
Ontario Wine and Grape Industry Performance Study

2018

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

March 2019



Deloitte.



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Welcome

MESSAGE FROM VQA ONTARIO

Welcome to the Ontario Wine and Grape Industry Performance Study.

Welcome to the fourth 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 2018 shows similar overall growth trends as previous years, with some variation among the participant groups.

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 Ontario Craft Wineries 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 2019



The Ontario wine industry in 2018 shows similar overall growth trends as previous years, with some variation among the participant groups.

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 fourth 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 fourth year of the study commenced in July 2018 and included an industry survey administered between October and December 2018. The survey was responded to by 181 businesses, representing 94 vertically integrated wineries, 12 wineries that do not operate a grape growing business and 75 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 28% of grapes grown. Independent Grape Grower respondents account for an additional 36% of the grapes grown in Ontario.

STUDY METHODOLOGY

Aligned 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. Working Group members included; Grape Growers of Ontario, VQA Ontario, Ontario Craft Wineries, 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. In conjunction with members of the Working Group and other industry stakeholders, VQA Ontario and Deloitte developed and administered the study survey to participants and prepared the industry report. This included developing performance indicators, designing the survey approach, collecting and analyzing survey data and creating a fact based report summarizing respondent data.

As with previous years, the foundation of the study was the survey of industry participants on performance indicators as determined by the 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 Working Group, Deloitte, and a sample of industry participants. All questions were 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.

WORKING GROUP



VQA Ontario
Winery & Grower Alliance of Ontario
Ontario Craft Wineries
Grape Growers of Ontario
Ontario Ministry of Agriculture, Food & Rural Affairs
Ministry of Government & Consumer Services

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 members of the Working Group.

Findings from the survey have been aggregated and summarized in this fact-based report of the study, 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 previous years due to changes 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			
Wineries	2015	2016	2017	2018
\$10M+	8	9	9	8
\$5M–10M	6	5	7	8
\$2M–5M	16	18	17	19
\$0.5M–2M	36	42	47	46
\$0M–0.5M	40	36	36	25
Total	106	110	116	106
Grape Growers				
\$0M–3M	42	53	47	75

NOTES

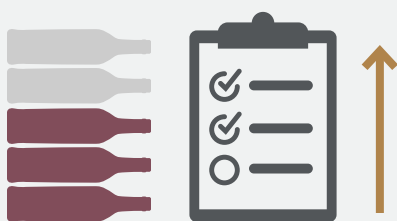


1. **Consolidated rates** were calculated to represent the average performance for each segment.
2. **106 wineries participated** in the study, representing a response rate of 48% based on the number of grape wineries operating in the province. Winery respondents account for an estimated 96% of all wine made in Ontario and about 28% of grapes grown.
3. **75 Grape Growers participated** in the study, representing approximately 16% of growers operating in the province. Grape Grower respondents account for approximately 36% 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, aggregated findings may vary from previous years due to changes in respondents within each segment.



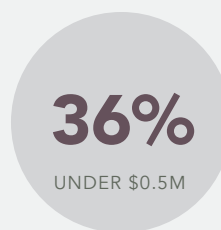
AVERAGE WINE INVENTORY VOLUMES
AMONGST THE LARGEST WINERIES
INCREASED IN 2018



ASIA CONTINUED TO BE THE **TOP RANKED**
INTERNATIONAL EXPORT MARKET



WINERIES LOOKED TO **PRODUCTION / PROCESSING
CAPACITY, TOURISM AND HOSPITALITY, AND
PRODUCTION / PROCESSING EFFICIENCY**
AS THE TOP INVESTMENT PURPOSES IN 2018



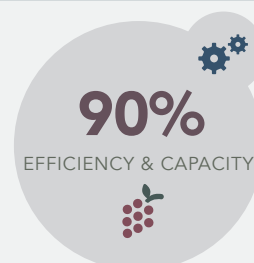
**36% OF WINERIES UNDER \$0.5M AND
70% OF WINERIES OVER \$0.5M ARE PROFITABLE**



RISING INPUT/LABOUR/LAND COSTS
RECEIVED THE MOST FIRST PLACE VOTES
ACROSS SEGMENTS AS THE TOP RANKED
BUSINESS CHALLENGE IN THE INDUSTRY



THE NUMBER OF ANNUAL VISITORS
AT WINERIES **INCREASED IN 2018**



OVER 90% OF INVESTMENT FROM GRAPE
GROWERS IN 2018 WAS FOCUSED ON
INCREASING **PRODUCTION CAPACITY AND
PRODUCTION EFFICIENCY**

Financial Information



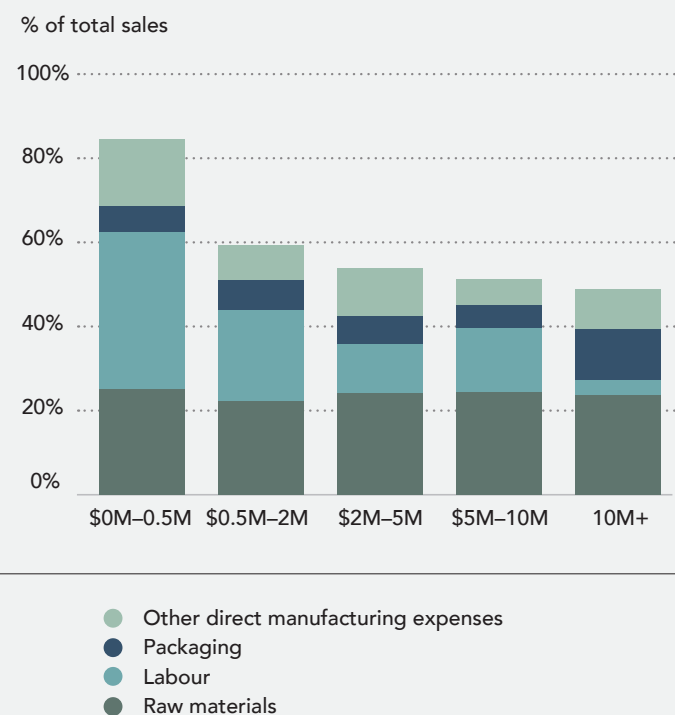
Profitability and Financial Position

INCOME STATEMENT 2018

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Net VQA wine sales	69.1%	70.9%	70.2%	77.6%	37.4%
Net non-VQA wine sales	8.0%	3.5%	0.9%	3.2%	57.2%
Grape sales	3.7%	3.2%	1.2%	1.5%	0.0%
Merchandise sales	3.5%	2.4%	4.8%	2.4%	1.7%
Hospitality sales	3.7%	3.7%	5.7%	2.4%	0.5%
Onsite food and wine service sales	3.1%	8.2%	7.4%	10.1%	1.7%
Other sales	6.7%	4.4%	5.3%	0.6%	1.1%
Grants and programs	2.3%	3.6%	4.4%	2.2%	0.4%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%
Raw materials	-25.6%	-22.7%	-24.8%	-25.0%	-24.2%
Arm's length labour	-31.8%	-19.8%	-11.6%	-14.8%	-3.6%
Non-arm's length labour	-6.7%	-2.5%	-0.4%	-0.8%	-0.1%
Packaging	-6.1%	-7.3%	-6.6%	-5.5%	-12.6%
Other direct manufacturing expenses	-16.4%	-8.5%	-11.9%	-6.4%	-9.7%
Total cost of goods sold	-86.7%	-60.8%	-55.3%	-52.6%	-50.2%
Gross margin	13.3%	39.2%	44.7%	47.4%	49.8%
Sales and marketing expenses	-8.1%	-7.6%	-10.6%	-16.0%	-21.3%
Contribution after sales and marketing	5.3%	31.6%	34.1%	31.5%	28.5%
Arm's length general and administration expenses	-24.2%	-17.0%	-19.9%	-15.4%	-8.5%
Non-arm's length general and administration expenses	-1.3%	-2.2%	-5.3%	-5.7%	-0.3%
EBITDA	-20.2%	12.4%	9.0%	10.4%	19.7%
Depreciation and amortization	-7.1%	-8.0%	-5.9%	-3.6%	-1.9%
EBIT	-27.3%	4.4%	3.1%	6.8%	17.8%
Interest expense	-3.6%	-2.6%	-2.4%	-1.1%	-0.7%
Interest income	3.5%	0.0%	0.9%	0.0%	0.0%
Other non-grape income	0.0%	0.0%	0.0%	0.0%	0.0%
Other non-operating income	6.9%	0.6%	0.6%	1.0%	0.4%
Foreign exchange gain/(loss)	0.1%	0.0%	-0.1%	0.1%	0.0%
Inventory write-downs	-0.3%	-0.2%	-1.7%	-0.2%	0.0%
Profit/(loss) before tax	-20.6%	2.2%	0.4%	6.7%	17.5%

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

COST OF GOODS SOLD 2018



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 57.2% of sales compared to 37.4% of sales for VQA wine.

Cost of Goods Sold

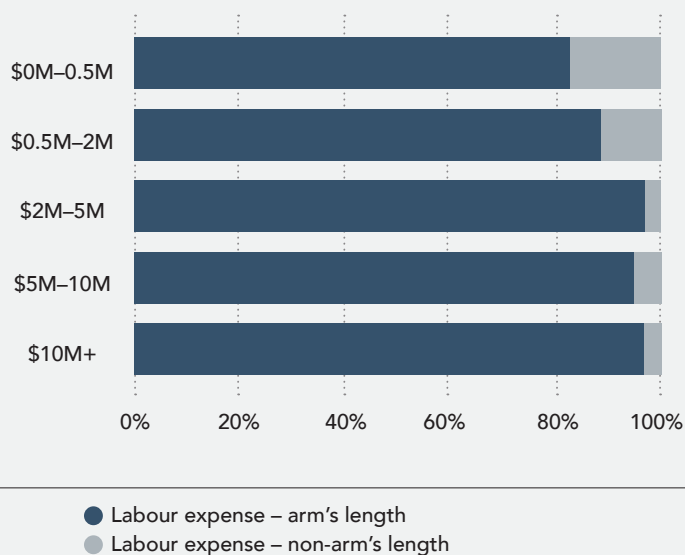
Overall trending shows cost of goods sold decreasing as wineries increased in total sales. Cost of goods sold were 86.7% of sales for the \$0M-0.5M segment and were lower at 50.2% of sales for \$10M+ segment. Lower cost of goods sold for largest winery segment were largely driven by lower labour as a percentage of total sales. Labour expenses were 38.5% 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 may include owners and family members.

Non-arm's length labour made up less than 5.2% of total labour expense in each winery segments with more than \$2M sales.

Non-arm's length labour attributed to a higher amount of total labour expense in smaller wineries, with 11.2% in the \$0.5M-2M segment, and 17.4% in the \$0M-0.5M segment.

LABOUR EXPENSE 2018



Sales and Marketing Expenses

Sales and marketing expenses generally increased with winery size. Sales and marketing accounted for 8.1% of sales for the \$0M-0.5M segment and were higher at 21.3% 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 \$5M in total sales, with the \$2M-5M segment achieving a 34.1% contribution after sales and marketing, the \$5M-10M

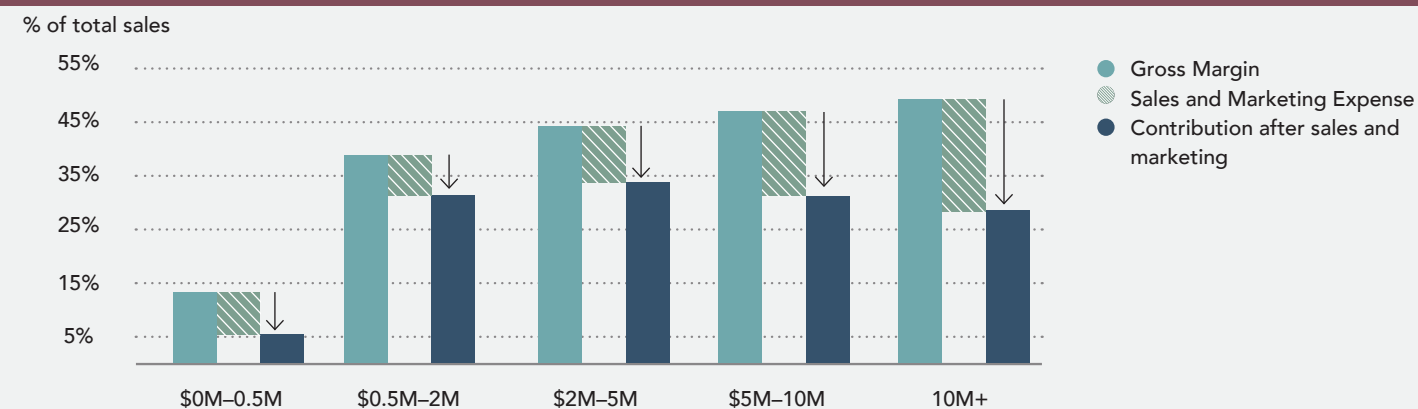
segment achieving a 31.5% contribution after sales and marketing, and the \$10M+ segment achieving a 28.5% contribution after sales and marketing.

