CANADIAN WINE COLLECTOR

Q4, 2012

THE FALL AUCTION EDITION

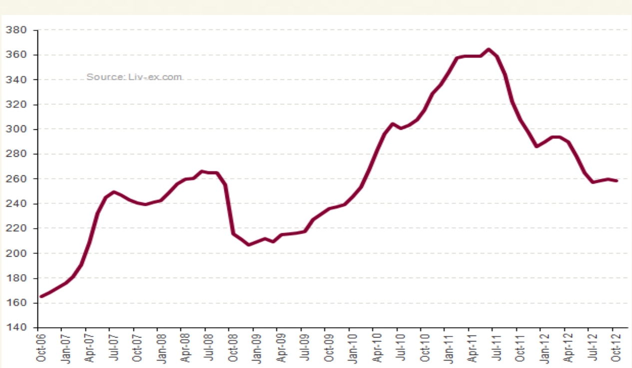
The fourth quarter of the year is wine auction season, at least in Canada. Therefore the majority of this issue will be dedicated to this aspect of our industry. While a little news occurred in BC, and there's one auction house in Quebec, the lions share of activity remains in Ontario.

Overall we continue to see a softening of demand for Bordeaux and an increase in demand for Burgundy. The "Lafite Effect" continues to impact the Bordeaux index worldwide as China's palate appears to have migrated its way over to the Cote d'Or. The highest end Burgundies are setting record prices in Hong Kong and yet Lafite, the once darling of the Asian auction scene, almost overnight became the red-headed step child. The LCBO Vintages auction reflected that sentiment with, of the 39 single SKU lots of Lafite auctioned, 38% remained unsold and the remainder went for an average of 11% below low estimated value. A mere single lot, 2 bottles of 2001 (the only of that vintage in the auction), went above the low estimate.

Further in this edition we'll analyze each auction in depth and discuss alternate options for Canadians selling. Enjoy.

WORLD MARKET – OPTIMISM IN SPITE OF IT ALL

Despite a difficult year for the Liv-ex Fine Wine 100 Index (below), a recent survey of 700 collectors revealed a very bullish attitude with 78% of respondents anticipating that the market would close at or above 268.74 from its September 2012 level of 260.08. Of these respondents, 16% drink only, 9% invest only, the balance mixes business with pleasure.



ON or bust???

BILL C-311 – WHAT NOW?

As most are aware, bill C-311 allowing for interprovincial shipping of wine passed with amazing speed and support and became law in June. The provincial liquor boards were left only to determine what was considered "personal consumption". Not so fast. Despite unanimous support, the LCBO issued a contrary "policy statement" that wine from other provinces must be ordered through them with their applicable markups. The alternative is that wine can be transported "on their person" for personal consumption only, contrary to C-311 which explicitly allows one to have their purchase shipped. Alberta began with an open adoption and then did an about-face. BC said "only VQA wines" which is contrary to NAFTA and little old Manitoba appears to be the only province respecting the wishes of Canadians and federal laws.

Despite the ambiguity, and policy statements that do not constitute law, entities like Wine Collective and Tannic are actively promoting Alberta purchases and national shipping. This is going to get interesting.

INDUSTRY INSIDER

GARY LAROSE

ROSEHILL WINE CELLARS

I met Gary LaRose about 7 years ago and we have shared a number of mutual customers and projects ever since. In that time however Gary has grown and changed his operation to become not only a cellar designer and supplier of cellar accessories through his retail operation, but also a manufacturer of cellars from the ground up with a new state of the art facility they built in Mississauga.

In this interview I spoke with Gary about the evolution of his business, the cellar design business in general and where he feels the industry and his business are going

Q: How long has Rosehill Wine Cellars been around and what were the origins of your business?

In 1995 I was a renovation contractor specializing in interior work and we got our first wine cellar job. At the same time I had been taking wine courses and thought it might be a good idea to turn my hobby into the specialty of my company. At that time there were not many companies with this specialty so while we were going out on a limb I thought we could provide a needed product. We combined it with a physical and online retail presence and here we are today.

Q: What would you say is your "sweet spot" for cellar jobs? Highly custom applications or simple racking?

