

ANALYSIS OF DEMAND FOR LAKE COUNTY GRAPES

Commissioned by the Lake County Winegrape Commission



FULL GLASS RESEARCH

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Section #3 – ANALYSIS OF DEMAND FOR LAKE COUNTY GRAPES

Introduction

This section analyzes the size and trend for three major sources of demand for Lake County Cabernet Sauvignon and Sauvignon Blanc.

Demand for wine grapes is based on expected sales of the resulting wine. To give some background on wine demand, the following wine shipment, sales and consumer research data is given.

Gomberg-Fredrikson:

- Presenting at the Unified Symposium in January 2015, Jon Fredrikson estimated that shipments of California wine in 2014 increased 4% to 224 million cases. Wines priced at \$10+ had increased in sales, while wines \$9/750ml and under had decreased. He estimates high end Cabernet and Sauvignon Blanc sales increasing as much as 18%.
- In 2013 California shipments of wine priced \$14-25 increased 7%; wines over \$25 increased 5%. California Cabernet shipments increased 2%. California Sauvignon Blanc shipments declined 2%.¹
- In 2012, California shipments of wine priced \$14-25 increased 8%; wines over \$25 increased 7%. California Cabernet shipments increased 6%. California Sauvignon Blanc shipments increased 11%.¹

Nielsen Scanned Sales:²

- 2014 total U.S. sales show the \$12-15 segment up 9%, \$15-20 up 8%, and over \$20 up 9%. Cabernet Sauvignon sales are up 5%, while Sauvignon Blanc sales increased 6%
- 2013 sales showed 15% growth in the \$12-15 segment up 9%, \$15-20 up 13%, and over \$20 up 16%. Cabernet Sauvignon sales were up 4%, while Sauvignon Blanc sales increased 6%.
- 2012 sales showed 7% growth in the \$12-15 and \$15-20 segments while over \$20 was up 4%. Cabernet Sauvignon sales were up 3%, while Sauvignon Blanc sales increased 8%.

Wine Opinions national panel of U.S. high frequency and high end wine consumers:

- Cabernet is the most popular variety with 35% drinking it weekly, 37% monthly, and just 10% infrequently or never. Cabernet, especially from Napa, is the most likely choice in a wide variety of settings, with probability of choosing it increasing with the social status and specialness of the occasion.
- Sauvignon Blanc penetration has grown steadily over the past five years. It is now consumed by 18% of the panel weekly and 28% monthly, just 4% behind Chard on each measure. 27% of panelists drink it infrequently or never.

Direct-to-Consumer (DtC): for Napa Valley wines, especially Cabernet, this is an important and profitable channel. Napa Cabernet is by far the leading item in terms of dollar sales for consumer direct sales, according to the Wines & Vines/ShipCompliant database. Based on analysis of both the Wines & Vines-

¹ 2013 and 2012 Gomberg-Fredrikson Annuals

² Nielsen Total U.S. all channels; includes grocery, drugstore, mass market, convenience and partial liquor and club store channels; does not include on-premise, most independent/fine wine shops or Wal-Mart/Costco

ShipCompliant database and the Napa Valley 2012 economic impact study, from 26% to 31% of Napa Cabernet is sold direct. The average price of Napa Valley Cabernet sold direct is far higher than what is sold through the three tier system. DtC shipments of Napa Cabernet in the WV-SC database grew at a 15% rate in 2014 and a 4% rate in 2013, while Napa Sauvignon Blanc grew at 8% both years.

Direct-to-Consumer sales are relatively insignificant for California wines in the \$14-20 segment, most of which are sold through the three-tier system. They are very important for individual Lake County wineries, but represent a relatively small proportion of the overall usage of Lake County Cabernet or Sauvignon Blanc grapes.

Discussions with the Lake County Winegrape Commission, growers and grape brokers indicate there are three main uses, or sources of demand, for Lake County Cabernet & Sauvignon Blanc:

- 1) As part of a blend in expensive (\$20+/50ml bottle) wines, produced primarily in Napa Valley;
- 2) As part of a blend in California Cabernet or Sauvignon Blanc in \$14-20 range, typically labeled as “California” or “North Coast”;
- 3) As the main or sole source of grapes for wines marketed as Lake County AVA Cabernet Sauvignon & Sauvignon Blanc.

