State of the Wine Industry 2019 Videocast

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Panelists

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Silicon Valley Bank

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President  
Wente Family Estates

Dale Stratton  
Vice President  
Commercial Insights  
Constellation Brands

Paul Mabray  
CEO  
Emetry
US wine consumption

![Graph showing US wine consumption over time. The graph indicates a rising trend with a decline during the years between 1990 and 1995, commonly referred to as "Neo-Prohibition." The graph includes data points and years from 1980 to 2018.](image)

Sources: California Wine Institute, Gomberg-Fredrikson, BW 166
Total off-premise sales

![Graph showing total dollars and total cases over time]

Source: Nielsen Beverage Group, November 2018
52-week sales growth of wine below $9

Sources: Nielsen Beverage Group, SVB Analysis
52-week sales growth of wine above $9

Sources: Nielsen Beverage Group, SVB Analysis

2019 SVB State of the Wine Industry Report
Warehouse shipment trends

Monthly percent change  Rolling 12 months

Millions of 9-liter cases

Source: Gomberg Fredrikson through August 2018
## Shipments from largest CA producers

8 months ending 8/2018

<table>
<thead>
<tr>
<th>Winery</th>
<th>Millions of gallons</th>
<th>Change year over year</th>
<th>Percent change</th>
</tr>
</thead>
<tbody>
<tr>
<td>E. &amp; J. Gallo Winery</td>
<td>132,006</td>
<td>-5,511</td>
<td>-4.2%</td>
</tr>
<tr>
<td>The Wine Group</td>
<td>78,686</td>
<td>2,359</td>
<td>3.0%</td>
</tr>
<tr>
<td>Constellation Brands</td>
<td>62,624</td>
<td>-1,055</td>
<td>-1.7%</td>
</tr>
<tr>
<td>Trinchero Family Estates</td>
<td>28,994</td>
<td>1,458</td>
<td>5.0%</td>
</tr>
<tr>
<td>Treasury Wine Estates</td>
<td>19,800</td>
<td>213</td>
<td>1.1%</td>
</tr>
<tr>
<td>Delicato Family Vineyards</td>
<td>18,985</td>
<td>1,384</td>
<td>7.3%</td>
</tr>
<tr>
<td>Bronco Wine Company</td>
<td>13,047</td>
<td>-1,178</td>
<td>-9.0%</td>
</tr>
<tr>
<td></td>
<td>354,142</td>
<td>-2,330</td>
<td>-0.7%</td>
</tr>
</tbody>
</table>

Source: Gomberg Fredrikson, August 2018
## Premium wineries’ financial benchmarks

<table>
<thead>
<tr>
<th>Date</th>
<th>Gross Margin</th>
<th>Sales Growth</th>
<th>Pretax Profit</th>
</tr>
</thead>
<tbody>
<tr>
<td>12/31/2010</td>
<td>53.7%</td>
<td>10.8%</td>
<td>6.7%</td>
</tr>
<tr>
<td>12/31/2011</td>
<td>53.2%</td>
<td>12.2%</td>
<td>6.1%</td>
</tr>
<tr>
<td>12/31/2012</td>
<td>53.4%</td>
<td>7.7%</td>
<td>6.9%</td>
</tr>
<tr>
<td>12/31/2013</td>
<td>54.8%</td>
<td>9.2%</td>
<td>6.6%</td>
</tr>
<tr>
<td>12/31/2014</td>
<td>56.8%</td>
<td>11.9%</td>
<td>8.0%</td>
</tr>
<tr>
<td>12/31/2015</td>
<td>56.9%</td>
<td>8.8%</td>
<td>9.6%</td>
</tr>
<tr>
<td>12/31/2016</td>
<td>57.4%</td>
<td>9.6%</td>
<td>10.2%</td>
</tr>
<tr>
<td>12/31/2017</td>
<td>57.3%</td>
<td>2.7%</td>
<td>10.0%</td>
</tr>
<tr>
<td>9/30/2017</td>
<td>56.7%</td>
<td>0.3%</td>
<td>9.7%</td>
</tr>
<tr>
<td>9/30/2018</td>
<td>56.4%</td>
<td>5.2%</td>
<td>8.2%</td>
</tr>
</tbody>
</table>

