



S C H E I D

F A M I L Y W I N E S

June 19, 2018

To our shareholders:

From 30,000 feet, the wine industry looks like a simple, straightforward business. You grow or buy grapes, you make wine, you get it delivered to market, people buy it, drink it, love it and come back for more. There was a time, over 46 years ago when the founder of our company naively saw the industry pretty much that way. But he soon learned how wrong his assumptions were. In 1972 he began his journey up a steep learning curve (and we're still learning). Thus, began the evolution of Scheid Family Wines from a wine grape grower to the fully integrated, vine to bottle, winery we are today.

Some of our shareholders may not be aware of the history of Scheid Vineyards Inc. aka Scheid Family Wines. Perhaps we can throw some light into the shadows.

How We Got Here

When our company was founded in late 1971, our intention was to develop and manage vineyards in Monterey County, California, for a group of private investors. We bought the first land in early 1972. That year we also negotiated long-term grape purchase contracts with a large winery to buy all the grapes from our annual harvests for the next thirty years. Such contracts were unusual – getting them was quite a coup for a new grape grower. For the next decade, we worked hard at acquiring good land, planting vineyards, producing high quality grapes and working smoothly with our clients. We prospered and the business was comfortably profitable.

By 1989, seventeen years had passed. Most of our original investors were over 70, most had retired and a few had passed away. Even though their annual cash returns had been excellent, most wanted to sell their interests for estate planning purposes. A committee of investors agreed on a valuation formula and we began buying partnership interests annually. By the end of 1996, we had bought out all of our original investors, and the company now farmed about 5,000 acres of productive vineyards, up and down Monterey County.

With this company restructuring completed, our management team decided to expand our operations. To raise the capital to do this, we entered into an agreement with a stock underwriting firm to do an initial public offering. In July 1997, we went public, raising total proceeds of \$23 million. These resources were added to working capital, primarily to develop additional vineyards. The symbol for the stock was set as SVIN, as it is now. However, within a year of our public offering, the stock market began to disfavor small cap stocks. Our stock price did not fare well. We are oriented to the long-term, and notwithstanding the share price, we continued to operate the business with the future in mind. We believed then and do now that if the company was well operated and value was built, eventually the share price would reflect that success.

Over time we have replanted or grafted all the vineyards that were planted between 1972 and the 1990s. As the demand for different varietal wines changed over the years, we stayed current with that demand, and as vines aged, we replaced or grafted them or sold the vineyard, culling the weak, and keeping the strong properties. This is what a large wine grape growing company must do to stay up with market demands.

By the mid-1990s the wine grape market had changed and wineries were no longer willing to sign long-term grape purchase contracts. Grape prices were being negotiated closer to harvest, a time when growers have much reduced price bargaining power. Some wineries had a preference for bulk wine purchase contracts instead of receiving grapes. In addition, our original 30-year grape purchase contracts were nearing expiration. With these realities to contend with, we decided to begin converting some of our grapes into wine, which we could sell to wineries under wine purchase contracts or into the bulk wine market after harvest.

Initially, to get into this part of the industry, we contracted with a winery to receive our grapes, crush and ferment them, an arrangement known as “custom crush,” and we hired a consulting winemaker to oversee the actual wine making. Over the next few years we developed relationships with several successful wineries that purchased our finished bulk wines. Quality was good and accordingly, our reputation as a high quality, reliable grape producer was being transformed to that of a wine producer of quality. We crept into the wine making art slowly and carefully, but steadily and resolutely.

By 2003, we were custom crushing at multiple wineries. Our success gave us the confidence to invest more resources, and we decided that having our own winery would give us more control over quality and timing. Our market research also led us to conclude there was an increasing need for more custom crush services in our area. After a year of careful planning, we began construction of a winery in the spring of 2005. During the harvest of 2005, our new winery attracted a large custom crush business and, together with our own grapes, the winery operated at capacity – and profitably. During the following two years, we doubled the capacity of the winery and substantially increased our wine storage capabilities.

In addition to our growing bulk wine business, we began to sell a modest amount of our own proprietary wines through a tasting room at the winery and at another one in Carmel-by-the-Sea, California. People liked our wines. Research of the national wine market, as well as the positive feedback from our two retail tasting rooms, led us to conclude that we could expand marketing our wines as branded products. So, in 2012 we decided to invest in our sales efforts by hiring sales and marketing people ahead of projected sales. This strategy is paying off and our sales of bottled wines have grown rapidly the past few years.

Sales Results

Recent history of 9-liter case sales for fiscal years ended February 28:

FY 2015	151,000 cases
FY 2016	377,000 cases
FY 2017	498,000 cases
FY 2018	517,000 cases

We have been successfully marketing branded wines for over seven years. During that time, we've grown from shipping a few thousand cases to where we are now. The 517,000 cases shipped during the last fiscal year produced \$26.3 million in sales. In addition, we shipped \$19.2 million of bulk wine and we sold over \$4.6 million of wine grapes.

As good as this was, FY 2018 was not as good as FY 2017. This was mainly because our grape yields this past harvest were down by 16% resulting in lower grape sales. In addition, our bulk wine inventories were less resulting in lower bulk wine sales.

We had large bulk wine inventories at the beginning of FY 2017 due to the exceptionally large harvests of FY 2014 and FY 2015. We worked hard to sell this excess inventory during FY 2017. In addition, because these harvests were large for the grape growing industry, the bulk wine market was relatively soft. We used the opportunity to enter into agreements with sales channels that need large volumes of bottled wine, but require lower price points, such as airlines and cruise ships. Our wine quality, bottling capabilities and price per case attracted the interests of many of these outlets. These sales moved substantial volumes of bottled wine which made our case sales expand more dramatically in FY 2017 than they would have otherwise.

