EASTSIDE DISTILLING, INC.
NASDAQ: EAST

EASTSIDE DISTILLING

Second Quarter Fiscal Year 2018 Financial Results

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CORPORATE PARTICIPANTS

Grover Wickersham –Chairman and Chief Executive Officer, Eastside Distilling, Inc.
Steve Shum – Chief Financial Office, Eastside Distilling, Inc.
Kim Davis – Controller, Eastside Distilling, Inc.
Robert Blum – Managing Partner, Lytham Partners

PRESENTATION

Operator
Good day, everyone, and welcome to Eastside Distilling's Second Quarter Fiscal Year 2018 Financial Results conference call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. And to withdraw your question, please press star then two. And please note that today's event is being recorded.

I would now like to turn the conference over to Robert Blum with Lytham Partners. Please go ahead.

Robert Blum
Thank you, William. Good morning, everyone, and thank you for joining us to discuss Eastside Distilling's Financial Results for the quarter ended June 30th, 2018. I am Robert Blum of Lytham Partners and I will be your moderator for today's call.

Earlier, Eastside issued their second quarter 2018 results in a press release as well as filed its 10-Q.

Joining us on today's call to discuss these results are Grover Wickersham, Steve Shum, and Kim Davis.

Following the remarks we will open the call to your questions. Please note that listeners both on the live portion of the call as well as WebCast will be able to ask questions. If you are on the WebCast, you can type your question into the Question Box and press Submit. We'll take as many questions as time will permit for. If you're dialed in, you will ask questions by pressing the star one button as usual.

Before I begin with prepared remarks, we submit for the record the following statements: Certain matters discussed on this conference call by the management of Eastside Distilling may be forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 as amended, Section 21E of the Securities Exchange Act of 1934 as amended, and such forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995.

Forward-looking statements describe future expectations, plans, results, or strategies, and are generally preceded by words such as may, future, plan or planned, will or should, expected, anticipates, draft, eventually, or projected. Listeners are cautioned that such statements are subject to a multitude of risks and uncertainties that could cause future circumstances, events, or results to differ materially from those projected in the forward-looking statements. Such matters involve risks and uncertainties that may cause actual results to differ materially, includes but are not limited to the company's acceptance and the company's products in the market, success in obtaining new customers, success in product development, ability to execute its business model and strategic plans, success in integrating acquired entities and assets, ability to obtain capital, ability to continue as a growing concern, and all other risks and related information described from time to time in the company's filings with the Securities and Exchange Commission, including the financial statements and related information pertaining to the company's annual report on form 10K for the year ended December 31st, 2017, filed with the SEC on April 2nd, 2018.

Now I'd like to turn the call over to Grover Wickersham, CEO of Eastside Distilling. Grover, please proceed.

Grover Wickersham
Robert, thank you very much and good morning to everyone on the call. Thank you for joining us today. I'm pleased with the second quarter results, which showed record revenues for a second quarter. I'm excited about the opportunities that East has on tap for the rest of 2018. The quarter highlights are the rapidly expanding geographical footprint of Redneck Riviera Whiskey to an even more than expected number of 28 states, the growth of our new wine and RTD canning operations, the continuing relaunch of our Burnside family of whiskeys, our financing activities to strengthen our balance sheet and put us on a very sound footing as we continued into Q3. And finally, the overall sales performance of up 90% and shipments of branded products up 70%.

Let's now take a deep dive into Q2 performance and your management's business strategy on a unit-by-unit basis, starting with Redneck, which because of its importance I will intentionally emphasize.

Starting with the Redneck Riviera update, I point out that in Q1, when we announced our plans for the first year of Redneck Riviera we were telling shareholders we would roll out in five Gulf states, then expand to 11, and we would pursue other markets later in the year. We quickly blew past those targets as we met unexpected demand in new areas. Redneck Riviera Whiskey is now distributed in 28 states and counting, with half of these or 14 states added since the end of last, excuse me, end of the first quarter. Five of these states are so new that our first stocking shipments have not even shipped, though they are pending and will go out shortly.

