

STATE OF THE INDUSTRY

Presented by:
Rob McMillan
Christian Miller



svb



Silicon Valley Bank

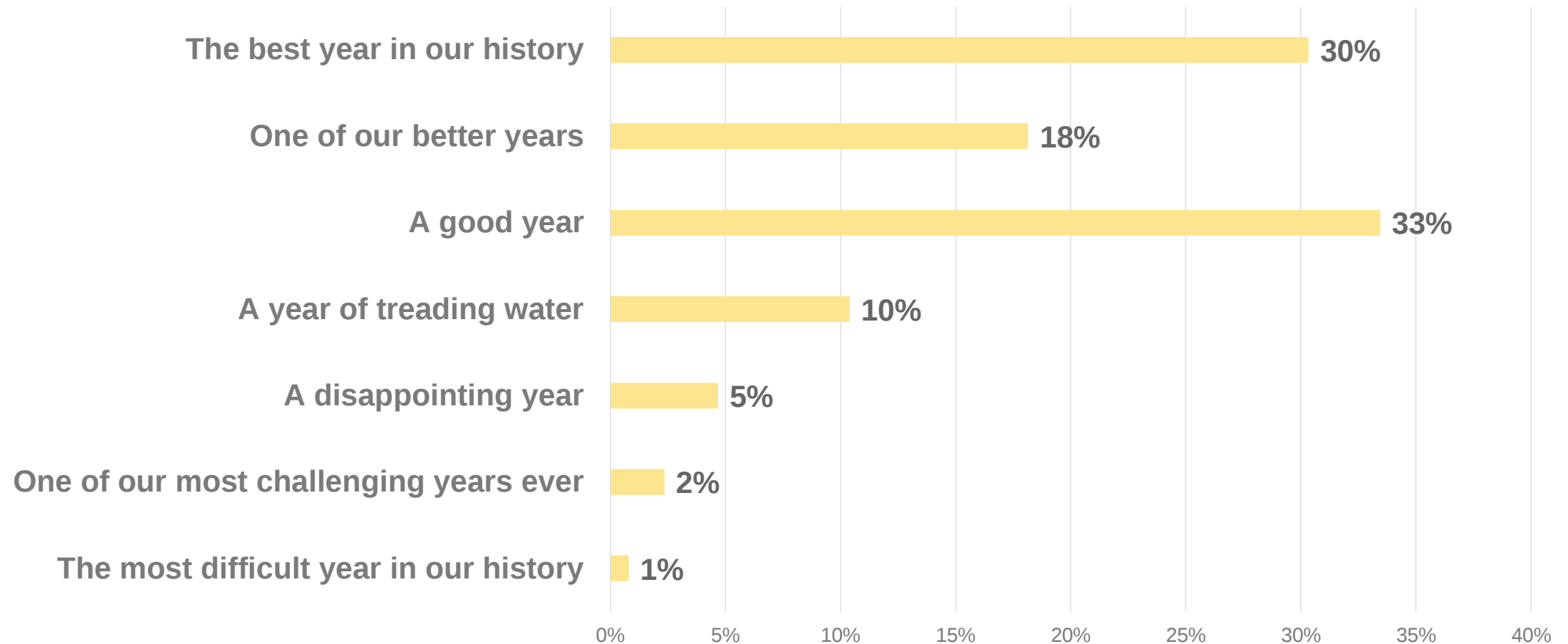


State of the Wine Industry 2017

Rob McMillan

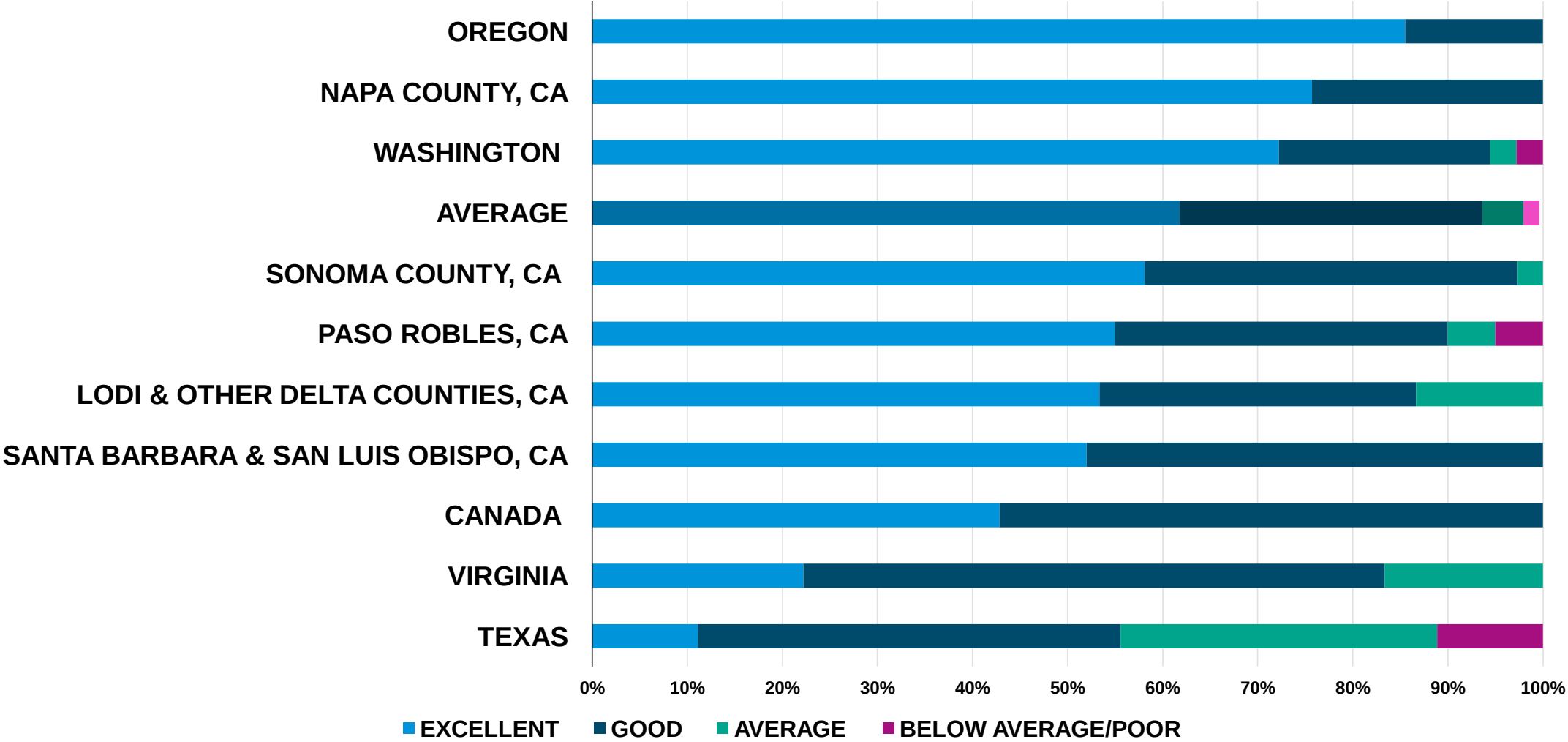
EVP & Founder, Silicon Valley Bank Wine Division

2016 Was a Very Good Year



Oregon Tops US for Best Vintage in 2016

Another Vintage of the Decade!

