Status update
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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Treasury Wine Estates Update Call. — ***Operator Instructions*** —

I'd now like to hand the conference over to your speaker today, CEO, Michael Clarke. Thank you. Please go ahead.

Michael Clarke

Thank you, operator. Good morning, and thank you for joining today's call. Joining me today is Tim Ford, our Chief Operating Officer.

Before we run through the detail of today's announcement, I'd like to take a moment to reiterate that our #1 priority at this challenging time is health, safety and well-being of our global team, our partners and all family members, and we thank them for their ongoing commitment and support for our business.

You've heard us say many times before that our people are our most important asset, and that statement has never been truer than it is today, with our exceptional team ensuring that we continue to operate effectively and deliver for our customers, while at the same time, setting us up to be an even better, stronger business in the future.

Today's ASX announcement provides an update on the outcomes of a strategic review of our operating model, as we foreshadowed back in January. The review was on how we best focus on accelerating our premiumization strategy and manage our commercial business differently moving forward. Given the increasing impact, the trends in the commercial tier are having on our business, especially in the United States. We called out in January that our approach was moving – our approach moving forward was to continue to build momentum in our premiumization strategy, but with an acceleration on our separate focus on luxury versus commercial, along with a more simplified and focused approach across the business, while also ensuring that we had the right capital, cost and operating structures for our whole business.

As a result of the strategic review, we've announced this morning our intention to consider a demerger of the Penfolds business into a separate company listed on the ASX by the end of calendar year 2021. While there is still further detailed analysis to be undertaken, our initial findings indicate that a demerger of Penfolds will create incremental long-term value for shareholders. We believe that both Penfolds and the remaining TWE entity, or New TWE, as we will call it today, will be better positioned to pursue their own strategic priorities independently and deliver a stronger long-term growth profile once separated. One team will focus on driving the luxury Penfold multi-country of origin portfolio, which will include the Australian, French and Californian-sourced propositions, while the other team will focus on leveraging TWE's unparalleled, globally integrated platform to accelerate the mix shift towards luxury in New TWE, which will also involve right-sizing the commercial portfolio, something which Tim will talk to you shortly.

It goes without saying that Penfolds is an icon of Australian luxury with impressive margins and a significant growth runway in Asia and globally. Penfolds contributes only 10% of our volumes, but well over half our earnings with unique resources and a differentiated execution focus compared to the remainder of our business. For New TWE, we see an exciting opportunity to accelerate the growth runway of its portfolio of iconic brands through a step-up in luxury, focus, sourcing, investment and prioritization. We also believe that the transparency of a separate listed entity will enable investors to more readily assess the fundamental value of the Penfolds brand and its assets, something which investors might be overlooking when taking a short-term view.

As noted in the release, the demerger is still subject to detailed evaluation, along with final Board, shareholder and regulatory approvals, and subject to the stabilization of the market volatility and global COVID-19 pandemic. If approved, the potential demerger is expected to be completed by the end of calendar year 2021.

I'll now hand over to Tim, who will talk about the commercial structure and touch on our current trading performance across key regions in the face of COVID-19.

Tim Ford

Thanks, Mike, and good morning, everybody. As stated back in January, our priority is accelerating our premiumization strategy whilst simultaneously rightsizing our commercial business, particularly in the United States. Whilst our journey over the past 6 years has reflected a gradual process of steadily reducing commercial volume whilst accelerating our luxury volume growth, something which has delivered – we're going to have to put the call on hold. Apologies.

It seems like a fire alarm — ***Audio Gap*** — in our building. We'll put the call on hold.

Michael Clarke

Our apologies for that. There's no one in the building except for Tim and myself. But clearly, there's a fire testing drill that's gone on that we haven't anticipated. So apologies for that. Tim will start from the top again.

Tim Ford

I'll start from the top again. So we're used to dealing with new news on a daily basis at the moment. So that was one we didn't expect. So I'll start again, sorry about that.

So as we stated back in January, our priority is accelerating our premiumization strategy while simultaneously rightsizing our commercial business, particularly in the United States. Whilst our journey over the past 6 years has reflected a gradual process of steadily reducing the commercial volume whilst accelerating our luxury volume growth, something which has delivered a considerably stronger and more profitable business, we now recognize the need to act more quickly and decisively to achieve our end goal sooner. To do this, we will pursue a range of initiatives with a focus largely on our U.S. business. We will adjust our operating model and organizational structure to align with the future, reduce size and scale of the commercial wine business and to reduce our fixed overhead costs. We will restructure our supply chain further to improve our cost of goods sold. We will accelerate the reduction of the lower margin commercial tier brands. And we will divest or delete selected brands and production assets we have today.

The remaining commercial wine business, once this is completed, will comprise a smaller portfolio of profitable and differentiated brands and will leave us with a strong portfolio of compelling brand propositions across all price points. We will implement these initiatives in an orderly manner over 12 to 18 months to minimize disruption to business performance, minimize the associated one-off cost impacts and ensure benefits are not compromised by the current economic or capital market conditions.

So I'll move now to our trading update. Today, in our release, we have also provided an update on our current trading conditions across the key regions, noting that the backdrop remains very fluid, and we still have a fair way to go before we have a full picture of the financial impact of the current conditions.

In China, our staff are back working, as are most of our partners. As we called out in our February update, Q3 depletions and shipments were significantly impacted as a result of the nationwide shutdown. It's important to highlight that whilst consumers are getting back to work and socializing, to some degree, consumption levels remain subdued, although we are certainly starting to see some green shoots appearing. Our focus from here will be to work closely with our partners in China to restart operations through the remainder of F ’20, particularly ensuring that shipments are appropriately aligned to the rate of depletions as consumption rates normalize.

