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A PHENOMENAL SUCCESS -by Bill Turrentine



In the mid-1990s, we worked with the management team of a winery which had sold off their large volume, low cost brands and were refocusing on mid and high-end brands. This left them scratching their heads about what to do with all of their processing capacity. They considered the obvious route of providing processing for other brands but margins on processing were low and they wanted to somehow leverage their strong winemaking team and their excellent grape and bulk wine brokers (begins with "T" and rhymes with "wine"), as well as taking advantage of a market that was beginning to shift from excess to shortage. They made the bold move of contracting enough grapes to supply about 125% of their projected casegood sales. Some of this excess production they sold in bulk by pre-season contract and the rest

was sold on the spot market. They speculated especially on Chardonnay, which was then the hottest item, and they also made high quality blending wines for Chardonnay, some barrel-fermented or made with the newly available oak adjuncts. Their wine making team was incentivized to work closely with their broker and with potential bulk buyers to make blends that worked for each individual client.

This program was a phenomenal success:

- It enabled them to experiment with different vineyards and to tie-up grapes that they would need in the future
- It allowed the winemakers to pick and choose from among multiple lots for use in their own blends

- If the sales and marketing folks exceeded sales projections (and they did) the production team already had more wine available in-house
- Buyers were generally willing to pay a premium because the wines were better than most of the other wines available in bulk
- The project was highly profitable and it allowed them to upgrade their facility with a minimum of debt

If this management team benefited from good planning and insightful advice, they also had good timing. As it turned out, consumers began trading up aggressively and supply became very short. The winery began to make some astounding margins on their bulk sales, sometimes exceeding the margins on their casegoods but with much faster turnover. By the time the market softened in the year 2000, the winery's own brands had grown enough that they needed most of the winery's processing capacity and the winery began phasing out the bulk wine business.

Many people think the key to wine business success is all on the marketing side and that the supply side of wine is as simple as nuts and bolts. The point here is that thinking strategically about the constantly changing supply side can be worth millions of dollars. If you would like to discuss how to identify and leverage your supply side assets in today's market, call the brokerage team that starts with "T" and rhymes with "wine."

2015 CROP UPDATE

NORTH COAST

Mike Needham, North Coast Grape Broker

The 2015 season started very early due to above average temperatures. Since then, temperatures have cooled a bit and we are currently tracking pretty similar to last year. It looks like harvest will still start earlier than normal (whatever normal means), but not as early as it appeared earlier this year.

A major change from the last few seasons is that the crop size is very erratic due to the cold spell during bloom resulting in a lot of shot berry and shatter. For the most part, the affected varieties are those that went through bloom later and in some areas bloom extended for nearly a month. Cluster counts are above average this year, but due to the poor set and variability from vine to vine; it is hard to quantify an average cluster weight on these vineyards and make a good yield per acre estimate.



Led by the continuing demand for Cabernet Sauvignon, the grape market in the North Coast is currently waking up for certain varieties/areas as buyers are realizing that the crop potential is not what it once was. Overall, we have fewer grapes actively for sale this year than the last couple vintages. Most of this is a function of the longer-term contracts signed since 2012, when the market became extremely short in the North Coast.

This has been a challenging year for growers with varieties that are susceptible to mildew and rot. This latest weather pattern of high humidity is not helping that cause. We can help buyers navigate their way to fruit clean from mildew and rot.

Even if you are unsure of your needs, still call us early to be updated on the opportunities so you won't miss out on the right grapes for your price point. Don't be the last to call.

CENTRAL COAST

Audra Cooper, Central Coast Grape Broker/Partner

Erica Moyer, Interior & Monterey County Grape Broker/Partner

Over the weekend of July 18th, the remnants from hurricane Delores left a dusting of showers in Monterey County. In contrast, Paso Robles received an average of 2" and up to 3.5" of rain to Paso, just below 2" in Edna Valley, and a little less in Santa Barbara County. While the rain was welcome, growers and wineries in San Luis Obispo and Santa Barbara County are concerned about botrytis and mildew, at least for the short-term. In District 7, primarily Monterey County, the cool and gloomy weather during bloom brought the likely yield per acre for Pinot Noir down significantly compared to 2013 and 2014. At this point, we have completed a number of deals for the grapes for sale and have limited quantities still available. Chardonnay is also projected to be lighter than 2014 and there are limited amounts still available, mostly in the 'warmer' regions within Monterey County.

