



American Chamber of Commerce Address by David Dearie, CEO, Treasury Wine Estates Thursday 29th November 2012

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Good afternoon everyone. I am delighted to be with you today to talk about Treasury Wine Estates (TWE); a company that I believe truly represents the very best of what Australia and the United States have to offer.

It's also a fascinating time to be speaking to this audience. With the ticker-tape of the US presidential election only recently swept away there is a lot for the business community to think about. In particular, how will President Obama and US legislators come to terms with the now infamous 'fiscal cliff'?

Whatever the response, as the people in this room will be well aware, the implications of decisions taken on Capitol Hill are likely to be felt acutely here in Australia.

As you would expect, over recent weeks I have been routinely asked by friends, workmates and even the odd journalist about which candidate I was backing in the US Presidential race?

Of course, like any canny Scotsman, I tried to play both sides so that TWE was the winner regardless of the outcome.

However, having had some of the Secretary of State, Hillary Clinton's staff down at our Penfolds winery recently it's fair to say that they probably enjoyed our wines more than Senator Romney would have!





Despite global economic uncertainty I retain a glass half-full view of the world.

Certainly, from a TWE perspective, both the US and Australia's appreciation for fine wine appears growing and robust.

And for the doomsayers, I am tempted to recall the words of the famous US cartoonist and illustrator, Charles Schultz, who said "Don't worry about the world coming to an end today [because] it's already tomorrow in Australia"!

As many of you here will be well aware, TWE is an Australian headquartered, global wine business that proudly produces nearly 32 million cases, across 81 brands that are sold in more than 70 countries.

But whilst we are a global business our roots grow deepest in both Australia and California.

Our vineyards and production assets are centred in the best winemaking country Australia and the US has to offer - the Barossa and Napa valleys.

Our people, whom we call vintrepreneurs because they combine a love of wine with an entrepreneurial zeal, are predominantly based in Australia and the US; and without great people I know we will never achieve our ambition to become the world's most successful and celebrated wine company.

Our brands – names that are synonymous with US and Australian wine excellence: Beringer, Penfolds, Stags' Leap, Wolf Blass.

And our markets – with the US remaining the world's biggest wine market, and it is continuing to grow.

"One Foot in the vineyard, one foot in the boardroom, and wine merchants to the world"

Today I want to talk about TWE, who we are, our vision and, most importantly, why all of that matters.

For me, our business and philosophy is summed up in our rallying cry 'One foot in the vineyard, one foot in the Boardroom and wine merchants to the world'.

This is what unites our business from the Barossa to the Napa valleys; from Marlborough to Tuscany.

Created by our wine makers, it is a simple expression but one that captures the very essence of what we are trying to achieve as a company.





What does it mean? Well it is much, much more than a PR slogan.

I believe it encapsulates the three key ingredients for our success: wine excellence, financial strength, and fantastic consumer brands.

Let me speak briefly on each of these in turn.

“One foot in the vineyard...”

I am extremely proud of the fact that we have over 100 winemakers within our company.

These winemakers are as diverse as the wines they produce, and as varied as the brands they represent.

From boutique brands and tiny vineyards, to powerhouse brands producing millions of cases, our winemakers represent every section of the wine community.

Take Coldstream Hills, founded by James Halliday, and located in the Yarra Valley producing very limited quantities of wine.

Compare that to Lindeman’s from the Hunter Valley producing a staggering eight million cases annually.

No one size fits all.

There is however, a consistent thread that unites both our winemakers and our brands – and that is a commitment to quality.

So whether it’s Penfolds Grange, Beringer Private Reserve or a bottle of Rosemount Estate, we are committed to delivering world class wines through every brand and price point.

Our winemakers are proud masters of their art, but our commitment to quality starts long before the winemaker gets directly involved.

The unsung heroes of our business are undoubtedly our viticulturists, the dedicated men and women who spend so much of their time in the vineyard working tirelessly to ensure that the grapes handed to our winemakers are able to be crafted in to the premium wines our consumers love.

