Treasury Wine Estates Limited, Investor Day 2024
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Presentation

Tim Ford

Good morning, and a very warm welcome to DAOU Mountain here in Paso Robles, California for the Treasury Americas Luxury Estates' Investor Day. My name is Tim Ford, and I am the TWE Chief Executive Officer.

Thank you to those able to join us here today, and we appreciate the effort you've made to find the opportunity to immerse yourself in our Luxury brands over the course of today, and I hope you find it both enjoyable and insightful. We're certainly excited to be able to showcase that to you in person, and also, I hope you'll leave today with a strong appreciation of the high-quality business and also the unique opportunity we have here before us in the United States with TWE, giving us another outstanding Luxury platform, alongside Penfolds for our business.

For those joining remotely, and I'll repeat myself for those in the room, today's presenters include the following members of our Treasury Americas and TWE leadership team. We have Ben Dollard, the President of Treasury Americas; Neb Lukic, our Global President of DAOU; Neil Cassidy, our Chief Value Creation Officer for Treasury Americas, who is previously DAOU's COO; and Rachel Ashley, our Senior Vice President of Supply, here in the Americas. In the room today, we also have our CFO and Chief Strategy Officer, Stuart Boxer; and Ben Duemler, our Chief Financial Officer for Treasury Americas.

So if I sit back out, our objective today is to provide a deep dive for you of our Treasury America's Luxury Wine Estates portfolio, showcasing DAOU and the important role it will play in our future, along with the broader Luxury portfolio, and how we plan to create value from what we see as the outstanding portfolio of brands in this market, supported by an excellent asset base and, most importantly, the world-class team.

During this morning's session, you're going to hear directly from this world-class team, and we'll follow that with Q&A and opportunity to ask questions, will be followed by lunch and a visit to our winery, which is an important part of our asset base going forward. We'll then be back here for dinner. So sorry for those on the video, you miss it, but we'll be back here for dinner tonight and will have a first-class consumer experience yourselves, what DAOU is known for, including its highly acclaimed wines. So let's have a great day together and look forward to sharing it all with you.

So before I hand over to Ben, I'm pleased to share an update on our outlook, starting with our expectations for fiscal '24. From a group perspective, we remain on track to deliver on the outlook that we shared at our half year results update in February, which is for mid- to high single digits EBITS growth, excluding the EBITS contribution from DAOU in the second half. Work to assess the future operating model for TWE's global portfolio of Premium brands is continuing, as we outlined, and an update will also be provided in August this year – sorry, next fiscal year at our results.

Importantly, for Treasury Americas, where we are today, we expect our fiscal '24 EBITS to be between $223 million and $228 million, reflecting the growth in our Luxury portfolio, supported by increased availability of wine with our Premium portfolio revenue broadly in line with the prior comp period. Within this, the DAOU EBITS are expected to be approximately USD 24 million, in line with the USD 23 million to USD 25 million expectation we set when we announced the acquisition back in October.

For DAOU, all other things remain on track and the same. We expect EPS accretion before the realization of synergies at – to be mid- to high single-digit EPS, including pro forma cost synergies of USD 20 million plus from F25, our first full year of ownership. Over the medium term, we continue to expect the delivery of annual low double-digit NSR growth for the DAOU portfolio. So essentially, expectation's in line with what we've outlined with our disclosures previously.

So with that, I'll now hand over to Ben Dollard.

Ben Dollard

Thank you, Tim.

Tim Ford

Pleasure.

Ben Dollard

Well, good morning, everyone, and thank you, Tim, and a very warm welcome to Paso Robles. I'm pleased to have this opportunity to share how we have successfully transformed the Treasury Americas business over the past 4 years.

We are exceptionally proud of the transformation that we have achieved in the Treasury Americas business over the past 4 years. And with the acquisition of DAOU, we now have the leading Luxury portfolio of acclaimed brands in the market with significant growth opportunities ahead. Consumer engagement and interest in luxury wine remains strong. Our U.S. Luxury portfolio is a wonderful complement to sit alongside Penfolds. The Treasury Americas team is energized by the opportunity to create an outstanding Luxury-focused growth platform.

The U.S. wine market has evolved for several years, and we are actively adapting. It is important to distinguish between short-term trends. The impacts of COVID and the macroeconomic environment have had significant impact at the lower end of the category. The longer-term trends remain positive, especially for luxury wine and brands that have invested in quality and building awareness.

There's been a great deal made of distributor inventory levels and destocking recently. However, we are confident that this dynamic has largely played out for our portfolio, as reflected in the fiscal '24 outlook that Tim shared just a moment ago. Top-performing brands will continue to see strong focus from both distributors and retailers.

When we consider longer-term trends, we see shifting consumer demographics from baby boomers to millennials and Gen Z as a big opportunity. We know delivering an authentic brand experience matters greatly to these consumers. We see winery visitation as a key recruitment model for loyal brand engagement as we do for end market activations that bring the experience to consumers where they are.

The U.S. is, by some magnitude, the largest market for luxury wine globally, and premiumization continues to be an overarching trend as consumers enjoy better quality and higher-priced wines. This is a trend that is expected to continue for wines $15 and above and more so at the higher luxury price points.

Over the past 4 years, we have executed against our strategy to reshape our portfolio directly to where the consumer is engaging, and we have built a culture that focuses on consumer connections and deep collaborative relationships with our retailers and distributors. These are all key elements designed to position us to capitalize on this unique market opportunity.

Wine provides a great opportunity for connection. We see this as consumers are motivated to engage with luxury wine for a variety of important reasons, such as social, celebration, education and relaxation. There is no doubt that these elements are strong drivers for the growth in luxury wine consumption.

There are several consistent themes we are seeing across the luxury category. Younger consumers are engaging with wine in a different way than previous generations. There is a willingness to engage at high price points. Authenticity matters for luxury wine consumers with quality and familiarity with brands and wine regions remaining important purchase decision factors. We believe the Treasury Americas brand portfolio caters strongly to these attributes, providing us with a strong platform for long-term growth.

The acquisition of DAOU has accelerated the evolution of our portfolio towards luxury, a key strategic priority over the past 4 years. With over half of our revenue and approximately 70% of our divisional EBITS now coming from the Luxury portfolio on a pro forma basis, the Luxury portfolio will be the driver of growth going forward.

The DAOU acquisition has also enabled the creation of 2 distinct brand portfolios with differentiated priorities and approaches to the market. Starting in fiscal '25, we'll be implementing a separate sales and marketing focus for the Luxury Estates and Premium portfolios, supported by a center of excellence with our shared services model. We are confident this operating model will bring with it the benefits of separate focus, enhanced business plans, customer relations and portfolio innovation and, ultimately, strengthen our financial performance.

The DAOU acquisition unlocked a significant long-term growth opportunity for Treasury Americas. Let's take a few moments to recap on some of the key elements. The acquisition enabled the creation of the #1 luxury wine business in the U.S., thereby increasing engagement with key retail partners in combination with our broad and extensive distributor network. This presents a significant advantage for Treasury Americas to leverage moving forward.

The acquisition filled a key portfolio gap in the $20 to $40 price point, which is the largest segment of the U.S. luxury wine market, and an important entry point for luxury wine consumers. The acquisition strengthened our key financial metrics, and we revised our long-term EBITS margin target for Treasury Americas from 25% to the high 20% range as a result.

The acquisition has brought us a significant value creation opportunity, leveraging the organizational strength of DAOU and Treasury Americas. This builds on TWE's broader organization capabilities and scale across portfolio innovation, distribution, winemaking and a world-class team.

Finally, the acquisition has provided the scale to potentially create a future stand-alone Americas Luxury division. As a strong luxury-focused growth platform to sit alongside Penfolds, we remain confident in the strategic and financial benefits of the DAOU acquisition.

We have an exceptional Luxury portfolio, well-positioned to capture the imagination of our consumers. Each of our Luxury brands is highly acclaimed with its own unique history and story. Stag's Leap, Beringer and Beaulieu Vineyards have legacies dating back well over 100 years and are icons of Napa Valley. Synonymous with the best that U.S. luxury wine has to offer, Frank Family Vineyards, founded by Rich and Leslie Frank in 1992, and renowned for its unique guest experience, outstanding Chardonnay and fast-emerging strength in Cabernet. We are privileged to have Penfolds as part of our Luxury Estates portfolio, working hand-in-hand with Tom King and the Penfolds team to pursue what we see as an excellent long-term opportunity in the U.S.

DAOU, which now represents half of our portfolio revenue is our focus for today. And Neb and Neil will shortly take you through DAOU's unique history and incredible track record for growth.

The scale and strength of our luxury state portfolio is reflected in its pro forma profile of 1.6 million cases, $634 million of revenue and, it's our case at Australia, $385 nine liter and 36% EBITS margin post the realization of run rate synergies. These metrics benchmark favorably against any other luxury wine business, not just in the U.S. but globally, and reflects our confidence that we are building another outstanding luxury pillar alongside Penfolds in our global portfolio.

The portfolio is well-diversified and positioned for consumer and category trends. Our price points cover the breadth of luxury wine occasions and align well to market trends at the respective price points, with $20 to $40 being the largest segment of the luxury wine market.

Our sales channels are diverse with consumers accessing our portfolio in a variety of ways, from the retail shelf on-premise and engagement through our direct consumer platforms, which include our tasting rooms, clubs and e-commerce. Retail chains, in particular, are an important channel. However, we do caution against the overreliance on scan data to track performance, given there is only partial coverage of retailers through either Circana or Nielsen.

From a varietal perspective, Cabernet and Chardonnay remain the key sellers for U.S. luxury wine consumers, particularly above $40. Our portfolio is ideally placed, and we also have strong positioning for emerging opportunities, particularly Sauvignon Blanc and Rosé within the DAOU portfolio.

Finally, following the acquisition of DAOU, our profile by sourcing region is well-balanced between Napa Valley and Paso Robles. This is a distinct strength for Treasury Americas, given the growing consumer demand for luxury wine, particularly Cabernet from Paso Robles. This balance further diversifies our sourcing risk and mitigates the impact of vintage variation.

We are focused on 3 very clear priorities for our Luxury Estates portfolio. Our first priority is to scale our brands and elevate the awareness and image of our Luxury portfolio, which we'll enable through expanded distribution. Our access to luxury high-quality wine is an advantage. However, we will always maintain focus on quality and prestige of our portfolio. We will align our investment to brand building and consumer acquisition with a long-term lens.

Our second priority is establishing long-standing connection with our consumers through Luxury experiences by ensuring that we're delivering unmatched hospitality for our guests when they come to our estates. As we know, this builds advocacy when our guests return home. We will also be extremely focused on in-market activations, bringing our brand stories to life at the local level.

Thirdly, the opportunity to pursue international expansion. Building on our leading market position in the U.S. to become the leading portfolio in Canada is a clear close-to-home priority for Treasury Americas. And on top of that, we have an opportunity that few other U.S. luxury wine businesses have. We will leverage a truly global international distribution platform to take our brands to the world, particularly in Asia where we have had outstanding success with Penfolds over the years.

With our industry-leading Luxury portfolio in the world's largest luxury wine market, we have all of the elements in place to deliver sustainable long-term growth. Our growth ambition is supported by attractive fundamentals for luxury wine and outstanding asset base and an industry-leading team.

Let us now focus on DAOU and its incredible journey of success. It is now my pleasure to hand it over to Neb.

Nebojsa Lukic

Thank you. Good morning, everybody, and welcome to DAOU. My name is Neb Lukic, and I'm Global President of DAOU.

My DAOU journey started in March of 2019, and it has been incredible in every possible way. Prior to my DAOU career, I spent 17.5 years at Southern Glazer's Wines & Spirits, of which last 9 years, I was the head of on-premise business in California. In 2016, like many of us, I met Georges Daou in the golf course. And by the end of the round, he have me and said, "You and I will be working together one day." He was right. Soon thereafter, I started advising George on pricing and numerous initiatives, most notably regarding our development of our crown jewel, Soul of a Lion.

