

Gaetjens Pickett Valuers

Wine industry specialists



Gaetjens Langley

Wine industry brokers and advisors

# VALUER & BROKER

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## OUT OF THE ASHES

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EXPERIENCE · KNOWLEDGE · RELATIONSHIPS

# ASSET WATCH



## PARITY PITFALLS

The high Australian dollar is impacting on Australian wineries in two ways: less competitive price points in key export markets, especially the US, UK and Europe, which means a crash in sales or further discounting to keep wines on hard won shelves; and more competitive imports of European wines to Australia, swinging consumers to try French, Spanish and Italian varietals instead of the homegrown product. McLaren Vale winemaker, Stephen Pannell, was reported recently as saying that Australia is now a net importer of European wines over \$20, leading him to ask Australian consumers to “drink local” in January. You can take the pledge by visiting [allforonewine.com](http://allforonewine.com) V&B

## PROTECTING THEIR PATCH

Don't let the bypass crush our community



In an unprecedented step, Treasury Wines Estates has become the flag bearer for disaffected Coonawarra winemakers and growers protesting a local government road development in the region. Running full page advertisements in key wine and lifestyle media pointing consumers to a comprehensive website, this must be a first for a global corporate who are usually on the

receiving end of development protests. The battle is over a proposed heavy vehicle bypass of the township of Penola (now a new Mecca for Saint Mary McKillop pilgrims). Treasury argues Coonawarra's 15 km long by 2km wide strip of terra rossa is irreplaceable and valuable vineyard land will be lost forever unless a compromise can be reached. Classic vineyards which appear to be directly or indirectly under threat include Wynns, Zema, Katnook, Bowen, Yalumba, Hollick and Parker. Visit [www.heartofcoonawarra.com](http://www.heartofcoonawarra.com) to show support. V&B

## CK LIFE SCIENCES MAKES BID FOR CHALLENGER WINE TRUST

The ASX listed Challenger Wine Trust (CWT) has received a bid from highly respected Hong Kong based CK Life Sciences International of 24c per unit. The Challenger Wine Trust is Australia's second largest vineyard owner behind the Foster's group and also owns substantial holdings in New Zealand. The offer of 24c per unit, which is subject to shareholder approval, values the vineyard portfolio at an average of \$42,000 per planted ha. A vote on the offer is expected to be put to shareholders early in 2011. Gaetjens Pickett Valuers provided consulting advice to the bidder. V&B

## CASELLA EXPANDS VINEYARD PORTFOLIO

Australia's largest family wine business, Casella Wines, has expanded its presence in Wrattenbully acquiring 250 hectares of mature vineyards. Seizing the opportunity to purchase former Constellation and Foster's properties, the move comes on the back of the company's Jimmy Watson Trophy win in 2004 with its 2003 Yellowtail Premium Cabernet Sauvignon sourced from Wrattenbully. Casella's annual crush is now 180,000 tonnes or over 10 % of Australia's harvest and sales top 11 million cases. As well as sourcing fruit from its engine room in Griffith, the company buys fruit from 32 other regions including Orange, the Adelaide Hills, the King and Alpine Valleys, Bendigo, Langhorne Creek, Wrattenbully and Padthaway. V&B

## 2011 VINTAGE REPORT

The 2011 vintage is shaping up to be one of the most difficult in 20 years.

After many years of drought and heatwave conditions in November, this year has been a huge wake up call across much of South Eastern Australia. The cool and wet conditions are providing many challenges for vineyard managers and there may be worse to come. There have already been outbreaks of downy mildew in the Riverland, Sunraysia and Riverina, with some affected areas reporting severe damage. With significant rainfall forecast in many regions leading up to harvest, meeting quality standards is shaping up to be a key determinant of what fruit will get harvested, the volume of uncontracted fruit available, and spot market prices.

