Vintage 2013 New Zealand wine industry benchmarking survey

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A joint publication from Deloitte and New Zealand Winegrowers

Wine is bottled poetry.

Robert Louis Stevenson

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Welcome

Deloitte, in conjunction with New Zealand Winegrowers is pleased to present the results of our Vintage 2013 financial benchmarking survey. This survey marks our eighth annual report and the survey continues to go from strength to strength building on the successful publication of earlier surveys.

We have had a number of new participants provide data this year and we are pleased to report that the spread of participants across the categories is the most evenly spread in the survey's history. It is also pleasing to see that the survey data represents responses from participants that account for almost 50% of the industry by export sales revenue generated for the 2013 year.

The surveys produced in recent years have reported signs of an industry turnaround and a level of optimism that was not present three to four years ago. Accordingly we undertook this year's analysis with interest to see if the trends had continued, especially with the record, high quality harvest reported.

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.

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 2013 financial benchmarking survey for wineries.

Vintage 2013 produced a large high quality harvest for the sector. This was welcomed by most industry participants as the small 2012 crop the previous year had brought some welcome tension back into the supply/demand balance. In related developments in the sector grape prices have improved markedly and new vineyards are being planted again.

These are all signs of the dynamic and ever changing world in which New Zealand wine producers operate. 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 the Survey in future years.

Philip Gregan
CEO – New Zealand Winegrowers

> "Vintage 2013 produced a large high quality harvest for the sector."

Executive summary

It is estimated that the New Zealand wine industry has a turnover of over $2 billion per annum with $1.21 billion of this coming from export earnings. Combine this with significant investment in wineries, vineyards and plant and equipment and the industry plays an important part in the well-being of the New Zealand economy.

Vintage 2013 produced a record harvest of 345,000 tonnes of grapes; up significantly from the low 2012 vintage, however key learnings coming out of the tough times endured from 2008 are believed to be standing the industry in good stead to be able to deal with this increased supply.

The Deloitte NZ wine industry financial benchmarking surveys' undertaken in recent years have shown signs of new optimism within the industry following years of supply imbalances, high external debt levels, the Global Financial Crisis and impacts of bulk wine sales. This optimism appears to have continued into this year's survey, particularly at the larger end of the market, with average profitability before tax for wineries with revenue greater than $5m ranging from 9.8% to 16.0%.

The profitability for smaller wineries on the other hand does not fare so well with losses of 4.4% of revenue reported for the smallest category and 0.5% for the $1.5m-$5m category. That said, however, we are pleased to report all but one category showed increases in profitability from the previous financial year (based on the two years of data collected). Given this has been the trend for the last three years (subject to one exception for a different category last year) it portrays an image that the turnaround is increasingly sustainable.

Other key metrics within the survey results also continue to support a turnaround at the larger end of the market. The results this year for typical banking covenants such as interest cover and debt to equity ratios are sound for the $5m+ categories which tend to alleviate the concerns around the high external debt levels that were present in previous surveys. This is not so true once again for the smaller wineries with the $0-$1.5m category having the highest long term debt (as a percentage of assets) of all the categories. Combine this with the losses recorded and the interest cover ratio is not looking so healthy for either of the small categories.

Inventory levels have decreased this year which corresponds with the lower 2012 harvest, meaning additional inventory was required to be sold down to meet demand. This is a positive sign, given the record harvest for Vintage 2013. If wineries do not have excess inventory from the previous vintages, this leaves them better placed to manage the increased supply. The results this year also show that excess production capacity appears to exist within wineries, continuing a trend from last year. This excess capacity however is more prominent for the smaller wineries.

Continuing a theme from all our previous surveys in recent years, exports remain an integral part of the industry. Interestingly however this year we have seen a number of categories at or below 50% of sales being exported. We propose this could be due to a change in the mix of participants this year rather than global demand for New Zealand wine diminishing (which is borne out by the NZ Winegrowers statistics). It could also be related to the other continuing theme that exchange rates are still the number one ranked issue by wineries. The high New Zealand dollar is something that all exporters are having to contend with at present but does impact on the viability of selling into overseas markets and therefore possibly some wineries could have changed their focus slightly to the domestic market.

Deloitte perspective:

It is pleasing to see that the results of our eighth financial benchmarking survey continue to support a turnaround within the industry. The positive results, however, are clearly skewed toward the larger end of the market. Continued financial volatility remains at the smaller end of the industry and we question whether the divide between large and small is growing greater.

Feasible business models certainly exist within smaller wineries but the survey results appear to show that it is a lot harder to generate a decent return at the smaller end of the market. For example the $0-$1.5m category has recorded losses for three of the last four years, as well as this year having the highest long term debt at 42% of total assets.

With the financial difficulties faced by the smaller wineries, it opens a door of opportunity for those larger and more financially stable competitors to increase their holdings by either merging with or acquiring the struggling wineries, potentially improving their own economies of scales. This is a trend that we have begun to witness in recent years. It also aligns with the interest in the industry from wealthy overseas investors.

If a smaller winery is considering selling a stake or alternatively seeking additional external investment in an attempt to become more sustainable it would be prudent to select the party carefully and ensure a level of due diligence is undertaken. Overseas investment can be useful provided the investors' interests are aligned, they have a level of emotional engagement and have skills to bring other than just money. As industry returns tend to be moderate and variable a "real" interest in wine is important as opposed to someone just investing for purely financial returns.

Vintage 2013: Profitability summary

	Winery size (2013 revenue)				
Profitability 2013	**$0-$1.5m**	**$1.5m-$5m**	**$5m-$10m**	**$10m-$20m**	**$20m+**
Net case sales revenue	71.8%	81.1%	83.5%	85.2%	90.8%
Add:					
Bulk wine sales - domestic	9.4%	5.1%	4.1%	1.6%	1.4%
Bulk wine sales - export	0.0%	0.0%	2.4%	7.3%	5.5%
Grape sales	13.3%	5.5%	0.0%	0.7%	0.3%
Merchandising revenue	0.0%	0.2%	0.1%	0.1%	0.0%
Contract winemaking revenue	1.8%	2.0%	1.9%	0.8%	0.6%
WET Rebate	3.2%	3.6%	1.2%	1.5%	0.4%
Other revenue	0.5%	2.5%	6.8%	2.6%	0.9%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Cost of goods sold	(63.9%)	(62.4%)	(57.9%)	(62.6%)	(59.2%)
Gross margin	**36.1%**	**37.6%**	**42.1%**	**37.4%**	**40.8%**
Less:					
Selling Costs	(10.0%)	(11.0%)	(10.6%)	(11.6%)	(12.3%)
General & administration costs	(12.7%)	(16.7%)	(12.6%)	(8.6%)	(5.5%)
EBITDA	**13.3%**	**9.8%**	**19.0%**	**17.2%**	**23.0%**
Less: Depreciation and amortisation	(6.7%)	(4.9%)	(4.4%)	(2.9%)	(3.1%)
EBIT	**6.5%**	**4.9%**	**14.6%**	**14.3%**	**19.9%**
Less: Interest expense	(10.0%)	(5.4%)	(5.2%)	(3.3%)	(4.5%)
Add: Interest income	0.1%	1.3%	0.0%	0.1%	0.1%
Add: Other non-operating income	0.2%	(0.4%)	0.1%	1.6%	0.1%
Less: Shareholder salaries	(1.4%)	(0.8%)	0.0%	(0.5%)	(0.1%)
Add/(Less): Foreign exchange gain/(loss)	0.1%	(0.1%)	0.3%	0.4%	0.5%
Less: Inventory write-downs	0.0%	(0.0%)	(0.0%)	(0.1%)	(0.1%)
Profit / (Loss) before tax	**(4.4%)**	**(0.5%)**	**9.8%**	**12.4%**	**16.0%**

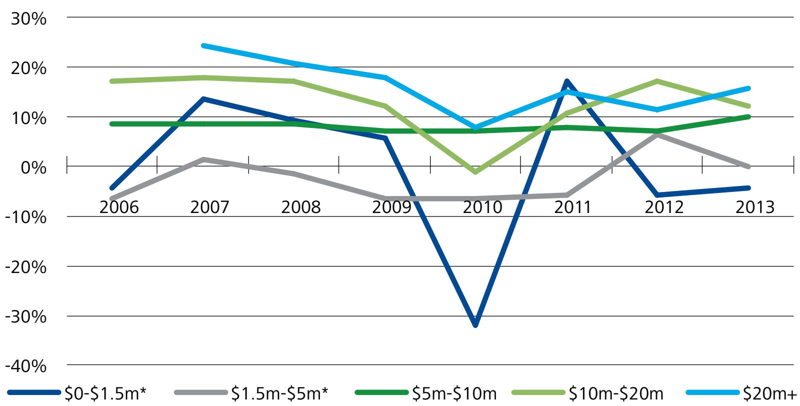
Note: Amounts in above table represent relative percentages of "Total Revenue"

Our survey splits participants into five size categories based on total revenue and compares results between the categories and over time. This year we have amended the first and second category's revenue cut-off from $1.25m to $1.5m to better reflect a natural split in participant revenue and provide more meaningful averages.

The 2013 survey results re-enforce the results of earlier year's surveys and indicate that profitability generally increases with size ranging from a loss of 4.4% for the smallest category to a profit of 16.0% for the largest category.

