2018

DIRECT TO CONSUMER

Wine Shipping Report

SOVOS

WINES & VINES

2017 YEAR IN REVIEW

Get more details at **shipcompliant.com/dtcreport18**

2017 DIRECT-TO-CONSUMER WINE SHIPPING

HIGHLIGHTS

IN 2017, CONSUMERS SPENT

$2.69 BILLION

ON DtC WINE SHIPMENTS

reflecting 15.5% annual growth

OVER

5.78 MILLION

CASES SHIPPED

reflecting 15.3% annual growth

10% OF DOMESTIC RETAIL IS SHIPPED DIRECT-TO-CONSUMER

TOP WINERY REGIONS IN 2017

+31% OREGON GROWTH

+26% WASHINGTON GROWTH

+25% SONOMA GROWTH

DESTINATION OF SHIPMENTS

+158%
ANNUAL DtC GROWTH

PENNSYLVANIA
JUMPED TO THE TOP 10
destination states by volume in 2017

PINOT NOIR
REPLACED RED BLENDS AS THE 2ND MOST COMMONLY SHIPPED WINE BY VALUE

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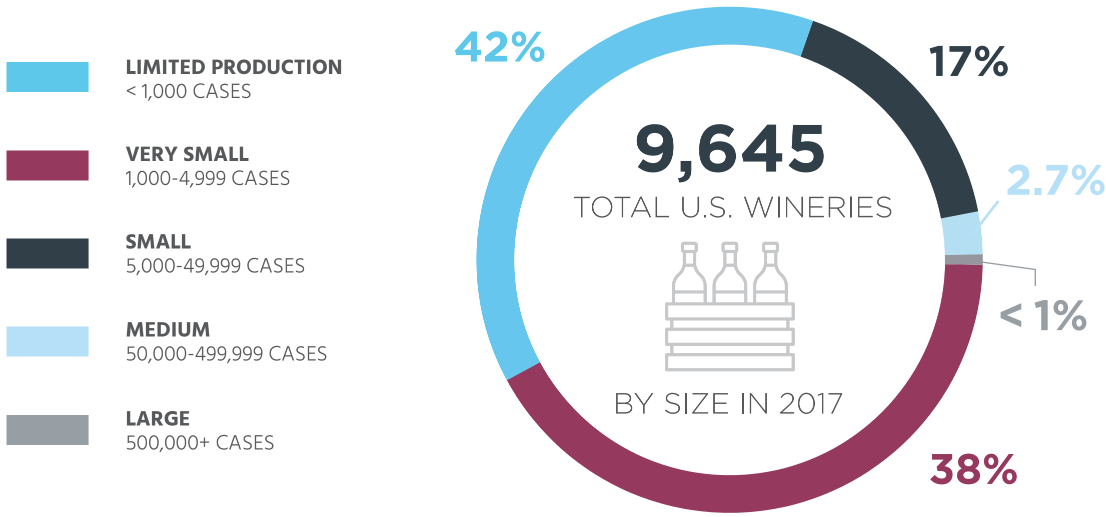
2018

THE CREATION OF **THE SHIPPING REPORT**

The Direct-to-Consumer (DtC) Wine Shipping Report is an annual collaboration between Sovos and Wines & Vines, with data from ShipCompliant and Wines & Vines Analytics, examining wine shipments from wineries to consumers in the United States.

To produce this report, Wines & Vines Analytics created an algorithm that uses its database of U.S. wineries to extrapolate all direct-to-consumer shipments from millions of anonymous direct shipping transactions filtered through Sovos' ShipCompliant system in 2017. The model tracks sales by winery region, annual winery production, destination of shipments, wine type (varietal) and price points. The result is the most accurate projection of the American direct-to-consumer shipping channel.



OVERVIEW

THE TOTAL CONSUMER OFF-PREMISE SPENDING ON DOMESTIC WINES **TOTALLED $2.69 BILLION IN 2017**

Growth in the winery DtC shipping channel accelerated in 2017, continuing the meteoric rise that Sovos and Wines & Vines have reported since 2010. Wineries increased the volume and value of direct shipments by 15.3% and 15.5% respectively over 2016, outpacing the six year average increases of 11% for volume and 12% for the value of shipments.

DtC INCREASES SHARE OF TOTAL DOMESTIC OFF-PREMISE RETAIL SALES

In total, wineries shipped 5.78 million cases of wine in 2017 valued at just over $2.69 billion. Helping to fuel this growth in value, the average price-per-bottle shipped inched up by $0.06 to $38.75. DtC shipping is on pace to top $3 billion in 2018 at this rate, an impressive feat for a channel that only emerged as a significant option in the past decade.

Winery direct shipments now represent a notable 10% of off-premise retail sales of domestic wines, up from 8.6% in 2016, according to Jon Moramarco, managing partner of BW 166 LLC and editor of the Gomberg & Fredrikson Report, who reported that total consumer off-premise spending on domestic wines (including direct-to-consumer sales and excluding bulk imports) totalled $26.7 billion in 2017.

NEW MARKETS AND OLD STANDARDS DRIVE GROWTH

Pennsylvanians exercising their new direct shipment rights spurred much of the increase in the volume of shipments. The state broke into the top 10 destinations by volume in its first full year permitting DtC shipments. Increased growth in Sonoma County, continued popularity of Cabernet Sauvignon and Pinot Noir and good performance by medium-sized wineries also contributed to growth in the channel.

Sonoma County wine shipments climbed 26% over last year, putting the region on a path to surpass Napa County as the largest source of wine shipments in the country. Additionally, Cabernet Sauvignon and Pinot Noir now represent over 45% of the value of all shipments from wineries to consumers.

CONTINUED ›

OVERVIEW ...CONTINUED

Finally, medium-sized wineries (50,000 - 499,999 cases produced annually) performed exceptionally well in 2017. These larger wineries, a prominent part of the traditional three-tier distribution system, accounted for 37% of the growth in value for the DtC shipping channel in 2017.

Numerous economic and industry-wide factors contributed to this year's growth as well, including a healthy economy, an increasing number of new wineries across the country (particularly smaller wineries more likely to use DtC shipping) and wholesaler consolidation, which is pushing more wineries to rely on direct-to-consumer sales.

GROWTH CONTINUED DESPITE ENVIRONMENTAL CHALLENGES

DtC shipments rose in 2017 despite the impact of the Wine Country fires, which depressed DtC sales by at least an estimated $20 million in Napa County alone. These fires occurred in October—the middle of harvest and the most popular month for tourists. Since tasting room and wine club sales still drive the lion's share of DtC growth, the decline in tourists impacted sales and shipments out of key California wine regions, hindering further growth in the DtC channel.

LOOKING FORWARD

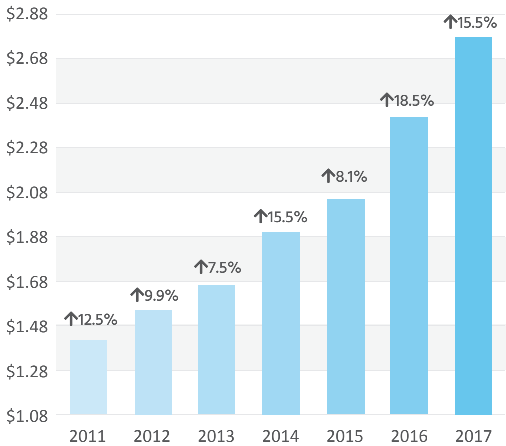
Oklahoma is the only new state planning to open its doors to direct shipments in 2018. However, this will not occur until October. With the country's 28th-largest population and a relatively low average household income, it is difficult to pinpoint how much the state's per capita consumption of wine will move the needle. Considering the late start in shipment acceptance next year, it is not likely that Oklahoma will contribute much to the anticipated growth in 2018 DtC volumes or values. However, two or three years out, Oklahomans could order upwards of $13-18 million of wine from wineries based on data from similar states.

The DtC channel will still continue its path toward maturity in 2018, with growth less dependent on the emergence of new markets. As the wine industry as a whole evolves, ecommerce grows and regulations adapt accordingly, growth of DtC shipments should continue to outpace the overall off-premise channel in the coming years.

