



Ontario Wine and Grape Industry Performance Study

2019

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

March 2020



Deloitte.



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Welcome

MESSAGE FROM VQA ONTARIO

Welcome to the Ontario wine and grape industry performance study.

Welcome to the annual Ontario Wine and Grape Industry Performance Study. This is the fifth benchmarking survey conducted as 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 2019 shows similar overall growth trends as previous years, with some variation among the participant groups.

As this is the fifth year of the study, this report includes a summary of selected data collected over the five-year period from 2015-2019. Due to changes in participation (different wineries completing the survey over different years) and movement between the segments, aggregated findings may not be directly comparable from year to year. Caution should be used when interpreting data because a direct year over year comparison would not be entirely valid.

We thank all participants who made the considerable effort to complete the detailed survey and provide us with feedback for future improvements. Your contributions have been 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 appellation 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 2020



The Ontario wine industry in 2019 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 fifth 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 fifth year of the study commenced in July 2019 and included an industry survey administered between October and December 2019. The survey was responded to by 182 businesses, representing 97 vertically integrated wineries, 13 wineries that do not operate a grape growing business and 72 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 17% of grapes grown. Independent Grape Grower respondents account for approximately 27% 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 the previous years due to a changes in respondents within each segment.

HOW TO READ THIS REPORT

The report is divided into five 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;
4. **Grape Growers Performance Summary** provides financial, operational and business climate information for grape growers; and
5. **Five-Year Retrospective** includes an overview of selected data collected over the five year period from 2015-2019.

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	2018	2019
Wineries					
\$10M+	8	9	9	8	8
\$5M–10M	6	5	7	8	9
\$2M–5M	16	18	17	19	19
\$0.5M–2M	36	42	47	46	39
\$0M–0.5M	40	36	36	25	35
Total	106	110	116	106	110
Grape Growers					
\$0M–3M	42	53	47	75	72

NOTES

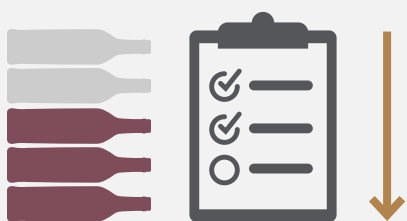


1. **Consolidated rates** were calculated to represent the average performance for each segment.
2. **110 wineries participated** in the study, representing a response rate of 48% based on the number of grape wineries operating in the province. Winery respondents account for an estimated 96% of all wine made in Ontario and about 17% of grapes grown.
3. **72 Grape Growers participated** in the study, representing approximately 15% of growers operating in the province. Grape Grower respondents account for approximately 27% 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.

Key Facts 2019

Note: When interpreting results, aggregated findings may vary from previous years due to changes in respondents within each segment.



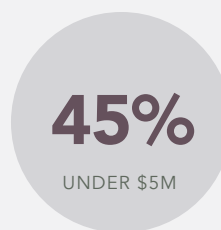
AVERAGE WINE INVENTORY VOLUMES
AMONGST THE LARGEST WINERIES
DECREASED IN 2019



ASIA CONTINUED TO BE THE **TOP RANKED**
INTERNATIONAL EXPORT MARKET, FOLLOWED BY
NORTH AMERICA (EXCLUDING CANADA)



WINERIES LOOKED TO **PRODUCTION / PROCESSING
CAPACITY, TOURISM AND HOSPITALITY, AND
PRODUCTION / PROCESSING EFFICIENCY**
AS THE TOP INVESTMENT PURPOSES IN 2019



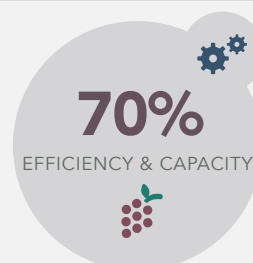
**45% OF WINERIES UNDER \$5M AND
88% OF WINERIES OVER \$5M ARE PROFITABLE**



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



IN 2019, THE AVERAGE NUMBER OF **ANNUAL
VISITORS** AT WINERIES WITH **LESS THAN \$2M** IN
SALES **INCREASED**, WHEREAS WINERIES WITH **OVER
\$2M** IN SALES SAW AVERAGE VISITS **DECREASE**



OVER 70% OF INVESTMENT FROM
GRAPE GROWERS IN 2019 WAS FOCUSED
TOWARDS INCREASING **PRODUCTION
CAPACITY AND PRODUCTION EFFICIENCY**

Financial Information



Profitability and Financial Position

INCOME STATEMENT 2019

Winery size (2019 sales)

	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Net VQA wine sales	64.0%	71.3%	70.6%	73.2%	37.8%
Net non-VQA wine sales	9.2%	4.1%	1.4%	2.6%	56.1%
Grape sales	4.5%	1.0%	3.0%	1.1%	0.0%
Merchandise sales	2.8%	2.6%	3.7%	1.6%	1.9%
Hospitality sales	5.5%	2.6%	4.5%	7.9%	0.6%
Onsite food and wine service sales	3.7%	9.6%	8.5%	10.4%	1.8%
Other sales	8.9%	5.5%	3.5%	1.1%	1.3%
Grants and programs	1.5%	3.3%	4.8%	2.1%	0.5%
Total sales	100.0%	100.0%	100.0%	100.0%	100.0%
Raw materials	-17.2%	-25.1%	-20.5%	-19.7%	-24.0%
Arm's length labour	-21.9%	-17.6%	-13.3%	-16.3%	-3.6%
Non-arm's length labour	-12.0%	-3.4%	-1.1%	-0.7%	0.0%
Packaging	-7.4%	-8.2%	-7.2%	-6.8%	-12.6%
Other direct manufacturing expenses	-11.3%	-10.0%	-11.4%	-6.3%	-9.3%
Total cost of goods sold	-69.9%	-64.3%	-53.5%	-49.7%	-49.6%
Gross margin	30.1%	35.7%	46.5%	50.3%	50.4%
Sales and marketing expenses	-11.0%	-9.9%	-13.4%	-15.4%	-21.5%
Contribution after sales and marketing	19.2%	25.8%	33.1%	34.9%	28.9%
Arm's length general and administration expenses	-21.8%	-19.0%	-20.7%	-18.0%	-8.5%
Non-arm's length general and administration expenses	-4.2%	-4.7%	-2.5%	-5.2%	-0.2%
EBITDA	-6.9%	2.1%	9.9%	11.7%	20.2%
Depreciation and amortization	-10.9%	-6.1%	-8.1%	-4.2%	-1.8%
EBIT	-17.8%	-4.0%	1.8%	7.5%	18.4%
Interest expense	-5.1%	-2.6%	-2.8%	-1.4%	-0.6%
Interest income	2.3%	0.1%	1.9%	0.0%	0.0%
Other non-grape income	0.0%	0.0%	0.0%	0.0%	0.0%
Other non-operating income	5.7%	-2.2%	3.4%	0.1%	0.0%
Foreign exchange gain/(loss)	0.0%	0.0%	0.0%	0.1%	0.0%
Inventory write-downs	-1.7%	-0.5%	-0.5%	0.0%	0.0%
Profit/(loss) before tax	-16.6%	-9.3%	3.8%	6.4%	17.8%

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

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 56.1% of sales compared to 37.8% of sales for VQA wine.

Cost of Goods Sold

Overall trending shows cost of goods sold reducing as wineries increased in total sales. Cost of goods sold were 69.9% of sales for the \$0M–0.5M segment and were lower at 49.6% of sales for \$10M+ segment. Lower cost of goods sold for the largest winery segment were largely driven by lower labour as a percentage of total sales. Labour expenses were 33.9% of sales for the \$0M–0.5M segment and 3.6% for the \$10M+ segment.

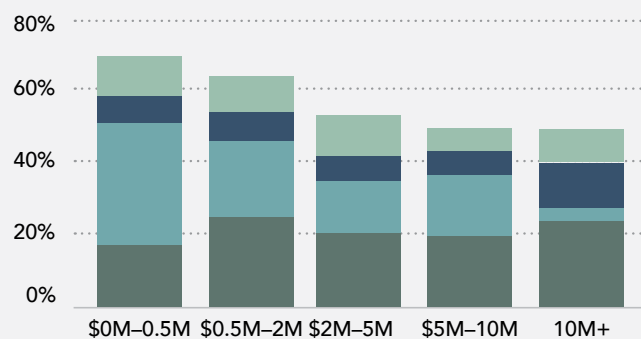
Arm's length labour includes employees who are independent from or are not family members of the employer, while non-arm's length labour may include owners and family members.

Non-arm's length labour made up less than 3.4% of sales in each winery segments with more than \$0.5M sales.

Non-arm's length labour attributed to a higher amount of total labour expense in smaller wineries, with 35.4% in the \$0M–0.5M segment, and 16.1% in the \$0.5M–2M segment.

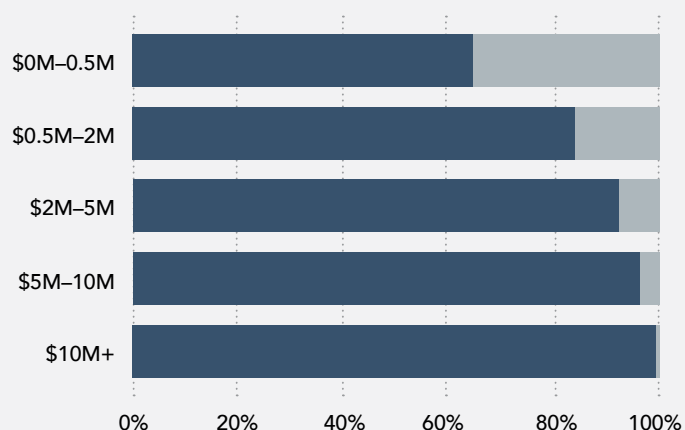
COST OF GOODS SOLD 2019

% of total sales



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

LABOUR EXPENSE 2019



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

Sales and Marketing Expenses

Sales and marketing expenses generally increased with winery size. Sales and marketing accounted for 11.0% of sales for the \$0M-0.5M segment and were higher at 21.5% for the \$10M+ segment.

Contribution after Sales and Marketing

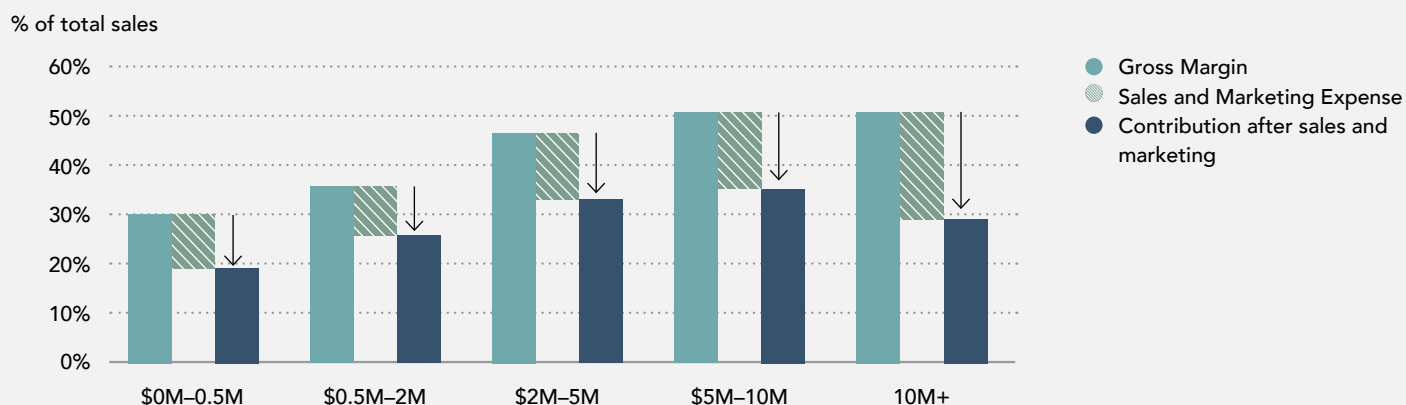
Contribution after sales and marketing is one measure of operating performance, focusing on sales and direct costs of the operating business, as well as marketing expenditure. Production efficiencies realized in lower cost of goods sold for the largest winery segment were reinvested in sales and marketing. This led to a decline in contribution after sales and marketing for the \$10M+ segment, which had a 28.9% contribution after sales and marketing.

General and Administration

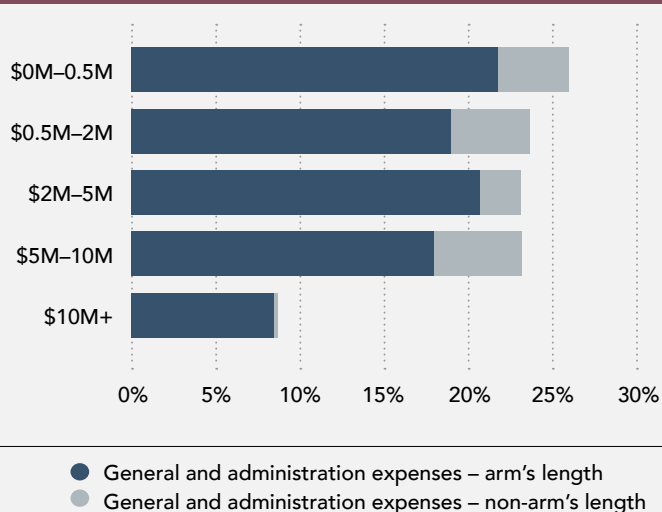
General and administration expenses for wineries with less than \$10M of total sales ranged between 23.2% and 26.1% of sales. General and administration expenses were 8.7% of sales for the \$10M+ segment.

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 business expenses that have a function not exclusive to the business. Non-arm's length expenses were lowest in the \$10M+ segment at 2.3% of total general and administration expenses and highest in the \$5M-10M segment at 22.4% of total general and administration expenses.

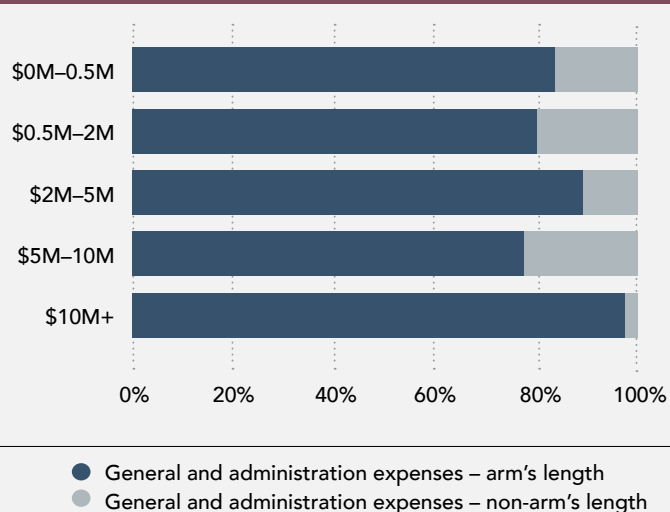
CONTRIBUTION AFTER SALES AND MARKETING 2019



GENERAL AND ADMINISTRATION EXPENSE TOTALS 2019



GENERAL AND ADMINISTRATION EXPENSE SPLITS 2019



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 winery segments with over \$0.5M in total sales and increased on average 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 10.9% of sales for the \$0M–0.5M segment and 1.8% 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 \$2M in total sales. EBIT was -17.8% of sales for the \$0M–0.5M segment, -4.0% for the \$0.5M–2M segment, and 18.4% for the \$10M+ segment.

Profit/Loss Before Taxes

51.8% of winery respondents reported a positive pre-tax profit and 48.2% reported a loss. Larger wineries were generally more likely to be profitable, with 42.9% 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 16.6% loss before tax compared to a 17.8% profit before tax for the \$10M+ winery segment.

