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Vintage 2015
New Zealand wine industry benchmarking survey

A joint publication from Deloitte and New Zealand Winegrowers

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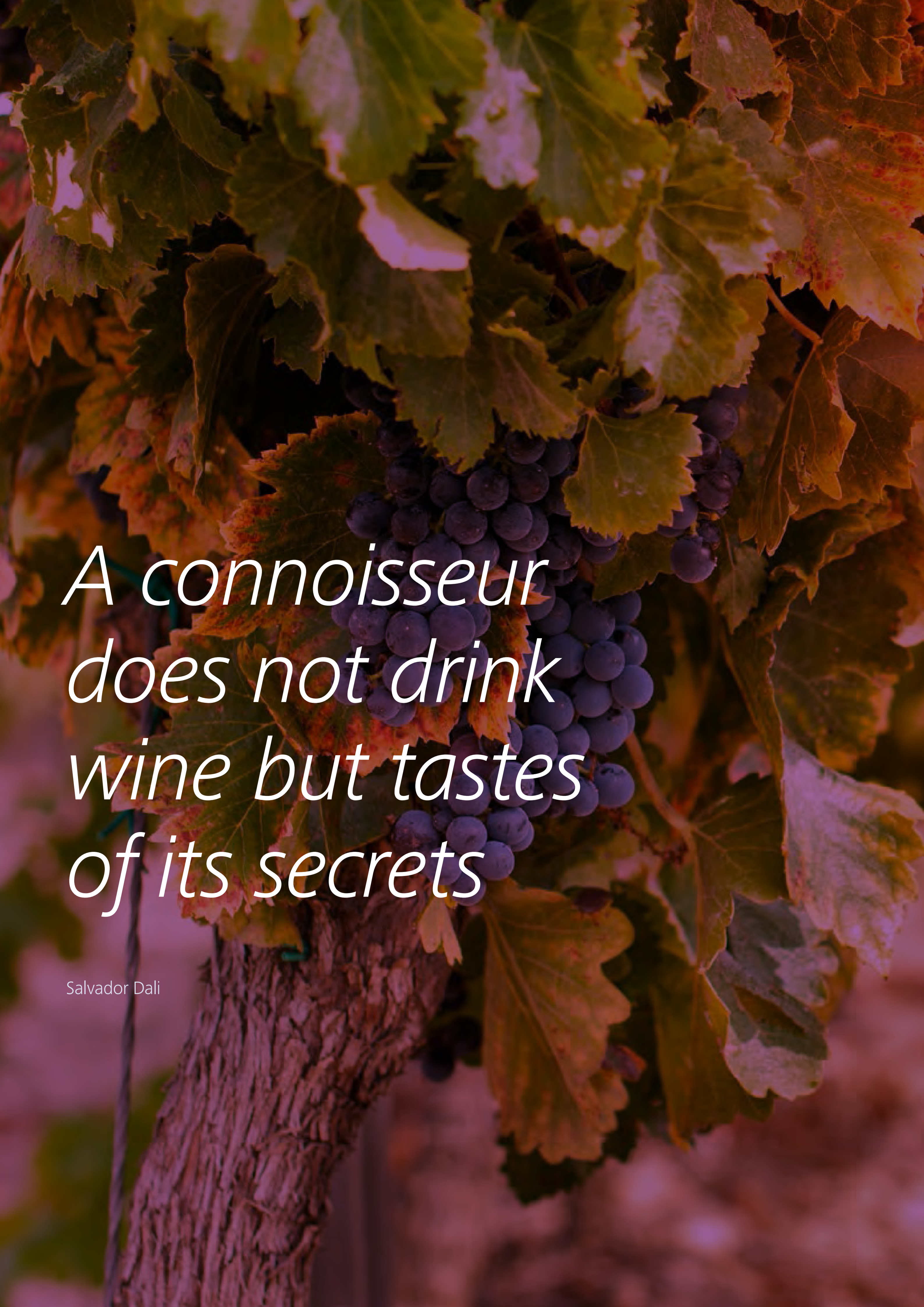

A connoisseur does not drink wine but tastes of its secrets

Salvador Dali

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Welcome

It is with great pleasure we present the results of our Vintage 2015 financial benchmarking survey, in conjunction with New Zealand Winegrowers. This year is a significant milestone in the survey's history with it being the 10th year of its publication. With a decade now behind Deloitte in independently surveying the results of New Zealand wineries of all sizes, there is no better time for us to reflect on the growth of the industry through the findings in these reports. This survey increasingly contains a wealth of information from which to draw insights for wineries across the country to assess their own performance and identify areas for improvement through the power of benchmarking.

Since the first survey in 2006, we have seen varied numbers of participants included in the results and can consider this year a success in terms of the total number received. In addition, we are pleased to report that there is a relatively even spread of participants across the categories and that the survey data represents responses from participants that accounts for almost 40% of total wine production over the same period.

This year's report continues a theme of resilience, optimism and innovation with the issues present four to five years ago well behind us and some pleasing sales & distribution initiatives shown by the smaller categories. In addition, after the record 2013 and 2014 harvests we undertook this year's analysis with interest to see how the results reflected a lower 2015 harvest and if the profitability of 2014 could be sustained.

As always, thank you to all the respondents who provided data. Without the commitment of the participants this survey would not be able to provide the insights into the financial well-being of the industry that it does. We understand that a lot of time and effort can go into producing the information we require and therefore are grateful for the efforts made. We are confident however that the results included within this report and the individual report that each participant will receive will provide value and make the exercise worthwhile.

We value our continued involvement with the industry and look forward to producing the survey for future vintages.

Peter Felstead

Sponsoring Partner - Deloitte

As the national industry organisation for New Zealand's grapegrowers and winemakers, New Zealand Winegrowers is committed to providing high quality, beneficial information to our members. As such we are delighted to continue our partnership with Deloitte in producing this 2015 financial benchmarking survey for wineries.

The total tonnage in the 2015 harvest was significantly reduced when compared with the previous year. Harvest quality across the country was high however, which bodes well for wines from this vintage.

While harvest figures were reduced in 2015, the export demand for New Zealand wine has remained high. In the UK and US, two of our key export markets, New Zealand wine sales have grown faster than any of our competitors in the premium sector. Increased planting will help to satisfy export demand for higher production of our key export varieties.

New Zealand Winegrowers hopes this survey will inform the quality decision making in the industry and we look forward to working with Deloitte on the on-going development of it in future years.

Philip Gregan

CEO – New Zealand Winegrowers

Executive summary

It is without a doubt that looking at the survey results of the last 10 years, that the industry has come a long way through both growth in size, as well as resilience. From export values of $512 million in 2006 to the $1.5 billion today, with oversupplies and a financial crisis in between, the industry has certainly earned its keep to remain an important part of the New Zealand economy.

Vintage 2015 produced a harvest of 326,000 tonnes of grapes; down 27% from the peak of the consecutive record volumes of 2014 (445,000 tonnes) and 2013 (345,000 tonnes). This year's lower harvest came as a relief for some in the industry after the efforts of dealing with the increased supply from the volumes of prior harvests.

The Deloitte NZ wine industry financial benchmarking surveys undertaken in past years have continued to show signs of optimism within the industry following a period of supply imbalances, high external debt levels, the Global Financial Crisis and impacts of bulk wine sales. Following the record harvests of 2013 and 2014, potential existed for excess supply to apply downward pressure on prices and profitability in 2015. We are however pleased to see that whilst not all categories were profitable, gross margins were largely maintained or increased from 2014 to 2015. The range of average profitability among all categories was reported from a loss of 9.0% for the smallest category, largely from increased marketing costs, to a profit of 30.5% for the largest category from higher gross margins and lower overheads.

Other key metrics within the survey results also indicate a change in the source of funding for many wineries from debt to equity, with all categories reporting debt to equity ratios above 70%. This is compared to the longer term average of 40 – 70%. The revenue per case for the smallest category was also influenced by a number of premium participants driving the result to over $200 per case, compared to under $100 for the next highest category.

While there was a record harvest for 2014, we have still not seen inventory levels increase significantly this year. This is a positive sign, showing that wineries are better placed to deal with the increased supply by being able to dispose of the excess and avoid having large volumes remain on hand. It is additionally pleasing to see no significant reductions in bulk grape or wine prices over the same period.

Exports remain an integral part of the industry. Interestingly, however, this year we again see a number of categories at or below 50% of sales being exported. With this being shown by the $0-1.5m and $5-10m categories we maintain that this is likely due to changes in the mix of participants this year rather than from less global demand for New Zealand wine. We do note however the increased focus on the domestic market for wineries in the smallest category. The high New Zealand dollar is something that all exporters had to contend with however we feel that many participants adjusted to a high exchange rate environment to maintain more sustainable prices and volumes to overseas markets, before depreciation of the dollar in May and June this year.

New Zealand wine industry benchmarking survey
Vintage 2015: Key insights

61.9m
LITRES OF NZ WINE SOLD IN NZ VS **209.4m** FOR EXPORT

$1.42
BILLION TOTAL VALUE OF EXPORT EARNINGS

326k TONNES
OF GRAPES HARVESTED – DOWN 27% FROM 2014

62%
PROPORTION OF DIRECT TO CUSTOMER SALES BY SMALLEST CATEGORY WINERIES

GRAPE SUPPLY
RANKED NUMBER 1 ISSUE BY LARGER NZ WINERIES

AUSTRALIA UK & USA
MOST RELIED UPON MARKETS FOR EXPORTS

13%
PERCENTAGE OF REVENUE SPENT ON SALES & MARKETING BY SMALLEST CATEGORY

70%
AVERAGE PERCENTAGE OF ASSETS FUNDED BY EQUITY INSTEAD OF DEBT BY PARTICIPANTS

VINTAGE 2015

It is estimated that the New Zealand wine industry has an annual turnover of approximately $2 billion with $1.42 billion of this coming from export earnings.

