



TREASURY WINE ESTATES

14 OCTOBER 2015

ASX ANNOUNCEMENT

TWE announces acquisition of Diageo's wine business for US\$600 million and entitlement offer

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- Treasury Wine Estates (ASX:TWE or the "Company") has agreed to acquire the majority of assets from Diageo Plc's (LSE:DGE or "Diageo") US and UK wine operations ("Diageo Wine") for a cash payment of US\$552 million (A\$754¹ million) and the assumption of capitalised leases of US\$48 million (A\$66 million).
- The acquisition is compelling for TWE's shareholders. The transaction is expected to deliver TWE low double digit percent EPS² accretion in the first full fiscal year following the acquisition (FY17) including phased synergies.
- Total annual cash synergies of at least US\$25 million (A\$34 million) expected before FY20.
- Expected to enhance both ROCE and EBITs³ margin before FY20 as results and synergies are delivered.
- TWE expects to fund the acquisition via a fully underwritten 2 for 15 pro-rata accelerated renounceable entitlement offer to raise approximately A\$486 million, with the balance funded through new USD denominated fully underwritten debt facilities.
- TWE also announces an improved financial outlook. With an acceleration in TWE's standalone sales and earnings performance in the first quarter of FY16 and expectations of continued momentum in the remainder of the year, TWE expects FY16 EBITs to be in the range of A\$270 million – A\$290 million⁴, prior to the impact of the acquisition.

Strategic rationale and financial highlights

- Acquisition is expected to immediately double TWE's Americas Luxury and Masstige net sales revenue⁵.
- Provides immediate access to increased supply of Luxury and Masstige fruit; TWE positioned to accelerate US brand growth in the US, Canada, Asia and Latin America.
- Acquisition enhances TWE's premiumisation strategy; more than 80% of Diageo Wine's US net sales revenue is generated by its Luxury and Masstige portfolio.

¹ An AUD/USD rate of 0.7316 has been assumed throughout this announcement (unless otherwise stated).

² Before material items and self-generating and regenerating assets (SGARA).

³ Return on capital employed, and earnings before interest, tax, SGARA and material items, respectively.

⁴ Calculated using average FY16 forecast exchange rates provided by analysts to TWE: AUD/USD 0.735 and AUD/GBP 0.46.

⁵ Americas comprises the United States and Canada.

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- In the first full year of trading following completion of the acquisition, TWE expects that approximately 75% of gross profit from the acquired Diageo Wine business will be Luxury and Masstige.
- Diageo Wine's capital-light model complements TWE's strategy; TWE will own less than two percent of vineyards used by Diageo Wine due to lease arrangements.
- Delivers a leading UK Commercial brand (Blossom Hill) and drives acceleration of the separate focus on the Commercial portfolio, globally.
- TWE avoids US\$80 million of capital investment that would have been required to replace TWE's existing leased bottling facility in the US.
- Compelling purchase price; implying a transaction multiple of 7.9x Diageo Wine's EBITDAS⁶ (before synergies) for the twelve months to 30 June 2015.
- Expected to deliver TWE low double digit percent EPS accretion in FY17, including phased synergies (high teens percent EPS accretion, pro forma with full run-rate synergies).
- TWE balance sheet strength and flexibility preserved; pro forma FY15 net debt / EBITDAS of 1.8x (pro forma for the pro-rata accelerated renounceable entitlement offering and new debt facilities, and before synergies).
- Acceleration of TWE's sales and earnings momentum in the first quarter of FY16 underpins uplift in expected EBITs for FY16, prior to the impact of the acquisition.

Acquisition of Diageo Wine

TWE has agreed to acquire the majority of the assets of Diageo Plc's US and UK wine operations for a cash consideration of US\$552 million and assumption of US\$48 million of capitalised leases, implying a transaction multiple of 7.9x EBITDAS (before synergies) for the 12 months to 30 June 2015.

The acquisition is subject to certain regulatory approvals, including anti-trust approval in the US, and is expected to complete in approximately three months.

The Diageo Wine business

Diageo Wine is a leading player in the US Luxury and Masstige wine market, being the owner of a collection of iconic wine brands based in Napa, California.

Key US brands to be acquired include the well-known Beaulieu Vineyards, Sterling Vineyards, Acacia, Provenance and Hewitt, amongst other assets⁷. Diageo's US wine business comprises approximately 4 million cases⁸ of wine for FY15, with a strong representation in the growing Luxury and Masstige segments.

