

## Partnering with Retailers, Digital Marketing and Innovative Cask Club Membership has Enabled Heritage Distilling Co. to Take their Award Winning Craft Spirits Direct to Consumer



**Justin Stiefel**  
Co-Founder/CEO

**Heritage Distilling Co. (NASDAQ: CASK)**

**Interview conducted by:**  
Lynn Fosse, Senior Editor, CEOCFO Magazine

**CEOCFO: *Ms. Stiefel, what is the idea behind Heritage Distilling Co.?***

**Mr. Stiefel:** We started Heritage Distilling 14 years ago. It is a follow-on in the craft spirits space to what began in the craft brewing space in the early 80s, and before that, to what started as the boutique winery space in the 50s and '60s. As states began to change their own laws to allow craft distilling starting in the last 15 years, my wife and I, along with a few cofounders, decided to take advantage of the new distilling licenses that were being issued. We decided to create a new customer experience to produce craft spirits, where before, you could only go into a craft brewery or craft winery.

**CEOCFO: *What is the interest in craft spirits?***

**Mr. Stiefel:** It is growing, taking significant market share from beer and wine, and the craft segment specifically has doubled in the last 7 years. When we received our first federal permit, we were #365 in the country; with most of the 364 other participants being the big brand names that you would know and see on the shelves today. Now there are nearly 3,000 distilling permits in the US because every state has changed its laws to allow craft distilling to be a legal enterprise.

In 2015, the American Distilling Institute and the Artisan Craft Spirits Association published annual reports with economists looking at the industry as a whole. In 2015, craft spirits accounted for less than 3% of the overall spirits volume. As of 2023, that had more than doubled to 7.5%, meaning craft spirits now make up more than 7.5% of all spirits sold in the US and it is still the fastest-growing segment. Beer and wine volumes are falling precipitously as consumers are moving their consumption away from beer and wine, into spirits.

**CEOCFO: *According to your website, "HDC is home to award-winning spirits." What are you doing, how do you know how to make them, what goes in them and how did it become an award-winning company?***

**Mr. Stiefel:** I did my first batch of distillation in seventh grade. If you remember the TV show "Mash" well, in the tent of the main characters of that show, they had built a rudimentary still using medical equipment. When I was six years old, I asked my dad "What is that?" when we were watching reruns, and he explained it to me. It got me involved with the process and chemistry. That year for Christmas I got a chemistry set and in seventh grade, for a school project, I built a still and did very well with that. That expanded my interest in distillation. In college, I studied chemical engineering, which is the underpinnings of this entire industry, taking raw inputs and running them through technical processes and equipment to produce finished products. I went to law school after that. I continued to play around making things at home, but it wasn't until we got our first permit in 2011 were we a legal enterprise.

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The basis of our thesis is when you produce a product that is going to go out into the stream of commerce, that product needs to be as high-quality as possible because if you aren't there to tell the story to the consumer or the person who is trying it, their only impression of the product is going to be how it tastes to them. The product has to be outstanding and for us, it starts with raw ingredients and the specific kinds of equipment that we use in a specific way. As I was examining the various traditional old-school methods of how bourbon and other whiskeys were being made in Kentucky and Tennessee, we reverse-engineered and broke down the processes and started to do things in a way that was less traditional but more scientifically based to come up with finished products that are in many cases smoother or have a more pure flavor profile that distinguishes us from the rest of the market.

When it comes to some of our other products, like flavored whiskeys and flavored vodkas, the selection of the flavoring components and the requirement for consistency in the quality of those components makes our products stand out. I think that is borne out by all of the awards that we have received over the years, including just this March seeing our Cocoa Bomb Chocolate Whisky being named "World's Best Flavored Whiskey" by Whiskey Magazine in London. This is the third time we have won this worldwide category award – an unprecedented fete in our industry. I believe this proves our focus on the consistent way in which we shape our craft.

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**CEOCFO: How do you get the pulse of the market and know what flavors people might look at that they haven't in the past? How do you know what the subtle difference should be to have your product stand out from the rest?**

**Mr. Stiefel:** Let's take any other industry: why is one car brand or one model of car perceived to have better quality or value than another? Why when you go to a steakhouse do they have a difference between select, prime and choice cuts? There are differences whether they are subtle or profound in anything that consumers are choosing. There are a lot of products in the beverage space, whether it is alcohol or non-alcoholic. When you go to the grocery store and you look at different juices, waters, sodas and soft drinks, you can take the biggest brands in the world and crack them open – both the knock-off store brands and big global brands – when you crack them open and pour them over ice, in a blind taste test you can taste the difference. You know which is the globally recognized brand because it is consistent. You can also tell the knock-off brands. For all products we consume our brains create a memory of flavor profiles, textures, and finishes. It is no different in beer, wine or spirits. There are lots of mass-produced beers, wines, and spirits that are not very good because they have a specific market and a specific intended use that is not focused on quality. Other high-quality beers, wines, and spirits stand out because of the extra attention to detail, or the fact that specific stand-out batches are being pulled out of larger batches to be set aside for special treatment for consumers. Pick your brand of whatever you eat or drink at home and ask why you like that brand versus the competitor brand that is available.

