TURRENTINE Market Update
GRAPES & WINE

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## Wild Ride, Tough Year

My father started Turrentine Brokerage in 1973 in order to leverage his extensive wine business contacts. He knew just about everyone in the business from 19 years with Wine Institute (serving several years as Assistant Manager) and 13 years as the Manager of the California Wine Advisory Board, which was a major player with a budget of $2.5 million - or $12.7 million in 2008 dollars. I joined Turrentine Brokerage right out of college in 1977. My father's friendships got us in the door to see just about every winery owner or manager in the state and many of the largest growers. But we had one dominant competitor and we had to fight for every sale we made.

The company now has 18 employees, including nine brokers. We have expanded grape sales to all areas of California. Last year we completed wine and grape sales with clients from 16 different states and 14 foreign countries. We have invested extensively in the development of strategic information to help our clients understand, predict and plan around the crucial and complicated supply side of the business. We have completed more than $1.5 billion of grape and wine sales over the last ten years – and we continue to gain market share and grow revenue even in the midst of a very difficult market.

We have also completed an important management transition. Three years ago, Steve Fredricks assumed essential management functions, taking the role - and eventually the title - of Managing Partner. I have focused on the strategic information part of the business (as well as working part-time on a Master's degree at the Dominican School for Philosophy and Theology in Berkeley). Steve has proven to be a highly effective leader, rallying the troops and keeping the company focused on responsive client service. Brian Clements has also assumed key management responsibilities, further developing what is already the leading grape brokerage business in North America.

The strategic information side of the business is also doing well. We recently published the seventh issue of *The Turrentine Outlook: Forecasts and Strategies for a Competitive Advantage*. From the questions and comments we get, we know the publication is read by the top ranks of most of the major players in the business. We think that the proprietary information we have developed gives a more accurate and detailed view of the supply side of the wine business than is available anywhere else. The graphs on the next two pages, for example, not only show a five year comparison of

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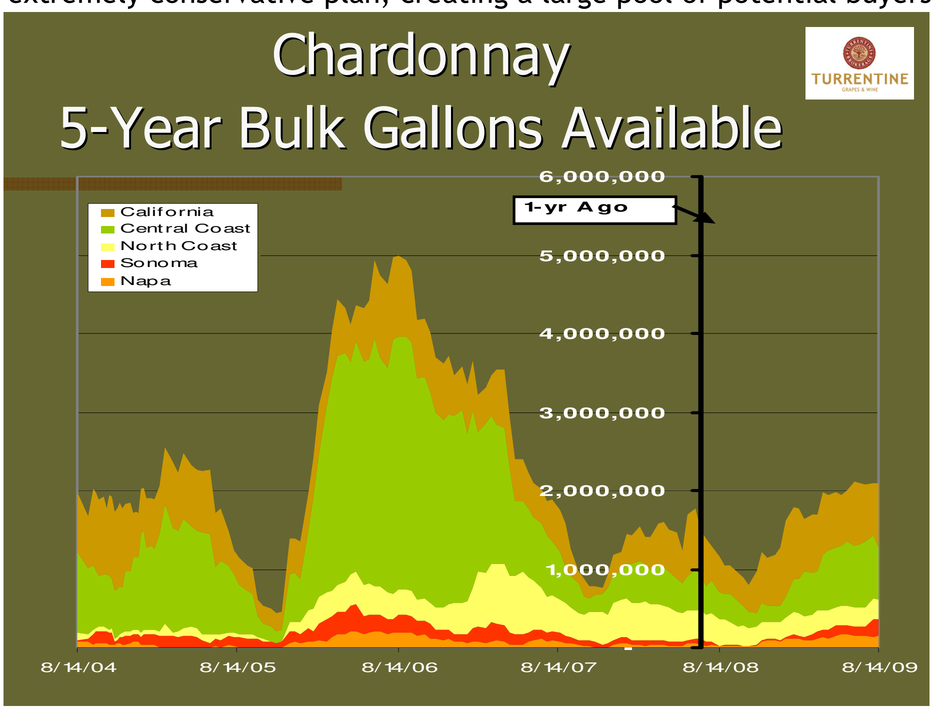
Chardonnay and Cabernet Sauvignon listed for sale in bulk, but they are also the best proxy available anywhere for total inventory positions for those varieties in the California wine business – an essential industry metric.

