AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

**Company Announcements**
**Australian Securities Exchange**

**30 August 2017**

**Australian Vintage Limited Full Year Result to 30 June 2017**

**Key Points**

- Net Profit after tax $4.3 million compared to after tax loss of $2.2 million in the prior period
- Net Profit after tax and before one off items $4.3 million compared to $7.0 million in prior period
- Cash Flow from Operating Activities positive $14.0 million compared to $6.5 million in prior period
- Net Debt of $82.8 million compared to $101.4 million as at 30 June 2016
- Revenue down $16.2 million to $226.5 million, with unfavourable foreign currency impacting revenue by negative $17.5 million
- Sales volumes of McGuigan, Tempus Two and Nepenthe up 4%
- 1.0 cent per share fully franked final dividend declared

Australian Vintage (ASX: AVG) today reported a full year net profit result of $4.3 million.

Australian Vintage Limited ('AVL') Chief Executive Neil McGuigan stated that "Although our profitability is not where we want it, when you consider the fall of the GBP following Brexit, our financial result is credible, especially when you consider our positive cash flow of $14 million. Based on the average exchange rate that was present in the 2016 financial year, our 2017 cash flow would have been $4.7 million higher and our net profit after tax would also have been $3.3 million higher. This clearly demonstrates that our long-term strategies are correct.

Our core business continues to improve with sales volumes of AVL's three key brands, McGuigan, Tempus Two and Nepenthe continuing to grow against some market conditions that have seen wine volumes decline.

During the year we increased our focus on the Tempus Two brand which resulted in a 28% improvement in sales and a 50% increase in gross margin. Over the last 12 months the McGuigan brand has grown by 6% in volume in the UK market against a market decline of 10%.

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in the key overseas markets of Asia and the United States. In the 6 month period to 30 June 2017, sales into Asia have increased by 60% and contribution increased by 241% when compared to the same 6 month period in the prior period. Whilst some of this increase is due to the timing of orders, it does reflect that our partnership with COFCO is the right strategy. For the full year, sales into Asia increased by 19% and contribution by 21%. We expect this trend to continue.

The UK market remains a tough market with the current exchange rate making it hard to achieve a satisfactory return. The Company has taken some price increases in early January 2017, but this does not cover the full impact of the unfavourable exchange rates. For the next 12 months, we will continue to focus on improving sales mix and implementing further price increases.

The focus on our quality of wine has again been rewarded with the company's wines continuing to win awards at significant wine shows. At the recently held San Francisco International Wine Competition, the McGuigan Shortlist Riesling and the Farms Shiraz won double golds, other McGuigan brands picked up a further 5 golds, Nepenthe received 4 gold medals and Tempus Two received 3 gold medals. These awards are on top of the 425 trophies and medals that we received in the last 12 months to June 2017. Having won the International Winemaker of the Year four times at the prestigious International Wine and Spirits Competition in London, the company continues to produce world leading quality wine".

**Sales**

Revenue for the year decreased 7% or $16.2 million due to the unfavourable foreign currency which accounted for $17.5 million of this decrease.

Australasia/North America packaged sales were down 1% on last year with an increase in bottled sales of 1% and a decrease of 6% in our cask sales. Our new distributor in the USA, Palm Bay, have launched Tempus Two to great acceptance with the launch of McGuigan "The Plan" to be executed early in 2018.

Sales movements within the Australasia/North America packaged segment:-

| Division | Movement in Sales (%) |
|---|---|
| Australia | (2) |
| New Zealand | (14) |
| Asia | 19 |
| North America | (2) |

Australian sales decreased by 2% due to a 6% decline in cask sales. This decline is in line with the consumption trend of casks in the Australian domestic market. Due to significant pricing pressure on the McGuigan brand in Australia, the company took a stance on promotional support and as a result, sales of this brand dropped during part of the year. Sales of Black Label are now back on track and growing

Sales to New Zealand were down due to new legislation on promotion depth and frequency. Since this new legislation was introduced, sales have recovered to levels seen in the previous year. In the last 6 months, sales to New Zealand have been in line with the previous year's corresponding period.

Sales to Asia have grown by 19% with the last 6 months sales showing a 60% sales growth when compared to the same corresponding 6 month period in the prior period.

UK/Europe packaged and bulk sales were down by 14% on last year with packaged sales down 12% or $12.3 million and bulk and private label sales down 54% or $1.8 million. The unfavourable GBP negatively impacted sales by $17.3 million when compared to the prior period.

