

Australian Vintage Ltd.

June 2019 Results

28th August 2019



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AUSTRALIAN VINTAGE LTD

NEPENTHE

MCGUIGAN
WINES
Come on in

TEMPUS TWO

Australian Vintage Ltd.

June 2019 Results

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Key Points

- EBITS (Earnings before Interest, Tax and SGARA) up 30% to \$21.7 million
- Net Profit after Tax (NPAT) and before SGARA up 48% to \$11.9 million
- 2019 vintage conditions impacted result by negative \$4.9 million compared to prior period
- NPAT up 6% to \$8.1 million
- Cash Flow from Operating Activities positive \$23.6 million
- Net Debt of \$72.4 million compared to \$77.2 million as at 30 June 2018
- Revenue up \$19.7 million to \$269.2 million
- Sales of McGuigan, Tempus Two and Nepenthe up 10%
- 2.0 cent per share fully franked final dividend declared. Dividend Reinvestment Plan suspended.



Australian Wine Industry

In the 12 months to June 2019 the value of Australian wine exports increased by 4% to \$2.9 billion and volume decreased by 6% to 801 million litres. The volume decline was driven by a decrease of 7% in shipments below an average value of \$2.50 per litre. The average value of exports grew by 10% to \$3.58 per litre, the highest since 2009.

The decline in overall exported volume is due to:

- Australia's 2018 and 2019 vintages were smaller than the record breaking 2017 vintage, resulting in less supply for shipping overseas
- International supply pressures have eased with a larger 2018 global vintage, increasing competition in the market
- Premiumisation in established markets is pushing down volume and increasing value



Australian Wine Industry (cont.)



Wine exports to China continues to lead growth with sales up 8% to \$1.1 billion. China remains the largest market for wine sales and third by volume.

Other key export markets:

- UK export sales decreased by 3% to \$372.7 million but remains the largest export market by volume which was down 4% to 236.2 million litres.
- US export sales increased by 2% to \$432.0 million and volume decreased by 4% to 152.5 million litres.
- Canada export sales remained flat at \$198.0 million and volume decreased by 4% to 66.0 million litres.
- NZ export sales increased by 9% to \$99.3 million and volume was up 5% to 33 million litres.

Australian Wine Industry (cont.)



The 2019 Vintage crush has been estimated at 1.73 million tonnes, a decrease of 3% on last year's crush. (Wine Australia – National Vintage Report July 2019). The crush is very close to the long term average of 1.75 million tonnes. A final 2019 Vintage crush will be provided by the Department of Agriculture prior to the 2020 vintage.

The crush in cool temperate regions decreased by 5% and warm regions the crush decreased by 2%.

Average wine grape purchase prices increased across all regions with the average for all varieties increased by 9% to \$664 per tonne – the highest since 2008.

The largest percentage increase in average grape price was in warm climate reds, which increased by 26% to \$592 per tonne. Warm climate whites increased by 9% to \$361 per tonne.

Since 2011, the average grape price has increased by a compound average rate of 6%.

Business Results & Summary

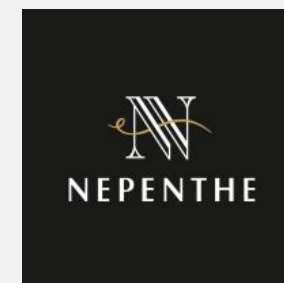
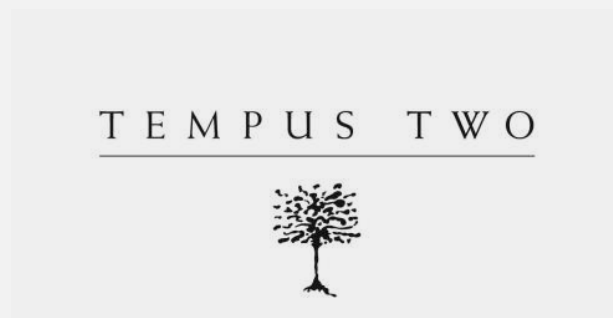
1. Branded Sales

During the 12 months to June 2019 total sales of our three key brands, McGuigan, Tempus Two and Nepenthe increased by 10%. These three products now represent 60% of all our sales.

