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Vintage 2012
New Zealand wine industry benchmarking survey

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A joint publication from Deloitte and New Zealand Winegrowers

What though youth gave love and roses, Age still leaves us friends and wine.

Thomas Moore

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Welcome

Vintage 2012 represents the seventh annual financial benchmarking survey produced by Deloitte in conjunction with New Zealand Winegrowers. Consistent with prior years and unsurprisingly given the current environment the analysis and results produced have yet again revealed some interesting perspectives. Combine this with the accumulation of seven years of data and the trends illustrated reflect an industry that is continually evolving.

As all readers will be well aware market conditions continue to be tough for many business sectors, the wine industry being no exception. In recent years we have seen the impacts of the Global Financial Crisis, supply imbalances, high external debt levels and decreased land and vineyard values. Declining profitability, compounded by the increased presence of bulk wine sales has led to financial pressures resulting in several winery failures and receiverships. Our Vintage 2011 results showed some signs of an industry turnaround and we looked forward to this year's results to see if this trend had continued.

As always we would like to thank the respondents that provided data. Without your information the survey would be unable to be produced so we certainly appreciate the time you have taken to complete the survey. We believe the survey provides valuable insights into the financial wellbeing of the industry, and the industry supports this as evidenced by the fact that the majority of this year's survey participants have participated previously, as well as our highest participation rate ever. This, combined with the fact that the wine industry is an important part of the New Zealand economy illustrates why we value our continued involvement.

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

Paul Munro
Sponsoring Partner - Deloitte

As the national industry organisation for New Zealand's grapegrowers and winemakers, New Zealand Winegrowers is committed to providing high quality information to our members. As such we are delighted to continue our partnership with Deloitte in producing this 2012 financial benchmarking survey for wineries.

Vintage 2012 produced a markedly smaller grape harvest than the previous year and with this reduction has come a changed supply/demand balance in the industry. There are signs of a new optimism emerging in the industry after the sector has endured some tough times since 2008.

New Zealand Winegrowers hopes this survey will inform the quality decision making in the industry and we look forward to working with Deloitte to continue to develop the survey in future years.

Philip Gregan
CEO – New Zealand Winegrowers

Executive summary

With annual export earnings of $1.2 billion the New Zealand wine industry is now ranked as New Zealand's eighth most valuable export earner. This is a far cry from the small domestically focused industry that existed 30 years ago and despite the recent financial challenges experienced the industry has continued to grow.

In recent years the industry has experienced the impacts of the Global Financial Crisis, supply imbalances, high external debt levels, the increased presence of bulk wine sales, and winery struggles, failures and receiverships. Now in its seventh year the annual Deloitte financial benchmarking survey, produced in conjunction with New Zealand Winegrowers, has tracked the impact of these issues on the financial performance of wineries within the industry. Last year this survey reflected signs of an industry turnaround but the expectation was that it would take time to fully flow through to wineries.

The results of the seventh annual survey on the whole confirms further improvement but there is certainly still a long way to go to be at a point where the financial returns from the industry provide an appropriate financial return on the capital invested.

Once again this year we collected two years of financial data so that we could make direct comparisons year on year rather than comparing to the previous surveys sample. We are pleased to report that all but the $20m+ category have improved their profitability from the prior year when their two years data is compared, which given the majority of the categories recorded increases last year (from 2010), confirms a turnaround is definitely present within the industry, and showing signs that it is sustainable.

Despite the positive signs of a turnaround there is still a long way to go. The $0-$1.25m category has recorded a loss this year suggesting financial volatility remains at the smaller end of the market. In addition only the two largest categories have recorded double digit profitability and returns on equity and assets are low. The industry is still at a stage where financial returns would not be acceptable to investors, especially over the long term.

In recent years a concerning trend of high external debt has come through the results. It is pleasing to report that this year this issue does not seem as prominent as in the past, with debt levels reducing to more acceptable levels. It appears that the expected pressure coming from lenders for wineries to reduce debt levels is starting to materialise.

Consistent with all our previous surveys exports remain an integral part of the New Zealand wine industry with all categories exporting greater than 50% of total sales into export markets. This is extremely positive as well given we are generally seeing an increase in case sales. While this would be a product of the smaller harvest it could imply that demand for branded product is strengthening on the global stage meaning the potential damage to New Zealand's reputation as a quality producer, by sales of bulk wine, may have been avoided, but further research would be necessary to confirm this.

Related to the dependence on exports and again continuing a theme from prior years is the fact that Exchange Rates have been ranked as the number one issue facing the industry. All of New Zealand's export industries are hurting due to the high NZ dollar and the wine industry is no exception.

Deloitte perspective:

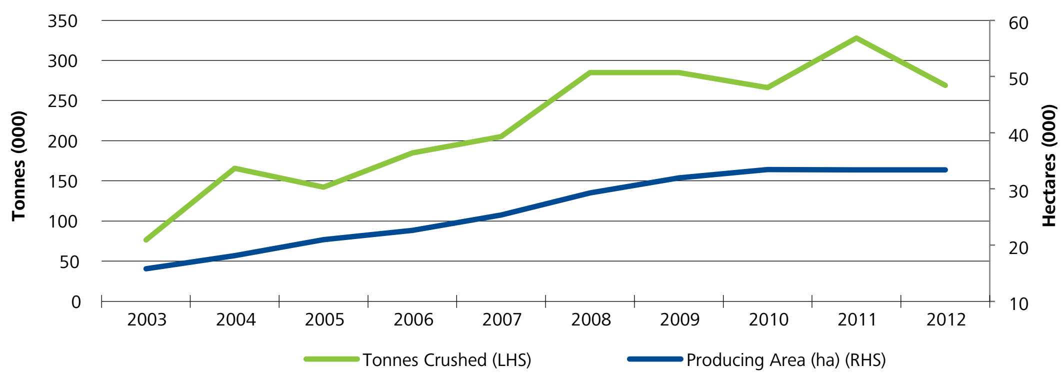
It is very pleasing to see that the Vintage 2012 survey results continue to support the signs of a turnaround within the industry which began last year. We do however consider, and we're sure most industry participants would agree, that further improvement is necessary.

As has been widely reported in the media the Vintage 2012 harvest of 269,000 tonnes was significantly reduced from 2011 at 328,000 tonnes. As is illustrated in the graph below the New Zealand producing area has grown over the last ten years to 33,400 hectares but the last three have been constant at this level. This was on the back of, at the time, record harvests in 2008 and 2009 and the creation of a supply / demand imbalance.

With the reduced harvest in 2012, which has primarily been attributed to seasonal conditions, it is our understanding that wineries have begun to get a little nervous around future grape supply. This is supported by the increase in grape prices being reported and the fact that "Grape Supply – too little" has made a significant move in the list of issues facing the industry identified in our report. Last year this issue was ranked ninth whereas this year it has been ranked fourth overall , and the $20m+ category having it in their top two. It is hoped that if wineries and grape growers are considering planting additional vines, in a hope to mitigate this issue, that any such investment is carefully assessed to ensure it is strongly market led and there is no repeat of the supply / demand imbalance seen in recent years.

For the industry to create value, rather than prioritising additional plantings, the first task is to grow the *value* of sales rather than the *volume* of sales. To do this an investment in brands and market development is required rather than investing in further vines. Growing profitability will create value, but further improvement is definitely required. Value driven, market demand led yield management needs to be the primary focus of wineries in the future to avoid the experiences of the last four years becoming a reoccurring trend.

New Zealand wine production



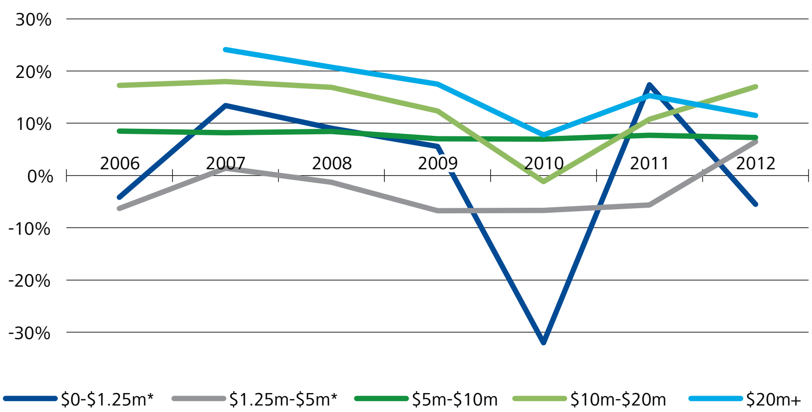
Source: New Zealand Wine Annual Report 2012

Vintage 2012: Profitability summary

Profitability 2012	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Net case sales revenue	57.2%	79.2%	86.9%	84.0%	85.6%
Add:					
Bulk wine sales - domestic	2.5%	1.1%	4.0%	3.3%	2.3%
Bulk wine sales - export	4.9%	2.9%	2.5%	5.0%	8.6%
Grape sales	4.2%	4.9%	0.4%	1.6%	0.4%
Merchandising revenue	0.0%	0.2%	0.1%	0.1%	0.0%
Contract winemaking revenue	22.4%	5.7%	1.9%	1.8%	0.9%
WET Rebate	8.0%	2.8%	1.7%	1.9%	0.6%
Other revenue	0.9%	3.2%	2.5%	2.3%	1.6%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of goods sold	(74.5%)	(57.7%)	(61.0%)	(60.6%)	(51.5%)
Gross margin	**25.5%**	**42.3%**	**39.0%**	**39.4%**	**48.5%**
Less:					
Selling Costs	(6.1%)	(13.0%)	(11.3%)	(9.4%)	(21.8%)
General & administration costs	(12.9%)	(12.1%)	(10.2%)	(7.2%)	(5.3%)
EBITDA	**6.6%**	**17.2%**	**17.5%**	**22.9%**	**21.4%**
Less: Depreciation and amortisation	(5.4%)	(6.5%)	(1.7%)	(5.1%)	(4.8%)
EBIT	**1.2%**	**10.8%**	**15.8%**	**17.7%**	**16.7%**
Less: Interest expense	(5.6%)	(4.6%)	(5.4%)	(1.9%)	(5.0%)
Add: Interest income	0.0%	0.1%	0.3%	0.3%	0.1%
Add: Other non-operating income	0.1%	0.7%	(1.4%)	1.1%	0.0%
Less: Shareholder salaries	(1.3%)	(0.5%)	(1.6%)	(0.2%)	(0.3%)
Add/(Less): Foreign exchange gain/(loss)	0.1%	0.0%	(0.3%)	0.1%	(0.5%)
Less: Inventory write-downs	0.0%	0.0%	(0.0%)	(0.1%)	0.0%
Profit / (Loss) before tax	**(5.5%)**	**6.5%**	**7.3%**	**17.0%**	**11.1%**

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

Profit / (Loss) before tax (as a % of Sales)



*Cut-off altered from prior years

Deloitte's survey splits participants into five size categories based on total revenue and compares results between the categories and over time. This year we have altered the first and second category's cut-off from $1.0m to $1.25m due to a natural split occurring in the participant's revenue at this level.

