
Ontario Wine and Grape Industry Performance Study

2017

Performed by
VQA Ontario and Deloitte
on behalf of the Ontario
wine and grape industry

June 2018



Deloitte.



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Welcome

MESSAGE FROM VQA ONTARIO

Welcome to the Ontario wine and grape industry performance study.

Welcome to the third annual Ontario wine and grape industry performance study. This benchmarking survey is part of the Ontario government's five year \$75 million renewed Wine and Grape Strategy to support the growth and success of Ontario's wine and grape industry.

The survey and report were developed by VQA Ontario and Deloitte in consultation with representatives of the wine and grape industry and the Government of Ontario.

This report provides an overview of the present state of the industry based on a comprehensive survey of active wineries and grape growers. Information is presented on the financial state of the industry, including the impact on tourism and hospitality.

The Ontario wine and grape industry has made tremendous progress in the last decade, with strong growth and increased consumer demand for authentic local VQA wines. The consumer and business landscape is constantly changing and building reliable and consistent data to assess the state of the industry is important to inform decisions for the future. In particular, this study provides a reference for individual businesses to benchmark performance with their peers, and identify tangible opportunities to improve profitability. Data collected in 2017 continues to show steady growth in wine sales and investment in production capacity, tourism and hospitality. Although the industry continues to face

challenges, the data shows some positive changes to profitability in this period.

Participation rates across the industry remain strong and we thank all participants who made the considerable effort to complete the detailed survey and provide us with feedback for future improvements. Your contributions are essential to the success of this initiative.

VQA Ontario would also like to thank Deloitte for executing the survey and report, and the industry stakeholder groups, Grape Growers of Ontario, the Wine Council of Ontario and the Winery & Grower Alliance of Ontario for their leadership and support of the project.

VQA Ontario is Ontario's wine authority, responsible for setting standards and regulating Ontario's wines of origin. We are pleased to assist the industry by providing independent oversight of this project.

VQA Ontario

March 2018



The Ontario wine industry continues to see steady growth in wine sales and investment in production capacity, tourism and hospitality.

About the Study

OVERVIEW

This report provides an overview of the state of the Ontario wine industry based on a comprehensive survey of active wineries and grape growers to support the growth and success of the industry. This is the third year of the annual study.

The Ontario wine and grape industry (as defined by wines produced in Ontario) includes businesses focused on wine production and those focused on grape growing. Most wineries also have grape growing capabilities and are considered vertically integrated wineries. The third year of the study commenced in July 2017 and included an industry survey administered between October and December 2017. The survey was responded to by 163 businesses, representing 102 vertically integrated wineries, 14 wineries that do not operate a grape growing business and 47 independent grape growers. For the purpose of the study, all wineries are reported together (“Wineries”) and all independent grape growers are reported on in a separate group (“Grape Growers”). Winery respondents account for an estimated 96% of all wine made in Ontario and about 18% of grapes grown. Independent Grape Grower respondents account for an additional 19% of the grapes grown in Ontario.

STUDY METHODOLOGY

As with previous years, the Working Group provided guidance and ensured industry engagement throughout the development and execution of the study and included participation from government and industry stakeholder groups. These groups included; Grape Growers of Ontario, VQA Ontario, Wine Council of Ontario, Winery & Grower Alliance of Ontario, Ontario Ministry of Agriculture, Food and Rural Affairs (“OMAFRA”) and Ministry of Government and Consumer Services (“MGCS”) (the “Working Group”).

Deloitte was engaged by VQA Ontario on behalf of the Ontario wine and grape industry to assist with the execution of the study. VQA Ontario and Deloitte developed and administered the study survey to participants and prepared the industry report, working collaboratively with the Working Group and other industry stakeholders. This included developing performance indicators, designing the survey approach, collecting and analyzing survey data and creating a fact based report summarizing respondent data. This year, Deloitte consulted with over 10 wineries and grape growers who had completed the survey in previous years to identify opportunities where the survey can be enhanced and become more useful for the industry participants. Following these consultations, the Working Group decided to action several enhancements and changes to the survey based on the feedback provided.

As with previous years, the foundation of the study was the survey of industry participants on performance indicators as determined by the industry Working Group. The survey comprised a series of questions regarding wine and grape industry performance, relevant to both wineries and grape growers. The survey questions were developed through combined input from the industry Working Group, Deloitte, and a sample of industry participants. All questions were

WORKING GROUP



Grape Growers of Ontario
VQA Ontario
Wine Council of Ontario
Winery & Grower Alliance of Ontario
Ontario Ministry of Agriculture, Food and Rural Affairs
Ministry of Government and Consumer Services

determined and agreed upon by the Working Group. The agreed questions collected information about respondent financial, operational and business climate information. Respondents were asked to provide information pertaining to their most recently completed financial year and to answer a series of questions, with different question sets for wineries and grape growers.

The survey responses were treated with the highest confidentiality both in terms of data collection and aggregation. On behalf of the industry, VQA Ontario acts as the independent custodian of the data submitted by individual respondents. The individual respondent data is maintained in a secure environment and is not accessible to other parties in the industry including other members of the Working Group.

Findings from the survey have been aggregated and summarized in this fact based report, which has been segmented into reporting groups based on winery total sales. Grape growers have been included as one segment given their relative revenue proximity to one another. It should be noted that aggregated findings may vary from the previous year due to a change in respondents within each segment.

HOW TO READ THIS REPORT

The report is divided into four sections.

- 1) **Financial Information** presents details on the financial performance of wineries including profitability, financial position, key financial ratios, line of business gross margin and sales and export details;
- 2) **Operational Information** provides an operational overview of wineries including inventory, production, employment and investment details;
- 3) **Business Climate** presents details on industry topics including tourism, government programs and business challenges; and
- 4) **Grape Growers Performance Summary** provides financial, operational and business climate information for grape growers.

As readers review and interpret the findings of this study, the definitions of the key terms and specific metrics presented across financial, operational and business climate should be kept in mind. A full listing of terms and metrics are provided in *Appendix: Definitions*.

STUDY SEGMENTATION

Total Sales	Number of Responses		
	2015	2016	2017
Wineries			
\$10M+	8	9	9
\$5M–10M	6	5	7
\$2M–5M	16	18	17
\$0.5M–2M	36	42	47
\$0M–0.5M	40	36	36
Total	106	110	116
Grape Growers			
\$0M–3M	42	53	47

NOTES

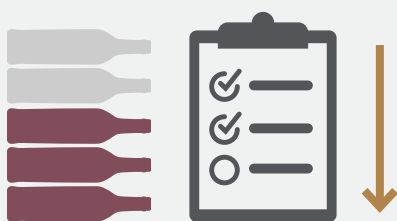


- 1. **Consolidated rates** were calculated to represent the average performance for each segment.
- 2. **116 wineries participated** in the study, representing a response rate of 52% based on the number of grape wineries operating in the province. Winery respondents account for an estimated 96% of all wine made in Ontario and about 18% of grapes grown.
- 3. **47 Grape Growers participated** in the study, representing approximately 10% of growers operating in the province. Grape Grower respondents account for 19% of the grapes grown in Ontario.

This study relies on information provided through the survey that was self-reported by respondents and was not independently audited and verified for accuracy or completeness. Aggregated findings may vary from the previous year due to a change in respondents within each segment, impacting the reliability of year-over-year comparisons.

Key Facts

Note: When interpreting results, note that aggregated findings may vary from the previous year due to a change in respondents within each segment.



AVERAGE WINE INVENTORY VOLUMES
DECREASED IN 2017



EXPORTS OUTSIDE CANADA WERE HIGHER THAN
SALES TO OTHER PROVINCES, WITH ASIA **THE
TOP RANKED INTERNATIONAL EXPORT MARKET**



WINERIES LOOKED TO **TOURISM AND
HOSPITALITY, PRODUCTION CAPACITY,
AND PRODUCTION EFFICIENCY** AS THE
TOP INVESTMENTS PURPOSES IN 2017

44%

UNDER \$0.5M

58%

OVER \$0.5M

**44% OF WINERIES UNDER \$0.5M AND
58% OF WINERIES OVER \$0.5M ARE PROFITABLE**



**THE RISING INPUT/LABOUR/LAND
COSTS** WERE THE TOP RANKED BUSINESS
CHALLENGES IN THE INDUSTRY



THE NUMBER OF ANNUAL VISITORS
AT WINERIES **INCREASED IN 2017**

47%

EFFICIENCY

27%

CAPACITY

GRAPE GROWERS INVESTED THE MOST IN
INCREASING **PRODUCTION EFFICIENCY
(47%)** AND **PRODUCTION CAPACITY (27%)**

Financial Information



Profitability and Financial Position

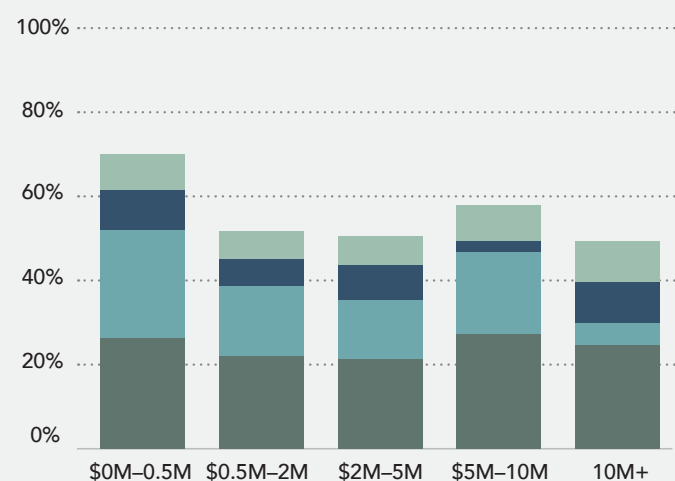
INCOME STATEMENT 2017

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Net VQA wine sales	68.8%	71.1%	77.5%	71.1%	37.0%
Net non-VQA wine sales	9.2%	3.9%	0.5%	3.8%	58.4%
Grape sales	1.7%	4.0%	2.3%	4.5%	0.0%
Merchandise sales	2.5%	2.8%	2.6%	3.1%	0.9%
Hospitality sales	2.2%	3.6%	5.8%	1.7%	0.5%
Onsite food and wine service sales	3.0%	7.7%	2.9%	11.8%	2.2%
Other sales	9.2%	3.3%	3.6%	1.0%	0.4%
Grants and programs	3.3%	3.7%	4.8%	3.0%	0.6%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%
Raw materials	-26.0%	-21.7%	-21.1%	-28.4%	-24.4%
Arm's length labour	-21.1%	-13.4%	-11.1%	-15.2%	-3.6%
Non-arm's length labour	-6.3%	-3.7%	-3.2%	-0.9%	-0.1%
Packaging	-7.7%	-7.2%	-7.7%	-4.3%	-11.6%
Other direct manufacturing expenses	-10.9%	-11.4%	-11.6%	-10.2%	-10.2%
Total cost of goods sold	-72.0%	-57.4%	-54.7%	-59.0%	-49.8%
Gross margin	28.0%	42.6%	45.3%	41.0%	50.2%
Sales and marketing expenses	-9.6%	-10.4%	-13.7%	-15.1%	-22.1%
Contribution after sales and marketing	18.4%	32.3%	31.6%	26.0%	28.1%
Arm's length general and administration expenses	-18.7%	-20.9%	-16.6%	-8.5%	-8.7%
Non-arm's length general and administration expenses	-5.5%	-1.8%	-5.3%	-7.0%	-0.4%
EBITDA	-5.8%	9.6%	9.6%	10.5%	19.0%
Depreciation and amortization	-7.8%	-8.0%	-5.3%	-3.9%	-1.7%
EBIT	-13.6%	1.6%	4.3%	6.6%	17.4%
Interest expense	-5.6%	-3.4%	-2.6%	-1.1%	-1.1%
Interest income	2.5%	0.1%	0.1%	0.0%	0.4%
Other non-grape income	0.0%	0.0%	0.0%	0.0%	0.0%
Other non-operating income	1.7%	0.2%	0.4%	0.0%	0.3%
Foreign exchange gain/(loss)	0.0%	-0.1%	0.0%	0.0%	0.1%
Inventory write-downs	-2.5%	-2.0%	-0.5%	0.0%	-0.1%
Profit/(loss) before tax	-17.5%	-3.5%	1.7%	5.4%	16.8%

Note: Amounts in the above table represent relative percentages of "Total sales".
Amounts may not sum to subtotals due to rounding. Income statement updated June 2018.

COST OF GOODS SOLD 2017

% of total sales



- Other direct manufacturing expenses
- Packaging
- Labour
- Raw materials

Sales

With the exception of the \$10M+ winery segment, sales were largely derived from VQA wine. For the \$10M+ segment, non-VQA wine made up a more significant proportion of total sales at 58.4% of sales compared to 37.0% of sales for VQA wine.

Cost of Goods Sold

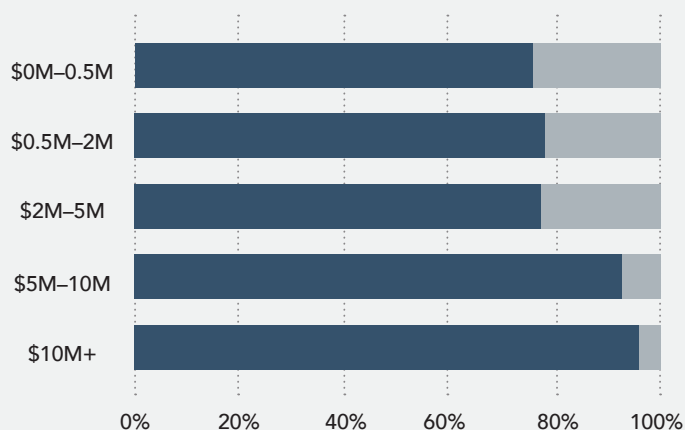
Overall trending shows cost of goods sold declining as wineries increased in size. Cost of goods sold were 72.0% of sales for \$0M–0.5M wineries and were lower at 49.8% of sales for \$10M+ wineries. Lower cost of goods sold for larger wineries were largely driven by lower labour as a percentage of total sales. Labour expenses were 27.4% of sales for the \$0M–0.5M segment and 3.7% for the \$10M+ segment.

Arm's length labour includes employees who are independent from or are not family members of the employer, while non-arm's length labour can include owners or family members. Non-arm's length labour was utilized to a higher degree by smaller wineries than larger wineries.

Non-arm's length labour made up more than 20.0% of total labour expense to the winery segments with less than the \$5M sales.

Non-arm's length labour attributed to a lower amount of total labour expense in larger wineries, with 5.7% in the \$5M–10M segment, and 3.1% in the \$10M+ segment.

LABOUR EXPENSE 2017



- Labour expense – arm's length
- Labour expense – non-arm's length

Sales and Marketing Expenses

Sales and marketing expenses increased with winery size. Sales and marketing accounted for 9.6% of sales for the \$0M-0.5M segment and were higher at 22.1% for the \$10M+ segment.

