



2020

DIRECT TO CONSUMER

Wine Shipping Report

2019 YEAR IN REVIEW

SOVOS
ShipCompliant



DIRECT-TO-CONSUMER WINE SHIPPING IN 2019

Highlights

Growth in the Dtc shipping channel matured in 2019

+7.4% value
+4.7% volume



Syrah saw strong increases over 2018

+16% value
+14% volume
+2.5% average price



while wines under \$30 per bottle struggled at **+2%** volume

Washington had another growth year

+16% value, +13% volume, +2.9% price per bottle

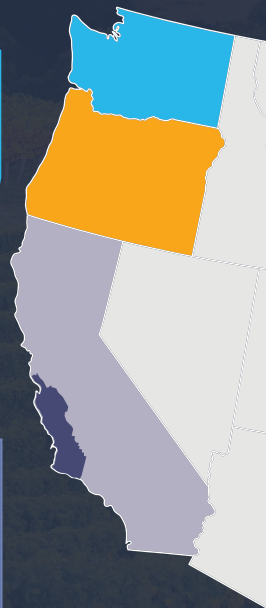
Oregon continued to outperform other regions and overall Dtc channel

+13% value, +9.2% volume, +3.6% price per bottle

California Central Coast

became the third largest regional producer in volume and value of shipments

810,000 cases shipped, \$326 million value



+2.5%

AVERAGE PRICE PER BOTTLE SHIPPED saw biggest increase in 8 years

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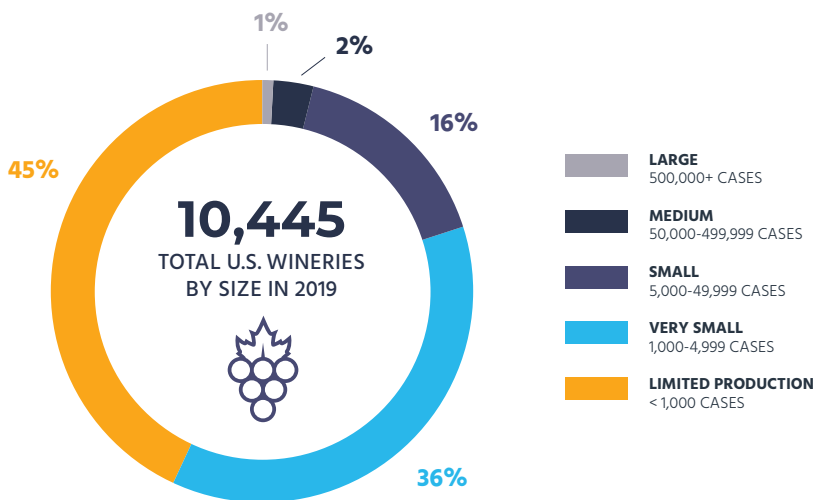
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➤ Creation of the DtC Report

This report is an annual collaboration between Sovos ShipCompliant and Wines Vines Analytics. It analyzes anonymized, detailed shipment data from more than 1,000 U.S. wineries' shipments to consumers each month, totaling more than 20 million shipments over the course of the year.

Each shipment is edited for submission for governmental tax and reporting requirements. Additionally, elements such as varietal are validated by standardized tables. The data is submitted to a proprietary model that applies weighting to assure that aggregated transactions evenly reflect winery size, location and average bottle price. The model is built on a database of more than 10,000 wineries updated monthly by Wines Vines Analytics. This database is a near census of U.S. wineries (> 99%). The model incorporates recognized statistical techniques to identify outliers and data anomalies. (For more details on methodology, see the final page of this report.)

This year's report marks the first time we have separated out California Central Coast wineries as their own region, due largely to this part of California becoming an important, growing and vibrant winemaking region.



➤ Overview

The growth of the direct-to-consumer (DtC) shipping channel slowed in 2019. With no new states opening for DtC shipments to fuel expansion, the value of the channel grew by 7.4% to \$3.2 billion, compared to five-year average growth of 14%. The volume of shipments grew 4.7% to 6.6 million cases. By comparison, the average growth rate in the volume of DtC shipments for the past five years was 13%. This predicted maturation of DtC shipping ushers in a new era of benchmarking for the channel — one that will now mirror traditional luxury goods over high-growth emerging channels.

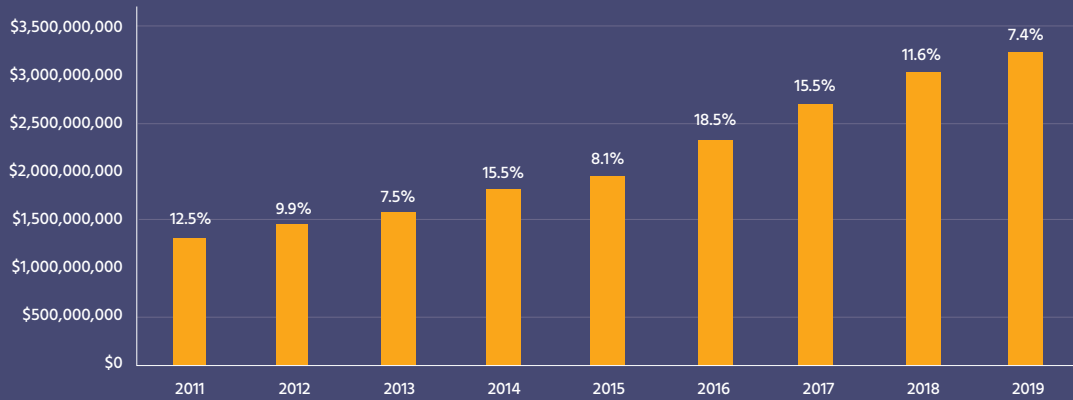
Price increases represent the most notable performance shift in the DtC shipping channel in 2019. The 2.5% increase in the average price per bottle shipped was the largest annual increase in eight years, following 2018's previous record-setting 2.4% increase.

Despite indications that wineries are now operating in a mature DtC shipping marketplace, certain regions still managed impressive growth. In Oregon and Washington, wineries far outperformed the overall DtC shipping channel, while Napa continued to see slow market share erosion.

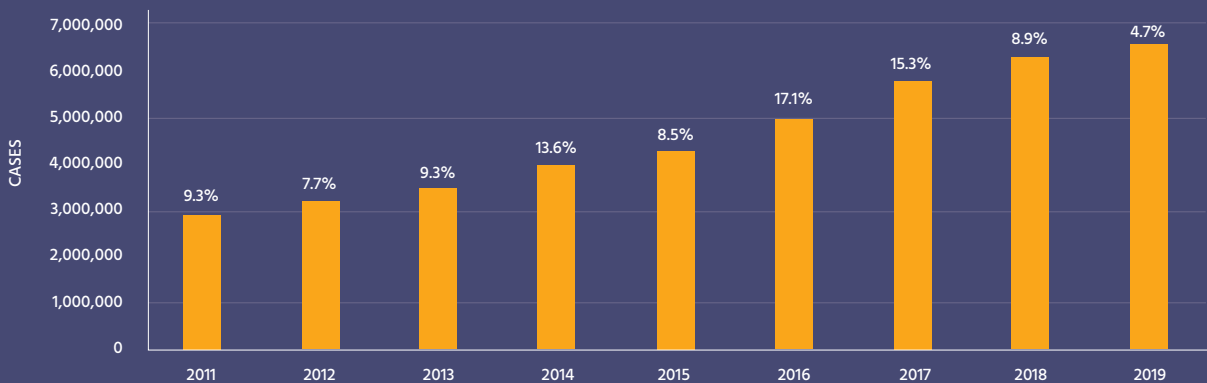
Finally, according to Jon Moromarco from bw 166, estimated total off-premise retail sales of domestically made wines in 2019 were \$2.81 billion, and winery DtC shipments represented 10.8% of those sales.



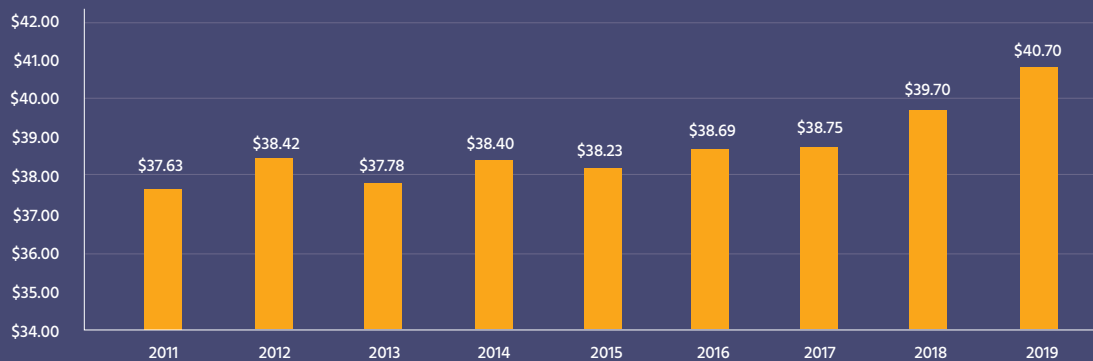
VALUE OF SHIPMENTS WITH ANNUAL VALUE GROWTH 2011-2019



VOLUME OF SHIPMENTS WITH ANNUAL VOLUME GROWTH 2011-2019



AVERAGE PRICE PER BOTTLE SHIPPED 2011-2019



> Highlights

Growth slows in winery DtC channel

The 4.7% increase in volume of wines shipped in 2019 over 2018 indicates slower growth in the DtC shipping channel. This reflects a maturing market and a lack of new states opening for DtC shipments—historically a driver of growth in this channel.

Winery shipments account for increasing portion of off-premise retail sales

Winery shipments alone accounted for 10.8% of the value of all off-premise sales of domestically produced wine in 2019. Direct winery sales to consumers, via both shipments and carry out, compose a growing portion of winery revenue streams.

