Investor Day 2021
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Presentation

Tim Ford

Okay. I think we're good to go on time, Bijan and [Mel?] Yes. Great. Well, actually, do you want to pull the doors open, please? So good morning, good afternoon, good evening, and a very warm welcome to the Treasury Wine Estates 2021 Investor Day. I'm Tim Ford. I'm the Treasury Wine Estates Chief Executive Officer.

I would like to begin by acknowledging the Gadigal people of the Eora Nation, the traditional custodians of this land in which we gather today, and I pay my respects to their elders past, present and emerging.

Our safety mantra at TWE is destination zero harm. And so before I begin, I'll firstly talk you through our emergency procedures for those here with us at the Hilton in Sydney today. We're currently located on Level 2, which is highlighted on the slide behind me. If we are required to evacuate, we'll be alerted by an alarm system. Please exit the doors on the – on my right-hand side there in the room, turn right, take the stairs down and exit the building. Our assembly area, if needed, is on George Street in front of the QVB building.

So I'm delighted to have joining me today, our executive leadership team. And I'm going to just quickly introduce each one of them to you now. Matt Young, our Chief Financial Officer; Stuart Boxer, our Chief Strategy and Corporate Development Officer; Kirsten Gray, our Chief Corporate Services Officer and Company Secretary; Katie Hodgson, our Chief People Officer; Angus Lilley, our Chief Marketing Officer; Peter Neilson, the Managing Director of Treasury Premium Brands from July 1; and Kerrin Petty, the Director of our

Global Supply Chain here as well. Joining us remotely and hopefully on the screen are Tom King, our Managing Director of Penfolds, who is in Shanghai; and Ben Dollard, the President of our Americas business, who joins us from Napa in California. There's Tom.

I'm also particularly pleased to introduce 3 members of our Board who are with us for the – in the room this morning for the morning session. The connection between our Board and our management team is as strong as it's ever been, and it's really important and the directors are very keen to come and show their endorsement of our plans we're talking about today. So I'm pleased just to introduce our Chairman, Paul Rayner; Warwick Every-Burns, who's the Chairman of our HRC; and Toni Korsanos, a member of our Audit and Risk Committee.

So clearly, we can't have all of our Board members here because there are a number of them in Asia and the U.S.. It's great to have the 3 here today.

So before we jump into the main event, I'd just like to personally convey my thanks to each and every one of you joining us here in Sydney today and joining us via the webcast. We know you have time and you have choices, and we appreciate you making the choice to come and talk with us today. This is a very special week for TWE as it marks our 10-year anniversary as a stand-alone company since demerging from the Foster's Group, and the decade has clearly been a period of significant change and achievement for our business.

So in addition to today's Investor Day planned for this week, clearly, we have another – other events lined up around the globe to celebrate our past and to look forward to our future.

Our objective for today is to provide you with a comprehensive update on our business, our strategy, including specifically our enhanced consumer-led approach to brand building and the new divisional operating model that we are very, very excited to be launching on July 1. We're also going to have news on a number of other key areas of our business, including our supply chain, our people and our culture, our sustainability journey and how we are using technology to drive significant change at Treasury Wine Estates. And then finally, we'll look to piece all of this together when we outline in detail for you our long-term growth, financial ambitions. So that's the plan ahead.

To kick it off, we are a premium-brand-focused global leader in wine with strong positions across a number of markets, supported by a global footprint and business model that is unrivaled by any other player in our industry. Diversification, a hot word of late, is the key feature of our business and has been for a while and is at the heart of our strategy. We are diversified across our multiregional sourcing and sales geographies, our iconic and award-winning brand portfolio, the price points that we offer and the diverse range of consumer experiences that our brands impact day in and day out. Our talented and dedicated global team is over 3,000 people strong and has worked incredibly hard in recent years to transform this business into what it is today. And whilst we are proud of what we have achieved so far, we are now very focused on positioning our business for the next phase of its growth journey and the achievement of our ambition to be the world's most admired premium wine company.

Supporting this ambition is our long-term investment case, which comprises 5 key elements. Starting with the wine category, where strong premiumization trends are driving category growth, something which I'll touch on in more detail shortly.

Our global portfolio of well-known and trusted premium wine brands is very, very well positioned to capitalize on these trends. And we expect our new divisional operating model to step-change the performance of our key brands over the long term.

Our competitively advantaged and differentiated route-to-market models provide us with a global distribution platform that is unrivaled in the world of wine with our overarching goal to be as close as possible to our customers and consumers across all of our key markets.

Our global asset base is the foundation of our business with world-class vineyards, winemaking and production assets in internationally acclaimed winemaking regions, reflecting a truly diversified global model that is also unparalleled in the wine industry. Complementing this asset base are our winemakers who consistently produce wines of exceptional quality, and that's what we're about.

Finally, our strong, flexible and efficient capital structure is and will remain a fundamental strength of this business. Recent months have presented us with a number of significant challenges, and the way our capital structure has enabled us to navigate this period is testament to its durability and its strength.

Looking forward, this great capital structure strength that we have will continue to support investment right across our business and be the key enabler for our growth ambitions.

So I'm going to spend a little time talking back. Treasury Wine Estates today is a vastly, vastly different business to the one that demerged from the Foster's Group in 2011. The elements of the long-term investment case I just spoke to were built by our past and present management teams and complemented by our fit-for-purpose cost and capital base and, most importantly, an agile, resilient and growth-minded culture.

Numerous key milestones have marked our journey, including our acceleration in luxury inventory growth strategy which commenced in 2014, the acquisition of the Diageo wine business largely in the United States in 2016; the acquisition of production of vineyard assets in Bordeaux in 2019, and also commencing the significant expansion of our South Australian luxury winemaking infrastructure that same year; and more recently and very importantly, the resilience this business has shown in successfully dealing with a number of external factors, including the COVID-19 pandemic, the tariffs imposed by China on Australian wine imports and significant fire events in both Australia and California.

The extent of this change is underlined by our financial performance over the past 10 years, which reflects outstanding performance notwithstanding the impacts of these external factors have had on our metrics since the beginning of 2020. Premiumization has been a key driver, with well over 70% of our revenue now coming from the premium and luxury price points, and revenue per case having increased 50% to be above $80.

And a quick housekeeping point here. Just moving forward, we are going to talk to our portfolio and business performance with reference to 3 retail price point segments being luxury, $30 and above; premium, $10 to $30; and commercial, $10 and below. And as such, we will no longer be referring to the Masstige retail price point of $10 to $20.

Strong top line momentum from this improved portfolio mix has been complemented by strong cost discipline, which, in turn, has seen EBITS increase by over 160% and with EBITS margin having almost doubled over the period to 20% after having reached the high of 24% in fiscal ’19.

Our return on capital employed has more than tripled to 10.6%. And will remain a key priority for us to improve further. And total shareholder returns of over 290% are well ahead of the performance of the ASX 200 and ahead of our global peers over the same corresponding period. And today, we’re also pleased to provide an update on our F ’21 fiscal year EBITS outlook, which we expect to be in the range of $495 million to $515 million, ahead of current consensus expectations and a continued reflection of the underlying strength of our business.

Looking ahead, change will continue to be ever-present in our business with a number of market and consumer trends creating both opportunities to take advantage of as well as risks to manage for the wine category and for Treasury Wine Estates. Over 1 year into the global pandemic, a number of powerful trends will permanently change the way we're engaged with our consumers, we are convinced of that. The acceleration of e-commerce and digital engagement, the rise of localism, increase in home consumption and heightened social consciousness are just some of the elements that we will continue to harness as we become a truly consumer-led, consumer-relevant business.

Recent months have also seen a number of unavoidable global events that forced us to change the way we think about our business and pleasingly exposed a number of previously under-recognized opportunities. The effective closure of the Chinese market to the Australian wine category was a significant event for Treasury Wine Estates and the Australian industry. But we are truly excited by the opportunity that this now presents to us to accelerate the growth of our business in a number of other key global markets where previously we simply have not had the wine available to do so. We are very confident around the prospects for growth across all global markets, and we expect to continue enhancing what is already a well-diversified global model in a manner that will only strengthen our business over the long term.

Finally, a number of social, economic and consumer trends have been gaining prominence for some time. Sustainability, technology, health and wellness, environmental priorities, increased focus on corporate behavior, and the shifting population demographics are among the powerful trends of our portfolio strategy and particularly our innovation roadmap will harness in the future. You'll hear more from each of the speakers today about how we plan to both respond to these trends but, more importantly, take advantage of them as an opportunity to accelerate our growth.

Starting with the category. Global wine category trends remained strong, led by premium price points, which had already been growing very strongly for a number of years prior to the global pandemic. Fueling premiumization has been the emergence of the buy-better trend, reflective of the socioeconomic dynamics shown on the previous slide, in combination with the increase in younger consumers who are now engaging more broadly in the wine category than generations before and are spending more on their wine purchases than the generations before.

Trusted and unique brand propositions are playing an important role in category premiumization, something which our innovation-focused premium portfolio caters very, very well to. And premium wine consumption is forecast to continue growing strongly in the years ahead, providing an excellent backdrop for us as we focus on achieving our growth ambitions.

One of my top priorities upon becoming CEO last July was to work with our leadership team to set about establishing the strategic blueprint for our next 5-year plan, headlined by our ambition to be the world's most admired premium wine company. To deliver on this ambition, we will be bold in our decision-making and the way in which we innovate that will drive change in the world of wine. This is the TWE Way. This is what we're about, to boldly lead change in the world of wine.

Supporting this is our DNA. It's the cultural code with which we act and which defines who we are and why we do, what we do. And we'll form the experience that everyone who touches TWE has. It reflects the next phase of the cultural journey for our company and is critical.

And as game plan describes how we will operate and grow our business and what success looks like for each part of our company, across our brands, our sales models, our sourcing platforms, internal and external partnerships, and most importantly, our talent. And this reflects the 5 pillars of our game plan.

Across our portfolio, our focus is firmly on the consumer and the unique personalized experiences we want them to have with our brands. Over time, we have reoriented our business with a change in mindset, which has moved us from being agricultural-led to brand-led. And now we'll hold the consumer even more so at the heart of everything we do and every decision we make. Bold innovation is something that has now become a real point of differentiation for us and will continue to be integral focus for us moving forward, and you'll see some great examples of that today.

Our diverse multiregional and multichannel sales business and sales models are a key strength, and we are driving even more balance in our sales mix through a specific focus on growing our premium brands through a range of channels, including direct-to-consumer and the retailer e-commerce platforms, whilst continuing to build on already strong relationships with our key distributor and retail partners.

Having access to premium sourcing through our sustainable, multiregional sourcing and winemaking model in some of the world's most iconic regions is a significant competitive advantage for TWE, and we will build on this in a way that is truly innovative, consumer-driven and sustainable. We will make the quality wines consumers demand at the very best cost and we'll become an industry champion and leader in sustainability.

Building on this, we are driving a step-change in the way we approach partnerships. The evolution of mutually beneficial partnerships across customers, growers, suppliers, government, industry bodies, the list goes on, and the communities, importantly, in which we operate is an absolute priority for us.

And finally, to the most important pillar at the center of our game plan, deliberately at the center of our game plan, our people who are without doubt, our most important asset and the key to our current and future success. We are working hard to drive increased engagement across our global team with an elevated focus on how we recognize and reward, how we better support and build connectedness with one another and how we continue to evolve the fun, bold and highly motivating culture at Treasury Wine Estates.

So whilst components of the game plan and initiatives within it will naturally evolve over time, you can expect to see the key elements that underpin the TWE 2025 game plan to remain consistent as a very clear path to the continued delivery of our long-term growth journey. We do hope that today's agenda will bring Treasury Wine Estates 2025 to life for you. And you'll walk away with a strong understanding of and a belief in how we are going to deliver against this plan and our strategy.

At our 2021 interim results announcement in February, we announced the new brand portfolio-led divisional operating model, which we are currently in the final stages of implementing and we'll be operating under fully from July 1. This carefully designed and thought-through global model will drive increased focus and accountability throughout our entire business, which, in turn, we expect to unlock our long-term growth potential.

The model will be headed by 3 new brand-led divisions, Penfolds, Treasury Premium Brands, and Treasury Americas, and supported by the global strength of supply operations, Treasury Business Solutions and a streamlined corporate center. Later this morning, Stuart Boxer will outline in detail the rationale for and the benefits of this model and will then be followed by Tom, Ben and Pete, who will outline the growth opportunity, the strategic priorities, the financial targets of their respective divisions moving forward.

As a business across all Treasury Wine Estates, we remain absolutely focused on delivering quality growth with our financial goals centered around driving profitability, efficient capital usage and, in turn, the delivery of sustainable shareholder returns. Here on this page, we summarize the Treasury Wine Estates' growth objectives, headline for the first time by our objective to deliver sustainable top line growth and high single-digit average earnings growth over the long term. We are proud to share with you our objectives for the long-term growth as we believe it demonstrates our confidence in both the fundamental strengths of our business as well as the opportunity for the plans that the team will [you –] present to you today.

Our confidence lies not only in the size of the growth opportunity but also our ability to deliver consistently over the long term. Complementing this growth objective will be the continued premiumization of our sales mix, the expansion of our EBITS margin to 25% and beyond – sorry, and restoring our capital – return on capital employed to pre-pandemic levels in the first instance, of which we will then look to grow this very, very important metric.

These financial objectives highlight not only the expectation that we remain a growth company but more importantly, that we remain a sustainable growth company. Each brand-led division will also contribute differently towards delivery of the overall TWE growth objectives, and it's a core principle of our operating model going forward. For Penfolds, it will be about growing the top line by recruiting new consumers across the globe and building distribution and availability in key markets to drive earnings growth at existing margin levels. For Treasury Premium Brands, growth will come from premiumizing the portfolio mix and delivering against what are significant cost and capital efficiency opportunities. And for Treasury Americas, our focus will be centered around building on the momentum already within our premium wine business to drive top line growth, which, in combination with further cost and asset base optimization, will support higher earnings and improved return on capital for the Americas business.

So throughout today, you'll hear from each of the leadership team about our plans to deliver on these growth objectives but with one consistent theme throughout: the consumer must lie at the heart of every decision we make.

And with that, I'll hand over to Angus Lilley, who's going to talk you about – talk to you about the premium wine consumer, our insights-led approach to consumer engagement and our way we're going to build outstanding consumer experiences. Thanks, Angus.

Angus Lilley

Thanks, Tim, and good morning, everyone. I'm Angus Lilley, TWE's Chief Marketing Officer, and I've spent the past 8 years leading highly talented marketing teams here at TWE. Prior to this, I've held various senior marketing and commercial roles in the wine industry both in Australia and the U.S. It's a pleasure to join you today and share with you the TWE way of marketing.

One of the key pillars of our TWE 2025 game plan is focused on having a consumer-focused premium brand portfolio, and this has led us to entering the most exciting period ever for marketing at TWE. We are placing an enhanced focus on connecting with our consumers, to unlock the power of our extraordinary brand portfolio.

At TWE, we see marketing's role as leading the business to be more consumer-focused. We know the category is not easy to engage. So we endeavor to help consumers make discovering and sharing our wines just as pleasurable as drinking them. And we do this by leveraging our brilliant portfolio through smart innovation and creating delightful experiences that help address consumers' needs. We aim to deliver breakthrough innovation to recruit the next-generation of wine drinkers and retain current consumers through the discovery of new beverage offerings, varietals and expanded wine occasions. We aim to continually build on our luxury wine leadership with disruptive, consumer-centric innovation and utilize adjacent categories to unlock new revenue streams to complement our core wine portfolio. We will create experiences that allow more consumers to enjoy our wines and allow us to get to know our consumers better.

Exploiting our connection with consumers through enhanced investment in our own direct channels will be key, leveraging new experiences to enrich the wine category and also use enhanced segmentation to drive personalization and impact across our focused portfolio. We will also enhance our understanding of the premium wine consumer and category globally, which I'll talk much more about later.

We've identified 5 key drivers of future wine category growth globally, 5 major opportunity spaces through which we'll either drive category recruitment or increase purchase size. These include discovery, helping consumers discover new varietals and new wine occasions; refreshing sociability, bringing wine to refreshment occasions, not traditionally associated with wine; step up, providing consumers with elevated selections; conscious consumption, helping consumers make conscious value-based choices when they shop; and finally, comfort at home, supporting the dine with wine at home trend. These are 5 major opportunity spaces through which we'll either drive recruitment or increase purchase.

I wanted to now share some examples of some of the work we've been doing through this – to bring this vision to life through the brands and activations we've recently been taking to market. Firstly, on the innovation front. Over the last 5 years, 19 Crimes has become a powerhouse of the TWE portfolio, focusing squarely on category recruitment through our discovery category driver. Nowhere is this more evident than in the program we developed to take the spirit of 19 Crimes and partner with pop culture icon, Snoop Dogg, to launch our first California [red blended] wines. We smashed our first year's volume target in 6 weeks and welcomed the new generation of U.S. wine drinkers to our brand. We're currently launching Snoop Cali Red into Australia, and we'll be taking it to other markets around the globe soon.

But it's not all about Snoop. 19 Crimes continues to innovate globally. We have created award-winning retail activations here in Australia. We've created new formats like bag in box and new wine propositions like Coffee Shiraz that have driven incredible growth in the U.K., a market in which we will sell over 1 million cases of 19 Crimes this year.

For Penfolds, the marketing work we've been focusing on is around giving consumers the confidence to step up and buy into a truly incredible luxury brand. In 2020, we also used the Penfolds House to launch our luxury collaboration with French-inspired Chinese lifestyle brand, Shang Xia. Together, we created the Bin 389 limited-edition bespoke leather wine carrier, a rare offering that pays homage to the culture and traditions of auspicious blessings when fine wine is gifted in China. The exclusive partnership was extensively shared over social media channels with local celebrities and influencers taking part in the launch, bringing Penfolds to the forefront of consumers on Chinese social media.

We believe that connection to values and purpose is only increasing. That's why we've chosen to pivot Lindeman's, the largest single brand in our portfolio above volume to focus squarely on embracing a purpose-led conscious consumption agenda. Through a partnership with the Carbon Trust in the U.K., we became the first TWE brand to be fully carbon-neutral in Europe. We extended that in-store to create a retail promotion that's the very definition of building a circular economy, buy 1, get 1 free. For every Lindeman's bottle bought working with the agency partner, we'll plant a tree. And we're continuing to innovate with better-for-you propositions like our breakthrough in Lindeman's alcohol-free wines range that means you can make more conscious choices without missing out.

This year, through COVID, we've doubled down on driving the digital innovation agenda with major investments in virtual tastings, social media engagement, digital cellaring tools and using cutting-edge technology to ensure product authenticity. So we're incredibly proud of the vision we've defined and the work we're doing to drive the TWE business to become even more consumer-driven and consumer-focused.

But we also recognize we need to stay ahead of the category and our competitors. And for that, we need bold foresight, the kind of game-changing intelligence that can shape a different kind of future as a true consumer-driven business, which is why I'm incredibly proud today to share with you a few early insights from our largest ever investment in understanding the luxury consumer and their relationship with wine. We surveyed 6,500 consumers globally and held in-depth interviews with luxury consumers and opinion experts. This allowed us to better understand luxury consumer needs and choices and trends in luxury wine – in luxury goods beyond alcohol.

So what were some of the key insights? Number one, fine wine is a product, luxury wine is an experience. It's about creating memories that consumers can take away with them. This has strong implication – implications in terms of how we give consumers a reason to trade up and how we invest our marketing spend.

Number two, exclusivity remains true to luxury with cultural overlays of accessibility, inclusivity and tech are changing the way brands go to market. We need to reframe luxury view on price, look at time-based luxury exclusivity, such as the first in best rest or one-offs.

Three, there is no one size fits all in luxury. Different cultural contexts provide a different lens through which to view the category. And we know nowhere is this more true than in China.

Number four. Luxury has always been an unnecessary extravagance, but most consumers increasingly want to feel good when experiencing luxury goods. Sustainability is not a nice to have anymore, but a must-have. It's not just about the products we make, but the impact we have on the world around us when we make them.

Five, our challenge in wine is to get more people to willingly enter the category, and providing gateways to wine consumption will be critical. Currently, wine under-indexes in the gifting opportunity versus spirits. But it's clear that if we can unlock this as well as new ways to try our wines, then we can unlock significant new category entry opportunities.

Six, in more mature markets like the U.S. luxury wine skews older and male, and it's clear there's significant growth headroom in introducing wine to younger and female drinkers.

Seven, the sweet spot for consumers believing in luxury propositions. Anything less than what's mapped out on the screen these days [is seen valuable but premium.] Perceptions of luxury credentials allow us to transcend rationality and sell more on emotion.

And finally, #8, one of the most telling insights was around knowledge. There's no doubt that as consumers know more, they are willing to spend more. And consumers are incredibly willing to learn about wine and the stories behind wines, but they're also often put off by the intimidation factor of the category. So our key challenge will be to unlock the knowledge gap consumers have and arm them with the confidence to explore the category.

Through all those insights, we've identified 8 luxury growth opportunities. These are the ways we think that we can begin to drive more consumers into our premium luxury wines and convince those already there to spend more. It's worth saying at the outset that everything we do in this space must be underpinned by a commitment to sustainability. It's the core of how we'll create value moving forward, be that in the way we produce, the way we sell or how we present our brands and those we partner with.

Gifting and marking the occasion. We know gifting is the #1 or #2 reason why consumers first tried premium wine across all markets. So we want to recruit new users to the category through elevating wine as a thoughtful gift choice. We're looking at permanent gifting solutions, gifting platform partnerships as well as exploring adjacent category opportunities.

Talkability. Recommendation influences between 71% to 95% of all luxury wine purchases. So we want to create recommendation paths and motivate consumers to share information.

Immersive experiences. Experience is what separates premium wine from luxury wine, and we know wineries and on-premise are key recruiters to the category. So we'll develop – we'll look to develop digital experiences to immerse consumers, educate and engage through luxury and premium selling tools and gamification.

Reward. Reward makes up 18% to 21% of the luxury wine market. And generally, this need over-index is high – in higher tiers and with higher knowledge consumers. So we'll provide consumers with knowledge and rituals and why they should reward themselves with new experience around the consumption occasion, new stories in rituals and new formats.

Impress Plus. Changing the mood or impressing others is part of up to 40% of all luxury wine occasions. So we'll build more status [for] tiers and reinforce those that are already strong in this space.

Gateway to entry. Having one close to hand influences up to 35% of luxury wine occasions. So we want to give consumers a little knowledge to provide the confidence to enter the world of wine. We've already done this with category-level initiatives like our 90-plus club, that groups all about 90-plus scoring wines together. So you may not have the knowledge but you can have the confidence to buy into this category.

And then sustainability. As I said, we know that doing good for the planet, for the community or oneself is a key motivator to spend more in luxury. So we want to be leading on sustainability through innovation, campaigns and support for causes.

Cellaring and collecting. We know that the largest group of people who are interested in cellaring aren't your older connoisseurs but our prime wine recruit drinkers, 25- to 34-year-old. So we'll encourage consumers to cellar and collect through new tech ideas, new physical storage ideas and new ways to track investments.

These have been prioritized by division. In the near term, we have prioritized growth opportunities with a focus by division on gifting and marking the occasion, immersive experiences and talkability being those key areas that we want to focus on. It's fair to say that there's a huge wealth of insight that this global study has given us, and I'd love to share more with you today. However, given the potential audience and who may be listening, I'm clearly not in a position to share all the detail. I am, however, extremely confident that the insight and information gain throughout the study has TWE uniquely placed to turn this insight into action and that these action plans will form the foundation for our accelerated luxury portfolio growth in the years ahead.