2015 survey respondents account for approximately 38% of the New Zealand wine industry by litres of wine produced and 35% by export sales revenue generated for the 2015 year.

Profitability

Profitability 2015	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Net case sales revenue	**84.5%**	**77.5%**	**80.4%**	**68.8%**	**85.3%**
Add:					
Bulk wine sales - domestic	0.6%	9.9%	6.4%	5.2%	1.2%
Bulk wine sales - export	0.0%	0.9%	0.4%	3.0%	8.6%
Grape sales	9.0%	5.0%	1.2%	0.2%	0.9%
Merchandising revenue	0.0%	0.0%	0.3%	0.0%	0.0%
Contract winemaking revenue	0.1%	1.3%	2.3%	20.0%	0.2%
WET Rebate	3.2%	2.3%	0.9%	2.1%	0.4%
Other revenue	2.5%	3.1%	8.1%	0.7%	3.4%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of goods sold	(66.6%)	(66.9%)	(64.6%)	(57.1%)	(44.7%)
Gross margin	**33.4%**	**33.1%**	**35.4%**	**42.9%**	**55.3%**
Less:					
Selling Costs	(13.1%)	(11.6%)	(11.8%)	(9.0%)	(11.5%)
General & administration costs	(16.7%)	(8.5%)	(11.3%)	(10.9%)	(4.6%)
EBITDA	**3.7%**	**13.0%**	**12.4%**	**23.0%**	**39.2%**
Less: Depreciation and amortisation	(8.6%)	(3.5%)	(4.9%)	(4.5%)	(4.3%)
EBIT	**(5.0%)**	**9.5%**	**7.5%**	**18.5%**	**34.9%**
Less: Interest expense	(3.5%)	(2.6%)	(3.0%)	(4.9%)	(5.0%)
Add: Interest income	0.0%	0.2%	0.4%	1.5%	0.2%
Add: Other non-operating income	5.5%	0.0%	1.6%	0.5%	2.0%
Less: Shareholder salaries	(3.6%)	0.0%	0.0%	(0.2%)	(0.4%)
Add/(Less): Foreign exchange gain/(loss)	(0.1%)	1.2%	0.9%	0.3%	(1.2%)
Less: Inventory write-downs	(2.3%)	(1.2%)	(0.3%)	0.2%	(0.0%)
Profit / (Loss) before tax	**(9.0%)**	**7.1%**	**7.0%**	**15.9%**	**30.5%**

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

The 2015 survey results reinforce the results of earlier surveys and indicate that profitability generally increases with size, ranging from a loss of 9% for the smallest category to a profit of 30.5% for the largest category.

Each category's profitability and trends are discussed briefly below.

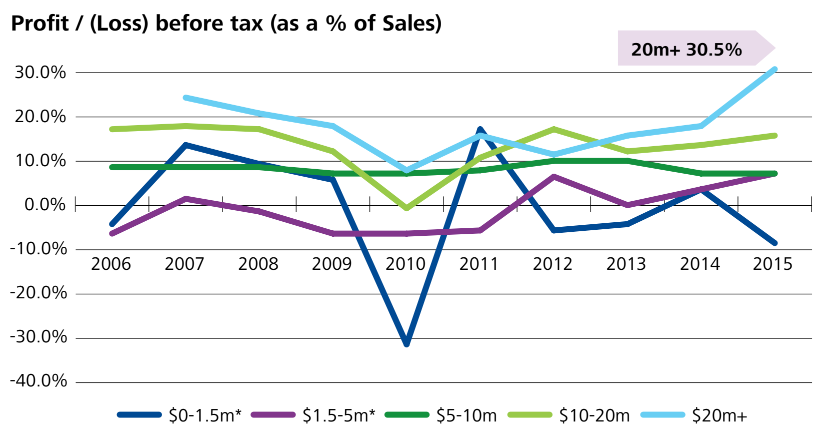


Image © Soho Wine Co

$0-$1.5m category

- This category usually reflects the lowest average profit / (loss) before tax and while the 2014 survey returned a profit of 3.3% for this category, the 2015 results show a net loss before tax of 9% of revenue. This can partially be attributed to the changing mix of participants this year who reported an average 2014 loss of 6.1%, dropping further to 9% in 2015 due to a mix of increases in salaries and inventory write downs.
- This year we have seen a change in the proportions of revenue from the 2014 survey including a move from grape sales (14.6% to 9% of total revenue) to case revenue (80.2% to 84.5%). We note however that the 2015 participants alone reported a swing in results from 2014 in the opposite direction with case revenue decreasing from 87.8% to 84.5% of revenue and grape sales increasing from 5.3% to 9% from 2014 to 2015.
- Cost of goods sold remained consistent from 2014 to 2015 making up 66.9% and 66.6% of revenue respectively. As a result gross margins remained consistent from 2014 to 2015, making up 33.1% and 33.4% of revenue respectively.
- An increase in advertising as well as general overheads has driven this year's results with total overheads making up 29.8% of revenue this year compared with 18.1% in 2014. With consistent gross margins across the two years this increased cost has directly impacted the bottom line.
- Compared with the other categories, participants in this category typically have lower selling and administration costs but higher depreciation and interest costs as a proportion of revenue. This year however, we see these participants have reported not only a higher than usual selling & administration costs, but highest of all categories at 13.1% and 16.7% of revenue respectively. This is in contrast to, for this category, the longer term average for selling costs of approximately 8% of revenue and 13% for administration costs.

$1.5m-$5m category

- Profitability for this category increased in 2015 to 7.1% from 3.3% in 2014. However this can be mostly attributed to a change in the mix of participants with the 2014 comparative results reported by our 2015 participants showing an average profit of 13.3%.
- The revenue mix of this category is usually more in line with the three larger categories than the $0-$1.5m category. This year we again see a point of difference in grape sales, making up 5% of revenue, likely as a result of disposing surplus supply from the 2014 record harvest. Domestic bulk wine sales also show an increase to 9.9%, likely for the same reason.
- Overhead costs as a proportion of revenue are almost equal with the $10-20m category (the second lowest of all categories) at 20.1% of revenue. This category also reports the lowest level of depreciation expenses among all the categories at 3.5% of revenue.

This is consistent with this category holding the lowest average value of depreciable assets among all categories.

$5m-$10m category

- 2015 has seen largely consistent levels of average profitability as a proportion of revenue for the $5m-$10m category, only decreasing to 7% from 7.2% in 2014. It is worth noting however that the 2015 participants alone experienced a larger decrease in profitability from 12.1% in 2014 to 7% for the current year.
- Whilst case sales remained relatively consistent from year to year as a proportion of total revenue, the $5 – $10m category does show a trend towards an increase of domestic bulk wine sales with these making up 6.4% of revenue in 2015 from 2.6% in 2014. It is likely again that this is due to the record 2014 harvest. Interestingly, we note that utilisation of production facilities also dropped slightly over the same period, which is discussed later in this report.
- The 2015 participants recorded a largely consistent gross margin across 2014 and 2015 (33.5% and 35.4% respectively) as well as cost of goods sold (66.5% and 64.6% respectively). However we do note that the 2015 participants alone experienced a drop in gross margin, from 42.7% to 35.4% from what appears to be lower case sales and higher domestic bulk wine sales.
- Overhead costs as a proportion of revenue were broadly in line with the two smallest categories at 23.1% of revenue, and consistent with the results reported for 2014.

$10m - $20m category

- Profitability for this category increased in 2015 to 15.9% from 13.7% in 2014. This increase in profitability is attributed to a slight decrease in selling costs (2014: 13.1%, 2015: 9%) as well as increased interest income.
- It is worth noting by excluding a 2015 participant with higher than usual proportions of contract winemaking and bulk wine sales, the level of average profitability for this category actually drops to 10% of total revenue, which is largely a result of a decreased gross margin of 36.8%.
- The sales mix is influenced by the changing mix of participants with case sales dropping from 88.7% of revenue in 2014 to 68.8% in 2015. Contract winemaking revenue also increased from 2.1% of revenue in 2014 to 20% in 2015.
- Excluding outlier results, whilst the results remained largely consistent with 2014 in most respects, export bulk wine sales increased slightly to 3.9% from 0.4% in 2014. This again is likely due to the record harvest and also a contributor to the lower gross margin which resulted in lower profitability.


Image © Te Mata Estate Winery Ltd

$20m+ category

- Profitability for this category increased in 2015 to 30.5% from 17.6% in 2014, and once again has this category reporting the highest level of profitability across all the categories.
- The revenue mix this year has seen a higher level of domestic bulk wine (2015: 1.2%, 2014: 0.2%). Case sales revenue also decreased from 91.4% in 2014 to 85.3% in 2015.
- Gross margins are up to 55.3% this year from 44.8% in 2014 as a result of a drop in Cost of Goods Sold (2014: 55.2%, 2015: 44.7%), more specifically packaging costs.
- Participants in this category have shown a drop in overheads (2014: 19.2%, 2015: 16.1%) however the 2015 participants alone have remained reasonably consistent with 2014 overheads of 15.1% of revenue.

