AUSTRALIAN VINTAGE LTD

ABN 78 052 179 932

26th August 2015

Company Announcements
Australian Securities Exchange

Australian Vintage Full Year Result to 30 June 2015

Key Points

- Revenue increased 7.5% to $230.9 million versus prior year, reflecting higher branded sales despite anticipated lower bulk and processing sales
- Net Profit after tax down 11% to $9.4 million versus $ 10.5 million in prior year
- Net Profit after tax (and before one off items) of $7.1 million versus $7.6 million in prior year
- Branded sales continues to grow with sales of our 3 keys brands growing 43% over the last 3 years
- Cash flow from operating activities positive $2.1 million versus negative $3.6 million in prior year
- Net Debt of $104.3 million compared to $111.8 million as at 30 June 2014. Gearing now at 36%
- Expensed $3.9 million (after tax) in non-recoverable incentives to customers
- Finalised sale of Yaldara winery for $15.5 million with an after tax profit of $6.2 million
- No final dividend due to the allocation of additional funds to continue to drive more profitable branded sales and improve operational efficiency

Australian Vintage (ASX: AVG) today reported a full year net profit result of $9.4 million.

Australian Vintage Limited ('AVL') Chief Executive Neil McGuigan stated that "the decline in the net profit figure was foreshadowed in our Vintage and Trading Update released to the market in May 2015. Yields from owned vineyards were below expectation and as a result, the 2015 SGARA profit is down by $0.9 million against expected SGARA profit".

"Our branded business continues to impress with ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of these three brands has increased by 43% over the last three years and sales of all branded products now comprise 72% of our total sales compared to 62% in 2012. Over the same period we have reduced our reliance on bulk wine sales and processing to the extent that these sales have declined by $29 million".

"Our business has evolved into a respected branded wine business with a very clear focus on quality and growing branded sales. In the UK, McGuigan is the 4th largest wine brand by volume and value. In Australia, McGuigan Black Label Red is the number one selling bottled red wine".

"Our credentials in domestic and international wine shows along with third party endorsements continue to shine across all brands and across a myriad of different varieties. A highlight so far this year has been our company's performance in the International Wine Challenge in London where the McGuigan brand was awarded 6 trophies and 9 gold medals with our Tempus Two brand being awarded a further 2 trophies".

"Industry conditions remain tough due to ongoing margin pressure and the widespread use throughout the industry of the WET rebate to achieve bulk wine prices that are below cost. The sooner the WET Rebate is removed on bulk wine the better and more sustainable the Australian Wine Industry will be."

Sales/Margins

Overall revenue for the year increased by 7.5% due mainly to increased branded sales in Australia, UK, New Zealand and North America. Partially offsetting the increased branded sales was reduced sales in the Australasia/ North America Bulk and Processing segment. The decline in the processing segment was due largely to the expiry of a significant long term agreement.

Australasia/North America packaged sales were up 11% on last year with an increase in bottled sales of 9% and an increase of 14% in cask sales. McGuigan branded sales increased by 12% in this segment taking the increase to 70% in total over the last three years.

Sales increased in the Australasia/North America packaged segment -

Division	Increase in Sales
Australia	11%
New Zealand	14%
Asia	(7%)
North America	26%

Packaged sales in Asia fell by 7% from a low base largely as a result of the impact of transitioning to sales through our newly appointed distributor in China, COFCO Wine and Spirits Co Ltd. We remain confident that in the long term this relationship will deliver a significant distribution footprint and improved sales for our McGuigan brand in China.

UK/Europe packaged and bulk sales were up 12% on last year with bottled sales up 16% and bulk sales down by 28%. This segment recorded a contribution of $4.5 million compared to $3.9 million the previous year assisted by a growth of 22% in the McGuigan brand. Sales of bulk wine resulted in a margin loss of $1.8 million due to demand from major customers for below cost pricing for bulk wine and the need to manage our inventory.

Australasia/North America bulk and processing sales were down by 19% due to the expiry of a contract processing agreement and reduced bulk wine sales. The contribution of $0.1 million from this segment was $3.3 million down on last year.

