

Valuing the great estates of Bordeaux – who is in the €50 M club?

The prices achieved by the top wines from Bordeaux have soared in recent years on the back of sustained global demand. The Liv-ex Fine Wine Investables Index, which tracks more than 200 of the top red wines from across the region, has increased by more than 170% in the last five years alone. So – with their products achieving hitherto unprecedented prices – what price would the top Bordeaux properties sell for?

Without access to the financial accounts of the individual chateaux, producing a valuation using the standard methodology applied to a business (a multiple of profits) is near impossible. As such, Liv-ex looked at other possible ways that a valuation of the major players could be achieved.

The most transparent and accurate data available on Bordeaux wines is their secondary market trading price. As such, we decided to base our valuations on this data. The value of each chateau's annual production (i.e. average trading price multiplied by quantity made) was used as our core data point. We then looked back to find out what relationship this figure has had with the actual transaction prices of major chateaux in recent years. (See "How we did it" for the full methodology.) Interestingly, we found a remarkably consistent relationship between the two figures, with the chateaux's sales values coming in at average of 15 times production value.

This relationship was then combined with current market pricing to calculate the value of the leading Bordeaux chateaux.

All those estates valued at more than €50 million euros (a figure that just over 50 estates managed to surpass) are outlined in the accompanying data table (Table 1).

The power of Bordeaux

With a combined market value of more than €15 billion euros, the top Bordeaux chateaux are now clearly powerful luxury brands in their own right. Indeed, the raw data behind these calculations is somewhat staggering: more than 12.5 million bottles of wine are produced by just the top 50 estates, with a combined market value in excess of €1.6 billion euros.

It comes as no surprise that the First Growths fill the top five places, with all but Haut Brion valued at more than €1 billion. The top "Super Seconds" come in at €200 to €500 million, as do Pontet Canet, Duhart Milon and Lynch Bages. Over on the Right Bank the most valuable estate is, unsurprisingly, Petrus. At an average price of €20,000, it also has the highest case price in the study. The top ranking St Emilion is, also unsurprisingly, Cheval Blanc. Although at €435 million, it is eight times less valuable than Lafite.

The estate on the list with the lowest total production is Le Pin. Despite only producing around 600 cases per year, it has an estimated valuation of €90 million, thanks to its €15,000 euro average case price. In contrast, Prieure Lichine has an average price of just €275 per 12x75cl case, but its 27,000 case production means it comfortably makes the €50 million club.

Profits and prestige

The fact a fourth growth such as Talbot can achieve a valuation in excess of €150 million, may strike some as excessive. However, it must be remembered that top Cru Classe Bordeaux estates have an estimated gross margin of between 70-99%. As such, the multiplier we have used represents a valuation of around 16-20 times pre-tax earnings. This would still be considered a punchy valuation in almost any other market, but when you consider the current rate of increase of fine wine prices, this can be justified. The other factor to consider is that the top chateaux are truly 'trophy' assets and rarely come onto the market. Their perceived value, therefore, is greater than would be surmised from a purely profit-based approach.

Left versus Right

Twenty-two of the top 25 estates are from the Left Bank, with Petrus, Cheval Blanc and Ausone the sole interlopers from the Right. The key to achieving a high valuation was to have a large production and a strong second wine, neither of which is common in Pomerol or St Emilion. It is becoming increasingly clear that for the top names of the Right Bank to compete effectively with their peers across the river they need to be able to expand their production, as is common in the Medoc. This is currently not possible under regulations governing the St Emilion Grand Cru Classe. The proposed reforms, which would allow estates to expand (although still in a far more limited way than is possible in the Medoc), clearly can't come soon enough for the likes of Cheval Blanc and Angelus.

Lafite Rothschild – a four billion euro estate?