Vector #1 is based on the strong sales of Napa Valley wines, which have resulted in high demand for grapes by wineries in the Napa Valley region or large multi-region companies producing Napa Valley brands, and resulting very high grape prices. U.S. wine labeling laws permit up to 15% of the grapes in a wine labeled with an AVA to come from outside the AVA, and up to 25% for county designations. The price and prestige of the wines, and business culture of Napa Valley wineries, demand a high perceived level of quality for grapes blended into Napa wine. However, the price differential between Napa grapes and those from other regions makes blending a significant cost reduction.

Vector #2 is a much larger potential source of demand, and currently the largest market and usage for Lake County grapes. A California label designation permits blending in any proportion of California grapes from any region or AVA within the state. North Coast is a similar concept, but restricted to grapes sourced from Mendocino, Lake, Sonoma and Napa counties (plus peripheral regions like Marin and Solano). Generally speaking, the grapes required to profitably produce such wines retailing under \$10/750ml bottle have to be purchased at prices below what is sustainable or desirable for Lake County. At some point between a \$10 and \$14 targeted retail price, both the quality requirements and the purchasing budgets for grapes rise sufficiently to create demand for Lake County grapes. However, in this segment Lake County is competing with a wide range of grape sources, including Mendocino and Solano counties, Monterey, Paso Robles and other central coast regions and the higher quality grapes from the Lodi/Delta region.

Vector #3 is the use of Lake County grapes to produce wines labeled with Lake County or its sub-AVAs such as Red Hills or High Valley. This is the usage that most naturally links consumer demand to Lake County supply, without issues of blending restrictions or supplier competition from other regions. However, Lake County contains relatively few wineries with broad national distribution and its location results in less wine tourist traffic than Napa, Sonoma, Mendocino or many of the central coast AVAs. Thus to date the national market for Lake County wines per se has been limited, and partially dependent on wineries outside the region labeling wines as “Lake County”.

Vector #1 – Blending into Napa Valley wines, Cabernet

Demand for Cabernet Based on Blending Practice, 100% of Napa Cabernet sold as Napa wine

CABERNET	2012	2013	2014	2015	2016	2017	2018
Total Napa Harvest Tons	71,517	65,919	68,920	70,451	70,860	71,120	71,264
Tons Required at 15% blend	12,621	11,633	12,162	12,433	12,505	12,551	12,576
Tons required at typical blending rates*	1,928	1,777	1,858	1,899	1,910	1,917	1,921
Tons assuming competition**	482	444	464	475	478	479	480
Lake County available supply***	9,594	11,296	11,185	11,223	11,573	12,010	12,432

*assumes 31% Napa wineries blend, 8% average, 100% LC share, based on survey

**assumes competition takes 3/4 share

*** assumes 5 year average of 80% of Lake County crush is sold

If all of the Napa Cabernet sold was blended with 15% Cabernet from Lake County, the demand could soak up nearly all of Lake County's available Cabernet supply. However, not all Napa Cabernet on the market is so blended; the majority is either blended with other Napa varieties or left at 100%.

Row 3 shows the number of tons needed for blending into Napa Valley Cabernet if blended at the typical rates and frequency suggested by our survey of winemakers and grape buyers. This level of demand could absorb 14-16% of the projected Lake County Cabernet supply to 2018. However, for Lake to sell this many tons to Napa winemakers would require 100% market share of the blending wine. Other regions such as Mendocino and Paso Robles compete for this market. Row 4 shows the tons demanded if Lake County takes a 25% share of the blender market. This represents a 4% share of available Lake County Cabernet.