Robert Manfredonia, our new VP of National Accounts, got us into an amazing lineup of chain store accounts like Safeway, Albertsons, ABC Liquor, and Total Wine, and added major new territories with Walmart, just to name a few. And this is a continuing effort at a rapid pace, thanks to Robert's help and the assistance he is receiving from John Rich personally in selling those major accounts.

John Rich also works closely with Jarrett's sales team. John supports sales with radio, television spots, in-store bottle signings, social media engagement, and of course his tremendously well-attended concerts. To supplement John's efforts, the company has brought on additional brand ambassadors including Gretchen Wilson, Granger Smith, and Colt Ford, who are also supporting the brand.

Because of the golden opportunity we had to launch in 28 states and counting so early in the brand's development, Steve and I departed from budget and accelerated our spend on staffing, marketing, and advertising in Q2 and Q3. Specifically, we quickened our spending on staffing the sales team that can create national brand, supporting our distributors by an increased spend on sales and marketing IP, including $174,000 just on stands from partners in the first half. And we also spent on dealer incentives to get product on retailers' shelves pronto.

We've been supporting the retailers adopting us at what we are told is a record pace for a new brand, with Sandstrom Design point-of-sales displays and regional marketing support to speed product off the shelves to consumers. Like our list of new states, this upfront spending is coming earlier than planned in 2018, but it will accelerate the brand growth in Q3 and Q4, and we think it's shareholder money well spent.

Now I'm going to intrude a bit on Steve's turf and touch on financing, as I think the topic is related to understanding the big picture of our Q2 sales push. Steve and I wanted to strengthen our balance sheet to support a more aggressive spend on the Redneck launch, and provide extra liquidity in case the warrant call was delayed until 2019. Being very mindful of our standing promise to minimize equity dilution, we used creative structuring, and supported by friendly shareholders, added many millions in capital and liquidity while holding equity dilution to a minimum. Not long afterwards, and somewhat unexpectedly, the warrant call was triggered after all, bringing in additional cash and eliminating a major warrant overhang.

Though not exactly a windfall, this was one of those wonderful times where things go better than planned. Cash not needed as an accelerant for Redneck Riviera growth or for our other brands will be profitably employed towards building our inventory of fast appreciating and highly marketable bulk spirits well in advance of need. This will both assure future supply and greatly reduce cogs [ph]. The successful execution of our financing strategy, though adding—also adding to our unexpectedly higher costs in Q2 leaves us ahead of the game as we approach the seasonally strongest time of the year.

Shareholders should remember that according to our contract when the Redneck brand is sold, fully 50% of our marketing spend is reimbursed off the top from the brand sale proceeds. Steve intends to start providing some color on the magnitude of that number as it becomes more and more material.

Other Redneck initiatives are worthy of mention. This week we will be formally announcing and advertising to the trade a value-added pack or VAP which was developed with Sandstrom. The VAP consists of presentation box along with two free packets of John's Beef Jerky along with a bottle of Redneck Riviera Whiskey we've dubbed the Git Down Pack, spelled G-I-T. It's sort of a Redneck food pairing, if you will. Jarrett and Robert started taking pre-announcement orders last week for late Q3, early Q4 shipment of the VAP and are already over 1,000 nine-liter cases. We think the Git Down Pack will be a real hit in 2018 through 2019 and will measurably move the needle. As always, we have other ideas in the works we are not ready to talk about.

I'll now turn to our other business areas in order to provide further granularity. First I'm going to talk about Burnside. Let's not forget the major opportunity we had with our Sandstrom branded Burnside family of spirits finished in barrels of rare Oregon oak. Our strategy for 2018 is focus on core territory in the Pacific Northwest and California. This is a shift from prior management's strategy. I would prefer to be a mile deep and an inch wide as opposed to a mile wide and an inch deep, and with our growing list of medal wins, I think we can create cult brand status for Burnside.

