



### Treasury Wines – a difficult year

<b>Company/ASX Code</b>	Treasury Wine Estates (TWE)
<b>AGM date</b>	5 <sup>th</sup> November 2020
<b>Time and location</b>	10am, virtual meeting at <a href="https://web.lumiagm.com/368863023">https://web.lumiagm.com/368863023</a>
<b>Registry</b>	Computershare
<b>Webcast</b>	Yes
<b>Poll or show of hands</b>	Poll on all items
<b>Monitor</b>	Rod McKenzie assisted by Sue Shields
<b>Pre AGM Meeting?</b>	Yes with Chair Paul Rayner, Company Secretary Kirsten Grey & Bijan Taghian Director Corp Finance

Note: The meeting will be held as a Virtual meeting due to Covid-19 restrictions on public gatherings.

The individual(s) (or their associates) involved in the preparation of this voting intention has a shareholding in this company.

<b>Item 1</b>	<b>Consideration of accounts and reports</b>
<b>ASA Vote</b>	No vote required

### Summary of ASA Position

Treasury Wine Estates (TWE) is a truly global business and has suffered from all imaginable global disasters. The company has suffered from the impact of drought and wildfires in the USA, the worldwide impacts of Covid-19 and trade issues with their largest outlet – China.

On top of that, their CEO Michael Clarke departed Treasury Wines at the end of the financial year. Accordingly, incoming MD&CEO Tim Ford has plenty of major issues to deal with. The company has an on-going focus on the premium end of the wine business due to the greater profitability of that end of the market. This focus has continued under the leadership of the new CEO. The proposal to demerger the Penfolds assets into a separate company, has been put on hold due to issues outlined above.

Currently there appears to be an over-supply of lower priced wines around the world. TWE has sold a number of the smaller wineries in the US as part of the rationalisation of their holdings and to move the portfolio towards the “masstige and premium” end of the supply market. The chairman Paul Rayner refers to this as a “structural oversupply of Californian wine”.

All corners of the world market appear to be facing hardship. This is largely due to Covid-19 where public gatherings have been curtailed or restricted along with closure of restaurants, sporting facilities, international travel etc.

Sales and revenues are down across most sectors. All key financial measures fell during FY20. Market capitalisation fell a further 30% as the share price tumbled below \$10 and EPS fell 25% over the FY19 levels as sales slowed.

### **Governance and culture**

The company has a sound corporate governance process. Reporting on environmental, social and governance (ESG) topics is presented in the company's sustainability report. TWE has invested in minimising and adapting to climate change impacts for more than a decade now. The company is fully aware of climate change issues and potential disruptions to supply with climate change.

The company has an excellent approach to gender diversity. Four of the 8 directors are women and leadership roles are comprised of approximately 40% women.

### **Financial performance including dividends and shareholder returns**

All of the key performance figures show negative trends this financial year. Earnings per share (EPS) fell by 25%, Earnings Before Interest, Taxation & SGARA (self-generating & regenerating assets) dropped 22.5% and the share price fell from \$14.92 to \$10.48 during FY20. The share price has fallen further since that time.

### **Summary**

(As at FYE)	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
NPAT (\$m)	260.8	419.5	360.3	269.1	179.4
UPAT (\$m)	260.8	419.5	365.0	291.9	217.5
Share price (\$)	10.48	14.92	17.39	13.16	9.23
Dividend (cents)	28	35	32	26	20
TSR (%)	-27.6	-12.3	34.5	45.6	92.1
EPS (cents)	43.9	60.4	49.7	36.5	30.2
CEO total remuneration, actual (\$m)	3.8	17.6	17.6	15.4	3.55

For FY2020, the CEO's total actual remuneration was **41 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2020 data from the Australian Bureau of Statistics).

### **Item 2: Director Elections / Re-elections**

TWE has adopted a policy of having all non-executive directors stand for re-election each year as from the 2019 AGM. This is seen as part of emerging governance requirements in key overseas markets. The subject of board succession was raised with the chairman at the pre-AGM meeting held in early October. The now yearly director elections should facilitate succession planning going forward. TWE has 2 Hong Kong based directors and 2 US based directors. The other 4 directors – including the CEO, are based in Australia.

The subject of Chairman succession was raised at the pre-AGM meeting. Whilst there is a stable board in place now, TWE is likely to recruit a new Australian based director who could progress to the role of Chair in future.

<b>Item 2a</b>	<b>Election of Antonia (Toni) Korsanos as a Director</b>
<b>ASA Vote</b>	<b>Undecided</b>

#### **Summary of ASA Position**

Ms Korsanos is an Australian resident and was appointed to the board of TWE in April 2020. She is a member of the Audit & Risk Committee. Ms Korsanos was previously CFO at Aristocrat Leisure and also served as Company Secretary from 2011. She had previously been in the fast moving consumer goods area with Goodman Fielder and Kellogg.

