



AUSTRALIAN VINTAGE LTD



DECEMBER 2014 HALF YEAR RESULTS

17th February 2015

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Index

Top Line Result

Key Points

Market Conditions

Australian Vintage Limited – Business and Results Summary

Outlook





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TOP LINE RESULT

Top Line Results

Earnings

- Net profit after tax of \$4.4 million compared to \$4.0 million prior year
- Cash flow from operating activities \$8.4 million. An improvement of \$7.8 million
- Revenue increased by 16% to \$121.7 million due to significant improvement in UK sales. Gross Margin percentage declined due to the higher cost of the 2014 vintage and some non recurring large bulk wine sales .



Top Line Results (cont.)

Sales

- Total revenue up 16% to \$121.7 million due mainly to increased bottled wine sales to UK/Europe
- Australasia / North America packaged sales up 12% to \$51.4 million with bottled sales up 6% and low margin cask up 26%
- Total branded business continues to grow with a 19% increase in sales of the McGuigan brand

Debt

- Net debt of \$95.6 million compared to \$111.8 million at June 2014
- Gearing (net debt to equity) at 33% compared to 39% as at June 2014



Key Points

Total revenue increased by \$16.9 million to \$121.7 million with the UK/Europe sales up by \$9.2 million and Australasia/North America up \$5.5 million.

Gross margin percentage declined due to the higher cost of the 2014 vintage and some large non recurring bulk wine sales.

Branded sales continue to grow with McGuigan, Nepenthe and Tempus Two sales up by 19%. For the 6 months to December 2014 these three brands made up 60% of our total wine sales.

Cash flow from operating activities positive \$8.4m compared to \$0.6m 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.

AVL strategies remain unchanged:

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





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MARKET CONDITIONS

Market Conditions

Global

In 2013, Spain produced a huge crop, up 44% to 4.6 billion litres (about 6 million tonnes) resulting in deflationary impact on bulk wine prices. The effects are visible in global wine prices where only two major wine producing countries recorded an increase in volume and average price (Wine Export Approval Report December 2014).

Global wine production in 2014 is estimated to be down on 2013 due to smaller vintages in Spain and US (Wine Export Approval Report – December 2014)

Global consumption has changed with consumption growth in the US and China being offset by the consumption decline in the major European wine producing countries (Rabobank World Wine Map 2014 – December 2014).

In the 5 years to 2013, China’s wine imports rose by 128%, China is now the fifth largest importer in the world (Rabobank World Wine Map 2014 – December 2014).

The Australian dollar continues to weaken against the main currencies. Whilst this has helped margins, the full benefits have not flowed through as overseas customers continue to put pressure on pricing.



Market Conditions (cont.)

Australian

The 2014 vintage has been estimated at 1.7 million tonnes, a 7% decrease on last year's crush (WFA Vintage Report October 2014). The 2014 crush is in line with the 7 year average.

Total domestic sales increased by 14% to 609.5 million litres. The increase was totally due to imported wines which increased by 73.2 million litres to 154.5 million litres. Sales of Australian wine in the domestic market remained flat at 455.1 million litres (Wine Sales in Australia Quarterly report for June 2014).

For the year ended 31 December 2014 export sales increased by 2% to 700 million litres. Value increased by the same rate. Sales to China rebounded with volume up 8% to 39.9 million litres whilst sales to the US declined by 9% to 163.8 million litres. The two consecutive record US vintages have reduced demand for imported wine.



Australian Vintage Limited – Business & Results Summary

1. Branded Sales

During the 6 month period to December 2014, total sales of the McGuigan Brand grew by 19%, Nepenthe Brand grew by 37% and Tempus Two grew by 8%. The sales of our three key brands increased by 19%.

The three key brands now represent 60% of all our wine sales compared to 39% back in December 2010.

The McGuigan brand continues to be well received in the UK market and currently stands as the 5th biggest selling wine in that market (Nielson data 5 January 2015).

2. Australasia / North America Packaged

Sales increased by \$5.5 million to \$51.4 million due mainly to increased sales of the McGuigan brand (up 6%) and low margin cask (up 26%).

Contribution was down 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.

Asian division sales increased by 11% but this did not translate into increased contribution. Contribution was in line with the previous corresponding period as the higher expenses absorbed the increased margin from the improved sales.



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

3. UK / Europe

Sales increased by \$9.2 million to \$55.2 million due to the increased sales of the McGuigan brand (up 28%).

Contribution is down \$0.9 million due to the higher cost of the 2014 vintage and some non recurring bulk wine sales. The improved FX mitigated the reduced performance in this segment.

Our brands continue to perform well and we continue to expand our distribution base in the UK.

4. Other Segments

The Cellar Door contribution continues to grow with contribution up 22% to \$0.7 million. Over the last 2 years, the 6 monthly contribution has increased by \$0.4 million (113%) due to increased investment and reduced running costs.

Vineyard contribution is up due to the increased activity in vineyard management.

5. Financial Position

Cash flow from operating activities is positive \$8.4m 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.



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

In November 2014 sale of the 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 payments was unlikely to occur. A significant portion of the \$5.6 million (\$3.9 million after tax) related to overseas customers and included both cash and stock incentives.



Results Summary (\$'000)

	6 months to		Change	
	31/12/14	31/12/13	\$'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.



Outlook

Australian Vintage Limited

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 based on our high 2014 vintage cost and the ever increasing margin pressure from our competitors and major customers.

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

Subject to normal 2015 vineyard yields and forecasts foreign exchange, we expect our 2015 net profit (after tax and one off items) to be slightly above the 2014 result.

