



AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

ASX RELEASE
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Australian Vintage Limited
Key Branded Sales Grow by 20%, Revenue up \$11.8m

Key Points

- Net Profit after tax and before one off items \$7.2 million compared to \$7.1 million in the prior year
- Net loss of \$2.0 million, after vineyard lease termination payment
- Revenue up \$11.8 million to \$242.7 million, reflecting higher branded sales partially offset by lower bulk sales
- Sales of McGuigan, Tempus Two and Nepenthe up 20%
- 1.5 cent per share fully franked final dividend declared
- Cash flow from operating activities prior to vineyard lease termination payment up \$9.3 million to \$11.4 million
- Net Debt of \$101.4 million compared to \$103.6 million as at 30 June 2015 and existing banking facility extended to September 2019 (from September 2017)

Australian Vintage (ASX: AVG) today reported a full year net profit result of \$7.2 million prior to the vineyard lease termination cost of \$9.2 million (after tax).

Australian Vintage Limited ('AVL') Chief Executive Neil McGuigan stated that "Over the last five years sales of AVL's three key brands, McGuigan, Tempus Two and Nepenthe have almost doubled, as we continue to transition the business from a bulk wine producer to a quality branded bottled wine business. At the same time the contribution from our bulk and processing business in Australia and overseas declined by \$14 million due to market conditions.

Whilst the UK continues to be our main overseas market, we have a strong focus on growing and strengthening our distribution channels in other overseas markets. Over the last five years branded sales into Asia have grown by 89% and branded sales into Canada have grown by 128%. We expect this trend to continue.

Our cash flow from operating activities increased by \$4.4 million and if you exclude the one off lease termination payment of \$4.9 million, operating cash flow increased by \$9.3 million. With the expiry of a number of onerous contracts and the termination of a vineyard lease, we expect this cash flow to further improve in 2017.

The year was shaping up to deliver a 16% net profit (before one off items) growth but the unexpected outcome of the Brexit vote in the UK unfortunately impacted our result by \$1.1 million after tax. This has not changed our commitment to the UK and we are working with our retailer and distributor partners to recover lost margins caused by the weakening GBP".

Sales

Revenue for the year increased by 5% due to increased branded sales. Partially offsetting the increased branded sales was reduced sales of low margin bulk.

Australasia/North America packaged sales were up 8% on last year with an increase in bottled sales of 17% and a decrease of 20% in our cask sales.

Sales increases within the Australasia/North America packaged segment:-

Division	Increase in Sales
Australia	4%
New Zealand	15%
Asia	22%
North America	23%

Over the last five years branded sales into Asia have grown by 89% and over the same period branded sales into North America have grown by 128%.

UK/Europe packaged and bulk sales were up 5% on last year with packaged sales up 13% and bulk sales down by 77%. Sales of bulk wine declined by \$6.8 million to \$2.1 million.

The contribution from this segment was down by \$1.0 million due to the impact of the Brexit decision and the resulting decline in the GBP. Prior to the \$1.5 million adjustment for the lower GBP this segment was on track to record a \$0.5 million increase in contribution.

Revenue from the vineyard segment declined by \$1.1 million as a result of the strategy to reduce our vineyard management activities.

Sales By Segment

	12 Months to		Change	
	30/6/16 \$000	30/6/15 \$000	Variation \$000	%
Australasia/North America Packaged	106,672	99,026	7,646	8
UK/Europe	102,506	98,000	4,506	5
Cellar Door	8,185	7,860	325	4
Australasia/North America bulk & processing	22,222	21,804	418	2
Vineyards	3,101	4,206	(1,105)	(26)
	242,686	230,896	11,790	5

EBIT and Net Profit

EBIT before one off items and the Brexit impact is \$17.8m compared to \$16.7 million in the previous period. The contribution from the Australasia/North America packaged segment was down by \$1.0 million due to a \$1.9 million reduction in contribution from Australian Cask sales. The cask market is currently being supported by an unsustainable low price which in part is being supported through the use of the WET rebate.

The UK/Europe segment was on track to record an improved contribution of \$0.5 million with sales of the McGuigan brand growing by 20%. However, the dramatic decline in the GBP as a result of the Brexit vote meant that an unrealised FX loss of \$1.5 million was booked at 30 June.

