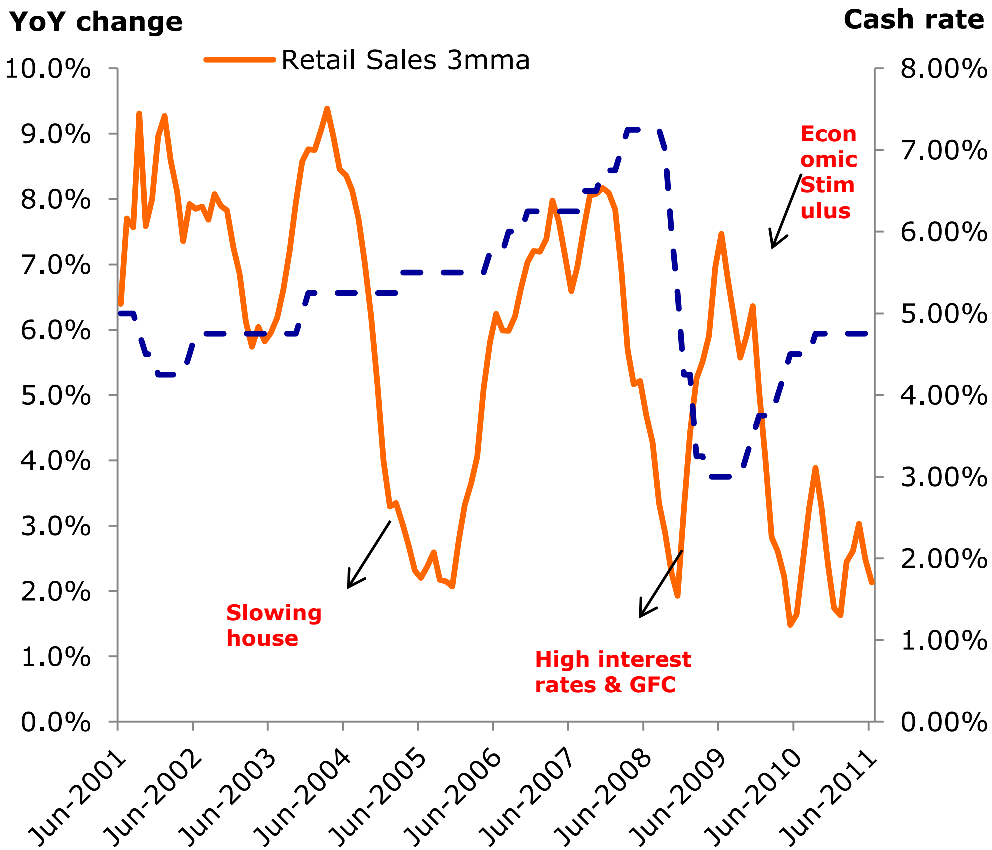


Source: *ABS, Bloomberg & Rabobank, 2011*

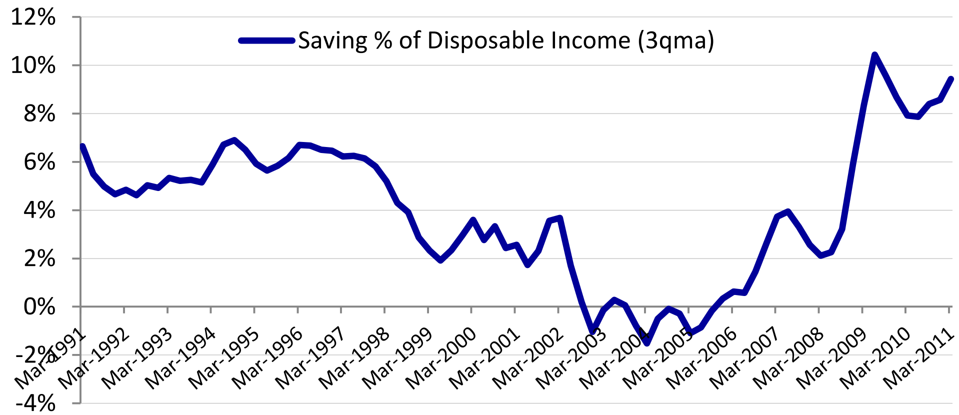
Australian Consumer Economy

The (debt) Hangover

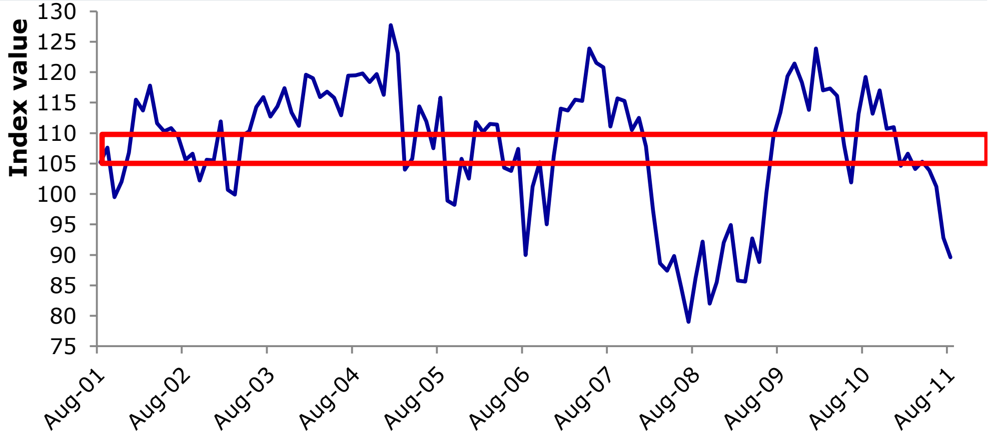
Retail Sales



Household Savings



Consumer Confidence



Soft asset prices & global uncertainty continues to weigh on consumer sentiment

Rabobank

Source: ABS, RBA & Rabobank, 2011

Australian Dollar

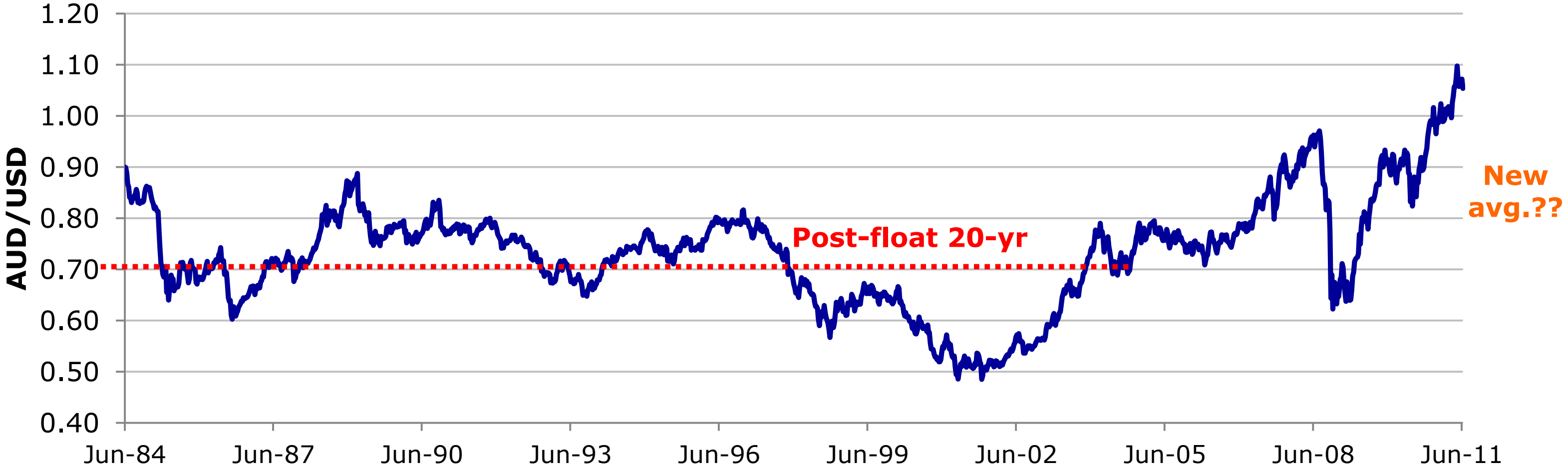
AUD strength expected to gradually ease, but remain high by historical measures

