



# Truett-Hurst, Inc.

FY16 Q1 Earnings Call

November 10, 2015

NASDAQ: THST

# Safe Harbor Statement

This presentation (including the presentation and any subsequent questions and answers) contains statements that are forward-looking within the meaning of the Private Securities Litigation Reform Act of 1995, Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Such forward-looking statements are based on the current beliefs of Truett-Hurst, Inc.'s management and are not guarantees of future performance. Any such forward-looking statements are and will be, as the case may be, subject to many risks, uncertainties, assumptions and factors relating to the operations and business environments of Truett-Hurst, Inc. and its subsidiaries that may cause the actual results of the companies to be materially different from any future results expressed or implied in such forward-looking statements. These risk factors, include, but are not limited to, a reduction in the supply of grapes and bulk wine available to us; significant competition; any change in our relationships with retailers could harm our business; we may not achieve or maintain profitability in the future; the loss of key employees; a reduction in our access to, or an increase in the cost of, the third-party services we use to produce our wine could harm our business; credit facility restrictions on our current and future operations; failure to protect, or infringement of, trademarks and proprietary rights; these factors should not be construed as exhaustive and should be read in conjunction with the other cautionary statements that are included in this report or detailed in our periodic filings (including Forms 8-K, 10-K and 10-Q) or other documents filed with the Securities and Exchange Commission. For more detailed information on us, please refer to our filings with the Securities and Exchange Commission, which are readily available at <http://www.sec.gov>, or through the our Investor Relations website at <http://www.truetthurstinc.com>.

For additional information, see our annual report for the year ended June 30, 2015 on Form 10-K filed on September 28, 2015, or our other reports currently on file with the Securities and Exchange Commission, which contain a more detailed discussion of risks and uncertainties that may affect future results. We do not undertake to update any forward-looking statements unless otherwise required by law.



# Agenda

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- Financial Update
  - Q1: FY16 vs FY15
  - Q1: P&L Recap FY16 vs FY15
  - Select Balance Sheet Data
  - Inventory
  - Ownership Structure
- Business Update
- Q&A

# **FINANCIAL UPDATE**

# Q1: FY16 vs FY15

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- Revenue growth of 5% with net sales of \$6.8 million (an increase of \$0.3 million versus prior year)
  - 23.5% increase in Wholesale
  - 19.0% increase in DTC
  - 65.3% decrease in Internet
- Overall gross margin percent declined to 34% from 38% (gross profit dollars of \$2.3 million)
  - Wholesale: 1.9 margin point decrease (sales mix in the quarter)
  - DTC: 1.9 margin point increase
  - Internet: 3.9 margin point decrease
- Operating expenses of \$2.5 million
  - Overall expense the same as prior year same quarter.
  - Lower sales and marketing costs at The Wine Spies offset by increased promotional spending.

# Q1: P&L Recap FY16 vs FY15



	FY 15 Q1	FY 16 Q1	B / (W)	% Δ
Net sales	\$6,482	\$6,815	\$ 333	5.1%
Gross profit	2,435	2,344	(91)	-3.7%
Gross Margin %	38%	34%	-3%	
Sales and marketing ex stock comp	1,482	1,570	(88)	5.9%
Sales and marketing stock comp	83	11	72	
	1,565	1,581	(16)	1.0%
General and administrative ex stock comp	888	835	53	-6.0%
General and administrative stock comp	55	75	(20)	
	943	910	33	-3.5%
Other	2	(1)	3	
<b>Total Operating Expenses</b>	<b>2,510</b>	<b>2,490</b>	<b>20</b>	<b>-0.8%</b>
Loss from Operations	(75)	(146)	(71)	
Non-controlling Interest: The Wine Spies	(36)	(16)	20	
<b>Operating Loss after TWS NCI</b>	<b>(111)</b>	<b>(162)</b>	<b>(51)</b>	
<u>Non Operating Expenses</u>				
Interest expense, net	(64)	(83)	(19)	
Other	(9)	(93)	(84)	
Income tax expense	(2)	-	2	
	(75)	(176)	(101)	
<b>Net Loss attributable to Truett-Hurst, Inc. and H.D.D. LLC</b>	<b>\$ (186)</b>	<b>\$ (338)</b>	<b>\$ (152)</b>	

