
Ontario Wine and Grape Industry Performance Study

2016

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

March 2017



Deloitte.



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MESSAGE FROM VQA ONTARIO

Welcome to the Ontario wine and grape industry performance study.

Welcome to the second annual Ontario wine and grape industry performance study. This benchmarking survey is part of the Ontario government's five year up to \$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 of 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, it provides a reference for individual businesses to benchmark their performance with their peers, and identify tangible opportunities to improve profitability for their business within the sector. Data collected in 2016 continues to show steady growth in wine sales and investment in production capacity, tourism and hospitality.

We are very pleased with the high participation rate across the industry and thank all participants who made a considerable effort to complete the detailed survey and provide us with feedback for future improvements. Your contributions are essential to the success of this initiative.

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

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

VQA Ontario

March 2017

account for an estimated 96% of all wine made in Ontario and about 21% of grapes grown. Independent Grape Grower respondents account for an additional 32% of the grapes grown in Ontario.

STUDY METHODOLOGY

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

Deloitte was engaged by VQA Ontario on behalf of the Ontario wine and grape industry to assist with the execution of the study. VQA Ontario and Deloitte developed and administered the study survey to participants and prepared the industry report, working collaboratively with the Working Group and other industry stakeholders. This included developing performance indicators, designing the survey approach, collecting and analyzing survey data and creating a fact based report summarizing respondent data.

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

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 second year of the annual study.

The Ontario wine and grape industry (as defined by wines manufactured 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 current year study commenced in August 2016 and included an industry survey administered between October and December 2016. The survey was administered online to a population of 241 respondents participating in government support programs, as provided by the Working Group, representing 154 wineries and 87 independent grape growers that do not operate a winery. The survey was responded to by 163 businesses, representing 101 vertically integrated wineries, 9 wineries that do not operate a grape growing business and 53 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

WORKING GROUP



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

completed financial year end and to answer a maximum of 38 questions, with the individual question set dependent upon whether the respondent represented a winery or a grape grower.

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

Findings from the survey have been aggregated and summarized in this fact based report of the study, which has been segmented into reporting groups based on winery total sales. Given the relatively tighter range of grape grower respondents, they have been included as one 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**.

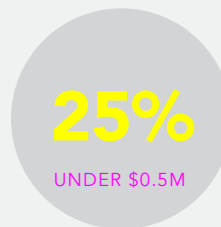
| Total Sales | Number of Responses |
|----------------------|---------------------|
| Wineries | |
| \$10M+ | 9 |
| \$5M–10M | 5 |
| \$2M–5M | 18 |
| \$0.5M–2M | 42 |
| \$0M–0.5M | 36 |
| Grape Growers | |
| \$0M–2.5M | 53 |

NOTES

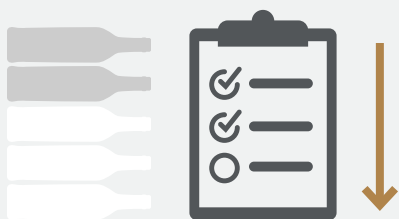


- 1. **Consolidated rates** were calculated to represent the average performance for each segment.
- 2. **110 wineries participated** in the study, representing a response rate of 54% based on the number of grape wineries operating in the province. Winery respondents account for an estimated 96% of all wine made in Ontario and about 21% of grapes grown.
- 3. **53 Grape Growers participated** in the study, representing approximately 12% of growers operating in the province. Grape Grower respondents account for 32% of the grapes grown in Ontario.
- 4. **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



25% OF WINERIES UNDER \$0.5M AND 62% OF WINERIES OVER \$0.5M ARE PROFITABLE



AVERAGE WINE INVENTORY VOLUMES DECREASED IN 2016



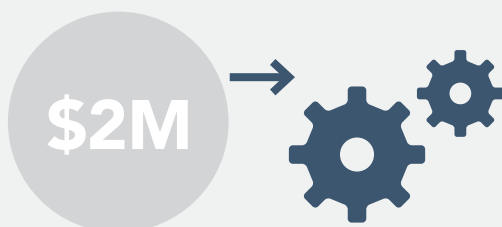
THE COST OF COMPLYING WITH GOVERNMENT REGULATIONS AND GROSS MARGIN ON SALES THROUGH THE LCBO WERE THE TOP RANKED BUSINESS CHALLENGES IN THE INDUSTRY



ASIA CONTINUED TO BE THE TOP RANKED INTERNATIONAL EXPORT MARKET



THE NUMBER OF VISITORS AND NUMBER OF TRANSACTIONS AT WINERIES INCREASED IN 2016



WINERIES WITH OVER \$2M IN SALES SHIFTED INVESTMENTS TOWARDS PRODUCTION EFFICIENCY IN 2016



TOURISM & HOSPITALITY

WINERIES WITH UNDER \$2M IN TOTAL SALES SHIFTED INVESTMENTS TOWARDS TOURISM AND HOSPITALITY IN 2016

Financial Information



INCOME STATEMENT 2016

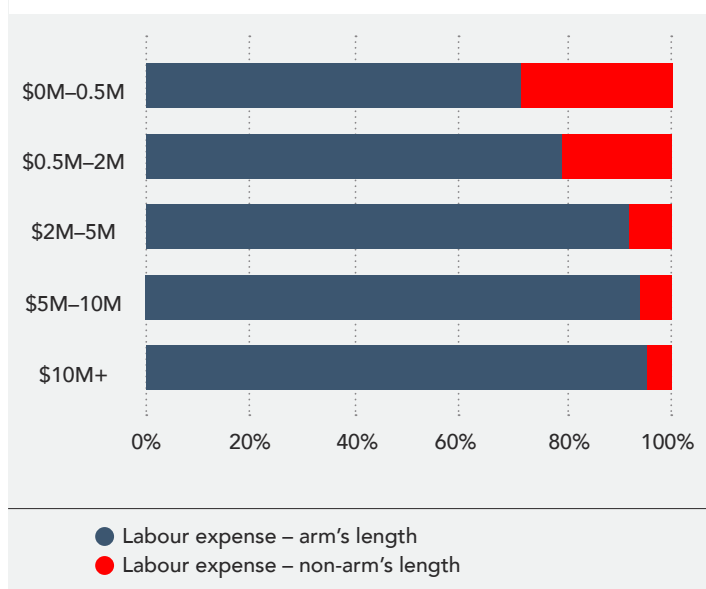
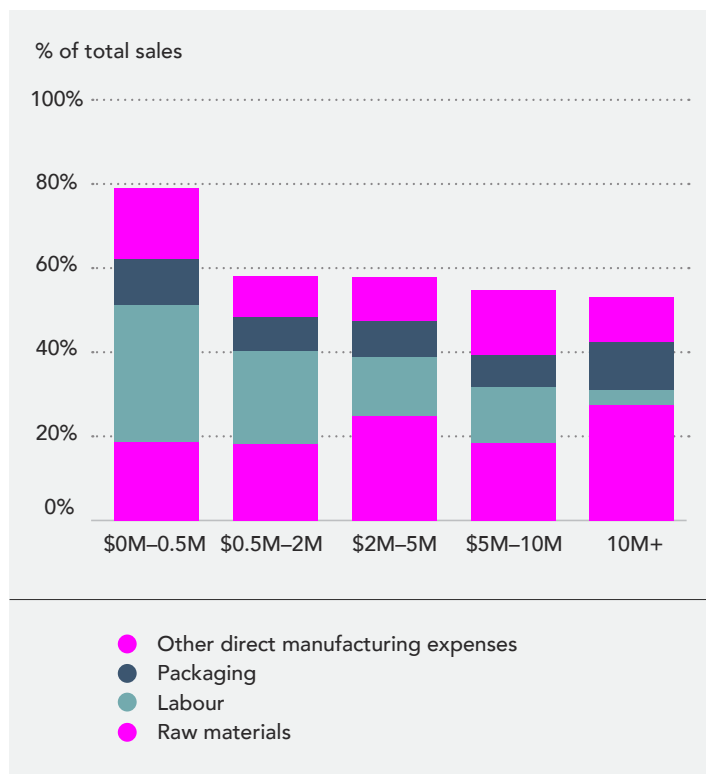
Winery size (2016 sales)

| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
|--|---------------|---------------|---------------|---------------|---------------|
| Net VQA wine sales | 73.7% | 70.1% | 79.2% | 78.0% | 37.3% |
| Net non-VQA wine sales | 11.4% | 4.7% | 1.2% | 2.1% | 58.2% |
| Grape sales | 1.2% | 3.1% | 1.8% | 3.6% | 0.0% |
| Merchandise sales | 2.1% | 2.8% | 2.6% | 3.4% | 0.9% |
| Hospitality sales | 1.1% | 4.3% | 3.6% | 2.8% | 0.5% |
| Onsite food and wine service sales | 4.0% | 5.2% | 3.8% | 5.9% | 2.1% |
| Other sales | 4.5% | 5.6% | 2.5% | 1.0% | 0.3% |
| Grants and programs | 2.1% | 4.1% | 5.4% | 3.2% | 0.7% |
| Total sales | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Raw materials | -17.9% | -17.3% | -23.9% | -17.0% | -25.8% |
| Arm's length labour | -23.4% | -17.8% | -13.1% | -13.0% | -3.2% |
| Non-arm's length labour | -9.3% | -4.6% | -1.1% | -0.8% | -0.1% |
| Packaging | -10.0% | -7.4% | -8.5% | -6.3% | -12.0% |
| Other direct manufacturing expenses | -18.4% | -10.4% | -10.5% | -17.4% | -10.9% |
| Total cost of goods sold | -79.0% | -57.4% | -57.2% | -54.4% | -52.0% |
| Gross margin | 21.0% | 42.6% | 42.8% | 45.6% | 48.0% |
| Sales and marketing expenses | -13.9% | -11.1% | -13.0% | -16.7% | -21.2% |
| Contribution after sales and marketing | 7.1% | 31.5% | 29.8% | 28.9% | 26.9% |
| Arm's length general and administration expenses | -27.7% | -18.2% | -18.4% | -12.9% | -8.3% |
| Non-arm's length general and administration expenses | -0.8% | -2.2% | -3.5% | -6.1% | -0.6% |
| EBITDA | -21.3% | 11.1% | 7.9% | 9.9% | 18.0% |
| Depreciation and amortization | -14.8% | -8.8% | -5.3% | -5.6% | -1.6% |
| EBIT | -36.2% | 2.3% | 2.7% | 4.3% | 16.3% |
| Interest expense | -6.6% | -3.8% | -3.1% | -1.3% | -1.1% |
| Interest income | 0.0% | 0.0% | 0.1% | 0.0% | 0.0% |
| Other non-grape income | 3.3% | 0.2% | 0.4% | 0.0% | 0.0% |
| Other non-operating income | 0.4% | 0.0% | 0.0% | 1.5% | 0.1% |
| Foreign exchange gain/(loss) | 0.0% | 0.0% | 0.0% | 0.0% | 0.2% |
| Inventory write-downs | -1.0% | -2.3% | -0.2% | 0.0% | -0.3% |
| Profit/(loss) before tax | -40.0% | -3.6% | -0.2% | 4.5% | 15.1% |

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 58.2% of sales compared to 37.3% of sales for VQA wine.



Cost of Goods Sold

Cost of goods sold declined as wineries increased in size. Cost of goods sold were 79.0% of sales for \$0M–0.5M wineries and were lower at 52.0% of sales for \$10M+ wineries. Lower cost of goods sold for larger wineries were largely driven by lower labour as a percentage of total sales. Labour expenses were 32.7% of sales for the \$0M–0.5M segment and 3.3% for the \$10M+ segment.

Arm's length labour includes employees who are independent from or are not family members of the employer, while non-arm's length labour can include owners or family members. Non-arm's length labour was utilized to a higher degree by smaller wineries than larger wineries. Non-arm's length labour made up 28.3% of total labour expense for the \$0M–0.5M segment and 3.9% for the \$10M+ segment.

Sales and Marketing Expenses

Sales and marketing expenses generally increased with winery size as wineries exceeded \$0.5M in total sales. Sales and marketing accounted for 11.1% of sales for the \$0.5–2M segment and were higher at 21.2% for the \$10M+ segment.