All categories

- The revenue split between case sales and other operating revenue are mixed in comparison with 2014 with only the $1.5-5m and $5-10m remaining broadly in line. The $0-1.5m category showed an increased case sales revenue to total revenue (2014: 80.2%, 2015: 84.5%) whilst both the $10-20m and $20m+ categories both exhibited a decrease with the $10-20m category results showing the largest change due to a change in participants (2014: 88.7%, 2015: 68.8%). Bulk wine sales increased in all categories, except for the $0-1.5m category, with the $1.5-5m category showing the largest increase from 1.6% of revenue in 2014 to 10.8% in 2015.
- We note that the $20m+ category again had significant levels of sales discounts and returns this year, although this decreased from 28.4% to 11.4% in 2015.
- Previous surveys have made mention that a gross margin of 50% is generally regarded as being required for a winery business to be sustainable. However, our survey results in recent years and again this year potentially prove that this traditional measure may no longer apply, instead being closer to 40% which would likely return a more sustainable net profit of 10% or more, if overhead levels are consistently managed. The $20m+ category has the highest gross margin this year at 55.3%, with the other categories ranging from 33.1% to 42.9%.
- The levels of cost of goods sold appeared roughly comparable among the bottom three categories only ranging from 64.6% to 66.9% of revenue. The two larger categories reported lower levels of costs of 57.1% and 44.7% for the $10-20m and $20m+ categories respectively, which resulted in higher gross margins. The various components of COGS remained relatively consistent among all except the lowest category, which reported lower grape purchases and higher vineyard and winemaking labour. As expected, the assets of the smaller wineries include more land and buildings which would lend themselves to onsite vineyards and in-house production.
- Similar to COGS, this year all categories had different compositions of sales and marketing expenses while remaining roughly comparable at a total percentage of revenue level. Unusually, the most similarities were drawn between the largest and smallest categories with both focussing their spending mainly on advertising, while the three middle categories focused more on sales & marketing salaries. The smallest category however had the highest proportion of sales and marketing expenses at 13.1% of revenue.
- Much in the same fashion as achieved in our 2014 survey, the $20m+ category achieved the highest profit level as a proportion of revenue this year at 30.5%. This profit level was accomplished by earning the highest gross margin as a proportion of revenue, comparable sales and marketing expenses and thanks to its size and being able to achieve economies of scale, the lowest proportional general and administrative costs.

Much in the same fashion as achieved in our 2014 survey, the $20m+ category achieved the highest profit level as a proportion of revenue this year at 30.5%.

In detail

Income Statement 2015

	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Revenue and gross margin					
Gross case sales	84.7%	77.6%	83.7%	70.4%	96.8%
Less:					
Returns and cash discounts	(0.2%)	(0.1%)	(3.3%)	(1.6%)	(11.4%)
Net case sales revenue	**84.5%**	**77.5%**	**80.4%**	**68.8%**	**85.3%**
Plus other operating revenue					
Bulk wine sales - domestic	0.6%	9.9%	6.4%	5.2%	1.2%
Bulk wine sales - export	0.0%	0.9%	0.4%	3.0%	8.6%
Grape sales	9.0%	5.0%	1.2%	0.2%	0.9%
Merchandising revenue	0.0%	0.0%	0.3%	0.0%	0.0%
Contract winemaking revenue	0.1%	1.3%	2.3%	20.0%	0.2%
WET Rebate	3.2%	2.3%	0.9%	2.1%	0.4%
Other revenue	2.5%	3.1%	8.1%	0.7%	3.4%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less cost of goods sold:					
Grapes	(3.5%)	(14.7%)	(14.6%)	(11.7%)	(12.5%)
Bulk wine	(1.1%)	(2.5%)	(0.6%)	(7.2%)	(1.5%)
Vineyard supplies	(7.6%)	(7.0%)	(3.0%)	(5.4%)	(2.0%)
Vineyard labour	(14.7%)	(8.3%)	(2.8%)	(4.0%)	(2.1%)
Winemaking supplies	(9.3%)	(5.8%)	(4.2%)	(3.2%)	(1.1%)
Winemaking labour	(11.1%)	(4.0%)	(3.2%)	(7.3%)	(2.0%)
Bottling	(7.7%)	(5.9%)	(3.2%)	(4.6%)	(1.8%)
Packaging	(4.3%)	(10.1%)	(9.1%)	(9.1%)	(15.0%)
Direct and indirect labour	(0.6%)	(0.5%)	(1.8%)	0.0%	(0.1%)
Excise tax	(3.7%)	(3.9%)	(4.9%)	(4.0%)	(3.2%)
Overheads	(0.2%)	(4.3%)	(6.2%)	(2.9%)	(3.1%)
Other	(9.2%)	(0.2%)	(5.6%)	(0.1%)	(10.5%)
Distribution (including freight)	(3.5%)	(3.0%)	(1.9%)	(2.2%)	(1.0%)
Stock movement	9.9%	3.2%	(3.5%)	4.4%	11.2%
Total cost of goods sold	**(66.6%)**	**(66.9%)**	**(64.6%)**	**(57.1%)**	**(44.7%)**
Gross Margin	**33.4%**	**33.1%**	**35.4%**	**42.9%**	**55.3%**
Sales and marketing expenses					
Compensation sales expenses					
Sales and marketing salaries	(3.5%)	(5.7%)	(3.3%)	(3.4%)	(4.3%)
Cellar door salaries	0.0%	(0.3%)	(0.9%)	(0.1%)	(0.1%)
Other sales expenses					
Advertising	(5.0%)	(1.4%)	(2.4%)	(1.9%)	(4.7%)
Travel and entertainment	(2.3%)	(1.7%)	(1.1%)	(0.9%)	(0.6%)
Other	(2.2%)	(2.5%)	(4.1%)	(2.6%)	(1.7%)
Total sales and marketing expenses	**(13.1%)**	**(11.6%)**	**(11.8%)**	**(9.0%)**	**(11.5%)**
General and administration expenses					
Finance/accounting/legal/professional	(1.7%)	(1.4%)	(2.7%)	(2.3%)	(1.1%)
ALAC levies	(0.1%)	(0.0%)	(0.1%)	(0.0%)	(0.0%)
Other general and administration expenses	(12.9%)	(5.0%)	(7.6%)	(4.7%)	(3.2%)
Rent/utilities/rates	(2.0%)	(2.0%)	(0.9%)	(3.8%)	(0.3%)
Total general and administration expenses	**(16.7%)**	**(8.5%)**	**(11.3%)**	**(10.9%)**	**(4.6%)**
EBITDA	**3.7%**	**13.0%**	**12.4%**	**23.0%**	**39.2%**
Depreciation and amortisation	(8.6%)	(3.5%)	(4.9%)	(4.5%)	(4.3%)
EBIT	**(5.0%)**	**9.5%**	**7.5%**	**18.5%**	**34.9%**
Interest expense	(3.5%)	(2.6%)	(3.0%)	(4.9%)	(5.0%)
Interest income	0.0%	0.2%	0.4%	1.5%	0.2%
Other non-operating income	5.5%	0.0%	1.6%	0.5%	2.0%
Shareholder salaries	(3.6%)	0.0%	0.0%	(0.2%)	(0.4%)
Foreign exchange gain/loss	(0.1%)	1.2%	0.9%	0.3%	(1.2%)
Inventory write-downs	(2.3%)	(1.2%)	(0.3%)	0.2%	(0.0%)
Profit/(loss) before tax	**(9.0%)**	**7.1%**	**7.0%**	**15.9%**	**30.5%**

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

Deloitte perspective

The changing mix of participants this year has impacted on the makeup of the results, particularly in the $0-1.5m category. A notable increase in selling costs has been recorded by this category this year, unusually the highest among all categories as a percentage of revenue. Historically survey results have shown selling costs increase with winery size, usually due to larger wineries becoming more sales focussed once production processes (and therefore costs) are standardised and brand is established. However this year we see a number of participants in the smallest category spend a larger than usual proportion of revenue on both sales salaries as well as advertising expenses. The fact that this category also reported much lower than usual volumes via wholesale/distribution channels in favour of online & cellar door sales (discussed later) implies that many smaller wineries are increasingly adopting a strategy of going direct to market including leveraging their presence online for sales direct to the consumer. Interestingly, the same category did not report an equivalent decrease in export case sales (39% this year versus 51% in 2014) suggesting that a number of export sales remain to be purchased online.

Given this category has also reported an average loss for 2015, and also generally having access to fewer resources than wineries of larger size, ensuring an eventual return on marketing spend in the form of bottom line profitability would need to be kept in mind for this strategy to be sustainable.

