



## TREASURY WINE ESTATES

20 May 2014

### ASX ANNOUNCEMENT

## **TWE steps up consumer marketing investment and takes action to drive sustainable profit growth in challenging trading conditions**

Treasury Wine Estates Ltd (ASX: TWE) announced today that it is taking immediate action to drive sustainable profit growth through increased investment in consumer marketing, to be funded by a comprehensive overhead and cost reduction program.

As communicated to the market on 8 April 2014, TWE's new Chief Executive Officer, Michael Clarke, has identified a need to build the strength of TWE's brands, marketing and sales capabilities, while addressing TWE's cost base, as immediate priorities to turnaround the Company's performance.

### **Increase in consumer marketing investment**

Commencing 1 July 2014, TWE will commence a major step up in consumer marketing spend and in selling and execution capabilities that will enhance TWE's brand equity and drive stronger connections with consumers, retailers and distributors.

Mr Clarke commented: "TWE's brands have suffered from a lack of consumer facing marketing investment and we will address this in fiscal 2015 by increasing consumer marketing spend in fiscal 2015 by circa 50% relative to the prior year. It is imperative that our marketing and sales capabilities are more in line with the Company's ability to make outstanding wines across all categories".

### **Overhead and cost reduction program**

Following a detailed review of the Company's operating structure, an overhead and cost reduction initiative is being implemented as another important step to returning TWE to sustainable growth. TWE expects to generate \$35 million in cost savings in fiscal 2015. The cost savings will be generated substantially from a reduction in full time roles (impacting all regions and functions) and associated costs such as office space rationalisation, leased IT equipment and service contracts as well as a reduction of all non-essential overhead costs and discretionary expenditure.

TWE expects to incur a material item for this initiative in fiscal 2014 of up to \$35 million. The full benefit of the cost reduction program is expected to be realised in fiscal 2015 and will offset additional consumer marketing spend and minimal inflationary overhead growth.

On these actions, Mr Clarke commented: “Despite the continuation of challenging trading conditions in the second half of the year, I am determined to act upon opportunities to drive sustainable top-line momentum and margin expansion while at the same time, improving TWE’s brand equity and connections with consumers, retailers and distributors.

We must take the tough decisions to fund the step up in consumer marketing by reducing overheads. Over the last three years, overhead costs have increased at the expense of investing in our brands; a situation which is simply not sustainable and which we are now addressing”.

### **Current trading conditions**

As foreshadowed at TWE’s interim result announcement in February 2014, trading conditions in Australia continue to be difficult, underpinned by intense competitor activity and a challenging retail environment.

On the outlook for the remainder of fiscal 2014, Mr Clarke stated: “TWE is now in the midst of its most crucial trading period, with the 2014 Penfolds luxury and icon wine collection released earlier this month. While the business is working hard to deliver the previously communicated EBITs guidance range<sup>1,2</sup> in fiscal 2014, as stated previously, I will not engage in short term practices to the detriment of our long term objectives”

Mr Clarke concluded, “Having now been in my role as CEO of TWE for seven weeks, I continue to be encouraged by the quality of TWE’s assets, its brands and its people. But there is a lot of work to be done in order for TWE to sustainably deliver on its commercial targets and I, together with my team, are firmly focussed on driving improved performance and importantly, a step-up in execution”

Mr Clarke will be available for a 30 minute Q+A session in relation to this announcement via conference call at 4:30pm (AEST) (details will be provided on TWE’s website: [www.tweglobal.com](http://www.tweglobal.com)).

### **Contacts / Further information:**

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<sup>1</sup> Earnings before interest, tax and SGARA

<sup>2</sup> EBITs guidance range of \$190m – \$210m for fiscal 2014 based on foreign exchange rates of AUD/USD 0.8800 and AUD/GBP 0.5300 for the second half of fiscal 2014