Thanks, everyone. I will now hand back to Tim for Q&A.

Question and Answer

Tim Ford

Thanks, Angus. And I'll just kick off Q&A quickly with a little bit of housekeeping if we can. All of you know, our normal mild-mannered Head of Investor Relations, Bijan, is always very accommodating, but he has been very focused on the rules today because the times we need to stick to are largely related to when we can move in and out of this room with a number of people with the pandemic restrictions that exist in the hotel. So it's not – we'll have plenty of opportunities for Q&A throughout the day. I'll be back up here at the end of each section. And obviously, we've got the breaks as well. So at the end of this first 15-minute section, if you feel like you've missed out, don't be offended. It's – you'll have plenty of opportunity. So enough preamble. Well, if you could just introduce yourself for the people in the camera too when you ask the question, that would be great. Bijan, if you can…

Ben Gilbert

It's Ben Gilbert here from Jarden. Just interested in how you think about innovation as well in terms of new brands coming through the portfolio. Obviously, 19 Crimes into – particularly in the U.S. have been phenomenal. But what have you got sort of coming up? Do you see anything on the horizon of that sort of scale or scope that you're going to sort of get behind from the marketing perspective?

Angus Lilley

Yes. It's – innovation is something that obviously when we're thinking about the consumer, we're thinking about how we're creating great consumer experiences. It's obviously one of the key areas we're focused on. I think what you'll hear today when each of the divisional heads get up and talk about their portfolios, it really is a story of focus around the portfolio. And I think a lot of the innovation that we do focus on brand, tier, the way we bring our brands to life is very much aimed at making our bigger brands stronger, better and having more impact with them to really elevate those experiences we're creating.

Beyond the core focused portfolios that the 3 MDs will talk about later, we do have areas and we are testing and learning. And I think the idea about expanding the portfolio and bringing new brands to life is something we're always considering. But largely, innovation is about making our bigger brands bigger at the moment, and that's the primary focus in elevating those experiences we're talking about.

Tim Ford

I'll just add a couple of bits. That doesn't mean I don't ask every week what our next 19 Crimes is, by the way. However, I think it's really important, and you'll see it today, and I'll give you some specific examples. Think about the breadth of the portfolio we have today.

And what we've been successful at in the last couple of years, in particular, is expanding the portfolio with new countries of origin, Penfolds, Pepperjack. You'll see – I won't steal everyone's thunder for later on. For a mature brand in the U.S., that's – it's about the different occasions, et cetera, who we touched on. But Squealing Pig is another good example. It's a brand that has a DNA about it. It is about inventiveness. It's innovative, et cetera, and we've branched off into different categories, whether that be with Ginsecco, whether that be with the Gin, whether it be with some of the other varietals that we've added to the mix of Squealing Pig. So we think our brands where we can stretch them rightly based on the consumer need is the best place to start because you can focus your investment there and the investment dollar actually can go a lot further when you do that.

Will you see us launching in the next 6 months any new brands of substance and scale? I think we've got a lot more runway within our existing portfolio and innovating those price points first. But in saying that, we've got gaps in our portfolio. I'm sure – I'll let Ben Dollard answer the question from a U.S. perspective because that's probably the market where, whilst we're pretty happy with our portfolio, there's still some significant gaps that we've got to decide do we innovate or do we acquire to fill those over the next period of time.

Andrew McLennan

It's Andrew McLennan from Goldman Sachs. Just a question in relation to Page 17. I know that your premiumization strategy, obviously, around commercialization or reduction of the commercial volumes in Americas, but also by expanding the luxury portfolio in the Treasury Premium Brands section rather than extending in Penfolds. We're all well aware of the very strong margin contribution from Penfolds – certainly now and previously in the Asian division margins, but I'm just wondering how you – can you provide confidence in the ability of reallocating or allocating incremental line into those premium strategies and luxury strategies within the Treasury Premium Brands section. And whether or not you can achieve the kind of margins you can from Penfolds currently?

Tim Ford

Sure. And as you rightly say, now very well aware of the margin structure of Penfolds. Sure and answered all the questions. Treasury Premium Brands, will have a center of gravity in the $10 to $30 price point, right? So that's the core focus of that portfolio is how we build, innovate, drive premiumization in that price point. So whilst we've spent a fair bit of time talking through the luxury consumer earlier, which is important, that $10 to $30 price point is an absolute sweet spot for premiumization in the category, particularly with younger consumers coming into the category. So that's the focus for TPB as we referred or we'll probably call it that for the rest of the day, if that's okay.

From a luxury perspective, you think about those brands, Wynns, Saltram, Pepperjack is probably more in that $30 range, but you never know, it could certainly go higher, I think, in terms of the portfolio and having a more luxury tier within that. Yes. The support of those luxury brands and the building out of those luxury brands that just haven't had the focus over the last period of time, last 2 or 3 years in particular. As we've built Penfolds so successfully over that period, there's opportunity in a number of markets around the world. And you've got to be really careful and targeted that those brands mean something to consumers in those markets.

I'll pick one example. I certainly think the U.S. market over time is a great opportunity. But in Asia, we don't talk about it as much, but some of these brands have some real latent brand equity, the luxury portfolio of Treasury Premium brands. And as largely Australian-domiciled people here, I think you all agree that Coldstream Hills, Wynns, Saltram, these sort of brands are strong heritage brands, and it's a portfolio of luxury brands that any other wine company around the globe would be absolutely proud and really keen to have in their portfolio. So we're pretty happy we've got them. And now we've got to actually drive that agenda. But in saying that, you're still going to have this $10 to $30 focus that Pete and his team will drive as the body of their business going forward and the body of their margin accretion that we see over time combined with the cost management, which is a big focus.

Larry Gandler

Just a question over here, Tim. That was my question. So maybe I'll just ask for an addition to that. So what you're saying is Penfolds is going to be the primary driver of the accelerated luxury growth? Is that really what you're saying?

Tim Ford

No. Penfolds clearly has a center of gravity in $50 and above. So clear – as the global luxury icon brand under a stand-alone division, that's its reason for being. From a luxury perspective, the U.S. portfolio absolutely is a big growth driver for us going forward. So the luxury portfolio in the Americas business.

But with TPB, just to make sure I land the point that I was trying to make, is that a $10 to $30 is the core of Treasury Premium Brands. That's the body of it, if you like, from that perspective, whereas there's still a luxury portfolio will grow.

Larry Gandler

And with these splits into Treasury Premium Brands and Penfolds, what happens in the geographies in terms of separation of duties or duplication of duties, everything from sort of finance sales? Are you going to have 2 separate sales departments? Can you talk through each of the geographies there?

Tim Ford

Sure. Probably the simplest way to explain it is every business unit will have their own sales and marketing team. The one bit that is actually not true under that premise is the Treasury Americas business will be the distributor of Penfolds in the United States, on behalf of Tom King and the Penfolds business unit. The reason for that is that Penfolds in the U.S., we see as a long-term brand building growth objective as opposed to there's latent demand we haven't satisfied because of not being able to allocate wine to that market. And with the launch of the Californian tier, the launch and building on the Australian tiers that were already in the market for Penfolds, we couple that with BV, Beringer, Stags' Leap with a luxury selling capability that we've built in the U.S., that's the portfolio. We believe that's the best way to grow Penfolds.

Outside of America, our Treasury Premium Brands sales leader will be visiting the same customer as a Penfolds sales lead if we sell to that customer with both those portfolios. There'll be completely separate focus, completely separate business plans, completely separate identity, if you like, with each of those customers.

Next question, Larry, I'm sure is, doesn't that add cost and double up. So I'll ask that for you before you go there. Because otherwise, you only get one question. The – yes. The answer is we will have an increased cost on our sales force globally, but it has been offset – before everyone writes that down, as everyone just did – it has been offset by taking costs out of other parts of our organization as we've done this global restructure. So our total cost base broadly is, net-net, flat from what it is today in our sales regional operating model to the 3 divisional brand-led model, but more resource in sales and marketing.

David Errington

Tim, David Errington. I'm glad I can ask this question with the Chair in the room because it will get you on the hook. It's with respect to your capital employed. I thought the chart that you did, your 10-year journey, was really, really good. It showed that the history of Treasury, when it came out of Foster's, it was a depleted asset. And you needed to build the investment up, whether it be in inventory, whether it be in assets, you [bought] the edge up. You've done a lot. You've put a lot of capital into this business, probably $1 billion of inventory, well over $1 billion for Diageo, et cetera. So there's a lot of capital in there. And recently, the upgrade to your production capabilities in South Australia with luxury production capabilities.

My question is – right. Where are you now in the capital cycle? Because my observation should be, in the next 3 years, 4 years, you've got all the capital that you need to be able to generate your high single digits growth that you've outlined, which you've put out there, high single digits on whatever it be. So you should be able to generate really good, strong ROCE growth for the next 3 to 4 years. Is that the right way to look at it? Because I would have thought you got enough capital now. You don't need any more capital employed. I don't want to hear you saying you're sweating the asset, but I want to hear that you can leverage what you've got to really good avail. So we, as the investors, can really expect some significant growth in ROCE. Is that what you're basically saying? And I'm glad the Chair is in the room because he'll be able to put [like] head and neck on the line as well.

Tim Ford

Yes. They ask me that question very often. So your question as a half statement is right. So if you go back and I guess the statement we made in here around restoring and growing our return on capital employed would suggest exactly that. So if you go back to the end of F '19, pre-pandemic, et cetera, our ROCE was in the order of high 13s, 13.8% or 13.9%, I think, Matt, yes? Something on those lines. And that's the baseline, which is the first step for us, which would suggest, clearly, the top line impact and the revenue impact of the last 12 or 18 months is what's driven the decretion of ROCE back to where it is – where it will be at the end of this year.

We're very confident with our plans that we've gone through our 5-year plans that have been the basis for our targets that we've outlined today, that we will return to those levels of ROCE over the period of this long-term plan.

That doesn't require significant incremental CapEx, clearly. If there's growth opportunities on – I'll use France as the example. So France, from a future growth point of view, if there's opportunities to spend growth CapEx, i.e., acquiring in that market for asset bases to help build out a French portfolio, then that we will certainly chase those quite aggressively. Do we need to invest more and more in our vineyards, winery capacities, et cetera? No. So we've got that – a really strong basis with what we've done in the last 5 years. I think where you'll see us invest more than what we have traditionally is around technology.

So Matt – I won't steal Matt's thunder because he's pretty excited about doing a Steve Jobs style presentation later on technology. So it'd be interesting to see a CFO being Steve Jobs. But yes, that's where we'll invest more, but it certainly won't be to the levels we've seen around our supply chain as you called out.

So asset base, we're very happy with the investments we've made. I mean, a lot of [people], did you need to spend $180-odd million on the Bilyara winery asset now that the China markets happened, et cetera? We look at our plans over the next 5-year period, the answer is absolutely, yes. It was the right investment and we'll continue to drive a lot more efficiency in our ability to take luxury fruit from the vineyard, maintain the grade of that fruit all the way through our winery network. So hopefully, that gives a bit of color to answer it.

Richard Barwick

Tim, you've got Richard from CLSA. I've got a couple of questions wrapped into one within the new operator model. So a couple of observations. So you're talking about having a separate team for Penfolds. And particularly when you're moving into some of these other Asian countries, I mean you actually, over the time, got a lot of criticism, but in the end, I think you delivered a fair degree of success through the bundling of Penfolds with Rawson's in China. So I guess part one is there's no Rawson's on this – not at least detailed within the new operating model. When you're thinking about moving into other Asia or shifting these Chinese volumes, is this just a Penfolds story, Penfolds on its own? Or are you – do you see opportunities for these other premium brands as well?

Tim Ford

Yes. Certainly, I think Rawson's, you'll see when Pete talks about TPB, Rawson's Retreat is a brand that will sit underneath the Treasury Premium Brands portfolio. So it's certainly part of that portfolio. And I will disagree with you, as I have done half a thousand times, but the Rawson's getting sold with Penfolds is a very different consumer and a very different channel. And the success of both of those brands is discrete. I think the Rawson's Retreat brand with the work we've done is one that will continue to grow on its own two feet, particularly in the Asian markets.

For Treasury Premium Brands, and you'll get the sense of it. I'm sure you've read ahead. Treasury Premium Brands is by and large in Australia and U.K. and a couple of other markets centered business today. We have distribution of some of those brands like a Wolf Blass, et cetera, 19 Crimes in some of the Asian markets, but we'll certainly look to build that out. And having that separation of the focus – when you think about our partners, you think about the channels we want to sell in, they're retail brands, by and large. So having that expertise in TPB, which are retail brands versus our Penfolds salesman going in, in a similar market in Asia, looking at on-premise. Looking at direct-to-consumer, direct-to-collector, the experience-based events that we will actually drive in those markets, it's actually a very different selling expertise and selling model that you actually need.

So we think while we have had success selling the portfolios in Asia, we think having a separate focus will help grow both. So Asia for TPB is still an important growth engine, for sure.

Executive

Final question before break.

Michael Simotas

It's Michael Simotas from Jefferies. Just a question on your longer-term plans for high single-digit growth. There's a caveat there on COVID-19, which I think is absolutely reasonable. Are there any other caveats on that? And how bumpy should we expect that trajectory to be? And I think a lot of us are particularly interested in what your assumptions are for reallocation of wine back from China to get you to that sort of level of growth? And then also, are you expecting any sales of Australian country of origin wine in China wrapped into that guidance?

Tim Ford

So the – I guess, if I start from the starting point, the basis for that – I won't call it guidance because we're moving away from year-on-year specific guidance. We'll be – we deal with F '21. And that's an important point I'll just make actually. Whilst we've given guidance, given it's the middle of May, I think an expectation is fair that we did provide guidance for where we see – we're seeing ourselves landing from an EBITS perspective this year. However, we're not planning to give F '22 specific guidance given the COVID response and the COVID pandemic uncertainties, that's the main uncertainty in the – is the timing of the COVID recovery.

I think we're very confident of what the delivery particularly in our luxury portfolios will be in markets across the horizon of our 5-year plan once the vaccination rollout occurs. Is it going to be October this year? Is it going to be February next year? That's the uncertainty in the short term. But certainly, no other big uncertainties, if you like, over the term of that plan. So we're pretty confident in that.

I think the other key part on the reallocation, and it's the last time I'm going to use the word reallocation today. You guys – I'm sure you're going to use it, and that's okay. But it's about building demand. Very, very, simply, this is – yes, we have more luxury wine than we currently have built into our 5-year plans that are delivering the objectives that we've outlined today.

That is the most wonderful opportunity that we've never had before. We just never have had it. And it is about building demand. So it's not reallocating. We have the wine to sell. And we have – the beautiful part is we've got a brand. I think everyone will agree with that. The Penfolds brand has significant awareness and strength around the globe. We have to build demand. And as a business, that's what we're here to do, build demand. And I think we've shown a pretty good track record of being able to do that. And we've got the people to be able to execute those plans.

So will the demand build go as quick as we want it to, in some markets? Probably quicker. Some markets probably slower. But we've got every week, every month, every quarter, we got to build that distribution, build demand. And what we've got built into our plans, we're very confident of achieving.

Michael Simotas

And just the piece on China?

Tim Ford

The piece on – sorry, what's been building in China? We don't have too many great ambitions at this stage built into our plans around China.

All right. So first break. That will give you a chance to mingle, chance to ask questions, clearly. Then Paul, Toni and Warwick will be leaving after morning tea. They've got other meetings. So they could only join us for the morning, which is – thank you for doing that, guys. So if you want to talk to our directors, take the opportunity now during this break. And obviously, all the leadership team available as well. So we'll stretch our legs. And I think, Bijan, we'll be back at 10 past 11. Cheers.

[Break]

Presentation

Stuart Boxer

All right. Well, good morning, everyone, and good afternoon and good morning to everyone who's joining us remotely. My name is Stuart Boxer, and I am Treasury Wine Estates' Chief Strategy and Corporate Development Officer. I've been with TWE for almost 1 year, having previously spent 15 years in listed company chief financial officer roles, the most recent of which was at Dulux Group Limited for 11 years here in Australia. Prior to that, I held a mix of financial and strategic roles, including 7 years in strategic management consulting.

My role at TWE is focused on strategy and growth. This includes leadership of corporate strategy and our company-wide strategic planning processes, oversight of major projects such as the operating model change I'm about to discuss with you, and mergers and acquisitions.

As Tim touched on at the outset, the new brand-portfolio-led divisional operating model that we will operate under from the 1st of July this year represents a significant change in how we will implement the TWE 2025 strategy and manage our global operations moving forward.

There is no doubt that TWE has transformed its business and achieved a great deal over the past 10 years. Tim went through a fair bit of this earlier. So I won't step through each of these successes again, but the level of positive change delivered has been significant. However, as we looked ahead, we realized that to deliver on our growth aspirations and our ambition to be the world's most admired premium wine company, we needed to change our operating model. We saw that there are aspects of our current model that were limiting our ability to fully capitalize on the growth opportunities we have before us.

For example, in each of our regions other than the Americas, Penfolds has been a primary growth driver, which has been excellent. However, this has meant that many of our other brands have had less focus and have not yet been able to fully realize their potential. Our matrix structure has enabled us to successfully build global capability across functions, such as marketing and finance, which was a priority. However, the downside of such a structure is the potential for global and regional objectives to not be fully in sync, resulting in frustration, inefficiency and/or compromised decision-making.

This particularly comes to life in sales and marketing, where these blurred lines of accountability have, at times, resulted in brand execution strategies trying to be all things to all customers and all consumers, which meant that they weren't always as targeted as they could be, and we weren't always realizing opportunities to their full extent. And finally, whilst we've made some good progress, we have not yet been able to fully realize the benefits of our global scale.

So in redesigning our operating model, we focused on 4 key areas: an elevated and separate focus on our brands and our consumers; enhanced autonomy and accountability to drive superior performance throughout the business; increased leverage of our global scale, recognizing our position as one of the few truly global pure-play wine companies; and ensuring that we would be best placed to take advantage of attractive opportunities that are available across global wine markets.

After an extensive period of design and engagement with senior leaders across TWE, we determined that a brand-portfolio-led divisional operating model, shown again here on this slide, will be the right one to take us forward into the future. Under the new model, we will shift from our 4 sales regions supported by global functions to the 3 new stand-alone divisions being Penfolds, Treasury Americas and Treasury Premium Brands.

So how did we end up with these 3 divisions? Well, the work we did last year on the potential demerger of Penfolds made it clear to us that a separate focus on that business whilst remaining within TWE makes a lot of sense. We also knew that our business in the Americas was largely stand-alone with its own markets, brands and supply base; and finally, that it also made sense for us to bundle our other exceptional brands together and run together as one global business.

In setting up these 3 divisions, we are also eliminating the matrix structure in key functions, such as marketing and finance and fully embedding these within each division. Shortly, Tom, Ben and Pete will each outline the detail – the strategies and the growth drivers for their respective divisions, together with their historical financial performance and future financial priorities.

Supporting the 3 brand portfolio divisions will be supply operations, which will leverage our global scale and world-class asset base whilst being fully in the business to create full P&L accountability. I will touch on Treasury Business Solutions and Corporate shortly.

So why do we think that this model will address the limitations of our current model and deliver on the priorities I mentioned earlier? Well, we are confident that it will deliver a tailored brand and consumer-led focus, commercial decisions being made closer to the customer and importantly, the end consumer; significantly increase accountability and transparency; supply doing what it does best, acting as efficient service provider with a close link to divisional brand portfolio priorities; a streamlined structure to enable better decision-making; and finally, leverage of our global scale.

I'll touch briefly now on the role of our central functions. Treasury Business Solutions will be an evolution of the global business services model we established in 2019, and we'll focus on driving efficiency and process innovation throughout TWE. Sitting within Treasury Business Solutions will be 4 streams: financial services, people services, customer services and supplier services. The streamline corporate center will support the rest of the company with an emphasis on setting culture, designing group strategy, implementing capital management and stakeholder management, just to name a few.

And finally, as an entrée to what Tom, Ben and Pete are about to take you through, you will see on this slide that each division has its own distinct vision and its own strategic priorities. We are confident that this focus, together with the increased autonomy and accountability that the new model will bring, will help each division and TWE overall to realize its growth ambitions and for TWE to become the world's most premium – admired premium wine company.

So thank you, and I'll now hand over to Tom King in Shanghai for the Penfolds presentation.

Tom King

Thanks, Stuart, and good morning, everyone, from Shanghai. For those of you I haven't met, I'm Tom King, Managing Director of our Asia business, a role I've held here in Shanghai for the last 2.5 years. Prior to this, I led our European business after several senior operational roles in Europe, including establishing our global travel retail business.

I'm delighted to have the opportunity to talk to you for the first time today about Penfolds as a stand-alone division of Treasury Wine Estates. At the Penfolds leadership team, we are very excited by the opportunity ahead of us, and I've appreciated the chance to rethink and reimagine our business to set Penfolds up for its next phase of growth.

Clearly, the recent measures imposed by the Chinese Ministry of Commerce have had an impact on our business and our future strategic direction. As many of you will be aware, in recent months, we've been busy implementing tactical changes in response to these measures, including the reallocation of highly demanded bins and icon wines to other growth markets, realignment of brand investment, exploring future business model opportunities in China and adjusting our cost base to align with our future footprint. At the same time, we've also been mapping out our longer-term strategy.

From a global perspective, we now have the chance to assume opportunities that we haven't had the wine available to do so previously, to recruit new consumers, to grow distribution across the portfolio in multiple markets and to be bolder than we have ever been before. We remain committed to the China market long term. I'll continue to be based here in Shanghai as would some of the other senior members of my leadership team. We'll maintain strong relationships with our customers and partners and, most importantly, the Penfolds consumer.

Our vision for Penfolds is to become a global luxury icon. It's an ambition that transcends our unparalleled credentials in the global wine market and will lead to Penfolds being spoken about in the same breath as other major global luxury brands. But before I get into that, let me spend a few moments now to provide a snapshot of our business.

We're one of the world's iconic luxury wine brands and have, twice in the past 5 years, been named the world's most admired wine brand in the Drinks International poll. Our flagship proposition, Penfolds Grange, has been a 24-times perfect score recipient testament to the outstanding quality of the wines produced by our world-class winemaking team led by Peter Gago. We have sales in over 60 countries, reflecting our truly global consumer base. And while our portfolio center of gravity sits around $50, our upper-end price is well over the $1,000 mark. Complementing all of this is our unrivaled luxury asset base, which includes 3 wineries and 30 vineyards.

So you might ask, what does it mean to be a global luxury item? It means being a leader in wine, but loved by consumers being more than a wine brand. It means being mentioned in the same breath as other iconic luxury houses such as [Berkeley Co,] Hennessy, Gucci and Mercedes, to name a few, brands that are known and loved by consumers right around the world not just in a few markets. It means reinventing ourselves to stay relevant to our consumers, providing them with luxury experiences that draw them back time and time again. And it means providing those consumers with confidence and inspiration to talk about Penfolds, to gift Penfolds to recommend Penfolds, to celebrate with Penfolds, to collect and sell a Penfolds, and ultimately to drink Penfolds, whether that's today, tomorrow or in 5, 10 or even 50 years' time.

So you might ask what right do we have to aim this high and see our future in this company [ground?] Well, we have strong fundamentals in place, a reach and authentic, 177-year history with exceptional luxury [venture,] a luxury brand with unmatched scale and availability, highly acclaimed wines reflecting a unique and renowned winemaking style that has not been compromised at any stage in our journey, a multi-tier brand portfolio delivering a breadth of luxury experiences that no other wine brand can offer.