America's largest wineries embrace DtC

For the second year in a row, wineries producing more than 500,000 cases of wine annually far outperformed all other types of wineries in 2019. Since 2011, America's largest wineries have increased the value of their DtC shipments by over 500% and now represent 15% of the volume of all winery DtC shipments.

Wines priced at \$100+ outperform the overall DtC channel

In 2019, we saw wines priced \$100+ again outperformed the overall DtC channel, a trend that goes back to 2013 and tracks with the continued premiumization we have witnessed within the wine industry as a whole.

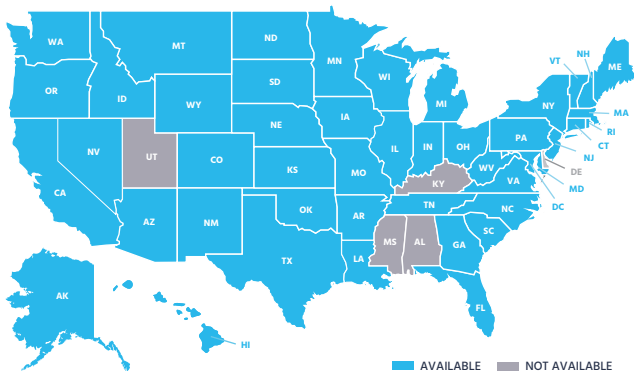
Northwest wineries thrive in DtC shipping channel in 2019

The 2019 growth in shipments from both Oregon and Washington wineries far outpaced those of other regions tracked in this report. Oregon in particular continued its now years-long impressive patterns of growth in DtC shipments, while Washington wineries followed up an outstanding level of growth in 2018 with another in 2019.

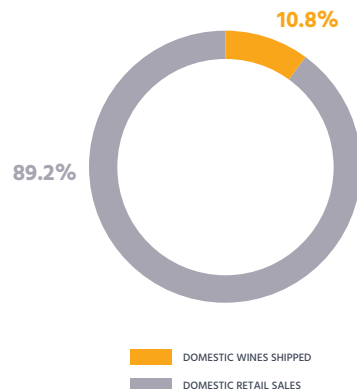
Largest increase in average price per bottle shipped since 2011

In another indication of the premiumization trend in the wine industry, 2019 saw the largest year-over-year increase in the average price per bottle shipped in 2019. The 2.5% increase in bottle price in 2019 comes after significant 2.4% increase in average bottle price in 2018.

STATES OPEN FOR DTC SHIPPING



PERCENT OF TOTAL RETAIL SALES OF DOMESTICALLY MADE WINES THAT ARE SHIPPED BY WINERIES





Month-by-Month Analysis

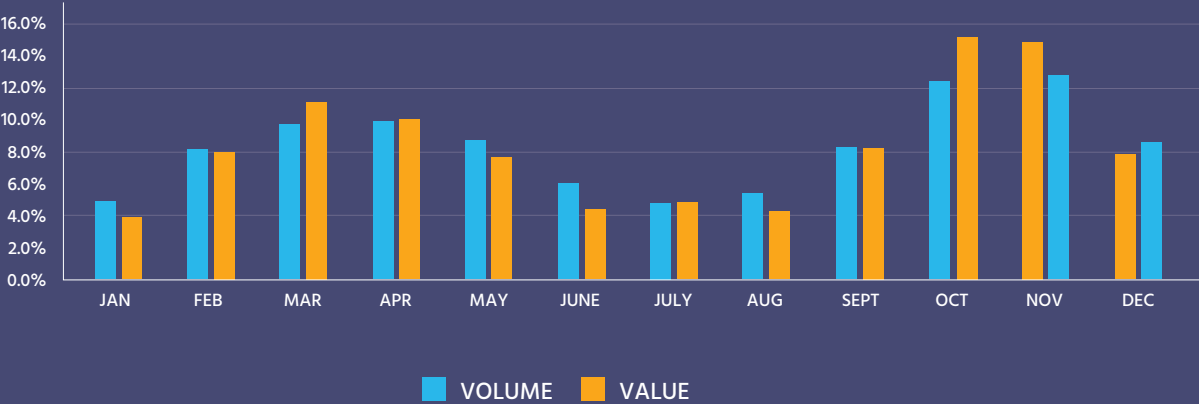
The monthly pattern of wine shipments from wineries to consumers has remained consistent throughout the 10 years Sovos ShipCompliant and Wines Vines Analytics have produced this report. As in past years, spring and fall shipments in 2019 outpaced those in the summer and winter months due primarily to temperature patterns and increased holiday shipments.

The March through May period accounted for 28% of all DtC wine shipments, while September through November accounted for 33% of shipments. Summer months, with their higher temperatures, remained the quietest time of the year, accounting for 16% of the total volume of shipments in 2019.

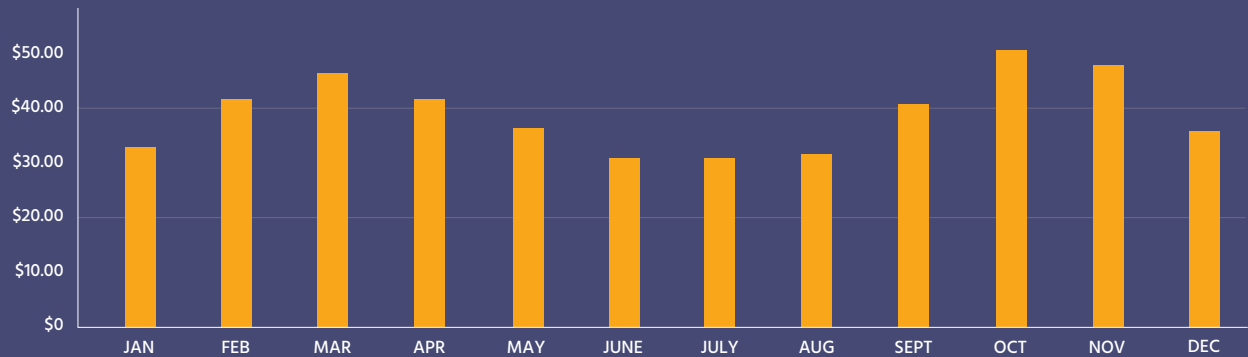
Higher-priced wines continued to drive up the value of DtC shipments during spring and fall, while lower-priced wines tended to be shipped during summer and winter. This is in part due to the fact that relatively lower-priced wines — such as Rosé, Sauvignon Blanc and Chardonnay — are typically released and shipped during the summer. Tasting room sales during these months also comprise a higher percentage of lighter, less expensive “summer wines.”



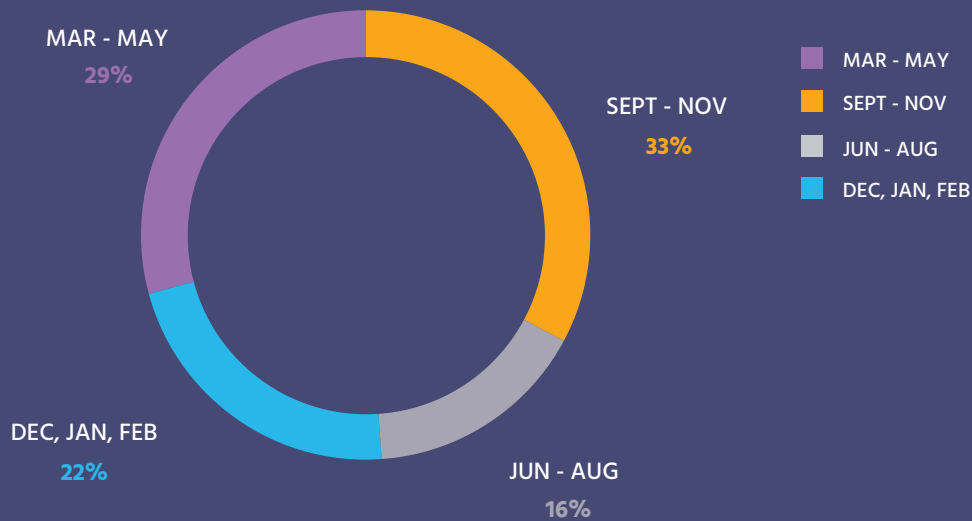
PERCENT OF TOTAL VOLUME & VALUE BY MONTH



AVERAGE PRICE/BOTTLE SHIPPED BY MONTH



VOLUME SHIPPED BY SELECTED QUARTERS (DEC, JAN, FEB — MARCH, APRIL, MAY — JUNE, JULY, AUG — SEPT, OCT, NOV)





2019

Analysis by Winery Region

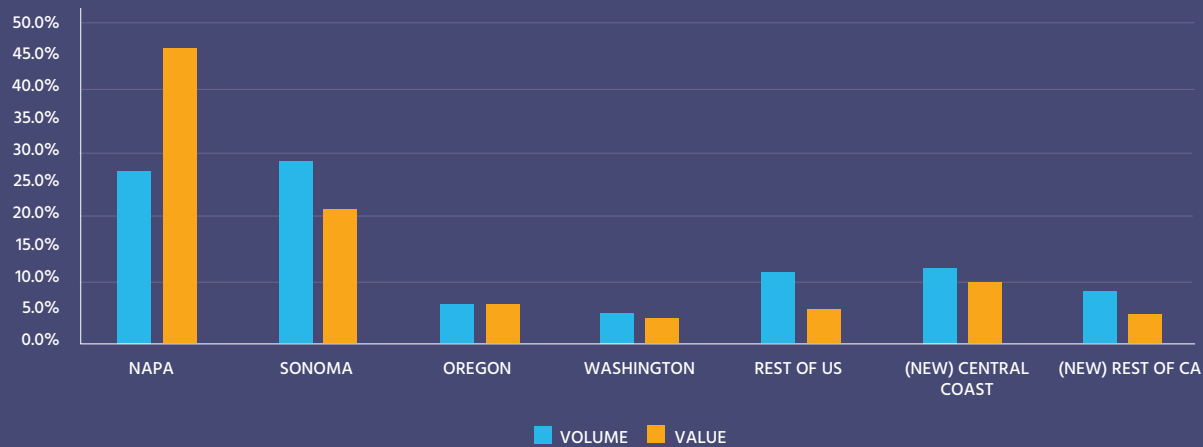
For the second year in a row, the Pacific Northwest states of Oregon and Washington outperformed the other five regions this report tracks. Oregon, in particular, continued its long string of impressive growth, doubling its share of the total value of the DtC channel since 2011.

