Treasury Wine Estates Limited, H2 2024, Earnings Call 2024-08-15

Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates FY '24 Full Year Results. All participants are in a listen-only mode. There will be a presentation followed by a question-and-answer session. — ***Operator Instructions*** — I would now like to hand the conference over to Mr. Tim Ford, Managing Director and Chief Executive Officer.

Tim Ford

Thank you, and good morning, everybody. Thank you for joining the TWE 2024 Full Year Results Briefing. Joining me today is Stuart Boxer, our Chief Financial Strategy Officer; Tom King, the Managing Director of Penfolds; Ben Dollard from Napa Valley, our President of Treasury Americas and for the first time, is Angus Lilley, our recently appointed Managing Director of Treasury Premium Brands.

I'm pleased to announce today our results for fiscal '24, which was a year that saw significant change right across TWE and where we accelerated our organizational and portfolio focus towards becoming a global luxury brand led leader in the global wine category. EBITs grew 12.8% to $658.1 million, driven by strong luxury growth in both Penfolds and Treasury Americas, which also included the contribution of DAP from the second half.

Excluding that contribution, EBIT grew 6.4%, in line with our guidance for the mid to high single-digit organic EBIT growth. The performance of our luxury portfolio without doubt the key highlight in fiscal '24, with our luxury net sales revenue increasing approximately 30% across the group or 14.5% on an organic basis. Testament to the great momentum we now have at the higher category price points in our key markets where consumer demand for luxury wine remains strong.

Reflecting this, both Penfolds and Treasury Americas delivered net sales revenue of over $1 billion for the first time, a significant milestone for both divisions. On a statutory basis, net profit after tax declined to $98.8 million, reflecting a post-tax material item loss of $318.1 million in the year, driven primarily by the non-cash impairment of goodwill and commercial brands within the Treasury Premium Brands business we announced last week. Adjusting for these material items, NPAT grew 8.3% for the year.

Our key areas of strategic focus entering fiscal ’25 are very clear. The first is continued execution of our plan to re-establish the Penfolds Australian country of origin portfolio in China in addition to other global markets, which I’m pleased to say is firmly on track with strong demand from customers and initial depletions performance in line with our expectations. In Treasury Americas, Dow’s delivery in the second half was in line with the expectations we set when we announced that acquisition last October, a pleasing result as that business continues its strong trajectory of growth. Our growth plans for Dow are unchanged. And with business integration now well into execution mode, we are on track to deliver the synergies of US$20 million plus by the end of FY ’26. We have completed the premium brands operating model review that we foreshadowed as part of the half year results update we gave the market in February with the planned creation of a global premium brands division, as well as the divestment of our commercial brand portfolio, both significant actions we have committed to undertaking and I’ll touch on this in more detail shortly.

Finally, in fiscal ’25, looking forward, we expect EBIT to be delivered in the range of $780 million to $810 million, reflecting continued strong luxury portfolio growth in Penfolds and Treasury Americas, supported by stability across the remainder of our global portfolio.

Now, touching on the other elements of our financial performance, which Stuart will cover in more detail. But briefly, NSR grew 13.1% or 4.4% on an organic basis with the luxury portfolio growth being partly offset by lower premium and commercial shipments in Treasury premium brands. NSR per case increased to $125 per case, up 14.2%, driven by the accelerated shift of our portfolio towards Luxury wine, while EBIT margin was in line with the prior year with the benefits of improved portfolio mix offset by higher cost of goods on luxury wine, particularly in Treasury Americas, but predominantly in the first half.

Cash conversion was 82% for the year. Excluding the change in noncurrent luxury and premium inventory was 95%.

The Board has declared a final dividend of $0.19 per share to 70% franked, which represents a full year dividend of $0.36 per share for the full year, up $0.01 per share and an increase in value of 16% compared to the prior period.

Turning now to the divisional performance, which Tom, Ben, and Angus will all cover in more detail as well. For Penfolds, it was another outstanding year of execution with momentum accelerating across the portfolio in Asia and solid top line growth delivered once again here in Australia.

EBIT margin of 42% reflected sales through the fourth quarter following the removal of tariffs in China with increased shipments of entry-level tiers occurring at the same time as we commenced incremental investment in the China market.

Tom and the team are very well-placed to continue the well-established strategy of growing global distribution and availability as well as consumer demand across a number of key global markets.

With the removal of tariffs in China and into what we see as a significant long-term growth opportunity. Penfolds is as well-placed and it has ever been to deliver on its ambition to be a global luxury icon as we outlined at our Investor Update in late June.

Treasury Americas. The top line growth was driven by a contribution of Dow in the second half, but as well as a 14% increase in revenue from our other Luxury portfolio brands, supported by an increase in Luxury wine availability for brands such as Stags' Leap and Frank Family Vineyards. Offsetting this was a decline in our premium brand portfolio led by the 19 Crimes Cali tier, which resulted in divisional organic revenue being delivered in line with the prior period.

As I said earlier, higher COGS from the 2020 California vintage did impact margin in the first half, but improved as we transition to the 2021 vintage in the second half.

Finally, Treasury Premium brands saw its revenue declined 6%, driven by lower commercial and Premium shipments with consumption trends remaining soft in the below $15 price point and where our commercial portfolio also underperformed relative to the category.

Pleasingly though, the priority premium portfolio within TPB grew NSR by 5%, driven by brands such as 19 Crimes, Squealing Pig, and Pepperjack.

Now, touching on sustainability, where in fiscal '24, we've made great progress against our suite of commitments, all working together to help build a resilient business, foster healthy inclusive communities, and produce wine sustainably.

We continue to decarbonize our business, decreasing our greenhouse gas emissions around 66% since fiscal '21. Renewable electricity now powers over 80% of our operations globally and we are methodically improving efficiency, investing in new technology and are on track to deliver on our target for 100% renewable electricity across our global operations by the end of this calendar year.

We continue to invest in being a smarter business with a focus on metering technology to provide real-time data and insights for the effective management of gas, electricity and particularly water, our most valuable commodity.

In terms of water metering technology, we've installed these in over 90% of our operating sites defined as high-risk catchment areas, and we are well underway across our medium risk sites as well. This initiative has been the priority focus of our treasury water strategy, which we launched in fiscal '23 to enable us to take a much more proactive role in water stewardship given our large agricultural footprint.

We continue to target Destination Zero Harm, is the driving force of our health, safety and well-being agenda. In fiscal '24, we reduced our three-year rolling serious incident frequency rate by nearly 40%. This outstanding performance is due to the ongoing effort across all our teams are managing hazards that can cause serious harm and the continued success of our Build Safe Together campaign, which has a particular focus on mental health.

Female representation remains a key element of our inclusion, equity and diversity commitments. We saw continued improvement in the year with an increase in total female representation to 43.7% of our employee population, up 1 point, whilst representation of females across our senior leadership cohort improved by 2.8 points.

finally, we continue to work with our grower and our bulk wine supply partners, very important partners to encourage their adoption of the relevant sustainability certifications that exist around the globe. Around 95% in America, 91% in Australia of our overall sourcing for the vintages we completed in fiscal '24 was sustainably certified. This means we are well positioned to give our customers and our consumers' confidence our wine is being produced sustainably. Across this, we know we have more work to do, but we are proud of our progress, and we'll continue to cultivate a brighter future for everyone who touches our business.

Now back in our full year results in 2020. It seems like a lifetime ago. We laid out the blueprint for what was there in our five-year plan known internally as 2025, which was headlined by our ambition to be the world's most admired premium wine company. As we have come to the end of this period and our focus shifts to the next phase of our growth journey, which is centered on our luxury brand led ambitions, it is worth taking a moment to reflect on the significant progress we have made to grow and evolve our business over this period.

The transition to our brand portfolio led operating model was a crucial step, which we embarked upon to drive increased focus and accountability across our business. There is no doubt this change has unlocked growth and improved our operating performance right across Treasury Wine Estates. During the period, which included the imposition of tariffs on Australian wine in China, shifting consumer and market dynamics and a number of economic headwinds.

Penfolds has evolved to become a truly global diversified business with a number of markets now driving top line growth and with a portfolio that has expanded beyond Australia to comprise wines sourced and produced from four countries of origin, Australia, the United States, France and China, something that was previously unheard of in Luxury wine.

Treasury Americas has been transformed and now has a very clear strategic path as the leading luxury wine business in the United States, which is the world's largest luxury wine market with the acquisitions of Frank Family Vineyards in 2022 and more recently done both significant additions to what was already a good portfolio of luxury brands. This business is now very well placed to become another outstanding luxury growth platform for Treasury Wine Estates alongside Penfolds.

TPB and Treasury Americas have delivered growth across the number of its priority premium brands during this period, providing a foundation for which to build upon as we make the shift now to a global premium brands division.

Across our supply chain, we have implemented global industry-leading initiatives to drive efficiency, increase automation and reduce costs to deal with significant inflation over the period, supporting the delivery of consistent margins through a period where our commercial brand volumes have also declined.

We've continued to invest, particularly in our luxury production capacity. Yes, our state-of-the-art winery in the Barossa Valley is one example, and we've established a luxury sourcing and production asset base in Bordeaux in France.