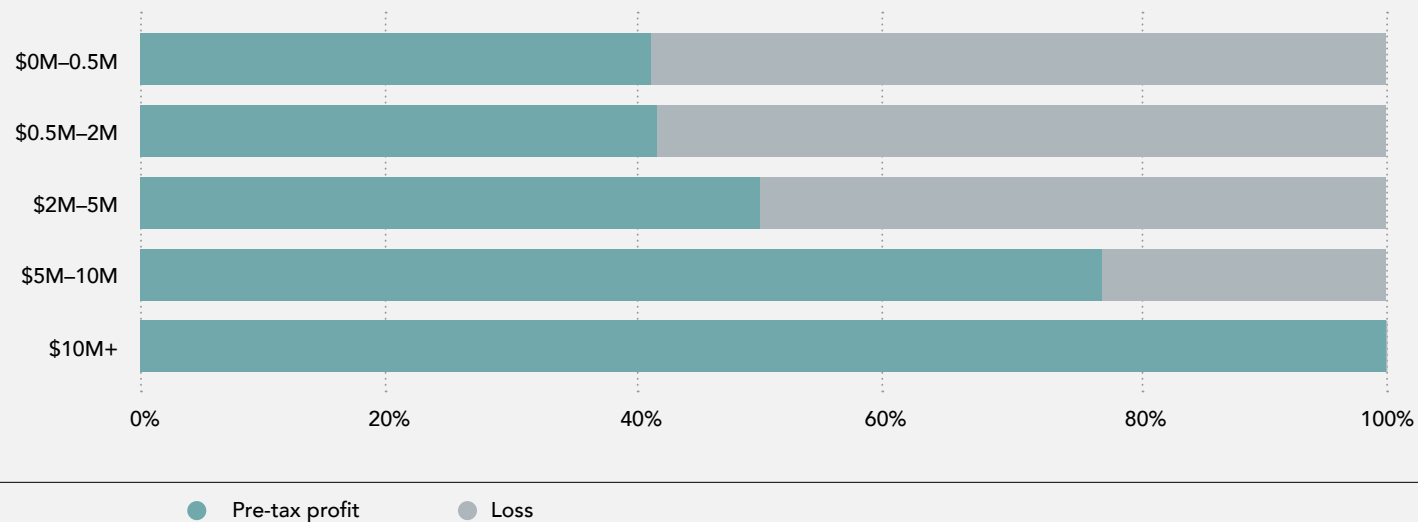
Key Considerations Impacting Profitability (as a % of total sales)

Profit of wineries with less than \$2M in sales is impacted more significantly by higher cost of good sold expenses as a percentage of sales. Larger wineries with \$10M+ sales experienced more significant costs associated with selling and marketing products.

EXPENSES 2019

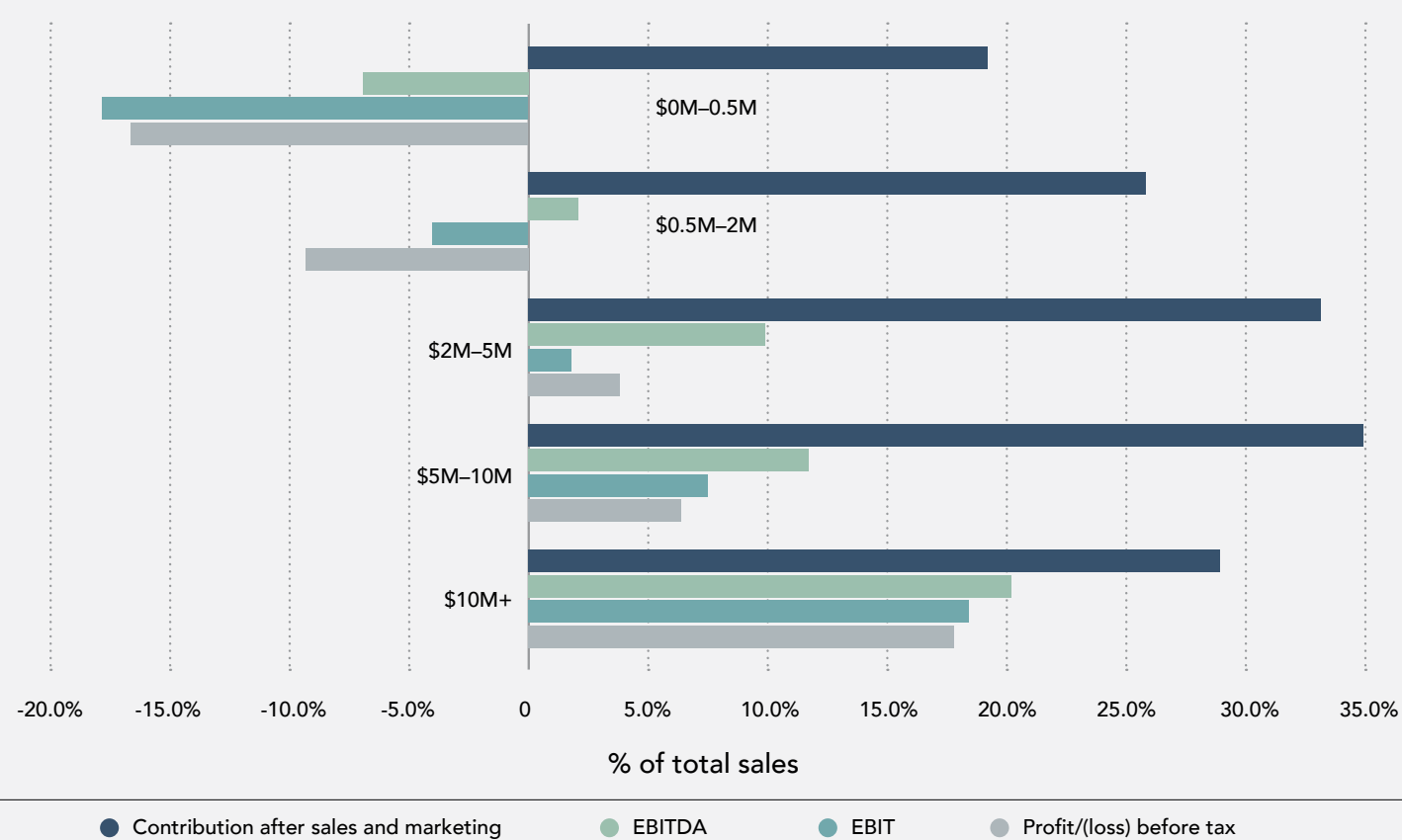


PERCENTAGE OF WINERIES REPORTING PROFIT VS. LOSS 2019



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

PERFORMANCE INDICATORS 2019



BALANCE SHEET 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Cash	2.6%	1.5%	1.6%	1.1%	3.4%
Accounts receivable	2.4%	3.9%	4.4%	5.7%	4.7%
Inventory	17.7%	32.6%	26.0%	39.0%	24.1%
Other current assets	4.0%	0.5%	2.4%	2.8%	0.6%
Total current assets	26.6%	38.6%	34.4%	48.6%	32.7%
Land and land improvements	15.2%	12.1%	11.5%	10.9%	7.7%
Vineyards	10.0%	13.0%	3.8%	1.7%	3.5%
Buildings and improvements	25.0%	19.6%	29.6%	25.8%	15.5%
Equipment	9.3%	11.0%	6.8%	8.0%	11.1%
Other fixed assets	1.2%	1.0%	1.0%	1.2%	0.3%
Total net fixed assets	60.8%	56.8%	52.7%	47.7%	38.2%
Purchased goodwill and other intangible assets	1.0%	3.1%	0.6%	0.3%	28.0%
Investments	10.4%	1.0%	12.3%	0.8%	0.1%
Other assets	1.2%	0.5%	0.1%	2.6%	1.0%
Total assets	100.0%	100.0%	100.0%	100.0%	100.0%
Bank indebtedness	9.7%	4.1%	6.7%	11.1%	2.3%
Accounts payable and accrued liabilities	6.6%	13.4%	4.1%	7.4%	6.1%
Other current liabilities	6.0%	11.5%	5.9%	6.1%	0.5%
Total current liabilities	22.2%	29.0%	16.7%	24.5%	8.9%
Long term liabilities	67.8%	69.2%	94.7%	46.0%	40.9%
Total liabilities	90.0%	98.2%	111.5%	70.6%	49.8%
Capital stock	22.7%	22.4%	3.3%	2.2%	19.9%
Retained earnings	-12.7%	-20.6%	-14.7%	27.2%	30.3%
Total equity	10.0%	1.8%	-11.5%	29.4%	50.2%
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

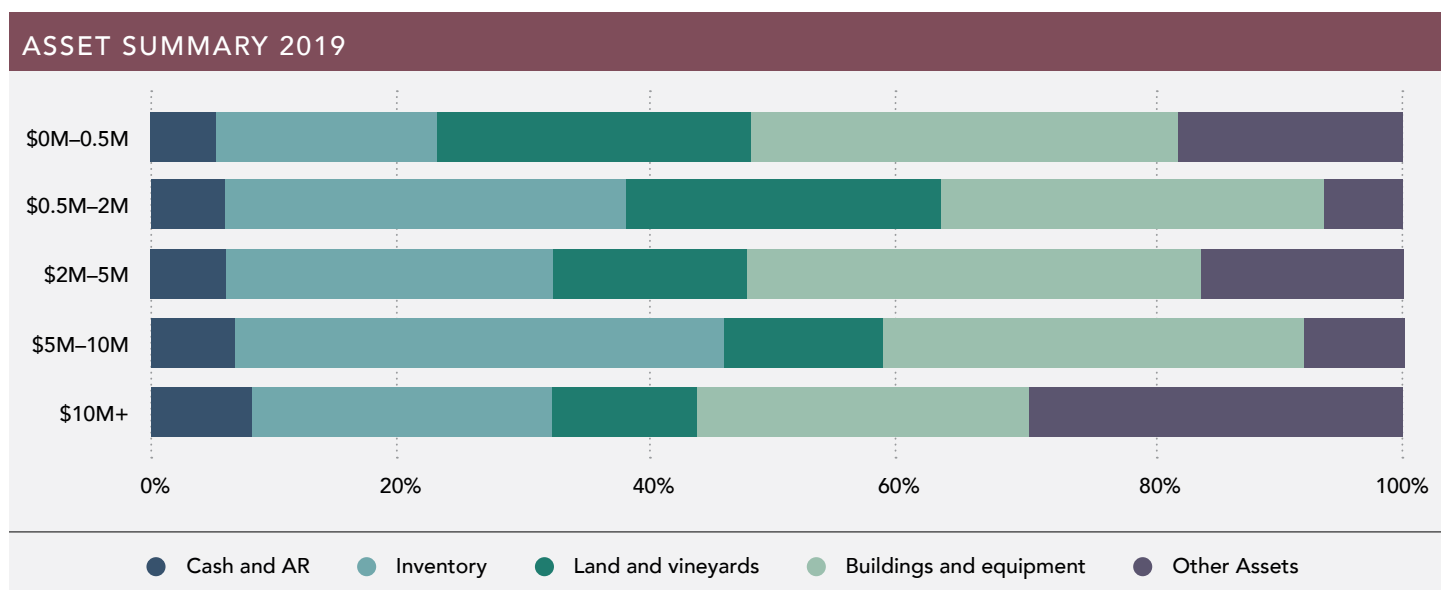
The smallest winery segment held a lower percentage of assets in inventory than larger winery segments. Inventory made up 17.7% of total assets for the \$0M-0.5M segment compared to 39.0% of total assets for the \$5M-10M segment and 24.1% of total assets for the \$10M+ segment.

Smaller winery segments generally had a larger percentage of their assets in net fixed assets compared with larger winery segments. Wineries in the \$0M-0.5M segment held 60.8% of total assets in fixed assets compared with 38.2% for wineries in the \$10M+ segment.

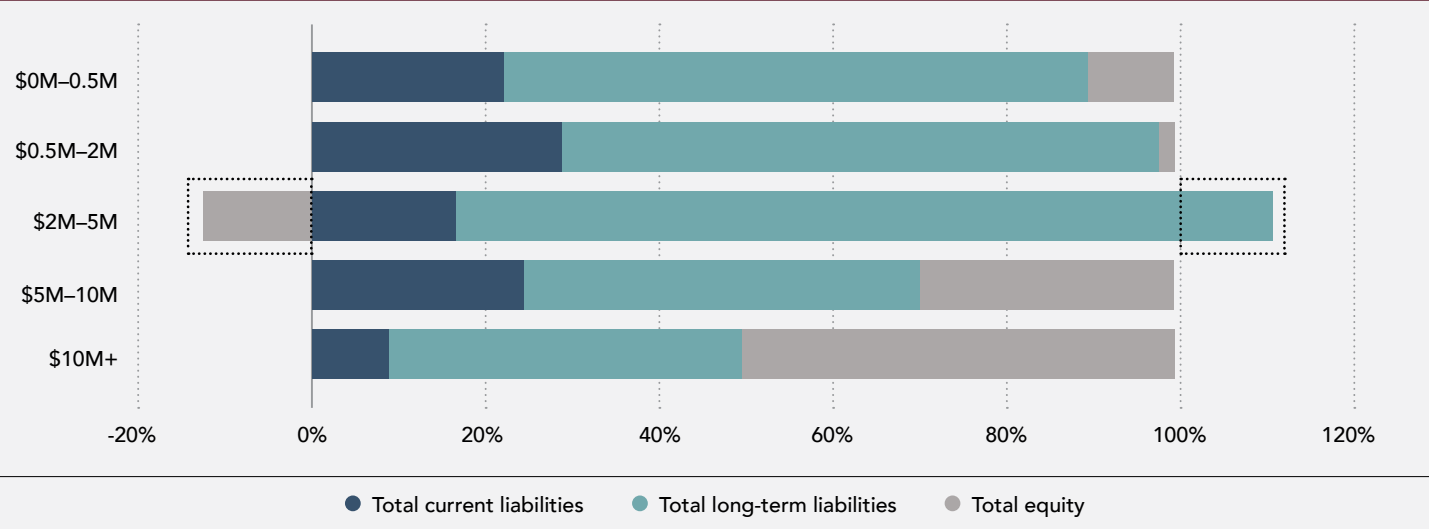
Smaller wineries held a larger percentage of assets in land and vineyards compared to larger wineries. Land and vineyards made up 25.2% of total assets for the \$0M-0.5M segment compared to 11.2% of total assets for the \$10M+ segment.

Smaller wineries generally held a larger percentage of assets in buildings and equipment compared to the largest segment. Buildings and equipment made up 34.3% of total assets for the \$0M-0.5M segment compared to 26.6% 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 1.0% of total assets for the \$0M-0.5M segment, 3.1% for the \$0.5M-2M segment, 0.6% for the \$2M-5M segment, 0.3% for the \$5M-10M segment, compared to 28.0% for the \$10M+ segment.

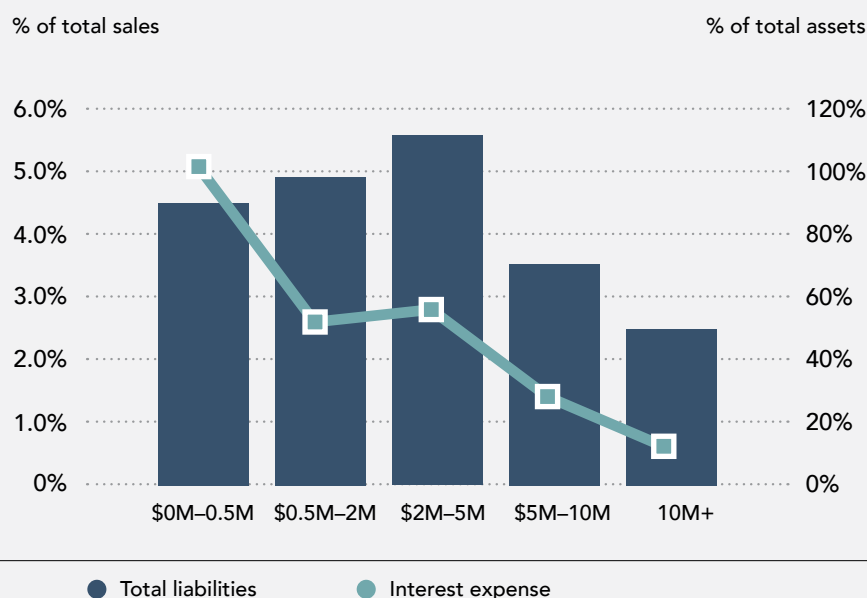


LIABILITIES AND EQUITY 2019



Note: negative equity and liabilities greater than assets were observed in the \$2-5M segment

INTEREST EXPENSE AND TOTAL LIABILITIES 2019



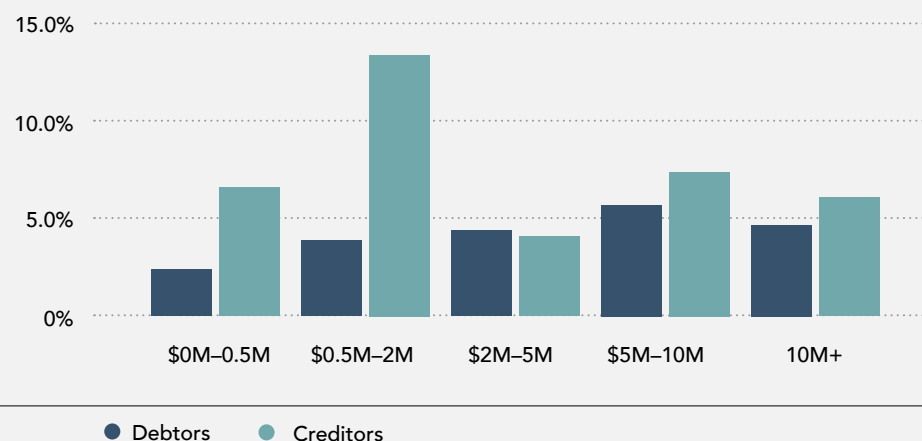
Liabilities and Equity

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 90.0% in liabilities and 10.0% in equity, compared to 49.8% in liabilities and 50.2% in equity for wineries in the \$10M+ segment.

