



Quarterly Update: December 3, 2014

Company Description

Truett-Hurst, Inc. (“Truett-Hurst” or “the Company”) is a wine sales, marketing, and production company specializing in \$7.00 to \$50.00 per bottle wines. The Company is known for its quality and packaging innovations. Based in the Dry Creek and Russian River Valleys of Sonoma County, California, its product line includes over 30 wine brands. Truett-Hurst’s largest business segment is its retail exclusive label partnerships with major retailers, including Trader Joe’s, Safeway, and Total Wine & More. For retail exclusive label sales, the Company combines its competitive grape sourcing and skill in wine making and production with its understanding of consumer trends and unique approach to creating wine bottles that stand out on the retail shelf. These wines are sold exclusively by a retailer (e.g., Safeway) under a retail exclusive brand. The Company also produces four of its own wine brands, which are sold through U.S. and Canadian distributors. Truett-Hurst further capitalizes on several direct-to-consumer sales channels, such as tasting rooms at its California wineries, wine clubs, and online sales through The Wine Spies, LLC (www.thewinespies.com) (an Internet wine retailer specializing in limited offerings and other online offerings as well as flash sales).

Key Points

- The Company recently announced its first quarter fiscal 2015 (FY15) financial results. Net sales were up 20% to \$6.5 million from \$5.4 million (+\$1.1 million) due to strong sales of the Company’s DTC channel, combined with sales from the internet channel, which increased 194% to \$4.1 million. Growth from the Company’s DTC division was driven largely from continued growth in wine club sales, tasting room sales, and targeted promotions. Internet growth was attributable to increased website traffic, internet marketing, and expanding customers through a new partnership model.
- Gross margins expanded during the quarter to 38% from 33%, and gross profit was up 36% to \$2.4 million. Specifically, wholesale gross margins were up 1.3% to 27.5%, DTC gross margins grew 4.8% to 64.8%, and internet gross margins expanded 6.9% to 47.5%.
- The Company continues to gain new customers as well as create new products. Specifically, during the quarter, a new California Winecraft project with Kroger Company was announced, which is expected to launch by the end of FY15. As well, Truett-Hurst continues to add new customers, such as Target, which has selected at least eight of Truett-Hurst’s products to carry in 1,300 of their stores.
- Truett-Hurst is led by a team of industry veterans, who have established a biodynamic winery via a commitment to the environment in conjunction with producing quality wines. The founding team of Mr. Phil Hurst and Mr. Paul Dolan hold decades of industry experience and have had past successes at building businesses to scale. Director of winemaking, Ms. Virginia Marie Lambrix, has experience in making wine for leading producers such as DeLoach Vineyards, La Follette Wines, and Hendry Ranch. In-house designer, Mr. Kevin Shaw, owner of Stranger & Stranger, is believed to be one of the top designers in beverage alcohol.
- At September 30, 2014, Truett-Hurst held approximately \$4.8 million in cash and cash equivalents.

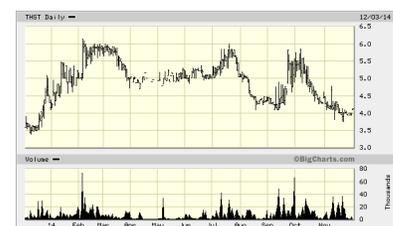


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| Ticker (Exchange) | THST (NASDAQ) |
|-----------------------------|-----------------|
| Recent Price (12/03/2014) | \$4.10 |
| 52-week Range | \$3.39 - \$6.15 |
| Shares Outstanding | ~3.75 million |
| Market Capitalization | ~\$15.4 million |
| Average 3-month Volume | 13,088 |
| Insider Ownership +>5%* | 23.4% |
| Institutional Ownership* | 34.3% |
| EPS (Qtr. ended 09/30/2014) | (\$0.03) |
| Employees | ~32 |

*Source: Capital IQ.

THST One-Year Stock Chart



Source: Bigcharts.com.



Recent Events and Financial Results

Recent Events

An overview of the Company's recent news announcements is provided below, referring the reader to Truett-Hursts' website for complete news releases www.truetthurstinc.com.