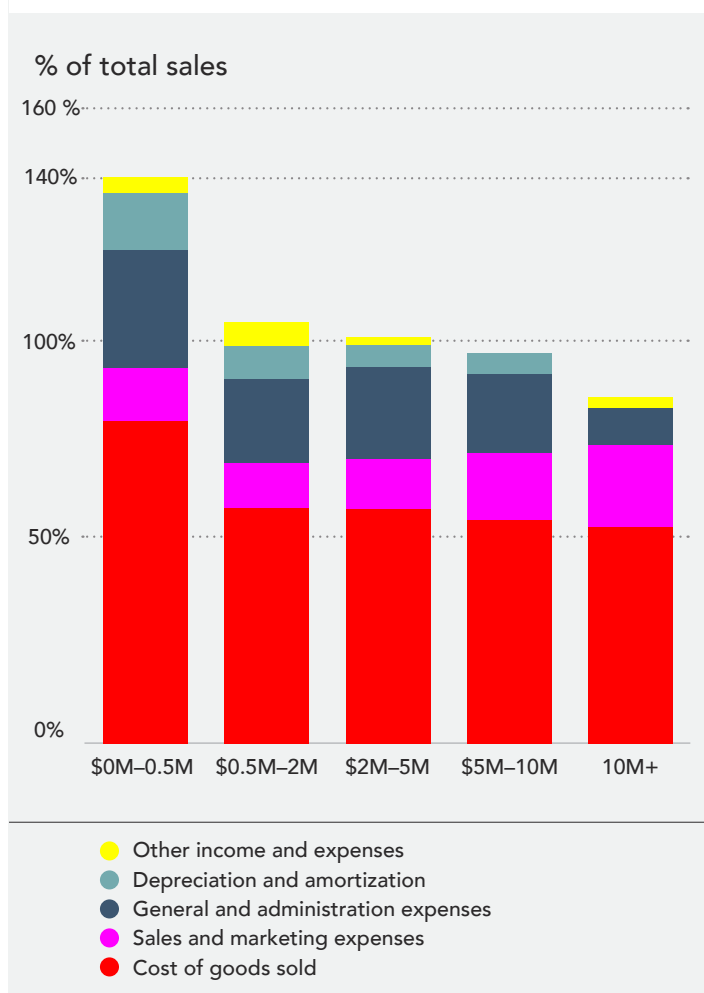
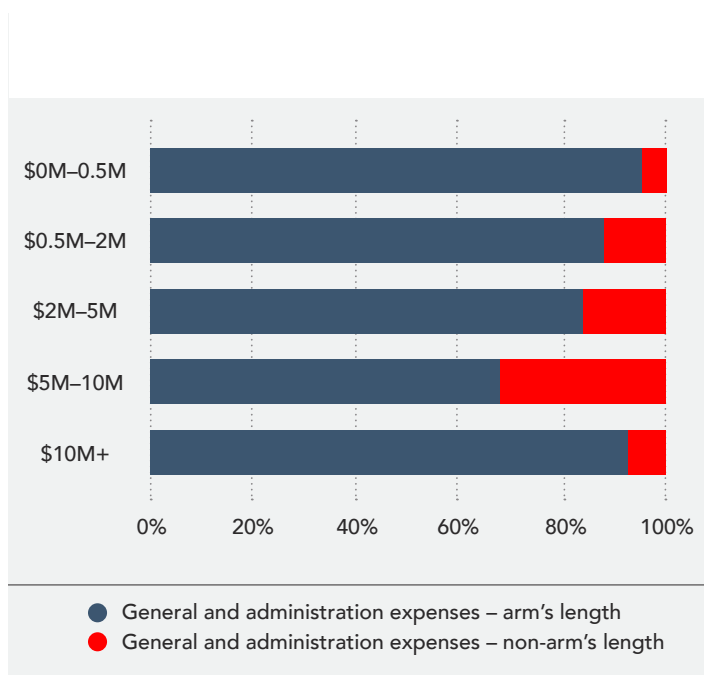
Contribution after Sales and Marketing

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 \$0.5M in total sales.

General and Administration

Declining general and administration expenses relative to sales as businesses increase in size is a trend typically observed across industries due to benefits derived from economies of scale. On average, general and administration expenses were at least 20% of sales for wineries with less than \$5M of total sales and decreased to 8.9% for the \$10M+ segment.

Arm's length general and administration expense includes non-manufacturing administrative expenses provided by parties that are not family members or are independent of the business owner, 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. Non-arm's length expenses were lowest in the \$0M-0.5M segment at 2.9% of total general and administration expenses and highest in the \$5M-10M segment at 32.6% 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 14.8% of sales for the \$0M–0.5M segment and 1.6% for the \$10M+ segment.

EBIT

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT increased with winery size and was positive on average for wineries with over \$0.5M in total sales. EBIT was -36.2% of sales for the \$0M–0.5M segment and 16.3% for the \$10M+ segment.

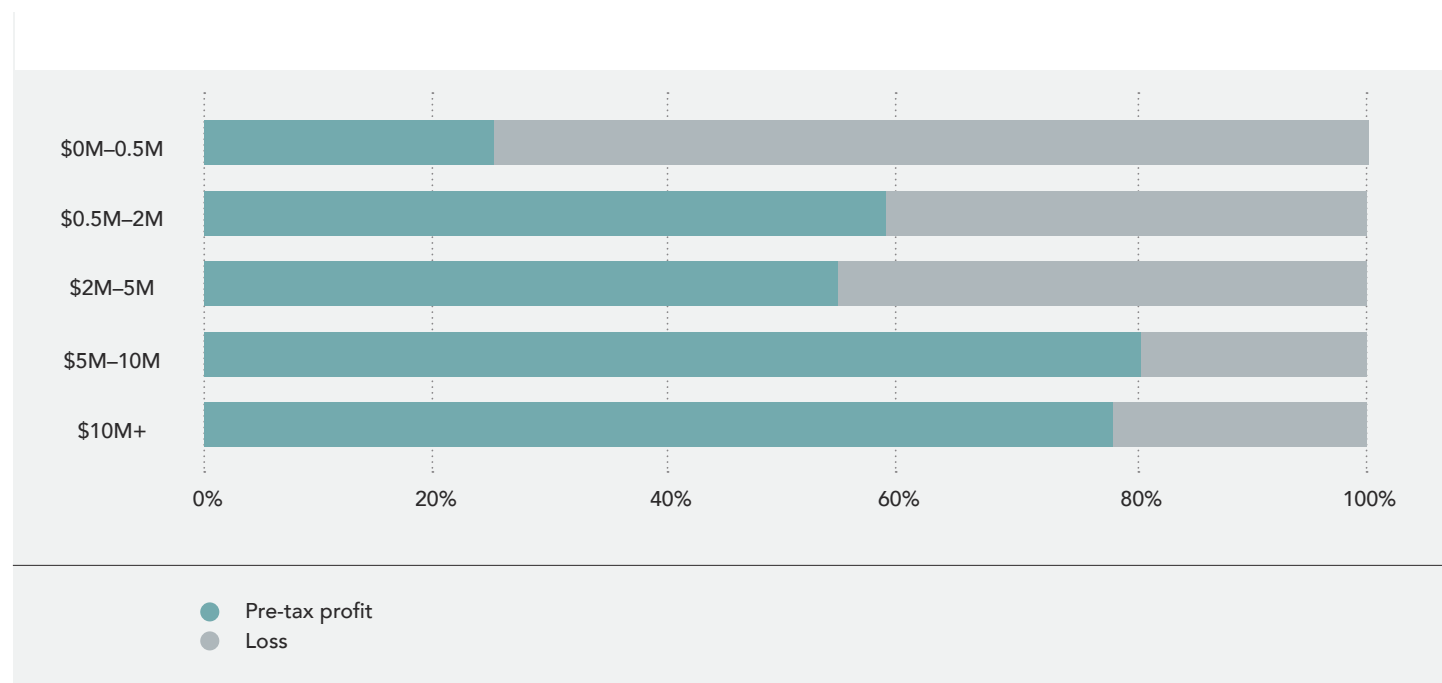
Profit/Loss Before Taxes

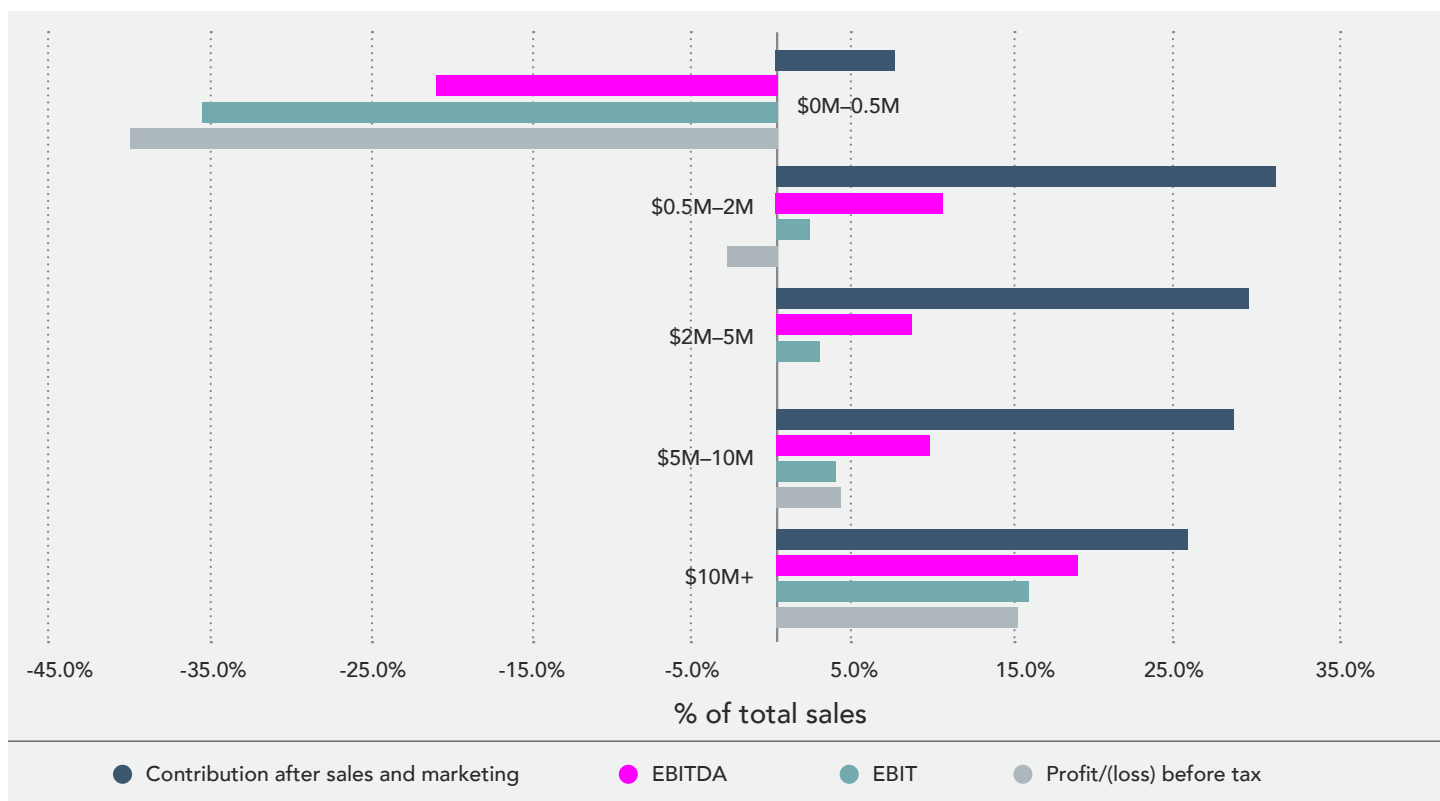
Half of winery respondents reported a positive pre-tax profit and half reported a loss. Larger wineries were generally more likely to be profitable, with 25% of wineries in the \$0M–0.5M segment reporting a pre-tax profit compared to 79% in the \$10M+ segment.

On average, pre-tax profitability increased with size where the \$0M–0.5M winery segment had 40.0% of loss before tax compared to 15.1% of profit for the \$10M+ winery segment.

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

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





BALANCE SHEET 2016

| | Winery size (2016 sales) | | | | |
|--|--------------------------|---------------|---------------|---------------|---------------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Cash | 3.2% | 2.9% | 1.5% | 1.6% | 1.7% |
| Accounts receivable | 1.8% | 3.9% | 6.1% | 7.1% | 5.7% |
| Inventory | 22.8% | 32.6% | 32.9% | 34.6% | 35.7% |
| Other current assets | 0.6% | 2.8% | 4.5% | 2.9% | 1.2% |
| Total current assets | 28.5% | 42.2% | 44.9% | 46.3% | 44.3% |
| Land and land improvements | 17.4% | 16.3% | 8.6% | 7.6% | 8.6% |
| Vineyards | 6.8% | 5.2% | 10.1% | 3.0% | 5.8% |
| Buildings and improvements | 33.4% | 22.2% | 26.6% | 32.8% | 15.0% |
| Equipment | 11.7% | 9.6% | 5.7% | 7.6% | 8.9% |
| Other fixed assets | 1.0% | 2.1% | 2.6% | 2.0% | 4.3% |
| Total net fixed assets | 70.3% | 55.4% | 53.6% | 53.0% | 42.7% |
| Purchased goodwill and other intangible assets | 1.1% | 1.7% | 0.0% | 0.0% | 11.8% |
| Investments | 0.0% | 0.3% | 0.8% | 0.2% | 1.1% |
| Other assets | 0.1% | 0.3% | 0.7% | 0.5% | 0.1% |
| Total assets | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Bank indebtedness | 4.0% | 5.1% | 5.1% | 4.5% | 15.3% |
| Accounts payable and accrued liabilities | 10.5% | 5.0% | 6.5% | 6.6% | 6.2% |
| Other current liabilities | 16.4% | 12.9% | 19.0% | 0.9% | 3.3% |
| Total current liabilities | 31.0% | 23.0% | 30.6% | 12.0% | 24.8% |
| Long term liabilities | 86.8% | 69.8% | 60.0% | 58.4% | 23.8% |
| Total liabilities | 117.7% | 92.7% | 90.6% | 70.4% | 48.6% |
| Capital stock | 8.9% | 22.2% | 15.9% | 3.5% | 29.0% |
| Retained earnings | -26.6% | -15.0% | -6.5% | 26.1% | 22.4% |
| Total equity | -17.7% | 7.3% | 9.4% | 29.6% | 51.4% |
| 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

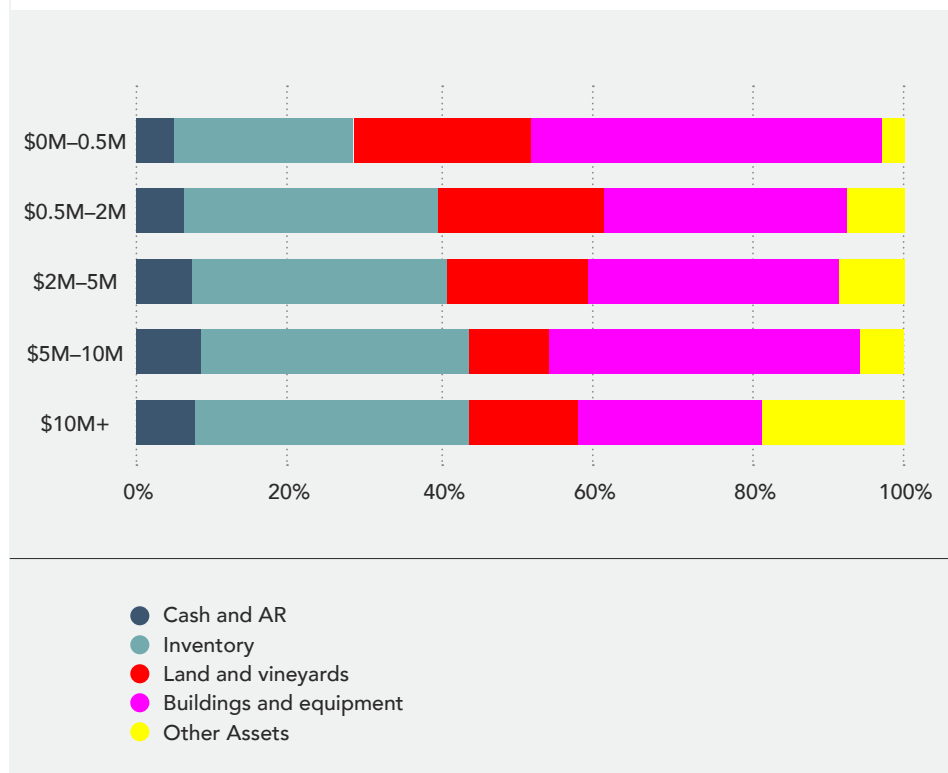
Smaller wineries had a larger percentage of their assets in fixed assets compared to larger wineries. Wineries in the \$0M-0.5M segment held 70.3% of total assets in fixed assets compared to 42.7% for wineries in the \$10M+ segment.

