



Navigating Tough Times

By Steve Fredricks

We find ourselves in the middle of a challenging time for our industry and our individual businesses. If we here at Turrentine Brokerage have learned anything in our 47 years, it's that adaptation, evolution and change are constants. We pride ourselves on long-term focus, long-term relationships, and the big picture of our industry overall. We are confident our industry will continue to thrive.

We arrived at this perspective with the help of some wisdom from the transcript of a 1959 speech our founder Dan Turrentine gave to a crowd at the University of California, Davis. Dan was the head of the California Wine Advisory board at the time, and the room was packed. He told them, "In the wine industry, a revolution is in process. While much has been accomplished, much remains to be done." The recent accomplishments that he referred to included: the new adoption of wine styles, sterile filtration, improved bottling techniques, insulated stainless steel tanks, and new grape varieties.

Over time, all these steps laid the foundation for improved quality and increased consumer interest in wine.

I think of other lessons from the past, too—lessons that have taught me how we, as a brokerage, can evolve with the times. I am starting my 30th year at Turrentine. Brian Clements is starting his 30th harvest. When the two of us got started in the late 80s and early 90s, the industry was facing a challenging time to say the least. Some of the albatrosses: Negative press from sulfite and alcohol warning labels, Phylloxera, and lead capsule issues (to name a few). Still, we pulled through. Yes, there have been highs and lows for our industry. Yes, those tough times felt bleak. But the wine business always seems to evolve. Obstacles such as the wine market supply cycles, competition for quality, and outside forces are no match for our industry over time.



The current reality presents a new set of obstacles and hurdles. As has been the case throughout our history, the wineries and growers (and brokers) that adapt will survive and thrive. As a team, we at Turrentine Brokerage are learning every day and are committed to providing you with the best market information, service, and support possible. Turrentine Brokerage will make good on this promise not only today, but every day for the next 30 years. It is, no matter the circumstances, who we are at our core.

June 2020 was the most active June we have seen in some years. Most activity was caused by a combination of four unique market conditions:

- 1) Lower asking prices for bulk wine and grapes,
- 2) Increased inventory of quality grapes not available in recent years,
- 3) Wineries in a shorter inventory position due to work in previous years to reduce excess, and
- 4) Unforeseen retail sales growth of off-premise brands following the shelter-in-place orders.

There also were new buyers coming into the market to take advantage of opportunities (cautiously). Wineries focused in the on-premise market are continuing to find a way to grow sales in DTC and/or retail, but sales trends were not as favorable as they were for major established off-premise retail brands. Despite the increased activity in June, it will still be a challenge for all grapes or bulk wine to sell this year. We believe prices are not likely to increase.

We are now well into July, which means berries are sizing and coloring, and wineries are updating crop projections, weighing current inventories to sales rates, and assessing sales projections to drive bulk wine and grape decisions for the rest of the year. Projections for cased goods wine sales are difficult in any year, and there are many additional complicating factors this year. (That's putting it mildly.)

It is increasingly difficult to catch a buyer's attention and have it result in an offer. Sellers of bulk wine and grapes must be able to compete on price, quality, and other determining factors. Gone are the days, at least for now, of "my grapes have always sold at above district average price." Furthermore, quality will help you get an offer, but it may not bring a price premium. In fact, quality will not be the only factor that gets a seller an offer. Call us to help you look at all of your sales factors and to put those factors to work by listing your grapes or bulk wine with us.

Grape Market Report

North Coast

by Mike Needham

The North Coast vineyard timing is about one week ahead of where it was a year ago at this time for most varieties. The crop for earlier-blooming varieties such as Chardonnay and Pinot Noir is looking average at best from what we are seeing and hearing. The later-blooming varieties such as Cabernet Sauvignon saw rain at the beginning of bloom and then a heat wave to finish. That means that depending on whom you talk to, the crop for Cabernet Sauvignon generally looks smaller than a year ago. Also, there are some reports of shot berry and shatter here and there.

Buying activity has been slower than it was a year ago—along with most everything else in the world economy—and most all grape deals closed to date have been between parties who have worked together in the past. In addition, most re-sign activity has been at lower prices and extending the length of existing contracts. We are just starting to hear from wineries about the possibilities of coming into the market for new supply, but most buyers are still trying to clarify needs from marketing and sales departments, which is not an easy task in the current environment.

We understand there is a lot of anxiety for buyers and sellers in this market. Sellers are hoping to get the best price possible and buyers are cautious about contracting additional fruit with so much unknown in the world right now. Meanwhile, harvest is approaching rapidly. We are doing our best to bring opportunities to both

buyers and sellers. We have grapes available from reputable vineyards in all regions, including some fruit that normally is difficult to purchase.

Interior/Monterey

by Erica Moyer

Value brands, not crop size, are driving the market. The crop in Lodi/Delta and San Joaquin Valley looks a little lighter than it did at this time last year due to fewer clusters and smaller bunches in older vineyards. That said, some of the region's younger vineyards look healthy. Harvest is rapidly approaching, and harvesters will be in the field picking for sparkling programs. Pinot Grigio will be next.