The 2012 survey results indicate that profitability generally increases with size ranging from a loss of 5.5% for the smallest category to a profit of 11.1% for the largest category, with the $10m-$20m category jumping well ahead of the curve with profits representing 17.0% of revenue, as shown in the table above.

Given that this marks Deloitte's seventh survey we are able to map the trend in profit / (loss) before tax for each category in order to identify any emerging trends. Each category's profitability and trend is discussed separately below.

$0-$1.25m category

- This category has been the most volatile in profitability over the past three years jumping between lowest and highest recorded profit / (loss) before tax. The movement from 2011 to 2012 is a result of a change in mix of survey participants, but in general the volatility can be expected to a certain degree for this category as small dollar changes can have large impacts in percentage terms if the underlying dollar revenue is low.
- One participant in this category generates all its revenue through contract wine making and therefore lowers the average percentage of case sales to total revenue. Excluding this participant lifts case sales to 74.9% and drops contract winemaking revenue to 0%. In relation to other categories, the largest contributor to the category's loss making position is its high cost of goods sold ("COGS").
- General and administration costs decreases in percentage terms as size increases as anticipated with economies of scale. However, the high general and admin costs have been counteracted somewhat by cutting back on selling costs (the lowest of all categories), giving an operating profit (EBITDA) of 6.6%.

$1.25m-$5m category

- This category made a notable improvement this year, turning profitable after being loss making for many consecutive years and achieving its highest level of profitability since inception of the wine survey at 6.5% profit before tax.
- The revenue mix of this category is more in line with the three larger categories than the $0-$1.25m category but still has slightly less case and bulk wine sales and slightly more grape and contract wine making sales. This mix produces a gross margin that is slightly higher than the $5m-$10m and the $10m-$20m categories but it still falls below that of the $20m+ category.
- The relatively high overhead costs for this category causes it to drop short in terms of profitability of its larger counterparts. This is fuelled by relatively high depreciation and amortisation costs, which erodes the majority of the operating profit for this category.

$5m-$10m category

- The $5m-$10m category consistently returns solid levels of profitability varying between 7% and 9% in profit before tax over the history of the survey.
- 86.9% of revenue is generated from case sales and 6.5% from bulk wine sales. In comparison to the smaller and larger categories either side, the $5m-$10m category's overhead costs falls in the middle yielding an operating profit of 17.5%. This category's profit levels are aided by having the lowest depreciation and amortisation, reflecting lower plant and equipment levels than other categories.

$10m-$20m category

- This category recorded the largest average profitability of all five categories at 17.0%, returning to its historical levels prior to a dip in 2010.
- With a similar sales mix and gross margin to the $5m-$10m category, this category achieves its high profit levels by recording the lowest overhead and interest costs in comparison to all other categories. The interest expense at 1.9% is much lower than other categories, that have recorded over 5% in this survey, reflecting a lower reliance on debt funding.

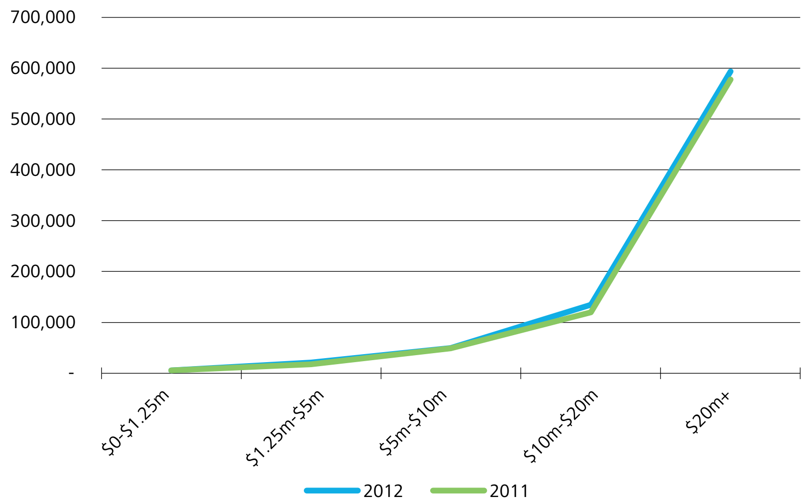
$20m+ category

- The largest category remains profitable at 11.1%, a slight decrease however from 2011 at 14.0%. The main drivers for the reduction in profitability are a change in the mix of case sales to bulk wine sales. Last year reported case sales of 87.0% and bulk wine of 8.2% compares to 85.6% and 10.9% respectively this year. The higher proportion of bulk wine sales this year appears to be yielding a slightly lower margin at 48.5% (2011: 51.3%); however this category still records the highest margin of all categories. This result is influenced by one participant in the category that has a heavy focus on bulk wine. Removing this participant pushes the average case sales up to 89.4%, bulk wine down to 6.9% and gross margin up to 50.6%.
- The relatively high gross margin allows a focus on selling costs (highest of all the categories at 21.8%) and it also records the lowest general and admin costs (at 5.3%) demonstrating economies of scale.

Key financial ratios

Key Financial Ratios 2012	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Cases sold	**5,577**	**20,787**	**49,739**	**134,602**	**515,741**
Revenues and expenses per case					
Revenue per case	$ 100.68	$ 108.69	$ 113.31	$ 88.75	$105.78
Gross margin per case	$ 44.89	$ 58.09	$ 50.88	$ 41.65	$59.97
Selling expenses per case	$ 10.67	$ 17.85	$ 14.79	$ 9.88	$26.98
Overhead expenses per case	$ 11.34	$ 7.36	$ 5.74	$ 5.40	$2.93
Packaging cost per case	$ 10.87	$ 11.89	$ 11.41	$ 8.73	$8.11
Profit / (loss) per case	$ (9.73)	$ 8.89	$ 9.50	$ 17.96	$13.72
Solvency ratios					
Current Ratio	376.1%	579.2%	501.5%	281.7%	286.4%
Debtors / Sales	23.7%	22.6%	25.4%	16.2%	20.5%
Debt to equity ratio	26.8%	40.7%	45.6%	24.8%	82.1%
Debt to total tangible assets	22.7%	36.7%	37.2%	33.7%	56.5%
Interest cover ratio	20.6%	235.3%	291.9%	948.7%	335.6%
Efficiency ratios					
Inventory turnover	91.5%	85.1%	83.5%	141.0%	144.2%
Fixed Asset turnover	33.2%	60.1%	93.6%	95.6%	78.7%
Asset turnover	21.7%	36.2%	42.1%	52.4%	52.6%
Profitability ratios					
EBIT margin (average)	1.2%	10.8%	15.8%	17.7%	16.7%
EBIT to assets (average)	0.3%	3.9%	6.6%	9.3%	8.8%
EBT to equity (average)	(1.6%)	3.7%	4.8%	13.4%	13.1%
EBT to net case sales (average)	(9.7%)	8.2%	8.4%	20.2%	13.0%

Case volumes – 2012 & 2011



Case Volumes

- Case volumes tend to be exponentially higher for the larger categories. A general increase in volumes is observed across the same set of survey participants over the past year. It is considered that a reduction in bulk wine inventory and the lower volume vintage may have contributed to a greater focus on case sales.

Revenue per case

- The price range has had a narrowing trend since 2007 and is roughly in line with last years'.
- With the $10m-$20m category continuing to record the lowest revenue per case ($88.75) and the $5m-$10m category recording the highest ($113.31), there is no clear trend in revenue per case between the five categories. Interestingly, the highly profitable

$10m-$20m category records substantially lower revenue per case than the other categories, which range from $100.68 to $113.31. This lower revenue per case is not easily explainable with the data available, however it is consistent with last year's survey. Despite this however it does appear to be a bit of an anomaly as it is generally expected that the larger brands offer the lower price points.

Gross margin per case

- The historical trend in gross margin per case has remained relatively flat. The three larger categories are generally consistent with last year's survey results with the $1.25m-$5m category recording an increase and the $0m-$1.25m category recording a drop. The $20m+ category records the highest gross margin per case at $59.97 (57% margin).

Selling expenses per case

- The $0m-$1.25m and $10m-$20m categories have recorded the lowest selling expenses per case at $10.67 and $9.88 respectively to rationalise costs in line with their relatively lower sale prices per case.
- The $20m+ category is continues to be at the other extreme, maintaining a large focus on marketing and sales at $26.98 per case.

Overhead expenses per case

- The trend across the five categories demonstrates the benefits of economies of scale with overhead expenses per case decreasing as size increases. The $0m-$1.25m category spends $11.34 per case and the $20m+ category spends $2.93 per case on overheads.

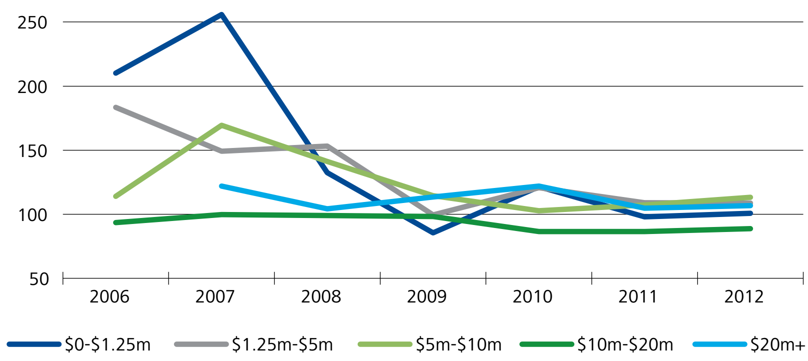
Packaging cost per case

- Packaging cost per case also generally decreases as the winery size increases with the exception of the $0m-$1.25m category which ranks in the middle of the size categories.