Good producers ask themselves this question: *"When it comes to the market and the consumer, how do you choose what to put in the market and how do you have a feeling that something is going to work?"* This is the magical unknown that everybody with a brand is trying to figure out. How does a company position a product to maximize the chance for success, and how will the consumer respond to it? Everything that is made starts as a product and it does not become a "brand" until the consumer permits that "product" it to become a "brand". There are billions of dollars spent every year to launch products and push products to move sales and volume. Most of them don't succeed because consumers are fickle, or the products lack consistency, or the "magic" that allows a few products to breakout. It is that rare special type of product in each category that can emerge and becomes a lasting brand.

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For us, we look at the trends of different demographics. We look at what we think we can make to be outstanding and then we look at how we can ensure the consistency of it. If there is a product that we develop that tastes amazing, but we don't think there is a market for it, there is no point in us trying to push that rock up a hill. If there is a competitor product that is doing well in the market, but we don't think we can excel at it, there is no point in us trying to enter that segment. First, it is about finding the sweet spot. Flavored whiskey is a great example. We can look at what is on the shelf. Flavored whiskeys are growing at three times the rate of normal whiskeys in the US, because it is an entry-point product for people 21-35 who might develop their whiskey palates. We start by looking at the natural flavor profiles that we believe we can capture authentically. We do the same with flavored vodkas. If you came to me and said, "Make me a cotton candy flavored vodka," I don't think I would do it because I have yet to go out and harvest cotton candy from a tree; it is not a natural thing. If you came to me and asked if I had an apple vodka, or thought I could make an apple vodka, then that is something that could be worthwhile if we think there is an opening in the market.

**CEOCFO: *What is the biggest thing you have learned over time; what has changed in the Heritage Distilling approach?***

**Mr. Stiefel:** Marketing has changed. The route to market has changed dramatically. Distribution has gotten more challenging with consolidation and the sheer number of new brands trying to get attention. As a result it is harder to get the attention of a distributor. The route to market that we moved into now includes direct to consumers, so we partner with retailers and help to get the products shipped to consumers in their homes in 46 states. That helps because consumers can go online, buy a product, click, order, and have it delivered. If they like it, they can reorder. You begin to build momentum for a particular product for skew. You can take that data to a distributor in a specific state and say, "This product is doing well, would you like to consider bringing in your portfolio?" That is a big opportunity that didn't exist ten years ago. In addition, the ability to dial and target digital marketing and how consumers have changed and how they consume marketing and advertising has changed. Ten years ago you still had people watching television whereas now they are watching YouTube videos. Some people don't even turn on the TVs in their homes because they are just watching YouTube videos on their phones.

Certainly, the digital formats and programs for television have changed, whereas before it was just broadcast and cable. Now if you want an ad, you can run target ads to specific demographics or even specific houses and neighborhoods, of one ad versus another. That did not exist before, so technology has helped. The consumer has changed by moving away from beer and wine to distilled spirits, so we feel fortunate that we are a growing segment in a growing industry, and we are excited about the results we are seeing from the use of technology to reach consumers more efficiently.

**CEOCFO: *Would you tell us about your innovative Club memberships?***

**Mr. Stiefel:** It starts with our Cask Club where consumers walk into a tasting room and sign up for the Cask Club. They get a 10-liter barrel, about the size of a basketball. They tell us what they want, and we will fill the barrel with that product. They can choose bourbon, rye whiskey, gin, and vodka flavors. Members and their friends come back and sample it. When they love the flavor of the product we will custom bottle, custom proof, and custom label for them. Then they take the bottles that they helped to make home to enjoy. It is a concierge, very high touch point, premium program and service.

This was the first truly interactive opportunity for consumers to craft their spirits in the U.S. It is illegal for anybody to own a still at home. You can make beer and wine at home, but you can't make spirits at home legally. This is the next best opportunity for consumers to have an actual hand in shaping the flavor and profile that they want. As part of that membership program, they get access to early releases from us, and they and their friends can get happy hour cocktails and other special offers whenever they come to our locations.

