

Australian Vintage Ltd.  
December 2016 Half Year Results

23<sup>rd</sup> February 2017



  
AUSTRALIAN VINTAGE LTD

MIRANDA

  
NEPENTHE

  
MCGUIGAN  
WINES  
*Come on in*

TEMPUS TWO  


PASSION  
POP

# Australian Vintage Ltd.

## December 2016 Half Year Results



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# Key Points

- Net profit after tax \$1.6 million compared to after tax loss of \$6.1 million prior year (after one off items).
- Net profit after tax and before one off items \$1.6 million compared to \$3.5 million prior period.
- Results impacted by higher Australian dollar against the British Pound. When compared to prior period, net profit after tax negatively impacted by \$2.7 million.
- UK strategies put in place to improve performance. Effective January 2017.
- Total revenue decreased by \$10.4 million to \$119.3 million with unfavourable exchange rates eroding \$10.5 million in sales compared to prior year.
- Key branded volume growth up 3% with Tempus Two up 21%. Overall sales value down due to unfavourable foreign currency.





## Key Points (cont.)

- Cash flow from operating activities is positive \$7.8 million compared to \$11.3 million in the previous period. The decline is due to unfavourable foreign currency.
- AVL strategies remain unchanged:
  - Grow export business
  - Increase branded sales
  - Focus on cost control
- As in previous years no interim dividend.



# Australian Wine Industry

In the 12 months to December 2016 the value of Australian wine exports increased by 7% to \$2.2 billion and volume increased by 1% to 750 million litres. The average value of exports grew by 6% to \$2.96 per litre, the highest level since 2009.

All export regions recorded growth for Australian wine exports except for Europe, which declined by 3% to \$569 million. The main reason for this decline is the decreased sales of wine sold to the UK, which decreased by 5% to \$355.1 million.

Wine exports into China continue to lead growth with sales up by 40% to \$520 million. China is now the largest market for Australian wine by sales and third by volume.

Australian export sales into the US increased with sales up 3% but volume down 5%.



## Australian Wine Industry (cont.)

The 2017 Vintage has started late and it is too early to determine what the Australian Wine Industry will crush.

With the decline in vineyard area it is expected that the 2017 crush will be less than 2016.

Vineyard area in Australia continues to decline with a further 3% of total vineyard area removed in one month last year.



# Business Results & Summary

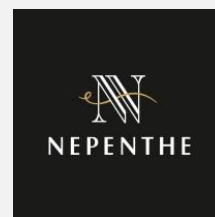
## 1. Branded Sales

McGuigan sales volumes increased by 3% but due to unfavourable currency movements and our long term strategy to protect the image and price point of this brand, sales value declined.

During the 6 month period to December 2016, total sales of our McGuigan brand declined by 12%, Nepenthe declined by 22% and Tempus Two grew 16%.

These three brands represent 58% of all our wine sales and prior to 1 July 2016 had grown by 97% over the last 5 years.

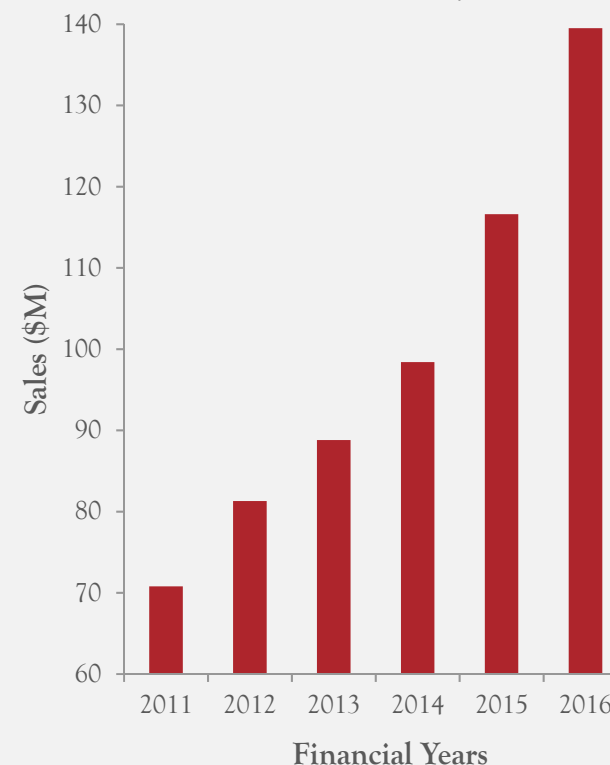
The McGuigan brand continues to be well received in the UK market and has maintained its status as the fourth largest selling global wine in that market.



