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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 October 31, 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

EST. 1976

THE  
**DUCKHORN**  
PORTFOLIO

**The Duckhorn Portfolio, Inc.**

(Exact name of registrant as specified in its charter)

**Delaware**

**81-3866305**

(State or other jurisdiction of incorporation or organization)

(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:

<b>Title of class</b>	<b>Trading Symbol</b>	<b>Name of exchange on which registered</b>
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.

<b>Large accelerated filer</b>	<b>Accelerated filer</b>	<b>Non-accelerated filer</b>	<b>Smaller reporting company</b>	<b>Emerging growth company</b>
<input type="checkbox"/>	<input checked="" 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 147,200,572 shares of common stock, \$0.01 par value per share, as of November 29, 2024.

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## Table of Contents

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	<u>Page</u>
<b>PART I</b>	
<a href="#"><u>Item 1. Financial Statements</u></a>	<a href="#"><u>5</u></a>
<a href="#"><u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u></a>	<a href="#"><u>24</u></a>
<a href="#"><u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u></a>	<a href="#"><u>39</u></a>
<a href="#"><u>Item 4. Controls and Procedures</u></a>	<a href="#"><u>40</u></a>
<b>PART II</b>	
<a href="#"><u>Item 1. Legal Proceedings</u></a>	<a href="#"><u>41</u></a>
<a href="#"><u>Item 1A. Risk Factors</u></a>	<a href="#"><u>41</u></a>
<a href="#"><u>Item 5. Other Information</u></a>	<a href="#"><u>41</u></a>
<a href="#"><u>Item 6. Exhibits</u></a>	<a href="#"><u>42</u></a>
<a href="#"><u>Signatures</u></a>	<a href="#"><u>43</u></a>

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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:

- risks related to the satisfaction of the conditions to closing of the Merger (as defined herein) (including the failure to obtain the requisite approval of the stockholders) in the anticipated timeframe or at all;
- the occurrence of any event, change or other circumstances that could give rise to the termination of the Merger Agreement (as defined herein);
- risks related to disruption of management's attention from Duckhorn's ongoing business operations due to the Merger;
- disruption from the Merger making it difficult to maintain business and operational relationships, including retaining and hiring key personnel and maintaining relationships with Duckhorn's customers, distributors, suppliers and others with whom it does business;
- significant transaction costs;
- the risk of litigation and/or regulatory actions related to the Merger;
- the possibility that competing offers or acquisition proposals for Duckhorn will be made;
- restrictions imposed on our business during the pendency of the Merger;
- 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 ("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;

## [Table of Contents](#)

- 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 ("IT") 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;
- our largest stockholders' significant influence over 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 2024 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**

**Index to Condensed Consolidated Financial Statements**

	<b>Page</b>
<a href="#">Condensed Consolidated Financial Statements (unaudited)</a>	<u>6</u>
<a href="#">Condensed Consolidated Statements of Financial Position (unaudited)</a>	<u>6</u>
<a href="#">Condensed Consolidated Statements of Operations (unaudited)</a>	<u>7</u>
<a href="#">Condensed Consolidated Statements of Stockholders' Equity (unaudited)</a>	<u>8</u>
<a href="#">Condensed Consolidated Statements of Cash Flows (unaudited)</a>	<u>9</u>
<a href="#">Notes to Condensed Consolidated Financial Statements (unaudited)</a>	<u>10</u>
<a href="#">Note 1 Description of Business</a>	<u>10</u>
<a href="#">Note 2 Basis of Presentation and Recent Accounting Pronouncements</a>	<u>11</u>
<a href="#">Note 3 Revenue</a>	<u>13</u>
<a href="#">Note 4 Acquisition</a>	<u>14</u>
<a href="#">Note 5 Inventories</a>	<u>15</u>
<a href="#">Note 6 Accrued Expenses</a>	<u>15</u>
<a href="#">Note 7 Debt</a>	<u>16</u>
<a href="#">Note 8 Derivative Instruments</a>	<u>17</u>
<a href="#">Note 9 Fair Value Measurements</a>	<u>18</u>
<a href="#">Note 10 Commitments and Contingencies</a>	<u>19</u>
<a href="#">Note 11 Related Party Transactions</a>	<u>21</u>
<a href="#">Note 12 Equity-Based Compensation</a>	<u>21</u>
<a href="#">Note 13 Earnings Per Share</a>	<u>22</u>
<a href="#">Note 14 Income Taxes</a>	<u>23</u>

[Table of Contents](#)

**The Duckhorn Portfolio, Inc.**

**Condensed Consolidated Statements of Financial Position**

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

	October 31, 2024	July 31, 2024
<b>ASSETS</b>		
<b>Current assets:</b>		
Cash	\$ 5,407	\$ 10,872
Accounts receivable trade, net	88,016	52,262
Due from related party	222	10,845
Inventories	530,293	448,967
Prepaid expenses and other current assets	11,040	14,594
<b>Total current assets</b>	<b>634,978</b>	<b>537,540</b>
Property and equipment, net	568,391	568,457
Operating lease right-of-use assets	26,369	27,130
Intangible assets, net	190,577	192,467
Goodwill	484,379	483,879
Other assets	7,470	7,555
<b>Total assets</b>	<b>\$ 1,912,164</b>	<b>\$ 1,817,028</b>
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
<b>Current liabilities:</b>		
Accounts payable	\$ 66,357	\$ 5,774
Accrued expenses	69,346	34,164
Accrued compensation	7,994	11,386
Deferred revenue	12,264	80
Current maturities of long-term debt	9,721	9,721
Due to related party	342	1,714
Other current liabilities	4,250	3,905
<b>Total current liabilities</b>	<b>170,274</b>	<b>66,744</b>
Revolving line of credit	83,000	101,000
Long-term debt, net of current maturities and debt issuance costs	198,263	200,734
Operating lease liabilities	23,579	24,286
Deferred income taxes	151,104	151,104
Other liabilities	694	705
<b>Total liabilities</b>	<b>626,914</b>	<b>544,573</b>
<b>Commitments and Contingencies (Note 10)</b>		
<b>Stockholders' equity:</b>		
Common stock, \$ 0.01 par value; 500,000,000 shares authorized; 147,200,572 and 147,073,614 issued and outstanding at October 31, 2024 and July 31, 2024, respectively	1,472	1,471
Additional paid-in capital	1,012,874	1,011,265
Retained earnings	270,299	259,135
<b>Total The Duckhorn Portfolio, Inc. stockholders' equity</b>	<b>1,284,645</b>	<b>1,271,871</b>
Non-controlling interest	605	584
<b>Total stockholders' equity</b>	<b>1,285,250</b>	<b>1,272,455</b>
<b>Total liabilities and stockholders' equity</b>	<b>\$ 1,912,164</b>	<b>\$ 1,817,028</b>

