2019

TREASURY WINE ESTATES

Interim 2019 Results

14 February 2019

TREASURY
WINE ESTATES

Michael Clarke

Chief Executive Officer

Executive Leadership Team on the call today

Michael Clarke	Chief Executive Officer
Matt Young	Chief Financial Officer
Tim Ford	Chief Operating Officer

Joining Q&A session

Victoria Snyder	President, Americas
Peter Dixon	Managing Director, Asia
Angus McPherson	Managing Director, ANZ and Europe

Result headlines[1,2,3]

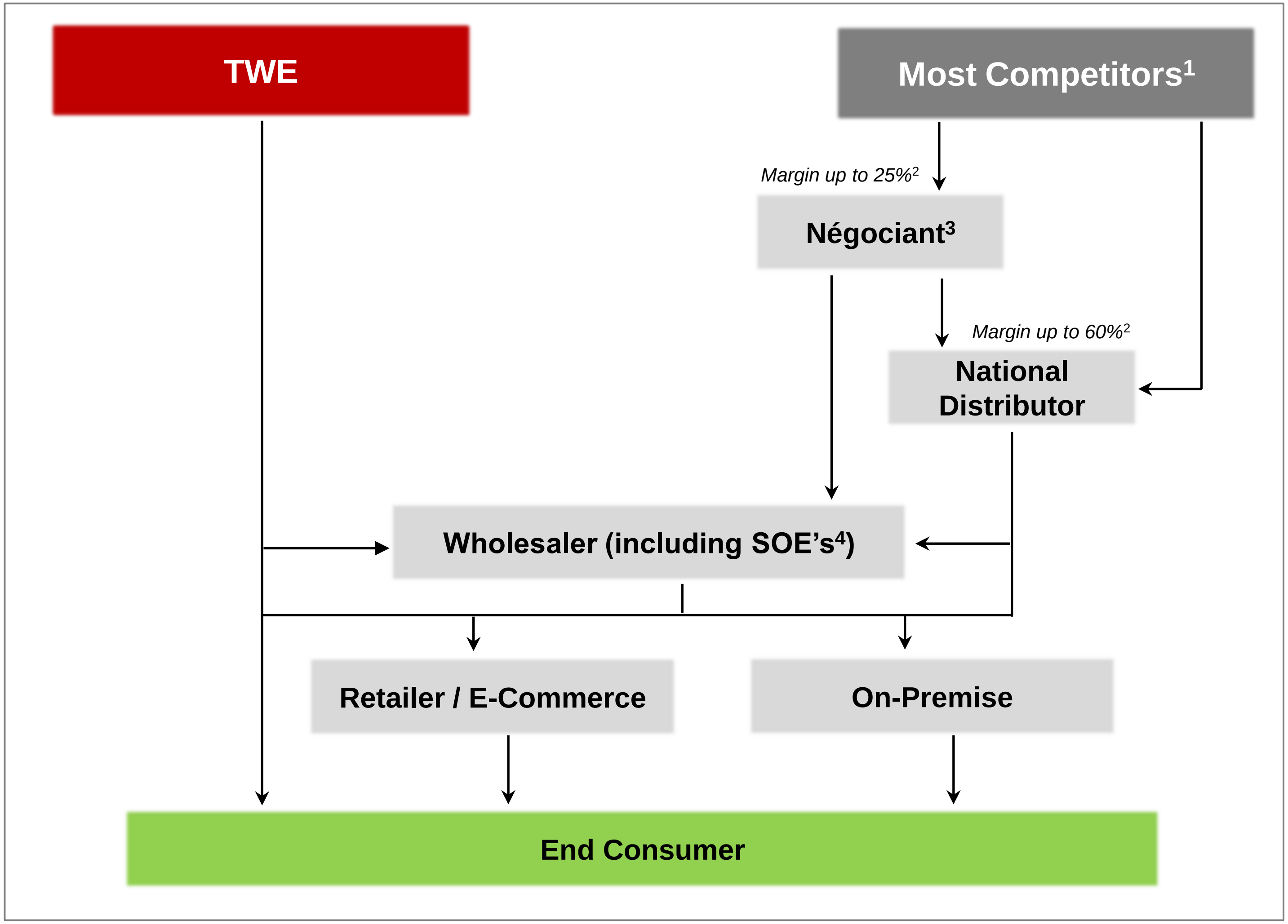
- NSR up 16% to $1,507.7m; constant currency increase of 13% represents the largest organic growth rate in company history[4]
- 1H19 EBITS up 19% to $338.3m with strong growth delivered by all regions; immaterial currency benefit, one-off costs taken above the line
- Group EBITS margin of 22.4%, up 0.5ppts
- NPAT of $219.2m, up 17%
- EPS of 30.5 cents per share, up 19%
- Execution of US route-to-market transition progressing well and on track
- The Asia region continues to deliver strong, sustainable growth, enabled by TWE's competitively advantaged business model, brand portfolio and outstanding sales execution
- ANZ and Europe regions continue to see positive momentum, supported by Masstige-led premiumisation and collaborative customer partnerships

1. *Financial information in this report is based on reviewed financial statements. Non-IFRS measures have not been subject to audit or review. The non-IFRS measures are used internally by Management to assess the operational performance of the business and make decisions on the allocation of resources*
2. *All figures and calculations are subject to rounding*
3. *Result Headlines metrics disclosed on a reported currency basis, unless marked otherwise*
4. *Excludes the impact from the Diageo Wine acquisition in F16*

TWE

China Operating Model

An efficient route-to-market driving value for TWE, its customers and the consumer