So that brings us to where we are today. We, as a team, are certainly learning from the past, but are firmly focused on now executing for the future. As we look forward, our vision is firmly focused on being the world's most desirable luxury wine company.

This vision reflects not only the fact that over 75% of our earnings now come from our luxury brand led portfolios and that the luxury price points represent a segment of the wine category that consumers are gravitating towards. It is also about embodying the hallmarks of a luxury company right through Treasury Wine Estates.

Our focus on being luxury led manifests in a number of clear priorities, including strengthening our leadership positions in Asia and the United States, scaling our portfolios in other must-win markets, expanding in emerging growth markets and continuing to invest in our multi-country of origin luxury sourcing model to enable future growth. For our premium brand portfolios, we will strive to sustainably create value from within to support our organization-wide luxury led focus.

Last month, our executive leadership team joined with our global team for the launch of our new game plan, which is presented here on this slide. A highlight of the launch for the first time was the defining of our organizational purpose, boldly cultivating.

This purpose reflects a collective focus right across our business, centered on the vital role, each individual will play in shaping TWE's future by boldly cultivating value through our brands, our wines, our people, through innovation, through sustainability and the experiences we deliver for our customers and most importantly, our consumers.

It is a purpose that is uniquely TWE and one that we will harness each and every day to drive our business forward. Supporting this purpose are our four strategic pillars, which will guide our decision-making and how we will succeed focused on our consumers, our people, our collective mindset of playing to win and our commitment of delivering today whilst building for tomorrow.

Our DNA, which drives our culture and our standards, underpins everything we do at TWE and remains unchanged. I look forward to updating investors on our progress against this new game plan and strategy over the years ahead.

Turning now to the future operating model for our premium brands where we have concluded to, one, create a global premium division by the 1st of July 2025 through the combination of TPB and Treasury Americas premium portfolios; and two, decided to divest our commercial brand portfolio, including Wolf Blass, Lindeman's, Yellowglen and Blossom Hill, as we announced last week.

In relation to this global premium division, we believe this will be the optimal structure to create and drive value for our premium portfolio of brands with benefits including a single globally focused business with a streamlined operating model, more effective prioritization of opportunities across key markets, improved investment and resource allocation.

It will enhance our ability to execute more effectively key global premium brands such as 19 Crimes, Matua and Squealing Pig as well as our global innovation priorities. Importantly, it will unlock optionality to create future shareholder value. We believe these changes are the right ones to ensure that our global portfolio of premium brands continues to support our luxury brand-led strategy.

Implementing key changes to enable the evolution to the global premium division will be the key focus through F '25 at the same time as improving the overall performance of that business, which we need to do.

So with that, Stuart, I'll hand over to you to cover the financial performance in more detail.

Stuart Boxer

Okay. Thanks, Tim, and good morning, everyone. I'm pleased to share with you the financial highlights for fiscal 2024. Starting with our usual slide showing trend performance of key metrics. Group NSR increased 13.1% on a reported basis and 10.7% on a constant currency basis, reflecting strong luxury portfolio growth in Penfolds and Treasury Americas which included the second half contribution from Dow, partly offset by lower sales in Treasury Premium Brands.

NSR per case increased 11.8% on a constant currency basis, including Dow and 8% excluding Dow, driven by the same factors, growth across our Luxury wine portfolio, which accelerated following the acquisition of Dow and now represents approximately 50% of group NSR. Since [F '20], NSR per case has increased over 50%, reflecting a significant evolution of our brand portfolios over the period.

Working down the P&L. COGS per case increased 12.7%, driven by portfolio mix and the sell-through of higher cost vintages in all divisions. As expected, we saw improvement in this metric in the second half, particularly for Treasury Americas, as the luxury portfolio transition from the wildfire impacted 2020 vintage to the 2021 vintage.

Cost of doing business increased 7.2% and driven by the addition of Dow and the investment in brand building and overhead to support the re-establishment of Penfold's Australian country region portfolio in China, partly offset by the $23.6 million gain on sale of supply chain assets of which approximately $20 million was recognized in the first half.

EBIT was $658.1 million, an increase of 9.9% on a constant currency basis and EBIT margin declined 0.2 percentage points to 24.0%, largely driven by the higher cost in the first half within Treasury Americas and the lower F '24 margin for Penfolds as we foreshadowed linked to the removal of tariffs in China and specifically the step-up of entry-level Australian country of origin luxury tiers in that market and the high in-country overheads in Q4.

Return on capital employed decreased 0.4 percentage points to 10.9%, reflecting the short-term impact from the acquisition of DAOU, given the growth nature of the acquisition. Excluding the impact of DAOU, return on capital employed increased to 12%. Please note that the capital employed I have quoted excludes the impact from the Treasury Premium brand impairment.

Leverage ended the year at 2.0 times, up from 1.9 times in the PCP, following the acquisition of DAOU, which we're pretty pleased with. We expect some further deleveraging in F '25 to return to within our 1.5 to two times range, consistent with our guidance tax have been recognized this financial year with a net cash outflow of $71.7 million.

The most significant component of this was the non-cash impairment of brands goodwill and a small amount of commercial inventory in treasury premium brands, which we announced on the 6th of August.

Still on TPB, we also realized net income during the half of $14.2 million in relation to the operating model and supply chain restructuring that was announced last May. This specifically related to a gain on sale on surplus commercial vineyard and water in relation to the operating model of supply chain restructuring that was announced last May.

This specifically related to a gain on sale on surplus commercial vineyard and water assets. This program is now expected to be completed in F '25, in line with the initial program cost of $90 million net, pending the sale of a final commercial vineyard and associated water assets in Australia. We also included $61 million of transaction and integration costs associated with the acquisition of DAOU with integration now well underway, which Ben will touch on shortly.

Moving now to the balance sheet. Net assets increased $732 million on a reported currency basis, primarily due to the acquisition of DAOU, which impacted intangibles, property, plant and equipment, working capital and debt, as well as the recognition of the earn-out as part of other liabilities. Beyond the impacts attributable to DAOU, the other key balance sheet impacts were increased working capital, driven by underlying business growth and increased luxury inventory following the Australian and California vintages and the Treasury Premium brands impairment.

Turning to inventory in a little bit more detail. Against the prior corresponding period, total inventory volume reduced 3%, while value has increased 9%, driven by the growth of luxury inventory and the decline in premium and commercial inventory. Current inventory increased $30 million, driven by expected growth in luxury sales. Non-current inventory increased $164 million, driven by higher luxury inventory following the acquisition of DAOU in addition to the 2023 Californian and 2024 Australian vintages, which saw a significant step-up in our intake.

Total luxury inventory increased 29%, approximately half of which relates to DAOU and the other half relates to the increased intake for our other luxury brands, including Penfolds, Stags' Leap, Frank Family Vineyards.

Turning now to cash flow and net debt. Operating cash flow before interest tax and material items was $667 million for the year, with reported cash conversion of 82%. This cash conversion includes a significant investment in non-current luxury inventory in both V23 in the US and V24 in Australia, as I've already covered. Excluding the change in non-current Luxury and Premium inventory, cash conversion was 94.6%. This outcome was stronger than the 80% we guided to at our half year results, driven by the recommencement of shipments to China in the June quarter where a high proportion were cash sales.

In F '25, we expect a reduction in the proportion of cash term sales into China as we will be shipping to a more normal profile throughout the year, which in combination with underlying business growth, we expect to result in full year cash conversion of approximately 80%, excluding the change in noncurrent Luxury and Premium inventory.

Please note this is a target for the full year with cash conversion generally being weaker at the half year, given the typical seasonality of our business profile.

Moving to CapEx. Total CapEx for the period was $190 million, which included maintenance CapEx of just over $100 million, growth CapEx of $75 million relating to the purchase of vineyard assets in New Zealand supporting future sourcing of Marlborough Sauvignon Blanc, investment in lower no alcohol wine production technology here in Australia and the continued expansion of our Luxury wine operations in France. The remainder of the CapEx related to DAOU.

We expect maintenance CapEx for F '25 to remain at approximately $100 million, with growth CapEx of up to $50 million planned, including the refurbishment of the Beaulieu Vineyard brand home in Napa to upgrade the quality of the tasting room and consumer experience to reflect the luxury status of that brand.

Finally, we will also continue to explore investment opportunities for Luxury vineyards and production assets to support the growth ambitions for our existing portfolio of Luxury brands.

Turning finally to capital management. First of all, and importantly, we are very pleased that our investment-grade capital structure has been retained following the acquisition of DAOU. Our liquidity position remains strong with $1.2 billion of cash and committed undrawn debt facilities.

In the second half, we completed a comprehensive exercise to extend and diversify our term funding structure which included issuance of a US$ 300 million Asian term loan to refinance the DAOU acquisition bridge facility.

Finally, as Tim mentioned earlier, we have today announced a final dividend of $0.19 per share, giving rise to a full year dividend of $0.36 per share representing a $0.01 increase on the prior year and a 16% increase in value, given the higher number of shares post the DAOU acquisition.