Demand/Supply Balance for Napa Cabernet with Assumed 4% Growth in Sales

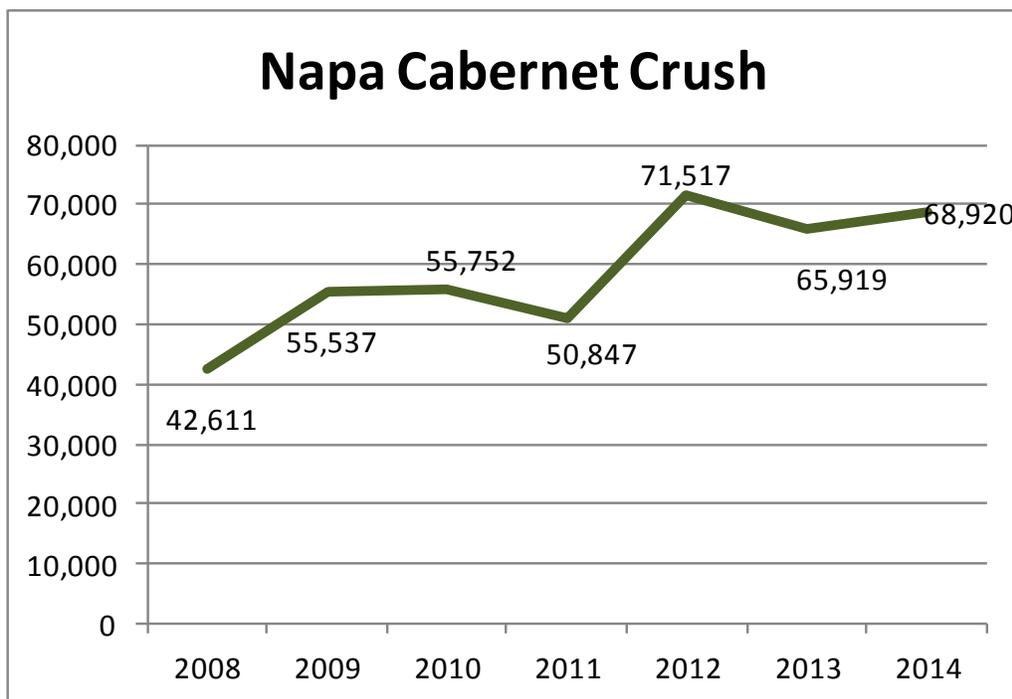
* 4% growth rate	2013	2014	2015	2016	2017	2018
Total Napa Harvest Tons	65,919	65,013	65,516	65,897	66,138	66,272
Market requirements * (assume market clears in 2013)	65,919	68,556	71,298	74,150	77,116	80,200
tons long (-short)	0	364	(847)	(3,290)	(5,996)	(8,936)
Market requirements* (assume market cleared in 2011)	54,996	57,196	59,483	61,863	64,337	66,911
tons long (-short)	10,923	11,724	10,968	8,997	6,783	4,353

The table above shows the projected supply of Napa Cabernet compared with expected demand at a 4% growth rate. Currently scanned sales (Nielsen) of Napa Cabernet are growing at a 2% rate, while DtC sales are growing at 4-5% and restaurant demand is recovering more quickly. Row two projects market requirements if the Napa Cabernet market cleared in 2013; I.E. all the 2013 Napa Cabernet harvested was crushed as such and sold through DtC and the distribution system. In this case, the market growth

outstrips demand quickly, and within a few years substantial tonnage is required to meet Napa Cabernet demand.

However, the vintage currently in distribution is not 2013, but in fact mostly 2011, a much smaller quantity. Assuming the market demand is equal to the 2011 supply, and comparing it to current and projected vintages of Napa Cabernet, even 4% growth in sales into the future results in a surplus through 2018, albeit shrinking.

Anecdotally, the 2011 harvest of Napa Cabernet was insufficient for the demand. But one has to consider the 2012 vintage in Napa Valley, which featured extremely high yields as shown in the chart below. The 2012 wines, which are mostly bottled and just starting to come on the market, represent a vintage with 40% more potential inventory than the 2011. This is a far greater increase in supply than the growth rate in sales, and furthermore has the 2013 vintage on its heels, with is 29% larger than 2011.



It therefore seems quite possible that the demand for Napa Cabernet at retail will be outstripped by supply over the next two years. This would certainly put downward pressure on prices for Napa Cabernet. Whether it in turn reduces demand for Lake County Cabernet as blender depends on to what extent price reductions are expressed in falling grape and bulk spot prices vs. prices for actual bottled wine.

Declines in prices for Napa Valley Cabernet grapes or bulk wine will ripple downward through other North Coast Cabernet regions. However, discounting on bottled Napa wine could increase demand for less expensive but good quality Cabernet as blender, because margins for wine in inventory will be squeezed and wineries will seek to offset those reductions. In the short term, the supply-demand balance for Napa Valley Cabernet and blender is highly dependent on how well the retail market digests the 2012 vintage. The longer term outlook is still trending towards shortage.

Vector #1 – Blending into Napa Valley wines, Sauvignon Blanc

Demand for Sauvignon Blanc Based on Blending Practice, 100% of Napa Sauvignon Blanc is sold

Sauvignon Blanc	2012	2013	2014	2015	2016	2017	2018
Total Napa Harvest Tons	14,806	18,010	15,079	16,445	16,540	16,556	16,587
Tons Required at 15% blend	2,613	3,178	2,661	2,902	2,919	2,922	2,927
Tons required at typical blending rates*	1,009	1,228	1,028	1,121	1,128	1,129	1,131
Tons assuming competition**	252	307	257	280	282	282	283
Lake County available supply***	6,100	9,277	8,495	8,137	8,218	8,273	8,329

