

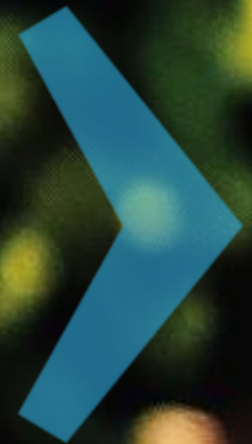
svb



Silicon Valley Bank

**2016 Oregon Wine Symposium**

# State of the Industry



**Presented by:**

**Mark Freund, Managing Director, Silicon Valley Bank**



# The Winds of Change – They are a Blowing





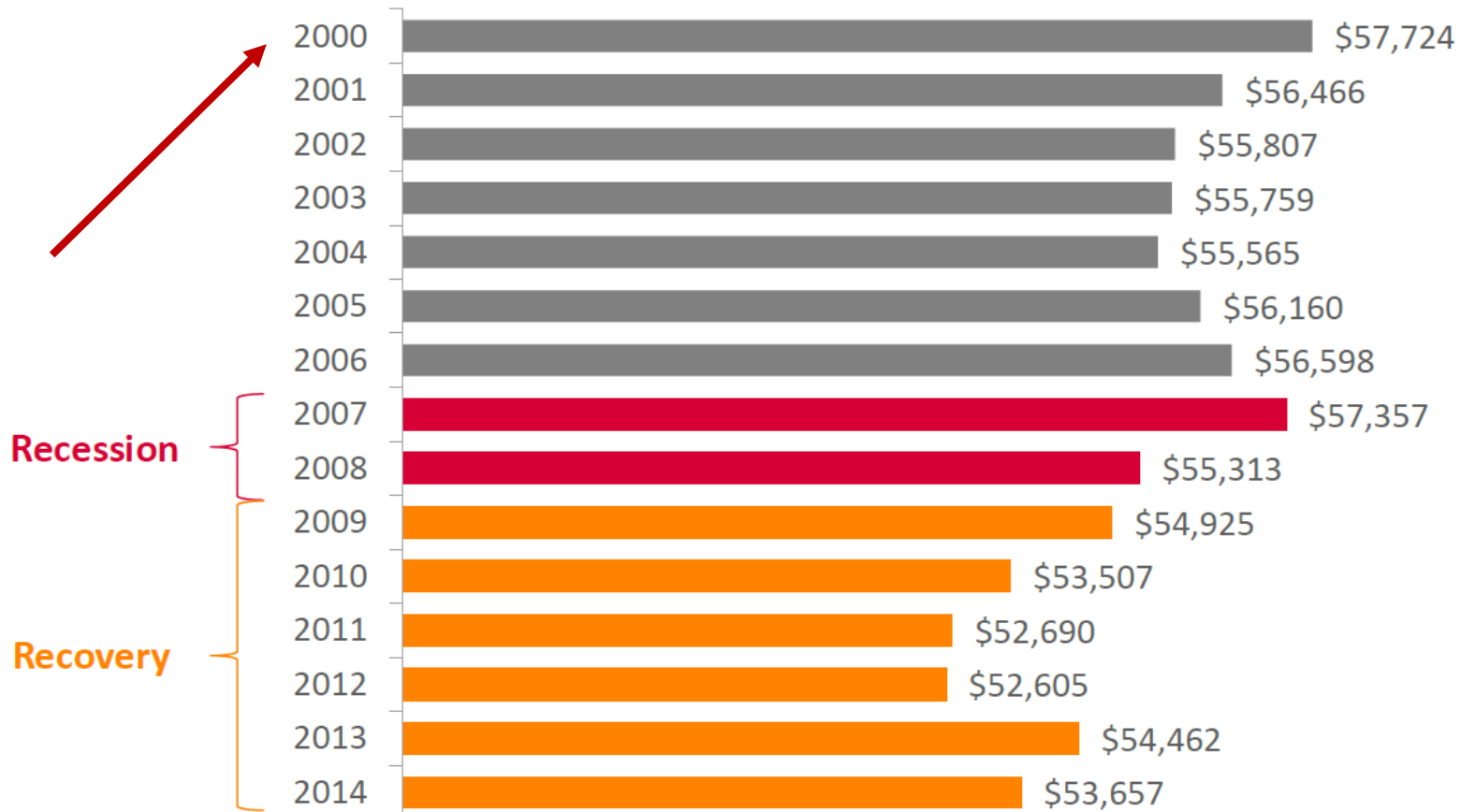
# Quick Thoughts on U.S. Economy

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- US economy recovery while slow and steady continues to lead the rest of the world
- Unemployment low-dipped below 5% in January
- Futures markets saying 60% probability of no Fed rate increases in 2016
- Oil prices will remain depressed well past 2016
- Continued strength of US dollar
- Stock market expected to remain volatile
- Wage growth continues to be sluggish

# Recovery Hasn't Boosted Inflation Adjusted Incomes

Why Price increases are difficult



Source: U.S. Census Bureau and Nielsen Beverage

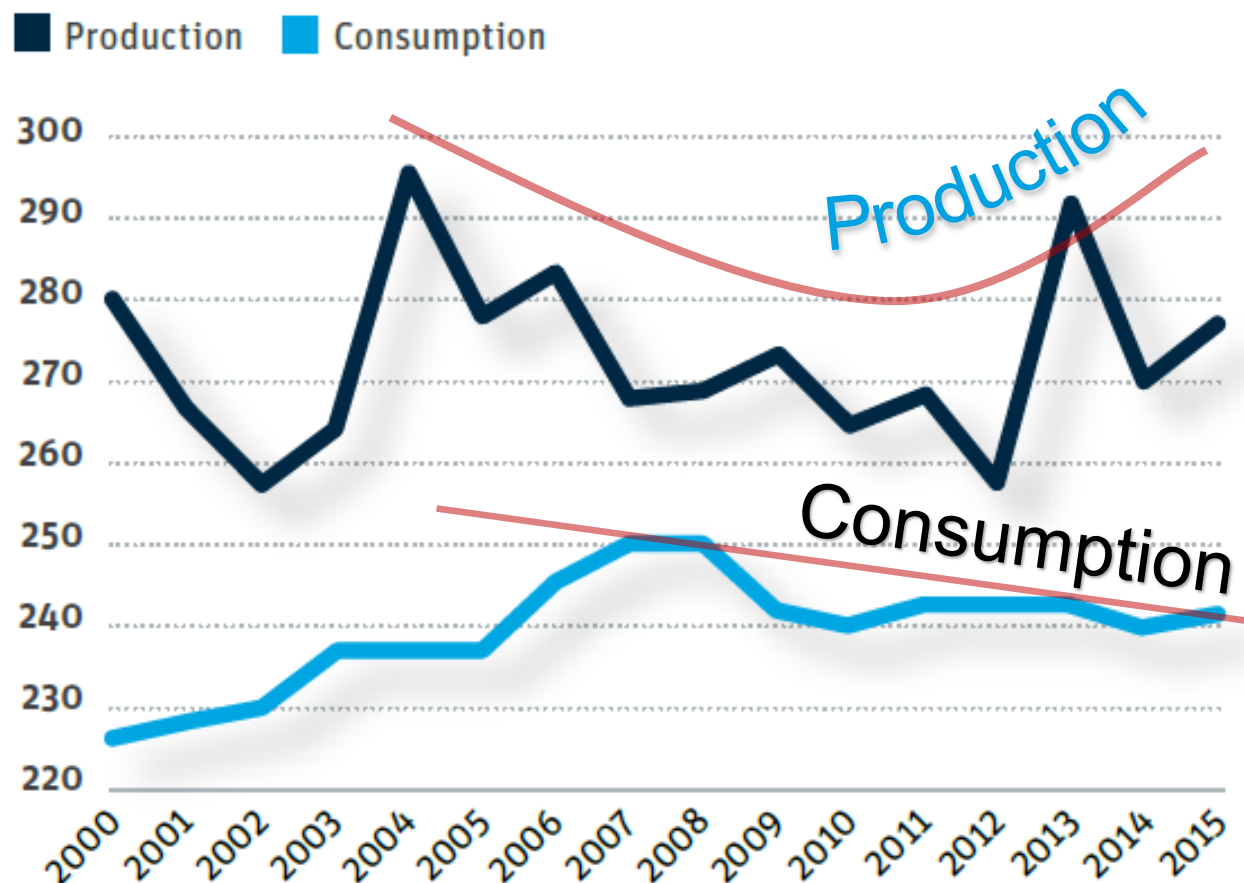
# Dollar Broached Support Level of \$1.20 vs EUR



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# Consumption, Demographics and Demand