- *November 25, 2014.* The Company announced that Marcus Benedetti has been elected to the Board of Directors, effective November 20, 2014. Mr. Benedetti is president and CEO of Clover Stornetta Farms Inc., a leading manufacturer and distributor of milk and dairy products in California, Nevada, and Arizona. He also serves as a Board member of the Association of Independent Dairies of America, the Dairy Institute of California, and as an honorary advisory Board member for the UC Davis Agriculture Sustainability Institute, Community Foundation of Sonoma County, and Social Advocates for Youth.
- *October 27, 2014.* The Company announced that its innovation in packaging has earned major awards from the beverage industry as well as won graphic design competitions worldwide. Beyond the quality of its wines, the Company is able to engage and bring in consumers through its unique packaging designs, which inspire touch as well as a compelling visual experience. Truett-Hurst seeks to change the way people think about and buy wine—from distribution channels to cutting-edge packaging. Awards in 2014 to date include:

Pentaward Worldwide Packaging Awards: Gold medal for wine design, Paperboy

Harpers Wine & Spirit Global Design Awards

- Best overall design agency
- Gold medal in special packaging, Paperboy
- Silver medal for white wine over \$10, VML Gewurztraminer
- Silver medal for white wine under \$10, CA Square Bottle
- Silver medal for red wine under \$10, CA Square Bottle
- Silver medal for best packaging, CA Square Bottle

Creativity International Graphic Designer & Advertising Agency Awards: Gold medal in food and beverage packaging, VML Gewurztraminer

Graphic Design Annual Review Best in Design: Silver medal, CA Square Bottle

San Francisco International Wine Competition

- Double gold medal in packaging design, CA Square Bottle
- Double gold medal in packaging design, Paperboy
- Gold medal in packaging design, VML Gewurztraminer

Dieline Consumer Packaging Awards: First place in wine and champagne category, Paperboy



Beverage World Bev Star Awards

- Best wine label, Curious Beasts
- Best overall package design, Curious Beasts
- Sustainability in a package, Paperboy

Beverage Industry magazine

Nominated as one of 10 finalists, Paperboy (winner is selected by the readership, with results published in the December issue; <http://www.bevindustry.com/vote-best-packages-2014>)

- *October 13, 2014.* The Company announced that it had hired a national sales manager/director of national accounts, Scott Stowe. Mr. Stowe is managing Truett-Hurst's distribution network in the eastern U.S. and growing broad market business on and off premise in the region. His focus is to expand the Company's presence in the on premise national account channel. To date, in 2014, Truett-Hurst has gained new listings in Safeway, Total Wine & More, and Kroger, with Mr. Stowe seeking to add momentum to national account sales efforts.
- *September 23, 2014.* Truett-Hurst announced that it will release ready-to-drink wine-based beverages in cans under the brand California Winecraft through Kroger's supermarkets and multi-department stores. Kroger, one of the world's largest retailers, serves customers in 2,638 supermarkets and multi-department stores in 34 states and the District of Columbia under two dozen local banner names: Kroger, City Market, Dillons, Food 4 Less, Fred Meyer, Fry's, Harris Teeter, Jay C, King Soopers, QFC, Ralphs, and Smith's, among others. The initial release is expected to take place in Spring 2015 in the U.S. Kroger family of stores. At the same time, there will be four offerings released in Canada of single-serving cans. In keeping with the Company's business model, the line of California Winecraft wines provides ease of use via a single serving can and more eco-friendliness compared to wines in standard glass packaging. Of note is that the cans display the artwork Truett-Hurst's designer, Kevin Shaw of Stranger & Stranger. The initial product round will include the following products.
 - Mataro's Punch: red wine and fruit juice (Sangria)
 - Sonoma Brew: red wine and cola (Calimocho)
 - NorCal Squeeze: sauvignon blanc, lemon and lime (White Wine Spritzer)
 - Chateau Vanille: chardonnay and vanilla (a new classic Adult Cream Soda)
- *September 17, 2014.* The Company announced that beginning Fall 2014 and Spring 2015, beverage retail company Total Wine & More will be adding more of Truett-Hurst's new wines to its retail selection. This news follows the Company's announcement in August 2014 that grocery retailer Safeway was also adding more Truett-Hurst wines to its listings, starting in September 2014. The latest brands from Truett-Hurst being picked up by Total Wine include Mad Duck Sauvignon Blanc, Inconspicuous Old Vine Lodi Zinfandel, Eden's Eve by Eden Ridge, and The One Arm Man (a reserve level of Truett-Hurst's The Fugitive). These brands retail for between \$10.99 and \$34.99 per bottle at Total Wine. The Fugitive is currently a top-selling wine at Total Wine, and was a contender in the store's 2013 "Wine Madness" promotion—a contest conducted along with NCAA March Madness. As well, The Fugitive was ranked according to customer feedback as #1 in the "Championship."



