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Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates FY '25 Full Year Results Call. — ***Operator Instructions*** — I would now like to hand the conference over to Mr. Tim Ford, Managing Director and Chief Executive Officer. Please go ahead.

Tim Ford

Thank you, operator. Good morning, everyone, and thank you for joining TWE's 2025 full year results briefing. Joining me today, as normal, the members of our leadership team, Stuart Boxer; Tom King; Ben Dollard; and Angus Lilley, who's now the Managing Director of Treasury Collective.

And I'm pleased to announce today our results for fiscal '25, certainly a year where we navigated a number of economic and category headwinds and delivered another year of great performance and growth for TWE. Our net sales revenue grew 7.2% to $2.9 billion, and our EBITS grew 17% to $770.3 million, driven by the continued growth of Penfolds and the full year contribution of DAOU in the U.S. On an organic basis, however, the NSR did decline 1%, reflecting the reduced commercial and premium portfolio sales.

Penfolds, once again, a significant highlight led by strong growth in Asia, where we successfully reestablished the Australian sourced portfolio in the China market, whilst we continued our positive momentum in other markets across the regions. In Treasury Americas, our growth was driven by DAOU. However, performance was moderated slightly towards the lower demand trends in the U.S. market through the second half of the fiscal year, which we'll touch on later. Treasury Premium Brands, top line and EBIT did decline for the year. However, we did see improvement in the second half with cost improvements supporting EBITS growth versus the prior comparable period.

Our operating cash flow grew 22.9%, driving a reduction in our leverage to 1.9x, which is back within our target range. And today, we have also announced an on-market share buyback of up to $200 million, which will be completed progressively throughout F ’26 in accordance with our capital management framework. The buyback will supplement our dividend policy and reflects our continued focus on allocating our surplus capital to support shareholder returns.

As of July 1, we also, as we all know, but just to put a point on it, we have now transitioned to our new divisional operating model, which sees Treasury Americas from fiscal ’26 become purely a luxury-focused division alongside Penfolds, which it has been and the formation of Treasury Collective as our new Global Premium Brands division led by Angus, as I said at the start. Today, we’ve also provided an update on the California distributor transition, including our current expectation for an NSR impact in the year in Treasury Americas of approximately $50 million.

That $50 million reflects the difference in our business plans under our previous and versus our new distribution arrangements between RNDC and Breakthrough Beverage Group. while noting that the overall impacts to NSR and EBITS will remain uncertain until we finalize our transition planning and exit negotiations with RNDC, which are ongoing. Given that, I’d just like to make a couple of other points on the topic, which clearly, I’m sure we’ll cover more in the Q&A.

Firstly, we clearly didn’t expect the sudden closure of the business of our distribution partner in California, and we are working with RNDC constructively to achieve an outcome that mitigates this impact of the resulting reduction to shipments mitigates at an EBIT line. There are a range of factors that will contribute to that net financial outcome.

And today, we have given some transparency and outline what we believe is the right information to share with investors at this point in time. But more importantly, and secondly, we are very much looking forward to expanding our partnership with Breakthrough Beverage Group in California, putting in place the same shared playbook for growth we have with them that is driving ahead of category performance in a number of other key markets in the United States with an expectation, and it's a joint expectation between ourselves and BBG that we will return California back to depletions growth in fiscal '26.

And thirdly, outside of California, which clearly is the source of some noise at the moment, the Treasury Americas business remains in a very strong position as the leading luxury wine business in the world's largest luxury wine market. We're the #1 luxury wine brand in DAOU complemented by brands such as Frank Family that are delivering growth ahead of the category and with a very healthy margin profile.

So hopefully, that's helpful. Finally, on this slide, we reiterate our expectation for FY '26 to deliver another year of EBITS growth led by Penfolds. Now touching on some of the other elements of our financial performance, where we saw improvement across all key metrics, and Stuart will cover in more detail soon. But just to highlight, NSR per case increased to $138 per case, up 10%. EBITS margin expanded 2.2 percentage points to 26.2%, with the strengthening of both metrics reflecting the continued multiyear shift in our portfolio mix to luxury wine, which represented 55% of group net sales revenue.

Pleasingly, ROCE also improved percentage point to 11.9%, driven by growth in EBIT, and we expect that to continue over the years ahead. Net profit after tax increased 15.5% to $470.6 million, and earnings per share grew 10.8% to $0.58 per share. The latter being moderated by the increase to the shares on issue following our equity raising in late 2023 to fund the acquisition of Doubt. And the Board declared a final dividend of $0.40 per share, 70% franked, which represents a payout ratio of 69%, which is at the top end of our target payout range and is an 11.1% increase on the prior year.

Turning briefly now to the divisional performance, which obviously Tom, Ben and Angus will cover in more detail, but the headlines from my perspective, with Penfolds, EBIT grew 13.2% driven by the strong growth in our Bin & Icon portfolio shipments to China as part of the return of the Australian portfolio of that market and also taking into account the price increases that were taken across the Bin & Icon portfolio given the wine availability in the year. While China was the priority from an allocation perspective in the year, we also continued to deliver strong depletions growth in Asia, Australia and in Europe with Penfolds continuing to build its strength as the leading luxury wine brand across a number of markets. Margin also increased strongly in the year to 44.4%.

In Treasury Americas, EBITS grew 33.9% driven by the full year contribution of DAOU, which grew NSR at 8.2% on a like-for-like basis versus the prior comparable period. And we also saw another year of growth for Frank Family Vineyards, whose NSR was up 3.7% for the year. Looking at the premium portfolio in the U.S., net sales revenue did decline 5.5%, largely driven by 19 Crimes, but partly offset by our continued growth for the brand, Matua. And approximately USD 12 million of synergies relating to the DAOU acquisition were realized in the P&L in F '25 in combination with the strengthened portfolio mix drove a 3.3 percentage point improvement in margin to 26.4%.

And finally, TPB NSR declined 7%, driven by lower commercial and premium shipments and margin reduced 2.4% to 7.9%. When it comes to sustainability, I'm just going to touch on some of the key highlights where in fiscal '25, we achieved tangible and meaningful progress across the areas most material to the long-term performance of this business, particularly in relation to decarbonization, climate resilience, innovation and most importantly, our people. We achieved 100% renewable electricity across our global operations at the end of 2024, not only reducing our emissions, but also our operating costs.

We installed smart meters across all of our owned vineyards, wineries and packaging sites in the high and medium risk or catchment areas, supporting smarter, more sustainable resource use and strengthening our preparedness and data for climate risk and greater water use efficiency. We made progress in embedding inclusion, equity and diversity into our culture, increasing our female representation in senior leadership to 48.8% and across our full workforce to 45.1%.

We also launched further investments into low and no alcohol wine innovation, including a world-first flavor retention process, positioning TWE at the forefront of product innovation. And 98.4% to be exact, of our eligible owned and leased vineyard and wineries are certified to be recognized sustainability standards today. With this work extending through our value chain where a significant proportion of our growers and our bulk wine providers are now also adopting sustainability certification. Whilst these achievements are substantial and important, there is more work to do. And we look forward to collaborating not just within ourselves, but outside the industry to deliver holistic and measurable impacts for the category and the industry across the value chain.

So with that, I'll hand to Stuart to cover the details of our financial performance.

Stuart Boxer

Thank you, Tim, and good morning, everyone. I'm pleased to share with you the financial highlights for fiscal '25. Starting with our summary of our key performance metrics over time, where you can see that F '25 was another year of improvement in our key measures of performance, reflecting the benefit from our luxury-led strategy and the corresponding strengthening in the quality of our business.

As we look across the 5-year period, we see moving clockwise, a 2/3 increase in NSR per case, an approximately 50% increase to EBITS and a 6 percentage point increase to EBIT margin. The strength of our balance sheet has been a constant with leverage retained within the target range, providing us with a foundation to invest behind our luxury-led growth focus and to reward shareholders. Firstly, consistently through our dividend policy and where appropriate, supplemented by capital management as we have announced today.

While return on capital employed has been relatively flat, we were pleased with the improvement in F ’25, and we expect this metric to improve further as we shift our focus to execution and to leveraging the strategic investments that we have made. Material items totaled $7.1 million pretax in the year and relate to the gain on sale from the divestment of the Karadoc winery in Australia, which was recognized in the first half. The last of the DAOU integration costs, the DAOU earn-out accounting and the U.K.

EPR first-time impact. In relation to the DAOU integration costs, you may note that the final total of $105 million is slightly higher than our prior $98 million estimate, with the difference relating to the write-down of surplus property assets that are now held for sale. Given the significant overdelivery of synergies against our original estimate, we are comfortable with the net outcome, particularly given the cash component of $91 million remains well below our original estimate.

The DAOU earn-out component, which was an income in the period, reflects moderated expectations for the delivery of the relevant earn-out thresholds, noting that these thresholds were incremental to the acquisition business case. The extended producer responsibility or EPR legislation in the U.K. is a newly enacted scheme where producers bear the costs associated with packaging waste attributed to their production. During the period, the final rates and accounting treatment were finalized with a requirement that a full year’s amount be recognized despite the scheme being enacted in the half. Given this retrospective treatment, this was recognized as a material item for this period only. Going forward, it will be an operating item with an offset expected through pricing.

