MEDIOBANCA

WINE INDUSTRY SURVEY

Mediobanca Research Area

April 2019

MEDIOBANCA

Information notice pursuant to Articles 13 and 14 of Regulation EU 2016/679 and
the existing national regulations on protection of personal data

Pursuant to Regulation (EU) 2016/679 (the "GDPR Regulation", or the "GDPR") and the existing national regulations on personal data protection (jointly with the GDPR, the "Italian Privacy Regulations"), Mediobanca – Banca di Credito Finanziario S.p.A., with registered office in Piazzetta Enrico Cuccia 1, Milan, Italy (the "Bank", or the "Controller"), in its capacity as data controller, is bound to provide disclosure on its use of personal data.
Personal data in the Bank's possession is usually collected directly from the data subject or from public sources.

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All personal data is processed, in compliance with the provisions of the law and obligations to confidentiality, for purposes of economic and statistical research, in particular production of the volume entitled "Wine Industry Survey", other digital works published on CD and the internet, and other publications containing data on individual companies of aggregates of companies.
The data is processed via manual, IT and electronic instruments, based on criteria which are strictly related to the purposes described, and without prejudice to the foregoing, via methods which are suitable to ensure the security and confidentiality of the data as required by the regulations in force in this area.

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The legal ground for the data processing resides in the pursuit of the legitimate public interest.

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In relation to the purposes referred to above, the processing regards exclusively personal data, principally of a general nature. No particular categories of personal data are expected to be processed.

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The Data Controller, *inter alia* through the appointed units, shall take steps to deal with your request and provide you with information regarding the action taken in response to your request without undue delay.

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The Controller for the data processing is Mediobanca – Banca di Credito Finanziario S.p.A., with registered office in Piazzetta Enrico Cuccia 1, Milan, Italy.
Mediobanca has appointed a Data Protection Officer who may be contacted at the following email addresses:

– DPO.mediobanca@mediobanca.com
– dpomediobanca@pec.mediobanca.com

This information notice has been prepared having due regard to the rules set by Article 2, paragraph 2 of the *Code of Conduct for Personal Data Processing in Exercise of the Journalistic Profession*, and in pursuance of the authorization measure issued by the Italian personal data protection authority on 20 October 2008.

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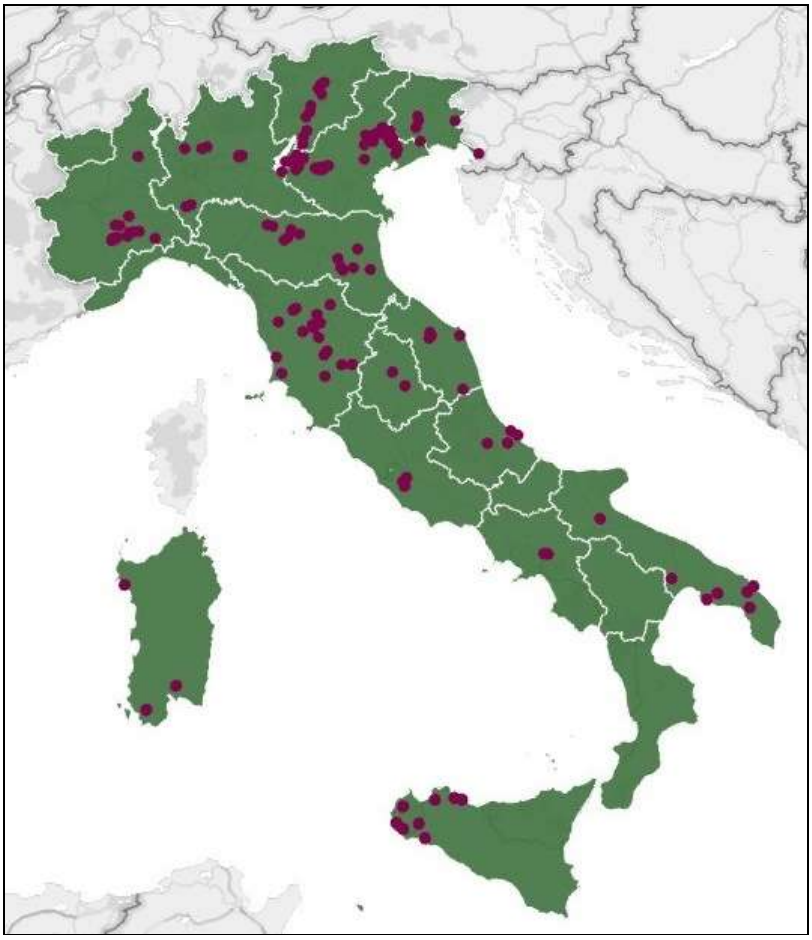
Introduction