Smaller wineries held a larger percentage of assets in land and vineyards compared to larger wineries. Land and vineyards made up 24.2% of total assets for the \$0M-0.5M segment compared to 14.4% 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 45.1% of total assets for the \$0M-0.5M segment compared to 24.0% of total assets for the \$10M+ segment.

Smaller wineries held a lower percentage of assets in inventory than larger wineries. Inventory made up 22.8% of total assets for the \$0M-0.5M segment compared to 35.7% of total assets for the \$10M+ segment.

Smaller wineries generally held a lower percentage of assets in purchased goodwill and intangible assets than larger wineries, at 1.1% of total assets for the \$0M-0.5M segment compared to 11.8% for the \$10M+ segment.

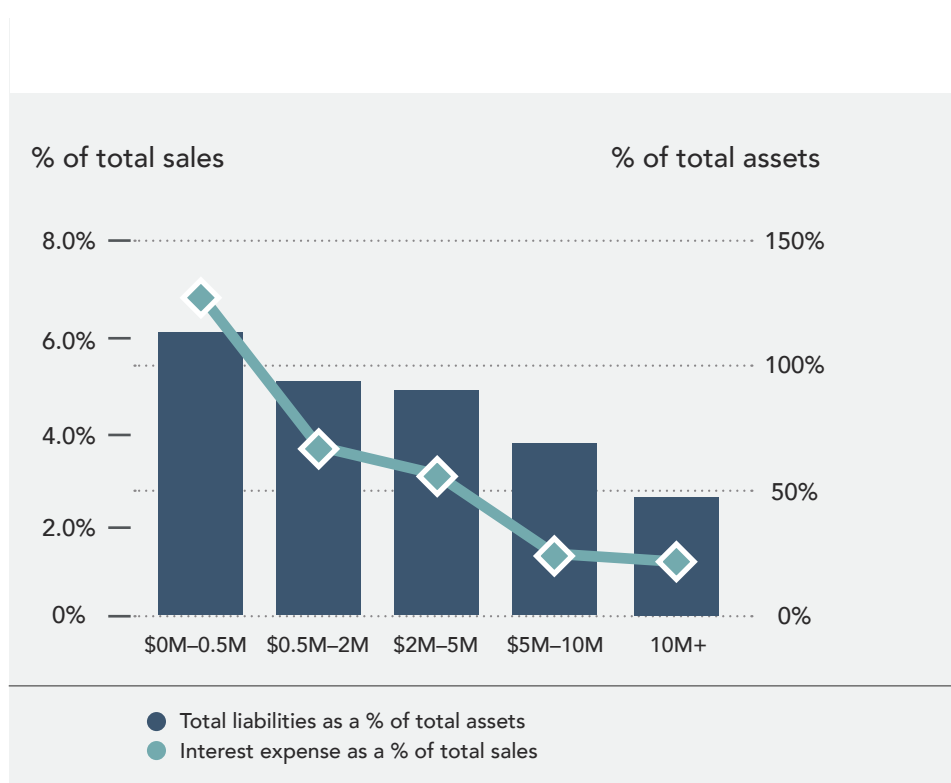
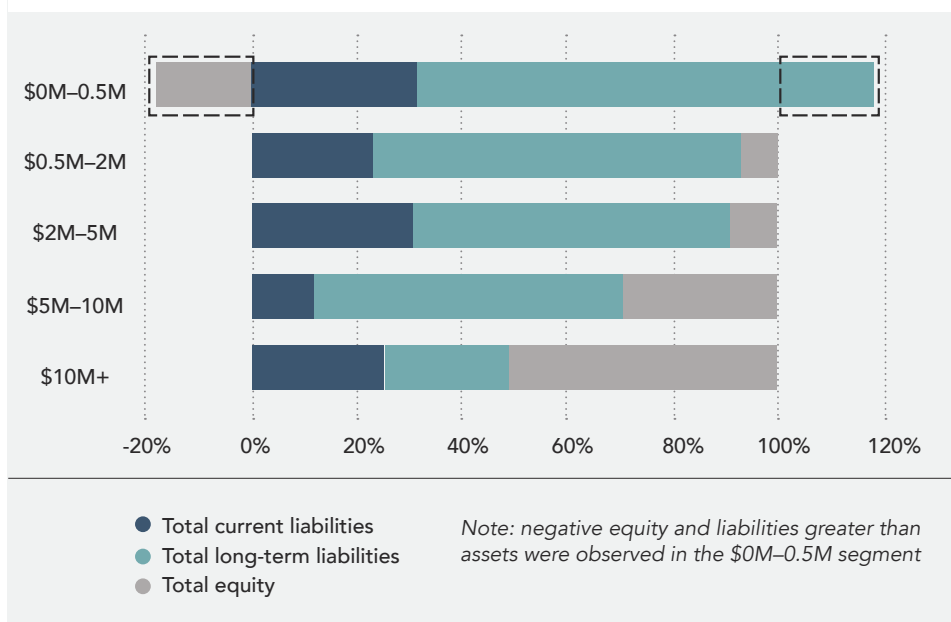


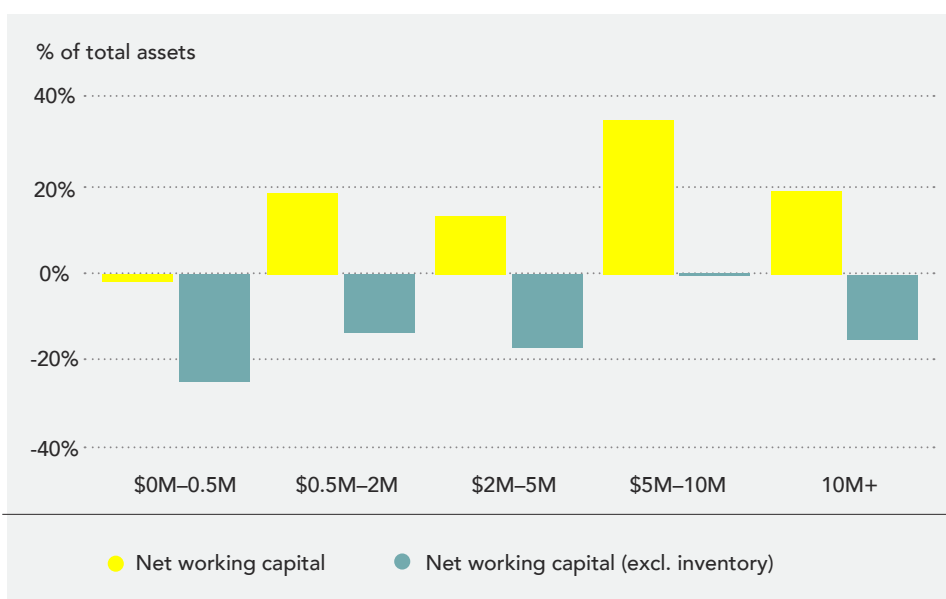
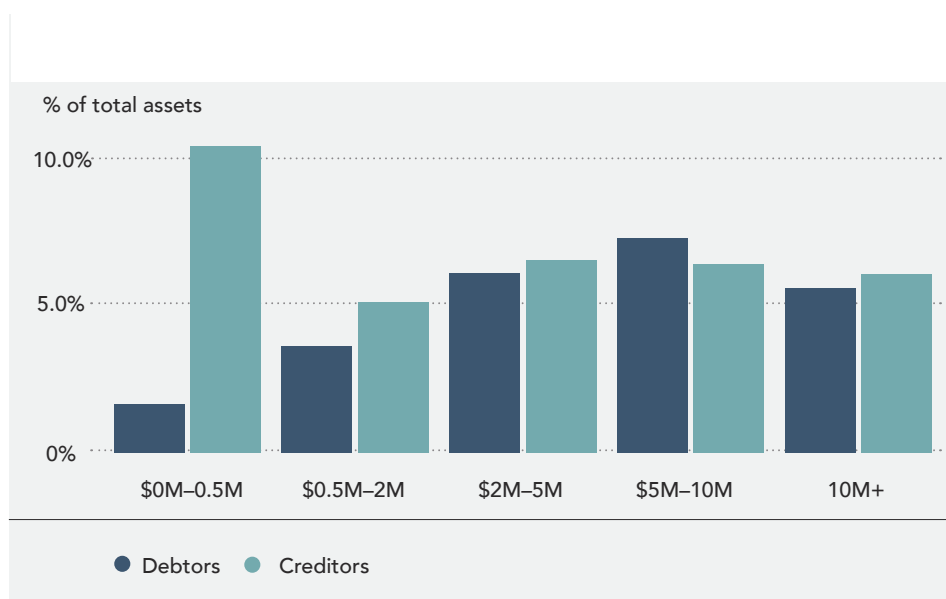
Liabilities and Equity

Smaller wineries were funded to a higher degree through debt than equity when compared to larger wineries. Wineries in the \$0M–0.5M segment held 117.7% in liabilities and -17.7% in equity due to negative retained earnings compared to 48.6% in liabilities and 51.4% in equity for wineries in the \$10M+ segment.

Interest expense on the income statement decreased as wineries increased in size, from 6.6% of sales for \$0M–0.5M wineries to 1.1% of sales for \$10M+ wineries, corresponding to the debt levels observed in the winery segments. Higher levels of debt at the smaller wineries correlate to a higher cost of borrowing.

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





Assets vs. Liabilities

Creditors, represented by accounts payable and accrued liabilities, were higher than debtors, represented by accounts receivable, across all winery segments except for the \$5M–10M segment.

Net working capital is the difference between current assets and current liabilities, representing cash flow requirements for day to day operations of the business. Inventory levels formed a large portion of current assets. Given the seasonality of the industry and thus the variability in the movement of inventory levels, it is worth considering working capital excluding inventory for cash flow management purposes. On average, net working capital with inventory included was positive across wineries with over \$0.5M in sales and was negative across all wineries with inventory excluded.

For further detail on current assets and liabilities, see *Current Assets and Liabilities 2016* on page 17.

KEY FINANCIAL RATIOS 2016

| | Winery size (2016 sales) | | | | |
|--------------------------|--------------------------|-----------|---------|----------|--------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Solvency ratios | | | | | |
| Current ratio | 0.9 | 1.8 | 1.5 | 3.9 | 1.8 |
| Debt to equity ratio | (6.6) | 12.8 | 9.6 | 2.4 | 0.9 |
| Debt to tangible assets | 1.2 | 0.9 | 0.9 | 0.7 | 0.6 |
| Efficiency ratios | | | | | |
| Inventory turnover | 0.7 | 0.7 | 0.7 | 0.9 | 1.3 |
| Fixed asset turnover | 0.3 | 0.7 | 0.8 | 1.1 | 2.1 |

Solvency Ratios

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

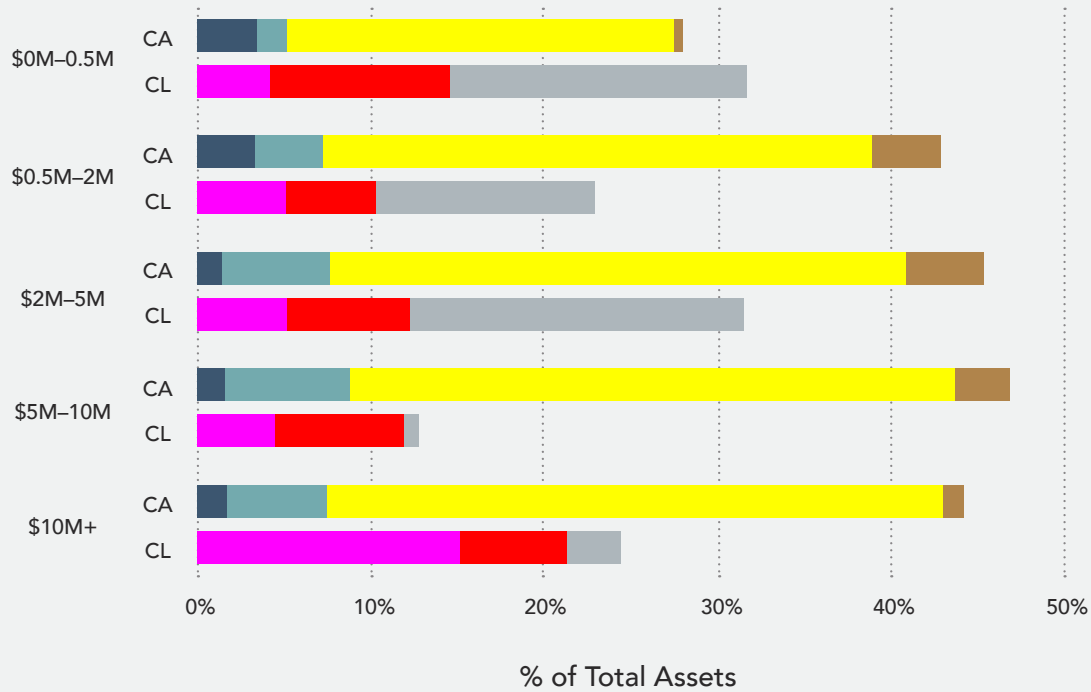
The debt to equity ratio is calculated as total liabilities divided by total equity and indicates the relative proportion of debt and equity used to finance assets. Note the \$0M–0.5M winery segment was negative due to a negative equity balance. On average, wineries with less than \$10M of sales were financed more heavily through debt than equity. The debt to equity ratio decreased as the size of wineries increased, indicating a higher proportion of debt financing at smaller wineries.