On a post-tax basis, we recognized a material items loss of $13.9 million, with the negative tax component driven by the tax effect pertaining to the divestment of the Karadoc winery. Now moving to the balance sheet. Net assets increased $190.9 million on a reported basis, though around half of this increase, $91.5 million, was due to foreign currency movements. The key balance sheet impacts were increased working capital, driven by higher inventory, higher property, plant and equipment and intangibles, which increased by $51.9 million and $48.3 million, respectively, both driven by foreign currency movements and the acquisition of Stone & Moon and higher net borrowings of $70.4 million, driven by foreign currency movements on U.S. dollar-denominated borrowings, the Stone & Moon acquisition and slightly lower cash. Turning to inventory in more detail.

Against the prior corresponding period, total inventory volume reduced 9%, while value increased 5%, reflecting increased luxury inventory and the reduction of premium and commercial inventory. Current inventory decreased $35.1 million, about half of which related to luxury, driven by the moderated F '26 sales expectations in the U.S., including the impact of the California distribution change and partly offset by the step-up in inventory to support Penfolds growth.

Noncurrent inventory increased $156 million, driven by luxury, impacted by the strong intakes in Australia and California. Total luxury inventory increased 12% in value terms, supporting our future growth for our luxury portfolio. Turning now to cash flow and net debt. Net operating cash flow before interest, tax and material items was $819.2 million for the period, an increase of 22.9%. Cash conversion was 87.4%, which is ahead of expectations and reflected favorable phasing of shipments, particularly Penfolds in the second half.

Excluding the change in noncurrent luxury and premium inventory, cash conversion was 105.4%. We expect fiscal '26 cash conversion to be approximately 80%, excluding the change in noncurrent luxury and premium inventory, driven by the expected late phasing of Penfold shipments in the year, given the increased availability for the Bin & Icon portfolio, which becomes available from the fourth quarter in F ’26. Moving now to CapEx. Capital expenditure for the period was $137.1 million, which included maintenance CapEx of $87 million and growth CapEx of $50 million.

The growth CapEx included the purchase of vineyard assets in Australia, expansion of the Penfolds winery operations in France, refurbishment of the Bou Vineyard brand home in Napa and investment in the N and low alcohol production facility in South Australia. The outlook for CapEx in F ’26 is maintenance CapEx of approximately $100 million and growth CapEx of up to $50 million, including the completion of the Bowie Vineyard brand home refurbishment. Turning to capital management now.

TWE’s investment-grade capital structure remains a key financial strength as reflected in the leverage outcome of 1.9x. Our liquidity position also remains in a healthy position with $1.2 billion of cash and committed undrawn debt facilities on hand. Today, we’ve announced a final dividend of $0.20 per share franked to 70%, with a full year dividend of $0.40 per share, representing growth of 11.1% and a payout of 69%, which is at the upper end of our 55% to 70% target payout range.

And finally, so today, we announced an on-market share buyback of up to $200 million in F ’26. This is a reflection of the Board’s confidence in TWE’s luxury-led strategy, our financial strength and our long-term outlook, in addition to the Board’s belief that the company’s shares are materially undervalued. The buyback will be completed progressively throughout F ’26 in accordance with our capital management framework with leverage to be maintained at approximately 2x throughout the year, and it will be funded from existing available liquidity.

Thank you. I’ll now hand over to Tom King.

Tom King

Thanks, Stuart, and good morning, everyone. Fiscal '25 was another successful year for Penfolds with many highlights, including our performance delivery, which was in line with expectations, our return to being the #1 luxury wine brand in China, the acquisition of the Stone & Moon Winery in Ningxia, a key milestone on Penfolds 180-year journey and the continued increase of our market share across many markets. Our alignment and execution as a Penfolds team was key to our success, and I'm very proud to share our financial highlights today.

NSR increased 7%, driven by strong growth in Bin & Icon shipments to China as part of the return of the Australian country of origin portfolio to that market, offset by lower shipments in other key markets as allocations were managed in the period to support China growth. Importantly, while the NSR performance across geographies reflects the impact of reallocation, the underlying performance of the Penfolds brand in these key markets remain strong, with depletions growth in Asia up 18% versus the prior year and ANZ and EMEA depletions up 4% and 11%, respectively.

Entry-level shipments were lower versus the prior year when the Australian portfolio was initially shipped to China to reestablish distribution following the removal of tariffs. NSR per case increased 11%, reflecting portfolio mix and the benefit of price increases that were taken across the Bin & Icon portfolio. COGS per case was below the prior period that included one-off costs related to the rework of product labeling for the China market. Cost of doing business increased 22%, reflecting an increase in brand investment and overheads in China to support our long-term growth ambitions in that market.

We delivered EBIT of $477 million, representing growth of 14% in the year and an EBIT margin of 44%, in line with expectations. Turning now to our performance in China, where our Australian portfolio has been back in the market for over a year. At an overall category level, we have seen some mixed trends in F ’25 with a decline of 5% in offline retail, but growth of 16% in e-commerce. When we then focus on luxury, we see much stronger trends, particularly in e-commerce with Penfolds having been a significant driver of that growth.

Since June, we have observed a shift in alcohol consumption behavior as preferences and occasions evolve from large-scale banqueting to smaller scale business and lifestyle-oriented occasions, which has resulted in some softness to our depletions performance over the period. While June and July are among the lighter months of the year for depletions, we will monitor these trends, particularly through the key consumption period of mid-autumn festival. To the extent required, we will consider any adaptation of our in-market activation and allocation plans should these shifts endure, noting the flexibility provided through Penfolds global sales model.

Penfolds brand health continues to increase in strength, quickly reestablishing Penfolds as the #1 luxury wine brand in the market. We made further progress with our distribution expansion in the second half with the Penfolds core portfolio now available in over 12,000 outlets. In relation to pricing trends, we are disappointed to see below-market pricing still visible in e-commerce channels due to parallel sourced products. We are taking more active measures to mitigate this, including through allocation and revenue management initiatives.

Overall, we’re very pleased with the progress we’ve made to date in China. While there is ongoing noise around various elements of and trends in the market, we remain confident in our ability to navigate the dynamic Chinese market landscape. Our confidence in our outlook is underpinned by Penfold’s proven track record of consistency and growth through periods of significant change, which as shown by the chart here, lays out our journey over the past 5 years. First, to navigate the pandemic and the immediate impact of China tariffs, then to successfully grow distribution and availability in a number of markets and then more recently, in successfully returning our Australian portfolio to China.

Over this period, we've grown EBIT and importantly, maintained consistency in our pricing model, which has enabled the continued delivery of margin around our long-term target of 45%. Over the past year, Penfolds has achieved significant gains in its demand power metrics in a number of key markets. Strengthening demand power, which has a high correlation with market share, reflects Penfolds' continuous and consistent focus on brand building and driving deep consumer connection. It's great to see Penfolds brand strength being validated by third-party data. These indicators are proof our investment is paying off and provide a strong foundation for future growth, underpinning our confidence in Penfolds ability to scale globally and deliver enduring value for TWE.

In terms of outlook for fiscal '26, we continue to expect low to mid-double-digit EBIT growth, driven by increased bean and Icon portfolio availability from the fourth quarter and continued positive momentum through a number of markets in Asia. We're building something really special on our journey to make Penfolds a global luxury icon, and I am excited about where we're headed in F '26, and I look forward to updating you in February.

I'll now hand over to Ben in California.

Ben Dollard

Thanks, Tom, and good morning from Napa Valley, California. Treasury leads the U.S. wine segment with a market share of 12% and our key brands of DAOU and Frank Family Vineyards continue to grow ahead of the market. Despite softening category trends across the second half, which impacted our shipment performance, we are pleased that consumers are engaging with our brands.

In our premium portfolio, Matua had another strong year of growth. Turning to the key financial metrics for fiscal '25. Volume and net sales revenue increased 6% and 15%, respectively, driven by the luxury portfolio with a full year contribution from DAOU and ongoing growth from Frank Family Vineyards, which grew NSR 8% and 3%, respectively, versus the prior comparative period.

Offsetting this growth were declines across other key luxury brands, including Stags' Leap and Beaulieu Vineyards. Premium brand portfolio NSR declined 7% and driven by 19 Crimes and partly offset by continued strong growth for Matua, which ranks as a top 25 wine for total category and one of the fastest growing.

On an organic basis, volume and NSR declined 6.6% and 4.9%, respectively. Shipments exceeded depletions by approximately 400,000 cases for the luxury portfolio, driven by DAOU and 200,000 cases for the premium portfolio, of which the majority relates to Matua and reflect the growth profile for that brand. Approximately half of the excess luxury shipments related to California, where our depletions underperformed the market and were well below our expectations.

Looking forward to fiscal '26, we are pleased with our new distribution arrangement with Breakthrough Beverage Group in California, one of our key U.S. distributors. We expect to improve our momentum in the extremely important California market with joint expectations for our depletions to return to growth. NSR per case increased 9%, reflecting the continuing mix shift of our luxury wine portfolio.

COGS per case was slightly above the prior period, with portfolio mix partly offset by the transition to the sell-through of lower-cost vintages and realization of supply synergies. Cost of doing business increased due to the acquisition of DAOU, partly offset by the realization of overhead synergies. We delivered EBIT of $309 million and an EBITS margin of 26.4%.

Turning to DAU and in particular, performance against the business case we outlined when we announced the acquisition in late 2023. DAOU's fiscal '25 top line performance was below our medium-term expectations, impacted by weaker category trends. While we expect these category trends to continue into fiscal '26, DAOU is strengthening its position within the U.S. luxury wine market, reaffirming our confidence in the long-term growth outlook for the brand. DAOU is the #1 luxury wine brand in the U.S. market, led by Cabernet Sauvignon.

