Treasury Wine Estates Limited, M&A Announcement 2023-10-30

Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates business update. — ***Operator Instructions*** — I would now like to hand the conference over to Mr. Tim Ford, Chief Executive Officer. Please go ahead.

Tim Ford

Thanks, operator. Good morning, everyone. Thanks for joining us. Joining me on the call today is Ben Dollard, our President of Treasury Americas based in California; and Stuart Boxer, who's today our Chief Strategy and Corporate Development Officer and tomorrow, our Chief Financial and Strategy Officer. So it's appropriate, Stuart took the lead today.

It's certainly my pleasure to announce to you all today that we've agreed to acquire the highly acclaimed luxury U.S. wine brand, DAOU Vineyards. DAOU will no doubt be an outstanding addition to the Treasury Americas portfolio and more broadly, the TWE Group portfolio. And we strongly believe that the acquisition will deliver substantial strategic and financial benefits for TWE and its shareholders.

DAOU is one of the largest and fastest-growing brands at luxury price points in the United States. To give you a sense of its positioning, it's one of the few brands globally, we believe can rival Penfolds in terms of scale at these price points, and it's only in the U.S. As I stated upfront, we're very optimistic around the strategic benefits. It's important that we'll deliver to our portfolio. This acquisition is 100% consistent with our stated strategy to continue the premiumization of our portfolio and expand our luxury footprint in the United States.

From a group perspective, it also accelerates our premiumization focus. It increases the NSR contribution from luxury wine in our portfolio to more than 50%, whilst being accretive to key operating metrics, including earnings growth, NSR per case and EBITS margin. It also will firmly establish Treasury Americas as a leading luxury wine business in the United States.

It will fill the gap in our portfolio between USD 20 to USD 40 in addition to strengthening the portfolio at higher price points. As the largest segment by price point in the U.S. with a total size of $2.6 billion and growing at 7% to 8%, this was a key focus for us. Finally, we'll also provide the scale to support a future stand-alone Treasury Americas luxury division and team.

We certainly believe that these strategic benefits, which I'll talk to in more detail shortly, are significant and will reinforce the foundations that we have already established for delivering sustainable growth over the long term, but also from a financial perspective, this acquisition will be funded with a combination of debt and equity and is accretive pre-synergies and expected to deliver mid- to high single-digit EPS accretion for shareholders in its first full year inclusive of pro forma synergies. In terms of the transaction itself, we have agreed to acquire 100% of DAOU for an upfront consideration of USD 900 million.

In addition to this upfront consideration, there is a contingent earn-out of up to USD 100 million, payable in the event that the direct-to-consumer channel and/or DAOU's ultra luxury tiers delivered NSR growth over and above pre-agreed targets. I note that these targets have an embedded growth rate factored into them that must be achieved before any earn-out payments are triggered. The upfront consideration is to be funded by AUD 825 million underwritten pro rata accelerated renounceable entitlement or put more simply, PAITREO. A AUD 157 million placement of TWE shares to the existing shareholders, Daniel and George Daou and a new U.S. acquisition debt facility of USD 350 million, which will also cover the transaction-related costs. Stuart will certainly cover this in more detail later in the call.

This proposed funding structure results in a pro forma leverage of 2.5x FY ’23 EBITDAS with strong cash flow supporting the deleveraging of the balance sheet back within our target range of 1.5 to 2x range by the end of FY ’25.

Another important impact of the transaction is it will unlock cash tax benefits from the ability to deduct the amortization of goodwill for U.S. tax purposes. These benefits, which are cash in nature only and therefore, not reflected in the EPS accretion metrics averaged USD 12 million per annum over the 15-year period and carry an NPV of USD 100 million.

From a multiple perspective, the upfront consideration implies 12.8x calendar year ’23 EBITDAS. Given the accretion that the addition of DAOU will deliver, we’re also announcing today the upwards revision of our long-term EBITS margin targets for both Treasury Wine Estates as a group and Treasury Americas as a division to the high 20% EBIT margin range, up from a previous target of 25% for both. We expect the transaction to complete by the end of this calendar year and clearly subject to some regulatory approval processes also.

So in relation to DAOU, the business. I’m not going to go through this in detail right now as Ben will cover shortly, but a few brief facts that I’ll leave you with at this point. The DAOU business is born and raised and based in Paso Robles in California, founded in 2007 by George and Daniel Daou. Paso Robles for those that haven’t had the pleasure of going there sits basically in the middle of Los Angeles and San Francisco and is a fast-emerging wine region home to the fastest-growing luxury cabernets in the United States today.

DAOU’s brand portfolio is focused on 5 tiers with luxury price points ranging from USD 20 up to USD 500 per bottle sold through a diversified channel mix right across the country.

Importantly, DAOU has a common and strong distribution partner with RNDC, being their key partner similar to Treasury Wine Estates. This will certainly minimize the transition risk upon completion.

DAOU's financial metrics are simply compelling. At USD 195 NSR per case, EBITS margin of 30% and a 3-year NSR and EBITS CAGR of 45% and 61%, respectively. And very pleasingly, both George and Daniel will remain with the business ongoing as partners to TWE. And importantly, will also become shareholders of TWE.

