

svb



Silicon Valley Bank



Napa County: *Wine Business Update*

JUNE 21ST 2017



ROB MCMILLAN, EVP & FOUNDER
SILICON VALLEY BANK
WINE DIVISION

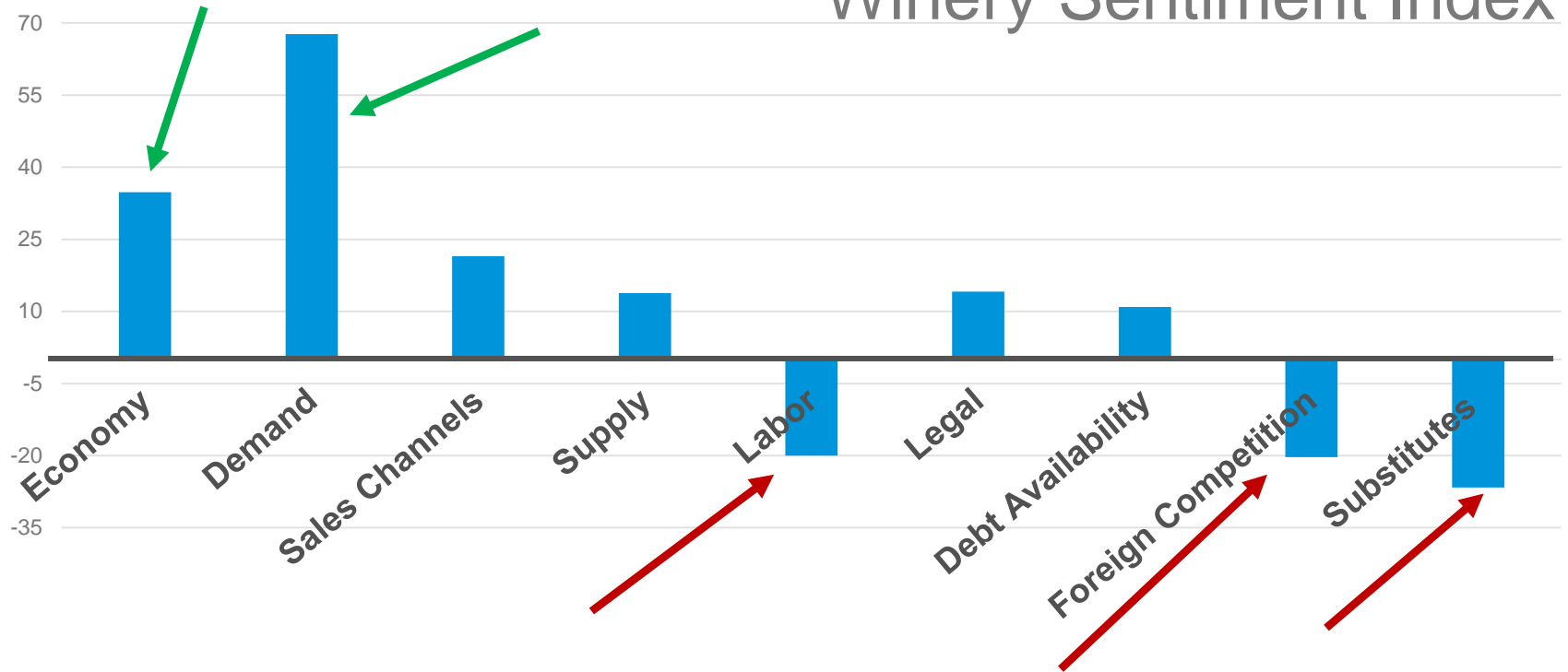
Rob McMillan - Curriculum Vitae

- Subject matter expert cited in *CNBC, LA Times, PBS, Barron's, Forbes, NBC Universal, NY Times, Bloomberg, Wine Spectator, Decanter*, and many others
- In demand International speaker on the U.S. wine business.
- Only banker ever named as one of the 50 most influential people in the Wine Business.
- Founder, Silicon Valley Bank's Wine Division
- Published author of numerous reports on industry trends used in Business, Universities in the US and throughout the World.
- Has worked in the wine business since 1981.
- Resident of Napa County for more than 20 years.

Owners Are Optimistic About Demand and Economic Conditions

Labor, Substitutes, Imports - Supply?

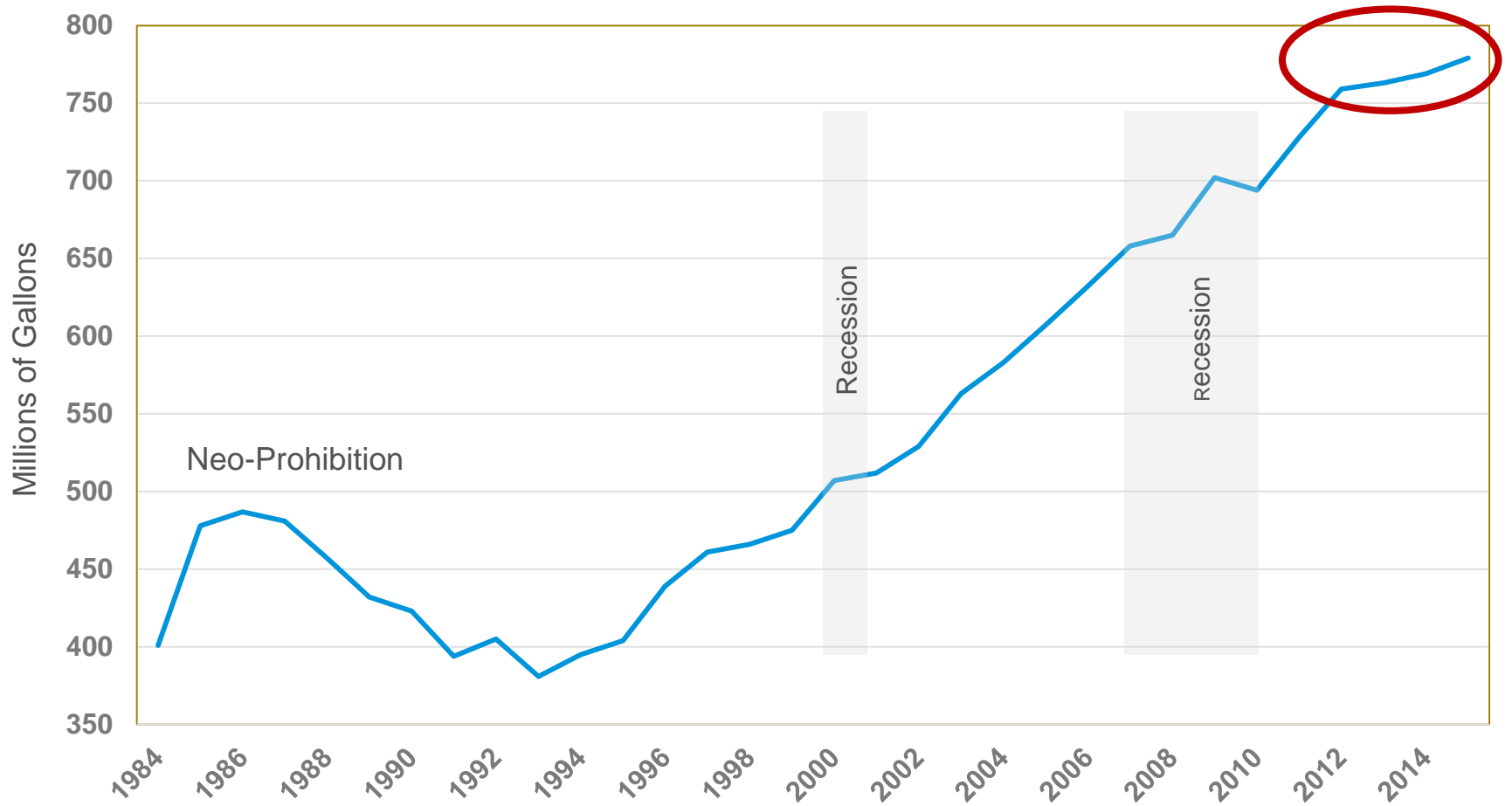
Winery Sentiment Index



US Wine Sales

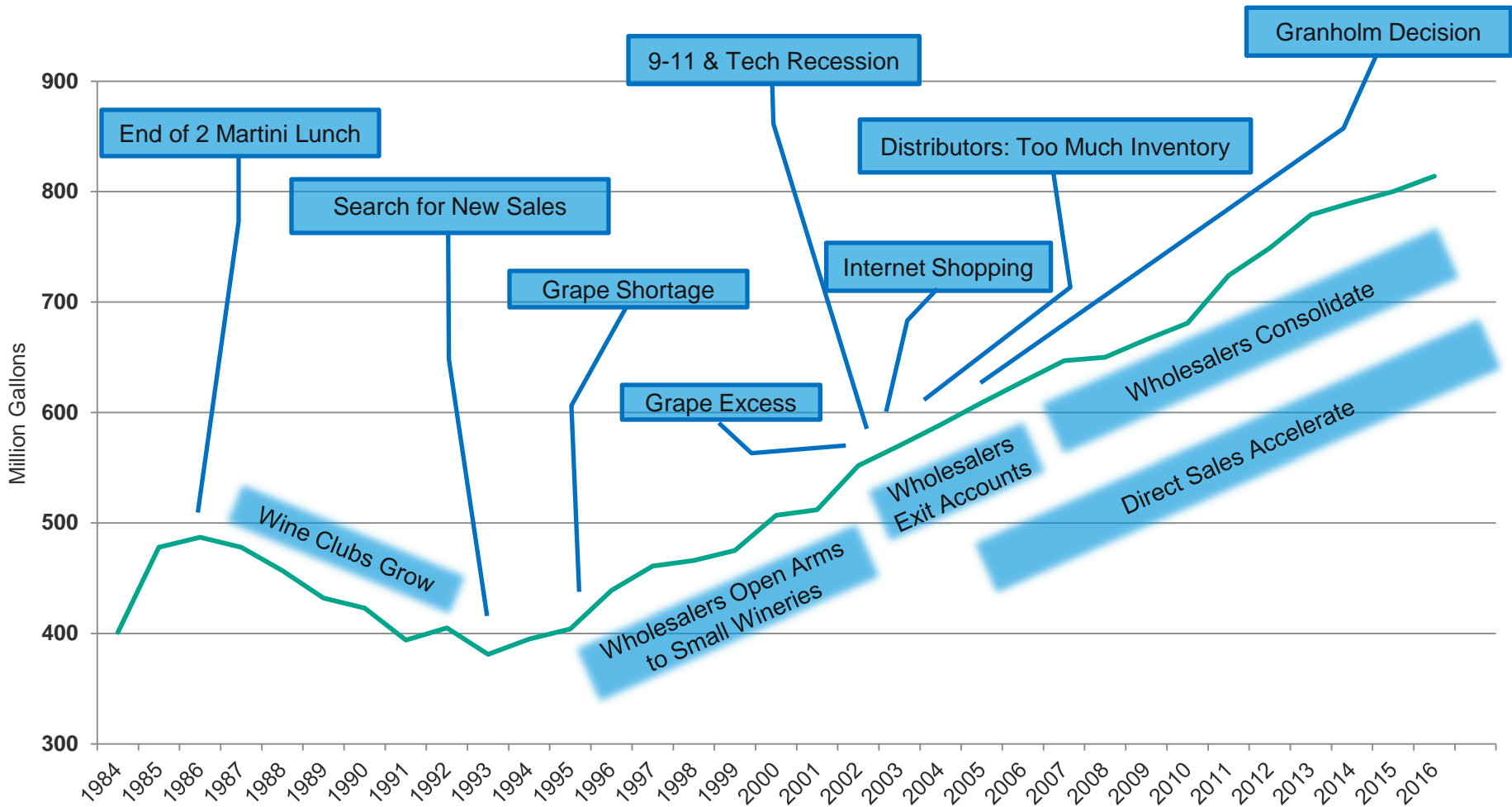
Growth in Total Table Wine Volume - USA

Total Table Wine Consumption 1984 - 2016



Factors Driving Shifting Sales Channels

- *Can't wineries sell wine without a tasting room?*



Source: CA Wine Institute & SVB

Why Have Wine Sales Gone Direct to Consumer?