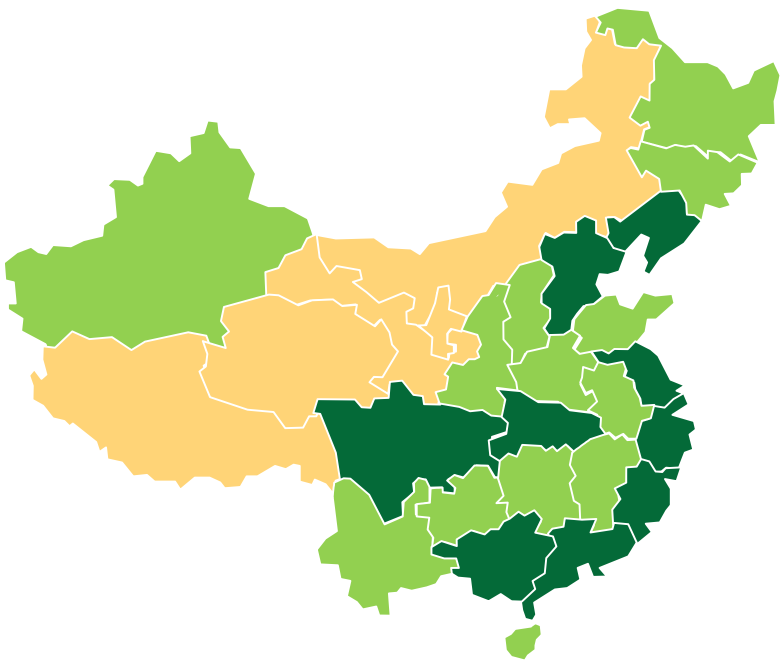


1. *Indicative only, based on TWE management view. Competitor operating models may vary*
2. *Based on TWE management view*
3. *Typically used by French wine producers*
4. *State Owned Enterprises*

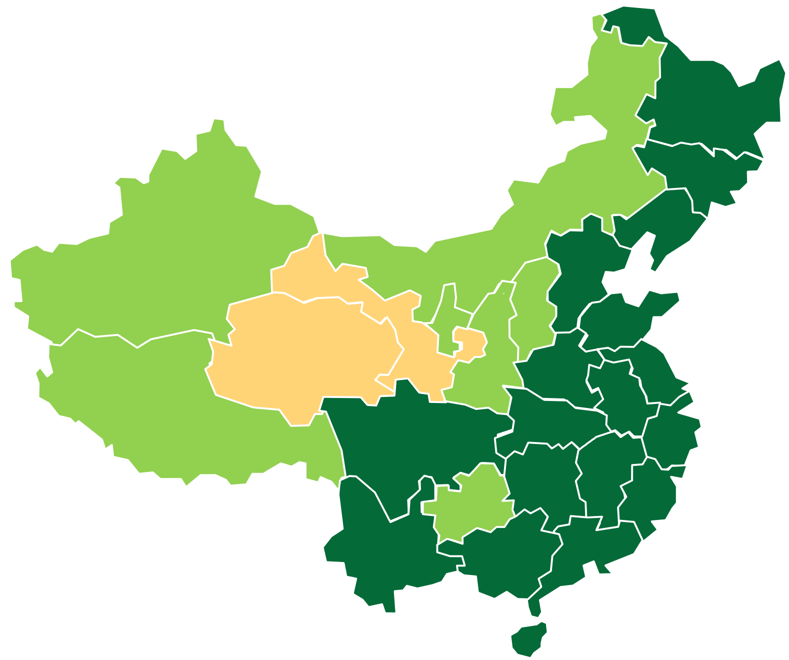
China Operating Model

TWE's ambition is to expand city distribution coverage by 50%+ in the next three years with increased allocations of Luxury wine

TWE's current geographic footprint



TWE's targeted geographic footprint



Distribution coverage

- High
- Med
- Low

Our goal is to be as close to customers and consumers as possible

TWE

US Operating Model

Transformational route-to-market changes progressing well

- ✓ Positive, collaborative relationships being formed with new distribution and retail chain partners; existing distributors continuing to perform well
- ✓ Dedicated sales and merchandising teams are in place and driving improving execution
- ✓ Increasing points of distribution in key states aligned to new distributor partners
- ✓ Improved P&L metrics in California and Florida, validating the benefits of the new model
- ~ Continuing to drive broad market distribution across all transition markets; focused on improving distribution and availability
- ~ Transition costs and 'one-offs' included in EBITS; TWE to commence removing costs in 2H19, with margin accretion expected from F20 onwards

