

# CENTRAL COAST *Insights*

## *State of the Wine Business*

*Danny Brager*



Azur Associates/Brager Beverage Alcohol Consulting



March 28, 2022  
Paso Robles, CA

# BIG PICTURE

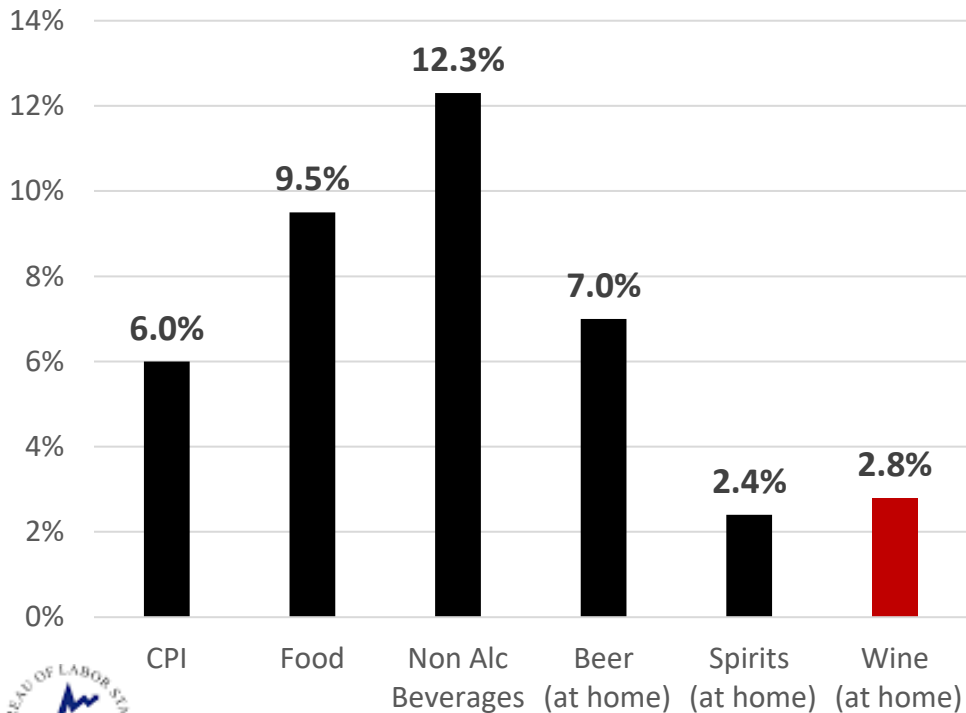
## SOME THINGS WE GENERALLY KNOW

- Overall Wine category growth more and more difficult
- Bifurcation of growth – lower end↓ vs higher end↑
- More competition from beyond Wine
  - Spirits
  - RTD's
  - Social moderation
  - Cannabis
- 2021 was a 'VERY good' year – but in some respects an anomaly
- Cost pressures/broader inflationary pressures



# WINE PRICE INCREASES AT RETAIL MUCH LOWER THAN YOUR COSTS – AND OTHERS; ON PREMISE MUCH HIGHER

Inflation Rates by category (Feb 2023)

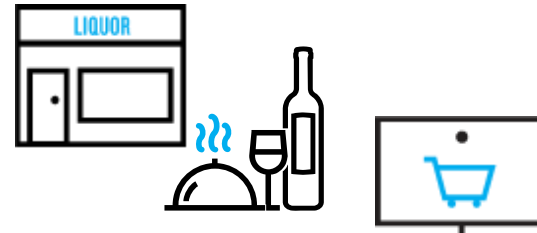


JAN 2023	AT HOME	AWAY FROM HOME
FOOD	10.2%	8.4%
ALCOHOL	4.3%	6.2%
WINE	2.8%	8.0%



Source: Bureau of Labor Statistics

# YOUR CONSUMER HAS MANY CHOICES



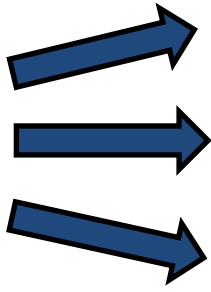
WHAT TO BUY

WHERE TO BUY

HOW TO BUY



18%



- % of 21+ that are **Frequent** Wine drinkers (at least 1x week)
- % of Wine drinkers that **only drink Wine**; 82% drink Wine + other Alcohol
- % of Wine drinkers that drink **Wine + Spirits + Beer + the “4th” category**

\* 4<sup>th</sup> Category includes sangria, spritzers, fruit flavored wines, hard seltzers, premixed Spirit RTD's, hard cider, hard tea, kombucha



Most Beer & Spirit drinkers don't just drink Beer & Spirits – many drink Wine they're your target consumer too!!!





# PROLIFERATION OF THESE - >\$10 BILLION

Flavors

Variety

Packaging

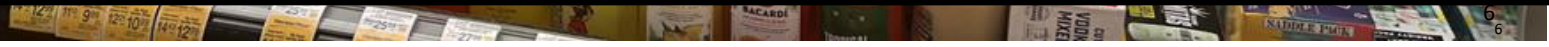
Branding

Convenience

Standard  
Panel Facts

Better for  
You

**54%** of Bev Shoppers have purchased one kind or another  
NielsenIQ and serves a broad demographic range



\$8 BILLION



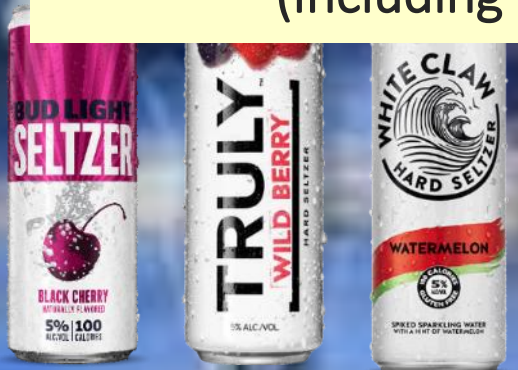
\$1.3 BILLION



\$1.2 BILLION (+68%)



Consumers often don't know what to call these products or care (including what the BASE Liquid is) – Lines are Blurry!!!



Malt

Annual 2022 –  
NielsenIQ measured channels



Wine



NielsenIQ



Spirits





# CONSUMER – MORE THAN EVER - COMPLICATED & DEMANDING

- Buying/Consuming across and beyond Beverage Alcohol
- Drinking “better”, not more
- Health Conscious/Socially Conscious
- Seeking
  - Authenticity/Experiences
  - Convenience – what to buy/how to buy
  - Flavor
  - Transparency
- Tied to their devices – ingoing/outgoing
- Diverse – across Generations; Race/Ethnicity
  - Challenge: Attracting younger and multi-cultural consumers to ‘engage’ with Wine







