

# Australian Vintage Ltd. June 2018 Results

29<sup>th</sup> August 2018



  
AUSTRALIAN VINTAGE LTD

  
NEPENTHE

  
MCGUIGAN  
WINES  
*Come on in*

TEMPUS TWO  


# Australian Vintage Ltd.

## June 2018 Results

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# Key Points

- Net profit after tax up 79% to \$7.7 million
- Cash Flow from Operating Activities positive \$26.7 million compared to \$14.0 million in prior period. This is the highest the Company has achieved in 12 years and is five times the average annual cash flow since McGuigan Wines and Simeon Wines merged in 2002.
- Net Debt of \$77.2 million compared to \$82.8 million as 30<sup>th</sup> June 2017.
- Revenue up \$38.2 million to \$264.6 million with significant sales growth in the UK.
- Sales of McGuigan, Tempus Two and Nepenthe up 14%.
- Dividend up 50%. 1.5 cent per share fully franked final dividend declared, payable 9 November 2018. Dividend Reinvestment Plan remains in place. Shares issued under the DRP will be at 2.5% discount.





# Australian Wine Industry

In the 12 months to June 2018 the value of Australian wine exports increased by 20% to \$2.6 billion and volume increased by 10% to 852 million litres. The average value of exports grew by 9% to \$3.24 per litre, the highest in almost a decade.

All major export regions recorded growth for Australian exports other than the United States which recorded a 8% decline to \$424.4 million.

Wine exports to China continues to lead growth with sales up 66% to \$1.0 billion. China remains the largest market for wine sales and second by volume.

Other key export markets:

- UK export sales increased by 12% to \$383.8 million and remains the largest export market by volume which was up 12% to 246 million litres.
- Canada export sales increased by 7% to \$198.6 million and volume was up 11% to 68 million litres.
- NZ export sales increased by 17% to \$88.5 million and volume was up 12% to 31 million litres.



# Australian Wine Industry (cont.)

The 2018 Vintage crush was 1.79 million tonnes, a 10% decrease on last year's record crush (WFA National Vintage Report July 2018).

The decreased crush is basically across all regions.

The crush from warm inland regions decreased by about 5%.

The average grape price across all varieties increased 8% to \$609/tonne – the highest since 2008.

The total 2018 Vintage crush was just above the long term average of 1.76 million tonnes.



# Business Results & Summary

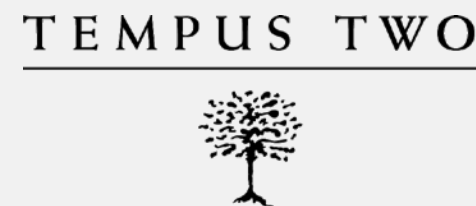
## 1. Branded Sales

Our continued focus on our three core brands, McGuigan, Tempus Two and Nepenthe has resulted in the ongoing increased sales of these three key brands. During the year the sales of these three key brands increased by 14%.

In the UK market McGuigan branded sales has grown by 18% and is now the third global brand by volume (previously fourth global brand by volume).

In Australia, sales were flat, 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 for longer term viability.

These three brands now represent 59% of all our sales.



## Business Results & Summary (cont.)

## 2. Australasia / North America Packaged

**Sales increased by 3% to \$107.3 million.**

**Contribution increased by 21% to \$7.4 million.**

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%. Sales of lower margin products such as Miranda declined by 10% during the year. Contribution from this division increased by \$0.7 million due mainly to improved sales mix.

Sales to New Zealand have recovered from the previous year's decline and were up this year by 7%. Contribution increased by \$0.1 million.

Sales to Asia have grown by 9%. Contribution, which was impacted by additional resources in this market, increased by \$0.1 million.

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 increasing 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. Contribution increased by \$0.4 million.





# Business Results & Summary (cont.)

## 3. UK / Europe



**Sales up 25% to \$111.0 million.**

**Contribution up \$5.4 million to \$5.6 million.**

A focus on sales mix, increasing sales footprint in all channels and pricing has contributed to the improved performance. McGuigan brand sales increased 18% and is now the third global brand by volume.