*assumes 50% Napa wineries blend SB, 12% average, 100% LC share

**assumes competition takes 3/4 share

*** assumes 5 year average of 71% of Lake County Sauvignon Blanc crush for sale

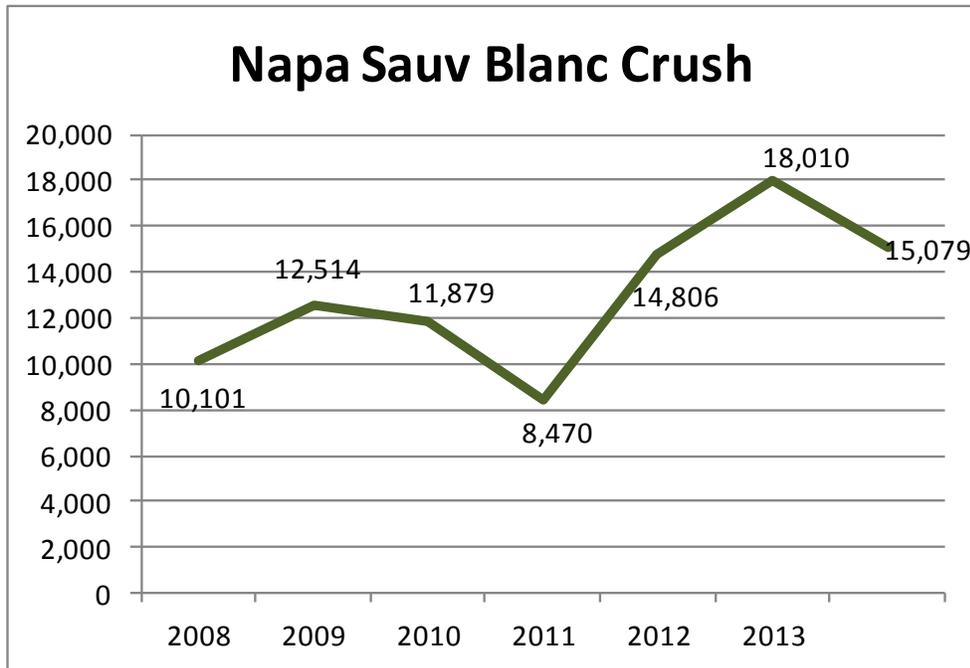
Grape buyer and winemaker surveys indicated that blending of Sauvignon Blanc into Napa wines was somewhat more prevalent, at higher rates, than for Cabernet. Using the same methods as for the Cabernet chart, we can project demand for over 1000 tons of Lake County Sauvignon Blanc from Napa sources if it was to achieve 100% market share for this purpose, but a more modest 257-283 tons with 25% market share. Even with a more optimistic assumption regarding market share, demand for Lake County Sauvignon Blanc for blending from Napa sources would account for 4-6% of Lake County Sauvignon Blanc sales.

Demand/Supply Balance for Napa Sauvignon Blanc with Assumed 6% Growth in Sales

* 6% growth rate	2013	2014	2015	2016	2017	2018
Total Napa Harvest Tons	18,010	15,079	16,445	16,540	16,556	16,587
Market requirements* (assume market clears in 2013)	18,010	19,091	20,236	21,450	22,737	24,101
tons long (-short)		(4,012)	(3,791)	(4,910)	(6,181)	(7,514)
Market requirements* (assume market cleared in 2012)	15,694	16,636	17,634	18,692	19,813	21,002
tons long (-short)	2,316	760	(429)	(2,152)	(3,257)	(4,415)

Scanned sales of Napa Valley Sauvignon Blanc grew 6% in 2013, and sales growth in direct to consumer appears to be above that rate. The current vintage of Sauvignon Blanc in the market is mostly 2012. If one assumes the market is not currently backing up, whether on a winery inventory basis (cleared in 2013) or on a wine sales basis (cleared with the 2012 vintage), there appears to be looming pressure on

supply of Napa Sauvignon Blanc, with a fairly significant potential shortage developing within a couple of years.