TWE will also acquire the Blossom Hill wine brand in the UK. Blossom Hill is one of the leading wine brands in the UK by volume and value in FY15⁹. Diageo's UK wine business comprises approximately five million cases of wine, sold in both Great Britain and in 28 international markets in FY15.

⁶ Diageo Wine's EBITDAS as a standalone business was extracted and derived by Diageo from Diageo's underlying financial reporting system which was also used to prepare Diageo's FY15 audited financial statements, but has not been separately audited.

⁷ The businesses and assets acquired do not include Diageo's interest in the Moët-Hennessy brand, the license to distribute Yellowtail, the Chalone brand/winery and the estate vineyard or the Acacia winery and part of a vineyard co-located to the winery.

⁸ 9L equivalents.

⁹ Nielsen MAT to 12 September 2015.



In FY15, Diageo Wine generated sales of approximately US\$470 million and pro forma EBITDAS of US\$76 million.

Financial benefits of acquisition

The acquisition of Diageo Wine is financially and strategically compelling for TWE's shareholders.

The acquisition is expected to deliver TWE at least US\$25 million (A\$34 million) of annual cash synergies before FY20, predominately through the elimination of costs and additional supply chain optimisation savings.

The acquisition is expected to deliver low double digit percent EPS accretion in FY17, being the first full year, including phased synergies (high-teens percent EPS accretion pro forma with full run-rate synergies), at the same time enhancing TWE's ROCE and EBITs margin before FY20 as results and synergies are delivered.

On today's announcement, Mr. Paul Rayner, Chairman of TWE commented:

"The acquisition of Diageo Wine represents a highly compelling strategic and financial opportunity for TWE's shareholders. Diageo Wine's business is very aligned to our strategic roadmap and we expect that the acquisition will deliver long-term value creation to our global operations and to our shareholders."

Mr. Michael Clarke, Chief Executive Officer of TWE, commented:

"This acquisition will transform our US business into a larger player of scale in the attractive Luxury and Masstige segments of the high growth US market. The additional supply of Luxury and Masstige wine will be a game-changer for our US brands, providing us with an immediate opportunity to step-change our growth in the US, Canada, Asia and Latin America.

"The acquisition of Blossom Hill in Diageo's UK wine business will provide us with the scale and critical mass to deliver enhanced value creation from our combined Commercial businesses by accelerating our separate focus on the Commercial portfolio, globally.

"Furthermore, Diageo Wine's international partnerships and established agency brands potentially provide new opportunities to take select European wines to our customers and consumers in key growth markets, notably Asia and Latin America.

"As we integrate the acquisition of Diageo Wine we will preserve the quality of the wines while replicating the journey that we began with TWE eighteen months ago. This will include increasing the efficiency and profitability of the business with a focus on costs, investing in the valuable brands we have acquired and delivering sustainable long-term top line growth – globally.

"We remain committed to our strategic roadmap of transitioning our business from an order-taking agricultural company to a brand-led and capital-light, marketing organisation. The acquisition is highly complementary to this strategy and I am confident our combined businesses will deliver both immediate and long term benefits to our shareholders."

**Strong fiscal year-to-date results in TWE trading ahead of expectations for FY16**

TWE continues to execute against its strategic roadmap by driving top line sales momentum, optimising brand investment and embedding new and improved routes-to-market.

TWE today announces an improved outlook. With an acceleration in TWE's sales and earnings performance in the first quarter of FY16 and expectations of continued momentum in the remainder of the year, TWE expects full year EBITs to be in the range of A\$270 million – A\$290¹⁰ million, prior to the impact of the acquisition in FY16.

On a standalone basis, TWE's balance sheet also remains strong and continues to strengthen as a result of positive cash flows.

Transaction to be funded via a A\$486 million fully underwritten pro-rata accelerated renounceable entitlement offer and fully underwritten new debt facilities

TWE's acquisition of Diageo Wine will be partially funded through a fully underwritten pro-rata accelerated renounceable entitlement offer (with tradable retail entitlements) at an offer price of A\$5.60 per share ("Offer Price") to raise approximately A\$486 million ("Entitlement Offer"). The remainder of the required funding will be obtained through new, fully underwritten debt facilities. In addition to the cash consideration, the balance of the funding will be applied to near-term working capital needs and one-off costs and capital expenditure relating to the transaction.

Further details on transaction funding are set out in the table below¹¹.