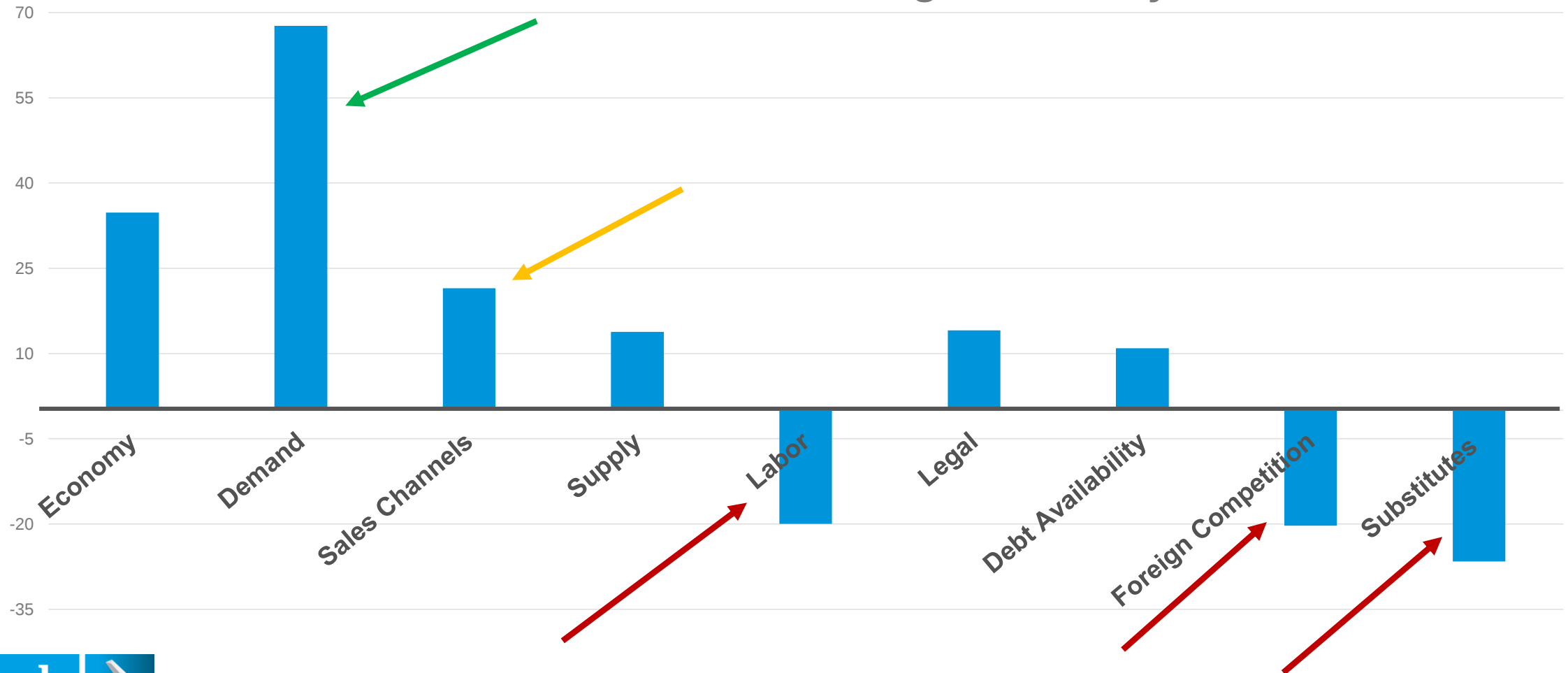


Source: 2106 SVB Wine Conditions Survey

...But Life's not Perfect

Labor, Substitutes, Imports

Oregon Winery Sentiment

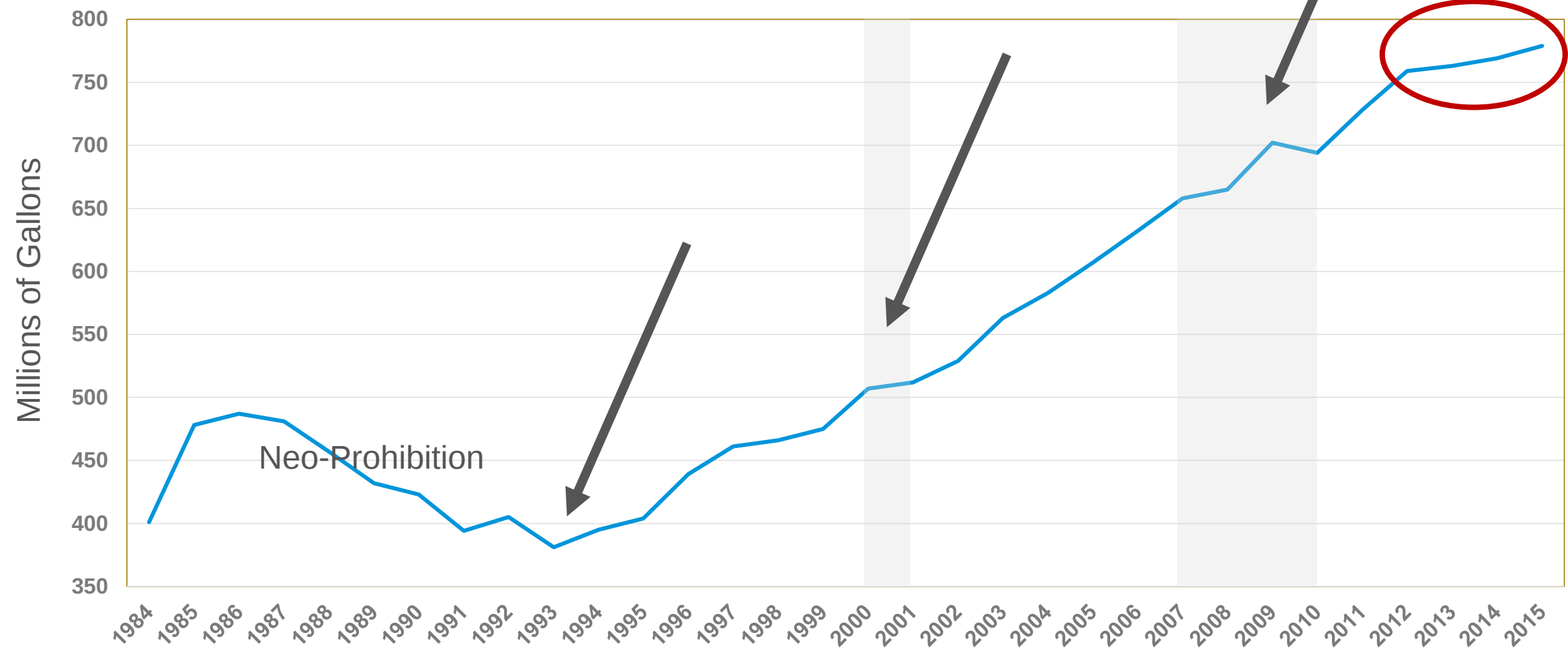


What Does Rob Worry About?

- Boomers retiring with all the money and wealth
- Millennials gaining importance as consumers - without means to buy Luxury
- European Imports Gaining in Importance with New Consumers
- Fighting Varietals Declining in Importance
- Continuing Consolidation of Distribution
- Growing price of Premium Vineyard Land
- Higher Cost of Premium Grapes
- Inability to Pass Labor & Grape Increases to Consumers
- Direct to Consumer Sales too Localized
- Labor Availability

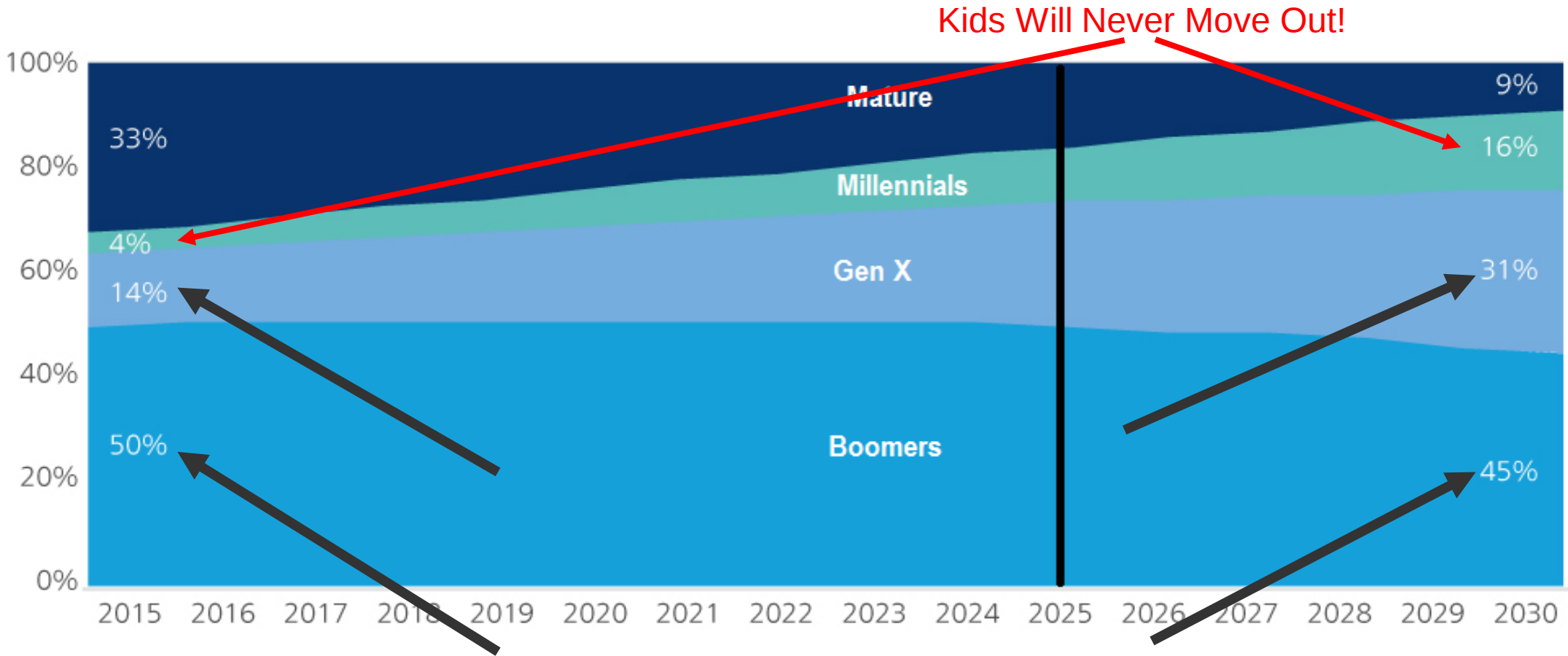
Growth in Total Table Wine is Slowing

Total Table Wine Consumption 1984 - 2015



Boomers Retaining Wealth & Living Longer

Will they Keep Buying Premium Wine?



Millennial Myths –

Millennials Consume about 25% By Dollars

USA TODAY

NEWSSPORTSLIFEMONEYTECHTRAVELOPINION51°CROSSWORDS

Study: Millennials drink nearly half of all wine in the U.S.

7:09 a.m. EST February 16, 2016



newsy GETTY IMAGES / JIM CARREY

Millennials drank a lot of wine last year. About 160 million cases in fact. Newslook