The payout ratio of 72% was slightly above our 55% to 70% target payout range reflecting our continued focus on improving shareholder returns during what was a unique year following the acquisition of DAOU while balancing the strength of our balance sheet and capital structure.

We expect to return the dividend payout back within the target range from F ‘25. As announced at the time of the DAOU acquisition, franking for the dividend has been reduced to 70% given the higher proportion of offshore earnings. Thank you. I will now hand over to Tom King.

Tom King

Thank you, Stuart, and good morning, everyone. I’m delighted to report another strong result for Penfolds in what was a very exciting year as we emerged from the tariff period continued to deliver excellent momentum across our key global markets and achieved record luxury wine intake from the 2024 vintage.

A highlight of the year was without doubt being able to immediately recommence shipment of our Australian portfolio into China upon the removal of tariffs, reflecting the comprehensive planning of our team. It's been fantastic to see the positive response from our customers. I was in China last week and saw firsthand the energy and buzz around the return of Penfolds Australian portfolio into the market.

While it's early days, our key performance indicators, which include shipping through the June quarter, initial depletion performance and transition to reordering by our customer base give us confidence around the demand for Penfolds in the market and our long-term growth plan. Whilst much is being said about the current consumer environment in China, we continue to see the market as a highly attractive long-term growth opportunity for Penfolds, and we intend to play a key role in leading the revival of the wine category, particularly from fiscal 2026 when we will see a significant step-up in the availability of our Bin and Icon wines.

The 2024 collection release, which took place earlier this month was once again a great success with a strong consumer response and the magnitude of in-store pricing increases generally in line with the changes that we announced in late June. January saw the commencement of Penfolds 180th year, with celebrations occurring across the calendar year to acknowledge this monumental milestone. A few highlights to point out across the second half, in particular, the growing success of our Luna New Year program. This year, we welcomed the year of the Dragon with an expanded program across the Penfolds portfolio. We continue to experience increased momentum in consumer engagement for this festive occasion globally.

An important milestone for the brand this year included the launch of the inaugural Penfolds Evermore grant program. Winning recipients were chosen for their focus on delivering community impact, changing the landscape of their own sector and contributing to positive change in the wine industry. This program is our opportunity to use our business as a force for good and continue to look to the positive future for our communities around the world.

More recently, we marked the moment for our 180th anniversary with a commemorative limited release being 180. This wine has received significant acclaim from critics and incredible interest from our collectors around the world already.

Turning now to our financial performance. Strong top line growth was delivered across all portfolio tiers and price points, with the weighting of Bin and Icon shipments to the second half in anticipation of the re-opening of China completed as planned. Volume and NSR increased 30% and 21%, respectively, with NSR over $1 billion for the first time, driven by strong momentum in Asia with standout results achieved in Hong Kong, Thailand and Taiwan, in particular, along with the benefit of the shipments to China in the fourth quarter.

We still see great opportunity to expand distribution and availability and grow consumer demand throughout the region with our highly targeted approach, which focuses right down to the individual account level in our priority markets. Very pleasingly, we were able to maintain our momentum in Australia with performance across the national accounts and direct-to-consumer channels driving the result here. We saw modest declines in EMEA and the Americas, reflecting strategic reallocation of a portion of the Bin and Icon volumes from these markets to support the rebuilding of distribution in China.

Longer-term, we remain committed to growing the Penfolds brand in both of these regions. The extension of our relationship with La Place De Bordeaux this half to include the distribution of our Luxury and Icon wines is just one example of this commitment, providing us with a significant distribution platform that will help penetrate more markets in EMEA with our Luxury and Icon wines.

NSR per case decreased 7% reflecting the impact of portfolio mix from the reestablishment of entry-level luxury tiers in China. COGS per case increased 4%, reflecting the sell-through of higher cost 2020 and 2021 Australian vintages in addition to one-off costs related to the rework of product for the China market. We delivered EBIT of $421 million and an EBIT margin of 42%, with a decline in EBIT margin, reflecting the re-establishment of entry-level luxury tiers and higher onshore overhead costs in China in the fourth quarter.

We expect margin to improve within the 43% to 45% range in fiscal ’25, followed by a return to our long-term target of 45% beyond this with incremental volumes from our fantastic Vintage 24, becoming available in late fiscal ’26. In fiscal ’25, we expect to deliver low double-digit EBIT growth, reflecting top line growth for the Bin and Icon portfolio, which includes the benefit of price increases, partly offset by a step-up in brand building investment and overheads in China ahead of the increased Bin and Icon portfolio availability from fiscal ’26.

In summary, I’m extremely pleased with the ongoing successful execution of our plans to deliver another great result for Penfolds in fiscal ’24. We’re making steady progress on our journey to become a global luxury icon and look forward to building on this progress in fiscal ’25.

Thank you. I’ll now hand over to Ben Dollard in California.

Ben Dollard

Thanks, Tom, and good morning. It is a pleasure to join you from Napa Valley, California.

It has been an exciting fiscal ’24 for Treasury Americas with the completion of the DAOU acquisition, a re-design of our operating model to sharpen our focus between the luxury and premium portfolios and the formation of a new Treasury Americas leadership team. All of this activity was successfully executed while our underlying business gains momentum, particularly in the luxury price points where our portfolio outpaced the market and our key competitors gaining nearly a full point of market share. We are thrilled to have welcomed DAOU into the Treasury Americas portfolio. Integration efforts are progressing well and on track from a people, systems and synergies perspective.

The key areas of synergies are the integration of outsourcing and wine production centralization of packaging and warehouse operations, as well as procurement and logistics. Synergies remain on track to deliver benefits of at least US$20 million per annum from fiscal ’26. Our integrated supply chain will be a key source of strength for Treasury Americas supporting our long-term growth ambitions for DAOU well into the future. Our route to market changes in the US have further strengthened our focus across our luxury and premium portfolios and have enhanced our distributor partnerships, specifically with RNDC and BBG. We have unlocked value by creating strong alignment on our growth ambitions for our brand portfolio. It has been particularly pleasing to see DAOU continue its strong performance trajectory following our acquisition. DAOU was a leading growth brand in the luxury category for the year and is now the #2 luxury brand in the US market. We have significant growth plans in place, driven by expanded distribution across the US, consumer experiences and trade activations.

Turning to the key financial metrics. Volume and net sales revenue increased 10% and 19%, respectively, driven by the contribution from DAOU in the second half, in line with expectations. On an organic basis, our luxury portfolio NSR grew 11%, with increased wine availability, enabling continued growth for Frank Family Vineyards and Stags’ Leap. This was partly offset by NSR declines for the non-luxury portfolio. The main drivers for this are the 19 Crimes Modern tier lapping innovations released in the prior fiscal year, while the Classics tier performed in line with the prior period supported by the launch of a new campaign, refreshed packaging and the UFC sponsorship.

Matua achieved strong performance and remains a top brand in the category, driven by its core Sauvignon Blanc, which continues to grow in popularity across the market. Innovation remains a key driver of growth in the premium segment. We now have a dedicated team focused on this portfolio.

19 Crimes will be a priority for the premium team. We plan continued investment and innovation behind 19 Crimes and Matua. This includes global innovation opportunities focused on improving the performance of the premium portfolio. We saw depletions exceed shipments by 200,000 cases in the year relating to our premium portfolio.

NSR per case increased 9%, reflecting the growth of our luxury portfolio, which now represents over 50% of Treasury Americas NSR and will be the clear driver of our earnings growth moving forward. COGS per case increased this period as we continued to sell through the high-cost fire impacted Vintage 20. We saw improvement start to come through in the second half as we commence the sell-through of Vintage 21.

Cost of doing business increased 28% driven by the acquisition of DAOU. We delivered EBIT of $231 million and an EBIT margin of 23%. On an organic basis, NSR was flat and EBIT declined 9% with higher COGS a key driver of the decline in margin, noting this was more pronounced in the first half due to the sell-through of the 2020 Vintage.

As we enter fiscal 2025, our focus is on completing the DAOU integration and continuing to drive the strong growth momentum for DAOU, while delivering growth across our luxury portfolio of brands. This will be supported by a double-digit increase in availability and delivering stability across the remainder of our portfolio.

EBIT delivery is expected to be balanced across fiscal 2025, reflecting business seasonality and the realization of DAOU acquisition synergies. Luxury led growth in addition to improvements in our COGS profile is expected to enhance EBIT margin towards our long-term target in the high 20% range.

Overall, a year of many achievements for Treasury Americas, and we are energized by the opportunity before us to create another outstanding luxury focused growth platform within Treasury Wine Estates.

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

Angus Lilley

Thanks, Ben, and good morning, everyone. I'm pleased to report the fiscal '24 results for Treasury Premium Brands for the first time as its Managing Director, having been in the role since the 1st of July this year. For those of you I haven't met, I've been with TWE since 2013 and held several executive leadership roles, including most recently as the Global Chief Revenue Growth Officer, a function that's now being integrated into TPB. Prior to this is TWE's Chief Marketing Officer.

It's a challenging, but also exciting time to lead the TPB business, while results of the past few years have been impacted by challenging market conditions for Commercial Wine and the underperformance of our brands in these price points.

