

Australian Vintage Ltd.

June 2017 Results

30th August 2017




AUSTRALIAN VINTAGE LTD.

MIRANDA


NEPENTHE


MCGUIGAN
WINES
Come on in

TEMPUS TWO


PASSION
POP

Australian Vintage Ltd.

June 2017 Results

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Key Points

- Net profit after tax \$4.3 million compared to after tax loss of \$2.2 million prior year (after one off items).
- Net profit after tax and before one off items \$4.3 million compared to \$7.0 million prior period.
- Cash flow from operating activities positive \$14.0 million compared to \$6.5 million in the previous period. Improvement due to lower cost of grapes partially offset by the unfavourable FX. Prior period cash flow included a \$4.9 million vineyard lease termination payment
- Net debt of \$82.8 million compared to \$101.4 million as at 30 June 2016.
- Results impacted by unfavourable exchange rates. When compared to prior period, net profit after tax negatively impacted by \$3.3 million and cash flow from operating activities, \$4.7 million.
- Total revenue decreased by \$16.2 million to \$226.5 million with unfavourable exchange rates eroding \$17.5 million in sales compared to prior year.
- Key branded volume growth up 4% with Tempus Two up 37%. Overall sales value down due to unfavourable foreign currency.



Key Points (cont.)

- AVL strategies remain unchanged:
 - Grow export business
 - Increase branded sales
 - Focus on cost control
- 1.0 cent fully franked dividend declared, payable 10 November 2017. Dividend Reinvestment Plan (DRP) remains in place. Shares issued under the DRP will be at a 2.5% discount.



Australian Wine Industry

In the 12 months to June 2017 the value of Australian wine exports increased by 10% to \$2.3 billion and volume increased by 7% to 778 million litres. The average value of exports grew by 3% to \$2.97 per litre, the highest level since 2009.

All major export regions recorded growth for Australian wine exports except for UK, Canada and Hong Kong. Sales to the UK decreased by 7% to \$341.4 million due to unfavourable FX and reduced volume sold. However, the UK still remains our largest export market by volume.

Wine exports into China continue to lead growth with sales up by 44% to \$606.8 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% and volume up 14%.



Australian Wine Industry (cont.)

The 2017 Vintage crush was 1.93 million tonnes, a 5% increase on last year's crush (WFA National Vintage Report July 2017). This is the biggest crush in the last 10 years.

The increased crush has come from the cool and temperate regions, which was up 9% on last year.

The crush from warm inland regions increased by about 3%.

The average grape price across all varieties increased 7% to \$565/tonne – the highest since 2008.

With vineyard area decreasing over the last 10 years, the 2017 crush was surprisingly high and is due to favourable weather conditions and higher yields.



Business Results & Summary

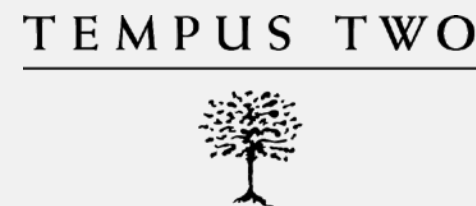
1. Branded Sales

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 12 month period to June 2017, total sales dollar of our McGuigan brand declined by 10%, Nepenthe declined by 2% and Tempus Two grew 28%.

These three brands represent 57% of all our wine sales.

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.



Business Results & Summary (cont.)

2. Australasia / North America Packaged

Sales were slightly less than prior period at \$106.0 million.

Contribution was \$6.3 million, slightly up on last year.

Australian domestic sales were down by \$1.6 million due mainly to reduced cask sales which were down by \$1.2 million. Contribution was up by 7% or \$0.3 million due to improved sales mix and lower costs due to improved efficiencies at our packaging facility.

Asian division sales increased by 19% with contribution increasing by \$0.3 million or 21%. Over the last 6 months the Asian division contribution has grown by 241% compared to the previous 6 months as a result of improved sales and timing of orders.

Other divisions within this segment:

- a) New Zealand sales down 14% and contribution down 13%. New liquor legislation had a major impact on market conditions due to restrictions on promotional activity depth and frequency.
- b) North America sales down 2% and contribution down by \$0.4 million due to increased margin expectations from the liquor boards in Canada and the unfavourable movement in the CAD. Sales through our US based distributor, Palm Bay, are in line with expectation.



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 | \$17.3m |
|---------------------|---------|

| | |
|--------------|--------|
| EBIT down by | \$4.7m |
|--------------|--------|

Overall sales decreased by \$14.1 million to \$88.5 million. Whilst sales dollars decreased the McGuigan brand continues to grow with volumes up 6% compared to prior period.

Sales of bulk wine and private label reduced by \$1.8 million to \$1.5 million as we continue to focus on our branded business.