Palate Development of Boomers vs Millennials

Familiar Patterns

Boomers

Beer &
Everything

Bartles &
Jaymes

White
Zinfandel

Chardonnay

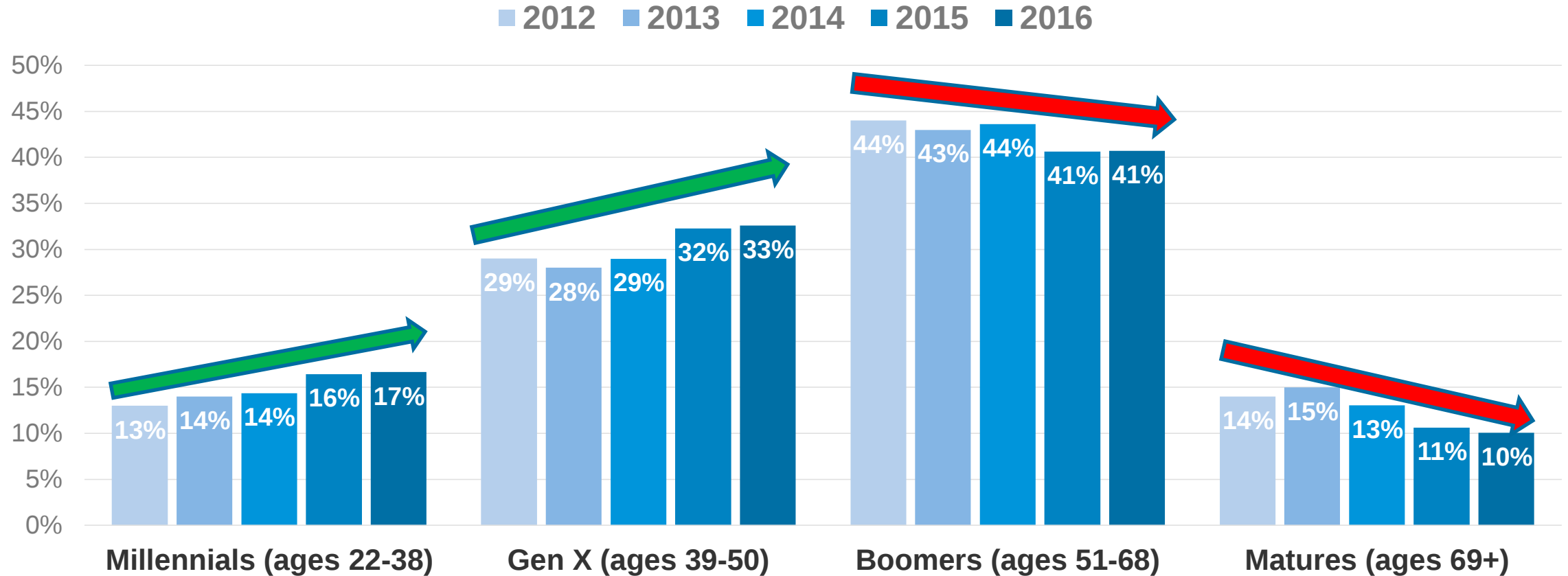
Merlot

Cabernet



Boomers Still Dominate Sales of Fine Wine

Gen X is the Real Growth Story



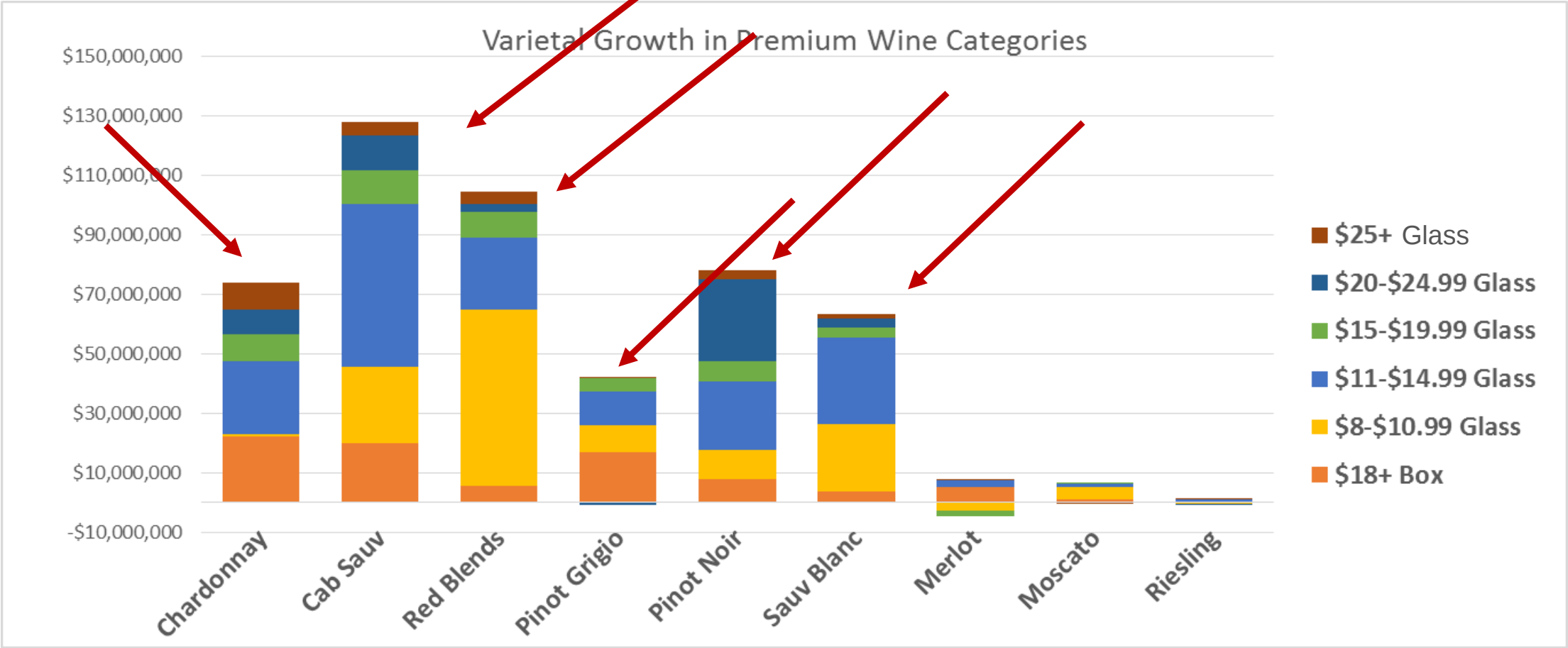
Lower Price Bottles Driving Increase in Foreign Sales

French Rose, NZ Sauvignon Blanc, Italian Pinot Grigio are Hot

52 WEEKS ENDING 12/03/16	\$ Vol	Dollar % Chg vs YA	Case Vol	Case % Chg vs YA
TOTAL DOMESTIC	10,108,592,956	5.0	121,976,984	2.5
TOTAL IMPORTS	3,721,730,397	2.7	41,192,612	(0.2)
TTL ARGENTINE TBL	405,085,118	(4.6)	4,730,432	(7.4)
TTL CHILEAN TBL	278,327,557	(5.1)	3,993,471	(5.1)
TTL AUSTRALIAN TBL	717,241,298	(4.0)	12,320,215	(3.6)
TTL SPANISH TBL	167,006,009	2.3	2,096,110	(0.7)
TTL ITALIAN TBL	1,233,830,943	5.4	11,183,170	3.9
TTL FRENCH TBL	346,583,441	14.3	2,287,547	11.4
TTL NEW ZEALAND TBL	390,850,949	14.9	2,865,606	12.9

Cabernet is Driving Varietal Growth Today

Red Blends – Still Expanding



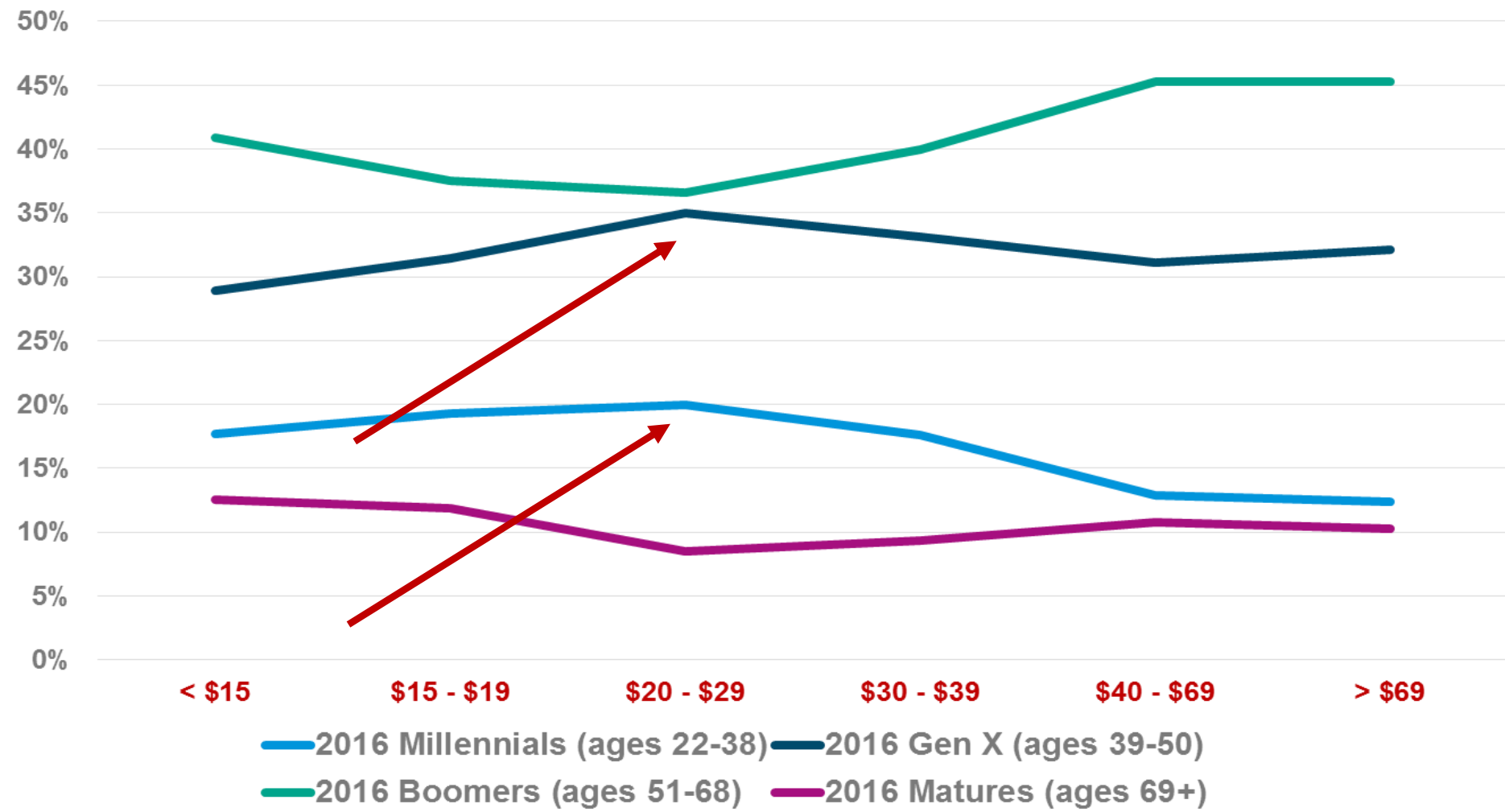
Heat Map Of Varietal / Price in Premium Segments

What Are We Training Young Consumers To Drink?

