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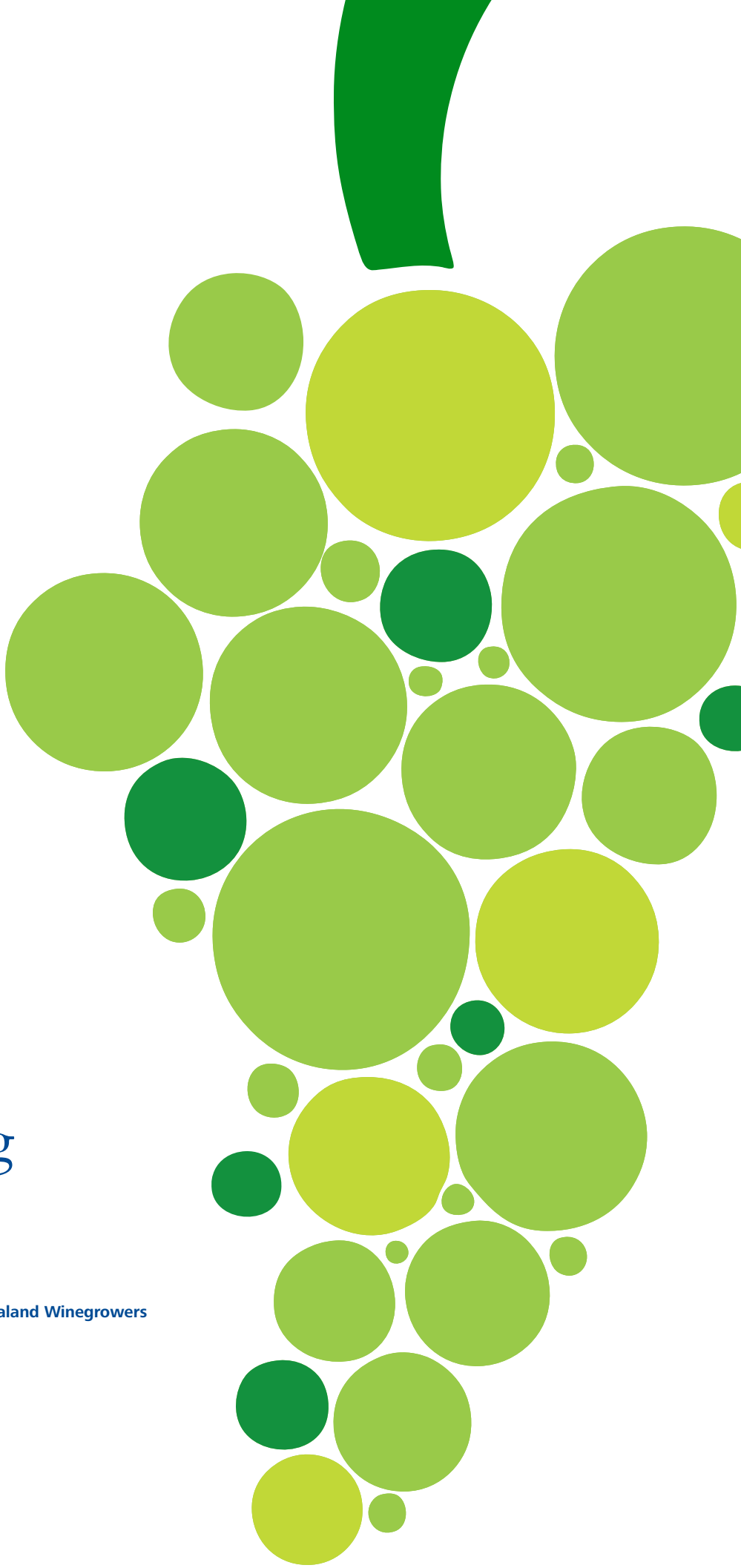

Vintage 2011
New Zealand wine industry benchmarking survey

Publication date: December 2011
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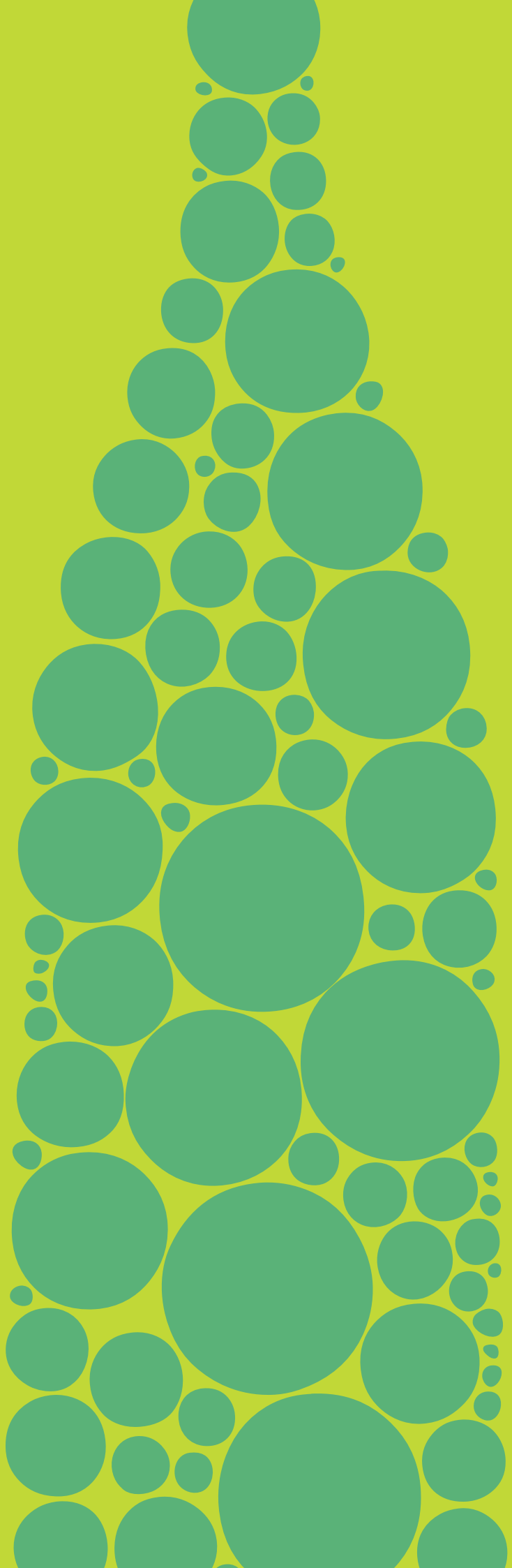
God made only water, but man made wine.

Victor Hugo, 1856



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Welcome

Deloitte is pleased, in conjunction with New Zealand Winegrowers, to present the results of the annual wine industry financial benchmarking survey. Vintage 2011 represents the sixth survey Deloitte has produced in New Zealand and we certainly value the relationship that we have established with New Zealand Winegrowers and its members through conducting the survey. The analysis of this year's results has proved to be as interesting as ever.

Media reports during 2011 have proclaimed that the issues that have affected past vintages, such as excess inventory levels, were beginning to disappear and that a level of positivity was returning to the industry. Therefore we were intrigued to see if this flowed through to the results of the survey. Though the number of participants in the past have been approximately 30% of the industry by export sales it was generally perceived, both by us and New Zealand Winegrowers, that the trends illustrated in past surveys have been indicative of those being experienced throughout the industry as a whole. We are pleased that respondent numbers this year are similar to prior years together with a large number of repeat participants and therefore consider the results will once again be indicative of how the industry is faring.

As always we would like to thank the respondents who provided this year's data. Without your willingness to take the time to complete the survey we would not be able to produce a report that provides the insights into the financial situation of the industry. Our initiative last year of supplying an individually tailored schedule to all participants comparing their results to their benchmark category was well received and accordingly we will be repeating this exercise this year.

Of course we acknowledge that there is still room to improve the survey. Feedback received at this year's Romeo Bragato conference was that the results were meaningful and useful but we feel significantly more analysis could be undertaken if participant numbers were higher. Therefore we would welcome any comments or suggestions that you consider would improve participation.

The wine industry is an important part of the New Zealand economy, and Deloitte is delighted to continue our involvement with the industry, both through the survey preparation and also serving New Zealand Winegrowers members where and when we can.

We look forward to our continued association and producing the survey for future vintages.

Paul Munro
Sponsoring Partner - Deloitte

New Zealand Winegrowers is the national organisation representing, promoting and researching the interests of over 1,700 grape growers and wineries throughout New Zealand. As such we are very pleased to continue our association with Deloitte in this the sixth annual financial benchmarking survey for wineries.

As all readers will be well aware times are tough for many business sectors in New Zealand. In wine, although export sales now total over $1.1 billion per annum, the continuing fallout from the Global Financial Crisis and our own supply imbalance in 2008 and 2009 mean wineries have needed to fight hard to improve their financial performance. While the supply/demand balance improved in 2010, the high New Zealand exchange rate made for a very challenging environment for many producers.

In this tough environment, quality information is a vital business tool that informs good decision making. This survey is an established part of the information landscape for wineries and for those associated with the industry.

New Zealand Winegrowers trusts you find this survey a relevant and highly informative business tool. We look forward to the future development of the survey and to strong winery participation in future years.

Philip Gregan
CEO – New Zealand Winegrowers

Executive summary

It would be fair to say most New Zealanders have some form of interest in the New Zealand wine industry, whether it is from being a consumer of the product, to being a supplier of products or services to industry participants, to being a grape grower or winery producing the inputs and/or finished product.

Accordingly most have some form of awareness of and therefore have an opinion on the issues that affect the industry; after all it is New Zealand's ninth largest export earner.