General and Administration

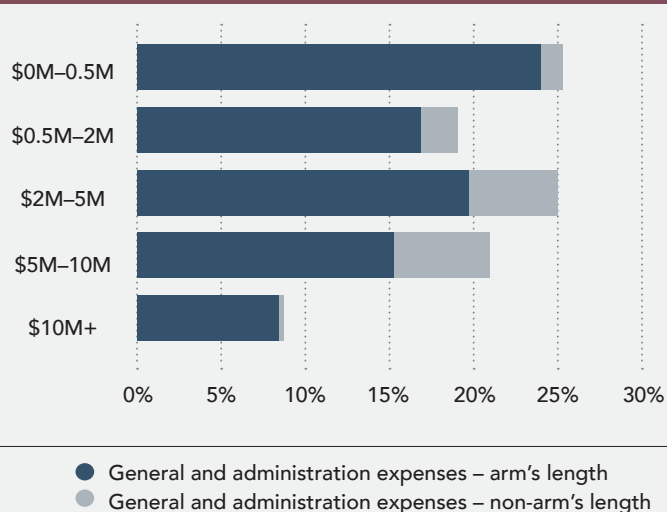
General and administration expenses for wineries with less than \$10M of total sales ranged between 19.2% and 25.5% of sales. General and administration expenses were 8.8% of sales for the \$10M+ segment.

Arm's length general and administration expense include 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

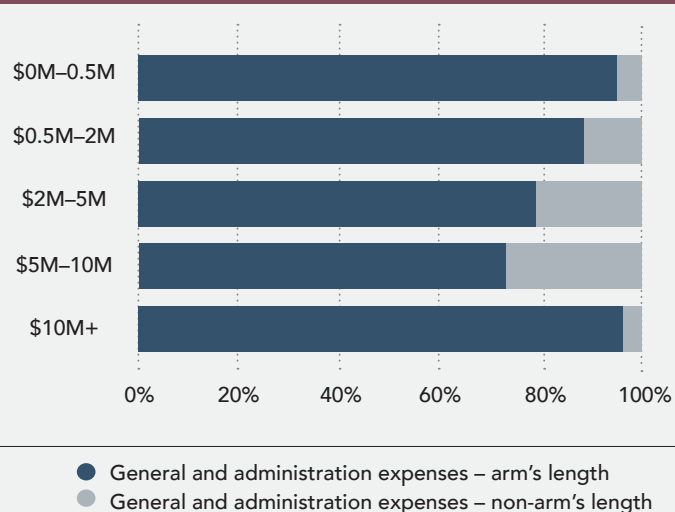
CONTRIBUTION AFTER SALES AND MARKETING 2018



GENERAL AND ADMINISTRATION EXPENSE TOTALS 2018



GENERAL AND ADMINISTRATION EXPENSE SPLITS 2018



business expenses that have a function not exclusive to the business. Non-arm's length expenses were lowest in the \$10M+ segment at 3.4% of total general and administration expenses and highest in the \$5M-10M segment at 27.0% of total general and administration expenses.

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 7.1% of sales for the \$0M–0.5M segment and 1.9% for the \$10M+ segment.

EBIT

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT was positive on average for wineries with over \$0.5M in total sales. EBIT was -27.3% of sales for the \$0M-0.5M segment and 17.8% for the \$10M+ segment.

Profit/Loss Before Taxes

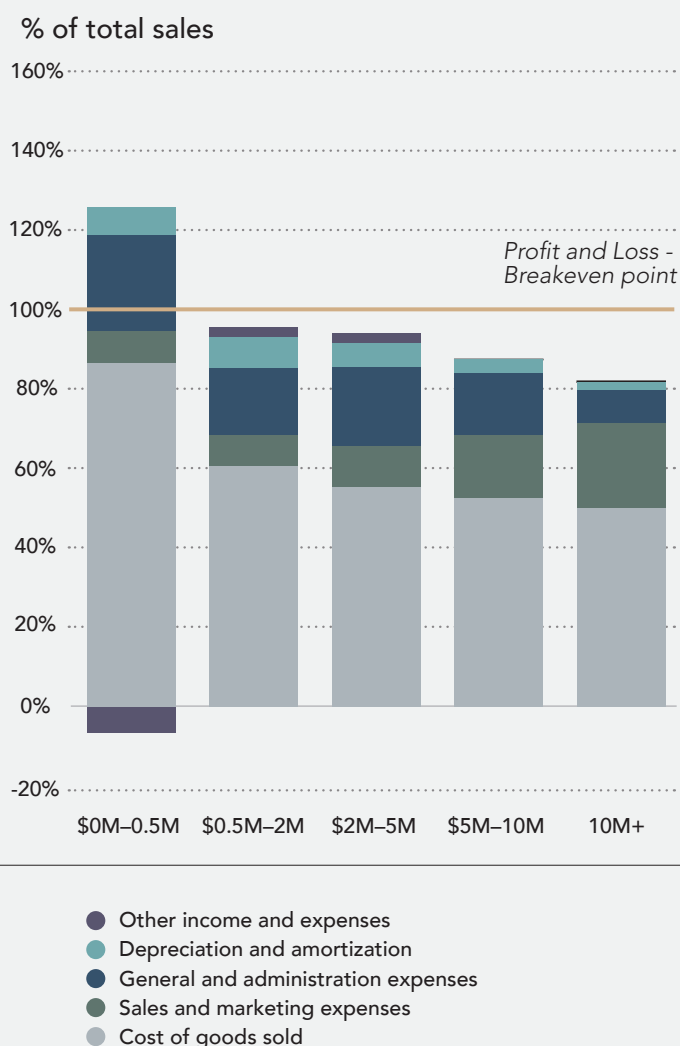
62.3% of winery respondents reported a positive pre-tax profit and 37.7% reported a loss. Larger wineries were generally more likely to be profitable, with 36.0% of wineries in the \$0M-0.5M segment reporting a pre-tax profit compared with 100.0% in the \$10M+ segment.

On average, pre-tax profitability increased with segment size where the \$0M–0.5M winery segment recorded a 20.6% loss before tax compared to a 17.5% profit before tax for the \$10M+ winery segment.

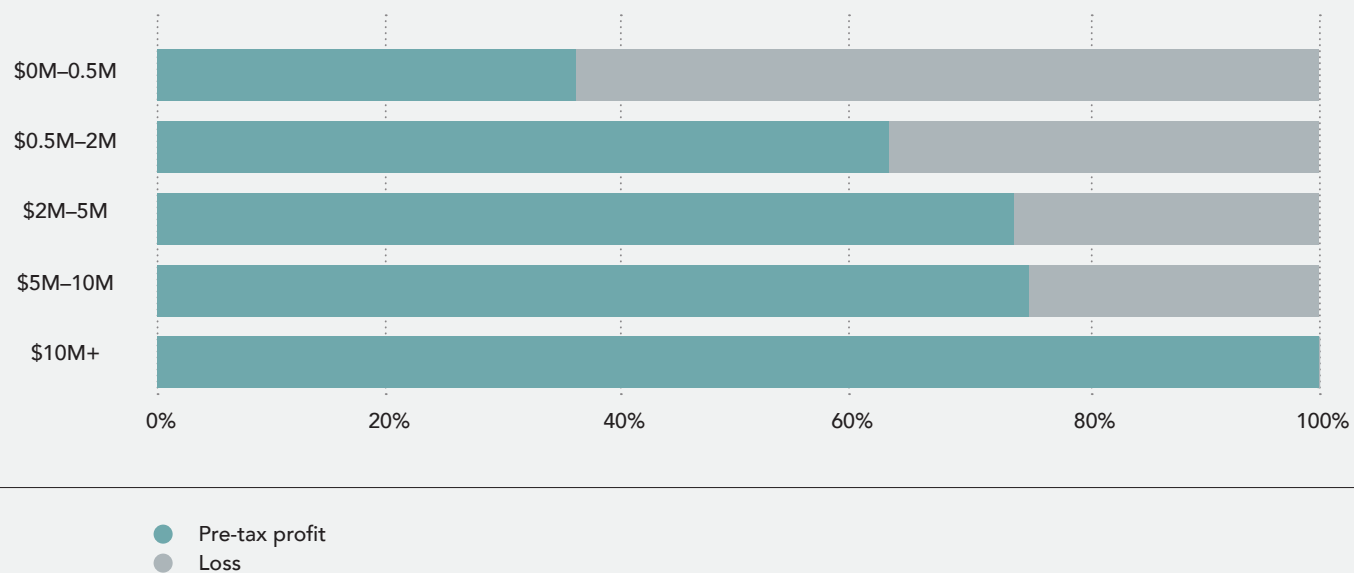
Key Considerations Impacting Profitability (as a % of total sales)

Profit of wineries with less than \$2M in sales is impacted more significantly by higher labour expenses as a percentage of sales. In addition, these two segments saw higher depreciation and amortization expense and higher interest expense related to servicing debt. Larger wineries with \$10M+ sales experienced more significant costs associated with selling and marketing products.

EXPENSES 2018

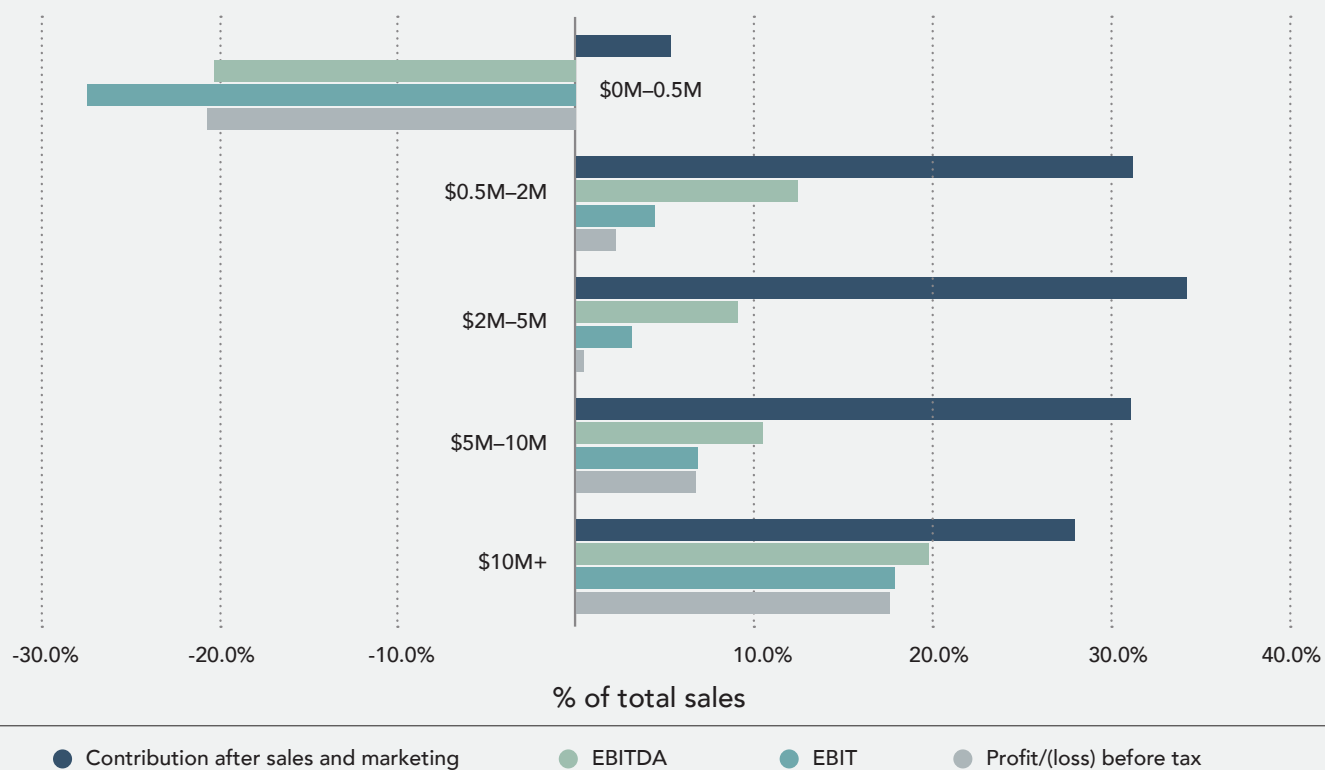


PERCENTAGE OF WINERIES REPORTING PROFIT VS. LOSS 2018



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

PERFORMANCE INDICATORS 2018



BALANCE SHEET 2018

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Cash	2.9%	1.5%	1.2%	1.9%	2.5%
Accounts receivable	2.2%	4.4%	4.8%	6.0%	4.7%
Inventory	17.6%	26.5%	29.5%	39.7%	26.5%
Other current assets	5.9%	1.1%	2.5%	1.8%	0.8%
Total current assets	28.6%	33.5%	38.0%	49.4%	34.6%
Land and land improvements	13.5%	13.1%	9.5%	10.2%	5.6%
Vineyards	4.5%	5.8%	10.8%	2.0%	4.2%
Buildings and improvements	31.2%	28.5%	27.4%	24.7%	13.2%
Equipment	8.0%	10.9%	6.9%	7.8%	11.4%
Other fixed assets	1.2%	1.6%	2.9%	1.4%	0.4%
Total net fixed assets	58.4%	60.0%	57.4%	46.0%	34.8%
Purchased goodwill and other intangible assets	0.4%	2.9%	0.7%	0.7%	29.4%
Investments	12.1%	2.9%	0.4%	1.4%	0.1%
Other assets	0.5%	0.7%	3.5%	2.6%	1.1%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Bank indebtedness	1.0%	3.8%	8.3%	6.8%	2.5%
Accounts payable and accrued liabilities	3.2%	7.7%	4.8%	7.7%	5.8%
Other current liabilities	13.9%	8.1%	5.1%	5.9%	4.2%
Total current liabilities	18.1%	19.7%	18.2%	20.4%	12.5%
Long term liabilities	74.2%	73.2%	72.5%	44.4%	39.0%
Total liabilities	92.3%	92.9%	90.7%	64.9%	51.6%
Capital stock	16.4%	14.6%	14.9%	2.7%	21.2%
Retained earnings	-8.7%	-7.4%	-5.5%	32.4%	27.2%
Total equity	7.7%	7.1%	9.3%	35.1%	48.4%
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 winery segments generally had a larger percentage of assets in net fixed assets compared with larger winery segments. Wineries in the \$0M-0.5M segment held 58.4% of total assets in fixed assets compared with 34.8% 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 18.0% of total assets for the \$0M-0.5M segment compared to 9.8% of total assets for the \$10M+ segment.

