Wine Trends & Sales at LCBO

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INSIGHTS Conference
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Market Overview
Sales of wine in Canada:

- Ontario: $2.2B
- Rest of Canada: $4.2B

Total: $6.4B

Source: Statistics Canada
LCBO holds 51.7% of Ontario beverage alcohol market

Ontario’s beverage alcohol market worth $10B

LCBO transferred $1.8B DIVIDEND to Government of Ontario for 2014/15

Net sales of $5.2B in 2014/15
LCBO
BY NUMBERS

654
Stores across Ontario

7,850
Employees

+130
Million Transactions Annually

3,200
Suppliers

7.8
Million Shoppers each Year

7.8
Million Shoppers each Year
150,000+ Facebook Followers

15,000+ Twitter Followers

1M+ Visits to LCBO.com
MERCHANDISING STRATEGY

Be the retailer of choice for beverage alcohol for customers of Ontario – with a focus on Spirits, VINTAGES and Craft Beer, while LCBO Wines and Beer drive turns and traffic.
Sales Trends
Retail in Ontario

- LCBO: 51%
- Retail: 36%
- Grocery: 29%
Sales by Business Unit

- **Vintages**: $0.5B, +7.2%
- **Beer & Cider**: $1.2B, +10.2%
- **Wine**: $1.5B, +4.1%
- **Spirits**: $2.1B, +5.1%

**Total**: $5.2B, +6.1%
Spirits
Wine
Beer & Cider

SKUs by Business Unit

Total 8,387

VINTAGES

4,248

1,023

1,634

1,482

Snapshot: January 4, 2016
Total Wine Sales

VINTAGES
$0.5B, 26%,
+7.2%

LCBO Wines
$1.4B, 74%,
+4.1%
LCBO & VINTAGES Wine Sales

- **Ontario Wine**
  - $447M, +7.1%

- **European Wine**
  - $663M, +2.6%

- **New World Wine**
  - $801M, +5.6%

Total = $1.9B
LCBO Wines Market Share Breakdown

- Ontario 30%
- Italy 17%
- California 13%
- Australia 12%
- France 8%
- Chile 6%
- Argentina 4%
- Spain 2%
- South Africa 2%
- Portugal 2%
- New Zealand 1.7%
- Germany 2%
- Other 1%
LCBO Wine Sales by Type

- **White Wine**
  - $613M, +5%

- **Red Wine**
  - $700M, +3%

- **Rosè Wine**
  - $45M, +8.5%
Ontario Market Overview
LCBO Ontario Wine Sales by Type

VQA Wines
$112M, 29%, +7.6%

ICB Wines
$269M, 68%, +7.4%

Non-VQA Wines
$11M, 3%, -1%
VQA LCBO Wine Sales by Type

- **Sparkling Wine**: $3M, +12.7%
- **Rosè Wine**: $2.7M, 0%
- **White Wine**: $57M, +7.3%
- **Red Wine**: $49M, +7.2%
VQA VINTAGES Wine Sales by Type

VINTAGES VQA
- Rosè: $1.5M, 7%, +10.5%
- White: $7.3M, 32%, -3.5%
- Red: $7.2M, 31%, +2.9%
- Icewine: $6.2M, 27%, +3.4%
- Sparkling: $0.7M, 3%, +9.9%
VQA Wines Category Growth

+17.3%  +14.4%  +9.8%  +4.9%  +4.4%  +0.6%  +7.5%  +3.8%

Millions

$0  $20  $40  $60  $80  $100  $120

ICB Wines Category Growth

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010/2011</td>
<td>+0.5%</td>
</tr>
<tr>
<td>2011/2012</td>
<td>+3.2%</td>
</tr>
<tr>
<td>2012/2013</td>
<td>+3.5%</td>
</tr>
<tr>
<td>2013/2014</td>
<td>+6.9%</td>
</tr>
<tr>
<td>2014/2015</td>
<td>+6.4%</td>
</tr>
<tr>
<td>2015/2016</td>
<td>+7.7%</td>
</tr>
<tr>
<td>2016/2017</td>
<td>+5.6%</td>
</tr>
</tbody>
</table>
LCBO Wines
Growth Rates by Category