**Sales By Segment**

| | 12 Months to | | Change | |
|---|---|---|---|---|
| | 30/06/17 $000 | 30/06/16 $000 | Variation $000 | % |
| Australasia/North America Packaged | 106,005 | 106,672 | (667) | (1) |
| UK/Europe | 88,454 | 102,506 | (14,052) | (14) |
| Cellar Door | 7,834 | 8,185 | (351) | (4) |
| Australasia/North America bulk & processing | 20,358 | 22,222 | (1,864) | (8) |
| Vineyards | 3,799 | 3,101 | 698 | 23 |
| | **226,450** | **242,686** | (16,236) | (7) |

**EBIT and Net Profit**

EBIT is $11.3 million compared to $3.2 million in the previous period. Before one off items EBIT is $11.3 million compared to $16.4 million. The contribution from the Australasia/North America packaged segment was in line with last year.

The UK/Europe segment was significantly impacted by the unfavourable GBP. Actual sales volumes improved on last year in a market that saw wine sales decline. The contribution from this segment was down by $3.3 million due to the unfavourable GBP.

Australasia/North America Bulk segment contribution declined by $1.5 million due to losses on some bulk wine sales. These bulk sales were made to remove wine that was not required for future sales.

The decreased contribution from the vineyard segment was due to a change in accounting standards on vines.

| | 12 Months to | | Change | |
|---|---|---|---|---|
| | 30/06/17 $'000 | 30/06/16 $'000 | $'000 | % |
| Australasia / North America Packaged | 6,258 | 6,249 | 9 | - |
| UK / Europe | 208 | 3,500 | (3,292) | (94) |
| Cellar Door | 1,456 | 1,568 | (112) | (7) |
| Australasia / North America bulk and processing | (1,075) | 447 | (1,522) | (340) |
| Vineyards | 4,414 | 4,610 | (196) | (4) |
| **EBIT** | **11,261** | **16,374** | **(5,113)** | **(31)** |
| Finance costs | (5,025) | (5,790) | 765 | 13 |
| Interest received | 15 | 15 | - | - |
| Profit Before Tax | 6,251 | 10,599 | (4,348) | (41) |
| Tax | (1,948) | (3,590) | 1,642 | 46 |
| **Net Profit (before one off items)** | **4,303** | **7,009** | **(2,706)** | **(39)** |

| | | | |
|---|---|---|---|
| Vineyard lease exit | - | (13,148) | 13,148 |
| Tax | - | 3,944 | (3,944) |
| **Total one-off items (after tax)** | **-** | **(9,204)** | **9,204** |

| | | | |
|---|---|---|---|
| Total Net Profit/(loss) (after one off adjustments) | 4,303 | (2,195) | 6,498 |

**Financial Position**

Due to the recent $16.5 million share placement and the improved cash flow from operating activities, the net debt decreased by $18.6 million. The gearing ratio is now at a comfortable 29% (38% as at 30 June 2016). The existing banking facility remains in place until September 2019.

**Outlook**

The Company continues to focus on growing its three key brands, McGuigan, Tempus Two and Nepenthe and whilst the last 12 months have been challenging due mainly to the unfavourable GBP, we remain confident that our strategy is the correct one.

One of the most pleasing aspects of our business is the cash flow from operating activities which improved by $7.5 million over the prior period.

Over the last 12 months the McGuigan brand has grown by 6% in the UK against a total UK wine market decline of 10% and the McGuigan Black Label Red remains the biggest selling red wine in Australia. Our major brand continues to perform well.

As foreshadowed in our May 2017 press release on the placement to Vintage China, the company will be undertaking major capital projects to further improve efficiencies and quality of wine. Our total capital spend for the next 12 months will be approximately $19.0 million and will focus on:

- Major efficiency upgrades at the Buronga Hill Winery
- Efficiency improvements at our Merbein packaging facility
- Vineyard developments at existing owned vineyards

Our proposed capital spend will incorporate several sustainability initiatives including:

- The completion of the 1,640Kw solar panel system at our Buronga Hill Winery
- The installation of a 300Kw solar panel system at our Merbein Packaging facility
- The development of a vineyard adjacent to our Buronga Hill Winery that will use the waste water from the winery

Australian Vintage has transformed over the last 10 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue as we push into the Asian and US markets. Our persistence on improving efficiency will mean that the company will spend $19.0 million on capital projects over the next 12 months.

Based on the GBP exchange rate remaining at around 61 pence and a normal 2018 vintage, we expect our 2018 result to be at least 10% up on this year's Net Profit After Tax result.

Assuming no price adjustment for the next 12 months, a 1 pence movement in the GBP impacts our Net Profit after tax by approximately $0.4 million.

A further market update will be provided at our Annual General meeting in November 2017.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a dividend. A fully franked dividend of 1.0c per share will be paid to all shareholders on 10 November 2017. The Record Date to establish shareholder dividend entitlements is 20 October 2017. The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 10 November 2017. Shares issued under the DRP will be at a 2.5% discount to the weighted average market price of all Company shares sold on the ASX during the 5 business days after the Record Date.

***ENDS***

**Further information**


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