

McGuigan Simeon Wines Ltd
Interim result 2005-06
22 February 2006

Chairman's Remarks

Slide One (1)

Good morning and welcome to McGuigan Simeon Wines' 2006 interim results presentation, including everyone joining us via tele-conference.

My name is David Clarke, Chairman of McGuigan Simeon.

Let me firstly introduce some of the executives here today.

Brian, our managing director, of course needs no introduction.

Mike Noack, our Chief Financial Officer and company secretary, who is available to discuss the numbers in more detail after the meeting.

In addition, we recently announced the appointment of a new managing director following Brian's wish – expressed at last year's annual general meeting – to step back from the day-to-day operations of the company.

While we will miss Brian's hands on the wheel, we now have Dane Hudson joining us as CEO in March, from his position at Yum Brands inc in the US.

Dane is an Australian, and has tremendous international management and consumer goods experience.

He is with us today to observe events.

Please stand Dane and let everyone see who you are.

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The format as usual this morning is that I will run through the numbers and give you an broad overview of the company's past six months and where we believe it is heading in the immediate future.

I will then ask Brian to brief you on the operations and priorities for the next six months.

We will then provide an outlook for the business

And then open the floor for questions

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Our results for the six months to December 31 2005 were released to the Australian Stock Exchange earlier today.

While we are disappointed with the outcome for the half year, it was not unexpected.

The results are essentially in line with the forecasts made at our annual general meeting in November last year.

Revenues held up fairly well in intensely competitive and heavily oversupplied markets.

However, they were still off 6 per cent.

This illustrates just how tough the market has been.

Our net profit after tax was \$6.2 million, down 51 per cent on a year earlier, again in line with the annual meeting forecast range.

Pre-tax, the operating cash flow actually increased \$8.4 million – a clear sign that Brian and the management team's focus on costs and stock levels have provided positive cash flow benefits.

Increased competition in all markets meant margins were reduced during the half.

The oversupplied Australian market was particularly badly affected in terms of both sales and prices.

Export sales were up, especially in the UK and Europe, although again at reduced margins.

To cope with these challenging market conditions we continued the pursuit of lower costs.

We still believe it will be some time before the oversupply situation in Australia is resolved.

Competition at the retail level in Australia remains intense and this, of course, affects bulk sales as well.

In this situation we are continuing our emphasis on further reducing costs, while trying to influence prices through innovative marketing initiatives.

It is also worth stressing that our company is in a strong position to ride through the present downturn and emerge stronger at the other side of the wine industry cycle.

Our cash flow from operating activities continues to be good and, as you know, we generate most of our cash in the second half of the year.

Moving now to the numbers

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As I have just mentioned, revenue for the half year was down 6 per cent year at \$161.7 million.

This was despite the volume of wine sold increasing by 5 per cent.

Again, it is clear from these figures – volume sold up and sales value slightly down - that the company is intent on managing its stock levels and its cash

But pressure on margins was intense. EBIT was down 41 per cent to \$13.5 million from \$23 million.

Net profit after tax halved to \$6.2 million from \$12.5 million.

This is within the forecast range made at the annual meeting in November (\$6-to-\$8 million).

It reflects the tough conditions prevailing in the market place.

As in previous years, we expect the majority of our profit to be earned in the second half of the year.

The second half will, however, continue to be affected by the competitive market conditions.

Earnings per share were lower at 5.40 cents, down from 11.22 cents previously.

The interim dividend is 5 cents per share compared with 10.25 cents a year ago.

The interim is payable on 27 March 2006.

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Breaking down the sales figures shows that sales in all categories except three were lower, some marginally, others substantially.

Export bottled sales (bulk) increased by \$13.3 million or 50 per cent due to increased sales to our major customers in the UK and US

Domestic (Australian) branded sales fell \$9.6 million or 18 per cent to \$43 million from \$52.6 million.

Again, this reflects the competitive situation in the local market, both in terms of volumes and prices.

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Our ability to cope with tough market conditions is reflective of scale and diversity

Diverse revenue sources – bulk and bottled products, local and export markets, helped sales volume to increase 5 per cent

Innovative marketing and good customer relations helped in all markets.

We are a low cost producer intent on driving costs lower

We will shortly see our Merbein packaging facilities operational to provide us with low cost, flexible packaging and distribution in Australia

There has also been structural change and this will continue in both the growing and selling ends of the industry

However, I believe that we have the resilience and structure to grow regardless of the market conditions and stage in the cycle

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As a result, we are not just waiting for the market upturn to attempt to improve results.

We are continuing to drive sales and reduce costs in a very competitive market and difficult operating and trading conditions.

We have the scale and diversity to perform through the cycle.

Overall sales volume was up 5 per cent in the past six months and export volumes increased 24.3 per cent.

Our share of Australian export volumes was higher at 10.5 per cent

We are in a strong financial position with gearing at 48 per cent.

And we are well positioned for growth beyond the current cyclical downturn, should opportunities emerge.

Now, over to Brian for a review of our operations during the half year. I will then update you on the outlook and take any questions you may have.

[Brian McGuigan gives operational update]

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[Chairman returns]

Thanks Brian

Let me conclude the formal presentation with some brief remarks on how we see things for the rest of the year – at least as much as I can ahead of the 2006 vintage.

The McGuigan Simeon model continues to produce positive earnings in an extraordinarily difficult market.

We have not only generated profits in tough conditions, but have dramatically improved cash flow and we have industry-low stock levels.

We think the second half will continue to be very difficult, with very tight trading conditions.

As Brian indicated, sales for January and February have been going well and are above last year, but margins remain very tight.

Hopefully the sales improvement will continue.

But overall we are still looking at a tough trading environment.

It is difficult to predict earnings ahead of the vintage and the vintage is difficult to predict at any time.

Further profit guidance will be given in May when the Australian 2006 vintage is complete.

But we still believe the 30/70 rule is roughly valid – that is, 30 per cent of our profit comes in the first half and 70 per cent in the second.

As far as the dividend is concerned, technical accounting issues limited our payout this half year to 5 cents per share.

These accounting issues related to the \$50 million we were forced to include as goodwill and then write down in relation to the Simeon Wines acquisition.

The interim payout should not therefore be read as an indication of the likely final dividend.

Personally, I believe in maintaining a high payout ratio, particularly when trading conditions are temporarily depressed.

In closing, I just want to stress that McGuigan Simeon is a strong, well-positioned company ready to take advantage of any market opportunities that might emerge and poised for growth once the present cyclical downturn ends.

Thank you

I am now happy to take any questions, perhaps here in Sydney first and then if there are any from phone participants....

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Closing Title Slide

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