AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

24 August 2022

Full Year 30 June 2022 Results

Australian Vintage Limited (ASX: AVG) will host an investor and media conference call commencing at 10.00 a.m. (AEST) on Thursday 25 August 2022 (dial-in details below). The presentation material will be available at www.australianvintage.com.au.

Teleconference Dial-In Details

Conference Passcode: 701872355220

	Dial-in Number (Toll-free)
Australia	1800672949
Canada	18004344158
China (North)	108006100321
China (South)	108002610321
France	800919766
Germany	8001830411
Hong Kong	800900199
Japan	531610037
Malaysia	1800805746
New Zealand	0800944449
Philippines	180016110259
Singapore	8006161713
Taiwan	801611405
Thailand	18006112848
UK**	8003289967
USA	18883822834

**England, Scotland, Wales, Guernsey, Northern Ireland (Not Rep. of Ireland)

AUSTRALIAN VINTAGE LTD

Continued strong global pillar brand performance, premiumisation and innovation have led to increased market share and margin improvement.

Australian Vintage Limited on track with strategic plan. Delivering an underlying profit, before SGARA, of $21.5 million despite inflationary, foreign exchange and logistics pressures

Key financial highlights:

- Share growth in all key markets
- Pillar brand sales increased to 78% of total sales revenue, a 7 percentage point increase over the prior year
- Underlying gross margin of 35%, an increase of 3 percentage points
- Underlying EBITS of $33.3 million, 7% higher than prior year
- Reported EBITS of $28.8 million, 8% lower than prior year, driven by FX (-$1.0 million) and previously announced one-off non-recurring items (-$4.5 million)
- Underlying NPATS up 8% to $21.5 million
- Reported NPAT of $17.3 million, impacted by FX, one-off non-recurring items and lower SGARA
- Cash flow from operating activities $15.4 million driven by higher inventory to offset continued global shipping delays
- Strong balance sheet with net debt at $74.5 million, net debt/ underlying EBITDS of 1.5 times, gearing at 25% and leverage at 20%, with AVG well positioned for inflationary disruption and luxury acquisition
- Underlying ROCE at 7.5% (reported ROCE at 6.5%)
- Earnings per share at 6.9 cents per share
- Total Shareholder Return (TSR) since 1 July 2019 is 80%
- Final dividend of 3.4 cents per share, franked to 60%

AVG's Chief Executive, Craig Garvin said, "Our result is in line with our expectations. Over the last two years, pillar brand sales have grown in line with our expectation, increasing to 78% of total revenue, despite global logistics challenges causing shelf out of stocks. As announced at the half year results, the one-off non-recurring costs include the temporary closure of the cellar doors due to Covid restrictions (impacting EBITS by $0.8 million) and additional demurrage and out of stocks in the UK arising from Brexit in H1 (impacting EBITS by $3.7 million). Gross margin normalised for the one-off non-recurring items at 35% which is an increase of 3 percentage points over the prior year, reflecting the move to higher aspirational brands in line with our strategic plan.

Our consumer-led portfolio approach is working, reinforcing AVG's continued investment in marketing, as we improve overall margin, product mix and market share in key geographies. Super premium and luxury brands have grown by 20% since 2019 and are now contributing 13% to total revenue. These brands are expected to continue to grow by 20% CAGR over the next 3-5 years. High margin product innovation is showing significant growth on prior year including McGuigan Zero at 55%, Tempus Two at 20%, and Nepenthe at 31%. Core to our strategic intent is being a global business where AVG will continue to invest in brands, despite inflationary pressures. We have significant growth opportunities in Asia and Canada over the next 5 years as we have now implemented key people and operational changes.

Innovation continues to be fundamental to our strategic success. AVG is world leading in no-and-low alcohol with McGuigan Zero reaching the number one zero-alcohol wine in the UK and Australian markets. The recent launch of our new wine and spirits based drinks business creates a tremendous global opportunity for high margin revenue growth leveraging our operational know how and assets. We have been able to add new revenue streams with minimal capital investment, generating a positive contribution net of investment, further supporting our double-digit ROCE ambition.