Distributors Have Consolidated and Don't Serve Small Wineries

1995

2,600 Wineries

**1.15
Distributors
Per Winery**

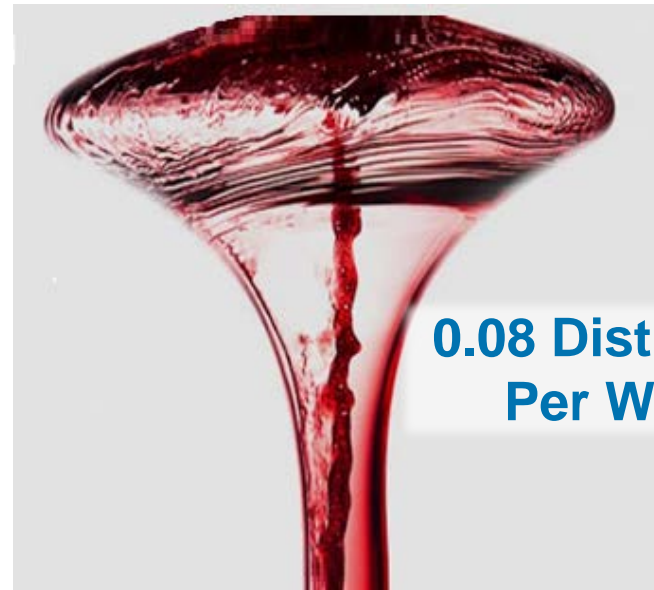


3,000 Distributors

2016

9,000 Wineries

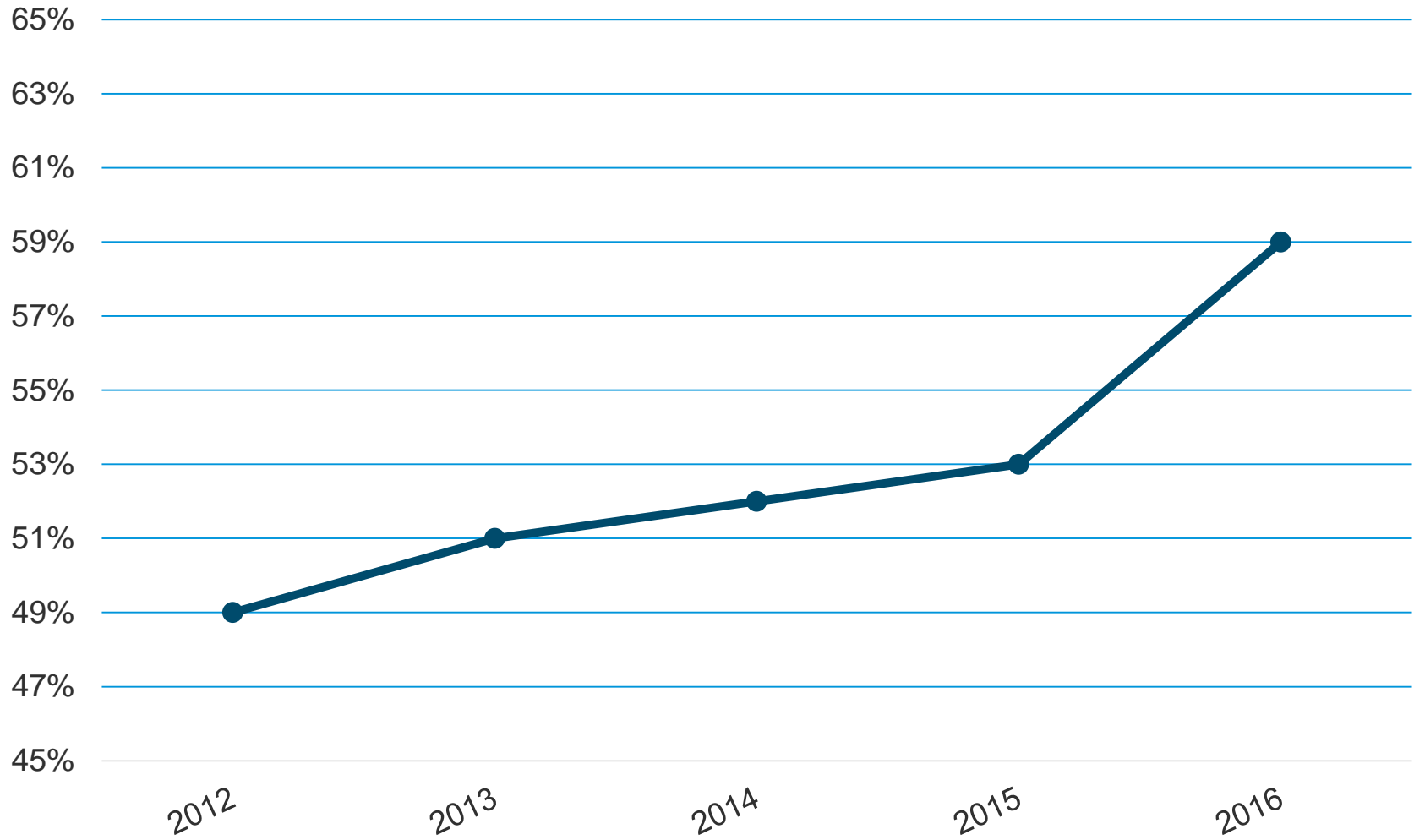
**0.08 Distributors
Per Winery**



700 Distributors

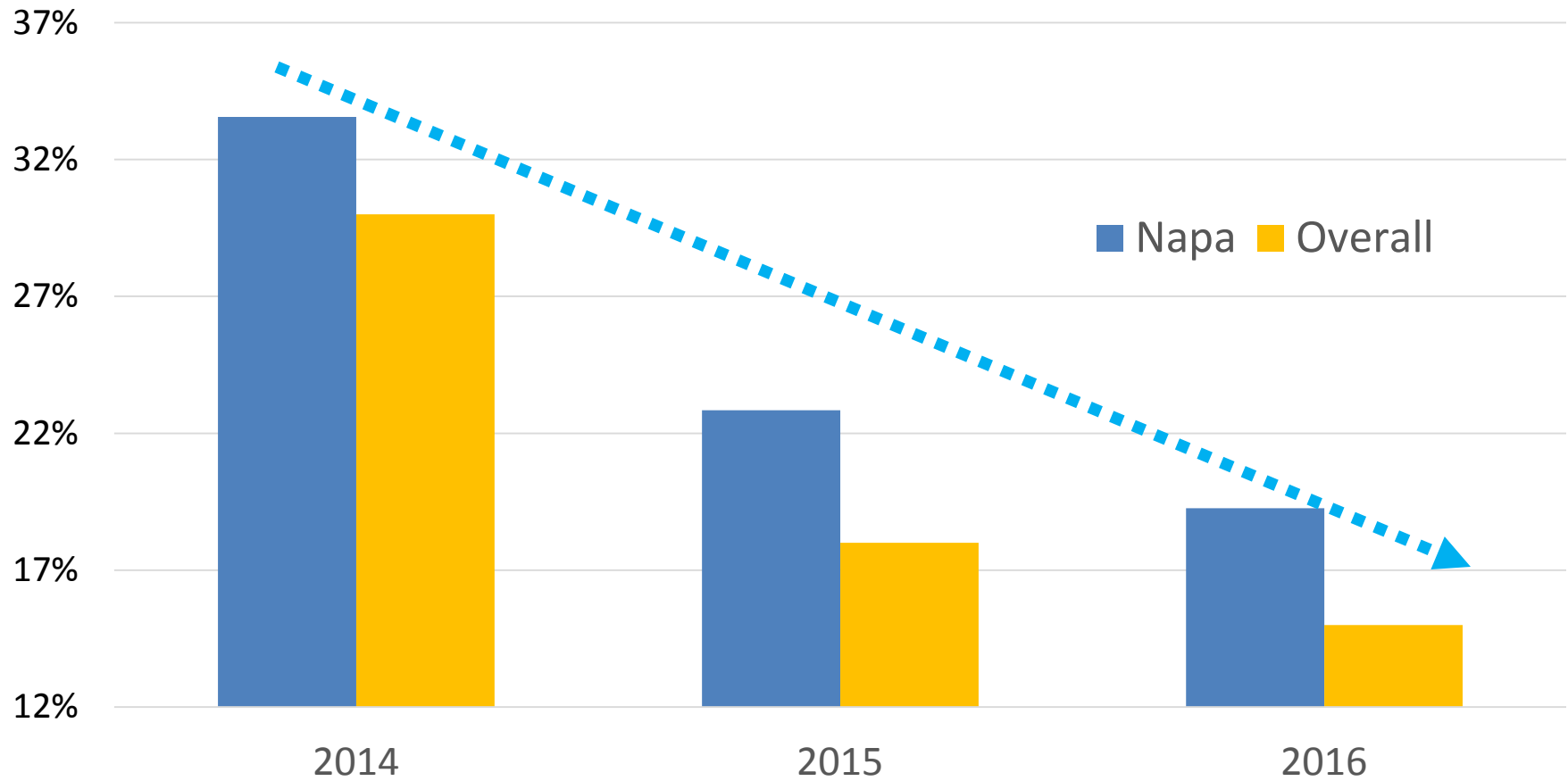
Revenue Dependence from DtC Sales

DtC Sales Now Critical to Survival



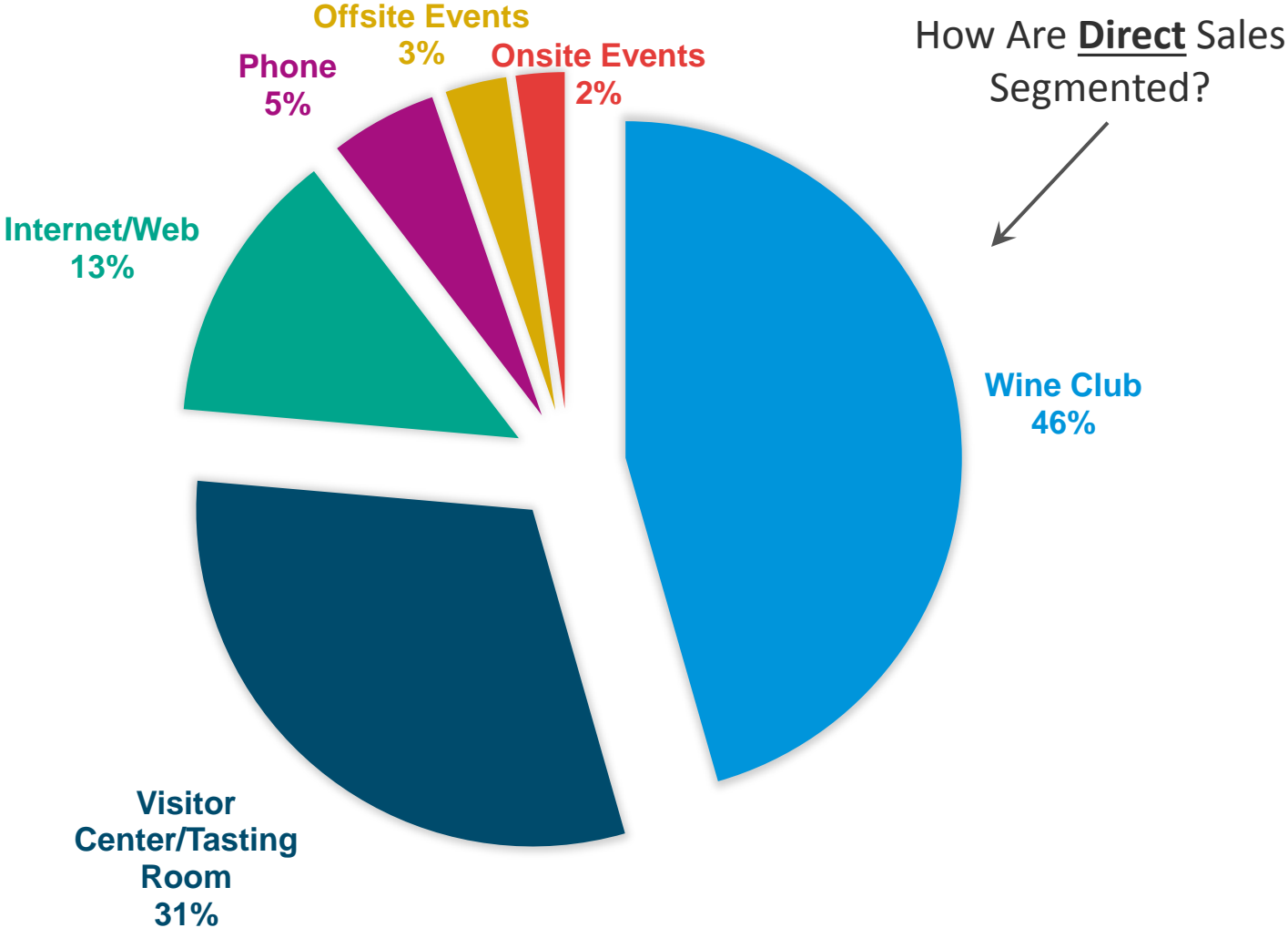
Wine Sales in Restaurants Are Dropping

Consumer Behavior, Wholesaler Consolidation and Markups All Playing a Role



DtC Accounts for 59% of the Average Winery's Sales In Napa

In the Early 90's, Twenty Percent of Sales were Direct



Source: Silicon Valley Bank and Wine Business Monthly 2017 Direct-to-Consumer Survey

