

U.S. Wine Industry Update

Fall 2023



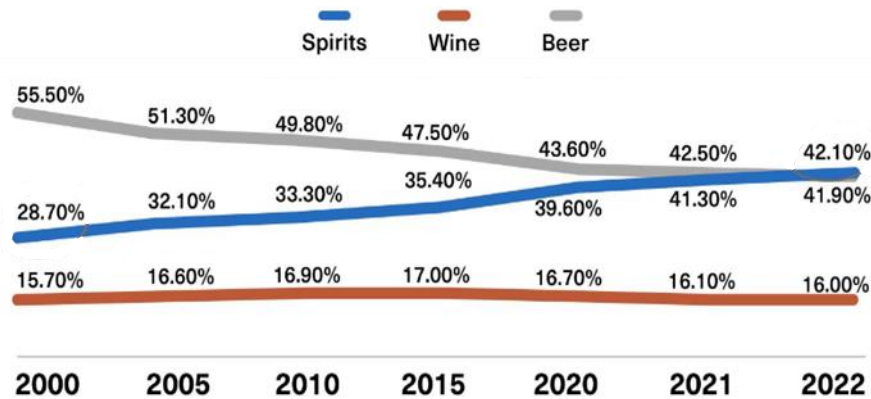
- 1 **U.S. Wine Industry**
- 2 Regional Market Analysis
- 3 M&A Market Update
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Note: Certain charts in this document are based on Nielsen xAOC data for the 52-week period ended September 9, 2023. For ease of reference, this period will be referred to as “2023”, while the previous 52-week period ended in September of 2022 will be referred to as “2022”.

1 U.S. WINE INDUSTRY – DEMAND TRENDS

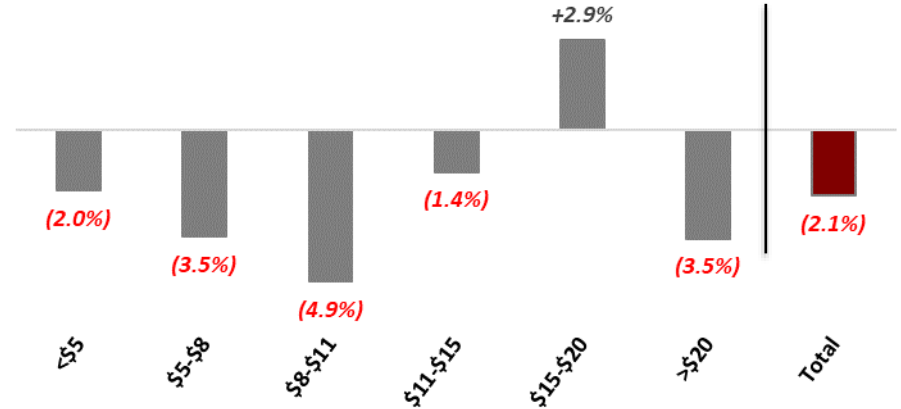
With wine consumption in the U.S. declining and total U.S. market retail sales trending down, wines in the \$15-\$20 price category are the only segment in scanned channels experiencing positive growth in 2023

Share of Beverage Alcohol Servings, 2000 – 2022



Source: Distilled Spirits Council – 2023 Annual Economic Briefing

2023 Off-Premise Wine \$ Volume Growth by Price Segment



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

- U.S. and global trends showing flattening total consumption and share of beverage alcohol servings for wine, with spirits continuing to gain market share as measured by share of servings
- In the off-premise market, total wine sales decreased 2.1% in the 52 weeks ended September 9, 2023 vs. the prior year period
- Still wine volumes are projected¹ to decline at a -3% compound annual rate through 2027, driven by factors including:
 - Substitution: younger drinkers experimenting with ready-to-drink (RTD), seltzer, cocktails, aperitifs, CBD-infused drinks, etc.
 - Moderation: low- and non-alcoholic beverages gaining favor with consumers looking to reduce/abstain from alcohol
 - Premiumization: consumers making fewer purchases, but at higher price points
- However, premiumization trend in scanned channels shows recent signs of moderating, with only mid-tier premium wines (\$15-\$20) growing in 2023, possibly indicating some trading down from the >\$20 price category
- M&A activity remains focused in the >\$20 per bottle segment to ensure proper portfolio diversification to meet continued consumer demand for premium offerings over the long term

Notes:

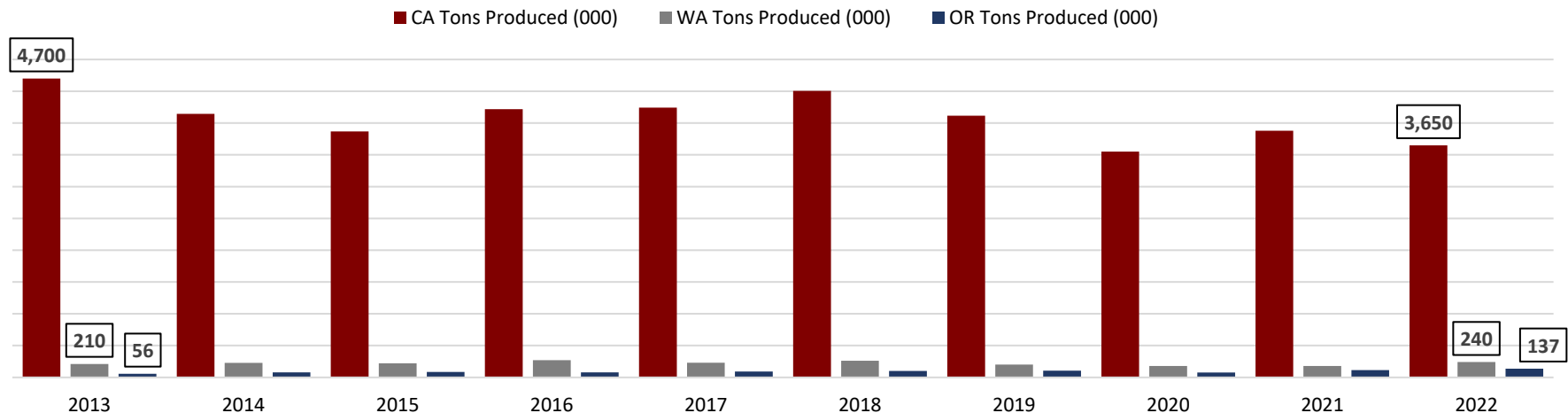
¹ Source: IWSR Drinks Market Analysis, 2023.