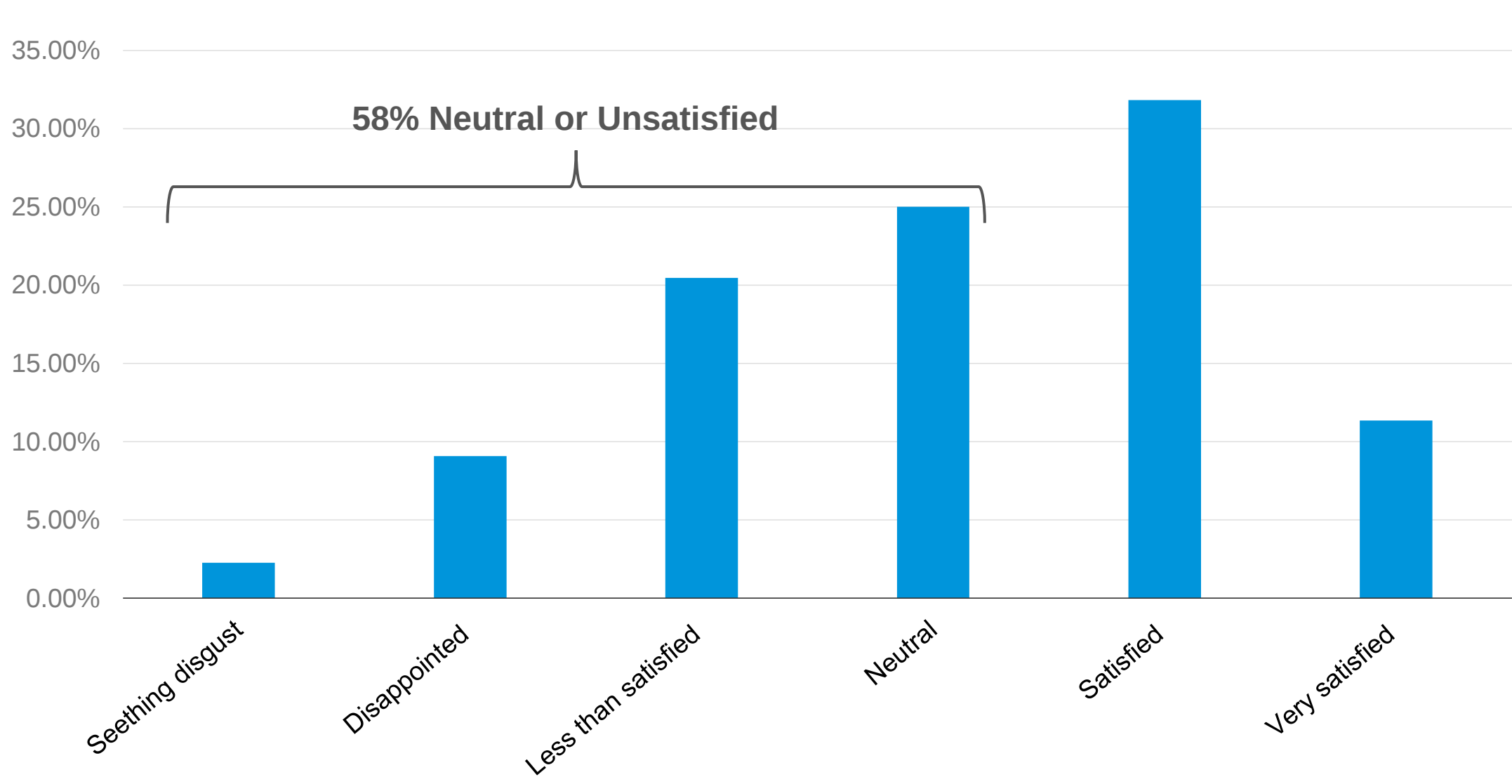
	\$18+ Box	\$8-\$10.99 Glass	\$11-\$14.99 Glass	\$15-\$19.99 Glass	\$20-\$24.99 Glass	\$25+
Chardonnay	\$22,401,610	\$508,039	\$24,608,787	\$8,992,753	\$8,505,185	\$8,764,175
Cab Sauv	\$19,944,224	\$25,541,909	\$54,667,132	\$11,623,711	\$11,685,505	\$4,396,192
Red Blends	\$5,486,321	\$59,252,334	\$24,078,209	\$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

Cohort Demand – Boomers Rotating Off. Millennials Rotating in

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



Oregon's Satisfaction with Wholesalers



Why Have Wine Sales Gone Direct to Consumer?