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

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



*Cut-off altered from prior years

$0-$1.5m category

- This category reflects the lowest average profit / (loss) before tax over the last two years running, with average losses of 5.5% and 4.4% in 2012 and 2013 respectively. It is also easy to observe the significant earnings volatility that this category has experienced in recent years. While a change in the mix of participants would be responsible it illustrates the challenges wineries of this size face.
- This category actually improved their profitability before interest cost this year (6.5% of revenue compared with 1.2% last year). However this promising improvement was wiped out by much higher interest costs.
- Although this category shows an accounting loss in 2013, on average participants achieved a small cash positive position before capital expenditure (as depreciation, a non-cash cost, was slightly higher than the overall accounting loss recorded).
- Net case sales revenue is significantly lower for this category than the other survey categories however this is due to one participant earning a significant portion of their revenue from grape sales. Adjusting for this exception, case sales generated 81.4% of revenue and grape sales 4.7% of revenue for this category.
- 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.

$1.5m-$5m category

- Profitability for this category decreased in 2013 to an average loss of 0.5% from a profit of 6.5% in 2012.
- The revenue mix of this category is more in line with the three larger categories than the $0-$1.5m category, albeit weighted to slightly lower case and bulk wine sales and slightly higher grape and contract wine sales.
- Overhead costs as a proportion of revenue are generally comparable to the larger categories, but administration costs within this category were proportionally higher than all other categories.

$5m-$10m category

- 2013 has seen an improvement in average profitability as a proportion of revenue for the $5m-$10m category, increasing to 9.8% from 7.3% in 2012.
- This category recorded the highest gross margin at 42.1% of all the categories, giving sufficient buffering to absorb overhead costs and remain profitable.
- Overhead costs as a proportion of revenue were broadly in line with the other larger categories.

$10m-$20m category

- Profitability for this category decreased in 2013 to 12.4% from 17.0% in 2012. This drop in profitability is attributed to decreased gross margin (2012: 39.4%, 2013: 37.4%) and increased selling costs (2012: 9.4%, 2013: 11.6%).
- The sales mix of case sales and export bulk wine sales in this category is broadly similar to 2012 and is consistent with the other larger category, which are both different to the three smaller categories.
- Interest costs as a proportion of revenue were lower in this category than any other category. This suggests a lower level of reliance on bank debt funding within this category.

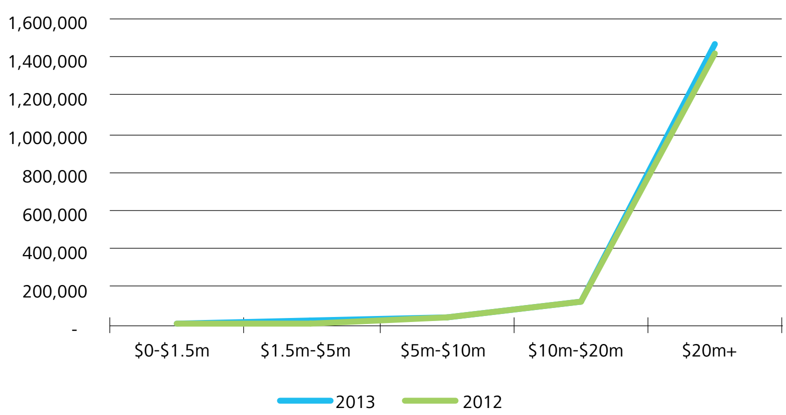
$20m+ category

- Profitability for this category increased in 2013 to 16.0% from 11.1% in 2012, and once again returns this category to having the highest level of profitability across all the categories.
- The revenue mix this year has seen a higher level of case sales as a proportion of revenue (2012: 85.6%, 2013: 90.8%) and a lower level of domestic and export bulk wine (2012: 10.9%, 2013: 5.8%). This revenue mix resulted in a lower gross margin of 40.8%, down from 48.5% in 2012.
- Participants in this category have on average recorded a significant decrease in selling costs when compared to last year's survey (2012: 21.8%, 2013: 12.3%). This has been the primary driver of the increase in profitability for this category this year.

Key financial ratios

Key Financial Ratios 2013	Winery size (2013 revenue)				
	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
Cases sold	7,049	26,791	50,481	122,837	1,466,276
Revenues and expenses per case					
Revenue per case	$115.48	$101.18	$108.09	$91.02	$78.22
Packaging cost per case	$16.19	$9.94	$9.51	$10.44	$17.55
Gross margin per case	$58.03	$46.87	$54.57	$39.90	$35.16
Selling expenses per case	$16.17	$13.74	$13.69	$12.37	$10.62
Overhead expenses per case	$20.52	$20.88	$16.30	$9.19	$4.71
Profit / (loss) per case	$(7.14)	$(0.56)	$12.73	$13.23	$13.75
Solvency ratios					
Current Ratio	633.4%	305.2%	426.4%	293.4%	290.4%
Debtors / Sales	19.2%	17.1%	21.9%	16.5%	12.5%
Debt to equity ratio	84.9%	63.7%	58.7%	27.1%	46.9%
Debt to total tangible assets	49.8%	47.1%	42.5%	31.5%	48.2%
Interest cover ratio	65.3%	91.0%	278.9%	429.0%	441.0%
Efficiency ratios					
Inventory turnover	65.1%	84.5%	87.1%	118.3%	125.5%
Fixed Asset turnover	58.8%	64.7%	78.4%	85.5%	87.1%
Asset turnover	32.2%	35.8%	39.6%	50.7%	47.2%
Profitability ratios					
EBIT margin (average)	6.5%	4.9%	14.6%	14.3%	19.9%
EBIT to assets (average)	2.1%	1.7%	5.8%	7.2%	9.4%
EBT to equity (average)	(2.8%)	(0.3%)	6.7%	9.1%	13.1%
EBT to net case sales (average)	(6.2%)	(0.6%)	11.8%	14.5%	17.6%

Case volumes – 2012 & 2013



Case Volumes

- Consistent with last year's survey, on average case volumes are exponentially higher for the larger categories. For the same set of survey participants, over the last year average volumes have increased for the $1.5m-$5m, $5m-$10m and $20m+ categories and decreased for the $0-$1.5m and $10m-$20m categories.

Revenue per case

- The revenue per case range has slightly widened since last year's survey but continues to exhibit a relatively narrow trend.

- This year we observed that revenue per case generally decreases as winery size increases. The $0-$1.5m category recorded the highest ($115.48) and the $20m+ category recorded the lowest ($78.22).

- There were only two categories ($0-$1.5m and $10m-$20m) that recorded an increase in revenue per case from the 2012 survey. Participants in the $20m+ category recorded the largest decrease from an average of $105.78 in 2012 to an average of $78.22 in 2013, which can be attributed to a changing participant mix this year. This is in contrast to last year's survey where all but one category ($1.5m-$5m) recorded an increase.

Packaging cost per case

- The lowest packaging costs per case ($9.51) were recorded by the $5m-$10m category this year. This is contrary to the general trend that these costs decrease with scale, with the largest category actually recording the highest packaging costs per case of $17.55 this year.

Gross margin per case

- Gross margin per case is broadly consistent with last year's survey, exhibiting a range of between $35.16 and $58.03. However, the $20m+ category has recorded the lowest gross margin per case ($35.16) in 2013 after having the highest ($59.97) in 2012 (again due to the changing participant mix). The $0-$1.5m category increased gross margin per case to $58.03 in 2013 (2012: $44.89).

Selling expenses per case

- The $20m+ category has recorded the lowest selling expenses per case ($10.62) in 2013 after recording the highest selling expenses per case in each of the last two surveys (2011:$24.85, 2012: $26.98). A change in the participant mix this year accounts for this difference and is understandable given the new participants sales strategies. The highest selling expenses per case this year were recorded by the $0-$1.5m category at $16.17 per case.

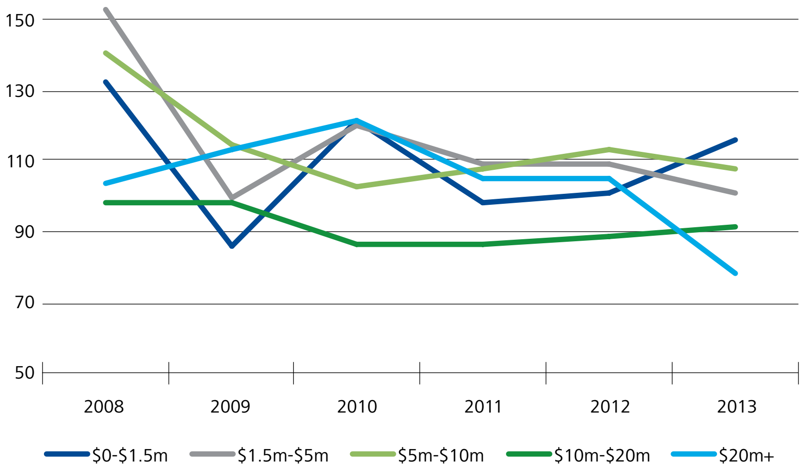
Overhead expenses per case

- Generally the trend holds that as wineries increase in size economies of scale exist to reduce overhead expenses and this year is no exception. With the exception of the two smallest categories that have very similar overhead costs per case the trend shows the $20m+ category having the lowest costs and then increasing as winery size decreases.

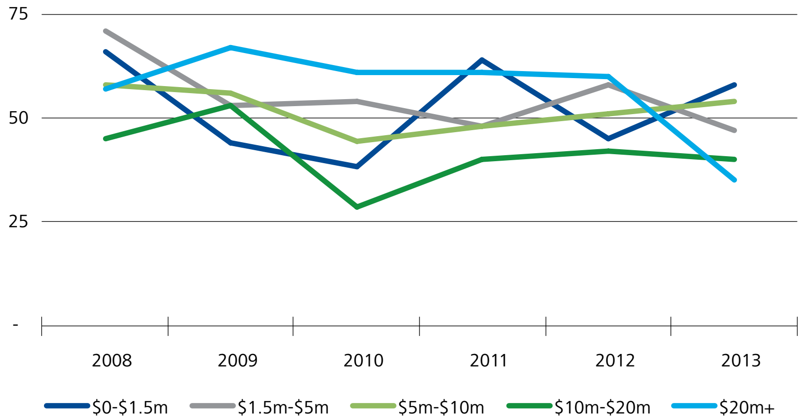
Profit / (loss) per case

- The $1.5m-$5m and $10m-$20m categories have both recorded slight decreases over the past year, with the $0-$1.5m and $20m+ categories remaining relatively flat.

