Highlights from the 1Q 2019 Washington Wine Shipment Report

Washington Wine Shipments Through 3/31/2019 (000s of cases)

<table>
<thead>
<tr>
<th></th>
<th>Last 3 Months</th>
<th>Last 12 Months</th>
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</thead>
<tbody>
<tr>
<td>This Year</td>
<td>2,980</td>
<td>12,742</td>
</tr>
<tr>
<td>Last Year</td>
<td>2,780</td>
<td>12,428</td>
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</table>

- Shipments/sales of packaged wines by Washington wineries grew by 7% in the first quarter – essentially offsetting an 8% volume decline during 4Q 2018.

- The industry’s shipments have increased by 2.5% over the last 12 months, though the trailing 12-month total remains slightly below the prior peak in 3Q 2016.

- The strong first quarter performance was driven primarily by a turnaround in Ste. Michelle’s out-of-state distributor sales.

- Overall, out-of-state shipments expanded by 10% in 1Q 2019 – which compares to an 8% decline during the final quarter of 2018.

- DTC sales also remain strong – but sales to in-state distributors were a weak spot – they fell by 5% in the first quarter and are down slightly over the last 12 months.

- Despite a sharp 1Q rebound, Ste. Michelle’s shipments are still down by 4% over the past 12 months.

- Excluding Ste. Michelle, the industry is still expanding at a robust pace – driven mainly by strong performances from the state’s other large wineries.

- Small winery (<50,000 cases) shipments have also grown solidly in percentage terms and approximately two-thirds of the state’s 100 largest wineries recorded volume gains over the last 12 months.

- U.S. off-premise wine sales continue to grow modestly in value with a slight decline in volume – competition is intensifying as U.S. and global inventories remain elevated.

- The premium segments of the national off-premise market and DTC sales are still outperforming the broader market, though growth appears to be moderating.

- The expected U.S. economic slowdown has not yet materialized – nonetheless, the recent collapse in U.S. / China trade negotiations and new round of tarrifs will exert a negative impact going forward.

- Washington is more heavily exposed to the trade war than any other state, which could create headwinds for growth going forward.

Shipment Share by Channel: 2018

- Out-of-state distribution: 74%
- In-state distribution: 6%
- Direct-to-consumer: 20%
Grape Market Developments

- Washington wineries crushed 261,000 tons of grapes in 2018 – the second largest total ever and an increase of 32,000 over 2017.

- Given increasing acreage and productivity, 250,000+ ton harvests may be the new norm and the market is unlikely to return to balance in 2019 unless the crop falls short or Ste. Michelle’s sales rebound decisively.

- Cabernet Sauvignon looks to be particularly oversupplied – at 74,400 tons it comprised nearly 30% of the crush and an estimated 650,000 gallons of bulk cabernet from Washington are on the market.

- There are nuances to the story – the market remains firmer for certain varietals as well as for higher-quality grapes grown for super-premium and luxury bottlings.

The Satellite Tasting Room Boom

- Growth in the number of Washington wineries has slowed in recent years but the number of active satellite tasting room licenses swelled to 233 in 2018 – nearly half were issued over the past three years alone.

- Four cities – Woodinville, Walla Walla, Seattle and Leavenwoth – now have 25 or more satellites.

- DTC sales remain robust, but competition for visitors is intensifying in some areas and wineries are advised to do their homework before moving forward on new projects.

The Washington Wine Market

- Sales by wineries/importers to Washington distributors, retailers, and consumers grew 2.4% in 2018 to 11.9 million cases – about twice the rate of national volume growth.

- Washington wine’s share of the market ticked up slightly to 27.5% – other U.S. wineries garnered a 50.4% share led by Gallo and imports captured 22%.

Gallo Acquires Hogue Cellars

- E. & J. Gallo agreed to purchase Hogue Cellars from Constellation Brands as part of a larger deal that included more than 30 brands and six wineries.

- Hogue shipped more than 500,000 cases of Washington wine in 2018 – ranking it third in the state – and reported net production of 330,000 cases over the past 12 months.

- Gallo owns Columbia Winery and the deal expands its footprint in Washington considerably – the two wineries have produced a combined average of 650,000 cases per year in recent vintages and have the capacity to produce much more.

- Both wineries rely primarily on purchased fruit – this level of production translates to more than 10,000 tons of grapes annually – thus Gallo will gain additional leverage in the Washington grape market.

Washington’s 10 Largest Wine Companies Based on 2018 Wine Shipments (9l cases)

<table>
<thead>
<tr>
<th>Rank</th>
<th>Company / Tradename</th>
<th>Cases</th>
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<tbody>
<tr>
<td>1</td>
<td>Ste. Michelle Wine Estates</td>
<td>7,457,846</td>
</tr>
<tr>
<td>2</td>
<td>Precept Brands</td>
<td>1,372,602</td>
</tr>
<tr>
<td>3</td>
<td>Hogue Cellars</td>
<td>508,661</td>
</tr>
<tr>
<td>4</td>
<td>Wahluke Wine Company</td>
<td>453,945</td>
</tr>
<tr>
<td>5</td>
<td>K Vintners</td>
<td>244,311</td>
</tr>
<tr>
<td>6</td>
<td>Vinmotion Wines</td>
<td>176,455</td>
</tr>
<tr>
<td>7</td>
<td>Ancient Lake Wine Co.</td>
<td>167,947</td>
</tr>
<tr>
<td>8</td>
<td>Columbia Winery</td>
<td>124,877</td>
</tr>
<tr>
<td>9</td>
<td>Milbrandt Family Wines</td>
<td>92,564</td>
</tr>
<tr>
<td>10</td>
<td>Hedges Family Estate</td>
<td>76,462</td>
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Source: Vintage Economics / Washington State LCB. Shipments/sales of packaged wines only. Custom crush wines shipped to out of state clients are reported under the Washington trade name that shipped them.
About Vintage Economics

Vintage Economics is a Seattle-based market research and consulting firm focused on the Pacific Northwest wine industry. The firm is dedicated to providing insightful market research and analytics to help clients make better informed and more strategic decisions and position their businesses for success in a rapidly evolving and increasing competitive market environment. Areas of expertise include market analysis and forecasting, strategic research, and data analytics.

In addition to consulting services, Vintage Economics publishes three Washington wine industry reports:

*The Washington Wine Shipment Report* is a quarterly publication that provides detailed metrics and analysis of wine sales and shipments by volume broken down by winery size and sales channel, an overview of significant developments in the broader wine market and economy, and individual total shipment metrics for the state’s 100 largest wineries.

*The Washington Wine Industry Review & Outlook* is an annual publication that delivers a comprehensive industry overview and detailed coverage of trends in wine shipments, winery and tasting room counts, and the state’s grape and wine markets. It also interprets developments in the broader economy and wine market that will impact the industry in the year ahead.

*The Washington Winery Report* provides 2018 winery rankings and shipment and net production totals for all 971 winery licenses as well as more extensive metrics for the 282 wineries that shipped at least 1,000 cases, including breakdowns by type (table wine, fortified wine, and cider) and sales channel and four years of historic data on total shipments and production.

Vintage Economics also supplies customized metrics and intelligence on the the Washington wine industry and its wineries, brands, and vineyards tailored to clients' unique needs.

Please see the [Vintage Economics](www.VinEconomics.com) website or contact Chris Bitter for additional information:

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