Leading into the growing season, very few in the industry were expecting grape prices to increase in 2011, when compared to 2010. Demand for chardonnay does appear to be firming after big depletions in bulk wine inventories and the light 2010 crop, but there is very little tension on the supply side. Shiraz is the variety in greatest oversupply. If wide spread disease outbreaks do cause significant crop losses and fruit rejection, there is the potential for more uncontracted fruit to get picked and the opportunistic spot market prices to firm. Growers will need every bit of help they can get as vineyard management costs will be up significantly in 2011 to account for the additional spraying and slashing required.

As for the size of the crop, it's a matter of wait and see. V&B



# CURRENT OPPORTUNITIES

## WANTED TO BUY

Warm climate vineyards  
 Complete packaging lines  
 Joint venture winery and brand investments  
 Vineyards on a sale and leaseback basis

## FOR SALE

## VINEYARDS SOUTH AUSTRALIA

Adelaide Hills  
 Coonawarra  
 McLaren Vale  
 Padthaway  
 Riverina, NSW

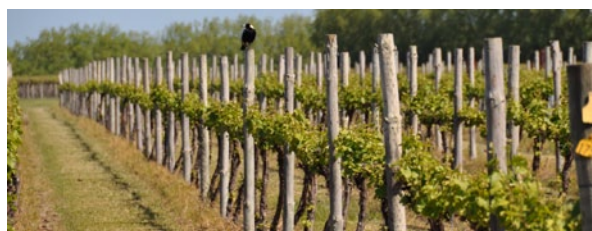
## BRANDED WINE BUSINESSES

Barossa Valley, SA  
 Frankland River, WA



### Chateau Yaldara BAROSSA VALLEY, SA

- Fully integrated wine business including:
  - 10,000 tonne + winery including 12 million litres of stainless storage;
  - Attractive chateau style cellar door, private tasting areas and bistro;
  - 57 hectares of vineyard, some dating back to 1960;
  - Extensive warehousing, barrel storage, offices and equipment storage;
  - Former reception centre and three residences.
- A multi faceted production and tourism property in Australia's most famous wine region.  
 For sale by expressions of interest.



### Yates Vineyard COONAWARRA, SA

- 28.86 ha property;
- 25.16 ha of vineyard planted to merlot, chardonnay and pinot noir.



### Richings 2 Vineyard COONAWARRA, SA

- 69.43 ha property;
- 59.26 ha vineyard planted to cabernet sauvignon, shiraz and merlot.



### Chapel Vineyard COONAWARRA, SA

- 29 ha of cabernet sauvignon, planted in 1997;
  - 2 titles with a total area of 36.98 ha.
- For sale by Expressions of Interest.



### Pindari Vineyard ADELAIDE HILLS, SA

- Located at Macclesfield approximately 43 km from Adelaide.  
 The 35.21 ha property includes 23.34 ha of vineyard.
- A superb 4 bedroom homestead with swimming pool, 4 bathrooms and a sauna;
  - Ongoing grape sales to several prestigious wineries;
  - Separate vineyard manager's residence;
  - Extensive shedding for farm equipment.

### Securely leased, iconic McLaren Vale property

- Cellar door, restaurant and visitor accommodation;
  - Finished goods warehouse and offices;
  - 25 hectares of vineyard;
  - 34 hectares of land on three titles.
- A high yielding and strategic property investment

Check [WWW.WINERYFORSALE.COM.AU](http://WWW.WINERYFORSALE.COM.AU) for more details

# OUT OF THE ASHES

*When the dust finally settles on the Australian wine industry after the rolling earthquake of oversupply and lost market share, which regions will be the first to rise from the ashes – and, therefore, where will canny investors go?*

According to Toby Langley, this conversation was not happening even 12 months ago with the GFC raging, debt capital almost unprocurable from gun shy banks, and the Australian wine industry at its lowest ebb in two decades. Vineyards were as popular as Kabul hobby farms.

“But there has been, and always will be, a vibrant Australian wine sector,” Toby said. “We are finding that buyers are already beginning to queue up in expectation that the bottom of the cycle is about to be reached... and there are certainly some almost embarrassingly affordable buys.