his survey consists of two sections. The first involves 168 of the leading Italian companies operating in the wine industry, which in 2017 generated individual turnover of over €25m, whose financial statements have been aggregated for the 2013-17 period.[1] The aggregate consists of 52 co-operatives (including five limited companies owned by one or more co-operative), 103 Italian-owned and thirteen non-Italian-owned limited companies. The aggregate of these companies in 2017 generated sales totalling €7.9bn, €4.2bn of which overseas (69% of the €6bn exports recorded by Istat); based on the most recent sector data published by the Italian statistics institute, the 168-company aggregate represents 72.1% of the approx. €10.3bn sales recorded in 2016, and 63.8% of the staff employed (out of a total headcount numbering 21,476). The earnings and financial information has been supplemented by interviews carried out with the companies, with a view to assessing the pre-closing results for 2018, the expected sales for 2019, and certain aspects of the firms' commercial structures and corporate governance.

The second section is made up of two parts. The first analyses the 2013-17 aggregate of the fourteen largest listed international companies with turnover of over €150m, which in 2017 posted revenues of €5.7bn. The second illustrates the trend in the global listed wine-makers' index between January 2001 and mid-March 2019. This index comprises 55 issuers with 59 stocks traded on 25 different stock markets worldwide, with an aggregate market capitalization at the end-date of €47.7bn (a substantial reduction compared to the €57.9bn market capitalization recorded in last year's survey). Since 2015 the index has also included two Italian companies, IWB and Masi Agricola, with a combined market capitalization of €206m at mid-March 2019.

Location of 168 Italian wine-making companies included in the survey
(source: compiled by Mediobanca Research Area based on Bing map)