In Q4, working closely with Sandstrom, we are launching a one year long $100,000 plus media buy marketing campaign focused almost exclusively on Burnside, mostly in the Pacific Northwest. I expect to go into greater detail on our progress with that campaign on the Q3 earnings call.

Now let me just touch briefly on the retail tasting rooms. These tasting room stores have served as strong advertising for our brands and as platforms trying out new product ideas on thousands of people per month and as a way to boost acceptance of the Big Bottom line of products which incidentally was up over 90% year-over-year in wholesale case sales in July. We believe this unit can make a larger contribution. We have added new management, retained a consultant to improve merchandising, invested in more point of sales and advertising, bumped staff training up a notch or two, and we're just now in Q3 adding high margin non-alcohol products, namely mixers, bitters, and syrups used by bartenders in cocktails for our award-winning spirits. And which we hope will tie us in closer with the mixologist community. We are already seeing benefits from our changes.

Let me now say a few words about canning, bottling, and private label. As we have previously said, 2017 performance of MotherLode was less than planned and our plans to launch wine canning in 2017 did not materialize. After some tough changes, this time of an executive manager, we brought in experienced operational management in the guise of Tom Wood, our VP of Operations. After addressing and fully solving design issues with our equipment, then networking with the manufacturer to re-engineer it, our wine and RTD canning operations are fully on track. We are servicing five wine canning customers and counting. We have customers that we believe will grow organically and will themselves drive Eastside's growth.

During Q2 we benefited from the abrupt liquidation of Sonoma Cider down in California. Figuratively speaking, we swooped in and acquired additional high-capacity canning equipment, a 32 head high-speed rotary bottling line, a full Q&A laboratory, chilling and carbonization equipment, complete sleeving and heat tunnel line for labeling cans and bottles and even a fully TTB [ph] cleared canned wine brand, all dirt cheap. I'm personally very excited about this equipment coming on line, not just for co-packing but also because of the range of products we can now produce internally.

I'd also like to mention that, shifting gears here, that during the quarter we issued our first single malt and that was done under the Big Bottom label. Before I turn the call over to Steve for review of the financials, I want to touch base on that and a couple of our future growth drivers. We launched our first grain to glass American single malt whiskey with a very limited release. The response was overwhelming as evidenced by awards in national competitions. We think American single malt whiskey will be a growing new category and a big part of our future. As we install the new, higher-volume still we purchased with the proceeds of our uplisting last August, we hope to start increasing production volume and turning this into a major product area for East down the road.

Let me also mention that our Sandstrom branding program is continuing. For example we are in the process of rebranding our fruit infused whiskey lineup which includes our marionberry and cherry products that have such a great following in Oregon. We are still early in the process but anticipate an exciting release for both of these products.

Finally, I'd just like to mention we're also planning a ten-year anniversary edition of our Burnside bourbon known as Buckman and we have plans to create a Burnside malt product as well and brand extensions of our Portland Potato Vodka. So please stay tuned for those.

With that said, let me turn the call over to Steve to run you through the financials. Steve?

Steven Shum

Thanks, Grover. Gross sales in the second quarter totaled approximately $1.68 million as compared to $883,000 in the prior year, an increase of approximately 90%. Net sales which exclude the excise taxes and certain customer promotion activities increased 152% to $1.52 million versus $605,000 in the year-ago period.

During the second quarter we sold 18,401 cases overall. This consisted of 7,445 cases of our branded products and 10,957 cases of private label, most of which was from newer wine canning business. This reflects an increase of 70% over the prior year in our branded products and a 273% case growth overall.

Similar to last quarter the higher branded product case sales were driven largely by the newly launched Redneck Riviera product and an increase in wholesale traction within the Pacific Northwest on our vodka products and our newly relaunched Burnside brand. That was partially offset by slightly lower retail case sales during the period due to our decision to close an under-performing retail location.

