

svb



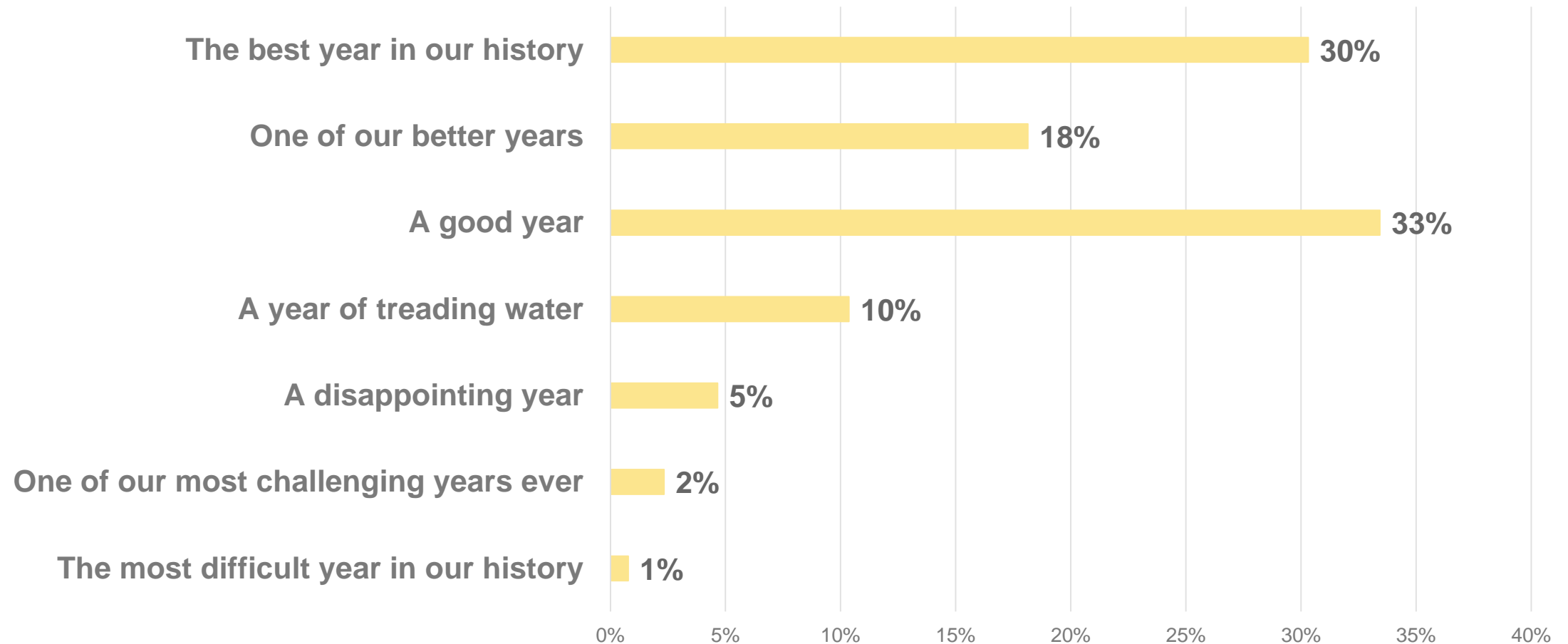
Silicon Valley Bank



State of the Wine Industry 2017

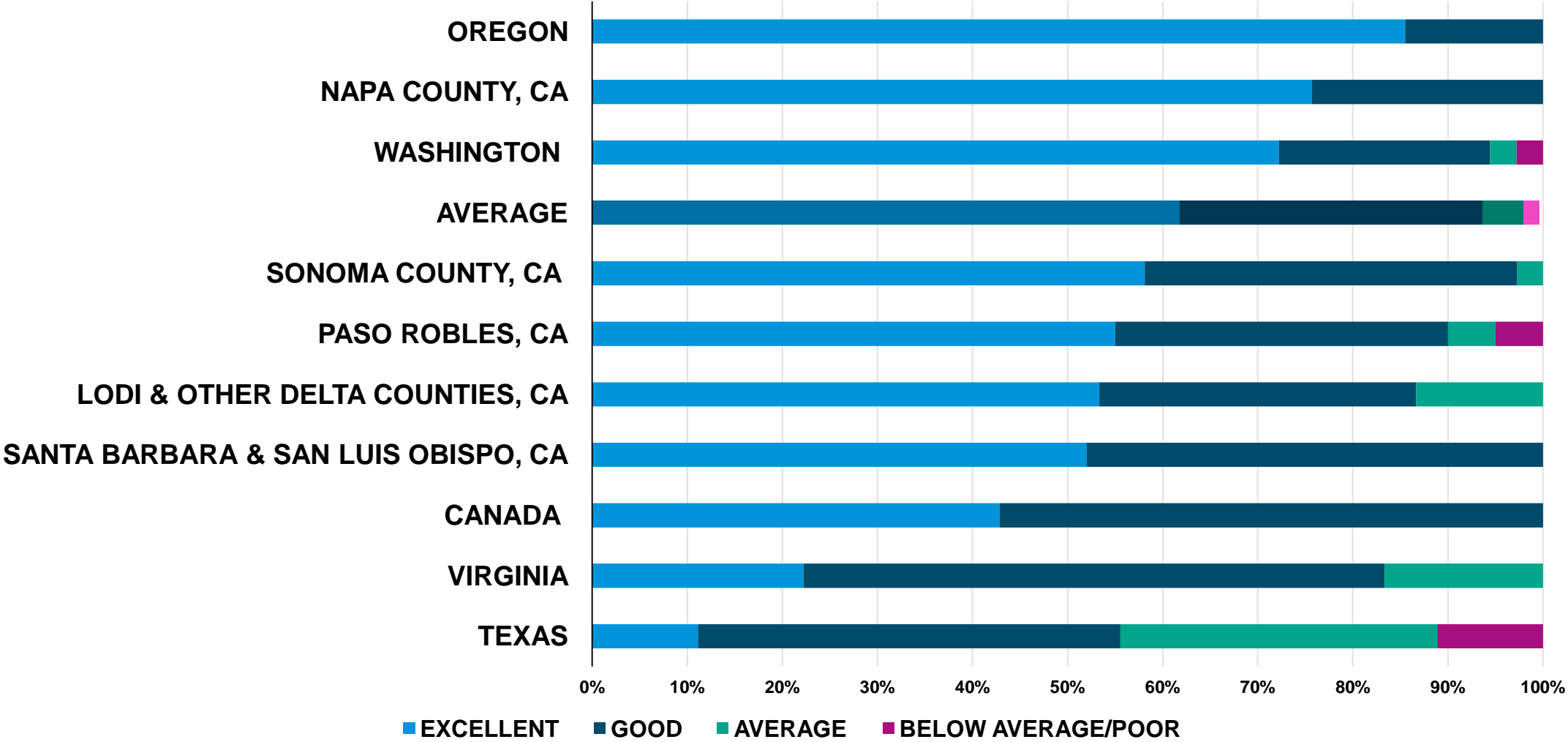
Rob McMillan
EVP & Founder, Silicon Valley Bank Wine Division

