AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Company Announcements
Australian Securities Exchange

24 February 2016

Australian Vintage Half Year Result to 31 December 2015
Branded Sales Dry Profit up by 80%

Key Points

- Net Profit after tax and before one off items $3.6 million versus $2.0 million prior period
- Total revenue up 7% to $129.8 million versus $121.7 million prior period, reflecting higher branded sales in UK/Europe and Australasia/North America
- Cash Flow from operating activities positive $11.3 million versus positive $8.4 million in the prior period
- Net debt of $95.5 million versus $104.3 million as at June 2015. Gearing at 33%
- Sales of McGuigan, Tempus Two and Nepenthe increased by 26%
- Net loss of $6.0 million after taking into account the Del Rios termination of $9.7 million (after tax)

Australian Vintage (ASX:AVG) today reported a half year net profit before one off items of $3.6 million.

AVL Chief Executive Neil McGuigan stated that "branded sales continue to grow with McGuigan, Tempus Two and Nepenthe sales up 26%. For the six months to December 2015 these three brands made up 65% of our total sales compared to 56% for the same period last year. Cash flow from operating activities improved by 34% to a positive $11.3 million.

Our business continues to evolve. Ten years ago our branded bottled sales for the six months to December made up 39% of our total sales. Today it is 82%. Ten years ago we had nine winemaking facilities and today we have two very efficient wineries. Our strategy to focus on growing our export business, increasing sales of our brands and a focus on cost control has seen this company evolve from a bulk wine producer to a branded wine business.

Our biggest issue over the last ten years has been the onerous nature of most of our grape contracts and vineyard leases. With the recent termination of the Del Rios vineyard lease and the expiry of 'above market' third party grape contracts, we expect to make significant grape cost savings in the future. We still have some other 'above market priced' grape and lease contracts which will expire from 2021. For comparison, if AVL purchased the same volume of fruit and paid the 2015 average grape price, we would expect to save $10.5 million in 2017, $10.5 million in 2018 and $12.4 million in 2019 and beyond. This will significantly improve our future cash flow, reduce our inventory and enhance our already outstanding wine quality. Whilst the cash flow will improve immediately the accounting benefit will take some time.

Vintage has started and the early signs are encouraging. We are seeing yields up in some regions and down in other regions. Quality seems very good.

We agree in principle with the recommendations made by the Senate Standing Committee on Rural and Regional Affairs and Transport that the Government phase out the current Wine Equalisation Tax (WET) rebate over 5 years and allocate the savings to a structural adjustment assistance program for the industry including an annual grant to genuine cellar door operations. However, we must ensure that the genuine small wine producer who sells directly to the public is no worse off. We would also prefer a shorter phase out period and the immediate removal of the rebate on bulk wine sales".

Sales/Margins

Overall our revenue for the period increased by 7% due mainly to increased branded sales. Low margin UK/Europe bulk sales were down by $4.7 million. Gross margin percent has improved due to the higher mix of branded sales. Our three key brands now represent 65% of all our sales with the McGuigan brand currently the forth global wine brand in the UK.

Australasia/North America packaged sales increased by $6.0 million to $57.4 million due to increased sales of the McGuigan brand (up 32%) partially offset by lower cask sales (down 21%). Contribution increased by $0.5 million to $3.7 million due to increased contribution from the Australian, Asian and North American divisions. Contribution from the New Zealand division was marginally down on the previous year. The Asian division contribution increased by $0.3 million.

Sales by division:-

Division	Increase/(Decrease) in Sales
Australia	8%
New Zealand	(2)%
Asia	26%
North America	28%

UK/Europe sales were up by 5% to $58.2 million due mainly to increased sales of the McGuigan brand (up 25%). Packaged bottled sales increased by 16% to $56.7 million and low margin bulk sales decreased by 76% to $1.5 million. Contribution from this segment increased by $1.8 million. The lower Australian dollar has added $1.0 million to the contribution when compared to the same period last year, but unfortunately not all the benefits could be retained due to margin pressure.

Sales by Segment

	Half Year ended 31/12/15 $000	Half Year ended 31/12/14 $000	Variation $000	Variation %
Australasia/Nth America packaged	57,379	51,368	6,011	12
UK/Europe packaged and bulk (see note)	58,196	55,185	3,011	5
Cellar Door	4,245	4,007	238	6
Australasia/Nth America bulk & processing	8,072	8,412	(340)	(4)
Vineyards	1,864	2,697	(833)	(31)
	129,756	121,669	8,087	7

Note: Split of UK/Europe revenue				
UK/Europe Packaged	56,717	49,024	7,693	16
UK/Europe Bulk	1,479	6,161	(4,682)	(76)

EBIT and Net Profit

EBIT before one off items was $8.2 million compared to $6.3 million in the previous period. The 30% increase was due predominately to the improved contribution from the Australasia/ Nth America and UK/Europe segments.

