FINE WINE
& SPIRITS
MERCHANT

EN PRIMEUR

2019 Investment Perspectives

En Primeur: 2019 Investment Perspectives

Introduction

En Primeur has seen a resurgence of interest in the last 5 years following the particularly quiet campaigns for the 2011-2013 vintages. Investment returns, especially for the 2014s and 2015s (with the 2017s and 2018s too early to say), had been good or better and despite a glut of fine vintages, reasonably well-judged – if at times slightly marginal – First Growth pricing had managed to maintain interest and momentum.

For those buying En Primeur with predominantly a future drinking focus, it is clear that the unprecedented pandemic situation means that the 2019 vintage presents challenges around being able to gain the same understanding of the vintage as in previous years, albeit critical scores will help. Only one or two merchants such as BI will be able to fill at least some of the gaps through having had direct experience "on the ground" during the vintage (our Sales Director, David Thomas, spent 6 weeks at one of the top Right Bank chateaux).

However from an investment perspective ironically there is a strong argument that the EP backdrop is clearer than ever: as a result of a combination of factors – macro backdrop, softness specifically in young Bordeaux, and the lesser ability to understand the vintage as comprehensively as usual – marginal pricing simply will not do. As we shall outline in the report, we are Buyers in size for First Growths (and similar) at the right prices, but at the same time we believe discipline is key if the pricing is not where it should be.

Market Context: Prices of Younger Bordeaux

We commented at length in our Q1 market review (available on the website) that the only real area of market softness in Q1 had been young Bordeaux (post 2000 vintages, broadly). The wine market elsewhere remains robust and sentiment encouragingly positive such that we have seen nothing to suggest that our view that young Bordeaux has been disproportionately impacted by reduction of trade inventory is not sound.

We have started to see signs of a reversal of this market softness, both in actual prices but also in the Bid/Offer ratio on our LiveTrade platform (usually a good early indicator of activity and price movements). We envisage that even with the likelihood of recessionary pressures, younger Bordeaux prices will recover over the next twelve months or so.

However, there is nevertheless a current reality, driven by this price softening, that where EP buyers of 2014 and 2015 for example had seen annual gains of 5-15%+ since purchase, these returns are looking more modest and mark-to-markets on the 2017s and 2018s are not where one might have hoped in a normalised environment.

All this considered, there is a rationale both to see En Primeur as having upside from new-release discounts as well as a market firming in young Bordeaux, and at the same time for investors to be robust on what pricing "works".

FINE WINE
& SPIRITS
MERCHANT

En Primeur: 2019 Investment Perspectives

2019 Vintage in Context

Despite the inability to taste samples – and discuss anecdotally with winemakers at the same time – in Bordeaux, early critical commentary and our own insights seem aligned in this being a(nother) strong vintage.

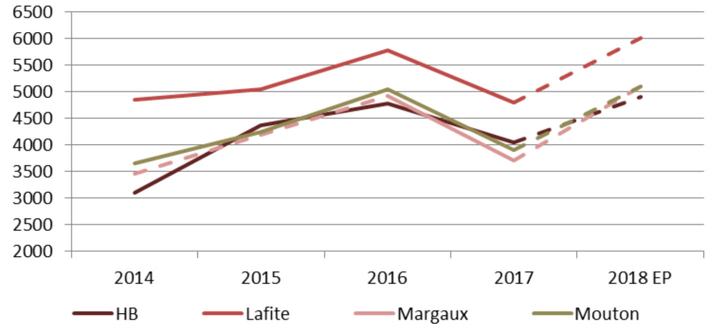
It is absolutely clear that the overall vintage quality is not at the 2016 level and probably not – in general – at the 2015 level. However, as in 2018, the warmer nature of the vintage (among other aspects) seems to have driven a – logical – lack of homogeneity of quality, but in particular between top wines and lesser wines. On the Right Bank, top wines appear to be at the 2018 levels, perhaps with higher acidity but slightly higher alcohol, while on the Left Bank wines seem to have achieved more classical elements than in 2018, with the best wines approaching top-vintage quality – we note in this context Jane Anson's Left Bank comment in her Decanter article "*My own tastings to date have shown that the best terroirs have given wines that equal the very best vintages".*

In the post-Parker era there is little to suggest that critical scores are much less significant to the market, albeit – as we have noted previously – in more of a "consensus" fashion. Is it problematic that critics have not tasted wines in the usual environment or that the assessment somehow has a question mark over it? From a pure investment perspective there is a reality here that once one understands vintage dynamics and quality, the likely range of scores for a specific wine is narrow and therefore it is simply the case that the significance of release pricing vs. +/- 1-2pts final score is skewed primarily towards the former.

