



2023

DIRECT TO CONSUMER

Wine Shipping Report

2022 YEAR IN REVIEW

SOVOS
ShipCompliant



WINES VINES
ANALYTICS

DIRECT-TO-CONSUMER WINE SHIPPING IN 2022

Winery shipments decrease as channel cools

First-ever decline in both volume and value



-10.3% Volume

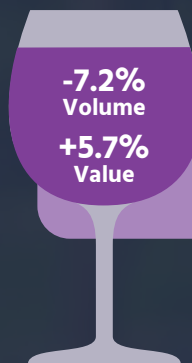
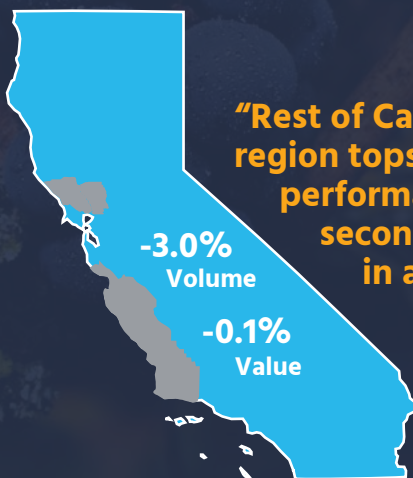
-1.6% Value

Wines priced \$100+ outstrip overall channel



+7.8% Volume

+15.2% Value



-7.2% Volume
+5.7% Value

Cabernet Sauvignon outperforms with value increase & smaller-than-average volume decrease

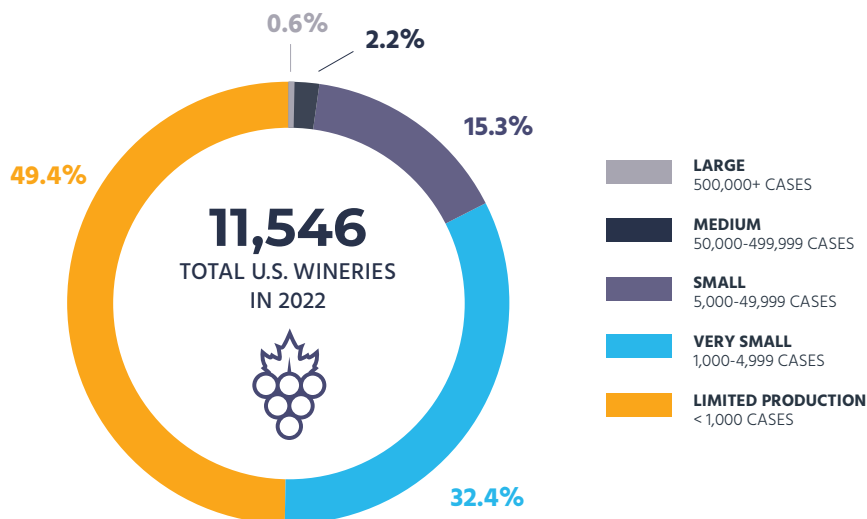
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Creation of the DtC Report

This report is an annual collaboration between Sovos ShipCompliant and Wines Vines Analytics. It analyzes anonymized, detailed direct-to-consumer (DtC) shipment data from more than 1,300 U.S. wineries to consumers each month, totaling more than 41+ million shipments over the course of the year in 2022. Employing the Wines Vines Analytics model, the anonymized sample data is projected to the universe of U.S. wineries, to report whole market DtC shipments from all wineries to consumers. DtC purchases picked up or carried out from wineries are not included.

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 ensure that aggregated transactions evenly reflect winery size, location and average bottle price. The model is built on a database of 11,000+ 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).



Overview

In the dozen years this report has previously been produced, it has never recorded a year-over-year decrease in either the volume or value of DtC winery shipments, let alone for both metrics. In fact, from 2011 to 2021, the average change in the volume of winery shipments and the value of the shipping channel is 11.2% and 12.3%, respectively. This trend was disrupted in 2020 and 2021. However, the volatility continued in 2022 when the volume of DtC winery shipments decreased by 10.3% (876,848 cases) from 2021, while the value of winery shipments decreased by 1.6% (\$66 million). None of these numbers can be understood without the context of the pandemic-induced market rollercoaster and now the effects of inflation and higher costs of living, a prospect we flagged in our 2022 report.

The average price per bottle shipped increased by 9.7% in 2022. This increase comes after an unprecedented 11.8% increase in the average price per bottle shipped in 2021, which followed an extraordinary drop in average price per bottle in 2020, meaning some of the recent increases in price can be attributed to a return to the “normalcy” of the pre-pandemic DtC wine shipping market. Even so, the average price per bottle shipped has climbed 10.9% since 2019 as wineries appear to have taken price increases in response to inflationary pressures up and down their supply chains. Meanwhile, wine consumers, particularly those purchasing wines under \$50 per bottle, pulled back on their DtC purchases, which helped push up the average price per bottle shipped. And finally, it may be the case that many of those who came into the DtC shipping channel during the 2020 pandemic year have exited.

The significance of the decline in DtC winery shipments is somewhat masked by the performance of wines priced at \$100 or above. Despite inflation across the economy, buyers of these luxury wines continued to receive shipments in 2022 at a similar rate to 2021. However, these wines represent only 8.1% of the total volume of DtC shipments and when excluding these most expensive wines, the channel saw a nearly 12% decrease in shipment volume and an 8.2% decrease in value. Wines priced below \$50 represent roughly 70% of the DtC shipping channel and saw a 14.5% decrease in shipments from 2021, while those priced above \$50 saw a mere 1.0% increase.

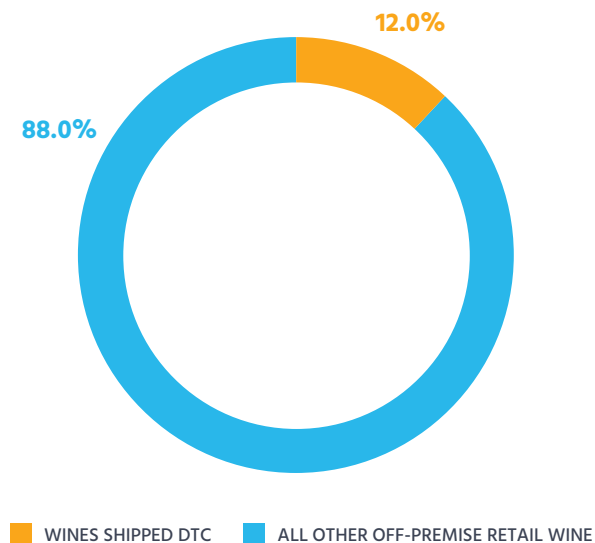
No winery, regardless of region or size, appears to have avoided the effects of a retreat from consumer wine spending in the shipping channel. Nearly every type of wine and

Overview (Cont'd)

every varietal was impacted with fewer bottles shipped from 2021. Apart from a few states, wineries were at a loss to find locations in the country where consumers upped their shipment of wine.

Additionally, in 2022 winery DtC shipments represented 12.0% of total off-premise sales value of domestic wines in the United States. According to Jon Moramarco, managing partner at bw166, total estimated off-premise sales of domestic table and sparkling wines were \$34.3 billion dollars, including the \$4.1 billion shipped direct-to-consumer. This percentage is roughly the same as 2021, which marked the largest ever percentage of domestic off-premise sales recorded by the DtC shipping channel.

DTC AS PERCENT OF TOTAL OFF-PREMISE SALES OF DOMESTICALLY MADE WINES



In the eight years leading up to 2019, the DtC shipping channel outperformed nearly every sector of the wine industry. Wineries benefited from the ongoing evolution in state shipping laws in the wake of the 2005 *Granholm v. Heald* Supreme Court decision that forbade states from discriminating against out-of-state wineries. This time period also saw consumers continue to migrate to online shopping and direct shipment. The extraordinary disruption to the economy beginning in 2020 due to the pandemic and continuing through 2022's high inflation demonstrates that the DtC wine shipping channel is not immune to market disturbances in the general economy. This report describes how inflation, tightening budgets, higher costs of living and an apparent retreat of "pandemic buyers" from the DtC channel conspired to slow DtC wine shipping in 2022.



2022 Highlights

DtC wine shipping channel experiences market correction

This year, the DtC wine shipping channel experienced a first-ever decline in both the volume and value of wine shipments. Volume dropped by 10.3% while the value of shipments fell 1.6% from 2021.

Average price per bottle shipped jumps significantly for a second year in a row

Following the largest-ever year-over-year increase in the average price per bottle shipped in 2021 (11.8%), the trend continued with 9.7% growth in 2022 to \$45.16. This follows a drop in price in 2020, meaning some of the increase can be attributed to a return to the “normalcy” of the pre-pandemic DtC wine shipping market. Even so, the average price per bottle shipped has climbed 10.9% since 2019 as wineries reacted to increased costs of energy, goods, services and borrowing, and removed pandemic-related shipping discounts that made lower priced wines more appealing for shipment. Some buyers of lower priced wines responded by decreasing or ceasing their purchases altogether.

DtC wine shipments account for 12% of total off-premise sales of domestic wine

DtC shipments of wine in 2022 kept pace with 2021 shipments by capturing 12.0% of the off-premise sales of domestic wines.

Wines priced over \$100 per bottle escape significant declines

While declines in shipments from 2021 hit every region, wineries of all sizes and nearly every varietal, only the highest-priced wines escaped significant volume declines in 2022. Wines priced at \$100 or more increased their volume an additional 7.8% after the unprecedented 34.2% increase in 2021. A continued return to pre-pandemic market conditions means buyers of high-priced wines are likely better equipped to withstand the impact of inflation and increasing costs of living.

Lower-priced wines hit hardest

Wines with an average price per bottle of under \$30 dropped in volume by 17.5% in 2022, continuing trends from 2021 and in contrast to the unmatched increases in shipments these lowest-priced wines experienced in 2020.

