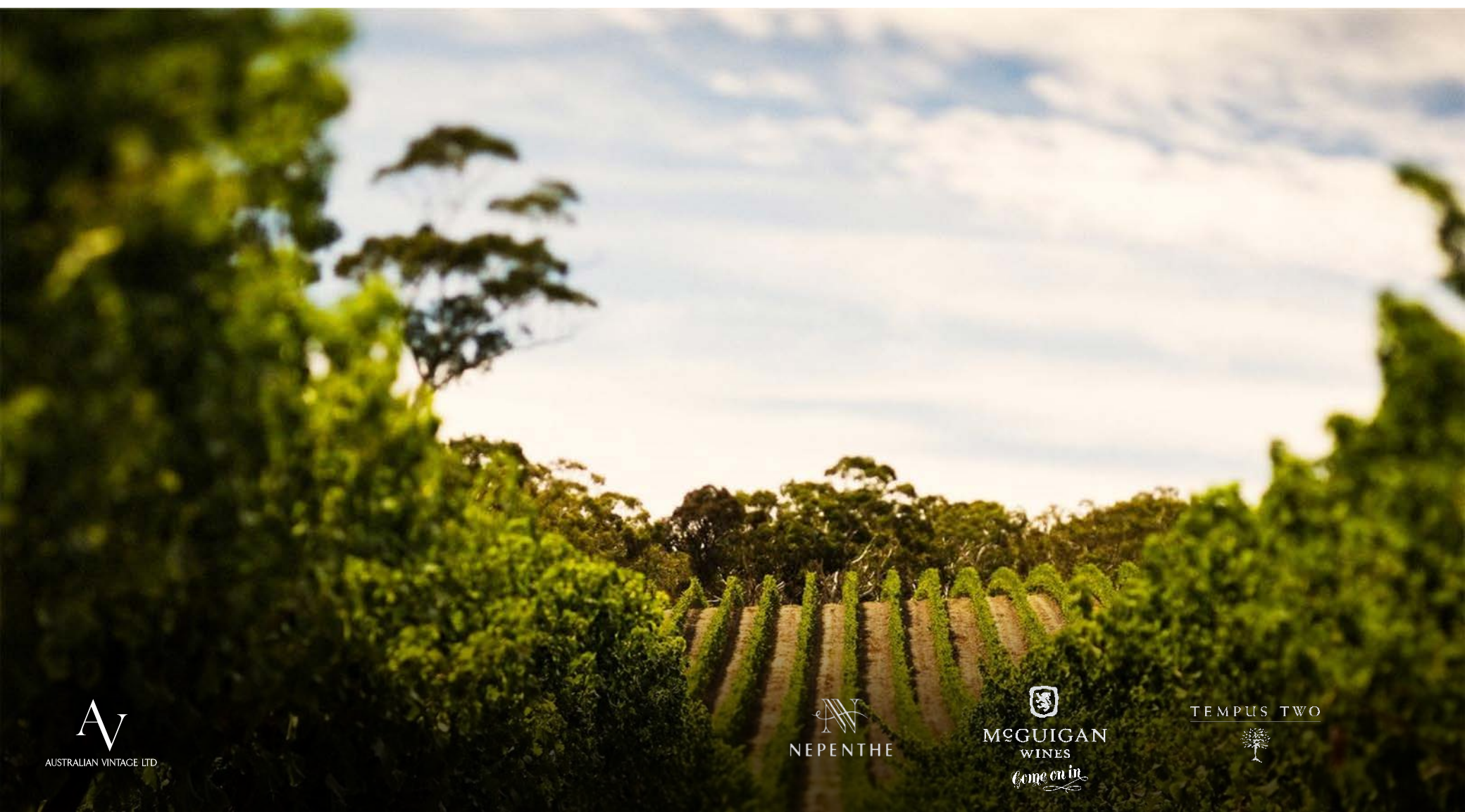


# Australian Vintage Limited Annual General Meeting

20<sup>th</sup> November 2017



# Australian Vintage Limited

## Annual General Meeting



AUSTRALIAN VINTAGE LTD

Annual General Meeting  
20<sup>th</sup> November 2017

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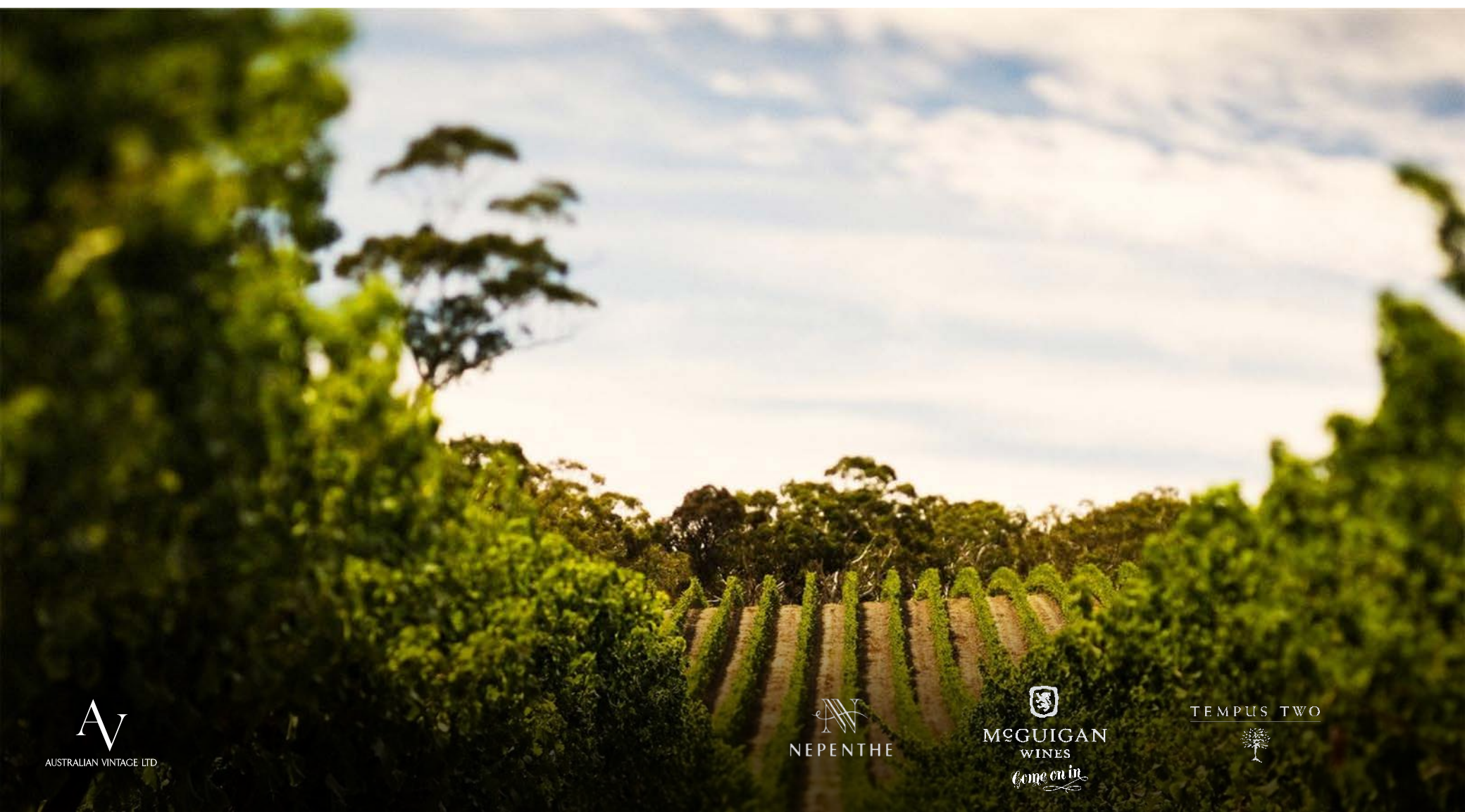
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# Australian Vintage Limited Annual General Meeting

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# Agenda



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Performance Summary	Richard Davis
Business Update	Neil McGuigan
Formal Proceedings	Richard Davis





# Annual General Meeting



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## Performance Summary

Richard Davis

# Your company

One of Australia's largest wine producers

- Crushes up to 120,000 tonnes a year.
- Sells 80 million litres of wine.
- 2,000 planted hectares in 11 vineyards that we either own or lease.
- Production facilities capable of producing 1.5 million casks and 7 million cases of bottled wine.
- Produces the most popular red wine in Australia.
- McGuigan is the 4<sup>th</sup> largest global wine brand in the UK.



# 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 and reduced grapes purchased, 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.





# Business Results & Summary

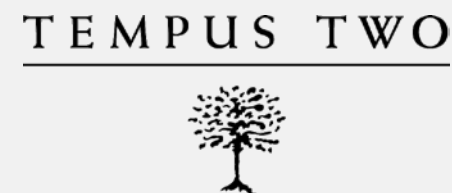
## 1. Branded Sales

McGuigan sales volumes increased by 3%, but due to unfavourable currency movements and our long term strategy to protect the price position 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 low margin 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 same 6 month period in the previous year due to 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.

## 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 additional storage reduces our reliance on outside storage which in the previous year cost \$1.6 million.

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.

# Australian Wine Industry

In the 12 months to September 2017 the value of Australian wine exports increased by 13% to \$2.4 billion and volume increased by 9% to 799 million litres. The average value of exports grew by 4% to \$3.06 per litre, the highest level since 2009.

All major export regions recorded growth for Australian wine exports.

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





# 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.



# Outlook



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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.

During financial year 2017, 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 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. 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 through-put at our Buronga Hill Winery.