The one valuation that looks particularly challenging to accept is that of Lafite Rothschild, which tops the rankings. At a price of almost four billion euros, Lafite is almost certainly the most valuable wine brand in the world, valued on a par with multinational drinks conglomerate Constellation Brands. If we look at the numbers used in the calculation, the reasoning behind its sky-high valuation is clear. Lafite is now producing wine with a market value of close to €400 million euros – every single year. Even when taking into account the margins taken by merchants and negociants, Lafite could presumably sell its production for more than €250 million, if it exploited the current market price of its wine to the maximum extent possible. (As an aside, the fact that it currently doesn't and leaves a significant amount of margin on the table for its distribution partners could be a major reason for its runaway success.)

The other factor to consider is that at a valuation of €3.7 billion, only a multinational company would be able to buy it outright. As such, it could be argued that a lower multiple of production value should be used, as multinational companies are not known for making vanity investments. Nevertheless, even if Lafite's value on the open market would achieve somewhat less than we have stated here, it would undoubtedly attract a multi-billion euro price tag. Indeed, the production of its second wine, Carruades de Lafite, generates more revenue than legendary estates such as Haut Brion or Petrus.

If you have any comments or queries on this research, please contact Jack Hibberd, Research Manager, at jack@liv-ex.com.

Notes:

Errors and omissions – a word of caution

Any piece of research is only as good as the data used. The key issue we faced when compiling this research was obtaining accurate production numbers. We used both the official declarations lodged with the local town halls and other publicly available information to calculate our estimates. We also, on occasion, asked the chateaux themselves. There is obviously a significant margin for error here.

Furthermore, the top Bordeaux chateaux are traded very infrequently and both buyer and seller are usually private companies. As such, getting hold of the actual transaction prices is similarly difficult.

Other influences on the price of the chateaux, such as the chateaux buildings themselves; additional land available for planting; recent capital investment; library stocks; cash held and debts, were not taken into account. We have also ignored the value of third wines and wine sold off in bulk.

We have also assumed a standard merchant and negociant margin across all chateaux.

As such, this research is best treated as a first step to determining a new valuation methodology for the leading chateaux. Real world results might deviate significantly from the values provided.

How we did it

1. First we calculated the current trading price in euros of a 12x75cl case from the five most recent vintages (2005-2009) of both the first and second wines (where applicable) from each Bordeaux estate. We then averaged this to provide us with a case price.
2. This case price was multiplied by the amount of cases produced, on average, by each estate, each vintage (culled from the *declarations de recolte* and other publically available sources). This provided the total market value of each estates annual production.
3. This total value was then modified (divided by 1.5) to account for the margin taken by the negociants and wine merchants. This provided the total income achievable, by the chateau for one vintage release.
4. We then looked at major transactions of Bordeaux estates where the transaction price was relatively transparent or widely reported. This figure was then divided by the value of that chateau's production (worked out in the same way as above) at the time of the sale. The average multiple across all the wines we looked at was 15. (See table 2)
5. We then multiplied the total income achievable (Step 3) by 15 to calculate the current value of each chateau. (See table 1)

About Liv-ex

Liv-ex.com is the global marketplace for fine wine, with members in 30 countries on four continents. Collectively, its members – including merchants, brokers, retailers, importers, exporters and wine funds – account for the vast majority of global fine wine turnover.

Liv-ex is also the leading source of fully comprehensive fine wine market information and analysis, including the industry benchmark, Liv-ex Fine Wine 100 Index.

