

Australian Vintage Ltd.
June 2016 Full Year Results

24th August 2016

Key Branded sales grow by 20%, Revenue up \$11.8 million

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AUSTRALIAN VINTAGE LTD

MIRANDA



NEPENTHE



MCGUIGAN
WINES
Come on in

TEMPUS TWO



PASSION
POP

Australian Vintage Ltd.

June 2016 Full Year Results



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Highlights

- Net profit after tax and before one off items \$7.2 million compared to \$7.1 million prior year
- One off cost of \$9.2 million (after tax) to exit onerous vineyard lease
- Net loss of \$2.0 million after vineyard lease exit cost
- Prior to the unrealised foreign currency adjustment due to Brexit, net profit after tax and before one off items of \$8.3 million, up 16% on prior year
- Cash flow from operating activities, prior to termination payment on exit of vineyard lease, \$11.4 million compared to \$2.1 million
- Revenue increased by 5% to \$242.7 million despite a \$6.8 million reduction in bulk wine sales to UK/Europe.
- 1.5 cent fully franked dividend declared, payable 9 November 2016. Dividend Reinvestment Plan reinstated.



Highlights (cont.)

- Total revenue increased by \$11.8 million to \$242.7 million with UK/Europe sales up \$4.5 million and Australasia/North America packaged sales up \$7.6 million.
- Low margin UK/Europe bulk sales (part of the UK/Europe segment) were down by \$6.8 million.
- Branded sales continue to grow with McGuigan, Nepenthe and Tempus Two sales up by 20%. For the 12 months to 30th June 2016 these three brands made up 57% of our total wine sales compared to 50% for the same period last year.
- Cash flow from operating activities (excluding the \$4.9 million payment on vineyard lease termination) is positive \$11.4 million compared to \$2.1 million in the previous period.
- Net debt of \$101.4 million compared to \$103.6 million as at 30th June 2015.
- AVL strategies remain unchanged:
 - Grow the export business
 - Increase branded sales
 - Focus on cost control



Australian Wine Industry

In the 12 months to June 2016 the value of Australian wine exports increased by 11% to \$2.1 billion and volume increased by 0.5% to 728 million litres. The average value of exports grew by 11% to \$2.89 per litre, the highest level since February 2010.

All export regions recorded growth for Australian wine exports except for Europe, which declined by 1% to 574 million litres. The main reason for this decline is the decreased volume of wine sold to the UK, which decreased by 3% to 243 million litres.

Wine exports into China continue to lead growth with volumes up by 40% to 75 million litres. China is now the third largest market for Australian wine by volume and second by value.

Australian export sales into the US increased with sales up 8% but volume down 4%. The average value of wine exports increased by 12% due mainly to a shift towards more premium wine.

The favourable movement in exchange rates has helped increase the average selling price of Australian wine exports. However, with the recent impact of Brexit on the AUD it is not expected that we will see the same favourable movement in average prices in the next 12 months.

Australian Wine Industry (cont.)

The 2016 vintage crush was 1.8 million tonnes, a 6% increase on last year's crush (WFA Vintage Report July 2016). This is approximately 100,000 tonnes above the five year average.

The increased crush has come from the cool and temperate regions.

The crush from warm inland regions decreased by about 0.6% or 7,000 tonnes.

With vineyard area decreasing over the last 10 years the 2016 crush was surprisingly high and is not expected again in the near future.



Business Results & Summary

1. Branded Sales

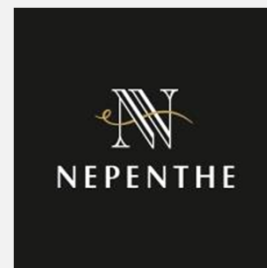
During the twelve month period to June 2016, total sales of the McGuigan brand grew 21%, Nepenthe brand grew 18% and Tempus Two brand grew 5%. Sales of these three key brands increased by 20%.

The three key brands now represent 57% of all our wine sales compared to 50% in June 2015.

The McGuigan brand continues to be well received in the UK market and is currently the fourth biggest selling global wine in that market.