“In a new marketing era, in which the regionalisation message is expected to take over from generic brand Australia, which of Australia’s 64 regions represents the best long term investment? Who will be the winners from restructure and who will be the losers?”

Not surprisingly, the Barossa, which is still widely regarded as the only internationally known Australian appellation, continues to attract interest but the inflated days of \$100,000/hectare are gone according to Sam Holmes, CEO of Barossa Grape and Wine.

“Prices have certainly stabilised, and rightly so - that sort of money probably wasn’t sustainable,” Sam says.

“Good vineyards that have come on the market in the last 12 months have sold very quickly and quietly and for good dollars”.

A small winery building and 1.6 hectares of iconic grenache and mourvedre previously owned by French garagiste winery, Colonial Estate, was purchased by Teusner Wines to add to their premium portfolio.

Elderton acquired Colonial’s other vineyard at Greenock.

“But overall, Barossa vineyards are still held tightly by local families and there is not a lot on the market,” Sam said.

For a region which has outlasted every other industry downturn in the past 160 years, these seem to be sensible strategic purchases but, after the amazing prices of the 1990’s when a bottle of Barossa shiraz with a short provenance fetched anywhere between \$600 and \$800, wineries have dropped back to more conservative stratospheres and, for many, \$50/bottle in a retail store is a victory.

“I hate seeing \$9 bottles of Barossa shiraz in the paper, but that is reality. In the current climate, you can buy cheap grapes and make wine to hit those price points.

“Barossa shiraz growers need around \$1,200 per tonne to break even. Below that, it is not sustainable. I would say the last two years growers have been covering costs - maybe not much more than that on the younger shiraz vineyards (there were 3,458 hectares of shiraz planted in the last 10 years).

“We also dominate international lists such as the Wine Spectator Top 100, with two wines in the top ten, and four of six Australian wines in the top 100. People will say points don’t matter and that this is subjective but, quite simply, a listing here means boxes on the water and commercial outcomes.

“Ask any sales rep what they would want to carry in their bag and a Barossa shiraz will be one of them. Why? Because its name sells.

The region which Sam Holmes, and most other winemakers in Australia, respect the most at the moment is Tasmania.

Former Constellation Public Relations Manager, Sheralee Davies, landed the plumb job of Chief Executive Officer of Wine Tasmania six months ago and she describes the mood as one of restrained excitement.

“We are certainly in a more favourable situation than any mainland wine region in Australia,” Sheralee says.

“In Tasmania, demand outstrips supply and we aim to keep it that way.

“We contribute just 0.5% of national production (total crush in 2010 was 7,338 tonnes compared with 61,000 tonnes in the Barossa and 15,500 tonnes in the Yarra Valley) and we have the highest average grape price in the country of \$2,520/tonne.”

Sheralee says small production has also insulated Tasmania against the export crash.

“We only export about 8% of production and the value is more than \$11 per litre against the national average of \$3.24 per litre in 2008/09.

“We sell more than 60% of production to either locals or tourists visiting the island. Tourism is particularly important, with close to one in five of all Tasmanian tourists visiting a cellar door during their stay in 2009.

“The other 30% is mainly sold on-premise, in fine dining restaurants in Melbourne and Sydney where margins are good. We just don’t have the cost of production to compete in the chains.”

Despite the high costs of producing wine in Tasmania, there is still growing investment by mainland wineries (Brown Brothers paid \$32.5 million for Tamar Ridge a few months ago and Foster’s (Heemskerk), Yalumba (Dalrymple, Jansz) and Piper’s Brook are well entrenched).

So how will Wine Tasmania control what is obviously the new “hot” cool climate spot?

“Our focus is very much on maintaining our value proposition, growing demand ahead of supply, whilst encouraging targeted and strategic investment,” Sheralee says.

“We work closely with the Tasmanian Department of Economic Development to attract the right investment in the wine sector and provide



information based on an investor checklist. We want to build a really strong platform for sustained future investment - we're very aware of the New Zealand experience.