- ***Forecasts***

Rabobank FX Forecasts

	9-May	+3m	+6m	+9m	+12m
AUD/USD	1.07	1.08	1.05	1.05	1.03
AUD/EUR	0.74	0.76	0.72	0.70	0.68
AUD/GBP	0.64	0.64	0.62	0.61	0.57

- ***Have we moved to a new level during the commodity boom?***



Source: Rabobank & Bloomberg, 2011

Rabobank

Australian Economic Update

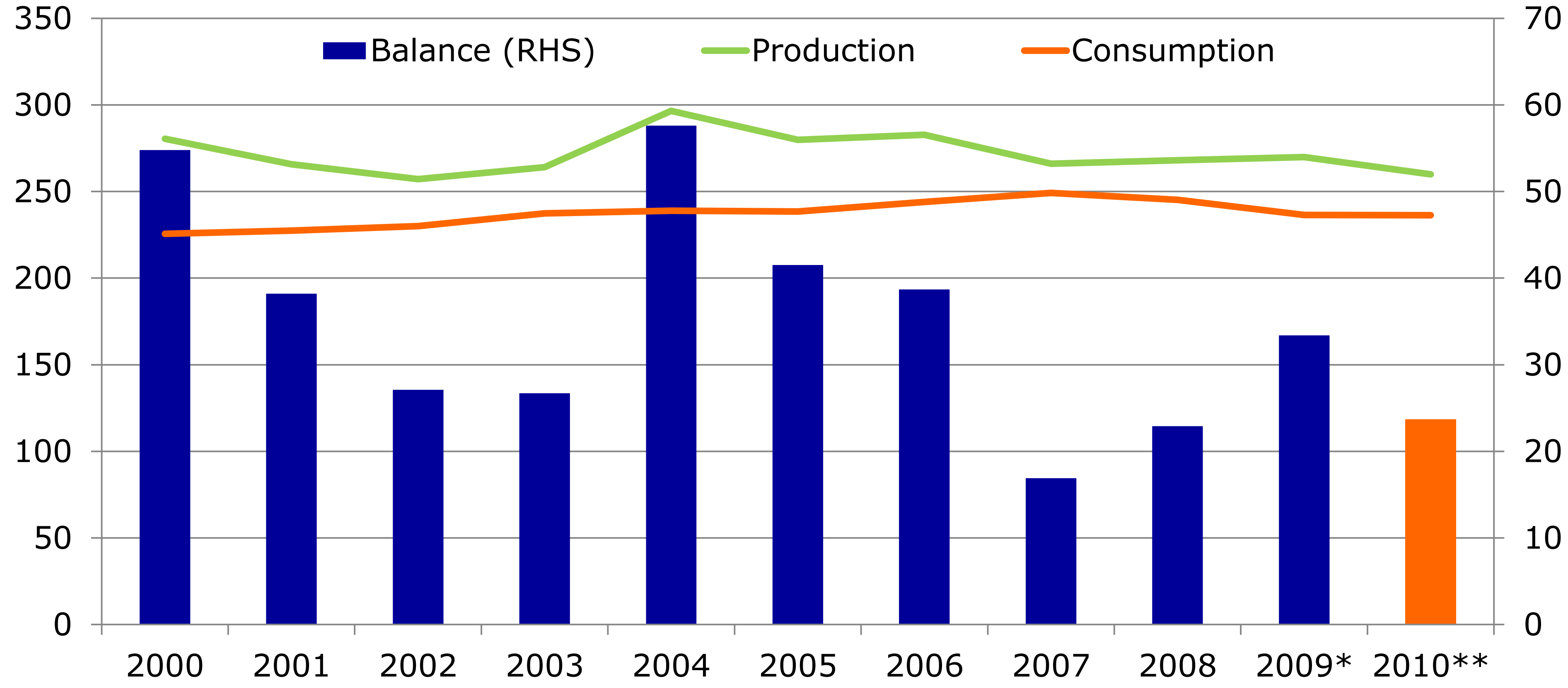
Global Wine Supply Developments

Global Wine Market Developments

Global balance sheet

Heading towards balance, until the GFC struck down global demand

Global Wine Production & Consumption (units: million hectolitres)



Source: OIV, 2011

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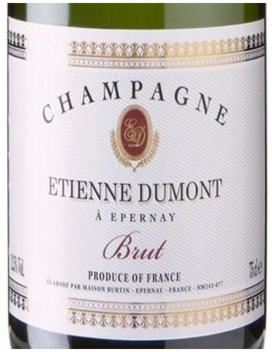
Playing into the hands of grocery retailers

