Level 38 Tower Three
300 Barangaroo Avenue
SYDNEY NSW 2000

PO Box H67
Australia Square
SYDNEY NSW 1215
Australia

ABN: 51 194 660 183
Telephone: +61 2 9335 7000
Facsimile: +61 2 9335 7001

www.kpmg.com.au

30 September 2020

McWilliam's Wines Group Ltd ACN 000 024 108
Mount Pleasant Wines Pty Ltd ACN 000 024 813
(Both Subject to Deed of Company Arrangement) (Collectively referred to as "the Companies" or "the Group")

Explanatory Statement

1. We refer to the appointment of Gayle Dickerson, Tim Mableson and Ryan Eagle as the joint and several Administrators of the Group pursuant to section 436A of the *Corporations Act* 2001 **(Act)**.

2. This Explanatory Statement provides information to shareholders of McWilliam's Wines Group Ltd ACN 000 024 108 (Subject to Deed of Company Arrangement) (**McWilliam's**) about:

   a. the Deed of Company Arrangement and Creditors' Trust Deed proposed by MCW BidCo Pty Ltd (ACN 642 488 524) (**MCW**) an entity ultimately owned by Prcstnt Asset Management Pty Ltd (ACN 637 001 702), and entered into by the Companies and MCW on 3 August 2020 (**DOCA**);

   b. the application to the Federal Court of Australia (**Court**) for approval to transfer all of your shares in McWilliam's to MCW (or its nominee), pursuant to section 444GA of the Act, as part of the DOCA approved at the concurrent second meeting of creditors of each of the Companies held on 24 July 2020 (**Section 444GA Application**);

   c. the steps which you need to take if you wish to oppose the Section 444GA Application, which has been listed for a final hearing before the Court at 2.15pm on Monday, 19 October 2020; and

   d. further information which may assist you to decide whether to take action in respect of the Section 444GA Application.

3. An Independent Expert's Report prepared by Grant Thornton Corporate Finance (**Grant Thornton**) (**Independent Expert's Report**), which contains a valuation of the shares in McWilliam's (on a 'going concern' basis and a 'liquidation' basis), is enclosed with this Explanatory Statement.

Background

4. On 8 January 2020 we, Gayle Dickerson, Tim Mableson and Ryan Eagle were appointed as joint and several administrators of each of the Companies pursuant to section 436A of the Act (**Administrators**).

5. Following our appointment, and as a result our investigations, the Administrators formed the view that it was in the best interests of all stakeholders that the business and assets of the Companies be sold as a going concern (as opposed to any liquidation sale).

6. During the period from 24 January 2020 to 30 June 2020, the Administrators conducted an exhaustive and comprehensive sale / recapitalisation process in relation to the Companies' business and assets (**Sales Campaign**). During the Sales Campaign the Administrators received multiple offers for the recapitalisation of the Group or the purchase of the Group's business and assets as a going concern, including in the form of a deed of company arrangement proposal from MCW (**DOCA Proposal**).

7. After assessing all final offers received during the Sales Campaign, the Administrators formed the view that the DOCA Proposal for the recapitalisation of the business through a deed of company arrangement was more favourable than all other final offers received during the Sales Campaign.

8. At the second meeting of creditors of each of the Companies held on 24 July 2020, creditors resolved that each of the Companies execute the DOCA and associated Creditors' Trust Deed. The DOCA was executed on 3 August 2020 and lodged with the Australian Securities and Investments Commission (**ASIC**) on 4 August 2020.

9. We, Gayle Dickerson, Tim Mableson and Ryan Eagle, now act as Joint and Several Deed Administrators of the Group (**Deed Administrators**).

DOCA

10. The DOCA is a binding arrangement between the Companies, its creditors and members whereby eligible claims of creditors that arose on or before 8 January 2020 are compromised, on the basis that a greater return will be achieved under the DOCA than if the Companies were placed into liquidation.

11. Pursuant to the DOCA, MCW will make payment of the following contribution amounts to the Deed Administrators (**Contributions**), which will in turn be paid into a Creditors' Trust to be used to meet the claims of creditors (with the surplus, if any, to be paid to you as the shareholders of McWilliam's):

Contribution	**Description**
Cash	Cash contribution by MCW of $30 million minus 70% of the accrued and unpaid annual leave, leave loading and eligible long services leave entitlements of those employees continuing to be employed by the Group at the Implementation Date set out in the DOCA.
Stock	Cash contribution by MCW for stock (estimated to be at least $16 million at the Implementation Date) subject to a physical stocktake and a stocktake valuation mechanism contained within the DOCA to be calculated and determined immediately prior to the Implementation Date as set out in the DOCA.
VA/DOCA Trading and Receivables	The Creditor's Trust is to also include: • closing receivables; and • any net cash surplus from the Administrators/Deed Administrators trading (after liabilities)

12. Upon payment of the Contributions and certain conditions precedent being satisfied or waived, all of the issued shares in McWilliam's are to be transferred to MCW (or another person or entity nominated by MCW) (**Proposed Share Transfer**).

13. Effectuation of the DOCA (including the Proposed Share Transfer) is conditional on, among other things, the following (**Conditions Precedent**):

    a. ASIC granting relief from the takeover provisions in Chapter 6 of the Act as necessary to permit the Proposed Share Transfer; and

    b. the Court making orders pursuant to section 444GA(1)(b) of the Act granting leave to the Deed Administrators to transfer the shares in McWilliam's to MCW in accordance with the terms of the DOCA (**Proposed Section 444GA Order**).

14. The Conditions Precedent are required to be satisfied (unless waived by MCW) on or prior to 30 November 2020, or such later date as is agreed in writing between MCW and the Deed Administrators, failing which MCW will cease to be bound by the DOCA and the Deed Administrators must convene a meeting of Creditors to determine the future of the Companies. If that were to occur, and in the absence of any alternative deed of company arrangement proposal, the Deed Administrators consider it likely that they will recommend to creditors that the Companies be wound up.

15. A Creditors' Trust will be used to facilitate the distribution of funds to creditors while allowing the Companies to emerge from external administration in an accelerated manner.

16. Upon effectuation of the DOCA, all claims of creditors of the Companies, including any claims held by any persons in their capacity as shareholders of McWilliam's, will be extinguished and exchanged for a beneficial right to claim in the Creditors' Trust to be adjudicated by the Trustees of the Creditors' Trust (who are proposed to be the Deed Administrators) in accordance with the terms of the Creditors' Trust Deed.

Section 444GA Application

17. As a condition of the DOCA, the Deed Administrators are required to make the Section 444GA Application.

18. This occurred on 29 September 2020, upon the filing of the application.

19. An initial case management hearing of the Section 444GA Application was held on 29 September 2020. The Court has listed the application for a final hearing at 2.15pm on Monday, 19 October 2020, with an estimate of half a day in duration.

Independent Expert's Report

20. The Court will only make the Proposed Section 444GA Order if it is satisfied that doing so will not unfairly prejudice shareholders of McWilliam’s.

21. The Deed Administrators engaged Grant Thornton Corporate Finance to prepare the Independent Expert's Report for the purpose of assisting the Court to determine whether the Proposed Share Transfer would be unfairly prejudicial to shareholders. The Independent Expert's Report was also prepared for the purpose of applying to ASIC for technical relief from the takeover provisions of the Act.

22. A copy of the Independent Expert's Report is enclosed with this Explanatory Statement.

23. The Independent Expert's Report should be read carefully and in its entirety.

24. Without detracting from the overall conclusions, analysis and reasoning in the Independent Expert's Report, its key findings are as follows:

    a. On a liquidation basis, Grant Thornton has assessed the value of the shares in McWilliam's at $nil value.

    b. For the purposes of valuing the Companies on a going-concern basis, Grant Thornton developed three scenarios based on certain assumptions as to the objectives and growth targets outlined in a strategic plan that was developed by McWilliam’s during FY19 (**Strategic Plan**), the three scenarios being:

        i. Scenario A: a "base case" under the going concern basis with key assumptions being that certain initiatives in the Strategic Plan are achieved including:

            (A) increase in grape crush production at the Hanwood Winery;

            (B) international sales growth; and

            (C) sales growth linked to premiumisation with an increased average selling point;

        ii. Scenario B: an accelerated version of Scenario A with more aggressive growth assumptions; and

        iii. Scenario C: a less aggressive or optimistic version of Scenario A.

c. On a going-concern basis, dependent on a number of assumptions (including that the current financial difficulties of McWilliam's do not exist and there is sufficient funding available for McWilliam's to pursue and succeed in the implementation of the turnaround of the business which bear significant uncertainty) , Grant Thornton has assessed the value of the shares in McWilliam's on a going concern basis as follows:

DCF Method - Going concern - valuation summary	Section	Scenario A		Scenario B		Scenario C	
A$'000	Reference	Low	High	Low	High	Low	High
Enterprise Value of operating business	***11.1***	**30,353**	**36,061**	**35,889**	**41,452**	**3,150**	**4,913**
Creditors:							
Employee entitlements		(479)	(479)	(479)	(479)	(479)	(479)
Transferring employee entitlements		(1,056)	(728)	(1,056)	(728)	(1,056)	(728)
Secured creditor		(2,601)	(2,601)	(2,601)	(2,601)	(2,601)	(2,601)
Gallo payments		(1,247)	(1,247)	(1,247)	(1,247)	(1,247)	(1,247)
Administrators costs		(2,237)	(2,033)	(2,237)	(2,033)	(2,237)	(2,033)
DOCA fees, legal fees and other fees		(2,656)	(2,055)	(2,656)	(2,055)	(2,656)	(2,055)
Closing cash at execution of DOCA		3,780	4,030	3,780	4,030	3,780	4,030
Funds available to unsecured creditors		**23,857**	**30,947**	**29,392**	**36,337**	**(3,346)**	**(202)**
Unsecured creditor claims		(41,255)	(31,534)	(41,255)	(31,534)	(41,255)	(31,534)
Funds after paying out Creditors (before interest to unsecured Creditors)		**(17,398)**	**(587)**	**(11,862)**	**4,803**	**(44,601)**	**(31,736)**
Interest distribution to unsecured creditors		-	-	-	(2,661)	-	-
Funds available to Shareholders		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Implied value of 100% of the equity of MWG		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Adopted value of 100% of the equity of MWG		**nil**	**nil**	**nil**	**2,142**	**nil**	**nil**

Source: GTGC analysis

d. Only at the high-end of Scenario B, does Grant Thornton assess the shares in McWilliam's as having value, being $2.1 million, on a going-concern basis. We note that this is lower than the high-end of the returns to the shareholders of McWilliam's under the DOCA scenario, being a total of up to $10.5 million being made available to shareholders as a whole (as assessed by the Deed Administrators). At the low-end of Scenario C, Grant Thornton assess the total value of the equity (shares) in McWilliam's as negative $44.6 million.

How does the Section 444GA Application affect you?

25. If the Proposed Section 444GA Order is made, the other conditions precedent of the DOCA are satisfied, and MCW has made the necessary contribution payments as required under the DOCA:

a. the Deed Administrators will transfer the shares that you hold in McWilliam's to MCW;

b. you will not receive any consideration for the transfer of shares;

c. you will cease to hold any shares in McWilliam's;

d. you will be bound by the terms of the DOCA in accordance with section 444G of the Act; and

e. any claims you have against McWilliam's in your capacity as shareholder will be extinguished.

26. Any such claims that you have (including to participate in the distribution of the capital of McWilliam's in the event of a winding up) will be transferred to the Creditors' Trust and adjudicated by the Trustees of the Creditors' Trust in accordance with the Creditors' Trust Deed. This will not affect any claims you may have against third parties. Further, any claim you have as a creditor of McWilliam's will be transferred to the Creditors' Trust, adjudicated by the Trustees of the Creditors' Trust and discharged in accordance with the Creditors' Trust Deed.

Can you participate in the Court hearing?

27. Certain parties are permitted to oppose the Section 444GA Application. These parties are:

    a. a shareholder of McWilliam's;

    b. a creditor of McWilliam's;

    c. any other interested person; or

    d. ASIC.

28. Any shareholder, creditor or other interested person who wants to appear at the hearing, make submissions and/or oppose the Section 444GA Application must file, in the proceedings before the Court, a Notice of Appearance in the prescribed form and serve a copy of it on the Deed Administrators and ASIC by 4.00pm on Monday, 12 October 2020. Please also file and serve any affidavit on which you intend to rely, which indicates any grounds of opposition to the Section 444GA Application, by 4.00pm on Monday, 12 October 2020.

29. The Deed Administrators address for service is c/- HWL Ebsworth Lawyers, Level 14, Australia Square, 264-278 George Street, Sydney NSW 2000 (Attention Grant Whatley and Andrew Ng) or alternatively by email at gwhatley@hwle.com.au and apng@hwle.com.au.

30. It is important for shareholders (and their advisers and any other interested parties) to read this Explanatory Statement and the accompanying Independent Expert's Report carefully and in their entirety before making a decision whether or not to take any action in respect of the Section 444GA Application. If you have any questions regarding the information in this document, you should consult your legal or other professional adviser.

What information is available to assist you?

In addition to this Explanatory Memorandum and the enclosed Independent Expert's Report, copies of the following documents in relation to the Section 444GA Application are available on the KPMG website (www.kpmg.com/au/mcwilliams):

1. the Interlocutory Process filed in relation to the Section 444GA Application;

2. the supporting Affidavit of Gayle Dickerson sworn 29 September 2020; and

3. orders made by the Court on 29 September 2020.

The Administrators' report to creditors under section 75-225 of the *Insolvency Practice Rules (Corporations) 2016* is also available on the KPMG website.

If you have further questions regarding this Explanatory Statement, the Independent Expert's Report or the Section 444GA Application more generally, please contact Irene Tang on (02) 9273 5594 or via email at mcwilliams@kpmg.com.au.

Yours faithfully

Gayle Dickerson
Deed Administrator

Encl.

McWilliam's Wines Group Ltd and Mount Pleasant Wines Pty Ltd (Both Administrators Appointed and subject to Deed of Company Arrangement)

Independent Expert's Report and Financial Services Guide

24 September 2020

Grant Thornton
An instinct for growth™

Grant Thornton Corporate Finance Pty Ltd
ABN 59 003 265 987
AFSL 247140

Level 17, 383 Kent Street
Sydney NSW 2000
PO Locked Bag Q800
QVB Post Office
Sydney NSW 1230
T + 61 2 8297 2400
F + 61 2 9299 4445
E info@gtnsw.com.au
W www.grantthornton.com.au

Deed Administrators
McWilliam's Wines Group Ltd and Mount Pleasant Wines Pty Ltd (Both Administrators Appointed and subject to Deed of Company Arrangement)
c/o KPMG

24 September 2020

Dear Deed Administrators

1 Introduction

McWilliam's Wines Group Limited ("MWG", the "Company" or the "Group") is an unlisted public Australian company that engages in the production, import, and marketing of table and fortified wines in Australia and internationally. The Company was established in 1877 by Samuel McWilliam and is a sixth generation family-owned winemaker located in the Riverina and Hunter Valley regions of New South Wales.

On 8 January 2020, Gayle Dickerson, Ryan Eagle and Tim Mableson were appointed as joint and several administrators ("Administrators" or "Deed Administrators") of McWilliam's Wines Group Ltd and Mount Pleasant Wines Pty Ltd (herein collectively referred to as "MWG" or the "Company" or "the Group") by the directors of the Company (the "Directors") under Section 436A of the Corporations Act 2001 (Cth) (the "Act").

The Administrators ran a comprehensive sale/recapitalisation campaign that resulted in a number of final offers being received to recapitalise the Group or purchase the Group's operations and assets as a going concern. The Administrators reviewed the various offers and selected a preferred offer from MCW Bidco Pty Ltd ("Deed Proponent"), an entity owned (through interposed entities) by Prcstnt Asset Management ("Prcstnt") which offered to acquire 100% of the shares in the Group ("MWG Shares") via a Deed of Company Arrangement ("DOCA") (the "DOCA Proposal").

On 24 July 2020, the creditors of MWG ("MWG Creditors") voted in favour of the DOCA Proposal. The DOCA was executed on 3 August 2020 and Gayle Dickerson, Tim Mableson and Ryan Eagle were appointed Deed Administrators.

Prcstnt is a global capital and asset management firm focused on the intersection of sustainability and the industries of food and agriculture, energy and resources, technology and intelligence. Prcstnt's first fund was launched in Australia in 2016 and as the date of this report Prcstnt has circa A$1.0 billion funds under management.

Under the DOCA, upon certain conditions precedent being satisfied or waived, Prcstnt will acquire 100% of the shares of the Group upon the payment of the top-up cash amount ("Top-Up Cash Amount") defined as follows:

- Cash contribution of A$30 million;

- **Plus** cash contribution for the value of the stock at completion calculated in accordance with the physical stocktake and stocktake valuation mechanism contained within the DOCA. The Deed Administrators has estimated this amount to be at least A$16 million;

- **Less** leave benefits equal to 70% of the accrued and unpaid annual leave, leave loading and long services leave entitlements of those employees continuing to be employed by the Group at the implementation date ("Leave Benefits Amount").

As at the date of this report the Deed Administrators estimate the Top-Up Cash Amount to be at least A$46 million, however, the final amount will be subject to the value of the stock held by MWG just prior to the DOCA Implementation Date. Based on the Estimated Outcome Statement ("EOS") included in the Voluntary Administrators' Report dated 15 July 2020 ("VA Report"), the Deed Administrators estimate the following returns for Creditors[1] and Shareholders from the DOCA Proposal:

- *Secured creditor* – 100 cents in the dollar in the low and high cases disclosed in the VA Report.

- *Employees* – 100 cents in the dollar in the low and high cases disclosed in the VA Report.

- *Unsecured creditors* – Between 94 and 100 cents in the low and high cases disclosed in the VA Report. The employee entitlements paid under the Trust Fund[2] (rather than continuing entitlements transferring to the Deed Proponent) and unsecured creditors, will also receive a statutory interest payment of between zero and A$2.7 million in total in a low and high scenario if their priority and unsecured claims are paid in full.

- *Shareholders* – Between A$nil and A$10.5 million in a low and high cases as assessed by the Deed Administrators.

Among others, the DOCA Proposal is subject to the following conditions (refer to section 6.3 for details):

- The Australian Securities and Investments Commission ("ASIC") granting such exemptions or modifications from the takeover provisions under Chapter 6 of the Act pursuant to section 655A of the Act as are necessary to permit the transfer of the shares to the Deed Proponent (or another person or entity as notified by the Deed Proponent).

- The Federal Court of Australia ("Court") making an order under Section 444GA(1) of the Act granting the Deed Administrators of the DOCA leave to transfer all of the shares in MWG to the Deed Proponent.

2 Requirement for the IER

The Deed Administrators have engaged Grant Thornton Corporate Finance to provide an independent expert's report ("IER" or "Report") in relation to the valuation of the equity in MWG for the purposes outlined below:

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[1] Defined as all the secured and unsecured creditors in the Voluntary Administration process.
[2] Refer to section 6.2 for details.

- For the purpose of assisting the Court in determining whether the proposed transfer of shares to the Deed Proponent will unfairly prejudice the shareholders of MWG ("MWG Shareholders") for the purpose of the Section 444GA(1) application.

- For the purpose of the Deed Proponent's application to ASIC for technical relief from the takeover provisions of the Act.

- To be provided in an Explanatory Statement to be sent to MWG Shareholders prior to the Court hearing of the Section 444GA application so as to provide them with the value of MWG's equity.

The IER has been prepared in accordance with ASIC's Regulatory Guide ('RG') 111 Content of expert's reports ('RG 111') and RG 112 Independence of experts ('RG 112'). We have also considered ASIC Consultation Paper 326 *"Chapter 6 relief for share transfers using s444GA of the Corporations Act"* issued in January 2020 ("CP 326").

This IER should be considered in conjunction with the information set out in the Explanatory Statement prepared by the Deed Administrators and sent to Shareholders prior to the Court hearing.

The valuation date ("Valuation Date") is 30 June 2020 since this is the date for which we have the most updated balance sheet information.

3 Summary of the approach

We have assessed the value of MWG's equity on the following basis:

- *Going concern basis* – It assumes that MWG will continue its operations for the foreseeable future and MWG will have immediate and ongoing funding to implement a turnaround strategy for the business and this is successfully executed.

- *Liquidation basis* – It assumes that MWG's operations will cease to exist and its assets will be liquidated to pay outstanding creditor balances and other liabilities.

As part of our procedures, we have also considered the valuation assessment on a distressed basis, but as discussed later in the executive summary, we have not presented it for the purpose of our analysis as we do not consider it as plausible or feasible.

4 Valuation assessment

4.1 Going concern valuation

In seeking to determine the fair value of MWG on a 'going concern' basis it is necessary to deviate from the standard definition as MWG was unable to discharge its liabilities in the normal course of business. In this respect we have valued the operating business on a 'going concern' basis and then deducted the full amount of Creditors' Claims[3] and other expenses of the VA process summarised in the VA Report (together with the Creditors' Claims referred to as "Total Claims").

[3] All the claims from secured and unsecured creditors and employees as per the VA Report.

The methodology adopted in the valuation of MWG's operating business on a going concern basis is the discounted cash flow ("DCF Method") approach which we have performed under a variety of different scenarios that represent differing combinations of assumptions. We note that we have also considered a distressed basis valuation under a number of different scenarios. Refer to section 4.3 for further details on our distressed basis valuation.

The business has experienced a significant deterioration of the financial performance over the last five years with net sales halving from A$113 million in FY15 to A$66 million by FY20, cumulative underlying EBITDA losses of circa A$31 million and statutory net losses before tax of A$102 million over the same period. These were due to both industry trends and Company's specific factors. Some of the Company's specific factors are summarised below in a non-exhaustive manner:

- *Hanwood Winery operating significantly below capacity* – The Hanwood Winery includes a large commercial winery with grape crushing capacity of 40,000 tonnes per annum, plus a stand-alone premium crushing facility with a capacity of 2,000 tonnes per annum. Historically, the Hanwood Winery has been significantly underutilised with annual crushing reducing from 75% of capacity in 2016 to 31% of capacity in 2020. Given the high fixed costs nature of running the winery, this has materially impacted on the overall performance of the business.

- *Market positioning of MWG wines* – The Company has been historically focussed on the competitive domestic market, and in particular, the lower price segment (i.e. <A$12 ASP[4]) which has reduced at the fastest rate due to changing consumer preferences and the trend towards premiumisation. Sales of wines in the price bracket between A$15[5] and A$50 have increased consistently in the last two year period and more significantly compared with other categories. In addition, the major retailers Coles and Woolworths, who control approximately 70% of the off-premise retail channel, have grown their share of private label brands wine sales[6] due to higher profit margins. This has adversely affected McWilliam's as private label brands target the low priced segment where the Company operates. Private label penetration is now circa 20% of total retail liquor sales, and growing. Historically, MWG has struggled to invest in its brands and new products targeting the premiumisation trend due to its debt funding being based on a receivables facility which is linked the level of revenues in the business. As such, pursuing a better revenue mix would have likely reduced revenue, at least in the short/medium term, which was not bearable from a funding perspective.

- *Limited exports* – The export market makes up approximately 60% of Australia's domestic production and it has achieved strong growth in both volumes and value. In the last five years prior to 2020, total export volumes and value grew at a CAGR of 2.9% and 9.4%[7] respectively, mainly driven by increasing demand from Asia. Conversely, the Company has experienced a declining trend in international sales since 2014, the year of the termination of the global wine supply agreement with E&J Gallo. In FY20, international revenue only accounted for 6% of total revenue.

We note that given the deterioration in the Company's financial performance over the last five years, a going concern valuation can only be undertaken/achieved assuming a successful turnaround of the business over the medium term. During FY19, the Company launched a turnaround of the

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[4] Average Selling Point ("ASP").
[5] Prices above A$15 are considered premium.
[6] IRi - Private Label: The Rise and Evolution of Private Label in Australia, August 2017.
[7] Wine Australia Export Report 2020

business with a three year time frame (the "Strategic Plan"). Core to the Strategic Plan was a reorganisation and repositioning of MWG's brands to address the weakness outlined above. While the implementation of the Strategic Plan commenced in FY19, the appointments of the VAs in January 2020 substantially halted the process.

Accordingly, in our valuation assessment, we have developed a small number of scenarios which revert around the objectives and growth targets outlined in the Strategic Plan.

A summary of these scenarios and related assumptions developed by Grant Thornton based on discussion with Management and the Deed Administrators are outlined in the table below. We note that the assumptions underlying the projections included in our scenario analysis are highly uncertain and subject to factors outside the control of MWG, the Deed Administrators and Grant Thornton with significant scope for differences of opinion.

	Summary of Going Concern DCF Scenarios
Scenario A	Scenario A represents a "base case" under the going concern basis. The key assumptions in this scenario include: • Normal seasonal conditions for Vintage 2021 and beyond. • Increase Hanwood throughput – Grape crush production increasing from 17,800 tonnes in V21 to c. 30,000 tonnes by 2023 through new spot agreements with growers. We have assumed that MWG will increase tonnes to 30,000 given that maximising throughput to 40,000 tonnes would likely put downward pressure on the price that could be achieved on MWG's bulk wine sales, thereby detracting from value. Furthermore, we note that historically MWG has only achieved a maximum throughput of approximately 30,000 tonnes at Hanwood. In addition, following discussion with Management, we have assumed that the Company will be required to pay upwards of 10% above market for all grapes it purchases. Grape prices then reduce back to market value in FY24. We have assumed that the additional wine produced that isn't used in MWG's own products, including growth as a result of the international expansion and premiumisation (see below) will be sold as bulk wine at A$1.2 per litre, with this additional supply absorbed by the market with no impact on prices. • International expansion – International sales grow from circa 85,000 9LE in FY21 to 250,000[8] 9LE[9] by FY25. • Premiumisation – Between FY21 and FY25, MWG continues to target the $12-$20 ASP segment which results in sales growth of 30,000 9LE cases per annum each year by FY25 (i.e. by FY25 approximately 150,000[10] new 9LE sales in the $12-$20 segment). • This results in increased working capital investment up to FY25 and a higher average grape purchase price due to a higher quality of grapes required. We have assumed a price of A$1,400 per tonne of grapes for the new premium products. • Certain costs savings are achieved on dry goods • Discount rate in the range of 10% to 11% on a going concern basis and without considering the situation of financial distress of the business.
Scenario B	Scenario B represents an accelerated version of Scenario A with the following changes to assumptions: • Increase Hanwood throughput – Grape crush production of c. 30,000 tonnes by FY23. • International expansion – International sales grow to 250,000 9LE by FY23. • Premiumisation – Between FY21 and FY23, MWG achieves sales growth in the $12-$20 ASP segment of 50,000 9LE cases per annum each year by FY23 (i.e. by FY23 approximately 150,000 new 9LE sales in the $12-$20 segment). • Other assumptions as per Scenario A.
Scenario C	Scenario C represents a less aggressive or optimistic version of Scenario A with the following changes to assumptions:

[8] The Strategic Plan included an aspirational goal to reach a level of international sales similar to our assumption, however the base case assumption adopted by Management in the Strategic Plan was materially lower at c. 160,000 9LE.
[9] 9 litre equivalent cases (measure in volume).
[10] The Strategic Plan assumed that MWG's premiumisation strategy resulted in an improving mix of sales with total 9LE cases sold mostly unchanged. However, in our premiumisation assumption, we have grown the total number of 9LE cases sold by 150,000 (as opposed to just improving the product mix), which is a more optimistic assumption.