"Having said that, Tasmania is the size of the UK with just 500,000 people. There is room for expansion providing we can build the market." With the added advantage of specialising in the hottest varietal wine styles in the world - pinot noir and

chardonnay as sparkling or table wine – and a closely honed sympathetic relationship with the clean, green food industry, Sheralee is now working on a marketing strategy to be launched next year.

"Tasmanian fruit contributes to many of Australia's top wines such as Penfolds Yattarna and Eileen Hardy chardonnay, but there hasn't been enough marketing of Tasmanian branded wines.

"We see plenty of potential."

According to Mike Calneggia, a grower, winemaker and consultant from Margaret River, the vineyard and winery market in Western Australia can be characterised as "erratic".

"Sure there have been a number of high profile asset sales by corporations and Managed Investment Schemes. However, each of these "forced" or "restructuring" sales are fairly isolated and not typical of market conditions. In fact, there has not been a significant winery

sale in Margaret River since McWilliams purchased Evans and Tate in 2007/2008."

Recent vineyard transactions that have not been a "forced" or "restructuring" sale have returned between \$35,000 (low) to \$75,000 (high) per planted hectare. It is also true that values are stronger in Margaret River than in any other part of the state.

We are seeing some pressure starting to emerge in businesses with higher gearing levels as banking facilities come up for review. With valuers erring on the side of caution when valuing for bank purposes, there is an unintended consequence of placing greater pressure on businesses at a time when they just can't reduce debt.

The other interesting issue is the area of vines that have been removed or "mothballed" for vintage 2011. This number is difficult to quantify. However, anecdotally, the number appears to be around the 2,000 to 2,500 hectare mark, representing approximately 20% of all bearing vineyard area. This is certain to have a significant impact on volumes from the 2011 vintage and should assist in restoring some supply balance.

On the other side of the ledger, some of Australia's adolescent wine regions are unlikely to reach adulthood, according to Toby Langley.

Despite their pretensions as wine regions in the 1860's and 1870's, Gundagai (around 1,000 ha of shiraz and chardonnay planted alongside the Murrumbidgee River since 1990), Cowra and Mudgee are only recent entrants to the very competitive regional wine market and now they look as though they will return to being grazing or cropping centres.

"Challenger Wine Trust, one of the country's largest vineyard owners, sold its 240 ha Gundagai Vineyard in September for around \$1 million excluding water. This is land value only," Toby said.

Another 173 ha of developed vineyard offered in 2006 for \$35,000/ha fetched just \$1.3 million or \$7,500/ha - land and water value."

He said Cowra is no better.

"A vineyard of 309 ha planted sold for \$1.5 million or \$4,800/ha - this again represents just water and land value.

With an abundance of fruit in more established regions, large scale vineyards in these particular regions are proving to be uneconomic, hence the huge revaluation. V&B

## RETURN ON INVESTMENT

### 2010 Australian Grape Price Dispersion:

#### By Region

- #1 Tasmania  
- 96% of all grapes sold at average \$2,520
- #2 Mornington Peninsula  
- 60% of all grapes sold at average \$2,303
- #3 Yarra Valley  
- 21% of all grapes sold at average \$2,313

#### Chardonnay By Region

- Tasmanian Chardonnay  
- Weighted average purchase price \$2,442
- Mornington Peninsula Chardonnay  
- 76% sold at average \$2,123

#### Pinot Noir By Region

- Tasmanian Pinot Noir  
- Weighted average purchase price \$2,606
- Adelaide Hills Pinot Noir  
- Weighted average purchase price \$1,219

#### Riesling By Region

- Tasmanian Riesling  
- Weighted average purchase price \$2,723
- Eden Valley Riesling  
- Weighted average purchase price \$1,072

(Source: AWBC)

# LUXURY OUTLOOK

Forget terms such as premium or super premium - the new name for high-end wines is "luxury" and, according to the latest research, it is a category which Australian wine companies are finding it increasingly hard to compete in.

