TREASURY
WINE ESTATES

8 April 2020 **ASX ANNOUNCEMENT**

Treasury Wine Estates to consider a demerger of Penfolds and accelerate its separate focus on Luxury versus Commercial

Treasury Wine Estates Ltd (ASX:TWE) today provided an update on the outcomes of its strategic review and announced its intention to consider a demerger of the Penfolds business and associated assets into a separate company listed on the ASX by the end of calendar year 2021.

Ahead of outlining the details of its strategic review, TWE reiterates that its top priority remains the health, safety and wellbeing of its global team, its partners and all family members during these challenging and unprecedented times. TWE would like to thank all of these valued stakeholders for their ongoing commitment and support, which will not only ensure that the business continues to operate through this period but is also well positioned to navigate to a stronger end-point once the COVID-19 pandemic subsides.

Potential demerger of Penfolds

The decision to consider a demerger of Penfolds follows a detailed review of TWE's portfolio and an assessment of both the optimal strategy and structure of the business and builds on TWE's internal operating model, which is focused on premiumisation and accelerating the separate focus for the Luxury versus Commercial portfolios, globally.

A potential demerger would facilitate the creation of incremental long-term value by allowing one team to focus on driving the luxury Penfolds multi-country of origin portfolio (Australian, French and US sourced propositions) while a separate team focuses on accelerating the mix-shift towards Luxury in New TWE[1] while also reducing and right-sizing the Commercial portfolio.

Michael Clarke, Chief Executive Officer of TWE today said, "Penfolds accounts for approximately 10% of our volume, but well over half of our earnings, with unique resources and a differentiated execution focus compared to the remainder of our business. A potential demerger would enhance New TWE's and Penfolds' ability to pursue their own strategic priorities and deliver a stronger long-term growth profile under separate teams and ownership structures, in addition to enabling investors to more appropriately assess the fundamental value of the brand and its assets."

[1] Existing TWE business excluding Penfolds brand and associated assets

Paul Rayner, Chairman of TWE said: “I am excited about the prospects that a potential demerger could bring for both New TWE and Penfolds. New TWE would remain the largest globally integrated wine platform in the world, with a diversified sourcing footprint, diversified end markets and significant opportunity ahead of it to continue the growth of its iconic brand portfolio across all markets. Penfolds is an icon of Australian luxury, with impressive margins and significant growth runway in Asia and globally.”

If the potential demerger were to be implemented, TWE shareholders would own a share in Penfolds and in New TWE proportional to their existing TWE holdings.

The potential demerger remains subject to a detailed evaluation of the costs and benefits to shareholders, along with final Board, shareholder and regulatory approvals and the receipt of third party approvals on satisfactory terms. Subject to the stabilisation of market volatility and the global COVID-19 pandemic, if a decision is made to proceed and is approved by shareholders, the potential demerger is expected to be completed by the end of calendar year 2021.

If completed, it is anticipated that the potential demerger would create a new top ASX 50-100 company listed on the Australian Securities Exchange for Penfolds and an ASX 100-150 company for New TWE.

Commercial wine business restructure

Regardless of the potential demerger of Penfolds, TWE has concluded that it will deliver a future state Luxury business that continues the premiumisation strategy and will pursue a range of initiatives to reduce the size and scale of its Commercial wine business, particularly in the United States, including:

- Adjusting its operating model and organizational structure to align with the future scale of the right-sized business and to reduce fixed costs, as well as drive improved engagement and performance with our customers;
- Restructuring of TWE's supply chain, to improve cost of goods sold;
- Accelerated reduction of lower margin commercial tier brands in the ordinary course of business, as has been the practice over recent years; and
- Divestiture and/or deletion of selected brands and production assets, either individually or in combination.

TWE expects that any one-off costs that will be incurred as a result of executing these initiatives will be less than the annualised savings that will be realised from the reduction to fixed costs. This excludes any potential profit or loss that may arise from the sales of assets.