Private Label spurred on by global oversupply

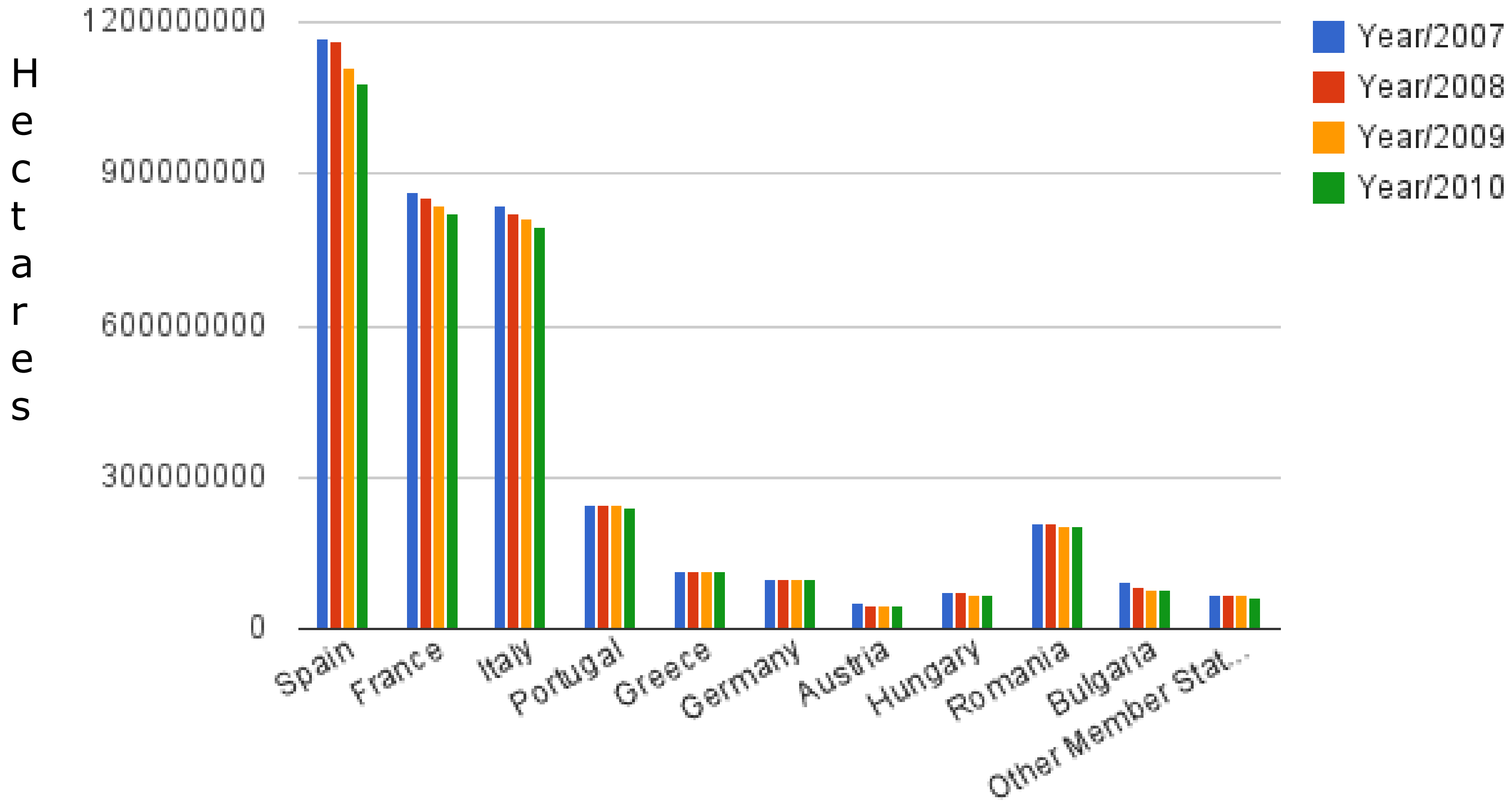


- **Oversupply continues to limit the pricing power of suppliers**
  - A dizzying array of wine brands swamp the market
  - Cheap surplus inventories create fertile ground for private label
  - This further restricts shelf space available to supplier brands
- **Retailer power continues to evolve with a focus on Private Label programs**
  - In the UK, two of the top-5 selling Champagnes in UK supermarkets are retailer brands
  - In Australia, retailer brands grew by around 20% p.a. in an otherwise flat market in 2010
  - Approach of US retailers to private label development appears less aggressive
- **How threatening is Private Label to the wine category?**
  - A valuable outlet for surplus inventories without directly damaging own brands
    - e.g. Lanson & Etienne Dumont
  - Of course, private label brands indirectly undermine brand equity
  - But retailers still need the leading ‘A Brands’ of suppliers e.g. Moet & Chandon to maintain customer loyalty & to act as ‘known value indicators’ or ‘category captains’
  - Private label penetration becomes more limited as the product value increases & brand associations become more difficult to replicate

EU

Mid term review of EC Wine Sector reforms due in 2012

- ***EC has budgeted to subsidise its wine sector to order of €5.3 billion between 2009-2013***
  - *€1.8 billion to grub up 175,000ha of vineyards (~5% of total)*
  - *EC Distillation subsidies are due to expire on 31 July 2012*
- ***EC Planting ban due to expire in December 2015***

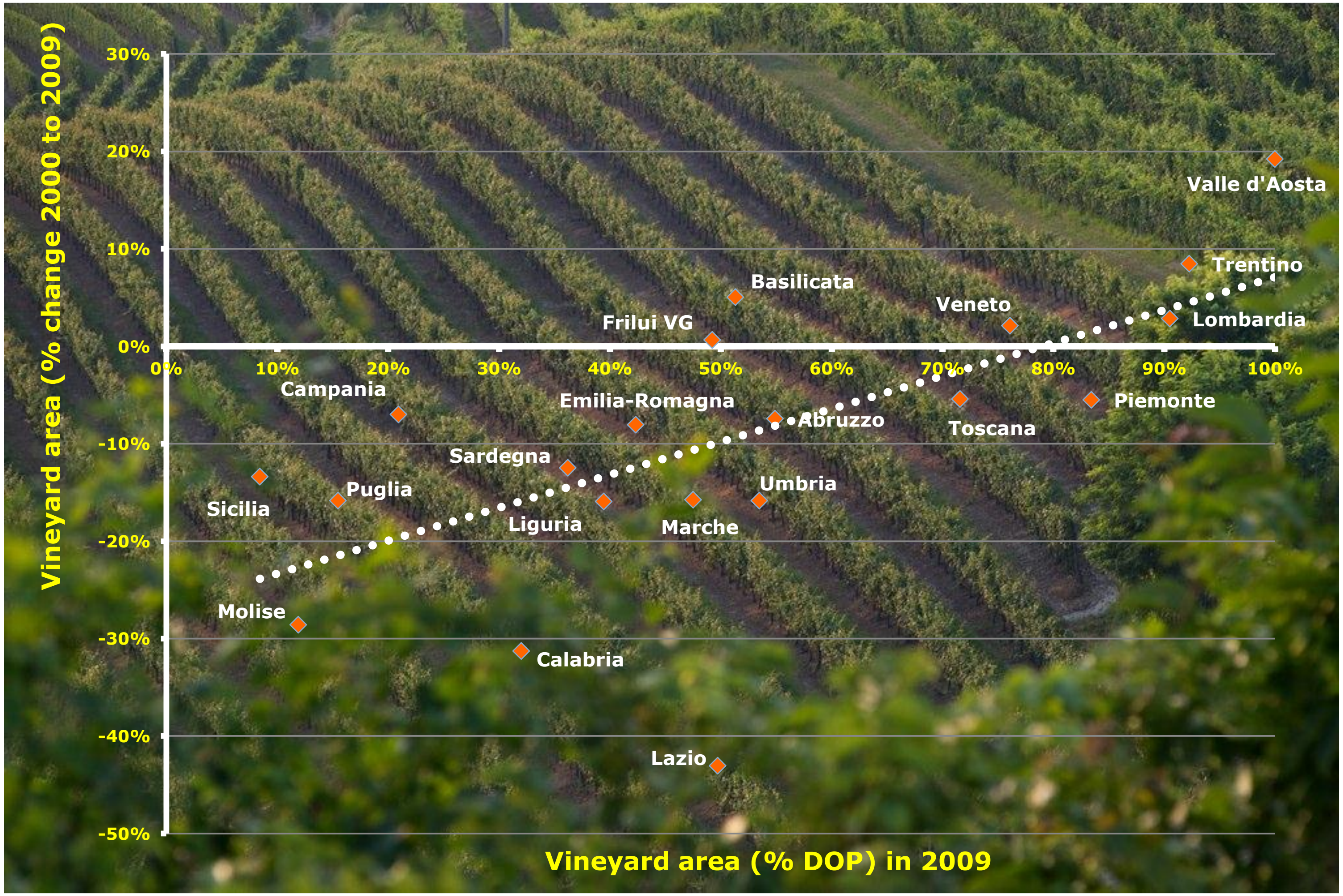


Source: just-drinks.com, 2011

Italy

Vineyard 'face-lift'