ASA has some reservations regarding Ms Korsanos as she is a director of Crown Resorts and Webjet Limited. Both these companies have been in the news for all the wrong reasons in the past 12 months. Crown is undergoing an inquiry regarding their operations, their management and issues relating to alleged money laundering. Webjet is a company directly involved with the airline industry and the travel restrictions associated with Covid-19. Both of these issues are likely to take considerable time to resolve.

Hopefully we can hear Ms Korsanos speak at the AGM.

<b>Item 2b</b>	<b>Re-election of Ed Chan as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Chan was appointed as a non-executive director (NED) in 2012. He is based in Hong Kong and is member of the Audit & Risk committee. He is currently a director of Hong Kong listed Link REIT and Yum China Holdings. Mr Chan's local knowledge of the Chinese market is considered an important asset to TWE. ASA supports his re-election

<b>Item 2c</b>	<b>Re-election of Louisa Cheang as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Ms Cheang was appointed to the TWE board in December 2018. She is based in Hong Kong. Ms Cheang is the Vice Chairman and Chief Executive of Hang Seng Bank, listed on the HK stock exchange. She is also Group General Manager of HSBC Group throughout the Asia Pacific region and Group General Manager of HSBC Holdings plc. Whilst it appears Ms Cheang has a very full work load, her close links to the business community and government advisory committees is seen as an asset to TWE. ASA supports her re-election.

<b>Item 2d</b>	<b>Re-election of Warwick Every-Burns as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Every-Burns is an Australian resident and was appointed to the board of TWE in 2011. He is Chair of the Human Resources committee and a member of the Nominations committee. He filled the role as CEO of TWE on an interim basis in 2013-2014. Mr Every-Burns has extensive experience in the consumer packaged goods sector. He is also a director of the A2 milk company. As he has been a NED for 9 years now, it is considered he is unlikely to move to the role of chair, but his skills and experience are considered valuable to the company. The ASA supports his re-election.

<b>Item 2e</b>	<b>Re-election of Garry Hounsell as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Mr Hounsell is an Australian resident and was appointed to the board of TWE in September 2012. He is chairman of the Audit & Risk committee and a member of the Nominations committee. He brings extensive experience in corporate finance to the board and has extensive experience as a director of large public companies. He is Chair of both Myer and Helloworld Travel. He worked for some time as Executive Chairman of Myer during their search for a new CEO. Mr Hounsell would appear to be overloaded, particularly with the ongoing issues at both Myer and Helloworld, however, he has demonstrated a tremendous capacity to take on multiple roles over many years. The ASA supports his re-election.

<b>Item 2f</b>	<b>Re-election of Colleen Jay as a Director</b>
<b>ASA Vote</b>	<b>For</b>

#### **Summary of ASA Position**

Ms Jay is based in the United States. She was appointed to the board of TWE in April 2018. She is a member of the Human Resources committee. Ms Jay has extensive experience in the fast moving consumer goods industry and significant global experience. She is currently a NED of The Cooper Company based on the NYSE. Whilst Ms Jay is a bit light on in terms of her TWE shares she has added to her holdings through the year. The ASA supports her re-election.

<b>Item 2g</b>	<b>Re-election of Lauri Shanahan as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Ms Shanahan is based in the United States. She was appointed to the board of TWE in November 2016. She is a member of the Human Resources committee. Ms Shanahan has extensive consumer branding, strategy and governance experience. She is currently a director of Cedar Fair Entertainment and Deckers Outdoor Corporation – both listed on the NYSE. It is noted that Ms Shanahan is a bit light on shares in TWE however, the ASA supports her re-election.

<b>Item 2h</b>	<b>Re-election of Paul Rayner as a Director</b>
<b>ASA Vote</b>	<b>For</b>

### Summary of ASA Position

Mr Rayner is the Chairman of TWE. He was appointed as NED in May 2011 and Chairman in September 2012. Mr Rayner is also a director of Qantas and Boral – both since 2008. Mr Rayner has extensive experience in the consumer goods sector and was previously Finance Director of British American Tobacco based in the UK. Whilst Mr Rayner has been a director of TWE for 9 years now, it is felt that board stability and guidance for the new CEO is important during these difficult times. The ASA supports his re-election.

<b>Item 3</b>	<b>Adoption of Remuneration Report</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

TWE's remuneration comprises a mix of fixed salary, short term incentives (STIs) and long term incentives (LTIs). For the CEO, the split is approximately 1/3 each at target levels. The total remuneration levels appear very generous, but these reflect the international nature of the business.

The company does not include a table of Actual remuneration, although ASA has requested this for several years now. The remuneration report is not easy to read, and it takes some time to find the relevant data.