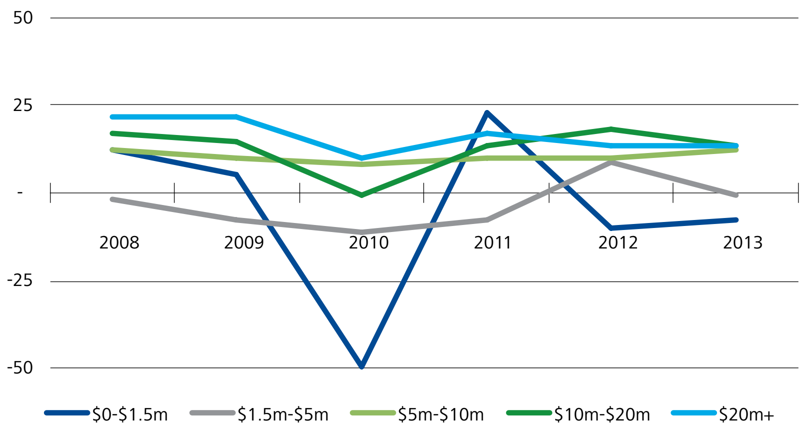
$ Case sales revenue per case



$ Gross margin per case



$ Profit / (loss) before tax per case



- Despite recording lower revenue and higher packaging costs per case above the $20m+ category records the highest profit per case of $13.75. This demonstrates the existence of economies of scale existing in these larger winery businesses.

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, with the $1.5m-$5m and the $10m-$20m categories falling 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.

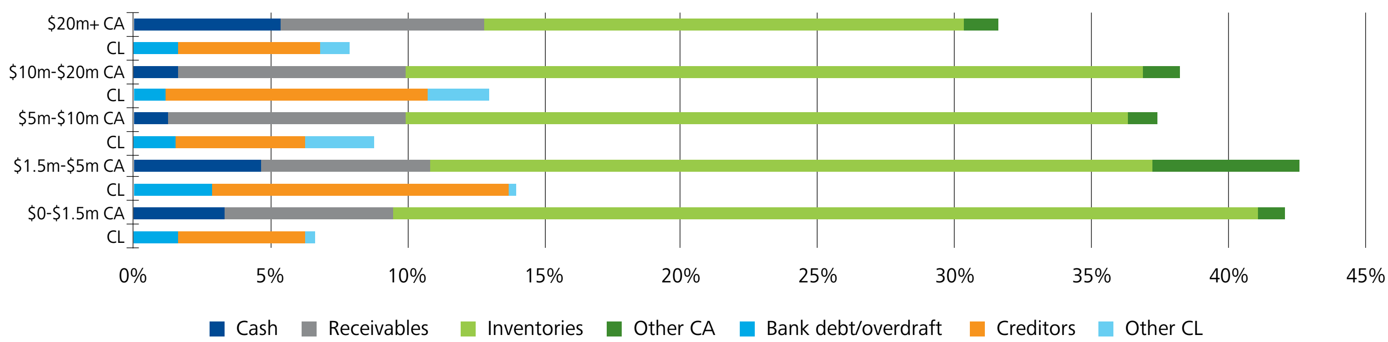
Debt ratios

- 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 year's results range from 27.1% for the $10m-$20m category to 84.9% for the $0-$1.5m category. All but the $10m-$20m category have ratios above 50%, returning to levels similar to those seen in the 2011 survey after the observed reduction in last year's survey. The low ratio for the $10m-$20m category can be attributed to a number of the participants holding no long term debt at all.
- Following from this observation, the debt to total tangible assets ratio has also increased for a majority of the categories, with ratios ranging from 31.5% to 49.8%. This implies 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 valuation based, but building, vineyard and inventory values should be considered with some discretion as many are based on historical cost. If 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.

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).

Current assets and current liabilities 2013



- This year on average, participants in the two larger categories cover their interest more than 4 times, participants in the $5m-$10m category fall in the 2 to 3 times range, and participants in the two smallest categories fall below 1 time indicating the lack of profitability to cover interest payments in these smaller categories and/or comparatively higher debt levels. This indicates 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. The range calculated this year spanned from 5.7% to 9.0% 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, as some of the wine produced will be held in inventory for ageing.
- Participants in the three smaller categories record average ratios of less than 100% indicating that they are accumulating a portion of their stock. Participants in the two larger categories had average inventory turnover of more than 124% 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. The resulting metric is comparable to returns that could be generated by investing in other investments. 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 three larger categories record positive returns on investment ranging from 6.7% to 13.1%. The $20m+ category records the highest and generally would be considered at an acceptable level. The other two larger categories however, while positive, have ratios 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 4.58% before tax (as at 24 October 2013). Clearly at the recorded levels the smaller categories are significantly below this rate and, given the large amounts of risk present, do not seem like a prudent investment if these levels of profit remain.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Income statement

Income Statement 2013	Winery size (2013 revenue)				
	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
Revenue and gross margin					
Gross case sales	72.8%	81.6%	83.5%	86.4%	114.8%
Less:					
Sales discounts and returns	(1.0%)	(0.5%)	0.0%	(1.2%)	(24.0%)
Net case sales revenue	**71.8%**	**81.1%**	**83.5%**	**85.2%**	**90.8%**
Plus other operating revenue					
Bulk wine sales - domestic	9.4%	5.1%	4.1%	1.6%	1.4%
Bulk wine sales - export	0.0%	0.0%	2.4%	7.3%	5.5%
Grape sales	13.3%	5.5%	0.0%	0.7%	0.3%
Merchandising revenue	0.0%	0.2%	0.1%	0.1%	0.0%
Contract winemaking revenue	1.8%	2.0%	1.9%	0.8%	0.6%
WET Rebate	3.2%	3.6%	1.2%	1.5%	0.4%
Other revenue	0.5%	2.5%	6.8%	2.6%	0.9%
Total revenue	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Less cost of goods sold (COGS):					
Grapes	(1.2%)	(11.4%)	(16.2%)	(16.5%)	(7.1%)
Bulk wine	(9.1%)	(5.1%)	(2.4%)	(5.7%)	(2.8%)
Vineyard supplies	(7.0%)	(1.9%)	(6.9%)	(5.7%)	(1.4%)
Vineyard labour	(11.3%)	(10.1%)	(3.4%)	(4.4%)	(0.8%)
Winemaking supplies	(2.5%)	(2.8%)	(3.1%)	(1.7%)	(1.8%)
Winemaking labour	(2.9%)	(4.6%)	(3.0%)	(3.3%)	(0.6%)
Bottling	(4.8%)	(9.8%)	(3.1%)	(5.1%)	(0.7%)
Packaging	(10.1%)	(8.0%)	(7.3%)	(9.8%)	(20.4%)
Direct and indirect labour	(0.2%)	(0.8%)	(1.3%)	(0.4%)	(0.1%)
Excise tax	(5.3%)	(3.6%)	(6.9%)	(2.6%)	(2.8%)
Overheads	(1.8%)	(6.5%)	(5.3%)	(5.1%)	(3.7%)
Other	(0.6%)	2.0%	(4.3%)	(1.5%)	(20.7%)
Distribution (including freight)	(5.2%)	(2.3%)	(2.3%)	(8.9%)	(1.8%)
Stock movement	(3.0%)	2.6%	7.8%	7.9%	5.0%
Total cost of goods sold	**(63.9%)**	**(62.4%)**	**(57.9%)**	**(62.6%)**	**(59.2%)**
Gross Margin	**36.1%**	**37.6%**	**42.1%**	**37.4%**	**40.8%**
Sales and marketing expenses					
Compensation sales expenses					
Sales and marketing salaries	(2.3%)	(4.1%)	(4.3%)	(2.8%)	(2.8%)
Cellar door salaries	(0.6%)	(0.9%)	(1.3%)	(0.8%)	(0.0%)
Other sales expenses					
Advertising	(3.1%)	(3.5%)	(1.9%)	(2.0%)	(7.7%)
Travel and entertainment	(2.1%)	(1.6%)	(1.4%)	(0.9%)	(0.3%)
Other	(1.9%)	(0.9%)	(1.9%)	(5.0%)	(1.4%)
Total sales and marketing expenses	**(10.0%)**	**(11.0%)**	**(10.6%)**	**(11.6%)**	**(12.3%)**
General and administration expenses					
Finance/accounting/legal/professional	(3.0%)	(4.3%)	(6.3%)	(2.4%)	(0.8%)
ALAC levies	(0.0%)	(0.0%)	(0.1%)	(0.1%)	(0.2%)
Other general and administration expenses	(7.2%)	(9.7%)	(4.2%)	(4.7%)	(4.1%)
Rent/utilities/rates	(2.5%)	(2.7%)	(2.0%)	(1.5%)	(0.5%)
Total general and administration expenses	**(12.7%)**	**(16.7%)**	**(12.6%)**	**(8.6%)**	**(5.5%)**
EBITDA	**13.3%**	**9.8%**	**19.0%**	**17.2%**	**23.0%**
Depreciation and amortisation	(6.7%)	(4.9%)	(4.4%)	(2.9%)	(3.1%)
EBIT	**6.5%**	**4.9%**	**14.6%**	**14.3%**	**19.9%**
Interest expense	(10.0%)	(5.4%)	(5.2%)	(3.3%)	(4.5%)
Interest income	0.1%	1.3%	0.0%	0.1%	0.1%
Other non-operating income	0.2%	(0.4%)	0.1%	1.6%	0.1%
Shareholder salaries	(1.4%)	(0.8%)	0.0%	(0.5%)	(0.1%)
Foreign exchange gain/loss	0.1%	(0.1%)	0.3%	0.4%	0.5%
Inventory write-downs	0.0%	(0.0%)	(0.0%)	(0.1%)	(0.1%)
Profit/(loss) before tax	**(4.4%)**	**(0.5%)**	**9.8%**	**12.4%**	**16.0%**

