



Treasury Wines – another vintage year

Company/ASX Code	Treasury Wine Estates/TWE
AGM date	Wednesday 16 October 2019
Time and location	9.30am at MCEC, South Wharf, Melbourne
Registry	Computershare
Webcast	Yes
Poll or show of hands	Poll on all items
Monitor	Rod McKenzie assisted by Sue Shields
Pre AGM Meeting?	Yes with Chair Paul Rayner & Company Secretary Fiona Last

Note: The meeting will be simultaneously transmitted live between two venues. The meeting will be chaired from San Francisco with directors in attendance there. Senior staff and the external auditor will attend the meeting in Melbourne.

Item 1	Consideration of accounts and reports
ASA Vote	No vote required

Summary of ASA Position

Treasury Wine Estates (TWE) is a truly global business. The company has changed over the past several years since the purchase of the Diageo wine business on the west coast of the USA. The CEO & MD Michael Clarke has led this transformation from a dominantly Australian business to an international company with operations all around the world.

Now, 40% of sales revenue now comes from the US operations. Asia is a rapidly growing market and provides almost 30% of sales revenue. Increased production in Italy, France and Spain has led to an overall increase in global wine production.

TWE has adopted a policy of holding quality wines in storage for 3 to 5 years to benefit from the higher prices available for these wines in future years. Previously, it was some of the larger retailers who benefitted from this upside.

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 a better-than-average outcome with gender diversity. Three of the 8 directors are women and leadership roles are comprised of approximately 40% women.

Financial performance

All the key performance figures show strong increases over the past 5 years. Earnings per share (EPS) increased 17% in FY19 to 60.4 cps. EBITs (Earnings Before Interest, Tax & SGARA*) increased by 25% and ROCE (Return on Capital Employed) increased by 2.3 percentage points to 14.9%. Market capitalisation declined to \$10.7 billion with the modest fall in the company's share price.

The balance sheet is strong and the company is looking at further expansion in the coming financial year. Dividends for the calendar year totalled 38cps – up 19% on the previous year or 35cps actually paid in the financial year. Dividends are now fully franked.

The company does not include a table of 5-year performance in their annual report. Whilst all of the data is available, it takes some time to consolidate this into a coherent form. We have asked for this for the past few years but to date, the company has refused to include the table.

**SGARA is an accounting standard for use with Self-Generating and Regenerating Assets*

Key events such as restructures, acquisitions, buy backs and capital raisings

N/A

Key Board or senior management changes

Former non-executive director (NED) Michael Cheek retired soon after last year's AGM. He was replaced by Ms Louisa Cheang, a Hong Kong resident, in late 2018.

Chief Operating Officer (COO) Robert Foye was dismissed in January 2019 due to a breach of internal policies.

ASA focus issue (not discussed under remuneration report or re-election of directors)

TWE has adopted a policy of having all NEDs 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. A new director is likely to be nominated this financial year.

Summary

(As at FYE)	2019	2018	2017	2016	2015
NPAT (\$m)	419.5	360.3	269.1	179.4	77.6
UPAT (\$m)	419.5	365.0	291.9	217.5	84.0
Share price (\$)	14.92	17.39	13.16	9.23	4.90
Dividend (cents)	35	32	26	20	14
TSR (%)	-12.3	34.5	45.6	92.1	2.4
EPS (cents)	60.4	49.7	36.5	30.2	12.7
CEO total remuneration, actual (\$m)	17.6	17.6	15.4	3.55	3.23

For 2018-19, the CEO's total actual remuneration was **200 times** the Australian Full time Adult Average Weekly Total Earnings (based on May 2019 data from the Australian Bureau of Statistics).

Note - For May 2019, the Full-time adult average weekly total earnings (annualised) was \$88,145 (<http://www.abs.gov.au/ausstats/abs@.nsf/mf/6302.0>, “Full-time adult average weekly total earnings”, Trend(a)).