Interest expense on the income statement generally decreased as wineries increased in size, from 5.1% of sales for \$0M-0.5M wineries to 0.6% of sales for \$10M+ wineries.

DEBTORS VS CREDITORS 2019

% of total assets



Assets vs. Liabilities

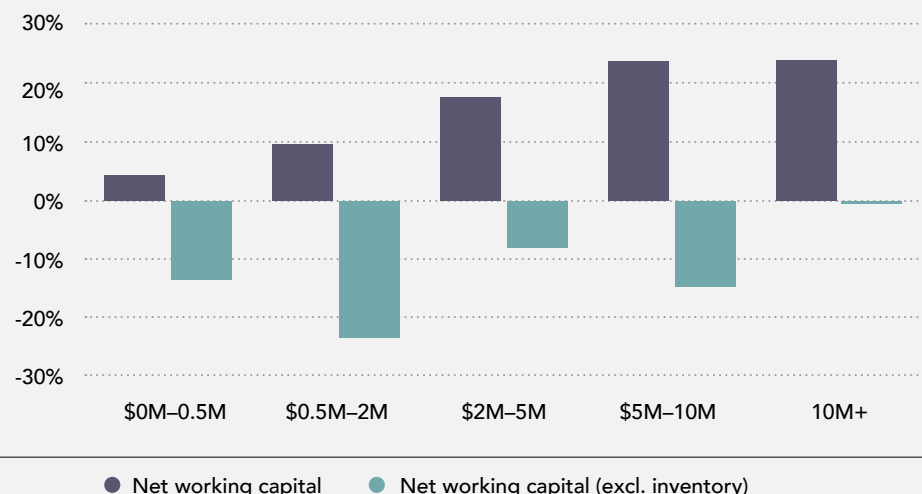
Creditors, represented by accounts payable and accrued liabilities, were higher than debtors, represented by accounts receivable across all segments except for the \$2M-5M segment where debtors were higher than creditors.

As a percentage of total assets, the \$0.5M-2M segment had the highest percentage of creditor liabilities with 13.4%.

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.

NET WORKING CAPITAL 2019

% of total assets



CURRENT ASSETS AND LIABILITIES 2019



● Cash
 ● Accounts receivable
 ● Inventory
 ● Other current assets

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

CA: Current assets
 CL: Current liabilities

KEY FINANCIAL RATIOS 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Solvency ratios					
Current ratio	1.2	1.3	2.1	2.0	3.7
Debt to equity ratio	9.0	54.0	(9.7)	2.4	1.0
Debt to tangible assets	0.9	1.0	1.1	0.7	0.7
Efficiency ratios					
Inventory turnover	0.7	0.8	0.8	0.9	1.3
Fixed asset turnover	0.3	0.8	0.7	1.4	1.6

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. Note that the \$2M–5M segment was negative due to a negative equity balance. The debt to equity ratio was smallest in wineries with total sales above \$5M, indicating a lower proportion of debt financing at larger 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. The \$2M–5M segment had a ratio of 1.1, while all other winery segments had ratios at or below 1.0. The \$5M–10M and \$10M+ segments had the lowest ratios.

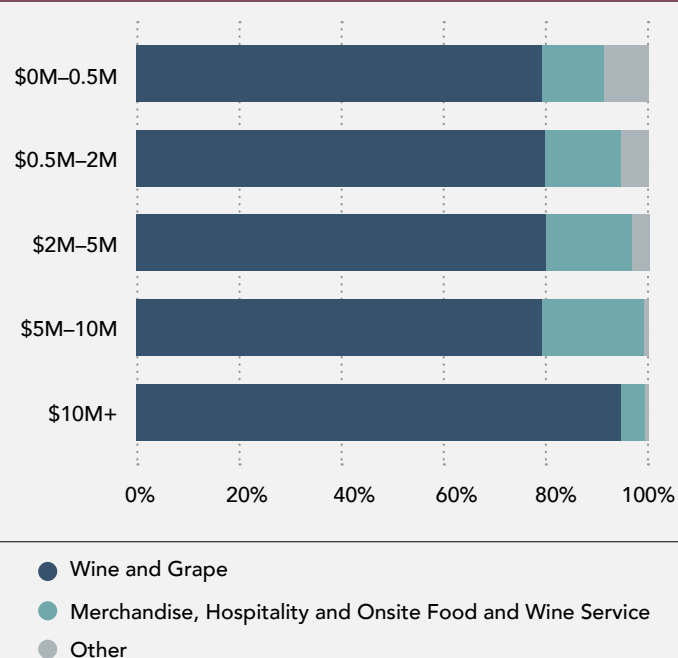
Efficiency Ratios

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 generally increased with winery size, indicating that larger wineries were able to use their fixed assets to generate income more efficiently.

Line of Business Financials

LINE OF BUSINESS SALES 2019



Line of Business Sales

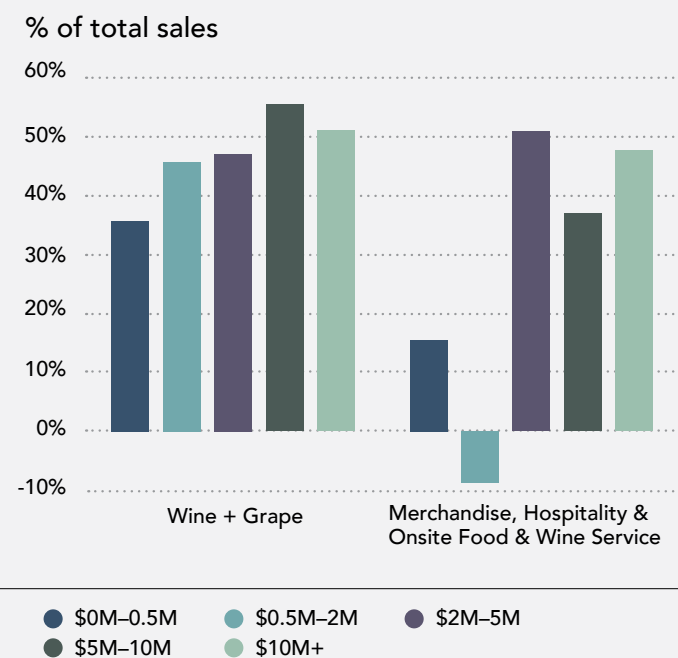
Including grants and programs, wine and grape sales comprised at least 79.0% of total sales across all winery segments.

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 14.7% of sales derived from these lines of business compared with the \$0M-0.5M and \$10M+ segments.

For the \$0M-0.5M segment, 12.0% of total sales were attributed to merchandise, hospitality and onsite food and wine service sales.

For the \$10M+ segment, 4.3% of total sales were attributed to merchandise, hospitality and onsite food and wine service sales.

LINE OF BUSINESS GROSS MARGIN 2019



Line of Business Gross Margin

Wine and grape gross margin generally trended upwards with winery size. The \$0M-0.5M segment had the smallest wine and grape gross margin percentage at 35.3%, while the \$5M-10M segment had the largest wine and grape gross margin percentage at 54.8%.

Wineries in the \$0M-0.5M segment had the smallest gross margin percentage of all segments on the wine and grape line of business, while the \$0.5M-2M segment had negative gross margin percentage on the merchandise, hospitality and onsite food and wine service lines of business.

The \$2M-5M segment generated a higher gross margin percentage on Merchandise, Hospitality, and Onsite Food and Wine Service than the Wine and Grape business line.

Sales

WINE SALES DETAIL 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Wine Sales by Channel (VQA and Non-VQA)					
LCBO	6.1%	16.5%	29.9%	30.6%	38.6%
Winery retail store	74.8%	54.3%	41.9%	38.8%	42.1%
Farmers' market	3.0%	0.6%	0.4%	0.1%	0.1%
Delivered direct to licensees	13.4%	16.2%	18.7%	23.2%	5.6%
Sales to other provinces	0.7%	2.3%	2.0%	2.6%	5.7%
Export	0.0%	6.4%	5.5%	3.0%	6.5%
Other	1.9%	3.7%	1.6%	1.7%	1.5%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Product Type (VQA and Non-VQA)					
Table wine	88.5%	85.6%	90.9%	85.2%	84.0%
Sparkling wine	5.3%	6.1%	3.2%	3.2%	3.0%
Icewine	4.0%	5.1%	5.0%	8.5%	8.1%
Other grape	0.6%	0.9%	0.3%	2.8%	4.3%
Other non-grape	1.5%	2.3%	0.7%	0.3%	0.7%
Total	100.0%	100.0%	100.0%	100.0%	100.0%
Wine Format (VQA and Non-VQA)					
Packaged wine	90.7%	97.2%	96.6%	98.1%	98.6%
Bulk wine	9.3%	2.8%	2.6%	1.9%	1.4%
Bulk juice	0.0%	0.0%	0.8%	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" by dollars. Amounts may not sum to subtotals due to rounding.

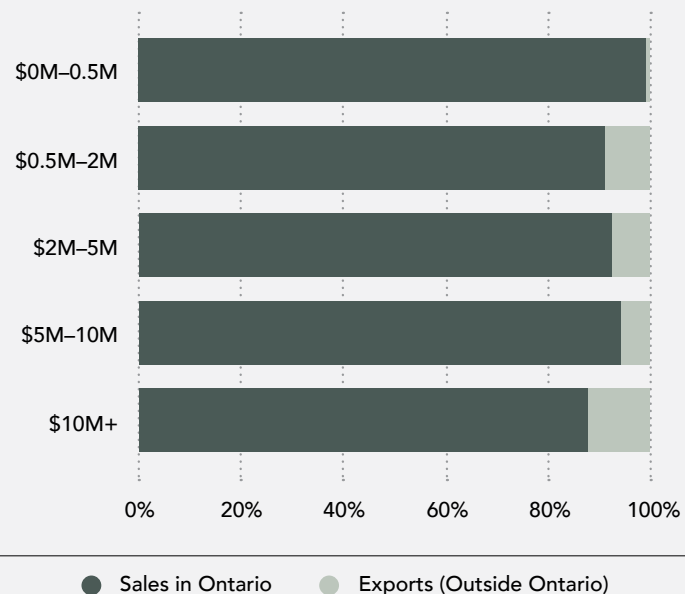
Wine Sales by Channel

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 the primary sales channel. Wineries in the \$0M–0.5M segment had 6.1% of sales through the LCBO compared to 38.6% for the \$10M+ segment.

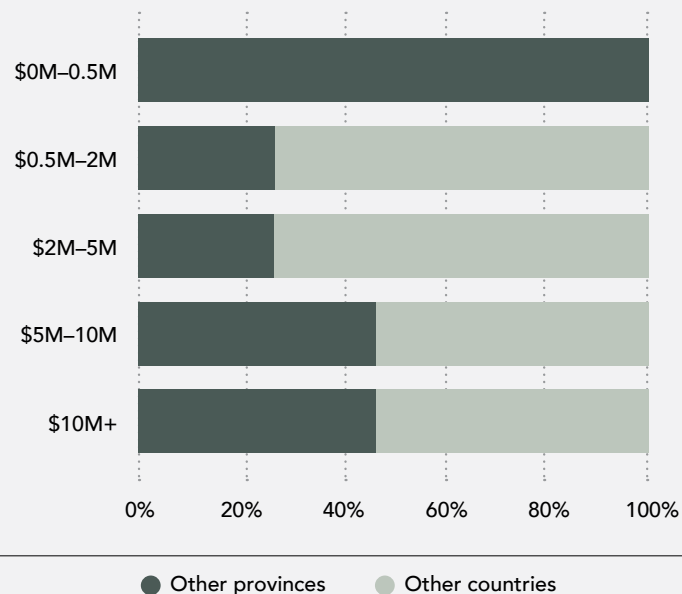
The majority of wine produced in Ontario was sold in Ontario. Wine sold outside of Ontario reached a maximum of 12.2% of sales for the \$10M+ segment, with 5.7% of sales to other provinces and 6.5% of sales to other countries.

Wineries with sales above \$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 100%.

SALES IN ONTARIO VS. SALES OUTSIDE OF ONTARIO 2019



SALES OUTSIDE OF ONTARIO BY GEOGRAPHY 2019

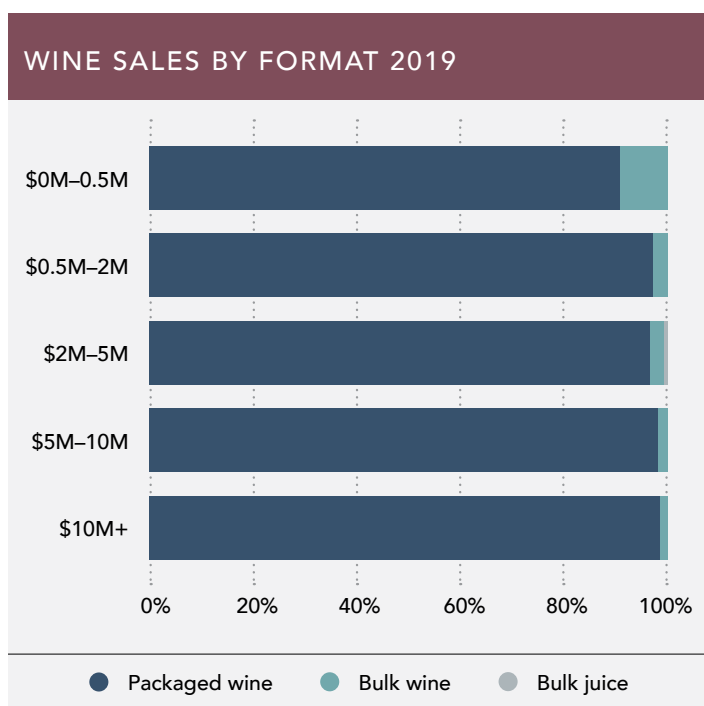


Wine Sales by Product Type

Wineries in the \$2M-5M segment attributed 90.9% of sales to table wine compared to 84.0% 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 4.0% of sales to icewine compared to 8.5% for the \$5M-10M segment and 8.1% for the \$10M+ segment.

Wine Sales by Format

Wineries in the \$0M-0.5M segment attributed 90.7% of sales to packaged wine compared to 98.6% for the \$10M+ segment.



WINE SALES BY PRODUCT TYPE AND WINE FORMAT 2019

(SALES DOLLARS PER LITRE)

	Winery size (2019 sales)				
	\$0M-0.5M	\$0.5M-2M	\$2M-5M	\$5M-10M	\$10M+
Wine Product Type (VQA and Non-VQA)					
Table wine	20.71	18.08	14.35	14.29	6.30
Sparkling wine	19.85	23.34	21.20	24.65	8.71
Icewine	147.50	43.65	51.06	97.68	69.61
Wine Format (VQA and Non-VQA)					
Packaged wine	23.03	18.12	16.27	15.22	6.80
Bulk wine	4.88	3.13	2.96	4.51	3.55

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 decrease 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 2019



RANKING OF RELATIVE IMPORTANCE OF CANADIAN EXPORT MARKETS 2019

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

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

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

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

- \$2–5M** 1. Asia
2. Europe
3. North America (excluding Canada)
4. South America

- \$2–5M** 1. Quebec
2. Prairies
3. Atlantic
4. British Columbia

- \$5–10M** 1. North America (excluding Canada)
2. Europe
3. Asia

- \$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. Quebec
2. British Columbia
4. Atlantic

- For international exports, the \$0M-0.5M and \$5M-10M segments viewed North America as the most important global export market, while the remaining segments viewed Asia as the most important global export market.
- Within Canada, wineries generally view Quebec and the Prairies as the most important domestic export markets.

