

2011-2012 State of the Wine Industry

Rob McMillan, EVP & Founder, SVB Wine Division

April 27, 2011

Join the conversation on Twitter by following @SVB_Financial and using #SVBonWine.

“We believe we are at the beginning of another long-term steady growth pattern in fine wine sales.”

Speakers

Rob McMillan

EVP & Founder
Silicon Valley Bank, Wine Division



Paul Mabray

Chief Strategy Officer, Digital Guru
VinTank



Paul Mabray is an independent third party and is not affiliated with SVB Financial Group.

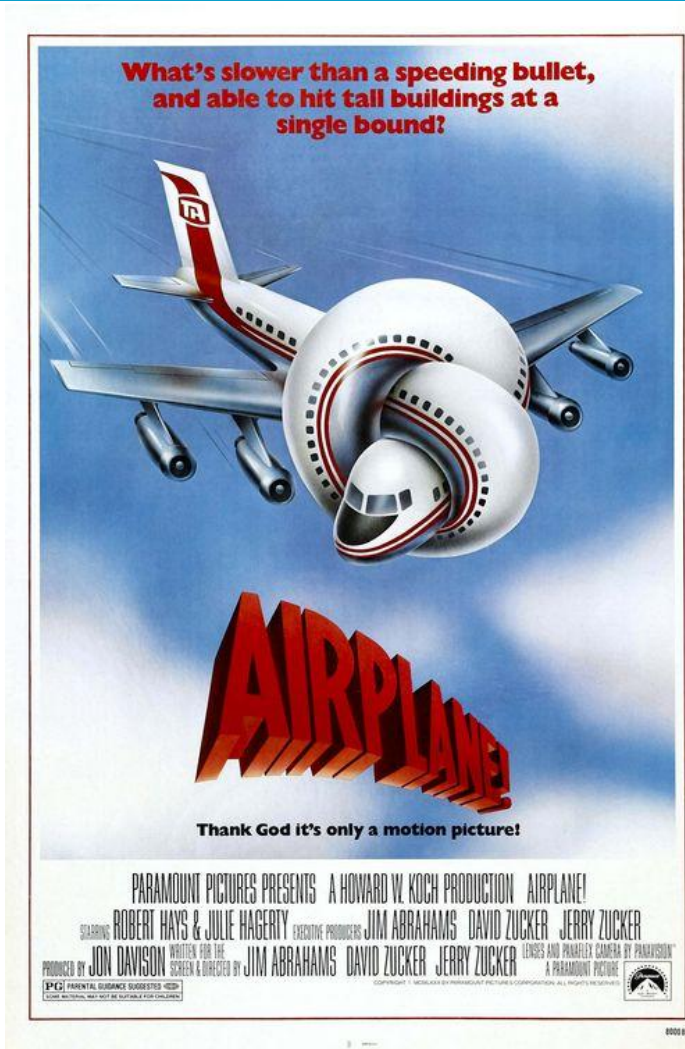
THE EXPLODING WARRANTS



Agenda

- Review of Previous Predictions
- Economic Thumbnail
 - *A case for increasing demand*
- Industry Financial Performance
 - *Past the bottom?*
- Pricing – Discounting, Price Resets, and upside
- Inventory Levels
 - *It's always something ... too much or not enough?*
- Digital Practices
 - *What does that even mean?*

And the winner this year is ...



"I am serious. And don't call me Shirley."

In 2010 We Predicted

- Trading-down will end but profitability will be impacted
- “L” shaped recovery
- Improving affluent consumption – with a continuing gulf
- Price pressure on wines in distribution
- Slightly too much inventory. Growers will be impacted.
- Modest improvement in restaurant sales
- Distribution continues ambivalent toward small wineries
- Discounting into Q3 2010
- Sales growth in the 8% - 12% range overall for Fine Wine

Economic Opportunity ... Smells Like Recovery

- Government Still Spending on Stimulus
- Factories Producing More
- Consumers Spending More – Going Out More
- Companies Hiring More – Unemployment dropping
- Retail Sales Improving
- Stability of the Tax System/Rates
- Improved Consumer and Business Sentiment ... But
- Huge Unknowns in Macro and National Economies, Geo-Political Risk, and Securitizations

Monthly Growth in Retail Sales - Consumers Spending More



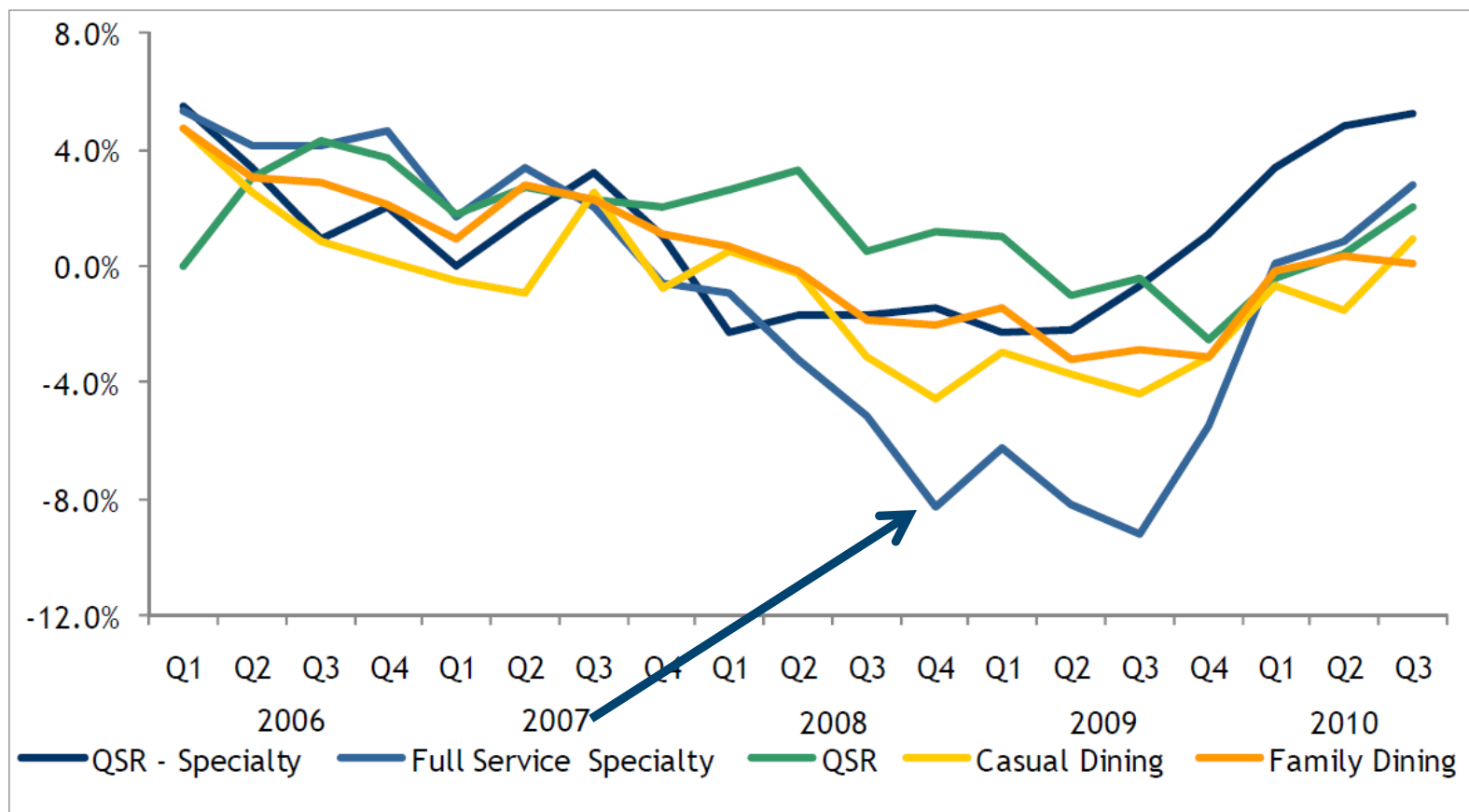
Source: <http://www.calculatedriskblog.com/>