The overall crop in Paso Robles is lighter than last year. Cabernet Sauvignon projections are for yields per acre to be least 30% to 40% below an average crop, with some vineyards being off as much as 50%. Yield per acre on other varieties such as Petite Sirah, Merlot, and Sauvignon Blanc are expected to be below average as well—and Sauvignon Blanc could be off by as much as Cabernet Sauvignon. The market for Cabernet Sauvignon and Sauvignon Blanc are active; however, beyond those varieties, market activity dramatically moderates. There is still supply of most varieties, however, as the crop size continues to be realized, deals are being made, and the supply becomes smaller every day.

The Pinot Noir and Chardonnay crops in Santa Barbara County are smaller than we have seen them in the past few years. Currently, the crop looks average at best; however, there is still time for sizing. Chardonnay berries are softening up and veraison in Pinot Noir is up to 90%. The market for Santa Barbara County Chardonnay and Pinot Noir is moderately active and supply is limited, particularly when it comes to the number of choices a buyer has. All other varieties in Santa Barbara County have limited supply, but also limited demand. If you have potential needs, let us know as early as you can.

SAN JOAQUIN VALLEY

Erica Moyer, Interior & Monterey County Grape Broker/Partner

Harvest began the week of July 13th in the southern interior for the early varieties; however, grape harvest was postponed over the weekend of July 18th due to rainfall from tropical system Delores. Parts of Kern County, received anywhere from 0.75" to 2.00" of rainfall. The week has begun with high humidity and high temperatures, which is not good for thin skinned varieties such as Pinot Grigio and Chardonnay.

LODI/DELTA

Erica Moyer, Interior & Monterey County Grape Broker/Partner

Harvest will begin the week of July 20th in Lodi and the Delta for Pinot Grigio and Sauvignon Blanc. Shatter and shot berry have resulted in challenges for sizing in various vineyards and varieties, especially Cabernet Sauvignon. However, Chardonnay and Pinot Grigio appear to be sizing. There is a distinctive difference in yields between older vineyards and the newer vineyards coming into production. The question will be whether the increased yields in the younger vineyards will offset the lower producing older vineyards.

Buyers have yet to react to this uncertainty, but we do have fewer tons actively for sale of Chardonnay and Cabernet Sauvignon along with Malbec, Petite Sirah, Petit Verdot, Grenache and Mourvedre, but demand is also softer. Let us know soon so we can match you up with the best quality grapes while they are still available.

BULK WINE MARKET UPDATE

Marc Cuneo, Bulk Broker

The inventory of bulk wine actively for sale has remained fairly consistent over the last twelve months. Some of the good volumes of holdover 2012 and 2013 wines that have been a drag on the market have been moving to DM or to a few bargain buyers, but there are still some gallons dragging on the market. Sales of 2014 wines have been consistent for wines out of the northern interior and the coastal regions for smaller volumes targeted for premium programs. Red wine and Pinot Grigio continue to be the focus of buyers. With the 2015 harvest approaching, sellers are more motivated to move wine than they have been leading into the 2013 and 2014 harvest and are looking at all opportunities. The challenge is that due to the soft consumer demand for wines priced under \$7.00 per bottle and three large harvests in a row, there continues to be a lack of demand for large volumes at the value-end, which normally cleans up the market.

