Treasury Wine Estates Limited, H1 2023
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Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates TWE FY '23 Half Year Results Conference Call. — ***Operator Instructions*** —

I'd now like to hand the conference over to Mr. Tim Ford, CEO. Please go ahead.

Tim Ford

Thanks, operator. Good morning, and thanks for joining the TWE 2023 Interim Results Briefing. Joining me today is Matt, Tom, Ben and Pete, as we have done over a number of halves now.

And we're all pleased to present our results today for the first half of fiscal '23. In a period where we continued our progress towards the delivery of our long-term financial objectives. And in doing so, I believe we've added an important proof point of the strength and resilience of our global business, in particular, our team's ability to navigate the changing economic environment and shifts in the consumer and market dynamics that we've seen.

We delivered strong earnings growth and margin expansion in the half, with EBITS increasing 17% to $307.5 million and EBITS margin increasing 3.2 percentage points to 23.9%. We're particularly pleased to report the margin expansion in the environment of elevated cost inflation as we make great progress towards our long-term target of 25% and beyond. This performance was driven by 3 key factors: growth in our luxury portfolio, the successful implementation of price increases across several key brands and cost savings from our global supply chain optimization program of recent years. Pleasingly and very importantly, Penfolds, Treasury Americas and Treasury Premium brands all delivered improved revenue per case, EBITS and EBITS margin in the half.

Whilst the broader macroeconomic backdrop remains somewhat uncertain, global wine category trends have remained broadly consistent. The demand fundamentals of the category have stayed strong at the luxury end and our brands have continued to perform well across all key markets, something that we expect to continue. Consumption and market trends for the entry-level price points for premium in the US, $8 to $11, and the commercial wine price points globally were softer in the important December quarter trading period relative to our expectations, which have contributed to volume declines in Treasury Americas and Treasury Premium brands, respectively. So with that context in mind, we do expect these trading conditions to be consistent through the second half, and we remain on-track to deliver upon the expectations that we outlined in August for strong EBITS growth and EBITS margin expansion in fiscal ’23.

Now I’ll just touch briefly on some other key performance and financial highlights. Our portfolio sales premiumization continue with 85% of our global revenue now generated from premium and the luxury portfolios in the half, up 2 percentage points versus the prior year. Net sales revenue increased 1% to $1.3 billion with luxury sales growth and price increases across key portfolio brands, partly offset by commercial portfolio declines and the entry-level premium declines in the US I touched on earlier. This very strong sales mix, which reflects the ongoing premiumization of the category and our business as well as price accretion saw our revenue per case increase by 13%. So in addition to the strong EBITS growth, we delivered growth in net profit after tax, which along with earnings per share increased by 19%.

Cash conversion of 68% is in line with our expectations at the end of the half and on track to be in line with our 90% or higher full year target, which we consistently meet. Leverage improved to 1.7 times comfortably within our 1.5 times to 2 times through the cycle range, reflecting the continued strength of our balance sheet and leaving us well-placed and with options to use this strength to continue to drive growth and shareholder value going forward.

And finally, the Board has declared a fully franked interim dividend of $0.18 per share, resulting in a payout ratio of 67% for the half, which is towards the upper-end of our target range again, an increase of 16.7% on the prior comparable period.

The brand portfolio divisions each made great progress towards their key strategic and financial objectives in the half. Penfolds remain focused on executing their strategy of attracting new consumers to the brand, growing distribution and availability in a very targeted manner across a number of global markets and channels with excellent top line growth delivered throughout Asia, Europe and Australia. EBITS grew 10% in the half and margin remaining exceptionally strong at 44%. For Treasury Americas, top line growth was led by luxury portfolio brands, including Frank Family Vineyards and Beaulieu Vineyards and in our premium portfolio continued growth from Matua as well as delivery of category-leading innovation within 19 Crimes. They are the highlights. In the half, price increases on key brands were also implemented a very strong foundation and significant progress towards our EBITS margin target for the TAM business of 25%.

On the downside, we saw sales volume declines in 2 of our entry-level premium price point brands, 19 Crimes Australian source portfolio and the Sterling brand, which were impacted by softer consumption and market trends relative to our expectations in the December quarter. Outside of this decline, we are pleased with our execution and performance compared to the broader US category and our competition. And that's reflected in our delivery of 35% EBITS growth and growth in margin to over 23%, as I said. However, we also recognize a note favorable exchange rate did benefit that headline result. And on a constant currency basis, EBITS increased by 15%, which is the baseline measure that this leadership team measures itself against.

And for Treasury Premium brands continued to make progress towards its long-term financial priorities, delivering 15% EBITS growth, EBITS margin improvement to now over 11%. The top line was impacted by category-wide declines across commercial portfolio volumes. However, through an improved mix, delivery of price increases and again, improved cost of goods, we could deliver gross profit expansion.

So shortly, Tom Ben and Pete will flesh-out the headlines I've given you for the respective divisions. But before they do, I'll hand over to Matt, who will run through the financial results in more detail.

Matthew Young

Thanks, Tim. Good morning, everyone. I'm pleased to share with you the results of our half year financial results.

Group net sales revenue increased 1.4% and declined 1.1% on a constant currency basis. Within this revenue result, there are several factors to note and the team will expand on shortly, but at a headline level, they are important to understand upfront. Firstly, our luxury brands continue to perform strongly across Penfolds, Treasury Americas, TPB and represent a strong proof point of the delivery of our strategy in the half.

Within Treasury Americas, as was flagged previously, we're selling the lower-yielding 2020 luxury vintage, which was smaller than prior years. In light of this, we've implemented price rises to reflect the shorter supply, which is offsetting the impact of lower volumes, as did the strong demand for our newly acquired brand, Frank Family Vineyards. The combination of this meant that luxury revenues for Treasury Americas grew in the first half at an overall level, but were constrained by supply. Most importantly, we're well set-up for the future through the strength of our luxury distribution, price rises implemented in the period and COGS improvements yet to come.

Secondly, as Tim shared, we've seen consumption in market trends for entry-level premium wine in the US and UK and commercial wine globally softened in the important December quarter trading period relative to our expectations. This has meant that our revenue growth for Treasury Americas and TPB was lower than expectations. Actions are already planned to respond to these trends for the second half and beyond, which the team will touch on. And as a result of these, we saw a decline in volume and constant currency revenue overall, but the improved luxury mix and the benefits of increased pricing saw NSR per case increase 13% for the group, 11% on a constant currency basis.

COGS per case increased 1% constant currency, reflecting the portfolio mix, which was more weighted to luxury and the fact that those wines were largely sourced from the higher-cost 2020 vintages. That being said, the benefits from our global supply chain optimization program implemented in fiscal '20 were delivered in line with expectations with total benefits of $28 million delivered in the half, on track to deliver our targeted fiscal '23 run rate of $65 million. EBITS was $307.5 million, a strong increase of 17% on a reported basis and 14.7% constant currency and EBITS margin improved to 23.9%, excellent progress towards our long-term target of 25% and beyond, delivered in an environment of elevated cost inflation. ROCE improved to 11.2%, reflecting strong earnings growth and relatively consistent capital employed.

And finally, leverage improved to 1.7 times in line with our expectations to delever over the course of fiscal '23. Total material items in first half '23 reflected a gain of $19.7 million or $15.4 million after tax and related to the previously announced programs of work and the acquisition of Chateau Lanessan. With the exception of the acquisition, these programs are now all complete with total costs of the program below their initial estimates.

Moving to the balance sheet. Net assets increased $160 million versus the prior year on a constant currency basis. Key factors impacting our balance sheet in the half outside of working capital include the acquisition of Chateau Lanessan and the divestment of non-core supply assets in Australia and the US.

