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DELTA REPORT

10-Q

DUCKHORN PORTFOLIO, INC.

10-Q - APRIL 30, 2024 COMPARED TO 10-Q - JANUARY 31, 2024

The following comparison report has been automatically generated

TOTAL DELTAS 907

█ **CHANGES** 324

█ **DELETIONS** 152

█ **ADDITIONS** 431

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **January 31, 2024** **April 30, 2024**

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 001-40240



The Duckhorn Portfolio, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

81-3866305

(I.R.S. Employer Identification No.)

1201 Dowdell Lane Saint Helena, CA 94574

(Address of principal executive offices)

(707) 302-2658

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of class	Trading Symbol	Name of exchange on which registered
Common Stock, par value \$0.01 per share	NAPA	New York Stock Exchange

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

The registrant had outstanding **115,409,107** **147,052,392** shares of common stock, \$0.01 par value per share, as of **February 28, 2024** **May 30, 2024**.

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Cautionary Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q and other materials filed or to be filed by us with the U.S. Securities and Exchange Commission ("SEC") contains statements that are or may be considered to be, forward-looking statements. Forward-looking statements are neither historical facts nor assurances of future performance. Instead, they are based on our current beliefs, expectations and assumptions regarding the future of our business, future plans and strategies and other future conditions. Forward-looking statements can be identified by words such as "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "predict," "project," "target," "potential," "will," "would," "could," "should," "continue," "contemplate" and other similar expressions, although not all forward-looking statements contain these identifying words. Important factors that could cause actual results and events to differ materially from those indicated in the forward-looking statements include, among others, the following:

- our ability to manage the growth of our business;
- our reliance on our brand name, reputation and product quality;
- the effectiveness of our marketing and advertising programs, including the consumer reception of the launch and expansion of our product offerings;
- general competitive conditions, including actions our competitors may take to grow their businesses;
- overall decline in the health of the economy, consumer discretionary spending and consumer demand for wine;
- the occurrence of severe weather events (including fires, floods and earthquakes), catastrophic health events, natural or man-made disasters, social and political conditions or civil unrest;
- risks associated with disruptions in our supply chain for grapes and raw and processed materials, including barrels, glass bottles, cork, winemaking additives and agents, water and other supplies;
- disrupted or delayed service by the distributors and government agencies we rely on for the distribution of our wines outside of California;
- our ability to successfully execute our growth strategy;
- risks associated with our acquisition of Sonoma-Cutrer Vineyards, Inc., a California corporation and a wholly-owned subsidiary of Brown-Forman ("Sonoma-Cutrer");
- decreases in our wine score ratings by wine rating organizations;
- quarterly and seasonal fluctuations in our operating results;
- our success in retaining or recruiting, or changes required in, our officers, key employees or directors;
- our ability to protect our trademarks and other intellectual property rights, including our brand and reputation;
- our ability to comply with laws and regulations affecting our business, including those relating to the manufacture, sale and distribution of wine;
- the risks associated with the legislative, judicial, accounting, regulatory, political and economic risks and conditions specific to both domestic and to international markets;
- claims, demands and lawsuits to which we are, and may in the future, be subject and the risk that our insurance or indemnities coverage may not be sufficient;
- our ability to operate, update or implement our information technology systems;
- our ability to successfully pursue strategic acquisitions and integrate acquired businesses;
- our potential ability to obtain additional financing when and if needed;

- our substantial indebtedness and our ability to maintain compliance with restrictive covenants in the documents governing such indebtedness;
- **TSG Consumer Partners LLC's ("TSG") our largest shareholders' significant influence over us and our status as a "controlled company" under the rules of the New York Stock Exchange; us;**
- the potential liquidity and trading of our securities; and
- the future trading prices of our common stock and the impact of securities analysts' reports on these prices.

You should not rely on forward-looking statements as predictions of future events. We have based the forward-looking statements contained in this Quarterly Report on Form 10-Q primarily on our current expectations and projections about future events, and trends that we believe may affect our business, results of operations and financial condition. The outcome of the events described in these forward-looking statements is subject to risks, uncertainties and other factors described in the section titled "Risk Factors" in Part 1 Item 1A. in our Fiscal 2023 Annual Report on Form 10-K and elsewhere in this Quarterly Report on Form 10-Q. Moreover, we operate in a highly competitive environment. New risks and uncertainties emerge from time to time, and it is not possible for us to predict all risks and uncertainties that could have an impact on the forward-looking statements contained in this Quarterly Report on Form 10-Q. The results, events and circumstances reflected in the forward-looking statements may not be achieved or occur, and actual results, events or circumstances could differ materially from those described in the forward-looking statements.

In addition, statements that "we believe" and similar statements reflect our beliefs and opinions on the relevant subject. These statements are based on information available to us as of the date of this Quarterly Report on Form 10-Q. And while we believe that information provides a reasonable basis for these statements, that information may be limited or incomplete. Our statements should not be read to indicate that we have conducted an exhaustive inquiry into, or review of, all relevant information. These statements are inherently uncertain, and investors are cautioned not to unduly rely on these statements.

The forward-looking statements in this Quarterly Report on Form 10-Q represent our views as of the date on which the statements are made. We undertake no obligation to update any forward-looking statements whether as a result of new information, future developments or otherwise. We may not actually achieve the plans, intentions or expectations disclosed in our forward-looking statements, and you should not rely on our forward-looking statements in making your investment decision. Actual results or events could differ materially from the plans, intentions and expectations disclosed in the forward-looking statements we make. Our forward-looking statements do not reflect the potential impact of any future acquisitions, mergers, dispositions, joint ventures or investments.

Investors and others should note that we may announce material information to our investors using our investor relations website (<https://ir.duckhorn.com>), SEC filings, press releases, public conference calls and webcasts. We use these channels, as well as social media, to communicate with our investors and the public about our Company, our business and other issues. It is possible that the information we post on social media could be deemed to be material information. We therefore encourage investors to visit these websites from time to time. The information contained on such websites and social media posts is not incorporated into this filing. Further, our references to website URLs in this filing are intended to be inactive textual references only.

PART I

Item 1. Financial Statements

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The Duckhorn Portfolio, Inc.

Condensed Consolidated Statements of Financial Position

(Unaudited, in thousands except share and per share data)

	January 31, 2024	July 31, 2023
	July 31, April 30, 2024	July 31, 2023
ASSETS		
Current assets:		
Cash		
Cash		
Cash		
Accounts receivable trade, net		
Inventories		
Prepaid expenses and other current assets		
Prepaid expenses and other current assets		
Prepaid expenses and other current assets		
Total current assets		

Property and equipment, net	
Operating lease right-of-use assets	
Intangible assets, net	
Goodwill	
Other assets	
Total assets	
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES AND STOCKHOLDERS' EQUITY	
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current liabilities:	
Accounts payable	
Accounts payable	
Accounts payable	
Accrued expenses	
Accrued compensation	
Deferred revenue	
Current maturities of long-term debt	
Current maturities of long-term debt	
Current maturities of long-term debt	
Due to related party (Note 13)	
Other current liabilities	
Total current liabilities	
Revolving line of credit	
Long-term debt, net of current maturities and debt issuance costs	
Operating lease liabilities	
Operating lease liabilities	
Operating lease liabilities	
Deferred income taxes	
Deferred income taxes	
Deferred income taxes	
Other liabilities	
Total liabilities	
Commitments and Contingencies (Note 9)	
Commitments and Contingencies (Note 12)	
Stockholders' equity:	
Common stock, \$0.01 par value; 500,000,000 shares authorized; 115,409,107 and 115,316,308 issued and outstanding at January 31, 2024 and July 31, 2023, respectively	
Common stock, \$0.01 par value; 500,000,000 shares authorized; 147,048,822 and 115,316,308 issued and outstanding at April 30, 2024 and July 31, 2023, respectively	
Additional paid-in capital	
Retained earnings	
Total The Duckhorn Portfolio, Inc. stockholders' equity	
Non-controlling interest	
Total stockholders' equity	
Total liabilities and stockholders' equity	

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (unaudited).

The Duckhorn Portfolio, Inc.
Condensed Consolidated Statements of Operations
(Unaudited, in thousands except share and per share data)

	Three months ended January 31, 2024		Six months ended January 31, 2024		Nine months ended April 30, 2024	
	2024	2023	2024	2023	2024	2023
Net sales (net of excise taxes of \$1,407, \$1,469, \$2,801 and \$3,052, respectively)						
Net sales (net of excise taxes of \$1,114, \$1,126, \$3,915 and \$4,179, respectively)						
Cost of sales						
Gross profit						
Selling, general and administrative expenses						
Selling, general and administrative expenses						
Selling, general and administrative expenses						
Income from operations						
Interest expense						
Interest expense						
Interest expense						
Other expense, net						
Other (income) expense, net						
Total other expenses, net						
Income before income taxes						
Income tax expense						
Net income						
Net loss (income) attributable to non-controlling interest						
Net income attributable to The Duckhorn Portfolio, Inc.						
Earnings per share of common stock:						
Earnings per share of common stock:						
Earnings per share of common stock:						
Basic						
Basic						
Basic						
Diluted						
Weighted average shares of common stock outstanding:						
Weighted average shares of common stock outstanding:						
Weighted average shares of common stock outstanding:						
Basic						
Basic						
Basic						
Diluted						

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (unaudited).

The Duckhorn Portfolio, Inc.

Condensed Consolidated Statements of Stockholders' Stockholders' Equity

(Unaudited, in thousands except share data)

	Three months ended January 31,			Three months ended January 31,			Three months ended January 31,			Three months ended April 30,			
	Common stock	Common stock	Additional paid-in capital	Retained earnings	Total The Duckhorn Portfolio, Inc. stockholders' equity	Non- controlling interest	Total stockholders' equity	Common stock	Additional paid-in capital	Retained earnings	Total The Duckhorn Portfolio, Inc. stockholders' equity	Non- controlling interest	Total stockholders' equity
Balances at October 31, 2023													
Balances at October 31, 2023													
Balances at October 31, 2023													
Balances at January 31, 2024													
Balances at January 31, 2024													
Balances at January 31, 2024													
Net income (loss)													
Shares issued at acquisition, net of issuance costs													
Issuance of common stock under equity incentive plans													
Issuance of common stock under equity incentive plans													
Issuance of common stock under equity incentive plans													
Equity-based compensation (Note 14)													
Shares withheld related to net share settlement													
Balances at April 30, 2024													
Balances at January 31, 2023													
Balances at January 31, 2023													
Balances at January 31, 2023													
Net income (loss)													

Issuance of common stock under equity incentive plans
Equity-based compensation (Note 10)
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Balances at January 31, 2024
Balances at October 31, 2022
Balances at October 31, 2022
Balances at October 31, 2022
Net income (loss)
Issuance of common stock under equity incentive plans
Equity-based compensation (Note 10)
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Balances at January 31, 2023
Equity-based compensation (Note 14)
Shares withheld related to net share settlement
Balances at April 30, 2023

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (unaudited).

The Duckhorn Portfolio, Inc.

Condensed Consolidated Statements of Stockholders' Stockholders' Equity

(Unaudited, in thousands except share data)

**Six months ended January 31,
Six months ended January 31,**

	Six months ended January 31, Nine months ended April 30, Nine months ended April 30, Nine months ended April 30,				Total The Duckhorn Portfolio, Inc. stockholders' equity	Non- controlling interest	Total stockholders' equity	Common stock	Additional paid-in capital	Retained earnings	Total The Duckhorn Portfolio, Inc. stockholders' equity	Non- controlling interest	Total stockholders' equity
	Common stock	Common stock	Additional paid-in capital	Retained earnings									
Balances at July 31, 2023													
Balances at July 31, 2023													
Balances at July 31, 2023													
Net income													
Shares issued at acquisition, net of issuance costs													
Issuance of common stock under equity incentive plans													
Issuance of common stock under equity incentive plans													
Issuance of common stock under equity incentive plans													
Equity-based compensation (Note 10)													
Equity-based compensation (Note 10)													
Equity-based compensation (Note 10)													
Equity-based compensation (Note 14)													
Equity-based compensation (Note 14)													
Equity-based compensation (Note 14)													
Shares withheld related to net share settlement													
Issuance of employee stock purchase plan													
Balances at January 31, 2024													
Balances at April 30, 2024													
Balances at July 31, 2022													
Balances at July 31, 2022													
Balances at July 31, 2022													
Net income (loss)													
Issuance of common stock under equity incentive plans													
Equity-based compensation (Note 10)													

Equity-based compensation (Note 10)
Equity-based compensation (Note 10)
Equity-based compensation (Note 14)
Equity-based compensation (Note 14)
Equity-based compensation (Note 14)
Shares withheld related to net share settlement
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Issuance of employee stock purchase plan
Balances at January 31, 2023
Balances at April 30, 2023

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (unaudited).

The Duckhorn Portfolio, Inc.
Condensed Consolidated Statements of Cash Flows
(Unaudited, in thousands)

	Six months ended January 31,		Nine months ended April 30,	
	2024	2023	2024	2023
Cash flows from operating activities				
Net income				
Net income				
Net income				
Adjustments to reconcile net income to net cash from operating activities:				
Depreciation and amortization				
Depreciation and amortization				
Depreciation and amortization				
(Gain) loss on disposal of assets				
Change in fair value of derivatives				
Amortization of debt issuance costs				
Equity-based compensation				
Equity-based compensation				
Equity-based compensation				
Change in operating assets and liabilities:				
Change in operating assets and liabilities:				
Change in operating assets and liabilities:				
Change in operating assets and liabilities; net of acquisition (Note 4):				
Change in operating assets and liabilities; net of acquisition (Note 4):				



Income taxes paid	
Non-cash investing activities	
Non-cash investing and financing activities	
Property and equipment additions in accounts payable and accrued expenses	
Property and equipment additions in accounts payable and accrued expenses	
Property and equipment additions in accounts payable and accrued expenses	
Consideration payable for the acquisition of Sonoma-Cutrer in accrued expenses	
Value of shares issued related to the acquisition of Sonoma-Cutrer	

The accompanying notes are an integral part of these Condensed Consolidated Financial Statements (unaudited).

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The Duckhorn Portfolio, Inc.

Notes to Condensed Consolidated Financial Statements (unaudited)

1. Description of Business

The Duckhorn Portfolio, Inc. and its subsidiaries (collectively, "the Company," "Management," "we," "us," "our" and "Duckhorn"), headquartered in St. Helena, California, produce luxury and ultra-luxury wine across a portfolio of winery brands, including Duckhorn Vineyards, Decoy, Sonoma-Cutrer, Goldeneye, Paraduxx, Migration, Canvasback, Calera, Kosta Browne, Greenwing and Postmark.

The Company's revenue is comprised of sales to distributors and direct to trade accounts in California ("wholesale") and direct to consumer ("DTC"). Wholesale revenue is generated through sales to **distributors and** directly to **California** retailers and restaurants **in California**, sales to distributors and agents located in other states throughout the United States ("U.S.") and sales to export distributors that sell internationally. DTC revenue results from individual consumers purchasing wine directly from the Company through club membership, the Company's website or tasting rooms located in Napa Valley, California; Anderson Valley, California; Sebastopol, California; Hollister, California; **Windsor, California**; and Walla Walla, Washington.

The Company owns or controls, through long-term leases, certain high-quality vineyards throughout Northern and Central California and Washington. Vinification takes place at wineries owned, leased or under contract with third parties predominately located in Napa Valley, California; Anderson Valley, California; Hopland, California; Hollister, California; San Luis Obispo, California; Sebastopol, California; **Windsor, California**; and Walla Walla, Washington.

Fiscal year

The Company's fiscal year ends on July 31. Unless otherwise stated, references to particular years or quarters refer to the Company's fiscal years and the associated periods in those fiscal years. Except as otherwise specified, information in this report is provided as of **January 31, 2024** **April 30, 2024**.

Issuance of common stock

On April 30, 2024, the Company issued 31,531,532 common shares at a par value of \$0.01 to Brown-Forman Corporation ("Brown-Forman") as equity consideration for the acquisition of Sonoma-Cutrer which represents an ownership percentage of approximately 21.4% of the Company. See Note 4 (Business Combination) for additional information.

Secondary Offering offering

In April 2023, the Company completed a secondary offering where certain existing stockholders sold 6,000,000 shares of common stock at a price of \$15.35 per share. The Company did not receive any of the proceeds from the sale of the shares by the existing stockholders. In connection with the offering, the Company incurred costs of \$0.4 million during the three and nine months ended April 30, 2023, which are reflected in selling, general and administrative expenses on the **third quarter Condensed Consolidated Statement of Fiscal 2023 Operations**.

