



WINE CELLAR
FINE WINE MERCHANTS

INVESTMENT REPORT

2023

WINE CELLAR 2023

SECONDARY MARKET

OVERVIEW



This is our most comprehensive investment report to date. Growing trade on the South African secondary market, at Strauss & Co, and via Liv-ex has given us more and more insight into an ever-changing fine wine market.



SOUTH AFRICAN SECONDARY MARKET TRADE

The South African secondary market continues to grow despite economic headwinds. However, a slowdown is expected in back vintage pricing as the market matures and with broad economic sentiment still in decline.

STRAUSS & CO.

2023 was another successful year for fine wine auctions at Strauss & Co. More than 2 600 lots were offered across 18 auctions. Headlines include:

- Sales turnover increased by more than 50% from 2022
- Lots offered increased by 51% from 2022
- Sale-through rate declined from 96% to 83%

The decline in sale-through rate (the percentage of lots sold per auction) can be attributed to various factors, which may include a broader range of lots on offer as well as a macro and micro economic downturn.

Among the highlights was that London fine wine merchant Bordeaux Index immersed itself in purchases at the Cape Winemakers Guild and emerged as the single largest buyer at the auction, with more than 10% of auction value. In total, around 40% of the auction's sales went to overseas buyers. This highlights the great value proposition that South African fine wine still offers compared to traditional fine wine regions, as well as the growing interest in South Africa's top producers' wines now, stretching beyond primary releases.

The below table lists the performance of key wines with consistent sales on Strauss & Co. since the inception of these fine wine auctions. 'Bottles' is the total number of bottles traded over the stipulated years and the price is the average price achieved of all sales for that year (prices are all inclusive of commissions and VAT).

KEY WINES' PERFORMANCE ON STRAUSS & CO.

Wine	Bottles	2019	2020	2021	2022	2023
RARE AND SOUGHT-AFTER WINES						
Alheit Vineyards Radio Lazarus 2012	21	R2 291.00	R2 228.00	R6 449.00	R4 885.00	
Chateau Libertas Red 1957	6	R17 070.00	R47 588.00	R54 314.00	R18 760.00	R18 760.00
GS Cabernet 1966	13	R29 019.00	R32 830.00	R91 040.00	R39 667.43	R48 854.17
KC Vin De Constance 1987	8	R21 337.50	R23 450.00	R31 430.00	R58 625.00	R25 795.00
Sadie Family Ouwingerdreeks 2009	42	R3 667.00	R3 713.00	R7 587.00	R5 587.00	
PORTFOLIO RELATED WINES						
Boekenhoutskloof Syrah 2015	48		R1 700.00	R1 250.50	R1 173.00	R1 563.00
Kanonkop Paul Sauer 2009	63	R1 991.50	R2 708.07	R3 908.00	R3 518.00	R3 518.00
Kanonkop Paul Sauer 2015	135	R1 795.71	R4 942.42	R3 712.75	R3 908.00	R4 885.00
KC Vin De Constance 2007	30	R2 465.67	R3 713.00	R3 322.00		R4 103.75
Mullineux Syrah 2010	18	R683.00	R1 642.00	R977.00	R1 485.00	
Porseleinberg Syrah 2015	78		R2 032.60	R2 605.67	R3 257.33	R3 908.00
Sadie Family Columella 2009	28	R1 897.00	R3 713.00	R3 931.33		R3 908.33

A general observation is the strong pricing in 2020 and 2021, when the effects of lockdowns (due to Covid-19) played their part in driving online sales. In some instances, 2022 saw a slight correction of the 2021 price. Yet when the period 2019 to 2023 is considered, there is an upward trend in all wines. Rare and Sought-After Wines merely indicate the appetite and pricing achievable for older, cult-like wines. With regard to Portfolio Related Wines, it is pleasing to note that our position on the relative value of buying these wines on primary release is well established, with these examples achieving between 14% (Sadie Columella 2009) and 43% (Kanonkop Paul Sauer 2015) annualised growth.