Business Results & Summary (cont.)

4. Other Segments

Cellar Door sales declined by 4% to \$7.8 million and contribution is down by \$0.1 million due mainly to reduced sales at our Hunter Valley cellar door.

The negative contribution of \$1.1 million from the Australasia/North America bulk segment was due to losses on some bulk wine sales. These sales were made to remove parcels of wine that were not required in the medium term.

Vineyard contribution is down \$0.2 million due mainly 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 \$14.0 million compared to \$6.5 million in the prior period. The main reason for the increase is lower grape prices partially offset by the unfavourable movement in foreign currency which impacted cash flow negatively by \$4.7 million when compared to prior period.

Net debt decreased by \$18.6 million to \$82.8 million. Gearing (Net debt to Equity) is 29% compared to 38% as at June 2016.



Business Results & Summary (cont.)

6. Capital Expenditure

Capital expenditure increased to \$12.1 million as a result of a \$8.0 million dollar investment in storage at our Buronga Hill Winery. This investment will reduce our requirement for outside storage.

As foreshadowed in the May 2017 press release, capital expenditure for the upcoming 12 months will be increased significantly. Over the next 12 months we expect to spend \$19 million on capital projects that will provide a positive return to the business.

Major capital projects:-

| | \$M |
|---|------|
| Major efficiency upgrades at the Buronga Hill Winery | 5.3 |
| Efficiency improvements at our Merbein packaging facility | 6.1 |
| Vineyard developments | 1.9 |
| IT upgrade | 0.9 |
| Other (normal replacement capital) | 4.8 |
| | 19.0 |

Included in the above are a number of sustainability initiatives:-

- The completion of the 1,640Kw solar panel system at our Buronga Hill Winery. Once completed this 3.2ha solar panel farm will provide approximately 30% of the wineries total electricity requirements.
- 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, plus the vineyard will be fertilised by various by-products from the winery.

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.

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

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.

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.

During FY17 there was an additional depreciation charge of \$0.9 million which was then transferred to inventory work in progress.

The impact on the reported June 2017 result was an overall decrease in net profit after tax of \$0.3 million.

Results Summary – Revenue (\$'000)

| | 12 months to | | Change | |
|---|----------------|----------------|-----------------|------------|
| | 30/06/17 | 30/06/16 | \$'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 and processing | 20,358 | 22,222 | (1,864) | (8) |
| Vineyards | 3,799 | 3,101 | 698 | 23 |
| Total | 226,450 | 242,686 | (16,236) | (7) |
| Note: Split of UK/Europe sales | | | | |
| UK/Europe Branded | 86,953 | 99,264 | (12,311) | (12) |
| UK/Europe bulk and Private Label | 1,501 | 3,242 | (1,741) | (54) |

Results Summary (\$'000)

| | 12 months to | | Change | |
|---|---------------|----------------|----------------|-------------|
| | 30/06/17 | 30/06/16 | \$'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 (after one off adjustments) | 4,303 | (2,195) | 6,498 | |

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 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. Had it not been for the unfavourable foreign currency, the improved cash flow would have been higher. This clearly demonstrates that our long term strategies are correct and our core business continues to improve.

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.

During the year we increased our focus on the Tempus Two brand which resulted in a 28% improvement in sales. Gross margin dollars from this brand increased by 50%. Currently Tempus Two is sold predominantly in the domestic market, but we are now starting to see some sales through Palm Bay our US distributor.

Outlook (cont.)

In the 6 month period to 30 June 2017, our sales into Asia have increased by 60% and contribution increased by 241% when compared to the same 6 months in the prior period. Whilst some of this is due to the timing of orders, it does reflect that our partnership with COFCO is the right strategy. For the full year our sales into Asia increased by 19% and our contribution increased by 21%.

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. Volume sales of the McGuigan brand have increased against a downward market trend which supports the strength of the McGuigan brand in the UK. For the next 12 months, the company will continue to focus on improving sale 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.



Outlook (cont.)

For the next 12 months the company will be undertaking major capital projects to further improve our efficiencies and our quality of wine. It is expected that 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 transformation will continue as we push into the Asian and US markets and reduce our reliance on the UK market. 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.