Item 2a	Election of Ms Louisa Cheang as a Director
ASA Vote	For

Summary of ASA Position

Ms Cheang was appointed as a non-executive director to TWE in December 2018. She replaced Michael Cheek who resigned after the 2018 AGM. Ms Cheang is based in Hong Kong. She is currently the Vice Chairman and Chief Executive of Hang Seng Bank listed on the Hong Kong stock exchange. She is also Group General Manager of HSBC Holdings plc and a director of the Hong Kong and Shanghai Banking Corporation. Ms Cheang would appear to be very busy but brings strong experience in the Hong Kong / Chinese business environment. Ms Cheang does not own shares in TWE. It is expected that Ms Cheang will address this issue at the upcoming AGM.

Item 2b	Re-election of Mr Ed Chan as a Director
ASA Vote	For

Summary of ASA Position

Mr Chan has been a director since 2012. He is based in Hong Kong. Mr Chan is a member of the Audit and Risk committee. He is a director of Hong Kong listed LINK REIT and Yum China Holdings Inc and an operating partner of Softbank Investment Advisers. He brings strong experience in the important and strongly growing Asia business environment. Mr Chan holds 48,280 TWE shares. The ASA supports his re-election.

Item 2c	Re-election of Mr Warwick Every-Burns as a Director
ASA Vote	For

Summary of ASA Position

Mr Every-Burns has been a director since May 2011. He is chair of the Human Resources committee and a member of the nominations committee. He is based in Australia. He was interim CEO of TWE from September 2013 to March 2014. Mr Every-Burns is a non-executive director of A2 Milk company. He holds 100,000 shares in TWE. The ASA supports his re-election.

Item 2d	Re-election of Garry Hounsell as a Director
ASA Vote	For

Summary of ASA Position

Mr Hounsell has been a director of TWE since September 2012. He is chairman of the Audit and Risk committee and a member of the Nominations committee and Human Resources committee. He is based in Australia. He is chairman of Helloworld Travel and Myer Holdings and a director of the Commonwealth Superannuation Corporation Limited. Whilst Mr Hounsell would appear to be fully loaded, he has recently stepped back from the Executive Chair role at Myer to non-executive Chair role. Mr Hounsell holds 83,500 shares in TWE. The ASA supports his re-election.

Item 2e	Re-election of Colleen Jay as a Director
ASA Vote	For

Summary of ASA Position

Ms Jay was appointed as a director in TWE in April 2018. She is a member of the Audit and Risk committee. She is based in the USA. Ms Jay has held a number of roles in the fast moving consumer goods industry and global brand building. She is a non-executive director of The Cooper companies which is listed on the NYSE. Ms Jay holds 2,862 TWE shares. The ASA supports her re-election.

Item 2f	Re-election of Ms Lauri Shanahan as a Director
ASA Vote	For

Summary of ASA Position

Ms Shanahan was appointed as a director in November 2016. She is a member of the Human Resources Committee. Ms Shanahan has held senior executive positions with The Gap Inc where she led the company's global corporate responsibility functions including ESG as well as government affairs and public policy. She is currently a director of Cedar Fair Entertainment and Deckers Outdoor Corporation – both listed on the NYSE. Ms Shanahan holds 11,559 TWE shares. The ASA supports her re-election.

Item 2g	Re-election of Mr Paul Rayner as a Director
ASA Vote	For

Summary of ASA Position

Mr Rayner was appointed as NED in May 2011 and as chairman in September 2012. He is based in Australia. Mr Rayner is also on the board of Qantas and Boral Limited. He has extensive international experience in consumer goods in Europe, North America and Asia. His last executive role was with British American Tobacco based in London between 2002 and 2008. Mr Rayner holds 280,234 shares in TWE. The ASA supports his re-election.

Item 3	Renewal of proportional takeover provisions
ASA Vote	For

Summary of ASA Position

A proportional takeover bid involves a bidder offering to buy a proportion (ie, less than 100%) of shareholders' shares in the company. This means that control of a company could pass to the buyer without shareholders having the chance to sell all of their shares to the bidder. It also means that a bidder may take control of the company without paying a premium for gaining control. The ASA supports this resolution.

