AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

23 February 2022

Half Year 31 December 2021 Results

Australian Vintage Limited (ASX: AVG) will host an investor and media conference call commencing at 10.00 a.m. (AEDST) on Thursday 24 February 2022 (dial-in details below). The presentation material will be available at www.australianvintage.com.au.

Teleconference Dial-In Details
Conference Passcode: 701872355220

	Dial-in Number (Toll-free)
Australia	1800672949
Canada	18004344158
China (North)	108006100321
China (South)	108002610321
France	800919766
Germany	8001830411
Hong Kong	800900199
Japan	531610037
Malaysia	1800805746
New Zealand	0800944449
Philippines	180016110259
Singapore	8006161713
Taiwan	801611405
Thailand	18006112848
UK**	8003289967
USA	18883822834

**England, Scotland, Wales, Guernsey, Northern Ireland (Not Rep. of Ireland)

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Australian Vintage Limited Delivers Solid Half Year Result Impacted by Additional Logistic Costs, Temporary Closure of Cellar Doors and SGARA

A solid performance in Australian Vintage Limited's (ASX: AVG) Australian and UK businesses considering the higher logistic and associated costs, temporary closure of our Hunter cellar doors for part of the period and the expected decline in SGARA (Self Generating and Regenerating Assets).

AVG's Chief Executive, Craig Garvin said "the underlying business is performing well but with additional costs mainly associated with logistics and COVID restrictions, it was always going to be difficult to improve on prior period's result. Additional logistic costs, temporary closure of cellar doors due to COVID restrictions and the reduced SGARA, impacted our half year result by $6.0 million ($4.2 million after tax). Without these incremental costs, our NPAT for the first half period would have been a record $14.2 million, up 7% on prior period.

Also, during the 6 month period to December 21 the Company invested an additional $1.7 million in marketing, versus prior period, as we continue to invest in the long term future of our brands".

The four pillar brands of McGuigan, Tempus Two, Nepenthe and Barossa Valley Wine Company continue to perform well. As per our strategic plan, pillar brands have declined by 1% but gross margin has improved as we move to higher margin aspirational brands. During the 6 month period, total sales of the McGuigan brand decreased by 4%, but sales of higher margin Tempus Two increased 20%, and Nepenthe was up 30%.

Key financial highlights:

	Dec 21	***Dec 20***	*Variance*	
	$000	***$000***	*$000*	*%*
Sales				
Australia / New Zealand	64,811	66,209	*(1,398)*	*(2%)*
UK, Europe & Americas	69,587	78,913	*(9,326)*	*(12%)*
Asia	3,617	3,280	*337*	*10%*
TOTAL sales	**138,015**	**148,402**	***(10,387)***	***(7%)***
Contribution (before marketing)				
Australia / New Zealand	17,073	13,657	*3,416*	*25%*
UK, Europe & Americas	14,002	14,545	*(543)*	*(4%)*
Asia	421	178	*243*	*137%*
TOTAL	*31,495*	*28,380*	*3,115*	*11%*
Marketing expense	(6,147)	(4,477)	*(1,670)*	*(37%)*
Contribution (after marketing) [1]	**25,348**	**23,903**	***1,445***	***6%***
Additional logistic costs	(3,694)	-	*(3,694)*	*n/a*
Temporary closure of cellar doors	(804)	-	*(804)*	*n/a*
Corporate / other	(4,098)	(3,578)	*(520)*	*(15%)*
EBITS	**16,753**	**20,325**	***(3,572)***	***(18%)***
SGARA	(1,375)	98	*(1,473)*	*(1,510%)*
EBIT	**15,378**	**20,423**	***(5,045)***	***(25%)***
Net interest expense (inc. AASB 16)	(1,307)	(1,400)	*93*	*7%*
Tax	(4,065)	(5,729)	*1,664*	*29%*
NPAT	**10,006**	**13,294**	***(3,288)***	***(25%)***

1 Contribution (after marketing) is a non-IFRS, management profit metric and is calculated as EBITS, excluding the material items noted in the above table.

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Key financial highlights (continued)

- Net Profit after tax (NPAT) down 25% to $10.0 million. Before additional logistic costs, temporary cellar door closures and reduced SGARA, NPAT up 7% to $14.2 million
- EBITS (earnings before tax, interest and SGARA) down $3.6 million to $16.8 million. Before additional logistic costs, and temporary cellar door closures, EBITS up $0.9 million
- EBIT (Earnings before tax and interest) down $5.0 million due to additional logistic costs, temporary COVID induced closures, and SGARA totalling $6.0 million
- Total Revenue down 7% to $138.0 million
- Cash flow from operating activities negative $0.8 million due to build-up of working capital and higher logistic and associated costs due to strategic decision to build-up inventory in the UK' market
- Sales of our 4 key brands, McGuigan, Tempus Two, Nepenthe and Barossa Valley Wine Company (BVWC) down 1% but overall gross margin up on prior period
- Material increases to market share in critical UK market
- In line with previous years, no interim dividend declared
- This document contains non-IFRS measures used by management in assessing AVG's performance and have not been audited

AVG's Chief Executive, Craig Garvin said "the continued improvement in the mix of our sales together with production efficiencies has seen our total gross margin improve from 31% to 34% even after allowing for the additional logistic costs.