Financial position

Balance Sheet 2015

	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Assets					
Current assets					
Cash	2.7%	2.9%	1.4%	0.4%	1.9%
Receivables	6.5%	11.0%	8.3%	7.5%	6.7%
Inventories	27.6%	31.7%	26.0%	18.2%	23.0%
Other current assets	0.1%	0.9%	2.0%	0.8%	0.4%
Total current assets	**36.9%**	**46.6%**	**37.6%**	**26.9%**	**31.9%**
Non current assets					
Land	23.8%	16.5%	16.2%	11.7%	16.5%
Vineyards	7.4%	15.9%	10.1%	20.7%	13.2%
Buildings and improvements	26.5%	14.1%	15.7%	8.0%	7.2%
Winemaking equipment	2.5%	5.6%	8.9%	28.6%	12.5%
Vehicles	1.2%	0.8%	0.7%	0.6%	0.4%
Office equipment	0.3%	0.4%	0.5%	0.1%	5.3%
Total net fixed assets	**61.9%**	**53.3%**	**52.1%**	**69.8%**	**55.1%**
Purchased goodwill and other intangible assets	0.8%	0.1%	0.0%	0.8%	12.4%
Investments	0.4%	0.0%	10.3%	2.5%	0.5%
Deferred Tax Assets	0.0%	0.0%	0.0%	0.0%	0.0%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Current liabilities					
Bank debt/overdraft	1.1%	1.8%	1.1%	0.2%	1.3%
Provisions (incl. income tax, annual leave)	0.6%	1.8%	3.1%	2.1%	1.5%
Trade payables and accruals	5.4%	4.7%	4.6%	3.7%	4.0%
Total current liabilities	**7.1%**	**8.2%**	**8.8%**	**6.1%**	**6.8%**
Long term debt	13.6%	19.0%	17.5%	18.7%	32.4%
Non-current provisions	0.0%	0.0%	0.0%	0.0%	0.2%
Deferred tax liabilities	0.0%	2.5%	0.6%	4.4%	4.5%
Other long term liabilities	**0.2%**	**0.0%**	**0.0%**	**(0.1%)**	**0.8%**
Total liabilities	20.9%	29.7%	26.9%	29.1%	44.7%
Equity (incl. capital, retained profits & reserves)	12.5%	41.4%	63.9%	36.9%	53.9%
Shareholder current accounts	26.2%	(0.0%)	0.7%	24.2%	0.0%
Shareholder loans	40.3%	28.9%	8.5%	9.8%	1.4%
Total Equity	**79.1%**	**70.3%**	**73.1%**	**70.9%**	**55.3%**
Total liabilities + equity	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**

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

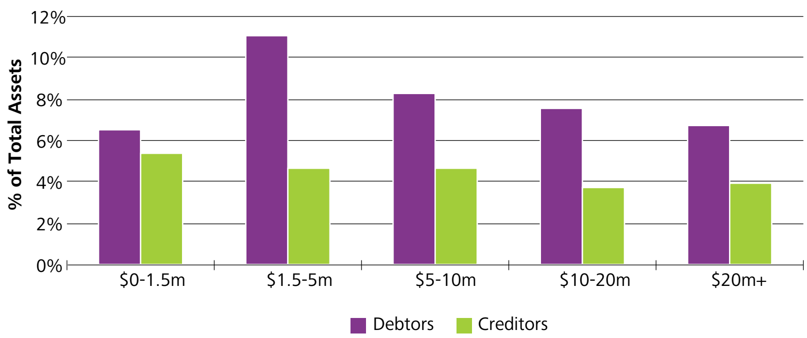
Balance Sheet commentary

- With the exception of the $1.5-5m and $20m+ categories, receivables as a percentage of total assets decreased marginally compared with last year's survey. Receivables most notably increased in the $1.5-5m category to 11% of assets from 5.6% in 2014, which could be attributed to a changing mix of participants with the 2015 participants reporting 10.9% for 2014. The trend in creditors appeared as an overall decrease, with all categories reporting lower levels than in 2014, with the $5-10m and $20m+ categories reducing the most, which again is likely due to the changing mix of participants from the 2014 survey.
- As shown in the Debtors vs. Creditors graph below all categories this year reported higher levels of debtors than creditors, for the first time

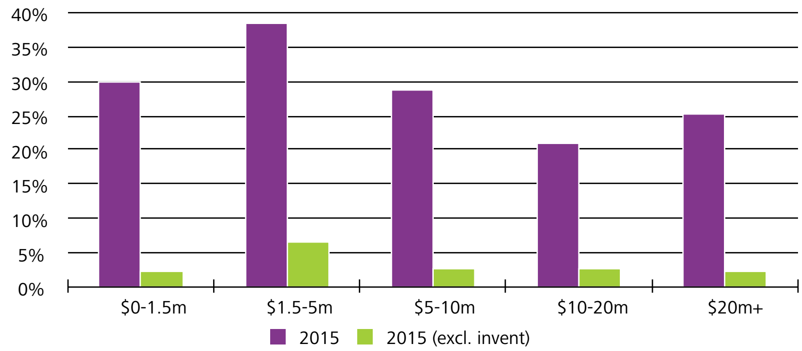
since 2012. Whilst it is positive to see no one category a net consumer of debt, high debtor levels can become a risk to cashflow. This is most apparent in the $1.5-5m category for 2015.

- Inventory as a percentage of total assets has decreased for all categories except for the $1.5-5m category. All categories that decreased inventory levels did so by between 3.4% ($20m+) and 17.9% ($0-1.5m).
- Net working capital is the difference between current assets and current liabilities and it represents 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 second chart, both including and excluding inventory. Consistent with last year's survey, inventory levels form a large portion of current assets. It is pleasing to see that all categories are maintaining a positive working capital excluding inventory, for the first time since 2012. Given the seasonality of the industry and thus the variability in the movement of inventory levels, it is worth considering working capital excluding inventory for cash flow management purposes.
- Compared with last year's survey, the debt positions (combining bank debt/overdraft and long term debt) of participants within all but the largest category decreased whilst the largest exhibited relatively equivalent increases. Excluding the effect of changes in participants the debt levels for all categories remained reasonably consistent with the $10-20m category showing the largest move with 2015 participants alone increasing their debt to 19% from 10.4% of total assets. This also goes some way to explain the slight increase in interest costs among the same 2015 participants to 4.9% in 2015 from 4% in 2014.
- We note this year's participants in the $10-20m category show a relatively high level of winemaking equipment of 28.6% of total assets as opposed to between 2.5% to 12.5% among the other categories. This can be attributed to a particular participant with a higher than usual investment in this equipment. Excluding this participant, this category's average for winemaking equipment is 16.3% of assets which is more in line with the longer term average for wineries of this size.

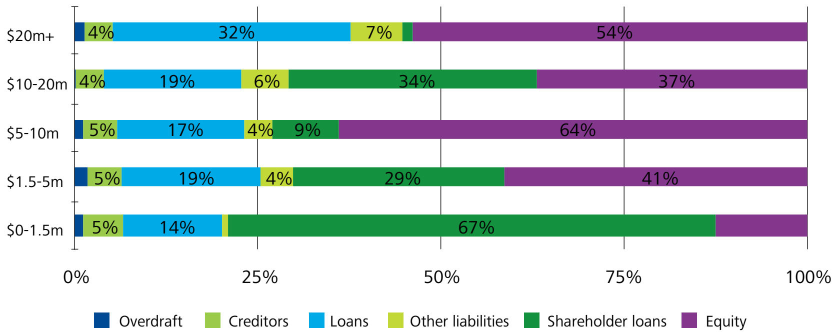
2015 Debtors vs Creditors



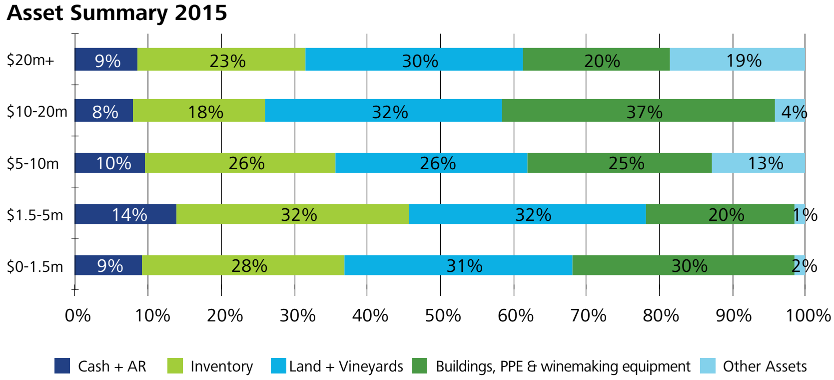
Net Working Capital 2015



Funding Summary 2015



Asset Summary 2015



Deloitte perspective:

One result that stands out on Balance Sheet results this year in comparison to previous surveys is the level of equity as a proportion of total assets among all categories. This year we see a generally lower average level of debt funding for wineries of all sizes with the ratio of equity to total assets reported above 70% for all categories, except for $20m+ which reported 55.3%. Previous surveys have reported levels usually ranging between 40 – 70%, with the exception of the $0-1.5m category dropping to 3.6% in 2011. We expect that given the issues of the past in 2008, 2009 and 2011, this may be the result of wineries favouring longer term equity funding, including Shareholder Loans, over relatively shorter term bank debt.

Key financial ratios

Key Financial Ratios 2015	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Cases sold	2,646	24,894	81,224	112,122	977,370
Revenues and expenses per case					
Revenue per case	$207.87	$99.08	$85.35	$78.60	$83.33
Gross margin per case	$82.13	$42.31	$37.62	$49.02	$54.03
Profit / (loss) per case	($22.21)	$9.04	$7.45	$18.13	$29.75
Selling expenses per case	$32.12	$14.88	$12.55	$10.29	$11.22
Overhead expenses per case	$41.03	$10.81	$11.97	$12.42	$4.52
Packaging cost per case	$10.69	$12.97	$9.62	$10.39	$14.69
Solvency ratios					
Current Ratio	517.0%	566.0%	426.0%	440.5%	470.5%
Debtors to sales ratio	28.1%	26.8%	18.7%	17.8%	13.8%
Debt to equity ratio	18.6%	29.5%	25.4%	26.8%	61.0%
Debt to total tangible assets	21.1%	29.7%	26.9%	29.4%	51.1%
Interest cover ratio	(141.4%)	362.7%	249.4%	377.0%	698.8%
Efficiency ratios					
Inventory turnover	56.3%	87.0%	109.3%	133.2%	94.6%
Fixed Asset turnover	37.6%	77.4%	84.6%	60.7%	88.2%
Asset turnover	23.3%	41.2%	44.1%	42.4%	48.6%
Profitability ratios					
EBIT margin (average)	(5.0%)	9.5%	7.5%	18.5%	34.9%
EBIT to assets (average)	(1.2%)	3.9%	3.3%	7.8%	17.0%
EBT to equity (average)	(2.7%)	4.1%	4.2%	9.5%	26.8%
EBT to net case sales (average)	(10.7%)	9.1%	8.7%	23.1%	35.7%

Case Volumes

- Consistent with last year's survey, on average case volumes are exponentially higher for the larger categories. For the 2015 set of survey participants over the last year average volumes have increased for all categories except for the $5-10m category with the $1.5-5m category showing the largest increase of 16.8% in case volumes.

