

Diamond Estates Wines & Spirits Inc.

Fiscal 2019 Third Quarter Financial Results Conference Call

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PRESENTATION

Operator

Good morning. My name is Sylvie, and I will be your conference Operator today. At this time, I would like to welcome everyone to Diamond Estates Wines & Spirits' fiscal 2019 third quarter financial results conference call. All lines have been placed on mute to prevent any background noise.

After the speakers' remarks, there will be a question-and-answer session. If you would like to ask a question during this time, simply press *, then 1, on your telephone keypad. And if you would like to withdraw your questions, please press *, followed by 2. Thank you.

I now would like to turn it over to Mr. Souter. Please go ahead, sir.

Murray Souter — President & Chief Executive Officer, Diamond Estates Wines & Spirits Inc.

Thank you, Sylvie, and good morning, everyone. Welcome to Diamond Estates' conference call to discuss our financial results for the fiscal third quarter ended December 31, 2018. I am Murray Souter, Diamond Estates' President and Chief Executive Officer, and I'm pleased to be joined by Paul Dowdall, our new Chief Financial Officer. Paul joined Diamond Estates in January and is a very strong addition to our team.

I'll start this call by providing an overview of the third quarter results and other recent developments at the Company, Paul will take you through our third quarter financial performance in more depth, and I'll conclude with a discussion of our strategy and outlook. After that, we will be pleased to answer any and all of your questions.

Before we begin, I need to remind listeners that certain statements about future events made on this conference call are forward looking in nature and are based on certain assumptions and analyses

made by the Company. Please refer to the cautionary statements on forward-looking information in our news release this morning for more information.

We're disappointed with our third quarter results. We were negatively impacted by the same factors that affected us earlier in the fiscal year, lower export sales and the loss of two major suppliers in the agency division. However, we are pleased to be maintaining a leading market share in the Ontario grocery channel, which is our most important and exciting growth opportunity as well as returning our LCBO business to growth. While there is no instant fix to these issues impacting export and agency sales, they are temporary in nature, and we're working hard to return to growth in these key areas of our business.

As I've previously stated, the lower export sales relate to our largest distributor in China, who was unable to open new stores as quickly as originally planned. Accordingly, the distributor has been working through excess inventories and has reduced new purchases. We have worked with this distributor for a long time and the company has assured us that the new store openings are now complete and were completed in Q3. With their current complement of stores, we would expect a return to their previous strong growth, although the political uncertainty may impede that in the short term.

We have also qualified several new export distributors globally and are beginning to export our wines to new markets including the US of A, the United Kingdom, and Russia, to name a few. This will provide some diversity to our international customer base, which is still heavily focused and dependent on China.

In the agency division, as we previously reported, we lost two major suppliers that were responsible for a significant portion of our revenue. We are gradually replacing this revenue with both new suppliers and expanded relationships with our existing roster of suppliers. We have recently

established new partnerships in the agency and some of those new brands we are representing, such as Josh wines from California, are doing extremely well.

We are also generating solid sales growth from many of our long-standing brand partners. We recently shifted our strategy in the agency to focus on a select group of partners and high-performing brands, and it is gaining traction and working very well. We expect continued sales improvement in the future quarters with less supplier turnover than we've experienced in the recent past. While we are frustrated with these ongoing challenges, we have some very positive developments in Q3 to discuss as well.

As I mentioned, we maintained the number one market share position in grocery, which has been our biggest point of emphasis over the past three years. We posted a record share level in the fast-growing grocery channel with a 15.5 share market, eclipsing all competitors. That equates to one out of every six bottles of wine sold through grocery as being one of ours. There's no bigger opportunity for Ontario's wine industry than the anticipated launch of beer and wine in grocery and convenience stores, and we are in the best possible position to take advantage of that. I'll speak more about this later in the call.

We're also very pleased with the rebound in our LCBO sales. As you will recall, we temporarily discontinued some product listings and reduced promotional activity in the LCBO due to poor grape harvests in 2014 and 2015, which limited our available inventory. However, once inventory returned to more normal levels, and we were ready to ramp up the LCBO distribution program again, we had a tougher time resecuring our listings and shelf space than anticipated. Fortunately, we've overcome many of those issues and our products are now widely available and selling well. Our LCBO sales increased over 17 percent in the third quarter on a dollar basis and over 20 percent on a volume basis versus last year.