So coming back to the strategic rationale. I reiterate our excitement with the material benefits we see this transaction delivering to the TWE portfolio. Reminder, increasing our luxury exposure to 50% of NSR, creating a leading U.S. luxury wine portfolio and enhancing our presence in the strategic $20 to $40 per bottle category.

We also see real opportunity to leverage our global distribution network and the scale and presence of our business outside of the United States, created largely with Penfolds to take down of the world. Along the way, building another truly international global brand.

And finally, it does provide the scale of this acquisition to enable a future stand-alone Treasury Americas luxury business, which we will cover shortly. So with that, I'll hand it over to Ben, who can talk more about the DAOU business. Over to you, Ben.

Ben Dollard

Great. Thanks, Tim, and good morning. It's a pleasure to join you today from California. I'm thrilled to share with you an overview of DAOU Vineyards. The brand is a perfect complement to our existing luxury portfolio, and this acquisition underscores our ambition to lead the U.S. luxury wine market. Treasury Americas has a world-class luxury portfolio of which DAOU will serve as the cornerstone.

We now have a portfolio with iconic brands that cater to every luxury consumer, including Penfolds, Frank Family Vineyards, Beaulieu Vineyards, Stags" Leap Winery, Beringer Vineyards and Etude Winery. The U.S. remains the largest market for luxury wine globally. Premiumization continues to be an overarching trend as consumers enjoy better quality and higher-priced wines, driving growth rates in the above USD 20 price points.

Over the past 3 years, we have executed against our strategy to reshape our portfolio and build a culture that focuses on the consumer in order to capitalize on this very attractive market opportunity. Today, we expand our luxury portfolio with DAOU, a highly acclaimed and fast-growing wine business of significant scale.

This slide highlights the strong operating and financial metrics that Tim touched on earlier. The foundation of the DAOU portfolio sits in the growing $20 to $40 price point and existing GAAP in the Treasury Americas portfolio. On the chart on the bottom right shows the market-leading performance of DAOU over the past 3 years, growing over 6x the rate of the luxury segment in the same time period.

We admire DAOU's absolute quality at every touch point from the vineyards through to consumer engagement. DAOU's portfolio of exceptional high-quality and highly rated luxury wines have been carefully made and loved widely by consumers. DAOU's understanding of the new luxury consumer is evidenced by the brand's consistent market-leading performance. DAOU's wineries, vineyards and consumer experiences are esteemed with deep Paso Robles roots.

The organization and culture that found as Daniel and George have created are world class. We're excited that Daniel and George will continue to be very engaged in the future growth of DAOU as founders and Daniel as Chief Winemaker. The DAOU portfolio offers something for every luxury consumer with absolute quality across 5 tiers.

The Discovery and Journeys have played a central role in building the brand. The soul of a line is an innovative luxury wine and the crown jewel of the portfolio. DAOU's Reserve and Patrimony are introducing consumers to the best that Paso Robles has to offer with Patrimony sitting comfortably alongside some of the world's most renowned ultra luxury wines.

The growth being delivered right across the portfolio exemplifies DAOU's reputation with consumers and the long-term potential of this brand. We see significant opportunity to expand DAOU's reach beyond the U.S. with our vision to take the brand global. Founder and winemaker Daniel Daou has taken enormous pride in handing exceptional wines from the Paso Robles region utilizing technology and innovation to produce award-winning wines. DAOU has received widespread critical acclaim consistently achieving outstanding results.

DAOU has a strong consumer obsession. Central to this is DAOU Mountain, an outstanding experience, which welcomes over 90,000 guests annually and was recently voted the #1 tasting room in the U.S. In addition, DAOU has benchmark setting expertise with in-market activations, including luxury events and partnerships and through the DAOU+ app to direct – to drive direct engagement with consumers across the U.S.

Paso Robles is an emerging dynamic and fantastic destination, which is home to amazing hospitality. It welcomes millions of visitors each year. DAOU has a significant presence in the region, particularly in the Adelaida subdistrict, the region's premier luxury wine producing area. Paso Robles has a favorable production and sourcing costs and further diversifies Treasury Americas sourcing footprint.

Over the past 3 years, the growth of luxury wine from Paso Robles has been exceptional and well ahead of market. We strongly believe DAOU's team and culture will be an asset to Treasury. It's clear we share common values. We've enjoyed getting to know George, Daniel and the management team. We expect that we can learn from each other and look forward to their continued involvement in realizing the next generation of growth for DAOU and Treasury.

DAOU's impressive recent growth trajectory reflects growing distribution and demand across the entire portfolio. This is led by the Discovery and Journey tiers supported by distribution growth as the brand has expanded successfully outside of California. Looking ahead, we expect low double-digit revenue growth over the medium term, driven by continued category beating growth in the Discovery and Journey tiers, accelerated growth in the Ultra-Premium tiers, which will be supported by recent sourcing investments and portfolio innovation.

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

Tim Ford

Thanks, Ben. I'm now going to step through each of the key highlights in detail of the strategic rationale. But I'd also just emphasize upfront, this is a unique opportunity. This acquisition presents a unique opportunity for TWE to add a high-quality luxury business of scale to our existing portfolio as well as the significant value creation we see coming from the acquisition of TWE and for our shareholders.