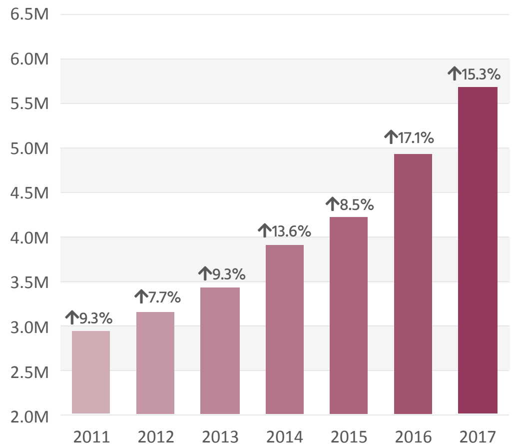
2011-2017 GROWTH IN VOLUME & VALUE

$2.69B
VALUE

5.78M
VOLUME IN CASES



REFLECTING 15.5% ANNUAL GROWTH



REFLECTING 15.3% ANNUAL GROWTH

2017 TOP TRENDS

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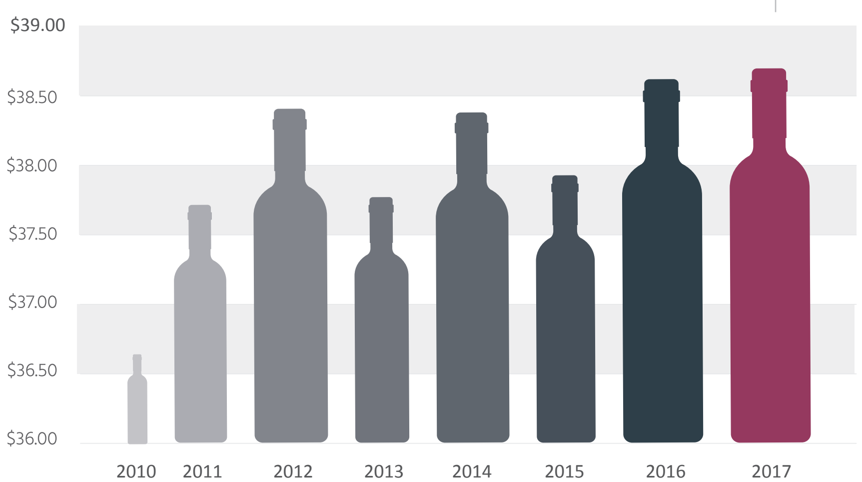
OVERVIEW ...CONTINUED

2010 TO 2017 AVERAGE PRICE PER BOTTLE

$38.75

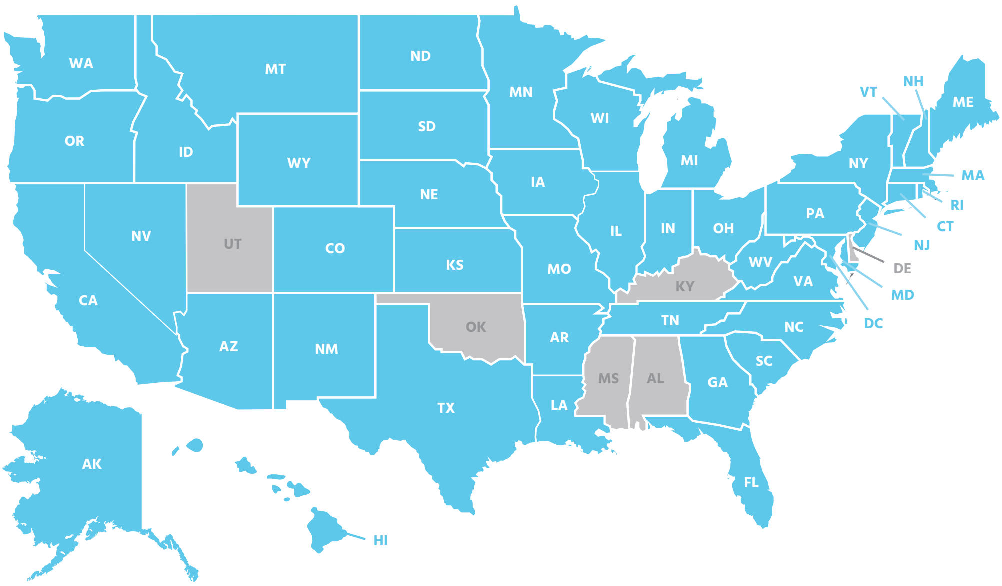


The average price per bottle shipped inched up by $0.06 to $38.75.
At this rate, DtC shipping is on pace to top $3 billion in 2018.

2017 DtC SHIPPING STATES

DtC SHIPPING NOT AVAILABLE

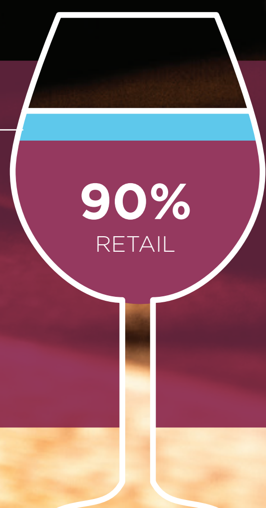
DtC SHIPPING AVAILABLE



2017 TOTAL DOMESTIC OFF-PREMISE SALES

10%

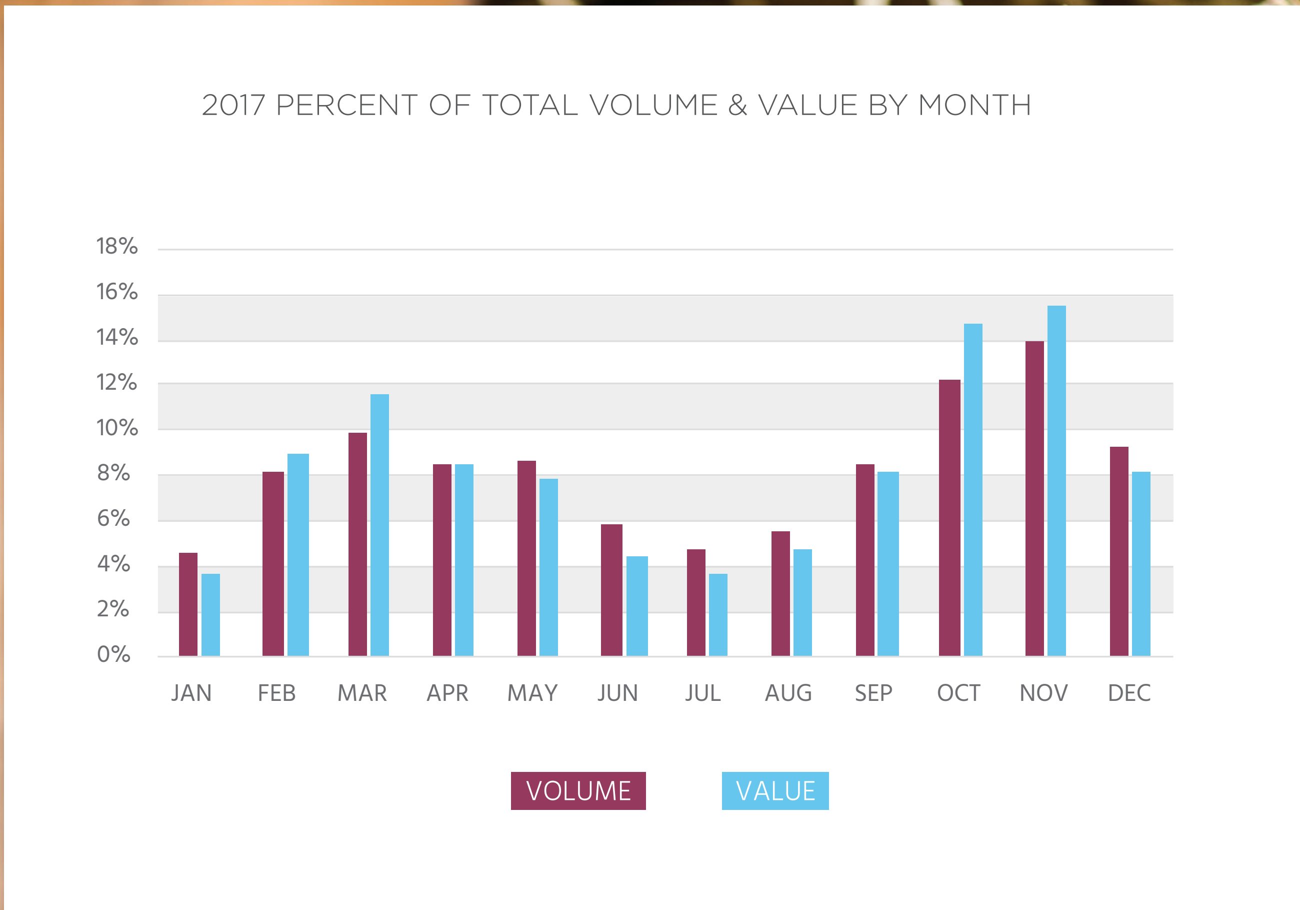
SHIPPED DIRECT-TO-CONSUMER



2017 MONTH-BY-MONTH **ANALYSIS**

Month-by-month variations in wine shipments have held fairly steady over the past five years. March, October and November remain the most popular months largely due to wine country visitation patterns. Weather also plays an important role, with wineries using the more moderate spring and fall weather to deliver wine club shipments and make up for shipments delayed due to temperature extremes.

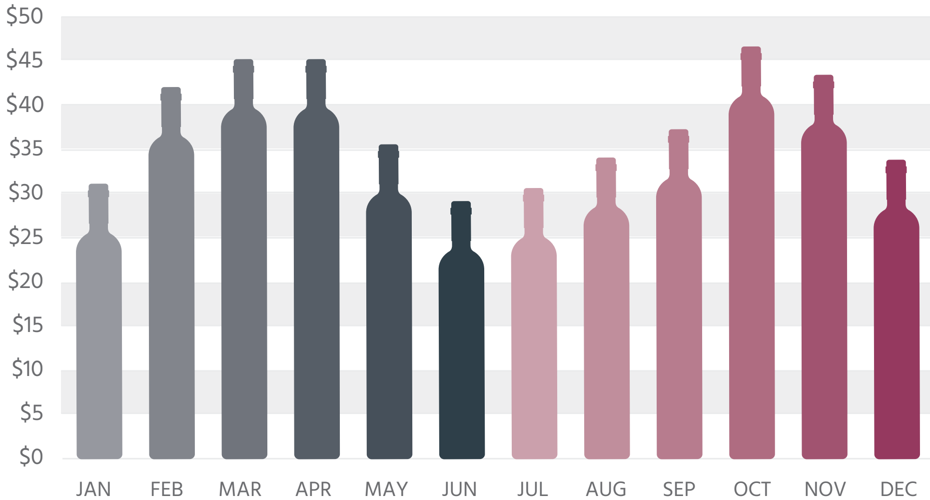
However, interesting trends emerge in shipping patterns on a seasonal basis. Fall is dramatically more important than winter, spring or summer for wine shipments. In 2017, 35% of all shipping volume came in September, October and November, representing 38% of the value of shipments during the year. That large share comes even with the impact of fires, so the numbers would likely be higher without the turmoil of this particular fall. The comparison with summer is stark. Twice as much wine in volume and three times the value shipped in the fall versus the summer. Again, this is due primarily to weather holds during the summer and significant increases in visitors during the fall, as well as increased shipments in the fall due to holiday purchases.