- Increase Hanwood throughput – Grape crush production of c. 30,000 tonnes by 2023
- International expansion – International volumes grow to 200,000 9LE by FY25.
- Premiumisation – Between FY21 and FY25, MWG achieves sales growth in the $12-$20 ASP segment of 20,000 9LE cases per annum each year by FY25 (i.e. by FY25 approximately 100,000 new 9LE sales in the $12-$20 segment).
- Other assumptions as per Scenario A.

Based on the above assumptions, we have summarised in the table below our assessment of the equity value of MWG under the various scenarios on a going concern basis.

DCF Method - Going concern - valuation summary	*Section*	Scenario A		Scenario B		Scenario C	
A$'000	*Reference*	Low	High	Low	High	Low	High
Enterprise Value of operating business	***11.1***	**30,353**	**36,061**	**35,889**	**41,452**	**3,150**	**4,913**
Creditors:							
Employee entitlements		(479)	(479)	(479)	(479)	(479)	(479)
Transferring employee entitlements		(1,056)	(728)	(1,056)	(728)	(1,056)	(728)
Secured creditor		(2,601)	(2,601)	(2,601)	(2,601)	(2,601)	(2,601)
Gallo payments		(1,247)	(1,247)	(1,247)	(1,247)	(1,247)	(1,247)
Administrators costs		(2,237)	(2,033)	(2,237)	(2,033)	(2,237)	(2,033)
DOCA fees, legal fees and other fees		(2,656)	(2,055)	(2,656)	(2,055)	(2,656)	(2,055)
Closing cash at execution of DOCA		3,780	4,030	3,780	4,030	3,780	4,030
Funds available to unsecured creditors		**23,857**	**30,947**	**29,392**	**36,337**	**(3,346)**	**(202)**
Unsecured creditor claims		(41,255)	(31,534)	(41,255)	(31,534)	(41,255)	(31,534)
Funds after paying out Creditors (before interest to unsecured Creditors)		**(17,398)**	**(587)**	**(11,862)**	**4,803**	**(44,601)**	**(31,736)**
Interest distribution to unsecured creditors		-	-	-	(2,661)	-	-
Funds available to Shareholders		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Implied value of 100% of the equity of MWG		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Adopted value of 100% of the equity of MWG		**nil**	**nil**	**nil**	**2,142**	**nil**	**nil**

Source: GTGC analysis

We have assessed the equity value between negative A$44.6 million (adopted value of A$nil) and A$2.1 million after deducting the Total Claims as per the EOS in the VA Report.

Only at the high-end of Scenario B, are we able to achieve a value of the equity that exceeds the Total Claims. However, this value is still lower than the high-end of the returns to MWG Shareholders under the DOCA Proposal of A$10.5 million assessed by the Deed Administrators.

It is important to recognise that the going concern valuation assumes MWG's current financial difficulties do not exist and there is sufficient funding available for MWG to pursue and succeed in the implementation of the turnaround of the business which bear significant uncertainty.

In addition, the macro-economic environment has deteriorated significantly since the appointment of the Administrators due to the following:

- It is predicted that the current global recession driven by the outbreak of COVID-19 will have a long lasting impact on the global drinks industry with a decline of 13% in wine consumption globally expected in 2020 followed by a slow recovery in following years[11]. This reduction in demand could lead to lower prices in the short to medium term as supply is expected to exceed demand by the highest level in over 10 years[12]. As a result, Australian wine industry revenues are forecast to decline in FY21 before recovering in subsequent years. Furthermore, the current restrictions to limit the spread of COVID-19 placed on-premise venues such as bars and restaurants both domestically and abroad are expected to adversely affect the wine industry.

- At the end of September 2019, the ACCC released its final report in relation to the investigations into competition, contracting prices, transparency and wine grape supply chains. One of the ACCC's recommendations was for winemakers to review their contracts with grape growers to remove potentially unfair contract terms, including the long period between harvest (February to April) and payment, for which the industry standard is for payment in three tranches in May, June and October. The ACCC recommended the phasing out of long payment periods, and recommended a new 30 day standard for large winemakers. The ACCC notes that if a material improvement in payment terms does not occur, it may consider further action. The impacts of the recommendation, if implemented, would require greater working capital investment. We note that this would be in addition to the 10% price increase for the grapes purchased by the growers adopted under our going concern valuation which Management notes could be considered an optimistic assumption (i.e. a price increase of greater than 10% may be required to attract growers) given MWG's legacy[13] with growers and the significant competition for grapes in the region.

- In recent months, the risk of wine export to China, which currently accounts for the majority of Australian exports, has grown following the launch of two separate investigations into Australian wine by the Chinese Ministry of Commerce ("MOFCOM"). The first investigation involves alleged anti-dumping practices and will run until August 2021, and may be extended to February 2022. The second investigation addresses alleged subsidies for Australian wine producers and is expected to last one year. The investigations may result in increased tariffs and quotas on Australian wine exports to China, similar to the recent 80.5% tariff applied on Australian barley in May 2020 at the conclusion of a one-year anti-dumping investigation. These may curtail the international growth opportunities for MWG going forward.

The above risks are not taken into account in our going concern valuation.

4.2 Cross check to the going concern valuations based on net assets

We have assessed the equity value of MWG on a going concern basis between negative A$44.6 million (adopted value of A$nil) and positive A$2.1 million. However the Company had book value of net assets of A$18.7 million as at 30 June 2020. Our valuation assessment on a going concern indicates that the Company is worth less than the reported net assets.

In order to consider the reasonableness of the above, we have analysed the price to book value ("P/BV")[14] multiples of the listed comparable companies[15] in the table below.

[11] IWSR, Wine Australia Issue 204, 2 June 2020
[12] IWSR, Wine Australia Issue 204, 2 June 2020
[13] Due to the financial constraints with the business, payments with the growers were not always forthcoming.
[14] This multiple provides an indication if listed peers are valued higher or lower than reported net assets.
[15] We have only presented the Tier 1 listed comparable companies. In our analysis, we have also considered listed peers operating outside Australia and New Zealand, but we have not presented or relied on them as the level of comparability is limited.

P/BV multiples		Market	Enterprise	P/BV Multiple	
		Cap	Value	FY19	FY20
Company	Country	A$ millions	A$ millions	Actual	Actual
Australia and New Zealand wine producers					
Australian Vintage Ltd	Australia	132	258	0.4x	0.4x
Treasury Wine Estates Limited	Australia	6,689	8,170	1.8x	1.8x
Delegat Group Limited	New Zealand	1,394	1,702	4.2x	3.4x
Foley Wines Limited	New Zealand	119	171	1.1x	1.0x
Average				**1.9x**	**1.7x**
Median				**1.5x**	**1.4x**

Sources: S&P Global; financial reports of comparable companies and GTCF calculations
Note (1): Market capitalisation as at 2 September 2020.
Note (2): Net assets as at 30 June 2019 and 30 June 2020.

For benchmarking purposes and in order to provide further insights into the P/BV multiples of the listed peers, below we have provided a KPI analysis for the listed peers.

Key performance indicators	KPIs below calculated as average over FY16 to FY20			
Company	EBITDA Margin	ROE	ROA	ROIC
McWilliams Wine Group Ltd	(7%)	(33%)	(15%)	(22%)
Australian Vintage Ltd	9%	2%	1%	2%
Treasury Wine Estates Limited	23%	8%	5%	7%
Delegat Group Limited	34%	14%	7%	7%
Foley Wines Limited	26%	4%	3%	3%

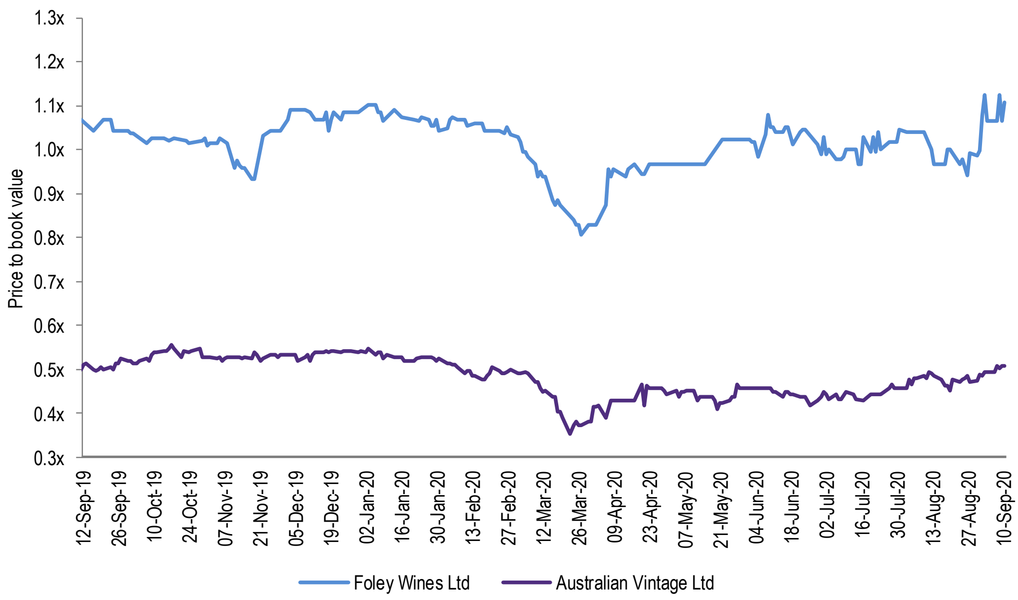
Sources: S&P Global; GTCF calculations
Note (1): ROE and ROA are calculated as Net income divided by average total equity and average total assets respectively.
Note (2): ROIC is calculated as net income divided by total invested capital (Total equity plus net debt).

There is a strong correlation between the returns generated and the P/BV multiples. Australian Vintage Ltd (“AVL”) and Delegat Group Limited (“Delegat”) are at the opposite sides of the FY20 P/BV spectrum at 0.4x and 3.4x respectively. As expected, AVL has the lowest EBITDA margin (9%) and ROE (2%) whereas Delegat has the highest (34% and 14% respectively).

Among the Tier 1 companies, we have analysed further AVL and Foley Wines Limited (“Foley”) as they are of a broadly similar size to MWG[16]. We have set out in the graph below, the rolling P/BV multiple over the last 12 months.

[16] Delegat’s market positioning as super premium wines and the related gross margins and profitability makes it not comparable to MWG; Treasury Wine Estate Limited is a global company operating in several jurisdictions.

Rolling P/BV multiples of AVL and Foley



Source: CapitalIQ

We are of the opinion that the outcome of our assessment under the going concern with limited to no value attributed to the net assets of the Company (we note that at the high end of Scenario B, the implied P/BV multiple is circa 0.2x) is not unreasonable due to the following:

- AVL and Foley are profitable businesses and significantly more advanced than MWG in reaching their strategic objectives as summarised below:
  - AVL (trading at circa 0.4x P/BV) has a strong focus on the overseas market with strong operations in the UK, the US and Asia. It generated cash flows from operations of circa A$30 million in FY20 which has allowed AVL to heavily re-invest into the business. In FY20, branded sales increased by circa 8% and now represent circa 65% of total sales.
  - Foley (trading at circa 1x P/BV) mostly operates in the premium segment of the market and it consistently generated a mid-20% EBITDA margin in the last five years. Operating cash flow increased by 70% in FY20 and circa 45% of the revenue is generated outside Australia and New Zealand.
- Given the significant negative returns generated by MWG over a long period of time, a pool of potential purchasers will be required to invest substantial resources and time in order to be able to generate a return on the invested capital without any guarantee of being able to achieve this objective. These funds will be in addition to any amounts paid for the net assets.
- As outlined in our scenario analysis, based on the current cost structure of the business, size of the operations and market positioning in Australia and overseas, only a major turnaround of the business may return the Company to profitability and positive cash flow generation.
- The significantly shifting landscape of the industry over the last several years including the increase of private label products, premiumisation and growth in import volumes, which are all adversely affecting the financial performance and volumes sold of the business, are expected to

continue in the future and the Company currently has limited ability to respond to them.

The assessed return to MWG Shareholders at the high-end of the DOCA Proposal of A$10.5 million implies a FY20 P/BV multiple of circa 0.6x which is in between the trading multiple of AVL and Foley notwithstanding the differences discussed above.

4.3 Distressed valuation

In our procedures we have also analysed the outcome of a distressed valuation scenario for MWG Shareholders whereby certain operational improvements and strategic objectives are achieved, however given the challenges of the business and the lack of funding discussed extensively in the report, MWG is not able to generate positive returns for the assets employed and positive cash flows.

Obviously, no rational investor will continue to run a business at loss in perpetuity, so we have not presented the specific valuation findings under the distressed approach as the values under all the scenarios were significantly negative even before taking into account the Total Claims. For completeness, we have described in Appendix E, the scenarios considered in the distressed approach.

4.4 Liquidation basis

Under a liquidation basis, the operations will cease to exist and the assets will be liquidated to pay outstanding creditor balances and other liabilities.

In relation to the assessed returns to equity holders under the liquidation scenario, we note the following:

- MWG has significant tangible assets capable of realising material value. Their value under a liquidation scenario has been independently assessed by real estate valuers and plant and equipment valuers.

- MWG is likely to only recover a portion of the inventory in a liquidation process.

- The Deed Administrators have assessed contingent liabilities to be materially higher on a liquidation basis than on a going concern basis due to the costs of breaking the Company's leases, in particular for its vineyards (particularly Hanwood which has circa 10 years remaining) and at its former bottling site at Chullora.

We have illustrated in the table below returns to MWG Shareholders assessed by the Deed Administrators based on a revised version of the VA Report's liquidation basis EOS. This revised liquidation basis EOS ("Revised Liquidation EOS") has been prepared subsequent to the VA Report EOS and we understand it will be included in the Voluntary Administrators Explanatory Statement ("Explanatory Statement"), which will also include this IER. The Revised Liquidation EOS has been prepared based on the assumption that the DOCA is unable to be completed by 30 October 2020 due to an inability to satisfy all conditions precedent. As a result the Group will have to be put into liquidation. The Revised Liquidation EOS takes the balance sheet on appointment of the Deed Administrators at 8 January 2020 and forecasts the cash trading position and working capital to 30 October 2020.

Deed Administrators MWG Summary of value - Liquidation basis A$'000	Low	High
Asset realisations:		
Plant and equipment	5,232	5,813
Land and buildings	16,777	23,793
Less: PMSI claims	(945)	(945)
Cash at bank at appointment	2,085	2,085
Debtors net of rebates (pre-appointment)	10,789	11,092
Inventory (net of selling costs and WET)	6,590	9,032
Less: PMSI claims	(622)	(272)
Intellectual property	4	Unknown
Estimated trading surplus / (deficit)	(1,334)	(1,482)
Less: Other non-trading costs	(6,127)	(6,127)
Liquidator net recoveries	260	520
Total assets (net of PMSI)	**32,709**	**43,509**
Less:		
Secured creditors	(2,601)	(2,601)
Fees for administrators, liquidators, disbursements, legal fees, other professional fees	(5,417)	(5,372)
Priority employee entitlements	(3,784)	(3,784)
Unsecured creditors	(57,029)	(46,123)
Plus: Mount Pleasant MWG POD claim	179	179
Total Creditors and costs	**(68,652)**	**(57,701)**
Deed Administrators estimated deficiency to unsecured creditors	**(35,943)**	**(14,192)**

Source: GTCF analysis; Deed Administrators' Estimated Outcome Statement under a liquidation scenario

In the assessment of the residual value under a liquidation scenario, we have reviewed and discussed the calculations Revised Liquidation EOS prepared with the Deed Administrators and we have consulted with our internal liquidation team, which has provided feedback on the reasonableness of the assumptions. We have set out below a summary of our procedures:

- Undertaken a high-level sense check of the key calculations underlying the Deed Administrators assumptions. We note that we have focussed our attention on the key assumptions which have the most significant impact on the estimated outcome to MWG Shareholders given the material benefit of circa A$26.8 million at the low-end and A$20.9 million at the high-end of the DOCA over the Liquidation scenario to creditors and MWG Shareholders.

- The plant and equipment and land and buildings values have been independently assessed by real estate valuers and plant and equipment valuers.

- At a high-level we have reviewed the Deed Administrators' treatment of cash, the trading surplus / (deficit), debtors and inventory.

- In relation to pre-appointment trade debtors, we have reviewed the debtor days position for each of MWG's debtors as at 31 December 2019, which broadly resembles the value as at 8 January 2020 and have further assessed the underlying credit quality of the key debtors and note that the assumptions adopted by the Deed Administrators appear reasonable.

- In relation to the inventory, the Deed Administrators have applied a discount to the book value of finished goods, bulk wine and unlabelled wine inventory as at 30 October 2020 to reflect a fire sale approach under a liquidation scenario. Other inventory such as additives and packaging has been assumed to be unsaleable and therefore have $nil value, although they represent a relatively minor portion of total inventory (i.e. circa 6% collectively). The Deed Administrators have then deducted selling costs such as commission, employee costs, advertising and wine equalisation tax expenses to arrive at a liquidation value. We have reviewed these assumptions and note that they appear reasonable.

- Assessed the likely payout amount of MWG's contingent leases, in particular for the long dated leases.

- We have reviewed the other creditor claims and queried the key assumptions for large creditor balances in the Deed Administrators values.

- Grant Thornton has not attributed any value to MWG's intangible assets and in particular the value of the brands given that it is unlikely to be paid under a liquidation scenario and the market positioning and customer awareness of the MWG's brands need to be significantly improved (premiumisation and export) in order for the Company to achieve its strategic objectives.

We have set out below our indicative assessment of the residual value.

MWG Summary of value - Liquidation basis A$'000	Low	High
Deed Administrators estimated deficiency to unsecured creditors	**(35,943)**	**(14,192)**
Grant Thornton Corporate Finance adjustments:		
Adjustment to contingent liabilities	6,553	3,720
Adopted estimated deficiency to unsecured creditors	**(29,389)**	**(10,472)**

Source: GTCF analysis; Deed Administrators' Estimated Outcome Statement under a liquidation scenario

We note that whilst some of the assumptions underlying the liquidation scenario are subjective in nature and it is possible that alternative views may be adopted, these need to increase our assessment of the residual value by circa A$29.4 million at the low-end and A$20.9 million at the high-end for the residual value to be comparable to the DOCA Proposal of between A$nil and A$10.5 million.

Based on the above, we have assessed the value of the equity under the Liquidation case at A$nil.

The above calculations are an estimate only and may change due to the duration and final position of the Administrators' and Liquidators' trading, in particular the realisation strategies implemented for stock; the ultimate value achieved from the sale of inventory and property, plant and equipment; the final proving of creditor claims including contingent liabilities; the success of any recovery actions pursued by the liquidators; and the costs of litigation to recover any potential recovery actions that may be brought by the liquidators.

5 Other matters

Our report has been prepared in accordance with the relevant provisions of the Act and other applicable Australian regulatory requirements. This report has been prepared predominantly for the purpose of assisting the Court regarding the application under Section 444GA(1) of the Act proposed by the Deed Administrators of MWG on whether or not the proposed share transfer will unfairly prejudice Shareholders and for the purpose of applying to ASIC for technical relief from the takeover provisions of the Act. We do not assume any responsibility or liability to any other party as a result of reliance on this report for any other purpose.

Neither the whole nor any part of this report or its attachments or any reference thereto may be included in or attached to any document, other than the Explanatory Statement to be sent to Shareholders in relation to the DOCA Proposal and documents provided the Court and ASIC, without the prior written consent of Grant Thornton Corporate Finance as to the form and context in which it appears. Grant Thornton Corporate Finance consents to the inclusion of this report in the form and context in which it appears in the Explanatory Statement.

Our opinion is based solely on information available as at the date of this report as set out in Section 12. We note that we have not undertaken to update our report for events or circumstances arising after the date of this report other than those of a material nature which would impact upon our opinion. We refer readers to the limitations and reliance on information section as set out in Section 12 of our report. The above opinion should be considered in conjunction with and not independently of the information set out in the remainder of this report, including the appendices.

Yours faithfully
GRANT THORNTON CORPORATE FINANCE PTY LTD

ANDREA DE CIAN
Director

HELEN LAGIS
Authorised Representative

24 September 2020

Financial Services Guide

1 Grant Thornton Corporate Finance Pty Ltd

Grant Thornton Corporate Finance carries on a business, and has a registered office, at Level 17, 383 Kent Street, Sydney NSW 2000. Grant Thornton Corporate Finance holds Australian Financial Services Licence No 247140 authorising it to provide financial product advice in relation to securities and superannuation funds to wholesale and retail clients.

Grant Thornton Corporate Finance has been engaged by the Deed Administrators to provide general financial product advice in the form of an independent expert's report in relation to the implementation of the DOCA. This report is included in MWG's Explanatory Statement.

2 Financial Services Guide

This FSG has been prepared in accordance with the Corporations Act 2001 and provides important information to help retail clients make a decision as to their use of general financial product advice in a report, the services we offer, information about us, our dispute resolution process and how we are remunerated.

3 General financial product advice

In our report, we provide general financial product advice. The advice in a report does not take into account your personal objectives, financial situation or needs.

Grant Thornton Corporate Finance does not accept instructions from retail clients. Grant Thornton Corporate Finance provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Thornton Corporate Finance does not provide any personal retail financial product advice directly to retail investors nor does it provide market-related advice directly to retail investors.

4 Remuneration

When providing the Report, Grant Thornton Corporate Finance's client is the Deed Administrators. Grant Thornton Corporate Finance receives its remuneration from the Deed Administrators. In respect of the Report, Grant Thornton Corporate Finance will receive a fee of A$225,000 (plus GST) which is based on commercial rates, plus reimbursement of out-of-pocket expenses for the preparation of the report. Our directors and employees providing financial services receive an annual salary, a performance bonus or profit share depending on their level of seniority.

Except for the fees referred to above, no related body corporate of Grant Thornton Corporate Finance, or any of the directors or employees of Grant Thornton Corporate Finance or any of those related bodies or any associate receives any other remuneration or other benefit attributable to the preparation of and provision of this Report.

5 Independence

Grant Thornton Corporate Finance is required to be independent of MWG in order to provide this report. The guidelines for independence in the preparation of independent expert's reports are set out in RG 112 *Independence of expert* issued by ASIC. The following information in relation to the independence of Grant Thornton Corporate Finance is stated below.

"Grant Thornton Corporate Finance and its related entities do not have at the date of this report, and have not had within the previous two years, any shareholding in or other relationship with MWG (and associated entities) that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the DOCA Proposal.

Grant Thornton Corporate Finance has no involvement with, or interest in the outcome from the implementation of the DOCA, other than the preparation of this Report. Grant Thornton Corporate Finance will receive a fee based on commercial rates for the preparation of this Report. This fee is not contingent on the implementation of the DOCA. Grant Thornton Corporate Finance's out of pocket expenses in relation to the preparation of the Report will be reimbursed. Grant Thornton Corporate Finance will receive no other benefit for the preparation of this report.

We note Grant Thornton prepared an independent and desk-top valuation assessment of MWG as at 31 December 2017. As part of that engagement, we did not provide any advice to the Company or the Directors and we acted purely as independent valuer.

Grant Thornton Corporate Finance considers itself to be independent in terms of RG 112 "Independence of expert" issued by the ASIC."

6 Complaints process

Grant Thornton Corporate Finance has an internal complaint handling mechanism and is a member of the Australian Financial Complaints Authority. All complaints must be in writing and addressed to the Chief Executive Officer at Grant Thornton Corporate Finance. We will endeavour to resolve all complaints within 30 days of receiving the complaint. If the complaint has not been satisfactorily dealt with, the complaint can be referred to the Australian Financial Complaints Authority which can be contacted at:

Australian Financial Complaints Authority Limited
GPO Box 3
Melbourne, VIC 3001
Telephone: 1800 931 678

Grant Thornton Corporate Finance is only responsible for this Report and FSG. Complaints or questions about the General Meeting should not be directed to Grant Thornton Corporate Finance. Grant Thornton Corporate Finance will not respond in any way that might involve any provision of financial product advice to any retail investor.

Compensation arrangements

Grant Thornton Corporate Finance has professional indemnity insurance cover under its professional indemnity insurance policy. This policy meets the compensation arrangement requirements of section 912B of the Corporations Act, 2001.

Contents

6 Summary of the DOCA

6.1 The process leading to VA

The Group has been trading at a loss since FY15 and faced significant liquidity issues and constraints since then. A pivotal moment occurred in May 2017, when the Board received a letter of default in relation to the A$55 million credit facility originally provided by General Electric Capital but subsequently acquired by Bain Capital. Over the years, given the limited ability to access traditional funding from banks and shareholders, the Board has implemented the sales of several core and non-core assets totalling A$72 million to fund the underperformance of the operations and the lack of cash flow generation.

In June 2019, management of the Company presented a turnaround plan to the Board, identifying the funding required to achieve a break even position in 3 years. The business engaged an external adviser to assist in a debt/capital raising but it was unable to secure funding options that the Board was prepared to support, due to conditionality or timing.

Ultimately the inability to secure the necessary funding, combined with ongoing pressure on sales and cash flow, as well as the inability to renew the Directors and Officers insurance policy, led to the Board's decision to place the Group into Voluntary Administration on 8 January 2020. Based on the Administrators' preliminary conclusion, the Company was insolvent on or around 30 November 2020.

The Administrators identified the following as the key reasons for their appointment:

- The Group's history of significant trading losses that led to constraints on liquidity, resulting in MWG selling assets in order to repay debt obligations.
- There was a failure to secure adequate debt and equity funding. Further, a recapitalisation that occurred in January 2019 did not generate sufficient capital in order to support the Group's then proposed turnaround plan.
- Pressure on margins and declining sales, particularly in relation to the slowing and unprofitable "Below $10" retail price market.
- Domestically there were challenges in repositioning brands. Further, there was a lack of strategic direction in terms of export markets and sales following the loss of the E.&J. Gallo distribution arrangement in 2014.
- Significant turnover of key management team and Board in recent years and insufficient runway for the new management team to turnaround the business.

On 14 February 2020, the Receivers ("Receivers") were appointed under the terms of the security provided by the Group to Margaret River Wine Production Pty Ltd ("MRWP"). Subsequently, on 17 February 2020, the Administrators entered into a funding agreement with Gordon Brothers Pty Limited ("Gordon Brothers") that enabled the secured debt owing to MRWP to be repaid in full. As a result, the Receivers retired on 18 February 2020 and the MRWP secured debt was discharged.

Gordon Brothers is a multinational firm who provides capital solutions to special situations events and it has made available to the Deed Administrators the amount of A$6.5 million to repay the secured debt owing to MRWP. The Deed Administrators are to repay the loan and other amounts as a cost of the administration in priority to the Administrators' claims for their own remuneration. No interest is payable on the loan for a period of three months (given there was an establishment fee), with interest payable at the rate of 12% thereafter.

