Treasury Wine Estates Limited, Investor Update 2024-06-20

Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates Penfolds China update. — ***Operator Instructions*** —

I would now like to hand the conference over to Mr. Tim Ford, Chief Executive Officer. Please go ahead.

Tim Ford

Thank you, and good morning, everyone. We appreciate you joining the Penfolds China update today. Joining me in the presentation is Tom King, our Managing Director of Penfolds; and also here in the room, Stuart Boxer, our Chief Financial and Strategy Officer, who'll also join us for the Q&A session at the conclusion of the presentation.

When the removal of tariffs on Australian wine imports was announced by the Chinese Ministry of Commerce in late March, we laid out to the market our detailed plans to reestablish our Australian country of origin portfolio in the China market, and also had made the commitment then to come back to the investment community by the end of June to provide an update on our expectations, particularly following the conclusion of pricing discussions with our customers and importantly, the completion of the 2024 Australian vintage grading process.

I'll shortly run through these updates and outline what they mean for Penfolds with a multiyear growth outlook, after which Tom will lead a deep dive on our China execution strategy as we look to capitalize on what will be a significant long-term growth opportunity that we have ahead of us. We hope that following the conclusion of this update, our ambitions and plans for Penfolds and Penfolds in China will be clear. And building on the Treasury Americas Luxury Estates Investor Day held only a couple of weeks ago, how these 2 outstanding luxury businesses will be the key drivers of growth for Treasury Wine Estates moving forward.

So on to the key updates. We recommenced shipping our Australian portfolio into China immediately following the removal of tariffs with very strong demand from our customers who are keen to access our portfolio as quickly as possible, it's fair to say. Pleasingly, the shipping process of product into the market has been both seamless and efficient. Our early read on depletions has been very positive, and our team in China are now fully engaged with customers to align on activation plans and execution priorities for the year ahead.

As we noted when the tariffs were removed, we expect global demand for the Penfolds Bin and Icon wines to exceed their availability in the near term and will, therefore, pursue price increases across parts of the portfolio. Following a period of consultation with our global customer base, we have now finalized those price increases across a number of key portfolio wines, which will result in the weighted average Bin and Icon portfolio price increase of 6% effective from the 1st of July.

These price increases will be applied globally with the maintenance of our standardized global pricing structure, a critical element of our portfolio strategy and enabling our margin structure consistency. Any future price increases will be considered as part of Penfold's long-term pricing roadmap and importantly, we'll take into account future wine availability.

Turning now to our 2024 Australian vintage outcome, which I'm absolutely delighted to announce, has delivered record intakes for key Bin and Icon portfolio wines and will support a significant step-up in availability from the second half of fiscal '26. This is an outstanding outcome, reflecting great execution from our Australian supply and winemaking team led by Kerrin Petty and enabled by our highly scalable luxury supply chain with increased intake coming from our own vineyards as well as our extensive grower network. And complemented by the enhanced luxury winemaking capacity, which we have invested in, in the Barossa winery. Expansion of sourcing from future vintages will remain a priority to support incremental portfolio availability from here.

So putting this all together, today, we are sharing with the market our multiyear outlook for Penfolds, which reflects the range of key elements, including the price increases, increased portfolio and wine availability and also our focus on investment to support the long-term portfolio growth. We believe it's important to be clear and transparent on this profile, given this is a very unique set of circumstances following the removal of tariffs in China, and also noting the level of increased uncertainty this creates with respect to our future growth profile.

So in F '24 current year, first off the bat, we expect Penfold's EBITS to be delivered in the range of $418 million to $421 million, representing growth of approximately 15% and driven by strong top line performance across all portfolio tiers and price points. EBITS margin is expected to be approximately 42%, reflecting the step-up in shipments of Penfold's Australian COO entry-level tiers as well as some higher overhead costs in China through the fourth quarter following the removal of tariffs. And to reiterate, from a group perspective, as we did at the U.S. Investor Day, our expectation for the group is for mid- to high single-digit EBITS growth in F '24, excluding the EBITS contribution from DAOU in the second half.

Moving forward to F '25. We expect Penfolds to deliver low double-digit EBITS growth. The top line will predominantly be driven by price increases and a comparatively modest increase in Bin and Icon shipments reflecting the portfolio and the wine availability to sell in fiscal ’25. Within this guidance is a step-up in our investment levels in China, which is critical, specifically for brand building and incremental investment in our local team, which combined will be approximately $20 million as we prepare for the increased Bin and Icon portfolio availability from F ’26 onwards. Given this, we expect the Penfolds EBITS margin in fiscal ’25 to improve to within the range of 43% to 45%.

And finally, F ’26 and F ’27, we see a significant increase in the Bin & Icon portfolio becoming available to sell from the 2024 vintage, which will be available for release. And we will be targeting annual EBITS growth of approximately 15% in each of fiscal ’26 and fiscal ’27. We will also target the return of the Penfolds EBITS margin to the long-term target of 45% in those 2 years. The delivery of these long-term targets clearly remains subject to a range of variable conditions, which we outline on Slide 2 of the presentation today.

Before I hand to Tom, I do want to make one more important point. Our multiyear outlook for Penfolds reflects our focus on continuing the excellent momentum that we now have across a number of our key global markets and across all portfolio tiers. And whilst China itself does represent a significant growth opportunity and the focus of today’s presentation, we remain laser-focused on maintaining what we have built, the diversified distribution and revenue model that we now have in place, which we believe is critical to both the health and sustainability of the Penfolds growth ambitions over the longer term.

So with that, I’ll hand to Tom.

Tom King

Thank you, Tim, and good morning, everyone. I’m delighted to join Tim here today to provide an update on our execution strategy in China at what is a very exciting time for Penfolds as we reestablish our Australian portfolio in the market.

Our ambition for Penfolds into China is clear, simple and bold: Focused on being the #1 luxury wine brand in the market. Prior to the implementation of the tariffs, we were the clear #1 Australian luxury wine brand and the early success of our multi-country of origin portfolios has given us the confidence for similar success across our French, U.S. and Chinese portfolios.

A number of elements underpin our leadership ambitions. Our globally-sourced portfolio is unrivaled, giving us the ability to, not only engage the consumer across a broad range of offerings, but also to scale our portfolio meaningfully to meet consumer demand in a way that no other luxury wine brand can. A number of Penfolds' unique attributes have been proven over the long term to have excellent resonance with Chinese consumers. These include the unique and iconic labeling, the system of Bin numbers and the trademark Penfolds House Style, a taste profile that is particularly desirable to many of our consumers.

Penfolds brand health in China remains very strong, reflecting the focus of maintaining our business presence and investment throughout the tariff period. I'll touch on this in more detail shortly, reflecting the latest insights from our research partnership with Kantar, a global leader in marketing data and analytics.

Our national distribution model has been refined to enable a route to market that is focused on discipline, efficiency and strong visibility of product across the market building on the key learnings we've built up through operating China over the last decade. A key enabler of our business strategy moving forward will be the continued adoption of digital solutions that will enable better understanding of and connection to our consumers and customers whilst ensuring compliance with all local regulations relating to data.