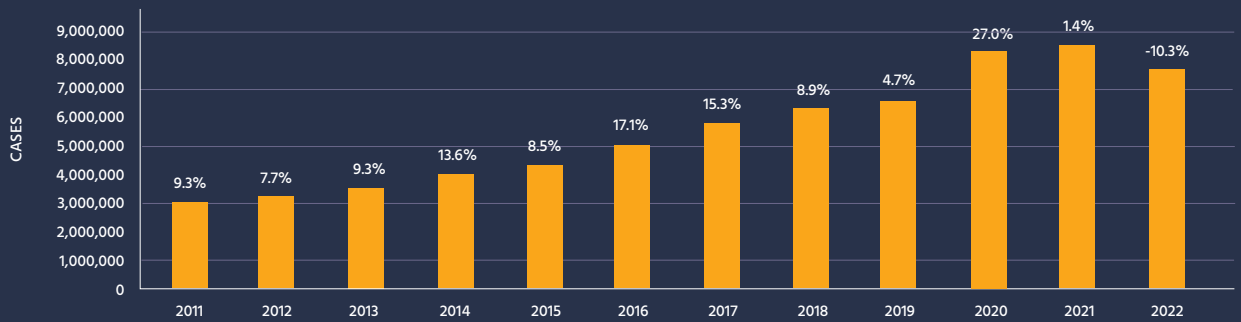
Cabernet Sauvignon shows most strength in a down year

Cabernet Sauvignon shipments showed relative strength in an otherwise challenging market. Cabernet saw increases in the value of shipments (+5.7%) and smaller-than-average decreases in the volume shipped (-7.2%) from 2021.

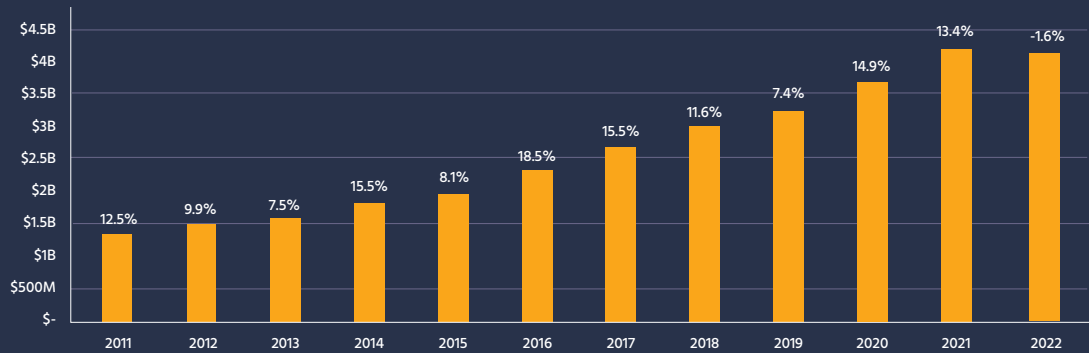
Kentucky wine lovers continue to say yes to legal shipping

In its second full year of being open for wine shipments after a change in the state's laws, Kentucky saw the volume of its shipments increase by 18.1% and the value of those shipments grow by 49.6%.

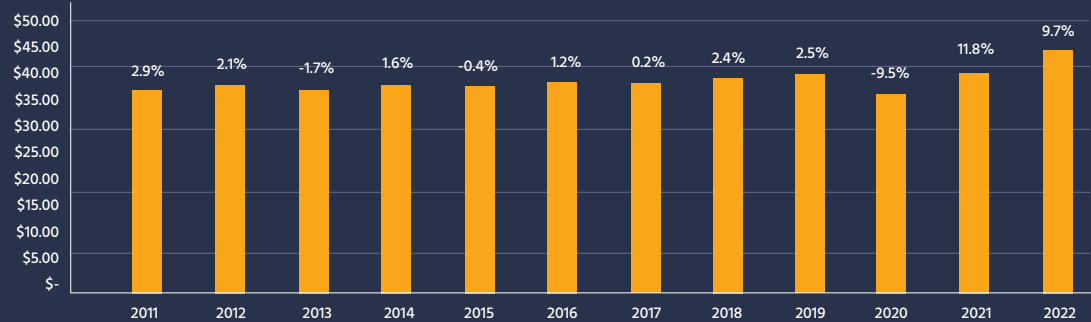
VOLUME OF SHIPMENTS WITH ANNUAL VOLUME GROWTH 2011-2022



VALUE OF SHIPMENTS WITH ANNUAL VALUE GROWTH 2011-2022



AVERAGE PRICE PER BOTTLE SHIPPED 2011-2022





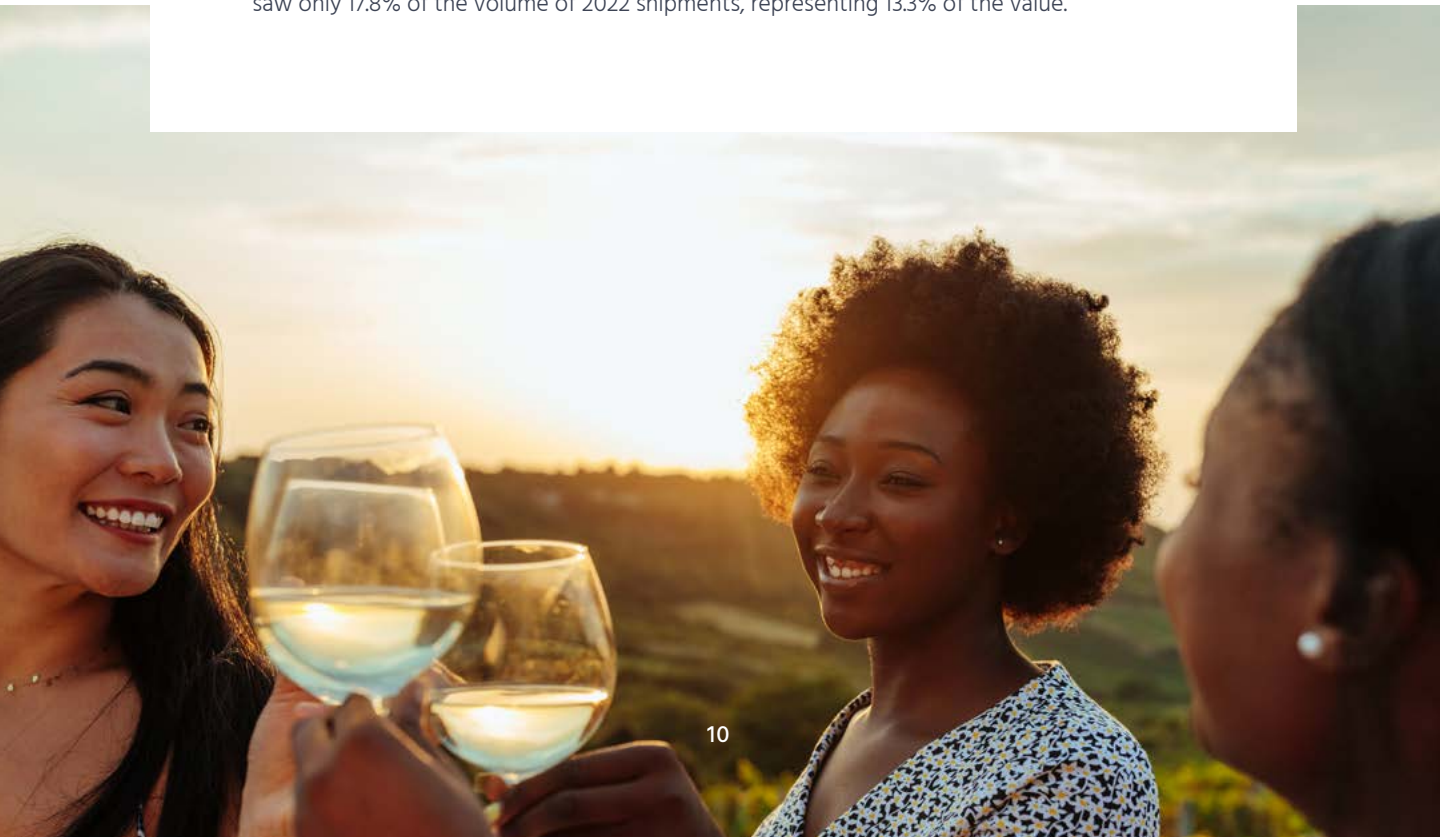
2022

Month-by-Month Analysis

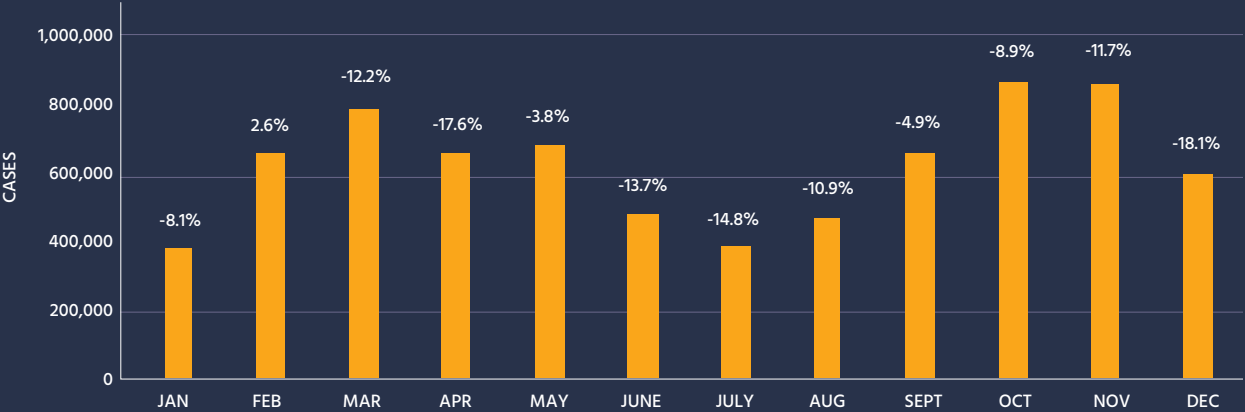
Direct-to-consumer winery shipments began 2022 with the average price per bottle shipped increasing 15.2% on average during the first five months of the year. This includes a significant 17.8% increase in average price per bottle shipped in April, which comes after a 20.6% year-over-year increase in April 2021 over 2020. This five-month trend was a continuation of the rebound in pricing seen throughout 2021.

