

Gaetjens Pickett Valuers

Wine industry specialists



Gaetjens Langley

Wine industry brokers and advisors

VALUER & BROKER

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Moving On Up

IS IT TIME TO SELL THE FAMILY FARM?



INSIDE

ASSET WATCH · CURRENT OPPORTUNITIES · REGIONAL PROFILE: RIVERLAND · WHEEL OF FORTUNE

EXPERIENCE · KNOWLEDGE · RELATIONSHIPS

ASSET WATCH



WINE INDUSTRY UPTURN?

For the first time in five years, analysts are starting to see some positives in wine. According to Morgan Stanley Research's Global Wine Industry Report for 2011, a behind the scenes structural adjustment in the world wine industry suggests supply-demand balance will come quicker than many of us thought. The main influences are:

- In the decade 1997-2007, Europe's annual oversupply was as much as 1.2 billion cases. In the past three years, Europe has essentially consumed what it has produced and capacity is now 4-5% lower than it was four years ago.
- Declining wine consumption in the US and Europe hastened vineyard removal in 2009-2010. While South Africa and NZ remain over-supplied, Australia and Chile are looking much better balanced.
- The international vintage was down in all major wine producing countries in 2010 (Europe down 4%, USA down 12%, Australia down 7.5% and Chile down 10-15%). With a smaller 2011 vintage in Australia, demand for premium wine must increase.

The report says that "a moribund global economy has therefore delayed, but not defeated, a trend towards global wine supply/demand balance. We expect that the flatter supply outlook in 2010, combined with improving consumption trends, should underpin modest improvements in winemaker pricing and revenues in 2011." V&B

BEER AND BABY BOOMERS

Novice wine drinkers in China, beer consumers in the Great Lakes District of the US and off-premise shoppers are the three audiences with the most potential for wine sales growth this year. That's according to a presentation to delegates at Vinitaly in April by Rabobank International's Head of Credit, Stefano Pallotti.

New World wine producers such as Australia should be encouraged by the fact that, while Old World wine heritage is important, this is not enough to guarantee success in China. The report says novice consumers are very open to new influences, and fruit-forward New World wine styles are generally considered to be more appealing. Overall, China continues to represent a significant opportunity but consumer education will be vital to success.

In the depressed US economy, wine sales have relied heavily on baby boomers with their lower unemployment and higher accumulated wealth. The report said that while wine has generally outperformed beer, the next growth opportunity is likely to come from the populous Great Lakes "beer drinking" states of Illinois, Michigan, Wisconsin, Minnesota, Indiana, Ohio and Pennsylvania.

Meanwhile in the UK, government policies against antisocial drinking and budget austerity continued to affect sales. However, off-premise wine demand was growing rapidly as consumers compare the widening gap between restaurant and grocery store prices. The report said innovation is also needed to reinvigorate customer purchasing, citing the rosé boom as an example of winery led consumption change. V&B



CURRENT OPPORTUNITIES

WANTED TO BUY



SC150 centrifuge
– up to \$350,000

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

FOR SALE

VINEYARDS

Adelaide Hills, SA
Coonawarra, SA
McLaren Vale, SA
Riverina, NSW

BRANDED WINE BUSINESSES

Margaret River, WA
Rutherglen, VIC



Rutherglen Estates

Sale of integrated wine business with winery, four vineyards and brand names.

- 2,000 tonne winery;
- Located in Rutherglen, one of Australia's most famous and historic regions, home to Morris, Campbell's and Chambers;
- Less than 3 hours drive from Melbourne;
- Planted area as follows:

Shelley's Vineyard	96 ha
Melville's Vineyard	133 ha
Burgoyne's Vineyard	52 ha
Gooramadda Vineyard	93 ha
Total	374 ha



Boutique Margaret River wine business and vineyard

The owners of this property are retiring and reluctantly offer this magnificent property and associated brand, inventory and business goodwill for sale to a discerning purchaser willing to take on the next chapter of this exciting journey.

