January 24, 2018
8:30 am – 11:00 am

State of the Industry

Mario Zepponi, Zepponi & Company, California
Wine Industry Trends Impacting M&A

January 24, 2018

Mario Zepponi
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Industry Expertise
- Global beverage alcohol merger and acquisition advisory firm
- Pre-transaction valuation and strategic advisory services

Transaction and Advisory Services
- Industry specialists in transactions involving:
  - Wine, beer and spirits brands
  - Distribution companies
  - Agricultural and production assets
- Strategic business and succession planning advisory services

Transaction Objectives
- Understand client’s motivations, goals and expectations
- Evaluate and define strategic options to maximize value of assets
- Creativity in negotiating and structuring transactions
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I. Zepponi & Company

II. Wine Industry Trends Impacting M&A

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II. Wine Industry Trends Impacting M&A

- Experimentation
- Premiumization
- Sourcing Realignment
- Consolidation
II. Experimentation – It’s a Bigger World than Wine

Beer and Spirits

Cannabis
II. Experimentation – It’s a Bigger World than Wine

Beverage Alcohol Year-over-Year Consumption Growth, 2011 - 2016

Source: IMPACT DATABANK

<table>
<thead>
<tr>
<th>Year</th>
<th>Wine</th>
<th>Beer</th>
<th>Spirits</th>
</tr>
</thead>
<tbody>
<tr>
<td>2011</td>
<td>3.6%</td>
<td>-1.2%</td>
<td>-2.6%</td>
</tr>
<tr>
<td>2012</td>
<td>3.3%</td>
<td>0.5%</td>
<td>1.1%</td>
</tr>
<tr>
<td>2013</td>
<td>3.0%</td>
<td>0.3%</td>
<td>0.3%</td>
</tr>
<tr>
<td>2014</td>
<td>2.1%</td>
<td>-0.2%</td>
<td>0.3%</td>
</tr>
<tr>
<td>2015</td>
<td>1.6%</td>
<td>0.4%</td>
<td>0.5%</td>
</tr>
<tr>
<td>2016</td>
<td>2.0%</td>
<td>0.9%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>
II. Experimentation – It’s a Bigger World than Wine

On-Premise: Restaurant wine sales continue to struggle for momentum

Source: Restaurant Performance Index (RPI), 2007 - 2017
II. Experimentation – It’s a Bigger World than Wine

Cannabis: Beer recently underperforming in legal cannabis markets

Year-over-Year Change in Beer Volume

-1.2% 2.1% 0.7% 0.5%
0.4% -0.1% 0.4% 0.5%

2013 2014 2015 2016

Source: Cowen and Company, The Nielsen Company (xAOC WA/OR, Liquor-Only CO)
II. Experimentation – It’s a Bigger World than Wine

Constellation: Diversifying to adjust to consumers’ desire to experiment

Spirits

Cannabis

Wine

Craft Beer
II. Premiumization – The Desire for Better

U.S. Wine Year-over-Year Growth by Price Segment
(Retail Dollar Volume)

Source: Nielsen Food/Liquor, 52 weeks ended December 2, 2017
## II. Premiumization – The Desire for Better

**M&A Activity: A comparison between yesterday and today**

<table>
<thead>
<tr>
<th>Mid-2000’s</th>
<th>Today</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Constellation Brands</strong></td>
<td><strong>THE PRISONER WINES COMPANY</strong></td>
</tr>
<tr>
<td>($7 - $9 retail)</td>
<td>($&gt;20 retail)</td>
</tr>
<tr>
<td><strong>E&amp;J Gallo Winery</strong></td>
<td><strong>MEIOMI</strong></td>
</tr>
<tr>
<td>($5 - $7 retail)</td>
<td>Coastal California Wines</td>
</tr>
<tr>
<td><strong>THE WINE GROUP</strong></td>
<td><strong>ORIN·SWIFT</strong></td>
</tr>
<tr>
<td>($7 - $10 retail)</td>
<td>TALBOTT VINEYARDS</td>
</tr>
<tr>
<td><strong>BIG HOUSE WINE COMPANY</strong></td>
<td><strong>BENZIGER FAMILY WINERY</strong></td>
</tr>
<tr>
<td><strong>CARDINAL ZIN</strong></td>
<td>($15 - $25 retail)</td>
</tr>
<tr>
<td><strong>BAREFOOT</strong></td>
<td></td>
</tr>
</tbody>
</table>
II. Premiumization – The Desire for Better