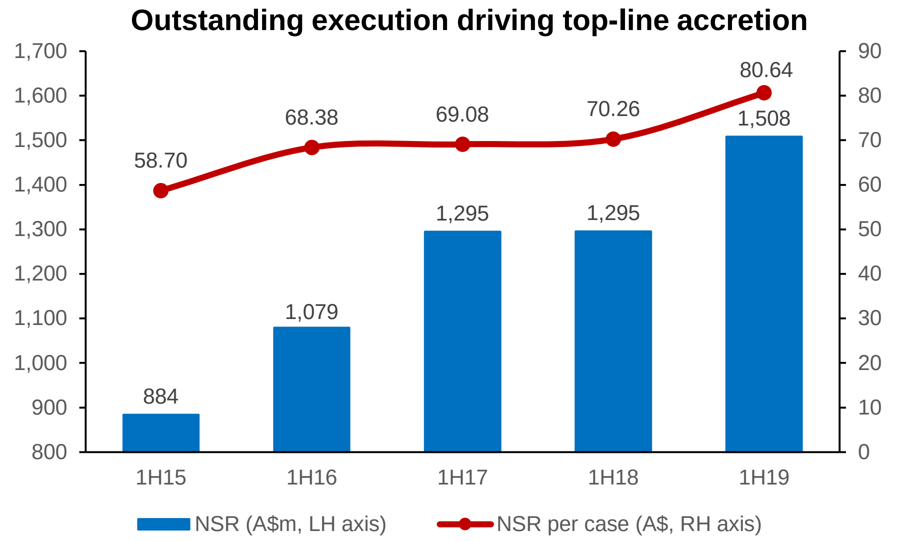
Matt Young
Chief Financial Officer

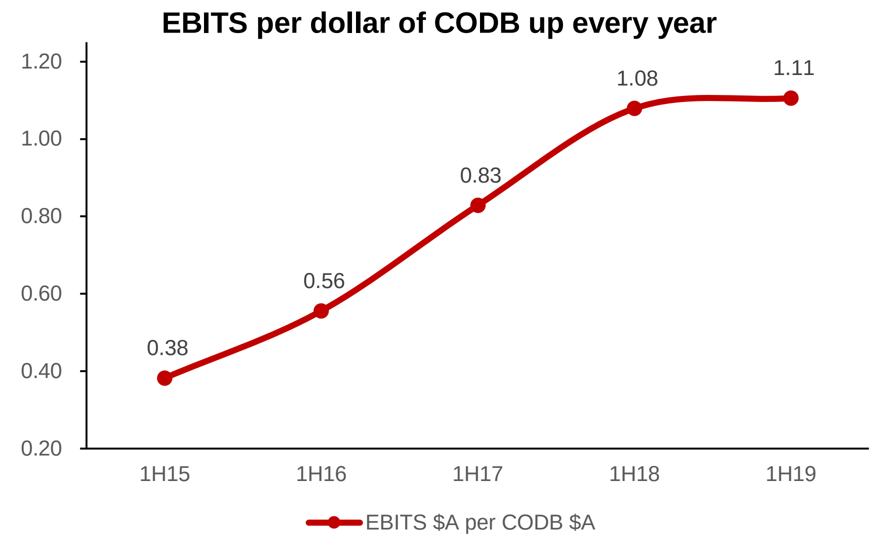
Financial Headlines

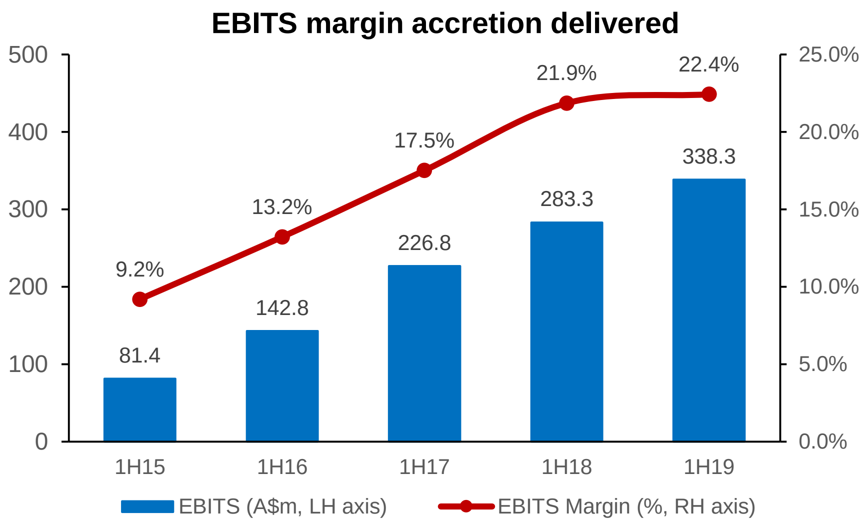
- Global Luxury wines allocated 55% - 60% to 1H18 ahead of US route-to-market transition announcement; F19 allocation more evenly balanced between 1H and 2H
- Change in strategy for Rawson's Retreat in Asia in F18; volumes more evenly phased across the year in F19
- Timing of shipments in Asia phased to Q2 due to customs clearance delays in 4Q18, new Shanghai warehouse and reduction in import tariffs to zero effective 1 January 2019
- Key top-line and profitability metrics exhibiting continued positive momentum
- Cash conversion of 53.5%; reflecting top-line growth, timing of sales execution, and currency
- ROCE 13.3%, up 0.7ppts in 1H19; continuing to deliver strong returns while investing in future growth
- Net debt to EBITDAS 2.0x[1] and interest cover 13.9x[2]; investment grade credit profile maintained
- Interim dividend of 18.0 cents per share, fully franked, up 20% on prior year; delivering sustainable shareholder returns
- Simplify for Growth initiatives progressing with establishment of Global Business Services division

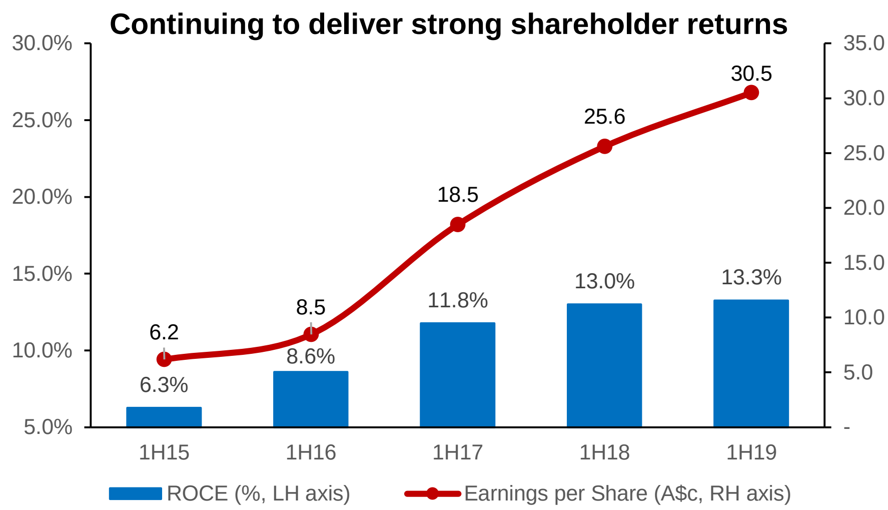
1. Net debt adjusted for capitalisation of operating leases. Operating leases capitalised using the S&P lease capitalisation methodology.
2. Interest cover is calculated as the ratio of earnings to net interest expense, where earnings is the consolidated pre-tax profit (pre material items and SGARA) plus the sum of the amount of net interest expense adjusted for amortised interest costs, per financial covenants.