Sales By Segment

	Full Year ended 30/06/15 $000	Full Year ended 30/06/14 $000	Variation $000	%
Australasia/North America Packaged	99,026	88,855	10,171	11
UK/Europe	98,000	87,560	10,440	12
Cellar Door	7,860	7,538	322	4
Australasia/North America bulk & processing	21,804	27,018	(5,214)	(19)
Vineyards	4,206	3,782	424	11
	230,896	**214,753**	**16,143**	**8**

EBIT and Net Profit

EBIT before one off items is $16.7m compared to $19.7 million in the previous year. The contribution from the Australasia/North America bulk and processing segment was down by $3.3m whilst the other segments were impacted by the higher 2014 vintage cost offset by the lower Australian dollar.

The higher 2014 vintage cost (as a result of frost in 2014) negatively impacted the company's EBIT by $6.2 million when compared to wine costs in the previous year. The 2015 vintage costs have returned to normal resulting in a wine cost that is significantly less than 2014.

The higher wine cost was the main reason why the Australasia/North America segment contribution did not increase in line with increased sales.

Whilst the lower Australian dollar provided a benefit of $5.2 million, compared to the previous year, this benefit did not fully flow through to improved margin in the UK/Europe segment due to higher 2014 wine costs and the increased margin pressure from some of the major UK supermarkets.

Net profit after tax (and one off items) is $9.4 million, 11% below last year.

Segment Results

One-off Items

The profit on the sale of Yaldara was partially off-set by the write off of customer incentives and the legal costs associated with the vineyard dispute as advised in February 2015.

Results Summary

	12 Months to		**Change**	
	30/06/15 $'000	**30/06/14 $'000**	**$'000**	**%**
Australasia/North America Packaged	7,194	7,956	(762)	(10)
UK/Europe	4,457	3,903	554	14
Cellar Door	1,430	1,213	217	18
Australasia/North America bulk and processing	116	3,384	(3,268)	(97)
Vineyards	3,512	3,237	275	8
Total	16,709	19,693	(2,984)	(15)
Finance costs	(6,397)	(9,139)	2,742	(30)
Interest received	45	447	(402)	(90)
Profit Before tax	10,357	11,001	(644)	(6)
Tax	(3,225)	(3,331)	106	(3)
Net Profit	**7,132**	**7,670**	**(538)**	**(7)**
Adjustment to provision for onerous contracts	924	4,106	(3,182)	
Tax	(277)	(1,232)	955	
Profit on sale of Yaldara	6,351		6,351	
Tax	(169)		(169)	
Customer Incentives	(5,559)		(5,559)	
Tax	1,668		1,668	
Legal costs associated with dispute with vineyard owner	(1,005)		(1,005)	
Tax	301		301	
Total one off items (after tax)	**2,234**	**2,874**	**(640)**	
Total Net Profit	**9,366**	**10,544**	**(1,178)**	**(11)**
EBIT before one off items	16,709	19,693	(2,984)	(15)
EBIT after one of items	**17,420**	**23,799**	**(6,379)**	**(27)**

Cash Flow and Balance Sheet

Cash flow from operating activities improved by $5.7 million due mainly to increased sales. The gearing ratio is at a comfortable 36% (39% as at 30 June 2014) with a secure banking facility in place until October 2017.

Inventory has increased over the last 12 months but we remain comfortable with our long term inventory position. From 2016 onwards AVL has a number of significant onerous and above market priced grower contracts that expire. The intention is to replace these contracts as they expire with grape purchase contracts reflecting market price. Whilst the accounting benefit of this change will take some time, the cash benefit will flow through immediately. Based on contracts that expire from 2016 to 2018 and using average weighted 2015 grape prices, the expected cash flow benefit after 2018 is $6.9 million per annum. The expiration of these contracts will also add some flexibility in our future grape intake.

Outlook

Australian Vintage Chairman Richard Davis said "the business continues to focus on the core strategies of quality, growing branded sales particularly in both existing and evolving export markets and in maintaining a low cost position.

We continue to face short term challenges due to our high cost from the 2014 vintage and the ongoing margin pressure. The recent reduction in the Australian dollar has had a positive impact and will assist in margin improvement.

The business continues to increase its footprint in the UK market via sales to new channels and customers. Sales of branded products into the US and Asian markets is a focus for 2016.

The strategy of increasing branded sales and improving operational efficiencies is critical to our continued success therefore investment in these areas will be increased. As a result of this increased investment, the Board has decided to take a conservative approach toward 2016 cash requirements and no final dividend for 2015 will be paid. As in previous years, the board will continue to assess the payment of future dividends on a year by year basis".

Market conditions are continually monitored and further profit guidance will be provided at the Annual General Meeting in November.

ENDS

Further information

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