- ***A heightened focus on quality***
- ***Greater vineyard reductions in regions with low DOC/DOCG production***

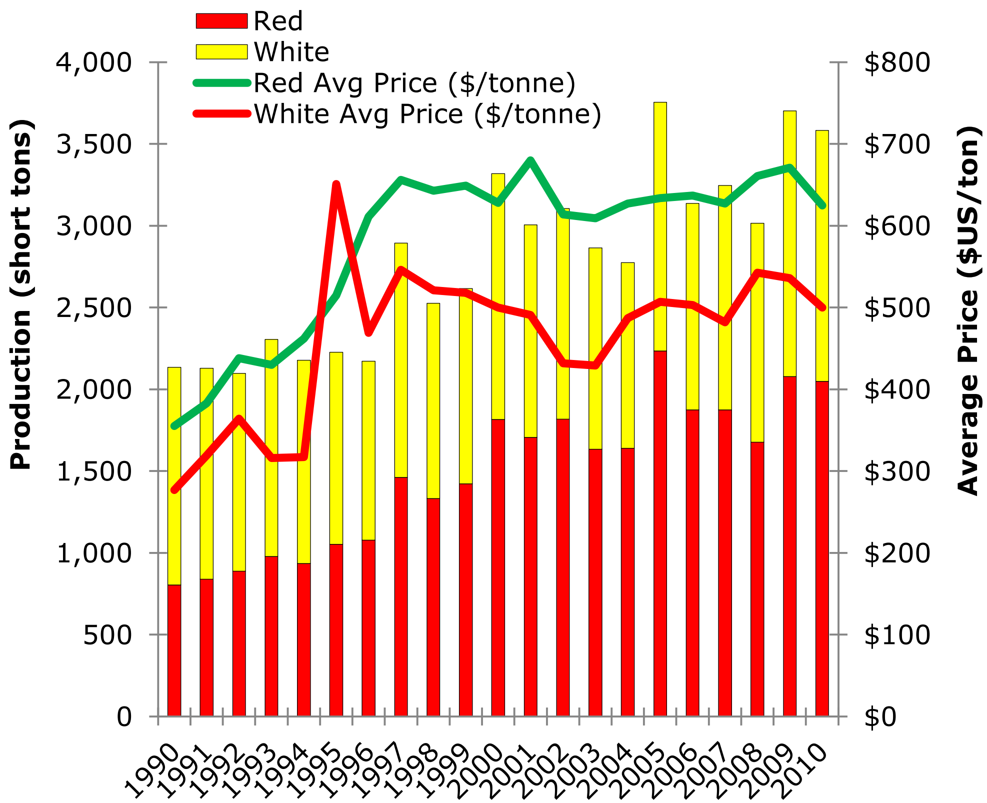


Source: *Elaborazioni Ismea su dati Agea, 2010*

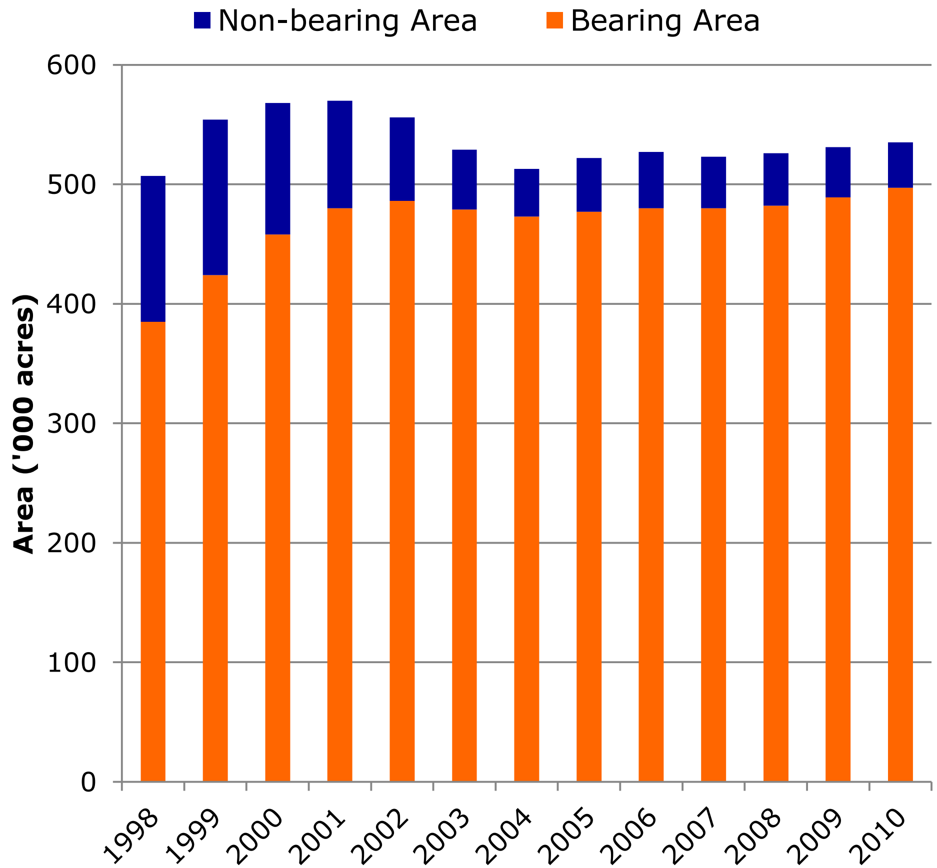
California turns the corner

Getting back into balance – Record opening grape price announced in June 2011

Wine Grape Production & Pricing



Wine Vineyard Estate

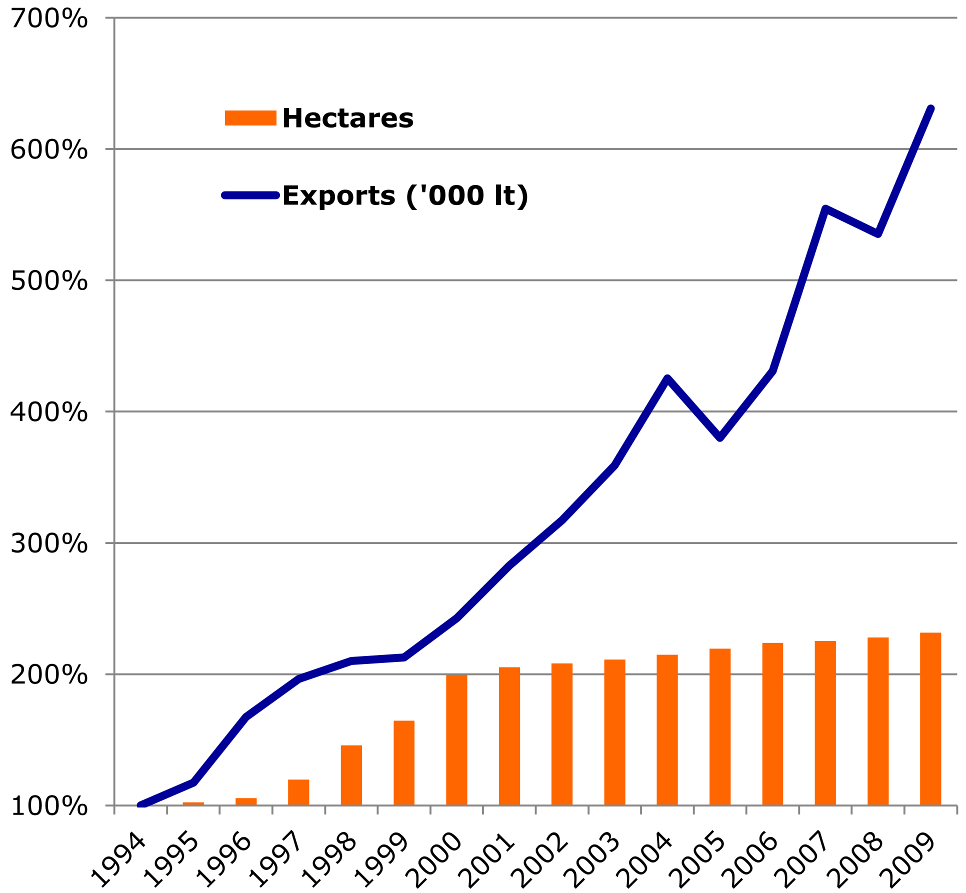


Source: USDA, 2011

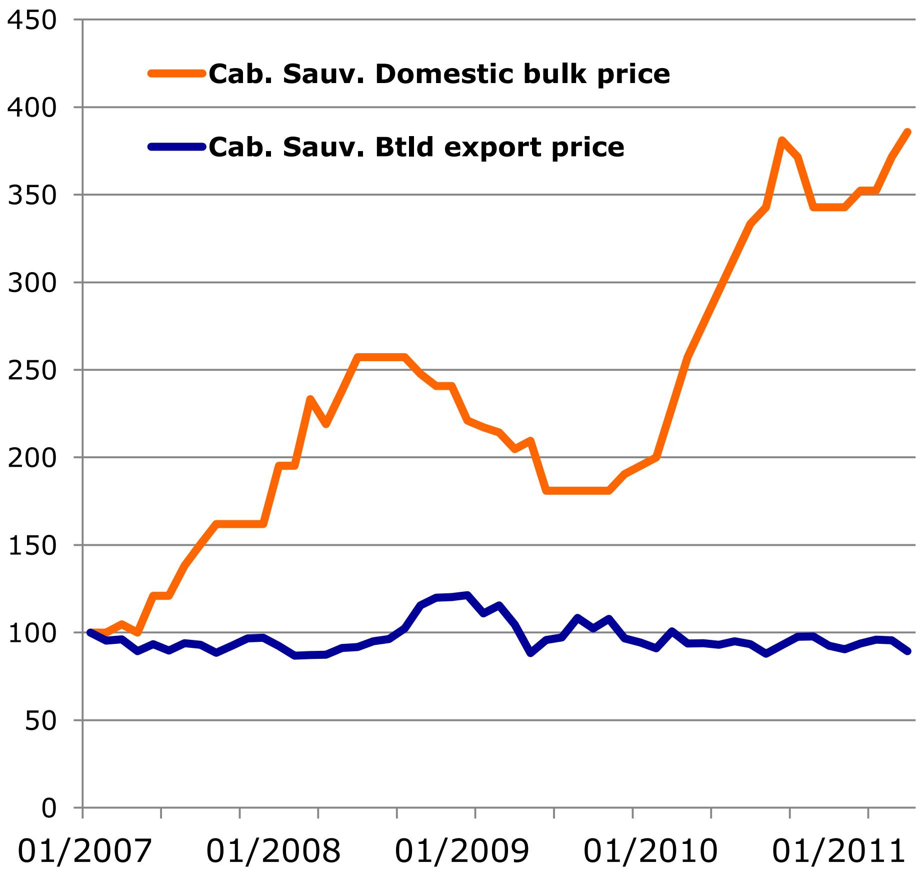