1 U.S. WINE INDUSTRY – SUPPLY TRENDS

Grape and bulk wine supply balance varies widely by state, with California and Washington being the most impacted by the current slowdown in U.S. wine sales

- California accounts for the overwhelming majority of grapes grown in the U.S., producing ~3.7 million tons in 2022
 - With wine shipments and depletions trending down in the U.S. market, California bulk wine inventories are continuing to run high
 - While the size of California's 2023 harvest is still unknown, there is nothing to suggest that it will be significantly smaller than normal, and late-season grape buying activity is reported to be sluggish
- Washington, the second largest grape growing region in the U.S., continues to be plagued by severe oversupply of grapes and bulk wine due to ongoing sales declines in many of the largest brands owned by Ste. Michelle Wine Estates (SMWE)
 - SMWE informed its growers in July 2023 that it will reduce its grape purchases by 40% over the next five years
- Oregon finds itself in a more balanced situation due to favorable long-term demand trends for its wines combined with the state's relatively small supply base: ~45,000 planted acres, approximately the same planted acreage as California's Napa Valley

CA, WA, and OR Grape Tons Crushed 2013 – 2022 (Tons in 000's)



Sources: Oregon Winery and Vineyard Reports, CDFA Grape Crush Report, WSWC Grape Crush Report

The last few years have seen a number of major transactions, as well as a broadening of the industry's liquidity options through increased public offerings and private equity activity

IPOs/SPAC Mergers

DUCKHORN
VINEYARDS

NYSE IPO

VWE
VINTAGE WINE ESTATES

SPAC merger



Small cap IPO

Mega-Deals (> \$200 million)

FRANK FAMILY
VINEYARDS

Purchased by Treasury
Wine Estates

JOSEPH PHELPS
VINEYARDS

Purchased by LVMH



Constellation
Brands

Low-end brand portfolio
purchased by E&J Gallo



Purchased by Delicato
Family Vineyards

Private Equity Transactions



Purchased by
Sycamore Partners



Investment by APAX
Partners



RACK & RIDDLE

Investment by
SBJ Capital

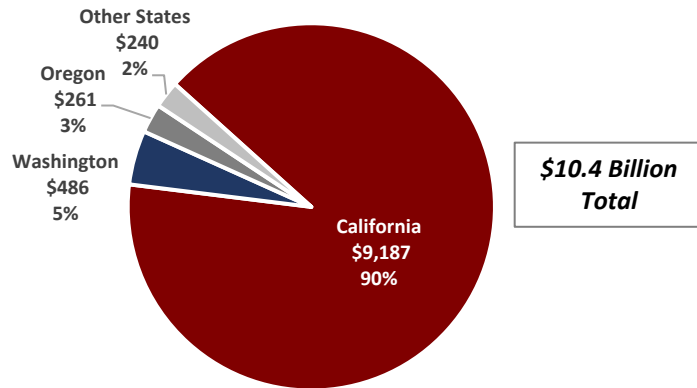
NW WINE CO.

Purchased by
Casparian Partners

- ① U.S. Wine Industry
- ② **Regional Market Analysis**
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California, Washington, and Oregon wines all experienced negative growth rates in off-premise scanned channels dollar sales in 2023, with Oregon maintaining its substantial lead in average pricing

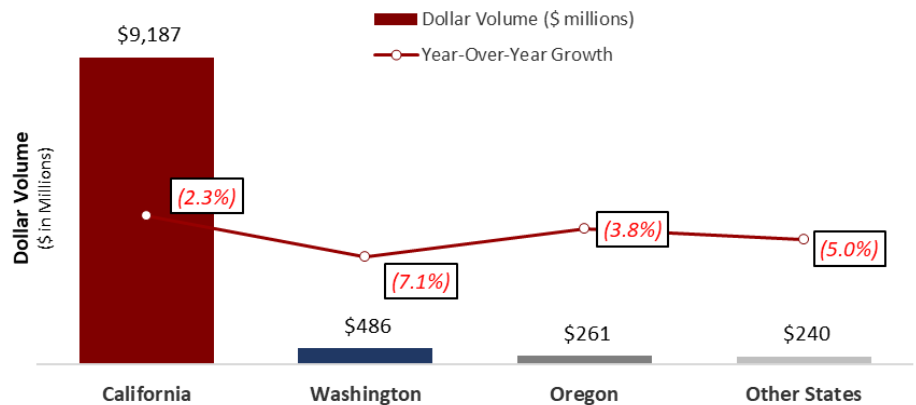
2023 \$ Sales Share by State of Origin (\$ millions)



