MEDIOBANCA

WINE **I**NDUSTRY **S**URVEY

Mediobanca Research Area

May 2020

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.
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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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– DPO.mediobanca@mediobanca.com
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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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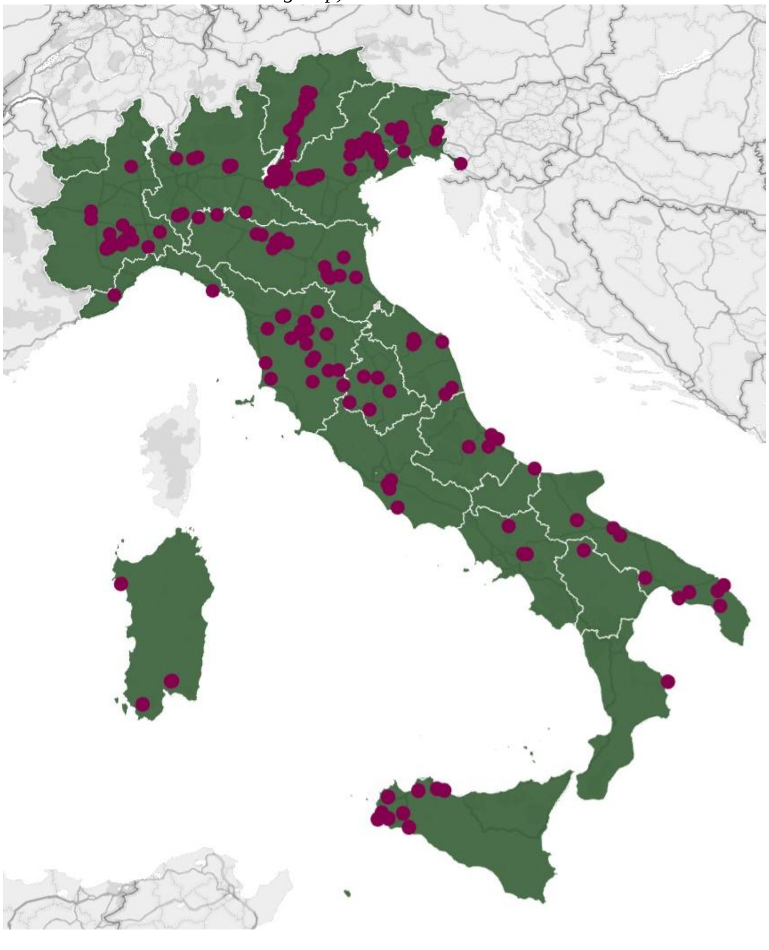
Introduction

This survey consists of two sections. The first involves 215 of the leading Italian companies operating in the wine industry, which in 2018 generated turnover of over €20m, whose financial statements have been aggregated for the 2014-18 period.[1] The aggregate consists of 77 co-operatives (including six limited companies owned by one or more co-operative), 125 Italian-owned and thirteen non-Italian-owned limited companies. The aggregate of these companies in 2018 generated sales totalling €9.1bn, €4.6bn of which outside Italy (73.1% of the €6.2bn in exports recorded by Istat). based on the most recent sector data published by the Italian statistics institute, the 215-company aggregate represents 78.3% of the approx. €10.9bn sales recorded in 2017, and 72.7% of the staff employed (out of a total headcount numbering 21,743 employees). 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 2019, the expected sales for 2020, and certain aspects of the firms' commercial structures and corporate governance. The main companies' sensitivity to environmental and social issues has also been analysed.

The second section is made up of two parts. The first analyses the 2014-18 aggregate of the fourteen largest listed international companies with turnover of over €150m, which in 2018 posted revenues of €5.7bn. The second illustrates the trend in the global listed wine-makers' index between January 2001 and early April 2020. This index comprises 52 issuers with 55 stocks traded on 25 different stock markets worldwide, with an aggregate market capitalization at the end date of €35.8bn, representing a substantial reduction on the €47.4bn recorded in last year's survey (a reduction of 24.5%). In 1Q 2020 alone the wine sector lost €15.4bn as a result of the COVID-19 pandemic. Since 2015 the index has also included two Italian companies, IWB and Masi Agricola, with a combined market capitalization of €165m at end-March 2020.