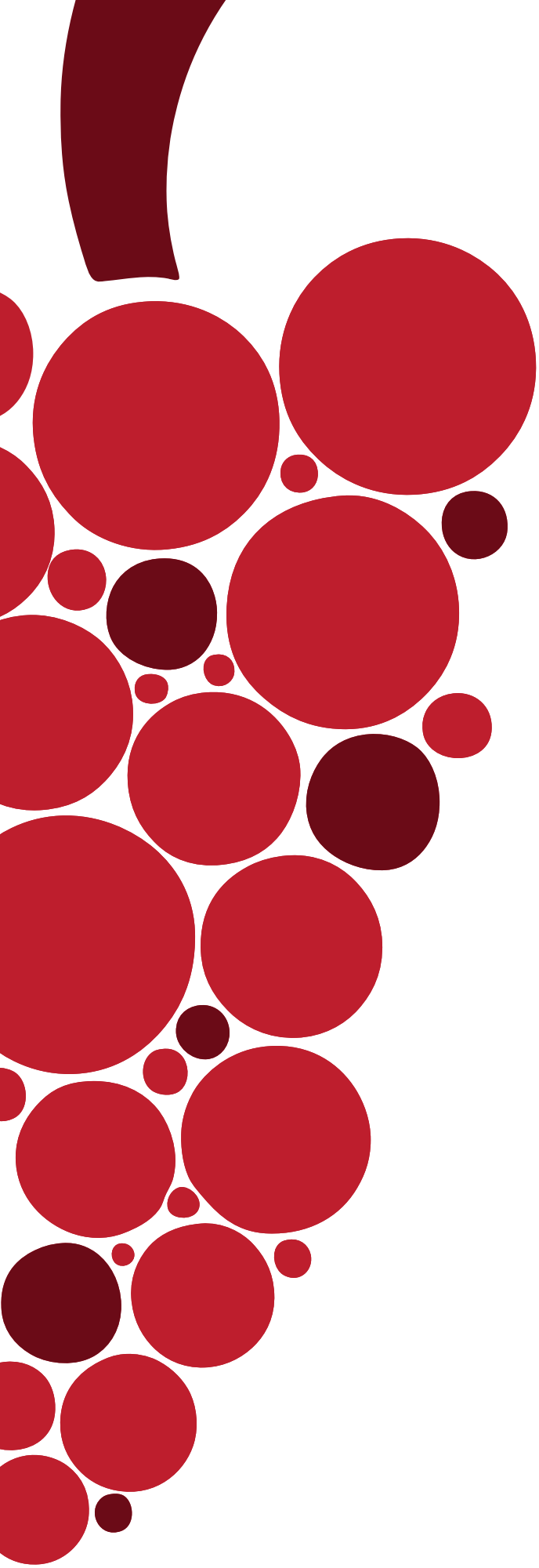
Various media reports following the record 2011 harvest referred to the increased harvest being necessary to support higher sales i.e. returning to a demand driven environment. This, if correct, is positive. Attendance at this year's Romeo Bragato Conference, New Zealand's pre-eminent wine industry conference, certainly suggested a hint of optimism around the resolution of some of the issues that had materialised within the industry over recent years.

The results of the sixth annual Deloitte New Zealand Winegrowers financial benchmarking survey, in some respects, supports signs of an industry turnaround. However, it would be fair to say that these aspects are still in the process of flowing through to producers and accordingly a number of wineries appear to still be struggling. As in past years we are not seeing significant financial volatility but we are still seeing trends that were present in past surveys of wineries being unable to make a profit, despite cutting costs and with relatively high inventory balances and debt levels.

This year we have been able to comment with a little more certainty on the state of the industry as we have collected two years of financial data from participants so that we could make direct comparisons year on year rather than just comparing to the previous surveys sample, as this often included different participants. The results of this are discussed in our movement analysis section later in the report but it does confirm a level of turnaround, as suggested above. The key highlight from the year on year comparisons is that all categories have improved their profitability from 2010 to 2011.

The number one overall issue this year, as rated by wineries, is foreign exchange management which is hardly surprising given the extreme fluctuations in the kiwi dollar in recent times. It is envisaged that very few, if any, wineries would have planned for a dollar at 85 cents US or 50 UK pence. As all New Zealand exporters know a high kiwi dollar impacts on the profitability of exports and the New Zealand wine industry is no exception.

Consistent with previous surveys and ultimately compounding the exchange rate issue is the fact that export sales continue to dominate sales by New Zealand wineries, with all categories having in excess of 50% of sales being generated from exports. This is pleasing to see, especially given the concerns around potential damage to New Zealand's premium brand through the export of bulk wine in recent years.



Deloitte perspective

Without a doubt the Vintage 2011 results do show signs of a turnaround but it is considered there is still a long way to go. It appears lingering effects of the supply imbalance still exist. In addition despite the reduction of costs, a number of wineries are still struggling to become profitable. Furthermore it is well known that high debt levels still exist within the industry and with reduced land values there has to be pressure on banking covenants.

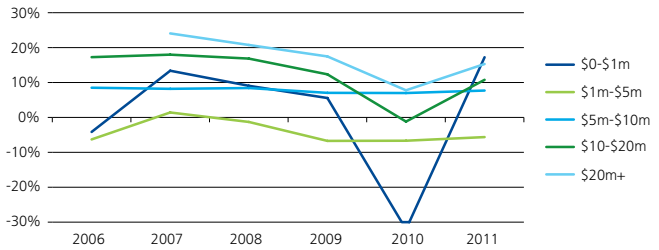
While it is the smaller wineries that appear to be struggling with profitability, certainly on an average basis, we know sustainable business models do exist throughout the spectrum of winery sizes. Interestingly this year however is the movement within the list of issues of "Access to capital" especially for the smallest and largest categories, moving to number three for both. We have predicted previously that consolidation within the industry would occur and we feel that the prominence of this issue could be related to this. It is assumed that the larger players are currently looking at acquisition opportunities for which they require capital, while the smaller players need capital to shore up their balance sheets to reduce debt and the pressure on banking covenants. Despite the pressure that exists it is pleasing to see that banks are not placing wineries into receivership on a grand scale to try and recover their loans. Given the significant decrease in land values, banks are aware that mass receiverships would be a fruitless exercise and potentially make the current situation worse. It is understood that banks prefer to work alongside their borrowers in an attempt to resolve the situation where possible.

Vintage 2011: Profitability summary

	Winery size (2011 revenue)				
Profitability	**$0-$1m**	**$1m-$5m**	**$5m-$10m**	**$10m-$20m**	**$20m+**
Net case sales revenue	72.9%	79.0%	88.0%	71.8%	92.5%
Add:					
Bulk wine sales - domestic	0.0%	3.0%	2.0%	1.1%	2.3%
Bulk wine sales - export	0.0%	1.6%	0.9%	19.8%	0.7%
Grape sales	17.4%	6.0%	0.5%	0.1%	0.5%
Merchandising revenue	0.0%	0.2%	0.1%	0.2%	0.0%
Contract winemaking revenue	0.0%	4.1%	2.1%	1.1%	1.1%
WET Rebate	8.8%	5.3%	2.7%	1.9%	0.8%
Other revenue	0.9%	0.8%	3.7%	4.0%	2.1%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of goods sold	(52.5%)	(65.4%)	(60.7%)	(66.7%)	(46.3%)
Gross margin	**47.5%**	**34.6%**	**39.3%**	**33.3%**	**53.7%**
Less:					
Selling Costs	(8.7%)	(11.4%)	(9.2%)	(8.7%)	(21.9%)
General & administration costs	(14.1%)	(15.8%)	(9.6%)	(6.2%)	(5.5%)
EBITDA	**24.6%**	**7.4%**	**20.6%**	**18.4%**	**26.2%**
Less: Depreciation and amortisation	(2.6%)	(6.4%)	(5.6%)	(3.8%)	(7.1%)
EBIT	**22.1%**	**1.1%**	**15.0%**	**14.6%**	**19.1%**
Less: Interest expense	(6.0%)	(7.1%)	(7.5%)	(4.8%)	(5.2%)
Add: Interest income	0.0%	0.4%	0.0%	0.4%	0.1%
Add: Other non-operating income	0.3%	0.3%	0.8%	0.6%	(0.7%)
Less: Shareholder salaries	0.2%	(0.7%)	(0.3%)	0.2%	(0.3%)
Add/(Less): Foreign exchange gain/(loss)	0.7%	0.4%	(0.3%)	0.1%	(0.5%)
Less: Inventory write-downs	0.0%	0.0%	(0.0%)	(0.3%)	2.9%
Profit / (Loss) before tax	**17.4%**	**(5.6%)**	**7.7%**	**10.8%**	**15.3%**

Note: Amounts in above table represent relative percentages of "Total revenue"

Profit / (Loss) before tax



$0-$1m category

- Comparing the results with last year's survey this category has demonstrated a significant improvement in profitability with a 17.4% profit, the highest of all the categories. A key reason is the absence this year of one winery from 2010 that made significant losses.

- The participants within this category this year have generated their revenue through primarily case sales (72.9%), grape sales (17.4%) and receiving the WET rebate (8.8%). Interestingly it appears that many of the smaller wineries have this year sold grapes rather than processing them and selling bulk wine, which could be an indication of an attempt to minimise costs (2010: Grapes 9.3%, Bulk Wine 8.5%).

- Cost of goods sold recorded are 52.5% generating a gross margin of 47.5%, broadly in line with the 50% level considered as required to be sustainable.
- Relatively low selling costs have been recorded but the administration costs at 14.1% are one of the highest of all 5 categories.

$1m-$5m category

- This category has also made a slight improvement this year when compared to last year's survey results but is also still in a loss making position at 5.6% loss, effectively the sixth consecutive year of losses.
- Though this category has made financial losses they have achieved a cash breakeven position before capital expenditure (as depreciation, a non cash cost, is similar to the overall financial loss recorded).
- The $1m-$5m category has a wider spread of income sources than the smallest wineries including bulk wine sales and contract wine making revenue as well as 5.3% of income being made up by the WET rebate.
- High cost of goods sold means a lower gross margin has been recorded than the sustainable level.
- With the exception of the largest wineries this category has the largest amount spent on selling expenses at 11.4%. It also has a significant amount spent on administration expenses.

$5m-$10m category

- The $5m-$10m category has recorded an average profit before tax of 7.7%, a slight improvement on last year's profit of 7.0% and generally consistent with prior years.
- 88% of revenue is generated from case sales, with the balance coming from a range of alternative sources including bulk wine sales, grape sales, WET rebate, and other revenue.
- This category also has a gross margin lower than 40% but with relatively low selling and administration costs records an EBITDA of 20.6%, demonstrating the benefits of economies of scale that come into play as size increases.
- The highest interest expense at 7.5% combined with 5.6% depreciation are the main contributors to the 7.7% profit before tax.

$10m-$20m category

- Reflecting its size, this category has the second largest average profitability of the five categories at 10.8%, a significant improvement on last year's blip on historical trends of consistent profitability.
- The profitability recorded is despite the largest average cost of goods sold percentage.
- The lowest selling costs recorded and, consistent with its size, the second lowest administration costs together with the lowest interest expense and lower depreciation, ensures that a profit is achieved.

