Investor Update
2025-12-16

Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates Investor Update.
— Operator Instructions —

I would now like to hand the conference over to Mr. Sam Fischer, Chief Executive Officer. Please go ahead.

Samuel Andrew Fischer

Thank you, operator. And good morning to you all, and thank you for joining today's call. My name is Sam Fischer, and I'm the CEO of Treasury Wine Estates, having officially assumed this position on the 27th of October. Also joining me today on the call is Stuart Boxer, TWE's Chief Financial and Strategy Officer.

This morning, we provided the market with an update on our performance expectations, including the decision to take deliberate strategic action to ensure we remain positioned for future sustainable growth.

To be honest, this is not the first market update I thought I'd be making as TWE's incoming CEO. It is, however, one that is critical to ensure that we maintain the ongoing strength of our brands and the health of our sales channels as we navigate what is a challenging environment for the global alcohol category and the wine industry more specifically. Despite these conditions, it's important to note that our key brands, including Penfolds, DAOU, Frank Family Vineyards and Matua remain in good health.

TWE has incredible brands and world-class assets in the most revered wine regions globally. These are the very things that drew me to this position in the first place and why I remain extremely confident in our future. While it is clear we are facing some near-term challenges, I can assure you as your incoming CEO, we're confronting these with discipline, transparency and a sense of urgency.

Over the past month, I've had the opportunity to spend time with a broad cross-section of our people, investors, customers, partners and growers. This engagement has informed my early perspectives on where we need to sharpen our focus to drive performance and long-term value, which I will share with you shortly.

While the market environment remains uncertain and we have category headwinds to deal with, there is scope for us to improve performance, and I'm committed to doing everything within my power to ensure we do, adding strategic clarity and addressing near-term structural matters proactively and decisively. This includes taking deliberate strategic steps to ensure our inventory is rightsized, reducing product in the parallel channel in China and focusing on consistent execution to compete and win in key markets to deliver sustainable long-term growth.

Turning to the key components of today's announcement. We are seeing continued weakness in economic and category dynamics, particularly in the U.S. and China, and that's led to moderation in our depletion growth expectations. As a result, customer inventory levels in China and the U.S. are above optimal.

The management of inventory will be a clear focus under our leadership. And today, we have announced the deliberate strategic steps we will take to reduce customer inventory holdings in the U.S. and China to align with moderated depletion growth expectations.

We will also be further restricting Penfolds' shipments that are deemed to be contributing to parallel import activity in China with this channel causing disruption to Penfolds' pricing in the market and having the potential to impact the brand.

First half 2016 EBITs is expected to be in the range of $225 million to $235 million, with the performance in the half impacted by the Californian distribution transition. We expect that second half EBITs will be higher than the first half.

Leverage is expected to be 2.5x at the first half and above the 1.5 to 2x target range for approximately 2 years. Retaining the strength and flexibility of TWE's capital structure is a priority, and we will pursue a range of operational and strategic initiatives to support that objective.

Importantly, today, we also announced the implementation of an organization-wide transformation program, TWE Ascent. This multiyear program is designed to position the business for long-term success and realize material cost benefits, targeting a $100 million per annum cost improvement over a 2- to 3-year period across the full cost base. I'll talk more about this shortly.

Before moving to further details in relation to today's announcement, I wanted to spend a few minutes sharing my initial perspectives on where TWE is today and priority areas of focus, I believe, will be critical to setting the business up for future success.

TWE is a quality business with strong foundations. I firmly believe these foundations position us well to deliver sustainable profitable growth, which is a big part of the reason that I accepted this role and why I'm excited about our future. Wine is a great category. It plays a central and enduring role in celebration and bringing people together.

And I believe that premiumization of the category is a structural trend that is here to stay. While there will always be short-term fluctuations, wine drinkers will continue to aspire for premium products and the drink less but better trend is one that I see continuing. TWE has a powerful brand portfolio, including world-class brands occupying leading market positions: Penfolds, DAOU, Frank Family, brands that are well positioned even in challenged markets.

Our core geographies are the right places to be. Asia, particularly China, remains a significant long-term opportunity with Penfolds extremely well positioned. The U.S. is the world's largest luxury wine market, and we have an excellent portfolio. However, we need to drive stronger on-ground execution to realize our full potential. My observation is that we have an incredible supply organization that gives us a powerful competitive advantage.

