



Silicon Valley Bank

Wine Division

September 5, 2014

Nancy Watt, County Executive Officer
Mark Luce, Chairman, Napa County Board of Supervisors
County Administration Building
1195 Third Street
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Conclusion

We believe the Wine Industry of Napa Valley experienced conservative losses of \$80,300,000 as a consequence of the South Napa Earthquake.

Background and Summary

The M6.0 South Napa Earthquake that occurred 2014-08-24 at 10:20:44 UTC impacted several counties in California most notably the County of Napa which is renowned worldwide for its wine production.

The Wine Business of Napa County has an estimated annual impact on the US Economy exceeding US\$50BNⁱ and this natural disaster will have a measured impact on local, state, and the Nation's economy as a whole, but outsized impact on the family farms, wineries, farm workers, and winery employees working and living in Napa County.

As experts in the wine businessⁱⁱ, Silicon Valley Bank has been asked to estimate the financial impact to the Napa Valley wine business community. Given that damage estimates in the region are climbing as new damage is discovered and as contractors are retained to provide more precise property estimates, and given the short time since the event which necessitates applying the facts to a fluid situation, many assumptions are made that with more time would alter our opinion significantly higher or lower than this estimate. That said, we expect our loss estimates will prove conservative in the final accounting.

While impossible to attain a precise estimate of damage, we are able to apply proprietary financial informationⁱⁱⁱ, direct interviews with the wineries suffering the worst damage, first hand inspections of a sample of the most impacted wineries, survey responses from more than 50% of Napa wineries, our own knowledge of the market^{iv}, and our knowledge of the locations of inventory and production capacities of Napa wineries – each of which help us

in arriving at our conclusions which we believe to a thoughtful and balanced perspective given the facts at hand.

Included in our analysis of winery losses are damage to buildings and infrastructure such as waste water ponds and private bridges, winemaking equipment, cleanup and removal costs, vineyard irrigation, bottled inventory in current release, bottling supplies, finished inventory ready for bottling, bulk wine, barrels, lost revenue from damaged tasting rooms, losses from business interruption, and loss of wine held in wine libraries.

Losses from standalone vineyard operations including losses to machinery, supplies, cleanup costs, irrigation and piping, loss of revenue from delayed harvest, and damaged infrastructure should easily fall in a range of \$10M to \$20M with an expected loss of \$15M.

The losses to warehouse and wine storage operations that were at the quake epicenter will be several million dollars but under the circumstances were surprisingly low due to newer building codes and the earthquake preparedness of the warehouse operators. Those losses are not considered in this estimate and would raise the estimation if considered. Losses in custom crush facilities were quite significant and are included in our calculations.

Given our analysis, we believe the earthquake losses to Napa wineries and vineyards will conservatively fall in the range of \$70M to \$100M with a most likely loss approximating \$80M.

Other Conclusions:

- We estimate that 60% of Napa County wineries sustained some degree of damage, and up to 25% of wineries suffered moderate to severe damage exceeding \$50,000 per winery, ranging upwards to \$8M in the most devastating circumstance.
- The majority of the damage was located in the Southern and Western county, as well in business operations in the City of Napa.
- Businesses supporting warehousing and shipping at the epicenter experienced significantly lower damage that would be expected.
- The AVA's in the Carneros Region of Napa, Mt Veeder, Yountville, and Oak Knoll areas suffered the greatest damage.
- Custom crush facilities experienced outsized losses which may necessitate additional review of earthquake and safety protocols in such operations.

Methodology:

In order to complete this analysis within the narrow analytic window required, we combined survey information from two separate sources as a foundation. That information represents slightly more than half of the winery community of the Napa Valley. We were

able to make direct contact with most of the wineries who suffered the largest losses to ascertain their damage estimates. Those losses are continuing to grow.

Publicly traded companies are less willing to share information that could prove to be insider information, so estimates of their losses were made based on specific productive capacities combined with the locations of their facilities and wine storage, with higher loss rates attributed to those in the most impacted areas of the quake. That was combined with information we gained from confidential sources to make what we consider reasoned estimates of public winery losses.

Many wineries and custom crush facilities are still cleaning up and still unable to fully estimate their losses. Understanding the type and extent of damage has given us the ability to make informed estimates in those cases. Most wineries have reported their losses in the form of bulk wine losses which are significantly less costly than would be the loss of bottled wine. Bulk wine at this time of year however is often finished and ready for bottling so the real loss isn't the accounting cost of the lost bulk wine. The real loss of bulk wine is the lost opportunity to sell that wine in the market in future periods. That lost revenue has been estimated and captured in our analysis.