Wine Show Results / Key Brand Facts



MCGUIGAN
WINES

- In 2016 McGuigan received a total of 425 trophies and medals, including 27 Trophies; 13 Top Gold; 60 Gold; 6 Top Silver and 115 Silver medals.
- McGuigan Wines is the only winery in the world to have been crowned International Winemaker of the Year four times by the prestigious International Wine & Spirits Competition in London, having achieved the feat in 2009, 2011 and 2012, and again in 2016.
- Australian Winery of the Year, 2017 New York International Wine Competition.
- Decanter Wine Awards: Best Single Variety £15+ Trophy - McGuigan Shortlist Semillon 2007.
- Decanter Asia Wine Awards: Best Australian White Single Varietal Trophy - McGuigan Shortlist Semillon 2007.
- International Wine & Spirits Competition: Shiraz | Syrah Trophy - McGuigan Handmade Shiraz 2007.
- International Wine Challenge: Australian White Trophy - McGuigan Shortlist Riesling 2010.
- Hong Kong IWSC: Best Australian Wine Trophy - McGuigan Bin 9000 Semillon 2007.
- Rutherglen Wine Show: Best Dry White Wine of Show Trophy - McGuigan Bin 9000 Semillon 2007.
- National Cool Climate Wine Show: Champion Chardonnay of Show Trophy - McGuigan Shortlist Chardonnay 2015.
- Perth Wine Show: Best Wine Of Show Trophy - McGuigan Bin 9000 Semillon 2007.
- Cowra Wine Show: Best Single Vineyard Table White Wine Trophy - McGuigan Personal Reserve Hunter Ridge Chardonnay 2014.

Wine Show Results / Key Brand Facts



MCGUIGAN
WINES

- McGuigan Wines are sold in over 40 countries world-wide.
- McGuigan is the #13 Australian wine brand in AU. McGuigan Black Label Red is the #1 selling bottled red wine in the domestic AU market and in the last 12 months sold 50% more volume than the #2 red wine. (Aztec MAT 04/06/17).
- The McGuigan Black Label range is ranked #4 of all still bottled wine sub brands in Australia (Aztec MAT 04/06/17).
- In the UK, McGuigan is the #4 global wine brand by volume and value on the back of 7.8% growth year-on-year – and the #2 Australian wine brand in the market.
- McGuigan is a top 20 global alcohol brand by value in the UK, ahead of brands such as Corona, Peroni, Bailey's and Guinness worth over £130M on the back of 7.82% growth MAT.
- McGuigan is the largest Australian wine brand by volume and value in the Irish market, and the #1 global brand in Tesco Malaysia and in Nova Scotia, Canada.
- McGuigan The Philosophy 2010: 2017 Winestate 'Cabernet & Blends' Challenge - 5 ★ Equal top in Class
- McGuigan The Philosophy 2013: 2017 Winestate 'Cabernet & Blends' Challenge - 5 ★ Equal top in Class

Wine Show Results / Key Brand Facts

TEMPUS TWO



- In 2016 Tempus Two received a total of 133 trophies and medals, including 6 Trophies; 2 Top Gold; 12 Gold; and 39 Silver medals.
- Cairns Wine Show: Champion White in Show Trophy – Tempus Two Pewter Series Chardonnay Poppy's Block.
- Cairns Wine Show: Champion Wine in Show Trophy – Tempus Two Pewter Series Chardonnay Poppy's Block.
- China Wine & Spirits Awards: Australian Wine of the Year Trophy – Tempus Two Pewter Series Chardonnay 2014.
- Riverina Wine Show: Best Chardonnay of Show Trophy – Tempus Two Pewter Series Chardonnay Poppy's Block 2015.
- Riverina Wine Show: Best Wine of Show Trophy – Tempus Two Pewter Series Chardonnay Poppy's Block 2015.
- Hunter Valley Wine Show: Best Rosé of Show Trophy – Tempus Two Copper Series Shiraz Rosé 2016.

Wine Show Results / Key Brand Facts



- Sydney Royal Wine Show: Best Other White Varietal Trophy - Nepenthe Winemakers Selection Gruner Veltliner 2016.
- Hong Kong IWSC: Best Chardonnay Trophy - Nepenthe Pinnacle Ithaca Chardonnay 2015.
- Australian Cool Climate Wine Show: Best Other Dry White Varieties and/or Blends Trophy - Nepenthe Winemakers Select Viognier 2015.
- Adelaide Hills Wine Show: Best Other White Varieties Trophy - Nepenthe Winemaker Select Arneis 2016.
- China Wine & Spirit Awards - Double Gold – Nepenthe Pinnacle Gateblock Shiraz 2013.
- China Wine & Spirit Awards - Double Gold – Nepenthe Altitude Sauvignon Blanc 2015.
- 2016 Rutherglen Wine Show - Top Gold – Nepenthe Altitude Tempranillo 2015.
- Royal Adelaide Wine Show - Gold – Nepenthe Altitude Pinot Noir 2014.
- Riverina Wine Show - Gold – Nepenthe Pinnacle Ithaca Chardonnay 2015.
- Royal Perth Wine Show - Gold – Nepenthe Winemakers Selection Viognier 2015.
- Royal Adelaide Wine Show - Gold – Nepenthe Pinnacle Petraea Sauvignon Blanc 2015.