Global distribution centered around high-growth markets. It's a great base from which we will build our brand globally. And a global multi-regional sourcing model covering Australia, France and California and, as I mentioned earlier, an unparalleled luxury asset base.

While this list is impressive, our focus is on strengthening these unique competitive advantages over the coming years. In terms of our strategic growth priorities, we have 3 key areas of focus: recruiting new consumers to the brand, growing global distribution and availability, and optimizing the portfolio for long-term growth.

So who is the Penfolds global consumer? Penfolds brand appeals to a diverse range of luxury consumers. Within this, there are 2 key focus areas that we've seen as our consumer: new luxurians and connoisseurs. New luxurians have emerging wine category knowledge. They typically enter the category in their early 30s. They follow cultural trends and desire new experiences. Connoisseurs, on the other hand, have high category knowledge. They're passionate about wine and wine experiences, something which we cater to very well.

When we talk about recruiting new consumers to Penfolds, we must proactively engage and communicate via the right channel with a heavy digital and social media focus. Leveraging on our outstanding luxury credentials to attract new consumers and drive global demand is our top strategic priority. To do this, we must accelerate engagement with the new luxury consumer, deliver innovative luxury experiences that go beyond the product, be culture-led and disruptive, and collaborate with brand partners, brand advocates and key opinion leaders.

So what does this engagement look and feel like? Well, I'll give 2 recent examples from here in China. Penfolds House in Shanghai, a consumer-led experience where we launched the 2020 Penfolds collection and our brand collaboration with Shang Xia, a Chinese luxury lifestyle brand. The opening party resembled more of a fashion show than a traditional wine event, and the content and amplification from key opinion leaders and consumers was a resounding success.

We then repeated this last month at the Penfolds House in Chengdu with the launch of the Penfolds California collection in collaboration with — ***indiscernible*** —, and then followed with an exclusive event with our Penfolds Max's ambassador, Liu Yuxin, a 23-year old female rapper and singer who appeals to a much younger, culturally led consumer base. Our recent California collection release features NBA Superstar Ben Simmons as our flagship brand ambassador, combining his Australian heritage with his new-age luxury credentials.

[Presentation]

Tom King

Our second key growth driver is growing distribution and availability globally. This focus transcends any one individual market and is centered around ensuring we access our consumers in the right way, no matter where they may be in the world. We will grow distribution availability by scaling our direct-to-consumer and e-commerce businesses globally, by expanding availability beyond traditional wine channels into places where luxury consumers shop, by becoming the on-premise wine of choice in the right venues in priority global cities, by increasing our presence as the ultimate luxury showcase in global travel retail and by being in every collector's cellar. We'll partner with the right customers to ensure that we sustainably grow distribution in the right channels, an opportunity that we haven't had the product available to focus on until now.

There's been a great deal of speculation recently around the impact that the measures imposed by the Chinese Ministry of Commerce will have on our business. While there's no doubt that there will be an impact in the short term, we're very confident around the growth potential of the Penfolds brand across the global luxury market. As you can see on the screen, when you look at the growth we've seen over the last 4 years, we're already a very well-diversified business with strong growth being delivered in all markets.

From our home market of Australia through to a number of key markets in Asia, into the U.S. and across EMEA, Penfolds is experiencing stellar growth. This is a foundation that sets us up for success in the future with our approach to be differentiated across markets and supported by incremental investment. Accelerating in direct-to-consumer, on-premise and travel retail will be a growth initiative for us globally.

Now turning to the individual priority markets. In Asia outside of Mainland China, we have an established and growing market for luxury wine, where our brand awareness is already strong and with plenty of upside.

While we've been in these markets for quite some time, our current distribution is underpenetrated, and this presents a huge opportunity for us that we will actively invest in. Key growth markets are Malaysia, Thailand, Vietnam, Singapore and Hong Kong with the latter to be more focused on high net worth and direct collector sale. In these mature markets, we'll accelerate our focus on luxury consumers. While in the emerging markets, our focus will be on building brand awareness and growing our consumer base.

In Australia, our home market, brand awareness is already very high, but there is a significant growth opportunity to build distribution in independent retail and on-premise channels, where, again, we've not had the wine or resources available to drive growth or to reengage consumers with the brand, not just an ultra-luxury proposition for collectors but something that appeals to a broader range of luxury consumer.

The U.S. is the biggest long-term growth opportunity for Penfolds, but first, we need to establish the brand in the market in partnership with Ben Dollard and the Treasury Americas luxury team. The very well received Penfolds California collection is a fantastic foundation off which we can build our brand presence and internally support growing brand presence for the Australian portfolio.

Finally, in Europe, where we have an established and growing luxury wine market, we will continue to invest to drive brand awareness and increase distribution.

Penfolds is essentially a luxury portfolio with offerings from the entry-level Koonunga Hill and Max's range up to Grange, which retails at $900 and then beyond with our limited-edition releases, such as g3 and g4. The power of our brand to capture these price points is truly captivating, and it's the best proof point of the Penfolds luxury credential.

Taking an overall portfolio focus, we will deliver growth by prioritizing the growth of the bins and icon ranges and importantly, maintaining our pricing structures, something we won't be compromising on. Recruiting new consumers through the entry-level tiers of Koonunga Hill and Max's and building a scale of our Californian and French collections to increase accessibility, diversify our sourcing and unlock new revenue streams.

Growing our portfolio through new country of origin collections is a key component of the Penfolds strategy. The California collection was released in March this year, and the market response has been nothing short of outstanding, with strong scores received from the collection from the leading U.S. wine critics who are very influential in driving consumer sentiment. Meanwhile, our French collection will have a limited inaugural release in 2022, ahead of the more significant 2023 release. This collection will comprise icon and luxury wines from the finest regions of France and will be aimed primarily to the Asian market.

There's been a great deal of intrigue and, and in some courts, a cynicism around our plans to build on the outstanding Australian credentials into a multi-country of origin strategy. California collection provides a proof point around the potential of the strategy. As I mentioned earlier, not only are the critic and influencer ratings beyond our own expectations, we've been able to [combine] very strong price points. All of this talks to the power and potential of Penfolds as a truly global luxury brand.

Turning now to the financials and a first look at what Penfolds' global financial performance looks like. And I would certainly highlight why there is no other wine brand like it in the world, 2.5 million cases, $357 million of EBITS and a 47% margin from one brand.

So looking ahead, what does success look like in Penfolds? We'll grow top line revenue and ensure this translates into strong profit delivery, maintaining a leading 40% to 45% EBITS margin. Noting this margin target includes investment plans we have to build consumer demand in new markets. We'll have a better balanced global footprint, which will strengthen our business over the long term. We'll grow our global consumer base, taking a targeted general approach, which will include selling more wine directly to consumers and building our presence in channels where we are under-penetrated, such as on premise. We'll continue to be recognized and celebrated by wine critics and luxury consumers, making the best wines from Australia, the U.S., France and potentially China. We'll be relevant to our consumers and we'll be known for amazing luxury experiences that go beyond the wine. And ultimately, we'll become a global luxury icon.

So in summary, Penfolds is like no other wine brand in the world. We'll leverage our outstanding luxury credentials to expand our global consumer base. And we're very confident of the growth opportunity for Penfolds in global luxury market.

Thank you for listening, and I'll now open up for questions.

Question and Answer

Ben Gilbert

It's Ben here from Jarden. Just interested in the margin outlook and how you're thinking about that. So you're forecasting – you've got obviously 47% in your fiscal '20 year, and you're talking about 40% to 45% looking forward. Is there some conservatism in that? Or is it mixed? Or is it you need to invest more in channels? I know you talked about marketing, but you've obviously given targets before in Asia and lifted them at times. Interested how you came into that range?

Tim Ford

Yes. I think the 40% to 45% range, when you look back over the 3 years, clearly, the FY ’20 actuals was the 47 point there, which is a bit of – bloody mixed. But 40% to 45% enables us to have a range and to guide what we believe is going to happen over the term of the 5 years that we’ve built our broader expectations of, okay? And that will allow us in year 1 and 2. And I think as Tom explained there, we will invest in building distribution, right? So we will invest in building distribution. We will not be reducing price. We will not be taking margins down, so to speak. But that reflects the bottom end of that range, probably what the shorter-term margin structure will look like as we build that demand and distribution in those markets.

So the key point here being – it might be a 1 or 2 percentage point impact for that incremental investment we would make, but the key point to land is certainly, I think there’s a belief that we will have to discount, we will have to take reduced margins or we don’t sell with a similar margin in different markets around the globe. With that objective of 40%, 45%, that allows us to have consistent margins, consistent pricing and take into account the investment we believe we need to grow the brands in the other markets.

Ben Gilbert

Tom, just – I’d like to ask this. A lot of Australian consumers might have been a little bit disenfranchised because you focus so heavily on the Chinese market. What’s your discussions been like with some of the big Australian customers to reengage now because obviously, Australia has to be a focus point. Is it sort of like, hey, guys we’re back, this is great? Or has it been a little bit more of a cynical approach? And it’s not only Australia. It’s other parts of Asia, et cetera, where you did neglect, but now you’re trying to turn the tap back on. Can you give us a bit of color as to some of the discussions that you’ve had so as we can get an understanding as to the latency of demand that exists versus the cynicism that now you’ve got supply to give them.

Tim Ford

So I'll cover Australia first, Tom, and then you cover the other Asian markets. Australians will come back [on the screen, isn't it?] So let's not hide from the fact there is some cynicism in the Australian market with our – I'd call more the independent customer base. Certainly, our large retail customers have been very, very supportive and see it as a great opportunity to continue to build their businesses for Penfolds. I think a number of you will be talking to those guys, particularly the EDG team as they do around, I'm sure Steve Donohue will say exactly that same thing. That's the path of retail. So there's no cynicism there. It's just opportunity, how we execute better with them.

In the independent trade, there's clearly been – my words, you need us again now sort of response, not hiding from that. And I've had probably 20 conversations with sort of key influential, independent retailers around the country. Once you sort of put your hand up and go, yes, okay, we haven't focused on the Australian market over that period of time. It was the choices we had to make. It wasn't neglect. It was just the choices we made to grow the portfolios in different parts. And you acknowledge it. You tend to move on pretty quickly when they realize that there's actually a really big opportunity for their businesses to build Penfolds again in those channels. And everyone in this room knows you can't go to too many independent retail stores, or go to too many restaurants or too many on-premise venues around this country and actually find Penfolds. So you'll see Grange on some of the menus. But when you actually look at it, you don't have to go too far to realize what that opportunity is. So the trade certainly is – we'll embrace that over time on how we execute it.

The key part of the new operating model for Penfolds is having this sales force that's direct that will continue to build that momentum through those customer bases. And it's not all things to all people. There's only certain accounts you want to be in where the consumers actually go for Penfolds. So it will be quite targeted. I think the other part of it is, people talk about our direct-to-consumer business here in this market. But it's actually – it's more around the direct-to-consumer, direct-to-collector type experience focus that we have because the EDGs and the Coles of the world, et cetera, have their e-commerce platforms that sells our wines through those.

What we can create that the retailers can't is experience with communities, whether that be a Chinese community based here in Sydney, having those diners, having those experiences. You'll all experience the George Samios magic later on this afternoon, if you haven't already. What he and his team do with those communities and sell Penfolds and give access to Penfolds, there's – they've got more to sell now. And the demands there and the thirst and love of that brand exists. So different in different pockets in Australia does.

I hope it gives a bit of color. We're not hiding from the fact that we're coming from a way back here in Australia. But awareness is high. We've just got to get new consumers in as well. That's the key. We can sell more to the 45-plus that have been Penfolds franchise lovers for a long time, but the key to our success in the long term in Australia here will be how do we engage with those 25-, 35-year-olds and some of the propositions we're thinking through, we'll certainly tailor those to those markets there. Tom, do you want to touch on Asia?

Tom King

Yes, yes. Look, I disagree we've been neglecting other markets in Asia. Asia has always been more than China for us at TWE. Despite external commentary, it's very focused on China. And we've been growing very strong businesses on Penfolds across the majority of our Asian markets. Customers are positive about the new model and already seeing us delivering on our ambition to invest with them, to continue to build these brands. We've already been doing some great work across Southeast Asian markets, and we're going to accelerate that.

The biggest opportunity, as I've said already, is recruiting consumers and driving that distribution and availability. We're going to be using the same principle that we've applied successfully over the years in China around doing the right portfolio, investing in the right places, putting people on the ground and working with the right partners to execute that.

So look, the Penfolds business outside of Mainland China will continue to grow, and it's an incredibly exciting growth opportunity for us.

Tim Ford

I think the other point to make is it's obviously the topic. I mean – I'm sure Page 44 of the decks got most people interested. But yes just to confirm the point, I think it would be an under-recognized fact that the Asian business outside of China has grown at 18.8%, circa 19% over the last 4 years CAGR. So you look at that and you go, we actually haven't – these are not new markets, all right? We've been in these markets. The conversation with our partners in those markets now are not about you had 100 last year. You had 105 in this year. How are you going to sell that 105? And where do we invest to build the brand? It's about – don't worry about allocation. We don't talk about that anymore. What's the demand? What's the account universe we're going to go after? What's the right channels to be in? So it's a different conversation. It's a growth conversation as opposed to an allocation conversation. And it's pretty exciting times if you're a salesman around the place at the moment in our business.

Larry Gandler

Tom, Tim just – I don't know if this question should go to Ben Dollard or yourself, but I want to ask about Penfolds in the U.S. What are the big challenges there for you specifically? Is it getting on fine wine, wineless? Is it e-commerce, lack of cellar door? What's – what are the challenges for really building the distribution in the U.S. for you?

Tim Ford

Tom can take that. And he can set the challenge up for Ben later on and Ben can respond when he gets on the screen.

Tom King

Yes. I think it's – ultimately, we've got low brand awareness, right? And whilst it's been growing off a low base, we're going to need to be investing to build this awareness. And the Ben Simmons partnership is a great example of that and building awareness, and we talk about building awareness that we talk about early when it's outside of the fine wine and the trade channel. Ultimately, we've got a desire with the partnership with Ben and the team in the Americas to obviously focus on the California collection right now to help build that awareness, build that engagement with consumers, the long term to be building both Californian and Australian collections to ensure we're building a long-term Penfolds business.

Tim Ford

Yes. The parochialism of the U.S. market has been a challenge over the years as well. I think – and we've had stops and starts of Penfolds in the U.S., Larry, where yes, there's been periods of time where we've actually gone pretty hard over the last 10 years and had some success there. And then we didn't have the wine to allocate. So it's – the consistency hasn't been there.

I mean the strategy behind the Californian collection 3 years ago when we made it for the first time was have that Californian-sourced Penfolds to build the brand with the credibility of Napa Valley behind it. And that the fact that it is a multi-regionally sourced brand in Australia. It's true to the story and the authenticity of the brand. The question was, would it be seen as gimmicky? Or would it actually be seen as authentic? The answer is clearly, it's seen as authentic in the market over there, which is a huge positive and relief.

But we're now much more bullish behind that. But having that leg to the strategy and building a brand with that California sourcing overcomes the latent parochialism of that market and the gatekeepers in that market that are pretty strong. So that's another key part of the platform.

And we could sell all of the Penfolds California collection in China tomorrow if we chose to. Demand is there from a customer base point of view. We've allocated a very small amount to Tom's current business in China because we built this collection with a view to grow the Americas business over the long term, and we've got to stick to the long-term strategies around some of these – that we've had in place. The short-term [should we hear] of moving all the stock at once is just not a sustainable way to build it. So it's a pretty well demanded product around the globe at the moment.

Michael Simotas

It's Michael Simotas from Jefferies. I just want to understand the rationale behind leaving Penfolds headquartered in Shanghai given its home is in Australia. It's an Australian brand with a lot of legacy. Clearly, Slide 44 suggests that markets outside of China are going to be the focus.

And then I guess just related to that, from all of your studies of demand in China, is Penfolds is Penfolds or is Penfolds Australia? So do you think U.S. country of origin wine and French country of origin wine will have the same resonance with consumers in China as the Australian country of origin wine did?

Tom King

So with the ambition to build Penfolds into a truly global luxury brand, it makes a lot of sense that the Penfolds leadership team is based in key global locations. I'm based here in Shanghai at the moment. Asia will continue to be a key growth region for Penfolds as it has been, right? Shanghai is our regional headquarters here in Shanghai. We've got some of the team here in Shanghai, some of the best talent in our company and then moving into leadership role in the Penfolds business. So the leadership team will be split across Australia and here in Shanghai and Singapore. And as a team, we'll be taking a global view of our business and building our business globally.

Second question linked to is Penfolds Australia or has it got a scope to branch out into other countries of origin? Reaction from trade consumers is absolutely yes. And that's been solidified from the launch of the California collection here in China, which was extremely well received both from the quality of the wines, packaging, the story. It gives us real confidence that there is room for us and opportunity for us to grow Penfolds as a multi-country of origin portfolio.

Richard Barwick

Tom, you've got Richard from CLSA. I think when this was first came to head and you were talking about the reallocation, I think you were very upfront saying it was other Asia and Australia were the key near-term priorities, and then it would be the U.S. sort of longer term. I'm just trying to – if we drill down into that in a little bit more detail, I mean I'd note that you've got other Asia. That's your first slide that goes ahead of Australia. And then it's the U.S., and I think you've got Europe after that. So does that talk about – was that a signal of the priorities here? Is there a pecking order in this reallocation? How do we get a sense of where – what's more important? And ultimately, from our perspective, what should we be looking for in terms of how do we know if this is actually working? And I mean, you're going to – you have plenty of people in Australia looking for evidence here. Just really wondering what the things we should be looking for. And then – or is it more about other Asia? Really, where's the pecking order? What's the importance?

Tom King

No, the way we're going to run the business and the way we've set up our sales team is focus on Greater China, which will include Hong Kong and Taiwan. We've got an Australia business. And from Australia, we will also lead our global channels. So that's direct-to-consumer, travel retail and on-premise. We've got the Americas, which Ben and the team are going to be our distributor for all of the other markets, and that includes all the other Asian markets. Europe, Middle East, Africa is sitting within our international sales team. And there's a reason for that. The brand is at a similar stage of its life cycle in many of those markets. Many of those markets are distributed to managed markets. So there's efficiency and synergy in terms of how we operate with our partners in those markets.

There is no pecking order. Obviously, many of our markets are more mature. And in those markets we'll be evolving our distribution gains and our consumer reach through going more direct, selling more through direct-to-consumer channels, more into luxury, fine wine and luxury retail. In more emerging markets where we've got lower smaller business at the moment, we'll be focusing on putting people on the ground to manage key retail and e-commerce account managers to help us grow that distribution, recruit new consumers at the entry-level through Koonunga Hill and Max's. There is no pecking order.

In terms of reallocation, there's been some short-term reallocation where we've got highly demanded bins and icons, where we haven't had supply to support before. But as Tim said in his opening, this really is about driving growth, recruiting new consumers, ensuring we've got the right distribution availability to access those consumers and then providing them with outstanding luxury experiences to keep them coming back in again.

Ross Curran

It's Ross Curran from Macquarie. Can I just ask about the on-premise opportunity in Australia? And how big you see that being? How long it takes to develop a proper on-premise product? And whether you need to slightly change your offering to have on-premise exclusives?

Tom King

Yes. So I think the opportunity is a significant one. On two fronts, right? We want to ensure that we're providing consumers or potential consumers the opportunity to enjoy Penfolds when they're enjoying a special occasion or a celebration or a business dinner. And I think the reality is, at the moment, as Tim said, we don't have that availability in the on-premise channel. It's a priority for us right now in terms of the work we're doing to understand the size of the prize or what that universe is but also to ensure that we're unlocking some of the challenges that we may have encountered before and being able to drive that presence across the on-premise business. So it's one we're working on right now. Size of the prize is still TBC, but we believe it's a significant opportunity, both from an engagement, presence, availability and a revenue perspective.

Tim Ford

I'll just add and sort of build on the last 2 questions, I think, are similar. The – you should expect to see – to the question, I think, what are you going to see, Richard, that you asked. We want everyone to know Penfolds is back in this country, right? And we want everyone to realize over a reasonably short period of time that this is our market. This is – it is the #1 luxury wine brand around the globe. And this is our home market, and we're going to actually build it now over time with confidence that we actually will have the wine to allocate to this market, right?

And because the last thing you want to do is go invest significant amounts in distribution or brand awareness or [AMP] or any consumer spend. And then 2 years later, all of a sudden, you go, "Okay, well, that's – we're going to pull back from that." This – we have the confidence to be consistent. And the reality is, if things change in China in the future, we will stick the course on these other markets. The investments we're making now are with a view that we build them over the next 5 years, 10 years, 15 years, 20 years. And that's the mindset we have. And it's a very, very big shift in mindset for our organization particularly here in this market. And it's a source of pride that we will have after the next couple of years of how we do that in this market because it is the home market.

All good? All right. Thank you, Tom. We'll – we're going to America now. So we'll hand over to Ben Dollard and I'll get out of the way.

Presentation

Ben Dollard

Great. Thank you, Tim. Thank you, Tom, and good afternoon, everybody, from the Napa Valley. It's a pleasure to join you today and talk about our plans for Treasury Americas business. For those of you who don't know my background, I'm Australian-born and bred, having grown up in Adelaide just around the corner from Magill Estate. I spent the last 25 years based here in the U.S., working in the alcohol beverage industry, most of that time are Constellation Brands in the wine business.

The U.S. market specifically is large and complex yet attractive for its diverse consumer base and the premiumization trend. I will leave you today with a clear understanding that our business is all about focus, meeting the needs of the consumer, retail customers and distributors. Our focus is paying off. We have the most attractive brand portfolio in the industry that is growing ahead of the market, led by outstanding innovation. We are building momentum in the business and collectively feel very excited about the greater accountability the new operating structure brings, providing us with end-to-end responsibility from the vineyard to the retail shelf to the consumer.

Our vision is to be the premium wine market leader in the Americas, and we are well on the way to achieving our goals. Our portfolio of brands is delivering strong momentum.

The reimagining of the business we began last year is progressing well and will give us the best opportunity to achieve this ambition. Treasury Americas today is fundamentally a different business that is set up for sustainable long-term success. Today, we are a top player in the U.S., which is the world's largest premium wine market. We are the #2 supplier of wine over $20. And more importantly, we have the fastest-growing premium wine portfolio in the market.

Following the recent divestment of our commercial portfolio, we are now focused on the premium $10 and above price points that represent over 90% of our revenues. We have 10 focused brands comprised 5 luxury and 5 lifestyle and have a leading asset footprint in the Napa Valley, which encapsulates vineyards, wineries and iconic brand homes and cellar doors.

We have the key ingredients for growth in the Americas and the confidence that we can execute. Firstly, we have a focused and trusted premium brand portfolio that is well suited to current consumer demand. This is supported by strong long-standing distributor and customer networks that are collaborative and highly engaged. Nurturing these deep partnerships is a real strength and priority for our team and will be the hallmark of how we do business in the U.S.

Many of our leadership team have worked together previously at Constellation Brands in various management roles. Our team has a wealth of wine industry knowledge with over 150 years combined U.S. experience. We have proven our innovation capability, and this aspect is driving performance with 19 Crimes, Cali Red and Rose and Penfolds California collection being stand-out innovation successes. Finally, we have the leading footprint of vineyard and production assets in the Napa Valley, complemented by iconic brand homes, which prior to the pandemic, were visited by over 300,000 customers every year.

Who is the Treasury Americas target consumer? Our brand portfolio serves 2 very different consumer groups: the first being lifestyle consumers where sociability and conscious consumption are key purchase drivers. Lifestyle consumers also tend to be occasion-based with wine used as a complement to gatherings and celebrations. Luxury consumers are our other key group in the Americas, entering the category in their late 20s. Gifting and personal reward along with immersive experiences are all big opportunities for us to engage more. This segment of the market is evolving rapidly, and female luxurians have an increasing influence in the category.