- European Wines: +0.9%
- New World Wines: +4.3%
- ICB: +7.6%
- VQA: +7.4%
VINTAGES Wines Sales Trends by Type

- **Rosé**
  - VQA: 5%
  - Imported: 25%

- **White**
  - VQA: 0%
  - Imported: 7%

- **Red**
  - VQA: 3%
  - Imported: 7%
Direct Delivery Program helps to Drive Regional Sales in Key Markets

- **VQA Enhancement**
  - $1.39M
  - +10%

- **EPIC**
  - $285,000
  - +114%

- **PEC**
  - $389,000
  - +32%
OWC Boutique VQA Sales

**Total OWC Boutiques**
+6.4%

**Total LCBO**
+5.8%
Ontario Wines are Expected to Finish 2015-16 +$31M

- ICB: +7.7%
- VQA WINES: +7.5%
- VQA VINTAGES: +7.4%

TOTAL ONTARIO WINES NET SALES $430M, +7.6%
2016-17 Sales Outlook
VQA is Poised for Continued Growth!

ICB: +5.6%
NON-VQA: +2.2%
VQA WINES: +3.8%
VQA VINTAGES: +3.0%

TOTAL ONTARIO WINES NET SALES $449.8M, +4.8%
Price
Bands

Bands

Bands
Corporate Average Retail Price for Wine by Country

- South Africa: $12.45
- Ontario: $13.33
- Australia: $14.26
- France: $14.89
- Italy: $15.10
- Spain: $15.61
- California: $15.83
- New Zealand: $18.59
Average Purchase Price of Wine at LCBO

ICB Wines: $7.54
VQA Wines: $13.25
VINTAGES VQA Wines: $31.56
European Wines: $14.76
New World Wines: $11.61
VINTAGES European Wines: $27.07
VINTAGES New World Wines: $29.95
LCBO & VINTAGES Wines Price Band Trends

-4.6%  +3.1%  +4%  +4.9%  +15.4%  +8.2%  +3.4%  +4.4%  +5.5%

$0  $50  $100  $150  $200  $250  $300  $350  $400  $450

<$8.00  $8.00 - <$10.00  $10.00 - <$12.00  $12.00 - <$15.00  $15.00 - <$20.00  $20.00 - <$25.00  $25.00 - <$30.00  $30.00 - <$40.00  $40.00+
ICB Price Points

< $8.00 (55% of sales)  
$8.00 - $10.00 (37% of sales)  
$10.00-$12.00 (8% of sales)  
$12.00-$15.00 (<1% of sales)

Per 750ml bottle

+2.8%  
+15.9%  
+6.3%  
+7.7%
LCBO VQA Price Points

$8.00-$10.00 (5% of sales)  
-8.0%

$10.00-$12.00 (18% of sales)  
+3.4%

$12.00-$15.00 (65% of sales)  
+13.7%

$15.00-$18.00 (10% of sales)  
+15.4%

$18.00-$20.00 (2% of sales)  
+16.1%

Per 750ml bottle
VINTAGES VQA Price Points

< $18.00 (28.9% of sales)  -8.5%

$18.00-$20.00 (21.3% of sales)  +12.8%

$20.00-$25.00 (13% of sales)  +4.4%

$25.00-$30.00 (3% of sales)  +17%

+ $30.00 (34% of sales)  +1.5%

Per 750ml bottle
Trends & Insights
The Ontario Customer’s Preferences

- Red: $56M, 42%
- White: $70M, 52%
- Rosé: $4.3M, 3%
- Sparkling: $3.4M, 3%

Share: +1%
Customer VQA Favourites!

