



TREASURY WINE ESTATES

25 May 2023

ASX ANNOUNCEMENT

Treasury Premium Brands Operating Model and F23 Performance Outlook

Treasury Wine Estates (TWE) today announces the next step in the evolution of its premiumisation strategy, with the intention to strengthen the operating model and reduce the cost base of its Treasury Premium Brands division. In addition, TWE provides an outlook on performance expectations for F23.

Treasury Premium Brands Operating Model

Treasury Premium Brands (TPB) is executing a clear strategy to reshape and premiumise its portfolio, focused on growing priority Premium and Luxury brands¹ including Wynns, Pepperjack, Squealing Pig and 19 Crimes across key global markets. Since commencing this strategy in F21, the contribution of TPB's Premium and Luxury brand portfolios has increased to greater than 60% of division NSR, an improvement of 13ppts, driving growth in NSR per case and EBITs margin, reflecting the success to date of the premiumisation focus.

The market trends and consumption outlook for Commercial wine, however, remains challenged, most notably in Australia and the UK. In recent years, this has led to further declines in TPB's lower margin Commercial portfolio volumes, a market dynamic that is expected to continue in the future. In addition, the ongoing inflationary environment, particularly for packaging materials, is expected to place upward pressure on TWE's cost of goods in F24.

As part of the ongoing premiumisation strategy, TWE will implement a range of initiatives, aimed at delivering greater operational and strategic flexibility to enable continued growth of its Premium and Luxury portfolios. These include:

- Adjusting TPB's operating model and organisational structure to align with the future scale of the business, in order to reduce fixed costs and increase focus on priority brands;

¹ TWE participates in three price segments: Luxury (A\$30+), Premium (A\$10-30) and Commercial (below A\$10). Segment price points are retail shelf prices.



- Undertaking a review of the Commercial wine supply chain, particularly in Australia, with a focus on improving operational flexibility and reducing total network cost to improve cost of goods sold; and
- Exploring divestiture and/or rationalisation of selected assets, either individually or in combination

A further update on these initiatives including timelines, financial impacts and one-off costs will be provided as part of TWE's F23 full year results announcement in August.

F23 Performance Outlook

Consumer demand for Luxury wine remains strong in all markets globally, with Luxury sales in the Penfolds, Treasury Americas and Treasury Premium Brands divisions in line with expectations. Penfolds, in particular, continues to deliver strong momentum in building distribution and consumer demand across a number of key global markets.

Category consumption trends for entry-level Premium wine in the United States remain challenging and have shown signs of further deterioration in recent months. Specifically, the 19 Crimes portfolio has continued to perform below expectations.

With this context, TWE expects the following for F23, with prior year comparisons shown on a reported currency basis:

- Group NSR to decline by approximately 2-3% compared to F22, with declines in Treasury Americas and Treasury Premium Brands to be partly offset by growth for Penfolds;
- EBITs² of between \$580m to \$590m, representing growth of approximately 11% to 13% on F22; and
- Group EBITs margin of approximately 23.5% (F22: 21.1%)

On today's announcement, TWE's Chief Executive Officer, Tim Ford said, "We continually and proactively assess our business performance, our structure and our cost base to make sure we're in the best position to continue to deliver on our premiumisation and growth strategy. With changing consumer preferences and a tightening economic environment in most major markets, we're taking the opportunity to make changes in our business now, so we have increased flexibility in the future to continue to grow our Premium and Luxury portfolios."

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.

² EBITs is defined as Earnings before Interest, Tax, SGARA and Material Items



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