FINAL TRANSCRIPT

Diamond Estates Wines & Spirits Inc.

Fiscal 2018 Third Quarter Financial Results Conference Call

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CORPORATE PARTICIPANTS

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

Alan Stratton
Diamond Estates Wines & Spirits Inc. — Chief Financial Officer

CONFERENCE CALL PARTICIPANTS

Corey Hammill
Paradigm Capital — Analyst

Bob Gibson
PI Financial — Analyst

Vay Jonynas
Hampton Securities Ltd. — Analyst

PRESENTATION

Operator

Good morning. My name is Sylvie (phon), and I will be your conference Operator today. At this time, I would like to welcome everyone to the Diamond Estates Wines & Spirits Fiscal 2018 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 decide you would like to withdraw your request, please press *, then the number 2. Thank you, everyone.

Mr. Souter, you may go ahead and begin your conference.

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 the financial results for the fiscal third quarter ended December 31, 2017. My name is Murray Souter, and I am the Diamond Estates President and Chief Executive Officer, and I'm joined today by Alan Stratton, our Chief Financial Officer.

I'll start this call by providing an overview of our results in the quarter and some other key developments at the Company. Alan will then discuss the financials in depth, and I'll conclude with some brief comments on our strategy and market outlook. After that, we will be more than pleased to answer any questions you may have.

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 statement on forward-looking information in our news release this morning for more information.

Let me begin by saying that we are pleased to have reported much-improved results for the third quarter relative to the second quarter. As you probably know, we encountered some operating challenges earlier in the fiscal year that impacted our Q2 results. We said, on our last conference call, that we believed that these issues were short term in nature and that we were dealing with them appropriately. Let me take you through those issues and what we have done to correct it.

In the Winery division, we are dealing with the fallout from poor grape harvest brought on by the extremely cold weather in the Niagara region in 2014 and 2015. We were concerned about insufficient supply, so we implemented a short-crop strategy at the start of the calendar year, which impacted second quarter results.

With that strategy, we prioritized sales to certain channels and allowed sales velocity to slow down in others. We continue to focus on grocery and the export channels because they have major strategic importance to us over the long term, and we pulled back our focus of effort in the LCBO channel. We decided to voluntarily withdraw certain products from the LCBO, implement price increases on certain brands to slow sales growth, and cut back significantly on programming activity.

However, this had a significantly greater negative impact on our Q2 financial results than we anticipated and which we discussed with you on our last call.

I'm glad to report that our recent efforts to source additional acreage resulted in a record grape harvest in 2017, which will ease the inventory issues significantly and allow us to return to more normal growth activities. As a result, we have reintroduced several products into the LCBO channel that were temporarily delisted and have increased programming activity significantly. We're seeing sales velocity pick up, and we expect a return to growth in the LCBO channel in fiscal 2019.

Within our Agency division, we dealt with the third-party supply chain issues, which we referenced last quarter and continued our restructuring initiatives to improve long-term performance. We implemented a workforce reduction program in the quarter to eliminate redundant positions as part of that plan. Chris Terrio, our new President of the Agency business, is doing a tremendous job, and I have full confidence that the operating performance will continue to improve as he implements a more focused strategy for the business.

Beyond those issues, there are a lot of things to be happy about in our third quarter results. Alan will take you through all of the numbers in a moment, but I'd like to just point out a couple of highlights.

Our export revenue of 2.6 million in the quarter was nearly double what we reported a year ago. The majority of this revenue is coming from China, where demand for our products remains strong, and we are seeing positive trends every day. We also generated meaningful year-over-year growth in gross margin and profitability during the third quarter, even as we were recovering from the operating challenges earlier in the year.

I also want to highlight that we had a onetime severance revenue gain of 600,000 in our Agency business in the third quarter. This came from a foreign beverage producer who decided to consolidate their North American business under a single agency structure.

It's always disappointing to lose a supplier relationship. However, we have just begun representing another major beverage supplier. This new business combined with organic growth and cost savings will more than offset the business we've lost.

Overall, we're pleased with the performance in the third quarter. We have overcome some significant operating challenges, and we think Diamond Estates is well positioned for future success.