- **Riesling**
  - +3.5%
  - $18M

- **Chardonnay**
  - +5.3%
  - $14M

- **Baco Noir**
  - +15%
  - $7.3M

- **Pinot Noir**
  - +7%
  - $7M
Shopping for “My Wine”

✓ Know where it is in the store, like the taste, no surprises

✓ Plan to buy some of their intended wine here but usually not all of it
Exploring Other Wines Close By

✓ Within the same country section will briefly look for additional wines

✓ Influenced by price, our customer loyalty program, or other feature tags but must be similar to the type of wine they usually buy
Exploring New Wine

✓ Outside of their “My Wine” section, many wanted to explore new wines that they had read about, seen at a restaurant or had recommended to them by friends.

✓ The label style, the section and the promotional suggestions were helpful here.
Exploring New Wine

✓ Many preferred to do this exploration in Vintages because there was more information available

✓ Many lacked confidence in exploring new wine regions as it was expensive and they had made mistakes in the past
Five Game-Changing Trends

- Premiumization
- Fragmentation
- Flavours
- Diversity
- Health & Wellness
What Customers are Looking for

- Aroma
- Taste
- Structure
- Texture
- Depth
- Length
- Concentration
LOOKING
Down the Beverage Aisle
I favour having nutrition labels on alcohol products — 65%
I would pay attention to the calorie count — 58%
It could likely impact my choice of alcohol products — 47%
It would impact the quantity I drink — 41%

% Who said Strongly or Somewhat Agree

Base: Consumers 21+ who drink wine at least several times a year
Source: Neilson Study of Nutrition Labels on Alcohol Products conducted via the Harris Poll QuickQuery (May 12-14, 2015)
Fragmentation will continue as “new” continues to explode concurrent with (younger) consumer interest in exploration.

- **Beer**
  - Percentage of Category Volume: 13.4%
  - Percentage of Category Items: 26.6%
  - ~3,600 new items

- **Wine**
  - Percentage of Category Volume: 5.6%
  - Percentage of Category Items: 18.5%
  - ~4,600 new items

- **Spirits**
  - Percentage of Category Volume: 6.2%
  - Percentage of Category Items: 15.0%
  - ~2,200 new items

Source: Neilson
Age Matters—Particularly for Wine & Beer

“Approximately how many different brands have you purchased in the last year?”

<table>
<thead>
<tr>
<th>WINE</th>
<th>SPIRITS</th>
<th>BEER</th>
</tr>
</thead>
<tbody>
<tr>
<td>All 21+</td>
<td>All 21+</td>
<td>All 21+</td>
</tr>
<tr>
<td>19%</td>
<td>5%</td>
<td>15%</td>
</tr>
<tr>
<td>14%</td>
<td>28%</td>
<td>11%</td>
</tr>
<tr>
<td>24%</td>
<td>60%</td>
<td>26%</td>
</tr>
<tr>
<td>43%</td>
<td>9%</td>
<td>48%</td>
</tr>
<tr>
<td>23%</td>
<td>5%</td>
<td>18%</td>
</tr>
<tr>
<td>17%</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>22%</td>
<td>56%</td>
<td>29%</td>
</tr>
<tr>
<td>39%</td>
<td>10+</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Nielsen survey of Brand Purchasing conducted via the Harris Poll QuickQuery (Feb 12-17, 2015)
Survey base: consumers 21+ who purchases category at least several times a year (total U.S.)
The “High End” leads the way in Growth

Dollar % Change vs Year Ago

- Total Category
- Lower End
- Higher End

<table>
<thead>
<tr>
<th>Category</th>
<th>Total</th>
<th>Lower</th>
<th>Higher</th>
</tr>
</thead>
<tbody>
<tr>
<td>Beer/FMB/Cider</td>
<td>42%</td>
<td>0%</td>
<td>56%</td>
</tr>
<tr>
<td>Wine</td>
<td>49%</td>
<td>0%</td>
<td>56%</td>
</tr>
<tr>
<td>Spirits</td>
<td>56%</td>
<td>2%</td>
<td>56%</td>
</tr>
</tbody>
</table>

Source: Nielsen Total U.S. All Outlets (xAOC + Liquor Plus + Conv + Military); 52w/e 3-28-2015

Average Price Change
“Why has your consumption of beer decreased in the past 12 months?”