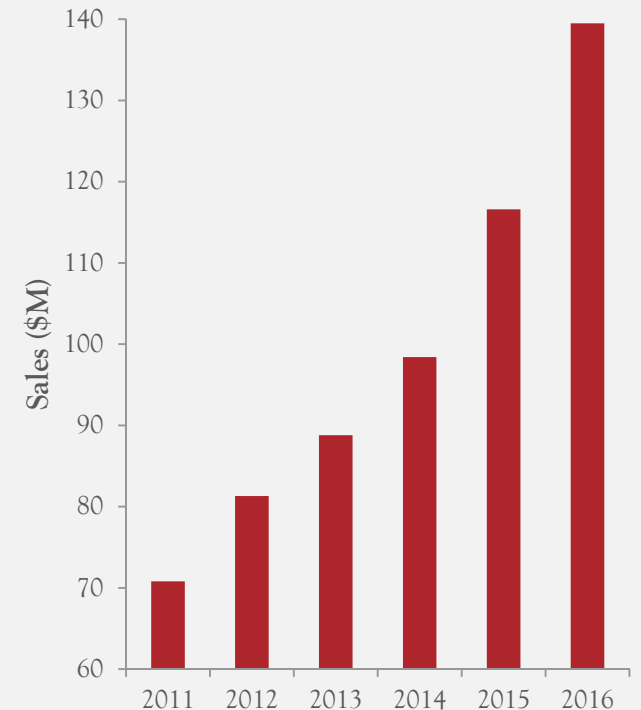
**MCGUIGAN
WINES**



T E M P U S T W O



Sales of our three key brands have increased by 97% over the last five years:-





2. Australasia / North America Packaged

Sales increased by \$7.6 million to \$106.7 million due mainly to increased sales of the McGuigan brand (up 21%) partially offset by cask sales which were down 20%.

Contribution was down by \$1.0 million to \$6.2 million due to a \$1.9 million reduction in contribution from Australian cask sales. The Australian market for cask remains extremely competitive with unsupportable pricing driven in part by the WET rebate.

Asian division sales increased by 22% with contribution increasing by \$0.4 million or 43%. Increased sales through our Chinese distributor, COFCO was the main reason for this improved performance.

Other divisions within this segment also improved contribution:

- a) New Zealand sales up 15% and contribution up \$0.1 million or 15%
- b) North America sales up 23% and contribution up \$0.2 million or 28%



3. UK / Europe

Sales increased by 5% to \$102.5 million due to the increased sales of the McGuigan brand (up 20%) partially offset by sales of lower margin bulk wine.

Sales of bulk wine reduced by \$6.8 million to \$2.1 million as we continue to build our branded business.

Contribution was down \$1.0 million due to the impact of the Brexit on the GBP. Ignoring the impact of Brexit, this segments contribution would have been \$0.5 million up on last year.



4. Other Segments

The cellar door contribution continues to grow with contribution up 10% to \$1.6 million due to increased club and digital sales.

Vineyard contribution is up \$1.1 million due to increased SGARA as a result of an average yield from our owned vineyards.

5. Financial Position

Cash flow from operating activities was positive \$6.5 million compared to \$2.1 million in the previous period. Excluding the termination payment on the exit of vineyard lease, the cash flow from operating activities improved by \$9.4 million.

Net debt decreased by \$2.2 million to \$101.4 million. Our gearing (net debt to equity) is 35%.

Our banking facility has been extended to September 2019.

Future Net Benefit – One off Costs

Vineyard Lease Termination

In November 2015 Australian Vintage Limited served notice on Belvino Investments to terminate the lease of the Del Rios vineyard situated in Victoria. The effective date of termination was 31 December 2015. The lease was due to expire after the 2023 vintage but was terminated early under the provisions in the lease.