Revenue per case

- Whilst the revenue per case range stayed in a general downward trend over the two most recent years, this year's participants have reported some quite mixed results. The $5-10m and $10-20m categories both reported a downward trend in line with 2014. However all other categories reported equivalent increases, with the exception of the $0-1.5m category which reported an increase from $104.95 per case in 2014 to $207.87 per case in 2015 with the introduction of a some participants selling premium wine, one selling for over $100 a bottle.
- This year we continue to observe that revenue per case generally decreases as winery size increases, however for the first time since 2012 have seen the $20m+ category come off the lowest revenue per case. The $0m-$1.5m category recorded the highest and the $10-20m category recorded the lowest at $78.60 per case.

Packaging cost per case

- The lowest packaging costs per case of $9.62 was recorded by the $5-10m category this year. This is contrary to the general trend that these costs decrease with scale with the largest category again recording the highest packaging costs per case of $14.69 this year as was observed in 2014 and 2013 ($23.65 and $17.55 respectively).

Gross margin per case

- The range of gross margin per case increased significantly for the $0-1.5m category to $82.13 from $43.28 in 2014 due to the high sales prices achieved by some participants. A smaller increase was reported for the $20m+ category to $54.03 per case for 2015. This year the $5-10m category recorded the lowest gross margin per case at $37.62, however this is comparable to the 2014 result of $39.56 per case. The $20m+ category reported a higher result of $54.03 per case compared to $37.55 in 2014, which can be attributed to a change in the mix of participants.

Selling expenses per case

- In contrast to 2014, the $0-1.5m category has recorded the highest selling expenses per case at $32.12, compared to the lowest in 2014 reporting $10.17 which will likely explain the premium pricing achieved by some of these participants this year. The lowest selling expense per case reported this year was $10.29 by the $10-20m category, with the residual of other categories reporting similar results up to $14.88 by the $1.5-5m category.

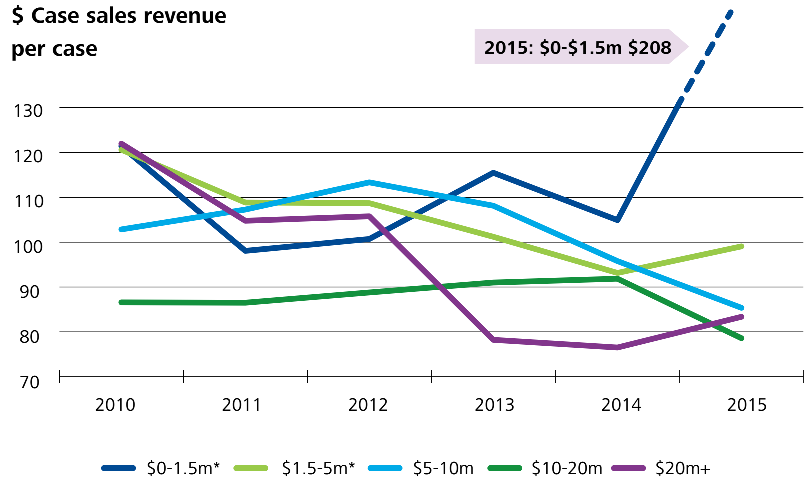
Overhead expenses per case

- Generally the trend holds that as wineries increase in size economies of scale exist to reduce overhead expenses per case and this year is no exception. With the exception of the $10-20m category with a cost per case of $12.42, the trend shows the $20m+ category having the lowest costs and then generally increasing as winery size decreases. The $1.5-5m category recorded the highest cost at $41.03 per case.

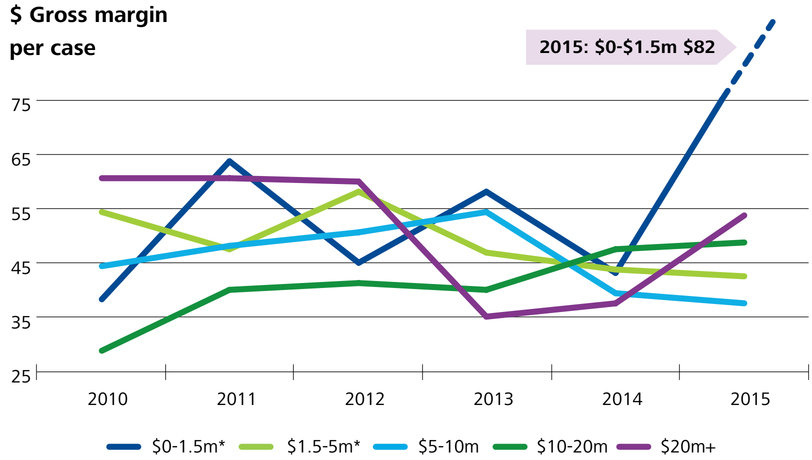
Profit / (loss) per case

- All categories except for the $0-1.5m and $5-10m categories have shown increases over the past year, with the former generating an average loss of $22.21 per case and the latter a profit of $7.45 per case (2014: profit $4.34 and $8.54 respectively).
- Despite recording the second lowest revenue and highest packaging costs per case, the $20m+ category records the highest profit per case of $29.75, obviously possible with the lowest overheads per case of $4.52. This demonstrates the existence of economies of scale in these larger winery businesses.

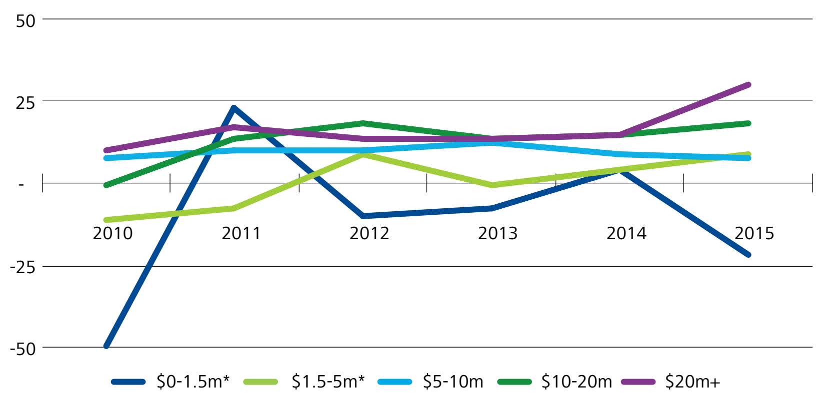
$ Case sales revenue per case



$ Gross margin per case



$ Profit / (loss) before tax per case



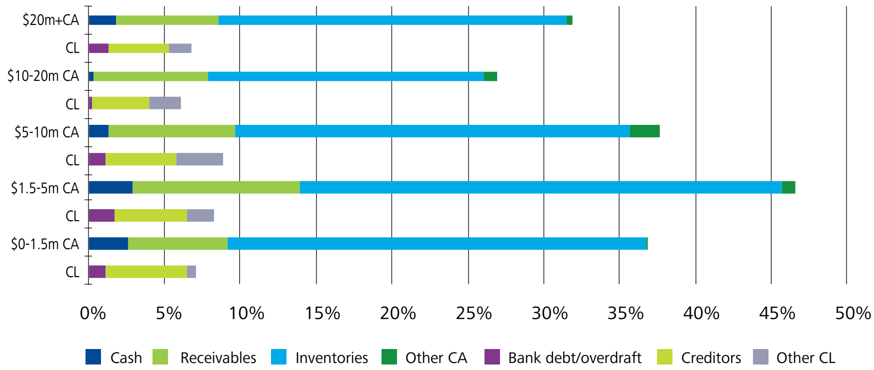
Current ratio

- 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 the inventory that is included in current assets should also be taken into account when assessing the strength of this ratio.
- When recalculating the ratio using more liquid assets (excluding inventory and other current assets) no categories make the 200% threshold, however pleasingly none fell below 100%. 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 has also been more recently expressed as an equity to assets ratio with a usual minimum requirement of 30 - 50%. This year's results range from 18.6% for the $0-1.5m category to 61% for the $20m+ category. All but the $20m+ category have ratios below 50%. Compared to the 2014 participant group, average debt levels among all categories are relatively low with the ratio ranging from 19.3% to an outlier maximum of 95.6% in 2014 and from 27.1% to 84.9% in 2013. The range for 2015 participants is from 18.6% to 61% and we can also note that among the same 2015 group, none have increased debt past a ratio increase of 5%, and the three larger categories have all reduced their debt to equity ratio (and therefore their debt levels).
- Following from this observation, the debt to total tangible assets ratio also reflects lower debt levels among participants, with ratios reducing from between 21.6% and 58.2% in 2014 to between 21.1% and 51.1% in 2015. These ratios imply that the wineries surveyed have sufficient tangible asset levels to cover their debt if the debt was required to be settled today. However, as raised in previous surveys, the book value of certain tangible assets that are based on historical cost may not reflect a fair current market value. Survey results this year indicate that land values predominantly seem to be based on historical cost as are building, vineyard and inventory values. These should be considered with some discretion if the historical cost basis is significantly different to realisable values. Subsequently, if the realisable values of tangible assets are lower than their book values, there will be fewer assets to cover debt and higher ratios would be observed.