Turning to inventory in more detail. Total inventory value increased 9% on the prior corresponding period. Current inventory increased $100 million, reflecting future demand expectations for our premium and luxury portfolios, non-current inventory increased $62 million versus the prior year. Within this, we note that premium inventory has increased, and it does reflect the moderation of sales performance for our premium portfolios in the half. This will be managed through the normal course of operations through future sales plans or as we rebalance inventory levels through future vintages.

Turning to cash flow and net debt. Operating cash flow before interest, tax and material items was $258 million for the half, with reported cash conversion of 67.7%. Excluding the changes in non-current luxury and premium inventory, cash conversion was 62.9%. While cash conversion was lower than it has been over the last 2 half periods, it was in line with our expectations, reflecting a more normalized cycle of working capital than we've seen historically prior to the disruptions of the last 2 years, and it's a trend we would expect to see going forward in half year results. We continue to expect full year cash conversion to be in line with our stated target of 90% or higher for the full year fiscal '23, excluding changes in non-current luxury and premium inventory.

To give this some color, cash conversion in the last couple of years was higher than normal, driven by a number of factors related to vintage sizes and the rebalancing of our business in response to the loss of China market, including reductions to luxury inventory. As we've shared previously, we feel the better measure is to assess cash conversion, excluding moves in non-current luxury and premium inventory with our target being 90% or higher over the full year. It takes account of builds and depletions.

And to provide more insight to that specific measure, we've included an additional slide, which shows the historical delivery of cash conversion for half years and full years, excluding changes in premium and luxury non-current inventory. You'll see the light pink bars, which represent the first half results for the last 5 years. In the last 2 years, we've seen higher-than-normal cash conversion, reflecting changes resulting from sales timing, specifically, first half '21 with the impending loss of the China market that led to earlier shipment profile. And in first half '22, we executed earlier sales in the half to reduce the impact of supply chain disruptions.

But as you look prior to this, first half '18 to first half '20, it was not unusual for cash conversion to be lower, reflecting what is normally a skew of luxury sales to November and December. However, importantly, as you look to the dark red bars, which represent full year cash conversion, you'll see for all years, full year cash conversion was delivered in line with our stated target of 90% or higher, regardless of the variability in the first half, and we retain the same ongoing confidence and plans, which will deliver cash conversion in line with that target for fiscal '23.

Moving to capital expenditure. Total CapEx for the first half was $65 million. It included maintenance CapEx of $36 million and the acquisition of a previously leased vineyard in the US for $25 million. We continue to expect maintenance CapEx for fiscal '23 to be approximately $100 million.

And finally, to capital management. Leverage improved 1.7 times at the end of H1, comfortably within our target 1.5 times to 2 times range and in line with our expectations to delever over the course of fiscal '23. Our liquidity position remains strong with over $1.5 billion of cash and committed undrawn debt facilities. Our capital structure continues to reflect our ongoing disciplined and strategic approach to capital allocation. As we shared in August and reiterate today, we're exploring capital management opportunities incremental to ordinary dividends, but will do so in the context of and against our priority to assess opportunities to invest in organic and inorganic growth or activity.

Thank you. And with that, I'll hand over to Tom.

Tom King

Thanks, Matt, and good morning, everyone. It's a real pleasure to report another great result for Penfolds. We've continued to see strong demand for the Penfolds brand globally as we execute our strategy focused on recruiting new consumers and growing global availability. Volume and NSR increased 4% and 7%, respectively, driven by continued growth across the portfolio in Asia, EMEA and Australia. NSR per case improved 2%, supported by price rises on our supply-constrained luxury cabinet bins. COGS per case improved, reflecting incremental product costs incurred in the prior period and the benefits of the supply chain optimization program, partly offset by the release of wines from the higher-cost 2020 vintage. Our cost of doing business increased 5% as we continue to invest in both brand building and organizational capability as we focus on accelerating our global momentum. This led to a first half EBITS increase of 11% to $182 million and an EBITS margin of 44.3%.

There were many execution highlights in the first half. Strong distribution growth was delivered in Asia, Australia and EMEA as we successfully captured target accounts across our priority growth markets. We reported a revenue decline for the Americas region, but this reflects timing of shipments in Latin America, while we are continuing to deliver positive momentum in the United States where our depletions continue to grow. The 2022 Penfolds collection launch in August was a huge success, incorporating 3 countries of origin for the first time, including the inaugural release of the French portfolio, which was met by a positive response from critics, customers and consumers. The 2022 collection included the 2018 range, which was awarded multiple hundred point scores. Our multi-country of origin portfolio growth continued with the launch of One by Penfolds in China, a new culture-led entry-level luxury tier of wines, comprising wines from France, the US and for the first time, wine-sourced and produced in China.

Our global launch is planned for early in fiscal ’24, further enhancing our platform to connect with new luxurians globally. We continue to scale our luxury status by providing consumers with immersive Penfolds experiences. The rollout of our venture beyond thematic continued, incorporating gifting, in-store activation and media as well as the highly successful execution of Penfolds towers in multiple cities globally, including in Sydney, Singapore, Bangkok, Miami and Los Angeles.

These are just a few highlights from a very dynamic first half of fiscal ’23 and our results reflect the outstanding execution and momentum we’ve established in the business, which we expect to continue throughout the second half.

Thank you. I’ll now hand over to Ben Dollard.

Ben Dollard

Great. Thanks, Tom. Good morning, everyone. It’s a pleasure to join you today from Napa Valley, California. I’m pleased to share the fiscal ’23 interim results for Treasury Americas. The outlook for our business in the Americas is positive, and we’re performing well against the category. We continue to launch industry-leading innovations and are making significant progress in building our luxury credentials.

Volume and NSR declined 15% and 4%, respectively, driven by the premium portfolio, led primarily by the 19 Crimes Australian sourced wines and Sterling vineyards. This was partly offset by a strong luxury portfolio performance, more on this shortly. Excluding innovation, depletions exceeded shipments by 200,000 cases in the half, and its after case increased 13%, reflecting improved mix and price increases on key luxury and premium brands. COGS per case increased this period, reflecting the improved mix, partly offset by benefits from the global supply chain optimization program. Cost of doing business increased this period, driven by employee costs at staffing levels normalized following labor shortages in the prior period. We delivered EBITS of $115 million, an increase of 15% and an EBITS margin of 23.7%, strong progress towards — ***Technical Difficulty*** —

Tim Ford

Okay. It seems like we've lost Ben in the U.S. So I'll do my best Ben Dollard impression. Not going to say, well, I understand we couldn't even out on a few of the bits as well. So apologies for that. So Treasury Americas will continue where Ben was leaving off. So as he talked about towards the margin ambition, we've made the progress we wanted to in the half and in fact, ahead of where we expected to be. Well, trends for luxury remains strong. We also have the lower-yielding 2020 California Vintage, which will constrain our luxury volumes in F '23. We've made that clear.

In the first half, our luxury performance was driven by Frank Family Vineyards which did ship ahead of plan to meet the strong demand and drive our distribution expansion in key accounts. We have a guarantee or acquired a terrific brand in Frank Family and Vintage 22, which is the last vintage in California. First one from when we had the brand, we successfully secured the incremental sourcing to support the plans we have to deliver growth from F '24 and beyond.

We also saw some incredible momentum behind Beaulieu Vineyard, BV is we call it this half with Vintage 2019 Georges de Latour awarded the 100 point score from James Suckling, it's an incredible achievement and one we're very proud of as a team. Our luxury business, therefore, we think is in great shape. We have an incredible brand portfolio and are very focused on expanding the luxury business and building the equity in our brands. In the premium category, we have a focused portfolio of brands that is well suited to both current and emerging consumer trends. We have seen some softness in the entry-level premium this half relative to our expectations, in particular, that 8 to 11 price point, which impacted the performance, most notably, 19 Crimes and Sterling.

