



AUSTRALIAN VINTAGE LTD

ABN 78 052 179 932

**Company Announcements
Australian Securities Exchange**

17 February 2015

Australian Vintage Half Year Result to 31 December 2014

Key Points

- Net Profit after tax \$4.4 million versus \$4.0 million prior period
- Total revenue up 16% to \$121.7 million versus \$104.8 million prior period, reflecting higher UK/Europe and Australasia/North America sales
- Cash Flow from operating activities positive \$8.4 million versus positive \$0.6 million in the prior period
- Net debt of \$95.6 million versus \$111.8 million as at June 2014. Gearing at 33%
- Sales of the McGuigan, Tempus Two and Nepenthe brands increased by 19%
- Finalised sale of the Yaldara winery for \$15.5 million with an after tax profit of \$6.2 million
- Expensed \$3.9 million (after tax) non recoverable incentives to customers

Australian Vintage (ASX:AVG) today reported a half year net profit of \$4.4 million.

AVL Chief Executive Neil McGuigan stated that "the continued growth of our three key brands is very encouraging. However, due to the higher cost of our 2014 vintage and some large bulk wine sales, the improved sales did not directly translate into improved margin dollars.

Our branded business continues to grow and what is really pleasing is the continued growth of all our three key brands. McGuigan, Tempus Two and Nepenthe increased sales by 19% and these brands now make up 60% of our total wine sales. In comparison, for the 6 month period to December 2010, the sales of these brands made up 39% of total wine sales.

Vintage has started and the early signs are encouraging. Yield and quality seem very good. As usual we will provide the market with an update after the 2015 vintage has completed".

Sales/Margins

Overall our revenue for the period increased by 16 % due mainly to increased branded sales in UK/Europe and Australasia/North America segments.

UK/Europe sales were up by 20% on the previous period due to the increased sales of the McGuigan brand (up 28%). However, contribution from this segment declined by \$0.9 million due mainly to the higher cost of the 2014 vintage and some large non-recurring bulk wine sales. The exchange rates have been favourable, but unfortunately not all the benefits could be retained due to margin pressure.

Australasia/North America packaged sales increased by \$5.5 million to \$51.4 million due to increased sales of the McGuigan brand (up 6%) and low margin cask (up 26%). Contribution decreased by \$0.7 million to \$3.3 million due to increased distribution and marketing costs and the costs associated with the recently opened office in Hong Kong. The higher cost of the 2014 vintage also contributed to the decline in contribution from this segment.

Within the Australasia/North America packaged segment every division recorded increased sales -

Division	Increase in Sales
Australia	10%
New Zealand	42%
Asia	11%
North America	14%

Sales By Segment

	Half Year ended 31/12/14 \$000	Half Year ended 31/12/13 \$000	Variation	
			\$000	%
Australasia/Nth America packaged	51,368	45,848	5,520	12%
UK/Europe packaged and bulk	55,185	46,014	9,171	20%
Cellar Door	4,007	3,678	329	9%
Australasia/Nth America bulk & processing	8,412	7,174	1,238	17%
Vineyards	2,697	2,090	607	29%
	121,669	104,804	16,865	16%

EBIT and Net Profit

EBIT before one off items was \$6.3 million compared to \$7.2 million in the previous period. The 12% decline was due predominately to the higher cost of the 2014 vintage and some losses on non-recurring bulk wine sales to the UK.

Net profit (after tax and before one off items) improved by 72% to \$2.0 million due to reduced finance costs. Lower interest and margin rates together with reduced borrowing levels contributed to the decline in the finance costs.

December 2014 One Off Items

Provision for Onerous Grower Contracts

In December 2014 an onerous grower contract was renegotiated to normal market grape prices. The onerous \$0.8 million provision for this contract has been reversed.

Sale of Yaldara Winery

Yaldara winery and brand was sold for \$15.5 million. This resulted in a profit before tax of \$6.4 million. The tax expense is only \$0.2 million due to the use of capital losses not previously recognised in the accounts of the company.

Legal Fees

We are currently involved in a legal dispute with a vineyard owner. The legal costs to the end of December 2014 were \$0.6 million (\$0.4 million after tax). It is expected that this dispute will be concluded prior to 30 June 2015.

Non Recoverable Incentives to Customers

The company has made a decision to write off previous incentives made to various customers. The decision to write these amounts off was based on recent developments where we concluded that the benefits from these were unlikely to eventuate. A significant portion of the \$5.6 million (\$3.9 million after tax) related to overseas customers and included both cash and stock incentives.

Segment Result

	Half Year ended 31/12/14 \$000	Half Year ended 31/12/13 \$000	Variation	
			\$'000	%
Australasia / North America Packaged	3,251	3,999	(748)	(19)
UK / Europe	1,905	2,792	(887)	(32)
Cellar Door	745	611	134	22
Australasia / North America bulk and processing	(27)	(337)	310	92
Vineyards	441	94	347	369
Total	6,315	7,159	(844)	(12)
Finance costs	(3,351)	(5,534)	2,183	39
Interest received	26	134	(108)	(81)
Profit Before Tax	2,990	1,759	1,231	70
Tax	(992)	(599)	(393)	(66)
Net Profit	1,998	1,160	838	72
Adjustment to provision for onerous contracts (<i>note</i>)	826	4,106		
Tax	(248)	(1,232)		
Profit of Sale of Yaldara	6,354	-		
Tax	(170)	-		
Customer Incentives	(5,559)	-		
Tax	1,668	-		
Legal Costs Associated with dispute with Vineyard Owner	(604)	-		
Tax	181	-		
Total one off times (after tax)	2,448	2,874	(426)	
Total Net Profit	4,446	4,034	412	10

Note: Due to the favourable negotiations on existing vineyard agreements, some contracts were no longer considered onerous and consequently \$0.8 million (\$4.1 million in previous period) was written back to profit.

Financial Position

Cash flow from operating activities is positive \$8.4 million compared to \$0.6 million in the previous period. The \$7.8 million improvement is due to increased sales and lower interest costs.

Net debt of \$95.6 million is \$16.2 million below the net debt position as at June 2014. Since June 2013 our net debt has decreased by \$46.5 million and our gearing has declined from 59% in June 2013 to 33%. During this period the company paid total cash dividends of \$8.6 million.

Outlook

Australian Vintage Chairman, Ian Ferrier, said "that the continued growth of our three key brands is very pleasing. We remain confident that our strategy of growing the export business, increasing our branded sales and controlling our costs is the correct strategy".

We continue to face short term challenges due to our high cost from the 2014 vintage and the ever increasing margin pressure from our competitors and from our major customers. However, from 2016 onwards the company has a number of significant onerous and above market priced grower contracts that expire. The expectation is that these growers will be replaced with fair market priced contracts. Whilst the accounting benefits will take some time to flow through, the cash benefits will be immediate. Based on contracts that expire from 2016 to 2018 and using the average weighted 2014 grape prices, the expected cash flow benefit is \$6.5 million per annum. As well, there may be further benefits which will assume to the company as a result of favourable exchange rate movements in the future.

The 2015 vintage has started and the early signs are quite encouraging. Yield and quality seem very good. As per usual, a vintage and trading update will be provided at the completion of vintage.

At this stage and subject to normal 2015 vineyard yields and forecast FX, we expect our 2015 profit (after tax and one off items) to be slightly above the 2014 result.

Further Information

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