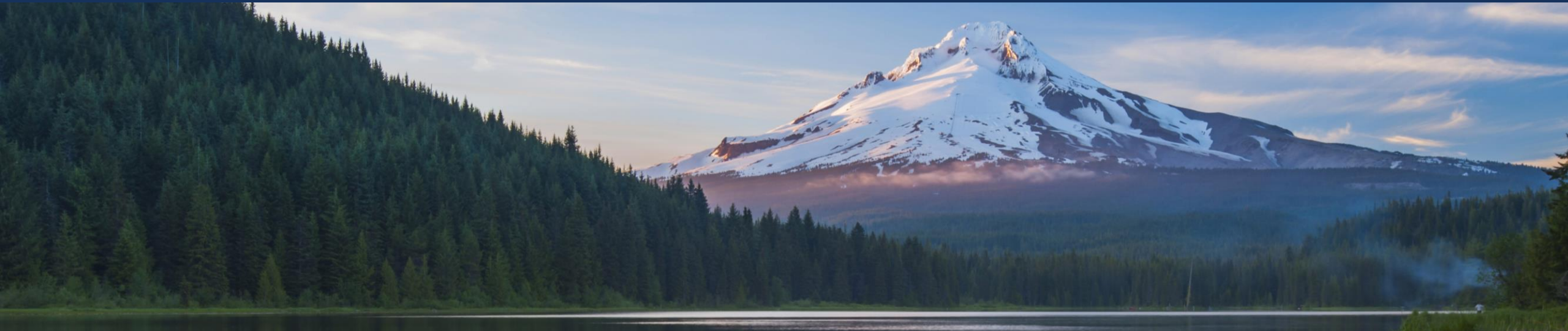




THE NORTHWEST'S LARGEST AND OLDEST DISTILLERY



Ways and Means Subcommittee on Transportation and Economic Development

April 12, 2023

Topics

- Who is Hood River Distillers?
- Our Backyard & Control States
- WA – Privatization Impact and Perspective from a Smaller Regional Supplier
- Strongly Opposed to another \$.50 per Bottle Surcharge

Who is Hood River Distillers?

- Founded in 1934
- Family Owned & Operated
- Headquartered in Hood River, Oregon
- Northwest's Largest & Oldest Distillery (DSP-OR-1)
- Have been in current bottling facility since 1969
- 44 North brokerage in 2012 – Formalized partnership in 2016
- Acquired Lucid Absinthe in 2013, Clear Creek in 2014 and Big Gin in 2016
- Created and developed Pendleton Whisky, which sold to Proximo in 2018
- Our portfolio ranges from value brands to premium/super premium brands
- *April launch of two new super premium brands – Forthwest Whisky and DeGroff Aperitivo & Amaro
- Hood River Distillers employs 71 Oregonians
- In FY 2022, Hood River Distillers product sales were \$28.8M, or 39% of all Oregon product sales



Hood River Distillers Premium Portfolio Overview

Expertly curated selection of quality spirits at a great value.



Our Backyard & Control States

- We are currently in 43 states, and 7 countries with some part of our portfolio
- That said, our backyard is in the PNW – with our largest 3 markets being Oregon, Washington, and Idaho – OR is our home, and foundational to our business
- So, by the nature of where we are, and the importance of our backyard markets, Control States have been an integral part of our history and success. We are **big supporters** of the Oregon Control system and the OLCC
 - **Level playing field** – don't have to be a national brand or company to gain traction...brands must perform, but they get the opportunity to do so... merits and value that we and/or our brands bring stand on their own and are judged equally with all brands... being a PNW company means more... we can and do develop and build relationships and partnerships with the Boards and Commissions...we build brands with our partners
 - **RTM** – we can serve as our own brokers and sell/deliver to the state. We do not have to deliver to hundreds/thousands of accounts
 - **From retail perspective – one customer** –... easier to build the necessary infrastructure to compete. Being local – for us, clearer path to building trust, and bringing value
 - **Uniform pricing** – we hit competitive price points with the ability for every store to hit them



WA – Impact & Perspective of a Smaller Supplier

- **Playing field no longer level** – advantage large mfg.'s, larger retailers, and larger distributors
 - Regional/local is not as important to the new customer – national brands with mass and power (rightfully) leveraged that
- **RTM** – Hood River Distillers did not have the infrastructure to self distribute – thousands of delivery points, nor the \$ necessary to build one
- **No longer “one” retail customer** – fragmented and multiple, and large retail chains either big box or grocery added spirit sections – we can not get the access to these customers that national brands get. Not much interest in brand building – with limited sku’s national brands have the big advantage
 - National relationships became competitive disadvantages
- **Uniform pricing being gone** – we can’t afford loss leaders and selling below cost. Not easy to find impactful quantity levels for pricing when you are the smaller supplier – natural advantage to the larger mfg.
- **Access** to our products by consumers in WA was dramatically reduced
 - Avg WA store prior to privatization carried between 1200 – 1300 sku’s
 - Now that avg is 150... much of which is locked up
- So, what was the net, net to Hood River Distillers over the 10 years since privatization?
 - Volume compared to pre-privatization has decreased by approximately 70% ... with case decreases in 6 figures

Opposed to Another \$.50 per Bottle Surcharge

- **Before discussing opposition to an additional surcharge:**
 - Would like the current “temporary” \$.50/bottle surcharge to expire after it’s latest renewal (2024)
 - This “temporary” surcharge has been in place since 2009
- **Strongly opposed to the proposed additional \$.50 surcharge**
 - OR currently has the highest excise tax rate compared to all other control states
 - OR currently has the second highest excise tax rate nationally. Only WA has higher excise taxes
 - While OR ranks 26th in the US for total consumption of distilled spirits (Beverage Information Group 2020 Liquor Handbook), it is the #1 market for OR based distilleries
 - OR distilleries will be highly impacted by an additional surcharge
 - Margins are already being negatively impacted by interest rates, inflation, and supply chain price increases and continued disruption.
 - OR distilleries can not absorb this surcharge, while bigger national/international spirit companies can choose to maintain price points
 - OR distilleries will be vulnerable to being squeezed out by big national/international spirit companies
 - Brands that compete at the floor price (thin margins would become negative margins)
 - Decreased sales ... decreased shelf placements ... increased distillery closures
- **Another talking point for the Oregon privatization proponents, and has increased the privatization buzz...**