Highlights

Leading Italian companies: pre-closing data for 2018 and 2019 estimates

- 2018 sales: up 7.5% on 2017, driven by domestic sales (up 9.9%), but also exports (up 5.3%). This result contrasts with the reductions posted by Italian manufacturing industry (down 7.2%) and the food industry in particular (down 4.6%). It looks like 2018 will be the year of second highest growth for the wine sector since 2013, taking sales to the point where they are 27.1% higher than they were in that year, exports 31.9% higher, and domestic sales 22.4% higher, reflecting a trend of uninterrupted growth;
- 2018 sales by segments: the co-operatives delivered the highest growth versus 2017, up 9.2%, due to strong growth in the domestic market (up 13.6%). The limited companies posted growth in sales of 6.7% (exports up 7.0%); the *spumante* manufacturers and the non-*spumante* wines recorded increases of 7.1% and 7.6% respectively, the former driven by exports (up 7.2%), the latter by domestic sales (up 10.8%);
- Investments in fixed assets in 2018: these remain buoyant and were up 25.9% on 2017; the non-*spumante* wines led the way with an increase of 30.4%, followed by the *spumante* manufacturers (up 10.8%);
- Employment in 2018: 3.7% higher than in 2017; here the limited companies and the *spumante* manufacturers posted the highest increases (6.1% and 5.8% respectively), followed by the non-*spumante* wine-makers (3.4%); while the increases in headcount reported by the co-operatives and non-Italian companies were lower, at 1.6% and 1.0% respectively;
- Investments in advertising in 2018: these rose by 0.6%, much less than the national advertising spending (which was up 2%, but down 0.2% if the web advertising channel is excluded);
- Non-domestic markets in 2018: the most dynamic geographical areas were Asia (up 42.2% year-on-year, and now accounting for 5.7% of total exports), South America (up 11.9%, but representing just 1.6% of the Italian wine-makers' total exports); exports to EU member states (where 52% of the exports are concentrated) were up 5.6%; the overall 5.3% year-on-year increase for exports of Italian wine derives from these three regions, as sales to the rest of the world (Africa, the Middle East and the non-EU European countries, making up 8.4% of the total) decreased by 12.5%, while those to North America rose by 3.9% (for a share of 32.3%);
- Commercial issues: Italy's leading competitors in the wine industry are France and Spain, each with a market share of 25.7%, and Chile (with 12.1%); followed by the United States (7.9%), Australia (7.1%), and Germany (3.6%). The main nations in which Italy has targeted for exports and/or to increase its footprint are: China (7.7%), Mexico (6.8%), Australia (6.0%), India (5.1%); followed by Argentina, Brazil, Canada and Russia with 4.3%. Exports to China average around 1.9%, with a maximum share of 10%. The main difficulties in accessing international markets encountered by firms are: price competition (50.8%), dependence on non-Italian intermediaries (32.8%), regulatory and language barriers (9.8%), and competition in quality (6.6%). Of those interviewed, 37.7% see eco-sustainable production as the main driver for the wine industry in the future, followed by the appeal of the packaging with 34.8%, and improvement in the quality of the product with 27.5%;
- Top sellers and top earners in 2018: Cantine Riunite-GIV confirmed its leadership position by total sales with a top line of €615m (up 3.1% on 2017), followed by Caviro (€330m, up 8.6%), and the best of the non-co-operatives Antinori (€230m, up 4.5%); next came Fratelli Martini (€220m, up 14.7%,) rising from fifth to fourth place, and Zonin (€202m, up 2.9%); Botter was sixth, with revenues of €195m (up 8.3%), followed by Cavit (€190m, up 4.4%), stable in seventh position, and Mezzacorona (€188m, up 1.9%); the last two places in the top ten went to Enoitalia (€182m, up 7.6%) and Santa Margherita (€177m, up 4.6%); Cantine Ermes, with sales up 34.2%, from €63m to €85m, was the wine-maker which delivered the highest growth in 2018, climbing from thirty-fourth to twenty-sixth position, followed by Vivo Cantine (up to 19.8%, €102m) which rose from twenty-fourth to twenty-first in the rankings, and Cantina Sociale Cooperativa di Soave (up 19.2%, to €141m) in twelfth position; another seven companies posted increases in sales of equal to or higher than 10%; Botter led the way in terms of exports, with 95.4% of its sales generated outside Italy, followed by Farnese (94%), Ruffino (93%), Fratelli Martini (90%), Zonin (85.6%), Mondodelvino (82.5%) and La Marca Vini e Spumanti (81.8%); in general only eleven groups reported export levels of below 50%; the Tuscan and Veneto-based firms performed best once again in 2018 in terms of profitabillity (measured by earnings as a percentage of

sales), with Antinori reporting 25%, Santa Margherita 17%, Frescobaldi 16.7%, and Masi 11%, followed by Botter (9.1%), Ruffino (8.6%) and Mionetto (5.4%);

- Sales estimates for 2019: 82.6% of those interviewed did not anticipate any reduction in sales, although the optimists (those who saw sales growth of over 10%) represented just 10.5%; by contrast 17.4% expect revenues to fall. As a whole the mood remains positive albeit highly prudent, with little possibility of the 2018 exploits being repeated, where the number who saw double-digit increases was virtually three times as high and those who saw reductions one-third lower. Estimates for exports reflect a similar perspective, but there is greater confidence. A much more positive trend can be noted among the *spumante* manufacturers, who are the most optimistic.