In the UK/Europe market McGuigan branded sales have grown by 13% and is the third largest global brand in that market. Within the McGuigan brand, the higher priced Black Label and Reserve range have grown by 31% and now represent 40% of all our sales to UK/Europe.

In Australia, the McGuigan branded sales have grown by 8% and the higher priced Tempus Two and Nepenthe brand sales have grown by 6%. 5 years ago, Tempus Two represented 10% of total bottled sales in Australia and now it is 18%. Sales of lower margin products such as Miranda declined 9% during the year.

In 2018 we released a new brand called Barossa Valley Wine Company. Whilst only representing 2% of total Australian sales, this higher priced brand has seen sales increased by 269% over the last 12 months.



Business Results & Summary (cont.)

2. Australasia / North America Packaged

Sales up 8% on last year with most of the increase coming from increased branded sales. Cask sales improved by 1% during the year against a long-term trend of declining sales.

EBIT increased by 7% due mainly to an increase in the contribution from the Australia, New Zealand and Asian divisions. North America contribution decreased due to reduced sales.

- Australia experienced both an increase in sales and a shift in mix to higher priced premium products. Sales of the McGuigan brand continued its growth with sales up 8% and the higher priced Tempus Two and Nepenthe brand sales improving by 6%. 5 years ago, Tempus Two sales represented 10% of total Company bottled sales in Australia and now it is 18%. Sales of lower margin products such as Miranda declined 9% during the year. EBIT increased by 8%.
- Sales to New Zealand have improved 42% due mainly to the outstanding performance of the McGuigan Private Bin range which grew 45%. EBIT increased by 19%.
- Sales to Asia have grown by 24% with McGuigan sales up 23% and Tempus Two sales up 25%. This performance is against a 7% increase for the entire Australian wine industry for sales to Asia. EBIT increased by 8%.
- North America sales are down 11% on the back of significant growth in prior periods. Over the last 2 years sales to North America have grown by 19%. In the United States, sales to our distributor, Palm Bay, remain small with little volume growth over the last 12 months. The United States remains a challenging market for Australian wines. EBIT declined due to reduced sales.

	Sales (\$'000)		EBIT (\$'000)	
	FY19	FY18	FY19	FY18
Australia	78,105	73,906	4,767	4,418
New Zealand	5,623	3,973	889	748
Asia	14,226	11,431	1,684	1,563
North America	7,916	8,856	565	653
	105,870	98,166	7,905	7,382



Business Results & Summary (cont.)

3. UK/Europe

UK/Europe sales were up 15% on last year with the McGuigan Brand continuing to grow in all parts of the UK market. The McGuigan brand has grown 13% in FY19 with the less known generic Shy Pig brand growing 16%. Lower volume, higher priced brands, Tempus Two and Nepenthe, have increased sales by 36% and 14% respectively.

EBIT increased by 94% due to the ongoing improved sales mix through the expansion of the higher margin McGuigan Black Label and Reserve brands and the added focus on growing our sales footprint in all channels. When compared to the prior period the favourable GBP added \$2.8 million to the contribution of the UK/Europe segment.

- In the UK division, sales increased by 17% to \$109.2 million and EBIT grew by 157%. McGuigan is the second largest global brand in the UK supermarkets and third largest brand overall.
- In Ireland sales increased by 11% and EBIT by 19%. The McGuigan brand remains the second largest global brand in Ireland.
- In Europe sales declined by 9% and EBIT declined by 10%.



	Sales (\$000)		EBIT (\$000)	
	FY19	FY18	FY19	FY18
UK	109,171	93,710	8,170	3,184
Ireland	9,841	8,880	2,329	1,960
Europe	2,168	2,371	420	469
	121,180	104,961	10,919	5,614

Business Results & Summary (cont.)

