

Diamond Estates Wines & Spirits Reports Q2 2023 Financial Results

Promising improvements for future results

NIAGARA-ON-THE-LAKE, Ontario--(BUSINESS WIRE)--November 24, 2022--Diamond Estates Wines & Spirits Inc. ("Diamond Estates" or "the Company") (DWS-TSX Venture) today announced its financial results of position for the three and six months ended September 30, 2022 ("Q2 2023 and "YTD 2023" respectively).

Q2 2022 Summary:

- Revenue for Q2 2023 of \$9.2 million, an increase of \$2.1 million from Q2 2022 revenue of \$7.1 million. The winery division experienced an increase of \$1.8 million; because of the acquisition of Equity Wine Group, the continuing resurgence in On Premise sales, the expansion in distribution within the LCBO and Grocery channels and organic growth at Lakeview winery. Additionally, export sales have rebounded from \$0.1 million in Q1 2023 to \$0.6 million in Q2 2023. The Agency experienced moderate growth increasing \$0.3 million to \$3.8 million in Q2 2023.
- Gross margin for Q2 2023 was \$3.6 million, an increase of \$0.9 million from \$2.7 million in Q2 2022, while gross margin as a percentage of revenue was 38.7% for Q2 2023 compared to 38.1% in Q2 2022. However, when factoring the adjustments to cost of goods sold for the fair value of EWG inventories sold, gross margin for Q2 2023 was \$3.8 million and 41.1% of revenue. The increase in gross margin was a result of increases in most channels driven by the acquisition of Equity Wine Group and price increases on most products;
- EBITDA was negative \$0.4 million in Q2 2023, a decrease of \$0.1 million from negative \$0.3 million in Q2 2022, the decrease is mostly attributable to an increase in selling, general and administrative expenses from the EWG acquisition, brand redesigns on many of the core brands, increased spending requirements with the easing of covid (promotions, events and travel) and the opening of our new Shiny retail store in July 2022. When adjusting for the incremental fair value of EWG inventories sold, adjusted EBITDA was negative \$0.2 million in Q2 2023 compared to negative \$0.1 million in Q2 2022; and
- Net loss was \$1.4 million, compared to a net loss of \$1.0 million in Q2 2022.

Subsequent Events:

- On October 24, 2022, the Company entered into an amendment to its Second Amended and Restated Credit Agreement (the "SARCA") with Bank of Montreal ("BMO"); and
- On November 9, 2022, the Company closed a non-brokered private placement of 10.0 % unsecured convertible debentures of the Company for gross proceeds of \$4.884 million.

“I am very pleased to see strong topline revenue growth in the business,” said Andrew Howard, President and CEO. “Over the past six months we’ve seen a resurgence in On Premise sales, significant early success of our new low alcohol / low sugar wine Mindful, strong growth in our Grocery business across the country, a near tripling of our export sales vs the first quarter and a number of exciting new products for our Agency.

We are pleased to see solid growth in our Gross Margin versus last year driven by the acquisition of Equity Wine Group and also from our Lakeview winery, but our growth is below our projections for the quarter. We continue to experience Gross Margin head winds in BC and Alberta in our Agency and consumer traffic has not yet returned to our wineries, with covid waning, where we earn our highest Gross Margin. We are confident that our team will overcome these issues.

The domestic marketing team has also been hard at work refreshing our core brands with graphic redesigns of Twenty Bees, Fresh Wines and Lakeview Wine Co in addition to introducing a premium line of Twenty Bees for the winery and e-commerce channels.

It is typically difficult to increase price in this industry, but we have successfully added a dollar or more to virtually every one of our products in every channel. We’ve accomplished this with both new product launches and increases on our current products. We will continue to evaluate pricing opportunities given inflationary pressure on cost of goods sold.

We have experienced and created a lot of change in our business causing our expenses to grow faster than our revenue including: significant brand redesigns, the opening of our new Shiny Apple Cidery retail store and the support for new brand launches. With the easing of covid, spending has increased to participate in promotional events and to compete in all channels. This will need to be closely managed going forward to ensure improved profitability.

Given the topline growth in the business, improving Gross Margin, successful price increases, new product launches including Mindful, well received graphic redesigns and several new business wins at our Agency – I feel confident that we are setting the stage for future improved bottom line results,” says Howard.

The Company also announced that it has issued deferred share units (“DSUs”) to its directors as of today. Under the DSU plan of the Company, an aggregate of 71,301 DSUs have been issued by the Company to non-executive directors in settlement of \$34,937.50 of deferred directors' compensation. The DSUs are to be settled in common shares of the Company when the director retires from all positions with the Company.

About Diamond Estates Wines and Spirits Inc.

Diamond Estates Wines and Spirits Inc. is a producer of high-quality wines and ciders as well as a sales agent for over 120 beverage alcohol brands across Canada. The Company operates five production facilities, four in Ontario and one in British Columbia, that produce predominantly VQA wines under such well-known brand names as 20 Bees, Creekside, EastDell, Lakeview Cellars, Mindful, Queenston Mile, Shiny Apple Cider, Fresh, Proud Pour, Red Tractor, Seasons, Serenity, Persona and Backyard Vineyards.

Through its commercial division, 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, Meffre, Pierre Chavin and Andre Lurton wines from France, Brimincourt Champagne from France, Merlet and Larsen Cognacs from France, Kaiken wines from Argentina, Blue Nun and Erben wines from Germany, Felix Solis wines from Spain, Calabria Family Estate Wines from Australia, Saint Clair Family Estate Wines from New Zealand, Redemption Bourbon and Rye whiskies from the U.S., Gray Whale Gin from California, Storywood and Cofradia Tequilas from Mexico, Magnum Cream Liqueur from Scotland, Talamonti and Cielo wines from Italy, Catedral and Cabeza de Toiro wines from Portugal, Waterloo Beer & Radlers from Canada, Landshark Lager from the USA, Edinburgh Gin, Tamdhu, Glengoyne and Smokehead single-malt Scotch whiskies from Scotland, Islay Mist, Grand MacNish and Waterproof whiskies from Scotland, C. Mondavi & Family wines including C.K Mondavi & Charles Krug from Napa, Wize Spirits and Hounds Vodka from Canada, Bols Vodka from Amsterdam, Koyle Family Wines from Chile and Pearse Lyons whiskies and gins from Ireland.

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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