



Validate, Corroborate, & Filter

By Steve Fredricks

Excess Markets, Long-Term

As we have been reporting for some time, the current excess market cycle had already slowed the bulk wine and grape markets well before the shelter-in-place orders. This time last year, most of the larger companies were in an oversupply position causing some traditional buyers to become sellers. Over the last year and a half, wineries and growers have made difficult choices to right-size inventories, realign their cost of goods, and/or remove acres. Many of our clients started making efforts to reduce supply, increase demand through innovation, and release new brands at lower price points. These business practices were working. Most of those large companies that were sellers last year were at a more neutral market position in Q1 2020, especially at the value-end.

COVID-19 Impacts

Unfortunately, the challenges of excess that growers and wineries were already adapting to have altered and increased in recent weeks due, in large part, to the steep reduction in on-premise sales and the lack of visitors to tasting rooms. The COVID-19 shelter-in-place has certainly made the job of managing inventories in an excess market more difficult.

Over the last six weeks, we have seen a slowing of the market, but have not seen a *dramatic* increase in supply or a *dramatic* softening of demand on the bulk wine and grape markets. We have, however, observed more cautious buyers, and we are seeing a few smaller wineries listing bulk wine and grapes for sale. Buyers are still offering on

bulk wine, and the same just-in-time inventory buyers with a purchase order in-hand are more readily able to take advantage of lower average prices in 2020.

Regardless of the eventual 2020 crop size, there will be bulk wine and grapes that will not sell in 2020. For this reason, the guidance we have been offering sellers for some time is to listen to all offers and do not hesitate with the hope that price will increase.

We are working hard to validate, corroborate, and filter the plethora of murky information to help you make



the best decisions possible to operate your individual company in this challenging market. If something sounds too good to be true—it likely is. Turrentine Brokerage is as committed as ever to providing the highest level of customer service and trusted market information to you, our client.

Early Retail Trends & Transition to Off-Premise

The true state of the market will reveal itself over time as off-premise wine purchase trends become clearer. We are now multiple weeks into the shelter-in-place orders and, in the United States, the increase in retail sales still appears to be strong. Much will hinge on how long this trend lasts, whether the growth in off-premise sales are enough to capture enough supply to avoid a prolonged excess market, and how each individual company will be affected to a varying degree based on their size and channel-mix.



There is a lot of negative news out there, so here is an optimistic thought; the current dynamics could introduce more younger consumers to the routine enjoyment of wine at the family dinner every evening, growing sales of wine and building a lifetime of core consumers.

In the meantime, we are all waiting to see what the loosening of shelter-in-place restrictions and opening up the economy means for getting people back to work.

Grape Market Report

While many of us feel as though we have hit the pause button on our lives, Mother Nature is continuing to shift into spring. As the seasonal agricultural cycle continues, growers have to make plans on how to farm their 2020 grapes. Buyers, on the other hand, are eyeing their current sales and inventories to project current and future needs, but these decisions come with additional challenges this year.

Throughout the state, grape purchasing activity has been slower than usual at this time of the year, but deals are still being negotiated and our brokers are open for vineyard visits with appropriate physical distancing.

North Coast

by Mike Needham

The majority of wineries are not ready to look for new supply yet. Some have indicated that they will potentially be looking for the best available fruit, at the best price when they reenter the market, but they are still weighing their needs. The deals that we have done so far this year have been between clients with established relationships. I would expect to see more grape purchasing activity post-bloom through harvest, when buyers will have a better handle on 2020 crop and how case sales are going.

Cluster count looks average at this point—two clusters per shoot from what we are seeing and hearing so far for all varieties in the North Coast. We have also seen and have heard of frost damage occurring in the North Coast. Damage has been reported in Sonoma County (Russian River, Sonoma Coast, Bennett Valley, Sonoma Valley, and Sonoma Carneros) and Napa Valley (Napa Carneros). At this point, it is hard to quantify the damage, as it is hit and miss. Those growers without water for frost control did sustain damage. The frost event has not yet changed the market and we will see if it does actually have an effect on the market later in the year.