Contribution after Sales and Marketing

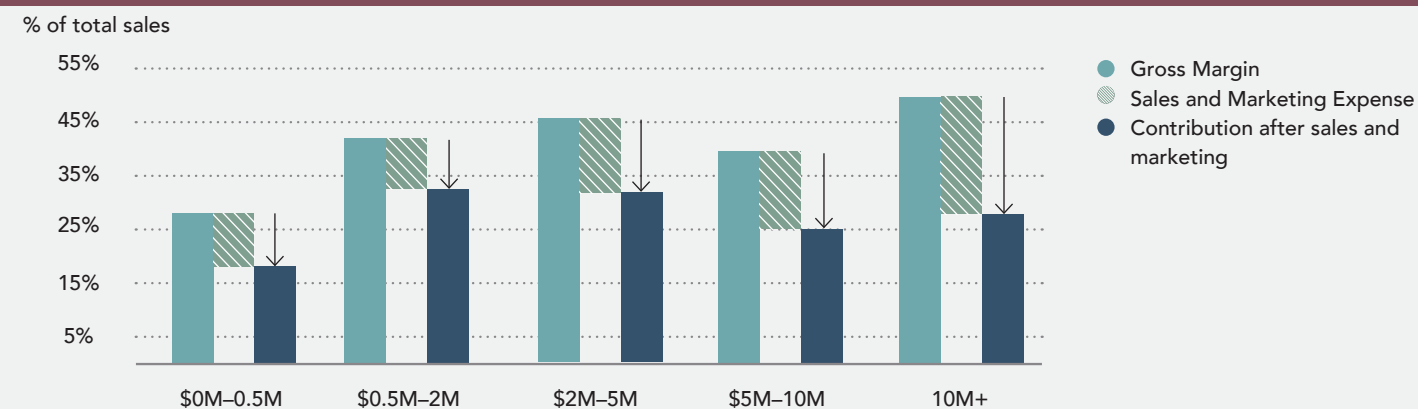
Contribution after sales and marketing is one measure of operating performance, focusing on sales and direct costs of the operating business, as well as marketing expenditure. Production efficiencies realized in lower cost of goods sold for larger wineries were reinvested in sales and marketing. This led to a decline in contribution after sales and marketing on average as wineries exceeded \$2M in total sales.

General and Administration

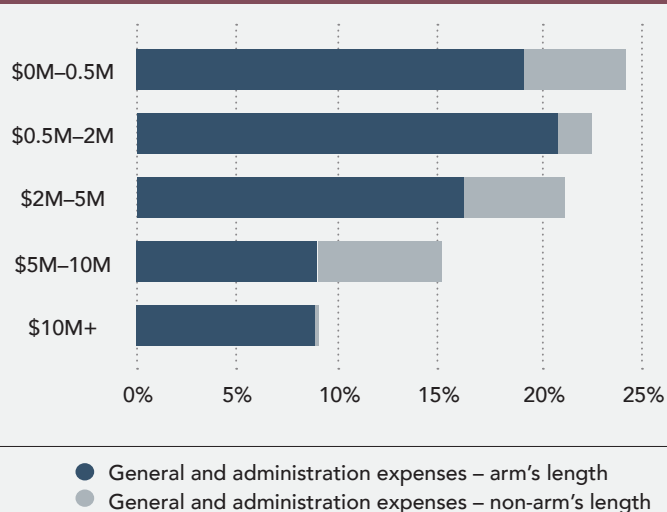
On average, general and administration expenses were above 20.0% of sales for wineries with less than \$5M of total sales and trended downwards to 9.0% for the \$10M+ segment.

Arm's length general and administration expense includes non-manufacturing administrative expenses provided by parties that are not family members or are independent of the business owner. Non-arm's length general and administration expenses include owner and family member salaries, management fees and non-core business expenses that have a function not exclusive to the business. Non-arm's length expenses were lowest in the \$10M+ segment at 3.9% of total general and administration expenses and highest in the \$5M-10M segment at 45.0% of total general and administration expenses.

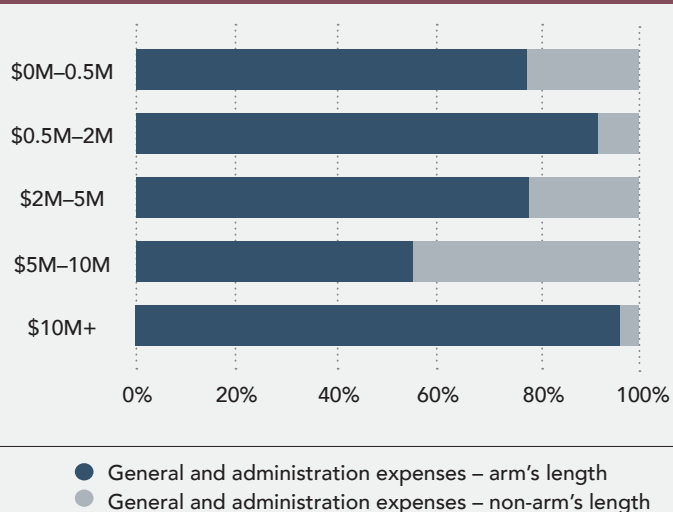
CONTRIBUTION AFTER SALES AND MARKETING 2017



GENERAL AND ADMINISTRATION EXPENSE TOTALS 2017



GENERAL AND ADMINISTRATION EXPENSE SPLITS 2017



EBITDA

EBITDA is a measure of financial performance, factoring out the impacts of financing decisions, accounting decisions on depreciation and amortization and tax implications. EBITDA was positive on average for wineries with over \$0.5M in total sales and generally increased as wineries increased in size.

Depreciation and Amortization

Depreciation and amortization expense generally decreased as a percentage of sales as wineries increased in size. Depreciation and amortization was 7.8% of sales for the \$0M–0.5M segment and 1.7% for the \$10M+ segment.

EBIT

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT increased with winery size and was positive on average for wineries with over \$0.5M in total sales. EBIT was -13.6% of sales for the \$0M–0.5M segment and 17.4% for the \$10M+ segment.

Profit/Loss Before Taxes

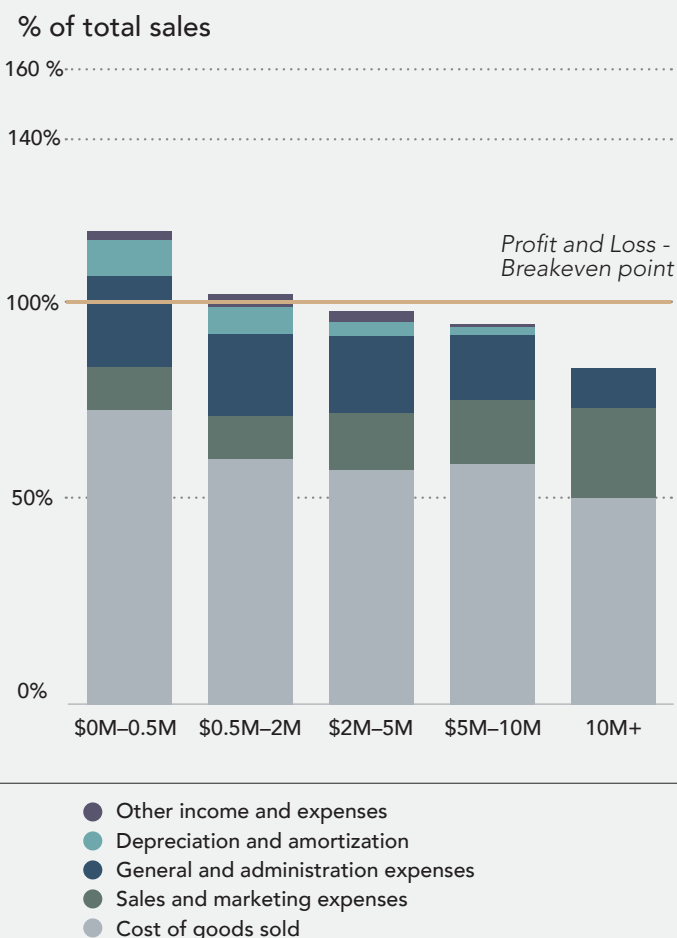
53.4% of winery respondents reported a positive pre-tax profit and 46.6% reported a loss. Larger wineries were generally more likely to be profitable, with 44.4% of wineries in the \$0M–0.5M segment reporting a pre-tax profit compared to 100.0% in the \$10M+ segment.

On average, pre-tax profitability increased with size where the \$0M–0.5M winery segment had 17.5% of loss before tax compared to 16.8% of profit for the \$10M+ winery segment.

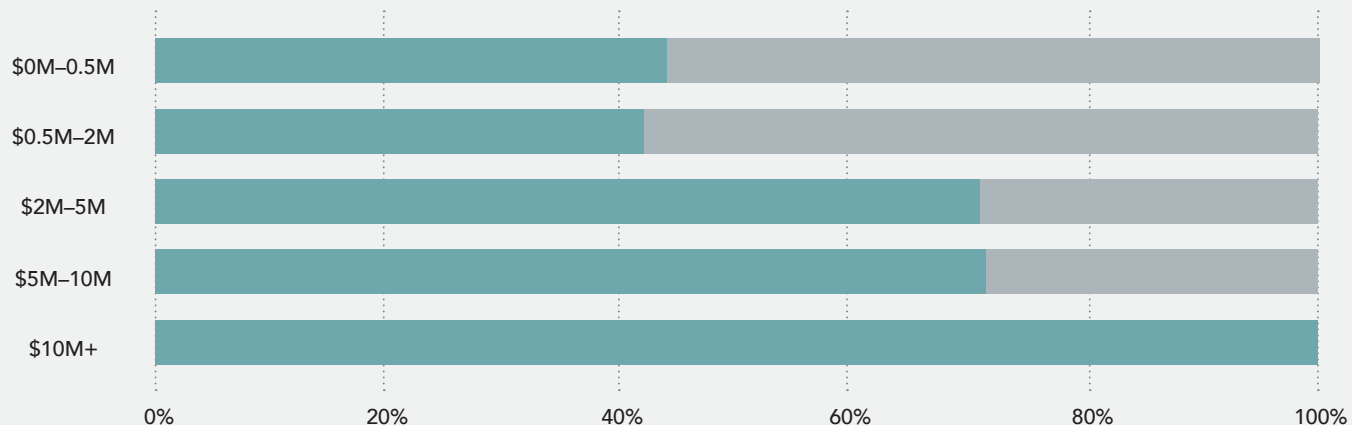
Key Considerations Impacting Profitability (as a % of total sales)

Profit of smaller wineries is impacted more significantly by higher labour and general and administration expenses as a percentage of sales. In addition, smaller wineries saw higher depreciation and amortization expense and higher interest costs related to servicing debt. Larger wineries experienced more significant costs associated with selling and marketing products.

EXPENSES 2017

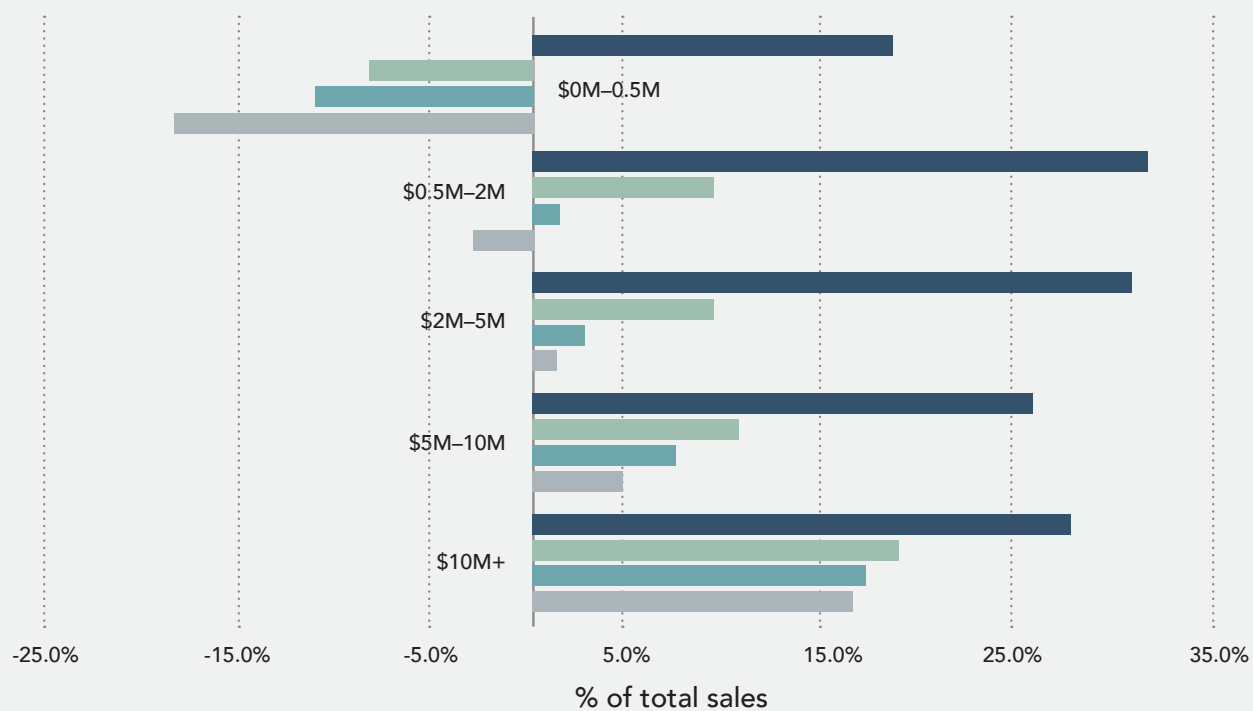


PERCENTAGE OF WINERIES REPORTING PROFIT VS. LOSS 2017



● Pre-tax profit
● Loss

PERFORMANCE INDICATORS 2017



● Contribution after sales and marketing ● EBITDA ● EBIT ● Profit/(loss) before tax

BALANCE SHEET 2017

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Cash	2.0%	3.3%	0.8%	3.9%	1.4%
Accounts receivable	2.7%	3.9%	5.8%	6.2%	5.3%
Inventory	19.7%	32.5%	30.2%	42.9%	24.3%
Other current assets	4.1%	3.3%	1.1%	2.0%	1.3%
Total current assets	28.5%	43.0%	38.0%	55.0%	32.4%
Land and land improvements	14.4%	12.8%	9.7%	6.4%	6.1%
Vineyards	5.3%	5.7%	11.3%	4.6%	4.6%
Buildings and improvements	24.9%	23.7%	29.0%	20.0%	12.5%
Equipment	8.8%	11.4%	6.7%	7.4%	11.5%
Other fixed assets	2.4%	2.0%	2.5%	2.3%	1.4%
Total net fixed assets	55.8%	55.6%	59.2%	40.8%	36.1%
Purchased goodwill and other intangible assets	0.4%	1.0%	0.1%	0.0%	30.6%
Investments	15.2%	0.3%	0.7%	0.7%	0.2%
Other assets	0.1%	0.1%	2.1%	3.5%	0.7%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Bank indebtedness	4.8%	10.2%	7.9%	5.3%	9.7%
Accounts payable and accrued liabilities	5.6%	6.0%	4.4%	9.2%	4.9%
Other current liabilities	8.4%	16.8%	3.2%	6.3%	1.8%
Total current liabilities	18.7%	33.0%	15.5%	20.8%	16.4%
Long term liabilities	85.1%	70.2%	72.9%	41.7%	38.3%
Total liabilities	103.8%	103.3%	88.4%	62.5%	54.7%
Capital stock	24.5%	17.4%	17.7%	3.3%	26.9%
Retained earnings	-28.3%	-20.7%	-6.1%	34.2%	18.4%
Total equity	-3.8%	-3.3%	11.6%	37.5%	45.3%
Total liabilities plus equity	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Amounts in the above table represent relative percentages of "Total assets".
Amounts may not sum to subtotals due to rounding.

Assets

Smaller wineries generally had a larger percentage of their assets in fixed assets compared to larger wineries. Wineries in the \$0M-0.5M segment held 55.8% of total assets in fixed assets compared to 36.1% for wineries in the \$10M+ segment.

Smaller wineries held a larger percentage of assets in land and vineyards compared to larger wineries. Land and vineyards made up 19.7% of total assets for the \$0M-0.5M segment compared to 10.7% of total assets for the \$10M+ segment.