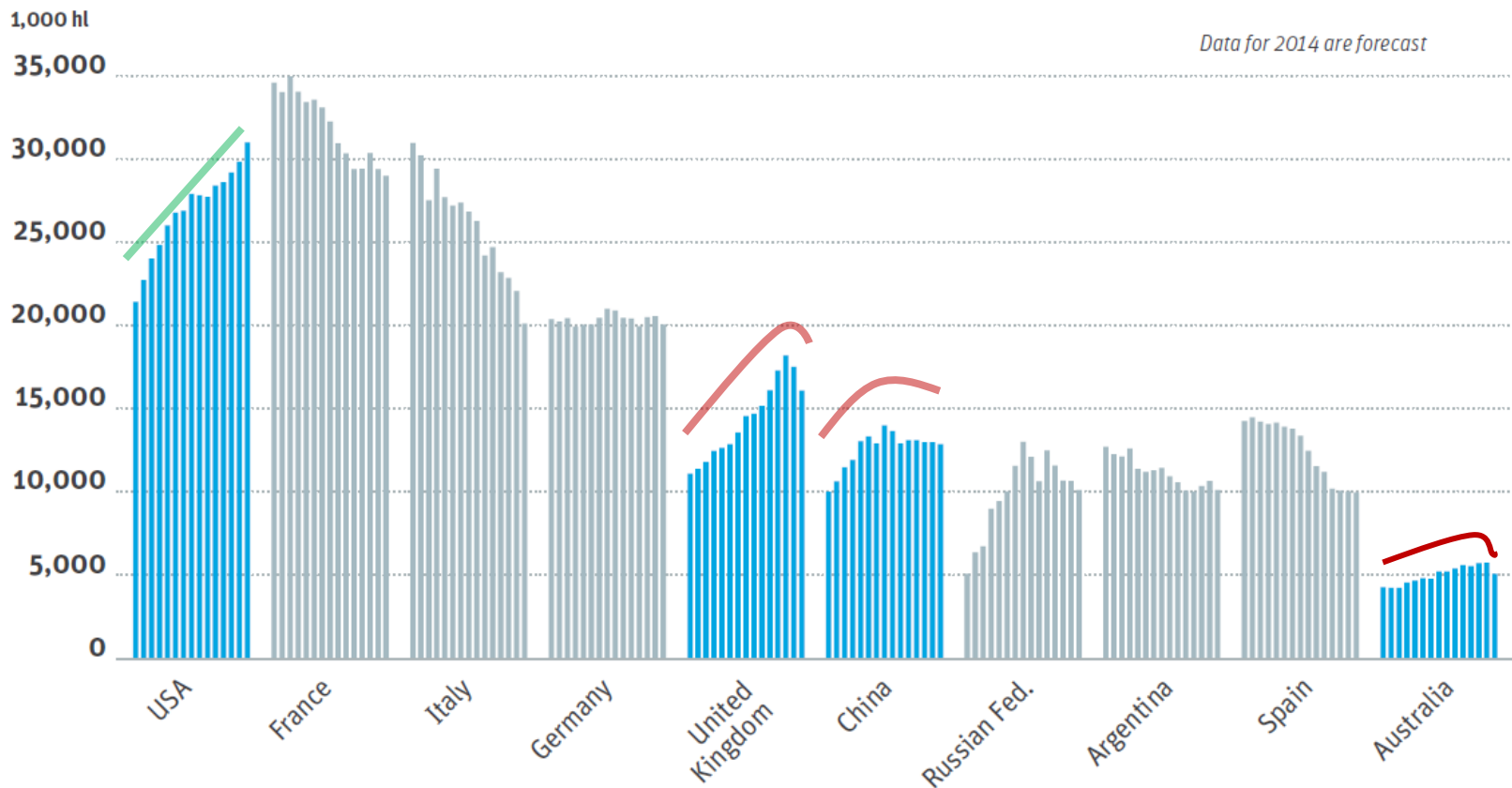
# Worldwide Production vs Consumption (in Mhls)





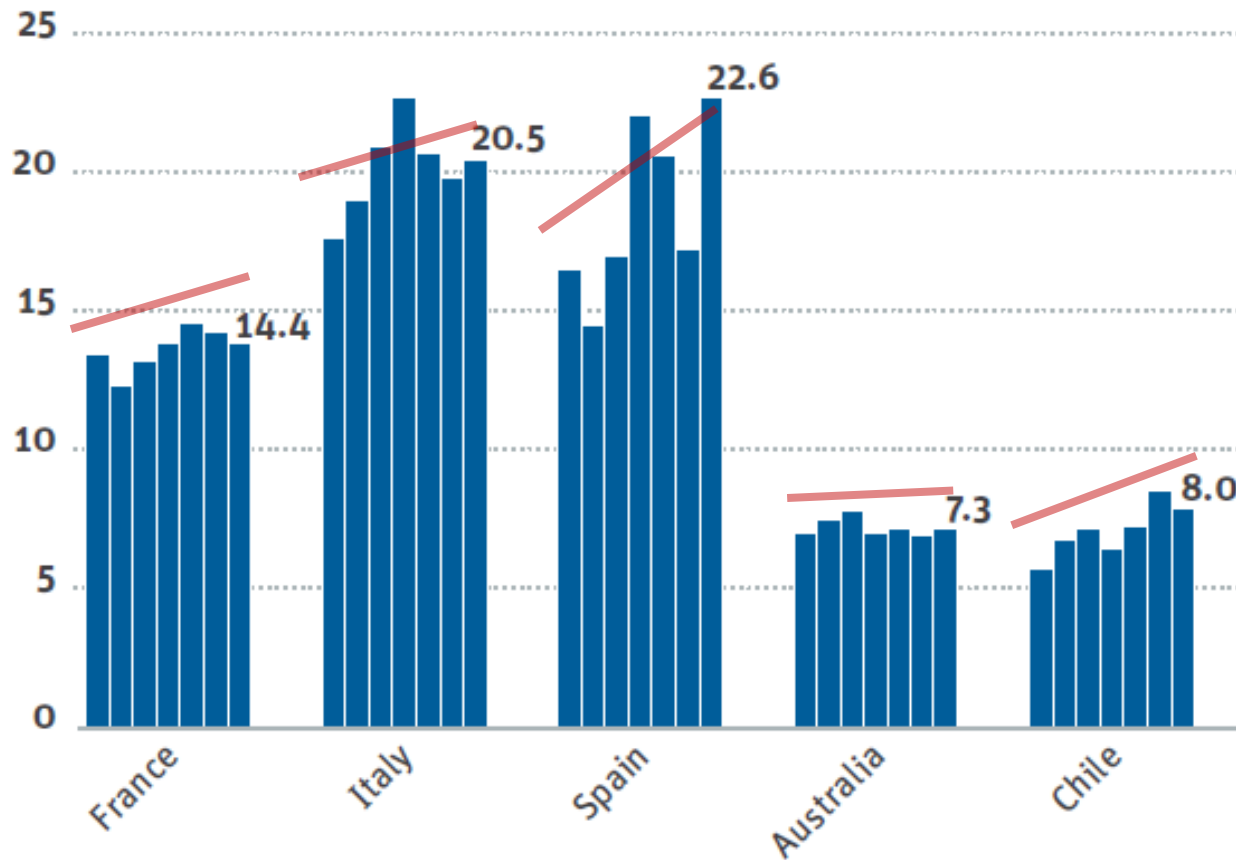
# Consumption of Wine from 2000 – 2014 by Country

■ New consumers have entered the scene, due to increasing incomes and changes in drinking preferences



# Foreign Export Volume Trends 2008–2014

(in Mhls)