But looking deeper, there are 2 trends happening within the 19 Crimes portfolio. Firstly, our innovation continues to lead the category. Cali Gold launched this half and in just 19 weeks became the leading sparkling NPD in the US market for calendar year 2022. That's a pretty incredible performance. The result builds on the past success of Cali Red, Cali Rose more recently Martha Chard. And for the last 3 years, that means Treasury Americas has launched the number one innovation in the US wine category. The second half of 19 Crimes, our core portfolio from Australian source wine has lost some momentum in the challenging market, and we have initiated a plan over previous months, to really rejuvenate this part of the portfolio for its next phase of innovation and growth and we're sharing more details of that in a couple of weeks' time, but it's fairly exciting, believe me, as to what we're going to bring to life there for 19 Crimes globally. So based on that, we remain very confident in the outlook for the 19 Crimes franchise. We have great performance in components, ones we have to lift and we'll do that.

Matua continues to perform strongly. So when we talk about 8 to 11, there's brands that are performing very, very strongly, like Matua increasing over 30% in this half, supported by innovation with Matua Lighter which is a mid-strength proposition. Looking into half 2, we do expect the trading conditions to remain consistent through the remainder of the year with the increased activations for our premium portfolio, in particular, 19 Crimes top of our agenda and expected to deliver a balanced earnings profile across the year.

So in summary, we're confident about the strategy of the US business and the solid foundation we've established over the past 2 years for growth.

I'll now hand over to Pete.

Peter Neilson

Thanks, Tim, and good morning, everyone, from chilling evening in London. Really pleased to report TPB's first half results for fiscal '23, a period where we continue to see our core brand portfolio connect strongly with consumers, and we made further progress towards our key financial priorities of premiumization, earnings growth and margin expansion.

Some of our key performance metrics. Volume and NSR declined 10% and 5%, respectively, driven primarily by a 14% decline in commercial volumes, most notably in the UK and Australia, reflecting the continuation of softening category trends for wine below $10. This was partly offset by strong growth in Southeast Asia, benefiting from our significant distribution gains over the last past year and continued momentum for 19 Crimes, which grew revenue by over 11% across TPB geographies.

NSR per case increased 7%, reflecting the benefit of price increases across select brands and markets and continued portfolio premiumization with the premium and luxury portfolio is now contributing 61% of divisional NSR, up from 58% this time last year. COGS per case increased, driven by the luxury led portfolio mix with COGS benefits from the supply chain optimization program being the key driver of improvement in our gross margin. Cost of doing business improved 7% and included a $6 million gain on sale of assets in Australia and the prioritization of brand investment. As a result, EBITS increased 42% to $45 million, with EBITS margin improving to 11.6%, another step towards our high-teen margin target.

We've been running the TPB business under the new divisional model for 18 months now, and there have been some really great progress. The business is in better shape than when we launched the divisional model, and we've delivered on its objectives and expectations. We've learned a lot during this period and have become much clearer about the opportunities and challenges we have before. We remain very confident in the health and outlook for our core portfolio of brands, which include Pepperjack, Squealing Pig, 19 Crimes, St Huberts The Stag, Wynns and Rawson's Retreat to name a few. These iconic and trusted brands resonate strongly with consumers and will be a great long-term growth engine for the business. Our strategy to grow these brands globally is the right one, and we are seeing strong distribution growth across Asia and Europe, in particular. We've also confirmed the importance of leading category innovation and inventiveness how important that is for the future of the TPB business.

Thank you. I'll now hand back to Tim.

Tim Ford

Thanks, Pete. This is Tim being Tim, not Tim being Ben. So I think if we take a step back, 2.5 years ago, we laid out our 2025 strategy and the blueprint for our next stage of our journey as TWE which is focused on our ambition of being the world's most admired premium wine company. We're now effectively at half time of that first 5-year plan and 5-year strategy, and we're firmly on track. It's reflected in the half year results we've announced today, and we continue to demonstrate not only progress towards our key strategic priorities, but further strengthening of our key financial metrics that we've outlined at the start of this 5-year journey of which we're half time.

So if you look at the remainder of the year, the execution priorities of each division remain consistent. We're focused on a very clear path towards the delivery, both in each of the divisions and also globally as TWE with our long-term growth and financial objectives. And we continue to leverage our global strengths and capabilities around our culture, our people, our capability, technology and looking at accelerating our focus and investment around sustainability, which we're doing a great job on and pursuing innovation and complementary M&A to enhance our brand and asset portfolios.

So in summary, we delivered strong progress towards our growth objectives in the first half of fiscal ’23, particularly as it relates to EBITS growth of 17%, supported by improved revenue per case and EBITS margin expansion across all divisions. As we look at the remainder of the year, we expect trading conditions will be broadly consistent with those of the first half and we remain on track to deliver both strong EBITS growth and EBITS margin expansion for the full year of fiscal ’23. We do expect the full year margin to be approximately 23% and supporting this outlook, our expectations for continued strong performance of our luxury brands and improved momentum in Treasury Americas across our premium portfolio, led by increased activation for 19 Crimes.

And finally, we remain committed to our long-term financial objectives, which I remind you were delivering sustainable top line growth and high single-digit average earnings growth over the long term. At our Investor Day next month, myself and the leadership team really do look forward to outline in further detail on not only our progression towards our financial growth objectives, but more importantly, what we’re doing to drive the next phase of our game plan of our strategy, including updates on some exciting innovation within our brand portfolios, how we’re building capability and further detail on the key elements of our sustainability agenda. So we welcome everybody to Napa, and we look forward to spending those days together as well. Clearly, we’ll go through more detail then.

So thanks for joining us today. Apologies for the change of voices as we went through, but I’m sure we’ll get into the Q&A now, and we’ll have Ben back online. So we’ll get into it. Thanks, operator.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from Shaun Cousins from UBS.

Shaun Cousins

Just 2 questions on revenue. Just in terms of 19 Crimes, the data that we can see in the US to the end of January is still deteriorating with your 4 weeks worse than your 13 weeks. Have you started to execute the new plans for 19 Crimes? How quickly can these be introduced or they only really have a positive impact, say, in the June quarter?

Tim Ford

I'll start with, I think, the plans we're putting in place are for the longer-term next phase of 19 Crimes. So we'll start to execute more, what I call, tactical implementation of those over this half. So I said previous times, very dangerous to look at 4 weeks, particularly when you're lapping different periods and years of different periods. So look, from a 19 Crimes point of view, we have a lot of confidence and there's 2 halves and I want to make sure this is well understood as well. And I think it is, but I just want to make sure. When we look at 19 Crimes, not only the global brand, but within Treasury Americas, rightly the questions come from today.

There's 2 parts to the 19 Crimes business. There's the innovation, which is in the 11 to 14 category in the 19 Crimes in the IRI data that you see, which is around the partnership with Snoop, Martha Stewart and those sorts. We are significantly outperforming the category when it comes to our performance on 19 Crimes. It's slightly under our expectations as we had very, very high expectations, but we are outperforming the category. So we continue to drive category-leading innovation. Within 8 to 11, the Australian core, we are pretty much in line with where the category is going, over 13 weeks, 26 weeks, 52 weeks, right.