$20m+ category

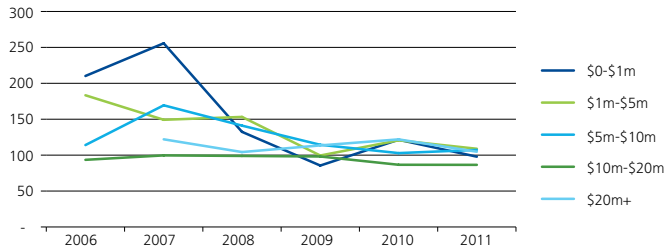
- Unchanged from historic surveys, this category remains profitable at 15.3%, an improvement from the 2010 survey of 7.8%.
- A gross margin of above 50% sets this category up to be able to incur substantially greater selling expenses at 21.9%.
- At 5.2% this category has the second lowest interest expense reflecting a lower reliance on debt funding.


Image © Carrick

Key financial ratios

Key Financial Ratios	Winery size (2011 revenue)				
	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Cases sold	**2,883**	**19,389**	**62,184**	**106,877**	**763,426**
Revenues and expenses per case					
Revenue per case	$98.09	$108.86	$107.29	$86.47	$104.77
Gross margin per case	$63.87	$47.66	$47.95	$40.09	$60.79
Profit / (loss) per case	$23.39	$(7.76)	$9.38	$12.98	$17.33
Selling expenses per case	$11.74	$15.66	$11.16	$10.54	$24.85
Overhead expenses per case	$3.62	$9.80	$4.49	$5.75	$4.72
Packaging cost per case	$16.44	$12.60	$13.04	$9.71	$9.42
Solvency ratios					
Current Ratio	169.5%	418.1%	308.1%	387.7%	288.6%
Debtors / Sales	32.8%	21.3%	12.9%	20.4%	17.5%
Debt to equity ratio	NMR	72.6%	70.5%	46.0%	79.2%
Interest cover ratio	369.9%	15.3%	199.1%	305.7%	368.7%
Debt to total tangible assets	96.4%	46.7%	53.6%	36.3%	52.8%
Efficiency ratios					
Inventory turnover	100.8%	98.1%	79.6%	192.8%	122.3%
Fixed Asset turnover	436.1%	57.5%	55.7%	66.8%	85.6%
Asset turnover	80.0%	34.1%	34.5%	42.8%	55.6%
Profitability ratios					
EBIT margin (average)	22.1%	1.1%	15.0%	14.6%	19.1%
EBIT to assets (average)	17.7%	0.4%	5.2%	6.2%	10.6%
EBT to equity (average)	NMR	(3.5%)	5.5%	7.2%	17.6%
EBT to net case sales (average)	23.8%	(7.1%)	8.7%	15.0%	16.5%

$ Case sales revenue
per case



Revenue per case

- Consistent with our prior surveys we have yet again seen a narrowing of the revenue per case earned by wineries. In fact three of the five categories have recorded revenue per case between $104 and $109. The $10m-$20m category is the one outlier with revenue per case of $86.47, which is in line with last year's results. The $0-$1m category sits at $98.09.
- This year, with the exception of the $0-$1m and the $10m-$20m categories, we have seen a decline in the revenue per case generated as winery size increased, corresponding with the expectation that the smaller wineries focus on producing a higher price boutique style product. The $0-$1m category is impacted by a couple of wineries that are still establishing their operations so brand presence will still be being built.

- It is unclear why the $10m-$20m category produces the results it does however we have witnessed a steady decline in average revenue per case for this category over the time the survey has been running.

Gross margin per case

- This year we have also witnessed a narrowing in the gross margin per case recorded with the dollar variation between the categories being only $24 this year.
- In addition as the graph illustrates four of the five categories have improved their gross margin per case this year.

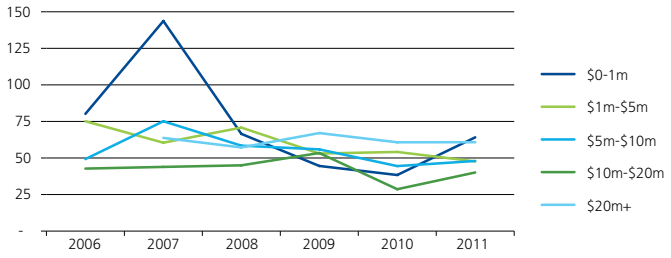
Profit / (loss) per case

- The graph illustrates an improvement in profit / (loss) per case for all wineries however the $1m-$5m category is still in a loss making position.
- The $10m-$20m category has returned to profitability this year, back to similar levels recorded in past surveys and highlighting that the larger wineries generally exhibit more stability and profitability.
  The $0-$1m category has also returned to profitability this year, some of which could be attributed to the mix of participants. It has also been commented in past years that the profitability within this category is often due to the presence of working owners not being compensated fully for the time they invest and the survey responses appear to confirm this.
- The $1m-$5m category has only managed to achieve results above breakeven in one of the previous vintage surveys that we have undertaken (a small profit in 2007). It appears that cost reductions have been made where possible and therefore other possible initiatives may now need to be investigated to reverse these trends and generate a more sustainable business model.

Selling expenses per case

- A definite reduction in the selling expenses per case is witnessed in this year's survey. The $20m+ category has tended to maintain its level of spending on selling expenses at $24.85 but all other categories are between $10 and $16.
- Historically the $0-$1m has incurred selling expenses at levels similar to the $20m+ category and the mid tier wineries have been up as high as $20 per case.

$ Gross margin
per case



$ Profit / (loss) before tax
per case

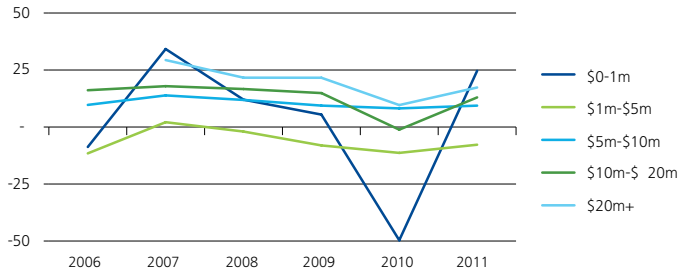



Image © Spy Valley Wines

Overhead expenses per case

- Generally the trend holds that as wineries increase in size economies of scale exist to reduce overhead expenses, however we have witnessed some fluctuation this year amongst the categories.

Packaging cost per case

- Again the benefits of economies of scale are illustrated here with reducing packaging costs as winery size increases, a trend that has been illustrated in every survey to date.
- Interestingly this year we have seen a reduction in the packaging costs per case across all five categories. It is assumed given the pressure on price margins being experienced that wineries have done their best to minimise costs in this area as much as possible.

Current ratio

- The current ratio is calculated as the current assets divided by the current liabilities. If the current ratio is above 200% ($2 current assets for every $1 current liability) then the company is considered to have good short term financial liquidity (depending on the proportion of current assets held in inventory).
- The current ratio recorded (including inventory) appears strong for the four largest categories, however, the liquidity of inventory is unknown, especially for some of the smaller wineries.
- Recalculating the ratio using the more liquid assets of cash and receivables (therefore excluding inventory and other current assets) with current liabilities gives a very different picture, with two of the categories ($0-$1m and $5m-$10m) being unable to cover their current liabilities.

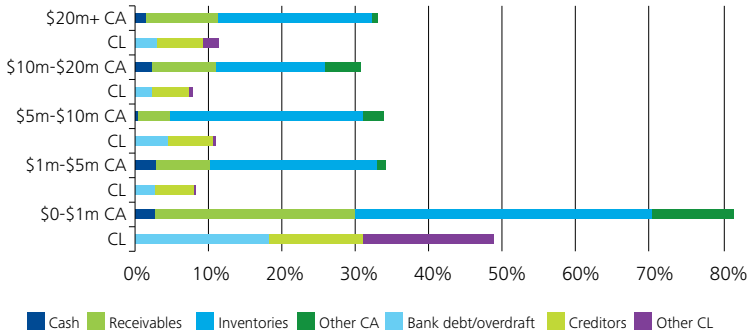
Debt to equity ratio

- The debt to equity ratio is a common lending covenant, with lenders typically requiring more equity than debt – that is a ratio of 60% to 100% maximum.
- This year's results range from 46.0% for the $10m-$20m category up to 79.2% for the $20m+ category, which appear quite reasonable given some of the results from prior years.
- The debt to total tangible assets ratio remains fairly consistent with last year, broadly sitting around the 50% mark, with the exception of the $0-$1m category. This implies that should tangible assets be sold they would more than cover the debts of the winery. When considering this however one needs to consider that while debt levels are relatively easy to determine accurately, asset values (land, buildings, inventory) are somewhat harder given they are impacted by open market fluctuations and land value reductions which may not have been reflected in the historic cost financial statements. Interestingly given the high level of debt the $0-$1m category is closer to 100% ($1 of assets to every $1 of debt).

Interest cover ratio

- Interest cover is calculated as earnings before interest and tax divided by the interest expense. This reflects the ability of the business to meet interest obligations. This is a standard measure in banking covenants, typically requiring a level of more than 200% to 300% to be maintained.
- This year the $0-$1m and three larger winery categories all satisfy this criterion, with the $0-$1m recording 370%, $5m-$10m recording 199%, $10m-$20m recording 306% and the $20m+ category 369%.

Current assets and liabilities 2011



- In comparison the $1m-$5m category is languishing at 15% illustrating the lack of profitability to cover interest payments within this category.
- Implied interest rates have been calculated by taking the interest expense divided by the total interest bearing debt. The range calculated this year ranged from 6.1% to 7.8% which appears reasonable given current market rates.

Inventory turnover ratio

- The inventory turnover ratio is calculated as the cost of goods sold divided by the closing inventory figure in the balance sheet. This measure indicates the number of times that inventory has been turned over in the year. An inventory turnover figure of less than 100% indicates increasing inventory levels. Wineries would be expected to have inventory turnover below 100% during periods of increased production as some of the wine produced will be held in inventory for ageing.
- The smallest and the two largest categories have recorded inventory turnovers of greater than 100% this year, indicating stock is not being accumulated, rather that they have sold down opening stock levels. This corresponds with media reports that inventory levels had been sold down due to increasing demand and cash flow pressures.
- The other two categories have lower inventory turnovers at 98.1% ($1m-$5m) and 79.6% ($5m-$10m) illustrating a build up of stock.

Profit before tax to equity ratio

- This ratio represents the return on an owner's investment.
- The three larger winery categories have all recorded positive returns for investors however only the $20m+ category has generated a double digit return at 17.6%. It is considered the returns the other categories are generating would not be acceptable to investors. Due to the very low equity level the calculation for $0-$1m category does not produce a meaningful result.