These dynamics have often masked the success we've delivered within our premium brand portfolio. With brands, including Squealing Pig, Pepperjack and 19 Crimes making significant inroads in our key markets. Our journey since visualization has revealed many learnings and foundations to build upon.

In FY 2025, we are focused on the following priorities; accelerating our premium brand portfolio through compelling marketing campaigns with a focus on 19 Crimes, building distribution across our innovation initiatives, which include new Pepperjack sub-brands, the Squealing Pig, Sparkling Portello expansion, as well as Italian and New Zealand country of origin opportunities. Delivering efficiency through optimized portfolio, process and cost base and ensuring our investment is aligned to our biggest opportunity areas.

Finally, embedding the global revenue growth team within TPB and importantly, preparing for our next evolution as a global premium business from 1 July, 2025. Ahead of the transition to the new operating model, the TPB and Treasury Americas teams are already collaborating on global brand and innovation opportunities, the first of which will launch this half globally in the coming months. The recent announcement of our intention to divest our remaining commercial brands and combine our premium brands into a global business is a significant step towards improving our focus and maximizing the performance of premium brands, and the value that they provide to the TWE business.

We are firmly focused on setting up the premium portfolio for success within TWE and as consumers continue to engage with the category at the premium price points, innovation and agility will be key components of our success.

Turning to TPB's key financial metrics. Volume and NSR declined 10% and 9%, respectively, driven by double-digit volume declines across the commercial portfolio and reduced premium portfolio shipments, our under-performance relative to the category, particularly in the Australia and the UK impacted performance along with the reduction in shipments to Asia as we realigned customer inventory levels to better align with trend depletion rates.

Pleasingly, the premium brand portfolio continued to deliver growth, driven by 19 Crimes, Squealing Pig and Pepperjack and innovation behind these core brands added to the NSR growth. With expansion of low and no alcohol offerings and continued introduction of new packaging formats, both highlights.

We also re-launched the Australian country of origin for Rawson's Retreat in China in the fourth quarter, following the removal of tariffs. With strong depletions growth expected in F '25. NSR per case increased 1%, reflecting portfolio mix shift. COGS per case increased 4%, driven by portfolio mix with benefits from supply chain optimization initiatives implemented in the fourth quarter of 2030, reducing the impact of lower sales volumes.

Cost of doing business improved 13%, reflecting the realignment of brand investment with reduced volumes and the $10.5 million gain on sale of divested non-strategic vineyard assets.

EBITS decreased 17% to $76 million and EBITS margin was 10.3%. In F '25, we expect our top line to be stable with trading conditions expected to remain consistent through our key markets, and for EBITS delivery to be broadly in line with the PCP, excluding the one-off benefits from the asset sales in F '24.

Thanks, and I'll now hand back to Tim.

Tim Ford
Thanks, Angus. So in closing, before we open up for questions, summarize '24 is clearly a strong year driven by our luxury portfolio momentum, which drive out our group NSR and EBITS growth, no doubt.

As we look forward to be '25 to reiterate, we expect to deliver EBIT in the range of $780 million to $810 million, with again, that top line growth, driven by the momentum in our luxury brand portfolio from an execution point of view, as we do with all these presentations, we like to leave investors with our three priorities, our top three priorities.

First one for us is just continuing Penfold's focus on growing distribution and availability. As well as the consumer demand across key markets in addition to re-establishing the Australian country of origin portfolio in China ahead of what we see as increased in an icon portfolio availability in fiscal ‘26.

In Treasury Americas, simply driving the leading luxury wine portfolio in the US to continue the momentum across DAOU, Stags Leap, Frank Family and other luxury brands, which is supported by a double-digit increase in portfolio availability. Third, we must improve the execution focus and the operating performance of our premium brand portfolio globally as we continue the path to transition to the global premium division from the 1st of July next year. So thank you for joining us.

So I’ll now hand over to the operator, and we’ll open it up for questions.

Question and Answer

Operator

Thank you. — ***Operator Instructions*** — Your first question comes from Michael Simotas with Jefferies.

Michael Simotas

My first question is on the commercial business. I was just hoping you could give us a little bit of help with understanding the range of financial implications from that divestment. So looks like there’s about $60 million of gross profit. Then if I use your back book as a guide, there’s probably about $60 million of production and packaging overheads associated with that portfolio. How should we think about your ability to offset costs associated with that product as the volume and gross profit comes out of the P&L?

Stuart Boxer

Good day, Michael, Stuart here. I’ll take that one. So just a couple of things to start with there. So obviously, you picked up the $60 million of GP. That’s obviously the directionally the right number, given that less than 5% guidance we gave. So just on the stranded cost question, we do expect, of course, that there will be some stranded costs. But ultimately, the quantum of them and what we're left will depend on a number of things. It will partially to be dependent on sort of any transaction structure that we end up with in a degree to which we can mitigate them via transaction structure.

But we have sort of worked through a range of mitigations already. But the thing I wanted to point out is that we've sort of done a version of this before. So you'd recall back in 2021 when we divested our commercial portfolio in the US and we effectively have the volume in that market.

We successfully dealt with the stranded cost there. Part of that was that we actually took some of those costs out ahead of time and then part of it we managed through the business subsequently. And one of the things that, we did do last year, you recall is that when we made the restructure of TPB at the back end of last 2023 financial year, and we made the decision to close our Karadoc facility, which increased the outsourced production of commercial wines, which effectively turned a fixed cost into a variable cost on that part of the business. So we've made some changes to make some of those costs more variable. The other thing is that with the ongoing decline in that commercial business, the amount of cost at that particular part of the business carries is lower than it has been. So I can't give you an exact answer at this point in time to what the stranded cost would be because of the reasons that it really relies on the nature of the transaction.

But I think we've got our sort of arms around what's possible there. When we think about the outcome, even if there are some stranded costs when you look at the margin profile of the remainder of the business, we're confident that the net-net outcome will be a lot stronger, both in terms of that margin profile and also the growth outlook.

Michael Simotas

Just a quick clarification, I guess. Should we think about the lost, let's just call it, $60 million of gross profit as a worst-case scenario? Or could it potentially be a little bit more of a drag than that given you've still got some fixed production and packaging costs?

Stuart Boxer

Yes. So I think to sort of reiterate, the $60 million, that's the figure that we've given. Then within that, there is obviously some carriage of cost. And I think what I was trying to say is there's likely to be some stranded cost on top of that, just a degree to which we can mitigate them is based on what I just went through before.

Michael Simotas

Then my second question is on China. So there's a huge amount of wine at luxury price points exported into China in the June quarter. Now I'm presuming Treasury was responsible for a lot of that. How much of that has actually gone through your P&L versus just product moving from Australia?

Just trying to understand the comment that the earnings impact or the earnings benefit in FY 2024 was very small? Is that because you made money in the China market, somewhat offset by cost increase, but then you had to take the product from elsewhere. So you made less in Australia and EMEA.

Stuart Boxer

Yes, Mike. Certainly, you're right on the second part of it. Essentially, it was reallocation of Penfolds portfolio that we had. If China wasn't open, we would have sold in other markets. So it didn't shift our earnings profile for the year, so to speak, because of that reallocation, if you like. So you're spot on with your point on that.

In terms of the guidance, that's why we sort of led to the essentially zero bottom line benefit, so to speak, in that Q4 because of that reallocation, but also, yes, there was a step-up in entry-level luxury wine, which I would say, normally would increase the earnings of the market reopening, but we also have one we're investing behind increased costs around the team and the brand investment to get going as we reestablish that market in addition to what we were previously planning to do.

So they're the sort of moving parts on that part of it. So hopefully, that's clear. It's very, very similar. What's happened is exactly what we outlined to the market, both back in March, what our expectation was in June when we just walk through a more detailed plan for investors around the China reopening.

I think on the first bit around the wine being shipped to, I guess, we know what we've shipped in whatever comes out of Australia is in our P&L as we've exported that product into that market. So from that perspective, our shipment volume that we control, we manage is certainly in our P&L, so to speak. We didn't shift product around in different markets or anything like that. It was all shipped out of Australia.

Because if you recall, we held back some of our allocation in the second half of last year with that sort of 45%, 55% split that we outlined just to enable that capability to be able to ship in Australia. So we were holding stock, if you like, back in Australia for the China reopening, which thankfully occurred at the end of March.

Operator

Your next question comes from Lisa Deng with Goldman Sachs. Please go ahead.

Lisa Deng

So two questions from my end. One is also on China. So it seems that the consumer environment has worsened sort of every quarter from December to March and then most recently in June, I was there in July as well. Your first sell-in, which is executed very well. Obviously, we consider in the cash commitments as well. How are you seeing the depletions, as I think you guys referred to earlier to expectation but how are we starting to see the sell-through, the reordering, the consumer or the distributor sentiment? Then when are they usually due to reorder again, if we can get a bit more color on that, please?