Last 4, I'll take your point on that, Shaun. I'm not going to try and refute those because the data is the data. However, you look at it over the longer term. We are not outperforming the category, and that's what we expected ourselves, right? So we do not accept being in line with the category, which is where it is now. That's not our expectation. And that's where we've underperformed over the last 6 months. What we're going to roll out is not only great execution, but a brand platform, which will be more towards the back-end of this half, but the tactical execution certainly is in place over the next couple of months.

The other point around 19 Crimes that I just want to raise is as we sit back and I'm going to answer a lot of questions today in the 6 months, but also with the view of this halftime of our 5-year strategy, which we have spent a big chunk of time as the leadership team really analyzing and understanding are we on the right track at this midpoint. And with 19 Crimes we're because if you look back 2.5 years ago, yes, it's now a 5 million case brand globally. It's doubled over that period of time. From a volume point of view, it's more than doubled from an NSR point of view, and it's 10% up more than 10% up from an NSR per case perspective.

So this brand is all about innovation. And what we haven't done is got the blend right between the innovation around the core portfolio and the partnerships and the Cali collection within the United States. And we've learned from that and we'll fix it. This is not a problem. This is absolutely a continued growth engine for a lot of years from our perspective. Tom will tell, is our execution going to improve and been on the team now in the US, that's what they're going to do. And globally, we're going to do the same as well.

So as I said, I'm not kicking the can. I'm trying to tease for the Investor Day, Shaun, in March, but we're going to take you through pretty much how we're going to roll this out in a great deal of detail, and I'm pretty sure you'll have the same confidence that I've got in it.

Shaun Cousins

Great. And my second question is just around your commentary on 2023, second half '23, you're looking for a similar sort of trading conditions. Is that fair to say that you're looking for a similar sort of revenue profile just in that when you talk about the 23% EBITS margin sort of ambition for fiscal guidance for fiscal '23, the market is already there, but where the result missed was on revenue. So if you get another first to second half looking similar to the first half, there's prima facie a downgrade there to consensus estimates. So I'm just curious around your comments on trading conditions to be broadly consistent second half on the first half. Does that imply from a net sales revenue perspective as well, please?

Matthew Young

Matt here. Certainly, our commentary, it emphasizes earnings and the margin expansion and alignment to our, I guess, the statement around strong growth and margin expansion, which we talked about at the start of the year. Some of the perspectives I should share across each division, we're expecting balanced earnings growth for Penfolds. We're expecting balanced earnings delivery for Treasury Americas too, which I think goes to the number of your question.

We are looking to drive a more premium portfolio mix in H2. H1 was more luxury driven. That does adjust the margin expectations, as you can imagine, but it will essentially drive a different top line perspective of the Treasury Americas business in H2, with Treasury Premium brands essentially being similar trading conditions that we would have seen so more stable. So overall, I guess, the softening in that intra-level premium commercial, we expect to continue will impact revenue growth versus our expectations. But certainly, because of the luxury mix and the work that we're doing in that space, we do expect balanced trading conditions and earnings in some of those divisions.

Shaun Cousins

But it does imply that revenue growth gets better because as you start to sort of see the US, the Americas still a bit better, less reliant on premium in the – sorry, less reliant on luxury premium has to do more of the work on the revenue side there as well.

Matthew Young

Based on our plans and expectations for Treasury Americas, that would be right.

Tim Ford

Sorry, I'll just add to that. Thinking about it from – yes, we've got the next 6 months. But as we go into fiscal '24, I'm sure that's on people's minds as well. The conditions have been very consistent over the last 12 months or so as we look at impacts of inflation, interest rates, all those sorts of things. So we feel like the category consistency is there. There's just those couple of points of execution that we've got to improve to meet the execution that's really good on those other areas as well. So we're not changing our medium-term expectations from a revenue growth point of view. We don't see the Americas has now a cost out to drive growth story going forward at all.

Operator

Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

Can I just follow on from Shaun's question on the outlook? Because I think there is quite a lot of debate and confusion on that this morning. Back in August, you guys said you expect strong EBITS growth, and there was a very strong implication at the time that, that meant more than 20%, and that's about where consensus ended up. You've repeated that comment around strong EBITS growth again, and I sort of take the point you just made around revenue. Are you suggesting that you're still expecting to deliver EBITS growth of something around 20% over the course of the full year, notwithstanding the margin commentary and notwithstanding the first half only did about 15% constant currency.

Matthew Young

Michael, it's Matt here. I think we've laid out the building blocks in terms of how people should think about the full year. I think in the first half, earnings growth of 17% we would regard as strong. And we think, particularly given some of the changes against our expectations in the premium category, we think we've been able to navigate the business to a fantastic outcome. We sort of stay committed to that, and I think that we've given you the center building blocks first half versus second half that helps deliver that strong growth.

Michael Simotas

Yes. I understand that, but 6 months ago, you said 22% was what you regard as strong. So I'm just trying to understand exactly what the message is.

Matthew Young

Well, first thing I'd say at no point did we suggest fiscal '23 would be 22% growth, nor did we give a specific number in relation to fiscal '23. We did reiterate and say that it was strong growth. And without sort of referencing various numbers, we think we've delivered that.

Michael Simotas

Maybe just to change track a little bit, on the US market. Look, it's pretty clear from some of the industry data that supports the comments that you've made around the $8 to $11 price point, very recently and late in the half of last calendar year, they looked like there were some softness at the premium price points as well and some evidence of trading down. I know conditions can be lumpy from month-to-month, but is that something you're watching or you are still very confident at the premium end of the market?

Tim Ford

So you mean luxury, Michael, more the luxury?

Michael Simotas

I mean sort of above $20 was how we were looking at it, and there were a couple of pretty soft months at the end of the calendar year.

Tim Ford

Yes. So for us, our portfolio sort of is more than $30 and above within that market. So from our point of view, yes, we watch it closely. We haven't seen softening. We've seen – there's changes in IRI trends because there's less luxury wine in the US market to sell across all suppliers than there was previously. So there's a shift of channels I've seen there. Our performance on our luxury portfolio is bang on where we want it to be. So don't see a softening, don't see a concern going forward. And in fact, based on the way we built distribution, the way we targeted that distribution, the way we've taken price to improve the margin profile of our luxury wine during this half sets up a fantastic platform for us going forward as more wine becomes available to sell as we release future vintages. So now nothing but I think positive in terms of how we've built the luxury business and how we've used the conditions that exist this year to our advantage to layer grade platform.

Ben Dollard

Tim, this is Ben, is it possible for me just to build on that.

Michael Simotas

Yes, definitely from my perspective.

Tim Ford

Go Ben.

Ben Dollard

Yes, I think the one of the component of how we're thinking about that space and our ability to continue to win is around innovation as well. So we have some white space in our portfolio and are actively working to introduce some new, I think, really exciting lifestyle luxury propositions that are going to continue to augment the portfolio. So just in addition to everything we're doing from an execution on the current portfolio, innovation is going to play an important role as well.

Operator

Your next question comes from David Errington from Bank of America.

David Errington

Tim, I've over the journey seen 2 Treasury Wine CEOs run out of town because of what's happening. And I must admit, I've been skimmed twice and lost what little left here. I've got left on basis of what's going on in the US commercial market. And when I hear that the US commercial market is going down, I start getting nervous and questions start rising, is there an inventory problem over there or what's going on over there? Because again, the stock is telling us that something is eating your homework again.

And can you highlight, please, to give us a bit of confidence that we're not facing a situation like we faced before where we are, got problems in that commercial area, sometimes outside your control because the market is falling away, but have you got an inventory problem? And can you give us a bit of sugar, if you like? Because you tell us that sales are going to pick up in that fourth quarter, I think you need to give us a little bit today that enhances our confidence that you can turn around a key part of your portfolio, which is at entry-level premium and commercial in 19 Crimes, but I don't think it's good enough for you to say, I trust this, we're going to get it right. Because as I said, this is pretty important that you get this right.