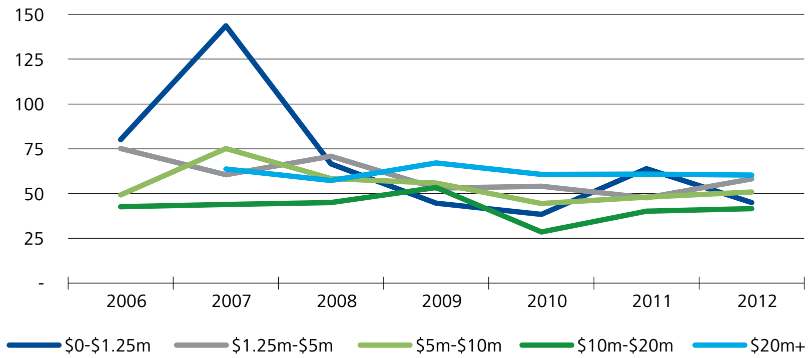
Profit / (loss) per case

- As with overall profit / (loss) before tax, the $0m-$1.25m category is the most volatile and is the only category that is making a loss this year of $9.73 per case. The $1.25m-$5m and $10m-$20m categories have both recorded improvements over the past year, with the other two categories remaining relatively flat.

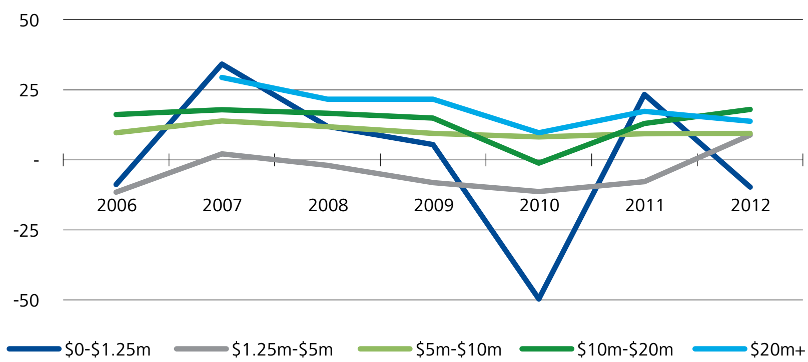
$ Case sales revenue per case



$ Gross margin per case



$ Profit / (loss) before tax per case



- The $10m-$20m category is the most profitable at $17.96 per case despite its relatively low revenue per case, proving that their high volume low price strategy undertaken over the history of the survey works.

Current ratio

- The current ratio is calculated as current assets divided by current liabilities. If the current ratio is above 200% ($2 current assets for every $1 of 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) is well above the 200% threshold for all categories. However, the liquidity of inventory should also be taken into account.
- When recalculating the ratio using more liquid assets (excluding inventory and other current assets) not one of the categories make the 200% threshold, with the $0-$1.25m and the $10m-$20m categories falling below 100% which indicates potential short term liquidity risks. The proportions of liquid assets to liabilities can be observed in the current assets and liabilities graph by comparing the total current liabilities to the first two bars of liquid current assets.

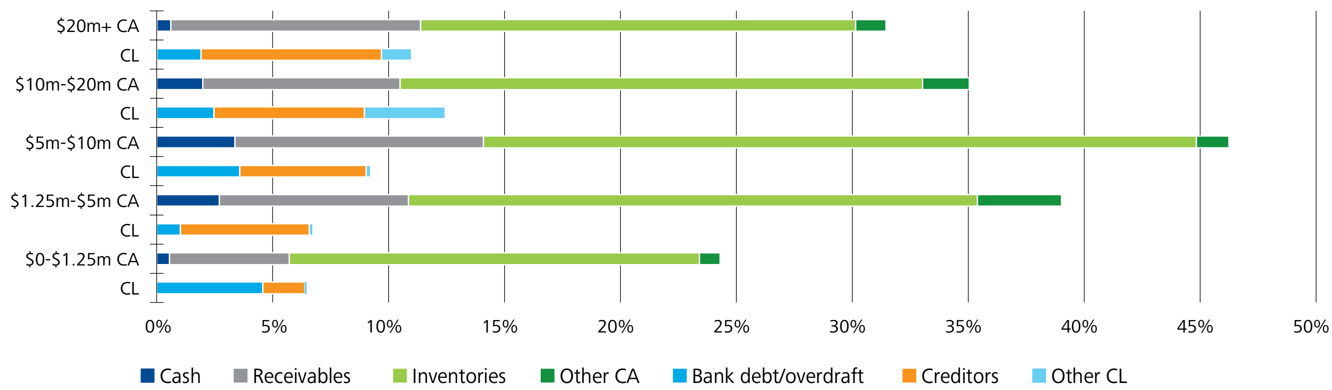
Debt ratios

- The debt to equity ratio is a common lending covenant, with lenders typically requiring more equity than debt – that is a ratio of less than 100%. This year's results range from 24.8% for the $10m-$20m category to 82.1% for the $20m+ category. All but the $20m+ category have ratios below 50%, which is a notable reduction in debt levels in comparison to last year's survey results. It appears that the expected pressure that lenders would be exerting on wineries to reduce debt levels is starting to materialise.
- The debt to total tangible assets ratio has also decreased for the majority of the categories, with ratios ranging from 22.7% to 56.5%. This implies that the wineries surveyed have sufficient tangible asset levels to cover their debt if it was to be settled today. However, when considering this one needs to remember that while debt levels are relatively easy to determine accurately the book value of certain tangible assets that are based on historical cost may not reflect a fair current market value. Land values predominantly seem to be valuation based, but building, vineyard and inventory values should be considered with some discretion. Given current market conditions, if the realisable values of tangible assets are lower than their book values, there will be less assets to cover debt and higher ratios will be observed.

Interest cover ratio

- Interest cover is calculated as earnings before interest and tax ("EBIT") 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 (i.e. EBIT covers interest costs 2 to 3 times).
- This year the two larger categories cover their interest more than 3 times, the $5m-$10m and $1.25m-$5m categories fall in the 2 times to 3 times range, and the smallest category falls well short with EBIT only covering 20.6% of the interest expense.

Current assets and liabilities 2012



- Implied interest rates have been calculated by taking the interest expense divided by the total interest bearing debt. The range calculated this year spanned from 5.9% to 7.8% which is in line with implied rates in last year's survey and appears to be reasonable given current market rates.

Inventory turnover ratio

- Inventory turnover is calculated as the COGS 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 three smaller categories record ratios below 100% indicating that they are accumulating a portion of their stock. The larger two categories had inventory turnover of more than 140% in the last year which indicates that opening inventory levels have been sold down.

Profit before tax to equity ratio

- This ratio is calculated by dividing the profit before tax by the value of equity and represents the return on the owner's investment. It is considered that an acceptable level of return to a winery investor would easily exceed 15% to ensure they are adequately compensated for risk.
- The four larger categories record returns on investment ranging from 3.7% to 13.4% with the largest two recording at the upper end and the middle two at the lower end of the range. The $0m-$1.25m category does not record a positive return on investment given its overall loss making position.

Income statement

Income Statement 2012	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Revenue and gross margin					
Gross case sales	57.5%	79.6%	88.6%	84.8%	89.2%
Less:					
Returns and cash discounts	(0.3%)	(0.4%)	(1.7%)	(0.8%)	(3.6%)
Net case sales revenue	**57.2%**	**79.2%**	**86.9%**	**84.0%**	**85.6%**
Plus other operating revenue					
Bulk wine sales - domestic	2.5%	1.1%	4.0%	3.3%	2.3%
Bulk wine sales - export	4.9%	2.9%	2.5%	5.0%	8.6%
Grape sales	4.2%	4.9%	0.4%	1.6%	0.4%
Merchandising revenue	0.0%	0.2%	0.1%	0.1%	0.0%
Contract winemaking revenue	22.4%	5.7%	1.9%	1.8%	0.9%
WET Rebate	8.0%	2.8%	1.7%	1.9%	0.6%
Other revenue	0.9%	3.2%	2.5%	2.3%	1.6%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less cost of goods sold:					
Grapes	(7.7%)	(10.9%)	(17.8%)	(12.7%)	(9.2%)
Bulk wine	(6.6%)	(3.2%)	(2.0%)	(6.0%)	(13.8%)
Vineyard supplies	(3.8%)	(2.5%)	(4.9%)	(5.0%)	(2.1%)
Vineyard labour	(8.4%)	(8.5%)	(4.9%)	(2.2%)	(3.8%)
Winemaking supplies	(4.8%)	(3.6%)	(3.6%)	(1.7%)	(2.4%)
Winemaking labour	(15.7%)	(4.6%)	(3.8%)	(3.7%)	(1.7%)
Bottling	(10.3%)	(5.7%)	(4.8%)	(5.2%)	(3.4%)
Packaging	(6.2%)	(8.7%)	(8.8%)	(8.3%)	(6.6%)
Direct and indirect labour	0.0%	(0.8%)	0.0%	(0.3%)	(0.2%)
Excise tax	(2.7%)	(6.5%)	(4.8%)	(4.4%)	(2.5%)
Overheads	(6.4%)	(5.4%)	(4.4%)	(5.1%)	(2.4%)
Other	0.0%	0.1%	(0.7%)	(1.2%)	(2.0%)
Distribution (including freight)	(5.0%)	(3.9%)	(2.1%)	(6.6%)	(1.8%)
Stock movement	3.2%	6.5%	1.5%	1.8%	0.4%
Total cost of goods sold	**(74.5%)**	**(57.7%)**	**(61.0%)**	**(60.6%)**	**(51.5%)**
Gross Margin	**25.5%**	**42.3%**	**39.0%**	**39.4%**	**48.5%**
Sales and marketing expenses					
Compensation sales expenses					
Sales and marketing salaries	(0.9%)	(6.0%)	(3.5%)	(2.7%)	(5.6%)
Cellar door salaries	0.0%	(1.0%)	(1.2%)	(0.5%)	(0.1%)
Other sales expenses					
Advertising	(1.6%)	(2.2%)	(3.2%)	(1.3%)	(13.4%)
Travel and entertainment	(1.9%)	(1.7%)	(1.7%)	(1.6%)	(0.8%)
Other	(1.7%)	(2.1%)	(1.8%)	(3.2%)	(1.9%)
Total sales and marketing expenses	**(6.1%)**	**(13.0%)**	**(11.3%)**	**(9.4%)**	**(21.8%)**
General and administration expenses					
Finance/accounting/legal/professional	(1.0%)	(3.0%)	(6.2%)	(1.3%)	(1.0%)
ALAC levies	(0.0%)	(0.8%)	(0.1%)	(0.2%)	(0.1%)
Other general and administration expenses	(10.3%)	(5.9%)	(2.8%)	(5.3%)	(3.9%)
Rent/utilities/rates	(1.6%)	(2.4%)	(1.1%)	(0.4%)	(0.3%)
Total general and administration expenses	**(12.9%)**	**(12.1%)**	**(10.2%)**	**(7.2%)**	**(5.3%)**
EBITDA	**6.6%**	**17.2%**	**17.5%**	**22.9%**	**21.4%**
Depreciation and amortisation	(5.4%)	(6.5%)	(1.7%)	(5.1%)	(4.8%)
EBIT	**1.2%**	**10.8%**	**15.8%**	**17.7%**	**16.7%**
Interest expense	(5.6%)	(4.6%)	(5.4%)	(1.9%)	(5.0%)
Interest income	0.0%	0.1%	0.3%	0.3%	0.1%
Other non-operating income	0.1%	0.7%	(1.4%)	1.1%	0.0%
Shareholder salaries	(1.3%)	(0.5%)	(1.6%)	(0.2%)	(0.3%)
Foreign exchange gain/loss	0.1%	0.0%	(0.3%)	0.1%	(0.5%)
Inventory write-downs	0.0%	0.0%	(0.0%)	(0.1%)	0.0%
Profit/(loss) before tax	**(5.5%)**	**6.5%**	**7.3%**	**17.0%**	**11.1%**

