

A black and white photograph of a person standing in a wine cellar, viewed from behind. The person is looking at rows of wine bottles on shelves. The text 'BUYERS+CELLARS' is overlaid in large white letters.

BUYERS+CELLARS

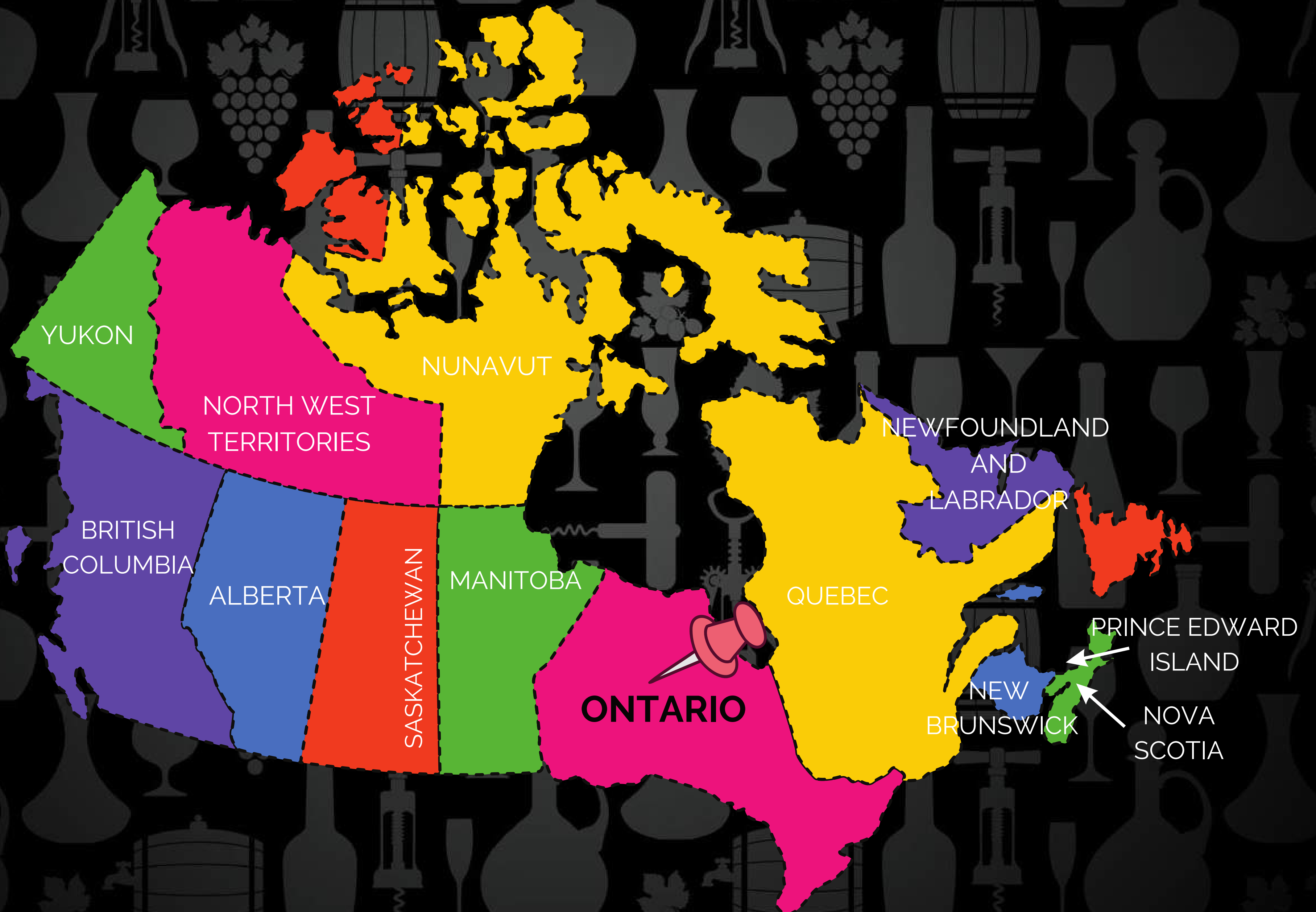
ONTARIO MARKET OVERVIEW

THE MARKETPLACE

- Canada is a large importer of wine, with 2022 import values hitting a record high of CAD \$2.955 billion, representing **4.9%** growth in value year over year. However, wine imports fell by **12%** in the first 6 months of 2023, the most pronounced decline since 2010. This trend is concerning and Canada has lost its standing as the 4th- largest global importer by value, moving to the **6th** spot in volume during this period.
- With a population of over **15 million**, Ontario is the most populous province in Canada, with the largest alcoholic beverage market.
- The Liquor Control Board of Ontario (LCBO) is the exclusive importer of wine, beer and spirits into Ontario. Through its network of **685** stores, it is the largest retail channel for wine in Ontario. Wine represents the second-largest LCBO category at 30.9% of total net sales. In 2022, sales of imported wine into Ontario were CAD **\$1.98 billion**, representing **67%** of the country's total, but a decline of **3.1%** over FY2022.