1H19 result; key measures of performance[1,2]









1. *Numbers subject to rounding*
2. *F16 EBITS and ROCE have been restated in accordance with revised accounting standards relating to vine depreciation*

TWE

Balance Sheet[1,2]

A$m	1H19	F18	1H18
Cash & cash equivalents	183.0	89.4	202.5
Receivables	829.1	593.3	662.1
Current inventories	1,092.4	1,012.3	1,051.5
Non-current inventories	912.8	952.1	662.2
Property, plant & equipment	1,440.5	1,416.5	1,319.1
Agricultural assets	40.7	41.3	37.0
Intangibles	1,156.7	1,128.9	1,090.6
Tax assets	145.4	154.5	138.7
Assets held for sale	39.1	45.2	15.5
Other assets	17.7	12.2	13.8
Total assets	**5,857.4**	**5,445.7**	**5,193.0**
Payables	809.9	759.3	764.7
Borrowings	1,128.0	879.6	699.1
Tax liabilities	236.9	245.3	197.8
Provisions	49.8	49.4	50.8
Other liabilities	15.2	15.8	3.3
Total liabilities	**2,239.8**	**1,949.4**	**1,715.7**
Net assets	**3,617.6**	**3,496.3**	**3,477.3**

Flexible and efficient balance sheet to support growth

- Net assets increased $121.3m on a reported currency basis; adjusting for the movement in foreign currency, net assets increased by $64.8m
- Factors driving the movement in net assets included:
  - Increase in net working capital, principally driven by;
    - Higher inventory reflecting intake from the high quality, high volume 2018 vintage in California; and
    - Higher receivables, reflecting top-line growth and the timing of sales execution in 1H19
  - Offset by higher borrowings, driven by funding associated with increased working capital and capital investments
- ROCE 13.3%, an increase of 0.7ppts in 1H19

1. *Unless otherwise stated, all balance sheet percentage or dollar movements are from 30 June 2018 and are on a reported currency basis*
2. *Borrowings have been adjusted by $(7.4)m (1H18: $0.4m, F18: ($12.7)m) to reflect hedges on a portion of US Private Placement notes*

Cash flow and net debt[1,2]

Cash flow reflects investment and growth

A$m (unless otherwise stated)	1H19	1H18
EBITDAS	**388.3**	**330.8**
Change in working capital	(188.5)	(44.6)
Other items	8.0	(10.8)
Net operating cash flows before financing costs, tax & material items	**207.8**	**275.4**
Cash conversion	**53.5%**	**83.3%**
Capital expenditure	(93.6)	(83.9)
Net investment expenditure/other	26.6	35.8
Cash flows after net capital expenditure, before financing costs, tax & material items	**140.8**	**227.3**
Net interest paid	(25.3)	(13.2)
Tax paid	(88.7)	(70.2)
Cash flows before dividends & material items	**26.8**	**143.9**
Dividends/distributions paid	(122.2)	(96.0)
Cash flows after dividends before material items	**(95.4)**	**47.9**
Material item cash flows	(0.7)	(7.8)
Issue of shares, less transaction costs	-	(162.7)
On-market share purchases	(16.6)	(24.4)
Total cash flows from activities	**(112.7)**	**(147.0)**
Opening net debt	**(802.3)**	**(354.8)**
Total cash flows from activities (above)	(112.7)	(147.0)
Proceeds from settlement of derivatives	-	(0.2)
Debt revaluation and foreign exchange movements	(35.4)	6.5
Increase in net debt	**(148.1)**	**(140.7)**
Closing net debt	**(950.4)**	**(495.5)**

- Cash conversion was 53.5%, principally reflecting revenue growth, the timing of sales execution in Asia and the Americas, and unfavourable foreign currency translation of US working capital balances. Cash conversion for the seven months ended January was 85%
- TWE expects F19 cash conversion in the range of 60% to 70%; 80% cash conversion target remains appropriate over the long term

Investing to drive premiumisation and operational efficiency

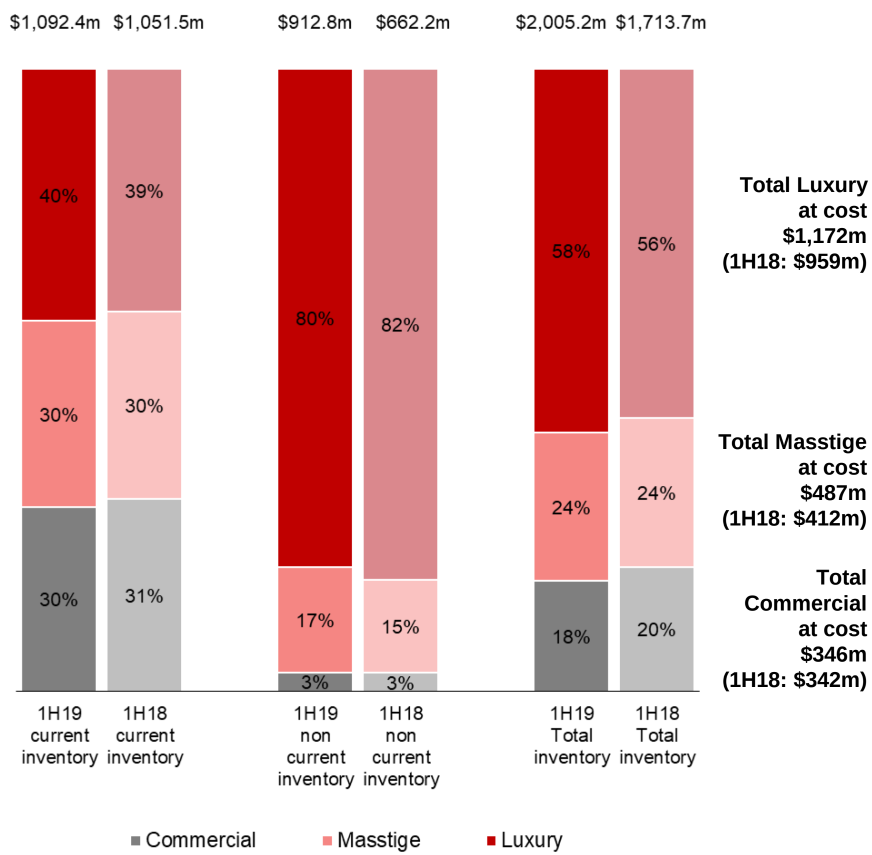
A$m	1H19	1H18
IT spend	7.1	7.6
Oak purchases	15.2	16.4
Vineyard redevelopments	22.3	11.9
Upgrades to wine making equipment and facilities	22.3	27.5
Other capital expenditure	15.1	17.0
Total maintenance and replacement capex	**82.0**	**80.4**
Growth initiatives	7.7	3.5
Vineyard acquisitions	3.9	-
Total growth capex	**11.6**	**3.5**
Gross capital expenditure	**93.6**	**83.9**
Oak barrels under sale and leaseback arrangements	(15.0)	(15.0)
Net capital expenditure	**78.6**	**68.9**

