AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Chairman's Address
Annual General Meeting
20 November 2017

Welcome to the 2017 Annual General Meeting of Australian Vintage Limited and thank you for joining us. My name is Richard Davis and I will chair today's meeting.

About Australian Vintage

We are one of Australia's largest wine producers, capable of crushing up to 120,000 tonnes a year. We operate wineries in the Hunter Valley and Sunraysia region and own 6 vineyards that cover 840 hectares of planted grapes. We also lease a further 3 vineyards that cover 1,200 hectares of planted grapes and sell about 80 million litres of wine.

The McGuigan Black Label Red is the most popular branded red wine in Australia, and the McGuigan brand is the 4th most popular global brand in the UK.

We continue to make tough decisions, cut costs, right sized our assets and improved productivity without compromising the quality of our wines and at the same time enhancing our reputation.

In line with our strategy, our business continues to change with the ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of these three key branded products now comprise 57% of our total sales dollar. Total sales of all our branded products makes up 77% of all our sales with the balance consistent of cask and bulk. 5 years ago, total branded sales were 55% of our business. We have reduced our reliance on low margin and loss-making bulk wine sales. However, if the opportunity presents itself, we will participate in the bulk wine market.

Highlights and Key Points

Net Profit after tax was $4.3 million compared to last year's loss of $2.2 million. If you ignore the one-off items in the previous year, this year's result of $4.3 million compares to $7.0 million in the previous year. The 2017 result was significantly impacted by the unfavourable exchange rates, particularly the British pound. When compared to the prior year, the unfavourable exchange rate impacted net profit after tax by $3.3 million and operating cash flow by $4.7 million.

Cash flow from operating activities was $14.0 million compared to $6.5 million. The improved cash flow was due mainly to lower grape costs and reduced grapes purchased, partially offset by the unfavourable foreign currency.

Our net debt decreased during the year to $82.8 million and our gearing is at a comfortable 29% with a secure banking facility in place until September 2019.

Six years ago, our net debt was $161.0 million.

Revenue decreased by $16.2 million to $226.5 million with unfavourable exchange rates eroding $17.5 million in sales.

Our company continues to focus on 3 key strategies – Grow the Export Business; Increase Branded Sales and continue to focus on cost control.

In August this year we announced a fully franked dividend of 1.0 cents which was paid in early November.

Business Results and Summary

During the 12 month period to June 2017, total sales volumes of the McGuigan Brand grew 3%, but due to unfavourable currency movements and our long-term strategy to protect the price position of this brand, total sales dollar declined by 10%.

Sales dollars of our Tempus Two brand increased by an impressive 28% because of increased interest in this brand. Nepenthe sales were marginally down on last year.

Sales in our Australasia/North America segment were slightly less at $106.0 million but due mainly to improved production efficiencies contribution was slightly up at $6.3 million.

In Australia, domestic sales were down by $1.6 million due mainly to reduced low margin cask sales which were down by $1.2 million. However, Australian contribution was up 7% due to improved sales mix and lower production costs.

Sales to Asia have grown by 19% and has resulted in a 21% contribution improvement from this division. Over the last 6 months to 30 June 2017, the Asian division sales have grown by 60% when compared to the same 6 month period in the prior year. Our long-term agreement with our Chinese distributor (COFCO) is starting to show benefits.

Sales to both the New Zealand and North American markets were down due to legislative changes and distributor margin expectations. Sales to both these markets have recovered and are back on track to show growth.

Sales in our UK/Europe segment declined by $14.1 million due to the unfavourable movement in the pound which negatively impacted sales by $17.3 million and contribution by $4.7 million. Pleasingly, the McGuigan brand continues to grow with a 6% increase in sales volume over the year to June 2017.

Our Cellar Door segment contribution was slightly down on last year because of a slight reduction in sales at our Hunter Valley Cellar Door and we lost $1.1 million in the bulk segment due to losses on bulk wine sales. These bulk wine sales were made to remove wine that was not required.