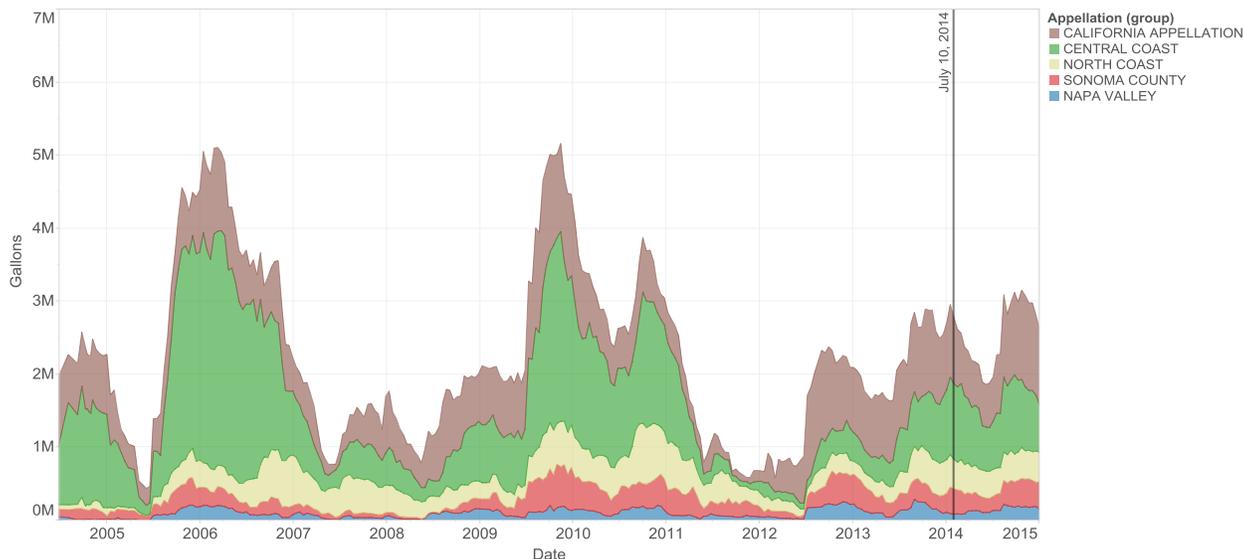
CHARDONNAY

Steve Robertson, Bulk Broker/Partner

Demand for Chardonnay in bulk remains relatively soft and continues to be especially slow at the value-end. Buyers have still been quality focused, sourcing smaller quantities for just-in-time bottlings and have continued to come back to the market throughout the season for more wine. Some demand has recently increased for coastal and Sonoma County lots from buyers looking for quality at a bargain price. If they do not find what they want, they may wait and see what happens with the 2015 harvest. Recent sales for California appellation wines have been between \$4.50 and \$5.50 per gallon, but for smaller quantity lots. Recent sales of Central Coast lots have ranged from \$6.00 to \$11.00, and Sonoma County lots have sold between \$10.00 and \$14.00 per gallon.

The most recent crop projections have not yet affected the bulk market for Chardonnay throughout California. There are still opportunities for good quality wines at fair prices.