Current assets and liabilities 2015



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 on average, participants in the $20m+ category cover their interest more than 6 times, participants in the $10-20m and $1.5-5m categories fall in the 3 times range, the $5-10m category is in the 2 times range and participants in the $0-1.5m category falling below 0 with a negative EBIT. This indicates a lack of profitability to cover interest payments in these smaller categories and/or comparatively higher debt levels, meaning that these wineries may have problems paying their interest payments as they fall due.
- Implied interest rates have been calculated by taking the interest expense divided by the total interest bearing debt, excluding participants that have charged interest on shareholder loans. The range calculated this year spanned from 5.2% to 8% which is in line with implied rates in last year's survey and do not appear unreasonable given current market rates.

Inventory turnover ratio

- Inventory turnover is calculated as the cost of goods sold (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 of less than 100% during periods of increased production or supply, as some of the wine produced will be held in inventory for ageing or sale.
- Participants in the two smaller categories and the $20m+ category recorded average ratios of less than 100% indicating that they are accumulating a portion of their stock. The highest recorded average inventory turnover was 133.2% in the $10-20m category, which indicates that opening inventory levels have been sold down.

Profit before tax to equity ratio

- This PBT to equity ratio is calculated by dividing the profit before tax by the value of equity and represents the return on the owner's investment. The resulting metric is comparable to returns that could be generated by investing elsewhere. It is considered that an acceptable level of return to a winery investor would exceed 15% to ensure they are adequately compensated for risk.
- The four larger categories recorded positive returns on investment ranging from 4.1% to 26.8%. The $20m+ category records the highest and generally would be considered more than an acceptable level. All three middle categories however, while positive, have a ratio of below 10% and therefore further profitability is required to generate adequate returns, depending on the risk appetite of the investors.
- By way of comparison a 10 year government bond (generally considered risk free) has an interest rate of 3.55% before tax (as at 2 December 2015). Clearly at the recorded levels the smaller categories are significantly below this rate reporting an average loss of 9% and, given the large amounts of risk present, do not seem like a rational investment if these levels of profit remain. It is worth noting however that whilst we have observed multiple years of average losses (and profits) for the smaller categories in the past, many of these businesses are likely to be privately held and with a longer term view in mind than any one year's financial result. In addition, as observed in the Balance Sheet results, the smaller categories also tend to hold a greater proportion of Land which if appreciating in value over time would also generate an additional investment return to that of the business. Obviously the potential also remains for these asset values to depreciate which would generate a negative return.

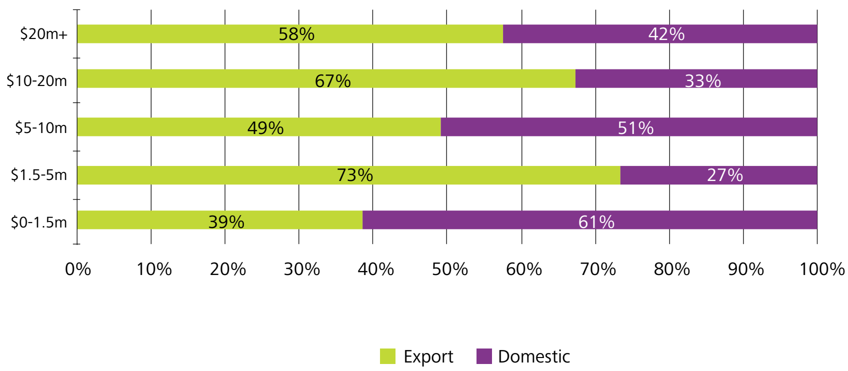
Image © Southdown Estate Ltd

An inventory turnover figure of less than 100% indicates increasing inventory levels. Wineries would be expected to have inventory turnover of less than 100% during periods of increased production or supply, as some of the wine produced will be held in inventory for ageing or sale.

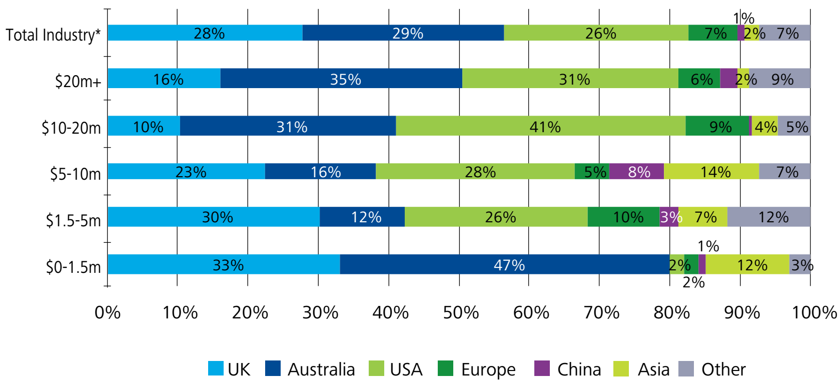
Distribution and sales

- The importance of exports is a well-established feature of the New Zealand wine industry that has been noted in all of our prior surveys and is again prominent in Vintage 2015. All categories, except $0-1.5m report reasonably steady to increased proportions of export case sales. The $0-1.5m category reported a decrease in its export case sales however this is mostly be attributed to a change in participants within this category reporting an average of 51% exports in this survey for 2014.
- The two categories with the highest percentage being exported with 73% and 67% are the $1.5-5m and $10-20m categories respectively.
- The export sales destination graph clearly shows participants in different categories having a reliance on different markets for their exports. The USA, Australia and the UK remain New Zealand's key export markets across all categories. On average, participants in the $10m-$20m category, $5-10m category, and $1.5-5m category are reliant on and have experienced growth in the proportion of their exports to the USA with these categories experiencing a 5% to 21% increase in the proportion of their exports going to the USA, which has partly increased due to changing participants from our 2014 survey.
- Participants in the $5-10m category, $1.5-5m category and $0-1.5m category all show a notable reliance on the UK market, ranging between 23% and 33% of exports. The $20m+ category and $10-20m category showed a significantly lower proportion of exports going into the UK, however this decrease in UK exports from 2014 to 2015 among the larger categories is less apparent when excluding the effect of changing participants.
- By comparison, participants in the $1.5m-$5m and $5m-$10m categories have relatively diversified exports on average, with the no market exceeding more than 30% of exports. The $0-$1.5m category's focus on Australia has been consistent through previous surveys, which is likely due to the lower cost of entering this market given its proximity as well as the presence of the WET rebate.
- It is considered that North America (USA & Canada) represents a more accessible market with less complexity for New Zealand wine exporters to navigate and currently accounts for 33% of New Zealand's total

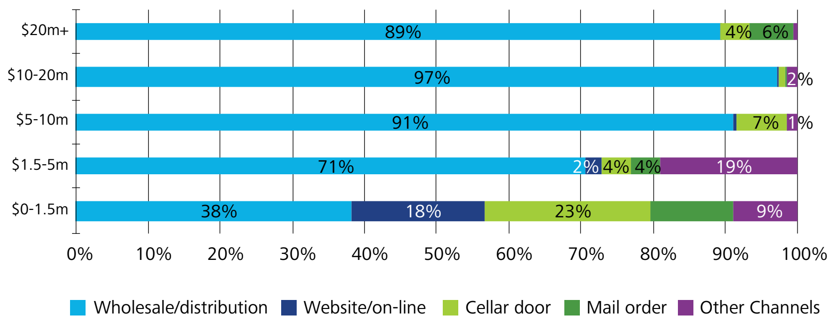
Distrubution Channel Case Sales 2015



Export Case Sales Destination



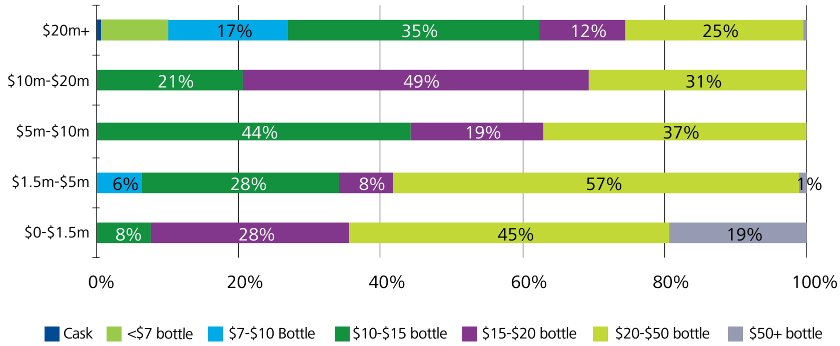
Sales Distribution Channel 2015 (Domestic Case Sales)



value of exports. This is also generally reflected in the export case sales destinations outlined above. It has been noted the importance of China and Asia in the New Zealand wine industry, although this is only at the smaller end of the market as the survey results show and is generally considered a longer-term investment and market to develop.

- Consistent with prior years the wholesale/distribution channel remains the most important domestic distribution channel. All categories this year reported over 70% of their sales through this channel, except for the $0-1.5m category which reported 38%. Participants in the smallest category this year reported a significantly larger proportion of online/mail order and cellar door sales than in 2014. This can be attributed to a change in the mix of these participants with most in 2014 reporting little case sales via non-wholesale channels compared to participants this year with most reporting a more even spread.
- The above-right graph illustrates the domestic retail price points that the participants achieve, based on volumes sold.
- This year's survey results have reflected a general move towards a medium price point of $10-$15 bottle across the participants. This excludes the $0-1.5m category which continues to target its traditional market of low volume high price point end of the market. This slide from a high price point towards a medium price point is in line with the New Zealand Wine Grower's reported average price of $8.23 per litre for the same period.