The acquisition accelerates without doubt our luxury led premiumization strategy, a strategy that we've outlined and been consistent on now for a number of years. And will be immediately accretive to key operating metrics. From a Treasury Americas perspective, to start there, the luxury contribution to NSR will increase from 38% to 53% of sales. NSR per case goes up 21% to $181 and EBITS margin will increase 1.3 percentage points to 26.1%.

Just as importantly, from a Treasury group perspective, the luxury contribution will increase from 43% of sales to 49% of sales. NSR per case increased to 6% and EBITS margin will also increase 0.7% across the whole company. More importantly, you can see from the page that the acquisition is very, very consistent with the journey we've been on and accelerates the delivery of a number of the key portfolio targets we've outlined to the market and to investors and those key quality operating metrics that we work pretty hard to achieve.

This next slide demonstrates how the acquisition creates a leading and iconic luxury U.S. wine business, which will have tangible benefits and drive value on the back of that. We will drive distribution through all sales channels and have the multi-brand platform to create consumer-led luxury experiences like no other. Our combined sales team, the combination of Treasury Wine Estates and DAOU, I assure you, will be highly motivated about the opportunity to go to market with this portfolio of iconic brands and highly-rated wines. And I also assure you our distributor partners will be just as highly motivated.

Here on the next slide, we set out the financial profile of the U.S. luxury business within Treasury Americas post this transaction. The combined Treasury Americas luxury business will have a highly attractive financial profile in its own right, contributing 1.7 million cases, AUD 643 million of revenue and AUD 198 million of EBITS. Equally impressive is the NSR per case at $386 per 9Le and a 36% EBIT margin post the realization of run rate synergies. These metrics benchmark very, very favorably to any other luxury wine business, building another outstanding luxury pillar for TWE alongside Penfolds in our global portfolio.

As I said earlier, the acquisition will see us achieve our previously stated 25% EBITS margin target for Treasury Americas. As such, today we're revising that target to the high 20% range. This slide outlines the $20 to $40 bottle segment, which is valued at $2.6 billion or approximately 2/3 of the luxury wine market in the U.S. and is growing at around 7% and is still growing today. This is a segment of the market where we on record has been underrepresented and therefore, a focus of potential M&A. DAOU addresses this.

The addition of the business will increase our NSR in this price point by 144%, noting also that DAOU is the standout performer, growing well ahead of the market in that price point. In the upper luxury price points, the Reserve, Estate, Patrimony tiers simply strengthened our Treasury Americas already strong portfolio when you combine it with Stags' Leap, Beaulieu Vineyard, Beringer and Frank Family Vineyards.

The Daou brothers and their team, in particular, have done an incredible job building this business. And we're now really excited at the opportunity to further build and grow the business as part of TWE. Over recent years, particularly in the last 3, we have made investments in our sales and marketing capabilities and our route-to-market model changes. Everyone is well aware of the shift we've made in the U.S. in particular, over the last 3 years. All of which creates an excellent platform to continue the growth of our existing luxury portfolio in combination with DAOU. The team is certainly ready to take that on.

Today, as you see on the screen, DAOU's weighted distribution is below that of key luxury peers nationally and also that of Treasury Americas distribution for our luxury portfolio in the top 10 U.S. markets. We combined have the opportunity to leverage this deep distribution platform with the support of RNDC, which, as I said, distributes both TWE and DAOU wine today, which simplifies and derisks the bringing together of these 2 businesses.

DAOU's distribution is also currently weighted towards California. So further expanding outside of California through our existing platform will be a key priority for the team and the capability we have in-house today and reflects a very, very similar playbook to what we were successfully implementing and are implementing with Frank Family Vineyards, which we acquired almost 2 years ago.

To be on the opportunity in the U.S., we also have conviction in our ability to establish DAOU and Patrimony as renowned international brands. Our existing global distribution platform at scale, combined with the experience of building a Penfolds into a global luxury icon, positions us very well to drive long-term growth for DAOU and Patrimony all around the world.

We know that growth in the luxury wine segment is not unique to the U.S., and we have the essential building blocks to grow global awareness and establish them both as leading wine brands across the globe that nobody else can do. We will target key luxury consuming markets, including Asia, where through our existing platform, we already have a very strong understanding of what resonates with both the existing and the emerging luxury wine consumer.

Clearly, the other significant opportunity which exists is through integration with material production and overhead cost synergies of more than USD 20 million per annum expected to be realized by F ’26. The key sources of cost synergies have been identified through enhancing the utilization of our winemaking network, including our existing Paso Robles winery, something we haven’t talked about to investors much in the past, but it is our second largest winery globally behind Barossa Valley facility.

We’ll optimize sourcing through supplementing DAOU supply with our own vineyard and growing network of scale. We’ll achieve savings across planning procurement and logistics and will optimize SG&A. Realization of synergies will commence in FY ’25 with full run rate realized by F ’26. We expect one-off costs of approximately USD 27 million to achieve these.

Having completed a very thorough diligence process, I’ll certainly describe these synergies as low risk to achieve. We’re very, very confident in our ability to realize these in accordance with the time frame outlined, particularly given the network that we already have in the United States as well as our track record of delivering these supply chain costs in particular.