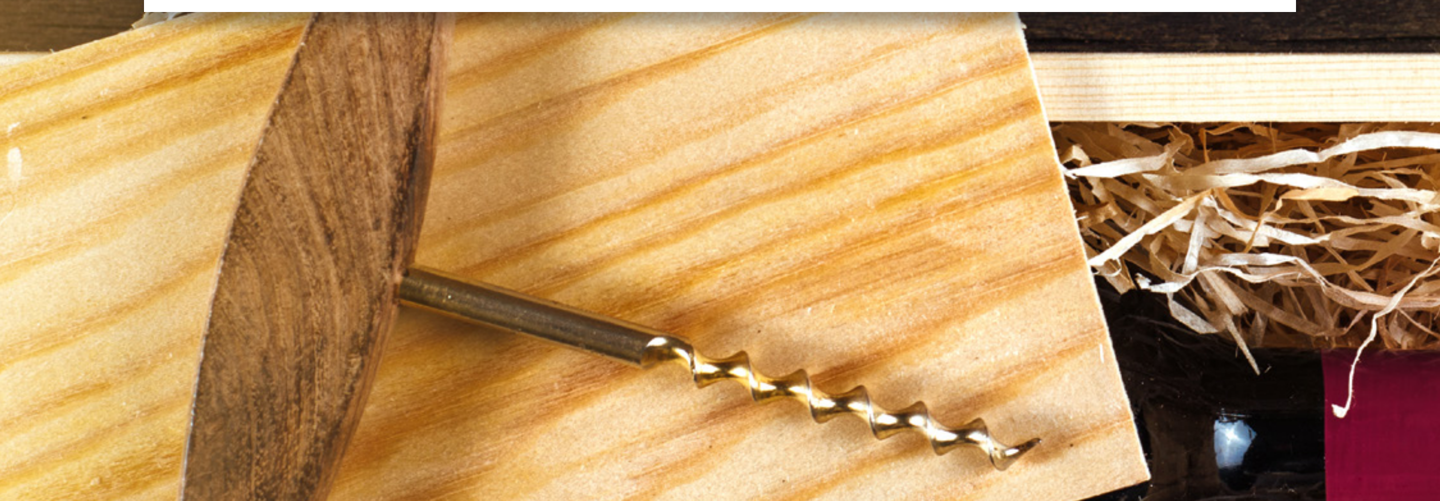
THE FALL SEASON REPRESENTED 38% OF THE VALUE OF WINE SHIPMENTS DURING THE ENTIRE 2017 YEAR.

2017
MONTH-BY-MONTH ANALYSIS

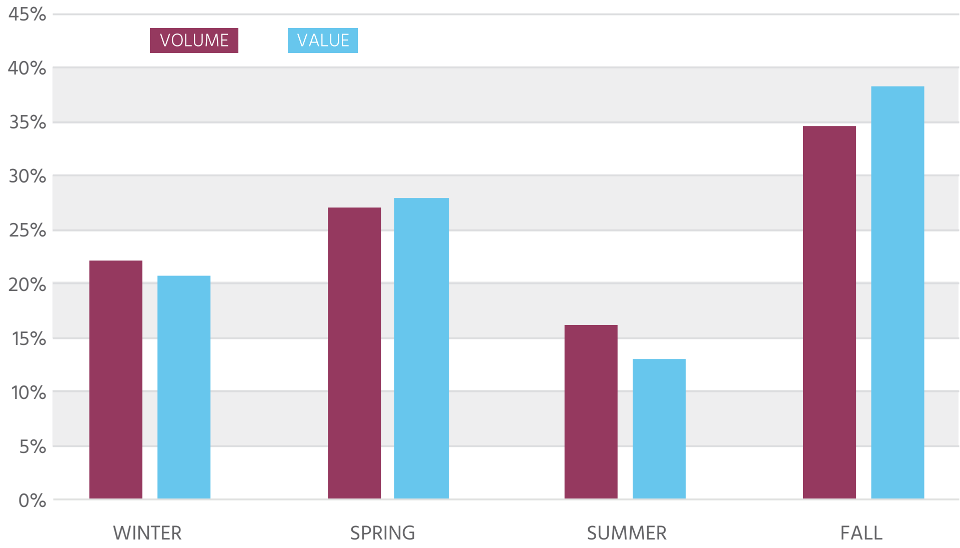
2017 AVERAGE PRICE-PER-BOTTLE SHIPPED BY MONTH



In 2017, 35% of all shipping volume came in September, October and November, representing 38% of the value of wine shipments during the year.



2017 PERCENT OF VOLUME & VALUE BY SEASON



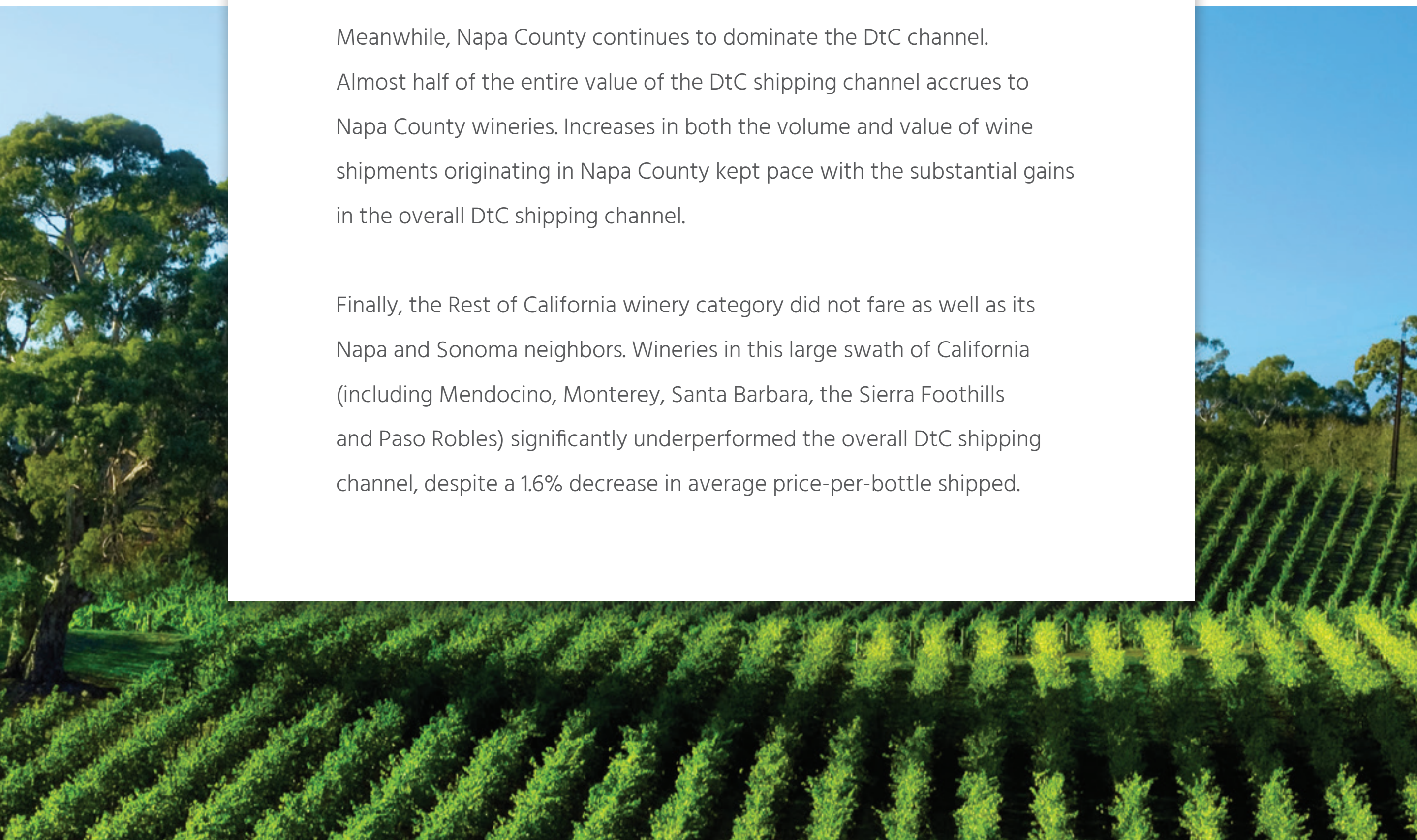
Twice as much wine is shipped in the fall versus the summer, while three times the value of wine is shipped in the fall months of September, October, and November, versus June, July and August.