Central Coast

by Audra Cooper

Most buyers are taking a wait-and-see approach to the current retail sales trends and how that will apply to their overall sales needs. This is not particularly out of the ordinary, as many buyers have not been in a rush to purchase their grapes until later in the season in recent years, but there have been fewer vineyard visits due to Coronavirus. There are continuing conversations for buyers' needs and when they might come back to the market.

We are currently tracking available inventories of grapes above last year, with the overwhelming percentage of tons being Cabernet Sauvignon from all areas of the Central Coast. It is important to note varieties such as Merlot, Syrah, and Zinfandel have become more limited in recent years due to removals and there is no longer an abundance of choice for buyers. The majority of the interest before mid-March was for younger plantings and vineyards that have pedigree that are now available and appropriately priced.



At this point, the varieties with a clearer picture of cluster counts are Chardonnay and Pinot Noir throughout the Central Coast. On average, we are seeing and hearing two clusters per shoot from our clients, but we still have a long way to go before the crop is harvested.

If you have grape needs, there is time to implement a plan, but you do want to get started now to control quality and influence farming decisions as growers are making decisions now that affect the end product.

Interior & Monterey County

by Erica Moyer

Interior

We have experienced a flurry of market activity but limited to a few buyers. As more grapes become available, buyers have taken the opportunity to purchase grapes from new growers or vineyards and resigning proven quality vineyards while letting go of grapes that have been quality challenged. Activity has mostly centered around Cabernet Sauvignon followed by Chardonnay and, to a lesser extent, Syrah and Petite Sirah. Current prices are 20% to 30% less than 2019 district average price.

Out in the vineyard, with rapid shoot growth, we are seeing mostly doubles, some singles and a few triples in younger vineyards. Due to the visible crop potential coupled with the economic uncertainties, market activity will likely subside until June/July or maybe even as late as August.

Monterey County

The market activity, or lack of, is very similar to 2019. There were limited amounts of resigns for Chardonnay and Pinot Noir, and without on-premise sales, the impact on grape sales for the Coast will be felt, just like it is being felt by the vegetable growers who were unable to find a new home fast enough. Though there have been a significant amount of vineyard pullouts, there are still great opportunities to purchase Chardonnay and Pinot Noir from the Santa Lucia Highlands, Arroyo Seco and other desirable locations in Monterey County.

Spring brought an abundance of much needed rainfall and the vines are loving it. It appears to be an average crop for Chardonnay and Pinot Noir, but the crop still needs to set before actually knowing the yield potential.

If the grape market for 2020 is similar to 2019, there may not be grape market activity until July/August as wineries make purchases for just-in-time inventory as bulk wine.