First Quarter FY2015 Financial Results

On November 10, 2014, the Company announced its results for its first quarter fiscal 2015 (FY15), which ended September 30, 2014. Net sales were up 20% to \$6.5 million from \$5.4 million (+\$1.1 million) stemming from strong sales of the Company's DTC channel in conjunction with sales from the internet channel, which increased 194% to \$4.1 million. Wholesale sales increased 3% to \$4.1 million, as the prior-year quarter benefitted from two new product launches. Growth from the Company's DTC division was driven largely from continued growth in wine club sales, tasting room sales, and targeted promotions. Internet net sales growth stemmed from greater website traffic, internet marketing, and expansion of the Company's customer reach via a new partnership model. Variability continues between quarters for the Company's wholesale business as Truett-Hurst brings on new customers and launch new products.

Gross margins during the quarter expanded to 38% from 33%, and gross profit was up 36% to \$2.4 million. Specifically, wholesale gross margins were up 1.3% to 27.5%, DTC gross margins grew 4.8% to 64.8%, and internet gross margins expanded 6.9% to 47.5%. Growth in sales and gross margins attests to the Company efforts of achieving profitable growth and an increase average price sold.

The Company continues to gain new customers as well as create new products. Specifically, during the quarter, a new California Winecraft project with Kroger Company was announced, which is expected to launch by end of FY15. As well, Truett-Hurst continues to add new customers, including Target, which has selected at least eight of the Company's products to carry in 1,300 of their stores.

Operating Expenses

Operating expenses for the first quarter of FY15 were 39% of net sales versus 35% of net sales in the year-ago quarter period. Sales and marketing expense as a percent of net sales during grew 3% to 24% of net sales from 21% of net sales for the same prior-year quarter period. Beyond the variable costs stemming from increased internet sales (packaging, shipping, and other transaction costs), year over year changes in S&M expense resulted from the Company continued investment in people, as well as expanded brand-related programing, promotions, and incentives. General and administrative (G&A) expense as a percent of net sales for the first quarter FY15 increased 1% to 15% of net sales from 14% of net sales for the same prior-year quarter period. G&A expense increased \$200,000 to \$900,000 from \$700,000 for the year-ago period. Changes in G&A expense are primarily attributable to infrastructure expansion to support growth.

Recent Trends and Events

Noteworthy trends for the wine industry, per the Silicon Valley Bank (SVB)—“State of the Wine Industry: 2014” and the Q4 2014 Rabobank Wine Quarterly Report, include:

- A growth of 2% by volume and 4% by value in U.S. wine exports through the first seven months of calendar year 2014. (Rabobank).
- Chain accounts, likes grocery stores, increasingly having a key role in the wine market and thus, not able to be ignored by brands seeking to achieve scale (Rabobank).
- West coast harvests being large for the second year (2012 and 2013) in all three states: Washington, Oregon and California. Specifically in California, there is estimated to be a 3.94 million ton harvest for calendar year 2014—which would make it the second largest harvest ever recorded. Should there be a third year of record or near record yields, this could create an oversupply (SVB).
- Sales growth among fine wines expected to increase for the first time in three years, where luxury wines and those wines priced between \$10 and \$18 are expected to see the greatest demand growth during calendar year 2014 (SVB).



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- Water conditions entering this third year of drought becoming more important when planting and producing due to one of the driest winters on record following two drought years and a National Oceanic and Atmospheric Administration's long-range forecast of below normal precipitation in California through end of March 2015 (SVB).
 - Direct-to-consumer sales, which are expected to remain the largest growth channel for most wineries (SVB).



Company Background

Wineries and Brands

Established in 2007, the Company's first winery, Truett-Hurst, is located in the Dry Creek Valley of Sonoma County, about six miles west of downtown Healdsburg, California. This super-premium winery focuses primarily on red varietals, with the indigenous Dry Creek variety Zinfandel as its lead product. Its prices range from \$7.00 to \$50.00 or more per bottle. As well, the winery makes a range of other varietals, which are sold exclusively from the Company's tasting room, and include Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Syrah, and other red blends.