The debt to tangible assets ratio was calculated as total liabilities divided by total assets excluding purchased goodwill and other intangible assets. A ratio below 1.0 indicates there are sufficient tangible asset levels to cover debt. All winery segments except for the \$0M–0.5M segment had ratios below 1.0.

Efficiency Ratios

Inventory turnover is calculated as cost of goods sold divided by inventory and indicates the number of times inventory has been sold in the year. An inventory turnover ratio of less than 1.0 indicates increasing inventory levels. Wineries are expected to have inventory turnover of less than 1.0 during periods of increased production or supply, as some of the wine produced is held in inventory for ageing or sale. All winery segments except for the \$10M+ category had inventory turnover ratios below 1.0, indicating that they were accumulating a portion of their inventory.

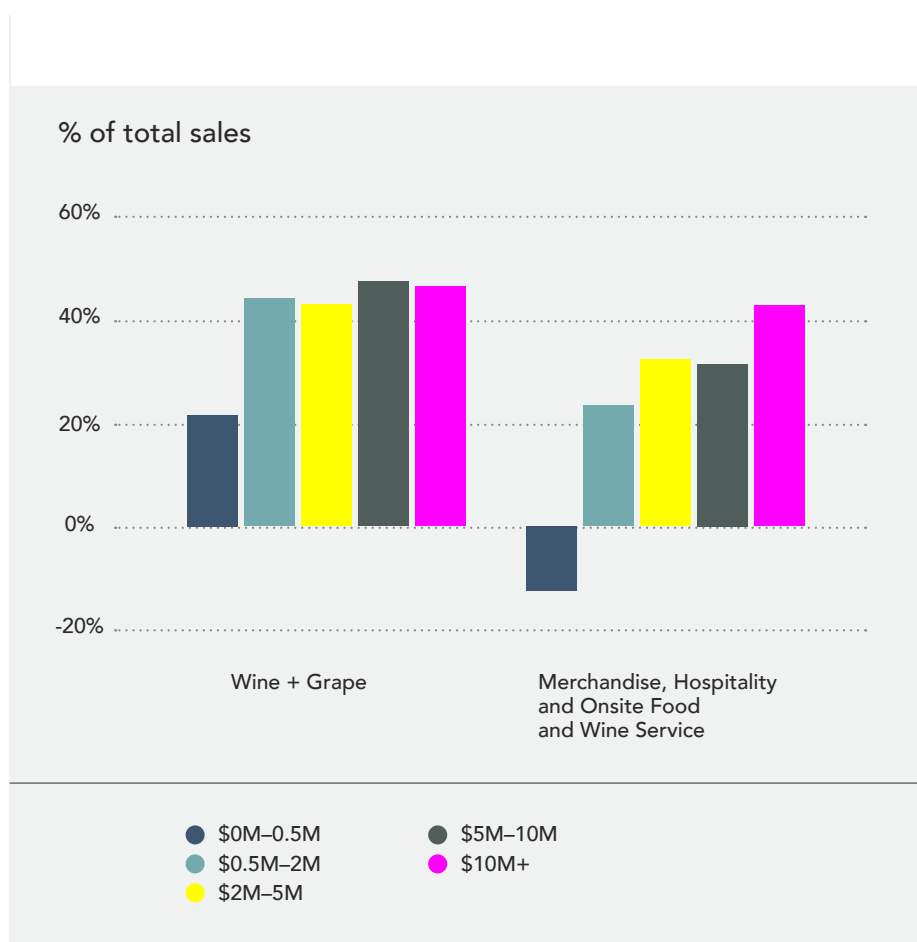
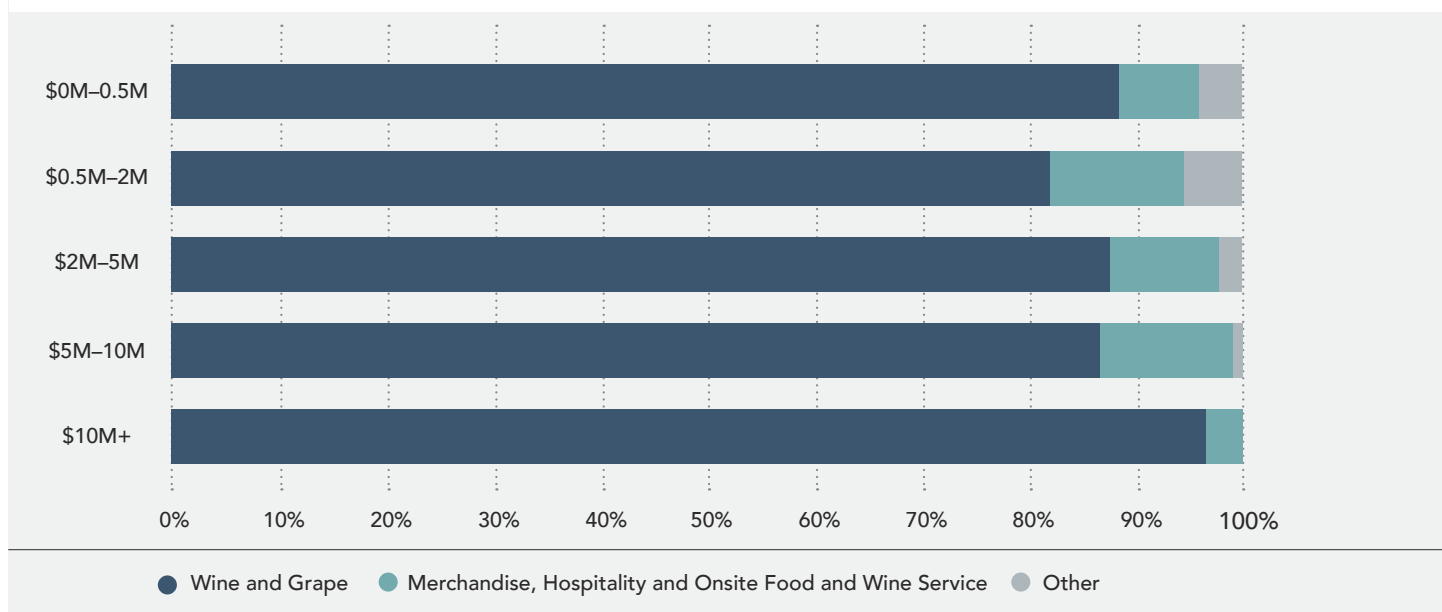
Fixed asset turnover is calculated as total sales divided by total fixed assets and measures the business' ability to efficiently deploy its fixed assets in generating sales. The fixed asset turnover ratio increased with winery size, indicating that larger wineries use their fixed assets more efficiently.



● 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 Sales

Including grants and programs, wine and grape sales comprised at least 80% 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 9.9% of sales derived from non-wine and grape lines of business.

Line of Business Gross Margin

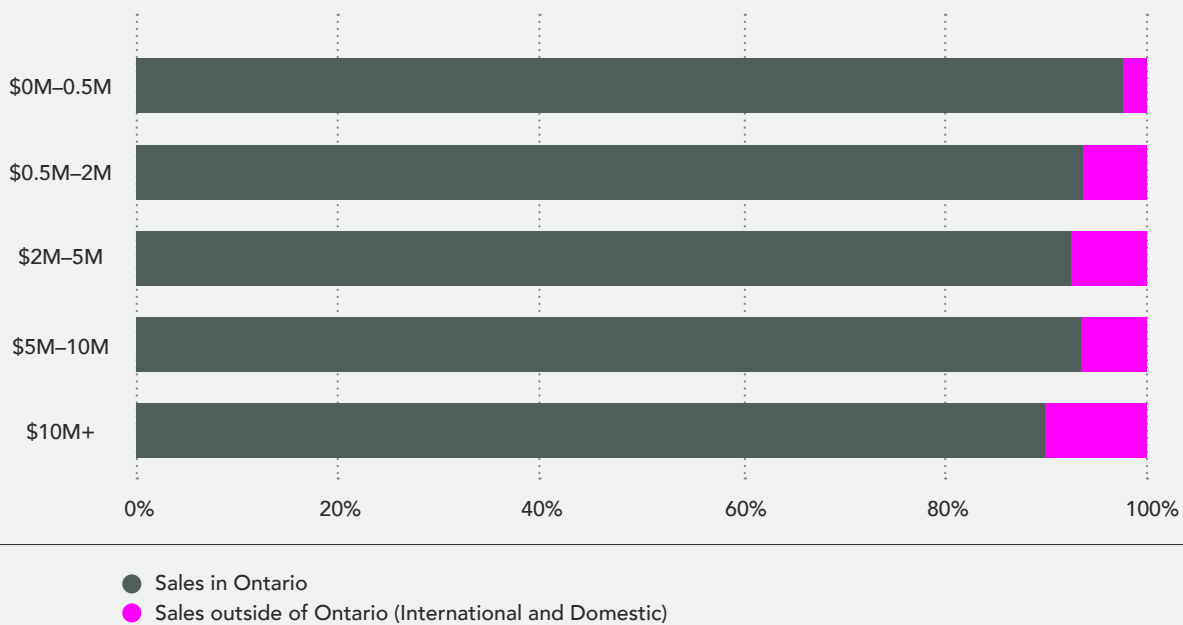
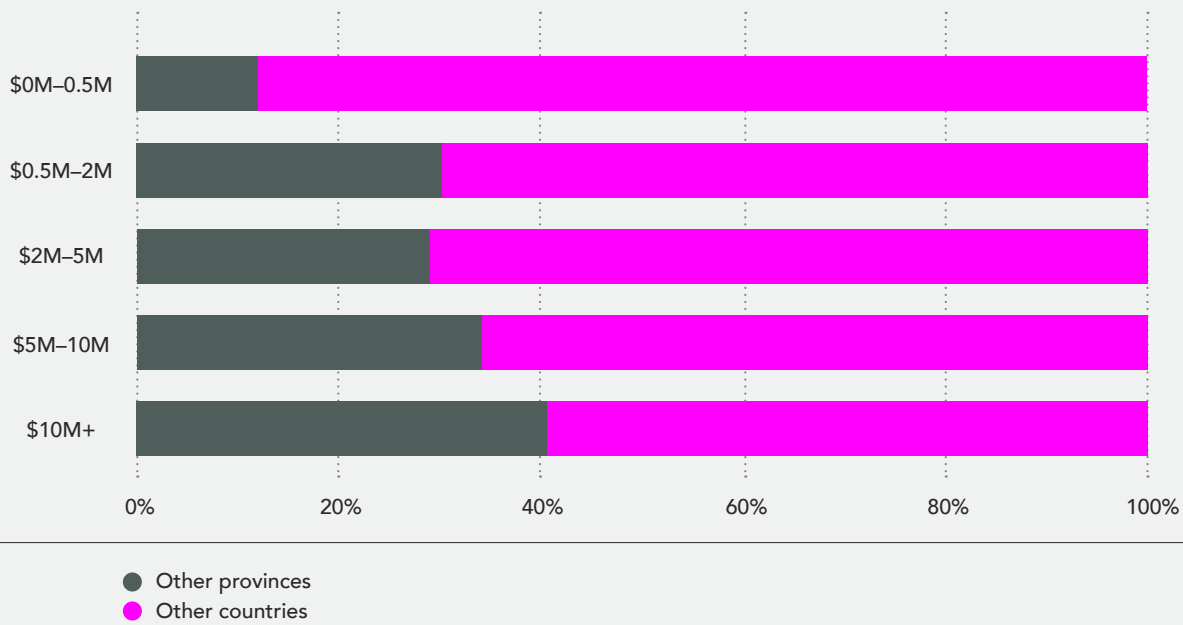
Wine and grape gross margin generally increased with winery size, at 22.3% for the \$0M–0.5M segment and 48.4% for the \$10M+ segment.

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

WINE SALES DETAIL 2016

| | Winery size (2016 sales) | | | | |
|--|--------------------------|---------------|---------------|---------------|---------------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Wine Sales by Channel (VQA and Non-VQA) | | | | | |
| LCBO | 12.7% | 18.6% | 31.5% | 33.0% | 41.3% |
| Winery retail store | 58.3% | 54.0% | 36.4% | 37.6% | 43.2% |
| Farmers' market | 3.6% | 0.7% | 0.3% | 0.9% | 0.1% |
| Delivered direct to licensees | 21.2% | 18.9% | 19.1% | 17.9% | 3.9% |
| Sales to other provinces | 0.3% | 1.9% | 2.1% | 2.4% | 4.0% |
| Export | 2.3% | 4.5% | 5.2% | 4.6% | 5.8% |
| Other | 1.6% | 1.4% | 5.3% | 3.7% | 1.7% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Wine Product Type (VQA and Non-VQA) | | | | | |
| Table wine | 87.3% | 88.6% | 92.6% | 87.9% | 84.8% |
| Sparkling wine | 3.3% | 4.7% | 1.5% | 2.4% | 2.6% |
| Icewine | 3.6% | 5.0% | 5.9% | 7.2% | 8.0% |
| Other grape | 4.0% | 0.2% | 0.0% | 0.8% | 4.5% |
| Other non-grape | 1.9% | 1.5% | 0.0% | 1.7% | 0.1% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |
| Wine Format (VQA and Non-VQA) | | | | | |
| Packaged wine | 92.0% | 97.3% | 96.1% | 95.2% | 99.2% |
| Bulk wine | 7.6% | 2.0% | 3.7% | 4.8% | 0.8% |
| Bulk juice | 0.4% | 0.7% | 0.2% | 0.0% | 0.0% |
| Total | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

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



Wine Sales by Channel

Reliance on LCBO as a sales channel increased with winery size, whereas smaller wineries were more dependent on winery retail store and delivered direct to licensees as sales channels. Wineries in the \$0M-0.5M segment attributed 12.7% of sales through the LCBO compared to 41.3% for the \$10M+ segment.