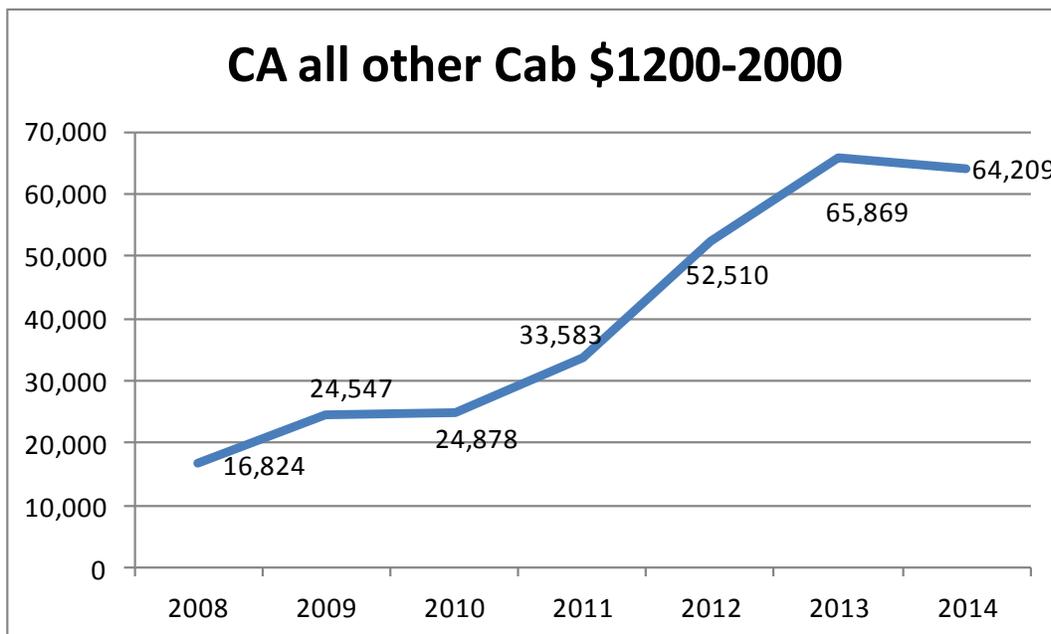


As 2012 was to Napa Cabernet, so is 2013 to Napa Sauvignon Blanc. The very large 2013 harvest should keep any shortage at bay well into 2015. But after that, if current growth rates are maintained, Napa Sauvignon Blanc demand will outstrip supply. The projected shortfall is significant enough to eventually require maximum blending rates for Napa Sauvignon Blanc, thus an additional 2-6% growth in Lake County Sauvignon Blanc sales is achievable.

Vector #2 – Blending into California and North Coast wines

In our survey of grape buyers and winemakers, all reported using grapes from a variety of sources when blending California and North Coast wines. The variables are their orientation towards coastal or inland grapes and the trade-off between quality, price and the flavor elements the grapes bring to the blend. The majority (80%) said that the maximum price they would pay for grapes to blend into a wine retailing for \$12/750ml would be \$1200/ton and 88% stated for a \$15 bottle, the maximum price would be \$1500 tons or less. Thus the old rule-of-thumb of \$100/ton per dollar of retail bottle price seems to be holding in this segment.

For estimating demand in the \$14-20 California or North Coast Cabernet Sauvignon and Sauvignon Blanc segments, we will use California grapes from \$1200-2000/ton as a supply basis. When using total California supply, the price breaks from table 8 of CASS were applied to the entire supply (including winery-crushed).



As can be seen in the chart, there has been a considerable run-up in the supply of mid-priced Cabernet grapes since the short 2010 vintage, with the supply more than doubling over four vintages. Some of this has been due to a shift in the percent of Cabernet grapes sold over \$1200, rather than purely growth in supply, although yields have also increased.

There is no typical “formula” for creating \$14-20 Cabernet or Sauvignon Blanc blends, and there was no consensus in our survey as to typical usage rates for Lake County or other regions as part of a blend. Nor are there any constraints for the proportions used by region (other than the limited geography for “North Coast”). Thus we can’t project potential demand for Lake County from this segment based on the supply base, as we did for the Napa vector.

Lake County represents about 13% of all \$1200-2000 California Cabernet tonnage, so if Lake County was used in blending in that proportion, we arrive at the following table of potential demand for Lake County Cabernet.

CABERNET TONS	2012	2013	2014	2015	2016	2017	2018
CA all other Cab \$1200-2000	64,209	67,636	69,631	71,740	73,373	64,209	67,636
Tons required to blend at 15%	9,594	10,107	10,405	10,720	10,964	9,594	10,107
Lake County available Cabernet supply***	9,594	11,296	11,185	11,223	11,573	12,010	12,432

*** assumes 5 year average of 80% of total Lake County crush for sale

As can be seen, if Lake County was used in California blends at its current share of the \$1200-2000 Cabernet grape market, the demand would be sufficient to account for over 80% of Lake County's sales. Furthermore, the expected growth rates for the supply of Lake County Cabernet and mid-priced California Cabernet overall are roughly similar, so this basis of demand should continue to 2018, assuming wine sales support production in this price segment. In other words, if California continues to be able to sell all the \$1200-2000 Cabernet it produces in mid-priced Cabernet wines, and Lake County gets its "fair share" (13%) of these sales as blender, there would be sufficient demand to absorb all of Lake County's supply.