Presenting her latest consumer research at this year's Wine Outlook Conference in Melbourne in October, Lulie Halstead from Wine Intelligence UK said Australia may need to refocus its sights on the category called contemporary luxury (US\$15-\$24) rather than traditional luxury (US\$24 plus) if it wished to remain a viable international wine player.

Luxury wines are defined by terms such as heritage, provenance, handcrafted, critical acclaim, family history, rarity and ethical responsibility

"Just 3% of the market in the UK and 5% in the US spend more than \$25 or £10 on a bottle of wine. It is a rarified and very competitive category which continues to be dominated by France.

"On the other hand, contemporary luxury is a bigger category - around 20% of consumers - and this is where Wine Australia should be aiming its promotional campaigns."

The Wine Industry Outlook Conference, which has been sponsored by Gaetjens Langley since 2003, provided a sober view of the Australian wine sector but, according to Toby Langley, there were a few positives.

"We're very proud of our association with this important event that encourages open discussion and provides valuable information to assist everyone in the industry to make the right business decisions in both good times and bad," Toby said.

Toby said he was particularly heartened by the presentation from John Gillespie, Wine Opinions which reported on US wine market growth.

"Although the US wine market, like the rest of the economy, is depressed and consumers are trading

John Gillespie



down, there is a long term trend of increased wine consumption, which is encouraging.

"Consumption frequency, especially among wine drinkers who enjoy wine several times a week, has increased by more than 8% in the last ten years and total table wine sales have increased by more than 30% in that same period.

"It is also encouraging that the Millennial generation (aged 16 to 33) is the fastest growing wine consumption segment, outstripping consumption from the rapidly aging Baby Boomers.

"The challenge is that there is still a strong preference by US consumers for their own domestic wines (around 65% of sales) and of imported wine, purchases from France and Italy continue to dominate.

"Australia is too frequently categorised as similar to Argentina, Chile and New Zealand, which means future marketing needs to strongly differentiate the Australian proposition." W&B

*For more information about Outlook or a copy of the key presentations contact Toby Langley.*

## INTRODUCING: Stacey Pavljuk Office administrator/Personal assistant

**Background:** With a background spanning several industries, from sales to administering estates, I took a voluntary redundancy just over 2 years ago from Australian Executor Trustees, not knowing where I was going to go next and never dreaming of working in the wine industry only a month later. Since working with Gaetjens Langley and Gaetjens Pickett Valuers, I have relished the many challenges thrown my way, and have gained invaluable knowledge with regards to business administration, office procedures and, of course, wine.

**Family:** I come from a large, mixed family, having 4 brothers and 2 sisters, ranging in age from 5 to 17, and a large Ukrainian stepfamily. I live with my fantastic fiancé, Jarrod, and 6 year old Kelpie puppy, Kava, so family life and wedding plans tend to keep me fairly busy.

**Hobbies:** I love nights out with the girls, as much as I love travelling to new places (That's me feeding elephants in Knysna, South Africa). A country girl at heart, I enjoy going away and relaxing as much as I can. Reading and cooking are my two favourite "around town" hobbies.

**Wine:** My wine tastes left a lot to be desired until a few years ago, when my friends gently encouraged me to start drinking other varieties than "cheap bubbly" as they would call it. Some of my most memorable times have been spent wine tasting in Clare Valley or South Africa on a trip in 2008. While working for Gaetjens, my tastes have developed further and favourites now include riesling and viognier, but I still tend to order the least known wine on the list to further expand my tastes. W&B