2. Basis of Presentation and Recent Accounting Pronouncements

Basis of presentation

The Company's Condensed Consolidated Financial Statements are prepared in accordance with U.S. generally accepted accounting principles ("U.S. GAAP") and Article 10 of the Securities and Exchange Commission's Regulation S-X. These Condensed Consolidated Financial Statements have been prepared on the same basis as the Company's audited annual financial statements and, in the opinion of Management, reflect all adjustments, consisting only of normal, recurring adjustments, which are necessary for the fair statement of the Company's financial information for the interim periods presented. These interim results are not necessarily indicative of the results to be expected for the fiscal year ending July 31, 2024, for any other interim period or for any future year.

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The Condensed Consolidated Statement of Financial Position as of July 31, 2023 was derived from the Company's audited financial statements for the fiscal year ended July 31, 2023, previously filed with the SEC. The Condensed Consolidated Financial Statements do not include all of the information and note disclosures required by U.S. GAAP and should be read in conjunction with the audited Consolidated Financial Statements and related notes included in our Annual Report on Form 10-K for the fiscal year ended July 31, 2023.

Principles of consolidation

The Condensed Consolidated Financial Statements include the accounts of The Duckhorn Portfolio, Inc. and its subsidiaries, including a consolidated variable interest entity ("VIE") of which the Company has determined it is the primary beneficiary. All intercompany balances and transactions are eliminated in consolidation.

Accounting estimates

The preparation of Condensed Consolidated Financial Statements in conformity with U.S. GAAP requires Management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the Condensed Consolidated Financial Statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Operating segment

The Company has one operating segment and one reportable segment. The Company's Chief Operating Decision Maker reviews operating performance and makes decisions to allocate resources at the consolidated company level.

Preferred stock

The Company has 100,000,000 shares of \$0.01 par value preferred stock authorized, none of which are issued and outstanding.

Variable interest entities

The Company evaluates its ownership, contractual relationships and other interests in entities to determine the nature and extent of the interests, whether such interests are variable interests and whether the entities are VIEs in accordance with Accounting Standards Codification ("ASC") Topic 810, *Consolidations*. These evaluations can be complex and involve Management judgment as well as the use of estimates and assumptions based on available historical information, among other factors. Thus, it represents a Level 3 measurement as defined in ASC Topic 820, *Fair Value Measurement*. Based on these evaluations, if the Company determines that it is the primary beneficiary of a VIE, the entity is consolidated into the financial statements. At **January 31, 2024** **April 30, 2024** and July 31, 2023, the Company's ownership percentage of the sole identified VIE was 76.2%. The total net assets of the VIE included on the Condensed Consolidated Statements of Financial Position were \$2.3 million as of **January 31, 2024** **April 30, 2024** and July 31, 2023. The assets and liabilities, which may only be used to settle its own obligations, are primarily related to property, equipment and working capital accounts, which generally represent the amounts owed by or to the Company for grape sales under current contracts and farming costs.

Business Combination

On April 30, 2024, the Company completed the acquisition of Sonoma-Cutrer. See Note 4 (Business Combination) for additional information. The acquisition was accounted for using the acquisition method of accounting prescribed by ASC Topic 805, *Business Combinations*, whereby the results of operations, including the revenues and earnings of Sonoma-Cutrer, are included in the financial statements from the date of acquisition. Assets acquired and liabilities assumed as of the date of acquisition are recognized at their fair values based on widely accepted valuation techniques in accordance with ASC Topic 820, *Fair Value Measurements*. Goodwill is recognized for the excess of the consideration transferred over the net fair values of assets acquired and liabilities assumed. Management's assessment of qualitative factors affecting goodwill for each acquisition includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations and the payor profile in the markets. The fair value assigned to the intangible asset was determined

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using the income approach, specifically the relief from royalty method. The process for estimating fair values requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount and royalty rates. The estimates of fair value are based upon assumptions believed to be reasonable using the best information available. These assumptions are inherently uncertain and unpredictable and, as a result, actual results may differ materially from estimates.

ASC Topic 805, *Business Combinations*, establishes a measurement period to provide the Company with a reasonable amount of time to obtain the information necessary to identify and measure various items in a business combination and cannot extend beyond one year from the acquisition date. Measurement period adjustments are recognized in the reporting period in which the adjustments are determined and calculated as if the accounting had been completed as of acquisition date. The Company expects to complete the final fair value determination of the assets acquired and liabilities assumed as soon as practicable within the measurement period, but not to exceed one year from the acquisition date.

Recently adopted accounting pronouncements

In November 2023, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2023-07, *Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures* ("ASU 2023-07") to improve reportable segment disclosures, primarily through enhanced disclosures related to significant segment expenses regularly provided to the chief operating decision maker ("CODM") and by requiring current annual disclosures to be provided in interim periods. Additionally, it requires public entities with a single reportable segment to provide all the disclosures provided by the standard. ASU 2023-07 will be effective for the Company beginning with the fiscal year ended July 31, 2025, and for interim periods beginning in the fiscal year ended July 31, 2026, on a retrospective basis. Early adoption is permitted. The Company is currently evaluating the impact of this ASU on its Condensed Consolidated Financial Statements and related disclosures.

In December 2023, the FASB issued ASU No. 2023-09, *Income Taxes (Topic 740): Improvement to Income Tax Disclosures* ("ASU 2023-09") to enhance the transparency and decision usefulness of income tax disclosures, primarily requiring disaggregated information about a reporting entity's effective tax rate reconciliation and income taxes paid. ASU 2023-09 will be effective for the Company beginning with the fiscal year ended July 31, 2026, with early adoption permitted. The Company is currently evaluating the impact of this ASU on its Condensed Consolidated Financial Statements and related disclosures.

No other new accounting pronouncements issued or effective as of January 31, 2024 April 30, 2024 have had, or are expected to have, a material impact on the Condensed Consolidated Financial Statements or the related disclosures.

3. Revenue

Disaggregated revenue information

The following table presents the percentages of consolidated net sales disaggregated by sales channels:

	Three months ended		Six months ended			
	January 31,		January 31,			
	Three months ended	Nine months ended	Three months ended	Nine months ended		
	2024	2024	2023	2024	2023	
Wholesale — Distributors	Wholesale — Distributors	62.1 %	61.3 %	69.6 %	69.0 %	
Wholesale — California direct to trade(a)					Wholesale — Distributors	
DTC(b)					60.4 %	
Net sales(c)	Net sales(c)	100.0 %	100.0 %	100.0 %	68.6 %	
					2024	
					2023	

(a) Includes \$0.7 million and \$0.6 million of sales related to bulk and grape sales for both the six nine months ended January 31, 2024 April 30, 2024 and 2023.

(b) Includes shipping and handling revenue of \$1.1 million \$1.2 million and \$0.9 million \$0.3 million for the three months ended January 31, 2024 April 30, 2024 and 2023, respectively, and \$1.2 million \$2.4 million and \$1.0 million \$1.4 million for the six nine months ended January 31, 2024 April 30, 2024 and 2023, respectively.

(c) For the three and six nine months ended January 31, 2024 April 30, 2024, excludes lease income of \$0.9 million \$0.3 million and \$1.8 million \$2.2 million, respectively, from Geyserville winery acquired in June 2023.

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Charges, recoveries and reductions related to credit loss on accounts receivable and the related allowance were immaterial for the three and six nine months ended January 31, 2024 April 30, 2024 and 2023. As of January 31, 2024 and July 31, 2023, the The allowance for credit losses was \$0.5 million for both periods as of April 30, 2024 and July 31, 2023.

Contract balances

When the Company receives payment from a customer, prior to meeting the performance obligation under the terms of a contract, the Company records deferred revenue, which represents a contract liability. The Company's deferred revenue is primarily comprised of cash collected from wine sold through our DTC channel ahead of the wine shipment date. The Company does not recognize revenue until control of the wine is transferred and the performance obligation is met.

Deferred revenue included in other current liabilities within the Condensed Consolidated Statements of Financial Position was \$5.2 \$1.1 million and \$0.1 million at January 31, 2024 April 30, 2024 and July 31, 2023, respectively. The Company recognized revenue of \$11.1 million \$5.2 million and \$12.1 \$3.2 million during the three months ended January 31, 2024 April 30, 2024 and 2023, included in the opening contract liability balance for the corresponding period. The Company recognized revenue of \$0.1 million and \$0.3 million during the six nine months ended January 31, 2024 April 30, 2024 and 2023, included in the opening contract liability balance for the corresponding period.

4. Business Combination

Sonoma-Cutrer

On April 30, 2024, (the "Closing Date") the Company acquired 100% of the equity of Sonoma-Cutrer Vineyards, Inc., a wholly owned subsidiary of Brown-Forman Corporation ("the Merger") which includes six estate vineyards spanning approximately 1,100 acres. Under the terms of the merger agreement, the Company acquired Sonoma-Cutrer for consideration valued at \$317.5 million on the date of the closing of the acquisition. The Closing Date purchase consideration, inclusive of preliminary working capital adjustments, was comprised of \$49.6 million, funded from the revolver portion of the Company's Credit Facility, and 31,531,532 shares of common stock issued for \$267.1 million, determined based on the closing stock price of the Company's stock of \$8.47 per share on April 30, 2024. The Company estimates that \$0.8 million of additional cash consideration will be payable within 90 days of the Closing Date pursuant to the working capital provisions included within the merger agreement, which is a preliminary estimate and subject to further adjustment.

The addition of Sonoma-Cutrer to the Company's portfolio of luxury winery brands expands the Company's portfolio of luxury Chardonnay and adds a well-renowned brand to the Company's portfolio. Sonoma-Cutrer produces and markets its luxury Chardonnay wine brand, sourced from vineyards in the Russian River Valley and Sonoma Coast appellations.

During the three and nine months ended April 30, 2024, the Company incurred \$4.2 million and \$8.6 million, respectively, of third-party transaction costs recorded in selling, general and administrative expenses in the Condensed Consolidated Statement of Operations.

The Company allocated the fair value of the purchase consideration to the assets acquired and liabilities assumed as of the Closing Date based on their estimated preliminary fair values. The excess of purchase consideration over the preliminary fair value of net assets acquired is recorded as goodwill. Due to the timing of acquisition close and magnitude of the acquisition, the preliminary fair value estimates and assumptions are subject to change as the Company obtains additional information over the measurement period. The primary areas of the purchase accounting that remain preliminary for completion of the related valuations relate to, but are not limited to, inventories, property and equipment, the intangible asset and related deferred tax impacts.

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The preliminary allocation of the purchase consideration to the assets acquired and liabilities assumed as of the Closing Date is as follows:

(in thousands)	Amount
Total purchase consideration	\$ 317,464
Assets acquired:	
Inventories	\$ 61,419
Prepaid expenses and other current assets	372
Property and equipment, net	244,780
Intangible asset (Trade name)	17,000
Other assets	246
Total assets	\$ 323,817
Liabilities assumed:	
Current liabilities	\$ (2,848)
Due to related party (Note 13)	(953)
Deferred income taxes	(60,959)
Other liabilities	(202)
Total liabilities	\$ (64,962)
Goodwill	\$ 58,609

The intangible asset is recorded at fair value, as determined by Management based on available information. The fair value assigned to the trade name was determined using the income approach, specifically the relief from royalty method. The Company applied significant judgment in determining the fair value of the intangible asset, which involved the use of Level 3 inputs, including estimates and assumptions of future revenues, royalty rate and discount rate. The trade name is determined to have an indefinite useful life.

Goodwill related to the Sonoma-Cutrer acquisition is attributed to the benefit of a skilled workforce, brand strength in the luxury Chardonnay wine market, planned growth in new markets and synergies from combined sales, operational and administrative functions. The goodwill is deductible for tax purposes over a 15-year life.

Supplemental Unaudited Pro Forma Information:

For the three and nine months ended April 30, 2024 and 2023, the following table contains unaudited pro forma Condensed Consolidated Statement of Operations information of the Company as if the acquisition of Sonoma-Cutrer closed on August 1, 2022, the first day of Fiscal 2023.

(in thousands)	Three months ended April 30,		Nine months ended April 30,	
	2024	2023	2024	2023

Net sales	\$ 113,489	\$ 118,182	\$ 368,979	\$ 370,788
Net income	\$ 20,932	\$ 19,314	\$ 65,655	\$ 45,086

The supplemental pro forma disclosures in the table above include adjustments for (i) depreciation expense that would have been recognized related to the acquired property and equipment, (ii) additional cost of sales related to the inventory valuation adjustment, (iii) acquisition-related costs, such as third party transaction costs, (iv) incremental interest expense associated with additional drawdown on the existing revolving line of credit, (v) fees in connection with the transitional services agreement, see Note 13 (Related party transactions) and (vi) the estimated income tax effect on the pro forma adjustments.

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This supplemental pro forma information is presented for illustrative purposes only and may not be indicative of the results of operations that would have been realized if the acquisition had been completed on the date indicated. In addition, future results may vary significantly from the results reflected in the supplemental pro forma information. The supplemental pro forma financial information does not reflect the impact of future events that may occur after the acquisition, such as anticipated cost savings from operating synergies.

5. Inventories

Inventories were comprised of the following:

(in thousands)	(in thousands)	January 31, 2024	July 31, 2023	(in thousands)	April 30, 2024	July 31, 2023
Finished goods						
Work in progress						
Raw materials						
Inventories						

Inventories are stated at the lower of cost or net realizable value and are primarily measured on a first-in-first-out basis. The Company records valuation adjustments to the carrying value of its inventories based on periodic reviews of slow-moving, obsolete and excess inventory to determine the need for reserves by comparing inventory carrying values with their net realizable values upon ultimate sale or disposal. The Company's estimates of net realizable value are based on historical experience as well as Management's judgments with respect to future market conditions. In the period the Company determines a reserve is required, the Company recognizes a charge to cost of sales for the excess of the carrying value over net realizable value. The inventory reserve was \$0.8 million and \$0.9 million at **January 31, 2024** **April 30, 2024** and July 31, 2023, respectively.

The Company capitalizes into inventories depreciation related to property and equipment used in the production of inventory. For the three months ended **January 31, 2024** **April 30, 2024** and 2023, the amount capitalized was **\$6.2 million** **\$6.8 million** and **\$5.2 million** **\$4.9 million**, respectively, and **\$10.0 million** **\$16.8 million** and **\$8.6 million** **\$13.5 million** for the **six** **nine** months ended **January 31, 2024** **April 30, 2024** and 2023, respectively. The Company also capitalizes total lease costs related to leases used in the production of inventory. The amount capitalized was \$1.1 million and \$1.2 million for the three months ended April 30, 2024 and 2023, respectively. For the nine months ended April 30, 2024 and 2023, the amount capitalized was \$3.4 million.

In connection with the Sonoma-Cutrer acquisition, we acquired inventory of approximately \$61.4 million on April 30, 2024. See Note 4 (Business Combination) for additional information.

6. Property and Equipment, net

Property and equipment, net was comprised of the following:

(in thousands)	April 30, 2024	July 31, 2023
Land	\$ 309,818	\$ 141,888
Buildings and improvements	120,196	92,960
Machinery and equipment	104,591	81,984
Vineyards and improvements	64,274	44,896
Barrels	51,281	34,944
Construction in progress	19,458	11,866
Property and equipment, gross	669,618	408,538
Less: accumulated depreciation and amortization	(103,812)	(85,008)
Property and equipment, net	\$ 565,806	\$ 323,530

Depreciation expense recognized in selling, general and administrative expenses was \$0.9 million and \$0.4 million for the three months ended April 30, 2024 and 2023, respectively, and \$4.2 million and \$1.3 million for the nine months ended April 30, 2024 and 2023, respectively. In connection with the Sonoma-Cutrer acquisition,

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we acquired property and equipment, net of approximately \$244.8 million on April 30, 2024, see Note 4 (Business Combination) for additional information.

See Note 5 (Inventories) for depreciation expense capitalized into inventory.

7. Goodwill and Intangible Assets, net

Goodwill

Changes to goodwill as of April 30, 2024, were as follows:

(in thousands)

Goodwill as of July 31, 2023	\$	425,209
Addition for acquisition		58,609
Goodwill as of April 30, 2024	\$	483,818

In connection with the Sonoma-Cutrer acquisition, the Company recognized goodwill of \$58.6 million, during the three and nine months ended April 30, 2024. See Note 4 (Business Combination) for additional information regarding the acquisition.

Intangible assets, net

Intangible assets, net were comprised of the following:

(in thousands)	April 30, 2024		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets:			
Customer relationships	\$ 92,720	\$ (55,063)	\$ 37,657
Total definite-lived intangible assets	92,720	(55,063)	37,657
Indefinite-lived intangible assets:			
Trade names	156,600	—	156,600
Lane rights	1,300	—	1,300
Total indefinite-lived intangible assets	157,900	—	157,900
Total intangible assets, net	\$ 250,620	\$ (55,063)	\$ 195,557

(in thousands)	July 31, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Definite-lived intangible assets:			
Customer relationships	\$ 92,720	\$ (49,393)	\$ 43,327
Total definite-lived intangible assets	92,720	(49,393)	43,327
Indefinite-lived intangible assets:			
Trade names	139,600	—	139,600
Lane rights	1,300	—	1,300
Total indefinite-lived intangible assets	140,900	—	140,900
Total intangible assets, net	\$ 233,620	\$ (49,393)	\$ 184,227

The Company recognized an indefinite-lived trade name of \$17.0 million during the three and nine months ended April 30, 2024 related to the Sonoma-Cutrer acquisition, see Note 4 (Business Combination) for additional information.