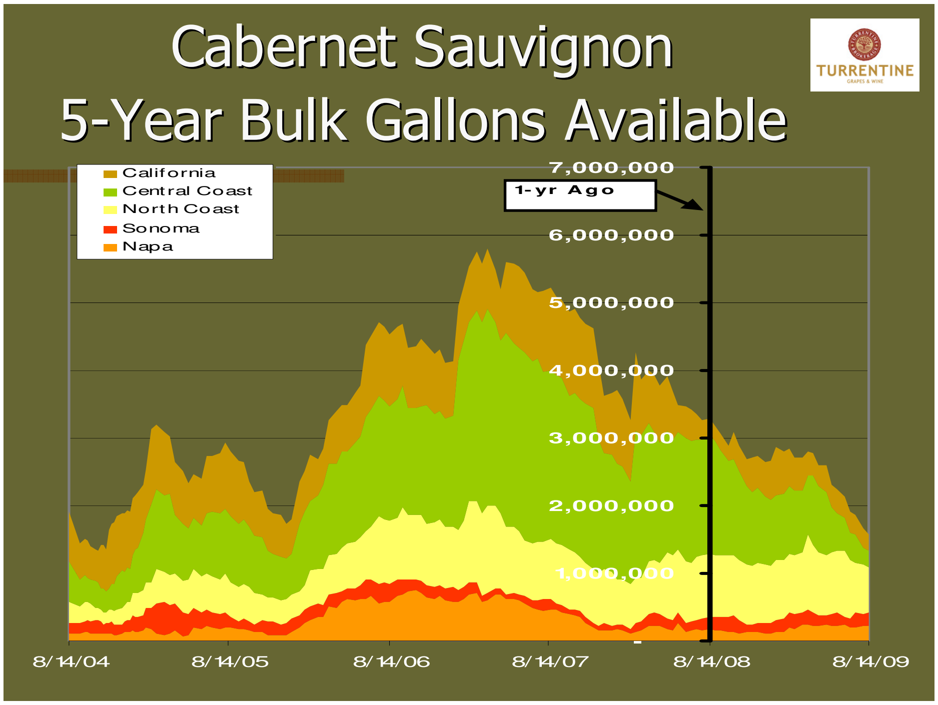
The 2009 harvest is one of the most difficult periods in our 36 year history, with a deep recession and many tons of grapes getting sweet without a home. Our goal is help our clients weather the storm and, where possible, to prepare for the radical changes that will roil the supply side of the business when the recession finally ends. Year-to-year swings in crop size and consumer demand are impossible to accurately predict but, over the long-term, clients who have taken our strategic planning advice have usually been short on inventory when the market has been long and long when the market has been short. Despite the current crisis, we are highly optimistic about the future of the business – and about our role in helping our clients make the supply side of the business work for them. We pledge to continue to improve our service in ways meaningful to our clients, to supply the most accurate current market information and to provide the superior and exclusive strategic information so necessary to long-term success. Focused on our core business, we continue to expand our presence domestically and internationally. It has been a wild and exhilarating ride – and the best is yet to come.

**California Bulk Market Review**

Turrentine Brokerage currently has about 12 million gallons of wine listed for sale in bulk. This is similar to last year at this time and is less than half of the 25 million gallons listed after the tsunami of grapes known as the 2005 harvest. The immediate problem is not so much excess supply but insufficient, and extremely cautious, demand. The bulk market – and the retail shelves – are currently ruled by those brands perceived as great bargains. And these guys are by nature tough buyers. Even in this market, however, demand for some varieties in bulk exceeds supply, especially Interior Pinot Noir and Cabernet Sauvignon. Wineries in general, and especially those who have high-priced brands, are still trying to whittle down inventories. They are waiting as long as possible to buy and some are buying fewer grapes based on extremely conservative sales projections, with the intention of buying wine in bulk if sales prove stronger than projected. Lenders like this strategy because it conserves cash. The danger, however, is that too many wineries may adopt the same extremely conservative plan, creating a large pool of potential buyers. The danger is heightened by a similar conservatism on the part of growers and their lenders. Many growers may sell grapes at clean up prices – or drop them on the ground – rather than take the risk to custom crush, thereby reducing the supply available for all of those potential buyers.




**Chardonnay** has been hit not only with the recession related slowdown at the high end but also with unexpected competition at the low end. Drought-stricken Australia has produced surprisingly big Chardonnay crops in 2008 and 2009, just as sales in their biggest market, the U.K., have softened, due first to price increases and then to tax increases. Chile produced over eight million gallons more Chardonnay in 2009 than the previous year, which also puts pressure on global markets. The chart above shows the growth of California Chardonnay inventories compared to previous years. Our recent sales of Interior region California 2008 Chardonnay have been mostly in the $2.00 to $4.00 range, with some volume at lower prices and plenty of supply still available. Central Coast Chardonnay has recently been selling in the $4.00 to $6.00 range, with far more supply than demand. Napa and Sonoma Chardonnay have recently been between $7.00 to $10.00, again with more supply than demand.




Interior region 2008 **Cabernet Sauvignon** has been holding firm even as crush begins, with most sales in the $5.00 to $5.50 range. Central Coast sales have ranged from $6.00 to $8.00 and, from the North Coast appellation, between $7.00 to $9.00. There have been a few Napa Valley sales in the mid-teens but both Napa Sonoma Cabernet Sauvignon have been slow.