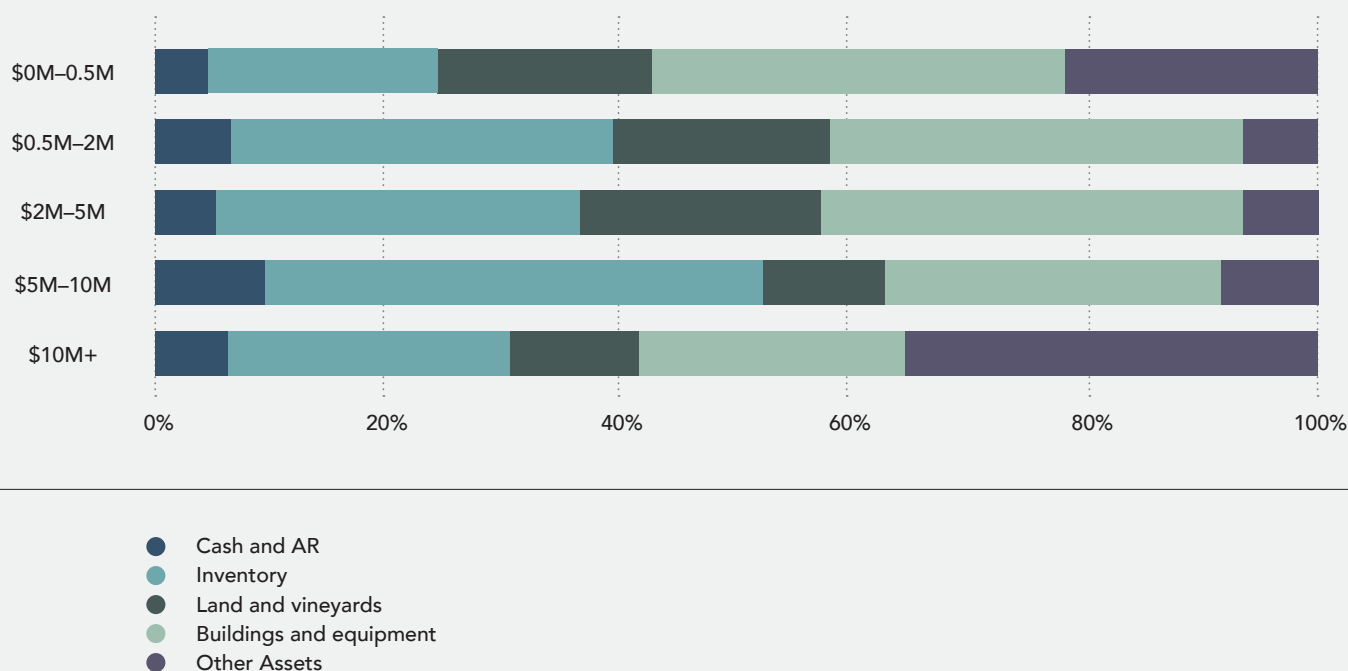
Smaller wineries generally held a larger percentage of assets in buildings and equipment compared to larger wineries. Buildings and equipment made up 33.7% of total assets for the

\$0M-0.5M segment compared to 24.0% of total assets for the \$10M+ segment.

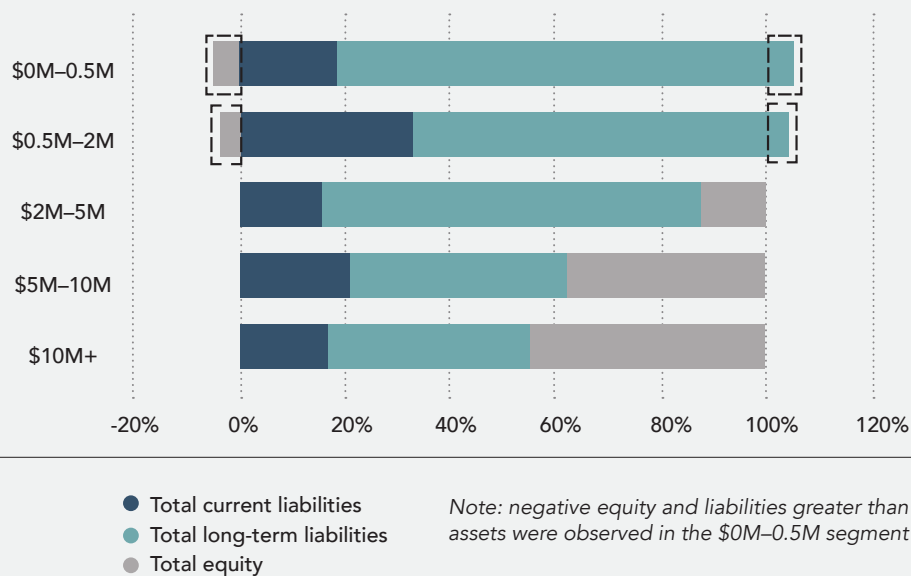
Smaller wineries held a lower percentage of assets in inventory than larger wineries. Inventory made up 19.7% of total assets for the \$0M-0.5M segment compared to 42.9% of total assets for the \$5M-10M segment and 24.3% of total assets for the \$10M+ segment.

Smaller wineries generally held a lower percentage of assets in purchased goodwill and intangible assets than larger wineries, at 0.4% of total assets for the \$0M-0.5M segment compared to 30.6% for the \$10M+ segment. The \$0M-0.5M segment held the largest percentage of assets in investments with 15.2%.

ASSET SUMMARY 2017



LIABILITIES AND EQUITY 2017



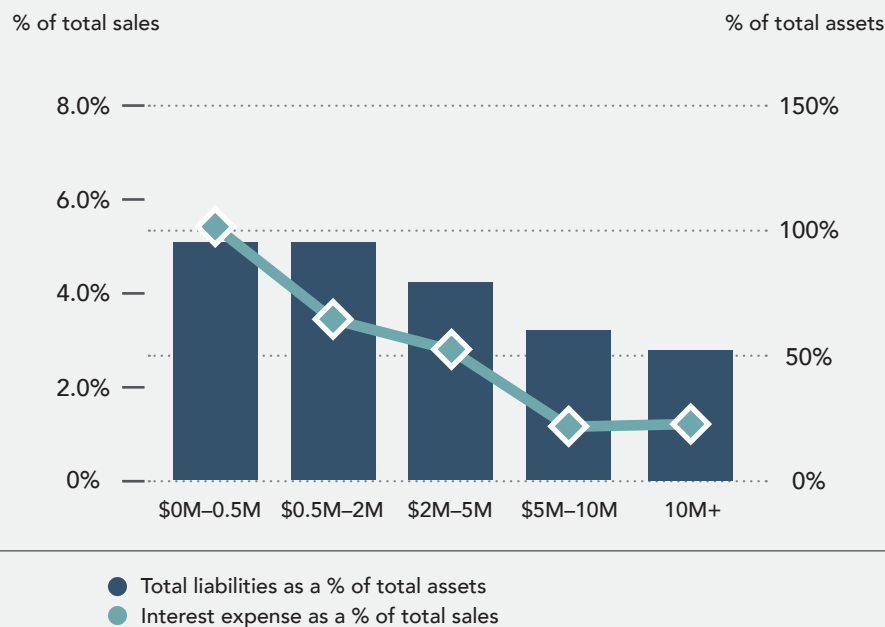
Liabilities and Equity

Smaller wineries were funded to a higher degree through debt than equity when compared to larger wineries. Wineries in the \$0M-0.5M segment held 103.8% in liabilities and -3.8% in equity, due to negative retained earnings, compared to 54.7% in liabilities and 45.3% in equity for wineries in the \$10M+ segment.

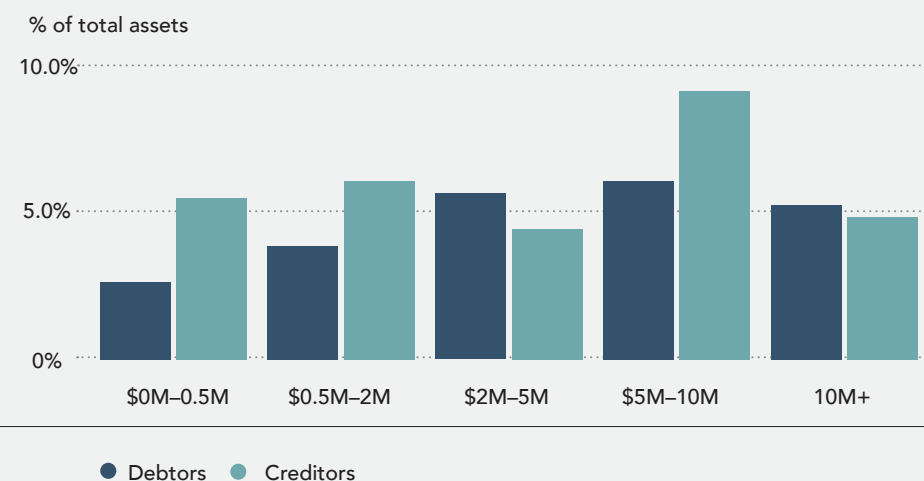
Interest expense on the income statement decreased as wineries increased in size, from 5.6% of sales for \$0M-0.5M wineries to 1.1% of sales for \$10M+ wineries, corresponding to the debt levels observed in the winery segments. Higher levels of debt at the smaller wineries correlate to a higher cost of borrowing.

Negative retained earnings were observed in the smaller \$0-0.5M, \$0.5M-2M and \$2M-5M winery segments.

INTEREST EXPENSE AND TOTAL LIABILITIES 2017



DEBTORS VS CREDITORS 2017



Assets vs. Liabilities

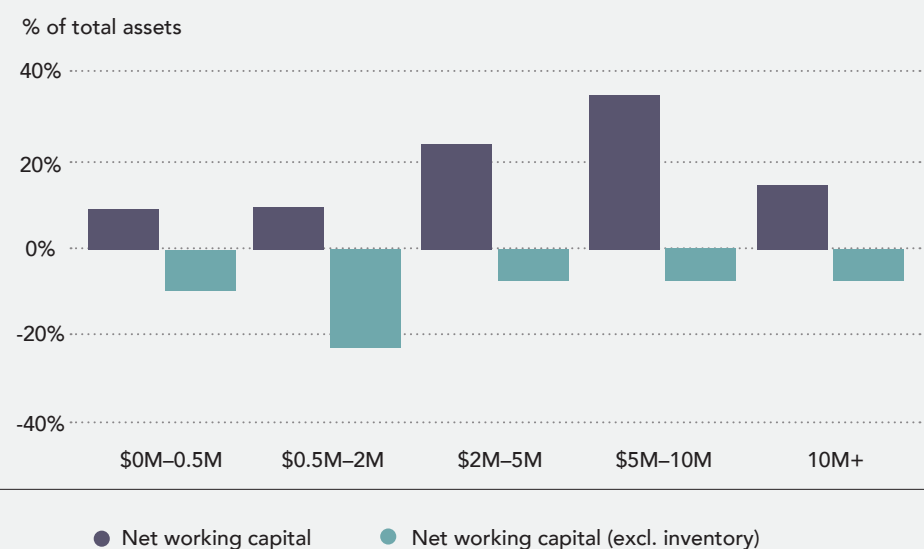
Creditors, represented by accounts payable and accrued liabilities, were higher than debtors, represented by accounts receivable, across most winery segments except for the \$2M-5M and \$10M+ segments.

As a percentage of total assets, the \$5M-10M segment had the highest percentage of creditor liabilities with 9.2%.

Net working capital is the difference between current assets and current liabilities, representing cash flow requirements for day to day operations of the business. Inventory levels formed a large portion of current assets. Given the seasonality of the industry and thus the variability in the movement of inventory levels, it is worth considering working capital excluding inventory for cash flow management purposes. On average, net working capital with inventory included was positive across all segments and was negative across all segments when inventory was excluded.

For further detail on current assets and liabilities, see *Current Assets and Liabilities 2017* on page 17.

NET WORKING CAPITAL 2017



KEY FINANCIAL RATIOS 2017

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Solvency ratios					
Current ratio	1.5	1.3	2.5	2.6	2.0
Debt to equity ratio	(27.6)	(31.7)	7.5	1.7	1.2
Debt to tangible assets	1.0	1.0	0.9	0.6	0.8
Efficiency ratios					
Inventory turnover	0.8	0.7	0.8	1.0	1.3
Fixed asset turnover	0.4	0.7	0.7	1.8	1.8

Solvency Ratios

The current ratio is calculated as current assets divided by current liabilities and indicates short term financial liquidity. The \$5M–10M winery segment had the strongest current ratio. Inventory was the largest component of current assets across all winery segments.

The debt to equity ratio is calculated as total liabilities divided by total equity and indicates the relative proportion of debt and equity used to finance assets. Note the \$0M–0.5M and \$0.5M–2M winery segments were negative due to a negative equity balance. On average, all wineries were financed more heavily through debt than equity. The debt to equity ratio decreased as the size of wineries increased, indicating a higher proportion of debt financing at smaller wineries.

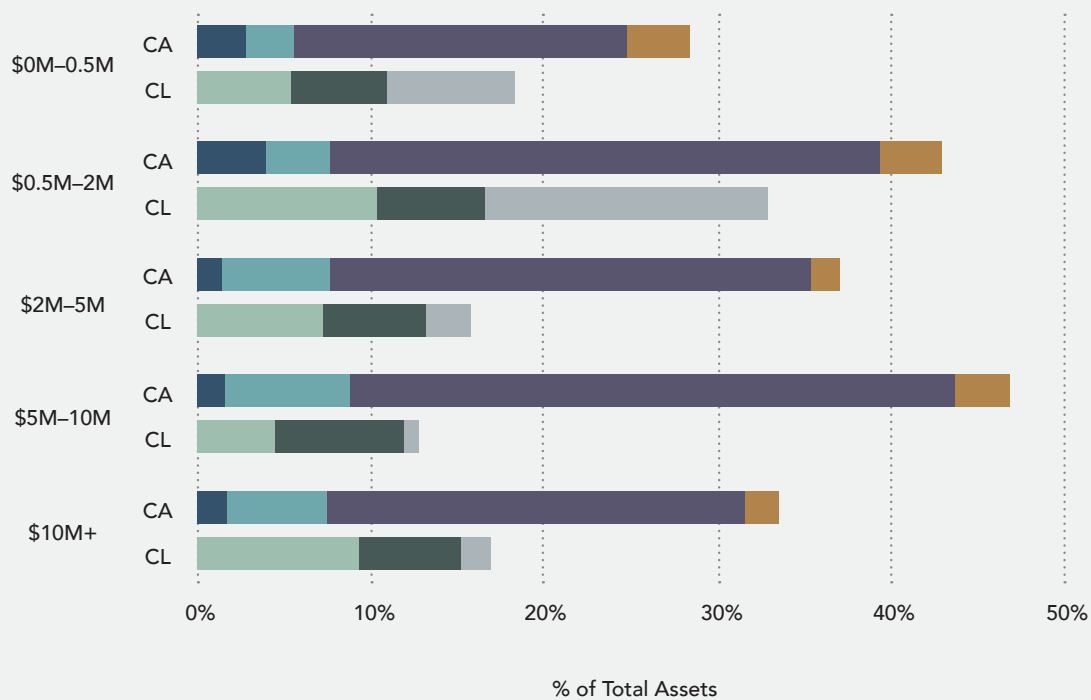
The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt. All winery segments had ratios at or below 1.0. The \$5M–10M segment had the lowest ratio which could be attributed the limited intangible assets held by wineries in this segment.