# SALES TRENDS



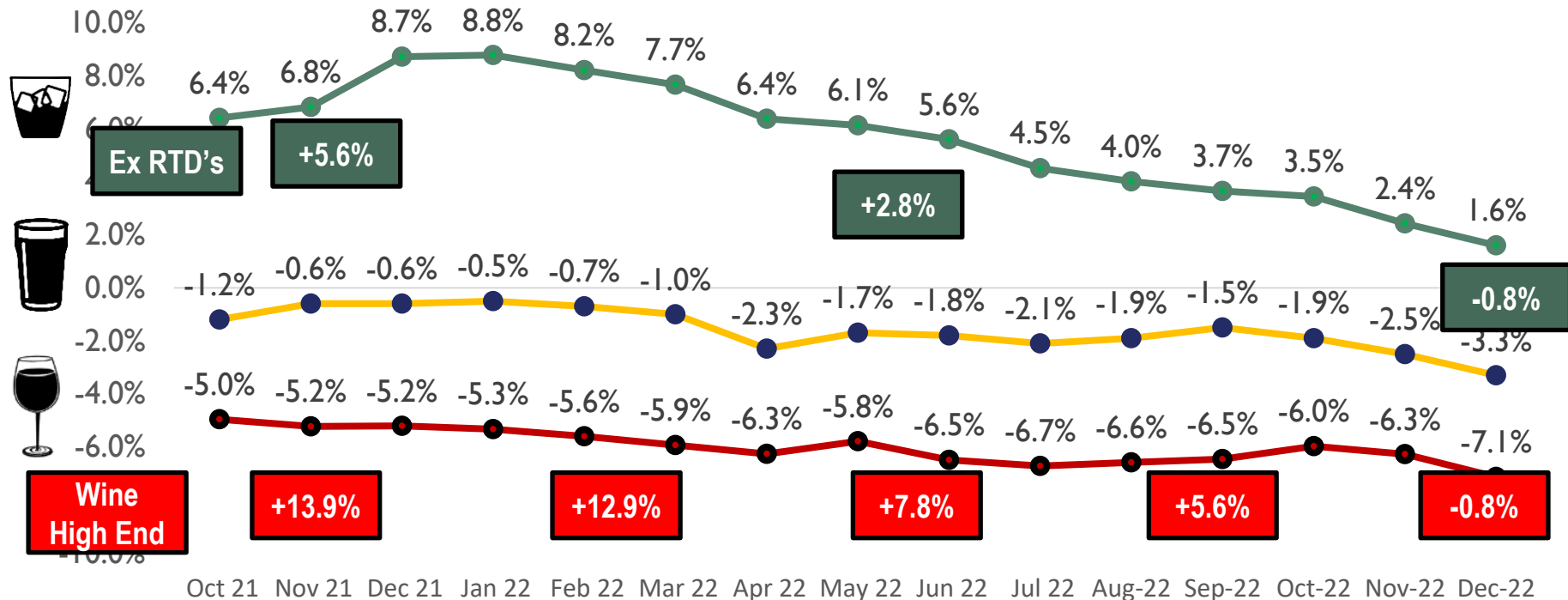
# SOME DATA SOURCES TODAY

	NielsenIQ	 SipSource <small>By WSWA</small>	SOVOS ShipCompliant  WINES VINES ANALYTICS
Type	Retail sales	Depletions	Shipments to consumers
Channels	selected off premise	off <u>and</u> on premise	DtC shipments
	<ul style="list-style-type: none"> <li>Food, Drug, Mass Merch, Club (ex Costco), Military, Convenience</li> <li>Liquor channel: 8 state/ market geographies PLUS 20 Liquor chains, including the largest</li> </ul>	<p>Current participating wholesalers: Allied Beverage, Breakthru, Columbia, Eder Brothers, Fedway, Great Lakes, Heidelberg, Henry A Fox, Imperial Beverage, Kentucky Eagle, Lipman, Major Brands, Martignetti, RNDG, Southern Glazers, Virginia Imports</p> <p>In process...NABCA + .... Horizon, Momentum, Opici, Saratoga, Winebow</p>	<p>Aggregate of...</p> <ul style="list-style-type: none"> <li>online orders placed at Winery website</li> <li>winery wine club shipments to their members</li> <li>tasting room purchases shipped to consumers</li> </ul>
What's reported	Reporting by product segment; and brand/item	Share & trend reporting by product segment – varietal, price tier, origin, and channel	Reporting by segment – origin, price tier, varietal, destination
What's new	California Liquor retail channel	Several new wine region breaks (Q2 2023) Including Central Coast	

# SPIRITS OUTPERFORMING BEER + WINE

TOTAL U.S. – 3 TIER: ON + OFF PREMISE (VOLUME)

— SPIRITS — WINE — BEER



Oct 21 Nov 21 Dec 21 Jan 22 Feb 22 Mar 22 Apr 22 May 22 Jun 22 Jul 22 Aug 22 Sep 22 Oct 22 Nov 22 Dec 22

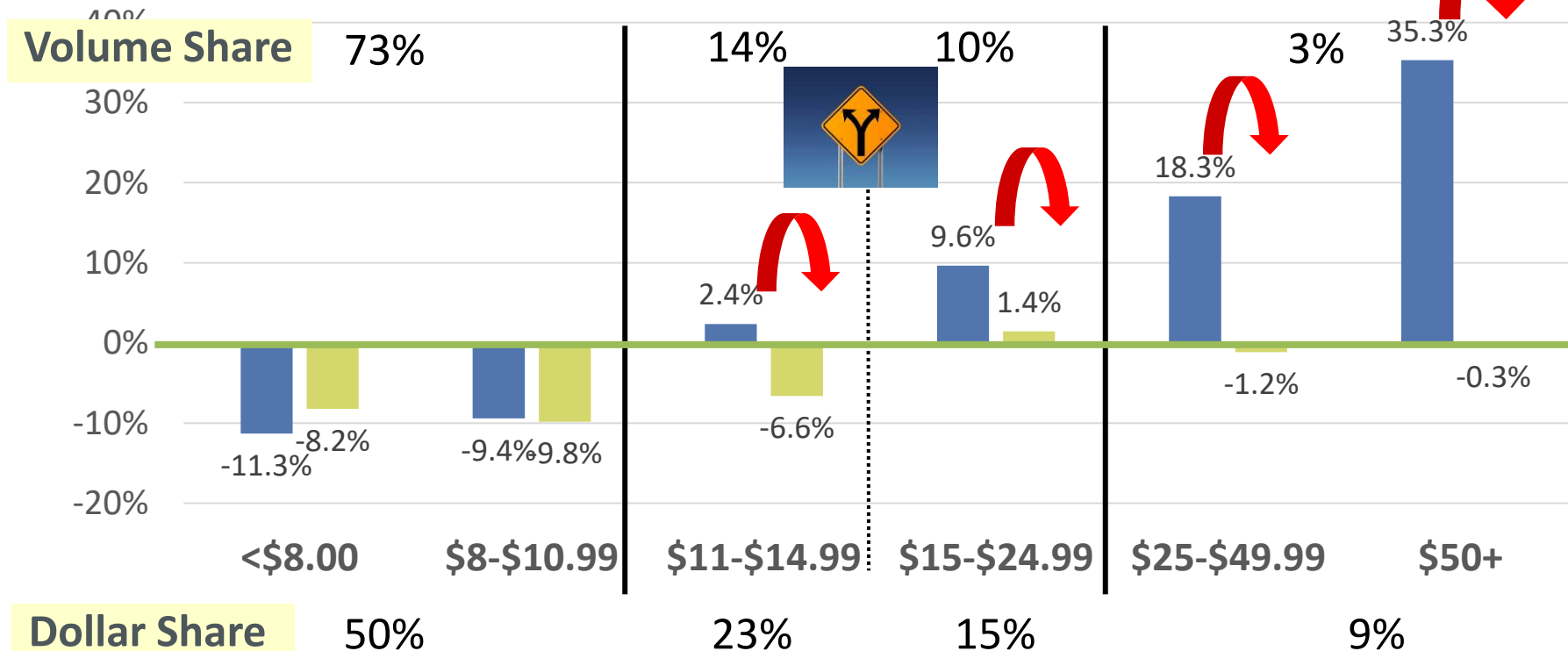


12-Month Rolling Volume % Chg; High End: Table \$15+; Sparkling \$18+

# TOUGH COMPS in 2022

Total Table Wine – Volume % Growth (Off + On Premise)