Leading Italian companies: earnings/financial profile 2013-17 and commercial structure

- The summary indicator of the earnings and financial performances (z-score) based on the 2017 financial statements assigns the highest scores to Mionetto and Botter of the Veneto region, followed by Tuscan-based Ruffino, Vinicola Serena, Frescobaldi, Cantine Ermes and Farnese; Cantine Ermes ranked first among the co-operatives (up from sixth); the top ten positions feature five companies from the Veneto, two from Tuscany and one each from Sicily, Abruzzo and Piedmont; while the companies with the most difficulties is the co-operatives La Vis and Gancia;
- Profitability: the return on capital invested (ROI) has reflected an upward trend since 2013, reaching 6.7% in 2015 and 2016 before closing at 6.6% in 2017. The trend in net profitability, as measured by return on equity (ROE), was not dissimilar, reaching 7.2% in 2017. The ROI for the wine industry as a whole in 2017, at 6.6%, continued to underperform versus the Italian food industry (8.0%), Italian manufacturing industry (9.1%) and the beverages segment (9.8%);
- Capital structure: the net debt/equity ratio for 2017 shows a situation of overall solidity (69.4%), which for the non-co-operatives reduces to 53.2%; the credit standing of the companies is confirmed by the scoring model as well: in 2017, 70% of the wine-makers qualified as investment grade, 28.6% as intermediate, and the other 1.2% as fragile;
- Ownership: the book value of investments held by individuals based on net equity at end-2017 amounted to approx. €3.76bn, €1bn of which is held by the co-operatives and the other €2.76bn is family-controlled; the portfolio owned by international investors is estimated at around €0.48bn, and that owned by financial investors (banks, insurances and funds) at around €0.6bn; based on the market multiples of the companies listed on international markets, the net equity of the 103 limited companies could have an estimated market value of €5.4bn, reflecting a premium over book value (€3.39bn) of some 60%;
- Boards of Directors: Overall, the Boards of the 116 non-co-operatives comprise 421 members, with an average of three members for each BoD. The most senior members (over 73) account for 17.8% of the positions, whereas the baby-boomers, aged 54-73, are the most represented age bracket (44.4%). Those born between 1966 and 1980 ("Generation X") account for 33.5% of the posts held, while the "millennials" (1981-95) are the least represented, with 4.3%. Some 59.5% of the companies have a CEO from the owner's family; 48.6% say they have independent Board members. As far as regards the competences needed by the company, those most frequently mentioned were qualified managerial figures (50%), commercial skills (32.5%), technical and specifically wine-making expertise (12.5%) and financial competences (a mere 5%);
- Distribution channels: Large-scale distribution is the most dominant, generating 38.8% of total sales, followed by hotels/restaurants/catering (17.1%), wholesalers and intermediaries (15%) and the direct sales network (12.3%) (the other 16.8% is consumed via wine bars and other channels); on non-domestic markets the undisputed primary channel for sales is via importing agencies (75%), highlighting a potential weakness in the direct coverage of sales.

Leading Italian companies: regional trends

- The Piedmontese companies outperform all competition, in particular in terms of earnings profile (ROI 8.6%, compared with 6.6% nationwide; and ROE 12.1%, versus 7.2%); the companies from Veneto and Trentino also outperformed the national average; the Tuscan firms, with ROI and ROE at 7.3%, are the most solidly capitalized (with a debt/equity ratio of 37%, compared with 69.4%), the most efficient (labour cost per unit produced 46.8%, versus 58%), and most export-driven (63.6%, versus 52.4%);