In TWE’s other regions where our employees are working from home unless involved in our operation sites, trading patterns have been relatively consistent across the regions, with strong retail depletions growth towards the end of Q3 as consumers stocked their homes in March ahead of higher levels of in-home consumption driven by the government-imposed shutdown periods.

We have also seen strong momentum for our portfolio through e-commerce channels across the globe. It’s important to highlight, though, that whilst depletions have been strong during this period, the strongest growth rates are being skewed towards the lower margin Commercial and Masstige portfolios.

In contrast to the retail channel, some of our key sales channels for the higher margin and luxury wines in our portfolio have been significantly impacted by the shutdowns, and these include our cellar doors and the on-premise and global travel retail channels.

Our supply chain operations continued to perform all functions in each geography, and we have had in place for some time now, heightened social distancing and hygiene measures to minimize the risk of disruption at our facilities and across all of our operations.

Our balance sheet remains strong and flexible, and we are well placed to navigate this challenging environment with approximately $1.1 billion of liquidity at hand as of the 31st of March 2020.

And finally, to reiterate Mike’s opening remarks, our #1 priority at this time is to ensure the health and well-being of our team and to safeguard the ongoing roles of all of our team members globally for the long term as best as possible. In order to do this, and only if absolutely required, we will look to adjust levels of remuneration across the board to reflect the underlying level of business activity and also any future changes to government requirements.

So whilst the external backdrop means that we are not currently in a position to provide detailed numbers or further guidance for F ’20, we do know that trading conditions are currently challenging and that our short-term profit will be impacted. But post COVID-19, and as consumption rates normalize, we have strong belief that the underlying longer-term growth potential for our business remains significant, and we remain well placed to continue our journey of margin-accretive growth.

So with that, I will open up to Q&A, noting that we cannot add a great deal more to what has already stated in the ASX in relation to the Penfolds demerger, the commercial restructure or the current trading environment. Cheers.

Michael Clarke

Thank you, operator.

Question and Answer

Operator

— Operator Instructions — Our first question comes from David Errington from Bank of America.

David Errington

My question is on Penfolds, obviously. To me, that’s – I mean I’ve been waiting 25 years to see Penfolds as a stand-alone, and I think it’s fabulous. But what is the challenges to being able to release Penfolds from TWE? Are there any incumbents’ challenges that would make it difficult? In other words, it’s too embedded in TWE. Or do you believe that it could be relatively seamless? And the second part of the question is, what value do you believe that would release in terms of – you mentioned being able to pursue separate businesses or separate growth strategies. And so what value do you think – because obviously, the demerger, we want to see it release value for shareholders, which means that being together at the moment is impeding value. What do you see as the key driver of this being able to create value by being separated? In other words, where do you see the Penfolds being able to pursue faster growth by being separate? And where do you see the existing business outside of Penfolds being able to grow even faster, being a separately listed vehicle? Hopefully, you understand where I'm going with that.

Michael Clarke

I understand the question. A couple of points. First point is, I want to reiterate that this is not yet a decision made. It's what we're considering. And the decision will be made at some time in the future and is subject to Board approval, shareholder approval and potential regulatory approval. But we don't think there's any regulatory issues, first point. Second thing is this is a relatively easy part of the business to demerge. It's a lot easier to demerge than the commercial business being demerged from luxury, which has been discussed on previous calls, and we addressed that in the Strategy Day back in September last year that we were not going to separate the commercial business from the luxury business. That would involve a lot of work. As I've mentioned earlier on the call, Penfolds is about 10% of our volume. It does operate through a different structure. It's very easy to separate. And we've already done the feasibility work, obviously, otherwise we wouldn't have mentioned it on the call today. So from a feasibility point of view, it is not difficult to do. It can be done. It is – it operates separately to other parts of our Luxury, Masstige, Commercial business and can be kept separate given future capital investment that's already been planned in our business that can actually be – that capital investment can be separated into investing in 2 different structures on a particular – on one site but can be separated.

Going to the, what does it mean for the future, it does unlock the potential for, as I said earlier, one team to focus on accelerating the growth of the Australian portfolio of Penfolds, but also accelerating the French portfolio of Penfolds and also the American portfolio. We believe that coming out of COVID-19, there is going to be surplus luxury fruit available in France even more than we said to you when we did the January updates, when we said to you the market and we gave you the January update. And remember, at that time, we talked about how we were going to address fixing our U.S. business, especially given the impact on the commercial side of our U.S. business as a result of the vintage and the potential transaction between Constellation and Gallo. But we reiterated the opportunity to further grow in Asia and other parts of the world, capturing more of a greater share of the French country of origin, consumption that takes place around the world. We know for a fact that our French competitors have struggled recently in Asia. They do not have an advantaged business model like ours, which drives cash conversion for our customers with pull-through programs. So I think we're best placed in driving the business on an accelerated basis in Asia, in particular, not just with the Australian portfolio, but also with the French portfolio. And we believe that there's going to be more luxury fruit available, assuming a normal vintage in Europe, for us to capture and drive an acceleration of the Penfolds French portfolio as we go forward.

I think there's also an opportunity for the NewCo or remaining TWE to capture further growth of luxury fruit that will be available post COVID-19 in markets like Australia, New Zealand and other sourcing geographies. And clearly, if you look at the portfolio that the RemainCo or New TWE will focus on, that will be brands like Beaulieu Vineyards, Stags' Leap, The Stag, Beringer, 19 Crimes, Beringer Brothers, Lindeman's, Sterling, Matua and Seppelt, Pepperjack, Wynns, Lindeman's, Wolf Blass, Squealing Pig, the list goes on. It's a very, very strong portfolio of Luxury and Masstige brands with some focused commercial brands that NewCo or remaining TWE will be able to focus on. It's a very strong portfolio that will be able to get access to luxury fruit, luxury juice to accelerate the growth of those other luxury brands under New TWE. And then with a separate team focusing on that, you're effectively doubling up the resources to go after those growth opportunities of luxury growth for Penfolds, multi-country of origin sourced and Luxury and Masstige growth for the NewCo portfolio.