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

Income Statement commentary

- As mentioned previously, the proportion of case sales for the largest three categories are roughly around the 85% mark with the remaining sales mainly coming from bulk wine sales (particularly for the $20m+ category).
- The two smaller categories generally have a higher proportion of revenue generated from grape sales and contract wine making revenue. In particular the $0-$1.25m category, has a disproportionate focus on contract wine making which offsets the proportion of case sales.
- As discussed in previous surveys it is generally regarded that a gross margin of 50% is required for a winery business to be sustainable. This has proven untrue this year with gross margins being lower than 50% for all categories, with only the largest category close to the 50% level, however four of the five categories have recorded profits. To achieve this wineries have been able to structure themselves in such a way that they are earning sufficient margin to cover their other commitments. The $10m-$20m category is the stand out with 17.0% profit on the back of 39.4% gross margin. In comparison however the $0-$1.25m categories margin of 25.5% is unsustainable.
- The $0-$1.25m category's disproportionately large spend on COGS in comparison to the larger four categories is the main reason for recording a loss and largely stems from its outlay on winemaking labour and bottling. The middle three categories have a higher outlay allocated to buying grapes (over 10%), followed by packaging (over 8%) and the two smallest categories also spend a reasonable amount (over 8%) on vineyard labour.
- The $20m+ category spends 13.8% on bulk wine purchases and the second largest expenditure is on grapes. There are some signs of economies of scale in the direct costs recorded for vineyard labour, winemaking supplies and bottling. The reduction in winemaking labour as size increases is in line with winemaking revenue.
- The $20m+ category's higher gross margin allows for more freedom around sales and marketing expense, being the only category that spends more than 15% (at 21.8%). This is in line with last year's survey results. On the flip side, the $0m-$1.25m category has the lowest spend (at 6.1%) potentially in order to limit their lossmaking position.
- The $10m-$20m category achieves its high profit levels by achieving high volumes of case sales at their relatively lower price per case and counteracting for their gross margin (below 50%) by rationalising on all its indirect costs and by having a lower reliance on debt funding.

Image © – Cable Wine Ltd

Deloitte perspective:

The results this year show a general increase in the volume of cases sold and decreased case prices for the larger wineries ($1.25m+). This trend indicates that wineries may have had more incentive to push the accumulated inventory from last year's oversupply. The smallest category remains focused on its niche high price and low volume approach and are emphasising its distinction further this year by increasing case prices yet again.

Gross margins are still below assumed sustainable levels however in comparison to prior year results, higher gross margins and mostly higher EBITDA levels were achieved through cost rationalisation which illustrates that wineries are being forced to manage their expenditure carefully to remain profitable. As observed in last year's survey, advertising costs are still being used as the plug to maintain profitability for the four smaller categories. This makes financial sense as a short term strategy, but over the longer term it is important to ensure that wineries are promoting themselves appropriately.

In comparison to the same set of participants' prior year financial performances, all gross margins have increased and EBITDA levels for all but the largest category have increased which as mentioned gives support to believe that the wine industry is beginning to recover.

Balance sheet

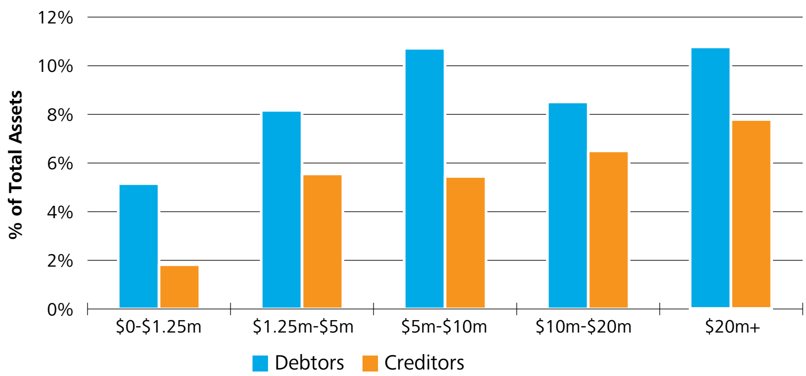
Balance Sheet 2012	Winery size (2012 revenue) $0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Assets					
Current assets					
Cash	0.6%	2.7%	3.4%	2.0%	0.6%
Receivables	5.2%	8.2%	10.7%	8.5%	10.8%
Inventories	17.7%	24.5%	30.7%	22.5%	18.8%
Other current assets	0.9%	3.6%	1.4%	2.0%	1.3%
Total current assets	**24.3%**	**39.0%**	**46.2%**	**35.0%**	**31.4%**
Non current assets					
Land	21.6%	16.3%	12.2%	12.9%	20.6%
Vineyards	5.6%	10.6%	14.0%	20.8%	20.5%
Buildings and improvements	27.3%	21.1%	9.9%	10.1%	8.2%
Winemaking equipment	8.2%	11.0%	8.2%	10.1%	17.2%
Vehicles	2.3%	0.6%	0.5%	0.8%	0.2%
Office equipment	0.5%	0.5%	0.1%	0.2%	0.1%
Total net fixed assets	**65.4%**	**60.2%**	**45.0%**	**54.9%**	**66.8%**
Purchased goodwill and other intangible assets	0.1%	0.7%	2.2%	1.6%	1.6%
Investments	10.2%	0.0%	6.5%	8.5%	0.2%
Deferred Tax Assets	0.0%	0.0%	0.1%	0.0%	0.0%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Current liabilities					
Bank debt/overdraft	4.6%	1.0%	3.6%	2.5%	1.9%
Provisions (incl. income tax, annual leave)	0.1%	0.2%	0.2%	3.5%	1.3%
Trade payables and accruals	1.8%	5.6%	5.5%	6.5%	7.8%
Total current liabilities	**6.5%**	**6.7%**	**9.2%**	**12.4%**	**11.0%**
Long term debt	16.2%	24.9%	25.4%	14.1%	34.6%
Non-current provisions	0.0%	4.8%	0.0%	0.0%	0.0%
Deferred tax liabilities	0.0%	0.0%	1.4%	0.0%	3.7%
Other long term liabilities	0.0%	0.0%	0.3%	6.6%	6.3%
Total liabilities	**22.6%**	**36.4%**	**36.4%**	**33.2%**	**55.6%**
Equity (incl. capital, retained profits & reserves)	60.4%	47.9%	58.2%	53.4%	44.0%
Shareholder current accounts	11.2%	13.2%	1.2%	2.3%	0.0%
Shareholder loans	5.8%	2.5%	4.2%	11.1%	0.4%
Total Equity	**77.4%**	**63.6%**	**63.6%**	**66.8%**	**44.4%**
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

- On the whole this year's balance sheets for all categories are looking reasonably healthy with many of the issues from past years no longer as prominent.
- Inventories have fluctuated (both up and down) for all categories. The biggest mover, due to a change in participants, is the $0-$1.25m category, which at 17.7% of total assets is at a more reasonable level and is now more consistent with the other categories.
- Creditors as a percentage of total assets showed an improvement last year and has further improved this year implying wineries are being pro-active in settling their accounts payable. However, as illustrated in the Debtors vs. Creditors graph right, debtors are higher for all categories illustrating wineries are net providers of debt. Including inventory into

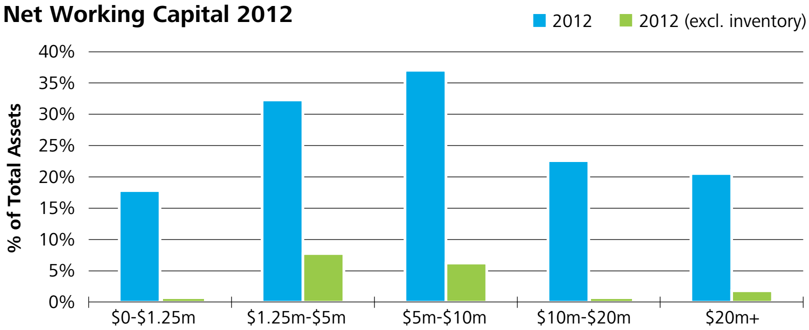
Debtors vs Creditors 2012



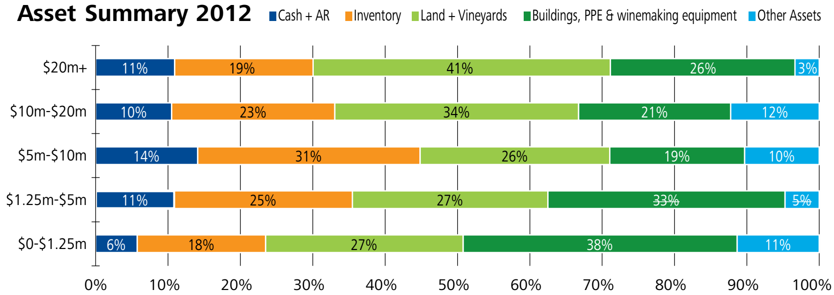
this mix creates a significant net working capital requirement. Delaying the payment of creditors, if managed carefully, can be used as a form of cash flow management reducing working capital needs.