Covid saw a peak in wine consumption in key markets driven by retail purchase for home consumption. This year's brand performance is pleasing given the overall market declines in retail post lockdown and has converted to increased market share and brand performance. AVG is proud that no operational shifts were missed due to Covid and the continued care and investment in our employees has translated to higher engagement across the globe.

A review of our global supply chain and strong management focus has ensured our global finished goods inventory is aligned to longer lead time challenges related to international shipping, further supporting market share gains. At a time when the Australian wine industry is facing a significant wine surplus, Australian Vintage has successfully managed its wine storage to be in balance with demand.

Our strategic imperatives are on track with improvements in portfolio, market share, employee engagement, customer alignment and safety. Recently we assessed our global carbon footprint and have set an ambitious target informed by current climate science. Taking an evidence-based approach to achieving net zero, AVG has set a long-term target to achieve Net Zero by 2040 and developed an ESG roadmap which now forms part of our balance scorecard. Further information on this exciting initiative will be released with the annual report.

Despite the global challenges and inflation impacting the ASX, AVG has delivered TSR growth of 80% from 1 July 2019 to 30 June 2022."

PERFORMANCE BY SEGMENT

UK, Europe and Americas

Despite industry wide supply chain issues post Brexit, the UK continues to grow market share led by McGuigan and Tempus Two. AVG's market share grew at twice the rate of the overall UK wine market which declined by 10%. In the no-and-low category the overall UK market grew by 11% with AVG products growing by over 50%. McGuigan Zero is now the number one alcohol free still wine brand in the UK. Higher margin Tempus Two is the fastest growing Top 50 brand in the UK grocery growing at 75% over the prior period.

AVG has very strong partnerships with its global shipping partners that has maintained an industry leading service level to customers despite very challenging global supply issues.

Strong recovery continues within Canada for AVG brands and long-standing partnerships, generating growth of 26% over the prior period.

Australia and New Zealand

Australia/New Zealand segment delivered an increase in branded sales of 3%, offset by a decrease in a low margin contract processing arrangement. All four pillar brands were in growth driven by Nepenthe +30%, Tempus Two +10%, BVWC +8% and McGuigan +3%. AVG achieved market share gains in both Australia (growing +5% versus the wine market growing at +3%) and New Zealand (growing +9% versus +5% growth for total wine).

The results have been underpinned by our continued focus on customer centricity. The recent 2022 Advantage Group Survey confirmed AVG remains the overall #2 ranked total liquor supplier to Australian retail (out of 35 suppliers) for the second straight year. In addition, we were also awarded the joint Supply Chain Management award.

Towards the end of the year AVG launched its innovative drinks range and collaborations with Sarah Jessica Parker for Sevenly and The Butcher's Cellar with Butchers Meatstock Alliance. The Spirits/RTD segment is a $10 billion category in Australia with margins in excess of 50%. It is the fastest growing alcohol segment globally with high attraction for younger consumers. The strategic entry into this attractive category has high potential to improve AVG's performance and help offset global inflation. Further information on Australian Vintage's innovation will be provided at the Annual General Meeting.

The direct-to-consumer (DTC) division, which includes our cellar doors and wine clubs, were impacted by Covid related closures in the first half. The upgrade of the iconic Adelaide Hills Nepenthe cellar door is well underway and expected to be finalised in early 2023.

Austflavour

There is a significant global opportunity for this high margin, high value business. AVG's juice and concentrate division provides unique grape derived products including winemaking products, confectionary, soft-drinks and de-alcoholised wines, utilising our world leading technology.

Through long term partnerships in Australia, Japan and North America, the division has delivered an improved margin percentage contribution, despite lower revenue, after exiting lower margin bulk processing arrangements.

AVG is well positioned with capability and know how to leverage global demand and will continue to focus on this high margin business as a strategic priority. Our assets are in place with minimal capital investment required. Further updates on this business will be provided at the Annual General Meeting.

