AUSTRALIAN VINTAGE LTD

Company Announcements
Australian Securities Exchange

25 August 2023

Full Year 30 June 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 Friday, 25 August 2023.

Webinar registration link- https://protect-au.mimecast.com/s/LmezCMwv0ysqn2zvFwpi_m?domain=loghic.eventsair.com

Teleconference registration link - https://protect-au.mimecast.com/s/Ev2DCNLwPzs0gZjwH4-YDN?domain=s1.c-conf.com

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

AUSTRALIAN VINTAGE LTD

AVG's strategic plan on track despite tough trading conditions

Key highlights:

- Revenue in line with prior year at $258.6 million
- AVG continued to win market share, take price and grow the mix of the premium portfolio
- Underlying EBITDAS of $26.1 million, EBITS of $10.6 million, and NPATS of $4.2 million, in line with market guidance, after absorbing $18 million in pre-tax hyper-inflationary costs, largely sea freight and energy
- Net debt of $48.1 million, gearing at 17%, 1.8 times net debt/ underlying EBITDAS
- Industry characterised by low margins, heavy discounting and one of the lowest vintage in decades
- No final dividend declared

AVG's Chief Executive, Craig Garvin said, "Our strategic plan is working. The relentless pursuit to drive our pillar brands, innovate and expand geographically has shored up our platform for future growth. FY23 saw us absorb significant inflationary costs and realign our business to be a lower cost producer. This sets us up well for FY24 and beyond. We have continued to invest in our brands and innovation. Our people remain our number one priority with engagement, safety and diversity improvements versus prior year.

Given the trading environment, I am very encouraged we have been able to maintain revenue in line with the prior year of $258.6 million, as we continue to improve our mix of higher margin business. As cost reductions occur, I am very confident in our future performance.

Our pillar brand revenue of $202.1 million was 78% of our mix (65% FY20). We are the global leaders in no-and-low, reflected through substantial increases in product ranging and increased market share and supported by our world leading technology. Innovation now represents 15% of our total margin, which did not exist 3 years ago. When the growth in premiumisation is added, margin contribution now represents 35% of our business. I am also pleased, despite severe cost pressures, we have been able to grow our emerging business. Asia grew by 14 points, Ireland 9 points.

In our traditional markets we took price and pleasingly held market share. Through focussed resourcing, our ingredients business, Austflavor, is growing at double-digits versus the prior year.

Our environmental, social and governance (ESG) strategy is well advanced with our submission for B-Corp certification undertaken during the year, and our winery and our vineyards have achieved Sustainable Winegrowing Australia certification."

AUSTRALIAN VINTAGE LTD

PERFORMANCE BY SEGMENT

UK, Europe and Americas

With the UK/ Europe market contributing 49% to revenue, this market is one of significant focus for AVG especially with the introduction of the UK duties tax in August. This duties tax provides opportunities for suppliers with a lower alcohol by volume (ABV) by lowering the duties tax payable by retailers. Through AVG's leadership in the no-and-low category the Company has achieved significant ranging of new products setting up FY24 well. In the no-and-low category AVG have grown market share by 34 points.

Across all categories Australian Vintage has maintained market share in the UK and North America whilst growing market share in Ireland by 9 points. Price was taken successfully across all key regions.

As indicated previously, AVG strategically built inventory in the UK to cater for logistics disruption post Brexit. This has now been reduced back to pre-covid levels.

Australia and New Zealand

There has been strong competition in Australia in all categories. Despite this competition Australia has grown share by 1 percentage point. Growth was driven by premiumisation and innovation, where the Australian market has seen overall value segment reductions post covid, reinforcing the importance of premiumisation and innovation. AVG is one of the only producers to take price.