The private label business benefited in the second quarter from a ramp-up in the number of canning projects. In addition, similar to the first quarter we also conducted another opportunistic sale of surplus bulk spirits in the period for a profit.

Overall, wholesale revenues improved by approximately 68% to $830,000 compared to $495,000 last year. Clearly the new Redneck Riviera product contributed to this improvement but we also saw contributions from other key products—vodka, Burnside, and our Big Bottom line.

Looking ahead to the rest of the year we believe the Redneck Riviera brand will continue to benefit from the investments being made, especially considering the rapidly expanding geographic footprint and the marketing we are doing to pull product off the shelf. To this point we are already experiencing strong indications that Q3 sales will meaningfully surpass Q2. We also expect the Burnside product to continue their progress particularly in Q4 when our new marketing campaign hits Oregon.

Revenues in our private label business were approximately $577,000 for the period, a substantial increase over last year and sequentially from the first quarter of this year. This was a result of both the canning operations ramping up along with the additional profitable sale of surplus bulk spirits.

Revenues derived from our retail and special events operations were approximately $268,000 which represented a 14% decrease from a year ago. We elected to close one of our underperforming retail locations earlier this year along with a decision to focus on fewer yet more profitable event activities, both of which contributed to the decline in sales but should help with bottom line performance.

For our other locations we have also implemented some new initiatives to draw customers, improve the customer experience, and sell additional high margin products. We hope this will bear fruit in the second half.

Gross profit for the period totaled approximately $761,000 compared to $210,000 in the prior year. Gross margin relative to net sales was 49% versus 35% a year ago and an overall 2017 margin of 37%. The gross margin in the period was positively impacted by the newer federal excise tax rate which we have highlighted several times, which was partially offset by higher customer incentive programs as compared to last year.

As we have mentioned, we do have a longer-term goal to further improve margins as we increase volumes and better spread our facilities costs. However, in the short run margins may fluctuate as we continue to implement aggressive customer programs incentives associated with the product launches for Redneck Riviera, Burnside, Hue-Hue, and others.

Advertising promotional selling expenses for the year increased to $1.07 million up approximately 94% from $550,000 last year. Again, we made strategic decisions to ramp our marketing efforts and support the more rapid than planned geographic expansion of Redneck Riviera. These efforts are also supporting our overall efforts to expand other key products both locally and regionally.

And as a reminder under our agreement with John Rich, if and when the Redneck brand is sold, we are allowed to recover 50% of our direct marketing expenses in support of the Redneck brand. We do expect to provide more specifics on this in the near future.

G&A expenses for the period totaled $1.5 million, an increase of 76% from last year. This increase was a result of additions to key personnel along with higher stock-based compensation and depreciation expenses.

Net loss in the period totaled $1.9 million or $0.37 per share compared to a net loss of $1.3 million or $0.40 a share in the year-ago period. Our adjusted EBITDA during the period was a loss of approximately $1.25 million which compared to a loss of $771,000 a year ago, due to the strategic decisions and brand investments made. We sincerely appreciate the strong shareholder support in helping us build all of our brands which we feel will drive substantial value for all.

Moving to the balance sheet, cash at the end of the period totaled approximately $2.35 million, inventories further increased totaling approximately $7.9 million. We have purposely built inventories further in the period to support the new product launches and ensure our ability to deliver.

Subsequent to the period end, we have also substantially added to our working capital position, putting us in a strong position to fully execute our strategy and support the growth now occurring. Since the period end, we have raised approximately $5.7 million in additional capital, largely as a result of warrant exercises. We used approximately $2.3 million to reduce our three-year notes outstanding and improve our balance sheet.