As I think back, I remember at that time, this was back in 2017, at Southern Glazer's Wines & Spirits, we had a very tough time selling Paso Cabernet for even $8. It was considered a low-quality wine from a hot region. This all, of course, could not be – could not have been further from the truth. But here I was building a sales strategy for a wine, Soul of a Lion, that was $150 a bottle. I learned that sometimes the hardest things that the sales leader is faced with is convincing your own team as to why we must do some things. This learning has also helped me tremendously to lead this incredible team and build this amazing brand.

I have sold every single brand imaginable, and I have never seen a wine brand perform like DAOU does. Brands like DAOU come once every 50 to 100 years. I also learned the Paso just needed someone to give it a chance, and it found it in Georges and Danny and our incredible team. Paso Robles needed Danny, they needed George and they needed Soul of a Lion. At DAOU, we say there's a thread of divine here at the DAOU Mountain, and I am absolutely convinced of this. We were not the first to produce Cabernet in Paso Robles. But when you hear us speak about it, you will think that we are the only one making it. Our passion for this brand is unmistakable.

There are really many elements that have made DAOU this amazing success that it is today, but it is very hard. It's a spirit focused on passion, perseverance and unrelenting attention to detail to create world-class wines and extraordinary experience at every single touchpoint. We also have one very important role. We must control our own destiny at all costs. And this is exactly what we do every single day. It is an ultimate obsession on every single detail, and I'm super excited to showcase some of this throughout the day.

We are a multifaceted, high-growth business, producing incredible wines that our consumers love with a tier portfolio strategy that is built for scale, put multiple routes to consumer, including an outstanding direct-to-consumer platform. Our journey is a testament to the dedication and devotion of our founders as well as the collective efforts of a talented team. We have raised and will continue to raise the bar for excellence in winemaking, consumer experience and value at scale.

DAOU is the manifestation of a dream for our founders, Georges and Daniel Daou. Their story is a global one, spanning from their childhood in Lebanon to their youth in France with a first – dreamt of a life in wine. After that, brothers came here to U.S. and had a tremendous success, first, in the tech industry, but it was their passion for wine and, in particular, for the first-growth quality Cabernet and Bordeaux varietals that brought them here to Paso Robles, where they founded DAOU Mountain in 2007 and went about building the business that we have here today.

Their vision was simple, yet super ambitious: focused on creating DAOU as a mark of excellence in global wine with an unrelenting commitment to the quality of the wine, innovation and sustainability and led by the team that will exploit the limits and are driven by a purpose to leave a lasting mark on the industry.

And spending few minutes on the Paso Robles itself, I mentioned earlier, there are 11 districts within the region. Each of their – have their own unique climate and soil types, providing to the great diversity of the wine coming from the region. The latest sub district where we are today,is the region's premier luxury wine-producing district, and we have significant presence here, not only at our DAOU Mountain but also throughout other estate vineyards.

A particular feature of Paso Robles winemaking region are the favorable producer economics with great sourcing costs, 20% of those of Napa Valley. Our expansive and highly scalable sourcing model in Paso Robles has been a key enabler of our growth to date with our recent investment in the vineyards here in Adelaida, supplemented by the network of growers which whom we have a long sourcing contract.

Consumer confidence in Paso Robles and DAOU is growing with each passing day. As I travel across the United States and globally, I often hear, "Are you with DAOU? I love DAOU." We have definitely cracked the code with the consumer, and we have a loyal following with our wholesale customers and, equally, with our super passionate DTC consumers.

The growth of luxury wine from this region has been exceptional and well ahead of the other key luxury winemaking regions. That being said, we should note that Napa Valley has been impacted by reduced availability due to the wildfires that hit the region in 2020. In fact, the 2 fastest-growing Cabernets brands in the United States, of which we are one, both now come from Paso Robles. Treasury Wine Estates also has a long history in this region, including sourcing of several of Treasury Americas portfolio brands and, notably for Penfolds, with the California Collection wines partially sourced from the Camatta Hills Vineyard, which was first planted in 1990s. We are very excited about our combined platform here in Paso Robles, which will be a source of growth for DAOU and Treasury Americas going forward.

DAOU Mountain, where we gather today, is our brand home and is a very special place. See, grade wines require exceptional terroir, and we have that in spades here at DAOU Mountain with its rare calcareous clay soils, same that you found in Saint-Émilion on the right-hand bank of Bordeaux, perfect for growing Cabernet Sauvignon and Bordeaux varietals. Combined with a cool air and – from a Pacific Ocean just 14 miles away and in gentle breezes that flow over to Templeton Gap, we have all ecological elements that match those of the best winegrowing regions in the world and perfect combination and environment to grow fast – First Growth quality grapes. These are the elements that Georges and Daniel sought after as they look for their dream vineyards.

Through the expertise of our viticulturists and our team's relentless pursuit of extraordinary, our estate vineyards yield grapes of exceptional quality, characterized by the intense flavors and intensity. We are incredibly proud of the high-quality wines that we produce and our contribution to elevating Paso Robles world-class winemaking region that it is today.

Our portfolio showcases an impressive range of wines from elegant Chardonnay to bulk Cabernet Sauvignons, each expressing the distinct character of Paso Robles. Discovery and Journey tiers are the entry point at around USD 30 per bottle and have played a central role building the brand through the both on- and off-premise channels, growing at 40% CAGR over the past 3 years. Our ultra-luxury tiered wines, Reserve, Estates and PATRIMONY, introduces our consumers to the best the DAOU and Paso Robles have to offer.

I would like to point to 3 wines, in particular. They represent DAOU DNA. Our Reserve Cabernet is what I like to call entry-to-our-house style. Now what is our house style? These wines are handpicked, hand sorted, optically sorted and not press. It is absolutely the purest expression of the Cabernet from the United States at an impeccable value.

As for Soul of a Lion, I remember having dinner with Piero Antinori 10 years ago, and I asked him, "Piero, what is your favorite wine?" And I love his answer. He said, "I cannot answer it that way because we own several estates, and I have my favorite at all those estates. What I can say is that our most important wine is Tignanello." I would say the same thing for Soul of a Lion. Soul of a Lion is the most important wine for DAOU. And not only for DAOU, I believe the Soul is the most important wine of Paso Robles region. Soul of a Lion is the wine that changed the street, Paso Robles region to – from [own] region, growing region to the producer of First Growth quality Cabernet Sauvignon and is also a first wine – a second wine that they gave birth to our first wine, the PATRIMONY.

Everything, that Daniel Daou learned as a winemaker over these years, all of our vineyard developments, understanding of our market climate and terroir culminates in PATRIMONY. PATRIMONY is a priority of Paso Robles. PATRIMONY quality validates Paso Robles and Adelaida district as the next benchmark for Bordeaux varietals. Later, Neil will provide additional focus to our plans to scale and grow ultra-Luxury portfolio, in particular, Soul of a Lion and PATRIMONY as our flagship offerings.

The growth being delivered right across our portfolio exemplifies DAOU's very strong resonance with our consumers. Our relentless pursuit of perfection has earned us numerous accolades and awards, cementing DAOU's reputation for some of the finest wines in the world. Our portfolio has received widespread critical acclaims and has consistently achieved outstanding results from key industry gatekeepers, who are particularly relevant to the U.S. luxury wine market. On this slide here, we show our most recent Parker scores as a proof point of our ability to consistently produce high-rated wines, particularly for our ultra-Luxury tiers, which have a long track record of achieving scores of 95 points and higher. We are incredibly proud of our history in producing such highly rated wines.

And beyond our desire to consistently craft exceptional wise – wines is an absolute commitment to preserving the environment and being a champion of Paso Robles wine industry and our community. Not only do we want to ensure that our vineyards are sustainable, but also that our community is vibrant and secure. We strive to lead in sustainable viticulture.

The water is the most precious resource, and we focus on minimizing our impact to the range of initiatives that guide our irrigation decisions. These include an AI-enabled system, which allows us to predict the week ahead if the vineyard block will need water and exactly how much water it will need. And further to that, we measure the water potential of our blocks weekly, which is particularly important during the heat waves when we need to decide which block absolutely needs water.

We also care deeply for the biodiversity of our sites. We have several initiatives in place, including wildlife corridor at our PATRIMONY vineyards, the return of vegetation, remove — ***indiscernible*** — vines back to the vineyards and proactive planting of grasses and other plants in the locations with heavy erosion.

Our gratitude for our success drive us to actively engage and uphold the core values. They have shaped Paso Robles, and we have cultivated a company culture that is deeply rooted in community involvement. We contribute to be numerous volunteer efforts and partnerships, with the most prominent being the Paso Robles CAB Collective, which was founded by Daniel Daou as a platform to share best practices throughout the region.

There have been just a number of significant milestones across our journey that have had a notable and profound benefits on our success. Following the purchase of the property in 2007 and our first phase of planting, the vineyard – the opening of our iconic tasting room here at DAOU Mountain was a pivotal moment, creating the home to the luxurious and unique guest experiences for which we have been so renowned for.

Then in 2016, another key moment for DAOU when Jeb Dunnuck of Wine Advocate pitted 3 DAOU wines, PATRIMONY, Soul of a Lion and our Estate Cabernet, in blind tasting against 5 of Napa's most iconic wines with our wine standing tall against the better known and more expensive luxury labels. This was a defining moment, putting DAOU on the map in the eyes of the U.S. luxury consumer.

Then between 2019 and '21, we implemented a number of significant changes to our business model, which, in combination, have driven the step change in our growth over the past 3 years. These include the build-out of our national sales team in 2019 and the commencement of our partnership with RNDC in 2021. These were both critical milestones to the expansion of our distribution network through trade channels, particularly outside of California.

Continued investment in growing our direct-to-consumer platform is another highlight to the expansion of our cellar door and club membership and the launch of our DAOU+ app. DAOU+ app is particularly significant as it enables us to create a one-on-one relationship with the consumer at scale and, really, on their most important screen that they have, their phone.

Looking ahead, we believe that DAOU's journey is only just beginning. And we will continue our progress towards our vision that our founders, Georges and Daniel, set so many years ago, building on the strengths that Treasury Wine Estates and Treasury Americas bring.

Thank you very much. I will now bring my colleague, Neil Cassidy, who will walk you through the future direction and growth for DAOU. Thank you.

Neil Cassidy

Thanks, Neb. Good morning, everyone. My name is Neil Cassidy, Chief Value Officer for Treasury Americas, and I'm delighted to be here with you today.

I first began working with the brothers Daou 32 years ago in their San Diego-based startup healthcare tech company, Daou Systems. I led the finance and operations function of the business and worked closely with their father, Joseph, in the early days of the business. We did experience rapid growth and ultimately took the company public. It was definitely a rocket ship to the moon.

We learned a lot about each other as business leaders and gained an appreciation for the importance of establishing strong relationships with our team, with the consumers of our services, our business partners and investors. The biggest takeaway from the first adventure with the brothers was definitely the concept of human connection and creating value for both our customers and shareholders.

In 2013, the first year in which the brothers released DAOU's flagship wine, Soul of a Lion, Georges Daou called me and he asked if I'd come up from San Diego for a few days,and help them figure out if this new wine business of theirs was something that was making money or losing money and if it could be sustainable from a profit and cash flow perspective, because at the end of the day, Georges didn't want to have to keep writing checks to fund the business. So I spent a few weeks doing a deep dive into the business, and I eventually explained to Georges that with a few tweaks, it was definitely something that could be profitable, sustainable and scalable. So he asked if I'd join the company, and I said I would on one condition. And that was if the brothers promise to keep the happy in it, and happiness being a direction and not a place.

So we made a commitment to each other. We said to keep the happy in it always by becoming a purpose-driven organization and focusing on the people aspect of our business, a commitment to obsess over the consumer, to over deliver on quality and value, to provide a magical guest experience. And we would make this all happen by creating a culture of kindness, love and respect for our people, our guests, partners that no one will ever forget. So it was our belief that for our business to succeed, we needed to have and focus on the 4 Ps. I mentioned outside product, place, people and process.

