

ROUND TABLE DISCUSSION

THE FINANCIALS OF GRAPE GROWING

May 15, 2023



American
AgCredit



DISCUSSION

1

Introduction

2

Land Values

3

Vineyard Economics

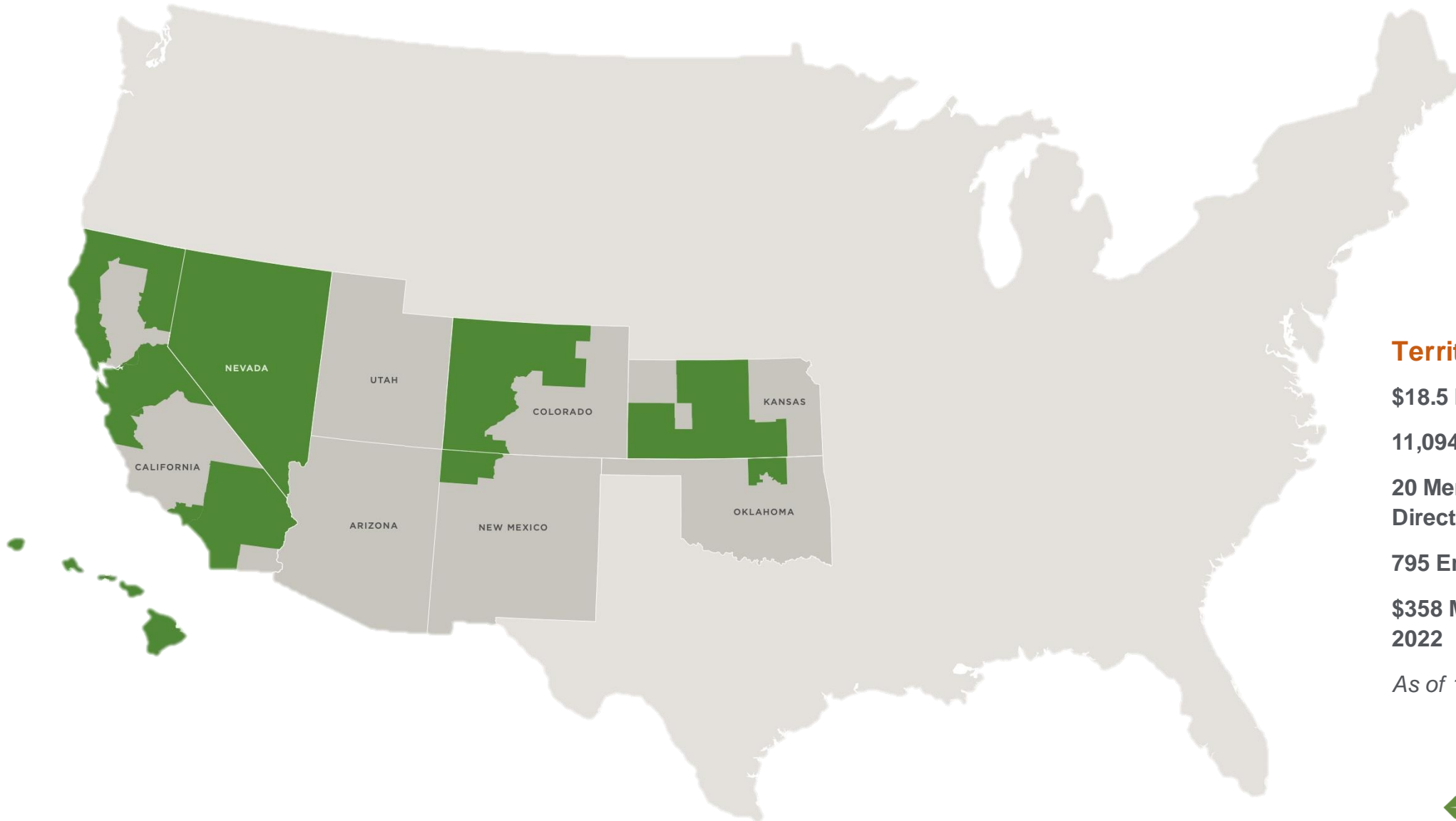
4

Q&A



American
AgCredit

AMERICAN AGCREDIT SNAPSHOT



Territory Facts

\$18.5 Billion Net Assets

11,094 Customers

20 Members Board of Directors

795 Employees