There's No Other Choice

1995

2,600 Wineries



3,000 Distributors

2015

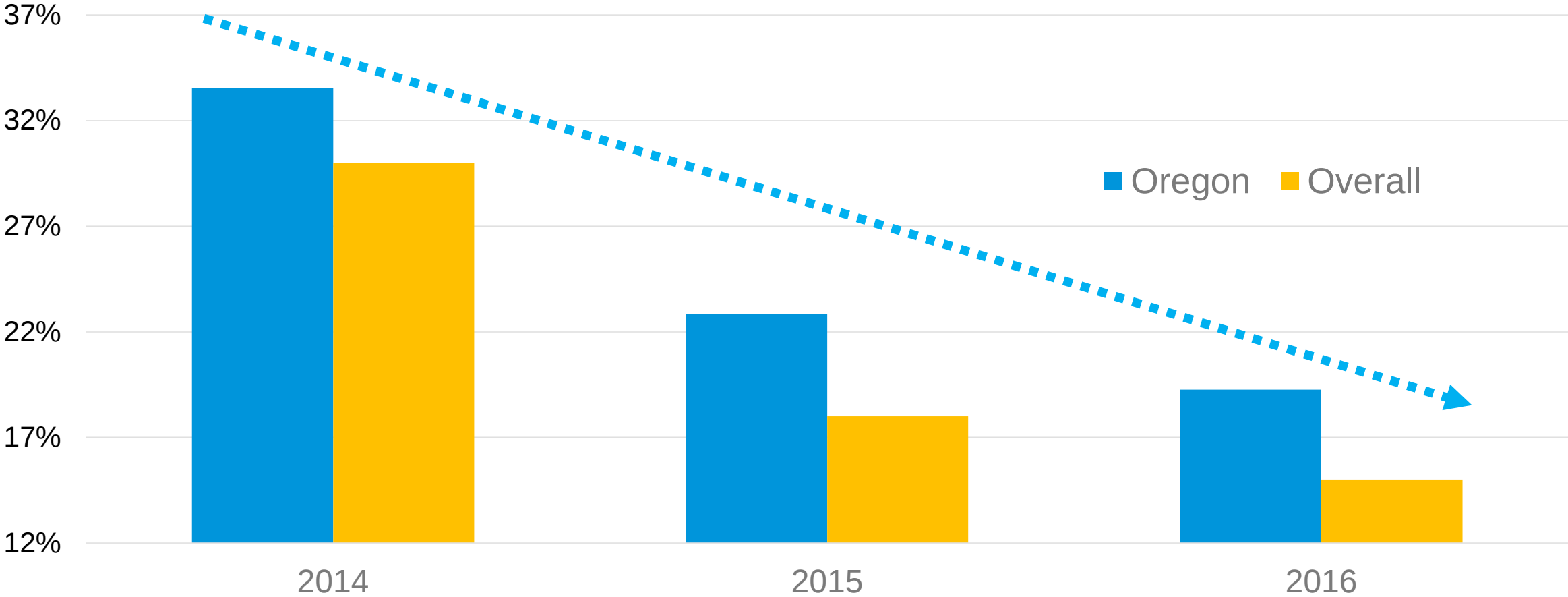
8,800 Wineries



700 Distributors

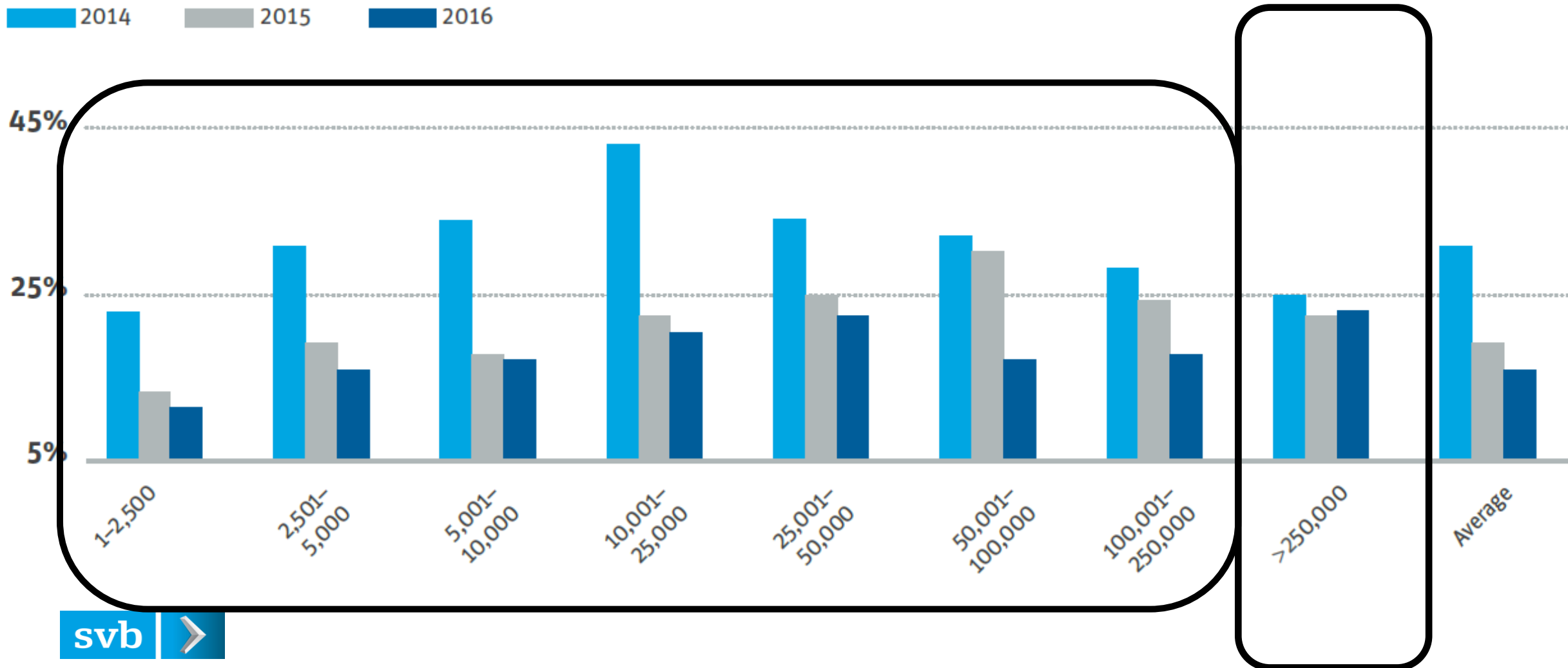
Wine Sales in Restaurants Are Dropping

Consumer Behavior, Price, Substitutes All Playing a Role



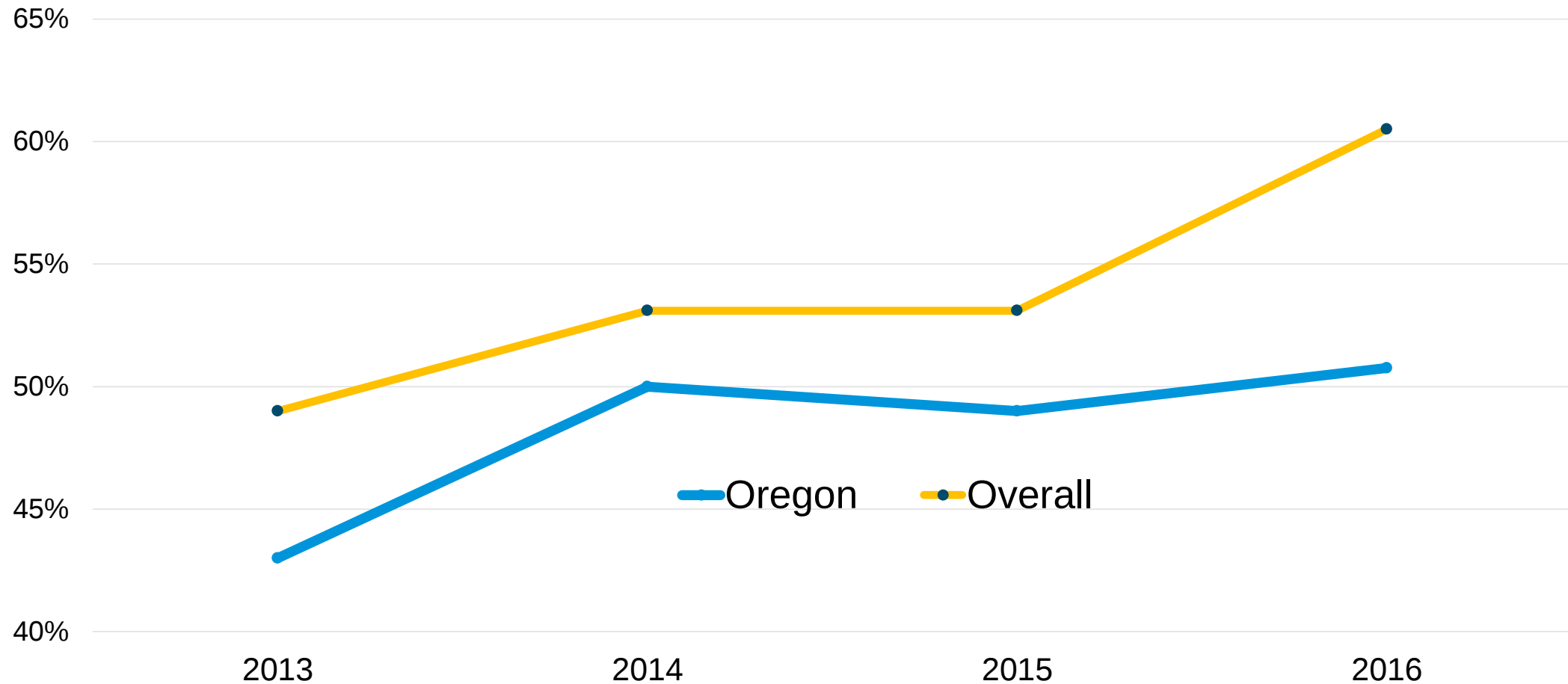
Small Producers Having A Difficult Time On-Premise

Wholesale Driving Placements for Larger Wineries



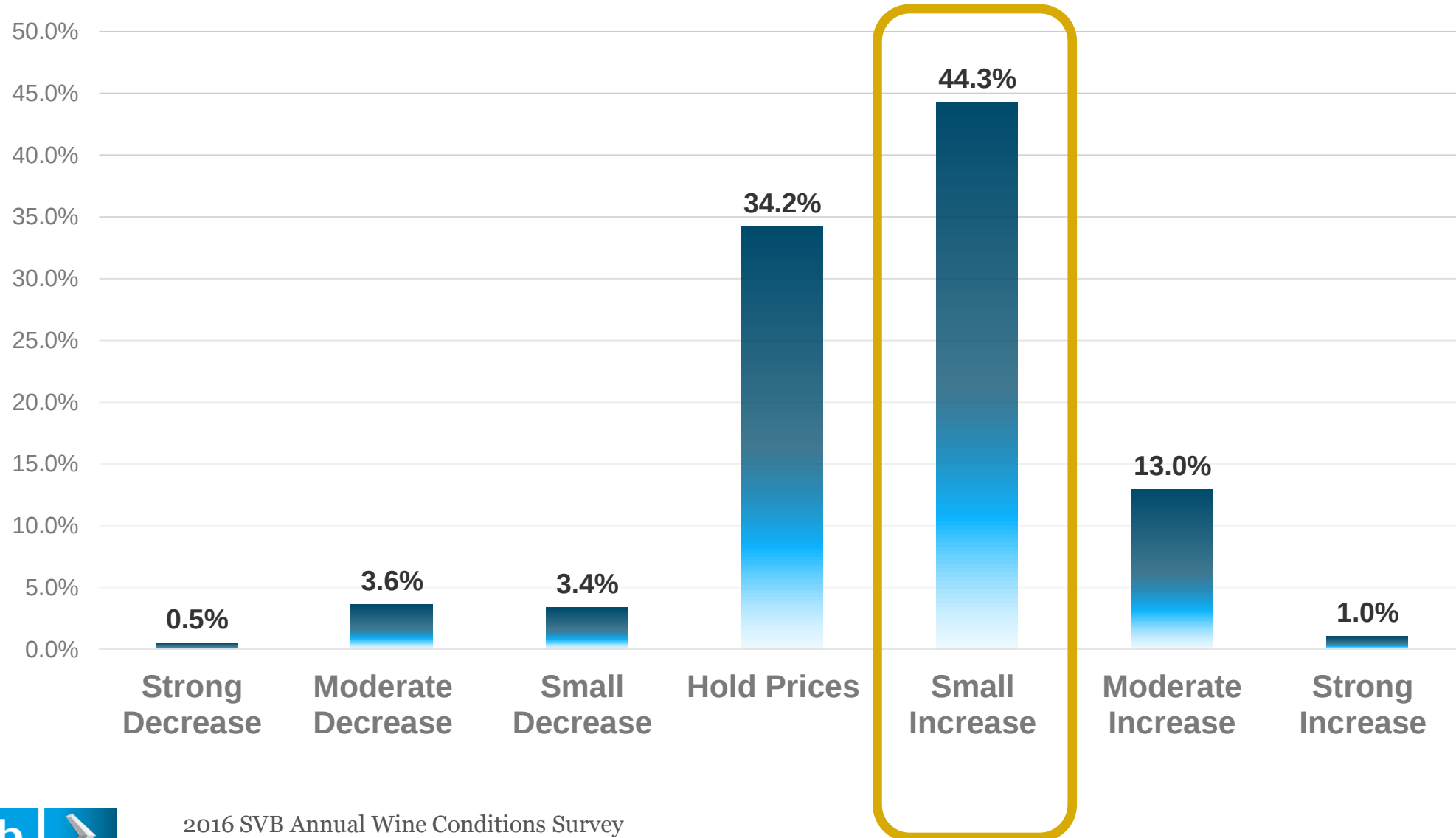
Growth in Direct to Consumer Sales

Critical for Survival



Owners Believe Price Increases Are Possible in 2017

....Not Large Price Increases



Observations

- Millennials Are Finally Impacting Low Priced Premium Wine Segments & Trending Up
 - French Rose, Red Blends, NZ Sauvignon Blanc
- Oregon Pinot Noir Positioned Perfectly for the Employed Millennial Consumer
- Boomers Spending Less, but Still Dominate Club Sales Today
- Emerging Trend: Young Consumers Trusting in Brands
 - *Fighting Varietals getting punch drunk*
- Brand Oregon Continuing Growth
 - *Larger Wineries Marketing Dollars & Distribution Strength Helps*
- Labor is a Real Issue that Impacts Small Growers First
- Hard to Pass on Increasing Costs
- **How will you get your wine to the consumer tomorrow?**

The logo for Silicon Valley Bank, consisting of the letters 'svb' in white on a blue square background.

svb



Silicon Valley Bank

State of the Wine Industry 2017

Rob McMillan

EVP & Founder, Silicon Valley Bank Wine Division

Email: RMcMillan@svb.com

Twitter: [@SVBWine](https://twitter.com/SVBWine)

Blog: [SVB on Wine](#)



svb



Silicon Valley Bank

END



STATE OF THE INDUSTRY 2017

wine sales trends & a deep dive into the Oregon Wine Consumer

Christian Miller

Proprietor, Full Glass Research



WINE MARKET CONSUMER RESEARCH

Sources of Information:

Wine Opinions



FULL GLASS RESEARCH



Nielsen



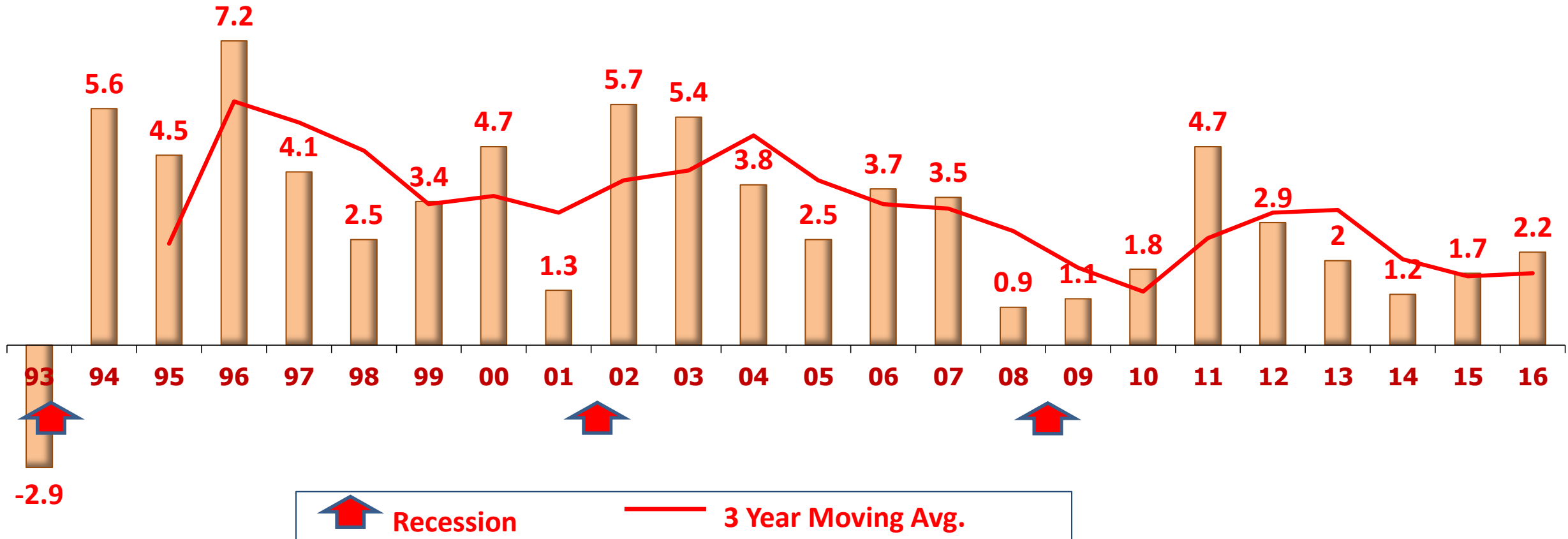
BIN, Gomberg-Fredrikson, BW166

Wines Vines Analytics / ShipCompliant model

SOURCE (Southern Oregon University Research Center)