Much of the recent warrant exercises have been a result of our announcement on August 3rd that the company was exercising its option to call for redemption of the public warrants. Including both the original issuance of 1.38 million of these warrants last year along with the additional 500,000 warrants issued with the 2018 note offering, there was a total of 1.88 million public warrants subject to this call. To date, we are pleased to report that 1,264,115 warrants have already been exercised, leaving a remaining balance of 615,885. If all the remaining warrants do exercise by the September 10th redemption date, we will raise an additional $3.3 million from the warrant call.

That concludes my highlights for the quarter. Further details are available in our 10-Q. With that, I will hand it back to Grover for closing remarks.

Grover Wickersham
Thank you, Steve. We are making great progress in developing Eastside Distilling into the brand factory concept that we envisioned when I became CEO at the end of 2016. Redneck Riviera Whiskey is off to a blistering pace in Q3 2018. When you look at other very successful product launches recently, such as Casamigos and Patron, they were nowhere near where we are after so few short months.

We are highly appreciative of the trust our shareholders place in us. We are dedicated to maximizing the value of their investment in the future.

With that I'd like to open up the mic to Q&A session and Steve and I look forward to your questions. Thank you.

QUESTIONS AND ANSWERS

Operator
And we will now begin the question-and-answer session. To ask a question, you may press star then one on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, you may press star then two. And at this time, please pause momentarily to assemble our roster.

And our first questioner today will be Ian Gilson with Zacks Investment Research. Please go ahead with your question.

Ian Gilson
Hey, good morning, gentlemen. And ladies.

Steven Shum
Good morning, Ian.

Grover Wickersham
Good morning.

Ian Gilson
As we look at the gross margin for prior years, the second half of the year has always shown a significant reduction as compared to the first half of the year. Are we looking for the same sort of dynamics in 2018 or can we hold a gross margin at close to the first half level?

Grover Wickersham
Steve, you're our margin expert. Do you want to answer Ian's question?

Steven Shum
Ian, I generally think we won't see as dramatic of a change. As we do point out, we certainly do have some plans for additional customer incentive programs going into the seasonal period in the late third quarter and fourth quarter, so there will be some fluctuations, but we generally wouldn't anticipate the kind of change that we saw in the previous two years.

Ian Gilson
Okay. Excise taxes were even lower than I had anticipated, or excise taxes plus promo incentives. Is—what you reported in the second quarter, relative of the [indiscernible] going forward? Or was there something in there that was—

Steven Shum
Yes, we think so. Part of that dynamic is also a function of the mix further shifting more towards wholesale business versus retail. In wholesale business we only pay the federal excise tax. When we have our retail operations, we're paying both federal excise tax as well as the Oregon Liquor Control excise tax. But when we sell on a wholesale basis, we don't incur the state tax. So again, part of that is a mix issue.

Ian Gilson
Okay, so—

Steven Shum
And we certainly anticipate that. Retail is not an area that we see high growth or we're [indiscernible] programs to improve that but the higher growth part of the business will really come from wholesale. So we would expect that mix to further shift more towards wholesale.

Ian Gilson
Okay. You gave a breakdown of case sales and I don't have a number for the first quarter. Do you have that?

Steven Shum
The number—you mean between the branded products and the private label breakdown? Is that what you're referring to that we—

Ian Gilson
Yes, sir.

Steven Shum
We did provide that in the first quarter. It's in the press release. I can go back and pull that up, but it is certainly listed in the first quarter release.

Ian Gilson
Okay. I'll check that myself. Okay. In the second quarter, how many cases were sold outside of Oregon?

Steven Shum
Well, the outside of Oregon business is purely wholesale and certainly some of our private label wine canning customers are also outside of Oregon, so it's really a function of what aspect of business you're looking at. If we look at the branded products and the wholesale side of it, approximately 40% of the business in our wholesale branded products came from outside of Oregon, which was largely dominated by the Redneck Riviera product.

Ian Gilson
Okay, fine. Thank you very much.

Steven Shum
You bet.

Operator
And as a reminder, it is star then one if you would like to ask a question today. And our next questioner will be Harold Webber with Aegis Capital. Please go ahead.