Chile

Maturing vineyard area & consecutive light harvests

Growth in Vineyard Area vs. Export Volumes



Index of Domestic Bulk Price vs. Bottled Export price (Measured in CLP)



Source: OEDPA & Rabobank, 2011

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Australian Economic Update

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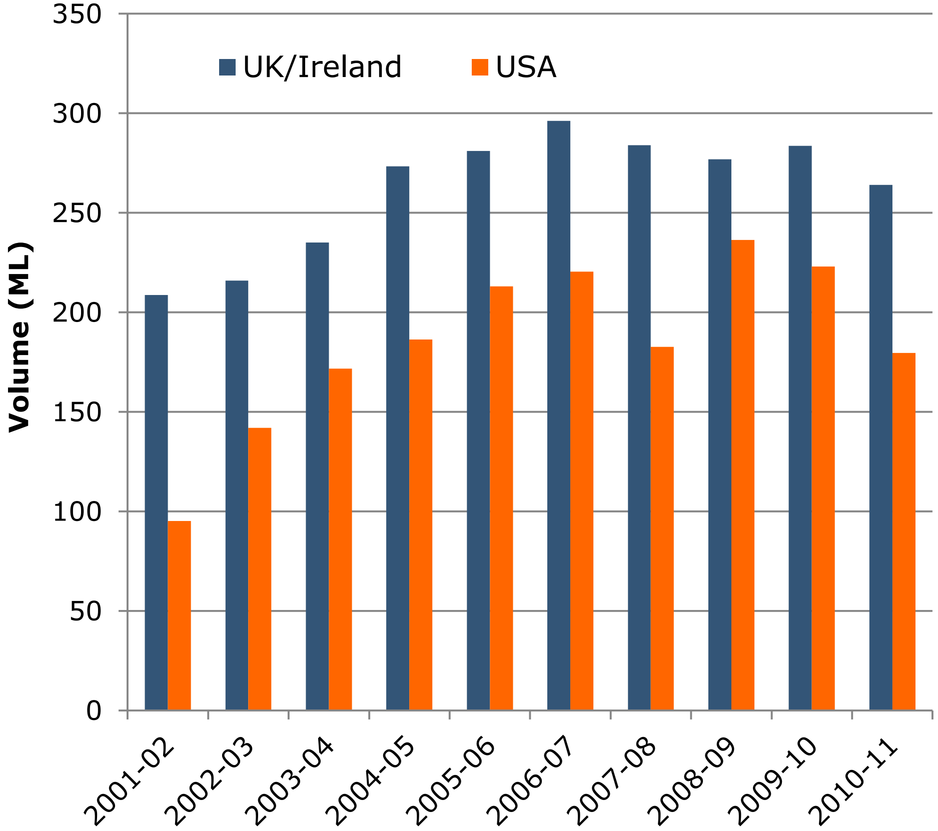
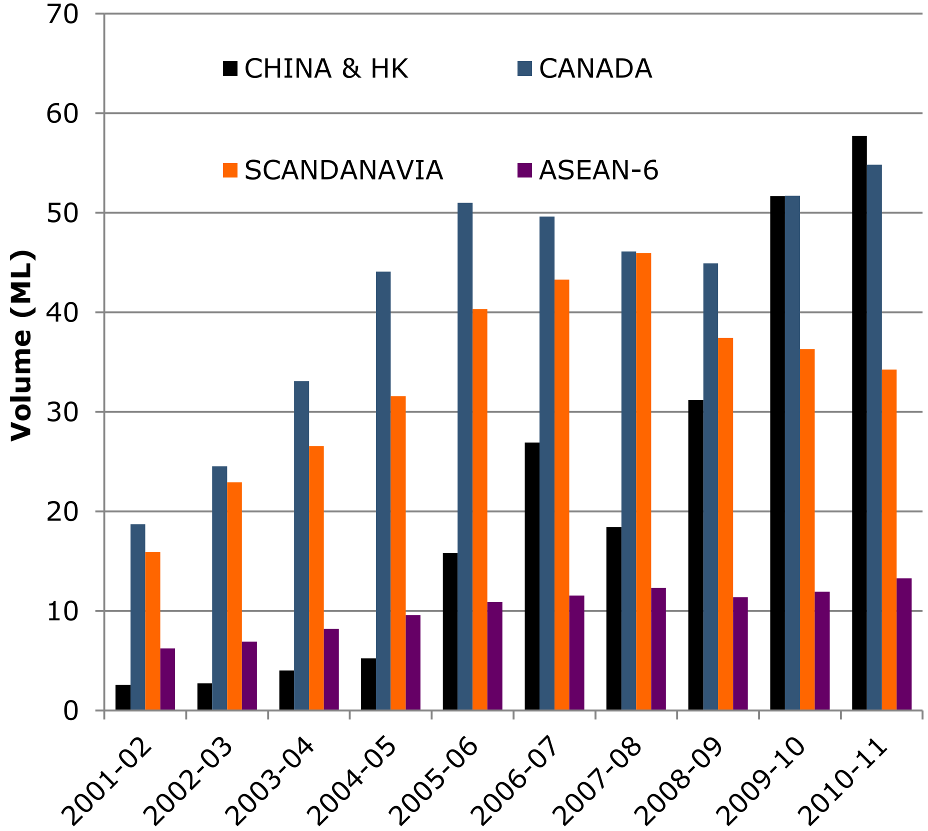
Developments in Australian Wine Export Markets