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The Company's amortization expense was \$1.9 million for both the three months ended January 31, 2024 April 30, 2024 and 2023 and \$5.7 million for both the nine months ended April 30, 2024 and 2023. For Estimated future amortization expense for each of the six months ended January 31, 2024 following five fiscal years and 2023, the amount capitalized was \$2.3 million and \$2.2 million, respectively.thereafter is as follows:

(in thousands)	Amount
Remainder of 2024	\$ 1,890
2025	7,560
2026	7,560
2027	7,560
2028	7,560
2029 and thereafter	5,527
Total	\$ 37,657

5.8. Accrued Expenses

Accrued expenses were comprised of the following:

(in thousands)	(in thousands)	January 31, 2024	July 31, 2023	(in thousands)	April 30, 2024	July 31, 2023
Trade spend ^(a)						
Income taxes payable ^(b)						
Deferred compensation liability ^(c)						
Barrel purchases						
Accrued professional fees						
Bulk wine and other received not invoiced						
Accrued invoices and other accrued expenses						
Accrued expenses						
Accrued expenses						
Accrued expenses						

(a) Trade spend refers to estimated amounts the Company owes to distributors for depletion-based incentives.

(b) Effective March 2023, as revised in October 2023, the IRS postponed certain tax filings and payment deadlines, until November 2023, in areas designated with eligible Federal Emergency Management Agency declarations. During the third fiscal quarter of 2023, the Company deferred federal and state tax payments which were paid in full during the ~~six~~ nine months ended **January 31, 2024** April 30, 2024.

(c) The Company intends to use the cash surrender value of life insurance policies to partially settle its deferred compensation plan liability. The cash surrender value of the life insurance policies was \$3.4 million and \$2.7 million at **January 31, 2024** April 30, 2024 and July 31, 2023, respectively, and is included in other assets on the Condensed Consolidated Statements of Financial Position.

6.9. Debt

Long-term debt, net of current maturities and debt issuance costs, was comprised of the following:

(in thousands)	(in thousands)	January 31, 2024	July 31, 2023	(in thousands)	April 30, 2024	July 31, 2023
Revolving line of credit						
Term loan, first lien						
Total debt						
Less: Current maturities of long-term debt						
Total long-term debt						
Debt issuance costs ^(a)						
Total long-term debt, net of current maturities and debt issuance costs						

(a) Debt issuance costs are the costs associated with the term loan facility. Debt issuance costs of ~~\$2.5 million~~ \$2.3 million and \$2.8 million at **January 31, 2024** April 30, 2024 and July 31, 2023, respectively, associated with the revolving credit and delayed draw term loan facilities are recorded in other assets on the Condensed Consolidated Statements of Financial Position.

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On November 4, 2022, Mallard Buyer Corp., Selway Wine Company and certain other subsidiaries of The Duckhorn Portfolio, Inc. (collectively, the "Borrowers") entered into the Amended and Restated First Lien Loan and Security Agreement ("Credit Facility" and "Credit Agreement") with the lenders named therein and BMO Harris (as successor in interest to Bank of the West), as administrative agent and collateral agent.

The Credit Agreement provides for \$675.8 million in first lien senior secured credit facilities consisting of (i) a \$425.0 million revolving credit facility, (ii) a \$225.8 million term loan facility and (iii) a \$25.0 million delayed draw term loan facility. The maturity date for loans borrowed under the Credit Agreement is November 4, 2027. The principal of the term loan facility is repayable in quarterly installments equal to \$2.4 million, with a final installment equal to the entire remaining outstanding principal amount due on the maturity date.

The Credit Agreement allows the Borrowers, at any time, to request additional term loans, revolver commitments and delayed draw term loan commitments in an aggregate amount of up to \$400.0 million (the "Incremental Facility"). The lenders are not under any obligation to provide the Incremental Facility, and the Incremental Facility is subject to certain customary conditions precedent and other limitations.

Borrowings under the revolver portion of the Credit Agreement generally bear interest based on the sum of the forward-looking term rate based on the Secured Overnight Financing Rate ("Term SOFR") plus a loan margin based on average availability as follows: (a) less than or equal to 33% of average availability, a loan margin of 1.50%, (b) greater than 33% and less than or equal to 66% of average availability, a loan margin of 1.25%, and (c) greater than 66% of average availability, a loan margin of 1.00%. Borrowings under the term loan and delayed draw portions of the Credit Agreement generally bear interest based on the sum of (i) Term SOFR plus (ii) a credit spread adjustment of 10 basis points for 1-month and 3-month interest periods and 15 basis points for a six-month interest period plus (iii) a loan margin of 1.625%.

The Credit Agreement also includes an unused line fee and contains customary representations and warranties and affirmative and negative covenants for agreements of this type. In addition, the Credit Agreement requires compliance with the following financial covenants, in each case commencing from fiscal quarter ending January 31, 2023: (i) a debt to capitalization ratio not to exceed 0.55:1.00, measured at the end of each fiscal quarter and (ii) a fixed charge coverage ratio not to be less than 1.15:1.00, measured at the end of each fiscal quarter. As of **January 31, 2024** **April 30, 2024**, the Company was in compliance with all covenants.

During the three and nine months ended April 30, 2024, we borrowed \$50.0 million and \$118.0 million, respectively, on the revolving credit facility. Of the \$50.0 million borrowed for the three months ended April 30, 2024, a significant portion was used to fund the cash consideration of the Sonoma-Cutrer acquisition. See Note 4 (Business Combination) for additional information. At **January 31, 2024** **April 30, 2024** and July 31, 2023, the Company had unused capacity of \$357.0 million \$323.0 million and \$412.0 million, respectively, under the revolving credit facility, excluding the incremental seasonal borrowing amount of an additional \$30.0 million of capacity. There were no amounts outstanding on the delayed draw term loan, letter of credit sub-facility or the swingline sub-facility at **January 31, 2024** **April 30, 2024** or July 31, 2023.

7.10. Derivative Instruments

The Company manages exposure to interest rates and foreign currency movements by entering into derivative contracts from time to time, as movements in such markets could impact the Company's financial results.

The changes in estimated fair values of derivative instruments result from changes in interest rates and foreign currency exchange rates. Such changes serve to offset exposure in related business assets or liabilities. The Company is exposed to credit loss in the event of nonperformance by a counterparty. Certain of the Company's derivative instruments are subject to master netting agreements. In certain circumstances, this agreement allows the Company to net-settle amounts payable or receivable related to multiple derivative transactions with the same counterparty. The fair values of derivative instruments are presented on a gross basis, even when the derivative instruments are subject to master netting arrangements. Collateral is generally not required of the Company or of the counterparties to the master netting agreements, and no cash collateral was received or pledged under such agreements as of **January 31, 2024** **April 30, 2024** or July 31, 2023. The Company does not enter into derivative instruments for

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trading or speculative purposes. The Company does not apply hedge accounting treatment to derivative instruments.

On January 4, 2023, the Company entered into an interest rate swap that partially mitigates the risk to the Company due to potential future Term SOFR movements by trading floating rate payments for fixed rate payments on an applicable notional amount of outstanding variable rate debt. Effective September 30, 2022, the Company amended its interest rate swap initially entered into in March 2020, which expired on March 23, 2023, to transition from a London Interbank Offered Rate based floating rate to a Term SOFR based floating rate.

As of **January 31, 2024** **April 30, 2024**, the Company held the following interest rate swap agreement, which fixed the interest rate on the applicable notional amount of outstanding variable rate debt:

Notional amount (in thousands)	Interest rate	Effective date	Expiration date
\$100,000	3.735%	January 4, 2023	November 4, 2027

The total notional amounts of the Company's derivative instruments outstanding are as follows:

(in thousands)	(in thousands)	January 31, 2024	July 31, 2023 (in thousands)	April 30, 2024	July 31, 2023
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Interest rate swap contract
Interest rate swap contract
Interest rate swap contract
Foreign currency forward contracts
Total derivative instruments not designated as hedging instruments

The Company manages annual barrel purchases by engaging domestic and foreign cooperages to provide specified barrel quantities on agreed delivery dates. A significant portion of these invoices are paid in Euros. In order to reduce the foreign exchange risk associated with the Euro to U.S. Dollar conversion rate, the Company enters into foreign currency forward contracts, generally aligning settlement dates with expected barrel deliveries and the anticipated timing of payments to various cooperatives. See Note 9.12 (Commitments and contingencies) for additional information related to the Company's barrel purchase commitments.

Results of period derivative activity

The estimated fair value and classification of derivative instruments on the Condensed Consolidated Statements of Financial Position for January 31, 2024 April 30, 2024 were as follows:

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
(in thousands)				
Interest rate swap contract	Other assets	\$ 2,902	Other liabilities	\$ 72
Foreign currency forward contract	Prepaid expenses and other current assets	—	Other current liabilities	—
Total derivatives not designated as hedging instruments		\$ 2,902		\$ 72

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The estimated fair value and classification of derivative instruments on the Condensed Consolidated Statements of Financial Position for July 31, 2023 were as follows:

	Derivative Assets		Derivative Liabilities	
	Balance Sheet Classification	Fair Value	Balance Sheet Classification	Fair Value
(in thousands)				
Interest rate swap contract	Other assets	\$ 1,117	Other liabilities	\$ —
Foreign currency forward contracts	Prepaid expenses and other current assets	69	Other current liabilities	—
Total derivatives not designated as hedging instruments		\$ 1,186		\$ —

The amounts and classification of the gains and losses in the Condensed Consolidated Statements of Operations related to derivative instruments not designated as hedging instruments are as follows:

	Three months ended January 31,		Six months ended January 31,			
	Three months ended April 30,		Nine months ended April 30,			
	(in thousands)	Classification	2024	2023		
Interest rate swap contract						
Foreign currency forward contracts						
Total loss						
Total (gain) loss						

8.11. Fair Value Measurements

The Company applies a fair value hierarchy pursuant to ASC Topic 820, *Fair Value Measurement*, which consists of three levels of inputs used to measure fair value:

- Level 1 Inputs to fair value are quoted prices in active markets for identical assets or liabilities;
- Level 2 Inputs to fair value are based on observable data other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data such as interest rates or yield curves for substantially the full term of the instrument; and
- Level 3 Inputs to fair value are based on unobservable data for the instrument and are supported by little or no market activity.

The following is a description of the valuation methodologies used for instruments measured at fair value in the Condensed Consolidated Financial Statements, as well as the general classification of such instruments under the valuation hierarchy.

Interest rate swap contract: The fair value of the Company's interest rate swap agreement is estimated with the assistance of a third-party, using inputs that can be corroborated by observable market data (Level 2 of the fair value hierarchy).

Foreign currency forward contracts: The fair value of the Company's outstanding foreign currency forward contracts is estimated with the assistance of a third-party, using inputs that can be corroborated by observable market data (Level 2 of the fair value hierarchy).

Deferred compensation plan: Contributions to the Company's deferred compensation plan are managed by a third-party administrative agent. The fair value of the total contributed plan assets and liabilities are based on inputs that can be corroborated by observable market data (Level 2 of the fair value hierarchy).

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The Company's other financial instruments consist mainly of cash, accounts receivable, accounts payable, accrued expenses and debt. The carrying value of all other financial instruments, except debt, approximates fair value due to the short-term nature of these assets and liabilities. The carrying value of the Company's debt approximates fair value as the interest rates are variable and reflective of market rates (Level 2 of the fair value hierarchy).

The Company's assets and liabilities measured and recorded at fair value on a recurring basis at **January 31, 2024** **April 30, 2024**, were as follows:

(in thousands)	Fair value measurements using:		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Deferred compensation plan asset	\$ —	\$ 3,354	\$ 3,423
Interest rate swap contract	\$ —	\$ 2,902	\$ —
Liabilities:			
Deferred compensation liability	\$ —	\$ 3,451	\$ 3,615
	\$ — 72 \$	\$ —	\$ —

The Company's assets and liabilities measured and recorded at fair value on a recurring basis at July 31, 2023, were as follows:

(in thousands)	Fair value measurements using:		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Deferred compensation plan asset	\$ —	\$ 2,670	\$ —
Interest rate swap contract	\$ —	\$ 1,117	\$ —
Foreign currency forward contracts	\$ —	\$ 69	\$ —
Liabilities:			
Deferred compensation liability	\$ —	\$ 3,261	\$ —

9.12. Commitments and Contingencies

Long-term purchase contracts

The Company has entered into certain grape purchase contracts with various growers to supply a significant portion of its future grape requirements for wine production. Grapes are delivered during the harvest season, a period which generally spans from August to October. The original lengths of the contracts vary from one to 16 years, and prices per ton are either determined at the outset for the contract duration or are negotiated annually. The Company's grape purchase contracts generally include acceptance provisions based on qualitative and quantitative grape quality characteristics. For the 2023 harvest, the Company purchased 32,000 tons of grapes at a total cost of \$85.7 million which was recognized into inventory during Fiscal 2024. For the 2022 harvest, the Company purchased 29,000 tons of grapes for a total cost of \$71.0 million which was recognized into inventory during Fiscal 2023. The Company also increases the scope of its grape contracts when necessitated by supply needs to meet production levels in future periods.

Purchase commitments

The Company enters into commitments to purchase barrels for each harvest, a significant portion of which are settled in Euros. As of July 31, 2023, the Company had \$10.6 million in barrel purchase commitments. During the ~~six~~ nine months ended ~~January 31, 2024~~ ~~April 30, 2024~~, the Company paid the remaining commitments and liabilities associated with

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barrel purchases for the 2023 harvest. As of ~~January 31, 2024~~ ~~April 30, 2024~~, the Company ~~does not yet have any~~ entered into barrel purchase commitments of approximately \$12.5 million for the 2024 harvest. In order to reduce the foreign exchange risk associated with the Euro to U.S. Dollar conversion rate, the Company enters into foreign currency forward contracts, generally aligning settlement dates with expected barrel deliveries and the anticipated timing of payments to various cooperatives. The Company does not enter into these contracts for speculative purposes. Gains and losses on these contracts are recorded in other (income) expense, net on the Condensed Consolidated Statements of Operations. See Note 7 ~~10~~ (Derivative instruments) for the total notional value and impact on the Condensed Consolidated Financial Statements due to foreign currency forward contracts.

The Company enters into various purchase commitments related to production activities. ~~During the three and six months ended January 31, 2024, in December 2023, the Company entered into an equipment agreement resulting in a purchase commitment of \$15.9 million. During the three and nine months ended April 30, 2024, the Company made nonrefundable advance payments of \$2.4 million and \$4.8 million, respectively, which are included in property and equipment, net, in the Condensed Consolidated Statement of Financial Position. Under the agreement, the Company is obligated to pay milestone payments as equipment and services are rendered of \$2.4 million, \$10.4 million and \$0.8 million, respectively, for the remainder of fiscal years 2024, 2025 and 2026. Upon execution of the agreement, the Company made a nonrefundable advance payment of \$2.4 million, which is included in property and equipment, net, in the Condensed Consolidated Statement of Financial Position.~~

The Company enters into various contracts with third parties for custom crush, storage, glass and bottling services. The costs related to these contracts are recorded in the period the service is provided. The contracts for custom crush services typically have minimums that the Company is required to pay if certain grape volume thresholds are not delivered. The Company does not record these minimums related to service contracts as contingent liabilities on the Condensed Consolidated Statements of Financial Position given the harvest yield size, resulting volumes and qualities of grape deliveries are not known or estimable until harvest, when all related contingencies would be resolved.

Sonoma-Cutrer Vineyard Agreement and Plan of Merger

On November 16, 2023, the Company, Auguste Merger Sub, Inc., a California corporation and an indirect wholly-owned subsidiary of the Company ("Merger Sub"), Brown-Forman Corporation, a Delaware corporation ("Brown-Forman"), and Sonoma-Cutrer, entered into an Agreement and Plan of Merger (the "Merger Agreement"), pursuant to which Merger Sub will merge with and into Sonoma-Cutrer (the "Merger") with Sonoma-Cutrer continuing as the surviving entity after the Merger. Sonoma-Cutrer specializes in luxury Chardonnay. Sonoma-Cutrer owns six estate vineyards with approximately 1,100 acres in both the Russian River Valley and Sonoma Coast appellations. It sells its luxury wine across the U.S. in the wholesale channel through distributors and in the DTC channel with retail price points ranging from \$20 to \$70 per bottle.

At consummation of the Merger, Brown-Forman will receive 31,531,532 shares of the Company's common stock valued at approximately \$350.0 million, based on a per-share value of \$11.10 per share, and \$50.0 million payable in cash, subject to adjustments set forth in the Merger Agreement, including for cash, working capital, indebtedness and transaction expenses. The cash consideration is expected to be funded through cash on hand and borrowings under the Company's revolving credit facility. The transaction is expected to close in the spring of 2024, subject to customary closing conditions.