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

[Table of Contents](#)

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

	<b>Three months ended October 31,</b>	
	<b>2024</b>	<b>2023</b>
Sales	\$ 124,669	\$ 103,903
Excise tax	1,727	1,394
<b>Net sales</b>	<b>122,942</b>	<b>102,509</b>
Cost of sales	61,442	48,656
<b>Gross profit</b>	<b>61,500</b>	<b>53,853</b>
Selling, general and administrative expenses	40,798	30,483
<b>Income from operations</b>	<b>20,702</b>	<b>23,370</b>
Interest expense	5,115	4,004
Other expense (income), net	117	( 1,813 )
Total other expenses, net	5,232	2,191
<b>Income before income taxes</b>	<b>15,470</b>	<b>21,179</b>
Income tax expense	4,285	5,629
<b>Net income</b>	<b>11,185</b>	<b>15,550</b>
Net income attributable to non-controlling interest	( 21 )	( 13 )
<b>Net income attributable to The Duckhorn Portfolio, Inc.</b>	<b>\$ 11,164</b>	<b>\$ 15,537</b>
<b>Earnings per share of common stock:</b>		
Basic	\$ 0.08	\$ 0.13
Diluted	\$ 0.08	\$ 0.13
<b>Weighted average shares of common stock outstanding:</b>		
Basic	147,128,486	115,339,774
Diluted	147,186,767	115,451,719

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

**The Duckhorn Portfolio, Inc.**

**Condensed Consolidated Statements of Stockholders' Equity**

(Unaudited, in thousands except share data)

	Three months ended October 31,							
	Common stock				The Duckhorn Portfolio, Inc. stockholders' equity		Non-controlling interest	Total stockholders' equity
	Shares	Amount	Additional paid-in capital	Retained earnings				
<b>Balances at July 31, 2024</b>	<b>147,073,614</b>	<b>\$ 1,471</b>	<b>\$ 1,011,265</b>	<b>\$ 259,135</b>	<b>\$ 1,271,871</b>	<b>\$ 584</b>	<b>\$ 1,272,455</b>	
Net income	—	—	—	11,164	11,164	21	—	11,185
Issuance of common stock under equity incentive plans	202,501	2	( 1 )	—	1	—	—	1
Exercise of common stock options	—	—	—	—	—	—	—	—
Equity-based compensation (Note 12)	—	—	2,254	—	2,254	—	—	2,254
Shares withheld related to net share settlement	( 75,543 )	( 1 )	( 644 )	—	( 645 )	—	—	( 645 )
<b>Balances at October 31, 2024</b>	<b>147,200,572</b>	<b>\$ 1,472</b>	<b>\$ 1,012,874</b>	<b>\$ 270,299</b>	<b>\$ 1,284,645</b>	<b>\$ 605</b>	<b>\$ 1,285,250</b>	
<b>Balances at July 31, 2023</b>	<b>115,316,308</b>	<b>\$ 1,153</b>	<b>\$ 737,557</b>	<b>\$ 203,122</b>	<b>\$ 941,832</b>	<b>\$ 576</b>	<b>\$ 942,408</b>	
Net income	—	—	—	15,537	15,537	13	—	15,550
Issuance of common stock under equity incentive plans	79,639	1	—	—	1	—	—	1
Equity-based compensation (Note 12)	—	—	1,150	—	1,150	—	—	1,150
Shares withheld related to net share settlement	( 28,237 )	—	( 342 )	—	( 342 )	—	—	( 342 )
<b>Balances at October 31, 2023</b>	<b>115,367,710</b>	<b>\$ 1,154</b>	<b>\$ 738,365</b>	<b>\$ 218,659</b>	<b>\$ 958,178</b>	<b>\$ 589</b>	<b>\$ 958,767</b>	

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)*

	<b>Three months ended October 31,</b>	
	<b>2024</b>	<b>2023</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 11,185	\$ 15,550
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	10,631	7,329
Gain on disposal of assets	( 61 )	( 42 )
Change in fair value of derivatives	137	( 1,889 )
Amortization of debt issuance costs	194	194
Equity-based compensation	2,254	1,150
Change in operating assets and liabilities; net of acquisition:		
Accounts receivable trade, net	( 35,754 )	( 22,547 )
Due from related party	10,623	—
Inventories	( 80,443 )	( 66,115 )
Prepaid expenses and other current assets	3,550	1,781
Other assets	( 212 )	283
Accounts payable	61,149	28,045
Accrued expenses	37,058	51,985
Accrued compensation	( 3,392 )	( 7,808 )
Deferred revenue	12,184	11,132
Due to related party	( 1,372 )	—
Other current and non-current liabilities	( 496 )	( 982 )
<b>Net cash provided by operating activities</b>	<b>27,235</b>	<b>18,066</b>
<b>Cash flows from investing activities</b>		
Purchases of property and equipment, net of sales proceeds	( 11,556 )	( 10,395 )
<b>Net cash used in investing activities</b>	<b>( 11,556 )</b>	<b>( 10,395 )</b>
<b>Cash flows from financing activities</b>		
Payments under line of credit	( 18,000 )	( 13,000 )
Borrowings under line of credit	—	23,000
Payments of long-term debt	( 2,500 )	( 2,500 )
Taxes paid related to net share settlement of equity awards	( 644 )	( 342 )
<b>Net cash (used in) provided by financing activities</b>	<b>( 21,144 )</b>	<b>7,158</b>
<b>Net (decrease) increase in cash</b>	<b>( 5,465 )</b>	<b>14,829</b>
<b>Cash - Beginning of period</b>	<b>10,872</b>	<b>6,353</b>
<b>Cash - End of period</b>	<b>\$ 5,407</b>	<b>\$ 21,182</b>
<b>Supplemental cash flow information</b>		
Interest paid, net of amount capitalized	\$ 4,585	\$ 4,009
Income taxes paid	\$ —	\$ 11,607
<b>Non-cash investing activities</b>		
Property and equipment additions in accounts payable and accrued expenses	\$ 2,568	\$ 3,300

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

**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 wholesale and direct to consumer ("DTC") sales. Wholesale revenue is generated through sales directly to California retailers and restaurants, sales to distributors and agents 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.