Demand remains strong for Interior region **Pinot Noir**, with sales in the $7.00 to $8.00 range. We have also sold large quantities of North and Central Coast Pinot Noir in the $12.00 to $15.00 range, which is much lower than the prices of the past few years but at least it is an active market.

**Merlot** supply is down and we have had some interest from clients with programs that retail between $5.00 and $10.00 per bottle. Except for a little activity for Russian River appellation, the only recent interest in 2008 **Sauvignon Blanc** in bulk has been for Dry White programs.

**Global Bulk Market**
Despite very low rainfall, **Australia** has a strong supply of wine from the 2008 and 2009 harvests. Much of the oversupply is from cool climate regions but the wines that compete most directly with California are warm region Chardonnay and Cabernet Sauvignon available at attractive prices.

**Chile** had a big crop in 2009. Chardonnay production, for example, was up by about 8.5 million gallons and Cabernet Sauvignon by over 14.5 million gallons, which makes Chile a highly competitive player on the world market. Expanding acres and the world financial crisis has given **New Zealand** its first experience of excess supply of their very successful Sauvignon Blanc.

The Pinot Noir crop in the huge **Languedoc** region is projected to be down 10-15% from the normal level, which typically produces about 1.5 million gallons. The 2009 Chardonnay crop appears to be down about 25%. Cabernet Sauvignon and Merlot look average. Crop size for Pinot Noir and Pinot Grigio in **Italy** also look average.

## Grape Market Review

**Lodi, Delta, Central and Southern Interior (Erica Moyer)**
Cabernet Sauvignon and Merlot is all sold for this year – and much of it for multiple years. The harvest for these varieties has just started in the Southern Interior. Red Zinfandel is very soft and

much red tonnage has been sold as white Zinfandel. Chardonnay has been tough, with the crop coming in over winery projections. Pinot Grigio has also been picking out over estimate but the overages have found a ready market so far.

**Central Coast (Matt Turrentine, Paso Robles and Santa Barbara; Erica Moyer, Monterey)**
We continue to move large quantities of Cabernet Sauvignon, Merlot and Syrah from Paso Robles, although the prices are much lower than in 2008. Much Monterey County Merlot and Cabernet Sauvignon has sold over the past few months but the market is currently quiet. The Chardonnay crop looks healthy – average or above – but the market is soft throughout the Central Coast. Pinot Noir also has an average or better crop. There is demand for Pinot Noir but the offers are often way below grower expectations. Zinfandel is soft.

**North Coast (Brian Clements)**
Usually the first blocks to get ripe are those with the lightest crop, but this year some of the first Pinot Noir vineyards picked for sparkling wine came in over projection. As the sparkling wine harvest has continued, however, there have also been blocks picking out below projection and the average yield seems to have decreased. As a consequence, the jury is still out on Pinot Noir crop size but it may not be as big as it once appeared. Although the market for Pinot Noir is no longer sizzling like it was after *Sideways* stoked demand, it is more active than the market for most other varieties. Lower prices have stimulated some sales and there is a selection of North Coast fruit available, including Pinot Noir from Sonoma Coast, Carneros, Anderson Valley, Mendocino County, Napa Valley, and the Russian River.

Chardonnay for sparkling wine has been has been mostly average to about 10% above average. Chardonnay growers in parts of the Russian River and Carneros regions have been reporting that while many of their blocks look average, there are a few blocks that are not sizing normally. Most wineries and growers, however, still feel the overall North Coast Chardonnay crop is above average. If you are a winemaker interested in trying a different clone, or if you need additional tonnage, want to upgrade the appellation on your bottle or to average down your price, now is the time to give us a call. We have Chardonnay grape lots ranging from two tons to multiple truckloads; appellations such as Russian River, Suisun Valley, Napa and Sonoma Carneros, and Sonoma Coast; clones and selections such as Robert Young (17), 809, Spring Mountain, and Dijon clones among others.

They say that a big crop gets bigger and Cabernet Sauvignon started off looking big. Shatter has reduced the number of berries in some Cabernet Sauvignon vineyards in the North Coast. The main variable now, however, will be the size of the berries at harvest. Most wineries now estimate the crop to be average. The North Coast Cabernet Sauvignon grape market has remained soft with the exception of some activity for truckload or larger quantities in the Napa Valley, and those sales have been at much lower prices than 2008. Buying opportunities are available throughout the North Coast, including the Napa Valley.

Merlot is no stranger to shatter. A large number of large, North Coast growers are estimating their Merlot crop to be slightly below average even though cluster counts are up. In addition to shatter, the berries seem smaller than usual at this point of development. Despite the potential for a light crop, demand is soft and there is an extensive selection of Merlot grapes available.

**Time for Turrentine**

Give us a call if you are interested in custom crush agreements for growers or wineries; or if you need to stay apace of a fast changing market; or if you might want to take advantage of exceptional opportunities in unusual times.