TEMPUS TWO



Growth of our 3 key brands





# Business Results & Summary (cont.)

## 2. Australasia / North America Packaged



Sales decreased by \$0.9 million to \$56.4 million as a result of a \$1.0 million decline in cask sales. Branded bottled sales were in line with prior period.

Contribution was up 7% or \$0.3 million due to lower cost base resulting from improved efficiencies at our Merbein packaging facility.

Australian domestic sales were basically flat with branded bottled sales up \$1.0 million and cask sales down by \$1.0 million. Contribution was up by 18% or \$0.5 million due to improved sales mix and lower costs due to improved efficiencies at our packaging facility.

Asian division sales decreased by 10% with contribution decreasing by \$0.1 million or 6%. The performance of the Asian division has been impacted by the timing of orders with sales for January 2017, 40% above prior period.

Other divisions within this segment

- a) New Zealand sales down 22%, however, contribution in line with prior period due to production efficiencies. New liquor legislation had a major impact on market conditions due to restrictions on promotional activity depth and frequency.
- b) North America sales up 3% and contribution down by \$0.2 million or 48% due in part to the unfavourable movement in the Canadian dollar.



# Business Results & Summary (cont.)



## 3. UK / Europe

The UK/Europe segment has been significantly impacted by the unfavourable exchange rate. The FX impact when compared to prior period is:

Sales value down by	\$10.5m
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EBIT down by	\$3.7m
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The average AUD/GBP was 59 compared to 47 in the prior period.

Overall sales decreased by \$10.6 million to \$47.6 million. Whilst sales dollars decreased the McGuigan brand continues to grow with volumes up 6% compared to prior period.

Sales of bulk wine reduced by \$0.6 million to \$0.8 million as we continue to focus on our branded business.

# Business Results & Summary (cont.)



## 4. Other Segments

The Cellar Door contribution continues to grow with contribution up 5% to \$0.9 million due to increased club and digital sales.

Vineyard contribution is down \$0.5 million due to a change in accounting for vines (see separate slide on impact of this accounting change).

## 5. Financial Position

Cash flow from operating activities is positive \$7.8 million compared to \$11.3 million in the prior period. The main reason for the decline is due to the unfavourable movement in foreign currency which impacted cash flow negatively by \$5.2 million.

Net debt decreased by \$2.8 million to \$98.6 million. Our gearing (Net debt to Equity) is 37% compared to 38% as at June 2016.

# Vines – Change of Accounting

## **New Accounting for Vines – Amendments to Australian Accounting Standards – Agriculture: Bearer Plants**

The amendments, applicable from 1 July 2016, required bearer plants (defined to include grape vines) to be accounted for as property, plant and equipment within AASB 116 *Property, Plant and Equipment*, instead of AASB 141 *Agriculture*.

Upon adoption of this standard, AVL recorded the vines at deemed cost (representing historical cost less depreciation since the vineyards were acquired or planted). The vines are now subject to an annual depreciation charge based on the estimated useful life of the vines and also subject to annual impairment testing.

## **Grapes from Operating Leased Vineyards**

As a result of the amendments to the standards and the distinct separation of the vines from the grapes, the produce from operating leased vines is now recorded at market value (SGARA).

## **Impact on Group Balance Sheet/Equity**

The adoption of this standard resulted in the classification of Biological Assets (vines) changing from biological assets to property, plant and equipment and the carrying value of vines decreased by \$21.6 million as at 1 July 2016 (as at 1 July 2015: \$20.6 million).



# Vines – Change of Accounting (cont.)

## Impact on Group Balance Sheet/Equity (cont.)

The recording of grapes from leased vineyards at market value resulted in a decrease in inventory as at 1 July 2016 of \$6.2 million (as at 1 July 2015: \$7.4 million).

The tax impact of the above adjustments was to increase the deferred tax asset by \$4.1 million as at 1 July 2016 (as at 1 July 2015: \$4.5 million).

As a result of the adoption of the standard, there was a decrease to Retained Earnings of \$23.7 million as at 1 July 2016 (as at 1 July 2015: \$23.4 million).

## Impact on Group Profit and Loss Statement

The vines are now being depreciated and there will be an increase in depreciation expense from FY17 onwards.

The impact on half year results was \$0.5 million of additional depreciation which is then transferred to inventory work in progress (6 months to Dec 15: \$0.5 million)

The impact on the reported December 2015 result was an overall net decrease in profit of \$0.1 million.