ECRI Weekly Leading Indicator Index



Source: *Economic Cycle Research Institute*

Restaurant Same Store Sales



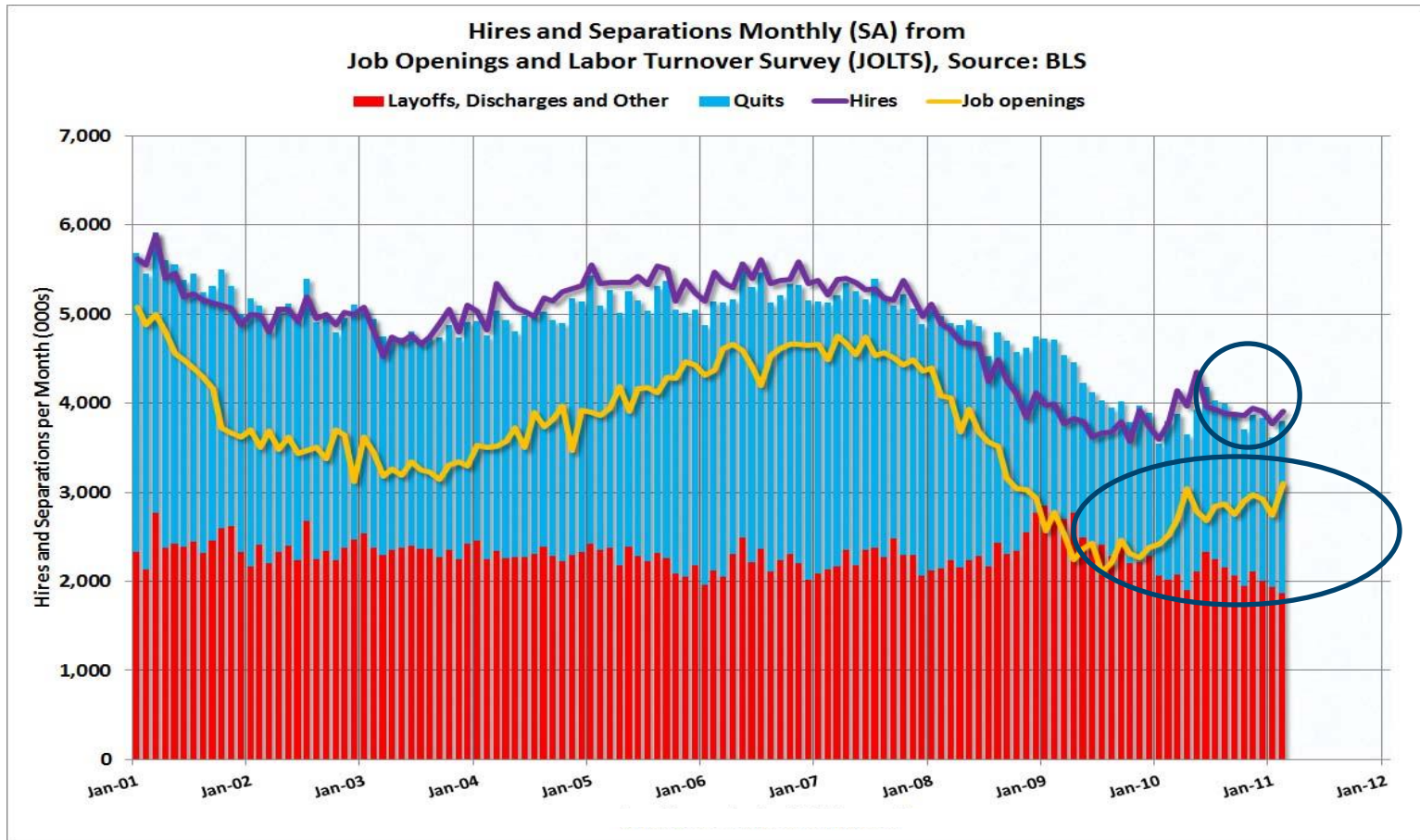
Source: Demeter Group

Overall Restaurant Performance Index

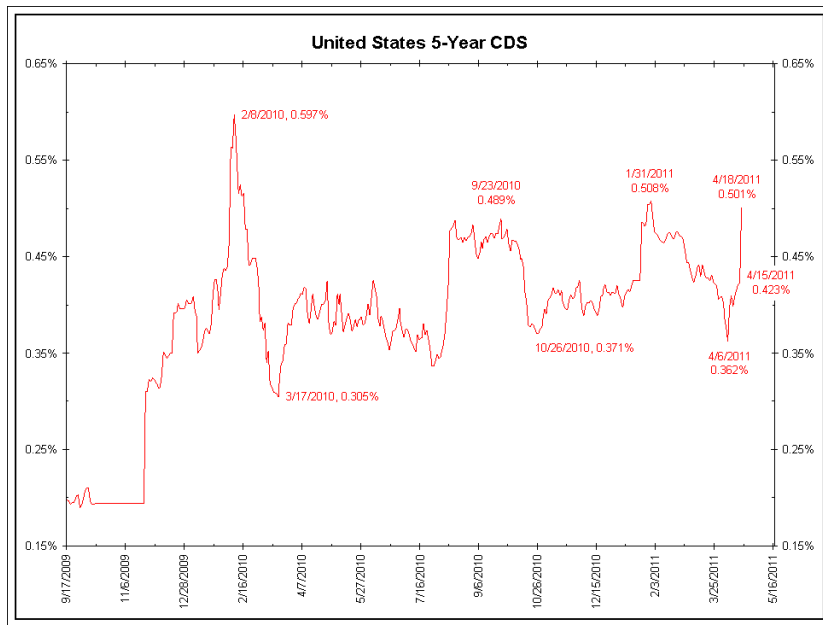


Source: <http://www.calculatedriskblog.com/>

Layoffs Dropping & Job Openings Increasing



Long Term Credit Rating

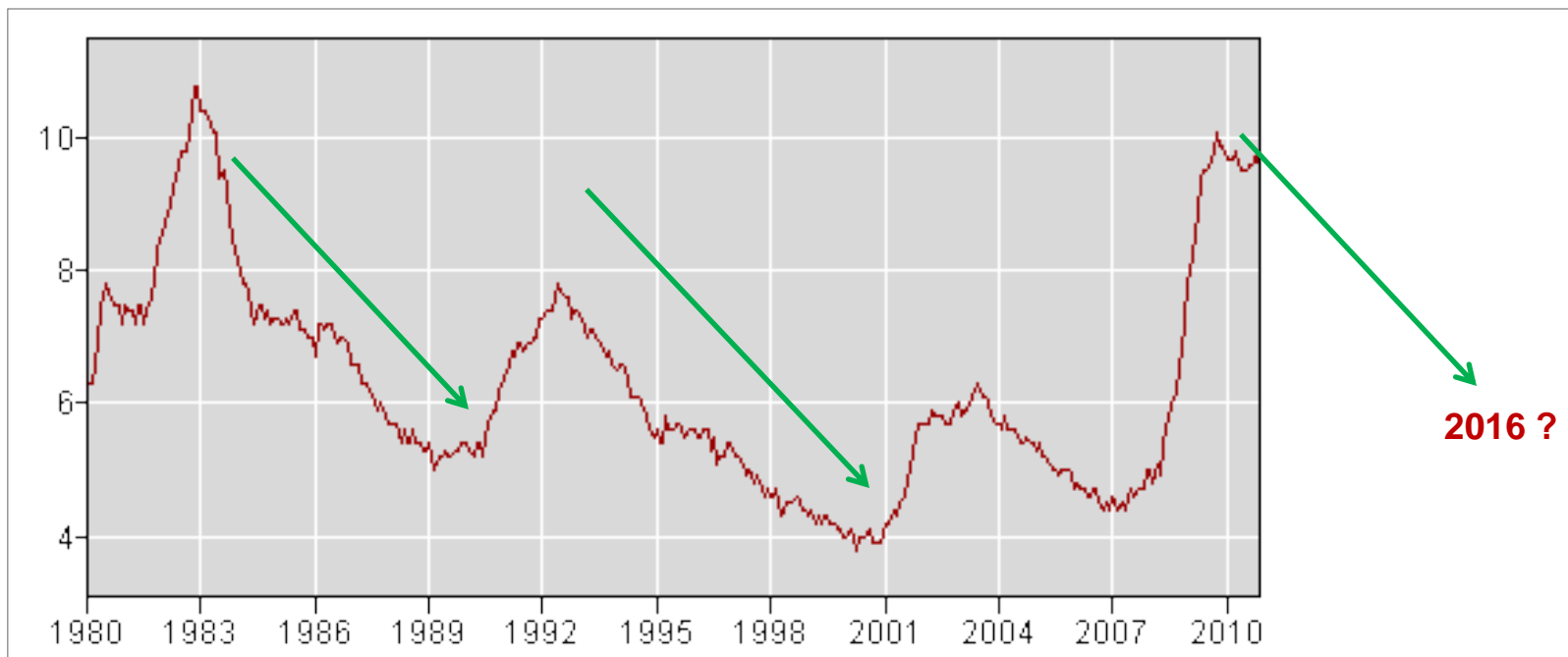


Source: Bianco Research, LLC

Tim Geitner, 2/8/2010: ***"The U.S. is in no danger of losing its Aaa debt rating"***

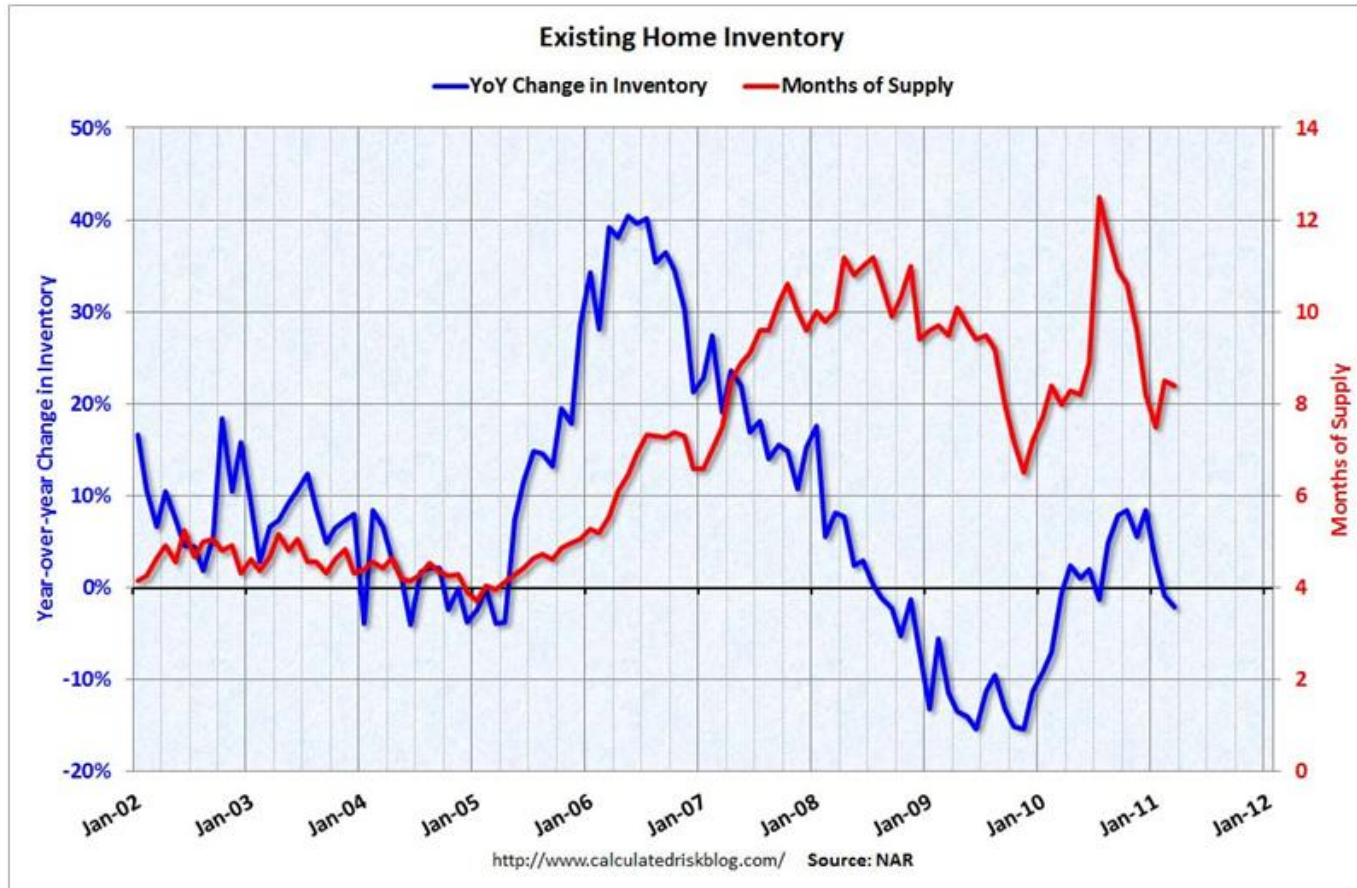
S&P, 4/18/2011: *We believe there is a material risk that U.S. policymakers might not reach an agreement on how to address medium- and long-term budgetary challenges by 2013. If an agreement is not reached and meaningful implementation is not begun by then, **this would in our view render the U.S. fiscal profile meaningfully weaker than that of peer 'AAA' sovereigns***