Good News: “Premiumization” Has Become the Dominant Trend

\$10 and Above is where you find Growth

	Growth Rate	Share of Total Wine	Change in Growth Rate
TOTAL TABLE WINE	3.3	100.0	-
TTL GLOBAL TBL BE 0-2.99	(2.6)	5.7	(0.3)
TTL GLOBAL TBL BE 3-5.99	0.8	30.1	(0.7)
TTL GLOBAL TBL BE 6-8.99	(3.8)	11.1	(0.8)
TTL GLOBAL TBL BE 9-11.99	5.1	23.3	0.4
TTL GLOBAL TBL BE 12-14.99	7.6	13.6	0.5
TTL GLOBAL TBL BE 15-19.99	10.0	8.8	0.5
TTL GLOBAL TBL BE >20	8.6	7.3	0.4

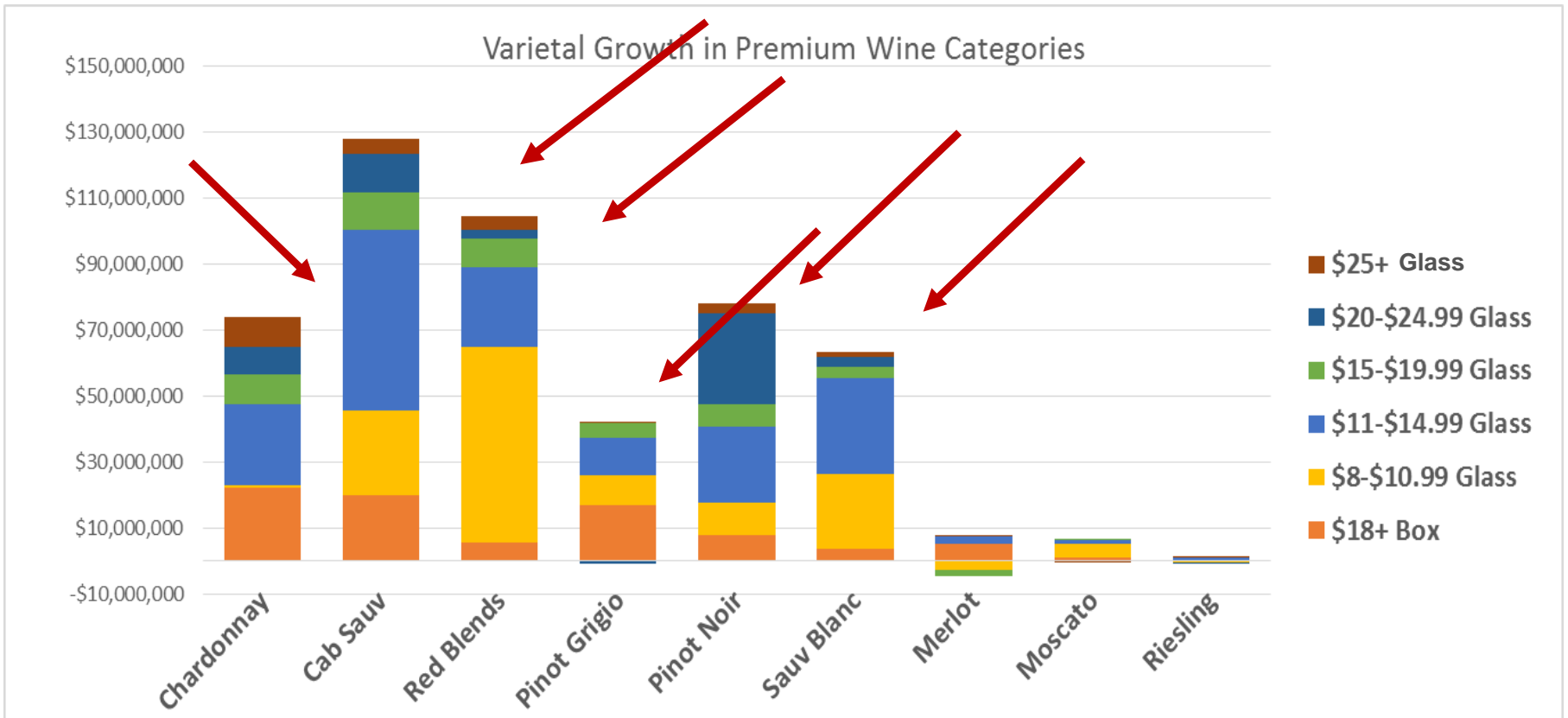
Bad News: Premium Value Priced Imports Are A Concern

Europe and New Zealand Leading the Way

	Growth Rate	Share of Total Wine	Change in Growth Rate
TTL DOMESTIC WINE	3.6	73.1	0.2
TTL IMPORTED WINE	2.4	26.9	(0.2)
TTL FRENCH TBL	16.2	2.6	0.3
TTL NEW ZEALAND TBL	13.1	2.9	0.3
TTL ITALIAN TBL	3.9	9.0	0.1
TTL SPANISH TBL	0.6	1.2	(0.0)
TTL CHILEAN TBL	(5.9)	1.9	(0.2)
TTL ARGENTINE TBL	(4.2)	2.9	(0.2)
TTL AUSTRALIAN TBL	(2.7)	5.1	(0.3)

Cabernet is Driving Varietal Growth Today

Red Blends – Still Expanding



Source: IRI, SVB Analysis

Heat Map Of Varietal / Price in Premium Segments

What Are We Training Young Consumers To Drink?

	\$18+ Box	\$8-\$10.99 Glass	\$11-\$14.99 Glass	\$15-\$19.99 Glass	\$20-\$24.99 Glass	\$25+
Chardonnay	\$22,401,610	\$508,039	\$24,608,787	\$8,992,753	\$8,505,185	\$8,764,175
Cab Sauvignon	\$19,944,224	\$25,541,909	\$54,667,132	\$11,623,711	\$11,685,505	\$4,396,192
Red Blends	\$5,486,321	\$59,252,334	\$24,078,209	\$8,847,479	\$2,464,761	\$4,137,486
Pinot Grigio	\$17,060,165	\$9,036,963	\$11,134,526	\$4,521,303	(\$947,342)	\$16,615
Pinot Noir	\$7,855,515	\$10,003,069	\$22,846,341	\$6,886,543	\$27,505,776	\$3,009,378
Sauv Blanc	\$3,655,843	\$22,634,471	\$29,211,556	\$3,218,170	\$3,253,529	\$1,473,433
Merlot	\$5,156,120	(\$2,781,442)	\$2,245,834	(\$1,868,772)	\$240,761	\$159,502
Moscato	\$1,190,354	\$4,240,840	\$833,723	\$25,790	(\$22,081)	(\$3,899)
Riesling	(\$16,010)	(\$214,895)	\$1,158,426	\$105,715	(\$90,506)	\$40,583

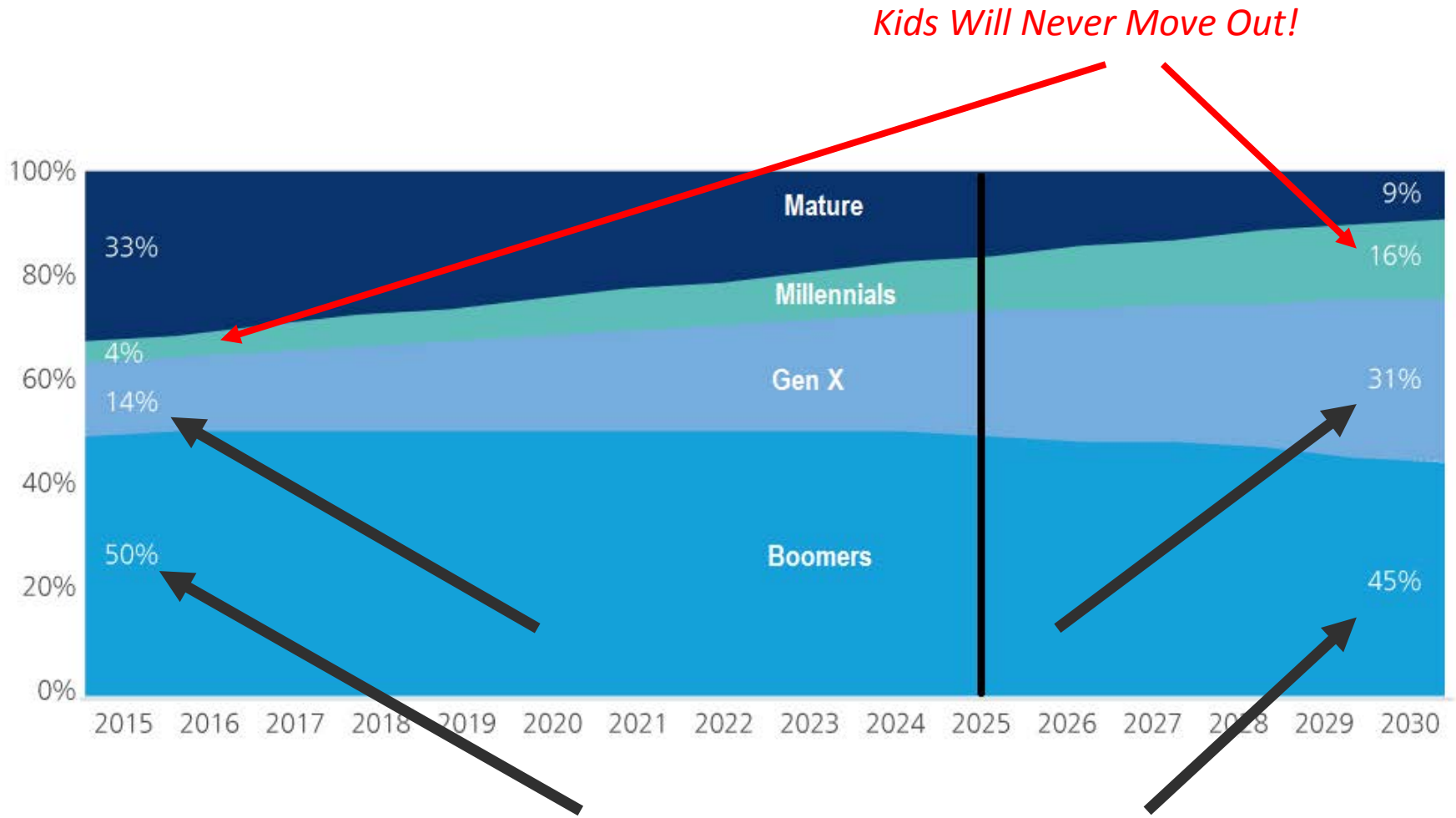


Source: IRI, SVB Analysis


Generational Changes and Consumer Demand

Can't Win By Doing it The Same Way

Projection of U.S. Net Household Wealth to 2030



Changes to Consumer Demand in Pictures



You can't find
this wine. It's a
Parker 97.
\$95 a bottle...

I'm going to
rush home and
tell mom I think I
found the one!

2000





Isn't this a killer wine value??
COSTCO,
\$15 a bottle...

Oh...What a thrifty guy!
He's the one!

2008



Isn't this an awesome Napa Cab? \$500 a bottle...

2017

He can afford that? He's definitely THE ONE!