Can you give us a bit of sugar just with regard to some of the programs you got in place that gives us a little bit of confidence?

Tim Ford

And I'll take this one, Ben. I know you're probably itching, but I'll respond. I think from a US point of view, firstly, yes, this is not a commercial wine category issue. We're not in the commercial wine category anymore, which is below – so that's just the first one to put the bit and that category is continuing to decline significantly. So I'm very pleased we're not in it anymore. This is a very different business for what's happened in the past. I'm not disputing and taking away from your points around history, right? So please don't take this answer as that as well. But if we sit back here and go and the way I look at this business today in Treasury Americas, again, at the midpoint of where we are, we're going to stick the course and I've got a strong belief. So I'm not wavering, point one.

Point two, if you look at the components of the strategy we have in the US and what's performing, our luxury business continues to perform well and continues to outperform the market. Number one. We have premium brands that are outperforming the market. Matua is a great example of that. We've got St Huberts The Stag, another example of that smaller base, but it's outperforming the market. We have innovation in 11 to 14 with 19 Crimes, which is significantly outperforming the market. We have one component of a brand that is declining, but in single digits declining that we need to invest more behind and augment how we execute that brand, and we know exactly what we're going to do with that. And I'm not going to go through promotional activity and those sort of things on the call today, but it's a broader how we're going to build that brand and keep innovating, which is what it's about.

So then you sit back and go, right, what's different about the U.S. business? Because I want to answer this fulsome way because this is how I think about the US is and why I think it's different and I certainly won't be the third CEO run out of town because of it. First one is I touched on luxury. Our distributor partnerships are bang on track. BBG, RNDC, in particular, our 2 large partnerships we've made those changes 2 years ago. Absolutely, we're performing ahead of their house when you look at the wine category in that market.

That's what we must do. I talked about innovation. We are by far, the best innovator and that's a growth engine in the United States, 100% growth engine, and that's something we'll continue to drive. And we've shown that.

We've done all the supply chain, the asset base restructuring. We've got the cost of goods improving continually over the next couple of years as well. So there should be cost improvement flowing through as well. And we've got the team that I think is delivering fantastically. So we can focus on the one pit that's underperformed over our last 6 months, not over our last couple of years, just over those last 6 months to our expectations or we can balance that out with what I would argue is that 7 or 8 other key proof points of our strategy that are bang on track. So that's how I view it. That's how Ben views it. It's how the leadership team view it. And that's my perspective on it.

David Errington

My second question, unless Ben wanted to defend his turf on that one, but my second question is, it's a little bit of an ambush question. And you probably don't have the numbers in front of you, but I'll read them out to you as you'd expect, I would. 12 months ago, you had a big step-up in luxury, current inventory, a huge step-up of around $180 million at cost, and we had another big step up, and I've been calling this out, we're getting big step-ups in current luxury. Now if I look at your increase in luxury sales, I mean for the half, I think Penfolds only increased by about $30 million. I think it's the number, about $30 million, that will do.

And you've got the Frank Family sales increased by 70%. Now given that the cost increased the luxury cost inventory 12 months ago increased by $180 million and yet your sales of luxury have only increased by around probably 100 for a half. That suggests to me that you're holding wine back. So are you holding luxury wine back with the possibility that China might reduce its tariffs because the sales in luxury, the step-up sales in luxury on a volume basis just don’t marry the increase in the inventory that we have been seeing over the last 12 to 18 months of luxury wine, particularly in that current inventory levels. And particularly 12 months ago, there was a huge step-up in current luxury, and we’re just not seeing it in terms of sales coming through. So my question is, are you holding it back, which would make sense if you are, but I think you need to be transparent if you are.

Tim Ford

I actually didn’t answer your inventory question before, so I don’t want to think I was hiding from it. We did not have an inventory problem in the US. So let me just put that to bed from your previous question. Apologies, I didn’t answer it because I sort of got on a roll on the strategy bit. In terms of this, no, we are not holding back inventory with a view that China may really open over the next period of time. Our inventory is Firstly, for this half, we’ve sold what inventory we plan to sell from a luxury point of view, and we’ve got the right level of inventory to hit our growth plan in the second half and into FY ’24 and into FY ’25. That’s how we run our luxury inventory.

So you’ve got the numbers, and I’m not going to go into the detail. Matt can probably jump in if he wants to on how that all hangs together, but the simple statement the way we look at it is we have the right inventory to deliver our growth plan next half, next year and the year after with China still remaining closed at this point in time is what our assumption is.

David Errington

The numbers don’t stack up, though, Tim. I don’t know if Matt wants to – the numbers just don’t stack up because there’s been a big increase in current inventory, particularly luxury over the last 12 or so months. It’s not coming through in current sales. There is something not right with your numbers.

Tim Ford

Rather than spending the next time competing on numbers on this bid and let's not – we'll do that with you as we go through the calls over the next couple of days, David, I'm really happy to do so. So not trying to fiber-off, but I think that's probably the best form for us to really just go through and understand what you're seeing. We'll go through what we are seeing and then come to LA if that's okay.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

Just to follow-on really from that question from David. If you're not adjusting inventory in anticipation for China, perhaps the question to ask is how quickly would it take – or how long would it take to source and create the 600,000 cases of bins and icons that effectively had – you were selling into China are now no longer. So if China reopen today, how quickly could you generate that additional volume?

Tim Ford

Look, it's going to take us multiple years clearly, as we build the vintage capabilities, we build the intake to do so. With our age of release being 3 to 5 years would take us a long period of time to achieve those sorts of numbers. I think probably given there's lots of questions around China. It's probably worth I just spend a bit of time on what we would and wouldn't do if that's helpful because we have – clearly, there's no change at the moment, and that's very important to note. But yes, there's positive tones that says we've also started to think through what could occur and would occur and what we would – should it change. I think there's a few things we would continue doing that we've already got in place.

The first one is working with the Chinese industry around building out our Chinese wine portfolio in that market for Penfolds. We will continue to do that. We'll also continue to drive our French strategy and our multi-country of origin strategy. That's in place. That's on track. That's something we're really driving hard and we've got to continue to grow the other markets, particularly in ground and other parts of Asia that we've continued to – we've had some great success into the point now where we've essentially got supply manning demand. So over that period of time, we'll grow those portfolios whilst we then source more, which is what we're going to have to do for bins and above. What we could do in an earlier time-frame, we'll source more of that entry-level luxury wine.

So I think Penfolds Max's those sorts of tiers where clearly, we don't have the length of age of release and we can get access to that probably quicker as well. So that's going to be what our focus would be, should the things – should it change over the next period of time. But really over the next 2 to 3 years and once we understand if there is a change and what the structure of that changes, we're going to outline this, and we'll be prepared to outline this in more detail. But really, the key for the 2 to 3 years on bins and luxury in the 600,000 cases that you asked the question around, we'll be around demand globally, we will significantly exceed supply and how we manage pricing and allocation through that period of time to keep all of these markets building the way we have built them over the last few years successfully plus the re-entry into China, should that occur, will be the key opportunity for us to address over that period of time.

Richard Barwick

I've got a question on the Americas as well and Frank's Family Vineyards, you said it's proven to be a great acquisition. Just looking at the numbers, if you add up the last 2 to 6 months period, it looks like revenue is about $110 million, EBITS about $46 million, so nearly a 42% margin. That is miles ahead of where the numbers disclosed when you originally acquired the business. Revenue is up by nearly 50% and earnings up by more than 60%. So like that's a quite extraordinary growth in a short space of time. But I note you also talk about, obviously, strong demand, one, but also a bit of channel fill, but it sounds as you're expanding distribution. So I guess my question is, how should we think about Frank's growth over the next 12 and 24 months, presumably because of this channel fill, you wouldn't be expecting the same sort of growth that we've just seen.

