

Viña Concha y Toro Earnings Call for 1Q2016 Consolidated Results

Operator

Good Morning, ladies and gentlemen and thank you for waiting. At this time, we would like to welcome everyone to Viña Concha y Toro's 1Q16 Results conference call.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the company remarks are completed, there will be a question and answer section. At that time further instructions will be given. Should any participant need assistance during this call, please press *0 to reach the operator.

Before proceeding, let me mention that Forward-looking statements are based on the beliefs and assumptions of Viña Concha y Toro's management, and on information currently available of the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Viña Concha y Toro and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Sebastian Irarrazaval, Chief Planning Officer and Mr. Patricio Garretón Head of Investor Relations, you may begin your conference.

Patricio Garretón, Head of Investor Relations

Good morning ladies and gentleman, thank you for your time and being attending the first earnings call of Viña Concha y Toro. We will start reviewing the company's results for the first quarter of 2016 and three month period ended in March 31st of 2016.

Initiating the review of the first quarter 2016 results, we would like to highlight the main milestones for the quarter.

For the first quarter stands out:

- i. The growth of 13.6% registered in consolidated sales in terms of value.
- ii. Higher commercialized volumes of 7.7% in wine sales.
- iii. The expansion on the EBITDA margin of 71 basis points, reaching a 12.8% as percentage over sales.
- iv. An increase of 24.1% in the Net Income.

- v. And the last but not least, the premiumization of our sales, where premium segments grew 18.5% and 16.6% in export markets and domestic market from Chile, respectively in terms of volume.

As we mentioned, the total sales increased 13.6% totaling Ch\$ 132.155 million. The growth is explained by higher commercialized volumes of wine of 7.7% and a positive impact derived from the exchange rate fluctuations.

At operating level, the operating income totaled Ch\$12,152 million during the quarter, registering an increase of 28% regarding the first quarter of 2015.

In the same line, the EBITDA registered Ch\$16,854 million explained by higher commercialized volumes, a net positive impact derived from exchange rate fluctuations and a lower cost of wine. The EBITDA margin reached 12.8%, representing an expansion of 71 basis points in comparison with the first quarter of 2015.

Finally, the Net Income amounted Ch\$7,297 million during the quarter, representing an increase of 24.1% in comparison to the first quarter of 2015.

In slide 5, it can be appreciated the growth trend in the last decade in terms of value and volume. Growth rates have been sustained in time, highlighting the recovery in volume in the last years. During the quarter, growth for both, value and volume, registered increases over the historical average.

In slide 6, regarding the composition of our sales during the quarter, in terms of value, all of our markets registered growth. In terms of volume, most of them registered growth as well.

Stands out the increase of:

- i. 11.3% in sales in the Chilean domestic market, where sales amounted Ch\$13,711 million driven by i) higher commercialized volumes of 9.1%, totaling 1.5 million nine liter cases and ii) a higher average sales price of 2.0% in Chilean pesos. At the same time, sales of our premium segments registered an increase of 16.6% in volume regarding the first quarter of 2015.
- ii. Sales of New Businesses (including the distribution of spirits, premium beers, energy drinks and mineral water) rose 36.1%, driven by a 33.5% expansion in volume, in line with the premiumization in the consumption of these categories.
- iii. Sales in export markets increased 11.1% totaling Ch\$84,351 million explained by higher commercialized volumes of 7.7% and a positive impact derived from exchange rates fluctuations. Highlighting the growth in Asia, Central America & the Caribbean, South America, Europe and Africa.
- iv. Sales in the Argentinean subsidiary, Trivento Bodegas y Viñedos, excluding shipments to our distribution subsidiaries, increased 12.3% in value totaling Ch\$5,631 million,

explained by higher sales in Export Markets (23.4%) and a drop in the domestic market (28.1%) in value, that was impacted by the depreciation of Argentinean peso against the Chilean peso during the quarter. In terms of volume, commercialized volumes registered an increase of 17.5% and 3.3%, in Export and Domestic Markets, respectively. Export sales were benefited by the removal of the FX control, implemented in December of 2015. This initiative has been permitting to gain the competitiveness lost in the last years derived from the former Government regulation over the exchange rate.