2017 ANALYSIS BY WINERY REGION

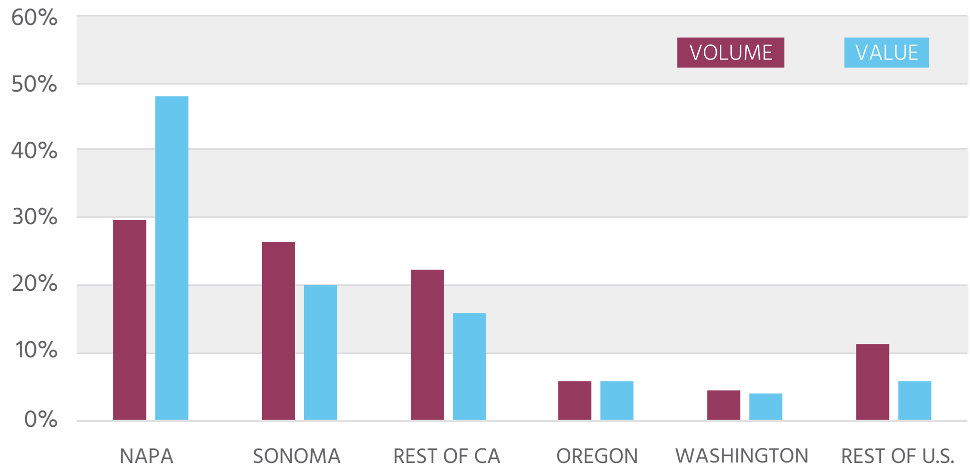
Impressive gains in shipments by wineries in Sonoma County and Oregon drove much of the growth in the DtC shipping channel in 2017. Sonoma and Oregon together accounted for 40% of the $361 million increase in the value of shipments. These regions are growing disproportionately fast compared to others, only accounting for 26% of the total value of the DtC shipping channel in 2017.

Meanwhile, Napa County continues to dominate the DtC channel. Almost half of the entire value of the DtC shipping channel accrues to Napa County wineries. Increases in both the volume and value of wine shipments originating in Napa County kept pace with the substantial gains in the overall DtC shipping channel.

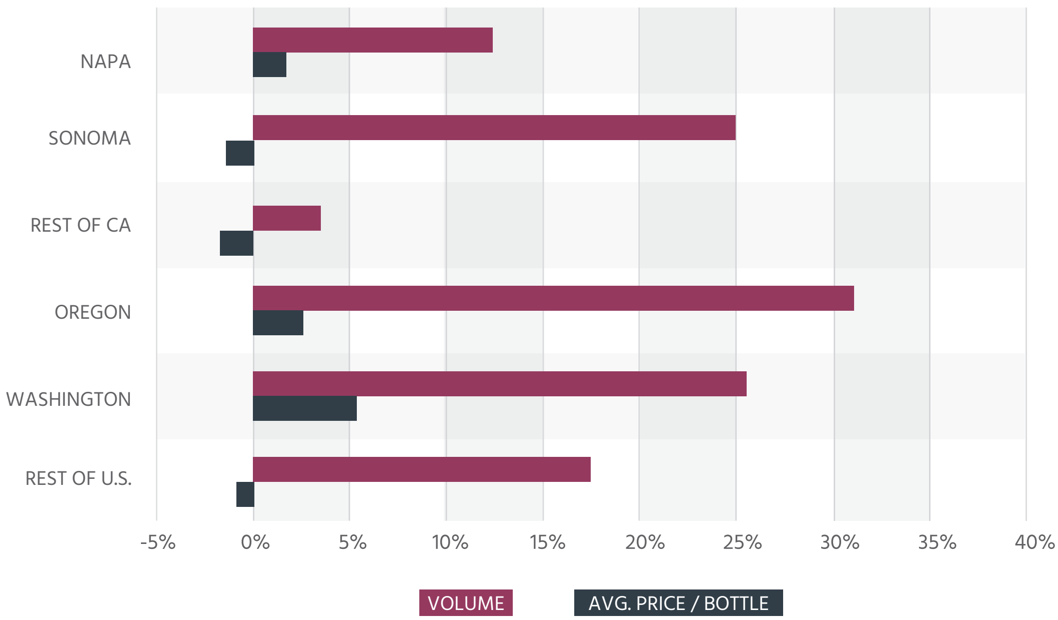
Finally, the Rest of California winery category did not fare as well as its Napa and Sonoma neighbors. Wineries in this large swath of California (including Mendocino, Monterey, Santa Barbara, the Sierra Foothills and Paso Robles) significantly underperformed the overall DtC shipping channel, despite a 1.6% decrease in average price-per-bottle shipped.



2017 PERCENT OF TOTAL VOLUME & VALUE BY REGION



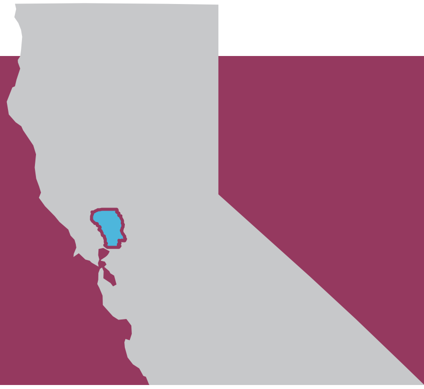
2017 CHANGE IN VOLUME & PRICE PER BOTTLE BY REGION



ANALYSIS BY REGION

NAPA COUNTY

CHANGE IN VOLUME	**12.4%**
CHANGE IN VALUE	**14.1%**
CHANGE IN PRICE	**1.5%**
AVG. PRICE PER BOTTLE	**$62.66**



Cabernet Sauvignon reigned supreme again in shipments from Napa County. The value of Cabernet Sauvignon shipped from Napa County wineries in 2017 far exceeded the total value of all shipments from every state outside California. The degree to which Cabernet Sauvignon dominates shipment dynamics can't be overstated. In 2017, the volume of shipments of Napa Valley Cabernet Sauvignon increased 14% to more than 522,000 cases. The value of shipments increased by 17% to $628.5 million. This impressive increase resulted from an average price-per-bottle shipped of $100.24, a 2.4% increase. The fact that the region still boasts significant growth even as it increases price indicates that significant room for growth remains for Napa County Cabernet Sauvignon in the DtC shipping channel.

The analysis of Napa County's DtC shipping performance isn't complete without an assessment of the impact of the devastating fire that ripped through the Napa Valley in October. The fires that started on the evening of October 8th struck directly in the middle of harvest, the busiest time for tourists. Of course, this diminished shipping numbers out of Napa County for the month of October. In October 2017, the volume of Napa shipments was identical to 2016, while the average increase in volume of shipments across all other regions was 11%.

Unfortunately, the following month did not make up for this stagnation. If the fire caused a delay in club shipments, shipments should go out in November and outpace other regions. Instead, shipments from Napa County wineries increased only 13% in November, slightly below the overall increase in the DtC shipping channel for all of 2017. Club shipment delays did not appear to impact Napa's October shipping volumes. The 0% increase in shipments in October seems to be primarily due to a dearth of tourists in the Valley and corresponding lack of shipments resulting from visitors to tasting rooms. Based on its average increase in volume of shipments for the year, the fire cost Napa County wineries at least 30,000 to 40,000 shipped cases valued at $20 million to $35 million. The fire's cost in total wine sales in Napa Valley is significantly higher.

SONOMA COUNTY

CHANGE IN VOLUME	**25.0%**
CHANGE IN VALUE	**23.4%**
CHANGE IN PRICE	**-1.3%**
AVG. PRICE PER BOTTLE	**$29.74**

In 2017, Sonoma County wine shipments represented 26% of the total volume of wine shipments in the United States. It outperformed the overall DtC shipping channel in 2017 by a considerable amount, demonstrating that it will continue to be a driver of DtC shipping growth. In fact, it is on a growth path to surpass Napa County as the largest source of wine shipments in the country.

Both the volume and value of wine shipments from Sonoma County increased by 25% and 23% respectively in 2017, with a slight 1.3% decrease in average price-per-bottle shipped. This comes on the heels of 22% and 29% increases in volume and value in 2016. Sonoma County is on a roll.

Relying on a much more diverse set of varietals to attract consumers, Sonoma County Cabernet Sauvignon, Chardonnay, Zinfandel and Red Blend shipments all outperformed the DtC shipping channel's average increases. Zinfandel was perhaps most impressive. Sonoma shipped 39% more cases of Zinfandel in 2017 while boasting a 5% increase in average price-per-bottle shipped.

Like Napa County, the October fires also hit Sonoma County very hard. The 16% growth in the volume of shipments in October compared to Sonoma County's overall annual volume increase of 26% proves the impact. By contrast, cases shipped from Sonoma County wineries increased 53% year-over-year in November. Unlike Napa County, this unusually large month-over-month annual increase suggests that significant numbers of scheduled October shipments from impacted wineries were pushed back to November and may demonstrate that some visitors chose Sonoma over Napa in November. The relatively low October shipments certainly resulted from tourists staying away from the region, in addition to many wineries and fulfillment houses being forced to close for several weeks. However, given the much larger increases in shipments in November, it's difficult to estimate the cost of the Sonoma fires on its DtC shipping channel.

REST OF CALIFORNIA

CHANGE IN VOLUME	**3.7%**
CHANGE IN VALUE	**2.1%**
CHANGE IN PRICE	**-1.6%**
AVG. PRICE PER BOTTLE	**$27.65**

OREGON

CHANGE IN VOLUME	**31.2%**
CHANGE IN VALUE	**34.9%**
CHANGE IN PRICE	**2.8%**
AVG. PRICE PER BOTTLE	**$39.16**

Of the six regions tracked in this report, the Rest of California category (including Mendocino, Monterey, Santa Barbara, the Sierra Foothills, Paso Robles and other regions outside Sonoma County and Napa County) performed the worst in 2017. Despite seeing its average price per bottle drop by 1.6%, this region only mustered a 4% increase in the volume of shipments over 2016. The value of shipments also remained flat.