Oregon is now in its eighth year of outperforming the overall DtC shipping channel, while Washington followed increased shipments in 2018 with even more robust sales and shipments in 2019. Though these two states combined equaled only 11% of the total value of DtC wine shipments in 2019, together they delivered 19% of the \$221 million increase in the overall DtC shipping channel between 2018 and 2019.

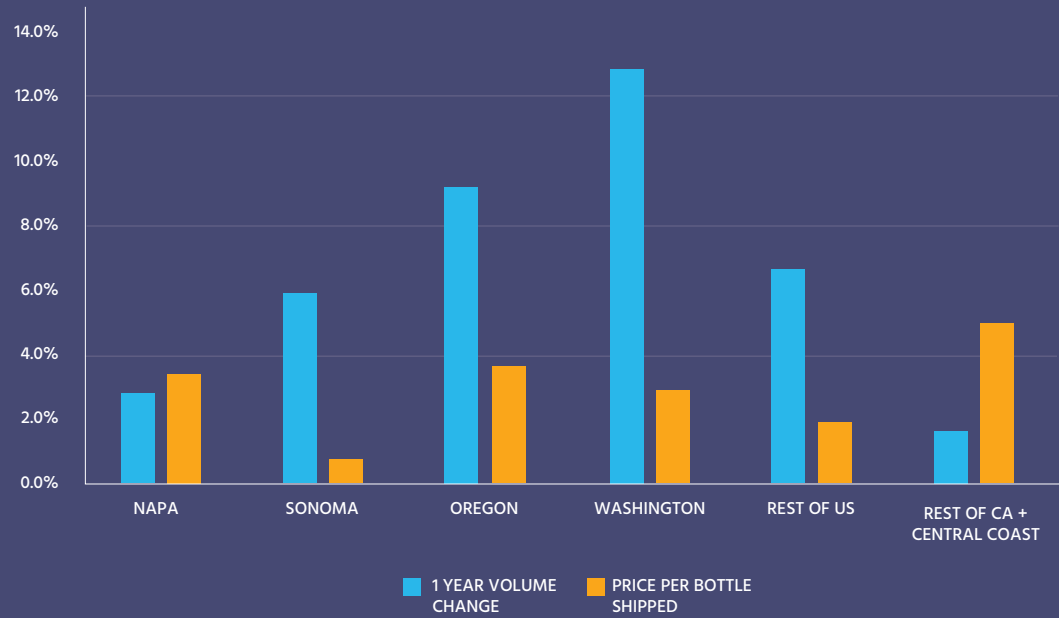
Growth in wine shipments from Napa County wineries underperformed compared to the overall DtC wine shipping channel for the fourth consecutive year, again prompting discussion surrounding whether price hikes in the most important wine region in America are restricting volume growth. The two powerhouse regions for wine shipments, Napa and Sonoma counties, together accounted for 56% of the volume and 68% of the value of the entire DtC shipping channel. However, neither saw significant growth in 2019. Sonoma's performance tracked the overall channel and Napa's trailed while substantially increasing prices on wine shipped. Napa County wineries have had among the smallest growth rates for DtC shipments over the past five years, only performing better than the Rest of California region.

2019 is the first year this report tracked the California Central Coast as its own region, instead of counting it within the Rest of California region as in previous reports. This will be the last report in which the Rest of California category is examined with Central Coast wineries incorporated. With this new regional categorization, the Central Coast region now ranks as the third-largest region tracked in terms of both overall volume and value of winery shipments in the United States.

PERCENT OF TOTAL VOLUME & VALUE BY REGION



CHANGE IN VOLUME & PRICE/BOTTLE BY REGION



Napa County

The \$1.5 billion in wine shipped directly to consumers from Napa County wineries in 2019 represented just under half the total value of the DtC shipping channel. That sum resulted from an average price per bottle shipped of \$69.39, which is 3.4% more than in 2018. Napa County wineries have been on a price increase spree over the past five years, adding more than 19% to the average price per bottle shipped since 2014 and influencing the value of the entire DtC channel. Remove wines shipped from Napa County from the equation, and the average price per bottle shipped in the United States in 2019 would be just under \$30 per bottle rather than the \$40 per bottle with Napa County wines included.

Perhaps due to this region's continual price increases or its already massive market share, Napa County underperformed the overall DtC shipping channel for the fourth consecutive year. Napa County wineries' 2.8% increase in the volume of wine shipped in 2019 was lower than all other regions tracked in this report, save the Rest of California region.

The demand for Napa Valley wines is flat and heading toward a decline. Last year, this report speculated that price increases at Napa wineries may have finally priced out enough buyers to curtail growth. It now seems this is likely the case. What makes Napa's challenge particularly daunting is the law of large numbers. Its sales are so big that even a few new wildly successful labels won't lead to the kind of growth achieved in other regions. Moreover, it is by far the most mature winery market of all those tracked in this report.

Cabernet Sauvignon remained the most commonly shipped varietal from Napa wineries, accounting for 31% of the total volume shipped and 48% of the value of winery shipments. In 2019, the average price per bottle of Cabernet Sauvignon shipped rose to \$109. Meanwhile, Napa Valley Pinot Noir experienced the most growth in 2019, with a 16% increase in volume shipped despite a 12% increase in the average price per bottle shipped.

TOTAL VALUE	\$1,501,550,466
TOTAL VOLUME IN CASES	1,803,302
AVG. PRICE PER BOTTLE	\$69.39
VALUE % OF TOTAL	46.6%
CHANGE IN VALUE	6.3%
VOLUME % OF TOTAL	27.3%
CHANGE IN VOLUME	2.8%
CHANGE IN AVG. PRICE PER BOTTLE	3.4%



Sonoma County

Sonoma County wineries had a relatively good year for DtC wine shipments. However, as with its neighbor Napa, Sonoma saw a slowing of growth in 2019. The 5.8% increase in the volume of wine shipments and 6.6% increase in the value of those shipments comes close to matching the overall DtC channel's growth rates. However, compared to last year's 19% growth in volume and 18% growth in value, it's clear Sonoma County wineries faced the same currents slowing the DtC channel overall.

Sonoma County accounted for 29.1% of all DtC wine shipments in 2019, making this region the largest shipper of wine by volume for the second year in a row. Yet the region's average price per bottle shipped of \$29.71 — a 0.7% increase — gives it only a 21.3% share of the DtC channel's total value, putting it far behind the total value of Napa County wine shipments.

Pinot Noir is a key driver of the Sonoma County wine industry's success. In 2019, Pinot Noir shipments represented 18% of Sonoma County's total volume and 26% of total value at \$180 million, more than the value of Pinot Noir shipments from the entire state of Oregon. However, the value of Sonoma County Pinot Noir shipments fell 3.9% in 2019 while volume rose 3.5%, due largely to a 7.1% reduction in the average price per bottle shipped. This indicates a falling demand for Sonoma County Pinot Noir within the DtC channel.

Sonoma County wineries shipped both Cabernet Sauvignon and Red Blends in higher volumes in 2019, while increasing average price per bottle shipped by 4% and 12%, respectively. This increase in the value of Cabernet Sauvignon and Red Blend shipments represented 60% of the \$43 million increase in the total value of Sonoma County DtC wine shipments in 2019.

TOTAL VALUE	\$685,899,430
TOTAL VOLUME IN CASES	1,923,703
AVG. PRICE PER BOTTLE	\$29.71
VALUE % OF TOTAL	21.3%
CHANGE IN VALUE	6.6%
VOLUME % OF TOTAL	29.1%
CHANGE IN VOLUME	5.8%
CHANGE IN AVG. PRICE PER BOTTLE	0.7%



Rest of California (Including new Central Coast region, but excluding Napa and Sonoma)

More than any other region tracked in this report, the Rest of California region netted the largest price hikes on wines shipped in 2019, a 4.9% increase over 2018. However, this correlated to the lowest growth in the volume of shipments from this region since 2011, a meager 1.6% increase over 2018, the smallest growth for all regions tracked in this report. The increase in the value of wine shipments was 6.6%.

The key varietals for the Rest of California's DtC wine shipments are Red Blends and Pinot Noir. Together, they accounted for 30% of the volume of shipments and 39% of the value of shipments from this region. Of these two varietals, Pinot

Noir experienced the most striking change in shipments. Though the average price per bottle of Pinot Noir shipped barely changed from 2018, the value and volume of DtC shipments decreased by 3.6% and 5% respectively, indicating a noteworthy decrease in demand for this important wine.

On the other side of the ledger, Cabernet Sauvignon, Petite Sirah and Syrah all experienced increases in average price per bottle, volume of shipments and value of those shipments. Increases in the value of shipments of these three varietals accounted for 70% of the total 2019 increase in the value of DtC wine shipments from the Rest of California region.

TOTAL VALUE	\$495,576,630
TOTAL VOLUME IN CASES	1,366,799
AVG. PRICE PER BOTTLE	\$30.22
VALUE % OF TOTAL	15.4%
CHANGE IN VALUE	6.6%
VOLUME % OF TOTAL	20.7%
CHANGE IN VOLUME	1.6%
CHANGE IN AVG. PRICE PER BOTTLE	4.9%



California Central Coast (New)

For the first time, this report separates the California Central Coast region from the Rest of California region. This newly tracked region consists of almost 900 wineries located in the counties of Monterey, Santa Cruz, San Benito, San Luis Obispo and Santa Barbara. With the Central Coast's wineries shipping more than 810,000 cases worth more than \$326 million in 2019, it ranked as the third most active region for DtC shipments behind Napa and Sonoma counties.

