

Australian Vintage Ltd.
December 2018 Half Year Results

27th February 2019



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AUSTRALIAN VINTAGE LTD

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MCGUIGAN
WINES
Come on in

TEMPUS TWO


Australian Vintage Ltd.

December 2018 Half Year Results

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Key Points

- Net Profit after tax \$6.5 million compared to \$4.4 million in the prior period.
- Revenue up 8% to \$143.1 million, with improved sales in the key segments of Australasia/North America and UK/Europe.
- Cash Flow from Operating Activities positive \$10.9 million compared to \$11.0 million as at December 2017.
- Capital spend \$10.9 million with a further \$8.6 million planned for the remainder of this financial year.
- Net Debt of \$79.8 million compared to \$77.2 million as at 30 June 2017 and \$83.0 million as at 30 December 2017.
- Sales of McGuigan, Tempus Two and Nepenthe up 14%.
- AVL strategies remain unchanged:
 - Grow export business
 - Increase branded sales
 - Focus on cost control
- As in previous years no interim dividend.



Australian Wine Industry / Global Production

In the 12 months to December 2018 the value of Australian wine exports increased by 10% to \$2.8 billion, with volume increased by 5% to 850 million litres. The average value of exports grew by 5% to \$3.32 per litre.

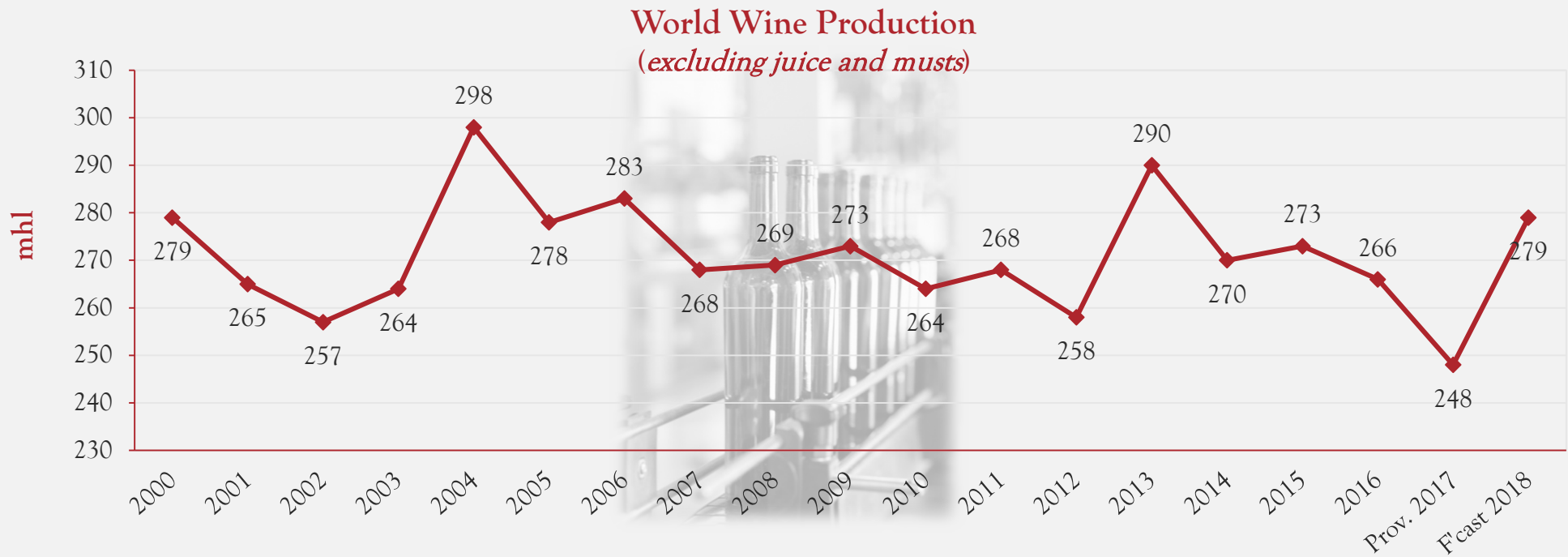
Wine exports into China continue to grow with sales up 18% to \$1.1 billion and volume up 7% to 172 million litres.

The 2019 Vintage has started and it is too early to determine what the Australian Wine Industry will crush. Early expectations are for a vintage that will be down on 2018.



Australian Wine Industry/Global Wine Production (cont.)

In terms of global wine production, the 2018 production is forecast at 279 mhl, an increase of 13% when compared with 2017. The 2018 vintages in Italy, Spain and France not only recovered from a poor 2017 vintage, but exceeded their 5 year averages.