I'll now invite Alan to review our third quarter financial results in more detail. Alan?

Alan Stratton — Chief Financial Officer, Diamond Estates Wines & Spirits Inc.

Thank you, Murray. Revenue for Q3 2018 was 10.4 million, representing an increase of 17.4 percent compared to 8.8 million last year. This was driven by strong export revenue in our Winery business and the onetime severance revenue gain of 0.6 million in the Agency business that Murray just discussed.

In the Winery division, total revenue was 5 million in the third quarter, up 22.7 percent compared to last year. Export revenue was 2.6 million, which was an increase of 92.6 percent compared to Q3 2017.

The increase in export revenue was partially offset by lower sales in our LCBO and licensee channels as we continue to ramp back up from the short-crop strategy. As Murray noted, our sales velocity in the LCBO is now increasing, and we expect to return to growth in the LCBO channel in fiscal 2019.

Third-quarter revenue in the Agency division was 5.3 million, up 12.8 percent from the prior year. Excluding the onetime severance revenue, Agency revenue was essentially flat compared to Q3 2017. The supplier we lost in the Agency business generated approximately 3.4 million in revenue and 0.6 million in gross margin for us in the 12 months ended December 31, 2017. We are making that up with a new supplier relationship that Murray just mentioned as well as organic growth and cost savings from the recent workforce reduction.

Gross margin in Q3 2018 was 4.8 million, up 40.6 percent from 3.4 million last year. This was primarily due to revenue growth. Gross margin as a percentage of revenue increased to 46.7 percent compared to 39.0 percent last year. The gross margin in the Winery division itself was 2.3 million, representing a 38.6 percent increase from last year. As a percentage of revenue, that margin increased to 44.9 percent compared to 39.7 percent in Q3 2017.

This improvement was largely due to our activities in the LCBO channel, which includes the new grocery store licences as they buy from the LCBO. Our sales volume through the grocery stores is up significantly as there were very few stores open in Q3 2017, that being the quarter that they initially launched, and those sales aren't subject to the same promotional activity that must be netted against revenue as we do with the LCBO.

Margin growth has also been supported by price increases on certain products and discontinuing some lower margin products earlier in the year.

In the Agency division, gross margin was $2.6 million, up 42.4 percent from the prior-year period. Gross margin as a percentage of revenue climbed to 48.5 percent compared to 38.4 percent last year. Even after excluding that onetime severance revenue gain, gross margin did increase 7.8 percent from last year. This reflects strong performance in the Ontario market, which increased the ratio of commission revenue versus distribution revenue.

Total operating expenses were 3.8 million in the third quarter, up 34.3 percent compared to last year. Employee compensation and benefits increased by 1.8 percent, G&A expenses increased 11.9 percent, and that's primarily due to investments that we've been making in information technology as we work to upgrade our infrastructure and systems to support the business.

We also recorded a $0.8 million charge for restructuring in the third quarter, and that related to a workforce reduction in our Agency division, along with the early retirement of the former president of that division. We expect annualized savings of 0.5 million in compensation and benefits as a result of that reduction.

EBITDA in the third quarter of fiscal 2018 was $1 million, and that was up from 0.6 million in Q3 2017. Net income was 0.5 million compared to a slightly positive balance last year.

Turning to the nine-month period ended December 31st, we had revenue of 28.9 million, up 2.4 percent from 28.2 million in the first nine months of fiscal 2017. Winery division revenue was 15.4 million, an increase of 2.8 percent from last year. Export revenue represented $7.8 million, an increase of 33.9 percent year over year. This was partially offset by revenue declines in the LCBO and licensee channels as previously mentioned.

Revenue in the Agency division was 13.4 million year to date, up 1.9 percent from the year-ago period. Excluding that nonrecurring severance revenue, Agency revenue was essentially unchanged year over year.

Our gross margin in the first nine months of fiscal 2018 was 13.2 million, up 11.5 percent from the prior year, and gross margin as a percentage of revenue increased to 45.7 percent year to date compared to 42 percent in the comparable period last year.

