ACROSS THE DITCH

Smart *money*

Misha Wilkinson

Who'd want to invest in the wine business in New Zealand? For that matter, who'd want to invest in the wine business *anywhere?* There are those vineyard owners who remember the good ol' days when selling wine was easy and making a profit was par for the course. There are others who entered the wine business more recently and the only good times they recall are when they still had some money in their pocket prior to blowing it all on 'living the dream'. But in spite of the world's dire economic woes, supply and demand imbalances, diminishing demand and heartbreaking exchange rates, new money is being invested in New Zealand's wine industry.

Richard Yan is a pretty smart guy – in fact *Time* magazine described him as one of the rising stars among China's new breed of mainland business people. He came to New Zealand in 1981 as the first Chinese secondary student to obtain a Rotary Scholarship, enabling him to study English in Auckland. He went on to be the first student at the University of Auckland to earn two degrees in three years and later gained an MBA from Harvard Business School. Establishing the Richina Group, Yan has a diverse portfolio of companies and investments across China and New Zealand and now a vineyard on Waiheke Island.

Purchasing Te Motu Vineyard and Restaurant and the adjoining properties at the end of 2010, Yan has plans for a five-star winery-based luxury hotel and spa, an interactive wine theatre and conference centre under the glamorous Langham Hotels banner. This island resort idea was actually launched in 2008 just as the global economic climate put the brakes on investment decisions, but now under Yan's control, plans are back on the drawing board with an opening slated for 2015.

"The principal reason we purchased this vineyard and its two adjacent properties is to create a New Zealand premium wine showcase on Waiheke," says Yan. "At the same time, we also want a place we can host people, particularly from China following their New Zealand House experience, so we bought all three properties together to create both the physical environment and the branded wine experience coupled with an excellent wine restaurant." The New Zealand House that Yan speaks of will open in downtown Shanghai next year and has been a project his company has worked on for more than a decade. "NZ House will accommodate leading branded businesses as well as having a retail floor to show off the 'best of NZ' particularly in food and beverage with wine featuring highly," explains Yan.

Why Waiheke? Yan says he considers the island the most convenient and attractive international tourist destination for New Zealand wine given its closeness to Auckland. “We consider Waiheke to be the Martha’s Vineyard of the South Pacific,” he says. And given China is predominantly a red wine market, Waiheke Island was an ideal choice because at the top end it produces world-class Bordeaux style red wine as well as Syrah. “We wanted to have a premium wine offering that competed with the best in the world,” Yan explains.

His vineyard investment is certainly not a flight of fancy – he has a clear strategy in place and it centres on one of the world’s largest and fastest growing markets. But it’s also coupled with some altruism. “The key is to market brand New Zealand as opposed to each of the 700 individual wineries as the China market is too big to be penetrated by small players, so that’s why we created NZ House and hope it will be flying the NZ flag high and wide in China,” says Yan.

Another large-scale vineyard investment has been undertaken by American billionaire William P. Foley II, or Bill as he likes to be called, who’s already amassed sizeable wine assets and has an appetite for more. Currently Foley Family Wines owns several Marlborough wine brands including Vavasour, Goldwater, Dashwood and Clifford Bay Winery, the luxury Wharekauhau Lodge, Martinborough’s Te Kairanga Wines and one of New Zealand’s largest wine distributors, EuroVintage. And he only started this New Zealand wine-buying spree in 2009.

Foley is no stranger to the vineyard business as it was back in the US where he started his wine ventures in Santa Barbara as an experiment, but soon found “he was in deep and it was expensive”. Since 1996 he’s bought 10 wineries across California and Washington State. His criteria for potential winery acquisitions is all about hard assets – land and production facilities – and he’s known to be a bargain hunter which clearly explains his recent rush of purchases. He’s been quoted as saying he wants to “bring financial discipline to the wine industry” and that’s pretty evident by the way he immediately consolidates all the back-office operations across his wineries to improve cost efficiencies.

