

VINTAGE BAROSSA

If any proof were needed that goodwill is a tangible asset, the story of Peter Lehmann and the Barossa Valley would prove it. The loyalty accrued by Lehmann has saved vines, fought off takeovers and produced fine wine, writes Felicity Carter.



Margaret, Doug and Peter Lehmann.

The Barossa Valley is a dusty take on Germany, with towns clustered around churches, and hand-planted vineyards stretching across the hills. To the wine world, what makes this place special is its old vine Shiraz. Yet if it weren't for Peter Lehmann, now in his late 70s, many of those precious vines would be gone. But doing the right thing by neighbours turned out to be good business, as Peter Lehmann Wines today produces around 800,000 cases of wine sold in more than 50 countries. That the company even still exists is an argument for having as much goodwill on the balance sheet as possible.

Winemaker turned entrepreneur

A fifth generation Barossan, Lehmann was the winemaker and manager of Saltram winery, which in the early 1970s was bought by English company Dalgety. They were primarily interested in pastoral properties, not wine, and had cash flow problems within a few years.

"In 1977 I got this missile that arrived by post," says Lehmann. The letter

instructed Lehmann to tell growers that Saltrams - one of the biggest customers for Barossa grapes - wouldn't be buying any 1978 fruit. This was a bombshell, because Lehmann had previously been told to solicit grapes. "I'd given the growers my word. I was damned if I was going to break that."

"It would have torn the fabric of the Barossa," explains Margaret Lehmann. "You can't not have a crop picked. It's as simple as that."

Refusing to see neighbours go under, the Lehmanns formed an arm's length company called Masterson, after Guy Masterton, the gambler in *Guys and Dolls*. The Lehmanns scraped together \$180,000 from friends and relatives and bought the fruit, 50% of which was in-demand white varieties. This was sold to Lindemans in the Hunter Valley, with white sales subsidising the red. In the end, even Dalgety bought some.

The venture was such a success that Lehmann said "shareholders in the new company bitched like hell because the profit was enormous and they had a

terrific tax problem". The Lehmanns decided to do it again and later, after Lehmann had resigned from Dalgety, they found a partner called Cerebos - a company Margaret says was known for "essence of chicken, very healthy". In 1979, the Lehmanns built the Masterton Barossa Vignerons winery, completed in five months in time for the 1980 vintage. Later that year, a tornado ripped through the area, sending 27 of their tanks across the Barossa.

It was only the first of many disasters, including the 1982 Ash Wednesday bushfires, which engulfed South Australia in a tsunami of flame. But the greatest problem was that Barossan wines were unpopular, creating a grape glut. So dire was the situation that the Australian government instituted a vine pull scheme in 1985. Row after row of Australia's old vine shiraz was uprooted and burned. According to James Halliday, Australia's most respected wine writer, Lehmann's fierce determination to buy Barossa grapes saved many vines, now considered national treasures.

Things turned again in the mid 1980s, as Australia's export boom began. Cerebos decided that Lehmann should bottle wine under his own name, and Peter Lehmann Wines found itself going from oversupply to undersupply by the early 1990s. By this time, too, Cerebos had sold their stake to MS McLeod, an investment company, and Lehmann's son Doug Lehmann had been appointed managing director.

Then the Lehmanns discovered that McLeods were planning to sell the company, possibly in pieces, unless Lehmann, who owned less than 10% of the company, could pay \$8m. At that year's Growers Picnic, Lehmann outlined a grim future for the company. But his loyalty paid off, as growers said they would put

their own money into any company float. "We had this huge fight and kicked up a stink, so nobody else would touch the company," says Margaret.

In 1993, Peter Lehmann Wines floated for \$8.2m. The float had to close three weeks early, because it was oversubscribed by \$3m. Throughout the next decade, the company concentrated on its Riesling, Semillon, Shiraz and Cabernet, created by a winemaking team headed by Andrew Wigan.

"The top wines from the Lehmann portfolio stand comfortably with the greatest Australian wines, and the value of the lower range varieties is equally impressive," says Halliday. "Few people realise Peter Lehmann Semillon is by far the largest volume brand in Australia."