Efficiency Ratios

Inventory turnover is calculated as cost of goods sold divided by inventory and indicates the number of times inventory has been sold in the year. An inventory turnover ratio of less than 1.0 indicates increasing inventory levels. Wineries are expected to have inventory turnover of less than 1.0 during periods of increased production or supply, as some of the wine produced is held in inventory for ageing or sale. All winery segments except for the \$5M–10M and \$10M+ categories had inventory turnover ratios below 1.0, indicating that they were not selling through all inventory produced in the period.

Fixed asset turnover is calculated as total sales divided by total fixed assets and measures the business' ability to efficiently deploy its fixed assets in generating sales. The fixed asset turnover ratio increased with winery size, indicating that larger wineries were able to use their fixed assets to generate income more efficiently.

CURRENT ASSETS AND LIABILITIES 2017

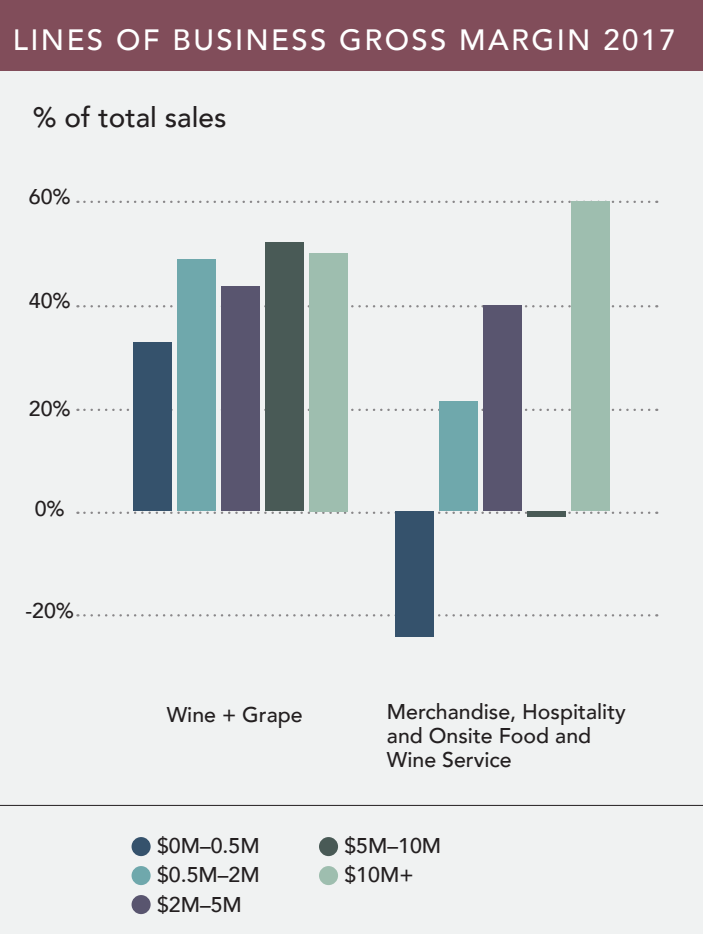
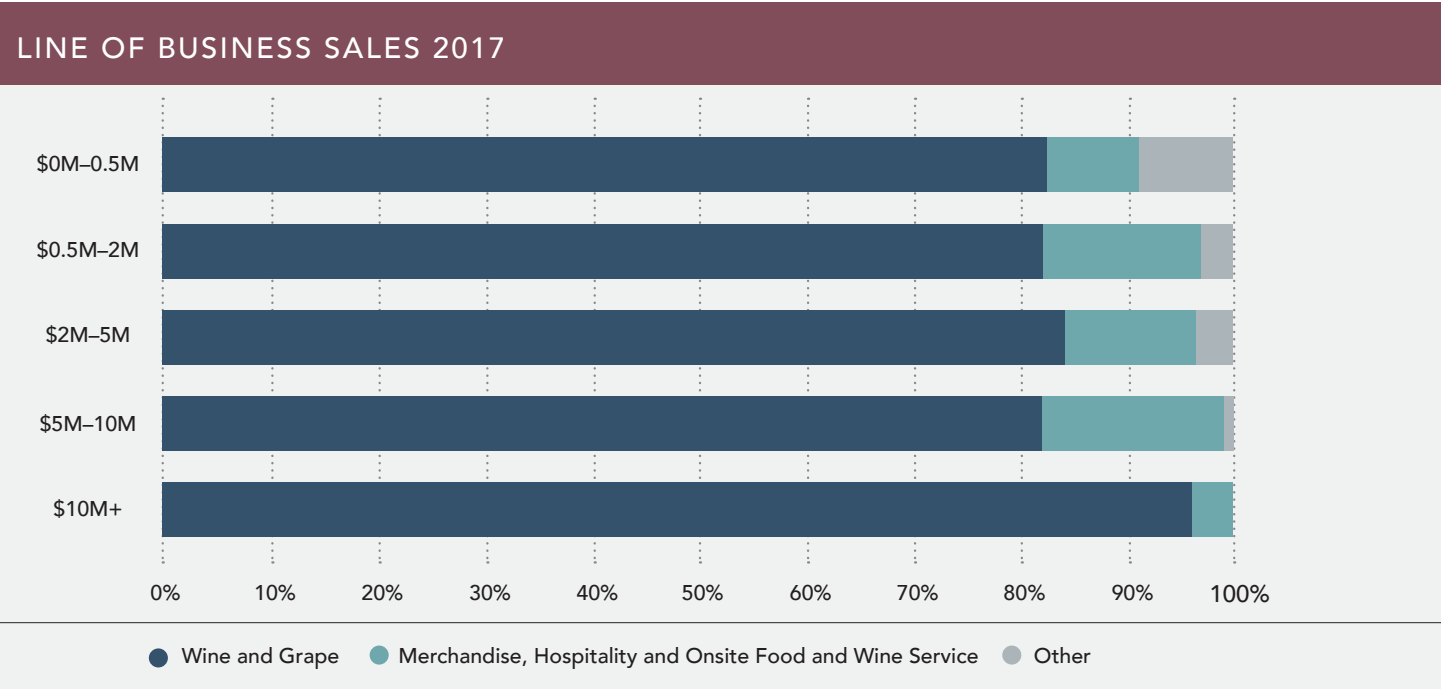


● Cash
 ● Accounts receivable
 ● Inventory
 ● Other current assets

● Bank indebtedness
 ● Accounts payable and accrued liabilities
 ● Other current liabilities

CA: Current assets
 CL: Current liabilities

Line of Business Financials



Line of Business Sales

Including grants and programs, wine and grape sales comprised at least 82% of total sales across all winery segments.

Merchandise, hospitality and onsite food and wine service made up a larger percentage of sales for mid-sized wineries in the \$0.5M–2M, \$2M–5M and \$5M–10M segments, with at least 11.3% of sales derived from non-wine and grape lines of business.

Line of Business Gross Margin

Wine and grape gross margin generally trended upwards with winery size, at 33.7% for the \$0M–0.5M segment and 50.0% for the \$10M+ segment.

Wineries in the \$0M–0.5M segment had the lowest gross margin of all segments on the wine and grape line of business and had negative gross margin on the merchandise, hospitality and onsite food and wine service lines of business.

The \$10M+ segment generates a higher gross margin on Merchandise, Hospitality, and Onsite Food and Wine Service than its core Wine and Grape business line.

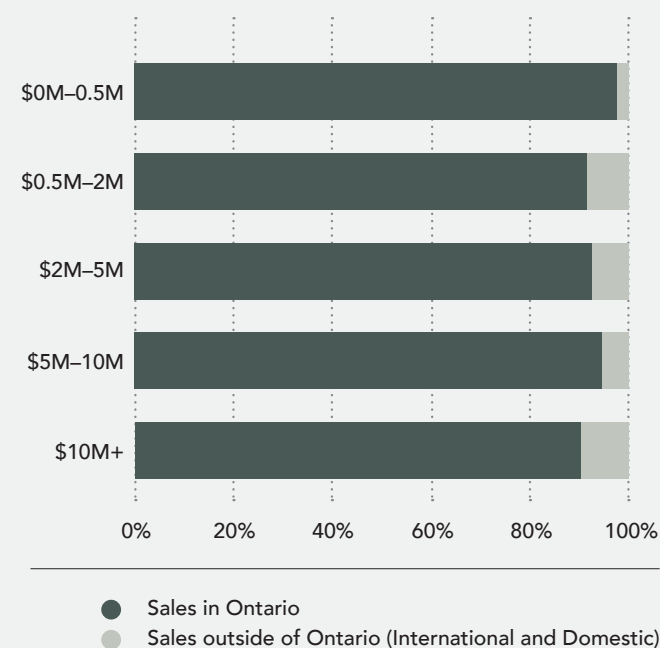
Sales

WINE SALES DETAIL 2017

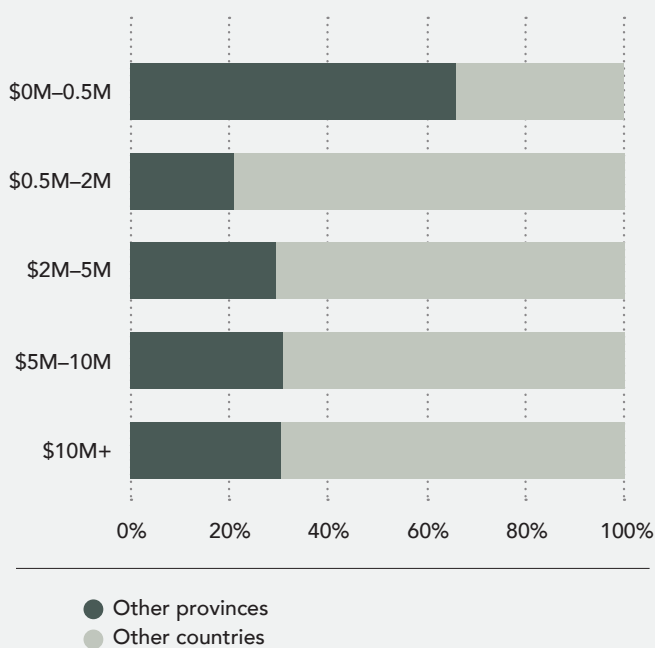
	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Wine Sales by Channel (VQA and Non-VQA)					
LCBO	13.2%	17.5%	32.6%	31.1%	40.2%
Winery retail store	58.4%	51.7%	34.9%	41.3%	41.7%
Farmers' market	3.4%	0.4%	0.3%	0.2%	0.1%
Delivered direct to licensees	19.6%	17.1%	18.7%	20.1%	5.6%
Sales to other provinces	1.6%	2.0%	2.4%	1.7%	3.0%
Export	0.8%	7.4%	5.8%	3.7%	6.8%
Other	2.9%	4.0%	5.4%	1.8%	2.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Product Type (VQA and Non-VQA)					
Table wine	92.1%	84.1%	92.9%	85.0%	82.2%
Sparkling wine	2.9%	4.9%	1.5%	2.3%	3.9%
Icewine	0.4%	7.5%	4.7%	10.1%	8.3%
Other grape	1.6%	2.3%	0.6%	1.0%	5.5%
Other non-grape	3.0%	1.2%	0.3%	1.6%	0.2%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Format (VQA and Non-VQA)					
Packaged wine	94.6%	92.4%	93.9%	98.8%	99.0%
Bulk wine	5.3%	6.8%	5.3%	1.2%	1.0%
Bulk juice	0.1%	0.8%	0.9%	0.0%	0.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%

Note: Amounts in the above table represent relative percentages of "Total sales".
Amounts may not sum to subtotals due to rounding.

SALES IN ONTARIO VS. SALES OUTSIDE OF ONTARIO 2017



SALES OUTSIDE OF ONTARIO BY GEOGRAPHY 2017



WINE SALES BY PRODUCT TYPE AND PRODUCT FORMAT 2017

(SHARE OF TOTAL SALES)

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Product Type					
Table wine	92%	84%	93%	85%	82%
Sparkling wine	3%	5%	1%	2%	4%
Icewine	0%	8%	5%	10%	8%
Other grape and non-grape	5%	3%	1%	3%	6%
Product Format					
Packaged wine	95%	92%	94%	99%	99%
Bulk wine	5%	7%	5%	1%	1%
Bulk juice	0%	1%	1%	0%	0%

Wine Sales by Channel

Reliance on the LCBO as a sales channel increased with winery size, whereas smaller wineries were more dependent on the winery retail store and delivered direct to licensees as primary sales channels. Wineries in the \$0M-0.5M segment attributed 13.2% of sales through the LCBO compared to 40.2% for the \$10M+ segment.

The majority of wine produced in Ontario was sold in Ontario. Exports reached a maximum of 9.8% of sales for

the \$10M+ segment, with 3.0% of sales to other provinces and 6.8% of sales to other countries.

Wineries in all segments other than \$0M-0.5M exported more to other countries than to other provinces within Canada. The \$0M-0.5M segment had the greatest proportion of exports within Canada, at 68.1% of total exports.

Wine Sales by Product Type

Wineries in the \$0M-0.5M segment attributed 92.1% of sales to table wine compared to 82.2% for the \$10M+ segment. Larger wineries attributed a larger proportion of sales to icewine than smaller wineries on average. Wineries in the \$0M-0.5M segment attributed 0.4% of sales to icewine compared to 8.3% for the \$10M+ segment.

Wine Sales by Format

The sale of packaged wines generally increased with winery size. Wineries in the \$0M-0.5M segment attributed 94.6% of sales to packaged wine compared to 99.0% for the \$10M+ segment.

WINE SALES BY PRODUCT TYPE AND WINE FORMAT 2017

(SALES DOLLARS PER LITRE)

	Winery size (2017 sales)				
	\$0M-0.5M	\$0.5M-2M	\$2M-5M	\$5M-10M	\$10M+
Wine Product Type (VQA and Non-VQA)					
Table wine	17.08	14.83	12.59	13.41	6.05
Sparkling wine	22.07	28.75	21.12	18.74	5.83
Icewine	130.26	42.88	60.04	35.63	65.11
Wine Format (VQA and Non-VQA)					
Packaged wine	19.34	15.85	15.69	14.56	6.65
Bulk wine	3.53	5.80	3.09	3.31	2.51

Note: Figures in the above table represent sales dollars per litre excluding taxes, levies and fees (HST, LCBO mark-up, levies and fees, volume, environmental and basic tax and container deposit).

A large drop in sales dollars per litre was generally observed from the \$5M-10M segment to the \$10M+ segment. Note that the \$10M+ segment sold a larger proportion of non-VQA wine.

Exports



RANKING OF RELATIVE IMPORTANCE OF GLOBAL EXPORT MARKETS 2017



RANKING OF RELATIVE IMPORTANCE OF CANADIAN MARKETS OUTSIDE OF ONTARIO 2017

\$0–0.5M 1. North America – excluding Canada

2. Asia
3. Europe

\$0–0.5M 1. Prairies

2. Quebec
3. British Columbia

\$0.5–2M 1. Asia

2. North America (excluding Canada)
3. Europe
4. South America

\$0.5–2M 1. Quebec

2. Atlantic
3. Prairies
4. British Columbia

\$2–5M 1. Asia

2. North America (excluding Canada)
3. Europe
4. South America

\$2–5M 1. Quebec

2. Prairies
3. Atlantic
4. British Columbia

\$5–10M 1. Asia

2. North America (excluding Canada)
3. Europe

\$5–10M 1. Prairies

2. Quebec
3. Atlantic
4. British Columbia

\$10M+ 1. Asia

2. Europe
3. North America (excluding Canada)
4. South America

\$10M+ 1. Prairies

2. Atlantic
3. Quebec
4. British Columbia

For international exports, all segments except for the \$0M-0.5M segment viewed Asia as the most important global export market.