- Net working capital is the difference between current assets and current liabilities and it shows the cash flow requirements for the day to day operations of the business. Working capital levels are shown as a percentage of total assets in the first chart on the right, both including and excluding inventory. It is apparent that inventory levels form a large portion of current assets and given the seasonality of the industry and the variability in the movement thereof, it is worth considering working capital excluding inventory for cash flow management purposes.
- Compared to prior years, participant's debt positions this year are looking more manageable. The $0-$1m category last year had significant levels of debt when bank debt/overdraft and long term debt was combined. Due to a change in participants the $0-$1.25m category is now at more manageable levels and more aligned with the other categories. Overall the bank debt/overdraft and long term debt position for the categories range from 16.6% up to 36.5%.

Net Working Capital 2012



Asset Summary 2012



Funding Summary 2012

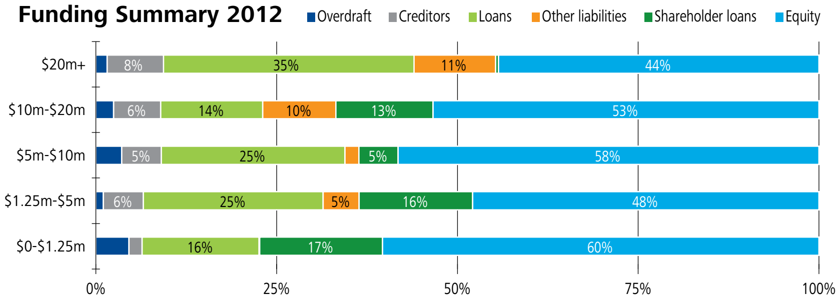


Image © – Sileni Estates Ltd

Deloitte perspective:

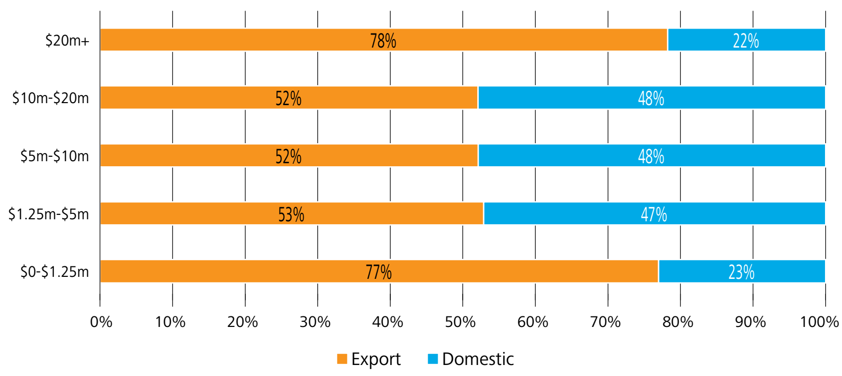
While we have a high number of returning participants, there has been quite a substantial change of participants within the $0-$1.25m category which makes this category difficult to compare. Last year this category's financial position was not healthy whereas this year things are in better shape. However the fact that this category was again the only category to record losses and the knowledge that a number of past participants didn't participate due to them not wishing to include their financial performance and position in the benchmark data means significant financial challenges continue to exist for the smallest wineries.

Vineyard values have declined in recent years and it has been widely reported in the past that vineyard sales, particularly in Marlborough, are slow and prices are low. While we do not believe that values have started to increase we understand that a greater number of sales are starting to occur and therefore the bottom of the value cycle may have been reached. In addition to this we have commented in the past that current market values could be lower than the amount invested and therefore overstated on winery balance sheets. Additional questions included in this year's survey have identified that this issue may not be as prominent as previously thought. A large majority of the participants have their land and/or vineyards included on the balance sheet at valuation. As the majority of these valuations have been conducted in the last 18 months it should theoretically mean that current market values are being reflected. One difficultly with this, however, is the fact that valuers have expressed concerns with determining accurate values due to a general lack of comparable sales data to base their valuation analysis on.

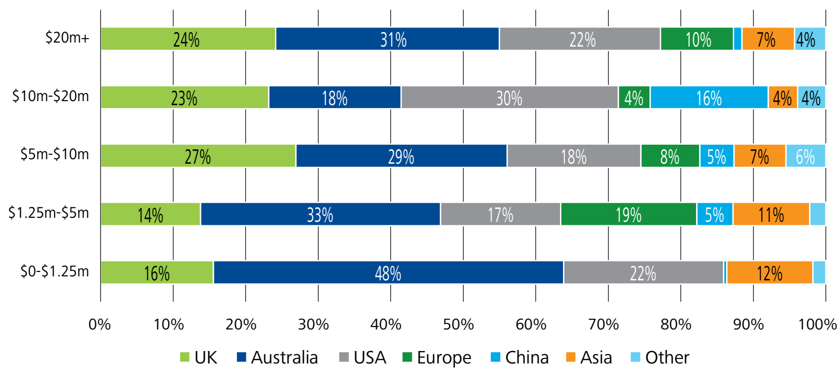
Distribution and sales

- A common theme that has come through all of the surveys undertaken to date is the strong dependence of the New Zealand industry on exports and the Vintage 2012 survey is no different. Consistent with prior year's all categories have greater than 50% of sales being exported. As the graph to the right illustrates the smallest and largest categories have the highest percentage being exported with greater than 75%. The remaining three categories are lower sitting between 50% and 55%.
- The export sales destination graph clearly illustrates the $0-$1.25m categories dependence on exports to Australia, with around 50% of their exports entering this market, significantly more than the other categories. It is considered this potentially explains the high percentage of overall sales being exported for this category. The relative ease of entering the Australian market, compared to the other major export markets, together with the incentives available through the WET rebate scheme, make this an attractive destination for selling, particularly for the smaller wineries.
- Consistent with last year, every category has a presence in the China and Asia markets, generally in line with the trends exhibited last year with the wider Asian market being more prominent than China. When both regions are taken into account we have witnessed an increase in the amount of exports entering these markets compared to last year, which is completely in line with expectations. 8% to 20% this year compares to 6% to 11% last year and indicates quite an increase in the importance of these markets to the New Zealand wine industry. The general perception is that this will grow further in the future.
- The third chart illustrates the distribution channels utilised by participants for domestic sales. As expected and consistent with prior years the wholesale/distribution channel remains the most important domestic channel. Cellar door is generally the second most important channel for all categories with the exception of the smallest wineries where it is interestingly non-existent. This may not be representative of this category but rather a function of the specific mix of participants this year. Website and/or mail order sales are quite low compared to the other methods but are certainly showing an increase on prior years.

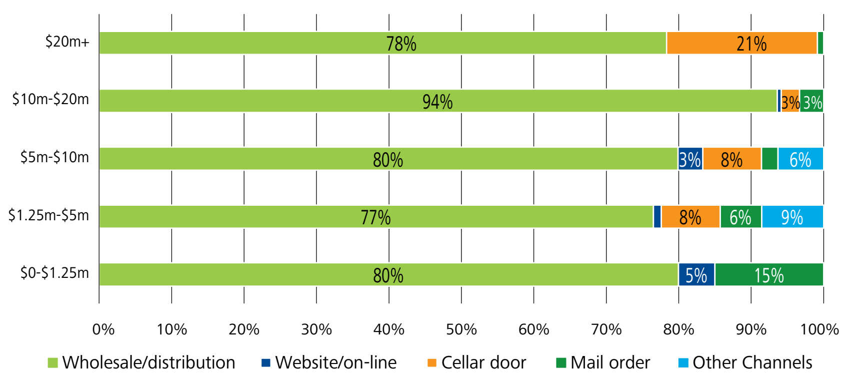
Distribution Channel 2012



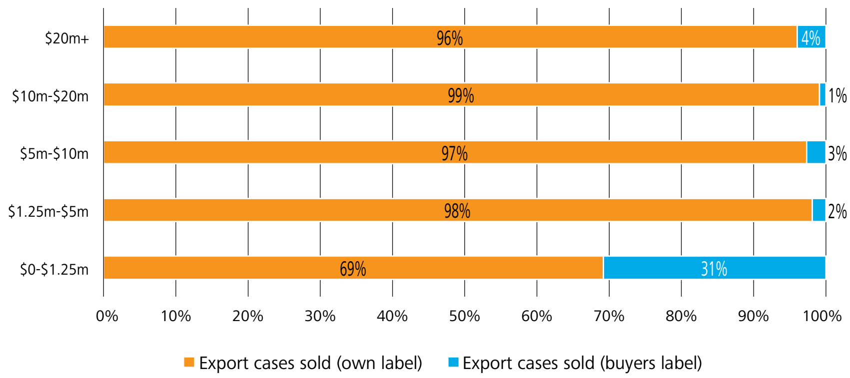
Export Sales Destination



Distribution Channel 2012 (Domestic Sales)



Export Case Sales 2012



- The chart to the left shows the split between export cases sold under a winery's own label versus export cases sold under the buyers' label. Interestingly we can see that the smallest category sell over 30% of their cases under their buyers' labels in comparison to negligible amounts for the larger wineries. This gives reason to believe that the smaller players in the industry are more susceptible to adhere to their buyers' terms in order to make the sales.

Image © - New Zealand Winegrowers

Deloitte perspective:

The increased importance of the Chinese and Asian export markets comes as no surprise and is line with what is being witnessed throughout the industry. Media reports show that wine exports to Asia have risen five-fold since 2005, reaching nearly $100m this year. We expect that this has the potential to grow significantly in future years, a view shared by many including NZ Winegrowers.

With the recent industry strategic review identifying the need to be present in growth markets NZ Winegrowers has recently opened its first Asian office based in Hong Kong, to complement the existing offices in London, New York, San Francisco and Melbourne. While the new office will serve the whole Asian region, it would be expected that China will be its main focus, given sales into this market grew by over 50% in the last year. The presence of an office will be a positive step towards taking a collaborative approach to targeting this important growth market.

Last year within this section we discussed the need for collaboration within the industry to ensure that the New Zealand wine industry received its share of the Chinese growth in demand for wine. It is pleasing to see that this is beginning to happen with the establishment of the NZ Winegrowers China office as well as jointly owned entities or joint marketing vehicles that have been set up to promote a number of New Zealand wines. It is this sort of sharing and learning to piggy-back that will prove beneficial in the future and while this is beginning to happen we consider there is still plenty of opportunity for more of the same.