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





# Outlook (cont.)



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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

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.

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

Based on our current performance, the GBP exchange rate remaining at around 58 pence and a normal 2018 vintage, we expect our 2018 result to be at least 40% up on this year's Net Profit After Tax result.

# Annual General Meeting



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Business Review

Neil McGuigan

# Overview



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- \* Wine Show Performance
- \* Corporate Update
- \* Vision and Values
- \* Launches



# A Few Trophies of Note

1. International Winemaker of the Year 2016 – IWSC 2016
2. Tempus Two Poppy's Block Chardonnay 2015 – Champion Wine & Champion White Wine in Show at Cairns Wine Show 2016
3. Nepenthe Ithaca Chardonnay 2015 – Trophy Best Chardonnay Hong Kong IWSC
4. McGuigan Bin 9000 Semillon 2007 – Trophy Best Semillon, Trophy Best White Table Wine & Trophy Best Wine of Show at Perth Wine Show 2016
5. Tempus Two Pewter Shiraz Rose 2016 – Trophy Best Rose Hunter Valley Wine Show 2016

# Wine Show Performance for FY17

- Wine Quality

The Show results for the three key brands have been very pleasing again this year. Here are some of the highlights:

	McGuigan	Tempus Two	Nepenthe
Trophies	27	6	6
Gold	73	14	15
Silver	121	39	35
Bronze	186	70	132
<b>Total</b>	<b>407</b>	<b>129</b>	<b>188</b>

- \* FY17 Hurdles
- \* Financials
- \* Distribution Agreements
- \* Placement & Capex



# Capital



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**Solar Plant - Buronga Hill Winery**



**Sparkling Line Filler - Merbein**

## OUR VISION

Making great quality wine accessible to everyone around the world for every occasion.

## OUR VALUES

Working Collaboratively with Integrity  
Innovative and Courageous  
Nimble and Responsive  
Empowered and Accountable

# Launches



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## McGuigan Wines -

- \* The Borders (Coles)
- \* The Heist (Coles)
- \* The Pioneers (Coles)
- \* The Plan (USA)

## Innovation -

“Off the Grid”

## Nepenthe -

- \* The Luminary (Woolworths)

## Tempus Two –

- \* Silver Series (Waitrose / Australia)
- \* Platinum Series (General Trade)



# McGuigan The Borders



# McGuigan The Heist



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# McGuigan The Pioneers

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# McGuigan The Plan



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# Nepenthe The Luminary



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# Off The Grid



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# Tempus Two Silver Series



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# Tempus Two Platinum Series



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# WINESTATE

M A G A Z I N E

**July / August 2017**

CABERNET SAUVIGNON  
& BLENDS

July/August 2017

Cabernet Sauvignon & Blends

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**Wolf Blass Black Label Langhorne Creek McLaren Vale Cabernet Sauvignon Shiraz Malbec 2012 ★★★★★**

A big wine with big fruit and big oak. Slightly closed but complex aromas. Great cool climate-like structure to the palate with blackberry fruit flavour intensity and soft tannins. — 5+ \$130

**\$130**



**McGuigan The Philosophy South Australia Cabernet Sauvignon Shiraz 2013 ★★★★★**

Closed restrained nose that smells of "rain on asphalt!" thought one judge. Warm and powerful in the mouth with some "grippiness". "The tannins are lovely," said another. — 5+ \$150

**\$150**



**McGuigan The Philosophy South Australia Cabernet Sauvignon Shiraz 2010 ★★★★★**

"Alive and lovely," enthused one judge. Has elements of blueberries, beetroot and mulberries on the nose. Blackberry sweetness on the palate, good tannin length with a light finish. — 5+ \$150

**\$150**



**Chateau Haut Brion Premier Grand Cru Classe Pessac Leognan Cabernet Blend 2011 ★★★★★**

Beautifully evolving aromas of caramel, white chocolate and licorice. Very bright and lively in the mouth with good oak structure and some plum fruit. Needs more time in the cellar. — 3-5 \$1,270

**\$1270**



**Chateau Latour Grand Vin de Chateau Latour Premier Grand Cru Classe Pauillac France Cabernet Blend 2011 ★★★★★**

Crimson red wine with heavy, slightly "pongy" aromas. Palate is savoury and drying with sweet fruit and cedary oak and some brett influence. \$1,560

**\$1560**

# FY18 Results so far ...

## \* International Wine Challenge UK

McGuigan - Trophy for Best Hunter Valley Chardonnay  
- Shortlisted for White Winemaker of the Year



## \* New York International Wine Show

McGuigan - Trophy for the Australian Producer of the Year  
Nepenthe - Double Gold - Gruner Veltliner + 3 other Gold

## \* Melbourne International Wine Show

McGuigan - Gold for "The Borders" Cab Sauvignon \$12.99



## \* 2017 IWSC London

McGuigan - 2 Trophies, 14 Gold, 25 Silver & 10 Bronze