Speaking of grape harvests, we noted this morning that our 2018 harvest in Niagara yielded approximately 2,100 tonnes of high-quality grapes. Although the harvest was not as strong as it was in the prior two years, it was still a very positive result and allows us to fully utilize the capacity we have on hand in the Lakeview winery and positions us well to take advantage of the coming growth opportunities in the market.

Overall, I'm confident we are on the right track despite the lower revenue we reported in Q3. We believe we have the right strategy and the right team in place to ensure we generate long-term accretive growth.

I will now invite Paul to review our Q3 financial results in more detail. Paul?

Paul Dowdall — Chief Financial Officer, Diamond Estates Wines & Spirits Inc.

Thanks, Murray. I'm very pleased to join the Diamond Estates team, and I look forward to speaking individually with as many of you as possible.

So as stated, revenue in the fiscal third quarter was 7.4 million, a decline of 28 percent from 10.4 million in Q3 last year. As Murray discussed, the decline was primarily due to lower export sales in the winery division and the loss of large suppliers in the agency division in fiscal 2018.

Winery division revenue was 3.6 million. This was a decline of 1.4 million from Q3 2018. Export sales declined by 1.5 million because of our Chinese distributor's slower-than-planned, new store growth. This was partially offset by stronger performance in the LCBO and grocery channel, where gross sales increased 14 percent from prior year. This increase is largely due to our decision to increase promotional activity in the LCBO channel. The recent acquisition of Backyard Vineyards, our winery in Langley, BC, contributed approximately 300,000 of revenue during the quarter.

Revenue in the agency division was 3.8 million. This is a decline of 1.5 million compared to last year. This reflects the supplier losses that Murray mentioned earlier, which accounted for 1.8 million of revenue in Q3 2018 and that included 600,000 of nonrecurring severance revenues. These factors were partially offset by sales growth of approximately 300,000 in the existing portfolio in Q3 of this year with new brands gaining momentum in the marketplace.

Third quarter gross margin was 3 million or 41 percent of revenue compared to 4.7 million or 46 percent of revenue last year. The decline in dollars was primarily due to lower revenue, while the decline in gross margin percentage was primarily due to the nonrecurring severance revenue in Q3 that I had just mentioned prior.

Gross margin was evenly split between the winery division and the agency division with each division accounting for 1.5 million of the total. Gross margin in the winery division declined 34 percent from Q3 last year while agency gross margin was down 38 percent from last year. On a margin percentage basis, winery gross margin was 41 percent of revenue compared to 45 percent last year, while agency gross margin was 40 percent of revenue compared to 47 percent last year. After normalizing for nonrecurring severance revenue mentioned earlier, gross margin percentage in the agency business was 40 percent in Q3 2018, which was on par with this year's results.

Total selling, general, and administrative expenses were 3.3 million in the third quarter. This is a decline of 5 million from last year's 3.8 million total. After normalizing for the 2018 restructuring costs of 800,000, which incurred in the third quarter of last year, expenses were up 400,000 in fiscal 2019. This is due to several factors, including increased employee compensation and benefits due to the hiring of new senior positions; increased advertising and promotional spending supporting the previously mentioned

channel growth; inclusion of Backyard Vineyards, our Langley, BC winery; and the addition of occupancy costs related to the relocation of the agency business to a new head office out here in Oakville.

EBITDA was negative 2 million in Q3 2019 compared to 1 million last year. The decline is primarily due to gross margin and the increased investment in distribution and promotional programming to expand the brand presence in the LCBO channel. The results of this was a net loss of 1.1 million in the current quarter compared to net income of 500,000 in Q3 of last year.

Turning now to our balance sheet. Working capital increased to 17 million as at the end of December 2018, up 3.4 million from 13.6 million as at March 31, 2018, or our 2018 year-end. This was primarily due to a 2.6 million increase in accounts receivable and a 2 million increase in inventory. This is partially offset by higher accounts payable in the assumption of a \$550,000 note, payable for the Backyard Vineyards acquisition. As a result of the seasonality of the business, we typically have a higher working capital balance at the end of Q3 compared to the end of our fiscal year-end.

Our debt to equity ratio as at December 31st increased to 1.42:1, compared to 1.22:1 as at March 31st. This is a result of the increase in the debt from Backyard Vineyards acquisition, partially offset by the increase in share capital issued as part of that transaction, as well as the exercise of stock options.

