AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

26 August 2020

Full Year 30 June 2020 Results

Australian Vintage Limited (ASX: AVG) will host an investor and media conference call commencing at 10.00 a.m. (AEST) on Thursday 27 August 2020 (dial-in details below). The presentation material will be available at www.australianvintage.com.au.

Teleconference Dial-In Details
Conference Passcode: 701872355220

	Dial-in Number (Toll-free)
Australia	1800672949
Canada	18004344158
China (North)	108006100321
China (South)	108002610321
France	800919766
Germany	8001830411
Hong Kong	800900199
Japan	531610037
Malaysia	1800805746
New Zealand	0800944449
Philippines	180016110259
Singapore	8006161713
Taiwan	801611405
Thailand	18006112848
UK**	8003289967
USA	18883822834

**England, Scotland, Wales, Guernsey, Northern Ireland (Not Rep. of Ireland)

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Australian Vintage Limited delivers growth in challenging market
NPAT up 41% in FY 2020

Key Financial Year Highlights

- Net Profit after Tax (NPAT) up 35% to $11.0 million
- NPAT before impact of new accounting standard on leases (AASB16) up 41% to $11.4 million
- EBIT (Earnings before Interest and Tax) up 18% to $19.2 million
- EBITS (Earnings before Interest, Tax and SGARA) down 3% due to higher wine cost from 2019 Vintage
- Positive Operating Cashflow of $22.3 million
- Reduction in Net Debt: $67.3 million vs $72.4 million FY19
- Improved revenue mix from brand growth
- Branded Sales up 8%
- Earnings per share up 35% to 3.8 cents per share
- 35% increase in final dividend: 2.7 cent per share partially franked (63%)

Australian Vintage Limited ('AVL') announces Full Year Results

Australian Vintage Limited (ASX: AVG) – one of Australia's leading wine companies – today announced its full year results for 2019-2020.

The company reports a net profit after tax (NPAT) of $11.0 million, up 35% on the previous financial year with NPAT (before the impact of new leasing accounting standard) of $11.4 million, up 41% over the previous financial year.

Earnings before interest and tax (EBIT) is up 18% to $19.2 million on revenues of $267.1 million in a challenging twelve months impacted by droughts, bushfires and the Covid-19 pandemic.

Australian Vintage Limited Chief Executive, Craig Garvin, said: "This strong performance underlines the strengths of our brands, and the ongoing transformation of our business. Especially in a year which was not without its challenges.

We are well advanced in our plans to grow our brands and our business over the coming twelve months. Our Asian and North American markets have been underperforming and have not been consumer focussed. We have taken the necessary corrective action which makes the 2020 result all the more positive. The team has worked hard on setting up our business for strong growth in our portfolio which is a key focus moving forward. We are very aware of offsetting the risks this business faced and now move to a branded portfolio strategy. The performance of our operations has been particularly pleasing. Despite the industry suffering declines in grape production across the total Australian wine sector, AVL has been able to improve its yield. This combined with our excellent assets sets up well when combined with our portfolio approach.

A complete review of the leadership group and strategy has been completed and the necessary changes made. I am confident of a stronger return on investment in line with market expectations moving forward".

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Profit Result

	12 Months to 30/06/20			12 Months to 30/06/19	Change (pre AASB16)	
	Reported Profit	Impact of AASB16	(before impact of AASB16)		$000	%
Australasia/North America Packaged [1]	5,531	(192)	5,339	7,905	(2,566)	(32)
UK/Europe	11,574		11,574	10,919	655	6
Cellar Door	244		244	991	(747)	(75)
Australasia/North America bulk and processing	2,431		2,431	1,307	1,124	86
Vineyard Management	(28)		(28)	609	(637)	(105)
Other income (dividend and fair value change in investment) [2]	1,241		1,241	-	1,241	Na
EBITS	**20,993**	**(192)**	**20,801**	**21,731**	**(930)**	**(4)**
SGARA	(1,794)	497	(1,297)	(5,450)	4,153	76
EBIT	**19,199**	**305**	**19,504**	**16,281**	**3,223**	**20**
Finance costs	(3,085)	-	(3,085)	(3,799)	714	19
Interest Expense (from change in accounting for leases - AASB 16)	(388)	388	-		-	NA
Interest Expense (existing finance leases)	(235)		(235)	(260)	25	10
Interest received	26		26	25	1	4
Net Profit before tax	15,517	693	16,210	12,247	3,963	32
Tax	(4,564)	(208)	(4,772)	(4,124)	(648)	(16)
Net Profit (after tax)	**10,953**	**485**	**11,438**	**8,123**	**3,315**	**41**

