

Australian Vintage Limited Annual General Meeting

20th November 2019




NEPENTHE


MCGUIGAN
WINES


TEMPUS TWO


AUSTRALIAN VINTAGE LTD

Australian Vintage Limited

Annual General Meeting



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Agenda



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Performance Summary Richard Davis

Business Review 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.
- 2,400 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 3rd largest global wine brand in the UK.



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 paid.



Key Points (cont.)

- AVL strategies remain unchanged:
 - Grow export business
 - Increase branded sales
 - Focus on cost control



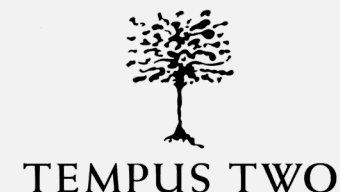
Business Results & Summary

1. Branded Sales

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%. Sales of lower margin products such as Miranda declined 9% during the year.



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. EBIT increased by 7%.

- 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%.
- Sales to New Zealand improved 42% due mainly to the outstanding performance of the McGuigan Private Bin range which grew 45%.
- 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.
- 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%.

| | 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.

EBIT increased by 94% due to the ongoing improved sales mix. 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%.
- 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. The frost and the significant heat contributed to the poor 2019 yield.

5. Interest and Financial Position

- 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.
- 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.



Australian Wine Industry (cont.)

In the 12 months to September 2019 the value of Australian wine exports increased by 7% to \$2.9 billion and volume decreased by 8% to 774 million litres. The volume decline was driven by a decrease of 52% in shipments below an average value of \$2.50 per litre. The average value of exports grew by 16% to \$3.74 per litre, the highest since 2008.

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 19% 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 4% to \$365 million but remains the largest export market by volume which was down 2% to 233 million litres.
- US export sales increased by 3% to \$436 million and volume decreased by 9% to 146 million litres.
- Canada export sales decreased by 6% to \$188 million and volume decreased by 15% to 60 million litres.
- NZ export sales increased by 1% to \$94 million and volume was down 1% to 32 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 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.
- Since 2011, the average grape price has increased by a compound average rate of 6%.



Outlook



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Our focus on developing a world class branded wine company with a clear objective on wine quality and improving our margin, continues. This focus has delivered a 48% growth in FY19 Net Profit (after tax and before SGARA) and a strong cash flow.

The Company's cash flow for FY20 will remain strong. However, due to planned additional investment in our inventory, operating cash flow will be slightly down on prior year.

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

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

With regards to Brexit, we have investigated the establishment of a satellite office to service Europe in the event of a hard Brexit and we have sourced all the water requirements for the upcoming vintage.

As foreshadowed in our full year results press release, our higher processing cost due to the poor 2019 vintage, and the increase in grape costs, will mean that our cost of wine will increase and is expected to have a negative margin impact for FY20 of around \$3.6 million. However, with improved mix of sales to higher margin products and a normal vintage, we expect to report an improved FY20 Net Profit after tax.

Ignoring the impact of the new accounting standard on leases and based on a normal 2020 vintage and assuming no material change to the current exchange rates, we are expecting our Net Profit after tax to be up on last year by approximately 25%.

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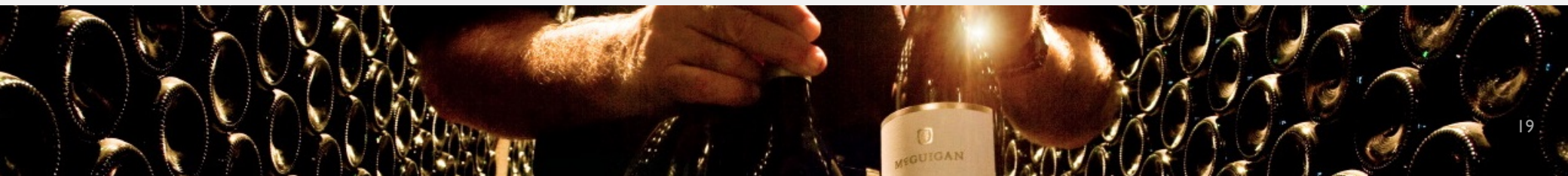
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Business Review Neil McGuigan



Overview

- FY19 Business Review
- FY19 Wine Show Performance and Achievements so far in FY20
- Capital Expenditure over the last 2 years and why
- Turbo charging our branded Portfolio in FY20
- People and Performance