David Errington

That's compelling, Mike. So you let the cat out of the bag. There's no going back now. So I mean you said it's pretty easy to do.

Michael Clarke

It's still subject to approvals and it's still subject to finalization. I want to make sure we remind everybody about that, please.

David Errington

But you're saying it's easy to do, so it's not hard to do. There's no impediment. So there's no structural reason why it can't be done.

Michael Clarke

Thank you, David.

Operator

Our next question comes from Ben Gilbert from UBS.

Ben Gilbert

Just had a question around – I appreciate you've got a strong portfolio ex Penfolds, and I'm also of the view that the bundling is pretty substandard in the FMCG world, but you obviously do leverage Penfolds in terms of driving penetration of some of your other brands into Asia in particular and, to a lesser extent, Australia. I'm just interested in your thoughts around any sort of negative impact around penetration of brands, let's say, NewCo brands into Asia in particular and, to a lesser extent, Australia, if you were to proceed with the demerger.

Tim Ford

It's Tim. I certainly have the belief that the strength of, call it, the New TWE portfolio as a stand-alone portfolio, given that it is driving different – driving and meeting different consumer needs, in particular, which is where we start with how we do drive each of our brands and priority brands in the portfolio will stand up on its own. I don't believe the impact or as you referenced, I guess, the leveraging of Penfolds is as significant as maybe some people think. Our brands that are growing in numerous markets at the moment are doing so in their own right, meeting the different price points and the different channel needs that we have across the globe.

So certainly, from my point of view, the next phase of growth for the TWE or New TWE brands is best situated as a stand-alone company separated to Penfolds to allow us to drive that agenda with those brands themselves. Same with Penfolds. And from a Penfolds' perspective, our next phase of growth for Penfolds is focused on multiple tiers of Penfolds and multiple countries of origin. And actually having that separate focus, separate resourcing the investment that's required behind that, we absolutely believe, and I absolutely believe, is the best way for us to grow the full portfolio we have today across all of our markets.

Michael Clarke

I think if I can build on Tim's point, I think we have consistently told the market that we have a strong portfolio. Yes, Penfolds is a large part of the business in Asia, but we do portfolio selling, and we work with our customers in Asia on their brand plans across the portfolio, and they do buy across the portfolio. Often, people have made the comment about bundling because people don't find a challenge. We don't use bundling to sell to consumers. We sell a portfolio across multiple different partners. Hopefully, the statement we're making today reiterates that point that we feel very confident about the remaining portfolio and their growth. In the run up to Chinese New Year, and this goes back to the results announcement that we did at the half year, we had tremendous depletions growth rates on Beaulieu Vineyards, on Maison de Grand Esprit, on Wolf Blass and other parts of that portfolio in Asia, in addition to, obviously, good growth rates on the Penfolds portfolio, very good growth rates on that portfolio. And that's being managed across the portfolio. That platform can further be accelerated beyond Penfolds. The New TWE platform can easily continue to grow, including brands like Matua, 19 Crimes, obviously, Rawson's Retreat and other brands in our portfolio, especially as the trade war between America and China hopefully comes off. Some of those American brands can also be part of the portfolio again. They were part of the portfolio before, and they can be part of the portfolio going forward. Not to forget the French portfolio of Beaulieu Vineyards and Maison that will also grow on a separate platform in Asia.

Ben Gilbert

And just very final follow-up on that. Would there be any plans to have any sort of joint distribution agreements between – I understand this is hypothetical, but between Penfolds and NewCo? Or would you see them being completely separate at all levels?

Michael Clarke

We're not going to go through distribution agreements on this call. There's optionality for both businesses to leverage each other's infrastructure or to operate independently, whatever is best for that individual business. But to help you in your thinking, one of the things that clearly we've put in place in recent years that will be leveraged as we go forward is the global business services where we have one integrated structure that does all back-office work for all our markets around the world. I think it's important for everyone to think about our business in combination of our people and our brands, but then also equally importantly is our platforms and our business models. And very often, people forget the platforms and the business model. The platforms is, as you've hinted already, the distribution models that we've got in place, which includes self-distribution in many of our markets around the world. But also the other business model we've got in place is global business services, which is a back-office infrastructure that drives efficiency, effectiveness and lower cost models in driving both businesses going forward. It does it today. It will provide both businesses going forward. It's probably the mindset you should be thinking about.

Operator

Our next question comes from Richard Barwick from CLSA.

Richard Barwick

I just want to ask why now, and I'm surprised at the level of detail that's actually missing from this announcement. When you're talking about effectively an internal demerger of commercial, you'd come back to the market before August. I'm just surprised that you're delivering a 4-page release here and then includes the details on Penfolds. And correct me if I'm wrong, but it sounds like this is it, this is the update. We're not going to get any more details re this sort of desizing of commercial until the August result. It just feels and looks like this is quite rushed.

Tim Ford

Yes. Okay. Richard, it's Tim here. I think that we committed in February – in January and then also in February that we would come back and inform the progress we've made around the strategic review. So that was quite why we made that commitment, and I wanted to stick to that commitment.

The second part of it is that there is a significant number of changes that we now need to go through. Now we have announced this, in particular, a significant amount of work we need to go through, not just on the Penfolds demerger work or potential Penfolds demerger work, but clearly on the restructuring of the business focused in the U.S. over the next period of time. And that requires us to go through a process and doing the right thing by our people, our customers, our suppliers, to ensure that we can have open dialogue and more open dialogue with them around the implications of that. So for us to go through that process, which is very important that we do that in the right sequence, we felt the need to come out with this update for the market and for the investment community in particular, but also to then allow us to get on with the work that we need to do over the next couple of months in particular, before we get to August, at which I would plan to give a more detailed update around our progress, clearly on both of those initiatives.