Sources	US\$m	A\$m
Entitlement Offer	356	486
New debt facilities	306	419
Total sources	662	905

Uses	US\$m	A\$m
Cash consideration	552	754
Transaction costs	25	34
FY16 working capital, one-off items and capex	86	117
Total uses	662	905

In addition to the uses outlined above, TWE will also assume capitalised leases of US\$48 million (A\$66 million).

The combined TWE and Diageo Wine business will continue to target financial metrics consistent with an investment grade credit profile, and post transaction will have pro forma FY15 net debt/EBITDAS and interest cover of 1.8x and 6.7x, respectively. Further details on TWE's post-transaction capital structure are set out in the table below:

¹⁰ Calculated using average FY16 forecast exchange rates provided by analysts to TWE: AUD/USD 0.735 and AUD/GBP 0.46.

¹¹ Note that total sources and total uses may not sum due to rounding.



A\$m, 30-Jun-2015	TWE standalone	Impact of the acquisition	Pro forma entity
Cash and other investments	111	0	111
Loans and borrowings	325	485 ¹²	809
Net debt	214	485	699
Net assets	3,051	486	3,537
<i>Net debt / EBITDAS</i> ¹³	0.8x	-	1.8x
<i>Interest cover</i> ¹⁴	10.8x	-	6.7x

Overview of the Entitlement Offer

TWE's acquisition of Diageo Wine will be partly funded by a fully underwritten 2 for 15 pro-rata accelerated renounceable entitlement offer (with tradeable retail entitlements) at an offer price of A\$5.60 per new share. The Entitlement Offer will raise approximately A\$486 million.

The Offer Price represents:

- a 14.8% discount to TWE's closing share price of A\$6.57 on 13 October 2015, and
- a 13.3% discount to the theoretical ex-rights price of A\$6.46¹⁵.

The Entitlement Offer comprises an accelerated institutional entitlement offer ("Institutional Entitlement Offer") and a retail entitlement offer that includes the ability for eligible shareholders to trade their retail entitlements on ASX ("Retail Entitlement Offer"). Under the Entitlement Offer, eligible shareholders are entitled to subscribe for 2 new TWE ordinary shares ("New Shares") for every 15 existing TWE ordinary shares ("Entitlement") held as at 7.00pm (Melbourne time) on Monday, 19 October 2015 ("Record Date").

New Shares issued will rank equally with existing TWE shares in all respects.

Institutional Entitlement Offer

Eligible institutional shareholders will be invited to participate in the Institutional Entitlement Offer which will take place from Wednesday, 14 October 2015 to Thursday, 15 October 2015.

Eligible institutional shareholders can choose to take up all, part or none of their Entitlement ("Institutional Entitlement"). Institutional Entitlements cannot be traded on ASX. Institutional Entitlements that eligible institutional shareholders do not take up by the close of the Institutional Entitlement Offer, and Institutional Entitlements of ineligible institutional shareholders, will be offered for sale through an institutional shortfall bookbuild ("Institutional Shortfall Bookbuild") to be conducted on Friday, 16 October 2015. Any proceeds from the sale of institutional Entitlements under the Institutional Shortfall Bookbuild in excess of the Offer Price will be remitted proportionally to those institutional shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those institutional shareholders.

¹² Pro forma transaction loans and borrowings includes assumed capitalized leases from the acquisition of US\$48 million (A\$66 million).

¹³ Metrics calculated using 12-month EBITDAS adjusted for bank guarantees and excluding material items.

¹⁴ Interest cover calculated as the ratio of earnings to net interest expense, where earnings is the consolidated pre-tax profit (pre any material items and SGARA) plus the sum of the amount of net interest expense.

¹⁵ The theoretical ex-rights price ("TERP") is the theoretical price at which TWE shares should trade immediately after the ex-date for the Entitlement Offer. The TERP is a theoretical calculation only and the actual price at which TWE shares trade immediately after the ex-date for the Entitlement Offer will depend on many factors and may not equal the TERP. TERP is calculated by reference to TWE's closing price of \$6.57 on 13 October 2015 being the last trading day prior to the announcement of the Entitlement Offer.



TWE shares have been placed in trading halt while the Institutional Entitlement Offer and Institutional Shortfall Bookbuild are undertaken.

Retail Entitlement Offer

Eligible retail shareholders in Australia and New Zealand will be invited to participate in the Retail Entitlement Offer at the same offer price and offer ratio as the Institutional Entitlement Offer. The Retail Entitlement Offer will open on Monday, 26 October 2015 and close at 5.00pm on Wednesday, 4 November 2015.