The Company's second winery (a leased facility) and brand, VML, was established in 2011 and is located in the Russian River Valley, approximately five miles southwest of Healdsburg, California. VML are the initials of Truett-Hurst's director of winemaking, Ms. Virginia Marie Lambrix, who specializes in Pinot Noir and Chardonnay. The VML winery produces super-premium wines from grapes purchased from local growers, including from Company founders and members of management. As well, VML produces ultra-premium wines made from the traditional varietals—Burgundy, France, Pinot Noir, and Chardonnay.

Ms. Lambrix has identified and contracted with vineyard lots from cool climates, Russian River vineyards, to craft these award-winning wines. VML wines are sold primarily through the direct-to-consumer channel (tasting rooms/wine club/flash sale website) and range in price from \$30.00 for the Russian River Chardonnay and Pinot Noir to \$75.00 for the top-end vineyard-designated Pinot Noirs. Other varietals that can be found in the Company's tasting rooms include Sauvignon Blanc, Gewurztraminer, and Rosé.

The VML winery can crush, ferment, and oak barrel age roughly 500 tons (35,000 cases) of grapes annually, with capacity to increase to 2,000 tons given additional capital improvements. For larger production capacities, Truett-Hurst outsources to a variety of specialist wineries and bottling facilities. Truett-Hurst's grape and wine sourcing strategy involves a combination of long-term contracts with sizeable partner-owned and managed vineyards (roughly 500 acres or 175,000 case equivalents), and multi-year contracts (one to four years) for grapes, bulk wine, and bottled goods. Total commitments made up roughly 300,000 cases per year or about 80% of total sourcing needs for fiscal year 2013.

Industry Overview and Trends

The global wine industry is on track to produce roughly \$292 billion in revenues in 2014 (Source: MarketLine reports), with the top wine-producing countries accounting for over 80% of the world's supply, and the top four accounting for roughly 55% of all wine worldwide. For the first time in history, the U.S. has now become the world's largest wine market as of last year, relegating France to second place due to sliding consumption levels (despite the fact that France has always been widely viewed as the drink's natural home) (Source: "There's a new No. 1 wine market: (Hint: Not France)," *Reuters*, May 13, 2014). In terms of volume, the U.S. has about 100 million wine drinkers, which is driving a market of greater than \$36 billion in sales and 370 million cases, as of 2013, up 2.7% and 5% respectively from 2012, including both domestic and imported wine (Source: Wine Market Council). This growth has been noteworthy since only 20 years ago (in 1994), 71% of drinkers under age 30 preferred beer over wine and liquor—with beer the preferred drink for only 41% of drinkers in that age group as of 2013.

California is the leading wine-producing state in the U.S., with the industry dominated by only a few producers that capture the bulk share of sales. Specifically, the top four wine producers in California control roughly 65% of California wines' unit shipments. If California were a country, it would be the fourth largest wine-producing nation behind France, Italy, and Spain. Not surprisingly, California also leads in terms of wine consumption. Specifically, Californians consume one-fifth of all U.S. bottles of wine.



Some interesting trends are setting the stage for the wine industry for the coming years, including the large percentage of California wine sales that are represented within the domestic market (roughly 57%), where shipments of California wines to domestic markets and abroad reached 258 million cases in 2013. Further driving the markets are some historically unconventional and perhaps even unlikely distribution points, such as Starbucks (SBUX-NASDAQ), which is now serving wine in select markets, as well as a greater number of online sources, which are making wine available for purchase over the Internet in the majority of states. There are also increasing numbers of liquor stores across the country that have worked to expand wine variety and volume as well as a greater availability of wine selections within grocery stores and pharmacies.