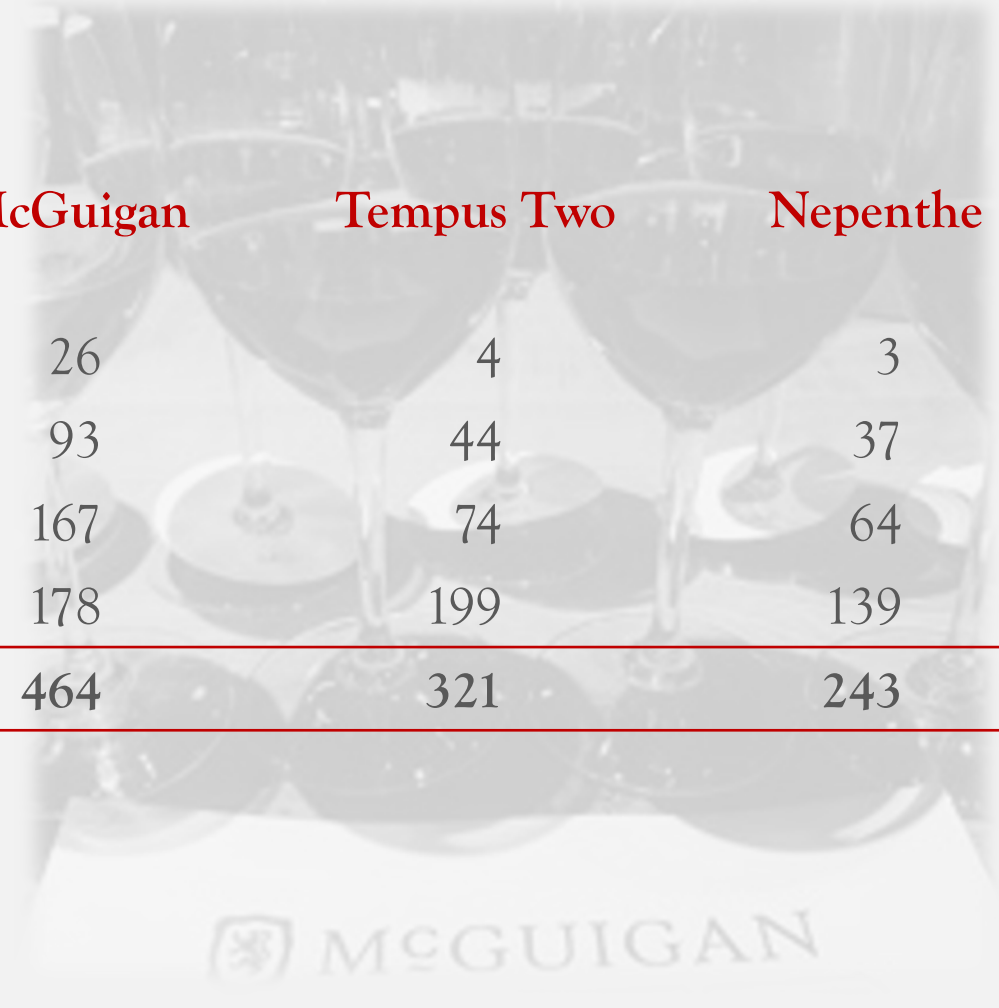


FY19 Business Review ...

- Profit up from \$7.7 million to \$8.1 million after a \$3.5 million (after tax compared to FY18 actual) SGARA adjustment
- Cashflow from Operating Activities positive \$23.6 million
- Revenue up \$19.7 million to \$269.2 million
- Debt at 30th June 2019 down to \$72.4 million
- Branded sales continuing to grow

| | |
|------------|--------|
| McGuigan | + 8% |
| Tempus Two | + 5.6% |
| Nepenthe | + 6.4% |
| BVWC | + 269% |

Wine Show Performance for FY19 ...



| | McGuigan | Tempus Two | Nepenthe | Barossa Valley Wine Company |
|--------------|----------|------------|----------|--------------------------------|
| Trophies | 26 | 4 | 3 | 2 |
| Gold | 93 | 44 | 37 | 4 |
| Silver | 167 | 74 | 64 | 7 |
| Bronze | 178 | 199 | 139 | 10 |
| Total Awards | 464 | 321 | 243 | 23 |

So far this year ...

Tempus Two

- * International Wine Challenge: Hunter Valley Semillon Trophy - 2014 Tempus Two Pewter Uno Semillon
- * Hong Kong International Wine and Spirits Competition: Trophy for the Best White Wine from Australia - 2015 Tempus Two Pewter Semillon

Nepenthe

- * Melbourne International Wine Competition: Trophy for the Adelaide Pinot Noir Winery of the Year
- * Australian Cool Climate Wine Show: Trophy for the Best Other Dry White - 2017 Nepenthe Winemakers Select Gruner Veltliner

Barossa Valley Wine Company

- * New York International Wine Competition: Named Shiraz Wine Company of the Year & Barossa Winery of the Year

McGuigan Wines

- * International Wine Challenge London: Named International White Winemaker of the Year
- * Decanter World Wine Awards: Trophy for Best in Show - 2007 McGuigan Bin 9000 Semillon
- * China Wine and Spirits Awards: Trophy for the Barossa Valley Wine of the Year - 2016 McGuigan Shortlist Shiraz

Capex Spend over FY18 / FY19 ...