CEO Michael Clarke was one of the highest paid CEOs in Australia however he resigned as CEO at the end of June 2020. This meant that some of the previous LTI and STI awards were either forfeited or pro-rated based on length of service. It is reported that Mr Clarke left on "good-leaver" basis. The new CEO, Tim Ford was offered a less generous overall package (his details are shown in Item 4 below).

CEO rem. Framework for FY20 (Clarke)	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.6	37%	2.6	22%
STI - Cash	1.73	24.7%	2.6	22%
STI - Equity	0.87	12.3%	1.3	11%
LTI	1.8	26%	5.2	45%
Total	7.0	100.0%	11.7	100%

The amounts in the table above are the amounts that are envisaged in the design of the remuneration plan.

\*Target remuneration is sometimes called budgeted remuneration and is what the company expects to award the CEO in an ordinary year, with deferred amounts subject to hurdles in subsequent years before vesting.

Short term incentives (STIs) for the CEO are assessed on a mix of financial hurdles, business growth, margin growth and quality of growth. Usually, for the CEO, one third of the award is taken as equity and two thirds as cash. It is assumed that the bulk of the cash component would be used to cover taxation obligations. STIs are subject to trading restrictions: one half of the STI equity will vest after 12 months whilst the other half will vest after 2 years. For FY2019-2020, all STIs for the CEO, executives and other eligible employees were cancelled.

TWE apply two hurdles to LTI awards.

- 75% weighting is applied to return on capital employed (ROCE). If ROCE growth is less than 14.8%, 0 performance rights (PRs) are awarded. Awards rise from 35% at the hurdle level to the maximum level if ROCE increases to 15.7%.
- 25% weighting is applied to total shareholder return (TSR). Below the 50<sup>th</sup> percentile, 0 performance rights are awarded. Awards rise from 35% to 100% between the 50<sup>th</sup> and 75<sup>th</sup> percentiles. It is noted that performance rights can still vest if there is a negative TSR.

Performance rights (PR) are based on face value with the share price determined by the volume weighted average price (VWAP) over a 90 day period to end of the financial year.

The actual hurdles appear challenging although LTI awards were paid in full for most of his tenure. Where LTIs are paid in full year after year, the ASA questions whether the hurdles are really challenging or whether the bar is set too low. Mr Clarke was awarded the maximum of 200% of his fixed remuneration in PRs for FY2018-2019. The LTIs for FY2018 (performance period July 2018 to June 2020) were forfeited due to failure to meet the required hurdles. Approximately two thirds of his LTI award for FY2019-20 (with a proposed vesting date of June 2022) were forfeited due to his resignation.

ASA's main concern is that TWE use a three year performance measure for long term incentives rather than a 4 or 5 year performance period adopted by many ASX 200 companies. It is noted that this is a shorter term than that for storage of their fine wines. This was discussed with the

chair at the pre-AGM meeting, but he sounded reluctant to change the remuneration performance period. The ASA will raise this again at the AGM.

In summary, key reasons for the against vote are:

- No table of Actual remuneration;
- Only 1/3 of the STIs are awarded as equity. ASA prefers 50% equity for STIs;
- Three year performance period for LTIs rather than the ASA preferred 4 or 5 year time frame;
- The remuneration report is difficult to understand for retail shareholders, and
- PRs can vest even if there is negative TSR.

<b>Item 5</b>	<b>Approval of LTI grant to CEO/Managing Director Tim Ford</b>
<b>ASA Vote</b>	<b>Against</b>

### Summary of ASA Position

Mr Ford is to be offered a maximum of 255,940 performance rights under the TWE LTI plan. The number of PRs has been calculated by dividing his LTI maximum opportunity of \$2.625m (being 175% of his Fixed remuneration) by the notional market price of \$10.2563 per share. This share price was determined using the 90 day VWAP up to 30 June 2020. It is noted that the total amount of the LTI award has been reduced to 175% of Mr Fords Fixed remuneration and his fixed remuneration of \$1.5m is considerably lower than that offered to Mr Clarke (\$2.652m pa fixed from Sept 2019 with up to 200% of that as LTI awards).

One quarter of the PRs will be subject to the company's relative TSR whilst three quarters will be subject to growth in the company's return on capital employed (ROCE).

TSR hurdles are as per FY2019 whilst the ROCE hurdles have been adjusted slightly against previous hurdles and the ROCE base was adjusted to 10.6%. The ROCE growth awards will range from zero if the ROCE result is less than 13.6% (3% growth) up to 100% if the ROCE result is at or above 15.7% (5.1% growth).

The LTI awards are based on a 3 year performance period from July 2020 to end June 2023. The subject of the 3 year performance period was raised with the chairman at the pre-AGM meeting however the chair saw no reason to change to a 4 year period. ASA had previously written to TWE to introduce this change prior to the commencement of the new CEO however our suggestions were not taken on board.

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