9 July 2020 **ASX ANNOUNCEMENT**

Treasury Wine Estates business update

Treasury Wine Estates (ASX:TWE), with the commencement of Tim Ford as Chief Executive Officer effective 1 July 2020, today provides an update on its business, including preliminary performance outcomes for F20, as well as a progress update on key strategic initiatives ahead of its F20 full year results announcement on 13 August 2020.

Ahead of outlining details of the business update, 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.

All financial information in this announcement is subject to audit, which will be completed in conjunction with the preparation of TWE's full year statutory accounts.

Business performance

For F20, TWE expects EBITS to be between $530m and $540m, reflecting the impact of the COVID-19 pandemic, which has had a significant impact on TWE's trading performance across all geographies through 2H20. Cost management throughout this period has seen reductions in costs of doing business, including no payment of any discretionary employee incentives which relate to F20 performance outcomes.

F20 EBITS has declined against the prior year[1] by approximately 21% for the Group, with regional declines of approximately 14% in Asia, 37% in the Americas, 16% in ANZ and 18% in EMEA.

Following is an update of current trading conditions across TWE's key markets:

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[1] Restated for *AASB16 Leases*, as disclosed in Appendix 1 of TWE's 'Annual 2019 financial result' release, and includes the reclassification of $11.5m F19 EBITS for the Middle East & Africa region, from Asia to EMEA.

- In China, TWE continues to see positive signs of both consumption and sales depletion recovery with continued reopening across the country. TWE's depletions in April and May were up 1% when compared to the same period a year ago, after experiencing declines in depletions of more than 50% in February and March versus the same period prior year. TWE has also been performing strongly in e-commerce, with consumers increasingly shifting their buying behaviour to this channel. Whilst these recent trends are positive, TWE remains cautious on the short to medium term outlook, with gatherings and social occasions, which drive consumption of luxury wine, yet to fully recover to previous levels.

- In the Americas, and the US specifically, the retail channel has seen strong value and volume growth across all price points since March (15%+ on a value and volume basis versus the prior year), with continued premiumisation driving 20%+ value and volume growth in luxury and masstige portfolio price points versus the prior year. TWE's priority brand portfolio, which includes Stags Leap, 19 Crimes, Matua, Beringer Brothers and Beaulieu Vineyard, grew collectively by more than 35% in retail channels across the same period[2].

  Outside of retail, key channels including on-premise, cellar doors and global travel retail were closed for a significant proportion of 2H20, some of which have re-opened progressively, albeit with restrictions in place. TWE's sales through these channels are weighted toward higher margin, luxury wine and generally have lower cost of doing business than retail channels. In the Americas, these channels represent approximately 12% of volume and 25% of revenue on a pre-COVID-19 basis[3].

  More broadly in the US, TWE continued to experience the challenging wine market conditions that were previously outlined on 28 January 2020 persisting through 2H20, including the market oversupply that has driven continued acceleration in private label growth, which was up over 50% in the $8-15 price points over the past six months[4].

- In Australia, strong retail channel performance continues to remain at elevated levels compared to the prior year. TWE's performance and growth during this period across retail channels has been weighted to the masstige portfolio, with higher margin luxury wine sales below the F19 prior comparable period as consumers trade down[5]. Similar to the US, other key sales channels including on-premise, cellar doors and global travel retail were closed for a significant portion of 2H20, which impacted overall portfolio sales volume, mix and EBITS.

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[2] IRI Market Advantage, Multi-Liquor Outlet + Convenience, 13 weeks ending 14 June 2020

[3] Per F19

[4] IRI Market Advantage, Multi-Liquor Outlet + Convenience, 26 weeks ending 14 June 2020; includes exclusive brands

[5] Aztec sales value data, bottle and canned wine only, Australia Liquor Weighted, quarter to 21 June 2020

- Throughout 2H20, TWE has monitored consumption trends to ensure shipments to customers were appropriately calibrated to depletions rates and to ensure inventory levels support the long-term health of brands and pricing structures in all markets. In China, forecast forward days inventory cover at the end of May are lower versus the prior comparable period. In the US, TWE's shipments are below its depletions in F20.