So I apologize if there's a need for more detail. But hopefully, that answers why we've come with this level of detail now. And understand that I'm not planning to speak in any great detail on numbers, et cetera, until we get to that point because we do have to go through the right internal management processes to implement this effectively.

Michael Clarke

I think, Richard, if I could build, it's anything but rushed. I think as most people who follow our company know, we constantly work on different options on how we will run the business, how we'll manage the business and how to deliver the best return for shareholders and everybody who touches our company. So we've constantly been working on a range of different options, which has included a demerger of Penfolds on the list of potential structural changes as well as demerger of commercial, divestiture of commercial, all the different options you can think of. We've run all those scenarios with our Board and gone through all those historically.

So number one, not rushed. Number two, since we updated the market in January and February, we've told the market we're going to come back and tell you what we're going to do. We're telling you the headlines on what we're going to do. We have detailed plans in place for everything that we're talking to. Clearly, internally, we know numbers, we know details on what we're trying to achieve, and the work has started on all these things. So given that the work has started on cost-out shrinkage of the commercial business to potential disposals, potential Penfolds demerger, there's a lot of people internally who are working on this. There's a lot of people externally who are helping us work on this. There's always the chance of leak. And so therefore, you'd rather get this out before anything leaks, and therefore, you can control the agenda.

With regard to providing more detail, people always would like more detail from Treasury Wine Estates. We have a distinctive advantage versus our competitors, whether they're private or listed. Private wine players don't share details. And the big listed players, globally, also don't share details because their bigger businesses happen to be beer or cannabis or tobacco, and so they don't get into the detail. We tend to be the ones that always give the detail.

As we go through these changes, it affects our employees, it affects our partnerships, it affects how we're going to run the business. And as we put those things in place, we will come back to you and tell you how we're progressing on all of those items. And the best mix to check in, you're correct, is when Tim will brief the market on the full year results in August.

So not rushed, well laid out, lots of work going on, tons of work going on, lots of people involved, don't want leaks, want to control the agenda and don't want to share things in advance of competitors knowing what we're doing.

Tim Ford

I think the last comment I'd just add would be when we spoke in January to the market, we did declare then that we were in the process of undertaking a strategic review. So this did not start at the end of January. We had already done a significant amount of work leading into that period of time. So it has been a number of months culminating in what we're announcing today.

Operator

Our next question comes from Larry Gandler from Crédit Suisse.

Larry Gandler

Next questions. Okay. So first one for me, guys. Let's start with the production. Tim, maybe if you want to jump in here. The Penfold myth has always been that it took the best of the best from the world-class vineyards, the Wynns vineyards, Saltram, et cetera. So how is that myth going to change? How are – how's Penfolds going to source fruit perhaps if it's being merged? Or maybe you could just talk about it as it stands today.

Tim Ford

Yes, sure, Larry. I think one of the real benefits, as we've thought through, how do we grow both the Penfolds business over the next 5 years or – and/or 5 years plus and how do we grow the rest of the portfolio? You touched on one of what I would say is one of the competing constraints within the single TWE business today. And whilst there is a significant amount of fruit and vineyards allocated and grower contracts, et cetera, allocated to Penfolds as well as the other brands, by separating these businesses, then both businesses will compete for the opportunity to source fruit, for acquisition of vineyards, the acquisition of bulk wine that we'll source to fuel their growth going forward. And I think that's one of the great opportunities that both businesses, particularly the New TWE, will have to continue to grow that luxury portfolio. Because as we've worked through our options, as we've looked at the – how do we best grow the full luxury portfolio, that's one of the key premises of the separation. And the strategy behind it would be that both businesses will be able to stand on their own 2 feet and grow their businesses and their sourcing separately.

I think in terms of how it works today, there's no such thing as a vineyard that's allocated to Saltram that then ends up going to Penfolds, so to speak. We look at it as a pool of resource and how we allocate that pool of resource to the best highest possible opportunity that we can get across our total luxury portfolio. And to date, a lot of that does go to Penfolds, for sure. What this will give us is the opportunity to split that and compete going forward.

Michael Clarke

If I could build, Larry, I think it's important to remember that prior to the COVID-19, we have made it very clear that we are looking at multi regionally sourcing for Penfolds, and we also multi-regionally source for other brands in our portfolio, first point.

Second point, as a result of COVID-19, we do know that other competitors are struggling. And that we have, we believe, stronger platforms than anybody else to grow our business in Australia, in Asia, in Europe and also in America, once – in America, once we've rightsized the commercial business. We can have 2 teams. And when I say 2 teams, there will be an increase as a result of the demerger and increase a potential demerger. There will be an increase in head count as a result of 2 teams now going after, effectively taking more share from competitors who don't have the platforms in place that we have in place and the portfolio of Luxury brands and Masstige brands that we have for New TWE and Penfolds to go after.

Larry Gandler

Okay. That's good to get all that. Now just with that vineyard comment, I just want to come back to that. One of these entities has to own a vineyard, has to own a particular vineyard. And under the previous or the existing model, the various parts of Treasury competed for the resources off that vineyard. That can't have the vineyards in a separate entity. Penfolds once accessed a vineyard owned by TWE residual…

Michael Clarke

Larry, Larry, let us help you. We're getting into a lot of detail here now, but let me just help you, and then we can move on. Remember, we don't own all the vineyards that we source our fruit from for our luxury propositions. Our luxury propositions are 1/3 sourced from owned vineyards, 1/3 from leased and 1/3 from grower contracts. So there is a tremendous amount of flexibility on how that luxury fruit can be allocated to different brands. And that is something that, clearly, we are working on. We do currently in our business manage that. And clearly, as we go forward, we will structure that in a way that facilitates the growth of both entities, but then both entities will repeat going forward, which we think is a good thing for luxury fruit to grow their franchises of Penfolds and franchises of NewCos portfolio of Luxury/Masstige brands.