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

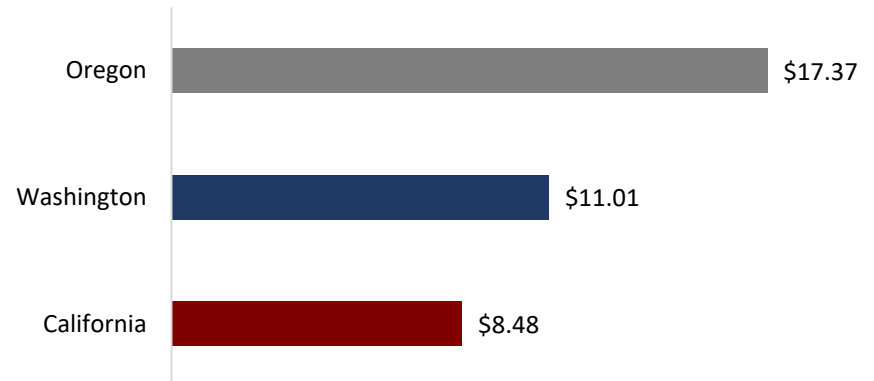
- California, by far the largest U.S. wine producer at 90% of the market for domestic wines, lost 2.3% of dollar volume in 2023
- Washington, the second largest wine producing state at 5% of U.S. wine retail dollar volume, saw its sales volume decline by ~7% in 2023
- Despite the state's strong reputation, Oregon still accounted for only 3% of the U.S. wine market \$ volume in 2023
- Oregon's \$17.37 per bottle average retail price in 2023 was superior to Washington's average bottle price of \$11.01 and more than twice California's \$8.48 average price

2023 \$ Volume Growth by State of Origin (\$ millions)



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

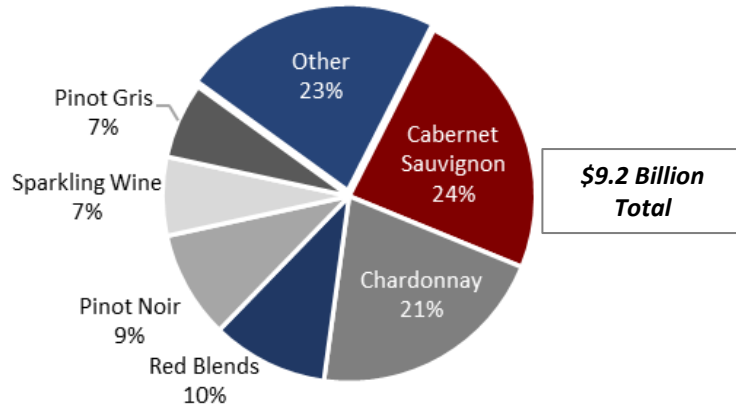
2023 Average 750 ml Price by State of Origin



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

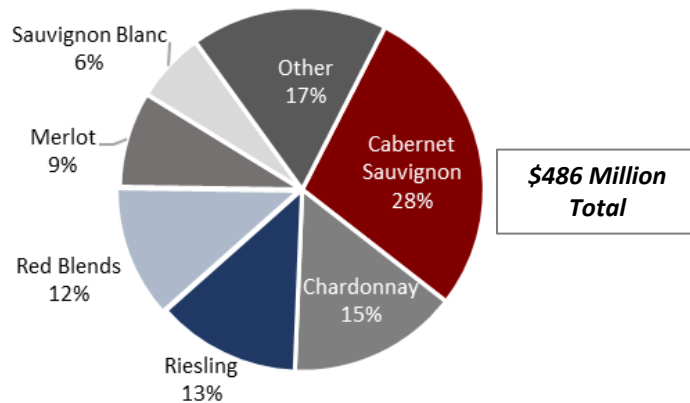
Cabernet Sauvignon and Chardonnay continue to be the leading U.S. varietal offerings

California Wine \$ Sales by Varietal Category



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

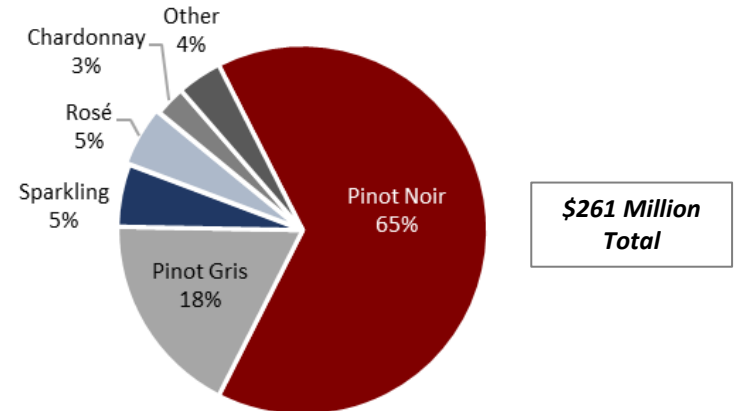
Washington Wine \$ Sales by Varietal Category



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

- Cabernet Sauvignon is the leading varietal in both Washington and California, followed by Chardonnay
 - These two varietals combined account for 43% to 45% of the market in both states
- Oregon is dominated by a single varietal, Pinot Noir, which accounted for 65% of the total dollar sales in 2023
 - Pinot Gris was a distant second at 18% of the market
 - Despite growing recognition and increased plantings of Oregon Chardonnay, it still accounts for only 3% of retail sales
- Oregon's varietal focus on Pinot Noir arguably contributes to the state's strong identity in the U.S. and international markets in contrast to Washington's lack of a clear identity in the market

