Australian Vintage Ltd.
December 2019 Half Year Results

26th February 2020

NEPENTHE

McGUIGAN WINES

BAROSSA VALLEY WINE COMPANY

TEMPUS TWO

AUSTRALIAN VINTAGE LTD

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Key Points

- EBITS (Earnings before Interest, Tax and SGARA) down 7% to $11.8 million
- Net Profit after Tax (NPAT) and before SGARA up 2% to $7.1 million
- 2019 vintage higher wine costs impacted result by $1.5 million
- NPAT down 10% to $5.9 million
- Cash Flow from Operating Activities positive $5.6 million even after spending $10.1 million on bulk wine purchases
- Net Debt of $77.8 million compared to $79.8 million as at 31 December 2018 and $72.4 million as at 30 June 2019
- Revenue down $6.1 million to $137.0 million
- Sales of McGuigan, Tempus Two and Nepenthe up 2% with Tempus Two up 25%
- In line with previous years, no interim dividend declared

Australian Wine Industry

In the 12 months to December 2019 the value of Australian wine exports increased by 3% to $2.9 billion and volume decreased by 12% to 744 million litres. The volume decline was driven by a decrease of 17% in shipments below an average value of $2.50 per litre. The average value of exports grew by 18% to $3.91 per litre, the highest since 2006.

The decline in overall exported volume is due mainly to the following:

- 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 mainland China continues to lead growth with sales up 13% to $1.2 billion. China remains the largest market for wine sales and third by volume.

Other key export markets:

- UK export sales decreased by 9% to $352.3 million but remains the largest export market by volume which was down 9% to 224.2 million litres.
- US export sales decreased by 1% to $419.5 million and volume decreased by 14% to 137.6 million litres.
- Canada export sales decreased by 13% to $183.2 million and volume decreased by 25% to 55.5 million litres.
- NZ export sales decreased by 2% to $91.1 million and volume was down 8% to 29.9 million litres.

Business Results & Summary

1. Branded Sales

During the 6 months to December 2019 total sales of our three key brands, McGuigan, Tempus Two and Nepenthe increased by 2% with the higher priced Tempus Two brand growing 25%. These three products now represent 65% of all our sales.

In the UK/Europe market McGuigan branded sales have grown by 9% and remains one of the largest global brands in that market. Within the McGuigan brand, the higher priced Black Label and Reserve range have grown by 14% and now represents 44% of all our sales to UK/Europe.

In Australasia/North America sales of the McGuigan, Tempus Two and Nepenthe branded sales decreased by 6% due mainly to a decline in McGuigan branded sales to Asia, New Zealand and North America. Sales of our higher priced Tempus Two brand increased by 24% with all this increase coming from Australia.

The Barossa Valley Wine Company brand continues to grow with sales up 17%. Whilst only representing 2% of total Australian sales, this brand is at a higher price point and together with the Tempus Two and Nepenthe brands, is a key part of the push to improve the sales mix.

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Business Results & Summary (cont.)

2. Australasia / North America Packaged

Sales down 6% on last year with Asia, New Zealand and North America all performing below prior period. Cask sales declined by 3% due mainly to repricing of our cask products.

EBIT decreased by 32% due mainly to the lower than expected sales from New Zealand, Asia and North America.

- Whilst Australian sales increased by 1%, EBIT declined by 1% due mainly to a $0.5 million restructure cost and $0.8 million in higher wine costs from the 2019 vintage. Partially offsetting this is the improved mix resulting from a 31% increase in Tempus Two sales. Nepenthe sales were down 9% due to promotion phasing.
- New Zealand sales decreased by 18% on the back of a 42% increase in sales in FY19. Sales for the second half of FY20 are expected to recover. EBIT decreased by 30%.
- Asian sales are down 34% with sales to mainland China down 64%. In mainland China our main distributor has made significant changes to senior management resulting in a change to working capital practices resulting in fewer orders. Excluding mainland China, Asian sales are up 19% with sales to Singapore up 37%, Malaysia up 88% and Taiwan up 32%. EBIT decreased by 78%.
- North America sales are down 21% with McGuigan brand sales down 30%. Both Canada and United States remain challenging markets for Australian wines with the recent Export Report released by Wine Australia showing a 14% volume decline in the United States and a 25% volume decline to Canada. EBIT decreased by $0.5 million.