The early termination of the lease delivers a material financial benefit to the Company. Based on the 2015 average price for grapes in that region, the net benefit is \$35 million over the original lease term. This cash benefit takes into account the payment of a termination payment and the write off of vineyard and other costs (predominantly legal costs):

	\$m
Early Termination Payment	4.9
Write off of vineyard running and other costs	8.2
Total one off (before tax)	13.1
Tax	(3.9)
After Tax	9.2

Results Summary (\$'000)

			Change	
	FY16	FY15	\$'000	%
Australasia / North America packaged	106,672	99,026	7,646	8
UK / Europe (see note)	102,506	98,000	4,506	5
Cellar Door	8,185	7,860	325	4
Australasia / North America bulk and processing	22,222	21,804	418	2
Vineyards	3,101	4,206	(1,105)	(26)
Total	242,686	230,896	11,790	5
Note: Split of UK/Europe revenue				
UK/Europe packaged	100,443	89,150	11,293	13
UK/Europe bulk	2,063	8,850	(6,787)	(77)

Results Summary (\$'000)

	12 months to		Change	
	30/06/16	30/06/15	\$'000	%
Australasia / North America Packaged	6,208	7,194	(986)	(14)
UK / Europe	4,965	4,457	508	11
Cellar Door	1,568	1,430	138	10
Australasia / North America bulk and processing	447	116	331	285
Vineyards	4,569	3,512	1,057	30
Total	17,757	16,709	1,048	6
Finance costs	(5,790)	(6,397)	607	9
Interest received	15	45	(30)	(67)
Profit Before Tax	11,982	10,357	1,625	16
Tax	(3,687)	(3,225)	(462)	(14)
Net Profit (before one off items and unrealised FX loss)	8,295	7,132	1,163	16
Unrealised FX loss due to Brexit impact on FX	(1,519)	-	(1,519)	
Tax	456	-	456	
Net Profit (before on off items)	7,232	7,132	100	1
	-	-	-	-
Adjustment to provision for onerous contracts	-	924	(924)	
Tax	-	(277)	277	
Profit on Sale of Yaldara	-	6,351	(6,351)	
Tax	-	(169)	169	
Overseas Customer Incentives plus Stock NRV	-	(5,559)	5,559	
Tax	-	1,668	(1,668)	
Vineyard Lease Exit	(13,148)	(1,005)	(12,143)	
Tax	3,944	301	3,643	
Total one off items (after tax)	(9,204)	2,234	(11,438)	
Total Net Profit (after one off adjustments)	(1,972)	9,366	(11,338)	(121)
EBIT before one off items and unrealised FX	17,757	16,709	1,048	6
EBIT after one off items	3,090	17,420	(14,330)	(82)

Outlook



Australian Vintage continues to transition the business from a bulk wine producer to a quality branded business. Over the last five years sales of our three key brands, McGuigan, Tempus Two and Nepenthe, have almost doubled. At the same time the contribution from our bulk and processing business in Australia and overseas have declined by \$14.0 million due to market conditions.

We remain in a transition phase as we continue to grow our branded business and reduce our reliance on low margin bulk sales.

Our strategy to focus on growing our export business, increase sales of our three key brands and controlling costs is the right strategy to build a sustainable growing business. We will continue to have short term challenges but we remain confident that the company will continue to grow in the medium to long term.

One of the biggest challenges we have faced over the last ten years has been the onerous nature of most of our grape contracts. However, with the recent termination of the Del Rios vineyard lease and the expiry of some onerous third part grower contracts, we are expecting a significant reduction in our future grape costs. We are well on the way to replacing a significant portion of the 35,000 tonnes that expired due to the lease termination and expiry of grower contracts. We expect to make future grape savings of around \$9.0 million to \$10.0 million per annum. Due to the nature of our business, the improved cash flow will not impact our profit until 2018.

Our bank funding remains secure with the recent extension of our banking facility to September 2019. This, together with our expected improved cash flow from reduced grape payments, is expected to improve our financial position.

Outlook (cont.)

As part of our growing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to reintroduce the dividend. A fully franked dividend of 1.5 cents will be paid to all shareholders in November 2016. The Dividend Reinvestment plan has also been reintroduced at a discount of 2.5% to the market price.

Global conditions remain tough and with the recent impact of Brexit on the GBP we continue to face short term challenges. Since Brexit the GBP has moved unfavourably by 17% which will put pressure on our UK margins. Assuming no price adjustment, for the next 12 months a 1 pence movement in the GBP impacts our Net Profit after tax by approximately \$0.3m.

The UK market is expected to remain fragile and continue to impact global markets and we do not anticipate any change in conditions in the next 12 months. In 2017 we will face ongoing margin pressure in the UK. We are looking at various strategies to minimise the impact of the Brexit, but they will take some time to implement. We remain confident that Australian Vintage Limited is well placed to continue to be a major force in the UK.