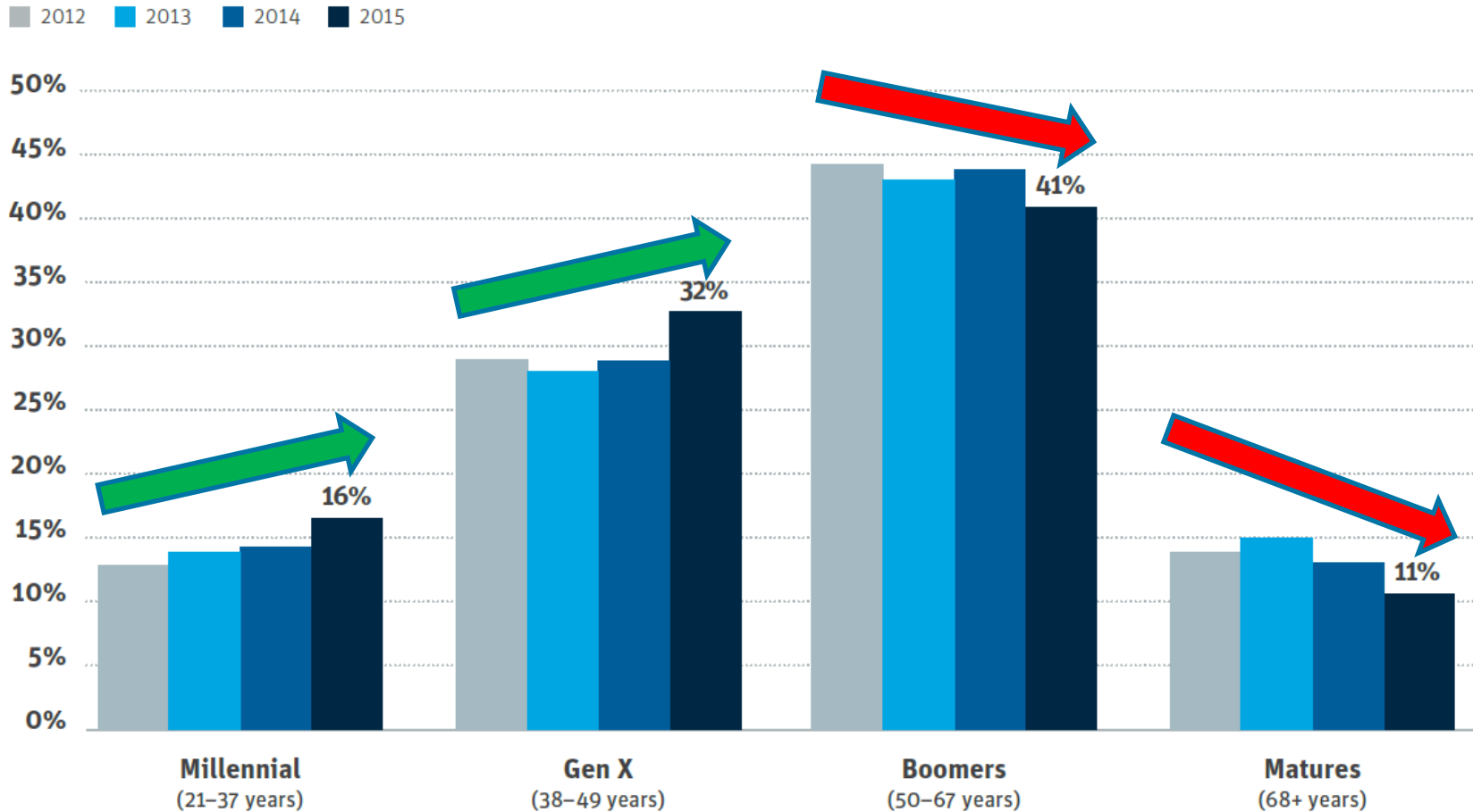


# The Donald's solution for limiting bottled imports



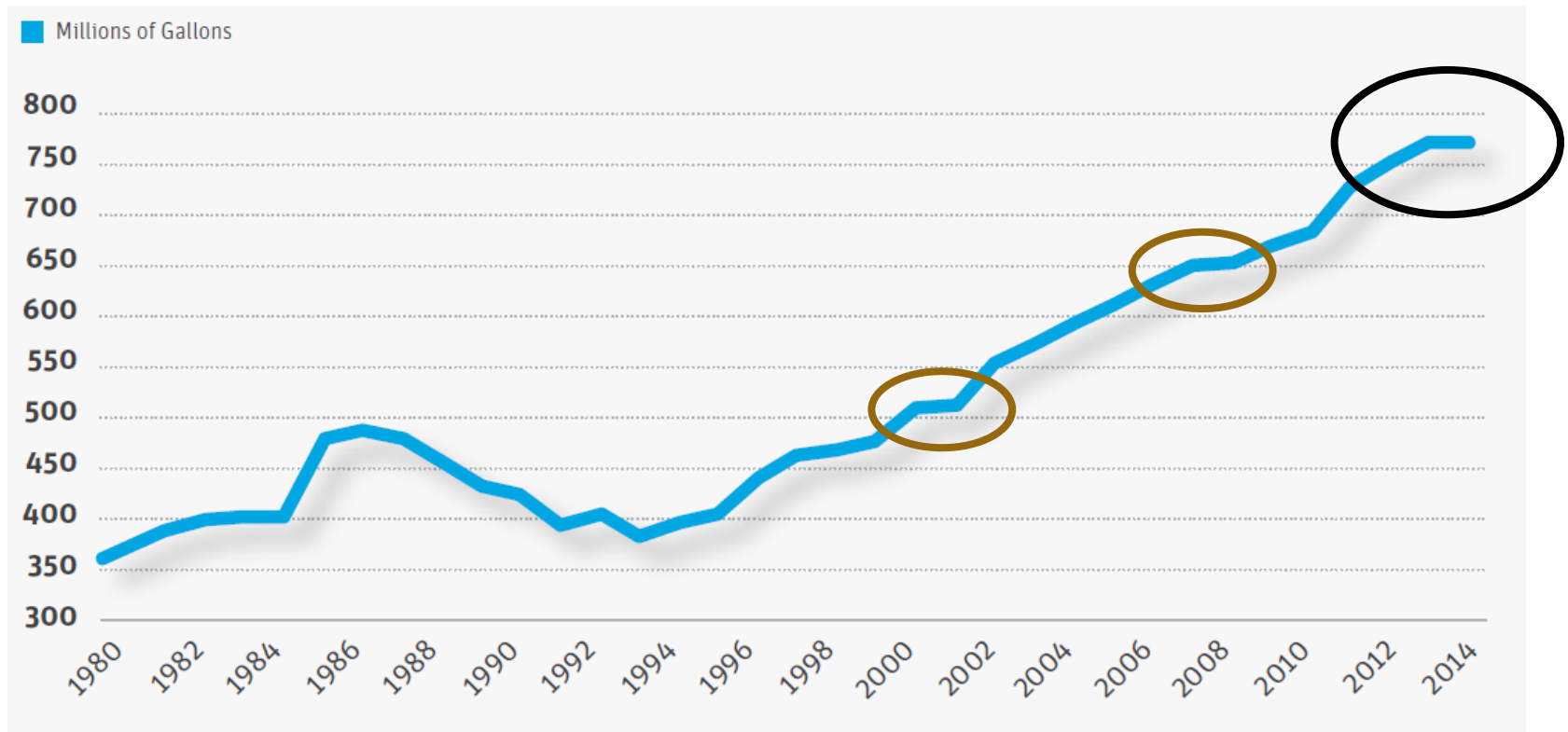
# YOY Changes in Cohort Purchase Share

*(Fine Wine)*



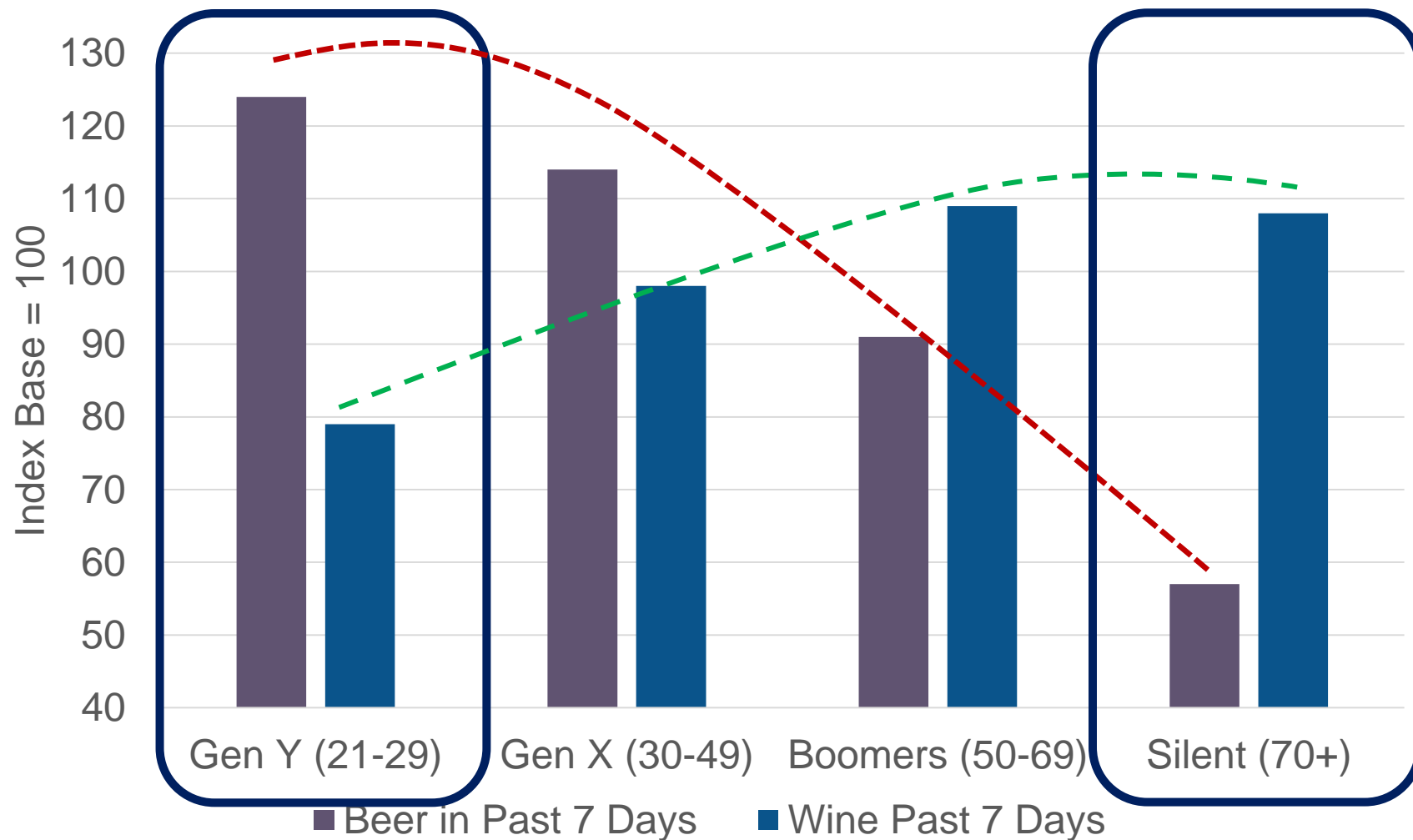
Source: 2015 Annual Wine Conditions Survey | November 30, 2015