The majority of wine produced in Ontario was sold in Ontario. Sales outside of Ontario to other countries and

provinces as a percentage of total sales increased as wineries increased in size. Sales outside of Ontario reached a maximum of 9.8% of sales for the \$10M+ segment, with 4.0% of sales to other provinces and 5.8% of sales to other countries.

Wineries in all segments sold more to other countries than to other provinces within Canada. The \$10M+ segment had the greatest proportion of sales to other provinces, at 40.8% of total sales outside of Ontario.

Wine Sales by Product Type

Wineries in the \$0M-0.5M segment attributed 87.3% of sales to table wine compared to 84.8% for the \$10M+ segment. Larger wineries attributed a larger proportion of sales to icewine than smaller wineries on average. Wineries in the \$0M-0.5M segment attributed 3.6% of sales to icewine compared to 8.0% for the \$10M+ segment.

Wine Sales by Format

The sale of packaged wines generally increased with winery size. Wineries in the \$0M-0.5M segment attributed 92.0% of sales to packaged wine compared to 99.2% for the \$10M+ segment.

WINE SALES BY PRODUCT TYPE AND WINE FORMAT 2016

(SALES DOLLARS PER LITRE)

| | Winery size (2016 sales) | | | | |
|--|--------------------------|-----------|---------|----------|--------|
| | \$0M-0.5M | \$0.5M-2M | \$2M-5M | \$5M-10M | \$10M+ |
| Wine Product Type (VQA and Non-VQA) | | | | | |
| Table wine | 19.40 | 17.13 | 12.72 | 12.70 | 5.97 |
| Sparkling wine | 23.44 | 27.02 | 25.31 | 17.15 | 7.52 |
| Icewine | 33.81 | 51.69 | 56.02 | 58.36 | 61.15 |
| Wine Format (VQA and Non-VQA) | | | | | |
| Packaged wine | 21.87 | 17.57 | 16.40 | 11.21 | 6.52 |
| Bulk wine | 6.72 | 4.24 | 2.99 | 4.75 | 2.81 |

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).



RANKING OF RELATIVE IMPORTANCE OF GLOBAL EXPORT MARKETS 2016

\$0–0.5M 1. Asia
2. Australia

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

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

\$5–10M 1. Asia
2. North America (excluding Canada)
3. Europe
4. Africa (including Middle East)

\$10M+ 1. Asia
2. North America (excluding Canada)
3. Europe
4. South America/Africa
(including Middle East)

RANKING OF RELATIVE IMPORTANCE OF MARKETS OUTSIDE OF ONTARIO 2016

2. Quebec/Prairies

2. Prairies
3. Atlantic
4. British Columbia

2. Quebec
3. Atlantic
4. British Columbia

2. Quebec
3. Atlantic
4. British Columbia

2. Atlantic
3. Quebec
4. British Columbia

For international exports, wineries in all segments viewed Asia as the most important global export markets.

Within Canada, the smaller wineries ranked Atlantic Canada and Quebec as the most important market, while larger wineries considered the Prairies as the most important.

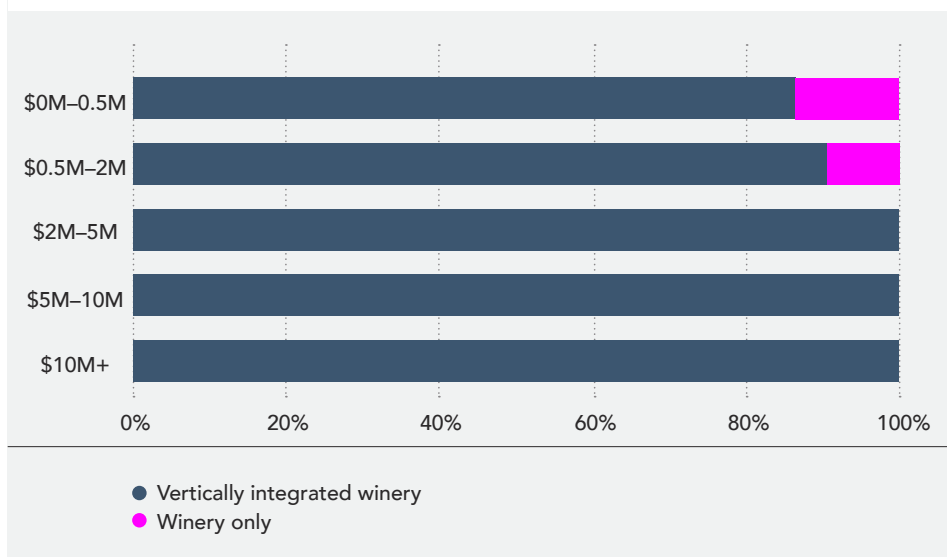
Operational Information



Participation in Grape Growing

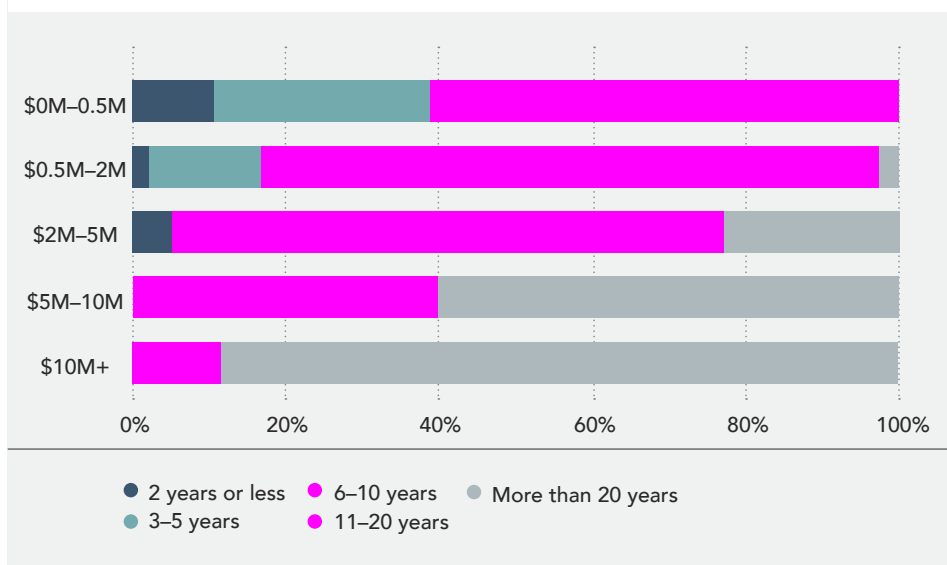
The majority of wineries surveyed were vertically integrated wineries that included a grape growing business. All wineries with more than \$2M in sales were vertically integrated.

Wineries that do not grow grapes were observed within the segments with smaller wineries; 13.9% of wineries in the \$0M-0.5M segment and 9.5% of wineries in the \$0.5 M-2M 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, 38.9% of wineries operated for 5 years or less. In the \$10M+ segment, 88.9% of wineries have operated for over 20 years.



INVENTORY DETAIL 2016 (AVERAGE LITRES PER BUSINESS)

| | Winery size (2016 sales) | | | | |
|---|--------------------------|---------------|----------------|----------------|------------------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Table wine – bulk | 15,291 | 56,910 | 156,872 | 322,691 | 4,701,596 |
| Table wine – packaged | 17,414 | 38,377 | 108,052 | 254,288 | 1,333,946 |
| Table wine – juice | 541 | 546 | - | - | - |
| Total table wine | 33,247 | 95,834 | 264,924 | 576,979 | 6,035,542 |
| Icewine – bulk and packaged | 1,092 | 1,507 | 6,535 | 6,818 | 151,188 |
| Icewine – juice | - | 638 | - | - | 23,750 |
| Total icewine | 1,092 | 2,145 | 6,535 | 6,818 | 174,938 |
| Other grape wine – bulk, packaged and juice | 614 | 146 | 686 | 44,967 | 11,589 |
| Total | 34,952 | 98,125 | 272,145 | 628,763 | 6,222,069 |

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

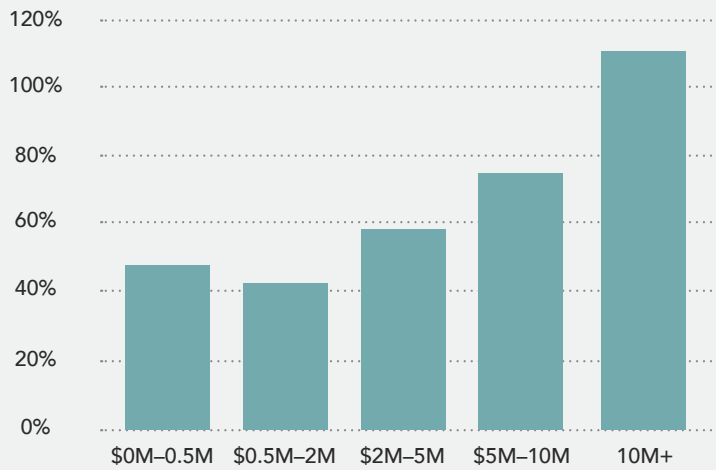
The largest wineries held a larger volume of wine in inventory and held a greater proportion of bulk table wine than smaller wineries.

WINE PRODUCTION DETAIL 2016

| | Winery size (2016 sales) | | | | |
|--|--------------------------|-----------|---------|----------|-----------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Average litres of wine produced | 14,618 | 41,506 | 187,589 | 363,685 | 8,633,912 |
| Average maximum production capacity based on cooperage | 30,158 | 94,021 | 330,194 | 489,544 | 7,717,480 |

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

% utilization



Wine Production Detail 2016

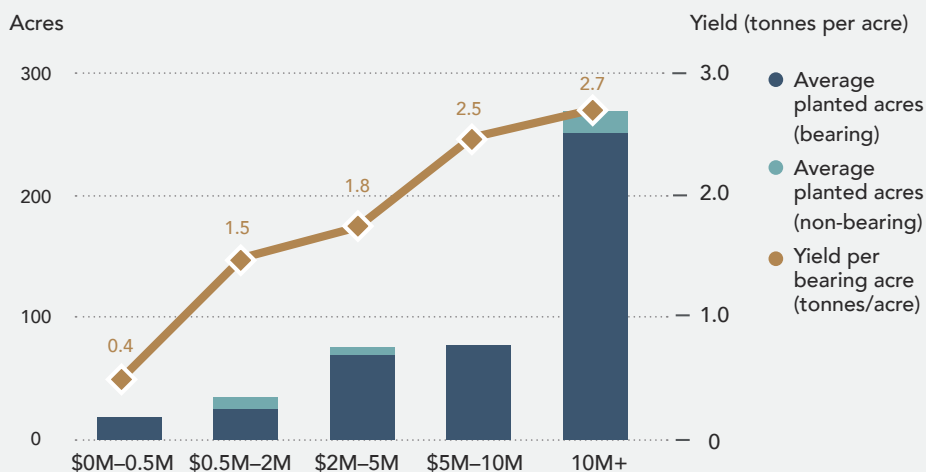
Wineries in the \$0M-0.5M and \$0.5M-2M segments used less than half of their production capacity (calculated as production divided by capacity). Lower production capacity utilization rates suggest excess fixed assets were being held that were not fully utilized.

GRAPE PRODUCTION DETAIL FOR WINERIES 2016

| | Winery size (2016 sales) | | | | |
|--------------------------------------|--------------------------|-----------|---------|----------|--------|
| | \$0M-0.5M | \$0.5M-2M | \$2M-5M | \$5M-10M | \$10M+ |
| Average planted acres – bearing | 25 | 25 | 66 | 75 | 252 |
| Average planted acres – non-bearing | 3 | 11 | 5 | 3 | 20 |
| Average grapes produced (Tonnes) | 10 | 38 | 119 | 186 | 692 |
| Yield per bearing acre (Tonnes/Acre) | 0.4 | 1.5 | 1.8 | 2.5 | 2.7 |

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

Acres



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

\$0-0.5M

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

\$0.5-2M

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

\$2-5M

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

\$5-10M

1. Tank capacity/Crush/Bottling
2. Fermentation

\$10M+

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

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

EMPLOYMENT DETAIL 2016, AVERAGE FULL TIME EQUIVALENTS (FTES)

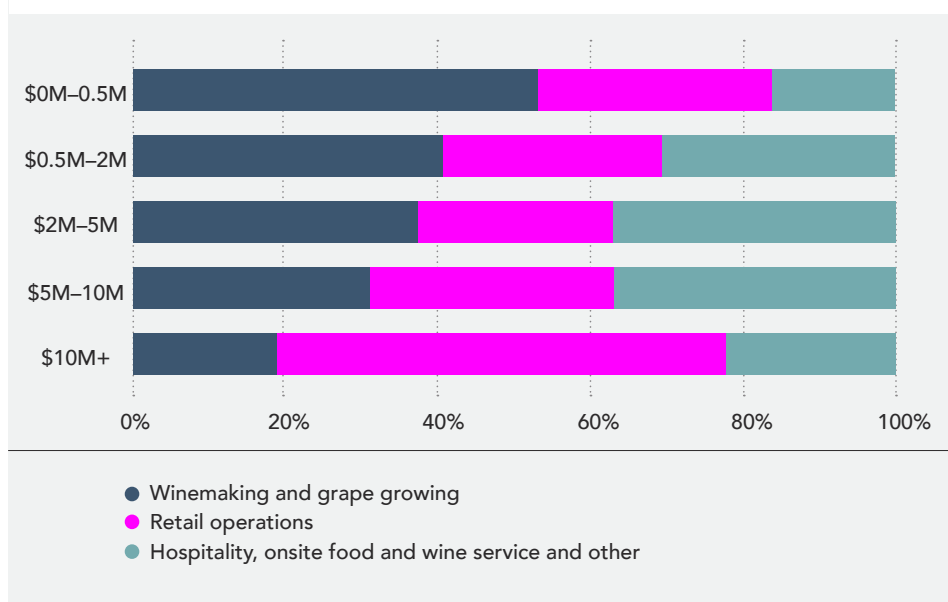
| | Winery size (2016 sales) | | | | |
|---|--------------------------|-------------|-------------|-------------|--------------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Average FTEs by Employee Type | | | | | |
| Full-time employees | 1.9 | 6.2 | 11.4 | 23.8 | 146.2 |
| Seasonal FTEs | 1.3 | 3.0 | 4.3 | 11.1 | 16.7 |
| Part-time FTEs | 0.4 | 1.4 | 4.2 | 11.3 | 90.3 |
| Total | 3.7 | 10.6 | 19.9 | 46.2 | 253.2 |
| Average FTEs by Line of Business | | | | | |
| Wine making and grape growing | 2.0 | 4.3 | 7.4 | 14.7 | 48.9 |
| Retail Operations | 1.2 | 3.0 | 5.3 | 15.7 | 142.1 |
| Hospitality, onsite food and wine service and other | 0.6 | 3.2 | 7.3 | 15.8 | 62.2 |
| Total | 3.7 | 10.6 | 19.9 | 46.2 | 253.2 |