Five varietals comprised two-thirds of the volume of DtC shipments from the Central Coast in 2019: Red Blends (20%), Pinot Noir (18%), Chardonnay (10%), Cabernet Sauvignon (9%) and Other Reds (9%). These five wines totaled 73% of the value of shipments.

At \$33.52, the average price per bottle shipped from Central Coast wineries falls in the mid-range of the regional pack — below the average prices of Napa County and Oregon wines, but above those from the Rest of California, Sonoma County and the Rest of the United States.

TOTAL VALUE	\$326,151,679
TOTAL VOLUME IN CASES	810,798
AVG. PRICE PER BOTTLE	\$33.52
VALUE % OF TOTAL	10.1%
CHANGE IN VALUE	not applicable
VOLUME % OF TOTAL	12.3%
CHANGE IN VOLUME	not applicable
CHANGE IN AVG. PRICE PER BOTTLE	not applicable



Rest of California (New)

The profile of the Rest of California region changes significantly when the Central Coast wineries are moved to their own category. This region now includes wineries located in the Sierra Nevada foothills and Lodi American Viticultural Area (AVA), as well as Mendocino, Livermore, Lake, Temecula and other primarily inland counties.

The new Rest of California region is now a much smaller source of DtC shipments. In 2019, this region accounted for 8.4% of the total volume of the overall DtC channel and 5.3% of its value. Wineries in this region shipped 556,000 cases of wine at an average price per bottle of \$25.39.

Interestingly, the wine shipments from this newly configured region call to mind the California wine industry of the 1960s and 1970s, which produced a lot of blended wines based on Zinfandel and other red varieties. In 2019, the region's most commonly shipped wine was Zinfandel, accounting for 12% of total volume, followed by Red Blends (11%), Other Reds (11%) and Cabernet Sauvignon (12%).

TOTAL VALUE	\$169,424,951
TOTAL VOLUME IN CASES	556,000
AVG. PRICE PER BOTTLE	\$25.39
VALUE % OF TOTAL	5.3%
CHANGE IN VALUE	not applicable
VOLUME % OF TOTAL	8.4%
CHANGE IN VOLUME	not applicable
CHANGE IN AVG. PRICE PER BOTTLE	not applicable



Oregon

Shipments from Oregon wineries represented only 6.6% of the total value of DtC wine shipments in 2019. However, that's twice the region's 2011 share of total value of DtC wine shipments. Oregon is now in its eighth year of DtC shipping expansion and of outperforming the overall DtC shipping channel. Despite a 3.6% increase in the average price per bottle shipped from Oregon in 2019, the volume of shipments increased by 9.2%, and the value of those shipments increased by 13.1%.

Oregon is unique among all regions tracked in this report in that no other winery region is so fully dependent upon a single varietal. In 2019, Pinot Noir shipments accounted for 54% of the volume of wine shipped and 67% of the total value of DtC shipments from Oregon wineries.

Given the dominant place Pinot Noir holds in the state's DtC shipping channel, it's no surprise that its growth in 2019 mirrored the state's overall growth in shipments. The volume of Oregon Pinot

Noir shipments in 2019 increased 10% over 2018, even with a 3% increase in average price per bottle shipped to \$50.82. Overall, Oregon wineries shipped \$143 million of Pinot Noir to consumers across the country, a 13% increase over 2018.

Chardonnay is the second most commonly shipped wine in Oregon, and it too realized an increase in demand in 2019. The volume of Oregon Chardonnay shipments increased by 12% in 2019, with the value of those shipments growing 23% on a hefty 10% increase in average price per bottle shipped.

Since 2011, the value of DtC shipments from Oregon wineries has increased 393%, from \$43 million to \$212 million. No other region tracked in this report has benefited from such a dramatic increase in attention from American wine drinkers. We expect the growth in Oregon direct shipments to continue to outpace the overall channel in the short term.

TOTAL VALUE	\$212,107,229
TOTAL VOLUME IN CASES	429,841
AVG. PRICE PER BOTTLE	\$41.12
VALUE % OF TOTAL	6.6%
CHANGE IN VALUE	13.1%
VOLUME % OF TOTAL	6.5%
CHANGE IN VOLUME	9.2%
CHANGE IN AVG. PRICE PER BOTTLE	3.6%



Washington State

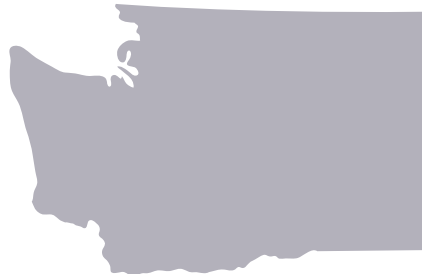
In 2018, Washington state wineries outperformed the overall DtC shipping channel. They did so again in 2019 by increasing the volume and value of DtC shipments by 12.8% and 16.1%, respectively — this time with a 2.9% increase in average bottle price, demonstrating an increase in demand.

Despite being the second-largest wine-producing state in the country, Washington ships the least amount of wine directly to consumers of all regions tracked in this report, both on a volume and value basis. Despite its growth in 2019, Washington wineries shipped only 5% of the total volume and 4.2% of the total value of wine that goes through the DtC channel. This is undoubtedly

a result of its important wine-producing regions being less accessible to large metropolitan areas and international airports than those located in Northern California and Oregon, for example.

More than half of the \$18.6 million added to the Washington DtC channel in 2019 resulted from an increase in shipments of Red Blends. These red wines not only saw a 12% increase in the volume of shipments, but this was achieved with a 20% increase in average price per bottle shipped. The value of Red Blends shipments from Washington wineries are now far more valuable than Cabernet Sauvignon shipments. Merlot and Pinot Noir shipments also saw increases over 2018.

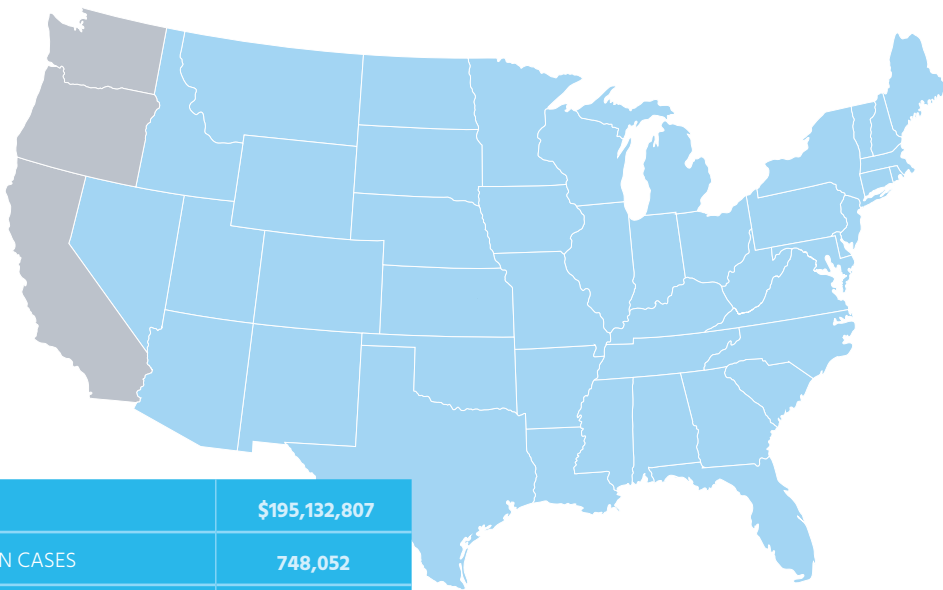
TOTAL VALUE	\$134,422,261
TOTAL VOLUME IN CASES	330,073
AVG. PRICE PER BOTTLE	\$33.94
VALUE % OF TOTAL	4.2%
CHANGE IN VALUE	16.1%
VOLUME % OF TOTAL	5.0%
CHANGE IN VOLUME	12.8%
CHANGE IN AVG. PRICE PER BOTTLE	2.9%



Rest of United States

The Rest of the United States region is diverse, accounting for wine production in 47 states, including New York (the third-largest producer of wine in the country), Texas, Virginia and North Carolina — all significant wine-producing states. This region also sells by far the most diverse collection of wines, ranging from popular varietals to a host of lesser-known wines produced from hybrid grapes.

This region experienced stronger growth in shipments than the overall DtC channel in 2019. Shipments increased by 6.6% in volume and 8.6% in value, while average bottle prices increased by 1.9%. The most important category of wines from these states was by far Red Blends, which accounted for 19% of the volume and 21% of the value of DtC wine shipments. The volume and value of shipments of Red Blends each increased by 11% in 2019.