	Sales ($000)		EBIT ($000)	
	6 months to December 2019	6 months to December 2018	6 months to December 2019	6 months to December 2018
Australia	43,183	42,795	3,157	3,182
New Zealand	2,534	3,089	441	627
Asia	5,220	7,948	269	1,222
North America	3,140	3,950	(267)	229
	54,077	57,782	3,600	5,260

The company has challenges in the Asian and North American markets. However, both these market are currently not a significant part of our business, with China representing about 3% and North America representing about 3%.

Business Results & Summary (cont.)

3. UK / Europe

UK/Europe sales and EBIT increased by 6% due mainly to improved sales and margins from the UK division. The McGuigan brand continues to grow with sales up 9%. The mix of sales is also improving with sales of the higher priced McGuigan Black Label and Reserve ranges growing by 14%. The improved result was achieved even though wine costs increased by $0.7 million as a result of the higher 2019 vintage costs.

To continue to support the growth and improvement in mix, an additional $0.7 million was spent on marketing compared to prior period.

When compared to the prior period the favourable exchange rate added $1.9 million to the contribution of this segment.

- In the UK division sales increased 7% to $59.7 million and EBIT grew by 13%. This sales growth is against a decline in sales of 9% for all Australian wine exported to the UK for the 12 months to December 2019.
- Ireland sales decreased by 2% to $5.4 million and EBIT decreased by 15%. Uncertainty around Brexit and increased resourcing contributed to the decline in EBIT.
- Europe sales decreased by 5% and EBIT declined by 12%.

UK/Europe	Sales ($000)		EBIT ($000)	
	Dec 19	Dec 18	Dec 19	Dec 18
UK	59,673	55,916	5,225	4,613
Ireland	5,409	5,530	1,294	1,520
Europe	992	1,041	204	233
	66,074	62,487	6,723	6,366

Business Results & Summary (cont.)

4. Vineyard Segment (mainly SGARA)

EBIT down by $1.2 million due mainly to SGARA (Self Generating and Regenerating Assets) on our owned and leased vineyards. The $1.0 million EBIT decline in SGARA is due to:

- Additional water costs of $1.1 million to the end of December 2019. As a result of the drought and the extreme early heat, temporary water costs have increased substantially
- Grape tonnage estimate at the end of December 2019 is basically in line with the December 2018 forecast. Expectation was for higher tonnes as a result of recent redevelopment works undertaken on some of our leased vineyards, but the extreme heat in early summer and the loss of some crops in one of our Adelaide hills vineyards due to fire, has seen our grape tonnage forecast decline by 3,372 tonnes.

	Tonnes			
	FY20 Expected	Dec 19 Forecast	Dec 18 Forecast	FY19 Actual
Total Tonnes	57,850	54,478	54,400	43,587

The Dec 19 forecast includes an estimate of 200 tonnes lost due to the Adelaide Hills fire.

- The decrease in Vineyard Management EBIT is due to the completion of major redevelopment works on some of our leased vineyards.

	Sales ($000)		EBIT ($000)	
	Dec 19	Dec 18	Dec 19	Dec 18
SGARA	-	-	(1,811)	(770)
Vineyard Management	67	3,256	67	262
	67	3,256	(1,744)	(508)

Business Results & Summary (cont.)

5. Other Segments / Other Income

- Cellar Door EBIT declined by 40% due mainly to decreased visitor numbers at our Hunter based McGuigan and Tempus Two cellar doors.
- Australasia/North America Bulk segment EBIT improved by $1.0 million due to improved sales and margins from the Austflavour business and some third party packaging undertaken at our Merbein packaging facility.
- Other income includes a dividend from our 10% investment in a New Zealand based distributor.

6. Capital Expenditure

Over the last two years the Company has invested $35.6 million in various capital projects including $11.0 million on a new packaging line and various long-term investments in winemaking, plus a premium winery at our Buronga winery facility. The return on investment on the packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput, the expected target of 12% should be met.

The premium winery, at a total cost of $10.0 million, is operational this year and based on full utilisation, is on target to achieve a 15% return on investment.

7. Interest and Financial Position

- Interest cost (excluding lease interest costs) reduced by $0.4 million due to lower borrowing costs.
- Operating cash flow of $5.6 million is down by $5.4 million on prior period due to bulk wine purchases of $10.1 million.
- Net debt increased by $5.4 million to $77.8 million compared to June 2019. Compared to December 2018, net debt decreased by $2.0 million.
- Gearing (debt to equity) is at a comfortable 26%.