Operational Information



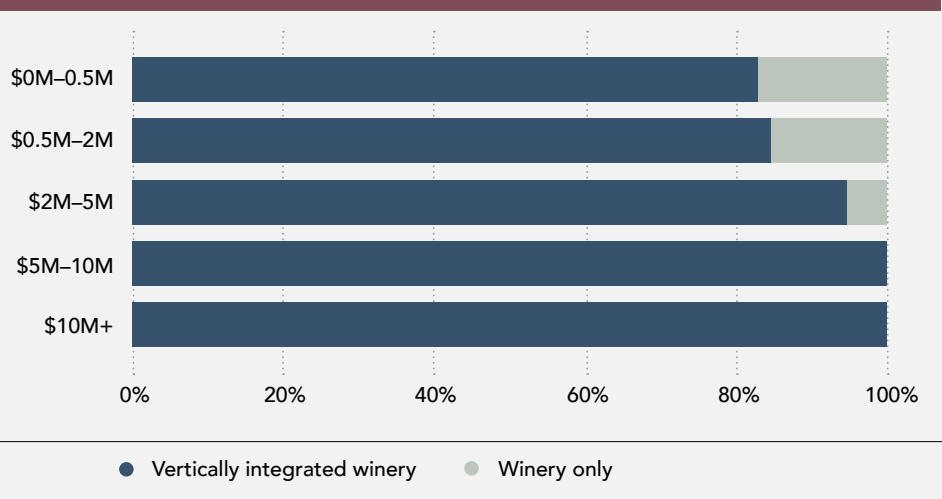
Operational Background

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; 17.1% of wineries in the \$0M-0.5M segment, 15.4% of wineries in the \$0.5M-2M segment, and 5.3% of the \$2M-5M segment did not grow grapes.

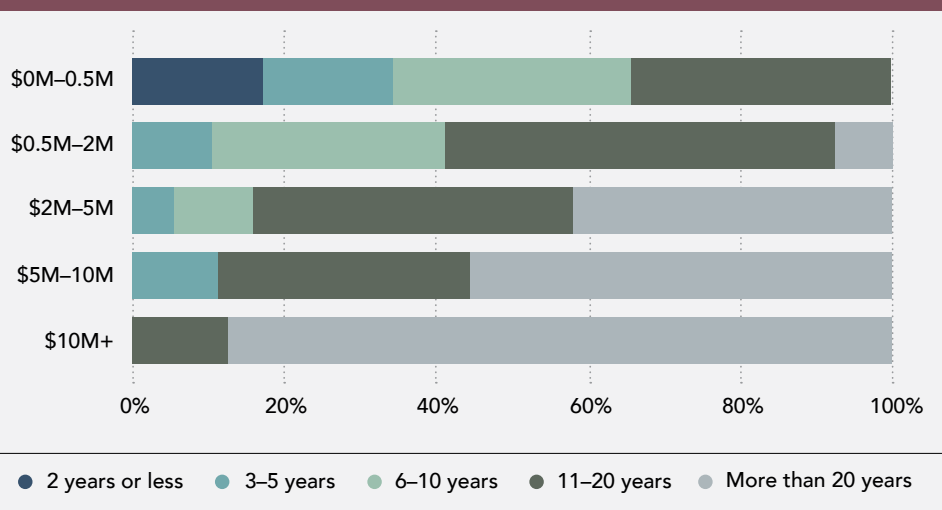
PARTICIPATION IN GRAPE GROWING 2019



Number of Years Operating

The number of years in operation generally increased with size. In the \$0M-0.5M segment, 34.3% of wineries operated for 5 years or less. In the \$10M+ segment, 87.5% of wineries have operated for over 20 years.

NUMBER OF YEARS WINERY OPERATING 2019



Inventory and Production

INVENTORY DETAIL 2019 (AVERAGE LITRES PER BUSINESS)

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Table wine – bulk	15,783	64,735	172,718	335,715	6,679,755
Table wine – packaged	11,807	54,741	132,504	297,712	1,546,646
Table wine – juice	298	2,443	-	-	-
Total table wine	27,888	121,920	305,222	633,427	8,226,401
Icewine – bulk and packaged	125	2,946	10,955	12,092	157,930
Icewine – juice	11	3	277	-	13,355
Total icewine	136	2,949	11,232	12,092	171,285
Other grape wine – bulk, packaged and juice	34	176	848	23,425	71,784
Total	28,058	125,045	317,302	668,944	8,469,470

Note: Note: Amounts represent the average number of litres held per winery. Amounts may not sum to subtotals due to rounding.

- The \$10M+ segment held 88.3% of the total volume of table wine in inventory captured in this survey.
- For all segments, at least 94.7% of inventory was table wine.
- The \$10M+ segment held 18.3% of total inventory as packaged table wine, whereas, all other segments held at least 41.8% of total inventory as packaged table wine.

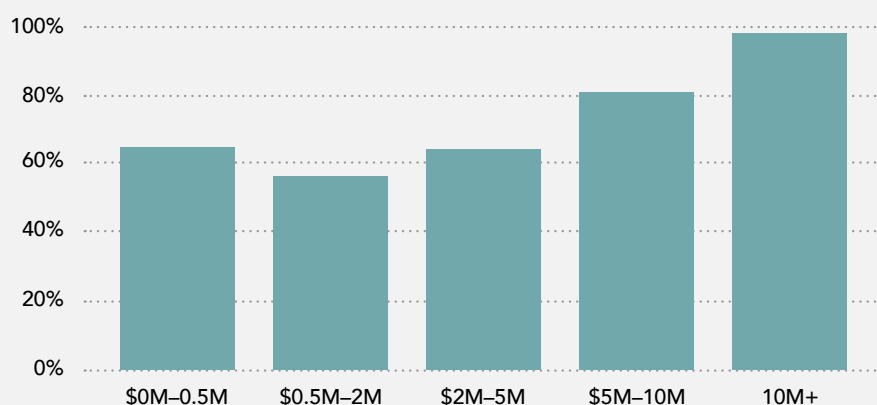
WINE PRODUCTION DETAIL 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average litres of wine produced	15,715	63,492	168,835	365,401	9,862,215
Average maximum production capacity based on cooperage	24,193	115,497	264,217	441,493	10,051,191

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

WINE PRODUCTION UTILIZATION 2019

% utilization



Wineries in all segments below \$5M in sales used less than or equal to 65.0% of their production capacity (calculated as production divided by capacity). Lower utilization suggests there is unused capacity relative to demand.

GRAPE PRODUCTION DETAIL FOR WINERIES 2019

Winery size (2019 sales)

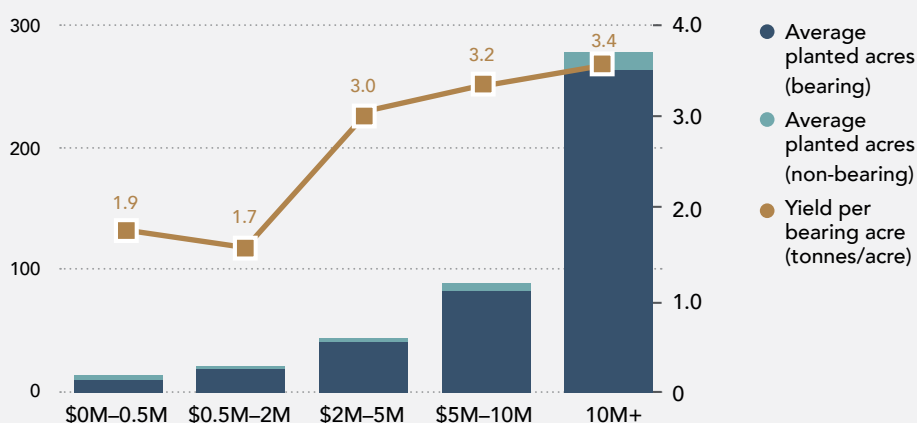
	\$0M-0.5M	\$0.5M-2M	\$2M-5M	\$5M-10M	\$10M+
Average planted acres – bearing	10	19	41	82	262
Average planted acres – non-bearing	4	3	3	7	15
Average grapes produced (Tonnes)	20	32	123	262	891
Yield per bearing acre (Tonnes/Acre)	1.9	1.7	3.0	3.2	3.4

Note: Amounts represent the average acres, tonnes and yield by winery as indicated. Amounts may not sum to subtotals due to rounding.

GRAPE PRODUCTION 2019

Acres

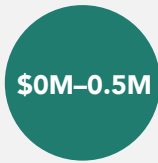
Yield (tonnes per acre)



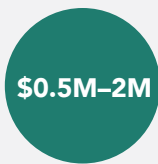
Total grape acreage available and grape tonnage produced generally increased as the segment size increased.

The three largest winery segments had the highest yield per bearing acre.

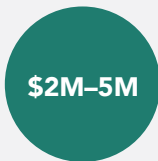
CAPACITY CONSTRAINTS RANK 2019



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



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



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



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



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

Tank capacity was ranked as the top constraint for all but one winery segment.

- Tank capacity was ranked as the top constraint for all winery segments except the \$5M-10M segment where it was ranked second.
- Fermentation was ranked as a top two constraint for all winery segments except the \$2M-5M segment where it was ranked third.

Employment

EMPLOYMENT DETAIL 2019, AVERAGE FULL TIME EQUIVALENTS (FTES)

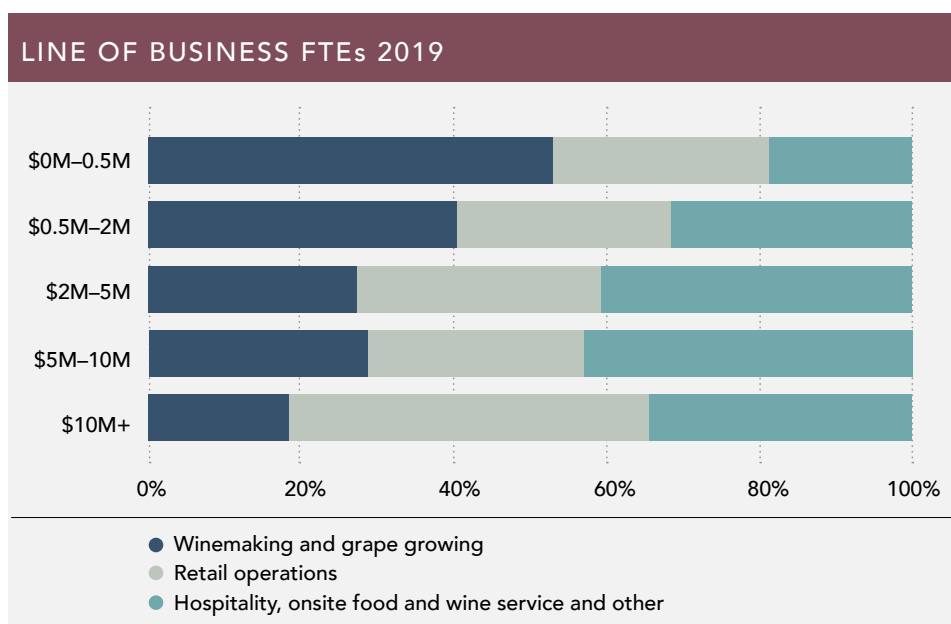
	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average FTEs by Employee Type					
Full-time employees	3.1	6.0	12.4	27.8	155.1
Seasonal FTEs	1.3	3.1	4.3	11.3	20.1
Part-time FTEs	0.5	1.7	5.2	13.1	99.5
Total	4.9	10.7	22.0	52.2	274.7
Average FTEs by Line of Business					
Wine making and grape growing	2.6	4.3	6.0	14.9	50.4
Retail Operations	1.4	3.0	7.0	14.8	129.7
Hospitality, onsite food and wine service and other	0.9	3.4	9.0	22.5	94.6
Total	4.9	10.7	22.0	52.2	274.7

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

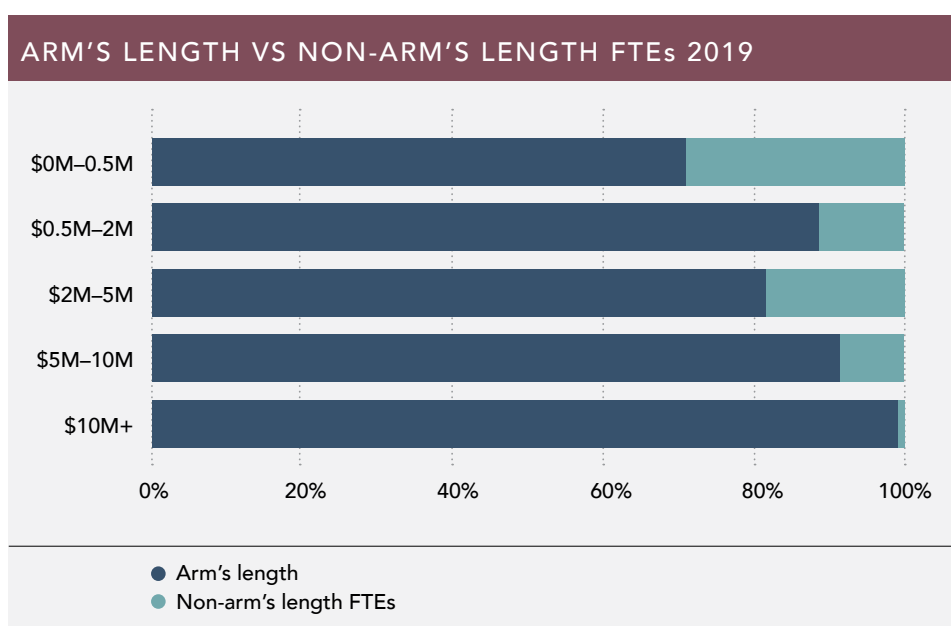
The average full time employee (FTE) count for each winery segment increased as total sales increased. Wineries in the \$0M-0.5M segment average 4.9 FTEs and the \$10M+ segment averages 274.7 FTEs.

As the winery segment size increased, generally a smaller portion of FTEs were devoted to winemaking and grape growing. Winemaking and grape growing FTE accounted for 53.1% of FTEs for the \$0M–0.5M segment and 40.2% of FTEs for the \$0.5M–2M segment, compared with 28.5% for the \$5M–10M segment and 18.3% 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 29.0% of total FTE for the \$0M-0.5M segment, compared to 0.8% 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.

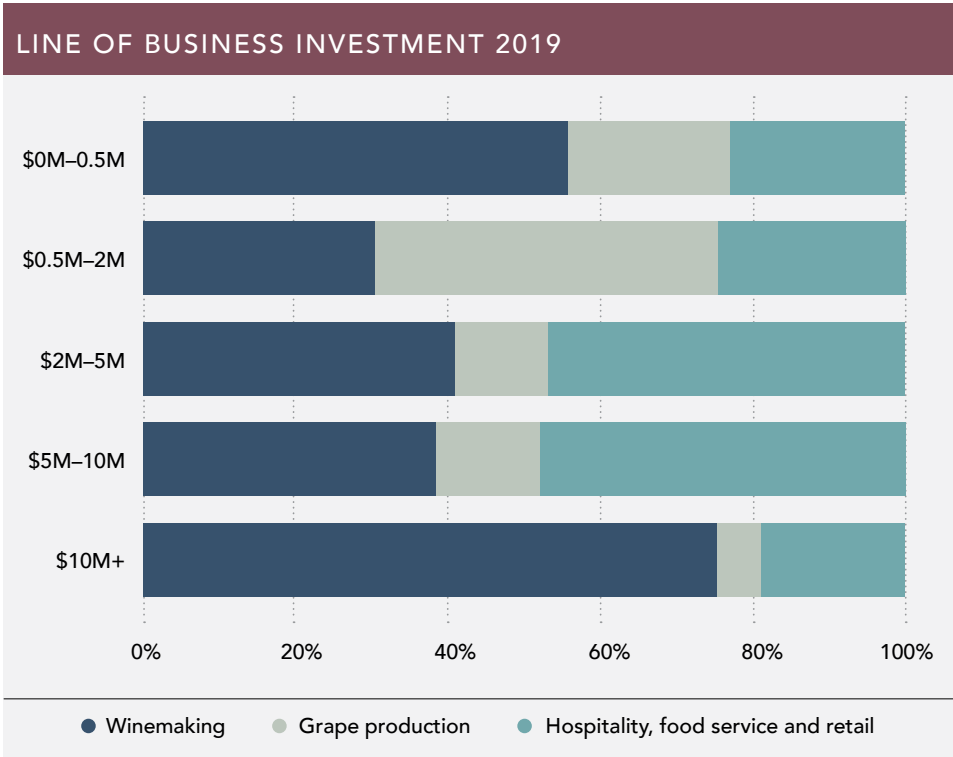
CURRENT INVESTMENTS

Line of Business Investment

Winemaking was allocated the highest proportion of investment for the \$0M-0.5M and the \$10M+ segment.

Grape production was allocated the highest proportion of investment for the \$0.5-2M segment.

Hospitality, food service and retail was allocated the highest proportion of investment for the \$2-5M and the \$5-10M segment.