\$358 Million Net Income in 2022

As of 12/31/22

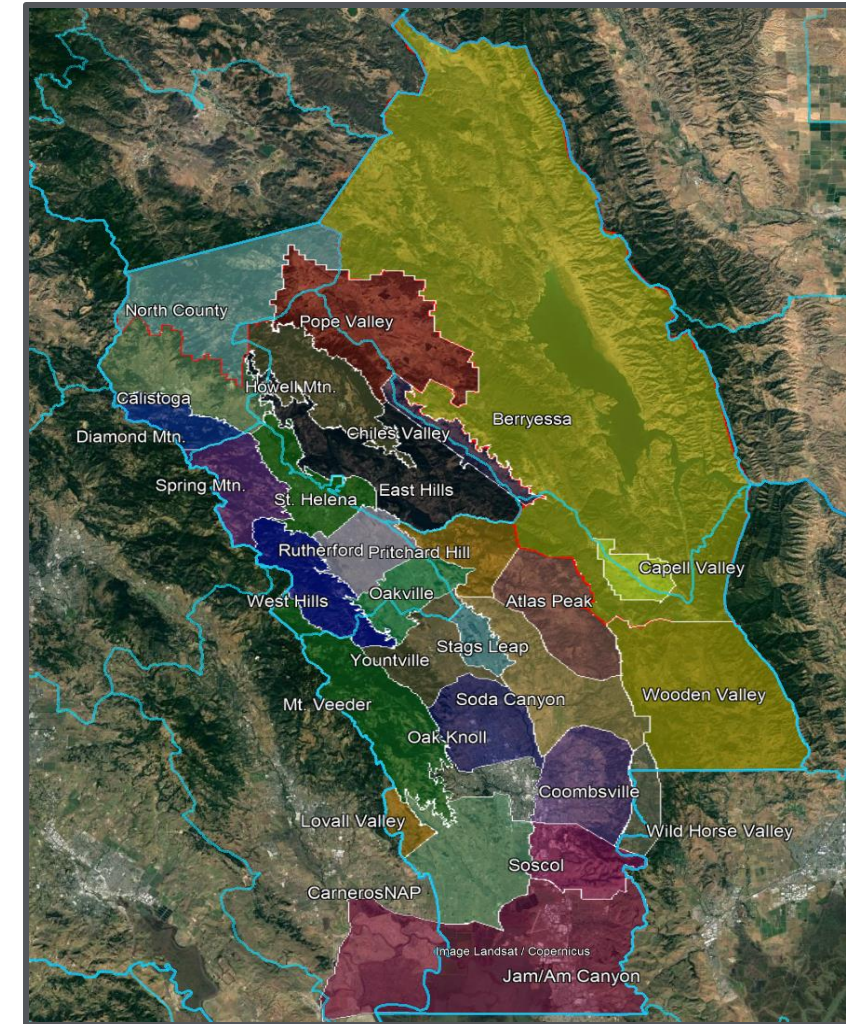


LAND VALUES

APPRAISAL DEPARTMENT

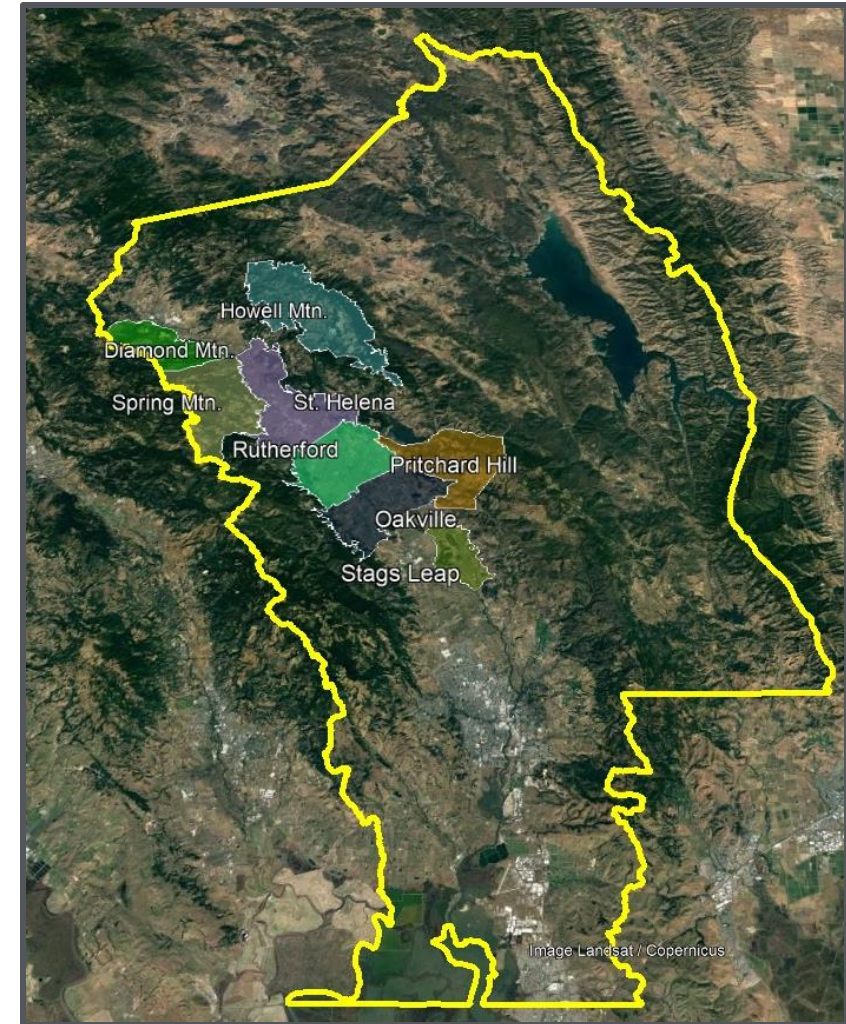
What We Do

- Track every vineyard sale in the region
- All sales are confirmed and tracked in a database
- Sales data forms the basis of property appraisal
- Every acre of the county falls into a Market Zone
 - Most follow AVA boundaries