Total operating expenses for the first nine months of the fiscal year were 9.9 million, up 16.3 percent year over year. We increased advertising and promotion spending during that period, and we were impacted by the higher G&A expenses and restructuring costs I mentioned earlier. Employee compensation and benefits have increased 3 percent during the period.

EBITDA in the nine-month period declined slightly by 1.7 percent to 3.2 million compared to 3.3 million last year. That reflects the operating challenges we had earlier in the year. Net income was 1.4 million, down 7.7 percent from 1.5 million last year.

Turning now to our balance sheet, working capital was 17 million as at December 31, 2017, an increase of 8.6 million compared to 8.4 million as at March 31, 2017, our fiscal year-end. And that's largely driven by the new operating facility with the Bank of Montreal, which is now entirely classified as a long-term liability because it is a three-year committed term.

During the same period, our debt to equity ratio increased to 1.25:1 from 0.68:1, and that was due to the elimination of the noncontrolling interest in the Agency division and increase in our bank debt as a result of acquiring that interest back in Q1 of 2018 along with the additional funds that we've borrowed to complete the winery expansion.

For your information, debt is defined as total liabilities less other current liabilities, and equity is defined as shareholders' equity plus noncontrolling interest.

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

Murray Souter

Thanks, Alan. We are pleased to have overcome obstacles that affected us earlier in the fiscal year. Looking ahead, there are several positive catalysts in our company and in our industry that make us optimistic about the future for Diamond Estates.

We're obviously very pleased with the performance of our export business, and we're confident that the trends evident in the Asian market will continue to benefit Diamond in the longer term.

Our export business represents a major competitive advantage for Diamond Estates. China is the world's largest red wine consuming nation and the largest export market for ice wine. Demand for wine is also growing at a much higher pace in China relative to the Western world, and we have great traction in China and believe that significant opportunities exist there.

Closer to home, we continue to maintain a top three position in the Ontario grocery channel. We're expecting the Ontario government to issue a new tranche of licences to grocery stores in the near future. We obviously can't predict the timing, but the government is committed to growing the licenced store count from 70 today to 300 in the next seven years.

We're very pleased with the sales momentum we've seen in the Ontario grocery stores, and we expect that to continue. We said that we believe this will eventually become the preferred channel for customers to buy wine. It is still in its early days, but so far, the sales trends are certainly moving in that direction.

At the Lakeview winery, we're benefitting from the completion of phase one of our capacity expansion, which added 800,000 litres of capacity this past harvest. The next phase of expansion will increase our capacity to 6.3 million litres later in 2018. That will provide us with enhanced operating capacity and flexibility.

As I've said before, we would like to expand our Niagara business through strategic acquisitions. We have been engaged in an extensive analysis of potential transactions and negotiated with numerous third parties over the past year. The Ontario wine industry is highly fragmented with many small producers, and some of them would clearly benefit from partnering with us and capitalizing on our economies of scale. We are very keen to add brands to our portfolio.

To date, we have not finalized a deal, but there are many potential opportunities out there, and we are continuing to work hard on possible transactions. With our balance sheet and our M&A experience, we're confident that we can add significant value for shareholders through acquisitions.

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

Q&A

Operator

Thank you, sir. Ladies and gentlemen, if you do have a question, please press *, followed by 1 on your touch-tone phone. And as mentioned, if you wish to withdraw your request, you will need to press *, followed by 2. And note that questions will be taken in the order received.

And your first question will be coming from Corey Hammill at Paradigm Capital. Please go ahead.

Corey Hammill — Paradigm Capital

Good morning, guys. I have a series of questions.

Murray Souter

Morning, Corey.

Corey Hammill

I'm just going to jump around. First on EBITDA. I just want to make sure I understand the adjusted EBITDA number in the quarter. So by my math, and I'll make it easy. You reported 1.0 million. Your severance impact is 800,000. So that would take you up to 1.8 million. And the onetime payment on the Agency side, 600,000, so that would be an adjusted number of 1.2 million. Sound right?

Alan Stratton

Yeah. Yeah.

Murray Souter

That's a good normalized figure.