4. Other Segments

- Cellar Door reported a 39% EBIT decline to \$1.0 million due mainly to decreased visitor numbers in the Hunter Valley where our two key cellar doors are located.
- Australasia/North America Bulk and Processing EBIT improved by \$1.8 million due to the removal of a significant portion of loss-making bulk wine sales.
- Vineyard Segment (included SGARA) EBIT declined by \$6.9 million due mainly to the poor 2019 vintage. Against expectation our yield from our owned and leased vineyards were down by 12,600 tonnes and against last year it was 7,900 tonnes down. The frost and the significant heat contributed to the poor 2019 yield.

5. Interest and Financial Position

- Interest cost reduced by \$1.0 million due to lower borrowing levels and lower cost of funding.
- Operating cash flow was positive \$23.6 million against \$26.7 million last year. The slight decline in operating cash flow was due to unplanned bulk wine purchases of \$9.4 million to cover the shortfall from this year's vintage.
- Net debt decreased by \$4.8 million to \$72.4 million.
- Gearing (net debt to total equity) is at a comfortable 24%.
- Bank facility extended to September 2022.



Business Results & Summary (cont.)

6. Investing to Drive Premiumisation and Operational Efficiency

- Total capital spend for 3 years to June 2020 expected to be \$47.6 million with a significant reduction in growth capital expected in FY20.
- Significant investment in growth including new packaging line, premium winery at Buronga and vineyard development.
- Return on investment in new packaging line currently lower than expected but above cost of funding. Over time and with increased throughput the expected target of 12% will be met.
- Premium winery will be operational during the 2020 vintage and is expected to provide savings in line with forecast.
- Vineyard development is mainly at our Barossa and Grand Junction vineyards.

\$M	FY18 & FY19	FY20 Forecast
New Packaging Line	10.8	
Premium Winery	4.3	4.0
Solar	2.1	
Winery Centrifuges/Cold Stabilisation	4.7	
Vineyard Development	3.6	3.3
Total growth capital	2.5	7.3
Oak Purchases	1.7	0.9
IT Spend	0.7	0.9
Other Capital Purchases	7.7	2.9
Total Maintenance and Replacement Capital	10.1	4.7
Total Capital Expenditure	35.6	12.0

Results Summary – Revenue (\$'000)

	12 Months to		Change	
	30/06/19	30/06/18	\$000	%
Australasia/North America Packaged	105,870	98,166	7,704	8
UK/Europe (see note)	121,180	104,961	16,219	15
Cellar Door	9,441	10,588	(1,147)	(11)
Australasia/North America bulk & processing	27,644	30,198	(2,554)	(8)
Vineyards	5,031	5,563	(532)	(10)
Total	269,166	249,476	19,690	8
<i>Note: Split of UK/Europe Sales</i>				
UK/Europe packaged	120,644	104,437	16,207	16
UK/Europe bulk	536	524	12	2

Note – Sales for the 12 months to June 2018 have been adjusted to comply with the new Revenue Recognition Accounting Standard – AASB 15.

Results Summary – Profit (\$'000)

	12 Months to		Change	
	30/06/19	30/06/18	\$'000	%
Australasia / North America Packaged	7,905	7,382	523	7
UK / Europe	10,919	5,614	5,305	94
Cellar Door	991	1,617	(626)	(39)
Australasia / North America bulk and processing	1,307	(470)	1,777	378
Vineyard Management/Prior year grape price adjustment	609	2,606	(1,997)	(77)
EBITS	21,731	16,749	4,982	30
Finance costs	(4,059)	(5,031)	972	(19)
Interest received	25	16	9	56
Tax	(5,759)	(3,642)	(2,117)	(58)
Net profit (after tax and before SGARA)	11,938	8,092	3,846	48
SGARA	(5,450)	(569)	(4,881)	(858)
Tax of SGARA	1,635	171	1,464	858
SGARA (after tax)	(3,815)	(398)	(3,417)	(858)
Net Profit (after tax)	8,123	7,694	429	6

Outlook



The Company continues to focus on its 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 our core business. This is reflected by the 48% growth in Net Profit (after tax and before SGARA).