- The sales and market zones provide valuable analytics support for other departments and projects



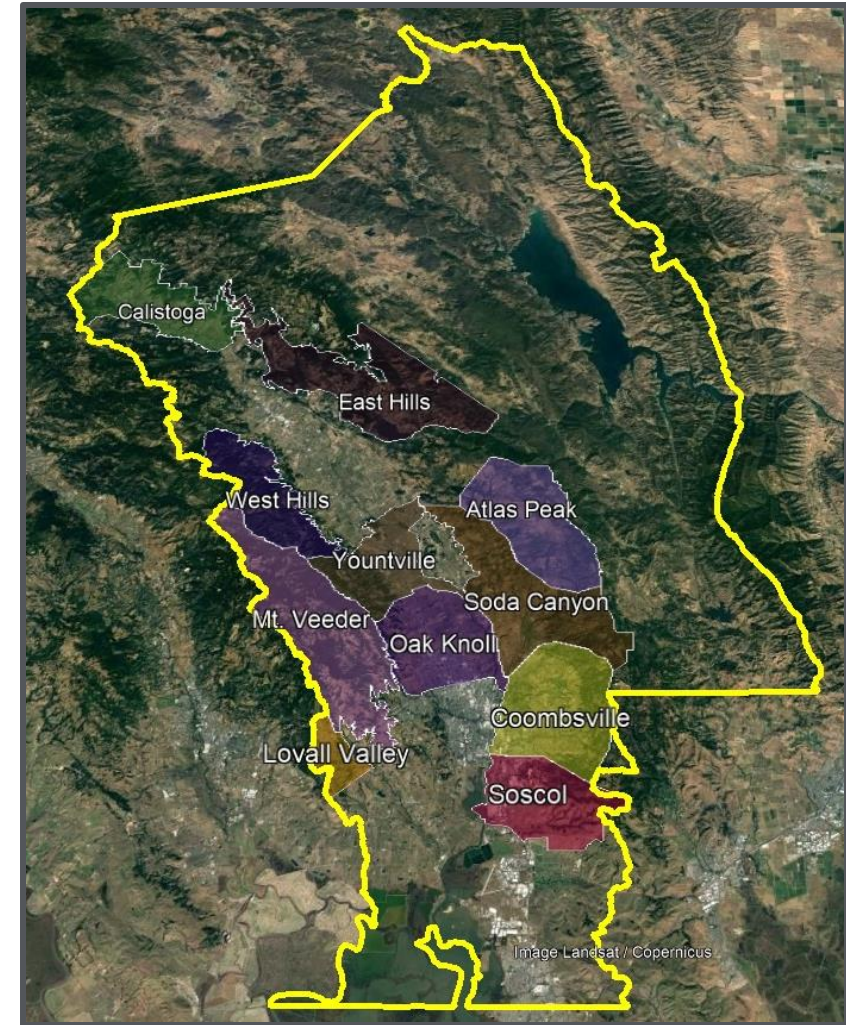
PRIMARY MARKET

- Generally found in the heart of the Valley and neighboring hillside locations
- Excellent soils and climate capable of producing high value varietals like Cabernet Sauvignon
- High grape and bottle pricing