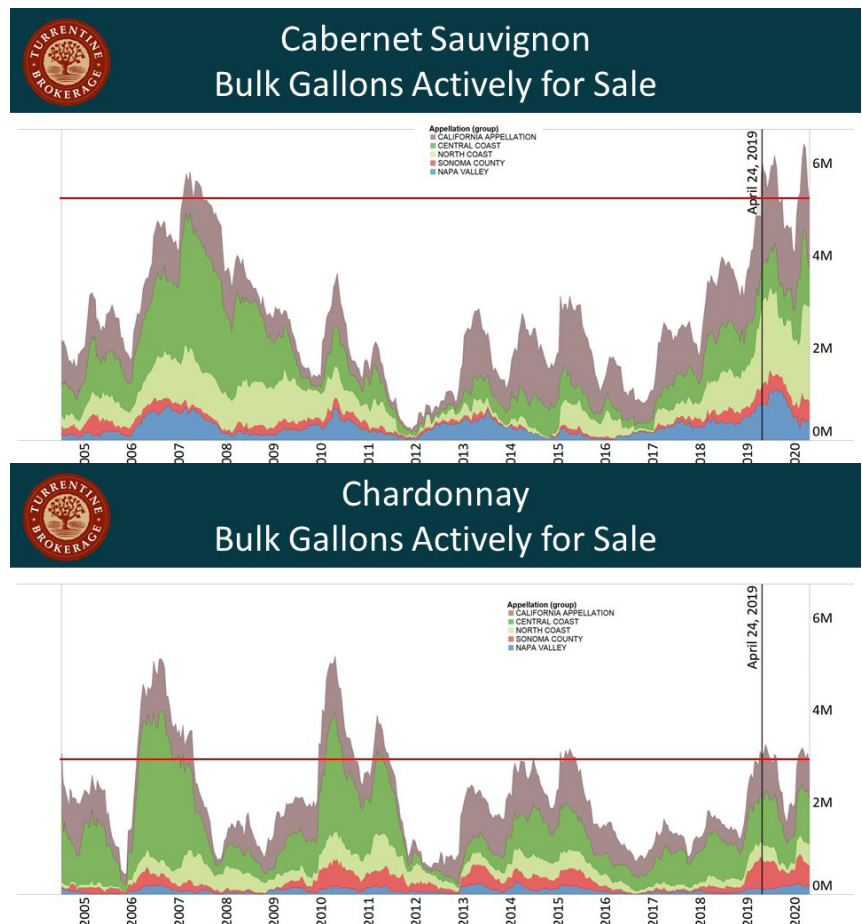
Bulk Wine Report

by the Turrentine Bulk Wine Brokers

Last year at this time, we reached our peak at 23.3M gallons from the state. This year, bulk gallons began to decrease from the peak of 21.3M gallons in mid-March, a bit earlier than last year, and continue to decrease for the year. Over the last two weeks, we have seen a reduction of 1M gallons listed as actively for sale and currently list 18.7M gallons.

Despite the flux in markets recently, activity has remained steady but many of our clients are monitoring depletions and waiting for additional indicators on demand for the year and inventories to balance out. Buyers have been most actively looking for Cabernet Sauvignon from many areas of the state and are becoming more opportunistic on price, motivated by prices sub-\$4.00 per gallon. While the markets for reds continues to move, the market for 2018 and 2019 white varieties, in large part, have quieted.

Buyers, in large part, are just-in-time buyers who are reactionary in filling needs. Some sellers, amid a riskier market are more motivated to sell at these lower prices while others have noticed the small boost in activity and are looking to hold on for higher prices. We encourage sellers to listen to all offers and not assume the price will increase. There will be wine that goes unsold and we do not want our clients to be in that position.



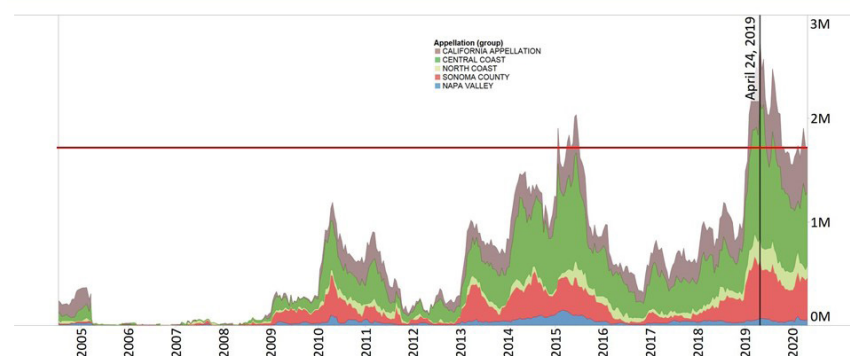
Wine	\$/gal.	Remarks
2018 and 2019 Cabernet Sauvignon Paso Robles	\$4 - \$8	Increased activity, but buyers are aggressive on offering price and deals getting done in this range
2018 Cabernet Sauvignon Napa Valley	\$20 - \$25	Supply is tightening, number of buyers have increased. Majority of buyers still holding to a \$20 - \$25 threshold with some smaller sub-appellated lots going for higher
2018 Cabernet Sauvignon California Appellation	<\$4	Sub-\$4 pricing is for 2-4+ truckload sizes
2018 Merlot California Appellation	<\$4	Sub-\$4 pricing is for truckload sizes
2018 Red Blenders California Appellation	<\$4	Sub-\$4 pricing is for 2-4+ truckload sizes
2018 and 2019 Cabernet Sauvignon Sonoma County	\$10 - \$20	Increased supply. Buyers are not as active as they are for Napa Valley 2018. Some excellent opportunities
2018 and 2019 Chardonnay Sonoma County	\$8 - \$10	There continues to be some larger volumes for sale and demand is fairly soft. Larger volumes could sell for less than the recent range.
2018 and 2019 Pinot Noir Sonoma County	\$10 - \$12	There continues to be some larger volumes for sale and demand is fairly soft. Larger volumes could sell for less than the recent range.

