



AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Company Announcements
Australian Securities Exchange

28 August 2019

Full Year 30 June 2019 Results

Australian Vintage Limited will host an investor and media conference call commencing at 11:30 am (AEST) on Thursday 29th August 2019 (dial-in details below). The presentation material will be available at www.australianvintage.com.au.

In the event local dial in numbers are not available or successful, dial 0011 61 2 8318 0010 to connect.

Teleconference Dial-In Details:
Conference Passcode: 52936439

Australia	+61 2 8318 0010
Austria	+43 1 205636627
Canada	+1 647 749 7023
China	+86 400 842 8248
France	+33 1 70 99 53 95
Germany	+49 69 667781698
Hong Kong	+852 5806 0577
Ireland	+353 1 526 8362
Japan	+81 3 4510 7206
Malaysia	+60 3-9212 5039
New Zealand	+64 4 280 8090
Philippines	+63 2 231 3158
Singapore	+65 3157 6082
Taiwan	+886 2 5592 4062
Thailand	+66 2 104 0636
United Kingdom	+44 20 3443 8700
United States	+1 469 480 6867



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Australian Vintage Limited Full Year Result to 30 June 2019
Core business strong with EBITs up 30%

Key Points

- EBITs (Earnings before Interest, Tax and SGARA) up 30% to \$21.7 million
- Net Profit after Tax (NPAT) and before SGARA improved 48% to \$11.9 million
- 2019 vintage conditions impacted result by negative \$4.9 million compared to prior period
- NPAT up 6% to \$8.1 million
- Cash Flow from Operating Activities positive \$23.6 million
- Net Debt of \$72.4 million compared to \$77.2 million as at 30 June 2018
- Revenue up \$19.7 million to \$269.2 million
- Sales of McGuigan, Tempus Two and Nepenthe up 10%
- 2.0 cent per share fully franked final dividend, up 33% on prior period

Australian Vintage (ASX: AVG) today reported a full year net profit result of \$8.1 million.

Australian Vintage Limited ('AVL') Chief Executive, Neil McGuigan, said: "The significant improvement in our underlying business result shows that our key, long-term strategies are correct. The Net Profit after tax and before SGARA improved 48% to \$11.9 million mainly due to a significant improvement in the contribution from our UK/Europe segment. Unfortunately, this improvement in our underlying business did not filter through to the bottom line due to the poor 2019 vintage, which resulted in our SGARA being down \$4.9 million against last year and \$6.9 million against expectation.

"Our financial position continues to improve with net borrowings of \$72.4 million at 30 June 2019, the lowest it has been since this company was formed back in 2002. With a reduced capital spend planned for FY20, we expect net debt to continue to decrease and, as a result, the Board has declared a fully franked dividend of 2 cents per share, the highest payout ratio since this Company was formed. The Company's operating cash flow was positive \$23.6 million against \$26.7 million last year. The slight decline in operating cash flow was due to unplanned bulk wine purchases of \$9.4 million to cover the shortfall from this year's vintage.

"The continued focus on our three core brands, McGuigan, Tempus Two and Nepenthe has resulted in their continued growth, with sales increasing by 10% during the year. In the UK, McGuigan sales grew by 13% and Tempus Two by 14%. McGuigan is the third largest global brand in the UK market. The business has good momentum and, together with our organisational talent, operational efficiencies, brands and customer partnerships we are confident that our business will continue to grow."

The unswerving emphasis we place on driving wine quality has again been rewarded with the company's wines continuing to win awards at well-respected global wine competitions. At the recent 2019 International Wine Challenge, held in London, McGuigan was awarded White Winemaker of the Year. This is now the fourth time we have won this award, which is unprecedented for an Australian wine company.

Key Segment Highlights –

- Australasia/ North America reported a 7% EBIT growth to \$7.9 million. Strong growth in Australia with sales up 6%, New Zealand up 42% and Asia up 24% contributed to the growth of this segment. Sales to North America were down 11% due mainly to lower than expected sales in Canada.
- UK/Europe reported a significant 94% EBIT growth to \$10.9 million mainly due to the improvement in sales mix, focus on growing independents and the ongoing sales growth of the relatively new generic Shy Pig brand. Favourable foreign currency during the year provided an extra \$2.8 million to the EBIT.
- Cellar Door reported a 39% EBIT decline to \$1.0 million mainly due to decreased visitor numbers in the Hunter Valley where our two key cellar doors are located.
- Australasia/North America Bulk and Processing EBIT improved by \$1.8 million due to the removal of a significant portion of loss-making bulk wine sales.
- Vineyard Segment (including SGARA) EBIT declined by \$6.9 million mainly due to the poor 2019 vintage. Against expectation our yield from our owned and leased vineyards fell by 12,600 tonnes and against last year it was 7,900 tonnes down. The frost and the significant heat contributed to the poor 2019 yield.