- Well established and highly awarded premium Margaret River wine business and vineyard;
- Primarily high margin direct to consumer sales with a good fine dining restaurant presence;
- Vineyard management and winemaking services are currently provided by third party professionals;
- Ideal investment and lifestyle opportunity.



McLaren Vale Vineyard

Superb, fully contracted McLaren Vale vineyard – adjacent to the township of Willunga.

- 28.7 ha planted to shiraz, cabernet sauvignon and chardonnay;
- Total land area of 32.11 ha, with potential to subdivide (STC);
- Drip irrigated from licenced bore;
- Contracted to major public wine company until 2013;
- A very picturesque property, with coastal views and options for further development;
- For confidential sale by negotiation.

Check
WWW.WINERYFORSALE.COM.AU
for more details.

Moving On Up

For many wine businesses, the past five years of tough markets have been the last straw. It's time to sell, but how many wine business owners have really planned for succession and more importantly, the sale or transfer of their business?

According to Colin Gaetjens of Gaetjens Langley, who has valued more wine businesses than he cares to remember over the past 35 years, there is nearly always an unrealistic expectation about price.

"People who have sweated blood for 30 or 40 years expect that their hard work will be repaid appropriately," he said. "However, valuing a wine business is not straight forward.

"Valuation is based on tangible and intangible assets. It is easy enough to put a dollar figure on tangible assets such as property, wine stocks, equipment and land, but intangibles such as brand value are much harder, especially as market forces change."

The senior partner in national accountancy firm MGI, Des Caulfield, has consulted to dozens of wine companies and he says that like any other manager of an SME, winery owners need to follow three strategic steps towards sale or transfer.

1. GET YOUR HOUSE IN ORDER

To maximise your future sale potential, make sure you have good systems, transparent financial reporting and a chain of command which doesn't rely on you.

"No-one wants to buy a mess. A business that can run by itself is saleable; a business that is all about you and can only be run by you, is not," Des said. "The most important thing is to make sure you are making a profit than can be clearly analysed by the buyer."

2. WHAT IS IT WORTH?

Traditionally, businesses have been valued on a multiple of profit. This will range from two to three times profit for higher risk ventures up to five or six times for businesses with strong cash flow.

"A broker or valuer will recommend a sale price based on a number of factors: risk, the industry sector, whether your products are discretionary, local sale trends, your market track record and the short to medium term industry outlook," Des said.

3. TAXING TIMES

Before even considering the sale of your business, vendors should consider the long-term tax implications.

"Ideally, the sale of a business should be planned several years in advance to maximise the sale price and minimise the tax implication," Des Caulfield says. "Emergency sales rarely yield an ideal outcome."

The major concern for most vendors is Capital Gains Tax, applied at the business owner's personal or business tax rate on the gain made on the business if it was purchased or started after 1985. Even with the normal 50% concession, a substantial part of the profit can wind up with the Federal Government. W&B





Craig, Rebecca, Lucy and Mignonne Willson



FAMILY SUCCESSION – BREMERTON WINES

For many family wine businesses, the future is less about sale than strategic succession.

Craig Willson and his two daughters, winemaker Rebecca and marketer Lucy, have worked tirelessly to build the Bremerton brand since 1994, but when he made the decision to step down from his joint role of Board Chairman and Managing Director in 2009, it was the culmination of a long term succession plan.

Craig remains on the board as a Director but now stands back to enable independent Board Chairman, Jay Hogan, and Managing Director, Mark Ashenden (appointed in 2008), to drive the business, along with the two girls and son in law viticulturist, Tom Keelan.

“For a relatively young wine business, I decided to introduce an independent board early on,” Craig says. “The family were always actively involved in business discussions around the dining table but we had to introduce a level of professionalism if we were going to make the most of our investment and move smoothly into the second generation.”

Craig said that he and his wife, Mignonne, wanted to see the girls (who are both in their thirties and are busy juggling work and children) enjoy the experience of being mothers.