The primary cause for this region's slow growth was under performance of Red Blends and Pinot Noir, which together account for a third of the cases shipped. Red Blend shipments fell considerably (-9%), while the volume of Pinot Noir shipments offered only a meager 6% increase in volume over 2016.

Zinfandel was the one bright spot in this region. The volume of shipments of the iconic California grape increased by 18%, even with the average price per bottle increasing by 7%. This lifted the value of Zinfandel shipments from the Rest of California region by 26%.

In general, this region has struggled to keep pace with the rest of the DtC shipping channel's performance. As an example, in 2012 the volume of shipments from this region accounted for 28% of all winery shipments. In 2017, it represented only 22% of all shipments, being passed in volume by Sonoma County wineries.

Oregon is clearly having its day. Due to larger than average harvests in 2013-2015, along with increased attention from investors, the trade, media and consumers, Oregon's sales and shipments are flourishing.

Since 2012, the volume of wine shipments from Oregon wineries has increased by 214%, with the value of those shipments increasing by 227%. Compare this to the overall DtC shipping performance over the same five-year period: 82% and 84% respectively. Oregon kept rolling in 2017, delivering the greatest DtC shipping increases of all six regions tracked. Oregon increased its volume of shipments 31% over 2016, with the value of shipments increasing by 35%. Although Oregon wine shipments only represent 6% of the total value of the DtC shipping channel in the United States, its 2017 gains accounted for 11% of the entire DtC shipping channel's overall value increase.

Oregon dynamics revolve around Pinot Noir. In 2017, Pinot Noir drove 70% of the value and 56% of the volume of shipments. In fact, Pinot Noir shipments increased 35% in volume and 38% in value over 2016. Chardonnay, the second most frequently shipped wine by volume at 8% of Oregon's total, increased a whopping 43% in cases shipped and 51% in value over 2016.

WASHINGTON STATE

CHANGE IN VOLUME	**25.8%**
CHANGE IN VALUE	**32.8%**
CHANGE IN PRICE	**5.5%**
AVG. PRICE PER BOTTLE	**$33.40**

REST OF U.S.

CHANGE IN VOLUME	**16.9%**
CHANGE IN VALUE	**16.2%**
CHANGE IN PRICE	**-0.6%**
AVG. PRICE PER BOTTLE	**$20.64**

Red wines drove Washington's DtC shipments. Four varietals (Red Blends, Cabernet Sauvignon, Syrah and "Other Reds") accounted for 61% of all shipments. In 2017, Cabernet Sauvignon represented 18% of all shipments by volume, but accounted for 43% of the dollar growth in Washington shipments. Cabernet shipments jumped 63% over 2016, while the average price-per-bottle shipped jumped by 7%. As in Napa County, the concurrent increase of volume and price suggests there is a great deal more room for Washington Cabernet shipments to grow. Other leaders in volume growth included Cabernet Franc at 35% over 2016, Syrah at 27% over 2016 and "Other Red" bottlings up 26% over 2016.

Though Red Blends are the volume leader in Washington's shipments, this varietal grew 18% in 2017 only with a 10% reduction in the average price-per-bottle shipped. That said, since 2015, the volume of shipments of Red Blends from Washington wineries grew a considerable 61%.

Wineries located outside California, Oregon and Washington accounted for 11% of the volume of all DtC wine shipments in 2017. However, wineries in these 47 states only represented 6% of the DtC shipping channel's value. To put that in perspective, the value of all the wine shipped from states outside California, Oregon and Washington is nearly four times less than the value of Napa County Cabernet Sauvignon shipments alone.

In 2017, these other 47 states tracked the overall U.S. wine shipping channel, with a 17% increase in volume of shipments and 16% increase in the value of those shipments.

The diversity of wines produced, sold and shipped by wineries in the rest of the United States is substantial. The most commonly shipped wines in 2017 were those in the Red Blends category, representing 20% of the volume of wines shipped. Shipments of Red Blends increased 12% over 2016, with a 3% decrease in the average price-per-bottle shipped. The highlights for this region were Riesling, with 78% and 85% increases in volume and value respectively, and Sauvignon Blanc, with a 53% increase in the volume of shipments on a 9% decrease in the average price-per-bottle shipped.

2017 ANALYSIS BY WINERY SIZE

As in past years, the small winery (5,000 to 49,999 cases) and very small winery (1,000 to 4,999 cases) categories drove the DtC shipping channel, accounting for 70% of the value of winery shipping. However, it was the larger medium-size winery category (50,000 to 499,999 cases) that accounted for the most impressive year-over-year DtC growth. Medium-sized wineries made up 37% of the overall DtC shipping value growth in 2017, despite representing only 23% of the total value of the channel. This powerful growth among medium-sized wineries is a rebound considering they severely under-performed in 2016.

The performance of the smallest winery category, limited production wineries (less than 1,000 case production), is also notable. Wineries in this size category increased average price-per-bottle shipped an incredible 26%. The result was a decent 13% increase in the value of shipments, but an 11% decrease in the volume of shipments.

Finally, after a remarkable 182% increase in volume of shipments last year, large wineries (more than 500,000 cases produced annually), which represent only 12% of the DtC shipping channel, increased a measly 3.4% in volume of shipments in 2017. Due to the small number of wineries populating this category, any number of factors could have led to the retreat from last year's terrific gains.

LIMITED PRODUCTION WINERIES

Fewer than 1,000 cases produced annually

These extraordinarily small wineries, found across the United States, rely almost entirely on direct-to-consumer sales. In 2017, price-per-bottle shipped from wineries in this category increased 26% to $64.37, an unusual variance for this category. This dramatic increase was due almost entirely to limited production wineries in Napa and Sonoma Counties increasing their average price-per-bottle shipped by roughly 30%. As a result, the limited production category now boasts the highest average price-per-bottle shipped, overtaking the very small category for the first time since 2010.

CHANGE IN VOLUME	-10.8%
CHANGE IN VALUE	12.6%
CHANGE IN PRICE	26.3%
AVG. BOTTLE PRICE	$64.37

VERY SMALL WINERIES

1,000 to 4,999 cases produced annually

Representing 16.5% of the volume and 23% of the value of the DtC shipping channel in 2017, very small wineries have outperformed the overall DtC channel since 2012. However, in 2017 they slightly under-performed, increasing shipping volumes by 13% and the value of those shipments by 11% on a 2% drop in average price per bottle. This is not a significant retrenchment. In fact, these very small wineries rely heavily on direct-to-consumer shipments, increasing the value of their shipments by a channel-beating 200% since 2010. The overall channel increased by 127% in that same time period.

CHANGE IN VOLUME	13.0%
CHANGE IN VALUE	10.9%
CHANGE IN PRICE	-1.9%
AVG. BOTTLE PRICE	$54.49

SMALL WINERIES

5,000 to 49,999 cases produced annually

Small wineries producing between 5,000 and 49,999 cases annually are the bread and butter of the DtC shipping channel. These wineries accounted for 43% of all shipments and 46% of all sales of DtC shipped wines in 2017. However, small wineries increased their volume of shipments 17% over 2016 by taking a 3.2% decrease in the average price-per-bottle shipped, the largest average bottle price decrease of any size categories.

CHANGE IN VOLUME	17.7%
CHANGE IN VALUE	13.9%
CHANGE IN PRICE	-3.2%
AVG. BOTTLE PRICE	$41.80

ANALYSIS BY

WINERY SIZE

MEDIUM WINERIES

50,000 - 499,999 cases produced annually

Medium wineries were hugely important to the overall growth of the DtC shipping channel in 2017. In fact, these wineries accounted for 37% of the total dollar growth in the DtC shipping channel, with a 22% increase in volume of shipments over 2016, combined with a 5.6% increase in the average price-per-bottle shipped. Remarkably, these medium-sized wineries only account for 23% of the overall DtC shipping channel.

CHANGE IN VOLUME	21.5%
CHANGE IN VALUE	28.3%
CHANGE IN PRICE	5.6%
AVG. BOTTLE PRICE	$32.45

LARGE WINERIES

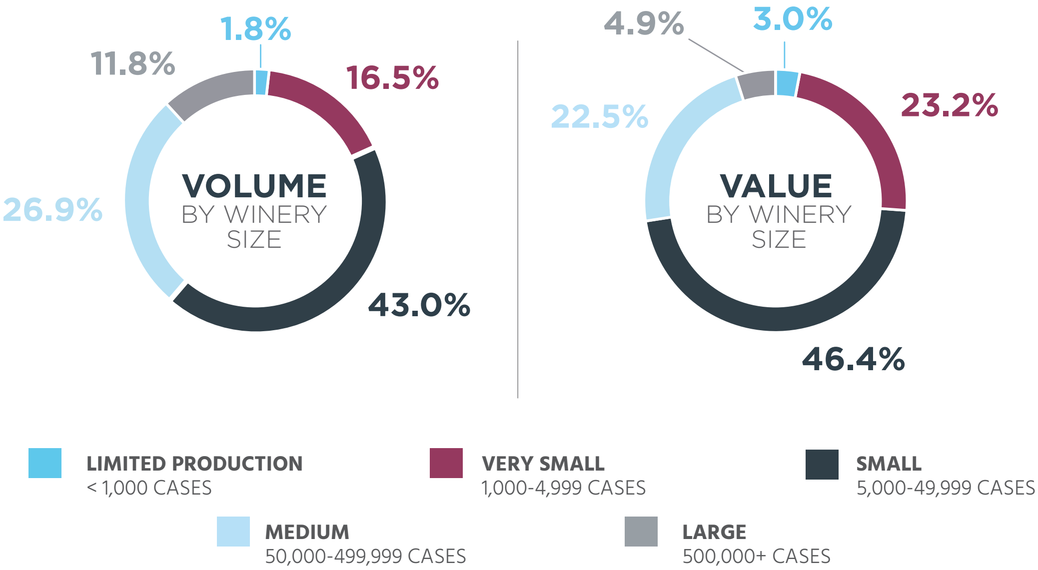
More than 500,000 cases produced annually

After delivering some of the largest year-over-year volume growth in 2016 for any winery category ever, the largest winery category had an anemic performance in 2017. These 500,000+ case wineries far underperformed the shipping channel's overall growth with a 3.4% increase in volume and 4% increase in value. Nevertheless, since 2010, these largest wineries increased their volume of DtC shipments by 565% — more than any other winery size category. Keep in mind, though, that this category had a very small beginning base — only 4% of total volume of wine shipped in 2010.