Following their appointment, the Deed Administrators ran a comprehensive sale process or recapitalisation campaign of MWG[17] as highlighted below:

- 170 parties expressed initial interest that resulted in 94 confidentiality agreements received and parties granted access to the data room.
- 18 non-binding indicative offers ("NBIOs") for the whole or part of the business were received by 31 March 2020 and seven parties were shortlisted for further detailed due diligence in Stage 2.
- Multiple parties submitted binding offers by 30 April 2020.
- Subsequently, after having reopened the process, the Administrators received multiple final binding offers and offers in the form of NBIOs by 30 June 2020. Interested purchasers had been invited to submit final binding offers for the business and assets and/or a recapitalisation via a Deed of Company Arrangement (DOCA) proposal.

As a result of the above process, on 15 July 2020, the Deed Administrators issued the Voluntary Administrators' Report to table the findings of their preliminary investigations of the Group's business, as well as the Deed Administrators' opinion on the three options available to creditors at the second creditors meeting.

At the second meeting of Creditors held on 24 July 2020, Creditors resolved that the Group execute the Deed of Company Arrangement and Creditors' Trust Deed proposed by the Deed Proponent. The DOCA was executed on 3 August 2020 and lodged with ASIC on 4 August 2020.

6.2 Brief outline of the DOCA

Upon the implementation of the DOCA, 100% of the MWG Shares will be transferred to the Deed Proponent following the satisfaction or waiver of the conditions precedent discussed below. In exchange for 100% of MWG's issued capital, the Deed Proponent will pay a cash contribution determined as following:

- Cash contribution of A$30 million; ***plus***
- Cash contribution for the Completion Stock Amount[18] (estimated to be at least $16 million at the Implementation Date) subject to a physical stocktake and a stocktake valuation mechanism contained within the DOCA to be calculated and determined immediately prior to the Implementation Date as set out in the DOCA; ***minus***

[17] The Administrators appointed Colliers International Pty Limited as sale agent.
[18] MWG must determine the value of its stock based on the valuation principles set out in the DOCA and deliver a written statement to the Deed Proponent identifying the value of stock no later than two business day before the Implementation Date.

- Leave benefit amounts equals to 70% of the accrued and unpaid annual leave, leave loading and long services leave entitlements of those employees continuing to be employed by the Group at the Implementation Date set out in the DOCA.

The Deed Proponent has proposed, amongst other things, the use of a Creditors' Trust in the DOCA to operate in conjunction with the DOCA in order to accelerate the Companies' exit from external administration.

The table below summarises the expected returns to MWG's Creditors and Shareholders upon the implementation of the DOCA. Refer to the VA Report for details and information.

Estimated returns upon the DOCA implementation A$'000	Low	High
DOCA fund contribution	30,000	30,000
Less: transferring employee entitlements	(1,056)	(728)
Completion Stock Value	16,000	20,200
Closing cash at execution of DOCA	3,780	4,030
Trading profit /(deficit) from execution of DOCA to completion of the DOCA	(824)	(420)
Total fund contribution	**47,899**	**53,081**
Less: Employee entitlements	(479)	(479)
Less: Secured creditor	(2,601)	(2,601)
Less: Gallo payment	(1,247)	(1,247)
Less: Administrators fees and disbursements	(2,237)	(2,033)
less: DOCA fees and disbursements	(1,157)	(606)
Less: Legal fees and independent expert report	(617)	(561)
Less: Agent's commission	(449)	(495)
Less: Trustee fees	(432)	(393)
Funds available to unsecured creditors	**38,679**	**44,665**
Unsecured creditors claims	(41,255)	(31,534)
Estimated surplus / (deficiency) to unsecured creditors	**(2,576)**	**13,131**
Interest distribution to unsecured creditors	-	(2,661)
Estimated surplus / (deficiency) to shareholders	**(2,576)**	**10,472**
Estimated dividend (cents in the dollar)		
Secured creditor	100	100
Priority creditors	100	100
Unsecured creditors	94	100

Source: KPMG "Voluntary Administrators' Report" 15 July 2020

6.3 Key conditions precedent

We have set out below, in a non-exhaustive manner, the conditions precedent of the DOCA which need to be satisfied or waived on or prior to 30 November 2020:

- ASIC granting such exemptions or modifications from Chapter 6 of the Act pursuant to section 655A of the Act as are necessary to permit the transfer of the MWG Shares to the Deed Proponent.

- A Court making a Section 444GA Order.

- The execution of such documents as the Deed Proponent may reasonably require in order to confirm the continuation of specified leases and contracts that will remain in place at and immediately after completion.

- Certain key employees[19] confirming to the Deed Administrators within five business days prior to the implementation date that it is their present intention not to resign before, at or immediately following completion and remain employed by the date the conditions precedent are satisfied or waived.

- The Deed Companies terminating all leases and licences to occupy real property other than the leases that are to continue following completion of the DOCA.

[19] David Pitt (CEO), Beverly Lennox (CFO), Ross Lyman (Head of Supply and Operations) and Scott McWilliam (business development manager, senior winemaker and family ambassador).

7 Purpose and scope of the report

7.1 Purpose

The Administrators appointed Grant Thornton to prepare an IER in relation to the valuation of the equity of MWG. This report will be used for the following:

- For the purpose of assisting the Court in determining the Administrators' proposed application pursuant to section 444GA(1) of the Corporations Act 2001 (NSW) ("Act") in order to assist the Court in determining whether the 444GA Application will unfairly prejudice MWG Shareholders.

- For the purpose of the application to ASIC for technical relief from the takeover provisions of the Act.

- To be provided in an Explanatory Statement to be sent to Shareholders of the Group prior to the Court hearing of the section 444GA application so as to provide them with the value of Group's equity.

The implementation of the DOCA amongst other things, is conditional upon, ASIC granting relief from S606 (under S655A) and the Court approving the S444GA Application to transfer all Group Shares to the Deed Proponent. Pursuant to Section 444GA(3) of the Act, the Court will only approve such a transfer if it is satisfied that the proposed share transfer will not "unfairly prejudice the interests of members of the company". The proposed share transfer will not unfairly prejudice Shareholders if the MWG shares have no value or limited value give that under the DOCA, there is the potential for the Shareholders to receive a return of up to A$10.5 million to be distributed based on shareholding percentage.

We are aware that this Report will be tendered to the Court by the Deed Administrators as part of the evidence in support of their Section 444GA application. As a consequence, we have read the Harmonised Expert Witness Code of Conduct (Code) contained in the Federal Court of Australia's Expert Evidence Practice Note (GPN-EXPT) and agree to be bound by it. We have made all inquiries which we believe are appropriate and desirable (save for any matters identified explicitly in this Report) and no significant matters which we believe to be relevant have, to our knowledge, been withheld from the Court.

7.2 Basis of assessment

Regulatory Guide (RG) 111 "Content of expert reports", issued by ASIC provides guidance on the content of an expert report and how an expert can help security holders make informed decisions about transactions.

RG 111.8 states that there are a range of legal mechanisms that result in a control transaction and in such cases, the expert should focus on the substance of the control transaction rather than the effects of the legal mechanism. Where a transaction is a control transaction, it should be analysed on a consistent basis as that with a takeover bid. If the DOCA Proposal is implemented, 100% of the issued capital of the Group will be transferred to the Deed Proponent. Accordingly, we have analysed the DOCA Proposal as a control transaction.

RG 111.15 states that "the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target's assets)". That is consideration of a company's financial distress should not be included in an assessment of fair value. Furthermore, for the purposes of determining the application for relief from the operation of Section 606 of the Act, ASIC specifically requires the value of the business to be assessed on a 'going concern' basis.

In the assessment of MWG on a 'going concern' basis, we have followed the approach outlined below:

- We have valued the operating business on a 'going concern' basis and assuming availability of funding to implement the required turnaround strategy.

- We have then deducted the secured net borrowings that existed as at the DOCA execution date, the full amount of the Deed Administrators' assessment of priority creditors (employees), secured creditors, and other unsecured creditors of MWG and added cash as at the DOCA execution date (after paying the costs of the voluntary administration, DOCA and other fees).

Our report has also considered the value of the MWG equity on a liquidation basis. We have considered that the concept of fair value no longer exists, as the seller cannot be considered to be 'not anxious'. In considering a distressed value we have considered both a distressed sale basis and a liquidation basis.

We note that in January 2020, ASIC released CP326 which seeks feedback about the circumstances in which ASIC will grant relief from Chapter 6 of the Corporations Act for share transfers using s444GA of the Corporations Act. ASIC proposes to include a guidance in RG 6 "Takeovers: Exceptions to the general prohibition" ("RG6") to grant relief subject to following requirements:

- Explanatory materials being made available to shareholders before the s444GA hearing, including an IER being prepared consistent with RG 111.

- The IER being prepared on a liquidation basis.

- The IER being prepared by an independent expert (not the administrator or other party associated with their firm).

As at the date of this report, the proposed above changes included in CP326 have not been implemented, accordingly we have completed the IER having regard to the existing ASIC Regulatory Guides. However, we note that the IER contains a valuation assessment of MWG on a liquidation basis.

7.3 Consent and other matters

Our Report has been prepared in accordance with the relevant provisions of the Act and the ASIC RGs. It has been prepared for the exclusive purpose of assisting in the S444GA Application by the Deed Administrators, ASIC granting relief from S606 and to inform MWG Shareholders of the restructure and provide Shareholders with a valuation of MWG, so they can make an informed decision in relation to the S444GA Application. This report should not be used for any other purpose.

Grant Thornton Corporate Finance consents to the issue of this report in its form and context and consents to its inclusion in the Explanatory Statement to be provided to MWG Shareholders regarding the Deed of Company Arrangement proposed by the Deed Proponent and entered into by the Deed Administrators on 3 August 2020.

Refer to our limitations and disclosures in Section 12 regarding the basis of preparation and use of this Report. Grant Thornton has prepared a Financial Services Guide (‘FSG’) in accordance with the Act. The FSG is included as Part 1 of the Report.

7.4 Compliance with APES 225 Valuation Services

This report has been prepared in accordance with the requirements of the professional standard APES 225 Valuation Services (“APES 225”) as issued by the Accounting Professional & Ethical Standards Board. In accordance with the requirements of APES 225, we advise that this assignment is a Valuation Engagement as defined by that standard as follows:

“An Engagement or Assignment to perform a Valuation and provide a Valuation Report where the Member is free to employ the Valuation Approaches, Valuation Methods, and Valuation Procedures that a reasonable and informed third party would perform taking into consideration all the specific facts and circumstances of the Engagement or Assignment available to the Member at that time.”

8 Industry overview

The Company produces, imports, distributes and markets wines and liqueurs in Australia and exports its products overseas to the North American, EMEA[20] and Asian markets. However, most of MWG's revenue is generated from sales to the domestic market.

8.1 Introduction

Historically, Australian wine production has been relatively concentrated in just three states with South Australia, New South Wales and Victoria responsible for approximately half, a third and a sixth of total production respectively. Collectively, the remaining states and territories account for less than 5% of total production[21].

The Australian wine industry comprises approximately 2,500 wineries and 6,000 grape growers although just 20 businesses are responsible for circa 72% of total production[22] with more than half of producers responsible for producing 50 tonnes or less. The industry is highly seasonal with the harvest season occurring each year between February and April.

The volume of grapes selected each year to be made into wine is referred to as the 'winegrape crush' with volumes driven by several factors including the total bearing area[23], and climate factors such as rainfall, temperature, hail, frost and bushfires. The 2020 wine grape crush is estimated to be approximately 1.52 million tonnes, or 13% below the 10-year average of 1.75 million tonnes[24]. The sharp reduction was the result of extreme weather including drought, frost, hail and flood events as well as bushfires which caused smoke damage in some winegrowing regions. In particular, the Riverina district was affected by drought conditions and the Hunter Valley was significantly affected by smoke taint[25] with total crush in the Hunter Valley less than half the level of 2019.

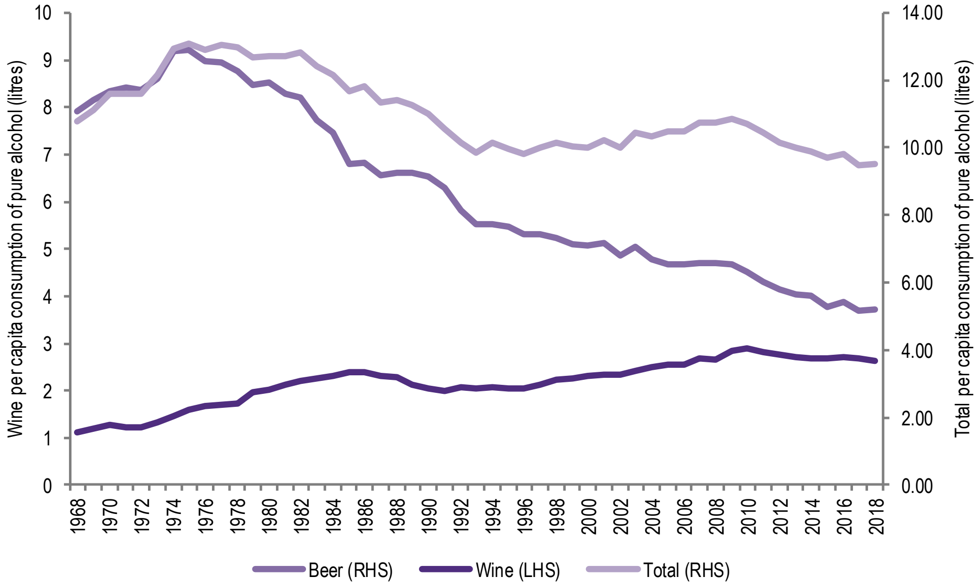
Due to the difficulties in forecasting production requirements, the Australian wine industry suffers from frequent over and undersupply. This is compounded by the long-dated production cycle and reduced speed to market which reduces flexibility to respond to changing consumer preferences and demand, and dilutes investment returns.

8.2 Demand

Total Australian alcohol consumption on a per capita basis has trended down since the mid 1970's driven primarily by a reduction in beer consumption which was partly offset by growth in wine consumption in the 1990's and early 2000's. However, since 2010, domestic wine consumption on a per capita basis has also begun to decline, falling by approximately 9% between 2010 and 2018 as shown below.

[20] Europe, Middle East and Africa.
[21] As measured by the share of the annual wine grape crush.
[22] Wine Australia, National Vintage Report 2020.
[23] The bearing area is measured by the total hectares of vineyards.
[24] Wine Australia, National Vintage Report 2020.
[25] Smoke taint is when vineyards and grapes are exposed to smoke which damages the quality of the grapes.

Australian consumption of pure alcohol, per capita – 1968 to 2018



Source: Australian Institute of Health and Welfare ("AIHW"), ABS, GTCF analysis
Note (1): Litres per person aged 15 years and above.
Note (2): Total consumption includes spirits and ready to drink beverages.

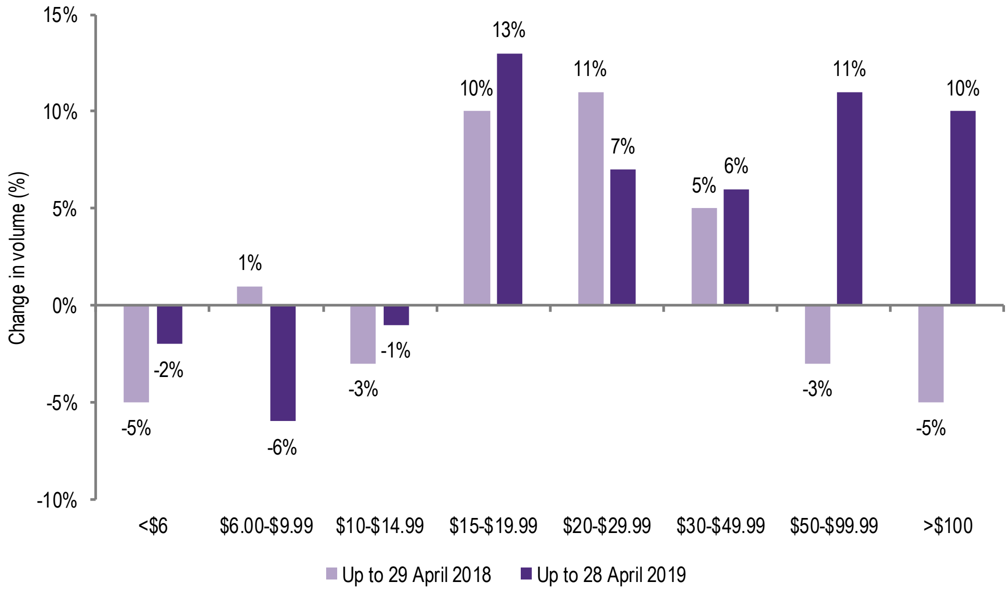
The decline in per capita consumption in recent years has been driven by a declining population of wine drinkers. The decline mirrors the trend in lower alcohol consumption more broadly, down from 70.1% in 2014 to 66.3% of adult Australians in 2020[26] which is widespread across both females and males, in all age and socioeconomic groups and in both regional and urban areas. The decline is likely driven by a range of factors such as increased health consciousness, reduced alcohol consumption of younger adults (including millennials and Generation Z), and the increasing prevalence of anti-drinking campaigns such as 'Dry January', 'Feb Fast' and 'Dry July'.

Despite the declining per capita consumption, the value of domestic wine sales has continued to grow driven by an increase in the average price as consumers seek quality over quantity. Between 2015 and 2019 the average wholesale price per litre increased by 21.4% (CAGR of 5.0%) from A$5.8 per litre to A$7.08[27] per litre.

Increases in the per-litre value of wine consumed in Australia and exported overseas have aided industry revenue growth over the past years. This premiumisation trend has helped offset declining per capita alcohol consumption, as consumers have shifted to purchasing higher value products. As seen in the chart below, sales of wines in the price bracket between $15 and $50 have increase consistently and more significantly compared with the other categories. The price brackets below $15, where McWilliam's sell most of its volumes have been the most adversely affected in the last two years.

[26] Roy Morgan's Alcohol Consumption Currency Reports dated March 2019 and March 2020.
[27] Wine Australia, Australian Grape and Wine Sector Strategic Planning Discussion Paper.

Change in volume of Australian wine sales in domestic off-trade market (2018-19)

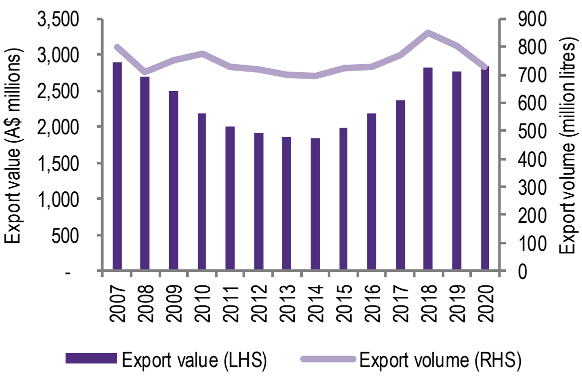


Source: IRI MarketEdge March 2019, GTCF analysis

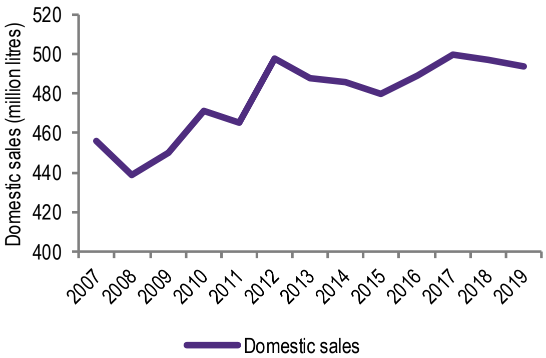
Internationally, China is the largest international consumer of wines from Australia. China's rising middle class has boosted demand for higher priced, premium products. Australia maintains a premium position in pricing with an average value of over A$6.00 per litre in bottled wine. Mainland China is Australia's largest export market, accounting for over a third of exported wine value in 2018-19[28].

While growth in domestic wine consumption has been relatively flat in recent years, the export market, which makes up approximately 60% of Australia's domestic production, has achieved strong growth in both volumes and value. In the last five years prior to 2020, total export volumes and value grew at a CAGR of 2.9% and 9.4%[29] respectively driven by increasing demand from Asia. However, we note that in 2020, volumes and values were negatively affected by COVID-19 and declined by 9% and 1% respectively as shown in the table below.

Australian exports



Domestic consumption



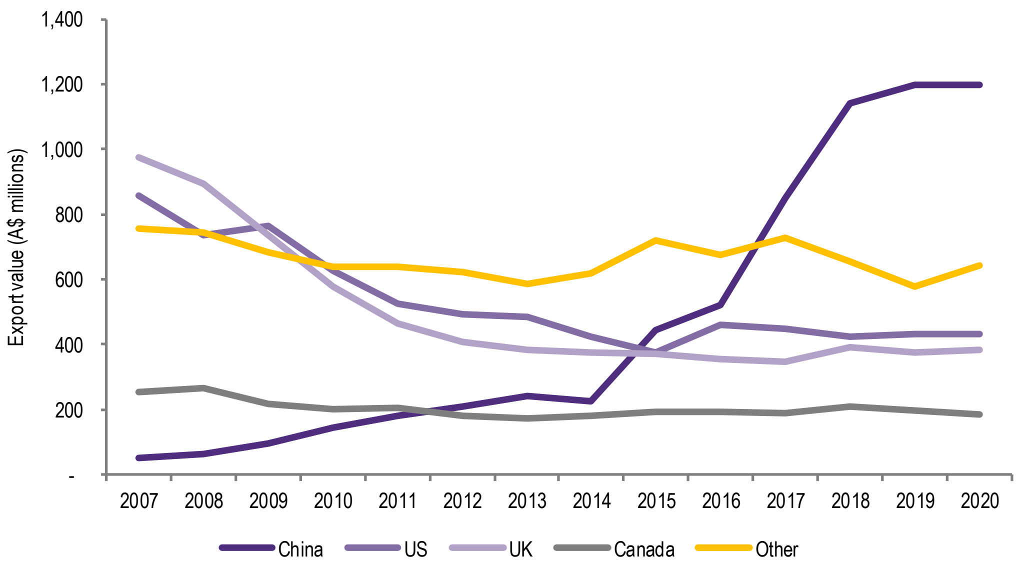
Source: Australian Wine: Production, Sales and Inventory 2018-19, GTCF analysis

[28] Wine Australia Market Insights – China
[29] Wine Australia Export Report 2020

Between 2007 and 2014, the value of exports went through a significant downturn falling at a CAGR of 6.2% from A$2.89 billion in 2007, to A$1.85 billion in 2014. The decline was driven by lower sales to most major partners and reflected the global financial crisis in 2007; falling demand from the US, UK and Canada; a strengthening Australian dollar from 80 US cents to above 1 US dollar by 2011; and increasing competition and choice from other exporters.

Below we detail the change in exports since 2014 with Australia's major export partners which highlight the dominance of China as a trade partner in recent years.

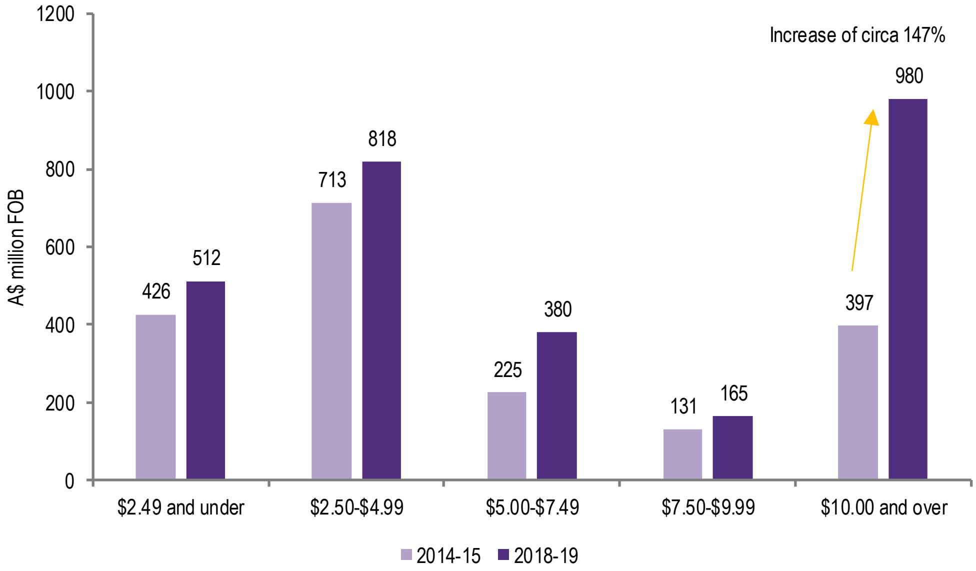
Australian exports by country (2007-2020)



Source: Agricultural Commodity Statistics 2019, Wine Australia Export Reports, GTCF analysis

As set out in the graph below, Australian exports followed the premiumisation in the domestic market with wines in the price range of greater than $10 per litre increasing by circa 147% from 2014-15 to 2018-19.

Australian exports by price segment (A$ million FOB)



Source: Wine Australia Exports, GTCF analysis

Note (1): Free on Board ("FOB")

In recent months, however, the risk of Chinese exports has grown following the launch of two separate investigations into Australian wine by the Chinese Ministry of Commerce ("MOFCOM"). The first investigation involves alleged anti-dumping practices and will run until August 2021, and may be extended to February 2022. The second investigation addresses alleged subsidies for Australian wine producers and is expected to last one year. The investigations may result in increased tariffs and quotas on Australian wine exports to China, similar to the recent 80.5% tariff applied on Australian barley in May 2020 at the conclusion of a one-year anti-dumping investigation.

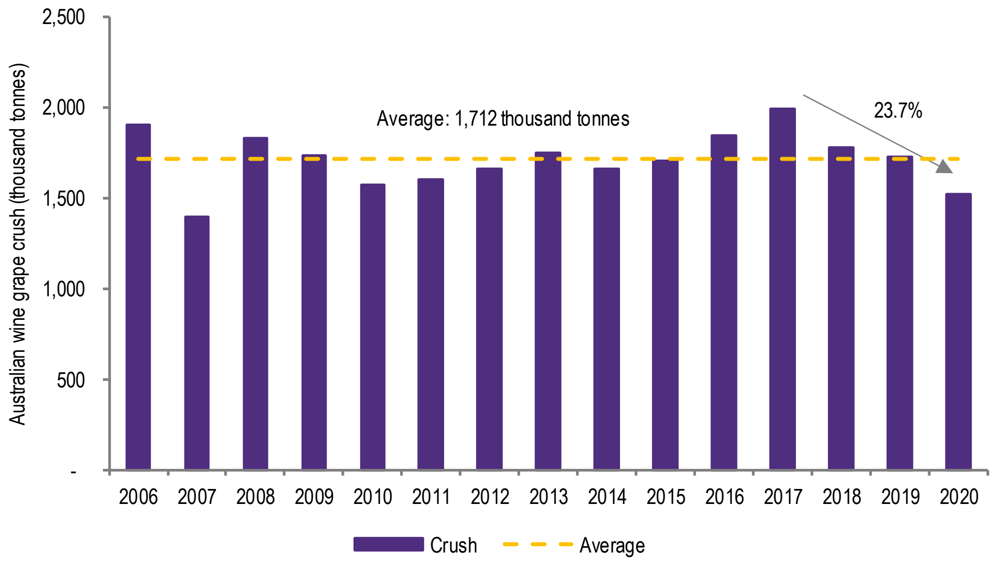
8.3 Supply

Wine grape production fluctuates from year to year partly due to weather conditions and also according to the size of the bearing area. Since 2007, the total bearing area has declined from approximately 164,000 hectares to 146,000 hectares in 2020. Despite the reduction in the bearing area over this time, productivity has increased.

