AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Company Announcements
Australian Securities Exchange

29 August 2018

Australian Vintage Limited Full Year Result to 30 June 2018
Profit up 79% and Record Cash Flow

Key Points

- Net Profit after tax $7.7 million compared to $4.3 million in the prior period
- Cash Flow from Operating Activities positive $26.7 million compared to $14.0 million in prior period
- Net Debt of $77.2 million compared to $82.8 million as at 30 June 2017
- Revenue up $38.2 million to $264.6 million
- Sales of McGuigan, Tempus Two and Nepenthe up 14%
- 1.5 cent per share fully franked final dividend declared

Australian Vintage (ASX: AVG) today reported a full year net profit result of $7.7 million.

Australian Vintage Limited ('AVL') Chief Executive Neil McGuigan stated that "The significant improvement in our full year result shows that our key, long term strategies are correct. Our cash flow from operating activities of $26.7 million is up $12.7 million on last year and is the highest this company has achieved for the last 12 years. In fact, this year's cash flow is 5 times the average annual cashflow from operating activities since Brian McGuigan Wines and Simeon Wines merged in 2002.

Our continued focus on our 3 core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 14% during the year. In the UK McGuigan sales grew by 18% and in that market McGuigan is the third largest global brand by volume.

Our decision to continue to focus on the UK market, post the Brexit vote, has been vindicated with UK/Europe sales up 25% and contribution up $5.4 million. A focus on sales mix and pricing has contributed to the improved performance in this market.

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 12 month period to 30 June 2018, branded sales into Asia have increased by 9% and with a large number of orders in early July 18 we expect this segment of our business to continue to grow. We remain confident that we have the right strategy for sustainable long-term growth in that region. Sales into the North American market have increased by 31% with most of this increase coming from Canada. Sales into the United States have been slightly slower than expected and now represent about 7% of the total North America sales but we forecast sales to pick up as we add additional resources into that market.

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 recent New York International Wine Show, McGuigan was awarded Australian Winery of the Year for the second consecutive year. These awards are on top of the 1,156 trophies and medals that we received in the last 12 months to June 2018. 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.

Over the last 3 years the Australian wine industry has seen a shift from an oversupplied industry to an industry that is basically in balance, perhaps even now in short supply for some red varieties. This is due to the significant increase in export sales which has increased by 127.5 million litres to 851.6 million litres over the last 3 years. At the same time there has been little investment in new vineyards due to competing crops such as almonds, table grapes and citrus. To protect the Company's existing grape supply and to replace the grapes from a recently expired onerous grape contract, the Company has undertaken the following to secure some 40,000 tonnes of grapes-

- Entered into a long-term lease at commercial rates for a 377ha vineyard located near Mildura. This vineyard is planted to 80% reds;
- Agreed lease extension terms on the existing Balranald and Qualco vineyard leases. The current leases expire in 2021 and 2022 and the new lease extensions are on commercial terms;

In addition, we have secured 300 hectares of vacant land near Mildura for a future vineyard development and planted additional vines in our existing Grand Junction vineyard and our vacant land adjacent to our Buronga Hill Winery. These actions will ensure that we have sufficient grapes to underpin our sales growth".

Sales

Revenue for the year increased 17% or $38.2 million due to the continued growth in our branded products and the sales mix has improved as the company continues to target higher margin sales and remove low margin or no margin sales.

Australasia/North America packaged sales were up 3% on last year with all the increase coming from increased branded sales. Cask sales remained flat during the year against a long-term trend of declining sales.

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

Division	Movement in Sales (%)
Australia	0
New Zealand	7
Asia	9
North America	31

Australian sales were flat during the year, but the mix continues to improve with McGuigan down 1%, the higher priced Tempus Two up 38% and Nepenthe up 15%. Ensuring price realisation on the McGuigan Black Label range slowed our short-term growth but was essential to ensure long term viability and profit of this range. Sales of lower margin products such as Miranda declined by 10% during the year.

Sales to New Zealand have recovered from the previous year's decline and were up this year by 7%. The McGuigan brand continues to perform well.

Sales to Asia have grown by 9%. Against an industry background that is dominated by one major wine company and the growth of bulk wine into Asia, the result is in line with Company expectation.

North America sales have grown by 31% due mainly to a significant increase in sales to Canada of the McGuigan brand. Sales to our key Canadian distributor increased by 48% and we recently extended this distribution agreement for a further 10 years. In the United States, sales to our distributor, Palm Bay, increased by 112% from a low base.

UK/Europe packaged, and bulk sales were up by 25% on last year with packaged sales up 27% or $23.2 million and bulk and private label sales down 60% or $0.8 million. The McGuigan brand has grown 18% due to the introduction of the McGuigan Black Label brand to UK supermarkets and the increased sales footprint in all channels. The GBP positively impacted sales by $3.6 million when compared to the prior period.

