AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

24 February 2021

Australian Vintage Limited
Investor Presentation – 2021 Interim Result

Australian Vintage Limited has today released its financial statements for the half year ended 31 December 2020. Attached to this announcement is the investor presentation.

For the purpose of ASX Listing Rule 15.5, Australian Vintage Limited confirms that this document has been authorised for release by the Board.

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AUSTRALIAN VINTAGE LTD

December 2020 Half Year Results

24th February 2021

McGUIGAN WINES

TEMPUS TWO

NEPENTHE

BAROSSA VALLEY WINE COMPANY

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Key financial highlights

- Net Profit after tax (NPAT) up 127% to $13.3 million;
- EBIT (Earnings before tax and interest) up 105% to $20.4 million;
- EBITS (Earnings before tax, interest and SGARA) up 73% to $20.3 million;
- Total Revenue up $10.7 million to $148.4 million;
- Cash flow from operating activities up $25.3 million to $30.9 million and net debt reduced by $16.2 million to $51.1 million;
- Sales of our four key brands, McGuigan, Tempus Two, Nepenthe and Barossa Valley Wine Company (BVWC) up 20%;
- In line with previous years, no interim dividend declared.

Business Results & Summary

1. Overview

The result was very pleasing with continued growth in our portfolio of key brands. During the 6 month period our pillar brands of McGuigan, Tempus Two, Nepenthe and BVWC grew by 20%. This growth, together with the efficiencies generated from our recent capital spend, investment in our people and the favourable 2020 vintage, have underpinned the 127% growth in NPAT. We are committed to our strategic plan and it is showing positive signs for our future.

Covid-19 has had a mixed impact on our business with some increased sales through the major retail chains, but has added costs to our production facilities through segregation of shifts and some challenges with supply chain operations.

Whilst it is difficult to calculate the impact of Covid-19 on the business, our key strategies should continue growth post Covid-19. Innovation and consumer engagement is key strategy to this growth, and we have seen this in our Australian and UK businesses where we are working hard with our customer partners to drive our portfolio. The McGuigan Zero range has been an outstanding success and demonstrates the importance of innovation to the portfolio long term. This, together with the $3.3 million half year benefit from production efficiencies resulting from our recent capital expenditure and the improved 2020 vintage, is sustainable for the long term future and not Covid-19 dependent.

In the UK, our business has been very strong driven by our brand investment in the McGuigan brand and continued distribution gains in major retail. Brexit has been agreed and overall, the Brexit deal will not have a material impact on our business. As of today, the UK remains in lock-down and our sales remain strong in that region. Recently we agreed terms on the introduction of the Tempus Two brand into major UK retail which should further increase our sales into the UK and ensure our portfolio expansion strategy. This is not Covid-19 dependent. Overall, we will continue to invest in brand marketing at a higher rate than in previous years.

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Business Results & Summary (cont.)

2. Segment Information

Effective from 1 July 2020, Australian Vintage Ltd has amended the structure of the Group's operating segments. The underlying operations of the Company remain the same and the changes are due to certain geographic regions moving between segments to be under different managerial responsibility. The 2019 segment information has been restated to reflect the Group's new segment structure. Below is the Group's new accounting policy on segment reporting.

- Australia / New Zealand: supplies packaged wine within Australia, New Zealand and the Pacific region through retail and wholesale channels.
- UK, Europe & Americas: supplies packaged and bulk wine in the United Kingdom, Europe & the Americas through retail and distributor channels.
- Asia: supplies packaged wine to the Asia region through wholesale channels.
- Australasia / North America bulk wine and processing: supplies bulk wine, grapes, concentrate and winery processing services throughout Australia, New Zealand, Asia and North America.
- Vineyards: provides vineyard management and maintenance services within Australia. This segment includes fair value gains and losses resulting from the harvest of grapes from AVL's owned and leased vineyards.

McGUIGAN WINES TEMPUS TWO NEPENTHE BAROSSA VALLEY WINE COMPANY

Business Results & Summary (cont.)

3. Australasia / North America Packaged

The Australian and New Zealand segment has performed very well with contribution up 90% to $7.5 million. The McGuigan brand has grown by 11% due to the performance of our recently introduced McGuigan Zero range which is outperforming expectation. Tempus Two continues to grow with sales up 33%. Nepenthe grew by 18% and BVWC grew by 160% from a low base. Our cellar doors and clubs also were a contributor to the improved performance of this segment.

