



# Truett-Hurst, Inc.

FY16 Q2 Earnings Call

February 9, 2016

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
  - The Wine Spies Disposition
  - Second Quarter: FY16 vs. FY15
  - First Half: FY16 vs FY15
  - First Half: Statement of Operations Recap
  - First Half: Segment Analysis (as Adjusted)
  - Select Balance Sheet Data
  - Litigation Update
  - Ownership Structure
- Business Update
- Q&A

# **FINANCIAL UPDATE**

## The Wine Spies (“TWS”) Disposition

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- Sold membership interest to one of the original founders of TWS who had been running the day to day business
- The sale closed on January 25, 2016 with effective date of December 31, 2015
- Received twenty-five thousand in consideration for the membership interest (all cash) and recorded a nominal gain in discontinued operations during the second quarter
- Numbers (both current and prior periods) presented throughout this presentation have been restated for the disposition of TWS. We will no longer present TWS’s performance as the Internet segment in our segment reporting.

## Second Quarter FY16 vs FY15 (continuing operations)

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- Revenue growth of 73% with net sales of \$8.5 million (an increase of \$3.6 million versus prior year)
  - 93.3% increase in Wholesale
    - Q2 FY15 net sales reduced by \$0.6 million loss contingency related to Paperboy
  - 19.7% increase in DTC
  
- Overall gross margin percent increased to 31% from 24% (gross profit dollars of \$2.6 million)
  - Wholesale: 13.8 margin point increase
    - Q2 FY15 gross profit reduced by \$0.8 million related to Paperboy loss contingency & inventory impairment
    - Q2 FY16 gross profit reduced by \$0.2 million related to CA Winecraft inventory impairment
  - DTC: 2 margin point increase
  
- Operating expenses of \$2.1 million
  - Overall expense the same as prior year same quarter

## First Half FY16 vs FY15

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- Revenue growth of 46.9% with net sales of \$14.9 million (an increase of \$4.8 million versus prior year)
  - 55.7% increase in Wholesale
    - YTD FY15 net sales reduced by \$0.6 million loss contingency related to Paperboy
  - 19.4% increase in DTC
- Overall gross margin percent increased to 32% from 30% (gross profit dollars of \$4.8 million)
  - Wholesale: 5 margin point increase
    - YTD FY15 gross profit reduced by \$0.8 related to Paperboy loss contingency & inventory impairment
    - YTD FY16 gross profit reduced by \$0.2 million related to CA Winecraft inventory impairment
  - DTC: 1.9 margin point increase
- Operating expenses of \$4.4 million an increase of \$0.4 million
  - General and administrative expense flat (declined as percentage of net sales)
  - Sales and marketing increased \$0.5 million (declined as percentage of net sales)

# Statement of Operations

## First Half FY16 vs FY15

	FY 15 YTD	FY 16 YTD	B / (W)	% Δ
Net sales	\$ 10,124	\$ 14,875	\$ 4,751	46.9%
Gross profit	3,013	4,789	1,776	58.9%
<i>Gross Margin %</i>	30%	32%	2%	
Sales and marketing ex stock comp	2,170	2,803	(633)	29.2%
Sales and marketing stock comp	184	19	165	
	2,354	2,822	(468)	19.9%
General and administrative ex stock comp	1,481	1,456	25	-1.7%
General and administrative stock comp	161	153	8	
	1,642	1,609	33	-2.0%
Other	2	(1)	3	
Total Operating Expenses	3,998	4,430	(432)	10.8%
<b>Income (Loss) from Continuing Operations</b>	<b>(985)</b>	<b>359</b>	<b>1,344</b>	
<u>Non Operating Expenses</u>				
Interest expense, net	(133)	(169)	(36)	
Other	(86)	(69)	17	
Income tax expense	(2)	(1)	1	
	(221)	(239)	(18)	
Discontinued Operations	153	45	(108)	
<b>Net Income (Loss) attributable to THI and HDD</b>	<b>\$ (1,053)</b>	<b>\$ 165</b>	<b>\$ 1,218</b>	

Note: Numbers have been restated for the disposition of The Wine Spies. The Wine Spies is characterized as discontinued operations.