Sales price point 2015



- The survey results this year continue to show the trend that as winery size increases the average sales price tends to decrease.
- In this year's survey we observed a further decrease in the $7-$10 per bottle price bracket and a mix of results for the $15-$20 bottle price bracket. For participants in the $1.5-5m and $5-10m categories there was a decrease in $15-$20 bottle price bracket of 5% and 26% respectively and the $20m+ category experienced a decrease of 4% in the same price bracket. Generally in a year of oversupply this movement into a lower price bracket is expected and unsurprising.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Deloitte perspective:

The shift back towards exports over domestic sales seen in this year's survey compared to 2014 reflects the broader trend shown across the industry. Based on the record 2014 growing season, a significant level of 2014 inventory held going into the 2015 season and consistent price points from previous surveys it is pleasing to see the industry has managed larger volumes of 2014 supply effectively without oversupplying the market given the levels at which market prices have sat throughout the year.

The North American market also appears to represent a growth market, especially among the $10-20m and $1.5-5m categories for 2015, when compared to New Zealand's other key export markets in which New Zealand has been exporting to for longer (e.g. Australia and UK).

As noted in our 2014 report, while China and Asia remain a long-term investment strategy and market to develop for New Zealand wine and given it appears as a lucrative market for those that target it, it is a market where a false start can potentially set an exporter back for a significant period of time. Ensuring proper planning and protection around risks such as intellectual property are essential in these markets. However, in our experience partnering with the right local businesses can mitigate the risk of false starts and hurdles in entering and approaching these markets.

Production and inventory

Production 2015

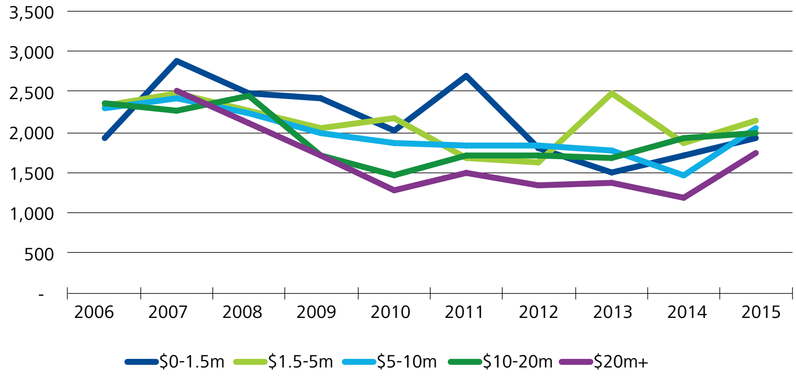
	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Crush (tonnes)					
Tonnes of grapes crushed					
Own grapes	81%	32%	30%	51%	46%
Purchased grapes	19%	60%	50%	41%	54%
Contract processed (by you for others)	0%	8%	20%	8%	0%
Total crushed	100%	100%	100%	100%	100%
Total crushed at your facilities	45	332	1,232	1,589	12,425
Maximum crush (at your facility)	28	319	1,267	2,250	15,650
Utilisation (actual crush versus maximum crush)	64%	52%	85%	71%	72%
Contract processed (for you by others)	36	80	458	277	421
Grape and bulk wine supply	-	-	-	-	-
Grapes purchased (tonnes)	9	200	617	795	7,054
Cost of grapes purchased ($)	25,717	468,412	1,262,705	1,430,472	11,922,683
Cost of grapes per tonne	$1,939	$2,142	$2,053	$1,823	$1,744
Bulk wine purchased (litres)	1,529	19,600	9,090	223,749	510,814
Cost of bulk wine purchased ($)	8,071	79,630	48,629	1,147,868	1,463,576
Cost of bulk wine per litre	$5.28	$3.80	$4.97	$4.32	$3.63
Volume (litres)	-	-	-	-	-
Red produced (litres)	30%	20%	18%	7%	9%
White produced (litres)	68%	80%	75%	88%	91%
Other produced (litres)	2%	0%	7%	6%	0%
Litres of wine produced	38,144	228,286	730,381	1,393,993	9,677,010
Litres of wine produced per tonne crushed	472	554	432	747	753

- We note that the production information generated is dependent upon the mix of participants in the survey which provided the required information in respect of volume and costings.
- This year we have seen all categories show a decrease in utilisation on last year, which is not unexpected given the record harvests of 2013 and 2014 to the extent that these results reflect production of the 2015 harvest. After the record harvests, an expected drop off of 10% - 20% in average yields was noted by wineries in New Zealand's key vineyard regions. With the realisation of this expected fall in grape yield all categories have reported reduced utilisation. This year's range in utilisation is 52% - 85% (2014: 81% - 109%).
- All categories report similar cost of grapes per tonne this year between $1,744 and $2,142. All categories also reflect an increase in cost per tonne over 2014. Similar to our comments above with the decrease in yield, the cost per tonne was naturally expected to increase, however it would also be expected that the effect of reduced volumes should go some way to reduce any existing high levels of inventory from the prior year across the industry. Interestingly enough the $0-1.5m category has had the third lowest cost per tonne which is against the norm as usually we would usually expect to see that access to cheaper and larger supplies provides lower prices as the size of the participant increases. However, what can be seen overall across the years that this survey has been undertaken, is a narrowing of the cost per tonne range between different categories.
- This year all categories included a number of participants that purchased bulk wine. The average price paid for bulk wine per category this year sits between $3.63 and $5.28 per litre, reflecting a wider price point range between the upper and lower price

per litre from the prior year of $3.72 to $5.05 per litre observed. We note that the average price per litre experienced by the $20m+ category sits below the reported price of exported bulk wine in the New Zealand Wine Industry report issued by New Zealand Winegrowers, whilst all other categories experienced costs above the average export price. This may reflect the effect of the bargaining and purchasing power of the largest wineries, in being able to achieve a lower cost per litre and hence realise their margins with higher volumes at lower retail price points.

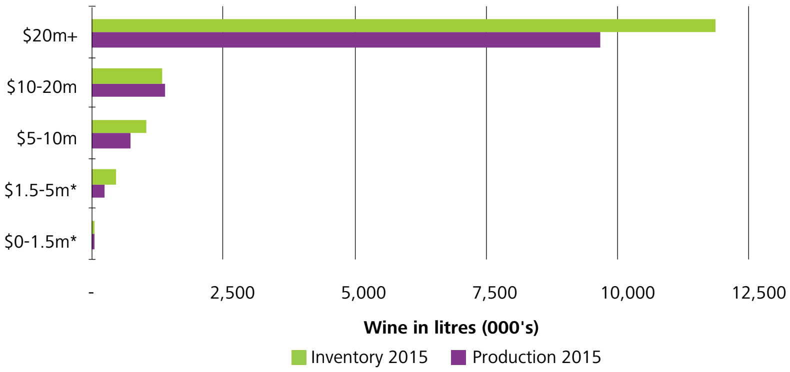
- The productivity levels recorded are all higher than those observed in 2014, with a minimum of 432 to a maximum of 753 litres of wine produced per tonne crushed compared to 492 -714 litres in 2014. This generally higher productivity is likely the result of most vineyards processing lower volumes with higher yields in contrast to higher volumes with lower yields when grapes are available at a low or negligible cost, especially for growers.
- The $5-10m category's productivity result is affected by a participant with a higher than usual proportion of contract winemaking revenue, however by excluding this outlier this category experienced productivity of 503 litres of wine produced per tonne crushed compared to 432 litres as reported above and 492 litres in 2014.
- Despite increased productivity in respect of litres of wine produced per tonne crushed, participants in all categories except the $0-1.5m category reported a reduction from the 2014 participant group, in the absolute quantity of litres of wine produced.

Cost of grapes per tonne

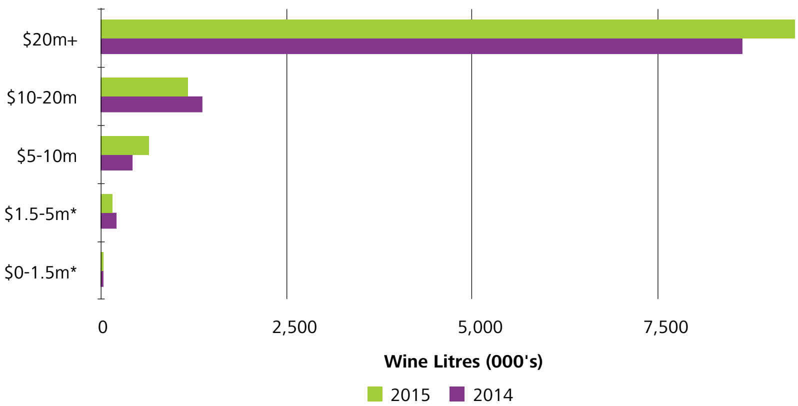


Inventory	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Red					
Maturing in oak (litres)	10,468	33,291	76,887	52,772	129,654
Bulk wine (litres)	4,389	32,387	138,158	60,653	1,786,395
Packaged wine (cases)	1,153	8,339	10,927	5,810	54,999
Total litres	25,230	140,729	313,391	165,717	2,411,043
White and Other					
Maturing in oak (litres)	2,037	30,301	14,507	16,469	66,944
Bulk wine (litres)	5,699	205,748	508,897	876,037	7,493,019
Packaged wine (cases)	2,361	7,700	21,473	30,619	211,414
Total litres	28,980	305,348	716,661	1,168,081	9,462,688
Total Litres all wines	54,211	446,077	1,030,052	1,333,798	11,873,730

