



AUSTRALIAN VINTAGE LTD

ABN 78 052 179 932

**Company Announcements
Australian Securities Exchange**

23 February 2017

Australian Vintage Half Year Result to 31 December 2016

Key Points

- Net profit after tax \$1.6 million compared to an after tax loss of \$6.1 million prior period (after one off items)
- Net Profit after tax and before one off items \$1.6 million versus \$3.5 million prior period
- Results negatively impacted by \$2.7 million (after tax) as a result of unfavourable exchange rates when compared to prior period
- Strategies put in place to improve the performance of our UK/Europe segment. These new strategies became effective January 2017
- Total revenue down \$10.4 million to \$119.3 million with unfavourable exchange rates accounting for \$10.5 million of this decline
- Key branded volume growth of 3% with Tempus Two up 21%
- Cash Flow from operating activities positive \$7.8 million versus positive \$11.3 million in the prior period. Unfavourable exchange rates accounting for \$5.2 million decline in cash flow
- Net debt of \$98.6 million versus \$101.4 million as at June 2016. Gearing at 37%

Australian Vintage (ASX:AVG) today reported a half year net profit of \$1.6 million.

AVL Chief Executive Neil McGuigan stated that "our branded sales continue to perform well with volumes up 3% against market conditions that had seen wine volumes decline. However, due to the unfavourable exchange rates actual branded sales declined. In the UK market, sales volumes of our McGuigan brand grew by 4.3% despite a total wine market decline of 4.1%. Our McGuigan Black Label red remains the biggest selling red wine in Australia.

Like every other Australian wine business that exports to the UK, the unfavourable movement in the pound has negatively impacted profit. To improve margin from this market we have implemented various strategies which became effective in January 2017.

Sales to Asia were down against prior period due to timing of orders received from our major distributor. Orders received in January 2017 indicate that we are back on track to achieving sales growth in Asia.

We recently signed a distribution agreement with one of the top US distributors, Palm Bay International. This is a great step forward for this Company in continuing to create a truly global footprint for our brands. The USA is a hard market to crack and it will take time, but I have great confidence in the quality and depth of the team at Palm Bay. As Palm Bay's exclusive Australian supplier, we believe we have an exciting future together.

We continue to focus on making quality wine and recently the Company was awarded International Wine Maker of the Year from the prestigious International Wine and Spirits Competition held in London. Having won this title on three previous occasions we are now the only wine company in the history of this Competition to have been awarded this title four times. This is a significant award as the Company competed against the world's wine producing nations including France, Spain, Italy, Germany and the USA.

We support the recent proposal by the Government to improve the integrity of the Wine Equalisation Tax (WET) Rebate by introducing amendments to strengthen the associated producer rules in the WET legislation. The intent is to stop multiple claims of the Rebate and to reduce the Rebate by 2018 to \$290,000 from the current level of \$500,000 pa. These changes will provide a fairer system which will, over time, remove the current unsustainable wine prices that we have seen.

Vintage has started later than normal and the early signs are good. We will update the market on the vintage once vintage has been complete".

Sales/Margins

Revenue for the period decreased by \$10.4 million due to the higher Australian dollar against the British pound. For the 6 months, the revenue impact of the unfavourable exchange rates was \$10.5 million compared to the prior period.

Australasia/North America sales decreased by \$0.9 million to \$56.4 million due to decreased sales of low margin cask wine. Branded sales were in line with the prior period. Contribution increased by \$0.3 million to \$4.4 million due to lower cost base arising from improved efficiencies at our Merbein packaging facility. Contribution from the Asia division was down due to timing of orders received.

New Zealand sales were down due to new liquor legislation which restricted promotional activity depth and frequency. The market has now settled down and sales in the last two months are encouraging.

Sales movement by division compared to prior period:-

Division	Increase/(Decrease) in Sales
Australia	0 %
New Zealand	(22) %
Asia	(10) %
North America	3 %

UK/Europe sales were down by 18% to \$47.6 million due to the unfavourable exchange rates. Contribution from this segment decreased by \$3.2 million, again due to the unfavourable exchange rates which impacted the result by \$3.7 million.