So we remain obsessed with all of these, and they've each played a key role in our success. And as I've mentioned earlier is while my official title in the business of DAOU was CFO and COO, my actual role, as I begin year 12 in the business, is that of Chief Reality Officer. And as Picasso once said, "The meaning of life is to find your gift and the purpose of life is to give it away." So my gift is value creation. And with purpose and focus on our people, I will absolutely continue to give it away. And my new role is Chief Value Officer for Treasury Americas. So I'll be leading a new central commercial team called value creation, and that will accelerate value creation for Treasury Americas.

Our vision is quite simple. We're going to create value by just doing what's right for each other, for consumers and the trade. We will hyperfocus on opportunities to gather intelligence, share insights, excite the consumer, build the best relationships with distributors and explore opportunities, ideas and ventures that all create value. So we'll be focused on top line revenue growth, an optimized cost base and leveraging of important assets in our portfolio. On the human side, importantly, we will lead with kindness and respect always. But we also like to win, and we'll have a lot of fun doing so. So everyone in the organization will have a mindset of value creation and purpose, and we will build a better company together.

So now let me take you through a few slides that describe the DAOU opportunity. As I mentioned, we're focused on continuing DAOU's strong top line momentum, supported by an optimized cost base. I just described the purpose of the Value Creation group and how it'll play a key role in delivering our plans. So on the top line, we expect to deliver low double-digit NSR growth over the medium term, commencing from fiscal '25.

For the Discovery and Journey tiers, we intend to continue delivering ahead of category growth. The enablers of this will be the formation of a dedicated Luxury team for both sales and marketing, a purposeful expansion of U.S. distribution and velocity acceleration through some magical end-market consumer experiences.

So we plan for accelerated growth of our ultra-Luxury tiers, namely Reserve, Estate and PATRIMONY. And we'll have all the – we have all the pieces in place for this. As I mentioned outside, we completed the planting of our Adelaida district Estate vineyards, and this gives us the sourcing we need to grow volume. So we've expanded our Luxury and winemaking capacity as well here on DAOU Mountain and through the Treasury Paso facility. We will also continue to focus on-premise and DTC as the channels to drive this growth.

On our cost base, we do expect to deliver full run rate cost synergies of USD 20-plus million. We plan to achieve this primarily through production and overhead cost synergies through optimized sourcing and production, leveraging existing infrastructure for winemaking and modeling and leveraging existing vineyard fruit in addition to optimize product and SG&A expenditure. This integration will commence in fiscal '25 with full run rate benefits to be realized by fiscal '26, and Rachel will cover in greater detail shortly.

In addition, there's incremental opportunities. As Neb mentioned, the DAOU+ app, it's a proprietary smartphone application. It's focused on consumer acquisition. It's got a built-in loyalty program. It's a gift solution. It's great content, special member access to hospitality opportunities and a full e-commerce platform. So we'll leverage this technology to explore possibilities for expansion of digital capabilities across the entire Treasury portfolio.

We'll also continue to create magical hospitality experiences at our existing estate and explore expansion opportunities at [Choice DAOU on] properties, including here in downtown Paso Robles. For international expansion, there's a huge opportunity to leverage existing Treasury and Penfolds routes to market internationally in Canada, Asia and Europe. Lastly, we'll continue to be innovative, and we're going to explore opportunities for new product development with our Journey and Reserve tiers as well as new product development from new appellations and even new countries of origin, such as Australia.

So Treasury Americas has a deep Luxury distribution footprint. This will help enable DAOU's continued expansion. Prior to becoming part of Treasury Americas, we achieved meaningful distribution expansion in California and several other key states, which has been a key driver for our strong track record of growth over the past 3 years. And if you look on the chart to the right, you can see where we have achieved great success through driving distribution expansion in key markets, including Texas and Florida. So we've only really scratched the surface, and looking forward, the incremental opportunity is considerable with our national category weighted distribution remaining well below those of key luxury peers across many states.

So internationally, our vision is to be the #1 U.S. brand. And we plan to achieve this as part of Treasury Wine Estates by leveraging Penfolds, their leading global distribution platform, by making extraordinary DAOU lines from extraordinary regions.

So DAOU is truly an expression of the very best from Paso Robles. DAOU's ultra-Luxury portfolio, consisting of Soul of a Lion, PATRIMONY and our Reserve lines, they're amongst the finest wines from Paso Robles. As Neb outlined earlier, the acclaim for our portfolio from key industry gatekeepers over a number of years has been critical in bringing credibility to DAOU as one of the world's great luxury wine brands.

So we made this possible through a combination of unique terroir of the Adelaida subregion and the pursuit of vine balance in the vineyard. So it all starts in the vineyard with our farming techniques, the soil minerality and especially our judicious use of water and through one of the world's most innovative winemaking programs pioneered by Daniel Daou. So we plan to drive accelerated growth for our ultra-Luxury portfolio, primarily through the expansion of on-premise and DTC opportunities, and supported by the strength of our integrated supply chain, which will enable us to sustainably scale these wines over time.

As our fully integrated platform, as we mentioned, DAOU+ has been an important part of our consumer engagement platform, allows us to have a one-to-one relationship with our consumer. Our growth focus with the app will continue to be expand to add more consumers. We're going to continue to build a rewards-based loyalty program, and we're going to integrate deep AI to inform and personalize the consumer experience.

Our tasting rooms are a really important part of DAOU's success and attributable to an incredible place, as we mentioned, up top. We're fortunate enough to acquire and transform into a magical hospitality venue we call DAOU Mountain. So DAOU Mountain provides an outstanding brand sensory and tasting room experience and which was named by USA Today in 2023 as the #1 tasting room in the United States.

Our onboarding process and our focus on a healthy culture, that's created a team of people who deliver a magical experience for our guests. And that's something you'll experience firsthand today. So we have over 90,000 visitors that come here to DAOU Mountain annually with weekend reservations committed 4 to 6 weeks in advance, and it's a great signpost of the demand to come to DAOU Mountain.

Our tasting room growth focus includes expanding hospitality offerings to drive brand experience. We're going to continue to grow our consumer base. We're also going to explore downtown Paso Robles development opportunities. We're going to deliver sustained growth.

We continue to outperform the market category, particularly outside of California. The DAOU portfolio scan channel performance remains strong nationally, but particularly outside of California, as we continue to grow distribution and continue to drive velocity across our portfolios in all markets. And this strong momentum has continued in recent months as part of Treasury Americas.

So this concludes my portion of the presentation. Thank you for allowing me to provide you some context on how we got here and the exciting opportunity that lies ahead.

Next, I'd like to hand it over to Ben Dollard and Rachel Ashley, and they'll take you through our Better Together view of Treasury Americas and DAOU. Thanks.

Rachel Ashley

Thanks, Neil. So good morning, everyone. I'm Rachel Ashley. I've been with Treasury Wine Estates for 20 years, 16 of those here in California, nearly 8 on the Americas leadership team. It's an absolute pleasure to join you today to update you on the progress of the DAOU integration, which kicked off earlier this year and is on track from a people, systems and synergies perspective.

At the core of our integration approach is the underlying principle of Better Together. We have an unwavering focus on maintaining DAOU's magic and its essence while, at the same time, leveraging the respective strength of the 2 businesses, and this will create long-term value for our shareholders. It's an approach we took with the Frank Family Vineyards back in 2021. So we have a great playbook to apply to DAOU Vineyards today.

Treasury Americas' existing supply and production model, here in Paso Robles, puts us in a strong and unique position as we considered the acquisition of DAOU. We have great opportunities to support growth and drive improved efficiencies right through the supply chain. There are 4 key areas of cost synergy initiatives: great sourcing and the consolidation of our Paso winery network; centralization of packaging and warehouse operations; procurement, planning and logistics; and finally, overheads. We remain on track to deliver benefits of at least USD 20 million per annum by F26.

The first and most significant opportunity area relates to our integration of our sourcing and our wine production. We will optimize sourcing DAOU's Discovery tier by supplementing DAOU's grower supply with Treasury Americas' large and well-established vineyard network here in Paso Robles. Additionally, we'll consolidate our wine reproduction model through enhanced utilization of Treasury Americas Paso Winery, which is the largest in the region and has been a key element for the production for a number of years. Later today, we'll tour the winery, and you'll see firsthand why this high-quality asset is integral to supporting our growth plans with DAOU. The utilization of Americas Paso – Treasury Americas Paso Winery any allows us to consolidate the 3 DAOU Mountain wineries into the new DAOU Estate Winery right next door. This gives us the potential to expand the consumer guest experience at the top of DAOU Mountain where you were this morning.

The next largest synergy will be achieved across packaging by centralizing our bottling and our storage operations in our Treasury Americas' Sonoma Bottling Centre. This allows us to leverage capacity and fixed cost of the Sonoma Bottling Centre to support DAOU's growing volume and centralized storage of dry goods and finished goods across Treasury Americas and DAOU. This will improve handling efficiencies and also logistics.

There's also a number of other synergies across our supply chain, particularly in planning, procurement and logistics and through optimizing our overheads of the 2 combined businesses.

Our integrated supply chain shown here on this slide will be the source of strength for Treasury Americas, providing a scalable, efficient and flexible sourcing model with security of supply to support our long-term growth ambitions for DAOU well into the future. The network comprises of 6 owned vineyards, totaling about 2,700 acres in the Central Coast region, and that gives us a significant presence in this region. DAOU's extensive grower network in Paso Robles is approximately 7% of the total region's production, ensuring we have stable supply and the ability to continue to deliver DAOU's growth ambitions.

The integrated grape sourcing network to the upcoming vintage consists of 14% owned, 21% long-term lease, controlled and farmed by us, and 65% grower mix in the Central Coast. Our consolidated Paso winery network, which will be in place for this coming vintage, vintage 2024, consists of 2 key wineries that have 3.3 million annual cases capacity. The Treasury Americas Paso Winery is the largest coastal – is a large coastal production winery, targeting $15 and up quality wines. The new boutique DAOU Estate Winery, again, just next door, is where the ultra-Luxury tiers of DAOU Estate and PATRIMONY will be produced.

The final step of our integrated supply chain is the centralization of packaging and warehousing at Sonoma Bottling Centre. The Discovery, Journey and Reserve tiers will all be bottled up north alongside the Treasury America's Luxury and Premium portfolio wines, starting in January 2025.

I'll now hand over to Ben to talk about the approach we're taking to bring the 2 businesses together and our enhanced distributor partnership and the remaining brands in the luxury portfolio. Thank you.

Ben Dollard

Okay. Thank you, Rachel. We are energized by the great opportunity of bringing together 2 great businesses with complementary cultures under the new Treasury Americas operating model.

There were 3 key principles when we designed this model. First, retaining and amplifying the best of both organizations. The new combined leadership team, comprising leaders from both Treasury Americas and DAOU, is in place, a similar approach we have taken to other senior roles right across the organization.

Second, a focus on consumer obsession. And as I mentioned earlier, from 1 July, we will operate as 2 distinct portfolios: Luxury Estates and Premium, each with their own dedicated sales and marketing teams. We're also using this time to have a dedicated direct-to-consumer focus, given the significant growth opportunity. A key element of this focus is elevating responsibility to our leadership team.

The third and final element is the establishment of a center of excellence, supporting execution for the respective portfolio through a centralized value creation team led by Neil, chartered to unlock value across the business.

Through the new operating model, we have great confidence in our ability to be truly Better Together. We believe the management changes we've made will allow us to step change our consumer, customer and our wholesaler focus in a fundamentally different and compelling way. So in summary, our integration activities are well-planned, on track, and we are confident that they will be executed to achieve benefits throughout Treasury Americas.

I'd like to turn my attention to a key strategic priority. We have taken the opportunity to complete a strategic review of our distribution footprint across the U.S. to further strengthen our focus across our 2 portfolios: Luxury Estates and Premium. The key results of our review include: distribution alignment with new operating model and organization design with split focus on our Luxury and Premium sales and marketing, stronger alignment on investment and focus to grow our brands and, importantly, our Treasury America's Luxury and DAOU portfolios are combined and sold together in each market. As a result of our review, we have expanded our relationship with both RNDC and BBG, in particular, giving us 2 strong national distribution partners for our portfolios with a focus on building our brands and building distribution.