The retained Commercial business will comprise a smaller portfolio of profitable and differentiated brands that will continue to appeal to consumer trends and preferences across key markets. Combined with a continued focus on accelerating premiumisation, post implementation of these initiatives TWE will retain a portfolio of compelling brand propositions

across all price points.

Tim Ford, TWE's Chief Operating Officer commented "These initiatives will accelerate the separate focus on the Luxury versus Commercial portfolios, and will be implemented in an orderly manner over time to maximise potential gains on asset sales, minimise associated one-off cost impacts and minimise disruption to business performance while ensuring benefits are not compromised by the current economic or capital market conditions."

Further details will be provided in August 2020 as part of TWE's F20 results announcement.

COVID-19 Business Update

TWE also provides the following update on its current state F20 trading performance, including with respect to the global COVID-19 pandemic:

- In China, TWE's staff have recently returned to working in the office, as have most of its partnership network. While Q3 depletions and shipments were significantly impacted as a result of the nationwide shutdown, TWE is now working closely with these partners to resume operations through the remainder of F20, where shipments will remain appropriately calibrated to the rate of depletions as consumption rates normalise. It should be noted that while consumers are getting back to work, socialising and consumption levels remain at subdued levels, impacting the recovery of the Q3 depletions shortfall to plan.

- In TWE's other regions, strong retail depletions growth towards the end of Q3 has reflected consumer behaviour to stock product and the greater propensity for in-home consumption during government-imposed shutdown periods, coupled with strong momentum for the portfolio through e-commerce channels. Performance during this period has however been skewed towards the lower margin Commercial and Masstige portfolios. Channels outside of retail and e-commerce will remain closed in line with government shutdown protocols in each region - these channels include cellar doors, on-premise venues and global travel retail which focus on high margin and Luxury wines.

- Supply chain operations continue to function in each geography, with no material interruptions having been experienced thus far. TWE has had in place heightened hygiene and social distancing procedures as part of its business continuity plans for some time.

- Certain parts of TWE's business have been, or are expected to be, impacted as a result of increasing government restrictions requiring people to stay at home and self-isolate. TWE will manage employee work-load based on business activity levels and will seek to align remuneration levels with the corresponding level of business activity, and government requirements going forward. This is in order to safeguard the ongoing roles of our team members during this period and until trading returns to more normal levels. TWE's thoughts remain with its staff, our partners and all family members during this challenging time, and TWE will continue to provide support to its team members to the greatest extent possible including providing them with greater flexibility to access accrued leave entitlements where appropriate.

- TWE maintains a flexible and efficient capital structure that is consistent with an investment grade profile, including a stable and well diversified debt maturity profile and significant headroom with respect to its financial covenants. At 31 March 2020 TWE's liquidity, comprising cash and undrawn committed debt facilities, was approximately $1.1bn.

Michael Clarke commented "In the short term these are unusual and very challenging times with consumers trading down. Therefore, TWE is not in a position to provide detailed numbers or detailed timelines at this stage as it is unclear how trading will play out in the short term. We do know that, post COVID-19 and as consumption rates normalise, the underlying longer-term growth potential of the business and therefore the value of the Penfolds franchise and the remaining TWE portfolio is significant."

For the purposes of ASX Listing Rule 15.5, TWE confirms that this document has been authorised for release to the market by the Board.

*** Treasury Wine Estates will host an investor and analyst conference call and audio webcast commencing at 9:00am AEST on 8 April 2020.*

Links to register for the conference call or join the webcast are provided below. Upon registration for the conference call participants will receive a unique ID and dial in details. A replay of the conference call will be available via www.tweglobal.com from approximately 1:00pm AEST.

Link to register for teleconference:

http://apac.directeventreg.com/registration/event/9665728

Link to join audio webcast:

https://edge.media-server.com/mmc/p/fdg4ekak

Contacts / Further information:

Media
Melissa O'Neill
Tel: +61 3 8533 3923
Mob: +61 467 555 175

Investors
Bijan Taghian
Tel: +61 3 8533 3568
Mob: +61 433 173 664