2016 Was a Very Good Year



Oregon Tops US for Best Vintage in 2016

Another Vintage of the Decade!

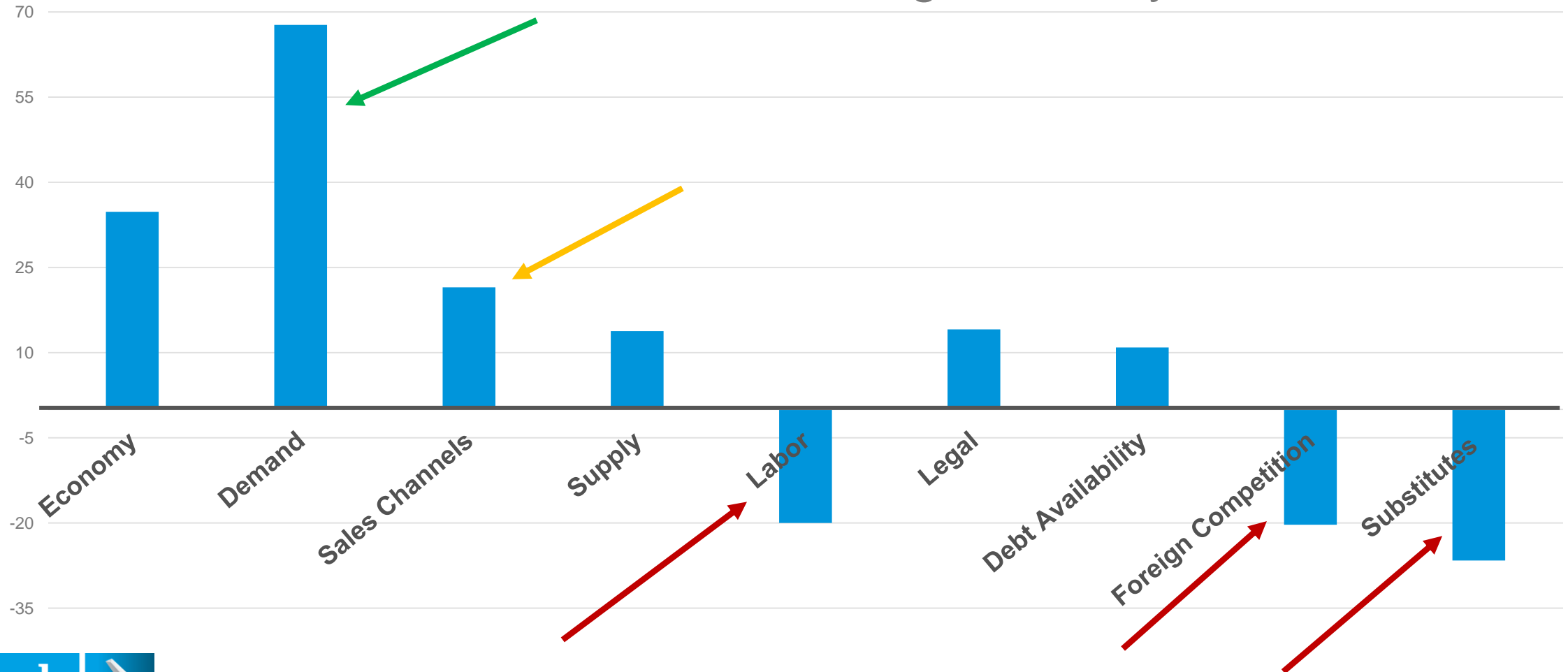


Source: 2106 SVB Wine Conditions Survey

...But Life's not Perfect

Labor, Substitutes, Imports

Oregon Winery Sentiment

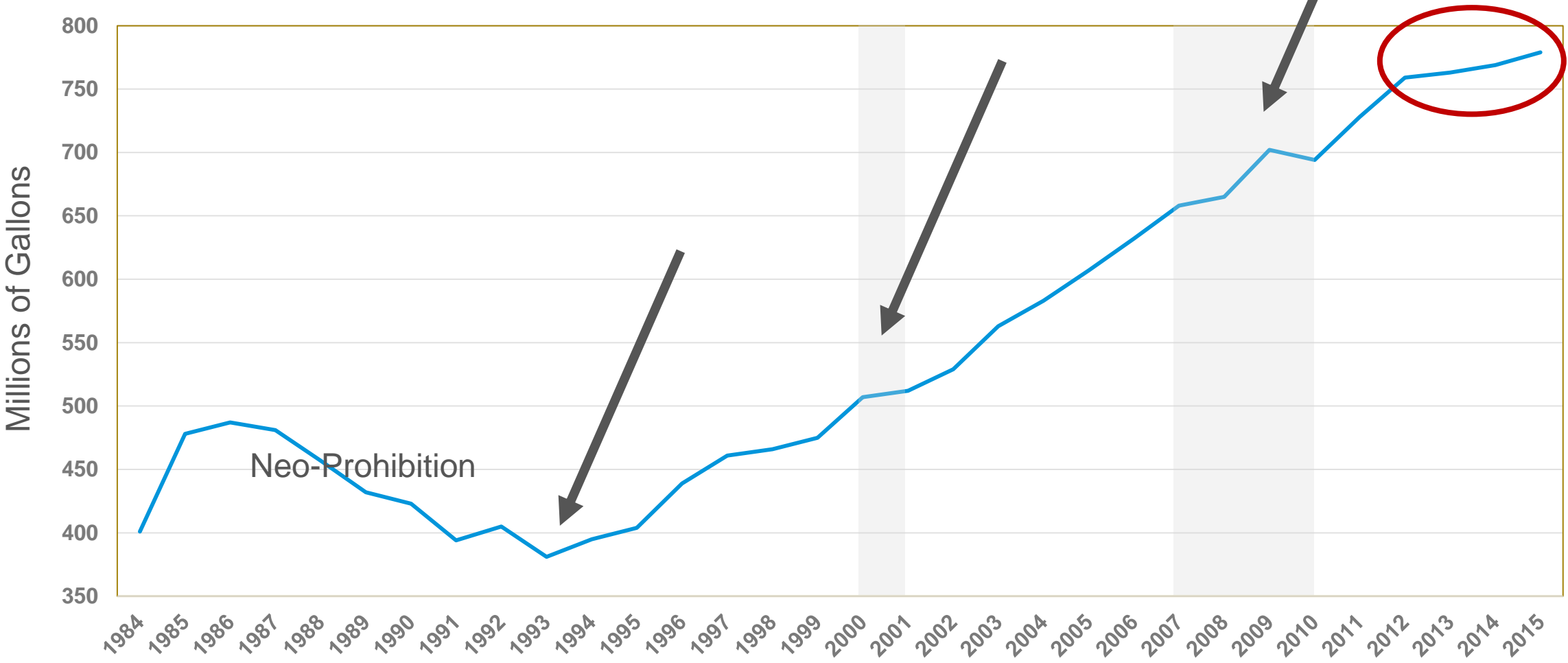


What Does Rob Worry About?

