



AUSTRALIAN VINTAGE LTD



DECEMBER 2015 HALF YEAR RESULTS  
BRANDED SALES DRY PROFIT UP BY 80%  
24<sup>th</sup> February 2016

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TOP LINE RESULT

# Top Line Results

## Earnings

- Net profit after tax and before one off items \$3.6 million compared to \$2.0 million prior year
- Cash flow from operating activities \$11.3 million compared to \$8.4 million
- Revenue increased by 7% to \$129.8 million due to increased branded sales. Gross Margin percentage increased due to higher mix of branded sales





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KEY POINTS

## Key Points

Total revenue increased by \$8.1 million to \$129.8 million with the UK/Europe packaged sales up \$7.7 million and Australasia/North America packaged up \$6.0 million.

Low margin UK/Europe bulk sales were down by \$4.7 million.

Gross profit percentage increased due to increased branded sales and reduced low margin bulk wine sales.

Branded sales continue to grow with McGuigan, Nepenthe and Tempus Two sales up by 26%. For the 6 months to 31<sup>st</sup> December 2015 these three brands made up 65% of our total wine sales compared to 56% for the same period last year.

Cash flow from operating activities is positive \$11.3 million compared to \$8.4 million in the previous period. The \$4.9 million payment for the Del Rios vineyard termination will be made in late February.

Net debt of \$95.5 million compared to \$104.3 million as at 30<sup>th</sup> June 2015.

AVL strategies remain unchanged:

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





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MARKET CONDITIONS



# Market Conditions

## Australian Wine Industry

For 2015 the value of Australian wine exports increased by 14% to \$2.1 billion and volume increased by 6% to 744 million litres. A series of free trade agreements and a depreciating currency were significant factors in this improved export performance.

All global regions recorded growth for Australian wine exports except for the Middle East, which is suffering economically from low oil prices. The value of wine exported to the UK increased marginally to \$376 million. The trend in packing in the UK, due to the exchange rate, continues and is the key driver in the change from bottle exports to bulk exports in this market.

Wine exports into China have increased by 66% in value and 71% in volume (68 million litres). China is now the third largest market for Australian wine. In the last quarter of 2015, export sales to China exceeded those to the UK. For 2015, the volume of wine sold to China represented 27% of what Australia sells to the UK.



## Market Conditions

### Australian Wine Industry (cont.)

Wine sales have increased by 14% to 609.5 million litres. Sales of Australian wine was relatively flat at 455.1 million litres with the balance of 154.4 million litres representing imported wine. (Wine Sales in Australia – Quarterly Report: June 2014 prepared by the Winemakers’ Federation of Australia).

The 2015 Australian grape crush was 1.67 million tonnes. This figure is just below the eight year average crush of 1.70 million tonnes. (July 2015 Vintage Report prepared by the Winemakers Federation of Australia).

In 2009, total bearing area in vines in Australia was around 157,000 hectares. Since then it has declined and in 2013 total bearing area was around 133,000 hectares (October 2014 Vintage Report prepared by the Winemakers Federation of Australia).

The Australian dollar has weakened against the main currencies resulting in improved margins. However, the full benefits have not flowed through as overseas customers continue to put pressure on margins.





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BUSINESS AND RESULTS  
SUMMARY

# Australian Vintage Limited – Business & Results Summary

## 1. Branded Sales

During the six month period to December 2015, total sales of the McGuigan Brand grew 28%, Nepenthe Brand grew 22% and Tempus Two grew 5%. The sales of our three key brands increased by 26%.

The three key brands now represent 65% of all our wine sales compared to 37% back in December 2010.

The McGuigan brand continues to be well received in the UK market and currently is the 4<sup>th</sup> biggest selling global wine in that market.

## 2. Australasia / North America Packaged

Sales increased by \$6.0 million to \$57.4 million due mainly to increased sales of the McGuigan brand (up 32%) partially offset by cask sales which were down 21%.

Contribution was up 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.

Asian division sales increased by 26% resulting in contribution increasing by \$0.3 million. Whilst the total Asian division contribution is still only small, the improved result is encouraging.



# Australian Vintage Limited – Business & Results Summary (cont.)

## 3. UK / Europe

Overall sales increased by 5% to \$58.2 million due to the increased sales of the McGuigan brand (up 25%).