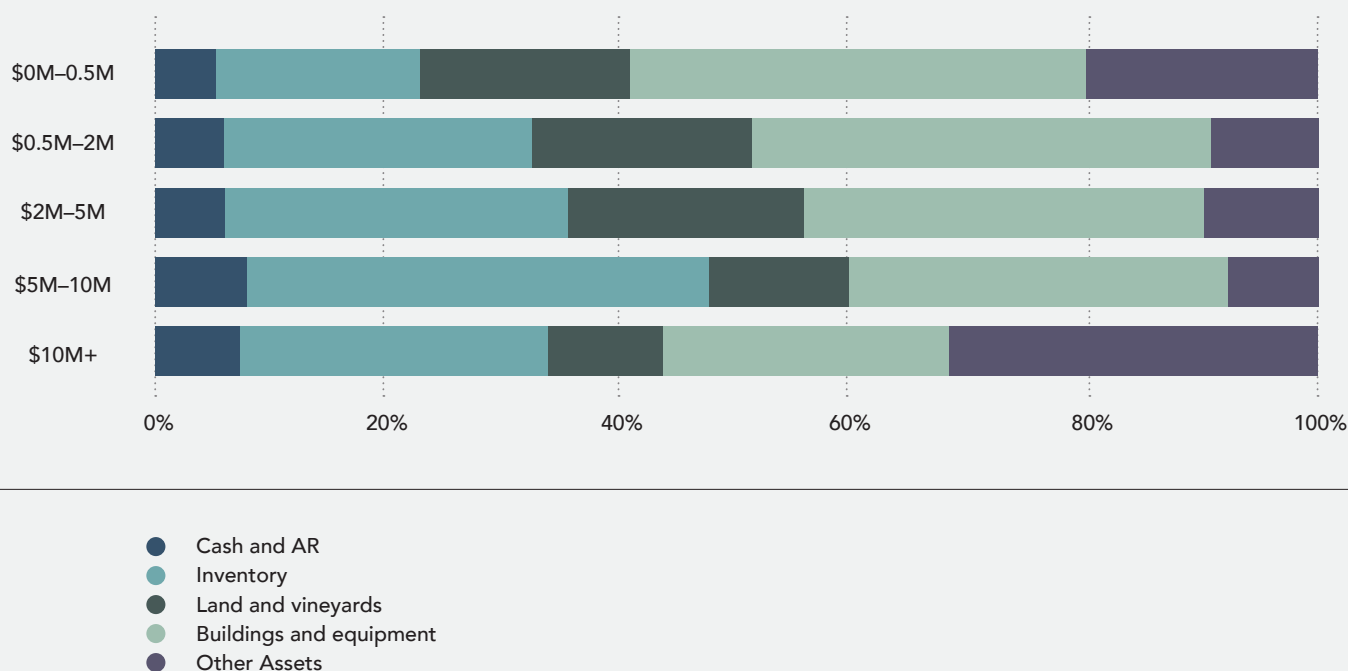
Smaller wineries generally held a larger percentage of assets in buildings and equipment compared to larger wineries. Buildings and equipment made up 39.2% of total assets for

the \$0M-0.5M segment compared to 24.6% of total assets for the \$10M+ segment.

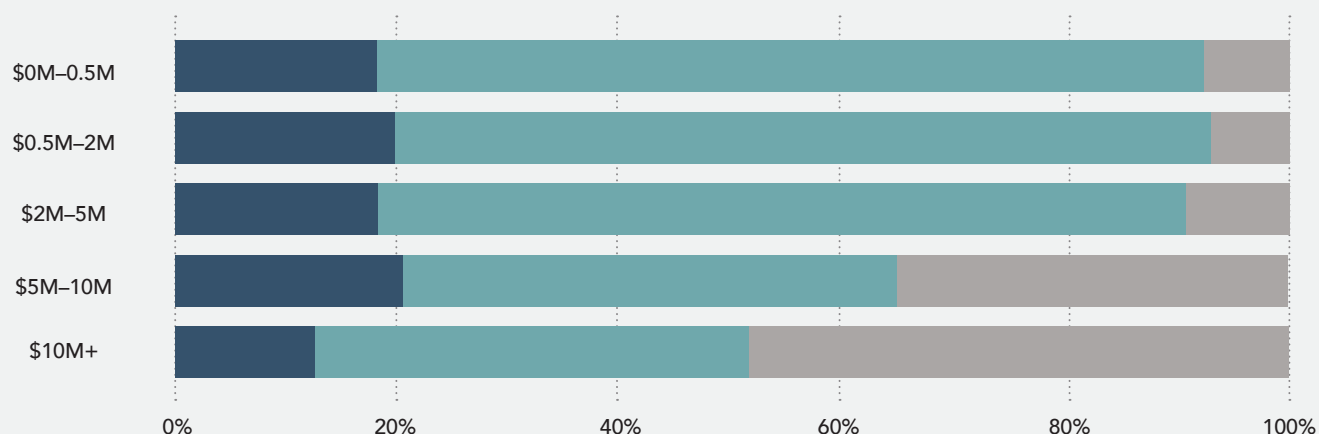
The smallest winery segment held a lower percentage of assets in inventory than larger winery segments. Inventory made up 17.6% of total assets for the \$0M-0.5M segment compared to 39.7% of total assets for the \$5M-10M segment and 26.5% of total assets for the \$10M+ segment.

Wineries with sales less than \$10M held a lower percentage of assets in purchased goodwill and intangible assets than the largest winery segment, at 0.4% of total assets for the \$0M-0.5M segment, 2.9% for the \$0.5M-2M segment, 0.7% for the \$2M-5M segment, 0.7% for the \$5M-10M segment, compared to 29.4% for the \$10M+ segment.

ASSET SUMMARY 2018

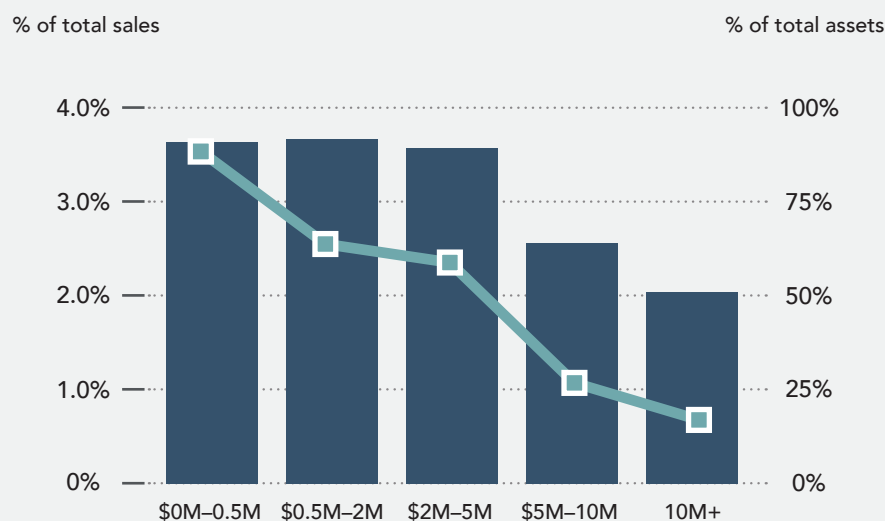


LIABILITIES AND EQUITY 2018



- Total current liabilities
- Total long-term liabilities
- Total equity

INTEREST EXPENSE AND TOTAL LIABILITIES 2018



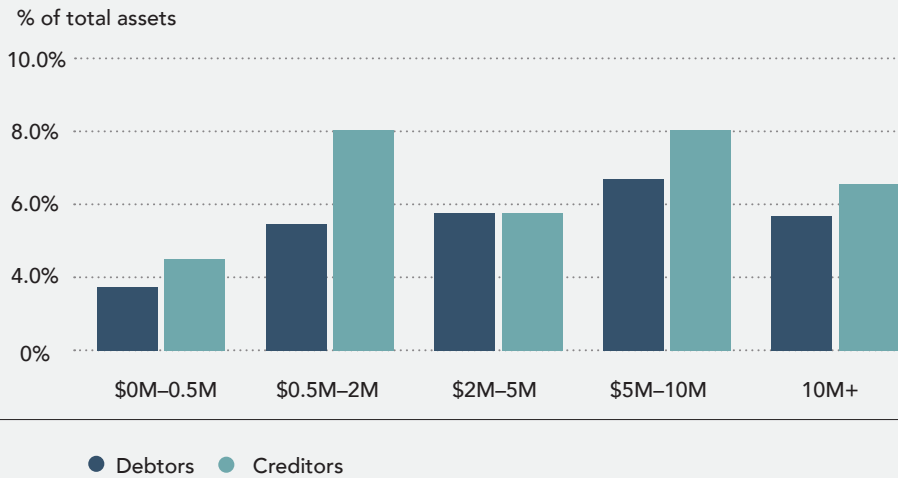
- Total liabilities as a % of total assets
- Interest expense as a % of total sales

Liabilities and Equity

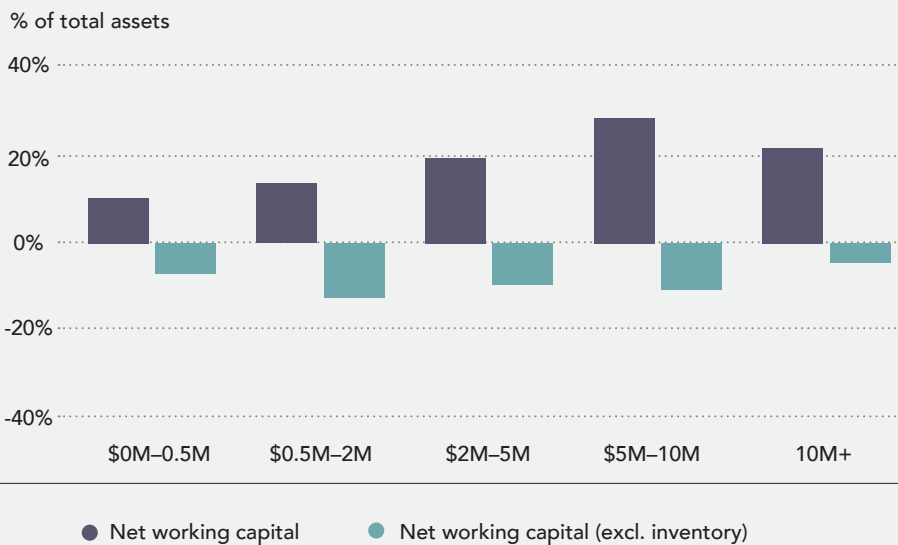
Winery segments with less than \$5M in total sales were funded to a higher degree through debt than equity when compared with larger winery segments with more than \$5M in total sales. Wineries in the \$0M–0.5M segment held 92.3% in liabilities and 7.7% in equity, compared to 51.6% in liabilities and 48.4% in equity for wineries in the \$10M+ segment.

Interest expense on the income statement decreased as wineries increased in size, from 3.6% of sales for \$0M–0.5M wineries to 0.7% of sales for \$10M+ wineries.

DEBTORS VS CREDITORS 2018



NET WORKING CAPITAL 2018



Assets vs. Liabilities

Creditors, represented by accounts payable and accrued liabilities, were higher than debtors, represented by accounts receivable across most segments except for the \$2M-5M segment with had equal values for both Creditors and Debtors.

As a percentage of total assets, the \$0.5M-2M and the \$5M-10M segments had the highest percentage of creditor liabilities with 7.7%.

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 formed a large portion of current assets. Given the seasonality of the industry and thus the variability in the movement of inventory, 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 2018 on page 17.

KEY FINANCIAL RATIOS 2018

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Solvency ratios					
Current ratio	1.6	1.7	2.1	2.4	2.8
Debt to equity ratio	12.0	13.1	9.7	1.8	1.1
Debt to tangible assets	0.9	1.0	0.9	0.7	0.7
Efficiency ratios					
Inventory turnover	0.9	0.8	0.8	0.9	1.2
Fixed asset turnover	0.3	0.6	0.8	1.5	1.9

Solvency Ratios

The current ratio is calculated as current assets divided by current liabilities and indicates short term financial liquidity. The \$10M+ winery segment had the highest 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. On average, all winery segments were financed more heavily through debt than equity. The debt to equity ratio generally decreased as the size of wineries increased, indicating a higher proportion of debt financing at smaller wineries.