Unemployment Trends - Will Take Time Still



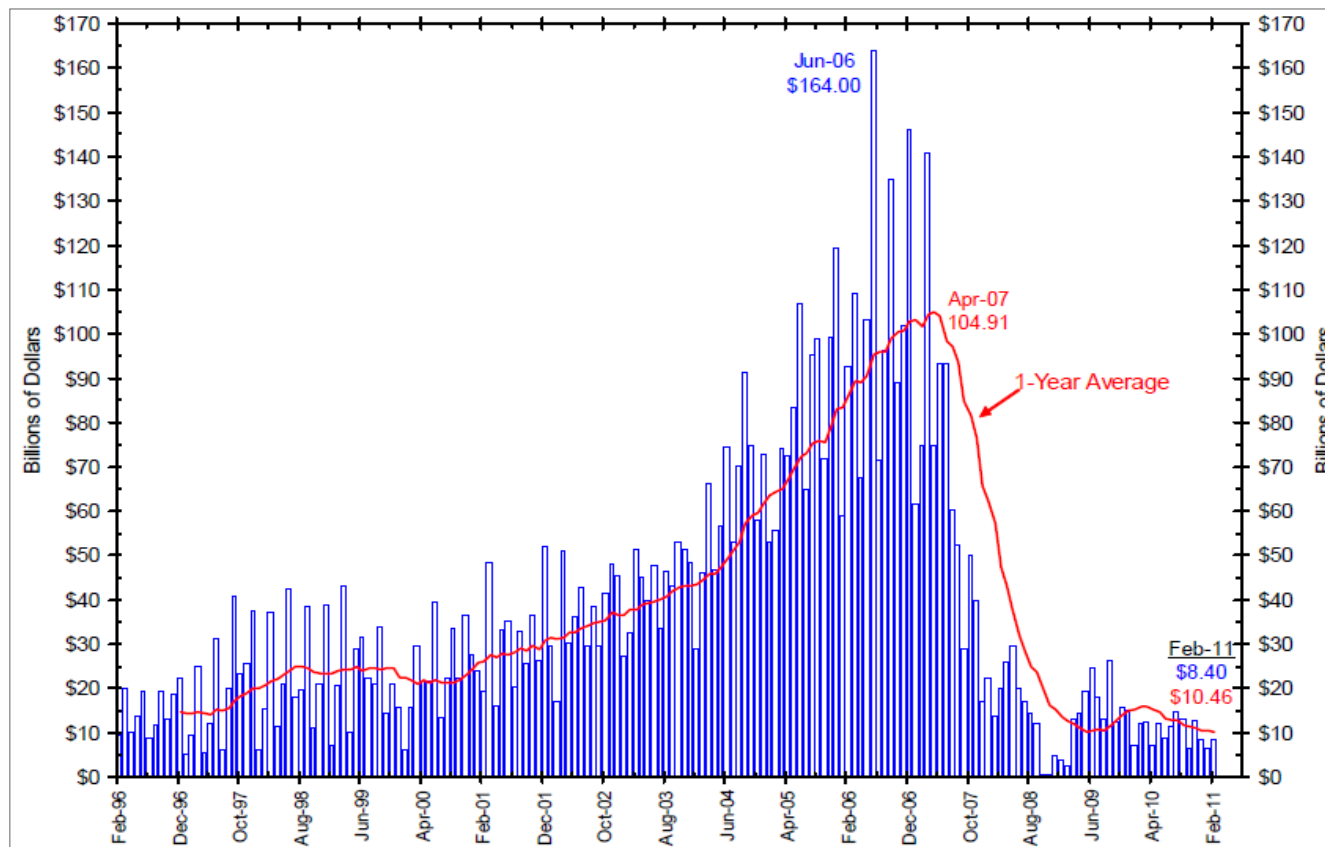
Source: Bureau of Labor Statistics

Uneven Recovery



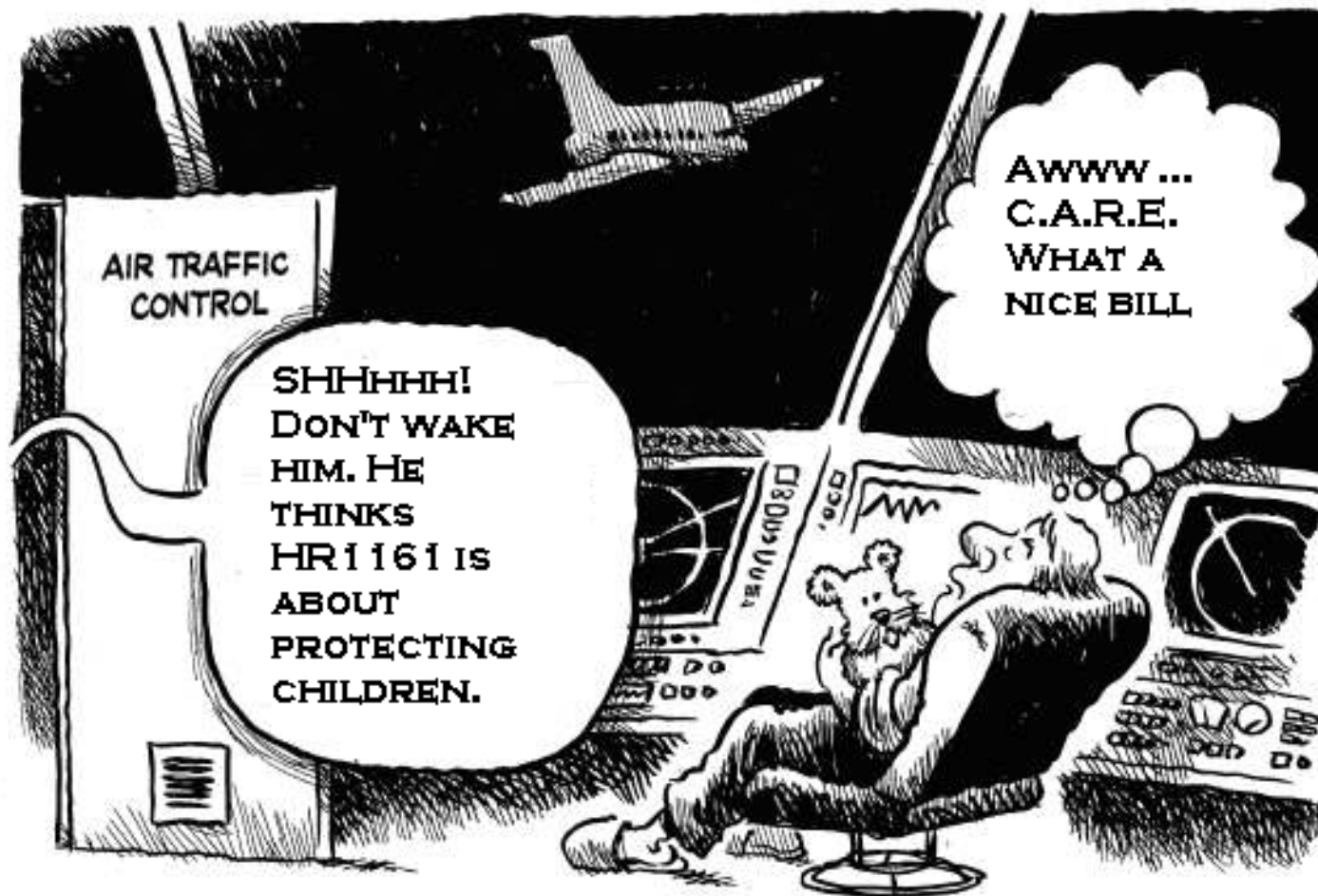
Source: NAR

Total Asset Backed Security Issuance




Source: Bianco Research, LLC

HR1161 ... Keeping our communities safe




HR 1161 (www.TheCareAct.org)

Home	About the CARE Act	Support for State Regulation	What's at Stake?	Real Threats	What's the Alternative?	Myth vs. Fact
------	--------------------	------------------------------	------------------	--------------	-------------------------	---------------




CARE to keep your kids and communities safe.

State-Based Alcohol Regulation: A System That Works




Because alcohol is different than other consumer products, our time-tested regulatory system of alcohol safeguards supports local decision making, strong community protections and near unlimited consumer choice. [Read More »](#)

Real Threats to State Regulatory Authority Abound



Some online alcohol sellers, big box retailers, international alcohol suppliers and professional plaintiffs are using distant federal courts to remove the existing system of safeguards and overrule states' abilities to decide how, when and where alcohol is sold in their local communities. [Read More »](#)

CARE Act of 2011 Offers Solutions



This bipartisan legislation clarifies that states continue to have the authority to make their own alcohol-related decisions as enshrined in the U.S. Constitution and protects against supplier discrimination – as consistent with Supreme Court ruling. The CARE Act reaffirms WHO should make decisions regarding alcohol regulation, not WHAT those decisions should be. [Read More »](#)

Who Buys Your Wine?

Demographic Sketch of Wine Drinkers

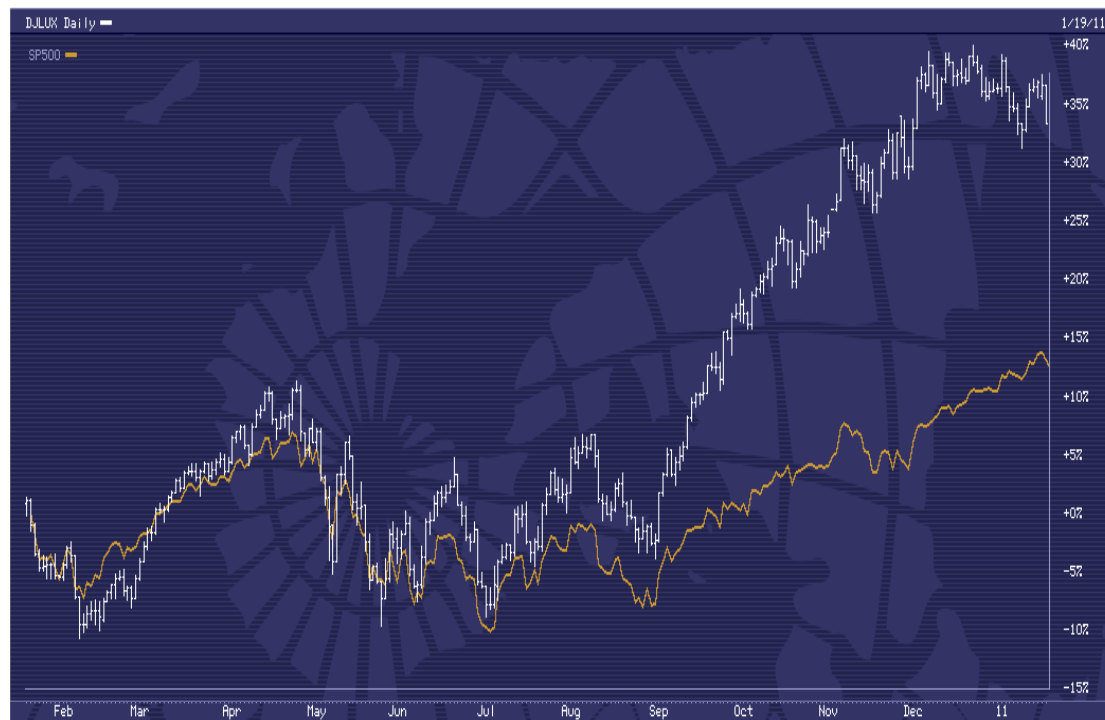
Race/Ethnicity	Unemployment Rate	% of Population	% of Wine
White	8.50	68.90	78.50
Hispanic	13.00	13.40	8.90
African Americans	15.80	10.80	7.30
<u>Age</u>			
21-24	15.30	7.40	4.00
25-34	10.10	18.70	13.60
35-44	7.80	19.60	16.30
45-54	7.50	20.60	22.00
55+	6.90	33.70	44.10
<u>Education</u>			
High school diploma	15.30	19.20	10.20
No College	10.60	28.40	20.20
College Grad	4.90	24.30	39.90

Source: Nielsen Beverage Division

Affluent Spending Represents:

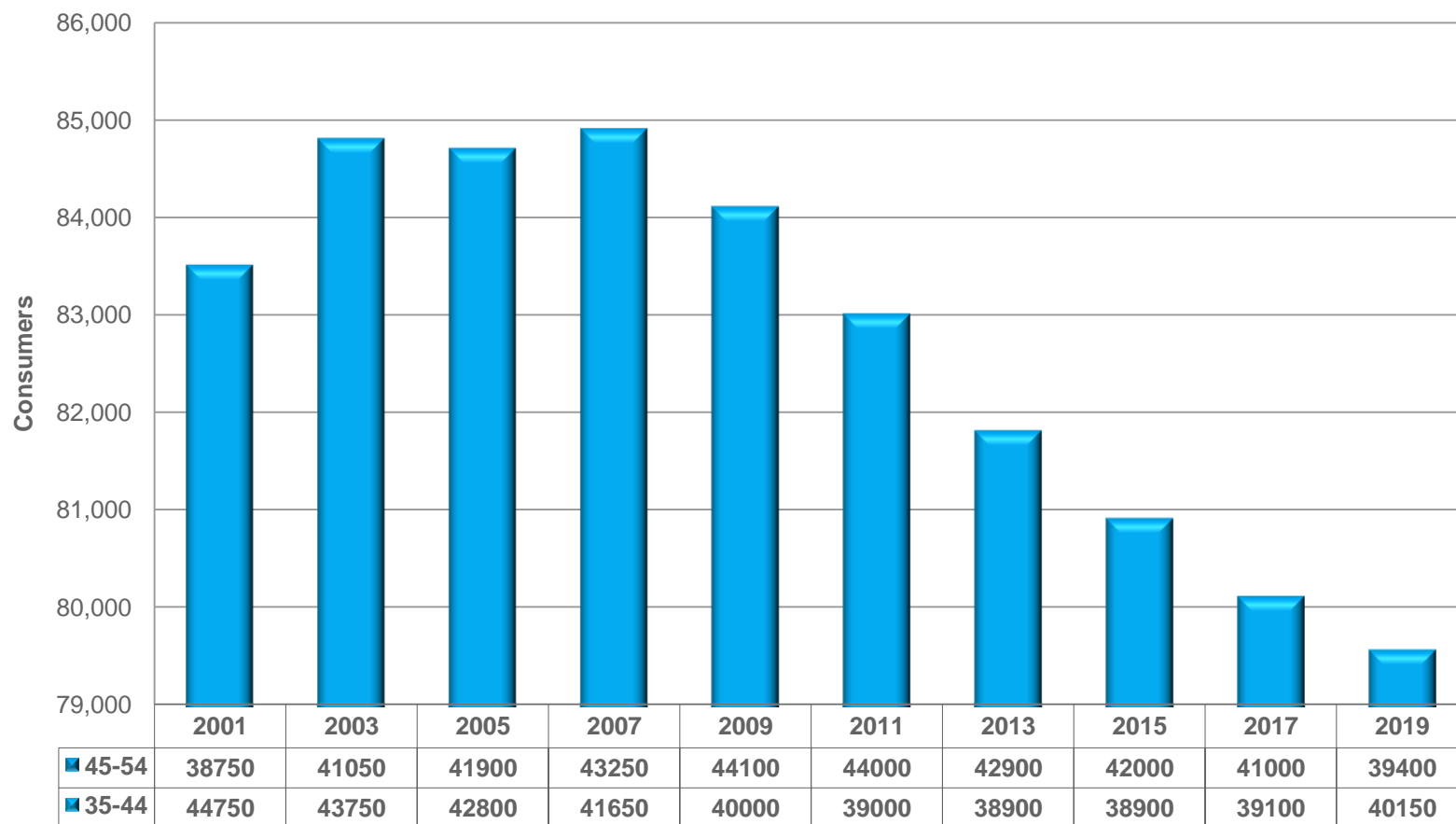
- 50% of Nation's Income
- 40% of All Consumer Spending
- 90% of Discretionary Income spent on non-essentials
- 80% of all Premium Wine Sales