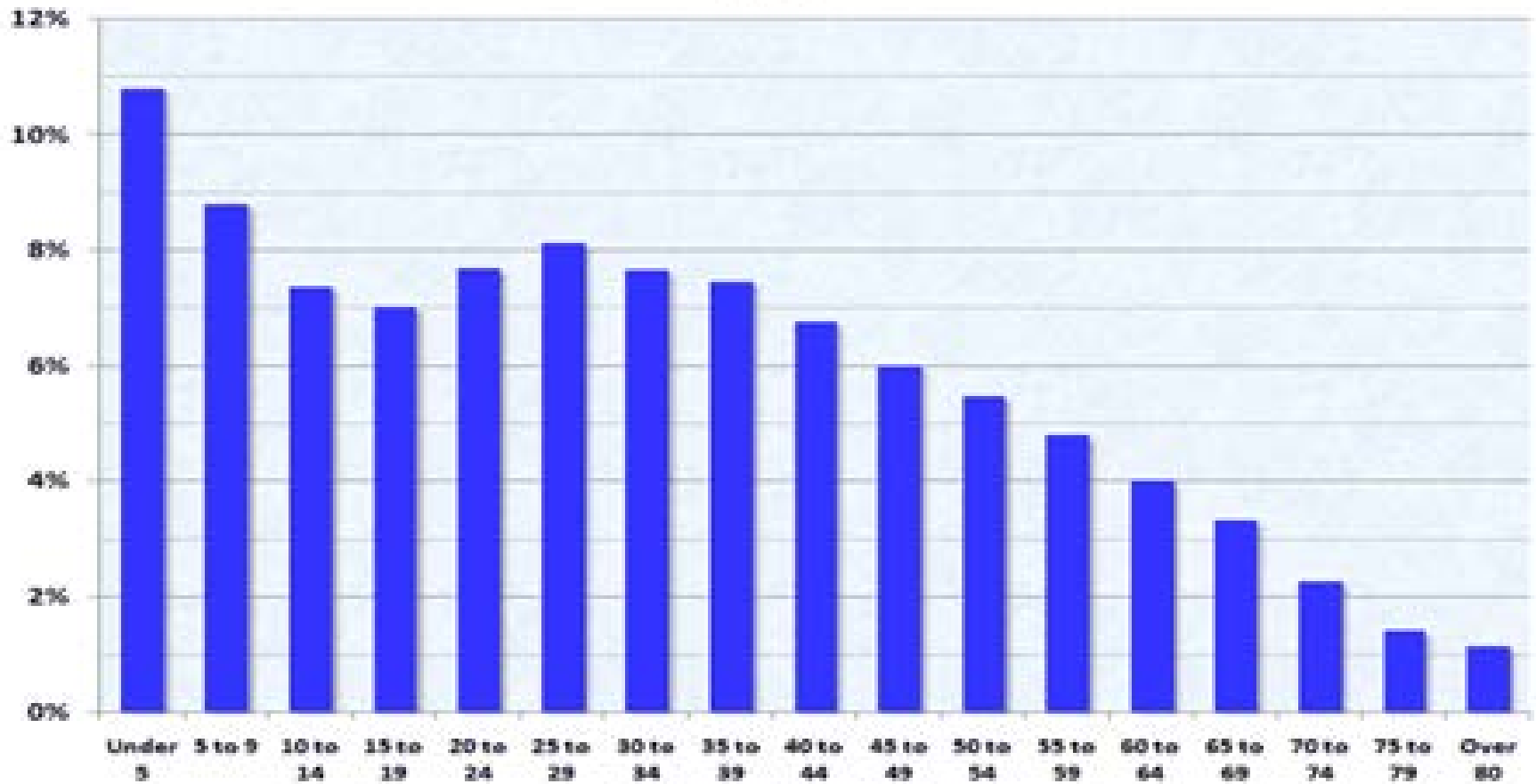
Oh no...she can tell I borrowed this bottle from my dad...

....should I tell him I still live with my mother...

2017

Boomers Retiring – Millennials Arriving

Population Distribution by Age
1950

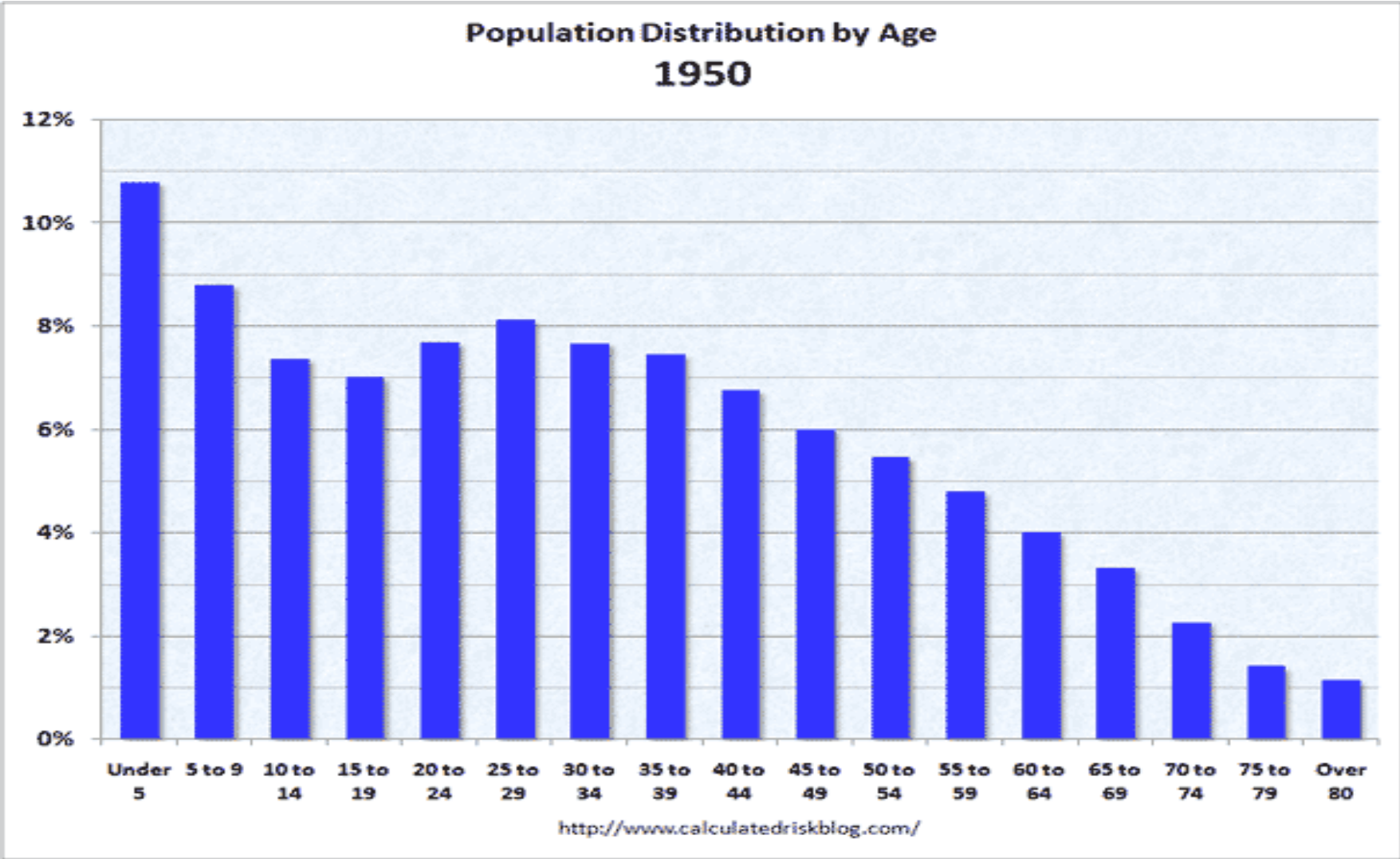


<http://www.calculatedriskblog.com/>



Source: *Calculated Risk Blog*

Boomers Retiring – Millennials Arriving

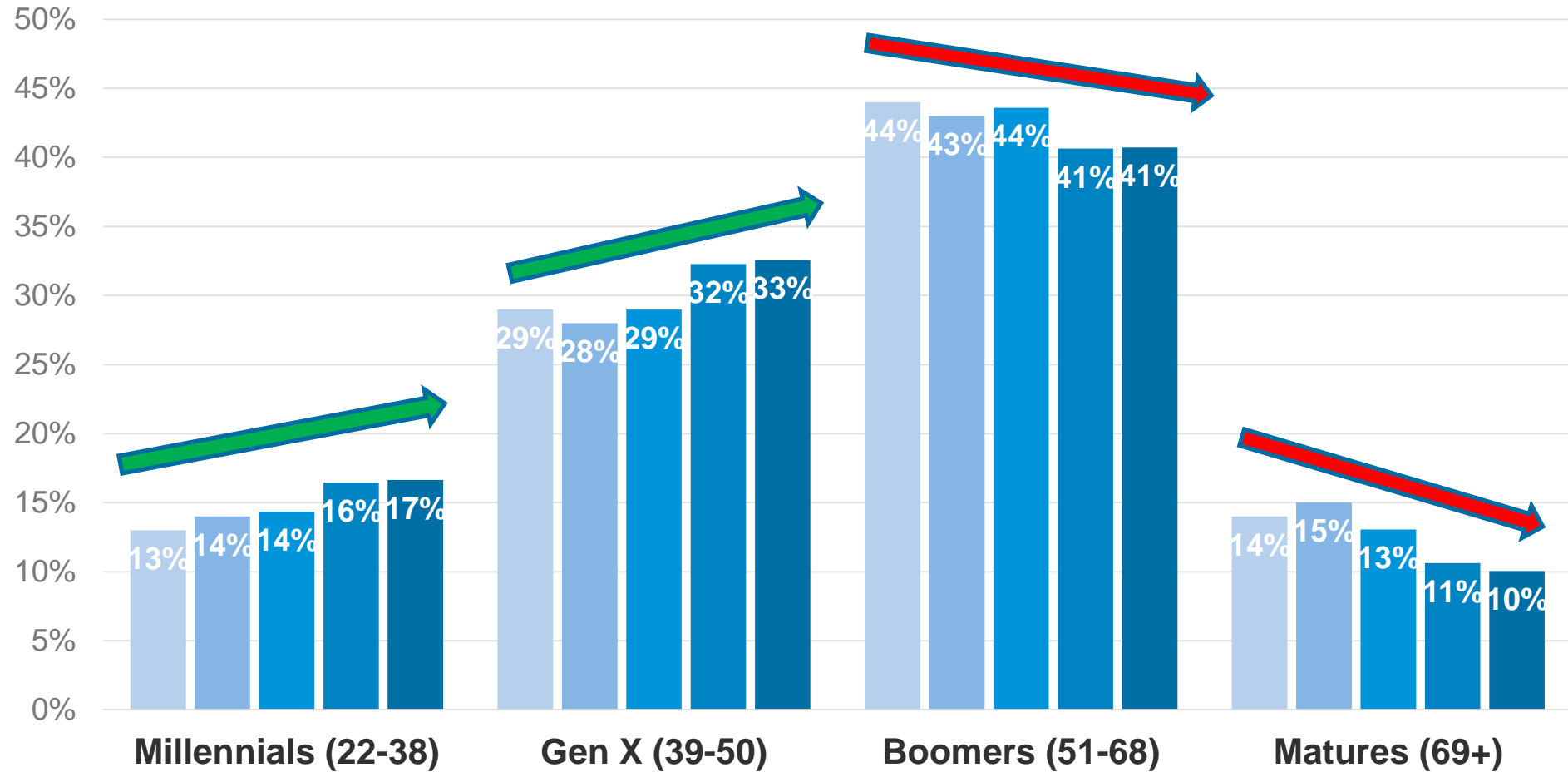


Source: *Calculated Risk Blog*

Boomers Still Dominate Sales of Fine Wine

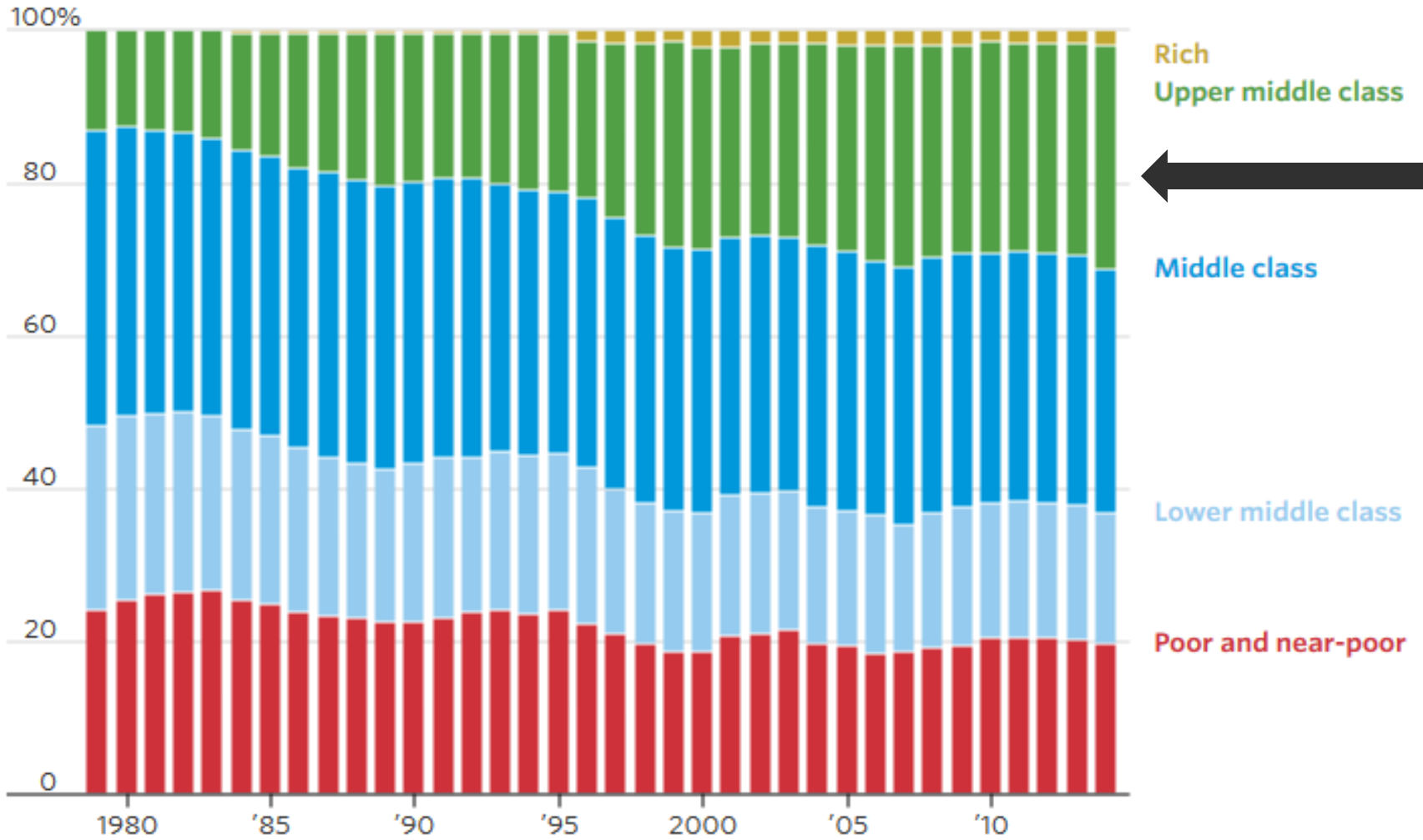
Gen X is the Real Growth Story

■ 2012 ■ 2013 ■ 2014 ■ 2015 ■ 2016



What is Driving Premiumization?

