AUSTRALIAN VINTAGE LTD

Chairman's Address
Annual General Meeting
21 November 2018

Welcome to the 2018 Annual General Meeting of Australian Vintage Limited and thank you for joining us. My name is Richard Davis and I will chair today's meeting.

Your Company

We are one of Australia's largest wine producers, capable of crushing up to 120,000 tonnes a year. We operate wineries in the Hunter Valley and Mildura region and own 6 vineyards that cover 840 hectares of planted grapes. We also lease a further 3 vineyards that cover 1,200 hectares of planted grapes and sell about 80 million litres of wine. Recently we entered into a long-term lease on a 370 hectare vineyard near our Mildura winery which increases our owned and leased vineyard to 2,410 hectares. These vineyards provide 60 to 70% of our total grape intake. The balance of our required grapes is from medium to long term grower contracts.

The McGuigan Black Label Red is the most popular branded red wine in Australia, and the McGuigan brand is now the 3rd most popular global brand in the UK.

In line with our strategy, our business continues to change with the ongoing growth in our three key brands, McGuigan, Tempus Two and Nepenthe. Total sales of these three key branded products grew by 14% and now comprise 56% of our total sales dollar. Total sales of all our branded bottled products makes up 74% of all our sales with the balance consisting of cask, wine concentrate and bulk. 6 years ago, total branded bottled sales was 55% of our business. We have reduced our reliance on low margin and loss-making bulk wine sales.

Key Points

Net Profit after tax was $7.7 million compared to last year's profit of $4.3 million. This is an improvement of 79%. The key driver of this improved result was the increased sales of our 3 key brands – McGuigan, Tempus Two and Nepenthe. The sales of these 3 brands improved by 14% over the previous period.

Cash flow from operating activities was $26.7 million compared to $14.0 million. This is the highest operating cash flow that the Company has achieved in 12 years and 5 times the average annual operating cash flow since McGuigan and Simeon merged in 2002. The improved cash flow was due mainly to increased sales.

Our net debt continues to decrease and as at 30 June 2018 it was $77.2 million compared to $82.8 million in the prior year. Seven years ago, our net debt was $161.0 million.

Revenue increased by $38.2 million to $264.6 million with significant sales growth in the UK.

Our company continues to focus on 3 key strategies – Grow the Export Business; Increase Branded Sales and continue to focus on cost control.

Business Results & Summary

Branded Sales

As a result of our continued focus on our 3 core brands, sales of the McGuigan, Tempus Two and Nepenthe grew by 14%. In the UK McGuigan sales grew by 18% and is now the third largest global brand by volume.

In Australia, sales were flat, but the mix improved with the higher priced Tempus Two up 38% and Nepenthe up 15%. Ensuring price realisation on the McGuigan brand slowed our growth with sales down 1%.

Australasia/North America Packaged

Sales in our Australasia/North America segment were only marginally up, but with an improved mix the EBIT contribution increased by 21% to $7.4 million.

In Australia, domestic sales were basically flat but as a result of the improved mix the contribution increased by $0.7 million. Sales of our low margin products continue to decline.

Sales to New Zealand have recovered from the previous years decline and were up 7%

Sales to Asia have grown by 9%. Contribution, which was impacted by additional resources in this market increased by $0.1 million. Whilst our performance in this market was below our expectation, we believe that our long-term distribution arrangement with COFCO is the right one to provide long term sustainable sales growth.

Sales to the North American markets have grown by 31% due to a significant increase in sales to Canada. Our key Canadian distributor has performed exceptionally well. In the United states our sales increased by 112% but this was off a very low base.

UK/Europe

A continued focus on sales mix, increased sales footprint in all channels and pricing has contributed to a significant improvement in the contribution from the UK/Europe segment of our business. Sales were up 25% and contribution was up $5.4 million to $5.6 million. The McGuigan brand sales increased by 18% and it is now the third largest global brand in the UK. We are very pleased with the improved performance.

Pleasingly, this sales momentum has continued and for the first 4 months of this financial year, sales have continued to grow.

Other Segments

Our Cellar Door segment, which includes our wine club business, showed good sales growth of 6%. However, this sales growth did not convert into additional contribution due to a slight drop in higher margin Cellar Door sales.

Vineyard contribution declined by $2.4 million due to a 11% reduction in yields from owned and leased vineyards.

Financial Position

As previously mention our operating cash flow was very strong at $26.7 million and our net debt decreased by $5.6 million. Our financial position is sound.

Capital Expenditure

In 2018 we invested $19.5 million in our business with a significant investment in winery equipment and a new bottling line at our Merbein packaging facility. This new bottling line reduces our reliance on 3rd party packaging for most of our sparkling products

For the next 12 months we expect to invest a further $19.0 million on various major capital projects including a super-premium winery facility at our Buronga winery and further vineyard developments in our existing vineyards.

Future Grape Supply

Over the last 3 years there has been a tightening of grape supply on the back of increased export sales. This is particularly evident with red grapes. There has been little investment in new vineyards due to competing crops such as almonds and citrus. To protect our supply and to replace grapes from a recently expired onerous grape contract, the Company has undertaken a number of steps to secure some 40,000 tonnes of grapes. We have entered into a long-term lease on a 370 hectare vineyard near Mildura, we have agreed terms on the extension of the existing leases on the Balranald and Qualco and we have secured 400 hectares of vacant land for a potential future vineyard development.

These actions will secure future grape supply requirements.

Australian Wine Industry

For the year ended September 2018, Australian export sales increased by 11% and volume increased by 5% to 842 million litres. All major key export markets, other than the United States, recorded growth for Australian Wine.

China remains the largest market for wine sales and second by volume. Whilst sales growth has declined over the last 2 years, Australian sales to China grew by 29% to $948.8 million and now represents 35% of all Australian wine export sales.

The UK market remains the largest market by volume and has recently seen a 6% growth in volumes.

Export sales to both Canada and NZ have also seen growth in sales.

The total crush for 2018 was 1.8 million tonnes, a 10% decrease on last year's record crush of 2.0 million tonnes. The decreased tonnes was evident in most major grape growing regions. The 2018 vintage was just marginally higher than the 10-year average.

With the tightening of supply in Australia, particularly on the reds, we have seen grape prices increase by 8% to an average of $609 per tonne – the highest since 2008.

The latest information we have on global grape supply indicates that global production for this year is estimated to be amongst the highest for some time. This increase in production is due to large vintages in France, Italy and Spain. This will have some impact on bulk wine prices.

Outlook

Australian Vintage has transformed from a bulk wine company to a quality and well-respected branded wine business. This transformation will continue. Our persistence on improving efficiency will mean that the company will spend $19.0 million on capital projects this financial year.

For the first four months of this financial year, our packaged sales are up 8% with continued improved sales in the UK/Europe. Our sales mix and sales footprint continue to improve our business.

Recently, there was frost in the Barossa region and in some parts of the Riverland region which, unfortunately, will impact our vineyard yields in 2019. As a result, income from our vineyards will be down on expectation. In addition, the recent drought has meant that water prices have increased and water allocations in some regions are less than 100%. The combined impact of the frost and drought will mean that SGARA income will be down by approximately $2.2 million before tax against expectation.

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Even allowing for the frost and the drought and based on the GBP remaining at around 55 pence and a normal 2019 vintage, we expect our result to be at least 15% up on last year's net profit after tax.

Richard Davis, Chairman
Australian Vintage Limited
21 November 2018