DJLUX



Source: www.bigcharts.com

Window of Affluence: 35-54 Age Consumers



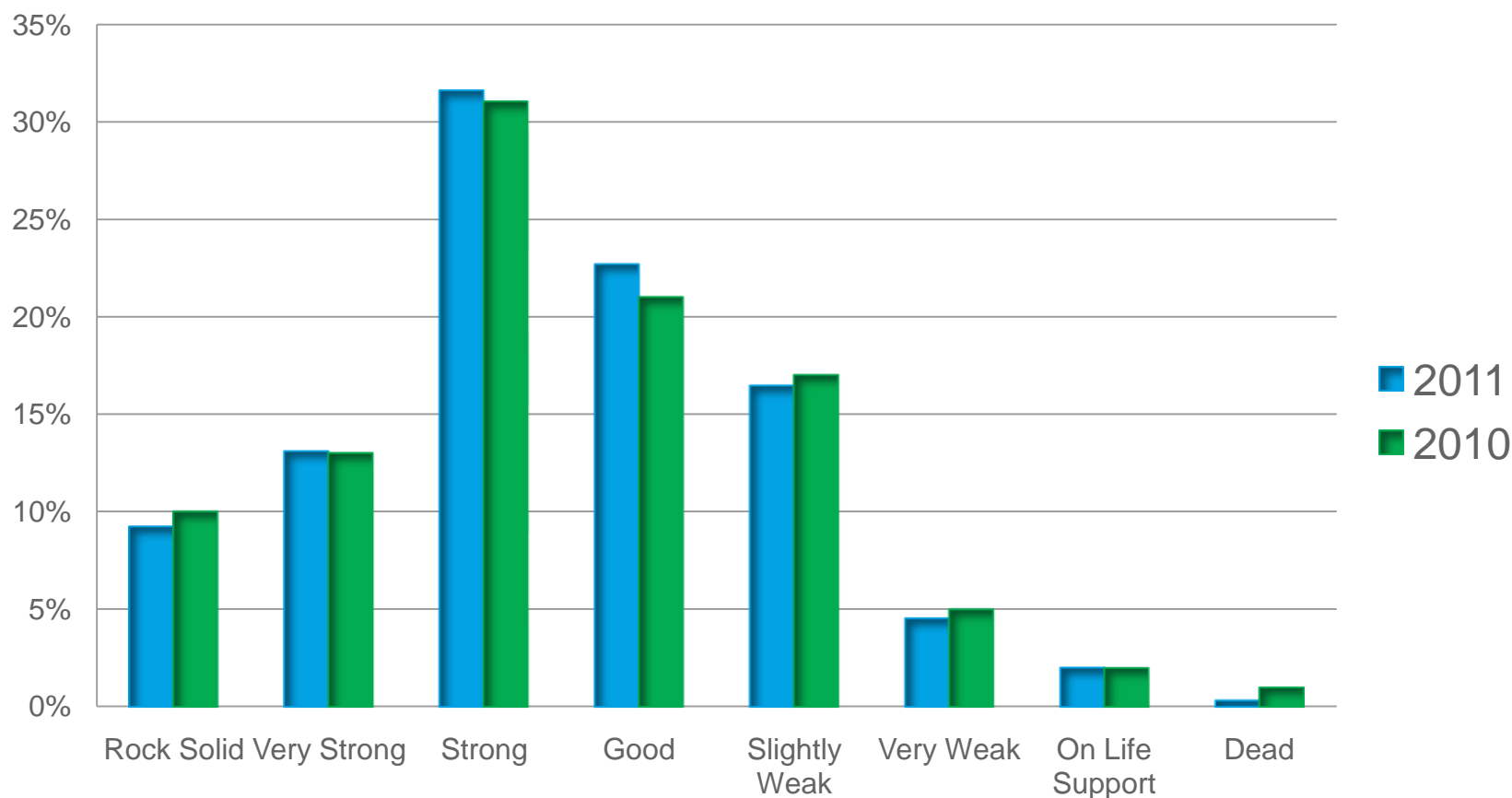
Source: *Unity Marketing*

The Exploding Warrants Live from the Fillmore



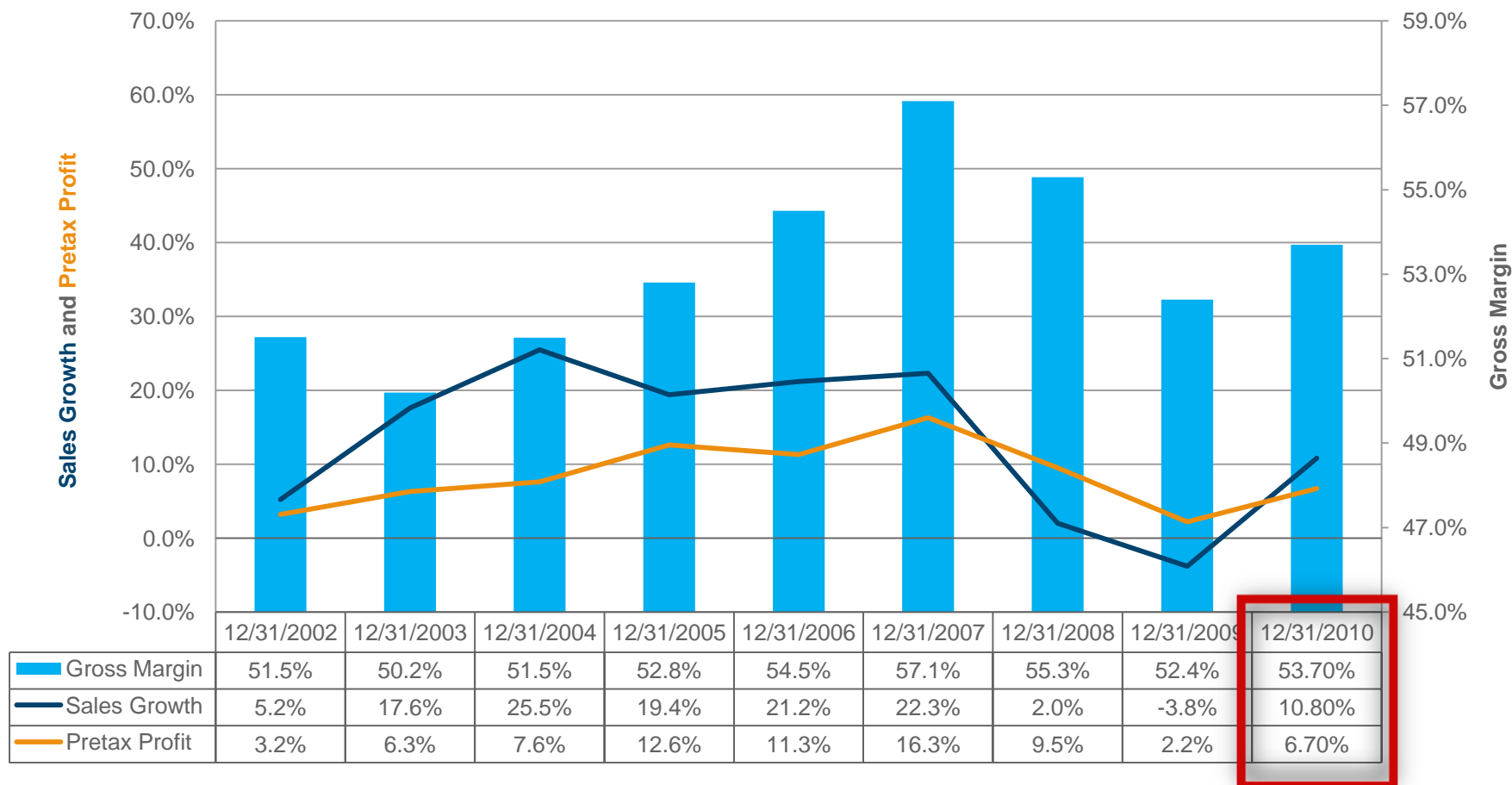
Financial Condition of Wineries

Change in the Financial Condition of Wineries



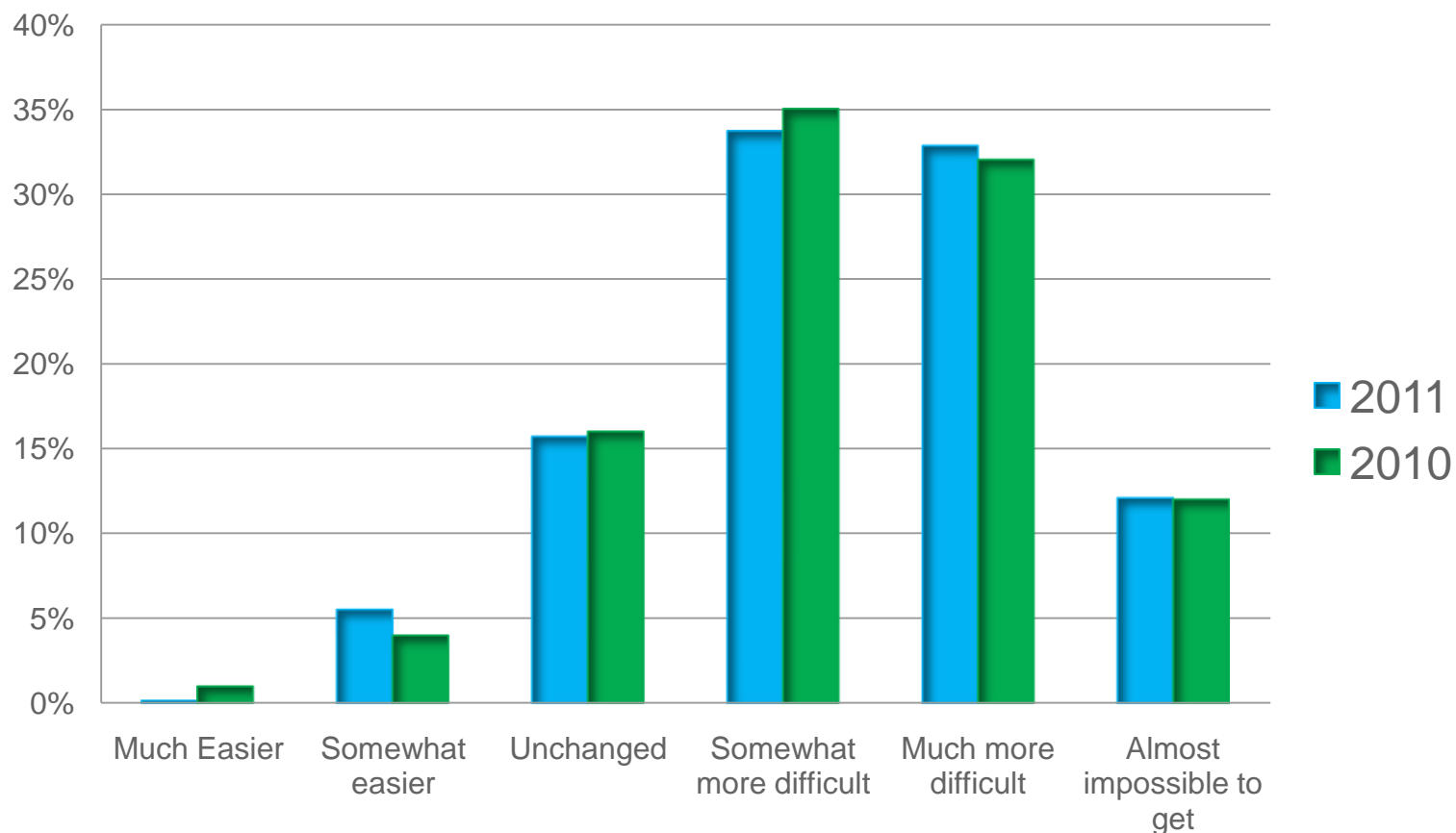
Source: Silicon Valley Bank Proprietary Research

How is the Fine Wine Industry Really Doing?



Source: Silicon Valley Bank Proprietary Research

Credit Availability Since the Market Crash



Source: *Silicon Valley Bank Proprietary Research*

Bottle Pricing Changes

Trading Down?

Lat 52 \$ Share	Price Segment	Value % Chg		Volume % Chg	
		Lat 52	Lat 26	Lat 52	Lat 26
100%	Ttl Table Wine	+4.5%	+4.8%	+3.2%	+3.5%
8.4	\$0-\$2.99	-1.3	-2.5	-2.4	-2.6
29.3	\$3-\$5.99	+4.4	+4.2	+4.8	+4.9
20.2	\$6-\$8.99	-3.4	-3.3	-1.0	-0.9
20.8	\$9-\$11.99	+10.0	+10.5	+12.4	+12.5
10.0	\$12-\$14.99	+7.8	+8.1	+10.3	+10.2
6.2	\$15-\$19.99	+7.0	+9.4	+7.7	+10.3
5.0	>\$20	+11.4	+11.8	+9.2	+11.0