Since the acquisition of DAOU has achieved value growth of 7.1% nationally in Circana tracked channels, approximately 3x that of the luxury wine market. Excluding California, our performance throughout the rest of the country is significantly stronger, growing 12.6% over the same time period. In addition, we have made excellent progress in expanding DAOU's distribution across the U.S. Overall, we have achieved a 4-point increase in category weighted distribution. This shift represents the highest increase for any top 20 U.S. luxury wine brand.

Based on this growth, we are confident in the health of the DAOU brand and its positioning in the market. Texas, Florida, New York and Illinois among the key markets where we've made great gains since the acquisition. We remain focused on continuing to drive distribution expansion and engaging with new consumers. At the heart of DAOU's success is experiential marketing, and we are thrilled with our new LIV Golf national relationship, just one example of many how we're welcoming new consumers to the brand.

Regarding production and overhead synergies, we have exceeded our original expectations, delivering an increase from the business case of USD 20 million to approximately USD 35 million, with USD 12 million realized in fiscal '25 and increasing to USD 30 million in fiscal '26. This outcome reflects the execution from our U.S. supply organization and further underpins our confidence in the returns we expect to deliver from the acquisition.

I’m satisfied with the performance of DAOU in our first 18 months of ownership. The brand resonates strongly with consumers. As we measure key indicators of brand health, such as pricing, distribution, cellar door visitation, wine club membership and promotional effectiveness, we believe that DAOU continues to have significant growth opportunity.

Turning to the fiscal ’26 outlook for Treasury Americas, now a division focused solely on luxury wine. As outlined in the disclosures, we currently expect an adverse impact to NSR of approximately $50 million as a result of the California distribution change with our outlook for the modest EBIT growth contingent on mitigating the impact of reduced shipments through our exit with RM DC. We are very focused on the distribution transition in California. However, we do expect implications to our performance in the near term.

We are confident we will successfully transition to Breakthrough Beverage Group and therefore, remain optimistic in the long-term outlook in the state. Our key brands are performing well nationally. Our margin structure will allow us to reinvest in our brands in California as we navigate this transition.

Thank you. I’ll now hand over to Angus Lilley in Melbourne.

Angus Lilley

Thanks, Ben, and good morning, everyone. Pleasingly, Treasury Premium Brands performed in line with expectations in the second half, with earnings showing a stabilization of performance as a result of strategic actions taken to establish our new global premium operating model. We have increased confidence that under this new model, we can change the trajectory of our portfolios and be an important enabler of TWE’s luxury-led growth agenda. Turning to key financial metrics for fiscal ’25.

Volume and NSR declined 6% and 7%, respectively, driven by declines across the commercial and premium portfolios, particularly in the U.K. and Australia. These trends moderated slightly in the second half. Partly offsetting the declines were continuing top line growth for several of our key brands, including Squealing Pig, delivering 11% NSR growth, driven by strong execution in Australia and distribution gains in the U.K.

Rawson's Retreat continuing on its growth trajectory after reentering the Chinese market. Global 19 Crimes volumes increased versus the prior comparative period, driven by execution in the U.K. with a Halloween limited time offer unlocking new category occasions and driving more consumers to wine. Innovation remained an important driver of growth with new product development from Squealing Pig, Pepperjack and Cali Smooth also contributing to NSR growth this period.

NSR per case decreased slightly, reflecting a combination of price investment behind priority brands as well as mix impacts. COGS per case increased 3%, driven by reduced production volumes through the supply chain network. Cost of doing business declined 8%, driven by reduced overheads as a result of operating model changes and the realignment of brand investment with reduced volumes. These savings were partly offset by the cycling of the gain on sale of divested vineyard assets in the comparative period.

EBIT decreased to $55 million and EBITS margin was 7.9%. We are now in our second month operating as Treasury Collective and our journey to become the world's leading premium wine business. Our immediate focus is on stabilizing performance of the Treasury Collective portfolio, and this has 4 key elements.

Firstly, a more focused global priority portfolio with clearly identified roles for individual brands across key markets. more effective and efficient allocation of resources and brand investment to drive awareness and distribution for priority brands, supported by tactical volume focused initiatives across the remainder of the portfolio; a streamlined and more efficient global team and processes to leverage our global scale; and finally, greater focus on category capabilities and strengthening customer partnerships globally.

As we look to F ’26, we expect Treasury Collective’s top line decline to moderate with continued growth from the Priority brand portfolio to partially mitigate the impact from continued declines in commercial brands. The California distribution change is expected to have modest impact on our EBIT delivery. I look forward to updating you on Treasury Collective’s first set of results in February.

I’ll now hand back to Tim.

Tim Ford

Thanks, Angus. So turning finally now to our outlook for fiscal ’26, where we expect to deliver another year of EBITS growth. For Penfolds, we expect low to mid-double-digit EBITS growth, driven by increased Bin & Icon portfolio availability from the fourth quarter, in particular, and continued positive momentum in a number of markets throughout Asia. Important, given the timing of this increased availability with the next vintage release, we do expect this year EBITS delivery to be weighted approximately 55% second half, whilst the EBITS margin is expected to remain in line with fiscal ’25 at approximately 44%.

The 45%-55% weighting important, very similar to what we did in fiscal ’24. In Treasury Americas, as I outlined earlier, our outlook for modest EBITS growth is contingent on mitigating the impact of the reduced shipments in California through our exit negotiations with RNDC, and we expect to mitigate that. And as for Treasury Collective, we expect top line declines to moderate with continued growth from the priority brand portfolio expected to partially mitigate continued declines in commercial, which are ongoing. The impact to EBIT, as Angus just said, for any change in distribution expected to be modest and not a factor.

So in summary, F '25 was a year where we delivered growth against a backdrop of headwinds. It's led by our luxury-led strategy and resilient business model. We positioned ourselves to deal with these very, very well. Penfolds delivered to expectations once again with a very clear objective for this division to build on the excellent momentum across the globe and continue what is a proven track record over multiple years of consistency and growth. In Treasury Americas, growing distribution and availability and continuing that progression across what is now a dedicated luxury wine brand portfolio remains the clear focus.

As I said, we will deal with the transition of distributors in California, and we'll return that important market to growth. But overall, the business remains in a strong position as the leading luxury wine supplier in the United States, led by DAOU, which has strengthened its position to be the #1 luxury wine brand in the market since we acquired that business. And Angus through Treasury Collective has started was an important journey for our company towards delivering stability for that business and that portfolio.

And while that may take a few periods to achieve, this division has a very clear and important role to play in supporting our group's growth objectives. And progress towards the optimization and further separation of Treasury Collective cost and asset base will continue as a priority in fiscal '26. We now have the Commercial division completely separated, and we've got more work to do, and we'll do that work from an asset base point of view over fiscal '26. So as we enter this year, we retain great confidence in our business and its capacity to deliver growth in our financial metrics and therefore, ultimately, our shareholder returns. But importantly, what underpins this confidence.

Number one, we have the right operating model in place for the next phase of our journey at TWE with Penfolds and Treasury Americas to leading luxury wine businesses in the 2 largest growth regions for luxury wine in the world, Asia and the United States. And we have the creation of the Treasury Collective division to ensure the right focus and investment model for this decision to be an enabler of TWE's luxury-led growth agenda. The second reason that gives us confidence the key brands of scale, particularly Penfolds and DAOU are outperforming the category in their key markets and gaining share every week from competitors with our ambition to have all of our other luxury brands also consistently performing to the same level. So there's upside there for us.

We also have the team, and they know how to execute, and we are building on this capability every day. At the heart of our success is clearly our people. And I know when Sam takes over as CEO later on this year, he will inherit a highly capable and highly motivated team here at TWE. I just want to touch on the reasons to believe we have in our confidence around our balance sheet as well.

Our balance sheet to this point has allowed us to make some fairly significant investments in our asset base has allowed us to fuel growth through acquisition. And now quite clearly, our capital allocation focus shifts to rewarding shareholders and supporting their returns as evidenced by the buyback we've announced today, which supplements another dividend at the top of our target range.

And then outside of the 4 walls of TWE, the luxury wine segment does remain attractive. And we remain very, very well positioned to take advantage of that and deliver growth over the long term and through the cycle.

So with that, I'll hand over to the operator, and we'll open up for Q&A.

Question and Answer

Operator

— ***Operator Instructions*** — The first question comes from Craig Woolford with MST Marquee.

Craig Woolford

Firstly, Tim, well done on steering treasury through a very turbulent time and repositioning it as a luxury business. It's been a very impressive journey on that front. Obviously, still some challenges ahead for the industry, but well done on that front. I think my first question is really around the transparency of what is and isn't working in China.

The business has performed relatively well, but you are talking about some shifts in consumption habits. I think underneath the surface, we get a lot of feedback from various sources that can to diverge from the performance that we're seeing within the business itself. My sense is that bins were at 9 and the Bin ranges are doing well, but some of the others are not doing well. So it'd be good to get some more sort of honest assessment about what parts of the portfolio are not working in China.

And you seem confident that even with the shift in consumption that you can still deliver on growth in '26. So it would be good to understand how – what gives you that confidence?