Corey Hammill

Got it. And then to compare it to Q3 of last year, that was $600,000. Are there any adjustments we should be making to that number?

Alan Stratton

No. Last year's Q3, there were no really—

Corey Hammill

It was pretty clean. Right? Got it.

Alan Stratton

—material nonworking items.

Corey Hammill

So 1.2 million over 600,000.

Alan Stratton

Yeah.

Murray Souter

Yeah.

Corey Hammill

Perfect. Second is grocery. Murray, you touched on market share—or you touched on you're happy at grocery. But I'd like to quantify the market share. You've done it in past calls. You've given us a sense of your Ontario LCBO market share relative to your outperformance at grocery. Can you just update us on that?

Murray Souter

Sure. So on a quarterly basis, the most recent numbers which came out just—which is period 11 in the LCBO vernacular, which is basically the Christmas period—we were 13.7 share of market, which is number one—yay for us—which is very strong. I mean, that's the period you want to have the number one share. And that was in the grocery side.

Corey Hammill

Grocery, yes.

Murray Souter

Yeah. And that's the first time we've actually—I think we were number one once before, but that was solidly number one. It gives us, over the trailing six months, gives us solidly into number two and ties us for number two over the 12 months since launch. So very good numbers, and that's a little more than double what our LCBO share. Our LCBO share most recently was, I think, about 5.7. So we're 2 times plus a bit on that. And on a rolling 12-month, we're just under 12 share of market; I think it's 11.9 percent.

Corey Hammill

On a rolling 12-month, okay.

Murray Souter

Yeah.

Corey Hammill

Are there any trends we're seeing in grocery in terms of the type of wine? Has it changed, those 70 stores from day one through to today? What's selling? What's not?

Murray Souter

Not really. We seem to be in the sweet spot, which is under 15.95. I mean, grocery is a highly competitive environment. It's where people fight over $0.10 on a can of tomato paste. So our brands, EastDell and 20 Bees; I believe 5 of them in the top 10. So they're doing very well. They're properly priced. They're profitable. That channel is profitable for us. We like it. And we anticipate that that will continue.

Now as they roll out additional licences, we don't know what the makeup of some of those markets where those licences—the stores where those licences will be granted, so what the trading area's like. But we've got a good portfolio to be able to fill in with if they put them into a higher income or more discerning market where people may want a different varietal or more expensive varietal. We're well positioned for that.

Corey Hammill

And it's fair to say that you're doing key account management at the top grocery stores today. So as new stores come on stream, you already have a very open dialogue with the likely winners of these licences.

Murray Souter

Yeah, absolutely. Where you've got our director of grocery is meeting with them on a regular basis.

Corey Hammill

Got it. Something else. So just jumping on to my third question. On the Agency side, the international supplier that left, Al, did you say it was 3.4 million of revenue trailing 12 months?

Alan Stratton

That's correct. We represented them—

Corey Hammill

So that's—

Alan Stratton

—as a national distributor. So we were (unintelligible)—

Corey Hammill

So say 20 percent, right, of your Agency revenue? Was that your largest Agency customer?

Alan Stratton

By revenue, yes. But by gross margin, not necessarily (unintelligible)—

Corey Hammill

All right. So I'll jump to gross margin, then I'll come back to revenue. So on gross margin, you said $600,000?

Alan Stratton

Yeah.

Corey Hammill

Which you also said the offset will be savings from the workforce reduction plan, which is a $500,000 savings. So regardless of a new client coming on, those two almost net out.

Alan Stratton

Right.

Corey Hammill

To neutral in terms of profit. Is that fair?

Alan Stratton

Yeah. They're pretty close.

Corey Hammill

Got it. But just back to—so that's a very large customer on the Agency side. So I guess a couple things. One, you said that they were consolidating. So I'm assuming they were using other distributors in Canada, and now they're just going to a single source? Were they building their own?

Alan Stratton

No. It's a distributor they use in the United States.

Corey Hammill

Okay.

Alan Stratton

And they're moving to that distributor in Canada as well. So it's a North American consolidation.

Corey Hammill

Got it. And so why were the margins so much lower on this than on other agency relationships you have?