Contingent liabilities

The Company evaluates pending or threatened litigation, operational events which could result in regulatory or civil penalties, environmental risks and other sources of potential contingent liabilities during the year. In accordance with applicable accounting guidance, the Company establishes an accrued liability when those matters present loss contingencies which are both probable and reasonably estimable. As of ~~January 31, 2024~~ ~~April 30, 2024~~ and July 31, 2023, there were no material contingent obligations requiring accrual or an accrual.

On March 22, 2024, a former employee of the Company filed a putative class action in San Benito County Superior Court, seeking to represent all non-exempt workers of the Company in the State of California. The complaint alleges various wage and hour violations under the California Labor Code and related statutes. Plaintiff has also served a Private Attorneys General Act ("PAGA") notice for the same alleged wage and hour violations. The claims predominantly relate to alleged unpaid wages (overtime) and missed meal and rest breaks. The lawsuit seeks, among other things, compensatory damages, statutory penalties, attorneys' fees and costs. The Company has retained outside legal counsel to defend this action. The claim is in an early stage, and the amount of any loss cannot be reasonably estimated at this date. As July 31, 2023, there were no material contingent obligations requiring disclosure.

In the ordinary course of business, the Company enters into agreements containing standard indemnification provisions. The aggregate maximum potential future liability of the Company under such indemnification provisions is uncertain, as these involve potential future claims against the Company that have not occurred. The Company expects the risk of any future obligations under these indemnification provisions to be remote. As of January 31, 2024 April 30, 2024 and July 31, 2023, no amounts have been accrued related to such indemnification provisions.

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10.13. Related Party Transactions

Effective April 30, 2024, in connection with the Sonoma-Cutrer acquisition, the Company entered into a transitional services agreement ("TSA") with Brown-Forman, which is considered a related party transaction. See Note 4 (Business Combination) for additional information regarding the acquisition. The TSA governs services including certain distribution services, information technology services, finance and accounting services and sales and marketing services for a limited time to ensure an orderly transition following the acquisition. The agreed-upon charges for such services are intended to cover any costs and expenses incurred in providing such services to the Company by Brown-Forman (with a mark-up to reflect the management and administrative cost of providing the services). As of April 30, 2024, the Company did not have any related party transactions, receivables or payables outstanding with Brown-Forman under the terms of the TSA.

As of April 30, 2024, the Company had a related party payable of \$1.7 million outstanding with Brown-Forman for payroll related transactions for Sonoma-Cutrer unrelated to the TSA and preliminary working capital adjustments related to consideration paid for the acquisition, which is a preliminary estimate and subject to further adjustment. The Company expects to settle this payable within 90 days of the Closing Date pursuant to the working capital provisions included within the merger agreement. See Note 4 (Business Combination) for additional information.

14. Equity-Based Compensation

In March 2021, the Company's Board of Directors approved the 2021 Equity Incentive Plan ("2021 Equity Plan"), which provides for granting up to 14,003,560 shares of the Company's common stock. Restricted stock units ("RSUs") and non-qualified stock options ("stock options") and performance-based restricted stock units ("PSUs") are granted to certain employees of the Company, advisors and directors (collectively "grants"). The grants are considered equity awards for purposes of calculating compensation expense and are equity-classified in the Condensed Consolidated Statements of Financial Position.

Stock options

Stock option awards are valued using the Black-Scholes option pricing model to estimate the fair value of each stock option award on the date of grant and expense ratably over the vesting period, generally four years. Stock options have a ten-year term.

The following table represents the stock option activity:

	Number of options outstanding	Weighted-average exercise price (per share)	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in thousands)	Weighted-average exercise price (per share)	Weighted-average remaining contractual life (in years)	Aggregate intrinsic value (in thousands)
Balance at July 31, 2023							
Granted							
Exercised							
Exercised							
Exercised							
Forfeited							
Forfeited							
Forfeited							
Expired							
Expired							
Expired							
Balance at January 31, 2024							
Balance at January 31, 2024							
Balance at January 31, 2024							

Balance at April 30, 2024
Balance at April 30, 2024
Balance at April 30, 2024
Exercisable as of January 31, 2024
Exercisable as of January 31, 2024
Exercisable as of January 31, 2024
Exercisable as of April 30, 2024
Exercisable as of April 30, 2024
Exercisable as of April 30, 2024

The total unrecognized compensation expense related to the 2021 Plan stock options was **\$8.5 million** **\$6.8 million** as of **January 31, 2024** **April 30, 2024**, which is expected to be recognized over a weighted-average period of **3.0** **2.8** years. The weighted-average grant-date fair value of options granted during the **six** **nine** months ended **January 31, 2024** **April 30, 2024** was \$3.98 per share.

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The following assumptions were applied in the Black-Scholes option pricing model to estimate the grant-date fair value of the stock options granted:

	Six months ended January 31,		Nine months ended April 30,		
	2024	2024	2023	2024	2023
Expected term (in years) ^(a)					
Expected term (in years) ^(a)					
Expected term (in years) ^(a)	6.22		6.23	6.22	6.23
Expected dividend yield ^(b)	Expected dividend yield ^(b)	— %	— %	Expected dividend yield ^(b)	— %
Risk-free interest rate ^(c)	Risk-free interest rate ^(c)	4.55 %	3.96	% Risk-free interest rate ^(c)	4.09% - 4.55%
Expected volatility ^(d)	Expected volatility ^(d)	30.9 %	33.9	% Expected volatility ^(d)	30.9 %
					33.9 %

(a) Calculated as the midpoint between the weighted-average time to vest and the time to expiration.

(b) The Company has not historically paid and does not expect to pay dividends in the foreseeable future.

(c) The risk-free rate was estimated from the U.S. Treasury Constant Maturity Rates for a period consistent with the expected term in effect at the grant date.

(d) Due to a lack of sufficient trading history of the **Company's** common stock, the expected volatility was estimated based on analysis of the historical and implied volatility of the **Company's** common stock and a group of guideline public companies deemed to be comparable publicly traded peers within the Company's industry.

Restricted stock units

RSUs are valued using the closing market price of **our** the Company's common stock on the date of grant. Expense is recognized ratably over the vesting period, generally four years for RSUs issued to employees and one year for RSUs issued to our independent directors.

The following table represents the RSU grant activity under the 2021 Plan:

	Number of units
	Number of units
	Number of units
Unvested as of July 31, 2023	
Unvested as of July 31, 2023	
Unvested as of July 31, 2023	
Granted	
Granted	

Granted	
Vested	
Vested	
Vested	
Forfeited	
Forfeited	
Forfeited	
Unvested as of January 31, 2024	
Unvested as of January 31, 2024	
Unvested as of January 31, 2024	
Unvested as of April 30, 2024	
Unvested as of April 30, 2024	
Unvested as of April 30, 2024	

The total intrinsic value of restricted stock that vested during the **six nine** months ended **January 31, 2024** **April 30, 2024** was **\$1.2 million** **\$2.5 million**. The total unrecognized compensation expense related to the 2021 Plan RSUs was **\$8.8 million** **\$9.9 million** as of **January 31, 2024** **April 30, 2024**, which is expected to be recognized over a weighted-average period of 2.6 years.

Performance-based restricted stock units

During the three and nine months ended April 30, 2024, the Company granted PSUs under the 2021 Plan, which are settled in shares of the Company's common stock if the market condition is met within a three-year period.

The shares vest immediately upon satisfaction of the market condition, which is based on the Company's stock price.

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The following table represents the PSU grant activity under the 2021 Plan:

		Number of units	Weighted-average grant-date fair value (per share)
Unvested as of July 31, 2023		—	\$ —
Granted		177,095	5.40
Vested		—	—
Forfeited		—	—
Unvested as of April 30, 2024		<u>177,095</u>	<u>\$ 5.40</u>

The total unrecognized compensation expense related to the 2021 Plan PSUs was \$1.0 million as of April 30, 2024, which is expected to be recognized over a weighted-average period of 1.2 years. The fair value of the PSUs was estimated on the date of grant using a Monte Carlo simulation model with the following assumptions:

	Nine months ended April 30, 2024
Expected term (in years) ^(a)	1.2
Expected dividend yield ^(b)	— %
Risk-free interest rate ^(c)	4.8 %
Expected volatility ^(d)	43.0 %

(a) Based on the median time to vest among all Monte Carlo simulation paths that vest.

(b) The Company has not historically paid and does not expect to pay dividends in the foreseeable future.

(c) The risk-free rate was estimated from the U.S. Treasury Constant Maturity Rates for a period consistent with the expected term in effect at the grant date.

(d) The expected volatility was estimated based on analysis of the historical and implied volatility of the Company's common stock.

Compensation expense

During the three months ended **January 31, 2024** **April 30, 2024** and 2023, the Company recognized total equity-based compensation expense due to units vesting over their requisite service periods for all plans of **\$2.1 million** **\$1.7 million** and \$1.7 million, respectively, and **\$3.2 million** **\$5.0 million** and **\$3.0 million** **\$4.7 million** for the **six nine** months ended **January 31, 2024** **April 30, 2024** and 2023, respectively. The Company recognizes equity-based compensation in selling, general and administrative expenses, net of actual forfeitures as incurred, in the Condensed Consolidated Statements of Operations, except for amounts capitalized to inventories in the Condensed Consolidated Statements of Financial Position.

11.15. Earnings Per Share

Basic earnings per share is calculated by dividing the net income by the weighted average number of shares of common stock outstanding during the period. Diluted earnings per share reflects the dilution that would occur if any potentially dilutive instruments were exercised or converted into shares of common stock.

The following is a reconciliation of the Company's basic and diluted earnings per share calculation:

	(in thousands, except share and per share amounts)	(in thousands, except share and per share amounts)	Six months		(in thousands, except share and per share amounts)	2024	2023	2024	2023	2024	2023
			Three months ended January 31,	31,							
Numerator:											
Net income attributable to The Duckhorn Portfolio, Inc.											
Net income attributable to The Duckhorn Portfolio, Inc.											
Net income attributable to The Duckhorn Portfolio, Inc.											
Denominator:											
Denominator:											
Denominator:											
Weighted average number of shares outstanding for basic per share calculation											
Weighted average number of shares outstanding for basic per share calculation											
Weighted average number of shares outstanding for basic per share calculation											
Effect of dilutive potential shares ^(a) :											
Effect of dilutive potential shares ^(a) :											
Effect of dilutive potential shares ^(a) :											
Stock options											
Stock options											
Stock options											
Restricted stock units											
Adjusted weighted average shares outstanding for diluted per share calculation											
Earnings per share attributable to The Duckhorn Portfolio, Inc.:											
Earnings per share attributable to The Duckhorn Portfolio, Inc.:											
Earnings per share attributable to The Duckhorn Portfolio, Inc.:											
Basic											
Basic											
Basic											
Diluted											

(a) Calculated using the treasury stock method.

For the three months ended January 31, 2024 April 30, 2024 and 2023, there were 1.9 million 2.0 million and 0.6 million 0.7 million incremental common shares issuable upon the exercise of certain stock options, respectively, and for the six nine months ended January 31, 2024 April 30, 2024 and 2023, there were 1.4 million 1.6 million and 0.5 million incremental common shares issuable upon the exercise of certain stock options, respectively, that were not included in the calculation of diluted earnings per share because the effect of their inclusion would have been antidilutive under the treasury stock method. For the three and six nine months ended January 31, 2024 April 30, 2024, there were 0.1 million and 0.2 million incremental common shares issuable upon vesting of certain RSUs, respectively, that were not included in the calculation of diluted earnings per share because the effect of their inclusion would have been antidilutive. Refer to Note 10 14 (Equity-based compensation) for the terms of the awards.

For the three and nine months ended April 30, 2024, the denominator includes the weighted average consideration of the issuance of 31,531,532 common shares on April 30, 2024 to partially fund the acquisition of Sonoma-Cutrer. See Note 4 (Business Combination) for additional information.

12.

16. Income Taxes

Income tax expense was \$6.0 million \$6.9 million and \$5.3 million \$6.0 million, with an effective tax rate of 27.5% 34.1% and 26.1% 26.3% for the three months ended January 31, 2024 April 30, 2024 and 2023, respectively, and \$11.7 million \$18.6 million and \$12.4 million \$18.4 million, with an effective tax rate of 27.1% 29.3% and 26.2% 26.3% for the six nine months ended January 31, 2024 April 30, 2024 and 2023, respectively. The effective tax rates for both periods presented were higher than the federal statutory rate of 21% primarily due to the impact of state income taxes, and discrete tax adjustments related to nondeductible transaction costs and the expiration of non-qualified stock options and vested restricted stock units shortfalls.

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For the three and nine months ended April 30, 2024, the effective tax rate increases were primarily due to the impact of permanent and discrete items compared to the three and nine months ended April 30, 2023, as a result nondeductible transaction costs of 8.8% and 2.8%, respectively.

17. Subsequent Events

In May 2024, the Company entered into certain amendments on leases for production facilities and tasting rooms. The amendments are expected to increase the operating lease right-of-use assets by approximately \$10.4 million, decrease the current portion of operating lease liabilities, which is recorded within other current liabilities on the Condensed Consolidated Statement of Position, by approximately \$0.9 million and increase operating lease liabilities by approximately \$11.3 million.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the related notes to those statements included elsewhere in this Quarterly Report on Form 10-Q. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. See "Cautionary note regarding forward-looking statements" included in this Quarterly Report on Form 10-Q. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed in Part I "Item 1A. Risk factors" included in our Annual Report on Form 10-K for Fiscal 2023.

Introduction

Management's Discussion & Analysis is provided as a supplement to the accompanying Condensed Consolidated Financial Statements and related notes to help provide an understanding of our results of business, results of operations and financial condition.

Management's Discussion & Analysis is organized as follows:

- **Overview.** This section provides a general description of our business and industry trends, and a discussion of our key metrics for the three and six nine months ended January 31, 2024 April 30, 2024. In addition, this section includes a discussion of recent developments and transactions affecting comparability that we believe are important in understanding our results of operations and financial condition, and in anticipating future trends.
- **Results of operations.** This section provides a discussion of our components of results of operations and an analysis of our results of operations for the three and six nine months ended January 31, 2024 April 30, 2024 as compared to the three and six nine months ended January 31, 2023 April 30, 2023.
- **Non-GAAP financial measures and adjusted EBITDA reconciliation.** This section provides a reconciliation of adjusted EBITDA, a non-GAAP financial measure, to net income attributable to The Duckhorn Portfolio, Inc., the most directly comparable measure prepared in accordance with U.S. GAAP for the three and six nine months ended January 31, 2024 April 30, 2024 as compared to the three and six nine months ended January 31, 2023 April 30, 2023.
- **Liquidity and capital resources.** This section provides a discussion of our financial condition and liquidity as of January 31, 2024 April 30, 2024, which includes (i) a discussion of our sources of liquidity (ii) a discussion of our material cash requirements as of January 31, 2024 April 30, 2024; (iii) an analysis of changes in our cash flows for the six nine months ended January 31, 2024 April 30, 2024 as compared to the six nine months ended January 31, 2023 April 30, 2023; (iv) a discussion of our capital resources, including the availability under our credit facilities, our outstanding debt, covenant compliance and off-balance sheet arrangements as of January 31, 2024 April 30, 2024.
- **Critical accounting policies and estimates.** This section discusses our critical accounting policies considered to be important to our results of operations and financial condition, which typically require significant judgment and estimation on the part of management in their application. In addition, all of our significant accounting policies, including our critical accounting policies, are summarized in Note 2 (Basis of presentation and recent accounting pronouncements) to the accompanying Condensed Consolidated Financial Statements.

- Recent accounting pronouncements. This section discusses the potential impact on our reported results of operations and financial condition of certain accounting standards that have been recently issued.

Overview

The Duckhorn Portfolio is the premier scaled pure-play producer of luxury wines sold for \$15 or higher in North America. We offer a curated and comprehensive portfolio of luxury wines with suggested retail prices ranging from \$20 to \$230 per bottle. Our wines are available in all 50 states, the District of Columbia and over 50 countries under a world-class luxury portfolio of winery brands, including Duckhorn Vineyards, Decoy, Sonoma-Cutrer, Goldeneye, Paraduxx, Migration, Canvasback, Calera, Kosta Browne, Greenwing and Postmark. The U.S. is the primary market for our wines.

We sell our wines to distributors both inside and outside California and directly to trade accounts in California, which together comprise our wholesale channel. We also sell directly to consumers through our DTC channel, which includes seven tasting rooms, wine clubs and our multi-winery e-commerce website. Our powerful omni-channel sales model continues to drive strong margins by leveraging long-standing relationships.