Australian Vintage has been very active in innovation with the launch of the new spirits range. The Tempus Two Shiraz Gin is already recognised as one of the best global gins, winning double gold in the San Francisco World Spirits Competitions, double gold in the Singapore World Spirits Competition, and the Masters Medal at the 2023 Gin Masters Awards. A number of collaborations have been launched including: Sevenly by Sarah Jessica Parker, The Butchers Cellar, and Johnny, Vince & Sam's Vino by Sooshi Mango. Sooshi Mango has been awarded the Best Brand Activation of the Year at the Endeavour Group Supplier of the Year Awards. This innovation is strategically important in the move towards a more diverse and higher margin business, led by consumer needs. These new revenue streams will continue to grow margin and contribution over the coming few years. Australia is the test market for these products, however the intention is for them to become global.

Asia

The premiumisation opportunities identified through Asia's strategic market reset has enabled growth by 14 points. With the continued focus on core markets of Taiwan, Hong Kong, Japan, Malaysia, Singapore and the improved product range, AVG expects continued growth in this market. From a pillar brand perspective, increases were seen in Tempus Two and the Barossa Valley Wine Company.

AVG is being proactive, ahead of the anticipated China opening, with multiple market visits over the last 6 months and working closely with strong partners. The reopening will deliver significant upside to the strategic plan.

Austflavor

Austflavor is Australian Vintage's ingredients and concentrate division and, as a commodity play, operates differently from standard wine market dynamics. As identified previously, the strategic importance of growing this division as a key contribution to revenue, and margin, de-risks the value segment. With increased focus, and resourcing, Austflavor has increased revenue by 42%, and margin by 26%, over the prior comparative period. Utilising strong long-term partnerships in Australia, Japan and North America creates a platform for significant growth opportunities.

External operating environment

In FY23, one the toughest external operating environments in decades, the value of wine exports from Australia have declined 10%, with Europe and North America recording declines of 15% and 14% respectively. China tariffs and inflationary pressures in the UK resulted in a profound impact on the sale of Australian wine.

Oversupply of grapes from the prolific 2021 and 2022 vintages coupled with shrinking export markets has seen unsustainable grape sourcing and marketplace pricing behaviour from key competitors.

Hyper-inflationary costs of $18 million have been absorbed in FY23, largely sea freight, energy and distribution costs. It should be noted that some of these costs are moderating in FY24 with this trend anticipated to continue in FY25.

Vintage 2023 will be remembered as one of the most challenging for decades. A long, cool, wet, Spring and Summer resulted in significantly reduced yields, with an overall crush of only 1.3 million tonnes, one of the worst vintages in decades, lowering winery throughput. AVG's crush of 80k tonnes was impacted by the Australian wine market dynamics, which was 20% lower than the prior year. The magnitude of the decline resulted in a non-cash winery production fixed cost write off of ~$9 million.

With declining red wine export markets, lower vintages and lower winery throughput, the Weighted District Average price has decreased significantly for red grapes. When assessing the fair value of grape supply, despite AVG's owned, and leased, vineyard yield only down 9%, outperforming the market, the self generating and re-generating asset (SGARA) assessment resulted in an adjustment in FY23 of $8.7 million after tax.

The sale and leaseback of commercial vineyards Coldridge and Grande Junction completed on 19 December 2022, with ~$62 million in proceeds received. The lease term is for 10 + 10 years at market rates, terms that took into account the capital investment in those properties for long term retention. The proceeds received have been used to pay down debt and offset one-off write-offs, underpinning execution of the strategic plan.

OTHER FINANCIAL PERFORMANCE

Total sales revenue of $258.6 million was in line with the prior year. Gross margin has been impacted by inflationary pressures, delivering a gross margin for the year of 29%, 6 percentage points lower than last year. Normalising gross margin for sea freight would have delivered a gross margin 5 percentage points higher. Inflationary pressures absorbed in underlying performance generates EBITDAS of $26.1 million, EBITS of $10.6 million and NPATS of $4.2 million, in line with market guidance.

AVG's focus on net debt reductions, especially within the context of hyperinflationary pressure absorption of $18 million, has resulted in a net bank debt of $48 million, ~$26 million lower than the prior comparative period. Net debt reductions were supported by asset sales of the Hunter Valley winery and the vineyard sale and leaseback generating ~$66 million in revenue, and ~$17 million in after tax profit.