So in addition to a strong strategic rationale, we believe the acquisition will also deliver strong value accretion for TWE and its shareholders, very importantly. The transaction has been carefully structured to ensure alignment of interest with the founders and financial returns for our business and for our shareholders. The upfront consideration includes a USD 100 million placement or AUD 157 million placement of TWE shares, which will be subject to escrow. There is a contingent earn-out of up to USD 100 million payable in 3 tranches to the extent that pre-agreed net sales revenue targets for our direct-to-consumer business and the ultra luxury business are met in calendar year ’25, ’26 and ’27.

These targets do have growth rates built into them such that if the earn-out was to be payable in full, the USD 100 million would represent a multiple of 3.5 to 4.5x, the incremental EBITDAS required to trigger such a payment. In our minds, payment of the earn-out in full implies a very, very good outcome for the business and for TWE shareholders.

As I touched on upfront, there is also a material cash flow benefit on average USD 12 million per annum over the next 15 years due to the ability to amortize goodwill for U.S. tax purposes, not a reason to do this transaction but a good outcome. This has no impact on tax expense on the P&L, and therefore, this cash flow benefit is in addition to the expected EPS accretion.

In terms of the transaction multiples, $900 million upfront considerations in U.S., as I said, implies a headline multiple of 12.8x, which compares favorably to other recent transactions in the sector, including our most recent transaction with Frank Family Vineyards, which was 13.2x 2 years ago. The acquisition will be EPS accretive pre-synergies and mid- to high single-digit EPS accretive with cost synergies fully realized in our first full year of ownership.

Lastly, really important slide to absorb. The scale of the DAOU acquisition is a truly transformational acquisition, not just for Treasury Americas, but for TWE. As a consumer-obsessed business, our first step, the way we're going to run the business going forward post this acquisition will be to establish 2 consumer-focused portfolio divisions, commercial units, like within Treasury Americas. A luxury commercial unit and a premium brands commercial unit. Over time and with scale, we'll also consider the possibility of creating the stand-alone Treasury Americas luxury division as well as bringing our premium portfolios together around the world to focus on the brand's activation and investments tailored to those premium consumers, which we know are different to the luxury consumers.

So with that, over to Stuart.

Stuart Boxer

Thank you, Tim, and good morning, everyone. It's good to be with you all. We will fund upfront consideration and transaction costs through a combination of new equity and new acquisition debt facility. Today, we've announced $825 million fully underwritten renounceable entitlement offer with retail entitlements trading. We value the support that all our shareholders provide both institutional and retail, and we believe this structure delivers the fairest outcome for all our shareholders.

The 1 for 9.45 entitlement offer at AUD 10.80 per share represents a 9.8% discount to the theoretical ex rights price and a 10.7% discount to yesterday's closing price. Additionally, we've established a USD 350 million acquisition facility, which will fund the debt component and the transaction costs. In determining the appropriate funding structure for this acquisition, maintaining the strength and flexibility of our investment-grade capital structure has been paramount. Reflecting this, pro forma leverage to 2.5x based on F'23 sits comfortably inside our publicly disclosed capital management framework and supported by strong cash flow generation. We will expect to return into our target 1.5 to 2x range by the end of F' 25, with deleveraging to commence from the second half of F '24.

Importantly, for our shareholders, we also intend to maintain our existing dividend policy within the long-term payout range of 55% to 70% of net profit after tax. As previously mentioned, the equity raising has been structured as renounceable entitlement offer, which will comprise both an institutional entitlement offer and a retail entitlement offer. Eligible retail shareholders will receive further details in a retail offer booklet next week. The institutional component of the equity raising has been launched this morning and will be complete by Thursday, 2 November, followed by a retail entitlement offer, which will open on Wednesday, the 8th of November and close on Thursday, the 23rd of November.

The pro forma balance sheet illustrates the impact of the acquisition and equity raising at 30 June 2023. Please note, this is illustrative only at this stage.

Turning now to the outlook, which on a stand-alone basis, excluding DAOU, remains unchanged from the update we provided at our AGM earlier this month. For F '24, we remain well positioned to deliver growth in line with our long-term ambition of high single-digit average earnings growth in addition to continuing EBITS margin expansion. EBITS will be weighted 55% to the second half of the fiscal year, reflecting the planned phasing of shipments as we retain operational flexibility while the expedited review of tariffs on Australian wine in China progresses.

Importantly, I want to emphasize that our current outlook does not assume any incremental earnings from China and nor does the timing or outcome of the review impact our full year shipment plan. Assuming a completion date of 31 December 2023, we expect DAOU to contribute EBITS of between USD 23 million and USD 25 million in our second half of '24. And this reflects the historic weighting of DAOU sales to the second half of the calendar year.

Finally, as a result of the immediate margin accretion that DAOU will deliver, we have revised both our long-term Treasury Wine Estates Group and Treasury Americas margin targets to the high 20% range from 25% plus and 25%, respectively.

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

Tim Ford

Thanks, Stuart. Now that's the overview. We wanted to give you the basis. I recognize that, particularly for Australian-based people on the call that it's a new brand. So I'm sure you've got lots of questions. So let's get into it.

Question and Answer

Operator

— ***Operator Instructions*** — Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

My first question is just around the process for the sale of this asset. Was it a competitive process? Just interested in the timing why perhaps you wouldn't have waited for a little bit more certainty around China. And, may not be the best comparable, but Duckhorn share prices effectively or more than half that trades on 10x EBITDA. Are you confident that the price you're paying is reflective of the devaluation of U.S. wine assets?