Operator

Our next question comes from Andrew McLennan from Goldman Sachs.

Andrew McLennan

Just noting the very volatile times that we're going through at the moment, particularly around the issues in the U.S. and the COVID-related issues globally, really. It seems quite extraordinary time to actually come out with this incremental announcement around Penfolds given the huge amount of work that must be taking place at the moment. So if you could just, firstly, you speak to the timing. But also, if I could just clarify, you mentioned that Penfolds volume is less than 10% of volumes, but greater than 50% of sales. Obviously, given the profit component of Penfolds is not included in the inventory, I'm just wondering if you could help detail what proportion of the inventory is, in fact, Penfolds.

Michael Clarke

I'll take the first part of the question first. So in terms of timing, it's the – as we went into the announcements in January, we did say we would come back in the second half, not only externally, but also internally with our own teams around the outcomes of our strategic review process. In our strategic review, if you sit back and think about how we approach that was, how do we best structure our business and our portfolios across our business to grow Treasury Wine Estates over its next phase of growth. So clearly, there was an expectation that, that would involve some change within the U.S. I think we flagged that was going to be part of that review. However, it was more holistic than that. Hence, the decision announced today around the intention to demerge Penfolds. So it was a holistic strategic review, not just what are we going to do in the U.S. So I think that's important, point 1.

Point 2 is that, yes, our teams and our business, whilst we are going through challenging times, no doubt, from an external environment point of view, our teams also had uncertainty relating to what did this strategic review mean. So we felt it was very, very important when we knew what we were going to do, albeit with the external environment being uncertain, that we could create at least a path forward for our teams and also investment community in terms of what we were going to do because our imbalance must be on managing as best we can through these current periods of time, whilst ensuring that we come out of the current COVID-19 situation best placed to succeed going forward. So we felt the balance was right to do that now. That's why we've announced it now. So I personally don't believe it's unusual timing and that's the rationale.

Tim Ford

And regarding your question on inventory, we don't give a breakdown by brand, but to help you, that inventory that's on our balance sheet, which is noncurrent inventory, it includes, obviously, inventory from Australia, from France, from New Zealand, from America for Penfolds, for Beaulieu Vineyards, for Stags' Leap, for The Stag, for Beringer, for Wynns, for Seppelt, for Pepperjack, Squealing Pig, et cetera. It's already been allocated to those brands over the next 2, 3, 4 years. So we are already allocated for the 2 businesses. There's also flexibility for some of it to be reallocated potentially and clearly grow our contracts accordingly and move forward.

Operator

Our next question comes from Ross Curran from Macquarie.

Ross Curran

Just – I was wrapping my head around, Penfolds stand-alone will have 90% less volume than a Treasury portfolio of assets. How are you going to be able to keep shelf space on retailers for Penfolds with just 1 product? And maybe can you help me understand the cost of these synergies of running it as 2 separate businesses?

Michael Clarke

I think, again, we're not going to get into detail on this call. But to help you, Penfolds is an umbrella brand or a mother brand for a very large portfolio, which goes from Grange, through 707, 407, RWT, Saint Winery (sic) [Saint Helena Winery], Bin 407, Bin 389, the lower-tier bins, the Max's portfolio, Koonunga Hill. It is a very, very broad franchise of propositions. Some of those propositions sell in grocery stores. The majority of it sells through D2C, through e-commerce, through cellar doors and through liquor stores and high-profile liquor outlets. So it's that portfolio of brand, Penfolds, which covers a significant number of SKUs, covers a large number of retail outlets and can get shelf space that is not a challenge. Like in the same way, as a setup for Penfolds, the same thing would apply to the new TWE portfolio on brands like Stags' Leap, Beringer, Wolf Blass, Wynns, et cetera. This goes on. They, in their own right, get their shelf space also.

I think it's very important to remember that the way retailers operate is if something is working, it will be on the shelf and will sell. If something is not working, it doesn't stay on the shelf because you happen to have a sister brand that does well, and they keep those other brands on the shelf just because they're trying to manage the relationship. Retailers are incredibly diligent in return on space, return on capital employed. And a brand stays on the shelf if it's selling. If it's not selling, it doesn't stay on the shelf. And I think it's very important for analysts and investors to keep remembering that, that while Treasury Wine Estates has a large portfolio of brands, that large portfolio stays on the shelf because each proposition, in its own right, gives a return to the retailer and is consumer preferred.

Operator

Our next question comes from Niraj Shah from Morgan Stanley.

Niraj-Samip Shah

You guys are obviously sort of going down or flagging the demerger path. Just wondering if you would consider or have considered a sale process either for Penfolds or TWE or the U.S. – parts of the U.S. business for that matter?

Michael Clarke

Niraj, I think we answered that earlier on the call. We considered all options and have looked at all different options. So we will consider all options. And what we – look at to work on and to execute, a combination of those things. Some of these things that we're announcing today, clearly, we're announcing today because we're going to get going on executing some of these things. So we need to make an announcement and clear the way so we can get going on these things. So the – on some of these items that we've – that Tim's talked you through, for example, with regard to taking costs out, structural change in America, potential divestitures, et cetera, that train is leaving the station. With regard to the Penfolds demerger, the potential Penfolds demerger, there is a ton of work that's already gone on about that. There will be more work going on. And then obviously, we'll update the market at the appropriate time when Tim and the Board are ready to move the market.