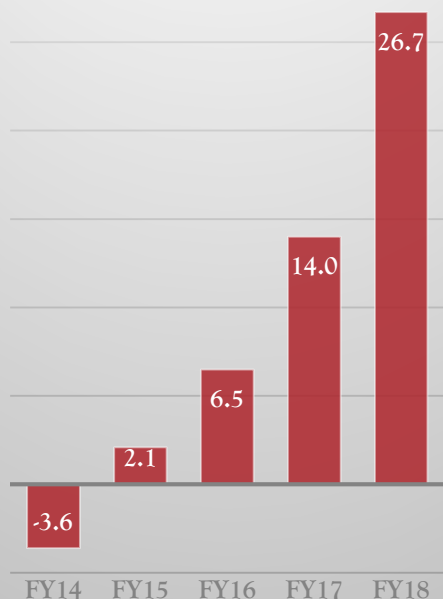
Contribution improved by a significant \$5.4 million due to increased sales, improved mix and some price increases that were put in place late in the prior period. Favourable movement in the GBP over the last 12 months contributed \$1.6 million to this improved result when compared to last year.

Sales of bulk wine and private label reduced by \$0.8 million to \$0.5 million.



# Business Results & Summary (cont.)

Operating Cash Flow  
last 5 years  
all \$m



## 4. Other Segments

Cellar Door sales increased by 6% to \$10.6 million and contribution is in line with last year. Contribution from Club sales increased during the year, but they were offset by lower contribution from the higher margin McGuigan cellar door sales.

Australasia/North America bulk and processing contribution was negative \$0.5 million compared to negative \$1.1 million in the prior period. Whilst the Austflavour business increased concentrate sales and contribution, this was more than offset by previously contracted loss making bulk wine sales.

The vineyard contribution declined by \$2.4 million due to a 11% reduction in yields from owned and leased vineyards (SGARA).

## 5. Financial Position

The operating cash flow was \$26.7 million an improvement of \$12.7 million on the prior period. Increased sales were the main driver of this improved cash flow. This operating cash flow is the highest for the last 12 years and is five times the average annual operating cash flow since 2002.

Net debt decreased by \$5.6 million, even allowing for a capital spend of \$19.5 million during the year. Gearing (net debt to Equity) is 26% compared to 29% as at 30 June 2017.

# Business Results & Summary (cont.)

## 6. Capital Expenditure

Capital expenditure increased to \$19.5 million as a result of significant investment in winery equipment (including solar), a new bottling line at our Merbein packaging facility and vineyard developments.

Over the next 12 months we expect to spend a further \$19 million on capital projects that will include a super premium winery facility at Buronga (Stage 1) and further vineyard developments.

## 7. Future Grape Supply

Over the last three years the Australian wine industry has seen a shift from an oversupplied industry to an industry that is basically in balance, with some varieties now in short supply. 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 three years.

At the same time there has been little investment in new vineyards due to competing crops such as almonds 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 377 ha 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 respectively and the lease extensions are on commercial terms.

In addition, the Company has secured 400 hectares of vacant land near Mildura for a potential future vineyard development and planted additional vines in the company's existing Grand Junction vineyard and the vacant land adjacent to our Buronga Hill Winery.

These actions will secure future grape supply requirements.

# Results Summary – Revenue (\$'000)

	12 months to		Change	
	30/06/18	30/06/17	\$'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 and processing	30,198	20,358	9,840	48
Vineyards	5,563	3,799	1,764	46
<b>Total</b>	<b>264,613</b>	<b>226,450</b>	<b>38,163</b>	<b>17</b>
<b>Note:</b> Split of UK/Europe sales				
UK/Europe Packaged	110,479	87,147	23,332	27
UK/Europe Bulk	524	1,307	(783)	(60)

# Results Summary (\$'000)

	12 months to		Change	
	30/06/18	30/06/17	\$'000	%
Australasia / North America Packaged	7,382	6,100	1,282	21
UK / Europe	5,614	208	5,406	2600
Cellar Door	1,617	1,614	3	-
Australasia / North America bulk and processing	(470)	(1,075)	605	56
Vineyards	2,037	4,414	(2,377)	(54)
<b>EBIT</b>	<b>16,180</b>	<b>11,261</b>	<b>4,919</b>	<b>44</b>
Finance costs	(5,031)	(5,025)	(6)	-
Interest received	16	15	1	7
Profit before tax	11,165	6,251	4,914	79
Tax	(3,471)	(1,948)	(1,523)	78
<b>Net Profit (after tax)</b>	<b>7,694</b>	<b>4,303</b>	<b>3,391</b>	<b>79</b>



# Outlook



The Company continues to focus on three 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 five 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 improved cash flow from operating activities we will, in the short term, continue investing in this company to improve efficiencies, secure our future grape supply at market prices or better, and improve our already high quality of wine. In 2018 the company has spent \$19.5 million on capital projects covering winery and packaging equipment.

