



## **Diamond Estates Wines & Spirits Reports Q2 2018 Financial Results**

### ***Short-crop strategy and supply chain issues impact short-term financial performance***

**November 27, 2017, Niagara-on-the-Lake, Ontario** – Diamond Estates Wines & Spirits Inc. (“Diamond Estates” or “the Company”) (DWS-TSX Venture) today announced its financial results for the three and six-month periods ended September 30, 2017 (“Q2 2018” and “YTD 2018” respectively).

#### ***Q2 2018 Highlights:***

- Revenue was \$8.9 million, a decrease of 13.2% from \$10.3 million in Q2 2017, due to the Company’s strategic response to poor grape harvests in 2014 and 2015, as well as supply chain challenges in the agency division;
- Gross margin was \$3.9 million, a decline of 11.6% from \$4.4 million in Q2 2017. However, gross margin as a percentage of revenue increased to 43.8% from 43.0% in Q2 2017, reflecting the focus on supporting high priority distribution channels and customers;
- EBITDA<sup>1</sup> declined 44.6% to \$0.8 million, compared to \$1.4 million in Q2 2017, reflecting operating challenges during the quarter;
- Cash flow from operating activities, before changes in non-cash working capital items, declined 16.0% to \$1.8 million in YTD 2018, compared to \$2.1 million in YTD 2017;
- Net income was slightly positive, compared to \$0.8 million in Q2 2017;
- Working capital was \$13.1 million as at September 30, 2017, an increase of \$4.7 million from \$8.4 million as at March 31, 2017;
- On September 29, 2017, the Company entered into a new credit facilities agreement with Bank of Montreal, resulting in annualized interest savings of approximately \$0.1 million;
- The winery won prestigious awards including Gold for Best Dessert Wine at the 2017 Intervin Wine Awards and several other awards at the National Wine Awards; and
- The 2017 harvest is projected to be a record harvest for Diamond Estates well in excess of 3,100 tonnes representing an increase of 18% versus last year.

“While we are disappointed with the Company’s financial results for the second quarter of Fiscal 2018, we are confident that our recent operating challenges are short-term in nature. We have already implemented significant measures to improve performance in the second half of the fiscal year and beyond, assisted by the return to more normal levels of finished goods,” said Murray Souter, President and CEO.

“The severe cold weather across the Niagara region in February 2014 and again in February 2015 resulted in significantly reduced harvests in those respective years. In response, we implemented a short-crop strategy under which we allocated inventory strategically to best

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<sup>1</sup> See Non IFRS Financial Measure



support the long-term profitability and growth of our business. We placed a priority on supporting sales in the new grocery channel and the export channel, both of which have major strategic value to us. That focus came at the expense of the LCBO and licensee channels, where we temporarily de-listed several products and curtailed new customer acquisition until supplies returned to a more normal level. The impact of the short-crop strategy on our financial results was ultimately larger than expected. However, the 2016 and 2017 harvests were significantly stronger than the prior two years and those wines are reaching maturity. As a result, we have begun to re-introduce the temporarily delisted products and have increased programming activity in the LCBO. These efforts are expected to lead to significantly stronger sales performance going forward.”

“Our agency division also encountered numerous supply chain challenges in the quarter, largely originating from third party logistics suppliers in Western Canada and offshore suppliers who were unable to supply orders in a timely manner. We have addressed those issues and anticipate a return to more normal supply logistics. In addition, and commensurate with our acquisition of the minority interest in the Kirkwood Diamond Partnership, we have initiated activities to significantly improve performance. We appointed Christopher Terrio, a highly experienced beverage alcohol executive, as President of the division in October and recently reduced headcount and made targeted investments to improve performance in this division. We are confident that these actions and Chris’s leadership will lead to significantly improved operating results at our agency.”

### **Conference Call**

Murray Souter, CEO, and Alan Stratton, CFO, will host a conference call for the investment community today, Monday, November 27 at 10:00 a.m. (ET). The call-in numbers for participants are (416) 764-8688 or (888) 390-0546. In addition, the call will be webcast live at: <http://event.on24.com/wcc/r/1542760-1/E2C910CD14D8AD4A5B5C0F1E03942A74>

A replay of the call will be available until Monday, December 4, 2017. To access the replay, dial (416) 764-8677 or (888) 390-0541 (Passcode: 161075). A transcript of the call will be archived on the Company’s website.

### **About Diamond Estates Wines and Spirits Inc.**

Diamond Estates Wines and Spirits Inc. is a producer of high quality wines and a sales agent for over 120 beverage alcohol brands across Canada. The company operates two wineries in the Niagara region of Ontario producing VQA and blended wines under such well-known brand names as 20 Bees, EastDell Estates, Lakeview Cellars, Dois Amigos, Dan Aykroyd, Benchmark and Seasons. Through its subsidiary, Kirkwood Diamond Canada, the Company is the sales agent for top selling international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Fat Bastard wines from France, Kaiken wines from Argentina, Charles Wells beers from England, Hpnotiq Liqueur from France, Anciano



wines from Spain, Francois Lurton wines from France and Argentina, Blue Nun wines from Germany, coolers and spirits from Independent Distillers in New Zealand, Brick Brewing from Canada, Evan Williams Bourbon from USA, Flor de Cana rum from Nicaragua, Iceberg Vodka from Canada and many others. For further information on the company, please visit the company's SEDAR profile at [www.sedar.com](http://www.sedar.com).

### **Forward Looking Statement**

This press release contains forward-looking statements. Often, but not always, forward-looking statements can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "estimates", "intends", "anticipates" or "does not anticipate", or "believes", or variations of such words and phrases or state that certain actions, events or results "may", "could", "would", "might" or "will" be taken, occur or be achieved. Forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of Diamond Estates Wines and Spirits Inc. to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Actual results and developments are likely to differ, and may differ materially, from those expressed or implied by the forward-looking statements contained in this press release. Such forward-looking statements are based on a number of assumptions which may prove to be incorrect, including, but not limited to: the economy generally; consumer interest in the services and products of the Company; financing; competition; and anticipated and unanticipated costs. While the Company acknowledges that subsequent events and developments may cause its views to change, the Company specifically disclaims any obligation to update these forward-looking statements. These forward-looking statements should not be relied upon as representing the views of the Company as of any date subsequent to the date of this press release. Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from those described in forward-looking statements, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements.

### **Non IFRS Financial Measure**

Management uses net income (loss) and comprehensive income (loss) as presented in the unaudited interim condensed consolidated statements of net income (loss) and comprehensive income (loss) as well as "EBITDA" as a measure to assess performance of the Company. EBITDA is another financial measure and is reconciled to net income (loss) and comprehensive income (loss) under "Results of Operations" in the Company's MD&A.

EBITDA is a supplemental financial measure to further assist readers in assessing the Company's ability to generate income from operations before taking into account the Company's financing decisions, depreciation of property, plant and equipment and amortization of intangible assets. EBITDA comprises gross margin less operating costs before financial expenses, depreciation and amortization, non-cash expenses such as share based compensation, one time and other unusual items, and income tax. Gross margin is defined as gross profit excluding depreciation on property, plant and equipment used in production. Operating expenses excludes interest, depreciation on property, plant and equipment used



in selling and administration, and amortization of intangible assets.

EBITDA does not represent the actual cash provided by the operating activities nor is it a recognized measure of financial performance under IFRS. Readers are cautioned that this measure should not be considered as a replacement for those as per the unaudited interim condensed consolidated financial statements prepared under IFRS. The Company's definitions of this non IFRS financial measure may differ from those used by other companies.

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