# Results Summary – Revenue (\$'000)

	6 months to		Change	
	31/12/16	31/12/15	\$'000	%
Australasia / North America packaged	56,447	57,379	(932)	(2)
UK / Europe	47,580	58,196	(10,616)	(18)
Cellar Door	3,938	4,245	(307)	(7)
Australasia / North America bulk and processing	8,769	8,072	697	9
Vineyards	2,598	1,864	734	39
<b>Total</b>	<b>119,332</b>	<b>129,756</b>	<b>(10,424)</b>	<b>(8)</b>
<b>Note:</b> Split of UK/Europe revenue				
UK/Europe packaged	46,738	56,721	(9,983)	(18)
UK/Europe bulk	842	1,475	(633)	(43)

# Results Summary (\$'000)

	6 months to		Change	
	31/12/16	31/12/15	\$'000	%
Australasia / North America Packaged	4,440	4,155	285	7
UK / Europe	1,043	4,172	(3,129)	(75)
Cellar Door	899	860	39	5
Australasia / North America bulk and processing	(45)	(250)	205	82
Vineyards	(1,392)	(905)	(487)	(54)
<b>Total</b>	<b>4,945</b>	<b>8,032</b>	<b>(3,087)</b>	<b>(38)</b>
Finance costs	(2,627)	(2,973)	346	12
Interest received	7	9	(2)	(22)
Profit Before Tax	2,325	5,068	(2,743)	(54)
Tax	(727)	(1,570)	843	54
<b>Net Profit (before one off items and unrealised FX loss)</b>	<b>1,598</b>	<b>3,498</b>	<b>(1,900)</b>	<b>(54)</b>
Adjustment to provision for onerous contracts		35	(35)	
Tax		(11)	11	
Vineyard lease exit		(13,789)	13,789	
Tax		4,136	(4,136)	
<b>Total one off items (after tax)</b>	<b>-</b>	<b>(9,629)</b>	<b>9,629</b>	
<b>Total Net Profit (after one off adjustments)</b>	<b>1,598</b>	<b>(6,131)</b>	<b>7,729</b>	
<b>EBIT before one off items and unrealised FX</b>	<b>4,945</b>	<b>8,032</b>	<b>(3,087)</b>	<b>(38)</b>
<b>EBIT after one off items</b>	<b>4,945</b>	<b>(5,722)</b>	<b>10,667</b>	



# Outlook



The Company continues to focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe and whilst the first 6 months have been tough we remain confident that our strategy is the correct one.

Over the last 12 months the McGuigan brand has grown by 4.3% in the UK against a total UK wine market decline of 4.1% (Neilson data) and the McGuigan Black Label Red remains the biggest selling red wine in Australia.

Our sales to ASIA have declined in the last 6 months against prior period due to timing. However, sales in January 2017 were up 40% on last year.

The UK market will remain challenging and we do not expect any change in conditions in the next 12 to 18 months. In the meantime we have implemented various strategies which will improve the performance of the UK/Europe segment. These strategies came into effect in January 2017.

The Company continues to focus on its cost base and with the recent termination of an onerous vineyard lease and the expiry of other onerous grape contracts we expect cost savings which will flow through to improved profit in 2018, assuming all other conditions remain the same.

## Outlook (cont.)

We are also looking at other ways to improve our production efficiencies which may include some additional capital expenditure.

Recently we signed a long-term distribution agreement with Palm Bay International, a major US based distributor of wine and spirits. Palm Bay has long term relationships with wholesalers in all 50 states in the US. We believe that this relationship will provide the Company with solid sales growth in the medium to long term.

The focus on our quality wine has again been rewarded with McGuigan Wines being crowned International Winemaker of the Year at the prestigious International Wine and Spirits Competition held in London. This is a credit to the quality of wine that this Company is producing and continues to be the main platform in driving our branded sales.

In October 2016 we updated the market on our likely 2017 result based on the pound staying at around 62.8 against the Australian dollar and assuming normal vintage. This position has not changed. If the pound stays at its current level of 61 to 62 against the Australian Dollar and assuming a normal vintage we expect our net profit after tax to be down by approximately \$2.5 million to \$3.0 million against last year's result of \$7.1 million before one off items.



# Wine Show Results / Key Brand Facts



**MCGUIGAN  
WINES**

- The world's largest wine competition, the IWSC, awarded McGuigan Wines a total of:
  - Two trophies (*Semillon Trophy*: 2003 McGuigan BIN 9000 Semillon and *Shiraz | Syrah Trophy*: 2007 McGuigan Handmade Shiraz)
  - Three Gold Outstanding
  - One Gold
  - Six Silver Outstanding
  - Twenty-four Silver and twelve Bronze
- 2016 became the sixth year in a row McGuigan has been awarded the Semillon Trophy, and only 16 wine trophies were awarded across the entire competition in total.
- Tempus Two wines received two Bronze and one Silver, while Nepenthe was awarded nine Silver and six Bronze.
- McGuigan Wines was also awarded **International Winemaker of the Year** and **Australian Producer of the Year** – and in doing so became the only winery in the Competition's history to win the titles four times.