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

Income Statement commentary

- The revenue split between case sales and other operating revenue are broadly in line with the 2012 survey with all categories receiving a higher proportion of their revenue from case sales. This year the $0-$1.5m category has generated most of the balance of its revenue from grape sales (13.3%) and domestic bulk wine sales (9.4%) compared to last year's survey where contract winemaking contributed 22.4%. This is due to a change in the mix of participants in this category.
- We note that the $20m+ category had significant levels of sales discounts and returns this year at 24.0% (3.6% in 2012). This is impacted by a change in the mix of participants this year, their accounting practices, and the sales strategies that some of the larger players follow.
- 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%. The $5m-$10m category has the highest gross margin this year at 42.1%, with the other categories ranging from 36.1% to 40.8%.
- While all categories had roughly comparable levels of COGS as a proportion of revenue this year, the composition of COGS varied across categories. COGS for the two smallest categories displayed the highest relative amount of vineyard labour; the three middle categories displayed relatively higher grape costs while the largest category displayed relatively higher packaging and other costs.
- 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. The largest and second largest categories focus their spending mainly on advertising and other respectively. The other three categories split their spending more evenly over the listed categories, with slightly more focus on advertising and sales and marketing salaries. In contrast to recent surveys, the $20m+ category has spent significantly less on sales and marketing despite still having the highest relative spend of any category at 12.3% (2012: 21.8%, 2011: 21.9%).
- The 20m+ category achieved the highest profit level as a proportion of revenue this year at 16.0%. This profit level was accomplished by earning the second 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.

Image © Ballochdale Estate Ltd

Deloitte perspective:

The changing mix of participants this year has impacted on the makeup of the results, particularly in the $20m+ category. A significant increase in sales discounts has been recorded by this category this year, which together with the fact that only 50% of sales are exported (discussed later) implies significant volumes are being moved domestically. Given the presence of discounts and the volumes involved we assume that these domestic sales will more than likely be via supermarkets and this illustrates the power and ability of the supermarket chains to influence price. Interestingly however we have also witnessed a large decrease in the level of sales and marketing expense incurred by this category, which would tend to suggest that due to the volumes being sold through this channel less marketing is required by the wineries themselves.

Given this category is the most profitable it appears to be a sales strategy that is working for them. However on the flip side, it is expected that if smaller wineries attempted to replicate it then the supermarket operators could be hardnosed in the use of their bargaining power to the smaller wineries detriment. We expect some of this is happening already and therefore will already be impacting on the results of these wineries.

Balance sheet

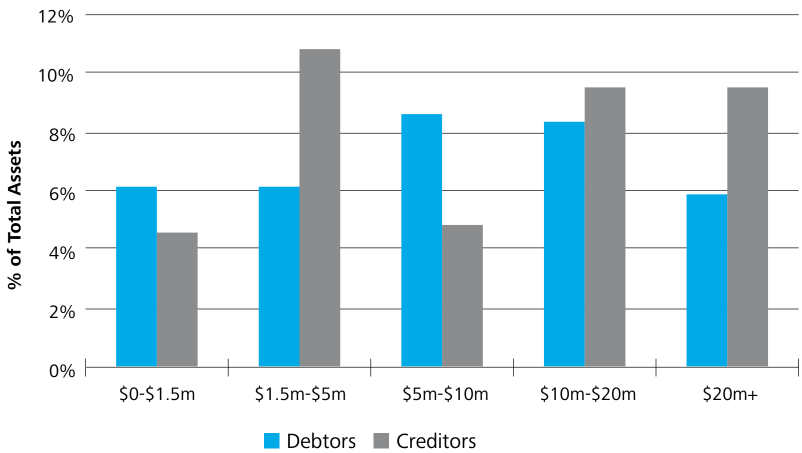
Balance Sheet 2013	Winery size (2013 revenue)				
	$0-$1.5m	**$1.5m-$5m**	**$5m-$10m**	**$10m-$20m**	**$20m+**
Assets					
Current assets					
Cash	3.3%	4.7%	1.3%	1.6%	3.6%
Receivables	6.2%	6.1%	8.7%	8.4%	5.9%
Inventories	31.6%	26.4%	26.3%	26.8%	22.3%
Other current assets	1.0%	5.3%	1.1%	1.3%	2.0%
Total current assets	**42.0%**	**42.5%**	**37.4%**	**38.1%**	**33.8%**
Non current assets					
Land	31.3%	16.3%	20.9%	10.9%	13.4%
Vineyards	13.6%	13.7%	10.2%	19.7%	13.9%
Buildings and improvements	5.0%	13.8%	10.8%	14.0%	6.9%
Winemaking equipment	3.6%	9.9%	7.4%	14.0%	15.1%
Vehicles	0.8%	1.1%	0.7%	0.6%	0.2%
Office equipment	0.4%	0.4%	0.5%	0.2%	4.6%
Total net fixed assets	**54.7%**	**55.3%**	**50.5%**	**59.3%**	**54.2%**
Purchased goodwill and other intangible assets	2.4%	0.6%	2.3%	1.8%	11.2%
Investments	0.9%	1.6%	9.8%	0.7%	0.6%
Deferred Tax Assets	0.0%	0.0%	0.0%	0.0%	0.3%
Total assets	**100.0%**	**100.0%**	**100.0%**	**100.0%**	**100.0%**
Current liabilities					
Bank debt/overdraft	1.7%	2.9%	1.5%	1.2%	1.1%
Provisions (incl. income tax, annual leave)	0.4%	0.2%	2.5%	2.3%	1.0%
Trade payables and accruals	4.6%	10.8%	4.8%	9.6%	9.6%
Total current liabilities	**6.6%**	**13.9%**	**8.8%**	**13.0%**	**11.6%**
Long term debt	42.0%	31.0%	32.8%	17.6%	25.8%
Non-current provisions	0.0%	0.0%	0.0%	0.0%	1.1%
Deferred tax liabilities	0.0%	1.8%	0.0%	0.4%	4.0%
Other long term liabilities	0.0%	0.0%	0.0%	0.0%	0.1%
Total liabilities	**48.6%**	**46.8%**	**41.6%**	**31.0%**	**42.7%**
Equity (incl. capital, retained profits & reserves)	1.3%	35.1%	52.4%	52.9%	57.3%
Shareholder current accounts	28.6%	17.0%	0.1%	7.9%	0.1%
Shareholder loans	21.5%	1.1%	5.9%	8.2%	0.0%
Total Equity	**51.4%**	**53.2%**	**58.4%**	**69.0%**	**57.3%**
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

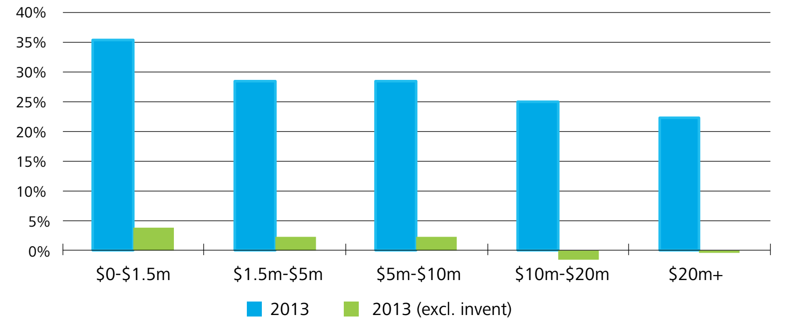
- With the exception of the $0-$1.5m category, receivables as a percentage of total assets reduced marginally compared with last year's survey. There was no clear trend in creditors as a percentage of total assets with the $0-$1.5m category slightly rising, the $5m-$10m and $20m+ categories slightly falling and both the $1.5m-$5m and the $10m-$20m categories rising more significantly (from 5.6% and 6.5% in 2012 to 10.8% and 9.6% this year respectively).
- As shown in the adjacent Debtors vs. Creditors graph those more significant rises have meant that creditors have become higher than debtors for the $1.5m-$5m and the $10m-$20m categories. These categories are now net consumers of debt.

2013 Debtors vs Creditors

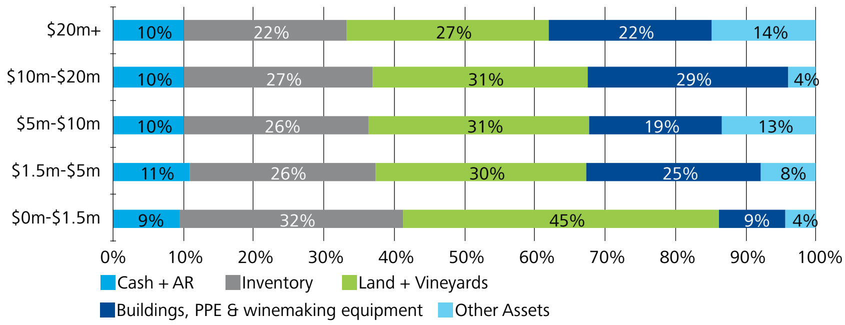


- Inventory as a percentage of total assets has increased for four of the categories and decreased for the $5m-$10m category relative to last year's survey. The biggest mover, due to a change in participants, is the $0-$1.5m category, which increased from 17.7% to 31.6%.
- Net working capital is the 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 to the right, both including and excluding inventory. Consistent with last year's survey, inventory levels form a large portion of current assets. 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 categories increased with the exception of the $20m+ category. However, this was mostly due to changes in survey participants. In comparison to the same set of participants' prior year performances, relative debt levels reduced in all categories except $0-$1.5m.