Tim Ford

Yes, sure. I'm going to let Tom will take most of this because he actually got back yesterday from being up there for the last 10 days. So he can give the latest update in his view. But I think, hopefully, with the way we've explained it on the slides today as well, we understand what is actually happening in that market.

And I think we can give some more color now, but it's continually changing, and we'll continually, I guess, share the more macro themes because you're right, the danger with all markets, but particularly China is a single data point gets picked up and then transferred across the business. So I think it is important to understand the different moving parts. But I think the most important point you made was the performance seems to outline or overdeliver against some of the noise and what might actually be happening. So I think, Tom, it's good to try and join the dots on that.

Tom King

Yes. Thanks, Tim. Thanks, Craig, for the question. I'll try and answer it based on what we're seeing right now, but also the sentiment that we're seeing behind the return of the Australian portfolio over the 12 months, which has been extremely positive in terms of re-juvenating the luxury wine category and providing our partners with additional profitable revenue streams to drive their businesses forward.

So very pleased with the first 12 months back. As we said in June, our plans from a depletion perspective were on plan for the core Bin portfolio and the bins is the heartland of our business in China and really pleased to see how those have performed. We also said we're seeing some softness at the very top end of the portfolio.

And that's a number of sort of external factors have been driving that and hence, the incremental investment we're putting in to support that top end of the portfolio this year. But more recently, obviously, there's been a lot of news around the shift in alcohol policy for government-related occasions. And for sure, that is having an impact on everyone in the market. It's still pretty early days in terms of understanding the genuine impact.

It is – those occasions are important to us, but it's very hard for us to quantify the extent of those occasions given they're serviced through multiple channels through our business in China. We are monitoring closely as depletions continue to come in for July and now August. but pretty early to say what the actual impact is going to be. A couple of things, June and July are relatively light months in terms of the seasonality of the business, but also versus last year, June and July were months where we were doing initial distribution fill into the channel.

So like-for-like performance, pretty hard to fully understand. What I will say is we've got really strong plans lined up for mid-autumn festival, one of the key periods in the year for us and feeling pretty good around how the initial collection release has gone down in China as well. I'd also, as we think about the year ahead and facing a situation like this, I think we've proven over recent years that we're pretty good at adapting to shifting environments, whether that was through the tariff situation or otherwise. China is a very dynamic market for sure, and things can change very quickly. We've got levers that we can pull as demand increase and decreases across our global business, certainly in F '26.

So I'm really pleased with the performance of the brand. Our partners are very pleased with the performance. There is a small headwind in one of our channels at the moment, but we're doing everything we can to stay close to how that is flowing through to our business and adapting our plans as possible. So the feedback that I got last week in China and I'm there every month is, yes, the environment is facing challenges. Baiju for sure, is facing a lot of headwinds. The consistent feedback I get is our partners are very pleased with Penfolds performance. They're making money on a brand when there aren't many brands making money for the network at the moment, and we should really lean into that, and we are. And we're continuing to drive new distribution and deeper distribution across Tier 3 and Tier 4 cities.

So there's a significant runway for growth ahead of us, certainly over the medium and long term, and we're not slowing down at any point in the near future. So I guess to sort of round out the question, Craig, I'm very happy with how we've performed in China. And I have confidence that we've got the tools, we've got the levers, we've got the partners, and we've got the portfolio to be able to lean into any headwinds that are facing us at the moment.

Craig Woolford

So just to be 100% clear, like this change in consumption, you don't see it having any bearing on the guidance that you provided for '26?

Tom King

No.

Craig Woolford

That's very clear. If I could just squeeze in a shorter one, just on revenue – the revenue impact you mentioned on U.S. distribution. Just what is the $50 million exactly? Is it the difference between what RNDC had in inventory and what breakthrough will have going forward? Or how do you come up with the $50 million figure?

Tim Ford

Yes, sure. So hopefully that answers your question. you've covered the 2 main questions on everyone's minds in the first off the bat, crack. I'm not sure we'll see where we go from here. But yes, so really simply, the difference from an NSR perspective is the difference in our future distribution arrangements and when we've rolled that through our financials versus what was our previous distribution arrangements with RDC, okay?

So as you know, we have multiyear agreements that are driven by a depletions target and growth and then the result and shipment target that matches that depletions growth. The BBG contract is a very, very good commitment from them to continue to grow in California. So we're happy with that. The difference is we're coming off a year of decline in California. So the base change is a base change from a sales revenue point of view.

So that's what we're being – we're trying to be as transparent as we possibly can with the implications of this California change because it's clearly a big topic for people to wrap their heads around. So that's where the NSR shift comes from. The reason why we are saying we are uncertain on the EBIT impact of that is because we expect to mitigate that. Clearly, we're in ongoing negotiations with RNDC around their exit. This is not something we decided to do.

If it's something we decided to do, then it's up to us to deal with the full financial impact. But that's it's a pretty clear, hopefully, set of numbers. It's an ongoing negotiation there with RNDC that we're not going to go into great detail on today. So I think we've given the best indication of the current state of that transition that we could.

Operator

The next question comes from Michael Simotas with Jefferies.

Michael Simotas

I actually wanted to follow up on both of Craig's questions, if I can. The first one on Penfolds. I just want to understand what makes you so confident to reiterate the guidance given the change in trends that you've seen in China and what you're effectively assuming happens with respect to those occasions to deliver on that guidance?

Tom King

Thank you, Michael. I'll take that one. Look, the early indications of the change in occasion Look, it's a fairly recent shift, right? June and July are relatively light months for us. The industry is seeing an impact of the policy shift. We're already starting to adapt our plans by working with our partners to understand where we're seeing opportunities to change how we activate and prioritize allocations differently. But this is a point in time, things can change quickly in China.

We're very early into the fiscal year, and we're in a year where we are constrained by allocations until Q4 comes along. I think if we need to look at this in the context of the overall Penfolds business on a global basis, we have got strong consumer demand and really strong brand momentum right across the board. And I touched on some of that in my opening comments. We've got significant still opportunity to expand distribution.

both across markets, but also within markets and particularly within certain cities globally.

We know what wine is coming on available in Q4, and it's the best parts of the portfolio. And ultimately, the brand continues to go from strength to strength. So as of this point right now, we see no reason to come off our guidance for the fiscal '26 because there is time ahead of us. We've got strong demand, strong wine availability and great execution happening in markets right across the world.

Tim Ford

I'll just put a couple of points there as well, just so we – yes, because I think we're being quite transparent in terms of what we're seeing in the market there. But if you think about retail channels, e-commerce channels, other channels within China are still performing very, very well. right?

So there's a slice of the category we've seen that slowdown in 2 months that Tom talks about. But also, I think one thing we do have runs on the board with in this organization and with the Penfolds team in particular, is that you can probably take to the bank that we've run a number of scenarios of what could occur and what we would do, right?

So we don't just reiterate guidance based on hope. We're actually going through – we've gone through a process. We've done it multi times over the years, and you can see we've delivered against that. So from that point of view, that's what gives us the confidence to reiterate that, Michael.

Michael Simotas

Okay. And then on the U.S. distributor change. Firstly, on the $50 million – based on what you said, is that actually directly resulting from the distributor change? Or is it as much about the weaker market conditions and what the new distributor is willing to commit to on the back of that versus what you'd agreed some time back with the previous distributor.

Tim Ford

Yes, it's a fair question. I'd say it's a little bit of all of the above. It has to be the right answer there. The growth we've agreed to with BBG in fiscal '26 and beyond is well above the category growth. Let's start at that point of view for all of our brands.

Now is that – it is a lower growth commitment than what we had based on the fact that the last 12 months, which is the basis you negotiate these agreements on, was in decline. So there's a performance component in fiscal '25 that's impacting that, that's flowing through, if that makes sense. And there's also a softer market in California, albeit still a pretty good market that has also come into the fore there as well.

So the combination of those 3 has formed the view that we've created today in terms of – and then what the financial impact on the top line would be.

Michael Simotas

And if you work through the inventory transition and you're confident that inventory won't find its way onto the market at discounted prices?

Tim Ford

Yes, we're very confident of that it won't find its way in the market in a discounted price. We are still working through how we transition the inventory that exists in California as well, whether that be through with BBG as our new distributor, where we end up RDC in other markets and the like.

So that's part of the moving picture that we're just working through from a negotiation point of view. But one thing we are absolutely adamant about, which is we will not allow or once we see, we will stand down very quickly any shifting of inventory at discount price that's going to impact our brands. That is absolutely forefront of our minds of all of the discussions we're in the middle of at the moment.

Operator

The next question comes from Tom Kierath with Barrenjoey.

Thomas Kierath

Best of luck, Tim, with the next step. enjoyed our back and forth on these calls over the years. First question is just on DAU. I think in the second half, from my numbers, it grew about 1% in U.S. dollar terms. And I think shipments are growing ahead of depletions.

So just maybe, I guess, give us some comfort of what's going on there. Is it just the market, in which case the market is going backwards? Or is there something a bit more specific in the brand that is driving that kind of weaker growth?

Ben Dollard

Look, I'll have a go at that, Tom. I think the big picture for us for DAOU, I think, is sort of back to the slide we showed around that underlying performance of the brand in the retail channels and in channels where it continues to grow strongly. And so from a performance perspective at that level, we don't see any issues at all, and it continues to grow very, very strongly.

