

Australian Vintage Limited Annual General Meeting

23rd November 2016



AV
AUSTRALIAN VINTAGE LTD

MIRANDA

NEPENTHE

MCGUIGAN
WINES
Come on in

TEMPUS TWO


PASSION
POP

Australian Vintage Limited

Annual General Meeting



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Agenda



AUSTRALIAN VINTAGE LTD

Annual General Meeting
23rd November 2016

Performance Summary	Richard Davis
Business Update	Neil McGuigan
Formal Proceedings	Richard Davis



Annual General Meeting

Performance Summary

Richard Davis

Your company

One of Australia's largest wine producers

- Crushes up to 110,000 tonnes a year.
- Sells 80 million litres of wine.
- 2,300 planted hectares in 11 vineyards that we either own or lease.
- Production facilities capable of producing 1.5m casks and 6m cases of bottled wine.
- Produces the most popular red wine in Australia.
- McGuigan is the 4th largest global wine brand in the UK.



Highlights

- Net profit after tax and before one off items \$7.2 million compared to \$7.1 million prior year
- One off cost of \$9.2 million (after tax) to exit onerous vineyard lease
- Net loss of \$2.0 million after vineyard lease exit cost
- Prior to the unrealised foreign currency adjustment due to Brexit, net profit after tax and before one off items of \$8.3 million, up 16% on prior year
- Cash flow from operating activities, prior to termination payment on exit of vineyard lease, \$11.4 million compared to \$2.1 million
- Revenue increased by 5% to \$242.7 million despite a \$6.8 million reduction in bulk wine sales to UK/Europe.
- 1.5 cent fully franked dividend declared, paid 9 November 2016. Dividend Reinvestment Plan reinstated.



Highlights (cont.)

- Low margin UK/Europe bulk sales (part of the UK/Europe segment) were down by \$6.8 million.
- Branded sales continue to grow with McGuigan, Nepenthe and Tempus Two sales up by 20%. For the 12 months to 30th June 2016 these three brands made up 57% of our total wine sales compared to 50% for the same period last year.
- Net debt of \$101.4 million compared to \$103.6 million as at 30th June 2015.
- AVL strategies remain unchanged:
 - Grow the export business
 - Increase branded sales
 - Focus on cost control



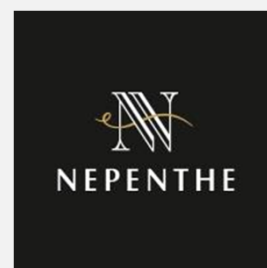
Business Results & Summary

1. Branded Sales

During the twelve month period to June 2016, total sales of the McGuigan brand grew 21%, Nepenthe brand grew 18% and Tempus Two brand grew 5%. Sales of these three key brands increased by 20%.

The three key brands now represent 57% of all our wine sales compared to 50% in June 2015.

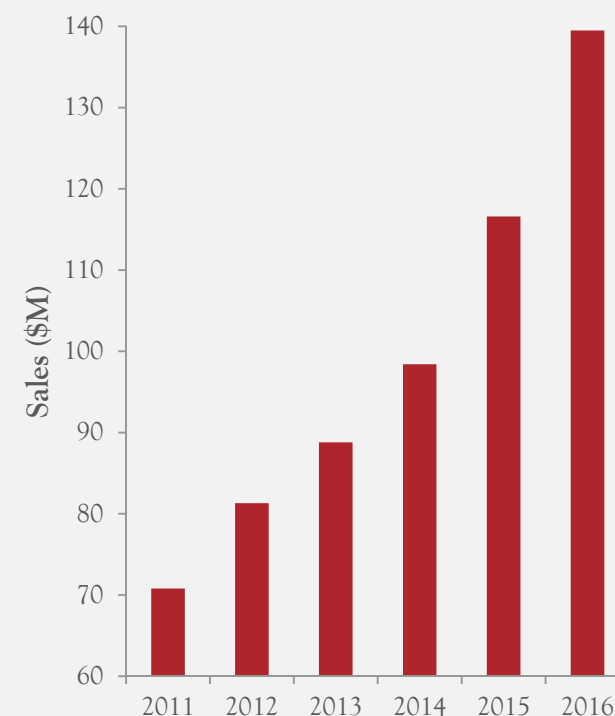
The McGuigan brand continues to be well received in the UK market and is currently the fourth biggest selling global wine in that market.



