Abstract D7 Thesis: Measuring and ranking financial performance of publicly listed wine businesses

By: WH Jansen

Submission: 5 June 2024

Motivation

Since my economics and accountancy studies I have been fascinated by annual reports of companies and the strategic and financial information they provide. I wanted to combine this financial experience and knowledge with what I have learned more recently about the wine business.

Problem / objective

There is currently one stock index for companies (partly) in the wine business and that is based on information at a high level. For investors to better understand the financial performance of a company they often use financial ratios based on financial statements. My objective was to get more detailed information and better insight, using EBITDA, being a proxy of regular earnings. To put the EBITDA of a company in perspective and compare with other companies, I have expressed it as a (1) a percentage of revenues, which gives good insight in profitability and cost control, and (2) expressed as a percentage of assets invested in a business, reflecting return on money invested.

Methodology

Taking the top 10 of largest wine producing and consuming countries and the stock exchanges from each of these countries I have compiled a list of publicly listed companies active in producing and or selling wine. In total, there are 34 public listed companies selected in scope for which financial statements were collected.

Then I have constructed rankings based on their financial performance. Using spreadsheets with Revenues and Total Assets and Operating Profit from the profit and loss accounts, for a company as a whole and, where available by wine segment. EBITDA was calculated using these numbers and information taken from the cash flow information and expressed as a percentage of sales and of assets invested. So to facilitate comparison absolute numbers have been made relative, no weighting for size has been applied and no adjustments were made.

Indices: SWIRLs

I have constructed two SWIRL indexes, for the companies' business as a whole, defined as follows:

SWIRL I: **S**ophisticated **W**ine business **I**ndex **R**esearch **L**ist (EBITDA/Revenues)

SWIRL II: **S**ophisticated **W**ine business **I**ndex **R**esearch **L**ist (EBITDA/Total Assets)

Where data was available, this was also prepared for the companies' wine segments.

Performance factors and explanations of movements

To better understand overall and company specific results, the following analyses were prepared.

   A)   Profitability: Highest and lowest ranking and profit sustainability: SWIRL I

<u>Top and bottom five</u>

The top five for both years consisted of the same group of companies. However it should be noted that Constellation, LVMH & Pernot Ricard have significant other businesses (80 – 90% of their revenue), whereas Duckhorn is 100% involved with wine and Laurent Perrier 100% with Champagne. The first two also include spirits business in their segment. The bottom five in 2022 were VWE, Tontine, Gusborne, Splash and GGH. Very similar to 2021, with only Tontine replaced by Naked Wines.

<u>Sustainability</u>

To measure broader sustainability of results I compared SWIRL I 2022 with 2021 to see whether there were any big changes. In general I found not too many changes except in the lower quartile, although in totality the performance was down.

B) Return on assets (efficiency of capital use): SWIRL II

If I relate EBITDA to total assets, to measure the efficient use of capital, then some differences appear in the ranking and top five. LVMH and Constellation still in the top five, but Brown Forman and Hawesko and Endeavour are now appearing; For Hawesko it should be noted this is a trading company and they are usually asset light ie they have no investments in vineyards. The bottom group is unchanged.

C) Potential segment contribution: Comparison between *segment* SWIRL I with *total* SWIRL I for 2022.

In most cases the data does not give enough detailed information to make a sensible conclusion. In a couple of cases the data shows that a company's wine business is more successful than its overall business. However these are companies in loss making situations for that year.

Conclusions and recommendations

This research has produced a list of 34 publicly listed companies from several countries that all meet the set criteria and are included in the SWIRLs. The first time such indexes have been prepared and based on bottom up company specific financial performance information. As a big qualifier, It should be noted that some of the very large companies only have a relatively small segment in wine, and combined this with other drinks. So on the one hand the SWIRLs include none dedicated wine companies for which precise information about wine is not included, on the other hand their stock is widely distributed and more easily accessible for investors. For the latter reasons, and that was a judgement call, I have kept these companies in the SWIRLs. In most cases segment information was not sufficiently available, and no sensible conclusions could be drawn. Further research in this area would be required.

Personal experience

Overall it has been a very interesting to perform research and expand personal knowledge, and not quite knowing how and where it would end. To find the time and restart as this research and thesis writing was performed over a fairly long period was challenging. It was rewarding to prepare the indices, the SWIRLs. The analysis stage was more complex as some data was lacking and hopefully this research will get a follow up to address that main point: obtaining more understanding of wine segments of larger companies.