Tim Ford

I think you can tell you the third part there around the selling of the U.S. business or putting that up for sale. I think I'll just touch on, I think the announcement today, clearly states my intention, which is to rightsize the U.S. business into a shape and the focus around our Luxury and Masstige portfolio as the end game to ensure that we can take advantage of the opportunities in that market with our portfolio that is growing today by going through the tasks and the initiatives that we've outlined, reduction of commercial volumes, divestment and deletion of brands and assets and reduction in the first instance of our cost base to ensure we can achieve the shape of the business that will allow us to then grow from a much, much better base going forward and a less volatile base.

Michael Clarke

i.e., strengthen the platform in America, like we've done, and strengthening the platform in Asia, in Europe and in Australia, our business platform.

Tim Ford

Thanks.

Operator

Our next question comes from Phillip Kimber from Evans & Partners.

Phillip Kimber

Could I ask just brief, broadly speaking, you've mentioned Penfolds is about 10% of the unit cases, they call it 4 million unit cases. What were you expecting? Is that sort of most – half Asia, the rest, Australia and fairly U.S. or Europe? Can you just get a sort of very broad view of the geographic split?

Michael Clarke

Phillip, we don't disclose that for obvious reasons. But clearly, it – Penfolds – the portfolio of Penfolds propositions are sold across all of Asia, Australia, the United States and also Europe, but we don't disclose the make – the split. Just like we don't disclose the split on our other brands between Asia, Australia and America that are multi countries sold.

Phillip Kimber

But it would be fair that Australia and Asia have a bigger part than the U.S. and Europe? Would that be a reasonable assumption?

Michael Clarke

At this time, that would be a reasonable assumption. But clearly, there's a growth agenda to grow Penfolds in America also.

Operator

Our next question comes from Shaun Cousins from JPMorgan.

Shaun Cousins

Maybe just a few questions. Can you confirm that Rawson's Retreat is not part of Penfolds? I recognize it was at 1 stage. But just to be clear, that is. And then maybe just in regards to the changes that you – the proposed demerger that you've announced there. Is the aim here to adjust your share price and effectively better reflect value that you believe is existing in the company, but it's not reflected in the share price. With a view that, ideally, this demerger should – or sorry, will this demerger actually grow revenue and EBITS even with higher cost, well above current forecast? I'm trying to get, with that second question, whether or not this is actually value enhancing today? Or if this is just designed to better enable equity markets to identify the value that exists in your business puts?

Michael Clarke

First question, Rawson's, as I mentioned earlier, Rawson's will be part of NewCo. It does not have involved on our label. And so therefore, it will stay with – remain TWE. This is not an exercise to adjust share price, Shaun. This is an exercise to follow on from the briefing that we gave to the market in January and February. So I'd like to just remind everybody about what triggered the strategic review. So please indulge Tim and me on this so we can make sure everyone understands why we're doing it. We announced in January that we believe that there was a challenge in the U.S. market going forward, not historically, but going forward. And that was at – once we started looking at our half year results. That challenge in the U.S. was as a result of a market surplus. With '19 in America was a large vintage and was on top of the previous big vintage VA team. That surplus normally, most players in the market would be able to cater for that surplus and manage that surplus in the ordinary course of business. However, that surplus was aggravated by the fact that you had the #2 player, Constellation, selling 30% to 40% of their business to the #1 player in the market, Gallo. And that volume, 30 million cases approximately, was commercial volume. And that was accentuating or aggravating the market surplus. A very unique situation to have those 2 things happening at the same time: Surplus in the market; and the #2 player trying to sell a substantial piece of their business to the #1 player in the market.

As everyone knows, that transaction still has not completed and continues to go through lots of gyrations, but it's definitely adversely affecting the U.S. market, especially in the area of commercial wine or sub-$15 bottles of wine. That is an area that Treasury has already rightsized its business outside of America and shrunk the commercial business outside of America. We were about to continue to shrink the business in America. And we said that was going to take the next 3, 4 years to do, to do it in an orderly way like we have done outside of America. But clearly, with this market dynamic of a market surplus, aggravated by a divestiture that has not happened, and that has led to a huge amount of commercial volume going to private label, where private label in America is now growing 50% to 60% growth rates, current months. That is extraordinary, those growth rates in private label, whereas in Australia, it's growing at 1% to 2%. And private label in Europe is flat, and those are large private label markets already.

So you've got a very unique situation of private label, which is growing share at an accelerated rate in sub-$15 bottles of wine. And so, therefore, we said in January and in February, we were going to address rightsizing the U.S. business and look at how we could have an accelerated focus on growing the luxury portfolio versus a shrinkage in the commercial business.

We've come back. In fact, I'm going to add 2 extra data points. Our biggest competitors in the U.S. markets who are listed, who have to announce – have also announced recently that they have both taken impairments on their businesses. That is Chateau St Michelle and Constellation. They have taken impairments on their wine businesses since the vintage in October that has adversely now affected the market in the United States. Those 2 players have taken impairments. Treasury Wine Estates has not taken an impairment.

What we have said, though, is we're going to address, through a strategic review, how to best manage this business to protect our platforms, the business models that we've got for Australia, for Asia, for America and for Europe, shrink the commercial business and have a separate focus on accelerating the growth in luxury. That's what we're reporting to the market today is what we're doing.

So if we looked at all the options that we've considered historically and also currently, gone through all the different options, we feel, currently, management feels and the Board supporting, the best next steps for our company is to shrink the commercial business in America, like we've done outside of America, but do in a 12- to 18-month period, what we would have done over a 5-month – sorry, a 5-year period. We're doing it quicker.

In addition to that, to ensure that we don't lose focus on accelerating the Luxury growth which, by the way, has been feedback from multiple shareholders, please make sure that as you rightsize the American business and you get the commercial business shrunk, please make sure you don't lose focus on accelerating growth on Luxury.