Tom King

Yes, sure, Lisa. Pleased to give an update. Look, I think as we said earlier on, that the plan, as it has been executed today is delivering very much in line with expectations. We were ready to ship in very early April. So we made a fast start on getting stock into market, smooth customs clearances and since then over the May and June and into July period, the stock has been arriving and working its way through our distribution channels.

The initial read on depletions from our customers in market has been positive and they're now in a position where they are or will be reordering in Q1, which is a great position to be in. We've got a lot of activity lined up for mid-autumn festival coming up in about a month's time. So for us, that will be the real signal of the quality of the execution and the demand that's there. But look, I think if I cover one of your points a bit more broadly around the luxury and some of the headwinds that are facing luxury categories in China, our perspective on that is many of these categories, many of these brands have come off the back of three or four years now a very strong growth during which time Penfolds hasn't really been in the market in any significant or meaningful way.

It's also interesting when you double a bit deeper and look at brand performance, and it's not all brands are facing the same headwinds, winning brands and brands that are really connecting and providing value to consumers are still able to grow. Then if we dive into luxury wine at a more granular level and not think about the wine category overall or import data, what we've been seeing at the upper end of the category, and this is from genuine consumption data from e-commerce at RMB 500 and above has been growing double-digits in '23 and accelerating that growth rate in '24 as well. So we've seen the benefit of that. We've seen that firsthand through our French, Chinese and US wines, which have been performing really well.

So how we feel about the market conditions, we feel pretty good about the market we're going back into because of the strength of our brand and the demand that we see continuing to exist at the top end. So feeling pretty confident, very pleased with how the plan has been executed. And as I said earlier, we've got customers ready to reorder for Q1.

Lisa Deng

The terms of reordering because I think we also talked about the cash conversion being potentially lower in 2025, given the cash sales into China will go back to normal patterns. Are we extending more sales on credit or how are we thinking about that? And then the follow-up on that is also parallel input. When I was there in July, I did actually see a decent amount of parallel imports in the market potentially only because I've visited two locations. So, it's granted not a full conclusive view, but what are the on-the-ground feedback on parallel imports potentially being a disruptor?

Tim Ford

So, Lisa, I'll take the first one and then hand to Tom for the second one. So, the way I think about that sort of the cash piece is that I think of F '25 as being sort of back to normal. So, just a normal year of the way we operate. But if you think about the back end of F '24, obviously, there's a lot of sales occurring in a very sort of concentrated period of time. So, in order just to manage that concentration of credit risk, we had a high of cash settlement, but it will just go back to normal next year. So that's really the difference rather than sort of any particular change next year, it's put it back to normal.

Tom King

Yes. The one really important point on that is the reordering is driven on the same terms. The cash conversion guidance is not driven by adjusting terms in F '25 versus what we did in Q4 of '24 and Tom, do you want to take that?

Tim Ford

Yes, sure. Lisa, parallel isn't a new challenge for us. Certainly, something that's always been something we've tried to monitor and manage over many years running our business in China. There's a positive in it because it reflects on the strength and the demand that exists in the market for Penfolds. So, we do see that as a bit of a positive signal of demand. But this is not unexpected. We always knew there was going to be a period of time when China reopened a bit of a transition period where there might be people in the market who took an opportunity to send product into China. It's very disappointing when it does happen. It's even more disappointing when we see prices appear on e-commerce at very low prices well below what our authorized channels are able to deliver across the business in China.

So, we don't control what retailers do in the market as we don't control that anywhere. But it's disappointing and a shame to see where people are taking sharp pricing decisions based on the fact that demand is exceeding supply for the next period of time. So, what we're doing at the moment, we've focused a lot of our comms at consumer and trade level around how to identify a product that comes from our authorized distributors in China because they have that confidence in security that the stock has been transported and stored in the right way and comes direct from the winery. We've built some really good relationships with Customs departments as well. So, we're able to now get a better idea of identifying where the source is when parallel does occur.

But it would just be an ongoing part of managing our business in China as it always has been and we don't see it as having a significant impact on delivering on our plan and building our brand. So, we'll continue to monitor over the next six to 12 months, but not unexpected.

Stuart Boxer

And we do expect it's – since Tom and I both here last week, and we had time with all of our – together with all of our key customers and those that authorized channels are very important too with our partners. And we certainly hold in hand to those partners in terms of managing this. We expected it to be really clear. We probably expect it to continue, but to a diminishing degree between now and probably the end of this calendar year.

So, it's always part of managing the China market. We know that. We've been there before. We understand it. But you also see the price differential of some of the product already closing. So, we expect that to continue over the next few months. Pleasingly, the behaviors of our key partners are absolutely spot on as we really reestablish that market. So, not ideal, but a lot of what we expected, I guess, least gives you a bit of color around how we feel about how we manage it.

Operator

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

David Errington

Stuart, this to you, too, and probably Mr. Dollard in the US. But I've got two questions. The first one is the second half in the US. I was absolutely thrilled to see your premium business or your luxury, I should say, forgive me, your luxury business growing 14% in that second half, given the backdrop in the US where luxury has been coming off. But I'm back solving some numbers here. If you exclude the DAOU acquisition, your sales basically, your margin dropped to 18%. The first half EBIT was $93 million. The second half, excluding DAOU was $100 million, and yet you would have had over 20% growth in that luxury portfolio in that second half. So I'm really surprised that, that second half wasn't stronger in terms of earnings performance given the wonderful achievement of luxury in that second half. So can you go into that? Because my concern is that the premium business in terms of earnings is really falling away?

The second question, if I could, getting upfront, Stuart, these material items, I'm not enjoying them. I mean over the last four years, and Tim, you only want to be measured in the last three or four years, but your material items have now hit $1 billion pre-tax. And that's an enormous write-down. Can you go into saying how long this material item is going to go on for? Because they're big numbers now that you're taking below the line. So if you could address those two issues, that would be wonderful. But congratulations to Bin. That luxury business, given what competitors are doing, fantastic second half but the numbers look really weak outside of that, and those material items really are starting to concern me. So can you go through those two 2 issues, that would be really appreciated.

Tim Ford

Well, we can let Ben lead off with the I guess, how they've delivered and what gives us the confidence over there. Ben over to and then Stuart can take on the financial piece.

Ben Dollard

Yes. Thanks, Tim. Hi, David. Look, I think the second half, certainly, as we started to execute against greater availability out of the 21 vintage was a key driver of the momentum that we built, specifically around Frank Family and Stags' Leap. So I think if you consider the achievements of the team here in terms of the acquisition of DAOU, the creation of our luxury effort and really building, I think, a very combined and collaborative effort with our distributors, has led to that momentum you referred to in H2. Really, outside of DAOU on the back of Frank Family and Stags' Leap

So look, as I mentioned, we did see some softness in our premium business specifically around the 19 Crimes Classics, and that absolutely is impacting the results, as I mentioned before. That said, we had very robust plans in place for our premium business. with a very specific lens on 19 Crimes and Matua. But the job to be done right now is the focus on and the execution and building on the momentum we have across our luxury business.

So it's been pleasing, but the job is still to be done, particularly as we now fully integrate

DAOU into the business as well.

David Errington

Has the EBIT in premium stabilized then? I think you gave some numbers at your presentation today, and we can back-solve the EBIT was around that $90 million, $95 million for premium. Can you stabilize that at that level? Or is it going to continue declining?

Tim Ford

I think our task at hand is to stabilize the premium business. Now, within that premium business, as you start to unpack it, there's areas that we feel very pleased with and particularly you look at the growth of Matua and also some of the innovations that we have recently launched and will continue to launch. So the heavy emphasis around and the rationale for driving this split in the portfolio is our ability to recognize that our execution on our premium business requires a certain investment profile and effort and then the execution against our luxury business and direct engagement with our consumer also requires a specific skill. So yes, I'm confident and I believe the team is confident that we'll continue to provide the right level of effort and focus against the premium business, all while building on this moment of luxury.

Sorry to cut you off. I didn't mean it. The I don't think we should undersell the work Ben's done as well in terms of this separation of the sales and marketing team in terms of that focus of those teams now in terms of driving these portfolios. There's certainly one thing we've learnt is how you execute and you think about the different channels from a luxury business point of view versus a premium business from a sales perspective. Essentially, the premium portfolio by and large is sold through and executed through national accounts, off-premise, retail, whereas the luxury businesses, D2C, on-premise, independent off-premise and also the national accounts as well and I think that's one of the learnings now with the size and scale of the luxury business there.

One, we can't distract the team from driving what you rightly point out, David, is really good performance and some good momentum but at the same time, having the skill set and the focus on this absolute execution in national accounts for these premium brands is where the success is going to lie in that. So it's a pretty important change within the Treasury of America's business and we felt it was necessary to really drive this focus because, as you rightly say, you can't have a full P&L at the end of the year that has great news story on part of the portfolio and yet we haven't got the performance on the rest. We recognize that.

Stuart Boxer

So, David, I'll try to pick up your other parts of the question. On the margin one, we're probably going to have to take that one offline because I'm struggling to keep up your mathematics. But I think the takeaway for me was that across the year, we were really pleased that overall if you take DAOU out of the equation, DAOU obviously delivered in line with what we guided to and the rest of the business for the second half delivered our overall guidance and delivered from a margin perspective, certainly in line and probably slightly ahead of where we thought it would when we guided it the first half for that second half margin.