■ 2021 ■ 2022



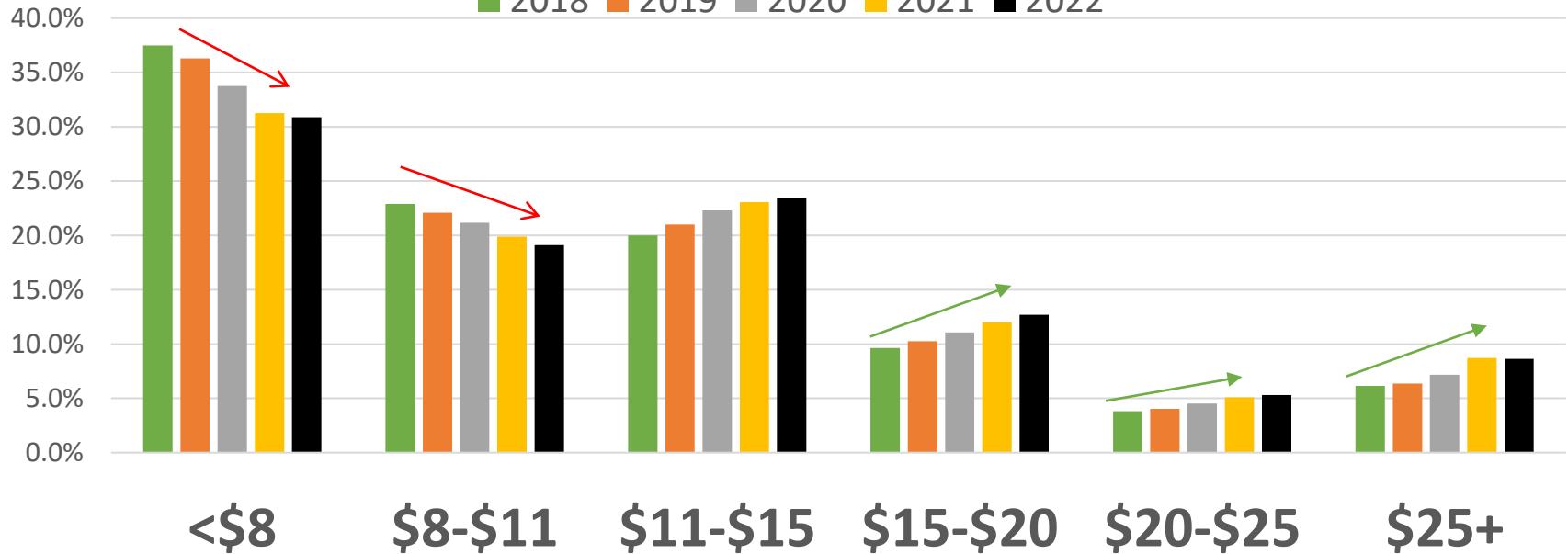


# EVEN IF RATE OF PREMIUMIZATION SLOWED IN 2022, IT WILL CONTINUE TO BE A LONG-TERM GROWTH DRIVER



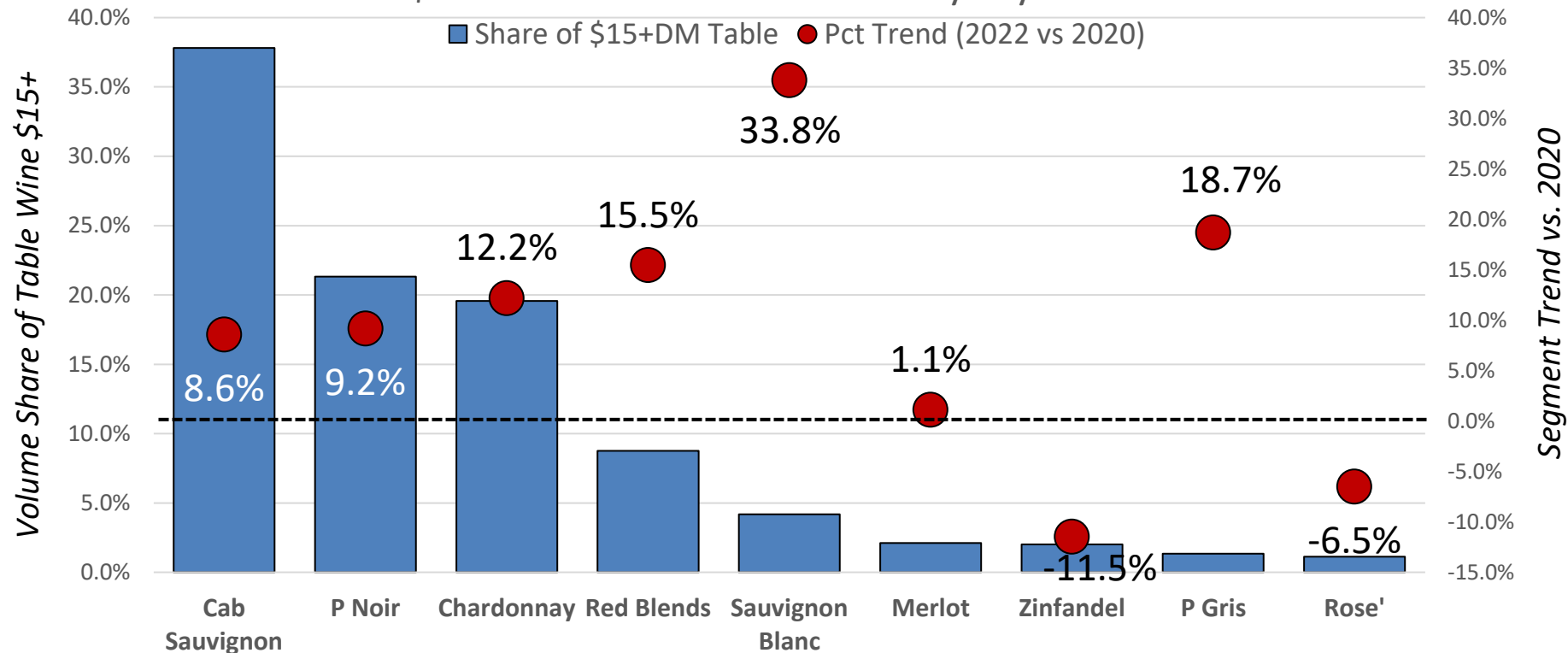
Table Wine Share by Price Tier (Dollars)  
Total U.S. – Nielsen Measured Off Premise