Looking at the market landscape and size of the opportunity. Not only is the U.S. the world's largest premium wine market, it is also the second-fastest-growing premium market in the world, a significant opportunity for us to harness moving forward. Premiumization continues to be a powerful trend with the above $10 price points up 20% in the last 12 months and driving category growth. Against this backdrop, our portfolio is outperforming the market.

And this landscape is shifting rapidly with the evolving consumer trends and enduring impacts from COVID-19 creating long-lasting change to help consumers purchase and consume wine. E-commerce and direct-to-consumer channels are expected to become even more prominent in the years ahead. And on-premise will rebound strongly as hospitality and travel begin to normalize. Direct-to-consumer, on-premise and travel retail have in the past represented about 1/4 of our revenue and a higher portion of our profitability. We are well positioned to accelerate our performance across these channels as they rebound.

Our portfolio is comprised of several premium brands that are delivering outstanding growth in the $10 to $20 price points and a range of well-known and iconic California-sourced luxury brands. As Tom mentioned earlier, this portfolio includes the Penfolds California flagship, and the Treasury Americas team is excited to partner with Penfolds to grow the brand in the Americas. The growth of 19 Crimes and Matua brands demonstrate the differentiated important positioning from Australia and New Zealand can also work in this marketplace.

The momentum in our portfolio is testament to the quality of our wines and the execution of our plans. The brands shown on this slide provide a snapshot of the performance and recognition that we have achieved.

Turning now to the 3 strategic growth drivers for Treasury Americas. We're going to deliver growth through, firstly, driving relentless focus throughout the business; secondly, pursuing portfolio expansion through innovation, leveraging our leading luxury credentials and by accelerating in e-commerce; and thirdly, completing the optimization of our asset and cost base and continuing to evolve our brand portfolio.

Being focused is critical to success in the U.S. wine market. At Treasury Americas, this applies throughout all parts of our business, starting with our focused portfolio of TWE TEN brands. We started prioritizing and investing heavily behind this portfolio over a year ago. With respect to key markets, we are focused on 5 priority must-win states being California, New York, Texas, Florida and Illinois, all deep luxury wine markets with scale, growth and favorable consumer demographics. We have outstanding relationships with a network of priority customers which span large retail chains, key independent retails and across the on-premise. Supporting this is our focused network of wholesale partners with whom we are working closely to build the distribution and availability of our portfolio.

We are currently implementing a significant change to our wholesale network. Following a detailed review of our distribution model, I'm very pleased to announce that we have reached a long-term agreement with RNDC to distribute our portfolio in several states, including the priority markets, California and Texas, commencing as early as July 1 of this year. This change was necessitated by several factors, including the shape and size of our premium business moving forward, our desire to improve our performance in California, particularly in the independent retail channels.

We are excited by this partnership with RNDC who have outstanding relationships with key national and regional accounts, in addition to exceptional fine wine and e-commerce capabilities. RNDC is the second largest wholesaler in the U.S., and we will become their #1 supplier in California, supported by over 1,000 strong sales organization. The remainder of our U.S. distribution network continues to perform well and no further changes are planned.

Turning now to how we will deliver portfolio expansion, starting with bold innovation. 2021 is a big year for the Treasury Americas on the innovation front. The release of the inaugural Penfolds California collection in March has been a huge success with outstanding critic reviews, as Tom shared earlier, complemented by great momentum throughout the U.S. trade; a Matua Lighter range, which taps into conscious consumption growth driver will launch in the summer; and building off the phenomenal success of Cali Red, our collaboration with entertainment icon, Snoop Dogg is Cali Rosé, which launched last month. It's early days, but this range seems to be following in the big footsteps of Cali Red and is already a top 10 Rosé in the total category and the #3 wine in the 11 to 15 Rosé segment. We have an exciting above the line campaign for Cali Rosé, including this clip, which is trending heavily across social media platforms.

[Presentation]

Ben Dollard

Our luxury credentials in the U.S. are second to none. And we plan to deliver future growth through emphasizing event activation, storytelling, education and experiences across our portfolio of highly acclaimed brands. Setting us apart from our competitors are 3 things: our scalable direct-to-consumer platforms, something we've invested heavily in the past 3 years; our dedicated luxury sales team, The Vault Collective who we established last year to partner with our distributors and key retailers in focused markets across the U.S. to drive the growth of our luxury portfolio; and finally, our best-in-class California asset base, which includes luxury vineyards, wineries and complemented by outstanding brand homes.

[Presentation]

Ben Dollard

Driving acceleration through e-commerce is the third component for our plans to drive portfolio expansion in the Americas with focus on ensuring our portfolio is easy to find, easy to buy and easy to enjoy. Digital marketing is at the heart of this strategy with the intention of driving awareness and conversion.

We have 2 focus areas in e-commerce: firstly, through our own branded e-commerce platforms, where we have increased investment in our branded sites and are outpacing the market; secondly, through 3 Tier commerce where we partner with our national and local retailers. We have dedicated resources focused on this space and are currently undertaking proprietary omni-channel consumer research, which will better inform our investment decisions and allow us to take a highly targeted approach.

Our restructuring activities to deliver the future state premium U.S. wine business are well progressed and on track for completion by the end of this calendar year. To recap, this future state business is one with broadly half the volume, similar earnings and significant progress made towards our 25% EBITS margin ambition. Our recently announced commercial brand divestiture is a key milestone towards significantly reducing our low-end volume. We are continuing to explore additional brand and asset rationalization opportunities, along with the supply chain optimization to rightsize our production capacity and eliminate supply chain dis-synergies following the commercial deal. We will pursue opportunities to meet emerging consumer needs either organically or through M&A.

As many of you would be aware, the recent performance of Treasury Americas has been impacted by the challenging U.S. wine market conditions, which greatly affected our now divested commercial portfolio, in addition to the impacts of COVID-19 where 1/4 of our revenue and higher profit channels have been effectively closed. In combination, we saw our EBITS margin decline to 12% in F ’20. The pro forma figures for F ’20 show the instant benefit of the commercial portfolio divestment to the shape of our P&L with NSR per case rising 29% on to 106.8% and EBITS margin increasing 4 percentage points to 16%.

Our future financial priorities reflect the strategy I’ve presented today, and we are focused and confident about our plans to improve our financial performance. The rightsizing of our commercial portfolio will transform our sales mix. We’ll grow our top line through portfolio expansion, and the EBITS growth will be driven by the top line in addition to the cost optimization program we are currently working through. And we retain our target for 25% EBITS margin.

So in summary, the Americas business is fundamentally changed that is well placed for sustainable, long-term success. Our business is all about focus, covering brands, markets, customers and growth priorities. And we have an outstanding premium portfolio that is growing ahead of the market, led by innovation.

Thank you very much for your attention. And with that, we’ll open it up for questions. Thank you.

Question and Answer

Andrew McLennan

It’s Andrew McLennan from Goldman. I’m just wondering, Ben, just quickly, if you could make a comparison on that pro forma number of 16% to what the pro forma margin was in fiscal '19 just so we can get an understanding of what the delta has been.

Ben Dollard

Tim, I might pass that one to you?

Tim Ford

No, yes, we'll have to come back to that. We'll have to work with Matt and Bijan. We don't have that at the top of our head.

Andrew McLennan

Right. Would it be close to the 25% target?

Tim Ford

As I said, we don't have it at the top of our head.

Andrew McLennan

Okay. Just if I can also ask in relation to the new distribution agreement in California. Obviously, it sounds like a very significant one in the Californian market. Can you just talk to what that means for the direct-to-retail strategy?

And also, at the time of the direct-to-retail strategy, there's a few one-off impacts. Obviously, it's not nationwide. It's just California – well, a few other states, but mostly it's California in this case. Can you just talk to what kind of impacts we should expect in – potentially in the first half '22 as a result of that agreement?

Tim Ford

You go, Ben.

Ben Dollard

Yes. I'll tackle the question around distribution in California and the – look, the opportunity for us over the past 3 years, we have developed significant and deep relationship with key retailers, by virtue of the direct model that we've adopted. Where the real opportunity for us is to expand now into independent broad market retail, both on and off-premise, and to expand our national account business in California as well. So that presents us – as California starts to reopen, that presents us a material opportunity. And RNDC are very well suited to partner with us to execute against that opportunity by virtue of the fact that they have a very sizable sales organization, deep e-commerce capabilities.

So starting July 1 of this year, when we kick off with them, I think we'll see an expansion of our distribution, certainly as we think about our luxury business. That's really where the prize is.

Tim Ford

Yes. I think – and I'll just add a couple of pieces back in history because it's unfair for Ben to answer it given he wasn't here, but I was. So the – 3 years ago, when we made the change in California, I think it's important to understand what that change actually meant. So yes, we had the – we went to a direct model so [we sell them] wine and spirits. We had a transition to a direct delivery model, not going through a distributor for the national accounts, the retailers, so the Safeways, Albertsons, et cetera. We also had a distributor relationship with Classic Wine Company as part of that change, which was independent retail, on-premise, broad market, as they call it in California, here, an independent market so we would understand, which is like a big part of the Californian wine market.

So we still – whilst we had the direct relationship, we still had a distributor partnership for a big part of California. So this is not – I certainly don't see this as, "Oh, we got the strategy wrong." The reality was, we were not growing as effectively with our portfolio that you see we have going forward, in particularly the independent retail market and the on-premise markets in California. And that's our prize. The retailer brands, the 19 Crimes, Matua, et cetera, certainly has worked in terms of building those brands and the distribution across California. But the prize for us is to continue that, but get the on-premise market, the independent retail market, get that growing because we are underweight in California. And our performance across those 5 priority markets gets a big tick in 4 of them in the last 12 months, 18 months. California does not.

So you can see the opportunity for us going forward. It's double the size of Australia, its consumption – all the premiumization trends are all there. We are not participating as well as we should have in California, probably the best way to explain a big part of the change.

The Texas change on the back of it comes from the fact that we were with Southern Wine and Spirits in Texas today. You go, you make a decision to partner with RNDC and not Southern Wine and Spirits in California necessitates a move in Texas. So that's the logic and rationale behind the decision. It's a seriously exciting move. And I'll stop there before I go on any more on that because you can probably tell, it's got a lot of opportunity for us.

To answer the question around financials, well, there is a transition period clearly in Texas we'll go through. We don't think that's going to cause us too much dislocation and disruption in the most smaller markets, et cetera. So nothing to really concern yourself with from a modeling point of view. We're still working through the inventory build. Clearly, when you move from direct retail into a distributor relationship, you're going to build inventory in the distributor. However, it's more the retail accounts which is going to be our 19 Crimes, Matuas, et cetera. So not a significant value of an inventory build that you might think if you're going from direct to a distributor because of that luxury component that largely sits within Classic Wine Company today. So it will be a transition of inventory from that point of view. It's all about the future growth and depletions growth in

California.

Angus McGeoch

Ben, Angus here. Angus McGeoch here from CLSA. Just thinking about your heritage, and obviously, your experience in America. I'm sure you've been a keen observer of Treasury Wines journey over there. And obviously, now you're directly involved with the company. It'd be good to hear from you just from your observations in the past, was there anything that stood out to you that you would have done differently? And now that you're in the position to drive change based on where you are now and where you think the business could be in a couple of years' time, I mean, what are the key things we should look out for from your perspective that we'll be getting the business to where you think it could be on a forward looking basis?

Ben Dollard

Yes. Well, firstly, good to meet you, and I look forward to meeting you here, or hopefully, I get to come home as well. So that will be good. Look, I think I was – yes, I've been in the wine industry over here a long time, and I've observed Treasury. And I think the highlights for me, now being a part of this business and looking forward to the opportunity, I think the signals that we should be looking for are clearly around depletion growth and how we're performing in terms of market execution and broadening our depletion base. And that's with regards to the focus in the portfolio. And I think we're seeing the dividends of that now, that focus.

We think about luxury expansion. And we talked about Penfolds and the opportunity for there, and I couldn't agree more than what Tom said of around awareness and the opportunity to build the Penfolds awareness, but that also comes with the opportunity to build distribution. So I think from our standpoint, the RNDC move is another step in the direction of building out our distribution but being really accountable to focus. And

I feel very optimistic that – if you look at the size and scale of the portfolio now, the fact that we've got all elements growing within our focused part of the portfolio, to me, that's where I see the opportunity on an ongoing basis, and clearly as we think about how the consumer is evolving because that's front and center of everything we do.

And the consumer is changing quickly. So we have to be ahead of that. And if you just look at the success of our innovation, Cali Red and Cali Rosé and Penfolds, the differentiated approach that we're taking is winning in the marketplace. So again, we'll be very deliberate about the innovation we bring in and the ability to motivate our wholesale partners. So for me, the runway with what we have right now is significant, and that's where our focus is.

Tim Ford

Well, you conveniently didn't answer the first part of Angus' question there, Ben. What – I think it's actually a good question. I mean, what have you focused on the change? Because, yes, there was – as an observer of Treasury in the U.S., let's not kid ourselves there. There's a number of people in the room here that are watching our American business going, "Actually, it feels like you're getting your game together here. But it's sort of – it's been a long time coming."

So what were the big observations, particularly as you come into – I think it's a good question that we should answer.

Ben Dollard

Yes. So look, we start with getting our brands to market through our wholesale network. Our ability to partner with our wholesale network and to have a common growth ambition, to me, was an observation in terms of opportunity. And we've made tremendous strides over the past 12 months with regards to how we interact with our wholesalers and also our retailers. But I'd say that is one material shift with regards to the way we collaborate.

Another area – and again, it's just been purely opportunity, has been around how we bring our brands to life. So the marketing activation, the trade activation, the incentives we put behind with regards to our wholesalers, again, just being more deliberate, being clear on what our expectations are around execution over the past 12 years. I'd say that's an observation, coming into this role, that I've seen as a big opportunity. And we are very clearly, I think, getting good results out of that. So that would be 2 areas.

I think our retail relationships have been strong. They're going to continue to get stronger. And that's just an essential part of us growing our business.

Tim Ford

Good one. Of course.

Ben Dollard

Hopefully, that...

Tim Ford

And of course, Ben will say, we've now got the right leader.

David Errington

Tim, Ben, David Errington here. Look, I don't want to be a killjoy here. I've been burned too many times on the U.S., and — ***indiscernible*** — can only grow back so many times. But first question is, you put EBITS at 20 – at only $120 million. I'm looking at your '20 presentation, you actually delivered $147 million. So $27 million seems to have gone missing. And I suppose the question, I'd like – why is that? Is it reallocated somewhere else?

And the key point I'm trying to get at here, your margin excluding the commercial is only 16%. You've got an aspiration of getting to 25%. When you're only looking at $130 million, and the capital employed in that business must be, what, $2 billion because you spent $1 billion on Diageo. You're not generating by the looks of it an adequate ROCE and you're a long way away. And even if you get to 25%, you'd only be just washing your face, really. So why as we, investors, should we get excited with your participation in the U.S., given that you're probably just going to be breaking even on a ROCE perspective? And why wouldn't you put your efforts more into what is the real value driver where you can get 40%? I mean, I'd put my money on you getting Penfolds a 45% than I will you getting in the U.S. a 25%.

I just – from my perspective, as a cynic, I've seen it before. And I've been blown up before. I just don't believe you. So I know that's rude, but can you justify why you're putting more effort into the U.S.? And why – can you guarantee that you're going to get there? Because it looks to me that I'd rather have the money being put in the Penfolds than into the U.S.

Tim Ford

It's a multifaceted question. I'll start with the first bit, which was why is the number different from what was reported? This doesn't include Penfolds in the U.S. It doesn't include Penfolds.

So the next part of your question, why the USA, I'll try and pick a few of those bits apart and bring it back together into a sequential answer. So the first one around, you'd invest your money in a 45% versus a 25% returning business, well, the beauty is you can invest your money in both with us. So – and you don't have the option of splitting your money. So when you compare a 25% EBITS margin wine business with any other wine business around the globe in a category that's growing and premiumizing, it's a pretty good return. From an EBITS margin point of view. I'll come to return on capital in a moment. The reality is, the U.S. business – we have the fundamentals in that business to be a very, very successful growth engine for Treasury Wine Estates. And another growth engine.

You can't just have one. I mean, we've seen that over the last period of time. The U.S. business and the fundamentals of that category and our ability that we're building to execute it – and I'm not claiming victory by any stretch. We've had, I would say, 1 really good half in terms of building. 1 better half. We'll continue, I think some of the changes we're making so there's positive steps forward to achieve that ambition of the margin structure. But with year-on-year growth that contributes to our overall growth, that's important.

I think the other part of the numbers you'll today go – doesn't feel heroic to go from what we've presented to where we're going – not when you take into account the channel closures, et cetera, that have been in place due to the pandemic period in the U.S. as well. If you go back to our fact book that we produced December, I think it was, Bijan, yes? And then the February results, 25% of our NSR and higher of our EBITS channels have been either closed or severely impacted through the pandemic and they're only just coming back. So that mix of that product is not in these financials we have today.

So the way I look at the U.S. business is, one, we've built – with the channels that are open, we've built a real innovation muscle. We've built a chance at a business that drives depletions growth through the retail channels. We've built a luxury selling business for independent retail, but it's going to be a strength for us going forward. The other channels, direct-to-consumer, travel retail, as they open up and they are opening up probably quicker in the U.S. than what we originally have thought, will continue to be a builder towards that margin.

The one question that remains on return on capital employed. I think we've got more work to do on that, clearly, in terms of our ability to get better returns, however, as we build these brands out. And you look at the Penfolds California is a good example of how we drive better return on capital employed going forward. The margin structure on a

Penfolds Californian collection versus the margin structure of some of the other luxury brands at $25, $30 price points have a similar sourcing of fruit. And how we actually get better returns off of our asset base, that's a good example of how we think about it and how we do it. Is the return on capital employed of the Americas business ever going to be the same as Penfolds? No, it's not. But it's going to be an additive view of how we improve our group return on capital employed across our businesses. So that's the path there. That's the challenge for us, recognize that.

The delivery over time in the U.S. business is the only way we're going to prove that we've got the U.S. business right this time. Hopefully, what you've heard from Ben and seen from our results over the last period of time, we believe we're certainly on the right track, but not claiming victory at this point in time.

Michael Simotas
It's Michael Simotas from Jefferies. Can I follow on the earlier question on the route to market change? I guess the impetus is pretty clear given the underrepresentation in on-premise and the broad market. But sort of remembering back 3 years, part of the plan was to capture more of the vertical margin, bank some of that, reinvest some into sharing with the retailers and hopefully get more shelf space. Did you ever have any success in doing that? And then what are the implications of changing that going forward? Or was it all offset by costs of distribution, et cetera?

Tim Ford
Yes. Look, the – we did have success in doing that. It wasn't the split of margin allocation without going through, it was probably less in our pocket and more in the building and investing behind the brands and then the retailers, which I think – and I'll get Ben to comment on our retailer relationships in a moment because I think that's a really important point to maintain. So I'd say it was a partial success from a margin structure point of view.

Going forward, the margin structure, if you like the incremental distributor costs that are going to be part of our business going forward, broadly wash their face with the cost we'll now take out that we had in our direct model, okay? So we had the direct selling team, merchandising team, et cetera, that we had – we're broadly in line with what the incremental distributor costs is going to be going forward. So I wouldn't say too big of a shift. And then, Ben, do you want to comment on the, I guess retailer relationships from that point of view? Because it's clearly a point of interest as we move away from how RNDC will work with it.

Ben Dollard

Look, I think, to unpack California in some detail, and to look at some opportunity, we're going to maintain the relationships that we've built over the last 3 years because it just makes good business to do so. And we've seen certainly in the core retail environment some good underlying growth. But if you look at the next tier down of accounts, be it beyond just the independent. But if you look at convenience or CVSs, the Walmarts of the world, this is an opportunity because we're fairly underweight there. For me, it's seeing, it's exploiting the opportunities we have with our existing relationships. And now we're just going to open up a lot more doors that we're not currently represented. I think, Tim, you summarized it well. And then the on-premise, the independent, and the off-premise independent, there's again, there's opportunity for our luxury business.

Tim Ford

I mean, the reality is that the cost base, when you think about it, we've taken out half of the cases with the commercial divestments. The cost base that we add for half the cases, just is not sustainable going forward.

Michael Simotas

— indiscernible —

Tim Ford

No, it will be a distributor model, yes. Florida still got that hybrid model where we will still manage some of the direct retail accounts there.

Michael Simotas

— indiscernible —

Tim Ford

No.

Larry Gandler

Tim, Larry from Crédit Suisse. On the back of David's question, something piqued my curiosity. It looks like the financial reward for distributing Penfolds in the U.S. is going to the Penfolds division. Is that right? And if so, how do you guys incentivize your team to drive that brand if the credit's going elsewhere?

Tim Ford

Externally, that's how we report it. Internally, it will be an incentive basis and all those sort of things, it will be within the Treasury Americas P&L.

Larry Gandler

Okay. And then, Ben, can you just give you a prognosis on the U.S. on-premise channel? I remember after the GFC, it took about 3 years to recover. Maybe you could talk to your cellar door and how you're seeing on-premise open up and where we're at there?

Ben Dollard

Yes, sure. Look, every state is in some form of reopening. So there's on-premise business happening in every state across the country in various phases and to various extents. So if you take Florida, Texas, for example, it's more developed than it is in, say, here in California. But we are definitely seeing that general shift starting to occur, consumers getting back out and retail partners starting to rewrite [menus]. So that's a good thing. And again, it's in various phases across the country.

As far as our tasting – our cellar doors are concerned, over the last 2 months, we've started to invite back consumers, again, in various phases and various capacity. Started off at 25%, just moved to 50% going from outdoor to indoor. So there's been a pent up demand for consumers to get out. And we've certainly seen that here in California. And we expect that to continue. And over the coming months, certainly over the summer, we imagine that on premise is going to continue to rebound quickly. That presents opportunity for us, certainly as we're thinking about rewriting restaurant [lists] with our distributors.

Tim Ford

The recovery, the broad answer is, the recovery in the U.S. feels like it's going to happen – probably will soon than what we would have expected 3 months back.

Ross Curran

Ross Curran from Macquarie. So we're largely through the portfolio restructure. But can you just give us a bit of a feel of what's to come? And you talked earlier about a few potential inorganic opportunities that might fill some holes in your portfolio. What would you like and how should we think about the CapEx around that?

Tim Ford

Ben?

Ben Dollard

Look, from a portfolio and asset standpoint, we're continuing to evaluate opportunities on an ongoing basis with regards to parts of the portfolio that are non-strategic or core. So that's a process where we're midstream right now, both from a brand standpoint and also a facility standpoint. So that's a body of work that's happening over and above the divestment that we just did.

And sorry, the second part of your question?

Ross Curran

Where would you want to grow?

Ben Dollard

Okay. Good. Yes, great. Excellent question. Look, the – I come back to where the consumer is going and where we have opportunities in our portfolio, particularly around the premiumization trend that's continuing. We have a tremendous amount of existing opportunity with the base we have. That said, there are certain categories that exist where we're not participating that are growing, take sparkling, for example, or $20 to $30 price point that is becoming increasingly popular, particularly with Chardonnay. So those are very specific examples that we'll look to potential strategic opportunities over time. But I do come back to the fact that the existing portfolio has a lot of runway for growth.

Tim Ford

All right. And we are done. Sorry, Ben. Thank you, Ben. Well done.

I'll hand over to Pete Neilson.

