AUSTRALIAN VINTAGE LTD
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AUSTRALIAN VINTAGE MAINTAINS PROFIT AND DIVIDEND AND REDUCES COST BASE

Key points

- Net Profit of $7.1 million
- Sales down 8.5% with lower UK and bulk wine contribution offset by steady sales of higher value wines
- Cost base reduced and further gains expected in 2014
- Dividend maintained at 2.6 / share cents fully franked
- 2013 vintage up 28% to 153,000 tonnes
- Awarded White Winemaker of the Year in 2013 for the third time at the prestigious International Wine Challenge

Australian Vintage (ASX:AVG) today reported a full year net profit of $7.1 million in line with guidance issued during the year.

Australian Vintage chief executive Neil McGuigan said "This result delivers on our commitments. Despite the difficult trading conditions, the comparatively small 2012 vintage and uncertain economic conditions we maintained our profit and return to shareholders".

"Our 2013 results demonstrate further progress in creating a business that can meet short term challenges but is positioned to perform strongly, operationally and in our global markets, as the industry cycle begins to turn in the medium term".

"Over the last ten years, we have taken strategic action to address the global oversupply and market dynamics by reducing wine stock, buying and building brands, removing costs and dealing with excess production, packaging and winemaking facilities. We rebalanced the business to be flexible to meet the short term cyclical challenges but prepared for the upturn in industry conditions that we expect over the long term".

"I reported this time last year that we would focus on managing our costs and on building our brands. Underpinning this year's result was the continued improvement in the company's branded bottled business on the back of international awards and increasing brand strength in Australia and recognition globally. The McGuigan brand grew by 10%, Tempus Two by 26% and Nepenthe by 18%".

"On costs, we have achieved a $4.5 million reduction in vineyard leasing and maintained a disciplined focus on operating capital".

"Our vintage was up 28% to 153,000 tonnes, compared to a national tonnage increase of around 10%. The pleasing aspect is that our wine stock continues to be in balance with our forecast needs".

“We expect that the benefits from the increased quantity and quality and from the reduced leasing costs will be reflected in the 2014 financial year.”

“All other things being equal, these factors, together with the recent weakening of the Australian dollar and our increased brand success, should improve margins and profitability in 2014 on branded product. However, non branded bulk wine margins could be challenging”.

Sales and production

Overall, sales for the 2013 financial year reached $208.5 million, down 8.5% on the prior corresponding period predominantly as a result of reduced sales in UK/Europe and reduced bulk wine sales in Australasia/North America.

Australasia/North American packaged sales were strong and in line with the previous year at $79.9 million notwithstanding overall volume declined 12% due to reduced low margin cask sales.

Australasian/North American bulk wine sales were $29.5 million, down 27%, due to reduced low margin bulk wine sales.

UK/Europe sales reached $88.8 million, down 8.7%, of which reduced low margin bulk wine represented 6% and the strengthening of the Australian dollar accounted for 1%.

Vineyard revenues for FY 2013 reached $3.4 million, down 10.3%, due to the reduction of vineyard contract services during the year.

Cellar Door sales achieved sales of $6.8 million, impacted by the reduction in the NSW cellar door rebates ($0.4 million).

McGuigan has been named the 14th most admired wine brand in the world.[1] It is the number one selling brand in Ireland, and in addition to that McGuigan Black Label Red was named the number one selling red wine in Australia by volume. The McGuigan brand grew sales by 10% during the year.

“In the past three years AVL has won six awards in two of the world’s premier wine competitions in London, including Winemaker of the Year at the International Wine and Spirit Competition in London, and International White Winemaker at the International Wine Challenge. Making the wine the hero is still at the fore front of the mind of everyone engaged in our business.

	Year ended 30/06/13 $'000	**Year ended 30/06/12 $'000**	**%**
Australasia/North America packaged	79,903	79,371	0.7
UK/Europe	88,847	97,302	(8.7)
Cellar door	6,843	6,913	(1.0)
Australasia/North America bulk wine and processing	29,524	40,550	(27.2)
Vineyards	3,432	3,826	(10.3)
Total Revenues	208,549	227,962	(8.5)

EBIT and Net Profit

EBIT increased $0.7 million or 3% notwithstanding the adverse impact of higher per unit wine costs amounting to $2.2 million attributable to the low 2012 vintage and the strong Australian dollar for most of the financial year.