■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ 2022



# STRONG GAINS GENERALLY AT \$15+ -- LED BY WHITES

## \$15+ Domestic Table Wines – by key Varietal



# 2021/22 ON PREMISE TAILWINDS DUE TO CHANNEL SHIFTING NOW NORMALIZING

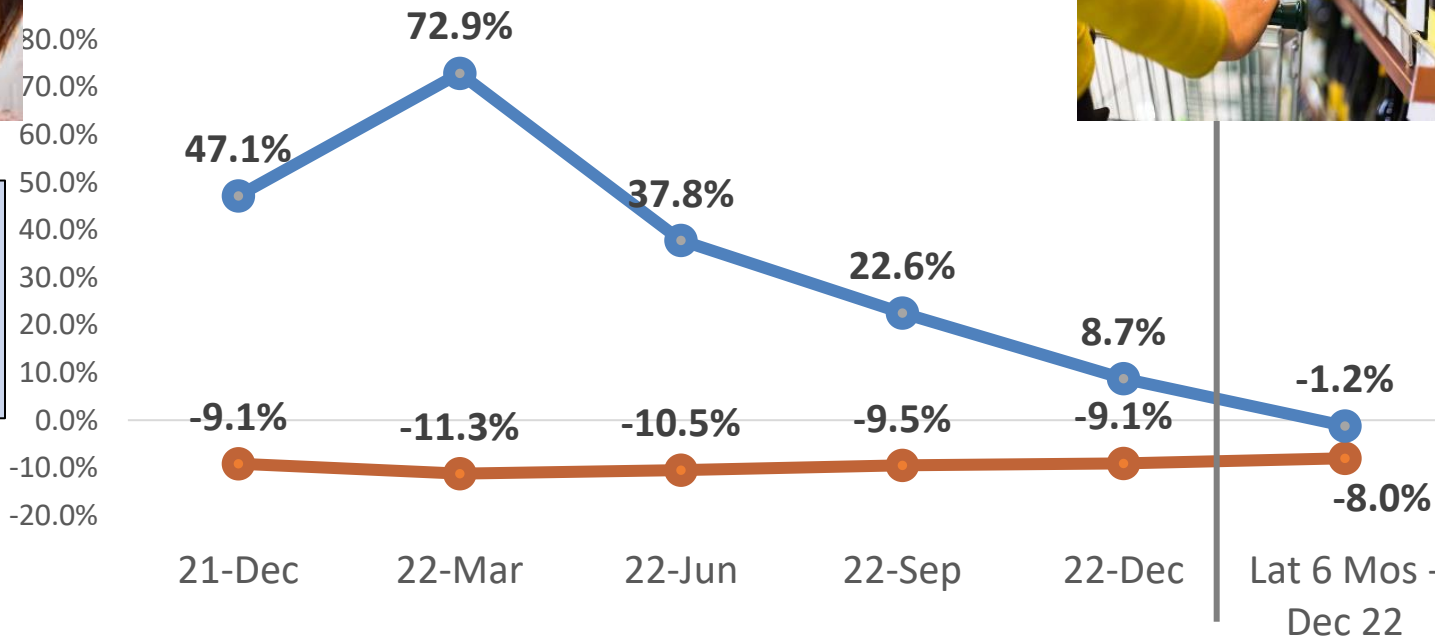


## On Premise vol. share Domestic table wine

- \$15-\$25: 20%
- \$25-\$50: 39%
- \$50+: 43%

## Total Wine – Volume Pct Growth

Off Premise On Premise

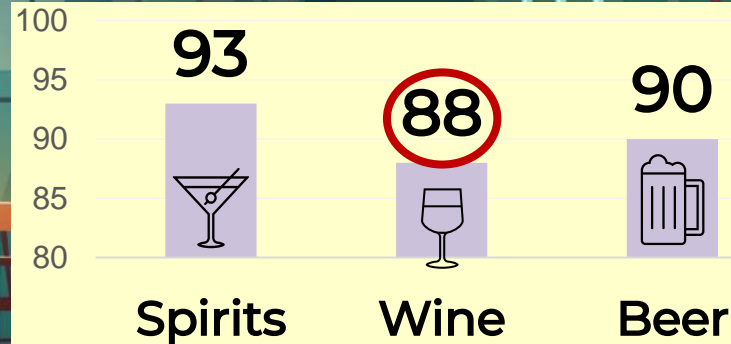


12-Month Rolling % Change vs. LY

# ON PREMISE RECOVERING, BUT STILL BELOW PRE-COVID LEVELS; WINE LAGGING

## ON-PREMISE SHARE INDEX – 6 MOS ENDING JAN 2023

100 = Pre-COVID (2019) on-premise share



### *Some factors may be longer lasting...*

- Shifts from Out of Home to “Hometainment”
- Meal delivery to the home
- Alcohol “to go” in many states
- Business travel unlikely to return to pre-pandemic levels
- Many more working out of their homes
- Shorter restaurant operating hours (6.4 less hrs/week<sup>1</sup>)
- Staffing/labor issues
- Versus pre-COVID - 15-20K less on premise accounts vs pre-COVID Nationally; in particular Independents<sup>2</sup>
- Consumers more sensitive to on-premise pricing; exacerbated further by on-premise price increases
- Wine vs ‘Mixed Cocktails’ competition

1  DATASENTIAL

2  WINE & SPIRITS



Beer Institute STR and SipSource, powered by VIP  
Wine & Spirits: 6 months ending Jan 2023 vs 2019 on-premise volume share; Beer: 6 mos. ending Nov 2022

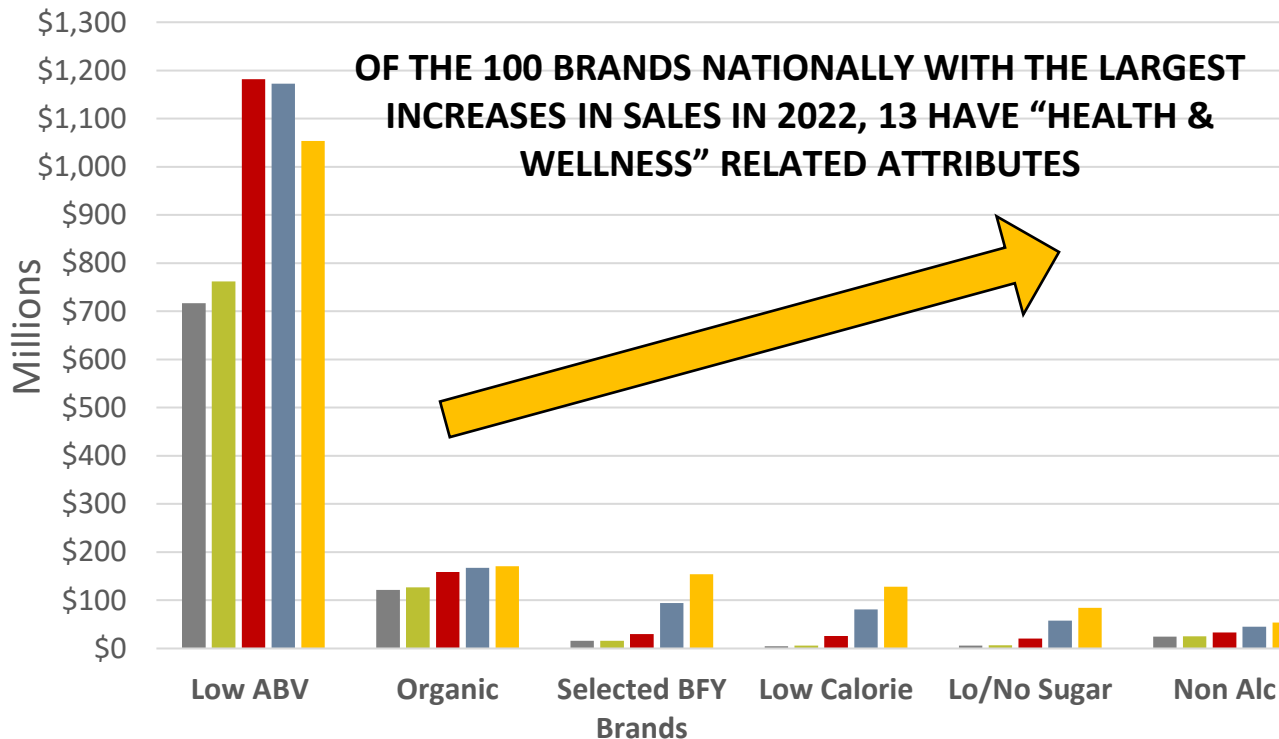
CENTRAL COAST  
*Insights*



# GROWTH IN H&W POSITIONED BRANDS

Wine (Dollar Sales - \$MM) – Selected Label claims


■ 2018 ■ 2019 ■ 2020 ■ 2021 ■ Lat 52 weeks



# GROWTH IN H&W POSITIONED BRANDS

- **22%** say they've bought a Low Alc wine; **12%** a Non Alc wine (IWSR – past 12 mos.)
  - ...the no and low category is “actually stealing share from traditional non-alcoholic drinks” like water and soda (IWSR)
- **4 of 5** Non Alc buyers (BWS) also purchase Alcoholic products (NielsenIQ)

	LOW ALC	NON ALC
Top 3 Reasons (IWSR)	<ol style="list-style-type: none"><li>1. Reduce my alcohol intake</li><li>2. Stay in control</li><li>3. Avoid effects of alcohol in general</li></ol>	<ol style="list-style-type: none"><li>1. Stay in control</li><li>2. Avoid effects of alcohol in general</li><li>3. A healthy lifestyle choice</li></ol>