So that's sort of the probably most fundamental point that we'll make on that. In terms of then the sort of phasing half-on-half, that really does depend on shipment phasing with our distributors, and there's an element of the California piece in there as well. So there's nothing in all of that, that causes us any concern, again, because we're really focused on that distribution growth we're seeing and that underlying performance in the channel.

Thomas Kierath

Okay. Great. And secondly, just on pricing, like I noticed last week when the Penfolds release came out, Dan's was, I think, discounting like 24% of your RRP, which is the highest it's been in like over 10 years. How are you guys thinking about pricing? Because a bunch of different wine players are cutting price. You see it in the spirits space.

There has been a lot of price taken over the last 10 years. But do you need to reset pricing a little, I guess, in relation to some of the other prices that are in the market by some peer brands?

Tim Ford

No, firstly, thank you. I also have enjoyed our backwards and fors too, Tom, over the years. No, is the answer. We're confident in our pricing. We have not adjusted our pricing in any market around the world nor funded discounting of our pricing versus the in any of the instances, whether it be last week with the Penfolds release or in markets like China where someone will get a photo of RMB 389 at a price of RMB 100 lower.

We do not set that. But really, the key outcome, and Tom talk about a bit more around the last week or so because there's some good color, I think, to add to the Australian Penfolds release. Really important everyone understands we have not adjusted our wholesale pricing. It has been consistent throughout the year, will be consistent throughout the year. And we don't see the need when we look at the supply and demand over the next period of time to change our pricing or bring it down. That would be the clear position, hopefully on that. But Tom, do you want to Penfolds release.

Tom King

Yes. I'll start with – it's great to see you've seen the collection release launched, Tom, because we're really pleased with how it's going here in Australia. It's fantastic to have all the big retailers going big on our brand ultimately. And you've picked up on the pricing, but hopefully, you will have seen the heavy levels of activation in store and online.

And for me, that says that Penfolds is extremely relevant to retailers in this market is a very strong brand that is adding value to the category. So a big, big tick for us. The discounting that you're seeing, it's normal. You picked up that maybe it's a bit deeper than we've seen in previous years, and it is, but it's an incredibly competitive market out there.

And as Tim said, we don't fund or control any of the pricing that happens out in the market. Our focus is ensuring we're driving the right activity and activation to ultimately bring people into store or online to purchase great Penfolds wines. It's early days. This discounting here in Australia happens on the on the collection release, and we're likely to see it sort of hold over for another few weeks through to Father's Day. But I feel pretty good that over time, over the balance of the year, you won't be seeing pricing like this available in the market. I think part of your question sort of around is it time to reset prices.

Others are doing that in the category. I assume you're talking to Bordeaux on Premier pricing that's come out of the back of the V23. And again, a very challenging time for everyone in Bordeaux off the back of a few very successful years. Our model is different. Our pricing model follows a more consistent long-term approach. We don't make big swings between years based on vintage because we're always providing great quality wines in a consistent style.

If you think about our pricing history over the last 10 years, certainly across our core SKUs of Grange 707, 407, 389, the 10-years, certainly across our core SKUs of Grain 707, 407, 389, 10-year CAGR is sort of low to single – low to mid-single digits per year percentage increase. So I feel pretty good that we've moved price over time in line with how the business has grown, how the demand for the brand has grown and how our cost base has increased over that period as well.

So no changes to our pricing model. I can assure you of that, and we're focused on ensuring we are bringing more people into the world of Penfolds.

Tim Ford

I think it's a good a number of you guys wrote notes on it last week, which is all good. And I think our learning, we historically probably got a little more reactive on Penfolds release date of certain pricing in retail. But if we look at our experience with one of the key retailers here in Australia last year, who for probably the first time was highly active and engaged with the Penfolds release, including pricing not dissimilar to what we see now.

And we saw then the positive flow on through their business for our brands through the rest of the year. It sets the tone within these retailers and their ability to actually grow their wine business throughout the year. And yes, you have these first couple of weeks where they're driving foot traffic, but it delivered over the course of the year. So I think that's another one where now they're both doing it. Hopefully, that we continue to see that positive performance on both of them over the course of the year ahead. So thanks, Tom.

Operator

Next question comes from Ben Gilbert with Jarden.

Ben Gilbert

Maybe one for you, Stuart. Just in terms of the thinking around the buyback, cash conversion next year looks like it's going to be a little bit softer. Where do you think your net debt is going to land for fiscal '26? And I suppose the follow-on there is how aggressive you're expecting to be around the buyback. I think you said it was going to be up to 5%, it's kind of about 3%. What was the thinking around that?

Stuart Boxer

Yes. So the – just sort of starting with sort of components of your question with the cash conversion. And as you pointed out, it's – we've guided to the 80% figure, and that's really driven by the timing of some of the income from Penfolds and given that sort of Q4 by sort of its revenue. So that's the driver of that.

Now obviously, we've taken all that into account in terms of sizing up the buyback. And as we stated the idea here is to stay sort of around that 2x throughout the year. So we're going to phase the execution of that buyback across the financial year so that we can keep that net debt-to-EBITDA figure at around that figure through the year. So we expect that we'll be ending the year at about that level.

Ben Gilbert

Great. And just second one for me, Tom, sorry, apologies to ask about pricing again. Just – you talked about Penfolds needing to adapt and you said you've got some better quality as we know sort of some of the icons sort of the super luxury or luxury within the Penfolds portfolio coming on back end of this year, but – sorry, fiscal '26. But isn't it the more entry-level stuff, the Maxes, the Kananga Hills that are really selling at the moment. And what – Sam's obviously got game historically playing around with pricing successfully and unsuccessfully in markets based on what we can see.

What do you do if he comes to you and says, look, I'm going to drop pricing on the luxury and discount it a little bit to try and stimulate some demand at the back end of this year? Like how does that discussion go? And what's the ultimate goal? Is it hitting the guidance numbers you put out there at all costs? Or would you be prepared to, as you say, adapt and if the buy your product, if the French, et cetera, still pretty depressed, you lean into that more aggressively?

Tom King

Ben, I'm not sure where you're getting the view that it's Maxes and the entry level that is growing very well at the moment because we're seeing the strongest growth across the core of the portfolio in the upper bins right around the world. And that's where a lot of our focus has been. So I'll dispute your perspective on that.

Look, I can't comment on Sam's game, as you say, as it relates to pricing. But strategically, we're very clear on our road map, our pricing road map is clearly linked to the availability of wine that we have coming online, which we've got clear visibility now on a number of out years off the back of another great vintage in V25.

Aligned with that is the demand signals that we're seeing across the globe, across our – both our lead markets and our priority growth markets. So at this point in time, I feel very confident in the current pricing we have out in the market. What it enables and what we're seeing is talk to any of our partners right around the world, they are making money on Penfolds and it's adding value to their category and their business. So we're seeing strong demand and offtake at a consumer level at the current prices. So no changes planned at all.

Ben Gilbert

The comments, I suppose, that you made around sort of the Grange 707, et cetera, being a little bit slower towards the end of the year, I think you said publicly at the last update.

Tom King

Yes. No, that's fair. And look, it's a fair question if others in the market are dropping their prices, but our confidence in our pricing stems from the fact that who else in the market at that sort of price out there activating with dedicated sales teams in markets around the world and the right experiences that we're bringing to consumers.

Our F '26 plan has a significant shift in how we're activating, how we're bringing those wines to life right around the world and extra resources for skilled, dedicated people on the street talking to high net worth individuals as well as fine wine retailers. So I feel confident that with that shift in investment, we're going to get Grange and 707 back into a really strong place.

Tim Ford

I just – I hate to bring up the war again. But you think about back when tariffs were implemented on Australian wine in China. And probably the single best decision we took at that point of time was we will not drop price to drive volume, right? We're going to maintain the brand integrity. We have faith in this brand. We knew there was demand around the world we could tap into. And if that's taught us anything is that you stick the line. When it comes to that from a luxury brand point of view, we just don't feel the need to do it.

Ben Gilbert

— ***indiscernible*** — brand. It was interesting. So best ranked and third most valuable. I just wonder whether if you got more volume, how you manage that, but I fully appreciate the — ***indiscernible*** —

Tim Ford

We've got more volume, it won't be a discounted pricing. That's for sure. fair point, and thanks for raising the point around the world's most valuable wine brand, which recently got to. That's something we're pretty proud of.

Operator

The next question comes from David Errington with Bank of America.

David Errington

Tim, I must admit I have really enjoyed you as a CEO. We have often not agreed on certain things, and I dare say we'll continue to not agree on them, but you've never taken them personally and you've always handled them professionally. So from that, kudos to you. And I wish you all the best going forward, and I hope your footing team starts winning a few games, which I can't see happening in the near term. But anyway, we won't talk about that.

Following on from Ben's issue, Ben, I thought it was raising a good point because that's the concern I've got is that you've really stepped up availability in the last 2 years. Your inventory, your long-term inventory, particularly of luxury is really strong, very strong '24. Obviously, another very strong '25.

So now for the first time, availability is no issue. And that's stemming obviously, a large part of growth in '26, but more so in '27 and '28, which is where my concerns are. Because when I look at that China update chart on Page 19 that you've talked about and when you spoke about a little bit in the U.S. where shipments are exceeding depletions, we have a DAOU slowing down, which is Tommy's point, who knows, you talk around that. But I am worried there's some structural headwinds now.

