Annual Membership & Board of Directors Meeting, June 9, 2020

REMARKS BY BOBBY KOCH PRESIDENT & CEO

Good morning. Needless to say, I hope this is the only Board of Directors meeting that we will ever have to do virtually. It's way better to be together.

We last met as a Board in Sacramento, on Tuesday, March 10, just as COVID-19 was heating up. And the following Sunday, March 15, Governor Newsom called for all bars, pubs and wineries to close and everything began to change for us.

Tim, Tyler, Tracy and I were on the phone with the Governor's office that afternoon letting them know our concerns on the impact this could have and how we planned to interpret and implement the closure announcement.

Wineries are essential businesses because we supply other essential businesses (grocery stores and food outlets). Our interpretation was that tasting rooms would close, curbside pickup would be allowed, and the day-to-day operations of wineries and vineyards would continue.

The next day, seven Bay area counties (Alameda, Contra Costa, Marin, San Mateo, Santa Clara, Santa Cruz and San Francisco) issued Shelter in Place orders.

These counties, and all others, embraced how we interpreted and implemented the Governor's announcement. The WI team did a fabulous job here and on all the other work that has been done since March 15.

COVID-19 has been a shock to the world, and our nation, and has impacted every single winery.

I know you have recognized how your respective work colleagues have stepped up, under enormous stress, and personal and family disruption and performed at a high level. The same holds true at Wine Institute.

I want to take a moment to let you know how proud I am of every single one of my colleagues, and how honored I am to lead this great organization.

We're going to hear from the department heads who will recap some of the work that was done the last three months and, equally important, take time to map out the work that lies ahead. Each report will go 5-10 minutes.

On a daily basis, we strive to help our members, all of our members. Since the Governor's announcement on March 15 and the pandemic's immediate impact on daily life, this simple desire has become a calling for us.

We have provided valuable information daily and we will continue to do so. We know that conditions will be challenging in the months ahead.

I appreciate the members who have taken the time to provide positive feedback on our work, which I in turn pass on to the team. It is meaningful to get and to share positive feedback.

I'm pleased that tasting rooms can reopen. And there's no doubt, on premise sales will come back.

I thought it was important early on in March for the entire story to be told, after reading headlines and articles in mainstream papers, not just industry newsletters, that wine sales were up close to 70% compared to same time period last year.

As you well know, the increase was off-premise, mainly grocery store sales, with a handful of wineries benefiting but that was only part of the story.

On-premise sales were decimated, tasting rooms were closed and the overwhelming majority of the 10,000 wineries in the US were suffering. And they still are.

We asked Jon Moramarco, managing partner of bw 166 and editor of The Gomberg-Fredrikson Report to do some projections for us. He provided a complete, balanced and very painful forecast of 6 billion dollars in lost sales for U.S. wineries this year.

It was important, and still is, for public policy makers in Washington, Sacramento and in all the states to know how COVID-19 is impacting the wine industry.

We are hospitality. Just like restaurants and hotels, and other attractions, this has been devastating for us.

If there is additional sector-specific support, wineries must be included in any travel/hospitality assistance.

And this is very important. What the industry is going through now is going to impact Wine Institute's budget moving forward.

Every June, we bring a budget forward for your approval. And rarely do I take much time to discuss it. But this year is different.

A little history first.

Prior to the start of FY17/18, the Finance &Administration Committee and, then the Board, adopted a 25% dues reduction in Formula A, which is based on percentage of sales. It is one of two dues formulas we have.

A 5% dues reduction per year, over 5 years.

We're entering year 4 of 5.

At the time, the assumption was that we'd have 3% annual sales growth so this would be sustainable.

It is not working out that way.

Four years ago, member dues totaled $14 million. For the upcoming FY, member dues will be $13.3 million.

The budget squeeze today is not becausewe lost a major dues-paying member. We have not lost a single major member and we've been adding new members over the last several years.

We are in this challenging financial situation because of the dues reduction. Member dues overall have been in decline since the dues reduction began.

Member dues for the upcoming FY will be $400,000 less than this year and $700,000 less than 4 years ago.