Production

Production	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Crush					
Own grapes	34%	33%	56%	32%	47%
Purchased grapes	9%	47%	36%	59%	46%
Contract processed (by you for others)	57%	20%	8%	9%	6%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total crushed at your facilities (tonnes)	249	321	823	1,778	7,435
Utilisation (actual crush versus maximum crush)	89%	86%	71%	93%	95%
Grape and bulk wine supply					
Cost of grapes per tonne	$ 1,793	$ 1,625	$ 1,829	$ 1,705	$1,339
Cost of bulk wine per litre	n/a	$ 3.60	$ 3.07	$ 3.83	$1.84
Volume (litres)					
Litres of wine produced	177,811	199,730	565,636	1,457,517	5,968,058
Litres of wine produced per tonne crushed	559	555	687	644	696

We note that the production information generated is dependent upon the mix of participants in the survey. Generally the trend witnessed above is one of reduced metrics compared to prior years, which is completely in line with the smaller Vintage 2012 harvest.

- The reduced harvest experienced for Vintage 2012 is clearly illustrated above in the utilisation numbers recorded. For the first time in a number of years the utilisation of all categories is below 100%. While the lower harvest would have contributed to the lower utilisation, given years of higher harvests, increased capacity may have also been added into the industry.
- The cost of grapes per tonne fluctuates amongst the categories but in all respects the price is below $2,000 per tonne and is generally sitting between $1,300 and $1,800, especially when specific outliers, relating to the type of grape purchases, are adjusted for. Removing outliers in the $5m-$10m and $10m-$20m categories reduces the grape price to $1,669 and $1,447 respectively which results in a general decrease in cost as winery size increases, reflecting stronger bargaining power.
- For three of the four categories that have purchased bulk wine the price paid sits between $3 and $4 per litre. The $20m+ category however has an average price of $1.84 which we consider clearly demonstrates the additional bargaining power the larger wineries have when it comes to negotiating price.
- For the larger wineries ($5m+) the productivity levels recorded are similar to last year, with approximately 650 to 700 litres of wine produced per tonne crushed, which appear reasonable. The smaller categories have lower productivity which again is similar to last year's results and is assumed to be due to the mix of participants.

Cost of grapes per tonne

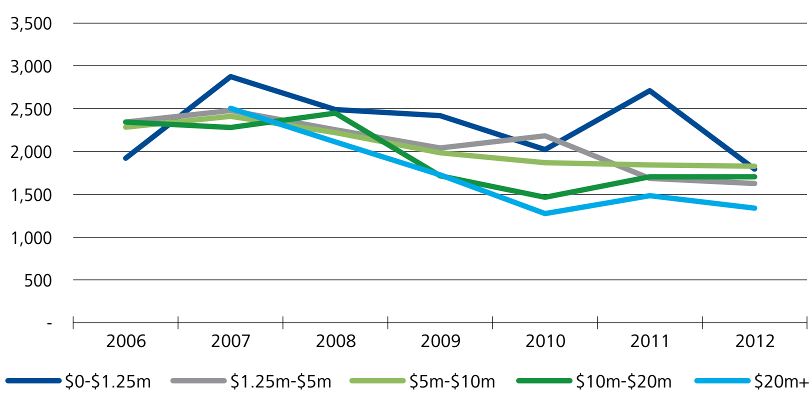
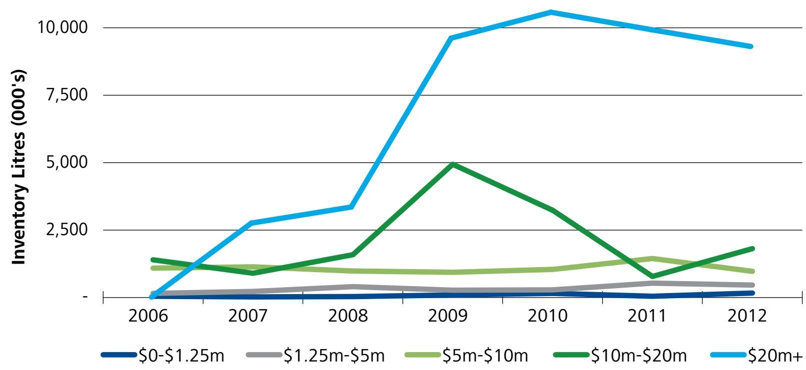


Image © - Misha's Vineyard Wines Ltd

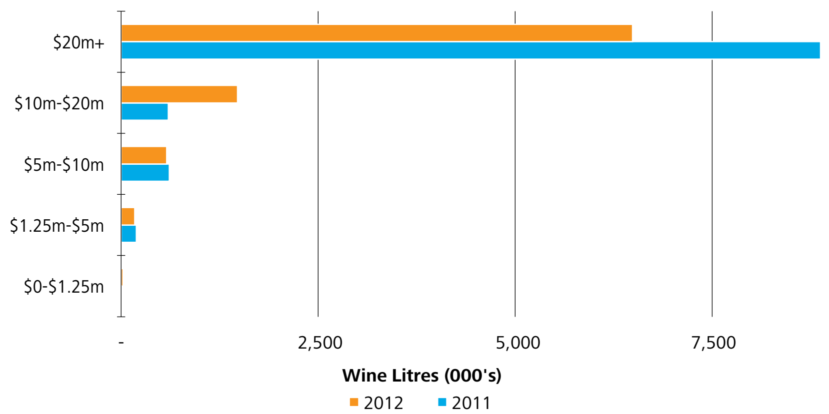
Inventory

Inventory	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Red					
Maturing in oak (litres)	84,999	15,513	78,435	115,770	101,141
Bulk wine (litres)	-	76,941	70,912	178,472	807,664
Packaged wine (cases)	2,280	8,468	11,903	9,440	66,687
Total litres	**105,520**	**168,669**	**256,471**	**379,198**	**1,508,987**
White and Other	-	-	-	-	-
Maturing in oak (litres)	1,276	769	16,451	19,177	57,563
Bulk wine (litres)	27,287	96,244	476,634	1,262,193	5,683,335
Packaged wine (cases)	3,850	20,858	19,898	12,118	228,954
Total litres	**63,214**	**284,738**	**672,169**	**1,390,432**	**7,801,486**
Total Litres all wines	**168,734**	**455,565**	**965,257**	**1,805,578**	**9,310,473**

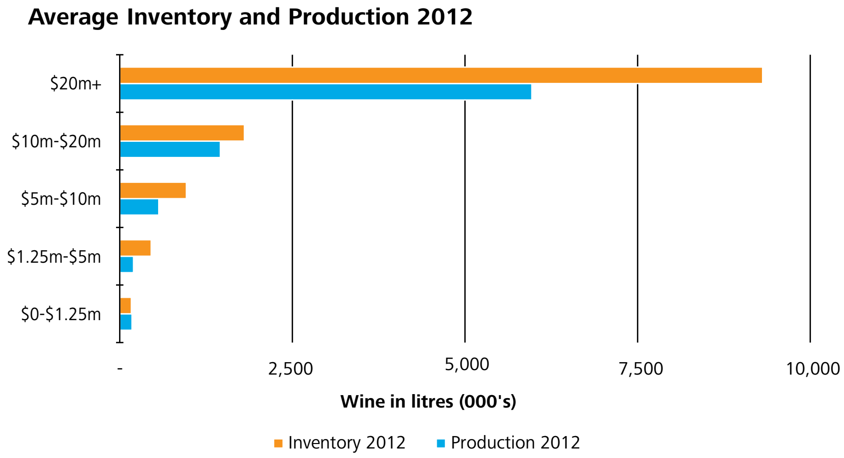
Average Inventory in Litres



Average Bulk Wine Inventory – 2011 and 2012



- Inventory levels have fluctuated amongst the categories, both up and down, when compared to our Vintage 2011 survey. Total inventory in litres of all wine has decreased for the $20m+ and the $5m-$10m categories, with increases for all the other categories when compared to last year's survey.
- Interestingly, despite the reduced harvest we are not seeing significant reductions in inventory levels when compared to prior year's surveys. The production levels recorded in 2012 however are lower than a year earlier which corresponds with the reduced harvest and therefore potentially additional inventory has been bought through from last year.
- In line with expectations the majority of the categories hold more white wine inventory than red wine. The one alternative is the $0-$1.25m category which has more red wine inventory and the majority of this wine is maturing in oak.



Deloitte perspective:

Last year's record harvest was reported to be demand driven due to increased selling that had occurred throughout the previous season, therefore depleting inventory levels. As is discussed within the Inventory section above Vintage 2012 production levels are down when compared to last year but we are not seeing similar reductions in inventory levels and in some cases inventory is actually increasing. This implies that wineries have carried through inventory from their Vintage 2011 production into 2012 inventory due to sales not being as high as expected (i.e. demand wasn't as high as expected).

The positive side of this situation is that despite the reduced harvest wineries will have sufficient inventory to meet demand over the next year. This does highlight the risk however that any large harvests in the future need to be matched against market demand to avoid serious issues for the New Zealand wine industry.

Price points

- The graph right illustrates the domestic retail price points that the participants target.
- Throughout the survey's seven year history no participant has targeted the cask market and this year is no different. In addition, consistent with our Vintage 2011 survey, only the $1.25m-$5m category has a presence in targeting the less than $7 a bottle market this year.
- Also consistent with our past year's surveys is the trend that as winery size increases their target sales market tends to decrease as illustrated by the dramatic decline in the size of the $20-$50 per bottle and $50+ per bottle bars above.
- This year we have witnessed an increase in the $7-$10 per bottle price bracket. While this price bracket is non-existent in the $0-$1.25m category, the $1.25m-$5m category has a large percentage of sales targeted in this price point, a sizable change from last year.
- The responses received from the $0-$1.25m category correspond with our past experience that the smaller wineries tend to aim at achieving a higher price point on lower volumes. The aim of producing a boutique style product is illustrated by the fact that approximately 50% of wine produced for the New Zealand retail market is priced at greater than $20 a bottle and approximately 85% of wine is priced at greater than $15 a bottle.