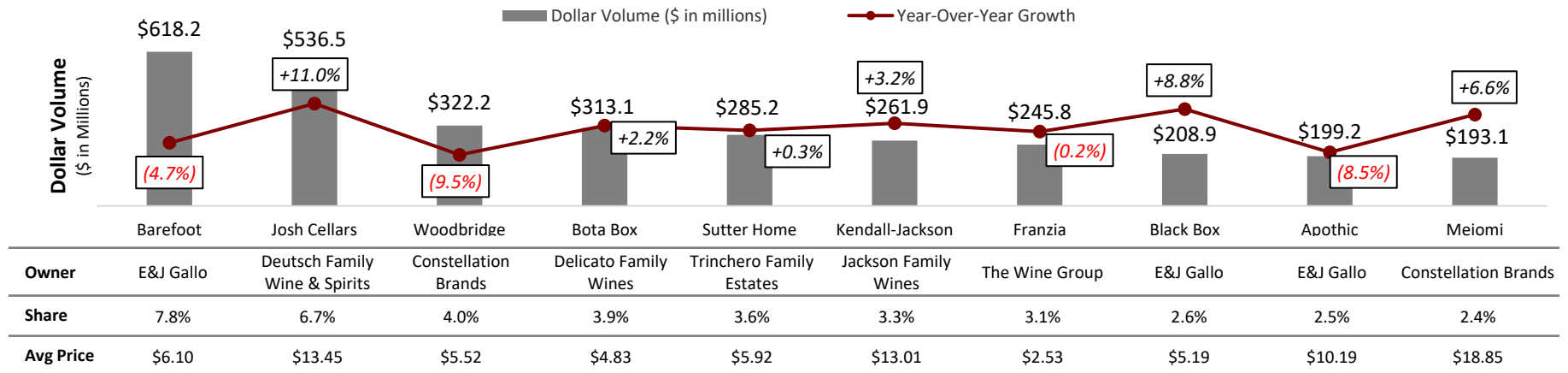
Oregon Wine \$ Sales by Varietal Category



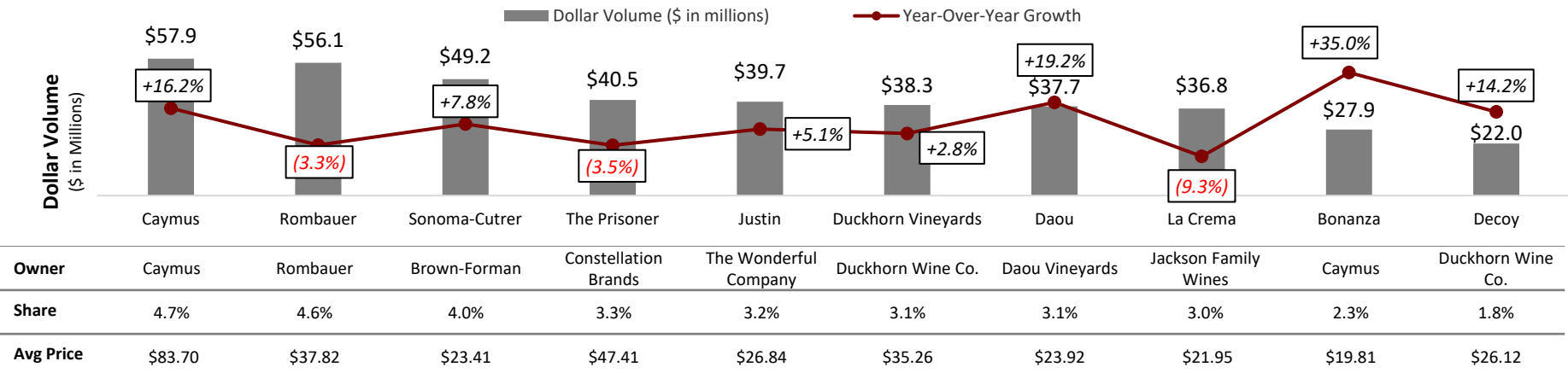
Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

Despite the overall decline in the U.S. wine market, 6 of the top 10 California brands under \$20 and 7 of the top 10 California wine brands >\$20 are showing positive growth in 2023 vs. 2022

California Wine Brands <\$20.00 by Dollar Volume



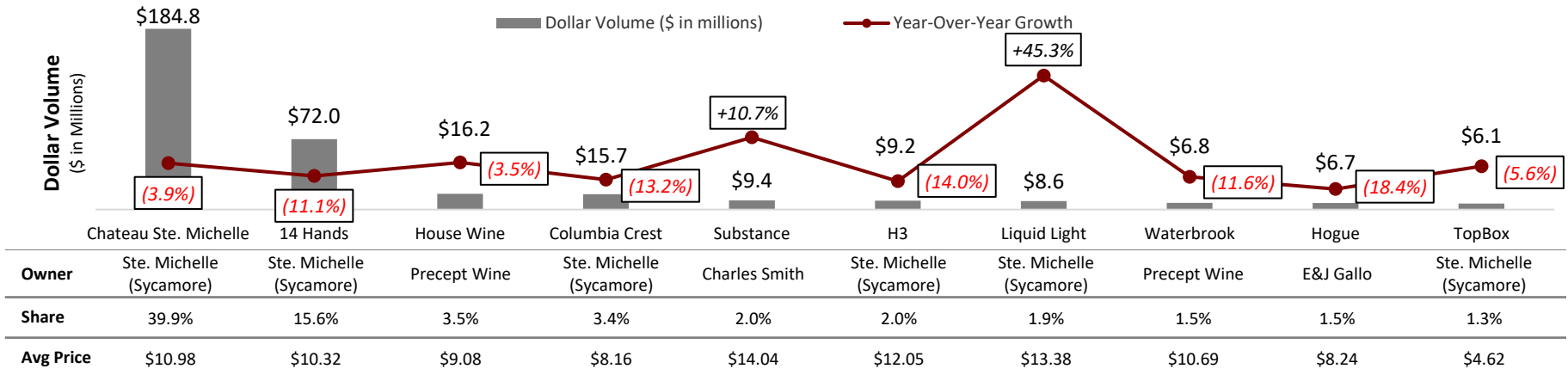
California Wine Brands \$20.00+ by Dollar Volume