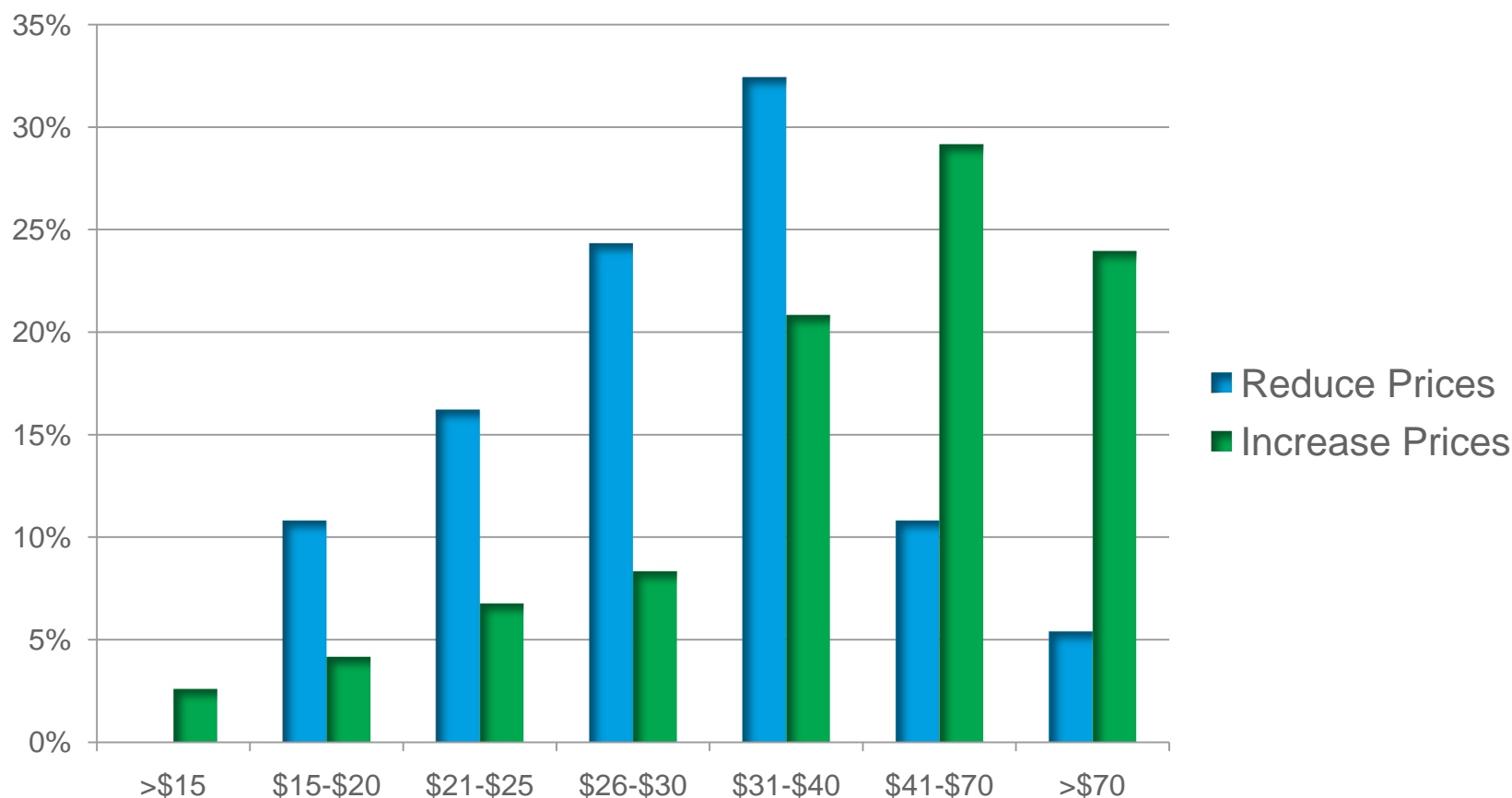
Source: Nielsen Beverage

Overall Belief of Pricing Upside



Source: *Silicon Valley Bank Proprietary Research*

Price Changes by Price Point

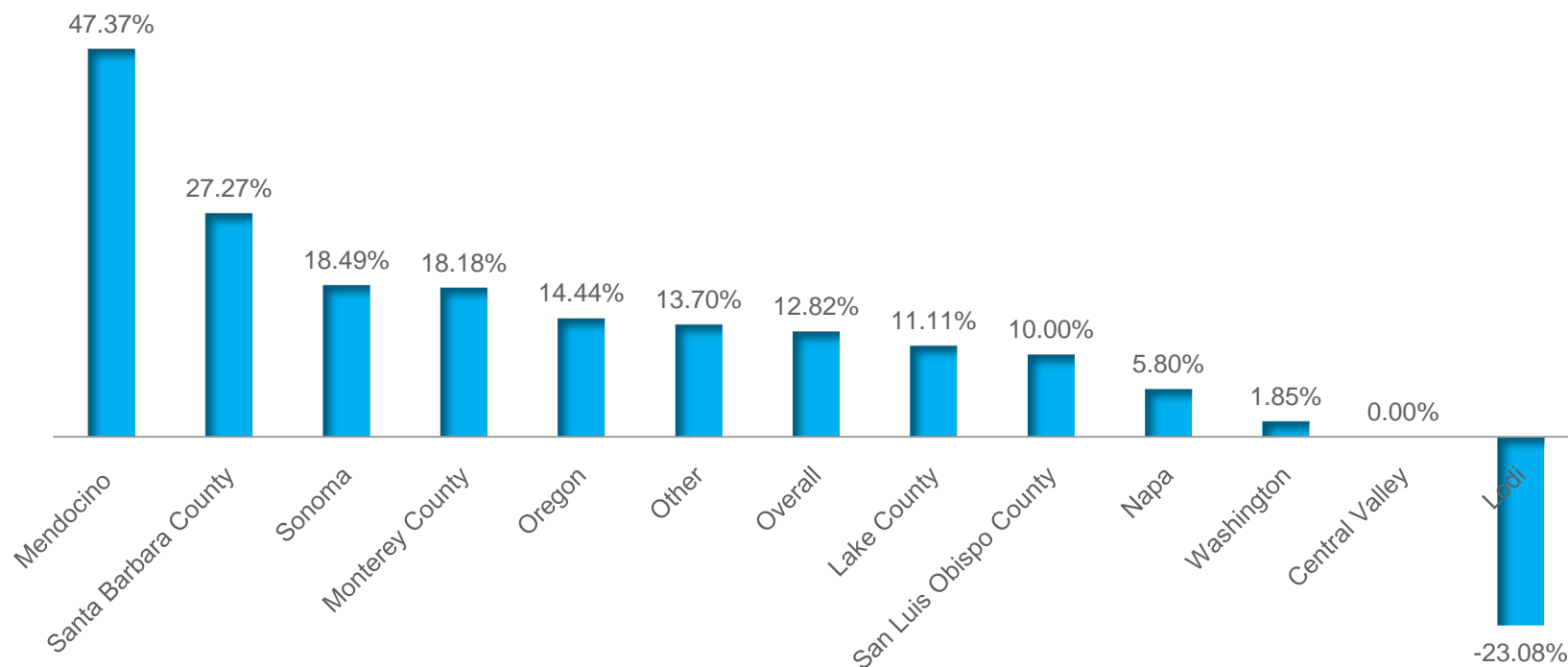


Source: *Silicon Valley Bank Proprietary Research*

Inventory Levels

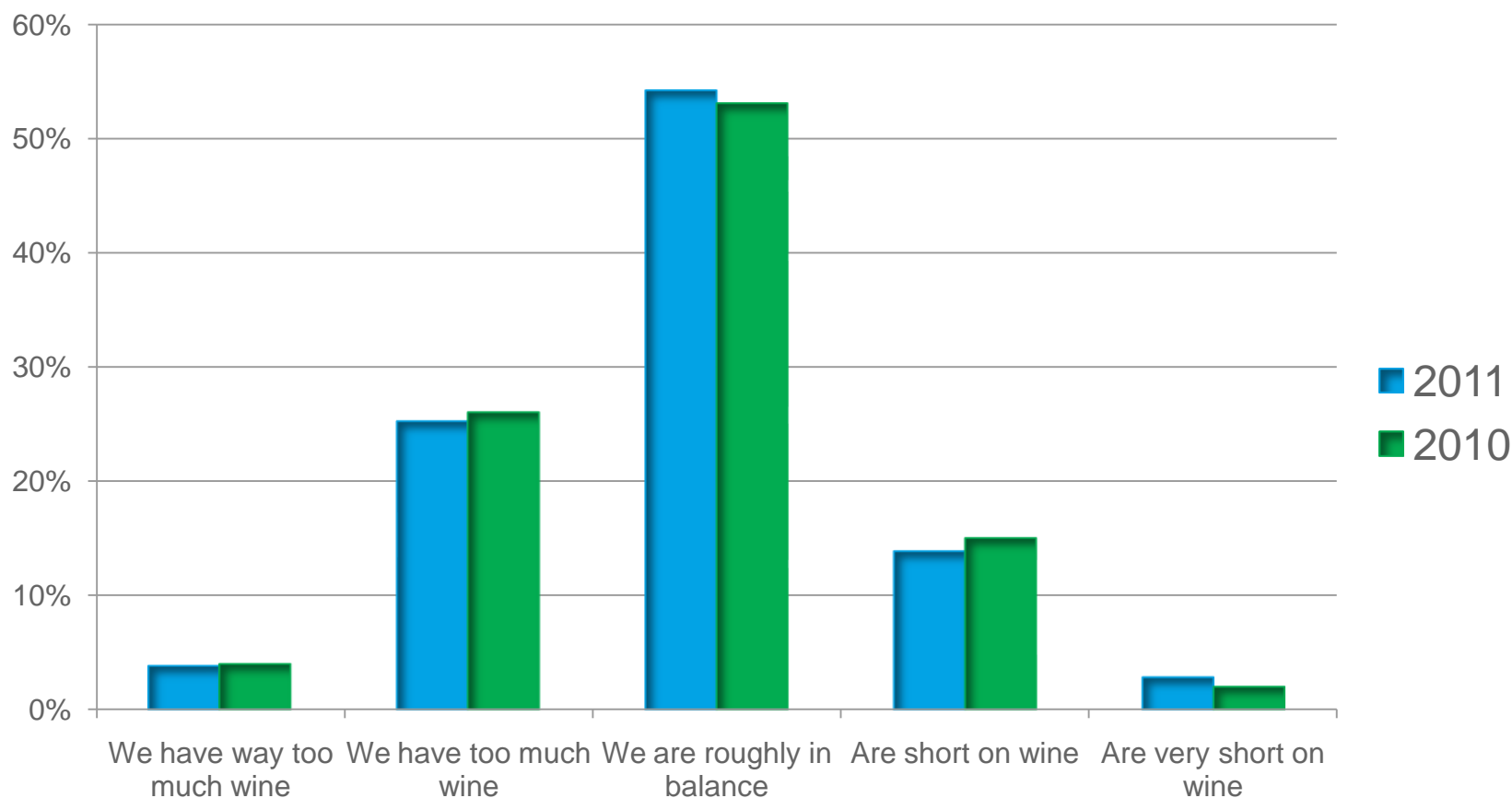
Ranked Inventory Imbalance

Net Imbalance



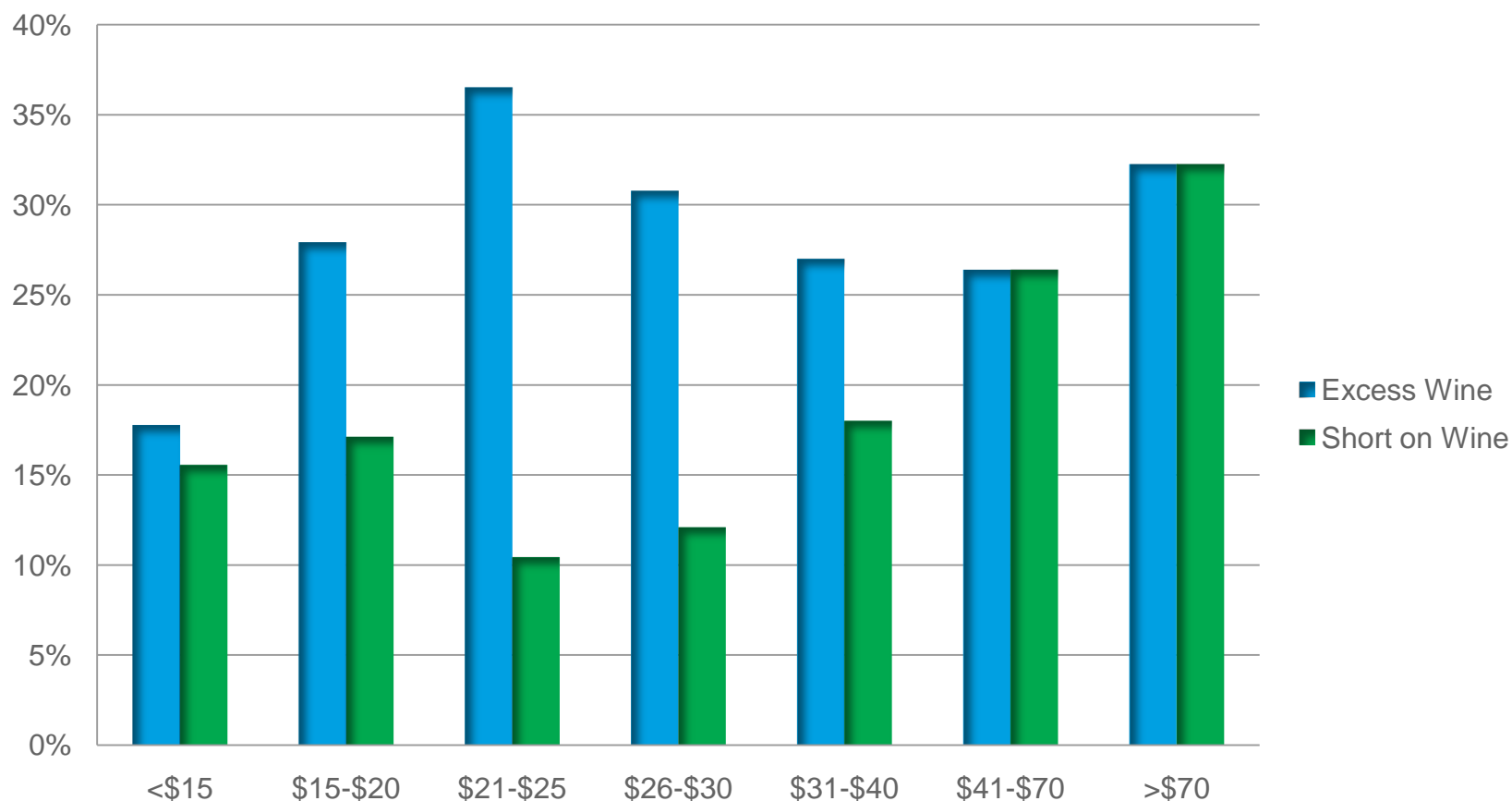
Source: Silicon Valley Bank Proprietary Research

Changes in Inventory Positions YOY



Source: *Silicon Valley Bank Proprietary Research*

Inventory Position by Price Point



Source: Silicon Valley Bank Proprietary Research

Current Supply From Survey and Brokerage

	2006	2007	2008	2009	2010	2011
Chardonnay	Long	Short to balanced	Short to balanced	Long	Long to Balanced	Long
Sauvignon Blanc	Long	Long	Long	Long to Balanced	Long to Balanced	Long to Balanced
Cabernet	Long	Long	Long	Long	Long	Long
Merlot	Long	Long	Long	Long to Balanced	Long to Balanced	Long
Pinot Noir	Short	Short	Short	Short to balanced	Long to Balanced	Long
Syrah	Long	Long	Long	Long	Long	Long
Zinfandel	Long	Long	Short to balanced	Long	Long	Long
Overall Premium	Long	Long to Balanced	Long	Long	Long to Balanced	Long