- LCBO retail sales at physical stores and via online options for home consumers remained the largest channel in 2022, but receded 3% to \$5.87 billion, as the licensee (on premise) channel increased by almost **60%** year over year, to a record \$598 million (**9%** of total), fueled by the reopening of on-premise dining and pent-up consumer demand (LCBO 2022/23 Annual Report). Unfortunately, this trend was short-lived, with weaker economic growth in the second half of 2023 curtailing foodservice spending. Real sales at full-service restaurants are **6%** below 2019 levels.
- In 2023, **Argentina, Chile** and **Portugal** drove growth in the wine category, with Ontario consumer purchases skewed towards less expensive/more popular brands.
- Interest in **sparkling wines** has remained strong, however **still wine** sales in the province have been sluggish, with an increase of only 2% in FY23. Consumption among **younger consumers** has declined over the past three years. However, this demographic is leading the charge for low-intervention as well as non- or de-alcoholized wines.

ONTARIO, CANADA



DOING BUSINESS WITH THE LCBO

There are several distinct distribution channels available to wine Suppliers and their Agents in this market:

- LCBO WINES (General List)
- Wholesale (Grocery)
- Vintages
- Cellar Collection
- Destination Collection
- The Consignment Warehouse Program

GENERAL LIST

- There are 685 LCBO retail stores throughout the province.
- GL wines have **large-scale** sales and distribution potential.
- Pricing, packaging and promotional support are critical to success.
- Recent trends include:
 - Lighter styled and low alcohol wine sales rose by 7%. Younger adults are leaving the wine category, often in favour of ready-to-drink beverage alcohol (+\$41.8 million) and spirits (+\$62 million).
 - Wine sales dropped by \$71 million in FY2023.
 - Alternative packaging remains a growth category with a 28% increase in 3L boxes and a 15% increase in 375mL bottles.
 - Ongoing strength in the **sparkling wine** segment has been driven by sales of Prosecco.

GENERAL LIST: Tenders

- All wines on the LCBO General List have been chosen by LCBO Category staff through a Tender process. The LCBO issues a **Product Needs Letter** for these listings once every year. This is an extremely **competitive** process – there are numerous applications for a single shelf placement.
- A number of criteria will influence success such as: price/quality; innovative/unique packaging or brand proposition; Advertising & Promotion (A&P) budget; good scores; success in other markets.
- This is a 3-step process: #1 application #2 tasting #3 selection
- There is no cost to apply to a tender; you simply need to provide the info your agent needs to complete the online application on your behalf. Applications are completed online through the LCBO's New Item Submissions System (**NISS**).
- If chosen to advance to the tasting stage, a Supplier has +/- 3 weeks to send a sample.
- If a wine is selected for purchase, the LCBO will initially issue a **Notice to Purchase** (NTP) to the Supplier, followed by a Purchase Order.

Here are examples of recent General List Tenders:

2023/24 Merchandising Needs Grid (Pre-Submissions Due Feb 2023-July 2023)