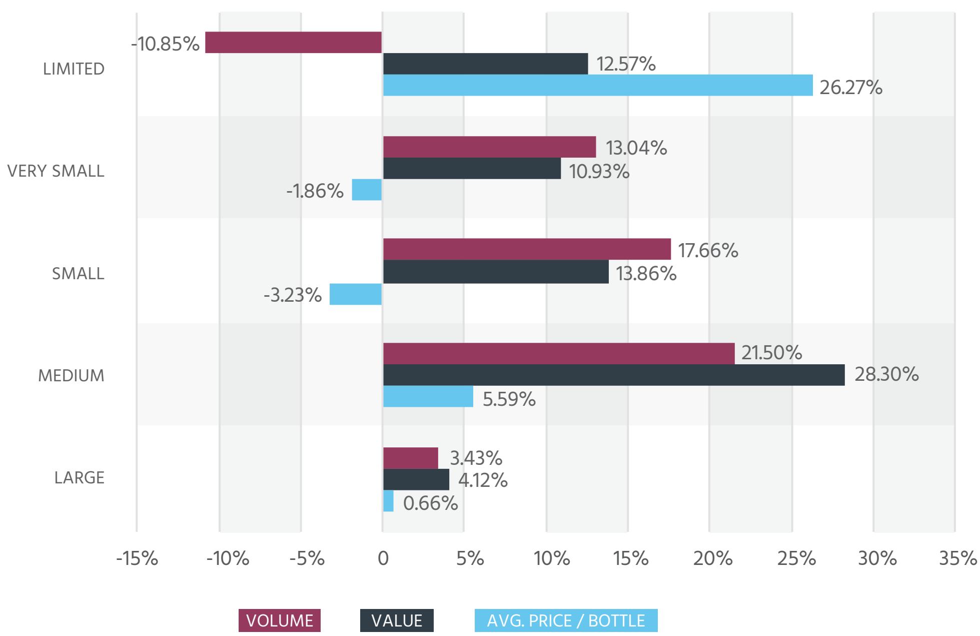
CHANGE IN VOLUME	3.4%
CHANGE IN VALUE	4.1%
CHANGE IN PRICE	0.7%
AVG. BOTTLE PRICE	$16.14

SMALL WINERIES PRODUCING BETWEEN 5,000 AND 49,999 CASES ANNUALLY ARE THE BREAD AND BUTTER OF THE DTC SHIPPING CHANNEL.

2017 PERCENT OF TOTAL VOLUME & VALUE BY WINERY SIZE



2017 CHANGE IN VOLUME, VALUE & AVERAGE PRICE PER BOTTLE



2017

ANALYSIS BY WINE TYPE

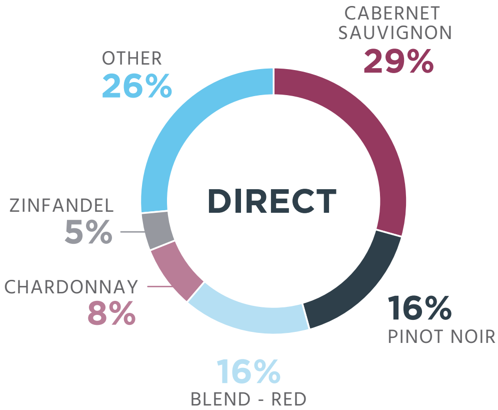
As in past years, Cabernet Sauvignon, Pinot Noir, Red Blends, Chardonnay and Zinfandel were the five most commonly shipped wines, accounting for 60% of the volume of shipments and 73% of the value. In an interesting switch, Pinot Noir was the second most commonly shipped wine in 2017, overtaking Red Blends, which severely under-performed the overall DtC shipping channel in 2017.

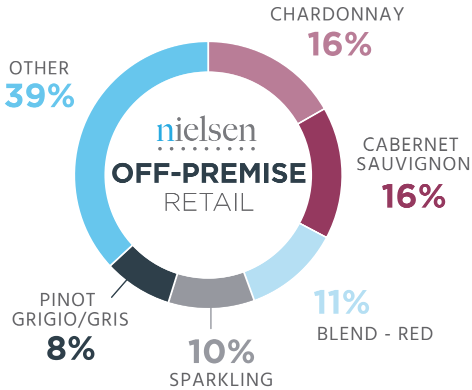
In another interesting development, Rosé shipments increased by 58% over 2016 without taking any decrease in average price-per-bottle shipped, amounting to pure organic growth. The 58% year-over-year increase in the volume of Rosé shipped in 2017 is the largest annual increase recorded for the popular pink wine. Its share of volume in the DtC channel has increased by 200% since 2010, the largest increase in share of any wine tracked. It now accounts for 3.1% of all shipments, equal to Merlot and Sparkling Wine.

Syrah was another bright spot in 2017. After no significant volume growth and under-performing the overall DtC shipping channel since 2012, Syrah shipments increased by 19% on a 6% decrease in average price-per-bottle shipped. This may indicate that producers have figured out how to better sell and price Syrah.

Finally, Cabernet Sauvignon and Pinot Noir, two of the most important wines to the DtC channel, had very strong performances in 2017. Cabernet Sauvignon shipments increased 16% in volume and 18% in value over 2016 and garnered an average price-per-bottle shipped of $69.54. The $120 million in additional Cabernet Sauvignon shipments drove 33% of the value growth of the entire DtC shipping channel. Pinot Noir shipments increased 15% in volume and 16% in value in 2017.

2017 TOP VARIETALS BY CHANNEL

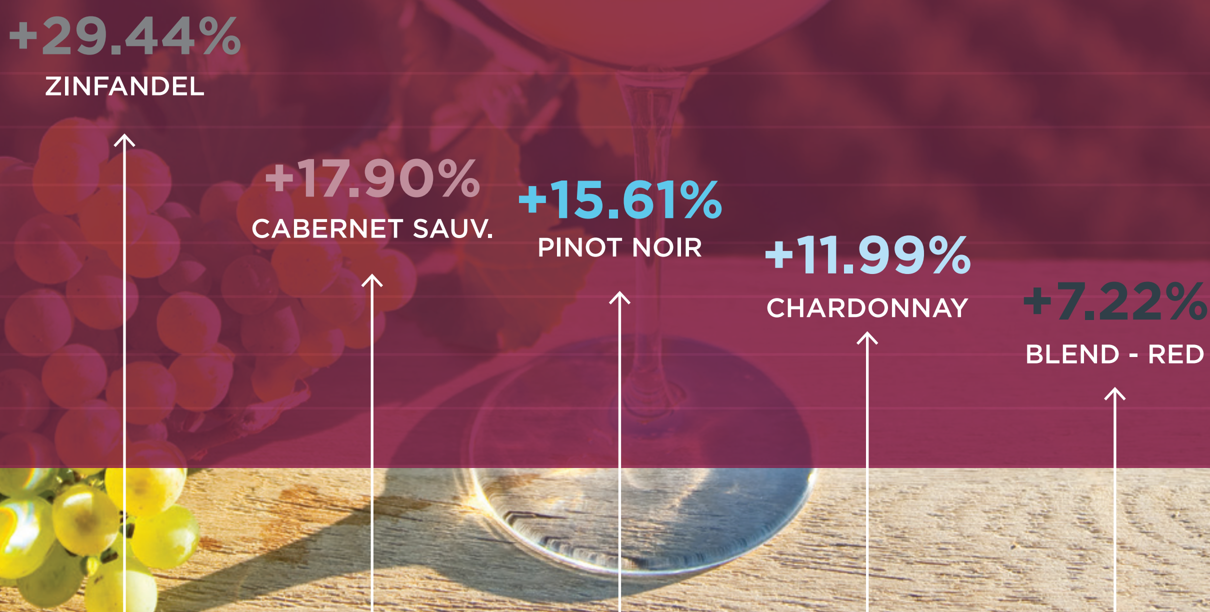




Source: Wines & Vines Analytics and Sovos' ShipCompliant system, January - December 2017. Only domestics.

Source: 52 weeks ending 12-2-2017 (Dollars). Nielsen measured off premise outlets. Includes imports.