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 2016

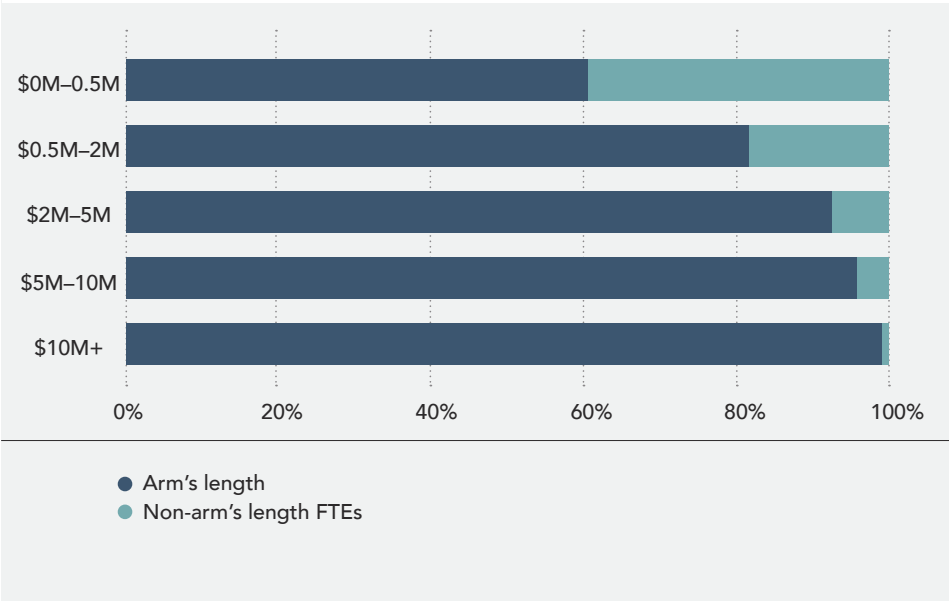
The average FTE count for each winery segment reflects the size difference between the segment with the smallest wineries at 3.7 FTEs and the segment of largest wineries, with 253.2 FTEs.

As wineries increased in size, a smaller percentage of FTEs were devoted to wine making and grape growing. For the \$0M–0.5M segment, winemaking and grape growing accounted for 53.3% of FTEs compared to 19.3% 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 smaller wineries than larger wineries on average. Non-arm’s length FTEs made up 39.3% of total FTEs for the \$0M-0.5M segment and 0.9% for the \$10M+ segment.

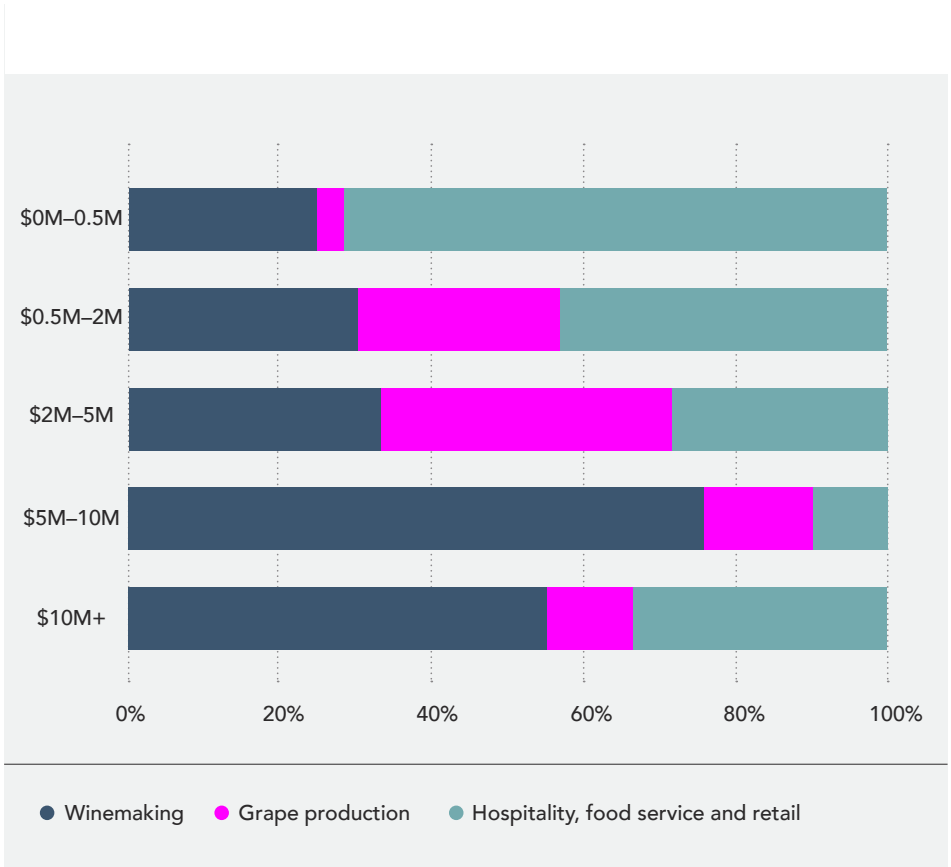


Information on current and planned investment decisions was collected from survey respondents to understand investment choices in the Ontario wine and grape industry. Line of business investment represents the business areas where investments were made, investment choices represent the assets or services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

CURRENT INVESTMENTS

Line of Business Investment

On average, smaller wineries in the \$0M-0.5M and \$0.5M-2M segments invested the highest proportion of total investments in hospitality, food service and retail while larger wineries in the \$5M-10M and \$10M+ segments invested the highest proportion of total investments in wine making.

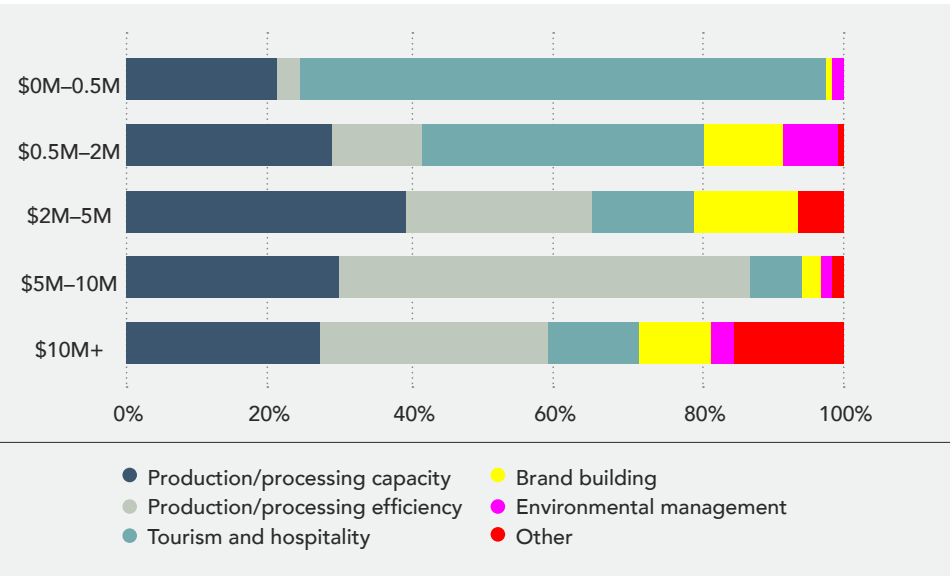
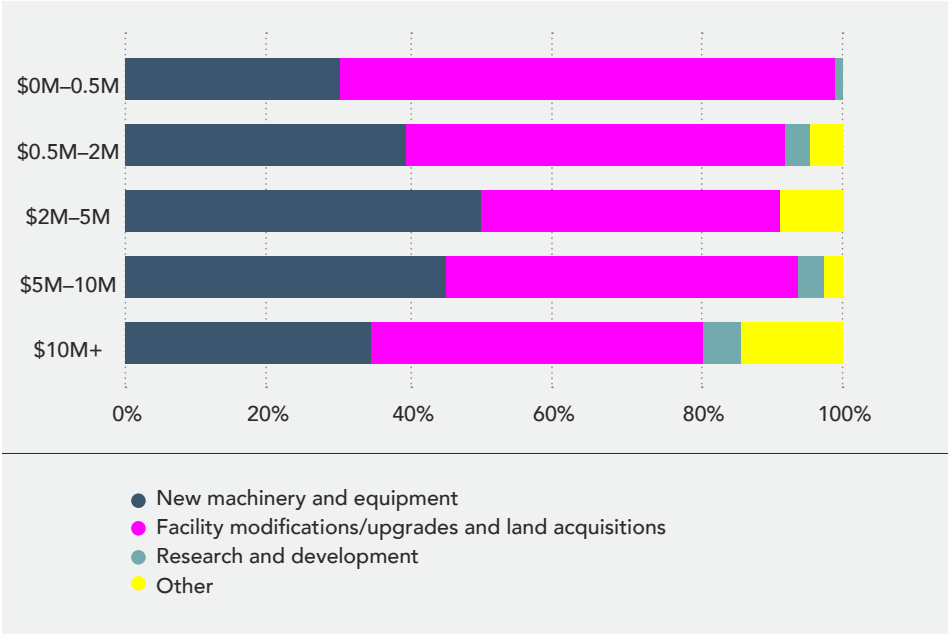


Investment Choices

Businesses across all segments invested the most in new machinery and equipment, as well as facility modifications/upgrades and land acquisitions. Investments in research and development and other areas were not the primary focus and made up at most 20.0% of total investment. Investments in wine making and grape production were more focused on new machinery and equipment, while investments in hospitality, food service and retail were more focused on facility modification/upgrades and land acquisition.

Purpose of Investment

Businesses across all segments invested the most in production/processing capacity and efficiency, as well as tourism and hospitality. Relatively small investments were observed in environmental management across all winery segments.


















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 2016

Winery size (2016 sales)







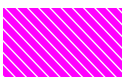














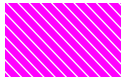


| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
|---|---|--|---|---|---|
| New machinery and equipment |  |  |  |  |  |
| Facility modifications/upgrades and land acquisitions |  |  |  |  |  |
| Research and development |  |  |  |  |  |



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

Planned Investment Purpose 2016

Winery size (2016 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 generally planning to invest heavily for production/processing capacity and efficiency, brand and tourism and hospitality. This mirrored current investment levels with the exception of brand, which was not a focus of investments made in the most recent financial year.

Low levels of investment were generally planned for environmental management, in line with current levels of investment. The exception was the \$10M+ segment, which planned for high levels of investment in environmental management.

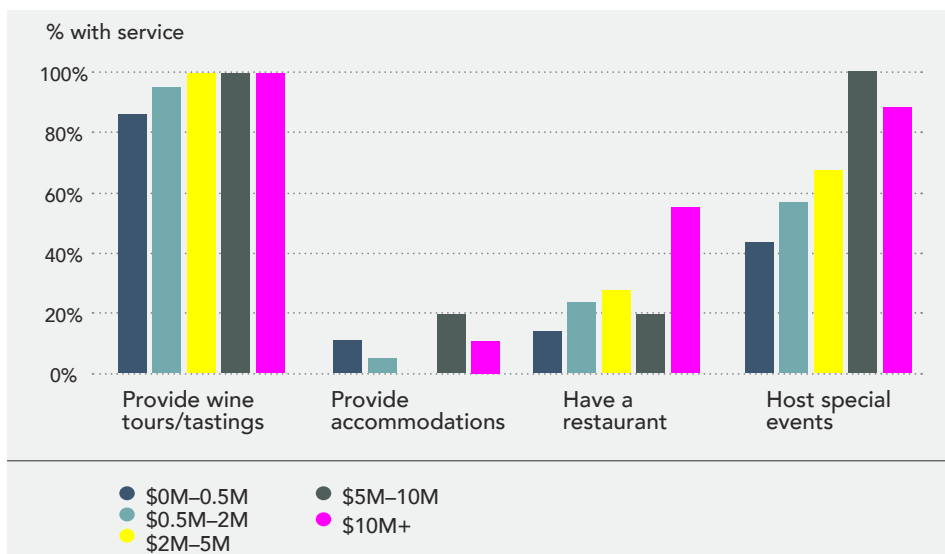
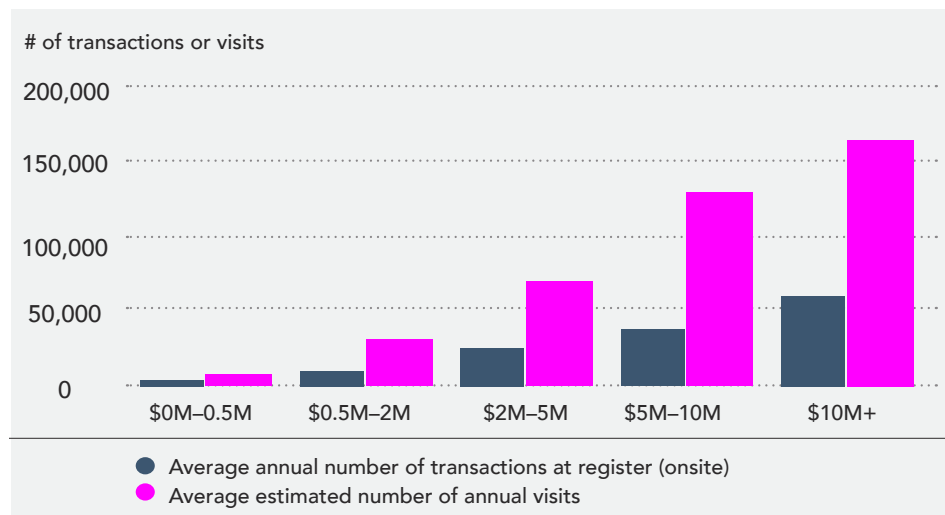