One year has made a huge difference in the world of off-premise sales, where in 2020 this market segment has benefited the value brands significantly. We have moved more grapes this year to date than we moved during 2019 in the San Joaquin Valley and Northern Central Coast on multiyear contracts. Grape prices are reflective of the growing off-premise retail value brand segment comprising bottles priced at \$10 and below, box brands, coolers, and seltzers.

Among the varieties making a comeback are Pinot Grigio and some of the florals, followed by Cabernet Sauvignon, Merlot, Syrah, and Central Coast Pinot Noir. In the category of varieties trying to make a comeback are Petite Sirah, Petite Verdot, and Zinfandel. The limited demand for Chardonnay is a head-scratcher. We had early re-sign activity for Chardonnay, but there are still tons available in Lodi/Delta and Monterey County. There are fewer tons available overall in the San Joaquin Valley this year than last year at this time.



Central Coast

by Audra Cooper

The 2020 crop has been hit-and-miss: Some vineyards have recorded above-average cluster counts and good set, while others look average or light. If we were to wager money on the Central Coast crop our money would be on average, but please keep in mind that “average” is larger today than it was a decade ago. With the moderate weather we have seen throughout the Central Coast, we may see decent sizing. Based on current levels of demand, even if the crop is light, it is very unlikely we will see a shift in the 2020 grape market.

The general market continues to be oversupplied across many varieties. Some items such as Sauvignon Blanc; sought after higher-quality Cabernet Sauvignon, Zinfandel, and Pinot Gris; and a few niche items are becoming more limited as buyers have been slowly picking away at these items since the beginning of the year. There also has been limited demand for white floral varieties in larger quantities. Recent demand has been created by the trend of increasing off-premise sales of large value programs. For now, we may see demand taper off as wineries re-evaluate crop, current sourcing inventory, sales, and other operational costs.

We continue to see availability of grapes increase, as sellers feel the pressure of harvest on the horizon and they

begin to realize that past buyers may not come back for re-signs. We have also continued to see wineries placing grapes for sale on the open market in an attempt to reduce their 2020 inventory, but when compared to 2009 when the Financial Crisis of 2008 finally impacted the grape market, this dynamic is small in comparison. Unlike the recession years where grape prices crashed, we are seeing a price compression happen with all transactions where the low-end of the price range has come up and the high-end of the range has come down. Generally, this still means lower prices for grapes, but it is a sign of slight market improvement from 2018 and 2019.

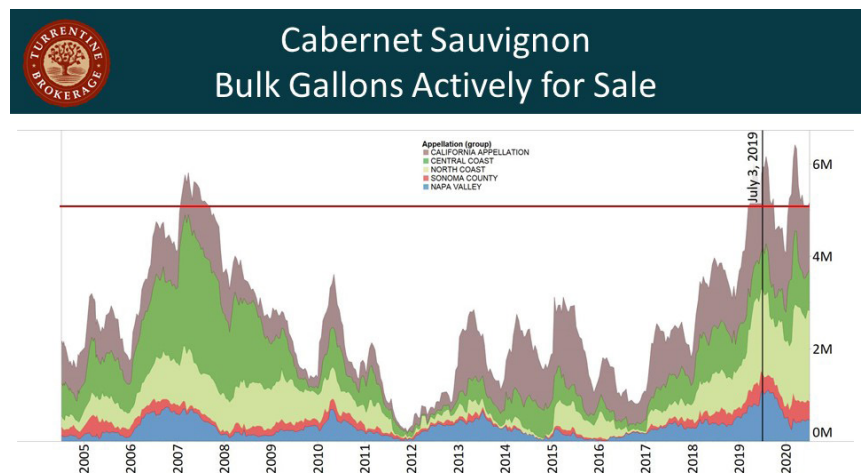
Bulk Market Report

by the Turrentine Bulk Wine Brokers

June 2020 was a busy month and we have moved more wine than last year, but prices have diminished from motivated sellers. The larger-volume deals appear to be concluding as wineries prepare for harvest. We already have noticed a reduction in demand as we transitioned to July, and we expect the market to remain slower through harvest. The majority of buyers are likely to be négociant buyers driven with a portfolio leaning towards off-premise brands and private-label wines. Again, please take a long look at any offer that comes your way, since it may very well be the only offer you'll get before harvest starts, and prices are not likely to increase.

Cabernet Sauvignon

Activity in the Cabernet Sauvignon marketplace is dependent on region and vintage. Cabernet Sauvignon from all regions priced from below \$6.00 is most in demand, followed by reasonably priced Napa Valley and Paso Robles. Currently, there are generally two price points: Napa Valley is seeing moderate activity at \$19.00 to \$25.00 per gallon for regular-quality wine, while every other region is getting a form of California Appellation pricing at \$1.75 to \$6.00 per gallon for larger lot sizes. Select smaller lots of high-quality wines from Alexander Valley, Paso Robles, and northern interior Cabernet Sauvignon are getting higher prices, too.