***Proposed transaction with Butterfly***

On October 6, 2024, the Company entered into an Agreement and Plan of Merger (the "Merger Agreement") with Marlee Buyer, Inc., a Delaware corporation ("Parent"), and Marlee Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Subsidiary"), pursuant to which Merger Subsidiary will merge with and into the Company whereupon the separate corporate existence of Merger Subsidiary will cease and the Company will be the surviving corporation in the Merger (the "Surviving Corporation") and will continue as a wholly owned subsidiary of Parent (the "Merger"). Parent is a Delaware corporation and was formed on September 24, 2024 by Butterfly Equity LP ("Butterfly"), solely for the purpose of engaging in the transactions contemplated by the Merger Agreement and other documents or agreements executed and delivered in connection with the Merger Agreement. The Merger, which was unanimously approved by the Company's Board of Directors, is expected to close this winter, subject to customary closing conditions, including approval by the Company's stockholders. Upon completion of the transaction, the Company's common stock will cease to trade and no longer be listed on the New York Stock Exchange.

As a result of the Merger, at the effective time of the Merger (the "Effective Time") (subject to certain exceptions, including for shares common stock of the Company (collectively, the "Company Stock") owned by stockholders of the Company who have not voted in favor of the adoption of the Merger Agreement and have properly exercised appraisal rights in accordance with Section 262 of the General Corporation Law of the State of Delaware), each share of Company Stock outstanding immediately prior to the Effective Time will be automatically canceled and converted into the right to receive \$ 11.10 in cash, without interest (the per share consideration, the "Per Share Consideration" and the aggregate consideration, the "Merger Consideration").

Pursuant to the agreement, the Company may be required to pay a termination fee of up to approximately \$ 53.5 million, if the agreement is terminated under certain circumstances, and may be entitled to receipt of a termination fee of approximately \$ 95.0 million, if the agreement is terminated under other certain circumstances.

***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 October 31, 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 represented an ownership percentage of approximately 21.4 % of the Company. See Note 4 (Acquisition) for additional information.

## **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, 2025, for any other interim period or for any future year.

The Condensed Consolidated Statements of Financial Position as of July 31, 2024 was derived from the Company's audited financial statements for the fiscal year ended July 31, 2024, 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, 2024.

### **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 ("CODM") 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. 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 October 31, 2024 and July 31, 2024, 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 at both October 31, 2024 and July 31, 2024. 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 (Acquisition) 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.

#### **Long-lived asset**

Long-lived assets held for sale are recorded at the lower of cost or fair value less costs to sell and are recorded within prepaid expenses and other current assets in the Condensed Consolidated Statements of Financial Position. The Company classifies an asset as held for sale if it commits to a plan to sell the asset within one year and actively markets the asset in its current condition for a price that is reasonable in comparison to its estimated fair value. As of October 31, 2024 and July 31, 2024, the Company reported \$ 1.3 million in assets held for sale within prepaid expenses and other current assets in the Condensed Consolidated Statements of Financial Position. No impairments were identified related to long-lived assets for three months ended October 31, 2024 or 2023.

#### **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 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.

In November 2024, the FASB issued ASU No. 2024-03, *Income Statement-Reporting Comprehensive Income-Expense Disaggregation Disclosures (Subtopic 220-40): Disaggregation of Income Statement Expenses* which aims to improve the disclosures about a public business entity's expenses by requiring more detailed information about the types of expenses in commonly presented expense captions. ASU 2024-03 is effective for fiscal years beginning after December 15, 2026 and interim periods within fiscal years beginning after December 15, 2027. Early adoption is permitted. The disclosures required under the guidance can be applied either prospectively to financial statements issued for reporting periods after the effective date or retrospectively to any or all periods presented in the financial statements. The Company is currently evaluating the impact that this ASU on our Consolidated Financial Statements and related disclosures.

### 3. Revenue

#### ***Disaggregated revenue information***

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

	<b>Three months ended October 31,</b>	
	<b>2024</b>	<b>2023</b>
Wholesale — Distributors	79.3 %	77.0 %
Wholesale — California direct to trade <sup>(a)</sup>	13.9	15.6
DTC <sup>(b)</sup>	6.8	7.4
Net sales <sup>(c)</sup>	100.0 %	100.0 %

(a) Includes \$ 0.6 million and \$ 0.7 million of sales related to bulk and grape sales for the three months ended October 31, 2024 and 2023, respectively.

(b) Includes shipping and handling revenue of \$ 0.1 million for both the three months ended October 31, 2024 and 2023.

(c) For the three months ended October 31, 2023, excludes lease income of \$ 0.9 million, from Geyserville winery acquired in June 2023.

Charges, recoveries and reductions related to credit loss on accounts receivable and the related allowance were immaterial for the three months ended October 31, 2024 and 2023. The allowance for credit losses was \$ 0.5 million as of October 31, 2024 and July 31, 2024.

#### ***Contract balances***

When the Company receives payment from a customer prior to transferring the product 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 DTC members for purchases 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 in the Condensed Consolidated Statements of Financial Position was \$ 12.3 million and \$ 0.1 million at October 31, 2024 and July 31, 2024, respectively.

#### 4. Acquisition

##### **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 which includes six estate vineyards spanning approximately 1,100 acres. The Company acquired Sonoma-Cutrer for consideration comprised of approximately \$ 50.0 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, plus net working capital payable adjustments of \$ 1.0 million.

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 months ended October 31, 2024, the Company incurred \$ 0.2 million of third-party integration costs recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. During the three months ended October 31, 2023, the Company incurred \$ 2.7 million of third-party acquisition transaction costs recorded in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations.

There have been no material changes since the initial allocation as reported in our April 30, 2024 Form 10-Q. The current allocation of the purchase consideration to the assets acquired and liabilities assumed as of October 31, 2024 is as follows:

(in thousands)	Amount
Total purchase consideration	\$ 318,028
<b>Assets acquired:</b>	
Inventories	61,897
Prepaid expenses and other current assets	373
Property and equipment, net	243,955
Intangible asset (Trade name)	17,000
Other assets	246
<b>Total assets</b>	<b>323,471</b>
<b>Liabilities assumed:</b>	
Current liabilities	( 3,554 )
Deferred income taxes	( 60,857 )
Other liabilities	( 202 )
<b>Total liabilities</b>	<b>( 64,613 )</b>
Goodwill	\$ 59,170

The estimated fair values of assets acquired were determined with the assistance of a valuation specialist using primarily Level 3 inputs as defined under ASC Topic 820, *Fair Value Measurement*, as of the acquisition date. All estimates, key assumptions, and forecasts were either provided by or reviewed by the Company. 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.

## Table of Contents

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 not deductible for tax purposes.

The Sonoma-Cutrer acquisition accounted for \$ 28.8 million of net sales for the three months ended October 31, 2024. Due to the continued integration of the combined businesses, as well as our corporate structure and the allocation of selling, general and administrative costs, it is impracticable to determine Sonoma-Cutrer's contribution to our earnings.