- 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

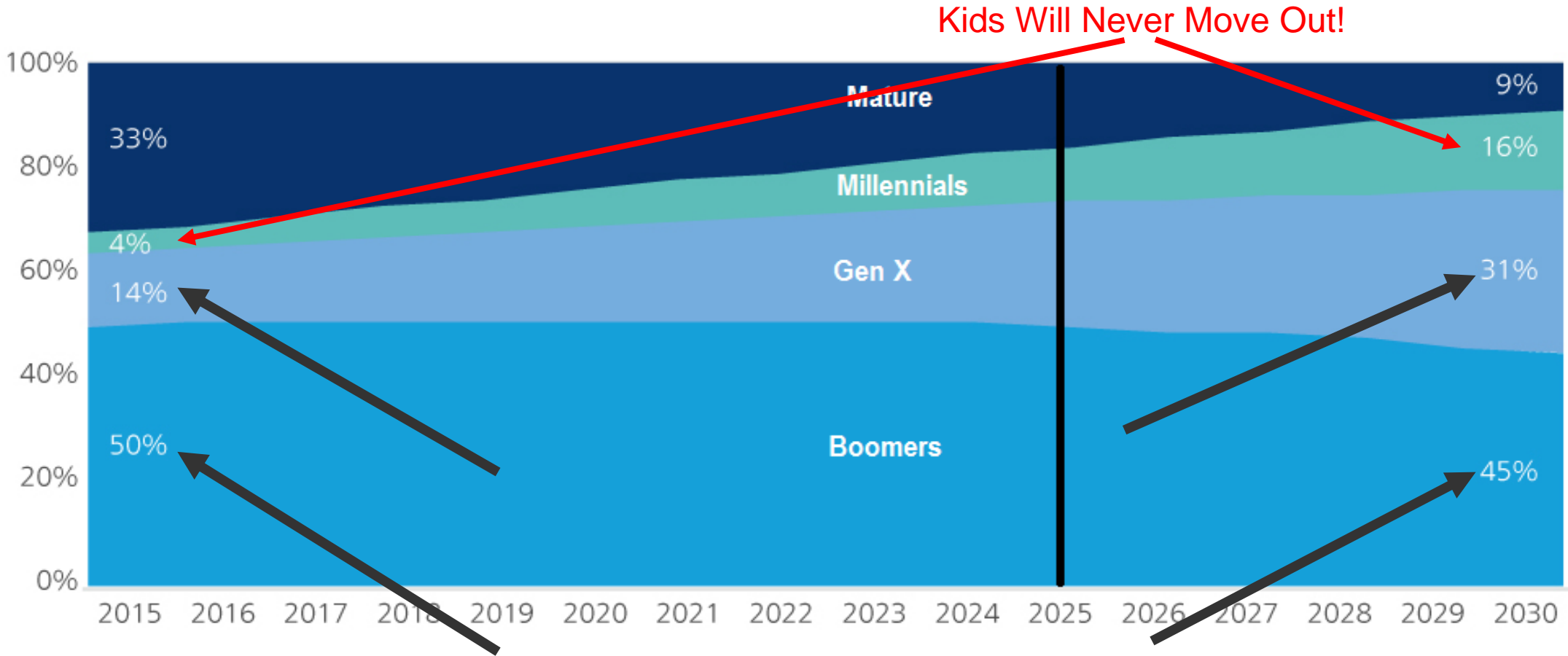
Growth in Total Table Wine is Slowing

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



NEWSSPORTSLIFEMONEYTECHTRAVELOPINION51°CROSSWORDS

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

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



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

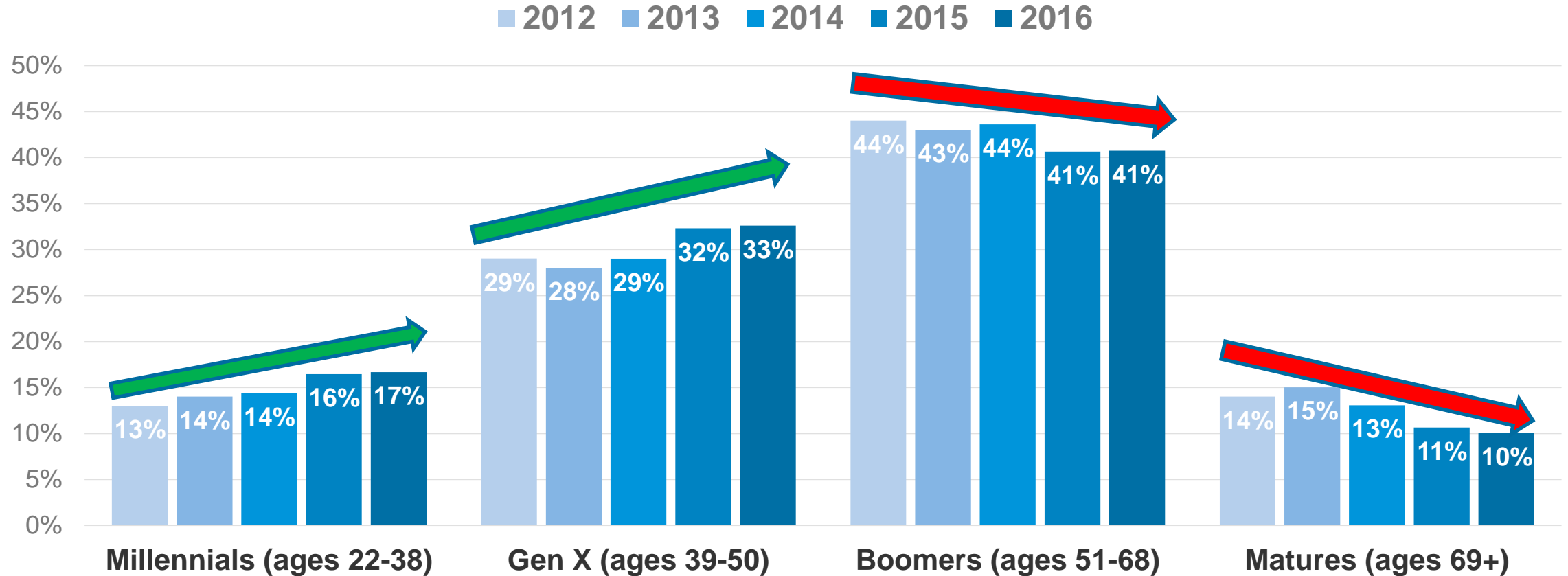
Merlot

Cabernet



Boomers Still Dominate Sales of Fine Wine

Gen X is the Real Growth Story



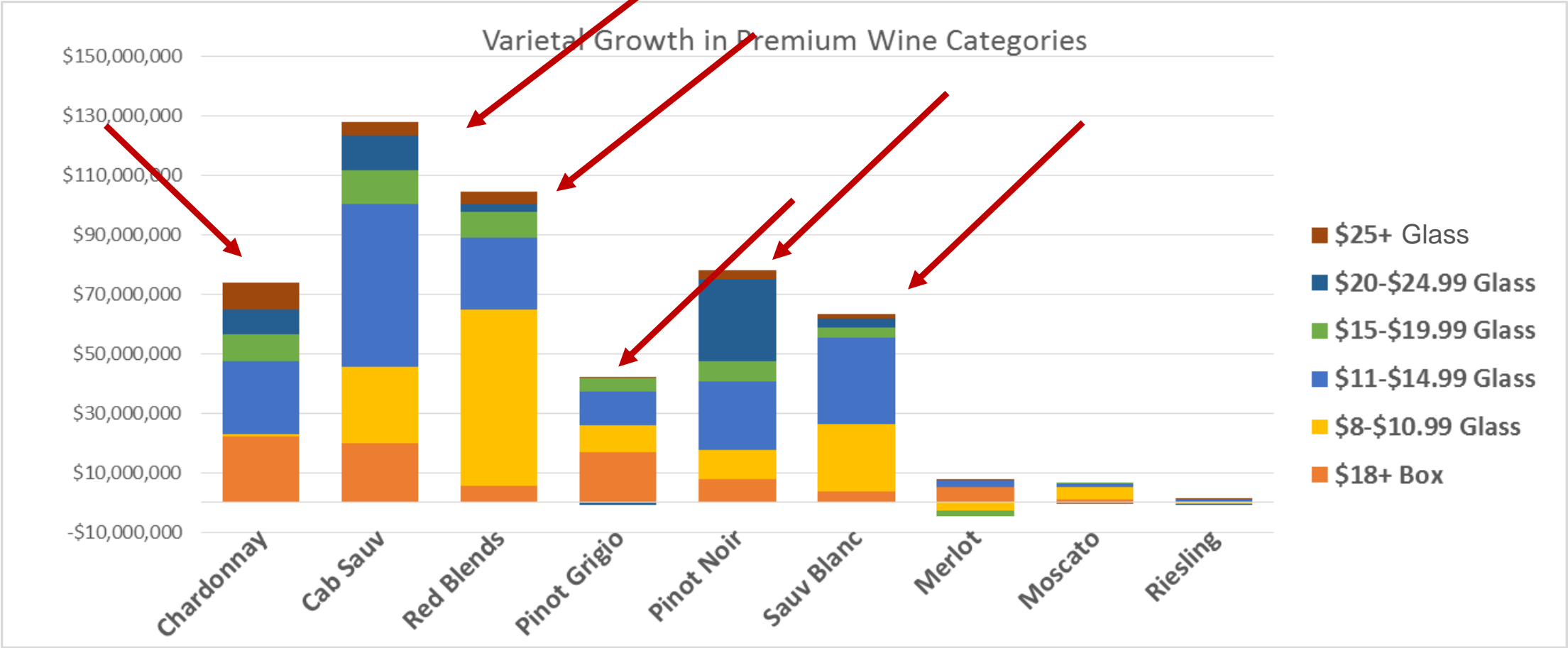
Lower Price Bottles Driving Increase in Foreign Sales