Business Climate

TOURISM ACTIVITY 2016

| | Winery size (2016 sales) | | | | |
|--|--------------------------|-----------|---------|----------|---------|
| | \$0M–0.5M | \$0.5M–2M | \$2M–5M | \$5M–10M | \$10M+ |
| Average annual number of transactions at register (onsite) | 6,703 | 13,977 | 25,662 | 37,158 | 53,178 |
| Average estimated number of annual visits | 10,177 | 30,246 | 69,303 | 130,200 | 166,410 |
| Conversion rate (transactions at register/ annual visits) | 65.9% | 46.2% | 37.0% | 28.5% | 32.0% |

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



Tourism Activity

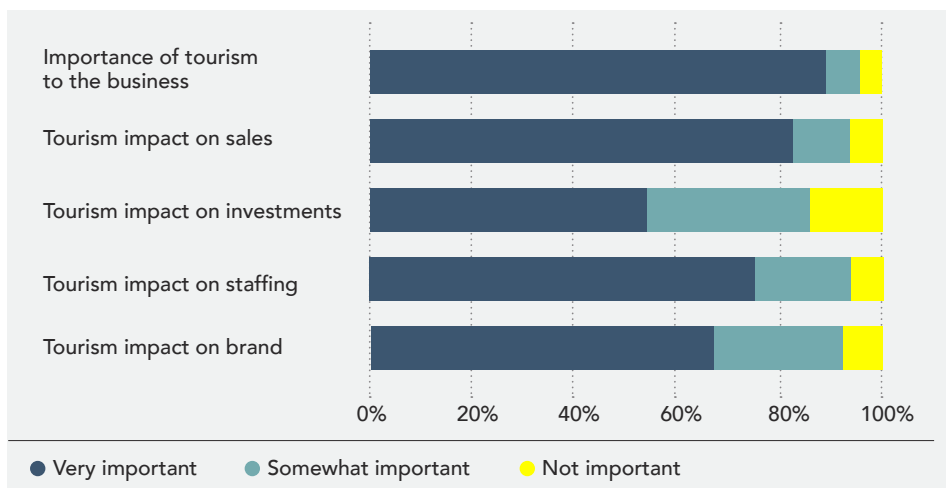
The average number of transactions at the onsite register and the average estimated number of annual visits increased as wineries increased in size, although the \$0M–0.5M segment had the highest conversion rate, or highest number of transactions relative to visits.

Tourism Services

The majority of wineries provided wine tours/tastings, with 100% of wineries providing these services in the \$2M–5M and \$5M–10M and \$10M+ segments.

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

A higher percentage of businesses hosted special events (such as concerts, weddings and corporate retreats) as winery size increased. In the \$10M+ segment, 88.9% hosted special events compared to 44.4% of wineries in the \$0M–0.5M segment.



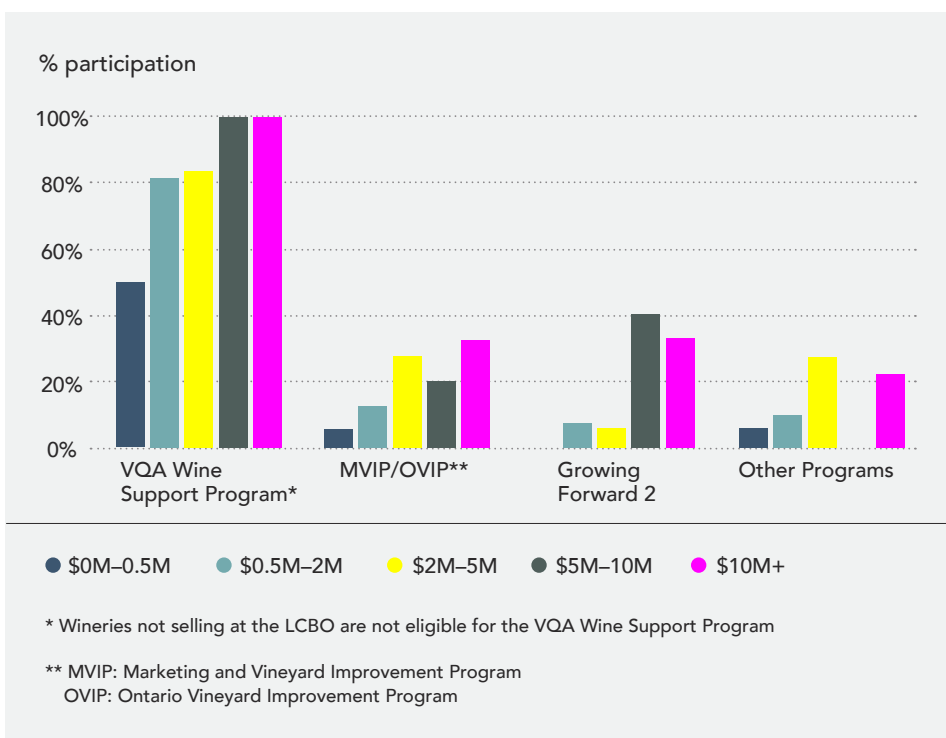
Importance and Impact of Tourism

Tourism was consistently viewed as very important across all wineries and was viewed by the majority of wineries as very important to sales, investment, staffing and brand. This supports the high levels of planned investment into tourism and hospitality by the majority of wineries over the next five years, irrespective of winery size.

Government Programs

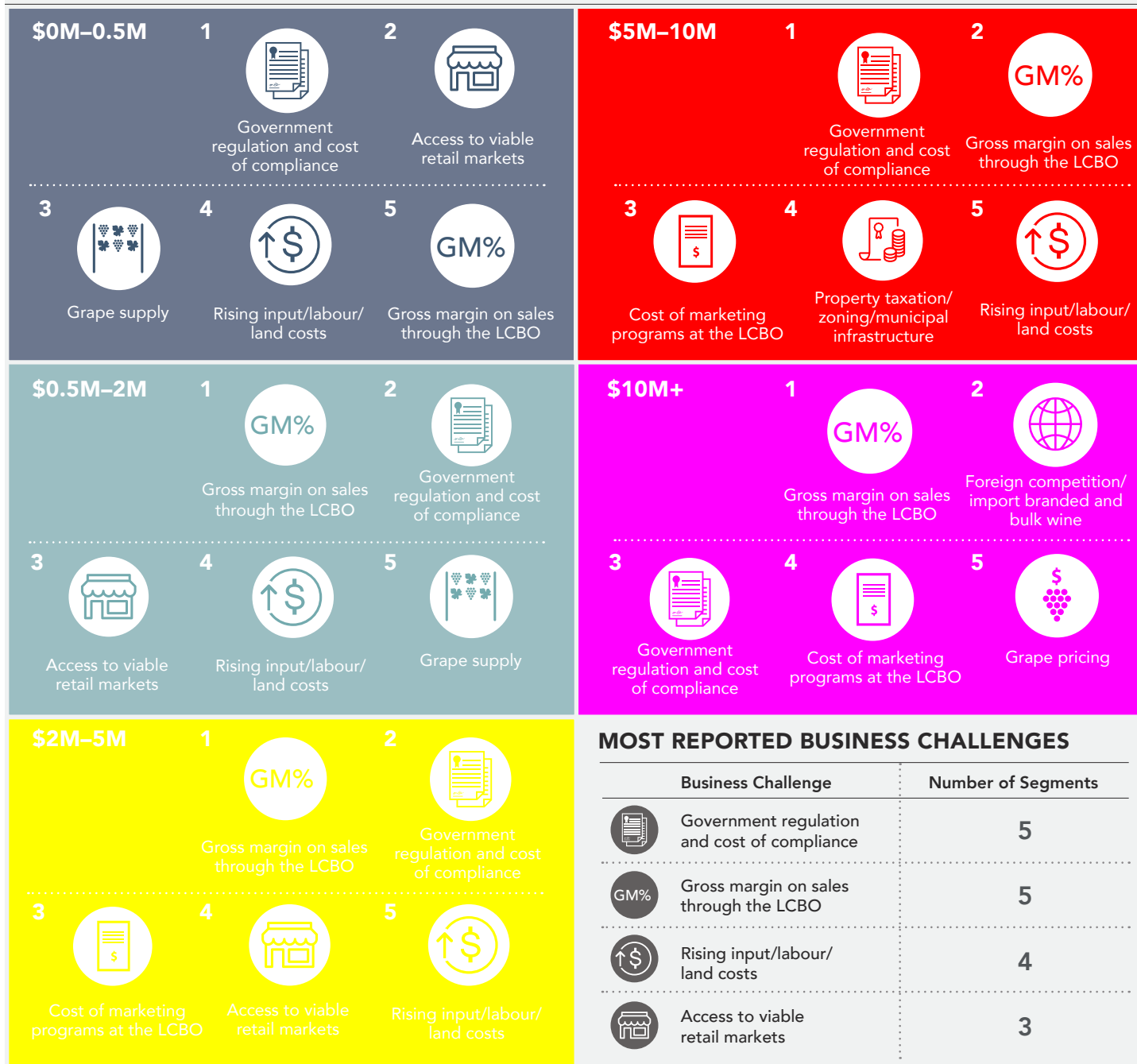
Half of the wineries in the \$0M-0.5M segment participated in the VQA Wine Support Program, while participation rates above 80% were observed in all other winery segments. The \$5M-10M and \$10M+ segments had a 100% participation rate in this program.

The majority of wineries did not participate in programs outside of the VQA Wine Support Program.



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



Government regulation and cost of compliance, as well as gross margins on sales through the LCBO were the top ranked business challenges across all segments.

Grape Growers Performance Summary



Fifty three independent Grape Growers that do not operate a winery participated in the study and account for an estimated 32% 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. Care should be taken when analyzing the state of the industry based on the information set out in this survey. Grape Growers responding to the survey achieved sales ranging from \$0M–\$2.5M.

PROFITABILITY AND FINANCIAL POSITION

Income Statement 2016

| | % of total sales |
|--|------------------|
| Grape sales | 88.1% |
| Grants and programs | 11.9% |
| Total sales | 100.0% |
| Raw materials | -15.2% |
| Arm's length labour | -31.1% |
| Non-arm's length labour | -9.2% |
| Packaging | -0.5% |
| Other direct operating expenses | -13.4% |
| Total cost of goods sold | -69.4% |
| Gross margin | 30.6% |
| Sales and marketing expenses | -0.7% |
| Contribution after sales and marketing | 30.0% |
| Arm's length general and administration expenses | -11.5% |
| Non-arm's length general and administration expenses | -3.8% |
| EBITDA | 14.7% |
| Depreciation and amortization | -9.9% |
| EBIT | 4.8% |
| Interest expense | -4.6% |
| Interest income | 0.1% |
| Other non-grape income | 7.8% |
| Other non-operating income | 1.5% |
| Profit/(loss) before tax | 9.5% |

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 69.4% of total sales, largely due to labour expenses, which comprised 40.3% 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 31.1% of total sales compared to non-arm's length labour expenses of 9.2% of total sales.

Growers had minimal sales and marketing expenses of 0.7% of sales.

Contribution after sales and marketing is one measure of operating performance, focusing on sales and direct costs of the operating business, as well as marketing expenditure and on average was 30.0% 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 11.5% of total sales compared to non-arm's length general and administration expenses of 3.8% 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 14.7% of total sales.

EBIT evaluates financial performance including the impact of depreciation and amortization. EBIT was 4.8% 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 7.8% of total sales.

Growers achieved profit of 9.5% before tax on average, with 55% of growers reporting a pre-tax profit compared to 45% reporting a loss.

BALANCE SHEET 2016

| | % of total assets |
|--|-------------------|
| Cash | 4.5% |
| Accounts receivable | 3.4% |
| Inventory | 0.2% |
| Other current assets | 1.0% |
| Total current assets | 9.0% |
| Land and land improvements | 24.6% |
| Vineyards | 29.5% |
| Buildings and improvements | 7.9% |
| Equipment | 9.7% |
| Other fixed assets | 4.9% |
| Total net fixed assets | 76.5% |
| Purchased goodwill and other intangible assets | 0.8% |
| Investments | 4.2% |
| Other assets | 9.5% |
| Total assets | 100.0% |
| Bank indebtedness | 8.3% |
| Accounts payable and accrued liabilities | 2.2% |
| Other current liabilities | 3.5% |
| Total current liabilities | 14.0% |
| Long term liabilities | 27.8% |
| Total liabilities | 41.8% |
| Capital stock | 12.1% |
| Retained earnings | 46.1% |
| Total equity | 58.2% |
| Total liabilities plus equity | 100.0% |

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

Growers held net fixed assets at 76.5% of total assets. Vineyards made up the largest portion of net fixed assets at 29.5% of total assets, followed by land and land improvements at 24.6% of total assets.

Current assets were minimal due in large part to low inventory levels of 0.2% 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 that current assets do not fully cover current liabilities.