You talked about headwinds, but there's structural headwinds in demand. I'm not sure it's structural. I don't know if it's structural or whether it's cyclical, but you're now very long supply. I know that you've got an opportunity to fill the channels that will guarantee sales. But what I'm worried about is your depletions seem to be softer than what you're expecting. And that worries me in the '27, '28 and '29 years.

So can you go into a little bit is to convince us that these are cyclical moments because if it is cyclical, you'll come through this balance sheet in great shape. You were the only wine producer with luxury wine on your balance sheet, which will be fantastic. But if it's structural, you're going to be with an overhang with distributors full to the gills and that's not good. So can you give us a bit of an update as to whether you think it's cyclical or structural? And because what I worry is your margins are very high and to Ben's question, really, which is where he's going at, I think I don't want to speak for Ben, that these high margins won't be sustainable if there are structural shifts and you've got a long supply of inventory.

So if you can go into that because the margin issue, particularly in China, but also the U.S. is which – where I'm concerned, and it's more in the '27, '28, '29 years.

Tim Ford

Yes, fair enough. I understand that. And I also will miss you, too, David. And I do have a framed picture of the dooggate my homework headline as well that I will take with me and reminisc on over the years as well. But – so the any question is sort of you step back and we always on these calls, focus on – and focus on the challenges in the business and the bits that aren't in line with our expectations.

So we spent the majority of the call today talking about a slice of the China business that has had a 2-month period of some softness, number one. And we talk about a U.S. business where, yes, we've got some challenges in the California business.

I think we've outlined largely not driven by ourselves, but the challenges we face into and we'll sort through. You look outside of that, you go, okay, China business outside of that soft area around banqueting occasions and those sorts of things, really, really good, really strong, really what we expect to see. All other Asian markets, really, really strong, what we expect to see in line with our expectations. Australia, the same. So Penfolds you sort of go around the globe and you go, okay, that's what we want to see.

And that gives us confidence and that gives us absolute confidence that the future inventory we have will be absolutely the right level of inventory for us to continue to fuel that growth. the U.S. outside of California, yes, the shipments were ahead of depletions for last year. 100,000, 200,000 cases backwards and forwards, whether it be below or above is pretty normal on an annual basis at that point in time, which you then reconcile. And you look at the growth we've seen with DAOU outside of that California market that we've got in the disclosures today, it's really performing very, very well.

So all of that said, my answer is those 2 issues are cyclical. The structural change that we gets talked about a lot, luxury wine above $20 continues to grow everywhere around the world. We've got – had a period of time in the United States in the last 6 months where the growth slowed, but it's still growth. So again, it's the most attractive part of the wine category and consumers are continuing to premiumize. So that is a structural shift. And that is a structural shift that we've spent the last 5 years reshaping our business quite significantly to be able to be set up to take advantage of that, et cetera, as well.

So all that said, hopefully, the headlines of my answer are clear, which is 2 slices of our business that we're monitoring closely, one we're navigating through in California, and we'll do that. It will be a bit noisy for the next few months, but we'll do that, which to me says they are cyclical and we're well positioned where the structural headwinds are happening in this category. We are positioned to take advantage of the positive part of this category still, which is not all of them. The lower price points are structurally challenged, and we know that. And that's why we've actively been trying to reshape the business towards the higher-priced wine. So it's a bit of a fulsome answer, but hopefully, a clear one.

David Errington

So you reckon you'll be able to – it's not a structural thing that's going to damage you and your long-term margins. It's something that you're just going to have to work through and there will be a cyclical uptick in a couple of years when luxury starts picking up when the consumer picks up. Just to summarize your words, is that what you basically what your prognosis is? Is that what you're saying?

Tim Ford

It's in good shape now. And then the cyclical issues we're going through, you would expect to improve. I think that's exactly what I'm saying to answer your question. The other point you make there on margin is important, right? So you think about our business model with large-scale luxury brands. We have this debate with people from the outside looking into us quite often, which is how can you have a luxury brand that's not niche luxury brand.

Our strategy is luxury brands of scale. The other one you get is, well, heck can you have a luxury brand, you can buy a bottle for $30. Well, for most consumers, $30 is a luxury wine bottle, right? So let's not market to ourselves when we come to that point.

So you think about it, we've got big brands of scale that have margins better than anybody else's that allows you to reinvest behind those brands with A&P and people ahead of what anyone else can do. That's how you take advantage of the asset base we have, the brands we have and the scale we have across multiple markets around the world. That's the future there. And that requires the inventory to fuel that.

So that gives us confidence that not only are we performing better today, but we have the funding and the margin structure to be able to fuel that going forward. That means consumers are buying your brands. They're not as price sensitive as well. So this – hopefully, it's all linked together. So that's our strategy. That's what gives us confidence it's worked to date, and there's no reason we don't see it work in the future.

David Errington

Tim, can I follow up with a question in the U.S. then? I've covered it for a long time, as you know, and we've always come to log aheads. You've never got California right. Now this is sort of like the dog eat your homework on RNDC exited, but you've never got California right where it'd be exiting, going direct yourselves.

What – if you can't get California right, you'll never get the U.S. right. And my confidence in you getting California right is obviously a little bit mixed at the minute. What is the problem there? What is the issue with California? And do you need to do a strategic review of your U.S. business? Like is there something that you need to have a play around with or something there? Because I just fear that if you can't get California right, you're really going to struggle in the U.S.

Tim Ford

California is an important market, and there's no doubt about that. The reality is, would we – do we want the change that RNDC decided to make in that market? Did we plan for it? Is it a headache we could do with that? Absolutely. Is it noise? And does it create uncertainty that in our minds, investors' minds, et cetera? Yes, it does. So I accept that. And it is another problem to deal with, as you say, in California. It is a big part of the market. But if you just let me go up a level on California, BBG will deliver in California.

RNDC were delivering in California. Clearly, they weren't having the financial structure for their business, and then they lost a number of other spirits contracts, which is public, and that's what drove their decision to where they got to. But they were delivering in California. Our business in California in the last couple of years was performing well. So this isn't the case that we've never had that market humming. That is certainly the case. So I think that's important to understand. But yes, they're all points in time.

If we step back right to the Treasury Americas business, and this is my part in summary of why we disagree David, over the last 5 years, I suppose, and I'll try and piece it together. If you go back 5 years with our Treasury Americas business, I was having to look at it last night, and Doug wasn't with me, but I was just having to look at it last night in terms of what have we done in the last 5 years because you got to be careful you don't mark your own homework with these things, too.

And our business in Americas, when we exited the commercial wine brands 5 years ago, delivered – if I'm right, about $140 million EBIT, right, when you take out those commercial wine brands, I think it was the number. It could be $130 million, $140 million EBIT at 12% margin, 12%, 13% margin. It now delivered this year $310 million EBIT at a 26% margin. Now I know that, that has – we've invested capital to achieve some of that growth. We've also sold a lot of brands and sold a lot of assets that funded some of that capital as well. But just if you look at those headline numbers, we've got to deliver on the capital that we've invested, it's a pretty good story from an earnings perspective, from a margin perspective and also at a very similar NSR level, I think, is the fact.

So I'm sure you'll pick a number there haven't got exactly right. But that directionally, I sit back and say it's the world's biggest luxury wine market. We have the #1 luxury wine business that is now making double the earnings it was 5 years ago at double the margin.

That's – yes, we've had some ups and downs on the way through. But to me, that feels like we've actually got a platform there that's pretty successful. And California in the last 12 months has caused us some grief, no doubt. But we'll work through that and continue to drive that growth. And so that's why I disagree with you, I guess, on the assessment of our Americas business. I don't want to have the final word of our debate, so I'll let you have that.

David Errington

No, no, no, I just enjoyed, Tim, and enjoyed your answers. They've always been thorough and professional and you don't take things personal, which is a great credit to you. And you know when to agree to disagree. And thank you very much, and I think you've been a wonderful CEO, and I wish you all the best in the future.

Tim Ford

Thank you, David. Appreciate it.

Operator

Next question comes from Richard Barwick with CLSA.

Richard Barwick

We have a tough act to follow with David there.

Tim Ford

What are you going to launch with?

Richard Barwick

No, no, no. I'm sort of picking around the edges a little bit here. Just digging in a bit more of this $50 million, Tim. So just I want to be clear, it sounds like there is a little bit of a cyclical element to even that $50 million because you sort of indicated the breakthrough, recognizing the softer market, and so they've sort of set their numbers accordingly.

So – but then implicit within that, there sounds like there's also a structural element to that. So I just want to get a sense of that. Like how is this – some of that $50 million sounds like it's a permanent step down. So I just want to clarify that. And then from a brand perspective, obviously, DAOU is the biggest brand. But if you think about which brands sort of over-indexed to California, would that be DAOU again? So it's sort of like DAOU would be by far and away the biggest brand that's sort of hurt by this $50 million.

Tim Ford

Yes, I'll take the first bit and then I'm going to get Ben to answer the second bit of it. Otherwise, he gets off the hook on the call. Yes, I think you should think about that $50 million NSR as a rebasing of the California arrangements, right? So that's not a one-off, so to speak, if we look at our plans over the next fiscal years.

Now clearly, you come into these agreements, that's the base agreement for growth we have with Breakthrough Beverage Group. And as everyone knows, with these distributor relationships, we have – we want to over deliver those, and there's different incentives to do so. But that's the base business that we're prepared to call at the moment. So that is something that you would roll through from a California modeling point of view, a better way to put it and a TAM modeling point of view. Ben, do you want to take the California brand?