T E M P U S T W O



Sales of our three key brands have increased by 97% over the last five years:-



Business Results & Summary (cont.)



2. Australasia / North America Packaged

Sales increased by \$7.6 million to \$106.7 million due mainly to increased sales of the McGuigan brand (up 21%) partially offset by cask sales which were down 20%.

Contribution was down by \$1.0 million to \$6.2 million due to a \$1.9 million reduction in contribution from Australian cask sales. The Australian market for cask remains extremely competitive with unsupportable pricing driven in part by the WET rebate.

Asian division sales increased by 22% with contribution increasing by \$0.4 million or 43%. Increased sales through our Chinese distributor, COFCO was the main reason for this improved performance.

Other divisions within this segment also improved contribution:

- a) New Zealand sales up 15% and contribution up \$0.1 million or 15%
- b) North America sales up 23% and contribution up \$0.2 million or 28%



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Business Results & Summary (cont.)



3. UK / Europe

Sales increased by 5% to \$102.5 million due to the increased sales of the McGuigan brand (up 20%) partially offset by sales of lower margin bulk wine.

Sales of bulk wine reduced by \$6.8 million to \$2.1 million as we continue to build our branded business.

Contribution was down \$1.0 million due to the impact of the Brexit on the GBP. Ignoring the impact of Brexit, this segments contribution would have been \$0.5 million up on last year.





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Business Results & Summary (cont.)



4. Other Segments

The cellar door contribution continues to grow with contribution up 10% to \$1.6 million due to increased club and digital sales.

Vineyard contribution is up \$1.1 million due to increased SGARA as a result of an increased yield from our owned vineyards.

5. Financial Position

Cash flow from operating activities was positive \$6.5 million compared to \$2.1 million in the previous period. Excluding the termination payment on the exit of vineyard lease, the cash flow from operating activities improved by \$9.4 million.

Net debt decreased by \$2.2 million to \$101.4 million. Our gearing (net debt to equity) is 35%.

Our banking facility has been extended to September 2019.



Future Net Benefit – One off Costs

Vineyard Lease Termination

In November 2015 Australian Vintage Limited served notice on Belvino Investments to terminate the lease of the Del Rios vineyard situated in Victoria. The effective date of termination was 31 December 2015. The lease was due to expire after the 2023 vintage but was terminated early under the provisions in the lease.

The early termination of the lease delivers a material financial benefit to the Company. Based on the 2015 average price for grapes in that region, the net benefit is \$35 million over the original lease term.

	\$m
Early Termination Payment	4.9
Write off of vineyard running and other costs	8.2
Total one off (before tax)	13.1
Tax	(3.9)
After Tax	9.2





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Australian Wine Industry

In the 12 months to September 2016 the value of Australian wine exports increased by 10% to \$2.2 billion and volume increased by 0.2% to 734 million litres. The average value of exports grew by 10% to \$2.95 per litre, the highest level since December 2009.

Exports to all regions recorded growth in the last year, except for those to Europe, which declined by 3% to \$570 million. The main reason for this decline was the UK, which decreased by 3% to \$361 million.

Wine exports into China continue to lead growth with volumes up by 52% to 90 million litres. China is now the third largest market for Australian wine by volume and first by value.

Australian export sales into the US increased with sales up 4% but volume down 7%.

The favourable movement in exchange rates has helped increase the average selling price of Australian wine exports. However, with the recent impact of Brexit on the AUD it is not expected that we will see the same favourable movement in average prices in the next 12 months.



Australian Wine Industry (cont.)