The average bottle price increases slowed beginning in June and saw only moderate increases through the summer months. During the last quarter of 2022 prices again showed significant increases with an 11.1% climb in October and 10.2% bump in average price per bottle shipped in December over the same periods in 2021.

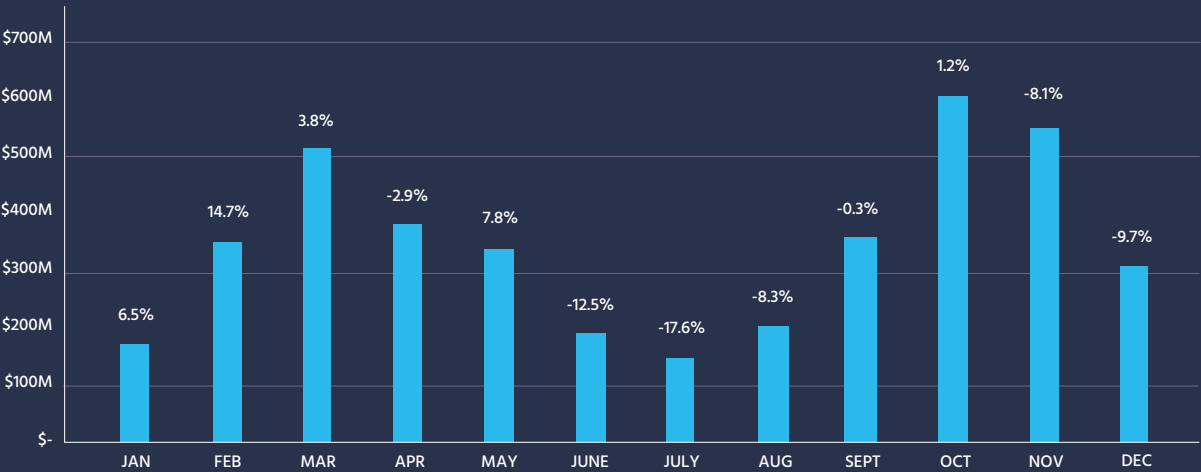
The monthly distribution of shipments by both volume and value during 2022 closely resembled the past decade, with spring and fall being the heavy shipping months due to the timing of wine club shipments, and winter and summer seeing significant slowdowns in shipments. For example, the last quarter of 2022 saw 32.1% of the total volume shipped, representing 36.8% of the value of total 2022 shipments. By contrast, June, July and August saw only 17.8% of the volume of 2022 shipments, representing 13.3% of the value.



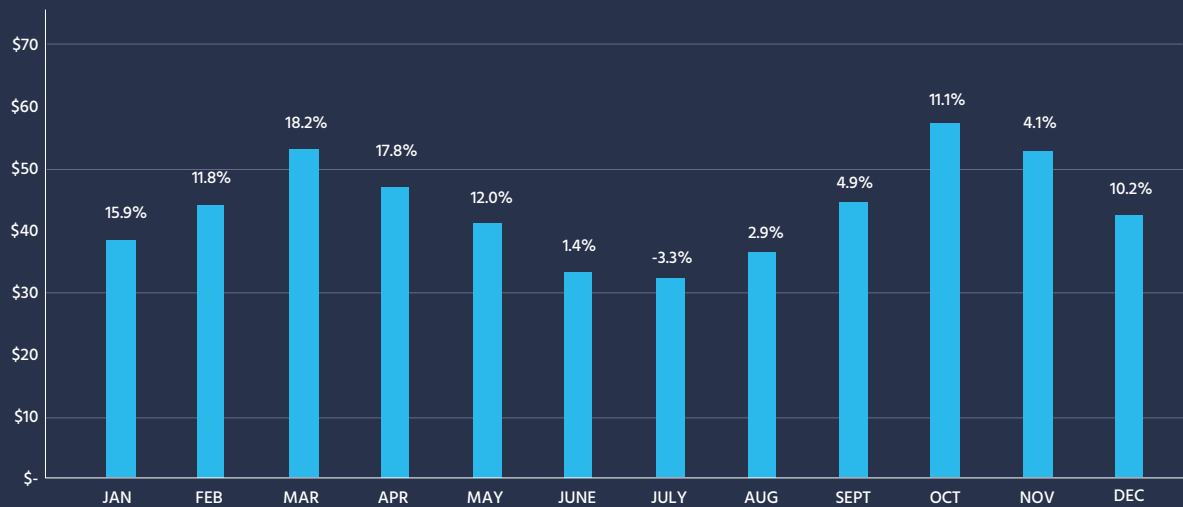
VOLUME OF SHIPMENTS BY MONTH WITH ANNUAL CHANGE



VALUE OF SHIPMENTS BY MONTH WITH ANNUAL CHANGE



AVERAGE BOTTLE PRICE BY MONTH WITH ANNUAL CHANGE





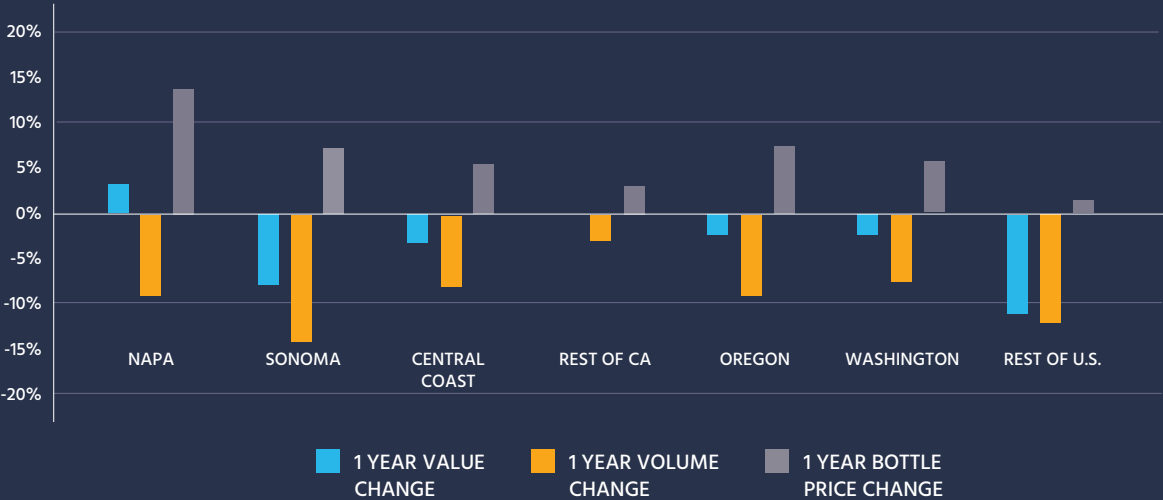
Analysis by Winery Region

The seven regions featured in this report are unique in their strengths, weaknesses, terroir, wine production and geography. Not surprisingly, each region demonstrates different direct-to-consumer sales and shipping characteristics. Over the 13 years this report has been produced, the differences between the regions have been reflected by varying year-over-year changes during the same time period. In fact, variations between regional shipping performance each year have been a common observation in all previous reports.

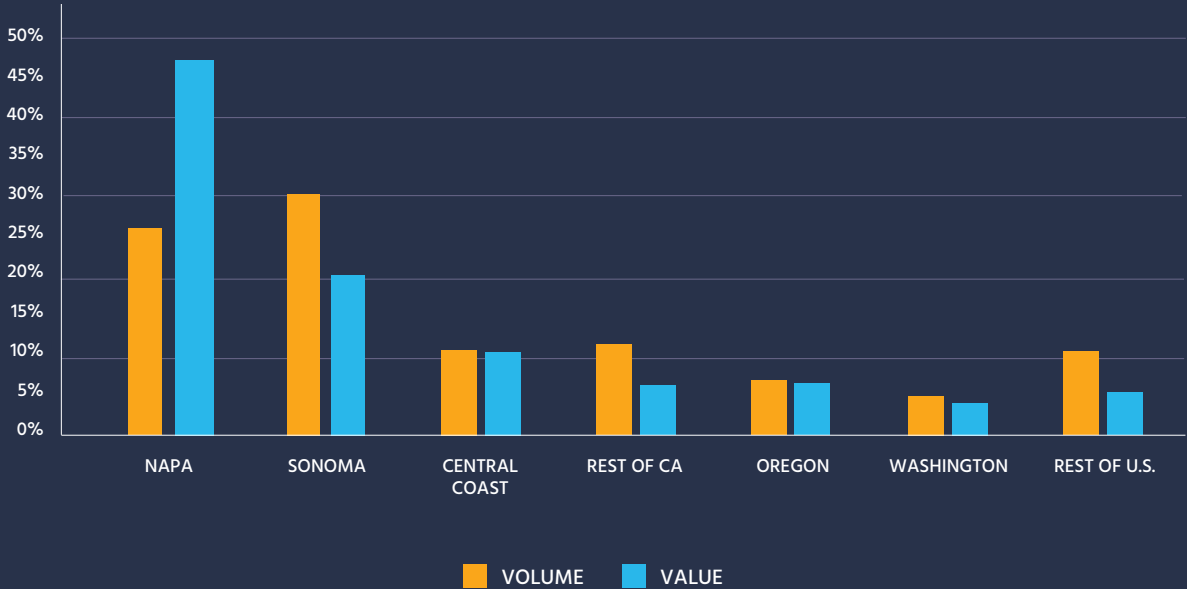
The 2022 DtC shipping results continued this variation among regions. We saw between 1.1% and 13.8% increases in average price per bottle shipped, 3.0%-14.2% decreases in the volume of wine shipped over 2021, and changes in the value of wine shipped ranging from a 3.2% increase to an 11.2% decrease.

Notable is the continuing trend of the broadening distribution of DtC wine shipments. While Napa County wineries continue to outpace other regions' producers in the value of wine shipments (shipments from Napa-based wineries represented 47.2% of the shipping channel's total value in 2022), their portion of the value of the channel continues to slowly decline from its high of more than 50% of the total value of wine shipped from just a few years ago. Additionally, Napa wineries now ship only 25.9% of the channel's total volume whereas a few years ago they exceeded 30%. This is not a result of Napa wineries slowing down their shipments but other regions increasing their shipments at a faster clip over time.