Sales By Segment

	12 Months to		Change	
	30/06/18 $000	30/06/17 $000	Variation $000	%
Australasia/North America Packaged	107,261	103,830	3,431	3
UK/Europe	111,003	88,454	22,549	25
Cellar Door	10,588	10,009	579	6
Australasia/North America bulk & processing	30,198	20,358	9,840	48
Vineyards	5,563	3,799	1,764	46
	264,613	**226,450**	38,163	17

EBIT and Net Profit

EBIT is $16.2 million compared to $11.3 million in the previous period, an improvement of 44%.

The contribution from the Australasia/North America packaged segment was 21% up on prior period due mainly to the improved sales mix in Australia and improved North America sales (mainly Canada).

The UK/Europe segment contribution improved by a significant $5.4 million due to increased sales, improved mix and some price increases that were put in place late in the prior period. The favourable movement in the GBP contributed $1.6 million to this improved result.

Australasia/North America Bulk segment contribution increased by $0.6 million due to increased concentrate sales from the Austflavour business marginally offset by loss making bulk wine sales that were contracted in previous years.

The decreased contribution from the vineyard segment was due to a 11% reduction in yields from owned and leased vineyards. This resulted in a $2.4 million reduction in SGARA income.

	12 Months to		Change	
	30/06/18 $'000	30/06/17 $'000	$'000	%
Australasia / North America Packaged	7,382	6,100	1,282	21
UK / Europe	5,614	208	5,406	2,600
Cellar Door	1,617	1,614	3	0
Australasia / North America bulk and processing	(470)	(1,075)	605	56
Vineyards	2,037	4,414	(2,377)	(54)
EBIT	**16,180**	**11,261**	**4,919**	**(44)**
Finance costs	(5,031)	(5,025)	(6)	0
Interest received	16	15	1	7
Profit Before Tax	11,165	6,251	4,914	79
Tax	(3,471)	(1,948)	(1,523)	(78)
Net Profit (before one off items)	**7,694**	**4,303**	**3,391**	**79**

Cash Flow and Financial Position

The cash flow from operating activities was $26.7 million, $12.7 million above the prior period, During the year the company spent $19.5 million on capital projects that included a new bottling line at the Merbein Packaging facility and significant capital at our Buronga Hill Winery.

Even allowing for the significant capital spend, the Company's net debt position declined by $5.6 million to $77.2 million and the gearing ratio is at a comfortable 26% (29% as at 30 June 2017). The existing banking facility remains in place until September 2020.

Outlook

The Company continues to focus on its 3 key strategies -

- Grow export business
- Increase branded sales
- Focus on cost control

These strategies, together with a focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe, have significantly contributed to our growth in profit and cash flow this year.

One of the most pleasing aspects of our business is the cash flow from operating activities which improved by $12.7 million in the last 12 months to June 2018. This is the highest operating cash flow for the last 12 years and is 5 times the average annual cash flow since Brian McGuigan Wines and Simeon Wines merged in 2002. This clearly shows that our strategies are working.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 12% and our higher priced brand, Tempus Two, increasing by 46%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

With the improved cash flow from operating activities we will, in the short term, continue investing in the Company to improve efficiencies, secure our future grape supply at market prices or better, and improve our already high quality of wine.

To enhance the retention of key executives and attract new talent to the business, we are proposing a revised Employee Incentive Plan (EIP) which will combine the present Short-Term and Long-Term Incentives into a single incentive with hurdles that the company believes provide better correlation to performance and shareholder outcomes and is more tangible for the executives. This new EIP will have a cash component and a long-term component made up of company shares.

In 2018 the Company has spent $19.5m on capital projects covering winery and packaging equipment. In the next 12 months we expect our total capital spend to be similar at around $19.0 million. This capital will be spent on a major development at our Buronga Hill Winery, which includes a super-premium winemaking facility, and the ongoing development of additional vineyards. Whilst the benefits of these major capital projects will take some time to flow through to our result, they will add value to this Company.

Australian Vintage has transformed over the last 11 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 and grow our existing established markets.

Based on the GBP exchange rate remaining at around 56 pence and a normal 2019 vintage, we expect our 2019 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 2018.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a fully franked dividend of 1.5c per share. The board considered a higher dividend but due to the significant amount of capital expenditure planned for the next 12 months it was decided to maintain a similar payout ratio this time. This dividend will be paid to all shareholders on 9 November 2018 and the Record Date to establish shareholder dividend entitlements is 19 October 2018. The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 9 November 2018. 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

Neil McGuigan	Mike Noack
Chief Executive Officer	Chief Financial Officer
02 4998 4199	08 8172 8333