Management

Truett-Hurst is led by a team of industry veterans, who have established a foundation of making world-class wines from a biodynamic winery—bringing an ecological approach to the business—via a commitment to the environment in conjunction with producing quality wines. Biodynamic farmers strive to create a diversified, balanced farm ecosystem that generates health and fertility as much as possible from within the farm itself. The Company was started seven years ago by co-owner Mr. Phil Hurst, a veteran of Golden State Vintners and co-founder of Novato-based Winery Exchange, and Mr. Paul Dolan, who built Fetzer Vineyards into a large environmentally sensitive vintner. Mr. Hurst, a graduate of the University of California-Davis Viticulture and enology program, brings his unique stamp to the winemaking process. The Company’s lead winemaker, Ms. Virginia Marie Lambrix, was the past understudy of Greg LaFollete of Tandem and Flowers winery, master of Pinot Noir and Chardonnay. As well, she worked for the Max Planck Institute for Chemical Ecology and was formerly at DeLoach Vineyards, La Follette Wines, and Hendry Ranch Winery.

Corporate Strategy

Truett-Hurst is capitalizing on a combination of fundamental changes to U.S. wine markets, as outlined below.

- *Steady growth.* The U.S. wine market has grown, on average, 5% per year over the past decade, with expansion coming largely from domestic brands, where from 2007 to 2011, imports increased by only 1.6% per year. Two of the three fastest-growing price points are the super-premium and ultra-premium segments—the categories in which Truett-Hurst primarily participates.
- *Retail exclusive label model.* According to Nielsen (a global information and measurement company), roughly 22% of consumer products sold by food and drug retailers in the U.S. are retail exclusive labels. Within the U.S. wine sector, 3.7% of sales are from retail exclusive labels. More established wine markets, such as exist in the UK and Australia, have much higher penetration of retail exclusive label wine sales. Given that the market for wine sales in the U.S. is currently approximately \$36 billion, the retail exclusive label business represents a significant market opportunity and one which Truett-Hurst is aggressively addressing.
- *The market is ripe for a novel approach.* Food retailers account for roughly 65% of wine sales, with much of the market share concentrated among only a few major wine producers and distributors. Truett-Hurst is providing food and grocery retailers with a retail exclusive label program as a way of gaining margin, customer loyalty, category growth, and differentiation.
- *Innovation.* As retailers seek to increase customer traffic and grow same-store sales in the face of greater market competition, they are placing an emphasis on innovative wine packaging, specifically with “earth friendly” components. Accordingly, Truett-Hurst is aligned with its retail partners’ initiatives (including consumer consciousness ideals) and is creating products that minimize waste and fossil fuel use as well as increase recyclability. One example of this is *PaperBoy*®, the world’s first easily recyclable paper wine bottle. As well, the eco-friendly *California Square*® fine wines in a cleverly designed square bottle provide shipping and storage savings.



- *Upsurge in New Brands.* Along with its growth, the U.S. wine market has experienced an upsurge of new brands, driven by consumers' desires to sample new labels and varietals. For instance, in 2011, relatively new brands like *Cupcake® Vineyards*, *Ménage à Trois® Wines*, and E. & J. Gallo Winery's *Apothic®* grew by 55%, 18%, and 258%, respectively. Food retailers, such as those that Truett-Hurst has relationships with, are able to capitalize on promotion and brand position since they control the shelf space within their store.

Corporate History

Truett-Hurst, Inc. is a holding company that was incorporated as a Delaware corporation and its sole asset is the controlling equity interest in H.D.D. LLC. Prior to its 2013 IPO, the Company had not engaged in any business or other activities except in connection with its formation, issuance of restricted stock, and IPO. The LLC operated as a separate entity until the IPO was completed on June 25, 2013. As a result of the IPO and formation transactions, Truett-Hurst became the sole managing member of the LLC and its subsidiaries, with its existing owners retaining their equity ownership in the LLC in the form of LLC Units. All business activities and affairs are operated and controlled through the LLC along with the consolidated financial results of the LLC and its subsidiaries.

Initial Public Offering (IPO)

On June 25, 2013, Truett-Hurst, Inc. sold 2.7 million shares of its Class A common stock to the public at \$6 per share, raising \$14.1 million. The Company was taken public to provide funding for growth. This IPO represented the first for a North Coast wine company in 13 years to successfully launch on the NASDAQ. The architect of the Truett-Hurst IPO was Truett-Hurst LLC shareholder, Mr. Bill Hambrecht, an investment banker who facilitated Ravenswood Winery's IPO in 1999. Truett-Hurst's offering was led by W.R. Hambrecht + Co. using its Open-IPO® process, which allows individual and institutional investors to bid on shares in an auction. CSCA Capital Advisors LLC, Feltl and Co. Inc., and Sidoti & Co. LLC co-managed the offering.

