M&A announcement
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Presentation

Operator

Thank you all for standing by, and welcome to the Treasury Wine Estates announcement call. — ***Operator Instructions*** —

I'd now like to hand the conference over to your first speaker, Mr. Tom (sic) [Tim] Ford, CEO. Thank you. Please go ahead.

Tim Ford

Thank you, operator. Nice to speak to everyone this morning. Good morning, and thanks for joining us. I'm pleased that we'll also have on the call today, Ben Dollard, in California, our President of Treasury Americas; and Matt Young, our CFO.

So this morning, I'm delighted to announce that we have reached an agreement to acquire Frank Family Vineyards, which is a highly acclaimed luxury wine business based in the United States. We certainly believe Frank Family Vineyards is an outstanding addition to the Treasury Americas luxury portfolio and is another important step towards our ambition of becoming the market leader in premium wines in the Americas. The acquisition of Frank Family Vineyards is strategically compelling. It is clearly aligned to our Treasury Americas divisional strategy, being highly complementary to our existing portfolio, and in particular, fills a key portfolio gap for luxury Chardonnay.

As you will hear today, Frank Family is a business with a strong track record of revenue and earnings growth, with attractive returns having been consistently delivered and accompanied by an outstanding EBIT margin in the 35% to 40% range. It is a business that has been expertly built and led by its founders, Rich and Leslie Frank, and I'm very pleased that we will have a genuine ongoing involvement from both Rich and Leslie in the Treasury Americas business. Together, we believe that we are best placed to enhance the growth of Frank Family Vineyards through TWE's leading luxury sales credentials, our national distribution network and supported by our Californian asset base and sourcing model.

Financially, we consider this to be a compelling investment for TWE, one that we expect will deliver attractive growth and returns for our shareholders over the long term. As we have outlined in the announcement today, the transaction multiple of 13.2x F '21 EBITDA is favorable to both TWE's multiple and historic luxury wine transaction multiples. The acquisition will be EPS accretive from the date of acquisition with the Frank Family business expected to deliver growth from F '23, which will be the first full year under our ownership.

Funding for this acquisition will be via a combination of debt and cash, including the proceeds from recent asset and brand divestments in the United States. And as part of that, I'm also pleased to confirm we have now substantially completed the program to divest our nonpriority brands and assets, confirming total net cash proceeds of approximately AUD 300 million, in line with expectations outlined previously. And finally, we expect completion of this acquisition to occur in December 2021 next month.

I'm now going to hand over to Ben to talk about the opportunity in more detail. So over to you, Ben in California.

Ben Dollard

Great. Thank you, Tim, and good morning, everyone from Napa Valley. It's a pleasure to join you today, and I'm excited to be sharing the details of our acquisition of Frank Family Vineyards.

Starting with the market context for the deal. The U.S. wine market continues to present significant opportunity for Treasury Wine Estates. It's the world's largest premium wine market with very strong and long-term premiumization trends being led by the premium and luxury price points. This trend continued through the pandemic with more premium and luxury wine being sold and is expected to be sustained strongly into the future. 2 varieties, Cabernet Sauvignon and Chardonnay dominate the U.S. market, accounting for over 50% of value sales. And as the chart on the right of the slide shows, our portfolio currently has limited exposure to the large and growing Chardonnay segment, accounting for only 8% of our revenue compared to 16% of total luxury market sales.

The addition of Frank Family clearly gives us an opportunity to become a more meaningful player in Chardonnay, something we'll cover in more detail shortly.

Over the past 18 months, we have implemented significant changes to transform Treasury Americas into a purely premium and luxury focused business, delivering what we termed the future state premium wine business. These changes have included those to our operating model, our supply chain and our brand portfolio, including the very recent divestments of the remaining noncore brands.

Following these changes, we are now positioned to invest to grow and complement our TWE 10 portfolio, either organically or through M&A, and we believe Frank Family Vineyards is the right first step in that journey.

But we've been patient in this journey. Underlying all of the changes we've been making has been a very deliberate implementation of strategy as well as disciplined capital allocation approach. As you can see here, we have effectively replaced our previous portfolio of low-margin and declining commercial assets with – in Frank Family Vineyards a sustainably high growing, high-margin luxury business for a net incremental investment of approximately $130 million. The stark nature of this change is reflected by comparing the shape of the divested portfolio with that of Frank Family. With Frank Family's revenue per case and EBITS margin clearly very attractive.

I'd now like to give you an overview of the Frank Family Vineyards. Which is an impressive, high quality business, founded by Rich Frank in 1992, he and his wife Leslie have built one of the iconic luxury wine franchises in the United States, and we are delighted that after almost 30 years of successfully leading and growing Frank Family Vineyards that they will remain genuinely involved with our business as senior advisers.

Making up the Frank Family portfolio are 3 collections with retail price points ranging from $38 to $225 per bottle, reflecting Frank Family's true luxury positioning. The portfolio is Chardonnay led, representing approximately half of the volume and is supported by a range of Cabernet Sauvignon Cabernet Sauvignon, Pinot Noir and sparkling wine offerings. The brand has a well-balanced distribution footprint with notable strengths in California on-premise and direct-to-consumer channels.

