AUSTRALIAN VINTAGE LTD
ABN 78 052 179 932

Company Announcements
Australian Securities Exchange

21 February 2018

Australian Vintage Limited Half Year Result to 31 December 2017

Key Points

- Net Profit after tax $4.4 million compared to $1.6 million in the prior period
- Revenue up 18.1% to $140.9 million, with improved sales in all segments
- Cash Flow from Operating Activities positive $11.0 million compared to $7.8 million in prior period

Australian Vintage (ASX: AVG) today reported a half year net profit result of $4.4 million.

Australian Vintage Limited ('AVL') Chief Executive Neil McGuigan stated that "The significant improvement in the half year result shows that our key strategies are correct. Every segment of our business showed an improvement in sales. What is really pleasing is that our half year result exceeded our full 2017 financial year result.

The contribution from our UK/Europe operations increased by $3.7 million to $4.7 million due to price increases implemented in January 17, improved sales mix and continued focus on increasing our sales footprint in all channels. This improved UK/Europe result was achieved even though the GBP exchange rate for the 6 months to December 2017 was basically the same as the 6-month period to December 2016.

Our Australasia/North America segment increased contribution by 17% or $0.8 million due mainly to increased sales of our Tempus Two and Nepenthe brands.

Our cash flow from operating activities continues to improve and for the half year it was up 42% to $11.0 million. Our capital spend for the half year was $9.6 million with a further $9.4 million planned for the next 6 months.

The three core brands continue to perform well with sales of McGuigan, Tempus Two and Nepenthe continuing to grow against some market conditions that have seen wine volumes decline. For the half year, sales of these three core brands increased by 10% with the McGuigan brand growing by 7%, Tempus Two by an impressive 44% and Nepenthe by 35%.

Even though the UK remains our largest overseas market, we continue to have a strong focus on growing and strengthening our distribution channels in the key overseas markets of Asia, United States and Canada. In the 6-month period to December 2017, sales into Asia have increased by 12%, but contribution decreased by 22% due to the decision to increase resources in that region ahead of expected sales growth. As we have said previously, we remain confident that the long-term outlook for sales into Asia look positive, but we must ensure that we manage the growth and depletions and have the right structure and partners.

The focus on our quality of wine has again been rewarded with the company's wines continuing to win awards at significant wine shows. Recently the 2016 McGuigan Shortlist Chardonnay was awarded the Winestate Wine of the year award. Having won the International Winemaker of the Year four times at the prestigious International Wine and Spirits Competition in London, the company continues to produce world leading quality wine".

Sales

Revenue for the half year increased 18.1% or $21.6 million due to increased sales of our branded products and increased bulk and concentrate sales in the Australasia/North America segment.

Australasia/North America packaged sales were up 6% on the prior period with bottled branded sales up 7% and cask sales up 3%.

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

Division	Movement in Sales (%)
Australia	2
New Zealand	49
Asia	12
North America	23

- Australian sales increased by 2.5% with bottled branded sales up 2.3% and Cask sales up 3.4%. Sales of the higher margin Tempus Two brand increased by 44% and the McGuigan brand was in line with the prior period.

- Sales to New Zealand have grown by 49% due to increased promotional activity resulting in a 63% growth of the McGuigan Black Label brand

- Asian sales have grown by 12% with total sales to our two key China distributors marginally below expectation. COFCO, our McGuigan distributor in China, performing in line with expectation with large orders anticipated in the second half of this year. Sales to Vintage China, have been slower than expected but Vintage China expect to make up the shortfall in the next 6 months.

- North American sales have performed well with the introduction of new products launched in Canada and the USA.

UK/Europe packaged, and bulk sales were up by 20% with packaged sales up 20% or $9.3 million and bulk and private label sales marginally down on prior period. The GBP exchange rate was in line with the prior period and therefore had no impact on the sales growth.