Item 4	Remuneration Report
ASA Vote	Against

Summary of ASA Position

Remuneration (REM) 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 REM levels appear very generous but these reflect the international nature of the business.

The company does not include a table of Actual remuneration, though the 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 is one of the highest paid CEOs in Australia. TWE altered the remuneration structure for the CEO for calculation of long-term incentives (LTIs) from 300% of base or fixed salary in FY18 (Financial Year 2018) to a maximum of 200% in FY19. The 300% was seen to be overly generous due to the large increase in the share price in that time. From FY20, the CEO has volunteered to hold the equivalent of 2 year's fixed remuneration in TWE equity. Mr Clarke has already exceeded this level.

CEO rem. framework	Target* \$m	% of Total	Max. Opportunity \$m	% of Total
Fixed Remuneration	2.6	37.0%	2.6	22.0%
STI - Cash	1.7	24.7%	2.6	22.0%
STI - Equity	0.9	12.3%	1.3	11.0%
LTI	1.8	26.0%	5.2	45.0%
Total	7.0	100.0%	11.7	100.0%

The amounts in the table above are the statutory 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.*

Note that the significant difference between the Maximum Opportunity shown in the table immediately above and the Actual REM shown in the first table is largely attributable to the rise in share price from \$5.32 (notional price for FY16 awards) to the actual price at vesting of \$17.39.

Short term incentives (STIs) for the CEO are assessed on a mix of financial hurdles, business growth, margin growth and quality of growth for FY18-19, Mr Clarke was awarded the maximum amount of 150% of his fixed remuneration. 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.

TWE applies two hurdles to LTI awards.

- 75% weighting is applied to Return on Capital Employed (ROCE). If ROCE growth is less than 14.5%, 0 performance rights (PRs) are awarded. Awards rise from 35% at the hurdle level to the maximum level if ROCE increases to 15.2%.
- 25% weighting is applied to Total Shareholder Return (TSR). Below the 50th percentile, 0 performance rights are awarded. Awards rise from 35% to 100% between the 50th and 75th percentiles. It is noted that performance rights can still vest if there is a negative TSR.

Performance rights are allocated using on face value, with the share price determined by VWAP over a 90-day period to end of the financial year.

The actual hurdles appear challenging although LTI awards have been paid in full for the last several years. 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 REM in performance rights for FY18-19.

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

In summary, key reasons for an against vote are:

- No table of actual remuneration;
- No 5-year performance table;
- 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;
- REM report is difficult to understand for retail shareholders, and
- PRs can vest even if there is negative TSR.

Item 5	Approval of LTI grant to CEO/Managing Director Michael Clarke
ASA Vote	Against

Summary of ASA Position

Shareholders have done well under the leadership of Mr Clarke. The company is growing strongly and dividends are increasing. Shareholders are asked to approve the award of a maximum of 335,557 performance rights (PRs) as part of Mr Clarke's FY20 remuneration. The maximum amount will be \$5.2 million if awarded in full. The LTI awards will be made on a similar basis as outlined in the Remuneration section (Item 4) above. The maximum award equates with 200% of Fixed remuneration at a notional price of \$15.4966 per share. The PRs are based on VWAP over a 90 day period up to and including 30 June 2019.

The actual performance period is over 3 years from 1 July 2019 to 30 June 2022. The ASA would prefer a performance period of 4 to 5 years. This will be raised at the AGM.

As per the 2019 awards, 25% of the PRs will be subject to relative TSR ranking and 75% will be subject to ROCE growth.

The TSR awards will range from zero below the 50th percentile, and rise from 35% at the 50th percentile to 100% at the 75th percentile. As above, is noted that performance rights can still vest if there is a negative TSR.

The ROCE growth awards will range from zero if ROCE growth is less than 14.8% up to 100% if ROCE is at or above 15.7%.

As the LTI performance awards have been made in full over a number of years, the ASA questions whether these hurdles are challenging enough.



The individual(s) (or their associates) involved in the preparation of this voting intention have shareholdings in this company.

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