- TWE has maintained its strong, flexible and efficient capital structure with net debt to EBITDAS expected to be approximately 2.2x at 30 June 2020[6]. F20 cash conversion is expected to be higher than 80%. At the end of F20, TWE had cash on hand of approximately $448m and undrawn committed debt facilities of $920m, providing total liquidity of approximately $1.4bn. This strong liquidity position supports the maintenance of TWE's long-term dividend policy, which targets a pay-out ratio between 55-70% of NPAT[7].

- In its update on 25 February 2020, TWE stated that 'should the impacts of COVID-19 be resolved in F20, it does not expect its F21 plans to be impacted'. In light of the continuing uncertainty, TWE will not provide earnings guidance for F21 at this point in time.

Australian Vintage Update

The 2020 Australian vintage (V20) was impacted by extreme heat, in particular during key stages of the growing season, resulting in a smaller volume, higher cost vintage for TWE, with total intake approximately 30% lower than the prior year.

As noted in TWE's 1H20 update on 28 January 2020, cost impacts from V20 are expected to lead to higher commercial and masstige COGS in F21. This is expected to impact all of TWE's sales regions, but will be most notable in ANZ and EMEA. TWE expects global COGS per case to increase by approximately 3% in F21 versus the prior year, which is equivalent to a $50m increase in global COGS excluding the impact of volume and mix. Work has commenced on restructuring TWE's global supply chain cost base, which will support the achievement of lowering COGS per case over time.

TWE is well positioned through the flexibility of its luxury wine allocation program, which is a key strength of its business model allowing it to manage through short-term changes in demand or single vintage variation. Supporting this is TWE's multi-regional sourcing strategy, which provides further flexibility to deal with single vintage variation and supports sustainable long-term earnings growth. Using this flexible allocation model, TWE has put in place actions and plans to carry forward unsold wine previously allocated to 2H20 in addition to the reallocation of luxury wine that had been previously allocated to F21 and beyond into future years.

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[6] Includes leases, per *AASB16 Leases*

[7] Pre SGARA and Material Items

Strategic agenda

TWE provides an update to the priority strategic initiatives announced in April 2020, specifically:

- The continuation of the challenging conditions at lower price points in the US wine market re-confirms TWE's plans to deliver a future state premium wine business which includes a reduction in the size and scale of its commercial wine business in the region.

  TWE has completed the implementation of operating model and organisation structure changes in the US business which will deliver annualized cost savings of at least $35m in F21. This redesign will ensure that the overhead cost base is aligned with the future volume and margin objectives of the business in the Americas, and importantly will drive an increased and separated focus on luxury wine sales across the region.

  TWE has also commenced the potential divestiture of selected commercial wine brands and assets in the US, as well as a restructure of its supply chain – programs which are expected to deliver an acceleration of TWE's margin premiumisation strategy in the Americas, an improved shape of P&L and a platform for future growth.

- In respect of the potential demerger of Penfolds, work completed since the market announcement in April continues to validate the expectation that value will be created through a separate focus for both Penfolds and TWE's other brands, globally. Optionality exists as to the best operating model to extract that value, including a potential demerger by the end of calendar year 2021. TWE will continue to explore the best option that will drive long-term growth and value creation. In the near term, TWE's primary focus will be on managing the existing TWE business through the COVID-19 impacted trading environment, and on ensuring a successful execution of the US business restructure.

In relation to today's business update, TWE's Chief Executive Officer Tim Ford said:

"The second half of fiscal 2020 has been a unique period for the industry and all of the communities in which we operate. I am proud of the way that our people, customers and suppliers have managed through the disruptive impacts of the COVID-19 pandemic giving me continued confidence in our team, brands and operating models and their combined strength.

While it is right to remain cautious on the near-term outlook, given uncertainty remains around the timing and pace of recovery in our key markets, we remain optimistic around our return to both margin and profit growth.

We will continue to remain agile and opportunistic, diverting resource and focus appropriately to markets and sales channels as consumer and shopper behavior adjusts, and government mandated restrictions change.

Both myself and the leadership team, which I have immense confidence in, strongly believe that TWE is very well positioned to manage through and beyond the currently impacted trading environment in markets around the globe, and believe that the challenges we have faced will lay the platform for an even stronger business into the future."

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

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 commencing at 10:00am AEST on 9 July 2020. Links to register for the conference 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/7256707

Link to join audio webcast

https://edge.media-server.com/mmc/p/z5d9nv8z

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