Income statement

	Winery size (2011 revenue)				
Income Statement	**$0-$1m**	**$1m-$5m**	**$5m-$10m**	**$10m-$20m**	**$20m+**
Revenue and gross margin					
Gross case sales	72.9%	79.4%	88.1%	73.8%	92.5%
Less:					
Returns and cash discounts	0.0%	(0.4%)	(0.1%)	(2.0%)	(0.0%)
Net case sales revenue	**72.9%**	**79.0%**	**88.0%**	**71.8%**	**92.5%**
Plus other operating revenue					
Bulk wine sales - domestic	0.0%	3.0%	2.0%	1.1%	2.3%
Bulk wine sales - export	0.0%	1.6%	0.9%	19.8%	0.7%
Grape sales	17.4%	6.0%	0.5%	0.1%	0.5%
Merchandising revenue	0.0%	0.2%	0.1%	0.2%	0.0%
Contract winemaking revenue	0.0%	4.1%	2.1%	1.1%	1.1%
WET Rebate	8.8%	5.3%	2.7%	1.9%	0.8%
Other revenue	0.9%	0.8%	3.7%	4.0%	2.1%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less cost of goods sold:					
Grapes	(15.6%)	(10.7%)	(13.1%)	(4.4%)	(9.4%)
Bulk wine	(11.7%)	(1.3%)	(9.6%)	(19.7%)	(1.8%)
Vineyard supplies	(2.3%)	(3.2%)	(5.3%)	(5.6%)	(3.0%)
Vineyard labour	(4.8%)	(8.4%)	(4.5%)	(3.1%)	(3.0%)
Winemaking supplies	(3.1%)	(3.0%)	(1.2%)	(3.4%)	(3.9%)
Winemaking labour	(0.2%)	(4.2%)	(3.3%)	(2.2%)	(2.2%)
Bottling	(13.0%)	(9.1%)	(1.8%)	(2.8%)	(2.2%)
Packaging	(12.2%)	(9.1%)	(10.7%)	(8.1%)	(8.3%)
Direct and indirect labour	0.0%	(1.0%)	(1.6%)	(0.4%)	(0.3%)
Excise tax	(0.5%)	(6.1%)	(6.1%)	(7.3%)	(6.5%)
Overheads	(2.7%)	(7.1%)	(3.7%)	(4.8%)	(4.2%)
Other	(1.1%)	1.2%	(0.1%)	(3.8%)	(0.2%)
Distribution (including freight)	(2.2%)	(3.7%)	(2.7%)	(1.8%)	(1.7%)
Stock movement	16.8%	0.3%	3.0%	0.7%	0.4%
Total cost of goods sold	**(52.5%)**	**(65.4%)**	**(60.7%)**	**(66.7%)**	**(46.3%)**
Gross Margin	**47.5%**	**34.6%**	**39.3%**	**33.3%**	**53.7%**
Less sales and marketing expenses					
Compensation sales expenses					
Sales and marketing salaries	0.0%	(4.1%)	(3.0%)	(2.7%)	(5.3%)
Cellar door salaries	0.0%	(0.6%)	(1.1%)	(0.9%)	(0.0%)
Other sales expenses					
Advertising	(4.6%)	(3.1%)	(3.1%)	(0.7%)	(14.6%)
Travel and entertainment	(3.7%)	(1.9%)	(1.3%)	(0.8%)	(0.6%)
Other	(0.4%)	(1.7%)	(0.7%)	(3.6%)	(1.5%)
Total sales and marketing expenses	**(8.7%)**	**(11.4%)**	**(9.2%)**	**(8.7%)**	**(21.9%)**
Less general and administration expenses					
Finance/accounting/legal/professional	(2.7%)	(2.1%)	(3.4%)	(2.2%)	(0.8%)
ALAC levies	(0.5%)	(0.1%)	(0.1%)	(0.4%)	(0.1%)
Other general and administration expenses	(9.6%)	(9.5%)	(4.4%)	(2.8%)	(4.2%)
Rent/utilities/rates	(1.2%)	(4.1%)	(1.7%)	(0.8%)	(0.4%)
Total general and administration expenses	**(14.1%)**	**(15.8%)**	**(9.6%)**	**(6.2%)**	**(5.5%)**
EBITDA	**24.6%**	**7.4%**	**20.6%**	**18.4%**	**26.2%**
Depreciation and amortisation	(2.6%)	(6.4%)	(5.6%)	(3.8%)	(7.1%)
EBIT	**22.1%**	**1.1%**	**15.0%**	**14.6%**	**19.1%**
Interest expense	(6.0%)	(7.1%)	(7.5%)	(4.8%)	(5.2%)
Interest income	0.0%	0.4%	0.0%	0.4%	0.1%
Other non-operating income	0.3%	0.3%	0.8%	0.6%	(0.7%)
Shareholder salaries	0.2%	(0.7%)	(0.3%)	0.2%	(0.3%)
Foreign exchange gain/loss	0.7%	0.4%	(0.3%)	0.1%	(0.5%)
Inventory write-downs	0.0%	0.0%	(0.0%)	(0.3%)	2.9%
Profit/(loss) before tax	**17.4%**	**(5.6%)**	**7.7%**	**10.8%**	**15.3%**

Note: Amounts in above table represent relative percentages of "Total Revenue"

Income Statement commentary

- The survey results this year are broadly in line with Vintage 2010 when it comes to the revenue split between case sales and other revenue. The three larger categories generally generate a higher proportion of their revenue from case sales. We note the survey results show the $10m-$20m category has only generated 71.8% of revenue from net case sales but this category is impacted by the inclusion of one participant that solely exports bulk wine. Removing this outlier returns this categories percentage to 87.7%, more in line with the two other large categories and last year's results.
- The $0-$1m and $1m-$5m categories generate less than 80% of their total revenue from net case sales at 72.9% and 79% respectively. The balance of revenue tends to be made up of grape sales, and WET rebates for the $0-$1m category, as well as bulk wine and contract wine making revenue for the $1m-$5m category. The lower selling price for grapes and bulk wine, compared to case sales, would be a key contributor to the lower profitability for these wineries.
- Sales of bulk wine generally again does not feature as a large contributor to revenue for this year's participants. As mentioned above the $10m-$20m category shows a large percentage of bulk wine but this is due to just one participant whose business is wine exporting and when this is removed the bulk wine percentage reduces to 3.2%.
- As discussed in previous surveys it is generally regarded that a gross margin of 50% is required for a winery business to be sustainable. Cost of goods sold recorded is high, exceeding 60% for all categories except the smallest and largest categories, meaning the other three categories do not achieve a 50% gross margin.
- The $5m-$10m and $10m-$20m categories do manage to record profits in the current year despite the lower gross margins recorded through reduced selling and administrative expenses. Interestingly only the $20m+ category has selling expenses exceeding 15% (at 22%) and this category is one of the most profitable. It is expected that other wineries have reduced their selling expenses in order to remain profitable. The profitability of the $0-$1m category can be attributed to working owners performing roles and not taking a market salary for the work they perform.
- Interest expense will also have been affected by the participant mix this year however in general we have seen a slight reduction in the percentage of revenue that is consumed by interest. The $0-$1m category is the largest mover which is positive as last year's level of 14.5% would be unsustainable.

Deloitte perspective:

The results this year show a general reduction in selling expenses and in particular advertising costs. It is assumed that this is an attempt to reduce discretionary costs in order to maintain profitability. While this makes good sense from a financial perspective it is questioned if ongoing damage could be being caused by reducing selling expenses and a lack of advertising. Advertising spend needs to be carefully managed and spent wisely but it is essential that wineries are promoting themselves appropriately.


Image © Villa Maria Estate Ltd

Balance sheet

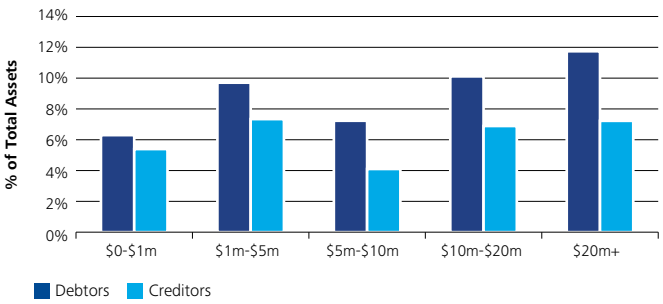
	Winery size (2011 revenue)				
Balance Sheet	**$0-$1m**	**$1m-$5m**	**$5m-$10m**	**$10m-$20m**	**$20m+**
Assets					
Current assets					
Cash	2.7%	2.9%	0.4%	2.3%	1.6%
Receivables	26.2%	7.3%	4.4%	8.7%	9.7%
Inventories	41.7%	22.7%	26.3%	14.8%	21.0%
Other current assets	10.8%	1.2%	2.7%	4.8%	0.7%
Total current assets	**81.3%**	**34.1%**	**33.9%**	**30.7%**	**33.0%**
Non current assets					
Land	0.0%	22.6%	17.7%	26.5%	18.8%
Vineyards	15.3%	12.9%	21.3%	18.2%	18.2%
Buildings and improvements	0.4%	13.3%	13.6%	12.9%	8.7%
Winemaking equipment	0.0%	9.2%	9.0%	5.8%	18.9%
Vehicles	2.6%	1.0%	0.3%	0.6%	0.2%
Office equipment	0.1%	0.3%	0.1%	0.1%	0.2%
Total net fixed assets	**18.3%**	**59.3%**	**62.0%**	**64.0%**	**64.9%**
Purchased goodwill and other intangible assets	0.0%	3.1%	1.9%	1.4%	1.8%
Investments	0.3%	3.5%	0.9%	3.9%	0.2%
Deferred Tax Assets	0.0%	0.0%	1.4%	0.0%	0.0%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Current liabilities					
Bank debt/overdraft	18.2%	2.7%	4.5%	2.4%	3.0%
Provisions (incl. income tax, annual leave)	16.6%	0.1%	0.4%	0.5%	2.1%
Trade payables and accruals	13.2%	5.3%	6.1%	5.0%	6.3%
Total current liabilities	**48.0%**	**8.2%**	**11.0%**	**7.9%**	**11.4%**
Long term debt	43.3%	37.0%	29.4%	27.1%	35.1%
Non-current provisions	1.2%	0.0%	0.0%	0.0%	0.0%
Deferred tax liabilities	0.0%	0.0%	0.0%	0.8%	5.0%
Other long term liabilities	4.0%	0.1%	11.4%	0.0%	0.3%
Total liabilities	**96.4%**	**45.2%**	**51.8%**	**35.8%**	**51.8%**
Equity (incl. Capital, retained profits and reserves)	3.6%	44.0%	19.9%	51.7%	47.7%
Shareholder loans	0.0%	10.7%	28.3%	12.5%	0.4%
Total Equity	**3.6%**	**54.8%**	**48.2%**	**64.2%**	**48.2%**
Total liabilities + equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