TOTAL VALUE	\$195,132,807
TOTAL VOLUME IN CASES	748,052
AVG. PRICE PER BOTTLE	\$21.74
VALUE % OF TOTAL	6.1%
CHANGE IN VALUE	8.6%
VOLUME % OF TOTAL	11.3%
CHANGE IN VOLUME	6.6%
CHANGE IN AVG. PRICE PER BOTTLE	1.9%



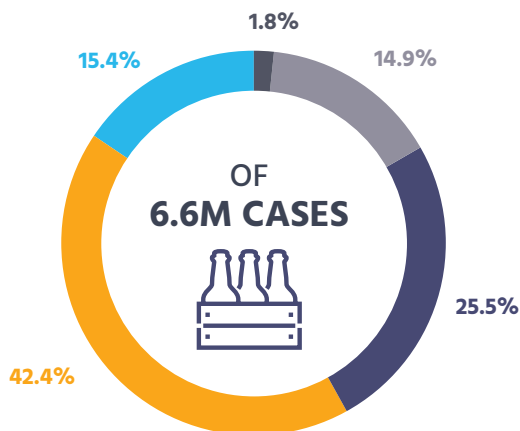
2019

Analysis by Winery Size (Production)

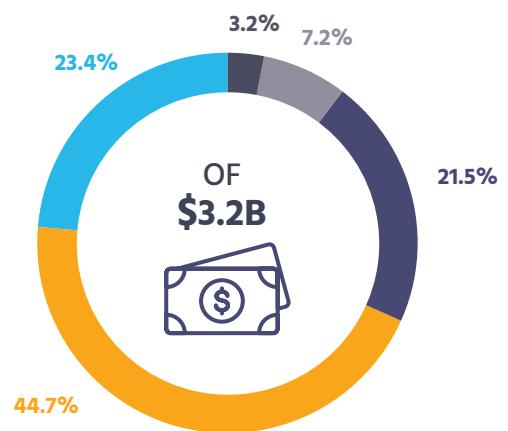
In 2019, all winery production categories tracked in this report, with the exception of the largest wineries, experienced slower or flat growth. Over the past decade, the largest wineries in America (those producing 500,000 cases or more) have slowly but consistently captured a larger share of the DtC shipping channel. In 2011, this small group of roughly 70 wineries was responsible for 4% of the wine shipped directly to consumers. In 2019, these wineries controlled 14.9% of the channel, marking a 237% increase in their share of the channel since 2011. These large wineries were by far the most dynamic direct shippers in 2019, increasing average price per bottle shipped by 13.7% and volume of shipments by 12.9%. This led America's largest wineries to realize a 28.4% increase in the value of shipments in 2019. No other category of wineries approached this kind of success.

Performance of the small category of wineries, those producing between 5,000 and 50,000 cases annually, is also worth noting. These wineries, despite having lost a bit of their share of DtC volume and value over the past decade, still represent more than 40% of both the volume and value of DtC shipping. In 2019, small production wineries saw their lowest growth rate since this report was first published in 2011 — 4% increases in both value and volume of DtC wine shipments.

VOLUME OF SHIPMENTS BY WINERY SIZE



VALUE OF SHIPMENTS BY WINERY SIZE



LARGE
500,000+ CASES
 MEDIUM
50,000-499,999 CASES
 SMALL
5,000-49,999 CASES
 VERY SMALL
1,000-4,999 CASES
 LIMITED PRODUCTION
<1,000 CASES

Limited Winery Size

(Up to 999 cases produced annually)

This category of wineries is small and subject to significant annual shifts. Wineries in this category accounted for only 1.8% of the total volume of shipments in 2019 and 3.2% of the channel's value. In 2019, the average price per bottle shipped decreased 2.6%, leading to decreases in both the volume and value of shipments over 2018.

TOTAL VALUE	\$102,149,034.15	CHANGE IN VALUE	-3.6%
TOTAL VOLUME IN CASES	121,065	VOLUME % OF TOTAL	1.8%
AVG. PRICE PER BOTTLE	\$70.31	CHANGE IN VOLUME	-1.0%
VALUE % OF TOTAL	3.2%	CHANGE IN AVG. PRICE PER BOTTLE	-2.6%

Very Small Wineries

(1,000 - 4,999 cases produced annually)

This category of wineries is the most dependent on DtC wine shipments; without the DtC channel, it is unlikely these wineries could survive. While responsible for only 15.4% of the volume of shipments in 2019, these wineries captured 23.4% of the value of DtC wine shipments. Since 2011, this category of winery has increased its average price per bottle shipped by 46%, far more than any of the other winery production size categories. In 2019, it boasted a \$61.97 average price per bottle shipped. This year-over-year 10.7% increase in average bottle price helped the Very Small Winery category generate a 10.7% growth in the value of its shipments despite no growth in the volume of shipments.

TOTAL VALUE	\$755,096,675.02	CHANGE IN VALUE	10.0%
TOTAL VOLUME IN CASES	1,015,429	VOLUME % OF TOTAL	15.4%
AVG. PRICE PER BOTTLE	\$61.97	CHANGE IN VOLUME	-0.7%
VALUE % OF TOTAL	23.4%	CHANGE IN AVG. PRICE PER BOTTLE	10.7%

Small Winery Size

(5,000 - 49,999 cases produced annually)

This category of wineries drives DtC wine shipping, accounting for 42.4% of the volume of shipments and 44.7% of the value of the DtC channel. However, the \$1.4 billion worth of wine shipped by the wineries in this category marked no increase in average price per bottle shipped and a mere 4.3% increase in volume.

TOTAL VALUE	\$1,442,116,465.32	CHANGE IN VALUE	4.2%
TOTAL VOLUME IN CASES	2,796,455	VOLUME % OF TOTAL	42.4%
AVG. PRICE PER BOTTLE	\$42.97	CHANGE IN VOLUME	4.3%
VALUE % OF TOTAL	44.7%	CHANGE IN AVG. PRICE PER BOTTLE	0.0%

Medium Winery Size

(50,000 - 499,999 cases produced annually)

This diverse category of wineries accounts for 25.5% of the volume of all DtC shipments, and its 2019 growth matched that of the slower-growing overall DtC marketplace. Medium-sized wineries increased their volume of shipments over 2018 by 5%, while the value of shipments grew by 7%.

TOTAL VALUE	\$692,739,010.13	CHANGE IN VALUE	7.2%
TOTAL VOLUME IN CASES	1,682,315	VOLUME % OF TOTAL	25.5%
AVG. PRICE PER BOTTLE	\$34.31	CHANGE IN VOLUME	4.9%
VALUE % OF TOTAL	21.5%	CHANGE IN AVG. PRICE PER BOTTLE	2.2%

Large Winery Size

(500,000 or more cases produced annually)

This category of wineries by far saw the most growth in DtC shipments in 2019. The volume of shipments grew 12.9% despite a 13.7% increase in average price per bottle shipped. Since 2011, the Large Winery category has thoroughly outperformed each of the other size categories, realizing a 685% increase in the volume of shipments and a 500% increase in the value of those shipments.

TOTAL VALUE	\$232,587,639.06	CHANGE IN VALUE	28.4%
TOTAL VOLUME IN CASES	986,506	VOLUME % OF TOTAL	14.9%
AVG. PRICE PER BOTTLE	\$19.65	CHANGE IN VOLUME	12.9%
VALUE % OF TOTAL	7.2%	CHANGE IN AVG. PRICE PER BOTTLE	13.7%