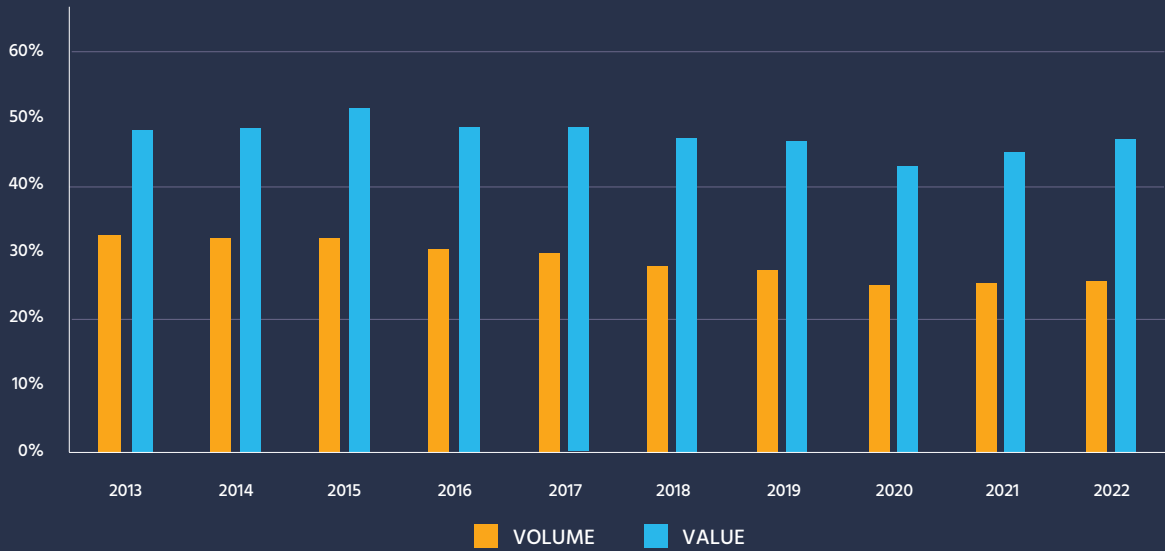
CHANGE IN VOLUME, VALUE AND PRICE BY REGION



SHARE OF TOTAL VOLUME & VALUE BY REGION



NAPA: SHARE OF VOLUME AND VALUE, 2013-2022



Napa County

Napa distinguished itself in 2022 by being the only region that saw a gain (3.2%) in the value of shipments over 2021. Yet, like other regions, Napa wineries shipped considerably less wine than in 2021, and saw a 13.8% increase in the average price per bottle shipped.

The 13.8% year-over-year increase in the average price per bottle shipped stands out the most. This is the second largest increase in price per bottle shipped out of Napa since this report was instituted in 2011, topped only by last year's extraordinary 14.1% increase. The average price of a bottle of wine shipped from a Napa winery is now \$82.39, a figure far exceeding any other region. In fact, Napa wineries have now increased their average price per bottle shipped by nearly 30% since 2020 and 18.7% since 2019. By contrast, the volume of shipments out of Napa wineries since 2020 has decreased 5.6% and increased by only 9.4% since the pre-pandemic baseline of 2019.

The top five wine types shipped by volume from Napa wineries—Cabernet Sauvignon, Red Blends, Chardonnay, Pinot Noir and Sauvignon Blanc—represent 68.8% of all wine shipped from that region in 2022. By contrast, the dollar value of the shipments of these five wines represents 81.9% of the region's total. Cabernet Sauvignon shipments account almost entirely for the difference. In 2022, the average price per bottle of Cabernet Sauvignon shipped from Napa wineries to consumers was \$131.48. Combine this with 611,000 cases shipped and that comes to nearly \$1 billion in Cabernet Sauvignon shipped across the country in 2022. Only Oregon's shipments of Pinot Noir rival the dominance over a region that Cabernet Sauvignon exerts over Napa's shipments.

While the volume of shipments of Napa Cabernet Sauvignon were down 6.4% from 2021 on a 14.9% increase in average price, this represents a slightly better performance than the overall shipping channel and resulted in Napa wineries increasing the value of their shipments over 2021 by 3.2%.

TOTAL VALUE	\$1,950,987,134
TOTAL VOLUME IN CASES	1,193,295
AVG. PRICE PER BOTTLE	\$82.39
VALUE % OF TOTAL	47.2%
CHANGE IN VALUE	3.2%
VOLUME % OF TOTAL	25.9%
CHANGE IN VOLUME	-9.3%
CHANGE IN AVG. PRICE PER BOTTLE	13.8%



Sonoma County

Sonoma County wineries took the largest hit on shipment volumes of all the wine regions. The volume of shipments from Sonoma County wineries fell by 14.2% from 2021 with an 8.1% decrease in the value of shipments on a 7.1% increase in the average price per bottle shipped to \$30.01.

Five wine types—Pinot Noir, Cabernet Sauvignon, Chardonnay, Zinfandel and Red Blends—make up 64.8% of the total volume of Sonoma wineries' shipments. Of these, Pinot Noir is the most important due largely to the high price it demands (\$45.08 average bottle price) relative to other varietals. The value of Sonoma County Pinot Noir shipments decreased by 6.6% from 2021 to \$215 million. The \$45.08 average price per bottle shipped reflects a price increase of only 2.2% over 2021.

Shipments of Red Blends endured a notable shift in 2022 with a 20.2% drop in volume shipped and 12.3% decrease in the value of shipments. This represents an \$11 million decline in shipments of Red Blends from 2021. The only wine that bucked the trends was Sonoma County Syrah, which saw an unusual 2.3% increase in volume shipped and no decline in the value of Syrah shipments.

Over the past decade Sonoma County has experienced a consistent decrease in average price per bottle shipped, with a drop of 9.5% since 2013.

TOTAL VALUE	\$833,270,177
TOTAL VOLUME IN CASES	2,313,647
AVG. PRICE PER BOTTLE	\$30.01
VALUE % OF TOTAL	20.2%
CHANGE IN VALUE	-8.1%
VOLUME % OF TOTAL	30.3%
CHANGE IN VOLUME	-14.2%
CHANGE IN AVG. PRICE PER BOTTLE	7.1%



California Central Coast

This report began breaking out Central Coast wineries in 2019 when Monterey, Santa Cruz, San Benito, San Luis Obispo and Santa Barbara counties were carved out of the Rest of California category. In 2022, these wineries were responsible for shipping 10.5% of all wines in the DtC channel and for 10.3% of the channel's value. In 2022 Central Coast wineries slightly outperformed the overall shipping channel by decreasing their volume of shipments by 8.1%, however, the value of those shipments decreased by 3.3%. This was due to the relatively smaller 5.3% increase in the average price per bottle shipped from 2021.

This smaller-than-average increase in the price per bottle shipped is probably the most notable aspect of shipments from Central Coast wineries in 2022. The 5.3% increase in the average price of a bottle shipped comes after the enormous 23.7% increase in 2021. Since 2019, the average price of wine shipped DtC from a Central Coast winery has increased by 32.4%, far exceeding any price increase over that time from any other region.

The Central Coast price increases over the past three years are best illustrated by Cabernet

Sauvignon shipments, which represented 9.5% of the volume of wines shipped last year. In 2022, the average price of a bottle of Central Coast Cabernet was \$54.84, an increase of 12.4% from 2021. This increase comes after these centrally located California wineries saw a 24.5% increase in the average price of Cabernet Sauvignon shipped in 2021 and a trend-bucking 15.9% growth in average price per bottle shipped in 2020. As a result, since 2019, the value of shipped Central Coast Cabernet has increased by 61.9%. However, in those same three years, the volume of Cabernet shipments has barely moved.

The top five wine types shipped from Central Coast wineries in 2022 were Red Blends, Pinot Noir, Other Reds, Cabernet Sauvignon and Chardonnay. Taken together, the top five wine types represent 66.1% of the volume of shipments and 73.2% of the value of shipments. Of these five, the Other Reds category thoroughly outperformed the overall wine shipping channel with its 4.3% increase in volume and 4.8% increase in value while seeing a 0.5% increase in the average price of a bottle shipped.

TOTAL VALUE	\$424,815,115
TOTAL VOLUME IN CASES	797,650
AVG. PRICE PER BOTTLE	\$44.38
VALUE % OF TOTAL	10.3%
CHANGE IN VALUE	-3.3%
VOLUME % OF TOTAL	10.5%
CHANGE IN VOLUME	-8.1%
CHANGE IN AVG. PRICE PER BOTTLE	5.3%



Rest of California

The Rest of California category encompasses wineries located in Mendocino, Lake, Livermore and Temecula counties and the Sierra Nevada region, plus all other areas outside the Central Coast, Napa County and Sonoma County. Relative to the other regions, this region and its diverse set of wineries fared better than most in 2022. This may be largely due to the average price per bottle shipped increasing a mere 3.0% over 2021.

The Rest of California region saw the smallest drop in volume in 2022, losing only 3.0% from 2021, while the value of DtC shipments dropped barely at all. This is the second year in a row that the Rest of California region significantly outperformed the overall DtC shipping channel.

The region's most commonly shipped wines in order of volume of shipments remain the same as in 2021: Cabernet Sauvignon, Red Blends, Other Reds, Zinfandel and Chardonnay. Together these five wines represent 52.9% of all wine types shipped

from the region's wineries. Among these five wine types, Red Blends performed the best, with a 1.8% increase in volume on a 3.1% increase in average price per bottle shipped.

Finally, we draw the reader's attention to a tale of two wines. Pinot Noir shipped from this region represents 5.5% of its total volume. Not only did the average price per bottle of Pinot Noir shipped increase by 10.1%, but its total volume of shipments also fell by 28.4%, leading to a drop in the total value of Pinot Noir shipments of 21.2%. Then there were Sparkling Wine shipments, which saw a 19.5% increase in average price per bottle shipped alongside a climb in volume of shipments of 57.4%. This led to an increase in the value of Sparkling Wine shipments of 88.0%. The cause of this change in fortune for Sparkling Wine from the Rest of California region is unlikely to be sudden increased interest in the product; it is more likely that a winery or production facility engaged in a good deal of Sparkling Wine production moved to this region.