# NON ALC/BETTER WITHOUT (WINE)

**NON ALC**

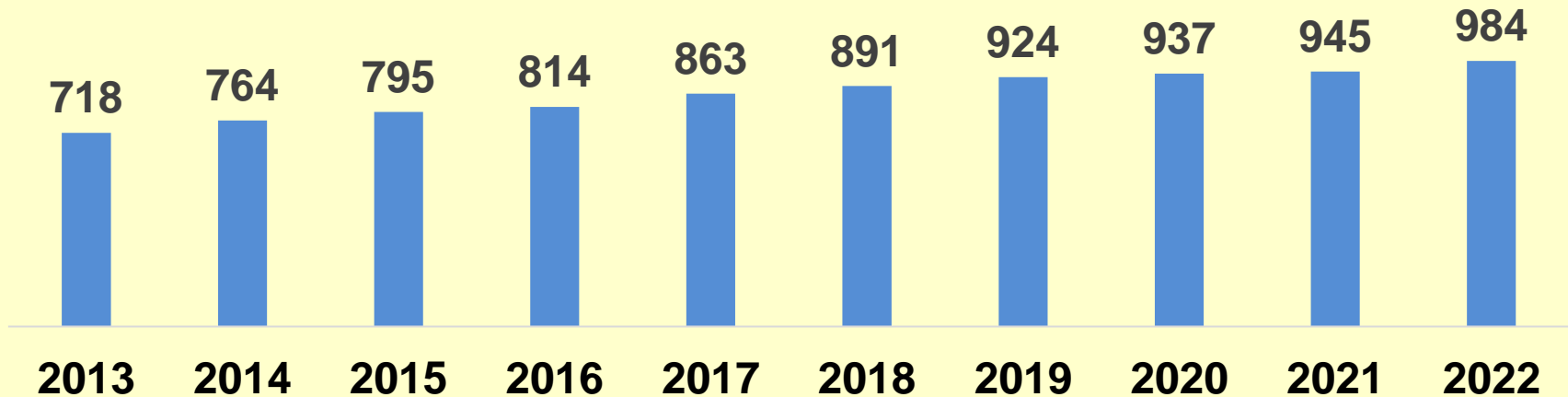
**NielsenIQ**

**BETTER RHODES**  
Non-Alcoholic Marketplace

Wine share of Non Alc B+W+S	13%	73%
Avg Wine NA Price (750 ml)	\$9	\$22
Top 5 Wine brands	Fre <b>Ariel</b> Giesen Stella Rosa NA St Julian	Noughty Wander + Found Luminara Giesen <b>Hand on Heart</b> (French Bloom – fast riser)
Other Insights		<ul style="list-style-type: none"> <li>• 2/3 Female;1/3 Male</li> <li>• Avg order value: \$86</li> <li>• Preferences&gt;20% each of Red, White, Rose', Sparkling</li> </ul>

# CENTRAL COAST PERFORMANCE

**# Central Coast Wineries – by Year**





# CENTRAL COAST REGION (2022)

## 3 Tier Off Premise

**\$1.5 Billion**

**10MM 9L cases**

**7.6% share\***

**1,000 Brands/3,300 Items**

**\$13 Average retail price**

## DtC Shipments

**\$425 MM**

**800K 9L cases**

**10.3% share\***

**\$44 Average price**

**NielsenIQ**

\*Annual 2022: Central Coast \$ Share of Total Wine sold in Nielsen Measured Channels (total U.S.)

**sovos ShipCompliant**



WINES VINES  
ANALYTICS

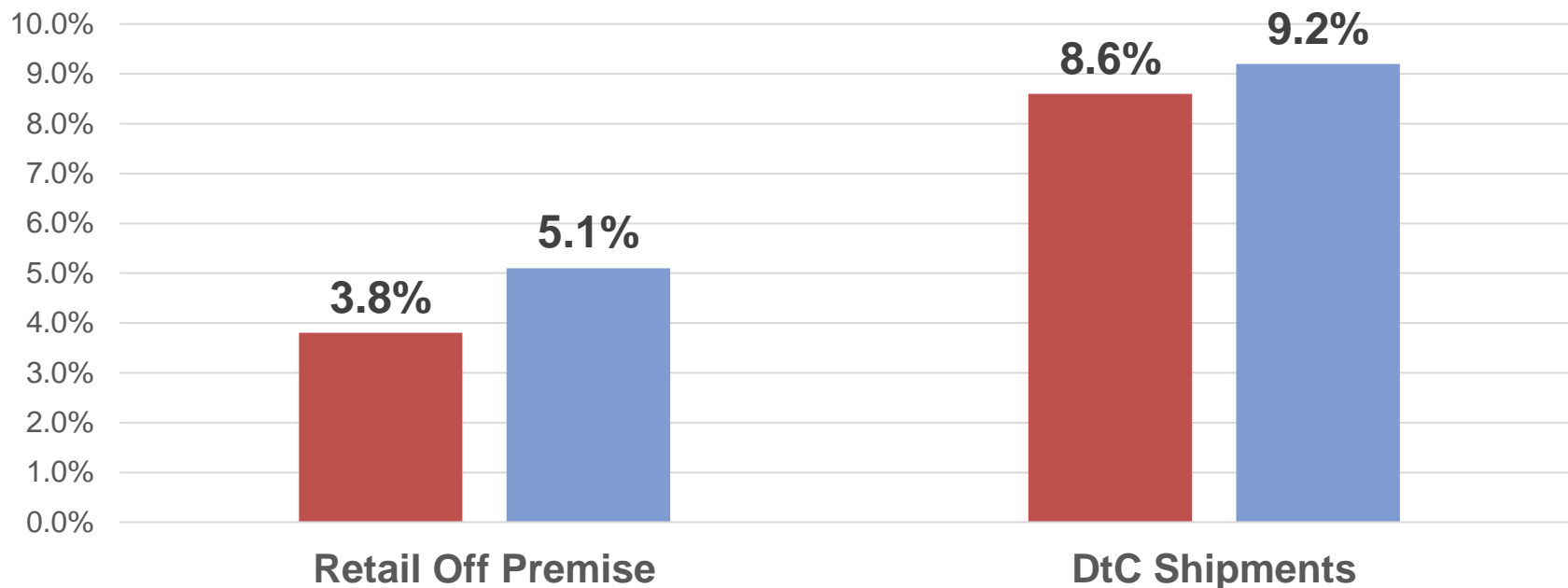
\*Annual 2022: Central Coast \$ Share of DtC Shipments (total U.S.)

CENTRAL COAST  
*Insights*

# CENTRAL COAST GROWING FASTER THAN WINE CATEGORY – INCREASING SHARE!

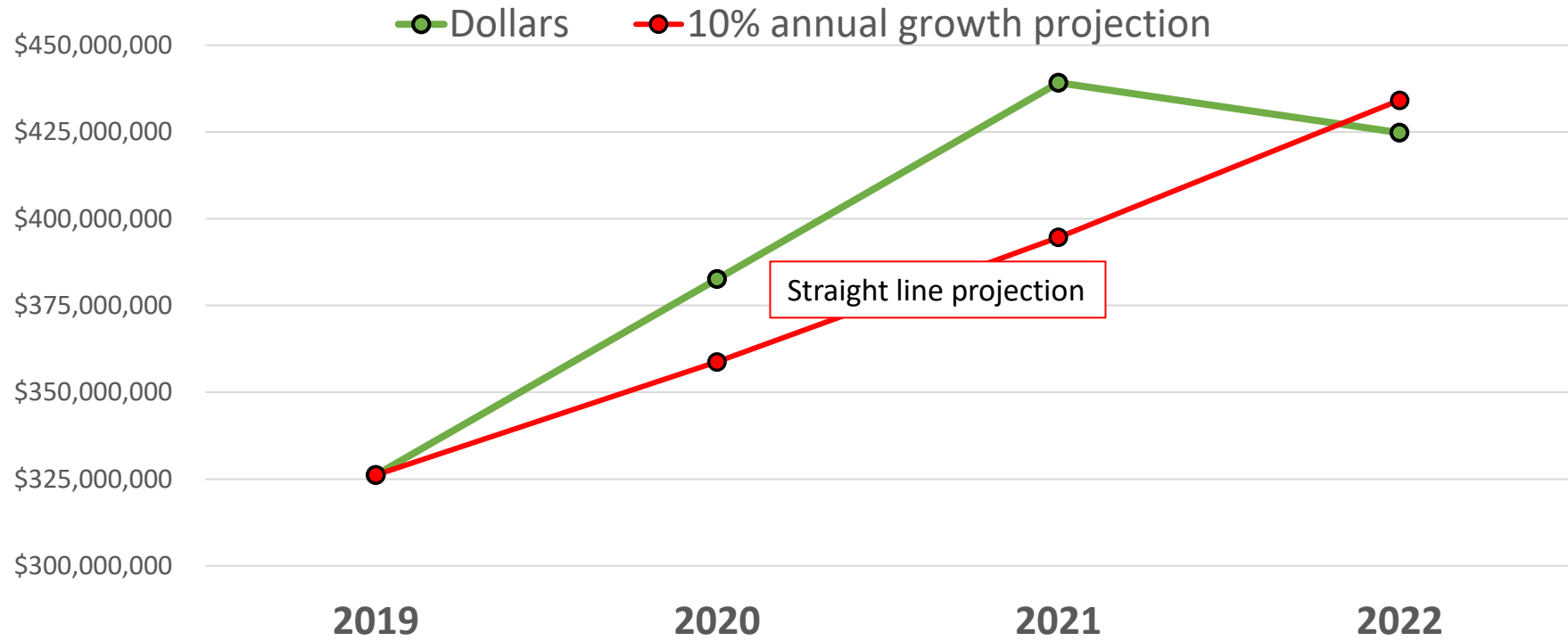
CAGR Growth Rates (2019-2022)

