

# Australian Vintage Ltd.

## June 2020 Results

26<sup>th</sup> August 2020



AUSTRALIAN VINTAGE LTD

# Key Points

- Net Profit after Tax (NPAT) up 35% to \$11.0 million
- NPAT before impact of new accounting standard on leases (AASB16) up 41% to \$11.4 million
- EBIT (Earnings before Interest and Tax) up 18% to \$19.2 million
- EBITs (Earnings before Interest, Tax and SGARA) down 3% due to higher wine cost from 2019 Vintage
- Positive Operating Cashflow of \$22.3 million
- Reduction in Net Debt: \$67.3 million vs \$72.4 million FY19
- Improved revenue mix from brand growth
- Branded Sales up 8%
- Earnings per share up 35% to 3.8 cents per share
- 35% increase in final dividend: 2.7 cent per share partially franked (63%)

The result for FY20 was after recognizing:

- Increased wine costs from the 2019 vintage amounting to \$2.3 million.
- Against expectation, reduced SGARA due to high water costs (\$1.6 million) and impact of Adelaide Hills fire (\$1.3 million).
- Increased marketing expenses of \$1.2 million.
- Closure of Cellar Doors resulting in a \$0.7 million decline in contribution.
- Restructure and onerous contract costs of \$0.8 million.



# Australian Wine Industry

In the 12 months to June 2020 the value of Australian wine exports decreased by 1% to \$2.8 billion and volume decreased by 9% to 730 million litres. The average value of exports grew by 9% to \$3.89 per litre, the highest since 2005.

The decline in overall exported volume is due to:

- Australia's 2018, 2019 and 2020 smaller vintages, resulting in less supply for shipping overseas.
- The COVID-19 pandemic which has resulted in disruption to wine markets around the world.

Since COVID-19, export sales have declined by 5% compared to the same period in FY19 with sales to mainland China declining by 16% whilst the impact of COVID-19 had a positive impact on Australian exports to the UK.



## Australian Wine Industry (cont.)



China remains the largest market for wine sales with 38% of all Australian exports and third by volume.

Other key export markets:

- UK export sales increased by 3% to \$382.9 million and remains the largest export market by volume which was down 2% to 231.9 million litres. Since COVID-19, sales are up 17%.
- US export sales have remained flat at \$430.2 million and volume decreased by 10% to 137.3 million litres. Since COVID-19 sales have been in line with prior period.
- Canada export sales decreased by 6% to \$185.6 million and volume decreased by 18% to 53.8 million litres. Since COVID-19 sales have been in line with prior period.
- NZ export sales decreased by 3% to \$93.5 million and volume was down 10% to 29.6 million litres.



## Australian Wine Industry (cont.)



The 2020 Vintage crush has been estimated at 1.52 million tonnes, a decrease of 12% on last year's crush. (Wine Australia – National Vintage Report July 2020). The crush is 13% below the 10 year average of 1.75million tonnes.

Approximately 40,000 tonnes were lost, rejected or downgraded as a result of bushfires.

Average wine grape purchase prices increased across all regions with the average for all varieties increasing by 5% to \$694 per tonne – the highest since 2008.

The largest percentage increase in average grape price was in the Murray Darling and Riverland regions where grape prices increased between 11% and 15%

# Business Results & Summary

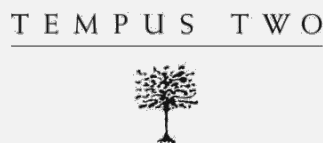
## 1. Branded Sales

During the 12 months to June 2020 total sales of our four key brands, McGuigan, Tempus Two, Nepenthe and Barossa Valley Wine Company increased by 8%. These four products now represent 65% 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 23% and now represent 46% of all our sales to UK/Europe. The Tempus Two brand has also seen an increase of 34% from a low base.

In Australia, McGuigan branded sales have grown by 3% and the higher priced Tempus Two sales have grown by 42%. 5 years ago, Tempus Two represented 10% of total bottled sales in Australia and now it is 22%. Sales of lower margin products such as Miranda declined 8% during the year.

In 2018 we released a new brand called Barossa Valley Wine Company. Whilst only representing 2.5% of total AVL Australian sales, this higher priced brand has seen sales increase by 47% over the last 12 months.



# Business Results & Summary (cont.)

## 2. Australasia / North America Packaged

Sales down 3% on last year with Asia, North America and New Zealand all performing below prior period. Cask sales declined by 5% due mainly to reprising of our cask products.

EBIT deceased by 30% due to lower sales from the New Zealand, Asian and North American divisions.