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



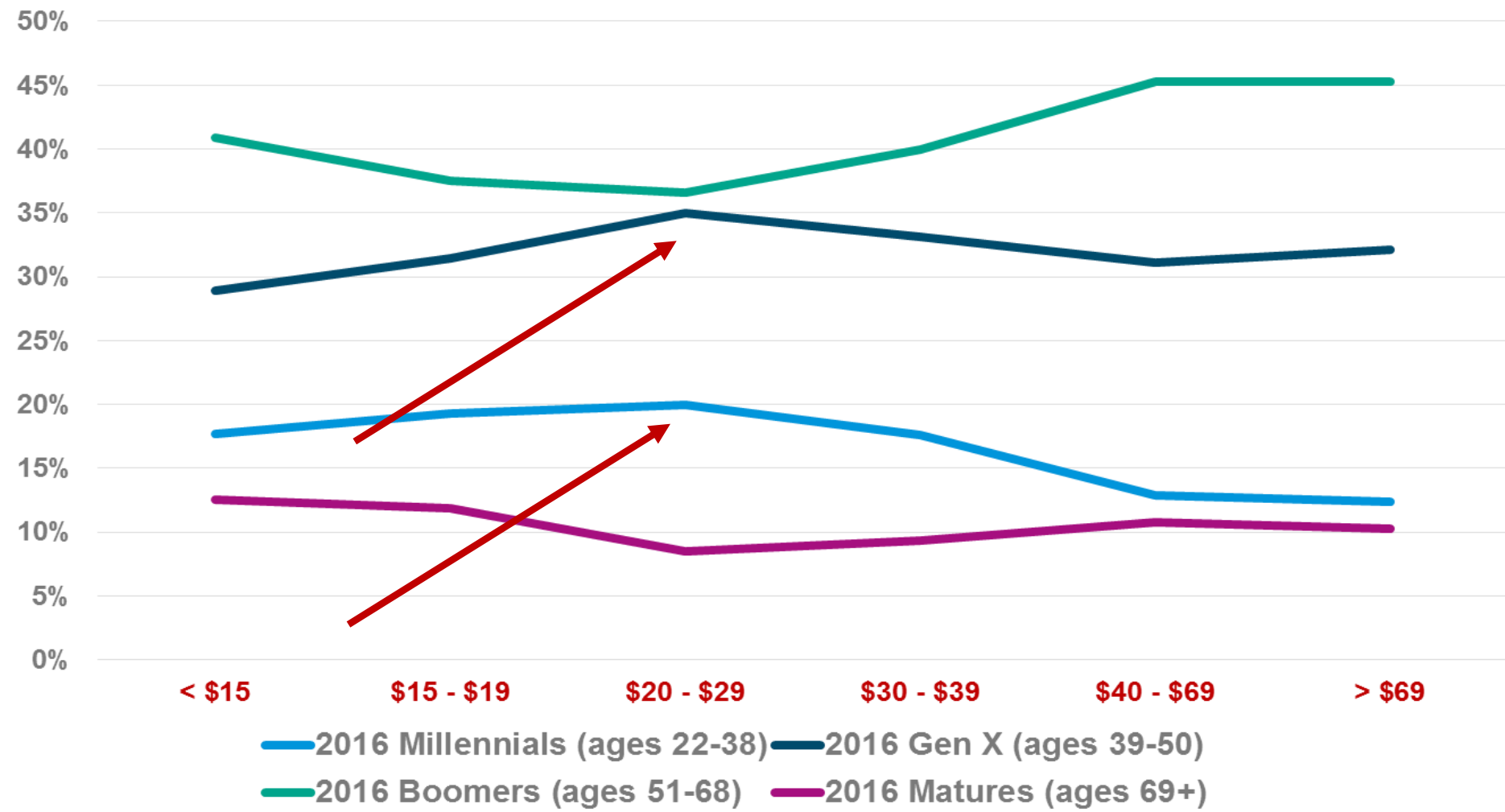
Heat Map Of Varietal / Price in Premium Segments

What Are We Training Young Consumers To Drink?