Buyer	NISS CALL ID	Product Category	Country	Price Range	Call Description	Pre-sub Deadline (Friday)	Callback Deadline	Sample Deadline	Tasting Date	Max # Subs. Per Agent
New World Wines	3604	California Extensions	USA	\$12.95-\$19.95/750mL equivalent	Looking for brand extensions (size, format, varietal, style, tier) to current, high-performing, growing brands. Various colours/styles will be considered. Please note, in accordance with LCBO policy, we will continue to purchase products shipping from source locations. It is the agent's responsibility to ensure all products submitted adhere to this policy.	24-Feb-23	03-Mar-23	24-Mar-23	30-Mar-23	4
Ontario Wines	3605	Ontario Wines Direct Delivery (on shelf July 2023)	Canada (Ontario)	Various	VQA Wines and QA fruit wines with a focus on producers located in PEC, LENS and emerging regions. Distribution is limited to a pre-selected list of stores.	17-Mar-23	24-Mar-23	14-Apr-23	20-Apr-23	5
New World Wines	3606	Wines Seasonal Incubator Program Fall/Winter	New World Countries (excluding Ontario, Canada)	Various	We are looking for new wines, first to market, that will be exclusive to the LCBO and that will capitalize on today's exciting trends e.g. "Lighter choices", format innovation, wines that speak to popular cultural moments. These will be one-time buys to allow us to explore and test new items. This seasonal program will run approximately from P11-P2. A marketing fee of 5% of the total PO cost will be applied, up to a max. of \$7,000 and a min. of \$2,000. Please note, in accordance with LCBO policy, we will continue to purchase products shipping from source locations. It is the agent's responsibility to ensure all products submitted adhere to this policy.	31-Mar-23	06-Apr-23	28-Apr-23	04-May-23	10
European Wines	3608	Wines Seasonal Incubator Program Fall/Winter	Europe	Various	We are looking for new wines, first to market, that will be exclusive to the LCBO and that will capitalize on today's exciting trends e.g. "Lighter choices", format innovation, wines that speak to popular cultural moments. These will be one-time buys to allow us to explore and test new items. This seasonal program will run approximately from P11-P2. A marketing fee of 5% of the total PO cost will be applied, up to a max. of \$7,000 and a min. of \$2,000. Please note, in accordance with LCBO policy, we will continue to purchase products shipping from source locations. It is the agent's responsibility to ensure all products submitted adhere to this policy.	31-Mar-23	06-Apr-23	28-Apr-23	04-May-23	10

GENERAL LIST: Logistics

- See slide 29 for more information on **pricing** General List wines.
- Before an order is shipped, the LCBO will issue a **Purchase Order** (PO) electronically to the Supplier.
- POs must be confirmed through **WebPO** - an online system that provides purchase order visibility to Suppliers.
- Suppliers must also sign up for **iSupplier** - a self-service, password-protected portal that offers instant access to POs, invoices and payment information.
- All wines listed at LCBO must clear the LCBO Quality Assurance laboratory analysis process (**fee** ≈ **CDN\$275**) - see slide 31.

GENERAL LIST: Logistics

- The LCBO typically pays Suppliers for G/L orders 30 days upon receipt into the warehouse.
- Payments are made by wire transfer to the producer from the LCBO.
- The LCBO sets 12-month **revenue targets** for products sold in its stores. Sales performance is measured semi-annually.
- Products that do not meet or exceed the 12-month sales target are at risk for **delist**.

WHOLESALE

- In October 2016, regulatory changes allowed for the sale of wine in 70 **grocery stores** in Ontario.
- There are now **450 store operators** – the maximum number allowed under current legislation - across the province that can sell import & domestic wine.
- Only imported wines that are on the **LCBO General List** (see slides 5-10) can be considered for listings in the grocery channel. A Supplier needs to apply to be included in the **Grocery catalogue**.
- Import wines can only be from a mid-sized winery with < 4.5 million L sold worldwide in a 12-month period, or from a small winery with < 200,000 L sold worldwide in a 12-month period.

WHOLESALE

- LCBO acts as the wholesaler, selling wines to the grocer.
- LCBO remains the **importer of record** and pays Suppliers for all wines imported into Ontario.
- The floor price for wines in grocery stores is \$10.95 CAD/750mL bottle.
- Wines at grocery must not exceed 18% alc./vol.

VINTAGES

- VINTAGES is the **fine wine** & premium spirits business unit of the LCBO.
- Shifting consumer preferences and normalizing post-pandemic sales resulted in a year over year **decline** in VINTAGES volumes in 2022. **New World** and **Ontario** wines were the most impacted and there were notable declines in red wine sales from California, Ontario, Italy, France and Spain, while interest in more premium products remained steady.
- **Strong scores and awards** are critical to success.
- Historically, every two weeks, VINTAGES has introduced over 125 new wines - representing different varietals, wineries and winemaking regions from around the world - into stores.

VINTAGES: 2022 Transformation

In 2022, the VINTAGES program underwent a significant transformation in terms of product purchases as well as in-store and online releases:

- There was a reduced frequency of in-store VINTAGES **Retail releases** with a focus on “key subsets and varieties” at an “approachable price point”.
- A new **Online Exclusive** channel supplemented the lower number of Retail releases. Not to be confused with the Destination Collection (see slides 20-25), this is part of VINTAGES, focusing on smaller orders (56 cases typically) of sub-sets, price points and styles not represented in the Retail releases or in CLASSICS (see slide 18).
- The number of VINTAGES full-service locations was reduced from 292 to 251 stores.
- A greater emphasis has been put on the **VINTAGES Essential** program. Essentials are wines that are always available in VINTAGES Retail stores. To be considered for this program, a SKU must have had multiple successful VINTAGES releases over an extended period of time.

