AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

21 February 2024

Half Year 31 December 2023 Results

Investor webinar details:

Australian Vintage Limited's (ASX: AVG) CEO Craig Garvin and CFO Adam Rigano will host an investor teleconference and webinar at 3:00pm (AEDT) on Wednesday, 21 February 2024.

Webinar registration link- https://loghic.eventsair.com/avghy24/register210224/Site/Register

Teleconference registration link - https://s1.c-conf.com/diamondpass/10036364-fhu76t.html

Presentation material will be available at www.australianvintage.com.au.

Australian Vintage Ltd
ABN 78 052 179 932
275 Sir Donald Bradman Drive, Cowandilla SA 5033 Australia
www.australianvintage.com.au

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Earnings improvement over the prior year consistent with AVG's strategic plan despite tough trading conditions

Key highlights:

- Revenue in line with prior year at $136 million
- Margin and underlying earnings improvement in extremely challenging industry
- AVG continued to improve performance across key markets
- Global leadership in no-and-low with Mid Strength launch UK
- Operating cash flow improvement over pcp
- B Corp certification achieved
- No interim dividend declared

AVG's Chief Executive, Craig Garvin said, "Our result is in line with our expectations. Given the trading environment, and the challenging industry conditions, I am very encouraged we have been able to maintain revenue in line with the prior year and improve earnings in contradiction to industry trends.

We have achieved margin and underlying earnings improvement as indicated at our AGM. Relentless focus on efficient brand investment, innovation and cost out measures have seen earnings and cash flow improvement. In all key markets inflation continued at around 6% in H1 with competitive aggression deflating overall shelf price. In our underlying results, EBITDAS of $16.5 million and EBITS of $8.6 million, are over $3 million higher than the prior year, whilst NPATS of $4 million, is almost double the prior year. We have invested $2m in transformational costs, including consultancy fees, redundancies and full market review as announced last year. As cost reductions occur, I am confident we are taking the right steps to improve performance in an extremely challenging market.

We have continued to maintain, and improve, our market share across key geographies. Whilst the cask and private label business is challenging our branded business is in growth. We have grown in our emerging markets in Ireland and North America, whilst maintaining revenue in Asia. There are some strong, and encouraging, signals that China will commence re-ordering in Q4 of our financial year and we expect improved earnings from Asia in H2.

We are the global leaders in no-and-low with our McGuigan Zero product number 1 in the UK, Ireland, Australia and NZ. In APAC our sales of no-low have increased by +15% over the prior year. Our position is supported by our world leading technology and our customer facing innovation. We have launched Mid Strength on shelf in the UK and early signs are encouraging of consumer pull through.

Our operating cash flow and free cash flow, pre asset sales and dividends, improved by $7.4 million and $8.4 million respectively over the prior period. Whilst this is an improvement we remain focussed on a number of actions to reduce net debt. We are comfortable at this level as we process more wine in anticipation of higher F25 sales.

I am also very pleased to announce that we have achieved B Corp certification. B Corp is the most comprehensive whole-of-business global standard encompassing governance, community, environment, employees and customers. Achieving this certification is a significant independent validation of our high Environmental, Social and Governance (ESG) standards.

Finally, our strategic review has identified some real and achievable step-change opportunities."

PERFORMANCE BY SEGMENT

UK, Europe and Americas

In the UK we have leveraged our leadership in alcohol reduction to successfully manage, and benefit from, the government's introduction of taxation by alcohol volume (Alcohol Duty Reform), We have protected key price points, as well as launched new innovation ahead of the competition, including Not Guilty (alcohol free) and McGuigan Mid (7% mid strength).

Our innovation programme, including the successful launch of premium McGuigan Gold, has contributed significantly to an improvement in our sales mix and gross margin year on year. In the latest Advantage Survey we are rated by our customers the No 1 UK supplier for Innovation, setting us up for further range additions in calendar year 2024.

In the 12 weeks leading up to Christmas, McGuigan was the number one still wine brand in UK grocery, according to Kantar, and is the number one alcohol free still wine brand. Our relative market performance strengthened through H1 with a strong Christmas. Total market volumes remain negative, and the UK will continue to be a challenging volume market throughout 2024.

In Ireland, McGuigan remains the number one Australian wine brand by a clear margin, with sales growth of 11% over the last year.

In Canada we have recently agreed a distribution deal for our new Not Guilty brand, and we remain confident in upside opportunity in this important market for us.

Australia and New Zealand

There has been strong competition in Australia in all segments. Despite this competition Australian Vintage continued to deliver market share growth of +2% v's market -5%. In particular, Super Premium wines above $15 have grown by +11% YOY vs a total market decline of -1%. Our portfolio strategy is evident with retail scan sales for Tempus Two +7%, Nepenthe +20% and Barossa Valley Wine Company +4% versus prior year.