A vintage then where there is significant merit in focusing for investment on the top wines providing they can be secured at the right prices.

What is the "Right" Price?

Starting with the current First Growth secondary market pricing, we see the clear price hierarchy both for Lafite vs. the other three FGs and also 2016 > 2015 > 2014. The 2017 vintage has barely started to be traded yet, while 2018 reflects EP type pricing from last year's release. Based on our broad conclusions on the vintage, outlined above, the most interesting datapoints for us are the 2015 prices (for the vintage quality may be very generally compared to 2015), the 2014 prices (usually the lowest on the market, on which more later) and – to a lesser extent – the 2018 EP prices as the most recent release datapoint. *Note that Margaux's 2015 price is implied due to the unique bottling/pricing for that vintage.*



FINE WINE
& SPIRITS
MERCHANT

En Primeur: 2019 Investment Perspectives

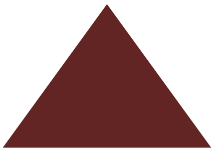
What is the "Right" Price? (cont.)

The recent 2012 Latour release was semi-successful and notable for representing the cheapest vintage on the market. Putting aside the non-EP (ie physical) nature of that release, it being a recent datapoint in the current macro environment makes it interesting. Is it a requirement for the 2019 release to be at the cheapest price on the market (i.e. at a discount to or the same level as 2014 secondary market prices)? This would represent a 30% type discount to last year's EP and a 10-25% type discount to 2015 secondary market prices. Given the vintage quality is superior to 2014 (2012, ie Latour's recent release, of course is by reputation roughly the same level as 2014), it is not clear that this is an absolute pre-requisite for a successful release, but it is certainly a key datapoint and consideration.

New release discounts are a subjective matter for all wines. However, it is possible to be objective in saying that with a more challenging macro backdrop, a significant discount to comparable back vintages is an absolute pre-requisite for substantial interest to be generated. Anything less than 10% below 2015 prices is clearly not enough; in reality more like 20% seems like the right ballpark. The implied discount to 2018 EP prices is hardly irrelevant and will no doubt be widely cited, but is really an implied outcome rather than a driver – EP is after all a static snapshot in time.

We therefore end up with a triangulation using the following factors:

20% area discount to 2015 market price



Substantial discount (25-35% area) to 2018 EP pricing

Near or below price of "cheapest to deliver" vintage, likely 2014

While the above is related most directly to the First Growths, applying such a framework also to Super Seconds is equally valid, albeit that segment has been tougher in recent En Primeur and therefore the requirement to meet or exceed the "criteria" might be applied more strictly. The Right Bank is different of course for heavily allocated, low production wines, but similar for larger production wines.

Conclusions

Whether or not now is the most sensible time to undertake the EP campaign is an academic question. Given it is going ahead against the current softer young Bordeaux and broader macro backdrop, then it is critical from an investment perspective to view the top wines as coming from a very strong – but not absolutely top – vintage and apply a suitable framework to assess investment potential. This will mean significant discounts to 2015 market prices, certainly to 2018 EP and may require wines to be "cheapest to deliver". If such parameters are met, then the potential upside, coupled with our positive outlook for a recovery in the temporary softening seen by young Bordeaux, represents a compelling opportunity for investors.

FINE WINE & SPIRITS MERCHANT

DISCLAIMER

These materials have been prepared solely for informational purposes, and do not constitute an offer to buy or sell or a solicitation of an offer to buy or sell any security, product, service or investment.

The opinions expressed in these materials do not constitute investment advice and independent advice should be sought where appropriate.

The information provided in these materials or in any other communication is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would give rise to to any registration requirement within such jurisdiction or country.

This document does not provide tax or accounting advice and you should consult your own advisers in relation to these matters if required.