Asia

Sales within the Asia segment have improved by 18% over the prior period driven by Taiwan, Malaysia and Singapore. Pillar brands performance was led by Tempus Two +19% and McGuigan +6%. The contribution from Asia has increased significantly over the prior year because of the increase in sales.

AVG launched the Wines of the World program broadening sales channels across Asia whilst remaining committed to the China market through a strategic partnership with our China based importer COFCO. The Asia business has been brought under the Australia/NZ leadership group and redefined as Australasia.

Vineyards

AVG sources ~80% of its grape supply from owned and long-term contract supply arrangements. Our overall grape supply is well balanced despite industry wide oversupply, particularly for red wine. This year our harvest was down -9% from prior year compared to an Australia wine grape intake reduction of -13%. AVG's result was pleasing given the extreme seasonal weather conditions, including frost.

As a result of the impact on lower red grape prices from reduced exports to China, the SGARA (Self Generating and Regenerating Assets) assessment of fair value on our grapes has reduced contribution by $0.7 million over the prior year. AVG assesses the fair value of SGARA taking into consideration actual underlying vineyard costs and contracted multi year term rates. Spot market accounts for approximately 10% of our grape costs and our SGARA is reflected as such. This demonstrates our commitment to Australian agriculture and fair practice with our suppliers.

FINANCIAL POSITION

Total pillar brand sales have increased in revenue contribution representing 78% of total revenue, an increase of 7 percentage points. This translated to increased reported gross margin at 33%, and underlying gross margin at 35%, as we move toward our medium-term goal of 40% plus gross margin.

Reported EBITDAS of $43.7 million reflects an EBITDAS margin of 16.8%, is in line with the prior year, however underlying EBITDAS of $48.2 million reflects an EBITDAS margin of 18.5%, an increase of 1.7 percentage points over the prior year.

Reported NPAT of $17.3 million is $2.3 million lower than the prior year impacted by one-off non-recurring factors, FX and SGARA. Excluding the one-off non-recurring items, underlying profit was $20.5 million, $0.9 million higher than the record prior year result.

In July 21, AVG successfully completed a capital restructure involving the capital return of 8.5 cents per share and a 10% share consolidation.

Inventory was strategically increased to partially mitigate the impact of freight disruption on our global supply chain from Brexit. This has been further impacted by the Ukraine war and global shipping delays.

Balance sheet strength, with net debt at $74.5 million, net debt/ underlying EBITDAS of 1.5 times, gearing of 25% and leverage at 20%, positions AVG well to take advantage of disruptive market opportunities and luxury acquisition opportunities as they arise.

ROCE on a reported basis was 6.5% and on an underlying basis 7.5% in line with the 2021 peak performance year.

OUTLOOK

Global inflation is putting pressure on input costs in all markets. In the UK, inflation coupled with record global shipping costs have seen margin erosion for all suppliers. AVG will address these challenges via continued focus on growing the higher margin branded wine and drinks business, Austflavour expansion, operational efficiencies, and actively pursuing price increases.

The launch of Wines of the World enables AVG to broaden its expansion across Asia and India. Austflavour remains an important and unique growth opportunity that will grow its contribution through world leading technology and increased capability.

Inventory was strategically increased in FY22 to mitigate global shipping delays. Inventory holdings are indexed to global shipping lead times, and as these lead times start to ease, we would expect inventory levels to decrease.

The company’s ROCE is strategically on track to achieve double digits in long term.

As part of our ongoing confidence in the medium to long term outlook of AVG, the board has agreed to pay a partially franked (60%) dividend of 3.4 cents per share. This dividend represents a 26% increase on the previous year and is in addition to the recent capital return of 8.5 cents per share all shareholders received in July 2021. The dividend will be paid to all shareholders on 16 December 2022 and the Record Date to establish shareholder dividend entitlements is 25 November 2022. The Company's Dividend Reinvestment Plan (DRP) will remain suspended.

A further market update will be provided at our Annual General Meeting in November 2022.

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

ENDS

Further information

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