Presentation

Peter Neilson

Thank you, Ben. Thank you, Tim. Good afternoon, everyone. I'm Peter Neilson, currently head of TWE's Australia and New Zealand operations, and soon to be head of Treasury Premium Brands, an opportunity I'm truly excited about given the fabulous foundation of brands and assets we have to build from.

Operating Treasury Premium Brands as a stand-alone division will allow us to unlock the full potential of our brands, something that has been harder to do previously under the shadow of the Penfolds portfolio. For those of you not familiar with me, my background includes over 15 years' experience in sales and senior operational roles in the wine and spirits industry, including international experience with Diageo. Personally, I see the Treasury Premium Brands journey being very much a growth story with a strong focus on innovation, and I look forward to sharing our progress with you along the way.

Turning first to our vision. TPB's vision is to be the world's most inventive branded wine business, bringing the pleasure of premium wine to more people on more occasions. We deliberately use the word inventive as the definition is, having the ability to create or design new things or to think originally. And this mindset will be a key influence in how we build the TPB division. Like the other operating divisions in the TWE stable, the galvanizing theme of this division is embedded in the name, Premium Brands. We will continue our legacy of premiumizing the portfolio by providing consumers with trusted brands, on-trend innovation and good value across a range of price tiers.

Before we look into how we'll set about achieving this, let's look at the strong foundation on which the TPB business will be built. Stand-alone, TPB is one of the world's largest premium wine businesses with sales of 18 million cases into over 60 countries, generating revenue of just under $1 billion. We have a portfolio of over 20 very well-recognized and distributed brands and a focused portfolio of 12 priority brands. We have top 3 market share positions in several key markets, and vineyard and winery assets in Australia and New Zealand. TPB is a business with significant opportunity for growth. We have a diversified, global footprint with strong market share in key markets and well established foundations in growth markets such as Asia, continental Europe, and North America. We have a diverse and iconic premium brand portfolio that talks to a variety of different consumer needs and occasions. We have proven innovation capability based on global insights and experience. And finally, we have leading winemaking capability and a leading asset base that will support a multi-region and country of origin sourcing strategy to drive our future growth.

Several global consumer trends are driving wine category growth and will be fundamental to our strategy. The 5 category growth drivers referred to by Angus earlier, discovery, refreshing sociability, step up, conscious consumption and comfort at home, are influencing consumer trends in our priority markets and presenting opportunities. Innovation is the primary source of wine market growth today, contributing 54% of category growth in Australia and 18% in the U.K. And consumers are increasingly turning to new and emerging varietals as opposed to the more traditional varietals with Rosé, Malbec, Grenache and Sangiovese amongst other varietals seeing growth opportunities.

Another key trend in the increasingly important role technology is playing and interacting with our consumers with e-commerce sales exploding during the pandemic and expected to continue to grow in significance. Premiumization trends continue to play out across our key global markets with the relatively flat overall wine category, concealing segments of strong growth at higher price points in both our core markets and priority growth markets.

While Asia is used as an example as a priority growth market here, our strategy is about growing not only in the markets we are currently in, but in any global market where we see an attractive opportunity for our premium portfolio to play a role. The key is having the right portfolio, sourcing strategy and route to market to do that in an effective way. We will look globally for the best opportunities for the TPB portfolio to grow in new markets.

Our portfolio provides consumers with trusted brands across a range of price tiers. At the commercial end, while the total market is in decline, there is still opportunity to have a meaningful and profitable commercial business by providing relevant, differentiated brands. We also can't ignore the scale of opportunity below $10 or the scale and benefits that portfolio brings to our operations. We have some great, trusted commercial brands. Lindeman's is playing a key role on the sustainability front in Europe. And recent innovations with brands, such as Wolf Blass, Blossom Hill, and Rawson's Retreat ensure these brands continue to be relevant to more consumers. You may notice Gabbiano in the commercial section. This brand will play an important role in our country of origin expansion strategy, which I'll talk about shortly.

The focus of our growth strategy will be in the $10 to $30 price range, where we have an enviable portfolio of premium brands with lots of momentum. Pepperjack, the #1 selling red wine SKU in Australia; and Squealing Pig, the leading Rosé and #2 Pinot Grigio and Sauv Blanc in Australia and fast-growing brands such as 19 Crimes and The Stag.

At the luxury end, we have some of the most recognized Australian brands and believe we have significant opportunity to build out our luxury portfolio to meet the needs of the global luxury consumer with investment behind brands like Wynns, Saltram and Seppelt. The strength of this portfolio allows us to talk to an array of consumers and a breadth of occasions and gives us the flexibility to adapt the portfolio to be even more relevant to more consumers for more occasions, providing the ability to innovate and extend to new varietals and develop credible extensions into new categories such as Gin, RTDs and spritzers, to highlight a few. This is something we are doing now and have proven we can do successfully in our recent past.

Turning now to our key growth drivers. We have an ambition to build on the strong foundations of the business and grow EBITS dollars, EBITS margin and ROCE. To achieve that, our key focus areas will be expansion of our premium focused portfolio, and by expansion, I don't mean just adding more brands, more on this shortly; accelerating growth in both priority and new markets and channels; expanding our global multi-country of origin sourcing footprint; and implementing a fit-for-purpose cost and capital base.

Turning first to our portfolio expansion plans. We will expand our portfolio through prioritization on growing premium offerings, particularly in the $10 to $30 price segment, giving strong brands greater global presence, expanding the portfolio into emerging and growth varietals, and bringing consumer-centric innovation to the category. This is a business with a growth mindset, but not a focus on growing volume at all cost. This is about driving growth in the right segments, in the right markets, with the right portfolio. That may mean a decline in volumes of non-strategically aligned brands, but always to strengthen the portfolio and returns. We will expand our strong brands globally, focusing in the first instance on 19 Crimes, Squealing Pig, The Stag, Wynns, and Pepperjack – big brands now, but brands we believe can be much bigger on the global stage with the right investment and focus. 19 Crimes is truly an example of a successful global brand with over 1 million cases sold in the U.K. this year, up 150% year-on-year, and Australian sales already double what we originally targeted for this brand. The brand is now bigger outside of the U.S., its debut market.

We will continue our journey of developing a strong portfolio of emerging growth varietals, and Pepperjack is a great example here. For years, we tightly held the brand to 2 primary SKUs, Shiraz and Cabernet, but last year, extended the brand into new varietals and multi-countries of origin, resulting in the brand growing sales by 50% this year. What's most exciting about this growth is that half came from the new varietals and half came from the core SKUs, meaning we brought new consumers into the category by making the brand more relevant to more consumers.

Here is a short video highlighting some of our recent work on 2 sleeping giants of our portfolio, Pepperjack and Wynns.

[Presentation]

Peter Neilson

As we saw earlier, innovation and NPD are the primary source of wine category growth.

TPB will continue to harness insights to identify consumer needs and drive category growth through innovative new products or brands. This will include developing offerings to address growing health and wellness trends and leading the industry with ethical and sustainable sourcing in products.

Historically, we have aligned our brands to one of the category growth drivers and being very single-minded about how we invest, innovate and execute behind that driver. A key component of the expansion of our portfolio is to make sure our priority brands are more relevant to more consumers for more occasions. To do this, we'll expand our priority brands into multiple category growth drivers through varietal expansion, new tier development and innovation.

Our second key strategic growth driver will be accelerating our performance in both priority and growth markets and channels. We are currently in 60 markets, but 80% of the TPB business today comes from Australia, U.K. and the Nordics. Prioritizing growth channels and markets will unlock growth, and our global distribution platform sets us up to capitalize on this opportunity.

Another key driver of growth and a part of unlocking growth in both existing and new markets will be expanding our portfolio to include wine from new countries of origin. Of TPB's core country of origins, Australian-sourced wine accounts for only a small share of wine sales in many markets, providing an opportunity to drive growth from expanding into wine from new countries of origin, such as Italian, Spanish, Chilean and French.

Right now, if we take the U.K. market as an example, TWE sells an Australian, U.S. and New Zealand country of origin portfolio. Those 3 countries of origin make up 36% of all wines sold in the U.K. If we added Italian, Spanish, Chilean and French countries of origins to our portfolio, all of a sudden, we are talking about 85% of the market. Our ability to grow within existing markets is there if we expand our portfolio country of origin breadth.

And 19 Crimes is a great example with an Argentinian Malbec in its portfolio. You don't need a global single country of origin source wine to meet consumers' needs and taste.

Multi-country of origin sourcing will help us expand and give us the opportunity to grow into new markets where we aren't today because we will have a portfolio with more relevance for more markets. In the first instance, with Gabbiano already in our portfolio, we have an Italian asset base at our disposal to pursue our multi-country of origin strategy.

Our final strategic imperative is delivering a fit-for-purpose cost and capital base. Clearly, we must focus on improving margin and ROCE, and we will have a relentless focus on cost and asset optimization to achieve this. Working closely with supply, we will improve asset utilization and grow profitability through improved COGS and inventory management. We will maintain a lean cost base and improve returns on our commercial investments through a strategic portfolio focus.

Turning now to TPB's financials. The impact of COVID and higher COGS have hurt our financial performance in the past 2 years after reasonably strong returns for FY '18 and '19. There is clearly work to do to return the business to a high-teens margin, but there is significant opportunity here and a clear road map to our destination. We are working closely with supply to reduce COGS. And as we start to see recovery in the on-premise channels, we can already see 3% to 5% margin improvement. Following this, our innovation focus and multi-country of origin strategy will drive incremental growth.

Looking forward, our financial priorities are to continue to premiumize sales mix with EBITS growth, driven by this improved mix along with cost and investment opportunities. We will expand margin with a high-teens ambition.

Finally, the key takeaways I'd like to leave you with today. TPB is a global business with significant opportunity. Premium-focused portfolio expansion and consumer-led innovation will be the drivers of our success. And we have a clear road map to deliver improved financial return.

Thank you, and I'll now open up for questions.

Question and Answer

Tim Ford
All right. Before we open the questions to Pete, Mr. McLennan, to answer your question, the FY '19 pro forma EBITS margin for Americas was 23%. Okay.

Ben Gilbert
Tim, just a question broadly about the portfolio and how you split it now. You've done obviously a lot of the hard work, I'd argue, with Penfolds in the U.S. now in terms of the restructuring. And I'd argue you're sort of sitting there on a platter now for someone globally who arguably might have more synergies to pick up Penfolds or the American business. I don't know how you answer this one. But how much interest have you had from third parties actually having a look at it now? Particularly, I know years ago, you talked about U.S. partnering or potentially taking equity stake from one of the bigger players just given the synergies around getting into market. So how much interest is there around that? And then secondly, how do you think about the synergies if one of these businesses was to – you sell one of those businesses to another party?

Tim Ford
Yes. I actually think about it the opposite of the way you've asked the question with how do we actually create synergies by looking at other parties as well. So that's certainly an opportunity as part of this. I think the beauty of these – the 3 businesses, the way I look at them, and then the role they play for Treasury Wine Estates and what the opportunities are, they're individually going to have both organic and inorganic opportunities to grow.

So Penfolds, they're more of the same of what we're doing. I think Tom has explained, we've got the portfolio. There'll be some country of origin innovation, build distribution. Americas, stick the course. It's working and there are some additive brands and portfolios we'd like to add to that and prove that over time.

TPB is a new business, the way we think about it, with new business with a terrific platform that's got some really, really positive opportunities and got some things we've got to fix as well and by actually pulling that apart. And it's also, I would argue, in the middle from a volume point of view. So there's a decision point to make over time, how do we actually create these efficiencies of having a large-volume pipe – so large-volume business. 18 million case business, I think was the number you had on the slide. An 18 million case business could be a 30 million case business overnight. Or as you say, it could be interest from elsewhere. We haven't seen that at this point in time.

And this is not an opportunity to put the for sale sign up on each of the 3 divisions. Let's be really clear about that. This is how we believe we will best grow and sort out in some cases with TPB, we're not hiding from that some of the parts of our business, and we'll grow the business together.

The big difference that this business has and the big opportunity that TPB has is when you look at the global [payer] base that we have around supply chain, business solutions, some of these others, is when we went through the demerger work 12 months ago, one of the big separation issues and then costs associated with that, you lose your scale you have as Treasury Wine Estates. And that's why we've landed on this model. We think we can get the majority of the benefits that a demerger, for example, at the time, which is the work we're doing, would provide us without the actual cost. And we plan to be the consolidator going forward as opposed to more than [being the –] splitting up this business.

Ben Gilbert

— indiscernible —

Tim Ford

No, there's lots – sorry, there is lots of media interest.

Angus McGeoch

Peter, just – I mean, congratulations on the role. I mean it's pretty comprehensive. And I think based on existing, you're sort of over 64% of the group production. There's a lot going on. A lot of products you are bringing into the mix. It's all very exciting. But how do you think about the challenge of managing all the various products, product extensions, delivering on new initiatives and just pulling all that together and getting everything moving forward in the same direction? I mean, I guess it's exciting, but it's probably quite daunting at the same time.

Peter Neilson

Yes, certainly, don't dismiss the challenge in front of us. But what I would say is that challenge has existed up until today. Each region sold the entire portfolio up until today. But a large portion of time was consumed by the focus on how do we sell Penfolds. So by having that focus removed, we now can single-mindedly focus on the rest of the portfolio.

There is a lot that we believe we can do. What we've done is laid out our prioritization of that – of those opportunities, initiatives over the next few years, which is – there might be some questions around role of growing Luxury. We see the biggest opportunity right now is how we grow $10 to $30, first and foremost. And then as we step through that over time, then we'll be able to adjust our priorities to take on the next opportunity. But if we try to do too much at once, we'll end up doing nothing. So the key for us is actually setting that priority, which we've done, and now executing that through the markets, which we're looking forward to and confident that we can deliver.

Niraj-Samip Shah

Niraj from Morgan Stanley. Just in terms of the EBITS margin ambitions you have, obviously, F ’20 was COVID-impacted. But looking back to F ’18, you’re sort of borderline there already. Now the business gets a whole lot more focus, premiumization. Mix improvement is obviously a priority. I guess my question is, why isn’t the ambition sort of higher than that?

Peter Neilson

As I said through the presentation, through some of the work we’ve done already on cost optimization and channels reopening that have been higher profit channels for us, we can see some of that coming back fairly early. But that’s also not dismissing the challenge in front of us to actually get back to the levels we were at previously. So it’s – whilst it may not – on the surface, looking at the historical numbers seem overly ambitious, it is still a big challenge to solve for. And it’s not to say we’re going to stop there. We’re looking to absolutely exceed that where we can, but there is work to be done to get to that point first.

Ross Curran

It’s Ross Curran from Macquarie. There’s some terrific brands with [that] portfolio you’ve got now. Can you just talk us through the potential opportunity to start taking price across some of those products and how that might interact with potentially some of that commercial wine that was getting allocated to China from competitors coming back on market? How do they interact?

Peter Neilson

I’ll start with the price piece. We’ve successfully done that recently in the Australian market where we’ve taken price on 19 Crimes. And what I would come back to around any price realization is We’ve got to start with the consumer, and you’re up against the competitive set. And so you've got to be relevant to the consumers' needs and expectations. So as we assess opportunities for price realization, we'll do that with a consumer – through a consumer lens and making sure we have that right.

I think what we do have now is, with all regions coming in under the one division, we have an opportunity to assess the role of brands in markets and where we may be able to create further alignment across those. What we do, we will come back to our financial ambitions and how we decide on those recommendations. But ultimately, we want to be relevant to more consumers in more occasions. And price is one element of how we can do that, but not the only element. And sorry, the second part of your question again?

Ross Curran

How does the potentially commercial wine that was getting allocated to China, how does that [interact with your portfolio?]

Peter Neilson

I mean Matt will talk a bit later on about what we're seeing more from a cost base. But what I would say is what we have seen certainly in markets we've got the data to assess is that the average selling price in the market hasn't come down. The long-term trend for average price, even when you break it out into commercial, premium and luxury, the long-term trends being the average price increasing. And that trend has continued over the last 6 to 9 months. We haven't seen any change in that trajectory. So we're not seeing any downward pressure on retail pricing at the moment. And as I said, Matt will talk in a bit more detail later about the cost side of things.

Tim Ford

I think one of the other key drivers behind – we take on the challenge of the soft high-teens EBITS margin, Ross, that you gave us. So it's a good challenge. The investment that goes behind D&R in this business is a key part of the – Pete touched on in his presentation, but is part of the cost base or the investment base that goes behind this business. Having a separate focus on these portfolios and these price points and these consumers with that pool of D&R that is just for these brands, not subsidized or blended with Penfolds, it creates a bigger opportunity and priority for us than taking price across the board, for example, Ross, as well. That's a really big part of this business is that line in the P&L.

David Errington

Peter, Tim, for a bit more elaboration on that sort of stuff. But on your key financials table, I'm trying to work out what's going on in '20, where your sales dropped by $50 million, but your EBIT dropped by $50 million. Your net sales revenue per case is pretty flat. So it's not a mix issue. So something is [cruel to you,] is that all COGS, the grape supply?

And can you elaborate on your – you spoke a bit quick for me. I didn't quite – you said that there are COGS improvements. You're looking at a 3% to 5% improvement coming forward for your COGS because of lower grape costs. Can you give a bit of elaboration on that?

And just one further one on Slide 79, it's a chart on your growth market example, Asia. Since '17, your $10 to $30 bottle has really dropped off in terms of growth, if I'm reading it right. Is that because that – your part of the portfolio has been starved out because of investment in Penfolds? Which means that there's an opening to reverse that? Because that's the area you're focusing on, yet the last 2 years have been going backwards. So I'm sorry there's a couple of questions there, but just to understand what's happening within your business.

Peter Neilson

Let me start with the 3% to 5% margin expansion. That's a combination of a few things. We are expecting an improvement through cost of goods, but we also are expecting re-opening of more profitable channels. So the combination of those cellar doors, for example, global travel retail, on-premise, it's the combination of all of that across all markets where we see some of that margin improvement expected to come through. How quickly some of those channels reopen will influence that range of that number is what I'd say…

David Errington

3% to 5%, that's 300 to 500 basis points improvement in margin as well?

Peter Neilson

Yes. On your question around $20 million and the $50 million, again, that's 2 parts is – COGS is a big impact within there, absolutely, but also as some of those more profitable channels are closed, that has an impact as well. And the D&R, as Tim talked about, into the channels that remained open, has an impact on the final EBIT number.

And then your last question around Asia. I think it's – the $10 to $30 has slowed. It's the top line on the right, but it's still growing fast off a growing base. So I kind of read it the other way as it's harder to maintain that trajectory of growth long term. It's just off a bigger base.

Tim Ford

That's what I was obviously going to add to it. I think that's the right way to look at it is the floor of – growth of bigger numbers is the 160% as a basis compared to the baseline, yes. So the black line is the one to worry about.

Larry Gandler

Yes, a question here. Larry from Credit Suisse. Just in terms of those brands on slide – where was the set of brands there? Well, I didn't see a number of brands that are familiar to me like Rosemount, Leo Buring, Devil's Lair. Are there possible brand sales to come out of this reorganization in Australia?

Peter Neilson

I mean we will constantly review the role of brands within the portfolio. I'd say, delivering against our either strategic or financial ambitions than the – must retain if they're not, and there's interest – we'll explore those. We're not undertaking any body of work at the moment around any potential divestment, but we'll constantly review the portfolio to make sure it's fit for purpose.

Larry Gandler

Okay. And in terms of – I think you called out Australia, there will be 54 million cases or thereabouts. Now that you're blending the business this way, is it fair to say Australia has – is it ex-Penfolds closer to a 10% market share or 15% market share in Australia?

Peter Neilson

It depends on how you read it. If you look at IRI data, that's one read. But as we've consciously made decisions about where and how we've sold Penfolds, that changes the number over time. So the number – I'd have to pull the number out. I don't know exactly off the top of my head right now, but we can get that.

Larry Gandler

I was just wondering if your Australian business was closer to a [5] million case business ***— indiscernible —***

Peter Neilson

Ex Penfolds, it would be…

Tim Ford

I don't have the numbers at the moment. We'll get that for you.

Michael Simotas

It's Michael Simotas from Jefferies. How is your on-premise position amongst this brand portfolio? We spoke earlier about Penfolds. Arguably, some of these brands are more suited to on-premise given perceptions around price and visibility of price, et cetera. Is there an opportunity there? And how large could that be?

Peter Neilson

I think there's absolutely an opportunity in on-premise. And one of the – where I see the real opportunity is how we invest behind our priority brands. And the question earlier around, do you need exclusives for the channel, beer and spirits don't do it that way. They focus on their big brands and on-premise. And I think wine can do exactly the same, but it's how we bring those brands to life in those channels to be relevant. There's – as you mentioned, there's often a price comparison, but that price comparison is no different across any category.

I think exclusive tiers within priority brands can absolutely play a role, but where I think the long-term opportunity for us to do is to move away from a bespoke portfolio for on-premise as consumers when we sit in restaurants or at pubs and we look through the wine list, we're often looking for a brand that's a sign of confidence. I know what I'm going to get. And so how we bring those priority brands to life in on-premise globally that is absolutely one of our areas of focus.

Tim Ford

But the – there'll be different account universes as well, you would think by and large. I mean back to Pete's point around the $10 to $30 center of gravity. I mean, your pub with the bistro and restaurant, et cetera, that caters for the consumer that wants a Squealing Pig or a 19 Crimes, or at the upper end, maybe a Pepperjack, is a different consumer. But still an opportunity, for sure. And the big groups, the big pub groups, et cetera, absolutely the point for Pete's business.

Michael Simotas

— indiscernible —

Peter Neilson

For on-premise? Share is really hard. There's just so little data available. I'd be guessing, if I'm completely honest, it's a really hard read to get.

Tim Ford

We can tell you what share we have in the different groups, et cetera, that we get data for, but would not be allowable. All right.

All right. Look, we're on lunch. So I don't know about you, but that went very quickly for me the last 3 hours. So hopefully, it did for you as well, a lot of information, so catch your breath, have some lunch, out the door and we're back at 2:00. Cheers.

[Break]

Presentation

Kerrin Petty

Good afternoon, everyone. I'm Kerrin Petty, and I'm pleased to have the opportunity to talk to you today about our vision and strategic imperatives for the global supply function. This is my introduction to most of you, having been appointed to the Global Supply Director just under 12 months ago.

As some background on myself, I've spent the past 16 years with Treasury Wine Estates involved in all aspects of wine supply, spanning across viticulture, wine production, packaging and supply chain management, both here in Australia as well as in the United States.

It's certainly been a busy period for suppliers. We've successfully managed through the pandemic, continue to optimize our portfolio of assets and a myriad of other activities we've undertaken across the globe to support our divisions in delivering on our imperative of being consumer-led.

The shift to a new operating model has driven an evolution in our vision and allowed global supply to be very clear on our highest-priority strategic initiatives.

Turning first to our vision. Our vision is to be the partner of choice for our divisions, our customers and our suppliers. We see suppliers playing an integral role in being custodians of the future and the heartbeat of our brands. And while our vision and strategy has evolved, what has remained unchanged and never will is the unwavering commitment to safety. The pandemic has resulted in an even stronger focus on keeping our team members safe across our global network of vineyards and production facilities, implementing enhanced hygiene, physical distancing and business continuity processes to keep people safe has been a priority for us.

On top of that foundation, there are 3 key strategic imperatives which guide our value proposition: to be customer-centric, to optimize our cost and asset base, and to expand our global sourcing footprint. And then underpinning these imperatives is our ongoing global commitment to sustainability, which is becoming more and more important to us, and also driving long-term value through innovation.