- v. Sales in the US subsidiary, Fetzer Vineyards, excluding shipments to our distribution subsidiaries, increased 17.3% totaling Ch\$13,436 million during the quarter. Stands out the grow in sales of bottled wine in the US domestic market, where sales increased 8.3% in terms of volume during the quarter, producing a change in the mix of sales, where bulk wine sales dropped 95%. Export markets registered higher sales of 43.4% in terms of value, due to an increase in volumes of 15.3% and a positive effect derived from the weakness of Chilean peso against the US dollar. In terms of pricing, the average price rose in both, export and domestic markets, at rates of 12.1% and 1.3%, respectively.

Regarding export markets (including exports from Chile, Argentina and United States), total sales increased 12.1% totaling Ch\$90,395 million. Higher commercialized volumes of 8.3%; a positive impact derived from exchange rate fluctuations and the premiumization of our sales; drove the growth during the first quarter of 2016.

In line with the trend that we have seen in past years, sales in premium y upper categories are growing at two digits growth. The mentioned growth has been boosted by the growth collected by Casillero del Diablo. During 2016, Casillero del Diablo reached an expansion of 26% its global sales.

In terms of average prices, in US dollars, prices dropped 7.9% during the quarter, impacted by the strong appreciation of the US dollar against the currencies which our products are sold.

Regarding exports from Chile, based on the growth registered in the first quarter of 2016, we maintained the leadership over the Chilean exports. As of March 31st of 2016, Viña Concha y Toro obtained a 34.4% of market share of bottled exports. Additionally, if we include the bulk wine that we export to United Kingdom to be bottled in destination, we reached a 37.4% over the market share.

During the quarter, the main destinations for Chilean bottled wine exports were:

- In first Place: United Kingdom with thirteen percent of total exports.
- In second place: United States with thirteen percent of total export.
- In third place: China with eleven percent of total exports.
- Fourth one: Japan with nine percent of total exports.
- Fifth one: Netherland with nine percent of total exports.

- And the rest, as follows in the figure at the right.

And over the Chilean exports, the mentioned leadership can be seen in the figure disclosed by destination, where Viña Concha y Toro has the leading position in most of the main destination of Chilean exports, excluding Japan.

Moving forward into the Chilean domestic market, during the first quarter of 2016 (according to AC Nielsen) wine sales registered an increase of 9.8% in terms of volume.

Over the market growth, Viña Concha y Toro increased its depletions at 13.9%, representing a gaining of market share of 110 basis points in respect to the first quarter of 2015.

Total sales, in value, amounted Ch\$13,711 million, representing higher sales of 11.1%. The increase in sales is explained by a 9.1% of growth in volumes and a higher average price of 2.0%. In parallel, the premiumization of our sales kept the trend registering an increase of 16.6% of commercialized volumes in the premium and upper categories. As a total, premium categories represented 8.6% and 30.8%, in terms of volume and value, over the total sales in the Chilean domestic market.

According to the origin of our sales, the cake figure shows the following disclosure:

- 64% of the total sales in value correspond to export markets from Chile (including sales that were carried out by the distribution subsidiaries of the Company).
- 21% of the total sales correspond to Chilean domestic market (Wine and distribution of products different from wine).
- 5% of the total sales correspond to Trivento, Bodegas y Viñedos – our Argentinean subsidiary.
- 11% of the total sales correspond to Fetzer Vineyards – our Californian subsidiary.

The mentioned disclosure reflects the export focus of Concha y Toro's.

Ending the review of Concha y Toro's sales, we can realize how the strategy of being in the market with a more effective presence through the distribution of our wines, has been acquiring a major relevance. As of March 31st of 2016, approximately a 70% of the total volume commercialized was carried out through Concha y Toro's distribution subsidiaries, in comparison to the 56% registered in 2009.

Regarding the Operating Performance, the EBITDA increased 20.4% totaling Ch\$16,854 million. The registered growth in value was accompanied by a margin expansion of seventy one basis points reaching a 12.8% of EBITDA margin.