Short

Short to balanced

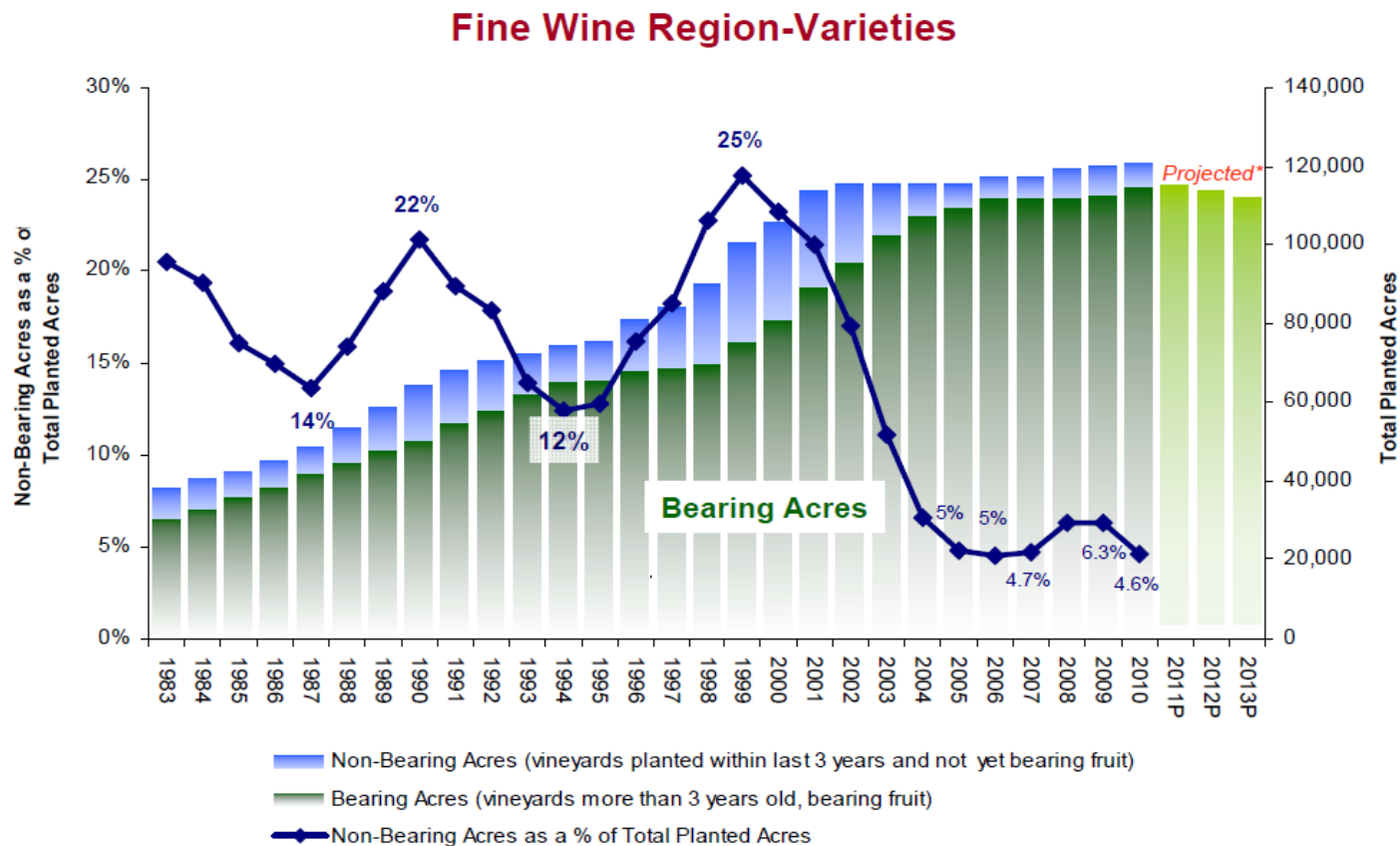
Balanced

Long to Balanced

Long

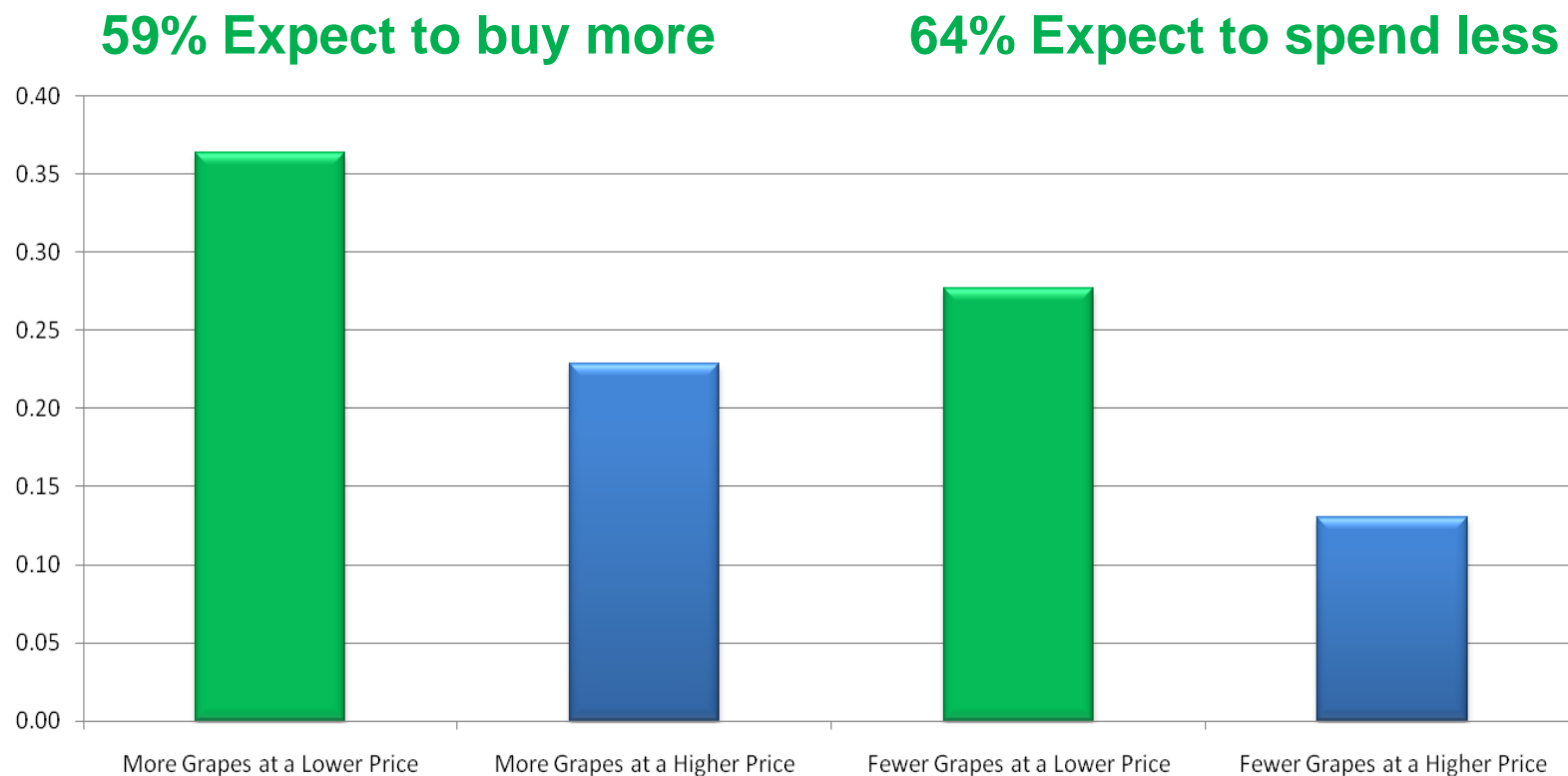
Source: Turrentine Wine Brokerage, Silicon Valley Bank Proprietary Research

Bearing vs. Non-Bearing West Coast Fine Wine



Source: *Premiere Pacific Vineyards, 2011*

Grape Purchases vs. Price in 2011



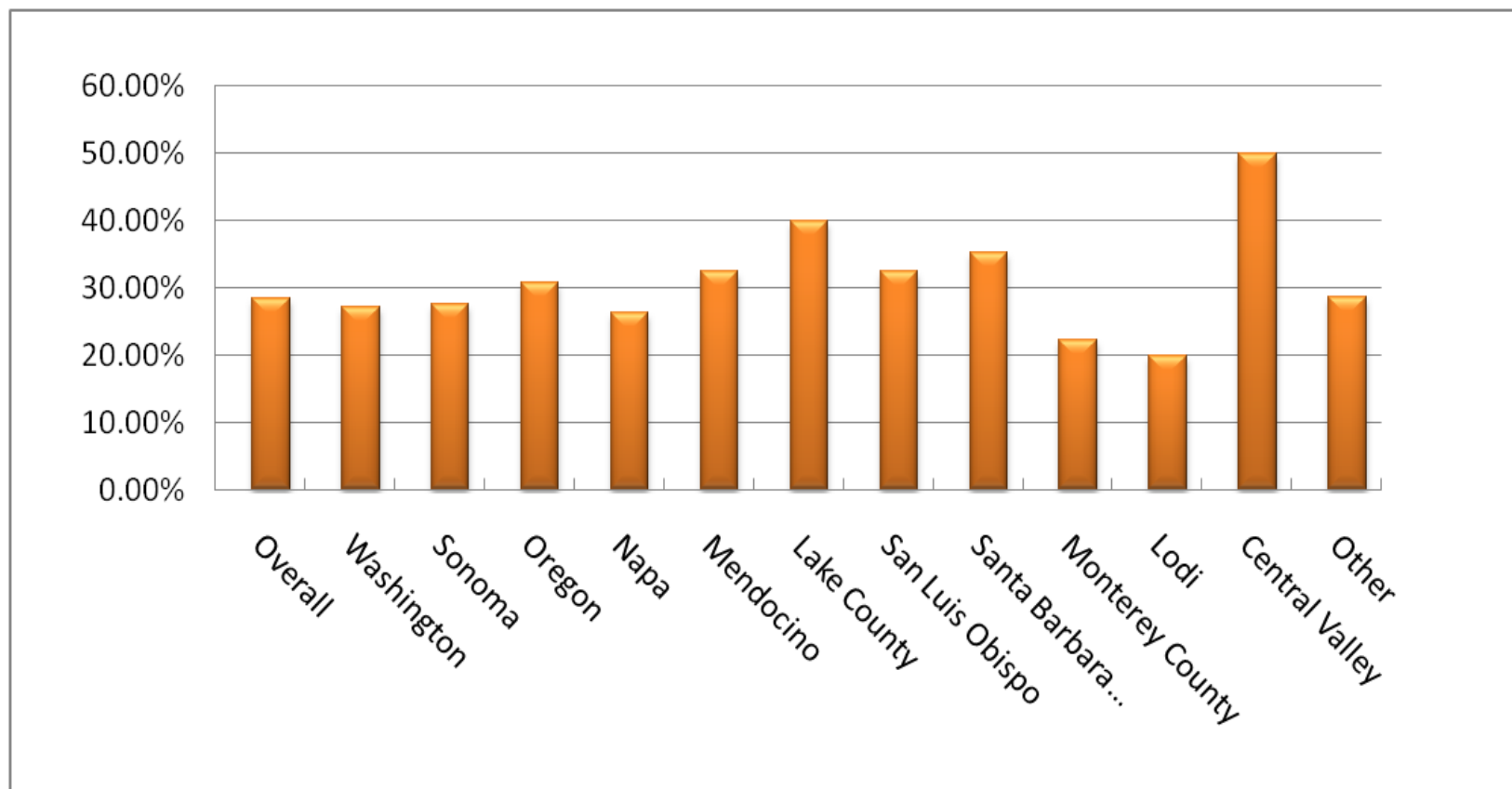
Source: *Silicon Valley Bank Proprietary Research*