## 5. Inventories

Inventories were comprised of the following:

(in thousands)	October 31, 2024	July 31, 2024
Finished goods	\$ 184,766	\$ 185,196
Work in progress	310,931	239,493
Raw materials	34,596	24,278
Inventories	\$ 530,293	\$ 448,967

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 \$ 0.9 million at October 31, 2024 and July 31, 2024.

The Company capitalizes into inventories depreciation related to property and equipment used in the production of inventory. For the three months ended October 31, 2024 and 2023, the amount capitalized was \$ 8.3 million and \$ 3.8 million, respectively. The Company also capitalizes total lease costs related to leases used in the production of inventory. For the three months ended October 31, 2024 and 2023, the amount capitalized was \$ 1.1 million and \$ 1.2 million, respectively.

## 6. Accrued Expenses

Accrued expenses were comprised of the following:

(in thousands)	October 31, 2024	July 31, 2024
Bulk wine and other received not invoiced	\$ 23,796	\$ 2,901
Trade spend <sup>(a)</sup>	17,012	10,593
Accrued professional fees <sup>(b)</sup>	8,085	264
Deferred compensation liability <sup>(c)</sup>	3,919	3,932
Income taxes payable	1,900	—
Barrel purchase	1,794	3,143
Accrued construction in progress	749	4,385
Accrued invoices and other accrued expenses	12,091	8,946
Accrued expenses	\$ 69,346	\$ 34,164

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

(b) Includes transaction costs related to the Merger Agreement.

(c) The Company intends to use the cash surrender value of life insurance policies to settle its deferred compensation plan liability. The cash surrender value of the life insurance policies was \$ 3.7 million at October 31, 2024 and July 31, 2024, and is included in other assets on the Condensed Consolidated Statements of Financial Position.

## 7. Debt

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

(in thousands)	October 31, 2024	July 31, 2024
Revolving line of credit	\$ 83,000	\$ 101,000
Term loan, first lien	208,332	210,832
<b>Total debt</b>	<b>291,332</b>	<b>311,832</b>
Less: Current maturities of long-term debt	( 9,721 )	( 9,721 )
<b>Total long-term debt</b>	<b>281,611</b>	<b>302,111</b>
Debt issuance costs <sup>(a)</sup>	( 348 )	( 377 )
<b>Total long-term debt, net of current maturities and debt issuance costs</b>	<b>\$ 281,263</b>	<b>\$ 301,734</b>

(a) Debt issuance costs are the costs associated with the term loan facility. Debt issuance costs of \$ 2.0 million and \$ 2.2 million at October 31, 2024 and July 31, 2024, 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.

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 October 31, 2024, the Company was in compliance with all covenants.

At October 31, 2024 and July 31, 2024, the Company had unused capacity of \$ 342.0 million and \$ 324.0 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 October 31, 2024 or July 31, 2024.

## 8. 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 October 31, 2024 or July 31, 2024. The Company does not enter into derivative instruments for trading or speculative purposes. The Company does not apply hedge accounting treatment to derivative instruments.

As of October 31, 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)	October 31, 2024	July 31, 2024
Interest rate swap contract	\$ 100,000	\$ 100,000
Foreign currency forward contracts	—	3,792
<b>Total derivative instruments not designated as hedging instruments</b>	<b>\$ 100,000</b>	<b>\$ 103,792</b>

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 10 (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 at October 31, 2024 were as follows:

(in thousands)	Derivative Assets	
	Balance Sheet Classification	Fair Value
Interest rate swap contract	Other assets	\$ 333
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 333</b>

## Table of Contents

The estimated fair value and classification of derivative instruments on the Condensed Consolidated Statements of Financial Position at July 31, 2024 were as follows:

<b>Derivative Assets</b>		
(in thousands)	Balance Sheet Classification	Fair Value
Interest rate swap contract	Other assets	\$ 465
Foreign currency forward contracts	Prepaid expenses and other current assets	5
<b>Total derivatives not designated as hedging instruments</b>		<b>\$ 470</b>

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:

(in thousands)	Classification	<b>Three months ended October 31,</b>	
		2024	2023
Interest rate swap contract	Other expense (income), net	\$ 132	\$ ( 1,965 )
Foreign currency forward contracts	Other expense (income), net	5	76
<b>Total loss (gain)</b>		<b>\$ 137</b>	<b>\$ ( 1,889 )</b>

## 9. 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).

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 and cash surrender value life insurance policies, 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 carrying value of cash surrender value life insurance policies is recorded at cash surrender value and, accordingly, approximates fair value.

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

<i>(in thousands)</i>	<b>Fair value measurements using:</b>		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			

Interest rate swap contract

\$ — \$ 333 \$ —

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

<i>(in thousands)</i>	<b>Fair value measurements using:</b>		
	Quoted prices in active markets (Level 1)	Significant other observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets:			
Interest rate swap contract	\$ —	\$ 465	\$ —
Foreign currency forward contracts	\$ —	\$ 5	\$ —

## 10. 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 2024 harvest, the Company purchased 35,000 tons of grapes at a total cost of \$ 89.0 million which was recognized into inventory during Fiscal 2025. For the 2023 harvest, the Company purchased 32,000 tons of grapes for a total cost of \$ 85.7 million which was recognized into inventory during Fiscal 2024. 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 October 31, 2024, the Company had \$ 4.7 million in barrel purchase commitments. During the three months ended October 31, 2024, the Company paid \$ 7.8 million associated with the barrel purchases 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 expense (income), net on the Condensed Consolidated Statements of Operations. See Note 8 (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. In December 2023, the Company entered into an equipment agreement resulting in a purchase commitment of \$ 15.9 million. Under the agreement, the Company is obligated to pay milestone payments as equipment and services are rendered of \$ 10.3 million and \$ 0.8 million for the fiscal years 2025 and 2026, respectively.

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.

***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 October 31, 2024 and July 31, 2024, there were no material contingent obligations requiring an accrual.

***Advisory Agreement***

For financial advisory services rendered in connection with the Merger, the Company has agreed to pay J.P. Morgan an estimated fee of approximately \$ 30.0 million, \$ 5.0 million of which became payable and was paid to J.P. Morgan at the time J.P. Morgan delivered its opinion during the three months ended October 31, 2024, and the remainder of which is contingent and payable upon the consummation of the Merger. Because the consummation of the Merger is not in the control of the Company, the Company will not accrue the contingent portion of the fee due to J.P. Morgan until the consummation of the Merger.