WINE CELLAR SECONDARY MARKET TRADE

Wine Cellar's own secondary market trade continues to grow via our simple Brokerage platform. However, we believe that the secondary market is entering the next phase of its growth – one that will be marked by higher levels of supply. In this regard, there are two things to consider: 1) Secondary market supply comes off a very small base, and 2) while there is an increase in supply, there is also growing demand. Comparing year-on-year figures for March to January, 2023/2024 is 43% up in the number of bottles sold and 48% up in turnover. With our VIP 2015 reaching the end of its free-cellarage period in August 2023, a fair number of 2015 wines have come to market.

These wines are entering their respective drinking windows, making them attractive for consumption, but they also still offer value for the long term to those collectors who missed out on the 2015s at the time of release. It will be fascinating to watch the evolution of these wines over time. Some 2017s are also coming to market – another vintage that vies for top-spot as vintage of the 21st century to-date for South Africa.

100-POINT WINES

Since Kanonkop was awarded a 100 points for Paul Sauer 2015, the secondary market has steadily grown in its appreciation for top-end South African wines. To examine some effects of these wines, let's first list wines that have since achieved 100-point status by internationally renowned critics:

- Kanonkop Paul Sauer 2015 – 100 TA in 2018
- Sadie Family Skurfberg 2019 – 100 TA in 2020
- Porseleinberg Syrah 2018 – 100 TA in 2020
- Mullineux Olerasay no.2 NV – 100 NM in 2020
- Sadie Family Columella 2019 – 100 TA in 2021
- Boschkloof Epilogue 2021 – 100 TA in 2023
- Mullineux Olerasay no.3 NV – 100 GS in 2023

* TA = Tim Atkin MW; NM = Neal Martin for Vinous.com; GS = Greg Sherwood MW

As has been well documented, Paul Sauer 2015 was pioneering on the secondary market. Following its 100-point award, supply and demand met and a conservative approach to pricing meant that the wine traded with relatively small increments in price over time. The start of Covid lockdowns saw a turning point for the online auction space as buyers were confined to their homes with spare cash and Paul Sauer jumped in price from R1 750 per bottle in 2019 to an average price of R4 700 for the 2020 auction year. Wine Cellar brokerage followed suit and the wine has been trading at R3 500 – R3 750 since 2021. Even though there is more supply at present compared to 12 months ago, suggesting a possible downturn in price, the wine continues to trade well. Consequently, R3 000 – R3 500 has been perceived by many sellers as the standard for 100-point wines and Porseleinberg 2018, Skurfberg 2019 and Columella 2019 have all come to market around the R3 000-mark. However, as none of these wines have traded on Strauss & Co. (on account of being relatively young), there has been no open market price set to suggest that R3 000 is a workable price in reasonable volume. Of course, production volume is of real importance as Porseleinberg 2018 was produced in considerably higher volumes (roughly 22 000 bottles) compared to Columella 2019 (roughly 13 000 bottles) and Skurfberg (roughly 3 000 bottles). Thus, more trade in an open market environment is likely to see these fundamentals have an effect on pricing. Currently there are various cases of Porseleinberg 2018 listed on Wine Cellar's brokerage, suggesting the likelihood of a price correction to stimulate demand. Columella and Skurfberg (regardless of vintage) have far less supply and liquidity is higher.

Pricing remains somewhat constrained in the market's ability to price freely. With no public exchange or open platform that transparently trades South African wine in a local context (or internationally with any real significance), pricing is still up to the merchant or seller, with no clear standard of what the actual market price is. To contextualise that, even Liv-ex or Wine Searcher cannot be considered all encompassing or absolute in their valuation of wines. Though they draw on significantly greater databases to set a fairly accurate or representative price, there are still ambiguities within the market (e.g. merchants have public price lists, but in a market downturn will sell off at lower prices to private customers to move stock). Thus, the South African market is not entirely unique in its pricing mechanism challenges, but we are certainly still in our infancy as a market in creating such mechanisms. However, Wine Cellar's own trading in the secondary market has given us great insight and the growth of Strauss & Co. has certainly offered a more open-market vehicle for determining what buyers are willing to pay at the top-end.