Source: OIV

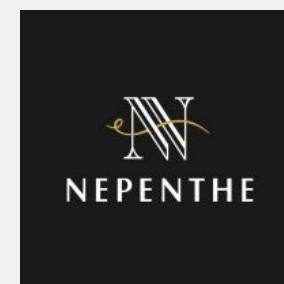
Business Results & Summary

1. Branded Sales

During the 6 month period to December 2018 total sales of our three key brands, McGuigan, Tempus Two and Nepenthe increased by 14%.

McGuigan sales increased by 15% with sales in UK/Europe increasing by 16% and sales in Australasia/North America increasing by 13%.

Tempus Two sales increased by 4% and Nepenthe sales increased by 3%.



Business Results & Summary (cont.)

2. Australasia / North America Packaged

Packaged sales up 10% on prior period with bottled branded sales up 11% and cask sales up 2%.

EBIT increased by 3% to \$5.3 million due to a 85% increase in contribution from the Asian division offset marginally by increased wine costs from the 2017 and 2018 vintages.

Sales of the McGuigan brand increased by 13%, Tempus Two increased by 5% and Nepenthe increased by 1%.

- Australian sales increased by 6% with bottled branded sales up 8% and cask sales up 2%. EBIT declined by 8% due to higher marketing costs and higher wine costs from the 2017 and 2018 vintages.
- Sales to Asia increased by 51% and EBIT increased by 85% due mainly to a significant increase in sales to our major distributor, COFCO. McGuigan brand sales grew by 47%.
- New Zealand sales increased by 16%, but EBIT remained flat due to higher wine costs from previous vintages.
- North America sales declined by 14% due to price increases on the McGuigan brand which impacted sales volume. EBIT declined due to reduced sales and higher wine costs.

	Sales (\$000)		EBIT (\$000)	
	6 months to December 2018	6 months to December 2017	6 months to December 2018	6 months to December 2017
Australia	42,795	40,236	3,219	3,512
Asia	7,948	5,278	1,198	647
New Zealand/ North America	7,039	7,253	843	938
	57,782	52,767	5,260	5,097



Business Results & Summary (cont.)

3. UK / Europe

- UK/Europe sales were up \$8.6 million or 16%. Bulk wine sales remained flat when compared to the prior period with bulk wine sales no longer material. The foreign currency movements had no material impact on EBIT when compared to the prior period.
- EBIT increased by \$1.7 million or 36% due to the ongoing improvement in our mix of sales. The McGuigan brand continues to grow with sales up 16% and volume up 8%.
- The McGuigan brand is now the second largest global brand in the UK super markets and the thirteenth largest global brand in the independents. Overall the McGuigan brand is the third largest wine brand in the UK and continues to grow.
- Sales of bulk wine was in line with last year at \$0.2 million.



Business Results & Summary (cont.)

4. Other Segments

- Cellar Door Segment sales declined by 13% due mainly to reduced sales at the McGuigan and Tempus Two cellar doors as a result of increased competition.
- Australasia/North America Bulk segment contribution improved by \$0.3 million due to improved margins on contracted bulk wine sales marginally offset by lower contribution from the Austflavour business due to higher grape costs.
- Contribution from the Vineyard segment increased by \$0.6 million due to the termination of an onerous vineyard lease after the 2018 vintage. However, SGARA to the end of December 2018 is still materially below expectation due to October 2018 frost and extremely hot weather conditions.

5. Interest and Financial Position

- Interest cost reduced by \$0.8 million due to lower borrowing levels.
- Operating cash flow of \$10.9 million is basically in line with the prior period with no material movement in working capital since June 2018.
- Net debt increased slightly by \$2.5 million to \$79.8 million compared to June 2018. Compared to December 2017, net debt decreased by \$3.3 million.
- Gearing (debt to equity) is at a comfortable 27%.



Results Summary – Revenue (\$'000)

	6 Months to		Change	
	31/12/18 \$000	31/12/17 \$000	Variation \$000	%
Australasia/North America Packaged	57,782	52,767	5,015	10
UK/Europe (see note)	62,487	53,929	8,558	16
Cellar Door	5,168	5,959	(791)	(13)
Australasia/North America bulk & processing	14,371	16,643	(2,272)	(14)
Vineyards	3,256	3,045	211	7
Total	143,064	132,343	10,721	8
<i>Note: Split of UK/Europe Sales</i>				
UK/Europe packaged	62,225	53,682	8,543	16
UK/Europe bulk and Private Label	262	247	15	6

Note – Sales for the 6 months to December 2017 have been adjusted to comply with the new Revenue Recognition Accounting Standard – AASB 15. (refer ASX half year accounts).