Table 1: How much are the top Bordeaux Chateaux worth? The €50 M club

Chateau	Chateau Valuation (€)	1st wine		2nd wine	
		Average Case Price (€)	Production (12x75 cases)	Average Case Price (€)	Production (12x75 cases)
Lafite Rothschild	3,705,296,400	12,589	22,000	3,899	24,000
Latour	1,278,231,840	9,257	11,000	2,241	11,600
Mouton Rothschild	1,235,600,400	6,818	16,000	1,447	10,000
Margaux	1,196,647,740	6,902	13,500	1,605	16,500
Haut Brion	729,195,300	5,902	11,000	1,096	7,300
Petrus	662,789,160	22,093	3,000	NA	NA
Cheval Blanc	437,530,632	5,399	7,300	1,448	3,000
Leoville Las Cases	384,832,080	1,796	18,000	308	20,000
Duhart Milon	329,724,480	1,307	24,000	228	7,000
Cos d'Estournel	328,707,600	1,492	20,000	302	10,000
Lynch Bages	306,432,000	1,062	25,000	228	18,000
Mission Haut Brion	245,898,000	3,876	6,000	445	3,000
Montrose	242,364,000	1,027	20,000	246	15,000
Palmer	219,427,200	1,887	10,000	384	8,000
Pichon Baron	217,113,000	849	21,000	228	17,000
Pontet Canet	215,460,000	913	20,000	205	16,000
Beychevelle	205,770,000	815	20,000	285	15,000
Ducru Beaucaillou	200,432,520	1,364	12,000	245	15,000
Pichon Lalande	192,226,800	1,051	15,000	266	13,000
Ausone	172,689,822	11,123	1,450	1,425	800
Leoville Poyferre	167,215,200	713	20,000	205	12,000
Lascombes	160,876,800	584	26,000	228	4,000
Talbot	152,103,360	360	28,000	171	30,000
Leoville Barton	151,793,280	623	22,000	245	6,000
Angelus	138,678,720	1,803	7,000	416	3,000
Pavie	131,494,440	1,736	7,000	285	3,500
Lagrange St Julien	127,967,280	333	23,000	171	30,000
Lagune	117,933,000	390	25,000	171	12,000
Calon Segur	115,846,800	536	20,000	171	5,000
Giscours	110,010,000	372	25,000	171	10,000
Gruaud Larose	104,697,600	396	20,000	160	16,000
Pape Clement	99,264,360	940	9,500	222	4,500
Pin	89,352,288	14,892	600	NA	NA
Haut Marbuzet	87,533,760	288	28,000	137	5,000
Figeac	87,529,200	875	10,000	NA	NA
Lafleur	81,913,560	7,909	1,000	942	300
Grand Puy Lacoste	80,698,320	466	14,000	154	10,000
Armailhac	78,249,600	356	22,000	NA	NA
Branair Ducru	75,696,000	420	15,000	182	7,000
Clerc Milon	72,162,000	481	15,000	NA	NA
Brane Cantenac	71,674,080	411	12,000	160	14,000
Fleur Petrus	71,193,000	1,424	5,000	NA	NA
Smith Haut Lafitte	70,876,080	502	12,000	177	6,000
Prieure Lichine	67,944,000	292	20,000	137	7,000
Kirwan	65,237,640	363	16,000	143	5,000
Malescot St Exupery	64,113,600	539	10,000	205	5,000
Haut Bailly	63,565,260	667	8,500	171	4,000
Sociando Mallet	63,176,520	270	23,000	114	1,000
Rauzan Segla	61,176,960	560	8,000	205.2	8,000
Evangile	55,757,400	1,630	3,200	399	900
Cantenac Brown	53,310,960	430	12,000	171	1,000
Domaine Chevalier	51,984,000	490	8,000	160	8,000
Conseillante	50,140,620	1,114	4,500	NA	NA

Average Case Price: Average market price for the 2005-2009 vintages in the 12x75cl unit size. This number was adjusted (divided by 1.5) before the final calculation was made to adjust for merchant and negociant margins.

Source: liv-ex.com

Table 2: Historic transactions

Chateau	Date sold	Price (€)	Total production value	Multiple
Cheval Blanc	Aug-09	472,000,000	25,752,600	18
Quinault 'Enclos	Sep-08	18,000,000	1,192,800	15
Poujeaux	Feb-08	25,000,000	4,318,633	6
Pointe	Oct-07	33,500,000	2,002,000	17
Pichon Lalande	May-07	200,000,000	11,138,680	18
Montrose	Apr-06	140,000,000	10,651,200	13
Cantenac Brown	Mar-06	72,000,000	3,286,667	22
Margaux	Mar-03	400,000,000	26,730,000	15
Average				15

Source: liv-ex.com