July 23, 2024

Dear Fellow Shareholders:

Our fiscal year ended on February 29, 2024. As has been widely reported in the media, the wine industry has faced considerable challenges this past year. Declining wine consumption, inventory destocking, rising interest rates and significant increases in the costs of doing business are just a few of these challenges. One of the side effects of these conditions is the accumulation of bulk wine on the market as businesses seek to hold less inventory, coupled with a larger than average 2023 harvest.

2023 Harvest

The 2023 grape harvest (fiscal 2024) began in late September, approximately three weeks later than a normal harvest season on the Central Coast, due to a cool summer growing season that affected all of California. Harvest was completed on November 17, with overall yields approximately 18% above the Company's five-year average yields. Quality was excellent, as the winter rains and extended growing season lent themselves to favorable conditions for producing high quality wine grapes.

Contrasted with the 2022 grape harvest, where yields were down approximately 15% from our five-year average, having a big year would seem to be good news. And it is, to a point. Going forward, our 2023 vintage wines will have lower costs and we'd hope to see a higher profit on those wines as a result. But when we experience a big harvest, generally that means that the entire industry also experiences a big harvest, and that was certainly the case in 2023. The bountiful 2023 harvest resulted in an oversupply situation that has significantly impacted bulk wine prices and salability of the wines.

Bulk Wine

As a large wine grape grower using only 60% of our estate vineyard production for our own brands, we sell the balance to other wineries each year as either bulk wine or grapes. For fiscal 2024, bulk wine sales were down 22% and grape sales were down 39%. In addition, we've been faced with selling bulk wine at below cost and, consequently, have taken a $15.0 million non-cash write-down of our bulk wine inventories.

Although we've been through the oversupply part of the cycle before, this time it is occurring during a period of high interest rates, decreasing consumption, and destocking throughout the industry so the effects have been more pronounced. It is hard to say when the bulk wine market will improve. If history is any indication, when it snaps back, it snaps back quickly, but it's unknown whether the headwinds of today will change that dynamic. We have been aggressive in our marketing of bulk wine, versus holding on to it and hoping the market changes, in order to put the problem behind us. While it results in a very large non-cash write-down for fiscal year 2024, we believe it is the prudent course of action and better sets us up for success in the future.

Cased Goods Portfolio

Cased goods sales volume in fiscal year 2024 was 835,000 cases, a 1% increase over fiscal year 2023 and a 13% increase over fiscal year 2022. Exclusive and private label sales continue to be a significant portion of our branded wine sales. In fiscal 2024, 63% of our cased good revenues were from exclusive and private labels, which are those brands we produce and sell exclusively to one national chain retailer, or in some cases, to multiple regional chain retailers. Our top three retailers for whom we produce and sell exclusive and/or private labels to are ALDI, Total Wine and Kroger.

In addition to *Sunny with a Chance of Flowers* (discussed below) and exclusive brands, we have other brands in our global portfolio. While *Sunny* is the number one priority with our sales team, as well as our distributors, our next priorities are *VDR* (Very Dark Red), which consists of a Red Blend and a just-launched Cabernet Sauvignon, and *Grandeur* (certified organic), which consists of a Rosé, Red Blend, and a just-launched Cabernet Sauvignon. Both of these brands are small (less than 5,000 cases).

Sunny with a Chance of Flowers / "Better for You" Category

We launched our "better for you" ("BFY") brand, *Sunny with a Chance of Flowers*, in the summer of 2020. Although there is not a strict definition of what is considered a BFY wine, they are generally considered to be wines that have one or more of the following attributes: lower alcohol, lower calories, less or no sugar. BFY wines are a bright spot in an otherwise down wine market. According to IWSR Drinks Market Analysis, low alcohol wine volumes increased 11% from 2022 to 2023. IWSR forecasts that the low alcohol wine category will continue to rise at a compound annual growth rate of 14% by volume.

We produce seven varieties of *Sunny* wines and they have been well-received by retail buyers and the buying public. *Sunny* is available at national retailers such as Kroger, Target, Whole Foods and Total Wine, as well as significant regional retailers such as HEB in Texas, Publix in the Southeast, Meijer in the Midwest, and Bristol Farms, Gelson's, and Stater Bros. in California. Learn more at the *Sunny* website, where there is also a store locator to find where *Sunny* is sold: https://sunnywines.com.

Sales shipment history for *Sunny* since launch is as follows:

Fiscal 2021	21,000 cases
Fiscal 2022	70,500 cases
Fiscal 2023	84,250 cases
Fiscal 2024	95,200 cases

In fiscal 2024, *Sunny* accounted for 11% of cased goods volume and 14% of cased goods revenues. Within the 'better for you' category as a whole, *Sunny* is doing well against its competitive set, ranking number three in dollar sales for brands above $10 per bottle.

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In addition to *Sunny*, we produce several exclusive BFY brands for various retailers. Our exclusive BFY brands totaled 133,000 cases in fiscal 2024. In total (*Sunny* and all exclusive BFY brands), our BFY brand sales were 228,000 cases in fiscal 2024, comprising 27% of cased goods sales.

Direct-to-Consumer

Direct-to-consumer (DTC) sales saw a slight rise, increasing by 2%. DTC continues to be driven primarily by the luxury level Scheid Vineyards brand through its two tasting rooms, website and wine club memberships. We currently have about 2,500 wine club members. While last year, we reported a reduction in online purchasing post-Covid, we saw some recovery in fiscal 2024, with a 45% increase versus fiscal 2023. Internet sales of *Sunny* accounted for 25% of overall online sales and 4% of total DTC sales.