In fiscal '21, Frank Family Vineyard sold 174,000 cases and generated NSR and EBITS of approximately USD 54 million and USD 21 million, respectively, delivering an EBITS margin of 38%. Frank family's very attractive attributes highlight why this brand is such a strong addition to our portfolio. At its heart, Frank Family is an iconic and highly acclaimed Napa Valley luxury brand that consumers enjoy and connect with. Underlying this are strong critical reviews and accolades that have been received across the portfolio, including in 2020, 9, 90-plus score wines from Robert Parker's Wine Advocate.

Frank Family has a strong position in the large and growing U.S. luxury Chardonnay market, and combined with our existing portfolio, will see us now ranked as the #3 overall in luxury Chardonnay and #2 in $25 and above. Consistently high historical levels of revenue and EBITS growth reflect Frank Family's proven track record of success with NSR having grown each consecutive year from 2009 to 2021, including during the pandemic period.

Frank Family's distribution footprint has real strengths in California on-premise and direct-to-consumer, which includes tasting rooms, wine hubs and e-commerce. Further, Frank Family has wide direct-to-consumer reach through, as I mentioned, the tasting rooms and the e-commerce, which present us a big opportunity as we expand our luxury portfolio. Frank Family has an efficient capital-light NAPA Valley asset base, comprising 2 vineyards, a single winery and a highly renown tasting room that hosted 30,000 visitors in 2019, and a new hospitality barn is in the process of being built to increase visitor capacity and is expected to be operational from early 2022.

Like TWE, Frank Family has an efficient and diversified sourcing model, but one that we feel we can enhance through our own sourcing and asset base.

I'd now like to hand back to Tim to talk about the strategic and financial highlights of the acquisition.

Tim Ford

Thanks, Ben. So as I said at the beginning of the call, the acquisition of Frank Family Vineyards is strategically compelling and provides us with a number of benefits, both immediately and over the medium- to long-term. The addition of a brand portfolio with a proven long-term track record of growth has delivered leading margins is very much in line with our priorities of portfolio premiumization, growth and margin expansion.

The business has grown revenue, as Ben said, in each calendar year since 2009. And more recently, has delivered 3 year volume and revenue CAGR of 7.7% and 9.1%, respectively, leaving us with an excellent base from which we can expand the brand. Building on that is the opportunity to fill a key portfolio gap and step change our position in luxury Chardonnay, further strengthening our credentials as a luxury wine leader in the United States.

As we look to the future enablers of growth for the Frank Family portfolio, our multichannel national distribution network presents us with a significant opportunity. Increasing distribution in the off-premise channel and in underpenetrated states in the U.S. are both key priorities that Ben and the team will pursue. And I'll provide some more context around the scale of this opportunity shortly.

In addition to that, our dedicated luxury sales platform that we have set up over the past 2 years, which includes leading digital and e-commerce capability will provide another growth avenue for the portfolio. Supporting this growth in distribution and availability will be our capacity to increase production for the Frank Family portfolio by leveraging our California luxury asset base and sourcing model. We expect this to support a step-up in Frank Family's volumes and growth from F '24.

The addition of a best-in-class tasting room, an extensive wine club model adds another pillar to the Treasury Americas plans for growth in this very important and highly profitable channel. With the opening of the new hospitality venue in early 2022, we can further strengthen the position in direct-to-consumer. And finally, Frank Family Vineyards' strong and well-established presence in California and on-premise presents an avenue for expansion across our entire TWE luxury portfolio in what is a priority state, one that we have an opportunity for growth across our whole portfolio.

I'd now like to focus on several of the strategic drivers of the combination to provide some additional color to our thinking. We already have one of the preeminent luxury portfolios in the U.S. wine industry. And Frank Family Vineyards' portfolio will be an excellent addition. The strengthening of our #2 share across the overall luxury category in addition to our increased prominence in luxury Chardonnay will only enhance what we consider to be Treasury America's leading luxury credentials. This will, in turn, enhance our relevance and importance with our distributors, our retailers and on-premise accounts in the luxury wine space.

Building on the improved relevance and scale of our luxury portfolio; there are 2 primary drivers that we will believe – we believe will be an opportunity to deliver incremental top line growth for the Frank Family portfolio. Starting with distribution. We have developed an extremely strong national distribution platform, which given our portfolio, has established an exceptional luxury account footprint and platform. Leveraging this for the Frank Family brands will allow us to build both the points of distribution, and importantly, the velocity of that distribution nationally, something that will be a key focus area for the team.

And as shown on the slide in front of you, the scale of our luxury footprint relative to Frank Family's is significant, 4x greater across the United States and between 2 to 10x greater in our priority markets, which include California, Florida, Texas, Illinois and New York. And in most of our markets, there is an alignment of distributor partners between Frank Family Vineyards and Treasury Wine Estates, which simplifies and de-risks the transition process. This relative scale reflects the underlying opportunity for our Americas business to expand distribution across the country and continue to build the equity of the brand with customers and most importantly, luxury wine consumers.