1 *Refer table below.*
2 *Dividend income and fair value adjustment from AVL's investment in a New Zealand distributer.*

	Sales ($000)			EBIT ($000)		
	FY20	FY19	% Change	FY20	FY19	% Change
Australia	82,405	78,106	6	4,943	4,174	18
New Zealand	5,295	5,622	(6)	852	1,079	(21)
Asia	8,585	14,226	(40)	150	2,037	(93)
North America	6,474	7,916	(18)	(414)	615	(167)
	102,759	105,870	(3)	5,531	7,905	(30)

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Trading Summary

Our Australian business performed well and showed improved profit performance over last year. Pleasingly all pillar brands grew and reinforced our strategic intent of a "portfolio of brands". Sales of the McGuigan brand grew by 3% and Tempus Two grew by 42%. Despite the on-premise and cellar door segments declining due to Covid-19, the Australian business delivered a profit result 18% up on year ago. The combination of consumer focus with retail partners, innovation and strong cost control all contributed to the positive result in very challenging circumstances.

The UK performance was exceptional with sales volumes up against an industry trend that is showing total Australian wine sales volumes to the UK declining by 2%. In the UK, sales of the McGuigan brand increased by 13% through an improved mix of sales, volume increases and targeted marketing. Sales of our higher priced McGuigan Black Label and Reserve ranges increased by 23%. The Tempus Two brand has also performed well in the UK, with sales up 34% from a low base. The company will continue to invest in the UK market with increased marketing spend planned for FY21 and a strong Tempus Two campaign seeing the introduction of new ranging in major retail.

Asia sales were significantly down 40%, resulting in a decline in EBIT of $1.9 million. The company does not expect significant sales to mainland China over the coming six to twelve months as the new management at our major distributor continue to focus on reducing working capital. In the long term we believe that our strategies will result in sales growth.

The company has addressed its marketplace strategy in North America and expects improvements in sales following a disappointing decline of 18%. Canada and United States remain challenging markets for Australian wines with total Australian volume sales to Canada down 18%. North America EBIT contribution was down $1.0 million.

With Cellar doors closed for part of the year, contribution declined by 75% to $0.2 million but is to be expected during Covid-19. During lockdown we have started to execute our cellar door refresh program which should see future upside.

This result includes: increased wine costs amounting to $2.3 million due to the disappointing 2019 vintage, an adverse SGARA financial impact of $2.9 million, against expectation, attributable to higher cost of water and fire damage, increased investment of $1.2 million in marketing to both grow and maintain brands in our key markets, closure during the year of our Cellar Doors resulting in a $0.7 million decline in contribution, and restructure and onerous contract costs of $0.8m.

Other

- New Zealand EBIT was down $0.2m due to Covid-19 closure.
- Favourable foreign currency during the year provided an extra $1.1 million to the EBIT.
- Australasia/North America Bulk and Processing Sales declined by $2.5 million due to the reduced low margin bulk wine sales. However, EBIT improved by $1.1 million due mainly to increased contract processing of grapes.
- Vineyard Segment (including SGARA) EBIT improved by $3.0 million ($3.5 million before the impact of AASB16) due to the improved 2020 vintage. Against last year total yield was up 25% or 10,200 tonnes.

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Net Borrowings

The company reports net borrowings reducing to $67.3 million at 30 June 2020. With a 25% reduction in FY21 capital spend and the reduced need to buy bulk wine in FY21, net debt is expected to continue to decrease.