The 2020 Australian wine grape crush is estimated at circa 1.52 million tonnes, the equivalent of over 1 billion litres of wine as seen in the chart below. This was circa 12% lower than 2019 crush, and circa 13% below the 10-year average of 1.75 million tonnes and was widely anticipated given the dry conditions affecting much of Australia, aggravated by bushfires and smoke taint[30] to grapes in some regions as well as isolated events of frost[31], hail[32] and flooding.

[30] When vineyards and grapes are exposed to smoke this can result in wines with undesirable sensory characters, such as smoky, burnt, ashy or medicinal, usually described as 'smoke tainted'.
[31] A deposit of small white ice crystals formed on the ground or other surfaces when the temperature falls below freezing.
[32] Pellets of frozen rain which fall in showers from cumulonimbus clouds.

Australian historical crush (2006-2020) – Thousand tonnes

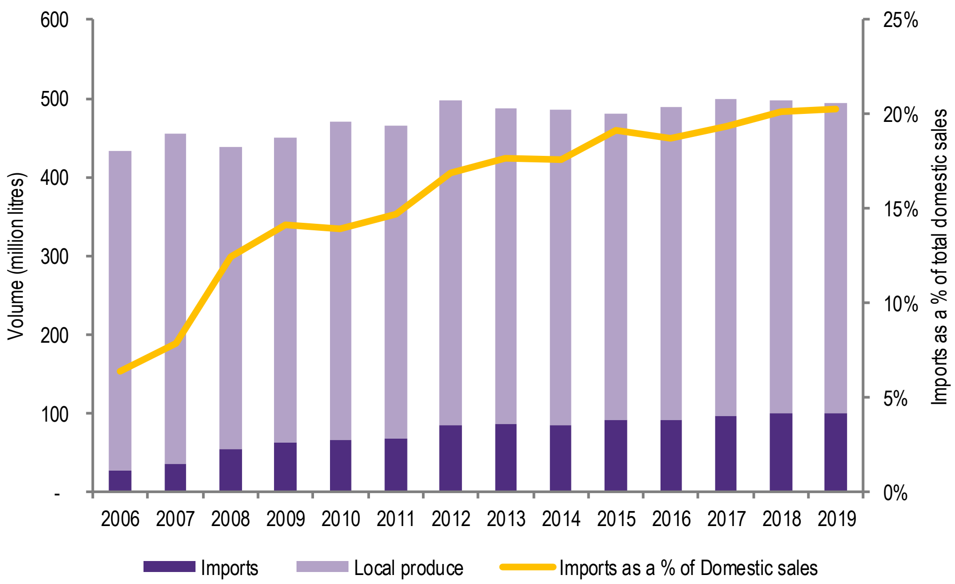


Source: Wine Australia, GTCF analysis
Note (1): The drop of circa 23.7% is the drop in wine grape crush from 2017 to 2020.

As outlined above, Australia experienced a general upwards trend in grape supply between 2006 and 2017 culminating in the largest crush ever achieved in 2017 of almost 2 million tonnes. However, since 2017, the lack of rainfall and drought conditions across many winegrowing regions led to a reduction in the crush to a low of circa 1.5 million tonnes in 2020, the lowest level since 2007.

In addition to local production, Australia has experienced a growing level of imported wine over the last 15 years, with imports accounting for almost 20% of domestic sales in 2019, compared to circa 6% in 2006 as shown below.

Australian domestic sales and growth of imports (2006-19)



Source: Wine Australia Production, Sales and Inventory Report 2019, GTCF analysis
Note (1): Imports volume and local produce volume are on the primary Y-axis (LHS).

The increased level of import penetration in recent years has been driven by growing demand for New Zealand wines, particularly Sauvignon Blanc, increased demand for French red wine, and growing demand for Italian prosecco[33]. As a result, demand for Australian produced wine has fallen since 2006.

The domestic market has also experienced an increase in competition from private label brands which have eroded the market share of other market players, including McWilliam's. The Company's lower priced wines are increasingly competing with private label brands from the large Australian retailers. Coles and Woolworths, which are estimated to control circa 70% of the off-premise retail market, have been investing in private label brands over the last ten years with private label sales estimated to represent 20% of total alcohol sales. Wine is one of the most affected products from growing private label sales due to the large number of wine brands which allows retailers to hide their own products 'in plain sight'. As a result, private label brands or 'phantom brands', as they do not disclose the owner, have historically targeted the lower priced wine market where McWilliam's competes.

8.3.1 MWG wine regions

MWG harvests most of its grapes from its owned and leased vineyards in NSW. The Company first established in the Riverina region and then expanded to the Hunter Valley and the high altitude, cool climate regions of Hilltops, Tumbarumba and Canberra. Below, we provide a brief overview of the areas where MWG's vineyards are located.

Hanwood vineyards - Riverina region

The Riverina region is centred on the city of Griffith in the south central area of NSW. The area is heavily focussed on agriculture with approximately 78% of the land classified for agricultural purposes and a population of 160,000 people mainly in Wagga Wagga and Griffith. The McWilliam family pioneered the region, establishing their Hanwood vineyard in 1913.

In 2019, the region accounted for approximately 19% of Australia's national crush and is the largest wine-producing region in New South Wales covering an area of 18,765 ha. Riverina has a warm climate and experiences low annual rainfall requiring the use of irrigation to make production economically viable. The area is known for its production of bulk wines and the lower price point of its grapes, of which 83%[34] were priced in the $300 to $600 per tonne range, compared to a national average of $694[35] per tonne. The top varieties by crush are Chardonnay (23%), Shiraz (19%), Cabernet Sauvignon (9%) and Semillon (8%). The area is also famed for its Sauternes-style dessert wines made using the Semillon varietal.

Mount Pleasant vineyards – Hunter Valley

Mount Pleasant is located in Pokolbin, a rural locality in the Hunter Valley Region, with a viticultural history dating back to early 1800s. The area is known for varietals such as Semillon and Shiraz, and is home to approximately 150 wineries and cellar doors, including world-renowned brands and family-run boutique operations. In 2019, the region produced approximately 0.3% of the national crush. Approximately two-thirds of grapes produced in the Hunter are priced between $600 to $1,500 per tonne with the remaining third priced between $1,500 and $2,000 per tonne. The region's close proximity to Sydney and picturesque scenery attracts a large number of day-trip and short-stay tourists to the region.

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33 Wine Australia Market Bulleting Issue 176.
34 Wine Australia 2019 Vintage Report.
35 Wine Australia 2020 Vintage Report

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Barwang vineyards - Hilltops

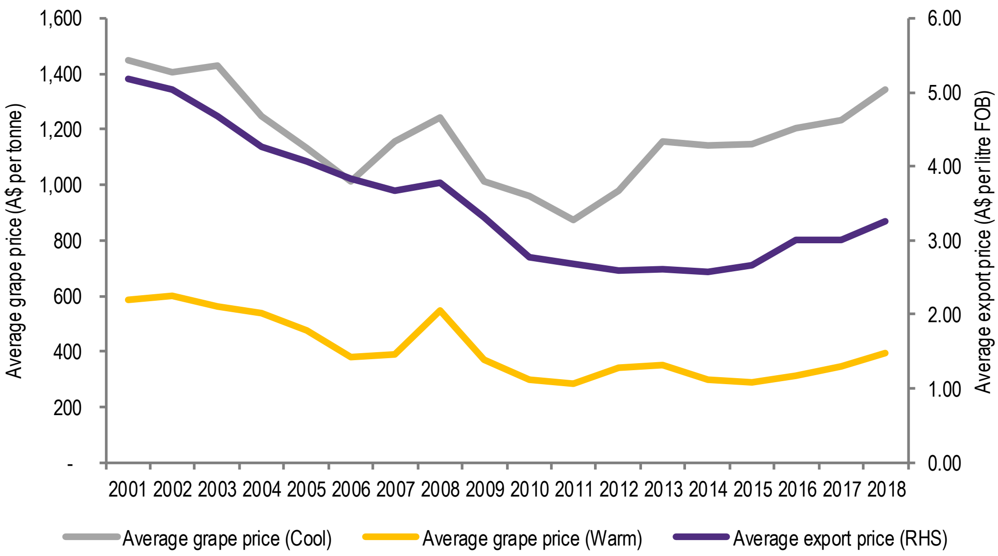
Barwang is a vineyard in the cool-climate Hilltops region located approximately 380km south-west of Sydney. The area was originally established in the 1860s and grape growing continued until the Second World War when labour shortages curtailed activities[36]. The area was re-established in 1969 and now has approximately 400 hectares of vineyards.

The Hilltops wine region is cool-climate, with the bulk of the vineyards lying at an altitude of around 450 metres. The region has a continental climate, with relatively cool winters and rainfall throughout autumn and winter. The summer months bring hot, dry days and cooler nights that complement the ripening season. The cool climate conditions, high altitude and diurnal temperature fluctuations provide a perfect environment for the production of premium wines, in particular of the Cabernet and Shiraz varieties.

8.4 Prices

Between 2007 and 2017, increased Australian wine production combined with a reduction in export demand and increasing import competition led to a glut in domestic wine supply which put downward pressure on prices. In recent years, this imbalance between demand and supply has reduced led by increased exports to China and the lower wine grape crush. As a result grape prices have recovered over the last five years although remain susceptible to further boom and bust cycles as shown in the chart below.

Australian grapes and export prices



Source: Agricultural Commodity Statistics 2019, State of Wine Australia Reports, GTCF analysis
Note (1): Average grape prices are split based on cool and warm climate.

Australia's dependence on Chinese exports, and their uncertain future as a result of the MOFCOM investigations may lead to a reduction in export demand which could put downward pressure on prices if Australian winemakers are unable to source additional purchasers.

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36 Wine Companion website

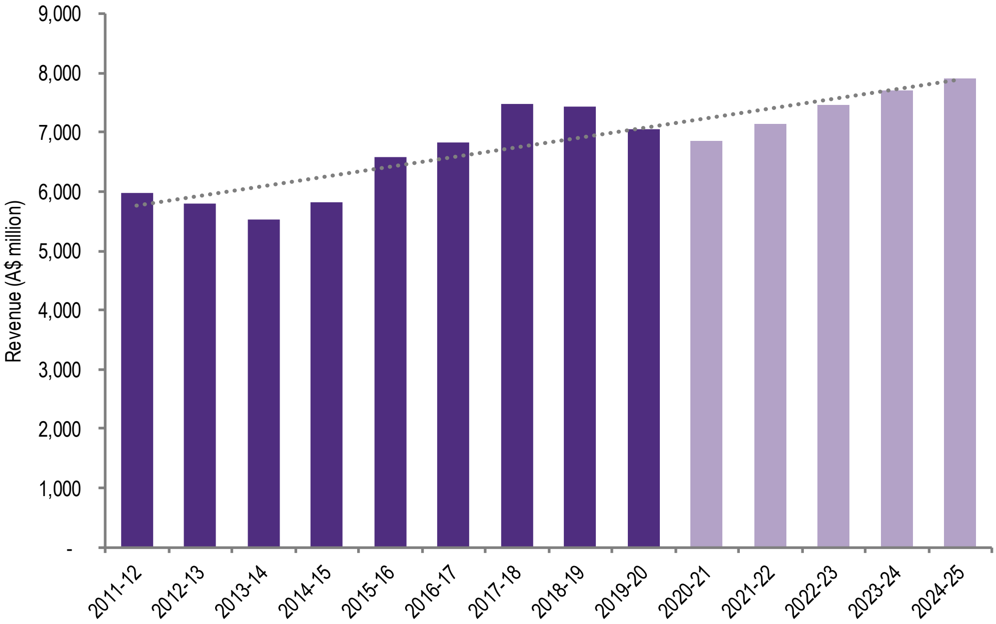
In addition, above average rainfall across much of NSW and Victoria may lead to increased grape production in 2021, although we note a large number of wine regions across the country remain either drought affected or are recovering from drought.

8.5 Outlook

COVID-19 has had an unprecedented effect on the global economy in 2020 with both the World Bank and the IMF predicting global GDP contraction of circa 5.2% and 4.9% respectively in 2020. In Australia, the increased unemployment rate, lower consumer confidence and spending have all negatively affected the economy, with the RBA expecting a 6% reduction in GDP in the year ending December 2020.

It is predicted that the current global recession will have a long lasting impact on the global drinks industry with a decline of 13% in wine consumption globally expected in 2020 followed by a slow recovery in following years[37]. This reduction in demand could lead to lower prices in the short to medium term as supply is expected to exceed demand by the highest level in over 10 years[38]. As a result, Australian wine industry revenues are forecast to decline in FY21 before recovering in subsequent years.

Australian wine industry historical and forecasted revenue (2012 to 2025)



Source IBISWorld, GTCF analysis

However, we note the current outlook is highly uncertain given the current ongoing trade tensions with China. Profit margins in Asia are expected to be three times higher than those in US[39] and are a reflection of premium prices for Chinese exports. If China seeks to place trade restriction on Australian imports, it could weaken demand for Australian wine and negatively affect industry revenues and profitability.

In addition, in 2018-19 the ACCC completed a wine grape market study into competition, contracting prices, transparency and wine grape supply chains. One of the ACCC's recommendations was for winemakers to review their contracts with grape growers to remove potentially unfair contract terms,

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[37] IWSR, Wine Australia Issue 204, 2 June 2020
[38] IWSR, Wine Australia Issue 204, 2 June 2020
[39] Premium Aussie wine 'not dumped' in China, Australian Financial Review, 18 August 2020

including the long period between harvest (February to April) and payment, for which the industry standard is for payment in three tranches in May, June and October. The ACCC recommended the phasing out of long payment periods, and recommended a new 30 day[40] standard for large winemakers. The ACCC notes that if a material improvement in payment terms does not occur, it may consider further action. The impacts of the action, if implemented, would be material to winemakers as it would require a significant ongoing working capital investment due to the long production process and time to sale.

[40] 30 days of the final grape delivery.

9 Profile of MWG

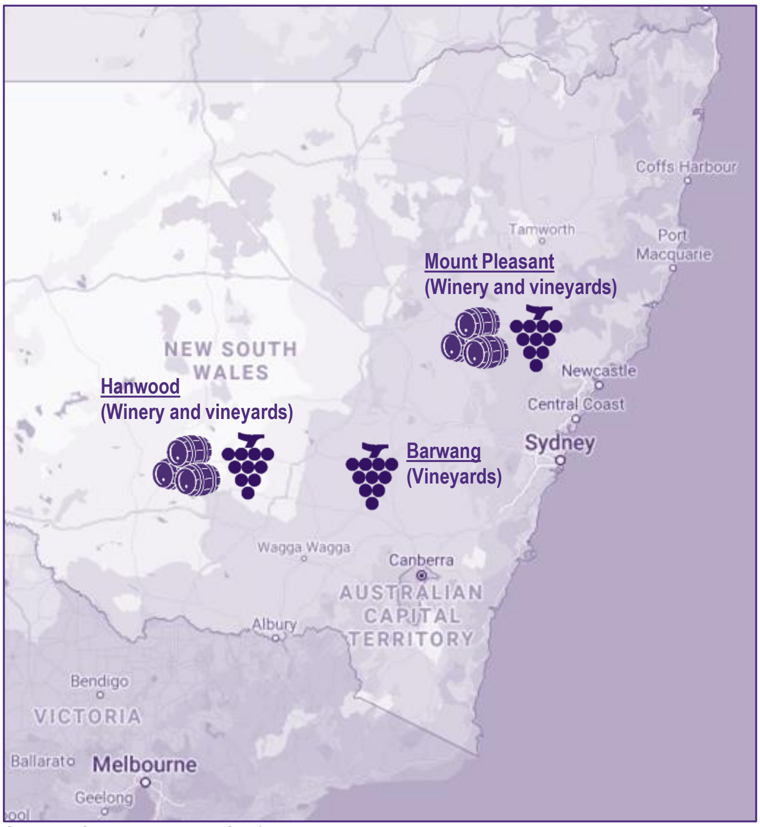
9.1 Introduction

The Company is one of Australia's oldest and largest family-owned wine companies with a heritage of over 140 years since it was established in 1877 by Samuel McWilliam.

The Company's product offering is significantly diversified both in terms of wine types and price points. Almost all of its wines are produced by grapes harvested in New South Wales, and predominantly from the Riverina region, with a small quantity also sourced from the Company's Hunter Valley vineyards.

9.2 Grapes and Supply

MWG owns and leases vineyards at Hanwood (Riverina wine region), at Mount Pleasant (Hunter Valley region) and Barwang (Hilltops region). The vineyards include associated water entitlements to allow for irrigation with leased vineyards held under long term leases. We have highlighted the Company's vineyards in the map below.



Sources: Google Maps, MWG Information Memorandum

In addition to owned and leased vineyards, the Company acquires grapes from other growers in the NSW and Southern East Australia regions in order to meet its productions targets.

<u>Hanwood (Winery and vineyards) – Riverina Region</u>

In Hanwood, MWG operates two vineyards, one owned and the other leased ("Hanwood Lease") as shown in the table below.

Hanwood - Vineyards		
Colour	Variety	Planted (ha)
Hanwood - Owned		
White	Tokay, Chardonnay	9.7
Red	Red Frontignac, Touriga	11.1
Total - Owned		**20.8**
Hanwood - Leased		
White	Chardonnay, White Frontignac, Gewurztraminer, Riesling, Sauvignon Blanc, Semillon	163.4
Red	Cabernet Sauvignon, Red Frontignac, Merlot, Muscat, Nero d'Avola, Petit Verdot, Pinot, Shiraz, Tyrian	236.3
Total - Leased		**399.7**
Total		**420.5**

Source: MWG Information Memorandum

The Hanwood Lease, signed in January 2015, has approximately ten years remaining to 30 April 2030, and includes an option to renew for a period of five years. The lease agreement includes the right for the Company to harvest all grapes for its own purposes, as well as to manage and maintain the vineyard and property. MWG owns 388 mega-litres ("ML") of water entitlements relating to the owned vineyard and 1,900 ML of water rights associated with the leased vineyard.

While MWG's Hanwood vineyards were not directly impacted by the recent Australian bushfires, the Company experienced a 30% reduction in yields for the 2020 vintage ("V20") due to severe drought conditions and below average rainfall throughout winter, which led to a challenging start to the season across the whole Riverina region. In addition, the bushfires, while not affecting Hanwood vineyards, impacted a number of suppliers to Hanwood, including the Barwang vineyards.

The Company-owned winery in Hanwood is MWG's key wine processing facility. In the 2019 vintage, Hanwood's winery was responsible for circa 21,700 tonnes of grape crushing and represented circa 98% of total MWG production. The Hanwood winery includes the following infrastructure:

- A large commercial winery with a grape crushing capacity of 40,000 tonnes per annum. In addition, the winery operates a stand-alone premium crushing facility with a capacity of 2,000 tonnes per annum. The winery has been operating significantly below capacity which is one of the key reasons for the Company's financial distress given the fixed nature of the costs associated with the operations.

- Cellar door and administration building, including a state of the art laboratory.

- A 9,510 square metre warehouse and bottling hall commissioned in 2017 at the cost of A$7 million.

- Bottling line commissioned in 2018, owned and operated by an external party and with the capacity to process approximately 6,000 bottles per hour.

- Commercial wine storage of approximately 55 million litres.

- Three standalone accommodation cottages.

In addition, the property has development approval to expand the existing winery's capacity to 65,000 tonnes.

Mount Pleasant (Winery and vineyards) – Hunter Valley

Mount Pleasant was established in 1921 with the McWilliam family acquiring a 50% interest in 1932 and the remainder in 1941. The Mount Pleasant property includes three vineyards covering an area of circa 91 hectares as summarised in the table below.

Mount Pleasant - Vineyards			
Colour	Variety	Water rights (ML)[1]	Planted (ha)
Mount Pleasant vineyard			
Red	Pinot, Shiraz, Sagrantino, Tempranillo		30.3
White	Chardonnay, Vermentino, Fiano		2.3
Total - Mount Pleasant		**50**	**32.6**
Rosehill vineyard			
Red	Shiraz, Mencia, Touringa	14	26.9
Lovedale vineyard			
White	Semillon, Chardonnay, Verdello	40	31.1
Total - Mount Pleasant		**104**	**90.6**

Source: MWG Information Memorandum
Note: (1) It also includes the water rights associated with Kings Paddock

MWG's Mount Pleasant operations are focussed on the production of low volume but high quality wines. The Mount Pleasant brand has won numerous awards and trophies since the 1970s with wines typically priced from the A$20 per bottle mark and up. Recognised for its Hunter Semillon and Shiraz, Mount Pleasant was awarded the Halliday Winery of the Year in 2017. As a result of the premium wine quality produced in the area, Mount Pleasant wine sits at the premium end of MWG's wine offering.

In addition to the vineyards, Mount Pleasant has a small crush winery, with circa 800 tonnes per year of crushing capacity and a cellar door which achieved gross sales revenue of circa A$1.6 million in 2019.

As a consequence of the recent Australian bushfires and resulting smoke taint to the vines, no vintage is to be conducted in 2020. The Company will rely on the back-vintage bulk wine and finished goods to ensure continued supply commitments to market are not impacted.

Barwang (Vineyards) – Hilltops

In October 2016 the Company completed a sale and leaseback transaction and entered into a long-term lease for the Barwang vineyard ("Barwang Lease") in an effort to improve MWG's deteriorating liquidity position. The Barwang Lease is for a term of 15 years, and expires on 25 October 2031. The group holds an option to purchase the Barwang vineyard during the term of the lease. The Barwang lease includes the right for the Company to harvest all grapes for its own purposes, and to manage and maintain the vineyard property. The table below summarises the wine varieties of the vineyard.

Barwang - Vineyards		
Colour	Variety	Planted (ha)
Red	Cabernet, Shiraz, Pinot Noir, Malbec, Merlot, Tempranillo	89.6
White	Chardonnay	11.1
Total		**100.7**

Source: MWG Information Memorandum

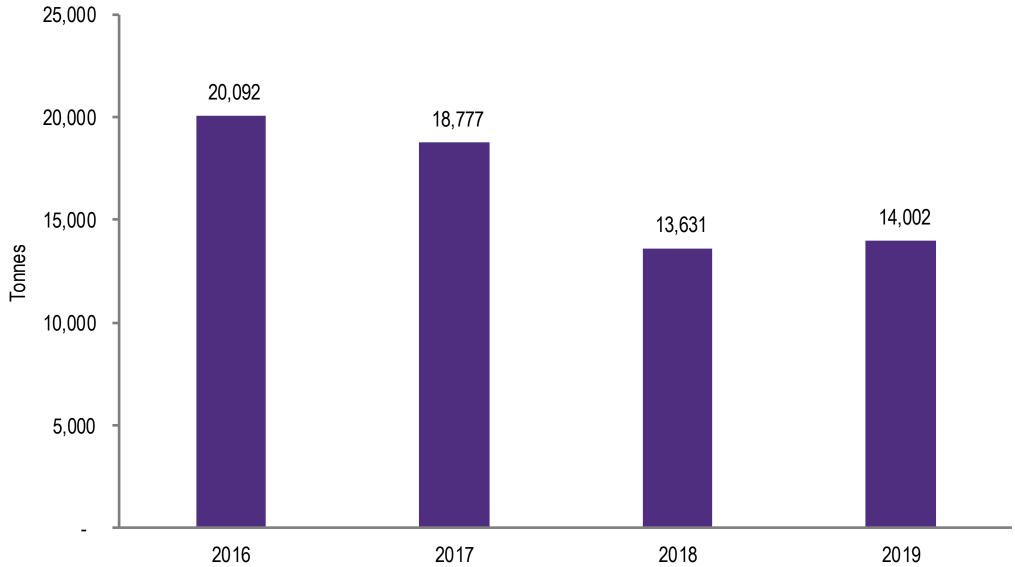
Barwang does not include any facilities or infrastructure, and as a result, the grapes harvested are transported to the Hanwood crushing facility where they are processed.

Similar to the Hunter Valley, the region was significantly affected by the 2020 bushfires and as a result no vintage will be conducted in 2020.

Third party Growers

The Company also acquires grapes from growers in various New South Wales wine regions. The graph below summarises the Company's historical grape purchases from growers.

MWG's tonnes of grapes purchased by external growers



Source: MWG Management

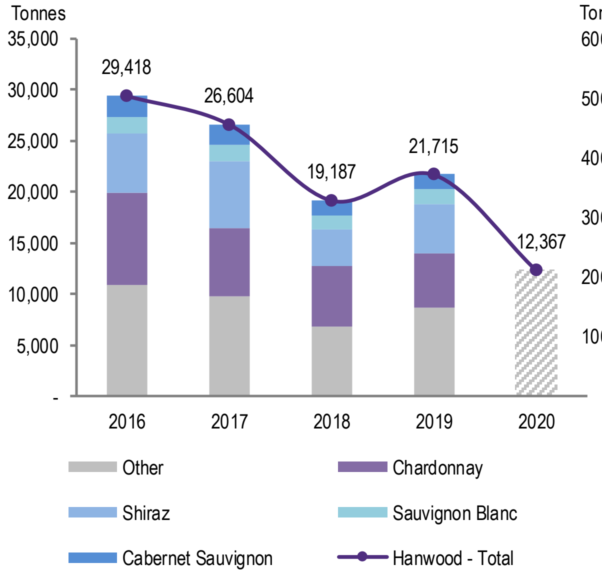
In 2018 and 2019, the volume of grape purchased declined due to drought conditions which negatively affected yields. In FY21, MWG expects to acquire a higher than usual amount of bulk wine in order to rebuild the Company's inventory that is currently understocked.

The purchase of the grapes from growers are mostly 'spot' purchases completed under 'handshake agreements' with prices determined by the quality of the grapes. As a result of the high competition and strong grower relationships, the Company has historically purchased the entirety of a grower's production to avoid them being attracted by other wineries.