Following the successful launch of our inaugural China country of origin wines, namely the Bin-level CWT 521 and One by Penfolds, both of which have been met with a very positive consumer response. We're now exploring opportunities to invest in our local sourcing and production model in China to support future portfolio growth similar to the roadmap we followed in France.

And finally, this will all be enabled by an outstanding team on the ground in China, many of whom have been on the journey with us over a number of years and who've played a huge role in building the highly successful Penfolds business. Investing in the team is a big priority for us in F '25, which I'll also touch on in more detail shortly.

We continue to see China as a highly attractive luxury wine market, and therefore, a significant long-term growth opportunity for Penfolds. Despite some of the short-term macroeconomic headwinds currently facing the economy, China's share of luxury goods consumption is expected to increase to around 1/4 of global levels by 2030, an increase of 50% from current.

Focusing on wine specifically, China is a significant luxury wine market. Currently ranked fifth overall. However, both category and occasion penetration are still quite low in comparison to other alcoholic beverage categories. Building on this, wine has fewer power brands in the market compared to baijiu and spirits, where the top 10 brands each account for approximately 2/3 of consumption, compared to only 30% for wine.

We see both of these factors as supportive of the market opportunity for Penfolds, as one of only a small handful of brands who has the opportunity to, not only grow share, but to also grow the luxury wine category. As we see across so many of our markets, premiumization is a powerful trend underpinning category growth, and China is no different. Over the past 20 years, the average retail sales value for wine has more than doubled. And looking forward, the luxury wine market is expected to grow at a CAGR of 14% over the next 5 years.

A great deal has been made around the current health of the Chinese luxury wine market, and there's no doubt the category has contracted over the past few years, reflecting, initially, the impacts from the pandemic and more recently, the broader economic slowdown, both of which have impacted consumption. In addition to this, the absence of Australian wine has had a significant impact on the category with few global luxury wine brands having the brand strength or availability to fill the gap. Naturally, many participants in the alcohol industry shifted their focus and resources more towards imported spirits and baijiu over this period.

Looking ahead, the market is forecast by IWSR to return to consistent annual growth from this calendar year, led by the reintroduction of Australian wine, and we're energized by the leadership role that we will play in this category revival particularly from F '26 and beyond, when we'll have a greater availability for our Bin and Icon portfolio from Australia.

Our strategy in China is unchanged and importantly, consistent with Penfold's global strategic priorities. To scale our luxury status to drive demand, build distribution and availability and optimize the portfolio for long-term growth, particularly through continued focus on our multi-country of origin portfolio. We simply describe this strategy as recruiting and re-recruiting the consumer in the right places with the right portfolio, all executed by our experienced and high-performing local team.

In recent years, we've invested heavily in bespoke research globally to help us better understand our target consumers, their relationship with wine and their connectedness to our portfolio. Through this work, we see our consumers in China is falling into 4 key groups: Classic connoisseurs, new luxurians, status connoisseurs and the confident appreciators. Each of whom have different age and social demographics and unique motivations for engaging with and consuming wine. These groups represent 3/4 of their luxury wine drinking population and represent over 3/4 of sales amongst luxury wine buyers.

They have a propensity to pay more for a glass of wine and have a luxury mindset, embracing the new and contemporary luxury codes. This research has also helped better inform our own understanding of how and where consumers are enjoying our portfolio. We call these demand zones and the ones highlighted on this page represent the most significant growth opportunities for Penfolds.

At the top of the slide, we highlight the top 3 demand zones for what we would call our heartland. These include connection dining, business entertaining and time to savor and lean more to our connoisseur consumers. These zones include a mix of on-premise and at-home occasions with a range of large groups that you might find in business entertaining where you're celebrating a business achievement or relationship to smaller numbers of 1 to 2 people that you would expect for time to savor when you might open a bottle of wine to enjoy on your own or with a partner or a few friends.

Connection dining comfortably spans smaller and large groups who are attending the newest and most talked about restaurants around town. The demand zones at the bottom of the slide represent new growth for Penfolds and include occasions that are more focused on the new luxury and confident appreciators, including delightful dinners and relax and rewind, which are in-home occasions with smaller groups but still involve enjoying time with friends. But it also extends to impressive nights out, which sees larger group numbers socializing as part of a high-energy night like hanging out at a bar or wine lounge settings where we see large potential for Penfolds.

Our exceptional portfolio has the breadth and the depth to meet the range of consumption occasions for our target consumer groups and brings to China Penfolds' wines from the world's most revered and highly acclaimed luxury wine regions. The power of Penfolds to engage with consumers across 3 luxury portfolio tiers and 4 countries of origin is unique and truly captivating.

We will always be anchored in Australia, where our journey began back in 1844 and through which Penfolds House Style and DNA has continuously evolved to create one of the world's most iconic luxury wine brands. The U.S. was our first foray to creating Penfolds wines from outside of Australia. Starting with the planting of vine cuttings at the Camatta Hills vineyard in Paso Robles in the 1990s. Almost 25 years later, we launched our first Californian collection wines and we're now the #1 U.S. luxury wine brand in China, which is a remarkable achievement.

We have great expectations for our French portfolio, which, in less than 3 years, has captivated luxury wine consumers in China. Investing in our sourcing model and asset base, particularly to support the growth of our Bin-level wines will be a continuing priority. And recently, we've opened up another frontier for Penfolds with the launch of our Chinese portfolio, a testament to Penfolds' enduring focus to push the boundaries like no other wine brand has before. Our China source portfolio gives us an incredible opportunity to drive further connection and engagement with our consumers in China and to become an ambassador for Chinese luxury wine globally.

Finally, our collaboration with Champagne Thiénot is a world-first and gives Penfolds an excellent platform to play a more meaningful role in more consumer occasions. Not only will we take this comprehensive portfolio to China, but we now have the opportunity to take the U.S., French and Chinese portfolios to other global markets, given our priority was to sell those tiers in China during the tariff period.

As I outlined earlier, Penfolds brand health in China remains strong, a direct outcome of the methodical approach we took to reinvesting onshore earnings back into A&P through the tariff period. Our recent brand health study shown here exhibits the strength of Penfolds against the top 10 wine brands currently in-market across the key elements of brand health.

Most notably, Penfolds ranks as the #2 imported wine brand for awareness in China, behind only Château Lafite, a remarkable achievement given the limited availability of product in market in recent years. Penfolds demand power metric, which is Kantar's overall measure of brand equity, remains very high in China and compares well to our home market of Australia. We're very confident that this strong brand health position will support the scaling of our portfolio in China, and we're seeing the early signs of that through the positive depletions rate achieved this quarter as we've commenced reintroducing our Australian portfolio into the market.