Note: Amounts in above table represent relative percentages of "Total assets"

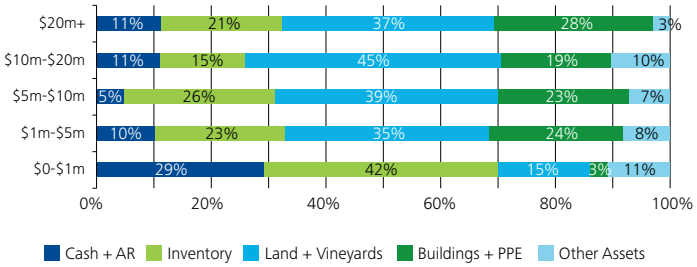
Balance Sheet commentary

- Receivables as a percentage of total assets reduced compared to last year's average for all categories except for the $0-$1m category. Given current market conditions it is considered this indicates a tightening of wineries debtor policies.
- Creditors as a percentage of total assets has also reduced compared to last year's figures for all winery sizes except for the $0-$1m and $5-$10m categories. This implies wineries are being pro-active in settling accounts with their suppliers or are just not spending money unnecessarily.
- As indicated in the Debtors vs. Creditors graph below, debtors are higher than creditors for all categories illustrating wineries are net providers of debt. Including inventory into this mix would generate a significant net working capital requirement.
- Inventory as a percentage of total assets has remained broadly in line for the $0-$1m category, decreased for the $1m-$5m category, increased for the $5m-$10m category and decreased for the largest two, which ties into the comments on inventory turnover in the key financial ratios section. Inventory for the smallest category is the most valuable asset on the balance sheet, as indicated in the Asset Summary graph.
- Vineyard value to total assets has fluctuated for survey participants when compared to last year's survey, as has land value. In each case (vineyard and land) we are seeing three categories with increases and two with decreases however the categories do not correspond.
- The debt position of the wineries this year has generally increased for smaller wineries and decreased slightly for the two largest categories.
- The smallest category has very low average equity at 3.6% which is considerably lower than the remaining categories. It is considered that this may be due to the inclusion of some shareholder loans in debt rather than shareholder funds.

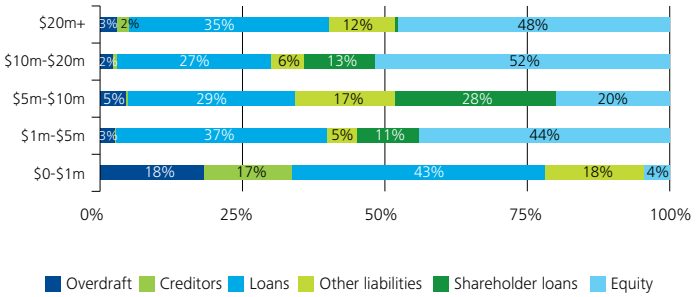
Debtors vs Creditors 2011



Asset Summary 2011



Funding Summary 2011



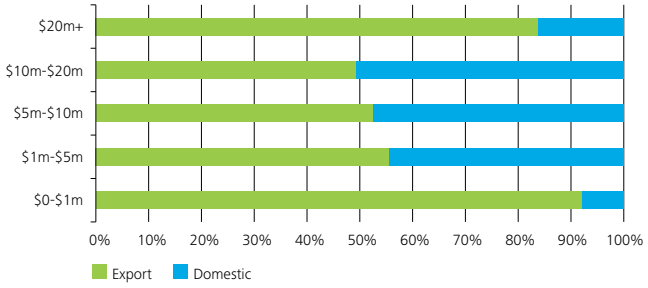
Deloitte perspective:

- It is interesting to note that inventory levels for the smaller wineries have broadly remained consistent year on year whereas three of the other four categories have decreased. Media reports state that a larger harvest was required to ensure sufficient stock would be held to meet current sales. Given the trend with inventory levels it potentially illustrates that the larger wineries have a more certain market for selling their inventory, which is backed up by the higher inventory turnover ratios recorded. It is questioned therefore whether the large harvest for Vintage 2011 could again create issues for smaller wineries, especially given that this year a proportion of their revenue came from grape sales, indicating that they may not have markets to sell additional wine if it was produced.
- The decline in vineyard values that has occurred in recent years has continued over the past 12 months. While certainly a concern to financiers who hold this land as security for the outstanding debts it has to be also a concern for the land owners. Significant amounts of capital have been invested into land and vineyards and current market values in many cases will be lower than the amount invested. Vineyard sales, particularly in Marlborough where there are significant numbers on the market, are slow and prices are low, in some cases less than half the value of when the market was at its peak. This almost certainly illustrates that asset values could be overstated in winery balance sheets which would place even more pressure on banking covenants if revaluations occurred, especially as we note 65% of respondents have their vineyards valued at cost.

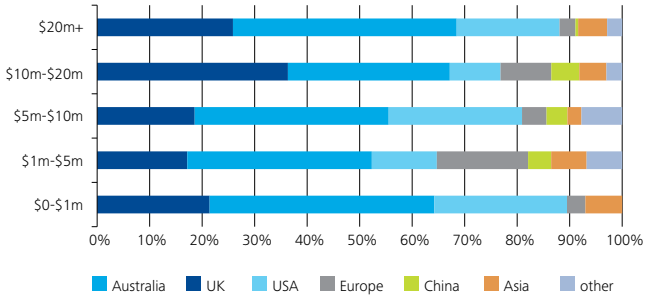
Distribution and sales

- As the graph illustrates exporting remains a very important distribution channel for all winery categories, with all sitting at approximately 50% or higher on a dollar value basis. The $10m-$20m category has the lowest percentage of exports at 49% and the smallest and largest categories have the highest percentage of exports at 92% and 84% respectively. A consistent trend exists on a case sales basis with all wineries having greater than 57% of case sales being exported.
- The export sales destination graph shows the continuing importance of New Zealand's traditional wine trading partners of Australia, the UK and USA and to a lesser extent Europe with over 80% of all the categories export case sales being transacted in these markets. The general trend exists that as winery size increases the total percentage sold into these four markets increases, although the proportions in each vary greatly.
- Interestingly all categories have an export presence in Asia and/or China, ranging from 6% to 11% when both regions are taken into account. As it's the first year of collecting this level of data we are unable to compare with earlier surveys however we would expect these regions to grow in importance in the future.
- In regards to domestic sales the chart illustrates the channels utilised by participants. Consistent with prior years, and as would be expected, the wholesale/distribution channel remains the most important domestic channel. Cellar door sales also remains important, especially for the smaller wineries, however, even the $20m+ category has sales through this channel. Website and/or mail order sales are very low for all categories but pretty much non-existent for the smallest and largest categories.

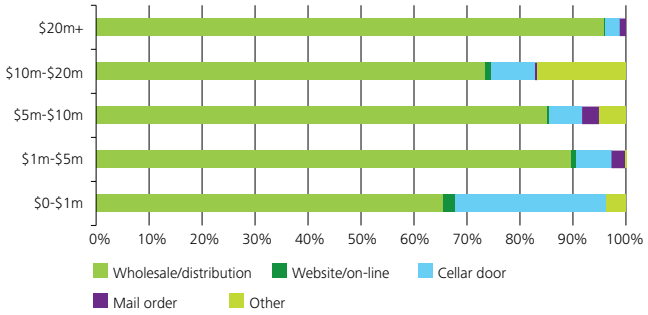
Distribution Channel



Export Sales Destination



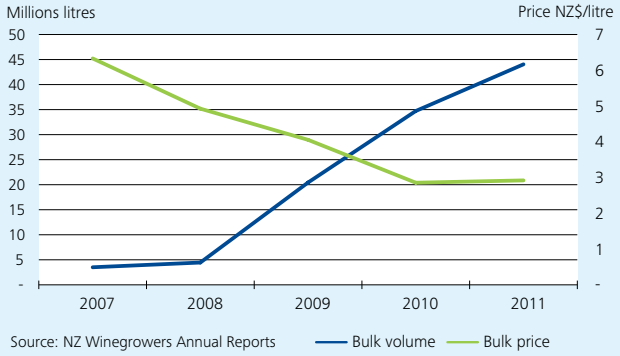
Distribution Channel 2011 (Domestic Sales)



Deloitte perspective

- Exports continue to be the leading distribution channel for wineries within all categories for case sales. Add to this the fact that bulk wine sales are predominantly export based shows the popularity of New Zealand wine on the world stage but also illustrates the conundrum that exists within the New Zealand industry around the impacts of case wine versus bulk wine.
- For case sales to continue growing New Zealand's premium branding needs to be maintained. We know bulk wine is here to stay but we clearly believe that its ongoing impact needs to be carefully managed going forward, especially given the potential for harvest levels to increase further in the future. We would anticipate that this would be addressed in the NZW strategy document that will be released later this year.

Bulk wine trends



- Over the years, Deloitte has studied the behaviour of New Zealand SMEs as they seek to make their way in many export markets. A lot of this thinking was condensed down to the "Five Cs" that were the core of some research done on behalf of NZTE, where we were asked to identify the characteristics of New Zealand businesses that had successfully established an Australasian presence. The "Five Cs" were:
  - Clarity (the business had to have a clear view of what success and failure looked like before it attempted the process);
  - Capability (the research indicated that successful businesses had either employed a CEO-level person to be permanently in market, or had a CEO who was willing to spend a serious amount of their time in the market);
  - Commitment (it always took longer than people thought – in the case of those building an Australasian model, the average was 3 years of investment before it was a self-sustaining proposition);
  - Connections (to qualify as a valid connection, the person had to be at the right level, in the right target sector, at the right time, and with the right orientation towards New Zealand business in general and your business in particular), and
  - Cash (the study found that most businesses needed $1m in order to meet all the other Cs).

We would now like to propose that there is yet another 'C' that has to be considered if our SMEs are to succeed offshore in an increasingly uncertain and competitive world. That C is Collaboration. We believe that this is true across all sectors of the New Zealand economy, but it is unarguable in the primary sector. With the exception of Fonterra, our primary sector businesses are small to micro-sized in a global context – yet they are seeking to supply buyers whose scale is significant in that same global context. When we worked on the New Zealand Horticulture Strategy, one of the cornerstones for the recommendations was the need to create scale, or proxies for scale. We did not propose any sophisticated models for this – rather, in the words of one of those interviewed as part of the strategy development process, we wanted to encourage "the coming together of like-minded individuals with a shared target". In the development of the Red Meat Sector Strategy, we had a similar plea – we sought better in-market behaviour.