The changing trade-mix over the past decade

Declines in traditional markets



Growth in higher value markets



Source: Wine Australia & Rabobank, 2011

UK

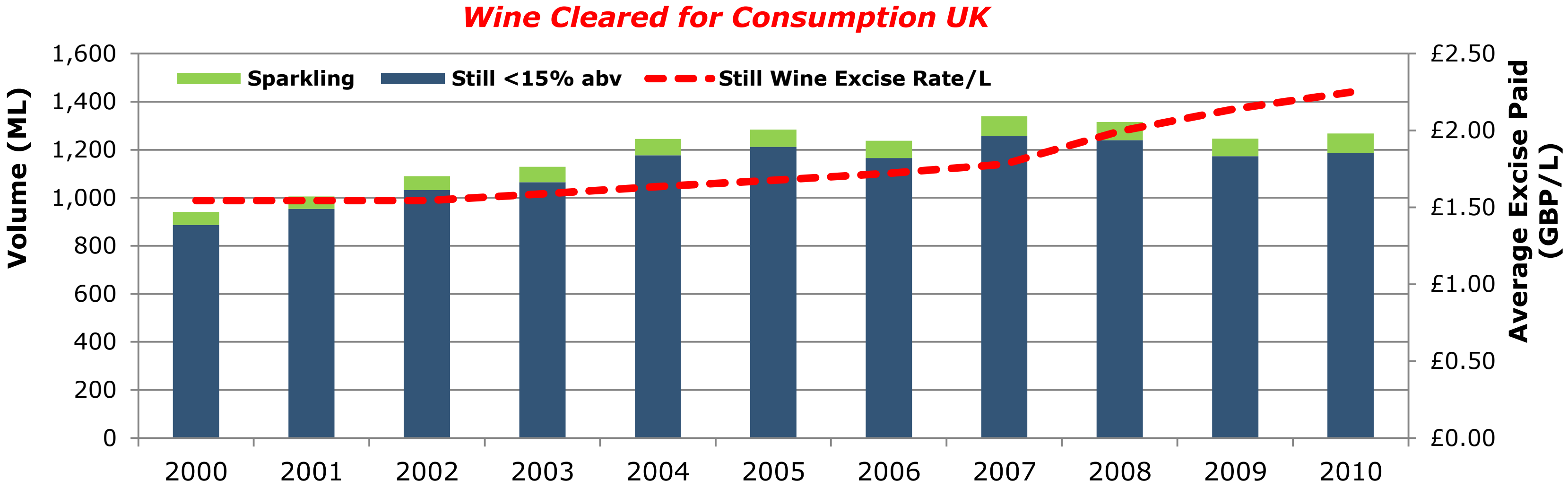
Dealing with retailer power

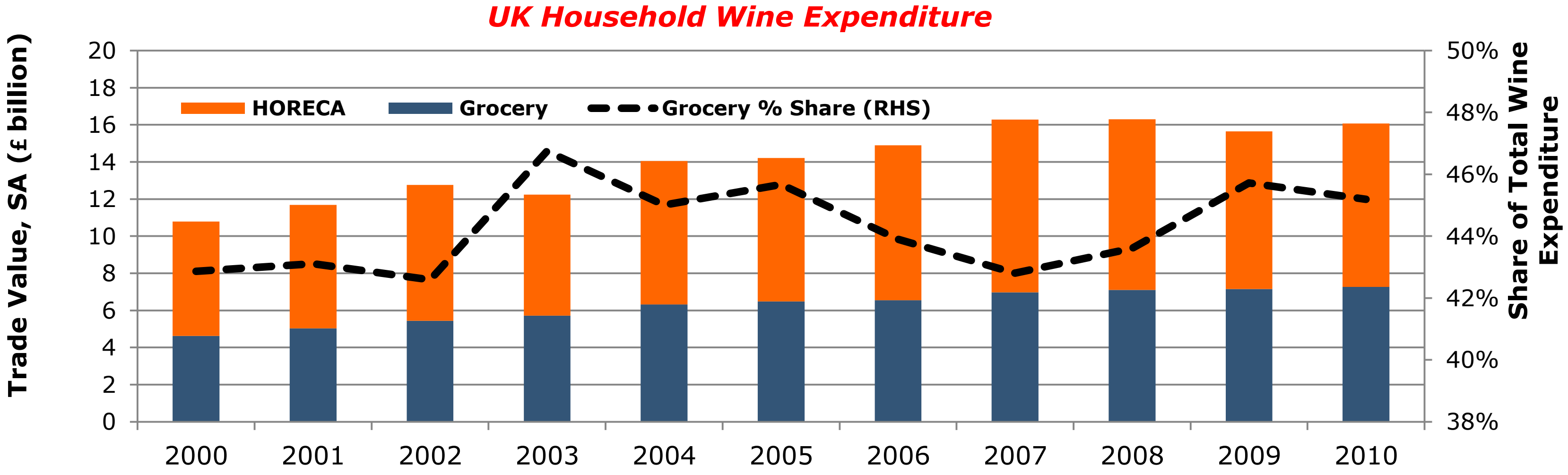
- **Market Movers: Volume change by Country 1999-2009**

➢ ***Chile +220%***
➢ ***US +168%***
➢ ***S. Africa +161%***
➢ ***Aust. +129%***
➢ *Spain +49%*
➢ *Italy +36%*
➢ *Germany -15%*
➢ *France -35%*

- ***Companies are looking for any means of margin improvement***

➢ *Bottling AUS wine in-market saves up to £1 per case in freight, duty & working capital expense*