Packaged sales increased by 16% to \$56.7 million and low margin bulk sales decreased by 76% or \$4.7 million to \$1.5 million.

Contribution is up \$1.8 million due to the increased sales of the McGuigan brand and the favourable exchange rate.

## 4. Other Segments

The Cellar Door contribution continues to grow with contribution up 11% to \$0.8 million. Since December 2012 the contribution from this segment has doubled.

Vineyard contribution is down \$0.3 million due to timing and a slight reduction in vineyard management activity.

## 5. Financial Position

Cash flow from operating activities is positive \$11.3 million compared to \$8.4 million in the previous period. The \$2.9 million improvement is due to increased sales 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% .



# December 2015 One Off Items

## 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<sup>st</sup> 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. This cash benefit takes into account the payment of a termination payment and the write off of vineyard and other costs (mainly legal costs):

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



## Results Summary (\$'000) Segment Revenue

	6 months to		Change	
	31/12/15	31/12/14	\$'000	%
Australasia / North America Packaged	57,379	51,368	6,011	12
UK / Europe (see note)	58,196	55,185	3,011	5
Cellar Door	4,245	4,007	238	6
Australasia / North America bulk and processing	8,072	8,412	(340)	(4)
Vineyards	1,864	2,697	(833)	(31)
Admin				
<b>Total</b>	<b>129,756</b>	<b>121,669</b>	<b>8,087</b>	<b>7</b>
<i>Note: Split of UK/Europe revenue</i>				
<i>UK/Europe Packaged</i>	<i>56,717</i>	<i>49,024</i>	<i>7,693</i>	<i>16</i>
<i>UK/Europe Bulk</i>	<i>1,479</i>	<i>6,161</i>	<i>(4,682)</i>	<i>(76)</i>



## Results Summary (\$'000) Segment Profit

	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				
<b>Total</b>	<b>8,180</b>	<b>6,315</b>	<b>1,865</b>	<b>30</b>
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)
<b>Net Profit</b>	<b>3,601</b>	<b>1,998</b>	<b>1,603</b>	<b>80</b>
Adjustment to provision for onerous contracts	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		
<b>Total one off items (after tax)</b>	<b>(9,628)</b>	<b>2,448</b>	<b>(12,076)</b>	
<b>Total Net Profit</b>	<b>(6,027)</b>	<b>4,446</b>	<b>(10,473)</b>	
<b>EBIT before one offs</b>	<b>8,180</b>	<b>6,315</b>	<b>1,865</b>	<b>30</b>
<b>EBIT after one offs</b>	<b>(5,574)</b>	<b>7,332</b>	<b>(12,906)</b>	







AUSTRALIAN VINTAGE LTD



OUTLOOK

# Outlook

10 years ago, our total branded bottled sales for the six months to the end of December made up 39% of our sales. Today it is 82%. Branded sales into our export markets have increased by 157%.

We have rationalised our production base resulting in a significant improvement in production efficiencies. 10 years ago we had nine wineries; today we have two.

Our strategy to focus on growing our export business, increasing sales of our three key brands and a focus on cost control has seen this company evolve from a bulk wine producer to a branded wine business. Our strategy has resulted in a business that has a sustainable platform to continue to grow.

Our biggest issue over the last 10 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 other 'above market priced' grower contracts, we are expecting a significant reduction in our future grape costs. This will also result in a reduction in our inventory.



## Outlook (cont.)

The Del Rios vineyard lease termination will result in grape payments reducing by approximately \$5.5 to \$6.0 million when compared to the average price paid for comparable grapes in 2015. In addition, we have a number of third party grape contracts that expire over the next three years which will further reduce annual grape costs by \$5.0 million in 2017, \$5.0 million in 2018, and \$6.9 million in 2019 and thereafter, when compared to the average price for comparable grapes in 2015.

Assuming our sales are maintained, the reduced grape cost benefits from 2017 will result in a material improvement in our cash flow from operating activities. These benefits will flow through our profit result in the following years.

The Company still has a number of other 'above market' grape contracts which will expire from 2021 onwards.