Tim Ford

Mike. Thanks for that. Look, I think from a perspective – I'll actually start with the finish and I'll start with the China perspective, lets keep that out of the way first. I think – our business has multiple growth opportunities. This is another one in the U.S.

In terms of waiting for China, I don't see, why we would wait for China. We have a plan that is great in terms of growth. If China does come back at the end of this review process, then it's just going to open up another opportunity there within China. So we see this as building, I guess, a couple of real strengths from that point of view.

In terms of the more important topic, which is how we got to this point around DAOU, yes, it was not a competitive process. DAOU is a business that we've been monitoring pretty much since we did the Frank Family Vineyards acquisition 2 years ago, as we sort of turned our attention to, once we get the confidence and the financial capability to make another acquisition potentially in the United States, what was going to be our key target and DAOU stood out on all metrics and all the things that we've explained to the market previously.

So this is not a new target opportunity for us, but the timing, yes, became, we believe earlier this year, right for us to engage with George and Daniel. It has been a multi-month process. I wouldn't say a multiyear process, but a multi-month process, whereby they had to make a decision on where they saw the best future for their family brand and their business that they created with their team. And I think Ben and I spent a lot of time with George and Daniel. And we believe together we have serious alignment in terms of our belief in terms of the luxury consumer, what a luxury wine business can create. And then when you bring our portfolios together globally, that together, we're going to be stronger than separate. So that's – that unlocked the dialogue, from a better way to put it. And then obviously, we end up where we're today. So that's the story in terms of how we got here.

In terms of the price and the multiple we paid, we think it's a fair multiple. We think the value of the growth profile of the business, which has been strong, will continue to be strong, at 12.8x is favorable to our own multiple, is around the mark of what we would look to pay for a high-quality business, and this is a very, very high quality business on every front. I assure you there's nothing to fix, nothing to augment.

Our task is to continue to let it grow the way it's been growing in combination with our team. So when we look at that versus other opportunities, whether it be Duckhorn business or others, I'm not going to really comment on other competitors, et cetera. But this has been a target for us for a while, and we're really, really pleased to build the trust of George and Daniel to get to this point.

Operator

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

David Errington

I don't know what it is with TWE CEOs in Australia that think you can succeed in the U.S. So my question, Tim, is I just can't understand why, when you've never delivered in the United States, the business is still only doing $200 million of EBIT. Frank is yet to deliver, and won't be until at least '25 that you'll be able to deliver. You're buying a business that's under 7% return on capital, you need at least 15% given the history of the U.S. to create value. you're pulling in tax credits on amortization to sort of like Soto justify it. I've never seen that before anyway.

Just don't get why you wouldn't buy back your own stock and leverage up Penfolds? Penfolds is the growth business of Treasury. It's what all our shareholders want increased exposure to. I just don't get why you need to keep doubling down in the U.S.? Why do you need this secondary growth market when you've got such an outstanding business in Penfolds? How do you justify paying something 7% less return on capital? You need at least 15% to justify it given the track record in the U.S., given the risk. Explain it to me, please, Tim, because I just don't get it?

Tim Ford

Thanks, David. Look, multifaceted as always. So look, I think – where I'll start with. The best way is just look at the U.S., I'll start with the why, why not just focus on Penfolds. I think as you see where we've outlined that what this U.S. luxury business now creating the largest market in the world, where consumers continue to consume more luxury wine. I mean we've got a strong confidence. And I think in the last 3 years, I'm not going to go back over the last 20 years, I'm accountable for the last 3.

Yes, I think our performance and the changes we've made over that period of time has set us up to be able to do an acquisition like this, when you bring it with our luxury portfolio to drive the business to have a very, very strong second business in the luxury space with Penfolds standing right next to it.

Yes, there's no reason why we can't do both. Penfolds is not going to be starved of any investment. It's not going to be starved of any asset, it gets what it needs. And I've said this multiple times, Penfolds clearly is a beautiful business, and we give it what it needs to continue to grow. We believe we can have a very strong second business, next to Penfolds in the luxury wine space. So that's important.

And we've been clear on that with what we're driving strategy-wise. And I understand we have a disagreement and misalignment on strategy, and we disagree with that, and that's fine. But that's why, this delivers on all of that. This improves every operating metric we have in terms of the business, the quality of this business goes up exponentially with this acquisition. Yes. No doubt about that. So that's the reason why we continue down this path. We have a strong belief in the team in place to actually grow this business.

Stuart, you can cover the return on capital?

Stuart Boxer

Yes, sure. So thank you. In relation to the return on capital, yes, I understand your mathematics on day 1. Certainly, we've outlined in this presentation the opportunity for growth for this business for us, both in terms of the top line growth and also the material synergies that we see is available, which gives us confidence about the return on capital improving relatively quickly. I think that – so we're very confident about where that lands.

The other comment that I'll make in relation to your tax credit comment, David, is that, that relates to taxer in the U.S. that gives us real cash from deductibility of that goodwill, which is U.S. tax law. So we're just outlining that because there's a real tax – a real cash benefit that will come to the company over time.