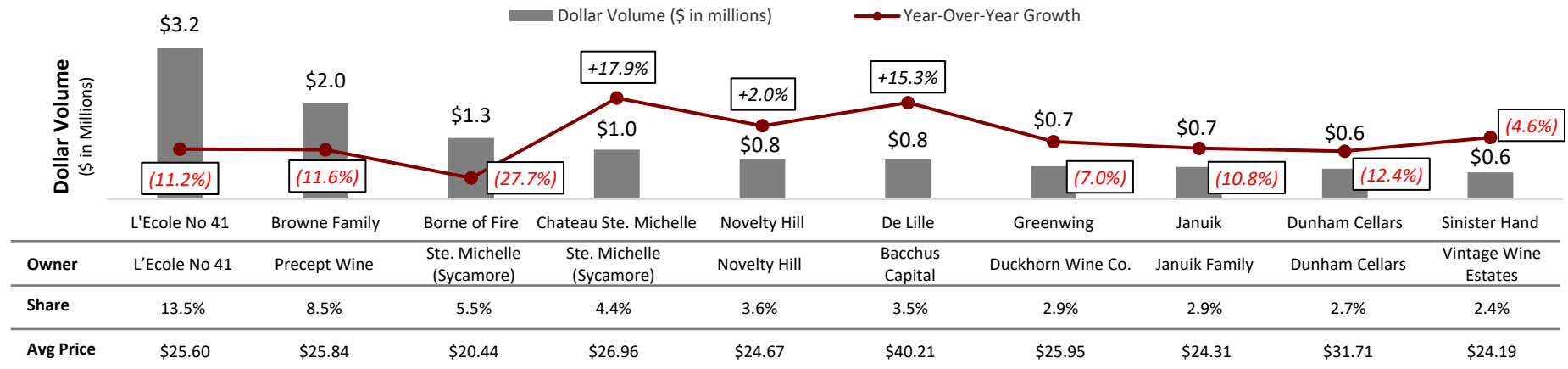
Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

SMWE controls 6 of the top 10 WA brands <\$20, of which 5 have continued to decline in 2023; in addition, 7 of the top 10 brands >\$20 also declined in 2023, indicative of the overall struggles WA wines are experiencing in the market

Washington Wine Brands <\$20.00 by Dollar Volume¹



Washington Wine Brands \$20.00+ by Dollar Volume¹



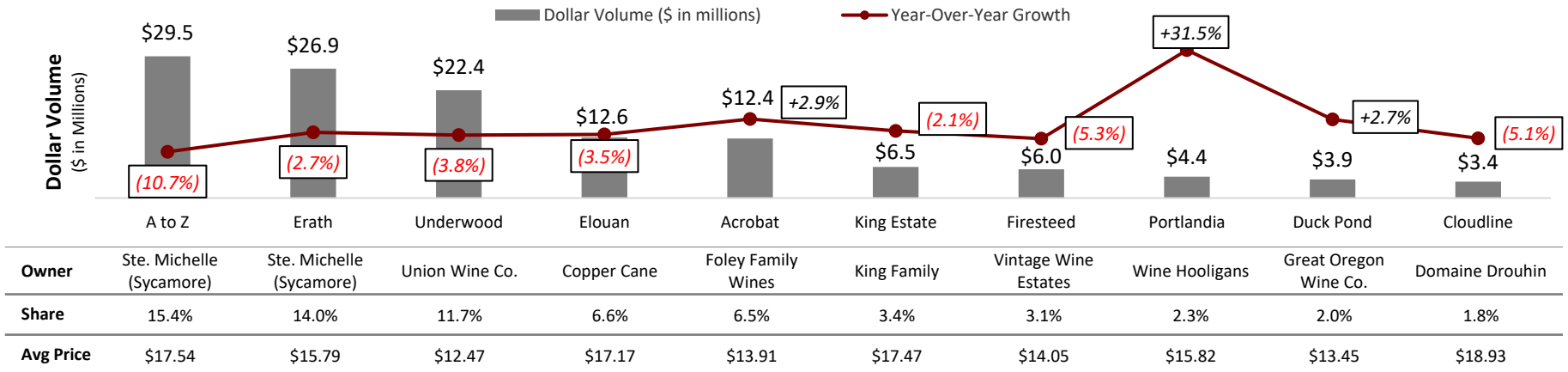
Notes:

¹ SMWE's Chateau Ste. Michelle brand includes SKUs positioned in both price categories.