We're doing that with a separate focus on Penfolds and a separate focus within NewCo, called New TWE, a separate focus on driving the Luxury growth.

That's all we're sharing with the market today. It's well thought through. It's well structured. It now has to go – we have to now go and execute this. We've got the people, the resources to execute all of the above.

Operator

Our next question comes from Bryan Raymond from Citi.

Bryan Raymond

My first one is just on your profit split that you called out as being well over half. I just want to confirm if that's an EBITS profit split and whether that's after the allocation for overheads and centralized costs, manufacturing, et cetera?

Michael Clarke

Yes. That's based on EBITS and EBITDAS.

Bryan Raymond

Okay. Great. And then just to confirm, you mentioned earlier briefly about the production facilities and the need to be able to share some of those sites. Could you just give some more color on how you would be managing that through this process and well after the demerger? Would you expect some duplications and stranded costs around that because obviously Commercial largely to scale for those facilities? So just interested in how you're seeing that back into the business play out?

Michael Clarke

Yes. Sure. I think when we've talked previously before, we've announced this potential demerger around the consolidation of the investment from a capital perspective in our luxury winemaking facilities, particularly in the Barossa Valley, and we certainly believe we will continue on that path. That is the right thing for Treasury Wine Estates today and in the period of time as we do this work, but also for the foreseeable growth of both businesses going forward.

As we've thought through how we would implement this demerger, and again, I'm not going to go through the specifics, but you can take from the fact that we are announcing it today that we have thought through how a separation would occur, whilst not necessarily taking away from any of the benefits from the investments we're making in our winemaking and production facilities to date. So that's certainly the intent. We'll continue down that path, and we continue with that investment going forward as well. Any specifics around dissynergies, costs, et cetera, we'll work through those. And as we finalize those into the future, then we'll talk more publicly around it.

Tim Ford

But we have said in the announcement that the – effectively, Bryan, the cost to get is below the annualized cost savings. So that hopefully helps you with the answer to that question.

Operator

Our next question comes from Michael Simotas from Jefferies.

Michael Simotas

I've got 2 questions. The first one is just relating to the timing of the announcement. You've touched on that, to some extent. It is still a little bit unusual to announce this before you've made up your mind internally. So obviously, it's subject to approvals. But what else could come out of the process that would stop this or stop the group pursuing this demerger?

Michael Clarke

Maybe I'll go first, Tim. I think if you don't have a look at other potential demergers and have a look at their announcement, there's always a statement of an intent. And then there's a follow-up with regard to how the demerger will be done. And I think – Bijan can always share with you plenty of examples of how that's happened in Australia in the past and also globally. But there's normally 2 phases: A statement of intent; and then a follow-up with a more detailed announcement. I think one other thing to help everybody, we have obviously Board agendas that are planned well ahead. And we've just finished a 2-day series of Board meetings with our Board, where everything has been finalized. That finished last night. And as a result of that meeting finishing last night and then follow-up conversations this morning, we're in a position to now announce the decisions that have been made. So we're announcing decisions that are made. And the decisions that are made are, one, an intent to look at demerger of Penfolds. We've done the preliminary work, as we've mentioned before, which has given the Board the feel that we can actually announce the intent. So that's the first decision that's made, an intent to look at this demerger or consider it. And then, therefore, going down that phase, and there's a ton of work that's already going on. And then the second series of announcements is, as Tim has referred to, that we will now proceed with regard to the shrinking of the commercial business in America and potential divestitures of assets. And as Tim has said, we'll come back when it's done. And as we do it, and update you on that and the next time that we plan on updating you will be at the full year results.

Tim Ford

I think from my perspective as well, I and the team clearly now need to get on and do what is a significant strategic path and strategic direction for us and start getting into the detail of implementing and also the analysis required to get to the next phase around the potential demerger, but particularly the implementation of the U.S. changes and the commercial portfolio changes that we've talked about. And to do that, we did need to inform our teams internally, which, hence, means we need to inform externally as well.

Michael Simotas

Okay. And the second question for me, and look, I'm not expecting any numbers or anything like that. But can you just talk qualitatively about what the cash generation profile of Penfolds looks like? Because clearly, it's a very different commercial wine, but there's a lot of other Luxury and Masstige wine in the TWE mix as well. So maybe you could just talk generally or compare it to what the group currently achieves now?

Michael Clarke

He's just hand signaling, Mike.

Tim Ford

Yes. That's yours, Mike.

Michael Clarke

You're taking that. I think, Michael, you answered the question. We're not going to give a breakdown between Penfolds and the rest. But clearly, the margin structure is what's different between the businesses. And also the maturation process is different from a time line point of view versus other brands. But clearly, the margin gives a fantastic return on that maturation process. So that's, I think, pretty obvious to all investors and even touches the Penfolds business. But I think that's all I can say at the moment. Thanks, Michael.

Operator

Our next question comes from Jason Palmer from Taylor Collison.

Jason Palmer

Just 2 questions from me, please, if I could. First question, Mike, obviously, you're finishing up in a few months' time. I'm just wondering whether there's a change of heart or what capacity you'll be helping the business in respect to this, these 2 large strategic plays?

Michael Clarke

I think the – to answer the first question. I don't think there's a change of heart. I think, as we've said earlier, Jason, this team has, over the last 6 years, when I've worked – as I've worked with this team, we've gone through so many scenarios, so many options, some different ways of running the business, some different ways of splitting the business. And we actually said this on the call back in January that we will revisit the work that's been done before. We actually did say this in January. And that's what we've been doing. So we've gone back through the different scenarios that we've worked on previously, and that helps us in these times, especially now that you layer on COVID-19. It helps us to have at least done scenarios of different ways of running the business, operating the business, potentially splitting the business. The fact that we've done this work before allows us to now refresh that, which is great.