The cash flow from operating activities was positive $14.0 million, the highest it has been for the last 8 years. This shows that our core business is improving, and we expect this operating cash flow to grow in the future.

Capital Expenditure

In 2017 we invested $12.1 million in our business and $8.0 million of this was spent on additional wine storage at our Buronga Hill Winery. This additional storage reduces our reliance on outside storage which in the previous year cost us $1.6 million.

For the next 12 months we expect to invest a further $19.0 million on various major capital projects including efficiency upgrades at the Buronga Hill Winery and our Merbein packaging facility. Included in this capital spend are various sustainability initiatives including the completion of our solar panel farm at the Buronga Winery, which will provide around 30% of our total winery electricity requirements, and the development of a vineyard adjacent to the winery. This vineyard will use the waste water from the Winery.

Australian Wine Industry

For the year ended September 2017, Australian export sales increased by 13% and volume increased by 9% to 799 million litres. All major export regions recorded growth for Australian Wine.

Wine exports to Asia continue to lead growth with sales up 36% to $929 million. Mainland China is now the largest market for Australian wine by sales and third by volume.

The total crush for 2017 was 1.9 million tonnes, about 100,000 tonnes above the 2016 crush. This is the biggest crush in the last 10 years and is a result of a 9% increase in temperate regions and a 3% increase in the warm inland regions.

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

The latest information that we have indicates that global production for 2017 is estimated to be amongst the lowest in 20 years. This decline in production is due to climatic conditions which affected the main producing countries, particularly those in Europe. This will put pressure on supply of wine.

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 pound, we remain confident that our strategy is correct.

One of the positive aspects of our business is the cash flow from operating activities which improved by $7.5 million. This clearly demonstrates that our long-term strategies are correct.

In fiscal year 2017, the McGuigan Brand has grown by 6% in the UK market against a total UK market decline of 10% and the McGuigan Black Label Red remains the biggest selling red wine in Australia. In Asia, our sales grew by 19%.

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

The UK market remains tough with the exchange rate making it hard to achieve a satisfactory return. For the next 12 months the Company will continue to focus on improving sales mix and implementing further price increases. It is important to understand that this market provides significant volume of sales which in turn is critical to controlling our stock levels and ensuring throughput at our Buronga Hill winery.

The focus on our quality wine has again been rewarded with the Company's wines continuing to win many awards at significant wine shows. The Company makes world leading quality wines.

Our persistence to improving efficiencies will mean that the Company will be undertaking major capital projects of $19.0 million in the next 12 months. Most of the funds for the capital will come from the May 2017 strategic decision to issue 15% of our existing capital at 46.01 cents per share to Vintage China Fund. The return on the major capital projects will mean that the 15% placement will be Earnings Per Share positive by about 1% in 2019 growing to 4% in 2020 as the benefits from the capital flow through the profit and loss.

This company continues to transition from a bulk wine producer to a quality branded business. This transition will continue as we push into the Asian and US markets and reduce our reliance on the UK market.

Over the last couple of years, we have been able to exit an onerous vineyard lease and an onerous grape supply contract. Because of this the Company calculated grape purchase cost savings of between $8.0 million to $9.0 million per year when compared to the average grape purchase costs paid in 2015. Whilst these grape cost savings have been achieved when compared to the 2015 prices, the benefits have been slightly eroded due to increased grape prices since 2015. Furthermore, the underutilisation of our large winery, where we processed 93,000 tonnes against a capacity of 120,000 tonnes, has added costs to our wine. We have signed a processing agreement which will remedy most of the future winery underutilisation issue.

For the first 4 months of this fiscal year, our packaged sales are up 12% by sales value and 13% by sales volume, with improved sales in both the Australasian/ North America and UK/Europe segments.

Based on our current performance, the exchange rate remaining at around the current level and a normal 2018 vintage, we expect our 2018 result to be at least 40% up on the 2017 result.

Richard Davis, Chairman
Australian Vintage Limited
20 November 2017