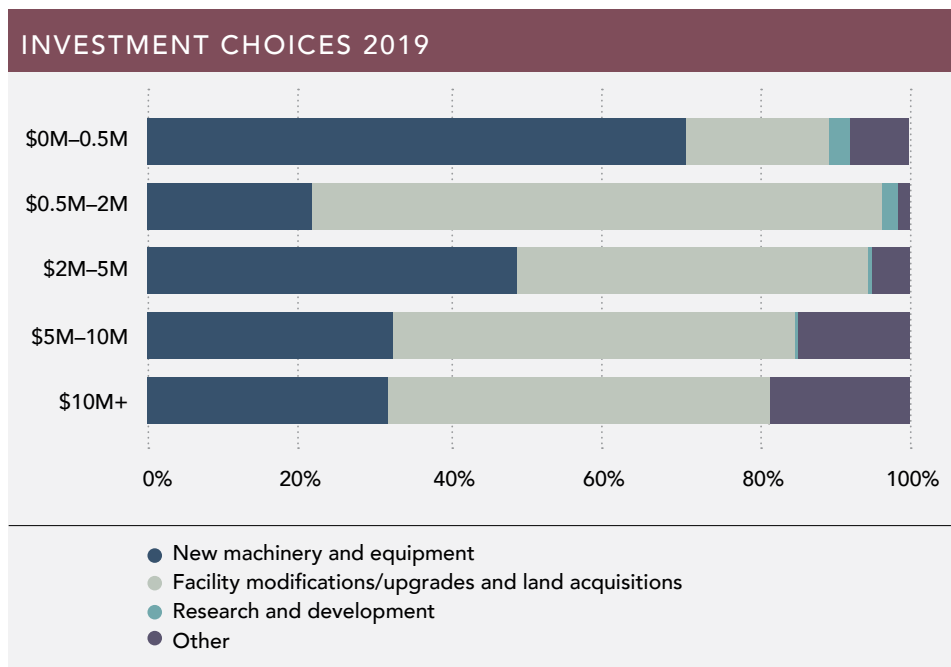


Investment Choices

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

The \$0M-0.5M segment had the highest investment portion in research and development with 2.7%, followed by the \$0.5M-2M segment with 1.5%.

Wineries contribute to research through levies to Ontario Grape and Wine Research Inc. These contributions are not included in the reported data.

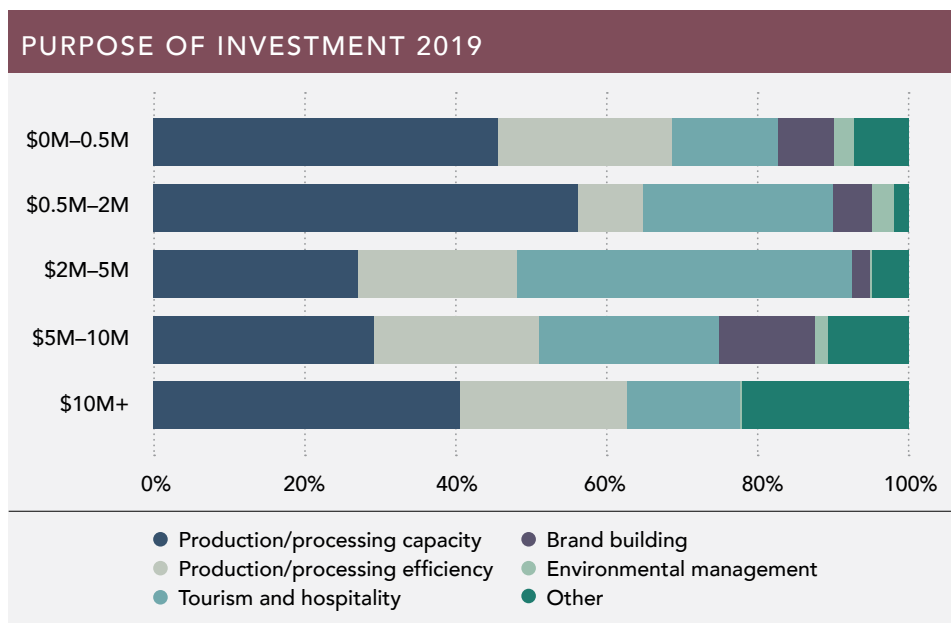


Purpose of Investment


Investment in production /processing capacity was the biggest investment category for the two largest segments, as well as the two smallest segments.

The \$0.5M-2M segment had the highest total investment percentage directed to production /processing capacity with 56.1%.

The \$2M-5M segment had the highest total investment percentage in tourism and hospitality with 44.4%.



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 choice over next 5 years – 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
New machinery and equipment	Medium	Medium	High	Low	High
Facility modifications/upgrades and land acquisitions	Medium	Medium	High	High	High
Research and development	Low	Low	Low	Low	Medium



Planned investments in facility modifications / upgrades and land acquisitions were ranked high to medium across all size segments, while planned investments in research and development was ranked medium and low across all size segments.

New machinery and equipment planned investment was rated medium for the \$0M-0.5M segment. Furthermore, in the current year, the \$0M-0.5M segment had the highest percentage investment in the new machinery and equipment planned category.

Planned investment purpose over next 5 years – 2019

	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Production/processing capacity	High	High	Low	Low	High
Production/processing efficiency	High	High	High	High	High
Environmental management	Low	Low	Low	Medium	Medium
Brand	High	High	Medium	High	High
Tourism and Hospitality	High	High	Medium	High	High

Over the next five years, wineries under \$2M were planning to invest heavily for production / processing efficiency and capacity. Low to medium levels of investment were generally planned for environmental management, in line

with current levels of investment. All segments except for the \$2M-5M planned for high investment tourism and hospitality as well as branding.

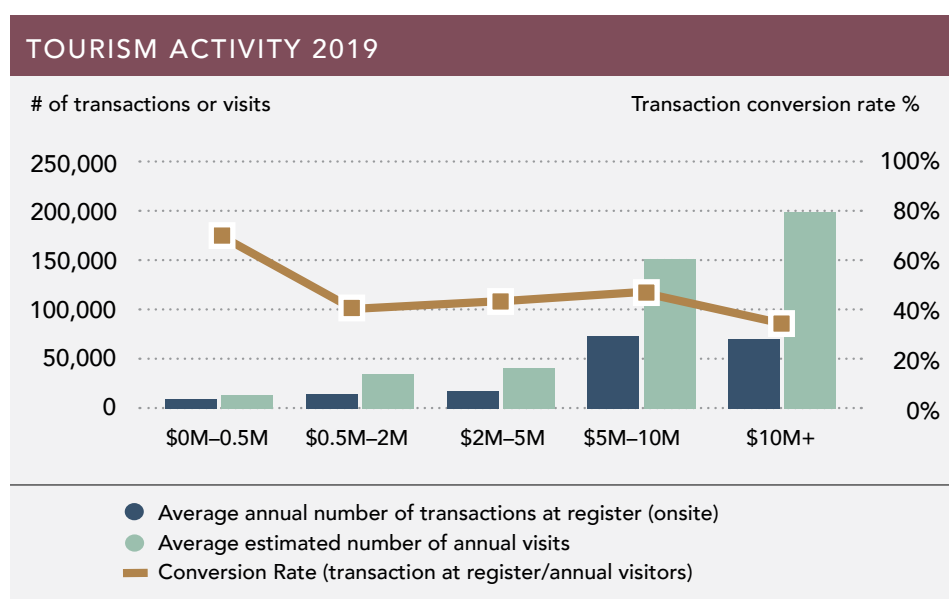
Business Climate



Tourism

TOURISM ACTIVITY 2019	Winery size (2019 sales)				
	\$0M–0.5M	\$0.5M–2M	\$2M–5M	\$5M–10M	\$10M+
Average annual number of transactions at register (onsite)	9,326	14,985	18,094	73,127	70,065
Average estimated number of annual visits	13,725	35,428	41,607	151,611	198,555
Conversion rate (transactions at register/annual visits)	67.9%	42.3%	43.5%	48.2%	35.3%

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



Tourism Activity

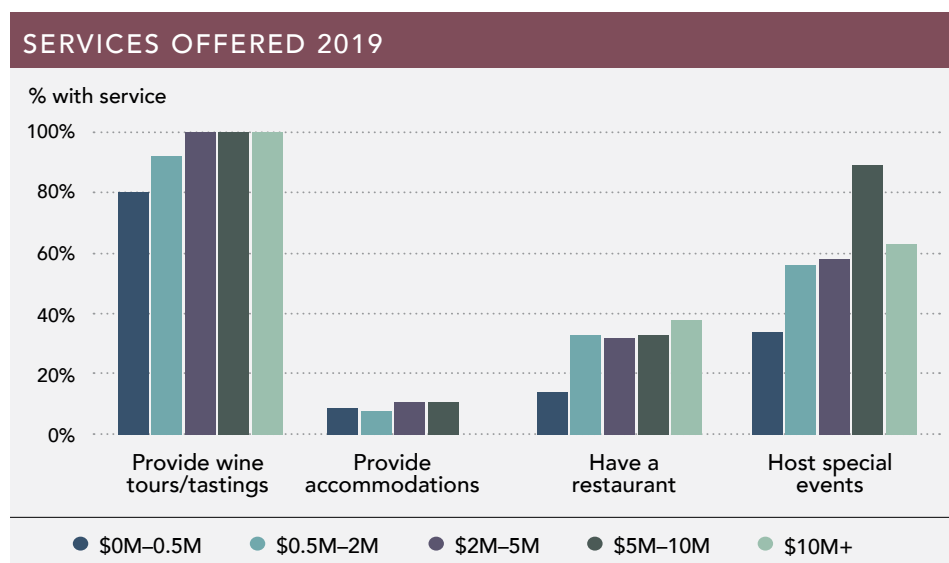
The average number of transactions at the onsite register and the average estimated number of annual visits generally increased as wineries increased in size, although the smaller segments had higher conversion rates compared to the \$10M+ segment, with the \$0M–0.5M segment converting 67.9% and the \$10M+ segment converting 35.3%.

Tourism Services

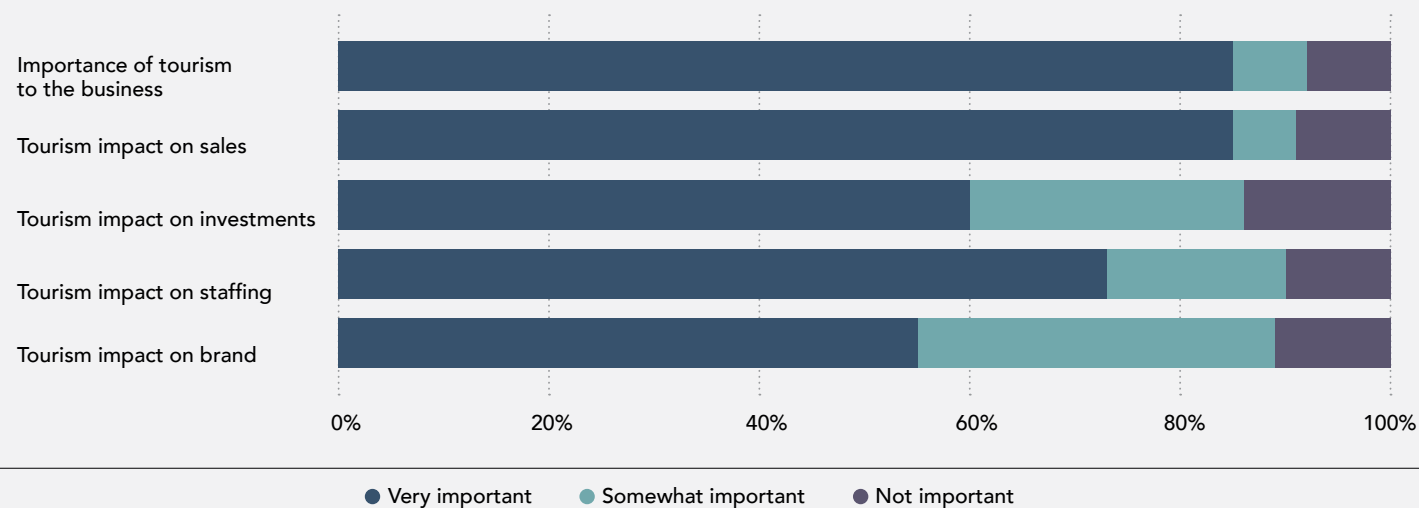
The majority of wineries in all segments provided wine tours / tastings, with 100% of wineries providing these services in segments with more than \$2M in sales.

The majority of wineries in all segments did not have a restaurant, although restaurants were more prevalent in wineries with over \$0.5M in total sales.

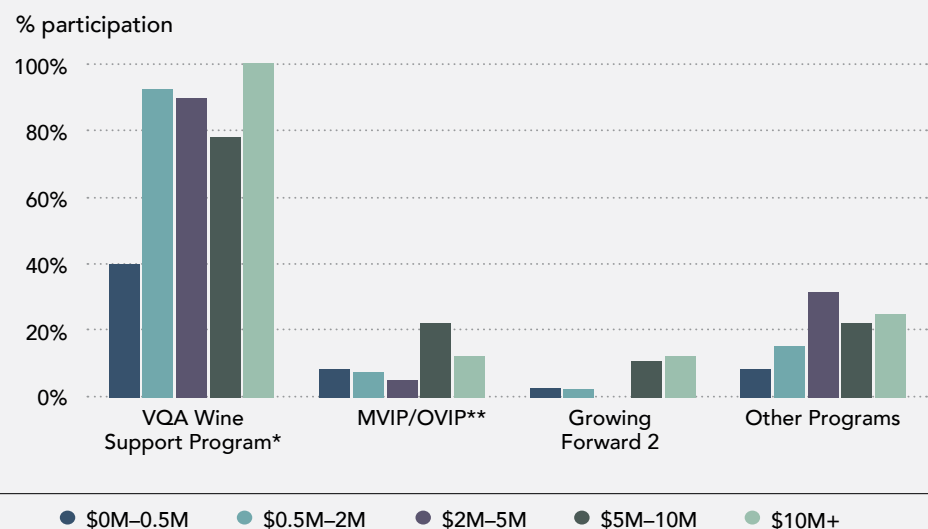
89% of wineries in the \$5M–10M host special events, compared to 34% in the \$0M–0.5M segment.



IMPORTANCE AND IMPACT OF TOURISM 2019



PROGRAM PARTICIPATION 2019



* 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, as well as very important to sales, by 85% of responding wineries.

Government Programs

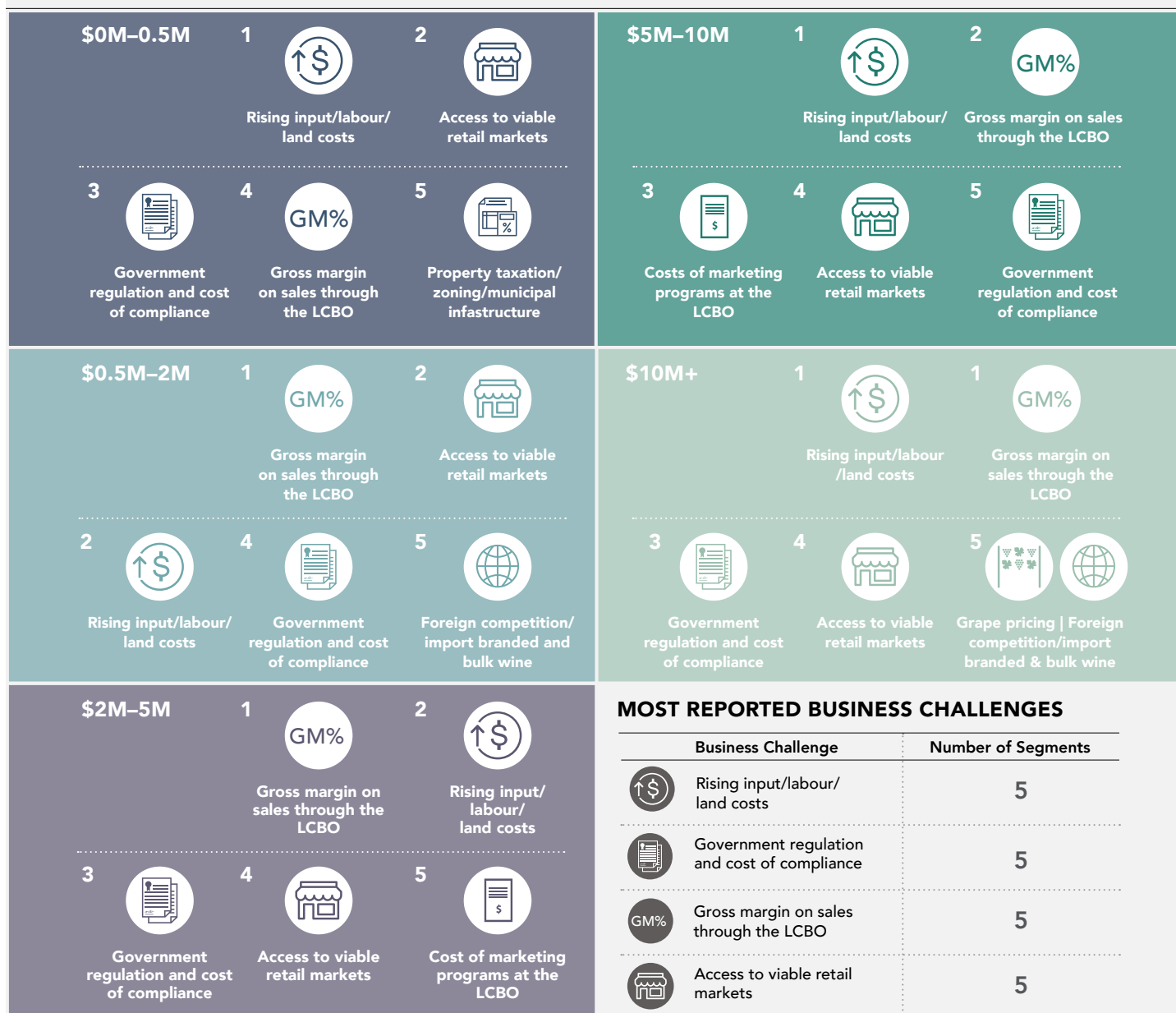
The \$0M-0.5M segment observed a 40.0% participation rate in the VQA Wine Support Program, while participation rates above 77.8% were observed in all other winery segments. The \$10M+ segment had a 100% participation rate in this program.