Growth in Upper Middle Class (\$100K - \$250k)



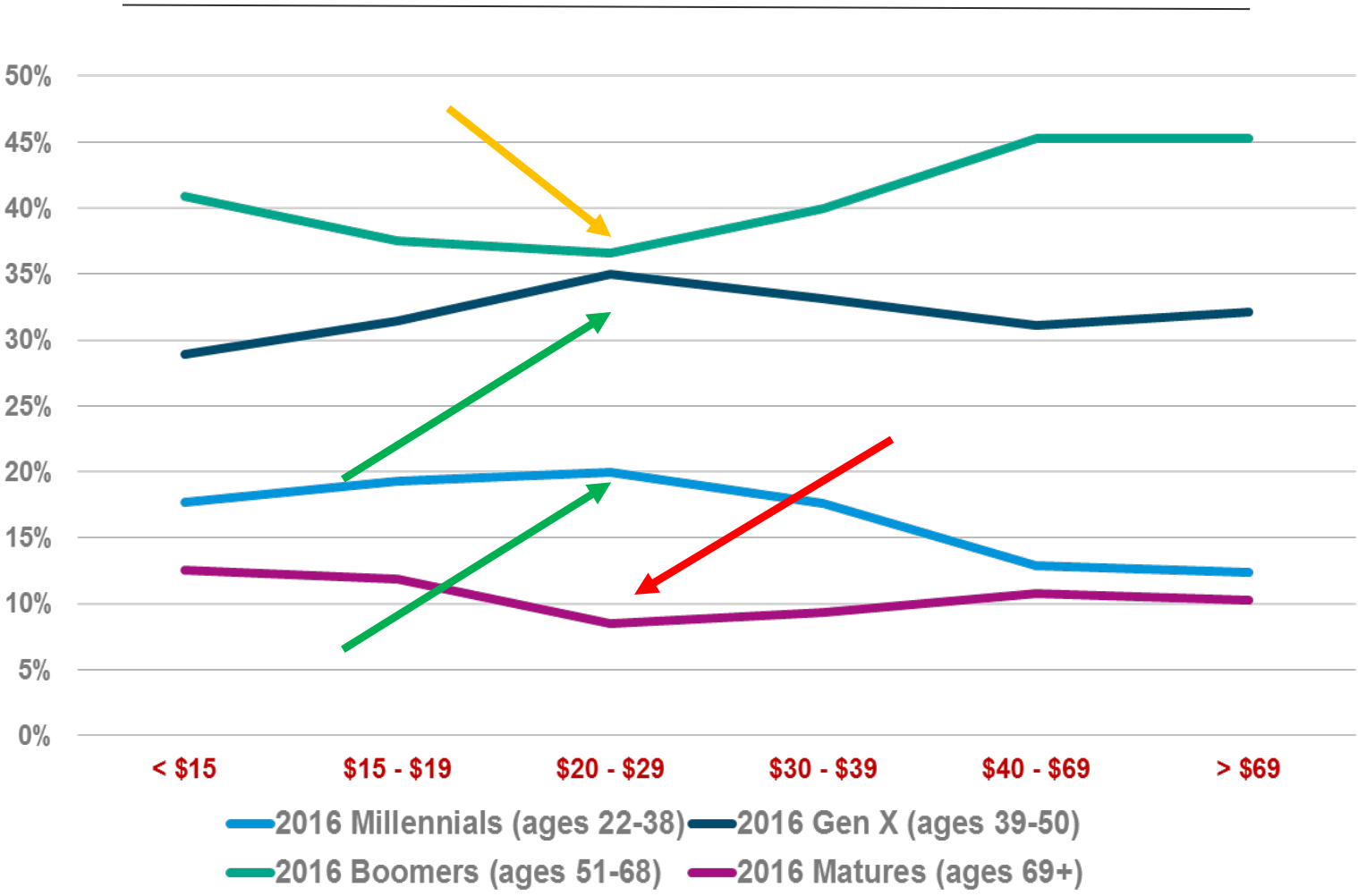
Source: Urban Institute

THE WALL STREET JOURNAL



Cohort Demand – Boomers Rotating Off. Millennials Rotating in

Gen X Soon to Pass Boomers in the \$20-\$29 Segment



Source: 2016 Annual Wine Conditions Survey | November 2016

Palate Development of Boomers vs Millennials

Familiar Consumption Patterns

Boomers

Beer &
Everything

Bartles &
Jaymes

White
Zinfandel

Chardonnay

Merlot

Cabernet

Millennials

Good Beer &
Everything

Prosecco

Moscato

Sauvignon
Blanc

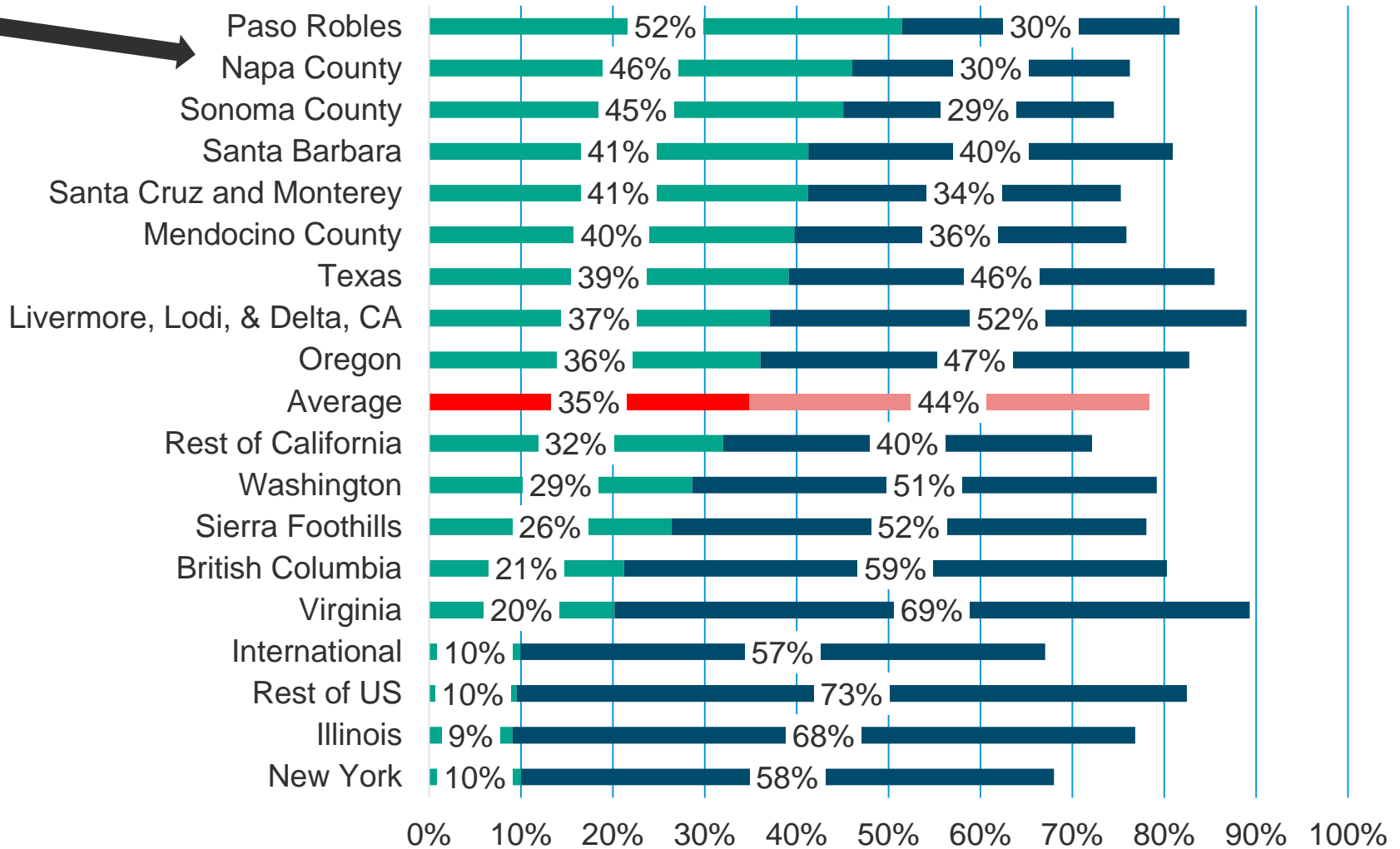
Red Blends

Pinot?

Napa Specific Benchmarks and Stats

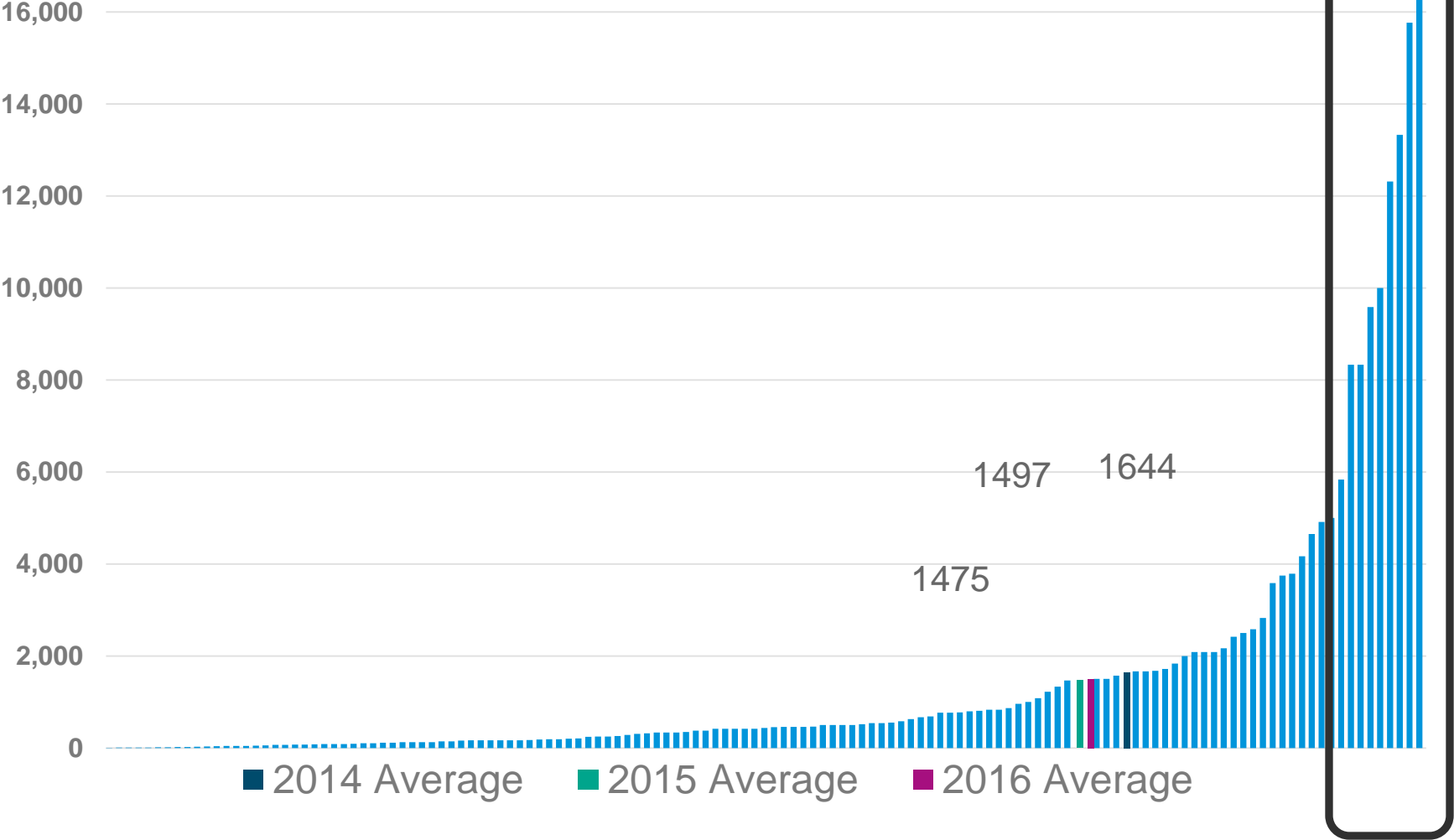
Direct Sales from Wine Club and Tasting Room