“While Rebecca and Lucy both still have key roles in the business, we didn’t want to burden either of them with the responsibility of Managing Director while they were bringing up young families,” Craig said. “So we headhunted someone with broad financial and strategic experience who could help us professionalise the business and ensure it makes a good income for the family.”

As Managing Director, Mark understands his role is to take Bremerton to the next level.

“It is a long term appointment – if I was just a caretaker until the girls were ready, I wouldn’t have been interested.”

Craig is happy that the first and most important stage of generational change has been achieved. “We are working hard on maintaining the family culture, that personal level of interaction and gut feel that had made us successful, yet we are now a much more professional business which the family can work in and benefit financially from in the future.” V&B

TIME TO DO OTHER THINGS – 1847 WINES, BAROSSA

It was the late 1990’s and former international businessman, John Curnow, and his wife, Sue, had realised a long held dream when they purchased an old vineyard in Rowland Flat in the Barossa. Twelve years later, in 2010, the couple decided it was time to move on.

“We didn’t want the world to know we were selling, but I felt that what we had created was more than just your average wine brand,” John said.

“We approached Toby Langley at Gaetjens Langley who quickly understood the unique nature of the offering.”

This included 6.6 ha of vineyard, an expansive 4 bedroom-4 bathroom-5 toilet home built in 2000 (perfect as a weekend retreat or B&B) and a niche brand 1847 Fine Wines, named after the original survey date of the property.

Through extensive travel, the Curnows had established distribution in Australia and overseas and, since its launch in 2002, 1847 Fine Wines had won 74 wine show medals and achieved a 4.5 star rating in James Halliday’s Wine Companion.

“I could sense the potential appeal of the picturesque property, clear and simple branding, great packaging and the rich red wines in the portfolio,” Toby said. “John and Sue indicated they would be interested in pursuing the Chinese investor market so we briefed our staff in the Gaetjens Langley Guangzhou office.

“We travelled to China and offered a tasting of the wines to several investors and we provided a complete financial summary of the property’s wine and grape sales.”

After just a few months of canvassing potential buyers, Arthur Wang, a resident of Sydney with property interests in both Sydney and Qingdao, liked what he saw.

“Arthur had long appreciated Barossa Valley wines and was looking for a base to develop a retail brand in China, as well as somewhere in Australia to visit with family and work colleagues,” Toby said. “The thought of retiring in the Barossa Valley was also of great interest.”

After some tense negotiation, a deal was struck for the walk in-walk out sale of 1847 in early 2011.

“Arthur and his family have developed a special bond with the Curnow family who will continue to consult to the business and there is now a plan to expand production,” Toby said. “It’s a great example of win-win outcome.” V&B

TWO SPEED VINTAGE

Australia's 2011 vintage symbolises Australia's two-speed economy - West Australian mining prosperity vs. the rest of the country.

That's the view of award winning winemaker, Sue Hodder, of Wynn's Coonawarra who had the unenviable task of trying to take a few positives out of one of the toughest years on record at last month's Wine Press Club of SA Vintage Report.

"Western Australia had warm temperatures, low rainfall and no disease pressure - a perfect vintage," Sue said. "On the other hand, South Eastern Australia was, three to five weeks later, cooler, wetter with much higher subsequent disease pressure than normal.

"Vintage 2011 can only be described as one of the most challenging on record."

Sue explained that the first wet year in nearly a decade (and continuing low prices per tonne) encouraged growers to resist berry thinning in spring and early summer in the hope of profitable returns.



However, the summer rains continued to expand berry size and push up yields, ironically countering the widespread losses to down mildew, oidium and botrytis.

Sue said that, while the later ripening cabernet sauvignon and shiraz were more vulnerable than other varieties and suffered more widespread rejection, there were still many good wines made across Australia.

"Early whites in general are excellent, especially riesling from the Clare and Eden Valleys and there are low volumes of good quality reds coming out of McLaren Vale, Langhorne Creek and Coonawarra. Many cool areas of Victoria and Tasmania have also produced excellent wines."