So we're pretty happy with that outcome and part of the sort of driver of the difference, if you look margin first half to second half was as we started to get off that wildfire impacted 2020 vintage on the 2021, we started to see that margin improvement flowing through in the second half. So, we'll have to offline work through your mathematics with you to get underneath what you're trying to get out there because overall we were pretty happy with it.

The second piece on material items, I absolutely hear you. I think if I look back at the components of it, as you're aware, we've been going through an exercise to be – to really sort of reshape the portfolio and if you look at the biggest chunks of that cost that hit the PL, it's been relating to parts of the portfolio that we've either exited in the past or are now talking about exiting being commercial here. So commercial in the US commercial for TPB, really the result of sort of sort of legacy costs that we were carrying forward there, it's obviously not something that we like to do every period of time and to try to put things into material items. They're all linked to really sort of specific initiatives to reshape the portfolio. I can't talk to the future, but certainly, as we sit here, our primary focus is on providing really good quality operating earnings. To the extent that we need to continue to refine the portfolio and have some implications for material items. We'll call them out and disclose them as clearly as we can, but it's certainly not a priority for us to keep having material items. I fully understand what you're saying.

Operator

Your next question comes from Ben Gilbert with Jarden.

Ben Gilbert

Tim, Tom. Just a question for me. Just on the decision, which I think, obviously, is well flagged around creating a global TPB business. What's the view around the future of that business sort of sitting within Treasury today? Because arguably, market undervaluing the premium business given to say, your Luxury business, given the growth you've got your some other luxury brands globally and it's obviously a pretty strong track of demergers in Australia that I think over two-thirds can typically create value from an aggregate what's the board thinking around that? Is this something that if you were going to see it would happen post 1st of July last year, just coming on some of the thinking that yourself from the Board have got behind that at the moment.

Tim Ford

Yes. I'm willing to share is what we've announced, I guess, at this point in time, which is we think going to the global premium model is the right way to improve the business, drive the business and create value from the business. Clearly, it separates it from our Luxury portfolio and where we see obviously, the stronger performance in our business, but also the stronger growth profile and the quality of the metrics of those businesses going forward as well.

So that separation of thing is important to unlock whatever future decisions we may make, but the only decisions we have made at this point in time are, one, we believe in any scenario, the commercial brands and specifically the big four commercial brands we've outlined, we are seeking to divest those.

We don't see those as creating value for us going forward, whereas from a global premium brand perspective, it's about how do we create the most value, and there's multiple different scenarios that we're talking about as a management team and talking about with the Board. But at this point in time, it would be premature to outline too many of those other than what we've actually outlined in last week and today.

Ben Gilbert
Just on the appreciation, it's a big task doing this, but you started and well progressed. Are there any big risk factors like separate ERPs, and these sorts of things that we need to think about, or is it nothing straightforward in the scale, but is it relatively derisked do you think, in terms of the path through to 1st of July next year?

Tim Ford
I think the heavy lifting has almost been done. If you think about the change that bends down in Treasury Americas with the separation of the sales and marketing team. It really is the market-facing component of it. That's probably the most complex from a point of view, and that's more people and customer engagement focused and obviously, Angus taking over the leadership of TPB and that integration he's done with his former team,

he's already done July 1 as well.

So the supporting back of house, things like supply chain, like systems and IT and all the rest of it. We'll continue to support all parts of TWE because that's our shared back office. So from that point of view, there will be some further changes we need to make. But it's really around making sure as a priority Ben. And that's why we've sort of given ourselves and alert to the market, the time frame we're working towards by July 1, 2025 is our first priority is making sure that we are performing in our premium brands businesses. Angus has been in the job yes, six weeks now. And there's a very clear plan of what [Hines] to do to improve that business and no one is going to deny the fact we have to improve that business. That's our focus.

David points out from the Treasury Americas point of view, yes, the specific team for that in the US has the same agenda item. So once we're comfortable we're on that track and we've got the things in place we need to do that, that's when we'll progress more further the bringing together of the organization.

Ben Gilbert

Just one final one for me. You've obviously done a lot of stuff around productivity and you're obviously going to consolidate a few of those production facilities for DAOU into the — ***Indiscernible*** — you've got sitting in patrols. What sort of materiality are you going to see or do you expect to see in terms of cost per liter, both from Penfolds over the next sort of 12 months to 18 months? And then from DAOU, bring that any? Is it sort of double-digit type benefits from the productivity gains you put in across both of those?

Tim Ford

I'll take that one, Ben. Look, I think that the way that we need to think about that really is linking on the DAOU side back to the $20 million plus of synergies that we've guided to, and then you can flow that through your numbers that way rather than try to sort of back calculate it through a productivity measure. I mean, clearly, achieving those sorts of synergies will give us productivity. But I'd focus here on just linking it back to the $20 million DAOU plus figure. And similarly, if you look elsewhere across the network, we've again given some pretty good guidance on, for example, on Penfolds in terms of our sort of margin aspirations over the next couple of years. So that's sort of built into our thinking there.

The other point to make is it's not going to help you sort of solve the question you're going for. But yes, with such a big part of their costs, be in particularly in luxury wine been in the liquid in the bottle, I think about the vintages we've had in fiscal 2024, both in America and also here in Australia are both very large, high-quality vintages as well. So as we are making more of this luxury wine, as we've seen in the inventory numbers today to fulfill demand in fiscal '26-'27, in particular, it will actually be a larger volume vintage, which should come with a better cogs.

Operator

Your next question comes from Tom Kierath with Barrenjoey.

Thomas Kierath

Good morning, guys. Just one on Penfolds. Can you give us a split of how much sales were sold into China versus Asia ex-China in either the half of the year? Just give us a sense of where you are in China versus FY '19 levels?

Tim Ford

Yes. No, we're not going to do that, unfortunately. I know that's a desire you have. But I don't think it's when we think about the total Asia business and then the reallocation and what goes into China versus other markets, it's going to be quite shifting and also splitting out the China market, in particular, from a P&L point of view, we don't think it's overly helpful in terms of managing the market, managing our position in that market.

And I've been quite clear on this since we've talked about the China reopening, it's not something we're going to separate. We're going to talk about Penfolds Asia as a market, as a set of markets together, and it's the prudent way to go. If you think about where we were four or five years ago in terms of that market. So apologies on we're not going to give you that, but I think most investors understand why we would do that, and we think that makes sense.

Thomas Kierath

Okay. And the second one is just with that 7 million cases that you're divesting, how much of that are you making like making yourself versus using a third party because I presume that deleverage is only on the stuff that you're making yourself so much would be helpful just to give that breakdown

Tim Ford

That's a good point. And I'll give you a directionally correct answer, but I'm sure the guys can give you an actual answer when you get together this afternoon. But it's outsourced, if you think about Lindeman's and Blossom Hill is 100% outsourced. Yellowglen some through our facilities, — ***indiscernible*** — very small amount through our facilities and Lindeman's is essentially outsourced. So add that up, I guess, and I shouldn't guess on analyst calls, but I will. It's probably 90% or above is outsourced.

Stuart Boxer

The only thing I'd add to that, that's the production side that Tim is talking to. We do, obviously, bottle and package a fair amount of it through our facilities as well. That sets…

Tim Ford

From a winemaking point of view, certainly, vast, vast majority is outsourced.

Operator

The next question comes from Richard Barwick with CLSA. Please go ahead.

Richard Barwick

Good morning all. Can I just clarify back Stuart's comments when he's talking about the financial impact from this commercial divestment just so I understood it correctly. So I understand you're talking about that $60 million of – from a GP impact. And were you effectively saying, Stuart, that from the cost side, so the cost of doing business side, you're hoping to sort of neutralize the cost. So, if you think about this through to a bottom line, are you saying, there's a $60 million hit to GP and a COD, you're hoping for it to be a wash. And so therefore, the – you're talking about a $60 million hit to EBIT.

Stuart Boxer

No, not quite, Richard. So what I was trying to say is you can take the $60 million, that's a figure that is fine. But within that $60 million, there is actually some carriage of some costs through our network, notwithstanding what we just talked about around outsourced production for a fair proportion of it. We still have the products packaged and have wine makers and those sorts of things. So there are costs that are covered within the effective on the cost of goods sold in that business. So the discussion I was having earlier around stranded costs is I expect there will be some stranded cost. So therefore, the net impact will be a little bit more than that $60 million, exactly how much, as I said earlier, depends on a whole lot of things. And so that's what I'm trying to get to. It will be a little bit more than the 60% due to there being some costs that are retained over and above that gross profit loss.

Tim Ford

And it's also more about the shared cost base from a corporate overhead technology perspective more than it is actually supply chain, yes, packaging yes, we've got to work through that. But that again depends on the solution of what we do with these brands and what the end looks like. So sort of more around that corporate overhead piece is what we've got to work through as well. And we've got to deal with that. We know – we have a plan to deal with certain elements of that. But again, it depends on where we land. So I think I understand, if I want to understand what would be a P&L impact over the course of the year, but it is – we're not dancing around it, but there's different scenarios. There will be different outcomes. But believe me, we've done the work that says on all those different outcomes, it is a better quality business at the end of the day from a metrics point of view, notwithstanding the fact you're taking out a small amount of gross profit at a pretty large amount of volume.