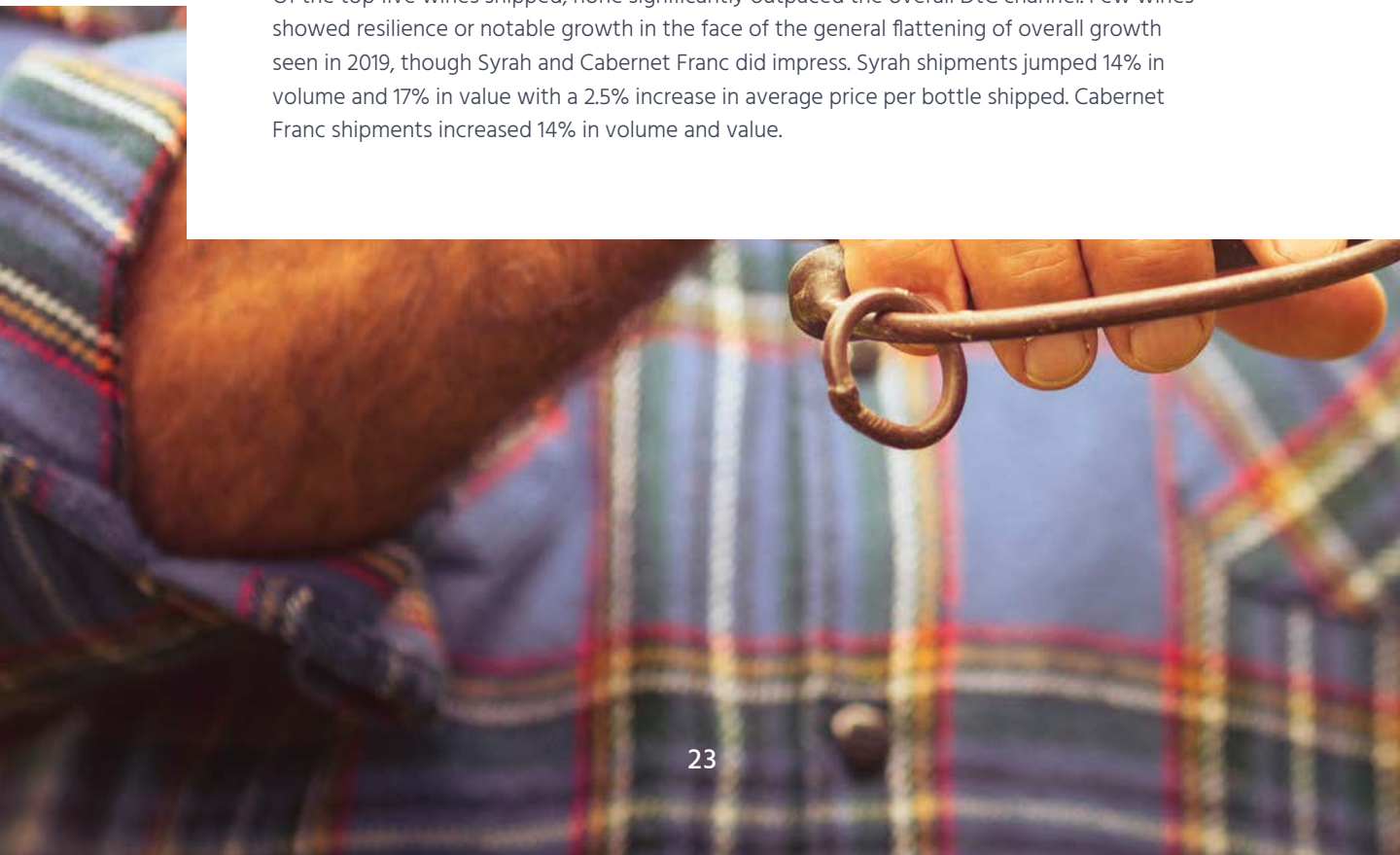
2019

Analysis by Varietal

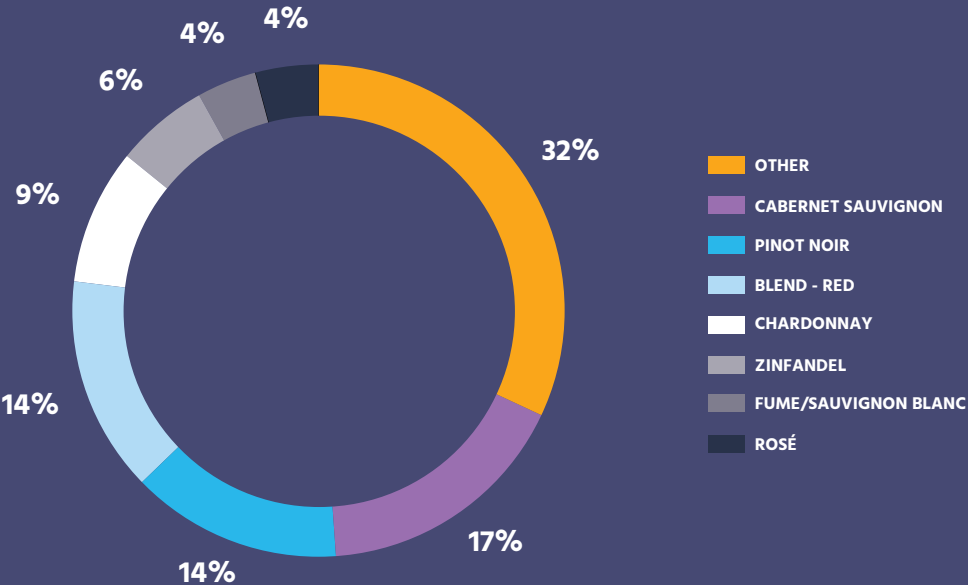
The five most commonly shipped wines have not changed since the genesis of this report in 2011. Cabernet Sauvignon, Pinot Noir, Red Blends, Chardonnay and Zinfandel accounted for 60% of all DtC wine shipments in 2019, declining from 74% of shipments in 2011. While still drawn to these five wines, American consumers and wineries have expanded their horizons over the past decade.

Rosé is the perfect example. In 2011, Rosé was the least common varietal shipped directly to consumers. In 2019, though, Rosé came in eighth out of 20 types of wines tracked. Since 2014, DtC shipments of the varietal have increased by 284%. That growth, however, has begun to slow. In 2019, Rosé shipments did outpace the overall DtC channel's volume growth with a 10% increase over 2018, but it did so with a 3.4% decrease in the average price per bottle shipped.

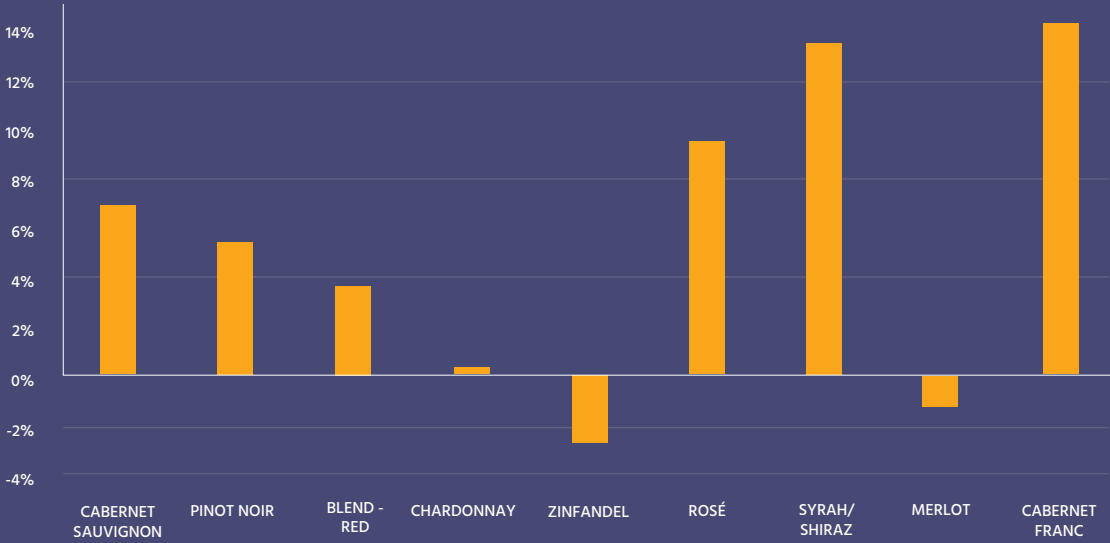
Of the top five wines shipped, none significantly outpaced the overall DtC channel. Few wines showed resilience or notable growth in the face of the general flattening of overall growth seen in 2019, though Syrah and Cabernet Franc did impress. Syrah shipments jumped 14% in volume and 17% in value with a 2.5% increase in average price per bottle shipped. Cabernet Franc shipments increased 14% in volume and value.



TOP WINES SHIPPED BY VOLUME



CHANGE IN VOLUME OF SHIPMENTS OF NOTABLE VARIETALS





Analysis by Destination of Shipments

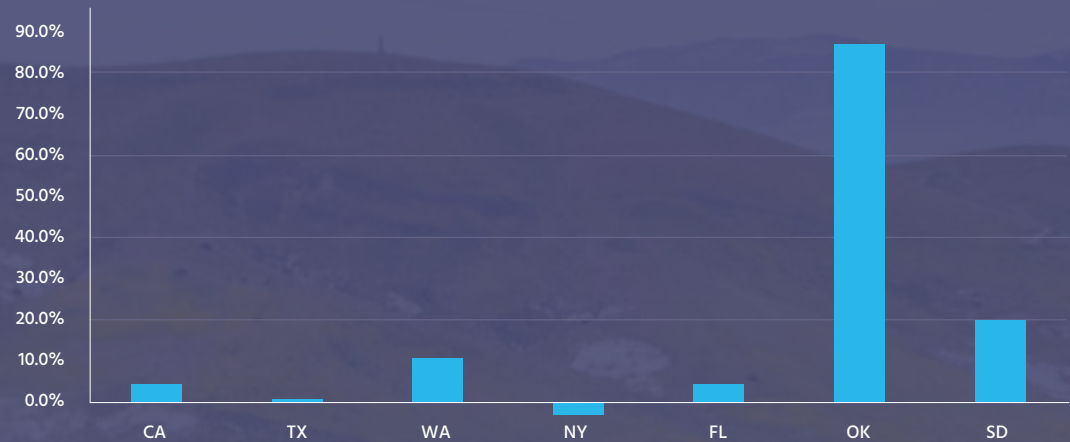
Fifty-four percent of all wine shipments in 2019 were delivered to consumers in just five states: California (30%), Texas (8%), Washington (6%), New York (6%) and Florida (5%). Since 2011, market share of the top five destination states has eroded from 60% of the total volume of shipments as more and more states passed legislation allowing winery shipments, broadening destinations.

In 2019, wineries continued to take advantage of new states opening for DtC wine shipments. Oklahoma, which first opened for shipments in October 2018, not surprisingly followed last year's growth with an 88% increase in volume of shipments and a 121% increase in value of wine shipped into the state. Meanwhile, South Dakota, which opened its borders for wine shipments in January 2016, is still demonstrating ramp-up numbers with a 21% increase in the volume of shipments to the state's consumers.

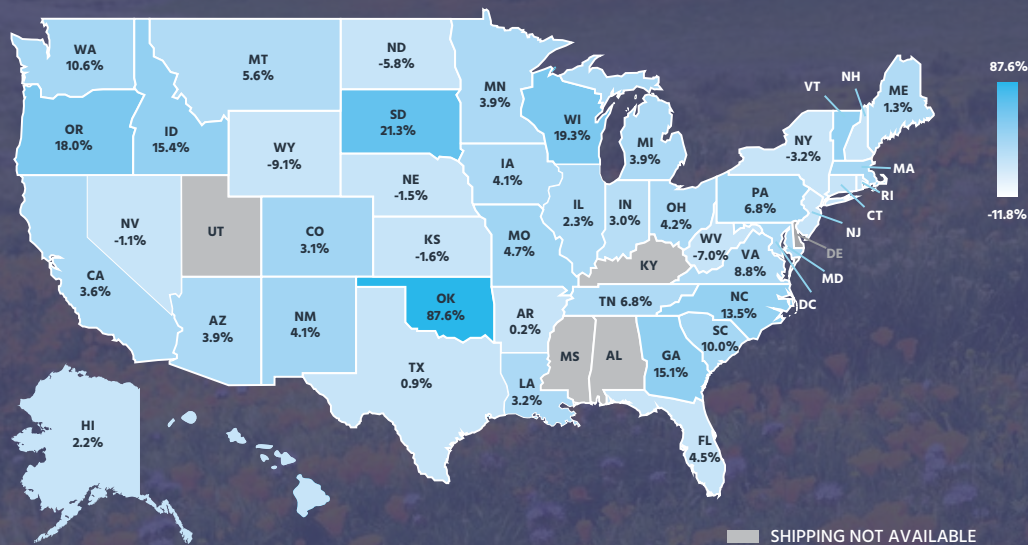
In the past five years, those states that most recently opened their borders for receipt of wine shipments (Pennsylvania, Massachusetts, South Dakota and Oklahoma) naturally saw the largest volume increases in wine deliveries. But Oregon, which changed its direct shipping law in 2008, has also grown as a destination state. Since 2014, when it was already a mature shipping destination state, shipments of wine to Oregon residents have increased nearly 200%, well above the 67% increase in volume for the entire DtC shipping channel. Looking deeper into the data shows that Oregonians receiving shipments from Oregon wineries was a primary source of the increase. In 2019 alone, the volume of shipments from Oregon wineries to Oregon consumers increased by 24% over 2018. Other wine-producing states might have something to learn from Oregonian pride in state wines.