The 2016 vintage crush was 1.8 million tonnes, a 6% increase on last year's crush (WFA Vintage Report July 2016). This is approximately 100,000 tonnes above the five year average.

The increased crush has come from the cool and temperate regions.

The crush from warm inland regions decreased by about 0.6% or 7,000 tonnes.

With vineyard area decreasing over the last 10 years the 2016 crush was surprisingly high and is not expected again in the near future.





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Outlook

1. AVL continues to transition the business from a bulk wine producer to a quality branded business. Over the last five years the sales of our three key brands have almost doubled and at the same time contribution from our cask business and from our bulk and processing has declined by \$20.0 million due to the change in the dynamics of the Australian wine industry driven by the WET Rebate.
2. One of the biggest challenges AVL has faced has been the onerous nature of some of our grape contracts. The recent termination of the Del Rios vineyard and expiry of some other onerous grape contracts, will result in grape savings of a round \$9.0 million per year. With all other things being equal this should flow through to improved profit in approximately two years.
3. Bank funding remains secure with the recent extension to September 2019.
4. We are close to signing a distribution agreement with a major US distributor which will mean that we will be selling our branded wine into the US.
5. Global conditions remain tough and with the recent significant unfavourable movement in the pound due to Brexit, our margins from our UK business are under significant pressure. We continue to pursue various strategies to minimise the impact of the lower GBP, but they will take some time to implement.



Outlook (cont.)

6. Even allowing for the unfavourable GBP we believe that our cash flow from operating activities will significantly improve in 2017 due mainly to savings in grape purchases.
7. Whilst the UK will be a challenge, we continue to grow our business in China and the rest of Asia and have a strong focus on selling into the North American market.
8. Sales to the end of October are 12% down on last year due mainly to the impact of the lower pound and a general decline in alcohol consumed in the UK. The latest UK figures indicate that wine sales are down by 1.5%.
9. In October we updated the market on our likely full year result. This outlook has not changed. If the GBP stays at around 62.8 against the AUD and assuming a normal vintage, we expect our net profit after tax to be down by approximately \$3.0 million against last year's result of \$7.1 million before one off items.



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Business Review

Neil McGuigan



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Business Strategies

- Grow the export business
- Increase branded sales
- Focus on cost control





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FY16 Scorecard

- Grow the export business
 - UK
 - China
 - Asia
 - Canada
 - USA
 - Ireland
 - Europe



FY16 Scorecard (cont.)

Increase branded sales



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Domestically

- The McGuigan brand grew by 19%
- Tempus Two enjoyed 5% growth
- Our boutique cool climate winery Nepenthe grew at 18%

Internationally

In the **United Kingdom** McGuigan is the 4th largest global wine brand by volume and the 5th largest by value on the back of 20% growth in the past year.

Asia

- McGuigan has grown by 45%.
- Black Label up 85%.

Canada

- McGuigan grew 15%.
- Black Label up 33%.

New Zealand

- McGuigan is up 17% in the past year.



FY16 Scorecard (cont.)

Focus on cost control



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- Continuing to review long term grape supply leases/contracts to reduce grape cost.
- Investment in power reduction at Buronga Hill Winery (Solar Power)
- Super Premium Barrel store
- Storage
- Sustainability Focus.
 - Steel Trellis's
 - Compost stockpile



Solar Plant



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Barrel Store



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Steel Trellis



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Compost



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FY16 Scorecard (cont.)