Source: 2010–2018 SVB Peer Group Analysis

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Average wine consumption by age groups

Source: SVB Annual Wine Conditions Survey, 2014 - 2018
Premium wine buying by age group

Source: Customer Vineyard, 2018
The Indulgence Gap

Debt – Strapped Millennials

Gainfully Employed Gen X

Stimulus

Wealth

Retiring Boomers
Current consumption preferences (alcohol, cannabis)

Sources: Scarborough Research, SVB Analysis
Regional consumer demographics in 2018

Source: 2018 SVB Annual Winery Conditions Survey
Direct sales mix for the average winery

Source: DTC Sales Mix for the Average Winery
Consumer data analytics person

- Full-time employee: 8%
- Part-time employee: 25%
- None: 67%

Source: 2018 SVB Annual Winery Conditions Survey
Percentage change in per capita ethanol consumption in US

*Estimated data for 2017
Source: National Institute on Alcohol Abuse and Alcoholism, Surveillance Report #110
Ethanol market share of the US consumer

- **Wine**
- **Spirits**
- **Beer**

<table>
<thead>
<tr>
<th>Year</th>
<th>Wine</th>
<th>Spirits</th>
<th>Beer</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010</td>
<td>14.80%</td>
<td>31.60%</td>
<td>53.60%</td>
</tr>
<tr>
<td>2011</td>
<td>15.20%</td>
<td>32.40%</td>
<td>52.40%</td>
</tr>
<tr>
<td>2012</td>
<td>15.08%</td>
<td>32.94%</td>
<td>51.98%</td>
</tr>
<tr>
<td>2013</td>
<td>15.08%</td>
<td>33.33%</td>
<td>51.59%</td>
</tr>
<tr>
<td>2014</td>
<td>15.08%</td>
<td>33.33%</td>
<td>51.59%</td>
</tr>
<tr>
<td>2015</td>
<td>14.96%</td>
<td>33.86%</td>
<td>51.18%</td>
</tr>
<tr>
<td>2016</td>
<td>15.29%</td>
<td>34.12%</td>
<td>50.59%</td>
</tr>
<tr>
<td>2017</td>
<td>15.23%</td>
<td>35.16%</td>
<td>49.61%</td>
</tr>
</tbody>
</table>

Sources: National Beer Wholesalers Association, Alcohol and Tobacco Tax and Trade Bureau
US population by discrete age

Source: United States Census Bureau Population Estimates 2017
## Imported wine into the US over 52 weeks