We recognize that we have 3 very different internal customers in Penfolds, Treasury Premium Brands and Treasury Americas. And our role is do everything we can to support them in sustainably achieving their strategic objectives. We will partner with Penfolds to continue to create outstanding luxury wine from the most iconic global wine-making regions. We will partner with Treasury Premium Brands to deliver on a significant cost and asset optimization opportunity that will support their margin ambition as well as helping to drive a very exciting innovation agenda. And we will partner with Treasury Americas team, reliably supply Australian and New Zealand country of origin wines at the right quality and cost, in addition to supporting them with management of their Californian supply model.

We're very fortunate to have such a strong foundation to work from with access to the most incredible and world-class vineyards and production assets in some of the most internationally acclaimed winemaking regions. We have a globally diversified sourcing model that not only supports growth of their business, but also limits our exposure to vintage variation and climatic risk. While the majority of our assets are in South Australia and California, we intend to grow our sourcing from other markets as we look to expand the breadth of our portfolio and consumer base, something that I will touch on shortly.

For those of you who know our company well, you'll be familiar with our ongoing priorities of growing access to luxury supply, vineyard yield optimization, maximizing our grade conversion and continuing to evolve our asset base in line with the constantly evolving needs of our business. In addition, we're currently undertaking an extensive global supply chain optimization program, which we now expect to deliver annualized benefits at, at least $75 million by F '23, which is up from the $50 million previously announced.

The key components of this program include: implementing a product optimization strategy to ensure we have appropriate quality and cost base for each product, including the grade of the wine that is allocated; maximizing our winery and packaging network efficiency to ensure we're utilizing our asset base appropriately and minimizing cost; reducing our cost to serve from the vine through to the glass; and working to accelerate our investment in technology enablement through robotics and digitization, which is something that Matt will talk on shortly.

As I mentioned earlier, expanding our global sourcing footprint to support the divisional portfolio is an objective and a key area of focus for us. We will continue to invest and grow our Luxury sourcing footprint in France to support the evolution of the Penfolds French country of origin portfolio in what is a significant growth opportunity. In Italy, we will optimize our asset base to better align it with the divisional portfolio priorities and use it as a cost-effective platform to source growing varietals of pinot grigio and Prosecco whilst ensuring we have the flexibility to scale sourcing in line with consumer demand. This will be a particular benefit to Treasury Premium Brands.

In New Zealand, our aim is to achieve a fit-for-purpose asset base with secure cost competitive sourcing of key varietals for our mature brand, which is in strong growth in the United States. In other sourcing regions, we will target opportunities to expand our diverse global sourcing footprint, enhancing what is already a significant competitive strength for Treasury Wine Estates.

In addition to our 3 key initiatives, sustainability, innovation will be ongoing areas of focus. We're increasingly leveraging technology to drive excellence in viticulture and sustainability. On the climate adaptability front, we're implementing microwave technology as an alternative to herbicides, prioritizing the planning of disease-resistant varieties. Viticulture digitalization supports database decision-making. And with data analytics and machine learning, we're able to predict yield, harvest timing and fruit quality. We're able to extend the yield forecast and get a much better climate outlook. Robotic tractors and autonomous ground vehicles are also – also provide us with a significant opportunity to be more efficient and improve safety.

Winemaking practices are also changing rapidly, and we're innovating to optimize efficiency of our winemaking facilities. Examples of innovation we put in place at the Bilyara expansion include an automated cellar of the future with complete control of wine movements within a tank. As an example, transfers and topping of tanks, which were once done by 3 people, are now done by a single person. We've upgraded the packaging line to be capable of processing 100 bottle types and over 50 carton formats.

We're installing automated guided vehicles to manage the movement and storage of barrels more efficiently. And as a world first, we have a robotic barrel line, which ensures barrels can be filled, emptied and processed efficiently and safely 24 hours a day.

Finally, consumer-centric innovation is something demanded to us from our customers and that we'll absolutely have to deliver against. Our ambition is to work collaboratively with the business units to build industry-leading innovation capability. Some recent examples of our focus include low and no-alcohol production technology, where we're working towards making a best-in-class, low and no-alcohol wine. The launch of Wolf Blass Zero later this year will represent our first step into the no-alcohol category. It's clear to us that consumers' needs are changing. And what they see as important in value isn't what it used to be. As such, we, too are evolving.

We're working on the materials that we package our goods in and the technology we use to deliver the wine into the glass of more consumers. So I hope this provides some insight to our priorities and supply activities. I'll now hand over to Katie Hodgson, who's going to talk about world-class talent.

Katie Hodgson

Thanks, Kerrin. Good afternoon, everyone. I'm Katie Hodgson, TWE's Chief People Officer. Today, I'm going to share with you some of the work we've been doing and the results that we're already seeing in the talent space. A lot has changed since I met – we've met most of you down in the Investor Day late 2019, quite a lot, actually, with Tim's appointment as CEO, our new TWE 2025 strategy, we've implemented a whole new DNA. We've step changed our investment in our people, and we've made a real commitment to employee engagement. So what is this TWE DNA and what exactly is its purpose?

TWE's DNA has 3 strands, bringing our whole self, being courageous and delivering together. We think of our DNA as our cultural code. It's a combination of who we already are and who we want to be. It aims to form the experience that everyone will have dealing with TWE and also internally how we recognize, reward and guide the right behaviors of our people.

Our DNA was created through a process of both internal and external research and, importantly, employee co-creation. Its purpose is to create an environment that enables some really key things for us. The first being diversity, inclusion and belonging. The second being feedback, continuous improvement and innovation. And the third, collaboration, performance and celebration. It's embedded and reinforced through our policies, our performance framework and our recognition platform. And because of this, it's lived an experience throughout our entire global business. So no matter where you see it, what country you're in or what team you're part of, your experience is the same.

In 2019, we shared our strategy of investing in our people, their whole selves, through programs supporting mental and physical health as well as life and professional skills. That was the genesis of our TWE for Me brand, our value proposition or what we call our promise to employees. In 2020, with the impact of the COVID-19 pandemic, not only did we draw down on that investment, we actually dialed it up by a whole new investment in launching what we call our TWE for Me Academy. We know we can't achieve our ambitions for TWE without having the world-class talent to make it happen. And we also know that having the talent is not enough.

We need to continually nourish, invest and grow our talent. Our aim is that our diverse talent feels welcomed and valued and, importantly, challenged and stretched that they can keep growing their career with us, maximizing their on-the-job experiences, supplemented by mentoring, coaching and virtual classroom learning through the Academy, which is the vehicle through which we invest in our continuous and company-wide learning for all employees.

We'll continue to evolve our focus and our investment in our academy, custom designing what we need to set our people and our business up the success over the short, medium and longer term. Areas of capability won't be a surprise given what you've heard today, focusing on innovation, digital and communication. TWE for Me Wellness, which is the middle pillar on the screen there, supports our employees to optimize their mental and physical health in addition to developing those key life skills that set them up for success well beyond their time with us. And finally, our TWE For Me Community programs and events provides our passionate employees with a platform to bring their whole selves, building inclusion and belonging and, importantly, inspiring change and positive impact across a breadth of topics that straddle both local and global matters of importance.

We're focused on creating a culture where our talent can thrive and an environment that celebrates and truly leverages the diversity of our global workforce. We have over 3,000 employees located across our 4 regions. And the majority of them are employed on a full-time permanent basis. We have a range of initiatives to attract, retain and enable our diverse talent groups across our business and we're committed to increasing female representation and leadership to 50% by 2025.

As well as investing in our people's development, we've made a step change in our level of investment in employee engagement, which includes measuring and continuously improving the experience that our employees have at TWE. On this slide, you can see that in the last 12 months alone we've run 3 all employee surveys to better understand the experience that our people have. So we can truly embed our DNA into everything we do and deliver on our ambition to be a great place to work.

The first of those surveys was our COVID-19 Pulse survey to really understand how we could best support our people through the pandemic. We then followed that up with an inclusion survey late last year to identify ways that we could continue to broaden our diverse inclusive culture. And then finally, in the last couple of months, we've just completed our first global engagement survey, what we call internally our WhaT'WE Think survey. And that's really enabled us to set an engagement baseline upon which we can build.

Now we somewhat courageously did that in February after the half announcement, which included foreshadowing a move to a whole new operating model, which we saw as a crucial time to really ask, listen and act on employee feedback and getting engaged of how employees were feeling. The results of our engagement survey were really pleasing. To sum up those highlights for you, people are feeling an increased sense of belonging and the vast majority see TWE managers as genuinely caring and supporting their well-being. The day-to-day decisions demonstrate that safety is our top priority and that managers are truly flexible in how they work, proves that our plans are working.

Alongside this, we saw the recurring theme of people feeling connected and aligned not just to our game plan but to our DNA as well as real confidence behind our senior leadership group. As a result, our overall engagement score, which is on the screen, was 68%, which is a strong result and comparable to what we benchmark in terms of other food and beverage companies globally. We're pleased to have this as our baseline upon which we can now build, particularly in the context of the survey occurring during that global restructure, which we know did contribute to feelings of ambiguity and uncertainty for our employees.

However, we did also learn from our employees that there's an opportunity to do some things better. So we can better engage them in how we translate the feedback and the insights from our surveys into actions by creating opportunities for employees to be part of identifying the actions to take and also demonstrating more clearly how what we do links back to the feedback that we have received. So that's what we're in the midst of working on right now.

On the back of these great results, we were so thrilled TWE received last month from the

Australian Financial Review placing in their Best Place to Work, which for us was confirmation that our efforts are indeed paying dividends. I'd like to close by giving you the opportunity to hear directly from some of the people in our business about their experience of working at TWE and what the DNA move means to them. Thank you.

[Presentation]

Kirsten Gray

Good afternoon, everyone. My name is Kirsten Gray. And as the Chief Corporate Services Officer, I'm responsible for our position on sustainability at TWE. I've been with TWE just over a year now, having spent 25 years in the resources sector. And one of the reasons – one of the many reasons, I might say, that I came to TWE is because it felt like a fundamentally sustainable business.

We have some really iconic wine brands, and we have a large agricultural footprint as well as global sourcing, production and distribution capabilities. And as you'd expect, these are at the center of our sustainability efforts, and they're the focus of management of our climate risks and innovation in our business.

Our ambition to be the world's most admired premium wine company means we need to take a much bolder step towards sustainability leadership. Today, we'll share our new sustainability aspiration and some of the goals we see as critical towards moving towards leadership in our sector.

We'll also outline our expanded suite of targets and commitments in this area. We'll give you an idea of sustainability in action at TWE through a couple of case studies. And finally, we'll outline what we think the pathway to maturity looks like at TWE.

Our sustainability ambition is to cultivate a brighter future for everyone who touches our business and our products. Our approach to sustainability has been embedded in our ambition and in our game plan, and it's been driven by the DNA that you just heard Katie talked to you about. It reflects a clear commitment to partnership, to innovation and to taking a sustainability leadership role, not just across the global wine sector, but across the broader beverages sector.

We think that ambition is bold, but the leadership team at TWE believes it needs to be. It recognizes that we need to take a more integrated approach to sustainability. So we need to focus on long-term value creation and on innovation, as well as committing to leadership and to collective action if we are to effectively manage the risks and to make the most of our new and emerging opportunities.

And with that in mind, we've established 3 goals for our sustainability agenda. The first is building a more resilient business. This acknowledges that our ability to deliver over the long-term relies on the health of our planet and the people around us. And that to thrive as a business, our business needs to be resilient in the face of increasing uncertainty and complexity and change. And being able to adapt to the trends impacting our business, such as climate change, requires new ways of thinking, innovation and new partnerships, and you've heard us talk about that a lot today.

The second goal we've set for ourselves is to foster healthy and with inclusive communities. A healthy and safe workplace will always be a priority, and you heard about that from Kerrin. The TWE team is also genuinely passionate about building an inclusive and equitable culture that delivers better outcomes for everyone who touches us and all of our stakeholders. We want to foster safe, sociable and connected communities where our brands are promoted and our wine is consumed safely and responsibly.

The third focus we've set for ourselves is to produce sustainable wine. It's a big statement. As one of the world's largest wine companies, we really think we're well positioned to lead substantive change with our supply chain and with business partners. And we want every consumer to experience wine that's sustainably grown, made and packaged. And our efforts in this space will span from ensuring our asset base and grower network meet sustainability criteria through the joint innovation on some of our shared challenges.

Alongside our sustainability ambition and goals, we're developing an expanded suite of targets that commit us to leading by example and building trust through transparent reporting of our progress. First and almost – always foremost, we'll continue to prioritize health and safety and well-being through the Destination Zero Harm program that ensures that our success doesn't come at the expense of health and safety.

And today, we outlined our commitment to enhancing our approach to water stewardship. We're acutely aware of the importance of water to our business and the need for responsible water stewardship, particularly as we consider the potential impact of the change in climate. We're already proactively managing water quality and scarcity on a daily basis, and we do it by continuing to invest in – both in technological improvements and in infrastructure as well as water efficiency across our global operations. However, we think that absolutely first-class water management will help our local communities in the periods when water is scarce, it's a very local issue, and be a clear competitive advantage in our industry. And so we plan to take this to another level.

The first step is to undertake a comprehensive review of our water footprint and usage at a catchment level. Today, we're also pleased to announce our commitment to net zero. First, we commit to achieving 100% renewable electricity across our global operations by 2024. This will pave the way for us to move towards a net zero emissions target by 2030 for Scopes 1 and 2. This constitutes a relatively small share of the emissions across our value chain, represents all of those over which we have direct control. And while we're delivering against those targets, we'll also accelerate our assessment and reduction of our Scope 3 emissions supply chain, which means we'll be minimizing the impact of our whole value chain on the climate. We'll be able to set targets on this in due course.

We'll also continue to progress our commitment to our sustainable packaging targets. And Kerrin will talk shortly about some of the work that we're doing with our supply partners to reduce our impact.

Finally, we remain committed to progressing our inclusion and diversity targets. We're continuing to focus on building an inclusive workplace and a diverse workforce. And as you just heard from Katie, we're investing heavily in building a world-class team and it's priority to build a culture of inclusion so we can leverage the power of diversity.

What we're presenting here today are some important steps in our sustainability journey. We want to demonstrate a commitment to transparency and sharing our thinking as our strategy evolves. Given this will be maturing our approach to sustainability reporting and implementing a TCFD reporting road map that's aligned with our approach and targets and embedded into our business strategy.

As a business with a global agricultural footprint, we understand the importance of managing the critical impacts and ongoing risks associated with climate change. We accept the international scientific consensus and support the objective of the Paris Climate agreement to keep global temperature rise well below 2 degrees, and pursue efforts to constrain warming to 1.5 degrees.

Viticulture, like the rest of the agricultural sector, is sensitive to more frequent extreme weather events as well as changing climatic patterns. And the wildfire events that we witnessed through South Australia and California in 2020, a testament to this.

Climate influences many factors, including water availability, temperature, precipitation, timing of harvest. We have a responsibility to be part of the journey towards a zero carbon economy, while managing the critical impact of climate change on our business.

Our approach to acting on climate change has 2 aspects. First, we're committed to a net zero ambition and have set clear emission reduction targets that I've already addressed. And secondly, we'll continue to build resilience into our operations. At the core of our thinking on resilience is an adaptive business strategy, which includes the global flexible supply chain, that you've heard about, that allows us to source the quality grapes so we need to make the best wine, coupled with an agile, highly efficient global production and processing footprint.

In 2020, we began a 2-year climate scenario analysis to help us better understand the potential impacts of weather events and climate change at key sites and in growing regions to test the resilience of our long-term strategy. When it's complete, the findings of that study will inform the range of potential climate impacts on our business.

This analysis is already informing adaptation strategies and some of the actions that we need to take to mitigate climate risks. These include our technical capacity to improve weather forecasting, genetic development of more drought-resistant grape varietals, precision viticulture practices to optimize irrigation and practices on the vineyard, such as use of mulch to retain and control soil moisture, manage temperature as well as frost drainage and pests. We're also collaborating with a range of partners, such as universities and industry experts to accelerate our transition to a low-carbon future that we see.

I'll now pass you back to Kerrin for a moment to take you through some of the more detail on our current activity.

Kerrin Petty

Thank you, Kirsten. We have 2 case studies to share that exemplify our commitment to a sustainable future. The first of these is our state-of-the-art Luxury winemaking facility in the Barossa Valley, which has been designed with long-term sustainability in mind. We thought about this a few ways. Firstly, from a climate adaptation perspective. The expansion of the TWE Barossa Winery was designed to manage increased fermentation capacity for compressed vintages, which are becoming more frequent as the climate warms. Grape varieties that have historically been harvested at separate times are now coinciding in regions that were once delivered at different times now overlap.

The production facility has been designed and engineered to accommodate such compressed vintages, where we have the capacity to protect our highest value luxury fruit, ensuring they can be afforded the appropriate cycle time to make the best wine possible. We use predictive software to determine the ripening patterns of our fruit. This information provides critical insights as to how to optimally schedule the vintage process into the winery, not only for efficiency, but also to maximize wine quality.

The second consideration is around greenhouse gases and renewable electricity. As part of the redevelopment and in line with our commitment to achieve 100% renewable electricity by 2024, we're pleased to announce today that we've entered into a new 20-year renewable power purchase agreement that will reduce carbon emissions from the site by more than 2,000 tons per year and deliver up to 50% of the site's electricity needs.

At the same time, we've designed and implemented a number of energy initiatives, including converting our wastewater treatment from aerobic to anaerobic; reducing electricity usage by around 15%; using more efficient refrigeration equipment and changing the control logic, which equates to 300-megawatt hours of saving; using indirect evaporative cooling in the barrel holes in lieu of traditional cooling methods, saving 920-megawatt hours; and within the packaging center, we've used high-efficiency motors and installed improved automation control and monitoring so we can better understand energy and how it's being consumed across the site.

We've also improved our water security through this process. Water recovery and recycling were design requirements in the project, enabling water from the packaging and winery facility to be recovered and utilized. A new 10-kilometer pipeline from the facility connects to a 250 megaliter [vintage] storage dam at our Luxury Kalimna Vineyards, diverting storm water and treated water from the packaging and winery centers to provide more security. This water security has a potential to offset the use of 250 megaliters of imported Murray River water.

And finally, we've improved our overarching recycling, reuse and compost programs, once again, in an effort to become a more sustainable producer. A large portion of the waste produced from winemaking is organic materials, such as grape marc, stalks and stems. Organic waste is taken for local composting, whilst the skins and seed are sent for processing where further value can be extracted.

We've also developed a closed-loop system with our glass supplier, Orora, from the packaging center, where more than 350 tons have been recycled since the program started in 2019. And we've worked with another supplier to close the loop on shrink wrap. The shrink wrap is collected and then transformed into slip sheets, which are then used to stabilize pallet loads, resulting in less damage. We've diverted more than 275 tons of shrink wrap in this process.

The second case study speaks to how we're considering the packaging of our products and the footprint that, that leaves behind. Since establishing our sustainable packaging guidelines and targets, we've progressed a number of initiatives with our suppliers to innovate our packaging that delivers a positive impact on the resource and energy efficiency of our partners across a range of inputs, from glass to labels, screwcaps and capsules.

By F '23, we expect the changes will deliver substantive sustainability benefits. Materials reduction, most of which is glass, will come down by 3,500 tons; emissions will then be reduced by 3,200 tons; and we'll also see a reduction in annual energy usage of 7.6

kilowatt hours.

I'll hand back to you, Kirsten.

Kirsten Gray

So today, we've outlined our sustainability ambition, our goals and an expanded suite of targets. We've demonstrated that we continue to make progress through a series of local initiatives across our site and in collaboration with our suppliers. Our enhanced sustainability strategy continues to be a work in progress, but we have a roadmap for maturing our approach.

So during the next 12 months, we'll continue to establish our sustainability roadmap with clear priorities and commitments in the areas that we believe can make the most impact and also improve our approach to governance and reporting. As we start to build momentum, we'll plan to accelerate our engagement with a range of stakeholders and identify the most credible opportunities for our brands to amplify sustainability commitments in ways that reflect the changing preferences of our consumers.

As we approach 2025, we're targeting deeper integration of sustainability themes into our business strategy, and we'll pursue innovation and collaborations that drive a step change in our sustainability leadership across the global wine sector. And in doing so, we hope to cultivate a better future for everyone who touches our business and our products.

Thanks, everyone. And I'll now hand over to Matt, who will take you through plans to leverage technology as a platform for growth.

Matthew Young

Thanks very much. I'm sure you are a bit surprised to see me up here. I know Tim sort of alluded to it. If it helps, just picture me with a black skinny or a gray hoodie, all right? So that helps with the message here.

So you might be a bit surprised to see me talking up here around the world of technology. However, I have the pleasure of leading a very talented IT team, who are listening at the moment, probably wondering what I'm going to say. And they are – and we are very excited to share with you our 2025 technology roadmap, something we see as critical to the next stages of our growth and something we'll be investing heavily in, in the coming years.

Now throughout the day, you've got each of the speakers at some point reference technology as being core to the execution of their strategy. Now this is not new to us and may not – may seem entirely sensible to each of you. You may be surprised that this is not a common attitude in all parts of the wine industry. In fact, we believe there is an opportunity here, which we can capture.

Let's take a look at why we think this is the case. Many of you might have seen the videos in your Instagram feeds showing the nighttime vision of wineries in France attempting to ward off the risks of frost by lighting small oil drums next to the vines to warm the air around them. Some might and some did describe these images as romantic, beautiful, breathtaking. It's not really how we look at it. The words that came to mind to us were agricultural or old world, not in a good way. And what's worse, it didn't work.

And many of you will have experienced something like this person on the right. This is a typical retail experience for many consumers. Lots of labels, minimal faces. Angus mentioned it earlier. The wine category can be overwhelming for the consumer, and we're not always making this easier. But as – the other consumer goods companies, including luxury goods, are starting to get this right. Whether it be through better online platforms to help navigate the category or better omnichannel connection in the example of Apple or Gucci. New expectations for retail – are being set for retailers and brand owners, and we want to be one of the first to meet them in wine.

What have we learned over the past few years and especially in the last year? Consumers are expecting both personalized experiences with brands, but also the opportunity to interact with brands. Consumers expect the same experience and interaction with brands between online and offline. We can see that new business models, subscription service models are emerging in other categories, and it started coming for wine in small ways. This is about owning the entire consumer experience and journey. And of course, the underlying power of data remains a well-known trend. With those who are able to leverage the data best are best placed to stay ahead. So it's very clear to us that disruption is coming to the wine industry, and those that have invested ahead of the curve will be best placed to take advantage.

At TWE, our focus is on investing in the areas where we can use technology to complement our own competitive advantages. Within our internal non-winemaking operations, we are laser-focused on simplification. We know that if we get this right, our organization can focus on our core advantage of making, marketing and selling great wines. And it will make us easier to do business with for our customers and our suppliers.

Within our winemaking operations, our ambition is to build an intelligent supply chain, not just because robots are cool, which they are, but because it helps us drive safety and sustainability, production efficiency, but critically important to us, it can allow us to increase our volumes of luxury wines. But most importantly, we are focused on the consumer, and our ambition to drive deep consumer connections and experiences. We know that this is critical for us to drive increased engagement with our brands, allowing us to gain greater share of growing channels.

To date, we believe we've made some great strides and are actually well placed relative to many of our competitors. Over the past 4 years, we've invested heavily into internal systems, and we now have globally consistent planning, reporting and promotional management tools. These were significant investments over the past 3 to 4 years, more than $40 million. And our global standardization of these systems means that we are more efficient in this space than others.

You've heard today how the investments we've been making at Bilyara are industry leading, including automated wine flows. But also our partnership with the yield in the agricultural technology sector to improve our viticulture processes has been an exciting investment.