Within Canada, wineries generally view the Prairies and Quebec as the most important domestic export markets.

Operational Information

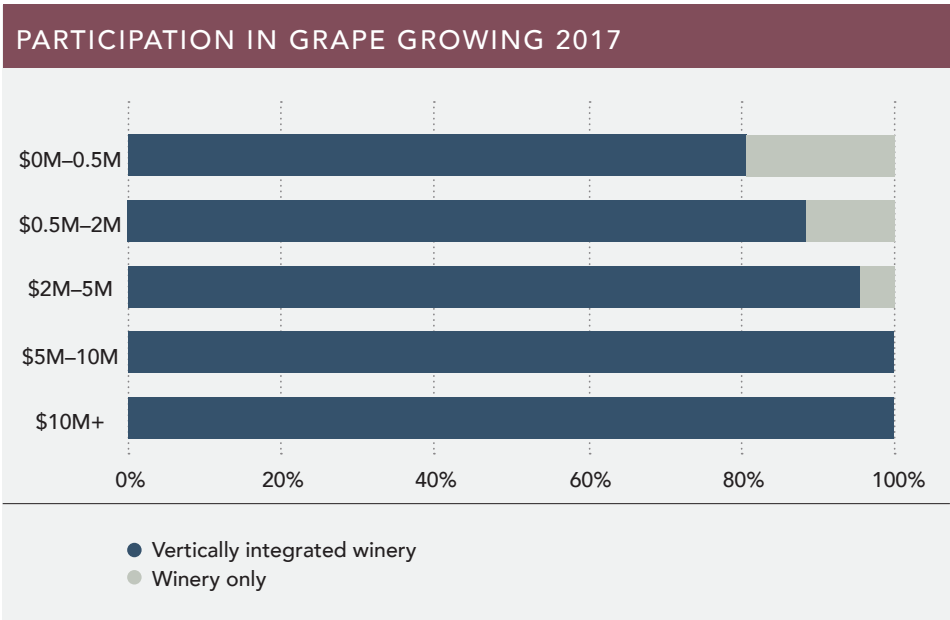


Operational Background

Participation in Grape Growing

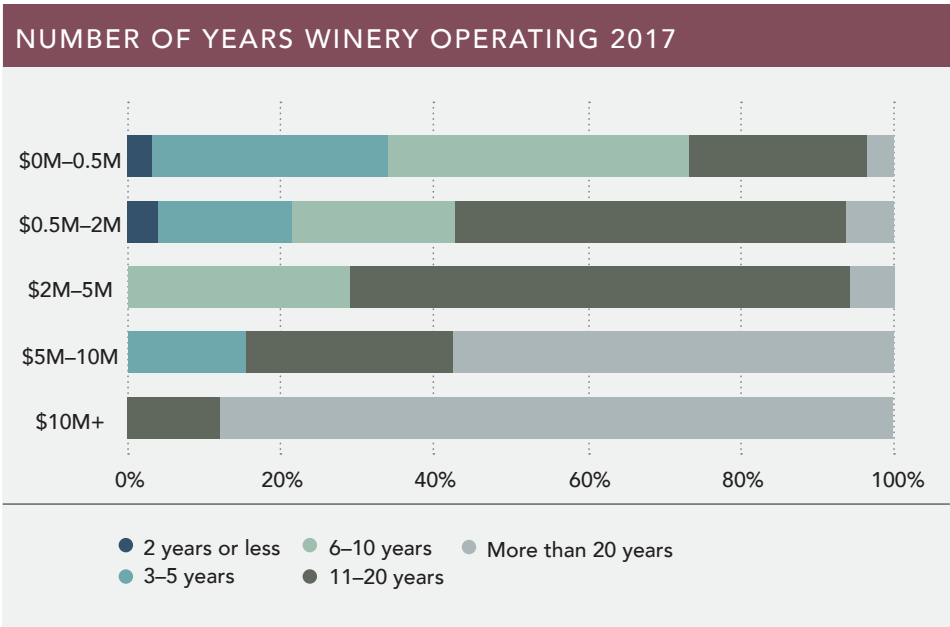
The majority of wineries surveyed were vertically integrated wineries that included a grape growing business. All wineries with more than \$5M in sales were vertically integrated.

Wineries that do not grow grapes were observed within the segments with smaller wineries; 19.4% of wineries in the \$0M-0.5M segment, 12.8% of wineries in the \$0.5 M-2M segment, and 5.9% of the \$2M-5M segment did not grow grapes.



Number of Years Operating

The number of years in operation generally increased with size. In the \$0M-0.5M segment, 33.3% of wineries operated for 5 years or less. In the \$10M+ segment, 88.9% of wineries have operated for over 20 years.



Inventory and Production

INVENTORY DETAIL 2017 (AVERAGE LITRES PER BUSINESS)

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Table wine – bulk	14,341	100,305	216,899	338,078	4,031,948
Table wine – packaged	11,019	58,026	86,055	206,228	1,083,121
Table wine – juice	835	5,524	-	-	-
Total table wine	26,195	163,856	302,954	544,306	5,115,069
Icewine – bulk and packaged	41	4,739	8,448	9,092	153,457
Icewine – juice	10	-	-	-	25,399
Total icewine	51	4,739	8,448	9,092	178,856
Other grape wine – bulk, packaged and juice	118	1,691	78	17,012	23,624
Total	26,364	170,287	311,480	570,410	5,317,548

Note: Amounts represent the average number of litres held by winery.

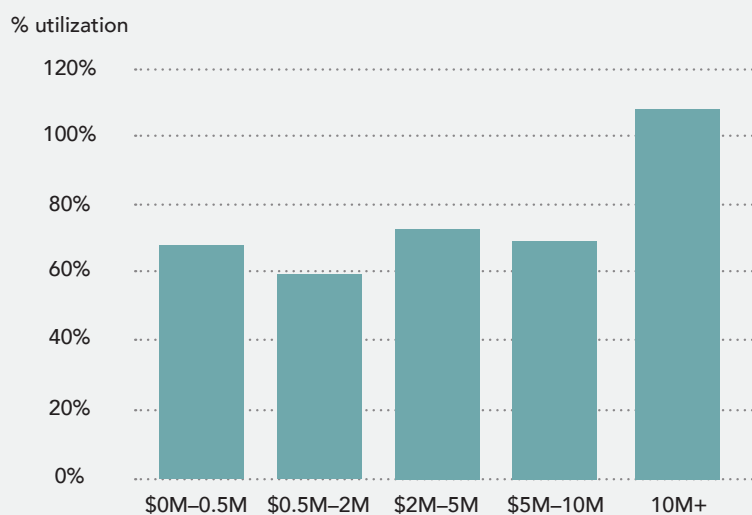
The largest wineries held 83.1% of the total volume of wine in inventory captured in this survey. Generally, larger wineries held a greater proportion of bulk table wine than smaller wineries.

WINE PRODUCTION DETAIL 2017

	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average litres of wine produced	18,181	80,238	201,731	389,792	8,906,646
Average maximum production capacity based on cooperage	26,470	134,633	269,136	538,301	8,082,739

Note: Amounts represent the average production in litres by winery.

WINE PRODUCTION UTILIZATION 2017



Wine Production Detail 2017

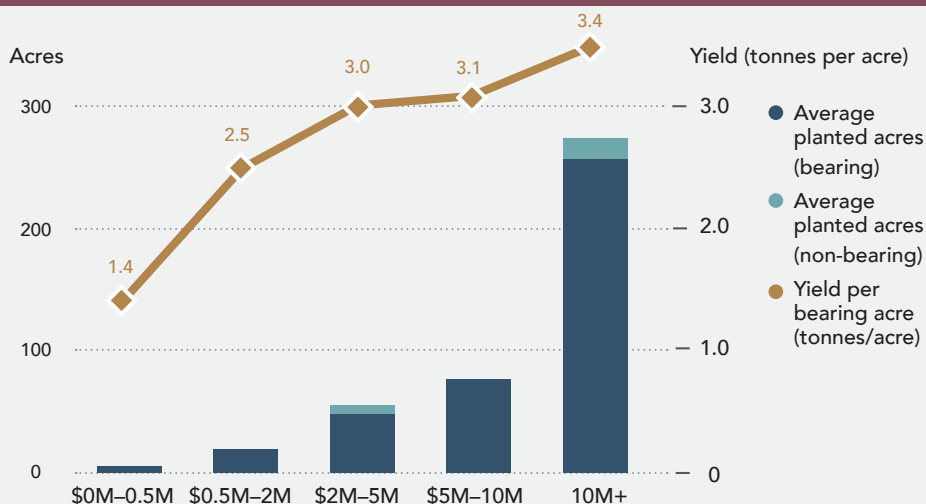
Wineries in all segments except for the \$10M+ segment used less than or equal to 75.0% of their production capacity (calculated as production divided by capacity).

GRAPE PRODUCTION DETAIL FOR WINERIES 2017

	Winery size (2017 sales)				
	\$0M-0.5M	\$0.5M-2M	\$2M-5M	\$5M-10M	\$10M+
Average planted acres – bearing	9	23	51	78	258
Average planted acres – non-bearing	3	3	5	2	17
Average grapes produced (Tonnes)	12	56	155	243	879
Yield per bearing acre (Tonnes/Acre)	1.4	2.5	3.0	3.1	3.4

Note: Amounts represent the average acres, tonnes and yield by winery segment as indicated.

GRAPE PRODUCTION 2017



Wineries had higher grape acreage and higher yield per bearing acre as winery size increased.

CAPACITY CONSTRAINTS RANK 2017

\$0–0.5M

1. Tank capacity
2. Fermentation
3. Crush
4. Bottling

\$0.5–2M

1. Tank capacity
2. Fermentation
3. Crush
4. Bottling

\$2–5M

1. Tank capacity
2. Fermentation
3. Crush
4. Bottling

\$5–10M

1. Tank capacity/Crush/
Fermentation
2. Bottling

\$10M+

1. Tank capacity
2. Fermentation
3. Bottling/Crush

*Tank capacity was ranked
as the top constraint
for all winery segments.*

Employment

EMPLOYMENT DETAIL 2017, AVERAGE FULL TIME EQUIVALENTS (FTEs)

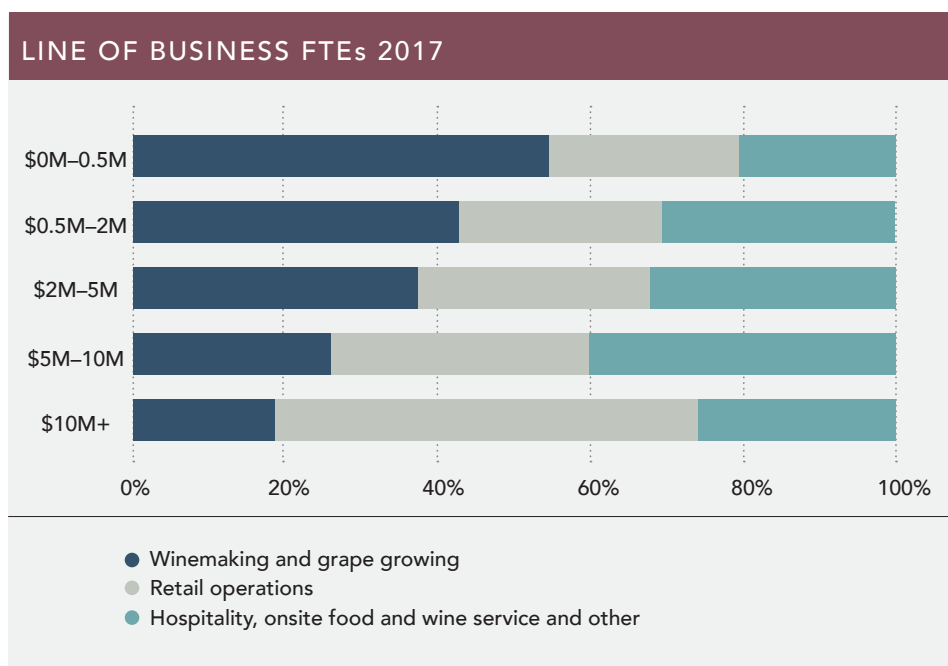
	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average FTEs by Employee Type					
Full-time employees	2.3	6.2	10.8	26.9	152.2
Seasonal FTEs	1.0	3.7	3.8	4.7	15.3
Part-time FTEs	0.6	1.3	3.7	10.4	99.1
Total	3.9	11.1	18.3	42.0	266.6
Average FTEs by Line of Business					
Wine making and grape growing	2.1	4.7	6.6	11.6	49.5
Retail Operations	1.0	3.1	5.9	13.5	146.3
Hospitality, onsite food and wine service and other	0.8	3.4	5.7	16.9	70.7
Total	3.9	11.1	18.3	42.0	266.6

Note: Amounts represent the average number of FTEs by business. FTEs were calculated based on a 37.5 hour work week and 52 weeks per year. Amounts may not sum to subtotals due to rounding.

Employment Detail 2017

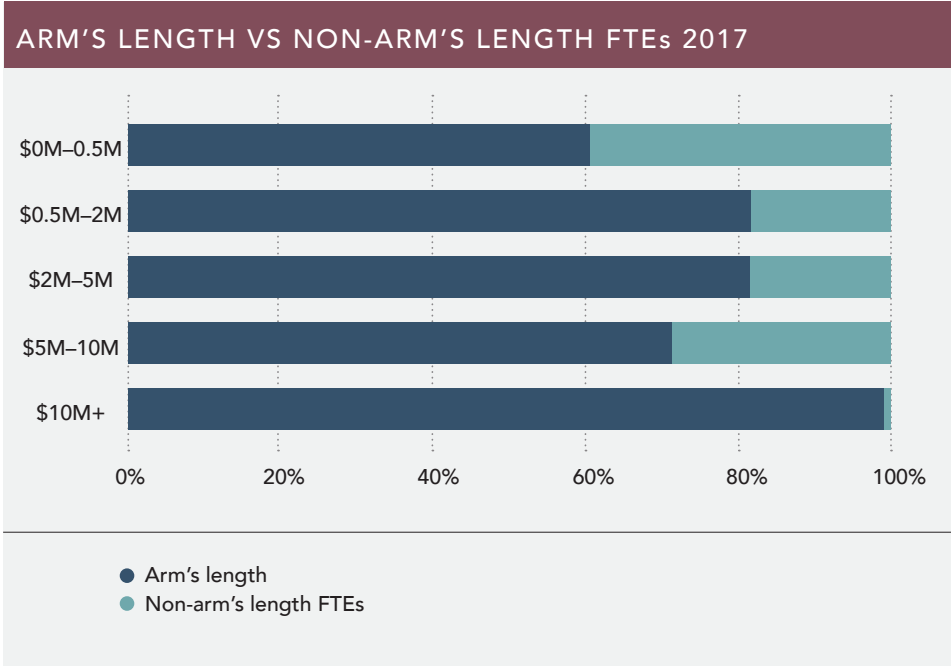
The average FTE count for each winery segment reflects the size difference between the segment with the smallest wineries at 3.9 FTEs and the segment of largest wineries, with 266.6 FTEs on average.

As wineries increased in size, a smaller portion of FTEs were devoted to wine making and grape growing. For the \$0M–0.5M segment, winemaking and grape growing accounted for 53.6% of FTEs compared to 18.6% for the \$10M+ segment.





Arm’s length FTEs include employees who are independent from or are not family members of the employer, while non-arm’s length FTEs can include owners or family members. Non-arm’s length FTEs were utilized to a higher degree by smaller wineries than larger wineries on average. Non-arm’s length FTEs made up 39.4% of total FTEs for the \$0M-0.5M segment and 0.9% for the \$10M+ segment.