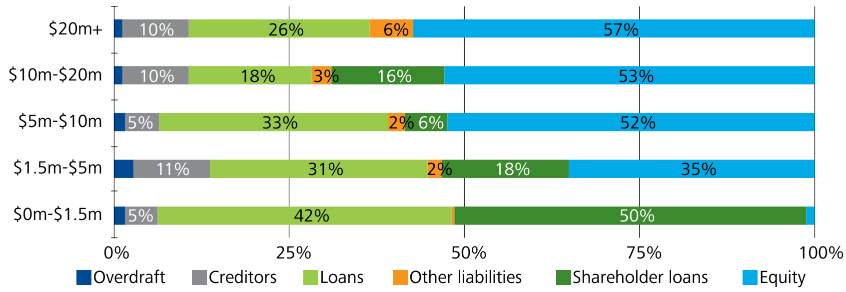
Net Working Capital 2013



Asset Summary 2013



Funding Summary 2013



Deloitte perspective:

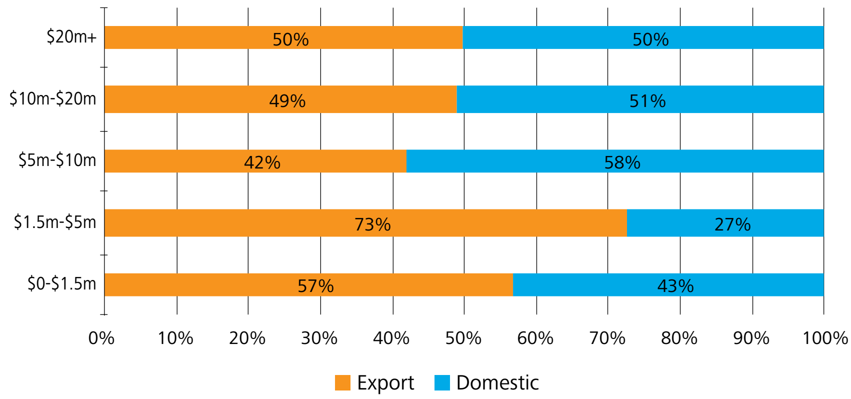
While not specifically commented on in the Income Statement section, the $0-$1.5m category had the largest interest expense of all the categories at 10.0%, almost double the next closest category. This aligns with this category having the highest percentage of long term debt and is a key contributor to this categories poor financial performance.

The $20m+ category on the other hand could be experiencing issues of their own. This category has inventory as a percentage of total assets lower than all the other categories at 22.3%. While this is not a bad thing in itself it could be representative of the well-publicised shortage of grapes following the smaller Vintage 2012 harvest which is ultimately impacting on inventory levels. This category does rate grape supply as their second most important issue later in the report. Alternatively it could just be that this categories sales strategy, discussed above, is working exactly as it should and therefore is keeping inventory at lower levels.

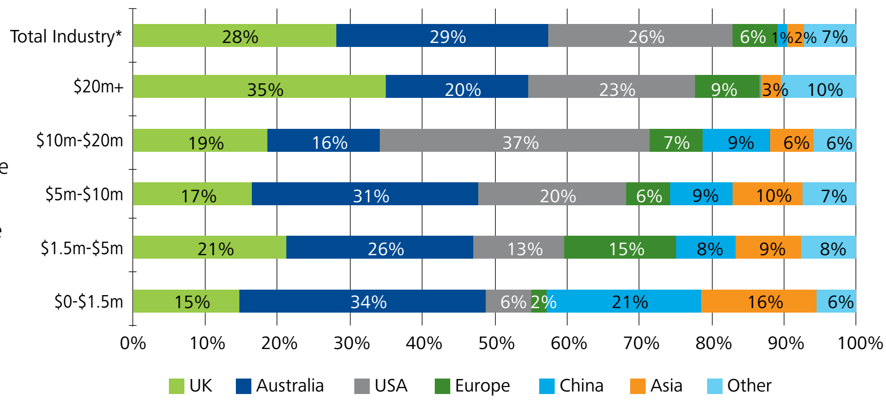
Distribution and sales

- The importance of exports to the New Zealand wine industry is a trend that has been noted in all of our prior surveys and is again prominent in Vintage 2013. However, in a change from prior years there are two categories with less than 50% of sales being exported. The two smallest categories have the highest percentage being exported with 73% and 57% for the \$1.5m-\$5m and \$0-\$1.5m categories respectively. The remaining three larger categories have exports sitting between 42% and 50%.
- The export sales destination graph clearly illustrates that participants in different categories have a reliance on different markets for their exports. On average, participants in the \$20m+ category are more reliant on the UK (35% of exports), participants in the \$10m-\$20m category are reliant on the USA (37% of exports) and participants in the \$5m-\$10m category and the \$0-\$1.5m category are reliant on Australia (31% and 34% of exports respectively). By comparison, participants in the \$1.5m-\$5m category have relatively diversified exports on average, with the largest market being Australia (26% of exports). The smaller categories focus on Australia makes complete sense given that proximity would make it more cost effective, as well as the presence of the WET rebate.
- We have again witnessed the increasing importance of China and Asia in the New Zealand wine industry; however, this is only at the smaller end of the market. As the Export Sales Destination graph illustrates from a total industry perspective China and Asia makes up only 3.7% of total exports. We also note from NZ Winegrower statistics that volumes to China did not grow in 2013.
- Consistent with prior years the wholesale/distribution channel remains the most important domestic distribution channel. Website and/or mail order sales have continued the growth observed in last year's survey and along with 'other' they are now the second largest channel for three categories. This growth has largely come at the expense of cellar door.

Distribution Channel 2013



Export Sales Destination



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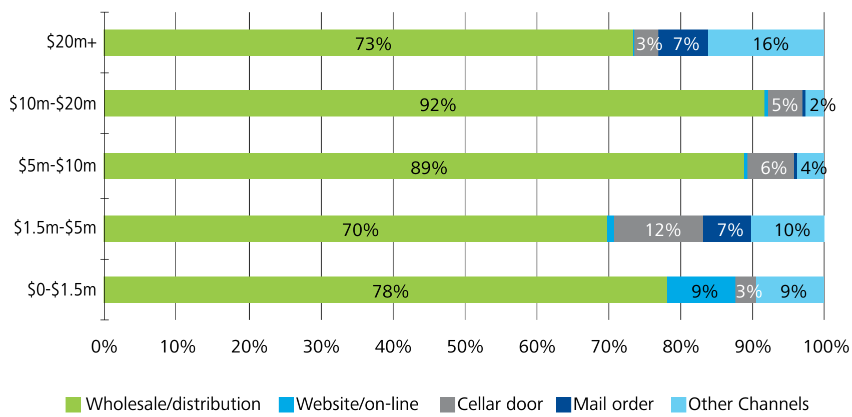
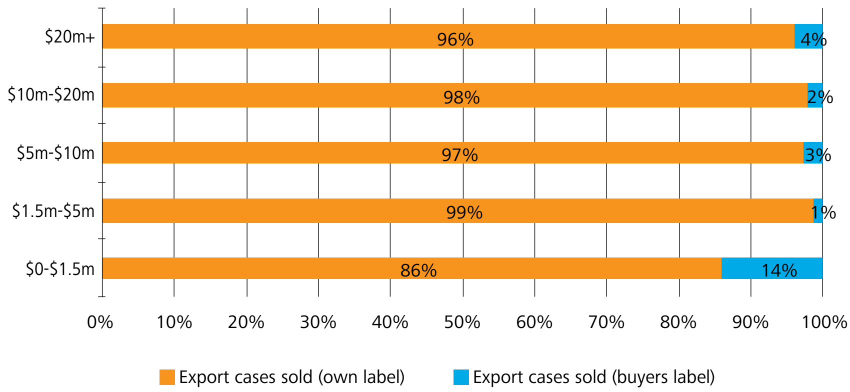
Distribution Channel 2013 (Domestic Sales)



Export Case Sales 2013



- The adjacent chart shows the split between export cases sold under a winery's own label versus export cases sold under the buyers' label. Consistent with the Vintage 2012 survey, we observe that on average participants in the smallest category sell proportionately more of their cases under a buyers' label in comparison to negligible amounts for the larger wineries. This provides further evidence that the smaller players in the industry are more willing to be flexible with their buyers' terms in order to make sales.

Image © The Crossings

Deloitte perspective:

The shift away from exports towards domestic sales seen in this year's survey is a surprising observation that goes against the trend observed in all of our previous surveys. It is not entirely clear what the cause of this observation is but it is likely to be largely as a result of a change in participants.

It is possible that the persistently high exchange rate experienced in New Zealand recently means that New Zealand wine is becoming less competitive overseas from a pricing point which is causing overseas buyers to substitute other wines. It would be expected that if current price points are maintained then profitability would reduce meaning export markets are not as attractive. Raising these price points is one of the keys to wineries returning to sustainable profits.

Since the inception of the survey, participants have consistently rated exchange rates as one of the major issues being faced by the industry and is discussed again later in the report.

The graph on page 15 clearly illustrates the increasing importance of the China market to the smaller end of the industry and differentiates these participants from the larger players. Given the prices being achieved through sales into China (from the NZ Winegrowers statistics) it appears this market is lucrative for those that target it and therefore the general perception is that this will grow further in the future, especially as the younger Chinese market develop into drinkers of premium wine. The challenge with this market however is dealing with the different practices and culture.