I will now turn it back over to Murray for some closing comments. Murray.

Murray Souter

Thanks, Paul. As many of you know the most significant event in the history of our domestic industry is the anticipated launch of beer and wine into grocery and convenience stores. The conservative government of Doug Ford in Ontario has talked about putting, and I'll quote: "Ontario consumers first by providing more choice and convenience." Expanding the number of licensed stores will certainly do that.

The government has indicated that it plans to make licenses available to a significantly greater number of stores compared to the 70 that are currently licensed in grocery.

As I noted earlier, we have the top market share in grocery and are in an ideal position to grow our grocery sales as more stores become licensed. Wine sales in grocery are already very robust, and we think it is only a matter of time before grocery is the preferred channel for Ontario consumers.

In Niagara, we are continuing to move ahead with the Lakeview Winery expansion. We expect an increased capacity from the currently 5.6 million litres to 6.1 million by the next harvest, providing us with significantly enhanced operating leverage and profitability. Our expansion efforts to date have been delivered on time and on budget, and we'll continue to be very disciplined as we work on the next phase of expansion.

In British Columbia, we are pleased with the continued solid performance of Backyard Vineyards, which we acquired in June last year. We have completed the rationalization of the Backyards SKU base and are preparing for the launch of our Diamond brands into the BC and Alberta markets. We also continue to lay the groundwork for the new Lakeview Winery, which we plan to develop in the Okanagan Valley. These activities have the potential to create major value for shareholders as we've become a truly national winemaker.

That concludes our remarks this morning. Paul and I would now be pleased to answer any questions you may have. Sylvie, please open the lines for questions.

Q&A

Operator

Certainly, sir. Ladies and gentlemen, as stated, if you do have a question, please press *, followed by 1 on your touch-tone phone. Note that your questions will be taken in the order received. And should you decide to withdraw your request, you will need to press *, followed by 2. And we do ask that if you're using a speakerphone to please lift your handset before pressing any keys.

And your first question, sir, will be from Nick Corcoran at Acumen Capital. Please go ahead.

Nick Corcoran — Acumen Capital

Morning, guys.

Murray Souter

Good morning, Nick.

Paul Dowdall

Good morning.

Nick Corcoran

So I guess my first question has to do with the new export channel you talked about to other markets. Can you quantify what the volumes or dollar amount of those other markets is and what you might expect them to grow to over time?

Murray Souter

We generally don't give forward-looking statements, as you know, Nick. But I can tell you that on a comparative basis to our current business, they would represent about 25 percent of the sales. The Russian order, which is through Metro stores here in Canada, through their distributor, their grocery distributor in Russia, is starting with a container and will grow from that. Similarly, with the England and into the US, which is a Midwest distributor.

So they are, on the most recent quarter, a little over a quarter, they would be about 25 percent of the shipments. So I would anticipate that they will continue to grow beyond that.

Nick Corcoran

Great. And over time, how do you expect them—will it be 25 as the total volume, including China? Or will that go down as the China volumes go back up?

Murray Souter

Well, I would anticipate the Chinese volumes will rebound. I mean, we've seen a melt of about \$3 million year-to-date of inventory. They're still buying, but we did see a significant reduction relative to what they were doing previously.

They had—as you know from previous calls, they had committed to open 200 stores of their total objective of 600, which is over the next couple of years, and they were slow on getting those out the gate in the start of the calendar year 2018.

So with those stores now in place, we would anticipate that they will start to see the volumes ramp back up. But certainly, over the longer term, they will be a much more aggressive market to grow into than the other markets that we're currently competing in. So we'll probably see that 25 percent reduce.

Nick Corcoran

Great. And then just switching back to your domestic business. So the Naramata Winery, can you give an update on where the planning and construction of that winery's at?

Murray Souter

Yeah. Right now, we're at the stages where we are examining—we've put together the business case for it. We are looking at the—we've actually started interviewing potential architects and designers,

obviously. There's a couple things. We've reengineered much of the Langley facilities so that we can step our production going forward so that we don't have to get 100 percent of our capacity up and running in the Naramata facility right out of the gate, so we can produce out of two facilities.