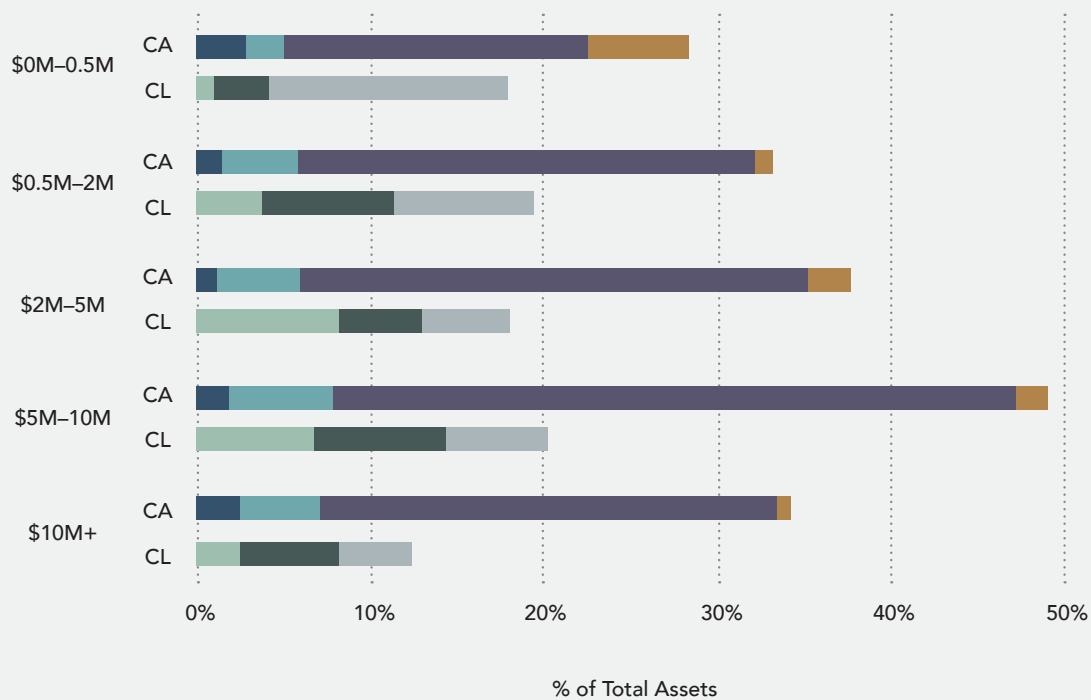
The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt. All winery segments had ratios at or below 1.0. The \$5M-10M and \$10M+ segments had the lowest ratios.

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. 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 aging or sale. All winery segments except for the \$10M+ segment 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 2018

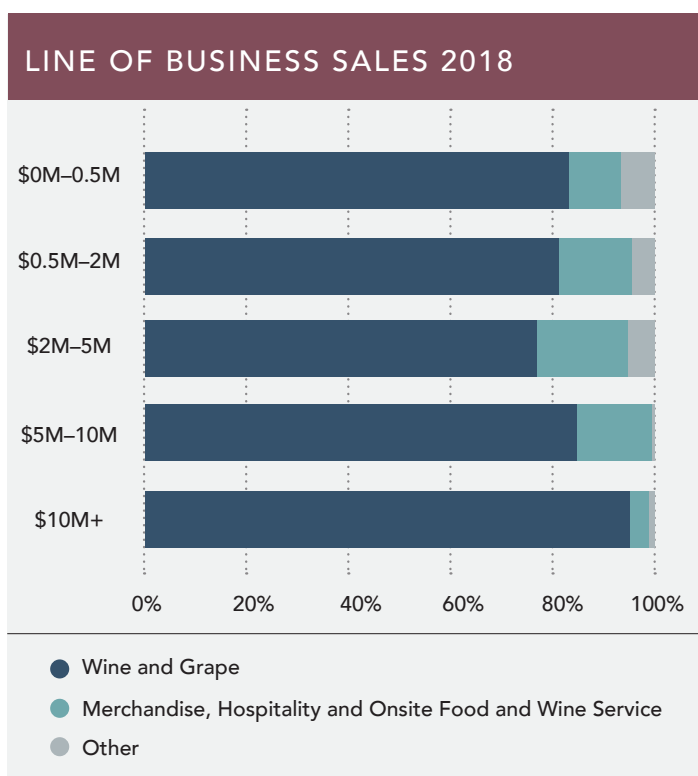


● Cash
 ● Accounts receivable
 ● Inventory
 ● Other current assets

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

CA: Current assets
 CL: Current liabilities

Line of Business Financials



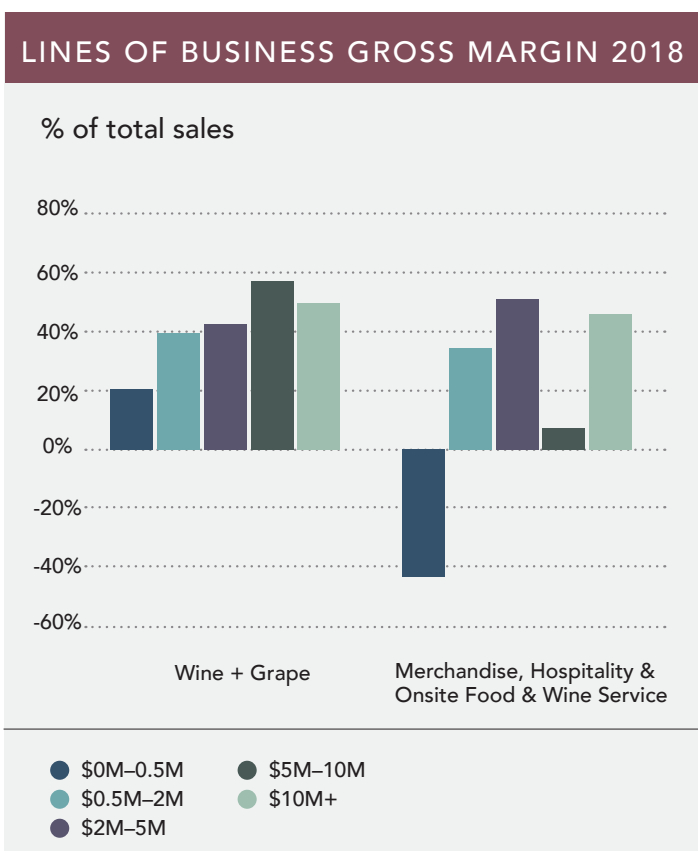
Line of Business Sales

Including grants and programs, wine and grape sales comprised at least 76.7% 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 14.3% of sales derived from these lines of business compared with the \$0M-0.5M and \$10M+ segments.

For the \$0M-0.5M segment, 10.3% of total sales were attributed to merchandise, hospitality and onsite food and wine service sales.

For the \$10M+ segment, 3.9% of total sales were attributed to merchandise, hospitality and onsite food and wine service sales.



Line of Business Gross Margin

Wine and grape gross margin generally trended upwards with winery size, at 20.7% for the \$0M-0.5M segment and 57.6% for the \$5M-10M segment. The \$10M+ segment had the second highest wine and grape gross margin with 49.9%.

Wineries in the \$0M-0.5M segment had the smallest 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 \$2M-5M segment generates a higher gross margin on Merchandise, Hospitality, and Onsite Food and Wine Service than its core Wine and Grape business line.

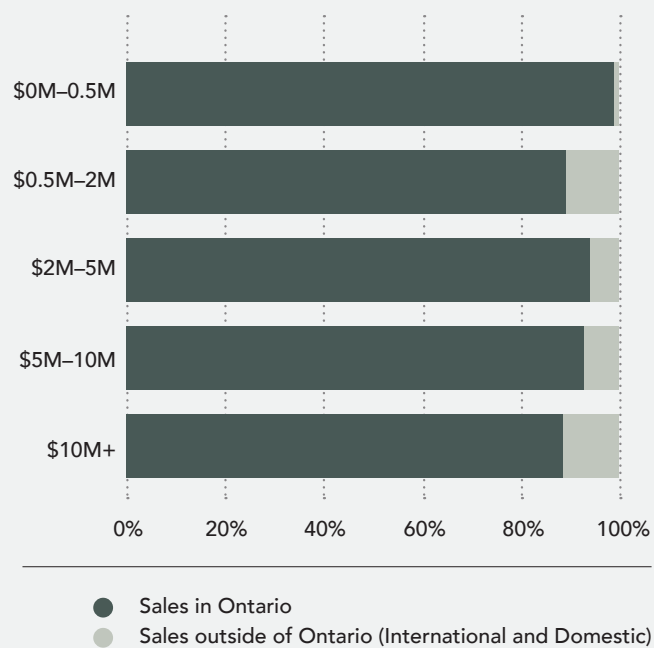
Sales

WINE SALES DETAIL 2018

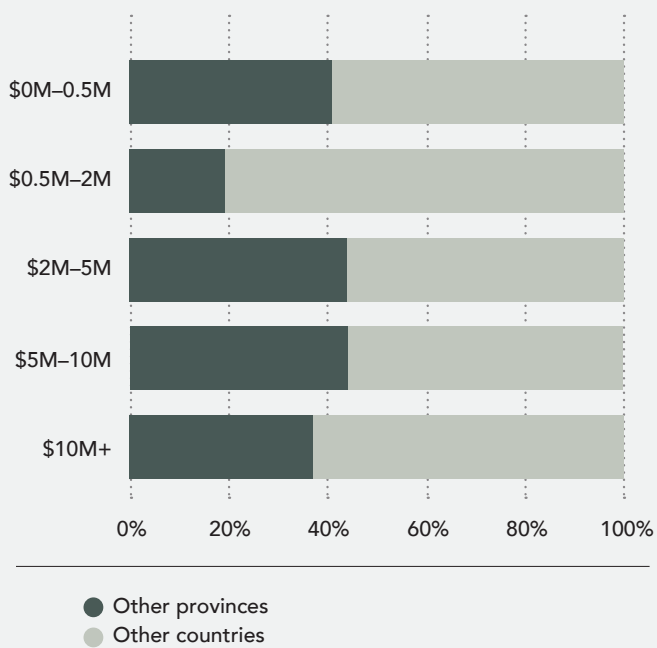
	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Wine Sales by Channel (VQA and Non-VQA)					
LCBO	14.0%	14.9%	32.2%	32.5%	39.8%
Winery retail store	60.3%	54.8%	37.3%	36.9%	41.8%
Farmers' market	3.1%	0.5%	0.2%	0.2%	0.1%
Delivered direct to licensees	18.3%	15.8%	20.6%	22.1%	5.6%
Sales to other provinces	0.4%	2.1%	2.6%	3.1%	4.2%
Export	0.5%	8.7%	3.2%	4.0%	7.1%
Other	3.4%	3.1%	3.9%	1.2%	1.4%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Product Type (VQA and Non-VQA)					
Table wine	89.0%	87.3%	91.0%	87.4%	82.4%
Sparkling wine	5.8%	5.7%	2.9%	2.6%	3.8%
Icewine	1.5%	5.6%	5.0%	7.6%	8.4%
Other grape	0.5%	0.5%	0.2%	1.1%	4.8%
Other non-grape	3.1%	0.9%	1.0%	1.4%	0.6%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Format (VQA and Non-VQA)					
Packaged wine	95.6%	94.0%	95.7%	99.1%	98.9%
Bulk wine	4.4%	4.3%	3.6%	0.7%	1.1%
Bulk juice	0.0%	1.7%	0.7%	0.2%	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" by dollars. Amounts may not sum to subtotals due to rounding.

SALES IN ONTARIO VS. SALES OUTSIDE OF ONTARIO 2018



SALES OUTSIDE OF ONTARIO BY GEOGRAPHY 2018



Wine Sales by Channel

Reliance on the LCBO as a sales channel increased with winery size, whereas smaller wineries with less than \$2M in sales were more dependent on the winery retail stores as primary sales channels. Wineries in the \$0M-0.5M segment had 14.0% of sales through the LCBO compared to 39.8% for the \$10M+ segment.

The majority of wine produced in Ontario was sold in Ontario. Wine sold outside of Ontario reached a

maximum of 11.3% of sales for the \$10M+ segment, with 4.2% of sales to other provinces and 7.1% of sales to other countries.

Wineries in all segments exported more to other countries than to other provinces within Canada. The \$5M-10M segment had the greatest proportion of exports within Canada, at 43.7% of total exports.

Wine Sales by Product Type

Wineries in the \$2M-5M segment attributed 91.0% of sales to table wine compared to 82.4% for the \$10M+ segment. The two winery segments with sales above \$5M attributed a larger proportion of sales to icewine than smaller wineries on average. Wineries in the \$0M-0.5M segment attributed 1.5% of sales to icewine compared to 7.6% for the \$5M-10M segment and 8.4% for the \$10M+ segment.

Wine Sales by Format

Wineries in the \$0M-0.5M segment attributed 95.6% of sales to packaged wine compared to 98.9% for the \$10M+ segment.

WINE SALES BY PRODUCT TYPE AND WINE FORMAT 2018

(SALES DOLLARS PER LITRE)

	Winery size (2018 sales)				
	\$0M-0.5M	\$0.5M-2M	\$2M-5M	\$5M-10M	\$10M+
Wine Product Type (VQA and Non-VQA)					
Table wine	17.52	15.37	12.79	13.98	6.11
Sparkling wine	25.56	23.08	23.66	19.25	6.18
Icewine	73.47	44.95	80.34	63.30	61.37
Wine Format (VQA and Non-VQA)					
Packaged wine	18.18	17.26	9.31	13.47	6.99
Bulk wine	6.57	5.25	2.76	0.61	3.17

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 for the Table and Sparkling wine product types. Note that the \$10M+ segment sold a larger proportion of non-VQA wine compared to the other segments.