Sales

Revenue for the year increased 8% or \$19.7 million due to the continued growth in our branded products.

Total Sales by Segment

	12 Months to		Change	
	30/06/19 \$000	30/06/18 \$000	Variation \$000	%
Australasia/North America Packaged	105,870	98,166	7,704	8
UK/Europe	121,180	104,961	16,219	15
Cellar Door	9,441	10,588	(1,147)	(11)
Australasia/North America bulk & processing	27,644	30,198	(2,554)	(8)
Vineyards	5,031	5,563	(532)	(10)
	269,166	249,476	19,690	8

Australasia/North America

Australasia/North America packaged sales were up 8% on last year with most of the growth coming from increased branded sales. Cask sales improved by 1% during the year against a long-term trend of declining sales.

Sales within the Australasia/North America packaged segment: -

	Sales (\$000)	
	FY19	FY18
Australia	78,105	73,906
New Zealand	5,623	3,973
Asia	14,226	11,431
North America	7,916	8,856
Australasia/North America	105,870	98,166

Australia has experienced both an increase in sales and shift in mix to higher-priced, premium products. Sales of the McGuigan brand continued its growth with sales up 8% and the higher priced Tempus Two and Nepenthe brand sales improving by 6%. Five years ago, Tempus Two sales represented 10% of total Company bottled sales in Australia and are now 18%. Sales of lower margin products such as Miranda declined 9% during the year.

Sales to New Zealand have improved significantly due to the outstanding performance of the McGuigan Private Bin range which grew 45%.

Sales to Asia have grown by 24% with McGuigan up 23% and Tempus Two up 25%. This performance is against a 7% increase for the entire Australian wine industry for sales to Asia.

North America sales are down 11% on the back of significant growth in previous periods. Over the last 2 years, sales to North America have grown by 19%. In the United States, sales to our distributor, Palm Bay remained small with little volume growth over the last 12 months. The United States remains a challenging market for Australian wines.

UK/Europe

UK/Europe sales were up 15% on last year with the McGuigan brand continuing to grow in all parts of the UK market. Mix is improving with the ongoing increase in sales of the higher priced McGuigan Black Label and Reserve ranges, which now represents 40% of all sales compared to 30% in FY17. The McGuigan brand has grown 13% in FY19 with the less known generic Shy Pig brand growing 16%. Lower volume brands, Tempus Two and Nepenthe, have increased sales by 36% and 14% respectively. The GBP positively impacted sales by \$4.7 million when compared to the previous period.

EBITS and Net Profit

EBITS (Earnings before Interest, Tax and SGARA) improved by 30% to \$21.7 million.

Net Profit after tax improved by 6% to \$8.1 million even allowing for a significant decrease in SGARA due to the poor crop from our owned and leased vineyards.

The UK/Europe segment contribution increased by 94% due to the ongoing improved sales mix through the expansion of the McGuigan Black Label and Reserve brands and the added focus on growing our sales footprint in all channels. When compared to the previous period, the favourable GBP added \$2.8 million to the contribution of the UK/Europe segment.

Australasia / North America Packaged EBIT increased by 7% mainly due to an increase in the contribution from the Australia, New Zealand and Asian divisions. North America contribution decreased due to reduced sales.