The cash flow from operating activities remains strong and with a decline in FY20 capital spend we expect our debt to decrease.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 11% and our higher priced brand Tempus Two, increasing by 9%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

The UK has performed exceptionally well in an environment that has seen total volume of Australian wine sales to the UK decline by 4%. The Company will be investing more on advertising and marketing in the UK to keep this momentum going.

Our recent growth in Asia has been above industry average and the Company continues to work hard with our key distributors.

Outlook (cont.)



In 2019 the Company invested \$16.2 million on capital projects covering winery and packaging equipment. This brings the total capital spend over the last two years to \$35.6 million. In the next 12 months our total capital is expected to drop to \$12.0 million which under normal vintage conditions, will mean that our net debt should decrease significantly.

The Company, together with the entire wine industry, will have several challenges in the next 12 months including Brexit, the drought and the increasing cost of grapes and wine processing.

The poor 2019 vintage has meant that the processing cost of our wine has increased due to the lower than expected utilisation of our Buronga winery. This will impact our margins in FY20.

A normal 2020 vintage will more than offset the higher cost of the 2019 wine through a significant improvement in SGARA.

A further market update will be provided at our Annual General Meeting in November 2019.

Wine Show Results / Key Brand Facts

McGuigan

In FY19 McGuigan received a total of 464 trophies and medals, including:

26 Trophies ~ 93 Gold medals ~ 167 Silver medals

- ❖ International Wine Challenge: White Winemaker of the Year
- ❖ Decanter World Wine Awards: Best in Show - 2007 McGuigan Bin 9000 Semillon
- ❖ International Wine & Spirits Competition: Semillon Trophy - 2007 McGuigan Bin 9000 Semillon
- ❖ China Wine and Spirits Awards: Coonawarra Wine of the Year - 2016 McGuigan Shortlist Cabernet Sauvignon
- ❖ China Wine and Spirits Awards: Barossa Valley Wine of the Year - 2016 McGuigan Shortlist Shiraz
- ❖ National Wine Show of Australia: Rosé Trophy - 2018 McGuigan Cellar Select Rosé
- ❖ NSW Wine Awards: Best Semillon - 2013 McGuigan Bin 9000 Semillon
- ❖ International Wine Challenge: Eden Valley Riesling - 2013 McGuigan Shortlist Riesling
- ❖ Rutherglen Wine Show: Best Australian Dry White Table Wine Chardonnay 2018 Vintage and Older - 2017 McGuigan Personal Reserve Hunter Ridge Chardonnay
- ❖ Global Cabernet Sauvignon Masters: Master Medal - 2013 McGuigan The Philosophy



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Wine Show Results / Key Brand Facts

Tempus Two

In FY19 Tempus Two received a total of 241 trophies and medals, including:

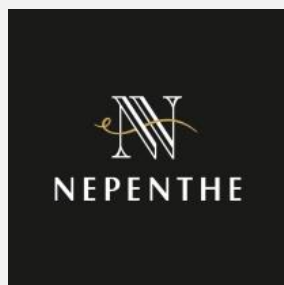
4 Trophies ~ 44 Gold medals ~ 74 Silver medals

T E M P U S T W O



- ❖ Melbourne International Wine Competition: Hunter Valley Semillon of the Year - 2014 Tempus Two Pewter Semillon
- ❖ International Wine Challenge: Hunter Valley Semillon - 2014 Tempus Two Pewter Uno Semillon
- ❖ Hong Kong International Wine and Spirits Competition: Best White Wine from Australia - 2015 Tempus Two Pewter Semillon
- ❖ Decanter Asia Wine Awards: Platinum Medal - 2018 Tempus Two Copper Semillon

Wine Show Results / Key Brand Facts



Nepenthe

In FY19 Nepenthe received a total of 243 trophies and medals, including:

3 Trophies ~ 37 Gold medals ~ 64 Silver medals

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



BVWC

- ❖ New York International Wine Competition: Shiraz Wine Company of the Year
- ❖ New York International Wine Competition: Barossa Winery of the Year