# U.S. Wine Consumption by Volume



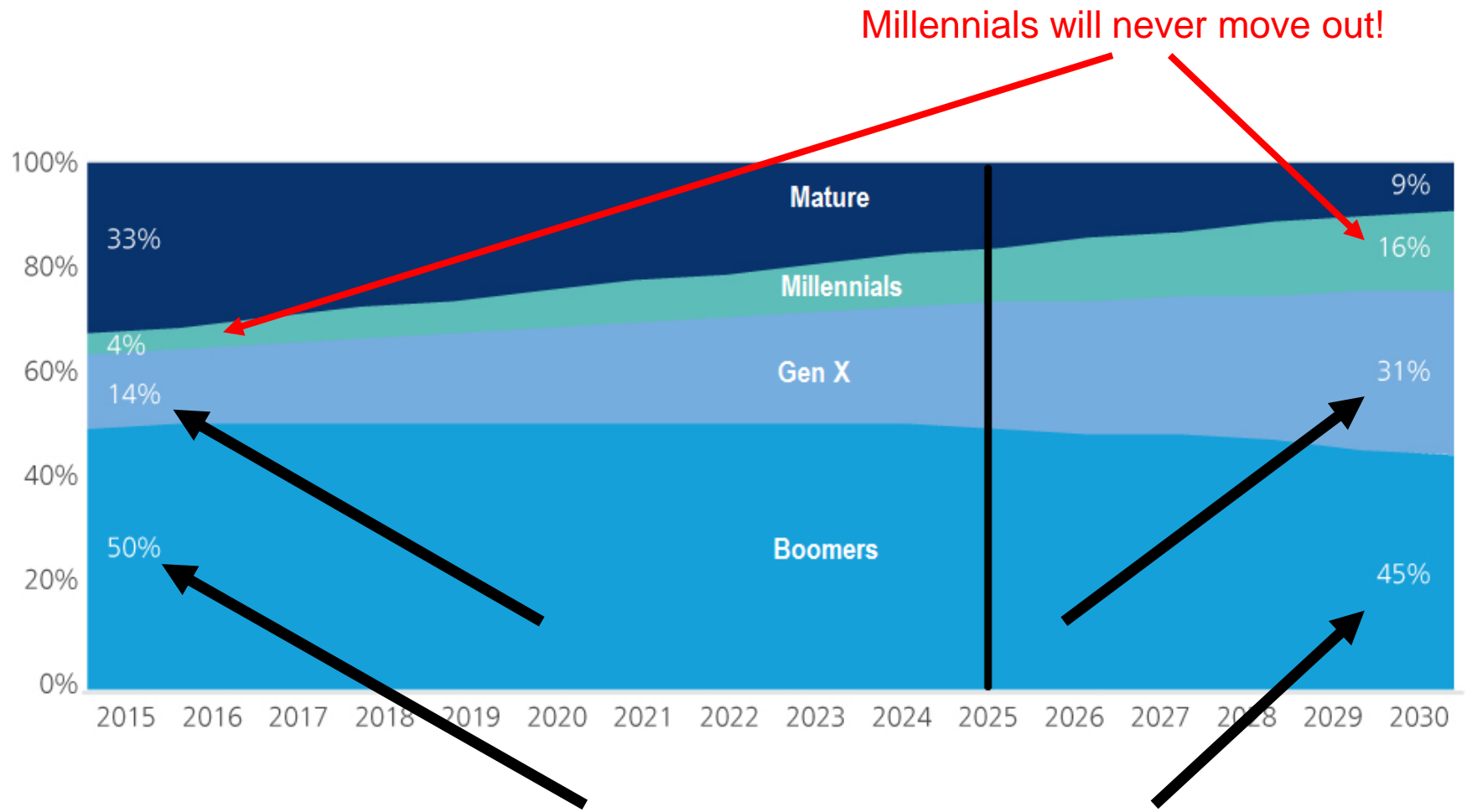
Source: California Wine Institute

# Generational Differences in Beer vs Wine Consumption



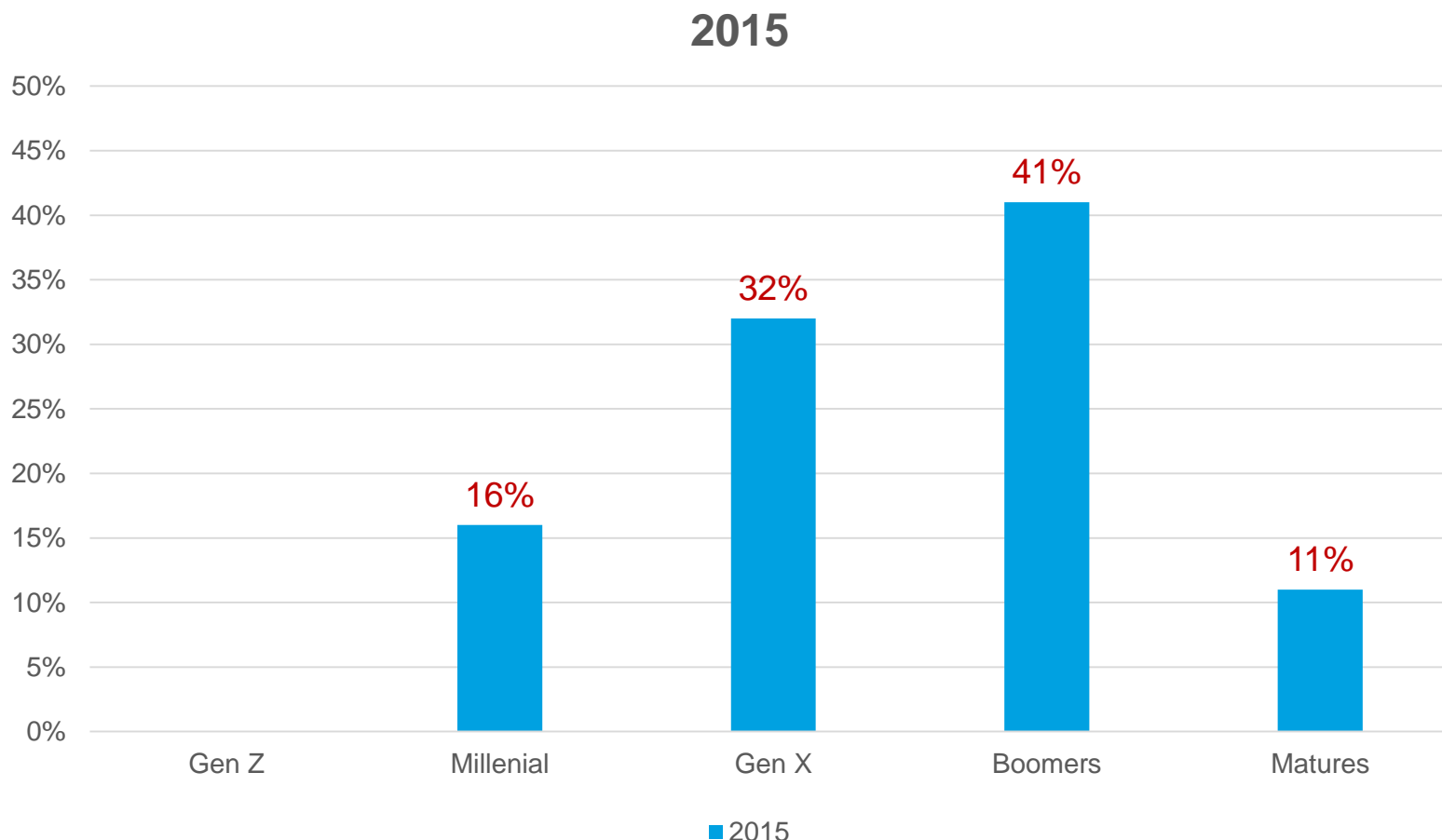


# Cohort Shape of U.S. Net Household Wealth



# Forecast Changes in U.S. Cohort Purchase Share

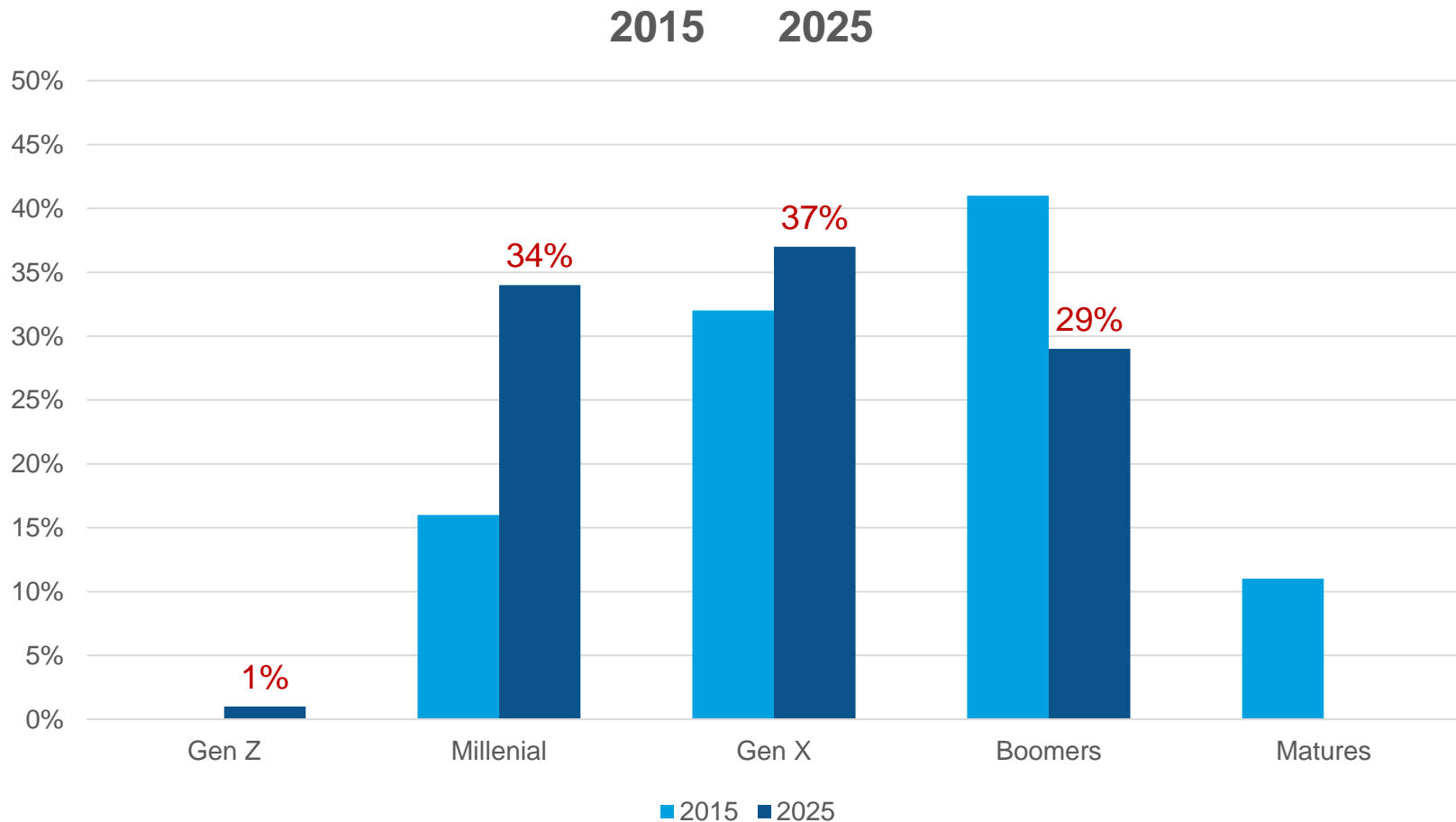
(Fine Wine)



Source: 2015 Annual Wine Conditions Survey | November 30, 2015

# Forecast Changes in U.S. Cohort Purchase Share

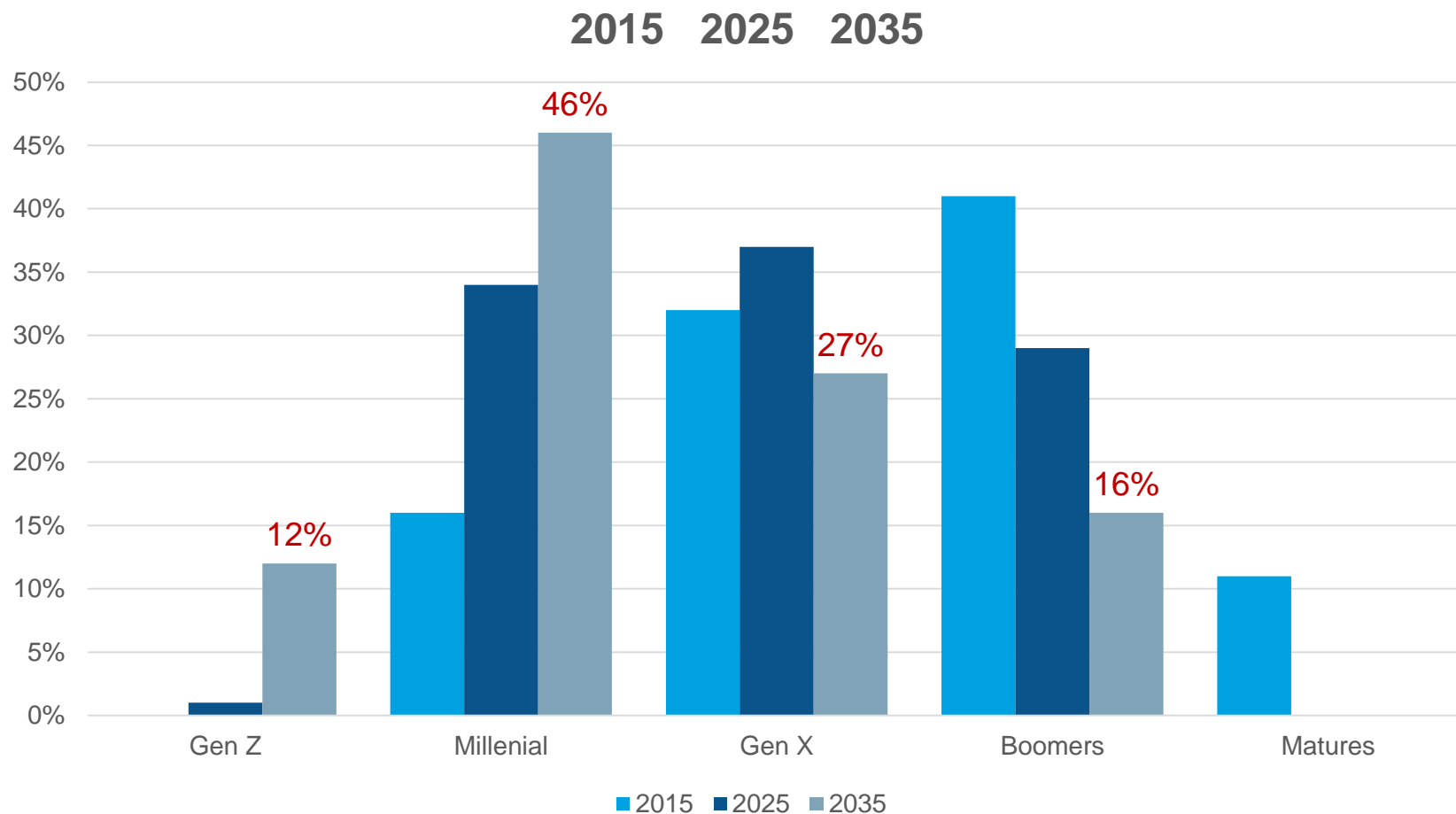
(Fine Wine)



