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Another year – another good vintage

Company/ASX Code	Treasury Wine Estates (TWE)
AGM date	Tuesday 18 October 2022
Time and location	10am AEDT Grand Hyatt 123 Collins St Melbourne
Registry	Computershare
Type of meeting	Hybrid
Poll or show of hands	Poll on all items
Monitor	Rod McKenzie assisted by Katja Bizilj
Pre AGM Meeting?	Yes with Chair Paul Rayner

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

Summary of issues for the pre-AGM meeting with the chairman

- Director renewal – 3 long serving directors. Succession planning becoming more pressing. Geographic diversity, wine industry experience and expertise in technology and digital marketing are seen as key skill sets for potential new board members;
- China trade issues – impact of high import duties on Australian wines.

Proposed Voting Summary

Use the proxy form to ensure the item or resolution numbers and resolution wording matches.

No.	Resolution description	
2a	Re-election of Mr Ed Chan as a Director	For
2b	Re-election of Mr Garry Hounsell as a Director	For
2c	Re-election of Ms Colleen Jay as a Director	For
2d	Re-election of Ms Antonia Korsanos as a Director	For
2e	Re-election of Ms Lauri Shanahan as a Director	For
2f	Re-election of Mr Paul Rayner as a Director	For
3	Adoption of Remuneration Report	For
4	Grant of Performance Rights to the Chief Executive Officer (Tim Ford)	For
5	Proportional Takeover Provisions	For

See ASA Voting guidelines and Investment Glossary for definitions.

Summary of ASA Position

Consideration of accounts and reports - No vote required

TWE has had a successful year following the effective closure of the mainland China market and further rationalisation of their winery portfolio towards premium and luxury brands. Management has navigated through the global pandemic, supply chain disruptions and inflationary cost pressures and yet have emerged as a stronger company. Sales growth in other countries has generally been strong and the company maintains a positive outlook on future growth in the Chinese market.

Further expansion of winemaking and vineyard assets is underway in France and the company has announced the launch of the first Penfolds wine "made in China" for the Chinese market.

Governance and culture

No issues

Financial performance

A solid set of numbers considering another difficult year with the pandemic and on-going China trade restrictions. Reported earnings per share increased from 34.7cps in FY21 to 36.5cps in FY22. The share price eased during the year due to market turmoil, the Ukraine war and rising interest rates and inflation. Dividends increased from 28c (FY21) to 31c (FY22) – fully franked. TSR was impacted by the fall in share price during the year.

Key events

The company has focused on premiumisation of their products and has created three key divisions across the business. These are

- Penfolds,
- Treasury Americas, and
- Treasury Premium Brands

Key acquisitions include the purchase of the Frank Family vineyards in the US and the pending acquisition of Chateau Lanessan in the Bordeaux area in France.

Key Board or senior management changes

Non-executive director (NED) Warwick Every-Burns is to retire at the end of the FY22 AGM. TWE is not planning an immediate replacement.

Summary

(As at FYE)	2022	2021	2020	2019	2018
NPAT ($m)	263.2	250.0	245.4	419.5	360.3
UPAT ($m)	298.2	316.1	245.4	419.5	365.0
Share price ($)	11.35	11.68	10.48	14.92	17.39
Dividend (cents)	31	28	28	35	32
Simple TSR (%)	-0.5	14.1	-27.6	-12.3	34.5
EPS (cents)	36.5	34.7	40.0	60.4	49.7
CEO total remuneration, actual ($m)	2.8	3.1	3.8	17.6	17.6

Simple TSR is calculated by dividing (change in share price plus dividend paid during the year, excluding franking by the share price at the start of the year.

Election or re-election of directors

TWE has a majority of independent directors. Following the upcoming AGM, there will be 3 men and 3 women directors – excluding the MD&CEO. TWE has a good mix of nationalities amongst the directors – 2 are based in the US, 1 is based in Hong Kong and 3 are based in Australia. The company may look at a European based director in the near future as well.

The main concern is the length of service of the chairman and two of the non-executive directors. Chairman Paul Rayner and directors Garry Hounsell and Ed Chan have been on the board since 2011 or 2012. Board renewal / succession has been raised at each pre-AGM meeting over the past 2-3 years.

TWE has a policy of having all directors re-nominate for election at each AGM. Long serving NED Warwick Every-Burns is to retire at the conclusion of this year's AGM.

Ordinarily we would be looking very seriously at the chairman's length of service and his 'independence'. However, TWE has been through challenging times in the last few years (due to COVID-19 and the geopolitical situation with respect to the Chinese market) resulting in re-alignment of their business (ie. shift of focus to European markets, increased emphasis on premium and luxury brands and the purchase of another US Vineyard). This re-alignment would benefit from stability of the Board of Directors as well as their on-going corporate knowledge.

Further, re-organisation of TWE's Committees resulting in the addition of an additional Committee (Wine Operations and Sustainability Committee) would benefit from the corporate knowledge of long-term Directors to bed down the Committee's new roles and responsibilities.

Finally, the release of the first Penfolds "made in China" in 2022 (and extension of TWE into Asian markets) - success may depend / benefit from continuation of long term personal relationships.

For these reasons, we consider the company may benefit from continuity of the present chairman.

All directors meet the ASA guidelines on shareholdings in the company. None appear to be overloaded.