The following factors and trends in our business are expected to be key drivers of our net sales growth for the foreseeable future:

- Leverage our sales and marketing strength to gain market share. Leverage sales and marketing strengths to increase brand awareness, grow sales of our winery brands to our existing consumer base as well as a new generation of consumers and gain market share in a consolidating marketplace.
- Insightful and targeted portfolio evolution. Launch winery brand extensions and continue evolving and strategically broadening our portfolio. For example, in January 2024, the Company announced the launch of Decoy Featherweight Sauvignon Blanc, which has 80 calories per five-ounce serving and an alcohol content of 9%, establishing a new presence in the lower-in-calorie/lower-in-alcohol wine category.
- Expand and accelerate wholesale channel distribution. Capture distribution growth opportunities and accelerate sales to existing distributors, expand our geographical reach within the U.S. and retail accounts in California. As previously communicated, the Company has conducted a comprehensive evaluation of its distribution network and announced on May 24, 2024 that it has entered into distribution agreements with Republic National Distributing Company ("RNDC") and Breakthru Beverage Group ("BBG"), with the goal of driving the profitable growth of the Company's sales in the wholesale channel. It is expected that RNDC and BBG will begin distribution of Duckhorn's wines in their respective new territories during the summer.
- Continue to invest in DTC capabilities. Engage with our consumers, create brand evangelists and drive adoption across our portfolio through brand-specific tasting rooms, multiple wine clubs and our multi-winery e-commerce website, all of which enable us to cross-sell wines within our portfolio.
- Evaluate strategic acquisitions opportunistically. Disciplined evaluation of strategic acquisitions when opportunities arise to create stockholder value. On April 30, 2024, we completed the acquisition of Sonoma-Cutrer for approximately \$317.5 million as discussed below, see "—Key factors affecting our performance — Recent developments". Sonoma-Cutrer is well-known for its luxury Chardonnay brand, with six estate vineyards in both the Russian River Valley and Sonoma Coast appellations, spanning approximately 1,100 acres. In addition, in Fiscal 2023, we purchased a state-of-the-art winemaking facility in Alexander Valley, California, which is nearly double the size of the Company's previously largest production facility, and includes seven acres of planted Cabernet Sauvignon for approximately \$54.6 million. In November 2023, we entered into a merger agreement with Sonoma-Cutrer as discussed below, see "—Key factors affecting our performance — Recent developments". Sonoma-Cutrer is well-known for its luxury Chardonnay brand, with six estate vineyards spanning approximately 1,100 acres in both the Russian River Valley and Sonoma Coast appellations.

Key financial metrics

We use net sales, gross profit and adjusted EBITDA to evaluate the performance of our business, identify trends in our business, prepare financial forecasts and make capital allocation decisions. We believe the following metrics are useful in evaluating our performance. Adjusted EBITDA should not be considered in isolation or as a substitute for any other financial information depicting our results prepared in accordance with U.S. GAAP. Certain judgments and estimates are inherent in our processes to calculate these key financial metrics. See "—Non-GAAP financial measures and adjusted EBITDA reconciliation" for additional information.

	Three months ended January 31,		Six months ended January 31,		
	Three months ended April 30,		Nine months ended April 30,		
(in thousands)	(in thousands)	2024	2023	2024	2023
Net sales					
Gross profit					
Net income attributable to The Duckhorn Portfolio, Inc.					
Adjusted EBITDA					

Net sales

Our net sales represent revenues less discounts, promotions and excise taxes.

Gross profit

Gross profit is equal to our net sales less cost of sales. Cost of sales includes all wine production costs, winemaking, bottling, packaging, warehousing and shipping and handling costs. Our gross profit and gross profit margins on net sales are impacted by the mix of winery brands we sell in our portfolio. See “—Key factors affecting our performance—Sales channels” for additional information.

Adjusted EBITDA

Adjusted EBITDA is a non-GAAP financial measure that we calculate as net income before interest, taxes, depreciation and amortization, purchase accounting adjustments, transaction expenses, acquisition integration expenses, changes in the fair value of derivatives, equity-based compensation, net lease income and debt refinancing costs. Adjusted EBITDA is a key performance measure we use in evaluating our operational results. We believe adjusted EBITDA is a helpful measure to provide investors an understanding of how management regularly monitors our core operating performance, as well as how management makes operational and strategic decisions in allocating resources. We believe adjusted EBITDA also provides management and investors consistency and comparability with our past financial performance and facilitates period to period comparison of operations, as it eliminates the effects of certain variations unrelated to our overall performance. See “—Non-GAAP financial measures and adjusted EBITDA reconciliation” for additional information.

Key operating metrics

We monitor the following key operating metrics to help us evaluate our business, identify trends affecting our business, measure our performance, formulate business plans and make strategic decisions. We believe the following metrics are useful in evaluating our business but should not be considered in isolation or, solely with respect to price / mix contribution, as a substitute for financial information prepared and presented in accordance with U.S. GAAP. Certain judgments and estimates are inherent in our processes to calculate these metrics.

Net sales percentage by channel

We calculate net sales percentage by channel as net sales made through our wholesale channel to distributors, through our wholesale channel directly to trade accounts in California and through our DTC channel, respectively, as a percentage of our total net sales. We monitor net sales percentage across all three routes to market to understand the effectiveness of our omni-channel distribution model and to ensure we are deploying resources effectively to optimize engagement with our customers across our complementary distribution channels.

	Three months ended			Six months ended		
	January 31,		January 31,			
	Three months ended		Nine months ended			
	April 30,	2024	April 30,	2024	2023	2023
	2024	2024	2023	2024	2023	2023
Wholesale — Distributors	Wholesale — Distributors	62.1 %	61.3 %	69.6 %	69.0 %	Wholesale — Distributors
Wholesale — California direct to trade					60.4 %	68.6 %
DTC					66.6 %	68.9 %
Net sales	Net sales	100.0 %	100.0 %	100.0 %	Net sales	100.0 %
					100.0 %	100.0 %

The composition of our net sales, expressed in percentages by channel for the three and ~~six~~ nine months ended January 31, 2024 saw relative consistency April 30, 2024, were impacted by channel over DTC offering timing shifts. This shift was related to the prior year period. Kosta Browne Appellation Series, our highest volume Kosta Browne offering, shifting primarily into the third quarter of Fiscal 2024, compared to the fourth quarter of Fiscal 2023. In our wholesale business, volume contributions decreased due to shipment pressure related to a slight depletions decline tighter management of inventory at wholesale and retailers, partially offset by an increase in trade accounts and points of distribution during the three and ~~six~~ nine months ended January 31, 2024 April 30, 2024 compared to the prior period. During the three and six months ended January 31, 2024, DTC experienced reductions in net sales as membership offerings remained below pandemic highs. For discussion of intra-period seasonality, see “—Key factors affecting our performance—Seasonality”.

Net sales growth contribution

Net sales growth is defined as the percentage increase of net sales in the period compared to the prior year period. Contribution to net sales growth is calculated based on the portion of changes in net sales for a given period that is driven by two factors: changes in sales volume and changes in sales price and mix. Volume contribution presents the percentage change in cases sold in the current year period compared to the prior year period. Price / mix contribution presents net sales growth less volume contribution and reflects that, in addition to changes in sales volume, changes in net sales are primarily attributable to changes in sales price and mix.

	Three months ended	Six months ended
	January 31,	January 31,

	Three months ended April 30,			Nine months ended April 30,			2023	2024	2023	2024	2023	2024	2023
	2024	2024	2023	2024	2024	2023							
Net sales (decline) growth	(0.4)%		4.8 %		(2.9) %		4.3 %						
Net sales growth (decline)	1.4 %		(0.4) %		(1.6) %		2.9 %						
Volume contribution	Volume contribution	(2.7)%	(0.4) %	(3.1) %	4.5 %	Volume contribution	(4.6)%	3.5 %	(3.5)%	4.2 %			
Price / mix contribution	Price / mix contribution	2.3 %	5.2 %	0.2 %	(0.2)%	Price / mix contribution	6.0 %	(3.9)%	1.9 %	(1.4)%			

Price / mix contribution for the three and nine months ended April 30, 2024 benefited from channel mix related to the DTC offering shifts. Additionally, price / mix contribution for the nine months ended April 30, 2024 benefited from lower discounts in our wholesale channel. For the three and six nine months ended January 31, 2024 April 30, 2024, the negative volume contribution was driven by volume declines in all channels due to our wholesale channel. Volume contribution continues to be impacted by tighter inventory control across the supply chain. These declines were chain and softer demand, partially offset by trade account growth with off-premise outpacing on-premise performance for the three and six nine months ended January 31, 2024 April 30, 2024 compared to the prior period. Price / mix contribution for periods.

For the three and six nine months ended January 31, 2024 benefited from lower discounts April 30, 2023, the decrease in our wholesale channels.

Price / mix contribution for the three months ended January 31, 2023 was bolstered by a DTC offering shift into the second quarter of Fiscal 2023 compared to the prior period, as well as pricing increases in our wholesale channel that supported net sales growth for the quarter versus the prior year period. For the six months ended January 31, 2023, a relatively neutral price / mix contribution was impacted by the DTC offering shifts and outsized volume growth of the wholesale channel, and flat DTC channel performance, while benefiting from pricing increases that supported net sales growth. Trade account growth was a primary driver of increased volume for the six months ended January 31, 2023. Wholesale performance was largely balanced in the channels, with on-premise slightly outpacing off-premise growth, partially offset by price increases.

Generally, on-premise expansion also drives increased sales in our ultra-luxury brands that sell at higher average sales prices and positively impact price / mix contribution.

Key factors affecting our performance

Sales channels

Channel mix can affect our performance and results of operations, particularly gross profit and gross profit margin.

- Wholesale channel. Consistent with sales practices in the wine industry, sales to distributors and to trade accounts in California and to distributors in other states occur below suggested retail price. We work closely with our distributors to increase the volume of our wines and number of products that are sold in their respective territories. Our wholesale channel constitutes a greater proportion of our net sales than our DTC channel.
- DTC channel. Wines sold through our DTC channel are generally sold at suggested retail prices. DTC channel sales represent important direct connections with our customers. DTC channel sales growth will generally be favorable to price / mix contribution and gross profit margin in periods where that channel constitutes a greater proportion of net sales than in a comparative period.

Wholesale channel sales made on credit terms generally require payment within 30-90 days of delivery. In periods where the net sales channel mix reflects a greater concentration of wholesale sales (which typically occurs in our first and second fiscal quarters), we typically experience an increase in accounts receivable for the period to reflect the change in sales mix, with payment collections in the subsequent period generally reducing accounts receivable and having a positive impact on cash flows in such subsequent period.

While we seek to increase sales in both channels, we expect that our future sales will continue to be substantially comprised of sales in the wholesale channel. We intend to maintain and strengthen our long-standing relationships within our network of distributors, which we believe will be critical to our continued growth and success. In the wholesale channel, we are positioned as a "one-stop shop" for all the luxury and ultra-luxury needs of our consumers, distributors and retailers.

In the DTC channel, our holistic approach to consumer engagement both online and offline is supported by an integrated e-commerce platform and portfolio wine shop, seven eight distinctive tasting room experiences located throughout Northern California and Washington, and several award-winning wine clubs, all of which enable us to cross-sell wines within our portfolio. Growth in our DTC channel or shifts in our member offerings will impact the price / mix contribution and gross profit margins in the impacted periods.

Seasonality

Generally, our net sales are typically highest in the first half of our fiscal year, predominantly due to increased consumer demand around major holidays. Net sales seasonality differs for wholesale and DTC channels, resulting in quarterly seasonality in our net sales that depends on the channel mix for that period. We typically experience a higher concentration of sales through our wholesale channel during our first and second fiscal quarters due to increased purchasing by distributors in anticipation of higher consumer demand during the holiday season. This dynamic generally results in lower average selling prices due to distributor and retail sales

discounts and promotions in our wholesale channel. See “—Key operating metrics.” In Fiscal 2023, our net sales in the first, second, third and fourth fiscal quarters represented approximately 27%, 26%, 23% and 24%, respectively, of our total net sales for the year.

Agribusiness

We have developed a diversified sourcing and production model, supported by our wineries, world-class and strategically located vineyards controlled or owned by the Company (“Estate properties”) and strong relationships with quality-oriented growers. In addition, our sourcing model includes the purchase of high-quality bulk wine from established suppliers to add a highly flexible element of diversity to our supply model. Generally, approximately 10% of the grapes are sourced from our Estate properties, with approximately 90% sourced from third-party growers. Our ability to adjust the composition of a particular vintage among our grape and bulk wine sourcing supply channels allows us to tailor inputs based on varying market or seasonal factors, which we believe enables us to produce the highest possible quality wine while optimizing gross profit.

With the acquisition of Sonoma-Cutrer, we expect further optimization of the grape supply and production model with the addition of approximately 1,100 acres of estate vineyards in the Russian River Valley and Sonoma Coast appellations. See “—Key factors affecting our performance — Recent developments” below for additional information.

Consistent with other agriculture enterprises, the cost of our wine fluctuates due to annual harvest yields, which vary due to weather and other events. In addition to agricultural factors, price volatility in the grape and bulk wine markets, competition for supply and seasonal labor costs also impact our cost of sales. We may continue to experience fluctuations in the costs of producing wine, which could impact our gross profit.

Inventory lifecycle

Grape growing on our Estate properties

Approximately 10% of the grapes are sourced from our Estate properties. Once a vineyard reaches consistent yield levels, approximately three to five years after planting, it will generally produce a relatively consistent amount of fruit for approximately 15 to 25 years, at which time blocks of the vineyard will gradually be replanted in stages after a period of lying fallow. The length of time between initial investment and ultimate sale of our Estate wines, coupled with the ongoing investment required to produce quality wine, is not typical of most agricultural industries.

Harvest-to-release

Of the total case volume we produce and sell, the majority is comprised of red wines from grape varieties such as Cabernet Sauvignon, Pinot Noir and Merlot, which can have production lifecycles spanning months and years from harvest until the time the wine is released, depending on the aging requirements prescribed by the winemakers responsible for each of our winery brands. Our red wines generally have a harvest-to-release inventory lifecycle that can range from 11 to 48 months. Our white, rosé and sparkling wines generally have a harvest-to-release inventory lifecycle that can range from eight to 44 months. During aging and storage, until bottling, we capitalize overhead costs into the carrying value of the wine.

Given the long-term nature of our investment, grape purchasing and bulk wine purchasing decisions, our production planning processes are designed to mitigate the risk of over-supply by sourcing a portion of our production needs in the spot markets to the degree appropriate based on winery brand and vintage. This opportunistic approach to grape purchases also helps reduce our overall exposure to grape price volatility.

Recent developments

Acquisition of Sonoma-Cutrer

On April 30, 2024, the Company completed the acquisition of Sonoma-Cutrer (the “Merger”), a wholly-owned subsidiary of Brown-Forman. Sonoma-Cutrer is well-known for its luxury Chardonnay brand and owns six estate vineyards with approximately 1,100 acres in both the Russian River Valley and Sonoma Coast appellations. It sells its luxury wine across the U.S. in the wholesale channel through distributors and in the DTC channel with retail price points ranging from \$20 to \$70 per bottle.

In connection with the acquisition, the Closing Date purchase consideration to Brown-Forman, inclusive of preliminary working capital adjustments, was comprised of 31,531,532 shares of the Company’s common stock valued at approximately \$267.1 million, based on a per-share value of \$8.47 per share (the closing price of the Company’s common stock on the New York Stock Exchange on the closing of the acquisition), and \$49.6 million, funded from the revolver portion of the Company’s Credit Facility. The Company estimates that \$0.8 million of additional cash consideration will be payable within 90 days of the Closing Date pursuant to the working capital provisions included within the merger agreement, which is a preliminary estimate and subject to further adjustment. The Company expects the acquisition to be accretive in the first full fiscal year based on estimated run-rate synergies, which the Company expects will be up to \$10.0 million.

In addition, we entered into a transitional services agreement with Brown-Forman. The TSA governs services including certain distribution services, information technology services, finance and accounting services and sales and marketing services for a limited time to ensure an orderly transition following the acquisition. The agreed-upon charges for such services are intended to cover any costs and expenses incurred in providing such services to us by Brown-Forman (with a mark-up to reflect the management and administrative cost of providing the services). As of April 30, 2024, we did not have any related party transactions, receivables or payables outstanding with Brown-Forman under the terms of the TSA.

As of April 30, 2024, we had a related party payable of \$1.7 million outstanding with Brown-Forman for payroll related transactions for Sonoma-Cutrer unrelated to the TSA and preliminary working capital adjustments.

Acquisition of Geyserville Winery

On June 22, 2023, we acquired a production winery and seven acres of planted Cabernet Sauvignon in Alexander Valley, Sonoma County, California. With this purchase, we expect to expand our processing, storing and bottling capabilities to reduce our reliance on custom crush facilities, and gain better visibility to our cost of goods. The purchase price of the transaction was \$54.6 million and was funded with \$15.0 million from the Credit Facility and available cash. We completed full occupancy of the Geyserville winery on March 1, 2024.