Location of the 215 Italian wine-making companies included in the survey
(Source: compiled by Mediobanca Research Area based on Bing map)



[1] These are specialist companies, often operating across several different regions. Companies which manage substantial wine-making activities even at national level but which generate the majority of their sales from other products have been excluded from the survey. Priority has been given to consolidated data where available.

Highlights

Leading Italian companies: pre-closing data for 2019 and 2020 estimates

- Sales estimates for 2020: 63.5% of those interviewed expect to see a reduction in sales; while the number of those who expected sales to fall by more than 10% increased considerably, to 41.2%. The expectations for 2020 suggest an even worse scenario than the one that affected the Italian wine industry in 2009, when 60.6% of the nation's wine-makers reported a fall in sales, 24.2% a decline of more than 10%, and aggregate sales overall fell by 3.7%;
- effects of COVID-19: the estimates for 2020 reflect the huge difficulties associated with the COVID-19 healthcare crisis, which among other things has brought the hotels/restaurants/catering channel basically to a standstill. This is relevant in particular to wines in the medium-high bracket, both for domestic sales and for exports; the contraction in global demand for wine has been estimated by the WTO at somewhere between 15% and 30%. If we assume that Italian wine exports reduce in line with the collapse in world trade predicted by the WTO, the leading Italian wine-makers in 2020 would see a contraction of at least €0.7bn in their exports, which in a worse-case scenario would rise as much as €1.4bn. As for the domestic Italian market, given that 65% of national sales are via the large-scale distribution channel, the lockdown in force until end-May alone looks likely to generate a loss of over €0.5bn. Assuming that the other channels reopen at less than 30% of the previous year's levels (as social activity resumes gradually, with reduced hospitality capacities and fears of a second wave of infections), there would be a further reduction in sales of €0.5bn. The sum of these effects would lead to an approx. €2bn reduction in sales (domestic and exports) in 2020, representing a contraction versus 2019 of between 20% and 25%;
- 2019 sales: up 1.1% on 2018, on the back of a 4.4% increase in exports, mitigated by a 2.1% reduction in domestic sales. Overall 2019 was the year with the second lowest growth of all since 2014; however, the growth was still sufficient to allow the wine sector turnover to exceed 2014 levels by 26.7% with exports 34.0% higher and domestic sales 19.7% higher than five years previously, following a period of continuous growth;
- 2019 sales by segment: the limited companies posted growth in sales of 3.2% (with exports up 5.1%). By contrast, the co-operatives saw a decrease compared to 2018, of 1.9%, as a result of a 4.4% contraction in the domestic market, only partly offset by 1.8% growth in exports. The *spumante* manufacturers also posted a slowdown in growth (sales down 0.2%), while the non-*spumante* wines recorded an increase of 1.5%; in both segments the resilience came from exports (which were up 3.2% for the *spumante* manufacturers, and up 4.6% for the others), while domestic sales retreated, again for both segments (by 2.4% for the former and by 1.9% for the latter);
- investments in fixed assets in 2019: after four years of strong growth, investments in fixed assets reduced by 15.9% from 2018. La the most substantial reduction was reported by the *spumante* manufacturers (down 23.9%), followed by the limited companies (down 16.7%);
- employment in 2019: 2.6% higher than in 2018; here the co-operatives and the limited companies impressed, with growth of 3%, followed by the non-*spumante* manufacturers (up 2.7%) and the *spumante* manufacturers (up 2.2%); the non-Italian-owned companies reversed this trend with a 3.1% reduction in employment levels;
- investments in advertising in 2019: these rose by 14.2%, whereas national spending on advertising overall decreased by 0.9%; this reduction grows to 5.1% if the web advertising channel is excluded and to 5.7% if only the drinks/alcoholic beverages sector is considered;
- non-domestic markets in 2019: the most dynamic geographical areas were in the "rest of the world" (Africa, the Middle East and the non-EU European countries, which account for 9.7% of total exports), which grew by 10.9%, and North America, up 6.5% (accounting for 31.7%); the overall year-on-year increase in exports of Italian wine (up 4.4% on 2018) derives from these two regions, as exports to Asia, where 5.3% of the exports are generated, grew by 3.6%, and to EU member states (where 51.9% of the Italian wine-makers' exports are generated) increased by 3.4%;
- 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 difficulties encountered by Italian firms in accessing international

markets are: price competition (50.8% of those interviewed), dependence on non-Italian intermediaries (32.8%), and regulatory and language barriers (9.8%). 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 product quality with 27.5%;