Adoption of Remuneration Report and approval of equity grants to Managing Director/CEO

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 have been reduced following what were considered to be very generous levels paid to the former CEO, Michael Clarke.

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.

A 5% increase in Total Fixed Remuneration (TFR) for Mr Ford was granted effective September 2021 and a further 3% increase was offered from September 2022.

No Short Term Incentives (STIs) were paid during FY21 for the FY20 period. The CEO received a total STI of 109.4% of Fixed remuneration in FY22. For the CEO, the STI at "target" level is 83.3% of Fixed remuneration and 150% of Fixed remuneration for "maximum" performance. This is paid as a mix of cash ($^{2}/_{3}$ of total STI) and equity ($^{1}/_{3}$ of total STI). One half of the equity component is restricted for 12 months, the other half is restricted for 2 years.

For FY23, the STI award is to increase to 100% of TFR at target and to 180% of TFR at maximum.

The Long Term Incentives (LTIs) are measured over a 3 year period from 1 July 2019 to 30 June 2022. LTIs did not vest in FY22 for the third year in a row. For the CEO, the LTI maximum opportunity is 175% of Fixed remuneration. This is measured against two hurdles – 25% based on Total Shareholder Return (TSR) 75% based on Return on Capital Employed (ROCE).

For FY23, a third measure will be added to the LTI performance calculation. Earnings per share (EPS) will be added:

- 20% of the Performance Rights (PRs) will be based on Total Shareholder Return (TSR)
- 40% of the PRs will be based on Return on Capital Employed (ROCE) and
- 40% of the PRs will be based on EPS.

Full details of the award conditions are described in the Notice of Meeting.

A total of 251,607 LTI PRs will be offered to Mr Ford. This is based upon a maximum award of 175% of his Total Fixed Remuneration (TFR) at the time of grant. Total value is calculated as $2,838,938 based on the notional market price of $11.28 per share.

Whilst ASA would prefer a 4 year vesting period for LTIs, it is felt that TWE has applied quite strict criteria for equity / incentive awards. For instance, no STI awards were made for the FY20 period and no LTIs vested for FY19, FY20 & FY21. Due to the difficult trading conditions and business uncertainties, ASA considers the 3 year vesting period appropriate for FY22 and proposed FY23 awards.

Item 5: Proportional Takeover Provision

This is a standard extension of existing provisions for a further 3 year period.

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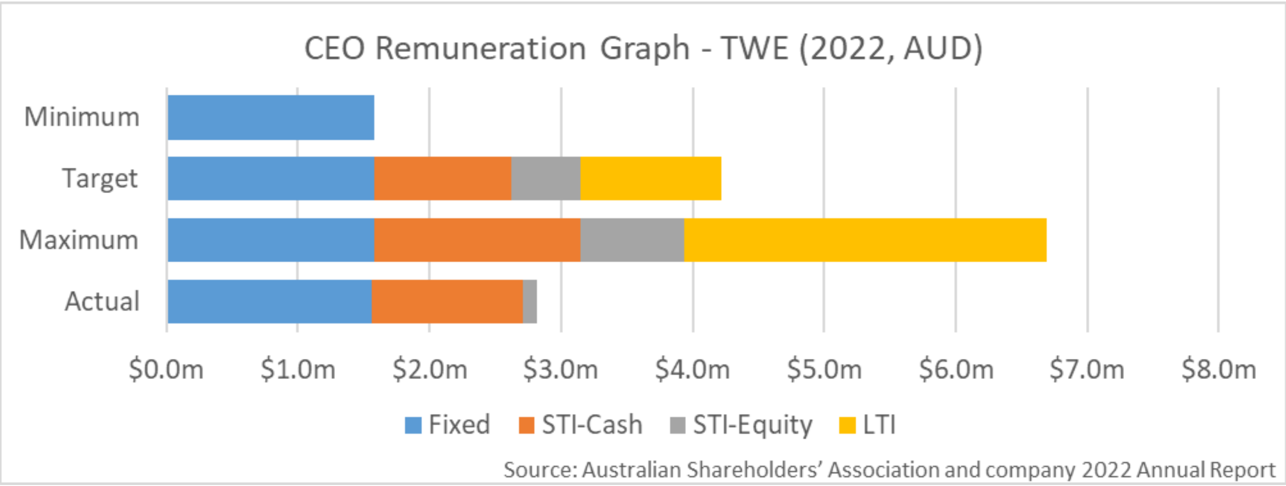
Appendix 1
Remuneration framework detail

CEO rem. Framework for FY22	Target* $m	% of Total	Max. Opportunity $m	% of Total	Actual $m	% of Total
Fixed Remuneration	1.575	37%	1.575	24%	1.563	56%
STI - Cash	1.050	25%	1.575	24%	1.148	41%
STI - Equity	0.525	12%	0.788	12%	0.105	4%
LTI	1.068	25%	2.756	41%	0	0%
Total	**4.218**	**100.0%**	**6.694**	**100%**	**2.816**	**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.



NB 5% increase in Tim Ford's REM in FY22 from $1.5m to $1.575m
NB 3% increase in Tim Ford's REM in FY23 from $1.575m to $1.62225m

It is noted that the REM report is not easy to understand. The whole REM report could be simplified by inclusion of a table of Actual Remuneration.