Merger Agreement - Sonoma-Cutrer

On November 16, 2023, the Company entered into an Agreement and Plan of Merger to acquire Sonoma-Cutrer, a wholly-owned subsidiary of Brown-Forman. Sonoma-Cutrer is well-known for its luxury Chardonnay brand and owns six estate vineyards with approximately 1,100 acres in both the Russian River Valley and Sonoma Coast appellations. It sells its luxury wine across the U.S. in the wholesale channel through distributors and in the DTC channel with retail price points ranging from \$20 to \$70 per bottle.

At consummation of the Merger, Brown-Forman will receive 31,531,532 shares of the Company's common stock valued at approximately \$350.0 million, based on a per-share value of \$11.10 per share, and \$50.0 million payable in cash, subject to adjustments set forth in the Merger Agreement, including for cash, working capital, indebtedness and transaction expenses. The cash consideration is expected to be funded through cash on hand and borrowings under the Company's revolving credit facility. The transaction is expected to close in the spring of 2024, subject to customary closing conditions and the required period having elapsed since the mailing to the Company's stockholders of a definitive information statement with respect to approval by the Company's stockholders of the transactions contemplated by the Merger Agreement.

Components of results of operation

Net sales

Our net sales consist primarily of wine sales to distributors and directly to trade accounts in California, which together comprise our wholesale channel, and directly to individual consumers through our DTC channel. We refer to the volume of wine we sell in terms of cases, each of which represents a standard 12 bottle case of wine, in which each bottle has a volume of 750 milliliters. Cases sold represent wine sales through our wholesale and DTC channels.

Net sales generally represent wine sales and shipping, when applicable. Sales are generally recorded at the point of shipment and are recorded net of consideration provided to customers through various incentive programs, other promotional discounts, as described below, and excise taxes. Additionally, shipping and handling costs, grape sales and lease income are included within net sales.

Depletions represent sell-through from our distributors, including our California wholesale channel, to trade accounts. We routinely offer sales discounts and promotions through various programs to distributors around the country and to trade accounts in California. These programs, where permissible, include volume-based discounts on sales orders, depletion-based incentives we pay to distributors, and certain other promotional activities. The expense associated with these discounts and promotions is estimated and recorded as a reduction to total sales in calculating net sales.

Gross profit

Gross profit is equal to net sales minus cost of sales. Cost of sales includes grape and bulk wine purchase costs. For grapes we grow, cost of sales includes amounts incurred to develop and farm the vineyards we own and lease. Cost of sales also includes all winemaking and processing charges, bottling, packaging, warehousing and shipping and handling. Costs associated with storing and maintaining wines that age longer than one year prior to sale continue to be capitalized until the wine is bottled and available for sale.

Selling, general and administrative expenses

Selling, general and administrative expenses consist of selling expenses, marketing expenses and general and administrative expenses. Selling expenses consist primarily of direct selling expenses in our wholesale and DTC channels, including payroll and related costs, product samples and tasting room operating costs, including processing fees and outside services. Marketing expenses consist primarily of advertising costs to promote winery brand awareness, customer retention costs, payroll and related costs. General and administrative expenses consist primarily of payroll and related costs, administrative expenses to support corporate functions, legal and

professional fees, depreciation, accounting and information technology, tenancy expenses and other costs related to management.

Total other expenses, net

Other (income) expense, net consist primarily of interest expense we incur on balances outstanding under the terms of our Credit Facility, amortization related to debt issuance costs and realized and unrealized gains or losses on our derivative instruments.

Income tax expense

Income tax expense consists of federal and state taxes payable to various federal, state and local tax authorities. The effective rate differs from statutory rates due to the effect of state and local income taxes and certain permanent tax adjustments.

Results of operations

The following table sets forth our results of operations for the periods presented and expresses the relationship of each line item shown as a percentage of net sales for the periods indicated. The table below should be read in conjunction with the corresponding discussion, our audited Consolidated Financial Statements included in our Annual Report on Form 10-K for Fiscal 2023, our unaudited Condensed Consolidated Financial Statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q:

(in thousands)	Three months ended January 31,		Six months ended January 31,	
	2024	2023	2024	2023
	Three months ended April 30,		Nine months ended April 30,	
(in thousands, except percentages)	2024	2023	2024	2023
Net sales	Net sales \$103,045 100.0 %	\$103,488 100.0 %	\$205,554 100.0 %	\$211,659 100.0 %
Cost of sales				
Gross profit				
Selling, general and administrative expenses				
Income from operations				
Income from operations				
Income from operations				
Interest expense				
Other expense, net				
Other (income) expense, net				
Total other expenses, net				
Income before income taxes				
Income tax expense				
Net income				
Net loss (income) attributable to non-controlling interest				

Net income attributable to The Duckhorn Portfolio, Inc.	\$ 15,857	15.4	15.4 %	\$ 14,917	14.4	14.4 %	\$ 31,394	15.3	15.3 %	\$ 34,732	16.4	16.4 %	\$ 13,323	14.4	14.4 %	\$ 16,
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Net sales

(in thousands)	Three months ended January 31,			Six months ended January 31,			Nine months ended April 30,			Net sales		
	Change			Change			Change			Change		
	2024	2023	\$	2024	2023	\$	2024	2023	\$	2024	2023	\$
Net sales	Net sales	\$ 103,045	\$ 103,488	\$ \$(443)	(0.4)	(0.4)%	\$ 205,554	\$ 211,659	\$ \$(6,105)	(2.9)	(2.9)%	\$ 92,532

Net sales for the three months ended January 31, 2024 decreased \$0.4 million April 30, 2024 increased \$1.3 million, or 0.4% 1.4%, to \$103.0 million \$92.5 million compared to \$103.5 million \$91.2 million for the three months ended January 31, 2023 April 30, 2023. The decrease increase for the three months ended January 31, 2024 April 30, 2024 is mainly attributable to a DTC offering timing shift, partially offset by negative volume contributions in all sales channels, mostly offset by a positive price / mix contribution due to the wholesale channel. The Kosta Browne Appellation Series, our highest volume Kosta Browne offering, shifted primarily into the third quarter of Fiscal 2024, compared to lower discounts in our wholesale channel. the fourth quarter of Fiscal 2023.

Net sales for the six nine months ended January 31, 2024 April 30, 2024 decreased \$6.1 million \$4.8 million, or 2.9% 1.6%, to \$205.6 million \$298.1 million compared to \$211.7 million \$302.9 million for the six nine months ended January 31, 2023 April 30, 2023. The decrease in net sales for the six nine months ended January 31, 2024 April 30, 2024 is primarily driven by negative volume contribution in the wholesale channel, partially offset by positive price / mix contribution due to lower discounts. discounts and a DTC offering timing shift primarily into the third quarter of Fiscal 2024, compared to the fourth quarter of Fiscal 2023 as mentioned above.

Additionally, net sales included lease income of \$0.9 million \$0.3 million and \$1.8 million \$2.2 million for the three and six nine months ended January 31, 2024 April 30, 2024, respectively, related to the Geyserville winery.

For further discussion of changes in sales volume and changes in sales price and mix, see “—Net sales growth contribution”.

Cost of sales

(in thousands)	Three months ended April 30,			Change		Nine months ended April 30,			Change		
	2024	2023	\$	%	2024	2023	\$	%	2024	2023	\$
Cost of sales	\$ 41,089	\$ 40,731	\$ 358	0.9 %	\$ 134,472	\$ 142,494	\$ (8,022)	(5.6)%			

Cost of sales

(in thousands)	Three months ended January 31,			Change		Six months ended January 31,			Change		
	2024	2023	\$	%	2024	2023	\$	%	2024	2023	\$
Cost of sales	\$ 44,727	\$ 48,302	\$ (3,575)	(7.4)%	\$ 93,383	\$ 101,763	\$ (8,380)	(8.2)%			

Cost of sales increased by \$0.4 million, or 0.9%, to \$41.1 million for the three months ended April 30, 2024 compared to \$40.7 million for the three months ended April 30, 2023.

Cost of sales decreased by \$3.6 million \$8.0 million, or 7.4% 5.6%, to \$44.7 million \$134.5 million for the three nine months ended January 31, 2024 April 30, 2024 compared to \$48.3 million \$142.5 million for the three nine months ended January 31, 2023. Cost of sales decreased by \$8.4 million, or 8.2%, to \$93.4 million for the six months ended January 31, 2024 compared to \$101.8 million for the six months ended January 31, 2023 April 30, 2023. The decreases decrease in cost of sales

for the three and six nine months ended January 31, 2024 April 30, 2024, were was primarily due to lower sales volume contributions in all sales channels the wholesale channel that correspondingly decreased cost of sales. We continued to manage our cost of sales through our diversified supply planning strategy.

Gross profit

(in thousands, except percentages)	Three months ended January 31,		Six months ended January 31,		(in thousands, except percentages)						
	Change		Change								
	April 30,	Change	April 30,	Change							
Gross profit	Gross profit	\$58,318	\$55,186	\$3,132	5.7 %	112,171	\$109,896	\$2,275	2.1 %	2.1	Gross
		2024	2023	\$	%	2024	2023	\$	%		% profit
											\$
											%

Gross profit margin

Gross profit increased \$3.1 million \$0.9 million, or 5.7% 1.8%, to \$58.3 million \$51.4 million for the three months ended January 31, 2024 April 30, 2024 compared to \$55.2 million \$50.5 million for the three months ended January 31, 2023 April 30, 2023. Gross profit margin was 56.6% 55.6% for the three months ended January 31, 2024 April 30, 2024 compared to 53.3% 55.4% for the three months ended January 31, 2023 April 30, 2023.

Gross profit increased \$2.3 million \$3.2 million, or 2.1% 2.0%, to \$112.2 million \$163.6 million for the six nine months ended January 31, 2024 April 30, 2024 compared to \$109.9 million \$160.4 million for the six nine months ended January 31, 2023 April 30, 2023. Gross profit margin was 54.6% 54.9% for the six nine months ended January 31, 2024 April 30, 2024 compared to 51.9% 53.0% for the six nine months ended January 31, 2023 April 30, 2023. The increases in gross profit and gross profit margin for the three and six nine months ended January 31, 2024 April 30, 2024 were the result of lower discounts discounts and margin impact from the DTC offering timing shift compared to the prior year period.

Selling, general and administrative expenses

(in thousands)	Three months ended January 31,		Change		Six months ended January 31,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Selling expenses	\$ 12,977	\$ 12,355	\$ 622	5.0 %	\$ 26,210	\$ 25,882	\$ 328	1.3 %
Marketing expenses	2,602	2,601	1	—	4,813	4,891	(78)	(1.6)
General and administrative expenses	13,668	14,623	(955)	(6.5)	28,707	24,545	4,162	17.0
Total selling, general and administrative expenses	\$ 29,247	\$ 29,579	\$ (332)	(1.1)%	\$ 59,730	\$ 55,318	\$ 4,412	8.0 %

Selling, general and administrative expenses

(in thousands)	Three months ended April 30,		Change		Nine months ended April 30,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Selling expenses	\$ 11,934	\$ 12,000	\$ (66)	(0.6)%	\$ 38,145	\$ 37,881	\$ 264	0.7 %
Marketing expenses	1,638	1,969	(331)	(16.8)	6,451	6,860	(409)	(6.0)
General and administrative expenses	16,167	10,020	6,147	61.3	44,873	34,566	10,307	29.8
Total selling, general and administrative expenses	\$ 29,739	\$ 23,989	\$ 5,750	24.0 %	\$ 89,469	\$ 79,307	\$ 10,162	12.8 %

Selling, general and administrative expenses decreased \$0.3 million increased \$5.8 million, or 1.1% 24.0%, to \$29.2 million \$29.7 million for the three months ended January 31, 2024 April 30, 2024, compared to \$29.6 million \$24.0 million for the three months ended January 31, 2023 April 30, 2023. Total selling, general and administrative expenses as a percentage of net sales decreased increased to 28.4% 32.1% in the three months ended January 31, 2024 April 30, 2024 compared to 28.6% 26.3% in the three months ended January 31, 2023 April 30, 2023. The decreases in general and administrative expenses for the three months ended

January 31, 2024 versus the prior year period were largely attributable to lower transaction costs in the three months ended January 31, 2024, compared to the prior period. For the three months ended January 31, 2024, these decreases were partially offset by higher depreciation expense related to the asset acquisition of the Geyserville winery in Fiscal 2023 and higher compensation costs compared to the prior period.

Selling, general and administrative expenses increased \$4.4 million \$10.2 million, or 8.0% 12.8%, to \$59.7 million \$89.5 million for the six nine months ended January 31, 2024 April 30, 2024, compared to \$55.3 million \$79.3 million for the six nine months ended January 31, 2023 April 30, 2023. Total selling, general and administrative expenses as a percentage of net sales increased to 30.0% in the nine months ended April 30, 2024 compared to 26.2% in the nine months ended April 30, 2023.

The increases in selling, general and administrative expenses for the six three and nine months ended January 31, 2024 April 30, 2024 were largely attributable to higher transaction and integration costs mainly related to our pending acquisition of Sonoma-Cutrer and higher depreciation expense related to the asset acquisition of the Geyserville winery in Fiscal 2023. See “—Non-GAAP financial measures and adjusted EBITDA reconciliation” for additional information on transaction and acquisition integration expenses reflected in operating expenses during the period. For the three and nine months ended April 30, 2024, these increases were partially offset by lower compensation costs compared to the prior period.

Total other expenses, net

	Three months ended January			Six months ended January			Nine months ended April					
	31,		Change	31,		Change	30,		Change	(in thousands)		
	Three months ended April 30,	Change	2024	2023	\$	%	2024	2023	\$	%	2024	2023
(in thousands)	Interest expense	Interest expense	\$4,500	\$2,684	\$1,816	67.7	67.7 %	\$8,504	\$4,846	\$3,658	75.5	75.5 %
Other expense, net	Other expense, net	Other expense, net	2,696	2,743	(47)	1.7 %	883	2,656	(1,773)	(66.8) %	\$4,531	\$2,993
Other (income) expense, net	Other (income) expense, net	Other (income) expense, net	(3,054)	729	(3,783)	518.9 %	(2,171)	3,385	(5,556)	(164.1) %		
Total other expenses, net	Total other expenses, net	Total other expenses, net	\$7,196	\$5,427	\$1,769	32.6	32.6 %	\$9,387	\$7,502	\$1,885	25.1	25.1 %
										\$1,477	\$3,722	

Total other expenses, net increased/decreased by \$1.8 million \$2.2 million, to \$7.2 million \$1.5 million for the three months ended January 31, 2024 April 30, 2024, compared to \$5.4 million \$3.7 million for the three months ended January 31, 2023 April 30, 2023. The increase in total other expenses, net, for the three months ended January 31, 2024 compared to the prior year period was driven by higher interest expense as a result of unfavorable interest rate movements on our variable-rate debt and higher average outstanding debt balances compared to the prior year period.

Total other expenses, net increased/decreased by \$1.9 million \$0.4 million to \$9.4 million \$10.9 million for the six nine months ended January 31, 2024 April 30, 2024 compared to \$7.5 million \$11.2 million for the six nine months ended January 31, 2023 April 30, 2023.

The increase in interest expense for the six three and nine months ended January 31, 2024 April 30, 2024 compared to the prior year period was driven by unfavorable interest rate movements on our variable-rate debt and higher average outstanding debt balances compared to the prior year period. The decrease in other (income) expenses, net, for the six three and nine months ended January 31, 2024 April 30, 2024 compared to the prior year period was driven by lower unfavorable fair value adjustments on our interest rate swaps, compared to the six months ended January 31, 2023.

swaps. For the three and six nine months ended January 31, 2023 April 30, 2023, other (income) expenses, net, included debt issuance costs incurred in connection with the refinancing of our Credit Facility.

Income tax expense

(in thousands)	Three months ended January 31,		Change		Six months ended January 31,		Change	
	2024	2023	\$	%	2024	2023	\$	%
Income tax expense	\$ 6,021	\$ 5,265	\$ 756	14.4 %	\$ 11,650	\$ 12,352	\$ (702)	(5.7)%

See Note 9 (Debt) and Note 10 (Derivative instruments) to our Condensed Consolidated Financial Statements for additional information.

Income tax expense									
(in thousands)	Three months ended April 30,		Change		Nine months ended April 30,		Change		
	2024	2023	\$	%	2024	2023	\$	%	
Income tax expense	\$ 6,906	\$ 6,006	\$ 900	15.0 %	\$ 18,556	\$ 18,358	\$ 198	1.1 %	

Income tax expense increased 14.4% by \$0.9 million, or \$0.7 million, to \$6.9 million for the three months ended April 30, 2024 compared to \$6.0 million for the three months ended January 31, 2024 compared to \$5.3 million for the three months ended January 31, 2023 April 30, 2023. The increase in income tax expense for the three months ended January 31, 2024 April 30, 2024 is primarily due to the impact of discrete tax adjustments related to the expiration of non-qualified stock options and vested restricted stock units shortfalls and an increase nondeductible transaction costs, partially offset by a decrease in income before taxes. For the three months ended January 31, 2024 April 30, 2024 and 2023, the effective tax rates were 27.5% 34.1% and 26.1% 26.3%, respectively, mainly reflecting the federal statutory tax rate, state taxes and certain discrete items as previously mentioned.