Headquarters, Facilities, and Infrastructure

The Company owns a 26-acre facility—Dry Creek Valley—located at 5610 Dry Creek Road, Healdsburg, California (six miles west of Healdsburg), of which approximately 15 acres of vineyards are used for growing grapes. The remainder of the facility is used for a tasting room, retail sales space, and office space for support staff. Healdsburg was voted the number two best small town to visit by the *Smithsonian Magazine*. As well, a three-acre winery is leased by Truett-Hurst (which is VML Winery), is located at 4035 Westside Road, Healdsburg, California. The term of the lease is five years, which began March 1, 2011 and ends February 29, 2016, with a tenant option to extend for an additional five-year period. The Company's wine production operations and executive offices are located at this facility. Altogether, the Company employs approximately 32 individuals, and hires part time and seasonal help as needed.



Key Points to Consider

- Based in the Dry Creek and Russian River Valleys of Sonoma County, California, Truett-Hurst, Inc. and its subsidiaries, H.D.D. LLC (LLC) and its consolidated subsidiary The Wine Spies, LLC (Wine Spies)—(collectively, “Truett-Hurst” or “the Company”)—specialize in premium (below \$7.00 per bottle retail price), super-premium (between \$7.00-\$14.00 per bottle retail price), ultra-premium (over \$14.00-\$25.00 per bottle retail price), and luxury (over \$25.00 per bottle retail price) wine sales, marketing, and production. The Company has a line of more than 30 brands of the following varietals: Pinot Noir, Chardonnay, Sauvignon Blanc, Merlot, Cabernet Sauvignon, Zinfandel, and Syrah. Truett-Hurst largely uses fruit from premium vineyards to produce its wines—where the grapes for the wines are grown primarily in steep, rocky, hillside vineyards that produce super concentrated, intense fruit flavors—as well as from spot purchases made from other wine-growing regions.
- Wines are sold to distributors with programs available to the broad market or on a retail exclusive basis via a three-tier channel. The Company’s traditional three-tier distribution business consists of sales of *Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain* branded wines. Through the retail exclusive brand label model, the Company collaboratively works with its retail alliances to develop innovative brands, which resonate with their customers, increase consumer store traffic, and grow sales. Truett-Hurst’s retail exclusive label model allows the Company to own the brands it creates, which is a differentiating factor versus the traditional private label model, and enables the Company to potentially expand its brands into national and international broad markets—further building its brand equity. The direct-to-consumer channel consists of sales through the Company’s tasting rooms and wine clubs, which increases brand visibility and loyalty, and through the Company’s 50% ownership interest in Wine Spies (an internet wine retailer specializing in limited offerings and other online offerings, as well as flash sales).
 - While the retail exclusive label business accounts for the majority of revenues, the traditional three-tier distribution and direct-to-consumer business contributes greatly to gross margins. By addressing the market in largely unconventional ways—direct-to-the-trade and -consumer versus through layers of sales entities and employees—Truett-Hurst is able to react quickly to the needs of consumers, retailers, and restaurateurs in a timely manner.
- A key benefit for Truett-Hurst in pursuing the retail exclusive label market is the innate advantage that retail exclusive label wines have over branded wines: unencumbered access to shelf space. The beverage alcohol industry is highly competitive with regard to shelf space at grocery, liquor, and convenience stores, among other retail outlets. However, by making custom wines specifically for sale under certain retailers’ labels, Truett-Hurst’s “retail exclusive” wines compete with other wine brands on the retailer’s terms, which means these products frequently enjoy prominent shelf locations selected by the retailer working to promote its own labels.
- Importantly, the Company retains ownership of its retail exclusive label brands, enabling the marketing and distribution of these products into broader markets following the exclusivity periods with its partners. Truett-Hurst believes that a distinguishing factor of its business model is its wines’ “stickiness” or staying power, as the creative bottle designs and wraps entice consumers to purchase the wines out of curiosity or for a gift, but the taste and quality of the wine is what keeps consumers coming back to re-purchase. For example, the Company’s top-selling wrapped wine, *Curious Beasts*, is doing so well as a retail exclusive label at Safeway that it is now being “unwrapped” to sell around the country. Expanding the distribution points for its wines is the key growth driver for Truett-Hurst’s business.
- With over 100 million wine drinkers, the U.S. is the world’s largest wine market. The retail value of U.S. wine shipments was estimated at over \$36 billion in 2013, part of a nearly \$292 billion global industry. California is the predominant U.S. supplier, and is a major global supplier as well. Recently, the greatest growth by volume at California wineries has been in the premium and higher table wine sectors (priced at \$10.00 or more per bottle), which account for nearly half of California winery revenues and had 2013 growth of 9% (Source: The Wine Institute, April 24, 2014).