[1] Drinks International UK

Australasia/North America EBIT declined $1.1 million or 17.9% with the EBIT decline due in part to the fall in cask wine sales ($0.3 million) and higher overall wine production costs ($0.7 million) attributable to the smaller 2012 vintage.

Australasia/North American bulk wine and processing's EBIT improved $0.4 million as a consequence of the reduced 2013 per unit vintage costs attributable to the larger vintage amounting to $0.9 million, offset by some reduced processing volumes.

UK/Europe's EBIT fell $3.7 million or 52.8% as a consequence of higher 2012 vintage costs ($1.5 million), reduced low margin bulk ($0.5 million), the impact of the higher Australian dollar for most of the year ($0.7 million) and reduced profit in Ireland ($1.0 million) from lower sales following the large duty increase in March 2013 and higher marketing costs (Dublin City Vineyard).

The underlining EBIT achieved by Cellar door outlets was pleasing. However, with the removal of the NSW rebates ($0.4 million), Cellar door results were $0.2 million below last year.

Vineyard EBIT improved $2 million or 137.7% as a result of the higher grape yield on company owned vineyards amounting to $1.1 million and some loss making grape sales in the prior year totaling $0.9 million.

	Year ended 30-Jun 2013 $'000	**Year ended 30-Jun 2012 $'000**	**%**
Australasia/North America packaged	5,214	6,353	(17.9)
UK/Europe	3,350	7,098	(52.8)
Cellar door	708	885	(20.0)
Australasia/North America bulk wine and processing	8,000	7,562	5.8
Vineyards	3,485	1,466	137.7
Earnings before unallocated costs	20,757	23,364	(11.2)
Unallocated (mainly finance costs)	(10,276)	(14,426)	(28.8)
Profit before tax	10,481	8,938	17.3
Income tax expense	(3,411)	(1,871)	82.3
Net Profit	7,070	7,067	0.0

Unallocated costs declined $4.2 million due to the gain on provision for onerous contracts ($4.2 million) and reduced net interest costs ($0.9 million), offset by the water licence impairment ($0.9 million).

The company's effective tax rate reverted to 34% as a consequence of capital losses in the current year not recognised for tax purposes.

Outlook

Australian Vintage Chairman, Ian Ferrier, said "The business has continued to reduce its cost base while running its core assets hard, and improving the reputation and value of its wines in a tough market and under tough economic conditions. The vintage is a credit to Neil McGuigan, his management team and all of the staff of Australian Vintage".

"The Board has resolved to pay a fully franked dividend of 2.6 cents per share, payable on 18 November 2013. The Record Date to establish shareholder dividend entitlements is 6 September 2013. The company's Dividend Reinvestment Plan (DRP) has been suspended".

“We have challenges to address with cash flow but we believe that our cash flow will improve in 2014 as a result of the initiatives put in place, the improved exchange rates and the fact that we do not need to purchase any significant bulk wine in the immediate future. The company also has carried forward tax losses which will minimise future tax payments and assist cash flow. The existing banking facility expires in September 2014 and we are negotiating a further one year extension. We are also considering other capital management alternatives".

“The improved trading conditions we are beginning to see are encouraging for Australian Vintage. We have turned the corner away from the corrective action that needed to be taken in the past and we see positives as the industry cycle swings and supply and demand move further into balance. The weakening Australian dollar and the higher quality and quantity of our 2013 vintage, is reason to be optimistic about what can be achieved in the 2014 financial year and beyond”.

“While the UK market remains a challenge, the weakening of the Australian dollar should improve our margins as should the increased awareness of the company’s major brands in this market, driven by our brand-focused strategy. We are also continuing to build opportunistically on Australia’s reputation as a quality new wine producer in Asia”.

“Considering the benefits of the 2013 vintage, the recent weakening of the Australian dollar and the results of cost reduction efforts, we expect that our 2014 full year net profit (after tax) will improve by somewhat in excess of a third on the 2013 net profit of $7.1 million”.

“This forecast is based on normal vintage conditions, expected sales (based on historical sales patterns) and Bloomberg average forecasts for the GBP and the Euro. Any change to these factors could materially impact our 2014 result. We will update the market at our AGM in November”.

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Further information

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