Production

Production	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
	Winery size (2013 revenue)				
Crush					
Own grapes	64%	57%	48%	34%	52%
Purchased grapes	0%	43%	43%	60%	41%
Contract processed (by you for others)	36%	0%	9%	6%	8%
Total	**100%**	**100%**	**100%**	**100%**	**100%**
Total crushed at your facilities (tonnes)	49	327	839	2,140	17,904
Utilisation (actual crush versus maximum crush)	61%	80%	70%	90%	92%
Grape and bulk wine supply					
Cost of grapes per tonne	$1,500	NMR	$1,785	$1,672	$1,368
Cost of bulk wine per litre	$5.53	$5.50	$4.48	$4.28	$3.47
Volume (litres)					
Litres of wine produced	64,471	276,681	484,283	1,605,638	13,534,085
Litres of wine produced per tonne crushed	592	711	689	689	736

We note that the production information generated is dependent upon the mix of participants in the survey.

- For the second year in a row the average utilisation of participants in all categories is below 100%. Utilisation declined in every category this year with the largest decline recorded in the $0-$1.5m category which went from 89% in 2012 to 61% this year. As noted in last year's survey, the lower utilisation result could be due to increased capacity now being available in the industry.
- All categories report similar cost of grapes per tonne this year between $1,368 and $1,785 with the exception of the $1.5m-$5m category that has faced a significantly higher cost of $2,485 this year. A number of outliers exist in this category due to the purchase of higher priced grapes. When these outliers are removed, the cost per tonne reduces to a more comparable $1,846. The $20m+ category has the lowest grape price per tonne illustrating the bargaining power these larger players potentially have.
- This year all categories contained at least one winery that purchased bulk wine. The average price paid for bulk wine per category this year sits between $3 and $6 per litre, slightly higher than the $3-$4 per litre observed in 2012. As observed above and in last year's survey, the $20m+ category do appear to have additional bargaining power in comparison to smaller wineries with an average price of $3.47.
- For the larger wineries ($1.5m+) the productivity levels recorded are generally higher than 2012, with approximately 690 to 740 litres of wine produced per tonne crushed compared to 550-700 litres in 2012. The smallest category has lower productivity which is similar to last year's survey results.

Cost of grapes per tonne

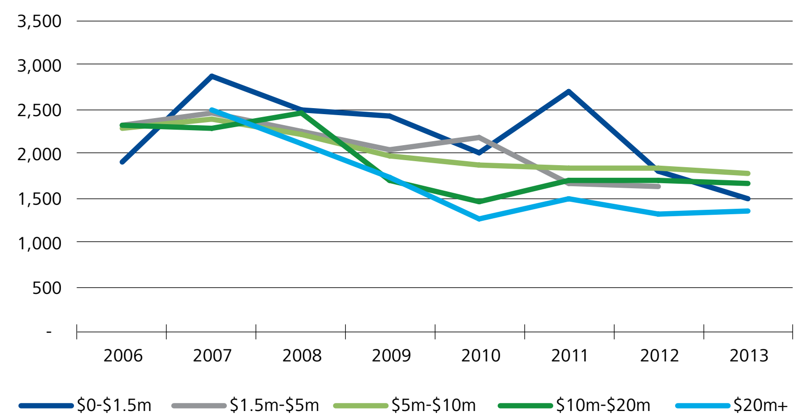
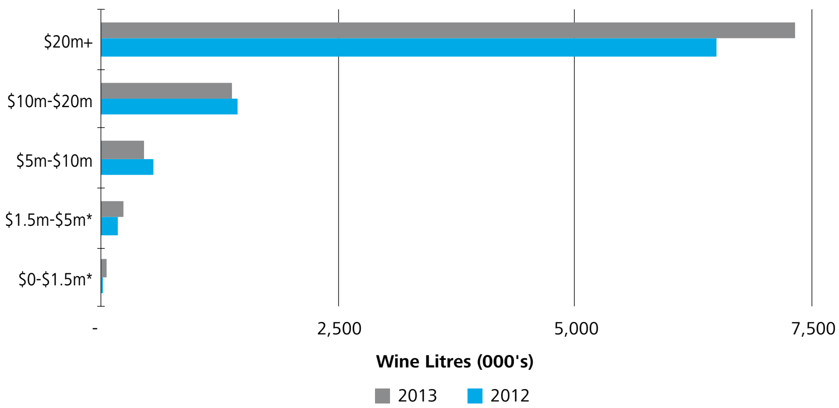



Image © Villa Maria Estate Ltd

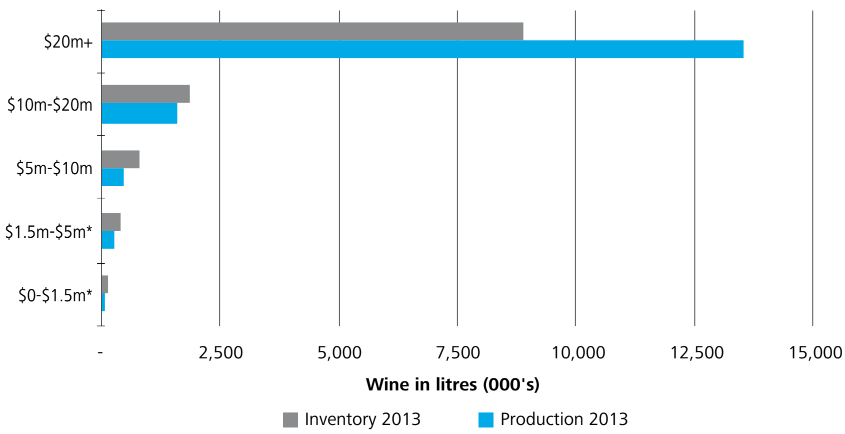
Inventory

Inventory	Winery size (2013 revenue)				
	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
Red					
Maturing in oak (litres)	15,606	40,796	74,427	113,161	104,989
Bulk wine (litres)	35,320	40,851	47,129	169,887	1,235,467
Packaged wine (cases)	1,399	3,482	14,654	11,065	48,695
Total litres	**63,513**	**112,988**	**253,444**	**382,629**	**1,778,709**
White and Other					
Maturing in oak (litres)	1,584	11,930	15,930	49,917	96,737
Bulk wine (litres)	20,758	197,803	400,929	1,219,829	6,086,487
Packaged wine (cases)	3,855	9,277	14,618	22,616	104,070
Total litres	**57,035**	**293,225**	**548,422**	**1,473,291**	**7,119,850**
Total Litres all wines	**120,548**	**406,213**	**801,866**	**1,855,921**	**8,898,559**

Average Bulk Wine Inventory 2012 and 2013



Average Inventory and Production 2013



- Average inventory levels have generally decreased for all categories except the $10m-$20m category when compared to our Vintage 2012 survey. The only category to record an increase was the $10m-$20m category which increased slightly by 4.9%.
- It was noted in last year's survey that 2012 inventory levels were potentially being affected by additional inventory being brought forward from the record 2011 harvest. Following last year's reduced harvest and with production levels for participants in this year's survey comparable with last year; it is not surprising that we are seeing reductions in average inventory levels.
- The majority of the categories hold more white wine inventory on average than red wine and only the $0-$1.5m category has more red wine inventory. This is in line with our previous surveys and expectations.

Image © Misha's Vineyard Wines Ltd.

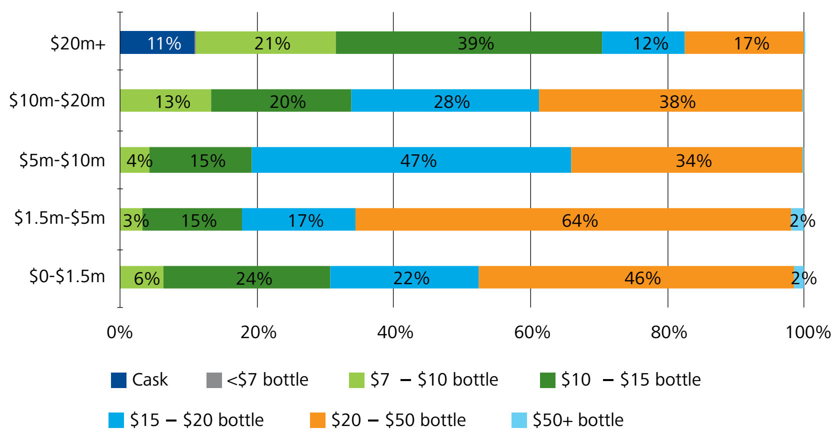
Deloitte perspective:

Given the issues that the industry has previously faced following previous record Vintages (in 2008, 2009 and 2011), the industry appears to be carefully and appropriately managing the record harvest of Vintage 2013 (345,000 tonnes). 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. Going forward the sector needs to continue to focus on the growth in value, not just the volume, of sales. We are aware that new vineyard investments are being considered by industry players. Such investments need to be carefully assessed to ensure they are strongly market led and there is no repeat of the supply/demand imbalance seen in recent years.

Price points

- The graph right illustrates the domestic retail price points that the participants target, based on volumes sold.
- This is the first time in the survey's eight year history where a participant has targeted the cask market. This year we have a number of participants who have done so. On average, these participants target 11% of their domestic wine to this category. In addition this year, no category has a presence in targeting the less than $7 a bottle market, which is generally in line with past years.
- The survey results this year continue to show the trend that as winery size increases their target average sales price tends to decrease. This is illustrated by the size of the $20-$50 a bottle and $50+ a bottle bars in the chart above.
- In last year's survey we observed an increase in the $7-$10 per bottle price bracket, particularly for participants in the $1.25m-$5m category. This year we have seen the trend for participants in the $1.5m-$5m category dramatically reverse with an average of 3% of domestic sales in this price range compared to 23% in 2012. This illustrates that price points are highly dependent on the participant mix each year.
- Our experience indicates that smaller wineries usually aim to sell lower volumes at a higher price. The responses received from participants in the two smallest categories this year on average align with this.