So it's well underway. We will be starting to look at capital requirements and timing on construction as we get further into 2019. But we are launching the revised SKU base. The new brands, et cetera, will be launching through the coming fiscal year.

Nick Corcoran

Great. And then you talked about the supplier loss and your agency business being \$1.8 million in the quarter. Can you just maybe give some commentary about how we should think about Q4, and how the year-over-year change will impact that quarter?

Murray Souter

Well, year over year, so we lost the largest one a year ago in Q3. So Q4 will be, obviously, they'll be out of the numbers at that point. We've seen significant gain with some of our new brands, Malfy Gin, Brokers Gin, Josh wines, Social Lite beverages. We've seen a number of those brands growing quite significantly.

Fourth quarter tends to be a little soft in our industry with everybody deciding after the holiday season to go on diets or stop consuming beverage alcohol. So it's always a bit of a soft quarter. But we would see on the agency, it's certainly the large loss of Flor de Cana rums last year, which was the biggest, most significant portion, would be out of the numbers coming into fourth quarter.

Nick Corcoran

Great. That's all for me.

Murray Souter

Thanks, Nick.

Operator

Thank you. Next question will be from Amr Ezzat at Echelon Partners. Please go ahead.

Amr Ezzat — Echelon Wealth Partners

Good morning. Thanks for taking my questions.

Murray Souter

Thanks, Amr.

Amr Ezzat

Murray, I just want to circle back on China. I believe in the last conference call you said that they were, I mean maybe not the 200 stores were open, but they were well underway. So leading up to the Lunar New Year and I guess would be store openings. I was expecting for the bleeding to stop, at least, I guess. In other words, I was looking for you guys to be flat quarter over quarter in China. Yet the numbers imply that you are down 30 percent relative to last quarter. So I'm just looking for more colour there. Is it maybe the political tension that started in December that impacted your sales? Or is just the same issue of your distributor going through the inventory?

Murray Souter

Yeah. No. Thanks, Amr. So they did open their 200 stores in Q3, which was our call last quarter was—

Paul Dowdall

In December.

Murray Souter

And they had opened those stores at that point. Now at that point, they had missed the Harvest Moon seasonality, which happens in October. And they had WE Day, which they haven't been big supporter—or not big supporter, but haven't really generated a lot of revenue at WE Day. Although, in the future, they're talking about being more involved in it. That's the singles' day. And so the inventory that they loaded in would have been to support the Chinese New Year, which just finished two weeks ago, I guess. We're waiting to see what the results of that are.

Political tensions aside, I mean, we have no evidence right now that it is affecting any of our business, but the stuff that we are receiving, the information we're receiving now is anecdotal. It's from people who have travelled over there. Our suppliers, our partners in that business are coming back for meetings here with results in the next couple of weeks. So we'll be in a much better position to understand what's transpired in that market.

But we loaded in—we sold about \$7 million worth of inventory last year and have done about 4 million and change this year. So that's kind of 2.5 million to \$3 million is—half of that would have been load in, and that's probably what was loaded into their stores in—the 200 stores, the stores that opened in Q3.

So I would anticipate we'll start to see orders rebounding, but then again, we don't know what the political headwinds are going to do to us.

Amr Ezzat

Mm. But usually the March quarter is a very weak quarter. Right?

Murray Souter

Yeah.

Amr Ezzat

In China.

Murray Souter

Well, the issue is—yeah. Not so much that—they would prefer to ship—most of our Chinese customers would prefer to ship year-round. But the problem is that they ship out of Vancouver, and moving the wine from Ontario to B.C. is hugely expensive in heated containers. Plus sending them across the North Pacific. So they tend not to do that when the weather is bad. They kind of shut down their shipping around the first of December and don't reopen it until after April 1st. That's the biggest reason for it. It's not really seasonality so much, although there is some seasonality. It's more the weather that affects their timing of orders.

Amr Ezzat

Understood. So probably in the June.

Murray Souter

Yeah. Q1 we would start to see orders. I mean, we're seeing orders now coming in, but we will see the actual shipments really kicking in in June, July, August.

Amr Ezzat

Understood. Did I hear correctly? You said Russia is 25 percent of sales?

Paul Dowdall

Oh no. It'd be 20—

Murray Souter

Yeah. And not just Russia.

Amr Ezzat

Of the export sales.