***Wage and Hour Claim***

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 parties have agreed to participate in mediation of one plaintiff's individual PAGA claim and the representative PAGA claims in March 2025. The claim is in an early stage, and the amount of any loss cannot be reasonably estimated at this date.

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 October 31, 2024 and July 31, 2024, no amounts were accrued related to such indemnification provisions.

## 11. Related Party Transactions

Effective April 30, 2024, in connection with the Sonoma-Cutrer acquisition, the Company entered into a TSA with Brown-Forman, which is considered a related party transaction. See Note 4 (Acquisition) 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). The Company had a receivable balance outstanding with Brown-Forman of \$ 0.2 million and \$ 10.8 million as of October 31, 2024 and July 31, 2024, respectively, related to these services and related net sales, recognized in due from related party on the Condensed Consolidated Statements of Financial Position. During the three months ended October 31, 2024, the Company recorded net sales of \$ 0.6 million, net of applicable service fees, to Brown-Forman recognized within net sales in the Condensed Consolidated Statements of Operations.

As of October 31, 2024 and July 31, 2024, the Company had a related party payable of \$ 0.3 million and \$ 1.7 million, respectively, outstanding with Brown-Forman for preliminary working capital adjustments related to consideration paid for the acquisition and accounts payable, recognized in due to related party on the Condensed Consolidated Statements of Financial Position . See Note 4 (Acquisition) for additional information.

## 12. 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"), 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:

	<b>Number of options outstanding</b>	<b>Weighted-average exercise price (per share)</b>	<b>Weighted-average remaining contractual life (in years)</b>	<b>Aggregate intrinsic value (in thousands)</b>
Balance at July 31, 2024	2,494,584	\$ 13.23	8.2	\$ —
Granted	1,077,507	10.94		
Exercised	—	—		
Forfeited	( 44,497 )	12.10		
Expired	—	—		
Balance at October 31, 2024	<u>3,527,594</u>	<u>\$ 12.54</u>	<u>8.5</u>	<u>\$ 1,197</u>
Exercisable as of October 31, 2024	1,137,233	\$ 14.74	7.3	\$ 289

The total unrecognized compensation expense related to the 2021 Plan stock options was \$ 5.5 million as of October 31, 2024, which is expected to be recognized over a weighted-average period of 2.5 years. The weighted-average grant-date fair value of options granted during the three months ended October 31, 2024 was \$ 0.36 per share.

Due to the Merger Agreement, the Company considered a scenario-based valuation approach to estimate the grant-date fair value of the stock options granted during the three months ended October 31, 2024. Specifically, the Company assigned probability weightings to a "go private" event scenario associated with the merger transaction of 95 % and a "stay public" scenario of 5 %. For the merger transaction scenario, the expected payment is based on the intrinsic value using the following key assumptions, merger consideration of \$ 11.10 per share, exercise price of \$ 10.94 per share, contractual vesting schedule and the risk-free rates ( 3.90 % to 4.26 %). For the stay public scenario, the Company applied the Black-Scholes option pricing method.

#### **Restricted stock units**

RSUs are valued using the closing market price of 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	Weighted-average grant-date fair value (per share)
Unvested as of July 31, 2024	1,063,881	\$ 10.62
Granted	408,961	10.31
Vested	( 202,501 )	11.58
Forfeited	( 14,841 )	12.11
Unvested as of October 31, 2024	<u>1,255,500</u>	<u>\$ 10.35</u>

The total intrinsic value of restricted stock that vested during the three months ended October 31, 2024 was \$ 2.3 million. The total unrecognized compensation expense related to the 2021 Plan RSUs was \$ 11.2 million as of October 31, 2024, which is expected to be recognized over a weighted-average period of 2.9 years.

#### **Compensation expense**

During the three months ended October 31, 2024 and 2023, the Company recognized total equity-based compensation expense due to units vesting over their requisite service periods for all plans of \$ 2.3 million and \$ 1.2 million, 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.

### **13. 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.

[Table of Contents](#)

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

	Three months ended October 31,	
	2024	2023
(in thousands, except share and per share amounts)		
<b>Numerator:</b>		
Net income attributable to The Duckhorn Portfolio, Inc.	\$ 11,164	\$ 15,537
<b>Denominator:</b>		
Weighted average number of shares outstanding for basic per share calculation	147,128,486	115,339,774
<b>Effect of dilutive potential shares<sup>(a)</sup>:</b>		
Stock options	7,879	80,598
Restricted stock units	50,402	31,347
Adjusted weighted average shares outstanding for diluted per share calculation	<u>147,186,767</u>	<u>115,451,719</u>
<b>Earnings per share attributable to The Duckhorn Portfolio, Inc.:</b>		
Basic	\$ 0.08	\$ 0.13
Diluted	\$ 0.08	\$ 0.13

(a) Calculated using the treasury stock method.

For the three months ended October 31, 2024 and 2023, there were 3.1 million and 1.2 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 ended October 31, 2024, there were 0.2 million incremental common shares issuable upon vesting of certain RSUs, respectively, that were not included in the calculation of diluted earning per share because the effect of their inclusion would have been antidilutive. Refer to Note 12 (Equity-Based Compensation) for the terms of the awards.

#### 14. Income Taxes

Income tax expense was \$ 4.3 million and \$ 5.6 million, with an effective tax rate of 27.7 % and 26.6 % for the three months ended October 31, 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 vested restricted stock units shortfalls.

## **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 2024.*

### **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 months ended October 31, 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 months ended October 31, 2024 as compared to the three months ended October 31, 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 months ended October 31, 2024 as compared to the three months ended October 31, 2023.
- *Liquidity and capital resources.* This section provides a discussion of our financial condition and liquidity as of October 31, 2024, which includes (i) a discussion of our sources of liquidity (ii) a discussion of our material cash requirements as of October 31, 2024; (iii) an analysis of changes in our cash flows for the three months ended October 31, 2024 as compared to the three months ended October 31, 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 October 31, 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 eight tasting rooms, wine clubs and our e-commerce websites. 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, we announced the launch of Decoy Featherweight Sauvignon Blanc, which is 80 calories per five-ounce serving and has an alcohol content of 9%, which establishes our 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 had conducted a comprehensive evaluation of its distribution network and announced on May 24, 2024 that it has entered into distribution agreements with key distribution partners, with the goal of driving the profitable growth of the Company's sales in the wholesale channel.
- *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 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.