Murray Souter

Buy/sell.

Alan Stratton

Well, it was buy/sell, and we had pretty tight margins with them. Partially because of the lower Canadian dollar, those margins had drifted down over the last couple of years. And so that's why it just—I think we were around 17.5 percent overall margin last year with that business.

Corey Hammill

Okay.

Alan Stratton

So that's why we're confident we're replacing that with higher margin business.

Murray Souter

And we were replacing—

Corey Hammill

So I guess—you have? Okay. So pulling, I guess, what would essentially be a fifth of the inventory in your catalogue out, I was curious how that will impact you strategically when your guys are knocking on doors? I guess the answer is you're quickly trying to replace it with other product?

Murray Souter

Yeah.

Corey Hammill

Was this heavily skewed towards beer, wine, spirits? Was it broad-based?

Murray Souter

It was spirits.

Corey Hammill

That's also—

Murray Souter

Only spirits. Yeah.

Corey Hammill

Yeah. Okay. All right. But you're confident then. You already won some business back from other people, and you'll replace whatever hole that left in your product catalogue?

Alan Stratton

Well, we're—yeah. The product catalogue, we'll have no issue on that, and we'll replace it at the gross margin level. We just may not replace it at the top line level.

Corey Hammill

Got it. Got it. Okay. And it sounds like, as I've mentioned before, the cost savings alone basically gets your gross profit flat. So new business coming in should actually be incrementally positive?

Murray Souter

Right. And just to remind you, Corey, in that business it's the gross margin line that we focus on.

Corey Hammill

Got it.

Murray Souter

Because the top line and the buy/sell stuff is relatively low margin. It's that gross margin line that's the area that you want to be at.

Corey Hammill

Got it. So I should think of it more 600,000 and not get too caught up in this—

Murray Souter

Yep.

Corey Hammill

—whatever, this $3.5 million. Okay. I was—

Alan Stratton

But there was—yeah. The margin as a percentage of revenue will increase moving forward for that division.

Corey Hammill

Got it. Two more quick ones. M&A update. So, Murray, you touched on it. You're looking at a bunch of deals. Over the past year, I think-ish, you've been looking pretty closely. Would you say there are more deals? Less deals? Sort of how does the market feel to you in terms of finding deals to do in Ontario?

Murray Souter

There's a lot of activity. It's consuming a significant amount of time. But with everything, of course, it's peeling the onion back and understanding what those businesses are, where the source of the revenue is, and what their long-term prospects are. But generally, I would say there are more opportunities than there were two years ago, for sure. And it's partially the maturation of the business and partially a little bit of uncertainty amongst the smaller players that they realize that they need to get larger. They need access to markets. They need access to capital. They need access to operational expertise. So a lot of people are looking around and sort of saying how do I move to the next level? And being acquired is one of them.

Corey Hammill

And how are the multiples? I mean, some of the alcohol stocks have done really well. Are the private guys looking at that and raising their asking price?

Murray Souter

Well, of course they all are looking at the deals that were done out west. There've been five wineries that have changed hands in the last six months, three by Peller, one by Arterra, and one by Corby. And, yeah. I mean, the numbers that we've heard have been around 10 times EBITDA on a trailing basis. And so people are looking at those numbers, and it is affecting their view a little bit. But we're analyzing it, and we're looking at it with a more finite pencil, shall we say.

Corey Hammill

Okay. My last one is on your capital plan. So outside of M&A, you've talked about the capacity expansion coming in 2018. Can you just quantify your capital plan for the next sort of 12 months?

Murray Souter

Yeah. The next phase of phase 1—we did phase 1A and phase 1B. The reason we did that was that we didn't have enough tonnage coming in. Why spend the money and put in stainless tanks that weren't going to get filled up? So we have the acreage now to fill them, so B will be another 600,000 or 700,000 litres of capacity, which will be added in, and that will be this fall. So that will put us at 6.3 million litres against our old number of 4.5 million. So—

Corey Hammill

Okay.