- Capital expenditure (capex) up $9.7m to $93.6m:
  - Maintenance & Replacement capex of $82.0m
  - Investments in growth including vineyard acquisitions of $3.9m and other growth initiatives of $7.7m; French production acquisitions expected to be completed in 2H19
  - Offsetting oak purchases were barrels disposed under sale and leaseback arrangements of $15m
- F19 guidance for Maintenance and Replacement capex in the range of $130m to $140m (including oak barrels) reiterated

1. *All cash flow percentage or dollar movements from the previous corresponding period are on a reported currency basis*
2. *Net debt has been adjusted by $(6.3)m (1H18: $0.4m, F18: ($12.7)m) to reflect hedges on a portion of US Private Placement notes and the US$ term loan*

Inventory analysis

Inventory at book value split by segment[1,2]



Inventory composition continues to reflect premiumisation; supporting earnings and margin growth in F20 and beyond

- Total inventory increased $291.5m to $2,005.2m, reflecting:
  - $250.6m increase in non-current inventory
  - $40.9m increase in current inventory
- Factors impacting the movement in Non-Current inventory include:
  - Intake of high quality, high volume 2018 vintages from Australia and California
  - Significant increase in yields and grade conversion rates relative to the prior year, driving an uplift to Luxury and Masstige production in Australia and California
  - Balanced allocation of Luxury and Masstige wine across fiscal halves throughout F19
  - Foreign currency translation of inventory balances in the Americas
- Total Luxury inventory increased 22% to $1,172.1m:
  - Lower volume 2017 Australian vintage to commence release from F20
  - High quality and high volume 2018 vintages from Australia and California to commence release from F21
  - Current expectations are for a high quality, high volume 2019 Australian vintage which will be released from F22 onwards

1. *Inventory composition subject to rounding. Totals based on sum of Non-Current and Current Inventory*
2. *TWE participates in three segments: Luxury (A$20+), Masstige (A$10-A$20) and Commercial (A$5-A$10). Segment price points are retail shelf prices*

Capital Management

Disciplined capital management delivering sustainable returns

Investment grade credit metrics maintained:

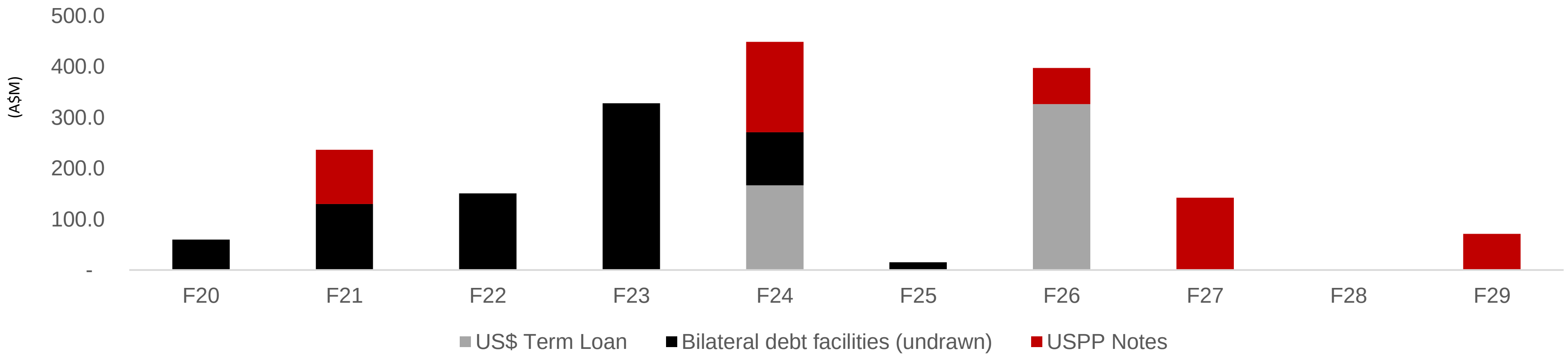
- Lease adjusted net debt / EBITDAS of 2.0x at 1H19[1]
- Interest cover of 13.9x
- Continued focus on delivering shareholder returns in a disciplined and sustainable manner:
- F19 interim dividend of 18.0 cents per share declared, fully franked, representing a 58% NPAT payout ratio[2]
- Dividend reinvestment plan re-activated; nil discount

Strengthened financing structure enhances flexibility

Optimised debt financing profile resulting in improved mix, spread and tenor of committed debt facilities, including:

- New US$ syndicated term loan, totalling US$350m, split across five and seven year maturities
- Refinanced bilateral bank facilities for commitments totalling approximately $440m
- Average duration of commitments increased to 5.0 years; no material change to cost of funds
- Available liquidity comprising cash of $183.0m and undrawn committed debt facilities of $773.8m

Maturity profile – committed debt facilities



1. *Operating leases capitalised using the S&P lease capitalisation methodology*
2. *TWE targets an annual dividend payout ratio of 55-70% of NPAT, pre SGARA and Significant Items,*

Tim Ford

Chief Operating Officer

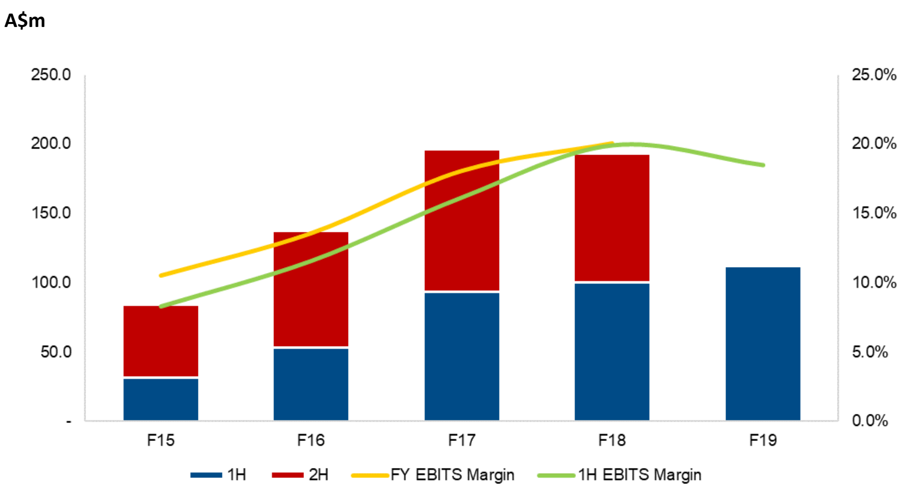
Americas

Transformational route-to-market changes embedded, expanding availability and distribution the priority

Americas regional performance

A$m	1H19	1H18	%	1H18	%
		Reported currency		Constant currency	
NSR (A$m)	604.6	503.8	20.0%	537.4	12.5%
NSR per case (A$)	81.40	69.15	17.7%	73.76	10.4%
EBITS (A$m)	112.1	100.4	11.7%	109.6	2.3%
EBITS margin (%)	18.5%	19.9%	(1.4)ppts	20.4%	(1.9)ppts

Historical EBITS and EBITS margin performance[1]



Business headlines

- US route-to-market changes are on-track and progressing well:
  - California and Florida delivering NSR/case and EBITS growth
  - Increased points of distribution being achieved in key states with new distributor partners
  - Continuing to drive broad market distribution across all transition markets a priority for 2H19
- Portfolio mix improvement supporting top-line revenue and NSR per case growth
  - Luxury and Masstige depletions up 5% versus pcp
  - TWE proactively exited lower margin Commercial volumes in prior years, ahead of other market players
- Transitional costs to be removed from 2H19; return to margin accretion expected from F20 onwards

1. *Presented on a reported currency basis*

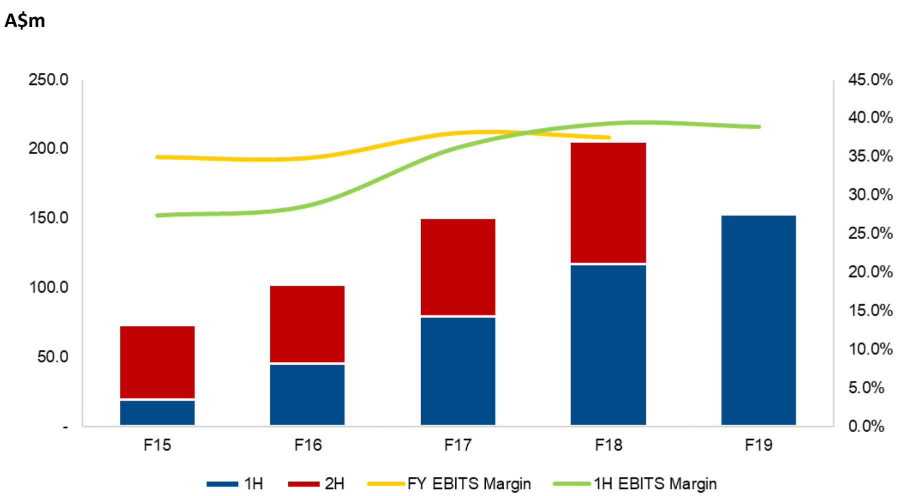
Asia

Business model, richer portfolio mix and outstanding sales execution driving top-line and earnings growth

Asia regional performance

A$m	1H19	1H18	%	1H18	%
		Reported currency		Constant currency	
NSR (A$m)	393.8	297.5	32.4%	299.7	31.4%
NSR per case (A$)	163.02	125.16	30.2%	126.09	29.3%
EBITS (A$m)	153.1	117.0	30.9%	112.0	36.7%
EBITS margin (%)	38.9%	39.3%	(0.4)ppts	37.4%	1.5ppts

Historical EBITS and EBITS margin performance[1]



Business headlines

- Top-line and earnings growth driven by increased availability of Luxury and Masstige wine, and outstanding sales execution:
  - Positive momentum across all Asian markets
  - Australian and French brand portfolio NSR up 33% and 111% respectively versus pcp[2]
- Sales channels are in good health across the region; forward days of inventory cover broadly in line with the prior year
- Higher CODB reflects early investment to support future growth, including investment in new brands, people and business model
- Growth rate in 2H19 to be slightly ahead of 1H19, given balanced allocation of Luxury wine across the year