Sales price point 2013



Issues facing the New Zealand industry

	Winery size (2013 revenue)				
	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
Exchange rates	1	1	2	1	1
Marketing product overseas	2	2	4	2	3
Excise and other levies	3	3	1	4	5
Grape supply (too little)	9	7	5	3	2
Interest rates	4	7	3	5	9
Labour supply/cost	5	5	8	6	6
Government compliance costs	6	6	6	8	10
Access to capital	8	4	9	8	8
Grape supply (too much)	10	7	6	7	11
Affordability of land	11	11	10	10	4
Company tax rates	7	10	11	11	7

- This year the top three issues that the industry are facing, as assessed by survey participants are "Exchange rates", "Marketing product overseas" and "Excise and other levies". As noted in previous surveys, these three issues have consistently rated as the top issues that the industry faces.
- This is the fourth year in a row that "Exchange rates" has held the number one spot and this year all categories with the exception of the $5m-$10m category rated it as their top issue. This is unsurprising given the persistently high exchange rate experienced by New Zealand exporters in recent years.
- We have seen a movement in the order of the second and third ranked issues compared to the 2012 survey with "Marketing product overseas" ranked as the second most important issue in three of the five categories. These results appear to be in line with the reduced level of exports observed in this year's survey.
- "Excise and other levies" first moved into the top three issues in our Vintage 2011 survey, appearing at number three and moved to number two in 2012. This year it has moved back to number three overall with the $5m-$10m category ranking it number one. As at 1 July 2011 the government raised excise tax rates 12c per litre, the largest increase in 20 years. This was followed by a 4c per litre increase in 2012 and a 3c per litre increase in 2013. As noted in prior surveys, the increased prominence of "Excise and other levies" seen in 2011 and continued in 2012 was assumed to be due to uncertainty in the industry about whether the 2011 increase could be passed on to consumers. Consistent with our comments in last year's survey we would expect that this issue would remain near the top of the list until greater profitability returns to the industry.
- "Grape supply (too little)" remains the fourth most important issue overall this year, which is somewhat surprising given the record Vintage 2013 harvest, however possibly it relates to longer term forward planning. The importance of this issue appears to increase with winery size and varies from being ranked ninth by the $0-$1.5m category to number two for $20m+ category. This spread also aligns with the available capacity / utilisation metric discussed earlier.
- The biggest mover this year is "Labour supply/cost" which has moved from an overall ranking of ninth in last year's survey to sixth this year with four out of five categories ranking it fifth or sixth.

	Winery size (2013 revenue)				
	$0-$1.5m	$1.5m-$5m	$5m-$10m	$10m-$20m	$20m+
			Number 1 issue		
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

Deloitte perspective:

The table above shows the number one issue within each category over the last eight vintage surveys. As illustrated there is not a lot of variation in the number one industry issue this year with "Exchange rates" holding this spot for four of the five categories. This is also consistent with the results from our previous surveys.

"Excise and other levies" makes an appearance in the table this year for the first time since 2008 indicating that wineries are feeling the pinch of the recent increases and may still be absorbing some of these costs instead of passing them on to consumers.

Movement analysis – Vintage 2012 to Vintage 2013

	Winery size (2013 revenue)				
Key Profitability Metrics	**$0-$1.5m**	**$1.5-$5m***	**$5m-$10m***	**$10m-$20m**	**$20m+***
Cases sold	(23.7%)	9.5%	(1.3%)	(2.7%)	3.8%
Revenue per case	2.0%	(6.1%)	9.5%	2.8%	(3.1%)
Net case sales revenue	(22.2%)	2.8%	8.0%	(0.1%)	0.6%
Total revenue	(14.8%)	2.8%	0.7%	(0.4%)	2.7%
Gross Margin	8.7%	8.3%	(5.4%)	3.6%	12.3%
EBITDA	12.7%	(4.8%)	(16.3%)	(2.1%)	20.5%
Net Profit before tax	**62.7%**	**79.8%**	**(39.8%)**	**20.0%**	**55.1%**

Note: Amounts in above table represent absolute movements in average values over the period 2012 - 2013

** These categories have been altered to exclude participants with blank or significantly limited prior year information*

The survey required respondents to complete prior year (2012) financial information along with current year information. Having data across two years from the same data set (i.e. the same respondents) allows for a more accurate comparison between years to better gauge the state of the industry.

We note that the prior year information was not completed or significant sections were left blank for three respondents this year (one in the $1.5m-$5m category, one in the $5m-$10m category and one in the $20m+ category). We have removed these respondents from the analysis in this section to avoid skewing the movement analysis.

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 2012 to 2013 period.
- The $1.5m-$5m and $20m+ categories have both recorded increases in the volume of cases sold and decreases in revenue per case. The higher volume, lower price strategy appeared to work, with both categories recording an increase in net cases sales revenue. This same strategy worked for two of the three categories that we observed in our 2012 survey. The other three categories followed a lower volume higher price strategy with only the $5m-$10m category recording an increase in net case sales revenue. Notably the $0-1.5m category recorded a significant drop in volume this year which was combined with only a minor rise in price to produce significantly lower net case sales revenue.
- Higher gross margins were achieved in all categories except the $5m-$10m category through a mixture of increased revenues and decreased costs.
- EBITDA was up for the smallest and largest categories, and notably so for the $0-$1.5m category with a 12.7% higher average EBITDA in 2013 despite recording a 14.8% decline in revenue. The main driver was a significant reduction in COGS due to the lower volume, along with a decrease in other expenses. The middle three categories saw a decline in EBITDA in 2013 with the $5m-$10m category recording the largest decline of 16.3%.
- However all categories except $5m-$10m reported improved net profit, significantly so in three of the categories.

The following sections explore these movements in more detail for each category. The graphics included show the movements in profit or loss before tax from 2012 to 2013, as a percentage of 2012 profit (or loss). Green bars represent improvement (i.e. an increase in income or decrease in costs) and orange bars represent deterioration.

$0-$1.5m Category Profitability

- Small wineries have reduced the size of their loss making position down to 37% of the size of the loss in 2012.
- The observed lower volumes had a largely offsetting impact on profit as the lack of volume reduced revenue as well as COGS. Increases in other revenue combined with reductions in other expenses combined to contribute the most to the increase in profit.

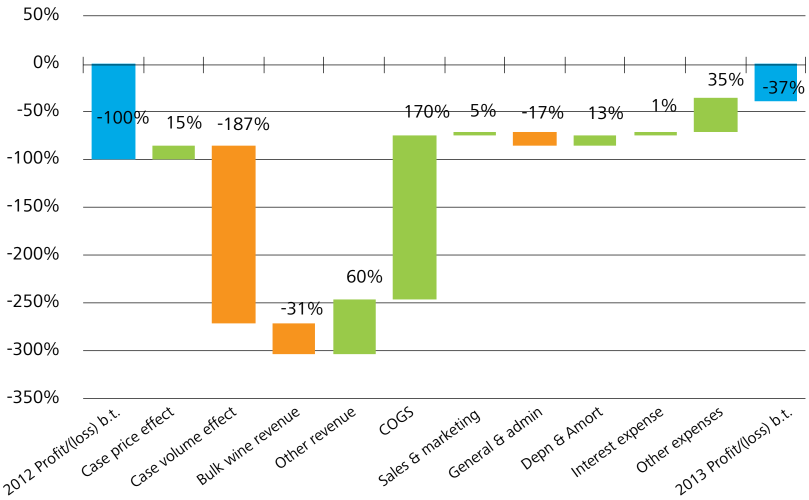
$1.5m-$5m Category Profitability

- We note here that the removal of one winery with limited prior year information has resulted in the $1.5m-$5m category recording an average profit in 2013 (1.8% of total revenue) compared with the average loss displayed in the rest of the report (0.5% of total revenue).
- The $1.5m-$5m category experienced the largest increase in profit of all the categories over the past year recording an increase of 80% on 2012 profit.
- The net case price effect is entirely offset by the volume uplift with a positive net impact on case revenue. Higher bulk wine revenue also contributes to an overall positive revenue impact. The small increase in COGS is not proportional to the large revenue increase and results in an up lift in the gross margin in the table.
- Overhead costs in total decreased as a result of lower general and admin costs, depreciation and amortisation costs and sales and marketing costs more than offsetting the increases in the other categories.

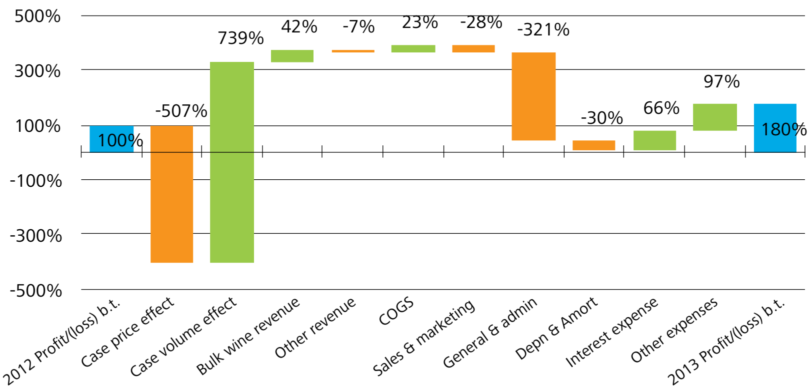
$5m-$10m Category Profitability

- The $5m-$10m category was the only category this year to have decreased profitability compared to the prior year.
- The positive effect from increased prices was not correspondingly offset by a decrease in volumes but reductions in bulk wine and other revenue dampened the overall revenue impact.
- Despite the lower volumes, an increase in COGS eroded the improved revenue resulting in a decreased gross margin. Improvements in sales and marketing and interest expenses were not significant enough to offset the increases experienced in general and admin costs and depreciation and amortisation and therefore a decrease in profitability was recorded.