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



## Outlook (cont.)

For the next six months we expect the Australian dollar to be higher against the GBP than the average for the first six months of this financial year. The GBP is the Company's biggest foreign currency exposure. The Company has also experienced a slowing down in cask sales in the first six months and a delay in some bulk wine sales which has resulted in some higher priced 2014 vintage stock being held over to 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 FX, 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.





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OTHER INFORMATION

# WINE SHOW RESULTS | KEY BRAND FACTS

## McGuigan Wines

- McGuigan Wines is one of only two wine producers in the world to have been crowned International Winemaker of the Year three times by the prestigious International Wine & Spirits Competition in London, having achieved the feat in 2009, 2011 and 2012.
- Neil McGuigan, President of the International Wine & Spirits Competition 2015.
- International Semillon Trophy - Bin 9000 Semillon 2006 - International Wine and Spirit Competition. Awarded International Semillon Trophy a record five years in a row from 2011 through 2015.
- Awarded the prestigious White Winemaker of the Year at the International Wine Challenge, London, in 2009 and 2012; runner up in 2014.
- Cowra Wine Show 2015 - 'Most Successful Exhibitor'
- Hunter Valley and Australian Semillon Trophy – Bin 9000 Semillon 2007 – International Wine Challenge.
- International Trophy for Best White Single Varietal under £15 – Shortlist Semillon 2007 – Decanter World Wine Awards.
- Best Shiraz Trophy – Handmade Shiraz 2010 – Hong Kong International Wine and Spirit Competition.
- China Wine & Spirits Awards 2015 – 7 Double Gold Medals
- 4 ½ \* Winery – James Halliday Australian Wine Companion 2016



## WINE SHOW RESULTS | KEY BRAND FACTS (cont.)

### McGuigan Wines (cont.)

- In FY15 77% of total McGuigan volume was export.
- McGuigan Black Label Red is the #1 selling bottled red wine in the domestic market. McGuigan Black Label Cabernet Merlot is the #5 selling bottle red wine in Australia.
- In the UK, McGuigan is the 4<sup>th</sup> largest wine brand by volume and value, and the second fastest growing wine brand.
- McGuigan has just entered the top 20 global alcohol brands by value in the UK, ahead of brands such as Peroni, Bailey's and Guinness worth £108.2M (\$230.4M) on the back of 23.2% growth MAT.
- McGuigan Estate is the largest selling brand sub-range in the UK, selling 1.5M cases per annum.
- McGuigan is the 2<sup>nd</sup> largest wine brand by volume and value in the Irish market.
- Industry recognition through the Advantage Survey Report 2015 (AU) sees Australian Vintage rated:
  - #1 Manufacturer Personnel
  - #1 in Business Relationship & Support
  - #2 in Customer Service
  - #2 in Supply Chain
  - #2 in Customer Service



## WINE SHOW RESULTS | KEY BRAND FACTS (cont.)

### Tempus Two

- Best Single Vineyard Chardonnay; Ian Armstrong Trophy Best Chardonnay of Show - Cowra Wine Show.
- James Halliday Wine Companion 2016 – Uno Shiraz 2013 - 95 points.
- 5\* Winery – James Halliday Australian Wine Companion 2016. 5 wines scored 90+ points. 8 wines scored 90+ points.
- Best Semillon Trophy – Zenith Semillon 2005 – Hong Kong International Wine and Spirit Competition

### Nepenthe Wines

- Trophy – Best Sauvignon Blanc in show – Nepenthe Petraea Sauvignon Blanc 2013 – Royal Queensland Wine Show.
- Trophy – Altitude Pinot Noir 2012 – Hong Kong International Wine and Spirit Competition.
- 5\* Winery – James Halliday Australian Wine Companion 2014. Total of 8 wines scoring over 90 points.





## BUILDING BRAND ABOVE BLACK LABEL: SECURING THE \$12.99+ PRICE POINT IN AUSTRALIA

- The McGuigan range in Australia is dominated by Black Label – this remains the focus. However, in addition to continuing to drive Black Label, the brand is undergoing a premiumisation push to **build at the \$12.99+ price point**.
- In order to build the brand above of Black Label, **a number of retail exclusive McGuigan ranges** have been launched.
- Namely Classic with First Choice and Liquorland, The Brothers and Founder's Series with Dan Murphy's, Bin Series with the independent channel, and Reserve with IBA.