■ Total Wine \$ ■ Central Coast \$



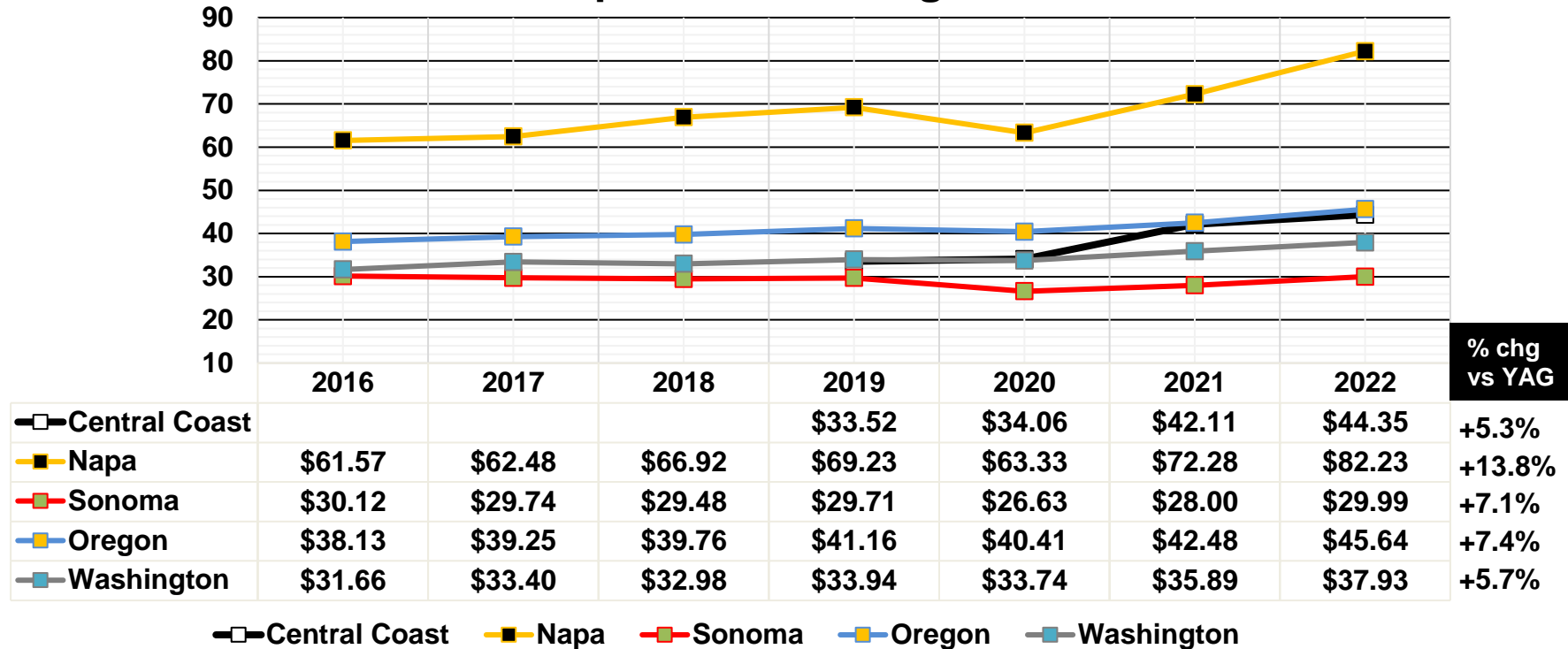
# COVID ACCELERATED DTC GROWTH; FALLEN BACK SINCE TO MORE TRADITIONAL GROWTH

## Central Coast DtC Shipments – 2019 thru 2022



# CENTRAL COAST DTC PRICING IS EQUIVALENT TO OREGON - PREMIUM TO SONOMA AND WA, AND A GROWING GAP TO NAPA

## DtC Shipments – Average Bottle Price



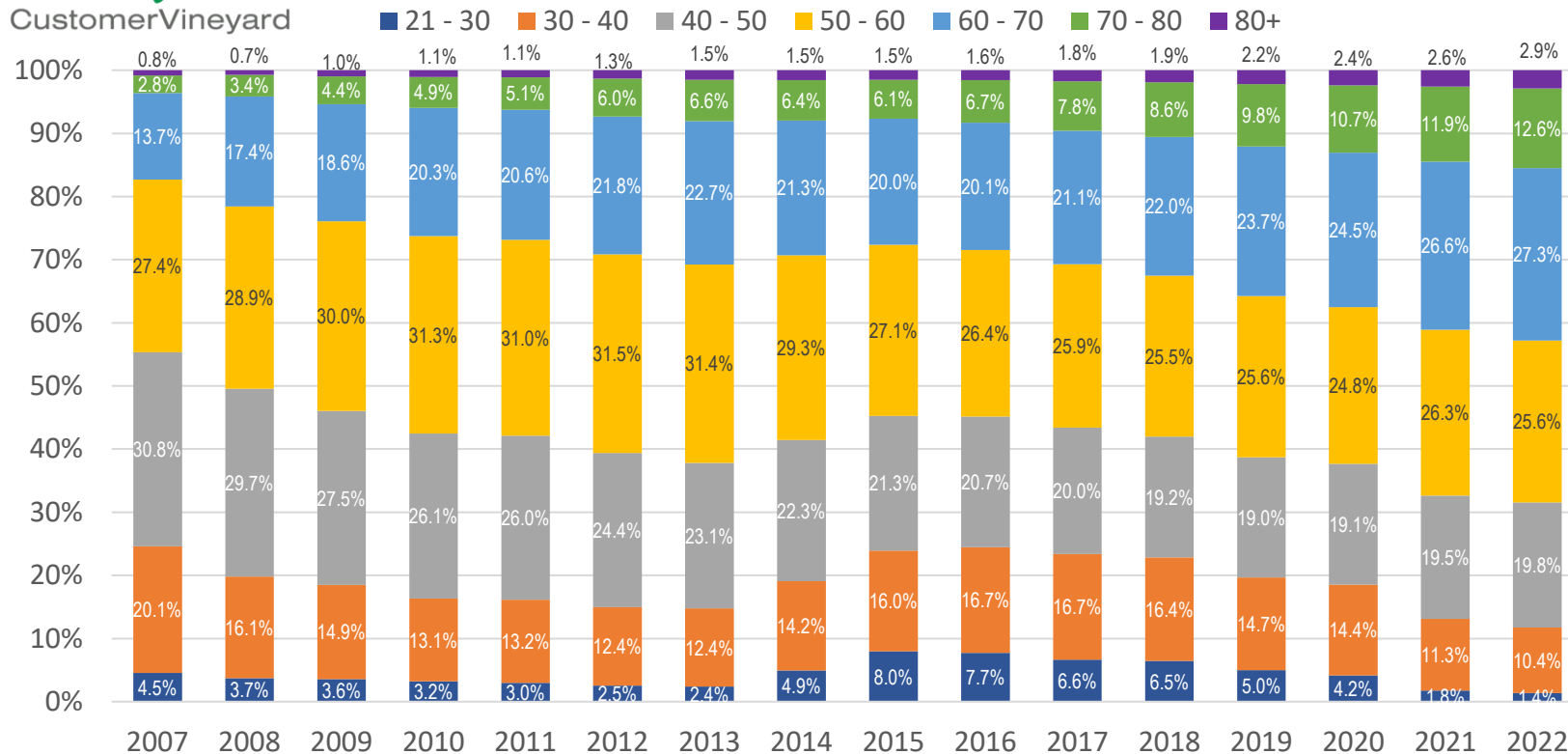


# 60+ EXPANDING; <60 DECLINING



## AGE, SHARE OF DTC CUSTOMER SHIPMENTS SPENDING – CENTRAL COAST

CustomerVineyard



Change in Share 2007-2022	
80+	+2.1
70-80	+9.9
60-70	+13.6
50-60	-1.7
40-50	-11.0
30-40	-9.7
21-30	-3.2