Sue said on current predictions, the wines of 2011 will be more balanced with lower pH leading to brighter colours and more integrated acid levels. She also expects lower alcohol levels in general which may meet the growing demand from consumers for leaner, more elegant and less alcoholic styles.

News Limited wine critic Tony Love, also speaking at the Wine Press Club, said these mid alcohol levels may actually be a blessing in a few years time when most 2011 reds will be released.

"I don't think many consumers will actually remember what 2011 was like when they come to buy it in 2013," he said. "In fact if the wines are a little softer and less alcoholic that will probably be a positive.

"I think we worry too much - how many consumers really understand vintage anyway?"

The Winemakers' Federation announced a 1.62 million tonne harvest in early June - surprisingly 1% up on 2010.

WFA Chief Executive, Stephen Strachan, said there was no doubt the vintage was "too big".

"It may seem harsh, given the year many people have had, to focus on the longer term rather than the demands of the present, but a harvest in excess of 1.6 million tonnes (despite the rejections) is out of step with the realities of sustainable production and the market opportunity for premium Australian wine," he said.

"We cannot base success on how many grapes we grow and crush, but on whether that number is in line with the quality, character, market destination and potential earnings factors that drive industry viability." V&B

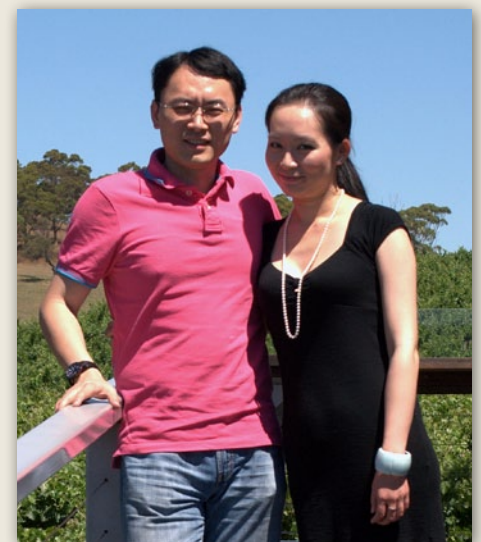
INTRODUCING: Victoria Xie

Background: With viticulture and oenology degrees gained from university, I was keen to get a job in the wine industry. Due to some time clashes between either studies or family, I kept missing the opportunities of getting a vintage job. After missing last year's opportunity, I got a job in a pharmacy as a retail assistant, from which I gained valuable experience with customer service and product knowledge. While working in the pharmacy, I helped a wine trading company as the operation and production manager during my spare time, involved in production management and export logistics. I just joined Gaetjens Langley a couple of months ago, and I'm excited to get this opportunity to develop my skills and extend my experience.

Family: I come from a traditional Chinese family and my parents are still in China. I was married to Jason (pictured) in 2008, but we were busy with studies and work back then and didn't get a chance to do the ceremony until February this year. Now we are finally settled in Adelaide and we are about to go into the next chapter of life.