THE EXPLODING WARRANTS



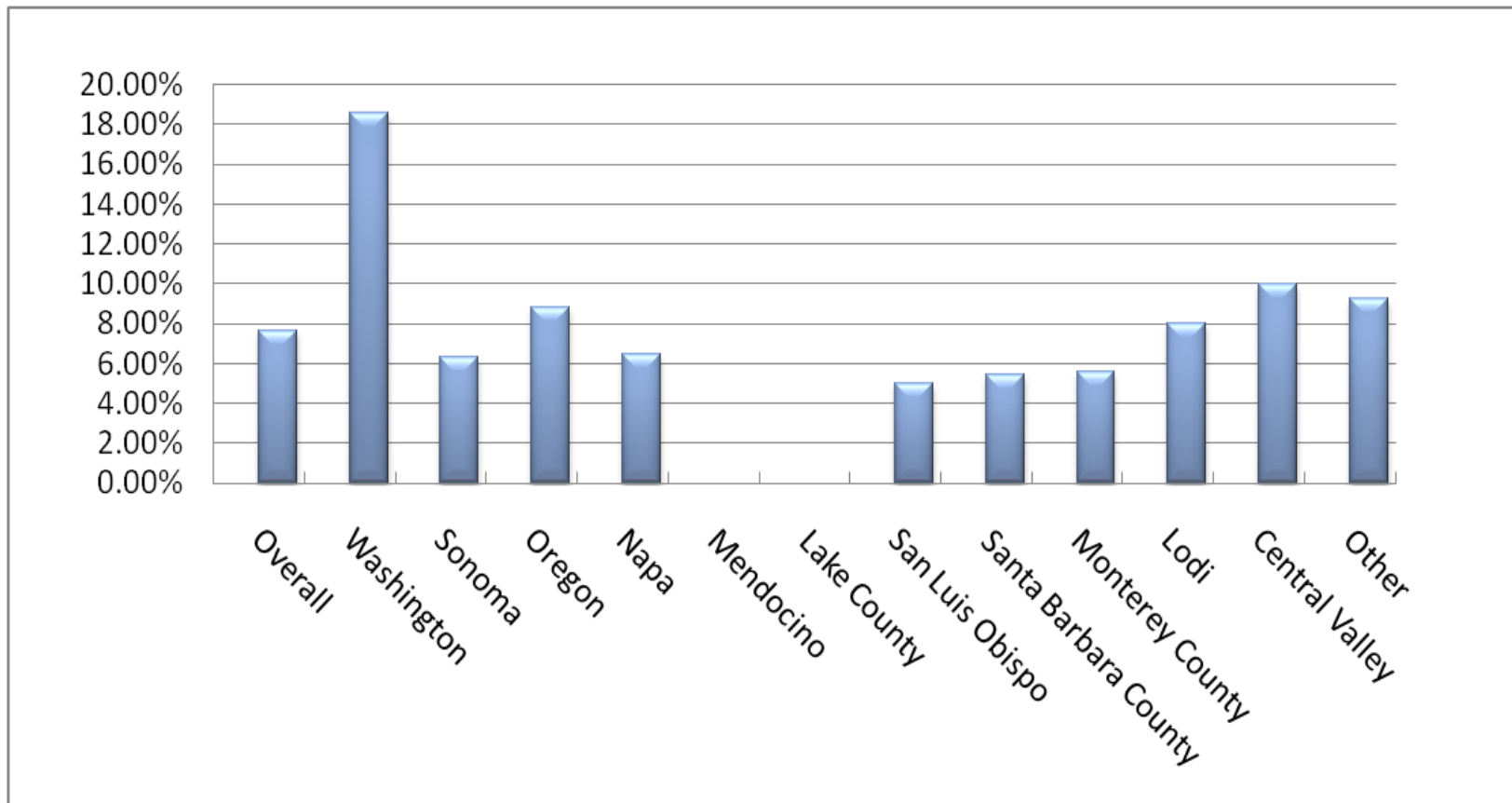
Changes and Impact in Digital

Actively Participate in a SM Platform and Interact



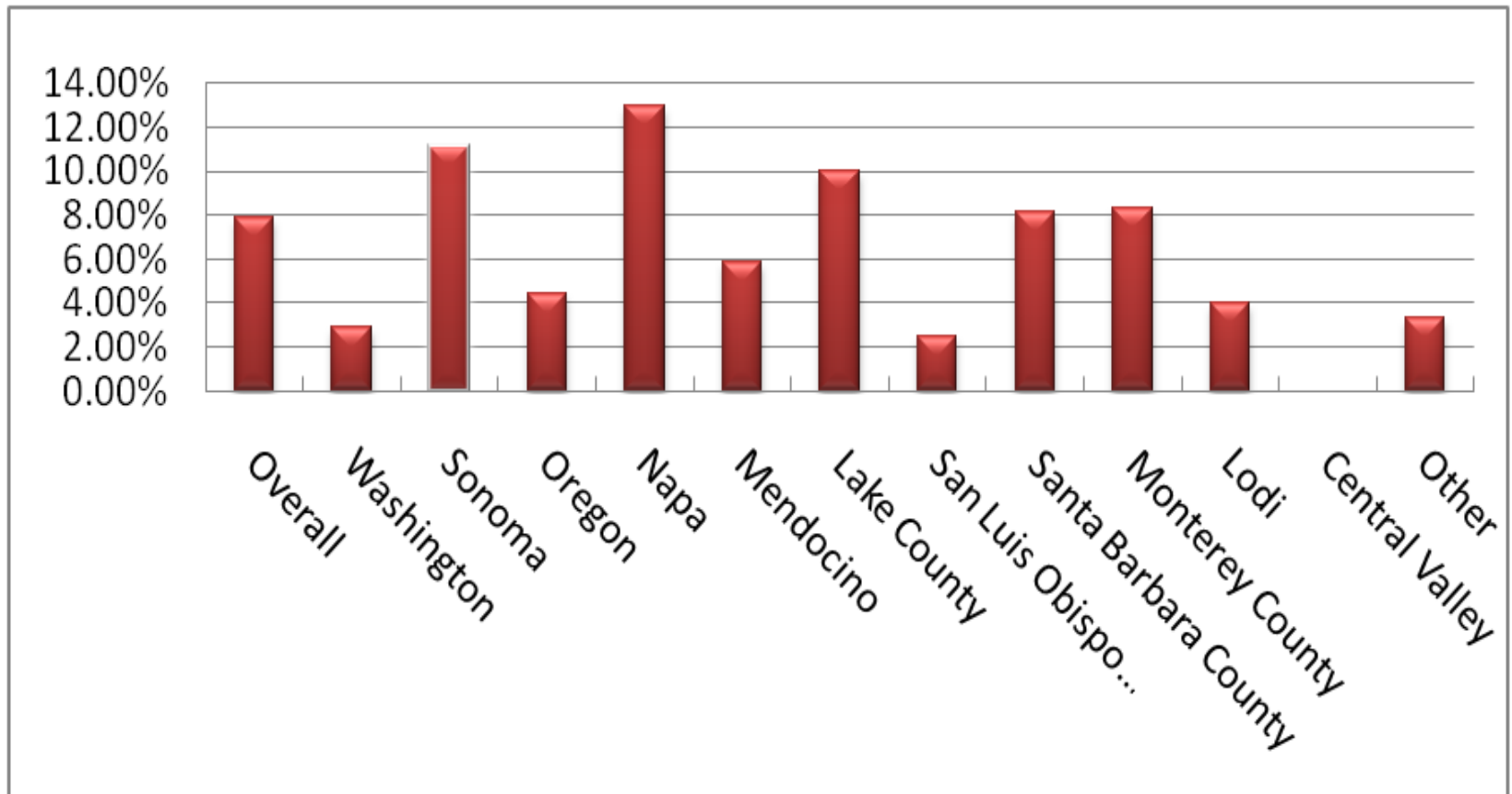
Source: Silicon Valley Bank Proprietary Research

Don't Actively Use SM as a Tool



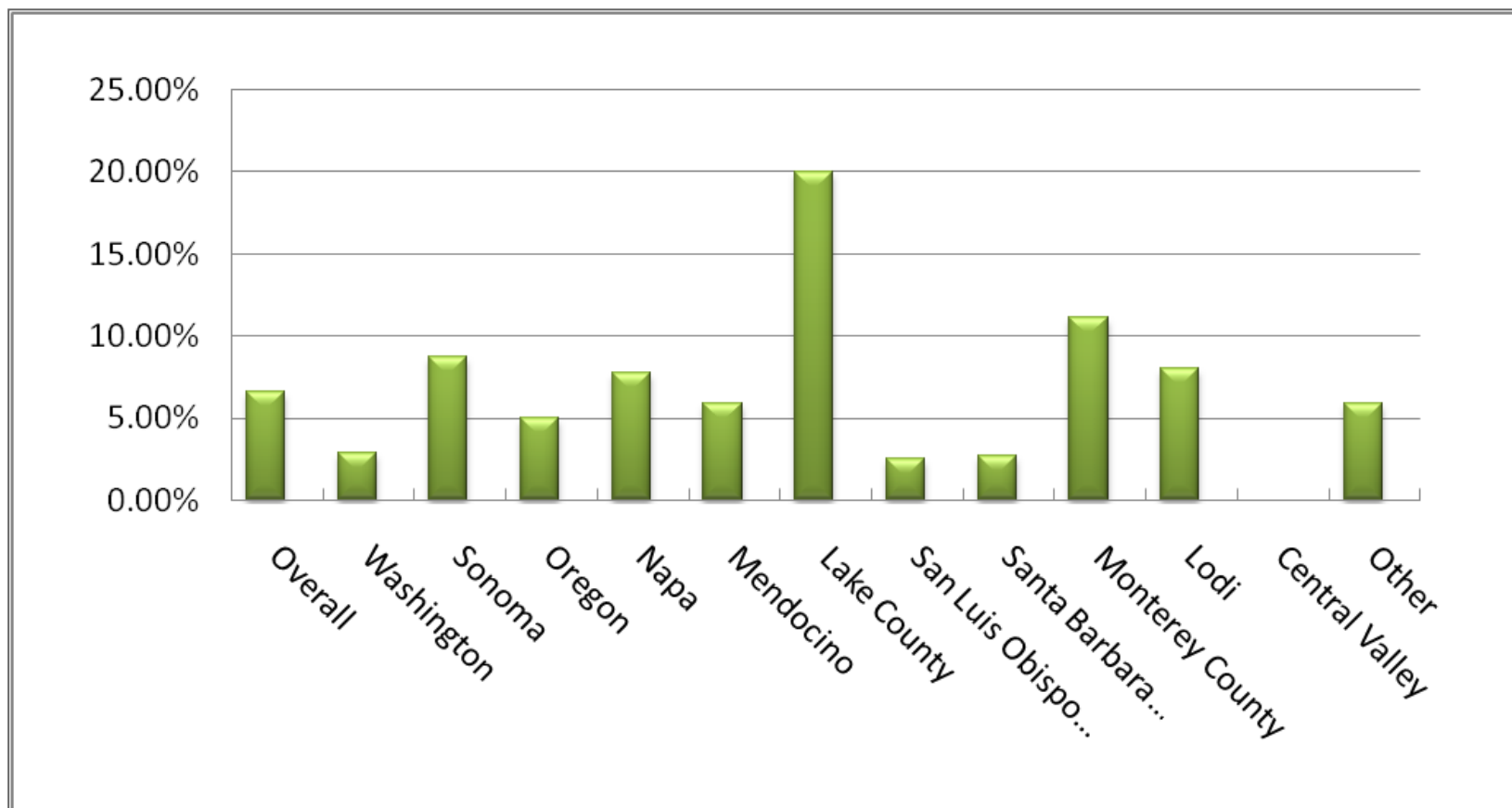
Source: Silicon Valley Bank Proprietary Research

Use a CRM and Track Buying Patterns and Demographics



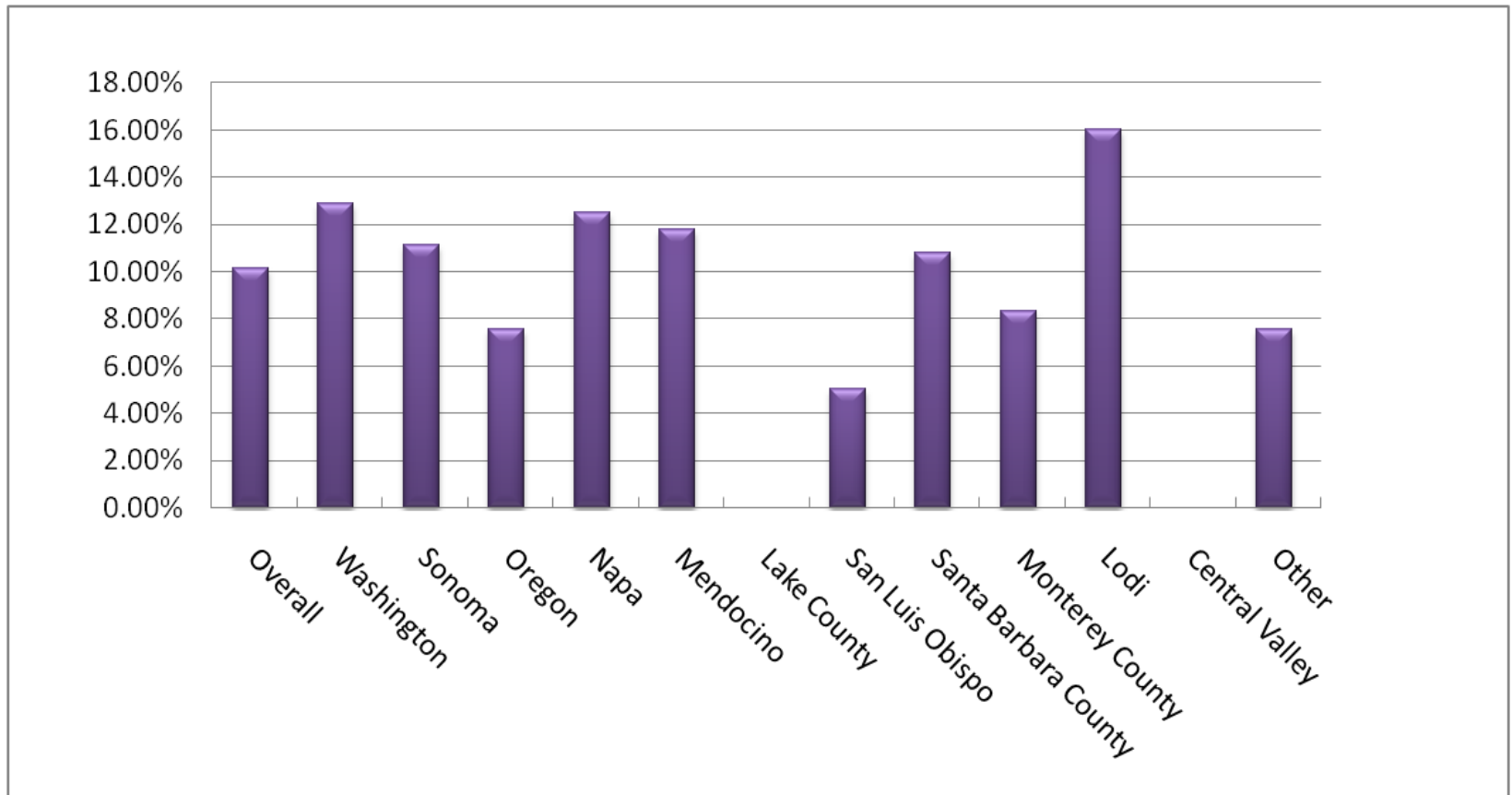
Source: Silicon Valley Bank Proprietary Research