Sales price point 2012

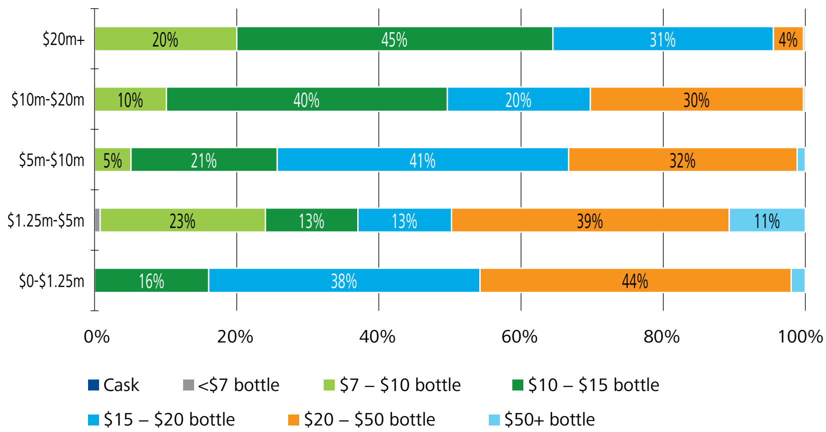



Image © - Brookby Ridge Vineyard Ltd

Issues facing the New Zealand industry

	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Exchange rates	1	3	1	1	1
Excise and other levies	2	2	2	3	2
Marketing product overseas	3	1	3	2	5
Grape supply (too little)	5	9	4	4	3
Interest rates	3	4	5	8	7
Grape supply (too much)	6	6	7	9	6
Government compliance costs	8	10	6	5	8
Access to capital	6	7	10	10	4
Labour supply/cost	9	5	9	5	9
Affordability of land	11	7	11	7	9
Company tax rates	10	11	8	11	9

- Consistent with past Vintage surveys we are again seeing a consistency in the top three issues that the industry is facing in the opinion of participants. This year the number one issue is "Exchange rates", which is a challenge for most New Zealand exporters. We have however seen a movement in the order of the second and third ranked issues which are "Excise and other levies" and "Marketing product overseas".
- Given the strength of the New Zealand dollar against its main trading partners in recent years and the general sentiment of exporters that intervention is required to weaken it, it is unsurprising that "Exchange rates" was the number one ranked issue. This is the third year in a row that this issue has held the number one spot and this year all categories with the exception of the $1.25m-$5m category rated it as their top issue.
- Last year "Excise and other levies" moved into the top three issues, appearing at number three. This year it has moved one place further to be ranked at number two overall and number two for all but the $10-$20m category. As at 1 July 2011 the government raised excise tax rates 12c per litre, the largest increase in 20 years and many wineries felt this increase would be not be able to be passed on to consumers. This was considered to be responsible for the increased prominence of this issue last year. Until greater profitability returns to the industry it would be expected that this issue would remain near the top of the list.
- "Marketing product overseas" was ranked overall as the third biggest issue facing the industry, however, there was a range of rankings within the categories. Given the industry's reliance on exports the fact this issue receives prominence is hardly surprising. The largest wineries rank this issue the lowest of the five categories, possibly due to having already established export markets, however it is still their fifth ranked issue. All the other categories have the issue ranked in their top three and interestingly the prominence is generally negatively correlated with the level of export sales (the greater the exports the lower the prominence).
- As reported in the media the Vintage 2012 harvest was well down on previous years so unsurprisingly "Grape supply (too little)" has made a major move within the list of issues reported this year. Ranked fourth overall this year is a considerable movement from the ninth spot it held last year. As could be expected, given their need for larger volumes of grapes, the largest wineries have ranked this issue the highest. However all categories obviously have their concerns as the issue features prominently for them all.
- The other interesting ranking within the list is "Access to Capital". Included within the top five issues last year it has moved overall to eighth this year, however it is probably the issue this year with the largest variation across the categories. The medium sized wineries ($5m-$10m and $10m-$20m) both ranked it as the tenth most important issue (out of eleven) potentially demonstrating that they are comfortable with their size and financial structure. The largest and smallest wineries however have ranked it fourth and sixth respectively illustrating that they consider it of more importance. It is considered that the large wineries response could be related to the earlier comment that they are concerned about grape supply and therefore require capital as they are looking at purchasing existing vineyards and/or wineries to secure on-going supply or facilitate growth aspirations. The $0-$1.25m category are possibly also looking at raising capital to facilitate growth, however it is considered this could be through a necessity of getting to a sustainable business model rather than choice.

	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$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)
2012	Exchange rates	Marketing product overseas	Exchange rates	Exchange rates	Exchange rates

Deloitte perspective:

The table above of the number one issue within each category over the last seven vintage surveys clearly illustrates the importance of overseas markets for NZ wineries. The most featured number one issue over the life of the survey is “Exchange rates” which is obviously only an issue for companies trading overseas. The fact that it has featured so prominently, particularly in recent years demonstrates wineries perceptions of the impacts that the current high exchange rates are having. The second most featured issue is “Marketing product overseas” which given the industry’s dependence on exports is hardly surprising and would potentially have featured more if it wasn’t for the current situation with exchange rates.

Last year we commented in this section that we expected investors would increasingly be seeking investment opportunities within the industry. Over the last 12 months there has been an increase in the number of vineyard sales that have been reported. This is related to the consolidation of the industry which we (and other commentators) have been proposing would occur for the last few years due to the issues that have been experienced by some wineries. However, it is also related to the reduced Vintage 2012 harvest and wineries wanting to secure ongoing supply for future seasons. Either way it illustrates that wineries exist with the capital and/or headroom available for expansion and we predict an increased volume of such transactions in the future.

In addition to the last comment, as part of this year’s survey, we were also collecting information to conduct a review for New Zealand Trade & Enterprise (“NZTE”) focusing on capital, investment and value creation within wine businesses. NZTE wishes to determine if there are opportunities for market-led capital investment into wine businesses in New Zealand. Through questions included within our survey this review has generated interest among wineries of all sizes and shows that accessing capital is something that wineries are considering.

Movement analysis – Vintage 2011 to Vintage 2012

Key Profitability Metrics	Winery size (2012 revenue)				
	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Cases sold	4.5%	17.0%	2.0%	12.3%	3.4%
Revenue per case	2.6%	(11.9%)	(9.6%)	(2.7%)	0.5%
Net case sales revenue	7.2%	3.1%	(7.8%)	9.3%	3.9%
Total revenue	15.2%	6.6%	(9.5%)	10.2%	6.7%
Gross Margin	3.6%	14.8%	1.0%	14.9%	3.7%
EBITDA	**35.5%**	**173.5%**	**46.2%**	**18.1%**	**(6.7%)**

Note: Amounts in above table represent absolute movements in average values over the period 2011 - 2012

The survey required respondents to complete prior year (2011) 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.

Profitability

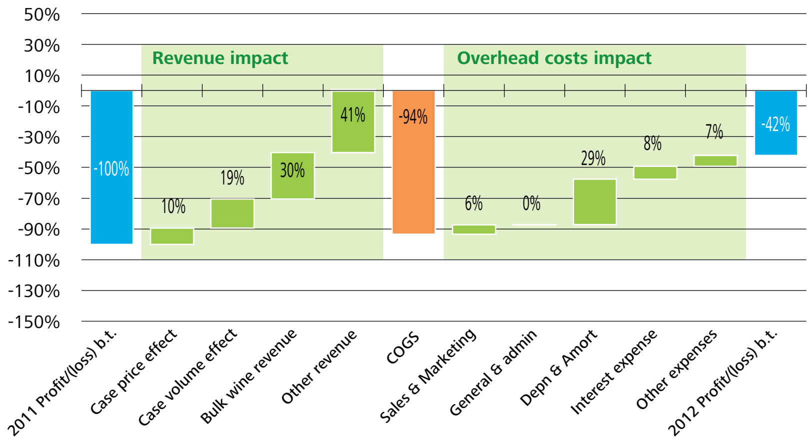
- The table above provides a summary of the relevant movements found in the prior year comparison data. Note that these tables represent the movement in the average values over the 2011 to 2012 period.
- The middle three categories have recorded increases in the volume of cases sold and decreases in revenue per case. The higher volume lower price strategy worked for two out of the three categories, with the $5m-$10m category falling short on the size of the volume uplift and recording a reduction in net case sales revenue. The smallest and the largest categories both recorded increases in net case sales from marginally higher volume and prices.
- Even though gross margins are still below assumed sustainable levels, higher gross margins were achieved in comparison to prior year results through a mixture of cost rationalisation and revenue growth.
- EBITDA was up for the four smaller categories, and notably so for the $1.25m-$5m category. The main driver was reductions in general and administration expenses. The $20m+ category recorded a lower EBITDA this year than in 2011 despite small increases in net case sales and gross margin.

The following sections explore these movements in more detail for each category. The graphics below show the movements in profit or loss before tax from 2011 to 2012, as a percentage of 2011 profit (or loss). Green bars represent improvement (i.e. an increase in income or decrease in costs) and orange bars represent deterioration.

$0-$1.25m Category Profitability

- Small wineries have reduced their loss making position down to 42% of the size of the original loss in 2011 (blue bars).
- The factors driving the improvement were the increase in case prices and volumes, the increase in bulk wine and other revenue, and decreases in overhead costs. This was offset by an increase in COGS which is largely due to stock movement.

Change in profit from the 2011 vintage to the 2012 vintage (as a % of 2011)
$0-$1.25m category



$1.25m-$5m Category Profitability

- The $1.25m-$5m category has turned around from a loss making position in 2011 to becoming profitable in 2012.
- The net case price effect is entirely offset by the volume uplift with a positive net impact on case revenue. Higher bulk wine revenue and other revenue further contribute to an overall positive revenue impact. The small increase in COGS is not proportional to the large revenue increase and results in an uplift in the gross margin in the table.
- Overhead costs in total decreased as a result of lower general and admin costs and depreciation and amortisation costs more than offsetting the increases in the other costs.

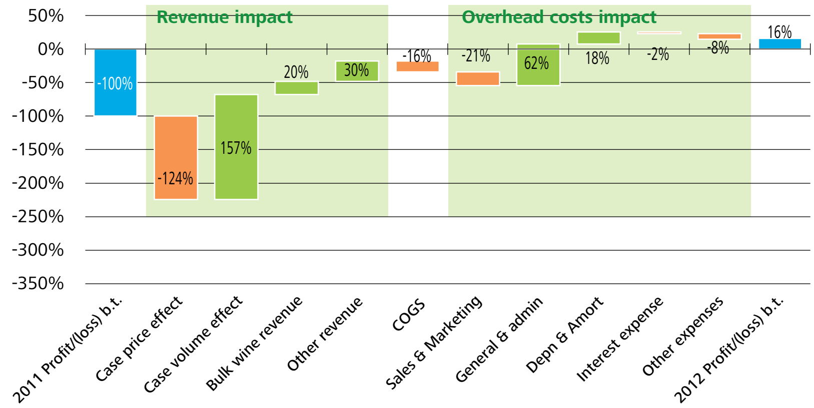
$5m-$10m Category Profitability

- The $5m-$10m category experienced the largest increase in profit of all the categories over the past year recording an increase of 150% on 2011 levels. The drivers for this category are different from all the others as it purely stems from cost rationalisation in response to a negative overall revenue impact.
- The small increase in case volumes compared to the relatively large case price reduction has driven revenue levels down substantially. This was then further fuelled by reduced bulk wine and other revenue.
- The reduction in COGS roughly offsets the revenue reduction and savings were recorded in overall overhead costs, particularly in general and admin costs.