1. *Presented on a reported currency basis*
2. *French brand portfolio growth includes third party distributed brands*

Europe

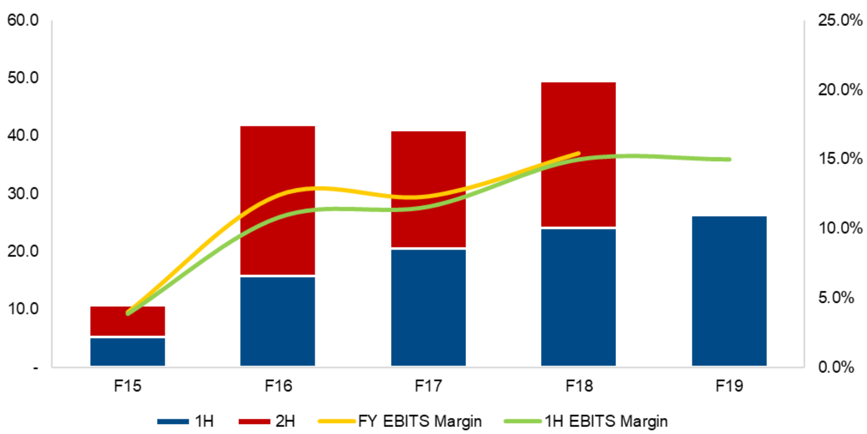
Continuing to deliver solid returns through top-line growth and disciplined cost management

Europe regional performance

A$m	1H19	1H18	%	1H18	%
		Reported currency		Constant currency	
NSR (A$m)	175.6	160.2	9.6%	167.2	5.0%
NSR per case (A$)	38.83	35.90	8.2%	37.47	3.6%
EBITS (A$m)	26.3	24.0	9.6%	25.1	4.8%
EBITS margin (%)	15.0%	15.0%	-	15.0%	-

Historical EBITS and EBITS margin performance[1]

A$m



Business headlines

- NSR growth reflects strong trading performance across all key regional markets alongside Masstige-led mix improvement
- Unfavourable COGS per case impacted by short term pricing pressure on Australian sourced Commercial wine

1. *Presented on a reported currency basis*

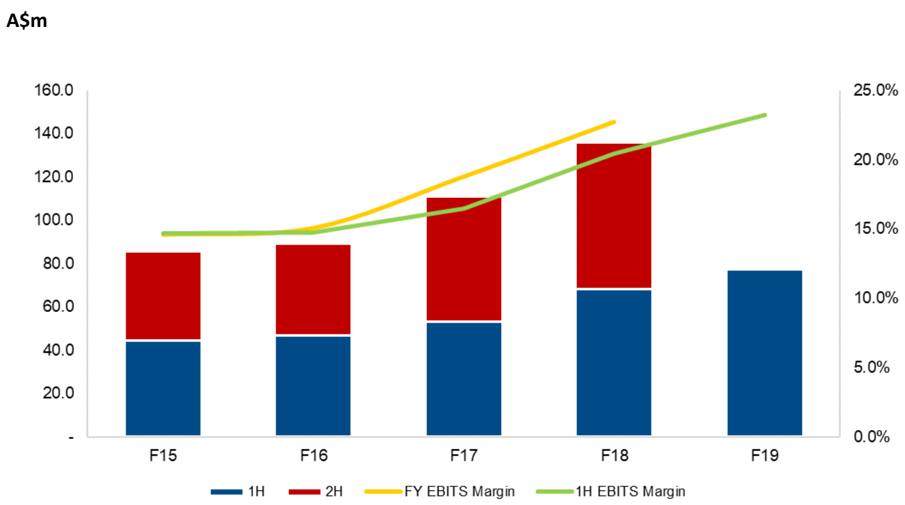
Australia & New Zealand

Strong customer partnerships and Masstige-led premiumisation delivering growth

Australia & New Zealand regional performance

A$m	1H19	1H18	%	1H18	%
		Reported currency		Constant currency	
NSR (A$m)	333.7	333.9	(0.1)%	333.9	(0.1)%
NSR per case (A$)	77.02	77.45	(0.6)%	77.45	(0.6)%
EBITS (A$m)	77.4	68.2	13.5%	66.8	15.9%
EBITS margin (%)	23.2%	20.4%	2.8ppts	20.0%	3.2ppts

Historical EBITS and EBITS margin performance[1]



Business headlines

- NSR in line with the pcp, reflecting:
  - Strong volume growth in Australia of 3.8% in an otherwise flat market, led by gains across the Masstige portfolio, in particular the refreshment category
  - Volume decline in New Zealand reflects cycling of the 1H18 transition to new distributor model, wholesale pricing under this model also impacting NSR per case
- Strong EBITS margin accretion of 3.2ppts to 23.2% reflects improvement in COGS per case and CODB
- Continuing to target 25% volume and value market share in Australia; current value market share 22%[2]

1. *Presented on a reported currency basis*
2. *Aztec Sales Value Data, bottled wine only, Australia Liquor Weighted, Scan 52 weeks to 6 January 2019*

Michael Clarke | Summary & Outlook

Summary and outlook

- TWE has the people, the brands and the business models to maintain its competitive advantage in all its markets and continue to drive strong global momentum
- US route-to-market changes are progressing well and on-track
- The prospects for growth in Asia remain highly attractive; expanding distribution and growing market share in the imported wine category will support future prospects
- TWE reiterates guidance for approximately 25% reported EBITS growth in F19
- EBITS growth rate of approximately 15% to 20% expected for F20[1], broadly in line with consensus

1. *Assuming no material changes due to vintage or foreign exchange movements, and does not include impacts from the application of AASB16 Leases in F20*