I'd like to turn our attention to our incredible collection of luxury wines that, combined with DAOU, will be the preeminent portfolio in the category and will set the standard for luxury wine experiences. Let me start with Frank Family Vineyards established in 1992 by Rich Frank, a former Disney executive and his wife, Leslie. Rich and Leslie have built an incredible brand, which is also known for its amazing hospitality. Our approach to integrating Frank Family was to preserve its unique heritage and brand essence. I'm thrilled that Rich and Leslie, General Manager, Todd Graff, and Head of Hospitality, Liam Gearity, remain extremely engaged.

We have experienced increased consumer demand for Frank Family Vineyards, and the brand is well positioned for further distribution expansion as greater supply becomes available in fiscal '25 and beyond. Specifically, we are focused on our on-premise distribution of Chardonnay and bringing to life our vision to be the leading Chardonnay in the category. Our business case is on track, focused on leveraging Treasury Americas' strengths to sustainably scale portfolio through incremental sourcing capacity, particularly for Chardonnay.

In fiscal '23, our first full year of ownership, Frank Family Vineyards delivered volume and NSR growth of 14% with further growth expected for fiscal '24. Incremental availability from 2022 and 2023 vintages is expected to support a step-up in growth from fiscal '25 with our longer-term ambition to double volume and become the #1 luxury Chardonnay in the U.S. We are very pleased with the progress we've made and continue to make with Frank Family.

Stag's Leap Winery established in the early 1900s is one of the most beautiful and sought-after properties in the Stags Leap district. Visiting Stag's Leap Winery is an experience like no other in Napa Valley. Importantly, Stag's Leap, our third largest Luxury revenue contributor and has had very strong growth over the last few years before being impacted by supply constraints in fiscal ’23. We expect this growth trajectory to continue once greater supply becomes available in fiscal ’25 and beyond. And we’ll build Stag’s Leap as a leading Cabernet in the U.S. market. We’ll also be increasing distribution of other key varietals, such as Stag’s Leap Chardonnay and Petite Sirah to drive brand awareness.

Beaulieu Vineyard was founded in 1900 with exceptional pedigree and a portfolio led by the iconic Georges de Latour Cabernet Sauvignon, a cult wine sought after by wine aficionados globally. Treasury Wine Estates purchased Beaulieu Vineyard in 2016 as part of the acquisition of Diageo’s Wine business. Since then, we have invested in winemaking capability, vineyard management and consumer experiences. These efforts have been rewarded with incredible accolades, most notably a recent 100-point score and Best Wine of the Year 2022 distinction from James Suckling, in addition to positively skewed articles in The Wine Spectator.

This is also reflected in strong top line performance for the brand with NSR continuing to grow in fiscal ’23 despite reduced wine availability, driven by strategic revenue management with price increases implemented in recent years. We are thrilled to share that we will be investing in our consumer experience at the winery, given the great potential we see for this brand in the U.S. and globally.

Beringer Vineyards founded in 1876 is known worldwide for its Private Reserve Chardonnay and Private Reserve Cabernet Sauvignon as Wine Spectators’ #1 Wine of the Year. Beringer’s Knights Valley Cabernet is one of the biggest single luxury wines in the country. We have seen fiscal ’23 performance for Beringer impacted by lack of availability. We have key initiatives in place to return the brand to growth. This includes building consumer awareness for the Knights Valley brand and growing Private Reserve distribution in the best accounts in the country, creating a halo for the brand.

Finally, Penfolds is an essential element within our Luxury portfolio. The Californian and Australian country of origin portfolios resonate with trade and consumers. Our focus in the U.S. is leveraging the California Collection to continue building awareness for Penfolds with the U.S. luxury wine consumer and growing within the on-premise accounts with a focus on Bin 389. We are privileged to have Penfolds as part of our portfolio and see an excellent long-term opportunity for the global luxury icon here in the U.S.

In summary, our Treasury America's Luxury Estate portfolio is an exceptional collection of brands with strong consumer connections and is well-positioned to support our long-term growth ambitions. As we approach fiscal '25, our focus is clear and centered on 4 priorities: completing the integration and continuing the strong growth momentum for DAOU; delivering growth across our other Luxury Estates portfolio brands, supported by increased – increasing portfolio availability as we transition to larger vintages; maintaining stability for our portfolio of Premium brands; and delivering margin improvement towards our long-term target in the high 20% range.

I'll now hand back to Tim for his closing remarks. Thank you.

Tim Ford

So look, to briefly close, over the past 4 years, we've successfully transformed Treasury Americas to have a brand portfolio focused now on our Luxury wine in what is the largest and most attractive luxury wine market in the world.

Acquiring DAOU, as I'm sure you can see today, has been a game changer, establishing us as the leader in U.S. luxury wine and positioning us to unlock the full potential of not just DAOU but our exceptional brand portfolio and our asset base. DAOU has been an outstanding addition to Treasury Wine Estates, and we are fully committed to retaining and building on the elements of the DAOU business that have made it such a success to date whilst also realizing the benefits of bringing together our 2 businesses using our very simple Better Together integration approach.

As you saw through the presentations, we do have an exceptional collection of acclaimed and iconic brands that do resonate strongly with consumers, and the portfolio is absolutely well-positioned for growth. How we leverage our strength in Americas will be the level of success we achieve. Those strengths include our asset base, our strong and scalable global Luxury platform and, most importantly, a world-class team with extensive experience, the best in growing brands here in the U.S. but also globally within the broader Treasury Wine Estates. The team we have is truly exceptional. So we see this opportunity as truly unique. And we believe that with the right execution, which is up to us, we will create another outstanding Luxury platform for Treasury Wine Estates that sits side-by-side with Penfolds.

So thank you for joining us today, and I hope you enjoy the rest of the time with us, experiencing the best of what DAOU and Paso Robles has to offer. So we'll take a break right now and stretch the legs and then we'll come back in about 15 minutes or so for Q&A.

[Break]

Tim Ford

So tell you what, we'll ad-lib this and work it as we go. Don't worry about it. These guys are the ones you want to answer most of the questions. So I'll be the emcee of the Q&A. And if you think that means I'm not going to answer any of them, that's wrong. But all right. So we all know how this works. Let get into it then.

Question and Answer

Ross Curran

So I've got a question for Ben. So it's Ross Curran from Macquarie. I've been blown away at the availability of DAOU through every store I've been through in California since I've been here. I've gone ultra-high-end stores, ultra low-end sort of convenience stores, restaurants, wine. It's everywhere. You've done an absolutely terrific job. So can you just talk through maybe the decision to sort of change the distribution outside in other states and sort of the logic there? Because, as I said, distribution seems to be the absolute key to this brand.

Tim Ford

Ben — ***indiscernible*** —

Ben Dollard

Yes. So just to be clear, the relationship between DAOU and RNDC is going to continue and be central to how we're thinking about growth going forward. So that relationship is steadfast, and it's going to continue in earnest. It's certainly in the markets where it's been having great success today. So I just want to be clear on that point around the alignment with RNDC. We're also with RNDC in a number of markets, and so we're just using this opportunity to refine how we bring our Luxury portfolio together. So there's no concern that there's going to be any dilution or lack of focus with RNDC and DAOU.

The other consideration when you can – when you reflect on what you just said, that's exactly what was so attractive to us, right? The brand – and Neb can talk to this, too. The brand has done an incredible job in getting in multiple channels here in the State of California and the opportunity to take that and expand now in other markets. Texas, it's already done incredibly well, Florida as well. You think about New York and the opportunity there to replicate what we've done in California. Illinois, another example. Illinois, we've just gone to RNDC in Illinois. So that's not only with DAOU but also with the rest of the Treasury America's Luxury business.

So all in all, what you've seen in California is exactly what was attractive to us, and that's the opportunity that we're going to be pursuing in earnest across the rest of the country.

Tim Ford

— indiscernible — that map – I mean, I'm sure you've all looked at that page. But one of the most significant bodies of work that this team have led in the last 6 months is that alignment, so to be 6 months into this, call it, integration, where we're now one Treasury Americas business and have that full alignment with a Luxury structure and a Premium structure across every state. Now there's some transitions in place at the moment that I'm sure you've picked up as you've gone through that. But to think that will be in that place by July 1 with not that much change because these things can be really, really messy. So the alignment we have already with RNDC and BBG and the enhancement of that is really, really important. So it's been an incredible body of work to get to this point, no doubt, but are aligned.

Attendee

— indiscernible —

Tim Ford

Yes. I'll answer that. I don't know how you know what the contract terms are, but I know everyone likes to guess around them. But it will clearly not going to go into that. But all I'll say is that the – when you think about what with DAOU, with the Treasury America's Luxury portfolio, yes, it's the leading luxury portfolio in this country. So any distribution house is going to want that as their flagship business. So we're very pleased with how we've got the alignment of those contracts broadly in place, yes, to be finalized over the next few weeks. So put this forward, taken the best of both as we have with our people.

Shaun Cousins

Shaun Cousins, UBS. Just a couple of questions. Maybe just firstly, regarding the U.S. wine industry currently. When we look at ***— indiscernible —***, which is fairly broad depletions, they're sort of showing declines across all price points. I'm conscious that getting the information on the U.S. wine industry is tricky. But can you maybe just talk a bit about the current state of the wine market across all price points and particularly the concerns around health in that going from a sort of a health beverage previously, it seems to be increasing noise around wine being unhealthy for you?

And then my second question is just around Georges and Daniel Daou. Just curious, noting that they're not here, how important were they prior to the sale? How – what role do they play currently? And do the earnouts extend just to the brothers or do they extend to the – Neb and Neil who are here today, who seem to be quite sort of very important for the business, please?

Tim Ford

That was 3 questions. Sure follow-on. I did pick that up. But first one, Ben.

Ben Dollard

Yes, sure. So look, with regards to — ***indiscernible*** — how we think about the general health of the category. Look, — ***indiscernible*** — is a data point. And it does reflect and certainly, if you look over the last 6 months, certainly 12 months, it reflects a fairly significant adjustment for inventory, particularly when you consider retail as the leading group that really were focused on inventory and inventory reduction, as we've talked about over the past 12, 18 months, I think it's really important.

And as we look at all of the data sources across the U.S. to understand that there continues to be – a, it continues to be a very large category. And within that, there's absolutely pockets of great opportunity. And that's exactly how we're considering the portfolio. So again, — ***indiscernible*** — is a data point. I think it's reflective of what's happening across retail, certainly in the national accounts.

But as I mentioned and as we talked about, we largely believe a lot of the inventory shifting that's occurred. We now start to see that stabilize, and we're focused on execution, as Tim said, as he is wrapping up.

So again, you look at brands that are winning in the marketplace like DAOU, like Frank Family, they are very much engaged in talking to a consumer who is actively engaging with the luxury space. So that's certainly where we see the opportunity and how we would consider a data point. The second question…

Tim Ford

Let me add to that one because just to refresh to the conversation, tom and I were having at the break then. I think we certainly recognize that historically, if you think about our Americas business, go back 2 years, it was 2/3 Premium, 1/3 Luxury. Of that Luxury, 1/3 was picked up through [— ***indiscernible*** — Nielsen, whichever you want to use.

So you can get a pretty good guide based on publicly available data, that's – and that was reasonably appropriate. The challenge we've got now with such a luxury focus and the availability of data and not the irrelevance of Nielsen — ***indiscernible*** — because there is some relevance in there as well. But the fact is it's a luxury business now.

We do recognize. We have to figure out a better way to, I guess, explain so you can track the performance of the business over a period of time. So we don't – haven't cracked that, not yet. It's fair to say because it is multiple different points. But I think from Bijan and the IR team, in particular, we understand we have to figure that out over time.

Just on the health of wine, look, this is a little bit – — ***Technical Difficulty*** — not used do that. The – it's better. The health of the wine category, I mean, we're in the alcohol game. And I think health consciousness is having some real consumer trends that we certainly think are positive for the wine category, if you're moving your business and you're going to where the consumer is going. Consumers are drinking less but drinking better bottles of wine. That's fact anywhere around the world.