The current growth rate for \$13-20 California and North Coast Cabernet is a robust 9%, as measured by Nielsen scanned all store sales. If this growth rate is forecasted out to future years, the supply of \$1200-2000 ton Cabernet to supply this segment rapidly runs short, no matter which year one assumes as a base for the market clearing.

* 9% growth rate	2013	2014	2015	2016	2017	2018
\$13-20 Cabernet projection (tons)	65,869	64,209	67,636	69,631	71,740	73,373
Market requirements* (assume market clears in 2013)	65,869	71,797	78,259	85,302	92,979	101,347
tons long (-short)	0	(7,589)	(10,623)	(15,671)	(21,240)	(27,975)
Market requirements* (assume market cleared in 2012)	54,610	73,436	80,046	87,250	95,102	103,662
tons long (-short)	8,633	10,455	10,090	5,600	(3,453)	(18,144)

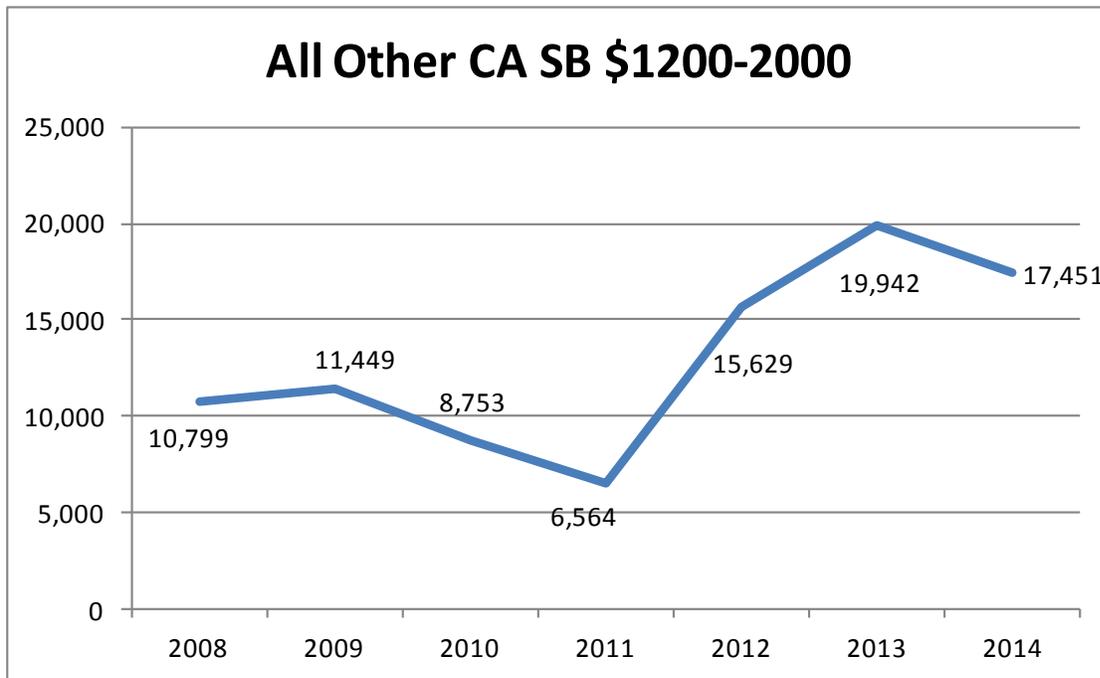
However, a 9% growth rate is historically too high to sustain in such a large category. A more reasonable 5% growth rate still implies pending shortage if one assumes all of the large 2013 vintage has nearly sold through.

* 5% growth rate	2013	2014	2015	2016	2017	2018
\$13-20 Cab projection	65,869	64,209	67,636	69,631	71,740	73,373
Market requirements* (assume market clears in 2013)	65,869	69,162	72,620	76,251	80,064	84,067
tons long (-short)	0	(4,954)	(4,984)	(6,620)	(8,324)	(10,694)
Market requirements* (assume market cleared in 2012)	55,135	57,892	60,786	63,826	67,017	70,368
tons long (-short)	10,734	6,317	6,850	5,806	4,723	3,005

However, if the smaller 2012 vintage represents consumer demand, then the market will be slightly long for the next few years.

