

The Key Report 18th November

1. The Wine Industry Outlook Conference

Were you there? How was it? The success or otherwise of the Outlook 2002 Conference will not come from the organiser's press release but from the delegates who attended. So far we have heard it was well attended but appallingly timed for anyone with more than a passing interest in horseflesh. Was Victorian representation down due to the Melbourne Cup? Certainly the speakers were of high calibre:

Andrew Fraser London School of Economics, UK

Jon Fredrikson President, Gomberg, Fredrikson & Associates, California, USA

Richard Gibbs Division Director and Head of Economics, Macquarie Bank Limited

Lawrie Stanford Manager, Information & Analysis, A W B C

Philip Laffer Chief Winemaker/Director, Orlando Wyndham Group

Stephen Harvey Partner, Deloitte Touche Tohmatsu

David Trebeck Managing Director, ACIL Pathways

David Crawford Managing Director, CMV Farms Pty Ltd

Jamie Odell Managing Director, Trade Asia Pacific, Beringer Blass Wine Estates

And their subjects of interest:

The challenges in Europe for Australian Wine; The global economic and business outlook; a Little More Wine and Song in 2003; Has the supply challenge peaked? Financial performance of Australian wineries; Pathways to profitability for small and medium wineries.

Why did you go, for morning tea and a night on the town? To meet mates and have a few drinks afterwards? Did it work? Was it worthwhile? Tell us.

2. Stock Market News

Its true!

We picked up on the rumour a couple of weeks ago and were itching to let it out. But being the good guys we are, we kept it back until the official announcement released last Friday. "The Rathbone Family Group today signed contracts to acquire the business assets of the Victorian based winery, Mount Langi Ghiran. The acquisition will include all vineyards, brands and various winery assets and is expected to be completed by the end of November. The sale price has not been disclosed. Winemaker Trevor Mast will continue in his role. Key brands Mount Langi Ghiran, Cliff Edge and Billi Billi Creek are included in the sale." Great, but what everybody wants to know is the price. When Mt Langi first went on the market the figure of \$20-25 million was being bandied about. Come on guys, otherwise it's back to the rumor mill!

Pipe dreams

As previously reported, Kreglinger owns around 87% of Pipers Brook and the David Groves group holds about 9%. The remainder is held by 80/90 individual people or companies. It's a reasonable assumption that Kreglinger would like to get to 90%, enabling them to compulsorily acquire all shares. Since the 29th October 22,595 shares have been traded in five separate lots ranging from 110 up to 11,000. Another fair assumption is that the shares are going to one of two companies! We wonder what the David Groves group will do if they manage to gain enough shares preventing 100% ownership to Kreglinger and how much is Kreglinger prepared to pay for that 100% privilege?

From Hunter to Hunted.

Here's an intriguing notice released on 11th November:

"The board of Simon Gilbert Wines Ltd advises that it has received an approach from a party expressing interest in purchasing certain of the winery and vineyard assets of the company. At this stage, no offer for the Board to consider has been received. The company continues its search for suitable acquisition or merger partners as it seeks to expand its packaged wine and contract winemaking business." It's intriguing because in many ways it's a non-notice but then disclosure laws being what they are, caution is advisable. Maybe it was the result of an article that appeared in The Australian on the same day, "Simon Gilbert has put its assets on the market with an expected price tag of \$10-15 million". The article also puts debts at around \$11 million.

A couple of years ago Simon Gilbert made a bid for Vincorp, and more recently for the Evans Wine Co. Both were unsuccessful as indeed was the equity raising to facilitate the acquisition of the latter. Has the hunter become the hunted, are the assets up for sale, will merger or takeover happen? The share value has seen a steady decline since 18/2/02.

The Winepros saga

"Mr. Halliday, a backer of Winepros, said he was considering forming a portal for the wine industry which would have links to wineries as well as tourist information." * Let's not concern ourselves with the future when so much is happening in the present. Winepros was going to be all things to all wine enthusiasts, but there were not enough customers and they did not spend enough. For investors, dollars went in but only cents walked out. James Halliday, Len Evans, Harper Collins, and Coles Myer are now out of Winepros, but according to The Australian Financial Review, Mr. Halliday is considering a new approach. And that's where we will leave that point.

The past few weeks has seen a great deal of Winepros stock change hands: Trojan House Pty Ltd increased its stake to 19.99% on 8th October as did JRS investments on the same day. On the 30th October, Abron holdings held 17.31% with Point Road holding a 14.9% stake on 1st November. The above companies now control over 70% of Winepros. To what end is not certain and speculation on our part would be wrong, wouldn't it?

