



AUSTRALIAN VINTAGE LTD

ABN 78 052 179 932

Annual General Meeting

20 November 2013

Chairman's address

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Welcome to the 2013 Annual General Meeting of Australian Vintage and thank you for joining us.

As has happened in the past, I will provide shareholders with a summary of our performance during the year, and outline what we see as the opportunities and challenges for the company.

I will then hand over to Neil McGuigan who will update you on the more detailed business activities. We will then move to the more formal proceedings.

### **About Australian Vintage Limited**

It is worth reflecting on where we are given the significant upheaval experienced by the industry in recent years.

We are one of Australia's largest wine producers, crushing 150,000 tonnes a year - 8% of Australia's total crush. We operate wineries in the Hunter Valley, Barossa and Sunraysia region, have 2,900 hectares of grapes across 11 vineyards and sell 85 million litres of wine.

We produce the most popular red wine in Australia, and McGuigan is the world's 14<sup>th</sup> most admired wine brand. That's globally the 14<sup>th</sup> most admired and it continues to grow in reputation year on year.

McGuigan has been named International Winemaker of the Year three times in the last five years.

Last year we entered 39 wines in the International Wine & Spirits competition, and took home 39 medals.

It is a truly remarkable result in such a crowded and competitive market and in an industry in Australia that has seen many fall foul of drought, oversupply and unsustainable pricing pressure.

In this decade we have made tough decisions, cut costs, right sized our assets and improved productivity without compromising the quality of our wines and at the same time we have enhanced our reputation.

It is a great credit to Neil, our winemakers and the entire team.

### **Financial Results**

Tough conditions being faced by the wine industry have continued throughout the year. A combination of the high Australian dollar, continued oversupply throughout the entire industry and higher taxes in our key exports markets, like the United Kingdom, means that we have come through a protracted downturn and are focused on positioning the company for growth when the cycle picks up.

We have worked to raise the profile and grow sales of some of our higher margin branded products, while simultaneously reducing costs and optimising our asset base.

We are confident that we have the right assets ... the right strategy ... and the right team to take advantage of industry conditions as they improve.

The combination of our reputation as a low cost premium wine producer and an increased focus on enhancing the reputation of our higher margin products has seen us maintain a net profit of \$7.1 million.

Company revenue was \$208.5 million, with Earnings Before Interest and Tax totalling \$24.1 million.

We further reduced annual costs in 2013 by renegotiating our vineyard leases.

Our net debt rose during the year to \$142.1 million because of increased inventory levels. Since year end we've taken action to reduce debt and I'll discuss that shortly.

We had a strong 2013 vintage, yielding 153,000 tonnes, and that's a big jump from 2012. I'm told by Neil that the quality is very good with some parcels showing as much promise as the very high quality 2012 vintage. Neil will give you more detail about his plans for wines from this vintage.

Shareholders will be aware that we have maintained the modest 2.6 cent dividend, fully franked. It is an indication of the Board's confidence in the company's ability to manage the environment and our assets to deliver returns.

### **Strategy**

Looking to 2014, our strategy will be to continue responding to industry pressures and market opportunities with our robust assets and active management.

The high volume, high quality 2013 vintage creates an opportunity to increase focus and investment in more valuable brands, and we will work to grow our international reputation as a high productivity, premium wine producer.

Our focus on tight control of expenditure will continue.

### **Capital Raising**

Last month we successfully completed the raising of \$41.8 million new capital, with strong retail and institutional support. The proceeds were used to reduce debt.

Our banking facility has been extended to September 2015 with significantly better terms, including an annual interest saving of approximately \$5 million, and reduced gearing to 36.5 %.

It is pleasing to have the confidence and support from our funders and we have as a result a stronger balance sheet that gives your company more flexibility in managing our operations.

### **Outlook**

As we move to 2014, we expect that industry conditions will continue to slowly improve as demand outstrips supply.

The weakening of the Australian dollar ... which everyone keeps foreseeing ... particularly with our trading partners in the UK and in Europe is expected to improve margins in our markets.

We are cautiously optimistic that globally the wine industry appears to be moving towards balance, as consumption increases and oversupply decreases. Incidentally 2012 was the smallest vintage since 1975. The global area under vine also continues to decline.

In Australia, grape production and sales are moving to a more balanced position; however the large 2013 vintage is a reminder that the production potential in the Australian market is still too high.

The larger 2013 vintage will help improve our cost base and cash flow and we will work hard to continue to grow the reputation of our brands.

We will continue to focus on stripping out costs of our ongoing business. Reduced vineyard lease costs and reduced interest costs have already improved our cash position and will positively impact profit in 2014 and future years.

We remain optimistic about the future of the business.

In the short term we continue to face some challenges.

In our vineyards there have been unusual widespread frost events during late October and November in New South Wales, South Australia and Victoria. These

are likely to cause yield loss in 2014 but we expect the FY14 profit impact to be minimal.

Despite various challenges there are some encouraging signs.

The Australasia / Nth American segment is showing stronger demand than in the past few years. Sales of the McGuigan Black Label range continue to grow at levels above expectation and in line with 2013 growth.

The UK/Europe segment performance to October 2013 is below expectation but we expect this to pick up in the remaining nine months.

In line with our expectation the half year result to December 2013 will be down on the previous year due to positive margin bulk sales and one off items in the previous year.

However, we are confident our 2014 result will be significantly better than last year and in line with previous market guidance.

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Ian Ferrier, Chairman  
Australian Vintage Limited  
20 November 2013