Lower variable expenses from internet segment offset by higher Q1 wholesale expense

#### The Wine Spies

	Q1		
	FY15	FY16	B / (W)
Revenue	1,284	445	(839)
Gross Profit	610	194	(416)
TWS Net Income before NCI	72	32	(40)
H.D.D. LLC Interest in TWS Net Income	36	16	(20)

\$77 thousand of difference related to mark-to-market adjustments of interest rate swap

#### Operating expenses (excluding stock comp) as a percentage of Net Sales

Sales and marketing	22.9%	23.0%
General and administrative	13.7%	12.3%

# Select Balance Sheet Data



	2015 <u>Q4</u>	2016 <u>Q1</u>	Q-O-Q Δ <u>source / (use)</u>
<b>Total Assets</b>	\$ 33,903	\$ 37,565	
<b>Total Liabilities</b>	17,534	21,432	
<b>Total Equity</b>	<u>16,369</u>	<u>16,133</u>	
	33,903	37,565	
<b>Cash and cash equivalents</b>	1,679	2,769	
<b>Property &amp; equipment, net</b>	5,751	5,879	
<b><u>Major Working Capital Accounts</u></b>			
A/R	2,797	3,587	(790)
Inventories	22,127	24,257	(2,130)
Bulk Wine Deposit	345	25	320
AP & Accrueds	4,176	6,531	<u>2,355</u>
			(245)
<b><u>Interest Bearing Debt</u></b>			
Credit facilities	9,034	9,995	
Other Interest Bearing Debt	<u>3,640</u>	<u>4,036</u>	
	12,674	14,031	
Cash and Cash equivalents	<u>(1,679)</u>	<u>(2,769)</u>	
Net Debt	10,995	11,262	267

# Inventory



	<u>Jun-14</u>	<u>Sep-14</u>	<u>Dec-14</u>	<u>Mar-15</u>	<u>Jun-15</u>	<u>Sep-15</u>	<u>Sept 14 vs. Sept 15</u>	<u>increase / (decrease)</u>
Grapes, bulk wine and capitalized cultural costs	5,499	7,517	8,260	6,725	7,375	7,993	476	6.3%
Bottled wine	11,285	15,565	13,206	15,059	14,003	15,731 <sup>(a)</sup>	166	1.1%
Bottling materials and other	395	578	486	485	544	385	(193)	-33.4%
Canned wine, net	-	-	-	-	205	148	148	n/a
	<u>17,179</u>	<u>23,660</u>	<u>21,952</u>	<u>22,269</u>	<u>22,127</u>	<u>24,257</u>	<u>597</u>	<u>2.5%</u>
Bulk Wine Deposit	1,424	-	-	1,122	345	25	25	n/a
	<u>18,603</u>	<u>23,660</u>	<u>21,952</u>	<u>23,391</u>	<u>22,472</u>	<u>24,282</u>	<u>622</u>	<u>2.6%</u>
LTM increase in COGS <i>(Wholesale &amp; DTC as adjusted)</i>								14.6%

(a) Bottled wine at 9/30/15 includes approximately \$900 thousand in Republic of Wine inventory. We did not have inventory for this program in the prior year. Adjusting for this investment, inventory from Sept 14 to Sept 15 would have decreased by 1.2%.

With lighter 2015 harvest yields and increasing wholesale and direct to consumer sales we anticipate further improvements to our inventory to sales ratio as we move through fiscal 2016.