Tim Ford

Thanks, David. And I'll just reiterate, I said it in my speech earlier. Yes, we're not banking this acquisition on the tax credit line, right? This is a cherry on top that we're not using on any metrics or decision-making process. It's something that flows through based on the uniqueness of the U.S. structure. So don't think we're trying to add that in to make the metrics look better, we're not.

Operator

Your next question comes from Lisa Deng from Goldman Sachs.

Lisa Deng

I just wanted to understand a little bit on the run rate of the DAOU business. If we look at the NSR per case in CY '22, it actually was falling below $190 million. I think I've got $188 million. And also with the historical run rate being – I'm just looking at the NSR now, actually, closer to 30%. Why are we forecasting – sorry, first of all, why are we expecting the NSR per case to go back to almost $195 million for CY '22, what happened in CY '20 – sorry, in CY'23, what happend in CY '22?

Second, just with the historical run rate of growth at 30%, why do we only expect low double digits growth going forward? And then I've got a second follow-up as well, if I can.

Stuart Boxer

Sure. So I'll take that one. The mix – the NSR per case variance is really just mix-driven leases. So – and that does happen year-on-year. So that's not a big thing in our minds. Certainly, on that growth rate, I think the growth rate has been very strong historically. I think as the business gets bigger, just the law of big numbers means that the rate of growth will reduce in the future. So we've outlined the growth targets that we have going forward, which are still very solid, and we think are very achievable.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

Just following on from Lisa's question, you actually talked about the Discovery and Journey tiers, that will be driving the revenue growth. What – I couldn't see what they were, like what price point and really what I'm interested in is the implication for future EBITS margin?

Stuart Boxer

Yes, sure. Richard Barwick. Yes. I mean the Discovery and Journey tiers are that sort of $20 to $30 price points. And when you look at the distribution growth from a national level within the United States with a Californian-centric model at the moment, we've said certainly the first step around the growth is around getting that on more shelves and taking the distribution forward, particularly on the East Coast.

So for a period of time, we certainly see that as being a key driver of the top line growth. The luxury and D2C business, which is the higher margin as well as there's some growth ambitions, they're largely contained within the earn-out structure as well. So that – which is over and above what we've outlined in terms of the financials with what we would term our base case. So we still see – all tiers growing, Richard, but certainly, the way we've structured this arrangement with the earn-out structure in particular. We certainly see the first instance, our model can really drive the Discovery entry-level tiers very strongly in the first year in particular.

In terms of margin, we think that sort of broadly around the margin where it is around that 30% plus margin pre-synergies. We'll continue to drive it at that level for the first couple of years. And then as the luxury tiers kick in with the earn-out structure, which we do plan to pay. It will be great for all of us, if we pay it. Then you'd expect the margin to increase there and then roll in the synergies gets you to that high mid-30s type number. Does that makes sense?

Sorry, we've been a little brutal on the cutoff today of questions. So again, we only have 0.5 hour. So we have plenty of time to follow up in probably our subsequent calls over the next few days.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

I'm just following up on a couple of other questions on the timing. Just understanding bandwidth, you've actually got to do this in the business at the moment because you've got 19 Crimes that are obviously still trying to get that going again, which feels like it's taking longer, and some challenges around second half U.S. earnings. Got Frank's, which literally going for a little while, but still ramping. Presumably, you're going to go after source a whole bunch of juice to build up the global capability here.

You've got Penfolds obviously trying to push into China, it just feels like you've got a lot on trying to now bring a big acquisition, which wasn't – doesn't sound like it was a competitive process. How confident are you to actually be able to execute on all these things, particularly in the U.S., given sort of talked to not your watch has been tumultuous 10 to 15 years around execution?

Tim Ford

Yes. I like the factor 10 to 15 years. Thanks, Ben. It's – again, I'll worry about the last 3. And I think we've shown we can actually do significant things with the team there in the U.S. at once and still deliver the business notwithstanding some of the things we've outlined in the past, of course.

I'll let Ben answer this, but I'll just give a broader summary around the – yes, this distraction in the question around Penfolds versus Treasury Americas, we will do both. So let's not – don't be concerned that this will take away from anything to do with the trajectory of Penfolds.

We divisionalized this company so that we have separate focus, separate teams, separate people. That is what they worry about. Telling at Penfolds team do not worry about integration in the United States, I assure you. And I'm sure we all agree they're doing a pretty good job with Penfolds. And – yes, we're ready if there's a change in China to clearly take that forward as well.

But Ben, do you want to talk about from a U.S. perspective, your readiness because the reality is, you're driving it.

Ben Dollard

Yes. Sure, Ben. Look, I think for a start, the opportunity is very clearly aligned with our strategy for growth. And I think that's a really important consideration. It is not replacing our existing ambition. It's simply building on it. And so to that end, we're not walking away from any of our existing organic growth plans and opportunities.

However, as you think about the portfolio, you think about where the consumer is headed and you think about the quality of the business that we're acquiring, it really does, I think, allow us now to continue the journey we've been on, which is creating a world-class luxury footprint.

And just on the opportunity, as it has come to us, we're always looking at opportunities. And they have to be the right ones. And as, Tim, mentioned before, the conversations we've had with Daniel and George and the team, this is absolutely the right fit for our portfolio, and it's an absolutely beautiful brand. And again, it's not going to take away from the other priorities we have in the business including, as we think about 19 Crimes and the focus on that, the growth of Matua and executing against our Frank Family acquisition plan. So I'm very confident that we'll be able to continue to manage the portfolio and now welcome a really hot and exciting brand.