We have a Digital Marketing Plan in Place



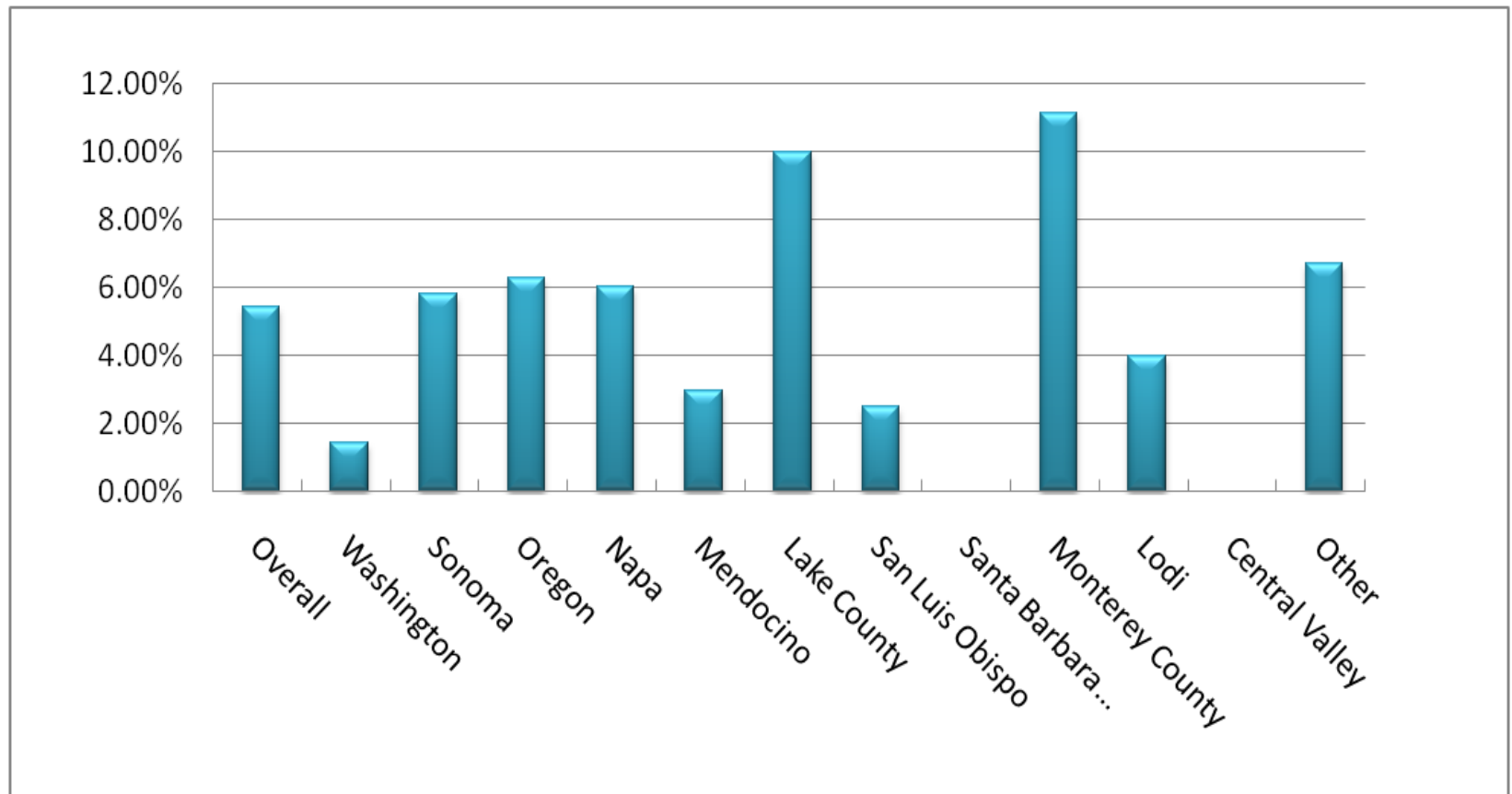
Source: Silicon Valley Bank Proprietary Research

A Dedicated Employee to Execute using Digital Tools



Source: Silicon Valley Bank Proprietary Research

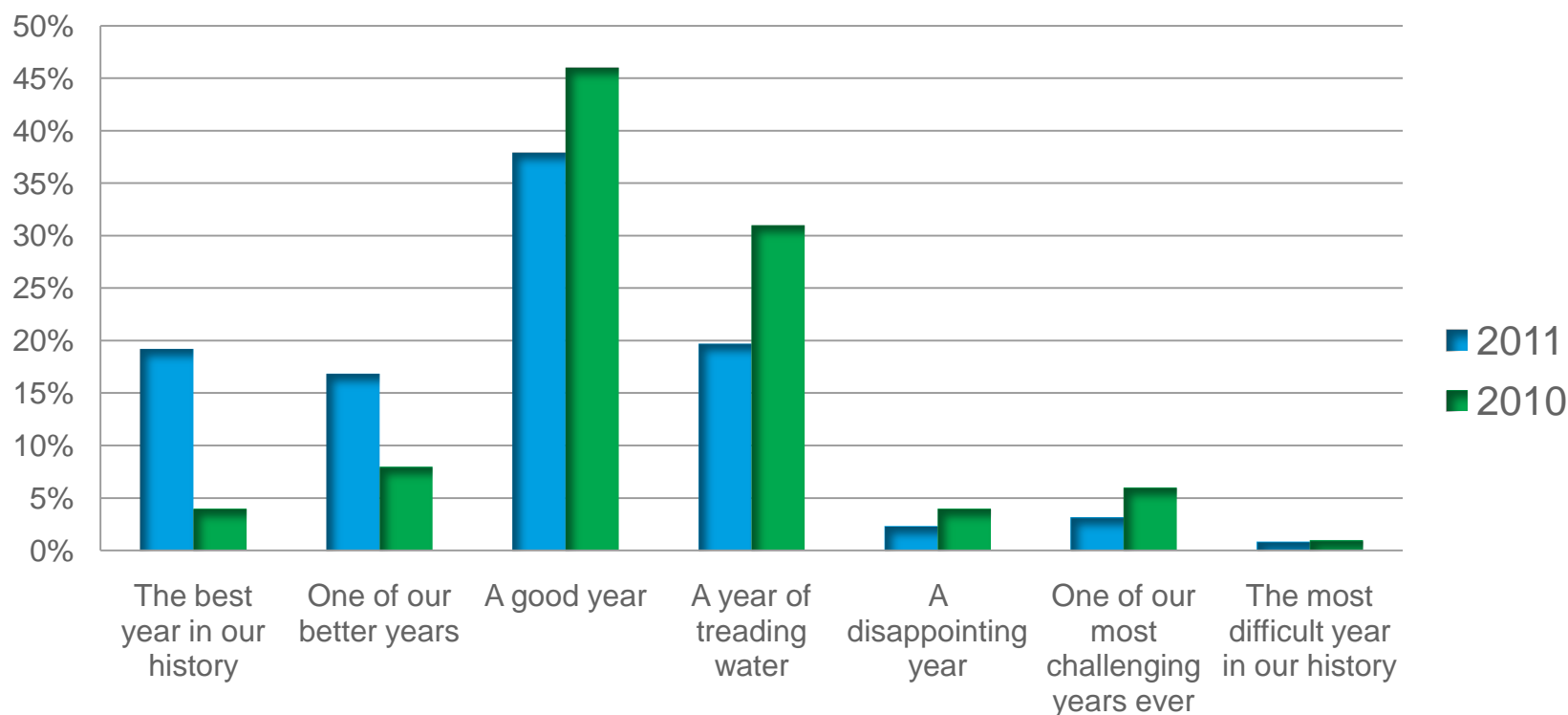
Survey Customers to Discover Post-Purchase Experiences



Source: Silicon Valley Bank Proprietary Research

2011 Will be ...

2011 vs. 2010 Outlook

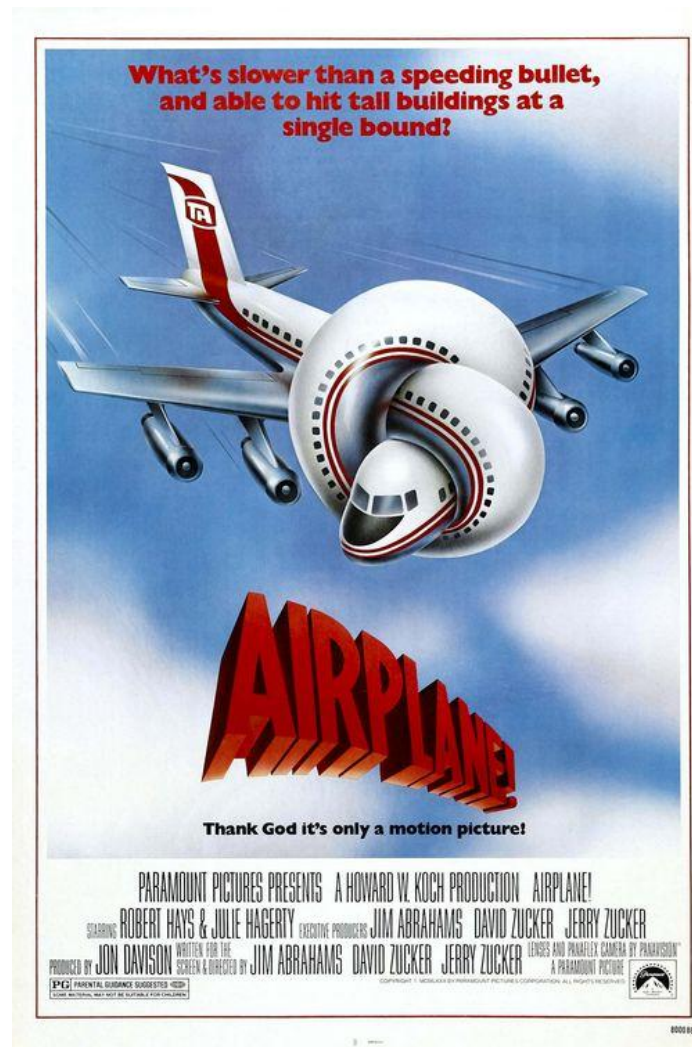


Source: Silicon Valley Bank Proprietary Research

Predictions for 2011-2012

- Growth in luxury goods will outpace the rest of the economy
- Trading up trend will accelerate in higher priced wine
- Marginally improved pricing power at the producer level
- Boomers and Gen X will support most of the fine wine recovery
- Improving restaurant sales, specifically in full-serve restaurants
- Producer level inventory closer to balanced than most seem to think
- Shifting threats to the legal landscape for direct shipping
- Flat or declining pricing on grape contracts except in best properties
- Sales growth of 11% - 15% with marginally improving profits
- Slowly improving economy, but several issues that hold back prediction of a rapid return to the good old days.

Good Luck. We're All Counting On You.



Questions?

Rob McMillan, EVP & Founder SVB Wine Division

RMcMillan@svb.com

707.967.1367

@SVBWine

Disclosures

This material, including without limitation the statistical information herein, is provided for informational purposes only. The material is based in part upon information from third-party sources that we believe to be reliable, but which has not been independently verified by us and, as such, we do not represent that the information is accurate or complete. The information should not be viewed as tax, investment, legal or other advice nor is it to be relied on in making an investment or other decision. You should obtain relevant and specific professional advice before making any investment decision. Nothing relating to the material should be construed as a solicitation or offer, or recommendation, to acquire or dispose of any investment or to engage in any other transaction.

Silicon Valley Bank is not selling, marketing or distributing wine or wine-related products. Through its SVBwines.com Web site, Silicon Valley Bank provides information to clients, employees and other parties and refers those users to wineries and other wine industry service providers. These communications are for informational purposes. Silicon Valley Bank is not responsible for (or a participant in) the sales of any of the wineries' products in any fashion or manner, and makes no representations that any promotion or sales of alcoholic beverages will or will not be conducted in a lawful manner. Further, Silicon Valley Bank disclaims any responsibility or warranty for any products sold by wineries or other wine industry service providers.

©2011 SVB Financial Group. All rights reserved. Silicon Valley Bank is a member of FDIC and Federal Reserve System. Silicon Valley Bank is a member of SVB Financial Group. SVB>, SVB>Find a way, SVB Financial Group, and Silicon Valley Bank are registered trademarks. 0211-0012

Silicon Valley Bank >

A Member of SVB Financial Group

Wine Division