A key enabler of this opportunity, however, will be sourcing incremental supply of luxury wine. Whilst Frank Family have done an excellent job of managing vintage variation to deliver consistent growth, the supply-constrained 2020 vintage has impacted their ability to grow in F '22, with earnings expected to be largely in line with F '21. However, we see this as one of the key opportunities and one where TWE is well positioned to minimize vintage variation and importantly, deliver incremental growth through our existing asset base and sourcing model.

We expect to increase levels of production for the Frank Family portfolio from vintage

2022, supporting our plans to step up volumes from F ’24 onwards. This will be delivered both through the scale of our model and by diverting existing sourcing from some of our lower-margin brands into the higher margin, Frank Family wine portfolio, thereby improving our total portfolio returns as well.

So in addition to the compelling strategic rationale, Frank Family’s attractive financial metrics will contribute to the continuing premiumization of Treasury Americas. On a pro forma basis, our F ’21 revenue per case and EBIT margins are improved by 6% and 170 basis points, respectively, highlighting the quality of this business that we are acquiring.

So whilst this is primarily an acquisition that is focused on top line growth and the key driver for it, we do expect modest cost synergies of approximately USD 5 million, which will be delivered full run rate by the end of F ’24. Over time, we also believe the potential for cross-selling opportunities across our broader luxury portfolio will be an additional source of synergy.

So in closing, this is a strategically and financially attractive acquisition for TWE, and one that we are very confident will deliver attractive growth and financial returns for shareholders over the long term, including an attractive IRR that comfortably exceeds our cost of capital, EPS accretion from the date of acquisition with growth expected from F ’23, our first full year of ownership, it’s an attractive acquisition multiple favorable to both our own multiple and to present luxury wine transactions. And very importantly, the acquisition reflects our patient and strategic approach to capital allocation, where we have effectively replaced a divested portfolio of low margin, declining commercial price point brands with a sustainably growing, high-margin luxury business.

So thanks for joining us today. And I’ll now hand over to the operator, who will open up the line for questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from Michael Simotas at Jefferies.

Michael Simotas

First question from me. Just trying to understand the trajectory of earnings for Frank. I mean, you've given us some color around volume and NSR growth over the last few years as well as some indication of what the short 2020 vintage means. Can you talk a little bit about what impact the pandemic has had on earnings for this business, if any, particularly given the very large on-premise exposure that it's got?

Tim Ford

Michael, thank you for that. I'll take part of that question, and then I'll let Matt talk through some of the more financial projections and the growth metrics. I think through the pandemic, an interesting part of this business is they have sold what they've made, which is a pretty important point to make. So through the pandemic and through the last couple of years, whilst there has been channel disruptions, clearly, through these luxury wine channels, as we've outlined, they've essentially been able to continue to grow their business based on the opportunity that exists, which says to us that the consumer demand exists there even in disrupted luxury wine channels. So from that perspective, to be able to deliver the CAGR growth, a high single-digit growth over the last 3 years and 2 in particular with the pandemic, suggests the strength of the brand and the consumer demand that exists.

Matthew Young

As you rightly called, great history of growth over the last 13 years and the last 3 years, you have high-single digits, 9% CAGR over those last 3 years. And as Tim said, it's a business with a great trajectory, but it's through our, I guess, our key growth platforms, whether that be national distribution, luxury sales credentials and importantly, our sourcing model that we think is the long-term growth. You heard Tim mention earlier, we are expecting earnings in F ’22 to be broadly in line with fiscal ’21, and that relates to the availability of product, which, in particular, the lower size, vintage ’20, which are being predominantly sold at the moment.

As we look forward, the impact of those supply constraints will reduce in fiscal ’23. And I guess, along with those – that ability to grow, the business should return back to more like at least its underlying growth that it’s experienced in the previous 3 years, that 7% volume, 9%. We see that as a general expectation, an inherent expectation of this business.

The longer term, the opportunity for us lies in integrating into our platforms, in particular, the sourcing model. And we would expect the opportunity to step up further in fiscal ’24 once we’ve had the wine available to sell-through our luxury sales teams and the distribution network.

Michael Simotas

And then my second question just relates to the Americas business overall. I think the last commentary you gave on what we should expect for baseline earnings for the business was annualization of first half ’20 and then I think we need to adjust for Penfolds’ earnings from the Americas, and I get to about $176 million of EBITS as the baseline. Does this mean we should effectively just add the Frank Family Vineyards’ earnings base to that $176 million, and that’s the new earnings base that you can grow from in the Americas?

Tim Ford

If you’re looking at a long-term base, that is broadly right, 2 attributes, I would say, you need to adjust for FX is a minor point. The second point is when we gave that guidance, that was on the underlying business first half ’20, the underlying business has grown over that period, whether that be the growth of 19 Crimes or the luxury portfolio or Matua, we have seen growth since that period in the underlying business. So as a base, yes, but attributing the growth since then, if you're looking at a longer-term target for what this business could do, that would be the other attributes I'd build in.