Exports



RANKING OF RELATIVE IMPORTANCE OF GLOBAL EXPORT MARKETS 2018



RANKING OF RELATIVE IMPORTANCE OF CANADIAN MARKETS OUTSIDE OF ONTARIO 2018

- \$0–0.5M**
1. Asia
 2. North America (excluding Canada)
 3. Europe
 4. Africa (including Middle East)

- \$0–0.5M**
1. Quebec
 2. Prairies
 3. British Columbia
 4. Atlantic

- \$0.5–2M**
1. Asia
 2. Europe
 3. North America (excluding Canada)
 4. South America

- \$0.5–2M**
1. Quebec
 2. Prairies
 3. Atlantic
 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. Quebec
 2. Prairies
 3. Atlantic
 4. British Columbia

- \$10M+**
1. Asia
 2. North America (excluding Canada)
 3. Europe
 4. South America

- \$10M+**
1. Prairies
 2. Atlantic
 2. British Columbia
 4. Quebec

- For international exports, all segments viewed Asia as the most important global export market.
- Within Canada, wineries generally view the Quebec and Prairies as the most important domestic export markets.

Operational Information

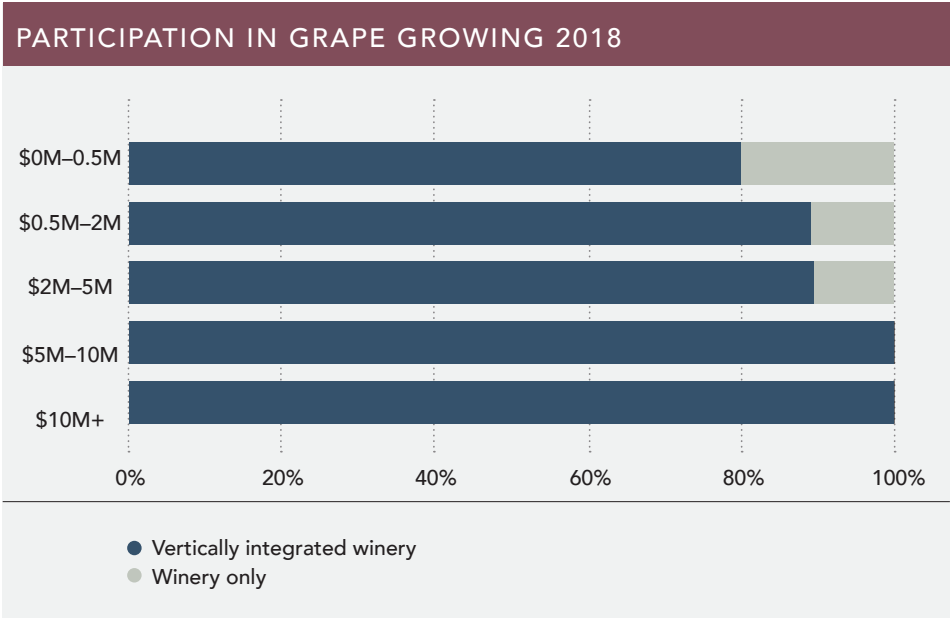


Operational Background

Participation in Grape Growing

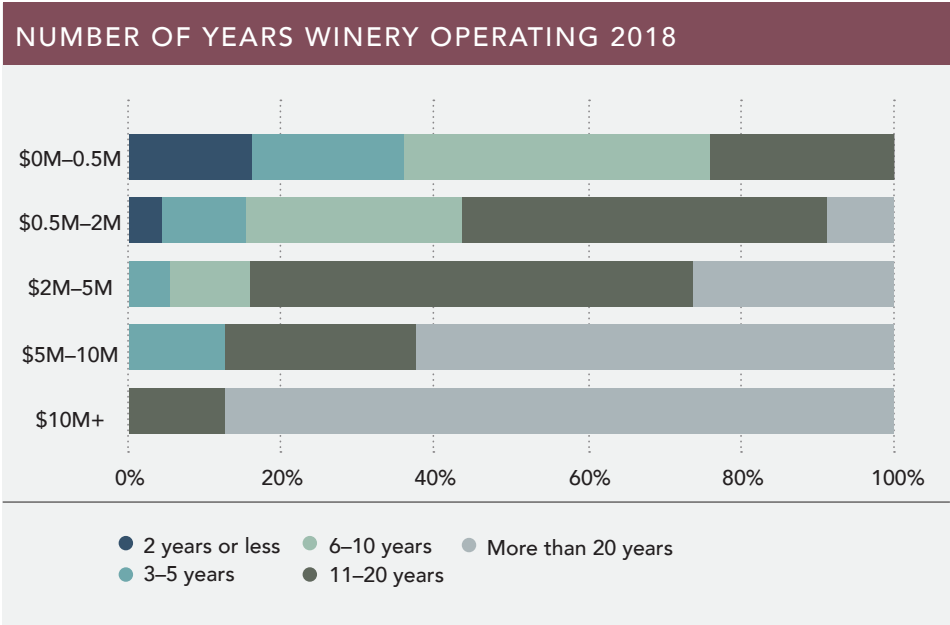
The majority of wineries surveyed were vertically integrated wineries that included a grape growing business. All wineries with more than \$5M in sales were vertically integrated.

Wineries that do not grow grapes were observed within the smaller winery segments; 20.0% of wineries in the \$0M-0.5M segment, 10.9% of wineries in the \$0.5 M-2M segment, and 10.5% 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, 36.0% of wineries operated for 5 years or less. In the \$10M+ segment, 87.5% of wineries have operated for over 20 years.



Inventory and Production

INVENTORY DETAIL 2018 (AVERAGE LITRES PER BUSINESS)

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Table wine – bulk	15,609	74,063	204,183	418,916	6,780,103
Table wine – packaged	9,850	41,214	116,256	262,651	1,723,970
Table wine – juice	958	9,859	1,925	2,792	-
Total table wine	26,418	125,136	322,363	684,358	8,504,073
Icewine – bulk and packaged	108	2,677	6,672	7,871	190,083
Icewine – juice	-	111	63	3,500	40,308
Total icewine	108	2,788	6,735	11,371	230,392
Other grape wine – bulk, packaged and juice	-	1,772	1,612	35,549	119,972
Total	26,526	129,696	330,711	731,278	8,854,437

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

- The \$10M+ segment held 88.0% of the total volume of table wine in inventory captured in this survey.
- For all segments, at least 93.6% of inventory was table wine.
- The \$10M+ segment held 19.5% of total inventory as packaged table wine, whereas, all other segments held at least 31.8% of total inventory as packaged table wine.

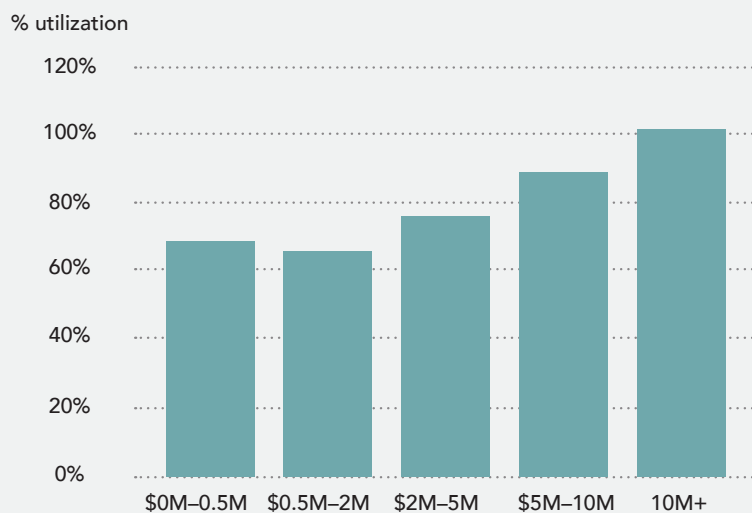
WINE PRODUCTION DETAIL 2018

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average litres of wine produced	18,794	72,361	226,942	500,988	10,005,105
Average maximum production capacity based on cooperage	27,446	110,669	299,777	567,621	9,920,851

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

Wineries in all segments below \$5M in sales used less than or equal to 75.7% of their production capacity (calculated as production divided by capacity). Lower production capacity utilization rates suggest excess fixed assets were being held that were not fully utilized to generate sales.

WINE PRODUCTION UTILIZATION 2018

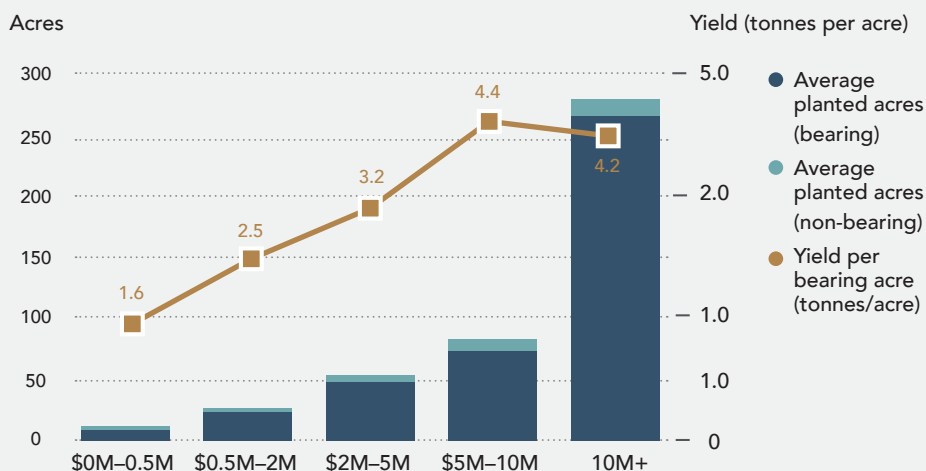


GRAPE PRODUCTION DETAIL FOR WINERIES 2018

	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average planted acres – bearing	9	23	48	73	265
Average planted acres – non-bearing	3	4	6	10	14
Average grapes produced (Tonnes)	14	57	155	323	1,120
Yield per bearing acre (Tonnes/Acre)	1.6	2.5	3.2	4.4	4.2

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

GRAPE PRODUCTION 2018



Total grape acreage available and grape tonnage produced increased as the segment size increased.

The two largest winery segments had the highest yield percentages.

CAPACITY CONSTRAINTS RANK 2018

\$0–0.5M

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

\$0.5–2M

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

\$2–5M

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

\$5–10M

1. Fermentation
2. Bottling
3. Crush
3. Tank Capacity

\$10M+

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

Tank capacity was ranked as a top two constraint for most winery segments.

- Tank capacity was ranked as a top two constraint for all winery segments except the \$5M-10M segment where it was ranked equal third.
- Fermentation was ranked as a top two constraint for all winery segments except the \$0M-0.5M segment where it was ranked third.

Employment

EMPLOYMENT DETAIL 2018, AVERAGE FULL TIME EQUIVALENTS (FTES)

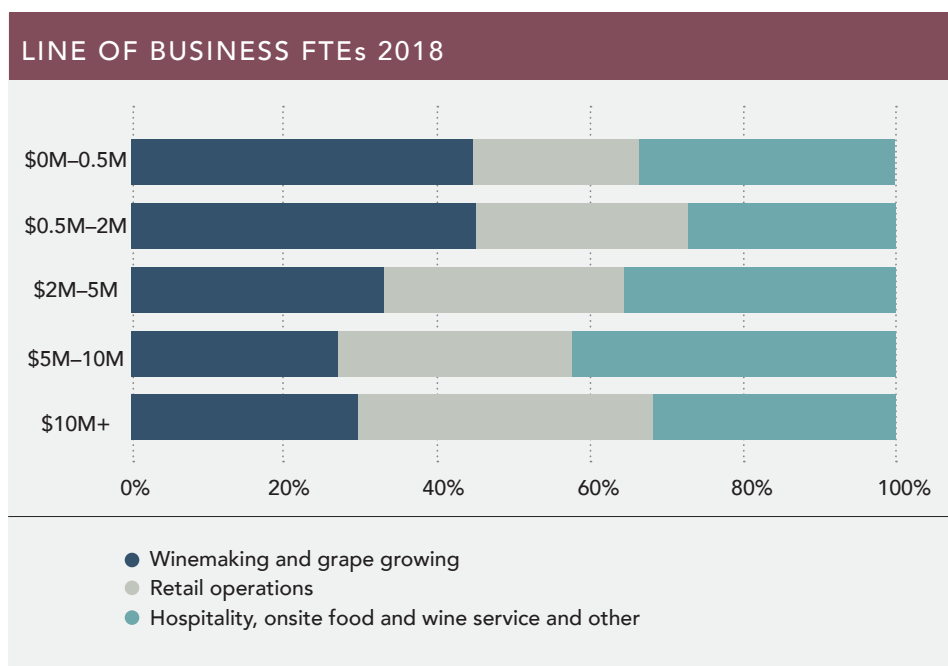
	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average FTEs by Employee Type					
Full-time employees	2.6	6.0	11.4	26.6	230.0
Seasonal FTEs	1.6	3.0	5.0	11.4	19.2
Part-time FTEs	0.4	1.4	4.1	9.4	104.6
Total	4.5	10.4	20.6	47.4	353.8
Average FTEs by Line of Business					
Wine making and grape growing	2.0	4.7	6.8	12.8	104.7
Retail Operations	1.0	2.9	6.4	14.5	137.0
Hospitality, onsite food and wine service and other	1.5	2.8	7.3	20.1	112.1
Total	4.5	10.4	20.6	47.4	353.8