That's been continuing now for a number of years. It's not a new trend. And for those that sit there think that the lower end of those organizations think the lower end of wine categories around the world are going to come back. It's a cycle. It's not. We firmly believe that it's not. And the consumer is going there. The question is around the other premium category as well at the moment, but how that responds over the next couple of years as well.

But if you think about, well, I mean, there's 2 issues as a consumer piece, that's for us to go where the consumer is going. So we see there's opportunity. How do you create ones, that continue to build on those occasions, et cetera, as well. The second one is regulatory. So the regulatory environment around health is certainly is gaining traction, gaining noise around alcohol more broadly.

Yes. So we certainly plan to pay an active role. We see that as something we've got to be very proactive with in how we market our organization, how we market our category, how we market our brands. But we've got to accept we're in the alcohol business, right? And we're in the business where there is risks with that from a regulatory point of view. So we've been very closely around the world.

We've been here in the United States with the wine institute, directly with the government in Australia to make sure we – we're on the front foot with the regulators to make sure that we can come up with those solutions because it's coming. We can't have our head in the sand on it to make sure that we have the opportunity to really guide that regulation. So there's 2 components to that.

Third question was, I can't remember what was the third question. — ***indiscernible*** — get any money. Some of the earnout structure. So I'll start with George and Daniel, and I'll touch on the earnout, and I'll let these guys talk about George and Daniel's role because Neil's actually just come back from spending some time with them in Europe recently. They're not here today because they're on holiday, right? And they're very happy in Europe at the moment, having a well-earned period of time, where they do step back.

Daniel will be back here for vintage in September. His passion is the wine making. He's still very engaged. He'll be tasting. He does all those things. He's the face of that brand in terms of moving forward. But he's quite happy, I'm sure Neil can add in Europe at the moment, going for a nice long walk, so I should enjoy life for a little bit.

George — ***indiscernible*** —, George is the thinker, the the strategist, brilliant mind. When we absolutely going to tap into, he going forward. No question around that. Similar relationship to what we have with Rich Frank. You do not surround yourself with successful people and not tap into their brands, and that's what we plan to believe, 100%, and we want them to do that. And they've actually been very respectful in giving us the space over the last 4 or 5 months in particular as we integrate these businesses. That's – and I think that's been helpful as well.

In terms of the earnout, the earnout is – as we've said publicly, not only includes George and Daniel, but also a number of the legacy Daou's. Clearly, we're not going to go into those details. However, there's a strong incentive for us to build the plans to deliver that earnout, which to remind you, you think about the wines in this room today. This is – these wines are the earnout. This is the D2C business. It is the top end luxury wines. It's what the earnout structure is based on. And building those plans not only here in the United States, but also internationally. It's a very, very important part of delivering that.

And you can see Neb was in Hong Kong last week at Vinexpo selling the dream of Daou to the Asian markets as well. Penfolds is around the corner. And so we could channel the

– all those guests that swung past the red market that took over half the place and then they stopped it down the way and were amazed by the – by what they taste and all there as well.

So that's where the synergy starts to come into play. Do you guys want to talk about George and Daniel? And probably I think it's worthwhile talking about the role they played over the last few years, because it's very different to Frank Family, right? Really different to Frank Family.

Rich and Leslie were involved in every detail of the business, particularly Leslie, on a daily basis. George and Daniel were not. That was their job with Neil and the team as well. So maybe just talk about that and how you guys see their value for us going forward as well. So I think you've talked about it for the last 2 weeks, so feel free to share it.

Neil R. Cassidy

Yes. I think what's important is that George and Daniel, they're infinite minded business leaders. And so from that standpoint, very early on, we've decided, and you heard me say focus on people. And so we have really hyper focused on succession planning and having protocols in place and being able to replicate sustained scale.

On the winemaking side, Daniel is still very actively involved. And he's a great resource. And as Tim mentioned, we're going to call and talk whenever it needs to happen because he has such an amazing set of a pallet and protocols and what have you. But – so the last 5 years, especially Neb and I run the business from a day-to-day standpoint.

We've also have taught annuity on leadership, our – the new SVP of People and Culture for the Treasury Americas, ran our People and Culture for DAOU. The winemaking team is in place. You'll experience a top hospitality that's second to none.

And again, these are all people that have gone through an indoctrination and onboarding to understand, believe and support each other and be people focused and consumer obsessed. So it's replicatable. It's sustainable. It's scalable. And we'll continue to do that because this is also a group of treasury leaders that are infinite minded, purpose-driven, and that's going to help us continue this magic.

Tim Ford

Good. — ***indiscernible*** — last thing I'll add is Daniel is – he's also coming to Australia later on this year and plans to do so multiple times as we explore his winemaking within Australia as well and other parts of the world. So starting that ball rolling and having them engaged in that. Hopefully, that gives you some color and flavor around their engagement ongoing.

David Errington

David Errington. I want to address probably the reason why I came in today was to see whether you created value for shareholders or whether you're destroying value for shareholders. No problem with the quality of the asset. We're talking now about the return to shareholders. And when I look at your investment in Luxury, and I remember talking to — ***indiscernible*** — this 20, 25 years ago when they bought Beringer and when they bought — ***indiscernible*** —, the asset turned that when they bought was 0.2 to 0.5. The margin was around 30%, 35%. And that's where you're sitting today.

And I asked him how you're going to be able to increase your returns because ultimately, returns is asset turned by the margin. Now at the time, right now, on the Luxury portfolio, your asset turns 0.2, and your margin is 36%. So your return on Luxury is way below your cost of capital.

And what I'm hearing today, because you just – your return on cost – your return is probably on Luxury 6% to 7%. And I understand where it's growing, but you're not going to create value for shareholders in luxury wine by buying assets. And what I'm hearing today, you're going to have to invest as availability increases, you're going to have to invest in inventory.

So how you – I'm going to ask you the same question, how are you going to be able to increase that asset turn? How are you going to increase sales without increasing incremental capital? You may be able to get some increase in margin but ultimately, you've got to get to [15%] return. You've got to double your earnings without any increase in capital. And I don't know how you're going to do it despite how good a quality asset you got. So can you bring to light some of the key enablers because the only thing that matters to me is how you're going to generate returns above the cost of capital. And at the moment, you're halfway there.

Tim Ford

Yes. Perfect question. And I'll go first, and I'm sure Stuart will want to add to this as well. But if you think about the growth of the Americas business from here to return that. And your point is right, the way we think about it is, we've invested in the asset base. We've invested in what we bought, et cetera, as well, and the returns will be some incremental top line, which actually then drives that bottom line and an improved margin, but the margin is almost the hurdle we've got to actually continue to achieve.

This business here and there, all businesses out of the Napa region. The foreseeable future growth largely comes from the investment we've made, similar to Penfolds in Australia with what we've done there. So the investment in capital, when you think about what Rachel explained earlier, we do not need significant more capital. It's broadly double-digit CapEx investment to deliver the synergies and then we've got the sourcing availability of our own asset base and off. They grow a fruit here in this region, for example, so many in the Napa Valley region to continue to grow the top line.

So we've got that line of sight to increase our return on – yes, we call it return on capital employed. It's what our incentive structures based on as well, that we actually get back to the levels we were in 2019, point one, we have to do that in the near term and then actually growing that from there. So our capital investment to grow. Certainly, we don't need to acquire more businesses to do what we're doing now with the future growth as well.

So we've got a pretty strong line of sight to that, that we've invested that capital and the return we'll get over the 3 to 5 years will be acceptable in the first instance and then a strong return over that period of time. That's the strategy. That's what we believe. That's what we see. Stuart, do you want to add?

Stuart Boxer

Yes. I would like to. That's a pretty good summary, Tim. Can you hear me okay?

Tim Ford

Yes.

Stuart Boxer

So there are a couple of things to add on that. 100% right in terms of ultimately that delivered the top line growth is critical to generate as returns and the margin expansion that Tim talked to as well. From a working capital perspective, you are right, that as we continue to grow the top line, there will be more investment in the inventory, but we're well on the way there already across the portfolio and certainly here at the investment ahead of the curve to support that medium-term growth has already been made.

The other thing I would say is that in relation to DAOU, one of the really nice things about it is that the asset turn is pretty good. The age of release is a little bit shorter than some of the Napa lines. And so the return you get against that working capital is accelerating compared to some of the other parts of the portfolio.

So certainly, when we look at that low double-digit growth for DAOU that we've outlined from a top line perspective and how that plays through from a capital base over time and the returns we get and then you overlay the strength of the rest of the portfolio from a brand position and what we see as the potential for top line growth, we absolutely see a pathway to getting that overall return of the portfolio into acceptable territory.

Yes, it will take a few years. And when we made the acquisition of DAOU, we knew it was going to take a few years to be able to get there. But first and foremost, we've got the right asset base, the right collection of brands, and we're operating in the right part of the market to get us there.

Tim Ford
I'll just clarify another point, though, because I think there is an — ***indiscernible*** — investor sitting there. I think there's a shift of mindset we now will make and have to make, which is becoming much more ruthless asset by asset, brand by brand right across our organization going forward. If you think about – we buy and sell vineyards often.

But when you sit back and think about our business, the way we look at it at the moment is we have the pieces of the puzzle. There's probably too many pieces of that puzzle at the moment. I think that Treasury Wine Estates globally and potentially Treasury Americas here as well. Being much more ruthless on an asset-by-asset brand-by-brand basis, we'll also – which we haven't been for the last 10 years – 10, 15 years, so I've set that. That's the next generation for us that will also improve that.

So it's not just generating revenue from the assets that we see as growth. We have to actually really tie that up and Stuart certainly driving across our whole organization a very, very specific focus on making sure that every asset, whether it be a vineyard, winery or brand from a return on capital point of view, either it is today or will in the future actually deliver an acceptable return.

So now we've got that shape of luxury business we need. That's what we have to do as well. So that's what we've done. So I fully accept that. But as investors to understand that, that's the path we're going down.

Thomas Kierath

It's Tom Kierath here from Barrenjoey — ***indiscernible*** — A couple of questions. One, Ben, you said destocking is over. I'd love to understand exactly why you're saying that because obviously, there's a bit of data out there showing and others saying that it's kind of not. And then secondly, moving to the DAOU guys, the distribution and expansion has been incredible over the last few years. What processes and systems you have in place to ensure that and inventory isn't getting stuck somewhere and it's actually selling through to the end consumer? Nielsen data isn't great for you guys given you don't sell all that much through retail. So I'd just love to understand that systems and processes piece.

Ben Dollard

Yes. So I'll go first on the inventory. And then these guys can talk about DAOU. Look, the last 18 months, and it's been well published, a fairly dramatic kind of takedown in inventory across the retail network. And then that obviously had impact in the wholesale community as well. So yes, as we look at our business moving forward and as we are planning for the future and we're setting our plans for growth, we feel like our inventory positions and the impact of that last 18 months has stabilized.

And so that's what I'm referring to, how retail behaves moving forward. Obviously, we're going to be in close connection with both our retail partners and distributor partners, but by and large, we're seeing that, that dynamic is stabilized from where we sit.

Tim Ford

Worth calling out the numbers to – with our view. I mean really, we've only got our view, but yes, we talk to everyone as you do as well. And there's different views on how much is inventory versus how much performance. You got to remember, destocking happens when your depletion slow down — ***indiscernible*** —

So it's really important everyone – I think everyone reads destocking as distributors or customers are reducing their inventory, which might seem unfair or hit people's results and earnings, but destocking happens when your depletion slow down. So let's not lose sight of that when you're having conversations everywhere else, too. Because we saw that with 19 Crimes last year. If you think about, we had 600,000 case destock in our FY '23 numbers. All premium wines, largely in the second half.

So we went through that process, whether it was – we're on the front foot or whatever, I don't know, but we did that last fiscal year. This fiscal year, we had 100,000 case destock in the first half. That's normal, I would argue. Again, this half, we've got an agreement with our plans and the guidance we've given today also includes 100,000 case. So annual – annually, you're going to have a swing of somewhere in the business outside 150,000 cases. So I would say, from our positioning now, it is that normal core cycle we're in, right?