TOTAL VALUE	\$260,890,770
TOTAL VOLUME IN CASES	865,721
AVG. PRICE PER BOTTLE	\$25.11
VALUE % OF TOTAL	6.3%
CHANGE IN VALUE	-0.1%
VOLUME % OF TOTAL	11.3%
CHANGE IN VOLUME	-3.0%
CHANGE IN AVG. PRICE PER BOTTLE	3.0%



Oregon

Since 2014, shipments of Oregon wines have been accelerating faster than any other region—up 177%—almost exclusively on the strength of increased attention paid to its Pinot Noir. Oregon's 2022 shipment results did not stand out as they have in the past.

As with other regions, Oregon wineries saw a significant increase in the average price per bottle shipped over 2021 with a 7.5% jump in price. Oregon's 9.3% decrease in the volume of shipments, and 2.5% decrease in the value of shipments from 2021, come close to matching the overall performance of the DtC shipping channel in 2022. Important to note is that all this comes after 2021, when Oregon took price increases far less than the overall: 5.1% versus 11.8%. Moreover, in 2020 Oregon wineries reduced their average price per bottle shipped by a mere 1.8% versus the DtC shipping channel's overall 9.5% decrease in prices.

Pinot Noir drives this region's DtC shipping channel, as well as Oregon wine sales in general. In 2022, Pinot Noir shipments represented 54.5% of the state's total volume of wines shipped and 65.3% of the value of all shipments. At an average price per bottle shipped of \$54.64, Oregon Pinot Noir is by far the most valuable wine shipping out of the state, representing \$181 million in sales.

The only other Oregon wine that has any significant volume compared to Pinot Noir is Chardonnay, which represented 10.3% of all DtC shipments from Oregon wineries in 2022. In a familiar performance with the rest of the DtC shipping channel, Oregon Chardonnay saw a 9.7% decrease in the volume of shipments and a 3.1% decrease in the value of shipments, all on a 7.3% increase in the average price per bottle shipped.

TOTAL VALUE	\$278,510,673
TOTAL VOLUME IN CASES	508,727
AVG. PRICE PER BOTTLE	\$45.62
VALUE % OF TOTAL	6.7%
CHANGE IN VALUE	-2.5%
VOLUME % OF TOTAL	6.7%
CHANGE IN VOLUME	-9.3%
CHANGE IN AVG. PRICE PER BOTTLE	7.5%



Washington State

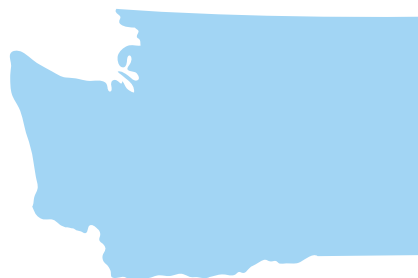
Of the seven regions featured in this report, Washington State has produced the most moderate results over the past three topsy-turvy years. Its 2022 shipping results exemplify this trend.

In 2022, Washington wineries saw a 5.7% increase in the average price per bottle shipped, significantly less than the channel's overall 9.7% increase. This comes after a much smaller increase in price in 2021 and a much smaller decrease in price in 2020. Overall, Washington State wine shipments declined by 7.6% with the value of the 369,000 cases shipped reduced by 2.4% from 2021 to \$168 million.

The standout wine type from Washington was Other Reds. This category of wines represented 8.3% of the volume of shipments in 2022. Despite the downturn in the overall shipping channel, these wines saw a 3.1% increase in volume on an 8.8% increase in price, all leading to a 12.1% increase in value.

Washington's top five wine types shipped include Red Blends, Cabernet Sauvignon, Other Reds, Syrah and Merlot—all red wines and together representing 67.0% of the total volume of wines shipped out of the state. However, the value of these wines represents nearly 80% of the state's total DtC value.

TOTAL VALUE	\$168,163,376
TOTAL VOLUME IN CASES	369,557
AVG. PRICE PER BOTTLE	\$37.92
VALUE % OF TOTAL	4.1%
CHANGE IN VALUE	-2.4%
VOLUME % OF TOTAL	4.8%
CHANGE IN VOLUME	-7.6%
CHANGE IN AVG. PRICE PER BOTTLE	5.7%



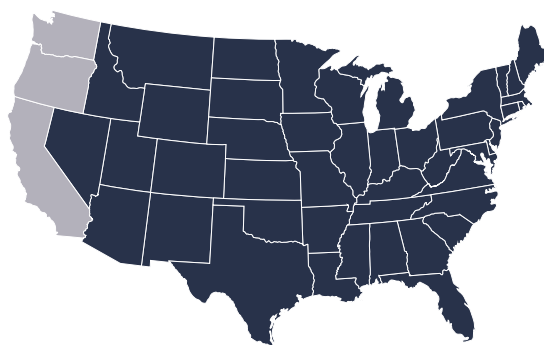
Rest of United States

Representing 10.5% of the entire volume of the DtC wine shipping channel in 2022, the Rest of the United States category includes wineries in the well-established wine regions of Arizona, Colorado, Idaho, Michigan, Missouri, New York, Ohio, Virginia and Texas, as well as every other state aside from the West Coast. While its \$22.71 average price per bottle is the lowest of all the regions, its wines are made up of a wildly diverse set of vinifera, hybrids and native grapes, many of which are nearly non-existent in West Coast vineyards.

This large region's diverse wineries had a tough year, easily performing the worst among all regions. The Rest of United States wineries saw a mere 1.1% increase in the average price per bottle shipped. Their 12.1% decrease in volume trailed only Sonoma County and their 11.2% decline in value of shipments ranks below all other regions.

Rosé was a standout category among this diverse set of wineries in 2022. Rosé shipments, representing 5.5% of the total volume shipped, saw an 11.6% increase in volume over 2021 on a 1.9% increase in average price per bottle, all leading to a 13.7% increase in the value of Rosé shipments. This comes after Rosé shipments in 2021 greatly outperformed this region's overall DtC wine shipments, and following 2020, which saw an unusual 8.6% increase in price in the region's Rosé shipments. This climb has led to a 53% increase in volume and an 80% increase in the value of DtC Rosé shipments over 2019. Moreover, in 2019 Rosé shipments from this diverse region saw increases in volume and value of 18.2% and 19.6%, respectively. Between 2018 and 2022, the value of Rosé shipments has more than doubled.

TOTAL VALUE	\$218,472,320
TOTAL VOLUME IN CASES	801,741
AVG. PRICE PER BOTTLE	\$22.71
VALUE % OF TOTAL	5.3%
CHANGE IN VALUE	-11.2%
VOLUME % OF TOTAL	10.5%
CHANGE IN VOLUME	-12.1%
CHANGE IN AVG. PRICE PER BOTTLE	1.1%





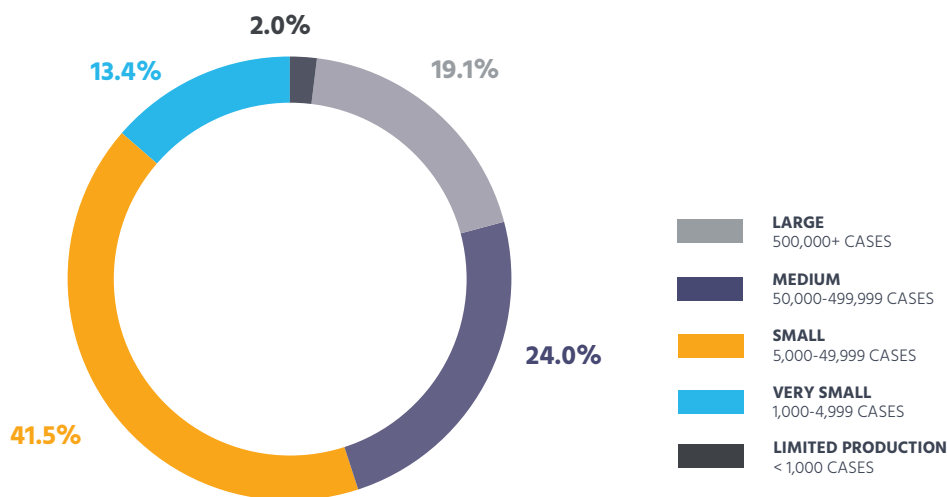
Analysis by Winery Size

Segmenting DtC wine shipments by winery production levels reveals how differently sized wineries interact with the DtC shipping channel.

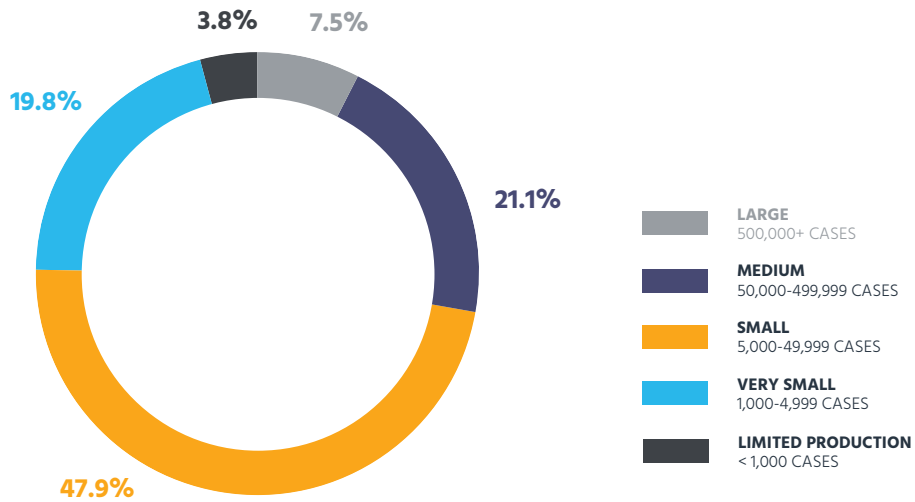
Historically, the average price per bottle shipped has corresponded to production size categories, with smaller production size correlating to a higher average price per bottle shipped. Even with the extreme volatility in pricing during 2022, this dynamic remained in place.