Foley has been pursuing an 80% stake in struggling NZAX-listed New Zealand Wine Company and has just won shareholder approval and just awaits the final consent from the Overseas Investment Office. This effectively gives him control of the Grove Mill winery and brand and access to nearly 200 more hectares of vineyards in Marlborough. Foley wants to grow his companies to export about one million cases of wine a year with Grove Mill forecast to produce about 450,000 cases. According to Foley, “This merger is a key component of our New Zealand strategy. The strong growth of our New Zealand wine brands along with a couple of short vintages has left us challenged to meet our demand. With this plan we will gain much needed supply, as well as the Grove Mill, Sanctuary and Frog Haven brands to add to our robust portfolio.”

As well as Foley, there’s another American billionaire with serious investment in the New Zealand wine industry – Julian Robertson, a former Wall Street hedge fund manager who owns Dry River in the Wairarapa and Te Awa and Kidnapper Cliffs in Hawke’s Bay and three of New Zealand’s most luxurious lodges. Although it’s reported that Robertson’s father encouraged his children to read financial statements to work out what was a good investment, it seems his acquisitions are more to do with his love affair with New Zealand, which started more than 30 years ago on his first visit.

It’s not just overseas billionaires with an excess of cash who are investing in New Zealand. A newcomer to Central Otago is Mark Weldon who recently quit his job at New Zealand’s stock exchange (NZX) after 10 years at the helm. Weldon, a Kiwi, has always been a high achiever having gained two Bachelor degrees and a Masters degree in Economics from the University of Auckland, followed by two law qualifications from Columbia University in New York and a high-flying career working extensively on mergers and acquisitions, asset management and corporate strategy. He’s eminently qualified to assess that a winery acquisition in Central Otago is a smart thing to do despite many in the region finding things tough. Weldon’s belief that he can go against the tide is not surprising given he’s also a former Olympic swimmer.

And Weldon’s not the only one wanting to invest in Central Otago, with a Boston-based group recently purchasing one of the larger Pinot Noir vineyards. The vineyard doesn’t have a brand associated with it yet but Beth Ann Dahan, one of the directors, has started that process. Dahan is a wine educator at Boston University and previously owned hospitality-based businesses and her two partners are both portfolio managers for hedge funds. “We feel that our backgrounds of food and beverage along with strong financial skills will help us enormously with owning and operating a vineyard along with producing and marketing wine primarily for export to the US,” she says.

As to why this group thought New Zealand was the best place to invest in a vineyard, Dahan explains there were several reasons. “New Zealand wines are of a very high quality and we were especially enticed by the Pinot Noirs of Central Otago,” she says, adding the market for New Zealand wines, especially Pinot Noir, is largely untapped in the US. “There is a strong story to tell about New Zealand and its wines and we feel that with much stronger advocacy, sales of New Zealand wines in the US will increase greatly in the near future,” Dahan says. She also says New Zealand is an attractive country from an investment viewpoint due to the language, the legal system and the overall climate for foreign investors.

Another key reason was timing. “At the time of our investment there was good availability of vineyard land at very attractive prices due to consolidation in the NZ wine industry which made investing very attractive,” Dahan says. Besides all of that good sense, she also admits “we also just fell in love with the country after our first visit and can’t think of a more beautiful place in which to spend time.”

New Zealand Winegrowers has just released its annual report for the year ending June 2012 and it states the value of exports in the last year grew 8%, with international sales volumes lifting 79% since 2008. The real estate market is active with Marlborough real estate agent Ross Houlker saying he’s fielding many enquiries from overseas investors as well as seeing demand from current owners looking to improve their economies of scale, as there’s a sense that prices are about to rise.

So whatever the reasons for investing in New Zealand’s wine sector, be it a link to markets with huge growth potential or just having a love affair with the country and its wines, it certainly seems the smart money is moving to New Zealand.

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