- In Australia sales increased by 9% due mainly to the recently introduced McGuigan Zero non-alcoholic brand which has been performing above expectation. EBIT improved by 93% due to reduced costs ($0.3 million mainly related to travel, $0.8m redundancies incurred in prior period), favourable production variances ($1.2 million), increased sales and favourable mix of sales. Higher margin Tempus Two brand sales grew by 33% and Nepenthe grew by 19%.
- New Zealand sales increased by 54% with most of the sales growth coming from the McGuigan brand. Tempus Two sales also improved off a low base but represents a small portion of our total sales to this region. EBIT improved by 87% as a result of increased sales.
- The Pacific region sales declined, but through costs savings and a better mix of sales, EBIT remained in line with prior period.

	Sales ($000)		EBIT ($000)	
	6 months to December 2020	6 months to December 2019	6 months to December 2020	6 months to December 2019
Australia	51,886	47,815	6,782	3,523
New Zealand	3,890	2,534	625	334
Pacific	306	529	76	78
	56,082	50,878	7,483	3,935

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Business Results & Summary (cont.)

4. UK / Europe

The UK, Europe and Americas segment has also performed exceptionally well with contribution up 76% to $10.7 million. This is despite a $1.0 million negative impact due to the unfavourable GBP when compared to the prior period. The McGuigan brand continues to grow with sales up 21% compared to the prior period. What is even more pleasing is that most of this McGuigan brand growth has come from improved sales mix. Sales of the higher priced McGuigan Black Label and Reserve ranges have increased by 30%. Sales of some of our second-tier brands have declined during the period in line with our major brand strategy.

The growth in the UK market is not finished and we will be increasing our footprint in the UK and investing heavily in marketing and advertising over the next six months.

- The UK division sales increased by 10% with most of the increase coming from increased sales of the McGuigan brand which was up 18%. Sales of the higher priced McGuigan Black Label and Reserve ranges increased by 27%. Sales of our second-tier brands decreased when compared to prior period. EBIT increased by 61% due mainly to improved sales and mix of sales and favourable production variances of $1.6 million. The GBP impacted the result unfavourably by $1.0 million when compared to prior period.
- Ireland sales increased by 61% and EBIT increased by 108%. The McGuigan brand grew by 64%. Some of this increase is due to the buy up of the McGuigan brand by our distributors leading up to the Brexit agreement in December 2020.
- Europe sales were up by 10% due to improved McGuigan sales.
- Americas division sales remained flat with sales up 17% in Canada and sales into the US down 63% off a low base. EBIT improved by $0.2 million due to cost savings.

	Sales ($000)		EBIT ($000)	
	6 months to December 2020	6 months to December 2019	6 months to December 2020	6 months to December 2019
UK	65,923	59,673	7,905	4,906
Ireland	8,693	5,409	2,596	1,247
Europe	1,095	992	276	147
North America	3,203	3,140	(54)	(220)
	78,914	69,214	10,723	6,080

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Business Results & Summary (cont.)

5. Asian Segment

Overall, we had minimal exposure to the China slow down. The Asian segment sales reduced by 30% due to the increased tariff on wine sales to China. A recent focus on improving sales in Other Asia has seen sales in this region increase by 7%. EBIT declined by $60k.

	Sales ($000)		EBIT ($000)	
	6 months to December 2020	6 months to December 2019	6 months to December 2020	6 months to December 2019
China	243	1,861	34	173
Other Asia	3,037	2,830	64	(15)
	3,280	4,691	98	158

6. Vineyards

EBIT up $1.9 million due to SGARA (Self Generating and Regenerating Assets) on our owned and leased vineyards. The improved SGARA is due to the expected increase in total grape tonnes and lower water costs when compared to prior period offset marginally by lower grape costs (mainly red varieties).

Vineyard management sales decreased as a result of the completion of some redevelopment works on some of our leased vineyards.

	Sales ($000)		EBIT ($000)	
	6 months to December 2020	6 months to December 2019	6 months to December 2020	6 months to December 2019
SGARA			98	(1,811)
Vineyard Management	380	744	35	67
	380	744	133	(1,744)

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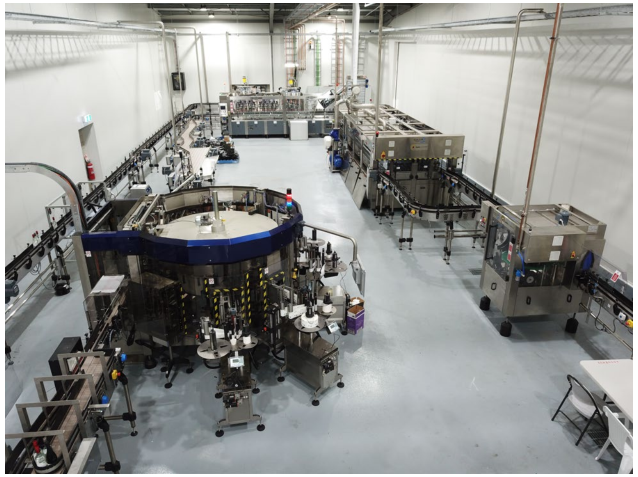
Business Results & Summary (cont.)