Operating Cashflows

Reported operating cash flow of $22.3 million vs $23.6 million in FY2019. Ignoring the impact of AASB16, FY20 operating cash flow was $16.4 million with the reduced cash flow due mainly to the purchase of $8 million of bulk wine in FY20.

Dividend

The Board has declared a final dividend (partially franked) of 2.7 cents per share, up 35% on prior corresponding period.

COVID-19 Update

The Covid-19 virus has provided AVL with some challenges with supply chain operations, segregation of shifts and the ongoing need for some of our staff to work from home. However, these have all been managed well with no material disruption to our business. During this period our market performance has improved. The Company continues to take appropriate measures to safeguard the ongoing roles of our employees.

Future Strategy – "Putting the consumer at the heart of everything we do"

Over the last 3 years the Company has invested heavily in various capital projects, including $11 million on a new packaging line and various long-term investments in winemaking, including a $9 million premium winery at our Buronga winery facility. These investments have contributed to the improved efficiency in our production facilities and set up a solid base from which to grow.

Going forward the focus will be on investing in our key brands, McGuigan, Tempus Two and Nepenthe. We will also be investing in our next pillar brand, Barossa Valley Wine Company.

Putting the consumer at the heart of everything we do will see marketing and advertising expenditure increase by 20% in FY21 as we deploy a more targeted approach to brand marketing in our various key markets. Included in this increased marketing spend will be a real focus on promoting our Tempus Two brand. The Company is also planning a major redevelopment of our Nepenthe Cellar Door in the Adelaide Hills. We are investing in our people capability and ensuring we build long term customer relationships.

Commenting, Mr Garvin said: "I am pleased with operational capability of the business. Our focus now shifts to driving branded growth across our key markets. We are creating a business where sales are consumer driven. To do so we must invest in our people, brands, and customer partnerships globally to ensure we leverage the capital investments made. The last 6 months have been challenging however our business has performed very strongly which gives me confidence moving forward. The changes we have put in place are starting to deliver solid results. Whilst Australia and the UK have been the primary focus for growth this financial year, Asia and North America will see improved business performance over the coming years and present significant growth opportunities for AVL. I am confident we have put in place the right structural changes and strategy to ensure continued improvement".

Outlook

The future looks promising based on the recent growth of our key brands. We will continue to improve our mix of business by market, focus on our portfolio of brands and increase consumer investment to maintain the recent sales growth momentum.

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We have some challenges in Asia and North America but believe that our strategies are now in place to achieve long term growth in these markets.

Recently it was announced that the Ministry of Commerce of the People's Republic of China will be undertaking an anti-dumping investigation into Australian wine exports into China. AVL plans to cooperate fully in relation to any requests for information received as part of this investigation. With China representing less than 2% of our total forecast FY21 sales, we do not see this investigation impacting our FY21 earnings. We remain committed to the China market as part of our long term strategy and do not see this as a risk to earnings.

The cash flow remains strong and based on a normal 2021 Vintage, we expect cash flow to improve by $8 million to $12 million in FY21 due to a forecast decline in FY21 capital spend and bulk wine purchases.

The improved 2020 vintage has resulted in an increased throughput at our Buronga Hill Winery which together with improved packaging efficiency at our Merbein facility, will result in a $3 million reduction in our FY21 costs when compared to FY20.

Assuming no material change to the current foreign exchange rates and including the impact of AASB16, we are targeting a 48% improvement in AVL's ROCE (return on capital employed) to 6.6%.

Our improved sales momentum and contribution mix continues with a very positive start to FY21.

A further market update will be provided at our Annual General meeting in November 2020.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a partially franked (63%) dividend of 2.7c per share. This dividend reflects a payout ratio of 70% and is in line with last year's payout ratio. This dividend will be paid to all shareholders on 6 November 2020 and the Record Date to establish shareholder dividend entitlements is 16 October 2020. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 6 November 2020.

This announcement was authorised for release by the AVL Board.

ENDS

Further information

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