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ITALIAN WINE CELEBRATES ITS EIGHTH CONSECUTIVE YEAR OF GROWTH IN 2017, AND PREPARES TO TOAST FURTHER SUCCESS IN 2018

Mediobanca Research Department analyses the Italian wine sector

The Mediobanca Research Area has today unveiled the annual edition of its Italian and international wine making industry. The edition analyses aggregate data for the 2012-16 period, along with interviews with the companies themselves on the pre-closing data for 2017 and sales estimates for 2018.

The survey comprises two sections: in the first section, the 155 Italian companies with sales in excess of €25m are analysed; while in the second, the performances of the fifteen leading listed international manufacturers with turnover of over €150m are reviewed, along with the trends in the global wine industry share price index of listed wine producers from 2001 to 2018.

In 2017 Italian wine-makers posted a 6.5% year-on-year increase in sales, due to a good performance by exports (up 7.7%), with trade to Asian countries booming (up 21.1%), but also a healthy contribution from domestic sales (up 5.2%). Employment rose by 1.8%, investments continued to grow (by 26.7%), and there is optimism regarding the sales estimates for 2018. The jewel in the crown for the industry was once again the Veneto- and Tuscany-based firms. The aggregate of the fifteen largest listed international producers also reflected growth.

The full survey is available for download from website www.mbres.it

Sales up, driven by exports and the domestic market, with higher employment; 2018 prospects looking healthy

The 2017 pre-closing data for the Italian wine sector reflect growth for the eighth year in a row, with sales **up 6.5%** on 2016, the highest year-on-year increase in the past five years.

In 2017 sales were once again driven by **exports**, which were up 7.7% on 2016, in a scenario where the contribution from the domestic market too was impressive (up 5.2%). *Spumante* manufacturers, with sales up 9.9% Y.o.Y., grew more than the non-*spumante* producers (sales up 5.6%). In employment terms too, the wine industry saw growth, up 1.8% on 2016.

So what are the prospects for 2018? In line with the trend shown by the main indicators, sales estimates for 2018 too are positive, with 93% of the firms analysed not anticipating any reduction in sales, while only 7% expect revenues to fall, and as many as 17.4% see turnover rising by more than 10%.

Best performers in 2017

The three leading producers by sales in 2017 were **Cantine Riunite-GIV** (€594m, up 5.1% on 2016), **Caviro** (€315m, up 3.9%) and **Antinori** (€221m, up 0.4%). These three were followed by **Zonin**, which delivered growth of 4.2% to reach €201m, and **Fratelli Martini** a €194m (up 13.3%).

Seven companies delivered growth of more than 10% in 2017: **La Marca** (up 30.7%), **Farnese** (up 28%), **Ruffino** (up 15.5%), **Enoitalia** (up 14.5%), **Contri** (up 14.1%), **Fratelli Martini** (up 13.3%) and **Mezzacorona** (up 13.1%).

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Some of the companies analysed generated almost all their turnover outside of Italy, notably Botter (96%), Ruffino (93.3%), Fratelli Martini (89.9%), Mondodelvino (85.4%), and Zonin (85.1%), La Marca and Schenk (both with 82.7%), Farnese (81.9%), and the co-operative Cavit (80%). Only eight groups derive less than 50% of their revenues from exports.

Asia growing but the EU is still the main market

The most dynamic international market in 2017 was **Asia**, which delivered a 21.1% year-on-year increase in revenues, but is responsible for only 4.2% of the exports. Sales to **South America** also grew, by 20.1%, but this market too represents just 1.4% of the non-domestic turnover generated by Italian wine makers. The EU countries continue to be the main end-market, accounting for 53.4% of the exports, and reflecting 8.6% growth versus 2016. Africa, the Middle East and the non-EU European countries accounted for 9.1% of the total (up 5.8%) and the North American market grew by 5.7% to reach 31.9% of the total. Overall, Italian wine exports were up 7.7% in 2017 compared to 2016.

Wine-makers based in Veneto and Tuscany the best performers

The league table of wine-makers ranked by the strength of their balance sheets – based on a summary 2016 earnings and financial performance indicator – reveals – reveals six wine-makers from the Veneto region, three Tuscan and one Piedmontese firms in the top ten, con Villa Sandi, Mionetto, Vinicola Serena and Botter leading the way, followed by Ruffino of Tuscany and Santa Margherita.

The **Tuscan** and **Veneto-based** firms also ranked first by profitability in 2017 (measured by earnings as a percentage of sales), with Antinori posting 25%, Frescobaldi 20.5%, Santa Margherita 17.2%, and Ruffino 15.7%, followed by Botter (8.6%), Mionetto (5.7%) and Villa Sandi (5.5%)

The **Veneto-based** companies impressed in particular for their earnings profile (ROI 9.4%, compared with a national average of 6.8%; ROE 11.4%, versus 7.9%); but the Tuscan firms were also profitable (ROI 8.7%, ROE 8.4%). The Tuscan companies, too, were **financially solid** (debt/equity ratio 33.2%, compared with a national average of 63.4%), efficient (labour cost per unit produced 44.4%, versus 58.6%), and export-oriented (64.4%, compared with 51.4%).

Which distribution channels are most used?

Large-scale distribution accounted for 38.2% of the produce, followed by the **wholesale/intermediary** channel with 16.8%, the **hotels/restaurants/catering** aggregate with 16.5%, and **direct sales** with 12.6%. On non-domestic markets the primary channel for sales is via importing agencies (74.5%).

How is the market of top 15 international players changing?

The 2016 data for the aggregate of **15 largest international listed producers** reflect 5.8% growth in turnover and improving industrial margins as a percentage of sales: EBITDA 26.1% (Italian firms 13.4%) and EBIT 22.6% (Italian firms 9.9%), although employment levels for this aggregate fell by 2.9%.

Looking at the interim data for 2017, too, we see an overall increase in revenues of 1.8%, with all companies reporting growth apart from the French firms **Lanson-BCC** (down 7.6%) and **Laurent Perrier** (down 3.1%) and Chilean producers **Viña Concha Y Toro** (down 4.5%) and **Viña Santa Rita** (down 1.5%). Aggregate EBIT was up 3.3%, although the three Chilean companies saw substantial reductions in profitability which trickled down to the bottom line as well, having been hit hard by the poor crop of 2017, driving an approx. 23% increase in the cost of grapes and wine, as well as by adverse currency fluctuations.



Wine on the stock market: one toast after another

Investing in wine continues to provide excellent returns: the market capitalization of the stocks which make up the global share price index for the wine industry rose by 12.2% from March 2017 to March 2018. The figures become far more impressive, however, if the time horizon is extended. Since January 2001 the total return version of this index (which includes dividends distributed) has grown by 719.6%, outperforming the global stock market index which rose by 148% in the same period of time. The best performance in relative terms (i.e. net of the national stock market trends) has been posted by the North American companies (up 744.6%), and by the Australian wine makers (up 163.5%) and the French firms (up 100%), while in other countries the wine makers have underperformed their respective national stock markets: in Chile by 40.1%, and in China by 73.4%. There are still only two listed Italian wine makers. If the unlisted companies were to apply for listing, their equity would increase in value by an average of 70%.

Milan, 12 April 2018