The price constraints for purchasing grapes going into \$12-20 California or North Coast Sauvignon Blanc are more or less the same as for Cabernet, although industry interviews revealed less willingness to “chase” particularly good lots or sources of Sauvignon Blanc than for Cabernet.

The supply of Sauvignon Blanc grapes valued at \$1200-2000 a ton from regions other than Napa or Lake County has been less consistent than for Cabernet, although it shows a similar uptrend in the last two vintages.



Lake County represents about 8% of all \$1200-2000 California Sauvignon Blanc tonnage, so if Lake County was used in blending in that proportion, we arrive at the following table of potential demand. However, our survey respondents on blending North Coast and California Sauvignon Blanc showed a wider range of blending rates than for Cabernet, with over 1/3 stating that Lake County grapes could form the main portion or basis of the blend (I.E. 60% or more). To simulate this, we have inserted a row in the projection table that calculates demand based on 1/3 of the Sauvignon Blanc wines sourced from \$1200-2000 grapes being 50% Lake County.

SAUV BLANC TONS	2012	2013	2014	2015	2016	2017	2018
CA all other SB \$1200-2000	18,874	20,282	17,547	17,696	17,828	17,952	18,066
Tons required to blend at 8%*	1,641	1,764	1,518	1,673	1,685	1,697	1,708
Tons required to blend 1/3 of supply at 50%	6,228	6,693	5,759	6,349	6,396	6,441	6,482
Lake County available SB supply***	6,100	9,277	8,495	8,137	8,219	8,273	8,329

***at 71% total Lake County Sauvignon Blanc crush for sale (5 yr average)

As can be seen, if Lake County Sauvignon Blanc is only blended in at its current share of grapes sold in this price range, the demand from blending for \$12-20 California Sauvignon Blanc will be insufficient to absorb more than 20-25% of Lake County Sauvignon Blanc on the market. However, if Lake County increases its position as a preferred quality Sauvignon Blanc or as the mainstay of blends, then the demand from the \$12-20 California/North Coast market could absorb up to ¾ of available Lake County Sauvignon Blanc grapes.

Vector #3 – Demand from Lake County and Lake County sub-AVA Brands

A precise number for the volume of wine sold labeled as Lake County Cabernet or Sauvignon Blanc, or with one of the AVAs within Lake County, is not available at this time. There are a variety of wineries and brands based in Lake County, some of whose wines are in broad distribution, but many are limited to local or direct-to-consumer sales. Moreover, some successful Lake County brands also produce wine from other regions. There are also wineries outside Lake County that produce individual brands or SKUs with Lake County designations. Finally, there are private or store brands of Lake County appellation, some of which are produced and sold in significant volume in retail stores or restaurant chains. The multiple forms of branding, production and distribution make more than an approximate estimate of Lake County labeled wine sales impossible.

Projecting from the surveys carried out in 2012 and 2013 by the LCWC suggests Lake County labeled volume of approximately 444,000 cases. Shipments as stated in Gomberg-Fredrikson and various publications, combined with other data yield an approximation of 459,500 cases.

Projecting from Nielsen retail sales, adjusted for estimates of the proportion of wine sales that the various channels scanned covers, we estimate at approximately 100,000 cases of Lake County Sauvignon Blanc in 2013 and Lake County Cabernet sales to be 129,000 cases. This does not include direct-to-consumer sales and may be an underestimate. If you assume that all winery-owned Lake County Cabernet and Sauvignon Blanc grapes in the 2012 crush were made into Lake County-labeled wines, the figure would be approximately 161,000 cases of Cabernet and 167,000 cases of Sauvignon Blanc.

The Nielsen-based figures would imply that 15% of Lake County Cabernet and 16% of Lake County Sauvignon Blanc grapes are sold through the distribution system as Lake County-labeled wines. The winery proportion of all crushed Lake County grapes is 20% for Cabernet and 29% for Sauvignon Blanc, based on 2013.

Growth rates in retail sales for Lake County Sauvignon Blanc and Cabernet are extremely robust at +19% for Sauvignon Blanc and +32% for Cabernet Sauvignon. Since the majority of sales are focused in a relatively small number of widely distributed brands, plus some store brands at major chains, it is difficult to assess whether this represents increasing appreciation for Lake County wines or the tactical success of some individual brands or SKUs. A survey in early 2014 of the Wine Opinions national panel of frequent wine consumers showed only modest awareness and appreciation of Lake County wines compared to other Californian wine regions. Only 23% had tried Lake County wines, although that was up from 14% in 2008. Lake County did show higher association with Sauvignon Blanc than other regions.