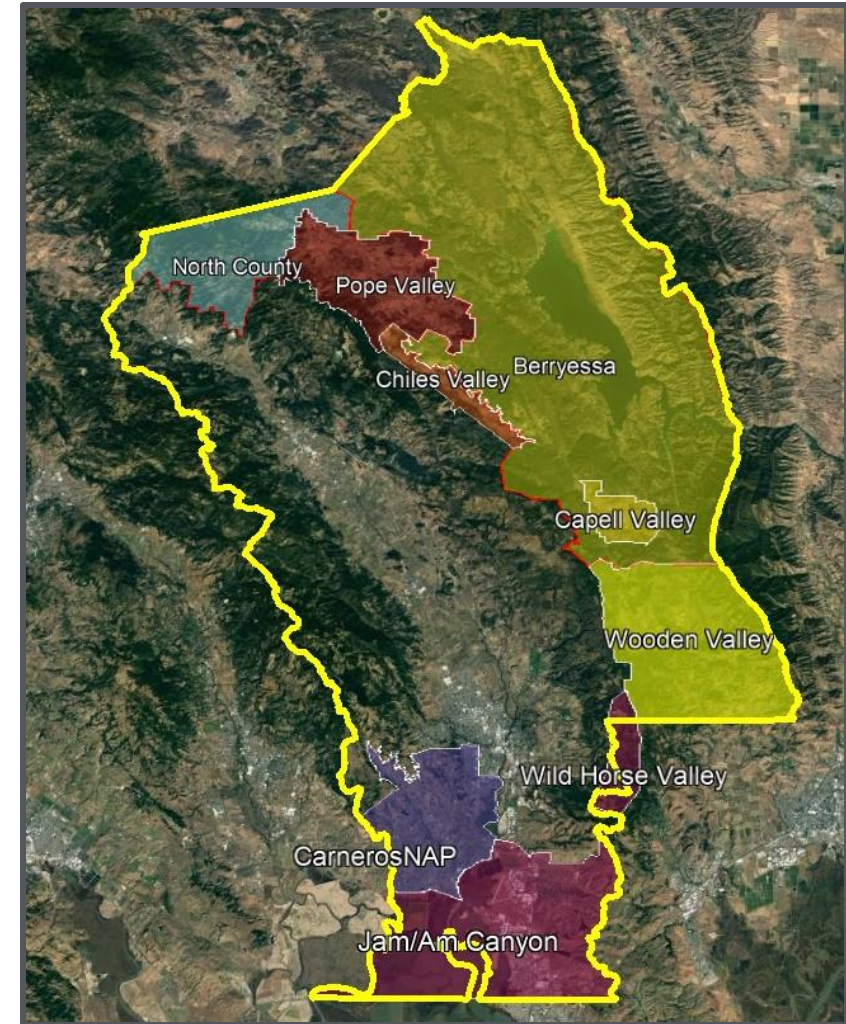
SECONDARY MARKET

- Generally found in areas north and south of the Primary areas
- Areas where it may be too hot or too cold to produce the highest quality Cabernet Sauvignon
- Most suitable varieties may be something other than CS, such as Merlot or Sauvignon Blanc
- Recent trend is to plant CS anyway to take advantage of high pricing
- Average grape and bottle pricing