*Australian Financial Review 12th October 2002

Reynolds

Reynolds Wines informed its shareholders on 11 November that The Australian Tax Office "has agreed to adjourn the Summons until February 2003 to enable these discussions time to resolve." The amended financial statements and Annual Report will get to shareholders by 31 January 2003 and the AGM will be held before 28 February 2003.

The quiet one

It doesn't hide nor does it constantly blow fanfares - The Beston Wine Industry Trust just gets on with the job it set out to do - investing in wine infrastructure assets. It now owns over 3,300 acres under vine in Australia, and has in excess of \$93 million in assets under management. Now it has bought Dashwood Vineyard in the Marlborough region of New Zealand for A\$11.1 million. In addition A\$4 million has been provided to continue development of the property over the next two years. In the 2002 financial year the trust produced a return of 10.5%.

Purrrring

Lion Nathan has declared a \$162 million profit for the twelve months ending 30th September 2002, up 20% on the prior year's profit. Net cash flow from operations was up 31% to \$231 million. Outlook for 2003 is for continued double-digit earnings growth. The Company indicated that it expects net profit after tax for the 2003 fiscal year to be "around \$180 million". A positive spin was put on the China brewing operation "Strong volume growth for Lion Nathan China (up 27%) drives operation closer to cash flow break even - loss reduced by 24% to \$14.7 million." Wow only \$14.7 million loss!

The wine division grew volumes by 30% to 808,000 cases, generating an EBITA of \$8.6million for the year. There is plenty of wine at the top end in the portfolio, although it appears there is a gap lower down. Recently, however, the St Hallet brand has been on sale in the UK at £2.99 a bottle.

Buy-sell-buy

We just love reading advice on what to buy and sell. Two came our way this week re BRL Hardy. According to one senior investment adviser it's time to sell - apparently a competitive global trading environment may not be conducive to margins and returns. According to the other, it's a good time to buy - take advantage of the lower share price, says he. BRL is trading below the \$7 mark- it's a long time since it's been down at that level.

3. Stranger than

If there is one thing stranger than advise on when to buy/sell shares, it's how wine/alcohol is good for you. Since the invention of the mind-altering liquid the good and bad points have

been debated. It's probably universal knowledge that a little is good for you and a lot bad for you. The difficult part is, how much is bad and how little is good.

Recent investigations have concluded that drinking four glasses of wine or equivalent amount of alcohol does indeed increase the perceived attractiveness of the opposite sex (the snippet I read said nothing about members of the gay community).

This tied in neatly with a report from the Netherlands saying just two glasses of wine can exacerbate notably the brain's ability to detect and correct mistakes. Working on this theory anybody who appears attractive at two glasses is going to be a real stunner at four. The serious side of this report was drink driving with the conclusion that the limit should be .04 or lower.

In Denmark researchers showed that wine drinkers were up to 70% less likely than drinkers of other alcoholic beverages to develop life-threatening cirrhosis. Great! But a report from London says wine drinkers are just as susceptible to cirrhosis of the liver. However it also contained that tricky bit about consumption adding, "if they drink to excess". "People who drink wine occasionally may have a lower risk of developing dementia, including Alzheimer's disease." The catch to this was also quantity "Scientists found people who drank wine weekly or monthly were more than two times less likely to develop dementia."

The final straw was to be found on PRNewswire via COMTEX "According to an article just published in the November 2002 Journal of Cardiovascular Pharmacology, eating fresh grapes provides the same heart-health benefits touted for red wine."
What we want to know is, how many kilos of grapes do you have to eat to be attractive?

4. Who's wine

It appears the reputation of a winery is no longer enough to sell wine, what's needed is a thespian, a sports personality, a megastar or a supermodel. It started with Greg Norman and now includes cricketer Shane Warne and Olivia Newton-John. These endorsements are often compared with the vinous interests of Sir Cliff Richard and film director Francis Ford-Coppola, however the latter own vineyards and have an involvement in the making of the wine. We know it's a hard market out there but surely the reputation of the wine or the winery is testament enough?

5. ABC (Anything but Chardonnay)

Are we, (that is, we in the office) ahead of fashion, or so far behind that the word fashion is an oxymoron? We (that is us in the office) enjoy Chardonnay and feel there is some outstanding Chardonnay being made in this country. However it appears the country (that is the country according to the wine press) and the UK and the USA is "over Chardonnay".

It's fortunate that 99% of people who drink wine (that is those who hand over money for the product,) don't read wine columns, because wine companies are still selling shed loads of the stuff. We agree with the press that much of the Chardonnay produced is ordinary but then so is most of the world's wine. We reckon Chardonnay gets a bashing that's not deserved and we (that is we in the office) really enjoy well-made chardonnay (forgive our lack of modesty, but, like Stonier Reserve Chardonnay 1999 which was voted Best White Wine in the World in the Wine Mag, International Wine Challenge 2001!).