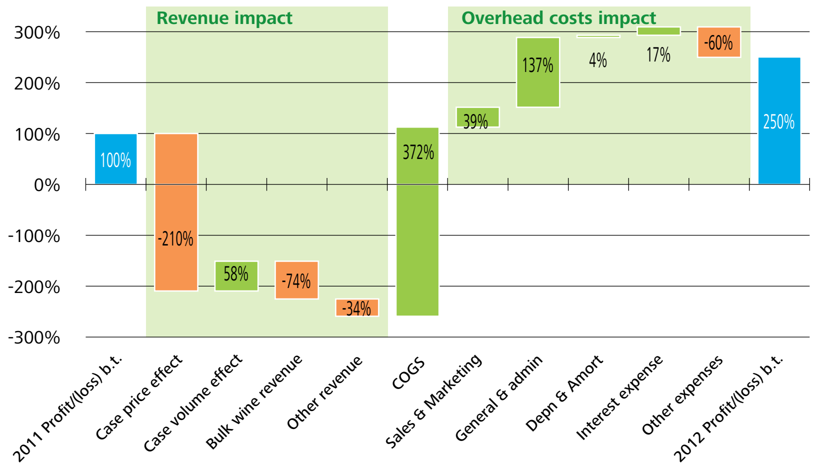
$10m-$20m Category Profitability

- This was the most profitable category in 2011 and it experienced a 24% uplift over the past year to retain its top profitability rank in 2012.
- The increase in profit was driven by higher volumes of case sales achieved by slight price reductions and further aided by marginally higher bulk wine revenue and other revenue.
- The increase in COGS is less than 50% of the net revenue impact which adds to a higher 2012 gross margin. This has allowed the participants to focus more resources on sales and marketing to push the volume uplift.

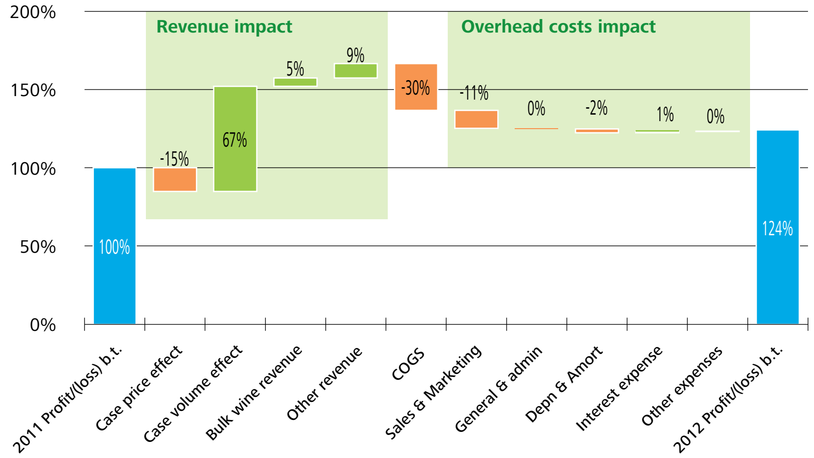
Change in profit from the 2011 vintage to the 2012 vintage (as a % of 2011)
$1.25m-$5m category



Change in profit from the 2011 vintage to the 2012 vintage (as a % of 2011)
$5m-$10m category



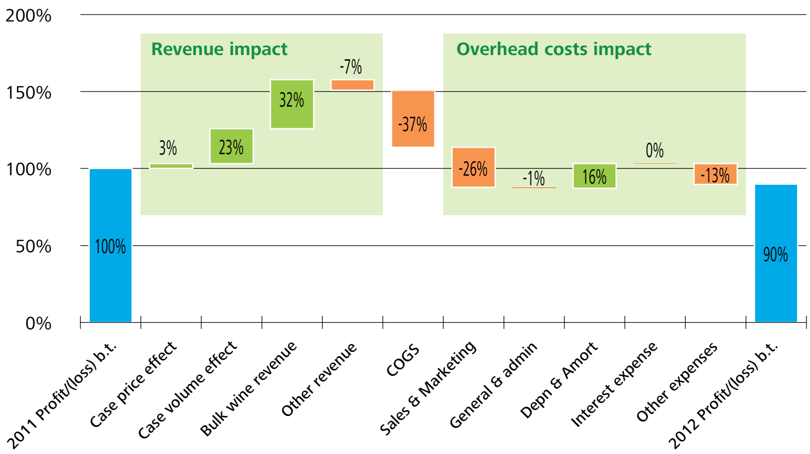
Change in profit from the 2011 vintage to the 2012 vintage (as a % of 2011)
$10m-$20m category



$20m+ Category Profitability

- The $20m+ category has experienced a slight drop in profitability over the past year ending 10% lower than 2011's average profit. It is the only category to record a year on year decrease.
- The majority of the revenue buckets are positive (net impact of 51%) from higher volumes of case sales on a relatively flat price and an uplift in bulk wine revenue.
- The higher revenue was coupled with an increase in COGS of 37% and a net increase in overhead expenses (in particular sales and marketing to push the revenue uplift) that resulted in the lower 2012 profit.

Change in profit from the 2011 vintage to the 2012 vintage (as a % of 2011)
$20m+ category



Production

- Tonnes of grapes crushed for the smaller two categories have increased and the larger three have crushed less in 2012 in comparison to 2011. The overall reduction in tonnes of grapes crushed is in line with the overall reduction in the 2012 harvest.
- The reduction in the harvest this year may be believed to correct the oversupply last year by pushing grape prices back up. The cost of grapes per tonne does not show any clear trend amongst the survey participants, however four of the five categories recorded cost increases of between 6% and 17%, giving support that there has been an overall price uplift.
- The table also shows the movement in litres produced by wine type and the last line item shows the overall movement in percentages.

Balance Sheet and Solvency Ratios

- Inventory levels have marginally increased for all winery categories between 2011 and 2012.
- Land and vineyard values have generally only increased for the $20m+ category. It is assumed that this is due to acquisitions during 2012. The smaller three categories have seen decreases in their values in the current year and the $10m-$20m category recorded an increase in vineyard and decrease in land values which largely nets off.
- Total interest bearing debt (overdraft and term debt) have decreased for the four largest categories and increased marginally for the $0-$1.25m category.
- In terms of solvency ratios, the four largest categories have improved their current ratios over the last year. The $0-$1.25m category has decreased due to its increase in overdraft.
- Debt ratios have largely decreased (an improvement) for the three middle categories and all of the winery categories have improved on their ability to cover their interest over the year.

	Winery size (2012 revenue)				
Production	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Tonnes of grapes crushed	6%	10%	(27%)	(24%)	(23%)
Cost of grapes per tonne	11%	6%	17%	15%	(5%)
Red produced (litres)	(2,657)	(1,987)	(33,599)	(227,206)	(164,017)
White produced (litres)	9,248	10,726	(159,463)	(198,347)	(17,059)
Other produced (litres)	-	(1)	(1,000)	15,462	(10,686)
Litres of wine produced	4%	4%	(26%)	(22%)	(3%)

Note:
Amounts in above table represent absolute movements in average values over the period 2011 - 2012

	Winery size (2012 revenue)				
Key Financial Ratios	$0-$1.25m	$1.25m-$5m	$5m-$10m	$10m-$20m	$20m+
Balance Sheet					
Inventory	4.0%	2.5%	2.0%	4.5%	1.1%
Land	-	(3.2%)	(2.7%)	(26.4%)	10.6%
Vineyards	(9.2%)	(7.5%)	(4.1%)	25.9%	2.9%
Total interest bearing debt	0.5%	(0.9%)	(4.3%)	(0.2%)	(1.8%)
Solvency ratios					
Current Ratio	(5.8%)	5.8%	36.3%	11.3%	24.0%
Debt to equity ratio	1.4%	(11.6%)	(8.0%)	(1.1%)	2.8%
Debt to total tangible assets	(0.8%)	(8.0%)	(10.1%)	(2.3%)	6.5%
Interest cover ratio	131.1%	258.7%	69.6%	29.0%	2.5%

Note:
Amounts in above table represent absolute movements in average values over the period 2011 - 2012

About Vintage 2012

- Deloitte has conducted this annual financial benchmarking survey in conjunction with the New Zealand Winegrowers. The survey was conducted between September and October 2012 and is based upon financial statements that cover the 2012 vintage[1].
- 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 36 survey participants, which account for approximately 28% of the New Zealand wine industry by litres of wine produced and 34% by export sales revenue generated for the 2012 year. Respondents either own or lease 13% of the 33,400[2] producing hectares currently under vine in New Zealand. Approximately 83% 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)[3]:
    - 3% – North Island – Auckland and Northern region (2011 – 3%)
    - 20% – North Island – Eastern coastal regions (2011 – 19%)
    - 66% – South Island – Northern regions (2011 – 62%)
    - 11% – South Island – Central and Southern regions (2011 – 16%)
- To assist the comparison of different sized wineries, respondents have been categorised based on total annual revenue as follows:
    - $0-$1.25m (2011: $0-$1m)
    - $1.25m-$5m (2011: $1m-$5m)
    - $5m-$10m
    - $10m-$20m
    - $20m+

  The change in categorisation for the smallest category was considered appropriate due to three participants only just exceeding the $0-$1m threshold, with all others in the higher category exceeding $2m of revenue. This reallocation also meant fairly equal numbers appeared in each category's dataset.
- 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.
- Figures presented have not been adjusted to eliminate rounding variances.

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

[2]New Zealand Wine Annual Report 2012 — http://www.nzwine.com/info-centre/#annual_report

[3]New Zealand Wine Annual Report 2012 — http://www.nzwine.com/info-centre/#annual_report

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Deloitte brings together more than 900 specialists providing New Zealand's widest range of high quality professional services. We focus on audit, tax, technology and systems, risk management, corporate finance and business advice for growing organisations. Our people are based in Auckland, Hamilton, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies to smaller businesses with ambition to grow.

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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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