Leading international wine-makers and stock market index

- Yantai Changyu's international shopping spree continued: after acquiring assets in Spain and France in 2015, it bought a further two companies in 2017, one in Chile, the other in Australia;
- The fourteen leading international listed wine-makers generated an aggregate turnover of €5.7bn, up 1.2% on 2016, which in turn led to an improvement in the industrial margins: Ebitda 18.9% and Ebit 15.1%. By comparison, the 103 Italian non-co-operatives showed a 6.6% increase in turnover in 2017, with Ebitda up 12.9% and Ebit up 9.3% respectively. ROE stood at 9.9% (8.6% for the Italian non-co-operatives;
- The financial structure showed a debt/equity ratio of 50.8% in 2017, not much different from that of the Italian non-co-operatives (53.2%);
- Employment levels were down 2.4% (but up 3.4% for the Italian companies);
- Yantai Changyu Pioneer Wine's recovery continues: after three consecutive years of reductions in sales and net profit, the company reversed this trend in 2015, with the growth in sales continuing in 2016 and 2017 as well, albeit still at a level which is 13.2% lower than that posted in 2012;
- In 2017 Delegat's Group of New Zealand took first place in terms of industrial margin from Chinese group Yantai Changyu, with Ebit 30.2% of sales, versus 28.9% for the latter;
- Italian Wine Brands (wine production and global/e-commerce distribution to key client accountss) recorded the highest per capita sales figure (€805,000);
- The most recent interim statements for 2018 reflect sales up 5.8%, with increases by all companies with the exceptions of French groups Vranken Pommery (down 5.9%) and Chilean wine-makers Viña Concha Y Toro (down 0.8%); Ebit overall was up 7.7% and net profit up 5%;
- As at mid-March 2019, the global wine industry stock market index consisted of 55 società; companies; in the period under review there were several delistings among both the Australian and North American companies (seven each), while in China there was a total of six new listings;
- Between March 2018 and March 2019, the market capitalization of listed companies fell by 17.6%, with 59.9% attributable to the North American companies (down 20.9% versus 2018), 15.1% to the Australian groups (down 11.3%), and 8% to the Chinese wine manufacturers (down 23%). Constellation Brands has the highest market value, of €28.1bn (down 20.9% on March 2018), followed by Australian group Treasury Wine Estates (€7.1bn, down 11.2%), Chinese-based Yantai (€2.3bn, down 15%), and Distell of South Africa (€1.8bn, down 16.6%). Viña Concha y Toro of Chile also has a market value above the €1bn mark (15.5% higher than last year), while the stock market price of Citic Guoan Wine shares has more than halved (down 51.9%);
- There are two Italian listed companies: IWB - Italian Wine Brands (parent company of Giordano Vini and Provinco) and Masi Agricola. IWB shares at 19 March 2019 were trading at €11.1 per share, giving a market capitalization of approx. €82m; while at the same date the Masi Agricola stock closed at €3.86 per share, for a market capitalization of €124m;
- Masi Agricola, along with another nine companies (Argiolas, Barone Montalto, Casa Vinicola Botter Carlo & C., Farnese Vini, Gruppo Italiano Vini, Guido Berlucchi & C., Marchesi de' Frescobaldi, Varvaglione Vigne & Vini e Velenosi), is included in the Elite segment of the Borsa Italiana stock market; these ten companies stand out because of their high percentage of exports of total sales (73.4%, compared with 56.2% for the 103 non-co-operatives);
- The market multiples for an aggregate of around forty stocks reflect a price/book value ratio of 1.6x, e and market capitalization of 20x Ebit and 23x net profit;
- Since January 2001 the global wine sector stock market index, total return version (i.e. including dividends distributed), has grown by 354.1%, outperforming the global stock market which rose by 163% during the same period. The best performance in relative terms (i.e. net of the national stock market trends) has been posted by the North American companies (up 359%), followed by the Australian wine-makers (up 117%) and the French firms (up 71%), while in other countries the wine makers have underperformed their respective national stock markets, especially in Chile (by 22.2%) and China (by 78.7%), due in particular to strong growth in their domestic economies;
- Since January 2009, the index has grown in absolute terms by 200%, but in relative terms the wine sector has underperformed the stock market as a whole for the first time, with the exceptions of Australia, North America and Spain.