	EBIT (\$000)	
	FY19	FY18
Australia	4,767	4,418
New Zealand	889	748
Asia	1,684	1,563
North America	565	653
Australasia/North America	7,905	7,382

Group Net Profit

PROFIT	12 Months to		Change	
	30/06/19 \$000	30/06/18 \$000	\$000	%
Australasia/North America Packaged	7,905	7,382	523	7
UK/Europe	10,919	5,614	5,305	94
Cellar Door	991	1,617	(626)	(39)
Australasia/North America bulk & processing	1,307	(470)	1,777	378
Vineyard Management/Prior year grape price adjustments	609	2,606	(1,997)	(77)
EBITS	21,731	16,749	4,982	30
Finance costs	(4,059)	(5,031)	972	(19)
Interest received	25	16	9	56
Tax	(5,759)	(3,642)	(2,117)	(58)
Net Profit (after tax and before SGARA)	11,938	8,092	3,846	48
SGARA	(5,450)	(569)	(4,881)	(858)
Tax on SGARA	1,635	171	1,464	858
SGARA (after Tax)	(3,815)	(398)	(3,417)	858
Net Profit (after Tax)	8,123	7,694	429	6

Capital Expenditure

Over the last 2 years the Company has invested \$35.6 million in various capital projects including \$11 million on a new packaging line and various long-term investments in winemaking, plus a premium winery at our Buronga winery facility. The return on investment on the new packaging line is currently lower than expected but above cost of funding. Over time and with increased throughput the expected target of 12 % will be met.

The premium winery, at a total cost of \$10.0 million, will be operational next year and all our premium grapes will be processed at Buronga in 2020. We remain confident that the target return of 15% will be achieved on this investment.

For FY20, our total capital expenditure is expected to be \$12.0 million with \$4.0 million to be spent on the completion of the premium winery and the balance on further vineyard development and normal capital replacement programs.

Cash Flow and Financial Position

The cash flow from operating activities was \$23.6 million, \$3.1 million below the previous period. The decline in operating cash flow was due to the poor 2019 vintage, which required the Company to purchase \$9.7 million of bulk wine. This purchase of wine was essential to meet our future sales forecasts.

The Company's net debt position declined by \$4.8 million to \$72.4 million and the gearing ratio is at a comfortable 24% (26% as at 30 June 2018).

During June 2019, we extended the existing banking facility to September 2022.

Outlook

The Company continues to focus on its three key strategies -

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

These strategies, together with a focus on growing our three key brands, McGuigan, Tempus Two and Nepenthe, have significantly contributed to our growth in our core business. This is reflected by the 48% growth in Net profit (after tax and before SGARA).

The cash flow from operating activities remains strong and with a decline in FY20 capital spend we expect our debt to decrease significantly in the near future.

Our major brands continue to perform well with sales of the McGuigan brand increasing by 11% and our higher priced brand, Tempus Two, increasing by 9%. We will continue to improve our mix of sales and focus on premiumisation of our brands.

The UK has performed exceptionally well in an environment that has seen total volume of Australian wine sales to the UK decline by 4%. The Company will be investing more on advertising and marketing in the UK to keep this momentum going.

Our recent growth in Asia has been above industry average and the Company continues to work hard with our key distributors.

In 2019 the Company invested \$16.2 million on capital projects covering winery and packaging equipment. This brings the total capital spend over the last two years to \$35.6 million. In the next 12 months our total capital is expected to drop to \$12.0 million which, under normal vintage conditions, will mean that our net debt should decrease significantly.

Australian Vintage has transformed over the last 12 years from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue with the premiumisation of our sales mix.

The Company, together with the entire wine industry will have several challenges in the next 12 months, including Brexit, the drought and the increasing cost of grapes and wine processing. This is in an environment where retail prices of wine have remained relatively flat.

The poor 2019 vintage has meant that the processing cost of our wine has increased due to the lower than expected utilisation of our Buronga winery. This will impact our margins in FY20. A normal 2020 vintage will more than offset the higher cost of the 2019 wine through a significant improvement in SGARA.

A further market update will be provided at our Annual General meeting in November 2019.

As part of our ongoing confidence in the medium to long term outlook of Australian Vintage, the board has agreed to pay a fully franked dividend of 2.0c per share. This dividend reflects a payout ratio of 70% and is based on an improved operating cash flow and reduced FY20 capital spend. This dividend will be paid to all shareholders on 8 November 2019 and the Record Date to establish shareholder dividend entitlements is 18 October 2019. The Company's Dividend Reinvestment Plan (DRP) will be suspended for the dividend payable on 8 November 2019.

ENDS

Further information

Neil McGuigan
Chief Executive Officer
02 4998 4199

Mike Noack
Chief Financial Officer
08 8172 8333