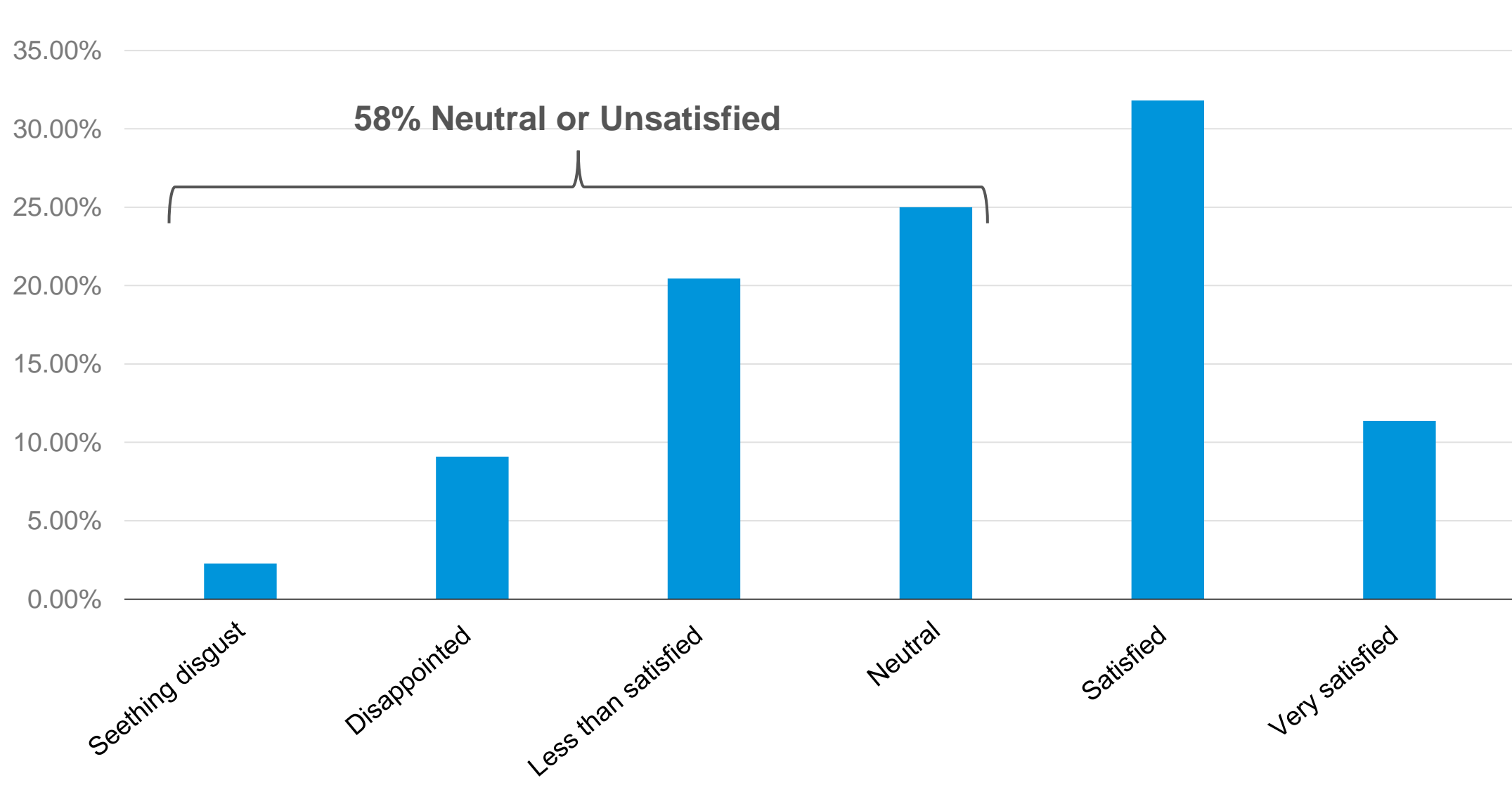
	\$18+ Box	\$8-\$10.99 Glass	\$11-\$14.99 Glass	\$15-\$19.99 Glass	\$20-\$24.99 Glass	\$25+
Chardonnay	\$22,401,610	\$508,039	\$24,608,787	\$8,992,753	\$8,505,185	\$8,764,175
Cab Sauv	\$19,944,224	\$25,541,909	\$54,667,132	\$11,623,711	\$11,685,505	\$4,396,192
Red Blends	\$5,486,321	\$59,252,334	\$24,078,209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