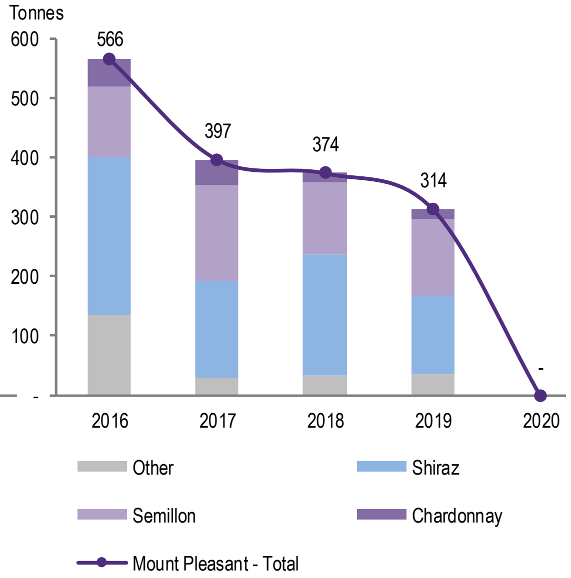
9.3 Winemaking and bottling

Both the Mount Pleasant and Hanwood wineries have crushing facilities and the graphs below shows the historical wine grape crushed at the two wineries.

Hanwood production by variety



Mount Pleasant production by variety



Source: MWG Information Memorandum
Note: 2020 Hanwood grapes crushed by variety not available

As highlighted in the graph above, Hanwood (which includes Barwang) is responsible for more than 98% of total production with Mount Pleasant mainly used to process premium wines.

Over the last few years, the Hanwood winery facility, which has a crushing capacity of 40,000 tonnes, has been significantly underutilised. As a result, the Company is unable to achieve certain economies of scale due to the high fixed costs of operating the wineries and vineyards, which is affecting the profitability of the overall business.

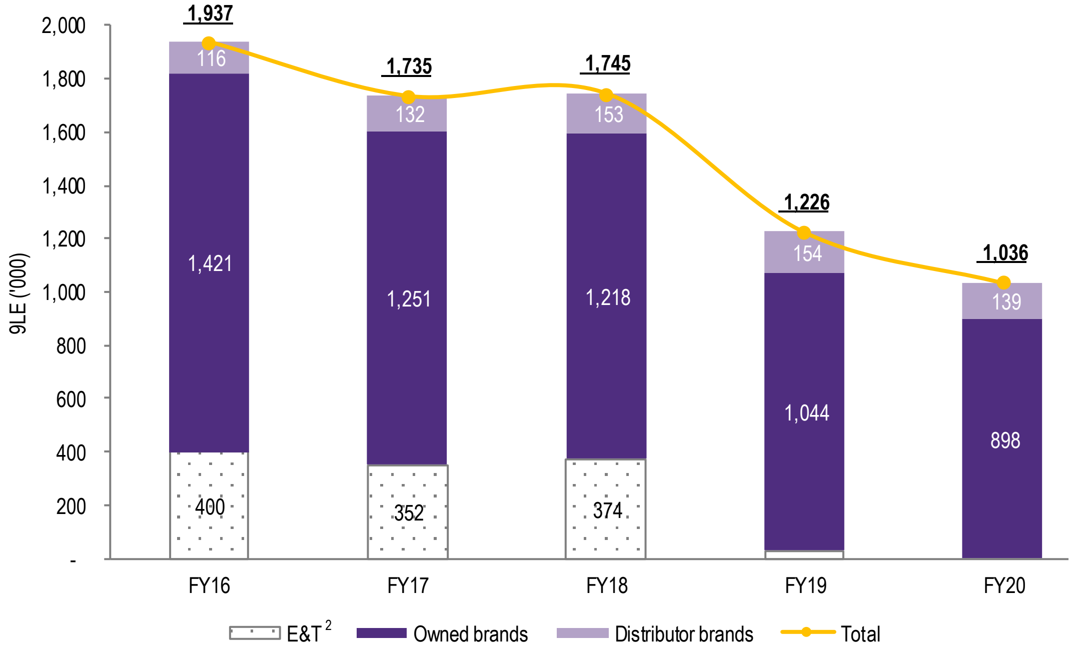
Both the distribution and the bottling process are outsourced to third-party logistics. From 1974 to 2017, the Company's distribution and bottling line facilities were located at a warehouse in Chullora which the Company had been leasing under a 50 year lease agreement. In 2017, the Company commenced the relocation of its distribution and bottling operations from Chullora to the Hanwood winery in Griffith in order to achieve synergies and cost savings, and subleased the old Chullora facility to a new tenant. The relocation caused significant disruption to sales whilst operations and inventory were transitioned to the new warehouse facility. Although the transition was completed in FY17, the Company has experienced significant disruption to its bottling operations which led MWG to outsource the bottling operations to Portavin with operations normalising in October 2019.

Prior to the appointment of the voluntary administrators, MWG had four years and five months remaining on the Chullora lease. While MWG was able to sublease the area to a third party, it was only able to do so at a significant discount to its current terms and the property was recognised as an onerous lease in MWG's accounts.

9.4 Product offer and sales

The graph below illustrates the historical volume sold split between distributor and owned brands, highlighting the importance of the latter one.

MWG's volume sold split by owned vs distributor brands (9LE)



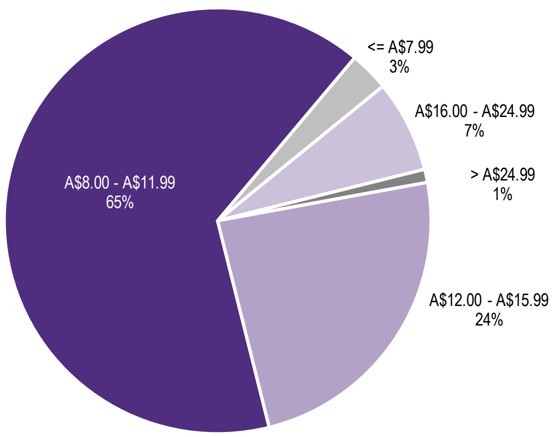
Source: MWG Management
Notes: (1) Excludes bulk wine sales; (2) E&T represents the volume sold associated with Evans & Tate brand

Since 2016, the Company's volumes have declined materially from circa 1.94 million 9LE to 1.04 million in FY20 due to the sale of Evans and Tate in FY18; the shift in consumers' preferences for higher-priced premium quality wines, increased competition from imported wines, growth in private label brands and international sales lagging.

Going forward, as a result of the VA process, the Company has lost all of its distributor brand agreements which included the distribution rights in Australia for French Champagne house Taittinger, German wine producer Henkell, Italian Prosecco brand Mionetto and Portuguese Rosé producer Mateus. Over the past five years, the volume sold from distributor brands accounted on average for circa 9% of the total MWG volume sold, however we note that the profit margins for the Company were limited.

The Company's products mainly target the lower ASP in the market, as shown in the graph below.

McWilliam's Wines Group Limited table wines offer by ASP as a percentage of gross sales



Source: MWG Management
Note: Proportions as at December 2019

Profitability for the high volume/low value market segment has been declining for years as the Company has been unable to negotiate higher prices with customers for its products, due in part to the superior bargaining power of the Coles and Woolworths duopoly. Further, the broad range and complexity of the McWIlliam's brands may have created a confused perception of the MWG brand and low awareness, negatively impacting brand recognition.

Below we have provided an overview of the MWG's brand portfolio as at the date of this report.

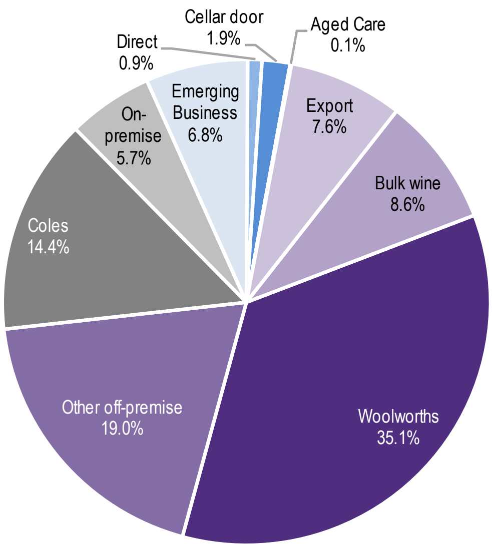
McWilliam's Brand – The McWilliam's brand has historically been responsible for the largest share of sales and in FY20 accounted for 84% of own-product gross sales revenues. The brand portfolio is divided between fortified and table wines with table wines accounting for circa 65%[41] of McWilliam's branded gross sales revenue. Fortified wines include Tawny, Apera, Muscat, Sherry and others with prices ranging from under A$15 to more than A$80 per bottle. The fortified brand architecture is complex with several products delivering low or nil profit margins.

Mount Pleasant – Mount Pleasant wines are typically targeted at the premium price segments with prices starting around A$20 and up to A$250. As mentioned, the brand has won numerous wine critic awards since the 1970s, however, the brand lacks awareness outside of highly engaged wine buyers. No vintage was conducted in 2020 as a result of the bushfires.

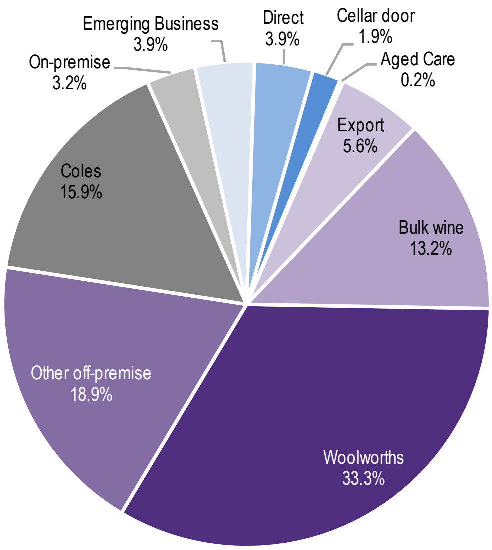
Sales channels

The graph below summarises both the domestic and international channels through which the Company generates its revenues.

FY19 Sales channels breakdown[1]



FY20 Sales channels breakdown[1]



Source: MWG's board management presentation June 2020
Note: (1) Break down based on total gross sales generated

Domestic sales are achieved through both direct-to-customer[42] and wholesale channels with local distribution outsourced to a 3rd party logistics provider. Coles and Woolworths are the most significant

[41] Average computed over FY16 to FY19.
[42] The direct-to-customer sales channel consists of sales to the retail majors, on-premise and independent retailers and is different to the direct-to-consumer sales channel which involves sales at the cellar door.

direct-to-customer purchasers. Sales to the retail majors are either delivered to their distribution centres or picked up directly from Hanwood. The retailers then distribute MWG products through their various retailer subsidiaries such as Dan Murphy's, BWS, Liquorland and Vintage Cellars.

The Wholesale channel is dominated by the large wholesale purchasers such as Australian Liquor Marketers and Independent Liquor Group. These purchasers represent a wide range of independent liquor stores, hotels, restaurants and other licensed premises throughout Australia.

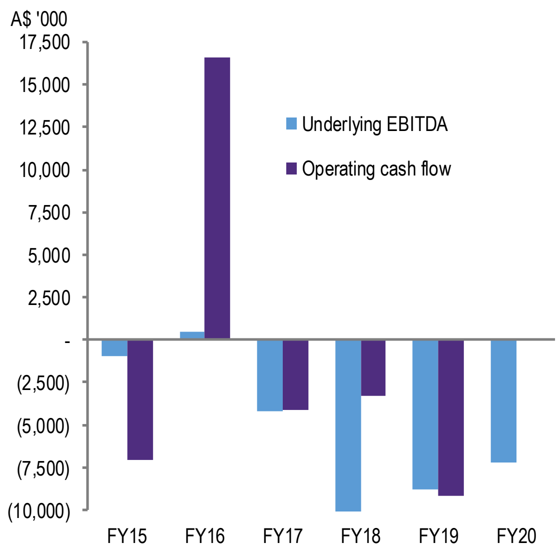
Export sales are made under distribution agreements with international trading partners. The Company has different distribution agreements with respect to different geographic regions, however it is achieving limited sales. In FY20, the Company exited the US market following underperformance. In China, despite a strong FY18 as a result of an increase in demand, sales in FY19 fell due to a deterioration of the Company's relationship with its distributor and the impact of riots in Hong Kong. In the United Kingdom, between FY18 and FY19, a shift in consumer taste towards premium wines has penalised the export of the Company. During FY20, the Company appointed Authentic Wine and Spirits to distribute MWG's products over the Canadian territory. Overall, MWG's liquidity constraints have prevented the Company from adequately investing in its international sales channel where it competes with larger and more established companies.

The impact of Covid-19 has been felt across all channels but in particular for the domestic on-premise sales which reduced to near-zero in the lockdown months and are slowly increasing where lockdown measures have been relaxed.

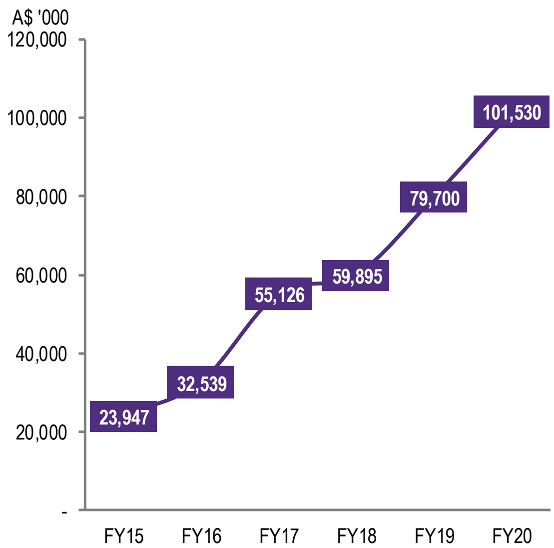
9.5 Financial information

The analysis of the financial performance of MWG highlights the deterioration of the business year on year, leading to the appointment of the Voluntary Administrators. As illustrated in the chart below, MWG has been trading at a loss for a number of years with an almost constant negative operating cash flow.

Underlying EBITDA and operating cash flows



Cumulative net losses before taxes



Sources: MWG annual reports
Note: FY20 operating cash flow not available

Since FY17, due to poor financial performance, the Company defaulted on the EBITDA covenant over the bank loans provided by Bain Capital (formerly GE Capital)[43]. Following this default, MWG initiated a series of refinancing and recapitalisation transactions trying to re-establish a healthy balance sheet. Below we have summarised key recapitalisation/debt raising transactions completed by the Company.

MWG debt raising	
Date	Description
26-Jun-13	The Company refinanced its bank loans under a 5 year revolving credit facility with GE Capital (purchased by Bain capital in November 2015), secured by fixed and floating charges and mortgages over all the Company's assets. Maximum availability of $55 million, which was reduced to $40 million following completion of the sale of Brand's Laira on 1 December 2015
9-Jun-17	The company entered into a 3 year loan agreement with associate MRWP secured by a first ranking fixed and floating charge and mortgage over all of the Company's assets. MRWP secured A$30 million in financing from CBA, which on lent A$25 million to MWG to repay Bain Capital in full. In exchange for the A$25 million, MWG would grant an option to MRWP for purchase of 30% of MWG and MRWP would have an option to purchase the Evans & Tate brand.
22-Jun-17	The Company entered into a 3 year receivables purchase agreement with Recfin Nominees Pty Limited, secured by a second ranking fixed and floating charge over all the Company's assets. The maximum borrowing availability was A$12 million with the facility expiring in June 2020
10-Dec-18	The Group entered into a binding agreement with MRWP under which the Group sold 20% of its interest in MRWP to Laguna Bay Agricultural Fund for A$10 million. The Group also received funds of A$6.4 million from MRWP by way of subscription by MRWP for 7 year secured convertible notes in the Group. The funds received were used to repay debt and for working capital purposes.
Jun-19	The Company renewed the receivables purchase agreement with Assetsecure maturing on 30 June 2021, with the maximum borrowing availability up to A$12 million

Source: KPMG – VA Report

Other than the debt market, the Company also sought to raise funds from the capital market. In April 2018, MWG intended to raise A$12.0 million equity from strategic/cornerstone investors however, no firm commitments emerged. As a result, the Company undertook a rights issue but it was only able to raise approximately A$3.4 million of the targeted A$12.0 million. Subsequently, in June 2019, the Company engaged a boutique advisory firm to assist in a debt or capital raisings but it was again unable to secure funding options that the Board was prepared to support, due to conditionality or timing.

Overall, the lack of cash flow generation and limited access to funding forced MWG to sell several core and non-core assets over the past five years as summarised in the table below.

MWG - Sale of assets			
Date	Sale of asset	Purchaser	Amount (A$m)
Dec-15	Brand's Laira	Casella	15.8
Oct-16	Barwang	Sale and leaseback	2.6
Feb-17	Water entitlements	Maxsons	0.5
Aug-17	Water entitlements	Multiple	2.6
Sep-17	Evans & Tate	MRWP	32.8
Apr-18	Water entitlements	Maxsons	1.0
Apr-18	Bottling line	San Miguel	1.5
Dec-18	MRWP – 20% interest	Laguna Bay	10.0
Dec-19	MRWP – 10% interest	Valley Vino	5.5
Total			**72.3**

Source: KPMG – VA Report

[43] On 26 June 2016, the Company refinanced its bank loans under a five year credit facility with Bain Capital (GE Capital) up to a maximum availability of A$55.0 million.

9.5.1 Financial performance

The table below illustrates the Company's consolidated statements of comprehensive income.

Consolidated statements of financial performance	FY15	FY16	FY17	FY18	FY19	FY20
A$ '000	Audited	Audited	Audited	Audited	Unaudited	Unaudited
Total Net sales	112,670	107,912	100,742	87,030	70,824	66,366
Cost of sales	(96,526)	(81,547)	(83,850)	(70,691)	(58,304)	(58,737)
Gross profit	**16,144**	**26,365**	**16,892**	**16,339**	**12,520**	**7,629**
Gross margin	*14.3%*	*24.4%*	*16.8%*	*18.8%*	*17.7%*	*11.5%*
Other income	6,359	5,160	7,470	12,763	1,904	Na
Distribution and marketing expense	(27,746)	(25,591)	(27,702)	(21,846)	(20,934)	Na
Occupancy and administration expenses	(8,685)	(9,260)	(8,841)	(8,599)	(5,870)	Na
Growing costs	(6,038)	(4,476)	(5,133)	(4,841)	(4,752)	Na
Restructuring provisions	(2,494)	-	(946)	-	-	Na
Relocation of business operations	-	-	(2,816)	-	-	Na
Changes in fair value of convertible notes	-	-	-	4,336	-	Na
Net Finance costs	(677)	(790)	(1,511)	(2,921)	(2,673)	Na
Loss on impairment of fixed assets	(998)	-	-	-	-	Na
Share of net profits of associates	188	-	-	-	-	Na
Loss before income tax	**(23,947)**	**(8,592)**	**(22,587)**	**(4,769)**	**(19,805)**	**(21,830)**
Tax benefit / (expense)	(6,198)	893	208	(130)	-	-
Loss for the year	**(30,145)**	**(7,699)**	**(22,379)**	**(4,899)**	**(19,805)**	**(21,830)**
Key operational metrics:						
Revenue growth (%)	*(8.6%)*	*(4.2%)*	*(6.6%)*	*(13.6%)*	*(18.6%)*	*(6.3%)*
Gross profit growth (%)	*(39.0%)*	*63.3%*	*(35.9%)*	*(3.3%)*	*(23.4%)*	*(39.1%)*
Statutory EBITDA	(14,898)	(167)	(14,308)	470	(14,943)	(18,193)
Statury EBITDA Margins	*(13.2%)*	*(0.2%)*	*(14.2%)*	*0.5%*	*(21.1%)*	*(27.4%)*
Underlying EBITDA	(923)	506	(4,179)	(10,255)	(8,774)	(7,178)
Underlying EBITDA margin	*(0.8%)*	*0.5%*	*(4.1%)*	*(11.8%)*	*(12.4%)*	*(10.8%)*

Sources: MWG's annual reports, Management accounts

Revenues have constantly declined since FY15 as result of the factors discussed throughout the Report.

Gross Profit margins have declined as a result of the decrease in sales combined with the Company's relatively high production costs due to the underutilisation of MWG's infrastructures not allowing the business to achieve significant economies of scale.

The Company's profitability has been impacted by certain one-off expenses. In the table below we have provided a reconciliation of reported EBITDA to the underlying EBITDA.

Underling EBITDA reconciliations	Notes	FY15	FY16	FY17	FY18	FY19	FY20
Reported EBITDA		**(14,898)**	**(167)**	**(14,308)**	**470**	**(14,943)**	**(18,193)**
Add/(deduct) one-off costs/(income)							
VA related costs		-	-	-	-	-	3,325
Loss/(Profit) on asset sales		-	-	(1,364)	-	-	238
Vineyard loss	*1*	981	561	807	-	-	3,699
Chullora exit costs	*2*	-	-	2,816	357	4,048	-
Distributor settlement fee Canada		-	-	-	-	789	436
Refinance costs		-	-	1,050	-	-	
Impairment loss		998	-	-	-	-	
Restructure costs		3,362	112	946	-	-	
Inventory write down	*3*	8,412	-	5,874	-	-	
Sale of water rights	*4*	-	-	-	(3,255)	-	
Sale of Evans & Tate brand	*4*	-	-	-	(3,491)	-	
Revaluation Gain of Convertible Notes		-	-	-	(4,336)	-	
Portavin costs vs settlement claim		-	-	-	-	653	
E&T service fee prior year adjustment		-	-	-	-	632	
Loss on sale of MRWP share in January 2019		-	-	-	-	132	3,073
Other One off costs/(income)		222	-	-	-	(85)	245
Total one off costs/(income)		**13,975**	**673**	**10,129**	**(10,725)**	**6,169**	**11,016**
Underlying EBITDA		**(923)**	**506**	**(4,179)**	**(10,255)**	**(8,774)**	**(7,177)**

Source: MWG's Annual reports, Management accounts

In relation to the above, we note the following:

1. In FY20, the vineyard loss of circa A$3.7 million is mainly a result of smoke taint from the bush fires at Mount Pleasant.

2. Chullora exit costs include the costs associated with the moving of MWG's operations to Griffith as well as the inability of the Company to exit the lease. The lease was only terminated during the VA in the second half of FY20. The lessor's claim is included in the unsecured creditors.

3. The streamlining and rationalisation of the extensive product base led to significant write down of bulk wine, finished goods and packaging goods stock to net realisable value.

4. In FY18 the EBITDA was positively affected by the profit on the sale of E&T and other assets.

9.5.1.1 Financial position

The consolidated statement of financial position of MWG for the last six financial years is presented below:

Consolidated statements of financial position	30 Jun 15	30 Jun 16	30 Jun 17	30 Jun 18	30 Jun 19	30 Jun 20
A$ '000	Audited	Audited	Audited	Audited	Unaudited	Unaudited
Assets						
Cash and cash equivalents	793	1,182	770	354	501	6,872
Trade and other receivables	23,301	19,363	19,547	18,404	12,483	8,964
Inventories	51,595	52,800	32,624	34,513	30,774	20,476
Assets classified as held for sale	1,725	1,759	30,818	-	-	-
Derivative financial instruments	-	-	-	6	16	-
Total current assets	**77,414**	**75,104**	**83,759**	**53,277**	**43,774**	**36,312**
Investments	5	5	5	5,787	8,167	5
Investments accounted for using the equity method	1,352	1,346	1,441	12,082	-	11
Inventories	55,142	36,307	27,021	4,783	5,241	3,767
Property, plant and equipment	28,716	30,034	31,823	28,935	27,912	24,196
Intangible assets	8,137	7,732	102	-	-	-
Grape vines	3,790	-	-	-	-	2,505
Other current assets	1,640	1,484	1,665	-	-	-
Total non-current assets	**98,782**	**76,908**	**62,057**	**51,587**	**41,320**	**30,484**
Total assets	**176,196**	**152,012**	**145,816**	**104,864**	**85,094**	**66,796**
Current liabilities						
Trade and other payables	24,682	25,150	29,445	21,531	16,877	21,458
Borrowings	47,579	33,974	40,879	22,610	17,641	8,548
Other payables	-	-	-	-	-	9,583
Interest payables - Loan notes	-	-	-	-	-	2,988
Provisions	2,533	2,303	2,266	430	1,220	1,916
Other current liabilities	88	109	3,269	1,512	1,472	-
Total current liabilities	**74,882**	**61,536**	**75,859**	**46,083**	**37,210**	**44,493**
Borrowings	4,990	3,959	5,468	271	6,075	-
Provisions	2,211	1,066	1,315	743	3,437	3,629
Other non-current liabilities	996	272	-	361	358	-
Total non-current liabilities	**8,197**	**5,297**	**6,783**	**1,375**	**9,870**	**3,629**
Total liabilities	**83,079**	**66,833**	**82,642**	**47,458**	**47,080**	**48,122**
Net assets	**93,117**	**85,179**	**63,174**	**57,406**	**38,014**	**18,674**

Sources: MWG's annual reports, Management accounts

We make the following observations:

- The increase in cash and cash equivalents in FY20 is a result of the VA that since January 2020 has frozen the creditors' accounts of the Company also causing the increase in trade and other payables as at 30 June 2020.
- Due to constant liquidity issues in the period from FY15 to FY20, the Company disposed of core and non-core assets in order to generate cash and pay off its debts. In total, the Company sold A$72.3 million in assets during this period resulting in the decline of the asset base of the Company.

- The decrease in inventory between FY16 and FY17 is related to the reclassification of the assets associated with E&T as assets held for sale, including A$21 million of E&T inventory. More recently, the negative impact of the bushfires in 2019, destroying the 2020 vintage for several vineyards at Mount Pleasant, has led the inventory to its minimal levels. Historically, a significant portion of inventory was related to stock associated with the distribution contract with overseas brands such as Mionetto, Taittinger and Henkell which have been recently terminated due to the VA process.

- Trade and other receivables declined over the year as a result of the decline in revenues.

- The seasonality of the winemaking process results in MWG's working capital requirements fluctuating over the year. Inventory, representing both the finished bottled wine as well as the bulk wine yet to be processed, accounts for a majority of the working capital requirements. Bulk wine total holdings increase following vintage activity in April and May and gradually reduce over the year, until next vintage while grapes are bought in January, February and March and then subsequently paid in May, June and October. The creditors' payables peak in September quarter with stock accumulation for peak selling period, plus balance of grower liability. Overall the peak in working capital is achieved in the period leading into the summer and Christmas time.