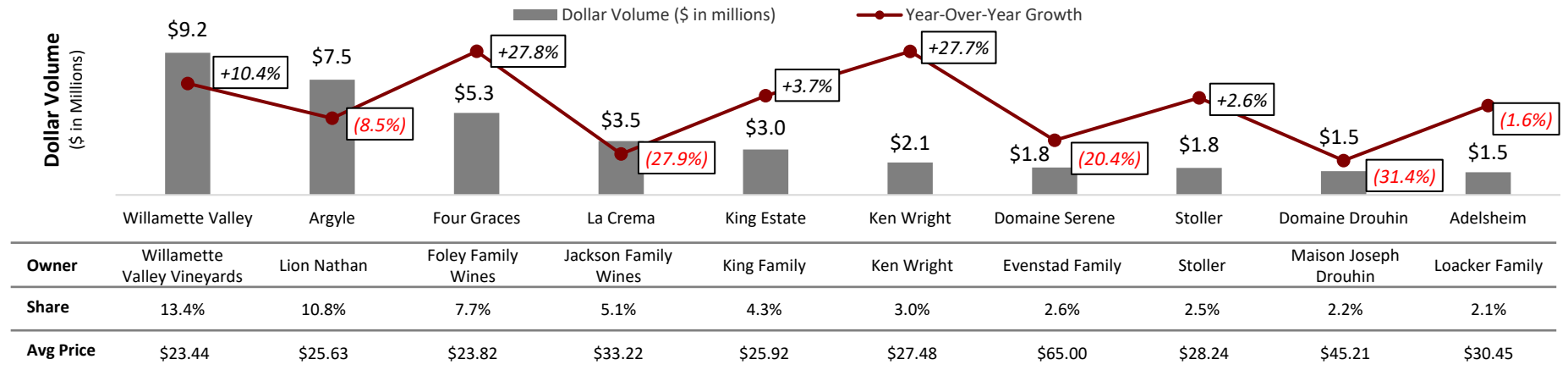
Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

SMWE now dominates the Oregon sub-\$20 category following its acquisition of A to Z; 7 of the top 10 brands in that price segment declined in 2023, including Erath and A to Z

Oregon Wine Brands <\$20.00 by Dollar Volume



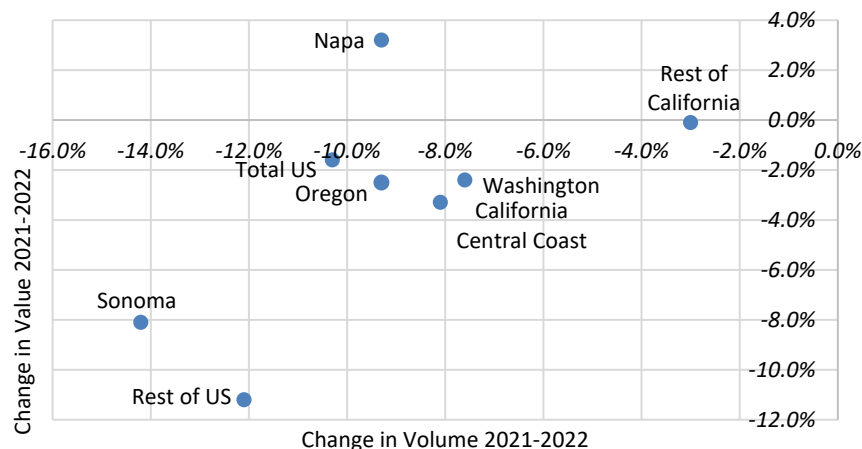
Oregon Wine Brands \$20.00+ by Dollar Volume



Source: AC Nielsen xAOC, 52 weeks ended September 9, 2023

Aside from Napa, most U.S. wine regions experienced declining DTC shipment volume and value in 2022, as consumers redirected their spending and consumption patterns in a post-pandemic, inflationary environment

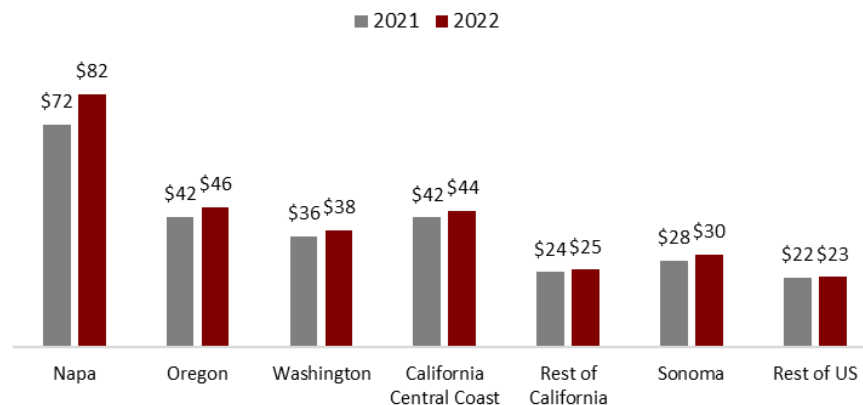
DTC Volume and Value Growth by Region, 2022



Source: 2023 Sovos/ShipCompliant Report

- Napa was the only region that managed to achieve positive growth in DTC shipments value despite a decrease in volume vs. 2021
- Washington's ~8% decrease in volume and ~2% decrease in value were similar to the declining trends experienced by most other U.S. wine regions
- For the first time ever, Oregon DTC shipments declined in 2022 in both volume and value

Average Price per Bottle in DTC Shipments, 2022 vs. 2021














Source: 2023 Sovos/ShipCompliant Report

- Napa's average DTC bottle price increased from \$72 in 2021 to \$82 in 2022, outpacing price increases observed in other wine regions
- The 2022 price increases across regions are partly due to fewer purchases by the consumers who purchased lower-priced and discounted wines during the pandemic
- In all states, large producers have continued to embrace the DTC channel, which now contributes materially to their overall sales volume

- ① U.S. Wine Industry
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- ④ Zepponi & Company

The last several years have seen numerous large-scale transactions by domestic and international buyers