Tim Ford

I think the other thing, Ben to add that is there's some nuances here between Frank family and DAOU as well. Yes. And the largest one is, DAOU is a bigger business. obviously, we've paid a higher price to get that. The team within DAOU, the management team within DAOU and the broader team within DAOU, some 250 people within that DAOU team. Coming together with our team, we have significant resource when you bring these 2 businesses together and high-quality resource that with, what we've seen in the discussions with them so far, a very, very similar mindset and a capability to do – to deliver. And to do both the strategic as well as the operating on a daily basis.

So yes, we shouldn't – this isn't Treasury Americas taking over now. This is a combination of the 2 businesses for those luxury portfolio, it's a really important point. DAOU is a cornerstone of this future luxury business in the U.S.

Operator

Your next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

Just to back up Errington's point. I mean, the America's business at the moment makes less money than it did in 2019, you've had a big FX tailwind and you had $40 million from Frank. So I'm just not sure whether, I guess, the compelling kind of reason to do this deal comes from, but anyways that's not my question.

My question is just on the actual earnings of DAOU. So I think in the presentation, you've said here, the 3-year CAGR is 61% CAGR, and it did $63 million of EBITS in – it will do that in '23. Is my maths right in thinking that the business did $15 million of earnings in 2020. Can you maybe just talk through why it's gone up so much over such a short period?

Tim Ford

Yes. I think your maths without having myself to that, I'm sure it's right, Tom, because you always are. So I'll take that as truth. I think – I mean the biggest change from DAOU's point of view, where they started to really, really explore their distribution was when they started working with RNDC, some 3 years ago. That was a start of real success for them in the United States.

And as we've seen and we've talked about a lot, having the right distribution partner, who's building your brand, driving your brand is a big, big part of the success and DAOU made that change to RNDC and that really has driven it. I think separately, the expansion of the portfolio, which did start with purely the Discovery tier when they came to market a number of years ago. But as they broaden that portfolio and innovate it to meet more consumer needs, they've got a much broader portfolio, higher margin at the top end and the D2C business on the back of the brand gaining presence in the United States retail channel, in particular and on-premise, but in California, has really significantly increased at that time.

So we're very confident as to why they've grown. We understand why they've grown. Hopefully, my answer outlines that, it has been quite outstanding. And we certainly see there's a lot of runway to go when you look at the numbers the way we've looked at distribution. We've looked at the markets they're in and how we align that with our portfolio. So your point is right, and thanks for the upfront commentary.

Operator

Your next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

I'm just, again, trying to understand the business you're acquiring here a bit better. I've just noticed at the end of the presentation there, your channel mix and sourcing is a little bit surprising with only 4% of grapes seem to be sourced from their own or leased vineyards, and most of it is obviously from third-party growers.

And then quite a large off-prem exposure as well for a luxury business, I would have thought it maybe would have been skewed the other way. So can you just help us understand sort of how this business is structured and really what you're buying in terms of the asset quality of the business? Are you buying a brand? Or are you buying the quality of the winery itself from what they're growing and the providence?

Tim Ford

Yes. Thanks, Bryan. Fairly, they're the good question. The – I mean, realistically, we're buying the brand. There's assets, quality assets behind them that have been invested in. From a vineyard perspective and a sourcing point of view, the owned vineyard are at the top end. So they're ultra luxury and certainly supply in the Reserve tiers, the Estate tiers, and the Patrimony tiers. The model for the Discovery tiers, et cetera, is around growing networks, et cetera, which from our point of view, we think is quite a strong model they have, particularly around Paso Robles, that allows you to scale.

And as we bring that into our winery network, we certainly have the capacity to bring that in pretty much by next vintage. So that's an important part of the synergy piece as well. So from a sourcing point of view, it's in good shape.

From a channel mix, I think given the business over time has grown up, if you like, in retail with the DAOU brand and the Discovery tier, I'm not surprised by the level of the retail or the off-premise percentage that exists in the business. Certainly, the mix is shifting from off-premise to more towards on-premise. And the D2C business is partly becoming a bigger part of the earnings going forward as well. So it makes sense.

I think your point is now slightly different to when we explain Frank Family. We started on-premise. This does have a very strong on-premise business, but largely more Californian focused than certainly on the East Coast. And again, we see that as a distribution opportunity. But, yes, your view of it is right and it's slightly different to the Frank Family mix. No doubt you would have understood when we went through that. So good questions, Bryan.

Operator

Your next question comes from Craig Woolford from MST Marquee.

Craig Woolford

My question, I'll try 2 parts given we get cut off at the end. Firstly, do you have even just a guide as to roughly where revenue was in 2019 and the purpose of that is just trying to understand what the business looked like pre-COVID? And then you talk about that this brand could rival Penfolds as one of your more positive statements in the address. What did you really mean by that over time?

Tim Ford

Yes. I'll take the second and then the guys can – Stuart can jump in on the first. So when you look at the attributes of this brand and the way it connects with the consumers, the way they've executed the experience, the luxury experience there, everything about it is high quality luxury.