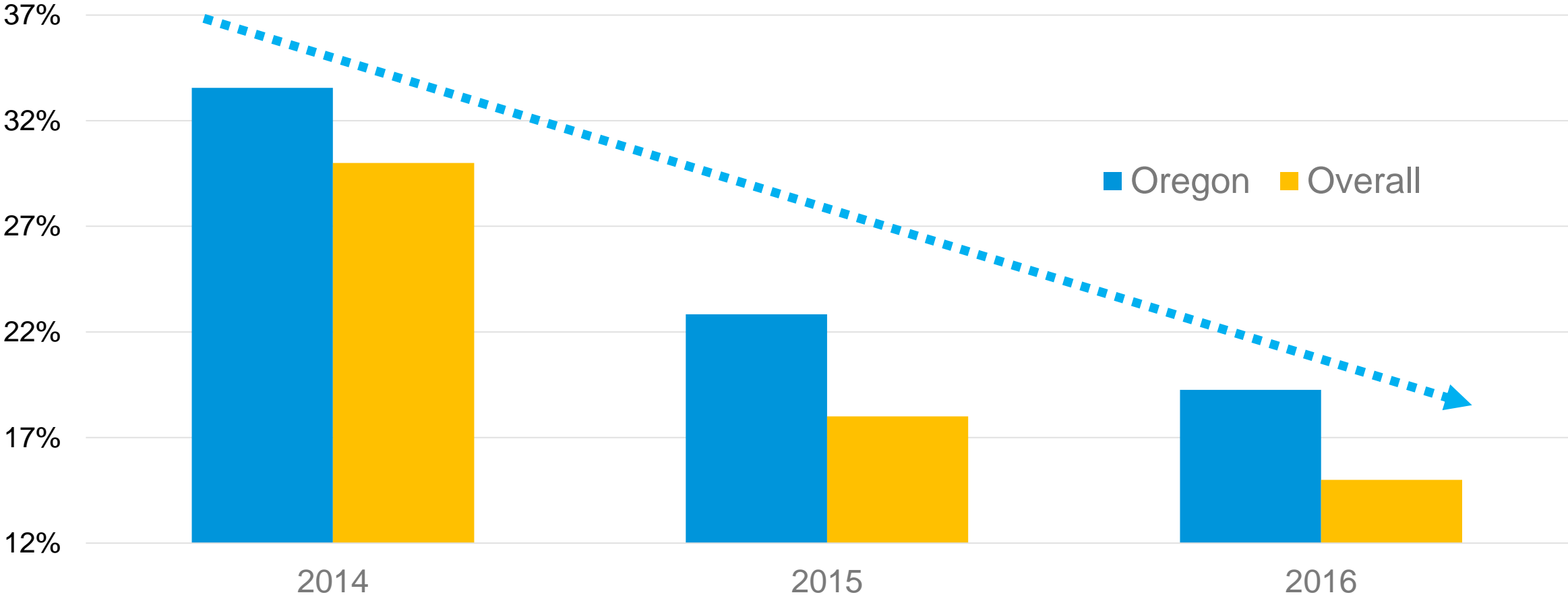
8,800 Wineries



700 Distributors

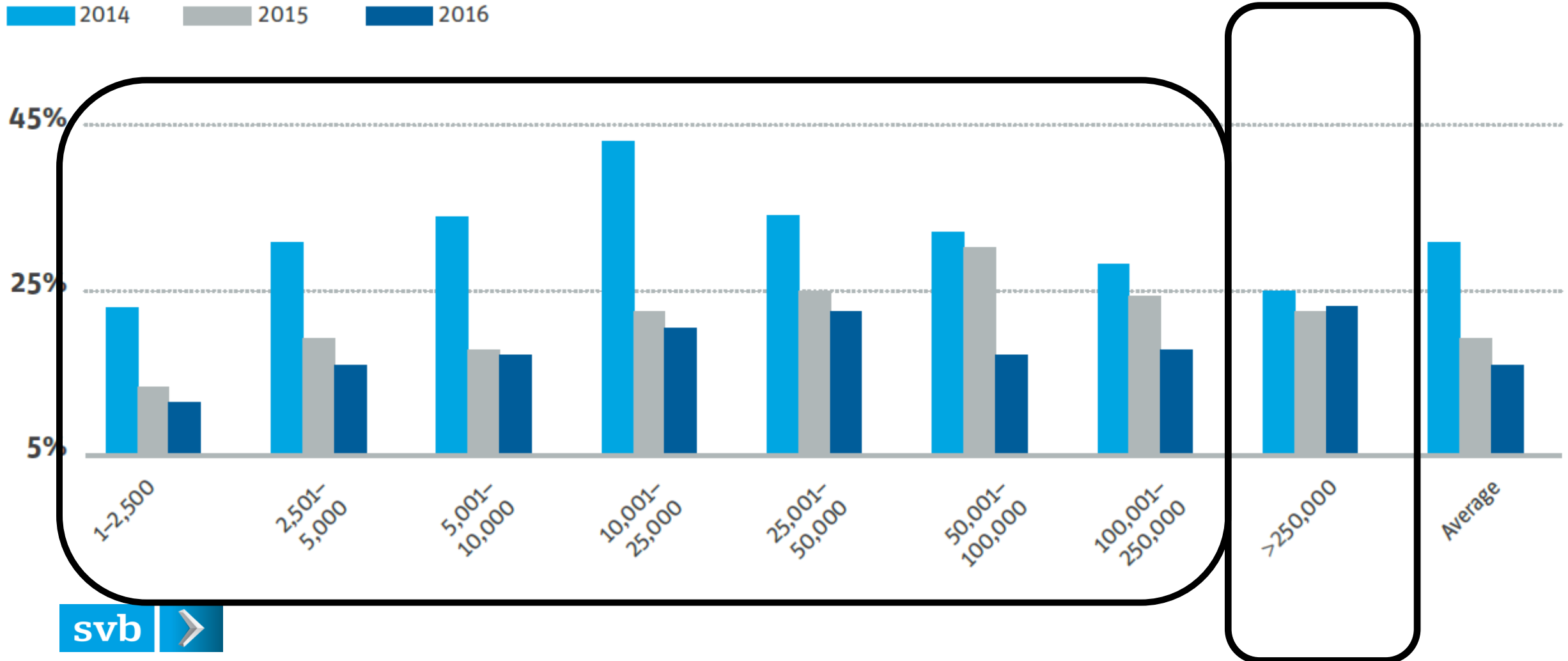
Wine Sales in Restaurants Are Dropping