<table>
<thead>
<tr>
<th>Top Reasons for Consuming Less Beer</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Opting for a healthier lifestyle</td>
<td>39%</td>
</tr>
<tr>
<td>Cutting back with older age</td>
<td>31%</td>
</tr>
<tr>
<td>Cutting back on expenses</td>
<td>29%</td>
</tr>
<tr>
<td>Cutting back on calories</td>
<td>26%</td>
</tr>
</tbody>
</table>

**Drinking more Wine**

<table>
<thead>
<tr>
<th>Top Reasons for Drinking more Wine</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prefer the taste</td>
<td>52%</td>
</tr>
<tr>
<td>Pairs better with food</td>
<td>45%</td>
</tr>
<tr>
<td>Better for my health</td>
<td>43%</td>
</tr>
<tr>
<td>More suitable as I age</td>
<td>38%</td>
</tr>
</tbody>
</table>

Health resonates for wine as a beer fighter
Today’s wine drinkers are diverse.

Frequent wine drinkers stick to what they know.
Common Fears among Wine Drinkers

- Mispronouncing a wine’s name
- Being asked to “taste” wine at a restaurant
- Talking about wine with others
- Being judged by others for the selection made
Ban Baffling Wine Language

Less than 5% of people use “vegetal, hollow, herbaceous, unctuous, terroir, or legs” to describe wine.

Between 10-20% use “quaffable, tart, nose, or bouquet” to describe wine.

Primary reasons for reluctance to experiment with wine:
Lack of Inspiring Products & Knowledge of How it Tastes

Source: 14 Dec 2015, By Matthew Lyons, Harpers UK
Wine Drinkers use of Beer & Spirits

- Wine Only: 19%
- Wine & Spirits: 19%
- Wine & Beer: 20%
- Wine & Spirits & Beer: 42%
Ontario Craft Distilleries: +2.3%
Ontario Craft Beer: +39.4%
VQA Wine: +6.3%
Up, Up, Up, Down

- Under $10 bulk category
- Over $10 growth (4-8%)
- Over $20 growth (9-13% with imported ranking highest)
- SVB 2016 Study: US wine consumption to decrease after 20 years of growth
Aging: Colour Matters
Closures Matter
Demographics
Wine Drinkers by Generation

- Millennials: 36%
- Gen X: 18%
- Baby Boomers: 33%
- 70+: 12%
Millennials versus Baby Boomers
49%
The increase in time spent with digital media in the US between 2013 and 2015

Average Age Distribution across Social Networks

- 0-17: 15%
- 18-24: 8%
- 25-34: 19%
- 35-44: 26%
- 45-54: 20%
- 55-64: 9%
- 65+: 4%
In the US, reservations for solo diners have grown by 62% in the past two years, making dining solo the fastest growing table party size.

WHAT WE NEED FROM YOU
Support LCBO programs and new initiatives

Varietals and styles Ontario does best

Come prepared with an exit strategy

New products that offer exceptional price/value
Opportunities for Great VQA Wines

Continue to grow share in premium price bands

Ripe, round Ontario Reds!

Increased opportunities for smaller production wines
Top 3 Things to Remember

VQA GROWTH is an LCBO priority!

ENGAGE CUSTOMERS through an enhanced in-store customer experience!

OPPORTUNITIES for quality wines in LCBO and VINTAGES that over deliver!
It’s a hard market—don’t give up!

Target & Engage

Persistence & Relevance

Smart Phone Smarts

Strategies that Work
“Price is what you pay, value is what you get.”
-Warren Buffett

Thank you!

LCBO