In F '25, we will be stepping up our brand investment in China with a refreshed master brand and campaign content we expect will resonate strongly with consumers. We have several brand activation programs planned for the year, including the annual collection release, the celebration of Penfold's 180th year anniversary, a new and disruptive holiday campaign followed by a program around Lunar New Year, celebrating the Year of the Snake, continued partnerships with key opinion leaders, immersive master class experiences focused on education and a focus on driving recruitment for entry-level tiers, particularly One by Penfolds.

In terms of how we reach our consumers, we've learned a great deal from the past and have made some modifications to how we will go to market through a simplified distribution model. We will partner with a select number of national distributors who will work with us exclusively on select parts of the portfolio across China, while the core portfolio will be distributed through a very broad regional network of long-term distribution partners who each have very specific geographic coverage.

Over time, we plan to implement a comprehensive distribution management system, which will further strengthen our ability to track product flow, identify the outlet universe and distribution opportunities and measure our partners on performance to ensure that we have an optimized and efficient route to consumers. Our plans will be executed by an experienced local team, which we will be investing to grow in F ’25 and towards a target of around 200 people. The majority of this investment will be in sales and marketing roles to support the growth of our portfolio in the market, which we believe is critical to have in place ahead of the increased availability of Bin and Icon wine from F ’26.

I’d particularly like to highlight the strength of our leadership team in China, led by Jack Wu, the majority of whom have been on the journey with us, over many years, and have each played a key role in shaping Penfolds as the leading luxury wine brand in the market. As we reestablish our Australian portfolio in China, this full-scale cross-functional team will be a significant asset to Penfolds and play a key role in driving our future success in the market.

And finally, it is worth recapping on the strength of our asset base, which is very well placed to scale our portfolio and meet the incremental demand in China in addition to the growing demand globally for Penfolds. Since 2018, we’ve invested over $280 million in this asset base, focused on improving our luxury fruit intake through our own vineyard network and via our grower partners and enhancing production and packaging capacity through our Barossa winery where we have increased overall production capacity by 30%, reflecting improved scale and efficiency, including grade conversion.

So to summarize, our clear ambition is to be the #1 luxury wine brand in China, which remains an attractive luxury wine market and a significant long-term growth opportunity for Penfolds. Following the removal of tariffs in late March, we are well underway in executing our plans to reestablish our Australian portfolio in the market with initial demand for our portfolio very strong.

We’re very well placed to capitalize on this opportunity and have all the elements in place to do so, including a deep understanding of our consumer and the occasions in which they consume wine; an unrivaled portfolio of wines from around the world, which resonates strongly with the Chinese luxury wine consumer; strong brand equity, which we have retained through a methodical approach of continued investment in brand building; a focused national distribution platform, which has incorporated learnings from the past to enable a simplified and highly efficient approach; our local and experienced team who have significant experience in the market and who know how to win; and a scalable supply chain that has been well invested behind to enable increased luxury wine production moving forward.

This is a very exciting time for Penfolds as we emerge from the tariff period a much stronger and better diversified global business and with all the key elements in place to pursue the incredible long-term growth opportunity in China, as well as in the rest of Asia and across the globe.

Thank you for joining Tim and myself this morning. I'll now hand over to the operator who will open the line for questions.

Question and Answer

Operator

— *Operator Instructions* — Your first question comes from Richard Barwick from CLSA.

Richard Barwick

Well done on introducing the outlook or your targets all the way out to FY '27. I think that's a bold move. I want – just a question, given the increased intake from Vintage '24, that should be most evident coming through the P&L for FY '27, so I'm a little surprised to see the way you're talking about earnings growth in FY '27 being the same level as '26. So is there anything that we should be thinking about there? Or any other sort of color that you'd like to add in terms of that explanation?

Tim Ford

I think the key is and probably the key difference with what we've taken in the Vintage, and we've looked at that as what our inventory holding is over 3 years. As you say, fiscal '27 was certainly the expectation to have where the first step up out of Vintage '24. But we also will have the ability, the way we manage the inventory and the releases across the full portfolio, I think, to start selling that in the second half of 2016 as well.

You know well that we do take the total inventory pool and then look to balance that over the course of multiple years. So when we look at the – the key around managing inventory for us is getting that consistency of availability and also the consistency of the growth profile and the shipment profile, which then translates to the earning profile. We think the way we have it laid out for investors now is the appropriate way to look at it. I guess you look at the headline '15, '15, yes, so '26, '27 as the targets. It's also quite a step-up on '27 versus '26 given the nature of the numbers in '26 as well.

So we think it's the appropriate way to do it. When we look at our wine, how we're going to sell it, what our strategy is, what our plan is. And we think that's the most appropriate smooth, if you like, growth profile over that period of time. Now clearly, as future vintages come in, which we'll seek to continue to deliver on what we've delivered in '24, we can adjust that going forward as well.

Richard Barwick

Can I clarify something here as well, Tim?

Tim Ford

You there?

Richard Barwick

Yes. I'm sorry, I was cut off for a second.

Tim Ford

No. No.

Richard Barwick

The investment in the vineyards and sourcing, you obviously talk about that as well, one of the last slides in terms of the increased availability. When – so all that investment, when does that – when will that be evident coming through? And what particular vintage are we seeing that already? In Vintage '24? Or is this a future-dated impact?

Tim Ford

Yes. I'll split into the 2 components of the investment. From a vineyard perspective, has started to come through in Vintage '24. It will continue to expand. The outcome of that investment or the availability that will be the outcome of that investment for next year and also the year after, particularly given the choice we took when the tariffs the tariffs were put in place, where we, essentially, regenerated a fairly significant portion of our Vineyard Holdings by, essentially, taking those out of production, replanting those, starting from scratch again on the numbers, which will start to really come into fruition year 4, 5 and 6 with the quality of growth we need from that perspective.

So you sort of go back, that started 3 to 4 years ago. You'll see that come online more and more. So we think, from a Vineyard investment point of view, we've certainly made the investments, whether that be through regeneration or through the acquisitions that we did probably more so just before the tariffs.

On the winery side, I think the investment we made in the Barossa winery, which is out on there, we know was significant. It was done before the tariffs – was largely done before the tariffs actually kicked in. So we were building the infrastructure and the winemaking capacity and capability to cope with the demand we saw at that point in time in the short term, which clearly didn't eventuate when the tariffs came in.

So we're ready to go from a physical winery investment perspective. And we've seen, with the quality and the volumes we've achieved out of Vintage '24, that investment clearly has paid off. So we don't see – the upshot of all of that, Richard, is yes, there's more to come, but also, we don't see there's significant more capital to be invested to be able to deliver the growth profile we have over the medium term.

Operator

Your next question comes from Michael Simotas from Jefferies.

Michael Simotas

I've got a couple of questions. The first one, just on the price increases for Penfolds. Can you tell us what proportion of the Penfolds NSR base was subject to price increases? And also whether there's any material difference between weighted average increase in RRP versus wholesale prices?

Tim Ford

I think the first part of the question, I think from – it's mainly as we said in the script, I think, is that the price increase on the Bin and Icon portfolio. So assuming they're going to be taking price on what we call the entry-level tiers, et cetera, as well. We think that's – sort of let demand and supply take care of itself.