Gallo signals long-term commitment to premiumization
<table>
<thead>
<tr>
<th>Date</th>
<th>Target</th>
<th>Acquirer</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>November 2017</td>
<td>Colgin</td>
<td>LVMH</td>
<td>Napa complement to luxury Bordeaux holdings</td>
</tr>
<tr>
<td>June 2017</td>
<td>Schrader</td>
<td>Constellation Brands</td>
<td>Extract greater margins from To Kalon Vineyard</td>
</tr>
<tr>
<td>April 2017</td>
<td>OVID</td>
<td>Silver Oak</td>
<td>Luxury brand in price tier above Silver Oak</td>
</tr>
<tr>
<td>August 2016</td>
<td>Duckhorn</td>
<td>TSG Consumer Partners</td>
<td>Luxury Napa wine portfolio with scale</td>
</tr>
<tr>
<td>July 2016</td>
<td>Robert Hall</td>
<td>O’Neill Vintners &amp; Distillers</td>
<td>Coastal ultra-premium brand and facility</td>
</tr>
<tr>
<td>May 2016</td>
<td>Far Niente</td>
<td>GI Partners</td>
<td>Replicate proven strategy to scale luxury Napa brand</td>
</tr>
<tr>
<td>June 2016</td>
<td>ORIN SWIFT</td>
<td>E&amp;J Gallo Winery</td>
<td>Napa and California luxury brand portfolio</td>
</tr>
<tr>
<td>April 2016</td>
<td>Penner-Ash</td>
<td>Jackson Family Wines</td>
<td>Oregon luxury Pinot Noir brand and facility</td>
</tr>
<tr>
<td>April 2016</td>
<td>Patz &amp; Hall</td>
<td>Chateau Ste Michelle</td>
<td>Luxury Sonoma Chardonnay and Pinot Noir brand</td>
</tr>
<tr>
<td>April 2016</td>
<td>The Prisoner</td>
<td>Constellation Brands</td>
<td>Leading &gt;$35 Napa red blend brand with scale</td>
</tr>
<tr>
<td>January 2016</td>
<td>Diageo</td>
<td>Treasury Wine Estates</td>
<td>Portfolio of Napa-centric, asset-light brands</td>
</tr>
</tbody>
</table>
II. Sourcing Realignment – Simple Economics

California Coastal vs. Interior Average Grape Price per Ton

Source: USDA Grape Crush Reports (Table 6); simple average (unweighted)
II. Sourcing Realignment – Simple Economics

Premium Vineyard Values (Napa / Sonoma)

II. Sourcing Realignment – Simple Economics

Using brand acquisitions to improve alignment with existing sourcing channels

Grape Sourcing:
- Dist. Avg. ~$6,800/ton
- ($14 - $25)
- ($7 - $9)

Constellation Brands

- The Prisoner Wine Company
- ($14 - $25)

- Charles Smith Wines
- ($15 - $18)

- Franciscan Estate

- The Hogue Cellars

- ($7 - $9)

- Grape Sourcing:
  - Dist. Avg. ~$1,200/ton
II. Consolidation – Survival Tips

Pace of Grocery M&A has accelerated and likely to continue

Total 2016 U.S. Sales $625 Billion

Source: U.S. Census Bureau; Statista – Largest grocery chains in U.S. by retail sales (July 2017)
II. Consolidation – Survival Tips

With RNDC – Breakthru merger, Top Two will control >50% of wine market

<table>
<thead>
<tr>
<th>Top U.S. Wine and Spirits Distribution Companies</th>
<th>2017P Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Southern Glazer's</td>
<td>32%</td>
</tr>
<tr>
<td>RNDC - Breakthru <em>(Pending)</em></td>
<td>24%</td>
</tr>
<tr>
<td>Young's Market</td>
<td>5%</td>
</tr>
<tr>
<td>Remaining Distributors</td>
<td>39%</td>
</tr>
<tr>
<td>Total</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Shanken Impact Wine Report 2017
II. Consolidation – Survival Tips

How do independent wineries compete?

Direct-to-Consumer  Strategic Distribution
II. Consolidation – Survival Tips

Direct-to-Consumer – The great equalizer

**Colgin**

- DTC Sales: ~3,000 cases
- Avg. $/bottle: $550 (CS)/$315 (SY)
- Accolades: Up to 98 points

**Schrader**

- DTC Sales: ~5,500 cases
- Avg. $/bottle: $200 (CS)
- Accolades: Up to 100 points

**OVID Napa Valley**

- DTC Sales: ~2,000 cases
- Avg. $/bottle: $285 (CS)
- Accolades: Up to 95 points

**Kosta Browne Winery**

- DTC Sales: ~24,000 cases
- Avg. $/bottle: $60 - $90 (PN)
- Accolades: Up to 97 points
II. Consolidation – Survival Tips

Strategic Distribution – Prepare a focused channel and geographic plan

**BREAD & BUTTER**

NE Region ~2/3 total case depletions

- Off-Premise Independent: 65%
- Other: 35%
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Recent pace of M&A activity may result in more selective buyers

Transaction Activity: >$10 Million U.S. Wine Acquisitions
($ in millions)

Source: Zepponi & Company, press releases and SEC filings; does not include vineyard-only transactions
III. 2018 Forecast and Beyond

Premiumization will continue … until the next downturn

Excerpts from 2009 M&A Trends:

- “Downturn Caused by Economy, Not Wine Supply”
- “Premium ($3 - $7/Bottle Retail) and Super-Premium ($7 - $10/Bottle Retail) Categories Strong”
- “Value in Stable Consumer-Direct Sales Model”
- “U.S. Wine Consumption Continues to Grow”

Trends and topics to keep an eye on in 2018 and beyond:

- Continued influx of foreign investment
- California Central Coast, Oregon and Washington regions emerging importance for sourcing high-growth brands
- Retail bottle prices achieving better alignment with higher vineyard values and grape prices
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