9.5.2 Cash flows

The cash flows statement of MWG for the last five financial years is presented below:

Consolidated statements of cash flow	FY15	FY16	FY17	FY18	FY19
A$ '000	Audited	Audited	Audited	Audited	Unaudited
Cash flows from operating activities					
Receipts from customers	127,567	128,675	119,018	110,268	95,349
Payments to suppliers and employees	(130,399)	(108,646)	(119,207)	(111,435)	(104,282)
Interest received	86	74	4	74	115
Other income	-	-	-	-	1,756
Interest paid	(4,343)	(3,529)	(3,939)	(2,172)	(2,084)
Net cash inflow from operating activities	**(7,089)**	**16,574**	**(4,124)**	**(3,265)**	**(9,146)**
Cash flows from investing activities					
Payments for property, plant and equipment	(1,170)	(4,181)	(6,451)	(393)	(1,053)
Proceeds from disposal of investments in associates	-	-	-		3,926
Proceeds from sale of property, plant and equipment	15,766	4,001	3,649	4,164	120
Proceeds from disposal of investments in convertible notes	-	-	-	-	5,776
Net cash outflow from investing activities	**14,596**	**(180)**	**(2,802)**	**3,771**	**8,769**
Cash flow from financing activities					
Proceeds from issue of equity securities	-	-	-	3,072	302
Proceeds from borrowings	178,833	140,917	135,779	125,249	5,919
Repayment of borrowings	(188,391)	(156,922)	(129,265)	(129,243)	(5,422)
Share issue transaction costs	-	-	-	-	(275)
Dividends paid to shareholders	-	-	-	-	-
Net cash (outflow)/inflow from financing activities	**(9,558)**	**(16,005)**	**6,514**	**(922)**	**524**
Net increase / (decrease) in cash and cash equivalents	**(2,051)**	**389**	**(412)**	**(416)**	**147**
Cash and cash equivalents at the beginning of the financial y	2,844	793	1,182	770	354
Cash and cash equivalents at year end	**793**	**1,182**	**770**	**354**	**501**

Sources: MWGs annual reports

We note the following in relation to the table above:

- Other than in FY16, cash flows from operating activities have been constantly negative, deteriorating significantly in FY19. This has been mainly driven by the significant fixed costs incurred by the Company and MWG's inability to achieve economies of scale due to the underutilisation of its infrastructure.
- As a result of the poor cash flow of the Company, MWG was never able to build a solid cash base to support the operations of the business.
- The main uses of funding raised between FY15 and FY20 were related to the repayment of the existing debt facilities and working capital requirements.

10 Valuation methodologies

10.1 Introduction

Our ‘going concern’ valuation assumes that MWG will be able to turn around the business and generate profitability in the foreseeable future. RG111.15 states that *“the fair value of the target securities should be determined on the basis of a knowledgeable and willing, but not anxious, seller that is able to consider alternative options to the bid (e.g. an orderly realisation of the target’s assets)”*. That is, an assessment of fair value should not include consideration of a company’s financial distress.

Fair value excludes any special value. Special value is the value that may accrue to a particular purchaser. In a competitive bidding situation, potential purchasers may be prepared to pay part, or all, of the special value that they expect to realise from the acquisition to the seller.

In seeking to determine the fair value of MWG on a ‘going concern’ basis it is necessary to deviate from the standard definition as MWG was unable to discharge its liabilities in the normal course of business. In this respect we have valued the operating business on a ‘going concern’ basis and then deducted the full amount of the Total Claims.

Our report has also considered the value of MWG shares under distressed scenario and on a liquidation basis as this is the potential alternative if the DOCA Proposal is not implemented. Under this scenario, we have considered that the concept of fair value no longer exists, as the seller cannot be considered to be ‘not anxious’.

10.2 Valuation methodologies

RG111 does not prescribe the valuation methodologies that an expert should use in preparing their report. The decision as to which methodology to use lies with the expert based on the expert’s skill and judgement and after considering the unique circumstances of the entity or asset being valued. In general, an expert would have regard to valuation theory, the accepted and most common market practice in valuing the entity or asset in question and the availability of relevant information. Details on the usual valuation methodologies are set out in Appendix A to this report. Each of these methodologies is appropriate in certain circumstances.

10.2.1 ‘Going concern’ valuation

Grant Thornton Corporate Finance has undertaken a scenario analysis of the future financial performance of MWG based on the DCF Methodology.

We are of the opinion that this valuation approach is appropriate given that it allows for key assumptions to be modelled (e.g. volume growth, expansion plans, new product developments, gross margin, working capital requirements) and for a range of scenarios to be analysed. This is particularly relevant for MWG given that the Company has a history of generating substantial losses and accordingly a going concern valuation can only be obtained assuming a successful turnaround of the business. This approach is based on a 5-year financial model prepared by Grant Thornton Corporate Finance with cash flow forecasts for MWG to 30 June 2025, at which point we have calculated a terminal value.

10.2.2 Liquidation valuation

Grant Thornton Corporate Finance has also considered the value of equity in MWG on a liquidation basis which assumes that the operations of MWG will cease to exist and its assets will be liquidated to pay outstanding creditor balances and other liabilities.

10.2.3 Cross check

We note that RG111 states that "*an expert should if possible use more than one valuation methodology and compare the values derived from using different methodologies to minimise the risk that the opinion is unreliable*".

As at 30 June 2020, the Company had a positive net asset position of circa A$18.7 million with significant tangible assets that characterises MWG and the industry more broadly. Accordingly, we have analysed and provided some commentaries based on the P/BV Multiple of listed peers which seek to measure the market value of a company relative to its book value.

We have also been unable to apply other valuation methodologies due to the following:

- MWG is a public unlisted company and very limited liquidity and therefore we are unable to rely on the quoted security price method.
- It is generating significant losses at EBITDA, EBIT and net profit levels which is expected to continue for the foreseeable future removing the ability to use earnings multiples.
- Revenue multiples are not a common or reliable methodology for valuing wine companies due to the significant variability in business models, cost structures and margins across the industry.

11 Valuation assessment of MWG

11.1 Going concern valuation

11.1.1 Introduction and the GT Model

The GT Model was prepared on the basis of a cash flow model provided by MWG that was developed in conjunction with the Company's 2019 Strategic Plan ("SP Model"). As part of our procedures, we have held discussions with Management and with the Deed Administrators and we have updated the assumptions in the GT Model to reflect changes to MWG's operations since the Strategic Plan and Grant Thornton Corporate Finance's judgement on certain assumptions. We note that at the time of preparing the GT Model, Management was in the midst of preparing the FY21 Budget, with key preliminary assumptions factored into the GT Model based on the latest available information.

The GT Model contains nominal after tax cash flows from 1 July 2020 to 30 June 2025, a period of five years, with a terminal value calculated at that point in time to represent the value of cash flows in perpetuity.

The GT Model is necessarily a high level model, intended to demonstrate the effects on value from changes to key revenue and cost drivers. A wine company is an inherently complex business with performance dependant on a large number of variables including weather events, pricing and volume assumptions for each product across a range of sales channels, grape prices and yields.

The key features of the GT Model include:

- A breakdown of grape volumes sourced from growers and Company-owned and leased vineyards.
- Revenues are calculated based on the ASP across the portfolio with forecast volumes split between domestic and international sales.
- Fixed and variable vineyard cost of goods sold ("COGS") for Hanwood, Barwang and Pokolbin (incorporating all Hunter Valley vineyards) are modelled based on the level of grape production. Winery COGS for Hanwood (including Barwang which does not have a winery) and Pokolbin are modelled based on the level of grape juice production. Bottling COGS are split between dry goods COGS and bottling productions contract costs (with Portavin and other providers) and depend on the volume of 9LE cases sold. Fixed and variable warehouse and distribution COGS are forecast based on the volume of products sold and include packaging technician costs to delivery dry goods savings.
- General and administration and sales and marketing overheads are based on the level of overheads achieved while under control of the Administrators with an allowance for additional costs or further savings depending on the various scenarios. For example, we have excluded from the future costs the rent expenses for the Chullora lease which was terminated under the VA.
- Advertising and promotion spend is estimated in line with in recent years, although higher than FY21 due to the pull back in marketing expenses during the VA period.
- Capital expenditure is based on the Company's recent historical performance as well as assumptions contained in the Strategic Plan with additional allowances made under certain scenarios.

- Working capital forecasts are estimated having regard to the Company's historical performance, as well as its arrangements with its key customers and wholesalers, creditors and growers. In addition, we have made an allowance for an investment in inventory due to the currently low stock level and we have assumed that the opening balance of trade payables is A$nil as the full amount of trade creditors is included in the Creditor Claims which is deducted from the assessed enterprise value.

The GT Model was based on a critical review and consideration of the following:

- Historical financial performance of MWG, including but not limited to the impacts of the 2019 bushfires, the effects of COVID-19, the loss of the distributor brands and other changes to the business as a result of the VA process.

- The turnaround plan detailed in the Company's 2019 Strategic Plan which includes a number of measures and strategies to grow top line revenues and achieve cost savings which result in the company generating operating profits within three years.

- Management projections for 2021 vintage yields which take into account normal seasonal conditions.

- Market updates from various investment analysts who provide coverage of MWG's listed peers and of the industry as a whole.

- Key industry conditions and risks, growth prospects and the general economic outlook.

Whilst Grant Thornton Corporate Finance believes that the assumptions underlying the GT Model are reasonable and appropriate to be adopted for the purpose of our valuation, we have not disclosed them in our IER as they contain commercially sensitive information and they do not meet the requirements for presentation of prospective financial information as set out in ASIC Regulatory Guide 170 *"Prospective Financial Information"*.

The assumptions adopted by Grant Thornton Corporate Finance do not represent projections by Grant Thornton Corporate Finance but are intended to reflect the assumptions that could reasonably be adopted by industry participants in their pricing of similar businesses on a going concern basis. We note that the assumptions are inherently subject to considerable uncertainty and there is significant scope for differences of opinion. It should be noted that the value of MWG could vary materially based on changes to certain key assumptions.

11.1.2 Key challenges of the business

Over the last few years the Company's financial performance has deteriorated significantly due to a range of industry-wide and company-specific factors which we have briefly outlined below in a non-exhaustive manner. It is important to understand the genesis of the financial difficulties of the Company in order to properly factor into our valuation assessment those scenarios which would allow to the Company to continue as a going concern.

On 29 September 2014, E.&J. Gallo terminated its global wine supply agreement with MWG and fully redeemed its preference shares for A$7.3 million payable in instalments over a five year period. MWG's net sales revenues subsequently declined in FY15 by c. A$10.6 million primarily due to the loss of revenues in the USA market. Around the same time, the Company commenced an asset sales program to alleviate its liquidity constraints, generating proceeds of circa A$72 million between 2015 and 2019 to fund its operating losses and repay debt. The key assets sold included Brand's Laira in 2015 for c. A$16 million, Evans & Tate in 2017 for A$32.8 million and the Company's interest in MRWP in 2018 and 2019 for A$15.5 million. In recent years the financial performance of the Company has also been adversely impacted by onerous leases, such as the site of former bottling facility in Chullora. In addition to the high costs of the lease, the relocation of the bottling facility to the Hanwood winery presented a number of challenges stemming from operational issues which resulted in several false starts and the temporary shutdown of the facility on several occasions.

Industry conditions have also been challenging particularly given the Company's focus on the competitive domestic market, and in particular, the lower price segment (i.e. <A$12 ASP) which has decreased at a faster rate than the overall market due to changing consumer preferences and the trend towards premiumisation.

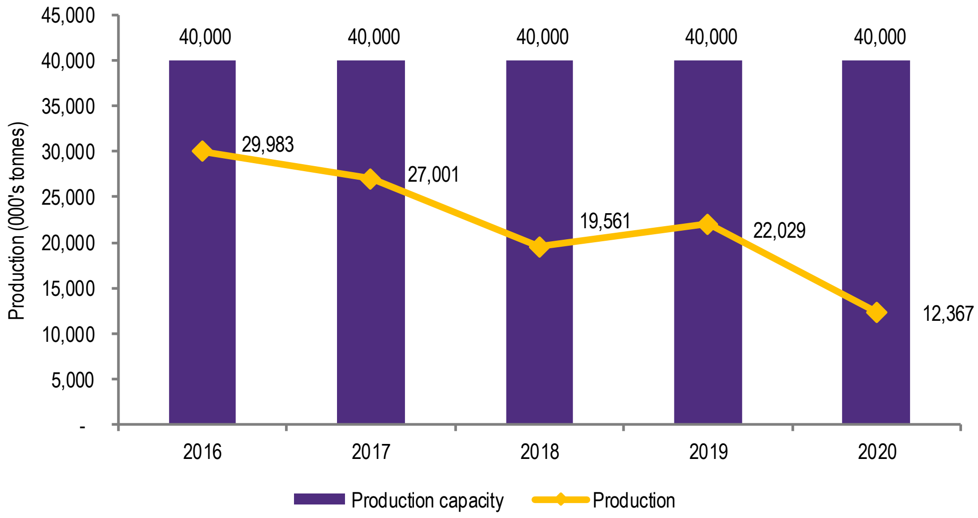
The major retailers Coles and Woolworths, who control approximately 70% of the off-premise retail channel, have grown the share of private label brands sales[44] due to their higher profit margins. This has adversely affected McWilliam's as private label brands target the low priced segment where the Company operates. The higher profit margins on private label brands incentivises supermarkets to reduce the shelf space for branded products in favour of private label brands with private label penetration now representing circa 20% of total retail liquor sales, and growing.

The wine industry has been particularly affected by this trend due to the proliferation of often indistinguishable labels and brands (influenced by consumers' limited wine experience and knowledge). In addition, competition from imports has grown over the last 15 years, with imports representing approximately 20% of domestic sales in 2020. Increasing competition from international producers in countries such as South Africa, France, Argentina, Chile, Spain and Italy means that McWilliam's must compete on quality and price with these producers, many of whom benefit from lower costs of production and wages.

The Hanwood winery includes a large commercial winery with a grape crushing capacity of 40,000 tonnes per annum. The winery also operates a stand-alone premium crushing facility with a capacity of 2,000 tonnes per annum. Historically, the Hanwood winery facility has been significantly underutilised with an average annual crush at less than 50% capacity in the three year period to FY20 as set out in the graph below. Given the high fixed cost structure of the winery operations, this led to a significant increase of the cost of production per tonne which adversely affected the financial performance of the business.

[44] IRi - Private Label: The Rise and Evolution of Private Label in Australia, August 2017.

MWG production capacity and actual production over the last 5 years



Source: MWG's annual reports, Management accounts, GTCF analysis

In FY20 the Company suffered further challenges as a result of the ongoing drought and bushfires. Yields in the Riverina region 30% were lower than expected due to drought whilst Pokolbin and Barwang produced no grapes in 2020 due to smoke taint caused by the bushfires. This was followed by the outbreak of COVID-19 in early 2020 which caused sales in the on-premises channel to fall materially.

11.1.3 Key assumptions under the going concern valuation

Due to the above challenges, Grant Thornton Corporate Finance has analysed a number of scenarios that represent differing combinations of assumptions on a going concern basis. For each scenario we have adopted the following overarching assumptions:

- The financial performance reflects the earnings that can be delivered under normal/average seasonal conditions – "through the cycle" earnings.

- The starting point for all the scenarios is the same being FY21, with the impacts of changes to assumptions mostly commencing in FY22, with the exception of assumptions regarding premiumisation, which has already commenced in FY20. We note that as communicated by the Deed Administrators to MWG Shareholders on 2 April 2020, a recent range review by Liquorland (Coles) delivered o new premium listings in the MWG and McWilliam's single vineyard range and the deletion of the McWilliam's Inheritance range which is a sub-A$10 range.

We are of the opinion that a rational investor would only undertake an acquisition of the business and run it on a going concern basis if it was able to implement a number of strategies to turn the business around and generate profitability within a period of a few years. As a result, under the going concern valuation, we have assumed that the Company is successful in the implementation of the following strategies:

- *Increase Hanwood throughput* – A significant ramp up in the volume of wine produced by the Hanwood facility to increase operating leverage thereby spreading the cost of production over a larger revenue base. We have assumed that the additional wine produced that is not used in MWG's own products, including growth as a result of the international expansion and premiumisation (see below), will be sold as bulk wine at A$1.2 per litre, with this additional supply absorbed by the market with no impact on prices.

- *International expansion* – An expansion into international markets due to the challenging trading conditions in the domestic wine market which assists in increasing volumes and margins.

- *Premiumisation* – Focus on 'premiumising' MWG's product portfolio targeting the A$12-A$20 ASP per bottle segment which is the fastest growing segment of the domestic market, and which represents a proportionally smaller share of MWG's portfolio than the market overall.

We have set out below the key underlying assumptions for each scenario developed by Grant Thornton following discussions with Management and the Deed Administrators and a review of the Strategic Plan:

Summary of Going Concern DCF Scenarios

Scenario A

Scenario A represents a "base case" under the going concern basis. The key assumptions in this scenario include:

- Increase Hanwood throughput
  - Grape crush production of 17,800 tonnes in V21 from a combination of company-owned and leased vineyards and existing spot agreements and contracts with growers. This ramps up to c. 30,000 tonnes by 2023 through new spot agreements with growers. We have assumed that MWG will increase tonnes to 30,000 given that maximising throughput to 40,000 tonnes would likely put downward pressure on the price that could be achieved on MWG's bulk wine sales, thereby detracting from value. Furthermore, we note that historically MWG has only achieved a maximum throughput of approximately 30,000 tonnes at Hanwood, and that assuming throughput of 40,000 tonnes would be considered aspirational.
  - To entice additional growers and prevent damaging existing grower relationships, the Company is required to pay upwards of a 10% premium above market value for all grapes it purchases. Grape prices then reduce back to market value in the terminal year.
- International expansion
  - International volumes grow to 250,000[45] 9LE by FY25.
  - Discounts reduce slightly as a result of the slightly lower level of discounts on international sales.
  - Increase in expenses due to the expansion of the international sales operations and team to put 'feet on the ground' in a key export market.
- Premiumisation
  - Between FY21 and FY25, MWG continues to target the $12-$20 ASP segment including new product development and targeted promotion of recently launched premium brands. This results in sales growth of 30,000 9LE cases per annum each year by FY25 (i.e. by FY25 approximately 150,000[46] new 9LE sales in the $12-$20 segment).
  - This results in increased working capital investment up to FY25 and a higher average grape purchase price due to a higher quality of grapes required. We have assumed a price of A$1,400 per tonne of grapes for the new premium products.

[45] The Strategic Plan included an aspirational goal to reach a level of international sales similar to our assumption, however the base case assumption adopted by Management in the Strategic Plan was materially lower at c. 160,000 9LE.
[46] The Strategic Plan assumed that MWG's premiumisation strategy resulted in an improving mix of sales with total 9LE cases sold mostly unchanged. However, in our premiumisation assumption, we have grown the total number of 9LE cases sold by 150,000 (as opposed to just improving the product mix), which is a more optimistic assumption.

	In addition to the above, we have included a number of other assumptions as follows: • On-premise sales recover in FY22 following the loosening of lockdown restrictions due to the successful containment of COVID-19 either through the development of a vaccine or the elimination of community transmission. • Overhead costs of A$11.5 million per annum, growing with inflation. • Dry goods cost savings of 15% achieved from FY22 and thereafter as a result of a new procurement strategy, line rationalisation, increased standardisation and carton and glass savings across the brand portfolio; • Grape purchasing costs of A$566 per tonne for commercial grapes and $1,400 per tonne for the new premium products in line with V21 expectations and grown at 2% p.a. thereafter. • Average bulk wine sales price of A$1.2 per litre in 2021 which grows at 2% per annum. • Ongoing maintenance capex of A$1.5m per year plus an allowance for additional A$1.5 million in FY22 for a new equipment at Hanwood to increase throughput.
Scenario B	Scenario B represents an accelerated version of Scenario A with the following changes to assumptions: • <u>Increase Hanwood throughput</u> - Grape crush production of c. 30,000 tonnes by FY23. • <u>International expansion</u> - International volumes approximately triple to 250,000 9LE by FY23. • <u>Premiumisation</u> - Between FY21 and FY23, MWG achieves sales growth in the $12-$20 ASP segment of 50,000 9LE cases per annum each year by FY23 (i.e. by FY23 approximately 150,000 new 9LE sales in the $12-$20 segment).
Scenario C	Scenario C represents an less aggressive or optimistic version of Scenario A with the following changes to assumptions: • <u>Increase Hanwood throughput</u> - Grape crush production of c. 30,000 tonnes by 2023 • <u>International expansion</u> - International volumes grow to 200,000 9LE by FY23. • <u>Premiumisation</u> - Between FY21 and FY25, MWG achieves sales growth in the $12-$20 ASP segment of 20,000 9LE cases per annum each year by FY25 (i.e. by FY25 approximately 100,000 new 9LE sales in the $12-$20 segment).

In addition to the above, we have adopted the following operating assumptions which remain constant across all scenarios:

- *Tax rate* – We have applied the Australian corporate tax rate of 30% in our valuation assessment.
- *Discount rate* – Ungeared after-tax cash flows are discounted by a weighted average costs of capital ("WACC") in the range of 10% to 11% on a going concern basis and without considering the situation of financial distress of the business. The rationale for the selection of this discount rate is set out in Appendix C. Our assessment of the discount rate takes into account, to a certain extent, the turnaround risk of the business.

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- *Terminal value growth rate* – Assessed at 2.5% having regard to the Reserve Bank of Australia's long-term inflation target range of 2.0% - 3.0% and in line with the growth prospects of the industry. We have benchmarked below our assessed long-term growth rate to growth assumptions made by industry reports and observed bond yields on the Australian government bonds as outlined below.

Assessment of reasonableness of terminal growth rate	Australia
Australia macroeconomic indicators	
10-year government bond yield[1]	0.98%
3 years average	1.89%
5 years average	2.13%
10 years average	2.98%
June 2020 Quarterly CPI[2]	(0.30%)
Reserve bank long-term inflation target[3]	2.0% to 3.0%
Average 10-year GDP growth rate [4]	1.71%
Average 10-year quarterly inflation	1.79%
Other industry sources	
IBIS World Wine Market FY20 to FY25 CAGR[5]	2.30%
Brokers range (Average and Median)[6]	2.50%
Selected terminal year growth rate	**2.50%**

Source: GTCF analysis
Note (1): Spot 10-year Australian government bond yield is as at 1 September 2020
Note (2): ABS 6401.0 - Consumer Price Index, Australia, June 2020
Note (3): Reserve Bank of Australia, Inflation target
Note (4): Data for Australian GDP published up to 30 June 2020
Note (5): IBISWorld Wine Production in Australia
Note (6): Broker forecasts consists of comparable companies namely, Treasury Wine Estate (CIMB Research, Jefferies LLC, JP Morgan and UBS Investment Bank), Australian Vintage Ltd (CIMB Research) and Delegat Group Limited (Auerbach Grayson and Deutsche Bank)

- *Inflation* – The SP Model assumes 2% inflation over the discrete period to FY25 which is not unreasonable given the economic outlook and recent consumer price index figures in the Australian economy which have hovered around or just below 2% in the last few years. Inflation is expected to remain low in coming years as a result of COVID-19 which has led to a sharp drop in the level of demand for some goods and services with several key components such as rents and fuel prices likely to remain lower as a result.

- *Surplus assets* – We have reviewed the balance sheet of MWG as at the valuation date and, in our view, these entities do not hold any surplus assets.

The assessment of the enterprise value of MWG's operating business under the DCF analysis is summarised below. For the avoidance of the doubt, we note that the values outlined in the table below are before deducting the Total Creditors.

Base Case Scenarios analysis		Business operations value (A$'000)		Adopted value (A$'000	
Scenarios	Brief description	Low	High	Low	High
Scenario A	Base Case: Turnaround within 5 years - Hanwood at 30,000 tonnes (75% capacity) by FY23 - Export of 250,000 9LE by FY25 - Additional sales of 150,000 new 9LE at $12-$20 ASP by FY25	30,353	36,061	30,353	36,061
Scenario B	Base Case: Turnaround within 3 years - Hanwood at 30,000 tonnes (75% capacity) by FY23 - Export of 250,000 9LE by FY23 - Additional sales of 150,000 new 9LE at $12-$20 ASP by FY23	35,889	41,452	35,889	41,452
Scenario C	Base Case: Weaker turnaround within 5 years - Hanwood at 30,000 tonnes (75% capacity) by FY23 - Export of 200,000 9LE by FY25 - Additional sales of 100,000 new 9LE at $12-$20 ASP by FY25	3,150	4,913	3,150	4,913

Source: GTCF analysis

In relation to the enterprise values of MWG assessed under the various scenarios, we note the following:

- The going concern scenarios all require MWG to undertake a complete turnaround of the business within only a few years. This is risky, time consuming and there is no guarantee of success as evidenced historically by the business.
- Scenario C demonstrates a situation where the Hanwood facility reaches 75% utilisation, however MWG doesn't reach its aspirational export and premiumisation targets. Under this scenario, there is limited value for the operating business, highlighting the risk to a potential purchaser of not achieving the ambitious growth targets.

Based on the enterprise values assessed above under the going concern scenarios, we have outlined below the valuation assessment of the equity value of MWG.

DCF Method - Going concern - valuation summary A$'000	*Section* *Reference*	Scenario A Low	 High	Scenario B Low	 High	Scenario C Low	 High
Enterprise Value of operating business	***11.1***	**30,353**	**36,061**	**35,889**	**41,452**	**3,150**	**4,913**
Creditors:							
Employee entitlements		(479)	(479)	(479)	(479)	(479)	(479)
Transferring employee entitlements		(1,056)	(728)	(1,056)	(728)	(1,056)	(728)
Secured creditor		(2,601)	(2,601)	(2,601)	(2,601)	(2,601)	(2,601)
Gallo payments		(1,247)	(1,247)	(1,247)	(1,247)	(1,247)	(1,247)
Administrators costs		(2,237)	(2,033)	(2,237)	(2,033)	(2,237)	(2,033)
DOCA fees, legal fees and other fees		(2,656)	(2,055)	(2,656)	(2,055)	(2,656)	(2,055)
Closing cash at execution of DOCA		3,780	4,030	3,780	4,030	3,780	4,030
Funds available to unsecured creditors		**23,857**	**30,947**	**29,392**	**36,337**	**(3,346)**	**(202)**
Unsecured creditor claims		(41,255)	(31,534)	(41,255)	(31,534)	(41,255)	(31,534)
Funds after paying out Creditors (before interest to unsecured Creditors)		**(17,398)**	**(587)**	**(11,862)**	**4,803**	**(44,601)**	**(31,736)**
Interest distribution to unsecured creditors		-	-	-	(2,661)	-	-
Funds available to Shareholders		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Implied value of 100% of the equity of MWG		**(17,398)**	**(587)**	**(11,862)**	**2,142**	**(44,601)**	**(31,736)**
Adopted value of 100% of the equity of MWG		**nil**	**nil**	**nil**	**2,142**	**nil**	**nil**

Source: GTGC analysis

- *Creditors* – MWG Creditors as per the Deed Administrators EOS as at 31 October 2020 as follows:
  - Deed Administrators' assessment of employees' entitlements (including transferring employee entitlements) is between A$1.2 million and A$1.5 million and comprises wages, annual leave, long service leave and redundancy.
  - Total secured creditors, administrators costs, fees and disbursements of between A$7.8 million and A$8.6 million as at 30 June 2020. This includes a A$2.5 million outstanding loan plus A$0.1 million in interest expense on the Gordon Brothers facility, Gallo loans of circa A$1.2 million and administrators costs, fees and disbursements of between A$4.1m and A$4.9 million.
  - Unsecured creditors in the range of A$31.5 million and A$41.3 million.
  - In the instance there is surplus funds after paying out Creditors (i.e. under the high case for Scenarios A and B), an interest distribution is also required to be paid to unsecured creditors of between A$2.7 million and A$3.4 million.

11.2 Cross check based on the P/BV of net assets

The equity value attributed to the MWG under the going concern is A$nil or limited, however the Company had book value of net assets of A$18.7 million as at 30 June 2020.

In order to consider the reasonableness of the above, we have analysed below the P/BV of the listed comparable companies.