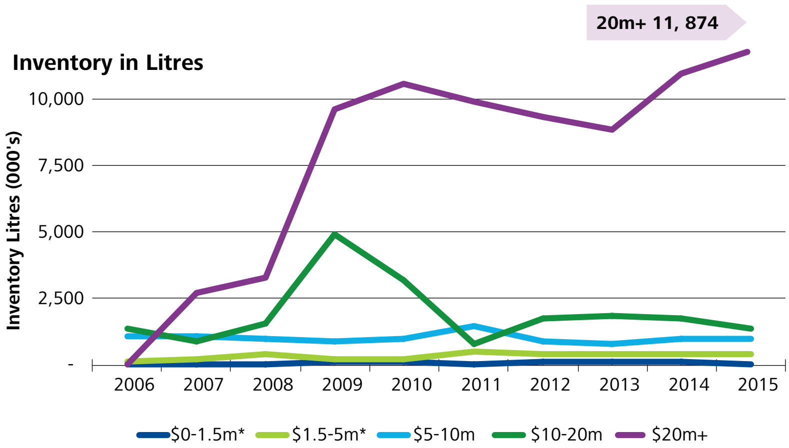
Average Inventory and Production 2015



Average Bulk Wine Inventory 2014 and 2015



This year we have seen all categories show a decrease in utilisation on last year, which is not unexpected…



- When comparing average inventory levels against production, we see a general increase in the ratio of litres of inventory on hand to litres produced during the year. This was except for the $0-1.5m category which remains consistently low. The inventory of $20m+ wineries has reduced significantly in absolute terms but remains higher than production. This is a consistent trend across the categories although less pronounced in the smaller categories. This is in line with our expectations, and other commentary indicating that the lower supply in 2015 (as shown above) should help New Zealand vineyards dispose of excess 2014 inventory without compromising the premium margin usually enjoyed by New Zealand wines.
- This year, all categories hold more white wine inventory on average than red wine. This is in line with our previous surveys, expectations and acknowledgement that white varieties generally have greater yield per hectare over red varieties as well as making up the vast majority of production and export from New Zealand.

Deloitte perspective

Given the issues that the industry has faced following previous record harvests and increased supply (in 2008, 2009 and 2011), the industry appears to have carefully and appropriately managed the record harvest of 2014. We highlighted in last year's survey the risk that large harvests need to be matched against market demand to avoid the issues of the past. It is clear that the industry has held onto inventory from the 2014 period into the 2015 harvest to avoid oversupplying the market.

The industry appears to have learnt its lessons from previous experiences and this is reflected in the fact that New Zealand Packaged Wine Export volumes only rose by 2% for Vintage 2015 and the average price only fell by 1%. This was despite reports of a much larger 16 - 20% increase in average yields in New Zealand's key vineyard regions. With the expectation of yields returning to "normal" levels it is expected that the industry will look to the sustainability of the 2015 harvest inventory and refocus on productivity and efficiencies.

Increases in bulk wine production and exportation relative to the smaller 2015 harvest, as well as a result of the record harvests of 2013 and 2014, may begin to reflect a changing New Zealand export brand of commodity wines over premium wines. This represents both an opportunity and a risk to "Brand New Zealand" in that it will allow existing premium brands to easily differentiate in overseas markets and work to the strengths of their existing premium brands. However, this needs to be balanced by the risk that increased bulk wine exports of commoditised quality may erode the quality perception and brand value add of New Zealand over specific exporters' brands. However we also note that with the record volumes of the 2014 harvest influencing the 2015 results, the potential exists for some of the bulk wine exports to be a result of factors such as utilising outsourced offshore bottling facilities or disposals of excess volume to foreign parents or related parties.

Issues facing the New Zealand industry

	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$20m+
Exchange rates	9	1	1	3	2
Grape supply (too little)	7	5	2	1	1
Marketing product overseas	3	2	2	2	5
Excise and other levies	1	3	4	9	3
Labour supply/cost	2	7	5	5	8
Interest rates	8	6	6	4	5
Access to capital	6	7	8	5	10
Government compliance costs	5	9	7	10	7
Affordability of land	10	11	8	7	4
Grape supply (too much)	11	4	10	8	11
Company tax rates	3	10	11	11	8

- This year the top three issues that the industry is facing, as assessed by survey participants are "Exchange rates", "Grape supply (too little)" and "Marketing product overseas". This is the first year whereby "Grape supply (too little)" has been in the top three issues. This supports our view that vineyards had difficulties in sourcing grapes due to returning to normal yields after the 2014 record harvest.
- This is the sixth year in a row that "Exchange rates" has held the number one spot. However, this year only $1.5m-$5m and $5m-10m categories ranked this as their number one issue. This change in mix of the top issue may be a reflection of the substantial devaluation of the New Zealand dollar experienced at the time this survey was conducted rather than the consistently high exchange rates seen during earlier Vintages.
- The biggest mover for the second year is "Grape supply (too little)" which has moved from an overall ranking of seventh in last year's survey to second this year with two out of five categories ranking it their number one issue.
- "Marketing product overseas" continues to rank in the top three issues and ties in with the fourth ranked issue of "Excise and other levies". These results appear to be in line with the reduced level of exports observed in this year's and last year's survey as well as what appears to be a general move in recent years in the industry to refocus on the New Zealand market with domestic volume sales up an estimated 24% in this year's results compared with 2014.

This year the top three issues that the industry is facing, as assessed by survey participants are "Exchange rates", "Grape supply (too little)" and "Marketing product overseas".

	Winery size (2015 revenue)				
	$0-1.5m	$1.5-5m	$5-10m	$10-20m	$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
2013	Exchange rates	Exchange rates	Excise and other levies	Exchange rates	Exchange rates
2014	Marketing product overseas	Exchange rates	Marketing product overseas	Exchange rates	Exchange rates
2015	Excise and other levies	Exchange rates	Exchange rates	Grape supply (too little)	Grape supply (too little)

Deloitte perspective

The table to the left shows the number one issue within each category over the last ten vintage surveys. For the first time since 2009 “Exchange rates” is sharing the number one issue with “Grape supply (too little)”. Our two largest categories have ranked “Exchange rates” below “Grape supply (too little)” which is unsurprising with most of the larger wineries having the means for more sophisticated foreign exchange hedging practices however can still struggle in 2015 to source adequate volumes of grape to crush to meet the previous year’s production levels.

“Marketing product overseas” no longer makes an appearance in the table this year. However it is still rated third overall which is reflective of the New Zealand exports being almost double the volume of local consumption.

"Grape supply (too little)" is an increasing priority across all categories, and with lower levels of supply occurring in 2015 this will continue to be an issue faced by members of the industry. A potential risk to supply includes the exiting of existing contract growers with no otherwise planned expansion. However, as mentioned earlier, if New Zealand continues to increase bulk wine exports this may lead to further reductions in grapes available to apply to value added packaged export wine.

About Vintage 2015

- Deloitte has conducted this annual financial benchmarking survey in conjunction with New Zealand Winegrowers. The survey was conducted between August and October 2015 and is based upon financial statements that cover the 2015 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 35 survey participants, which account for approximately 38% of the New Zealand wine industry by litres of wine produced and 35% by export sales revenue generated for the 2015 year. Respondents either own or lease 19% of the 35,859[2] producing hectares currently under vine in New Zealand. Approximately 54% of respondents are past participants of previous surveys.

- To assist the comparison of different sized wineries, respondents have been categorised based on total annual revenue as follows:
  - $0-$1.5m
  - $1.5m-$5m
  - $5m-$10m
  - $10m-$20m
  - $20m+
- Participant information is treated with high confidentiality. The results are reported in aggregate form with no disclosure of the names of the individual participants, nor how many participants existed in each category.
- Where appropriate we have also commented on the results. Though the survey response level is reasonable this survey cannot be considered completely representative of the whole of the New Zealand wine industry. Care must therefore be taken when analysing the state of the industry based on the information set out in this survey, although we believe it does provide an indication of industry performance and trends.
- Figures presented have not been adjusted to eliminate rounding variances.

[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 2015 http://www.nzwine.com/info-centre/#annual_report

About Deloitte

Deloitte provides audit, tax, consulting, and financial advisory services to public and private clients spanning multiple industries. With a globally connected network of member firms in more than 150 countries, Deloitte brings world-class capabilities and high-quality service to clients, delivering the insights they need to address their most complex business challenges. Deloitte has in the region of 200,000 professionals, all committed to becoming the standard of excellence.

Deloitte New Zealand brings together more than 1,000 specialists providing audit, tax, technology and systems, strategy and performance improvement, risk management, corporate finance, business recovery, forensic and accounting services. Our people are based in Auckland, Hamilton, Rotorua, Wellington, Christchurch and Dunedin, serving clients that range from New Zealand's largest companies and public sector organisations to smaller businesses with ambition to grow. For more information about Deloitte in New Zealand, look to our website **www.deloitte.co.nz** and our dedicated wine industry webpage **www.deloitte.com/nz/wine**.

About New Zealand Winegrowers

New Zealand Winegrowers is the national organisation for New Zealand’s grape and wine sector. The organisation currently has approximately 800 grower members and 700 winery members and aims to represent, promote and research the national and international interests of the New Zealand wine industry.

New Zealand Winegrowers conducts a wide range of tasks on behalf of the grape and wine sector including: advocacy at regional local and international levels; providing a global marketing platform for New Zealand wine; facilitating world-class research on industry priorities; giving the industry timely and strategic information; and organising sector-wide events such as the Bragato Conference and Awards and the Air New Zealand Wine Awards.

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

New Zealand Winegrowers is governed by a Board of Directors of 12, comprising 7 representatives from the Institute and 5 representatives from the Council. New Zealand Winegrowers is funded through levies collected by the Council and the Institute as well as from user pays activities and sponsorships.

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

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