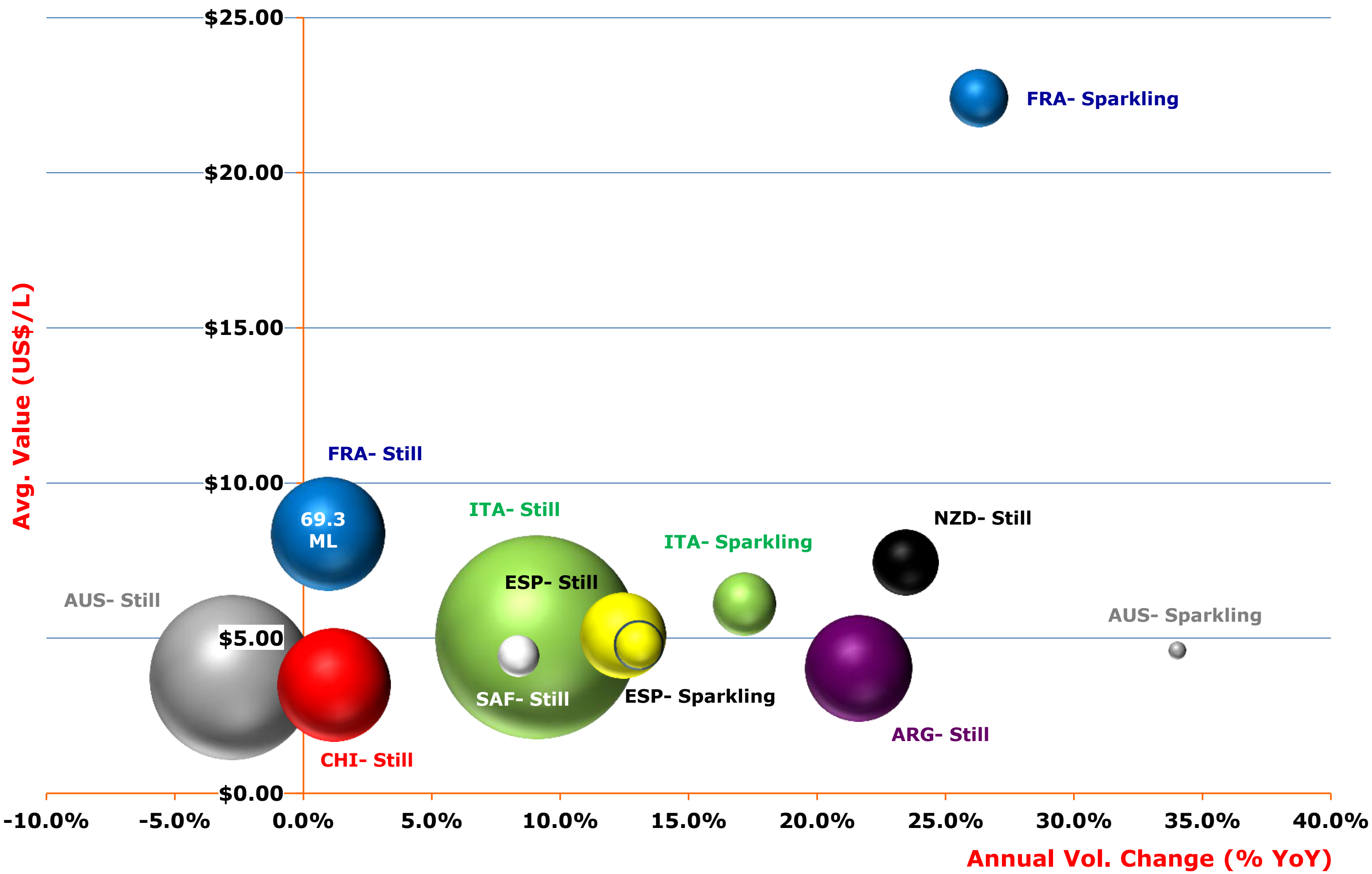




USA

2010 in review – Imported Bottled Wine

- ***Still bottled imports grew 7.3% by vol. / 4.2% by value***
  - *Pinot Grigio & Moscato were stand-outs*
- ***2011 Year to May import volume growth +7% by vol. / + 11% by value***
  - *ITA +16%/+21%*
  - *ESP +17%/+15%*
  - *AUS -13%/-17%*
  - *CHI +9%/+15%*
- ***California to…***
  - *US +7%*
  - *ROW +3% / 28%*



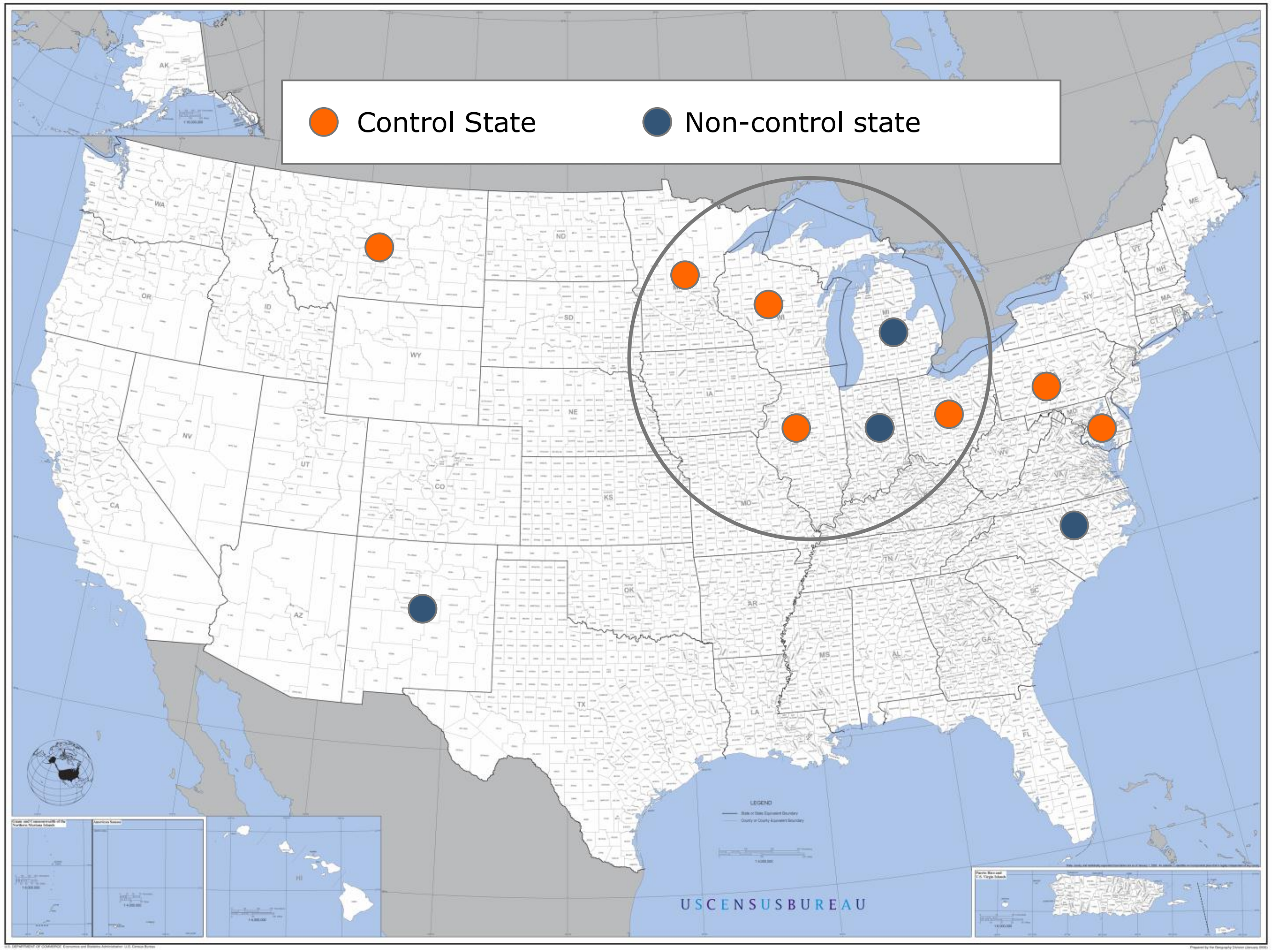
NB: Bubble size represents category size by volume

Source: Gomberg, Fredrikson & Assoc., 2011

USA

Where to next?