■ % DtC Sales Wine Club/Allocation Subscribers ■ % Visitor Center/Tasting Room



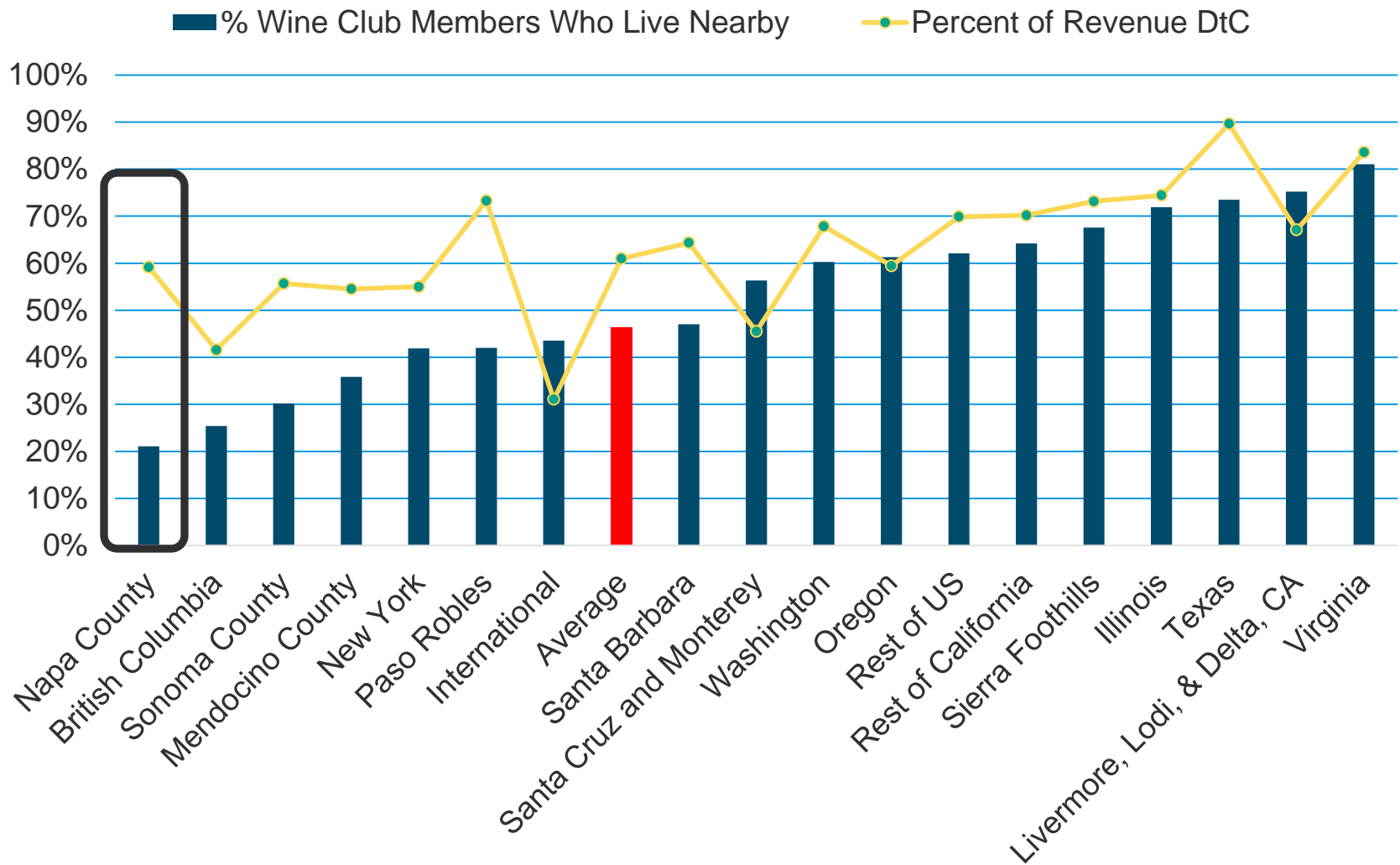
Napa Visitation Skewed to Large Established Wineries

4% of Respondents Responsible for 40% of Visitors



Club Members Who Live Nearby vs Total Revenue from DtC Sales

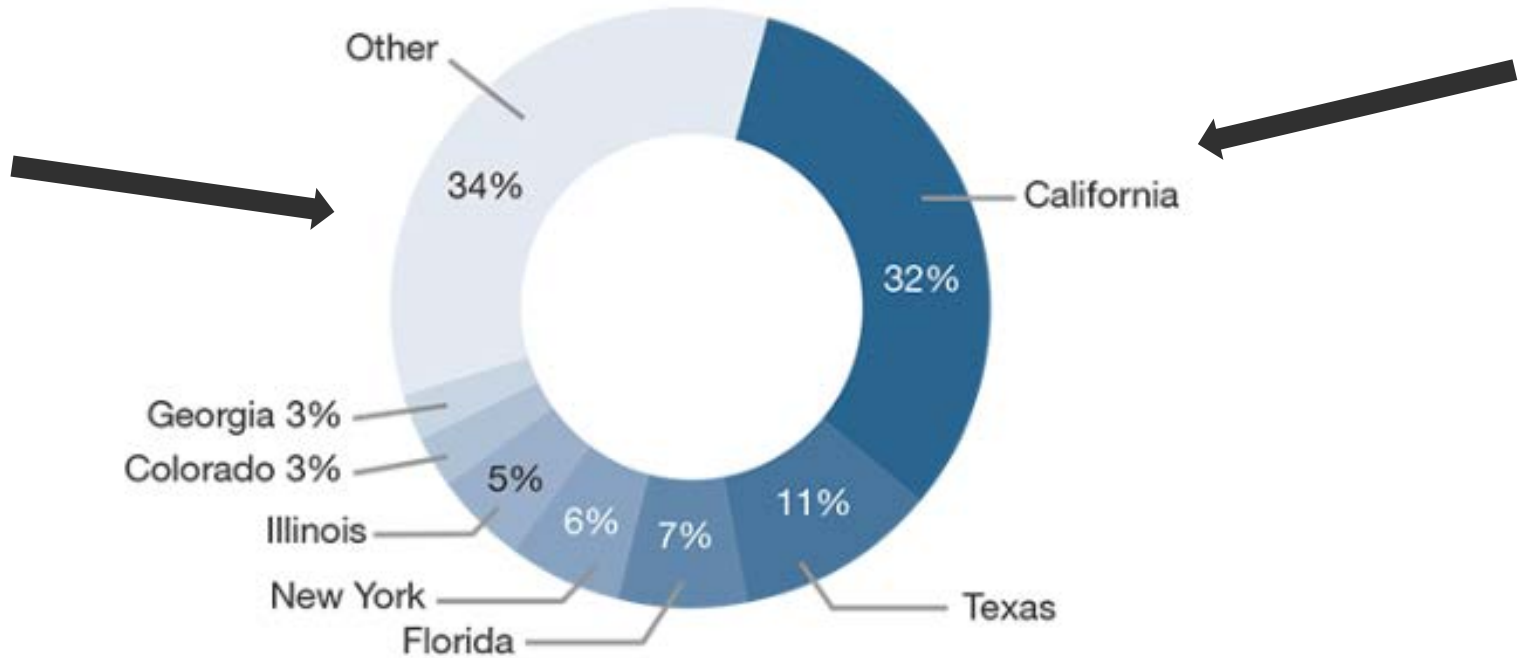
Napa Depends on Out-of-Towners for 80% of Club Sales



More DtC Sales Happen Outside of CA

Napa Wine Sales are Tourist Dependent

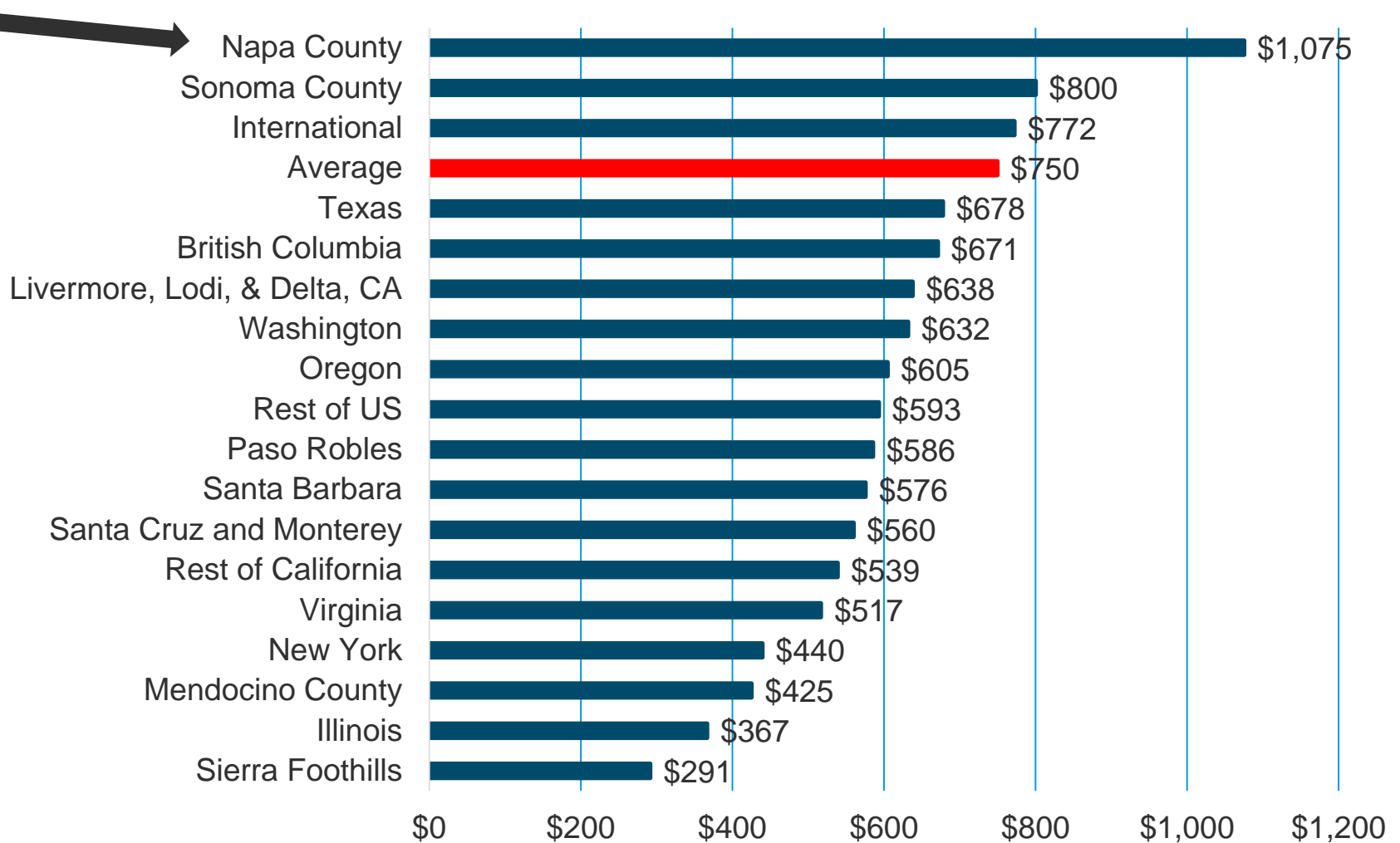
DTC SHIPMENTS FROM NAPA COUNTY BY DESTINATION STATE



Source: WinesVines Analytics/ShipCompliant; 12 months through May 2017.