Murray Souter

—almost 2 million litres of additional capacity. That will carry us through this harvest, the 2018 harvest, and possibly the 2019 harvest. We are going to be looking at the forecast very tightly. Certainly for 2020, which is two years hence, we will need to add, based on the forecast right now or the original forecast, we would need to add cooperage at that point.

Corey Hammill

Got it. And bottling capacity, you're fine?

Murray Souter

Bottling capacity, we're fine. We're currently running on a one-shift basis. We do want to move it geographically in the building to a different location. But we're okay on bottling capacity right now.

Corey Hammill

So and last thing, just on that capital plan. So that sort of 600,000 or 700,000 litres of capacity, what is the dollar value you have to spend this year to do that?

Murray Souter

It's was—

Alan Stratton

Seven hundred.

Murray Souter

—about 700,000. Yeah. Albeit—

Corey Hammill

So modest then? Your non-M&A plan is modest CapEx this year?

Murray Souter

No. No. In the phase that was just completed, we put all the engineering in, the new building, all the electrical, all the plumbing, so we really are just dropping tanks in and—

Corey Hammill

Got it.

Murray Souter

—it's about $700,000 worth of tanks.

Corey Hammill

So the money would be if there was an M&A strategy this year, but the basic capital—

Murray Souter

Yeah.

Corey Hammill

—plan then is modest. Got it. All right. That's it from me.

Thank you very much.

Murray Souter

You're welcome.

Operator

Thank you. Next question will be from Bob Gibson at PI Financial. Please go ahead.

Bob Gibson — PI Financial

Morning, gentlemen.

Murray Souter

Morning, Bob.

Alan Stratton

Good morning, Bob.

Bob Gibson

Can you give me a little colour on how the new store went during the quarter?

Murray Souter

Yeah. Good news there. As you know, second quarter for everybody in the industry was awful. I mean, we were wearing raincoats, umbrellas, and rubber boots for most of the summer. The October/November/December period was good. We were on plan. We saw the numbers bounce back up to where they were the prior year, actually a little bit above, and we saw margins improve significantly, up to 71 percent, which is excellent.

So we're seeing customers buying higher priced. Unit sales are staying about the same. And we're seeing the business bounce back. We had a lot of traffic because of the bad weather just didn't materialize down in Niagara. It was a very poor tourist season for everybody. And cross-border was down as well because of the weather. So the quarter was very good.

Bob Gibson

Excellent. Can we just talk about export sales? China in particular? Are you seeing any trends there? And what do you think, going forward, it's going to look like?

Murray Souter

Yeah. Yeah. We actually are—we just came out of some meetings with our largest distributor. Table wine sales continue to grow in that market strongly. We're seeing that in our shipments this year where we saw significant growth in table wine. The good news, and this is really a good long-term message for not only the industry but also for Diamond, is that table wine sales are going up because consumption is going up. So people, or actually the middle class over there, and we've talked about this in a lot of our analyst presentations, the middle class is now seeing wine as an accompaniment for meals. So they're consuming it.

Ice wine tended to be a bit more of a gifty kind of a thing, which is very important in the Chinese culture but not being consumed as much. It's consumed on special occasions, but table wine—so we're pleased to see the table wine consumption rising, and that will benefit us over the long term, and it's also why we're building out our capital to be able to supply them.

Bob Gibson

Okay. Great. Thanks so much.

Murray Souter

You're welcome.

Bob Gibson

Just on your LCBO, let's call it, restart. Are you focusing on any particular brands? Or what's your strategy?

Murray Souter

Yeah. Well, there's two things in there. One was the brands that we voluntarily delisted, which are now shipping back in; LCBO's taking them back in as they had promised. So as we bottle them out and get them in, a bunch of them went back on the shelves in Q3, and there's more going in in Q4. Those brands are—there's a couple of Dan Aykroyd brands, couple of our larger format, 1.5 litre EastDell and 20 Bees. So that group of voluntarily delisted products are going back in, which is certainly helping. You've got to fill up the pipeline and then restart sales.

On the promotional side, the promotional side is largely aimed at 20 Bees and EastDell. Those are our two big ones. The other brands still in, whether it be McMichael, Dan Aykroyd, fill in around those. And FRESH; FRESH really didn't have the inventory issues and has done well through the short-crop period.