The below table lists the most traded wines via our brokerage platform for 2023. The table indicates the number of bottles sold, total sales value, average value per bottle sold and the release price to average traded price ratio.

TOP 15 WINES SOLD BY VOLUME VIA WINE CELLAR BROKERAGE

Wine	Bottles	Value	Avg./bottle	Release to avg.
Kanonkop Paul Sauer	225	R478 474	R2 127	2.30
Meerlust Rubicon	214	R185 420	R866	1.58
Kanonkop Paul Sauer (excl. 100 points)	172	R274 174	R1 594	1.72
Porseleinberg Syrah	112	R173 000	R1 545	2.06
Thelema Cabernet Sauvignon	111	R60 350	R544	1.60
Kanonkop Cabernet Sauvignon	103	R97 025	R942	1.64
Sadie Family Columella	93	R192 175	R2 066	1.89
Porseleinberg Syrah (excl. 100 points)	88	R104 450	R1 187	1.58
Sadie Family Treinspoor	75	R51 010	R680	1.37
Sadie Family Skerpioen	72	R54 335	R755	1.52
Sadie Family Columella (no 100 points)	69	R114 675	R1 662	1.52
Sadie Family Palladius	62	R86 290	R1 392	1.39
Vilafonté Series C	60	R139 471	R2 325	1.16
Beeslaar Pinotage	60	R48 000	R800	1.21
Mvemve Raats De Compostella	57	R122 265	R2 145	1.05

Sales recorded are across vintage to allow for the broadest measure of performance per wine, by volume sold. Key to understanding the above is that it is not only demand that affects sales, but supply is fundamental. If there was more Sadie Family Skerpioen supplied to market, would more have sold? Possibly. By the same token, at the time of writing there were various vintages of Kanonkop Paul Sauer still on offer on the brokerage platform – thus, it is fair to assume that, at current pricing, it is unlikely that another 60 bottles would have sold if 60 more bottles were offered.

The release to avg. metric simply measures the ratio of the current release price to that of the average price of wines sold on the secondary market. As the average price measures across vintages, it is not a definitive measure of price growth. However, it does give some indication as to how wines traded in reasonable volumes perform on the secondary market compared to their current release. Wines with a lower ratio have three potential factors that cause this: 1. a fair number of recent vintages are traded relative to overall trade of the wine, with recent vintages not having the same total growth as opposed to vintages that are older; 2. the base/release price of the wine is already high, leaving little room for price appreciation; 3. the wine might be liquid, but at a lower increased price relative to the other wines in the list.

In simple terms, Kanonkop Paul Sauer remains the most traded wine in our secondary market. Most impressive is that even without the 2015 vintage (100 points) that could potentially skew pricing, it is second only to Meerlust Rubicon by volume and still has the highest sales by value and the highest release to average price ratio. Meerlust Rubicon also confirmed its continued secondary market demand, being only a couple of bottles behind in second place. These two wines are well ahead the rest of the table, with Porseleinberg Syrah in third place, having sold around half of the volume. Total production volume per wine also plays a role. Porseleinberg Syrah was produced in miniscule quantities pre-2016 but has since increased production significantly. Meerlust Rubicon is the largest volume production of the wines on the table. Vilafonté and Mvemve Raats have the lowest release to average ratios, most likely because of their already high release prices. Yet, the fact that these wines still sell in fair volume at strong prices is indicative of good demand for these wines.