Harold Webber
Hi, guys. How you doing? My question is what type of timeframe or outlook do you have as far as moving products towards the East Coast?

Grover Wickersham
Thanks, Harold. We don't have a specific timeframe in mind. I will say that one of our lead distributors is in Connecticut, so to the extent that we do an expansion, I think Connecticut would probably be top of the list. But I think I would really leave that to Jarrett. But it's probably going to be fourth quarter at the earliest before we do anything major on the East Coast because as I mentioned on the earlier part of the call, we got fairly far ahead of our plan already and there's a certain amount of consolidation and digestion that needs to be done.

Harold Webber
Sure. But how—let's say mentally, I'm sure you're looking at this, how long do you think it'll take till you're able to ramp up output enough to start shipping stuff this way?

Grover Wickersham
Well, I mean we have demand there right now, Harold.

Harold Webber
I'm sure. I'm saying—but it's going to take you a while to ramp up, I guess, enough output to get there.

Grover Wickersham
Well, actually we have the production and we have the ability to go in there right now. It's more of a question of not getting ahead of our sales team. And our hiring—we're still filling—we've done a tremendous amount of hiring as Steve and I both said. Our marketing expense and on the prior earnings call I mentioned that actually the hiring that we're doing that's specifically Redneck Riviera marketing team is actually part of this 50% that we recover, so that's a huge incentive to us to go forward quickly with the rollout of our sales team.

But we don't have a regional coverage right now on the East Coast on the sales team. So what we're going to be doing is filling in more in Florida, more in Texas, and more in the states that we recently announced, plus we will be announcing additional states that are within the sort of Midwest, West Coast footprint. But, so really don't count on us doing anything really big on the East Coast until fourth quarter at the earliest, but we think we're going to have a really strong growth in that quarter without needing to have a big expansion on the East Coast.

Harold Webber
Okay. But you are looking forward to—

Grover Wickersham
Yes. We definitely will. We know you and the other guys at Aegis are going to be pretty big customers on your own. So, and we have a lot of really—we have our major shareholders out there too. So I mean we have—and also John Rich is constantly getting national exposure on the East Coast and in the Northeast, so, in fact a lot of the programs he's interviewed on are based out there and have a lot of listeners out there. So it's just a matter of time and I will keep you posted.

Harold Webber
Okay, good. I just think it would be worthy to try. You've got a lot of momentum going with that idea. Try and, I don't know, tease them a little bit, put a little something, limited something out there, something coming soon or something. I don't know.

Grover Wickersham
I'll take that up with the rest of the team and we'll see if we can add some color in some of the upcoming press releases.

Harold Webber
Okay, great. Sounds good. Keep it up, guys.

Grover Wickersham
Hey, thanks.

Operator
And once again it is star then one if you would like to ask a question today. And our next questioner will be Ross Taylor with ARS Investment Partners. Please go ahead.

Ross Taylor
Yes, thank you. Congratulations, gentlemen, on the rapid pace of the rollout. Can you comment on two areas? One is, how rapidly do you turn inventory into revenues? And how should we—what should we expect out of inventory going forward as this brand rolls out, particularly as Redneck Riviera rolls out, but also as Burnside picks up? And then second would be, what percentage of the US market do you currently believe are covered by Redneck Riviera with the agreement you have in place?

Grover Wickersham
Steve, I don't know if you want to take the inventory question. That—I will say that really as we mentioned, we maintain a rather large inventory of aging spirit products, so for example our Redneck Riviera is a minimum of two years and it has some three-year in it. So if you can buy that new fill and the current price we get is right around $450 a barrel versus buying two-year-old whiskey from MGP or other people at $900 a barrel or $850, you can see by buying it as new fill and letting it age we have a major cost advantage. But that doesn't—that's really work in progress in inventory that is—you wouldn't expect a quick turn on it because it hasn't aged.

Steve, do you want to—can you answer the question?

