AUSTRALIAN VINTAGE LTD

15 June 2023

ASX ANNOUNCEMENT

AVG FY23 TRADING UPDATE AND BUSINESS OUTLOOK

Key takeaways

- FY23 results (excluding one-off impacts) to be broadly in line with market expectations
- Strategic plan on track
- AVG continues to win market share across all its key geographies ensuring stability in its revenue
- Innovation and premium brands are growing, offsetting declines in the value segment
- AVG maintains its leadership position in “Low and No”
- FY23 vintage is down largely due to adverse weather impacts; however, AVG vintage compared favourable to overall industry
- Given magnitude of lower vintage and throughput, ~$9m winery fixed cost write off
- Despite overall market share gains, market environment is expected to remain challenging into FY24
- Inflationary environment continues globally
- Company is fully focused on cost reduction and profit margin maximisation in current environment
- Significant liquidity headroom available under current debt facilities, however AVG proactively focussing on further debt reduction in the current environment

FY23 Trading Update

As expected, the trading environment through FY23 has been challenging with the Company absorbing ~$26m of hyper-inflationary costs over the past two years and being limited in its ability to pass on these costs given the impact of market discounting at the top-line. While a material portion of these hyper-inflation costs (e.g. freight costs) receded during the financial year, a portion continue to adversely affect the cost base.

Despite these challenges, AVG has continued to win market share across all its key geographies ensuring stability in its revenue line through FY23. Importantly, the Company has continued to see growth in its innovation and premium brands, which has offset declines in the value segment (declining in line with the overall wine market). For FY23, our pillar brand revenue contribution is expected to be in-line with the 78% contribution achieved in FY22.

The much-reported adverse weather events and flooding in early 2023 resulted in a vintage intake amounting to 80k tonnes versus last year’s vintage of 102k tonnes (~20% decline). The magnitude of the decline in throughput and lower than anticipated vintage necessitated a noncash winery production fixed cost write off amounting to ~$9 million. This will impact FY23 results and benefit cost of goods sold in future years. In one of the toughest vintages in Australia in many years, AVG has outperformed the overall industry decline of 40%.

With the above context, AVG expects the following for FY23, subject to FX, with prior year comparisons shown on a reported currency basis:

- Group revenues of ~$255 – 260m, versus FY22A revenues of $260.1m
- Underlying EBITDAS[1] of ~$26 – 28m, versus underlying FY22A EBITDAS of $45.7m (post-AASB16)
- Reported EBITDAS of ~$34 – 36m, versus FY22A reported EBITDAS of $43.7m
- Underlying EBITS[2] of ~$18 – 20m, versus underlying FY22A EBITS of $30.8m
- Reported FY23 EBITS of ~$17 – 19m expected, which is in-line with previous guidance excluding the fixed cost write off
- Net debt of ~$52 – 57m, versus net debt of $74.5m at 30 June 2022

Business outlook and initiatives

Despite growth in market share by AVG across its key geographies, the overall business environment however remains challenging, with inflationary pressures across core geographies in the UK and Australia persisting. Consumption trends in the value segment face pressure and whilst AVG has taken some price over FY23, it has been insufficient to offset inflationary pressures, and the ability to take further price is impacted by broader market competition.

In light of the challenging market conditions, AVG is committed to improving its overall business performance by focusing on cost reduction, growth in higher margin product, innovation and debt reduction. Accordingly, AVG is implementing a number of operational and financial initiatives:

- Removing ~ $9m of costs out of our business to offset ongoing inflationary pressures:
  - continued focus on freight costs;
  - supply contract negotiations to reduce COGS; and
  - other efficiencies
- Continuing to review potential for further asset sales that are surplus to operational requirements
- Maintain disciplined marketing and capital spend to support innovation and premium brands as per our Strategic Plan
- Selectively expand in growth regions for all our pillar brands beyond core markets
- Review our M&A growth strategy and commit to not undertaking any debt-funded acquisitions in the near term
- Suspend any potential final dividend for FY23 until Net Debt/ EBITDAS, on a pre AASB16 basis, is below 2 times

[1] Shown on a post-AASB16 basis and excludes one-off impacts of announced impairments and asset sales
[2] Excludes one-off impacts of announced impairments and asset sales

Through these actions, AVG expects underlying EBITDAS and NPATS to improve into FY24 from expected FY23 performance, and EBITDAS to be directionally in line with FY22. AVG also expects net debt to reduce from current levels to those prior to the capital return in 2021. Further guidance to be provided with year-end results.

Focus on deleveraging

AVG confirms it currently has significant headroom under its debt facility, and the Company is currently in active discussions with NAB to further extend its term beyond September 2024. However, given the current environment, AVG is taking proactive steps (as outlined above) to both reduce the quantum of net debt as well as implied leverage multiples.

AVG's Chief Executive, Craig Garvin said *"We remain confident in our strategic plan and are highly enthused by the performance of our innovative and premium brands. We continue to gain market share across all key geographies despite the tough trading environment. We are making proactive decisions today to both improve our financial performance as well as our ability to operate with agility to our strategic plan."*

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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