Let's say upper middle to lower high end. We can design and manufacture simple racking easily but what motivates our staff are the creative, high end projects. The people on the bench love jobs that utilize their cabinet making skills. We also work with designers who need our expertise to combine their creativity with the requirements of a properly functioning wine cellar. A case in point would be the restaurant Aria in downtown Toronto next to the Air Canada Center where we installed a 24' high walnut tower as well as a few refrigerated walnut display cabinets. We're very proud of that showcase project in particular.

Q: You went from buying racking from a distributor to opening your own manufacturing facility. When was that and what was the catalyst?

We opened the millwork shop in the fall of 2009. The primary reason was to get more control of our design, building, quality and scheduling. For many years, in spite of our volume, we experienced delays with orders, shipping damage, incorrect manufacturing and delays for parts. I had millwork experience from many years ago when I operated a small custom shop. So we took advantage of the recession in 2008 getting great prices on used German and Italian machinery. We began with a CNC (Computer Numerical Control) machine and built everything around that.

INDUSTRY INSIDER…

Q: Are there many other racking manufacturers in Canada and what made you feel the opportunity was right to expand your business in this direction?

There is a large one in western Canada and they were a big supplier of ours for many years. However, as our company grew we really needed our own dedicated supply chain. We saw a lot of kitchen companies expanding into wine cellars but they didn't have that truly customized feel that our clients were demanding. There was a knowledge of wine, collecting and refrigeration that these companies couldn't fill so that's where we shone. There is a unique balancing act between millwork and design, cooling unit installation and future servicing.

Q: Are you becoming more of a wholesale racking company by manufacturing product for other companies?

Not at all. Seventy five percent of the product we build at the shop goes directly to our own installations and the rest is bought by retail customers off our website, www.rosehillwinecellars.com.

Q: What has been your most challenging cellar?

One that comes to mind was for the CEO of a major company who has spent the last 40 years in the design and construction of major hotels so his design eye and taste were impeccable. It took almost a year revising the design until he was 100% thrilled with it. We're also doing a lot of cellars in condos which can be very challenging when you consider the refrigeration needs and unique designs. We've seen a lot of requests for glass cube designs where people can see their collection from many different angles.

Q: Have you seen the business impacted in the face of a sluggish economy and wine cellars being considered a luxury item?

Our sales are up but our margins are slightly lower than before the recession. I feel I have to work harder to earn the trust of a customer that is ready to invest in a project like a wine cellar. That said, the good news is that the market is growing. Years ago a wine cellar was only for the serious collector. Now you see them included in spec homes and people who want to start building a collection are planning the cellar first and the wine second.

Q: Where would you like to see you company evolve?

I want to move forward with unique and challenging designs that reflect our ability for truly custom work. Many of the cellars built in the last 25 years have a lot of the same features and there is a need for me to keep fluid with design work. I'd also like to use a greater variety of wood species.

Gary Larose can be reached at Rosehill Wine Cellars at 416-825-6604 or by email at gary@rosehillwinecellars.com

CANADIAN AUCTIONS

LCBO Vintages Auction – Oct 19th & 20th

The annual Vintages live auction started strong with a good showing and active bidding on the opening Friday night at the Trump Hotel in downtown Toronto. The auction this year went only until the following Saturday with 1098 lots being offered (compared to 1907 lots in 2011 over 3 days) which suggests that more will follow in yet to be announced online auctions in the coming months.

As we have done since 2008, all of the lot details have been extracted into a spreadsheet format to allow for proper analysis of the current auction, plus year over year, regionally and comparisons to world auction markets. With the recent release of the prices realized (hence the delay in this publication) we can now provide an analysis along with some interesting tidbits extracted from this year's data.

Of the 1098 lots offered, 56% were single SKU which means that they consisted of identical wines (as opposed to mixed lots) and can therefore be analyzed.