Income tax expense decreased 5.7%, or \$0.7 million increased by \$0.2 million, to \$11.7 million \$18.6 million for the six nine months ended January 31, 2024 April 30, 2024 compared to \$12.4 million \$18.4 million for the six nine months ended January 31, 2023 April 30, 2023. The decrease increase in income tax expense for the six nine months ended January 31, 2024 April 30, 2024 is primarily due to a decrease in income before taxes, partially offset by the impact of discrete tax adjustments related to nondeductible transaction costs, the expiration of non-qualified stock options and vested restricted stock units shortfalls, partially offset by a decrease in income before taxes. For the six nine months ended January 31, 2024 April 30, 2024 and 2023, the effective tax rates were 27.1% 29.3% and 26.2% 26.3%, respectively, mainly reflecting the federal statutory tax rate, state taxes and certain discrete items as previously mentioned.

For the three and nine months ended April 30, 2024, the effective tax rate increases were primarily due to the impact of a permanent and discrete item related to nondeductible transaction costs compared to the three and nine months ended April 30, 2023, as a result of nondeductible transaction costs of 8.8% and 2.8%, respectively.

Non-GAAP financial measures and adjusted EBITDA reconciliation

We believe adjusted EBITDA is a useful measure to us and our investors to assist in evaluating our operating performance because it provides consistency and comparability with our past financial performance across fiscal periods, as the metric eliminates the effects of certain expenses unrelated to our core operating performance that would result in variability in our results for reasons unrelated to overall continuing operations.

Adjusted EBITDA has certain limitations as an analytical tool and should not be considered in isolation or as a substitute for analysis of the Company's results as reported under U.S. GAAP. Some of these limitations include:

- although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;
- adjusted EBITDA does not reflect changes in, or cash requirements for, the Company's working capital needs;
- adjusted EBITDA does not reflect the significant interest expense, or the cash requirements necessary to service interest or principal payments, on the Company's debt;
- adjusted EBITDA does not reflect income tax payments that may represent a reduction in cash available to the Company; and
- other companies, including companies in the Company's industry, may calculate adjusted EBITDA differently, which reduce their usefulness as comparative measures.

In evaluating adjusted EBITDA, we may incur expenses that are the same as or similar to some of the adjustments in this presentation. Our presentation of adjusted EBITDA should not be construed as an inference that the Company's future results will be unaffected by the types of items excluded from the calculation of adjusted EBITDA.

For comparative periods presented, our primary operational drivers of adjusted EBITDA have been strong, sustained gross profit margins as we manage our cost of sales and operating expenses through our diversified supply planning strategy.

The following table represents the reconciliation of adjusted EBITDA to net income attributable to The Duckhorn Portfolio, Inc. the most directly comparable measure prepared in accordance with U.S. GAAP:

	Three months ended January 31,		Six months ended January 31,		Three months ended April 30,		Nine months ended April 30,		(in thousands)
	(in thousands)	2024	2023	2024	2023	2024	2023	2024	2023
Net income attributable to The Duckhorn Portfolio, Inc.									
Interest expense									
Income tax expense									
Depreciation and amortization expense ^(a)									
EBITDA									
Purchase accounting adjustments ^(a)									
Transaction expenses ^(b)									
Acquisition integration costs ^(c)									
Acquisition integration costs ^(c)									
Acquisition integration costs ^(c)									
Change in fair value of derivatives ^(c)									
Change in fair value of derivatives ^(c)									
Change in fair value of derivatives ^(c)									
Equity-based compensation ^(d)									
Change in fair value of derivatives ^(d)									
Change in fair value of derivatives ^(d)									
Change in fair value of derivatives ^(d)									
Equity-based compensation ^(e)									
Debt refinancing costs									
Debt refinancing costs									
Debt refinancing costs									
Lease income, net ^(e)									
Lease income, net ^(f)									
Adjusted EBITDA									

(a) Purchase accounting adjustments relate to the impacts of business combination accounting for our historical acquisition by TSG, and certain other transactions consummated prior to Fiscal 2021, which resulted in fair value adjustments to inventory and long-lived assets. Purchase accounting adjustments in depreciation and amortization expense include amortization of intangible assets of \$1.9 million for the three months ended January 31, 2024 April 30, 2024 and 2023, and \$3.8 million \$5.7 million for the six nine months ended January 31, 2024 April 30, 2024 and 2023.

(b) Transaction expenses include legal services, professional fees and other due diligence expenses for both periods presented. These expenses are reflected in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations.

(c) Represents integration costs related to the acquisition of Sonoma-Cutrer, see Note 4 (Business Combination). These expenses are reflected in selling, general and administrative expenses on the Condensed Consolidated Statement of Operations.

(d) Represents non-cash adjustments to changes in the fair value of derivatives, which are reflected in other (income) expense, net on the Condensed Consolidated Statement of Operations.

(d) (e) Represents non-cash charges related to equity-based compensation, which are reflected in selling, general and administrative expenses and cost of sales on the Condensed Consolidated Statement of Operations.

(e) (f) Reflects lease income, net related to an operating lease in which we are were the lessor of Geyserville winery acquired in Fiscal 2023, reflected in net sales and selling, general and administrative expenses on the Condensed Consolidated Statement of Operations. The lease term expired February 2024. Lease income, net includes net sales of \$0.9 million \$0.3 million and \$1.8 million \$2.2 million for the three and six nine months ended January 31, 2024 April 30, 2024, and selling, general and administrative expenses of \$0.9 million \$0.3 million and \$1.6 million \$1.9 million for the three and six nine months ended January 31, 2024 April 30, 2024.

Liquidity and capital resources

Sources of liquidity

Our primary cash needs are for working capital purposes, such as producing or purchasing inventory and funding operating and capital expenditures. We fund our operational cash requirements with cash flows from operating activities and borrowings under our Credit Facility. As of January 31, 2024 April 30, 2024, we had \$13.1 million \$15.7 million in cash and \$357.0 million \$323.0 million in undrawn capacity on our revolving line of credit, subject to the terms of our Credit Facility. During the three and nine months ended April 30, 2024, we borrowed \$50.0 million and \$118.0 million, respectively, on the revolving credit facility. Of the

\$50.0 million borrowed for the three months ended April 30, 2024, a significant portion was used to fund the cash consideration of the Sonoma-Cutrer acquisition. See Note 4 (Business Combination) for additional information.

Due to the seasonal nature of our operations, our cash needs are generally greatest during harvest, a period which generally spans from August to October, based on agricultural conditions and other factors outside our control. We believe that our expected operating cash flows, cash on hand and borrowing capacity on our revolving line of credit, will be adequate to meet our cash needs for the next 12 months. However, changes in our business growth plan, planned capital expenditures or responses to an ever-changing and highly competitive industry landscape may result in changes to our cash requirements.

Material cash requirements

Beyond the next 12 months, we expect cash flows generated from operations, in addition to our Credit Facility, will be our primary sources of liquidity. Based on our current operating performance, we believe these sources will be adequate to meet the cash requirements necessary to meet our future business growth plans and contractual obligations. Our liquidity needs generally include expected working capital requirements, planned capital expenditures, operating lease payments, estimated tax liabilities and principal and interest payments contractually due pursuant to the terms of our Credit Facility.

For the 2023 harvest, we contracted for grapes at a total cost of approximately \$85.7 million in Fiscal 2024. Additionally, we have purchase obligations for inventory and various contracts with third parties for custom crush, storage, glass, bottling services and equipment. See Note 9 (Commitments and contingencies) to our Condensed Consolidated Financial Statements for further information on other commitments.

As of January 31, 2024 April 30, 2024, we have approximately \$29.1 \$32.0 million in scheduled principal payments and related interest payments due over the next 12 months and approximately \$311.7 \$339.4 million of principal payments and related interest payments due thereafter until our Credit Facility matures on November 4, 2027. The calculated interest payment amounts use actual rates available as of January April 2024 and assume these rates for all future interest payments on the outstanding Credit Facility, exclusive of any future impact from our interest rate swap agreement. See Note 6 (Debt) to our Condensed Consolidated Financial Statements, where our Credit Facility is described in greater detail. Our future minimum operating lease payments due within the next 12 months total approximately \$4.3 \$4.4 million with \$16.5 \$15.8 million due in the following years.

If our cash needs change in the future, we may seek alternative or incremental funding sources to respond to changes in our business. To the extent required, we may seek to fund additional liquidity through debt or equity financing, although we can provide no assurance that such forms of capital will be available when needed, if at all, or available on terms that are acceptable.

Cash flows

The following table presents the major components of net cash flows.

(in thousands)	Six months ended January 31,		Nine months ended April 30,	
	(in thousands)	2024	2023	(in thousands)
Cash flows provided by (used in):				
Operating activities				
Operating activities				
Operating activities				
Investing activities				
Financing activities				
Net increase in cash				

Operating activities

Our cash flows from operating activities consist primarily of net income adjusted for certain non-cash transactions, including depreciation and amortization, amortization of debt issuance costs, changes in the fair values of derivatives, equity-based compensation and deferred income taxes. Operating cash flows also reflect the periodic changes in working capital, primarily inventory, accounts receivable, prepaid expenses, accounts payable and accrued expenses.

For the six nine months ended January 31, 2024 April 30, 2024, net cash used in operating activities was \$25.9 million \$0.4 million compared to net cash provided by operating activities of \$18.1 million \$51.8 million for the six nine months ended January 31, 2023 April 30, 2023, a decrease of \$44.0 million \$52.2 million. The changes in cash provided by operating activities were primarily driven by the following factors:

- Changes in accounts payable, accrued expenses and accrued expenses compensation decreased operating cash flows by \$20.1 million \$14.8 million due primarily to timing of income taxes and invoice accruals and payments;
- Increases in inventory for the six nine months ended January 31, 2024 April 30, 2024 primarily related to increases in grape and bulk wine purchases related to our Fiscal 2024 2023 harvest resulted in a decrease to operating cash flow of \$28.8 \$29.4 million;
- Deferred revenues decreased operating cash flows by \$11.9 million primarily due to an offering shift for wines sold through our DTC channel; and
- Changes in accounts receivable were due to normal seasonal timing impacts in net sales related to our wholesale sales channel, generally subject to credit terms, which resulted in an \$8.2 million a \$10.1 million increase in operating cash flow.

Investing activities

For the **six nine** months ended **January 31, 2024** **April 30, 2024**, net cash used in investing activities **related** was **\$71.1 million** as compared to cash used in financing activities of **\$14.1 million** for the nine months ended April 30, 2023. For the nine months ended April 30, 2024, net cash used in investing activities included capital expenditures of **\$17.1 million** **\$21.5 million** compared to **\$12.4 million** **\$14.1 million** for the **six nine** months ended **January 31, 2023** **April 30, 2023**, which included including barrel purchases of approximately \$10.7 million and \$8.8 million, respectively. Our investing activities for the nine months ended April 30, 2024 included cash used of \$49.6 million as cash consideration related to the acquisition of Sonoma-Cutrer. Additionally, the Company made included in investing activities is a nonrefundable advance payment of **\$2.4 million** **\$4.8 million** related to the planned capital project of a bottling line at the Geyserville winery. From time to time, we evaluate wineries, vineyards and production facilities for potential opportunities to make strategic acquisitions and other capital improvements to support our growth. Any such transactions may require additional investments and capital expenditures in the future.

Financing activities

For the **six nine** months ended **January 31, 2024** **April 30, 2024**, net cash provided by financing activities was **\$49.8 million** **\$80.9 million** as compared to cash used in financing activities of **\$1.6 million** **\$4.7 million** for the **six nine** months ended **January 31, 2023** **April 30, 2023**. For the **six nine** months ended **January 31, 2024** **April 30, 2024**, net cash provided by financing activities primarily resulted from borrowings

under our line of credit of **\$68.0 million** **\$118.0 million**, partially offset by the payments under our line of credit of **\$13.0 million** **\$29.0 million** and payments of long-term debt of **\$5.0 million** **\$7.5 million**.

For the **six nine** months ended **January 31, 2023** **April 30, 2023**, net cash used in financing activities primarily resulted from the refinancing of our Credit Facility, and included the issuance of new long-term debt of \$225.8 million and borrowings under our line of credit of \$9.0 million, partially offset by the payments under our line of credit of \$119.0 million, payments of long-term debt of **\$115.2 million** **\$117.7 million** and payments of debt issuance costs of \$2.4 million.

Capital resources

As of **January 31, 2024** **April 30, 2024**, the Company had unused capacity of **\$357.0 million** **\$323.0 million** under the revolving line of credit, excluding the incremental seasonal borrowing amount of an additional \$30.0 million of capacity. As of **January 31, 2024** **April 30, 2024**, the Company had outstanding draws of **\$68.0 million** **\$102.0 million** on the revolving line of credit. There were no outstanding draws on the delayed draw term loan. The outstanding principal balance was **\$215.8 million** **\$213.3 million** for the term loan as of **January 31, 2024** **April 30, 2024**. The maturity date for loans borrowed under the Credit Agreement is November 4, 2027.

The Credit Facility is summarized below. See Note **69** (Debt) to our Condensed Consolidated Financial Statements for additional information.

Revolving Line of Credit — The revolving line of credit allows the Borrowers to draw amounts up to \$425.0 million, excluding the incremental seasonal borrowing amount of an additional \$30.0 million of capacity. The revolving line of credit matures on November 4, 2027. The interest rate ranges from Term SOFR plus 100 basis points to Term SOFR plus 150 basis points depending on the average availability of the revolving line of credit. The amount available to borrow on the revolving line of credit is subject to a monthly borrowing base calculation, based primarily on the Company's inventory and accounts receivable balances.

Term Loans — The term loan facility provided an aggregate principal amount equal to \$225.8 million, with quarterly principal payments and the remaining unpaid principal and interest due upon maturity on November 4, 2027. The term loan has an interest rate of Term SOFR plus a 10 to 15 basis points credit spread adjustment and a 1.625% loan margin.

Delayed Draw Term Loan — The delayed draw term loan has a maximum, non-revolving draw-down limit of \$25.0 million with quarterly principal payments and the remaining unpaid principal and interest due upon maturity on November 4, 2027. The \$25.0 million is fully available, and undrawn, and has an interest rate of Term SOFR plus a 10 to 15 basis points credit spread adjustment and a 1.625% loan margin.

The Credit Agreement contains customary affirmative covenants, including delivery of audited financial statements and customary negative covenants that, among other things, limit our ability to incur additional indebtedness or to grant certain liens. As of **January 31, 2024** **April 30, 2024**, we are in compliance with all covenants.

Off-balance sheet arrangements

As of **January 31, 2024** **April 30, 2024**, we did not have any off-balance sheet arrangements that had, or are reasonably likely to have in the future, a material effect on our financial condition, results of operations, liquidity, capital expenditures or capital resources.

Critical accounting policies and estimates

Our management's discussion and analysis of our financial condition and results of operations are based on our Condensed Consolidated Financial Statements, which are prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires the application of appropriate technical accounting rules and guidance, as well as the use of estimates. The application of these policies requires judgments regarding future events. These estimates and judgments could materially impact the Condensed Consolidated Financial Statements and disclosures based on varying assumptions, as future events rarely develop exactly as forecasted, and even the best estimates routinely require adjustment.

Business Combination

On April 30, 2024, the Company completed the acquisition of Sonoma-Cutrer. See Note 4 (Business Combination) for additional information. The acquisition was accounted for using the acquisition method of accounting prescribed by ASC Topic 805, *Business Combinations*, whereby the results of operations, including the revenues and earnings of Sonoma-Cutrer, are included in the financial statements from the date of acquisition. Assets acquired and liabilities assumed as of the date of acquisition are recognized at their fair values based on widely accepted valuation techniques in accordance with ASC Topic 820, *Fair Value Measurements*. Goodwill is recognized for the excess of the consideration transferred over the net fair values of assets acquired and liabilities assumed. Management's assessment of qualitative factors affecting goodwill for each acquisition includes estimates of market share at the date of purchase, ability to grow in the market, synergy with existing Company operations and the payor profile in the markets. The fair value assigned to the intangible asset was determined using the income approach, specifically the relief from royalty method. The process for estimating fair values requires the use of significant estimates, assumptions and judgments, including determining the timing and estimates of future cash flows and developing appropriate discount and royalty rates. The estimates of fair value are based upon assumptions believed to be reasonable using the best information available. These assumptions are inherently uncertain and unpredictable and, as a result, actual results may differ materially from estimates.