- factors of competitive disadvantage on non-domestic markets: the greatest concern among those interviewed (35.0%) regards the existence of countries which are able to distribute products at more competitive prices, while none expressed any concerns over the quality of Italian produce. Nonetheless, the difficulty of increasing the visibility of Italian wines – of somehow expressing their "personality" to foreign consumers in order to allow them to more fully appreciate their unique character – continues to be felt (28.9%). Of those interviewed, 20.6% reported difficulties in selling their products on non-domestic markets; given proprietary networks which in many cases are modest, Italian wine-makers require a local distribution arm to make themselves known and sell their products internationally. Concerns over size were only a problem for 15.5% of those interviewed;
- top sellers and top earners in 2019: the 39 companies with top lines of over €60m posted an increase in sales in 2019 of 2.2% (exports up 6.1%). Cantine Riunite-GIV confirmed its leadership position by total sales with a top line of €630m (up 2.9% on 2018), followed by Caviro (€329m, down 0.4%) and the best of the non-co-operatives Antinori, which posted an increase of 5.3% to €246m; after the top three came three more with sales in excess of €200m: Casa Vinicola Botter, which in 2019 delivered top-line growth of 10.9% to €217m, Fratelli Martini with sales of €210m (down 2.0%), and Zonin with €205m (up 1.4%). Two companies recorded double-digit growth in revenues in 2019: Ruffino (up 20.9%) and Botter (up 10.9%). Other companies which recorded impressive performances in terms of growth include Enoitalia (sales up 9.7%), Mionetto (up 7.1%), Santa Margherita (up 6.8%), Farnese (up 6.3%) and Frescobaldi (up 6.0%). Some companies report far higher exports than they do domestic sales: for example Botter with 93.7%, Farnese with 92.0%, Ruffino with 91.4%, F.lli Martini with 86.1%, Mondodelvino (83.3%) and La Marca with 82.8%. Only thirteen groups reported exports below 50% of their total sales. The Tuscan and Veneto-based firms once again performed best in 2019 in terms of profitability (measured by earnings as a percentage of sales), with Antinori reporting 34.0%, Frescobaldi al 21.4%, Botter 10.3%, Santa Margherita 9.5% and Ruffino (9.3%).

Leading Italian companies: earnings/financial profile 2014-18 and commercial structure

- The summary indicator of the earnings and financial performances (z-score) based on the 2018 financial statements assigns the highest scores to Santero and Fratelli Martini of Piedmont, Botter of the Veneto region and Tuscan-based Ruffino, followed by Megale Hellas (Puglia) and by Villa Sandi, Cantine Ermes, Farnese, Frescobaldi, Mionetto and Vinorte; Cantine Ermes ranked first among the co-operatives (seventh overall); while the top 15 positions feature six companies from the Veneto, three from Tuscany, two from Piedmont and Puglia, and one from Sicily and Abruzzo; while the company with the most difficulties is the co-operative La Vis;
- profitability: the return on capital invested (ROI) has remained virtually flat since 2014, at around 6%. The trend in net profitability, as measured by return on equity (ROE) has been helped by the growth in profits, reaching 7.1% in 2018, compared with 5.4% in 2014. The ROI for the wine industry as a whole in 2018, at 5.9%, continued to underperform the food industry (7.5%), Italian manufacturing industry (9.0%) and the beverages industry (9.3%);
- regional performances: the Piedmontese companies impressed in particular and especially at the level of profitability (ROI 7.8%, compared with a national average of 5.9%; ROE 11.1%, compared with a national average of 7.1%); the Veneto-based companies also performed well, with ROI and ROE above the national average, as did the Tuscan wine-makers (ROI 7.4%, ROE 8.6%), which are also more solid in capital terms (net debt at 26.0% of equity, compared with 39.1%), efficient (labour cost per unit produced 45.5%, as against 59.4%) and export-focused (64.5%, versus 49.9%); and also the firms based in Abruzzo and Puglia;
- *Istituto Grandi Marchi*: analysis of firms which are parties to the *Istituto Grandi Marchi* showed above average returns, capital solidity and a pronounced orientation towards exports;
- capital structure: the net debt/equity ratio for 2018 shows a situation of overall solidity (64.2%), a figure which improves still further for the non-co-operatives (47.7%); the reliable credit standing of the

companies is confirmed by the scoring model: in 2018, 76.7% of the wine-makers qualified as investment grade, 21.9% as intermediate, and the other 1.4% as fragile;