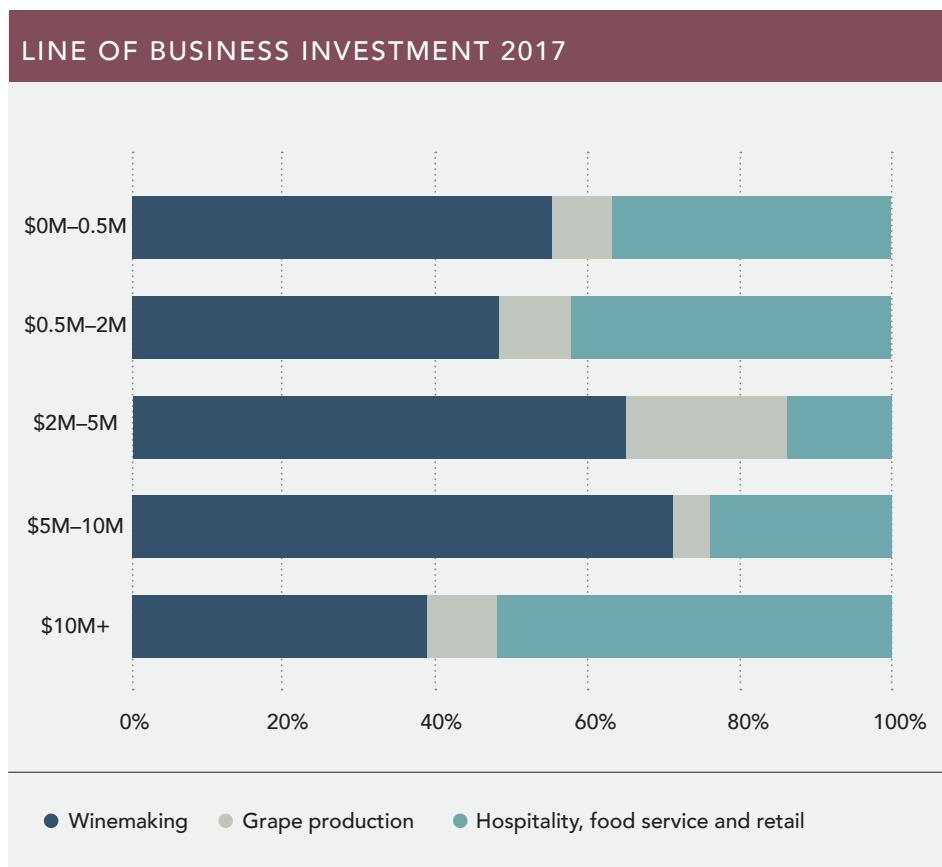
Innovation and Investments

Information on current and planned investment decisions was collected from survey respondents to understand investment choices in the Ontario wine and grape industry. Line of business investment represents the business areas where investments were made, investment choices represent the assets or services being purchased and the purpose of investment represents the rationale for investment decisions.

CURRENT INVESTMENTS

Line of Business Investment

On average, wineries in the \$2M-5M and \$5M-10M segments allocated the highest proportion of total investments in wine making while larger wineries in the \$10M+ segment allocated the highest proportion of total investments in hospitality, food service and retail.



Investment Choices

Businesses across all segments invested the most in new machinery and equipment, as well as facility modifications/upgrades and land acquisitions.

The \$10M+ segment had the highest investment portion in Research and Development with 3.8%.

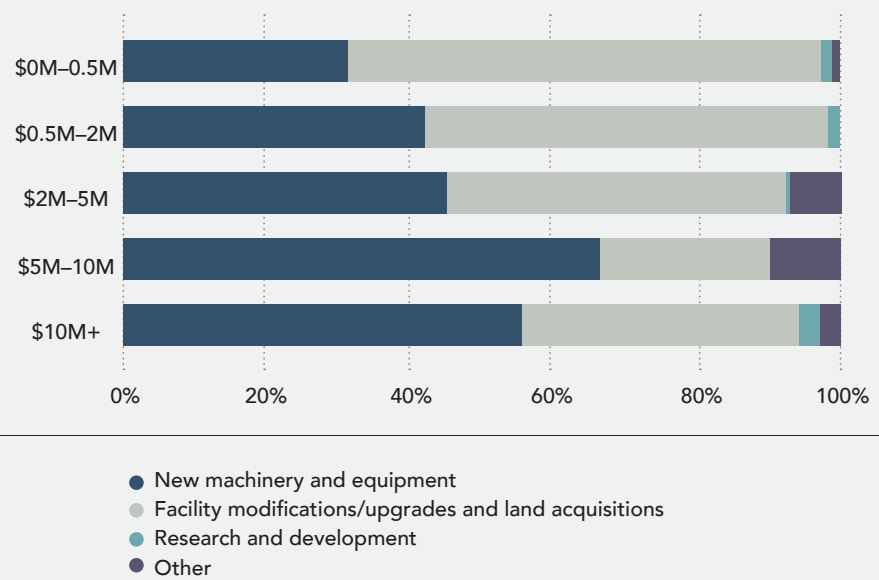
Purpose of Investment

Businesses across all segments invested the most in production/processing capacity and efficiency, as well as tourism and hospitality.

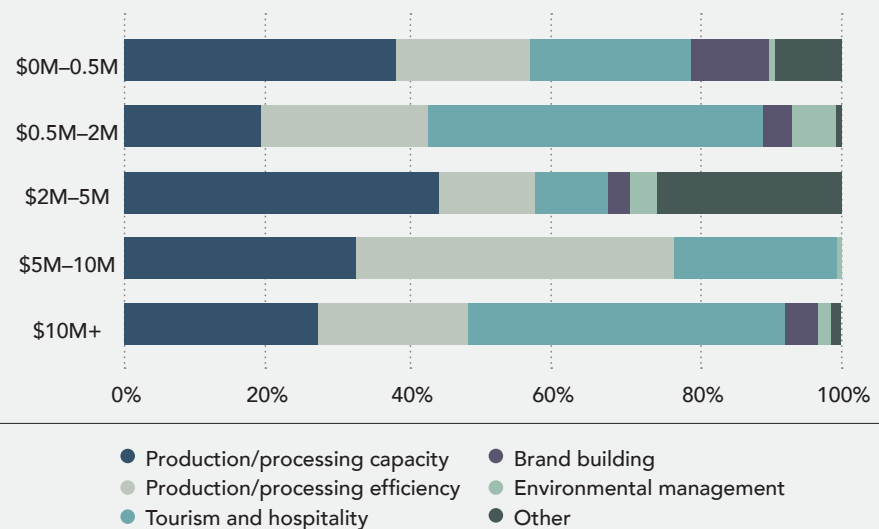
Smaller investments were observed in brand building, with the \$0M-0.5M segment investing the highest portion of total investment with 10.7%.

Environmental management also observed smaller investments, with the \$0.5M-2M segment investing the highest portion of total investment with 6.2%.

INVESTMENT CHOICES 2017



PURPOSE OF INVESTMENT 2017



PLANNED INVESTMENTS IN THE COMING FIVE YEARS

High  Medium  Low 

Respondents were asked to rate the level of investment planned, with “High” representing significant dollar value and “Low” representing minimal dollar value. Responses were consolidated to represent the level of investment planned for each segment.

Planned Investment Choices 2017

Winery size (2017 sales)

	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
New machinery and equipment					
Facility modifications/upgrades and land acquisitions					
Research and development					



The planned investment choices over the next five years mirrored the investments made in the current year. Planned investments in new machinery and equipment and facility modifications / upgrades and land acquisitions were high, while planned investments in research and development and other areas were generally low across all size segments.

Planned Investment Purpose 2017

Winery size (2017 sales)

	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Production/processing capacity					
Production/processing efficiency					
Environmental management					
Brand					
Tourism and Hospitality					

Over the next five years, wineries were planning to invest heavily for production/processing capacity and efficiency. This generally mirrored current investment levels.

Low levels of investment were generally planned for environmental management, in line with current levels of investment.

All segments except for the \$5M-10M planned for high investment in brand building in the coming five years.

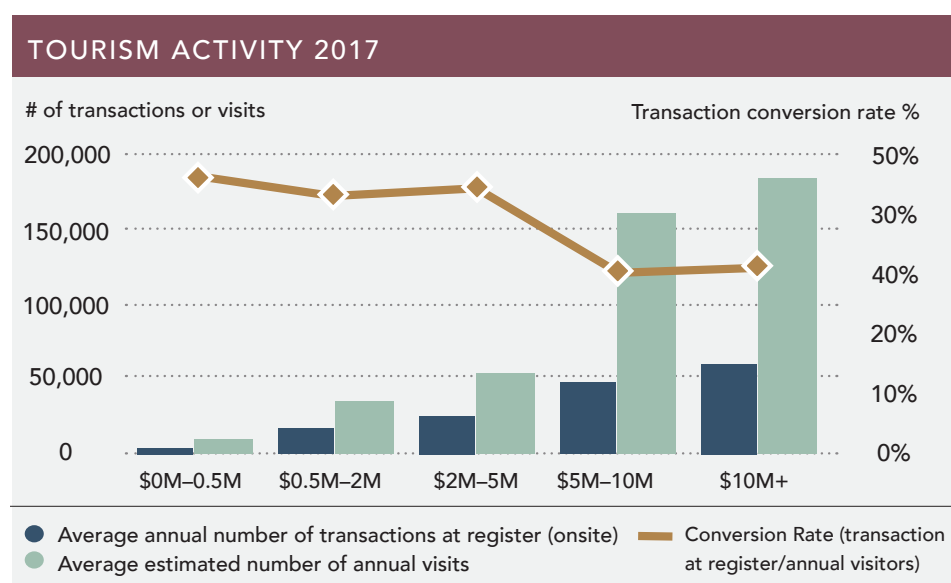
Business Climate



Tourism

TOURISM ACTIVITY 2017	Winery size (2017 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average annual number of transactions at register (onsite)	3,916	14,615	22,659	47,479	56,692
Average estimated number of annual visits	8,302	34,236	51,923	158,000	186,053
Conversion rate (transactions at register/annual visits)	47.2%	42.7%	43.6%	30.1%	30.5%

Note: Amounts in the above table represent average tourism activity by winery.

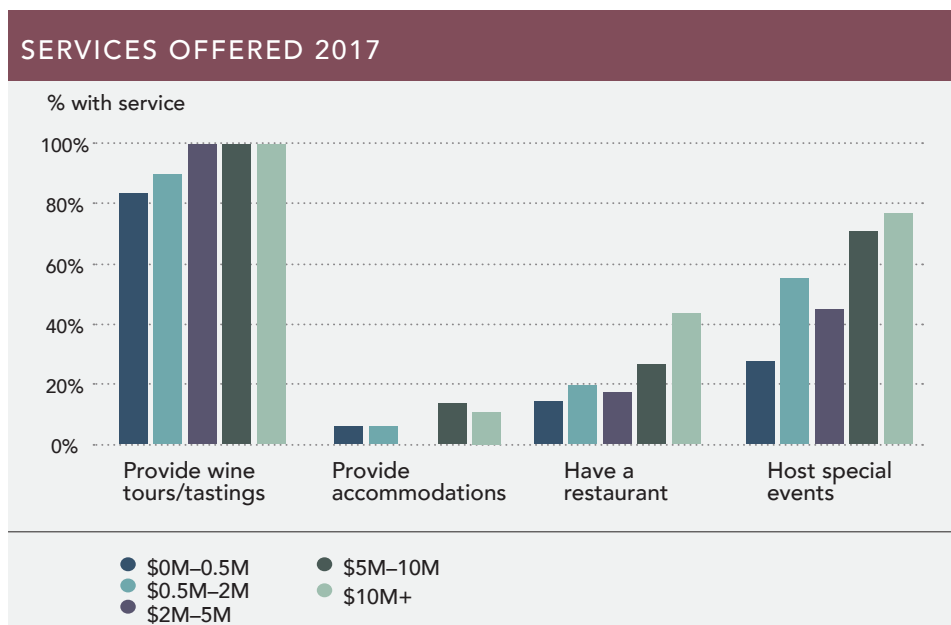


Tourism Activity

The average number of transactions at the onsite register and the average estimated number of annual visits increased as wineries increased in size, although the \$0M–0.5M segment had the highest conversion rate, or highest number of transactions relative to visits.

Tourism Services

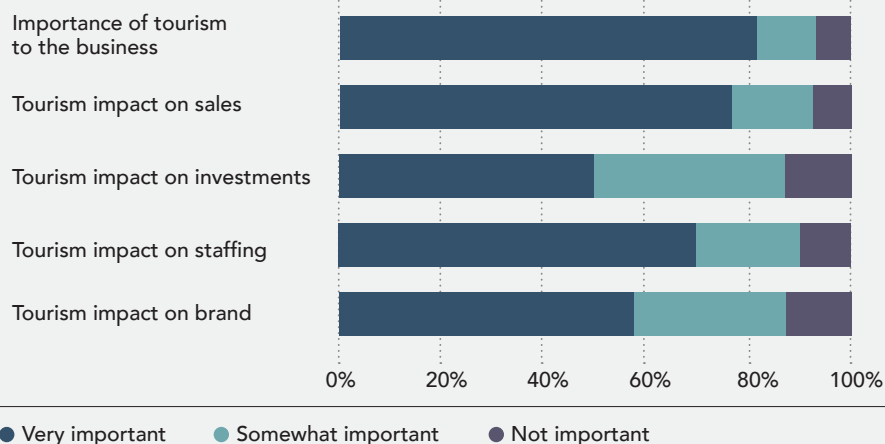
The majority of wineries provided wine tours / tastings, with 100% of wineries providing these services in segments with more than \$2M in sales.



The majority of wineries did not have a restaurant, although restaurants were more prevalent in wineries with over \$5M in total sales.

Generally, a higher percentage of businesses hosted special events (such as concerts, weddings and corporate retreats) as winery size increased. In the \$10M+ segment, 78.0% hosted special events compared to 31.0% of wineries in the \$0M–0.5M segment.

IMPORTANCE AND IMPACT OF TOURISM 2017



Importance and Impact of Tourism

Tourism was consistently viewed as very important across all wineries and was viewed by the majority of wineries as very important to the overall business, including; sales and staffing.

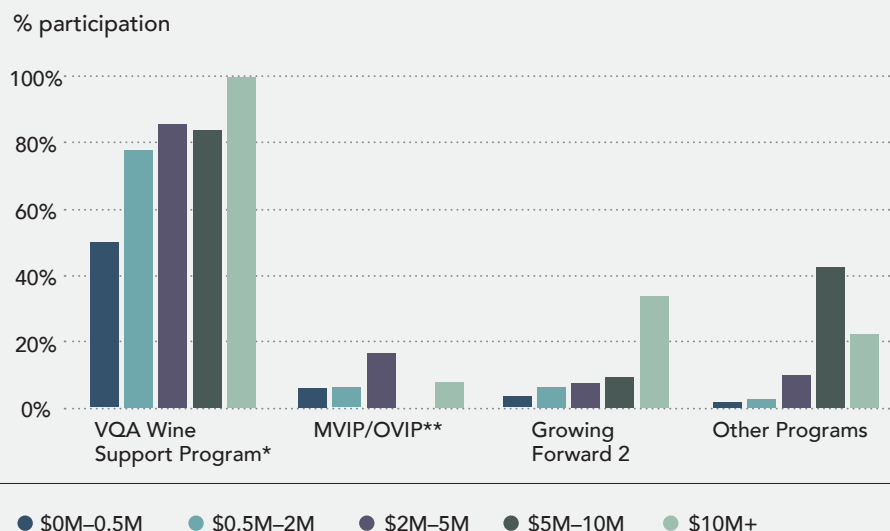
Government Programs

Exactly half of the wineries in the \$0M-0.5M segment participated in the VQA Wine Support Program, while participation rates above 79% were observed in all other winery segments. The \$10M+ segment had a 100% participation rate in this program.

