



Valuing the precious present stock

Calculating insurance levels for wine in process

According to Norwegian sagas, Viking explorer Leif Ericsson discovered grapes when he landed on the American continent around 1001 AD. Hundreds of years later, Johann Schiller made good use of those grapes. As a retired German corporal, he was given a land grant just west of Toronto and in 1811 planted a small vineyard from cuttings of wild vines from along the banks of the Credit River. Schiller made wine from these early domesticated grapes.

Today there are over 700 licensed wineries in nine Canadian provinces with the majority of production coming from Southern Ontario and B.C. In the alcohol beverage sector, wine ranks second in terms of economic value of production; after brewery products, table wines constitute the largest segment of the market, by a slight margin over distilled spirits.

According to Statistics Canada, grapes destined for production (nearly all used in wineries) were 86 thousand metric tonnes in 2022.

As the industry has grown, the “typical” Canadian winery has become a very sophisticated and large business often with both domestic and international sales and as such the risk profile has changed dramatically.

There are over 11,000 acres of grapes planted in the Niagara region of Ontario alone and each winery usually includes production facilities as well as tasting areas and space to host large events. These are multi-million-dollar facilities.

Not only have the values of the buildings and contents increased dramatically over the years but the wine in process (stock) has also increased as the wineries have grown in size and improved the quality of their product.

Stock is a critical issue for wineries since the production of wine can take months or even years to complete and the value of wines in process increases with each passing day.

At Signature Wine, we recognize that just as a golf course is the most important asset to a golf club, it is the wine that matters most to a winery. We have created the most comprehensive valuation and replacement options for wines in process.

It is not uncommon to see wineries with stock limits over \$25 million dollars as reported by the winery. However, when we drill down, we usually discover that the values are based on full retail selling prices and are not the proper representation of the true exposure to the winery. When we receive a new submission, we break the stock component down into two parts: the value of stock by month and the various distribution channels where the wines will eventually be sold.

Monthly value of stock

Throughout the year as wines are finished and shipped or sold, the values of stock remaining at the winery will fluctuate. There can be swings of \$1 million dollars or more from month to month and these changes must be identified in order to determine a proper value for insurance purposes. From a risk management perspective it is the average monthly value that should be utilized as opposed to the highest (or lowest) month.

Looking at a monthly stock summary for fictional winery, Justin Bieber Estates, the total value of stock ranged from \$28.8 million in September up to \$49.6 million in November which is a spread of nearly \$21 million dollars

Month	Bulk L.	Retail	Bottled L.	Retail	Total Retail
Jan	850 k	\$34 m	210 k	\$10.5 m	\$44.5 m
Feb	820 k	\$32.8 m	201 k	\$10 m	\$42.9 m
Mar	810 k	\$32.4 m	175 k	\$8.75 m	\$41.2 m
Apr	780 k	\$31.2 m	175 k	\$8.75 m	\$40 m
May	778 k	\$31.1 m	175 k	\$8.75 m	\$39.9 m
June	670 k	\$26.8 m	185 k	\$9.25 m	\$36 m
July	630 k	\$25.2 m	220 k	\$11 m	\$36.2 m
Aug	540 k	\$21.6 m	248 k	\$12.4 m	\$34 m
Sept	468 k	\$18.7 m	202 k	\$10.1 m	\$28.8 m
Oct	440 k	\$17.6 m	235 k	\$11.8 m	\$29.4 m
Nov	965 k	\$38.6 m	221 k	\$11 m	\$49.6 m
Dec	945 k	\$37.8 m	201 k	\$10 m	\$47.9 m

over the course of two months. In order to properly cover the stock at Mr. Bieber's winery we could either choose the highest value month or we could average out the limits over 12 months. We prefer to average out the 12 months when underwriting because we believe this gives a better picture of the winery's assets at any given point and this way the winery is not being charged a premium on a high dollar amount which might only be achieved for a few days of the year.

In this example, the average monthly stock value is \$39.2 million which is \$10.4 million below the largest month (November) and nearly \$11 million larger than the lowest month (September).

Distribution Channels

Canadian wineries typically have four distribution channels for wine sales: wholesale, direct-to-consumer, direct-to-restaurants and export markets.

It is important to break down the annual sales for each of these categories to apply the right selling price to the wine.

For example, if Mr. Bieber sells a bottle of wine to a customer visiting his winery, he might get \$25.00; however, he will likely only get \$10 to \$12 dollars for the same bottle of wine sold through a large distributor such as the LCBO in Ontario or through the Liquor Distribution Branch (LDB) in B.C.

Most wineries sell the majority of their production through a large distributor and therefore the valuation calculation should be based on the wholesale price that the winery receives from the distributor and not the final retail selling price. The remaining markets are usually much smaller by volume for wineries however they can be a meaningful part of the overall revenue because the margins are so much better.

Breaking down the annual production by month and applying the right selling price gives a realistic limit that will properly protect the winery. In our example we see that a winery with retail stock values as high as \$46 million would likely only require a limit of insurance in the \$18 million dollar range to be fully and properly protected.

There is a lot of thought that must go into underwriting a winery. In addition to setting limits on the buildings and contents, setting a limit for wines in process or stock is a critical factor that must be addressed carefully. ■

James Grant provides custom commercial insurance services for niche markets across Canada as the president and CEO of Signature Risk Partners Inc., which he co-founded in September 2006.