**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.

(in thousands)	Three months ended October 31,	
	2024	2023
Net sales	\$ 122,942	\$ 102,509
Gross profit	\$ 61,500	\$ 53,853
Net income attributable to The Duckhorn Portfolio, Inc.	\$ 11,164	\$ 15,537
Adjusted EBITDA	\$ 48,566	\$ 34,713

**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.

## [Table of Contents](#)

### *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 optimize engagement with our customers across our complementary distribution channels.

	<b>Three months ended October 31,</b>	
	<b>2024</b>	<b>2023</b>
Wholesale — Distributors	79.3 %	77.0 %
Wholesale — California direct to trade	13.9	15.6
DTC	6.8	7.4
Net sales	<b>100.0 %</b>	<b>100.0 %</b>

The composition of our net sales, expressed in percentages by channel for the three months ended October 31, 2024, were impacted by the acquisition of Sonoma-Cutrer. In our wholesale business, volume contributions decreased due to the disruption from the distributor realignment, partially offset by an increase in trade accounts and points of distribution during the three months ended October 31, 2024 compared to the prior periods. 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.

	<b>Three months ended October 31,</b>	
	<b>2024</b>	<b>2023</b>
Net sales growth (decline)	19.9 %	(5.2)%
Volume contribution	24.7 %	(3.4)%
Price / mix contribution	(4.8)%	(1.8)%

Volume contribution for the three months ended October 31, 2024 benefited from the acquisition of Sonoma-Cutrer and trade account growth in our wholesale business. For the three months ended October 31, 2024, the negative price / mix contribution was driven by higher discounts in our wholesale channel.

For the three months ended October 31, 2023, the negative volume contribution was driven by expected sales decline in all channels, against a strong comparison in the prior period, as off-premise and on-premise experienced declines. The negative price / mix contribution was mainly impacted by brand mix.

### **Key factors affecting our performance**

#### **Sales channels**

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

- *Wholesale channel.* Consistent with sales practices in the wine industry, sales to distributors and to trade accounts in California 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 margins 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 to 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 each 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, eight distinctive tasting room experiences located throughout Northern California and Washington, and 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 2024, our net sales in the first, second, third and fourth fiscal quarters represented approximately 27%, 27%, 24% and 22%, 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 14 to 48 months. Our white, rosé and sparkling wines generally have a harvest-to-release inventory lifecycle that can range from six to 43 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**

### *Agreement and Plan of Merger*

On October 6, 2024, we entered into an Agreement and Plan of Merger (the "Merger Agreement") with Marlee Buyer, Inc., a Delaware corporation and affiliate of Butterfly ("Parent"), and Marlee Merger Sub, Inc., a Delaware corporation and wholly owned subsidiary of Parent ("Merger Sub", and together with Parent, the "Buyer Parties"), providing for the merger of Merger Sub with and into the Company, with the Company continuing as the surviving corporation (the "Merger"). Pursuant to the terms of the Merger Agreement, holders of common stock of the Company will receive \$11.10 per share in cash. The Merger, which was unanimously approved by the Company's Board of Directors, is expected to close this winter, subject to customary closing conditions, including approval by the Company's stockholders. The completion of the transaction is not subject to a financing condition.

### *Acquisition of Sonoma-Cutrer*

On April 30, 2024, (the "Closing Date") the Company completed the acquisition of 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. The purchase price 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 NYSE on the closing of the acquisition), and approximately \$50.0 million, mainly funded from the revolver portion of the Company's Credit Facility, exclusive of net working capital adjustments of \$1.0 million. See Note 4 (Acquisition) for additional information regarding the transaction.

### *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.

### **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 distributor channel, and California sales, 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 all bulk wine production costs, winemaking, bottling, packaging, warehousing and shipping and handling costs. Costs associated with the Company's leased vineyards or owned estate properties include annual farming costs and amortization of vineyard development expenditures. Costs incurred for wines that age longer than one year prior to sale, including winemaking and processing costs, continue to be capitalized into inventory 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***

Total other expenses, 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 2024, our unaudited Condensed Consolidated Financial Statements and related footnotes included elsewhere in this Quarterly Report on Form 10-Q:

(in thousands, except percentages)	Three months ended October 31,			
	2024	2023		
Net sales	\$ 122,942	100.0 %	\$ 102,509	100.0 %
Cost of sales	61,442	50.0	48,656	47.5
Gross profit	61,500	50.0	53,853	52.5
Selling, general and administrative expenses	40,798	33.2	30,483	29.7
Income from operations	20,702	16.8	23,370	22.8
Interest expense	5,115	4.3	4,004	3.9
Other expense (income), net	117	0.1	(1,813)	(1.8)
Total other expenses, net	5,232	4.3	2,191	2.1
Income before income taxes	15,470	12.6	21,179	20.7
Income tax expense	4,285	3.5	5,629	5.5
Net income	11,185	9.1	15,550	15.2
Net income attributable to non-controlling interest	(21)	—	(13)	—
Net income attributable to The Duckhorn Portfolio, Inc.	\$ 11,164	9.1 %	\$ 15,537	15.2 %

### Net sales

(in thousands)	Three months ended October 31,		Change	
	2024	2023	\$	%
Net sales	\$ 122,942	\$ 102,509	\$ 20,433	19.9 %

Net sales for the three months ended October 31, 2024 increased \$20.4 million, or 19.9%, to \$122.9 million compared to \$102.5 million for the three months ended October 31, 2023. The increase in net sales for the three months ended October 31, 2024 is primarily due to volume growth driven by the acquisition of Sonoma-Cutrer in the wholesale channel, partially offset by negative price / mix contribution due to higher discounts in our wholesale channel.

Additionally, net sales included lease income of \$0.9 million for the three months ended October 31, 2023, 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 October 31,		Change	
	2024	2023	\$	%
Cost of sales	\$ 61,442	\$ 48,656	\$ 12,786	26.3 %

Cost of sales increased by \$12.8 million, or 26.3%, to \$61.4 million for the three months ended October 31, 2024 compared to \$48.7 million for the three months ended October 31, 2023. The increase in cost of sales for the three months ended October 31, 2024, was primarily due to higher sales volume contributions in the wholesale channel related to Sonoma-Cutrer that correspondingly increased cost of sales. We continued to manage our cost of sales through our diversified supply planning strategy.

[Table of Contents](#)

**Gross profit**

(in thousands, except percentages)	Three months ended October 31,		Change	
	2024	2023	\$	%
Gross profit	61,500	\$ 53,853	\$ 7,647	14.2 %
Gross profit margin	50.0%	52.5%		

Gross profit increased \$7.6 million, or 14.2%, to \$61.5 million for the three months ended October 31, 2024 compared to \$53.9 million for the three months ended October 31, 2023. Gross profit margin was 50.0% for the three months ended October 31, 2024 compared to 52.5% for the three months ended October 31, 2023. The increase in gross profit for the three months ended October 31, 2024 was the result of the acquisition of Sonoma-Cutrer, partially offset by higher discounts. The decrease in gross profit margin for the three months ended October 31, 2024 were the result of higher discounts and margin impact from brand mix compared to the prior year period.