Steven Shum
I think you're just highlighting that we certainly are carrying more inventory on our books than we would envision necessarily needing for this year, for the balance of this year, but that's on purpose, as Grover's pointing out, where we're being strategic and opportunistic in our purchasing, looking farther out, especially since we had the working capital to do so because that will benefit us downstream and it ensures our supply and it also will allow us to improve margins as we look—as we get deeper into next year.

Ross Taylor
Which would make sense obviously. We chatted before—this is a business where you have to invest up front. That's why there are so few brand liquor companies which are public. The second question about the reach of—into the US market that you currently believe you have with Redneck Riviera, and are there specific areas you think that you'll reach into before the end of the year that will greatly expand them?

Grover Wickersham
Well, we're in 28 states and we have several states pending. I would think that we, in terms of our coverage geographically, we are very strong and have very broad coverage in the Midwest and the West Coast and the South. And we're—in fact, a number of the states that we have, that we recently announced, like we announced Arizona and Nevada, we're kind of—we're filling in states that are really within our existing footprint, I would say. I'm hopeful that Arkansas is going to come in fairly quickly. That is again a sort of a fill-in state.

As far as—I think I answered Harold at Aegis's question regarding where we plan to go in the Northeast. The Northeast is really, I'd say, kind of the main untapped territory. We have a few states that I would call southern like Virginia that, being a control state, sometimes they take a while to get into. And I would expect that we will get into them but in terms of our reach, I'd say we're going to be pretty much every major geographical area in the states with the exception of the Northeast being an area that we're going to take our time on and be strategic about.

Ross Taylor
Okay, great. Thank you. Continue the good luck.

Grover Wickersham
Thank you.

Operator
And our next questioner will be Ian Gilson with Zacks Investment Research. Please go ahead.

Ian Gilson
Yes. How many gallons in a barrel when we're talking about spirits?

Grover Wickersham
Well, if you want to tell me how old the barrel is, it can be when it's initially filled—and I'm talking your standard barrel, I mean there are, Big Bottom [indiscernible] coming up with some of our sort of extremely high-end spirits, we occasionally will use smaller barrels, like 20 or 30 gallons, but a typical US barrel is 53 gallons. But the evaporation on it's approximately 10% a year so I'll say an eight-year barrel might be as little as 32 gallons of spirit.

You know, those aren't proof gallons. Proof gallons are based on 100 proof, so if you have a barrel that's like I just mentioned, 32 gallons, then the proof gallons would actually be a bit greater since I would estimate an eight-year would probably be around 118 to 120 proof, so it would dilute down by about 20%.

So it's all a question of aging and like so many things in life, but it really depends exactly what the age of the specific spirit is and this is why our ten-year bourbon, Buckman, that we're coming out with is going to need to be at a fairly high price because of the evaporation and also just generally the storage cost for holding the barrel for ten years. But we might try to figure a way to get you a deal on that.

Ian Gilson
Okay. And average selling price per case dropped in the second quarter? A new level or how do we expect—

Grover Wickersham
I think our price per case generally is going to be trending up since we have whiskey taking the place of vodka, but again that's really a question for Steve. Do you want to answer that, Steve?

Steven Shum
Well, Ian, again, I think you have to separate the private label case numbers and isolate the branded products relative to branded revenue, both wholesale and retail, to get sort of an accurate average case which you won't see as much fluctuation. And we've talked about this a little bit before, that the way the private label business is adding in this, the canning capabilities, the case volumes versus revenue are going to bounce around quite a bit over there, so I think you need to look at it separate—private label separate from the branded products.

Ian Gilson
All right. Okay. Thank you.

Operator
And our next questioner will be Ross Taylor with ARS Investment Partners. Please go ahead.

Ross Taylor
Yes. I wanted to come back and ask your thoughts on the US single malt market. You mentioned the fact that you have one out and it's young but it's been well recognized. You're talking about bringing something out in Burnside. This is an area that seems to be—offer tremendous outside opportunity. There simply aren't a lot of them in the US. Can you talk about it, talk about the dynamics of it and what you think the opportunities are of it?