Richard Barwick

No, I understood that. I think no one will dispute. You'll end up with a better quality business. It's just trying to get our head around what's the new earnings base from which you're then going grow from. One other question, just to be clear as well, you're talking about expectations for Treasury Premium Brands looking into '25. And basically, top line stability and the delivery of EBIT broadly in line with PCP. However, that excludes any of the one-off benefit

However, that excludes the one-off benefit from asset sales in 2024. So can you just be clear on what exactly the EBIT contribution was in 2024 from asset sales?

Tim Ford

Yeah. So it's the $10.5 million we're talking about there, Richard, which we've outlined, I think on that page.

Richard Barwick

Right. So therefore it implies if you're going for top line stability and you're taking $10 million or 10.5% of EBIT then you look for, so your guidance is effectively for a pretty material step down in the margin that you're expecting to deliver through Treasury Premium brands?

Tim Ford

Yes. Well, yes, there is a reduction, that's correct.

Richard Barwick

Yes. And we can put that down to discontinued deterioration in commercial brands, assuming that they're still part of the portfolio.

Tim Ford

That's right. And that flows through as those lower volumes flow through from prior years, you end up with COGS impact flowing through. That's the biggest driver.

Operator

Your next question comes from Bryan Raymond with JPMorgan. Please go ahead.

Bryan Raymond

Thanks. Just back on the US, just interested in how you see the pricing outlook given the improvement in supply for you guys and across the industry, particularly, obviously, Napa going to have a lot more wine in the market, but then also for Paso with the DAOU business. I'd imagine they benefited to some degree in recent years with a constrained Napa backdrop. So just keen to understand how you think about pricing across both parts of the business looking forward into 2025 and 2026? Thanks.

Tim Ford

Thanks, Bryan. Ben?

Ben Dollard

Yeah. Hi Bryan, thanks. Look, I think from a pricing standpoint, we've spent a lot of time over the past really 12, 24 months in terms of positioning of our brands, how we think about revenue and most importantly, how we think about the pricing with our consumers.

So I feel from a Napa Valley standpoint that we are well-positioned, and as we come into more supply that we're not concerned that there's going to be heavy discounting across the segment out of Napa. And again, the investment in our brands and how we're executing in market and the activities that we have with our distributors. All of those elements play an important role in protecting our equity.

So from that regard, as I think about Frank Family or Stags' Leap, and BV is a very good example where we've been managing pricing very carefully over the last period and feel we're positioned now in a really good place. So I feel good about the pricing environment across the category, but importantly, within our portfolio.

And then with regards to Paso Robles and the impact of increased inventory or availability coming out of other regions, I think Paso continues to present just an amazing value for the consumer, they probably we're able to drive, and brand DAOU really does – it transcends from a regional standpoint, it really does transcend kind of the engagement with the consumer.

So again, I think our ability to maintain, sustain the pricing with DAOU, I think we feel very confident in and we really are with a brand like DAOU raising the profile of Paso, not only here in California, but further afield. So I think we're well positioned.

Stuart Boxer

One thing I'd just add to that, Bryan, is if you think about the price points of Napa versus Paso, it's one of the key reasons why we're so keen on the DAOU brand as well is that Napa Cabernet now broadly needs to be $60, $60 odd $55, $60 a bottle on shelf to deliver a margin structure, et cetera, that we would expect and most others would need to expect whereas for DAOU Cabernet out of Paso Robles, great quality proposition that's core $25,

$26 a bottle. It's a very different price point that we see it playing to as well. So I think the consumer is different in that space. Yes, they've got the 60 to 100 reserve tiers as well, but the brand itself, we think, is strong from that perspective.

So it's a really – now it's a nice portfolio, if you like, because you've got that balancing across those luxury entry-level luxury versus the higher-end luxury price points as well going forward with the combined portfolio, Ben has got in his hands now.

Bryan Raymond

Right. So just to confirm – thanks for that color, it's great. Just to confirm, though, you're saying pricing went up a lot. We went up meaningfully across the market and for you guys, but in a supply-constrained environment and you expect to hold largely going forward? Or would you expect further price to be taken, like just keen to understand the dynamic?

Tim Ford

No, that's a good summary question. Now look, our road map to growth in the – certainly in the next couple of years is wine, more wine comes online is about distribution growth, distribution growth and distribution growth, which will be volume as opposed to price. We think we've got the pricing architecture pretty right for the medium term.

Operator

Your next question comes from Craig Woolford with MST Marquee. Please go ahead.

Craig Woolford

Tim and Stuart and the whole team. Can you just clarify with the commercial portfolio. Are there different ways you would consider selling it? Would you sell individual brands what if you don't get a decent price or a decent offer, is it a sale at any price? And also what capital is actually tied up in that commercial portfolio of the $6.6 billion in capital employed that you have?

Tim Ford

Yes. So I'll take the capital one first. Not a lot. It's obviously working capital tied up with those businesses. But certainly, after the decision we made on Karadoc last year, there's not a lot of dedicated assets associated with those brands, fixed assets have been departed. In terms of how we would sell them. First, I just wanted to say that we have had some sort of inquiries and inbound interest even before we made this announcement that sort of gives us a sense that there's a level of interest out there. As we go through a process, and we're putting it together right now, we will consider different scenarios here because some brands may be more said, what do others base to where the distribution is. So we'll run a process and work it through. If you can do it in one transaction great, but if it makes more sense to sell them separately because they're not necessarily tied to specific assets, then we'll look at that as well.

Craig Woolford

And then the other one, just do you expect – there's always lots of moving parts in this business, particularly with the acquisition of DAOU and some of the changes in the mix of the portfolio. But just organically, do you expect in FY 2025 that your price per case growth will outstrip COGS per case?

Tim Ford

I'm interested. I'm trying to think of a drivers of COGS.

Stuart Boxer

Yes. I mean, certainly all the sort of signs we've talked about are positive in terms of COGS outcome, just in terms of sort of transitioning on to better vintages and obviously, we're giving guidance more broadly around margin and the like as well, which is going in that direction as well.

Tim Ford

Yes. Let us make sure we attend come back to you this afternoon as well because the answer is yes, broadly, but I want to make sure the answer is yes. When you take full year of DAOU as well as total business. But the answer is yes.

Operator

Your next question comes from Mark Southwell-Keely with Select Equities. Please go ahead.

Analyst

Hi, there. On Page 3 of today's results announcement, you say that global demand for Penfolds Bin and Icon portfolio exceeds availability. I'm just wondering how you explain the fact that consumer prices for Bin 407 and 389 in China are currently trading around 20% below wholesale prices and around 40% below RRP

Tim Ford

Yes. Thanks Mark. I think Tom may we reiterate what you said earlier?

Tom King

Look, I covered it earlier that we are aware that there is some parallel that's coming into the market since the tariffs were lifted, and some people are taking the opportunity to make a quick buck and potentially earn very skinny margins, which we're very disappointed by, and it is a shame given the constraint we have on the supply side.

So we're taking the necessary steps, as I outlined earlier, but we knew there would be a scenario where this was happening. What we do see on our own channels and the authorized challenge we have is that – the demand is there, and that was a good so far. initial sales are good at the full retail price or the share

Analyst

It's about 100% of transaction volume going through the e-commerce site at the moment.

It’s not a small amount. So usually when we see this, it indicates that they’re stressing the value chain, which may require intervention by the brand, for example, by limiting supply or providing additional investment. So I’m just wondering if these trends don’t change. What are your thoughts around that?

Tim Ford

But Mark, I can’t comment on what data you’re quoting me there. I’m not sure. It’s very different to what we’re seeing. So we’ve always been conscious that there are occasions where this happens. And we’ve never shied away from being transparent about that. As I outlined earlier, we are taking steps to ensure that where this is occurring at the moment that it reduces and minimizes over time.

Tom King

To you point, Mark, what do we do about it and what we do about is to manage allocations – to those customers. And we are very much absolutely clear on our key partners in China, who we’re engaging with directly. And there’s 16, 17 of those are absolutely through the value chain, doing what we expect them to do, hit the retail price points, whether it be through Tier 1, Tier 2 cities, particularly on those core Bins. Yes, there’s isolated instances. But I don’t concur with the data we see. I don’t concur 100% of the products at those levels. So thanks for the question.

Operator

Your next question comes from Shaun Cousins with UBS. Please go ahead.

Shaun Cousins

Tim. Maybe just on DAOU, the company sort of highlighted over historic years that the second half of the calendar year has been 63% of the calendar year EBIT. Is there any reason why that wouldn’t happen in calendar 2024?