Net profit (after tax and before one off items) improved by 80% to $3.6 million. Lower interest and margin rates contributed to the decline in the finance costs.

December 2015 One off Items

Vineyard Lease Termination

In November 2015 Australian Vintage Limited served notice to the owners of the Del Rios vineyard to terminate the lease on this vineyard. 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 delivers a material financial benefit to the Company. Based on the 2015 average price for grapes in the appropriate region, the net benefit is $35 million over the original lease term. This benefit takes into account the payment of a termination payment and the write off of vineyard and other costs (mainly legal):-

	$m
Early Termination Payment *	4.9
Write off of vineyard running and other costs	8.9
Total before tax	13.8
Tax	(4.1)
	9.7

*The actual termination payment will be made in late February 2016.

Segment Profit Results Summary ($000)	6 months to		Change	
	31/12/15	31/12/14	$000	%
Australasia / North America Packaged	3,747	3,251	496	15
UK / Europe	3,743	1,905	1,838	96
Cellar Door	827	745	82	11
Australasia / North America bulk and processing	(314)	(27)	(287)	(1,063)
Vineyards	177	441	(264)	(60)
Admin	-	-	-	-
Total	**8,180**	**6,315**	**1,865**	**30**
Finance costs	(2,973)	(3,351)	378	11
Interest received	9	26	(17)	(65)
Profit Before Tax	5,216	2,990	2,226	74
Tax	(1,615)	(992)	(623)	(63)
Net Profit	3,601	1,998	1,603	80
Adjustment to provision for onerous contracts *(note)*	35	826		
Tax	(11)	(248)		
Profit of Sale of Yaldara		6,354		
Tax		(170)		
Overseas Customer Incentives written off		(5,559)		
Tax		1,668		
Vineyard Lease Exit	(13,789)	(604)		
Tax	4,137	181		
Total one off items (after tax)	(9,628)	2,448	(12,076)	
Total Net Profit	(6,027)	4,446	(10,473)	(236)
EBIT Before one off items	8,180	6,315	1,865	30
EBIT After one off items	(5,574)	7,332	(12,906)	(176)

Financial Position

Cash flow from operating activities was positive $11.3 million compared to $8.4 million in the previous period. The $2.9 million improvement is due to increased cash generated from operations and lower interest costs.

Net debt of $95.5 million is $8.8 million below the net debt position as at June 2015. Since June 2013 our net debt has decreased by $46.6 million and our gearing has declined from 59% in June 2013 to 33%.

Outlook

Australian Vintage Chairman, Richard Davis, said “Ten Years ago our branded sales made up 39% of our total sales. Today it is 82%. During that period export branded sales increased 157%.

We have rationalised our production base resulting in a significant improvement in production efficiencies. Ten years ago we had nine wineries and today we have two.

Our strategy to focus on growing our export business, increase sales of our three key brands and focus on cost control has seen this company evolve from a bulk wine producer to a branded wine business.

Our biggest issue over the last ten years has been the onerous nature of most of our grape contracts and vineyard lease agreements. However, with the recent termination of the Del Rios vineyard lease and the near term expiry of some of our 'above market' priced grower contracts, we expect a significant reduction in our future grape costs. This will also result in a reduction in our inventory.

The Del Rios vineyard lease termination will result in annual grape payments reducing by approximately $5.5 million to $6.0 million when compared to the average price paid for grapes in 2015. In addition, a number of third party grape contracts will expire over the next three years resulting in further annual reductions of $5.0 million in 2017, $5.0 million in 2018 and $6.9 million thereafter. These ongoing savings will significantly improve our cash flow, reduce our debt and in due course, will also improve our profit result based on current sales and margins.

Global industry conditions still remain challenging. However, with the lower Australian dollar and the recently signed trade agreements we are seeing signs of improved conditions in the wine industry.

For the next six months we expect the Australian dollar to be higher against the GBP than the first six months. The Company has also experienced a slowing down of cask sales and a delay in bulk sales. As a result some higher priced 2014 vintage wine will be sold in the next six months.

The 2016 vintage has started and the early signs are encouraging. We are seeing yields down in some regions and up in other regions. Quality seems very good.

Subject to normal 2016 vineyard yields and forecast foreign exchange, we remain confident that our 2016 net profit before one off items will be up by 10% to 15% on last year's $7.1 million net profit after tax and before one off items.

As in previous years, no interim dividend will be paid. However, based on the projected cash flow for the remainder of this financial year, the board intends to reintroduce a final dividend".

Further Information

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