Source: 2015 Annual Wine Conditions Survey | November 30, 2015

# Forecast Changes in U.S. Cohort Purchase Share

(Fine Wine)

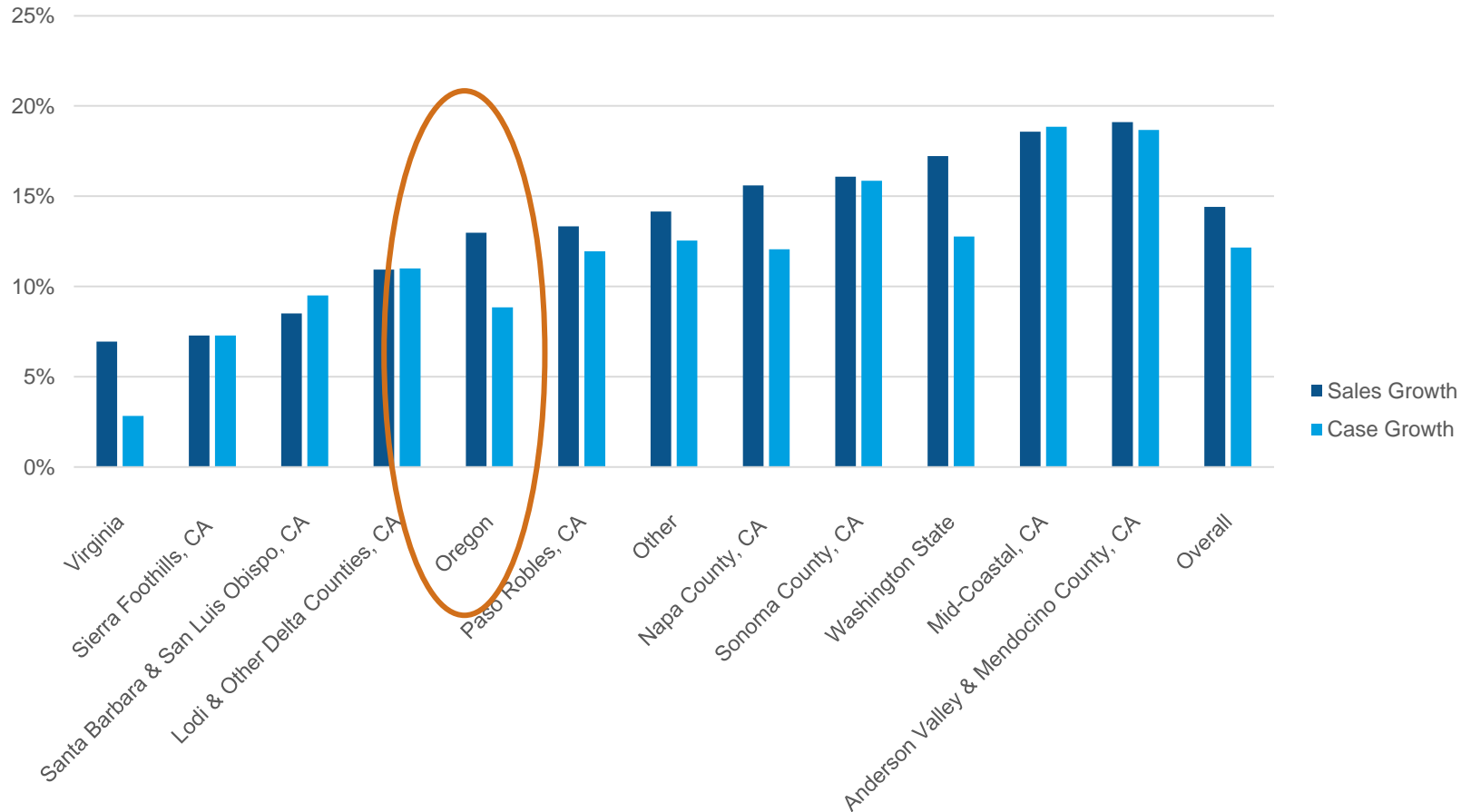


Source: 2015 Annual Wine Conditions Survey | November 30, 2015

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# Sales Trends

# 2015 Predicted Sales and Case Growth by Region



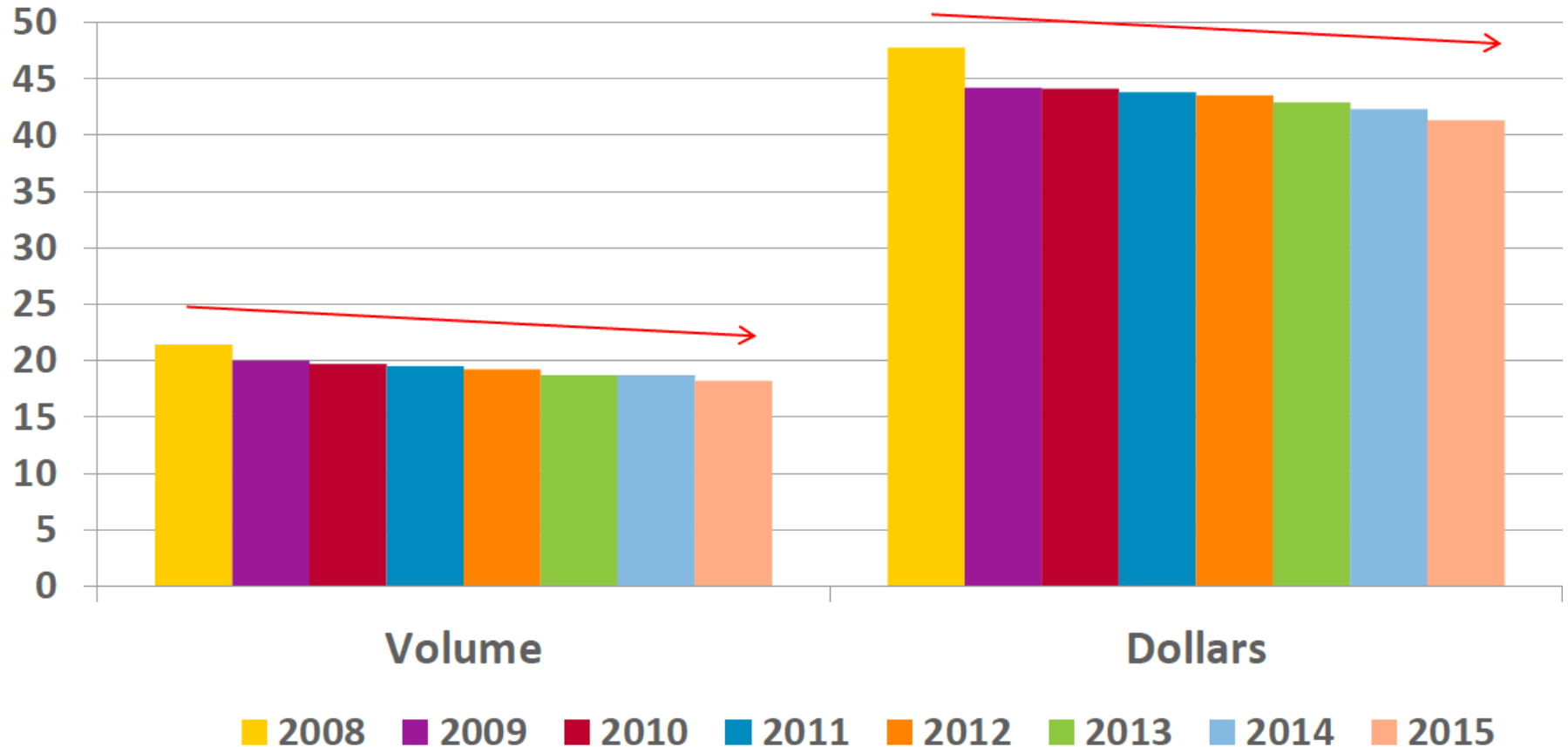
- Case growth refers to year over year increase/decrease in cases sold
- Does not include wineries less than five years old