So the different – there are slight differences SKU by SKU. We're not going to go through the SKU by SKU. I don't think that's – because it is a portfolio. So from that point of view, that's on our price, if you like, that we will sell to our partners, our retailers, our wholesalers from that point of view. So how that flows through to the retail shelf will be different in different markets based on duties, taxes, et cetera, that exist in all the different markets, Mike, but that's broadly across the Bin and Icon portfolio.

So I think the other point, while I've got the opportunity on pricing, to say is, yes, the 6%, everyone's been guessing at what the price increase was going to be, but it's quite deliberate – it's a very deliberate price increase, if you like, for a couple of fronts. One is it takes into account the one we've got coming on in F '26 and F '27 as well. It's a really important factor why we had to wait until now to update investors on what we saw the targets were for the future because of that fact.

You need to understand the profile of the wine we've got to sell and as I said, the future growth of '26 and '27 does not include subsequent price increases in those targets that we've outlined. It's purely this 1st of July fiscal '25. So we'll judge that over the next sort of 12, 18 months or so as well, but a pretty important point to make that '26, '27 is largely all driven by volume/mix of the portfolio we have to sell.

Michael Simotas
Okay. And then the second question is on earnings implications. You've previously given us a long-term growth algorithm, if you like, of high single-digit organic constant currency EBITS. You haven't updated that, but should we assume that the changes you've made today, and I'm asking for the number, but should we assume that they would lift that profile?

Tim Ford
Yes. Look, I think, and just for clarity, you're talking about the group earnings expectation we've outlined just for others on the call. So yes, I mean, you combine what we've outlined today for Penfolds with, clearly, the Treasury Americas' financials now with the DAOU acquisition, yes, clearly, the – our high single-digit average earnings growth will need to be adjusted at the appropriate time once we put all that together. So yes, that's a fair assumption that, that will change, and we'll bring that out at the right time.

Operator

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

David Errington

I really enjoyed your presentation, Tom. Although my question, I'm a believer in the demand for Penfolds, I'm real bull on it, but if you don't have it, you can't sell it. So I'm following, if I may, on from Richard's question. I'm trying to really understand what you've done in Vintage '24. Now I've only got 1 question, but it's multifaceted if that's okay.

First part of that question is, well, one, how did you actually were able to increase the vintage in what others deemed was pretty problematic there. But how did you actually increase it? What type of grade was it? Was it Icon? Because if it's Icon, then the pickup is going to be beyond '27. So I'm really trying to understand what was the intake, Tim? I need to – rather than just say it was a record of vintage, well, if you could give us a little bit more sugar into the makeup of the increase.

If Stuart could tell us what the dollar increase will be in long-term inventory, that would help. And the fourth part would be what is your current utilization of capacity of your facilities and what was it in '23? So you've got your big increase, you stepped up the increase, but you didn't utilize it. What was '23's utilization of capacity? And what was the '24 utilization of capacity?

And where I'm going with that, I'm trying to work out how much more opportunity you've got to increase production going forward beyond '24. So there are 4 parts there, Tim. If you could help us, that would be fantastic.

Tim Ford

I hope I can roll through those 4. And well, Stuart can touch on the long-term inventory bit because I'm not sure we're in that position yet, but Stuart has got the say on that. Yes.

So I understand the interest, and I do appreciate it, and I'm sure you understand that – it's – from a brand like Penfolds, us disclosing specific SKU by SKU makes and those sorts of things is not appropriate, and we're not going to do that from a brand point of view. Luxury brands don't – we won't do that.

However, to try and give you a bit more color, I think the how's a really, really good question. And as you say, it was not a perfect vintage by any stretch. So from that point of view, that gives us a lot of confidence going forward as well. But a couple of key things we did. I think the first one was in terms of the farming, we set out with how we farmed our internal vineyards 12 months before. We made a decision with Kerrin and the team in supply to really farm our vineyards for the higher level, call it – we call it A grade Icon/Bin-level 1, those vineyards that, for the previous couple of years we had not.

So there was a bit of a leap there we took with a belief that clearly, the demand was going to open up around the globe, not just with China, but also with other markets as well. So we adjusted our farming practices to achieve that. No doubt about that.

I think secondly, we sourced a significant amount more from the grower network around the country. And I think we were the most active earliest. We didn't wait until a decision on China tariffs for us to do that because, again, you need the growers farming their vineyards to achieve the grade that we did achieve out of this. So I think we certainly built on those partnerships, et cetera. That has helped us significantly as well.

I think, certainly, the Coonawarra was a fantastic vintage for us. So I think, certainly Mother Nature applied a bit of a hand there in the Coonawarra, whereas, Barossa less so as well. So our diversification of our vineyards across Barossa, McLaren Vale and also Coonawarra in particular, yes, played a really unique role for us over this period of time.

And then yes, I can't leave our wine makers out of this. Winemakers did a fantastic job through their classification and winemaking process to achieve it because we certainly set them the objective that we have great future growth prospects, but we need the wine to do so. So I think our winemaking team have won out of the box as well this year to deliver the quality standard they had.

So that's sort of the how. In terms of the I guess the mix of it, like you rightly say, there is more – I've said there's more Bin and Icon wines out of this vintage, which the Icon ones will be sold more in F '28 and years after that as well. So that sort of sets the benchmark. But clearly, from our point of view, we think it's appropriate. And unusual for us to give the multiyear targets, and I guess, essentially, the roadmap, well, sign posts, David, that we can provide for everyone to understand where we see the shape of the business going.

In terms of capacity, then I'll hand over to Stuart. He can talk about the inventory piece. In terms of capacity, I think the best way to say is we were underutilized in Vintage '23 in terms of the tonnage through there. So you're right in terms of your assessment. We still were underutilized last year. I'm not going to go into percentages, but yes, we will be able to cope with a step-up again within the existing infrastructure for Vintage '25, which we will be seeking to achieve going forward as well.

And the reality is, I mean, you've all been to the Barossa recently. Only if you can physically picture the facility there from – I think it was last December, you were all there. There's still a large open concrete space at the end of that winery that doesn't have any tanks on. And tanks are the easiest and cheapest capital investment once you've got the infrastructure built. So a very quick expansion with a very low level of capital will add a significant incremental capacity should we need that over the next couple of vintages, too. So it's – hopefully, that gives enough color, too, to give you some answers there. Stuart, do you want to touch on the inventory?

Stuart Boxer

Yes, sure. Thank you, David. I'm probably not going to give you exactly what you want there. But you do know that we will give our sort of usual update on the buildup of inventory in August, noncurrent, et cetera. So as we sort of go through that, we'll try to unpick it for you at the time. It's obviously good news for us to have the inventory, and given Penfolds' inventory, given the returns here in the margin. From an overall return on capital perspective, it's going to be accretive, notwithstanding that there will be a buildup of inventory coming out of the vintage. So that's probably all I can give you right now, unfortunately, but we will update you a bit more in August.