Creating new products for developing and emerging markets



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- Barossa Valley Wine Company
- Frizzante Piccolo
- The Shy Pig
- Fruit Drop



Barossa Valley Wine Company



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Frizzante Piccolo



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200 ml



750 ml



The Shy Pig



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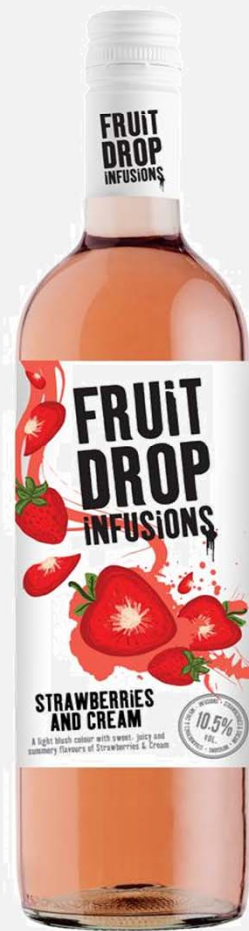


Fruit Drop



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Work in Progress

- Wine Quality and Innovation

The Show results for the three key brands have been very pleasing again this year. Here are some of the highlights:

McGuigan		Tempus Two		Nepenthe	
Trophies – 27		Trophies – 6		Trophies – 2	
Gold	70	Gold	14	Gold	14
Silver	111	Silver	38	Silver	31
Bronze	204	Bronze	70	Bronze	129
Totals					
Trophies – 36		Gold – 98		Silver – 180	
				Bronze - 398	

Total Trophies and Medals - 712



WINESTATE

M A G A Z I N E



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McGuigan Black Label SEA Chardonnay 2016 \$10.00

(13 tasted, 12 awarded)



McGuigan Black Label SEA Pinot Grigio 2016 \$10.00

(5 tasted, 2 awarded)



McGuigan Black Label South Eastern Australia Sauvignon Blanc 2016 \$10.00

(9 tasted, 5 awarded)



International Wine & Spirits Competition 2016 London



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**WINEMAKER OF
THE YEAR**

McGuigan Bin 9000
Semillon 2003
**GOLD
OUTSTANDING
2016**



**AUSTRALIAN WINE
PRODUCER**

McGuigan Handmade
Shiraz 2007
Langhorne Creek
**GOLD
OUTSTANDING
2016**



OUTSTANDING



OUTSTANDING



Work in Progress (cont.)

- Building relationships with all key retailers worldwide
 - AVL relationships with key retailers in the UK and in Australia are stronger than ever.
 - Working closely with our retail partners is essential to ensure that our sales and marketing proposals are in keeping with the changing demands of the consumer.
- Re connecting with the consumer
 - Having engaging and co-operative relationships with our retailer partners is incredibly important but our work doesn't stop there.
 - We must re-energise and double our efforts to ensure the consumer doesn't see wine as a fast moving consumable goods.
 - What are we doing to make this happen?
 - i. Cellar door / Clubs
 - ii. Digital activity
 - iii. Branded promotional activities



Work in Progress (cont.)

Examples of Branded Promotional Activities



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McGuigan Wines

- A concerted focus and investment in growing brand awareness through the launch of a national advertising campaign - 'Bring a McGuigan' – in Australia and the UK across free to air and pay television.
- Highlighting McGuigan's ongoing international awards success at the International Wine Challenge through digital and print advertising in Australia and the UK.
- Strategic below-the-line consumer promotions in key markets including 'win one of ten smart TV's'; 'win \$10K in cash'; 'win a Jeep'; 'win an ultimate luxury escape'; and 'win one of five holidays to Australia with John Torode'.
- Taking a first mover position with regard to varietal evolution with the launch of Black Label Malbec in key global markets.
- The launch of McGuigan Torode Adelaide Hills Rosé in the UK through retail partner Wine Rack, the second exclusive wine collaboration between Neil McGuigan and McGuigan UK Brand Ambassador – and UK Masterchef Host – John Torode.
- McGuigan was the official wine partner of a number of high profile events in the UK, namely On Blackheath and Meatopia.

Tempus Two

- High profile sponsorships to build brand awareness and positioning, namely as the official wine partner of Mercedes Benz Fashion Week and Fashion Festival; Portsea Polo and the Victorian Polo Club and the National Institute of Dramatic Art.
- A new strategic alliance with Australian design label Bec & Bridge.
- Engaging consumers through below-the-line consumer promotions, namely 'bonus twin pack of stemless glasses' and 'win a shopping spree in Melbourne'.
- Revised packaging for the Tempus Two Copper range; the pending introduction of a new range, Tempus Two Platinum into the retail channel in Australia.