P/BV multiples		Market	Enterprise	P/BV Multiple	
		Cap	Value	FY19	FY20
Company	Country	A$ millions	A$ millions	Actual	Actual
Australia and New Zealand wine producers					
Australian Vintage Ltd	Australia	132	258	0.4x	0.4x
Treasury Wine Estates Limited	Australia	6,689	8,170	1.8x	1.8x
Delegat Group Limited	New Zealand	1,394	1,702	4.2x	3.4x
Foley Wines Limited	New Zealand	119	171	1.1x	1.0x
Average				**1.9x**	**1.7x**
Median				**1.5x**	**1.4x**

Sources: S&P Global; financial reports of comparable companies and GTCF calculations
Note (1): Market capitalisation as at 2 September 2020.
Note (2): Net assets as at 30 June 2019 and 30 June 2020.

A brief description of the companies listed in the table above is set out in Appendix B.

The P/BV multiples for the listed peers reflect the value of the underlying companies on a minority basis and do not include a premium for control. The multiples above should also be taken with caution given the differences that may arise from the adoption of different accounting policies and intangibles recognised on the balance sheet. We note the selected listed peers all operated in Australia and New Zealand. We have also considered overseas listed peers, but we have not presented them as we are of the opinion that their relevance is limited.

For benchmarking purposes and in order to provide further insights into the P/BV multiples of the listed peers, below we have provided a KPI analysis over the last five years to capture through the cycle earnings.

Key Performance Indicators ("KPIs") A$m	FY16	FY17	FY18	FY19	FY20	Average
EBITDA margin						
McWilliams Wine Group Ltd	0%	(4%)	(12%)	(12%)	(11%)	(7%)
Australian Vintage Ltd	9%	6%	9%	11%	10%	9%
Treasury Wine Estates Limited	18%	21%	24%	27%	22%	23%
Delegat Group Limited	30%	32%	33%	37%	39%	34%
Foley Wines Limited	33%	29%	19%	23%	29%	26%
ROE						
McWilliams Wine Group Ltd	(6%)	(30%)	(8%)	(42%)	(77%)	(33%)
Australian Vintage Ltd	(1%)	2%	3%	3%	4%	2%
Treasury Wine Estates Limited	5%	7%	10%	11%	7%	8%
Delegat Group Limited	13%	13%	14%	15%	16%	14%
Foley Wines Limited	6%	3%	2%	3%	6%	4%
ROA						
McWilliams Wine Group Ltd	(5%)	(15%)	(4%)	(21%)	(29%)	(15%)
Australian Vintage Ltd	(1%)	1%	2%	2%	2%	1%
Treasury Wine Estates Limited	4%	5%	7%	7%	4%	5%
Delegat Group Limited	6%	6%	7%	7%	8%	7%
Foley Wines Limited	4%	2%	1%	2%	3%	3%
ROIC						
McWilliams Wine Group Ltd	(6%)	(19%)	(5%)	(28%)	(54%)	(22%)
Australian Vintage Ltd	(1%)	1%	2%	2%	3%	2%
Treasury Wine Estates Limited	5%	7%	9%	9%	5%	7%
Delegat Group Limited	7%	7%	7%	8%	8%	7%
Foley Wines Limited	5%	3%	2%	3%	4%	3%

Sources: S&P Global; GTCF calculations
Note (1): ROE and ROA are calculated as Net income divided by average total equity and average total assets respectively.
Note (2): ROIC is calculated as net income divided by total invested capital (Total equity plus net debt).

Among the listed peers, we have mainly considered AVL and Foley as they are broadly of a similar size to MWG. In relation to the other companies, Delegat's market positioning as super premium wines and the related gross margins and profitability makes it not comparable to MWG; Treasury Wine Estate Limited is a global company operating in several jurisdictions.

In relation to AVL, we note the following:

- It mainly operates via 4 owned brands (McGuigan, Tempus Two, Barossa Valley Wine Company and Nepenthe) which compete in the same market segment of Mount Pleasant and McWilliam's. However, the McGuigan and Tempus Two brands are experiencing significant growth in Australia and in the UK.
- Similarly to MWG, AVL's products have historically suffered from competitive pressure and significant discounts required by the distributors.
- AVL still produces significant volumes of bulk wines, even if over the last ten years the company has repositioned itself from a bulk wine company to a branded wine business.

Notwithstanding the similarities outlined above, we note that our valuation assessment of the market value of MWG attributes no or limited value to the net assets whereas AVL is trading at a net assets multiple of 0.4x. We do not believe that this difference is unreasonable due to the following:

- Differently from MWG, AVL has a strong focus on the overseas market with strong operations in the UK, the US and Asia.

- AVL generated cash flows from the operations of circa A$30 million in FY20 and of circa A$27.5 million in FY19 and it was able to pay a dividend of A$2.6 million and A$5.6 million in FY19 and FY20 respectively.

- Branded sales increased by circa 8% in FY20 and they now represent circa 65% of the total sales. This is in contrast with sales from Mount Pleasant and McWilliam's which have decreased or remained flat.

- AVL has been investing heavily into its business to streamline its operations and continue to improve future profitability and cash flows generation. Over the last three years, the company invested A$11 million on a new packaging line and A$9 million in wine making investments. Conversely, MWG has been selling core and non-core assets to fund its operations and it has not been able to re-invest the necessary cash into the business and its key relationships with growers.

Foley is also trading at a market capitalisation in line with its reported net assets as at 30 June 2020. However, we note the following:

- It is a collection of iconic wineries and brands most operating in the premium segment of the market. As outlined in the tables above, Foley has in recent years significantly increased the returns on assets and invested capital.

- The company generated operating cash flow of NZ$10.8 million in FY20 which was an increase of circa 70% on the previous year driven by enhanced profitability and it paid a dividend of NZ$2 million.

- Circa 45% of the revenue is generated outside Australia and New Zealand.

11.3 Valuation of MWG on a liquidation basis

Refer to our analysis in the executive summary.

12 Sources of information, disclaimer and consents

12.1 Sources of information

In preparing this report Grant Thornton Corporate Finance has used various sources of information, including:

- Deed of Company Arrangement ("DOCA").
- Annual reports/ consolidated accounts of MWG for FY14 to FY18.
- Draft unaudited accounts for FY19 and management accounts for FY20.
- Management's monthly reporting packs from February 2019 to July 2019.
- Management projections for MWG under its Strategic Plan for FY19 to FY22.
- Property and plant and equipment valuer reports commissioned as part of the VA process.
- Detailed revenue and volume figures by brand between 2016 and 2020.
- KPMG's VA Report dated 15 July 2020.
- SP Model.
- Information Memorandum for proponents prepared as part of the VA sales process.
- Access to the VA data room which included various other company documents with detailed information on key revenue and expense items provided to proponents under the VA sales process.
- Financial and due diligence reports.
- Transaction databases such S&P Global Capital IQ and Mergermarket.
- IBISWorld industry reports.
- Various industry (Wine Australia) and broker reports.
- Press releases and announcements of comparable companies on the ASX.
- Other publicly available information.

In preparing this report, Grant Thornton Corporate Finance has also held discussions with, and obtained information from, Management of MWG and Deed Administrators in relation to the DOCA and outlook for MWG.

12.2 Limitations and reliance on information

This report and opinion is based on economic, market and other conditions prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.

Grant Thornton Corporate Finance has prepared this report on the basis of financial and other information provided by the Company and the Deed Administrators, and publicly available information as detailed in section 12.1. Grant Thornton Corporate Finance has considered and relied upon this information. Grant Thornton Corporate Finance has no reason to believe that any information supplied was false or that any material information has been withheld. Grant Thornton Corporate Finance has evaluated the information provided by the Company through inquiry, analysis and review, and nothing has come to our attention to indicate the information provided was materially misstated or would not afford reasonable grounds upon which to base our report. Nothing in this report should be taken to imply that Grant Thornton Corporate

Finance has audited any information supplied to us, or has in any way carried out an audit on the books of accounts or other records of the Company.

This report has been only been prepared for the purpose of assisting the Court in determining the Administrators' proposed application pursuant to section 444GA(1) of the Corporations Act 2001 (NSW) ("Act"). It will be used for the purpose of the application to ASIC for technical relief from the takeover provisions of the Act and be provided in an Explanatory Statement to be sent to Shareholders of the Group prior to the Court hearing of the section 444GA application so as to provide them with the value of Group's equity. This report should not be used for any other purpose. In particular, it is not intended that this report should be used by current and future investors in making their investment decisions.

The Deed Administrators have indemnified Grant Thornton Corporate Finance, its affiliated companies and their respective officers and employees, who may be involved in or in any way associated with the performance of services contemplated by our engagement letter, against any and all losses, claims, damages and liabilities arising out of or related to the performance of those services whether by reason of their negligence or otherwise, excepting gross negligence and wilful misconduct, and which arise from reliance on information provided by the Company or the Deed Administrators, which they knew or should have known to be false and/or reliance on information, which was material information the Company/Deed Administrators had in its possession and which the Company/Deed Administrators knew or should have known to be material and which did not provide to Grant Thornton Corporate Finance. The Deed Administrators will reimburse any indemnified party for all expenses (including without limitation, legal expenses) on a full indemnity basis as they are incurred.

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Appendix A – Valuation methodologies

Capitalisation of future maintainable earnings

The capitalisation of future maintainable earnings multiplied by appropriate earnings multiple is a suitable valuation method for businesses that are expected to trade profitably into the foreseeable future. Maintainable earnings are the assessed sustainable profits that can be derived by a company's business and excludes any abnormal or "one off" profits or losses.

This approach involves a review of the multiples at which shares in listed companies in the same industry sector trade on the share market. These multiples give an indication of the price payable by portfolio investors for the acquisition of a parcel shareholding in the company.

Discounted future cash flows

An analysis of the net present value of forecast cash flows or DCF is a valuation technique based on the premise that the value of the business is the present value of its future cash flows. This technique is particularly suited to a business with a finite life. In applying this method, the expected level of future cash flows are discounted by an appropriate discount rate based on the weighted average cost of capital. The cost of equity capital, being a component of the WACC, is estimated using the Capital Asset Pricing Model.

Predicting future cash flows is a complex exercise requiring assumptions as to the future direction of the company, growth rates, operating and capital expenditure and numerous other factors. An application of this method generally requires cash flow forecasts for a minimum of five years.

Orderly realisation of assets

The amount that would be distributed to shareholders on an orderly realisation of assets is based on the assumption that a company is liquidated with the funds realised from the sale of its assets, after payment of all liabilities, including realisation costs and taxation charges that arise, being distributed to shareholders.

Market value of quoted securities

Market value is the price per issued share as quoted on the ASX or other recognised securities exchange. The share market price would, prima facie, constitute the market value of the shares of a publicly traded company, although such market price usually reflects the price paid for a minority holding or small parcel of shares, and does not reflect the market value offering control to the acquirer.

Comparable market transactions

The comparable transactions method is the value of similar assets established through comparative transactions to which is added the realisable value of surplus assets. The comparable transactions method uses similar or comparative transactions to establish a value for the current transaction.

Comparable transactions methodology involves applying multiples extracted from the market transaction price of similar assets to the equivalent assets and earnings of the company. The risk attached to this valuation methodology is that in many cases, the relevant transactions contain features that are unique to that transaction and it is often difficult to establish sufficient detail of all the material factors that contributed to the transaction price.

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Appendix B – Publicly listed comparable companies

Company	Description
Australian Vintage Ltd	Australian Vintage Ltd, together with its subsidiaries, produces, packages, markets, and distributes wine. The company operates through Australasia/North America Packaged, UK/Europe, Cellar Door, Australasia/North America Bulk Wine and Processing, and Vineyards segments. It offers wine under the Miranda, Nepenthe, McGuigan Wines, Tempus Two, and Passion Pop brands. The company also owns, operates, manages, and maintains vineyards; and provides packaged and bulk wines, as well as offers concentrate and winery processing services. Australian Vintage Ltd sells its products through retail, wholesale, and distributor channels, as well as through regional outlets. The company was incorporated in 1991 and is headquartered in Cowandilla, Australia.
Treasury Wine Estates Limited	Treasury Wine Estates Limited operates as a wine company primarily in Australia, New Zealand, Asia, Europe, and the Americas. It engages in the viticulture and winemaking; and marketing, sale, and distribution of wine. The company's wine portfolio includes luxury, masstige, and commercial wine brands, such as Penfolds, Beringer, Lindeman's, Wolf Blass, 19 Crimes, Chateau St Jean, Beaulieu Vineyard, Stags' Leap, and Sterling Vineyards. It also provides contract bottling services to third parties. The company owns and leases 8,676 planted hectares of vineyards primarily in Barossa Valley and Coonawarra, Australia; 498 planted hectares of vineyards in Marlborough, New Zealand; and owns and operates 3,213 planted hectares in various viticultural regions in California, including Napa and Sonoma Valleys, as well as 193 hectares in Italy. It markets and sells its products to distributors, wholesalers, retails chains, independent retailers, and on premise outlets, as well as directly to consumers. The company was founded in 1843 and is headquartered in Melbourne, Australia.
Delegat Group Limited	Delegat Group Limited produces, markets, distributes, and sells wine. The company markets and sells its products primarily under the Oyster Bay and Barossa Valley Estate brands, as well as under the Delegat name to retailers and distributors in the United Kingdom, Ireland, and rest of Europe; and the United States, Canada, Australia, New Zealand, and the Asia Pacific. It also provides brand marketing services. The company was formerly known as Delegat's Group Limited and changed its name to Delegat Group Limited in July 2014. Delegat Group Limited was founded in 1947 and is based in Auckland, New Zealand. Delegat Group Limited is a subsidiary of Delegat Share Protection Trust.
Marlborough Wine Estates Group Limited	Marlborough Wine Estates Group Limited, together with its subsidiaries, operates in the wine industry in New Zealand, the United States, China, and internationally. It owns and operates six vineyard blocks comprising approximately 336 hectares located in the Awatere Valley in Marlborough; produces and sells grapes; and produces, sells, and markets wine under the O:TU brand name, as well as holds the Music Bay trade mark. The company was incorporated in 2015 and is based in Auckland, New Zealand.
Foley Wines Limited	Foley Wines Limited, an integrated wine company, produces, markets, and sells wines in New Zealand. It offers wines under the Martinborough Vineyard, Te Kairanga, Lighthouse Gin, Grove Mill, Vavasour, and Mt Difficulty brands. It also exports its products. The company was formerly known as Foley Family Wines Limited and changed its name to Foley Wines Limited in December 2018. Foley Family Wines Limited was incorporated in 1986 and is headquartered in Blenheim, New Zealand. Foley Wines Limited is a subsidiary of Foley Family Wines Holdings, New Zealand Limited.
AdVini S.A.	AdVini S.A. produces, markets, and distributes wines in France and internationally. The company was founded in 1870 and is headquartered in Clermont-l'Hérault, France.
Andrew Peller Limited	Andrew Peller Limited produces and markets wine, spirits, and wine related products. It offers wines under various trademarks, including Andrés Wines, Andrew Peller Limited, Peller Estates, Trius, Thirty Bench, Red Rooster, Sandhill, Wayne Gretzky Estates, No. 99, No. 99 Rye Lager, Wayne Gretzky Okanagan, Black Hills Estates, Gray Monk Cellars, Tinhorn Creek, Oldfield Reserve, Innovation Series, The Creek, Crush Club, Creek Design, Calona Vineyards, Raven Conspiracy, Conviction, Peller Family Vineyards, Domaine D'Or, Hochtaler, Royal, XOXO, Black Cellar, Copper Moon, Rebellion, The Diplomat, Waltzing Matilda, Panama Jack, PJs Craft Cream, No Boats on Sunday, Schloss Laderheim, Baby Canadian, Baby Duck, Wine Country Vintners, and The Wine Shop. The company also produces and markets personal winemaking products under the Vintner's Reserve, California Connoisseur, Atmosphere, Cheeky Monkey, KenRidge, Niagara Mist, Cellar Craft, World Vineyard, Selection, Island Mist, Winexpert, LE, Après, and Legacy brands through approximately 200 authorized retailers, and 400 independent retailers in Canada, the United States, the United Kingdom, New Zealand, Australia, and China. The company owns and operates 101 independent retail locations under The Wine Shop, Wine Country Vintners, and Wine Country Merchants store names. Andrew Peller Limited also exports its products. The company was formerly known as Andrés Wines Ltd. and changed its name to Andrew Peller Limited in 2006. Andrew Peller Limited was founded in 1961 and is headquartered in Grimsby, Canada.
Bodegas Esmeralda S.A.	Bodegas Esmeralda S.A. produces and sells wines in Argentina. It offers products under the Esmeralda Malbec, Esmeralda Cabernet Sauvignon, Esmeralda Red Blend, and Esmeralda Chardonnay brand names. The company also exports its products. Bodegas Esmeralda S.A. is headquartered in Córdoba, Argentina.
Crimson Wine Group, Ltd.	Crimson Wine Group, Ltd., through its subsidiaries, engages in the production and sale of wines. It operates through two segments, Wholesale and Direct to Consumer. The company sells wines through independent wine and spirit distributors in the United States; and independent importers and brokers internationally. It sells its products under Pine Ridge Vineyards, Archery Summit, Chamisal Vineyards, Seghesio Family Vineyards, Double Canyon, Seven Hills Winery, and Malene Wines brands. The company exports its products to 30 countries. The company was formerly known as Leucadia Cellars, Ltd. and changed its name to Crimson Wine Group, Ltd. in November 2007. Crimson Wine Group, Ltd. was founded in 1991 and is headquartered in Napa, California.
Gusbourne PLC	Gusbourne PLC, together with its subsidiaries, produces, distributes, and sells English sparkling wines in the United Kingdom. It has 231 acres of vineyards in Kent and West Sussex. The company was formerly known as Shellproof Plc and changed its name to Gusbourne PLC in September 2013. Gusbourne PLC was incorporated in 2012 and is based in Ashford, the United Kingdom.
Viña San Pedro Tarapacá S.A.	Viña San Pedro Tarapacá S.A. produces and exports wines in Chile and internationally. The company markets its products under the Cabo de Hornos, Kankana del Elqui, Tierras Moradas, 1865 Single Vineyard, 1865 Lmited Edition, Castillo de Molina, and 35 South and GatoNegro brand names. Viña San Pedro Tarapacá S.A. was founded in 1865 and is based in Santiago, Chile. Viña San Pedro Tarapacá S.A. operates as a subsidiary of CCU Inversiones S.A.

Company	Description
Viña Concha y Toro S.A.	Viña Concha y Toro S.A., together with its subsidiaries, produces and distributes wines in Chile. It operates through two segments, Wine and Other. The company sells its premium wines under the Don Melchor, Carmín de Peumo, Gravas del Maipo, Amelia, Terrunyo, Marques de Casa Concha, Gran Reserva Serie Riberas, Casillero del Diablo, Trio, and Late Harvest brand names; varietal and bi-varietal wines under the Sunrise, Concha y Toro, and Frontera brands; and popular wines under the Tocornal, Clos de Pirque, Exportación Selecto, Exportacion, and Fressco Cooler brand names. It also sells premium, varietal, and bi-varietal wines under the Cono Sur, Isla Negra, Maipo, Canepa, Palo Alto, Maycas del Limarí, and Trivento brands, as well as under the Fetzer, Bonterra, Five Rivers, Jekel, Sanctuary, 1000 Stories, Adorada, and Little Black Dress brand names. In addition, the company is involved in the distribution of spirits and premium beers in Chile; operation of wine bars and tours in Pirque; and activities related to the real estate business. As of December 31, 2018, it had approximately 12,814 cultivable hectares, including 368 hectares in Chile; and 170 hectares in the United States. The company also exports its products to Europe; Asia; South America; Central America, Mexico, and Caribbean; the United States; and Canada, Africa, and internationally. Viña Concha y Toro S.A. was founded in 1883 and is headquartered in Las Condes, Chile.
Lanson-BCC	Lanson-BCC produces and sells wines in France and internationally. The company offers its products under the Champagne Lanson, Champagne Chanoine Frères, Champagne Besserat de Bellefon, Champagne Boizel, Champagne De Venoge, Champagne Philipponnat, Maison Burtin, and Champagne Alexandre Bonnet brand names. It distributes its products through mass retail stores, wine stores, gourmet food stores, restaurants, and hotels, as well as through mail-orders. The company was formerly known as Boizel Chanoine Champagne and changed its name to Lanson-BCC in 2010. Lanson-BCC is based in Reims, France.
Laurent-Perrier S.A.	Laurent-Perrier S.A. produces and sells champagnes and wines in France and internationally. The company was founded in 1812 and is based in Tours-sur-Marne, France. Laurent-Perrier S.A. is a subsidiary of Nonancourt Family Trust.
Vranken-Pommery Monopole Société Anonyme	Vranken-Pommery Monopole Société Anonyme produces and sells wines and champagnes in France and internationally. The company offers its products under the Champagne Vranken, Champagne Pommery, Monopole Heidsieck & CO, Champagne Charles Lafitte, Château la Gordonne, Domaine Royal De Jarras, Quinta do Grifo, Rozès, Pink Flamingo, Sao Pedro Das Aguias, and Louis Pommery brands. The company was founded in 1976 and is based in Reims, France.
Constellation Brands, Inc.	Constellation Brands, Inc., together with its subsidiaries, produces, imports, and markets beer, wine, and spirits in the United States, Canada, Mexico, New Zealand, and Italy. It provides beer primarily under the Corona Extra, Corona Premier, Corona Familiar, Corona Light, Corona Refresca, Corona Hard Seltzer, Modelo Especial, Modelo Negra, Modelo Chelada, Pacifico, and Victoria brands. The company offers wine under the 7 Moons, Drylands, SIMI, Charles Smith, Auros, Kim Crawford, Spoken Barrel, Prisoner, Champagne Palmer & Co, Meiomi, Robert Mondavi, Cooper & Thief, Mount Veeder, Schrader, Crafters Union, Nobilo, Cuvée Sauvage, and Ruffino; and spirits under the Casa Noble, High West, Mi CAMPO, Nelson's Green Brier, SVEDKA, The Real McCoy brands. It provides its products to wholesale distributors, retailers, on-premise locations, and state alcohol beverage control agencies. The company was founded in 1945 and is headquartered in Victor, New York.
Pernod Ricard SA	Pernod Ricard SA produces and sells wines and spirits worldwide. Its brands include Absolut Vodka, Ricard pastis, Ballantine's, Chivas Regal, Royal Salute, The Glenlivet Scotch whiskies, Jameson Irish whiskey, Martell cognac, Havana Club rum, Beefeater gin, Malibu liqueur, Mumm, and Perrier-Jouët champagnes, as well Jacob's Creek, Brancott Estate, Campo Viejo, and Kenwood wines. The company was founded in 1805 and is headquartered in Paris, France.

Source: S&P Global, GTCF analysis

Appendix C – Discount rate

Introduction

The cash flow assumptions underlying the DCF Approach are on a nominal, ungeared and post-tax basis. Accordingly, we have assessed a range of nominal post-tax discount rates for the purpose of calculating the net present value of the cash flows.

The discount rates were determined using the WACC formula. The WACC represents the average of the rates of return required by providers of debt and equity capital to compensate for the time value of money and the perceived risk or uncertainty of the cash flows, weighted in proportion to the market value of the debt and equity capital provided. However, we note that the selection of an appropriate discount rate is ultimately a matter of professional judgment.

Under a classical tax system, the nominal WACC is calculated as follows:

$$\text{WACC} = R_d \times \frac{D}{D+E} \times (1-t) + R_e \times \frac{E}{D+E}$$

Where:

- Re = the required rate of return on equity capital;
- E = the market value of equity capital;
- D = the market value of debt capital;
- Rd = the required rate of return on debt capital; and
- t = the statutory corporate tax rate.

Required rate of return on equity capital

We have used the CAPM, which is commonly used by practitioners, to calculate the required return on equity capital.

The CAPM assumes that an investor holds a large portfolio comprising risk-free and risky investments. The total risk of an investment comprises systematic risk and unsystematic risk. Systematic risk is the variability in an investment's expected return that relates to general movements in capital markets (such as the share market) while unsystematic risk is the variability that relates to matters that are unsystematic to the investment being valued.

The CAPM assumes that unsystematic risk can be avoided by holding investments as part of a large and well-diversified portfolio and that the investor will only require a rate of return sufficient to compensate for the additional, non-diversifiable systematic risk that the investment brings to the portfolio. Diversification cannot eliminate the systematic risk due to economy-wide factors that are assumed to affect all securities in a similar fashion. Accordingly, whilst investors can eliminate unsystematic risk by diversifying their portfolio, they will seek to be compensated for the non-diversifiable systematic risk by way of a risk premium on the expected return. The extent of this compensation depends on the extent to which the company's returns are correlated with the market as a whole. The greater the systematic risk faced by investors, the larger the required return on capital will be demanded by investors.

The systematic risk is measured by the investment's beta. The beta is a measure of the co-variance of the expected returns of the investment with the expected returns on a hypothetical portfolio comprising all investments in the market – it is a measure of the investment's relative risk.

A risk-free investment has a beta of zero and the market portfolio has a beta of one. The greater the systematic risk of an investment the higher the beta of the investment.

The CAPM assumes that the return required by an investor in respect of an investment will be a combination of the risk-free rate of return and a premium for systematic risk, which is measured by multiplying the beta of the investment by the return earned on the market portfolio in excess of the risk-free rate.

Under the CAPM, the required nominal rate of return on equity (Re) is estimated as follows:

$$R_e = R_f + \beta_e (R_m - R_f)$$

Where:

- Rf = risk free rate
- βe = expected equity beta of the investment
- (Rm – Rf) = market risk premium

Risk free rate

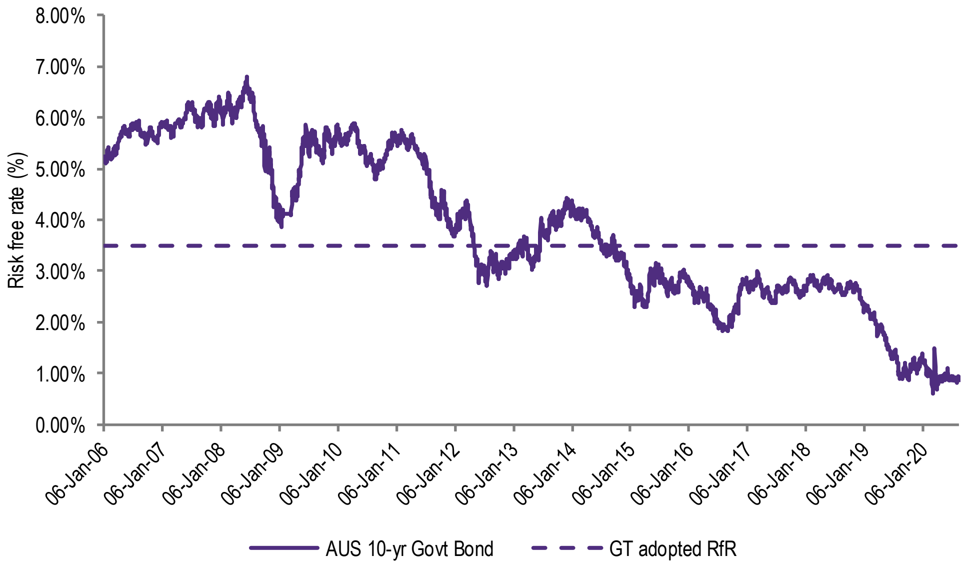
In the absence of an official risk free rate, the yield on government bonds (in an appropriate jurisdiction) is commonly used as a proxy. Accordingly, we have we have observed the yield on the 10-year Australian Government bond over several intervals from a period of 5 trading days to 10 trading years.