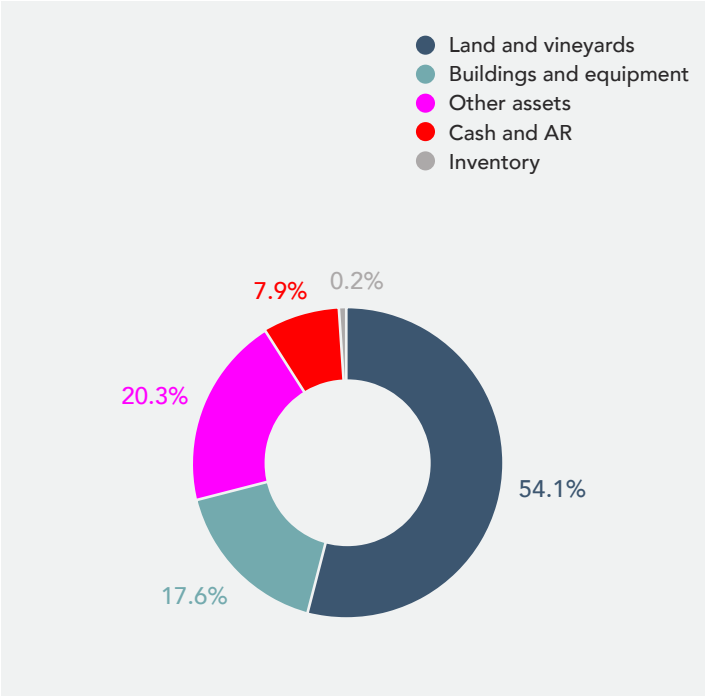
The debt to equity ratio is calculated as total liabilities divided by total equity and indicates the relative proportion of debt and equity used to finance assets. Growers were financed more heavily with equity than debt, indicated by a ratio below 1.0.

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 and indicates the number of times inventory has been sold in the year. Inventory turnover was 108.9 since growers maintained minimal inventory levels on their balance sheets.

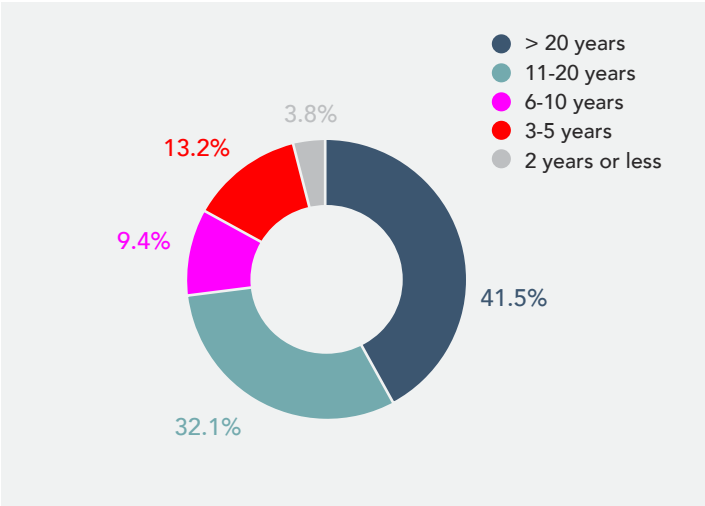
Fixed asset turnover is calculated as total sales divided by total fixed assets and measures the business’ ability to efficiently deploy its fixed assets in generating sales. The fixed asset turnover ratio was 0.3 for growers.



KEY FINANCIAL RATIOS 2016

| Solvency ratios | |
|-------------------------|-------|
| Current ratio | 0.6 |
| Debt to equity ratio | 0.7 |
| Debt to tangible assets | 0.4 |
| Efficiency ratios | |
| Inventory turnover | 108.9 |
| Fixed asset turnover | 0.3 |

OPERATIONAL BACKGROUND



Years of Operation

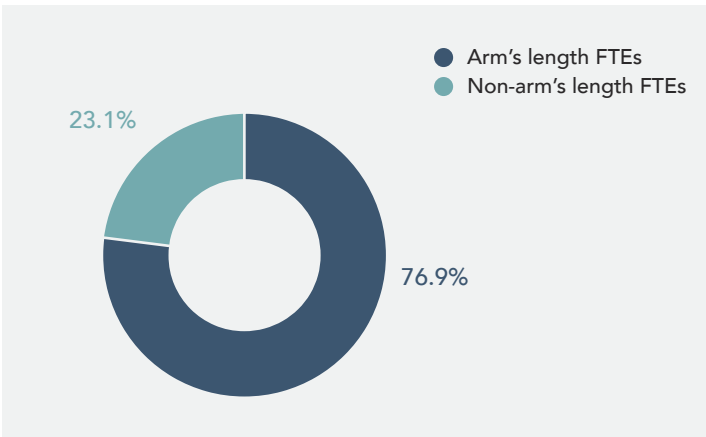
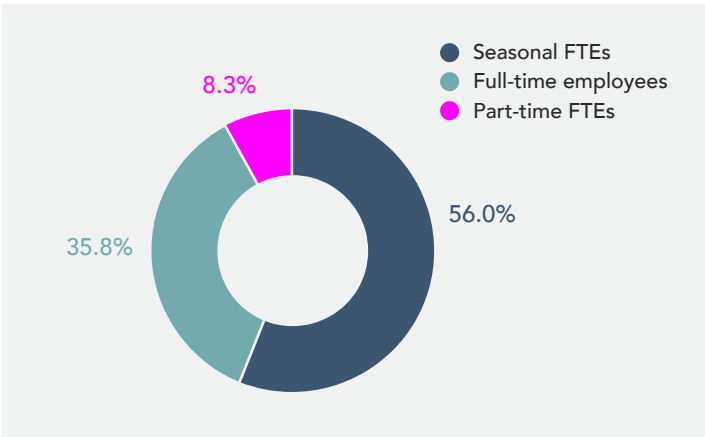
Grape growers averaged 24.6 years of operation, with 41.5% of businesses operated for more than 20 years and 32.1% operated from 11 to 20 years.

Growers produced 4.1 tonnes of grapes per bearing acre on average.

| Production | Metric |
|--------------------------------------|--------|
| Average planted acres – bearing | 78 |
| Average planted acres – non-bearing | 20 |
| Average grapes produced (Tonnes) | 322 |
| Yield per bearing acre (Tonnes/Acre) | 4.1 |

Note: Amounts represent the average acres, tonnes and yield

EMPLOYMENT



Employment Detail 2016, Average FTEs

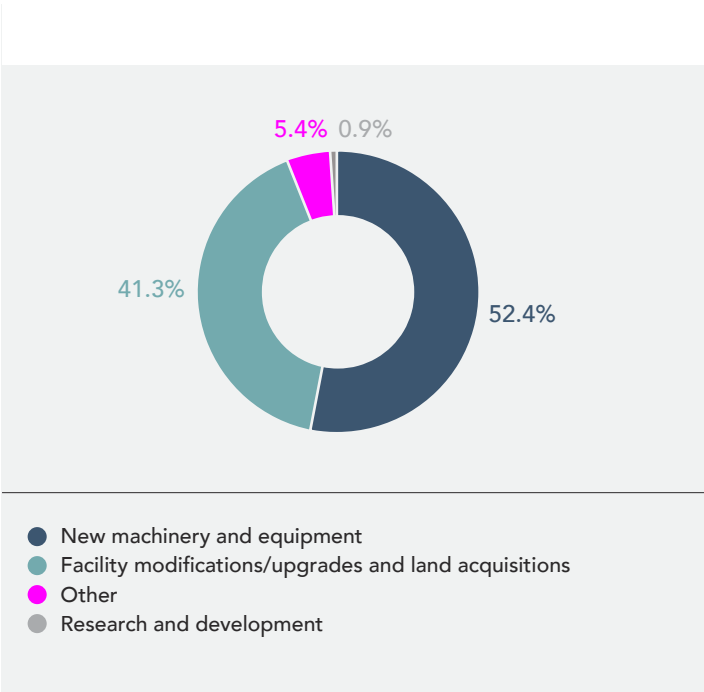
| Employment Type | Average FTEs |
|---------------------|--------------|
| Full-time employees | 2.6 |
| Seasonal FTEs | 4.0 |
| Part-time FTEs | 0.6 |
| Total | 7.2 |

Growers relied heavily on seasonal employees, with seasonal FTEs making up 55.6% 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 23.1% of total FTEs for growers.

INNOVATION AND INVESTMENTS

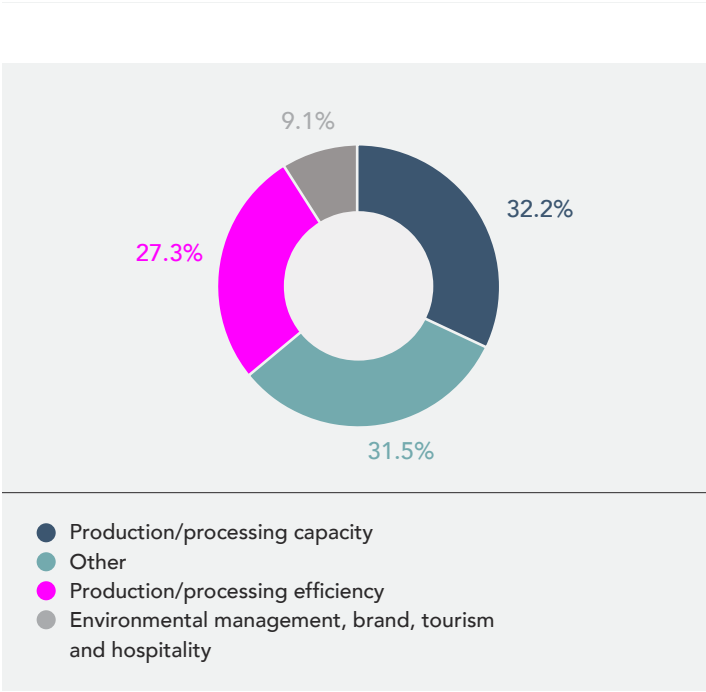
CURRENT INVESTMENTS

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 new machinery and equipment at 52.4% of total investments, and facility modification/upgrades and land acquisitions at 41.3% of total investments. Investments in research and development and other areas were lower at a combined 6.3% of total investments.



Purpose of Investment

The largest proportion of investments were made with the purpose of improving production/processing capacity, at 32.2% of total investments, followed by other areas at 31.5% and production/processing efficiency at 27.3%. A combined 9.1% of total investments were made into environmental management, brand and tourism and hospitality.

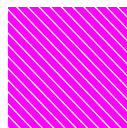
Descriptions collected from respondents indicated that other areas of investment consisted primarily of “new vineyard/land” and “equipment”.

PLANNED INVESTMENTS IN THE COMING FIVE YEARS

Planned Investment Choice 2016

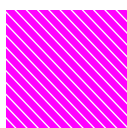
High  Medium  Low  None 

New machinery and equipment



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

Facility modifications/upgrades and land acquisitions



Research and development



Planned Investment Purpose 2016

Production/processing capacity

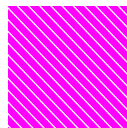


Growers plan to invest heavily over the next five years into production/processing capacity and efficiency, moderately into environmental management and minimally into brand and tourism and hospitality.

Production/processing efficiency



Environmental management



Brand

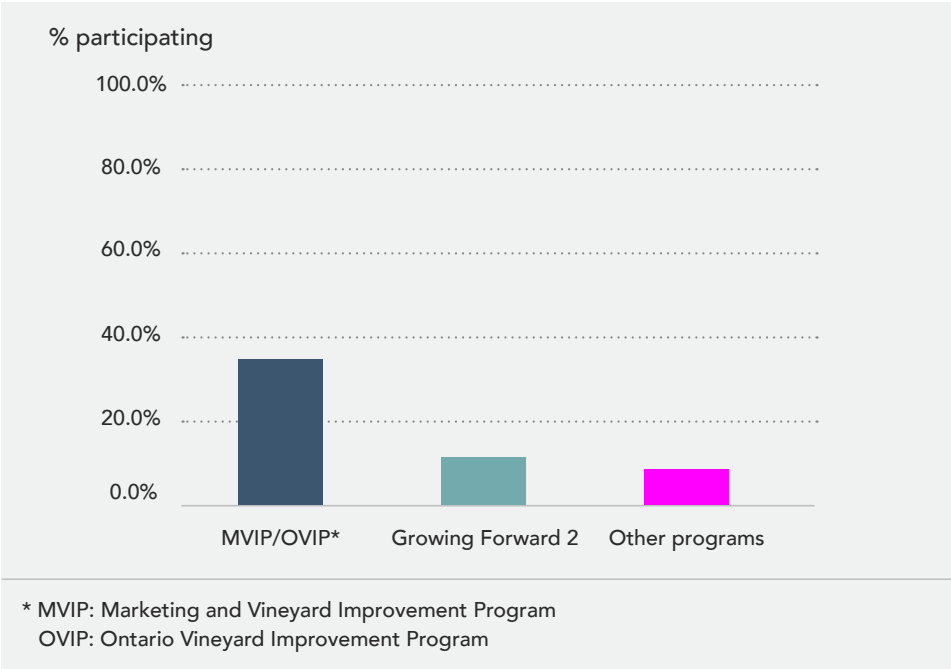


Tourism and Hospitality



Government Programs

Growers participated the most in the MVIP/OVIP program at 37.7% participation, followed by Growing Forward 2 at 13.2% participation and other programs at 9.4% participation.



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.

TOP 5

CHALLENGES

1

RISING INPUT/LABOUR/
LAND COSTS

2

GRAPE PRICING

3

GOVERNMENT
REGULATION AND COST
OF COMPLIANCE

4

PROPERTY TAXATION/
ZONING/MUNICIPAL
INFRASTRUCTURE

5

FOREIGN COMPETITION/
IMPORTED BRANDED
AND BULK WINE

| 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 | Employed persons who usually worked 37.5 hours or more per week, at their main or only job (paid and unpaid). This may include the owner and family labour. |

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

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

The Ontario Wine and Grape Industry Performance Study 2016 was produced under the guidance of an industry Working Group comprised of participants from the Ontario wine and grape industry and included the following groups:

VQA Ontario
www.vqaontario.ca

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

Wine Council of Ontario
www.winecouncilofontario.ca

Grape Growers of Ontario
www.grapegrowersofontario.com

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

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

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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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