Because Napa Valley wine carries a worldwide reputation and wine produced at any winery is specific to the soil, the finished wine that has been lost in this disaster is irreplaceable. It's not possible to bring in wine from another appellation to replace the loss of estate produced wine. Wineries need to have their product in their markets to maintain awareness with their consumers. Specific brands will experience stock-outs in the market that will have a financial impact to particular brands. We have not included in our estimates the losses due to this brand damage.

Business losses will continue through the next several years as wine is sold. We have audited information about the margins of Napa wineries which we were able to apply to arrive at a reasoned estimate of lost revenue as a consequence of ruined 'wine in process.' Knowing which wineries have tasting rooms, where they were located, combined with self-reported information regarding a winery's ability to operate through the remainder of the year allows us to compute the losses from impacted and closed direct to consumer sales operations.

ⁱ The Economic Impact of Napa County's Wine and Grapes, Stonebridge Research, November 2012.

ⁱⁱ This report was written by Rob McMillan, EVP and Founder of Silicon Valley Bank's Wine Division. His credentials can be found at <http://www.svb.com/profile/Rob-McMillan/>

ⁱⁱⁱ Silicon Valley Bank's Peer Group Analysis is a database of reviewed and audited financial statements of private wine business on the West Coast of the US. We use the database to provide our clients with gratis financial benchmarking statistics. Napa County information obtained from the database has been used in shaping estimates where needed. We have also used Wine & Vines OMS database to assist us in developing reasonable estimates of productive capacity.

iv www.svbwine.blogspot.com

It should be noted because of our expertise and focus in the wine industry, Silicon Valley Bank was asked to assist the wine community in calculating the damage assessment of the South Napa Earthquake. We are not being compensated for our services. While bias is a possibility due to our focus, we have little incentive to apply bias to the findings and have meticulously tried to apply detached reason to the analysis.

While Silicon Valley Bank is the dominant banker to the Napa wine business, the facts provided are a combination of specific knowledge, survey, and analyses of the Napa wine business as a whole. Estimates and conclusions have little material correlation between the bank's portfolio and the conclusions here within.

This information is intended solely for the use of government officials in determining the financial impact of the South Napa Earthquake to the wine business in the Napa Valley and shouldn't be used by others for any other business purpose.

**Silicon Valley Bank****ROB MCMILLAN**

EVP & Founder - SVB Wine Division
Silicon Valley Bank

Rob McMillan is EVP and Founder of Silicon Valley Bank's Wine Division based in Saint Helena, California. Starting in 1992, he developed the Division from the idea and start-up phase to the point where it's now regarded as the leading and most connected provider of financial services to the US fine wine business.

Rob's banking career started in 1981 and he has worked in Silicon Valley Bank since 1990. During that time he has moved through roles of increasing responsibility including a term on Silicon Valley Bank's Managing Committee.

Today Rob supports Silicon Valley Bank's continuing growth and success in the Wine Business by assisting the Division's clients and relationship managers in shaping their views of the wine business, sharing his own industry experience, and providing ideas and solutions. He helps improve the odds of success for the Bank's customers by presenting private interactive discussions on market trends to individual management teams within the Bank's portfolio of clients.

Rob has published reports of varied and emerging trends to the wine industry. His views and perspectives are widely published in the wine trade press and in National news outlets. He has been a guest lecturer at numerous West Coast Universities. He is author of the Bank's highly regarded Annual State of the Wine Industry Report. Rob's perspectives regarding the direction, opportunities and threats in the Fine Wine business and National economy continue to keep him busy on the local and international speaking circuit. In his copious free time he pens opinion pieces on his blog, SVB on Wine. Among other accolades, Rob has twice been named one of the Top 100 Most Influential People in the U.S. Wine Industry; the only banker to make the list.

Rob McMillan received a bachelor's degree in Finance/economics from Sacramento State University and an MBA from Santa Clara University's Leavey School of Business. He is affiliated with, and supports numerous charities and industry associations both in and outside of the wine industry. He has served on varied planning and steering committees for symposia in the wine industry, and in Board capacities for a Vintners Association, Business to Business internet company, Fine Wine distributor, and a Logistics and Transportation firm.

Rob is the father of two, enjoys the outdoors, travel, and takes any opportunity to play percussion and drums in live settings. He is the drummer in the Bank's Band; The Exploding Warrants.

Location:

St. Helena, CA

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