In the consumer space, we're well-known for our progressive investment in augmented reality for 19 Crimes and other brands. We've also just completed a $15 million investment into our branded e-commerce platforms, which are providing for better consumer experience for our important club and loyal DTC members, particularly in the U.S. But we are clearly not going to stop there.

We recently finalized our long-term technology roadmap, which you'll see us take the next meaningful step on our journey. The first is a significant investment in our data and analytics capabilities. Supporting all aspects of our business, as you can see, Project Helix is our investment, which we'll be able to analyze new and taking more complex data sets across winemaking customer, consumer spheres, as well as bringing unstructured external data sources. It will be the platform for improved analytics and automation, improved decision-making and insights and making us a great partner for our customers.

Internally, our focus is on efficiency, both in working patterns, but also our systems. We will be investing in the areas of promotional efficiency, utilizing improved analytical capabilities to enhance the effectiveness of our programs with consumers.

In the winemaking space, we will invest further into robotics. For example, the use of autonomous laser-guided vehicles to manage our barrel handling as well as improved operational management systems, such as supporting labor and asset management. But again, it's the consumer space we'll be investing most heavily. We will capitalize on the learnings of COVID by driving increased virtual experiences, such as tastings, which have actually proven valuable to the consumers.

You've heard a lot from the team around engagement with brands, which has been a strength of ours, whether it be through traditional online advertising or digital, KOLs or collaborations such as Snoop, we've learned what works in the digital space and have the opportunity to expand these further.

We'll be investing to improve our connection with third-party e-commerce sites with improved digital marketing technologies, and we'll continue to invest in the technology in the bottle. Augmented reality can emerge from the interesting to the educational as we invest more here. But we will also invest further technology in Penfolds bottles as a means to improve traceability of product through both the use of QR codes and in the future, near-field communication technologies.

So to wrap it up, hopefully, some of what you've heard today gives you the insight and confidence around the vision we have in this space, but we will back up this vision with commitment. We'll be increasing our proportion of our annual CapEx spend, which we've previously flagged as being around $100 million a year, and we'll increase that from 15% to 25% spent on technology for the next 3 to 4 years. We've already spent ahead of our competitors in this space, so this will keep us at the forefront of technology investment.

And as you can see here, the focus of that spend will shift from being internally focused to investing approximately 2/3 into our winemaking and consumer-facing technologies, which will drive important financial benefits, such as lower cost of goods and generally lower cost of doing business through efficiency; improved sales and marketing return on investment through improved information and decision-making tools; and an increased ability to grow top line, capture market share and be margin accretive through growth in key emerging channels and expanding our access to luxury wine.

We recognize the opportunity. And whilst we are well positioned as a result of our investments to date, we also recognize the critical need to continue to invest ahead of the curve because we want to remain leaders in the category and stay ahead of the disruption that's coming for wine.

Thank you, and we'll open up to questions on all the last 3, 4 topics.

Question and Answer

Ross Curran

It's Ross Curran from Macquarie. Just interesting from a staffing point of view, how COVID's impacted your ability to get pickers? And how you see that coming through over the next few years as it's harder to move around?

Kerrin Petty

For this vintage you're speaking?

Ross Curran

Yes, well, it's hard to get people in site from the islands in to pick fruits. So – or Irish backpackers, they're not around. So how do you go from having an Irish backpacker who gets paid $100 a week to having to hire a local on $500 a week? And how does it play for you?

Kerrin Petty

Yes, it's probably a treasury-specific answer, but we're highly mechanized in terms of what we do. So our exposure to that is less. We didn't notice any specific issues related to picking groups, wherever they might come from. So we normally pull them out of the major cities for the Barossa and McLaren Vale, for example, or the other areas, Kunwarara, where we also have transient sort of groups come in. But no impact from COVID.

Larry Gandler

Question on HR, Katie. Just analyzing the company for many years, the U.S. has been an area where morale has been low, a lot of restructurings. Can you talk to – now that you've divested the commercial brands, what's kind of changed there in terms of morale, the size of the employee base there? What's the character of that business now versus, say, 3 years ago – 2, 3 years ago?

Katie Hodgson

So good question. Obviously, as part of reshaping the business that has impacted the size of the workforce overall, and as Ben indicated this morning, they're almost at the completion of having done all that now with the most recent changes. I think the biggest shift from a morale point of view is as they've had greater clarity and sense of conviction around, with Ben's new leadership coming in, knowing those areas of opportunity that he talked to this morning, that sense of belief that comes from employees when you start to get some of the wins on the board. So being able to come out at the half and share the results that, that business had achieved has really just given them reinforced belief and conviction. What they know the potential of the business is to be able to actually see that other people can now recognize it.

Larry Gandler

In terms of the size of that business now, in terms of staffing, I see you've had something like 30% of the company's employees? How many people is that roughly?

Katie Hodgson

Yes. So they are, from the top of my head, about…

Matthew Young

General employee base is about 3,000 globally. So [you grab a thousand.]

Michael Simotas

It's Michael Simotas from Jefferies. On the supply chain, I was just hoping you could talk a little bit more about the supply chain optimization and, in particular, how you found the additional $25 million, the areas that, that comes from. And also, can you give us a little bit of help with how that falls out across the divisions as well?

Matthew Young

Yes. Okay. So how – where the extra $25 million comes from? So this program has been running since July last year. I think we kicked it off in its formal sense. So over time, it has built momentum and new initiatives are fed into that. The biggest of those is probably the design-to-value stream, biggest contributor, which is effectively looking at the product, looking at what makes it up and then challenging ourselves whether the consumer actually sees the same value that we do and what we put into the product. So that's been the largest stream, and that's grown over time. That's a global stream as well.

The other major one is logistics. And in a pretty turbulent time of logistics in the world at the moment, we've got some optimized routes to be able to get benefit from that. So that's the first part of the question. The second part?

Michael Simotas

And just how that benefit flows through to the divisions? We're still trying to get used to these divisions.

Matthew Young

Yes. Yes. Sorry. I can probably speak to regions rather than divisions. I don't know if I can cut it by divisions just yet. But by regions, majority of it is Australia, sort of 50-plus percent; and then closely followed by U.S., which is at 25%. The rest is rest of the world.

Michael Simotas

And given the volume, is it reasonable to assume that there'll be a lot more in TPB than there is in Penfolds?

Matthew Young

It's primarily TPB and Treasury Americas.

I think to the – just by sort of handing the mic around the – clearly, I think when we talked about the $50 million, I emphasized the plus, and that's sort of the internal mindset that we've taken. And as Kerrin sort of covered, the design to value, in other industries, it's called product teardowns, right? So you actually look at it, you compare the products to a similar products in the market, look at the weighting of glass, look at the label, and all those various elements.

We started with a fairly small population of the product base, the biggest earners. But as you start to go through the journey of seeing what works and what doesn't, you can expand that out. So that was part – that's a big part of the journey of why we lifted – why we feel more confident lifting the target for that.

Michael Simotas

Matt, this probably is to you and to Kerrin. 2 or 3 years ago, even up to 5 years ago, there was a really big push from Treasury using technology to increase your yield. I think Kerrin might have touched on it, but there was a big push. I think it might have been Uplift 2. Project Uplift 2 was the project, and it was basically increasing the proportion of the existing intake. And at this stage, I think it might have gone from 1% of your intake to 12% and was heading up north. So it was a significant increase in the availability of your iconic and high-end wines.

The question that I'm coming from now is where is that at? Is it clearly – and given your message today, you're spending a lot on technology, both at the customer facing, but also at the input area. Not that I want to give you guys a green light to go and spend more money, far from it, because I think you've said today you can get huge profit growth without spending any more capital, which I'm holding you to that.

But the end of the day, there must be a lot of wineries out there – vineyards out there like Wetherall that you bought not long ago, which must be struggling now or going through tough times. Is this an area that you might be looking at where you could pick up some really good vineyards and apply the leading technology that you must have? You must be world-leading technology that you're taking across the brands, that you're taking across America.

Is this an area that you're thinking about in terms of future growth, in terms of opportunities? Because you're one of the biggest wine producers, the biggest luxury. Can you – is this what you're thinking? Are you going to leverage that technology capability and potentially buy these vineyards to get not only higher quality fruit opportunity? Is that your line of thinking?

Matthew Young

I'll let Kerrin talk to particularly around where the opportunities are. And I know you'll probably reference the fact that we – particularly with some of our larger growers, we're working with them to sort of share some of the learnings. On the projects that we had in place previously to increase the yield, a lot of that was in the vineyard. And so it was focused on, whether it be replanting and managing our vineyards to get the greater grade conversion and improved yield. So those projects are complete, and we're seeing those come through.

What you're seeing now, particularly in Australia, with the new investment that we've made out at Bilyara, is making sure that we've got the capacity in that winery so that the vast effort that comes from making luxury wine is in the vineyard. What you've got to make sure is you've got a winery that can take the wine and that doesn't compress the intake period, leave enough time on skins, et cetera. That's a very big part of that investment in terms of access to luxury wine.

So that is a unique site, and we've got unique capabilities throughout there. But I'll let Kerrin talk to how we'll expand that as well as some of the opportunities we'll be looking at for assets.

Kerrin Petty

Yes. My response. The program you're speaking of was successful. I was actually quite involved in it actually. So quite successful. So what technology seeks to do is take us to the next level for us to grow pretty simply. It was more focused on high B moving into the A in our sort of language where we're now talking about sort of the lower echelon and how we bring that up, but then how do we do that across the globe as well?

So how do we learn from California to apply that to Australia? How do we learn from California to move into France even? So that's the sort of triangulation we're now thinking about. How we become global in technology and insights to inform our decision-making.

In terms of further investment, look, it's not driving the investment. It's actually driving further improvement within our own holdings per se.

Matthew Young

We'll look at them. There are definitely opportunities out there. Clearly, we're working through, particularly on the Penfolds, the path that we've gotten, and we've taken in the full vintage '21. The key for us is making sure that we share a lot of those learnings there, particularly with our long-term growers who deliver those grapes because that's going to be the most important. As and when the right time is to acquire further assets to support French expansion, absolutely, they are things that we can take advantage of that perhaps others can't.

Richard Barwick

Question over here, Richard from CLSA. I'd be interested to know, you must be sourcing still a lot of bulk wine. I don't know what the volumes are now post the U.S. divestments. So you talk about the sustainability and the – I guess, the environmental impact of your owned and leased vineyards. What visibility do you have? And then what sort of controls do you have when you're buying bulk wine with the same impact, same question.

Kerrin Petty

So Scope 3. That would be clusters?

Kirsten Gray

Scope 3. — ***Indiscernible*** —

Kerrin Petty

Scope 3. Yes. So it's in our purview. I mean obviously, we're pretty determined to fix our own backyard first, which is the Scope 1 and 2, which is [commented] today's ambition and goals that we've just set. Then we'll quickly pivot to not only growers, but obviously, bulk wine as well. How we do that? We haven't necessarily determined right at this point, but that's absolutely on the roadmap.

Kirsten Gray

I can add. I think you'll see some of that when we issue our sustainability report in August. We'll have some things on a sustainable agriculture.

Richard Barwick

So is step 1 just actually gaining the awareness of where the wine is coming from and the impact rather – even before trying to do anything about it, but actually being alert to that?

Kirsten Gray

Certainly.

Kerrin Petty

Yes, absolutely.

Analyst

Matt, just a question around the CapEx you're putting on to the tech side. Is this largely around systems, incremental step up?

Matthew Young

Combination. So if we think about internally, yes, it will be the systems that we're investing in. If you think about the winemaking, there'll be systems but also technology in the winery infrastructure as well. The data and analytics will be, I guess, expanding what we've got.

And then when it comes to the consumer side, some of it is, I guess, digital enablement. So when you think about the – a lot of our retail customers and third-party, they've got fantastic infrastructure when it comes to digital engagement. It's about making us a better connection into theirs. So investing, making sure that the marketing information, for example, flows straight through to those retail partners and is presenting the best way and driving the consumer engagement the best way on their platform.

So the consumer will be a bit more broad-ranging between improving our systems to enable that and processes that we have as well as improving the infrastructure that we have, say, within a direct-to-consumer space in cellar doors and retailers, et cetera, and potentially even in retail stores.

Analyst

And just interested in the decision around how you're thinking your decision to capitalize it as opposed to expense it? And presumably, you can be using a lot more and you've got Oracle, I think, and a few other things in there around sort of software-as-a-service now. How much is that feeding into the operating costs as well?

Matthew Young

Very good question. The accounting standards are giving us some feedback on that. In essence, we're still comfortable. It's generally capitalized because what we're building is predominantly items that we control or systems, infrastructure, code that we control and are unique to us.

Analyst

I'm sorry, just to follow on. So I presume that's going to be depreciated a lot more quickly as well? So is it going to have any sort of impact on the D&A profile?

Matthew Young

[If that is] where we're going at, it's unlikely to.

Analyst

Just a quick question on the IT spend because the theme that seems to be recurring at the moment is cyber risk, and those sorts of things. How much of that is being spent on security? Are you worried about it? And have you been talking to your insurers about it as well in terms of protection?

Matthew Young

I'd be lying if I didn't say it worried me. The key for us is understanding the asset base and the risks that are the most critical and putting in place the right protection level. So it's a very active – we've talked about it at the Board yesterday, actually, just in terms of the investment that we're putting there, and we're accelerating that.

We're also doing a lot in the space of disaster recovery. So if I reflect on sort of my – our knowledge in this area, we're making sure that you've got your understanding the risks and your understanding your ability to where you may be exposed. You have to work on the assumption that this could happen. What's really important for us is the recovery and the ability to come back from that. And we are well progressed and invested in the online backups and the ability to recover should an issue happen.

Something hasn't happened, and we are constantly testing that. In fact, that's a live conversation we have at the moment, which we are actually testing as we go to make sure that we are ready to recover should something happen in that space. Sorry, there was a second part to the question?

Insurance. Yes, we are talking to them. I think that market is evolving. I won't take Kirsten's thunder because she's much more experienced in this. But it's a much more evolving market at the moment. Do you want to sort of add?

Kirsten Gray

Yes. So we're looking at it in some detail, actually. And it's – there is coverage there that is worth having. Pricing is evolving. And so we – and of course, it's quite specific to the company and the assessment of your defenses and the state of readiness. So we've done a lot of that work actually, and that's a live question at the moment.

Kerrin Petty

Key is making sure that it will actually cover you for something.

Kirsten Gray

It's key.

Larry Gandler

I've come back in for another question on – this time on DTC and the investment in technology you're putting there. Now that you've broken out the company in those 3 new divisions, which of the divisions has been most advanced in DTC? I'm kind of thinking the U.S., but maybe TPB.

So if you can kind of give us some color as to which one is the most advanced on DTC? And then how does your investment in technology kind of advance those sales there?

Matthew Young

Sure. So possibly, I think we're thinking DTC. There's 2 parts to that. There's the D2C e-commerce space and then there is obviously the direct selling to consumers.

Larry Gandler

I would aggregate both of them.

Matthew Young

You'd aggregate both. Look, I think certainly, both Penfolds and our U.S. business are the most progressed in that space. The U.S. is a – particularly on the D2C space in the U.S. with the cellar doors, the tasting rooms and that engagement that builds club's loyalty. It's a big part of our business, and that's a great way that the consumer connects with brands. It's really important. They are more progressed in that space in our business than perhaps others.

Where their next step is to be that really great partner on an e-commerce space. So we've invested in our own e-commerce platforms because that's an important part for that business to build repeat buyers through there. The investment and the opportunity that comes is building the connection through the online retail, whether that be direct or retail.

I would say probably the best example of direct-to-consumer knowledge and experience generally would be in Penfolds part of our business. Clearly, the ability to own that experience and that connection, whether it be through tastings, through dinners, through launches, et cetera, the Penfolds team is a fantastic example there.

Within the TPB space, however, there's a big opportunity there, particularly in that partnering with our retail partners as well. So we've got the brands that stand out on those platforms. We've got the great relationships in each of our markets with brands that are growing. For us, it's about being their best partner to be able to make sure that our brands show up, present and are the ones that consumers go for as they're trying to navigate the category.

Larry Gandler

So I guess really, I'm trying to get a feel for – it's a very high-margin segment for you, high-margin channel. Does this – do these investments kind of take significantly higher? Or is it just kind of incremental changes over time for those?

Matthew Young

The way to probably think about those channels as they are growing, and the aim for us is to make sure we capture the larger share of them, particularly on the e-commerce, so that – that's well documented. We are looking to capture greater share of those channels. Otherwise, in terms of selling more through direct-to-consumer, that's not a big play of us. The consumer will tell us where they want to buy the wine. It's just about making sure that that's available.

Okay. All right. Now I think we are due for a quick break before wrapping it up with the numbers at the end. So we are due back in – sorry, 20 minutes, okay. Thank you, everyone. See you in a sec.

[Break]

Matthew Young

All right. Welcome back, and welcome to the final session today, something where I'm in a bit more comfortable environment, being the numbers. Today's final session is about long-term growth. It's something we've been proud to deliver in the past, and we have recommitted to this objective again. Our team has taken you through the strategies in this session. And in this last session, I'm going to bring together how each of those plans will deliver on our long-term growth objectives.

In addition to that, I'll also show how our strong and flexible capital structure will be put to use to support continued strong shareholder returns. Our proposition for shareholder value is simple. We operate in an industry with attractive fundamentals, and it's through our 2025 strategy that we put to use our market-leading brands, business models and assets to take advantage of those fundamentals. When we do this, we strive to achieve market-leading returns at the top line and bottom line, and we want to drive strong cash flow and return on capital.

We maintain a disciplined approach to capital allocation, we invest effectively so that we create a virtuous circle, again, enhancing the long-term financial outcomes. We also provide strong returns to shareholders through dividends and capital returns. And all of this drives both EPS and TSR growth, which are well ahead of many of our peers.

Now we spent most of our time today presenting the first element, the attractiveness of the market dynamics and our strategy. So I'd now like to share more detail on the other elements. So let's start with our financial ambitions. I won't recap what Tim took you through earlier, but I will call out several things about how this will work in practice.

In setting our new long-term ambition, we're making clear today the mindset that we have throughout our business. Our plans are centered around the expectation that we are a growth company, but equally as importantly, we are a sustainable and consistent growth company. Our aim is to be stronger for longer, building every quarter, every half and every year. And it's a mindset that we'll also apply to each division in our new operating model, who will be measured and managed against their own targets for top line growth, earnings growth, margin expansion, cash flow and ROCE with no subsidization across the business that sometimes occurred in the past. Certainly, the ambitions are strong. But they're based on the successful execution of the plans we've outlined today and aligned with our most recent 5-year plan recently presented to our TWE Board.

As you can see on this page, whether it be through growth in revenue, improvement in mix or reduction in cost. It is the many initiatives that are already in place, all that you've heard about today that give us the confidence around setting these ambitions for the long term. Combined with the well-documented category premiumization trends and expected COVID-19 recovery over the coming years, we believe our execution of the strategy is the right path to deliver earnings and margin growth.

Now you can see on the right here, the long-term margin targets that we've set as a group, but also for our divisions. And I want to take a moment to touch on 2 questions in respect of margins, which we recognize are areas of interest to shareholders. The first is in relation to Penfolds and whether the margins we made in China historically were higher than those in other regions.

As we've shared previously, we have a clear consistent pricing strategy for Penfolds globally, with pricing of all products generally being around 10% – sorry, 5% to 10% in all our markets. To that end, I would share with you that our Penfolds EBITS margin earned in each of our regions over the last 3 years – so regional, has been within 1 to 2 percentage points of the overall Penfolds divisional margin that we shared earlier. The only slight difference is in the Americas, which represents a slightly different product mix than any other rather than pricing differences.

The second question on margins is in respect to the potential risks associated with any short-term excess wine supply given the recent closure of the Chinese market. And it's here where I'll spend a little bit of time.

Firstly, I'll start with the conclusion. Firstly, we are not currently seeing an oversupply challenge in Australia now, but we are coming out of Vintage '21 in Australia. Secondly, while it is possible that issues could emerge in the future, because of the diversification and structure of our business, we would expect any financial impact to be immaterial to TWE. Let me explain, firstly, by providing some context.

If we break down the challenge we're talking about, annually, Australia produces around 1.2 billion liters of wine, the majority of which is exported, including 11% previously exported to China. Of that wine destined for China, approximately 45% is commercial-grade wine, and the majority of all wine into China was generally red wine.

Now the immediate concern is that the loss of China as an export market could lead to a risk to Australian domestic wine sales and pricing, but this is where context around supply and demand is important. Let's start with the supply position.

Within Australia, it's important to remember that going into Vintage '21 this year, we were in a general undersupply position. As an industry, we had 3 overall smaller Vintages, including Vintage '20, which was down 30% on historical averages. As you can see from this graph, industry inventory levels have been coming down over a number of years. Now as we've come out of Vintage '21, we're not seeing any new major challenges in the Australian market. The Vintage is looking like it will be generally in line with long-term averages, maybe slightly higher in certain regions, but given the previous position, the level of inventory is expected to be balanced. Wine Australia estimates the stock to sales ratio in Australia at the end of Vintage ’21 will be almost the same as the end of Vintage ’20.

The global supply context is also important, particularly given Australia is an exporter. As many of you will have seen and heard, French, Italian and even New Zealand current vintages are expected to be impacted by a range of factors, which will create a degree of global undersupply in the short term, which also limits the risk for Australian wine.

Now let’s see what’s happening on the demand side. Over the past 12 to 18 months, we’ve seen continued growth and in some cases, significant growth in exports of Australian wine to markets other than China. Canada, U.K., Continental Europe, which are some of the largest export markets for Australia and commercial wine, have been growing and others are holding steady. And in Australia, we’ve seen the domestic consumption also grow significantly over the last year, albeit at the premium end.

So with that context on both the supply and demand side, we believe this is why we are not seeing retail pricing pressure in Australia, nor are we seeing any evidence of significant discounting or growth in private label. In fact, as you can see here, pricing at both the upper and lower levels is actually up 1% in the last 6 months.

And in the Australian grape market, pricing appears to be generally stable with the exception of, again, commercial-grade red grapes which is showing signs of being down around 5% to 10%.

Now that is all hopefully good news. But naturally, the next right question is could we see challenges in the future? The simple answer is that we can’t predict the future, but it is possible. Export market trends and grower activity in the coming 6 to 12 months will give us the insights that we need. But whilst we will be watching these trends, in the end, we do not believe that will have a significant impact on our business. And we need to think about this in the various price points.

Firstly, we have the luxury and premium line that would have been sold into China, the vast majority of which was Treasury Wine Estates brands and remains in our inventory for future periods. We've been on the record stating that we won't be reducing retail prices, and we are pursuing our global expansion strategy for luxury, and we're also seeing strong growth in our premium brands around the world. As that is progressing, we had the levers to manage this. We have the capacity and balance sheet strength to carry higher levels of inventory. Carrying this inventory will cost us no more than $3 million to $5 million annually to do so. And in the event that we needed to, we have the sourcing flexibility to reduce future intakes to manage back to balance over the medium-term beginning in Vintage '22.

Now in the case of commercial wines, and let's be really specific, any issue is likely to be limited to commercial red wines sold in Australia. The key message here is that it's not really an area that we're materially exposed to. Put simply, the proportion of our global earnings that is exposed to the sale of commercial level red wine in Australia is less than 5% of revenue and between 1% to 2% of gross profit, meaning any adverse market shifts won't have a material impact on our business.