I'd say to you, we've got the team, the people in place that can do this in every geography around the world. I think we've got a fantastic leader in Tim Ford and a fantastic leadership team that we've pulled together. Tim and I have built in the last 6 years, who I have no doubt as a shareholder and an ongoing shareholder in this company. I feel very good about that we're safe in their hands. I feel we've got great teams in country, in every geography, and this goes back to our platforms and our business models that we've put in place in every geography, which includes self-distribution capability, which I think is a core strength. And I think when people look at Treasury, they need to remember that Treasury isn't just Penfolds. It isn't just Penfolds and a fabulous portfolio of other iconic brands, Luxury, Masstige and Commercial that come from Australia and New Zealand and also from America and France on a growth trajectory. It's also the fact that we've got these business models. We've put in place fixes in our business over the last 6 years that have made our business stronger, combination of business model, platforms and capability, and that which allows us – and also GBS, for example. The fact that we had the foresight 2 years ago to put GBS in place, Global Business Services, to service the company more efficiently, to centralize costs, to take costs out to be able to drive more efficiency in the business that gave us the flexibility that if we wanted to separate Commercial, we could separate Commercial. If we want to separate Penfolds, we can separate Penfolds. So it's given us these optionalities which this team now has the ability to go and actually now do whichever is best for the team, for the brands, for the shareholders.

So I – as you know, from previous conversations, I'm departing for personal reasons. Those reasons still remain the reason for the departure. I have a great relationship with the Board, with the management team, with Timothy. And I know that he and I are going to continue to talk on the phone. And I'm happy to help in any way I can. And I can assure you that's not to get a dollar return in a fee. It's to make sure that the share price goes up in the longer term. And so anyway I can help Tim and the team is what I'm here to do and will help from anywhere in the world that I happen to be.

Tim Ford

And I'll just add to that as well, so there's no doubt. I guess, if there is any doubts and questions, I think there was the transition period, which has been a lengthy transition period, this is a large part of the reason why it has been put in place and why it has been successful. So for me, as the incoming CEO and who will now lead, own and run this agenda post June 30, it's been a fantastic opportunity for Mike and I together to develop what is a significant set of strategic objectives of how I want to lead this business into the future years. And I think from my point of view, it has been fantastic to have that opportunity and the input from Mike, particularly as we are dealing with the current day-to-day issues that we have around the globe as well today. So from that point of view, I just want to make it very, very clear because no one has asked the question, but I'll answer it anyway, that this is absolutely – we have developed this jointly this agenda, but this is absolutely my agenda of how I want to lead this organization into its next phase of growth.

Michael Clarke

If I can just add. Tim owns everything that we've discussed today. I happen to still be the CEO, but the way we're operating is as equals. So this is not – there's no hierarchy. Hopefully, you can tell on this call. There's no hierarchy between Tim and I. It's 2 guys doing a handover and making sure that both do the right thing for this company over the next 3 months where trading is challenging and then for the future of the company.

Jason Palmer

Great. Can I just ask 1 last question was in respect to the commercial wine business re-structure in the U.S., I mean, obviously, over the last 6 or 7 years, the existing management team has shown a fantastic ability to rightsize businesses globally. I think everyone would agree with that. And I thought part of the $200 million that you might have taken out of the supply chain already, include rightsizing this U.S. business. And I note that conditions have changed significantly in the U.S. in the last 6 months pre-COVID from a wine supply perspective. But I just want to understand a bit more around about the fixed cost exactly you're talking about removing from the business. Because I thought the supply chain was fairly rightsized already.

Michael Clarke

No, Jason, I think the way you should think about it is it's a journey. It's a journey that never stops, and we will continue to optimize the business. And we've always said that the U.S. was the last of the 4 regions to get fixed. We did fix Europe, Asia and Australia, and they will continue to be optimized. So it doesn't stop there. There's continuous improvement. And that's why GBS and simplified Global Business Services and simplify for growth will continue to be an agenda that, I'm positive, Tim will drive as we go forward. The last geography to fix was America. And we're – it's a challenge. We're having to do this, and we're very sensitive about this with our colleagues in America. We're doing this at a time when we're going through COVID at the same time, and also while the market is not in a great state when it comes to less than $15 bottles of wine, where you've got an accelerated growth in private label and a deal between #1 and #2 player in the market that still hasn't been done, that is going to continue to drive dysfunctionality in the market in those lower-priced tiers. And hence, as Tim has shared, instead of taking 4, 5 years to continue to strengthen the U.S. business, we're going to do it on an accelerated basis, which is 12 to 18 months. Did it answer your question?

Jason Palmer

Yes.

Operator

That's all the questions that we have time for. So I'll pass it back to Michael and Tim, if you have any final comments.

Michael Clarke

I'm going to hand over to Tim to wrap up.

Tim Ford

Thanks, everyone, for joining today. I do just want to leave with the comments that we did – and we didn't talk about it much today, but our business is continuing to operate well in this environment that we are experiencing globally. And I think as we've stated numerous times, yes, we are very, very focused on the health, the well-being of our people, our partners, everybody that touches TWE. However, we also must balance getting through the current period of time as best as possibly we can while setting ourselves up for our future agenda and our future growth. And I think that's what employees like about working within TWE, that we're always doing both of those at the same time, but please don't take the level of announcements today and the discussions and questions we've had as any indication that our current dealing with our people is not our top priority. So I just want to finish with that point.

Michael Clarke

And reiterate the point that current trading is challenging. Everyone needs to realize that, but that's not the future of the company, the trading over the next 3 months. The future potential of the company, I believe, Tim believes, the Board believes, the management team believes is amazing. Thank you very much, everybody. Cheers.

Operator

Thank you so much. Ladies and gentlemen, this does conclude the call for today. Thank you so much for your attendance. You may now disconnect.