David Errington

Yes. And I suppose just, Tim, just in summary, you've got a lot more further growth if you're still underutilized in this harvest. So that's pleasing. And given that they're Icons '27, there's good growth beyond '27. So that – I think that's – I can take that away, which is positive.

Tim Ford

Yes. Yes, agree.

Operator

Your next question comes from Lisa Deng from Goldman Sachs.

Lisa Deng

Just 2 questions from me. First is on Page 16. I think Tom, you outlined that the brand health metrics are all very strong relative to the other top 10 brands. But how does this compare to where we were in, say, 2019? That's question 1. And then question 2 is around the strong sure of the distribution network. I think you – sorry, you cut out a little bit, so I didn't get all of the details. But can you talk to us about, like, for example, in the national versus the regional, how many of each of them do we have? Is that a 1-layer distribution to retail? Or is it 2- layer? And then also a flavor of the markups in each of the layers through to retail from our ex-factory price?

Tom King

Wow, that's a fair bit to cover there, Lisa, but I'll do my best. So I'll start with your first question around the strength of the brand and the brand health metrics. This is a very new way for us to be thinking about the Penfolds brand. And we have this data globally. It's through a partnership with Kantar. It's a new approach, a much more science and data-led approach to managing our brand, and it obviously guides a lot of our decisions in terms of activity and investment.

I think the latest data that we've got and the big numbers linked to demand power are – these are very positive numbers in the context of the work that Kantar does across other categories. 12.2% in Australia is a really strong brand demand power score. And to be sitting just behind that in China, at this point, in time, we're very, very pleased with that given the reality of the environment we've been operating in over the last 3 years.

I said it's new at the start, so we don't have the data to support what the position was back in 2019. But I would suggest that the brand hasn't taken much of a step backwards over that period of time. So not just in China, but globally, we're pretty hot right now. And we're feeling good about the roadmap ahead.

In terms of the distribution question, so yes, building on some learnings that we had in the past, we had a bit of time with a smaller business in China to make some adaptations to our route to market, learn from things that maybe weren't necessarily as efficient as they could be in the past. And I'm really pleased now with the network of partnerships that we've got in place across the market.

And still lots of similarities to what we had in the past. Firstly, in terms of still working with a small number of pretty significant national distributors who – all of whom we have worked with for many, many years now. And our partnerships with them going forward will really be focused around specific parts of the portfolio, either specific SKUs or tiers. And they will only work on those parts of the portfolio with us, and they will work on us on an exclusive basis. So we're really pleased with that side of the portfolio and those partnerships we have in place. And as with all of our partners, they are off and running in terms of rebuilding the distribution for those Australian portfolio.

If you look on the right-hand side then of that slide, our regional distributor network. And this is, again, a refinement of a previous model that we had, where we now have really strong partners in place right across the market that cover all provinces and regions. We have clearly defined the geographic and channel scope for each of those partners, and they will all be working across, what we call, in the core portfolio, which is the bulk of the SKUs in the portfolio and will have a consistent portfolio to bring to market in their defined geography or territory.

Now the number of different layers below each of those before the wine ends up with the consumer will vary depending on the channel and depending on the location. So a number of these distributors will sell direct to retail. They will sell direct to corporate clients. In many cases, they'll sell direct to consumers.

They'll also sell to smaller wholesalers within their region so that we're able to ensure we're still meeting and accessing those traditional channels where Penfolds is strong as well. So it's not one defined model in each geographic scope. It's tailored to each of the partners that we have. And the partners we have, the majority of them have been with us for the long term. There are a couple that are new, and there are a couple from the past that we have moved away from working with, but really very pleased now with the structure we've got across the country at a regional level, but also at a national coverage perspective.

So I hope, there, I've answered the majority of what you asked in your question.

Lisa Deng

Yes. Just one follow-up. What's the mark-up or the margin for the first layer distributor and the ultimate rough, roughly the retail markup on the factory?

Tom King

Yes. Look, as with everywhere in the world, we don't dictate that. We set suggested retail prices in majority of our markets around the world. But our transaction with all of our partners is at the net sales line. So it will vary, but that's down to the distributor and the end customers' discretion.

Operator

Your next question comes from Shaun Cousins from UBS.

Shaun Cousins

Maybe just to confirm regarding the 15% guidance for '26 and '27, there's no expectations of price rises. That just seems inconsistent with what we understand. Penfolds has had a very sound track record over multiple years of raising prices, and it's quite well planned out to sort of do that. So does that sort of – can you confirm for no price rise as expected currently within that guidance? And then, hence, if there were to be price rises in this time next year or this time the year after that, that would actually be upside for the 15%, please?

Tim Ford

Yes, that's correct, Shaun. Yes. And I think like you say, I mean, we have a roadmap, and we've always had a roadmap. Our roadmap right now, given the volume we have made out of the last vintage is the work we've done to date around how we're going to build this business over the next 3 years. As we understand the marketplace over the next 12 months, we can make those decisions on any other changes to price we want to make.

Clearly, we're only going to change them up. They're not going to go down. So from that point of view, and I've explained this to a lot of investors over the last period of time is that we are going to take the right but conservative approach in terms of the pricing based on the volume as it builds over the next 3 years. So it's a really, really important point, so thanks for raising it. It's a little different to the way we've outlined it in the past, but purely '26 and '27 is based on volume, at this point, with the targets we've outlined.

Shaun Cousins

Great. And my second question is just looking at fiscal '25. Do you expect a continued mix shift towards the lower tier Penfolds like Max's and that's kind of priced in that premium AUD 20 to AUD 30 price point? Or should the mix in '25 be the same in '24? I'm curious just how potentially stronger growth in entry-level products could actually moderate that 6% NSR per case growth, which is skewed to the Bin and Icon price. But I'm just curious, are we going to see mix shift sort of change here in – particularly in '25, which we saw in the fourth quarter or the second half '24? But do you actually see that play a bigger role in '25, please?

Tim Ford

Yes. So the mix, to just sort of give the points around '25. So we've got the EBITS growth of the low double digits with pricing at 6% on Bin and Icon with a margin of 43% to 45%. That gets us to where it's a richer mix in fiscal '25 than it is in '24. Yes. So that's the outcome of that. The portfolio we plan to sell over that period of time will have a richer mix in '25 versus '24. So that's how you should think about the mix of business next year.

The other point that's really, really important on fiscal '25, just why we've got it there because it's around this investment we're making next year. I think shouldn't be just sort of washed through at such. It's a very deliberate investment, $20 million investment that we could have chosen to take to the bottom line next year that we are not around investment in A&P and investment in overheads as well because that is going to build the platform for ’26 and ’27.

Yes, and we’ve got the confidence now, I think, over the next 3 years with what we’ve outlined today, but we must invest the right way in year 1 to make sure we deliver year 2 and year 3, and we’re still pretty happy with the year 1 performance as well.