If wine demand in China is going to continue to grow in the manner forecast by some observers (and demand for NZ wine in general), there is no question in our mind that behaviour within New Zealand will have to change if we are to get our fair share of the growth at reasonable margins. Therefore whichever way we look at it, that means finding better collaborative models – sometimes, dare we say it, with major international suppliers who already have secure channels to market. Sharing, and learning to piggy-back, are models we have got to get better at. It is good to see some of these models have started to appear already for the wine industry, especially targeting the US market.

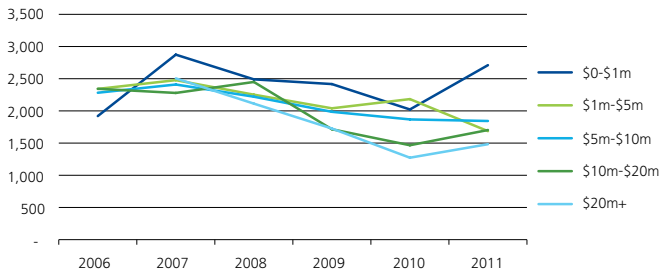
Production

Production	Winery size (2011 revenue)				
	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Tonnes of grapes crushed					
Own grapes	21%	47%	47%	60%	45%
Purchased grapes	79%	40%	37%	20%	48%
Contract processed (by you for others)	0%	13%	16%	20%	7%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total crushed at your facilities (tonnes)	37	335	1,033	1,980	12,214
Utilisation (actual crush versus maximum crush)	50%	80%	82%	90%	120%
Grape and bulk wine supply					
Cost of grapes per tonne	$2,710	$1,686	$1,843	$1,703	$1,483
Cost of bulk wine per litre	$7.79	$2.84	$7.55	$3.82	$3.55
Volume (litres)					
Litres of wine produced	38,174	225,394	890,706	1,400,157	8,444,632
Litres of wine produced per tonne crushed	501	566	695	692	644

We note that the production information generated is dependent upon the mix of participants in the survey. We have generally seen an increase in the above metrics this year which is in line with the record harvest achieved for Vintage 2011. It is also noted that the $0-$1m category's results are impacted by a number of participants that are in still in a development phase.

- Despite the record harvest recorded for the most recent vintage it is interesting to note the relatively low levels of utilisation of the wineries facilities. We have seen high levels of utilisation in past surveys, in some cases greater than 100%, which we commented was achievable but would not be sustainable in the long term. We have only witnessed this in one category this year ($20m+) which is due to one winery (when removed utilisation for this category reduces to 100%). It is assumed that wineries are now taking stock given the heavy demands being placed on their facilities in the past.
- The cost of grapes per tonne compared to last year has varied depending on the category and the mix of participants. Generally prices are low compared to historic levels but interestingly a number of categories have a higher price per tonne than last year. This can be attributed to an increased number of participants from Central Otago being included with a higher cost of grapes for this region.
- Productivity levels are generally at lower levels this year than our last survey ranging from 501 litres per tonne up to 695 litres per tonne of grapes crushed. Comparing back to New Zealand Winegrowers 2009 (the latest released) statistics[1] these levels appear reasonable however possibly a little on the low side, given New Zealand's average production of 719 litres per tonne for the New Zealand industry as a whole.

Cost of grapes per tonne

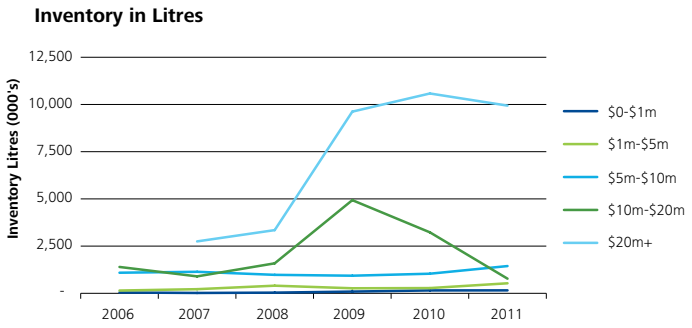


[1] http://www.nzwine.com/#statistics

Image © Fromm Winery

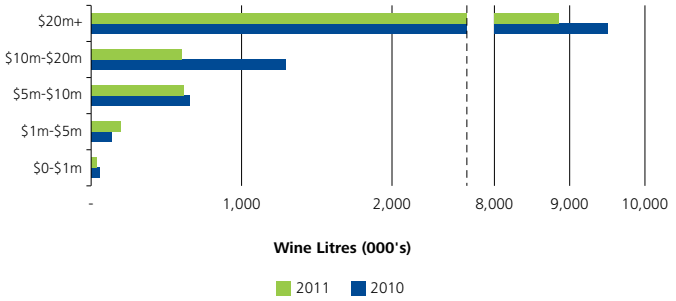
Inventory

Average Inventory	Winery size (2011 revenue)				
	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Red					
Maturing in oak (litres)	2,088	32,739	115,789	48,235	28,423
Bulk wine (litres)	125	65,313	62,746	130,350	1,129,609
Packaged wine (cases)	650	19,724	34,451	5,114	26,380
Total litres	8,063	275,569	488,596	224,612	1,395,455
White and Other					
Maturing in oak (litres)	856	8,662	18,640	4,307	606
Bulk wine (litres)	5,750	129,636	551,085	468,879	7,732,274
Packaged wine (cases)	3,269	12,986	42,711	8,578	90,050
Total litres	36,025	255,169	954,127	550,385	8,543,335
Total Litres all wines	**44,088**	**530,738**	**1,442,722**	**774,997**	**9,938,789**

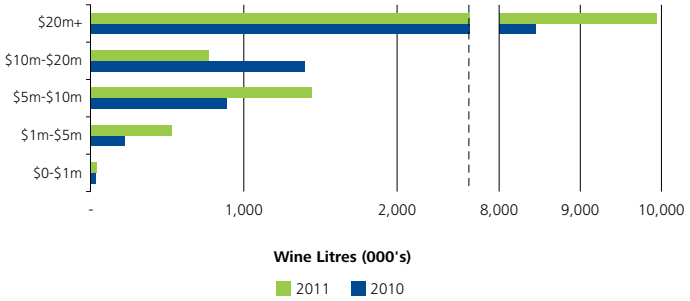


- Historic trends from our previous surveys have been of generally increasing inventory levels in recent years. This year we are seeing some variation amongst the categories, possibly due in part to the mix of participants.
- The smallest and two largest categories have shown a decrease in inventory in litres when compared to our last survey, especially the $10m-$20m category which has decreased significantly, predominantly white wines. Despite the decrease, the $20m+ category still have relatively high inventory levels available to sell, however, the $10m-$20m category could be exhibiting the trend that has been widely publicised of a shortage of wine following a significant sell down over the last year.
- The $1m-$5m and $5m-$10m categories are showing increased stocks compared to our Vintage 2010 report. Interestingly for these categories a large portion of this change is from red wine, both case and bulk wine. The $5m-$10m category has also seen quite a large increase in white case wine held as inventory. It is anticipated the increased harvest for Vintage 2011 would have led to this increase in stock.

Bulk Wine Inventory 2010 and 2011



Inventory and Production 2011



Deloitte perspective

Harvest levels over the past four years have fluctuated significantly. There is no question that the record harvests of 2008 and 2009 (285,000 tonnes) generated excess inventory within the industry which contributed to the increase in bulk wine sales and the concerns around damaging New Zealand's premium brand.
A reduced harvest in Vintage 2010 of 265,000 tonnes helped to ease some of the issues present but the record Vintage in 2011 of 328,000 tonnes, although publicised as being demand driven, will again challenge the industry if not managed carefully.


Image © Murdoch James Estate Wines Ltd

Price points

- The graph right illustrates the retail price points that the participants target for their domestic sales.
- Consistent with our previous surveys none of the participants target the cask market and this year it was only the $1m-$5m category that responded stating that they target the <$7 per bottle market.
- A very low percentage of wine produced is targeted at the $50+ market, across all the categories. Given the current economic environment this is not overly surprising.
- The responses received from the $0-$1m category corresponds with our past experience that the smaller wineries tend to aim at achieving a higher price point on lower volumes by achieving a boutique style product. This is illustrated by the fact that 70% of wine being produced for the New Zealand retail market is priced at $20 to $50 per bottle.
- The general trend present in past surveys, that as wineries increase in size their average selling price per bottle declines, has again been repeated. This is illustrated above quite dramatically by the decline in the $20 to $50 per bottle bar and the increase in the $10 to $15 per bottle bar as winery size increases.

Sales price point 2011

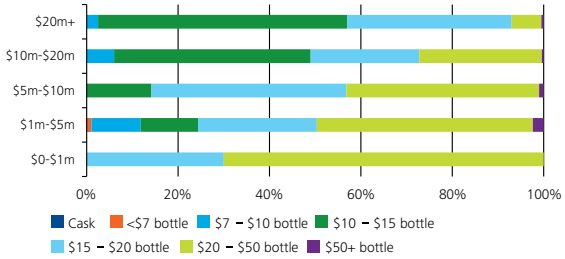



Image © Fairhall Downs Estate Wines

Issues facing the New Zealand industry

	Winery size (2011 revenue)				
	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Exchange rates	1	1	1	1	4
Marketing product overseas	2	2	2	2	2
Excise and other levies	6	3	3	3	6
Grape supply (too much)	4	5	4	10	1
Access to capital	3	8	8	6	3
Labour supply/cost	5	6	6	5	9
Interest rates	7	4	7	7	7
Government compliance costs	8	7	5	4	10
Grape supply (too little)	10	10	10	8	5
Company tax rates	11	9	9	9	11
Affordability of land	9	11	11	11	8

- We have commented in past Vintage surveys on the relative consistency of the issues that make up the top three issues facing the industry, as assessed by the survey participants. This year's survey is no exception; with the top two issues exactly the same as last year and the number one issue really coming as no surprise given the fluctuation experienced in the New Zealand dollar over the past 12 months.
- We do note several movers within the overall rankings this year compared to last year, neither of which are great surprises either, especially as both were discussed in our Vintage 2010 report as issues that we expected would have taken more prominence. "Excise and other levies" and "Access to capital" have moved to 3rd (from 5th) and 5th (from 6th) respectively.
- "Exchange rates" have, on average, been rated as the number one issue for all categories with the exception of the $20m+ category, where it actually sits as the fourth most important. The stance of the larger wineries is generally assumed to be due to the existence of policies and dedicated resources to minimise the effects of exchange rate fluctuations and therefore is not ranked as highly.
- "Marketing product overseas" remains as the second top issue overall and actually sits as the number two issue for every category. Given the reliance on exports by the NZ industry this also is unsurprising but potentially also reflects the challenge that exists to compete with other global wine producers, as more and more countries attempt to sell their wine into the world market.
- The newcomer to the top three this year is "Excise and other levies", with the $1m-$5m, $5m-$10m, and $10m-$20m categories all ranking it as their 3rd top issue. It is considered the rise in excise tax rates earlier this year, the largest increase in 20 years, is the reason for this movement in prominence for this issue. It has been reported that wineries would be unable to pass the 12c per litre increase onto customers and instead have to absorb it explaining the current sentiment.
- "Grape supply (too much)" remains a prominent issue this year despite the media reports that oversupply issues are disappearing, this year sitting at fourth overall. Interestingly the $20m+ category ranks this issue as their number one issue but the $10m-$20m category has it sitting at 10th.
- "Access to capital" rounds out the overall top 5 issues. Interestingly the smallest and largest wineries have this issue ranked at number three, but it is anticipated that this is for quite different reasons. Industry consolidation has been discussed in the past and it is considered to be a question of when – not if. We expect the largest wineries are looking for capital to make acquisitions and grow. The $0-$1m category however has significant debt levels and therefore could be requiring capital to reduce debt.