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

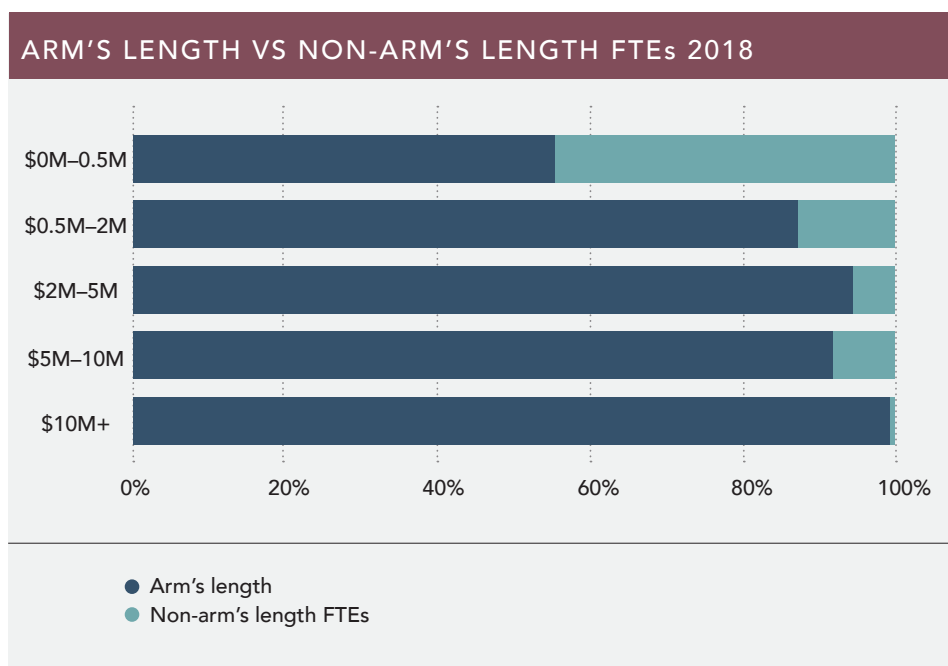
The average full time employee (FTE) count for each winery segment increased as total sales increased. Wineries in the \$0M–0.5M segment average 4.5 FTEs and the \$10M+ segment averages 353.8 FTEs.

As the winery segment size increased, a generally smaller portion of FTEs were devoted to winemaking and grape growing. Winemaking and grape growing FTE accounted for 44.4% of FTEs for the \$0M–0.5M segment and 45.2% of FTEs for the \$0.5M–2M segment, compared with 27.0% for the \$5M–10M segment and 29.6% 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 the smallest segment with the category making up 44.7% of total FTE for the \$0M-0.5M segment, compared to 0.7% for the \$10M+ segment.



Innovation and Investments

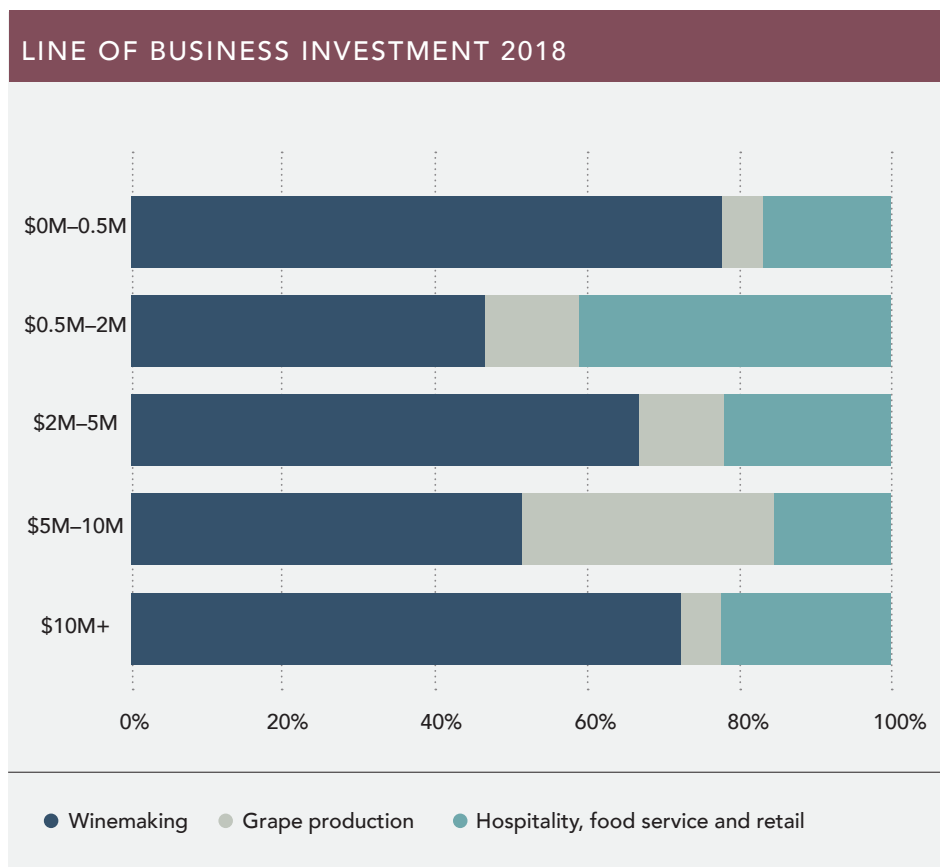
Information on current and planned investment decisions was collected from survey respondents to provide clarity on investment choices in the Ontario wine and grape industry. Line of business investment represents the business areas where investments were made, investment choices represent the assets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

CURRENT INVESTMENTS

Line of Business Investment

On average, wineries allocated the highest proportion of total investments in winemaking with investment ranging from 46.6% for the \$0.5-2M segment to 77.7% for the \$0M-0.5M segment.

Hospitality, food service and retail was the second most popular investment category in all segments except the \$5M-10M segment which attributed a greater amount of investment to grape production with 33.2% of total investment directed to this category.



Investment Choices

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

The \$10M+ segment had the highest investment portion in research and development with 2.5%.

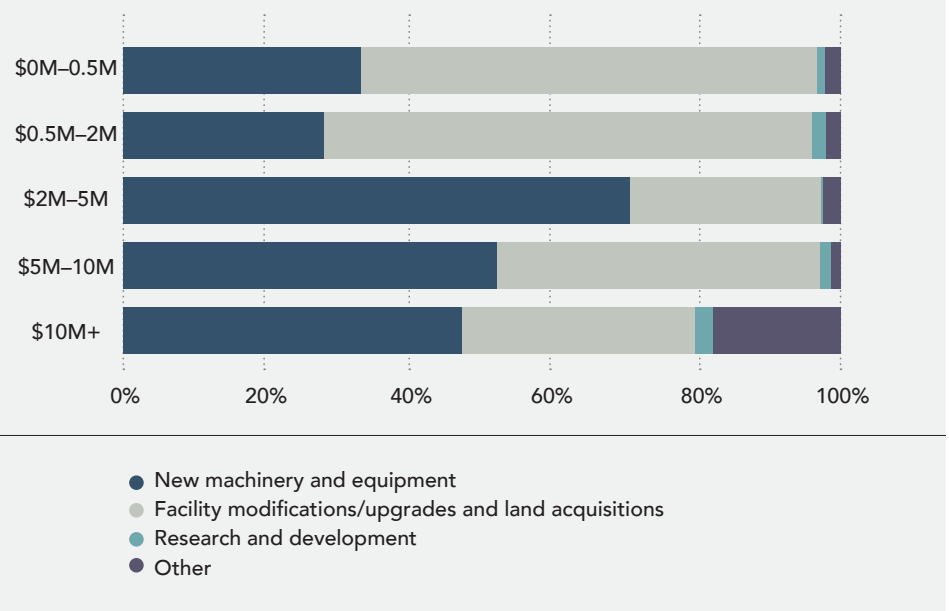
Purpose of Investment

Investment in production / processing capacity was the dominant investment category for the three largest segments.

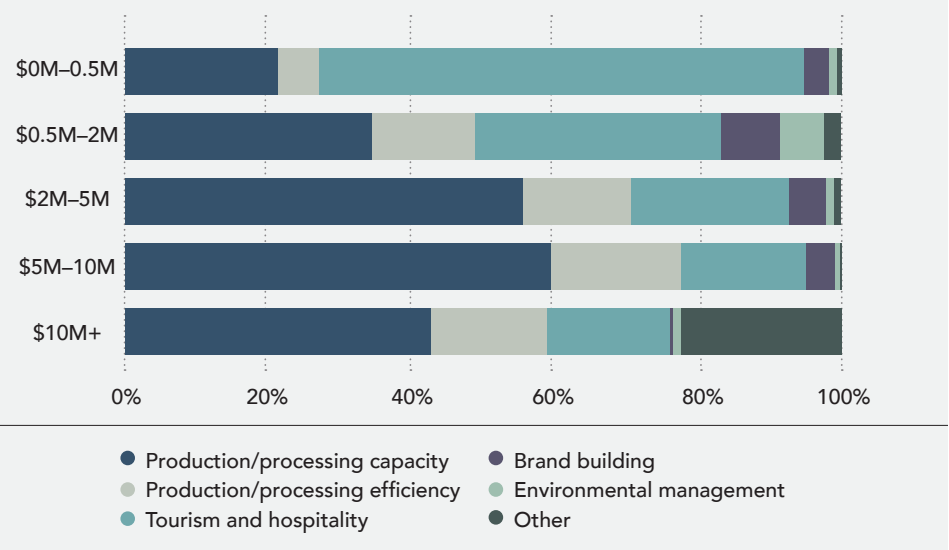
For the \$0M-0.5M segment, 67.7% of total investment was directed to tourism and hospitality.

The \$0.5M-2M segment had almost equal amounts of investment in production / processing capacity with 34.5% and tourism and hospitality with 34.3% of total investment.

INVESTMENT CHOICES 2018



PURPOSE OF INVESTMENT 2018



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 2018

Winery size (2018 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 generally aligned with the investments made in the current year. Planned investments in new machinery and equipment and facility modifications / upgrades and land acquisitions were high to medium, while planned investments in research and development and other areas were generally medium and low across all size segments.

New machinery and equipment planned investment was rated medium for both the \$2M-5M and \$5M-10M segments, although in the current year those two segments had the highest percentage investment in that category.

Planned Investment Purpose 2018

Winery size (2018 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 efficiency and brand development. 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 production / processing capacity in the coming five years.

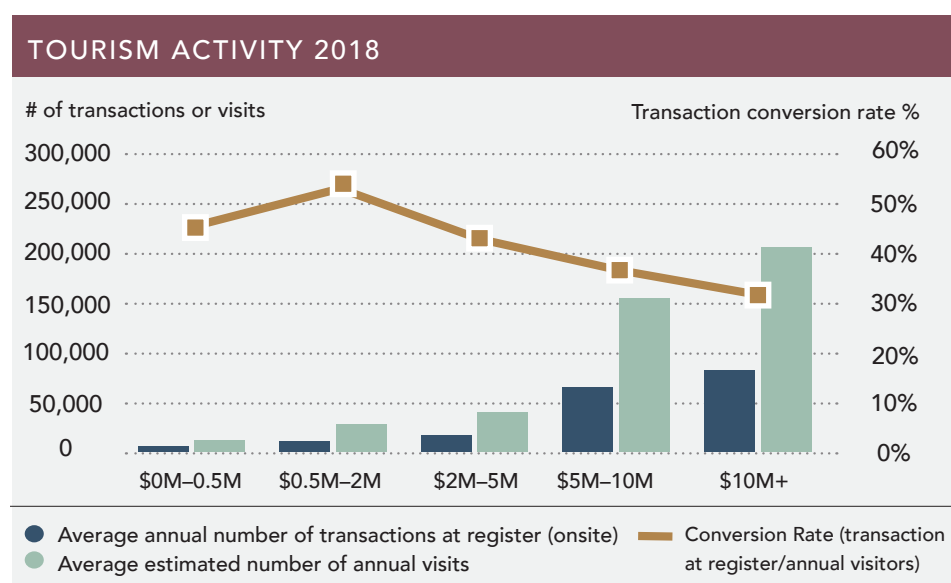
Business Climate



Tourism

TOURISM ACTIVITY 2018	Winery size (2018 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average annual number of transactions at register (onsite)	4,095	13,808	19,479	61,988	70,596
Average estimated number of annual visits	9,052	25,754	45,100	159,884	204,264
Conversion rate (transactions at register/annual visits)	45.2%	53.6%	43.2%	38.8%	34.6%

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



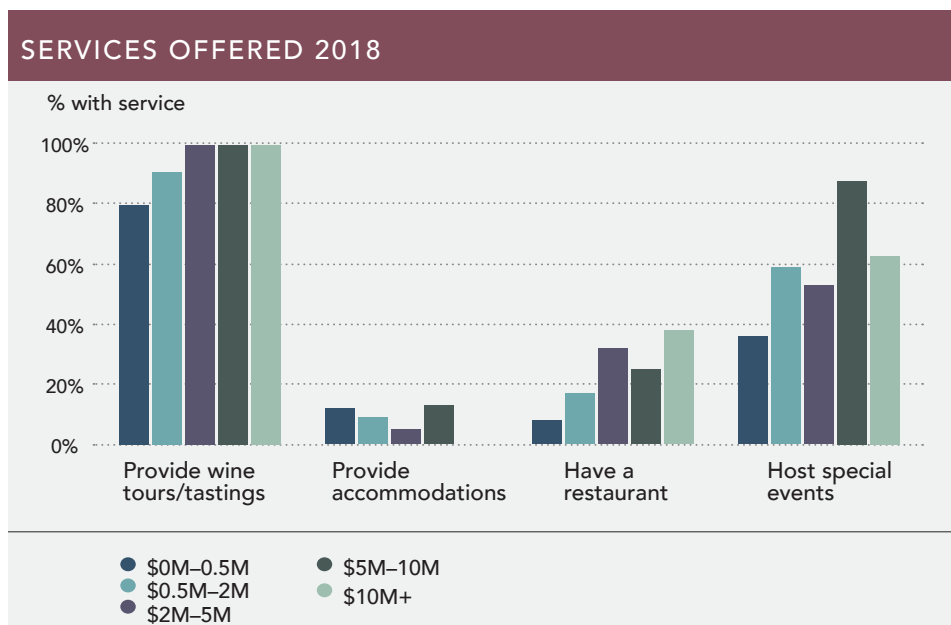
Tourism Activity

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 smaller segments had higher conversion rates, or highest number of transactions relative to visits, with the \$0M–0.5M segment converting 45.2% and the \$0.5M–2M converting 53.6%.