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

Sales and marketing	21.4%	18.8%
General and administrative	14.6%	9.8%



## Segment Analysis (as Adjusted)

### First Half FY16 vs FY15

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		As Adjusted			
		Six Months Ended 12/31			
		2014	2015	B / (W)	% Δ
<b><u>Net Sales</u></b>					
Wholesale	(A)	8,264	11,960	3,696	45%
Direct to Consumer		<u>2,442</u>	<u>2,915</u>	<u>473</u>	<u>19%</u>
		10,706	14,875	4,169	39%
<b><u>Gross Profit</u></b>					
Wholesale	(A), (B)	2,259	3,034	775	34%
Direct to Consumer		<u>1,545</u>	<u>1,901</u>	<u>356</u>	<u>23%</u>
		3,804	4,935	1,131	30%
<b><u>Gross Margin</u></b>					
Wholesale		27%	25%	-2%	
Direct to Consumer		<u>63%</u>	<u>65%</u>	<u>2%</u>	
		36%	33%	-3%	

(A) FY15 reported numbers have been adjusted for the impact of the Paperboy loss contingency accrual and related inventory impairment (\$0.6 impact to net sales and \$0.8 impact to gross profit)

(B) FY16 reported numbers have been adjusted for the impact of a \$0.2 million inventory reserve for the remaining unsold CA Winecraft product in our inventory as of 12/31/15.

## Select Balance Sheet Data

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	2015 <u>Q4</u>	2016 <u>Q2</u>	<u>source / (use)</u>
<b>Total Assets</b>	\$ 33,903	\$ 35,921	
<b>Total Liabilities</b>	17,554	19,236	
<b>Total Equity</b>	<u>16,349</u>	<u>16,685</u>	
	33,903	35,921	
<b>Cash and cash equivalents</b>	1,578	5,017	
<b>Property &amp; equipment, net</b>	5,743	5,845	
<b><u>Major Working Capital Accounts</u></b>			
A/R	2,783	3,619	(836)
Inventories	22,080	20,150	1,930
Bulk Wine Deposit	345	25	320
AP & Accrueds	4,056	4,175	<u>119</u>
			1,533
<b><u>Interest Bearing Debt</u></b>			
Credit facilities	9,034	10,263	
Other Interest Bearing Debt	<u>3,640</u>	<u>3,869</u>	
	12,674	14,132	
Cash and Cash equivalents	<u>(1,578)</u>	<u>(5,017)</u>	
Net Debt	11,096	9,115	(1,981)

## Litigation Update

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### 4035 Westside Road

In early November, we filed a motion for declaratory and injunctive relief in the Superior Court of California, Sonoma County. This suit is the first step toward arbitration of the dispute with Hambrecht Wine Group.

The complaint was served on January 12 and as a consequence, Hambrecht Wine Group is required to file and serve a responsive pleading by February 11.

### Mendocino Wine Group

In late January, Mendocino Wine Group filed a complaint against Phil Hurst and HDD LLC alleging that they aided and abetted Paul Dolan in breaching his duties to Mendocino Wine Group (where Paul was previously employed).

A similar suit against Paul Dolan by Mendocino Wine Group was dismissed; we believe the claims are without merit and intend to defend the suit vigorously.

# 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 12/31/15:</u></b>							
LLC Conversions	(1,261,318)	1,261,318	0	1,261,318	(1,261,318)	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	181,273	181,273
Equity Incentives Granted - Options	0	0	0	0	0	430,000	430,000
Equity Incentives Vested	0	0	0	59,940	0	(59,940)	0
	0	0	0	59,940	0	551,333	611,273
<b>As of 12/31/15</b>	<b>2,841,326</b> 41.8%	<b>3,961,318</b> 58.2%	<b>6,802,644</b> 100.0%	<b>4,203,258</b> 54.8%	<b>2,841,326</b> 37.1%	<b>621,333</b> 8.1%	<b>7,665,917</b> 100.0%

Equity Market Capitalization based on Dec 31, 2015 Class A common stock closing price of \$1.45 \$ 10,214,647

Calculated using 4,203,258 Class A common shares outstanding and 2,841,326 LLC units convertible to Class A common stock as of December 31, 2015

**Activity during quarter:**

- 150,000 LLC units converted and A shares issued
- 259,644 equity incentives issued
- 21,263 A shares issued for vested equity incentives

# **BUSINESS UPDATE**

# Business Update

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## Key Industry Trends

Premiumization: in 2015, wines at higher price points experienced significantly higher growth rates

- Overall market +3%
- Bottle price between 9 and 11.99: 8% growth in cases and dollars
- Bottle price between 12 and 14.99: 12% growth in cases and dollars
- Trends are expected to continue into 2016

Strengthening imports

- Weak dollar and consumer experimentation

## Key Customer Updates:

Albertsons

- Ensure items are on the shelf everywhere items are approved
- Focus on increased brand promotion

Trader Joes

- New item selected for trial
- Current items growing (Fearless Flyer)

Total Wines & More

- Traction with in-store promotion and planning

Target

- Focus on building Republic of Wine

Kroger

- On-going focus on Sonoma Ranches

Colby

- Promotion with new and ongoing retailers
- Focus on heart month (February) and Fathers Day

# Q & A

## Contact Information

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## Call Playback Information

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Webcast/PowerPoint/Replay available at:  
<http://www.truesthurstinc.com/index.php?s=151&cat=3>

Replay available until February 17, 2016