Questions


MATUA
SAUVIGNON BLANC
NEW ZEALAND
LINDEMANS
CHARDONNAY
STERLING
WOLF BLASS
Black Label
Penfolds
Grange
GRAND ESPRIT
SAINT-ESTÈPHE
France
BERINGER
RAWSON'S
RETREAT
CABERNET SAUVIGNON
BV

Supplementary Information

Volume

A$m	1H19	1H18	%
(Volume, m 9Le)			
ANZ	4.3	4.3	0.5%
Asia	2.4	2.4	1.6%
Americas	7.5	7.3	1.9%
Europe	4.5	4.4	1.3%
TWE	**18.7**	**18.4**	**1.4%**

Commentary

- ANZ: Australia volume increase of 3.8% driven by Masstige portfolio growth, partly offset by volume decline in New Zealand due to the transitional impact of the change to a distributor model in 1H18
- Asia: Volume growth reflects more balanced sales profile of Rawson's Retreat in 1H19 and the continued exit of lower margin commercial volumes in SEAMEA in 1Q19
- Americas: Higher volume reflecting positive execution under the new route-to-market model and cycling of the proactive destock in 1H18 ahead of the transition
- Europe: Volume increase driven by growth across key regional markets

Impact of foreign exchange rate movements & hedging

1H19 constant currency impact

CFX Impact (A$m)			
Currency	**Underlying**	**Hedging[1]**	**Total**
AUD/USD and AUD/GBP	15.4	(3.0)	12.4
Net other currencies	(7.9)	(0.6)	(8.5)
1H19	**7.5**	**(3.6)**	**3.9**
AUD/USD and AUD/GBP	(4.4)	0.4	(4.0)
Net other currencies	3.8	(0.1)	3.7
1H18	**(0.6)**	**0.3**	**(0.3)**

- $3.9m constant currency foreign exchange benefit in 1H19 (comprising transaction and translation impacts)
- TWE has a diversified portfolio of currency exposures where production cost currencies and revenue generating currencies are not matched
  - $15.4m benefit from depreciation of the AUD relative to the main currency pairs (USD and GBP), offset by ($7.9m) adverse revenue impact largely reflecting movements in TWE's primary revenue and regional operating currencies[2]
  - $3.6m relative impact from hedging in 1H19 versus the prior year ($1.0m realised loss in F19 vs $2.6m gain in the prior year based on constant currency basis)

2H19 EBITS sensitivity and risk management

Currency Pair	Primary Exposure	Movement	EBITS Sensitivity (A$m)
AUD/USD	COGS, EBITS	+1%	(2.1)
AUD/GBP	COGS, EBITS	+1%	(0.7)
CAD/USD	NSR	+1%	0.6
EUR/GBP	NSR	+1%	0.5
USD/GBP	COGS	+1%	(0.2)

- The sensitivity of EBITS to a 1% change in primary cost and revenue currencies is shown in the accompanying table (excludes potential impact of currency hedging)
- TWE maintains an active foreign exchange risk management strategy, focused on the transactional exposures associated with the Commercial and lower Masstige price segments:
  - AUD/GBP: c.80% of 2H19 exposure protected against appreciation of the exchange rate above 0.54
  - AUD/USD: c.70% of 2H19 exposure protected against appreciation of the exchange rate above 0.74
  - Modest hedge positions in place for other currency exposures, with hedge positions structured to provide a degree of participation in favourable exchange rate movements

[1] CFX hedging impact relative to the prior year

[2] USD relative to the CAD in the Americas, GBP relative to the EUR, SEK and NOK in Europe, AUD relative to the CNY and SGD in Asia

Definitions

Term	Definition
CODB	Cost of doing business
COGS	Cost of goods sold
Constant currency	Throughout this presentation, constant currency assumes current and prior period earnings of foreign operations are translated and cross border transactions are transacted at current year exchange rates
NSR	Net sales revenue
NPAT	Net profit after tax
EBITDAS	Earnings before interest, tax, depreciation, amortisation, material items & SGARA
EBITS	Earnings before interest, tax, material items and SGARA
EBIT	Earnings before interest, tax and material items
EPS	Earnings per share
Exchange rates	Average exchange rates used for profit and loss purposes in the 1H19 results are: $A1 = $US 0.7245 (1H18: $A1 = $US 0.7789), $A1 = GBP 0.5597 (1H18 $A1 = GBP 0.5910). Period end exchange rates used for balance sheet items in 1H19 results are: $A1 = $US 0.7044 (1H18: $A1 = $US 0.7799), $A1 = GBP 0.5547 (1H18: $A1 = GBP 0.5801)
ROCE	Return on capital employed
SGARA	Australian accounting standard AASB 141 “Agriculture”. From 1 July 2016, changes to AASB 141 applied in respect of vine assets. Vines are no longer recorded at fair value, but are recorded at cost and depreciated
Shipment	Shipments refer to volume movement from TWE to a third party off-premise or on-premise distributor or retailer
Depletion	Depletions refer to volume movements from a distributor to an on-premise or off-premise retailer

Disclaimer

Summary information

The material in this presentation is summary information about Treasury Wine Estates Limited (TWE) and its subsidiaries and their activities, current as at the date of this presentation unless otherwise stated. It should be read in conjunction with TWE's other announcements filed with the Australian Securities Exchange, which are available at www.asx.com.au.

No representation is made as to the accuracy, completeness or reliability of this presentation.

Forward looking statements

This presentation contains forward looking statements. Words such as 'expects', 'targets', 'likely', 'should', 'could', 'intend' and other similar expressions are intended to identify forward looking statements. Indicators of and guidance on future earnings and financial position are also forward looking statements. Such forward looking statements are not guarantees of future performance and involve known and unknown risks, uncertainties and other factors, many of which are beyond the control of TWE, which may cause actual results to differ materially from those expressed or implied in such statements. Readers are cautioned not to place undue reliance on forward looking statements.

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Past performance

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