But the really important point, we have not destocked on balance, one case a luxury one. It's all premium. So that's where I find the commentary quite interest. I think it's unique supply by supply depending on where their inventory balances, where et cetera as well. But let's not kid ourselves. Our Luxury portfolio is growing. That's why you don't destock. Our Premium portfolio, as you see, has stabilized now, but was also declining in the world of — ***indiscernible*** —, for example, previously. So that's when you get underneath the destocking language or reasoning, yes, that's what drives it.

But from our point of view, we think for TWE over this course of this year approved the management of that – of the inventory with our distributor partners, which is a very important process. We've got our arms around that definitely. Second part of it was – distribution, how have you done it? What are the tools?

Nebojsa Lukic

I'd say that, first of all, I'd like to say thank you to gentlemen who made a comment that he sees our brand everywhere. It's very flattering and it's evident here in California in particular. But I will tell you, it brings me back to when I was a sales manager at my previous company and a salesman will walk into my to my office and say, hey, I got this, this in this business. And so people are very quick to quantify the business that they do have and very slow to quantify the business that they do not have.

And so while I am very happy with where we are today, I see the continuous opportunity. Somebody mentioned on-premise, and we have a fantastic, fantastic on-premise business that is continuing to thrive, but yet, I see a tremendous opportunity. And as far as distribution in Western United States, California is probably the best example because we are very close to the winery, and we have a large team in here and our fans and guests can come and see it here.

So really, what we are focusing in the second stage of our build international distribution, which is why we made some adjustments across the United States in terms of just distributor alignment is to really replicate what is happening in California and the rest of the United States.

Formula One car before the race season is put on a track. And after the adjustment after a month, it goes around the same track 3 to 4 seconds faster. This is exactly what we're doing. We left Southern Glazer's wine and spirits when they were growing at 50%. And because we were convinced that our model with RNDC is a healthier model that will yield a long-term return, and it's exactly what is happening.

Ben Gilbert

It's Ben Gilbert here from Jarden. Just a couple of questions for me. Maybe first one just around revenue synergies. Obviously, the cost synergies you talked to $20 million is a reasonable number. But you look at that map in terms of distribution points and what you've done with RNDC and breakthrough.

I appreciate you're already selling into a lot of doors, but presumably to open up a whole bunch of other doors to push our range a bit more aggressively. How are those discussions going? All else equal, how material is that revenue synergies number? Is it bigger when it flows through an EBIT level than that $20 million?

Tim Ford

I'll – Ben can comment on the conversations. But in terms of all the financial metrics, we put out as part of the acquisition case is essentially 0 revenue synergies we've built into those numbers, okay? So that is upside, whether it be domestically or internationally. But it probably worth talking about just for the conversations from a distributor point of view and how we actually are going to take advantage of bringing our portfolios together.

Ben Dollard

DAOU has a very strong relationship with RNDC and our relationship with RNDC will be coming into its fourth year as a company. So we're bringing the 2 businesses together, and we have very, very common goal in terms of our outlook with RNDC. It's exactly what Neb just said, right? It's all centered around how do we build the next generation of distribution.

So as we think about this portfolio, and as I mentioned earlier today, we're the #1 luxury portfolio in the category now, with the combination of Treasury Americas and DAOU. That definitely presents us an opportunity to further solidify the relevance we have with RNDC and also with TPG. We operate as Treasury Americas with a view that having a number of really 2 key partners across the country. It's really important. And we have confidence in both of those.

So the conversations we're having aren't just centered around, okay, today, where we're at, but very much looking forward and thinking about how we're going to grow this luxury portfolio together. And that comes with commitment from us, the resources that we put behind it, but also the resources that both of our key wholesalers put behind it.

So I think the spirit of those conversations and the outlook, we are in lockstep with regards to how we're going forward in lockstep. And that's certainly very consistent with how DAOU – the relationship with DAOU and RNDC has existed for the last number of years.

So I'm very confident that – there's always anytime you make some changes and any time you just got seek improvement, there's going to be times where you just got to keep work with 3 kinks. But we have great relationships already and that's going to continue.

Tim Ford

Before — ***indiscernible*** — Ben, I think these guys – they'll undersell — ***indiscernible*** — the work they've done in the last 3 months, but this separation of luxury and premium sales and marketing business is a really important point to this as well. So you've actually now got a dedicated team. So bringing those together – our synergy number would be higher if we didn't do this. So let's be clear on that, filled into the actual synergy number.

But we think the investment in talent, sales and marketing talent with a separated focus on those portfolios has gives both portfolios the best opportunities to perform and take advantage of these. Well, in a number of cases are already, I would say, unquantified potential benefits of these portfolios coming together.

But over time, we'll work hard at and then be able to quantify it. So that's a really, really big part because whilst your RNDC and TPG relationships and others, you'll see that there's Empire's, there's — ***indiscernible*** —, there's Colombia and some of the smaller states, but you can't rely on your distribution partner to build your business. Yes, you have to do it alongside of it.

So having the resource that we have in the markets, salespeople on the streets focused on-premise, focused on national accounts, focused on independent retail, but we're have a luxury focus with 6 brands to drive and premium focus with essentially 4 or 5 brands to really drive is a very, very different operating model that we've unlocked here to take advantage of it. But I think if we get that right, is also a part of it, the game change that we need.

Ben Gilbert

And just second one for me. You sort of talked to low double-digit NSR growth out of DAOU, which the committee went from probably 10% to 25% to 30%, which are big numbers. Just to — ***indiscernible*** — point before, if we think about, it's a very, very broad components, some simplifying the — ***indiscernible*** — price, you're going to probably have new volume you can bring on or you're going to have other volume you can probably repurpose across the group at the moment.

If we think about whatever that low digit number is going to be, how should we think about that split? Because to your point, you look at brands like Sterling, which is probably massively undervalued for what is charged at. Presumably you can repurpose some of that into there. You've got a decent amount of volume. You're obviously going to be to keep taking price, which I have thought provides some scope to accelerate that return on capital a little bit more quickly.

Tim Ford

So the projections in the financials we've got is largely driven by volume. So I'll put a number on a 90% plus on volume. Yes, that's through distribution and velocity for distribution of existing product through price points. So that's the by and large. Now from a price point of view, there's nothing significant in terms of ambition. We've built in the price at this point of time to deliver that ambition.

And I think from a comps point of view and a synergy you see within our fruit sourcing, et cetera, I think we're still getting to the bottom of that now. Be careful with things like Sterling, for example, out of Napa, you can't actually use some of that fruit, et cetera, as well out of Napa down here as well. But it's important – but that's a bigger driver of Frank Family. So if I compare it to – because I know we've explained it this way. Frank Family was about growth based on sourcing. We've also taken price. That wasn't necessarily the volume play.

This is quite different in the first 3 years in particular. There's much more about sales volume through. The channels we have today, building that distribution, but also the velocity of that distribution is more important once you do have that point of sale.

Lisa Deng

It's Lisa Deng from Goldman Sachs. I've got 2 questions. The first question is actually following on from Tim's point about the significance of the split of luxury versus premium portfolio, can we talk a little bit more in detail about how the 2 teams will be resourced differently from now on? So for example, number of people, key roles, account management structure, any differences in incentive structure? So that's the first question.

And the second question is we talked about that low double-digit NSR volume, but it also seems that we're really focusing on the super luxury to use now. And so how much of that is contributing to our revenue today? And with that, driving a larger portion in future, is there also a margin opportunity as well?

Tim Ford

All right. So Ben can take the first one. We're not going to go into the numbers of people and teams and all that sort of stuff, but you can talk more on the teams of how we've got that structure set up.

Ben Dollard

Yes, sure. So – yes. Our guiding principle on the organization and how we're going to market and how we're going to capitalize this opportunity really is focused on how do we ensure the growth of DAOU and the rest of the luxury portfolio that I went through this morning that we are set up to execute and build distribution and engage with consumers.

So from a resource standpoint, we have a combination of DAOU and Treasury Americas, employees who are going to come together to sell this portfolio. And again, the #1 luxury portfolio in the category now and with real relevance with our wholesale partners across the whole country. So I'm very confident. I think we're all very confident we have the right level of resource against that opportunity and also the right level of expertise that's going to sit in our luxury selling division.

And as Tim just mentioned, we are also investing in our Premium business to ensure that we continue to mine that opportunity. And I believe our category has this opportunity to onboard new consumers, and that's exactly the role that, that Premium business is going to play and we're well resourced there as well. The – I think the common theme that is – or thread that's going to set both divisions is going to be our strategic accounts, our national accounts. The relationships – the one-on-one relationship we have with those accounts is very important from a luxury standpoint and a premium standpoint.

So that team is going to sit across both of our selling units, which gives us a very tight connection with our big retailers across the country. So – but the experience of our consumers have with our brands, the way we market our premium brands versus our luxury brands requires distinct attention and execution. And that's exactly what's driving us to organize the way we are.

Tim Ford

And I'll add a bit of color — ***indiscernible*** — to the other bits. It's unfair to ask these guys. DAOU's incentive structure is important. So I want without going to date and what we separate incentive structures from a sales team point of view. Yes, the principal, not dissimilar to what we did when we split TPB and Penfolds 3 years ago, which was – we believe that then measuring themselves on themselves and their growth perspectives for us the moment to Treasury Americas's across total portfolio whenever – and that's nuances is different by different regions and different categories.

But broadly speaking, there will be separate sales and sales structures and then sales incentive structures that will be relating to those brands. And there'll be different distribution, there's different rates to market. You think about luxury selling team got to really cover direct-to-consumer, got to cover on-premise, got to cover independent retail and the national accounts and the direct model. So broadly, there is a different structure in place as well.

From a total head count point of view, it's worth giving the numbers, it's not important, but the center of gravity in terms of the resource investment certainly is on the luxury side going forward as well. And the last – sorry, can you reclarify some?

Lisa Deng

Yes. Can I just then clarify what Ben said. The 2 sales teams are largely separate, but there is a tier of national accounts that is – sits across the both?

Executive

Yes.

Lisa Deng

Okay. Got it. Great. Second question?

Tim Ford

Second question on – and the margins. So I think, yes, there's a difference between what we're actually strategically going after versus what we've actually outlined in terms of our financials, right? So our low double-digit NSR growth is essentially based on, obviously, our business case. We call it our base case in terms of what we – how we justified the right financials to ourselves for the acquisition of DAOU.

That doesn't include – that includes growth in terms of patrimony and DAOU reserve and so of the line at that top end. But the earn-out structure broadly is around those lines almost exclusively as well. Okay. So we achieved the earn-out structure, we achieved over and above in terms of what the business plan that we've outlined to the market is at this point in time. And yes, there will be a margin opportunity should we be while we're successful at building out those top ends of the portfolio, no doubt about that.

Richard Barwick

All right. Richard Barwick from CLSA. A question for Tim or for Ben, perhaps. Just some clarification. You talked about the destocking and that being very centered on the premium brands. And I'm just looking at your outlook for '25 when you're talking about maintaining stability for our portfolio of premium brands. So what exactly do you mean by stability, particularly in the context of the destocking story?

Tim Ford

Broadly, earnings stability looking forward, that's what we would expect to see in the premium category top line earnings stability, which we live in category itself. It is in slightly that $15 and below, it is in slight decline at the moment. So our belief and goal and we'd like to do better than that, but we think over the next 12 months, that's a realistic scenario for the Premium business.

Richard Barwick

Okay. And the other one I had was just on your synergies. You all – you're talking 20-plus, 20 plus all the way. When you first bought the brand, you were talking about that you thought there'd be upside to that. I think talked about being – those synergies are being validated, but you're still talking 20 plus. So how big is the plus? Because it's a pretty broad term. Are we talking 1 or 2? Or could this be a $30 million synergies?

Tim Ford

We'll tell you when we know what the plus is exactly. I mean I think we've proven over the years that when we set ourselves supply chain, Rachel and her team here, Kerrin and the team in Australia. When we set these objectives – we set that objective, we know we can get to those and the upside, it could be meaningful, but we will tell you when we know that, Richard. You know that's how I'm going to answer.

Craig Woolford

It's Craig Woolford from MST. I'll go with 2 questions as well. So the first one, just on the future of your direct-to-consumer part of the business. On one slide, I think the total Americas was about 20% direct-to-consumer, and then DAOU's at 12%. So where is the goal for the Americas overall and can DAOU get up to the broader business average? That's question one.