In FY 2018, with lower wine inventories, we were not motivated to make these lower price case sales. We'd rather devote our inventories and efforts to maintaining and growing the market for our core brands, such as District 7, Ranch 32, Ryder Estate, Stokes' Ghost, VDR, Metz Road and our flagship brand, Scheid Vineyards.

The Future

We intend to press forward with the expansion of our branded wine sales and, to that end, will add personnel as needed. We now have about 174 people employed in sales, marketing, winery and bottling operations, general management and field supervision, as well as about 100 vineyard workers. Over the past year we have continued to expand our distributor relationships around the country and have shifted some of our brands to larger, more established distributors. We now have nationwide distribution and are increasing shipments internationally. Our national sales efforts are covered by fourteen regional and state sales managers, strategically placed across the country.

Direct to consumer wine sales is becoming quite important to the wine industry. To date, this has not been a major part of our sales, but we do participate in this market. We have a tasting room at the winery on U.S. Highway 101, just south of Greenfield, California and another one in downtown Carmel-by-the-Sea, California. These locations sell the Scheid Vineyards brand to consumers. We also have active wine clubs and membership in them has been growing each year. And last, we are looking to expand direct sales via the internet. We strongly believe that direct to consumer wine sales are an important part of the wine industry's future - and ours.

One More Thing

In the early 1970s we bought land that bordered the City of Greenfield and planted vineyards on it. As the city grew, it became obvious that the land was worth more for housing and/or industrial development than it was as average quality vineyard land. We were successful in getting some of that land annexed into Greenfield in the 1980s. We achieved zoning changes and obtained

approval of a tentative subdivision map. It took a few years, but we successfully sold all that land to developers at a handsome profit.

We also had additional acreage adjacent to Greenfield which was not ready for annexation at that time. Now that land's time has come. We have been successful again in having our land annexed into Greenfield. Two parcels, a total of about 130 acres, were annexed in late May of this year. As part of the annexation, the parcels have been rezoned as commercial and residential. As a result, they have increased in value. The annexation was a major accomplishment and we plan to follow the same path as we did over thirty years ago.

The Scheid Family Wines Management Team

We now use the name *Scheid Family Wines* because the company is family controlled and we see no reason to hide that. However, we have not hired family members as a plan. Each family member that has joined the company had substantial business experience before coming on board – including the founder. We like to say that every family employee has brought more to the table than just an appetite. And, we do work effectively together – along with non-family fellow management.

Since 1992, our top management team has been led by four people: Al Scheid, Scott Scheid, Heidi Scheid and Kurt Gollnick. All are members of the Board of Directors which has seven members total. Since the company went public in 1997, it has had three Independent Directors who are not company employees. They are: John Crary (joined in 1997), Jon Frederickson (joined in 2008) and John Hawkins (joined in 2017).

Key Team Members

Al Scheid, Chairman and Founder in 1971. MBA, Harvard Business School, 1959. Al was a successful investment banker. He was the founder and CEO of Winkler/Scheid Inc., investment banking, 1970 - Monterey Farming Corp. (now Scheid Vineyards Inc.), 1971 - California Biotechnology Inc., 1982 - and Houston Biotechnology Inc., 1986.

Scott D. Scheid, President and CEO, BA, Claremont McKenna College, 1982. Scott spent four years as an options trader in New York, before moving back to California to begin learning the wine grape business in 1986. Scott has been with the company continuously for the past 32 years.

Heidi M. Scheid, Executive Vice President, MBA, University of Southern California, 1989. Heidi worked in the venture capital and restaurant industries and, upon finishing graduate school, was a valuation consultant with Ernst & Young for three years before joining the company in 1992 as Director of Planning.

Kurt J. Gollnick, Chief Operating Officer, BS, California Polytechnic State University, San Luis Obispo, 1980. Kurt is considered a family member, having been with the company for 30 years. Prior to joining us, he was General Manager of a large California vineyard.

Michael S. Thomsen, Chief Financial Officer, BS, University of California, Santa Barbara, 1985. Mike is a CPA and worked for twelve years at the public accounting firm, Deloitte & Touche, before joining the company in 1997.

Tyler P. Scheid, Special Projects Manager, MS, Colorado State University, 2003. After college, Tyler spent 10 years operating his own company, doing environmental studies in Colorado. He joined the company in 2012 and now leads our New Technology Projects efforts.

David A. Nagengast, Vice President of Winemaking, BS, California State University, Fresno, 1985. Dave joined the company in 2002. He previously held winemaking positions at Storrs Winery, Mirassou Vineyards and San Martin Winery.

Key Financial Information - Year Ended February 28, 2018

Here are a few statistics which should be of interest to shareholders.

Total sales: \$57,266,000
After tax income: \$2,435,000
Total book value: \$52,165,000
2018 appraised value of vineyards and winery: \$190,540,000*

Earnings per share: \$2.75
Book value per share: \$59.00
Total shares outstanding: 884,000
Bank Loan to Value ratio: 29%

*Does not include two parcels recently annexed into Greenfield, vineyard equipment and bulk and cased wine inventories.

More detailed financial information can be found in the financial statements accompanying this letter.

Conclusion

There is always curiosity about the size and quality of the next grape crop. However, it is our policy not to discuss crop projections until late July or early August. We will do projections in July for internal use only. In late June we begin to prepare our equipment for harvest and look at our needs for labor. We are confident we'll be ready when harvest begins, usually in late August.

We hope this letter gave you a deeper understanding of Scheid Family Wines, its history, its plans and its people. If you have questions, please contact our CFO at mike@scheidfamilywines.com. Also, to learn more about your company, go to: www.scheidfamilywines.com and browse the site – there is much to see.

Sincerely,



Scott D. Scheid
President & CEO



Alfred G. Scheid
Chairman & Founder