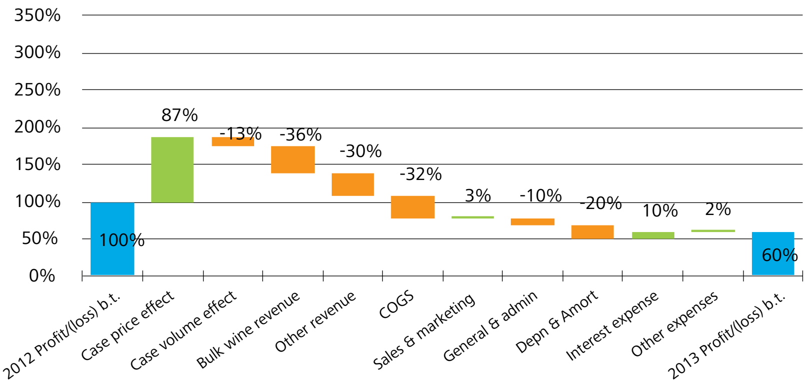
Change in profit from the 2012 vintage to the 2013 vintage (as a % of 2012)
$0-$1.5m category



Change in profit from the 2012 vintage to the 2013 vintage (as a % of 2012)
$1.5m-$5m category



Change in profit from the 2012 vintage to the 2013 vintage (as a % of 2012)
$5m-$10m category



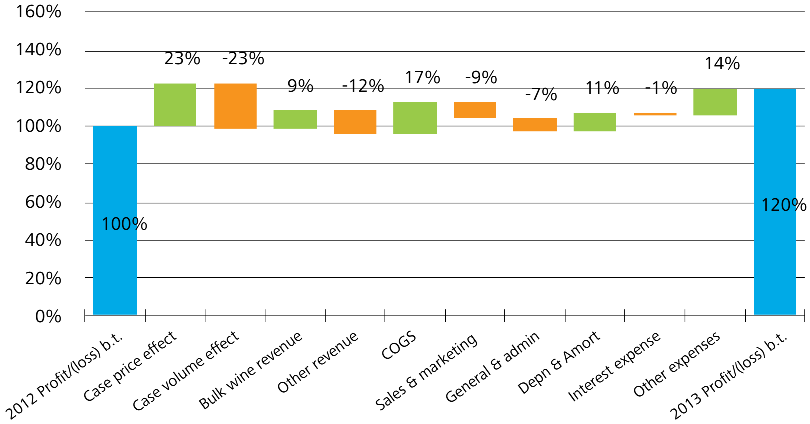
$10m-$20m Category Profitability

- This was the most profitable category in 2012 and despite a 20% improvement over the past year; it ranked second in 2013 behind the $20m+ category.
- The effect from increased case prices was almost exactly offset by the effect of reduced volumes. Alternating fluctuations in bulk wine and other revenue, along with a reduction in COGS resulted in an improved gross margin.
- Reductions in depreciation and amortisation and other expenses were more than enough to offset increases in sales and marketing costs and general and admin costs, allowing profitability to increase further.

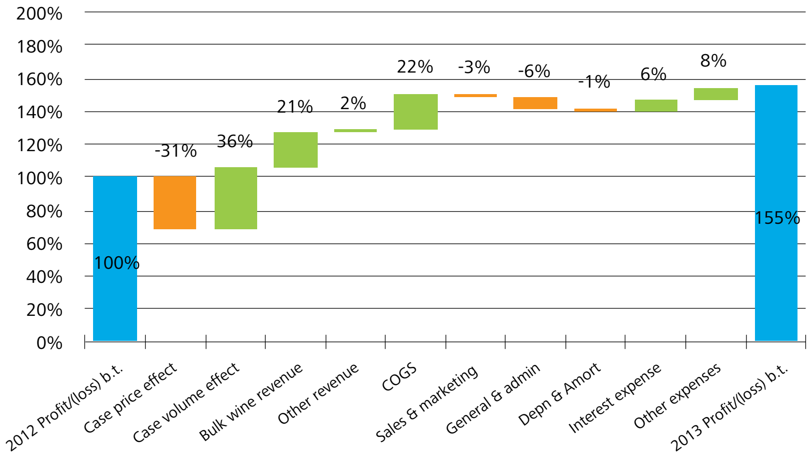
$20m+ Category Profitability

- The $20m+ category increased their profit to 155% of the size of the profit recorded in 2012.
- The majority of this increase comes from revenue gains and reductions in COGS, with the large drop in sales and marketing costs being offset by the large increases in other expenses.
- An increase in bulk wine contributed to the revenue gain after the effect of lowering price and increasing volumes balanced each other out. COGS were improved despite the increased volume.

Change in profit from the 2012 vintage to the 2013 vintage (as a % of 2012)
$10m-$20m category



Change in profit from the 2012 vintage to the 2013 vintage (as a % of 2012)
$20m+ category



Production

- Tonnes of grapes crushed have increased for all categories with the largest two categories recording the largest increases from 2012 to 2013. This is in line with the overall increase due to the record 2013 harvest.
- The cost of grapes per tonne has increased for four out of the five categories. However, the increases have ranged from 6% to 34% and there is no clear trend among categories. It does however align with the increased grape prices that have been witnessed in the market.
- As illustrated in the table 2013 has seen general increases in both the amount of red and white wine produced. The growth in red wine production is higher than that of white wine for all categories except the largest category.

Balance Sheet and Solvency Ratios

- Inventory levels have increased in four of the five categories with the largest two categories recording the largest increases from 2012 to 2013.
- Land and vineyard values have generally increased across all categories with the exception of the smallest category. For the larger movements this is due to a mix of land acquisitions and increased values. The land values of the smallest category have not changed between 2012 and 2013 due to all participants in this category either valuing their land at cost or by a valuation that was completed prior to the 2012 survey. The presence of land acquisitions aligns with the notion that wineries are keen to secure ongoing supply by acquiring further land.
- Total interest bearing debt (overdraft and long term debt) has decreased for the $1.5m-$5m and $5m-$10m categories and increased for all others. The $20m+ category has recorded a significant increase in debt of 31.0% compared with 2012.
- Current ratios have decreased for four of the five categories with the only exception being in the $5m-$10m category with an increase of 17.0%.
- Debt ratios have largely improved from 2012 to 2013 and all categories except the $5m-$10m category have improved on their ability to cover their interest over the year.

	Winery size (2013 revenue)				
Production	**$0-$1.5m**	**$1.5m-$5m***	**$5m-$10m***	**$10m-$20m**	**$20m+***
Tonnes of grapes crushed	10%	10%	7%	29%	17%
Cost of grapes per tonne	(19%)	34%	7%	6%	25%
Red produced (litres)	15%	35%	26%	32%	(6%)
White produced (litres)	(18%)	8%	15%	16%	10%
Other produced (litres)	0%	64%	(17%)	(24%)	(26%)
Litres of wine produced	(2%)	14%	17%	16%	2%

Note:
Amounts in above table represent absolute movements in average values over the period 2012 - 2013

**These categories have been altered to exclude participants with blank or significantly limited prior year information*

	Winery size (2013 revenue)				
Key Financial Ratios	**$0-$1.5m**	**$1.5m-$5m***	**$5m-$10m***	**$10m-$20m**	**$20m+***
Balance Sheet					
Inventory	(3.0%)	4.2%	6.1%	17.4%	121.4%
Land	-	33.1%	35.5%	9.3%	72.8%
Vineyards	(9.5%)	1.3%	15.6%	3.9%	57.1%
Total interest bearing debt	2.1%	(2.0%)	(1.2%)	3.3%	31.0%
Solvency ratios					
Current Ratio	(5.2%)	(9.2%)	17.0%	(4.9%)	(15.3%)
Debt to equity ratio	8.0%	(32.3%)	(15.0%)	(13.8%)	(32.2%)
Debt to total tangible assets	4.4%	(25.8%)	(9.3%)	(18.3%)	(18.2%)
Interest cover ratio	93.0%	1.1%	(19.3%)	2.2%	37.2%

Note:
Amounts in above table represent absolute movements in average values over the period 2012 - 2013

**These categories have been altered to exclude participants with blank or significantly limited prior year information*

About Vintage 2013

- Deloitte has conducted this annual financial benchmarking survey in conjunction with New Zealand Winegrowers. The survey was conducted between September and October 2013 and is based upon financial statements that cover the 2013 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 45% of the New Zealand wine industry by litres of wine produced and 48% by export sales revenue generated for the 2013 year. Respondents either own or lease 24% of the 35,733 producing hectares currently under vine in New Zealand. Approximately 80% of respondents are past participants of previous surveys.
- Survey responses were received from all the major winegrowing regions of New Zealand generally in similar proportions to New Zealand's Producing Vineyard area (in hectares) :
  - 3% – North Island – Auckland and Northern region (2012 – 3%)
  - 23% – North Island – Eastern coastal regions (2012 – 20%)
  - 66% – South Island – Northern regions (2012 – 66%)
  - 9% – South Island – Central and Southern regions (2012 – 11%)
- To assist the comparison of different sized wineries, respondents have been categorised based on total annual revenue as follows:
  - $0-$1.5m (2012: $0-$1.25m)
  - $1.5m-$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-$1.25m 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, 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, meaning the sum of the figures for a particular area may be slightly different than the total.

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

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 900 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 at **http://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 by funded by 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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