The higher EBITDA is explained by the growth in sales (mentioned in the first part of this presentation), a lower cost of wine and a positive effect derived from exchange rates fluctuations.

During the first quarter, the Net Income reached Ch\$7,297 million, representing an increase of 24.1% in comparison to 2015. The growth in the Net Income was driven by the effects previously mentioned and:

- A higher participation of income of associates and joint-ventures, due to higher income registered in Excelsior Wine Company (our importer in US for the Chilean and Argentinean portfolio).
- Lower financial expenses.
- And it was offset by a minimal loss in exchange rate differences.

Moving to the Financial Position of the company, as of March 31st of 2016, the company reached:

- A leverage of 0.98 times, down from the leverage registered in same period of 2015, as a resultant of a lower financial debt.
- An improvement of net financial debt over EBITDA, reaching 1.8 times compared to the 2.42 times registered in the first quarter of 2015.
 - Net Financial Debt is calculated as “Other financial liabilities minus derivatives minus cash and cash equivalents”.

Regarding the two covenants that we are subject to comply, we can see that there is still margin in Leverage (which has a covenant of 1.4 times, as maximum) as well as the coverage of financial expenses (which has a covenant of 2.5 times, as minimum).

The financial debt excluding derivatives and interest accrued totaled Ch\$208,054 million, with a higher exposure to US dollars (50%), UF (26%) and Chilean pesos (19%).

Finally, regarding the maturities that we have to face in 2016 and upcoming years, these are concentrated in 2016 to 2018. Mainly these maturities come from the acquisition of Fetzer in 2011 (the entire acquisition was financed 100% with debt). According to the past and current interest rates, it has been beneficial for the company to hedge the exposure of assets denominated in US dollars using the debt incurred in 2011. This is a natural hedging strategy for the assets denominated in US dollars.

Operator, now we can move to the Q&A section.

Operator

Thank you. The floor is now open for questions. If you have a question, please press *1 on your touchtone phone at this or any time. If, at any point, your question is answered, you may remove yourself from the queue by pressing the # key. Questions will be taken in the order they are received. We do ask that when you pose your question that you pick up your handset to provide optimum sound quality. Please hold while we pole for questions.

1. Rafael Macedo from BTG Pactual

Good Morning everyone, I have a question regarding volume price dynamics. You had a very good quarter evolution in terms of volume growing impressive 10% in the period, however average prices in USD mainly index to export market division lagged this volume growth by falling 8%, even if we consider average prices in Chilean pesos terms, they only grew 3% year over year, so my question would be How sustainable do you think is this volume improvement?

Patricio Garretón

Well Rafael in general terms the drop in export prices as an average in US dollar terms is mainly explain the strong appreciation of the US dollar against the currencies in which we are selling our wines. You have to remember that when we have or we are integrated in the market through the distribution of our wines (that represents close to 70% of the total sales in terms of volume) our products are sold in local currencies. So when you are calculating this average price in US dollar terms you have to consider also the depreciation of these local currencies against the US dollar. So that effect explains the drop in terms US dollar of the average price. And you can see that in Chilean peso excluding this depreciation effect over the calculation of the average price for the export markets, you'll be realizing that in Chilean peso our average prices are increasing year by year.

Rafael Macedo from BTG Pactual

So my question would be about how sustainable you think this volume improvement is because even if you consider the CLP evolution and appreciation in the period is has lagged the volume growth so in terms of profitability I want to know how do you think this volume improvement is sustainable?

Patricio Garretón

Well we have been developing this distribution network in order to assure the growth and be capable to keep this growth trend in the future. The major part of the potential of growth that we are seeing in our sales, especially in export markets are coming from the growth in sale that we are registering quarter by quarter or year by year by our distribution subsidiaries. And how sustainable this growth is, I don't know if in the future we'll be able to keep this 10% of growth in terms of volume but thinking about a mid-single digit, 5% to 7% for export markets and consolidated volumes, I think that could be a reasonable rate for growth in our sales.