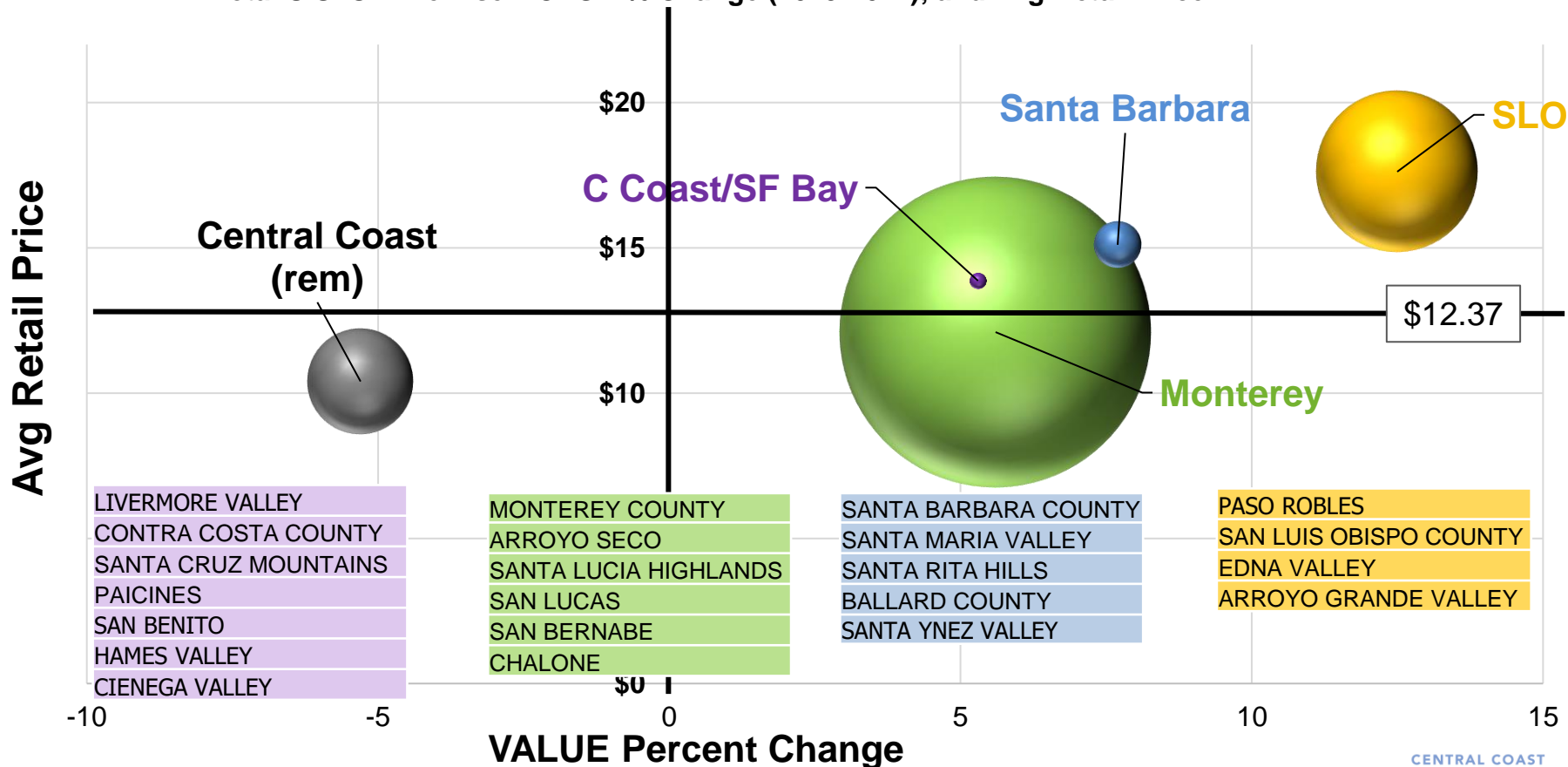
Source: Customer Vineyard, Sovos/ShipCompliant

SOVOS ShipCompliant

CENTRAL COAST  
Insights

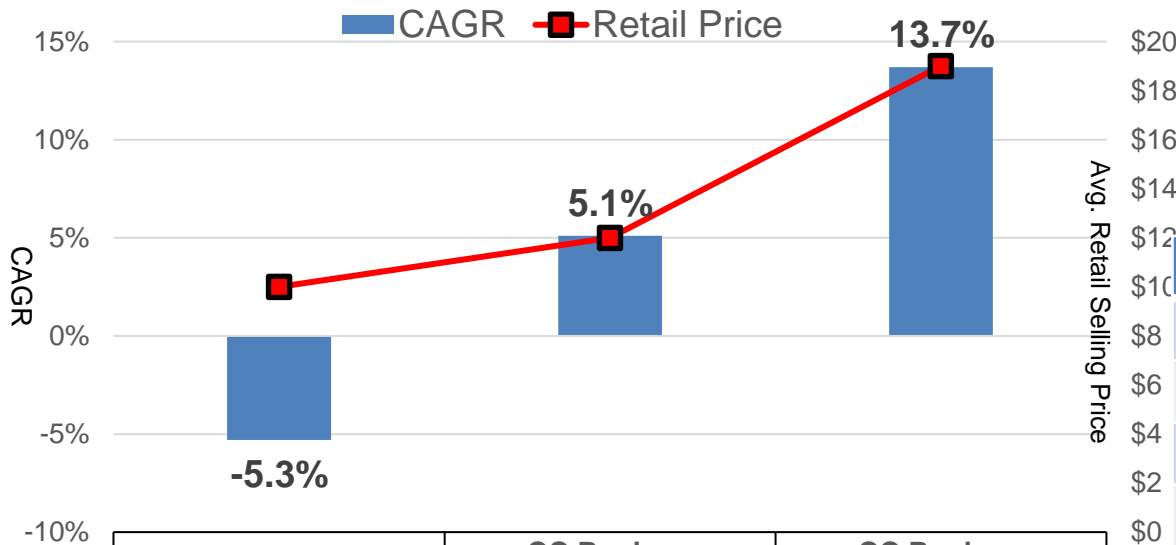
# CENTRAL COAST REGION (3 TIER OFF PREMISE)

Total U.S. Off Premise – CAGR % Change (2019-2022); and Avg Retail Price



# HIGHER PRICE TIERS PERFORMING BEST

Central Coast Performance by Price Tiers (2019-2022)