Date	Target	Acquirer/Investor	Rationale
August 2023		 E&J Gallo Winery	Significantly increases Gallo footprint in California luxury wine
June 2023		 E&J Gallo Winery	Acquisition of Hahn brand portfolio complements Gallo's existing Central Coast offerings
May 2023	STAG'S LEAP WINE CELLARS	 ANTINORI	Antinori acquired full control of iconic Napa Valley winery from SMWE
October 2022		 THE WINE GROUP	Another step in Constellation's strategy to focus on its upscale brands
September 2022		STE MICHELLE WINE ESTATES	Solidifies Ste. Michelle's position as largest wine producer in Oregon
June 2022	JOSEPH PHELPS VINEYARDS	LVMH	Deepens Moët Hennessy's foothold in the U.S., its largest market
February 2022	Shafer	SHINSEGAE PROPERTY	Represents diversification into high-end U.S. assets for Korean retail group
December 2021	Far Niente	Apax	Private equity firm Apax joined GI Partners as part owner of Far Niente
November 2021	FRANK FAMILY VINEYARDS	 TREASURY WINE ESTATES	Adds luxury Napa-based Chardonnay brand with significant scale to Treasury Wine Estates' wine portfolio
November 2021	STE MICHELLE WINE ESTATES	 SYCAMORE PARTNERS	Opportunity for value creation via operations turnaround and subsequent asset divestiture
August 2021	FRANCIS FORD COPPOLA WINERY	 DELICATO FAMILY VINEYARDS	Gives Delicato upscale Diamond Collection brand, plus Sonoma facilities
May 2021	PONZI VINEYARDS	CHAMPAGNE BOLLINGER	Bollinger targeted Oregon for its first U.S. acquisition based on the region's similarity to Champagne and Burgundy
December 2020	WILLIAMS SELYEM	DOMAINE FAIVELEY	Minority investment in legacy Russian River Pinot Noir wine brand, with pathway to full ownership
June 2020	FERRARI-CARANZO Vineyards and Winery	FOLEY FAMILY WINES	Acquisition provides Foley Family Wines with major wine brand and over 1,200 acres of vineyards
March 2020	diamond creek CABERNET SAUVIGNON Exclusively	LOUIS ROEDERER	Investment in iconic Napa Valley Cabernet Sauvignon wine brand by major Champagne house

Highly focused outreach efforts resulted in Ponzi Vineyards securing strategic partnership with acclaimed, family-owned French Champagne producer Société Jacques Bollinger

Background & Transaction Overview

- Ponzi Vineyards, approaching its 50th anniversary and having grown significantly in sales volume, perceived a need for a strategic partner to bolster its visibility in today's consolidating market environment
- Partner search focused primarily on multi-generational European wine businesses with a long-term perspective and an appreciation for Ponzi's family legacy and brand
- Société Jacques Bollinger (SJB), now in its fifth generation of family ownership, has significant holdings in Burgundy (Chanson Père et Fils) and had been searching for a luxury brand investment opportunity in Oregon
- SJB proved to be the most attractive partner, bringing to the table its expertise in Burgundian varietals, prestigious worldwide reputation, and an attractive proposal



Key Takeaways

- Particularly in Oregon's close-knit wine community, preservation of, and respect for, family legacy is often just as important in a transaction as financial and business terms
- Accomplishing an international transaction during a worldwide pandemic required significant patience, flexibility and cultural sensitivity on both sides of the deal
- Transaction was structured so that both parties accomplished their goals regarding vineyard ownership:
 - Inclusion of several key vineyards in the transaction gave SJB its desired vertically-integrated Oregon wine business
 - Retaining luxury vineyards under Ponzi family ownership (subject to long-term grape sales contracts for SJB) accomplished the family's objective of continuing their land stewardship in the Willamette Valley and maintaining their connection to the winery

LVMH's investment in Joseph Phelps demonstrated its strong interest in, and commitment to, the U.S. luxury wine market

Background & Transaction Overview

- Moët Hennessy, the luxury wine and spirits division of LVMH, acquired prized Cabernet Sauvignon producer Joseph Phelps Vineyards in June 2022
- Phelps produces a sizeable volume of luxury-priced Napa Valley wines and is best known for its Insignia red Bordeaux-style blend selling for >\$300 per bottle at retail.
- Napa Valley-based Phelps was founded by Joseph Phelps in 1973 and has become one of California's most highly acclaimed luxury wine brands
- Phelps had remained a family-owned operation since the beginning, with third-generation family members participating in executive and managerial roles for the winery

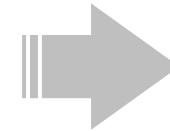
Key Takeaways

- The purchase deepens Moët Hennessy's luxury wine positioning in the U.S., its largest market
- The transaction further demonstrates the strong French interest in the Napa Valley, and follows the acquisitions of Diamond Creek Vineyards by Maison Louis Roederer in 2020 and Outpost Wines by AXA Millésimes in 2018
- European buyers typically desire brands with estate vineyards, and the Phelps sale included ~425 vineyard acres in Napa, as well as ~100 vineyard acres on the western Sonoma Coast
- Philippe Schaus, Chairman and CEO of Moët Hennessy, commented, *"it's important for us that we are acquiring a family business with a legacy and heritage."*



JOSEPH PHELPS
V I N E Y A R D S
LVMH
MOËT HENNESSY • LOUIS VUITTON

Constellation Brands sold a one-million case portfolio of six premium-priced wine brands to The Wine Group in order to continue its strategy of premiumizing its wine portfolio and repositioning itself as a leading supplier of luxury-priced wines