- ***Populous beer drinking 'Great Lakes' States***
  - *Illinois*
  - *Michigan*
  - *Wisconsin*
  - *Minnesota*
  - *Indiana*
  - *Ohio*
  - *Pennsylvania*
- ***Factors likely to delay cultural shift:***
  - *Depressed labour market*
  - *Limited southern European / Latin demographic*
  - *Lack of high profile tourist trade*



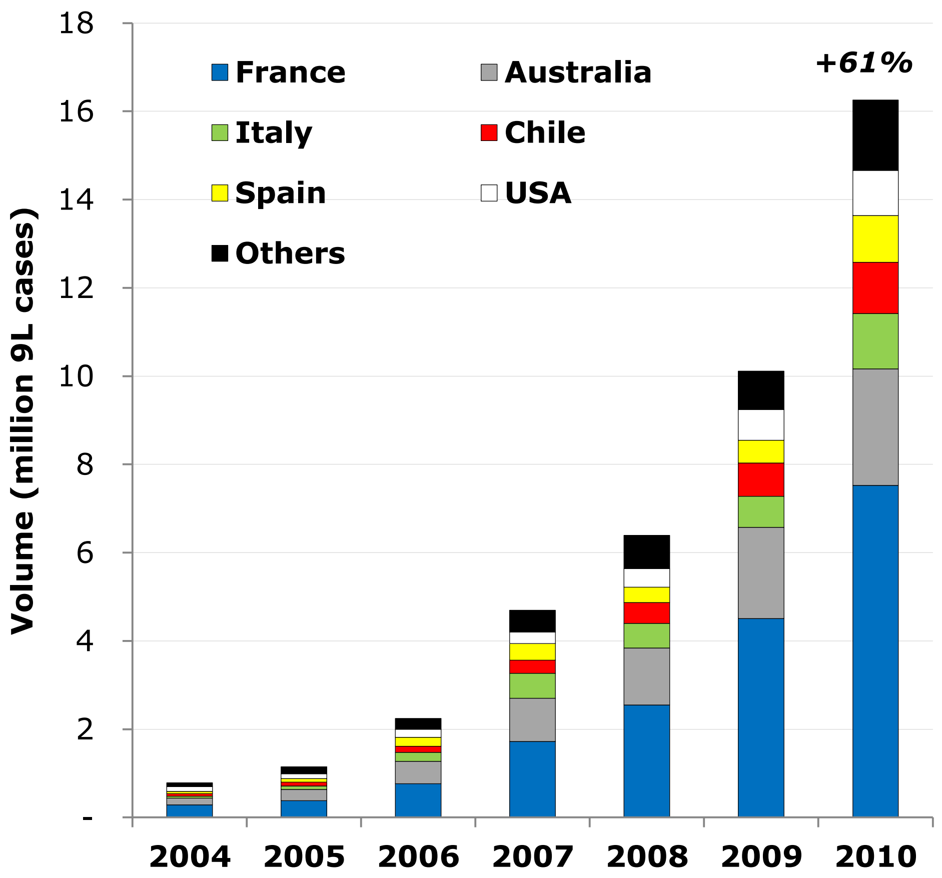
- ***States bordering existing high consumption States***

e.g.
  - *Montana (small)*
  - *New Mexico (small)*
  - *Maryland*
  - *North Carolina*

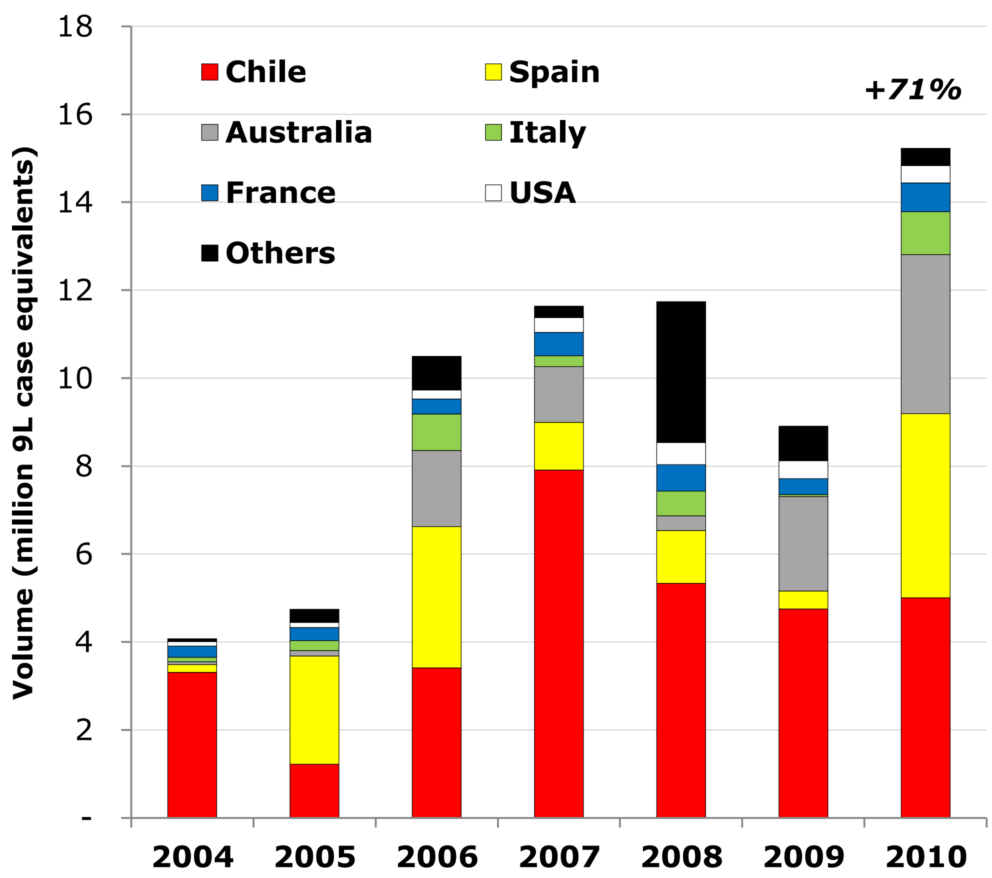
China

Australian exports grew 12% in volume & 29% in value during FY2011

Bottled Wine Imports



Bulk Wine Imports



Source: China Customs 2011

Rabobank International

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- Value Added Processing
- Farm Inputs
- Beverages
- Grains & Oilseeds
- Animal Protein
- Sugar, Cotton, Coffee, Cacao
- Dairy
- Clean Tech

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