Without considering the 100-point wines twice, four of the wines in the top five are Bordeaux-styled wines, with Porseleinberg Syrah being the only exception. Sadie Family features the most in the top 15 with five places (Columella twice; with and without 100 points). Despite small production volumes of especially the Old Vine Series wines, they remain in high demand. Wine Cellar's focus on these wines is not to push price, but to keep liquidity healthy as opposed to trying to achieve single bottle sales at high prices. Our view is that higher liquidity is of greater value than high value sales. Thelema and Kanonkop are both represented by their Cabernet Sauvignon, in the top five by volume, but Kanonkop has more than 50% more value than Thelema, even though their volume is similar. Sadie Family Palladius and Skerpioen are the only white wines on the list, highlighting their high standing when it comes to liquidity as well as the fact that it is mostly red wines that are traded on the secondary market in significant volume.

Wine Cellar's latest portfolio offering is the VIP 2021 ([view more details here](#)). Tasting a host of whites from 2021 and a fair amount of reds has us convinced that it is another truly special vintage for the Cape – across regions. Fine wine collectors should not miss out on 2021. Both the quality of the vintage and the incredible value on offer make this one of our finest portfolio offerings to date. 2022 and 2023 were both challenging for different reasons, leading us to believe that a unitised parcel of wines from these vintages will be more challenging.

THE GLOBAL FINE WINE MARKET

As is now well documented, after a period of uncertainty at the start of Covid-19, fine wine trading by volume and value jumped considerably. The Liv-ex 1000 (the broadest measure of the fine wine market) grew 43% from April 2020 to September 2022. The main drivers were Champagne and Burgundy's prolific growth, the Burgundy 150 index gaining 75% and the Champagne 50 a staggering 91% during the same period.

However, concerns were building among the trade, as well as industry commentators, as to the sustainability of rising prices. Yet, Burgundy continued to push prices over the last two release campaigns. In part, due to difficult harvest conditions leading to lower harvest volumes, but also due to seemingly insatiable demand. 2021 was a tiny crop and many Burgundian *domaines* applied large price increases, with some as high as 65%. Consequently, en-primeur 2022 was a challenge for three reasons: 1. 2022 is an incredible quality vintage, giving reason for producers to push prices to differentiate the vintage, yet 2021 was already stratospheric in its increases; 2. However much the quality is undisputed, the volume is considerably higher than 2021, which is sure to ask questions of demand for top Burgundy at these levels of supply; 3. The 2023 harvest produced unprecedented crops with rumours of some producers purposefully leaving fruit on the vines to remain below legal maximums. Thus far, EP 2022 is similar to 2021 in pricing (give or take 5%). Will Burgundy hold firm among growing international turmoil and uncertainty? Is the region set for a gradual decline in light of the large 2023 crop, or is it a bubble that is set to burst?

Similarly, Bordeaux has come under pressure over the last couple of years. As demand for Burgundy, Champagne, Tuscany and Piedmont grew, Bordeaux lost some ground by volume. Apart from not being in vogue, Bordeaux has been its own enemy since en-primeur 2019, when it comes to pricing and manipulating volume. En-primeur 2019 was a resounding success. As uncertainty at the outset of Covid forced châteaux to offer very attractive pricing and, in tandem with a great quality vintage, moved through the market very well. Most 2019s today are all up in price, compared to their en-primeur pricing. However, another great vintage followed in 2020 and pricing jumped. 2021 was not as lauded as the previous three vintages, breaking the mould of a very warm, dry vintage and pricing was expected to reflect that. A combination of pricing not dropping low enough for the market's liking, as well as volume manipulation from many of the prominent châteaux, meant that the campaign was not well received in major markets. Similar to Burgundy, 2022 was an incredible quality vintage in Bordeaux and château owners jumped at the opportunity to push pricing – some as much as 50%. News among some of the largest négociants in Bordeaux is that the 2023 en-primeur campaign is also set for a correction, or at least more attractive pricing. As with Burgundy 2023, Bordeaux châteaux have critical decisions to make for the upcoming en-primeur 2023 campaign.