Export Sales

We currently export to approximately 30 countries with our top three export markets being Denmark, Sweden, and Canada. After several years of solid increases, export shipments decreased from 115,300 cases in fiscal 2023 to 72,100 cases in fiscal 2024, a decrease of 37%. This is the result of inflationary pressures abroad and destocking of inventory. We are seeing signs of improvement thus far in fiscal 2025 and shipments are up substantially as of this date from the previous year.

Winery Processing and Storage Revenues

Winery processing and storage revenues include custom crushing (when we process the grapes in our winery for an outside customer, winemaking (fees we charge to outside customers for winemaking services on the grapes that were custom crushed), and storage. We do business with about 10 outside winery clients. In fiscal 2024, revenues from winery processing and storage increased 12.2%.

Capital Improvements

To support demand for our branded wine products, as well as processing and storage demand by our custom crush clients, we installed twelve outside storage tanks to provide year-round storage of 768,000 gallons of wine. The project was completed in October 2023 at a cost of $6.2 million. Approximately half of the new storage capacity was contracted to an outside winery client and the other half is being used for our own over-harvest storage needs. We have continued to keep all other capital improvement projects on hold.

Banking Situation

We have a borrowing facility with Rabobank, N.A. that is intended to fund the annual operating costs of the Company. It expired on February 29, 2024 and was not renewed. We were unable to repay the amounts due under the terms of the facility. In addition, we have a real estate financing package with PGIM Real Estate Finance consisting of three notes, one of which became due on February 29, 2024 and two of which have subsequently become due. We are currently unable to repay these loans.

We have executed forbearance agreements with both lenders to allow us time to work through the issues discussed in this letter and for the industry to recover from its current over-supply situation. The forbearance terms currently end on July 31, 2024, but we are negotiating to extend them. We are working diligently with both lenders to provide them with a consistent flow of information. In addition, we are actively seeking alternative financing arrangements as well as looking to monetize certain assets to reduce debt and cure defaults.

Cost Reductions

We began a Company-wide effort to reduce costs in late 2022 with a reduction-in-force of eleven positions. We have continued cost containment measures, eliminating another 25 positions in 2023 and 2024. From fiscal year 2023 to fiscal year 2024, we reduced sales and marketing expenses by 12% and general and administrative expenses by 15%. We have also focused on improving efficiencies throughout our operation, allowing us to exit an office building lease and a warehouse lease, reduce inventory, and reduce bottling costs.

Unfortunately, the cost reductions we've been able to accomplish have been offset by a steady increase in interest rates. From fiscal year 2023 to fiscal year 2024, our weighted average interest rate increased from 4.9% to 6.3%, increasing interest expense by 33%. Looking at the effect of interest rate hikes from fiscal year 2022 to fiscal year 2024, our interest expense has more than doubled.

Here are some financial highlights comparing fiscal 2024 to fiscal 2022 and 2023:

Cased goods sales:
2022: $39.6 million
2023: $45.6 million
2024: $46.3 million

Bulk wine sales:
2022: $10.4 million
2023: $9.7 million
2024: $7.5 million

Winery processing and storage revenues:
2022: $7.5 million
2023: $8.5 million
2024: $9.6 million

Direct-to-consumer sales:
2022: $2.7 million
2023: $2.6 million
2024: $2.7 million

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Total revenues from operations:
2022: $65.1 million
2023: $68.5 million
2024: $68.0 million

Case shipments:
2022: 741,000
2023: 828,000
2024: 835,000

Interest expense:
2022: $3.3 million
2023: $4.8 million
2024: $6.9 million

(Loss) before other income and expenses excluding write-down of bulk wine inventories:
2022: ($4.4 million)
2023: ($7.3 million)
2024: ($7.1 million)

Net income (loss):
2022: $14.2 million
2023: ($2.2 million)
2024: ($20.6 million)

Net income (loss) per share:
2022: $15.84
2023: ($2.44)
2024: ($22.54)

Book value per share:
2022: $44.61
2023: $41.61
2024: $19.01

Total real estate debt:
2022: $69.0 million
2023: $74.0 million
2024: $76.7 million

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Conclusion

It's been a tough year since our last letter. High interest rates, oversupply of wine, distributor and retailer destocking, and declining consumption have converged to create a very difficult situation. We want to let you know that we, and our entire Scheid Family Wines team of employees, are working harder than ever to get through this stretch. And there are good things happening. In a year when domestic wine shipments were down -4.9% (NielsenIQ) and all of our distributors were reducing inventory, we managed to record a +1% gain in shipments. We have new placements for *Sunny with a Chance of Flowers* and new business that is happening as we write this letter. We have reduced operating costs in a way that will carry forward into the future. We took a large non-cash bulk wine write-down in fiscal 2024 in order to take the loss now rather than defer it into the future.

Our biggest hurdle is our banking situation and we are addressing it head-on by both seeking alternative lending and looking to monetize certain assets to reduce debt. We are hopeful that these efforts will come to fruition. We are encouraged by the energy of our SFW team, the focus on reducing costs and driving efficiencies, and the strength of sales we're seeing in a tough market.

More detailed financial information can be found in the financial statements accompanying this letter. Please visit https://www.otcmarkets.com/stock/SVIN/quote for more financial information.

If you have questions, please contact our CFO at: mike.thomsen@scheidfamilywines.com.

Sincerely,

Scott D. Scheid
President & Chief Executive Officer

Heidi M. Scheid
Executive Vice President

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