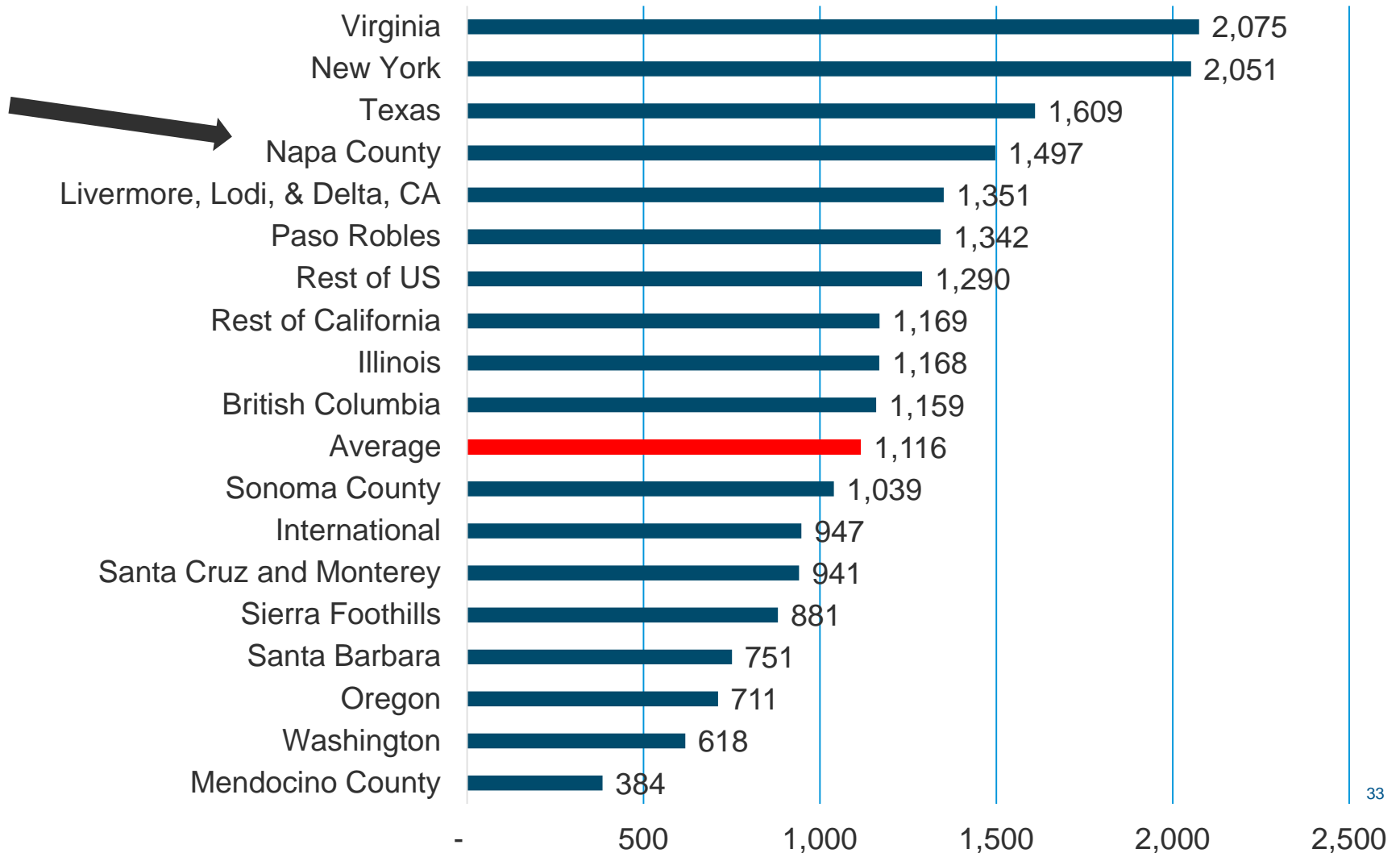
Total Annual Wine Revenue per Club Member

*Total Annual Revenue = Annual wine club shipments + annual additional member purchases



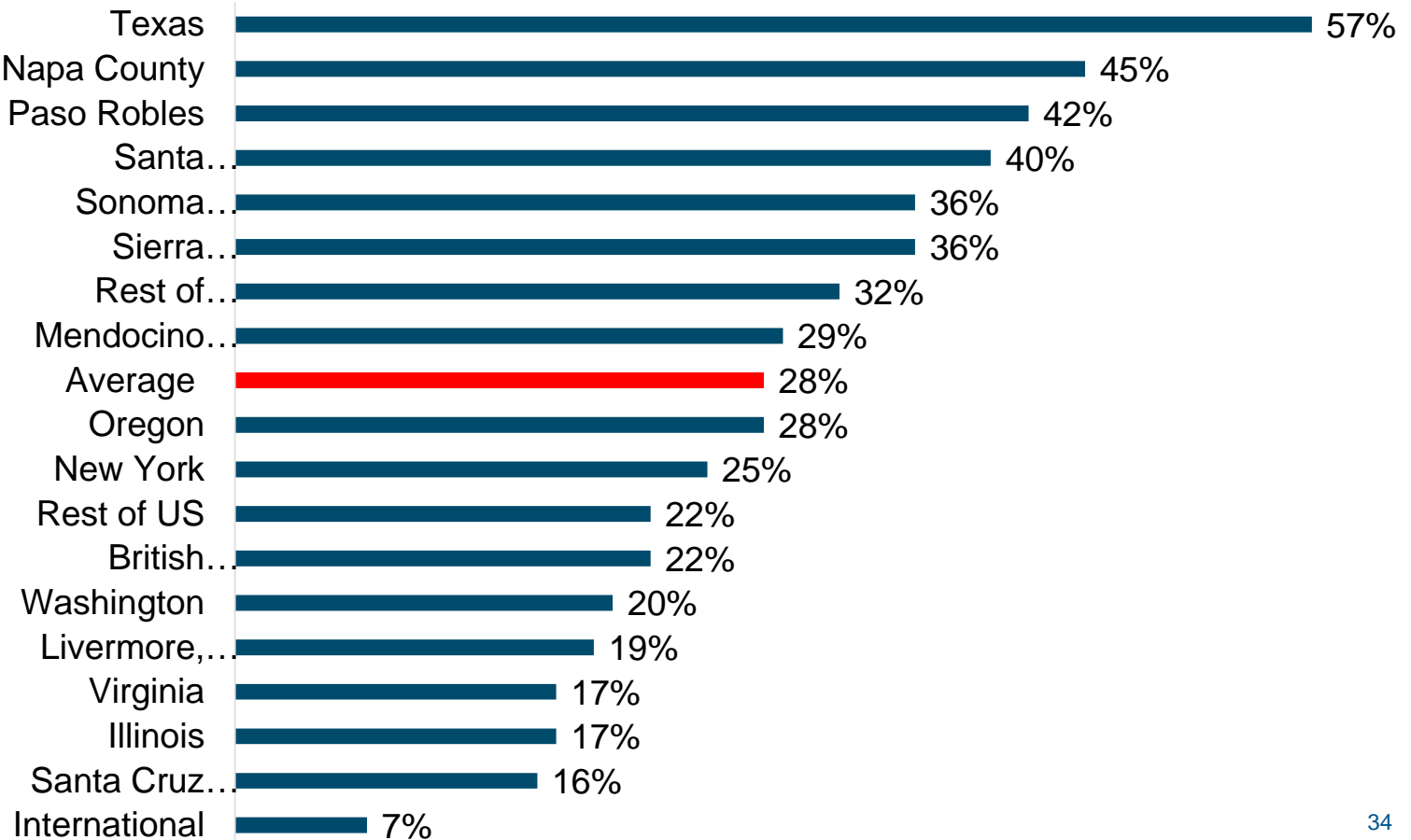
Average Monthly Visitors per Winery

Open to the Public and By Appointment



Difficulty in Finding Tasting Room Staff

Napa's Starting Wages Are Highest in the Industry



Vineyard Real Estate Update

Consolidation: Not Just with Distributors

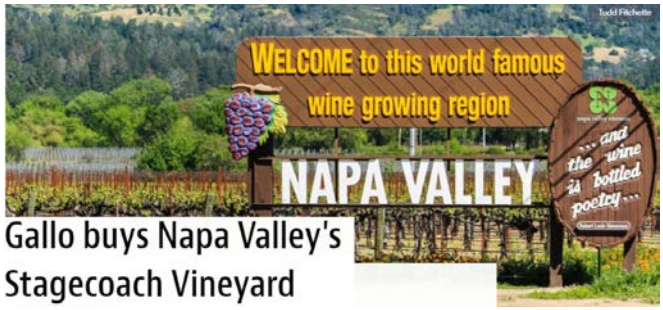
WINE INDUSTRY
Big wine companies are snapping up Napa Valley producers and vineyards

WINE INDUSTRY
Duckhorn Wine Co. sold to private equity firm



Exclusive: Constellation Buys Napa Cabernet Star Schrader Cellars

Deal gives drinks giant a gleaming Napa Valley jewel for its fine wines crown



Gallo buys Napa Valley's
Stagecoach Vineyard

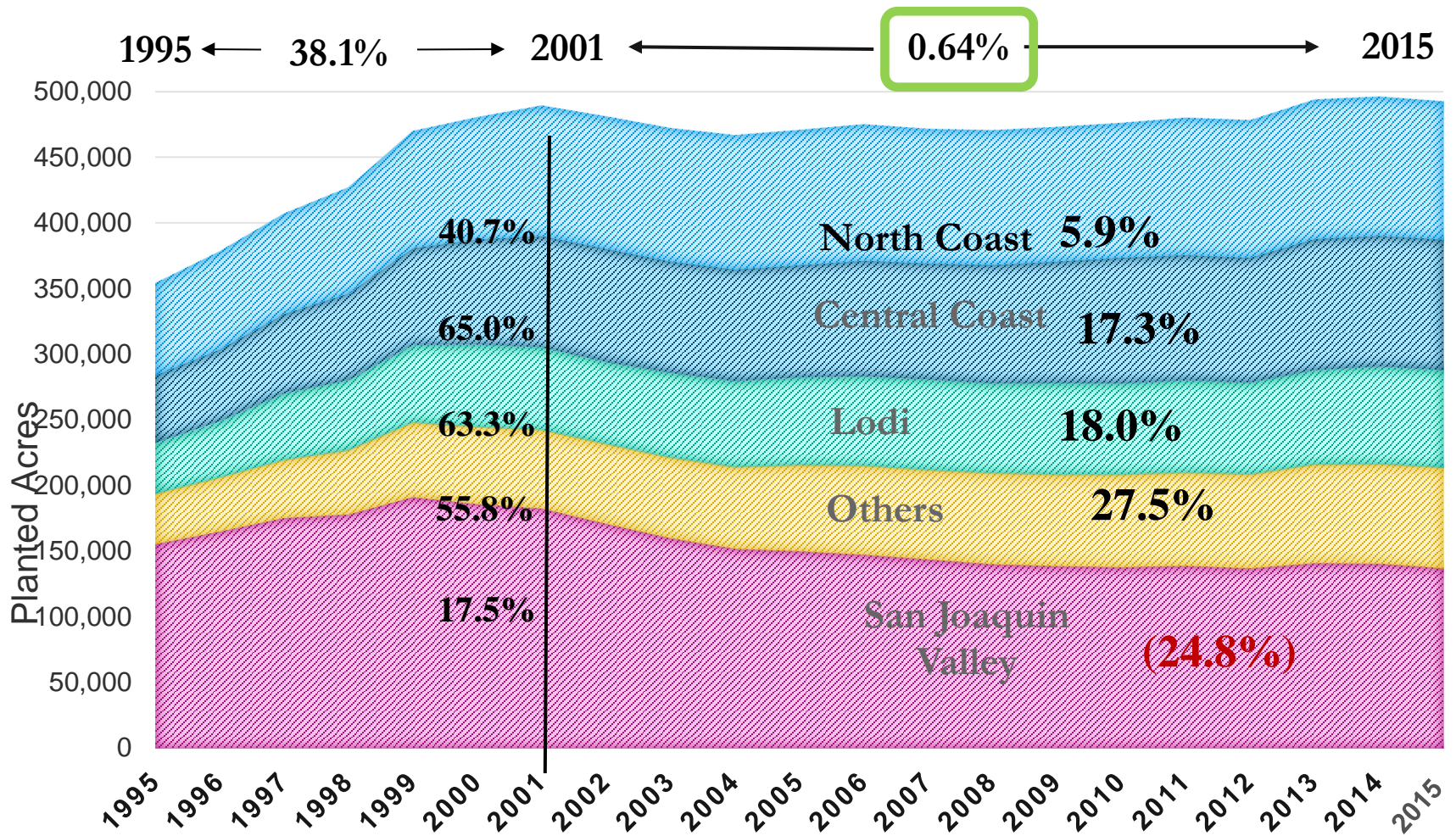
Majority owners of Duckhorn buy big stake in Far Niente