The balance sheet has strengthened with gearing (net debt/ equity) of 17%, versus 25% in the prior period, and leverage (net debt/ net debt + equity) of 14%, versus 20% in the prior period. Due to hyperinflation impacting EBITDAS, the net debt/ underlying EBITDAS (post AASB16 leases) is 1.8 times, and 3.4 times pre AASB16 leases. On a reported basis, and post AASB16, net debt/ EBITDAS is 1.5 times. As announced in the trading outlook on 15 June 2023, Australian Vintage suspended dividend payments, until net debt/ underlying EBITDAS, on a pre AASB16 leases basis, is below 2 times. As the FY23 result is 3.4 times, the FY23 final dividend has been suspended.

Inventory was strategically increased in FY22 to partially mitigate the impact of freight disruption on global supply chain from Brexit. This was further impacted by inflationary pressures and costs. Inventory has declined by ~$5 million from the prior comparative period, with inventory in the UK returning to pre-covid levels.

Trade payables are significantly lower than the prior year driven by a significantly lower vintage, and lower shipping and production in the UK, in line with the inventory reduction strategy.

Net tangible assets per share of $0.90, after asset sales, is predominantly made up of inventory, and the ongoing strong asset position. AVG owns the land and third largest processing facility in the Murray-Darling basin, over 290 hectares of vineyards in the Barossa Valley and Adelaide Hills, and has access to over 15,700ML of water sources for owned and leased properties.

Total cash flow from activities prior to any movements in debt was a positive $26 million, compared to negative ($32 million) in the prior year. Free cash flow, before lease payments and dividends, was a positive $45 million, compared to a positive $6 million in the prior year. These results were primarily due to ~$66 million received from the sale of three properties earlier this year. Operating cash flow improved by $6 million in the second half bringing overall operating cash flow to an outflow of ~ ($13) million, compared to positive operating cash flow of ~$15 million, in the prior comparative period. Within the FY23 operating cash flow, $18 million was absorbed in hyper-inflationary costs, investment in marketing of $3.5 million, and tax paid for franking credits.

ROCE on a rolling basis was 2.6%, on an underlying basis, compared to 7.3% from the prior year, and driven by a hyperinflationary impacted lower underlying EBITS.

OUTLOOK & STRATEGIC REVIEW

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

Continuing to invest in brands, innovation and people to premiumise the portfolio and improve mix to higher margin products, driven by consumer needs, is crucial. AVG leads in No and Low innovation globally, successfully launching the Drinks Business in FY23. The ambition is to drive a global drinks and ingredients business over the coming years. 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 12 months with the Company working closely with existing Chinese partnerships.

Net debt has reduced, the balance sheet has strengthened and there is an ongoing focus on cost reductions. The continued delivery of the strategic plan positions AVG well as costs reduce and efficiency improved. Action is being taken to offset continuing hyper-inflationary pressures through removing ~$9 million in annualised costs out of the business. AVG is on track for FY24 with 90% of the actions underpinning those savings implemented.

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. This combined with China reopening, rest of Asia double digit growth and a strong innovation pipeline are encouraging for the future.

Through these actions, AVG expects underlying EBITDAS and NPATS to improve into FY24 from FY23 performance. EBITDAS is expected to be directionally in line with FY22. There is a continued focus on net bank debt reductions. These outcomes are subject to a normal vintage, FX and other agricultural risk.

Australian Vintage have announced a strategic market review to explore options to unlock additional value through industry opportunities. To date, the strategic review has confirmed that excess capacity exists in processing facilities and grape supply, reinforcing the need for industry rationalisation. Excess supply, across the industry, is geared towards a declining value market segment, driving aggressive competitor behaviour. AVG, however, remains profitable, with a sustainable business model that has stood up against significant head winds. Whilst a strategic transaction is not required to support future profitability, Australian Vintage have appointed Evans & Partners to examine opportunities, in the interests of maximising shareholder returns.

Sales in July 23 have been strong at 16% higher than the prior comparative period largely led by the UK business, innovation and emerging markets.

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