We've done some fairly extensive testing of this brand in markets around the world. And it does give us confidence as part of our due diligence process. Now I'm not sitting here to say we just bought the next Penfolds, but the attributes of this brand, when you link it with how we can build luxury brands around the globe, and we've shown we've got that capability, particularly with Penfolds. We certainly are setting ourselves the task to build this brand internationally in its own right, in its own way. But certainly, as a luxury brand, we see some really significant opportunities in international markets, particularly in Asia over time.

And also to think about the model going forward with the DAOU brand, we've aligned this with George and Daniel as well, is it doesn't always have to just be a Californian brand over time. Everyone knows our model is we build brands and we build brands that consumers love. Whether that's made – the wine is made in sourcing California or France or Australia, it's a model we'll certainly look to roll out with DAOU over the future years as well.

So the essence is there and the characteristics are there for DAOU to achieve something like that, well ahead of, I think, other brands we have in the portfolio today. Stuart?

Stuart Boxer

Yes. So in terms of your revenue question. I want to make 2 comments. First, I don't have 2019. You can do the maths on 2020, which I think will give you $69 million is the number when you back off with the CAGR. I think the other thing, it comes back to, Tim's point, which is given the growth of this business over the last few years has really been driven by the change in distribution, particularly with RNDC. 2019 comparator is really probably not that valuable anyway.

Operator

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

Phillip Kimber

Just a quick question on the sort of margin structure. I mean the margins 29%, 27%, 30% over those last 3 years. Revenues never doubled and percentage margin hasn't really moved that much. So I'm just wondering why the incremental margin from a business like this isn't significantly higher? Has there been a lot of cost put back in the business? Just wanted to understand that a bit better.

Tim Ford

That I could pick up, Phil. One thing, George and Daniel have driven with their management team is they invest ahead of growth and they drive. They really do invest and the quality of that investment pays off in future years. And that's a premise they run that business by and have run that business by.

Now gets to the scale it's got across the U.S., in particular, that's where we can see improvement in that margin structure going forward. And you should see the leverage through the P&L actually improve over time. But a very deliberate strategy to invest in the brand experience and bringing the brand to market, as they've gone through this, what has been a fairly significant growth phase. So that is what's driving that.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

Can you talk to us a bit more about the timing of taking Patrimony to Asia? Just how much excess wine do you have right now? Can you do this why you're also increasing the U.S. distribution? And any color around how much you intend to increase sourcing in the short and medium term? And then just kind of a follow-on from that in the U.S. Volume growth has been really, really strong in the last few years. Should we assume depletions have been in line with the volume growth?

Tim Ford

Thanks, Sam. In terms of Patrimony, there's a difference between this acquisition and one we've explained in the past, which is the business has created the wines in the last 2, 3 vintages and including this current vintage, which is looking like an absolute cracker in the U.S. But created the wines to enable the growth going forward. Big difference to when we acquired Frank Family, where we had to wait until now or to end of this year, fiscal year to be able to really grow that business significantly.

So there is the wine there, the sourcing is there, the investment that's been made in the vineyards does unlock incremental growth. I know the percentage of vineyards might look small on the chart, and that's – it's a right pickup. But the volume of that Patrimony growth is going to be supported by that. So we certainly have more wine to sell.

In terms of the potential growth into Asia. As you see in the disclosures, the international business is very, very small. So once we start to understand that brand, once we own the business, bringing that brand into Asia. We'll be better positioned then to give a further view of what the time frame of that ambition looks like, Sam.

Stuart Boxer

What was your last?

Sam Teeger

Yes. Depletions?

Stuart Boxer

So look, this is a business that has been growing strongly in a growing business. You tend to see shipments growing pretty quickly. We're really comfortable, though, with the balance here between shipments and depletions.

Tim Ford

And inventory level of DAOU.

Stuart Boxer

Yes.

Tim Ford

Okay. One more?

Operator

Your next question comes from Jason Palmer from Taylor Collison.

Jason Palmer

I'm just carrying on from that supply question. I mean, the business has been growing really strongly. I think you said they've been creating inventory out of the curve. Are you able to sort of talk to how – or whether that's actually caused any stock outs relative to where you wanted to sort of stop the product, as not the category wise and distribution still under 70%.

Tim Ford

Yes. No, Jason. It's – inventory levels are fine across the future inventory. As you can imagine, doing an acquisition like this, we've been quite forensic in terms of linking what inventory exists to be able to make sure we can hit the growth targets that we've got and the numbers there. So it's in really good shape in terms of the access to that high-quality inventory that we need to do it.

The good part about the Paso Robles region, and we know it very well because we've been there for 20 years. I said I wouldn't talk about 20 years, didn't I say. We've been in the last 3. We know that. And the region has incremental sourcing available. It's a fantastic quality region. Its lower cost of goods, the cost of land, which drives cost of grapes in California, as we all know, is significantly lower than Napa Valley as well.

So for us, to have a luxury brand that's famous for coming from Paso Robles, cost structure-wise and ability to expand sourcing is a significant advantage.

All right. That was a very quick Q&A. So, as I said, just to ensure we got as many questions out, apologies for not necessarily enabling the multipart questions that we normally do. But we'll have plenty of time to talk to everyone over the next few weeks. Thanks for dialing in. Please keep reaching out with the questions. Important to understand this acquisition, and we look forward to explaining it to you and bringing it to life. So have a good day. Cheers.

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