

FINANCIAL REVIEW

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HD **Waiting for an Aussie miracle**
BY Matthew Smith
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Wine Since 2010, Australian Vintage has been wearing the pain of the high dollar.

It has been a tough four years for Neil McGuigan, chief executive of Australian Vintage. The high Australian dollar is eating into the **company's** export margins, making the already challenging job of running an unpredictable agriculture **business** even harder.

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Profits from **wine** sales overseas are barely enough to keep the lights on back at its southern NSW Buronga Hill winery and processing plant.

But McGuigan has persisted, and by keeping Australian Vintage wines on the shelves and in front of **wine** drinkers in Britain, Canada and in the burgeoning Asian **wine** market, he has positioned the **business** to benefit from even the slightest movements of the currency in its favour.

"All we need now is a little bit of luck," McGuigan says.

Australian Vintage, maker of brands including McGuigan Wines, Nepenthe, Passion Pop and Tempus Two, has the sixth-largest **brand** in Britain by volume of **wine sold** and has the largest **brand** in Ireland. In August the **company** quietly announced it had signed a **China**-wide distribution agreement with COFCO **Wine** & Spirits, part of state-owned COFCO, **China's** largest food processor and manufacturer.

Since 2010, when the Australian dollar reached parity with the US dollar, McGuigan and the Australian Vintage **board** have been gritting their teeth and wearing the pain to avoid forfeiting the foothold the **business** has established in overseas markets over the years.

"Wherever the exchange rate has moved against us it has hurt, but you don't want to walk away from the hard work you've put into building those brands ... When the [British] pound moved below 69 pence [relative to the Aussie in March last year] that was very painful. It's been tough," he says.

Australian Vintage is leveraged to the movements of the currency as is any other Australian listed **company**. When the dollar moves in a favourable way it has a material impact on profitability.

The relatively lower Australian dollar in the last financial year, when compared with previous years, contributed to the 97 per cent increase in contribution that British branded and bottled sales made to the **group**.

The **company's** overall net profit increased by 49 per cent to \$10.5 **million** in 2013-14 thanks to more favourable foreign exchange and growth in sales of branded wines over the less-profitable bulk **wine business**.

But the Australian **wine** industry has felt a lot of pain over the past few years. There is still a way to go before Australian Vintage's shareholders can expect to reap the rewards of more favourable trading conditions, should the dollar continue to follow its recent trajectory.

In addition, the damage done by the oversupply of Australian grapes a decade ago still hangs over the heads of Australian winemakers.

Australian Vintage, formerly named McGuigan Simeon, has transformed itself over the years from a bulk supplier of wines to now making most of its **wine** for its higher-margin branded products. But McGuigan has tried unsuccessfully in recent years to secure a distribution agreement for branded wines in the United States, which he says will be essential to selling into the North American market.

Australian Vintage had an agreement with US-based E&J Gallo to supply bulk wines until 2011, but the **company** has never been able to make a branded **wine** distribution there.

McGuigan believes the noise around the proposed private **equity** buyout of rival listed **wine company** Treasury **Wine** Estates (TWE) is not helping his efforts to position Australian Vintage's branded wines in the US. "Every conversation you have is about what's happening with TWE – what's going to happen with the ownership and what will happen to some of those brands," he says. "They're less interested in talking to us about our **wine** ... [The buyout] needs to be resolved quickly and we need to get back to the knitting and talk about how good Australian **wine** is."

Under a KKR & Co-led buyout it has been speculated in the media that TWE's Penfolds **brand** could be spun out and floated separately in the US.

After years of Australian winemakers either going bust or being bought out by larger companies, Australian Vintage is one of three remaining ASX-listed winemakers, next to Treasury **Wine** Estates and the much smaller **Brand** New Vintage.

Key points

- NS** gfod : Food/Drink | gwine : Wine | gcat : Political/General News | glife : Living/Lifestyle | gwbs : Wine/Beer/Spirits
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