Ben Dollard

Yes, sure. Thanks, Tim. Richard, thanks for the question. Look, I think like many California brands, our backyard and our home is a very important market, and that's no different with DAOU. So when we acquired the brand, DAOU had a very strong penetration in the state of California. And you may recall, one of the biggest opportunities for us was to expand that distribution outside of California.

So I think in that regard, the comments we made earlier, we feel very confident in what we've achieved to date with greater runway ahead outside of California. And so then when you think about how we're going to move forward here, and I think we've talked about the performance in this past period, and we're not satisfied with that in the state of California by any means. That said, in the state of California, and I'll really talk about DAOU and also Frank Family, as we transition to BBG and the conversations and the engagement we've had with them, there is a material opportunity, distribution opportunity in this state.

And I'm very confident in our relationships with our retail partners here. But then outside of national accounts, strategic accounts, our on-premise and independent retail channels continue to be a significant opportunity as well. So yes, are we heavily penetrated with Dow in the state of California? Yes, we are, but with significant opportunity still to grow. So in that regard, that's where we're focused. That's where we're spending our time and effort with BBG now as we transition and we'll continue to focus also outside of California because we've proven that, that's a successful recipe.

Tim Ford

Rich, I'm going to – thanks, Ben. spot on. And this is going to make Bijan happy because to understand what this transition word means for California, right? So yes, we're shifting distributor. The distributor has their sales force, the distributor has their warehouse and they have their delivery trucks.

So we are not shifting the accounts that we already have in California where our distribution is significant. What we've had in terms of the last 12 months of the performance through RNDC is a slowdown of velocity through that distribution. So we actually haven't lost much distribution at all through that period of time. So we're not out there seeking new accounts through this transition. Don't get me wrong, we've got to train a new sales force and all the rest of it with Breakthrough Beverage Group. But that's – we've done that nearly every year, I think, for the last 5 or 6 years in some state around the country.

So we're pretty good at that. So this transition risk that might be in people's minds is not a risk around we've got to go and build new distribution, and it's all based on what the numbers might look like. It is literally a physical truck that's got a different brand on it and a new sales team going in for the next building out of the velocity in those accounts, supplement them with our own people as well. So there's always disruption with the change, but hopefully, that gives a bit of color for those that are thinking what does this transition actually mean.

Richard Barwick

Well, that sort of goes to the next question, Tim. Obviously, you're talking about what you might be able to do around mitigating the earnings impact. And I understand, obviously, if you're negotiating with RNDC, and there's a whole bunch there you can't talk to. But outside of that sort of negotiation with RNDC, are there other actions you can take as well?

What – I mean, what things are you talking about, if you can to actually mitigate the earnings impact? Because all else being equal, I would have thought you'd go $50 million times the GP that you would make on those sales, and that would relate to an earnings impact. But I'm not certain I'm thinking about it the right way.

Tim Ford

No, if there's no mitigation, then you are thinking about it the right way. But clearly, we're not going to just say, well, that's a change to plan and the way we go. one, because we expect to be compensated for that through our negotiations, number one. But two, there's a self-help program here, too, right, which is you've now got an adjusted shape of your P&L that Ben and the team have to work through to make sure we've got the right investment levels. We got the right resource levels, et cetera.

And you have to adjust those things within your business over the course of the 6 months to mitigate that as well. won't mitigate a lot of it the self-help program, but it will help assist to make sure we deliver on our promise we're seeking, which is we don't have earnings impact of this.

Richard Barwick

Okay. All right. And then just a question for Ben.

Tim Ford

— ***indiscernible*** — for 3.

Richard Barwick

Well, it's all the related. The – I'm taking it less time in Arrow, you've got to admit that. So the – if you look at the other U.S. brands, so you sort of called out Stags' Leap and BV, you got NSR down 10%. Clearly, they're underperforming the market because you talk about the luxury market being up a bit over 2%. What's going wrong with those brands as a collective? They're about 1/3 of the U.S. luxury market. We all get lots of focus on DAOU, lots of focus on Frank Family, and they're sort of doing okay. But the other brands as a collective, yes, what can you tell us there? And why are they performing so badly?

Tim Ford

Ben is very well placed to talk to that. And over to you, Ben.

Ben Dollard

Yes, sure. Look, very clearly, we've been focused on DAOU and integrating now over the past 18 months and the ongoing effort we've had against Frank Family and the good success we've had with that. I think as we came out of a number of years of reduced supply, certainly in the 2021 vintages, we did take pricing on those brands, and we took pricing fairly broadly across the whole country, and particularly on Stags' Leap and Beaulieu. So we are seeing the implications of that. The good news is we are reacting and will continue to position those brands where we believe they're going to have the greatest velocity. But that area specifically is something we're monitoring very quickly.

I will say also as part of our ongoing – we've seen a similar softness in some parts of our DTC business that's consistent with what we've seen in some parts of the market as well. So we're very focused on our direct consumer engagement as well. But both brands play a really important role in our portfolio. I think as Tim has described, as we get more focused now against our luxury portfolio, and we've got very much a very significant investment around our sales organization and how we're going to execute.

So I have confidence those brands will rebound as we move forward here, but they've really been implicated in how we've approached our revenue management and pricing.

Operator

The next question comes from Bryan Raymond with JPMorgan.

Bryan Raymond

First one is back on – just on the U.S., just to clarify. Is there any material change to distribution reach or terms in California as part of the change contributing to that NSR and EBIT impact? And also, is there any other sort of broad disruption or dislocation impact as you do the transition, given that $50 million sounds like a bit of a – you stated clearly it's a rebased down. Is there anything over and above that we should be thinking about for '26, specifically as you transition?

Tim Ford

Not at this point. not at this point. It's – yes, that's a pretty straight translation of the future demand from a depletions point of view rolled through our P&L. So from that perspective, I think right now with what we know, it's the right level of information to have, Bryan.

Bryan Raymond

And sorry, just on the first part, just on distribution reach and terms. Is there any different – material difference there between breakthrough and RNDC?

Tim Ford

Ben, you're probably best placed to answer that because I don't have the detail in my mind.

Ben Dollard

Yes. I mean in terms of – if I'm clear on your question, is it around capability between the 2, just for clarity?

Bryan Raymond

Well, capability, but also obviously, RNDC, I think, had a bigger starting there in the Californian market. And if – are you reaching as many accounts as you were before? And is the distributor terms that you – that you've agreed to broadly similar? Should we expect any sort of margin impact or sales impact from that as part of the – either as part of the $50 million? Or is it more just the market, as you've said, around California and a bit of a rebase down.

Ben Dollard

Yes. So I'll start with the first part of your question. And with regards to capability, I've been really encouraged with the approach that BPG has taken to the California market. They acquired an organization that has been in business here for a very long time with significant luxury capability. And that luxury capability transcends the on-premise independent and chain.

So with regards to our ability to execute, I'm very confident in terms of our partnership with BPG and how we might think about transitioning. It's exactly what Tim said with regards to their capability, their logistics, trucks, warehousing, relationships with retailers and to service our existing base of business. Again, this is a transition that we've done many times across the country, and I'm confident we'll achieve a smooth transition here over the next period of time.

With regards to the second component, we're not disclosing terms or specifics with regards to the contracts that we have with BBG. Outside of that, I'll just say that we're very much aligned around the aspiration we have for growth.

Tim Ford

You got to remember, BBG, obviously, we operate with BBG today in a lot of states, including Florida is one of the really big ones. So yes, they're not new – it's not a new relationship. It's not a new way of working. It plugs into how we operate nationally with them at the moment. So I think it's a smooth decision from a transition point of view, no doubt about that.

Bryan Raymond

If I could have one just on China, if possible. Just on the 15% Penfolds growth, just whether there's any – I know you've been confident around pricing in – certainly in the near term. Given the uplift in volume, the softness in depletion – sorry, softness in consumption patterns and the e-com situation with parallel imports. Do you – have you built in any upper case declines or any pricing – underlying pricing softness into that 15% growth expectation in '27, please?

Tim Ford

No.

Operator

The next question comes from Caleb Wheatley with Macquarie.

Caleb Wheatley

Tim, — ***indiscernible*** — comment on your tenure, and all the best for the future.

Just a half on the China Penfolds situation too much, but I guess, clearly, the concern is that a very important release in 4Q '26 and you've got shifting consumption habits as it stands today. Just on there was a comment that you still have some other levers to pull. Just if there was a scenario where sort of progressing throughout the year and perhaps those consumption habits are still impacting completions or demand, partly shifting into '27. Can you just give us a bit of a flavor for kind of what levers you might look to pull to shore up sales or earnings over the medium term?

Tom King

Yes, for sure, I can take that one, Caleb. Obviously, early days in the year. So we're looking out now for another 10 months of the year. And whilst the plans are locked and loaded, we've got the ability to adapt plans throughout the year. And that includes how we invest our A&P, the extent to which we invest the A&P behind different activities and where we do that. Clearly, at the moment as well, as we've said that the rest of our markets in Asia come into the year with historically low levels of inventory. So there is demand already building outside of China, and that's the case right around the world.

So it's a combination of activation levers, reallocation opportunities, but also how we go after new opportunities within the China market in terms of new consumers. Aside of any headwind that we're facing at the moment, our plan in China was always to recruit new consumers right across our target demographic, which is a very balanced demographic. – that consumes Penfolds across multiple different occasions and is a very relevant brand for those consumers.