- The industry’s direct-to-consumer sales channels continue to expand, and are favored by many smaller wineries over traditional distributor relationships. In addition, the number of brick-and-mortar locations selling wine is also growing, up 12% over the past five years. Today, there are ~550,000 locations in the U.S. to buy wine.

Retail Exclusive Label Business Highlights

- Under its retail exclusive label partnerships (the leading source of revenues), Truett-Hurst works closely with partners and has a history of developing brands that contain “earth friendly” components, which can be sold to the discovery-oriented wine consumer. Part of the reason retailers choose to collaborate with Truett-Hurst is due to the Company’s ability to quickly create new and unique products that match consumer tastes and market demand.
- In November 2013, Truett-Hurst and Safeway launched *PaperBoy*® (Figure 1) into U.S. markets. As the first of its kind, the *PaperBoy*® bottle is made of 100% recycled cardboard and has a plastic insert with proven “bag in a box” technology. The bottle’s carbon footprint is significantly smaller than glass, and it is 85% lighter. In addition, due to the lack of glass, consumers can purchase the wine for situations where glass bottles are either inconvenient or prohibited. At \$14.99/bottle, *PaperBoy*® is available in Safeway stores in 45 states.
- In September 2013, Truett-Hurst and Total Wine & More launched a new line of eco-friendly wines, called *California Square*® (Figure 1), in a unique retro/chic square glass bottle. The 2012 vintage of *California Square*® includes *Russian River Valley Chardonnay*, a *Paso Robles Cabernet*, and a *Paso Robles Three Red Blend*. Available in stores across the U.S. and Canada, these wines retail for under \$20.00.
 - The *California Square*® line was featured at a sneak preview prior to the 65th Annual Primetime Emmy Awards. Stars like *Modern Family*’s Ed O’Neill, *The Good Wife*’s Chris Noth, and Globe Nominee and Emmy Nominee, Dennis Quaid, promoted the wines during the event. As well, for the second year in a row, *California Square*® was in the Total Wine & More “March Madness Competition,” having won the competition last year (2013) and coming in second place this year (2014).
- Truett-Hurst launched the *Evocative Wraps* (Figure 1) line of premium wines with creatively designed full-body paper wraps—printed with everything from quotes to recipes. The idea behind the wraps is to create wine bottles that stand out on the shelf by adding value, interest, and gifting opportunities.

Figure 1
RECENT BRAND INTRODUCTIONS AND PACKAGING INNOVATIONS



Source: Truett-Hurst, Inc.

- Truett-Hurst has a Trademark Co-Ownership Agreement for *Colby Red* (a California **Cuvée** of Cabernet Sauvignon, Zinfandel, Shiraz, Merlot, and Petite Sirah that is owned 50% by Truett-Hurst) and anticipates near-term label launches of *Stonegate* (a Napa Valley Cabernet) and *Bewitched*, the **reserve** tier (a Russian River Valley Pinot Noir), among other wines.



Direct-to-Consumer Business Highlights

- The direct-to-consumer channel involves sales of four main brands—*Truett-Hurst*, *VML*, *Healdsburg Ranches*, and *Bradford Mountain*—through Truett-Hurst’s tasting rooms and wine clubs, strengthening brand visibility and customer loyalty and providing the highest gross margin component to the Company’s business. The range of varietals sold exclusively through the tasting rooms includes Zinfandel, Chardonnay, Sauvignon Blanc, Pinot Noir, Petite Sirah, and other red blends. Importantly, Truett-Hurst’s two tasting rooms (one at the Company’s VML winery in California’s Russian River Valley and one at the Truett-Hurst winery in Dry Creek Valley [Figure 2]) each produce different varietals so as not to compete against one another.
- In August 2012, Truett-Hurst acquired a 50% ownership interest in The Wine Spies LLC (www.thewinespies.com), an Internet retailer specializing in limited offerings and other online offerings as well as “flash sales.” In the world of Internet sales, from fashion to travel to wine, a flash sale is by nature a sale offered on a particular item for a short period of time. As of 2011, flash wine sales were estimated at approximately \$100 million (Source: *Forbes*, October 13, 2011). The Company’s Wine Spies website offers consumers one vetted and reviewed wine selection per day (flash sale), and offers higher priced limited production wine with an emphasis on quality, price, and finding uncommon wines from boutique producers.