Due to that 24% increase in the amount of wine Oregon wineries sent to Oregonians, the Beaver State now receives more wine shipped per capita than any other state. California, Washington, District of Columbia and Colorado make up the rest of the top five.

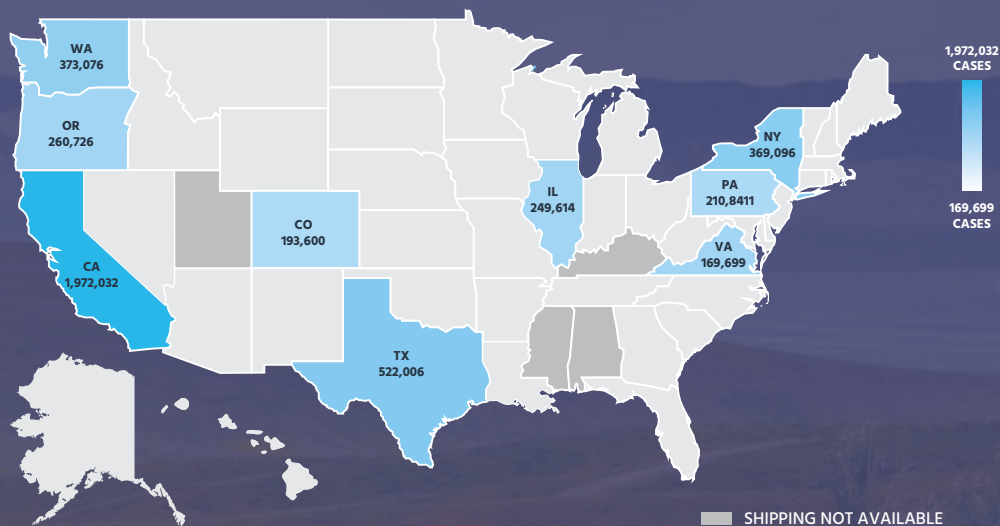
VOLUME CHANGE FOR TOP FIVE DESTINATION STATES
(CA, TX, WA, NY, FL), OK AND SD



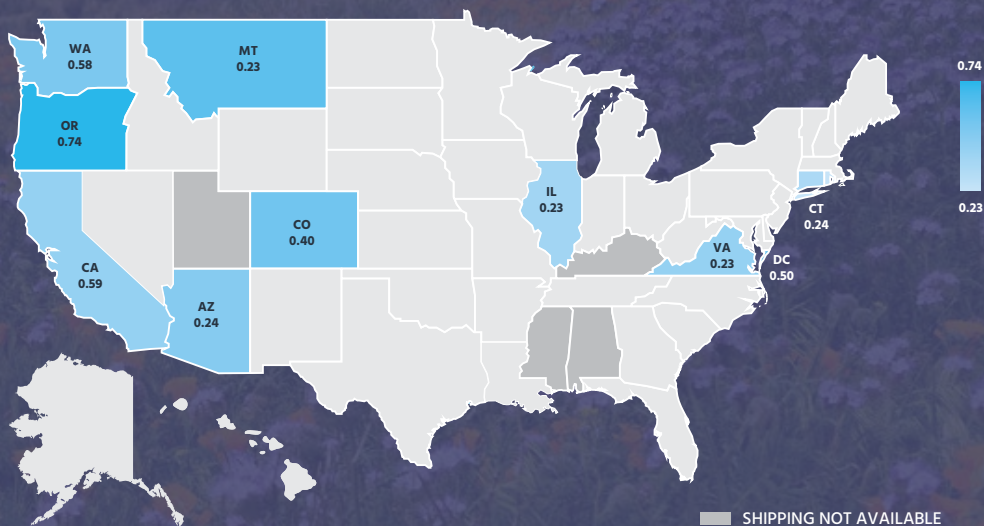
VOLUME CHANGE BY STATE



TOTAL VOLUME OF SHIPMENTS, TOP 10 STATES



TOP 10 STATES BY BOTTLES SHIPPED PER CAPITA



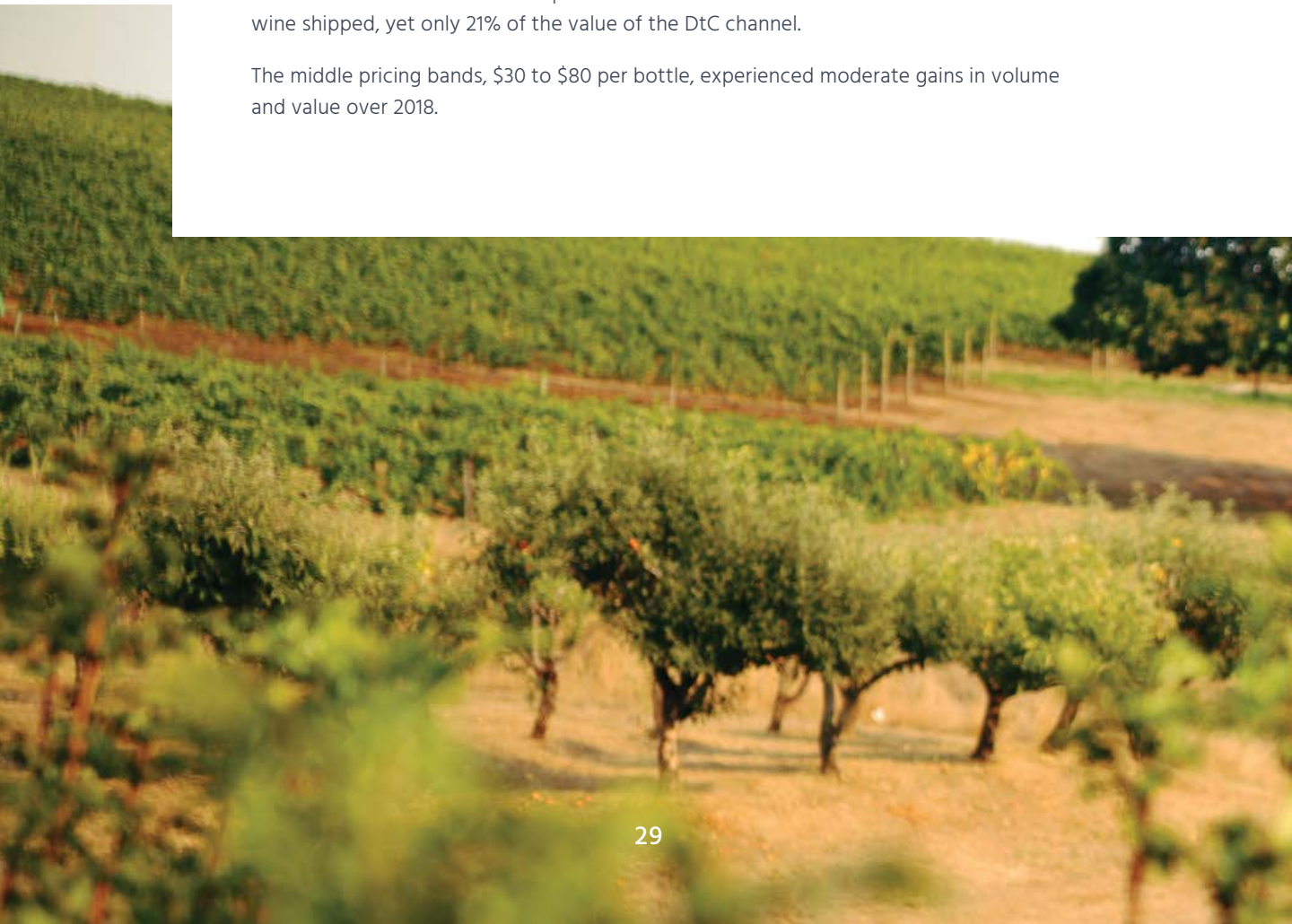
2019

Analysis by Price

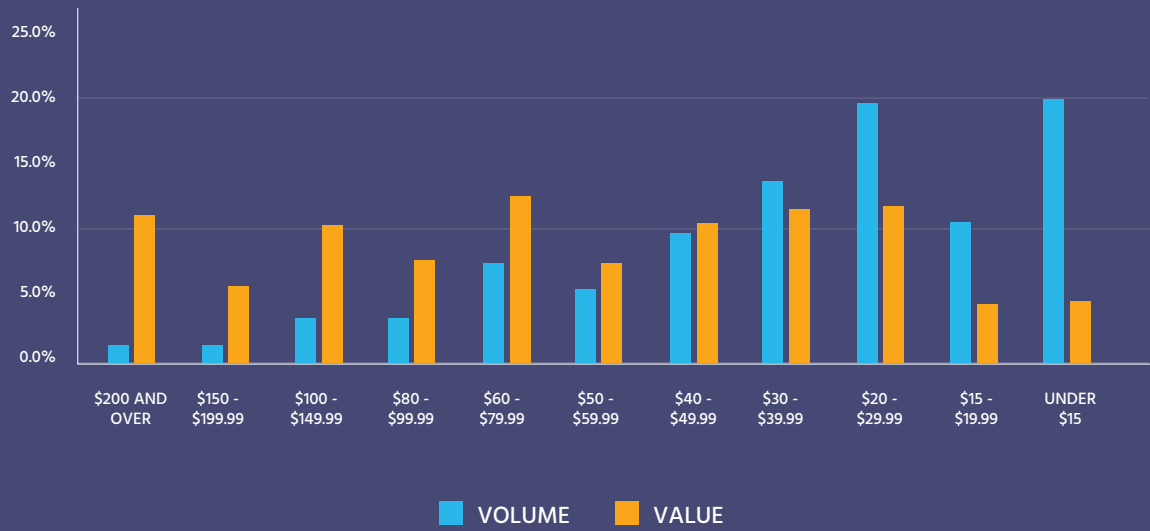
In 2019, the highest-priced wines once again saw the greatest growth in the DtC channel. Wines priced at more than \$100 per bottle increased shipments by volume by 15% over 2018, far outpacing the overall DtC shipping channel. While these wines accounted for only 7% of DtC shipments, they amounted to 28% of the value of the DtC shipping channel.