- The Australian business performed well and showed improved profit performance over last year. Pleasingly all pillar brands grew and reinforced our strategic intent of a “portfolio of brands”. Sales of the McGuigan brand grew by 3% and Tempus Two grew by 42%. Despite the on premise and cellar door segments declining due to Covid-19, the Australian business delivered a profit result 18% up on year ago. The combination of consumer focus with retail partners, innovation and strong cost control all contributed to the positive result in very challenging circumstances.
- New Zealand EBIT was down \$0.2m due to Covid-19 closure.
- Asia sales were significantly down 40%, resulting in a decline in EBIT of \$1.9 million. The company does not expect significant sales to mainland China over the coming six to twelve months as the new management at our major distributor continue to focus on reducing working capital. In the long term we believe that our strategies will result in sales growth.
- The company has addressed its marketplace strategy in North America and expects improvements in sales following a disappointing decline of 18%. Canada and United States remain challenging markets for Australian wines with total Australian volume sales to Canada down 18%. North America EBIT contribution was down \$1.0 million.

	Sales (\$000)		EBIT (\$000)	
	FY20	FY19	FY20	FY19
Australia	82,405	78,106	4,943	4,174
New Zealand	5,295	5,622	852	1,079
Asia	8,585	14,226	150	2,037
North America	6,474	7,916	(414)	615
	102,759	105,870	5,531	7,905



# Business Results & Summary (cont.)

## 3. UK/Europe

The UK performance was exceptional with sales volumes up against an industry trend that is showing Australian wine sales volumes to the UK declining by 2%. In the UK, sales of the McGuigan brand increased by 13% through an improved mix of sales, volume increases and targeted marketing. Sales of our higher priced McGuigan Black Label and Reserve ranges increased by 23%. The Tempus Two brand has also performed well in the UK, with sales up 34% from a low base. The company will continue to invest in the UK market with increased marketing spend planned for FY21 and a strong Tempus Two campaign seeing the introduction of new ranging in major retail.

When compared to the prior period the favourable exchange rate added \$1.1 million to the contribution of this segment.

- In the UK division sales increased 6% and EBIT grew by 5%. This sales growth is against an increase in sales of 3% for all Australian wine exported to the UK for the 12 months to June 2020.
- Ireland sales increased by 16% and EBIT increased by 13%. The McGuigan brand continues to perform very well with sales up 23%.
- Europe sales decreased by 16% and EBIT declined by 21%.



	Sales (\$'000)		EBIT (\$'000)	
	FY20	FY19	FY20	FY19
UK	115,479	109,171	8,609	8,172
Ireland	11,431	9,841	2,643	2,341
Europe	1,820	2,168	322	406
	128,730	121,180	11,574	10,919



# Business Results & Summary (cont.)

## 4. Other Segments

- With Cellar doors closed for part of the year, contribution declined by 75% to \$0.2 million but is to be expected during Covid-19. During lockdown we have started to execute our cellar door refresh program which should see future upside.
- Australasia/North America Bulk and Processing Sales declined by \$2.5 million due to the reduced low margin bulk wine sales. However, EBIT improved by \$1.1 million due mainly to increased contract processing of grapes.
- Vineyard Segment (including SGARA) EBIT improved by \$3.0 million (\$3.5 million before the impact of AASB16) due to the improved 2020 vintage. Against last year total yield was up 25% or 10,200 tonnes.



## 5. Interest and Financial Position

- Finance cost reduced by \$0.4 million due to lower borrowing levels and lower cost of funding (\$0.7 million) offset by the additional interest expense as a result of AASB16 (\$0.3 million).
- Operating cash flow was positive \$23.6 million (\$16.4 million before the adjustment for AASB16) against \$23.6 million last year. The decline in operating cash flow (ignoring the impact of AASB16) was due to bulk wine purchases of \$8.0 million to cover the shortfall from the 2019 vintage.
- Net debt decreased by \$5.1 million to \$67.3 million.
- Gearing (net debt to total equity) is at a comfortable 22%.
- Current bank facility expires September 2022.

# Business Results & Summary (cont.)

## 6. Future Strategy

Over the last 3 years the Company has invested heavily in various capital projects, including \$11 million on a new packaging line and various long-term investments in winemaking, including a \$9 million premium winery at our Buronga winery facility. These investments have contributed to the improved efficiency in our production facilities and set up a solid base from which to grow.

Going forward the focus will be on investing in our key brands, McGuigan, Tempus Two and Nepenthe. We will also be investing in our next pillar brand, Barossa Valley Wine Company.

Putting the consumer at the heart of everything we do will see marketing and advertising expenditure increase by 20% in FY21 as we continue to promote our brands in the various key markets. Included in this increased marketing spend will be a real focus on promoting our Tempus Two brand. The Company is also planning a major redevelopment of our Nepenthe Cellar Door in the Adelaide Hills. We are investing in our people capability and ensuring we build long term customer relationships.