Nepenthe

- Continuing Nepenthe's association with food and wine lovers, the brand was the official wine partner of two of Australia's largest and most prestigious food and wine events, Taste Melbourne and Taste Sydney.
- Formed a strategic partnership with Gourmet Traveller Magazine to reinforce the brands food and wine credentials through a series of winemaker dinners in Sydney, Melbourne and Adelaide.
- Incentivising Nepenthe consumers through below-the-line activities and promotions including a tie up with the Good Food Restaurant Card.
- One of the first to market with the 2016 Altitude Sauvignon Blanc, supported by in market activity including catalogue, in-store and tastings.



Work in Progress (cont.)

- Not being Fast Moving Consumable Goods
 - i) Winemaker involvement in the trade and with customers
 - ii) Wine and Food engagement
 - * Lyndey Milan
 - * John Torode
- Signing of Free Trade Agreements (FTA) with the UK.



Work in Progress (cont.)

- Industry Discussions
 - Wine Equalisation Tax (WET) rebate changes on bulk wine

Rebatable wine:

- Packaged wine is wine that is packaged in a container not exceeding 5 litres in a form fit for retail sale. Branded wine is wine that is labelled with the wine producer's registered trademark.
- Packaged wine with licenced trademarks should be the only eligible wine for the rebate.

Eligible producer:

- Ownership of the grapes at the crusher through to the final packaged product.

Timing:

- Moving forward the implementation of tightened eligibility to 1 July 2017 or 1 July 2018.
- Moving this forward could be coupled with an economic impact analysis on the cap reduction to be undertaken by ABARES.
- Defer the introduction of the cap reduction.