Finally, I've been really impressed with the caliber of TWE's team and workforce across all the markets I visited, including China and the U.S. It is a passionate, highly engaged and very capable organization.

So while I'm confident that the foundations are there for a strong future, there are a number of areas I've identified for proactive decisive action. Firstly, we must have absolute strategic clarity and be very precise around where we play and why and evolve our brand portfolio accordingly.

The luxury focus of the business is the right one but the broader portfolio needs streamlining. There are pockets of growth opportunities in wine, and we need to ensure that the portfolio is appropriately targeted to meet consumers' needs and to compete where we have the right to win.

Secondly, we will transform our operating model. Currently, we have an operating model that I would describe as complex with points of duplication. There is a real opportunity to simplify our structure and processes, reshaping how we work for optimal efficiency, agility and accountability. Through simplification and efficiency, we expect to deliver material cost savings.

And thirdly, execution is a key area where I intend to lead a step change across the business. We can strengthen our execution capability to compete harder in our key markets and channels and drive an elevated level of focus on depletions and tight inventory management to ensure that we retain healthy sales channels at all times. This includes a more strategic approach to managing parallel where we will take significant steps in the near term in order to protect the health of the Penfolds brand both in China and globally. These 3 priorities underpin TWE Ascent, which I will cover in more detail towards the end of this presentation.

Turning now to our near-term expectations. As I mentioned earlier, we expect our first half EBITs delivery to be in the range of $225 million to $235 million. And on this slide, we show our first half expectations for each division based on the midpoint range. I'll now turn to summarize each of the divisions in some more detail.

For Penfolds, depletions growth continues across our key markets. However, our outlook has been moderated due to the China market dynamics. In China, depletions grew 21% in the 3 months to October, with growth continuing through the mid-autumn festival period. This is a very strong performance given the recent trends in the China alcohol beverage market, impacted by the reduced frequency of large style banqueting on alcohol consumption. While this depletions growth is expected to continue, it will be at a lower rate of growth than the original F26 operating plan, which was set prior to recent changes impacting the frequency of large-scale banqueting.

Pleasingly, depletions also continue to grow in Asia ex China and in Australia, reflecting the ongoing momentum behind the Penfolds brand. As the chart on the slide shows, demand power has continued to strengthen across most of our key markets, a key indicator of the health of the Penfolds brand, which has been driven by the ongoing investment in category-leading activation.

Globally, core SKUs, Bin 389 and 407, are performing well. However, the luxury tiers, the ultra luxury tiers, while in growth globally, are performing well below expectations, reflecting recent weakness in global fine wine markets. Our dynamics in China have led to customer inventory levels being assessed at above optimal levels. particularly for the ultra luxury tiers. And we will reduce China distributor inventory holdings by approximately 400,000 cases over a 2-year period commencing this quarter.

Parallel import activity is also driving ongoing disruption to Penfolds' pricing, and we intend to take significant action in the near term in response to this disruption. Protecting the strength of the Penfolds brand is an absolute priority for us, and we are making a deliberate strategic decision to significantly reduce shipments that are contributing to product in this channel.

For Penfolds, first half '26 EBITs is expected to be approximately $200 million, with delivery expected to be broadly balanced across the fiscal year. While this revised outlook is understandably disappointing, I can assure you that my recent visit to Asia and China specifically reinforce my strong belief in the huge opportunity for the Penfolds brand in this region, where fundamentals of the brand are very strong, and Penfolds is just so well positioned for future success.

Now turning to Treasury Americas, where luxury wine market trends have further moderated in recent months. While Treasury Americas continues to deliver depletions growth outside of California, recent performance in California, a key market for DAOU and Frank Family Vineyards has been weak, exacerbated by the distribution changes in this state. As a result of these factors, near-term depletions growth expectations for the Treasury Americas portfolio have been further moderated and distributor inventory holdings outside of California have been assessed as being above optimal levels by 300,000 cases and will be reduced over a 2-year period commencing in the second half.

Negotiations with RNDC are continuing in relation to inventory and exit arrangements in California with no change to the previously disclosed impact to F26 operating plan NSR of up to AUD 100 million related to the remaining inventory. Due to the revised shipment profile, the recognition of DAOU synergies will also be impacted by approximately USD 10 million this fiscal year, with the F26 run rate benefit down to $20 million from the $30 million previously announced.