The COVID-19 pandemic has not impacted our revenue whatsoever. But it is going to.

Gomberg-Fredrikson recently projected that sales in 2020 will decline 14% in value. And FY21/22 dues, dues a year from now, will be calculated on 2020 sales.

And we're scheduled to reduce Formula A in FY21/22 another 5% for a fifth and final time.

While dues are being reduced, Wine Institute delivered a massive federal excise tax reduction in 2018 with **every single winery benefiting**. It is a far larger reduction than beer and distilled spirits were able to accomplish.

For 2018, 19 and 20, the federal excise tax reductions for CA wineries will total close to $250 million, a quarter of a billion dollars in tax relief.

This translates into thousands, if not tens or hundreds of thousands, of dollars in annual excise tax savings for each member of Wine Institute. And for about 20 of our members, the annual excise tax savings are well over a million dollars per winery.

Domestically produced wine sales in 2019 totaled over $51 billion, of which $23.5 billion was winery revenue.

We're investing $13.3 million this year to help protect and grow that $23.5 billion in winery revenue.

And, again, that's $700,00 less than four years ago.

Our head count is the lowest it has been in over 25 years. 33 full time employees.

At the same time, our work has gotten more complex and the stakes increase every year.

We are facing major policy challenges in many areas — alcohol and health, the attack on moderate consumption, nutrition and ingredient labeling, retaliatory tariffs, unfavorable trade conditions and increased environmental oversight — and the list is only going to get larger as a result of COVID-19.

States across the country are struggling with huge budget deficits and excise taxes are always at the top of the list as revenue sources.

Last year, we went through a strategic planning process. We identified our priorities. Public Policy, Communications, Environmental, Member Support, and International Marketing.

This is what we care about.

Moving forward, we need to ensure that we have adequate resources to accomplish what you've asked us to do in the public policy arena.

One of the actions we're taking, in order to have adequate resources, is to freeze all Wine Institute employee salaries in the next FY.

In the coming weeks and months, we need to focus on our budget situation.

The Officers and I will work to come up with options that we can discuss in September when we meet again.

With that all said, the Officers and I and the Finance & Administration Committee urge adoption of the FY20/21 budget. It is a balanced budget that will be presented later this morning for approval.

There is an important role for all members moving forward that is also budget related. And that is recruiting wineries to join Wine Institute.

There are many small, medium, and large wineries who are benefiting from all the advocacy work that you fund, that you pay for.

These wineries are on the sidelines, they are free riders.

It is far more effective for you to deliver the message that it's time get off the sidelines, vintner to vintner, instead of it coming from Wine Institute staff. And you can also highlight the great work that is being done.

It shouldn't be a hard sell. We have opened 46 states for DTC. This is the lifeline for thousands of non-member wineries.

We also know from public data the excise tax savings non-member wineries enjoyed in 2018 and 2019 because of the Wine Institute's work on the Craft Beverage bill. And 2020 savings will be similar.

In the coming weeks, we will be reaching out to everyone on the Board for help on this.

Because of our budget situation, this needs to be the **Year of Recruitment and New Members.**

I want to thank Hank for a great year as Chair. He's been through a lot this past year, yet unselfishly, devoted the time and attention to our work and helped us through the challenging budget process. He went above and beyond what is expected of a Chair and for that we are all grateful.

A virtual meeting is not really structured to give Hank the right kind of sendoff as Chair, so we are going to do this the next time we're all together in person.

I'd like to close with a few words about the events of the last two weeks. In the midst of a pandemic, unlike anything any of us have ever seen, we all witnessed, right before our eyes, the tragic, senseless death of George Floyd while in police custody on May 25.

What has transpired since then has been remarkable to take in. It has made us all pause and watch, and think, and listen and hopefully listen some more — and begin to determine how best to take action as individuals, as companies and as a community for positive change.

We all have a role.

We are going to begin that conversation at Wine Institute at a staff level. And I know all of you are doing the same. And I look forward to discussing and sharing our thoughts and listening to yours when we're all together again.

Thank you so much.