- sustainability of the leading wine-makers: out of a total of 39 companies (with total sales of €5.2bn), 7 firms (with total sales of €1.6bn) prepare sustainability documents, in six cases full sustainability reports and in one case merely an environmental declaration; 20 firms (with total sales of €2.3bn) publish sustainability information on their websites, mainly on environmental issues and quality certifications, in half of the cases in separate sections. No reference to this issue, however, is found on the websites of the other twelve companies (aggregate turnover €1.3bn), approx. 60% of which are family-owned. Sustainability certification: five companies have signed up to the Italian ministerial sustainable wine project "VIVA", while one company has obtained Equalitas certification (sustainability standard);
- ownership: the book value of investments held by individuals based on net equity at end-2018 amounted to €4.8bn, €1.2bn of which is held by the co-operatives and the other €3.6bn al is family-controlled; the portfolio owned by international investors is estimated at around €0.52bn, as is that owned by financial investors (banks and insurances); based on the market multiples of the companies listed on international markets, the net equity of the limited companies could have an estimated market value of €6.1bn, reflecting a premium over book value (€4.39bn) of some 40%;
- Boards of Directors: overall, the Boards of the 138 non-co-operatives comprise 499 members, with an average of four members for each BoD. The most senior members (over 74) account for 15.4% of the positions, whereas the baby-boomers, aged 55-74, are the most represented age bracket (41.1%). Those born between 1966 and 1980 ("Generation X") account for 36.3% of the posts held, while the "millennials" (1981-95) are the least represented, with 6.6%. 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%), and commercial skills (32.5%), whereas those least sought-after were technical and specifically wine-making expertise (12.5%) and financial competences (a mere 5%);
- distribution channels: large-scale distribution is the most dominant, generating 36.0% of total sales, followed by wholesalers and intermediaries (19.6%), hotels/restaurants/catering (16.8%) and the direct sales network (11.6%, of which the online channel generates 0.7%); the other 16% is consumed via wine bars and other channels; on non-domestic markets the clear primary channel for sales is via importing agencies (75.8%), highlighting a potential weakness in the direct coverage of sales; outside Italy large-scale distribution generates 17.3% of the total sales, and restaurants, bars and private consumption 1.2%.

Leading international wine-makers and stock market index

- In 2018 the aggregate turnover generated by the fourteen leading international listed wine-makers was up 5.5% (up 6% on a like-for-like basis), which in turn drove an improvement in the industrial margins as a percentage of sales: Ebitda 19.8% and Ebit 15.9%. By comparison, the 125 Italian non-co-operatives posted a 6.3% increase in turnover in 2018, with an Ebitda margin of 12.5% and an Ebit margin of 8.8%. The return on equity for the international companies was 9.8%, whereas ROE for the Italian non-co-operatives was 7.8%;
- the companies which posted the highest increases in sales in 2018 were Treasury Wine Estates (up 12.4%), Delegat's Group (up 8.9%) and Australian Vintage (up 7.9%), on the back of an improved mix in terms of sales and pricing; the Chilean companies delivered an uneven performance, with 4.2% growth in turnover posted by Viña Santa Rita, a 1% increase by Viña San Pedro, and a 3.3% reduction by Viña Concha Y Toro;
- following its recent international acquisitions, the Chinese group Yantai Changyu's exports now account for more than 10% of its total revenues; in addition to exports, the 25% growth posted by the Chinese wine-maker in the five years under review was driven also by sales of brandy (up 22.8% on 2014), whereas the results posted by the domestic wine-making division were more modest, with an increase in revenues of 4.5%;
- the financial structure of the leading international wine groups reflected a net debt/equity ratio of 52.7% in 2018, not dissimilar to the ratio for the Italian non-co-operatives (47.7%);