Shaun Cousins

And sorry, just to be really clear, given your margin step-up that you’re expecting, that effectively infers that you’re actually not seeing any mix shift to entry-level Penfolds product at all at ’25…

Tim Ford

Correct. The mix would be a higher mix in fiscal ’25 versus fiscal ’24.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Just the first one for me. Just understanding how you’ve – and this is probably a big question I’m trying sort of condense down is how you’ve thought about that buildup of volumes, sort of following up from other questions? Because if I look at the guidance you’ve given before for One by Penfolds, the French portfolio and the Californian portfolio, that’s probably going to add somewhere around 5% – 4% to 5% to Penfolds volume for years ’26 and ’27 alone.

And then obviously, you’re going to have some mix benefits through. It doesn’t look like there’s an enormous amount of volume coming from China in ’26 from the Icon or the Bin coming through. Just how much conservatism, and then sort of follows on to the second question, how cognizant are you still supporting the customers you try to rebuild some of the trust, at least, like, domestically, in terms of that allocation?

Tim Ford

Yes. Yes. So I think the – it's a good point. The allocation is our global allocation, right? So I know this is a very much a China conversation today in terms of how we're going to operate in the market in particular, but we are very clear on those. I'll get Tom to touch on it a bit in the moment. We are very clear on those priority growth markets that we've built up over the last 3 to 4 years. Yes, the demand and then the supply. And as you say rightly, the trust with our partners to continue to build this brand, and we are very keen to make sure that happens.

And the allocation strategy we have will continue to do that, because, realistically, we've got global demand ahead of global supply. That's still the case. And making sure we choose the right allocation model and then we allow those customers to continue to grow, and those markets, in particular, continue to grow is a really important part of how we've outlined that today.

And I think that will also drive the consistency of it, but also de-risk any change of supply – sorry, change of demand that may happen over the next year or 2 in some of these markets. So it's certainly not a take from what we've built over the last 3 or 4 years and then move it all back into China. That is not the strategy.

Just to be clear. I don't know, Tom, do you want to add anything?

Tom King

Yes. No, it's a really important point and one that we spent, a lot of time, the last few months out with our customers in all of these markets around the world. Not just re-assuring them that our intention and ambition in these markets remains the same, but actually now getting to the point where we're talking about multiyear joint business plans. And particularly now that we have the visibility of – availability of wine over the next few years, we're now able to have really important strategic long-term conversations around how we continue to grow our business. I think what the last 3 or 4 years have taught us early on in our appreciation of the brand equity that was present for Penfolds across markets that maybe we hadn't appreciated in the past.

And the importance of been able to focus solely on Penfolds in terms of our route to market through the divisionalization process has paid huge dividends. And as we've talked about in earnings releases and investor days in the past, the growth that we've seen across these markets has been phenomenal with dedicated teams on the ground to invest behind the brand in collaboration with our partners, using a really new data-led approach to building our distribution availability and making sure we've got the right portfolio in place.

So we're really, really pleased. We've obviously – we've had that runway now of understanding where the opportunity is going forward. And at this point in time now, with constrained supply around parts of the portfolio, we're needing to really tighten up our allocations and ensure that we are allocating not just product, but resources behind our must-win and priority growth markets.

And so just to be very transparent, if I think about the markets where we will be prioritizing resources, clearly, Australia, China, Singapore, Thailand, Malaysia, Hong Kong, the U.S. and the U.K., closely followed by Germany, Taiwan, Indonesia, Indo China and the UAE. These are the engines of growth for Penfolds over the next period of time. There are other markets clearly where we have been growing our business book. But right now, we're needing to make some choices around how we allocate product in a constrained environment.

So there is absolutely no intention to be walking away from the strong growth we've delivered right around the world, and feel pretty good around the diversification we've built and the strength of our brand globally as a result of the effort we put in more recently.

Tim Ford

And I think, Ben, back to your first part of your question, which was more around the sort of mix and the entry level and Bin's and Icon's, I guess the – given the outcome of Vintage '24 and the mix of wine hence, the confidence we then have around the 45% EBITS margin in the '26, '27, a lot it's driven by the heart. The heart of the earnings of Penfolds will certainly still be in that Bin's and Icon territory just from a volume value equation point of view.

It doesn't mean we're not going to continue to drive things like One by Penfolds, the multi COO entry-level areas. But the reality is we've got more of the Bins and Icons to sell now, particularly in the fiscal '26, second half '27.

Ben Gilbert

Just finally – so quickly, Tim, following that up. So I don't know we're doing this on a spreadsheet and you guys running a business. But when we sort of put through what you've given us for One by Penfolds, French, California, your margin guidance, it looks like you're only factoring a couple of hundred thousand cases to '26 for China. That feels too low, though, doesn't it?

Tim Ford

You can – how you run your spreadsheets, mate, I'm not going to give you that answer, so. And we're not going to divulge, talk about specifics on what we're going to ship into China versus other markets as well. It will be part of the Asian numbers. I know that's going to be a challenge for populating some of those, but I don't think it's wise for us to do that.

Operator

Your next question comes from Craig Woolford from MST Marquee.

Craig Woolford

Tim, it's good to see such clear guidance a couple of years out as a few others have noted. But, like, 2 questions around that. Like, firstly, did the company contemplate giving a range rather than the 15% spot estimate? It seems quite specific. I've got a number of reasons why it might be. And what industry conditions in the Chinese wine market are assumed for that 15% growth to be realized? Is it the prevailing conditions we're seeing at the moment, which is obviously a bit underwhelming on luxury demand?

Tim Ford

Yes, I'll take the first one because it's a really good one to talk about, and then I'll hand it to Tom. He can talk about the market conditions. So I think we – well, I think the best one, it's a pretty unique set of circumstances that we find ourselves in. I guess the way we've talked about the business today, and we've clearly given more multiyear information than what we've ever done before. And we certainly don't think this is going to be the norm across our total business going forward, either, Craig, I think it's probably important to say.

But that being said, as I've talked to a lot of our investors over the last 8 weeks or so since the – it's been 3 months now, but particularly the last 8 weeks since the tariff announcements and really understanding the questions that they have in their minds. So I think given the unique set of circumstances, we needed to understand what investors needed to know to make their decisions they need to make.

So we built this information, if you like, on that basis as opposed to trying to guess what we thought they wanted to know. Now you could argue a range of approximately 15% or the reality is you gained and it's either 12% to 17% or something like that, which we may as well sort of err on the side of let's try and give you what we think the answer is as opposed to all the different proof points in this example because there's so much conjecture and guess work that was happening externally, and we have a better view internally that we felt we should share at this time, just given the circumstances.

So I think your point's right. It's quite unusual for us to do that, but I think we find ourselves in somewhat of an unusual circumstance. We felt the market needed to be better informed. So that's why we've chosen to go down this path.

Tom King

Yes, I'm happy to talk to the overall environment that we see ahead. And as I said in the presentation, clearly, the wine market has gone through a pretty significant change over recent years. And we're aware of some of the drivers of that. I think we've got great confidence that we are going to be able to play a lead role in revitalizing the luxury wine market and building that category back up and accelerating the growth.