Australasia/North America bulk & processing sales increased due to increased low margin bulk sales and additional processing and concentrate sales achieved by our Austflavour business.

Sales By Segment

	6 Months to 31/12/17 $000	6 Months to 31/12/16 $000	Change Variation $000	Change %
Australasia/North America Packaged	58,421	54,994	3,427	6
UK/Europe (see note)	56,873	47,580	9,293	20
Cellar Door	5,959	5,391	568	11
Australasia/North America bulk & processing	16,643	8,769	7,874	90
Vineyards	3,045	2,598	447	17
	140,941	**119,332**	**21,609**	**18**
Note: Split of UK/Europe revenue				
UK/Europe Packaged	55,965	46,627	9,338	20
UK/Europe Bulk and Private Label	908	953	(45)	(5)

EBIT and Net Profit

EBIT increased by $4.4 million or 88% to $9.3 million with the UK/Europe segment contributing 83% of the increase as a result of the January 2017 price increase, the improved sales mix through the introduction of the McGuigan Black Label brand and the added focus on expanding our sales footprint in all channels.

Australasia / North America Packaged EBIT increased by 17% due mainly to improved mix of sales in Australia with increased sales of Tempus Two, and increased sales in both the New Zealand and North American regions. Even though sales into Asia increased, contribution was slightly down due to the decision to increase resources in that region ahead of potential sales growth.

Australasia/North America Bulk segment contribution declined by $0.3 million due to losses on some bulk wine sales. These bulk sales were made to remove wine that was not required for future sales and to increase throughput at our Wineries.

Finance costs were slightly up on the prior period due to higher margins on funding. These higher margins will reverse in the next 6 months with full year finance costs expected to be in line with last year.

	6 Months to		Change	
	31/12/17 $'000	31/12/16 $'000	$'000	%
Australasia / North America Packaged	5,097	4,341	756	17
UK / Europe	4,669	1,043	3,626	348
Cellar Door	1,010	998	12	1
Australasia / North America bulk and processing	(386)	(45)	(341)	(758)
Vineyards	(1,091)	(1,392)	301	22
EBIT	**9,299**	**4,945**	**4,354**	**88**
Finance costs	(2,900)	(2,627)	(273)	(10)
Interest received	11	7	4	57
Profit Before Tax	6,410	2,325	4,085	176
Tax	(1,977)	(727)	(1,250)	(172)
Net Profit (after tax)	**4,433**	**1,598**	**2,835**	**177**

Financial Position

The Company recently signed an extension to the existing funding facility to September 2020 and with a positive operating cash flow, the financial position is sound. The gearing ratio remains at a comfortable 29% (29% as at 30 June 2017).

Outlook

The Company continues to focus on growing its three key brands, McGuigan, Tempus Two and Nepenthe and the last 6 months have shown that this strategy is correct. Our sales mix is improving with 44% growth of the Tempus Two brand and the introduction of the McGuigan Black Label brand into UK Supermarkets. Sales growth into Asia have been slower than expected but we believe that we have the right strategy for sustainable long-term growth in that region.

The cash flow from operating activities continues to improve with operating cash flow up 42% over the prior period. Even though we are committed to a significant capital spend of $19 million this year we expect our operating cash flow to fully fund this capital expenditure.

Australian Vintage continues to transform from a bulk wine company to a quality and well respected branded wine business. This global transformation will continue as we push into the Asian and US markets. Our persistence on improving efficiency will mean that the company will invest $19.0 million on capital projects this fiscal year.

Based on the exchange rate remaining at around the current level and a normal 2018 vintage, we expect our 2018 result to be at least 60% up on the 2017 result.

This forecast comparison to the prior year takes into account the large 2017 vintage which resulted in a higher than expected SGARA in the second half of the 2017 financial year. At this early stage, we are expecting this year’s vintage to be about average which is slightly down on last year.

As in previous years, no interim dividend will be paid.

ENDS

Further information

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