Deloitte perspective

	Winery size (2011 revenue)				
	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
2006	Exchange rates	Marketing product overseas	Exchange rates	Marketing product overseas	No participants of this size in 2006
2007	Government compliance costs	Marketing product overseas	Exchange rates	Grape supply (too much/too little)	Grape supply (too much/too little)
2008	Excise and other levies	Marketing product overseas	Exchange rates	Marketing product overseas	Marketing product overseas
2009	Marketing product overseas	Exchange rates	Exchange rates	Grape supply (too much)	Grape supply (too much)
2010	Exchange rates	Exchange rates	Marketing product overseas	Exchange rates	Grape supply - both too much and too little
2011	Exchange rates	Exchange rates	Exchange rates	Exchange rates	Grape supply (too much)

As is illustrated in the table above there is not a lot of variation in the number one industry issue this year with exchange rates being the number one issue for four of the five categories. This is also pretty consistent with the results from our previous surveys.

As discussed above we have witnessed the increased prominence this year of a number of issues that we discussed in this section last year, namely excise and other levies and access to capital.

The largest increase in the excise tax rate in 20 years has certainly got wineries talking, especially as many have been unable to past this increase onto customers.

In regards to the access to capital we consider that it will not be long before investors come out of the woodwork looking for investment opportunities within the industry, giving a turnaround is starting to occur and we perceive that the future will be bright in the medium to long term.

Image © Te Mata Estate Winery Ltd

Movement analysis – Vintage 2010 to Vintage 2011

This year the survey required respondents to complete prior year (2010) financial information along with current year information. Having data across two years from the same data set (i.e. the same respondents) allows for a more accurate comparison between years.

We note two respondents did not complete the prior year information and therefore to avoid skewing the averages calculated these have been excluded from the movement analysis. These two respondents sat within in the $0-$1m and $10m-$20m categories.

Profitability

- The table below provides a summary of the relevant movements found in the prior year comparison data. Note that these tables represent the movement in the average values over the 2010 – 2011 period.
- The main point to note is that gross margin and EBIT has increased across all categories which implies these businesses are moving towards being more profitable on average. In respect of Profit / (loss) before tax four of the five categories have improved in 2011 compared to 2010, with just the $10m-$20m category declining slightly.

The following sections explore these movements in more detail for each category.

The graphics show the movements in profit or loss before tax from 2010 to 2011, as a percentage of 2010 profit (or loss). Green bars represent an improvement (i.e. an increase in income or decrease in costs) and orange represents a deterioration.

	Winery size (2011 revenue)				
Key Profitability Metrics	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Cases sold	30.3%	17.5%	(6.1%)	19.4%	(1.2%)
Revenue per case	0.5%	(6.3%)	3.1%	(1.8%)	2.3%
Net case sales revenue	26.8%	10.0%	(3.2%)	13.3%	1.1%
Gross Margin	100.6%	79.1%	3.5%	15.2%	18.4%
EBIT	293.2%	108.2%	9.9%	3.4%	71.5%
Profit / (loss) before tax	208.8%	68.4%	102.6%	(25.1%)	179.0%

Note: Amounts in above table represent absolute movements in average values over the period 2010 - 2011

$0-$1m Category Profitability

- The small wineries have increased their profitability substantially over the last year. They were loss making on average in 2010, and have achieved a complete turnaround generating a profit movement in excess of 200%.
- The chart below bridges the movements in profit or loss before tax from 2010 to 2011, as a percentage of 2010 profit, in order to show how the turnaround was achieved.
- The average price increase in case sales is the largest contributor. The first green bar on the bridge shows that the case price effect alone offsets 111% of the average loss made in 2010.
- Other major contributors are COGS savings and a reduction in sales and marketing costs, which were marginally offset by lower grape sales (other revenue) and other expenses.

Change in profit from the 2010 vintage to the 2011 vintage (as a % of 2010) - $0-$1m category

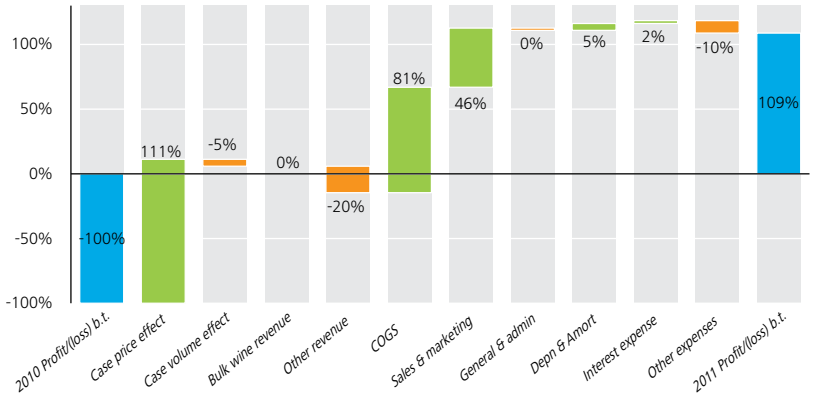
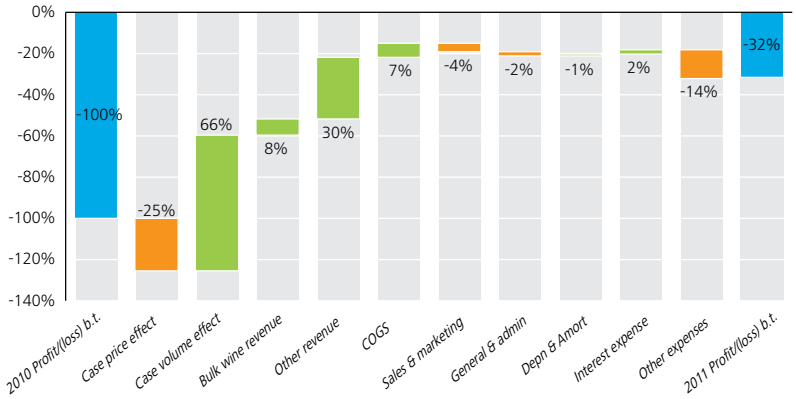


Image © Vinoptima Estate Ltd

$1m-$5m Category Profitability

- The $1m-$5m category experienced a 68.4% movement in profit before tax between 2010 and 2011. This is largely due the majority of the wineries in that category incurring losses in the prior year, with all but two wineries returning to profitability in the current year.
- On average, the negative effect from a lower average case sale price was offset by a much larger volume increase in case sales. The increase in profitability was further fuelled by higher bulk wine sales and other revenue (grape sales and WET rebate).
- The reduced COGS is largely attributable to inventory movement, as inventory levels decreased in 2010 and increased in 2011. The 14% increase in other expenses largely relates to a reduced average foreign exchange gain in comparison to 2010.

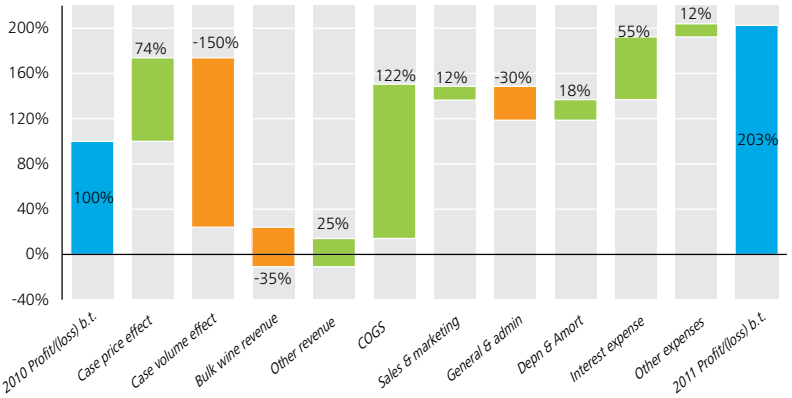
Change in profit from the 2010 vintage to the 2011 vintage (as a % of 2010) - $1m-$5m category



$5m-$10m Category Profitability

- This category doubled its profit over the last year (a 103% increase in profit before tax), despite the drop in cases sold.
- Case sale volumes have decreased the most out of all the categories (impact of -150% of 2010 profit), but this negative impact was offset by an increased sales price and savings in direct production costs (a combined impact of +196% of 2010 profit). This has contributed to a 3.5% gross margin increase
- Further contributing cost savings were achieved by reduced debt levels and lower net fixed costs.

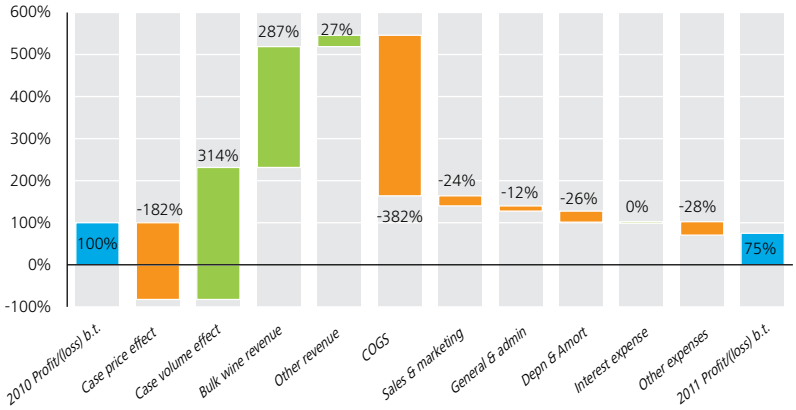
Change in profit from the 2010 vintage to the 2011 vintage (as a % of 2010) - $5m-$10m category



$10-20m Category Profitability

- The $10-20m category has experienced a large revenue increase from higher export bulk wine sales and an increased number of case sales. However, these effects were mostly offset by reduction in case prices and an increase in cost of bulk wine (increasing COGS).
- Further increases in fixed costs caused the 2011 profitability to be 25% lower than that achieved on average in 2010.