VINTAGES: Tenders

- LCBO issues a VINTAGES **Product Needs** Letter approximately four times per year.
- The process is extremely **competitive** – there are numerous applications for a single shelf placement.
- This is a 3-step process: #1 application #2 tasting #3 selection
- There is no cost to apply to a tender; you simply need to provide the info your agent needs to complete the online application on your behalf. Agents submit these applications online through the LCBO's New Item Submissions System (**NISS**).
- See slide 29 for more information on **pricing** VINTAGES wines.
- If chosen to advance to the tasting stage, a Supplier has approximately 3 weeks to send a sample.
- If a wine is selected for purchase, a **Notice to Purchase** (NTP) is issued to the Supplier

Here is an example of a Vintages Product Call:

VINTAGES Product Needs 13 Mar 2024 - 1 May 2024

Call ID	EW/NWW/OW	Product Category	Product Specifications	Varietals	Price Range	Approximate Release Timing	Approximate target # of skus	Maximum # of submissions per agent	Buyer	Pre-Submission Deadline	Call Back Deadline	Sample Deadline	Tasting Date
3824	EW	Central Europe (Excluding Germany)	Red and white still wines from Austria, Croatia, Hungary and Slovenia.	All varietals	\$15-\$35 is the focus with a limited interest up to \$60	October 2024-March 2025	20	20	European Wines	April 3, 2024	April 17, 2024	May 23, 2024	May 27, 2024

VINTAGES: Logistics

- Before an order is shipped, the LCBO will issue a **Purchase Order** (PO) electronically to the Supplier. There can be a very lengthy delay between the time the LCBO issues a NTP and the time they cut a Purchase Order. It is imperative that a Supplier hold the quantity of cases of the vintage requested until the PO is cut and the order ships.
- POs must be confirmed through **WebPO** - an online system that provides purchase order visibility.
- Suppliers must sign up for **iSupplier** - a self-service portal that offers access to POs, invoices & payment info.
- All wines chosen for listing must clear the LCBO Quality Assurance laboratory analysis process (**fee** ~ **CDN\$275**) - see slide 31.
- The LCBO also charges the supplier a **CDN\$225 fee** on all POs that are valued at CDN\$20,000+.
- Minimum payment terms are typically 90 days upon receipt into the warehouse.
- Payments are made by wire transfer to the producer from the LCBO.

VINTAGES: Logistics

- VINTAGES orders range from 20 to 1000 cases, but are generally in the order of 250-500 cases.
- These are **one-time** buys. New NISS applications must be made at each Product Call.
- Sales of these limited-quantity products are supported by the Vintages Release **catalogue**, which is available free to customers in both print & online versions.
- VINTAGES products are tasted by in-store **Product Consultants** so that they can speak from personal experience when assisting customers in making their selections.
- **75%** of an order must sell through within two months of the release date. Failure to meet the 75% sell-through target will result in a retail discount and will trigger a **25% rebate** charged to the Supplier on all remaining stock.

CELLAR COLLECTION

- The Cellar Collection is a monthly selection of wines and spirits from the world's most prestigious, sought-after estates and producers, offered to LCBO in **limited allocations**.
- The collection is available for purchase online on a first-come, first-served basis. Sales are supported by a bi-monthly online catalogue.
- To be considered for The Cellar Collection, a wine typically needs a minimum rating of **93 points** by a recognized critic or publication.
- There are typically 1-2 Cellar Collection tenders within each VINTAGES Product Call.
- The process for submitting to and winning a Cellar Collection tender is identical to that for VINTAGES.