Treasury America's first half '26 EBITs is expected to be approximately $40 million, impacted by the California distribution and transition. While we are clearly facing some near-term challenges in the U.S. market, I want to reiterate the strength of the portfolio we have in this important market. DAOU and Frank Family Vineyards have leading positions in the world's largest luxury wine market and are continuing to perform in a challenged market. I am confident in the future outlook for these and the other brands in the Treasury Americas portfolio as we improve our execution rigor in this market.

Turning now to Treasury Collective, where performance in Australia and EMEA have continued to be in line with our expectations. In the U.S., the business continued to underperform the declining premium segment with 19 Crimes continuing to decline and being partly offset by the continued growth for Matua.

Performance has also been impacted by the Californian distribution transition and the focus on aligning shipments to depletions across F25 and F26 as previously disclosed. The U.S. tariffs on Australia and New Zealand produced wine is also expected to impact Treasury Collective's cost of goods sold by approximately $10 million. Net of planned pricing actions, which are now expected to be insignificant to cover the full impact.

For Treasury Collective, first half '26 EBITs is expected to be approximately $25 million with second halfs EBITs expected to be higher than the first half.

I will now hand over to Stuart to cover balance sheet, inventory and capital structure. Over to you, Stuart.

Stuart Boxer

Okay. Thank you, Sam. I'll start with inventory. The moderated demand expectations in Penfolds and Treasury Americas will lead to an increase of luxury inventory on TWE's balance sheet. However, with the long aging profile for luxury wine, we have time and flexibility to manage this position.

In Australia, TWE sourcing and intake model will enable the rebalancing of supply and demand with future intakes to be adjusted lower commencing with the 2026 vintage. Inventory balance is expected to be achieved across 2 to 3 vintages, consistent with the approach taken following the implementation of the China wine tariffs back in 2020.

In the U.S., luxury portfolio sourcing has a higher weighting to owned and leased vineyards, and long-term grower contracts. Changes are likely to be required to the Treasury Americas' production network to rebalance the inventory position and increase future flexibility. And we will share more details on this once we have finalized our plan. And finally, on inventory, we have good flexibility with respect to sourcing for our premium commercial brands with the intake model for these portfolios structurally under sourced.

Moving now to capital structure. As a result of the moderated outlook, leverage is expected to be above the 1.5 to 2x target range for approximately 2 years, with first half '26 leverage expected to be approximately 2.5x.

Our liquidity position remains strong, and we have several levers available to us to return leverage to the target range. These include a review of the dividend payout ratio, undertaking the sale of non-core assets and reviewing our planned capital investments. We are confident that these measures will enable us to retain the strength and flexibility of our capital structure.

Further, the on-market share buyback of up to $200 million in F26, of which $30.5 million was completed in the first quarter of this fiscal year and which was paused at the AGM in October, has now been canceled. Our debt maturity profile remains well diversified, with minimum near-term maturities and significant undrawn facilities, as you can see in the chart on the right-hand side. We retained significant headroom and the financial covenants under our borrowing arrangements.

I'll now hand back to Sam to talk about TWE Ascent.

Samuel Andrew Fischer

Thanks very much, Stuart. TWE Ascent is about driving transformation at pace to create a stronger TWE, with our clear focus to deliver attractive returns and cash generation.

The program has 3 core pillars. Firstly, evolving our portfolio, taking into account category and consumer and competitive trends and TWE's competitive position within our key markets. While there will be a continued focus on luxury still wine and our priority luxury brands: Penfolds, DAOU and Frank Family. We will evaluate opportunities for growth aligned with continually evolving consumer trends, including lighter varietal and refreshment styles, redirecting resources to strengthen our position in segments with the highest potential.

Secondly, transforming our operating model, establishing the optimal operating model with the right structure, capability and processes. This will enable customer and consumer-facing teams to deliver flawless in-market execution and unlock enhanced global innovation capability and increased operational consistency.