Participation in the MVIP/OVIP program was greatest in the \$2M-5M segment with 18%, and 33% of the \$10M+ segment participated in Growing Forward 2.

Program participation as a percentage of the total segment size is lowest in the \$0M-\$0.5M segment, where only 56% of wineries participated in a program.

PROGRAM PARTICIPATION 2017



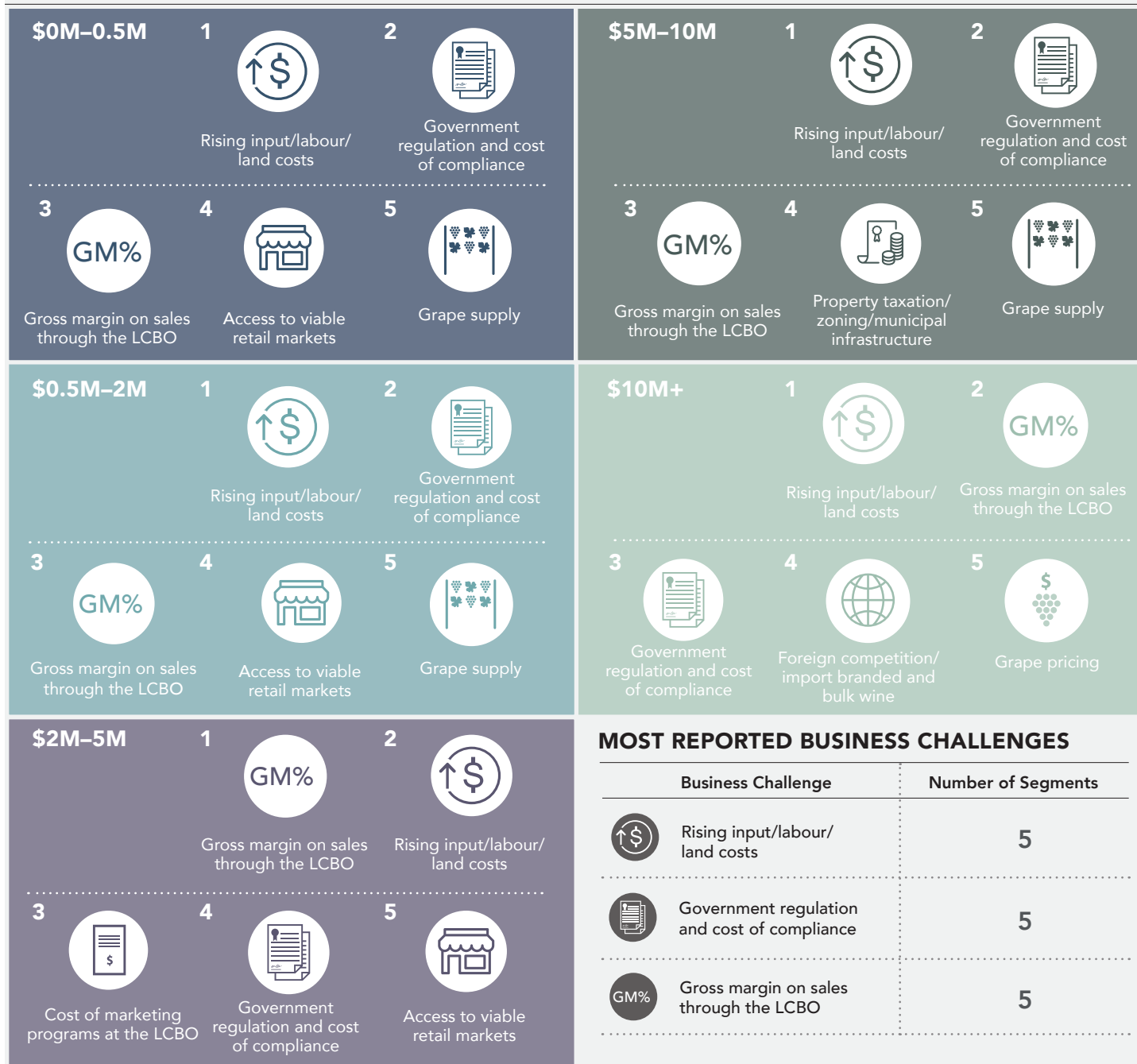
* Wineries not selling at the LCBO are not eligible for the VQA Wine Support Program

** MVIP: Marketing and Vineyard Improvement Program
OVIP: Ontario Vineyard Improvement Program

CHALLENGES FACING THE ONTARIO INDUSTRY 2017

Respondents were asked to rank up to 5 challenges impacting their business from a list of 15 challenges developed by the Working Group. Based on rank and frequency of responses received, the top 5 challenges for each segment were identified.

TOP CHALLENGES BY SEGMENT



Rising input/labour/land costs, Government regulation and cost of compliance, as well as gross margins on sales through the LCBO were the most frequently selected business challenges across all segments.

Grape Growers Performance Summary



Financial Information

Forty seven independent Grape Growers that do not operate a winery participated in the study and account for an estimated 19% of the grapes grown in Ontario. The performance of this year's group reflects a smaller proportion of the total population and tonnage from last year. It should not be considered representative of the Ontario grape industry as a whole. Aggregated findings may vary from the previous year due to a change in respondents, impacting the reliability of year-over-year comparisons. Grape Growers responding to the survey achieved sales ranging from \$0M–\$3.0M.

PROFITABILITY AND FINANCIAL POSITION

Income Statement 2017

	% of total sales
Grape sales (including bulk wine juice)	95.4%
Grants and programs	4.6%
Total sales	100.0%
Raw materials	-10.2%
Arm's length labour	-29.4%
Non-arm's length labour	-10.5%
Packaging	-0.4%
Other direct operating expenses	-18.1%
Total cost of goods sold	-68.6%
Gross margin	31.4%
Sales and marketing expenses	-0.9%
Contribution after sales and marketing	30.5%
Arm's length general and administration expenses	-12.2%
Non-arm's length general and administration expenses	-4.0%
EBITDA	14.3%
Depreciation and amortization	-18.5%
EBIT	-4.2%
Interest expense	-2.4%
Interest income	0.2%
Other non-grape income	21.4%
Other non-operating income	5.5%
Profit/(loss) before tax	20.6%

Note: Amounts in the above table represent relative percentages of "Total sales". Amounts may not sum to subtotals due to rounding. Income statement updated June 2018.

On average, grape growers had cost of goods sold of 68.6% of total sales, largely due to labour expenses, which comprised 39.9% of total sales.

Arm's length labour includes employees who are independent from or are not family members of the employer, while non-arm's length labour can include owners or family members. Arm's length labour expenses were 29.4% of total sales compared to non-arm's length labour expenses of 10.5% of total sales.

Growers had sales and marketing expenses totalling 0.9% of sales.

Contribution after sales and marketing is one measure of operating performance, focusing on sales and direct costs of the operating business, as well as marketing expenditure and on average was 30.5% of total sales for growers.

Arm's length general and administration expense includes non-operating administrative expenses provided by parties that are not family members or are independent of the business owner, while non-arm's length general and administration expenses include owner and family member salaries, management fees and non-core business expenses that have a

function not exclusive to the business. Arm's length general and administration expenses were 12.2% of total sales compared to non-arm's length general and administration expenses of 4.0% of total sales.

Growers surveyed achieved profit of 20.6% before tax on average, primarily by diversifying the business into non-grape producing areas.

BALANCE SHEET 2017

	% of total assets
Cash	5.5%
Accounts receivable	1.9%
Inventory	0.6%
Other current assets	3.2%
Total current assets	11.1%
Land and land improvements	30.7%
Vineyards	22.2%
Buildings and improvements	10.1%
Equipment	8.0%
Other fixed assets	1.9%
Total net fixed assets	72.9%
Purchased goodwill and other intangible assets	1.2%
Investments	6.9%
Other assets	7.8%
Total assets	100.0%
Bank indebtedness	1.6%
Accounts payable and accrued liabilities	2.3%
Other current liabilities	5.7%
Total current liabilities	9.7%
Long term liabilities	42.0%
Total liabilities	51.7%
Capital stock	2.6%
Retained earnings	45.7%
Total equity	48.3%
Total liabilities plus equity	100.0%

Note: Amounts in the above table represent relative percentages of "Total assets". Amounts may not sum to subtotals due to rounding.

Growers held net fixed assets at 72.9% of total assets. Land and land improvements made up the largest portion of net fixed assets at 30.7% of total assets, followed by vineyards at 22.2% of total assets.

Total current assets were low due in large part to low inventory levels of 0.6% of total assets.

Solvency Ratios

The current ratio is calculated as current assets divided by current liabilities and indicates short term financial liquidity. The current ratio was above 1.0, indicating that current assets do cover current liabilities.

The debt to equity ratio is calculated as total liabilities divided by total equity and indicates the relative proportion of debt and equity used to finance assets. Growers were financed more heavily with debt than equity, indicated by a ratio above 1.0.

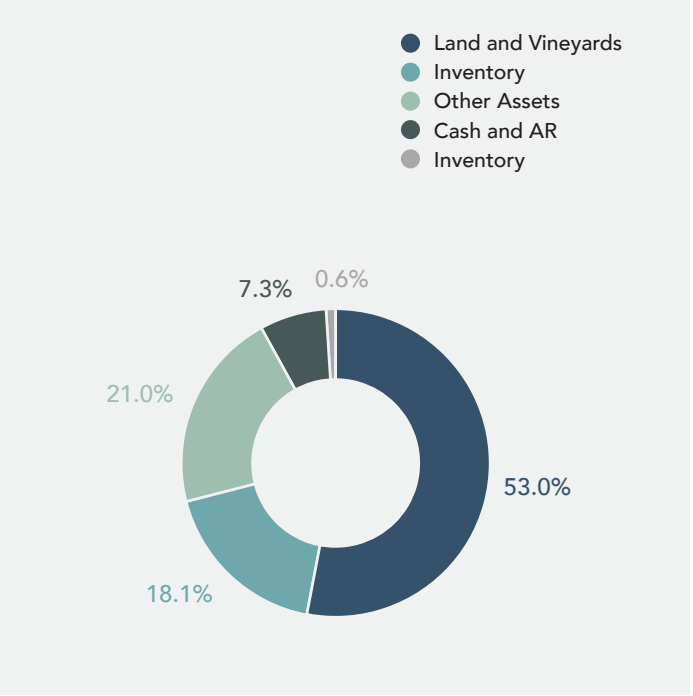
The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt.

Efficiency Ratios

Inventory turnover is calculated as cost of goods sold divided by inventory and indicates the number of times inventory has been sold in the year. Inventory turnover was 36.9 since growers maintained minimal inventory levels on their balance sheets due to the perishable nature of the product.

Fixed asset turnover is calculated as total sales divided by total fixed assets and measures the business’ ability to efficiently deploy its fixed assets in generating sales. The fixed asset turnover ratio was 0.5 for growers.

ASSET SUMMARY 2017

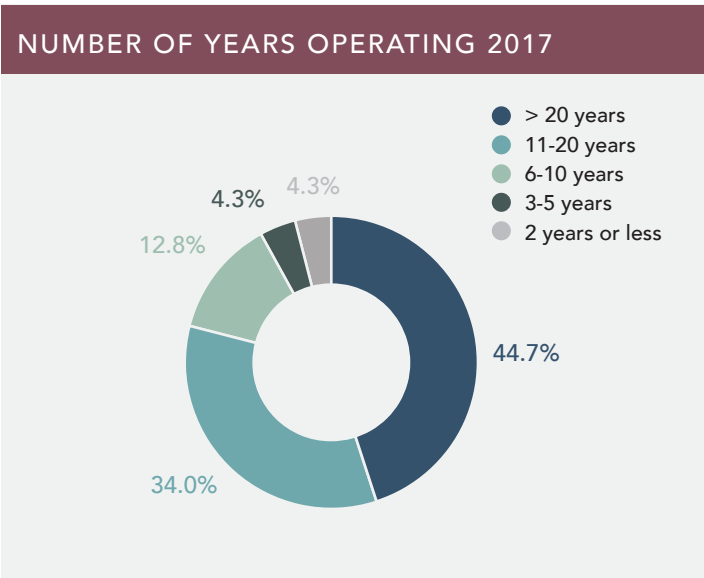


KEY FINANCIAL RATIOS 2017

Solvency ratios	
Current ratio	1.1
Debt to equity ratio	1.1
Debt to tangible assets	0.5
Efficiency ratios	
Inventory turnover	36.9
Fixed asset turnover	0.5

Operational Information

OPERATIONAL BACKGROUND



Years of Operation

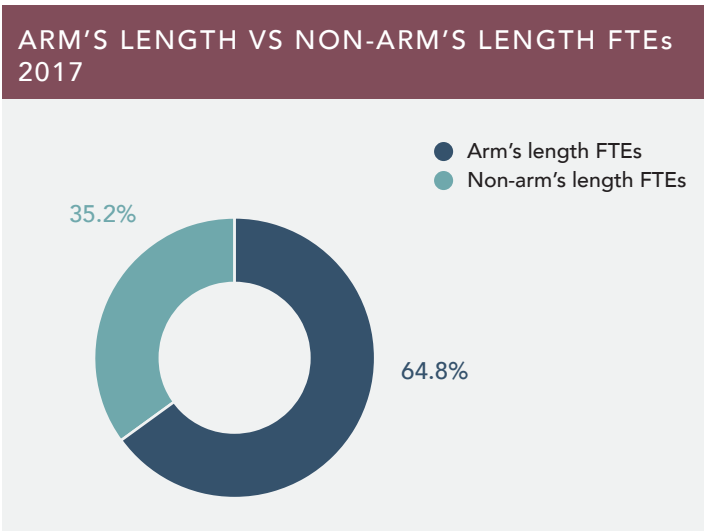
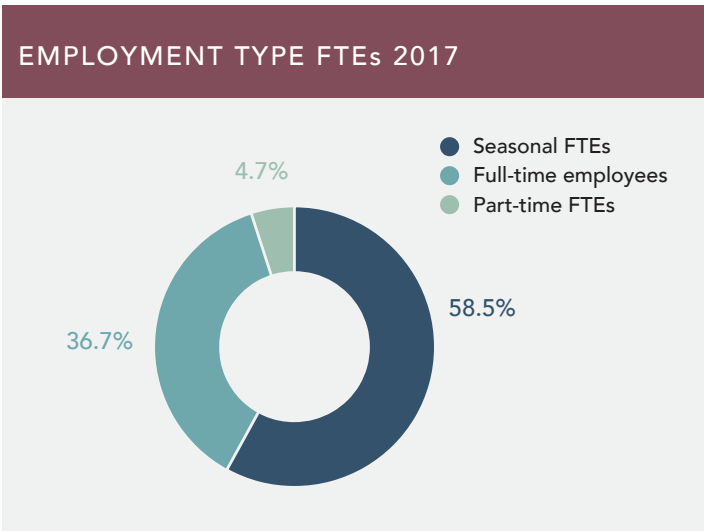
Grape growers averaged 23.1 years of operation, with 44.7% of businesses in operation for more than 20 years and 34.0% in operation for 11 to 20 years.

Growers produced 5.3 tonnes of grapes per bearing acre on average.