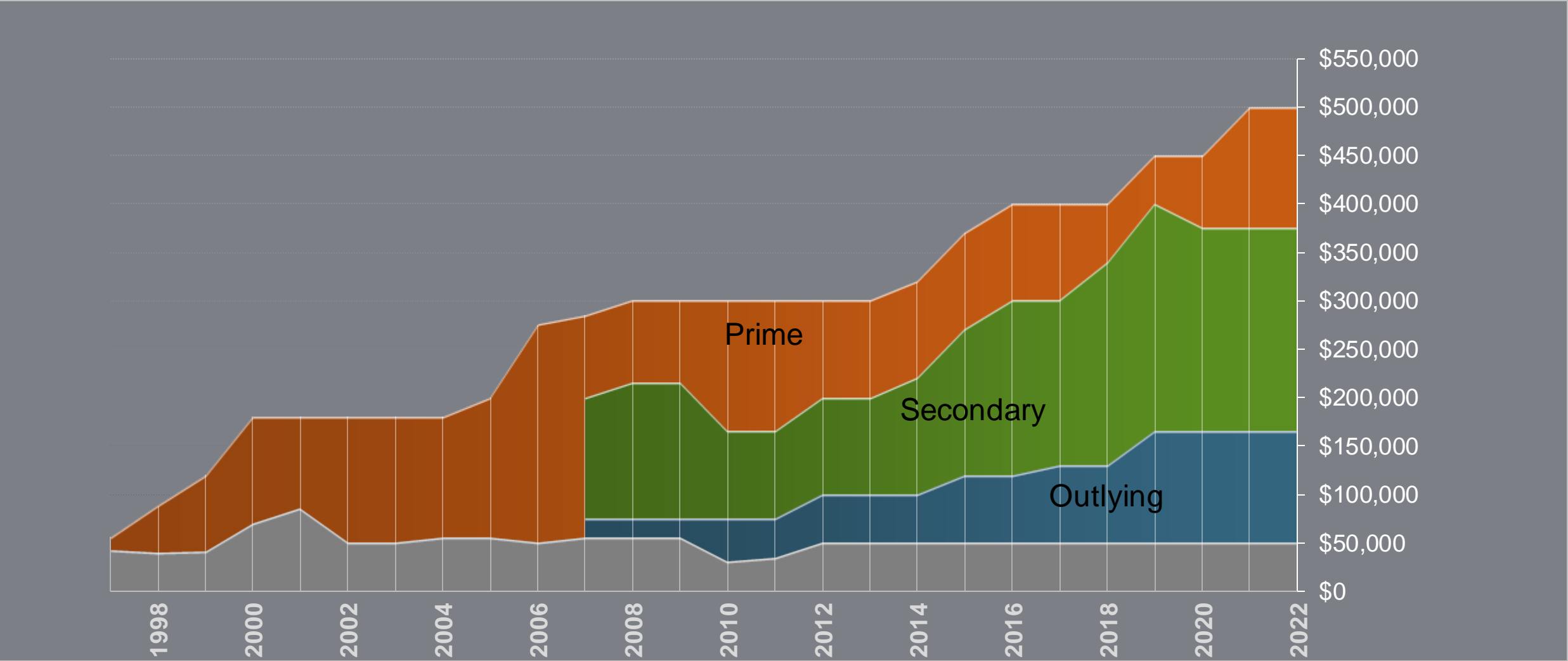


OUTLYING MARKET

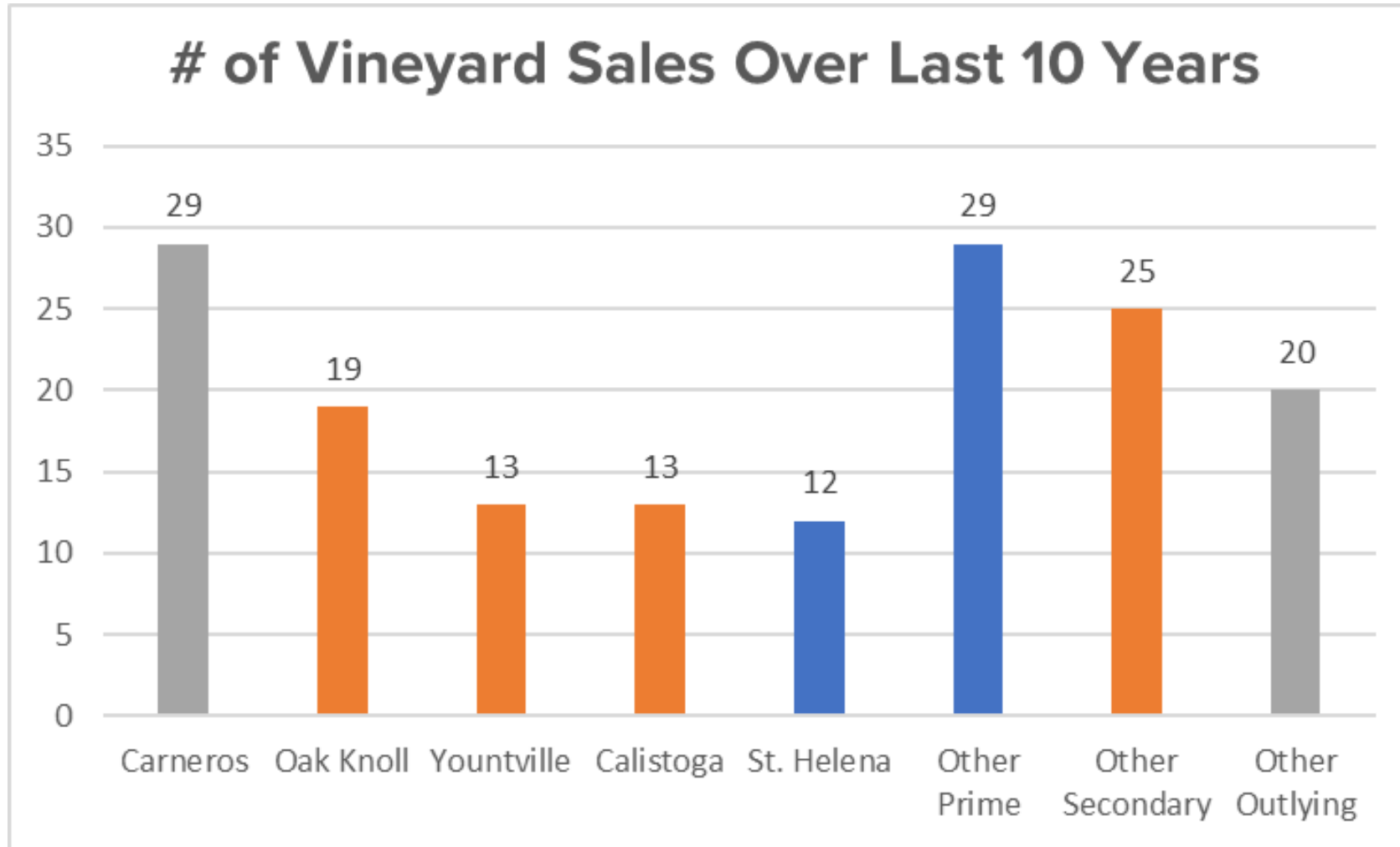
- Areas that generally reflect lowest vineyard value range for Napa County
- Areas that are susceptible to weather extremes or can only support lower valued varietals
- Average to below average grape and bottle pricing