Consumer Behavior, Price, Substitutes All Playing a Role



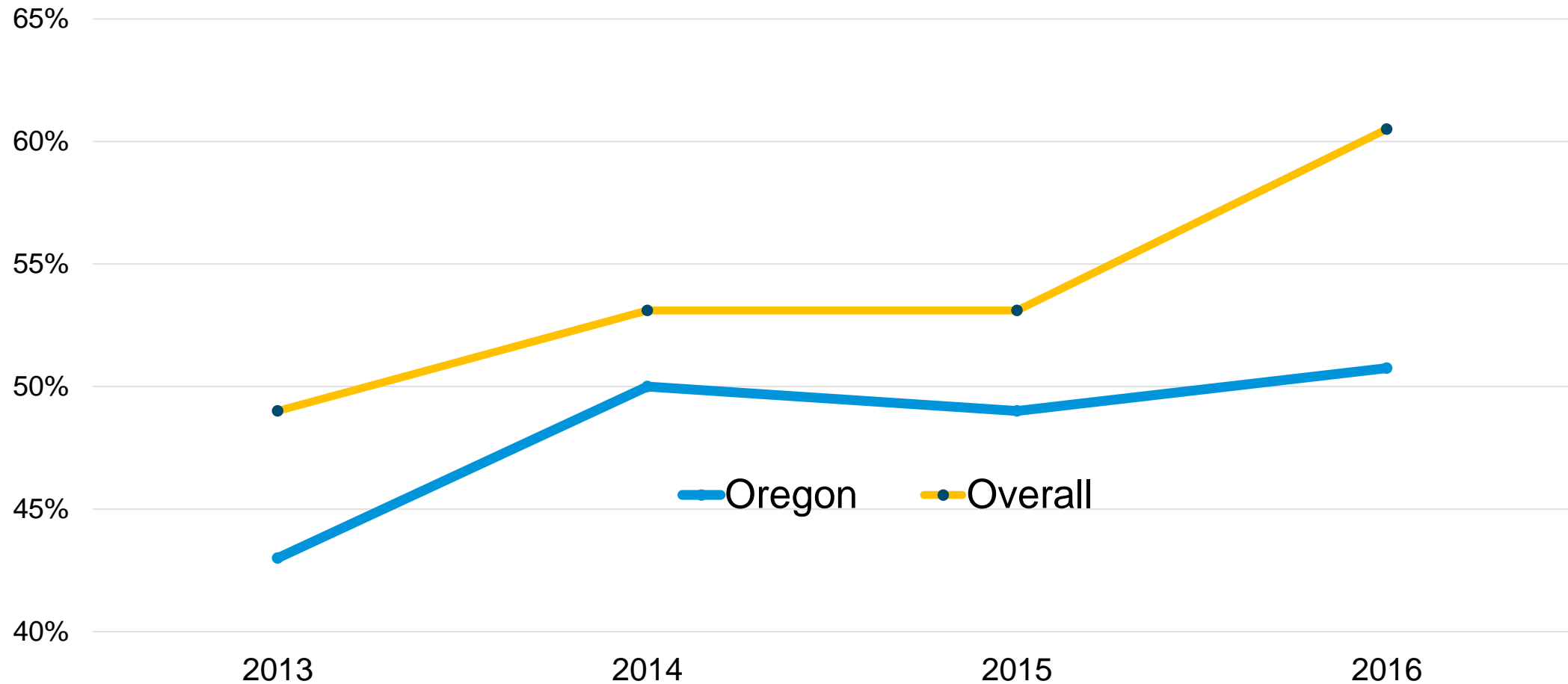
Small Producers Having A Difficult Time On-Premise