Participation in the MVIP / OVIP program was greatest in the \$5M-10M segment with 22.2%.

CHALLENGES FACING THE ONTARIO INDUSTRY 2019

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, access to viable markets, and gross margins on sales through the LCBO were the most frequently selected business challenges across all segments.
- Rising input / labour / land costs was ranked in the top 3 challenges for every segment.
- Gross margins on sales through the LCBO was ranked in the top 4 challenges for every segment.

Grape Growers Performance Summary



Financial Information

Seventy two independent grape growers that do not operate a winery participated in the study and account for an estimated 27% 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 2019

	% of total sales
Grape sales (including bulk wine juice)	94.9%
Grants and programs	5.1%
Total sales	100.0%
Raw materials	-11.4%
Arm's length labour	-32.1%
Non-arm's length labour	-12.8%
Packaging	-1.6%
Other direct operating expenses	-23.5%
Total cost of goods sold	-81.3%
Gross margin	18.7%
Sales and marketing expenses	-1.1%
Contribution after sales and marketing	17.6%
Arm's length general and administration expenses	-10.1%
Non-arm's length general and administration expenses	-6.7%
EBITDA	0.8%
Depreciation and amortization	-10.2%
EBIT	-9.4%
Interest expense	-4.6%
Interest income	1.5%
Other non-grape income	35.6%
Other non-operating income	3.2%
Profit/(loss) before tax	26.4%

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 81.3% of total sales, largely due to labour expenses, which comprised 44.9% 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 32.1% of total sales compared to non-arm's length labour expenses of 12.8% of total sales. When factoring in the costs of raw materials, packaging, and other direct operating expenses, gross margin was 18.7%.

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 10.1% of total sales compared to non-arm's length general and administration expenses of 6.7% 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 0.8% of total sales.

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT was -9.4% of total sales.

Income from non-grape growing related activities was 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 35.6% of total sales.

Including non-grape income, growers achieved profit of 26.4% before tax on average, with 60.0% of growers reporting a pre-tax profit compared to 40.0% reporting a loss.

BALANCE SHEET 2019

	% of total assets
Cash	6.7%
Accounts receivable	2.6%
Inventory	2.9%
Other current assets	6.0%
Total current assets	18.2%
Land and land improvements	24.2%
Vineyards	16.0%
Buildings and improvements	11.2%
Equipment	14.6%
Other fixed assets	2.7%
Total net fixed assets	68.7%
Purchased goodwill and other intangible assets	0.7%
Investments	6.3%
Other assets	6.0%
Total assets	100.0%
Bank indebtedness	9.3%
Accounts payable and accrued liabilities	2.5%
Other current liabilities	4.8%
Total current liabilities	16.6%
Long term liabilities	20.6%
Total liabilities	37.1%
Capital stock	13.3%
Retained earnings	49.6%
Total equity	62.9%
Total liabilities plus equity	100.0%

Including non-grape income, growers achieved profit of 26.4% before tax on average, with 60.0% of growers reporting a pre-tax profit compared to 40.0% reporting a loss.

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 68.7% of total assets. Land and land improvements made up the largest portion of net fixed assets at 24.2% of total assets, followed by vineyards at 16.0% of total assets.

Current assets accounted for 18.2% of total assets, with accounts receivable the smallest category at 2.6% of current 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 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.

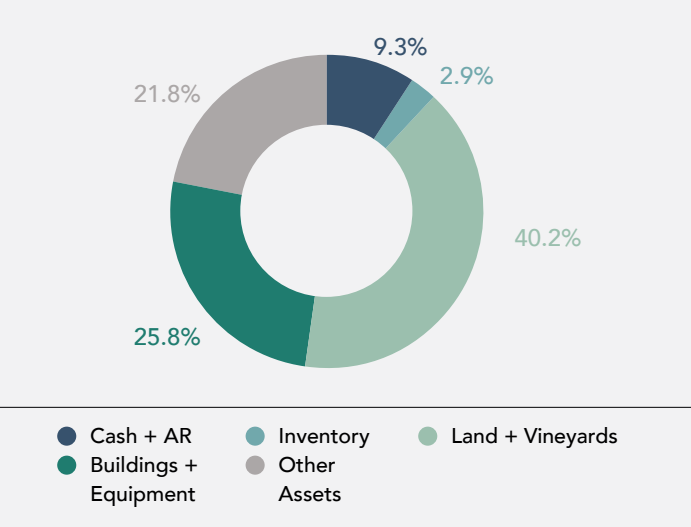
The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt.

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 8.3. The inventory turnover ratio is high due to 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 0.4 for growers.

ASSET SUMMARY 2019

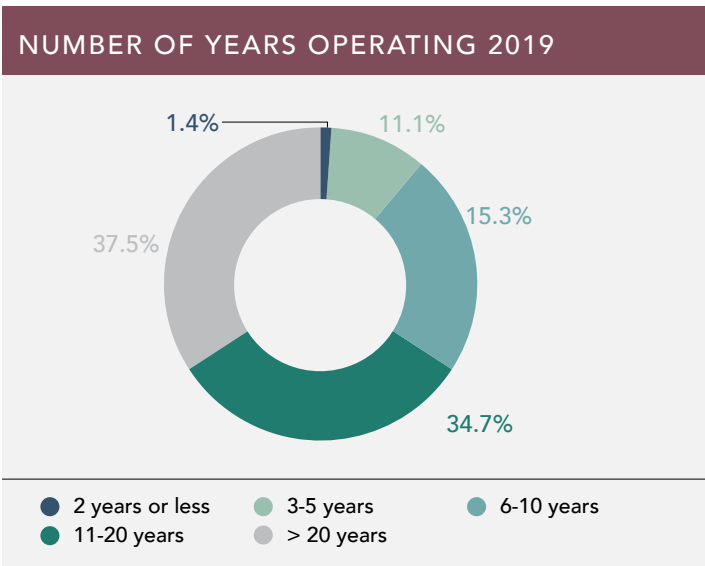


KEY FINANCIAL RATIOS 2019

Solvency ratios	
Current ratio	1.1
Debt to equity ratio	0.6
Debt to tangible assets	0.4
Efficiency ratios	
Inventory turnover	8.3
Fixed asset turnover	0.4

Operational Information

OPERATIONAL BACKGROUND



Years of Operation

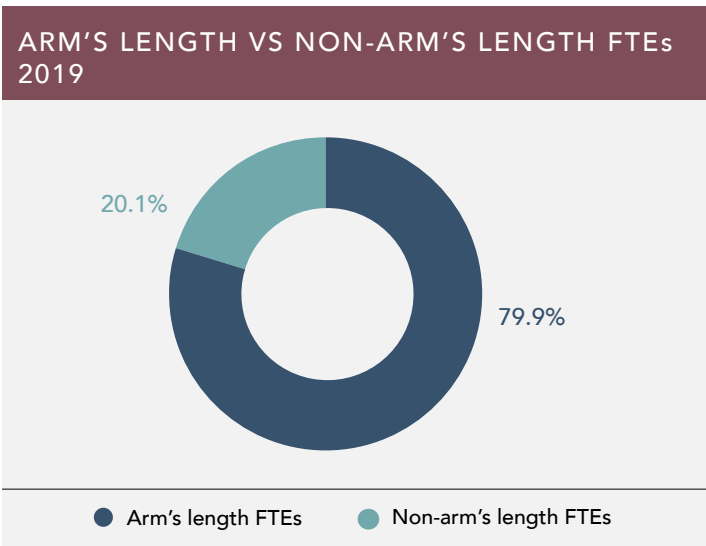
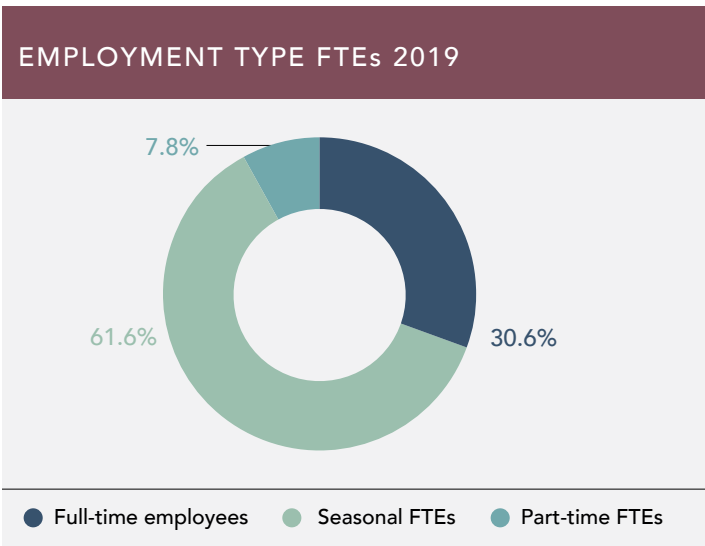
Grape growers averaged 21.8 years of operation, with 37.5% of businesses in operation for more than 20 years and 34.7% in operation for 11 to 20 years.

Production	Metric
Average planted acres – bearing	73
Average planted acres – non-bearing	5
Average grapes produced (Tonnes)	303
Yield per bearing acre (Tonnes/Acre)	4.2

Note: Amounts represent the average acres, tonnes and yield

Growers produced 4.2 tonnes of grapes per bearing acre on average.

EMPLOYMENT



Employment Detail 2019, Average FTEs

Employment Type	Average FTEs
Full-time employees	1.8
Seasonal FTEs	3.6
Part-time FTEs	0.5
Total	5.9

Note: Amounts may not sum to subtotals due to rounding

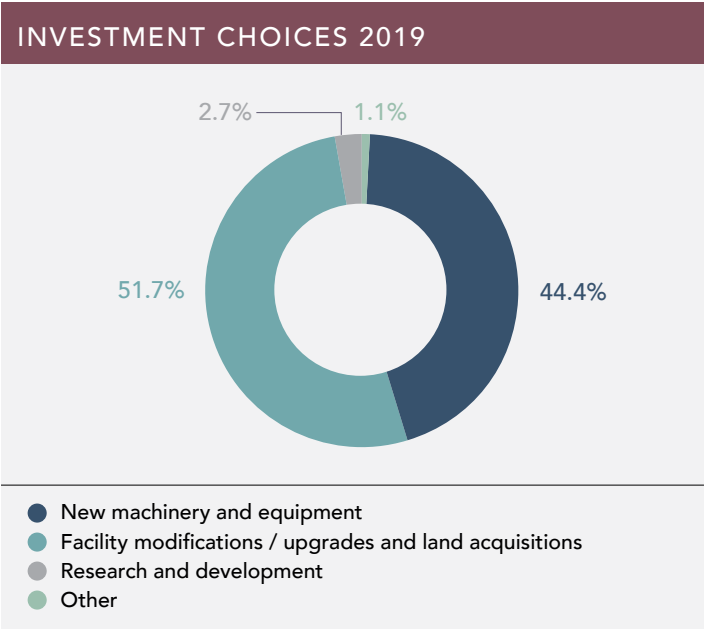
Growers relied heavily on seasonal employees, with seasonal FTEs making up 61.6% of total FTEs.

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 20.1% of total FTEs for growers.

INNOVATION AND INVESTMENTS

CURRENT INVESTMENTS

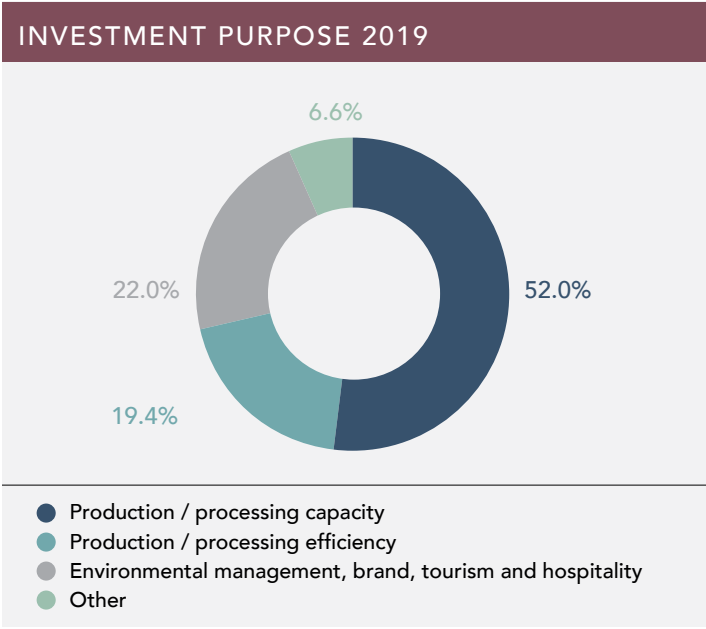
Information on current and planned investment decisions was collected from survey respondents to understand investment choices in the Ontario wine and grape industry. Line of business investment represents the business areas where investments were made, investment choices represent the assets or services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



Investment Choices

Growers invested heavily in facility modification / upgrades and land acquisitions at 51.7% of total investments, and new machinery and equipment at 44.4% of total investments. Investments in research and development and other areas were lower at a combined 3.8% of total investments.

Grape Growers contribute to research through levies to Ontario Grape and Wine Research Inc. These contributions are not included in the reported data.







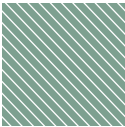


Purpose of Investment

The largest proportion of investments were made with the purpose of improving production / processing capacity at 52.0% of total investments, followed by environmental management / brand / tourism and hospitality at 22.0%, and production / processing efficiency at 19.4%. The remaining 6.6% was invested into other categories.

PLANNED INVESTMENTS IN THE COMING FIVE YEARS

Planned Investment Choice 2019

High  Medium  Low  None 

New machinery and equipment		Growers plan to invest in 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 2019

Production/processing capacity		Growers plan high investment 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		

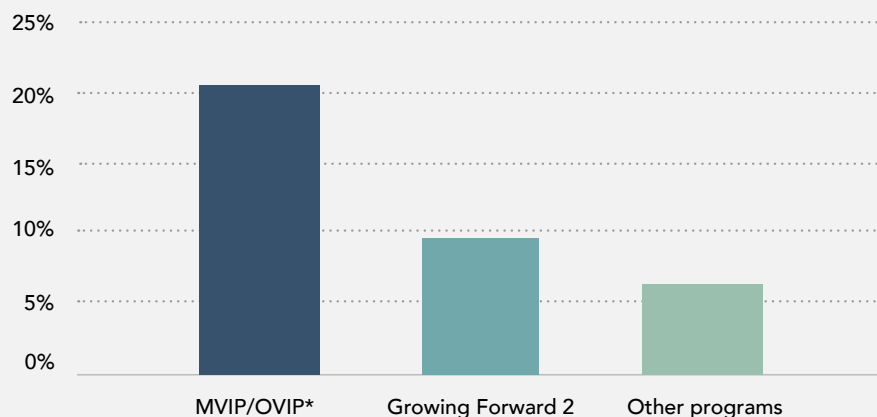
Business Climate

Government Programs

Growers participated the most in the MVIP / OVIP program with 20.8% participation, followed by Growing Forward 2 at 9.7% participation.

PROGRAM PARTICIPATION 2019

% participating



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

CHALLENGES FACING THE ONTARIO INDUSTRY 2019

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.