So we won't be changing our ambition and our plans to go and recruit new consumers and supporting that through building new distribution partnerships and often with baijiu distributors who are seeing increasing opportunity for wine as a portfolio play, but specifically within wine for Penfolds. So there's a lot of tailwinds in our favor at the moment as well as the specific headwind that we're facing around part of our business.

Tim Ford

We've got to all remember, we've only been back in that market for 12 months. in a meaningful way. And you think about the playbook Tom outlined over the last 12 months around we have a certain amount of wine, then we can start the next phase of building distribution and we can get more channels, et cetera, et cetera. There's still a lot of runway aside from the slice of the business that we've seen had a 2-month period where we've seen some softness. So that's what – that's the color that gives us the confidence. But thank you for what you said, too, Caleb.

Operator

The next question comes from Shaun Cousins with UBS.

Shaun Cousins

Just on the China, the size of large-scale banqueting, could you sort of compare that to the other comments you've made, which were smaller scale businesses and lifestyle-oriented occasions? Can you also just say what lifestyle-oriented occasions mean? Just trying to get an idea around the relative sort of importance to your business across large-scale banqueting in these other areas, please?

Tom King

I'll take that one, Shaun. Very hard, as I said at the start, to put a number on it in terms of the share because these are specific occasions. We know that banqueting and large-scale banqueting is an occasion that – where Penfold plays a role and it is relevant across our repertoire of occasions. Lifestyle-oriented, I guess, is more focused on personal consumption, social consumption, which, if I think about our consumer demographic, think of the new luxurian and the status connoisseur, these are the occasions and the demand times we call them that we're now going to be focusing more heavily on. So I can't give you a specific number. But as Tim said, it's an important relevant channel for us, but there are many other important and relevant channels to us in China.

Shaun Cousins

Great. And maybe just for the Americas for Ben. Just the second half Americas EBITS margin on the heritage way of looking at it was strong at 28.4%. That's up from 24.6% in the first half. Conscious there are synergies there, but I'm just curious, given synergies build, would you expect margins to expand first half on second half, second half on – second half '26 on first half '26? Just curious around the key drivers of the Americas sort of really strong EBITS margin performance, was it temporary? Or is it enduring?

And maybe more broadly, maybe for Tim, the market, you didn't have quite an upbeat view of the U.S. Your – arguably, that's not shared by what – the way your current share price is valued. What – further, I think Dave's question around doing a strategic review, but could you not sort of possibly consider a review to exit that market as that might be a way to realize more value to shareholders because it's not being incorporated the leading position you have in the Americas and the attractiveness of that market doesn't appear to be appreciated or reflected in the current share price. So 2 components there on the Americas, please.

Tim Ford

Yes. I'll take the second one and let Stuart can come back on the half-on-half, prior year, prior year stuff because Shaun and I often get that confused. You are 100% right that there is no appreciation or likely value built into the way investors have seen the Americas business as part of Treasury Wine Estates, which whilst frustrating, et cetera, we've just got to continue to perform. We will continue to tell the story of what the performance has been of that business. There's always noise around it. And this California distribution chain, it doesn't help, Bob, so I get that, 100% get that. But making sure that all investors are clear of the business we've built there and the position we have in that market.

Now it's probably not right for me to comment on what future strategic reviews or structural options exist, but I think – because obviously, that will be for Sam and the exec team with our Board to discuss that because, right now, we're running the business the way we run in the business.

The important part I'd say is though we have now got 3 very clear and separate divisions within Treasury Wine Estates. Our TAM luxury business focused on most core 5, 6 brands to take advantage of that position we've built and bought and built. We've got Penfolds – has been stand-alone now for a number of years; and Treasury Collective. And it's a pretty big task from a separation point of view, we've now achieved. So without preempting any future decisions, what we have is a structure this organization where it would provide future options to unlock value should we not be appreciated by the market, which is not today. We are not getting that. And that is something that we can't sit here and accept. I know the management team doesn't. I know the Board doesn't. I know the future team won't do that because I'll always look to unlock shareholder value, and we have not achieved that with our American business.

So that leaves the door open without making a decision. We've got to continue to deliver on our objectives there and our commitments. We missed them in the last 12 months. And that's hurt us. We missed by a bit, but missing is missing, and we got to take accountability for that. So yes, hopefully, that's the first half of your question, then I sort of added a bit of tie right to the end of it. But anyway, that's felt better. Thank you, Shaun.

Stuart Boxer
So to come back to the first part of the question, Shaun. So the improvement in margin in the second half was – you've pretty much hit it on the nail on the head there in terms of the flow-through of the increased synergies through that business, together with some benefit of slightly improved vintages outcomes as well as we transition across vintages. So those benefits are benefits that we would expect to sort of stay with the P&L as we go into '26. Obviously, there's a lot of other things happening in that business in '26. But if you just sort of look at that particular aspect of it, extending any other components they should flow through, I can't give you a half on half one, I'm just thinking on a full year basis.

Operator
Our next question comes from Phil Kimber with E&P Capital.

Phillip Kimber
Just a question around the customer inventory holdings below historical levels, sorry,

outside of China. Can you give any sense of magnitude of that? Are they 10% below? 50% below? Just to pick some sort of hypothetical numbers there?

And also how that fits in with a world where there has been destocking in alcoholic beverages. So just if we can explore that a little bit only because that's one of the leads you talk about. Should these initial trends turn out to be a little in – banqueting turn to out to be a little bit more sustained?

Tim Ford

Yes. Thank you, Phil. And I think you know I can't give you percentages. But to give you a bit color there, when we say historically below, they're not just below. What historical levels have been that you would normally have in these wholesalers to support the growth plans they have. And you see the depletions performance in these Asian customers are pretty significant, which would require a fair bit of inventory to continue to fuel that. So there is space in the shed. There's no doubt about that from that perspective.

And I think when you talk about one of those levers, the reality is our customers want the inventory, they want inventory and they're prepared to invest their cash in that inventory when they can turn that around and make margin out of it pretty quickly. And this comes back.

This is a really key part of the Penfold story and margin structure that allows us to do this is that our wholesalers make more out of this brand than what they do out of all other brands. And we know that for a fact. So for them, the incentive for them to invest in inventory, invest in resource to drive their cash flows is a really core part of the strength of the Penfolds brand.

So that's why their desire is there for them to take extra shipments. When we get to the point we have the one available, we'll satisfy that. We're managing it pretty closely, so it's not necessarily limiting depletions too much, but over time, it may well do so. So that's – without answering your question directly because I can't give you the number or can, but I wouldn't that, hopefully, gives you enough color to build out your thought on that one.

Phillip Kimber

Great. And can I ask another glass half full question on Slide 21, the demand power of Penfolds. What jumps off the chart there is U.K. and U.S.A. Much, much lower than the other regions. I mean, why do you think that is the case as to why it's so low? And then obviously, it's a massive opportunity if you can improve it.

Tom King

Thank you, Phil, I'll jump in on that one. And that's exactly the way we're seeing it as a big opportunity. The relative level of demand power in those markets is behind the other 6 markets on the chart there. And it's a factor of brand life cycle and the journey that we – the Penfolds has been on as a brand.

Certainly, over the last 5 to 10 years, a lot of our focus and investment has been across the Asia Pacific region. Latent brand equity in the U.K. and the U.S. has been there for many, many decades. But now is the point in time where we're starting to lean into that actively with investment and resource to lean into that and grow that demand power. So I don't see it as a negative that they're much lower than those other markets. I see it as a sign of where the brand is on its life cycle, and like you said, a chance to improve and grow and drive that number higher.

Operator

The next question comes from Sam Teeger with Citi.

Sam Teeger

From reading the materials and listening to the call today, it does seem that the company is incrementally more concerned with China e-commerce below market pricing. But a year ago, the company said it was taking the necessary steps to address it, and it was only 5% of volumes. So we're encouraged not to focus on it too much, but perhaps it's harder than expected to control. Can you help us understand, please, how the initiatives that you're flagging today around allocation and revenue management compared to what you've done previously? And do you think you can ever nip this issue in the bud?

Tom King

Thanks for questions, Sam. I'll take that one. And yes, you're right. Look, 12 months ago, we were hoping to be here. We're now at a point where we wouldn't be facing this situation has been a persistent challenge. It's very frustrating disappointing for us, but also for our partners that this – there is a parallel product that continues to disrupt through low pricing in e-commerce channels. It's been probably a bit more difficult to manage than we had expected. But F '26 marks the point where we're really taking a much more proactive approach to intervening to ensure that this situation resolves itself as quickly as possible.

Ultimately, for us, it is a point of frustration. I would still reiterate though that our partners in China are still making money off Penfold despite the fact that there is lower price available in the channels. We're reinforcing, at a consumer and customer level, the importance of buying through authorized channels and customers. And then some of the more active steps that we're taking to control the channel will be moving away from certain customers and accounts that aren't giving us the real visibility of where product is going. So we're going to be enforcing that pretty strictly. And the revenue management side of things, that's – I think that's a pretty clear one that we'll be able to control. Where we don't have 100% comfort on where product is going, we control that through price levers.

Tim Ford

Okay. Thank you, Tim. Thank you, everybody. I think we've got through the questions, and we appreciate you all joining us. It was a long one, but hopefully, an informative one, and we look forward to talking to a number of you one-to-one over the next few days. Cheers. Thanks all.

Tom King

Thanks, everyone.