Treasury Wine Estates acquires Diageo's Napa Valley wine business



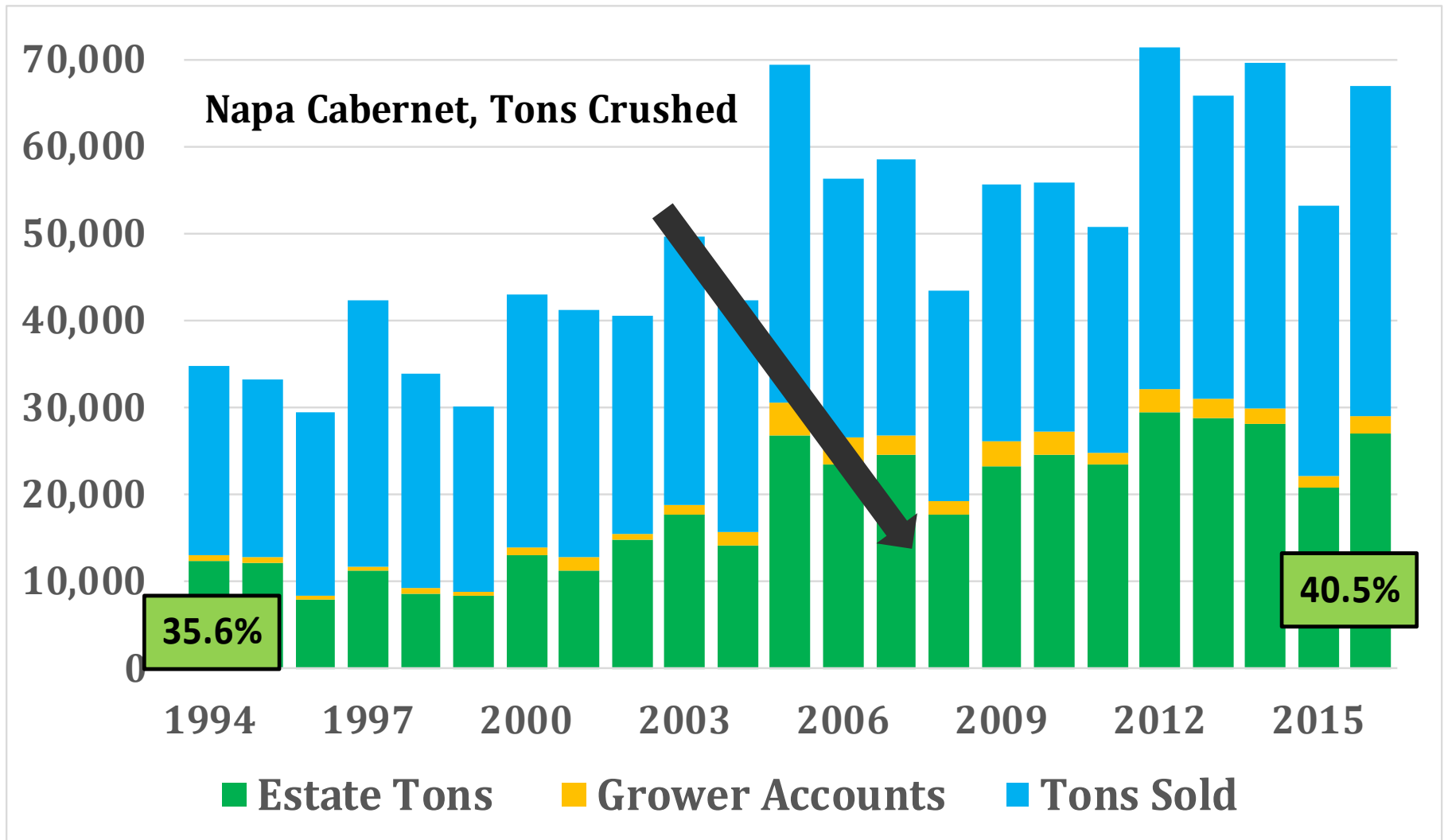
California Regions Aren't Growing With US Demand

Foreign Wine Taking Increasing Consumer Market Share

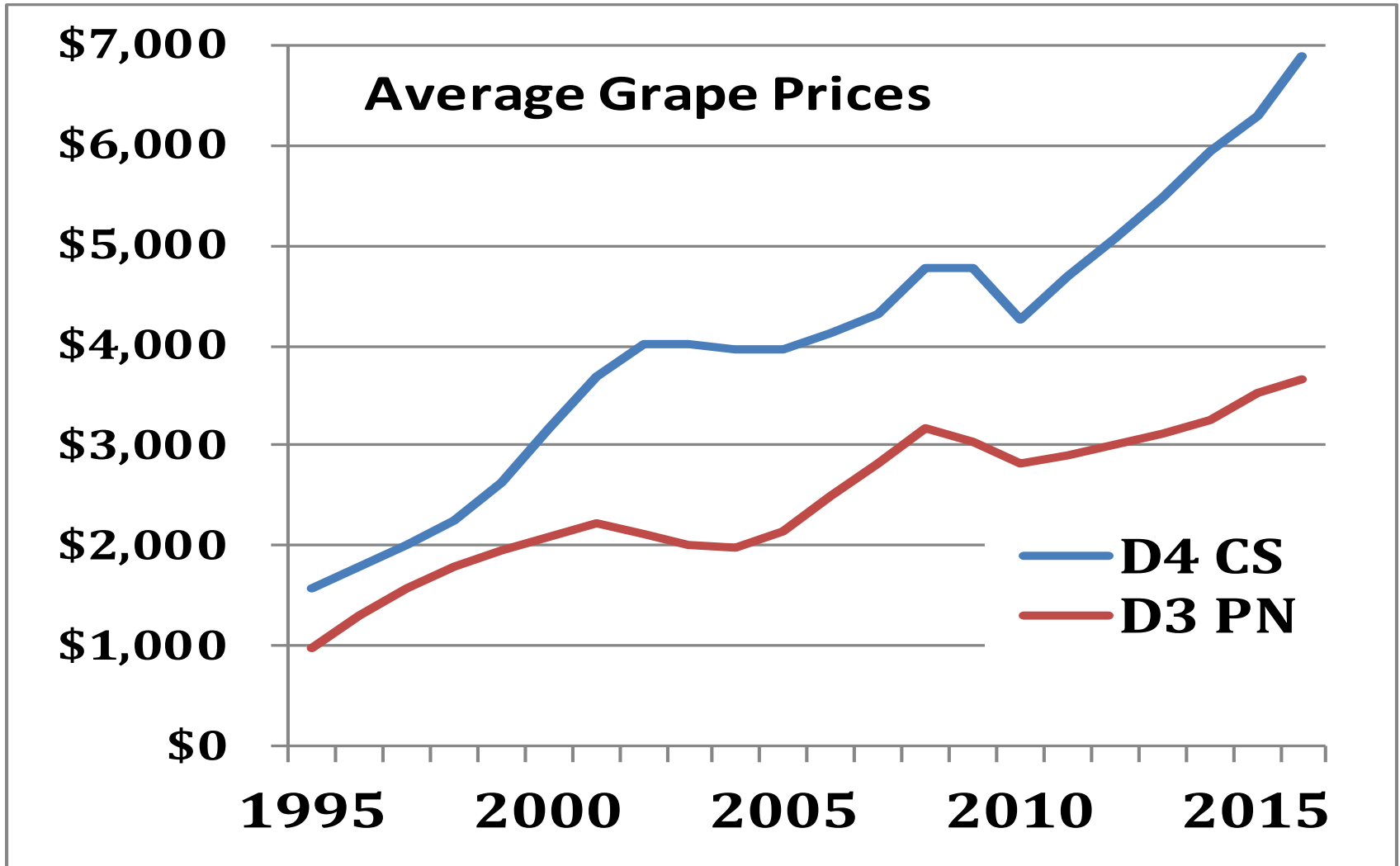


More Grapes Going Into Estate Programs

Less Grapes for Others Forcing Supply Decisions

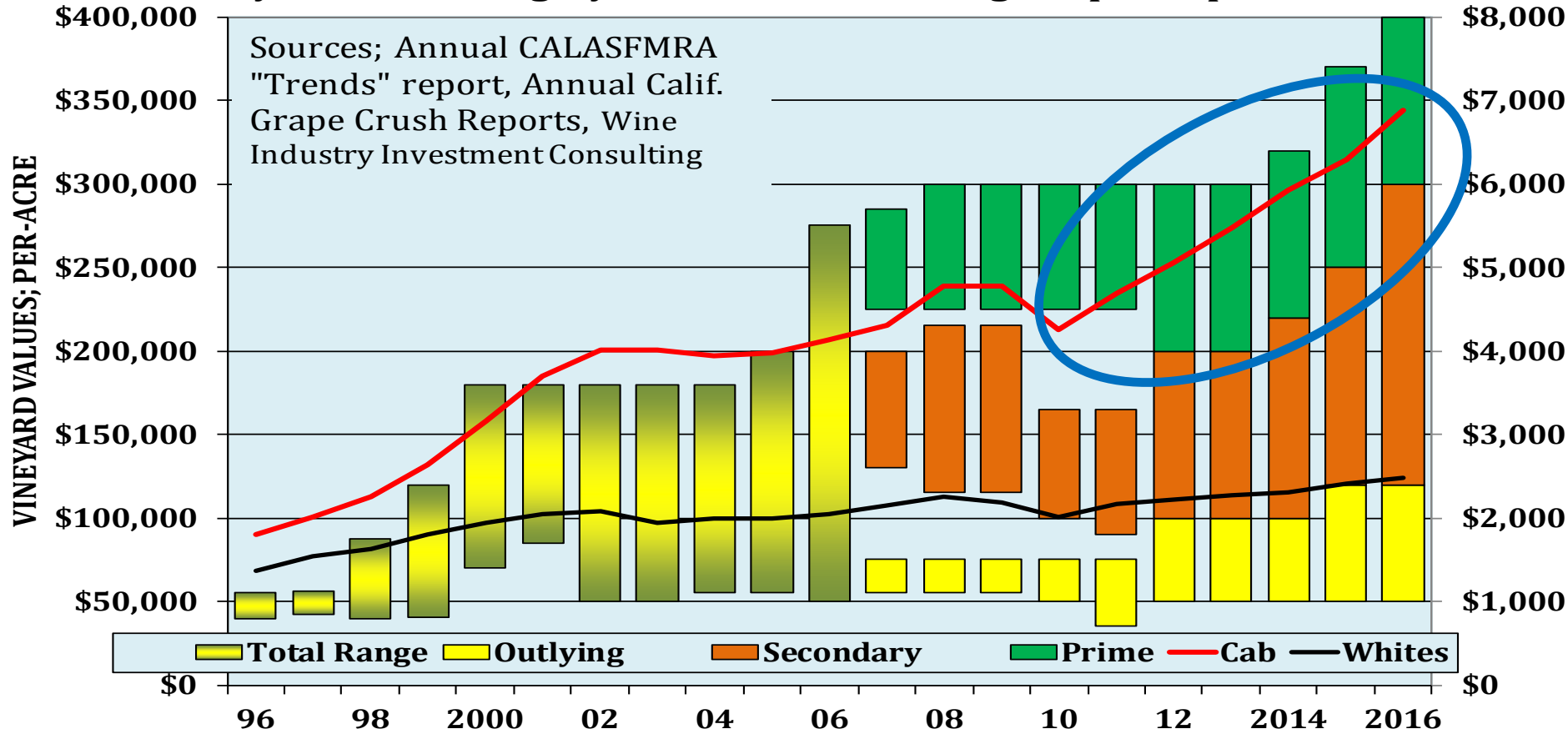


Napa Cabernet and Sonoma County Pinot Noir Pricing Up



Cabernet Pricing Driving Land Values Up to Unprecedented Levels

NAPA COUNTY ~ VINEYARD VALUE RANGES
By Location Category 2007-2016. vs Average Napa Grape Prices



Concluding Business Comments

- Napa wines attract consumers from around the Nation & world
- Napa has one of the worlds strongest wine luxury brands
- 59% of an average Napa winery sales are made Direct to Consumer
- The only relevant source of new club members is from the tasting room
- Visitation in Napa is skewed to the largest wineries
- 80% of Napa Club sales are from tourists, but only 21% of traffic is from tourists
- Napa is essentially planted out – That limits growth

Threats

- Harvest and Tasting Room labor shortages
- Roll-up of family wineries into larger production wineries
- Transition from Boomers to Millennials as dominant consumers wont be smooth.
- European Imports are Gaining Mind Share with New Consumers
- Rapid growth in price of Napa Vineyard Land
- High Cost of Premium Grapes
- Inability to Pass Higher Labor & Grape Costs to Consumers

About SVB

About Silicon Valley Bank's Wine Division: Silicon Valley Bank's Wine Division specializes in commercial banking for premium wineries and vineyards. SVB has the largest team of commercial bankers dedicated to the wine industry of any bank nationwide. Founded in 1994, SVB's Wine Division has offices in Napa and Sonoma counties and serves clients focused in the fine wine producing regions of California, Oregon and Washington.

By virtue of its dedication to the wine industry, Silicon Valley Bank is able to support its clients consistently through economic and growth cycles, and offer guidance on many aspects of their business, beyond traditional banking services.

Silicon Valley Bank is a member of global financial services firm SVB Financial Group (Nasdaq: SIVB), with SVB Analytics, SVB Capital and SVB Private Bank. More information on the company can be found at www.svb.com/winedivision.

Contact Us: For more information about Silicon Valley Bank's Wine Division

Rob McMillan

EVP & Founder

Phone 707 967 1367

rmcmillan@svb.com