Whilst the UK will be a challenge, we continue to grow our business in China and we are close to finalising a distribution agreement with a major distributor in the US. A further market update will be provided at our Annual General meeting in November 2016.



Wine Show Results / Key Brand Facts



**MCGUIGAN
WINES**

- McGuigan Wines has been crowned International Winemaker of the Year three times by the prestigious International Wine & Spirits Competition in London, having achieved the feat in 2009, 2011 and 2012.
- The 2007 McGuigan Shortlist Semillon was awarded the Best Single Variety £15+ Trophy at the 2016 Decanter World Wine Awards. In addition, the 2008 McGuigan Shortlist Riesling was awarded the Best Australian Riesling £15+ Trophy.
- At the 2016 International Wine Challenge, the 2010 McGuigan Shortlist Riesling was awarded five trophies including the Australian White Wine Trophy for the best Australian white wine of show.
- McGuigan Wines was further recognised as a world-class wine producer with the 2006 Bin 9000 Semillon taking out the Semillon Trophy at the 2015 International Wine and Spirit Competition. This was the fifth year in a row
- McGuigan Wines has been awarded the Semillon Trophy at the IWSC .
- Completing a fantastic year for the brand, McGuigan Wines received strong recognition for its Eden Valley Riesling, taking out the Best New World Riesling and the Best Riesling Trophy for the 2008 The Shortlist Riesling at the 2015 Cathay Pacific Hong Kong International Wine & Spirit Competition.

Wine Show Results / Key Brand Facts

- McGuigan is the fastest growing Australian brand in the top 10 in Australia, up 45% in value, 56% in volume. (Aztec MAT10/04/16)
- McGuigan Black Label Red is the #1 selling bottled red wine in the domestic market; Black Label Cabernet Merlot is #4; and Black Label Merlot is the #5 selling bottled red wine in Australia. (Aztec MAT 14/02/16)
- In the UK, McGuigan is the 4th largest wine brand by volume and value, and the second fastest growing wine brand.
- McGuigan has entered the top 20 global alcohol brands by value in the UK, ahead of brands such as Peroni, Bailey's and Guinness worth £108.2M (\$230.4M) on the back of 23.2% growth MAT.



- McGuigan is the 2nd largest wine brand by volume and value in the Irish market.
- 5 * Winery - James Halliday Australian Wine Companion 2017.

Wine Show Results / Key Brand Facts



Building Brand above Black Label: Securing the \$12.99+ price point in Australia

- The McGuigan range in Australia is dominated by Black Label – this remains the focus. However, in addition to continuing to drive Black Label, the brand is undergoing a premiumisation push to build at the \$12.99+ price point.
- In order to build the brand above of Black Label, a number of retail exclusive McGuigan ranges have been launched.
- Namely Classic with First Choice and Liquorland, The Brothers and Founder's Series with Dan Murphy's, Bin Series with the independent channel, and Reserve with IBA.

Wine Show Results / Key Brand Facts

TEMPUS TWO



- Tempus Two continued to enjoy stand out success on the domestic and international show circuits, with the 2015 Tempus Two Pewter 'Poppy's Block' Chardonnay taking out Champion White Wine of Show and Champion Wine of Show at the Cairns Wine Show.

- Tempus Two was awarded two top honours at the 2015 Cathay Pacific Hong Kong International Wine & Spirit Competition, winning the trophy for Best Australian Wine and Best Semillon Trophy for the 2003 Tempus Two Copper Zenith Semillon. The win marked the third year in a row Tempus Two has won the Best Semillon Trophy at the HKIWSC.



Wine Show Results / Key Brand Facts

- 4* Winery – James Halliday Australian Wine Companion 2017.
Total of 10 wines scored 90+ points including:
 - 2014 Nepenthe Ithaca Chardonnay (93 points);
 - 2014 Nepenthe Altitude Tempranillo (92 points); and
 - 2015 Nepenthe Winemaker Select Arneis (92 points)
- Gold – Altitude Cabernet Sauvignon 2015 – Royal Queensland Wine Show 2016.