Statewide Chardonnay Bulk Gallons Actively for Sale



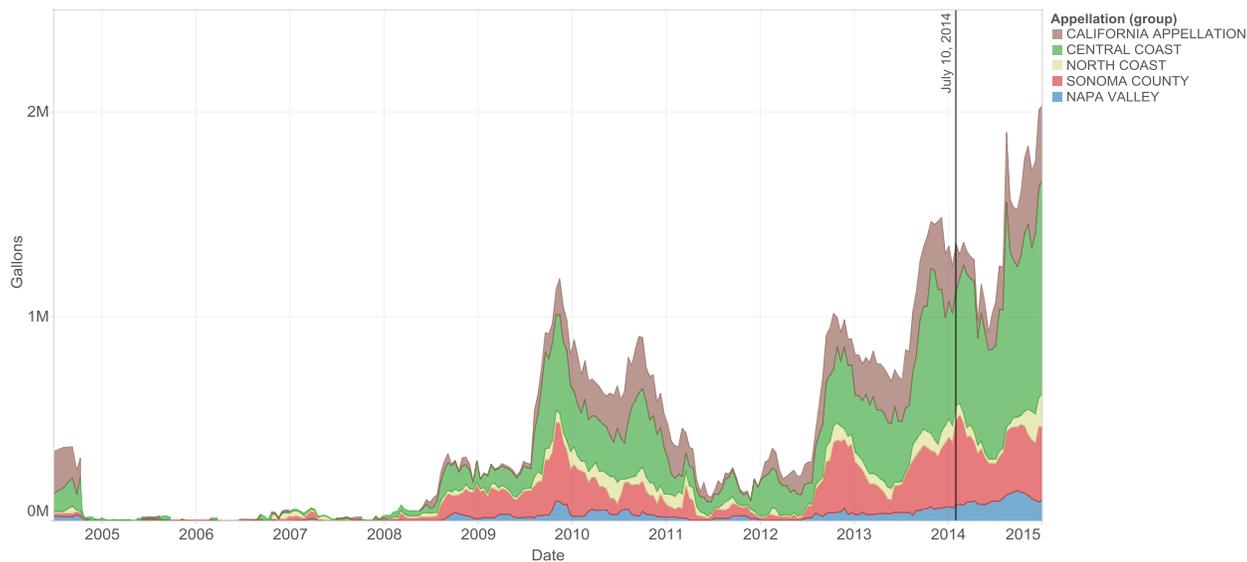
PINOT NOIR

William Goebel, Bulk Broker

In the last 60 days, we have completed several deals for Pinot Noir, all of which were 2014 vintage and mostly for Sonoma County appellations. There has been moderate demand for interior lots, and buyers are focused on quality, not volume—but quality has not been at a high enough level to facilitate sales. Recent sales have been around \$6.50 per gallon. For Central Coast lots, there continues to be a lack of demand for opportunistic, large volumes, but there has been demand for smaller, luxury lots. As harvest approached we have seen a deal or two for some Central Coast lots at less than \$10 per gallon to clear out tank space. Gallons actively for sale of Central Coast Pinot Noir are similar to last year, but this volume still includes some 2012 and 2013 vintage lots. Recent sales for smaller, quality lots of Central Coast wines have been between \$12.00 and \$16.00 per gallon. Due to the lower crop projections for 2015, we may see an increase in activity on these wines. In Sonoma County, recent sales have ranged from \$13.00 to \$18.00 per gallon depending on quality and lot size. We have not yet seen an uptick in demand for Sonoma County lots after the updated crop projections.

We predict a market with consistent sales through harvest. Please be proactive and keep in touch with us if you have any specific needs, and don't assume that buying activity will be slow through harvest.