Tim Ford

Richard, I might just lead in just in terms of that expectation. The expectation we set for the first couple of years around Frank Family Vineyards was that we would essentially hold that there will be slight growth, but not much because we were constrained by the level of supply, particularly for the — ***indiscernible*** — across the Vintage 20 and beyond. So that statement still remains the same. What you are seeing and call-out quite rightly first half this year is we have shipped ahead of what we probably would have planned due to the demand.

Given constraints on supply around the entire market, we think that's a fantastic opportunity for us to build the distribution and distributor partners are going to be doing that through depletions over the second half. So what you are seeing is generally a first half weighting, a strong first half weighting of Frank Family Vineyards in first half 2023. We don't have incremental wine to sell in fiscal '23. That incremental wine comes more in line towards end of fiscal '24 and beyond. So just to navigate that, but perhaps Ben, if you can sort of add in just maybe the color from the distributors, the retail, the on-premise side.

Richard Barwick

And across the margin too. I think it is an important factor here, Ben.

Ben Dollard

Yes. Look, certainly, I think there's been tremendous acceptance in our network with Frank Family, and that's what's being reflected in our results, and it's certainly not a silo system rather a demand. And when we acquired the brand, we knew there was an opportunity to expand our distribution and that's exactly the focus that we've had, particularly around quality distribution.

And so in that regard, that's entirely where our focus has been and the business is in very good shape relative to ongoing depletion growth in the second half. With regard to how we think about the expansion of the business, harvest '22, particularly for Chardonnay is looking really promising and consistent with our growth aspirations. So as we look longer out for Frank Family, we remain really bullish on that opportunity with an ongoing runway for distribution growth. So our distributors are retailers and most importantly, our consumers continue to adopt Frank Family and the opportunity that we have.

Richard Barwick

Just putting all that together, is there a danger here you've sort of expanded more quickly than you've got the volumes to then go and back up?

Tim Ford

We've been very deliberate about the approach with expanded distribution and really account management, the quality of account management. So as we manage supply over the coming 6 months and certainly into future years, I think we're really well equipped and well poised to be able to grow it consistent with our plans.

Ben Dollard

Probably, the other thing to add as well is though there's some commentary around the Californian Vintage being well down, last time, which is not a bad thing across the industry, to be honest. But the Napa Vintage was actually well up when it comes to Chardonnay. So we're really pleased with the Vintage outcome, which was a big tick in the box because the growth is clearly there demand-wise. We had to supply the wine. So that was a good point for us in that half as well that will support what we need to do, Richard, going forward.

Operator

— ***Operator Instructions*** — Your next question comes from Craig Woolford from MST Marquee.

Craig Woolford

Just wanted to ask a question as you expect, like everyone on the Americas. First, and there's 2 parts. One is just the volume. So the volume case is 3.4 million in the first half. You mentioned depletion versus shipments being a about 0.2 million case difference. Is that a good yardstick to think about the second half in terms of volumes? That's the first part of the question. And the second part is a rough calculation because I haven't had much time this morning. But looking at the movement in price per case in the Americas, excluding Frank's and the divestment, it looks like in USD terms, it's close to flat. So I wanted to understand the price rises that were put through and why there might have been some offsets there.

Matthew Young

Sure. So let me take those 2 questions. It's Matt here. Nice to speak to you, Craig. From a volume perspective, yes, you have called out one of the factors that drove from a volume perspective that in the half, we did see depletions ahead of shipments of about 200,000 cases. Certainly, the way we are expecting from a second half perspective is it to be more premium led than it has been in the first half. So it's hard to do that without giving a specific number, and we're not in a position to sort of do that today other than talk to the balanced earnings profile. But I think if you look to that, you would expect generally a higher volume if we were successful in executing that premium plans, which we expect to be.

So at a volume level, that's a reasonable conclusion. The thing I would note on — ***indiscernible*** — price rises. Certainly, a number of those price rises were implemented over the course of the half and on different brands at different points. So we're certainly seeing in our numbers that the price rises have been successful, successfully delivered. We've taken 2 price rises on Matua over the course of the last 12 months, Frank Family did have price rise. So that was a big part of it, which we've excluded from your numbers there, but across Stags and 19 Crimes, in particular, 19 Crimes was delivered later in the half, which is a reasonable component of it.

So there are a number of moving parts. The price rises are in, they've been accepted, certainly at a customer level when we're seeing strong – I guess, strong alignment with our expectations from a volume perspective in terms of how the brands have responded to those price rises.

Craig Woolford

And then the second one is just on channels where you see that traffic light system when we're dealing with COVID about the various channels. I'm just interested if you were to reflect on the first half '23, how far from normal quotation marks was the channel mix? And is it a tailwind things like travel retail recovering as an example?

Tim Ford

I think if we did put that chart up again, it will be broadly green across everything except for a bit of Amber and GTR as it relates to the China market, I guess, over that 6-month period, which China travelers or Asian markets as Chinese travelers now as the borders open over this half. We should certainly see an improvement for the likes of Penfolds in particular, in that channel going forward as well. But yes, broadly, it's not so the word normal actually is something we will ever use at the moment, Craig. But for the conditions that exist today, certainly not pandemic affected, they're just what they are today outside of that. So we should support the Penfolds performance going forward as well.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Just a first question just around Penfolds and the expectation around margins moderating in the second half. I know you previously guided more towards some big pipe for this year. But what's driving that, is this a step-up in the promotional program or what are you thinking? And how you got through the reallocation strategy do you see yourself now with Penfolds?

Matthew Young

Yes, sure, it's Matt. Just on the margin expectations, when we set that sort of base slightly lower, we would think – we were within our plans, expecting probably stronger performance or a stronger weighting that may come from the Koonunga Hill and Max's tier, whereas the performance in this year has probably been weighted to the upper end. We still expect and the plans are in place and Tom can talk to sort of how we're driving some of those more entry level, but that's the primary driver while the margin is higher than we had expected. And I'll hand over to Tom to give a sense of that, but also around the distribution build and reallocation.

Tom King

Look, I think 2 years in post when the tariffs came in China, I think we're really pleased with the progress we've been making. Certainly, the first 12 to 18 months was an initial push into where the biggest demand was across markets in Asia, and we saw some pretty strong growth across previous halves that we've reported. We're now 18 months into the new divisional operating model, and that's really enabled us to sharpen-up the focus on how we're going to be building more consumer demand for Penfolds, driving that growth in availability across a number of markets globally and then driving the rate of sale once we've got that availability through activating really exciting, engaging programs for consumers, regardless of where we're showing up and connecting with them.

We always knew there was strong equity in the Penfolds brand across many places globally. I think we've been really positively encouraged by the strength of that equity actually in a number of markets, particularly in Europe, where we've reported really strong growth results this half. And part of that has been, for the first time, really putting support behind the brand, investing in the brand with a dedicated team. We've got a really good set of partners on the ground in all of our markets now who are bought into our strategy and want to be on this journey with us. So yes, we're really pleased with the initial reallocation and now about the actual growth that we are gaining of that expanded, more diversified business.

Ben Gilbert

And just second one from me. Just around the COGS, I know you guys have a clear consensus now for COGS as we move into '24. It seems like it could still sort of be upwards of an $80 million type EBIT tailwind into '24, assuming sort of a 10% reduction in grade prices and across some of the markets. Is that out of the question? And can you give any comment on whether you think consensus is sort of listen to understood what you said around some of those tailwinds from COGS as we move into fiscal '24?