TOP FIVE VARIETALS BY INCREASE IN VOLUME OF SHIPMENTS IN 2017

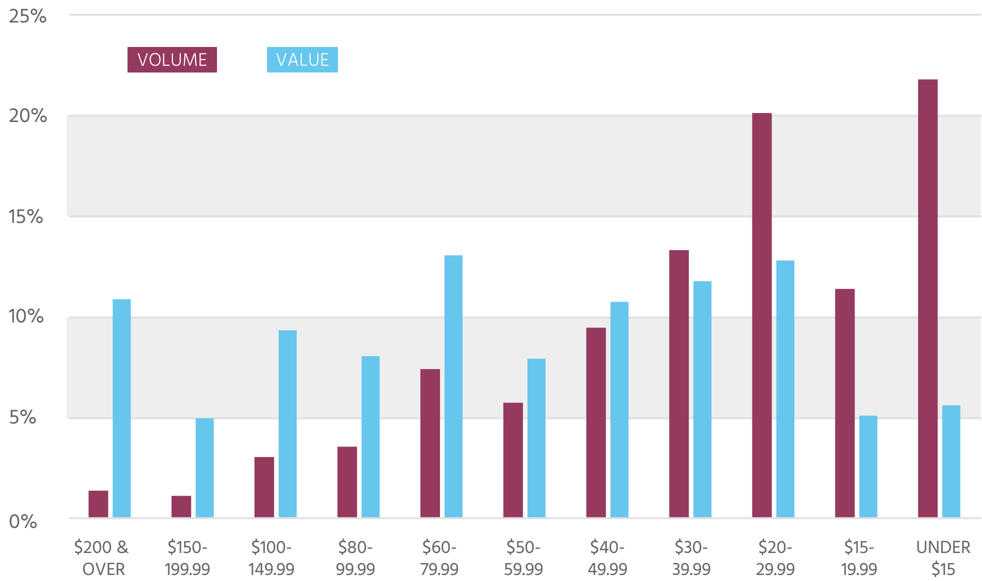


2017 ANALYSIS OF SHIPMENTS **BY PRICE CATEGORY**

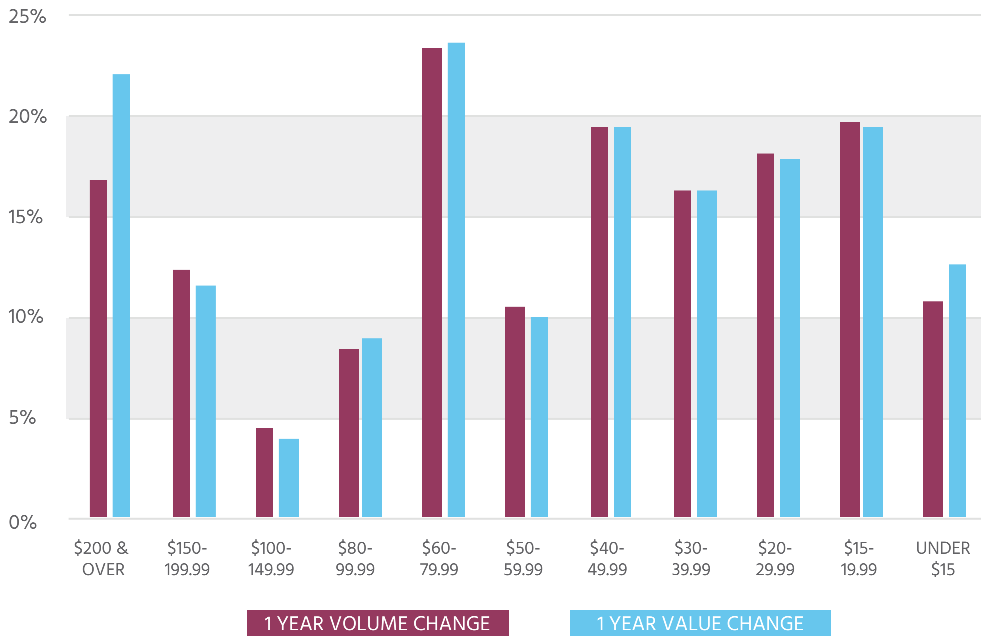
In 2017, two-thirds of all wine shipped was less than $40 per bottle. This category of wine performed relatively well, with a 15% increase in volume shipped. Meanwhile, wines in the $40-$99 per bottle range performed somewhat better, with a near 17% increase in volume. Finally, the $100+ price range underperformed the overall DtC shipping channel, seeing only 9% growth in volume over 2016. This underperformance by the highest priced wines disguises an important trend.

Since 2010, wines priced $100 or more increased in volume shipped by 200% to capture nearly 6% share of the DtC shipping channel and accounting for 25% of the channel's value. During the same period, wines priced $40-$99 dollars per bottle increased in volume shipped by 133%, while wines below $40 per bottle increased in volume by 100%. Since 2010, the category with the greatest increase in volume is the $200 and over category, which has increased by 260%. So, despite underperforming the channel as a whole in 2017, the historical view of these high-priced wines more than makes up for this one year low.

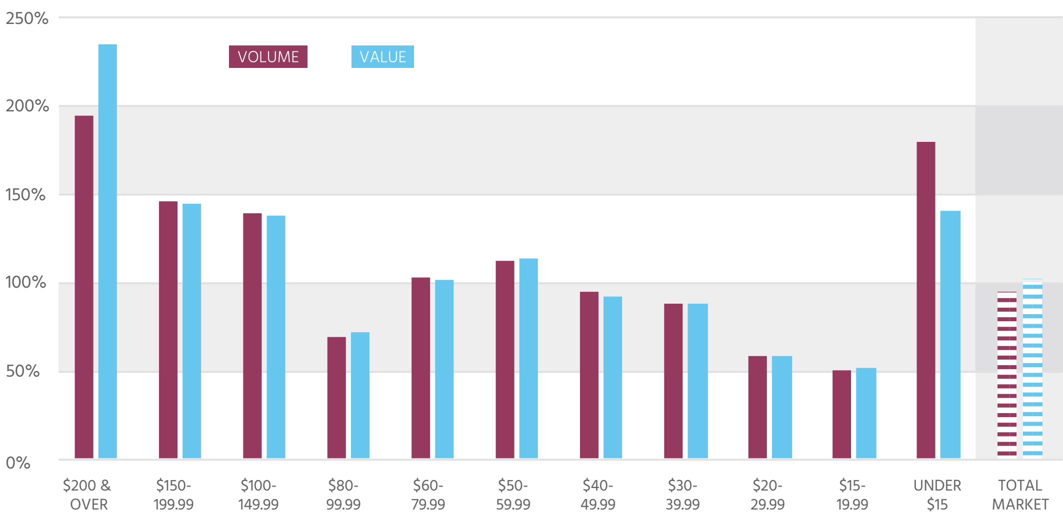
2017 PERCENT OF VOLUME & VALUE BY PRICE CATEGORY



ANNUAL CHANGE IN VOLUME & VALUE BY PRICE CATEGORY



2011-2017 GROWTH IN VOLUME & VALUE BY PRICE CATEGORY



SINCE 2010, THE CATEGORY WITH THE GREATEST INCREASE IN VOLUME IS THE $200 AND OVER CATEGORY, WHICH HAS INCREASED BY 260%.

2017

ANALYSIS BY **DESTINATION OF SHIPMENTS**

Seven of the top ten shipment destinations (California, Texas, New York, Washington, Florida, Illinois, Oregon, Colorado, Virginia and Pennsylvania) also fall into the top ten states for wine production. This should be no surprise as local residents support their state's wine industry, and DtC sales most often originate from tourism.

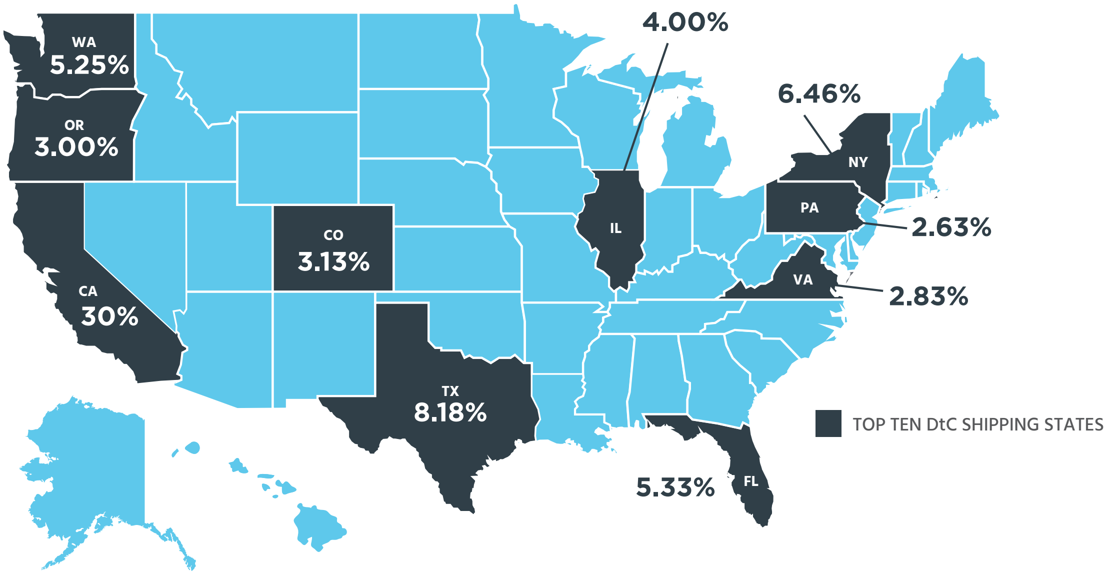
Pennsylvania is among those states. Pennsylvania became a top ten destination this year after experiencing a 158% increase in shipments over 2016. (By value, Pennsylvania sits at number 11, edged out by Georgia, which has a significantly higher average price-per-bottle shipped than Pennsylvania). The 2017 calendar year was the first full year Pennsylvanians could legally receive shipments from out-of-state wineries. Pennsylvania should continue to see above-average increases in volume of shipments for the next two years, likely moving it up to the sixth or seventh most common state for winery-to-consumer shipments by 2019.