7. Australasia / North America Bulk and Processing

Australasia/North America Bulk segment EBIT improved by $1.2 million due to the removal of loss-making bulk wine sales and the improved performance of the Austflavor business.

8. Capital Expenditure

During the period FY17 to FY19 the Company invested some $47.7 million in various capital projects including $11 million on a new packaging line and $10 million on a premium winery at our Buronga facility. For the foreseeable future, and assuming no new production technology is available that achieves a desired return, the Company will be maintaining capital expenditure in line with depreciation (approximately $8 - $9 million). Year to date our capital expenditure is $4 million with a total FY21 forecast capital expenditure of $9 million.



9. Interest and Financial Position

- Interest cost (excluding lease interest costs) reduced by $0.5 million due to reduced borrowings and lower borrowing costs.
- Operating cash flow of $30.9 million is up by $25.3 million on prior period due to increased sales and reduced bulk wine purchases.
- Net debt decreased by $16.2 million to $51.1 million compared to June 2020. Compared to December 2019, net debt decreased by $26.7 million.
- Gearing (debt to equity) is at a very comfortable 17%.

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Results Summary – Revenue

	6 Months to December 2020 $000	6 Months to December 2019 $000	Change $000	Change %
Australia / New Zealand	56,082	50,878	5,204	10
UK / Europe / Americas	78,914	69,214	9,700	14
Asia	3,280	4,691	(1,411)	(30)
Australasia / North America bulk & processing	9,747	12,163	(2,416)	(20)
Vineyards	380	744	(364)	(49)
Total	148,403	137,690	10,713	8

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Results Summary – Profit

	6 Months to		Change	
	December 2020 $'000	December 2019 $'000	$'000	%
Australia / New Zealand	7,483	3,935	3,548	90
UK / Europe / Americas	10,723	6,080	4,643	76
Asia	98	158	(60)	(38)
Australasia / North America bulk and processing	2,002	831	1,171	141
Vineyards	35	67	(32)	(48)
Dividend income and fair value adjustment to investments	-	697	(697)	N/A
EBITS	**20,341**	**11,768**	**8,573**	**73**
Interest expense (commercial bills)	(1,143)	(1,677)	534	32
Interest expense (AASB16)	(289)	(191)	(98)	(51)
Interest received	16	2	14	700
Tax	(5,700)	(2,771)	(2,929)	(106)
Net Profit (after tax and before SGARA)	**13,225**	**7,131**	**6,094**	**85**
SGARA	98	(1,811)	1,909	105
Tax on SGARA	(29)	543	(572)	(105)
SGARA (after tax)	69	(1,268)	1,337	105
Net Profit (after tax)	**13,294**	**5,863**	**7,431**	**127**
EBIT	**20,439**	**9,957**	**10,482**	**105**

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Outlook

The result for the 6 months to December 2020 is in line with the strategic plan as we leverage the past investments. As we invest in our key brands and people capability, we not only grow sales, but improve the mix of sales and drive an improved balanced scorecard for the long term.

Whilst Covid-19 appears to have had an overall positive impact on our business, a significant portion of the growth in our half year result has come from long term sustainable strategies such as innovation, people capability, improved consumer trading technology and improved production efficiencies.

Our cash flow from operating activities of $30.9 million for this half has exceeded any prior cash flows generated in the last 10 years for a full financial year and the company is well on the way to achieving a $40 million operating cash flow for the FY21.

AVG regularly reviews its balance sheet to ensure that the Company has an efficient capital structure. With the expected further reduction in our debt, AVG will undertake a capital management review in the second half of FY21, which could conclude that a share buy-back or capital reduction is the appropriate action to take. Any capital management restructure will ensure that the Company has flexibility to pursue growth opportunities and ensure its credit metrics are maintained.

The 2021 vintage is in process and early indications are that yields will be up on last year's vintage.

As advised at the November 2020 Annual General Meeting the company remains on target to achieve a full year net profit after tax of between $18.0 million and $20.0 million subject to no material change to current exchange rates, no future deterioration in the various economies due to Covid-19 and a normal vintage. This profit forecast reflects an improvement of between 67% and 85% on last year and a Return on Capital Employed of between 6.8% and 7.4%.