Here is an example of a recent Cellar Collection Product Call (European Wines):

VINTAGES Product Needs 18 Jan 2023 - 8 Mar 2023

Call ID	EW/ N WW/ OW	Product Category	Product Specifications	Varietals	Price Range	Approximate Release Timing	Approximate target # of skus	Buyer	Pre-Submission Deadline	Call Back Deadline	Sample Deadline	Tasting Date
3580	EW	EW Classics Collection / VSO / On Line and FSE	French Red and White Wines (no Sparkling or Rose)	All styles, all varietals. Emphasis on High scores and accolades from respected sources and wines from well-established brands. Classic wines should be more premium than what is well-represented on Vintages shelves or with limited allocations.	\$25+	Late Fall 2023 to Winter 2024	25	European Wines	January 25, 2023	February 8, 2023	March 16, 2023	March 20, 2023

DESTINATION COLLECTION

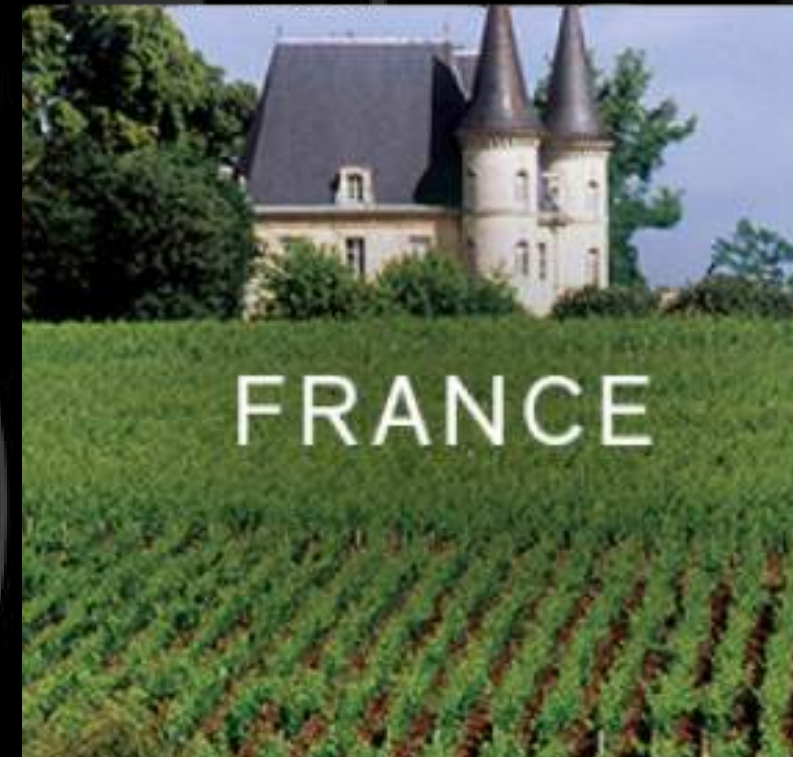
- **Destination Collection** - formerly called Products of the World (POTW) - was launched in 2015.
- There are two distinct distribution channels within this program: eCommerce & BOUTIQUE Stores:
- **eCommerce** allows private consumers only (ie not restaurants) to purchase Online Exclusive wines featured in the Destination Collection from the lcbo.com website. Home delivery (\$12/shipment) or free pick up from a local LCBO store are available with a minimum order value of \$50.
- **Boutique Stores** are specially-selected LCBO retail locations that carry an enhanced assortment of products specific to a country or region. The selection of wines from the particular country or region is different than at any other store in Ontario. Sales are by the bottle to private consumers or to restaurants.