The improved contribution from the vineyard segment was due to an increased SGARA, the result of an average yield from our owned vineyards. In the previous year the yield from our owned vineyards was below average.

Results

	12 Months to		Change	
	30/06/16	30/06/15	\$'000	%
	\$'000	\$'000		
Australasia/North America Packaged	6,208	7,194	(986)	(14)
UK/Europe	4,965	4,457	508	11
Cellar Door	1,568	1,430	138	10
Australasia/North America bulk and processing	447	116	331	285
Vineyards	4,569	3,512	1,057	30
Total	17,757	16,709	1,048	6
Net Finance costs	(5,775)	(6,352)	577	9
Profit Before tax	11,982	10,357	1,625	16
Tax	(3,687)	(3,225)	(462)	(14)
Net Profit (before one off items and unrealised FX loss)	8,295	7,132	1,163	16
Unrealised FX loss due to Brexit impact on FX	(1,519)	-	-	-
Tax	456	-	-	-
Net Profit (before one off items)	7,232	7,132	100	1
Adjustment to provision for onerous contracts	-	924	(924)	-
Profit on Sale of Yaldara	-	6,351	(6,351)	-
Overseas Customer Incentives plus Stock NRV	-	(5,559)	5,559	-
Vineyard lease exit	(13,148)	(1,005)	(12,143)	-
Total one off adjustments (before tax)	(13,148)	711	(13,859)	-
Tax	3,944	1,523	2,421	-
Total one off items (after tax)	(9,204)	2,234	(11,438)	-
Total Net Profit (after one off adjustments)	(1,972)	9,366	(11,338)	(121)
EBIT before one off items and unrealised FX	17,757	16,709	1,048	6
EBIT after one off items	3,090	17,420	(14,330)	(82)

Financial Position

The gearing ratio is at a comfortable 35% (35% as at 30 June 2015) and the banking facility has recently been extended out to September 2019.

The cash flow from operating activities has increased by \$4.4 million even allowing for the one off payment for the lease termination.

Outlook

Australian Vintage Limited Chairman, Richard Davis, said "AVL's strategy to focus on growing our export business, increase sales of our three key brands and controlling costs is on track to building a sustainable growing business. We will continue to have short term challenges as we transition the business from a bulk wine producer to a quality branded business, but we remain confident that the company will continue to grow in the medium to long term.

One of the biggest challenges we have faced over the last ten years has been the onerous nature of most of our grape contracts. However, with the recent termination of the Del Rios vineyard lease and the expiry of some onerous third party grower contracts, we are expecting a significant reduction in our future grape costs. We are well on the way to replacing a significant portion of the 35,000 tonnes that expired due to the lease termination and expiry of grower contracts. We expect to make grape savings of around \$9 million to \$10 million per annum. Due to the nature of our business, the improved cash flow will not impact our profit until 2018.

Our bank funding remains secure with the recent extension of our banking facility to September 2019. This together with our expected improved cash flow from reduced grape payments will improve our financial stability.

Global conditions remain tough and with the recent impact of Brexit on the GBP we continue to face challenges. Since Brexit the GBP has moved unfavourably by 17% which will put pressure on our UK margins. Assuming no price adjustment, for the next 12 months a 1 pence movement in the GBP impacts our Net Profit after tax by approximately \$0.3 million.

The UK market will remain fragile and will impact global markets and we do not expect any change in conditions in the next 12 months. In 2017 we will face ongoing margin pressure in the UK and as a result we are looking at various strategies to minimize the impact of the Brexit, but they will take some time to implement.

We remain confident that AVL is well placed to continue to be a major force in the UK. Whilst the UK will be a challenge we continue to grow our business in China and we are close to finalising a distribution agreement with a major distributor in the US.

A further market update will be provided at our Annual General meeting in November 2016".

As part of our growing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to reintroduce the Dividend. A fully franked dividend of 1.5c per share will be paid to all shareholders on 9 November 2016. The Record Date to establish shareholder dividend entitlements is 21 October 2016. The Company's Dividend Reinvestment Plan (DRP) will operate for the dividend payable on 9 November 2016. Shares issued under the DRP will be at a 2.5% discount to the weighted average market price of all Company shares sold on the ASX during the 5 business days after the Record Date.

ENDS

Further information

Neil McGuigan
Chief Executive Officer
02 4998 4199

Mike Noack
Chief Financial Officer
08 8172 8333