The sell through rate was only 77% meaning that the remainder didn't garner interest at the low reserve. Of the lots that did sell, the total was 2.65% above the low estimate and 16.2% below the high estimate. Here's what that looks like for the major regions represented:

Region	Total Lots	Did Not Sell	Total of Sold	Low Estimate of Sold	% of Sold +/- Low Estimate
All Auction	610	23.0%	$898,415	$875,250	+2.65%
Bordeaux	246	28.8%	$383,850	$387,150	-0.8%
Burgundy	85	24.7%	$232,580	$234,000	-0.2%
US	140	12.8%	$159,700	$148,700	+7.4%
Italy	44	29.5%	$33,195	$29,100	+14%

There were a few interesting lots which warrant mention on their own and how they fared against world auction prices. Please note that, for accurate comparison purposes, the lots below include the 17% buyer premium but not HST. The world auction prices also include buyer premium but not local taxes. As follows:

- Two 6-pack OWC of 2000 Petrus sold for $4,290 (1st) and $3,750 (2nd) per bottle. World auction price is currently $3,960 but HDH sold for $4,381 at their October auction.
- A 12 case of 1986 Lafite did not sell with a low estimate of $1,472/btl which seemed high compared to

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a world auction price of $1,187 (down from $1,907 in 2011) and a recent sale from Sotheby's in October of $1,020 which highlights the continued softening of Lafite

- A 12 case of 2008 Lafite did sell at $1,267/btl which, while 7% off the LCBO low estimate, is still significantly higher than recent US sales by Christies and Zachy's in October at $663 and $813 respectively
- The 6L, 1972 DRC Romanee-Conti (catalogue cover) did not sell with a low estimate of $45K. Tough to draw a comparison on this one as the largest format recently sold was a 3L in Asia in May, 2011 for $18.8K.
- The strongest vintage of all the First Growths combined was 1995 with 9 lots offered, all sold, with an average sale of 15.6% above low estimate. A bargain of the evening was a 1995 Lafite selling at $583/btl, against a world price of $761

The LCBO auction remains the largest in Canada and is the benchmark for this country. One could argue that the numbers could be slightly skewed because Ontario restaurants, in order to fill back vintages on their list, have no option other than this auction but that granularity of detail is not released. The IEGOR auction in Quebec, sanctioned by the SAQ, refuses to release sale data of any kind.

Charity Auctions

Considering that much of the product is donated by the same cellars that are selling at the government auction, charity auctions are often a good place to shop for three reasons; no tax or buyer premium, no restaurants are allowed to buy, a smaller room of competing bidders. Below are a few examples:

Toronto Symphony – Annual auction completed last week to a packed house at Commerce Court, downtown Toronto. Final tally was $169K off an appraisal value of just over $300K. All 190 lots went live. While lower than previous years it remains a significant auction where bidders who have done their homework can find a few deals.

Oakville Hospital – Biennial auction at the Oakville Golf Club brought in $77K in 89 live items and likely an equal amount in a huge display of silent auction items to keep the evening shorter. This is a smaller auction for attendance and the donations are from very few prestigious cellars in Oakville. Always a good one to watch and/or attend for deals

British Columbia – The BCLDB made a change to their special occasion permits which forced the cancellation of a charity wine auction at the end of October for the Belfry Theatre. Later that week the government issued a press release announcing that charities could continue to fundraise but they will only allow "gift baskets containing liquor" but apparently not "liquor only" auctions and affected charities must wait for new legislation to be passed. Needless to say this has a grave impact on the hundreds of thousands raised annually by charities in BC.

OTHER NEWS

Hart Davis Hart of Chicago recently announced that they are actively seeking Canadian collections for sale in the United States. Citing a lack of viable alternatives across Canada, HDH believes that a Canadian collector, or restaurant, looking to maximize their return will be far better off south of the border showcasing to a larger audience.

HDH advises that they hold 7 live auctions per year as opposed to one in Ontario which gets funds into the hands of the consignor faster. Their sell through rate for the past 4 years has averaged over 99% and they maintain a buyer database of thousands around the world.

Because the sale takes place outside of Canada it does not fall under the jurisdiction of the provincial liquor boards. Shipping costs and duty are extremely low (a few dollars per bottle) as opposed to the +100% taxes applied when a wine comes north. HDH is working with Iron Gate to manage all handling and logistics in Canada.

ABOUT US

www.irongatewine.com

Warren Porter is President of Iron Gate - Private Wine Management, a storage and services provider based in Toronto, Canada. As the operator of two storage facilities totaling almost 10,000sf, Iron Gate is the largest private provider of storage services in Canada.

In addition, Iron Gate provides home cellar management and monitoring systems, professional buying services, estate wine auctions, and charity wine auction services.

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