# Restaurant Sales of Wine Showing Long Term Decline

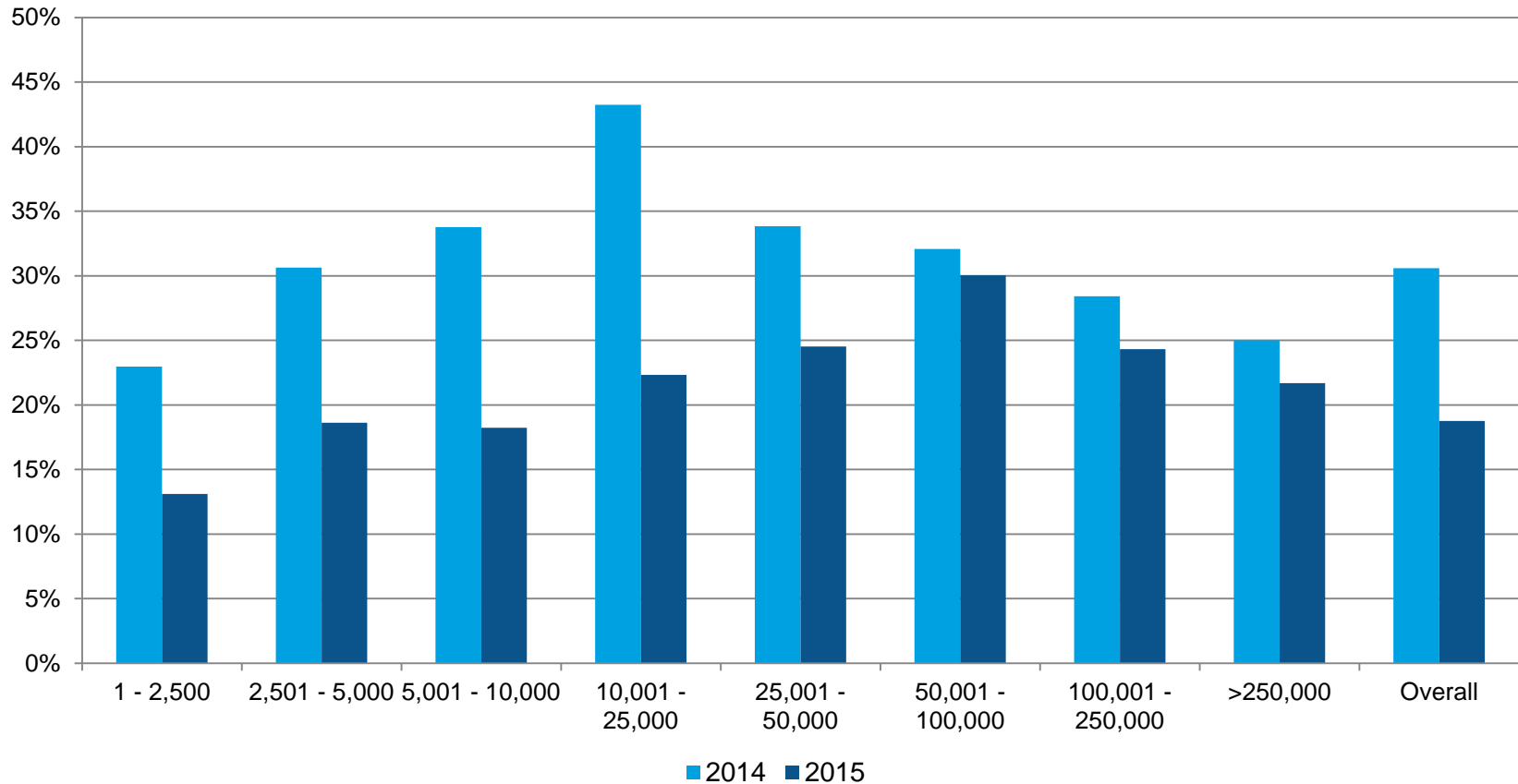
## Growing Fight over Pours

### WINE: ON-PREMISE SHARE OF TOTAL INDUSTRY



Source: Beverage Information Group, Nielsen Beverage

# Year Over Year Restaurant Sales by Production

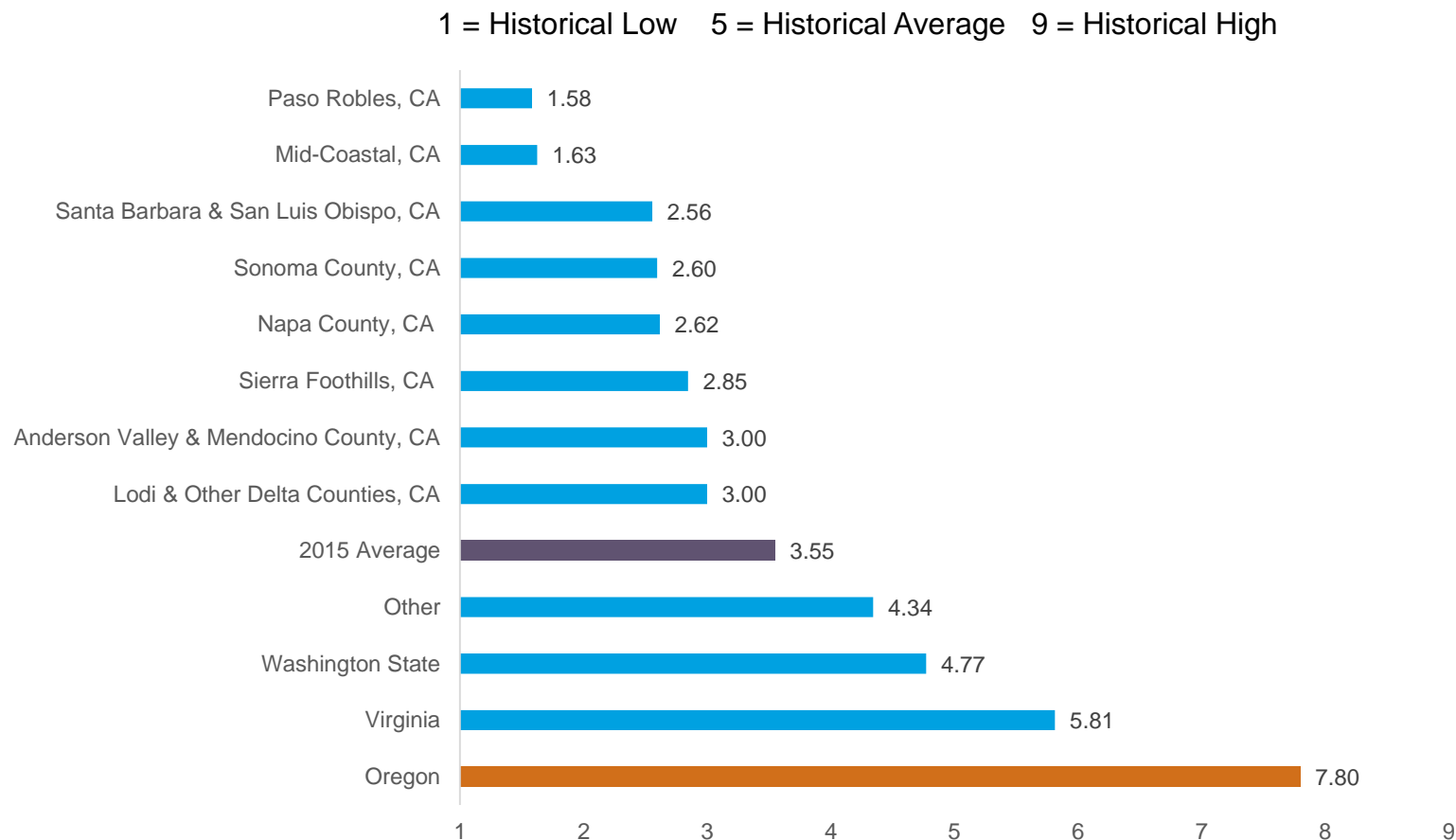


➤ Percentage of total wine revenue from restaurant sales considering all distribution channels.

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# 2015 Regional Harvest Data

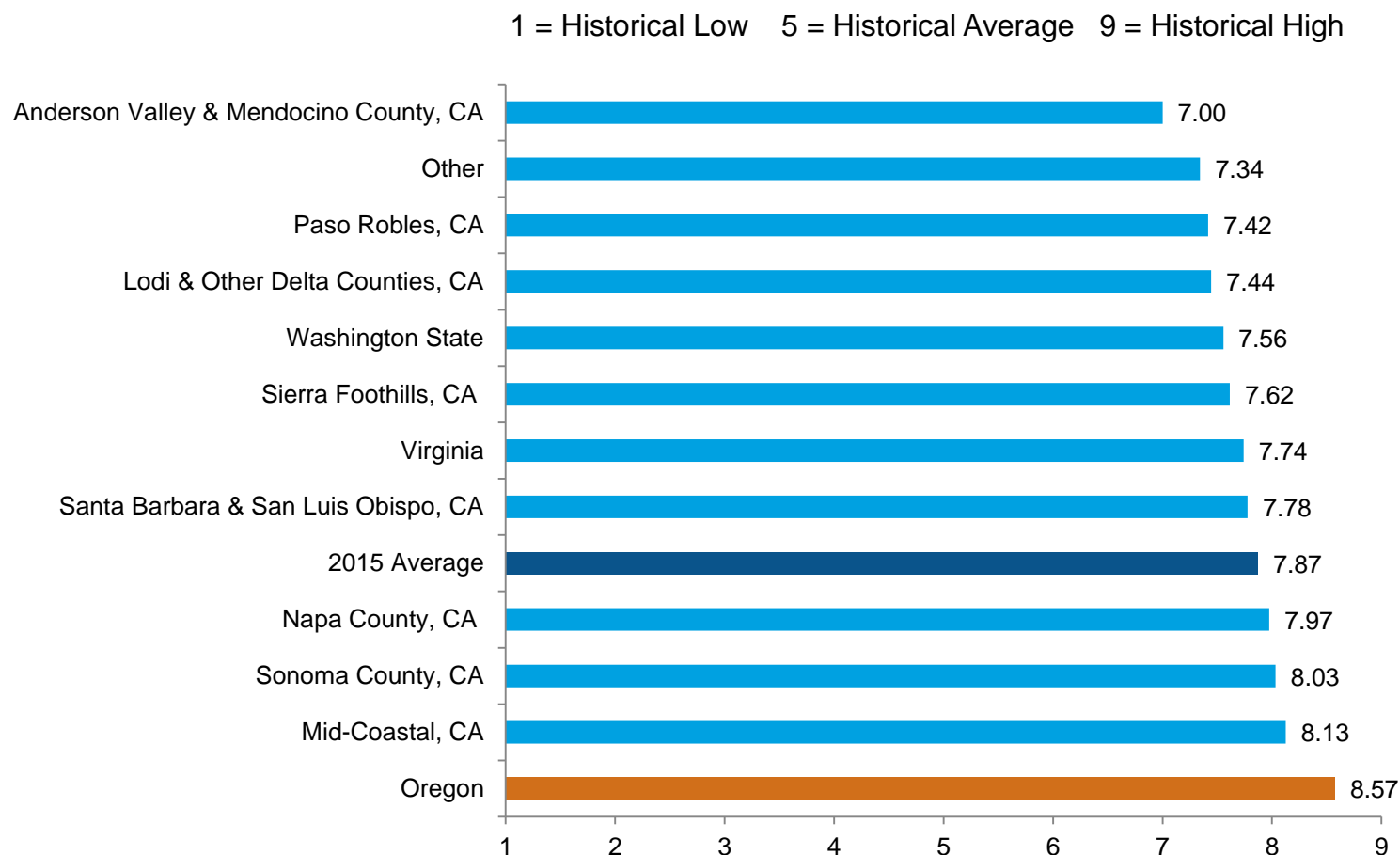
# Relative Magnitude of 2015 Harvest Yield



# “It’s HUUUUUGE!”



# Relative Magnitude of 2015 Harvest Quality



➤ Despite lower yields overall, all major wine regions reported “above average” or “excellent” harvest quality in 2015.