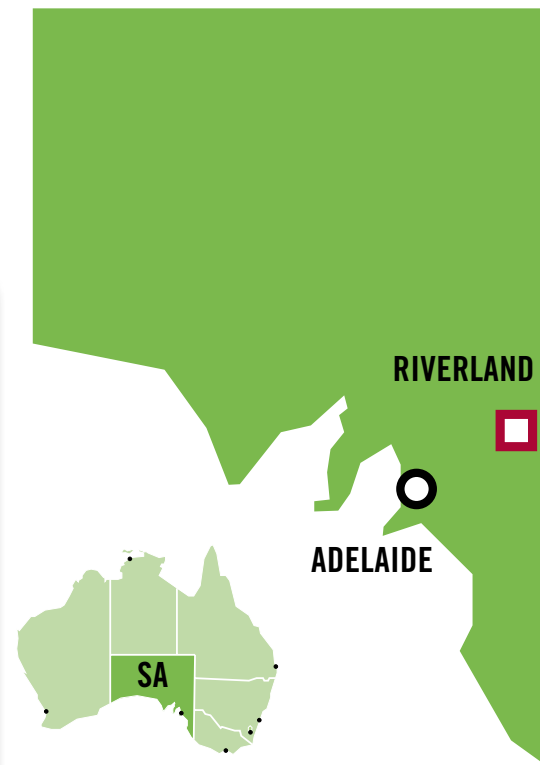
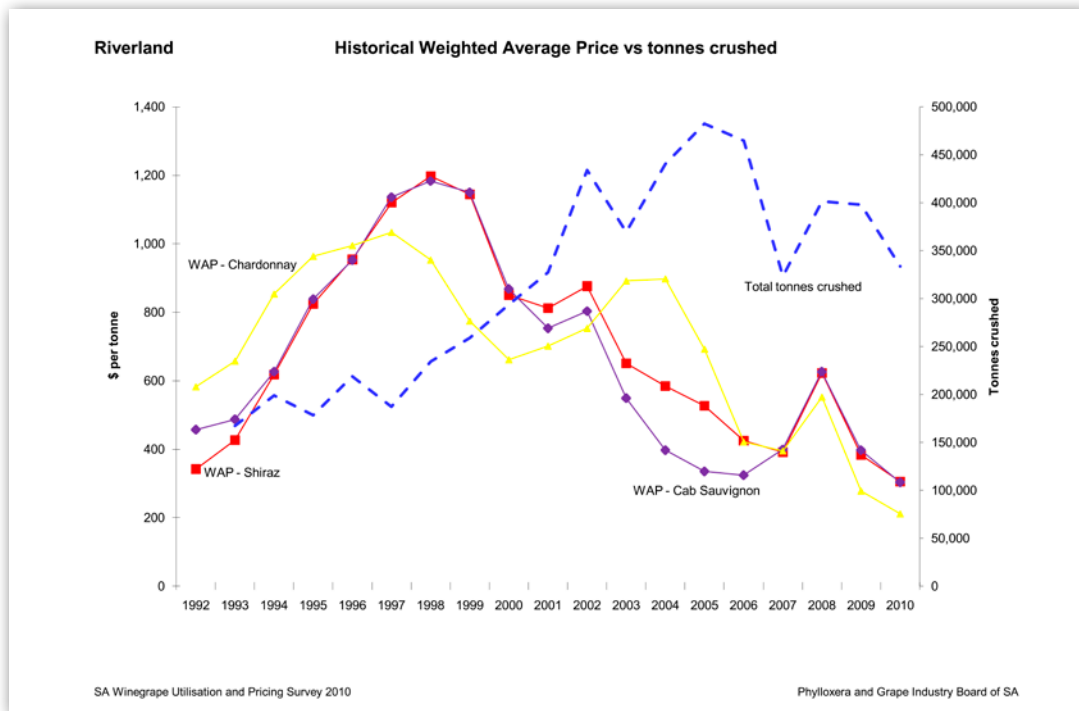
Hobbies: Going out with girls for shopping has always been the top priority of my to-do list. If I'm not out with the girls, then I must be out with Jason searching for some gourmet food and lovely places for photography. When I'm not going out or any day after work, I'm more likely to sit back and do my cross-stitch or handcrafting.

Wine: Wooded chardonnay and aged riesling have been my favorites for years, but I'll enjoy other wines as much as I do with chardonnay and riesling. A Coonawarra cabernet sauvignon will be my choice to go with a steak most of the time, or a moscato will be good enough to share with friends.



REGIONAL PROFILE

RIVERLAND:



REGIONAL STATISTICS:

	Riverland	Murray Darling	Riverina	Central Valley
Vineyard area (ha)	21,169	17,000*	22,280	84,174
Altitude (metres)	70	56	128	101
Heat degree days, Oct-Apr / May-Sept	2,084	1,753	1,756	1,817
Annual Rainfall (mm)	239	275	411	231
Mean January/July temperature (°C)	23.0	23.3	24.2	27.8

* Current estimate

Source: John Gladstone's Viticulture & Environment.