PORTUGAL



ITALY



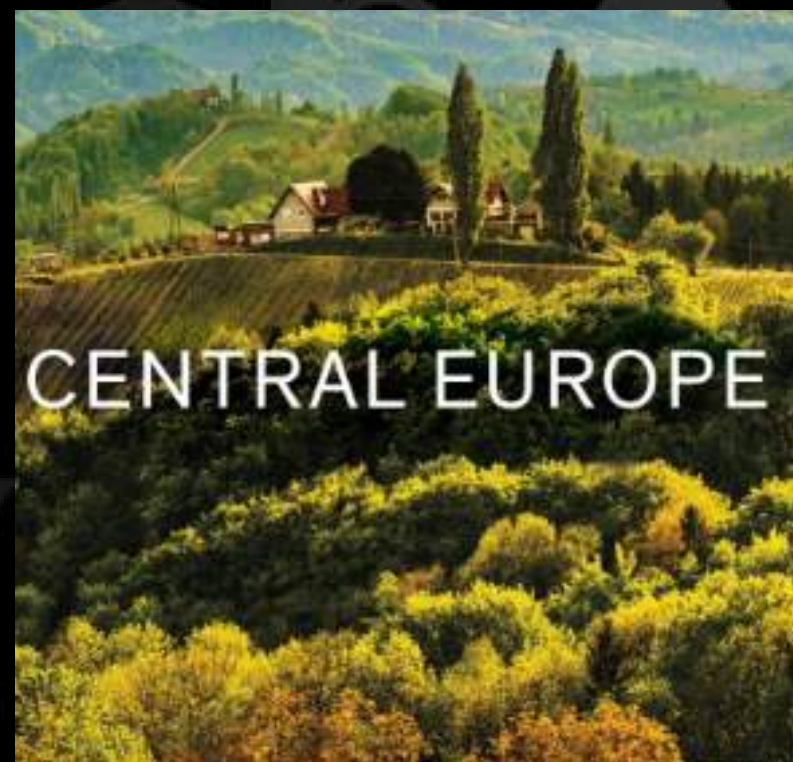
FRANCE



GERMANY



U.S.A.