Wholesale Driving Placements for Larger Wineries



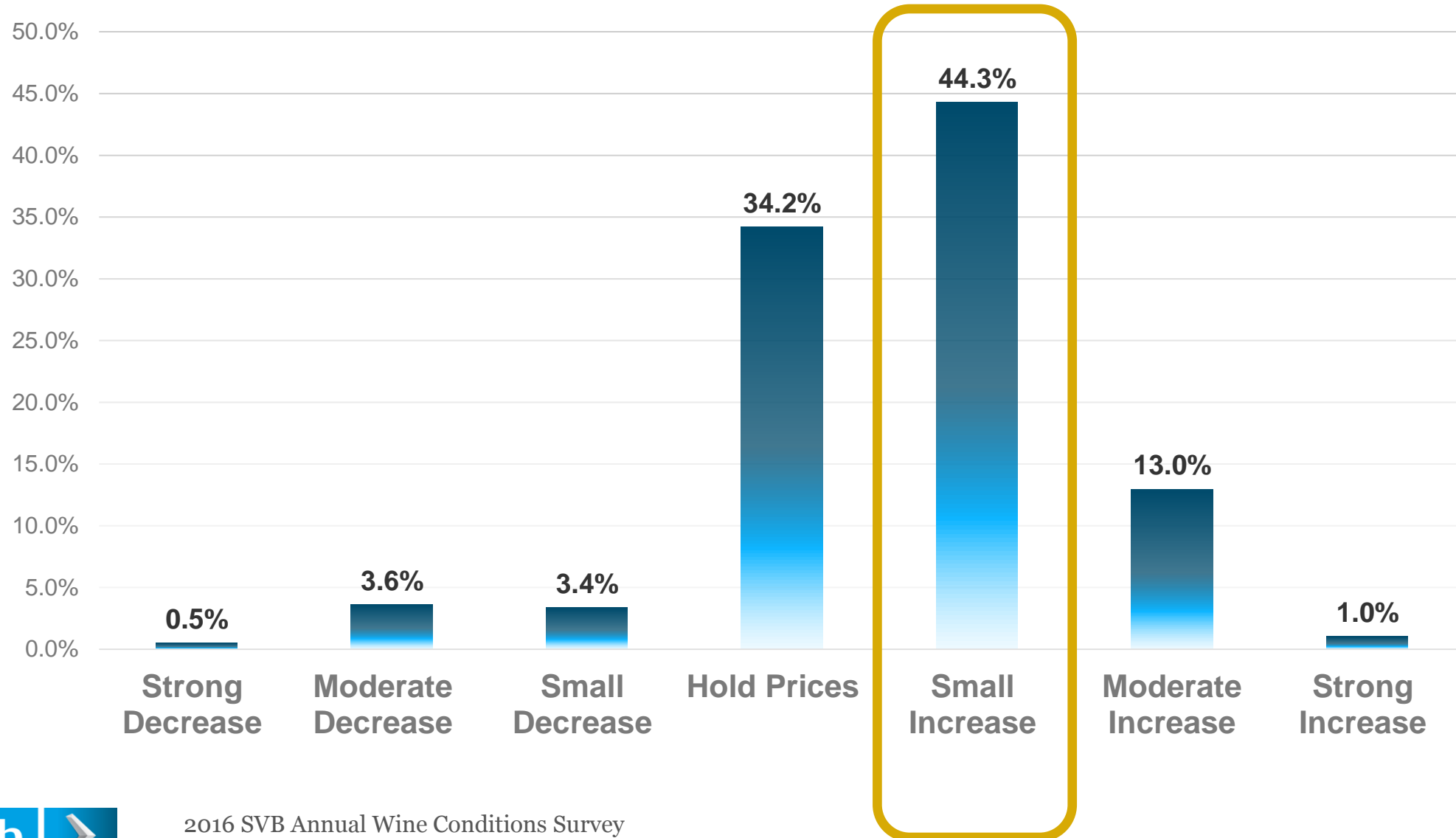
Growth in Direct to Consumer Sales

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 consists of the letters 'svb' in white lowercase font on a blue rectangular background.

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Silicon Valley Bank

State of the Wine Industry 2017

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END