The following tables estimate future demand for Lake County grapes, based on Nielsen or winery-crushed share of current supply and two different sales growth scenarios:

- Current Nielsen growth rates with a 50% decay factor
- Current Nielsen growth rates for the \$13-20 Cabernet and Sauvignon Blanc segments.

LAKE CTY CABERNET TONS	Assumed growth rate	2013	2014	2015	2016	2017	2018
Nielsen-based Sales	32% w/decay	1,920	2,534	2,940	3,175	3,302	3,368
Winery share based sales	32% w/decay	2,398	3,166	3,672	3,966	4,125	4,207
Nielsen-based Sales	6%	1,920	2,035	2,157	2,287	2,424	2,569
Winery share based sales	6%	2,398	2,542	2,695	2,857	3,028	3,210
Lake County Total Crush		14,121	13,981	14,029	14,466	15,012	15,540

If you assume the current very high growth rate with a 50% decay factor (i.e. rate declines by 50% each year), then from 22-27% of Lake County Cabernet can be sold under Lake County brands by 2018. If you assume a more modest but straight-line growth rate of 6%, then 17-21% of Lake County Cabernet will be absorbed by Lake County brands.

LAKE CTY SAUVIGNON BLANC TONS	Assumed growth rate	2013	2014	2015	2016	2017	2018
Nielsen-based Sales	19% w/decay	1,488	1,770	1,938	2,031	2,080	2,105
Winery share based sales	19% w/decay	2,492	2,965	3,247	3,403	3,484	3,526
Nielsen-based Sales	8%	1,488	1,636	1,800	1,980	2,178	2,396
Winery share based sales	8%	2,492	2,741	3,015	3,316	3,648	4,013
Lake County Total Crush		13,066	11,965	11,461	11,576	11,653	11,731

If you assume the current high growth rate of 19% with a 50% decay factor, then by 2018 Lake County brands will be using 18-30% of Lake County Sauvignon Blanc. A more modest but steady 8% growth (still rather ambitious) arrives at nearly the same proportions by 2018.

Addendum on Snows Lake vineyard

In 2012, Gallo purchased the Snows Lake vineyard in the Red Hills AVA, which produces roughly 3000-35000 tons of high quality Cabernet Sauvignon. While Gallo honored existing contracts, they have been gradually curtailing the amount of grape sold and are using them in Gallo brands. Cab goes off market, thus shifting them from competing for grape purchasers to being sold as finished wine. It is not yet clear whether Gallo intends to debut a Snows Lake, Red Hills or Lake County brand, or use the grapes for blending into North Coast or multi-county brands such as Louis Martini. Entry into the market as a Lake

County brand would potentially double the volume of Cabernet being sold as Lake County wine. Gallo has a history of validating categories with large brand entries, so this route might boost other Lake County brands in the trade and raise awareness among consumers.

If Gallo blends Snows Lake grapes into existing Gallo brands, this would remove from them from the market for sale, thus reducing competition for other Lake County Cabernet producers. However, it would also remove potential demand for Lake County grapes from those brands. Most likely these to effects will not quite offset each other. To the extent the Gallo brands supplied by Snows Lake outgrow the market, that amount of Cabernet will no longer compete for sale into California/North Coast usage.

The following table illustrates the potential impact of a Snows Lake brand entering the market, assuming Gallo’s usual success in distribution and that the sales are incremental to current Lake County volume. The eventual impact results in 36-40% of LC Cab being sold under LC brands. That’s 14% more of Lake County grapes shifted into Lake County brands than the scenarios above.

LAKE CTY CABERNET TONS	Assumed growth rate	2013	2014	2015	2016	2017	2018
Nielsen-based Sales*	6%	1,920	2,035	3,157	4,287	4,924	5,569
Winery share based sales*	6%	2,398	2,542	3,695	4,857	5,528	6,210
Lake County Total Crush		14,121	13,981	14,029	14,466	15,012	15,540

**Assumes Snows Lake brand introduced in 2015 with 1/3 volume achieved in first year, 2/3 in second, 5/6 in 3rd, 100% in 4th year*

This in turn means 14% of Lake County Cabernet would no longer be sold into California/North Coast blends. This would presumably raise average prices somewhat because of lower supply. But it might not impact the lowest priced segment, because Snows Lake grapes were probably higher-priced to begin with.