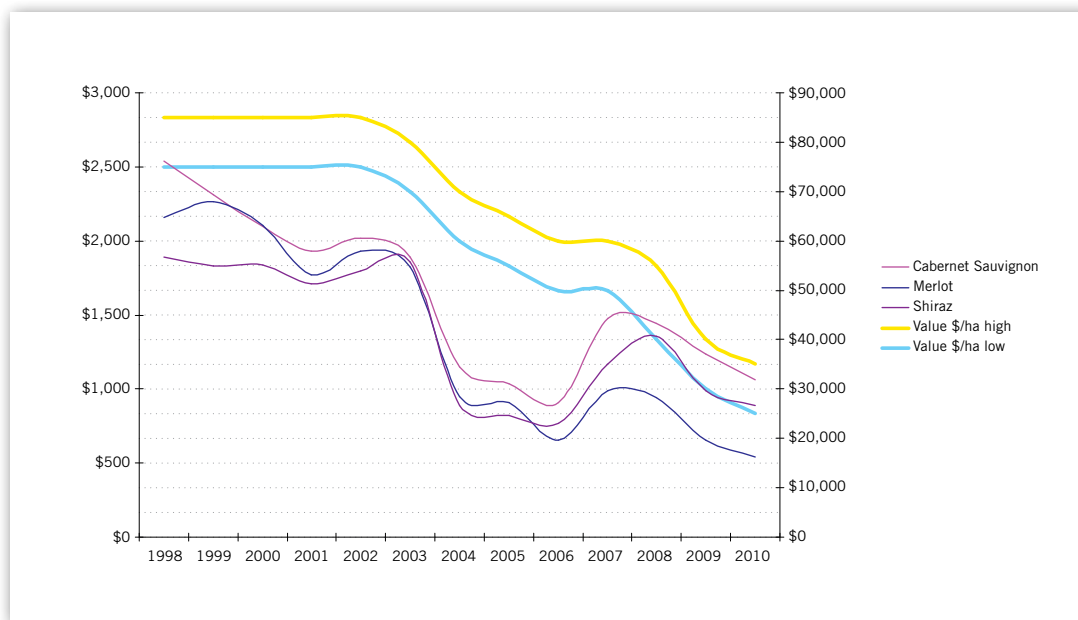


Lulie Halstead



# REGIONAL PROFILE

## THE COONAWARRA: CABERNET KING



*“Whatever yardstick one adopts, Coonawarra produces most of Australia’s great cabernet sauvignon. These wines cover a broad spectrum of individual fruit flavours, ranging from blackcurrant to plum to red cherry to prunes, always with elegance. Notwithstanding the impact of oak tannins, the wines are seldom astringent or tannic, and indeed Coonawarra winemakers invest much effort in extracting every last grain of available tannin.”*

– James Halliday’s Wine Atlas of Australia.

### REGIONAL STATISTICS:

	Coonawarra	Margaret River	Napa Valley	Bordeaux	Rioja
Vineyard Area (ha)	5,734	5,500	12,000	51,000	49,776
Altitude (metres)	59	90	40	47	460
Heat degree days, Oct-Apr / May-Sept	1,337	1,529	1,499	1,392	1,386
Annual Rainfall (mm)	628	1,192	**1,198	833	392
Mean January/July temperature (°C)	19.3	20.0	19.1	20.5	21.3

Source: Viticulture & Environment – J Gladstone; \*\*www.napanow.com;

### OVERVIEW:

Coonawarra in South Australia’s Limestone Coast has a history of grape growing, dating back over 100 years. The region is approximately 380 km from Adelaide and 420 km from Melbourne and is home to some of Australia’s most famous wine brands. Its flagship wine, cabernet sauvignon, accounts for 50% of its annual production. The region has 24 cellar doors and its best known wineries include Wynn’s Coonawarra Estate, Majella, Balnaves, Parker, Zema, Hollick and Bowen.

### PROPERTY VALUES:

Despite its history and recognition, the retreat in the value of vineyards is as pronounced in Coonawarra as in most other regions and arguably more.

This value regression is amply illustrated in the recent sale of the Robertson’s Well vineyard at around \$22,500 per ha. A portion of this vineyard was purchased in early 1998 out of a joint venture agreement at a value of around \$85,000 per ha.

Other sales in Coonawarra include Glenroy Vineyard at around \$24,000 per ha, Kirribilli Vineyard adjacent to the Penola township at around \$33,000 per ha and very recently Father Woods Vineyard at around \$20,000 per ha.