Tim Ford

Sure. I think the market does now understand it. And most importantly, we've got a delivered proof point in the first half this year around the flow-through of our supply chain optimization. And that's certainly, I think, 1.5% COGS per case increase in the selling higher luxury vintages this year with the portfolio mix, but also the cost of those and the inflationary impact, I think, is a fantastic outcome. It holds true to our expectation of flat COGS on a volume mix adjusted basis for this year. And we have previously said we expect COGS per case to improve going forward on a volume mix adjusted basis.

We still expect that to be the case. The program is in place and the increased flow-through of the supply chain optimization, targeting $95 million, so a further $30 million from today as well as lower cost vintages from Australia will start to flow through in the next couple of years. Having got a specific number that I could sort of orient you to, but I certainly think the market has sort of heard what we've said about this and the building blocks towards improved COGS per case.

Operator

Your next question comes from Lisa Deng from Goldman Sachs.

Lisa Deng

Just a follow-up on China reopening. So I understand that there is a low level of Penfolds inventory inside China, but then we understand that there is a decent level of inventory sitting outside, for example, in Singapore or in Hong Kong. Now with COVID reopening for the borders, assuming the tariffs start to drop, what are we thinking about the potential gray market going back in again? And how quickly, how much and how much will we control if that happens? So that's question one.

Tom King

I'll first talk about our current business today in China. And the portfolio that we have available within the market is going extremely well. And that's the French ones that we've launched, the California ones champagnes and now the multi-country of origin One by Penfolds brand. And that's what we've re-orientated our business around in Mainland China, both our team, partners, customers and our activation and execution. And we're really, really actually encouraged by how well these new countries of origin have been received by the market and now by consumers.

Outside of China, our focus absolutely continues to be building growth in domestic markets. Markets across Asia are significant markets for us and will continue to provide us with growth opportunities. As we look ahead and as we've reported today, even in our high market in Australia, we're now seeing some strong growth, which has come off the back of 12 months of hard work and resetting in some places, our business here in Australia. And across EMEA, we're seeing that high growth there. So the demand for Penfolds now is genuinely global. And I think as we mentioned earlier, we're getting to the point across parts of our portfolio now where demand is exceeding supply. And as we've done recently, are looking to take price increases.

On your question on the gray market, that's a market that has always existed, and it's a market that we stay close to. We've always been made a wave with the first people to make us aware of instances of product showing up. They are our own customers in China. And I link that to the start of this question that we're focused with those partners on building new countries of origin portfolio. And so any product that does steep-in it's very isolated, that causes disruption to our plans and to their businesses.

So with the opening up of travel now and the borders, the big positive for us in Penfolds is actually the resumption of flights and travel to other markets. We've always had a very significant business in travel channels. We've got some really strong long-standing partners. We've got some great real estate across some really iconic airport locations, and we're really looking forward actually to welcoming travelers back from all over the world. How quickly that will come back, I think is still to be understood. Obviously, flights in and out of China, flight schedules need to ramp-up over-time, but we're very much ready and with inventory and with activation to welcome travelers back to travel channels.

Tim Ford

Lisa, if I can just reiterate, just particularly to your question around levels of inventory without specifics. The inventory that we have in market is sold to those customers with the plans to sell in those markets outside of China. So for Hong Kong, Singapore, we have a hub. So to that point, we're comfortable with the levels of inventory. We monitor it. It's there supporting depletions of Penfolds in markets outside of China for the Australian portfolio. So I just wanted to sort of round out that part of the question.

Lisa Deng

I actually meant more inventory that's already in the hands of gray market traders. Do we understand how much inventory there is. That's not our inventory, but actually sitting in the hands of the gray market traders that could potentially either not be monitored by us or be controlled by us or go back into China to potentially disrupt that plan?

Tom King

I understand. We monitor that based on product that gets into the market through customers, through our customers, et cetera, as well. And I think we've been pretty transparent around that in terms of it is relatively small in nature as well and has reduced over the last period of time, the level of alerts that we've certainly received.

So from that perspective, I mean, the challenge for us, should China reopen, we'll be around making sure our pricing architecture is right now – just to clarify, we have a consistent pricing architecture globally. Might be a couple of percent here and there in different markets, but that reopening and managing that price and that consistency globally, we think is the best mechanism for us to not only protect that pricing and the margin structure of Penfolds, but also then to control what could potentially be more cross-market movement of product, which we know very well how to monitor and manage, so we've been doing it for over a decade. But I think that's – we're well aware that, that could – that potential sort of open, and it's a good problem to have, and we'll manage that.

Operator

Your next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

I just want to understand the Americas, what's happened in December in the December quarter. So I think in the half, the revenues are down about 14% ex-FX on an organic basis. I think at the first quarter, you said that trading was kind of in line with your expectations. So I presume that's kind of flat or slightly up. But does that not imply that the December quarter is tracking down kind of 20%, 25% or thereabouts.

Tim Ford

I'll touch on it broadly, I mean, the October, November, December quarter is such a significant part of the trading period, I guess, in the US with the holiday period that does over-index. So splitting at 50-50 over a half I think is not the right way to think about that market from a shipment point of view would be the broad statement, I guess. When we say – there's an important word we see in there, which in the way we've explained the performance in the US, I think, which is softening versus our expectations too on a couple of those brands because the actual market has been relatively consistent.

And again, that's the difference. So we haven't delivered against our expectations on a couple of those tiers in the brands. That's really where it sits for that quarter. Yes, so it's in our control around execution. The market dynamic itself has been relatively consistent. So I think it's just an important distinction as well, Tom.

Thomas Kierath

And then just on Penfolds Asia ex-China, it looks like growth was about 8%, which is down from kind of, I think you're 100% or 120% over the last few halves. Can you just maybe step us through why that slowed down and how you're thinking about growth in those markets going forward for Penfolds?

Tom King

So yes, just to clarify, the Asia reported number is 8% for the half. Look, I think we're pleased with this result. This is obviously a shipment number. The way we are managing the business as we always have done is at a depletion level. And we assess our team, our partners or their performance based on distribution and depletion. And the shipment side of things is a flow one of those 2 levers. Obviously, last year was the first year that we had allocation of wine available for a number of markets in Asia post the tariff situation coming in, and there was strong demand for that and we had a very successful growth year last year. And over the course of this half, we've continued to see the momentum that we've built in terms of building that distribution activating behind the brand across a number of markets and pretty pleased with the numbers that have come through from a shipment perspective and remain confident there is a significant runway of growth for the brand across a number of markets in Asia.

Operator

Your next question comes from Jason Palmer from Taylor Collision.

Jason Palmer

The first one was just around the inventory restatement that you flagged in the presentation. But is that a reflection of discounting or is that a reflection of just a clerical reclassification internally by the business? I know the majority of it comes out of luxury and ends up in premium.

Tim Ford

It was an error in the past in terms of how we classified some of our brands between. I thought it was premium, mainly in that premium space. So that was just an adjustment that we made that was an error.

Jason Palmer

And the second one I had was just in respect to the way 2022 out of California, I know you made some comments around Chardonnay and Cabernetl in particular. I know that

Napa volumes are up mildly and Chardonnay volumes out of Napa were basically flat. I'm just wondering whether you can sort of talk to any additional buying programs you've done around Frank or Stags leap over the last year or so that gives us a bit more comfort around your ability to grow those brands, please?