ASC Topic 805, *Business Combinations* establishes a measurement period to provide the Company with a reasonable amount of time to obtain the information necessary to identify and measure various items in a business combination and cannot extend beyond one year from the acquisition date. Measurement period adjustments are recognized in the reporting period in which the adjustments are determined and calculated as if the accounting had been completed as of acquisition date. The Company expects to complete the final fair value determination of the assets acquired and liabilities assumed as soon as practicable within the measurement period, but not to exceed one year from the acquisition date.

Goodwill and Intangible Assets

We assess our goodwill and indefinite-lived intangible assets for impairment at least annually, or more frequently if events and circumstances indicate that the carrying value may not be recoverable. No interim triggering events requiring further impairment assessments of goodwill or indefinite-life intangible assets have been noted during the three or nine months ended April 30, 2024. Annually during the fourth quarter, we perform qualitative or quantitative testing, depending on factors such as prior-year test results, current year developments, current risk evaluations and other practical considerations. Refer to our Critical Accounting Policies and Estimates in our Fiscal 2023 Annual Report on Form 10-K for further details on the methodologies used for evaluating goodwill and intangible assets.

The annual testing for goodwill and intangible asset impairment will be performed and reported on in the Fiscal 2024 Annual Report on Form 10-K. Fair value determinations used in the annual testing require considerable judgment and are sensitive to changes in underlying assumptions, estimates, and market factors. Estimating the fair value of individual reporting units or indefinite-lived intangible assets requires making assumptions and estimates regarding the Company's future plans, as well as industry, economic, and regulatory conditions. If current expectations of future growth rates and margins are not met, if market factors outside of the Company's control, such as discount rates, income tax rates or inflation, change, or if Management's expectations or plans otherwise change, then our goodwill or indefinite-lived intangible assets could become impaired in the future.

There have been no other material changes in our critical accounting policies during the **six** **nine** months ended **January 31, 2024** **April 30, 2024**, as compared to those disclosed in the "Management's Discussion and Analysis of Financial Condition and Results of Operations — Critical Accounting Policies" in our Annual Report on Form 10-K for Fiscal 2023.

Recent accounting pronouncements

See Note 2 (Basis of presentation and significant accounting policies) to our Condensed Consolidated Financial Statements included in Part I, Item 1 of this Report for additional information regarding recent accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Our ongoing business operations cause us to be exposed to certain market risks, including fluctuations in interest rates, commodity prices and other costs related to production inputs, foreign currencies and inflation.

Interest rates

We are subject to interest rate risk in connection with changes in interest rates on our credit facilities, which bear interest at variable rates based upon a Term SOFR based rate plus applicable margins or predetermined alternative rates, as applicable, pursuant to the terms of our Credit Facility. As of **January 31, 2024** **April 30, 2024**, our outstanding borrowings at variable interest rates totaled **\$283.8 million** **\$315.3 million**. A hypothetical increase of 100 basis points in the effective interest rate applied to these borrowings would result in a **\$2.8 million** **\$3.1 million** increase in interest expense on an annualized basis and could impact our results of operation and financial condition. We manage our interest rate risk through normal operating and financing activities and through the use of derivative financial instruments. To mitigate exposure to fluctuations in interest rates, we entered into an interest rate swap in January 2023. See Note **7** **10** (Derivative instruments) to our Condensed Consolidated Financial Statements for further information on our interest rate swap agreement.

Inflation

We do not believe that inflation has had a material impact on our business, results of operations or financial condition to date. We continue to track the impact of inflation in an attempt to minimize its effects through pricing strategies and cost reductions. If, however, our operations are impacted by significant inflationary pressures, we may not be able to fully offset such impacts through price increases on our products, supply negotiations or production improvements. A higher than anticipated rate of inflation in the future could harm our operations and financial condition.

Foreign currency

Our revenues and costs are denominated in U.S. dollars and are not subject to significant foreign exchange risk. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our Condensed Consolidated Statements of Operations. The Company uses foreign exchange forward contracts to offset a portion of the foreign currency exchange risks associated with forecasted purchases of barrels from France. We generally use foreign exchange forward contracts up to a twelve month duration. See Note 710 (Derivative instruments) to our Condensed Consolidated Financial Statements for further information.

Sensitivity due to fluctuations in foreign currency exchange rates was not material as of January 31, 2024 April 30, 2024.

Commodity prices

The primary commodity in our product is grapes, and generally, approximately 10% of the grapes are sourced from our Estate properties. For purchased grapes and bulk wine, prices are subject to many factors beyond our control, such as the yields of various grape varieties in different geographies, the annual demand for these grapes and the vagaries of these farming businesses, including poor harvests due to adverse weather conditions, natural disasters and pestilence. Our grape and bulk wine supply mix varies from year to year between pre-contracted purchase commitments and spot purchases; the variation from year to year is based on market conditions and sales demands. We do not engage in commodity hedging on our forecasted purchases of grapes and bulk wine. We continue to diversify our sources of supply and look to changes annually to our product lines to optimize the grapes available each harvest year.

Other raw materials we source include glass, cork and wine additives. We currently source these materials from multiple vendors. We generally negotiate prices with these suppliers on an annual basis, conducting a competitive bidding process for all raw materials to leverage our volume in lowering the input costs of production. We do not engage in forward, future or other derivative hedging activities to attempt to manage future price volatility of raw materials or other production-related inputs. As a result, some of these prices change over time, and future changes to commodity prices, raw materials or other significant inputs in our wine production could have a material impact to our future results of operations.

Item 4. Controls and Procedures

Disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to provide reasonable assurance that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of 1934 ("Exchange Act"), as amended, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required financial disclosure.

As of the end of the period covered by this Quarterly Report on Form 10-Q, our management, under the supervision of and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures defined in Exchange Act Rule 13a-15(e) and 15d-15(e). Based upon this evaluation, our Chief Executive Officer and Chief Financial Officer concluded that as of January 31, 2024 April 30, 2024, our disclosure controls and procedures were effective to provide reasonable assurance that information required to be disclosed in reports we file pursuant to the Exchange Act is communicated to management as appropriate for disclosure consideration, and is accurately and timely recorded, processed, summarized, and reported within the time periods specified by applicable SEC forms and regulations.

Changes in internal control over financial reporting

During the quarter ended April 30, 2024, Management implemented new controls related to our accounting policies and procedures as part of our acquisition of Sonoma-Cutrer.

There were no other changes in our internal control over financial reporting during the three months ended April 30, 2024, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting during the three months ended January 31, 2024. reporting.

PART II

Item 1. Legal Proceedings

From time to time, we are involved in various legal proceedings arising from the normal course of business activities. Legal expenses associated with loss contingencies are accrued if reasonably estimable and the related matter is probable of causing the Company to incur expenses or other losses based on future contingent events in accordance with the Company's policies, otherwise legal expenses are expensed as incurred. We

On March 22, 2024, a former employee of the Company filed a putative class action in San Benito County Superior Court, seeking to represent all non-exempt workers of the Company in the State of California. The complaint alleges various wage and hour violations under the California Labor Code and related statutes. Plaintiff has also served a Private Attorneys General Act ("PAGA") notice for the same alleged wage and hour violations. The claims predominantly relate to alleged unpaid wages (overtime) and missed meal and rest breaks. The lawsuit seeks, among other things, compensatory damages, statutory penalties, attorneys' fees and costs. The Company has retained outside legal counsel to defend this action. The claim is in an early stage, and the amount of any loss cannot be reasonably estimated at this date.

Except as mentioned above, we are not presently a party to any litigation the outcome of which, we believe, if determined adversely to us, would individually or, taken together with other matters, have a material adverse effect on our business, operating results, cash flows or financial condition.

Item 1A. Risk Factors

As of the date of this Quarterly Report on Form 10-Q, there have been no material changes in any of the following updates the risk factors described previously reported under the heading "Risk Factors" in our Annual Report on Form 10-K for Fiscal 2023, except 2023. There have been no material changes since our previous 10-K filing other than as discussed set forth below.

The Company has and expects to incur substantial costs related to the Merger.

We have incurred and expect to incur a number of non-recurring costs associated with the Merger and related transactions. These costs include legal, financial advisory, accounting, consulting and other advisory fees, closing, integration and other related costs.

In addition, the Company has taken on additional debt and related interest expenses in Part II, "Item 1A. Risk Factors" relation to the Merger which could, in conjunction with the issuance of the share consideration to Brown-Forman, result in a reduction in our Quarterly Report earnings per share or other financial results. In turn, if the financial performance of the Company, as supplemented by that of Sonoma-Cutrer, does not meet our expectations, it may make it more difficult for us to satisfy our debt obligations.

The Merger may be more difficult, costly or time-consuming than expected, and we may not realize the anticipated benefits of the Merger.

To realize the anticipated benefits from the Merger, the Company must successfully integrate and combine its business with that of Sonoma-Cutrer. If the Company is not able to successfully achieve these objectives within the anticipated timeframe or to the extent anticipated, the anticipated benefits of the Merger may not be realized fully or at all or may take longer to realize than expected. In addition, the actual benefits of the Merger could be less than anticipated, and integration may result in additional unforeseen expenses and shed light on Form 10-Q for previously unknown risks and uncertainties, including those related to controlling exposure to unknown liabilities.

In addition, the fiscal quarter ended October 31, 2023 Company and Sonoma-Cutrer have historically operated independently. It is possible that the integration process could result in the loss of one or more key employees, the disruption of each company's ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect each company's ability to maintain relationships with key accounts, suppliers, customers, employees, and other parties relevant to the success of each business or to achieve the anticipated benefits of the Merger, including anticipated cost savings, growth opportunities, and other potential synergies. Integration efforts between the companies may also divert management attention and resources. These integration matters could have an adverse effect on the Company during this transition period after completion of the Merger.

Our estimates and judgments related to the acquisition accounting methods used to record the purchase price allocation related to the acquisition of Sonoma-Cutrer may be inaccurate.

Our management has made significant accounting judgments and estimates related to the application of acquisition accounting of the Merger under GAAP, as well as the underlying valuation models. Our business, operating results and financial condition could be materially adversely impacted in future periods if the accounting judgments and estimates prove to be inaccurate.

Our largest stockholders have significant influence over us, including influence over decisions that require the approval of stockholders, which could limit our stockholders' ability to influence the outcome of key transactions, including a change of control.

As of April 30, 2024, as filed affiliates of TSG and Brown-Forman owned approximately 41.8% and 21.4% of our outstanding common stock, respectively. Although we are no longer a "controlled company" within the meaning of the corporate governance standards of the New York Stock Exchange, affiliates of TSG and Brown-Forman are able to significantly influence our decisions.

Additionally, TSG's and Brown-Forman's interests may not align with the SEC on December 6, 2023, interests of our other stockholders. TSG and Brown-Forman both may make investments in companies and may acquire and hold interests in businesses that compete directly or indirectly with us. They may also pursue acquisition opportunities that may be complementary to our business, and, as a result, those acquisition opportunities may not be available to us.

Item 5. Other Information

Rule 10b5-1 trading plans

From time to time, certain of our executive officers and directors have, and we expect they will in the future, enter into, amend and terminate written trading arrangements pursuant to Rule 10b5-1 of the Securities and Exchange Act of 1934 or otherwise. None An equity trading plan is a written document that

preestablishes the amounts, prices and dates (or formula for determining the amounts, prices and dates) of future purchases or sales of the Company's directors or executive officers adopted, modified or terminated any Rule stock, including sales of shares acquired under the Company's employee and director equity plans.

The following 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K) agreements were entered into during the three month period ended January 31, 2024. April 30, 2024.

Name	Position	Trading Agreement		Duration of Trading Agreement	Aggregate Number of Securities to be Sold under the Trading Agreement
		Adoption Date			
Pete Przybylinski	Executive Vice President, Chief Sales Officer	April 9, 2024		July 9, 2024 - December 31, 2024	100,000
Zachary Rasmussen	Executive Vice President, Chief Operating Officer	April 9, 2024		July 9, 2024 - December 31, 2024	70,000

Item 6. Exhibits

Exhibit no.	Exhibit no.	Exhibit description	Incorporated by reference		Exhibit no.	Exhibit description	Incorporated by reference		Aggregate Number of Securities to be Sold under the Trading Agreement			
			Form	Date			File no.	Form	Date	File no.	File no.	File no.
2.1	2.1	Agreement and Plan of Merger, dated as of November 16, 2023, by and among the Company, Merger Sub, Brown-Forman and Sonoma-Cutrer	8-K	November 16, 2023	2.1	001-40240	2.1	Agreement and Plan of Merger, dated as of November 16, 2023, by and among the Company, Merger Sub, Brown-Forman and Sonoma-Cutrer	8-K	November 16, 2023	2.1	001-40240
3.1	3.1	Amended and Restated Certificate of Incorporation of The Duckhorn Portfolio, Inc.	10-Q	June 8, 2023	3.1	001-40240	3.1	Third Amended and Restated Certificate of Incorporation of The Duckhorn Portfolio, Inc.	8-K	May 1, 2024	3.1	001-40240
3.2	3.2	Amended and Restated Bylaws of The Duckhorn Portfolio, Inc.	8-K	March 22, 2021	3.2	001-40240	3.2	Second Amended and Restated Bylaws of the Company	8-K	May 1, 2024	3.2	001-40240
4.1	4.1	Form of Common Stock Certificate	S-1/A	March 10, 2021	4.1	333-253412	4.1	Form of Common Stock Certificate	S-1/A	March 10, 2021	4.1	333-253412
4.2	4.2	Description of Capital Stock	10-K	October 4, 2021	4.2	001-40240	4.2	Description of Capital Stock	10-K	October 4, 2021	4.2	001-40240

10.1	10.1	Amended and Restated Stockholders Agreement, dated as of November 16, 2023, by and among the Company, Mallard and Brown-Forman	8-K	November 16, 2023	10.1	001-40240	10.1	Employment Agreement, dated April 30, 2024, by and among the Company, Duckhorn Wine Company and Deirdre Mahan	8-K	May 1, 2024	10.1	001-40240
10.2	10.2	Amended and Restated Registration Rights Agreement, dated as of November 16, 2023, by and among the Company, Mallard and Brown-Forman	8-K	November 16, 2023	10.2	001-40240						
10.3	10.3	Amended & Restated Employment Agreement entered into by and among Duckhorn Wine Company, The Duckhorn Portfolio, Inc and Jennifer Fall Jung, dated January 12, 2024	8-K	January 12, 2024	10.1	001-40240						
10.4	10.4	Second Amended & Restated Employment Agreement entered into by and among Duckhorn Wine Company, The Duckhorn Portfolio, Inc and Sean Sullivan, dated January 12, 2024	8-K	January 12, 2024	10.2	001-40240						
10.5	10.5	Second Amended & Restated Employment Agreement entered into by and among Duckhorn Wine Company, The Duckhorn Portfolio, Inc and Pete Przybylinski, dated January 12, 2024	8-K	January 12, 2024	10.3	001-40240						

10.6	<u>Second Amended & Restated Employment Agreement entered into by and among Duckhorn Wine Company, The Duckhorn Portfolio, Inc and Zach Rasmussen, dated January 12, 2024</u>	8-K	January 12, 2024	10.4	001-40240
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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934 the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

The Duckhorn Portfolio, Inc.

Date: **March 7, 2024** June 6, 2024

By: **/s/ Deirdre Mahlan**

Deirdre Mahlan

Interim President, Chief Executive Officer and Chairperson
(Principal Executive Officer)

Date: **March 7, 2024** June 6, 2024

By: **/s/ Jennifer Fall Jung**

Jennifer Fall Jung

Executive Vice President, Chief Financial Officer
(Principal Financial Officer and Principal Accounting Officer)

4250

Exhibit 31.1

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Deirdre Mahlan, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Duckhorn Portfolio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **March 7, 2024** June 6, 2024

By: **/s/ Deirdre Mahlan**

Deirdre Mahlan

Interim President, Chief Executive Officer and Chairperson
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULE 13a-14(a) OR 15d-14(a) OF THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, Jennifer Fall Jung, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Duckhorn Portfolio, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - a. Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - b. Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - c. Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - d. Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: **March 7, 2024** June 6, 2024

By: /s/ Jennifer Fall Jung

Jennifer Fall Jung

Executive Vice President, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

CERTIFICATION PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Deirdre Mahlan, Chief Executive Officer of The Duckhorn Portfolio, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended **January 31, 2024** **April 30, 2024** (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **March 7, 2024** June 6, 2024

By: /s/ Deirdre Mahlan

Deirdre Mahlan

Interim President, Chief Executive Officer and Chairperson

(Principal Executive Officer)

I, Jennifer Fall Jung, Chief Financial Officer of The Duckhorn Portfolio, Inc. (the "Company"), do hereby certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. the Quarterly Report on Form 10-Q of the Company for the fiscal quarter ended **January 31, 2024** **April 30, 2024** (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: **March 7, 2024** **June 6, 2024**

By: /s/ Jennifer Fall Jung

Jennifer Fall Jung

Executive Vice President, Chief Financial Officer

(Principal Financial Officer and Principal Accounting Officer)

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