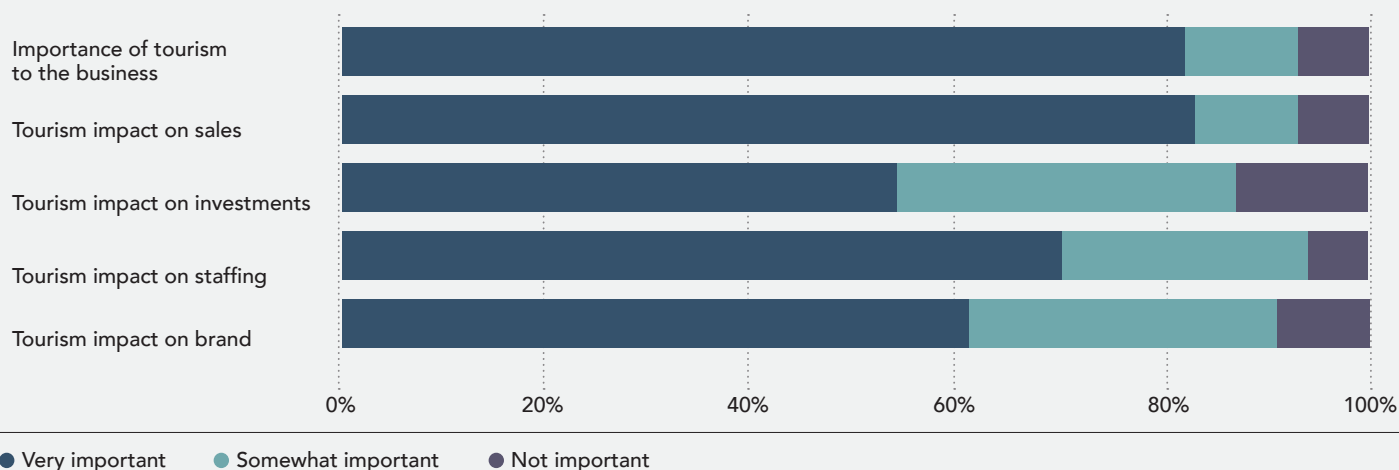
Tourism Services

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

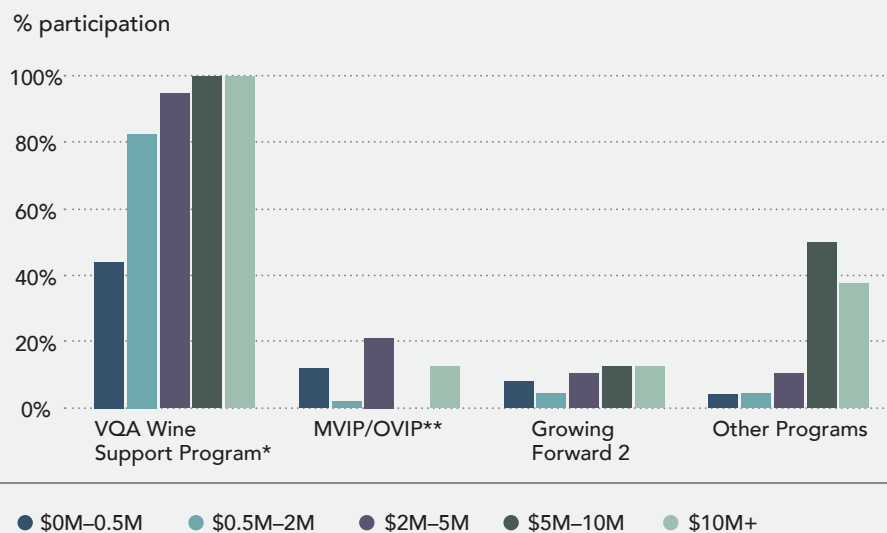
The majority of wineries in all segments did not have a restaurant, although restaurants were more prevalent in wineries with over \$2M in total sales.



IMPORTANCE AND IMPACT OF TOURISM 2018



PROGRAM PARTICIPATION 2018



* 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

Importance and Impact of Tourism

Tourism was viewed as very important to the business by 82% of responding wineries.

Tourism's impact on sales was viewed as very important by 83% of responding wineries.

Government Programs

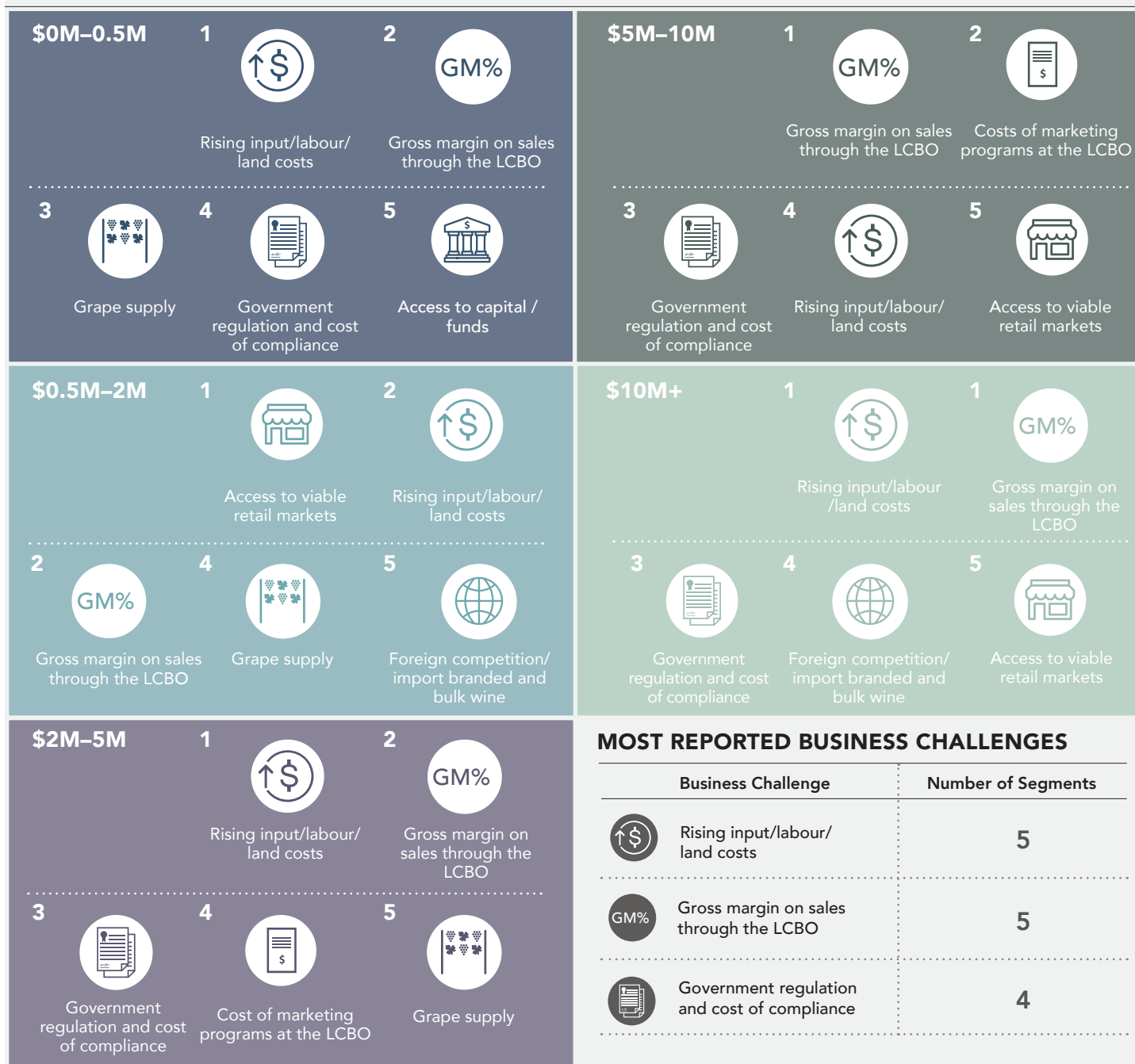
The \$0M-0.5M segment observed a 44.0% participation rate in the VQA Wine Support Program, while participation rates above 82.6% were observed in all other winery segments. The \$5M-10M and \$10M+ segments had a 100% participation rate in this program.

Participation in the MVIP / OVIP program was greatest in the \$2M-5M segment with 21.1%.

CHALLENGES FACING THE ONTARIO INDUSTRY 2018

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, gross margins on sales through the LCBO, as well as government regulation and cost of compliance were the most frequently selected business challenges across all segments.

Grape Growers Performance Summary



Financial Information

Seventy five independent grape growers that do not operate a winery participated in the study and account for an estimated 36% of the grapes grown in Ontario. The performance of this group reflects a smaller proportion of the total population and tonnage and therefore should not be considered entirely representative of the Ontario grape industry as a whole. Grape growers responding to the survey achieved sales ranging from \$0M–\$3.0M.

PROFITABILITY AND FINANCIAL POSITION

Income Statement 2018

	% of total sales
Grape sales (including bulk wine juice)	96.9%
Grants and programs	3.1%
Total sales	100.0%
Raw materials	-11.8%
Arm's length labour	-34.3%
Non-arm's length labour	-8.0%
Packaging	-0.4%
Other direct operating expenses	-19.4%
Total cost of goods sold	-73.8%
Gross margin	26.2%
Sales and marketing expenses	-0.6%
Contribution after sales and marketing	25.6%
Arm's length general and administration expenses	-8.5%
Non-arm's length general and administration expenses	-1.1%
EBITDA	16.0%
Depreciation and amortization	-9.3%
EBIT	6.7%
Interest expense	-4.1%
Interest income	1.3%
Other non-grape income	18.4%
Other non-operating income	0.0%
Profit/(loss) before tax	22.3%

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

On average, grape growers had cost of goods sold of 73.8% of total sales, largely due to labour expenses, which comprised 42.3% 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 34.3% of total sales compared to non-arm's length labour expenses of 8.0% of total sales.

Growers had sales and marketing expenses totalling 0.6% 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 25.6% 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 8.5% of total sales compared to non-arm's length general and administration expenses of 1.1% of total sales.

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 16.0% of total sales.

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT was 6.7% of total sales.

Income from non-grape growing related activities were included in "other non-grape income", which can include income from pressing and harvesting services, equipment rentals and sales and consulting. Other non-grape income was 18.4% of total sales.

Growers achieved profit of 22.3% before tax on average, with 62.3% of growers reporting a pre-tax profit compared to 37.7% reporting a loss.

BALANCE SHEET 2018

	% of total assets
Cash	4.5%
Accounts receivable	5.2%
Inventory	0.4%
Other current assets	3.0%
Total current assets	13.2%
Land and land improvements	26.1%
Vineyards	23.7%
Buildings and improvements	9.8%
Equipment	11.4%
Other fixed assets	3.7%
Total net fixed assets	74.7%
Purchased goodwill and other intangible assets	0.6%
Investments	9.8%
Other assets	1.7%
Total assets	100.0%
Bank indebtedness	8.0%
Accounts payable and accrued liabilities	3.6%
Other current liabilities	3.9%
Total current liabilities	15.6%
Long term liabilities	20.7%
Total liabilities	36.3%
Capital stock	13.2%
Retained earnings	50.5%
Total equity	63.7%
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 surveyed achieved profit of 22.3% before tax on average, primarily by diversifying the business into non-grape producing areas.

Growers held net fixed assets of 74.7% of total assets. Land and land improvements made up the largest portion of net fixed assets at 26.1% of total assets, followed by vineyards at 23.7% of total assets.

Current assets accounted for 13.2% of total assets, with inventory the smallest category with 0.4% 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 below 1.0, indicating current assets do not 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 equity than debt, indicated by a ratio below 1.0.