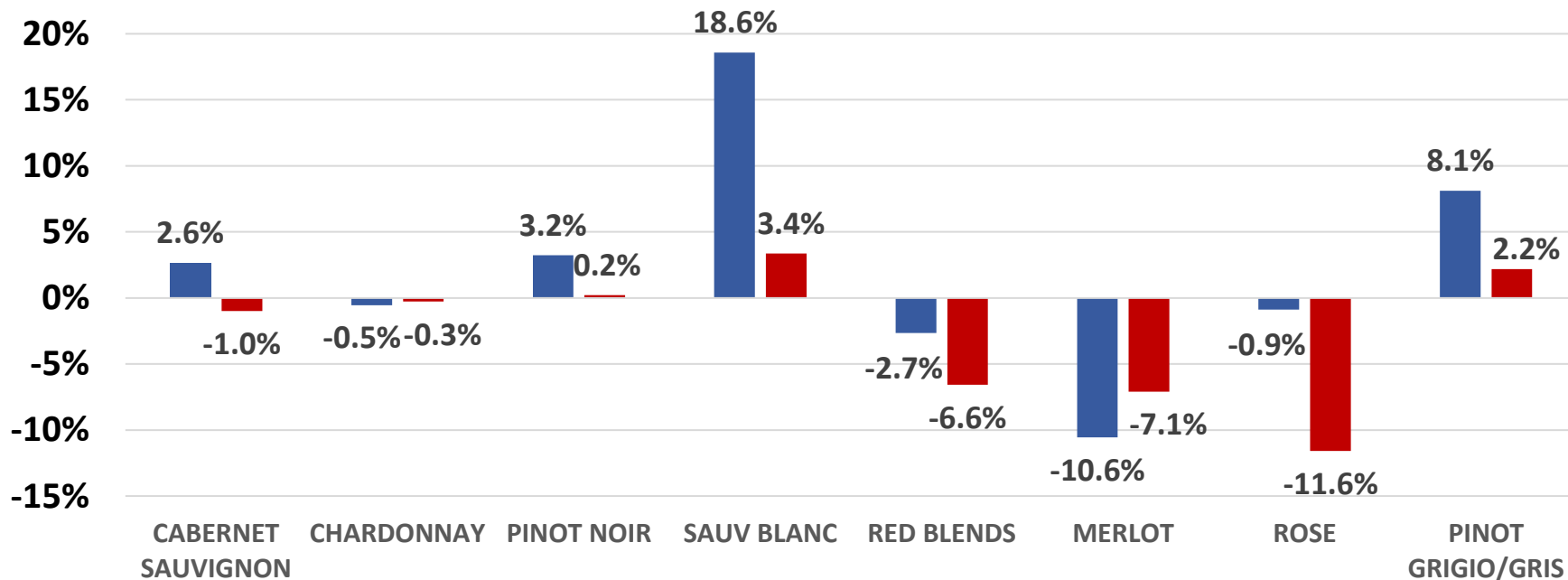
	C Coast Rem (\$10)	CC Regions (\$10-\$14)	CC Regions (\$18-\$40)
CAGR	-5.3%	5.1%	13.7%
Retail Price	\$10	\$12	\$19

Region	CAGR
Arroyo Grande Valley	+19.2%
Paso	+14.3%
Santa Maria Valley	+14.2%
Santa Cruz Mtns	+12.6%
Santa Ynez Valley	+11.4%
Santa Rita Hills	+9.1%
Santa Lucia Hlands	+8.0%

# CENTRAL COAST GENERALLY > CATEGORY – LED BY SAUV BLANC

C Coast vs Total Category – by Varietal  
Retail Off Premise – Annual 2022 vs 2021 % Chg (Dollars)

■ Central Coast ■ Category



# CENTRAL COAST EXPOSURE BEYOND CA STRONG AT RETAIL LED BY POWER BRANDS – OPPORTUNITY FOR DTC

	% of Region Volume Beyond California				
	C Coast	Napa	Sonoma	N Coast	Rem CA*
<b>Retail Off Premise<sup>1</sup></b> (sold out of state)	<b>74.1%</b>	<b>70.5%</b>	<b>68.3%</b>	<b>78.3%</b>	<b>85.5%</b>
<b>DtC Shipments<sup>2</sup></b> (shipped out of state)	<b>32.6%</b>	<b>67.6%</b>	<b>73.2%</b>	<b>N/A</b>	<b>45.9%</b>

\* Rem CA for DTC includes N Coast and everything other than C Coast, Napa, Sonoma/Annual 2022

\* Rem CA for Retail includes everything other than C Coast, Napa, Sonoma, N. Coast

1. **NielsenIQ** Source: NielsenIQ Scan Off-Premise Channels; 52 week period end December 2022

2.  **WINES VINES ANALYTICS**  **SOVOS** ShipCompliant

# TOP 100 BRAND POWER WALL

Brands with highest \$ gains in 3 Tier Off Premise (Ttl U.S. - 2022)

1

10

91

100



# TOP 100 BRAND POWER WALL

Brands with highest \$ gains in 3 Tier Off Premise (Ttl U.S. - 2022)

C Coast Centric  
(75%+ )

Some Central  
Coast

Josh

Black Box

Meiomi

Daou

Mark  
West

Seaglass

Austin

Sunny  
w/Flower

Justin

La Crema

Banshee

J

Tribute

Chloe

Austin  
Hope

Central Coast - 26% of top 100

Hess

Pessimist

The Stag

Talbott

Aravail

Angels  
Ink

Mer Soleil

Boen

Block &  
Barrel

Tooth &  
Nail

Summer  
Water

# CENTRAL COAST INSIGHTS SUMMARY

**Many positives: Central Coast continues to grow – ahead of the market!!!**

- Good mix of 3 Tier and DtC
- Strong presence in premium + price tiers - recognizable/trusted brands + new/innovation
- Opportunities to introduce more of Central Coast beyond CA borders

**Long-term industry challenges, include**

•Chief among those is converting Wine *interest* among younger LDA's of all color - into *engagement/involvement* - **choosing WINE on more occasions**

- What's important to their lifestyles, culture, traditions, and the particular 'occasion'
- Not just where you are, but where they are – where they live, shop, eat/drink
- They are “open” to new things

•Wine highly associated with...timelessness, elegance, romance, formal events, pairings - but how about *fun, playful, casual, convenient*

•Not losing in On Premise – can any of these help? wine cocktails, greater wine BTG programs / wine in kegs, creative approaches to what the consumer pays

•Go after Beer and Spirit drinkers of all ages – they're your target market too!

# AZUR ASSOCIATES | WINE M&A OVERVIEW

## 2022 Activity + 2023 Outlook



### 2022 M&A Was Still Very Active

- Transaction volume was consistent in 2022 v. 2021
- >25 notable transactions occurred both years



### M&A Value Was Lower in 2022 vs. an Unusually High 2021 Comparison

- 2021 wine M&A value was unusually high due to several large company deals driving value >\$3.5B
- 2022 was >\$1.5B over a similar number of transactions



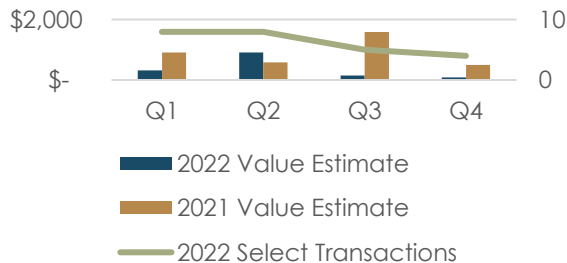
### Napa Valley Transactions Dominate M&A Value in 2022

- In 2021, value was mostly driven by larger company transformative transactions
- In 2022, without the larger company deals, significant Napa Valley M&A drove most value (>80%)

## 2023 OUTLOOK

- **A+ brands with excellent assets & strong cash flow will still transact** as observed with Moët Hennessey's purchase of Joseph Phelps
- **Transaction volume will be steady but slower** evident in Q3/Q4 of 2022
- **Higher cost of capital impacts valuations more as time goes on** softening valuations on less than A+ opportunities
- **Premium vineyards in desirable locations are still in demand** as luxury wine companies look to secure quality supply
- **Route to Market will continue to evolve and drive further DTC and wholesale platform M&A** as regulatory changes evolve
- **Opportunity remains for those prepared & with cash as significant industry transitions continue** due to generational transitions and fatigue combined with more challenging macro trends

## 2022 SELECT DOMESTIC M&A (\$ 000'S)



# THANK YOU!!!



*Want to go deeper?  
Reach out to me*

## AZUR ASSOCIATES

STRATEGIC & FINANCIAL ADVISORY - Strategic & Long-Range Planning + Fractional CFO Services

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MERGERS + ACQUISITIONS - Buy-Side & Sell-Side Advisory + Diligence Services

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ROUTE TO MARKET CONSULTING - Wholesale + Direct To Consumer Optimization

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AZUR INTELLIGENCE - Fact Based Business Intelligence & Analytics

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