**Selling, general and administrative expenses**

(in thousands)	Three months ended October 31,		Change	
	2024	2023	\$	%
Selling expenses	\$ 13,893	\$ 13,233	\$ 660	5.0 %
Marketing expenses	2,080	2,211	(131)	(5.9)
General and administrative expenses	24,825	15,039	9,786	65.1
Total selling, general and administrative expenses	\$ 40,798	\$ 30,483	\$ 10,315	33.8 %

Selling, general and administrative expenses increased \$10.3 million, or 33.8%, to \$40.8 million for the three months ended October 31, 2024, compared to \$30.5 million for the three months ended October 31, 2023. Total selling, general and administrative expenses as a percentage of net sales increased to 33.2% in the three months ended October 31, 2024 compared to 29.7% in the three months ended October 31, 2023.

The increases in selling, general and administrative expenses for the three months ended October 31, 2024 were attributable to higher transaction costs mainly related to the Merger Agreement discussed above. 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.

**Total other expenses, net**

(in thousands)	Three months ended October 31,		Change	
	2024	2023	\$	%
Interest expense	\$ 5,115	\$ 4,004	\$ 1,111	27.7 %
Other expense (income), net	117	(1,813)	1,930	(106.5)%
Total other expenses, net	\$ 5,232	\$ 2,191	\$ 3,041	138.8 %

Total other expenses, net increased by \$3.0 million to \$5.2 million for the three months ended October 31, 2024 compared to \$2.2 million for the three months ended October 31, 2023. The increases in total other expenses, net, for the three months ended October 31, 2024 compared to the prior year period were driven by higher interest expense as a result of higher average outstanding debt balances compared to the prior year period and unfavorable fair value adjustments on our interest rate swap agreement.

See Note 7 (Debt) and Note 8 (Derivative Instruments) to our Condensed Consolidated Financial Statements for additional information.

**Income tax expense**

(in thousands)	Three months ended October 31,		Change	
	2024	2023	\$	%
Income tax expense	\$ 4,285	\$ 5,629	\$ (1,344)	(23.9)%

Income tax expense decreased by \$1.3 million, to \$4.3 million for the three months ended October 31, 2024 compared to \$5.6 million for the three months ended October 31, 2023. The decrease in income tax expense for the three months ended October 31, 2024 is primarily due to a decrease in income before taxes. For the three months ended October 31, 2024 and 2023, the effective tax rates were 27.7% and 26.6%, 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 vested restricted stock units shortfalls.

**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.

[Table of Contents](#)

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:

<i>(in thousands)</i>	Three months ended October 31,	
	2024	2023
Net income attributable to The Duckhorn Portfolio, Inc.	\$ 11,164	\$ 15,537
Interest expense	5,115	4,004
Income tax expense	4,285	5,629
Depreciation and amortization expense <sup>(a)</sup>	10,631	7,329
<b>EBITDA</b>	<b>31,195</b>	<b>32,499</b>
Purchase accounting adjustments <sup>(b)</sup>	1,957	25
Transaction expenses <sup>(c)</sup>	13,125	3,236
Acquisition integration costs <sup>(d)</sup>	152	—
Change in fair value of derivatives <sup>(e)</sup>	137	(1,889)
Equity-based compensation <sup>(f)</sup>	2,000	1,052
Lease income, net <sup>(g)</sup>	—	(210)
<b>Adjusted EBITDA</b>	<b>\$ 48,566</b>	<b>\$ 34,713</b>

(a) Purchase accounting adjustments relate to the impacts of business combination accounting for Sonoma Cutrer, our historical acquisition by TSG, and certain other transactions consummated prior to Fiscal 2021, which resulted in fair value adjustments to 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 October 31, 2024 and 2023.

(b) Purchase accounting adjustments relate to the impact of business combination accounting for Sonoma Cutrer, which resulted in a fair value adjustments to inventory. Purchase accounting adjustments in cost of goods sold relate to the acquisition of Sonoma-Cutrer for approx \$1.9 million for the three months ended October 31, 2024.

(c) 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 Statements of Operations.

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

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

(f) 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 Statements of Operations.

(g) Reflects lease income, net related to an operating lease in which we were the lessor of Geyserville winery acquired in Fiscal 2023, reflected in net sales and selling, general and administrative expenses on the Condensed Consolidated Statements of Operations. The lease term expired February 2024. Lease income, net includes net sales of \$0.9 million for the three months ended October 31, 2023, and selling, general and administrative expenses of \$0.7 million for the three months ended October 31, 2023.

## 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 October 31, 2024, we had \$5.4 million in cash and \$342.0 million in undrawn capacity on our revolving line of credit, subject to the terms of our Credit Facility.

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 2024 harvest, we contracted for grapes at a total cost of approximately \$89.0 million in Fiscal 2025. Additionally, we have purchase obligations for inventory and various contracts with third parties for custom crush, storage, glass, bottling services and equipment. For the 2024 harvest, we entered into commitments to purchase barrels for approximately \$12.5 million. See Note 10 (Commitments and Contingencies) to our Condensed Consolidated Financial Statements for further information on other commitments.

As of October 31, 2024, we have approximately \$27.6 million in scheduled principal payments and related interest payments due over the next 12 months and approximately \$305.9 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 October 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 7 (Debt) to our Condensed Consolidated Financial Statements, where our Credit Facility is described in greater detail. Our future minimum lease payments due within the next 12 months total approximately \$4.4 million with \$30.1 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)	Three months ended October 31,	
	2024	2023
Cash flows provided by (used in):		
Operating activities	\$ 27,235	\$ 18,066
Investing activities	(11,556)	(10,395)
Financing activities	(21,144)	7,158
Net (decrease) increase in cash	\$ (5,465)	\$ 14,829

### 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 three months ended October 31, 2024, net cash used in operating activities was \$27.2 million compared to net cash provided by operating activities of \$18.1 million for the three months ended October 31, 2023, a increase of \$9.2 million. The changes in cash provided by operating activities were primarily driven by the following factors:

- Changes in accounts payable, accrued expenses and accrued compensation increased operating cash flows by \$22.6 million due primarily to timing of income taxes and invoice accruals and payments;
- Increases in inventory for the three months ended October 31, 2024 primarily related to increases in grape and bulk wine purchases related to our 2024 harvest resulted in a decrease to operating cash flow of \$14.3 million;
- Deferred revenues increased operating cash flows by \$1.1 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 a \$13.2 million decrease in operating cash flow.