Eligible retail shareholders will be allotted Entitlements ("Retail Entitlements") which can be traded on ASX. If they do not choose to take up all or part of their Retail Entitlements, they can seek to sell all or part of their Retail Entitlements on the ASX or by transferring it directly to another ahead of the retail shortfall bookbuild (discussed below). Retail Entitlements can be traded on the ASX from Monday, 19 October 2015 (on a deferred settlement basis) to Tuesday, 27 October 2015.

Retail Entitlements which are not exercised by the close of the Retail Entitlement Offer, and Retail Entitlements of ineligible retail shareholders, will be offered for sale through a retail shortfall bookbuild on Wednesday, 11 November 2015 ("Retail Shortfall Bookbuild"). Any proceeds from the sale of Retail Entitlements under the Retail Shortfall Bookbuild in excess of the Offer Price will be remitted proportionally to those retail shareholders, less any applicable withholding tax. There is no guarantee that there will be any proceeds remitted to those retail shareholders.

Eligible retail shareholders should carefully read the retail entitlement offer booklet and accompanying personalised entitlement and acceptance form which are expected to be despatched on Friday, 23 October 2015 and will be made available on TWE's website (www.tweglobal.com).

Entitlements may only be exercised by eligible shareholders, being persons with a registered address in Australia or New Zealand, or certain categories of institutional investors in United Kingdom, Canada (Ontario and Quebec provinces only), New Zealand, Norway, Switzerland, Sweden, European Economic Area (Belgium, Denmark, Germany, Netherlands, Luxembourg), Ireland, France, Italy, United Arab Emirates (excluding Dubai International Financial Centre), Hong Kong, Singapore and Japan. Persons in the United States and persons acting for the account or benefit of a person in the United States will not be eligible to purchase or trade Entitlements on the ASX or take up Entitlements purchased on ASX or transferred directly from another person.

It is the responsibility of purchasers of Retail Entitlements to inform themselves of the eligibility criteria for exercise. If holders of Retail Entitlements after the trading period do not meet the eligibility criteria, they will not be able to exercise the Retail Entitlements. In the event that holders are not able to take up their Retail Entitlements, those Retail Entitlements will be sold into the Retail Shortfall Bookbuild and holders may receive no value for them.

Shareholder enquiries

Retail shareholders who have questions relating to the Entitlement Offer should speak with their broker or adviser and/or call the TWE Entitlement Offer Information Line on:

- 1800 158 360 (from within Australia); or
- +61 3 9415 4208 (from outside Australia),

between 8.30am to 5.30pm (Melbourne Time) Monday to Friday from Wednesday, 14 October 2015 to Wednesday, 18 November 2015 (inclusive).

Indicative Timetable

The indicative timetable for the Entitlement Offer is as follows.

Dates and times may be subject to change without notice	
Announcement of acquisition and Entitlement Offer and trading halt	Wed, 14-Oct-2015
Institutional Entitlement Offer opens	Wed, 14-Oct-2015
Institutional Entitlement Offer closes	Thu, 15-Oct-2015
Institutional Shortfall Bookbuild	Fri, 16-Oct-2015
Announcement of completion of Institutional Entitlement Offer and trading halt lifted	Mon, 19-Oct-2015
Retail Entitlements commence trading on ASX on a deferred settlement basis	Mon, 19-Oct-2015
Record date under the Entitlement Offer	7.00pm, Mon, 19-Oct-2015
Despatch of Retail Offer Booklet and entitlement application	Fri, 23-Oct-2015
Retail Entitlement Offer opens	9.00am, Mon, 26-Oct-2015
Settlement of Institutional Entitlement Offer, including the Institutional Shortfall Bookbuild	Mon, 26-Oct-2015
Issue and quotation of New Shares under the Institutional Entitlement Offer, including the Institutional Shortfall Bookbuild	Tue, 27-Oct-2015
Retail entitlements trading on ASX ends	Tue, 27-Oct-2015
Retail Entitlement Offer closes	5:00pm, Wed, 4-Nov-2015
Retail Shortfall Bookbuild	Wed, 11-Nov-2015
Settlement of Retail Entitlement Offer, including the Retail Shortfall Bookbuild	Fri, 13-Nov-2015
Issue of New Shares under the Retail Entitlement Offer, including the Retail Shortfall Bookbuild	Mon, 16-Nov-2015
New Shares under the Retail Entitlement Offer, including the Retail Shortfall Bookbuild, commence trading on ASX	Tue, 17-Nov-2015
Despatch of Holding Statements and Retail premium (if any)	Wed, 18-Nov-2015

These dates are indicative only and are subject to change without notice. All times and dates refer to times and dates in Melbourne, Australia. Subject to the requirements of the Corporations Act, the ASX Listing Rules and any other applicable laws, TWE has the right, with the consent of the Underwriter, to amend the timetable, including extending the Retail Entitlement Offer or accepting late applications, either generally or, in particular cases, without notice.