And from a margin perspective, we would also expect that in an oversupply scenario, the cost of goods will be reduced, meaning that profitability and margins would be unlikely to be materially impacted. It's important to spend some time here because we know it's an important question, and we want to be helpful and provide helpful information to share how to understand the market dynamics, but most importantly, share how we see TWE navigating through them.

And so getting back to the topic of our divisional margin targets as a business, I'll now give you some insight in terms of how we have set these. We look back at historical performance of our divisions as well as our 5-year strategic plans, and we then benchmark these expectations against peer groups to ensure that the targets were appropriate. As you can see, the targets of both TPB and Treasury Americas would put these businesses in the upper quartile or better of their wine and consumer goods peers. And in the case of Treasury Americas, it benchmarks well against its own U.S. competitive set. Therefore, we certainly believe that these are appropriate and achievable targets.

And in the case of Penfolds, well, we'll admit, it proved a little hard to find a good comparator. We looked at wine, spirits, luxury goods, and it's probably only baijiu players that have similar or better profit margins than Penfolds. So in the end, we really have to measure Penfolds against itself.

Moving to the next element of our shareholder value proposition. Capital management is a true strength and a comparative advantage for Treasury Wine Estates. As we've always said, we target an investment-grade capital structure, and the benefit it has brought us are clear. Targeting leverage of between 1.5 to 2.x offers the optimal level to ensure the right capital structure, minimize our cost of capital, but also ensures we can provide stable and consistent dividends and returns to shareholders. But over the last 18 months, the resilience of this model has been demonstrated by being able to navigate some significant external shocks. We've been able to navigate these without needing to take drastic internal action or come to the market to strengthen our balance sheet.

Our balance sheet has also allowed us to invest significantly in our own business. In the past 3 years alone, we've invested more than $250 million in our luxury inventory, invested and committed more than $250 million in luxury winery and vineyard assets and more than $40 million in our technology platforms to set us up for the future. This self-funded growth CapEx would only have been possible with the strength of our existing balance sheet.

I'll now share how we will think about utilizing this capital structure to support future inorganic investments under our new operating model. As shown on the left, the primary growth opportunities we intend to pursue will be enhancing and supplement our existing brand portfolios, expand our country of origin sourcing, optimize our supply chain or where we can expand or enhance our routes to market into new and existing countries. Each division will have different priorities within this framework. For example, in the near term, Penfolds will remain focused on French expansion as well as access to luxury vineyards whereas TPB in Americas will be focused on portfolio and country of origin expansion while looking to rationalize and optimize their supply chain. This is not to say we would not entertain a more a transformational organization-wide opportunity, but rather to say it's not the only area we will focus.

And as part of that, we will be disciplined in the decision-making we make in respect to capital allocation. We will maintain our strong balance sheet so that we're ready to invest in accretive opportunities. Importantly, however, each division will have different capital return expectations, which must enhance not only our group ROCE, but also deliver above the divisional targets we will set. Where decisions must be made on where to allocate capital, we will invest in the spot that delivers the enhanced returns against today and ultimately, the best returns for shareholders.

And when it comes to direct shareholder returns by way of dividends or other mechanisms, the way we think about it is this: we maintain a strong dividend payout ratio of between 55% and 70% of NPAT, very high compared to peers, but also, we believe, very strong for a company in a growth phase.

We also actively consider capital management options where we can see that leverage will be sustainably below 1.5x. All of this has allowed to pay dividends consistently every half year and deliver more than $1.8 billion in direct shareholder returns since 2011, which holds us in very good company, having delivered well above the ASX 200 and ahead of our consumer, wine and spirits peers over the past 10 years. But it's not something we're satisfied with.

We're determined to build on the resilience and strength shown by this business over the past 18 months, implement our new treasury 2025 strategy and deliver on our long-term growth objectives to ensure that we continue to deliver strong returns to shareholders, just as we have in the past. Thank you.

With that, I welcome Tim back up to – and open up to questions.

Andrew McLennan
It's Andrew McLennan here from Goldman Sachs. Thanks for the additional information around your intake. Can you just help explain from, I guess, from a cash flow perspective or movement of inventory, just what's happening with the inventory position versus your intake, you said you've kept your intake relatively static? Just thinking about the current vintages and the timing of the release and the magnitude of the release, how are you thinking about managing that component?

Matthew Young
Yes. The way we've thought about it is when it comes to luxury and premium wine, you're looking 3 to 5 years out. And where, again, we like the industry are coming off of Vintage '20. I mean without the impact of, say, of the China tariffs or the MOFCOM, our biggest challenge we'd be trying to explain to you today is how we're going to grow because we wouldn't have the inventory. So not to say it's a great scenario, but if we had to have a scenario where now is the right time to invest in the vintage. So that's how we've thought about Vintage '21.

The good thing about that is we can now work through the next 6 to 12 months, build on the confidence around our expansion plans and growth plans for Penfolds around the world and think about future vintage intakes that we will make in Vintage ’22 and beyond. And if we need to correct those as we go, we have the flexibility to do that. So that’s how we’ve thought about it. We know we can carry any inventory now for a period of time. And the opportunity cost of discounting, for example, versus holding it as I shared today, it’s a clear decision that we can make. We’ve got the capacity to hold it. That’s not a problem. We’ve got the balance sheet capacity to hold it as well. So for us, it’s about making sure that we’ve got the wine to grow in all our markets to back ourselves on these plans for the 3- to 5- to 10-year plan.

Tim Ford

And if there’s a – there’s one of the bit to that, I’d say is it’s a balancing act with our growers, too. So we could, in the future, you can just cut off [one of your growers]. One, clearly, does that make you the world’s most admired premium wine company? I wouldn’t have thought so. But also secondly, you got to balance the sustainability of your sourcing over the next 5 to 10 years as well. So how we manage that with our growth over that period of time is going to be a really key part of the whole equation. There will be a period – Vintage ’22 is going to be a difficult period for growers in Australia. There’s no doubt about that, whether it’s ours or others, we know that already.

Analyst

[Evan here.] Can we go to – what is it, Slide 128, the investment priorities for growth and we’ll be interested in some more details around the country of origin expansion. So you’re talking about French, you’re talking about expanding multi-country of origin sourcing model. How much of that or any of that would be owned and leased, how much of this is third-party growers? Can you just expand on there and what are your intentions there? And what’s realistic?

Tim Ford

Yes. It depends on the price point as well. Is the way to answer it is, we're both pretty keen to answer this one. The – it'd be similar model to what we've done before. From an ownership point of view, it's a scarce resource – an important resource, et cetera. We'd look to own it, right. So what we have with our luxury vineyards, what we have with some of our key sourcing. Point number one, and it's not just around top-end luxury. And I'll go back to a decision we probably could have made 10 years ago and I think back over 10 years what we learned.

And the second point is otherwise, you lock it in as partnerships. We talk about partnerships being more broad, deeper, et cetera, as to what we've done in the past. I think having those sort of longer-term commitments with other partners.

We've been on this 4 or 5 years, as David rightly said earlier, around the acquisition and broadening of our luxury wine footprint, et cetera. And that's been really, really important for us for our growth up until now.

If you think about the way we look at these 3 divisions now, and I use New Zealand Sauvignon Blanc as the example, when we were looking at Treasury Wine Estates in its totality, we made the right choices. We need to buy or get access to A grade luxury fruit to fuel the growth of luxury wine.

Right now, the biggest constraint we have in our business from a supply point of view for the next 10 years is New Zealand Sauvignon Blanc, and the whole industry is in exactly the same place. So where we say we won't – we don't need to invest more capital, it may actually be in different varieties over time that we do have to invest in to actually broaden that sourcing and lock it in because there's only so much New Zealand Sauvignon Blanc planted in Marlborough. And I'm using that as the example. But to your point, it's not a cut and dry, we'll only own luxury assets. The rest of that will be outsourced, I think, in the future.

Niraj-Samip Shah

It's Niraj from Morgan Stanley. Just a question on the prospects of potential oversupply domestically. From memory, sort of 12, 18 months ago, when the U.S. was oversupplied, it was most acute at the commercial end, but there were knock-on effects in sort of the Masstige tier. Just curious, you talked about luxury here domestically. You talked about commercial. What about the risks to the – basically, the TPB sort of business?

Matthew Young

A couple of things to just dimensionalize America a little bit differently. It doesn't have a big export market. So that's a very different dynamic that people need to remember in understanding that.

The second thing was that the private label market was less mature in the U.S. market than it was here. It's a much more mature, bigger part of the market, and so it grew in those particular price points.

How do we think about it within the TPB sense? So in the end, it is most – one of the dynamics that can happen if there is a complete oversupply is what you see is cascading, so good wine going down into lower-price tiers. That's not – and what that does is it culminates down in commercial because in the end, the consumer, particularly in the Australian market is going for brands at that $10 to $30, right?

So private label is not making much inroads in there. [Sometimes I'll] say differently, but not making as many inroads in its brands and what I've sort of tried to emphasize and how Pete has before. The brands we've got in that $10 to $30 are growing really, really well, and the retailers want them anyway, so it still navigates its way back to that commercial tier because that's where the wine will go. And again, because it's not a big part of our portfolio. Again, in that sort of scenario where it did filter all the way down, that's the most likely outcome. But I would reemphasize that, that export element that is an important dynamic difference between Australia and U.S. supply.

Ross Curran

It's Ross Curran from Macquarie. I guess – can I draw you out on some of the longer-term comments sort of 3 to 5 years? If we look 5 years out, consensus has a pretty nice hockey stick of earnings expected over that 5-year period. And what the market is saying is that the volume that you're taking out of the U.S. business over the next year or 2 you can replace organically over a 5-year period, so you get back to about 31 million cases, 5 years out. But because you're getting rid of those commercial wines, the NSR per case steps up 10-ish percent over a 5-year period. Is there anything the market's missing in those assumptions? Do you think it is reasonable to assume you're at 31 million cases and $95 NSR per case in 5 years' time.

Matthew Young

Okay not going to – you nearly asked a directional question there, and then you went bang and asked for a specific, Ross. You're very good. You're very good. No, I'm not going to answer that.

Directionally, have – that we have explained our U.S. business, again, specific to the U.S. business. We've explained in a very clear way, half the volume, similar earnings, better margins, right? So you can work out the shape of a P&L of the U.S. business pretty clearly from that. So if that is how people are thinking about it, they're thinking about it the right way. Good try though.

Michael Simotas

It's Michael Simotas from Jefferies. I think the points you've made on Australia supply/demand dynamics make a lot of sense. But to be fair, we probably won't know the answer for a little while. If we do have a situation where there's excess supply and that's translating into some discounting and price reductions, how disciplined will you remain? Would you be willing to lose shelf space and lose market share over the sort of short to medium term to ride that out to protect the health of the brands? And it's probably worth commenting, I guess, whether the strategy would be different between Penfolds, the Premium Brands business and then price tiers as well?

Matthew Young

Certainly at the Penfolds and luxury level and probably down into the premium level as well, we will be disciplined. Look, it's really important for us to maintain the strength of those brands and price is an element to that. So that's an area where we'll be disciplined. And as I've sort of alluded to before, we've got the strength, capability, et cetera, to manage that. We've also got the brands that are growing. So I know I'm going back over it, but because those are branded products that people are going to – we think there's less impact there, but we have the ability to be disciplined across that. So absolutely.

At a commercial level, you've heard us before, we've walked away from volume that doesn't make sense to do. That can have some small impacts. But as we've described today, it's such a small part of the business overall that it shouldn't impact how you're thinking about the overall business or even TPB to that extent in a material way. I don't know is there anything else?

Tim Ford

Yes. When you see in our numbers now, we're still losing share in under $10 in Australia red wine. So we know that and from a – so we're actually doing it now. There is – and that's just – that's not oversupply dynamics. That's just the dynamics of the commercial wine segment. And so I think we'll keep that discipline. I see no reason why we wouldn't. Above that, there's no change of heart coming down the track.

Phillip Kimber

Phil Kimber, Evanson Partners. Just a question on the Penfolds business. You've given a 40% to 45% EBIT margin long-term target. I'm guessing here there might be 1 million of that 2.5 million volume that was coming out of China. Should we expect over the next couple of years sort of ignore that long-term margin target because that's the business that gets impacted the most by the China tariffs? Or are you going to be able to manage that?

Matthew Young

Those targets have been set with the new landscape in mind.

Phillip Kimber

Okay. So don't expect a big reduction in the short term.

Tim Ford

That's based on our 5-year plan that we've taken through the board that then rolls that through with all the other objectives we've outlined today.

Larry Gandler

I guess my question is similar to that because we do focus on percentage margins, but I mentioned the word cascading before. I would think that it's Shiraz that you're probably [long] premium luxury Shiraz, Cabernet, you could sell probably no problem. So when I think about Shiraz, could you – is it still good to cascade that into, say, being more voluminous has Bin 128, Bin 28 rather than beat your head against all and try and sell more 389. And yet you still keep your percentage margins, your dollar per case may come down. Is that something that you guys would be sort of thinking down the track?

Tim Ford

Yes, it is.

Larry Gandler

I knew I should tell my friends to buy Bin 128 and 28 [through the years].

Tim Ford

I was going to say, I [wouldn't care] and tell you doing the right with that. Now. Look – and this is the beauty – I guess, the beauty of the margin structure as it exists today. So this will, I think there's a lot of, I'll call it, as I said, there's a lot of lack of believers that we actually can manage it this way. And I thought of – I don't understand it, but I can accept it. But if you look at the options we have and use luxury Shiraz as the example, let's assume a cost of goods on here. We look at our fruit as A grade, B grade, et cetera, as well. The blended tiers there as well.

The cascading, for want of a better way to put it from a 389 Cabernet Shiraz or 150 Shiraz down to a next tier down in terms of pricing is opportunity cost of margin lost. You still make a pretty decent margin. So as we look through our portfolio and how we look at matching our sourcing, in an ideal world, it would be highest and best use across the board. But if we don't have that demand for that, we can still put that through into a brand that's got a better margin than anyone else in the market.

So from that point of view, as we do that work as we go through it, that's what gives us the confidence we can manage it this way. So you're spot on. Is that the ideal scenario? No. But it's still a pretty decent one given the scenario we find ourselves in.

David Errington

I want to try to dig into an area that we probably haven't gone into as much detail as what I'd like. And that is what's in that long-term inventory position. I'm looking at your presentation at FY '20 and you had a 1.50 billion of long-term inventory, which 85% was luxury. The question is, how much of that is Penfolds of that long-term luxury. And I was – at this stage, well, it's interesting, I bought [some Henri] 2008 on [Gogo's] advice and it was about $70, $60 and not – Dan Murphy was selling it the other day as a special for $200. So consequently, how much of this…

Tim Ford

When did Gogo sell it to you for $70?

David Errington

No, this was back in 2010.

Tim Ford

I [didn't] think of it. I just wanted to make sure he wasn't doing some side deals, ruining our pricing structure.

David Errington

No, no, no. Each of that, the [Henri] 2008 reckons, and it was – it's now selling at Dan's on cellar release for $200. So consequently, I'm trying to get an understanding as to how much of an advantage – how much is in Penfolds in that long, you're going to have to presumably disclose that at some stage, so you might as well take the opportunity now and give it to us? How much is in that luxury is going to be allocated to Penfolds, how much is going to be allocated to the Americas and how much is into Treasury Premium Brands? Because then ultimately, that gives us an idea then as to what you're looking to do?

And then going into probably the money chart, as Bijan calls it, Slide 44, where you've got the growth in other areas. If we can go into that Asia, excluding China, I mean, Penfolds, as Larry was saying, it's not just – it's everything. I mean it's Penfolds. It could be Grange, it could be Bin 28. So like what was Asia getting in terms of 35% of Penfolds was going to Asia, and it's growing 18%? What was that? What sort of areas? I mean, because you just call it Penfolds, that's – I mean, it's about 10 different parts of Penfolds.

Tim Ford

— Indiscernible —

Matthew Young

I'm not sure we do actually have to have to disclose it, and we haven't yet.

David Errington

But you're going to have to.

Matthew Young

I don't know. Well, I know you might ask me to. The – look, it is less than half. If that's directional, let me work through the next couple of months of how comfortable we sort of make our way there, but it's less than half of that luxury – of that overall luxury inventory related to Penfolds. So yes, that is a – obviously, what we've given today is a good margin structure that we have for those brands and those business. So it's – again, you're not talking major…

David Errington

Costs, I'm assuming. That's less than half that cost.

Matthew Young

That cost.

David Errington

And the gross margin would be sizably higher. So half of that at cost…

Matthew Young

It's also not a full contingent. Obviously, the vintages there are in place at that time, but we do take some in bulk wine, et cetera, in later stages. So just remembering the cycle that's there.

Tim Ford

Second part of the question. So just before we go to…

David Errington

Less than half, what does that mean?

Is that 40%, 45%? Less than half could mean 0 or it could be…

Tim Ford

You're getting to that.

Matthew Young

I understand the question. I understand why it's important. Let us keep going on our journey of transparency, David, over a little bit longer, if that's okay.

David Errington

[The earth is paid – the earth move slowly.]

Tim Ford

It's a harsh judgment, but we're used to that. The answer to the Penfolds question on Page 44. So the 34% of Asia, excluding China, of total F '21 is bins and above, Bins and above to us is Bin 2 and 8 and above. So from a price point, point of entry-level Bins, as we call it, to answer the question. Bin 2 and above. So anything with the Bin on it or an Icon wine, RWT, — ***indiscernible*** — Grange, et cetera.

In terms of the markets, without giving away the percentage is broadly, Penfolds Max's has some strength in this market in Australia. Outside of Australia and China, it's a very, very small part of the total Penfolds picture. So we have Max's and Koonunga Hill being the other 2 tiers that Tom explained earlier with Penfolds. Outside of Australia and China, they're quite small.

Matthew Young

And the structure of products and bins that we sell is fairly consistent across, again, it's a consumer base that likes the higher to the sort of lower at different points. There'll be some exclusives in each market that don't swing it, but it's a fairly consistent spread across each of the markets within that other Asia.

Angus McGeoch

Okay. Guys, just talking about growth in other regions. And obviously, great success in the U.S. with what you're doing there. But moving to France. I guess, one of the advantages for yourselves is you're not restricted by appellation. So what do you think volume could look like moving into the future? And should we assume that assuming that all goes well, the bulk of that production is destined to China?

Matthew Young

You should assume that's destined for China or the Asia market in general. And touching on that, you've heard a lot that the Chinese consumer, and we've set it plenty of times, the consumer – Chinese consumer loves Penfolds. And it's Penfolds because of luxury, prestige, et cetera. It helps them navigate the category. French is a very complex category to navigate and Penfolds, we believe, will be an important part to that.

Dimensionalizing the size of it, we haven't done that before, and we're sort of not in a position to do that yet. There's a long path in the plan. The most meaningful release is going to be fiscal '23. So it's a few years out for us to dimensionalize how we – how big that will be. But like all these things in our plan, it has to be sustainable. I know that's a generic thing to say, but we are working to a long-term plan here for the French Penfolds, and we will make sure it's long-term sustainable both in terms of the consumers' mind, the customers in the market. So you can sort of take my language. We will build this up. This is a 5 to 10-year play of French rather than a 3 to 5-year play.

Tim Ford

And France is not that simple. Okay. So it's different. Just so we've got this all in our minds, and I hope I'm not telling you to suck eggs, Angus, but within Australia, we wanted to build out Penfolds. We touched on it earlier. We go on, we've go and buy [Wetherall] vineyards down the Coonawarra which are fantastic vineyards, you build supply, et cetera.

Within France, with the legal requirements, what do you have to do with the fruit or the bulk wine through the wineries and through all the different structures that exist in Bordeaux, it's certainly not as easy as it would be to go to the Coonawarra and acquire more fruit or more supply. So I think for the foreseeable future, while we'll continue to build every year, I personally think demand will exceed supply for the first few years. There's no doubt about that as we build that brand. And that's okay from a starting point with the brand rather than we make a significant volume well over what demand we think might be. And then all of a sudden, okay, where do we go from here.

All right. I think we're onto the wrap up. All right. I will say that. I might have just got 5 more minutes to wrap up.

So I think before we do wrap up, I just want to take a few moments just to recap on some of the messages we've got today, and there's been plenty of them.

So our 10th birthday this week. It's very clear there's been a substantial change over that period of time and achievement within our business. It's a vastly different business, as I said at the start of what it was 10 years ago in 2011. We are now premium brand-focused, global leader in wine, with a leadership position in a number of markets, supported by a great global team. You've seen a lot of them, today. Asset footprints that are unrivaled and a business model that holds us in good stead for the next phase of our journey. We're best placed to capitalize on the attractive fundamentals of the premium wine consumption across the global markets – and that, we are convinced.

— Indiscernible — We're reshaping TWE to be consumer-led and consumer-experience-driven, it's going to be at the heart of what we do. Our portfolio of adored brands will be the cornerstone of everything we do, and we'll create these experience that deliver moments of joy to our consumers every day. We'll continue to drive innovation at our core, something that has become a real strength. It's not something we talk about. It's the strength of the business, and we've shown that today. And it will be supported more by data and insight-driven approach going forward, supported by technology.

The new divisional operating model, which will commence operating from July 1, will drive increased focus and accountability right across Treasury Wine Estates and in turn, undoubtedly, will unlock growth potential for the one stand-alone company of Treasury Wine Estates.

This is a huge change for our business and how we will lead and drive this business. But the 3 divisions of Penfolds, Treasury Americas, Treasury Premium Brands, which I'm pleased everyone's cottoned on to TPB, will each have differentiated operational and financial growth priorities. And the new model will allow us and the respective teams to focus entirely 100% on their divisions, the division's strategic, geographic and consumer characteristics.

Under the model, we'll increasingly leverage our global scale and leverage our supply chain, our Treasury Business, Solutions Business unit as an efficiency and innovation platform that will continue to set us up that others can't do. And our people are our most important asset, and we'll continue to invest in our people and build their capability, create career defining experiences and at the same time, build a world-class culture through our TWE DNA.

We've introduced in detail sustainability today. It's at the heart of everything we do. I think that's now pretty clear, and we aspire to lead the global wine industry in this regard.

And our expanded suite of targets and commitments demonstrate our willingness to lead by example and not just participate. And we have a clear road map for maturing our approach in an area of great importance.

Matt took us through technology, which will present significant opportunities to drive efficient and support – drive efficiency and support our long-term growth ambitions, most importantly. We intend to have technology as a real point of advantage for TWE.

The uplift in this investment will be increasingly focused on the consumer engagement interactions as our first priority.

And our capital structure. It's a fundamental strength of the business and as we demonstrated recently, where it enabled us to very successfully manage and navigate through significant external challenges. And looking ahead, this capital structure will continue to be the enabler of value creation and competitive advantage for us, supporting investment and accretive opportunities right across TWE.

And finally, we remain focused on delivering sustainable quality growth for our shareholders. That's what we're here for.

So today, we shared for our – for the first time, our long-term growth objective to deliver sustainable top line growth, high single-digit average earnings growth over the long term. Complementing this, we've also shared the financial priorities of our brand portfolio divisions, including their respective margin ambitions and had a great discussion around that.

The balanced set of financial targets against we will hold ourselves to account is designed to ensure we deliver growth, profitability, capital usage efficiency, and ultimately, shareholder returns through each of our business units, laddering up to the one organization we're responsible for.

So thank you to all of you who've committed your time here in Sydney today. Those in the room will get some reward in a moment. And those who have joined through the webcast, we trust it's been a good experience for you as well. It's been our great pleasure in hosting you and to share what is a seriously exciting and motivating point in time in the TWE story in history as we celebrate what we've learned from our first decade, which is plenty, and take control of what we will create over the next decade as we boldly lead change in the world of wine. Thank you, Cheers.