At the other end of the spectrum, wines priced less than \$30 experienced a small 2% increase in volume. These lower-priced wines account for 50% of the total volume of wine shipped, yet only 21% of the value of the DtC channel.

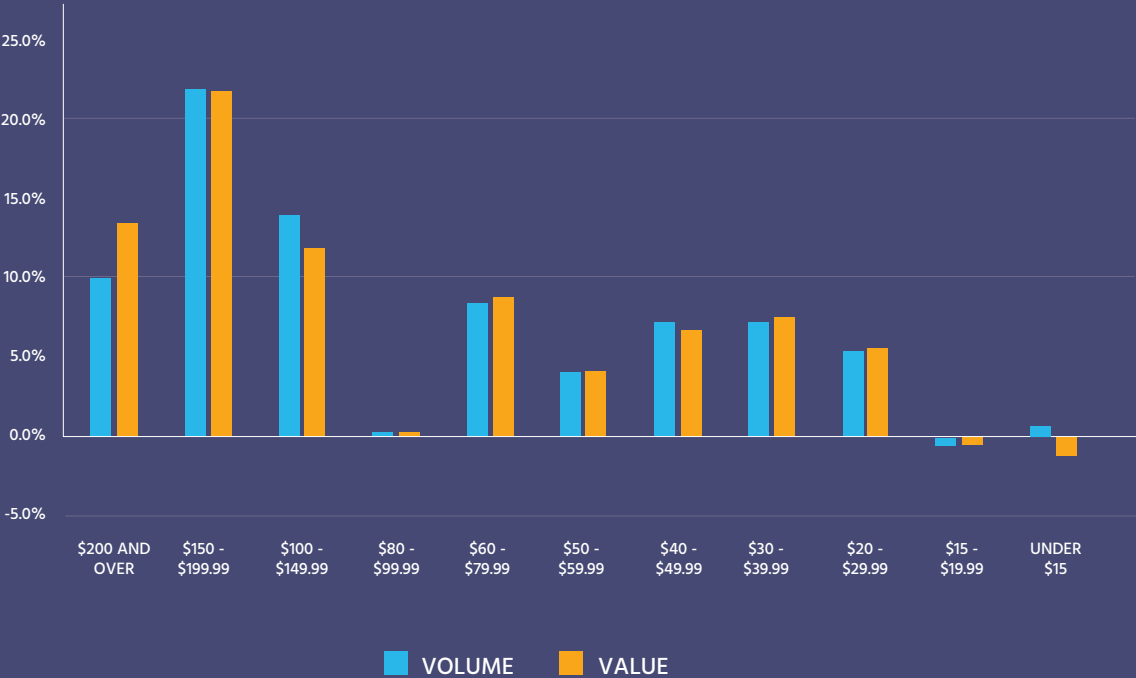
The middle pricing bands, \$30 to \$80 per bottle, experienced moderate gains in volume and value over 2018.



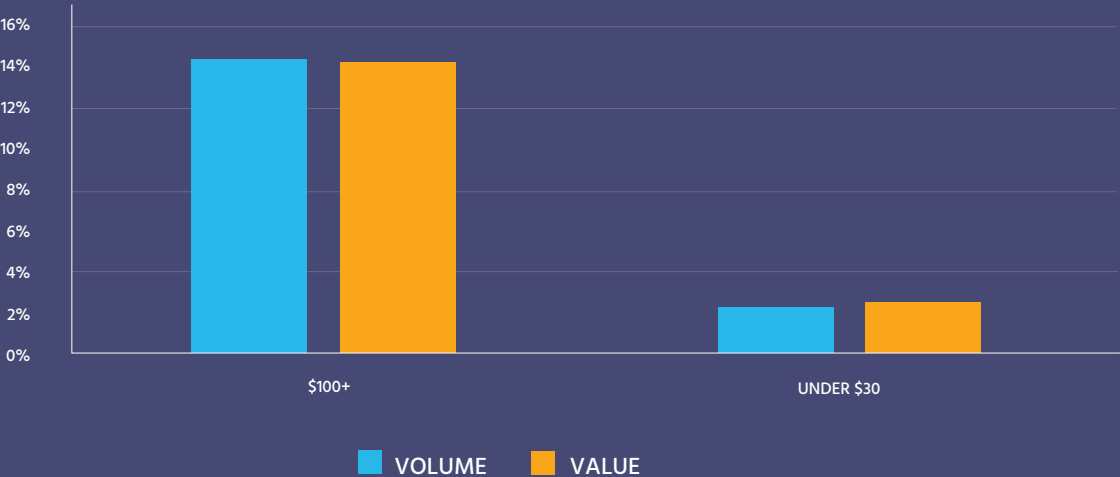
PERCENT OF VOLUME & VALUE BY PRICE GROUP



CHANGE IN VOLUME AND VALUE BY PRICE CATEGORY



CHANGE IN VOLUME AND VALUE , >\$100 AND <\$30



> Conclusions and Forecasts



1 / Slower Growth in the DtC Shipping Channel

In last year's report, we forecasted slower growth of the DtC shipping channel, primarily due to fewer opportunities for new state markets to open and spur growth. This report bears out that prediction. No new states opened for winery direct shipping in 2019, and growth paled in comparison to five-year averages. The days of 13% to 18% increases in the DtC channel are likely over for the wine industry. Going forward, we expect expansion in DtC wine shipping to be driven by similar conditions as other luxury goods: the state of the economy, demographic trends, sales and marketing innovation, and continued consumer migration from brick and mortar to online purchases.



2 / Economic Uncertainty

Wines shipped DtC are largely mid-level luxury goods. Their consumption and sales growth is predicated upon a certain level of consumer confidence among middle and upper-income consumers. This gives us pause considering the uncertainty in the economy. Consumer confidence, though positive, is declining. The ongoing trade disputes between the U.S. and other nations fuels further uncertainty. The recovery from the 2008 Great Recession is in its 10th year, and historical precedent shows another slowdown is likely in the near future. If the economy has a downturn, we expect it to have a negative impact on DtC sales and shipments that are unlikely to be buoyed by new state markets opening.



3 / Lingering and Future Impact of Wine Country Fires

The prospect that large wildfires are the "new normal" in wine country is a concern on many levels. Not only are these fires — most recently witnessed in 2017 and 2019 in Sonoma, Napa, Lake and Mendocino counties — devastating to individuals and crops, they also deter visits to these regions; the Sonoma County Tourism agency reported dips in hotel occupancy and retail sales in 2019, according to the *Los Angeles Times*. Visitation to wine country is the primary driver for DtC wine shipments and sales, and a decline in wine tourism is likely to negatively impact channel growth.



4 / Competition for Online Dollars

The diversity of beverage alcohol, including high-end luxury drinks, expands every year, giving consumers more choices beyond wine, beer and spirits. Moreover, the 2019 Supreme Court decision *Tennessee Wine v Thomas* laid the groundwork for more states to allow retailer-to-consumer wine shipments in the coming years. Finally, it is likely that craft spirit and craft beer producers will turn their attention to direct shipping in ways they have not in previous years. This kind of competition can affect online wine sales from wineries.



5 / Limits on Increasing Prices

The premiumization of wine is on display in the DtC shipping channel, where for the past two years the average price per bottle shipped has increased significantly. These increasing prices have been accompanied by much slower growth in both volume and value of shipments. This leads us to believe that continued price increases may not be sustainable.



6 / Increasing State Scrutiny

In 2019, state alcohol regulators signaled their intention to expand compliance enforcement for all DtC shipping. In some cases, the pressure is coming from legislators concerned with ensuring the collection of excise and sales taxes. In other states, the pressure starts with lobbying efforts from in-state wholesalers. In either case, the result is an increased focus on the entire supply chain from producer to fulfillment to shipping. Texas was the first state to announce formal audits of all 1,600 wineries shipping in to the state. Expect many more to follow their lead in 2020 and beyond.

Methodology

This report is an annual collaboration between Sovos ShipCompliant and Wines Vines Analytics. It analyzes anonymized, detailed shipment data from more than 1,000 U.S. wineries' monthly shipments to consumers each month.

Each shipment is edited for submission for governmental tax and reporting requirements. Additionally, elements such as varietal are validated by standardized tables. The data is submitted to a proprietary model that applies weighting to assure that aggregated transactions evenly reflect winery size, location and average bottle price. The model is built on a database of more than 10,000 wineries updated monthly by Wines Vines Analytics. This database is a near census of U.S. wineries (> 99%). The model incorporates recognized statistical techniques to identify outliers and data anomalies.

DATA SPECIFICATIONS:

Number of shipments annually	20 million+
Wineries reporting	1,000+
Winery database	10,000+

Bonded and virtual wineries are included in the report; wines sold and shipped through online retailers, flash resellers and affinity clubs are not.

DEFINITIONS:

A Bonded winery is licensed by the Alcohol and Tobacco Tax and Trade Bureau (TTB); additional bonded locations of a winery, such as storage facilities under the same management, are not counted.

Virtual wineries have a unique physical location (which may be another entity's winery), produce one or more brands, and have their own winemaker and management (these maybe shared with other entities).

A shipment is defined as a specific wine shipped to a specific consumer. Multiple products to the same location are counted as multiple shipments.

PROJECTION MODEL:

The model is stratified by size (cases produced), location and average bottle price. The report accurately projects this very large sample to all wineries in the United States.

Acknowledgements

The 2020 Direct-to-Consumer Wine Shipping Report is a collaboration between Sovos ShipCompliant and Wines Vines Analytics.

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WE WOULD LIKE TO ACKNOWLEDGE THE HELP AND INPUT PROVIDED BY THE FOLLOWING PEOPLE AND COMPANIES:

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