And then the second, a lot of emphasis rightly on being a luxury business. Luxury businesses in other parts of the economy. We'll typically spend a lot of money on brand building, does Treasury need to spend more on brand building?

Tim Ford

Yes. I'll answer the second one and then you guys can touch on the first one. The answer is yes. Here in this market. And when we think about our plans going forward, so we think we've got a very good feel of what we need to build luxury brands from an investment point of view, A&P. You've done a pretty good job with the Penfolds, it's a good example.

But that is investing ahead of most other brands in this whole category.

So as we now develop our business plans and the shape of our business going forward, we certainly would expect to invest more A&P behind these luxury brands. Now it's different A&P to some of the more consumer-led brands where there's big advertising campaigns and all the rest of it.

You'll see some of the activation later today that DAOU does very smart investments, and we do it with our brands as well today. Very smart investments that build that moment, the consumers take, particularly in this digital world where everyone's phone is there absolutely #1 marketing opportunity with these luxury consumers as well.

So yes, we're spending a lot of time at the moment, ensuring that we've got the right investment model as we transition this business, it is a transition. Transition this business to this luxury focus. But to answer your direct question, Craig, I believe we certainly over the years, it's not all going to be year 1, we don't need to do it all year 1, but over time, we do need to increase the investment behind our brands in this market because brands that connect with consumers. That's going to be a big differentiator going forward as well. And once you've got that and you've got the margin to invest and you've got the ability to invest behind the brands, that's how you grow them because not too many have the scale to do that.

Ben Dollard

Yes. So on your direct question. So we're taking a number of steps because we feel that's just a fundamental opportunity to get a tighter connection with our consumer. Number one is we're elevating our DTC business as part of our leadership group, really to give it the focus and attention. And you're right on your numbers in terms of Treasury Americas and DAOU.

And again, as we think about stacking up and we looked at the opportunity for DAOU as we evaluated the acquisition, one of the most significant opportunities is to build on not only experience here at DAOU Mountain, but also what Neil and Neb were referring to around the DAOU Plus and the DAOU app and the direct connection with consumers.

So there is a very material opportunity for us to expand that connection through the use of digital technology and also DAOU Plus app to really build out what would be a very loyal following. So let's get Neb to talk, maybe a little bit about the DAOU Plus and just kind of what that means.

Nebojsa Lukic

DAOU Plus is an app that is absolutely ahead of its time. It does not exist in the industry outside of DAOU. I've actually engaged a group of people to criticize the app. And to my amazement, they told me that they could not find anything similar. DAOU Plus is, as I said earlier in my presentation, is 1:1, creating 1:1 relationship with the consumer at scale, while our percentage of DTC business today might be smaller than Treasury Americas, based on our total business, I think that our DTC business is not only incredibly high, but this is the #1 priority for us because in 1960, there was 3 billion people in this planet, today is $8 billion.

We are absolutely aware and convinced that if you don't do your business on your iPhone in the next several years, you must take it very seriously. That's what we're doing. DAOU Plus is not only an app that allows you to give wine, but it's an app that now we run an entire membership numbers and membership acquisition through. In fact, if you measure the performance of DAOU Plus to date versus the asset that we have up here is actually performing a lot better. So we are super excited and super focused on our DTC business.

Michael Simotas

It's Michael Simotas from Jefferies. I've got a couple of questions as well, if that's okay, both on DAOU. The first one, obviously DAOU's built on Bordeaux varieties. Is there an opportunity in other varietals for DAOU? And in particular, I understand the Rosé has been quite successful, and that's obviously an attractive category in the U.S. market. How broadly is that distributed? And how much more upside is there in that?

Tim Ford

I mean, this will be a good one for Neb to answer first, and then the Chief Reality Officer kicks in second half of that. In terms of the innovation discussion for [2], we've had over these.

Nebojsa Lukic

It.

Is a good one. I have to say that – I think I mentioned to the group earlier, the DAOU produces wines when we feel like we compete with the best. In fact, in my previous life at the Southern Glazer's Wines & Spirits. This, for some reason, was a question that I would ask every single producer and supplier that comes to the meeting. I would always ask them, why did you make this wine? And they would say, well, the category is hot. So we need to be in a category.

And we could not think about our products different – more different than that you've heard point. You heard all kinds of things for us. You make the wine when you can make the product that can compete with the best or you don't bother. So what grows really well in Paso Robles is Grenache.

So when we had an opportunity to produce a Rosé wine, I remember speaking with Daniel Daou, and I was torturing him about the color and everything he says, don't worry about it. I got it. And the byproduct of our effort is the Rosé that we created. We call it Produced at Paso, French at heart.

It is absolutely made identical as they do it in Provenance, it is Provenancial method, 100% Grenache — ***indiscernible*** —, simple champagne press, rural color breeds out of the grapes, this is why you see this beautiful color. The bottle is screen printed is – every single detail behind it is created with intention. And then we launched this wine in April of 2020, arguably the worst possible moment to launch the wine in the history of wine industry.

And I remember sitting with our Head of Sales, and we're arguing, we're not arguing, we were talking about how much of this wine are we going to produce. And our Head of Marketing at the time, she was – she happens to work – she happened to work for the Treasury before. She said, we'll produce 1,000 cases. And I said, for 1,000 cases, we're not going to bother. So my goal was 5,000. And then what we did, we created a presentation, we went around the country, we showed our project to the distributors. And it was one very interesting thing that happened.

Everybody that I showed the presentation to said, how much did I sign up for 200? I'll take 500. California signed up for 1,000. They took 5,000. We ended up producing 12,500 cases, and we sold it in 90 days. It was gone. I remember going to a head of Albertsons Vons and Pavilions ask him to do me a favor, and he said, how much do you want to charge for this wine? and I said $21. He laughed in my face and said, I heard Justin say that exactly the same thing, only their wine is now sold for $5, where I said, please give me a chance, let's see what happens.

And within a week, he gave us 20 stores that was all sold. Overnight, our Rosé became #1 selling domestic Rosé and now is third – only third to Miraval and Whispering Angel.

Now the category itself has been interesting, but our philosophy has always been – I don't really pay attention. Well, I shouldn't say that. I don't really care what the category does. I care what we do. And that has served us really well. We've played – we always played the game of Pacman, and it's called the margin and market share grab. And we're going to continue to do that. Our Rosé is an exceptional wine. It continues to grow incredibly well despite a category that is not doing well.

Michael Simotas

Okay. And the second question I've got following on from Shaun's earlier question. Can DAOU or could DAOU still be DAOU if Daniel is not the wine maker and the family wasn't involved in the social media marketing?

Nebojsa Lukic

I will take that. Yes, absolutely. First of all, Danny is involved. I was just in Hong Kong and I had a lot of time to sit with our Head and Knowledges, [Jose Santos], who is also a winemaker who has been Daniel's adviser since 2010, who has joined the company 1.5 years ago, full time. And this was particularly educational for me. I had some time on my hand and I really dug into the details about our wine, something that I maybe never had chance to do.

And you have to understand, there is something called the 5 level declassification system here at DAOU based on phenolics. Now what are phenolics? Phenolics are some of the things that you can measure in wine, their color, Rachel will know this much better than I do, — ***indiscernible*** — and total phenols. And if the wine doesn't fit certain scenario, we don't make it. Proven by the fact that we did not produce — ***indiscernible*** — wine in 2011, but we produced the best reserve Carbone ever in 2011.

So I remember going back to the 2020 when COVID hit, we've done hundreds and hundreds of virtual tastings and I would emcee for Daniel quite a bit. And I would always like to ask him all the tough questions in front of the audience, such as this one, which is a great question. How are you going to maintain the quality as we scale the business? And he would always say, well, the quality can never stay the same. It can only go up. I go up. That's a great answer, but tell me how. Well, because tomorrow, we're going to know our vineyards, a lot better than we knew them yesterday, which is a byproduct, but patrimony a state that we planted is a byproduct of everything that Danny has learned over the years.

But the commitment to the phenolic system, which is a genius of Daniel Daou that is – system that he has created is a bullet proof system. And with the supervision of Daniel Daou with involvement of our team that is still in place with [Jose Santos] and with Neil here, and myself, I see absolutely 0 risk. As Tim pointed out, George and Danny in the past 3, 4, 5 years, really have been founders and the Board of Directors for us. Neil and I ran the business. I ran sales and marketing. Neil did the rest, Chief of everything Officer, I jokingly call him. But that's it.

Tim Ford

I think the other thing to – just to point out to everyone, particularly from an investor perspective, it's a really, really important point. If you look what we've done with DAOU – sorry, we've done with Frank Family. And the amount of comments I get when I'm in this market, and it's been a lot lately, which is the quality of Frank's Family is what I remember it being all the time.

So we get a lot of credit from consumers that we either maintain – or our goal to maintain or improve the quality of the [lots]. A lot of other organizations when they acquire brands will reduce the quality, expand the distribution, expand the volume and take price, and it's a numbers game, right? It's running a business by spreadsheets.

We are not doing that, and we won't do that because it's the success of Penfolds. It's the success of our luxury brands is to do that, and it will be the same with DAOU. You will not see – I will assure you, you will not see our cabinet at [$6 billion] a bottle, but 3x the volume size in 3 years' time. That is a part at a very, very short-term business particularly in this market because once you go down, you don't go back up. Yes. So really important philosophy, I think, from that winemaker. Rachel and the team here do that and are really **— *indiscernible* —** into that. So pretty important.

Nebojsa Lukic

Marketing side – thank you for the question. As humbly as I can answer this, I ran marketing since the day 1 here. The Portuguese say, anybody that is missed is sitting right here. So we have an incredibly talented marketing team. George and I would debate this. You would always look for this, imagine a nonexisting person on a horse that would be this – a prince of marketing – and I said I always told them we have enough talent in this company to fill 3 companies. We don't need to change anything.

And I – and that still remains today. We have a tremendous talent with a combination of the agencies that we use. A few agencies that we use that are very well immersed in our brand DNA. You will experience some of that today. Nothing has changed. George and Daniel have definitely gave a spark. That's – there's no doubt about that. But it is always the team that has made it happen. And that team is still intact.

Tim Ford

So surely, George is still a very, very strong idea generator from Europe as we speak and last week and the week before, continues. But **— *indiscernible* —**, we have to – but we – but just don't get stressed if we don't get to all the questions here because we've actually got about 7 hours together. So I reckon we might have a good chance to... yes.

Analyst

Adam with BMO here. And for those of you who don't know, George, I have a hard time ever thinking George would actually disconnect. So I wanted to – first off, I want to congratulate you guys. I think this has been an amazing acquisition for you. I think Neil will tell you that over the last decade, I've said that the Paso cab for DAOU is probably the most valuable SKU in the North American wine business, and I continue to believe that. The growth profile along with the production profile, I think, is – there's nothing like it.

And I think – I congratulate you guys, and I think that in 5 years, if we do it – if we're having this conversation, everybody in this room is going to be thinking you guys got to steel on this asset because I think it's an amazing brand, an amazing company. It truly skews more millennial and Gen X, which is something that the entire wine business is focused on trying to get its hand on. And I think you guys in one bold move ended up putting yourself in a really great position. Second comment, a little plug for the BMO line report. I don't know if you shared it with the folks here, but I — ***indiscernible*** —

Tim Ford

Everyone received that, I think? Yes. Yes.

Analyst

So Tom's question earlier about the destock. We fully believe that we'll see some improvement in the second half of the year in the U.S. that – and the destock isn't just at the distributor level, but it's also at the retail level and it's also at the individual level. A lot of people were sitting at home at COVID buying — ***indiscernible*** — off last bottle, and we think that we're working our way through that, but that's going to take a little bit of time, and we're on our way to improvement there.

The other thing I would say about destock is that when you look at the distributors and the distributor inventory levels, there's been an awful lot of inventory taken in from the alignment and an awful lot of inventory taking it in the spirits categories in the alignments. That's going to take a little bit of time to work itself out. But the wide inventory side, we think, will work itself out a lot faster because they're just not carrying as much wine inventory.