Figure 2

DIRECT-TO-CONSUMER CHANNEL: TASTING ROOMS

Truett-Hurst Tasting Room



VML Tasting Room



Source: Truett-Hurst, Inc.



Traditional Brand Sales Highlights

- Truett-Hurst distributes its own wine under four fully-owned in-house labels (Figure 3):
 - *Truett-Hurst*;
 - *VML*;
 - *Healdsburg Ranches*; and
 - *Bradford Mountain*.

Figure 3
FOUR FULLY-OWNED LABELS OF TRUETT-HURST, INC.



Source: Truett-Hurst, Inc.

- The Company has major distribution partnerships with Southern Wines & Spirits (the single largest wine and spirits distributor in the U.S., with operations in 35 states) and Trialto Wine Group (Canada's leading national premium wine company).
- Truett-Hurst has received positive reviews from retailers, national publications, and newspapers for its wine quality and unique designs. In December 2013, Robert Parker, one of the industry's most highly regarded wine critics, evaluated and rated select Truett-Hurst VML wines (published in *Wine Advocate* #210), providing high scores and favorable commentary. As well, the Company's 2011 *VML Winery Pinot Noir Earth* received 92 points from *Wine Spectator*.



Risks and Disclosures

This Quarterly Update has been prepared by Truett-Hurst, Inc. (“Truett-Hurst” or “the Company”) with the assistance of Crystal Research Associates, LLC (“CRA”) based upon information provided by the Company. CRA has not independently verified such information. Some of the information in this Update relates to future events or future business and financial performance. Such statements constitute forward-looking information within the meaning of the Private Securities Litigation Act of 1995. Such statements can only be predictions and the actual events or results may differ from those discussed due to the risks described in Truett-Hurst’s statements on Forms 10-K, 10-Q, and 8-K, as well as other forms filed from time to time.

The content of this report with respect to Truett-Hurst has been compiled primarily from information available to the public released by the Company through news releases, Annual Reports, and U.S. Securities and Exchange Commission (SEC) filings. Truett-Hurst is solely responsible for the accuracy of this information. Information as to other companies has been prepared from publicly available information and has not been independently verified by Truett-Hurst or CRA. Certain summaries of activities and outcomes have been condensed to aid the reader in gaining a general understanding. CRA assumes no responsibility to update the information contained in this report. In addition, CRA’s compensation by a third party is a cash amount of thirty thousand U.S. dollars for its services in creating the base report and for updates. For more complete information about the risks involved in an investment in the Company, please see Truett-Hurst’s most recently filed Annual Report on Form 10-K for the year ended December 31, 2013.

Investors should carefully consider risks and information about Truett-Hurst’s business. Investors should not interpret the order in which considerations are presented in this EIO or the Company’s other filings as an indication of their relative importance. Additional risks and uncertainties not presently known to Truett-Hurst or that it currently believes to be immaterial may also adversely affect its business. If any of such risks and uncertainties develops into an actual event, Truett-Hurst’s business, financial condition, and results of operations could be materially adversely affected, and the trading price of the Company’s shares could decline.

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QUARTERLY UPDATE: December 3, 2014

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Crystal Research Associates is led by Wall Street veterans, Jeffrey Kraws and Karen Goldfarb. Together, Kraws and Goldfarb have built a unique business model, capitalizing on decades of experience as an award-winning sell-side analyst team to produce institutional-quality industry and market research in a manner that is easily understood by investors and consumers. Our firm's approach has been proven successful over the years as our products are published and available on Bloomberg, Thomson Reuters/First Call, Capital IQ, FactSet, Yahoo! Finance, and scores of other popular forums.

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