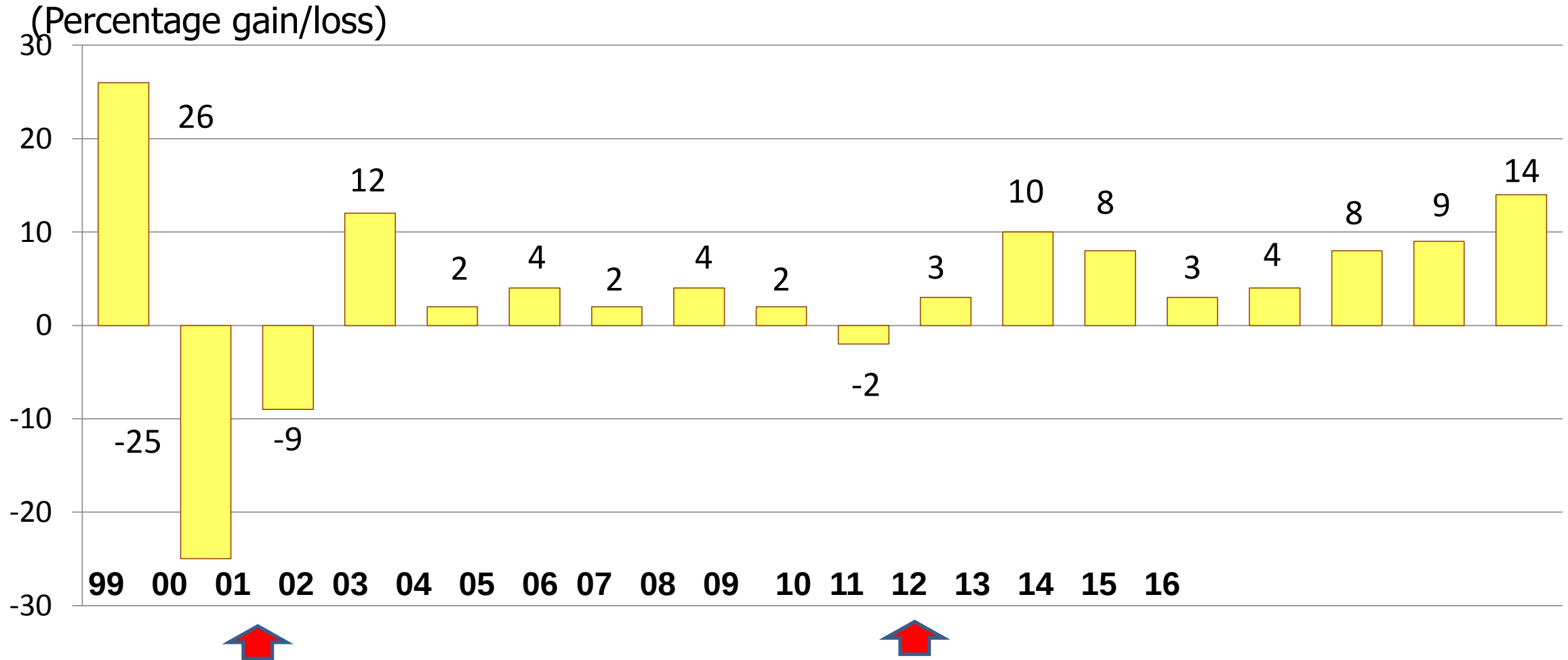
% Change in U.S. Table Wine Shipments 1993-2016

(Percentage gain/loss in volume)



Source: BIN, BW166, FGR

Percentage Change in U.S. Sparkling Wine Sales 1999-2016



Source: Gomberg-Fredrikson, BW166, FGR

NIELSEN SCANNED RETAIL: OREGON OUTGROWING THE MARKET

Sales Share		Origin	Value % Change	Volume % Change	Avg Price/ 750 ml
Value	Volume				
100%	100%	Total Table Wine	+3.6%	+0.7%	\$7.98
73.7	75.2	Domestic	+4.6	+2.3	\$6.87
66.6	70.0	--California	+4.6	+2.2	\$6.68
4.4	3.1	--Washington	+4.4	+3.1	\$9.78
1.0	0.4	--Oregon	+14.3	+13.5	\$16.05
26.3	24.8	Imported	+2.5	-0.2%	\$7.44

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52 w/e 12-31-2017

NIELSEN SCANNED RETAIL: SALES BY PRICE SEGMENT

Sales Share		Price Segment (Eq 750 ml)	Value % Change	Volume % Change		Average Price /750 ml
Value	Volume					
100%	100%	Total Table Wine	+3.6%	+0.7		\$7.98
6.3	15.4	<\$3.99	-2.7	-2.9		\$3.25
29.2	42.3	\$4-\$7.99	-3.6	-3.3		\$5.51
27.3	23.2	\$8-\$10.99	+3.2	+2.9		\$9.37
19.2	12.3	\$11-\$14.99	+10.6	+10.7		\$12.49
8.8	4.1	\$15-\$19.99	+11.5	+12.2		\$16.91
4.2	1.6	\$20-\$24.99	+11.3	+12.1		\$21.41
5.0	1.1	\$25+	+10.7	+14.3		\$37.82

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52 w/e 12-31-2017

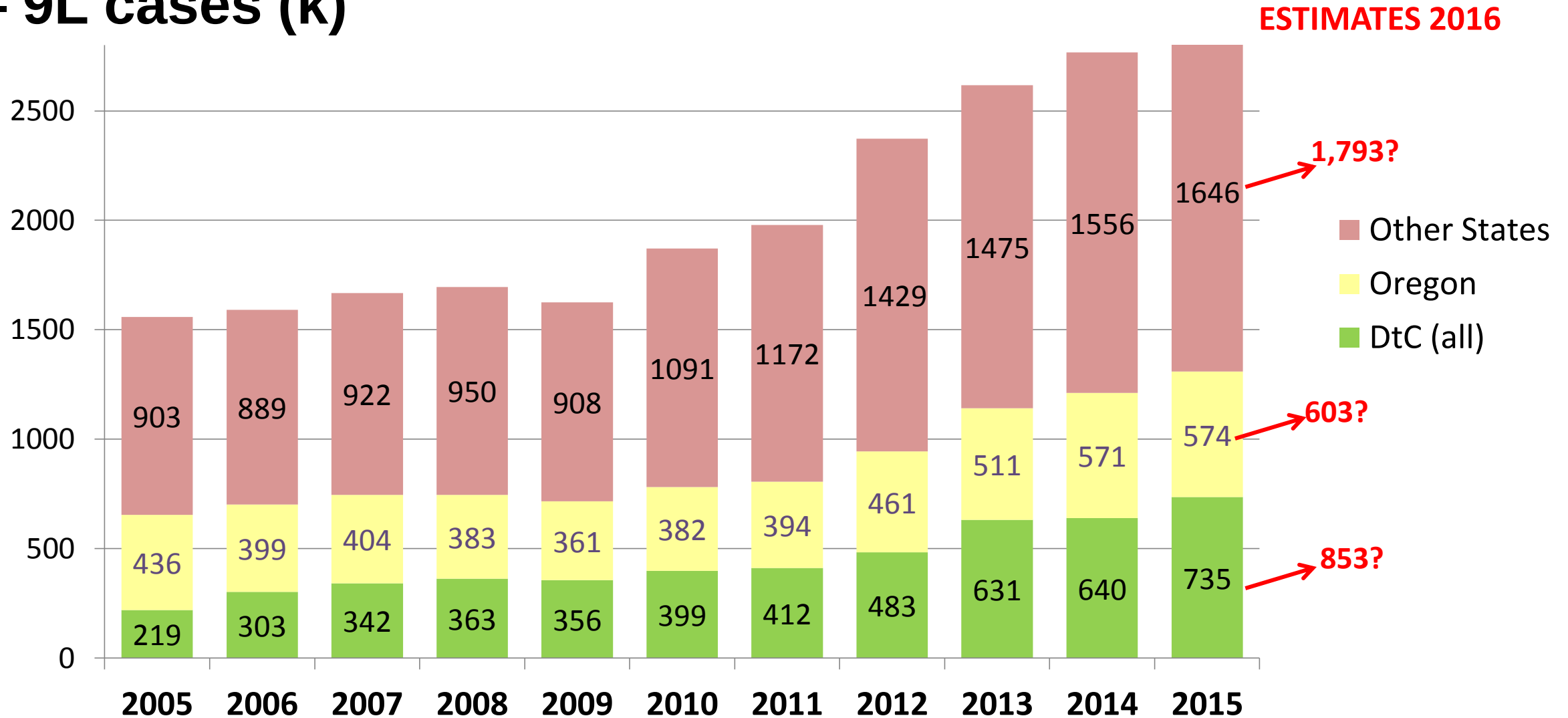
NIELSEN SCANNED RETAIL: SALES BY VARIETY

Sales Share		Varietal	Value % Change		Volume % Change		Avg Price/ 750 ML
Value	Volume						
18.5	19.0	Chardonnay	+2.4		+0.9		\$6.81
16.9	14.0	Cab Sauv	+6.5		+4.2		\$8.47
9.0	9.5	P. Grigio/Gris	+4.3		+4.5		\$6.62
12.3	9.9	Red Blends ex 4/5 L	+9.7		+7.6		\$8.72
6.0	7.3	Merlot	-4.3		-4.9		\$5.79
7.3	5.0	P. Noir	+8.1		+5.7		\$10.16
6.0	4.6	Sauv Blanc	+11.6		+9.4		\$9.17
1.4	1.0	Rose'	+45%		+28%		\$9.13
1.9	1.8	Riesling	-1.9		-2.1		\$7.60
1.7	1.8	Wht Blends ex 4/5 L	-3.1		-4.2		\$6.89
1.0	1.0	Syrah/Shiraz	-11.5		-12.2		\$6.72