OVERVIEW:

The Riverland is Australia's largest wine region, producing around one quarter of the nation's wine grapes. Total planted area is around 20,000 ha, which is around 27% of the total vineyard area for South Australia, yet accounts for around one half of the state's production.

The region is often referred to as the "engine room" of the Australian wine industry and was instrumental in supplying the rapid expansion during the 1990's on the back of booming exports.

The following graph, taken from the Phylloxera and Grape Industry Board of South Australia Wine Grape

Utilisation and Pricing Survey 2010, shows that between 1992 and 2005, tonnes crushed from the Riverland more than trebled. Low water allocations and drought since 2005 has seen a fall in production.

PROPERTY VALUES:

Also of interest in the graph is the decline in grape prices. Using chardonnay as an example, district weighted average prices peaked in the late 1990's at over \$1,000 per tonne (compared with a little over \$200 per tonne in 2010). It is easy to see why Riverland grape growers were very excited in the late 1990's. At crop yields of say 30 tonnes per ha for chardonnay

and \$1,000 per tonne, this equated to gross revenue of around \$30,000 per ha and, with typical operating costs at the time of around \$5,000 per ha for larger areas, net returns of a whopping \$25,000 per ha were possible.

The current economics are less encouraging, with chardonnay at \$200 per tonne which is below cost of production. This clearly has an impact on vineyard values although these are usually substantially underpinned by the value of the water entitlements. Broadly speaking, we consider that the value of an average, modern Riverland vineyard would be between \$20,000 per ha and \$30,000 per ha depending on grape sale agreements.

Irrigation application is usually around 6 ML per ha and, with water currently trading at around \$1,800 to \$1,850 per ML, this means that water value alone for a vineyard with full allocations would be around \$11,000 per ha.

There have been few recent sales of large vineyard holdings at what might be called normal market transactions. Three Riverland properties were sold in early 2011 by the Receiver for the Great Southern Group, but these vineyards had not been maintained for over 18 months and, in some cases, the sale price was at less than water value. A large vineyard at Paringa recently changed hands excluding water (which was sold separately) at the equivalent of around \$10,000 per planted ha. W&B

WHERE ARE WE IN THE WINE CYCLE?