So it was no wonder that when Allied Domecq was looking for an Australian acquisition, they turned their attention to Peter Lehmann Wines.

The corporates move in

In the early years of the century, Allied Domecq had begun buying small parcels of shares, so they had around 5% of the company by February 2002. A year later their stake stood at 14.5%, at which point it became clear the multinational had plans to acquire the company—which was an anathema to the Lehmanns. But coincidentally, Peter Lehmann Wines had been in talks with a new distributor, the Hess Group of Switzerland. Hess were not pleased about having Allied on the register and said it wanted the same level of shareholding before it would enter a deal. The board of Peter Lehmann Wines refused to give Hess a placement, telling them to buy on the market instead. "Hess pre-empted and made a share offer. Then Allied came in with a higher share offer," says Margaret. "The board was split, with half saying Hess and half saying Allied."

A flurry of share price offers and counter offers then ensued. But Peter Lehmann, although he was no longer a director of the company by this time, had no intention of allowing Allied Domecq to gain control of the winery, particularly not after it had declared its intention to turn Peter Lehmann Wines into a million plus case brand. So Lehmann sold 30%

"Lehmann set an example of loyalty and faith and the bond with the growers endures. It has not been forgotten. He has also proven you can have a good palate in spite of being a chronic smoker!"



Robert Hill Smith, managing director, Yalumba. Yalumba, where Peter Lehmann first worked, is Australia's oldest family owned winery and a Barossa neighbour.

of his shareholding to Hess, which gave them 5% of the company, and kept 10.5% back, which effectively prevented Allied from completing a full takeover. It was a short and intense public battle, that saw a falling out with chairman Richard England, who had recommended the Allied offer, and which put managing director Doug Lehmann in a difficult position. Eventually he declared in favour of the Hess bid.

But another thing that had swung things Lehmann's way was the fund of goodwill he had accumulated. Because many of the shareholders were people known to the Lehmanns, including growers, enough people chose not to sell to Allied that the multinational was prevented from acquiring a big stake.

Peter Lehmann Wines is now majority owned by the Hess Group, with the Lehmanns owning around 11% and a group of friends, growers and other shareholders owning about 3%. Many will not sell, because they enjoy the shareholders' lunch too much.

Into the future

Doug Lehmann, managing director, speaks faster and more emphatically than either of his parents. But then, he's got a lot to think about. Firstly, there's the issue of keeping the water supply going, a major problem for Australian wine makers in general, as they battle yet another year of drought. "There's enough water to go around," he snorts. "But it needs total, absolute reform and there are no votes in it."

Then there's the export market. In May 2007 the company signed a distribution deal with Enotria, covering the UK and Ireland, also agreeing to create a

contract label for the on-premise market. 'My Word is My Bond' retails between £17(A\$40) to £23(A\$53) per bottle, and builds on the exposure that Peter Lehmann Wines has in the UK.

Doug Lehmann is positive about the future, despite the vagaries of water shortages and a fluctuating currency, saying the grape glut over several years to 2007 has helped. "Our export sales have been strong from 2004 to 2006, with larger volume and lower costs," he says. "Although we're taking a bit of a belting on the strong (Australian) dollar, our cost of goods is lower."

The company turned a profit of \$5.98m in 2006/2007, a 4% rise on the year before. But, like father like son, with Doug Lehmann refusing to contemplate higher volume production for the sake of profit. "We're the largest producer of bottled Barossan wine, with 900 vineyards to draw on," he says. "We could produce much more, but we're not a company besotted by volume."

What Peter Lehmann Wines will also never do again is list on the stock market. "We came off the Australian Stock Exchange in 2003," says Doug. "We listed because it gave us access to capital, but ultimately you will disappear because you can't produce to profit. When you're listed, you have to feed the monster, so eventually you have to go off and buy something, or do something stupid, like trade down."

Today, Margaret and Peter Lehmann are enjoying their retirement, in a big hospitable home that's full of dogs, children and neighbours. The future holds more of the same. "This is where we come from, where we live," says Margaret. "What else would we do?" ■