AUSTRALIAN VINTAGE LTD

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Chairman's Address
Annual General Meeting
20 November 2019

Welcome to the 2019 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 7 vineyards that cover 840 hectares of planted grapes. We also lease a further 4 vineyards that cover 1,530 hectares of planted grapes and sell about 80 million litres of wine. These vineyards provide approximately 60% 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 remains 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. We have reduced our reliance on low margin and loss-making bulk wine sales.

Key Points

In FY19 we have seen a significant improvement in our underlying business with Net Profit after tax and before SGARA (Self Generating and Regenerating Assets) improving by 48%. Unfortunately, this improvement in our underlying business did not filter through to the bottom line due to the poor 2019 vintage. Our crop from our vineyards was 12,600 tonnes down on expectation resulting in a SGARA contribution that was $6.9 million down on what we. The frost and extreme weather conditions were the main reason for the vineyard yields being down. Net Profit after tax was $8.1 million compared to last year's profit of $7.7 million.

Cash flow from operating activities was $23.6 million compared to $26.7 million. 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. The purchase of this wine was essential to meet our future sales forecasts.

Our net debt continues to decrease and as at 30 June 2019 it was $72.4 million compared to $77.2 million in the prior year. Eight years ago, our net debt was $161.0 million.

Revenue increased by $19.7 million to $269.2 million with significant sales growth in our UK/Europe segment and we paid a dividend of 2 cents per share, up 33% on last year.

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

As a result of our continued focus on our 3 core brands, sales of the McGuigan, Tempus Two and Nepenthe grew by 10%. In the UK McGuigan sales grew by 13% and remains the third largest global brand by volume.

In Australia, sales increased by 8% with the higher priced Tempus Two and Nepenthe growing 6%.

Australasia/North America Packaged

EBIT in our Australasia/North America segment increased by 7% as a result of increased sales and improved sales mix.

In Australia, we experienced an increase in sales and a shift to higher margin products. As a result, EBIT for this division increased by 8%.

Sales to New Zealand have increased by 42% due to the performance of the McGuigan Bin range which grew in sales by 45%.

Sales to Asia have grown by 24% as a result of increased sales of the McGuigan and Tempus Two brands. We have added resources in Asia and as a result contribution did not increase in line with increased sales. Contribution increased by 8% or $0.1 million.

Sales to the North American markets were down by 11% on the back of significant growth in the prior period. Over the last 2 years sales to North America have grown by 19%.

UK/Europe

The UK/Europe segment achieved significant growth as a result of increased sales, improved sales mix and a focus on growing our Independent business. EBIT increased by a significant 94% to $10.9 million. Favourable foreign currency movements during the year contributed $2.8 million to the improved performance of this segment.

Sales of the McGuigan brand increased by 13% and both the UK and Ireland divisions performed significantly above last year.

For this coming financial year, we will be investing more in the UK on advertising and marketing to underpin the future growth of our brands.

Other Segments

Contribution from our Cellar Door segment which also includes our wine club businesses, declined by 39% due mainly to decreased visitor numbers to the Hunter Valley.

Australasia/North America bulk and processing segment EBIT improved by $1.8 million due to reduced loss-making bulk wine sales.

Vineyard contribution declined significantly due to a 12,600 tonnage shortfall against expectation. Frost and extreme heat were the main contributors to the tonnage shortfall.

Financial Position

As previously mentioned, our operating cash flow was positive at $23.6 million and our net debt decreased by $4.8 million. Our financial position is sound.

Capital Expenditure

In 2019 we invested $16.2 million in our business bringing our total capital spend over the last 2 years to $35.6 million 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 this financial year our capital spend will reduce to $12 million which includes $4.0 million on the completion of the premium winery at our Buronga winery. We expect that our capital spend from FY21 will reduce further.

Australian Wine Industry

For the year ended September 2019, Australian export sales increased by 7% to $2.9 billion and volume decreased 8% to 774 million litres. The volume decline was driven by a 52% decrease in shipments of wine at $2.50 per litre or less. This volume decline was driven by smaller recent Australian vintages, recent large vintages in Europe and the push for premiumisation in established markets.

China remains the largest market for wine sales and third by volume.

The UK market remains the largest market by volume even though volumes have declined by 2% to 233 million litres.

The total estimated crush for 2019 was 1.7 million tonnes, in line with the 10-year average but 3% less than last year's crush. The decreased tonnes were evident in most major grape growing regions.

With the tightening of supply in Australia, particularly on the reds, we have seen grape prices across all regions increase by 9%. The largest increase was in the warm climate reds which increased by 26% to $592 per tonne – the highest since 2008.

Outlook

Our focus on developing a world class branded wine company with a clear objective on wine quality and improving our margin, continues. This focus has delivered a 48% growth in FY19 Net Profit (after tax and before SGARA) and a strong cash flow.

The Company's cash flow for FY20 will remain strong. However, due to planned additional investment in our inventory, operating cash flow will be slightly down on prior year.

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

The Company, together with the entire wine industry will have several challenges in the next 12 months including Brexit, drought and higher costs of grapes and processing.

With regards to Brexit we have investigated the establishment of a satellite office to service Europe in the event of a hard Brexit and we have sourced all the water requirements for the upcoming vintage.

As foreshadowed in our August 2019 full year results press release, our higher processing cost due to the poor 2019 vintage, and the increase in grape costs will mean that our cost of wine will increase and is expected to have a negative margin impact for FY20 of around $3.6 million. However, with improved mix of sales to higher margin products and a normal vintage we expect to report an improved FY20 Net Profit after tax.

Ignoring the impact of the new accounting standard on leases and based on a normal 2020 vintage and assuming no material change to the current exchange rates, we are expecting our Net Profit after tax to be up on last year by approximately 25%.

Richard Davis, Chairman
Australian Vintage Limited
20 November 2019