This last year also witnessed wineries of every size seeing reductions in shipping volume from 2021. However, the reductions in volumes shipped were all over the board, with the smallest production category (Limited Production) seeing an 18.2% decrease in the volume of shipments, while the Very Small winery category only saw a 7.3% drop in shipments. Generally, the larger the increase in average price per bottle shipped, the larger the drop in volume from 2021.

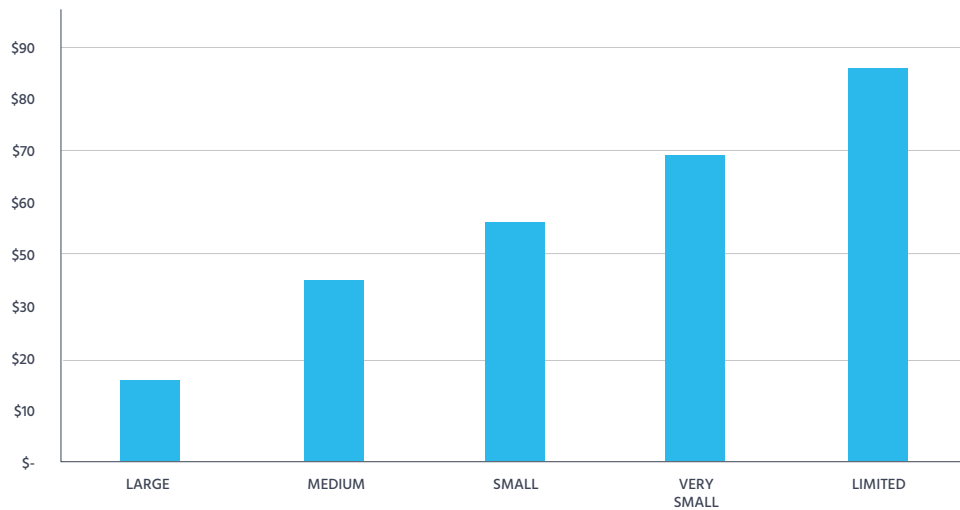
VOLUME OF SHIPMENTS BY WINERY SIZE



VALUE OF SHIPMENTS BY WINERY SIZE



AVERAGE BOTTLE PRICE BY WINERY SIZE



Large Winery Size

(500,000 or more cases produced annually)

The largest wineries saw a much smaller increase in average price per bottle shipped than what the overall DtC channel witnessed, yet their reduction in the volume of wine shipped was still a significant 8.6%. This indicates a relative weakness in demand for the far less expensive wines produced and sold by these largest wineries. This dynamic strongly suggests that the overall pullback in DtC-shipped purchases by consumers can be attributed in part to those who purchase less expensive wines.

The Large Winery category is the only size category that has not returned to and exceeded its pre-pandemic 2019 average price per bottle shipped. The 2022 average price per bottle shipped of \$17.65 is, in fact, 10.2% less than it was in 2019.

That said, in the past 10 years these large wineries have gone from representing 4.5% of the total volume of wine shipped to more than 19% of the total volume of DtC wine shipments. There is no reason to believe these large wineries will retreat from what has clearly been an effort to augment their primarily three-tier distribution revenue with higher-margin DtC shipping.

TOTAL VALUE	\$308,315,081	CHANGE IN VALUE	-4.9%
TOTAL VOLUME IN CASES	1,455,919	VOLUME % OF TOTAL	19.1%
AVG. PRICE PER BOTTLE	\$17.65	CHANGE IN VOLUME	-8.6%
VALUE % OF TOTAL	7.5%	CHANGE IN AVG. PRICE PER BOTTLE	4.0%

Medium Winery Size

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

Medium-sized wineries account for 24.0% of all DtC winery shipments. Many of them are devoted three-tier players that also pursue higher-margin DtC sales. In 2022, this category of wineries saw a 5.5% drop in volume from 2021, the smallest decrease of all winery size categories. Their mere 0.1% decrease in the value of shipments was also among the best results in 2022. These medium-sized wineries' smaller-than-average 5.8% increase in average price per bottle shipped in 2022 helped them achieve these better-than-average results.

In 2022, medium-sized wineries were responsible for 24.0% of the total volume of wine shipped from wineries directly to consumers. This share is down from 2015 when these wineries accounted for 32.1% of the winery shipping channel. The most likely explanation for this reduction in share of the DtC shipping channel is the movement of wineries out of this category into adjacent larger or smaller winery size categories.

TOTAL VALUE	\$870,812,564	CHANGE IN VALUE	-0.1%
TOTAL VOLUME IN CASES	1,833,435	VOLUME % OF TOTAL	24.0%
AVG. PRICE PER BOTTLE	\$39.58	CHANGE IN VOLUME	-5.5%
VALUE % OF TOTAL	21.1%	CHANGE IN AVG. PRICE PER BOTTLE	5.8%

Small Winery Size

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

This large collection of wineries that depend on DtC wine shipments for a significant portion of their annual revenue drove the startling results described in this report. Accounting for nearly half of the value of the entire DtC wine shipping channel, these small wineries drove the significant increase in average price per bottle shipped seen across the DtC channel with their 16.8% increase in prices in 2022. These price increases in turn led to a 14.1% drop in the volume of wine shipped from 2021 and were the primary reason the overall DtC shipping channel showed the large 10.3% volume drop from 2021.

Combined with the small wineries' 11.8% increase in average price per bottle shipped in 2021, these wineries have seen a 30.6% increase in average price per bottle shipped in just two years. These upticks represent far more than a price recovery from their 7.1% decrease in prices seen during 2020, when lower-price buyers came into the DtC shipping channel, enticed by shipping discounts and a move to greater at-home consumption patterns. These wineries are, in fact, showing the impact of three phenomena: 1) inflationary pressures on wages, production and material costs, and debt servicing in the wine industry that have led to higher prices, 2) the response by consumers to general inflationary pressures and increased costs of living and 3) many consumers returning to on-premise consumption as the hospitality industry has fully re-opened for business.

The degree to which these wineries will be able to hold the line on pricing in 2023, and not succumb to further inflationary pressures with additional price hikes, will be an indication of the health of the DtC wine shipping channel going forward.

TOTAL VALUE	\$1,980,637,523	CHANGE IN VALUE	0.4%
TOTAL VOLUME IN CASES	3,166,705	VOLUME % OF TOTAL	41.5%
AVG. PRICE PER BOTTLE	\$52.12	CHANGE IN VOLUME	-14.1%
VALUE % OF TOTAL	47.9%	CHANGE IN AVG. PRICE PER BOTTLE	16.8%



Very Small Winery Size

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

These smaller wineries are heavily dependent on DtC wine shipments, many of them selling upward of 90% of their annual production directly to consumers. Their pricing reflects this reality, at an average of \$66.79 per bottle shipped in 2022. However, this average price is a mere 2.2% increase over 2021, the lowest price increase taken in 2022 of all the winery production categories tracked in this report.

This lower increase in price in 2022 did not, however, lead to smaller losses in volume. This category's 7.3% decline in wines shipped and corresponding 5.3% decline in the value of shipments suggest a slight weakness in demand for these expensive wines.

Of all the categories of wineries, these very small producers with their much higher-than-average prices have seen the least volatility in their DtC wine shipments over the past three years. They maintained their pricing during the discounting of 2020 better than larger wineries, while not seeing the same significant uptick in volume. During the 2021 recovery year, these prestige wineries slightly outperformed the overall DtC shipping channel.

TOTAL VALUE	\$818,976,249	CHANGE IN VALUE	-5.3%
TOTAL VOLUME IN CASES	1,021,777	VOLUME % OF TOTAL	13.4%
AVG. PRICE PER BOTTLE	\$66.79	CHANGE IN VOLUME	-7.3%
VALUE % OF TOTAL	19.8%	CHANGE IN AVG. PRICE PER BOTTLE	2.2%

Limited Production Winery Size

(Up to 999 cases produced annually)

Due to the relatively low production from this category of tiny wineries that are nearly completely dependent upon DtC wine sales, volatility in their DtC wine shipping performance is very high. Together these wineries represented only 2.0% of the total volume of shipments in 2022 and 3.8% of the value of shipments. Most notable, however, their 2022 DtC wine shipping performance ranked the worst of all categories of wineries.

With a 14.1% increase in the average price per bottle shipped over 2021, the result was an 18.2% decline in volume shipped from the previous year. This also came with a 6.7% decrease in the value of shipments from 2021.

After responding to 2020 with a 16.0% decrease in the average price per bottle shipped that year, these wineries have since increased their average price per bottle shipped by 44.7% to \$85.45 per bottle in 2022.

TOTAL VALUE	\$156,368,148	CHANGE IN VALUE	-6.7%
TOTAL VOLUME IN CASES	152,501	VOLUME % OF TOTAL	2.0%
AVG. PRICE PER BOTTLE	\$85.45	CHANGE IN VOLUME	-18.2%
VALUE % OF TOTAL	3.8%	CHANGE IN AVG. PRICE PER BOTTLE	14.1%



2022

Analysis by Varietal

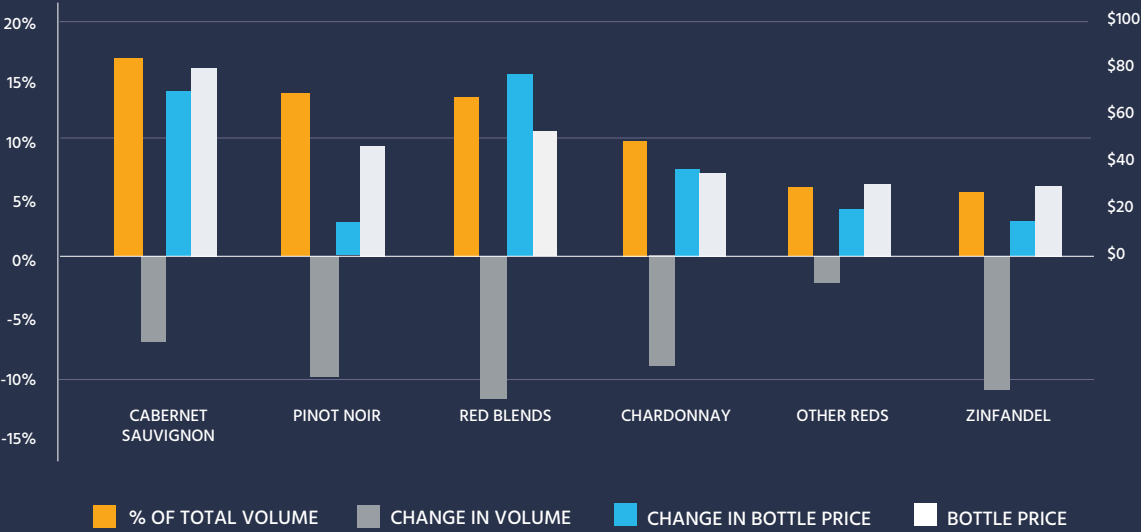
In the kind of inflationary cycle described throughout this report, a key question is, which types of wine are impacted least and most by the across-the-board price hikes and consumer pullback in purchases? In fact, the data shows that no category of wines (high-priced, low-priced, red, white, high volume, low volume) performed better or worse.

