MARKET WRAP

NOT ALL DATA IS EQUAL

Wine company financials – a quick look at the best performers in the business.

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Data, data, data. It's everywhere. You can't escape it, it follows you, reminds you, encourages you. Perhaps it bothers you. I like data, but not all data is equal. There is noise and there is music. Let's listen to some music of wine company financial statements for a moment.

Gross Margin % – (Gross Profit/Revenue)

If it's not high enough, you better fix it by getting more for your wine or trimming your production costs. The smaller the business, the higher the gross margin is needed to keep the doors open, whereas larger businesses can get trapped with an unsustainably low gross margin, meaning no matter how much they sell, they are not going to make an adequate return.

Stock to Sales Ratio – (Total Inventory Value at Cost/Revenue net of Taxes)

We all know the wine business is capital intensive. The majority of capital investment is in property, plant and equipment (PPE) and inventory. Working capital is just salt on this already-open wound. A multitude of sins can be uncovered by having a close look at this measure.

Given the stock value is being recorded at cost, whereas revenue includes your margin, a number above 100 percent is cause for concern.

Company Performance

Figure 1 is a snapshot of how several Australian wine companies performed in 2017 (financial or calendar year).

While publicly-traded TWE receives substantial media coverage and its recent share price rise has been outstanding, privately-held Casella's return on assets is superior, driven by very strong gross profit margins, well managed inventory levels and modest investment in production assets.

Pernod Ricard, Accolade and AVL all have room for improvement.

Pernod's performance is dragged down by significant below-the-line expenses, probably not helped by the multi-national's corporate overheads, exchange rate fluctuations and transfer pricing, whereas Accolade and AVL are carrying too much inventory and are not making a satisfactory margin to cover their expenses. The high stock to sales ratio of Accolade and AVL is likely to be caused by the absolute volume of stock the business is carrying as well as the cost of the stock compared to its selling price, which is highlighted by the low gross profit percentage.

Taylors' numbers (see Figure 2) are very impressive with excellent gross margin, reasonable stock to sales ratio and solid return on assets.

Domaine Chandon and Cape Mentelle are owned by French luxury goods company LVMH Moët Hennessy Louis Vuitton. Despite the boutique size and prestige of these brands, the gross margin percentage is well below that of Taylors and Brown Brothers, while having the disadvantage of higher stock to sales ratio and large investments in production assets.

Kingston Estate is proof that high volume, low margin can work under private ownership, achieving higher returns than its corporate competitors Pernod, Accolade and AVL.

So, while you may want to drink Barossa Shiraz, Margaret River Cabernet or Yarra Valley sparkling, you may be better off owning South Eastern Australian Chardonnay and Moscato.

The 2018 results are currently being reported and we will run the ruler over these in the months ahead. ♦

FIGURE 1

COMPANY	TWE	PERNOD RICARD	ACCOLADE	CASELLA	AVL
FY17 RESULT	AUD '000	AUD '000	AUD '000	AUD '000	AUD '000
REVENUE	$2,534,200	$602,298	$575,576	$468,394	$230,747
GROSS MARGIN %	38%	36%	31%	52%	27%
STOCK TO SALES RATIO	68%	47%	75%	69%	84%
RETURN ON ASSETS	5%	-2%	0.5%	9%	1%
PPE / REVENUE	54%	26%	24%	30%	42%

FIGURE 2

COMPANY	DE BORTOLI WINES	BROWN BROTHERS	KINGSTON ESTATE	TAYLORS WINES	DOMAINE CHANDON	CAPE MENTELLE
FY17 RESULT	AUD '000	AUD '000	AUD '000	AUD '000	AUD '000	AUD '000
REVENUE	$140,339	$101,893	$67,598	$71,600	$43,545	$10,994
GROSS MARGIN %	48%	66%	24%	73%	53%	45%
STOCK TO SALES RATIO	60%	51%	88%	68%	81%	117%
RETURN ON ASSETS	3%	6%	3%	9%	3%	-0.1%
PPE / REVENUE	72%	23%	35%	45%	69%	105%