Having said that, here's a review of the second Australian Alternative Varieties Wine Show that has just been held in Mildura. 254 wines were entered and seven gold and seventeen silver medals were awarded. "Best of" are listed below. All worthy winners no doubt, but Best Wine in a Stelvin Closure?!

Best Wine of Show The Yalumba Wine Co. 2001 Eden Valley Viognier

Best Red Wine of Show Scaffidi Estates Pty. Ltd. 2001 Talunga Sangiovese

Best Italian varietal of Show Redbank Long Paddock Ltd. 2002 Redbank Sunday Morning Pinot Gris (85%)

Best White Wine of Show The Yalumba Wine Co. 2001 Eden Valley Viognier

Best Wine in a Stelvin Closure Gibbston Valley Wines N.Z. 2002 Pinot Gris

Information about the Australian Alternative Varieties Wine Show can be found at www.aavws.com

6. Mine for yours

Erl Happ is the boss of Happs Winery in WA. For those who don't know Erl he's, well, he's Erl, intelligent, articulate and gifted - a character, an individual and inventor of the famous Happ-hazard method of bottling. In response to our request for interesting newsletters he sent two editions of his '**Snippets**' along with the message "I'm willing to exchange mine for yours". Nice try Erl! We may be holding out against advertising but reading winery newsletters isn't going to put shoes on the babies' feet.

A snippet from '**Snippets** an occasional newsletter from Erl Happ of Happs, wine producers of Quindalup', (part of the Margaret River appellation in Western Australia):

Recent studies at the Australian Wine Research Institute reveal that the best performing closure from all points of view is made up of particles of cork compressed and glued together and equipped with discs of natural cork at top and bottom. Conglomerate is the same sort of material that is used for cork tiles. Corking machines have not yet been built that can tell one end of a cork from another. Hence the need for a slice of natural cork at both ends. These 'twin tops' are excellent closures for a wine bottle...Apart from being better, twin tops are half the price. Cheaper again is the 'Stelvin' cap currently being promoted for Rieslings but unfortunately wines tend to develop a somewhat off character akin to burnt rubber under this closure.

We tried Stelvins ten years ago and decided that cork actually adds desirable flavours to wine and 'breathes' to a small extent allowing maturation similar to that which takes place in an oak barrel.

Any comment Jeffrey Grosset?

7. Musical Chairs

Big news in the financial sector - "Plans for the Future" was the heading. "On 12th November Foster's announced changes to the executive management that would "guide the company's future growth and provide the opportunity for advancement of succession development plans. The changes will take effect from 18 November 2002."

Trevor O'Hoy, from Chief Financial Officer of Foster's to MD of CUB encompassing Australian beer business, Australian Leisure & Hospitality and the Continental Spirits Company.

Pete Scott, from Chief Financial Officer for Beringer Blass to Chief Financial Officer for Foster's Group encompassing Group Finance, Tax, Treasury and Investor Relations.

Jim King, from MD of CUB, is appointed to the expanded strategy role at Foster's Senior Vice President Strategy and Business Development, reporting to the CEO.

Mr O'Hoy joins Mr Walt Klentz, MD of Beringer Blass, Mr Rick Scully, MD of Foster's Brewing International and Mr John O'Grady, MD of Lensworth Group who continue as the senior operating executives for the group. Good strategic moves no doubt.

8. Leapfrog

When Australian wine overtook French in the off-sales (retail) sector in the UK, it received a fair amount of press. A selection from 22nd October. (The figures in brackets are the average daily circulation.)

Daily Express (957,574) "Strewth! Aussie wine's our No 1" "It's enough to have traditionalists choking on their claret" "Australian beer giant Fosters now makes more money in the UK from selling wine rather than beer"

Daily Mirror (2,278,542) "OZ wine KO's French" "Brits are buying more Australian wine than French for the first time."

Metro London (825,478) "Is French wine up Jacobs Creek without a paddle." "Now what was once unthinkable has finally happened."

The Glasgow Herald (100,603) "Australia eclipses France on wine list" "After centuries of domination from across the Channel....."

The Scotsman (86,497) "Aussie wine noses ahead" "it is thought in the industry that the real test of who is the king of winegrowers will come during the Christmas period."

9. Oh dear.

It's great that the Brits are drinking Aussie grog faster than an Australian winemaker can say "ultra premium" but it would help if those who wrote about the subject got their facts straight. One lass scribing over in Wales "one of Australia's most respected wineries, Villa Maria, has decided that all of its 2002 vintage wines will have screw closures rather than traditional cork". That'll give the Kiwis the right wine-centre.