Cabernet Sauvignon was again the most shipped wine in 2022, representing 16.7% of all wines shipped and doing so at the highest average price per bottle shipped of \$82.21. This average price was achieved by taking a 13.9% increase in price over 2021, which was a year that saw an additional 16.4% increase in the average price of Cabernet over 2020. Yet, despite these price hikes above the overall channel's average 2022 increases of 9.7%, Cabernet volumes fell by 7.2%, below the DtC wine shipping channel's 10.3% decrease in volume.

Meanwhile, Pinot Noir, with 16.7% of total volume for the DtC channel and the second most shipped wine, had a more difficult year. Despite seeing only a 2.8% increase in average price per bottle shipped, its volume declined by 10.3% from 2021 and value decreased by 7.7%.

Finally, Zinfandel has fallen out of the top five wine types by volume in 2022, replaced by Other Reds. This is the first year Zinfandel has dropped out of the top five wines by volume since the creation of this report a dozen years ago. The demotion is not a result of Zinfandel's decreasing share of volume. Over the last decade, Zinfandel has increased its share of the volume of shipments, yet in that same timeframe the Other Reds category has increased its share of volume at a much faster clip. Since 2013, Other Reds have increased their volume of shipments by 167.4% while Zinfandel shipments have increased by 98.8%.

TOP WINE TYPES SHIPPED BY VOLUME: PERCENT OF TOTAL, CHANGE IN VOLUME, PRICE AND CHANGE IN PRICE





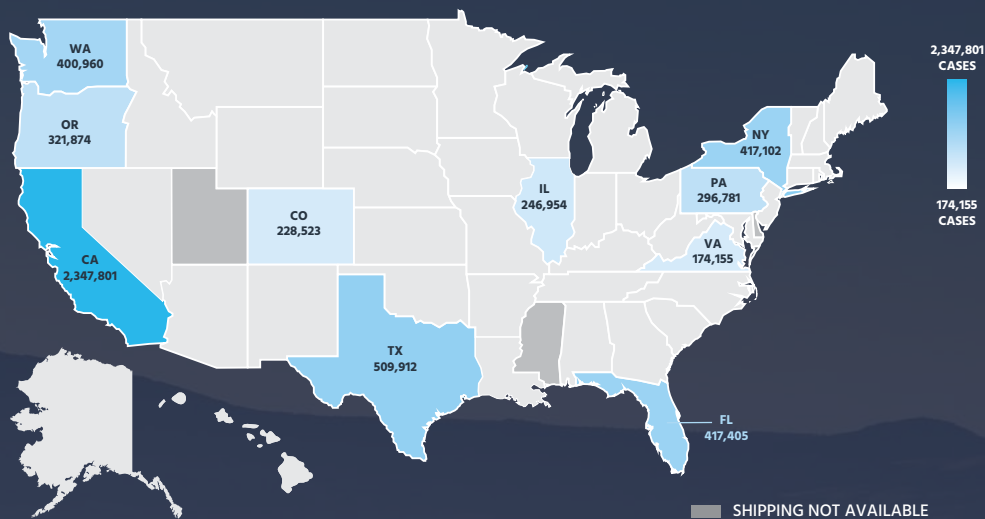
Analysis by Destination of Shipments

Kentucky had its first full year allowing wine shipments in 2021, after passing a law in 2020 permitting direct-to-consumer shipment of wine, beer and spirits. This resulted in a significant increase in Kentucky-bound wine in 2021. The impact of the change was still being felt in 2022, with an 18.1% increase in the volume of wine shipped to Kentucky, despite a 26.6% increase in the average price per bottle shipped. There are now only five states where wine shipments remain effectively prohibited (Mississippi and Utah) or severely limited (Arkansas, Delaware and Rhode Island) by law.

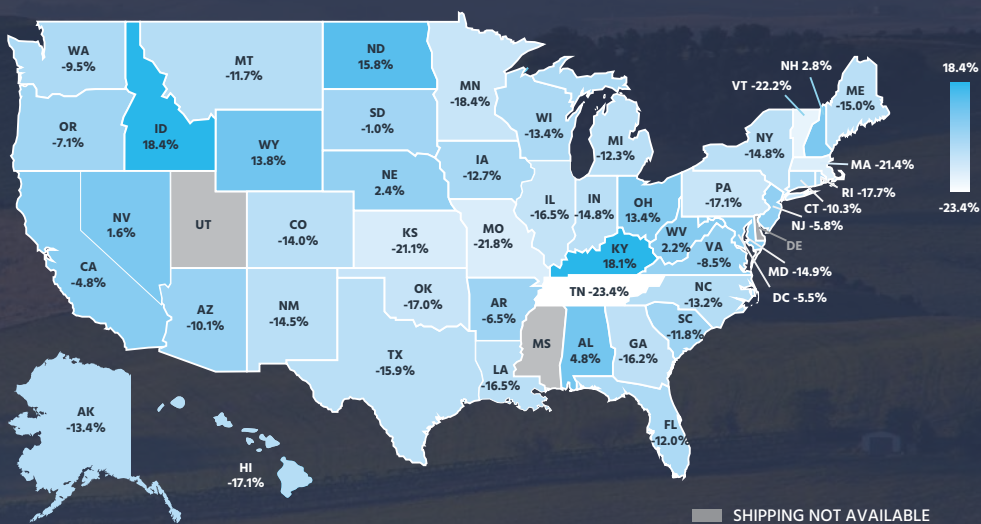
The top five states by volume of shipments remained as they were in 2021. California residents, by a wide margin, received the most shipments, with 30.81% of the total volume of wine going to consumers in this large wine-producing state. California was followed by Texas, New York, Florida and Washington.

The data on destination of wine shipments during 2022 reveals something important about consumer behavior. Looking on a state-by-state basis, in general, the higher the increase in the average price per bottle shipped to a state, the greater the decrease in the volume of wine shipped. For example, Florida, Hawaii, Louisiana, Massachusetts, Missouri, Oklahoma, South Carolina, Tennessee and Vermont wine consumers all saw increases in average price per bottle shipped from between 17.2% to 22.7% over 2021. Each of these states, except for South Carolina, witnessed year-over-year decreases in the amount of wine shipped of between 12.0% and 23.4%.