Grover Wickersham
Yes, well, and this is something that we've been messaging for quite a while. We feel that American single malt is kind of the next big thing, at least in whiskey. And you've seen what happened with Japanese whiskey, Japanese single malt. And we think there's no reason why that couldn't be rivaled or even displaced by American single malt. And the quality has been fantastic of our product and there's some other great products out there. So we think if you look at bourbon, which is one—bourbon and whiskey, bourbon is one of our real signature products and what we do with that with Oregon Oak, I think it's a really unique spirit and we see a lot of future in that.

But if you think of bourbon, it's really, it's really a corn-based product. Where is corn grown? In places like Indiana, the South, Kentucky. But when you think of single malt, that's grown—barley is grown in the Pacific Northwest. I mean, the best barley we think in the world but certainly in the United States, we think comes out of the Pacific Northwest. So in terms of street cred, for the Oregon, Washington geographical region, we have that with that grain.

So the other aspect of single malt is, to qualify as a single malt, now we could come out with a sourced malt with not having to do a single malt, but the—a single malt has to actually be produced at a single distillery and it has to be, and that's the whole point of a single, it comes from just a, one distillery. But that's something that you pretty much have to do yourself as a distiller.

And so my hope is that with the still that we paid for with our uplisting in August of last year, that's going to be able to increase our production. There's a two-year timeframe on this product. As you can see, we're winning gold medals. So far we've won a gold medal at least everywhere we've entered the single malt and we think it's great. That's a two-year product, so down the road that's a place where we—I would like to see us put substantial investment. And like I said, I really think it's the next big thing. I also think we're in an excellent position to create a great reputation for a single malt.

That incidentally, and I've said this before, is why we purchased Big Bottom distilling, because they consistently are either tied for first place or first place of Oregon single malts, in San Francisco, L.A., in all the local contests we enter.

Anyway, sorry for taking so much time on that answer, but you hit on something that is, I think, one of the main reasons why we're excited about the future.

Ross Taylor
And also, don't worry about the time you took from my perspective because it also seems this is an area where we've seen some consolidation. You've seen some Washington State producers have been bought out at rather significant prices on a barrel of production basis.

Grover Wickersham
Well, I mean, yes. I'm not going to kick that to Steve as far as price per barrel, but I will say that's a very, very sophisticated point because whereas a number of distilleries have been bought out, obviously Casamigos and some of the others and High West, when they get to very large case volumes, well, large for a micro distillery, not 30,000 cases or 100,000 cases plus for Casamigos, there have been two major buyouts by Pernod in one case and Moet Hennessey in the other case, of single malt distilleries in Washington State when their production was at a very low level, I think smaller than us. I mean smaller than us overall, not in just—I'm not referring to our single malt production.

But, so, why did they do that? Obviously, those are major mega-players in the spirits industry. I think the only answer is of course because they think the American single malt is going to be really big.

Ross Taylor
I would agree and that's why I think it's a very interesting initiative you guys have that makes you very different and unique from not just other public companies but other private ones as well.

Grover Wickersham
Yes, thanks. I appreciate you saying that. I think we have some advantages and some barriers to entry there that we want to take advantage of. Thanks.

Ross Taylor
Well, congratulations.

Grover Wickersham
Thanks for the question. Yes. Great.

CONCLUSION

Operator
And this will conclude our question-and-answer session. I would like to turn the conference back over to Grover Wickersham for any closing remarks.

Grover Wickersham
Thanks to everyone for joining the conference today. Appreciate your support. As always, Steve and I are available to any of our shareholders if they care to make further inquiries about our strategy or how things are going. So, don't hesitate to be in touch if you need further color on Q2 and a sense of where we are in Q3.

So, with that I'll conclude the call and thanks, everyone, for joining us.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect your lines.