And then with Lakeview, of course, Lakeview is targeted at vintages. So we've got a number of both seasonal and full year listings with Lakeview in the vintages section. So that's kind of the focus is EastDell and 20 Bees from promotional and velocity standpoint; the fill-in brands around opportunities as they come up, seasonal opportunities; and then Lakeview with vintages.

Bob Gibson

Okay. Thanks so much.

Murray Souter

You're welcome, Bob.

Operator

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

And your next question will from Vay Jonynas out of Hampton. Please go ahead.

Vay Jonynas — Hampton Securities Ltd.

This is Vay Jonynas, and I'm now with Hampton Securities.

Murray Souter

Well, congratulations, Vay.

Vay Jonynas

Yes. Different environment here. Much bigger company. You mentioned that you had a 13.7 percent market share in a grocery store channel in the fourth quarter.

Murray Souter

Correct.

Vay Jonynas

Was that 13.7 percent overall? Or was that 13.7 percent relative to other Ontario wineries alone.

Murray Souter

That would be overall.

Vay Jonynas

Overall. Okay. Secondly, is it proprietary information still about which new customer you gained for your Agency distribution business?

Murray Souter

I don't know.

Vay Jonynas

Can you name that customer?

Murray Souter

Sure. Well, yeah. We'll name the customer. It was Amsterdam Brewing.

Vay Jonynas

Amsterdam Brewing. Okay. Interesting. And they're based in Toronto, are they not?

Murray Souter

They are based in Toronto.

Vay Jonynas

Okay. Thirdly, Alberta, very temporarily until this morning, was putting an embargo on British Columbia wines. Did you see any increase in your Alberta business over that time period?

Murray Souter

No. As I say, we let the hounds loose. We let our Alberta reps and key account managers suggested—well, not suggested, but we marshalled the resources and went to get additional orders out of that channel. There wasn't enough gap. They were feeding off of their warehouse stock. So there wasn't a big enough supply shortage or supply stop to actually impact it, so we didn't see any impact.

Vay Jonynas

Okay. And finally, with respect to your Agency business, the Kirkwood Diamond Agency business, it seems to me it was operating fairly smoothly until about the spring of 2017 when I noticed in the numbers that perhaps things were not operating as smoothly anymore. Could a part of the reason have been that the Kirkwood management that you had acquired as a result of the acquisition about three years ago, were they retiring and leaving the business? Was that part of the problem, or?

Murray Souter

I'm not sure what you mean by—because the numbers have been pretty consistent. The president of that division did retire in Q3 just recently.

Vay Jonynas

Mm-hmm.

Murray Souter

But in May, he wasn't retired in April in May or whatever first of all. That's when we bought—we bought the division on May 5th.

Vay Jonynas

Mm-hmm. No. It's just that in the spring of 2017 compared to the spring of 2016, say I'm talking about a quarter from March 31st to June 30th, I noticed that in 2017, your sales were not up. And typically, if a company's sales are flat to down a bit, that's not a good sign. Everybody keeps looking at growth year over year.

Murray Souter

Yeah. Okay.

Vay Jonynas

And we stopped seeing it earlier this year.

Murray Souter

Yeah. No. I mean one of the things—that was part of the reason why we bought the agency was it had been growing and it stopped growing. So it wasn't that the numbers were down. Sorry. I thought you meant the numbers had gone down. No. It had stopped growth, and so that's why we stepped in and bought it. We wanted to consolidate from an efficiency standpoint, re-energize the organization, put new management in, which we've done. And now we're back onto growth.

Vay Jonynas

Okay. That's about it for now.

Murray Souter

Great. Thanks, Vay.

Alan Stratton

Thanks, Vay.

Operator

Thank you. Once again, ladies and gentlemen, if you do have any questions, please press *, followed by 1.

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

Murray Souter

Well, thank you, everybody. That concludes the call for this morning. Thank you very much for your interest in Diamond Estates. And Alan and I look forward to speaking to you again after the next fiscal year-end report. Have a great day.

Operator

Thank you, sir. 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. Have yourselves a great weekend.

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