The premium sector of the market has fared a little better with the sale earlier in the year of a small, well located vineyard (fronting Riddoch Highway just north of Penola) achieving \$80,000 per ha.

The sale of the vineyards out of the Gartner receivership in 2008 at between \$38,000 and \$45,000 per ha which seemed to be cheap buying at the time, now appear the opposite.

Apart from the broader market malaise, there are a number of regional issues having an impact on the market in recent years.

- The decline in popularity during the 2000’s of cabernet sauvignon, which is the flagship variety of Coonawarra.
- The somewhat tarnished Coonawarra reputation through a market perception of diminished fruit and wine quality from the region.
- Rapid expansion of plantings from the mid 1990’s (particularly away from the terra rossa strip) contributing to an oversupply of fruit.
- The oversupply driving down grape prices with many growers having little choice but to sell their fruit out of the region for warm inland prices.
- The consolidation of ownership with one major wine company. In particular, the Wynn’s brand has become synonymous with Coonawarra and, although Foster’s has recently invested strongly in reinventing the brand with some success, it had been allowed to languish over the past decade.

The graph above, illustrates the decline in vineyard values and grape prices in the Coonawarra region. The grape prices are for the key red varieties and are based on SA Winegrape Utilisation and Pricing surveys published by the Phylloxera and Grape Industry Board of SA. In the same graph, we have also tracked our estimate of vineyard values for an average, modern vineyard away from the best terra rossa soils. \&B



## WARM REGIONS

Once Australia's wine regions were described simplistically as irrigated or non-irrigated, a neat division between high yielding, low value vineyards predominantly along the Murray and Murrumbidgee, and low yielding, high value vineyards in areas such as the Barossa, McLaren Vale and Yarra Valley.

Now the terminology has changed to warm inland versus coastal temperate and, according to Lawrie Stanford, Executive Director of the Wine Grape Growers Australia, the value proposition will be less clear cut over the next ten years.

"The restructure has so far seen around 7,000 ha of vineyard removed, predominantly in the warm inland regions," he said. "They have been the quickest to acknowledge the need for change.

"Based on vines left unharvested in vintage 2009, there are still at least 13,000 ha which need to be removed to get the industry back into structural balance, but most of this is in the coastal temperate regions, where, in contrast, there seems to be a high level of denial about the need to change.

"Currently wineries are buying coastal temperate fruit at bargain prices in preference to warm inland fruit. We are yet to fully understand why growers in these regions are willing to accept prices that are apparently below the cost of production - maybe they have off-farm income or are lifestyle growers or they just believe things are going to get better.

"This is distorting the market and making the short term outlook tough for warm inland growers.

"However, there is a feeling that this can't be sustainable in the long term and that, eventually, warm inland growers will resume their position as the key suppliers of economically viable wine grapes. That change may be a number of years away, but it will be accompanied by a new proposition based more on a value chain model (eg innovative service) rather than the traditional supply model of price and volume."

"So overall, while the warm inland areas will feel the most short term pain, it is the coastal temperate regions with their inescapably high costs of production, which may do worse in the long term, especially if market growth at higher price points doesn't happen as quickly as everyone hopes." V&B

[www.wineryforsale.com.au](http://www.wineryforsale.com.au)



**Gaetjens Pickett  
Valuers**

Wine industry specialists

**Gaetjens Pickett Valuers**

185 Fullarton Road, Dulwich, South Australia 5065

PO Box 146, Kent Town SA 5071

Telephone +61 8331 1633

Facsimile: +61 8 8364 5622

Email: [info@gpvaluers.com.au](mailto:info@gpvaluers.com.au)

ABN 90 791 710 106



**Gaetjens Langley**

185 Fullarton Road, Dulwich, South Australia 5065

PO Box 722, Kent Town, South Australia 5071

Telephone: +61 8 8364 5600

Facsimile: +61 8 8364 5622

Email: [info@gaetjenslangley.com.au](mailto:info@gaetjenslangley.com.au)

ABN 64 471 514 369



**Gaetjens  
Langley**

Wine industry  
brokers and advisors