Results Summary – Profit (\$'000)

	6 Months to		Change	
	31/12/18 \$'000	31/12/17 \$'000	\$'000	%
Australasia / North America Packaged	5,260	5,097	163	3
UK / Europe	6,366	4,669	1,697	36
Cellar Door	810	1,010	(200)	(20)
Australasia / North America bulk and processing	(81)	(386)	305	79
Vineyards	(508)	(1,091)	583	53
EBIT	11,847	9,299	2,548	27
Finance costs	(2,076)	(2,900)	824	28
Interest received	38	11	27	245
Profit Before Tax	9,809	6,410	3,399	53
Tax	(3,323)	(1,977)	(1,346)	(68)
Net Profit (after tax)	6,486	4,433	2,053	46

Outlook



Australian Vintage Limited continues its transformation from a bulk wine company to a quality respected branded wine business. The transformation is supported by the fact that the three key brands, McGuigan, Tempus Two and Nepenthe have grown by 64% over the last 5 financial years. As evidenced by our result for the 6 months to December 2018, this transformation is continuing.

The December 2018 result was pleasing with Net Profit After Tax up 46%. However, this performance was hindered by the lower than expected forecast 2019 yields from our vineyards. This has negatively impacted the half year SGARA (Self Generating and Regenerating Assets). As reported at the November 2018 Annual General Meeting, there was frost in the Barossa and Riverland regions which will result in a lower than expected yield from our vineyards. The combined impact of the frost and extreme weather conditions is expected to impact our 2019 full year SGARA result by \$3.0 million to \$5.0 million (before tax) against expectation.

The UK/Europe segment has performed exceptionally well with sales up 16%. This sales growth trend has continued in January 2019 and we remain cautiously optimistic that improved UK sales will continue after Brexit.

After a number of years establishing our distribution in Asia, we are now seeing sustainable sales growth and margin from our relationship with our China based distributor.

Our trading result continues to be very strong. However, the impact of reduced yields will significantly impact our second half result. Assuming the GBP remains at around 0.55 and taking into account the uncertainty of vintage conditions, we expect our 2019 result to be up by 5% to 15% on the 2018 result.

Wine Show Results / Key Brand Facts

McGuigan

In 2018 McGuigan received a total of 433 trophies and medals, including 21 Trophies; 79 Gold; and 162 Silver medals.

- ❖ Asian Rosé Masters: Master Medal - 2018 McGuigan Rosé
- ❖ New York International Wine Competition: Australian Winery of the Year – McGuigan
- ❖ China Wine & Spirits Awards: Australian Wine of the Year - 2015 McGuigan Shortlist Coonawarra Cabernet Sauvignon
- ❖ Decanter World Wine Awards: Best in Show - 2005 McGuigan Vineyard Select Semillon
- ❖ International Wine & Spirits Competition: Semillon Trophy - 2007 McGuigan Bin 9000 Semillon
- ❖ Decanter Asia Wine Awards: Best in Show - 2007 McGuigan Bin 9000 Semillon
- ❖ China Wine & Spirits Awards: Barossa Valley Wine of the Year - 2015 McGuigan Shortlist Shiraz
- ❖ Rutherglen Wine Show: Best Australian Dry White Table Wine of Show - 2013 McGuigan Bin 9000 Semillon
- ❖ National Wine Show of Australia: Rosé Trophy - 2018 McGuigan Cellar Select Rosé



McGUIGAN
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Wine Show Results / Key Brand Facts

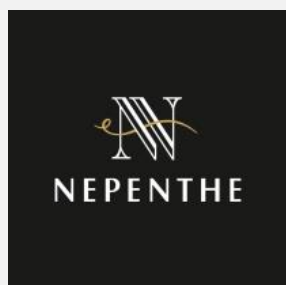
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Tempus Two

- ❖ In 2018 Tempus Two received a total of 228 trophies and medals, including 3 Trophies; 33 Gold; and 72 Silver medals
- ❖ Cathay Pacific Hong Kong International Wine and Spirits Competition: Best Australian White Wine - 2015 Tempus Two Pewter Semillon
- ❖ Decanter Asia Wine Awards: Platinum Medal - 2018 Tempus Two Copper Semillon
- ❖ Melbourne International Wine Competition: Hunter Valley Semillon of the Year - 2014 Tempus Two Pewter Semillon

Wine Show Results / Key Brand Facts



Nepenthe

In 2018 Nepenthe received a total of 230 trophies and medals, including 3 Trophies; 24 Gold; and 59 Silver medals.

- ❖ Melbourne International Wine Competition: Adelaide Pinot Noir Winery of the Year - Nepenthe
- ❖ Global Chardonnay Masters: Master Medal - 2016 Nepenthe Apex Chardonnay
- ❖ Australian Cool Climate Wine Show: Best Other Dry White - 2017 Nepenthe Winemakers Select Gruner Veltliner