This also leads me on to a wine industry myth that, frankly, needs to be put to rest - that smaller, family-owned, vineyards are the lifeblood of our industry. That they, and only they, contain the ‘real’ winemakers and that ‘big wine’ is bad.





For me size matters, but it matters only because of what it enables us to do - and that is to make better, higher quality, wine.

Because of TWE's size we are far better placed to give our winemakers the very best possible support:

- Through investment in technical skills and innovative viticultural practices.
- By supporting the art of traditional winemaking with the application of leading-edge science and technology.
- By working with growers to raise the quality of our grape intake through strategic investment and long term planning.
- And by providing access to knowledge and best practice from around the globe.

I have no doubt that, because of our size, we are able to offer consistent quality at every price point.

But don't just take my word for it, the results speak for themselves! Across our brands TWE wins more medals at the world's leading wine shows than anyone else.

In the last financial year 21 trophies and 101 gold medals, with an overall medal/trophy success rate of 61% - versus an average rate for our competitors of roughly 40%.

Just in the last few weeks we've seen our Matua brand named best New Zealand Producer at the International Wine & Spirits Competition, Penfolds named Winery of the Year by The Good Wine Guide, and both Coldstream Hills and Rosemount Estate dual gold medal winners at the Dan Murphy's National Wine Show in Canberra.

They say you can't choose your family, and for some in our industry that is most certainly true! However at TWE we have been able to attract the very best viticulturists, winemakers, and marketeers from around the world.

And they stay in the TWE family because of what we enable them to do: to make the very best wines and take them to millions of consumers across a global stage.

"One foot in the boardroom..."

Over the last century there have been many publicly listed wine businesses, today there are few. Why is that?

Many of these companies disappeared because, despite the fact they made great wine, they were badly run businesses. They understood the vineyard but they didn't embrace the balance sheet.





Others chased short term financial gain, to the detriment of long-term viticultural and winemaking excellence.

The remainder fell in to the trap of forgetting to build great brands, with their wines regarded, over time, as a commodity product.

Even in our own recent history TWE's wine assets have been run, to their detriment, to meet short-term financial targets.

One of my first tasks as Chief Executive was to understand why previous owners of these incredible assets had failed to realise their true potential.

What I learnt is that too often in our past, business decisions were taken to provide short-term gain, regardless of whether or not longer term pain was also a result.

Unquestionably, wine requires a long-term view, and this is what we as TWE intend to take.

We intend to learn the lessons of our history and to thrive for many years to come. To do so we need to find the right balance, driving sales today and in the future.

The good news is that fiscal 2012 demonstrated that the fundamentals of our approach are working, with shareholders seeing the financial results flow through as a result.

Unlike the impression some have tried to create, I have never been in any doubt that TWE needs to ensure local farmers, grape growers, suppliers and retailers also achieve a return on their investments.

“Wine merchants to the world”

With excellence rooted in the vineyard, and a sensible strategy endorsed in the Boardroom, the final piece of the jigsaw is the effective building of our iconic brands.

Despite its cultured reputation, wine is a fiercely competitive and intensely fragmented sector, with over 1 million wineries, and 2.8 billion cases of wine consumed annually across the globe.

We also operate in an intensely volatile and highly unpredictable physical environment – it is not easy having Mother Nature as a business partner!

As the last two years have demonstrated, weather plays a critical role in defining our commercial performance.





Poor 2011 vintages in both California and Australia, meant that we had less of the premium wines our customers/consumers demand; and what we could produce cost us more.

Fast forward twelve months and this year we have had almost ideal growing conditions in both countries, leading to exceptional wines both in terms of quality and quantity.

And yet the 2012 vintages in California and Australia stand in stark contrast to those of Europe, which has seen a shocking season, with some producers having their lowest crops in some 30-50 years.

Despite the competitive benefits that might arise I take no delight in the fact that some winemakers in Burgundy and Bordeaux are not releasing a vintage at all this year.