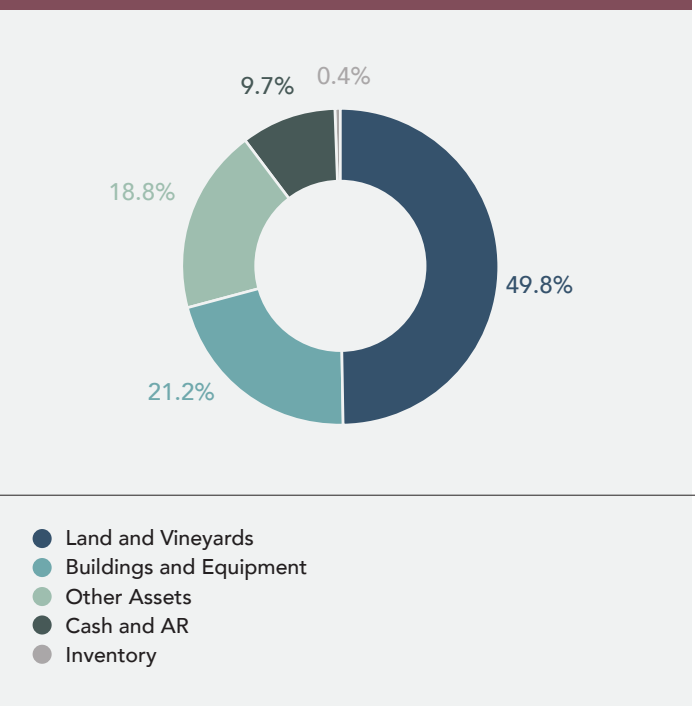
The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt.

Efficiency Ratios

Inventory turnover is calculated as cost of goods sold divided by inventory, indicating the number of times inventory has been sold in the year and was calculated at 43.0. It is unusual to see an inventory turnover ratio of this magnitude in most industries, but because of the perishable nature of the product, actual inventory held by grape growers is considerably lower and therefore increases the magnitude of the ratio. This is further amplified given the time of year data is collected and typical fiscal year ends for the growers surveyed.

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 0.3 for growers.

ASSET SUMMARY 2018

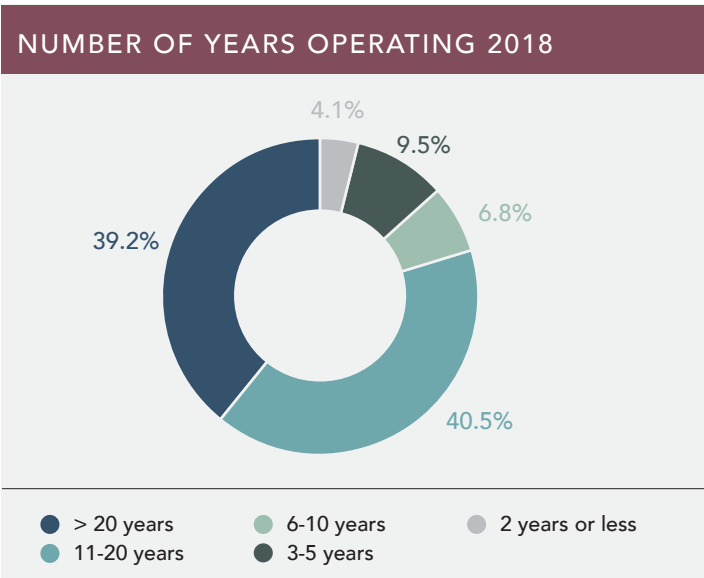


KEY FINANCIAL RATIOS 2018

Solvency ratios	
Current ratio	0.8
Debt to equity ratio	0.6
Debt to tangible assets	0.4
Efficiency ratios	
Inventory turnover	43.0
Fixed asset turnover	0.3

Operational Information

OPERATIONAL BACKGROUND

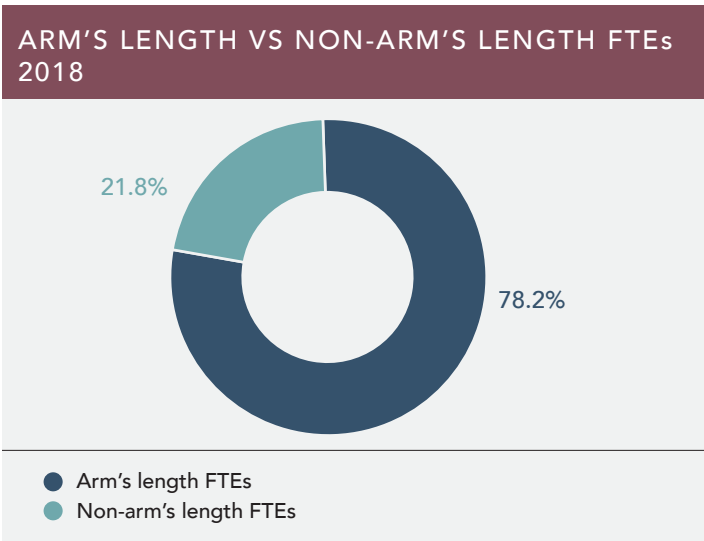
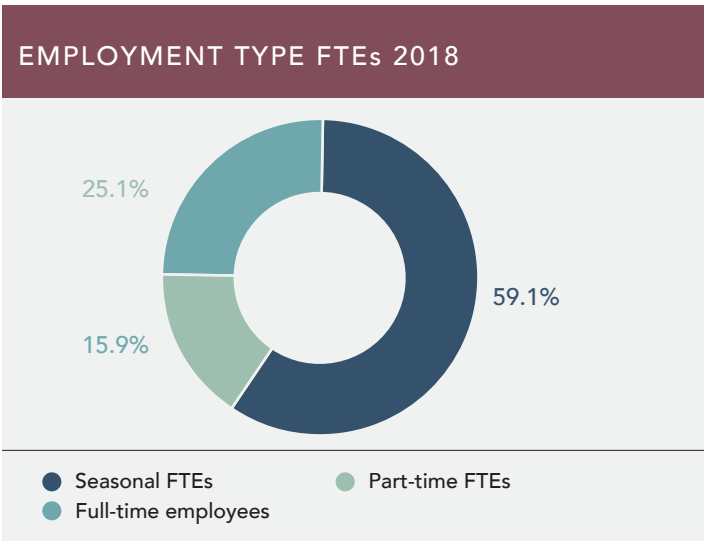


Years of Operation
Grape growers averaged 25.4 years of operation, with 39.2% of businesses in operation for more than 20 years and 40.5% in operation for 11 to 20 years.

Production	Metric
Average planted acres – bearing	64
Average planted acres – non-bearing	10
Average grapes produced (Tonnes)	300
Yield per bearing acre (Tonnes/Acre)	4.7

Note: Amounts represent the average acres, tonnes and yield

EMPLOYMENT



Employment Detail 2018, Average FTEs

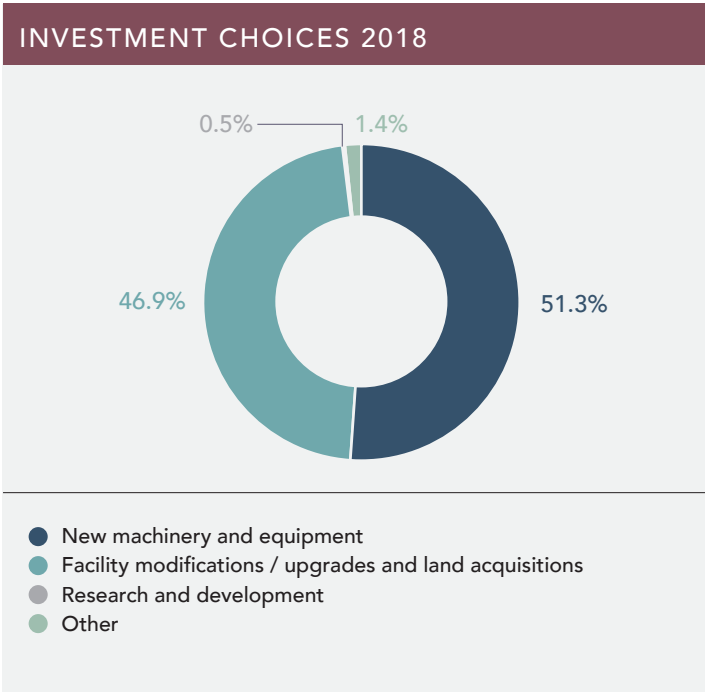
Employment Type	Average FTEs
Full-time employees	1.9
Seasonal FTEs	4.6
Part-time FTEs	1.2
Total	7.7

Growers relied heavily on seasonal employees, with seasonal FTEs making up 59.1% 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 21.8% of total FTEs for growers.

INNOVATION AND INVESTMENTS

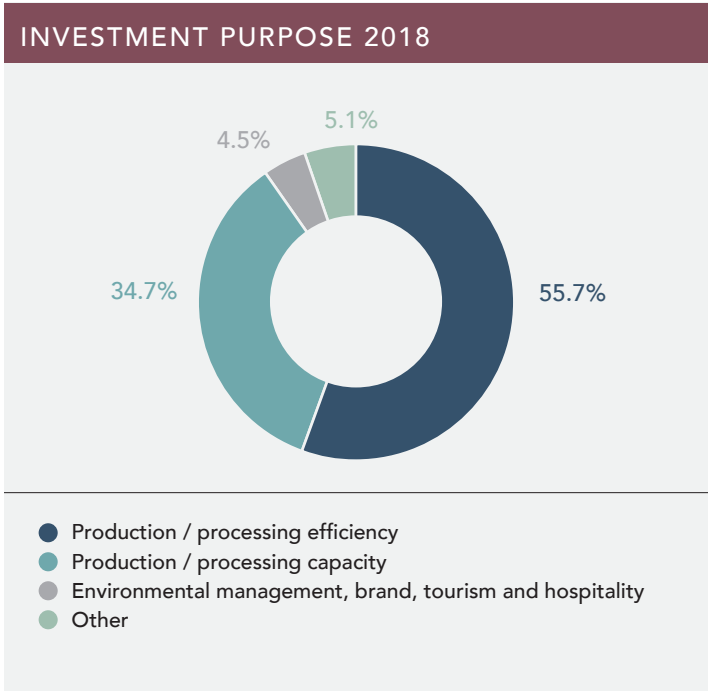
CURRENT INVESTMENTS

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 51.3% of total investments, and facility modification / upgrades and land acquisitions at 46.9% of total investments. Investments in research and development and other areas were lower at a combined 1.9% of total investments.



Purpose of Investment

The largest proportion of investments were made with the purpose of improving production / processing capacity, at 55.7% of total investments, followed by production / processing efficiency at 34.7%. A combined 5.1% were made into other investments and environmental management, brand and tourism and hospitality accounted for 4.5% of total investment.

PLANNED INVESTMENTS IN THE COMING FIVE YEARS

Planned Investment Choice 2018

High  Medium  Low  None 

New machinery and equipment



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

Facility modifications/upgrades and land acquisitions



Research and development



Planned Investment Purpose 2018

Production/processing capacity



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

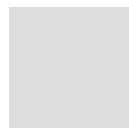
Production/processing efficiency



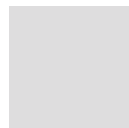
Environmental management



Brand



Tourism and Hospitality

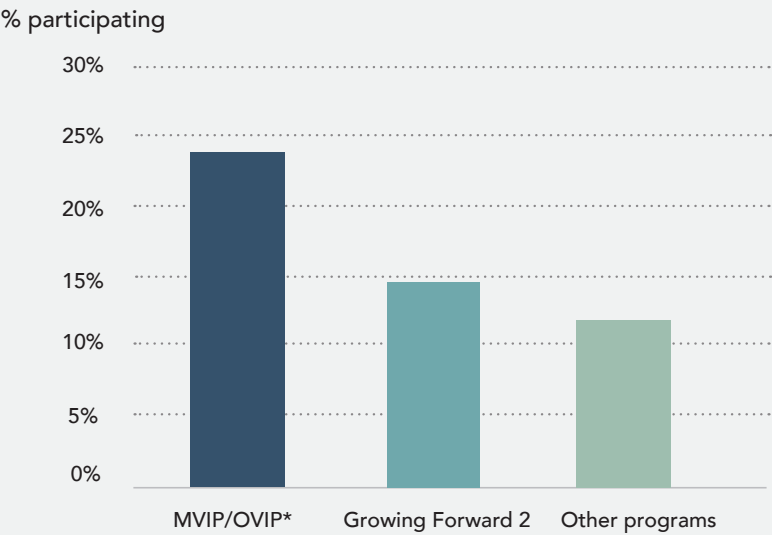


Business Climate

Government Programs

Growers participated the most in the MVIP / OVIP program with 24.0% participation, followed by Growing Forward 2 at 14.7% participation.

PROGRAM PARTICIPATION 2018



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

CHALLENGES FACING THE ONTARIO INDUSTRY 2018

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.



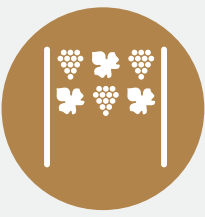
CHALLENGES

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, dining 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	Non-wine merchandise sales at the winery retail store.
Net wine Sales	Wine sales through all channels less 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, 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 limited time offers 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, equipment and other fixed assets.

ONTARIO WINE AND GRAPE INDUSTRY PERFORMANCE STUDY 2018 WORKING GROUP

The Ontario Wine and Grape Industry Performance Study 2018 was produced under the guidance of a 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

Ontario Craft Wineries
www.ontariocraftwineries.ca

Grape Growers of Ontario
www.grapegrowersofontario.com

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

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

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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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