- employment levels declined by 5%; while the workforce employed by the Italian companies rose by 5.3%;
- after the brief interlude in 2017, Yantai Changyu regained first place in terms of industrial margins in 2018, with Ebit 28.1% of sales, compared with 27% for Delegat's Group of New Zealand;
- the Australian wine industry's good performance continues, and was particularly impressive in key markets such as the United Kingdom and China, in the latter case helped by the geographical proximity and the effects of the free trade agreement with China; the Chinese companies themselves, meanwhile, saw their sales recover but margins declining;
- Italian Wine Brands (wine production and global/e-commerce distribution to key client accounts) recorded the highest per capita sales figure (€882,000), partly as a result of the substantial commercial component in its activity;
- the most recent interim statements for 2019 show sales basically flat, with just a 0.4% increase, Ebit improving (up 5.6%), and profits down 1.1%; Lansonn-BCC and Vranken Pommery suffered the most, with revenues down 9.9% and 8.2% respectively, domestic sales being affected by reform of the French large-scale distribution sector, which drove an increase in the level of below-cost pricing for food products, and introduced restrictions on promotions to ensure fairer prices among agricultural producers;
- as at end-March 2020, the global wine industry stock market index consisted of 52 companies; in the period under review there were several delistings among both the Australian and North American companies, while in China there was a total of six new listings. The delisting of Bodegas Bilbainas has meant that the index is no longer compiled for Spain;
- between March and December 2019, the market capitalization of the listed companies grew by 8%; after which it suffered a sharp, 30% drop in 1Q 2020 as a result of the COVID-19 pandemic; by end-March 2020 the aggregate stock market value of the listed companies had decreased to €35.8bn (€23bn of which was Constellation Brands on its own), meaning the entire growth of the last five years was lost in the space of three months. Apart from Constellation Brands, only Treasury Wine Estates and Yantai Changyu Pioneer Wine have a market value above the €1bn mark;
- there are two Italian listed companies: IWB - Italian Wine Brands (parent company of Giordano Vini and Provinco) and Masi Agricola. IWB shares at 3 April 2020 were trading at €12.2 per share, giving a market capitalization of approx. €90m, while at the same date the Masi Agricola stock closed at €2.4 per share, for a market capitalization of €75.6m;
- the market multiples for an aggregate of around forty stocks reflect a price/book value ratio of 1.4x (compared with 1.6x last year), and a market capitalization of 16.6x Ebit, while the price/earnings stood at 21.3x;
- since January 2001 the global wine sector stock market index, total return version (i.e. including dividends distributed), has grown by 222.5%, outperforming the global stock market (up 129% during the same period); the best performance in relative terms (i.e. net of the national stock market trends) was posted by the North American companies (up 283%), followed by the Australian wine-makers (up 71%) and the French firms (up 53%), while in other countries the wine makers have underperformed their respective national stock markets, especially in Chile (by 16%) and China (by 74%);
- the sharp falls on stock markets during 1Q 2020 (the MSCI All Country international equity index fell by 22.6%) did not spare the global wine industry share price index either, down 28.4%;
- if we set the start date at January 2009, the wine index performance is positive (up 116.4%), but in relative terms, for only the second time in its history the index was outperformed by the stock market as a whole, having been dampened by poor performances in France and China, and with the exceptions being Australia, North America and the United Kingdom;
- if we compare the Mediobanca wine-makers' index with the MSCI AC WORLD index (global equities), the MSCI World Food Producers (representing the entire food industry), MSCI World Beverages (the drinks industry) and Liv-ex 1000 (the benchmark for fine wines), the global wine sector stock market index shows the highest growth in the last five years, but also the sharpest contraction in 1Q 2020, whereas the Liv-ex 1000 shows the smallest falls in the first three months of 2020;
- referring again to the fine wines segment, Italian wines are increasing in importance, with the Italy 100 index the only one to show growth (up 0.6%), with the Liv-ex 1000 as a whole down 2.7% in 1Q 2020; confirmation of the US import tariffs and uncertainties due to Brexit have created difficulties for French fine wines.