But we're pretty confident with where we stand as a brand today. And I think if you look across other luxury categories out there, yes, there may be some challenges, some headwinds. But within each category, there are clear winners and clearly, those that are struggling. I would firmly see us as being a winner in the category given the clarity of our strategy and the belief that we have and continue to execute that.

And we're seeing that in markets right around the world where, yes, there are headwinds facing categories, but we're really pleased to be, often, the shining light within a challenging category performance. And I include that here in Australia. So continuing to execute behind the brand, having belief in the brand and continuing to play a lead role in revitalizing the category, as a whole, in China.

Craig Woolford

Got it. Can I just ask, Stuart, just on the cash realization implications from the vintage intake? It seems a little surprising that, that hasn't been disclosed. And just generally, what does this guidance on Penfolds mean for cash realization over the next few years?

Stuart Boxer

Yes. So again, probably something we'll update once we get to August, a bit more detail there, Craig. But the biggest thing about it from a cash conversion, noting that we measure our cash conversion pre the buildup of noncurrent inventory is that the majority of this is obviously noncurrent inventory we are building up.

So prima facie, it shouldn't sort of materially impact that cash conversion outcome before the build-up of noncurrent inventory. So, I mean the overall cash outcome, I said, we'll talk about that in – when we get there. So that's probably as much as I can share now. And as we look forward at future vintages and we can discuss the implications for that again in August.

Operator

Your next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

Also great to see the outlook that clearly outlined. Just wanting to talk about the 45% long-term margin. And this goes back to someone's question around lack of price being assumed. I'm not sure. But I just want to sort of have a think about the drivers of that. It's kind of in line with where you've been in the last couple of years without China. So I just want to understand the investment you've put into China in the context of where that was prior to tariffs.

And then the overall Asia investment, given you built up those markets outside of China to reallocate during the tariff period, I assume you're taking a debit investment there. Can you just help us understand what the cost base looks like in Asia, more broadly, versus pre tariffs? And then yes, we can go from there on trying to understand the 45% margin.

Tim Ford

Yes. Thanks, Bryan. I think the really important point to make to start with is that there are some point of a misnomer that we had higher – we made higher margin from the wines we sold in Asia back in 2019, 2020 versus the rest of the world, which wasn't necessarily the case. We've got a very tight range, and we were getting very tight at that point in our range in terms of our selling price that gave us the confidence in terms of how we actually continue with that margin projection around that 45%.

Because with Penfolds, through the Asian markets, once – we had a cost base in China that we kept some, obviously, as we've explained, but we also reduced when tariffs came off, and that was, essentially, reallocated across into other Asian markets and other markets, same as A&P investment.

So it's quite a – it sounds a little less glamorous than what it actually is in reality, but it's quite a cookie-cutter approach in terms of the portfolio, the value of a market, the overhead resourcing that goes behind it and then the A&P investment that goes behind it as you grow those markets and build distribution and then ultimately building velocity through that distribution.

So it's quite consistent the way we do it across the different markets. And you could almost picture, you have a province in China versus a country in Southeast Asia versus a market here in Australia, for example, where you have that approach, slightly different resourcing. But really, it's quite consistent across the board. So from a cost base point of view, we have kept largely the cost base in those priority markets Tom outlined, because we need to continue to build those markets, and we will. We'll continue to invest in those markets. So as we grow the top line, we'll grow the investment base behind that as well, which gets us to that 45% margin.

We think with this brand, in particular, running the business to a top line goal with a margin target allows us to continue to invest, given the 45% margin, well ahead of any of our competitors. And it's one of the absolute competitive advantages that Penfolds has as a brand is that it can invest much, much more behind the brand than anyone else. And that's just proven to be, I think, a winning formula.

So as we grow the business, we will invest more rather than take it to the bottom line and improve the margin necessarily, because that gives you multiyear growth in these markets, particularly these emerging markets, which has still got growth from a category point of view to come. Yes, this brand is growing the category in Asia, and now we look forward to doing that again in China.

So that's how we think about the business, how we model the business, that's how we plan the business, that's how Tom runs the business pretty consistently. So as marketing team enjoy it, they grow the top line, they get more investment.

Bryan Raymond

Sure. No, I understand that. I guess my point is you've got this excess demand position for the next few years and given you've built up those markets outside of China, and now you've got China back. I just want to understand, I guess, maybe it's a pricing issue in that you're not factoring in further price rises into your long-term expectations. Is that – is it fair to say that if you did put in sort of low to mid-single-digit price rises on an annualized basis, that there'd be upside risk to margin? It seems like an obvious statement, but I'm just trying to understand the realistic outcomes around margins more longer term.

Tim Ford

Well, if we did do that, then yes, you'd be right. There'll be upside to margin, but at the moment, we're saying we're not choosing to do that. So it's a bit of – it's a hypothetical discussion, I guess, I'm agreeing with what you're saying in terms of the theory, but it's in terms of how we're going to run the business over the next 3 years, we stick to what we've explained today.

Bryan Raymond

Right. And just a final piece on the margin, just the COGS benefit from the winery and the new investments. Obviously, there's a volume benefit and there's an enhancement of the quality of the grapes, which you guys outlined in December quite clearly. But just wanting to understand the percentage of COGS benefit, should there be much medium term in the margin percentage wise? Or is it more just a volume play in terms of being able to generate more high-quality wines?

Stuart Boxer

Yes. Look, I'll take that one, Bryan. Look, the reality is in giving the guidance we have around what we're aiming for from a margin perspective, just takes account of all of that. So that's all built into the targeting of that 45% margin in the medium term.

Operator

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

Phillip Kimber

Just 2 questions. The first one was there are some speculation in China and it's made a few industry journals that there's a lot of Australian wine sitting in bonded warehouses that will now be released and maybe impact price. Just wanted to check whether any – did you guys leave any wine in the bonded warehouse in China? And is that being sold, cleared through now from Treasury's point of view? That was question one.

And then question 2 was just around who took the luxury Bin-Icon wines when the tariffs were put on? And I guess where I'm really going for that is there's talk that potentially, there might be tariffs on French wine put on by China at some point. And just trying to understand how big of an upside that might be for the business.

Tim Ford

Speculation from China is back, isn't it, Phil?

Tom King

I'll cover both of them. So the first point around wine and bonded warehouses, yes, there was some from the industry that has now been able to clear through. But we're not sure on who's doing that and what the quality of that wine is. We reallocated all of the wine that didn't get into China before the tariffs hit and that was part of our reallocation strategy immediately after the tariffs.

So we're pretty comfortable that everything that we've got coming into China now is coming from us directly and is the most recent ones that we have available directly here from Australia. Look, I think our perspective on any speculation around tariffs in other countries of origin.

The ideal for us is absolutely to have the full category available. I think what we've seen over the last few years is that you take a big player out of the category and the whole category suffers, and that's what we've seen with imported wine and wine overall as a result of Australian wine not being there.