2. Claudia Cavada from Banchile / Citibank

Hi good morning I would like to ask you about volume mix trends in new markets, Asia especially, a little bit more color on that, also pricing in local currencies. Is this price increasing, maintaining in general. Besides I would like you ask you about do you any new information about the impact of the rains in April that we have in central valleys in Chile.

Patricio Garretón

Well regarding your question Claudia, in term of prices, we are not expecting to take any increase in prices we are expecting to keep the current levels of prices of our products. We should expect maybe a one very low single digit growth in terms of average prices that could come from the premiumization of our sale, because as you can realize we are growing at higher rates for our premium and upper categories. Regarding more color about trends in sales in Asia and Europe, we could say that the Asian region for the Company has been very interesting for us because since 2010 when we initiated the operation of our Singaporean subsidiary we started registering two digit growth in terms of volume and value for that region. We believe that our products has an important potential of growth for the Asian markets and in line with that you can see the growth that we have been having and how the relevance of exports sales for this region, especially Asia has been getting in the last years, By now we are seeing with interesting eyes the growth that we could have in China. In fact for this quarter we became the first exporter within the Chilean category. In last year, some statistic from Wine Intelligence ranked Casillero del Diablo the top selling imported brand in the Chinese market. We believe that our products has an important potential there and the growth will come from the growth that we can collect in the region, in Japan, South Korea and China. In Europe we also have an important presence there. The most important market for us is UK, there we have a distribution subsidiary that started operation in 2001 and the growth that we are having there has been very important for the Company. In the UK market we have been able to positioning some wines in the top selling categories like Casillero del Diablo in Cabernet Sauvignon variety, we also have the top selling Pinot Noir and top selling Malbec in UK. We are also aware that there is certain complexity in Eastern Europe due to the depreciation of the Rublo, the political and economic situation in Ukraine or Estonia. But we are also seeing Europe with very interesting eyes about the performance that we could have there for this year as well.

And well, regarding the second question about the harvest, as you may know the rains had a negative impact over the harvest of this year. The Chilean industry is expecting close to 20% of lower volumes for this harvest. You have to separate the impact over the white wines and red wines, most of the white grapes were already harvested before the rains so the impact just has a negative impact over the red varieties. Regarding this, most prices that we should be paying for where fixed before the rains. We shouldn't expect important increases in prices during this harvest for the grapes that we are purchasing in the market.

3. Sergio Winter from Larraín Vial

Hi Patricio this is Sergio Winter, I would like to ask you regarding the Chilean domestic operation. We have seen a remarkable performance in volumes over the last quarters I think and I would like to understand if you can give us more lights about it and if the increase in SG&A that we saw in the quarter has something to do about it.

Patricio Garretón

Well regarding the domestic market Sergio, as we have talked in the past this trends and gaining of market share has been part of the strategy that we have in order to recover the market share that we lost in the past, specifically during 2013 due to a strike that we had in our production facilities and the starting of operation of a very important logistic center that impacted the levels of service of the Chilean distribution subsidiary during 2013 and part of 2014. Leaving behind these two effects, we started recovering the share that we lost in 2013 and 2014. There is another thing, because considering that we have very strong brand for the different price points and categories and considering also that the consumption of wine started to growth during 2015, we have been capable to positioning our wines and start recovering that we lost. Mainly the strong brands that we have like Casillero del Diablo and if we go to high premium brands like Don Melchor and popular wines through Clos de Pirque and Concha y Toro Selección, we know that we have strong brands that could allow us to recover this share and keep having this growth in the future. Regarding the SG&A, as you may now we have been building these global brands, is important to invest brands specifically within an industry that is very competitive, you have thousands of competitors. So in the last years (2014 and 2015), the SG&A as percentage over sale has been in higher levels than previous year. We should expect similar levels of investments in brand building, positioning of our wines, that we believe that are very important in order to create or build these global brands and in the future we should expect a dilution of these expenses over higher commercialized volumes.

Operator

Thank you, this thus concludes today's presentation, you may disconnect your line at this time and have a nice day.