

Diamond Estates Wines & Spirits Reports Q2 2020 Financial Results

Lower export sales partially offset by strong growth in other winery sales channels

NIAGARA-ON-THE-LAKE, Ontario--(BUSINESS WIRE)--November 21, 2019--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, 2019 ("Q2 2020" and "YTD 2020" respectively).

Q2 2020 Summary:

- Revenue was \$7.2 million, a decline of 11.7% from \$8.2 million in the prior-year period ("Q2 2019"), driven primarily by a decrease in winery export sales, partially offset by strong performance in all other winery sales channels and sales growth from current agency partner brands;
- Gross margin was \$3.8 million, or 52.3% of revenue, compared to \$3.7 million, or 45.7% of revenue in Q2 2019. The significant increase in gross margin percentage was driven by the Company's continued development of the higher-margin retail and licensee channels, positive impact from the Company's premiumization strategy, and increased contribution from contract sales;
- EBITDA declined to \$0.2 million from \$0.3 million in Q2 2019, and Adjusted EBITDA declined to \$0.3 million from \$0.5 million in Q2 2019. Both declines were a result of professional fees incurred in the quarter pertaining to the Company's lending agreement with Bank of Montreal;
- Net loss was \$0.5 million, compared to a net loss of \$0.4 million in Q2 2019;
- Cash flow from operating activities, before changes in non-cash working capital items, was (\$0.3) million, compared to \$0.6 million in Q2 2019;
- Working capital was \$14.3 million as at September 30, 2019, compared to \$14.9 million as at March 31, 2019, with the reduction attributable to reduced inventory levels and the settlement of a note payable;
- On July 29, 2019, the Company entered into a strategic partnership with Lassonde, under which Lassonde purchased a 19.9% stake in Diamond Estates and entered into a commercial brokerage agreement designed to expand the Company's market share in grocery stores across Canada;
- The Company maintained its leadership position in the emerging grocery channel in Ontario with the #1 position amongst VQA wines, with *20Bees* and *EastDell* brands representing five of the top 10 positions and *20Bees* holding the top three positions overall. Year-over-year sales growth of 25% was achieved in this channel;
- Significant new business development wins in the agency division during the quarter included: Pierre Chavin Wines, the largest French supplier of organic, low alcohol and no alcohol wines; and Lucien Albrecht, the top-selling Alsace winery in the United States;
- The Company continues to leverage its national footprint as a result of its Backyard Vineyards acquisition, winning new business in the high-margin licensee channel including several new casual dining banners such as Original Joe's and State & Main;
- The Company's winery brands received global recognition at the China Wine & Spirits Awards ("CWSA"). Both *Lakeview Cellars' 2016 Riesling Icewine* and *North 43 2017 Vidal Icewine* won Double Gold. In addition, *Lakeview Cellars' 2016 Cabernet Sauvignon Icewine* won Silver, and *North 43 2017 Cabernet Franc Icewine* won Bronze. The CWSA is the most influential wine and spirits competition in the world, with the judges acquiring approximately 90 million bottles a year.
- Subsequent to Q2 2020, on October 30, 2019, the Company completed the private placement sale of 12,233,805 common shares at a price of \$0.19 per common share for total gross proceeds of approximately \$2.3 million;
- In October 2019, the Company made the strategic decision to close operations at its Toronto, Ontario location, which reduces the number of wineries operated by the Company in Ontario from two to one. The decision was part of the Company's continual efforts to review how capital is deployed, ensuring minimal return thresholds are met. The Company is actively pursuing opportunities to utilize the associated licence in a more profitable location; and
- The annual grape harvest is coming to an end. The harvest in British Columbia was good overall, though yields were minimally impacted by periods of cold weather. The Ontario harvest was affected by a cool spring and then again by cool weather in the fall, which has impacted the later ripening varieties. The Company managed to bring in all but 200 tonnes of Bordeaux's that were below quality parameters. The Company believes that this should not impact operations due to the availability of prior vintages.

“Our financial performance continues to be impacted by lower export sales to our major Chinese distributor, which is working through excess inventory levels related to slower than anticipated new store openings. We expect these sales to recover during the current fiscal year,” said Murray Souter, President and CEO. “In the meantime, we had significant positive developments during the second quarter. We fortified our leadership position in the Ontario grocery channel, generated strong sales and margin growth across other winery sales channels including the LCBO, and leveraged the Backyard Vineyards acquisition in British Columbia to win significant new business for the Company.”

“Looking ahead, we are well positioned to execute on our growth strategies. We have the strong support of Lassonde Industries, our strategic investor and partner, and we have expanded our liquidity through the recent private placement financing. We plan to continue building market share in the grocery channel in Ontario and across the country, while advancing our exciting Lakeview winery project in British Columbia’s Okanagan Valley.”

Conference Call

Murray Souter, CEO, and Paul Dowdall, CFO, will host a conference call for the investment community today at 10:00 a.m. (ET). The call-in numbers for participants are (647) 689-6837 or (866) 211-1392. In addition, the call will be webcast live at: <https://onlinexperiences.com/Launch/QReg/ShowUUID=68500C71-A882-428E-BA55-22A016D3B9BF>.

A replay of the call will be available until Thursday, November 28, 2019. To access the replay, dial (416) 621-4642 or (800) 585-8367 (Conference ID: 6292877). 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, one in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, EastDell, Lakeview Cellars, Dan Aykroyd, Fresh, McMichael Collection, Benchmark, Seasons, Serenity, and Backyard Vineyards. Through its wholly owned subsidiary, Trajectory Beverage Partners, the Company is the sales agent for many leading international brands in all regions of the country as well as being a distributor in the western provinces. These recognizable brands include Josh wines from California, Fat Bastard and Andre Lurton wines from France, Kaiken wines from Argentina, Anciano wines from Spain, Blue Nun wines from Germany, Francois Lurton wines from France and Argentina, Waterloo Brewing and Amsterdam Brewery, both from Canada, Landshark Lager from the USA, Marston’s beers from England, Social Lite vodka sodas from Canada, Edinburgh Gin from Scotland, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies, Barcelo Rum from the Dominican Republic, Five Farms Irish Cream from County Cork Ireland, Tequila Rose Liqueur from McCormick Distilling in the USA, Charles Mondavi & Family wines including Charles Krug from Napa, Bols Vodka from Amsterdam, Brokers Gin from the UK, Koyle Family Wines from Chile, Pearse Lyons whiskies and gins from Ireland, Niagara Craft Distillers’ beverages from Ontario, Octavia Vodka from British Columbia, Fontana di Papa wines from Italy, and Castoro de Oro wines from British Columbia.

Forward Looking Statements

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.

Neither the TSX Venture Exchange nor its Regulation Services Provider (as that term is defined in the policies of the TSX Venture Exchange) accepts responsibility for the adequacy or accuracy of this release.

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