So the more the big players are there, building the category, engaging more consumers in wine to deliver on that long-term wine category opportunity, the better. So we're aware of the speculation. But right now, we are 100% focused on executing our plan that we've now had in place for a while and pretty pleased with the initial execution of that.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

Just came for some color in terms of what you're seeing from Chinese distributors right now in retailers in terms of the appetite on stock. We understand that given how weak the economy has been, a number of these distributors and retailers have, recently, inventory positions?

Tom King

We're struggling to keep up with the demand, to be honest, Sam. Look, stock has been arriving in market for probably about the last month now. It's working its way through our distribution system. Early reads on consumer depletions is great. So we're already starting to see some revitalization of the category.

If you look at – I don't know if you're in-market but head down to some of the big retail outlets and you'll see some pretty significant Penfolds displays heading out in store. So there's real appetite for retailers and distributors to get their hands on Penfolds, which is fantastic to see and underlines the confidence that we've got in the brand and the roadmap ahead.

Sam Teeger

Excellent. That's great. And then last question, just behind the multiyear EBITS guidance for Penfolds. Well, when are you actually assuming China volumes will return to pre-tariff levels?

Tim Ford

It's going to be impossible to compare, and we're not going to share the China-specific volumes or earnings going forward. It will be part of the Asia business. So it's a different business now. We've got other markets that are higher, certainly in that outlook. We're not getting back to what it was back in 2019. And – but it's a different business now. So it's actually very hard to compare that from the 2019-2020 period.

Operator

Your next question comes from Jason Palmer from Taylor Collison.

Jason Palmer

This one's for Tom, please. I'm just curious on Page 18 of the deck, you've got the distribution partners covered quite nicely. I'm just curious to understand how your distribution strategy in China has changed on reentry, please, and the pros and cons of that?

Tom King

Thank you, Jason. To be honest, there hasn't been a huge amount of change. It's been a bit of an adaptation and refinement as opposed to any wholesale change. So this – it's really important, actually, as we think about this period of time that we're not coming back new to the market. We have been there throughout the whole tariff period. We've maintained a pretty strong and significant team presence on the ground and the majority of our partnerships, whether they're national distributors or regional distributors.

The change now that we're able to see is that the portfolio is whole again. So we're able to bring Australian wines back and make the portfolio whole and ensure that we've got the right portfolio being distributed by the right people. So strategically, nothing really changes. The model we put in place prior to tariffs was very similar, and it involved us putting our sales and marketing people on the ground, out in a number of different provinces, key cities around the market to work with our regional distributors. So I guess in answer to your question, there hasn't been a significant change. It's an adaptation and refinement.

Tim Ford

I think the only thing that's probably worth calling out would be that historically, pre-tariffs, we were moving – had a very strong Tier 1, Tier 2 direct distribution, then we're starting to move into the Tier 3 cities, whereas now it's very much a Tier 1 city focus or Tier 1 wholesaler focus, slightly different, but same partners, yes. So you sort of fast forward over the next decade. What do we do? Well, we continue to build this out over time.

But this is sort of the absolutely appropriate year 1 model as we make sure we get the supplier and the distributor partnerships right, get the retail shelf pricing right, all those things that go around that and the disciplines around the distributors. But same model. It's just not as deep as what it was because we haven't got the wine to sell that we had back then.

Jason Palmer

Yes. My understanding was, at one point, that you might have been going direct to retail with some of the larger ones. This one – this model looks a bit more sustainable. That's kind of the point I was getting at.

Tom King

Yes, yes. Yes. So we still work directly with all of the key retail key accounts. We just have local partners on the ground who enable us to supply and deliver to those stores locally. So the relationship is sort of 3-way, when it comes to those national key accounts for sure.

Jason Palmer

Okay. I just had one more question, please. It was around terms of trade. How does the terms of trade evolve from reentry into market over the last month or so towards maybe the next 18 months and getting use of that bonded warehouse, again, in Shanghai. And that was my last question.

Tim Ford

Okay. Yes. I think the model we've gone to is, essentially, what we call our direct import model out of Australia for the Australian portfolio was that – well, to be frank, it was the quickest way to get the product back into the market. And we'll assess that over the next period of time to whether we do go back to the hybrid warehouse model versus direct import, et cetera. So that's something we'll work through once we get the business model back up and running with scale. But right now, it's sort of – it's an import model largely out of Australia.

Jason Palmer

Okay. Just I thought there were some lessening of business risk in terms of taxation and stuff by using the bonded warehouse, but that's kind of what I was getting at.

Tim Ford

I mean we use the bonded warehouse for the other – our French and American wines and that as well. So as I said, in the future, I think as you look at the smoothing of orders, shipping orders more often with less volume, is certainly the path we'll end up going down at the right point of time. In China, there's no doubt about that, but it's just a matter of when once we reestablish the network there.

Jason Palmer

Does that mean that cash flow, in the near term, is more stretched at the debtors and, in the longer term, is longer at the inventory?

Tom King

I don't think so.

Tim Ford

I don't think so because we're shifting – you're, essentially, shifting inventory and when we recognize shipments as they ship out of Australia versus shipments as they ship out of the warehouse in China itself, so I don't think it's going to have a material impact from that point of view.

Operator

Your next question comes from Belinda Moore from Morgans.

Belinda Moore

Tom, can I just ask, in the past. how Penfolds might have been involved in that sort of data driven scheme? I suppose your strategy with younger demographic showing greater preference for white wine. And Tim, I know this is all about Penfolds today, but can you give us a bit of color on TPB sort of China strategy, Rawson's Retreat, volumes, et cetera?

Tim Ford

You take the first – you take the first one, Tom.

Tom King

Yes. I was a bit of a – I'm not entirely sure where the question is going. But look, I think our priority is obviously ensuring that we're meeting the needs of our domestic consumers right around the world and whether that's here in Australia or in China or in any of our other markets around the world, so you might be hinting at something there but it's not a part of our business that we're focused on or concerned about at all.

Tim Ford

And then the TPB question is a good one. Thanks for asking that, Belinda, actually. And I think Rawson's Retreat, we've been continuing to sell in the market. through Chilean and South African sourcing, which will transition back to Australian sourcing. So yes, we see TPB being able to see that as an opportunity going forward. But in terms of its focus in terms of what we're driving across the Penfolds business, certainly, not completely insignificant but comparatively somewhat, I guess, at this point, in time.

And won't be – I think it allows me the opportunity to say that we won't be trying to sell all those brands back together. It's an important business model commitment we've made. We'll continue to separate the TPB brands from the Penfolds team in China because I know historically, there was a lot of cross portfolio selling, we like to call it, others call it bundling. That's certainly not part of our strategy as we reenter China. So thanks.

All right. Thanks, Belinda. Thank you, everybody, for joining us. We hope that's given you – I'm sure it's given you a lot of information and probably raised a few more questions. So we look forward to answering that. But yes, to summarize, thanks, Tom. Thanks to the team for pulling this together. And we look forward to the opportunity that China reopening is created for us. So thanks, have a great day.