Sales by Segment

	Half Year ended 31/12/16	Half Year ended 31/12/15	Variation	
	\$000	\$000	\$000	%
Australasia/Nth America packaged	56,447	57,379	(932)	(2)
UK/Europe packaged and bulk (see note)	47,580	58,196	(10,616)	(18)
Cellar Door	3,938	4,245	(307)	(7)
Australasia/Nth America bulk & processing	8,769	8,072	697	9
Vineyards	2,598	1,864	734	39
	119,332	129,756	(10,424)	(8)

Note: Split of UK/Europe revenue

UK/Europe Packaged	46,738	56,721	(9,983)	(18)
UK/Europe Bulk	842	1,475	(633)	(43)

EBIT and Net Profit

EBIT was \$4.9 million compared to \$8.0 million in the previous period (excluding the one-off items in the prior period). The decline in EBIT is due to the unfavourable exchange rates which impacted the EBIT by negative \$3.7 million.

Net profit (after tax and before prior period one off items) declined by \$1.9 million.

Segment Profit Results Summary (\$000)	6 months to		Change	
	31/12/16	31/12/15	\$000	%
Australasia / North America Packaged	4,440	4,155	285	7
UK / Europe	1,043	4,172	(3,129)	(75)
Cellar Door	899	860	39	5
Australasia / North America bulk and processing	(45)	(250)	205	82
Vineyards	(1,392)	(905)	(487)	(54)
Total	4,945	8,032	(3,087)	(38)
Finance costs	(2,627)	(2,973)	346	12
Interest received	7	9	(2)	(22)
Profit Before Tax	2,325	5,068	(2,743)	(54)
Tax	(727)	(1,570)	843	54
Net Profit	1,598	3,498	(1,900)	(54)
Adjustment to provision for onerous contracts	-	35		
Tax	-	(11)		
Vineyard Lease Exit	-	(13,789)		
Tax	-	4,136		
Total one off items (after tax)	-	(9,629)		
Total Net Profit	1,598	(6,131)	7,729	
EBIT Before one off items	4,945	8,032	(3,087)	(38)
EBIT After one off items	4,945	(5,722)	10,667	

Financial Position

Cash flow from operating activities was positive \$7.8 million compared to \$11.3 million in the prior period. The \$3.5 million decline is due to the impact of unfavourable exchange rates which impacted our cash by \$5.2 million when compared to prior period.

Net debt of \$98.6 million is \$2.8 million below the net debt position as at June 2016.

Accounting Change

Because of amendments to the accounting standards on grape vines, from 1 July 2016 grape vines are now subject to annual depreciation based on useful life. The amended standard applies to grape vines on owned and leased vineyards. As a result of these changes, grapes from leased vineyards must also be recorded at market value (SGARA). The impact on the Company's balance sheet resulted in the reclassification of vines from Biological Assets (vines) to property, plant and equipment. It also resulted in –

- The value of vines decreased by \$21.6 million as at 1 July 2016
- An adjustment to retained earnings of \$23.7 million as at 1 July 2016
- Depreciation on vines for the half year to December 2016 of \$0.5 million which is then transferred to inventory as part of the work in progress

The impact on the December 2016 half year net profit after tax result was negative \$0.1 million (\$0.1m negative impact prior period).

Outlook

Australian Vintage Chairman, Richard Davis, said “our branded sales continue to perform well, but the unfavourable exchange rates make it a challenge to translate branded growth into EBIT growth. The Company continues to focus on its three key brands, McGuigan, Tempus Two and Nepenthe and whilst the first 6 months have been tough we remain confident that our strategy is the correct one.

Over the last 12 months the McGuigan brand has grown by 4.3% in the UK against a total UK wine market decline of 4.1% (Neilson data) and the McGuigan Black Label Red remains the biggest selling red wine in Australia.

Our sales to Asia have declined in the last 6 months against prior period due to timing. However, our January 17 sales to Asia were 40% above last year.

The UK market will remain challenging and we do not expect any changes in the conditions in the next 12 to 18 months. In the meantime, we have implemented various strategies which will improve the performance of the UK/Europe segment. These strategies came into effect from January 2017.

As previously reported, the Company has exited an onerous vineyard lease and several onerous grape contracts. The benefits of lower grape prices will not start flowing through our profit until the 2018 financial year.

In October 2016, we updated the market on our likely 2017 result based on the pound staying at around 62.8 against the Australian dollar and assuming a normal vintage. This position has not changed. If the pound remains at its current level of 60 to 62 and assuming a normal vintage, we expect our net profit after tax to be down by \$2.5 million to \$3.0 million against last year's result of \$7.1 million before one off items.

As in previous years, no interim dividend will be paid.

Further Information

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