There are still large quantities of 2017, 2018 and 2019 vintage wine in the market, and it is already May with harvest fast-approaching. There could be storage concerns from sellers holding onto multiple vintages.

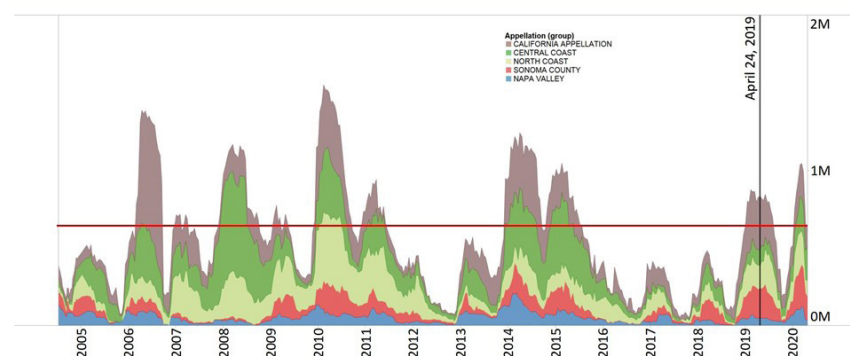
The market of selling wine for distillation typically ramps up each year as harvest approaches. In the current excess market, and with the current need for hand sanitizer, it has started earlier. Neutral grape spirits as a base for hand sanitizer is not the most cost competitive source of alcohol, but there have been deals done due to the higher demand. There is interest in wine for distillation material from small and large buyers. Our clients that are sourcing wine for distillation think the push to supply high-proof for hand sanitizer will not last much longer at the current margins. If you have less than 6,000-gallon volumes of older vintage wine, this could be a solution to release some older inventory and help contribute to the relief efforts, but that decision will need to be acted upon quickly as clients may likely have fewer options in the near future. There is not a high probability that there will be a need for dry red and dry white at the value-end for wine programs at a higher price for these older vintage wines.

We are all part of the same storm right now, but we are all trying to weather it in different ships. Again, we are working hard to validate, corroborate, and filter the information circulating the wine industry. Buyers and sellers with access to the best market information can have a tremendous advantage in today's marketplace, so give us a call to discuss your own unique situation.

Pinot Noir Bulk Gallons Actively for Sale



Sauvignon Blanc Bulk Gallons Actively for Sale



Turrentine on the Road

Vineyard Economics Symposium



May 6th via Webinar

Updates on the Grape and Bulk
Wine Markets

Presented by Steve Fredricks



Russian River Valley Winegrowers



Mike Needham & Marc Cuneo will be presenting their market update
this year for the Russian River Valley Winegrowers.

May 13th. Don't miss it!



Market Opportunities

Turrentine Brokerage is always working to find opportunities for companies in oversupply or need to buy. We believe firmly in a personalized approach tailored to each client's specific needs and unique position. Give us a call.

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