



## TREASURY WINE ESTATES

30 November 2020

ASX ANNOUNCEMENT

### **Provisional measure to be implemented on Australian wine imports into China**

Treasury Wine Estates Limited (ASX:TWE) today announced it will implement a series of plans to reduce the impact of the provisional anti-dumping measure (Provisional Measure) on imports of certain categories of wine from Australia into China, as announced by the Chinese Ministry of Commerce (MOFCOM) on 27 November 2020.

The Provisional Measure states that, commencing from 28 November 2020, a deposit at a rate of 169.3% will be applied to the imported value of TWE's wine in containers of two-litres or less. The Provisional Measure can remain in place until 28 August 2021 at the latest. The final determination of the anti-dumping investigation will determine if the measure will be maintained, adjusted or removed. TWE will continue to engage respectfully with MOFCOM as part of the investigation, which is continuing.

TWE expects that while the Provisional Measure announced remains in place, demand for its portfolio in China will be extremely limited.

Since the commencement of the investigation, TWE has continued to develop a detailed response plan, which will commence immediately. Benefits are likely to be limited in F21, but will progressively reach their full potential over a two to three-year period. TWE will update investors on the progress of these plans, and expected timeline, at the 1H21 financial results announcement. These initiatives aim to reduce the impact on earnings and maintain the long-term diversification and strength of TWE's business model and brands.

The plans include, but are not limited to, the following:

- Driving incremental growth across TWE's global priority markets:
  - Reallocation of Penfolds Bin and Icon range from China – which represent 25% of TWE's annual global Penfolds allocation volumes - to other key luxury growth markets where there is unsatisfied demand, including Asian markets outside of China, Australia, the US, and Europe;
  - Accelerated investment in sales and marketing resource and capability across these other luxury growth markets to drive incremental demand and expand the distribution footprint of Penfolds; and

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- Reallocation of luxury grape sourcing to other premium Australian portfolio brands, including Wynns, Wolf Blass, Seppelt and Pepperjack, which have been significantly supply constrained over recent years.
- China business model enhancements:
  - Alternate operating and supply chain models for TWE's China business; and
  - Acceleration of the multi-country of origin portfolio growth strategy, with a focus on growing sourcing for TWE's portfolio from its existing asset base in France and potentially from China.
- Global operating model changes:
  - Reductions in global costs of doing business, including supply and overhead costs, as appropriate; and
  - Reductions to future vintage intake plans, commencing from the 2021 vintage in Australia.

TWE provides the following information to support investor understanding:

- The Provisional Measure announced does not include any measure relating to the previously announced countervailing investigation. Any further measures however are unlikely to change the plans outlined in this announcement.
- Under the Chinese Anti-dumping Regulations, the period of application of a provisional anti-dumping measure shall not exceed four months (which would be 28 March 2021) from the date of announcement of the measure. Under special circumstances, the period may be extended to nine months (28 August 2021).
- In F20 China represented approximately two-thirds of the total Asia region earnings, or 30% of TWE's Group earnings. TWE sells a premium portfolio in China, with luxury and masstige wine contributing 63% of volume and 91% of revenue in F20. Of the remaining portfolio, Rawson's Retreat is the largest volume commercial brand sold by TWE in China.
- TWE China's Bin and Icon sales represent approximately 25% of TWE's annual global Penfolds allocation volumes, and approximately 39% of TWE's annual global Penfolds allocation revenue. Where this wine is reallocated to other key markets, TWE will continue to apply its globally standardised margin structure to ensure long-term brand health and price integrity. This principle ensures that sales prices and margins from luxury wine are materially consistent in all markets. To support the reallocation, TWE will retain inventory on its balance sheet, as required, for release in future periods to appropriately balance supply with demand.
- In the four months to October 2020<sup>1</sup>, total Asia EBITs was approximately \$75m, and within this TWE had sold approximately 30% of its planned F21 China Penfolds allocations to

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<sup>1</sup> All financial results, balances and trading commentary disclosed are preliminary and unaudited

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customers. In the same period, China depletions across the full TWE portfolio grew 35%, representing strong consumer demand.

- TWE remains comfortable with its existing inventory position and valuation. Under TWE's flexible sourcing model, grower and bulk wine intake for the commercial and masstige portfolios can be efficiently adjusted in response to the expected changes in demand.
- TWE retains a strong, flexible and efficient capital structure that will enable it to manage through the application of these measures into the future, including the retention of inventory on its balance sheet for release in future periods. At 30 November 2020<sup>1</sup>, TWE has approximately \$1.5bn of liquidity on hand with significant headroom to the financial covenants under its borrowing arrangements.

In closing, Tim Ford commented:

"We are extremely disappointed to find our business, our partners' businesses and the Australian wine industry in this position.

We will continue to engage with MOFCOM as the investigation proceeds to ensure our position is understood. We call for strong leadership from governments to find a pathway forward.

The strength of our brands, including Penfolds, combined with our diversified business model will allow TWE to implement a range of changes and plans that will enable us to manage through the significant impact of these measures going forward, as outlined in this announcement.

However, there is no doubt this will have a significant impact on many across the industry, costing jobs and hurting regional communities and economies which are the lifeblood of the wine sector.

We will continue to work with our valued partners to further understand the implications and how we can work with the industry, governments and others to support the sector.

At the same time, we will continue to work with our customers and partners in China to demonstrate our long-term commitment to the growing number of Chinese consumers who enjoy our brands."

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.

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*\*\* Treasury Wine Estates will host an investor, analyst and media conference call/audio webcast commencing at 9:00am AEDT on 30 November 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](http://www.tweglobal.com) from approximately 1:00pm AEDT.*

Link to register for teleconference <http://apac.directeventreg.com/registration/event/2777626>

Link to join audio webcast <https://edge.media-server.com/mmc/p/pjsqc37j>

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