Despite increased competition, Australian Vintage remain the leading no-and-low wine supplier in Australia, delivering +15% growth versus prior year.

New Zealand continues to be a key market for the Company where we delivered +11% sales growth for the half as we actively execute our pillar brand portfolio strategy with the recent introduction of Not Guilty, Mr Stubbs cocktails and Butchers Cellar.

Asia

Asia has been a challenging market for Australian wine exporters. Against this market context, Australian Vintage has grown branded sales by +15% over the prior year. The Company is focussed on growing this important region with a focus on Taiwan, Hong Kong, Japan, Malaysia, Singapore and Thailand.

AVG is encouraged by the ongoing dialogue with China and the strong signals that re-ordering may commence in Q4 of our financial year which presents a positive growth opportunity for FY25. In conjunction with established partners, the reopening will deliver significant upside to the strategic plan.

OTHER FINANCIAL PERFORMANCE

Total sales revenue of $136.1 million was in line with the prior year. Pillar brands were 79% of revenue, an increase of 2pp from the prior year. Over the last 5 years, in line with the strategic objective to grow margin, pillar brand revenue has increased by 4% per annum on a compound annual basis. Over that time, all of the key brands have grown, Tempus Two +12%, Nepenthe +15%, Barossa Valley Wine Company (BVWC) +20% and McGuigan +1%. Some new brands have also been added to the mix through innovation: Not Gulty, The Butcher's Cellar and Tempus One

AVG's focus on cash flow has generated improvements in operational cash flow and free cash flow, pre assets sales and dividends. Net debt of $68 million was in line with expectations however there is a significant focus on reducing net debt, with net debt expected to be in the range of $43 - $50 million by the end of the financial year, subject to a normal vintage, FX, and agricultural risk, due to:

- Our normal second half improvement in operating cashflow with the realisation of cash from Christmas sales;
- lower cash out through efficiencies and cost outs; and
- proposed sale of surplus assets.

In FY24 we expect to process a further 15-20m litres as we balance inventory in anticipation of higher FY25 sales, especially in the UK and Asia. On that basis our targeted debt levels are well balanced.

The balance sheet is strong with gearing (net debt/ equity) at a comfortable 23% (vs 17% prior year), leverage (net debt/ net debt + equity) 19% (vs 14% prior year) and Net Tangible Assets per share of $0.92 (vs $0.90 prior year). Net debt/ underlying EBITDAS on a post lease (AASB16) basis is 2.3 times (vs 1.4 times prior year).

Underlying ROCE of 3.1% was an improvement on the FY23 result of 2.6%.

OUTLOOK

The fundamentals of AVG's business model are profitable and well placed for the future.

Continuing to invest in brands, innovation and people to premiumise the portfolio and improve mix to higher margin products, is driven by consumer needs.

Asia presents significant growth opportunity outside of China which is anticipated to show improved contribution in the FY24 numbers. AVG anticipates China opening in the next 3 months with the Company working closely with existing strong partnerships.

There is an ongoing focus on efficiencies and cost reductions to drive profit and reduce net debt. Action has been, and will continue to be, taken to offset persisting inflationary pressures through removing ~$9 million in annualised costs out of the business, net of inflation.

Emerging business in high value markets is important to strategic intent. The Middle East and India represent significant business opportunities for Australia with a strategic partner appointed to establish new business in both markets.

Through these actions, AVG expects underlying EBITDAS and NPATS to improve into FY24 from FY23 performance. Underlying EBITDAS is expected to be between FY23 and FY22. There is a continued focus on net bank debt reductions to be between $43 - $50 million. These outcomes are subject to a normal vintage, FX and other agricultural risk.

The ongoing Red Sea drone attacks, and recent DP World disputes, have created significant disruption to international shipping channels creating a potential earnings risk of $2 million to the full year result.

STRATEGIC REVIEW

Australian Vintage's previously announced strategic review has highlighted that the wine industry's external shocks have created a unique and challenging operating environment for participants in that industry. AVG is taking active steps to enhance its resilience and growth prospects. The strategic plan is working and AVG is confident of emerging from this period as a "reset" business with a stronger platform for sustainable growth and shareholder value creation.

Whilst the industry is challenged that is impacting overall profitability there are some real opportunities to create a more sustainable environment. Key to long term sustainability is:

- Efficient scale and cost structures
- Attractive brands and markets
- Strong customer, grower and supplier relationships
- Significant cost reduction through scale and synergy

The strategic review has examined a number of initiatives that were considered against the core "success" factors. AVG is in the process of executing the initiatives, where appropriate, however larger transformational opportunities, including potential mergers, are still in very early stages.

Shareholders will be updated under ASX continual disclosure rules as material information becomes available.

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

ENDS

Further information

Craig Garvin
Chief Executive Officer
02 8345 6377

Adam Rigano
Chief Financial Officer
08 8172 8333