CENTRAL EUROPE



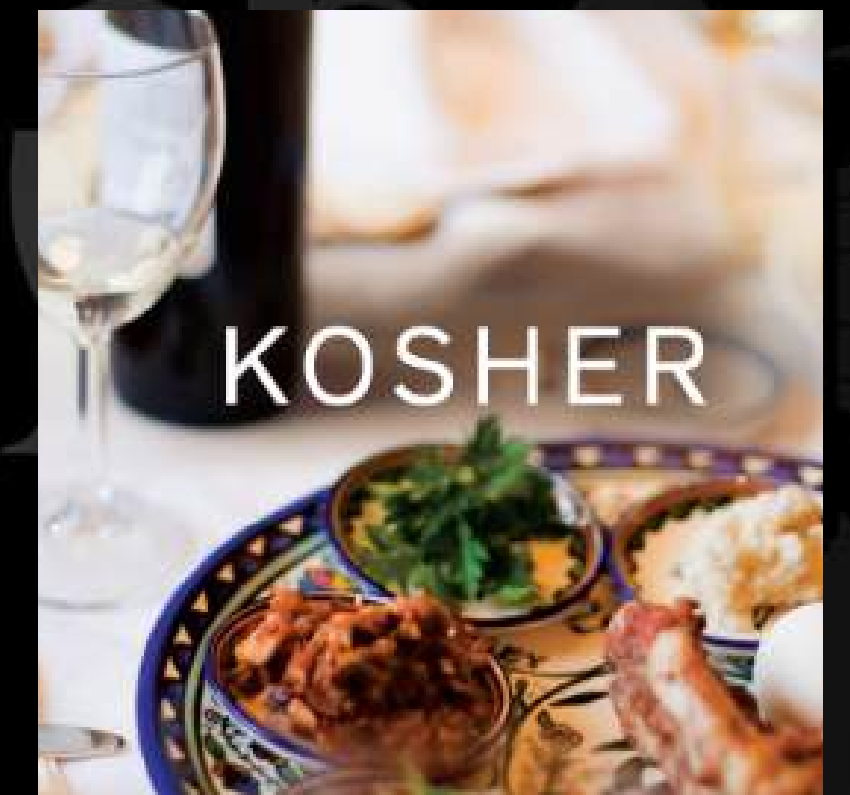
EASTERN ASIA



CHILE



SPAIN



KOSHER



CALIFORNIA



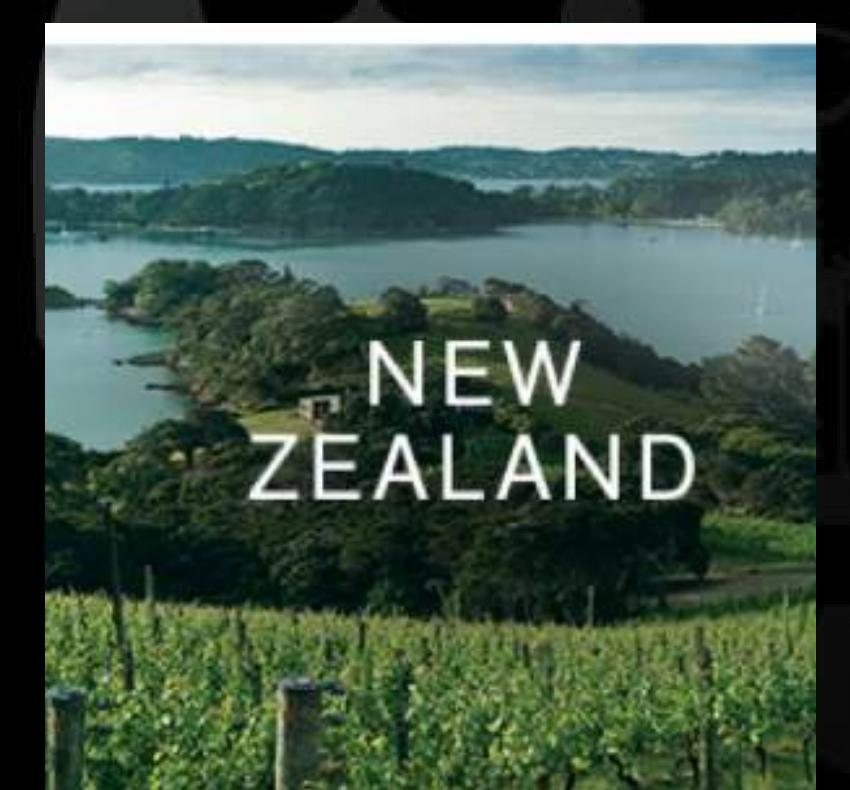
ARGENTINA



SOUTH AFRICA



AUSTRALIA



NEW ZEALAND

DESTINATION COLLECTION: Tenders

- The selection process for a Destination Collection listing is similar to that for VINTAGES & Classics. The LCBO issues 2 Destination Collection **Product Needs Letters** per year.
- The Destination Collection program was designed to introduce suppliers and products that are not typically purchased through the more traditional VINTAGES and Cellar Collection channels.
- The process is extremely **competitive** – there are numerous applications for a limited number of eCommerce and Boutique Store placements.
- This is a 2-step process: #1 application #2 selection
- There is no cost to apply to a tender - you simply need to provide the info your agent needs to complete the online application on your behalf.
- If a wine is selected for purchase, the Purchase Order is typically cut relatively shortly after a listing decision has been made (ie this process is much faster than with VINTAGES listings).

Here is an example of a recent DC Product Call:

Destination Collection Product Needs Fall 2023

Destination(s)	Tender	Priority	Product Specification	Price Range	Pre-submission Deadline	Call Back Deadline
France, Italy, Spain, Central Europe	European Red Wines (not incl. Greece, Portugal)	1	Red wines from Spain, Italy, France, Austria, Croatia, Hungary and Slovenia with a focus on indigenous varietals and emerging regions not typically purchased by LCBO. Niche wines are the focus. Single varietals and blends will be considered. Price points between \$15-\$65 with a limited focus on \$50+.	Various - see specifications	4-Oct-23	18-Oct-23

DESTINATION COLLECTION: Logistics

- The average order size is **20** cases.
- These are **one-time** buys. New NISS applications must be made at each Product Call.
- See slide 29 for more information on pricing Destination Collection wines.
- All wines chosen for listing must clear the LCBO Quality Assurance **laboratory analysis** process – see slide 31.
- Suppliers are paid by the LCBO approximately 60 days after receipt of an order into the warehouse.

DESTINATION COLLECTION: The Opportunity/Challenge

The LCBO's online ordering platform is relatively new. In FY20/21, LCBO ecommerce sales (which include Destination Collection revenues) grew an impressive 250%! However, this was largely driven by the pandemic (FY21/22 saw a slight decline year over year numbers) and total eComm revenues of CDN\$140mil represented less than 6% of total revenues (CDN\$2.54bil).

Ecommerce initiatives continue to be a key priority for the LCBO. The corporation's current Strategic Plan is focused on modernizing its IT Infrastructure, accelerating the growth of the ecommerce channel and 'bringing the brand promise to life online'. However, there are numerous obstacles the execution of this strategy, especially for the Destination Collection – e.g., only a very small proportion of Ontario wine lovers are familiar with this program, these limited-release wines are very difficult to find on the LCBO website and the vast majority of promotional activity to support sales is initiated by and the responsibility of the representative agent.

CONSIGNMENT PROGRAM: Logistics

- The Consignment program is the primary on trade (**HoReCa**) distribution channel in Ontario.
- LCBO has established strict **performance standards** for Agents and Suppliers participating in this program. Ordering privileges are earned and retained by an Agent achieving specified sales and inventory performance targets.
- The minimum consignment order is **20 cases**.
- All wines ordered under the Consignment Program must clear the LCBO Quality Assurance **laboratory analysis** process – see slide 31.
- See slide 30 for more information on **pricing** consignment wines.
- Agents have **365 days** to sell an order but are subject to monthly warehousing fees that becoming increasingly punitive after 6 months. Suppliers are not paid until a Consignment Purchase Order has been fully sold by the Agent
- LCBO charges Agents and/or Suppliers **fees** for any errors in a Purchase order (ie shipping the wrong vintage or errors in pricing), so it is crucial that the supplier verifies all details for an order before an agent submits it to the LCBO for processing.