### Investing activities

For the three months ended October 31, 2024, net cash used in investing activities included capital expenditures of \$11.6 million compared to \$10.4 million for the three months ended October 31, 2023, including barrel purchases of approximately \$7.8 million and \$8.1 million, respectively. 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 three months ended October 31, 2024, net cash used in financing activities was \$21.1 million as compared to cash provided by financing activities of \$7.2 million for the three months ended October 31, 2023. For the three months ended October 31, 2024, net cash used by financing activities primarily resulted from payments under our line of credit of \$18.0 million and payments of long-term debt of \$2.5 million. For the three months ended October 31, 2023, net cash used in financing activities primarily resulted from our Credit Facility, including borrowings under our line of credit of \$23.0 million, partially offset by the payments under our line of credit of \$13.0 million and payments of long-term debt of \$2.5 million.

### **Capital resources**

As of October 31, 2024, the Company had unused capacity of \$342.0 million under the revolving line of credit, excluding the incremental seasonal borrowing amount of an additional \$30.0 million of capacity. As of October 31, 2024, the Company had outstanding draws of \$83.0 million on the revolving line of credit. There were no outstanding draws on the delayed draw term loan. The outstanding principal balance was \$208.3 million for the term loan as of October 31, 2024. The maturity date for loans borrowed under the Credit Agreement is November 4, 2027.

The Credit Facility is summarized below. See Note 7 (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 October 31, 2024, we are in compliance with all covenants.

### **Off-balance sheet arrangements**

As of October 31, 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 (Acquisition) for additional information. The acquisition was accounted for using the acquisition method of accounting prescribed by Accounting Standards Codification ("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 months ended October 31, 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 2024 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 2025 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 three months ended October 31, 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 2024.

#### **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 October 31, 2024, our outstanding borrowings at variable interest rates totaled \$291.3 million. A hypothetical increase of 100 basis points in the effective interest rate applied to these borrowings would result in a \$2.9 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 8 (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 8 (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 October 31, 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 October 31, 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***

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

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 parties have agreed to participate in mediation of one plaintiff's individual PAGA claim and the representative PAGA claims in March 2025. The claim is in an early stage, and the amount of any loss cannot be reasonably estimated at this date.

As previously disclosed, on October 6, 2024, the Company entered into the Merger Agreement with Parent and Merger Sub, pursuant to which Merger Sub will merge with and into the Company whereupon the separate corporate existence of Merger Sub will cease, and the Company will be the surviving corporation in the Merger and will continue as a wholly-owned subsidiary of Parent. On November 21, 2024, the Company filed with the SEC its preliminary proxy statement (the "Preliminary Proxy Statement"). On December 2, 2024, the Company filed with the SEC its definitive proxy statement (the "Definitive Proxy Statement"), which was mailed to Company stockholders.

On November 27, 2024, the Company received a demand letter on behalf of a purported shareholder of the Company challenging certain disclosures set forth in the Preliminary Proxy Statement, and on December 2, 2024, December 3, 2024 and December 4, 2024 the Company received demand letters on behalf of purported shareholders of the Company challenging certain disclosures set forth in the Definitive Proxy Statement (collectively, the "Demand Letters"). In addition, a shareholder complaint related to the Merger was filed in the U.S. District Court for the Northern District of California on November 27, 2024 and captioned Bainter v. The Duckhorn Portfolio, Inc. et al., Case No. 3:24-cv-8540. The complaint alleges, among other things, that the Preliminary Proxy Statement is false and/or misleading and asserts claims for violations of Section 14(a) and 20(a) of the Exchange Act and SEC Rule 14a-9 against the Company and its directors. The complaint (the "Complaint") purports to seek, among other things, injunctive relief preventing the Merger, damages, and an award of plaintiff's costs and expenses, including reasonable attorneys' and expert fees. The Company believes the claims asserted in the Demand Letters and the Complaint are without merit.

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**

The following updates the risk factors previously reported under the heading "Risk Factors" in our Annual Report on Form 10-K for Fiscal 2024. There have been no material changes since our previous 10-K filing.

### **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 of the Company's directors or executive officers adopted, modified or terminated

## [Table of Contents](#)

any Rule 10b5-1 trading arrangement or non-Rule 10b5-1 trading arrangement (as such terms are defined in Item 408 of Regulation S-K) during the three month period ended October 31, 2024.

### **Item 6. Exhibits**

<b>Exhibit no.</b>	<b>Exhibit description</b>	<b>Incorporated by reference</b>			
		<b>Form</b>	<b>Date</b>	<b>Number</b>	<b>File no.</b>
2.1	<a href="#">Agreement and Plan of Merger, dated October 6, 2024, by and among Parent, Merger Sub and the Company.</a>	8-K	November 7, 2024	2.1	001-40240
3.1	<a href="#">Third Amended and Restated Certificate of Incorporation of The Duckhorn Portfolio, Inc.</a>	8-K	May 1, 2024	3.1	001-40240
3.2	<a href="#">Second Amended and Restated Bylaws of the Company.</a>	8-K	May 1, 2024	3.2	001-40240
4.1	<a href="#">Form of Common Stock Certificate</a>	S-1/A	March 10, 2021	4.1	333-253412
4.2	<a href="#">Description of Capital Stock</a>	10-K	October 4, 2021	4.2	001-40240
10.1	<a href="#">Form of Voting and Support Agreement</a>	8-K	October 7, 2024	10.1	001-40240
31.1*	<a href="#">Certification of Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
31.2*	<a href="#">Certification of Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002</a>				
32.1*	<a href="#">Certification of Chief Executive Officer and Chief Financial Officer pursuant to Section 906 of the Sarbanes-Oxley Act of 2002</a>				
101.INS*	XBRL Instance Document (the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document).				
101.SCH*	XBRL Taxonomy Extension Schema Document.				
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document.				
101.DEF*	XBRL Taxonomy Extension Definition Linkbase Document.				
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document.				
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document.				
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibit 101).				

\* Filed herewith

**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: December 5, 2024

By: /s/ Deirdre Mahlan

Deirdre Mahlan  
President, Chief Executive Officer and Chairperson  
(Principal Executive Officer)

Date: December 5, 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  
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: December 5, 2024

By: /s/ Deirdre Mahlan

Deirdre Mahlan

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: December 5, 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 October 31, 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: December 5, 2024

By: /s/ Deirdre Mahlan

Deirdre Mahlan  
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 October 31, 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: December 5, 2024

By: /s/ Jennifer Fall Jung

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