Buyers are transitioning to the 2019 vintage lots. At the same time, and it's getting progressively difficult to move older-vintage lots of 2017 and 2018 Cabernet Sauvignon from all regions. Put differently, this means that more than half of the Cabernet Sauvignon still available is in the process of transitioning to an older or outdated vintage. For example, of the 2 million gallons of North Coast Cabernet Sauvignon available currently, 1.1 million gallons are 2018 vintage or older. That means a significant amount of wine still needs to find a home.

Pinot Noir & Chardonnay

The markets for both Pinot Noir and Chardonnay have been slow in the first half of 2020. Especially the market for Chardonnay. While some sellers have moved gallons recently, these mostly have been cleanup deals. The most active region for both has been the Russian River Valley, with Pinot Noir pricing stabilizing at a mid- to low-teens price and Chardonnay at a mid-to-high single digit price. But buyers are still limited.

In order to move additional bulk Chardonnay and Pinot Noir wine between now and harvest, sellers will need to drop offering prices to intrigue buyers, or they will need to consider offloading wine as a distillation material. Carrying over the 2019 vintage into next year is an option, as well, though we don't recommend this approach as there are additional storage costs associated with doing it (and not much hope of raising the price for dated vintage wines). Most buyers will not put much thought into 2019 Chardonnay once the 2020 wines are available. Again, your next offer is likely to be your best and final offer.

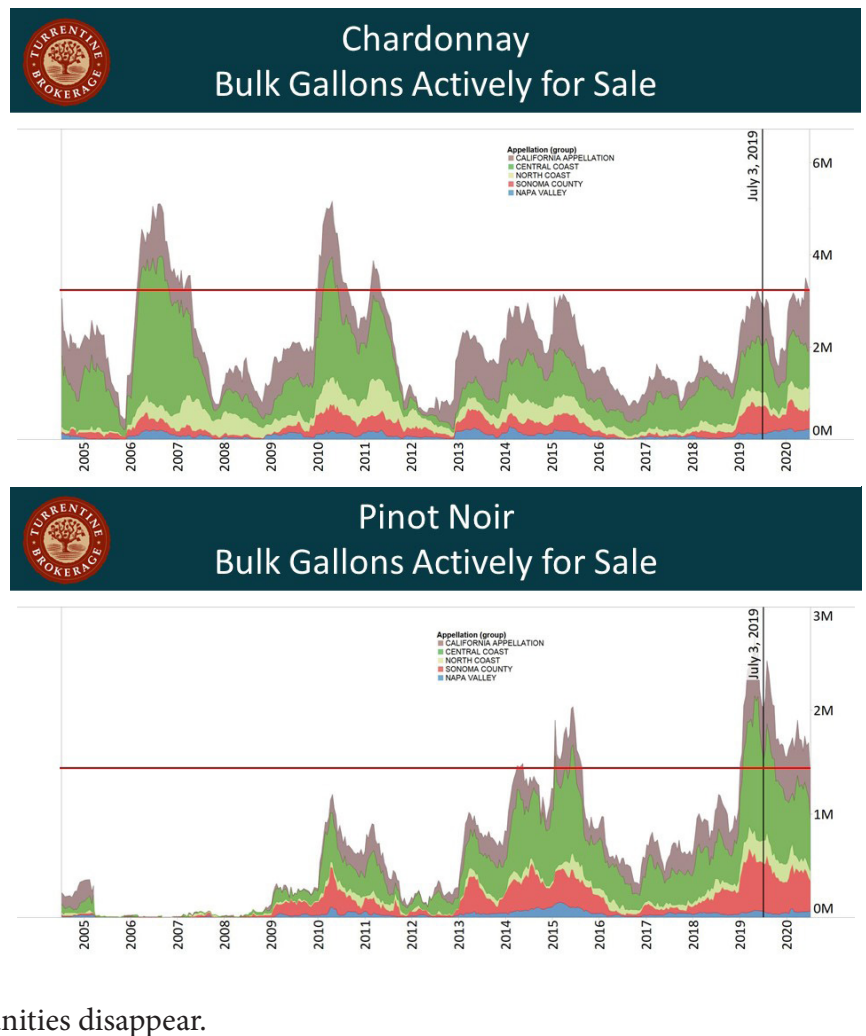
As an aside, this may be the month before harvest to try and offload supply at low prices or via distillation material to free up space. Distillation material opportunities are first-come, first-served and the prices there have been decreasing, too. Once the distillers start harvesting grapes, they are usually no longer receiving wine. Regardless of how you plan to clear space before harvest, we suggest acting fast before opportunities disappear.

Conclusion

As stated earlier, we at Turrentine Brokerage are committed to continually providing you the best market information, service, and support—not only today, but also for the next 30 years.

There's no question that sales and supply projections are difficult right now. There has been a significant change to when and where a consumer will consume. Those companies that can produce a quality product while meeting highly fluctuating demand will emerge from the current crisis.

The rest of 2020 may not be easy. Supply still outweighs demand, but we are moving through the cycle, and find ourselves in a different place today than we were at this time last year. As such, we are optimistic about the future.



Turrentine on the Road



Central Coast Insights

Central Coast Insights August 26th

Updates on the
Grape and Bulk
Wine Markets

Presented by Audra Cooper
& William Goebel



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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