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Results Summary – Revenue ($'000)

	6 Months to		Change	
	Dec 19 $000	Dec 18 $000	$000	%
Australasia/North America Packaged	54,077	57,782	(3,705)	(6)
UK/Europe (see note)	66,074	62,487	3,587	6
Cellar Door	4,632	5,168	(536)	(10)
Australasia/North America bulk & processing	12,163	14,371	(2,208)	(15)
Vineyards	67	3,256	(3,189)	(98)
Total	137,013	143,064	(6,051)	(4)
***Note**: Split of UK/Europe Sales*				
UK/Europe packaged	*65,900*	*62,225*	*3,675*	*6*
UK/Europe bulk and Private Label	*174*	*262*	*(88)*	*(34)*

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Results Summary – Profit ($’000)

	6 Months to		Change	
	Dec 19 $’000	Dec 18 $'000	$’000	%
Australasia / North America Packaged	3,600	5,260	(1,660)	(32)
UK / Europe	6,723	6,366	357	6
Cellar Door	486	810	(324)	(40)
Australasia / North America bulk and processing	892	(81)	973	1,201
Vineyards	67	262	(195)	(74)
EBITS	**11,768**	**12,617**	**(849)**	**(7)**
Finance costs	(1,677)	(2,076)	399	19
Interest expense (from change in accounting for leases – AASB16)	(191)	-	(191)	-
Interest received	2	38	(36)	(95)
Tax	(2,771)	(3,554)	783	22
Net Profit (after tax and before SGARA)	**7,131**	**7,025**	**106**	**2**
SGARA	(1,811)	(770)	(1,041)	(135)
Tax on SGARA	543	231	312	135
SGARA (after tax)	(1,268)	(539)	(729)	(135)
Net Profit (after tax)	**5,863**	**6,486**	**(623)**	**(10)**

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Outlook

Our financial position remains sound and considering the fact that $10.1 million was spent on purchasing bulk wine in the period, the $5.6 million positive operating cash flow reflects a strong underlining business.

With a significant focus on the UK/Europe business we have seen contribution from this segment continue to grow against a market trend showing Australian wine exports to this market decline. We remain focused on improving the sales mix and increasing our footprint in the UK market. Our growth in the UK is not finished but it will require further investment in marketing and advertising.

We have challenges in the key markets of Asia and North America. In mainland China, taking into account the impact of the Coronavirus, we are not expecting any significant sales for the next 6 months. However, we are putting in place strategies to improve our long-term performance in the China market. It is also important to understand that mainland China is only a small, but important part of our business. In the six months to December 2018 China only represented 3% of our total business. Other markets within Asia, such as Singapore and Malaysia, are performing well.

In North America, particularly Canada, we have implemented strategies which should improve our sales going forward. However, both United States and Canada have become challenging markets for Australian wine as indicated by the recent decline in export sales to those regions. Improving sales and contribution will be challenging.

As previously advised, the higher cost of the 2019 vintage will impact our margins. For the six months to December 2019 the impact was $1.5 million. For the second half we expect the impact to be greater as we move into more 2019 vintage wine sales, but with improved mix and favourable exchange rates, we expect to negate the impact of the higher wine costs on margins.

As a result of the recent fires in the Adelaide hills, one of our vineyards received minor damage which will result in a reduced crop and together with the extreme heat early in the summer, this year's vintage will again be challenging. However, at this stage we remain confident that our tonnes from our owned and leased vineyards will be up on last year. This will result in increased winery throughput and lower 2020 vintage wine costs.

In late January 2020, the Company entered into a long-term lease on the Jubilee Park vineyard. This 220 hectare Riverland vineyard is planted to 75% reds and will add approximately 4,000 tonnes to our Buronga Hill winery crush resulting in further efficiencies and a reduction in future bulk wine purchases.

Ignoring the impact of the new accounting standard on leases and taking into account our current knowledge of the 2020 vintage and assuming no material change to current exchange rates, we are expecting our net profit after tax to be up on last year by approximately 20% to25%.

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So far this financial year ...

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
* San Francisco International Wine Competition: Trophy for Best Gewurztraminer 2018 Winemakers Select
* National Wine Show: Trophy for Other Single White Varieties 2018 Winemakers Select Gewurztraminer

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

Barossa Valley Wine Company

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

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Wine Show Performance - 2019

	McGuigan	Tempus Two	Nepenthe	Barossa Valley Wine Company
Trophies	29	3	5	2
Gold	80	45	52	8
Silver	125	66	53	18
Bronze	164	109	125	25
Total Awards	398	223	235	53