Tim Ford

So a couple of things to touch on there. If you actually sort of flip it onto our financial year, the numbers that we provide in the back of the pack and more like 60-40, and that's really just because of the year-on-year growth. Shaun, that's just a minor change to that stat. But what we've guided to is an overall even sort of outcome half-on-half for the overall Treasury Americas division. And so what's going on within that within DAOU is a profile in terms of the sort of sales and EBITS mix that we don't expect to be dramatically different to what we've seen before, but you've also got sort of the realization commencing of synergies more in the back half of the year, which will sort of, if you like, give a bit of a boost to second half earnings for DAOU and for the rest of the business, it's normally relatively even anyway. So they're the piece of the puzzle leading us to that overall guidance.

Shaun Cousins

Okay. And maybe just a question on gearing and cash flow. You've called out your reported cash at 82 – cash conversion had mid 82% and 94.6%, excluding the non-current luxury and premium inventory, and then you're guiding now to 80% for fiscal 2025, excluding premium and luxury inventory. Should we see reported cash conversion, sort of get down to, say, 65%, and the reason I ask is around how you think about your plans to deleverage. Your guidance is to get in the low end of the 1.5 to two times net debt-to-EBITDA at the end of fiscal 2025. Given what could be a lower cash conversion on a reported basis, how does that – are you confident that you get to that level of gearing? And how do you think about reported cash conversion please F 2025?

Tim Ford

So I'll just start with the gearing. So what we've guided to on gearing is to get ourselves in that range of 1.5 to two times. We haven't guided to any particular part of that range, Shaun. So that's sort of the first point. And that guidance is consistent with the outlook we've given for cash conversion and CapEx and the like. So that's the sort of the primary piece of it.

In terms of then this, different cash conversions. I mean the reason that we sort of anchor ourselves to the cash conversion, excluding the building non-current luxury and premium inventory is that that's very much dependent on the coal and the size of the vintages as they come. So that's more of like a sort of an add-on that occurs during the year.

So at the moment, we're expecting we're expecting, if you like, sort of normal vintages. But obviously, if we end up with different outcomes, then we'll sort of cross that bridge as we come. But that 82% is the one that we can – so that 80% is the one we can call now based on the things that we know about in our control.

Shaun Cousins

But you're still confident of getting within the range of that 1.5 to two times net debt-to-EBITDA at the end of Fiscal 2025?

Tim Ford

Yeah. We are – and we're at 2.0 times. So literally, we're right at the top end of the range at the end of F 2024. So we're obviously very close.

Operator

Your next question comes from Phil Kimber with E&P Capital. Please go ahead.

Phillip Kimber

Just a question, I think it's a slide 10, where you show the global operating model and the luxury versus the premium business. So can I just confirm the EBIT that you show there for the premium brands business of 170, you're basically saying that includes commercial and that's going to come down, let's just talk round numbers to about $100 million. You talked about 60 of GPs and sort of stranded costs. So I just wanted to check that that's correct?

And then secondly, you talked about optionality around that global premium brands business. Does that optionality potentially include a similar impact where there could be a lot of stranded costs that need to be considered when we're thinking about any potential sort of optionality that you might undertake in that business? If you could sort of comment on those two, that would be awesome.

Tim Ford

I'll take the second one, and then Stuart can take the first one. I mean the answer is clearly, as we look at the best way to create value for this business going forward, the different scenarios have different outcomes. So from that perspective, we are very conscious of the role that the volume of treasury premium brands plays for our luxury portfolio. I'll talk about optionality to support our luxury-led strategy is a really important part of this, right, which is that business at the moment, does support our strategy across the board because of that now going forward, we will not make a decision – sorry, I'll rephrase it. We will make decisions that ensure that the supporting role of anything else in our business, whether it be our cost base, whether it be our other brand portfolio of brands is absolutely supporting what is nearly 80% of our business now from a Luxury perspective.

So, there's a whole range of different scenarios there that we can speculate on. But until we actually landed what we want to do right now, pretty simply, we're go into a global Premium business. This business here on the Page 10, as you rightly point out, is the pro forma of what that business would look like if we combine those two businesses today and also the separation of the Luxury brand, we think it's really important for investors to be clear.

On the left-hand side of the page, what the future growth looks like on the back of this as a basis for our earnings and our margin structures, et cetera. But be really clear, it's around what's the absolute best way to create value for not only the P&L, but for shareholders with the supporting role of what Premium Brands is going forward.

Stuart Boxer

And sort of on the first part, I think Tim's point around sort of pro forma is important. So, what we in these numbers is just sort of cut it up and then sort of allocate it over the heads, et cetera, to give you a sense of that. So, as we sort of work through what we talked about earlier around the loss of that $60 million of GP and stranded costs, et cetera, and how we do with overheads, that's all going to flow through to those numbers. So, prima facie, I can see why you've said what you've said and it's consistent with what we said before, but we're actually going to work it through properly and then recut those numbers for you when we're ready to do so, but it's a bit early to do that.

Phillip Kimber

And sorry, just to be clear, those numbers there, I don't think include the $70-odd million of corporate overhead that you separately reported. Is that correct?

Stuart Boxer

Yes, I think that's right.

Phillip Kimber

Yes. Sorry. And then one more, just if I can. Just on the Asian side, I noticed in your fact book, you've given sort of some largest Luxury wine markets, and we talk a lot about China, which is quite understandable. But if I look on Page 9, Asia ex-China is $3.8 billion versus China $1.1 billion. Can you talk a little bit about some of the other markets, Asia, ex-China, how they're performing? Like I'm guessing Japan is a big one in that. And doesn't tend to get as much focus, but it sounds like they're quite big markets themselves as well.

Tim Ford

Thanks for asking that question. Phil, that's a good, we appreciate it. Tom, take it away.

Tom King

Thank you, Phil. I'm very proud actually to be able to talk about our other markets in Asia and the work that has been done over many, many years, but particularly in the last few years on Penfolds to really accelerate the growth in those markets and build what we've seen today from our data is really strong brand equity and demand power across our consumer base.

Our prioritization of those markets and our investment in those markets will not diminish now that China is open. The success we've had in markets such as Thailand, Malaysia, Singapore, Hong Kong, which continue to go from strength-to-strength, to be honest, and we still see a fair bit of runway ahead, particularly in the likes of Thailand and Malaysia.

Outside of that, pretty excited about long-term potential in markets such as Indonesia, Vietnam, and across Endo China. So, we've maintained a healthy level of investment going into F 2025 and going forward and we've prioritized maintaining allocations in those markets that I've identified there. And we'll continue to invest in our teams on the ground and the resources that we need to continue to deliver on the growth ambition that we have is fairly similar to China to play a leading role in building and developing the luxury wine category. The benefit of China reopening for those other markets now is whilst we've reallocated some Australian wine to China, we're now able to prioritize some allocations of our French, US and Chinese wines for our global markets. So we're able to bring the Penfolds global source portfolio, the storytelling and the experiences that go around that to more of our markets around the world now.

Operator

Thank you. Your final question comes from Sam Teeger with Citi.

Sam Teeger

Hi, Tim and team. Can you talk to the different performance that Frank Family is seeing across the various channels and the key driver that Leslie to join the Board?

Tim Ford

You take the first one, Ben, and then I'll take the second one.

Ben Dollard

We've been very focused on growing, nurturing our on-premise distribution in Frank Family. So I'm really pleased that we've been able to maintain what is a very healthy mix between on and off-premise. And so our focus really has been around how do we continue to build trial in the on-premise, and that's exactly what we've been doing.

In addition to that, the growth we've been receiving from Frank Family has also come across from our penetration in the independent channel, and also working with our strategic accounts across the country in those accounts where Frank Family absolutely has an important role to play. So it's been a very deliberate effort on our things part to nurture the on-premise, while also just growing it in the independent strategic accounts. So I'm really pleased, and I have absolute confidence that we will continue down that path with the brand.

Tim Ford

And in terms of the change of the Board with Leslie Frank joining our Board for those who didn't know is, yes, we've been looking – is John took over as Chairman, Clearly, we've been going through the refreshment of the Board and changes of the Boarders every Board does, and we've certainly been seeking further luxury brand expertise, further luxury wine category expertise, concern just gives me a chance to reiterate it, they haven't picked it up already.

That's the core of our business today and our growth going forward. Understanding of the Californian wine industry in connection within that as well as a lot of skills Leslie brings from her own career previously which she's had a very, very esteem career itself, not just within the creation of Frank Family Vineyards as a brand. So a lot of great skills she brings ticked a lot of the boxes we were seeking. And we're really, really pleased that she agreed to join the Board, so.

All right. Thank you, Sam. Thank you, everybody. It's a wrap. Just to briefly sum up as I like to do, for those that are still on the call. Very clearly, we feel we've got great momentum, particularly in our luxury brand platforms, Penfolds and Treasury Americas. We've got some work to do in terms of our premium business. We recognize that, but we also have taken action, we don't tend to admire problems in this business. So we've taken some really distinct action, which we outlined not only last week, but hopefully today for you that you'll see going forward as well.

So we feel very strongly about the opportunity we have in front of us and the category headwinds that everyone likes to talk about have existed for a while, and they still continue, and we believe our performance in the marketplace is around the globe, will continue to be strong based on that momentum.

So thanks for joining, and I look forward to calling you over the next week or two. Cheers.