As you have already heard me say, I believe firmly that wine is a long-term business so, despite the challenges of Mother Nature, it is important to look beyond any one vintage to the consumer and sales environment of the next 5-10 years.

Thankfully, all the evidence suggests that fundamentals are strong, with the market for wine more positive than at any point in the preceding 30 years:

- Across the world the demand for luxury and premium wine is increasing.
- After three decades of excess production we are moving in to a balanced supply position – with many forecasting a shortfall in wine production.
- In developed markets ageing populations are drinking more wine, and demanding wines of a higher quality.
- In developing markets younger consumers are engaging much earlier with wine, and when they do they are demanding iconic western brands.

So market conditions are favourable, and TWE relishes the opportunity to take our US and Australian brands to the world.

A lot has been written, and a lot said, about our US operations. I do not hide from the fact that we have found this market tough going in recent years. However, when all is said and done America remains an incredible growth opportunity for TWE.

Winning in the US remains our No.1 strategic objective. It is not a challenge we will shirk from, nor is it a business we will walk away from.





Whilst there is a long way to go, initial signs are encouraging with our new approach building positive momentum in depletions for Beringer (our key brand in the USA) in the second half of F12 (up 5.8%).

Given the amazing quality of the wines produced by Beringer it is a tragedy that only 8% of our US portfolio is currently exported outside North America.

Compare that to Wolf Blass where a staggering 80% of what we produce is enjoyed by consumers outside its home market of Australia.

So taking the very best of our US brands to the world is an important step for TWE, and I am delighted that we could help that process today by serving you some of Napa's finest: the Stags' Leap Petite Syrah and a delightful Chardonnay from Chateau St. Jean.

I also firmly believe we can be a trailblazer for these brands, and the entire Californian category, in emerging markets such as China.

Staying in Asia, I was delighted that our volume grew by 20% during the last financial year.

From humble beginnings a few years ago, Asia now represents 20% of our earnings and we are extremely optimistic about the growth potential for our brands across the region.

The final component in becoming wine merchants to the world is, I believe, better knowing, understanding and meeting the needs of our consumers.

One of the real benefits of a large wine company, with such a diverse portfolio, is that TWE is able to engage consumers with high quality wines at every demographic and price point.

Great brands enable us to connect with people, to obtain legitimate value for the premium wines we craft, and they are the products that our customers want to stock because they are the brands consumers demand.

Responsible Consumption

I would like to close by stressing that I also want TWE to take our products to market in a highly effective yet responsible manner.

As many of you will be well aware, there has been an increasing amount of focus on the role of alcohol within society over the last year.

In the last few weeks we have seen extensive debate on the merits, or not, of a minimum floor price for alcohol.





Like many of you TWE shares concerns about the minority of individuals who consume alcohol in an irresponsible manner.

That is why we are rolling out new marketing policies to ensure our wines continue to only be promoted and sold in a responsible manner.

It is because I am so proud of our iconic brands that I want TWE to be a leader on the responsible production, promotion and consumption of wine.

However, I remain deeply concerned at attempts to penalise the responsible majority who consume wine in an appropriate and entirely sensible manner.

I do not believe, for example, that minimum pricing will address the social and health issues associated with excessive alcohol consumption.

Excessive consumption is an entrenched and complex issue, and a range of tools, particularly effective education programs, are required by government, industry and public health organisations if we are to successfully combat alcohol abuse.

Tax reform is also something that should, legitimately, be considered as part of this equation.

Certainly TWE is committed to working with all interested parties to support consumer choice, tackle abuse and ensure that the voice of the 'responsible majority' is heard on these policy issues.

Let me close for thanking you for the very kind invitation to speak today. I trust that as I have been talking you enjoyed a selection of our wines – responsibly of course!

I regard it as an immense privilege to act as a steward for TWE's brands, and am passionate about establishing this young company as a long-term force in the global wine market.

We have made a solid start in showcasing the very best of our Australian and US wines, but we have only just started.

ENDS