Ben Dollard

I think the other point I'll make on that, Michael, is an important point is, you touched on it. We are not using an acquisition to deliver our previously committed targets and ambitions for the Americas business. This is incremental on top of what we've previously outlined.

Operator

Our next question comes from Ben Gilbert at Jarden.

Ben Gilbert

Just a first question for me. Just on the synergy side of things, the $5 million. I was just wondering if you could explain exactly what you're talking about there with cost synergies. Is that expected benefit, say, with any – willing to renegotiate distribution terms with putting more volume in? Or is this about just purely just a scale piece plugging into your platform? Or is it also reallocating some low-margin fruit into the brands to talk to because it seems like it could be a bit bigger in time for some of those other initiatives?

Tim Ford

Yes, sure. The bigger play for this acquisition is the long-term revenue growth as we allocate product from our – whether it be from our vineyards and fuel the growth longer-term of this business, vintage '22 and beyond. The cost synergies we've called out are predominantly supply chain, whether that be production, storage, packaging synergies in incorporating the 2 businesses together. So fairly easy in terms of achievement. But clearly, the focus of this business is not a cost synergy play. It is a long-term growth play.

Ben Gilbert

And just take one from me, following up from that. I don't know how much you've discussed the acquisition from — ***indiscernible*** — of high level with your distributors, but particularly, there's always been some debate market that your portfolio wasn't big enough or broad enough this obviously really strengthens it, particularly in the Chardonnay space. Have you had any preliminary discussions around how you think this is going to work or the perception at [R&DC] say for instance, an ability to get more doors or get more range on shelf through leveraging a larger portfolio to put some other products on the shelf?

Tim Ford

Yes. I'll hand that one to Ben.

Ben Dollard

Yes, great. Thanks. It's a good question. And naturally, we have given careful consideration. And as a management team, really thoughtful about how we are going to look to expand the French Family Vineyards' business, and distribution is going to be a key component of that. And as Tim mentioned, the velocity per point of distribution is something that is really attractive to us now. Naturally, with the acquisition of Frank Family, particularly in the luxury space, the efforts we're making with our wholesalers across the country. The importance of this space becomes increasingly critical to all of us as we think about our luxury portfolio, which Tim said is arguably the preeminent portfolio. And so from my vantage point and from our team standpoint, we think about the expansion of distribution and our distribution network, I think we're really well situated to continue the trajectory that Rich and Leslie have created.

Tim Ford

I'll give you a couple of other data points more recently in the last 1.5 years, Ben, that

Ben Dollard probably doesn't feel like he should be able to give. But if the notes we've received from our distributor principles over the last 1.5 years, is anything to go by, then it's a very, very positive thing for their businesses. So that is the first point. And I think the second point to make here is the scale debates always been one that's existed in the United States and from a business point of view. I just want to point out. When you look at a slide like Slide 6, which I do enjoy.

Going from – talking about 5 million cases and bringing in 150,000 cases, you might say you're losing scale and relevance. This is a scale luxury brand. Right. So when you think about it, and it's the #2 Chardonnay in the market, 150,000 cases of luxury wine brand portfolio is a significant luxury brand. So with the different selling teams, the different customers, the different accounts that our distributors focus on with the luxury portfolio versus the commercial portfolio, which is essentially moving boxes through retailers, then it is – it does deliver that scale. So yes, the response has been very positive. Just wanted to – clearly, we didn't talk to distributors too much beforehand. We might have done some due diligence around it, but not overtly.

Operator

Next question comes from Richard Barwick at CLSA.

Richard Barwick

My question is around this, I guess, the expansion of distribution. So you talk about your existing distribution being 4x. But then, Tim, you also say this is already a luxury brand of scale. So how do we marry the 2 up? What is actually the volume potential here? Do we look at the distribution map and say, "Hey, we can take the 175,000 cases and multiply it by 4?" Or is that just – is that over-egging it?

Tim Ford

I think that will be a little simplistic. But in terms of the distribution model, so let's take a step back and explain it. So as I said at the start, the Frank Family have done a terrific job of growing their business, but also some of that may have certain strengths in certain markets in terms of distribution as well. Like, for example, in California, they're in a number of accounts that we are not today as well. So there's also some benefit there for us. In terms of our future volumes, as we step it up from vintage 2022, we're going to make sure we're building that out in the right luxury accounts. But when we look at our total universe, there is no reason to suggest we shouldn't be going chasing as many of those accounts as we can get. And then I think we'll too, be in a position where we can sell what we've made.

Richard Barwick

And then you also talk about transferring or diverting volume from some lower-margin product now into Frank's. So how do we think about that? Does that mean that diversion of volume, therefore, is going to obviously cannibalize that low-margin wine? Or can you bring in – can you sort of source additional wine – I guess, what I'm trying to get the – the true sense of the incremental piece here as you expand the Frank's volumes?