California remained the most prolific state for receiving wine. Californians received 30% of all shipments in 2017, far outpacing the next most common destinations, Texas at 8%, New York at 6% and Florida with 5%.

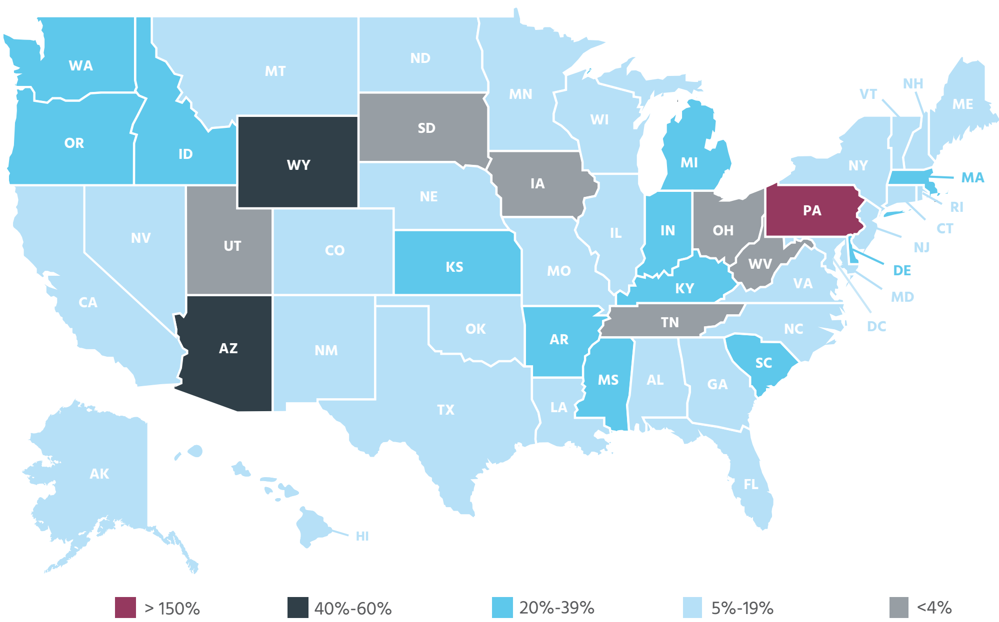
Another way of looking at destinations of shipments is on a per capita basis. The top five destinations based on bottles shipped per capita are California, Oregon, District of Columbia, Washington and Colorado. Four of these five destinations have robust wine industries. At the bottom of the heap for bottles shipped per capita are Arkansas, West Virginia, Rhode Island, Indiana and Ohio.

Finally, Massachusetts consumers notably increased their shipments by 25% in 2017. After opening for out-of-state winery shipments in 2015, 2017 likely marks the end of this state's ramp up in volume. The volume should now stabilize and mirror the DtC channel as a whole going forward. Arizona's 49% increase in wines shipped in 2017 is also notable, after the state legislature removed the winery visitation requirement and opened shipping to wineries of all sizes in 2016.

2017 TOP TEN STATES BY VOLUME OF SHIPMENTS



2017 PERCENT GROWTH IN VOLUME BY DESTINATION STATE



2017

IMPACT OF CHANGES IN DIRECT SHIPPING LAWS

DIRECT SHIPPING
PERMITS

PENNSYLVANIA

Pennsylvania issued its first direct shipping permits to wineries in August 2016, which gave the industry a taste of what was to come. The 59,000 cases of wine shipped to the state in the last half of 2016 was an impressive start, but 2017 showed the true impact of opening a state as large as Pennsylvania. In its first full year as a legal destination for winery DtC shipments, Pennsylvania received 152,000 cases of wine with a value of $57 million — a 158% and 164% increase over 2016 respectively. On a volume basis, Pennsylvania is now among the top ten states for direct shipments. Further impressive increases in shipments will likely continue in 2018 as more residents take advantage of legal shipments and more wineries obtain shipping permits.

+49%
INCREASE IN
VOLUME SHIPPED

ARIZONA

Arizona has long been a difficult direct shipping state due to its restrictions on the size of wineries legally able to ship as well as its winery visitation requirement. That changed in 2016 with the passage of SB 1381, removing these impediments. The result was an impressive 49% increase in the volume of wine shipped and a 47% increase in the value of shipments.

STEADY DtC
SHIPMENT
GROWTH
DUE TO PERMITTED
HOUSEHOLD
VOLUME INCREASE

WYOMING

In 2015, Wyoming changed its direct shipping law to increase the amount of wine a household can receive during a 12-month period from two cases to four cases. This did not impact DtC shipping numbers in 2016. In fact, Wyoming shipments decreased by 20% from 2015 to 2016, due at least in part to the 15% increase in average price-per-bottle shipped. In 2017, however, Wyoming increased its volume of DtC shipments by 44% over 2016, potentially marking a residual reaction to the increased amount a household may receive in a given year.

2017 CONCLUSIONS

IN 2017, THE DtC SHIPPING CHANNEL INCREASED IN BOTH VOLUME AND VALUE AT A RATE FAR ABOVE THE OVERALL RETAIL CHANNEL.

By nearly every measure, the winery DtC shipping channel continues to outperform every other retail channel in the United States, be it grocery stores, independent fine wine shops or convenience stores. The results for 2017 outlined in this report show that the DtC shipping channel increased in both volume and value at a rate far above the overall retail channel. Impressively, this comes after 2016, when the DtC shipping channel saw its greatest increase in shipments since tracking this dynamic distribution channel began.

The question raised by the ongoing success of the DtC shipping channel is: can it continue to succeed at current growth rates? To answer that question requires examination of potential opportunities and challenges to DtC winery shipping.

2017 CONCLUSIONS

OPPORTUNTIES & CHALLENGES

NEW LEGAL STATES

The arrival of new states into the legal wine shipping universe was a primary growth driver in the DtC channel over the past few years. Pennsylvania's growth this year highlighted the importance of bringing new states into the fold. However, at this point, few states remain off-limits to DtC winery shipments. Those include Alabama, Delaware, Kentucky, Mississippi and Utah. Together, these states represent a mere 5% of the U.S. population. Were they to become legal shipping states, it is unlikely to significantly move the needle.

REGULATORY CHANGES IN LEGAL STATES

While some states have taken greater measures to oversee and regulate DtC shipments, this has occurred primarily by requiring common carriers to report wine shipments to state agencies so as to determine unlicensed shippers. However, these measures have not significantly impeded the growth in direct shipments, nor should similar measures pose an impediment to growth going forward.

COMPETITION

The primary competition for winery direct shipments is direct shipments from licensed retailers. Currently, licensed retailers are only legally allowed to ship to 13 states and the District of Columbia. However, retailer shipping bills are becoming more common, and three current lawsuits challenge restrictions in Illinois, Michigan and Missouri. It is possible that more states will allow retailer shipments and that courts may overturn current bans on shipments, which may pose a challenge for winery DtC shipping growth.

ECOMMERCE GROWTH

The wine industry and the winery shipping channel can expect to benefit from the continued migration from brick-and-mortar retail sales to online sales. The U.S. Commerce Department put online sales in 2016 at 11.7% of all retail sales, and Emarketer reported that ecommerce sales increased by 15.8% in 2017. With Forrester reporting that 17% of all retail sales will be conducted online by 2022, the organic growth in online sales in the United States alone should continue to propel the DtC Channel in the coming years.

CONTINUED ›

2017 CONCLUSIONS

OPPORTUNITIES & CHALLENGES

...CONTINUED

5 AMAZON/WHOLE FOODS

On December 31, 2017, Amazon.com shuttered its AmazonWine and Wine. Woot platforms that allowed thousands of wineries to promote their wines, while completing the sale using their own POS systems. The closing of this resource, due in large part to tied house issues related to Amazon's acquisition of Whole Foods' retail licenses, could impact wineries that had significant sales initiated via the Amazon platforms.

More important, however, is the potential for Amazon.com re-enter online wine sales via its new WholeFoods retail licenses. The easiest way for this to occur would be for Amazon/Whole Foods to deploy a "Wine.com" model whereby online purchasers have access to inventory procured from wholesalers in the purchaser's shipping state. This would give Amazon near national online exposure. Amazon could then choose to put its incomparable marketing power behind the wine platform, potentially resulting in a measurable impact on winery DtC shipments.

6 ECONOMY

While recent economic conditions have been helpful to the DtC shipping channel and the wine sales that drive it, an economic slowdown could pose challenges to winery shipping. Sovos and Wines & Vines began tracking the DtC shipping channel in 2010, when the economy was just coming out of the worst years of the Great Recession. Hard data on the economic impact of recessionary times on winery DtC shipping is not available. However, anecdotal data suggests the retrenchment that comes with recession can have a significant impact on the winery shipping channel.

A PRIMARY DRIVER OF GROWTH IN THE DtC CHANNEL OVER THE PAST FEW YEARS HAS BEEN THE ARRIVAL OF NEW STATES INTO THE LEGAL WINE SHIPPING UNIVERSE.

THE DIRECT-TO-CONSUMER

OUTLOOK IS BRIGHT

Though this report is not meant to be predictive, a fair reading of the results of the 2017 DtC shipping channel is likely to provide wineries with sound reason for confidence in the vitality of the distribution channel.

American wineries are unquestionably migrating more toward direct sales, and with those sales, more shipments. Despite potential challenges going forward, wineries are in the midst of an evolution of economic and consumer habits that make delivery of wine to consumers' doorsteps ever more common.

ACKNOWLEDGMENTS

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