Murray Souter

Yeah. So right now, it's running about 25 points of Russia, the UK, and the US combined. There's others we ship to like South Korea. We've got other distributors in China. We've got qualified distributors in Mexico and other regions, but those three, which are shipping now, would represent about 25 percent of our volume.

Amr Ezzat

Understood. And when you say volume, we're talking dollar volume?

Murray Souter

Dollar volume. Correct.

Amr Ezzat

Understood. On the agency division, like sales continue to recover, I guess, like quarterly, sequentially. But the gross margin was much lower this quarter than the last couple of quarters. In fiscal Q1 and fiscal Q2, you guys were in the high 40 percent sort of margin. And this quarter, you're at 40 percent. Anything to read into that? And what should we expect like going forward?

Paul Dowdall

Yeah. So—this is Paul here. One of the drivers was the previously mentioned severance revenue, and that occurred in Q3 of 2018. And as you know, with the severance revenue, there's no cost associated with that, so that certainly inflates the margin values. Outside of that, a lot of it is mix shifts as well. And so—

Amr Ezzat

That's understood. I'm talking relative to the last two quarters. Like last year's comparable quarter, I understand that there was debt severance payment.

Paul Dowdall

Yeah.

Amr Ezzat

But last quarter you guys were at 48 percent slight gross margin on the agency division.

Paul Dowdall

Yeah. And that's—part of that is sales mix, Nick. I'm sorry, Amr—

Amr Ezzat

Amr.

Murray Souter

Yeah. Part of it is the sales mix. Q1 and 2 were more commission-based sales revenues, which has virtually 100 percent gross margin. Whereas Q3, the proportion out in Western Canada was larger, and it carries a lower gross margin. So you should see it start to pop back up. What's masking it is, I think, year over year, is that year-ago severance payment, which we received and also some of the reductions.

Amr Ezzat

Great. That's good enough. Thanks.

Murray Souter

Okay.

Operator

Thank you. Next question will be from Vay Jonynas at Hampton Securities. Please go ahead.

Vay Jonynas — Hampton Securities

Good morning.

Murray Souter

Good morning, Vay.

Vay Jonynas

First of all, with respect to the agency business, you have been talking about the loss of those two major customers since I believe you were ... at least the first one since September 30th, 2017 quarter, I believe. Now overall, with respect to the loss of those two customers, what proportion of your overall business in the agency business do you think you lost there?

Murray Souter

We would have lost maybe—I'd have to work the math out. It'd be I'm going to say about 16 percent, 17 percent. Somewhere around in there. About one-eighth.

Vay Jonynas

Okay. So failing the loss of another customer, on a year-over-year basis, we should no longer see the impact of the loss of those customers on the June 30, 2019 quarter? Or would it be already in the March 31, 2019 quarter?

Murray Souter

Yeah. You won't see—the largest one, which occurred in our Q3 fiscal 2018, a year ago, you won't see starting in the next quarter. That will go away. And the second one, which occurred in Q1 of fiscal 2019, you'll see its effect for a period of time going forward. So you'll see it for at least another couple quarters.

Vay Jonynas

Okay. Secondly, you did mention that your Chinese distributor had, as now, finally opened the stores that they had anticipated earlier in the year.

Murray Souter

Right.

Vay Jonynas

So you would hope to see a more regular sales pattern in your Chinese export market beginning in the June 30th quarter, say?

Murray Souter

Yeah. The—traditionally, we ship in our fiscal quarters one, two, and three, which is when they draw their inventory, most of hitting kind of Q2 and into Q3. So we would anticipate, with the opening of all their stores, that you would see a return to their growth.

But again, we're—there's political headwinds out there. We're not giving you a forward-looking forecast by any stretch of the imagination because we don't do that. But we would anticipate that once they get those stores open that the short-term losses that we've had right now, we would return to growth.

Vay Jonynas

Since the last quarter, have you heard any more rumblings from the Ford government about expanding wine in grocery store sales?

And secondly, my understanding is your existing distribution channel is through the LCBO and then into the supermarkets.

Murray Souter

That's correct.

Vay Jonynas

Would your strength in that grocery store channel therefore translate directly into smaller grocery outlets? Convenience stores, given the fact that I'm not sure that the distribution channel would be the same.

