

ITALIAN WINE-MAKERS DRINK TO A RECORD 2018

*Turnover continues to grow, with both exports and the domestic market performing well
Employment and investments up
Exports in Asia and America up
Manufacturers in Veneto, Piedmont and Tuscany in top positions
Considerable optimism for 2019, especially with regard to international growth*

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The Mediobanca Research Area has today unveiled the annual edition of its **Italian** and **international wine making industry**.

The first section of the study presents **the aggregate data for the 2013-17 period** for the **168 leading Italian companies** operating in this sector, which in 2017 turned over more than €25m. To complement the earnings/financial data, a series of interviews have been conducted with the companies themselves, in order to estimate the pre-closing figures for 2018, the sales figures for 2019, and to get some idea of issues of the companies' commercial structure and corporate governance.

The second part of the survey examines **the aggregate data for the fourteen leading international companies** in the last five years, and contains analysis of the performance of the global share price index of listed wine producers from January 2001 to mid-March 2019.

In 2018 **Italian wine-makers posted an increase in sales** of 7.5% year-on-year, due to a good performance in exports (up 5.3%) but even more so to a sizeable contribution from domestic sales (which rose by 9.9%). There was growth, too, in **employment** (up 3.7%) and **investments** (up 25.9%), and there is **optimism regarding the sales estimates for 2019**. The jewels in the crown of the Italian wine-making industry were once again the Veneto-, Piedmont- and Tuscan-based firms. The aggregate of the fourteen largest listed international producers also reflected growth.

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

The wine sector in Italy

The leading Italian wine-makers posted **substantial growth in turnover** in 2018, with sales **up 7.5% on 2017**. This result is particularly important when compared with the performances of the Italian **manufacturing and food industries** (the former reporting a 7.2% decrease and the latter a 4.6% reduction in sales). Compared to 2013 the increase in sales is more evident still (up 27.1%), as is that in exports (up 31.9%) and domestic sales (up 22.4%).

The sector which reflected the highest top-line growth was the **co-operatives** (up 9.2% year-on-year), driven by the domestic market (up 13.6%). The **limited companies** saw growth of 6.7% (7.0% for exports), whereas the **spumante** and **non-spumante manufacturers** reported increases of 7.1% and 7.6% respectively, the former due to exports (up 7.2%), the latter driven by domestic sales (up 10.8%).

Employment levels were also healthy, up 3.7% on 2017, with both the **limited companies** (up 6.1%) and the **spumante** manufacturers (up 5.8%) ahead of the **non-spumante** manufacturers in this case (up 3.4%). The increase in headcount for the co-operatives was less impressive, up 1.6%. The wine-makers' 2018 performance was buoyant with regard to **investments** as well, up 25.9% on the previous year. The **non-spumante** manufacturers stood out in this respect, posting 30.4% growth, followed by the **spumante** manufacturers (with growth of 10.8%).

Data on **credit standing** confirm the solidity of the companies in this sector: in 2017, 70% of the wine-makers qualified as investment grade, 28.6% as intermediate, and the other 1.2% as fragile.

What are the prospects for 2019? Some 82.6% of those interviewed did not anticipate any reduction in sales, while 10.5% see double-digit growth and 17.4% expect revenues to fall. In general terms a certain degree of **optimism** remains, even though the possibility of the 2018 exploits being repeated appears

Media Relations

Tel. no.: (0039) 02-8829.914/875/319
media.relations@mediobanca.com

slim. **Estimates for exports** reflect a similar perspective, but there is **greater confidence**, among the *spumante* manufacturers in particular.

The leading Italian wine-makers at national level...

The best performer in 2018 was again **Cantine Riunite-GIV**, which 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** came 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%). Ten companies delivered double-digit growth in their revenues in 2018.

Cantine Ermes, with sales up 34.2%, from €63m to €85m, was the wine-maker which delivered the highest growth in 2018, followed by **Vivo Cantine** (up to 19.8%, €102m) and **Cantina Sociale Cooperativa di Soave** (up 19.2%, to €141m).

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 profitability (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%).

...and regional level

According to their z-scores, an indicator reflecting the quality of the results based on 2017 data, Veneto-based firms **Mionetto** and **Botter** show the best performances, ahead of Tuscan-based **Ruffino**. The top three are followed by **Vinicola Serena**, **Frescobaldi**, **Cantine Ermes** and **Farnese**. The top ten features five firms from Veneto, two from Tuscany, and one from each of Sicily, Abruzzo and Piedmont.

Overall 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%).

Which distribution channels are most used?

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%). 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.

How are exports split?

The Italian wine-making companies reported a 5.3% increase in sales outside of Italy versus 2017. Exports were up in particular in **Asia** (up 42.2% year-on-year, and now accounting for 5.7% of total exports), **South America** (up 11.9%, representing 1.6% of total exports) and **North America** (up 3.9%, 32.3% of total exports). However, the majority of the exports are concentrated in the **EU member states** (up 5.6%, 52% of total exports). Performances in the rest of the world declined accordingly (**Africa, Middle East and non-EU European countries** now represent 8.4% of the total, down 12.5% on 2017).

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 linguistic 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%.

BoD characteristics

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 negligible 5%).

The fourteen leading international wine-makers

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 companies), whereas in terms of the financial structure, the **debt/equity ratio** stood at 50.8% in 2017, very close to the 53.2% ratio for the Italian firms. **Employment**, by contrast, was down 2.4%.

The most recent **interim financial statements** for 2018 show growth in **aggregate sales** of 5.8%, with the increases generalized across all companies.

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.

Wine on the stock market

Since 2001 the **global wine sector stock market index 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%).

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 capitalization, of €28.1bn (down 20.9% on last year). There are two Italian listed companies: **IWB - Italian Wine Brands** and **Masi Agricola**, which as at mid-March 2019 have an aggregate market capitalization of €206m. The **ten companies in the Borsa Italiana Elite segment** stand out because of their high percentage of exports of total sales (73.4%, compared with 56.2% for the 103 non-co-operatives).