Background & Transaction Overview

- In 2022, Constellation divested six brands which included Charles Smith Wines, Cooper & Thief, Crafters Union, The Dreaming Tree, Monkey Bay, and 7 Moons
- Priced primarily in the \$12 to \$25 per bottle price range at retail, these brands totaled approximately one million 9-liter cases in 2022 sales volume
- The brand portfolio was marketed in a confidential sale process to a very limited group of industry players who were known to have a strategic focus on the value-priced wine category

Key Takeaways

- For Constellation, the transaction was another step in its efforts to reshape its collection of wine brands into a higher-end fine wine portfolio, in line with the long-term, consumer-led premiumization trend
- Constellation's remaining wine portfolio includes Meiomi, Kim Crawford, The Prisoner, The Robert Mondavi family of wines, Booker, Schrader, and Lingua Franca, and is increasingly focused on the >\$25 and luxury-priced wine categories
- For The Wine Group, the transaction strengthens its presence in the premium and super-premium price categories and provides a diversification of wine appellation into Washington through the Charles Smith portfolio

Lower level of activity in 2023 due to challenging macroeconomic conditions and slowing wine consumption

Current M&A Environment

- After pause in 2020, M&A activity rebounded in 2021 and 2022, but has slowed in the high interest rate and inflationary environment of 2023
- Recent slowdown in consumer wine purchases resulting in grape and bulk wine oversupply as well as excess distributor inventories
- Some larger strategic wineries evaluating divestiture of non-core winery assets, while second-tier producers continue to seek scale through acquisitions in order to remain relevant to distributors and retailers

U.S. Strategic Buyers

- Largest strategics have been the most active acquirers in the wine industry
- Gallo, Constellation, Treasury, The Wine Group and Delicato have been leading participants in transactions
- Emphasis on acquiring wine portfolios to expand market share and relevance with retailers
- Majority of activity driven by premiumization trends and need for portfolio rationalization

International Strategic Buyers

- Despite recent softness in U.S. wine market, it remains attractive due to its size, and U.S. represents opportunity for geographic diversification
- However, buyer outlook continues to be affected by Ukraine war and other current geopolitical concerns, and recent strength of the dollar has made U.S. assets more expensive than they were in 2021
- International acquirers primarily focused on Napa Valley and Oregon's Willamette Valley

Financial / Private Equity Investors

- Wine industry benefitting from surplus of private equity capital in U.S. economy
- Historical success of private equity entering and exiting >\$100 million winery investments
- Successful IPO of Duckhorn encouraged further investment, but current volatility in public markets renders further IPO exits unrealistic at this time
- Higher interest rates having a negative effect on deal financing and valuations

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Industry Expertise

- Recognized as most active and influential wine industry merger and acquisition advisory firm
- Specializing in valuation, brand positioning, strategic planning and transaction advisory services
- Trusted, long-term relationships with extensive network of executives from industry leading suppliers

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

Zepponi & Company has worked with some of the world's leading beverage alcohol companies

DIAGEO

TSG CONSUMER PARTNERS

 **Constellation Brands**

Chateau Ste Michelle



TREASURY WINE ESTATES

diamond creek
CABERNET SAUVIGNON
Exclusively



KORBEL

FRANCIS FORD
COPPOLA
WINERY

BOOKER

Jackson
FAMILY WINES



E&J Gallo Winery

PONZI
VINEYARDS

King Estate
Family Owned & Farmed

ORIN SWIFT



FOLEY FAMILY WINES

vspt.wine.group

WILSON DANIELS
SINCE 1978



GI PARTNERS

EST.  1883
CONCHA Y TORO



CHALK HILL













PATZ & HALL

WX
WINE > BEER > SPIRITS

penner-ash
WINE CELLARS

Zepponi & Company has been the most active M&A advisor in the wine industry

Date	Client	Asset Type	Representation	Acquirer/Target
June 2023	HAHN	Brand	Sell Side	 E&J. Gallo Winery
November 2022	DENNER	Integrated Winery	Sell Side	 E&J. Gallo Winery
November 2022	 FITVINE CALIFORNIA WINE	Brand	Sell Side	 O'Neill — VINTNERS & DISTILLERS —
October 2022	 Constellation Brands	Portfolio of Brands	Sell Side	 THE WINE GROUP
April 2022	LINGUA FRANCA	Integrated Winery	Sell Side	 Constellation Brands
December 2021	 Far Niente	Integrated Winery	Sell Side	Apax
December 2021	CHATEAU ST JEAN SONOMA	Integrated Winery	Sell Side	FOLEY FAMILY WINES
November 2021	PROVENANCE VINEYARDS™	Integrated Winery	Sell Side	 Far Niente
November 2021	BOOKER	Brand	Sell Side	 Constellation Brands
May 2021	PONZI VINEYARDS	Integrated Winery	Sell Side	CHAMPAGNE BOLLINGER
March 2020	 diamond creek CABERNET SAUVIGNON Exclusively	Brand & Winery	Sell Side	LOUIS ROEDERER
July 2018	 OUTPOST	Integrated Winery	Sell Side	 AXA MILLÉSIMES
April 2018	Acrobat	Brand	Sell Side	FOLEY FAMILY WINES
April 2017	STAGECOACH VINEYARD	Vineyard	Sell Side	 E&J. Gallo Winery
April 2017	BREAD & BUTTER	Brand	Sell Side	WX
June 2016	ORIN SWIFT	Brand	Sell Side	 E&J. Gallo Winery
April 2016	 PATZ & HALL	Brand & Winery	Sell Side	Chateau Ste Michelle
August 2015	 Constellation Brands	Brand	Buy Side	MEIOMI



ZEPPONI
& Company®

Mergers &
Acquisitions

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