**“I can see the Willamette Valley from Russia!”**

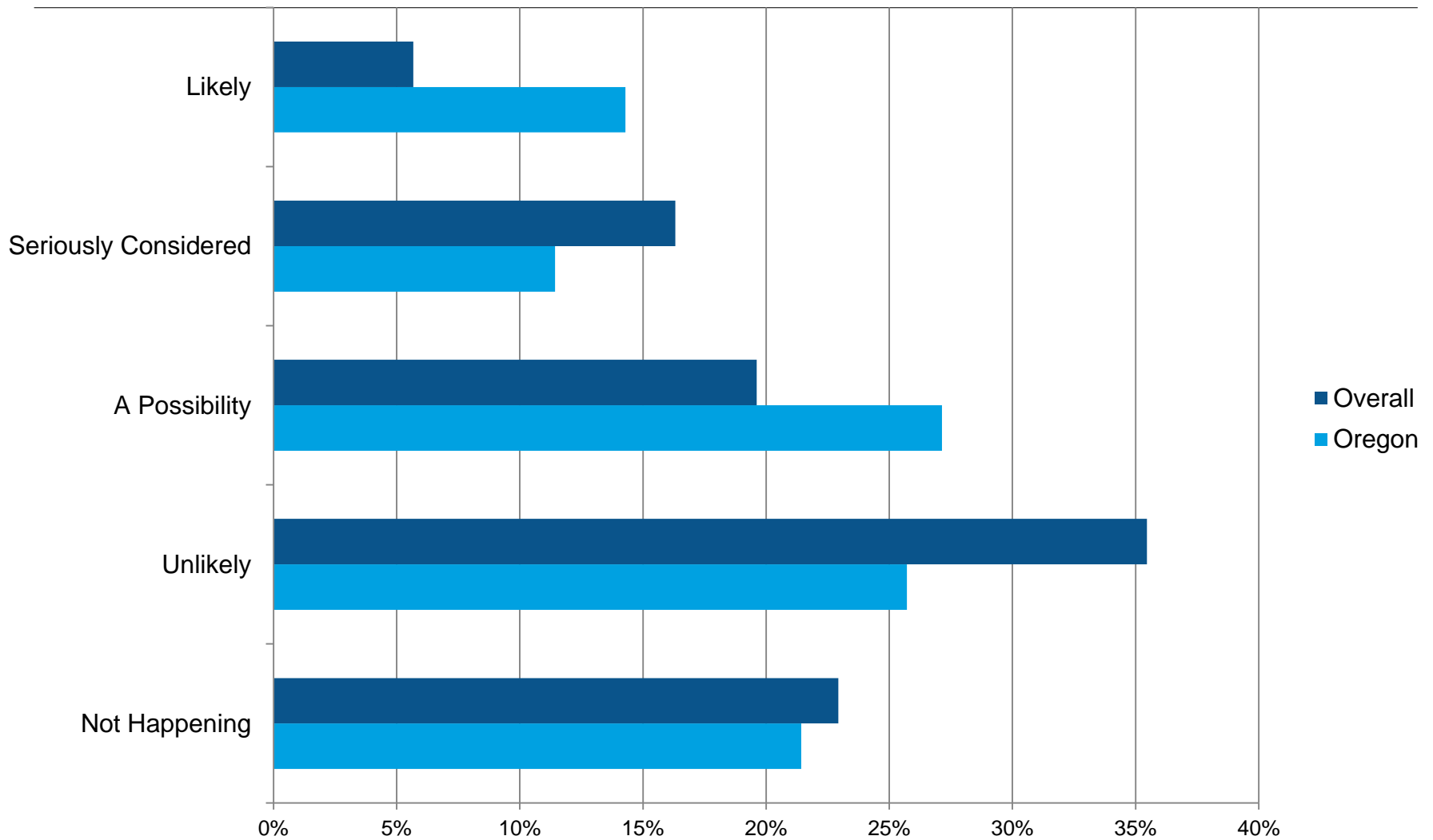
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# Grape Purchase Expectations in 2016



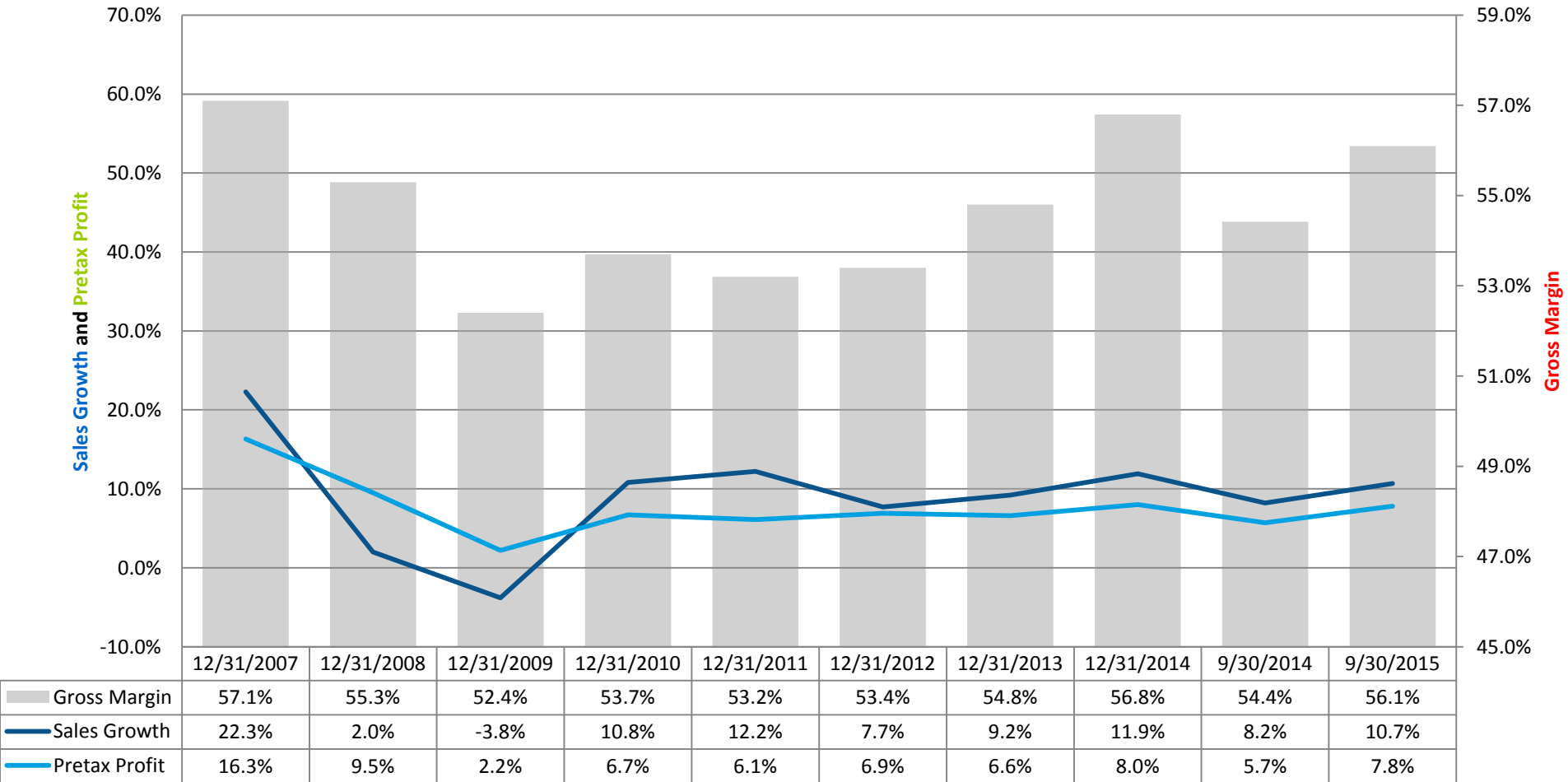
# Likelihood of Winery Sale



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# How are wineries doing financially?