The performance in the Australia division (excluding Direct to Customers) is very encouraging with sales up 5% to $48.6 million in a market which remains basically flat. The McGuigan brand has grown by 5% helped by the ongoing growth of the McGuigan Zero range and Tempus Two and Nepenthe sales are up 10% and 29% respectively. BVWC brand sales declined by 8% but margin was in line with prior period due to improved mix.

During the half year we increased the investment in our brands with marketing spend up 37% on prior period. For the second half of this financial year, we expect marketing spend to be down by $1.0 million compared to prior period as we utilize the marketing investment from prior periods.

COVID continues to impact our business in terms of logistical issues and the temporary closure of our cellar doors. To minimise the potential of being out of stock in the UK and to minimize the impact of delayed shipments to the UK we have built up our finished product stock in the UK. As a result, we have been able to maintain our products on the UK shelves for most of the time although some stock outages have contributed to lost sales. The higher stock levels together with other movements in working capital has meant that our operating cash flow is negative $0.8 million compared to positive $30.9 million in the prior period. For the full year we are expecting cash flow to be around positive $20 million.

The McGuigan Zero range continues its outstanding success and is now the biggest selling non-alcoholic wine sold in the UK. Innovation is an important contributor to the ongoing growth of AVG and over the last 6 months we have been developing a drinks business which will utilize the alcohol that is extracted from the McGuigan Zero product. We are well progressed in developing a range of products from this drinks business which will be on the shelves this calendar year".

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SGARA

SGARA, which is now reported within the individual segments, was down $1.5 million on prior period due to frost in one of our vineyards resulting in an estimated loss of 2,400 tonnes, and the expected reduction in red grape prices. The impact of reduced red grape prices is a timing issue only as there will be margin benefits in future years from lower red wine costs. The reduction in red grape prices is due to reduced demand because of lower exports of Australian wine to China across the industry.

FINANCIAL POSITION

The cash flow from operating activities decreased by $31.7 million to negative $0.8 million due to increased working capital. Compared to prior period the movement in working capital contributed $26.6 million to the unfavourable movement in operating cash flow with inventory movement up $11.1 million, receivables $6.4 million and payables $9.1 million. The increase in inventory is due mainly to the planned UK stock build to minimise the logistical issues that all Australian wine companies have experienced.

Net debt increased by $30.8 million when compared to December 2020 with most of the increase coming from the recent share restructure which returned $24.0 million to AVG shareholders. The net borrowings of $81.9 million as at December 2021 remains at a comfortable 28% gearing and is expected to decrease to around $70.0 million by 30 June 2022.

OUTLOOK

The underlining performance of the Company is very pleasing.

Without the additional logistic costs, temporary closure of our cellar doors and the reduced SGARA, the company would have achieved a Net Profit after tax (NPAT) as at December 21 above the prior period's record half year result. This clearly shows that the Company has made a significant step change in the last couple of years. To further support this conclusion, if you compared the December 21 result to the December 19 result (last period without COVID), NPAT is up 67% even after allowing for the additional costs. The Company continues to meet the various challenges that COVID presents but obviously it has had a negative impact on the December 21 results

For the full year the Company is expecting pillar brand sales, margins, and market share to be up on the prior year. This confirms that the strategies are correct as our mix of branded sales continues increase.

The Company undertook a proactive decision to increase the stock held in the UK which continues to show positive market share growth, but this did impact our operating cash flow. Full year operating cash flow is expected to be around $20.0 million with a net debt level of around a comfortable $70.0 million.

The Company is forecasting that additional logistic costs will still impact the second half of this financial year but not to the same extent as the first half. We are estimating that a further $2.8 million (pre tax) will be incurred in the second half.

Even after allowing for the significant increase in logistic costs, we are expecting a net profit after tax of between $17.0 million and $18.0 million which is down $1.6 million to $2.6 million on the previous financial year. This forecast is subject to no material change in foreign currency exchange rates, no further deterioration in the various economies due to COVID and a normal vintage.

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As outlined in the 2021 Annual General Meeting the Company has commenced a detailed sustainability study with the aim of setting realistic objectives to be carbon neutral in everything the Company does. This study is progressing well.

Our vision and values and our scorecard remain critical to the ongoing growth of the company as they guide the business approach with a strong focus on putting the consumer at the heart of everything the Company does.

For the purpose of ASX Listing Rule 15.5, Australian Vintage Limited confirms that this document has been authorised for release by the Board.

ENDS

Further information

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