# Outlook (cont.)

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 create production efficiency for the future and continue to enhance wine quality.

**Australian Vintage has transformed over the last 11 years  
from a bulk wine company to a  
well respected quality 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 rate remaining at approximately 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.



# Wine Show Results / Key Brand Facts



**MCGUIGAN  
WINES**

- In 2017 McGuigan received a total of 595 trophies and medals, including 22 Trophies; 159 Golds and 184 Silver medals.
- McGuigan Wines is the first 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 and 2018 New York International Wine Competition.
- Decanter Wine Awards: Best Semillon in Show – McGuigan Vineyard Selection Semillon 2005.
- International Wine & Spirits Competition: Semillon Trophy – McGuigan Bin 9000 Semillon 2006. The Jancis Robinson Trophy for Riesling – McGuigan Shortlist Riesling 2010.
- International Wine Challenge: Australian White Trophy - McGuigan Personal Reserve Hunter Valley Chardonnay 2015.
- Rutherglen Wine Show: Best Dry White Wine Chardonnay of Show Trophy – McGuigan Shortlist 2015. Best Dry White Wine of Show Trophy - McGuigan Vineyard Select Semillon 2005.
- National Cool Climate Wine Show: Champion Wine of Show Trophy - McGuigan Shortlist Chardonnay 2016.
- Perth Wine Show: Best Wine Of Show Trophy - McGuigan Bin 9000 Semillon 2007.

# Wine Show Results / Key Brand Facts



**MCGUIGAN**  
**WINES**

- Cowra Wine Show: Best Single Vineyard Table White Wine Trophy - McGuigan Bin 9000 Semillon 2007.
- Japan Wine Challenge: International Trophy for Best New World White Wine - McGuigan Bin 9000 Semillon 2007.
- McGuigan Wines are sold in over 40 countries world-wide.
- McGuigan is the #10 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 01/07/18).
- The McGuigan Black Label range is ranked #4 of all still bottled wine sub brands in Australia (Aztec MAT 01/07/18).
- In the UK, McGuigan is the #3 global wine brand by volume and value on the back of 10.4% growth year-on-year – and the #2 Australian wine brand in the market.
- McGuigan is the #16 global alcohol brand by value in the UK (last year #18), ahead of brands such as Corona, Peroni, Bells Whiskey, Bailey's and Guinness worth £150M of sales per annum.
- McGuigan is the largest Australian wine brand by volume and value in the Irish market.
- McGuigan Shortlist Chardonnay 2016: 2017 Winestate Wine of The Year 2017



# Wine Show Results / Key Brand Facts

## TEMPUS TWO



- In 2017 Tempus Two received a total of 260 trophies and medals, including 4 Trophies; 39 Golds; and 83 Silver medals.
- Hong Kong International Wine & Spirits Competition: Best Semillon in Show Trophy - Tempus Two Copper Zenith Semillon 2004.
- 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 2016.
- Riverina Wine Show: Best Semillon of Show Trophy – Tempus Two Pewter Series Semillon 2014.
- Melbourne International Wine Competition: New South Wales Shiraz Winery of the Year Trophy

# Wine Show Results / Key Brand Facts



- Hong Kong IWSC: Best Sauvignon Blanc Trophy - Nepenthe Petraea Sauvignon Blanc 2016.
- Decanter World Wine Awards: Gold Altitude Shiraz 2015
- Finger Lakes International Wine Show: Gold Nepenthe Pinnacle Ithaca Chardonnay 2015.  
Gold Luminary Sauvignon Blanc 2016.
- Sydney Royal Wine Show: Best Other White Varietal Trophy - Nepenthe Winemaker Select  
Gruner Veltliner 2016.
- New York International Wine Competition: Double Gold Nepenthe Winemaker Select Gruner  
Veltliner 2016. Gold Nepenthe Altitude Shiraz 2015. Gold Nepenthe Pinnacle Good Doctor  
Pinot Noir 2015.