We also partner with Indian tribes to license our brand and tasting experience and Cask Club to put in their casinos with high foot traffic and to provide another amenity to their customers. We have one of those open here in Washington, two more under construction, and more under contract in pre-design right now. There are 527 tribally-owned casinos across the US, and we have a vision to have a Heritage Distilling branded tasting room in 100 or more where it would make the most sense, just like when you would walk into any large hotel or grocery stores where you will see coffee chains. It is about building brands and creating consistency for the consumer.

**CEOCFO *What is the background on your Special Operations offering?***

**Mr. Stiefel:** You are referring to our Salute Series line of specialty whiskies. We are very proud of the work done to develop that brand and the following it has already created. Out here near Tacoma we have Joint Base Lewis-McChord, home to the 1<sup>st</sup> Special Forces group, including Green Berets and other Special Forces operators. Army special operations who get dispatched to Asia go through JMLB and are part of 1<sup>st</sup> Special Forces group. For seven years we produced a First Forces Group Whiskey and raised money through the sales of those bottles for their charities. We kept getting asked by several other military groups about their own special bottlings and it took us a while to figure it out. 15 months ago we created this new line we call the Salute Series, starting with Special Operations Salute Army SOF edition. It comes with a custom lithograph by famed military artist Michael Solovey, who is a partner with us. He is a 30-year active-duty Green Beret Army who is getting ready to retire and we partnered with some of the best of the best nonprofits to raise money for their charities.

In May we launched a three-bottle series in honor of the 80th anniversary of D-Day. We then launched a bottle in honor of K-9 military heroes called War Dogs. We most recently launched a bottle in honor of the 80th anniversary of Iwo Jima, for the Marines and the Marine Raiders. Now we are getting ready to launch our most recent creation we call First Responders in honor of police, firefighters, nurses, EMTs, search and rescue, national guard and so on. The goal of the Salute Series is to bring attention and awareness to these various groups but also to raise money for the charities to support the operators on the ground, the retirees, and their families. In the last 15 months since the launch of the Salute Series, it has surpassed the \$2.5 million revenue mark and raised more than \$200,000 in donations for the charities you see on our webpage. Our goal is to do more, and we will continue to do more.

**CEOCFO:** *Heritage Distilling become a public company a few months ago; what has been the interest from the investment community?*

**Mr. Stiefel:** It took a while to get there as a small company. It was about navigating the prep to get there, all the accounting methodology items, the audits, the legal work, and putting together the initial investor base. It was challenging and quite expensive. It is still a challenging market. We launched last November, so the fact that we got the IPO done is remarkable. It was just sheer willpower that pushed it over the finish line. The stock is down today versus what it was in the IPO, but other factors went into that. We think that we have better days ahead especially when we release our full-year numbers for 2024 which will be in a couple of weeks. We have a great story to tell and going into the public market gives us options for our pre-IPO shareholders who may want liquidity in the future.

With stock we have currency, so if there is a brand we like or if there is an opportunity to acquire or invest in some other enterprise, we could use stock as that currency instead of cash. It also allows us to use stock as another means in the future to have access to capital to grow.

We are still small, so we are not qualified to be held by some of the larger funds. We are focused on delivering value to retail investors as they learn more about us, and to smaller institutions that are able to invest in microcap stocks. It requires continuous marketing, educating, and discussing all the intricacies of what is going on, but still limited to what we can and cannot talk about.

**CEOCFO:** *What should people understand about Heritage Distilling that they might not recognize?*

**Mr. Stiefel:** We are the first craft distillery to go public in a traditional way. We have more than a decade of pedigree and performance in product creation. We have experience and knowledge building fantastic brands and amazing. We have a great pathway ahead of us, especially as we streamline operations. We are continuing to find ways to cut expenses and costs. With the Salute Series, we feel that we have a tiger by the tail that has nothing but tremendous runway ahead of us with very high margins. We expect to see our margins continue to grow and increase as we get more efficient and as we have more high-margin products moving through the system.

Our Cocoa Bomb Chocolate Whiskey continues to surprise and delight people. When they sample it, their eyes get big and you can see how amazed they are by it. And then to have won title of "World's Best Flavored Whiskey" from Whiskey Magazine just makes that product opportunity even better.

We are excited about our tribal beverage network opportunity to grow partnerships with tribes and to get our brand and products in front of consumers where they go to eat, play, shop, and have a good time at the tribal casinos. It is a tremendous way for us to build our brand without the normal traditional expense of marketing. Instead of spending a lot

of money to market our brand, we generate revenues from the royalties by licensing the brand to put into the casino operations and for the tribe to generate sales and revenue for themselves while also collecting taxes. We have a handful of initiatives we are doing in those ways, but all leading back to getting products to consumers, growing margins, and then showing the market that we have a pathway to profitability and substantial growth.