Summary

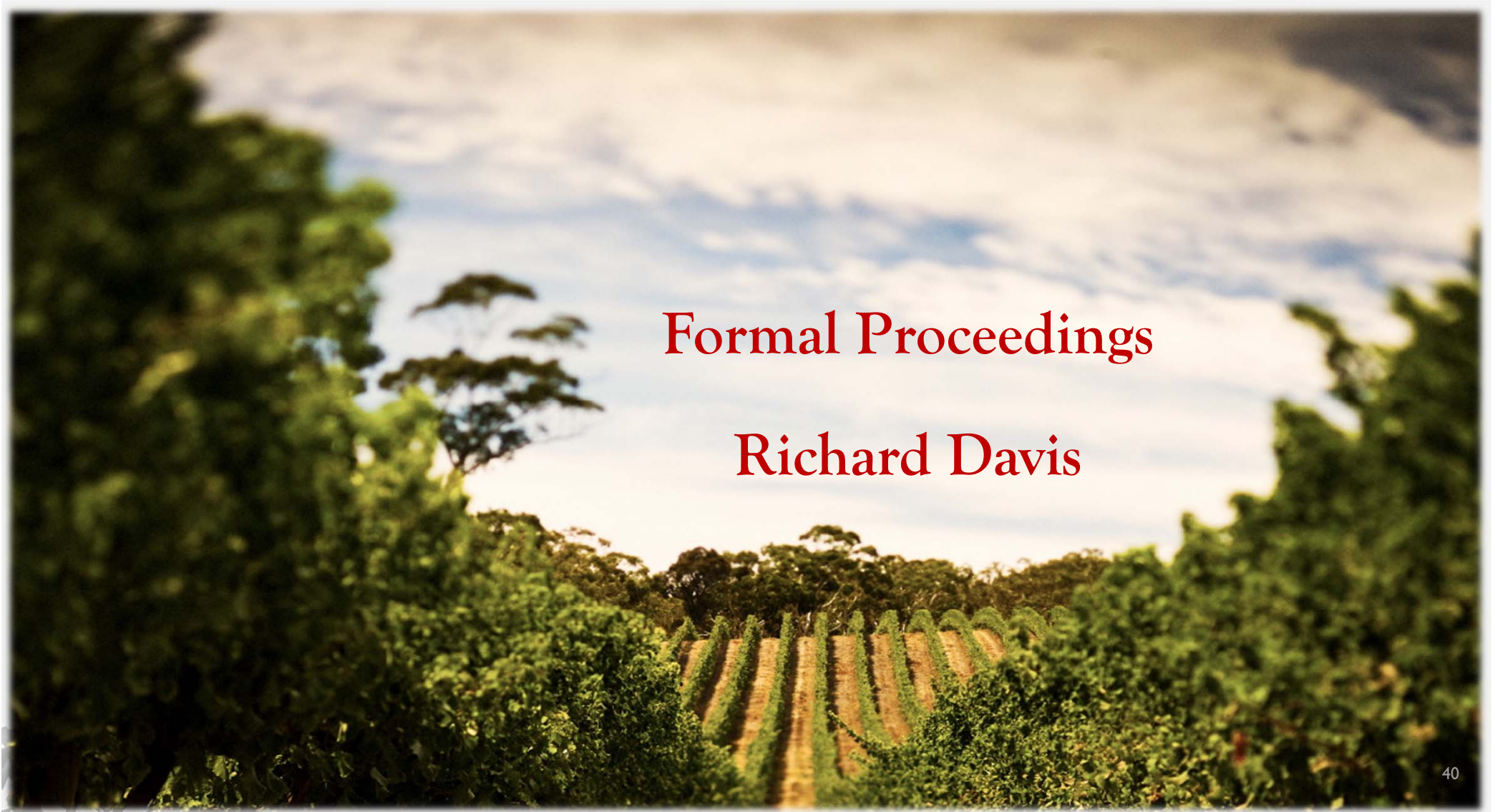
- AVL has a very strong and experienced board that provide very clear strategies to management.
- AVL continues to focus on cost base to ensure it is appropriate for the size of its business.
- AVL's branded business, exclusive label business and contract winemaking services have the same level of quality commitment.
- AVL will continue to focus on our core brands and continue to make the "Wine the Hero"
- AVL will continue to evolve our wine styles, innovate with packaging and increase our category performance, particularly in sparkling wine and with low and reduced alcohol.
- AVL is focusing our marketing activities on distribution and execution close to the point of sale. As this is being achieved we then couple this with targeted advertising campaigns.
- AVL will continue to capitalise on existing markets, and increase investment in time and resources in emerging markets.
- We have a number of exciting initiatives and products that we will be released during FY17.
- We are totally convinced that our strategies are correct, and we are enthusiastic about the future of our company but we remain patient.



Annual General Meeting

Formal Proceedings

Richard Davis



Accounts



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“To consider and receive the Financial Report, the Directors’ Report and the Auditor’s Report of the Company for the year ended 30 June 2016.”





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Resolution 1 – Re-election of a Director

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That Perry Gunner is re-elected as a non-executive director of the Company.”





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Resolution 2 – Adoption of Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

“That the Remuneration Report of the Company for the year ended 30 June 2016 be adopted



Resolution 3 – Grant of options to the CEO and Executive Director, Neil McGuigan



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To consider and, if thought fit, to pass the following ordinary resolution:

*“That approval is given as required by the Corporations Act and Australian Stock Exchange (**ASX**) Listing Rules (**LR**) for:*

- 1. The grant of 2,000,000 options (**Options**) under the AVG Performance Rights and Options Plan (**Plan**) to the CEO and Executive Director, Neil McGuigan, in accordance with the terms of the 2016 LTI Award as described in the Explanatory Statement accompanying this Notice of Meeting; and*
- 2. The pro rata vesting of the Options under the Plan granted to Neil McGuigan in the event of cessation of his employment as described in the Explanatory Statement accompanying this Notice of Meeting.”*





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