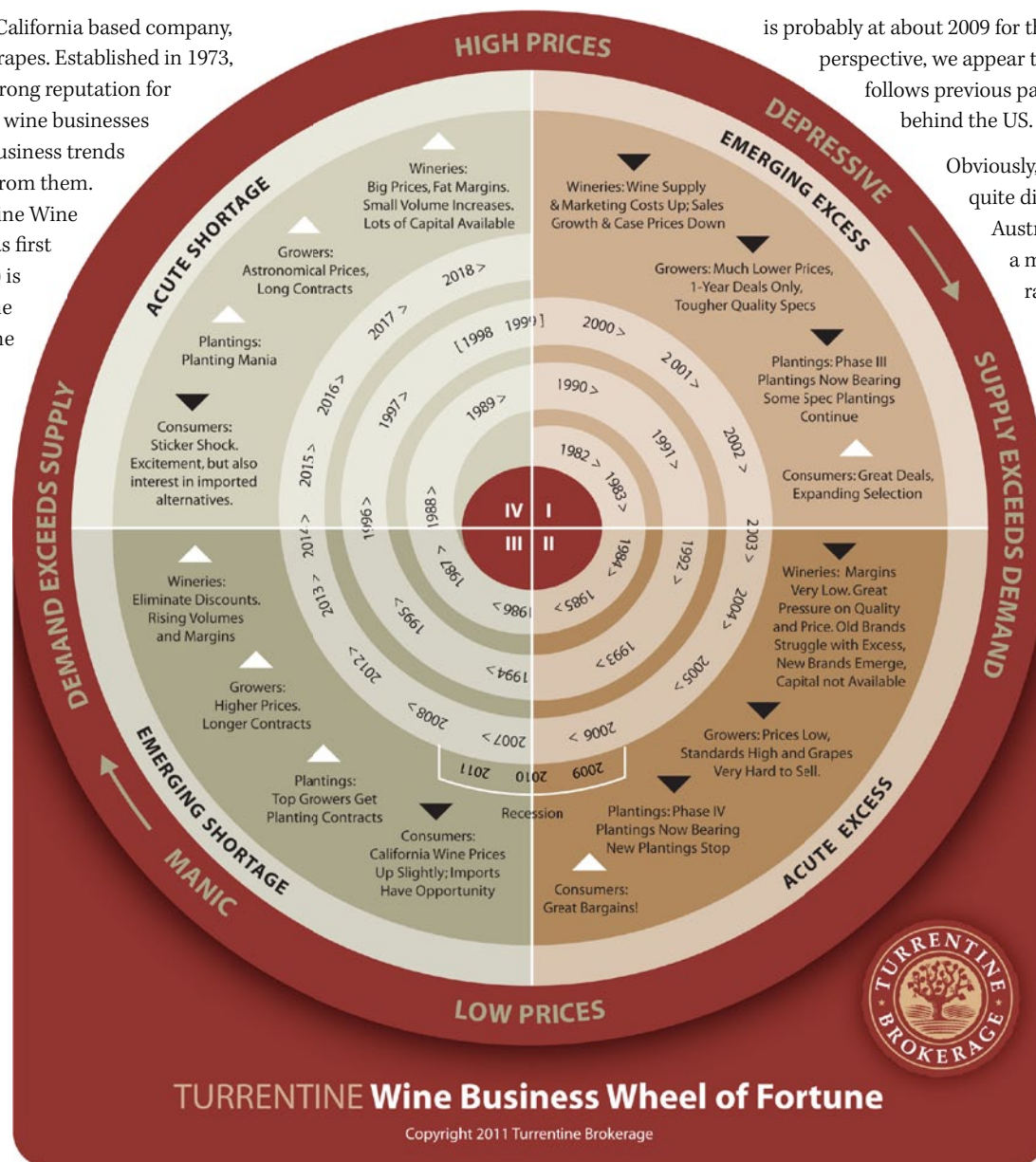
Turrentine Brokerage is a California based company, brokering bulk wine and grapes. Established in 1973, the company has built a strong reputation for not just buying and selling wine businesses but also predicting wine business trends and helping clients profit from them. The newly revised Turrentine Wine Business Wheel (which was first published in January 1996) is all about understanding the patterns evident in the wine business and considering how the dynamics involved are likely to develop in the future. The wheel has gained credibility amongst US wine investors because it accurately describes and predicts the often violent supply cycles that have long characterized the wine business.

The wheel was recently updated in 2011 post-global financial crisis. It would appear that movement towards balance or shortage in all categories has been at a much slower pace than predicted, although it has accelerated over the past 12 months or so. In reality, the wheel

is probably at about 2009 for the US. From an Australian perspective, we appear to be stuck in 2006 which follows previous patterns of being 2 to 3 years behind the US.

Obviously, the market dynamics are quite different between the US and Australian wine industries with a major factor being exchange rate pressures which are currently working against us but favouring the US. Most Californian wineries think the demographics are good for continued premium sales growth and that any potential new plantings will be restrained by high land and development costs and by ever higher regulatory hurdles.

On the other hand, there is a "lingering excess" of over supplied fruit at the luxury end of the market which still needs to find routes to market. Turrentine says international competition remains intense, driven by more adventurous consumers and improving quality from many established wine regions, some of which have much lower costs and export subsidies. V&B



For more information: www.turrentinebrokerage.com

www.wineryforsale.com.au

Gaetjens Pickett Valuers
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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
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@gajtjenslangley.com.au
ABN 64 471 514 369

Gaetjens Langley
Wine industry brokers and advisors