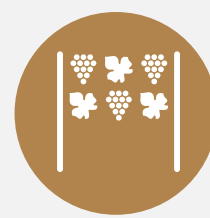
CHALLENGES

1



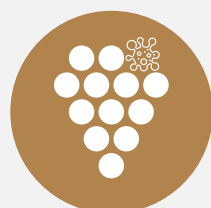
RISING INPUT/LABOUR/
LAND COSTS

2



GRAPE PRICING

3



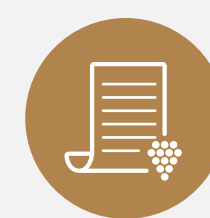
ACCESS TO VIRUS-FREE
GRAPE VINES

4



GOVERNMENT
REGULATION AND COST
OF COMPLIANCE

5



LACK OF LONG TERM
GRAPE CONTRACTS

Five-Year Retrospective



Five-Year Retrospective

As this is the fifth year of the study, this report includes a summary of selected data collected over the five-year period from 2015-2019. This summary includes previously disclosed metrics in prior years' reports and is based on information provided from respondents between 2015 and 2019. 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.

WINERIES

Due to changes in participation (different wineries completing the survey over different years) and movement between the segments, aggregated findings may not be directly comparable from year to year. **Caution should be used when interpreting data because a direct year over year comparison would not be entirely valid.**

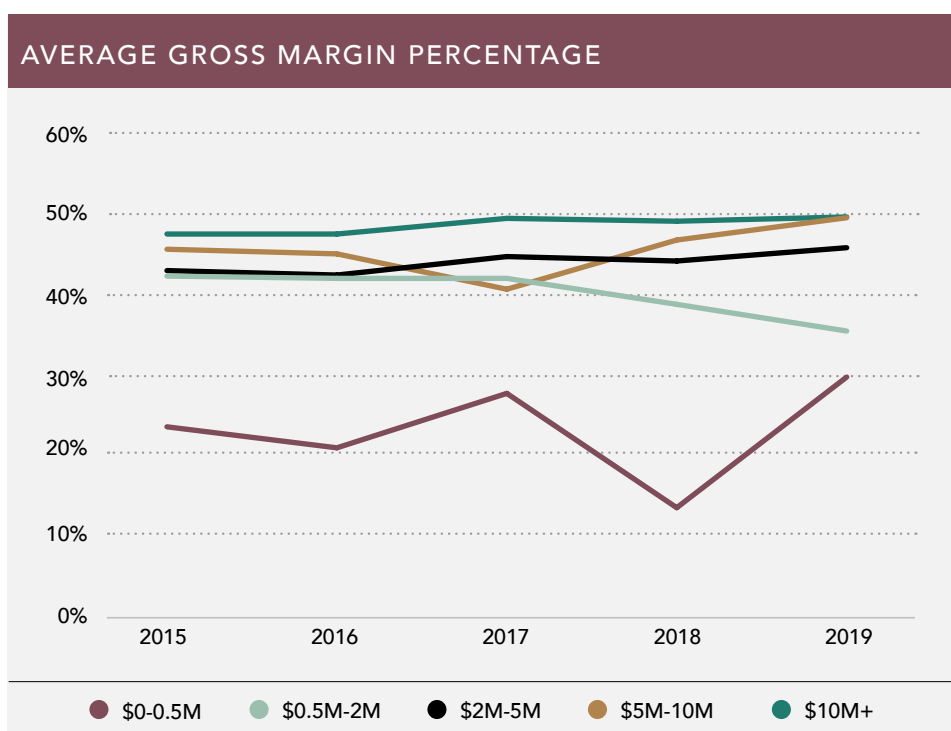
PROFITABILITY AND FINANCIAL POSITION

Average Gross Margin Percentage

The \$0M-0.5M segment has experienced the largest gross margin growth on a percentage basis compared to all other segments from 2015 to 2019.

The \$0.5M-2M segment is the only segment which saw gross margin percentage decline from 2015 to 2019.

Comparing 2015 to 2019, the \$2M-5M, \$5M-10M, and \$10M+ segments have all experienced improvement in gross margin percentage.



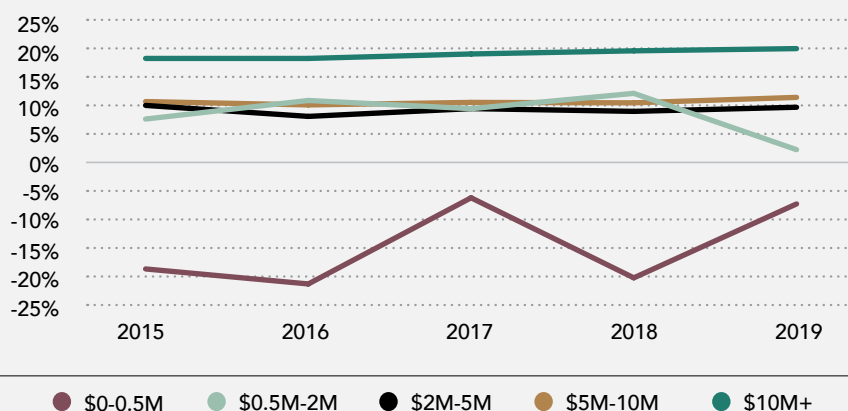
Average EBITDA as a Percentage of Sales

The \$0M-0.5M segment improved average EBITDA margins from 2015 to 2019, while the \$0.5M-2M segment improved average EBITDA margins from 2015 to 2018, with a drop in 2019.

The \$2M-5M and \$5M-10M segments saw average EBITDA margins remain relatively stable between 2015 and 2019.

The \$10M+ segment experienced slight growth in average EBITDA margin from 2015 to 2019.

AVERAGE EBITDA AS A % OF SALES



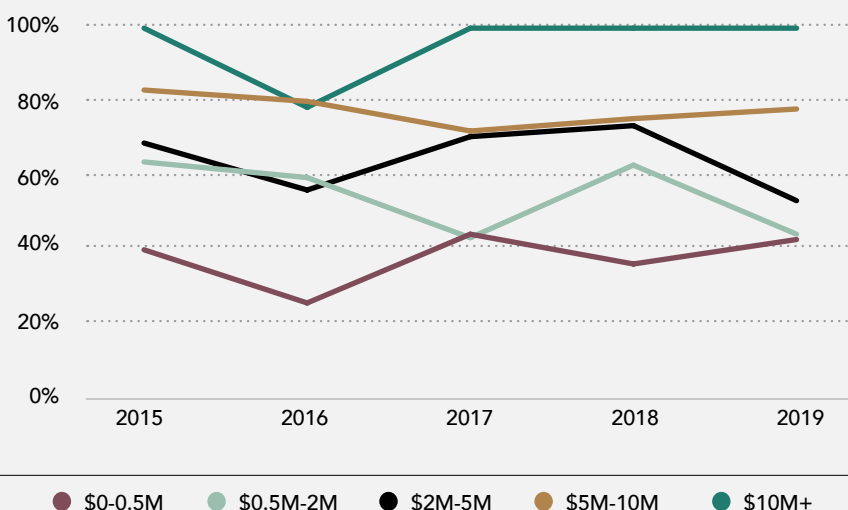
Percentage of Wineries Reporting Pre-Tax Profit

Based on the respondent data provided over the course of the five year reporting period, the \$0.5M-2M, \$2M-5M, and \$5M-10M winery segments experienced a decline in the percentage of companies that reported a pre-tax profit.

The percentage of companies in the \$0M-0.5M segment that reported a pre-tax profit has increased from 40% in 2015 to 43% in 2019.

Comparing 2015 to 2019, the percentage of companies in the \$10M+ segment reporting a pre-tax profit remained unchanged.

PERCENTAGE OF WINERIES REPORTING PRE-TAX PROFIT



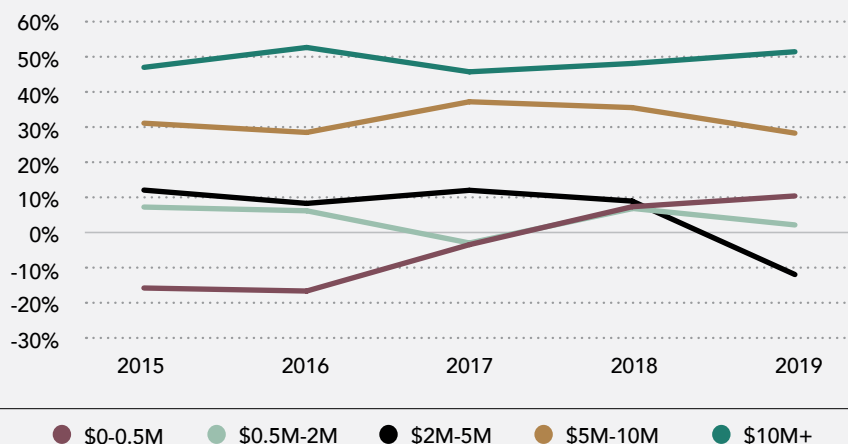
Average Total Equity as a Percentage of Total Assets

The \$0M-0.5M segment showed consistent improvement in average total equity as a percentage of total assets from 2016 to 2019.

The \$2M-5M segment saw average total equity as a percentage of total assets remain relatively stable between 2015 and 2018, with a drop in 2019.

The \$5M-10M and \$10M+ segments saw average total equity as a percentage of total assets remain relatively stable between 2015 and 2019.

AVERAGE TOTAL EQUITY AS A % OF TOTAL ASSETS



WINE SALES DETAIL

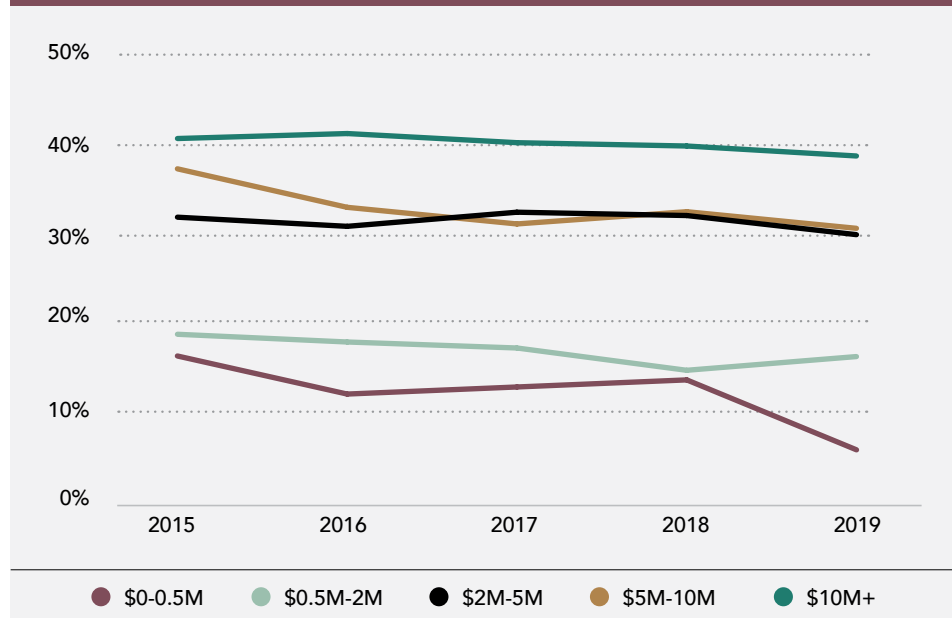
LCBO Sales as a Percentage of Wine Sales

Comparing 2015 to 2019, LCBO sales account for a lower percentage of total wine sales across all segments.

From 2015 to 2019, the \$0.5M-2M, \$2M-5M, and \$10M+ segments experienced modest declines, while the \$0M-0.5M and \$5M-10M segments experienced larger declines when compared to other segments.

The \$0M-0.5M segment's LCBO sales as a percentage of total wine sales declined more than other years between 2018 and 2019.

LCBO SALES AS A % OF WINE SALES

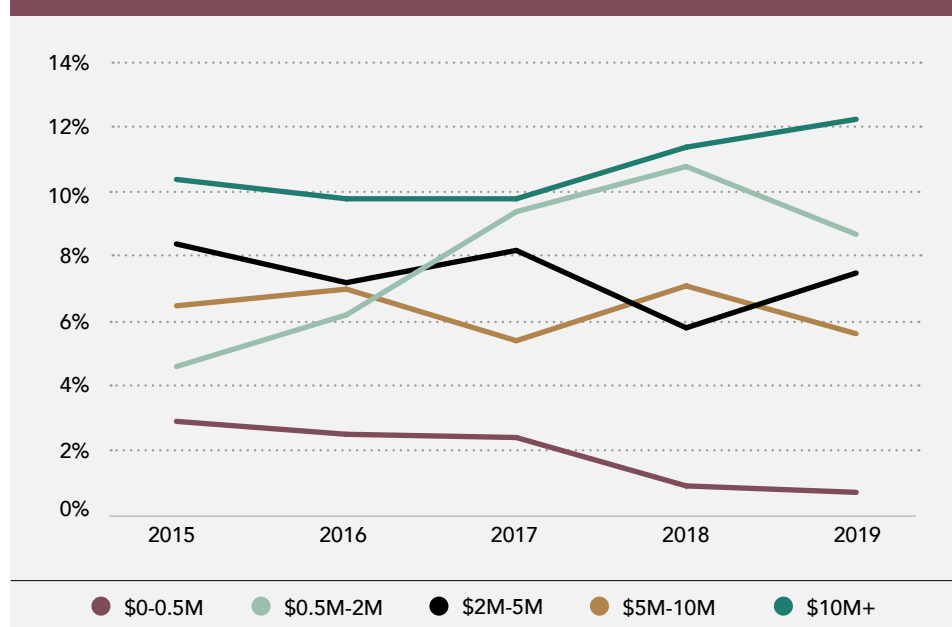


Average Sales to other Provinces and Exports as a Percentage of Total Wine Sales

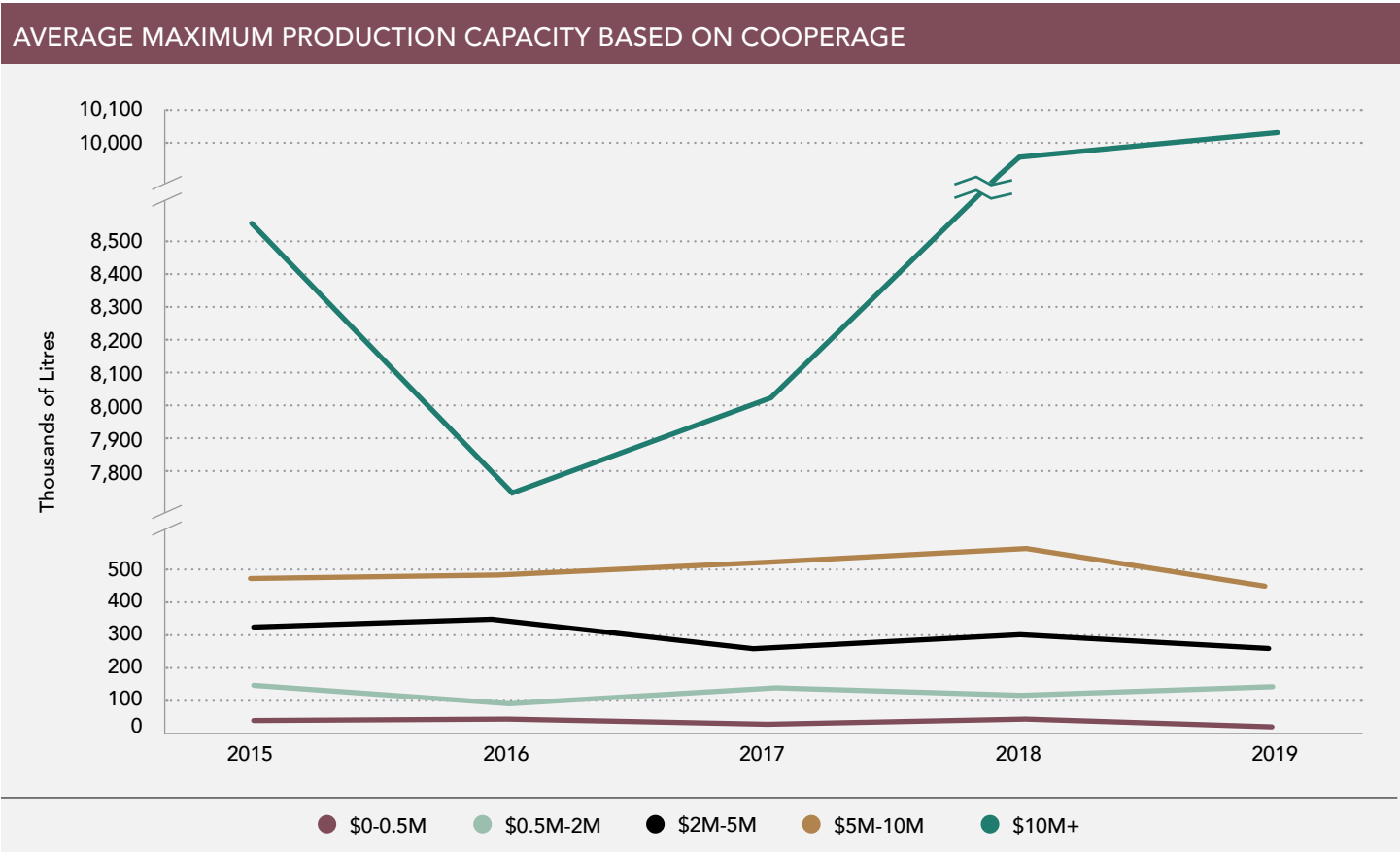
From 2015 to 2019, the \$0.5M-2M and \$10M+ segments' average exports as a percentage of total wine sales increased.