Murray Souter

Yeah. Okay. So let me just comment on what the Ford government is doing. And obviously, everybody in the wine and beer industry in Ontario is very focused on this. The government has said that it's their number one priority, interestingly enough. And we are, through our industry association, which is the Winery & Growers Alliance of Ontario, we've been meeting with government on a regular basis.

I'm the vice-chair of that organization, and we have been having long discussions with both our partner, our member partners, in Winery & Growers Alliance, but also with other industry partners with regards to the structure of the industry. The current structure they have that the Wynne government put in place is the LCBO serves as the wholesaler and virtually only allows 2 or 3 percent margin to the grocery. So it's not a very financially very viable model for the grocers.

We anticipate that under the Ford government that this will be a more traditional model. Although, there's a number of issues that still need to be resolved, not the least of which is pricing minimums. Who will be the wholesaler of choice for beverage alcohol for wine and beer into those channels? The government has said that they will open it up to any and all grocery stores and convenience stores, corner stores I guess, who are interested in it. But obviously, there'll be some requirements, we would imagine, in terms of size and licensing and security of inventory, those sorts of things.

So it's a big question that would require several hours to discuss. But suffice to say that the government, they're very focused on it, and we know that the government is meeting—we're meeting with the next week. Again, there's quite a large summit. So everybody is very focused on it as an industry.

From our standpoint, we have invested significantly in both our brands and into our systems to be able to support that channel. We have inventory in place, which is excellent given we only can bring in inventory once a year, and to have inventory available if the launch were to happen sooner as opposed to later is a very positive thing. We are number one. We have a 15.5 share market, and four of the top five brands in retail right now in our category are our brands.

So we are very well positioned. We have better distribution than virtually anybody. In fact, I think we have better distribution than all of our competitors. And we would anticipate that that would translate with the grocers. We have a very good relationship with all those grocers, and we anticipate that that would translate into a positive outcome for us when broader distribution is allowed into grocery stores and convenience stores.

Vay Jonynas

Okay. My understanding, though, right now, is that you do market directly to Loblaws, Metro, and Sobeys. And you have a good sales relationship with those three major supermarkets. Is that the case?

Murray Souter

Yeah. We—

Vay Jonynas

Marketing directly to the supermarkets?

Murray Souter

Yeah. We do sell directly to them. So we have a key account manager, a director of grocery sales who meets with the buyers and merchandisers.

In terms of retail marketing with those stores, we're very limited in terms of what we can do. So they are limited in terms of their pricing to what the LCBO does. They're limited in terms of their

promotional materials and display materials. And in fact, they can't do any of that. And we don't pay them directly for anything other than, through a third party, we would pay for tastings, for sampling of product. That's about the only thing you can do from a channel marketing standpoint to support your brands in those channels.

But we do spend a great deal of time educating the buyers, helping them with this category because they're all new to it; helping them understand the different varietals, the different brands, how we position ourselves in the market, where pricing should be because each grocer has a different pricing strategy relative to the LCBO, and sort of what brands they need on their shelf to be able to supply and support their customers in the store.

And I should point out that our experience with grocery is pretty significant in that the average grocery store, its sales velocity in one of our brands is about four times, on a per store basis, of what you would see in the LCBO. So those 70 grocery stores are the equivalent of almost four times, almost 280 LCBO stores, which would be about a third of the LCBO store complement. So it's pretty significant business.

Vay Jonynas

Interesting. It's just that right now, marketing directly to supermarkets, the distribution channel to convenience stores and smaller groceries would not be the same. So I'm not sure that you can leverage your expertise in the supermarket channel to convenience stores. You'd be dealing with a different distributor all of a sudden.

Murray Souter

Yeah. There's the three big ones, of course, are the KBA, Couche-Tard, and the third one escapes me at the moment. But they operate under a very similar model to what grocery does.

Vay Jonynas

Okay.

Murray Souter

And they would be looking for the similar sorts of things in terms of they want to carry leading brands. They want to be able to cover the varietals and price points that they want. They'll have a limited assortment, so there'll be a requirement amongst the manufacturers and the brand owners to be innovative in terms of how they present product to those operators and store level.

And in past lives, a number of my staff have worked within that environment, and so we know it well, including yours truly. And we would be more than capable to be able to leverage the experience that we've got right now in grocery into those channels.

Vay Jonynas

Okay. Is Backyard Winery products already being sold in Ontario?