CONSIGNMENT PROGRAM: Flex

- Historically, agents could place **Private Orders** for wines not sold in any other program of the LCBO; it was possible to order a single case of any wine as a Private Order. As of Nov 1, 2022, Private Orders were discontinued.
- Consignment Agents now have the option to buy into the **Flex Space** Program.
- The maximum number of Flex Space orders a Consignment Agent can have in transit or on hand at any one time is 200 cases. An Agent must pay the LCBO a retainer of CDN\$15,000 to participate in Flex Space. This fee is refundable if an agent exits the program
- Flex Space orders work in an identical manner as Consignment orders: Suppliers are issued a Purchase Order by the LCBO; the LCBO's transporter arranges to move the cases to Ontario; the LCBO sets the wholesale price at which the Agent can purchase these cases out of the LCBO warehouse; the Supplier is paid by the LCBO once the Flex Space order has been fully sold out of the warehouse.

HIGH VOLUME CONSIGNMENT

- The High-Volume Consignment Program (HVC) is an extension of the Consignment Warehouse Program.
- HVC is designed for **high turnover** SKUs.
- To qualify an Agent must sell:
 - 1,200 cases/year from one Supplier - max 8 SKUs, min 200 cases/year/SKU or
 - 200 cases/year for one SKU
- The minimum HVC order is 50 cases/SKU
- Suppliers pay **fees** for storage (CDN\$0.50/case/month), handling (CDN\$0.35/case) & removal (CDN\$0.70/case).
- Suppliers are paid by the LCBO weekly based on weekly inventory depletion rates.

LCBO PRICING: Retail

For LCBO **RETAIL** Releases (General List, VINTAGES, Cellar Collection & Destination Collection):

- Applications for General Listings must be quoted in Canadian dollars. VINTAGES, Classics & Destination Collection quotes do not necessarily have to be in CDN \$s.
- Agents add their **commission** (usually 10% of net-net export price) + an **A&P budget** on to a Supplier's quote. For G/L wines, A&P budgets can vary tremendously (5%-20%+ of quote depending on product, price point, country of origin) and are used to fund a variety of LCBO merchandizing and promotional activities and out-of-store advertising. For all other retail releases, the standard marketing budget is 5%-10%.
- Typically, Agents invoice their commission and A&P to the Supplier directly. The Agent invoice is payable once the the Supplier has been paid in full by the LCBO

LCBO PRICING: Consignment

For LCBO **CONSIGNMENT** orders:

- Most often, Suppliers quote **net/net** (i.e. without commission or marketing allowance) in their local currency.
- Agents add an **agency fee** on to the LCBO landed cost. Agency fees can vary widely (20%-35%+ of landed cost) depending on the agent, wine quality and target price. Agents make their money by charging these fees to their clients.

LCBO Quality Assurance Lab Analysis

- The LCBO has some of the most stringent packaging requirements and chemical analysis standards in the world. **Non-compliance** can result in costly **penalties** charged to producers and/or unnecessary delays in the release of wines into the market. A full list of these requirements can be found here:

<https://bit.ly/LCBOProductPackagingStandards>

- Every vintage of every wine imported into Ontario must be tested at the LCBO Quality Assurance Laboratory analysis every 12 months at a cost to the Supplier of CDN\$275. The only exception is that suppliers are only charged CDN\$50 for orders of $\leq 90L$ of a single SKU within a 12-month period.
- Here is an example of an acceptable wine label:

<https://bit.ly/LCBOSimplifiedWineLabel>

- Particular attention must be paid to **Single Field of Vision** items, Lots Codes and Allergen and Organic Declarations.

ORGANIC CERTIFICATES

- The label of an organic wine must have a **bilingual** organic claim 'organic/ biologique' and bear the name of the certification body that has certified the product as organic.
- An acceptable Organic Certificate must certify the finished product as organic **'from field to bottle'**.
- The Certificate must list the **vintage** of the wine that was ordered and the **Validity Period** of the certificate must cover the vintage.
- The product description should reflect the product as listed on the LCBO Purchase Order as well as on the label and in all shipping documents.
- The LCBO's Simplified Organic Labelling and Certificate Guidelines can be found here:

<https://rb.gy/5nlajx>

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