Production	Metric
Average planted acres – bearing	66
Average planted acres – non-bearing	6
Average grapes produced (Tonnes)	346
Yield per bearing acre (Tonnes/Acre)	5.3

Note: Amounts represent the average acres, tonnes and yield

EMPLOYMENT



Employment Detail 2017, Average FTEs

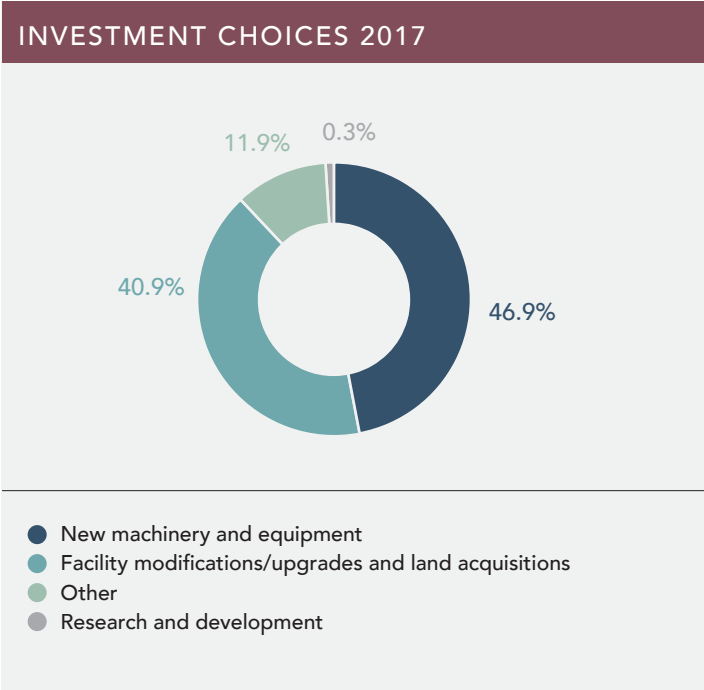
Employment Type	Average FTEs
Full-time employees	1.6
Seasonal FTEs	2.5
Part-time FTEs	0.2
Total	4.2

Growers relied heavily on seasonal employees, with seasonal FTEs making up 58.5% of total FTEs. Arm's length FTEs include employees who are independent from or are not family members of the employer, while non-arm's length FTEs can include owners or family members. Non-arm's length FTEs were 35.2% of total FTEs for growers.

INNOVATION AND INVESTMENTS

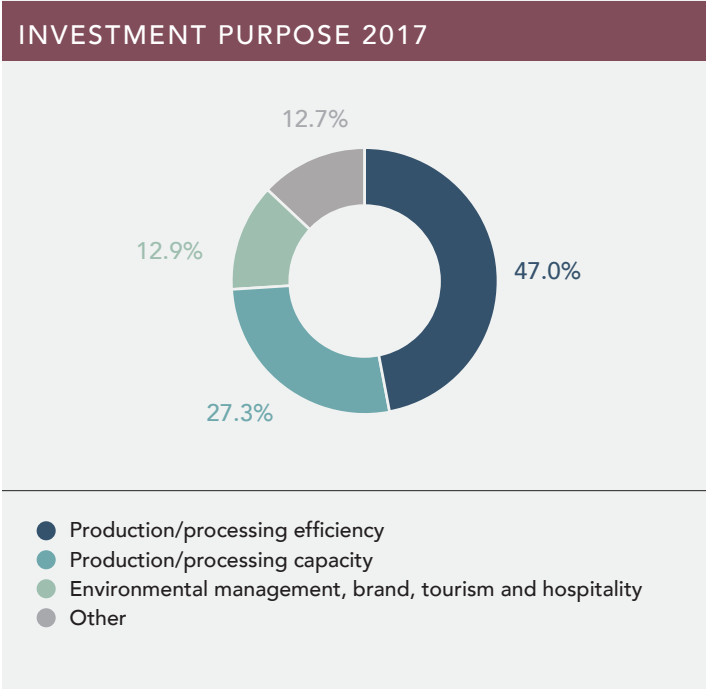
CURRENT INVESTMENTS

Information on current and planned investment decisions was collected from survey respondents to understand investment choices in the Ontario wine and grape industry. Line of business investment represents the business areas where investments were made, investment choices represent the assets or services being purchased and the purpose of investment represents the rationale for investment decisions.



Investment Choices

Growers invested heavily in new machinery and equipment at 46.9% of total investments, and facility modification/upgrades and land acquisitions at 40.9% of total investments. Investments in research and development and other areas were lower at a combined 12.2% of total investments.



Purpose of Investment

The largest proportion of investments were made with the purpose of improving production/processing efficiency, at 47.0% of total investments, followed by production/processing capacity at 27.3% and environmental management, brand and tourism and hospitality at 12.9%. A combined 12.7% were made into other investments.

PLANNED INVESTMENTS IN THE COMING FIVE YEARS

Planned Investment Choice 2017

High  Medium  Low  None 

New machinery and equipment



Growers plan to invest heavily into new machinery and equipment, moderately into facilities and land over the next five years, with minimal planned investment into research and development.

Facility modifications/upgrades and land acquisitions

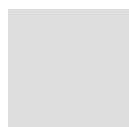


Research and development



Planned Investment Purpose 2017

Production/processing capacity



Growers plan to invest heavily over the next five years into production/processing efficiency, with minimal to no investment for other purposes.

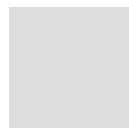
Production/processing efficiency



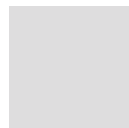
Environmental management



Brand



Tourism and Hospitality

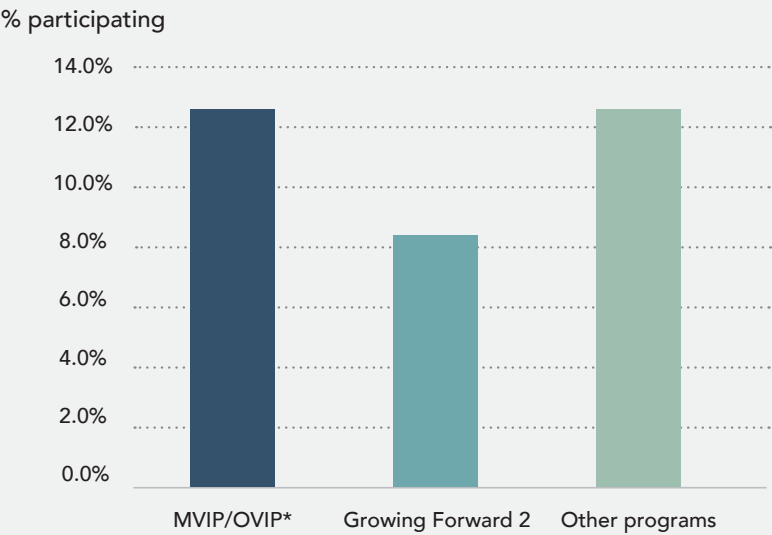


Business Climate

Government Programs

Growers participated the most in the MVIP/OVIP program and other programs with 12.8% participation, followed by Growing Forward 2 at 8.5% participation.

PROGRAM PARTICIPATION 2017



* MVIP: Marketing and Vineyard Improvement Program
OVIP: Ontario Vineyard Improvement Program

CHALLENGES FACING THE ONTARIO INDUSTRY 2017

Respondents were asked to rank up to 5 challenges impacting their business from a list of 15 challenges developed by the Working Group. Based on rank and frequency of responses received, the top 5 challenges for grape growers were identified.



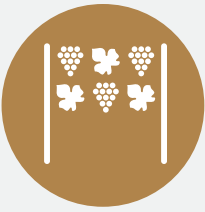
CHALLENGES

1



RISING INPUT/LABOUR/
LAND COSTS

2



GRAPE PRICING

3



ACCESS TO VIRUS-FREE
GRAPE VINES

4



GOVERNMENT
REGULATION AND COST
OF COMPLIANCE

5



PROPERTY TAXATION/
ZONING/MUNICIPAL
INFRASTRUCTURE

Appendix

Definitions

Term	Definition
Accounts payable and accrued liabilities	Amounts due to vendors or other parties.
Accounts receivable	Amounts due from customers or other parties less estimated bad debt.
Advertising and promotions	Advertising and promotional expenses not paid to LCBO (e.g. online/digital/print media, sponsorships, graphic design, in-store promotions/display/media, sampling and events, etc.).
Arm's length expenses	Expenses, including labour and general and administration, related to goods and services provided by parties independent from the winery or grower completing the survey (e.g. not owner or family member labour).
Bank indebtedness	Bank overdrafts and loans due within 12 months of the financial year end.
Buildings and improvements	The initial cost of building, such as storage and production facility, and any capitalized improvements less accumulated depreciation.
Capital stock	The value of the corporation's issued common stock and preferred stock (if any).
Cash	Money in the bank or money on hand.
Contribution after sales and marketing	Calculated as gross margin less sales and marketing expenses.
Cost of goods sold	The direct costs attributable to wine and grape production including raw materials, labour and packaging and other direct manufacturing expenses.
Depreciation and amortization	Any depreciation of assets not captured in overhead, such as depreciation of non-production buildings, vehicles, etc.
Earnings before interest and taxes (EBIT)	Calculated as EBITDA less depreciation and amortization.
Earnings before interest, taxes, depreciation and amortization (EBITDA)	Calculated as gross margin less total sales, general and administration expenses.
Equipment	The initial cost of production equipment and machinery less accumulated depreciation.
Foreign exchange gain/(loss)	Gains and losses caused by a change in exchange rates.
Full time employees (FTE)	Employed persons who usually worked 37.5 hours or more per week, at their main or only job (paid and unpaid). This may include the owner and family labour.

General and administration expenses	Non-manufacturing administrative expenses such as salaries/wages, insurance, office and supplies, business use of home expenses, information technology, etc. Includes membership fees paid to organizations such as VQAO, GGO, etc.
Grants and programs	Funds received through government grants and programs.
Grape sales	Sales of wine grapes and bulk juice to third parties.
Gross margin	The sales retained after direct costs, calculated as sales less cost of goods sold.
Hospitality sales	Includes revenue from tours, tasting fees, events, room bookings and overnight accommodations.
Interest expense	Any expenses incurred as a result of borrowing money.
Interest income	Interest earned on bank balances or investments.
Inventory	Value of inventory on balance sheet, including in-process inventory, attributable labour and overhead costs, as well as other inventory (e.g. wine making supplies, non-wine retail merchandise, food service/hospitality inventory, etc.).
Inventory write-downs	Write-downs due to the devaluation of inventory.
Investments	The value of bonds, Guaranteed Investment Certificates (GICs), equity investments, etc.
Labour and packaging	Labour expenses directly attributable to production and processing of wine or grapes and packaging materials such as bottles, corks, corrugate, containers, labels, etc.
Land and land improvements	The book value of land and the value of any land improvements less accumulated depreciation (e.g. original purchase price/cost). Land improvements are costs incurred to prepare the land for use including drainage, leveling, etc.
Long term liabilities	Loans, financing leases and other debt maturing 12 months or more after the financial year end.
Merchandise sales	Merchandise sales at the winery retail store.
Net wine Sales	Wine sales through all channels excluding taxes, levies and fees (HST, LCBO mark-up, levies and fees, volume, environmental and basic tax and container deposit) less retail programs and other allowances and returns.
Non-arm's length expenses	Expenses, including labour and general and administration, related to goods and services provided by parties not independent from the winery or grower completing the survey (e.g. owner or family member labour) or items that have a function not exclusive to the business.
Non-grape income	Income not related to grape growing, such as equipment rentals, consulting fees, etc., net of attributable expenses.
Onsite food and wine service sales	Onsite revenue from restaurant food and wine sales.
Other assets	Assets not included in current assets, net fixed assets, purchased goodwill and other intangible assets and investments.
Other current assets	Other current assets not included in cash, accounts receivable and inventory, such as prepaid expenses, that are expected to be realized within the normal business cycle or within 12 months of the financial year end.
Other current liabilities	Other liabilities not included in bank indebtedness and accounts payable and accrued liabilities due within the normal operating cycle or 12 months of the financial year end.

Other direct manufacturing expenses/ other direct operating expenses	Includes expenses incurred in converting materials to finished goods, such as maintenance of processing/production buildings and farms and equipment, stock movement and other direct costs such as bird control, scouting, soil testing, custom work, etc. Also includes transportation and warehousing and utilities.
Other fixed assets	Other fixed assets not included in land and land improvements, buildings and improvements and equipment, including any portion of a personal residence used for business, less accumulated depreciation.
Other LCBO marketing programs	Includes LCBO expenses not included in retail programs and other allowances.
Other non-operating income	Includes gain or (loss) on sale of property, vineyards and equipment, revaluations, etc.
Other sales	Any revenue earned that is not included in net wine sales, grape sales, merchandise sales, hospitality sales and onsite food and wine service sales (e.g. rent income, deposit fees, etc.).
Other sales and marketing expense	Other sales and marketing expenses not related to advertising and promotion (e.g. salaries, commissions, etc.).
Part time employees (PTE)	Employed persons who usually worked less than 37.5 hours per week, at their main or only job.
Profit/(loss) before tax	Calculated as EBIT less interest expense and inventory write-downs, plus interest income, other non-operating income and foreign exchange gain/(loss).
Purchased goodwill and other intangible assets	Value of intangible assets (brands, customer contracts, customer relationships) and goodwill arising from acquisition of a separate business.
Raw materials	Input costs such as grapes and wine making supplies for wineries and fertilizers and soil supplements, pesticides and chemical treatments, fuel and other vineyard supplies for growers.
Retail programs and other allowances	Payments for pricing/promotion activities for wine that are executed with a retail partner including on-site (e.g. price discounts and LTOs, etc.).
Retained earnings	Cumulative earnings for the business since inception that have not been distributed as dividends with a positive number for accumulated income and a negative number for accumulated deficit.
Returns	Returns of products previously sold to customers.
Sales and marketing expenses	Includes advertising and promotions, other LCBO marketing programs and other sales and marketing expense.
Seasonal employees	Workers brought in on seasonal contracts for harvests and vineyard development.
Total assets	Includes total current assets, total net fixed assets, purchased goodwill and other intangible assets, investments and other assets.
Total current assets	Includes cash, accounts receivable, inventory and other current assets.
Total current liabilities	Includes bank indebtedness, accounts payable and accrued liabilities and other current liabilities.
Total equity	Includes capital stock and retained earnings.
Total liabilities	Includes total current liabilities and long term liabilities.
Total liabilities plus equity	Includes total liabilities and total equity and must equal total assets.
Total net fixed assets	Includes land and land improvements, vineyards, buildings and improvements, equipment and other fixed assets.

ONTARIO WINE AND GRAPE INDUSTRY PERFORMANCE STUDY 2017 WORKING GROUP

The Ontario Wine and Grape Industry Performance Study 2017 was produced under the guidance of an industry Working Group comprised of participants from the Ontario wine and grape industry and included the following groups:

VQA Ontario
www.vqaontario.ca

**Winery & Grower
Alliance of Ontario**
www.wgao.ca

Wine Council of Ontario
www.winecouncilofontario.ca

Grape Growers of Ontario
www.grapegrowersofontario.com

**Ontario Ministry of Agriculture,
Food and Rural Affairs**
www.omafra.gov.on.ca

**Ministry of Government and
Consumer Services**
www.ontario.ca/ministry-government-and-consumer-services

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All other photography provided by the Wine Marketing Association of Ontario





About VQA Ontario

In its capacity as Ontario's wine authority, VQA Ontario exercises delegated authority to administer and enforce the VQA Act and its associated regulations. It is accountable to the Minister of Government and Consumer Services and operates under a framework set out in an administrative agreement with the Ministry. Along with its statutory duties, VQA Ontario engages in related activities such as promoting awareness of the VQA appellation system, participating in national and international standards discussions and encouraging public education about VQA appellations and wines.

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