Statewide Pinot Noir Bulk Gallons Actively for Sale



CABERNET SAUVIGNON

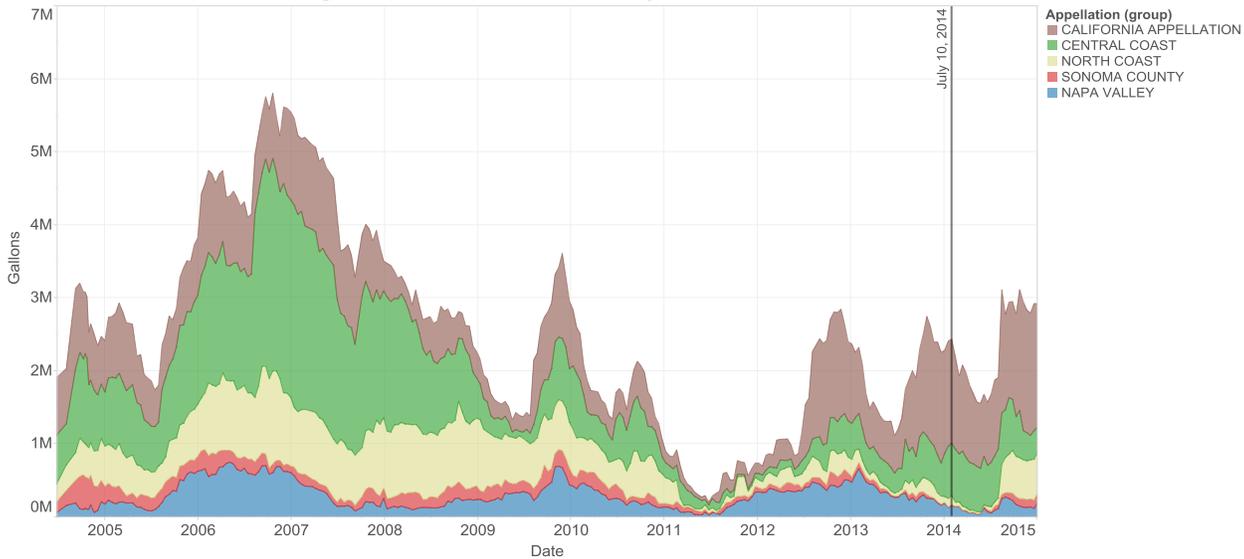
Neil Koch, Bulk Broker

Demand for coastal Cabernet Sauvignon has remained strong, especially for Napa Valley and Sonoma County lots. Continuing the trend from the 2013 vintage, recent sales of Napa Valley lots have been between \$28.00 and \$40.00, and Sonoma County lots are selling between \$20.00 and \$25.00 per gallon. For 2014 Lake County and Mendocino County, there has been an expectation gap between buyers and sellers this season keeping the market stagnant. Buyers are looking to pay less than last year, offering in the low teens, while sellers had been holding firm to last years' prices, countering in the high teens. Unlike 2013 vintage wines, there are opportunities for volume for 2014 wines at fair prices. Due to increased prices over the last few years and three relatively good crops on increasing acres, buyers are currently feeling good about inventory levels and seem to not be as interested in sourcing volume as they are in moderating price to remain competitive.

In the interior, demand remains quality focused for smaller volumes as buyers wait on the sidelines for the outcome of the 2015 harvest. Recent sales of Lodi appellation wines have been in the \$5.50 to \$7.00 per gallon range for truckload quantities.

For Central Coast lots, demand has been stronger this year—especially for Paso Robles appellation wines with recent deals between \$10.00 and \$14.00 per gallon. Most likely this market will continue to be active due to the 2015 crop projections. *Read the Grape Market Update in the following section for more information.* Please be proactive with your potential needs and contact us so we can keep you updated on any market changes.

Statewide Cabernet Sauvignon, Bulk Gallons Actively for Sale



In summary, for the bulk market, changes happen faster than people ever think they will. The best way to not be caught without the quality or volume you need is to let us know what you might have for sale or might need as soon as possible. We will then be better able to keep you informed.

TURRENTINE ON THE ROAD



Turrentine Brokerage is a proud sponsor of the California Association of Winegrape Growers Annual Meeting this month.



THE WINE INDUSTRY SYMPOSIUM GROUP

Turrentine's Steve Fredricks and Marc Cuneo will be speaking at the 24th Annual Wine Industry Financial Symposium hosted by The Wine Industry Symposium Group on Tuesday, September 22nd.

The event will be held at the Napa Valley Marriott. Mark your calendars.



TAKE A PEEK at Issue 15 of the Turrentine Outlook

Check out an excerpt of this year's publication and see what you might be missing. **The Turrentine Outlook: Forecasts and Strategies for a competitive advantage** is published each year in June, providing unique insight into the supply dynamics of grapes and bulk wine. Go to www.turrentinebrokerage.com and click on the Turrentine Outlook cover.

GRAPE MARKET OPPORTUNITIES

AVAILABLE

- > Paso Robles Petite Sirah: 30 tons
- > Paso Robles Syrah: truckload quantities
- > Santa Barbara Grenache: truckload quantities
- > Paso Robles Cabernet Sauvignon: limited quantities
- > Santa Maria Valley Pinot Noir: 3 truckloads
- > Colusa County Pinot Noir
- > Lodi & Brentwood Malbec
- > Clarksburg Chenin Blanc
- > Eastern Contra Costa County, Grenache, Petite Sirah & Mourvedre
- > Oakdale - District 12, Petite Sirah & Petite Verdot
- > Lake County Sauvignon Blanc
- > North Coast Merlot
- > North Coast Cabernet Sauvignon



NEEDED

- > Coastal Pinot Grigio: truckload quantities

BULK WINE MARKET OPPORTUNITIES

AVAILABLE

- > 2013/2014 CA/Lodi Cabernet Sauvignon: 56 lots
- > 2014 Sonoma County Cabernet Sauvignon: 12 lots
- > 2014 North Coast Cabernet Sauvignon: 40 lots
- > 2014 Central Coast Chardonnay: 26 lots
- > 2014 Central Coast Pinot Noir: 49 lots
- > 2013 CA/Lodi Zinfandel: 33 lots
- > 2013/2014 Central Coast Merlot: 36 lots

NEEDED

- > 2013/2014 Napa Valley Cabernet Sauvignon: 1/2 load size +
- > 2013/2014 CA/Lodi Petite Sirah: load sizes +



BULK WINE BROKERS	GRAPE BROKERS
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<p>Marc Cuneo (707) 217-1369 Broker, Bulk Wine <i>North Coast, Interior & International</i></p>	<p>Audra Cooper (805) 400-9930 Broker/Partner, Grapes <i>Central Coast</i></p>
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