NAPA COUNTY VINEYARD VALUE HISTORY



SALES BY MARKET AREA



LAND VALUE DRIVERS

- Location, Location, Location
- Soils, Climate, Water – How does this translate to suitable variety?
- Vineyard Age, Remaining Economic Life
- Vine Health, History of Disease, Weak Spots
- Yield History
- Grape Contract Pricing
- Bottle Pricing
- Vineyard Reputation
- Vineyard Designate

BUYER PROFILES

Strategic, vertically integrated

- Typically, winery or winery conglomerates seeking stable source of fruit for specific gaps in wine programs
- Focused on the sale of final wine product, less concerned with vineyard yields/profitability
- Driven by winemakers.
- Less sensitive to yields or remaining life of vineyard.
- Often willing to outbid other classes of buyers

Investor/Institutional

- Seeking current return from annual income derived from sale of fruit or the leasing of the property
- Could be larger institutional investors with diversified portfolios or commercial growers

Lifestyle

- Typically wealthy individual seeking wine country estate.
- Concerned with aesthetics of property
- Less concerned with economics of vineyard

LAND VALUE SNAPSHOT

Napa County		Value Per Acre	Market Demand	Market Activity	Value Trend
 Vineyard	Prime	\$300,000 - \$500,000+	★★★☆☆		Stable
	Secondary	\$165,000 - \$375,000	★★☆☆☆		Stable
	Outlying	\$50,000 - \$165,000	★★☆☆☆		Stable
 Plantable	Prime	\$200,000 - \$300,000+	★★★☆☆		Stable
	Secondary	\$165,000 - \$245,000	★★☆☆☆		Stable
	Outlying	\$50,000 - \$110,000	★★☆☆☆		Stable
 Homesites	Prime	\$2,000,000 - \$5,000,000+	★★★☆☆		Stable
	Secondary	\$300,000 - \$3,000,000	★★☆☆☆		Stable
	Outlying	\$0 - \$350,000	★★☆☆☆		Stable

2022 North Coast Region 2 Value Trends

LAND VALUE SUMMARY

- Recent wine sales data discouraging.
- Bulk market remains active for Napa Valley, somewhat sluggish for most other regions/varietyals.
- Water-challenged properties: Recent rains help, and buyers seem to be leaning in.
- Labor costs still a major concern, particularly for investor/institutional buyers.
- Still activity and interest among Strategic and Institutional buyers, but less so for Lifestyle.
- Bifurcation of sales likely to continue:
 - ‘Special’ properties continuing to set new high marks.
 - Secondary/Outlying properties have longer marketing times with values likely to remain flat.
- Bottom line... Napa County is not making any more vineyard land.