Australia Government Debt - 10 Year as at 31 July 2020		Range		Daily average
Previous 5 trading days	0.82%	-	0.92%	0.87%
Previous 10 trading days	0.82%	-	0.92%	0.88%
Previous 20 trading days	0.82%	-	0.93%	0.88%
Previous 30 trading days	0.82%	-	0.94%	0.89%
Previous 60 trading days	0.82%	-	1.10%	0.91%
Previous 1 year trading	0.60%	-	1.48%	1.00%
Previous 2 years trading	0.60%	-	2.79%	1.57%
Previous 3 years trading	0.60%	-	2.93%	1.95%
Previous 5 years trading	0.60%	-	3.03%	2.19%
Previous 10 years trading	0.60%	-	5.76%	3.12%

Source: S&P Global, GTCF analysis

Currently, global financial markets are witnessing significant volatility with several external factors (like the ongoing trade tensions with China and the COVID-19 pandemic) adding to the fluctuation of bond rates. In addition, the RBA dropped the cash rate to 0.25% on 20 March 2020 where it has remained due to the occurrence of COVID-19 and associated uncertainty and pessimistic economic outlook. Although we note that the spot rate is 0.85%[47], given the significant volatility in the global financial markets, we have placed more emphasis on the long term risk free rate observed over a longer period of time as shown in the graph below:

10 year Australian Government bond yield



Source: S&P Global, GTCF Analysis

Having regard to the above, we have adopted a risk-free rate of 3.5% for calculating the discount rate.

Market risk premium

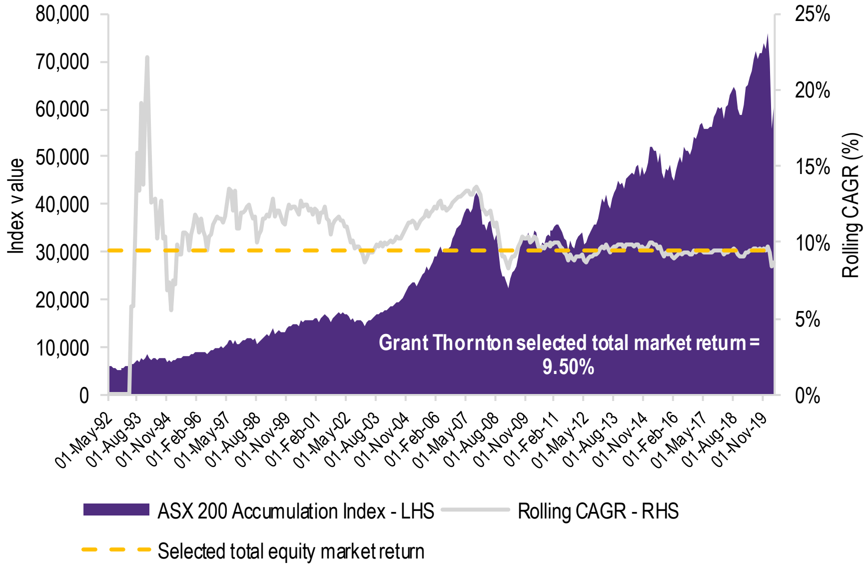
The market risk premium represents the additional return an investor expects to receive to compensate for additional risk associated with investing in equities as opposed to assets on which a risk free rate of return is earned. However, given the inherent high volatility of realised rates of return, especially for equities, the market risk premium can only be meaningfully estimated over long periods of time. In this regard, Grant Thornton studies of the historical risk premium over periods of 20 to 80 years suggest a risk premium of 6.0% for the Australia markets.

For the purpose of the WACC assessment, Grant Thornton Corporate Finance has adopted a market risk premium of 6.0%.

We note that the total return of the market of 9. 5% embedded in our WACC assessment (being the risk free rate of 3.5% plus market risk premium of 6%) is also consistent with the long-term total shareholders return of the ASX 500 Accumulation Index as set out below:

[47] Australia Bond 10 Year Yield sport rate 0.85% as at 20 August 2020.

S&P ASX 200 Total Return Index and rolling CAGR from 1 May 1992



Source: S&P Global, GTCF Analysis

Beta

The beta measures the expected relative risk of the equity in a company. The choice of the beta requires judgement and necessarily involves subjective assessment as it is subject to measurement issues and a high degree of variation.

An equity beta includes the effect of gearing on equity returns and reflects the riskiness of returns to equity holders. However, an asset beta excludes the impact of gearing and reflects the riskiness of returns on the asset, rather than returns to equity holders. Asset betas can be compared across asset classes independent of the impact of the financial structure adopted by the owners of the business.

Equity betas are typically calculated from historical data. These are then used as a proxy for the future which assumes that the relative risk of the past will continue into the future. Therefore, there is no right equity beta and it is important not to simply apply historical equity betas when calculating the cost of equity.

Grant Thornton Corporate Finance has observed the betas of the comparable companies of McWilliam's Wines Group by reference to the local index of each company (based on country of domicile) over 2 years based on weekly observations and over 5 years based on monthly observations. We consider the local index betas to be appropriate as the wine industry is largely dependent on the weather conditions present in the local economy.

It should be noted that the above betas are drawn from the actual and observed historic relationship between risk and returns. From these actual results, the expected relationship is estimated generally on the basis of extrapolating past results. Despite the arbitrary nature of the calculations it is important to assess their commercial reasonableness. That is, to assess how closely the observed relationship is likely to deviate from the expected relationship.

Consequently, while measured equity betas of the listed comparable companies provide useful benchmarks against which the equity beta used in estimating the cost of equity for companies operating in the agriculture industry, the selection of an unsystematic equity beta requires a level of judgement.

The asset betas of the selected company are calculated by adjusting the equity betas for the effect of gearing to obtain an estimate of the business risk of the comparable company, a process commonly referred as degearing. We have then recalculated the equity beta based on an assumed ‘optimal’ capital structure deemed appropriate for the business (regearing). This is a subjective exercise, which carries a significant possibility of estimation error.

We used the following formula to undertake the degearing and regearing exercise:

$$\beta_e = \beta_a\left[1 + \frac{D}{E} \times (1-t)\right]$$

Where:

- βe = Equity beta
- βa = Asset beta
- t = corporate tax rate

The betas are de-geared using the average historical gearing levels observed for McWilliam’s Wines in which the betas were observed and then re-geared based on a gearing ratio of 30% debt to 70% equity (see Capital Structure Section below for further discussions).

Based on the above, the regeared betas for the comparable companies for McWilliam’s Wines are set out in the table below:

			2 years weekly betas						5 years monthly betas					
Beta analysis		Market cap	Equity	R squared	Gearing	Ungeared	Regeared	Adopted	Equity	R squared	Gearing	Ungeared	Regeared	Adopted
Company	Country	A$m	Beta		Ratio	Beta	Beta	Beta	Beta		Ratio	Beta	Beta	Beta
Tier 1 - Domestic (Australia and New Zealand) wine producers														
Australian Vintage Ltd	Australia	122	0.78	0.33	81.8%	0.49	0.64	0.64	0.85	0.20	74.5%	0.56	0.72	0.72
Treasury Wine Estates Limited	Australia	7,626	0.85	0.21	12.8%	0.78	1.01	1.01	0.45	0.05	8.0%	0.43	0.56	0.56
Delegat Group Limited	New Zealand	1,210	1.05	0.48	25.2%	0.89	1.16	1.16	1.29	0.40	33.3%	1.04	1.35	1.35
Marlborough Wine Estates Group Limited	New Zealand	49	0.07	0.00	11.7%	0.06	0.08	Nmf	0.21	0.02	8.5%	0.20	0.26	Nmf
Foley Wines Limited	New Zealand	99	0.14	0.01	46.9%	0.11	0.14	Nmf	0.73	0.20	34.4%	0.59	0.77	0.77
Median								**1.01**						**0.74**
Average								**0.94**						**0.85**
Tier 2 - International wine producers														
AdVini S.A.	France	115	0.44	0.08	209.3%	0.18	0.24	0.24	0.49	0.12	155.3%	0.23	0.30	0.30
Andrew Peller Limited	Canada	414	1.16	0.57	35.7%	0.92	1.19	1.19	0.66	0.12	26.6%	0.55	0.72	0.72
Bodegas Esmeralda S.A.	Argentina	461	0.60	0.04	(13.1%)	0.60	0.78	0.78	1.12	0.05	(8.8%)	1.12	1.46	1.46
Crimson Wine Group, Ltd.	United States	180	0.55	0.17	(3.3%)	0.55	0.72	0.72	0.26	0.04	(4.0%)	0.26	0.34	0.34
Gusbourne PLC	United Kingdom	53	0.25	0.06	27.8%	0.20	0.26	0.26	0.66	0.08	26.0%	0.53	0.68	0.68
Viña San Pedro Tarapacá S.A.	Chile	506	0.24	0.15	18.8%	0.21	0.28	0.28	0.53	0.23	13.7%	0.48	0.63	0.63
Viña Concha y Toro S.A.	Chile	1,760	0.58	0.41	32.0%	0.47	0.61	0.61	0.77	0.43	29.8%	0.63	0.82	0.82
Lanson-BCC	France	173	0.38	0.10	397.6%	0.10	0.13	0.13	0.47	0.12	295.4%	0.15	0.20	0.20
Laurent-Perrier S.A.	France	702	0.31	0.10	62.9%	0.22	0.28	0.28	0.54	0.19	61.5%	0.38	0.49	0.49
Vranken-Pommery Monopole Société Anonyme	France	193	0.21	0.09	499.7%	0.05	0.06	0.06	0.63	0.25	398.8%	0.17	0.22	0.22
Constellation Brands, Inc.	United States	47,132	1.39	0.65	35.9%	1.11	1.44	1.44	0.90	0.33	29.0%	0.74	0.97	0.97
Pernod Ricard SA	France	62,760	0.66	0.43	18.7%	0.59	0.76	0.76	0.62	0.27	22.7%	0.54	0.70	0.70
Linedata Services S.A.	France	280	0.57	0.15	49.7%	0.42	0.55	0.55	0.78	0.17	29.9%	0.65	0.84	0.84
Capita plc	United Kingdom	869	2.37	0.40	48.5%	1.60	2.07	2.07	2.17	0.22	44.2%	1.50	1.96	1.96
FactSet Research Systems Inc.	United States	18,955	1.10	0.68	2.5%	1.08	1.40	1.40	0.68	0.25	3.3%	0.66	0.86	0.86
Median								**0.61**						**0.70**
Average								**0.72**						**0.75**
Low								**0.06**						**0.20**
Median								**0.68**						**0.72**
Average								**0.75**						**0.77**
High								**2.07**						**1.96**

Source: S&P Global and GTCF calculations

Note: (1) Market capitalisation of all companies as at 18 August 2020; (2) R-squared. Betas with a correlation less than 2% are considered not meaningful (“Nmf”) and excluded from the above table; (3) Equity betas are calculated using data provided by S&P Global. The betas are based *on a five year period with monthly observations and have been degeared based on the average gearing ratio over five years. The betas based on a two year period with weekly observations are degeared based on the average gearing ratio over two years.*

Based on the analysis above, for the purpose of the valuation, we have selected a beta range of between 0.7 and 0.8 to calculate the required rate of return on equity capital.

Specific risk premium

When assessing the specific risk premium, we have considered a number of factors including:

- The nature and size of McWilliam's Wines compared to the selected comparable companies.
- The uncertainty associated with cash flow forecasts.
- The turnaround risk.
- The challenges likely to be faced in order to emerge from challenging seasonal conditions.

Based on our analysis, we have adopted a specific risk premium of 5% for McWilliam's Wines Group.

We note that the selection of the specific risk premium involves a certain level of professional judgement and as a result, the total specific risk premium is not fully quantifiable with analytical data.

Cost of debt

For the purpose of estimating the cost of debt applicable to McWilliam's Wines Group, Grant Thornton Corporate Finance has considered the following:

- The margin implicit in corporate bond yields over the Australian Government bond yields. Given the relatively low interest rate environment, this is likely to yield a low interest rate, which, in our opinion, does not reflect the long-term interest rate that is likely to be paid by companies borrowing debt in Australian dollars.
- The weighted average interest rate on credit outstanding for large businesses over the last one to five years as published by the Reserve Bank of Australia.
- Expectations of the yield curve.
- The average borrowing cost incurred by McWilliam's Wines on its debt facilities.

Based on the above, Grant Thornton Corporate Finance has adopted a cost of debt in the range of 6.0% to 7.0% on a pre-tax basis.

Capital structure

Grant Thornton Corporate Finance has considered the gearing ratio which a hypothetical purchaser of the business would adopt in order to generate a balanced return given the inherent risks associated with debt financing. Factors which a hypothetical purchaser may consider include the shareholders' return after interest payments, and the business' ability to raise external debt.

The appropriate level of gearing that is utilised in determining the WACC for a particular company should be the "target" gearing ratio, rather than the actual level of gearing, which may fluctuate over the life of a company. The target or optimal gearing level can therefore be derived based on the trade-off theory which stipulates that the target level of gearing for a project is one at which the present value of the tax benefits from the deductibility of interest are offset by present value of costs of financial distress. In practice, the target level of gearing is evaluated based on the quality and variability of cash flows. These are determined by:

- The quality and life cycle of a company.
- The quality and variability of earnings and cash flows.
- Working capital.
- Level of capital expenditure.
- The risk profile of the company.

In determining the appropriate capital structure for McWilliam's Wines, we have also had particular consideration to the following:

- The average gearing ratio of comparable companies over the last five year period as set out in the beta section of this report.
- The historic, forecast, and target gearing for comparable companies.

Based on the above observations, for the purpose of the discount rate assessment Grant Thornton Corporate Finance has adopted a capital structure of 30% debt and 70% equity for McWilliam's Wines Group.

WACC calculation

The discount rate for McWilliam's Wines Group on a standalone basis is determined as set out below:

WACC calculation	Low	High
Cost of equity		
Risk free rate	3.50%	3.50%
Beta	0.70	0.80
Market risk premium	6.0%	6.0%
Specific risk premium	5.0%	5.0%
Cost of equity	**12.70%**	**13.30%**
Cost of debt		
Cost of debt (pre tax)	6.00%	7.00%
Tax	30.0%	30.0%
Cost of debt (post tax)	**4.20%**	**4.90%**
Capital structure		
Proportion of debt	30%	30%
Proportion of equity	70%	70%
	100%	100%
WACC (post tax)	**10.15%**	**10.78%**
Adopted WACC (post tax)	**10.00%**	**11.00%**

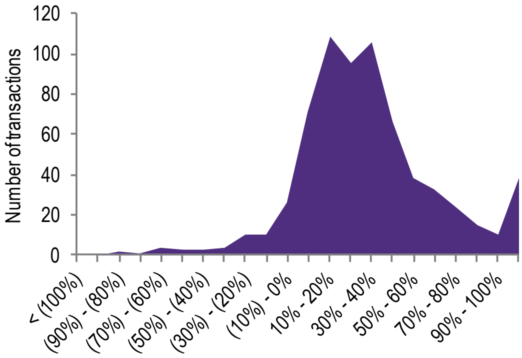
Source: GTCF analysis

Appendix D – Premium for control study

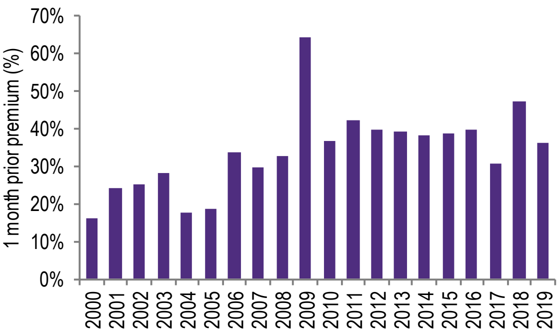
Evidence from studies indicates that premium for control on successful takeovers has frequently been in the range of 20% to 40% in Australia, and that the premium vary significantly for each transaction.

The following charts illustrates the premiums paid on transactions between June 2000 and September 2019.

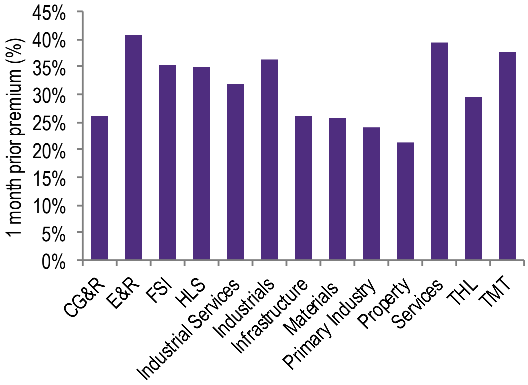
1 Month Prior Control Premium



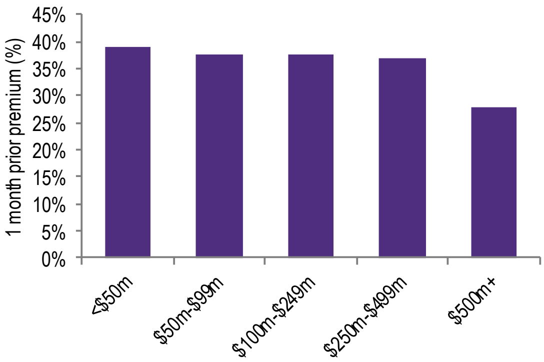
Control premium per completion date



Control premium per industry



Control premium and size



Control premium study	1 month prior control premium (%)
Average	35.13%
Median	29.87%

Sources: S&P Global, Merger Market, GTCF analysis

Given the distribution of the control premiums in our study, we have assessed a range of 20% to 40% to be a reasonable representation of the market. Control premiums that fall outside of our assessed range of 20% to 40% are impacted by transaction specific factors and hence, not representative of general market conditions.

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Appendix E – Scenarios considered under the Distressed basis.

	Summary of Distressed Valuation DCF Scenarios
Scenario D	**<u>Status Quo:</u>** Scenario D represents a continuation of the status quo with the following key assumptions: • Normal seasonal conditions for V21 and beyond • Winegrape crush of 17,800 tonnes in V21, increasing to 18,200 thereafter from MWG's existing vineyards at and existing grower contracts. • Sales of 790,000 9LE of own-products in FY21, increasing to 840,000 9LE in FY22 as on-premise sales recover • Volume growth of 0% p.a. • Price growth of 2% per annum as product mix results in the continuation of the trend of increasing ASP across MWG's portfolio; • International volumes remain flat • No new distributor product agreements; • Overhead costs in line with the costs under VA, with further 5% savings identified each year. • Dry goods cost savings of 15% achieved from FY22 and thereafter as a result of a new procurement strategy, line rationalisation, increased standardisation and carton and glass savings across the brand portfolio; • Grape purchasing costs of A$566 per tonne in line with V21 expectations and grown at 2% p.a. thereafter; • Average bulk wine sales price of A$1.2 per litre in 2021 which grows at 2% per annum. • Ongoing maintenance capex of A$1.5m per year.
Scenario E	**<u>Volume growth:</u>** COVID-19 and economic recession results in volume growth for lower priced wine leading to volume growth, however price growth slows as consumers shift towards lower priced products. The Company achieves volume growth of 3% per annum. ASP price growth of 1.0% per annum due to the improving product mix. These assumptions are predicated on a scenario where: • The trend towards premiumisation slows as a result of the worsening economic conditions with households reducing discretionary spending. • Private label and import market share maintained with no further erosion to MWG market share. All other assumptions as per Scenario D.
Scenario F	**<u>No premiumisation and continued loss of market share:</u>** The trend towards growth in private label and imports continues to capture market share and MWG does not benefit from the trend towards premiumisation due to a number of failed product launches with no grow in volumes at higher ASP segments. As a result: • Volumes decline at -1% per annum; and • Prices remain constant All other assumptions as per Scenario D.
Scenario G	**<u>Increase Hanwood throughput:</u>** MWG dramatically increases its spot purchases of grapes from growers to increase production at the Hanwood

winery thus allowing it to capture scale efficiencies due to the largely fixed cost nature of the business. Under this scenario we have assumed the following:

- Purchase of c. 5,000 additional tonnes of grapes per annum each year from FY22-FY23. As a result production volumes of c. 30,000 tonnes are achieved by FY23 with Hanwood at 75% capacity.
- As per Scenario A MWG is required to pay upwards of a 10% premium above market value for all grapes it purchases from growers. The price premium reverses in the terminal year with grape purchase prices returning to market value.
- Additional capex of A$1.5m for the purchase of a new equipment including a centrifuge is required to ramp up production.

All other assumptions as per Scenario D.

Scenario H

International expansion:

It attempts to model the effects of an aggressive and successful international expansion under which:

- International volumes approximately triple to reach 250,000 9LE by FY25.
- Discounts reduce slightly as a result of the typically lower level of discounts on international sales.
- Increase in expenses due to the expansion of the international sales operations and team to put ‘feet on the ground’ in key export markets.

All other assumptions as per Scenario D.

Scenario I

Premiumisation:

It involves the aggressive expansion specifically targeting the premiumisation trend. As a result the Company focusses its efforts on new product development specifically targeting the $12-$20 ASP segment where it is currently underrepresented. The key assumptions in this scenario are as follows:

- Commencing in FY22 and continuing until FY25 the Company launches a range of new products and gradually increases additional sales to 150,000 9LE cases per annum in the $12-$20 ASP segment by FY25.
- This results in increased working capital investment at the beginning of the discrete forecast period and a higher average grape purchase price due to the more premium quality grapes required.

All other assumptions as per Scenario D.

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Appendix F – Glossary

9LE	9 litre equivalent bottle
A$	Australian Dollar
ABS	Australian Bureau of Statistics.
Administrators	On 8 January 2020, Gayle Dickerson, Ryan Eagle and Tim Mableson were appointed as a joint and several administrators
AIHW	Australian Institute of Health and Welfare
ALM	Australian Liquor Marketers
APES225	Accounting Professional and Ethical Standard 225 "Valuation Services"
ASIC	Australian Securities and Investments Commission
ASP	Average selling point
ASX	Australian Securities Exchange
ATO	Australian Tax Office
AVL	Australian Vintage Limited
Barwang Lease	In October 2016 the Company completed a sale and leaseback transaction and entered into a long-term lease for the Barwang vineyard
Base case	Scenario A
CAGR	Compound Annual Growth Rate
Code	Expert Witness Code of Conduct contained in Schedule 7 of the Uniform Civil Procedure Rules
COGS	Cost of goods sold
Completion Stock Amount	The Completion Stock Amount is estimated to be at least A$16 million and is subject to a physical stocktake and a stocktake valuation mechanism contained within the DOCA to be calculated and determined immediately prior to the implementation date under clauses 16.2 (d) or clause 164(b)(1) of the DOCA, whichever is applicable.
Corporations Act	Corporations Act 2001
Court	Federal Court of Australia
Creditors' Trust	A Creditors' Trust is a separate legal arrangement used to facilitate the distribution of funds to stakeholders while allowing the Deed Companies to emerge from insolvency in an accelerated manner. Upon the occurrence of certain pre-conditions in the DOCA (including but not limited to funds being contributed by the Deed Proponent, the rights of creditors are extinguished and exchanged for a beneficial right to claim in the Creditors' Trust In accordance with the Administrators obligations under ASIC Regulatory Guide 82.
DCF	Discounted Cash Flow
Deed Administrators	On 3 August 2020 and Gayle Dickerson, Tim Mableson and Ryan Eagle were appointed Deed Administrators
Deed Proponent	Offer from MCW Bidco Pty Ltd, an entity owned by Prcstnt Asset Management
Delegat	Delegat Group Limited
Directors	Directors of the Company
DOCA or DOCA Proposal	Deed of Company Arrangement
E&T	Evans and Tate
EBIT	Earnings before, interest and tax
EBITDA	Earnings before interest, tax, depreciation and amortisation
EBITDA Multiple	Enterprise Value divided by unaudited Underlying EBITDA
EOS	Estimated Outcome Statement
EM	Explanatory Memorandum
EPS	Earnings per share
EV	Enterprise Value
Explanatory Statement	Deed Administrators Explanatory Statement
FME Method	Application of earnings multiples to the estimated future maintainable earnings or cash flows of the entity, added to the estimated realisable value of any surplus assets
Foley	Foley Wines Limited
FOB	Free on Board

FSG	Financial Services Guide
FYxx	12 month financial year ended 30 June 20xx
GE Capital	A$55 million credit facility provided by General Electric Capital
Gearing Ratio	Net Debt over Equity
Gordon Brothers	On 17 February 2017, the Administrators entered into a funding agreement with Gordon Brothers Pty Limited that enabled the secured debt owing to MRWP to be repaid in full.
GTCF, Grant Thornton, or Grant Thornton Corporate Finance	Grant Thornton Corporate Finance Pty Ltd (ACN 003 265 987)
Hanwood Lease	In Hanwood, MWG operates a leased vineyard
IER or Report	Independent Expert Report
ILG	Independent Liquor Group
Information Memorandum	Information Memorandum for proponents prepared as part of the VA sales process.
Leave Benefits Amount	Leave benefits equal to 70% of the accrued and unpaid annual leave, leave loading and long services leave entitlements of those employees continuing to be employed by the Group at the Implementation Date set out in the DOCA
ML	mega-litres
MOFCOM	Chinese Ministry of Commerce
MRWP	Margaret River Wine Production Pty Ltd
MWG creditors	Creditors of MWG
MWG Shares	100% of the shares of the Group
MWG, Company or Group	McWilliam's Wines Group Limited
NBIOs	Non-binding Indicative Offers
NOM	Notice of Meeting
NSW	New South Wales
P/BV	Price to Book Value multiple
Prcstnt	Prcstnt Asset Management
Receivers	On 14 February 2020, the Administrators appointed the receivers under the terms of the security provided by the Group to MRWP.
RG	Regulatory Guide
RG111	ASIC Regulatory Guide 111 "Contents of expert reports"
RG112	ASIC Regulatory Guide 112 "Independence of experts"
SEA	Southern East Australia
Shareholders	MWG's shareholders
SP Model	Company 2019 Strategic Plan
SRP	Specific Risk Premium
Strategic Plan	During FY19, the Company launched a turnaround of the business with a three year time frame
Top-Up Cash Amount	Cash contribution of A$30 million, less Leave Benefits Amount; plus cash contribution for stock calculated as the lesser of A$16 million and 90% of the value of the stock ("Completion Stock Amount").
Total Claims	Creditors' Claims
V20	2020 vintage
Valuation Date	30 June 2020
VA Report	Voluntary Administrators' Report released on 15 July 2020
VIC	Victoria

WACC	Weighted Average Cost of Capital.
YTD	Year to date