Tim Ford

And the answer is, firstly, I'll say, we're not going to give you our volume projections just yet. So that's clearly where you're after. And I understand that, but not in a position to do so, and I don't think you'd expect us to. But from a sourcing point of view, there is – we have a significant asset base, as you well know, in the United States. And if you take Chardonnay as an example, we have – we don't have a $38 plus Chardonnay brand of scale. We have 20 mid-$20 Chardonnay brands that we sell in that market. We're clearly going to divert that fruit for higher-margin opportunity. We're clearly going to try and grow those other brands as well, but it allows us then to get our sourcing right for those brands, which might not necessarily be off the vineyards they are today. So I think it's both, but we can get access for more, but it's also going to come off our own asset base.

Richard Barwick

And just a last quick one. The 2 vineyards that come with the deal, Benjamin and S&J, they seem to be very caps heavy. Does that make them surplus to requirements? Or will you be hanging onto them?

Tim Ford

At this point, we hanging onto those vineyards. They'll add to our portfolio of our total mix of vineyards across Napa Valley. So they play a pretty key role in some of the D2C portfolio as well. So that's a pretty important part of this business as well. So that's the majority of the focus for those vineyards for us.

Operator

Our next question comes from Ross Curran at Macquarie.

Ross Curran

I was just wondering if you could give us a little bit of a feel for – within the portfolio, the Napa collection, the sparkling collection, reserve collection, how important each of those individuals are? And then specifically around the reserve collection, that seems to be branded as single vineyard wine. How scalable is that? Does that work with your sourcing model?

Tim Ford

Yes. I'll give it a top line answer, then I'll hand over to Ben. I think the way that Rich and Leslie have built this business is the copybook way to grow a luxury wine business, whereby the direct-to-consumer business is driven by unique offerings and unique consumer experiences that you actually can't get in the U.S. trade. So the differentiation of their portfolio, I personally believe is spot on how you build a luxury wine business. So in terms of those reserve tiers and the direct-to-consumer tiers, they're clearly going to be more constrained in some instances because they're single vineyard wines. Now that doesn't mean we cannot continue to grow out a single vineyard portfolio of our asset base, delivering more of that model going forward for the Frank Family portfolio. But Ben, do you want to add anything to that?

Ben Dollard

Yes, sure. Look, Rich and Leslie and the entire Frank Family team have built the gold standard for guest experience in Napa Valley. And a part of that – an important part of it has been the unique offerings at the winery. So vineyard designate wines. And our expectation is we will continue that. And Rich and Leslie, as part of the ongoing team will also help guide us as we think about bringing new offerings to the experience at the winery, with regards to distribution broadly. So in the wholesale channel, in the on-premise and off-premise across the country, Rich refers to it as the core 4, really led by Chardonnay. And so our team will remain very focused on executing against that strategy of the core 4 across the wholesale channels, again, led by Chardonnay. So I think we're very clear on where we see the opportunity and the size of that opportunity. But it's going to be very deliberate in terms of focusing on those SKUs that – or those wines that have real opportunity for distribution expansion.

Operator

Our next question comes from Larry Gandler at Crédit Suisse.

Larry Gandler

Well done in this transaction. It's sort of ironic that you guys are exiting Chateau St. Jean. At the same time, you're buying Frank Family Chardonnay business. I'm just – wanted to see if I can get some, I guess, confidence around as you grow this business, using some of your own grade going into lower margin lines, how you sort of protect the brand equity and the quality. Let me just point out some other things. It looks like, over the years, Frank Family have been able to improve their quality ratings have steadily improved on the line.

So you wouldn't want to dilute that momentum. And Tim, if you can just address one other aspect of it is, this business probably is on wine list and fine wine shops. If you take this business into supermarkets, does it lose its differentiation? So quality differentiation, if you can address those.

Tim Ford

Yes, sure thing. Thanks for that, Larry. I'll touch on it. And then I'm sure Mr. Dollard over there is – it's going to be keen to add to whatever I say. So first, I'll start with your last point. In terms of supermarkets, there is a significant independent retail channel in the United States. That is essentially more wine specialist type stores, but also independent retailers that are supermarkets that sell a lot of luxury wine. So from that perspective, I think when we can sometimes get a little simplistic, the way we explain the retail market. It's not all the big accounts, the Kroger's and the Safeway's and the likes and the Albertsons. Yes, there is a big, big universe of independent retailers out there that are absolutely the right price points and the right consumers shopping in their stores for this portfolio. So we feel like that's an important area for us to focus on, #1, which we have done with our own portfolio over the last period of time as well, particularly over the last 18 months. So that's sort of, I guess, the first point.

I think in terms of the – how do we – and Ben uses this term, so I'm going to take it off him, yes, how do we maintain the secret source of the Frank Family Vineyards' business because there is – they have built this the right way in terms of the way they've segmented their portfolio, the way they segmented their distribution, it's about getting in the right accounts. And getting these wines in the hands of consumers and other consumers that will continue to buy more and more luxury wine. And we're seeing the premiumization of the price points as well.

Just on the last point, and then I'll hand to Ben. The one you started with around the divestment strategy we've had, the center of gravity of all of our divestments have been more around that lower price tiers, okay? So if you use Chateau St. Jean as an example, Chateau St. Jean is a $7, $8, predominantly, U.S. Californian sourced retail brand as well. So I think it's still particularly on strategy, and I probably don't share the ironic view on it, but that's okay. Ben, do you want to add anything?