Change in profit from the 2010 vintage to the 2011 vintage (as a % of 2010) - $10m-$20m category



$20m+ Category Profitability

- The largest positive impact on 2011 profit observed in this category was from a reversal of inventory write downs from one particular winery (471% of 2010 profit). This impact is not operational, or a true reflection of the $20m+ category wineries and has therefore been excluded from the analysis.
- Despite this distortion, the $20m+ category still experienced a 179% increase in profit in comparison to 2010. This is due to increases in domestic bulk wine sales, other revenue, higher case prices in comparison to 2010 (which were partly offset by lower volumes sold), and a reduction in COGS (largely from movement in inventory levels).

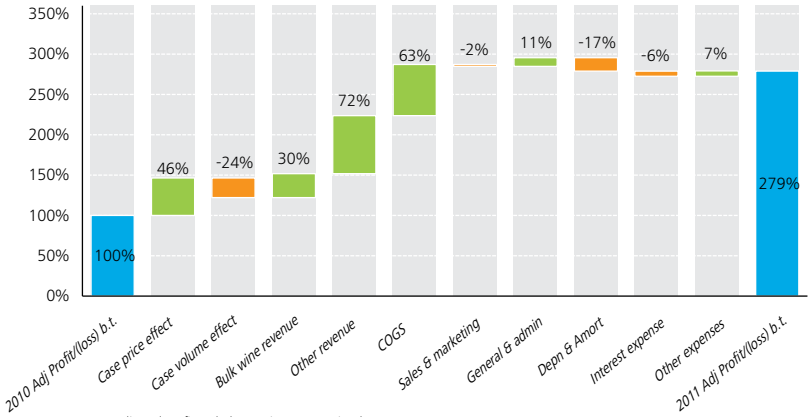
Production

- The tonnes of grapes crushed decreased from 2010 to 2011 for the $0-$1m category despite this category achieving the largest increase in cases sold. As mentioned in the profitability section above, this is coupled with a higher proportion of grape sales and increased inventory levels, which might suggest that the smaller players are conscious of matching demand to avoid damage associated with oversupply.
- The cost of grapes per tonne decreased across all categories, indicating the balance of purchasing power lies with the producers rather than the growers in a market that has an oversupply of grapes.

Balance Sheet and Financial Ratios

- Inventory levels have marginally increased for all winery categories from 2010.
- Land and vineyard values have generally only increased for the $20m+ category. It is assumed that this is due to acquisitions during 2011. The other categories have witnessed decreases in their land and vineyard values in the current year, but not to the level that the market has potentially decreased.
- Total debt (overdraft and term debt) has increased significantly for the $0-$1m and $10m-$20m categories. All other categories have managed to reduce their total debt levels.
- In regards to solvency ratios all but the $10m-$20m have improved their current ratios year on year.
- In addition the debt to equity ratios have declined reasonably significantly for the $5m-$10m, $10m-$20m and $20m+ categories.

Change in profit from the 2010 vintage to the 2011 vintage (as a % of 2010) - $20m+ category



Note: Adjusted profit excludes any inventory write-downs

	Winery size (2011 revenue)				
Production	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Tonnes of grapes crushed	(18%)	9%	13%	35%	24%
Cost of grapes per tonne	(32%)	(15%)	(40%)	(69%)	(0%)
Red produced (litres)	0%	8%	25%	29%	100%
White produced (litres)	(15%)	6%	23%	28%	37%
Other produced (litres)	0%	0%	106%	0%	0%
Litres of wine produced	(11%)	7%	24%	31%	42%

Note: Amounts in above table represent absolute movements in average values over the period 2010 - 2011

	Winery size (2011 revenue)				
Balance Sheet	$0-$1m	$1m-$5m	$5m-$10m	$10m-$20m	$20m+
Inventory	NMR	1%	4%	2%	1%
Land	0%	(5%)	6%	(1%)	4%
Vineyards	(11%)	(3%)	(3%)	(1%)	13%
Bank debt & overdraft	114%	(7%)	(37%)	141%	(36%)
Long term debt	(2%)	5%	(16%)	(1%)	(1%)
Solvency ratios					
Current Ratio	8.9%	3.2%	27.1%	(28.9%)	4.4%
Debt to equity ratio	NMR	7.0%	(40.8%)	(22.1%)	(8.8%)
Interest cover ratio	326.0%	108.6%	40.7%	95.6%	62.1%
Debt to total tangible assets	(14.8%)	4.1%	(17.9%)	(11.4%)	(2.6%)

Note: Amounts in above table represent absolute movements in average values over the period 2010 - 2011

- The interest cover ratios have improved for all categories, generally given the increase in profitability.
- Four of the five categories have experienced a decline in the debt to total tangible assets ratio which is somewhat concerning but this would be in line with expectations given our experience with current market values of assets.

About Vintage 2011

- Deloitte has conducted this annual financial benchmarking survey in conjunction with the New Zealand Winegrowers. The survey was conducted between October and November 2011 and is based upon financial statements that cover the 2011 vintage[2].
- The survey is designed to assist wine growers to make more informed decisions about their relative strengths and weaknesses compared with others in the industry. The study also hopes to provide wineries with an insight into the relative efficiency and financial performance of their business – information that is vital for those looking to attract capital, expand and sustain growth.
- Survey questionnaires were sent to all members of New Zealand Winegrowers. Comments made in this report are based on the responses of 31 survey participants, which account for approximately 21% of the New Zealand wine industry by litres of wine produced and 32% by export sales revenue generated for the 2011 year[3]. Respondents either own or lease 12% of the 33,600[4] producing hectares currently under vine in New Zealand. Approximately 80% of respondents are past participants of previous surveys.
- Survey responses were received from all the major winegrowing regions of New Zealand generally in similar proportions to New Zealand's Producing Vineyard area (in hectares)[5]:
  - 3% North Island – Auckland and Northern region (2010 – 3%)
  - 19% North Island – Eastern coastal regions (2010 – 26%)
  - 62% South Island – Northern regions (2010 – 56%)
  - 16% South Island – Central and Southern regions (2010 – 15%)
- To assist the comparison of different sized wineries, respondents have been categorised based on total annual revenue as follows:
  - $0-$1m
  - $1m-$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.
- 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. The survey is based on an equivalent Australian survey which has been conducted by Deloitte for over ten years.
- Figures presented have not been adjusted to eliminate rounding variances.

[2]It should be noted that financial statements covering this period are likely to contain some sales and costs from previous vintages.

[3]New Zealand Wine Annual Report 2011 http://www.nzwine.com/info-centre/#annual_report

[4]New Zealand Wine Annual Report 2011 http://www.nzwine.com/info-centre/#annual_report

[5]New Zealand Wine Annual Report 2011 http://www.nzwine.com/info-centre/#annual_report

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About New Zealand Winegrowers

New Zealand Winegrowers aims to represent, promote and research the national and international interests of the New Zealand wine industry.

New Zealand Winegrowers was established in March 2002 as the joint initiative of the New Zealand Grape Growers Council, representing the interests of New Zealand's independent grape growers, and the Wine Institute of New Zealand, representing New Zealand wineries.

New Zealand Winegrowers is governed by a Board of Directors of 12, comprising seven representatives from the Institute and five representatives from the Council. New Zealand Winegrowers is funded by levies collected by the Council and the Institute as well as from user pays activities and sponsorships.

Wine makers and grape growers are members of New Zealand Winegrowers as a result of their membership of either the Grape Growers Council or the Wine Institute.

For more information on New Zealand Winegrowers visit **www.nzwine.com**.

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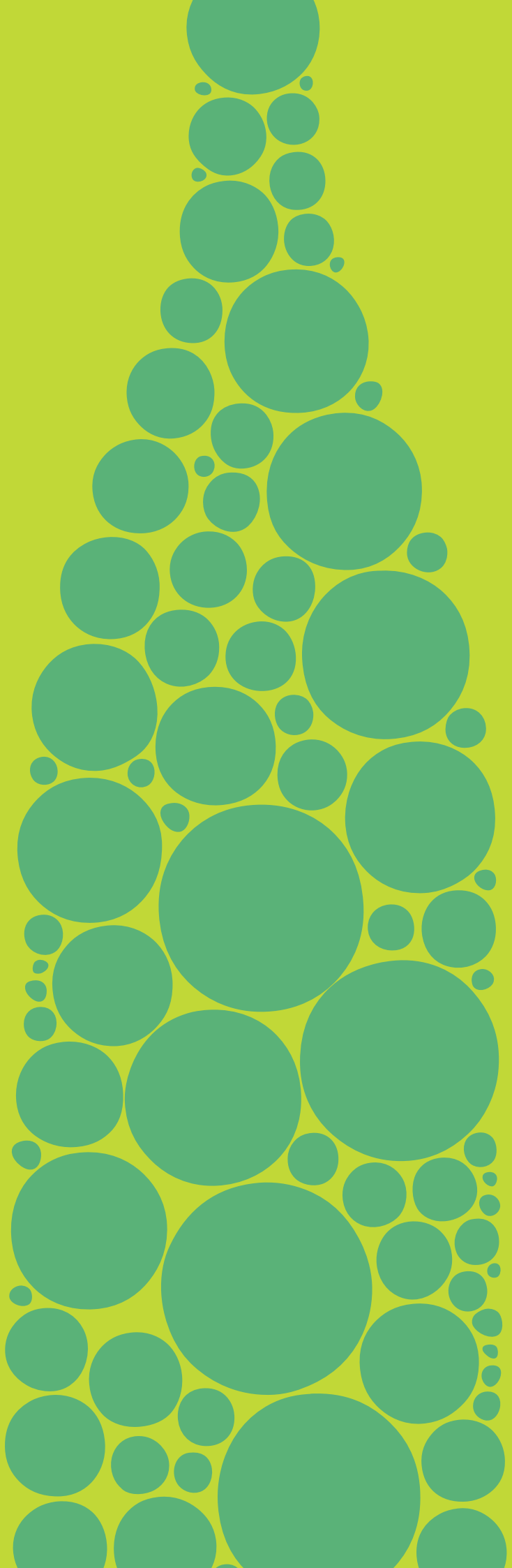
Image © Palliser Estate Wines of Martinborough



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