TOTAL VOLUME OF SHIPMENTS, TOP 10 STATES



ONE-YEAR VOLUME CHANGE BY STATE



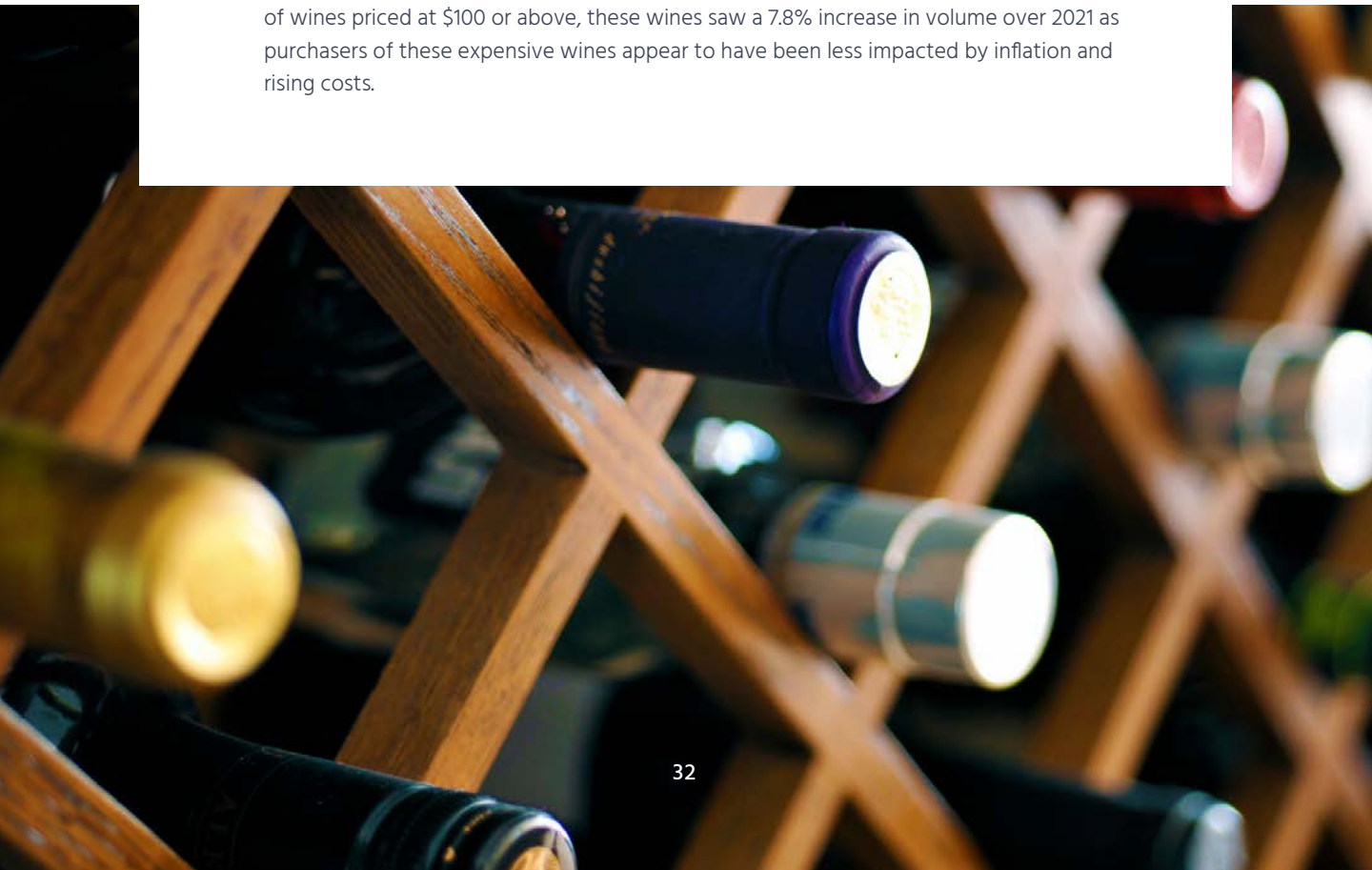


2022

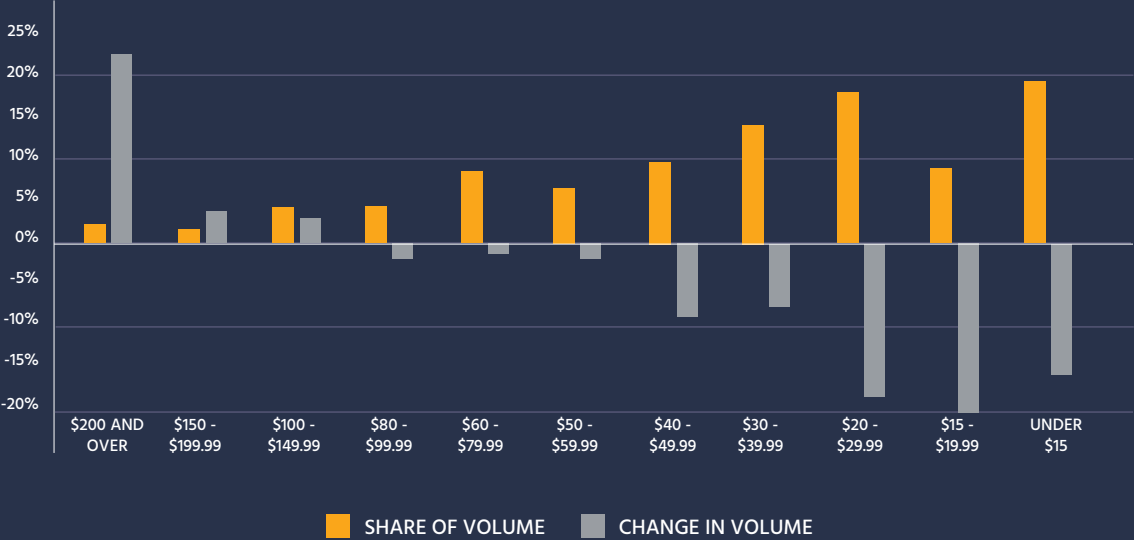
Analysis by Price

In 2022, only wines with an average price per bottle shipped of \$100 or more were shipped in larger amounts than in 2021. Wines priced under \$100 and particularly below \$50 per bottle saw significant declines in both the volume and value of their shipments. Moreover, wines priced under \$30 per bottle—representing 46.3% of all wine shipped in 2022—saw a decrease in volume of 17.5% from 2021. This does not look like a matter of premiumization in the channel, but rather a general pullback in purchases by consumers that tend to purchase lower priced wines, whether a reaction to increased costs of living or retreating from the DtC channel in response to the end of pandemic restrictions and feeling more comfortable spending time in more crowded venues.

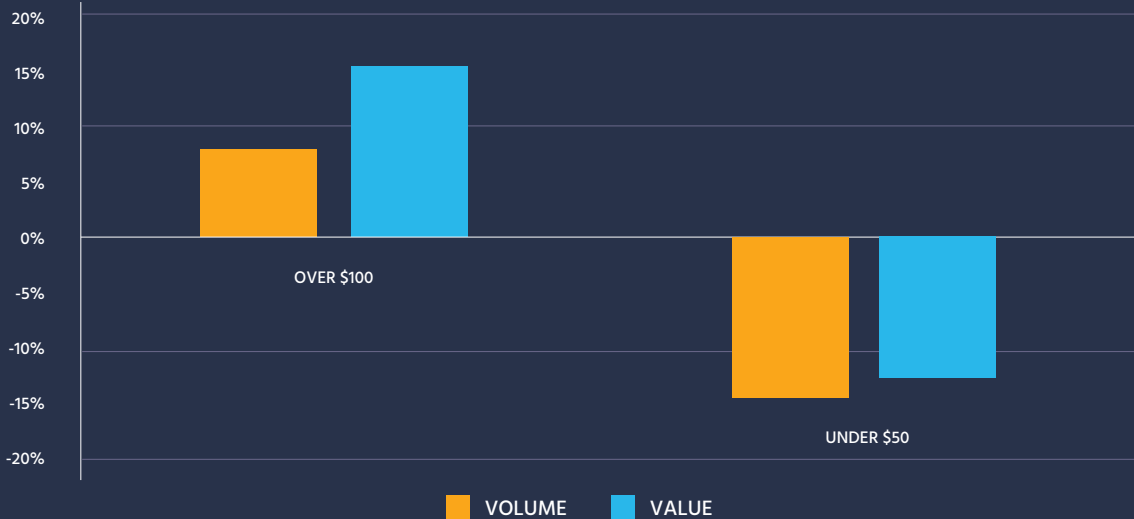
If higher costs of living in 2022 impacted those purchasing lower priced wines, this was not the case for those buying the most expensive wines. While only 8.1% of shipments are of wines priced at \$100 or above, these wines saw a 7.8% increase in volume over 2021 as purchasers of these expensive wines appear to have been less impacted by inflation and rising costs.



SHARE OF VOLUME AND CHANGE IN VOLUME BY PRICE CATEGORY



CHANGE IN VOLUME AND VALUE, >\$100 AND <\$50





Conclusions and Forecasts

The impacts of an inflationary economy, budget tightening by consumers, increased costs for wineries of goods, services and debt, combined with consumers redirecting their consumption patterns, all led to a contraction in the DtC wine shipping channel in 2022. The deviation from the consistent growth in volume and value seen in the previous 12 years of this report is notable and was most obvious in the significant reduction in the volume of wine shipped versus 2021.

The inflationary impact was seen not only in the across-the-board increases in the average price per bottle shipped in 2022, but also in consumers' retreat from lower-priced wines. For consumer participants in this dynamic distribution channel, prices have increased significantly for the past two years. Between 2021 and 2022, the average price per bottle shipped has climbed more than 20%. These jumps in the cost of direct-shipped wine, combined with cost increases in energy, food and other goods, led to a pullback in DtC purchases.

While it appears now that inflation in the economy is easing somewhat, it remains far higher than historical averages. Additionally, interest rates continue to rise and are forecast to rise going into 2023, though perhaps at a lower clip than throughout 2022. If these economic conditions maintain their trajectory, the wine industry and its DtC wine shipping channel will continue to be impacted by slower consumer spending and the high costs of goods, services and debt. None of that is good news for wineries that rely on DtC sales and shipments. These economic conditions inform our forecasts below.



1 / Most Expensive Wines Best Positioned to Expand or Maintain Shipments

Inflation is best understood as a "tax on the poor." But it is more accurately a tax on the poor and middle class, while wealthier individuals, who tend to base their spending on net worth rather than income, are better positioned to contend with an inflationary dynamic. Given this, shipments of the highest-priced wines (\$100 per bottle and up) are best positioned to maintain or increase their share of DtC wine shipments through 2023.



2 / Continued Increase in Average Prices of DtC-Shipped Wine

There is no downward pressure on wine prices, and as a result, expect an increase in the average price per bottle shipped in 2023. If prices increase or stay flat, this will have the largest negative impact on lower-priced wines as these are the products within the DtC shipping channel that consumers of more moderate means tend to purchase.



3 / Competition for Fewer Wine Drinkers

The Baby Boomer generation was almost entirely responsible for the increased interest in wine that occurred between the 1970s and the 2000s, which helped spur growth in DtC wine shipments. However, this generation is increasingly retiring from the wine marketplace, or at least not dominating it as it once did. Its replacements are the smaller Generation X and the large Millennial generation. This latter generation has embraced the diversity of alcoholic beverages including beer, spirits, wine and ready-to-drink alternatives. As a result, the more than 11,000 U.S. wineries are competing for a population of wine drinkers less interested in wine than older generations. We expect this dynamic to further squeeze the DtC shipping channel, if not overall wine sales in general.



4 / No Volume Bump from Newly Opened States

Each of the five states that still either ban or severely limit wine shipments to consumers rank low for both population and wine consumption. Even if the industry finds success opening these states for shipment in the coming years, we don't expect the kind of significant growth that came with the opening of states like Pennsylvania, Massachusetts, Georgia or Tennessee. As a result, the DtC shipping channel will increase or decline based more on organic economic conditions, such as changes in wine consumption rates. Put another way, this channel is at or near maturity.

Methodology

This report is an annual collaboration between Sovos ShipCompliant and Wines Vines Analytics. It analyzes anonymized, detailed shipment data from more than 1,300 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 ensure that aggregated transactions evenly reflect winery size, location and average bottle price. The model is built on a database of more than 11,000 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	41 million+
Wineries reporting	1,300+
Winery database	11,000+

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 may be 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.

Acknowledgments

The 2023 Direct-to-Consumer Wine Shipping Report is a collaboration between Sovos ShipCompliant and Wines Vines Analytics.

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