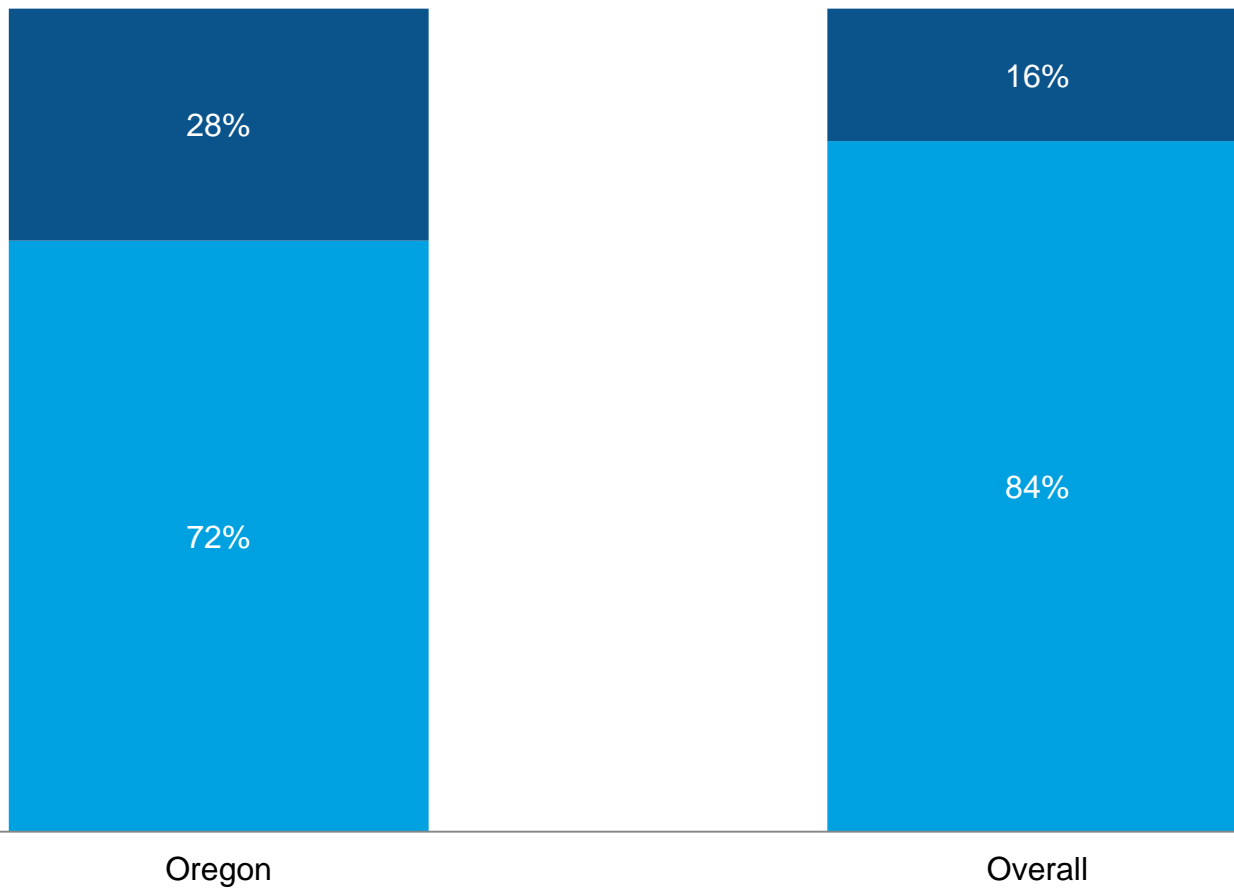
# Financial Health of Premium Wineries



# Current Financial Health

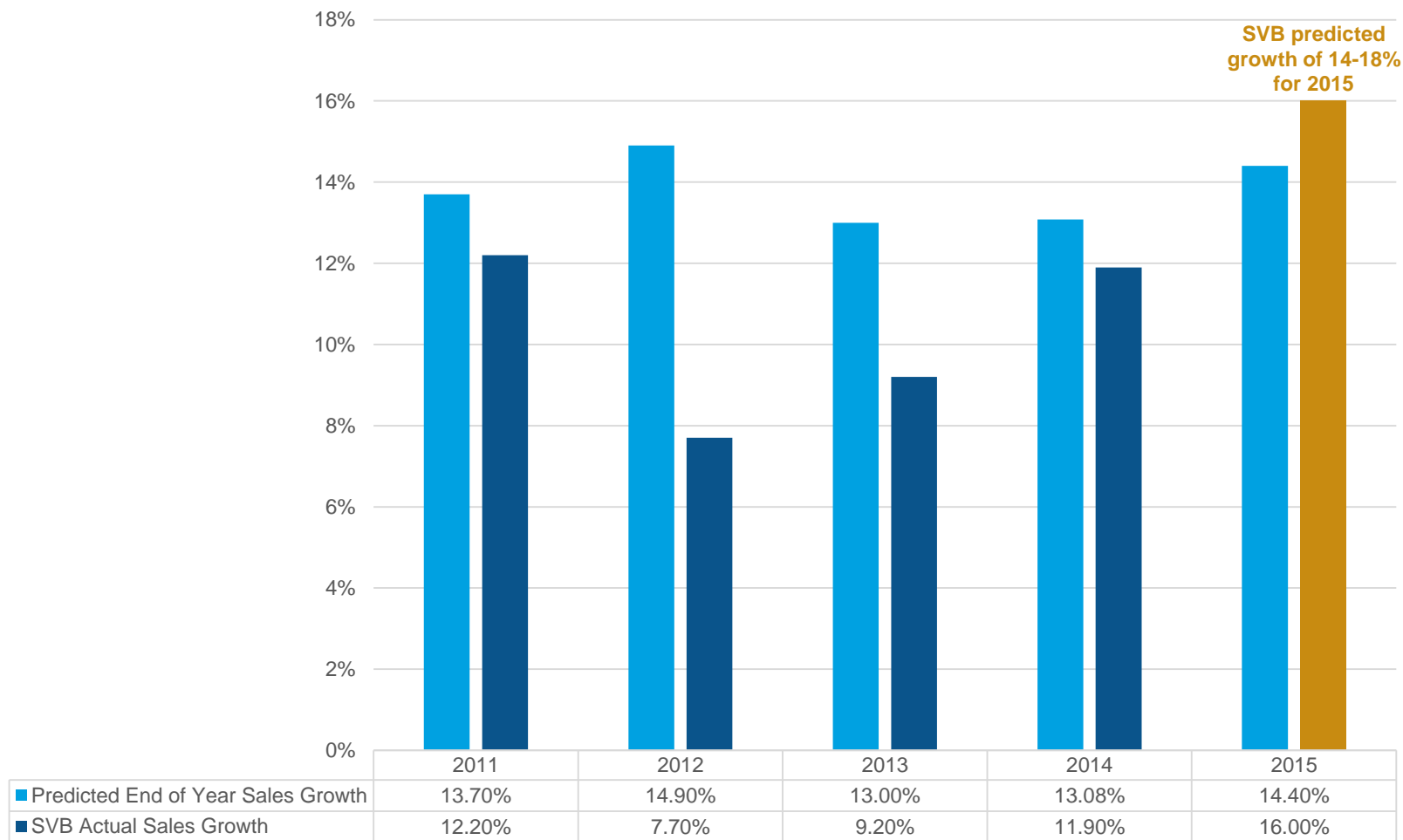
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■ Good/Strong ■ Poor/Weak



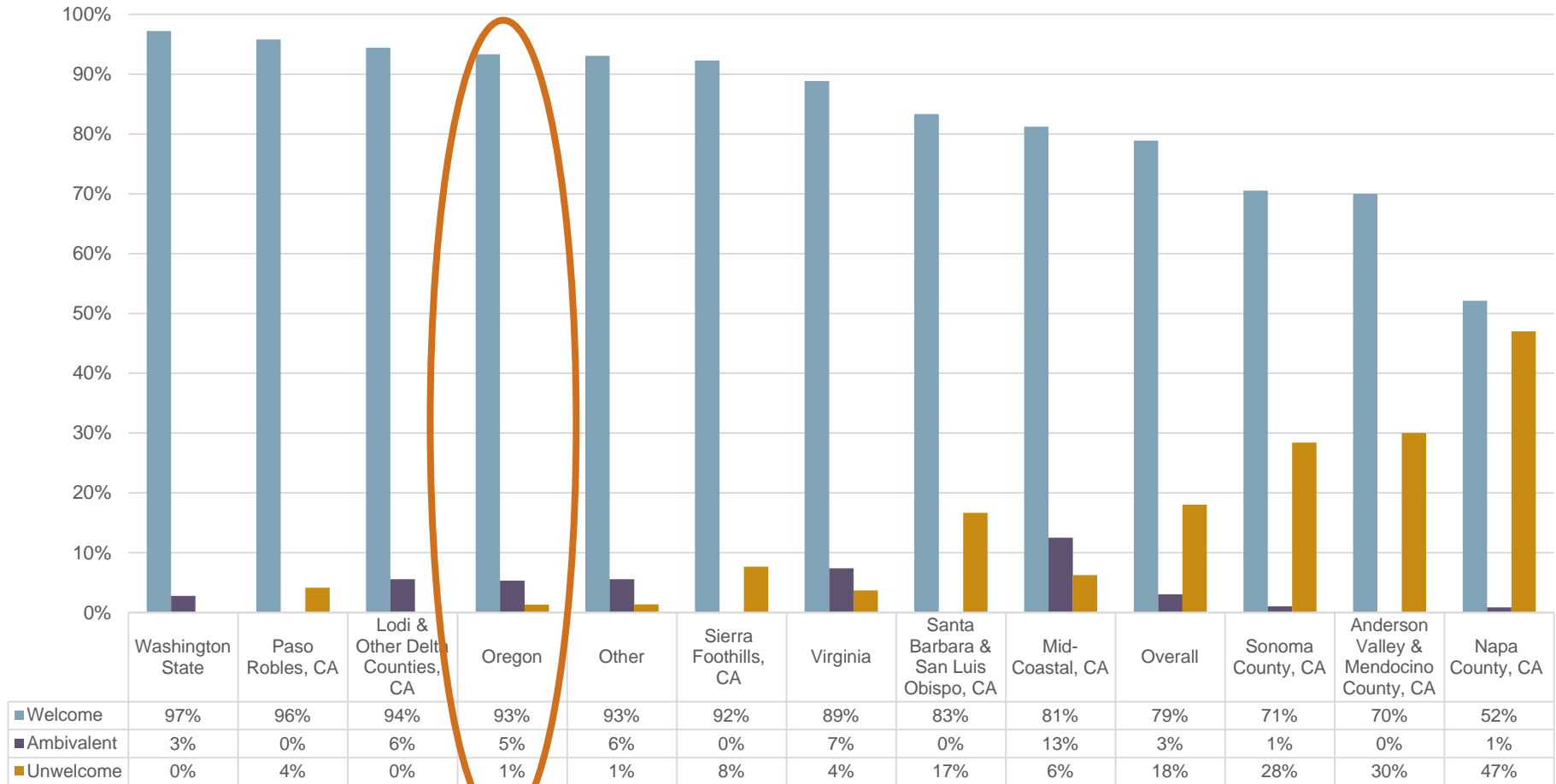


# Predicted End of Year Sales Growth vs. SVB Actual Sales Growth



# Wine Tourism

“Local Politics and commentary in my area lead me to believe that growth in wine tourism is...”



# Predictions on the Future

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- Drop in per capita wine consumption, but temporary
- Gen X take over for boomers as top cohort by 2021
- Millennials take over in 2026, but financially disadvantaged
- Large wine companies will continue to buy premium brands and property
- Foreign imports gain market share in bottled wine
- Low priced generic/jug wine disappears without demand – Premiumization trend

svb



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## State of the Industry

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