# Results Summary – Revenue (\$'000)

	12 Months to		Change	
	30/06/20	30/06/19	\$000	%
Australasia/North America Packaged	102,759	105,870	(3,111)	(3)
UK/Europe	128,730	121,180	7,550	6
Cellar Door	7,947	9,441	(1,494)	(16)
Australasia/North America bulk & processing	25,138	27,644	(2,506)	(9)
Vineyards	2,565	5,032	(2,467)	(49)
Total	267,139	269,167	(2,028)	(1)
<i>Note: Split of UK/Europe Sales</i>				
UK/Europe packaged	128,463	120,644	7,819	6
UK/Europe bulk	267	536	(269)	(50)

# Results Summary – Profit (\$'000)

	12 Months to 30/06/20			12 months to 30/06/19	Change	
	Reported Profit	Impact of AASB16	(before impact of AASB16)		\$'000	%
Australasia / North America Packaged	5,531	(192)	5,339	7,905	(2,566)	(32)
UK / Europe	11,574	-	11,574	10,919	655	6
Cellar Door	244	-	244	991	(747)	(75)
Australasia / North America bulk and processing	2,431	-	2,431	1,307	1,124	86
Vineyard management	(28)	-	(28)	609	(637)	(105)
Other income (dividend and fair value change in investment)	1,241	-	1,241	-	1,241	NA
<b>EBITS</b>	<b>20,993</b>	<b>(192)</b>	<b>20,801</b>	<b>21,731</b>	<b>(930)</b>	<b>(4)</b>
SGARA	(1,794)	497	(1,297)	(5,450)	4,153	76
<b>EBIT</b>	<b>19,199</b>	<b>305</b>	<b>19,504</b>	<b>16,281</b>	<b>3,223</b>	<b>20</b>
Finance costs	(3,085)	-	(3,085)	(3,799)	714	19
Interest expense (from change in accounting for leases AASB16)	(388)	388	-	-	-	NA
Interest Expense (existing finance leases)	(235)	-	(235)	(260)	25	10
Interest received	26	-	26	25	1	4
Net Profit before tax	15,517	693	16,210	12,247	3,963	32
Tax	(4,564)	(208)	(4,772)	(4,124)	(648)	(16)
<b>Net Profit (after tax)</b>	<b>10,953</b>	<b>485</b>	<b>11,438</b>	<b>8,123</b>	<b>3,315</b>	<b>41</b>



# Outlook



The future looks promising based on the recent growth of our key brands. We will continue to improve our mix of business by market, focus on our portfolio of brands and increase consumer investment to maintain the recent sales growth momentum.

We have some challenges in Asia and North America but believe that our strategies are now in place to achieve long term growth in these markets.

Recently it was announced that the Ministry of Commerce of the People's Republic of China will be undertaking an anti-dumping investigation into Australian wine exports into China. AVL plans to cooperate fully in relation to any requests for information received as part of this investigation. With China representing less than 2% of our total forecast FY21 sales, we do not see this investigation impacting our FY21 earnings. We remain committed to the China market as part of our long term strategy.

The cash flow remains strong and based on a normal 2021 Vintage, we expect cash flow to improve by \$8 million to \$12 million in FY21 due to a forecast decline in FY21 capital spend and bulk wine purchases.

The improved 2020 vintage has resulted in an increased throughput at our Buronga Hill Winery which together with improved packaging efficiency at

our Merbein facility, will result in a \$3 million reduction in our FY21 costs when compared to FY20.

Assuming no material change to the current foreign exchange rates and including the impact of AASB16, we are targeting a 48% improvement in AVL's ROCE (return on capital employed) to 6.6%.

Our improved sales momentum and contribution mix continues with a very positive start to FY21.

A further market update will be provided at our Annual General meeting in November 2020.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a partially franked (63%) dividend of 2.7c per share. This dividend reflects a payout ratio of 70% and is in line with last year's payout ratio. This dividend will be paid to all shareholders on 6 November 2020 and the Record Date to establish shareholder dividend entitlements is 16 October 2020. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 6 November 2020.

# Wine Show Results / Key Brand Facts

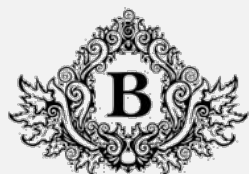


**McGUIGAN**  
WINES

TEMPUS TWO



**NEPENTHE**



**BAROSSA VALLEY**  
WINE COMPANY

## McGuigan

**12 Trophies - 20 Gold medals - 61 Silver medals - 97 Bronze**

- ❖ Decanter Asia Wine Awards
  - Best in Show 2017 McGuigan Personal Reserve Bainton Shiraz
  - Platinum 2017 McGuigan Personal Reserve Bainton Shiraz
- ❖ International Wine and Spirits Competition - Semillon Trophy - 2007 McGuigan Bin 9000 Semillon
- ❖ Riverina Winemakers Association
  - Best Semillon - 2014 McGuigan Shortlist Semillon
  - Most Successful Exhibitor - Australian Vintage Limited

## Tempus Two

**1 Trophies - 11 Gold medals - 27 Silver medals - 59 Bronze**

- ❖ National Cool Climate Wine Show - Champion Sparkling Wine of Show - 2013 Tempus Two Pewter Sparkling Pinot Noir Chardonnay

## Nepenthe

**2 Trophies - 11 Gold medals - 30 Silver medals - 79 Bronze**

- ❖ National Wine Show - Other Single White Varieties Trophy - 2018 Winemakers Select Gewurztraminer

## BVWC

**2 Gold medals - 7 Silver medals - 12 Bronze**

# Australian Vintage Ltd.

## June 2020 Results

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