The other piece that I would say from our report, guys, is that I think you put yourself in a great position in regards to what we're seeing from tax paid revenue, which we think is the best source of actual data in the wine business that tax paid sales are actually up. You can look at it, we're at a number of 2% or 3% in terms of actual revenue numbers. And I would take that with the decline in consumption any day of the week. That just means that people are continuing to premiumize and your portfolio speaks to that. So 2 questions.

Tim Ford

Before you go on the question, so thanks for your Investor Day. But yes, Adam, we want to send the report around before hand because often we give our view of the category and the industry, and it's — ***indiscernible*** — towards our business, et cetera. So I think it's important to have that beforehand, but also have access today to ask the questions around the category because it's much more independent.

Our view is always going to be skewed towards the business with our brands and our partnerships as well. So thanks for being here today as well. And the affirmation of the strategy, we always appreciate that.

— ***indiscernible*** — In 5 years' time, we may come back, they're going to go, that was a SKU…David?

Analyst

So 2 questions. First is around production synergies, right? And so a lot of the Paso cabs has been made off-site, particularly at — ***indiscernible*** — How much room do you guys have at Meridian to bring that in? And how quickly can that happen? With first place in the first and the second was around the DAOU app. I've been hearing about it for many years. I believe it came out and DAOU set out of the park. Are you considering using that across any other places in the TWE luxury portfolio?

Executive

Good. Great. — ***indiscernible*** —

Rachel Ashley

So first question around the capacity for the external SOFR or others that are on the way, and you're going to hear a lot more about this now but the Paso one when we get out there this afternoon. But the discovery tier for DAOU had been made at several external facilities through customer cost agreements. So we worked to over a transition of 2 years to bring that in-house into our Paso winery. We have the capacity for it, and we have the capacity as it grows as well.

So I think we're in a really good position to be out of both protect quality as we transition over that 2 years and fast track to get as much wine through Paso in the DAOU portfolio with maintaining the DAOU production winemaking team there, and then continue to expand and grow and using the Paso facility to accommodate that without having to invest additional capital to do so.

Tim Ford

You'll see this afternoon Paso has got – if you — ***indiscernible*** — luxury and premium processing — ***indiscernible*** — So over time, as we build the luxury business, premium can just get dropped out in source. So whilst it's now, it's a really nice cost base because we're filling it with intake across luxury and premium, very simple path forward line. Many more capital. We don't need to build it out anymore, just drop premium into an outsourced model, which is fine. And then you can grow the Luxury business.

So Paso Robles winery, you'll see this afternoon has turned out to be an incredibly strategic asset for us, which we might not have talked about too much when it was at half capacity for the last 4 or 5 years. So it's very good to see.

Ben Dollard

I'll just build on the DAOU app. Our priority is exactly what Neb said. And the expansion of the – and the reach to millions of consumers here in the U.S. and then worldwide is going to be a very big priority for us. The proprietary nature of it and the ability for us to translate that to other parts of our portfolio, absolutely.

And that will sit here, we'll own it if we can engage more consumers worldwide. That's exactly what we're doing. But priority is to mine this opportunity for DAOU as a starting point.

Sam Teeger

Sam Teeger from Citi. Two questions, one on DAOU and one on Premium. In terms of DAOU, how do you see the channel mix evolving over the next 3 years from now where 55% is off-premise? And as this mix evolves, what's the implications for margins never been marketing step up?

Tim Ford

I would say you will certainly see – yes, as we build out distribution, I wouldn't see the mix of the business shifting that significantly over that 3 years from a total value point of view because – yes, we'll continue to build the top line with the Luxury portfolio that we see here today through D2C, through on-premise, et cetera, as well. But there's a lot of growth still to happen in the discovery tier through the retail channel as well.

And there's more and more luxury wine being sold through retail. We see that. You've seen that as you've gone through stores over the last few days, I'm sure, for those who have been traveling around. So there will be a slight mix shift up over that period of time. But I don't think it will be as dramatic as we might have in our minds because there's still such a growth opportunity in the discovery — ***indiscernible*** — as well. So that's off the top of mind. Have you guys disagree? Agree with it?

Ben Dollard

No, I think that's exactly right. The opportunity in the on-premise. And one of the really unique things about DAOU that's not true to a lot of other brands in the category is that it has penetration in a lot of distinct channels. And on-premise is absolutely a big opportunity, but these guys will tell you, on-premise is absolutely for the trial, but we can't ignore retail and growing retail. So I think the brand has application across the board, which is somewhat unique. And that's – we're going to continue to drive that.

Sam Teeger

I understand the Premium portfolio is still challenging. But any update you can give us around some of the 19 Crimes initiatives that you've — ***indiscernible*** —?

Tim Ford

So I'm — ***indiscernible*** — disappointed if you didn't ask.

Sam Teeger

Yes. I read something also about some new distribution in South America.

Tim Ford

Yes, I wouldn't worry too much about that. The 19 Crimes shift when we go back 14 months ago when we were together in Napa, and obviously, we talked a lot about 19 Crimes, that – we look at the relaunch of the pack, the brand, et cetera. We've got that brand into a relatively stable position there. When we set out 12 months ago, we would have said, get the stability – get to stable and then move on to growth from there. I think the growth one is the one of the question at the moment, we haven't achieved that yet.

Clearly, some of the activations worked really effectively, not all of it. But we feel like we've got the stability of that from a shipment from an earnings, from a top line, et cetera. We're still lapping concept where we've lost distribution over the last 12 months. So we also understand that the comps we see would suggest that they're stable comps. It's a lot of a better way to put it.

So we look at value on a weekly basis. So we've achieved that. Is it where we would like to be right now? No, of course, we would like to be growing those brands again. But also the category has changed over that period of time as well. That category in those price points is also seen at a climb 12 months ago, it wasn't.

So that's the status of 19 Crimes. We'll continue to work hard at it. I think having the Premium business focused on that as their biggest brands are really important part of the focus of that team from a sales and marketing point of view. But I'll just remind everyone there with the shape of this business that 19 Crimes as a brand that's both tiers, et cetera. As we look forward into F '25, it's broadly going to be low double digits of our total earnings right here for the Treasury Americas business. 3 years ago, it was 35% almost up to 40% of the business.

So the reliance on that, and it's not saying we're trying to make an excuse here because we like that brand is still to be performing better. I think we've got that good stabilization as I said. But understanding its role and impact, it's just important lens when we fast forward and you look at the performance and you're trying to understand the performance of this business.

Shaun Cousins

Tim, Shaun Cousins, UBS again. Just another question maybe for Rachel. Can you maybe just sort of quantify – I think Tim made the point that Paso Robles was at 50% utilization, where will that be once you put the DAOU? And then secondly, where will you be on the Sonoma bottling plant – pardon me where you are now? And then where will you be? Just sorry, just keen to get that on.

Rachel Ashley

Not sure I actually said 50%.

Tim Ford

I did. As I said in our briefing yesterday, I'm the most dangerous one giving away numbers. You don't have to worry about that.

Rachel Ashley

So as we bring the DAOU portfolio into Paso, we're getting close to full capacity over the next 2 years. But as Tim mentioned, is that we have the ability to continue to uplift the quality one that's going through that facility. So the lower program, some of our premium programs would move to an outsourced model or a bulk wine model. So that gives us continued expansion capacity without having to invest in new tank storage barrel, et cetera, capacity.

So I think that's a really key point is we continue to uplift the quality of wines being processed and made at our Paso facility. And then for our Sonoma modeling center, with those years coming into it and with the operating model that we have from line shift capacity, it brings us up to one of the most efficient operating models that we can produce at that facility with our current term systems that we're going quite in place.

Shaun Cousins

Okay. And my second question is just around DAOU International. TWE has had Penfolds, which has been tremendously successfully successful globally. As TWE not had another brand as good a quality as DAOU to leverage the international growth in order to replicate what you've got with Penfolds? Or is this a new skill that you've got to learn? I'm just curious, you've been really successful with Penfolds. Why haven't you taken another brand piggyback that or sort of leverage that? Or have you just not had enough brand as good as DAOU?

Tim Ford

I mean everything is in a sequence. So I think a brand like EV, for example, is absolutely a brand with similar qualities internationally, very different to DAOU, but has that ability to do that. The reality is if you go back over the trajectory, our focus to this point has been – I mean, if you think about what Ben started 4 years ago, we had a lot of fixing to do, right? We had a lot of things that sought out in this business in Treasury Americas.

So if I'm going to sit there and say to it right now, you're going to grow the current luxury brands overseas is going to turn around and go, well, that takes me off my priorities very clearly. So just haven't started that journey in earnest. We had a crack in at about 4 or 5 years ago, but I wouldn't say it was about brand building. That was about shipping product, right? And you've got to build brands and it takes time. It's like Penfolds in this market. When we started 3 years ago, so it's going to take us a decade to achieve our ambition here. I still think that's the case. We're improving every year internationally with brands.

Penfolds didn't become what it did in the last 6 years. It takes every year investment, dedication focused team and not bundling product — ***indiscernible*** — most will ask that later on. It's around, being very clear on what brand. And the — ***indiscernible*** — in particular, the American brands we can take to the ground. So we need to develop that way of working across the business. I think we have the scale. We have the distribution network. We have the relationships. We have the capacity. We know how to do it. We got to build brands in those markets. We haven't had a great doing that properly yet, Shaun. So that's – I think we've got the capability. We just haven't actually got to it as part of our journey, everyone's got to have a journey, don't know these days.

So that's our journey of building these brands outside of the United States that no one's ever done successfully. And that's fine. Everyone that says to me that no one's ever done it successfully. Well, no one's got the distribution opportunity we've got. No one's got Penfolds at, then no one's got those relationships, and that's what the key is. — ***indiscernible*** —

Analyst

— ***indiscernible*** — from Paribas, sorry. I was just wondering if you can give us a little bit more color on the kind of why we might anticipate out of the 400 acres that you planted here on this location more recently. Can you just talk to what sort of quality we might anticipate and when the timing of that might come on line, please?

Tim Ford

Ben, why don't you start that one, and you then hand — ***indiscernible*** —?

Ben Dollard

Yes. So we have the main state and then about a miles away the recently planted acreage especially. But the soil Daniel Daou identified at both locations is the — ***indiscernible*** — clay. And so it meets all the standards and characteristics for us. to make an incredible line. And so we're excited about that. And so it definitely gives us the opportunity to scale the state line, [solve] line, patrimony in particular. And so we'll look to do that.

And we have our – I think we are into the second or third leaf in the first part of that project. And we've fully planted all of the acreage. And so by 2027 harvest year, I think we'll be at close to full yield. So it's definitely an exciting opportunity, and that will be the sourcing for us on our aspirations to continue to grow on-premise and DTC, especially.

Tim Ford

It's really important these guys word selling. They were running this business to sell it. If you think about the investment in the asset base investment, et cetera, as well. If you're looking to sell the business, you're not going to go and spend tens of millions of dollars of planting that vineyards that are going to come to life in 27, 28 for patrimony, which is a brand that as we build over time.

So the supply based on future growth again, is there based on those decisions, which is really important. Sorry, — ***indiscernible*** —

Rachel Ashley

That's — ***indiscernible*** — From my perspective, I was actually really excited that we've acquired a business where the hard work has actually been done. So the vineyards have been planted. And we're on a trajectory to be able to supply as the brand grows. So we talk about the — ***indiscernible*** — of 400 acres versus the 900 acres of property, a 400 acres business plantable area, that's been planted and will come online over the next couple of years. And that will then help ensure that we can both meet the quality of the estate and patrimoniities as well as deliver the volumes for the growth trajectories, particularly as we expand internationally.

Tim Ford

Great. All right. Now we do need to cut it off because there's some specific things happening in the near future that we need to get to and it's not just food and wine. So if we could thank you for the great questions. That was a really – I think it's fantastic Q&A. I always enjoy them, but there's different degrees of enjoyment, I think that was up there. So I appreciate that. So if we can just hop back on the buses head up and we'll meet all back up on top of the mountain. Cheers, thank you.