Further information regarding this announcement is contained in the investor presentation released to the ASX today.

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This announcement does not constitute an offer to sell, or a solicitation of an offer to buy, any securities in the United States. Neither the entitlements nor the New Shares have been, nor will be, registered under the U.S. Securities Act of 1933 ("U.S. Securities Act") or the securities laws of any state or other jurisdiction of the United States. The entitlements may not be taken up by, and the New Shares may not be offered or sold to, directly or indirectly, any person in the United States or any person that is, or is acting for the account or benefit of, any person in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and applicable U.S. state securities laws.

Forward looking statements

This announcement contains forward looking statements, including statements of current intention, statements of opinion and predictions as to possible future events. Forward looking statements should, or can generally, be identified by the use of forward looking words such as "believe", "expect", "estimate", "will", "may", "target" and other similar expressions within the meaning of securities laws of applicable jurisdictions, and include but are not limited to the expected outcome of the acquisition of Diageo Wine and the outcome and effects of the offer. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward looking statements. Such statements are not statements of fact and there can be no certainty of outcome in relation to the matters to which the statements relate. These forward looking statements involve known and unknown risks, uncertainties, assumptions and other important factors that could cause the actual outcomes to be materially different from the events or results expressed or implied by such statements. Those risks, uncertainties, assumptions and other important factors are not all within the control of TWE and cannot be predicted by TWE and include changes in circumstances or events that may cause objectives to change as well as risks, circumstances and events specific to the industry, countries and markets in which TWE operates. They also include general economic conditions, exchange rates, interest rates, competitive pressures, selling price, market demand and conditions in the financial markets which may cause objectives to change or may cause outcomes not to be realised.

None of TWE or any of its subsidiaries and its affiliates (or any of their respective officers, employees or agents) makes any representation, assurance or guarantee as to the accuracy or likelihood of fulfilment of any forward looking statement or any outcomes expressed or implied in any forward looking statements. Statements about past performance are not necessarily indicative of future performance.



Financial data

Investors should be aware that certain financial data included in this announcement are “non-GAAP financial measures” under Regulation G of the U.S. Securities Exchange Act of 1934. These measures include EBITDAS, EBITs, EBITDA, ROCE, SGARA, interest cover and interest/EBITs, net debt and net debt/EBITDAS.

In addition, such measures may be “non-IFRS financial information” under Regulatory Guide 230 Disclosing non-IFRS financial information published by ASIC. The disclosure of such non-GAAP financial measures in the manner included in this announcement may not be permissible in a registration statement under the U.S. Securities Act. These non-GAAP financial measures do not have a standardized meaning prescribed by Australian Accounting Standards and therefore may not be comparable to similarly titled measures presented by other entities, and should not be construed as an alternative to other financial measures determined in accordance with Australian Accounting Standards. Although TWE believes these non-GAAP financial measures provide useful information to users in measuring the financial performance and condition of its business, investors are cautioned not to place undue reliance on any non-GAAP financial measures included in this announcement.

Investors should note that this announcement contains pro forma financial information, including the pro forma balance sheet as at 30 June 2015, reflecting the impact of the acquisition of Diageo Wine as if the acquisition had occurred on 30 June 2015. The pro forma balance sheet has been prepared by TWE and is based on the audited FY15 TWE balance sheet, unaudited and unreviewed management reporting balance sheets of Diageo Wine as at 30 June 2015 (extracted and derived by Diageo from Diageo’s underlying financial reporting system which was also used to prepare Diageo’s FY15 audited financial statements, but has not been separately audited) and certain acquisition adjustments. The pro forma financial information does not purport to be in compliance with Article 11 of Regulation S-X of the rules and regulations of the U.S. Securities and Exchange Commission. Such financial information does not purport to comply with Article 3-05 of Regulation S-X.