GEOPOLITICAL TENSIONS AND THE FINE WINE MARKET

The Russian-Ukrainian conflict (starting February 2022) contributed significantly to uncommon levels of inflation and increases in energy pricing, resulting in subsequent increases in the cost of living for Europe and the UK. The more recent Middle Eastern conflict is creating greater concern for the possibility of a broad regional conflict, with shipping around the Red Sea and Gulf of Aden also under pressure – adding greater instability to the region and further increases to global shipping. Economic headwinds in China as well as unrest in the wake of Covid-19 has meant that China is not yet at normal levels of demand. News from France is that both Burgundy and Bordeaux are not yet moving its desired volumes to China. From a volume perspective this is less of a concern for Burgundy than for the volume juggernaut that is Bordeaux.

All of the above factors led to a fine wine market pricing correction that started in October 2022. Current trading data on Liv-ex does suggest that the market might be approaching the bottom, as bid-to-offer ratios are picking up. However, as the table below illustrates, year-to-date figures are still negative on all major indices, with regional indices in tow.

MAJOR LIV-EX INDICES (6 FEBRUARY 2024)

Index	Current	MoM	YTD	1 Yr	2 Yr	5 Yr
Liv-ex Fine Wine 100	359.25	-0.30%	-0.30%	-13.20%	-10.10%	15.20%
Liv-ex Fine Wine 1000	405.48	-2.20%	-2.20%	-14.90%	-7.70%	11.90%
Burgundy 150	723.48	-3.70%	-3.70%	-19.60%	-3.80%	21.70%
Champagne 50	572.21	-1.80%	-1.80%	-16.10%	-9.70%	48.40
Bordeaux 500	328.82	-1.40%	-1.40%	-12.30%	-8.10%	3.30%

Source: Liv-ex

The market trend across regions is similar, yet Bordeaux moves along a much narrower band as opposed to Burgundy and Champagne.

Where the latter two regions might offer more prolific growth, Bordeaux offers higher liquidity (not illustrated in the table), thus affording you the opportunity to move in and out of positions with greater ease. In short, fine wine pricing on the secondary market is still on a downward trajectory. Potential outcomes are lower release pricing for Bordeaux en-primeur 2023 as well as a correction in primary releases from other major regions.

Considering the long-term trend of the Liv-ex 1000, fine wine is still a great alternative for capital preservation. Following a 14.9% decline over the last year, the Liv-ex 1000 still achieves 7.3% annualised growth since inception (31 December 2003).

SOUTH AFRICAN FINE WINE EXPORTS

As is documented in an article by Winemag.co.za, WOSA released the figures of South African fine wine exports that were in decline in 2023 with 17% in volume and 11% in value. The difference in figures might have a silver lining in suggesting that our export value per volume increased, even though overall volume decreased.

Feedback from various producers and local distributors that would be classified as ultra-premium by SAWIS (effectively priced above R125 per bottle) does confirm that exports in 2023 were tough, with international markets being slower. Challenges at Cape Town harbour are a cause for concern as well. Some producers expect slower export markets to continue and, as a result, they will not take on more fruit and there might be more stock available in the South African market for 2024. However, as Murray Barlow from Rustenberg commented, *'2023 was a game of two halves for us – the first half of the year was very slow in terms of exports and then mid-winter it picked up really nicely.'* He concludes by noting that January has carried the Christmas sales momentum for the UK and Europe with good orders coming in. South Africa's value proposition relative to traditional fine wine regions, coupled with continued high-quality wines and critic reviews to match, positions it well for a turbulent international market.

A FINAL NOTE

You'll be pleased to note that we are implementing critical changes in the background of our brokerage business to ensure a more seamless user experience from both a buying and selling perspective. We remain committed to building a well-functioning and healthy secondary fine wine market.

To great wine in 2024!

A handwritten signature in black ink that reads "Johan Malan". The signature is written in a cursive, flowing style with a prominent initial 'J'.



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