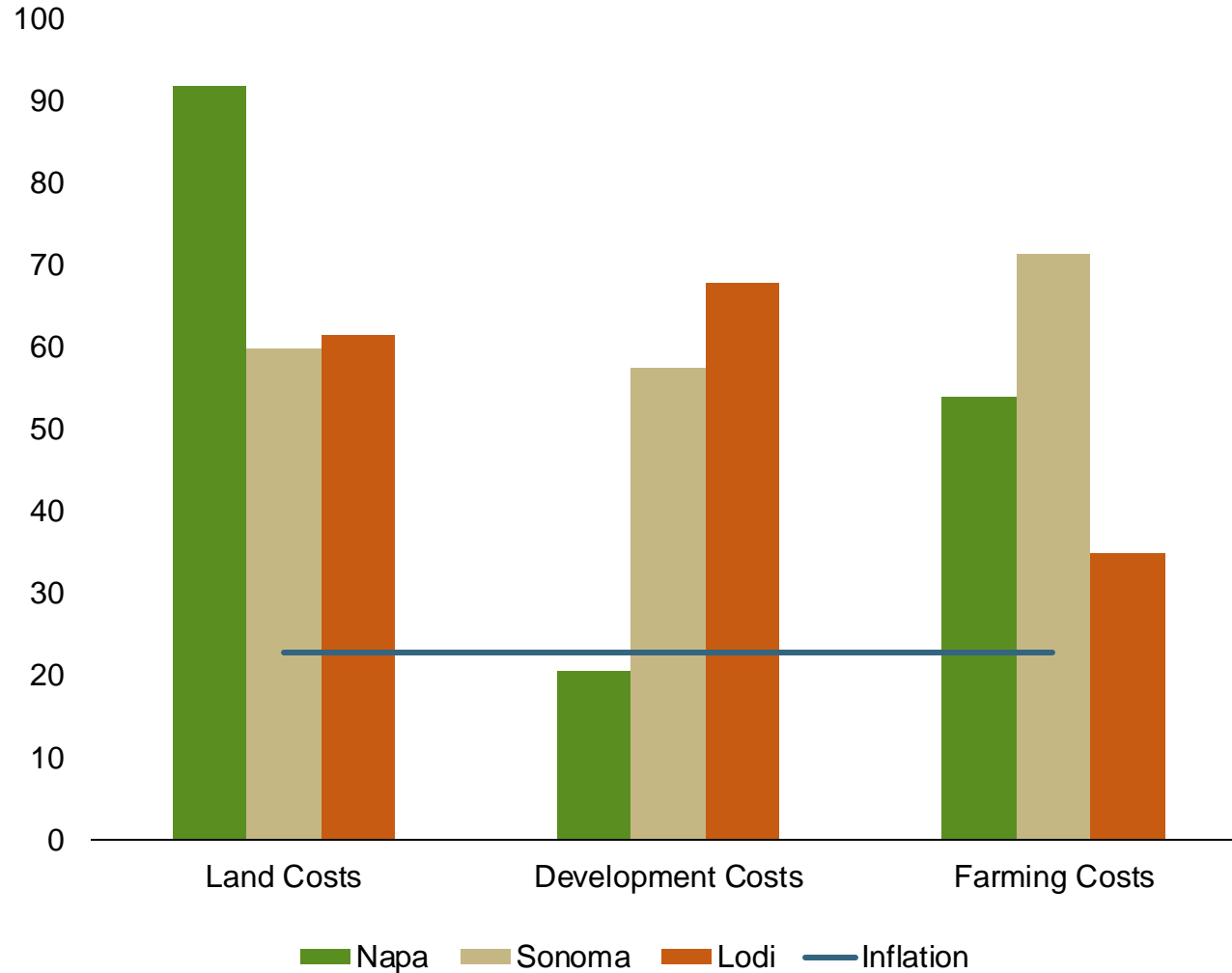
VINEYARD ECONOMICS



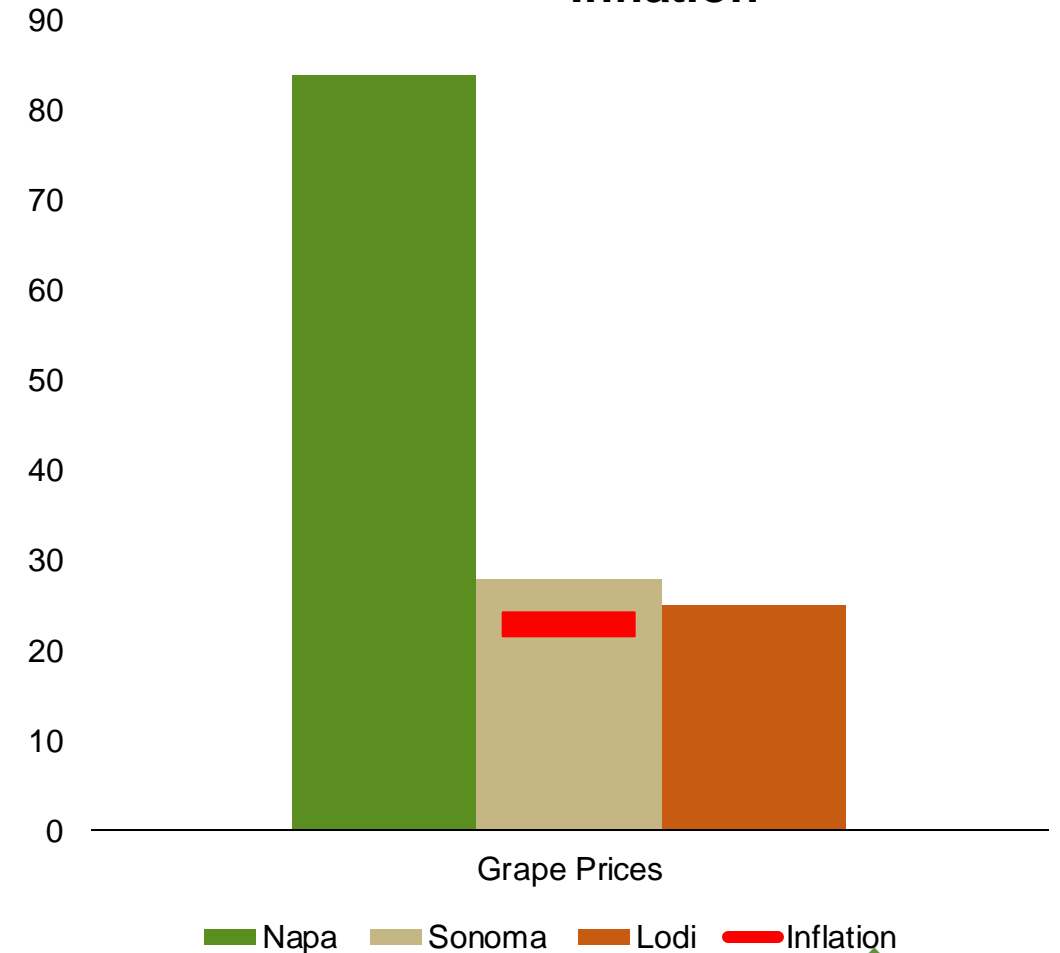
American
AgCredit

VINEYARD ECONOMICS: 2012 TO 2022

Cost Relative to Inflation



2022 Grape Prices Relative to Inflation



TRENDS WE SEE

As costs increase, some growing regions are becoming less profitable to farm than others.

Lodi

- Avoiding new development
- Less than dollar for dollar increase in value for vineyard development
- Wineries considering selling vineyards

Sonoma

- Small vineyards not being replanted
- Vineyard owners not buying vineyards. Wineries buying vineyards
- Roughly dollar for dollar value add for development on large vineyards
- Small vineyards do not contribute to property value (less than 15 acres)

Napa

- Vineyards being bought and replanted by wineries and private equity firms
- Range of value for land widening dramatically
- Vineyard redevelopment adds over 100% of the cost to the value of the property



VINEYARD LOANS

Given the economic environment for vineyards, analyzing your return on investment is extremely important. We can support financially sound projects.

Cash Flow

- Vineyard purchase and redevelopment projects must generate sufficient cash flow to service the debt
- Model the vineyard cash flow including the time value of money
- Does it make sense versus other options?

Collateral

- Land values strong
- Expect paid-in capital to be significant. The debt must be low enough for the vineyard to support in most cases

Secondary Support

- Have secondary sources of capital in the event of adversity
- Hedge against risk
 - Crop insurance
 - Fixed rates
 - Long term contracts



AMERICAN AGCREDIT EXPERTS



Nick Cadigan

Appraisal Director
ncadigan@agloan.com
(707) 867-3786



Sara Clover

VP – Underwriter
sclover@agloan.com
(707) 486-7223



John Somers

VP Relationship Manager
jsomers@agloan.com
(707) 322-0311