The \$0M-0.5M, \$2M-5M, and \$5M-10M segment's export sales as a percentage of total sales declined when comparing 2015 to 2019.

AVERAGE SALES TO OTHER PROVINCES/COUNTRIES AS A % OF TOTAL WINE SALES



OPERATIONAL INFORMATION



Average Maximum Production Capacity Based on Cooperage

When comparing 2015 to 2019, all segments below \$10M saw a decline in average maximum production capacity based on cooperage.

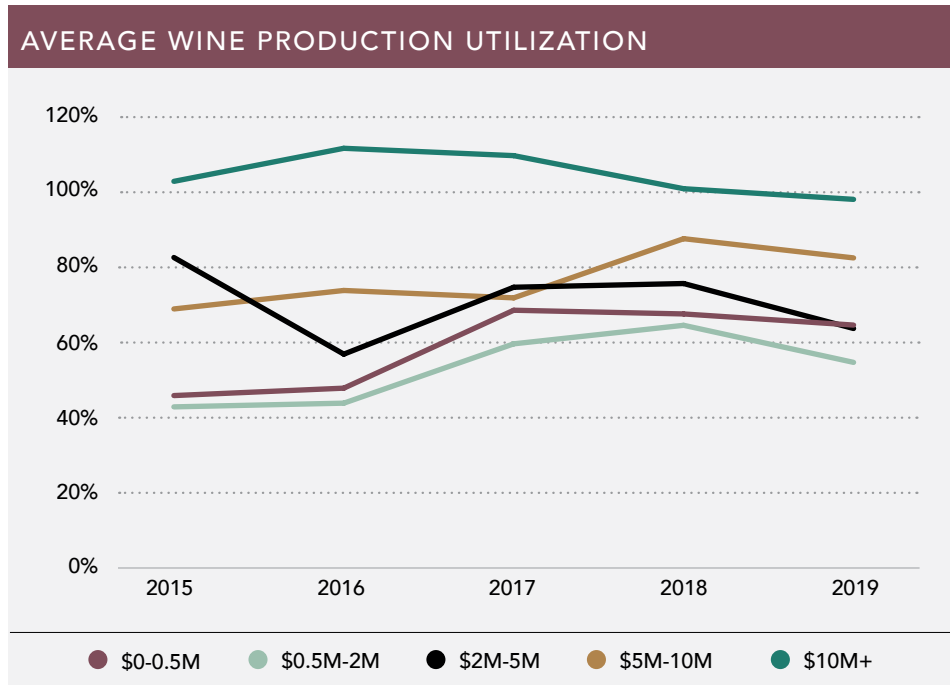
The \$10M+ segment saw an increase in average production capacity of nearly 1.5 million litres between 2015 and 2019, making it the only segment to increase its average maximum production capacity.

Average Wine Production Utilization

Comparing 2015 to 2019, the \$0M-0.5M, \$0.5M-2M, and \$5M-10M segments saw average wine production utilization increase.

The \$2M-5M segment has experienced declines in utilization between 2015 and 2019.

The \$10M+ segment experienced modest declines in average wine production, though it is operating at approximately 98% utilization in 2019.

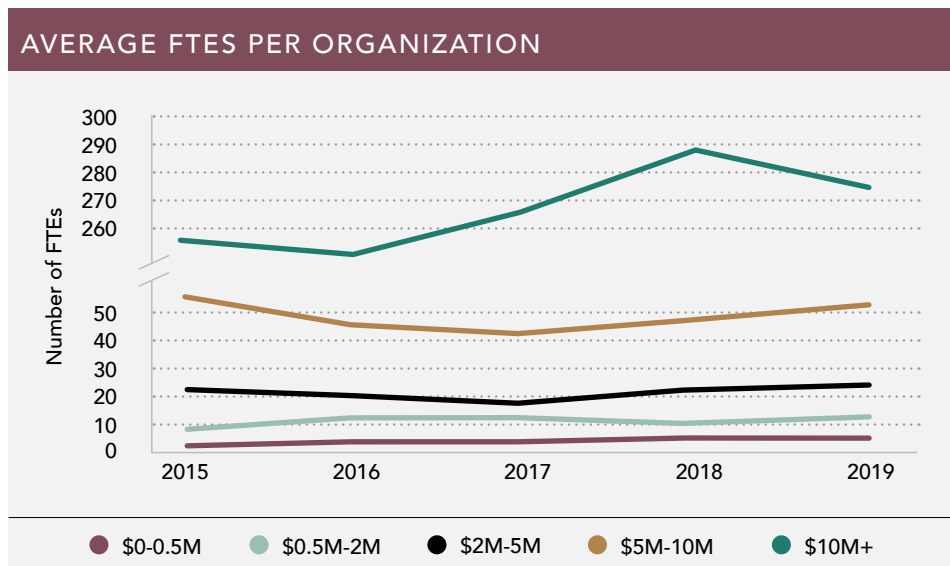


Average FTEs per Organization

When comparing the aggregate results across all segments from 2015 to 2019, the average number of FTEs per winery has increased.

The \$0M-0.5M, \$0.5M-2M, \$2M-5M, and \$10M+ segments have experienced growth in average FTEs per organization between 2015 and 2019.

The \$5M-10M segment is the only segment to experienced a modest decline in average FTEs per organization when comparing 2015 to 2019.



Note: Average FTEs per organization for the \$10M+ segment in 2018 varies from the number previously reported due to a participant restatement in employment numbers after the 2018 report had been published.

INNOVATION AND INVESTMENTS

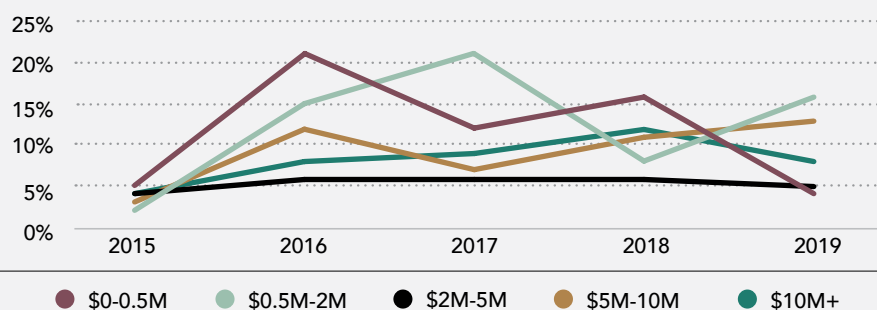
Average Investment as a Percentage of Total Assets

When comparing the aggregate results across all segments between 2015 and 2019, the three largest segments show flat to modest growth in investment (as measured as a percentage of total assets).

The two smallest segments show significant variability in year over year investment levels over the 5 years of reporting.

Total investment by participating wineries in year 1 of the study was \$30.3M. Total investment grew to \$46.8M by the fifth year of the study, which represents an average growth of 11.5% per year.

AVERAGE INVESTMENT AS A % OF TOTAL ASSETS



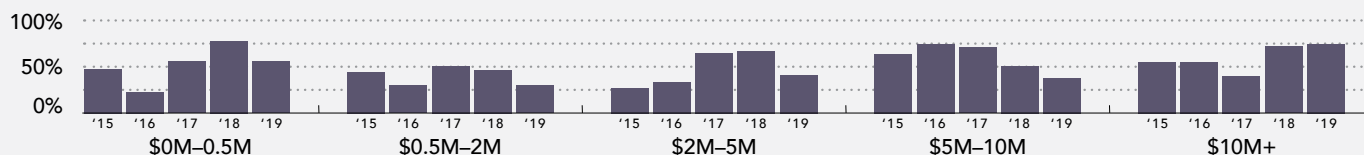
Note: Average investment as a percentage of total assets is a metric that was not reported in annual industry performance studies, but was included in the five year retrospective at the request of the Working Group.

	2015	2016	2017	2018	2019
Total Investment	\$30.3M	\$39.8M	\$49.2M	\$51.5M	\$46.8M

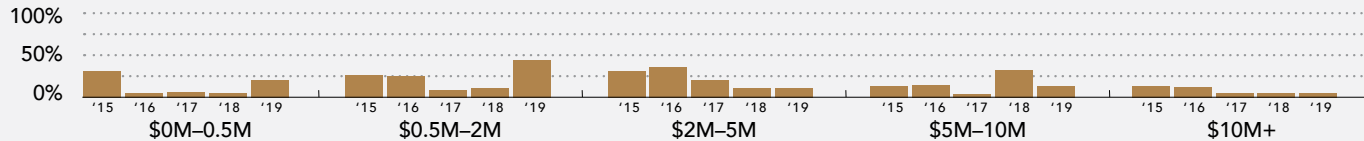
Note: Total investment represents the sum of reported investment for all winery survey respondents in each year

INVESTMENT % BY BUSINESS LINE

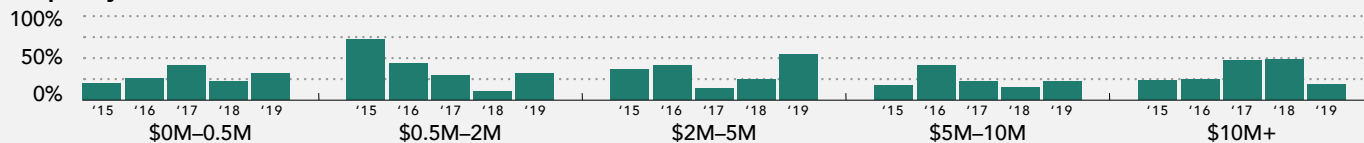
Wine Making



Grape Production



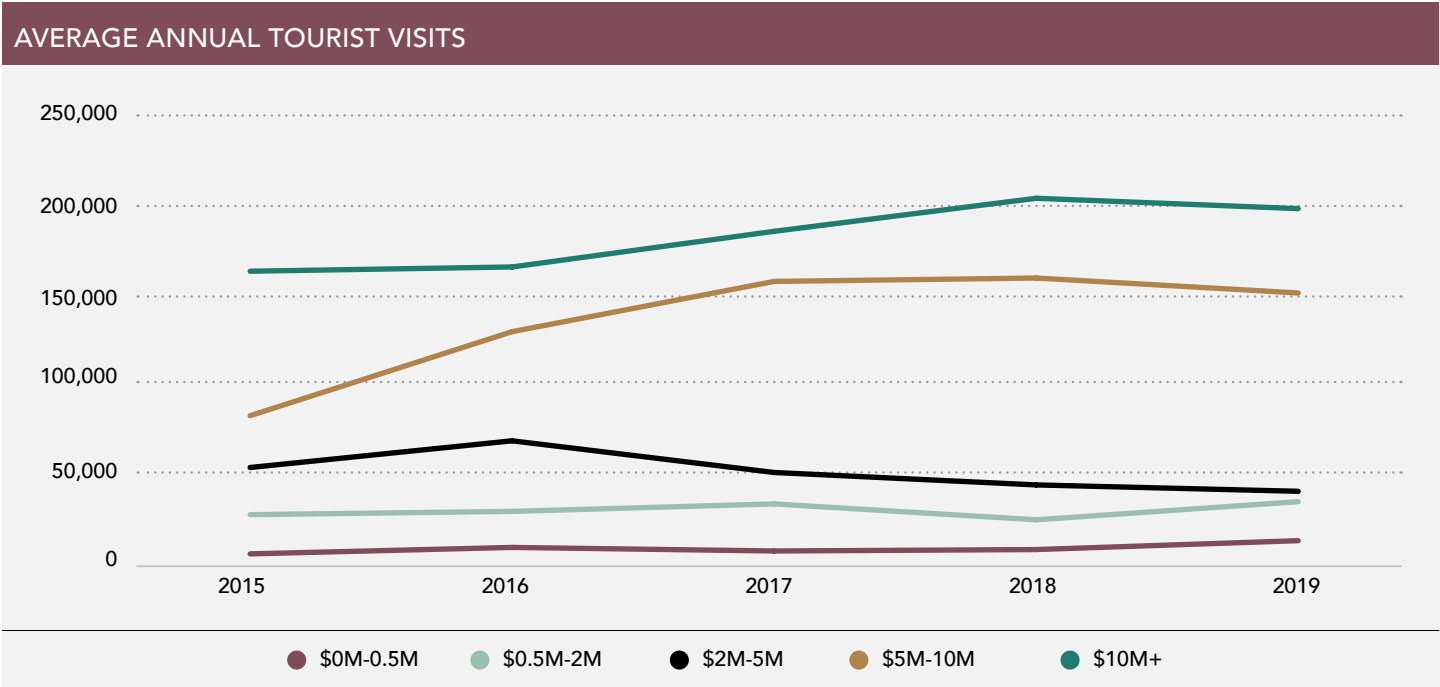
Hospitality



Investment Percentage by Business Line

When comparing trends in the \$5M-10M and \$10M+ segments over the 2015 to 2019 period, there appears to be trade-offs between wine making and tourism investment, while grape production remains relatively stable compared to the other business lines.

TOURISM ACTIVITY



Average Annual Tourist Visits

When comparing the aggregate results across all segments between 2015 and 2019, the average number of tourists per year has increased.

The \$2M-5M segment saw a decline in average annual visits between 2015 and 2019.

Segments under \$2M and segments over \$5M experienced growth when comparing 2015 visits to 2019 visits.

GRAPE GROWERS

The cohort of grape growers respondents to the survey changed substantially from year to year and therefore each year's data represents a particular group of growers rather than a consistent sampling of grape growers. **Given this variability, trends cannot be drawn from the data.** This summary highlights the upper and lower limits of selected metrics collected over the five-year period rather than showing a year over year comparison.

Average EBITDA as a Percentage of Sales



OVER THE FIVE YEAR PERIOD, **AVERAGE EBITDA** AS A PERCENTAGE OF SALES RANGED BETWEEN A LOW OF **0.8%** AND A HIGH OF **16.0%**

Average Other Non-Grape Income



AVERAGE OTHER **NON-GRAPE INCOME** RANGED FROM **7.8% TO 35.6%** OVER THE FIVE YEAR PERIOD

Average Profit/(Loss) Before Tax



OVER THE FIVE YEAR PERIOD, **AVERAGE PROFIT/(LOSS) BEFORE TAX** RANGED BETWEEN **6.2% AND 26.4%**

Percentage of Grape Growers Reporting a Pre-Tax Profit



THE PERCENTAGE OF GRAPE GROWERS REPORTING A **PRE-TAX PROFIT** RANGED FROM **50.0% TO 76.6%** OVER THE FIVE YEAR PERIOD

Average Total Equity as a Percentage of Total Assets



AVERAGE TOTAL EQUITY AS A PERCENTAGE OF TOTAL ASSETS RANGED FROM **44.9% TO 63.7%** OVER THE FIVE YEAR PERIOD

Average Yield per Bearing Acre (Tonnes/Acre)



OVER THE FIVE YEAR PERIOD, **AVERAGE YIELD PER BEARING ACRE** RANGED BETWEEN A LOW OF **3.6** AND A HIGH OF **5.3** (IN TONNES)

Average Full-time Employees



AVERAGE FULL-TIME EMPLOYEES PER RESPONDING ORGANIZATION RANGED FROM **4.2 TO 7.7** OVER THE FIVE YEAR PERIOD

Industry Challenges



IN FOUR OF THE FIVE YEARS, **RIISING INPUT / LABOUR / LAND COSTS** WAS RANKED AS **THE TOP INDUSTRY CHALLENGE**

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.
Cooperage	Collective term for wooden barrels where wine is stored
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. winemaking 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 winemaking 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 2019 WORKING GROUP

The Ontario Wine and Grape Industry Performance Study 2019 was produced under the guidance of an 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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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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