Larry Gandler

I was just saying – let me just interject there, sorry, Tim. The Chateau St. Jean was one to higher-value wine that Treasury – well not Treasury, probably Fosters in the day, started using coastal fruit and then diluted the equity in that brand. And as I hear, you're going to be using fruit that's going into lower margin wines into Frank, that is the first thing that I became concerned about?

Tim Ford

Yes, it's the quality of the fruit. Yes, we will stick with the quality standard. We are not going to compromise the quality of those ones. And the team from Frank Family, and I think we're pretty consistent with that across the board, particularly across our luxury portfolio. The quality of those wines will continue to improve. They'll be true to style. They are a unique style. They're not the #2 Chardonnay now for no reason, consumers love it. So we'd be silly to adjust that formulation or what the consumers love, Larry. So I can guarantee you, we will be continuing to the quality standard and not looking to essentially take quality down for margin expansion by any stretch whatsoever. So if that's the way I came across, I apologize, that's – it's a good question, and that's not what we will do. Ben, did you want to add anything to that? I think I'll probably cover a few bit of ground there.

Ben Dollard

Yes. I think the balance between – and striking the balance between expansion of the on-premise. And Rich and Leslie have done an incredible job of developing the on-premise, while expanding what we refer to internally as our red and gold network of accounts. So these are the preeminent accounts in the country, that we have a direct relationship through our wholesalers. That's where we see the opportunity, and we're going to be steadfast in ongoing expansion around the on-premise because that's where we get the trial with consumers. And that's where we get the loyalty with consumers. So we're not going to diminish that focus to any extent. Conversely, as Tim said, there's a big universe of incredible accounts, customers of ours that we feel can become very loyal customers of Frank Family.

And then the last point just around national account expansion. I think this is really important. There are a number of our national account partners that we work with very intimately with regards to the expansion of their consumer, bringing more consumers into luxury space in their retail outlets. And so the national account universe does present an opportunity, and we will pursue that because there are consumers going in there willing to pay $38 a bottle, $45 a bottle, $55 a bottle and so on. And so I think not eliminating that opportunity is important, but it's going to be done with very significant consideration.

Operator

Our next question comes from David Errington at Bank of America.

David Errington

Tim, I don't know if I really understand this acquisition. The first point is you highlighted that Frank Family sells everything that it can – it produces. So in other words, I don't understand what your distribution actually will add. And further to what Larry was highlighting, the only source of growth is because you believe you're a preeminent luxury company, which is debatable because it looks as though your key successes Matua and 19 Crimes. But really, you're only talking about increasing the volume of Frank by putting your wine that you sell at a lower margin into Frank Family, which is a higher margin.

So I really don't understand what distribution because it looks to me, Frank Family is not being held back by distribution. It's being held – it sells everything it produce. It's not being held back by distribution. It's at a high-end margin. I just don't understand what you're doing other than just putting a bolt-on and talking up upside. And look, I don't want to keep on talking about the past, Tim, it's not fair because – but I heard exactly the same as when you bought Diageo about being able to leverage margin when you move grapes from one to another, and it doesn't work, and particularly not for a family-run company, where a family-run businesses have got set ways of doing things, and there's usually always conflict between that and a publicly run company.

So can you talk a bit more top end? Because I'm coming at this stage from a very skeptical view. Because the U.S. has been a graveyard for Treasury wine, Foster's Treasury wine. It's never delivered, particularly not in luxury. It's never been – I take question as to why you think you're preeminent in luxury, maybe premium but not luxury. And it looks to me like Frank's doing a great job without the use of Treasury. So can you talk a bit about that as to why you think this is such a compelling value-enhancing acquisition for us, please?

Tim Ford

Yes. Sure. Thank you, David. I'll try and tackle all those bits, and if I miss a bit along the way, guys jump in. I'll start with the headline, which was your first part of the question. So if I wasn't clear, I will be clear, we know how to access and know where we're going to access, not only more fruit for future growth of our own vineyards, but also through our existing supply based grower networks, et cetera, that we have in the United States. We can increase that quite significantly ahead of where the Frank Family have been able to do so at this point in time. So from that point of view, your point is right. The distribution growth opportunity in the next 12 to 18 months, in particular, is going to be relatively smaller to the post 18-month period, as we said from F ’24 because we need to make more vine before we can take advantage of that distribution opportunity.

So I think we’ve outlined where that exists from distribution once we have the wine. So your points are valid one in the very short-term based on what’s available, but we also know where we can get it from the grower. So I think the growth trajectory from that is a lot more than just, we’re going to make more wine. We actually do have the distribution that we can then build out to sell that wine and maintain the margins and maintain the quality of the line. So that’s probably point one.