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52 w/e 12-31-2017

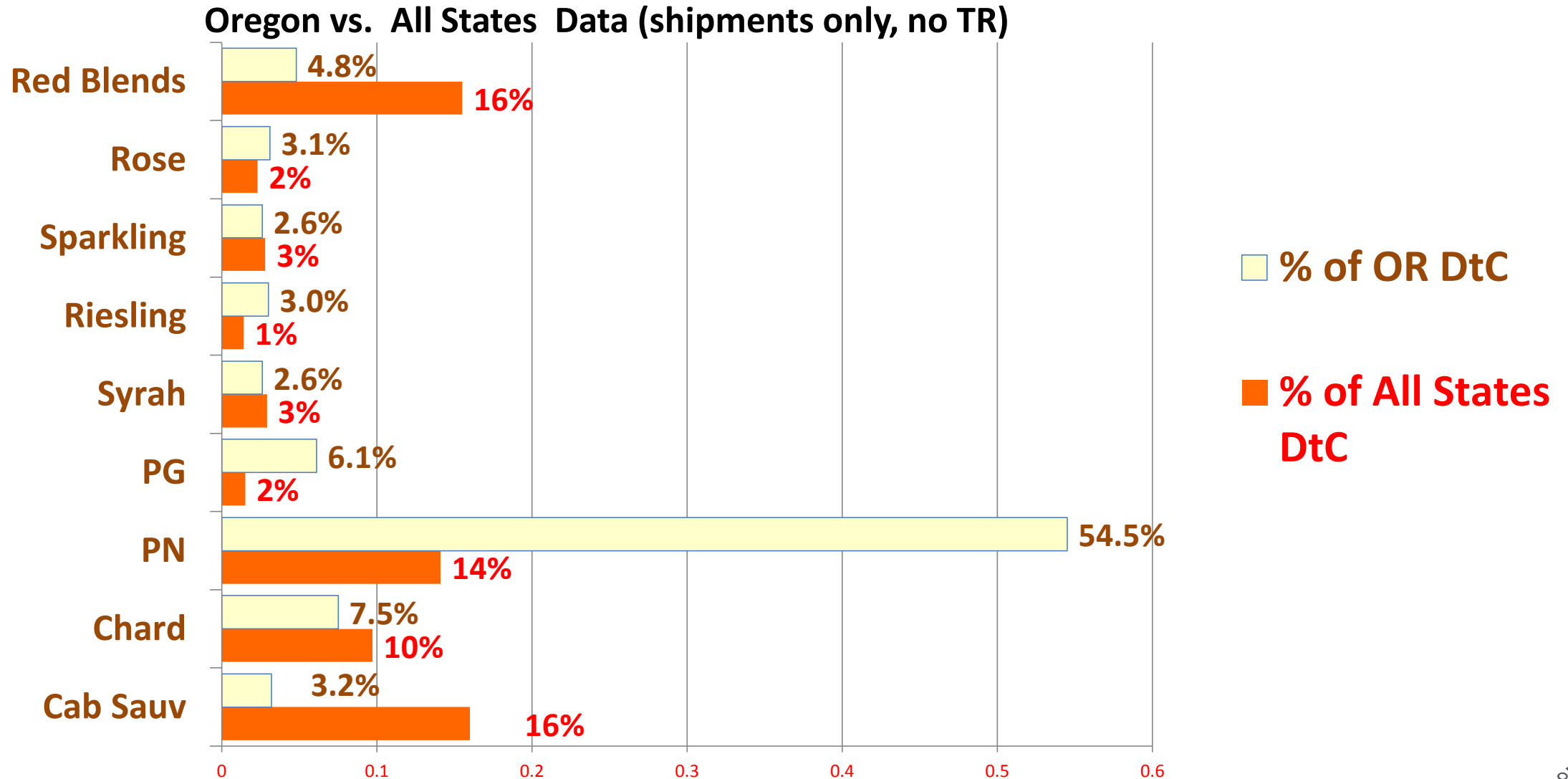
OR Winery Sales by Channel

– 9L cases (k)

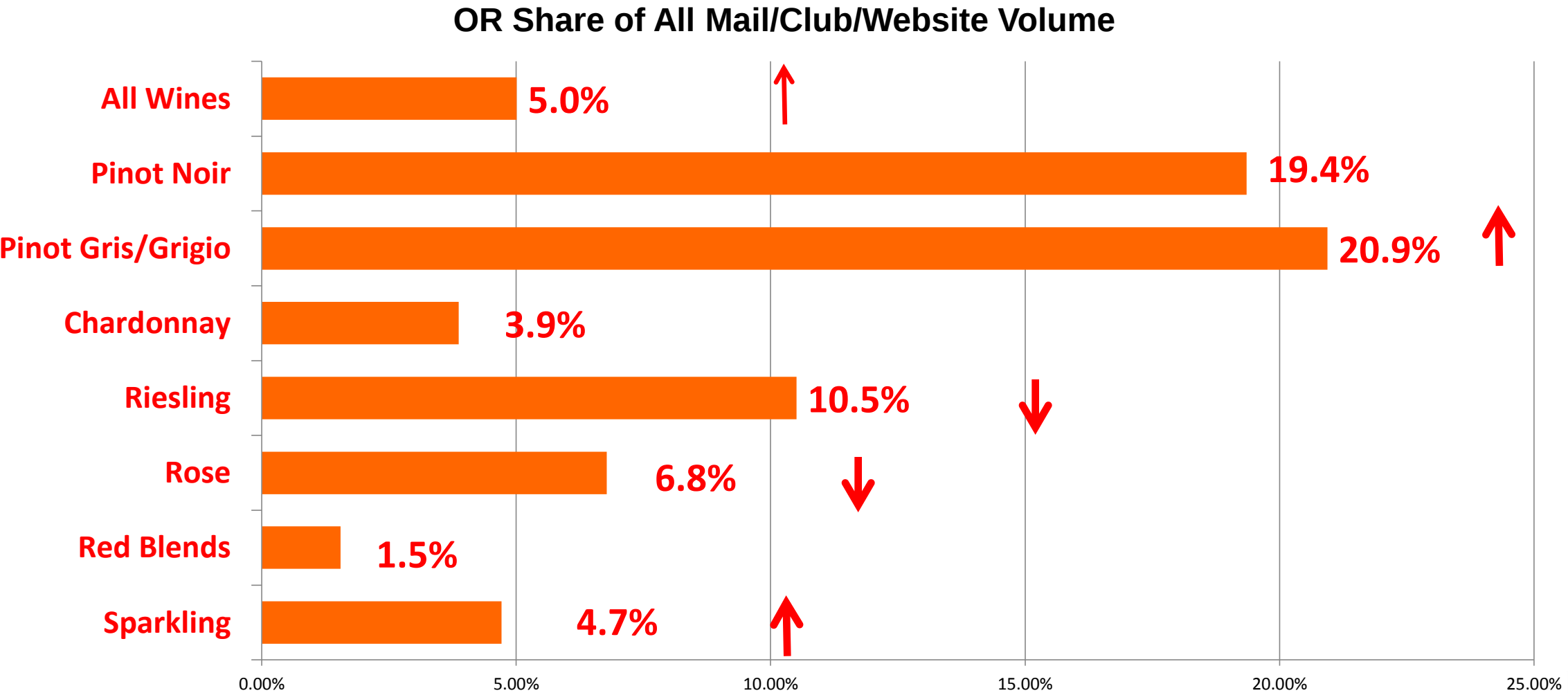


Source: OASS, Southern Oregon University Winery Report

DtC: Share of Volume by Variety 2016



DtC: OR Share of Winery to Consumer Shipments by Variety 2016



Source: Wines Vines Analytics / ShipCompliant model 2014





“Wine **Opinions**”

Oregon Wine Board Consumer Study

December 2016

BACKGROUND

OBJECTIVES

- (1) More detailed look at Oregon wine consumers and potential wine consumers: who they are, what they drink and why, how they learn about and adopt new wines**
- (2) Identify what clicked for Oregon’s fans and what barriers exist for turning other wine drinkers into Oregon fans**

METHODOLOGY

Qualitative - two discussion groups with:

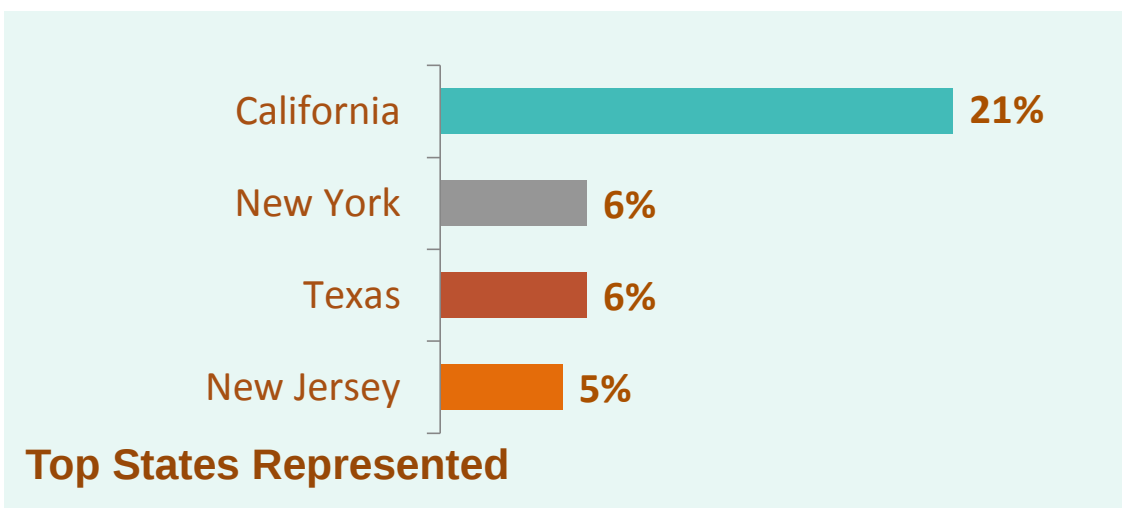
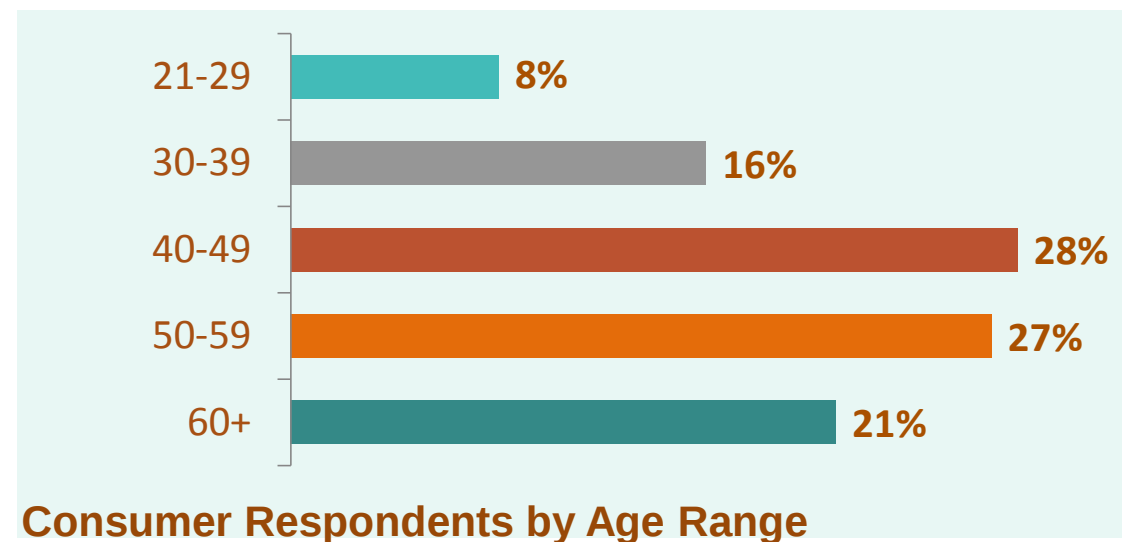
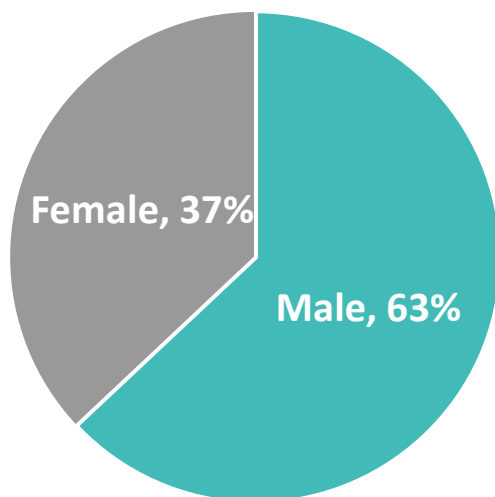
- 1) frequent Oregon wine drinkers who are knowledgeable and consider Oregon wines among their favorites
- 2) wine consumers who regularly drink wines in Oregon’s price and varietal segments, but infrequently or rarely drink Oregon wines

Quantitative: survey of Wine Opinions national consumer panel

- Representative of high frequency, high involvement wine drinkers, fielded November 2016
- Analysis and report focused on Oregon’s target market: high frequency, high end consumers (**HFHEs**). 532 out of 1153 completed surveys. Overall sample margin of error at 90% ranges $\pm 2.1\%$ - $\pm 3.6\%$

CONSUMER RESPONDENT PROFILE

Consumer Respondents by Gender



Segmentation by Oregon Wine Familiarity

Q11: "Thinking about wines from Oregon, or any wine regions within Oregon; which of the following statements most closely describes you? Please choose the ONE statement that best describes your experience with Oregon wines."

Q11 Answer	Segment Name	% of Total	
I have tried few or no Oregon wines and don't know much about them	Unfamiliar	15%	
I have tried some Oregon wines and don't have much interest in trying them again	Disinterested	4%	
I have tried and liked some Oregon wines but don't buy or drink them often	Somewhat Familiar	37%	
I buy and drink Oregon wines regularly, although I am not an expert on them	Users	27%	 Core Oregon consumers
Oregon wines are among my favorites, I am very familiar with many wineries and varieties from there	Fans	17%	

UNFAMILIARS: Reasons They Don't Drink Oregon

I am not familiar with many Oregon wineries, so I am not sure which to select	60%
I don't see many Oregon wines where I shop for wine	53%
I would buy them more often if I knew which ones fit my taste preference	44%
Wines from Oregon are rarely or never on display or recommended where I shop	43%
I prefer to stick with wines I already know	16%
Oregon doesn't make the varieties of wine I like best	10%
I have not been impressed by the Oregon wines I have tried	7%
I seldom see good reviews or high critics' scores on wines from Oregon	6%
I am reluctant to try new wines from Oregon because they are expensive	4%

WHO ARE THE UNFAMILIARS?

- ❖ They are slightly less upscale wine buyers, lower in age and more likely to be female
- ❖ They purchase nearly all varieties less frequently than other segments, except for Cabernet Sauvignon and Chardonnay.
- ❖ Are less concerned with food and wine pairing and details of the wine's flavors, and significantly more interested in the wine being smooth and drinkable. For wines above \$20, they are more concerned with good reviews and high scores, and less interested in regionality, small producers or complex flavor.
- ❖ Very familiar with Napa Valley or Sonoma County, and somewhat familiar with Washington wines.

NEEDS: more chances to try Oregon wine; more visibility in stores; more opportunities with Cab, Chard, PG; more reinforcement with 3rd party recs; easy drinking wines.

Somewhat Familiar: Reasons They Don't Drink/Buy Oregon Wine More Often

Don't see many Oregon wines where I shop	50%
I am not familiar with many Oregon wines, so I am not sure which to select	33%
Wines from Oregon are rarely or never on display or recommended where I shop	34%
I prefer bigger, bolder wines than the kinds made in Oregon	23%
Oregon doesn't make varieties of wine I like best	16%
I am reluctant to try new wines from Oregon because they are expensive	12%
I prefer to stick with wines I already know	9%
I have not been impressed by the Oregon wines I have tried	9%
I seldom see good reviews or high critics scores on wines from Oregon	5%

WHO ARE THE SOMEWHAT FAMILIARS?

- ❖ They are typical HFHE consumers BUT much less familiar with Oregon wines and Oregon wine regions. Significantly more likely to have tried Oregon wines out of curiosity, or because they were served by the host; rather than any kind of promotional or educational setting.
- ❖ They DO like to experiment and try new wines. They DON'T encounter Oregon wines much.

“I’m always trying new wines.” “Two weeks ago I was looking for a new experience and interested in trying wines from wine regions not as popular. Bought two bottles from a winery in Pennsylvania.”

*“Oregon wines are hardly visible at all...In a shop in California, they are typically part of a 'Northwest grouping. “
“The stores I go to have a few Oregon wines but not a lot. Even web sites have a limited selection that I can see.” “I suppose the biggest reason that I don’t choose to drink or try Oregon wines is their lack of availability... I would try them if offered by the glass”*

NEEDS: opportunities to try Oregon wine in an informative setting; reminders of Oregon Quality via recommendations and press; visibility & distribution.

CORE OREGON CONSUMERS (Users & Fans)

What Makes Oregon Wine Different – Open-ended

Pinot Noir/great Pinot Noir	23%
Terroir/distinct terroir/product of terroir/distinct regional flavor	19%
Distinct flavor profile/taste	4%
More old world style/Burgundy style/bridge between old and new world/similar regional characteristics to Burgundy	11%
Earthy/earthier style/flavor	6%
Cooler climate	6%
Lighter style/wines	8%
Greater acidity/more acidity/unique acidity characteristics	4%
Balanced/not overpowering/great balance	6%
Complex/more complex	6%
Very food friendly wines	5%
Pinot Gris/great Pinot Gris	4%

WHO ARE CORE OREGON WINE CONSUMERS?

The true Oregon Fan is:

- ❖ A very high end wine consumer, more likely to be male
- ❖ classic connoisseur values of food pairing, old world precedents, balance and acidity
- ❖ serious consumers of Pinot Noir, more interested in Chardonnay, Riesling and Tempranillo, less interested in Cabernet; see Willamette Valley quality as higher than Napa or Sonoma.
- ❖ Their first encounters with Oregon wines were much more likely to be quality, focused, intensive occasions: visiting a winery, attending an educational tasting, etc.

Oregon “Users” (drink regularly but “not expert”):

- ❖ less high end, less male, more like typical HFHE consumer
- ❖ less familiar with Oregon wines, less of an “old world” influence.
- ❖ Their main interaction with Oregon is via Pinot Noir and Willamette Valley. They see Willamette Valley as equivalent in quality to Napa and Sonoma, but rate Oregon in general significantly lower.

FANS: WHEN IT CLICKED WITH OREGON

“A small local boutique (sadly, not there anymore) did a small group tasting of Pinot Noir from several regions.”

“Not the first time I had an Oregon wine, but first recollection was trying at wineries in the Willamette. Adelsheim was our first winery. I know I had their basic Pinot Noir before. But it was great tasting a range from one winery, single vineyard, etc.”

“I first tried an Oregon Pinot Noir about 2 years ago. My wife went to a new local wine bar that had an Oregon Pinot Noir on a tap system. We were both apprehensive on trying a draft wine but all in all it was very good. The wine had a nice great notes of black cherries and even some faint notes of clove and vanilla.”

Importance of Attributes when Choosing a Wine for a Meal

(Scale 1 Not Very Important...7 Extremely Important)

	% RATING 7 EXTREMELY IMPORTANT	MEAN RATING
I know my guests/dining companions will like it	30%	5.7
Balancing the weight of the wine and the food	28%	5.5
Matching the wine and occasion	27%	5.4
Matching specific wine and food flavors	22%	5.3
The wine is smooth and easy drinking on its own	22%	5.2
Versatile and goes with many foods	12%	4.9
The wine has a good, crisp acidity	9%	4.6
I am already familiar with this type of wine	12%	4.6
The wine comes from a region with a great reputation	12%	4.5

CONSUMERS ON MATCHING FOOD & WINE

“It’s about pairing with the foods we will be having. Not just style or varietal, but also the quality level. Pizza or meatloaf does not need the same kind of wine as steak or veal.”

“My wife and I have a small selection of wines in our wine fridge that we hold for those really special dinners.”

“For the most part I no longer match reds and whites with the meal, but base it on the people attending and their likes.”

“If it's a weekend meal or if BFFs are coming over, I'll 'go deep into the vault' for something special.”

“The wine has to complement the meal and not overpower it.”

“what makes a wine food friendly is very easy: it’s whatever wine you like! “

.



“ **Wine Opinions** ”

cmiller@wineopinions.com
www.wineopinions.com



cmm@fullglassresearch.com
www.fullglassresearch.com

QUESTIONS?