1. Good Business Practice

| | |
|-------------------------------|---------|
| * Other Capital Purchases | \$7.7 m |
| * Buronga Hill Premium Winery | \$4.3 m |
| * Oak | \$1.7 m |
| * IT Spend | \$0.7 m |

2. Efficiency Gains

| | |
|--|----------|
| * Solar Parks | \$ 2.1 m |
| * Buronga Hill Centrifuges / Wide Bore Crossflows / Cold Stabilisation | \$ 4.7 m |

3. Innovation

| | |
|---|------------------|
| * Vineyard Development and Redevelopment (68ha) in the Barossa Valley / Sunraysia | \$ 3.6 m |
| * Merbein Packaging Bottling Line with Sparkling Capacity | \$ 10.8 m |
| | <u>\$ 35.6 m</u> |

Capex Spend for FY20

\$ 12.0 m

Turbo charging our branded Portfolio in FY20 ...

New Products / Packaging upgrades / ATL



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McGuigan



Black Label



Single Batch



Founder's Gift



 MCGUIGAN
ZERO

FREE FROM ALCOHOL
FULL IN FLAVOUR



 MCGUIGAN
WINES

McGuigan



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Continuation of the “Bring a McGuigan” Campaign in Australia



UK Prime-time Television / Sponsorship



Tempus Two



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First advertising campaign



Sparkling Packaging



Wine On Tap



Nepenthe



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WINE

Gruner Veltliner THE PINNACLE OF NEPENTHE

As one of the Adelaide Hills' most iconic wineries, Nepenthe is a household name in South Australia. Established in 1994, it is also one of the oldest wineries in the region, whose climate and soils offers an enviable patchwork of possibilities for winemakers.

With 24 vintages under his belt, Nepenthe Winemaker James Evers is dedicated to producing top-quality wine from Australia's premier cool climate region and his knowledge of the area's unique terroir has led to some outstanding products, which have won major accolades at international wine shows.

Evers' enthusiasm for Chardonnay has been a driving force behind the launch of some exceptional wines, including the introduction of Nepenthe's super-premium Apex Chardonnay last year.

But over recent years, Nepenthe has also begun to explore some of the Adelaide Hills' emerging varietals, with Gruner Veltliner becoming one of Evers' growing passions.

Evers says: "I absolutely love Chardonnay and getting to grips with Gruner Veltliner was a natural step in terms of my winemaking. Gruner

Veltliner is a really interesting grape and I've been exploring what it can do in the Adelaide Hills, which is a perfect climate for it. Gruner Veltliner is Austria's most celebrated grape, which thrives in cooler vineyards, and is similar to Riesling but with greater texture, making it a perfect food wine."

Nepenthe released its first Gruner Veltliner into the Winemaker's Selection range in 2014 with recent vintages gathering some notable wins in global wine competitions, including the best alternative white at the 2018 Australian Cool Climate Wine Show for the 2017 Winemaker's Selection Gruner Veltliner. The 2016 Winemaker's Selection Gruner Veltliner also won a Double Gold at the 2017 New York International Wine Show.

Evers is keen to extend Nepenthe's Gruner Veltliner footprint and next month is launching a 2018 vintage as part of the Pinnacle collection.

Priced at \$34.99, the 2018 Pinnacle Gruner Veltliner will be sold at Nepenthe's cellar door, selected fine wine retailers and leading on-premise accounts.

Evers adds: "Our Winemaker's Selection Gruner Veltliner has been a great success and we are really starting

to understand its potential and I wanted to produce a different expression under the Pinnacle range. The Winemaker's Selection Gruner Veltliner is a fuller, heavier style. It's easy drinking and pairs well with more robust seafood like fish and chips or poultry, dishes that can handle a bit of weight. The Pinnacle Gruner Veltliner is more similar to an Australian style Riesling, lighter with greater aging potential. Like Riesling, this style of Gruner is a great partner for more delicate seafood."

The fruit for the Pinnacle Gruner Veltliner is sourced from a single vineyard site and picked at night for ultimate ripeness before spending six months on lees to further develop its mouthfeel prior to bottling.

"As a winemaker and as a region, we are really taking Gruner Veltliner on, which is very exciting," he says. "It is a fascinating grape, and because we are such a major brand, as well as enjoying getting to know Gruner Veltliner's capabilities, we also feel a responsibility to create and explore what it can do in the Adelaide Hills and give it the spotlight it deserves by making it accessible to wine shops and leading restaurants."

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People and Performance ...

- ∞ Support Employee Capability
- ∞ Driving Engagement
- ∞ Health and Wellbeing



Thank you ...



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