I think the second one, I’d answer your question, and I do appreciate you not going back over too much history, but it’s a relevant point, right, which is – and I don’t know, you watched this closely and have done for a lot of years. And yes, there’s the jury on question marks on the U.S. performance, I guess, I’d ask that we focus on the last 2 years in terms of what we have delivered. And from a luxury wine business and a premium wine business, as you say, we have 19 Crimes and Matua, in particular, have been performing very, very well and growing to the – well ahead of market over that total period of time. So I think we’ve always had this for a number of years now. This half of the business has been performing very well. We’ve had the half of the business that we’ve now essentially divested, that has been a drag on Treasury Americas.

So we said we’d restructure the business 2 years ago. We’ve been quite clear with the outline that we’re going to do. We’re going to restructure the overheads. We did that. We were going to divest the nonpriority brands and assets. We did that. We’re going to reshape the distribution model. We’ve done that. We said we’re going to innovate and develop propositions that consumers love. And I think we’ve got a pretty good track record over the last 2 years of doing that. So it’s going to be a constant keep delivering and keep delivering on what we say we’re going to do. And I think this acquisition plugs in nicely into what are strengths of that business.

And those strengths, historically, I think, have been somewhat hidden, and I think I've been consistent in saying this because of that half of the volume of the business that has been declining and a drag on Treasury Americas. So we've done what we said we're going to do. I think we've been very transparent around how we're going to do that. We've done that in a time line. I feel like we're delivering on the back of that, and the proof will be in continued results going forward. So hopefully, that's addressed sort of both parts of your question, David.

Operator

Our next question comes from Shaun Cousins at UBS.

Shaun Cousins

Maybe just a question regarding Slide 4 on the varietal diversification. Pinot and Sauvignon Blanc are 16% of the luxury market, yet TWE's only got 5% of NSR in this area, it's actually lower than what you had in Chardonnay at 8%. How is TWE thinking about accessing opportunities in this area, Pinot and Sauvignon Blanc? And should we expect that to be addressed by acquisitions? Or is that an area of the market that you're not going to play in, please?

Tim Ford

I'll hand over to the man accountable for doing so, Mr. Dollard.

Ben Dollard

Thanks, Tim. Look, clearly, our job is to maintain a really tight lens on where the consumer is going. And I don't want to underestimate that because that's an important part of this acquisition. And I think – so you think about Pinot Noir and Sauvignon Blanc. And again, we've had really good robust conversations with Rich and Leslie as to where they see the expansion opportunity as well. Clearly, as the consumer continues to expand in those varietals particularly around Pinot Noir, yes that's going to be an opportunity that we will pursue. And again, we'll look to leverage our own resources where we can. But really, I think the focus is going to be about the ongoing expansion of the Chardonnay as a first priority for us. And I don't know if anything to build on that.

Tim Ford

Yes. I will – I think from a Pinot Noir perspective, we've got within our own portfolio, ways we can innovate and grow in the Pinot Noir category at this point in time as well, which I know Ben and the team are focused on. Sauvignon Blanc, yes, it's a part of the market, but it's largely a $20 to $25 market from a luxury Sauvignon Blanc point of view as well, which is challenging from a margin perspective. So I think you'll see us focus more and more on expanding our imported Sauvignon Blanc ranges and portfolios, probably more than the Californian side of it, mate.

Shaun Cousins

And my second question is just around the opportunity in the Americas. I guess, can just talk a little bit about how Frank will actually help you on-premise in California in that while there might be opportunities where you can improve their distribution in the rest of the country, on-premise in California seems to be an area that's been lacking for TWE. What can you learn from Frank regarding the on-premise California market, please or channel?

Tim Ford

Yes. Ben?

Ben Dollard

Yes. Yes. Look, I think we can learn a lot. And you think about a brand like Penfolds and the opportunity for our Penfolds, California collection and the Australian lines. Frank Family has nurtured over many years, particularly by the glass, for some of the best accounts across Northern and Southern California, really starting with Northern California. And as Tim said earlier, they are the poster child in how to build a brand and out to build a luxury brand.

So I think intimate and ongoing interaction with those accounts and making sure that we understand where Frank Family is and the rest of our luxury portfolio isn't, that's an opportunity for us. And I particularly think for Penfolds because these 2 brands together are really well suited to the on premise. So look, it doesn't just stop in the on-premise either. There's a lot of areas with regards to the guest experience at the winery that we are going to learn from. And they do a great job with the just the wine club or how they're thinking about expansion on e-commerce. So from a California standpoint, I think it's going to be a really, really good marriage.

Tim Ford

I think the other – the other build I'll make to that is, right now, we – our sales team and **— *indiscernible* —** – and take California as an example and the R&DC team and go into these accounts, selling someone else's Chardonnay, by and large, at these price points, they're driving our brands that we have today, but very, very core varietal has not been part of the priority SKUs that every one of these salespeople within the R&DC network now will have as part of that. So I think – but also, Ben touched on the key point. The accounts that these brands are in today are absolutely what we would call our top accounts that we want to be in across the board. So yes, it's a detailed answer, but that's the way we've actually thought through it and how we're going to drive this business going forward as well.

Operator

Our next question comes from Belinda Moore from Morgans.