Tim Ford

The only I guess comment on this, we're certainly not flat in terms of our Vintage makes out of Vintage 22 versus previously on Napa Chardonnay and Napa Cabernetl and all Napa brands. So from that perspective, I think the market data I've seen certainly suggest there was significant year-on-year growth in Napa Chardonnay. So maybe we should compare data sources later on with the calls. But from our point of view, our intake is certainly not flat from a luxury wine point of view in that, that's for sure.

Operator

Your next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

Just on the U.S. with the price increases you've been able to implement there. Just wondering how sticky you expect them to be once the supply constrained environment starts to normalize in the U.S. consumer faces a few more headwinds. Obviously, the luxury side has been probably a little bit more defensive, I would have thought than the lower price points. But just wanted to understand where you see inflation or price rises coming through beyond this year in the U.S.

Ben Dollard

Look, we've been very thoughtful with how we've been managing our pricing on which brands and specifically around our luxury portfolio. So it's been a really concerted effort. I think as we continue to see premiumization in the category and in the marketplace, I think the pricing we have taken across our luxury portfolio specifically, we feel very confident in its ability to maintain and to stick. And we're monitoring it very closely relative to how we think about distribution and quality distribution. So we're pleased with the outcomes we've had thus far. And as I mentioned, we're going to continue to watch it and seek additional opportunities where it makes sense.

Tim Ford

I think it's also Bryan, to note that at those premium price points, again, a focus of what we talked today. The price rises we've taken have been very, very consistent with what you'll see elsewhere in the market at those price points as well. So New Zealand, Sauvignon Blanc for Matua. We're taking price rolls consistent with that part of the category and also in the other 19 Crimes, again consistent with what we see in the category. So we're not expecting those to be significant drivers versus the competitive set.

Bryan Raymond

And then just second question, just on the travel channel for Penfolds. So travel retail, I remember seeing some numbers in the past, but I may have missed them in the pack today. Can you quantify what sort of size of the Penfolds business is in that duty free or travel channel so we can size the potential upside? I guess probably a number pre-COVID versus now would be really helpful, if that's possible. It's a very difficult thing because a, because the business has completely changed since that period when we first did it, and it's been difficult to measure the size of that business that allow the potential size of that business when it returns. So I can't give you a specific number or a specific guide, but we obviously had the historical split out, but the world has changed since then.

Tim Ford

I think if we try to get a read on Penfolds, this is a very good half to get a read, I mean Penfolds is bang on where we expect it to be for this half. So from a top line from a margin slightly higher than we expected, but still, it's a pretty great performance from that perspective and the blend of growth across the different markets and the different channels, the spread of that business and the consistency of growth across those different channels, it's been a fantastic half from that point of view. So that's the best guide, I think, in terms of the future trajectory of that business from a consistency. It's right where we expect it to be and on our plan, which then rolls up. It's clearly a big part of our Treasury Wine Estates business to deliver our objectives that we've set around the total business.

Operator

Your next question comes from Larry Gandler from Credit Suisse.

Larry Gandler

Just on China, can you mention something that I thought was worth bringing out. If China reopens and we do see that increase in demand for luxury, you discussed having to perhaps consider pricing in the region around the world. I just recall last time when China demand really started to open, there was perhaps a lot of damage done in Australia and Southeast Asia by catering to Chinese pricing as opposed to China's demand, harmonizing pricing in accordance with China. Is that something you consider doing this time around? Would you look to harmonize pricing in the face of that demand?

Tim Ford

Absolutely, yes. Our global pricing architecture will absolutely be consistent. And we've actually done that for quite a while. I know you're probably going back away, I suppose, once even towards that last couple of years before the tariffs were in place within China, we got a hell of a lot better at managing our pricing architecture in a global manner. I think with the way that – with Tom leading Penfolds has one division now, it's him and his leadership team call to manage that effectively. And our operating model allows us to do that much more effectively across all the different markets. But your point is spot on. We would manage it consistently, we'd manage it globally, and we must ensure that the markets that we've spent the last couple of years having great success in building us certainly not disadvantage in any way, shape or form from that perspective.

Larry Gandler

But they would be because if the Chinese consumer is prepared to pay more and you're going to float volume up to the highest price, by implication, you're going to be shorting those other markets. So how do you balance that?

Tim Ford

That's the potential. I guess we don't control pricing. I fully appreciate that, but how we allocate product is how we control that. So that is which partners we work with and how we actually manage the allocation of that product in an environment of demand exceeding supply. We're pretty confident we've got those mechanisms in place to broadly manage that really well. Should it occur? I will just reiterate.

Operator

Your next question comes from Phil Kimber from E&P Capital.

Phillip Kimber

Just a quick sort of clarification question. So the outlook comments for Penfolds, you've said supporting balanced EBIT delivery through FY '23. And then for Americas, you've said deliver a balanced earnings profile across the year. Can I just confirm that you're talking to earning dollars there and not earnings growth. So another way of saying that, whatever you got in the first half, something similar in round numbers in the second half or were you talking to growth rates?

Tim Ford

Dollars, your conclusion is correct.

Phillip Kimber

And then my second quick question was just New Zealand, I don't know if you've had an update yet. Has there been any damage to any of your vineyards, I mean is there any concerns, particularly for a brand like Matua, about being able to source fruit after terrible hurricane events over the last couple of months?

Tim Ford

So the answer is where our vineyards, our people and teams are all fine. They've had a bit of extra rain, but nothing in terms of that sort of top-end of the South Island, where Marlboro is that's going to necessarily impact too much the vintage at this point. So yes, we're fortunate at this point.

Operator

Your next question comes from Ross Curran from Macquarie.

Ross Curran

Tim, just another really quick clarification question. Just in Penfolds, you talked about reduced shipments and timing of sales in LatAm. I was just wondering how big LatAm was for the Penfolds brand? And does the timing thing that you called out, does that suggest that comes back in the second half?

Matthew Young

We haven't dimensionalized size of LatAm. I would only call out that particularly the US and what we call the US trade part of that business continues to grow and continues to be really strong. We aren't guiding necessarily to the whole amount coming back, but we certainly would expect increased shipments or timing of shipments into the second half for LatAm. But generally, across the – we'll manage that across the wider portfolio and wider markets.

Ross Curran

Is LatAm material to the Americas?

Matthew Young

In the context of it being a relatively small part of the overall Penfolds, it is material to the Americas, yes.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

What channel in the U.S. has seen the most significant underperformance versus expectations, particularly in the December quarter. Any insights you have around customer trends you're seeing across the various segments of the US on-premise channels would be appreciated.

Ben Dollard

Look, the softness that we've referenced relative to 19 Crimes is largely – the business is largely in our national accounts of off-trade, and that's where we've seen some of the softness and that's where we're very much focused in everything we've talked about today in terms of the 19 Crimes body of work and the activation that we are putting in place. As we think about the channels generally specifically relating to the on-premise, we've seen on-premise rebound strongly, fewer total number of accounts, but those accounts where our brands fit are performing particularly well.

And similar with our Cellar Door as we think about visitor traffic and the revenue we're generating from our Cellar Door, we're pleased with the start to the year, particularly with visitor traffic year-on-year traffic increasing and overall spend for gas is increasing. So that's a positive sign as we think about our Cellar Door traffic. So overall, from a channel perspective, I think for our portfolio, we're looking in good shape, certainly for the second half.

Tim Ford

Thank you. So one minute to go. Thanks for joining. I appreciate the questions, and I look forward to follow-up conversations with not at everybody that's on this call over the next couple of days, but even more looking forward to spending a couple of days together in our US business with our US team and the ELT in Napa in what is only 3 weeks' time. So we're at no doubt, we'll continue to explore some of the topics of today, and you'll walk away with that certainly the confidence that this management team has for TWE going forward. So thanks for your time and look forward to the conversations. Cheers.