<table>
<thead>
<tr>
<th>Country</th>
<th>Sales</th>
<th>Value change</th>
<th>Percent change</th>
<th>9-liter-case equivalents</th>
<th>9-liter-case equivalent change</th>
<th>9-liter-case equivalent percent change</th>
<th>Average bottle price</th>
<th>Percent change in average bottle price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Italy</td>
<td>$1,174,264,462</td>
<td>$12,696,546</td>
<td>1.1%</td>
<td>10,481,911</td>
<td>-41,624</td>
<td>-0.4%</td>
<td>$9.34</td>
<td>1.47%</td>
</tr>
<tr>
<td>Australia</td>
<td>$727,504,683</td>
<td>$23,077,228</td>
<td>3.3%</td>
<td>12,013,617</td>
<td>15,780</td>
<td>0.1%</td>
<td>$5.05</td>
<td>3.04%</td>
</tr>
<tr>
<td>New Zealand</td>
<td>$457,322,337</td>
<td>$35,160,210</td>
<td>8.3%</td>
<td>3,303,259</td>
<td>234,051</td>
<td>7.6%</td>
<td>$11.54</td>
<td>0.65%</td>
</tr>
<tr>
<td>France</td>
<td>$450,236,731</td>
<td>$37,111,392</td>
<td>9.0%</td>
<td>2,939,393</td>
<td>258,564</td>
<td>9.6%</td>
<td>$12.76</td>
<td>-0.61%</td>
</tr>
<tr>
<td>Argentina</td>
<td>$350,131,904</td>
<td>-$30,083,381</td>
<td>-7.9%</td>
<td>3,877,558</td>
<td>-370,279</td>
<td>-8.7%</td>
<td>$7.52</td>
<td>0.87%</td>
</tr>
<tr>
<td>Chile</td>
<td>$259,152,332</td>
<td>-$12,357,937</td>
<td>-4.6%</td>
<td>3,864,103</td>
<td>-111,784</td>
<td>-2.8%</td>
<td>$5.59</td>
<td>-1.82%</td>
</tr>
<tr>
<td>Spain</td>
<td>$165,728,886</td>
<td>-$4,201,800</td>
<td>-2.5%</td>
<td>2,090,602</td>
<td>-12,592</td>
<td>-0.6%</td>
<td>$6.61</td>
<td>-1.92%</td>
</tr>
</tbody>
</table>

Source: Nielsen Beverage Group, November 2018
Annual change in winery owner confidence

Source: 2018 SVB Annual Winery Conditions Survey
Retail sales changes in price segments

Source: Nielsen Beverage Group, 2013-2018
Decrease in US market share vs. imports

Estimated data for 2018
Source: Gomberg-Fredrikson, November 2018

Vines removed in San Joaquin Valley vs. bulk imports

Sources: USDA National Agricultural Statistics Service, Gomberg Frederikson

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Sales to restaurants from the average-size winery

Sources: 2014–2018 SVB Annual Winery Conditions Surveys
Unemployment rate for younger adults

- **Age 25–29**
- **Age 30–34**

Source: Bureau of Labor Statistics
Growth in college enrollment

Sources: Statista.com, National Center for Education Statistics, 2017 Digest for Educational Statistics
Price changes to US stocks and homes

Sources: Federal Reserve, Standard & Poors
Wine producers hope to take price increases in 2019

Source: 2018 SVB Annual Winery Conditions Survey
Regional harvest quality in 2018

- Poor
- Below average
- Average
- Good
- Excellent

Regions:
- Northern Oregon
- Napa County
- Santa Cruz & Monterey
- Sonoma County
- San Luis Obispo County
- Washington
- Paso Robles
- Sierra Foothills
- Southern Oregon
- Santa Barbara
- Livermore
- Lodi
- Other
- Virginia

Source: 2018 SVB Annual Winery Conditions Survey
Regional harvest yield in 2018

Source: 2018 SVB Annual Winery Conditions Survey
Likelihood of selling winery in five years

- **Out of the question**
- **Unlikely**
- **A possibility**
- **Seriously considering**
- **Likely**

<table>
<thead>
<tr>
<th>Cases produced</th>
<th>1–2,500</th>
<th>2,501–5,000</th>
<th>5,001–10,000</th>
<th>10,001–25,000</th>
<th>25,001–50,000</th>
<th>50,001–100,000</th>
<th>100,001–250,000</th>
<th>&gt;250,000</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Percent of respondents</td>
<td>0%</td>
<td>10%</td>
<td>20%</td>
<td>30%</td>
<td>40%</td>
<td>50%</td>
<td>60%</td>
<td>70%</td>
<td>80%</td>
</tr>
</tbody>
</table>

Source: 2018 SVB Annual Winery Conditions Survey
Today’s consumer starting late on everything!

Median age at first marriage

**Men**
- 1890: 26.1
- 1900: 22.0
- 2014: 29.3

**Women**
- 1890: 22.0
- 2014: 27.0

Source: www.census.gov/hhes/families/ms2.xls
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