Belinda Moore

Congratulations on the acquisition. Tim, can I ask did you face much sort of competition with this particular acquisition? And then sort of for Matt, the timing of the acquisition? Is it early or late December? And I'm just trying to think about the seasonality of earnings if you sort of have 6 or 7 months in the FY '22 year? And then I suppose, over the medium term, does this sort of make you want to sort of upgrade that margin target of 25% for the Americas?

Tim Ford

Thanks, Belinda. Yes. So I'll answer the first bit and pardon me, David, I missed part of your question before with something I'll answer as part of this as well. So apologies for that. Look, this process was unique in a lot of different ways. I think – and I will talk on behalf of Rich and Leslie here because we've got to know them very, very well over the last couple of months, particularly Ben being there with them physically. But the process we've gone through was one where they were – the due diligence, I would say, was 2 ways. The first one was, obviously, is this a business that we find attractive. It wasn't being shopped around for a better way to put it to anyone who were coming with the highest price.

There's a number of factors. Clearly, price was important. That Rich and Leslie were assessing, and they wanted to find a business to actually take this brand and this – what they've built over the last 30-odd years, we will be an owner who will have a strategy that will continue to build the brand the right way and do those things. So our pitch, if you like, around our strategy for this was very, very important to them in their decision-making and who they wanted to engage with on this sale process. So it was unique from that point of view, whereby there was a lot of different factors other than just the financial headline number for Rich and Leslie, which I think is a great vote of confidence in us and our business that they were prepared to do that with us going forward as well.

So – and David, the piece I didn't answer was around a family business. And I guess, the challenge of a family business into a corporate business as we are a listed company. We are very, very aware of that. And I think from a luxury brand perspective, I would like to think we're going to take plenty of learnings of how they run the business. Rich and Leslie are genuinely going to continue to be involved with us going forward. And it's not a token, put it on the ASX, and like everybody does in the way we go, this is – they will be advising us going forward in a genuine, very clear way, and we're very, very happy with that. Because they can teach us how to also translate the experience they've created for their brand across Stags' Leap, across Beringer, we've got the asset base, BV and other luxury brands we have in Napa Valley. Yes, and we plan to take that and really transpose that across our other brands as well, where we know we can improve.

Matthew Young

And then from a timing perspective, yes, the likely close is at some point in December. We're not in a position to confirm it specifically yet, but it will be a relatively short close, as you can tell. To your particular point around phasing, the business is – does tend to be a little bit first half weighted given the drive of October, November, December and those giving periods. So there may be some slight first earnings weighting across that F '22, which will be broadly in line with F '21. And when it comes to the – I guess, the longer-term margin aspiration for the Treasury Americas business of 25%, we would – look, we're not in a position today to talk about changes to that.

However, what we would say is that 25% margin ambition was a point on the road, not an end destination. Secondly, it was formed considering the strategy and structure and size of business at the time. So this acquisition, we'll update that and is most likely going to accelerate the timing with which we will deliver that. But the time to reassess what the change of that would be longer-term is for another day. But certainly, we're very pleased that this will help us accelerate our delivery of that. But we still remain confident in the original plan to achieve that over the – using the existing strategy.

Operator

Our final question comes from Phil Kimber at E&P.

Phillip Kimber

First question was just on the inventory that you're purchasing. Can you give us a rough guide of the dollar value of the inventory?

Matthew Young

Not at this point. Sorry, we're – I mean we're yet to, I guess, formally close yet. So at this stage, no, we can't give a rough guide.

Phillip Kimber

But in terms of supply, it sounds like it's enough inventory to drive the earnings that the sales have been delivering. But going forward, you're talking about a step change there. I just wasn't sure how much of that had already started or whether it's basically all that building out of inventory is going to start once you acquire the business.

Matthew Young

Yes. I mean, the Frank Family had done a fantastic job of growing that. And as you can see, the top line growth of 9%, 3-year CAGR and 13-year growth. So the business, as it stood had a good plan to continue to expand that. They have, yes, vintage '20, which is impacting F '22 has constrained growth this year. But in terms of longer term, having the inventory for future sales, the pipeline for inherent growth was still there. The step-up that we refer to occurs more so in fiscal '20 – sorry, vintage '22, fiscal '24, we're using our sourcing model, we'll be able to access further growth from that point from growers' own vineyards, et cetera.

Phillip Kimber

And just on that point, that's sort of a 2-year sort of timing issue. I would have thought with these price points, that might be the starting point. But in terms of the way the wines are released, would it see more if it's 3, 4 and 5-year than the second year, just given the price points of these brands?

Matthew Young

No. Possibly referencing some of our Australian portfolio, which is a 3, 4, 5 year. In the Americas, generally a 2 to 3-year release profile. So yes, that fiscal '24 and into '25 is the right time line.

Tim Ford

Chardonnay is released earlier as well.

Matthew Young

That's right.

Tim Ford

Yes. And this – this vintage '21 was stronger than vintage '20 as well. And it's still going through final classifications, et cetera. But we'll have the ability to grow a set of vintage '21, which has just been completed in the United States.

Well, thank you, everybody, for joining us and terrific questions. Appreciate that. Hopefully, we've answered everything that you needed to have answered. So we'll talk again in February.