Murray Souter

They are. We have been bottling their products for about three years now. They are available through Vintages. They're priced around 17, 18.95 a bottle. They have their Nosey Neighbour Red and Nosey Neighbour White, and there'll be a couple of other brands that will be launching in the very near future, actually. In March, we'll be coming out with another Backyard brand here.

Similarly, we're doing something similar with Lakeview and FRESH, our FRESH brands in Western Canada, so that we have a national presence.

Vay Jonynas

Okay. And you are acquired more of a national presence when you bought the Backyard in British Columbia, and thus giving access to their distribution channel in say BC and Alberta?

Murray Souter

Yup. Correct.

Vay Jonynas

For your Ontario wines?

Murray Souter

Correct. That's part of the reason why we did it.

Vay Jonynas

Okay. Also, finally, Quebec and the Maritimes. My understanding was that your products were sold overwhelmingly in Ontario. Was there something preventing you from shipping across the border to Quebec and the Maritimes?

Murray Souter

Are you—

Vay Jonynas

Like the government, or?

Murray Souter

Well, if you're talking about shipping direct to consumers, there is a restriction to beverage alcohol. We can't sell beverage alcohol from Ontario directly to consumers in Quebec or New Brunswick. We can in Nova Scotia, but that's a relatively expensive way to do business. If you're talking about retail, so getting our brands listed with the SAQ or with the ANBL, the Alcohol New Brunswick boards, or NLCS, Nova Scotia Liquor Commission, Ontario VQA have a tough time selling, particularly in Quebec. There's not very many of them in the marketplace.

In fact, Quebec is less than 1 percent of the total VQA sales, even though it's the best-developed wine region in terms of consumption in Canada, it has the highest market development. Ontario wines have never been able to kind of crack the Quebec consumers mind or mind-set around VQA. So it's always been a struggle. We do sell a little bit of ice wine, but they do have their dépanneur business, which is rebottled imported wines, which is a very large business that supplies that marketplace, and its relatively low price. So it's tough for VQA to compete in Quebec.

Vay Jonynas

Hmm. Okay. Despite the fact that Quebec really doesn't have much of its own wine business because it's not good grape growing country.

Murray Souter

Yeah. It's a little cold sometimes.

Vay Jonynas

Hmm. Okay.

Operator

Did you have any further questions, sir?

Vay Jonynas

No.

Operator

Thank you. Your next question will be from Bob Bissel, shareholder. Please go ahead.

Bob Bissel — Shareholder,

Good morning, Murray.

Murray Souter

Good morning, Bob.

Bob Bissel

I've got a couple of questions for you. The first one, have you ever considered any association with any of the cannabis products, or?

Murray Souter

Thanks for your question, Bob. We continue to monitor the category. As you know, the first wave of products under the cannabis opening up of that market is oils, and they call it smoke product, which really doesn't go along with wines or beverages.

The second wave, which is anticipated for this October, we continue to monitor. The government is still working through the legislation. If you ever want to read it, I have the 147 pages of proposed legislation on my desk. And so we're monitoring it, but we have not had any conversations with anybody with regards to getting involved in that business at this stage.

Bob Bissel

Okay. And just one more question, Murray. I noticed in the last two or three weeks, there's been like, I don't know, sort of like a heavy seller, or they're constantly there every day selling the stock.

Murray Souter

I don't know—

Bob Bissel

And when something like that happens, have you ever considered like a share buyback program?

Murray Souter

We don't have a share buyback program in place. And actually, we don't have a policy for that. We have to take it to the—at the AGM, we'd have to have our shareholders vote on that. It's a way of propping up your share price, but we've never contemplated that, Bob.

Bob Bissel

Okay. Well, thanks very much.

Murray Souter

You're welcome.

Operator

Thank you. Ladies and gentlemen, as a reminder, if you do have any questions, please press *, followed by 1.

And at this time, Mr. Souter, we have no other questions, so I would like to turn the call back over to you, sir.

Murray Souter

Okay. Thank you very much, Sylvie, and thank you, everyone, for joining us on the call today. We thank you for your interest in Diamond Estates, and we look forward to speaking with you again in Q4. Bye-bye.

Operator

Thank you. Ladies and gentlemen, this does indeed conclude your conference call for today. Once again, thank you for attending. And at this time, we do ask that you please disconnect your lines. Enjoy the rest of your day.