# Ownership Structure



	HDD LLC Ownership			Class A Shares (Fully Diluted)			
	Members	THI	Total	Outstanding	Unconverted LLC Units	Equity Incentives	Total
<b>As of Initial Public Offering</b>	<b>4,102,644</b> 60.3%	<b>2,700,000</b> 39.7%	<b>6,802,644</b> 100.0%	<b>2,700,000</b> 38.3%	<b>4,102,644</b> 58.2%	<b>252,000</b> 3.6%	<b>7,054,644</b> 100.0%
<b><u>Changes through 9/30/15:</u></b>							
LLC Conversions	(1,111,318)	1,111,318	0	1,111,318	(1,111,318)	0	0
Vesting of Equity Incentives Outstanding @ IPO Date	0	0	0	182,000	0	(182,000)	0
<b><u>Post IPO Equity Incentives</u></b>							
Equity Incentives Granted - RSA / RSU	0	0	0	0	0	131,629	131,629
Equity Incentives Granted - Options	0	0	0	0	0	220,000	220,000
Equity Incentives Vested	0	0	0	38,677	0	(38,677)	0
	0	0	0	38,677	0	312,952	351,629
<b>As of 9/30/15</b>	<b>2,991,326</b> 44.0%	<b>3,811,318</b> 56.0%	<b>6,802,644</b> 100.0%	<b>4,031,995</b> 54.4%	<b>2,991,326</b> 40.4%	<b>382,952</b> 5.2%	<b>7,406,273</b> 100.0%

Equity Market Capitalization based on Sept 30, 2015 Class A common stock closing price of \$0.95 \$ 6,672,155

Calculated using 4,031,995 Class A common shares outstanding and 2,991,326 LLC units convertible to Class A common stock as of September 30, 2015

## Activity during quarter:

- 21,875 equity incentive shares issued

# **BUSINESS UPDATE**

# US Wine Sales



- Total 2014 US wine sales = \$37.6B<sup>(A)</sup>
  - California = 70% sales \$ (60% vol)
  - Imports = 30%
- California Wine Sales Grew 4.4% by Volume and 6.7% by Value to \$26.4B
- “The premium wine segment -- \$10 and above -- is strong and with excellent prospects for continued growth over the next few years.”<sup>(B)</sup>
- “With beverage alcohol production permits exploding by 68% in six years to 14,700 in the U.S., there is enormous competition in the market with a large number of wine, beer and spirits offerings that continue to squeeze distribution channels.”

(A) Nielsen 2014 Wine Sales

(B) Gomberg Fredrickson International Wine Symposium 2014

# Customer Updates

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- **The Kroger Company**
  - Sonoma Ranches brand in stores and selling well
- **Albertsons/Safeway**
  - Working on focusing inventory and retail assortment to strongest performers
  - Reducing skus from 13 to 9 to focus on top selling items and growth
  - Developing annual promotion plan
- **Target Corporation**
  - Republic Of Wine
    - 3 items loaded in for OND
    - Planning production and execution strategy for 2016
- **Total Wines & More**
  - Focus on growing existing items with focused support and promotion
- **Trader Joe's**
  - Existing two skus selling well
  - Pitching new items to new buyer
- **Colby Red**
  - Targeting crossing \$1 million in lifetime heart health charity donations
  - New support from distributors
  - Founding retailer, Walgreen's, set for ongoing promotions
- **Three Tier Brands**
  - Investigating exclusive brand options

# Brand Marketing Efforts



# Market Opportunities and Risks



- Opportunities
  - Overall retail exclusive category is growing faster than branded category
  - Expansion of retail exclusives into “real” brands
    - Fewer skus but higher volumes
    - Retailers eager for annual promotion calendars
  - Expand retail exclusives and associated execution program to other retailers
  
- Risks
  - Competition
    - Large brand focused companies developing private label
    - Brands are highly penetrated, private label represents shelf expansion
    - Sales and Marketing muscle
  - Grape Availability
    - Short 2015 crop = potential increased spot market pricing
    - Contract vs. bulk going forward
  - Retailer Execution
    - Centralized vs. De-Centralized
    - Ability and strategic imperative to effectively build brands?
    - Distributor role in merchandising execution

# Q & A

# APPENDIX

- I. Contact Information
- II. Conference Call Playback Information



# Appendix I - Contact Information

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## Appendix II – Call Playback Information

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Webcast/PowerPoint/Replay available at:

<http://www.truetthurstinc.com/index.php?s=151&cat=3>

Replay available until November 17, 2015