And the third pillar, optimizing our operating costs. Releasing material cost benefits across the entire cost base will enable us to drive margin, mitigate impacts of portfolio rationalization and create funds for investing in growth, where we will be driving a fit-for-purpose operating model that is focused on in-market execution and the removal of duplication, driving simplification and automation to be as efficient and effective as possible. We aim to be best-in-class across all elements of the organization, and we will draw on benchmark informed insights to help identify gaps we need to bridge to deliver that.

While we are in the early stages of this work, you will appreciate the significance of this undertaking, and we are working at pace to address those objectives, and I look forward to updating you with initial outcomes of this work in February.

Before handing over to questions, I wanted to reiterate some key points. Firstly, we are taking deliberate strategic action to secure our long-term future. We are proactively taking steps to maintain brand strength and healthy sales channels across key markets, reducing customer inventory in China and the U.S. and significantly restricting shipments contributing to parallel import activity in China are key priorities. We are focused on driving depletions growth through world-class execution of our brands with all of our customers in all our key markets. We are confronting those priorities head on to ensure we position TWE appropriately for future success.

Through TWE Ascent, we have commenced the transformation program for long-term growth targeting $100 million per annum of cost savings over 2 to 3 years, focused on portfolio evolution, operating model simplification and execution excellence. And I look forward to sharing updates on our progress over the coming months.

And finally, TWE is confident in its future. Strong business foundations, including our powerful portfolio of brands, leading market positions in markets that reflect attractive growth opportunities over the long term, underpin our confidence in delivering sustainable profitable growth.

With that, I'll hand over to the operator, who will open it up for questions for both Stuart and myself. Thank you very much.

Question and Answer

Operator

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

Craig Woolford

I've got lots of questions but I understand we'll start with one. I'll ask a big one around the benefits or the need to keep the treasury business together. You sit with a portfolio of maybe 16 million, 17 million cases and maybe higher might be 19 million cases, but 15 million of that sits in collective, which is the low margin, lower return on capital part of the business, do you see a benefit of keeping the 3 discrete segments as they run today together? What are the synergies? What are the reasons? What is the rationale?

Samuel Andrew Fischer

Thanks, Craig. And hopefully, we'll get a chance to get to your other questions. I think Ascent, when I talk about the portfolio piece of work in Ascent, that really is going to be looking at kind of future state of the category and making sure we align our portfolio to it. Where we see opportunities, where we see segments that are growing, we'll look at our portfolio and say, "Okay, we're perfectly positioned to access those opportunities." Clearly, we see luxury and that luxury trend continuing. And clearly, we've got a wonderful portfolio.

There could well be other segments. We've talked about lighter refreshment. We've talked about low and no alcohol. And again, we'll go into the portfolio and try and marry them up to those long-term opportunities. If we do see there are excess brands inside the portfolio that we do not think are going to play a role in the future, then we'll look at how we optimize the value of those because we do want to point all of our resources at the brands that we think are going to play a critical role in the future. So we'll come back on that once we've got more developed in Project Ascent.

Craig Woolford

And just – I mean balance sheet doesn't sort of reflect this. But are you saying you would consider acquisitions to target the right segments?

Samuel Andrew Fischer

I think when I look at the portfolio that we've got, my first desire is to release the full potential of all of our brands. We've just bought DAOU. We've got Frank Family. We're blessed with a portfolio that's got enormous potential. So the first port of call for me is inside of that organic portfolio. If there is a really huge opportunity for us, we may well have a look at it. But that would only be on the basis that we recycle capital from any sale proceeds that we can redirect back into parts of the portfolio that we think have got a much bigger opportunity.

Operator

Your next question comes from Shaun Cousins with UBS.

Shaun Cousins

Maybe just a question around the gray market into China. And I guess this sort of goes a little bit around the approach that the company has and sort of culture, if you think gray market reflects sort of inadequate demand in some other markets. Did Penfolds lack curiosity around what the end market demand was in these other markets? And so hence, didn't realize that it was being gray marketed into China? Or was Penfolds ineffective in building demand in these markets? Or was there just a focus on sort of selling as much in to meet sort of expectations even if there was an awareness of demand?

I'm trying to get an understanding of how you got into this predicament around gray market? And was it poor execution in these end markets? Did you not understand your customer? Or did you lose control of your inventory? I'm just curious around what's gone on to sort of see you in a much worse position relative to peers in this gray – that's led to a lot of gray market going into China, please?

Samuel Andrew Fischer

Yes. Thanks, Shaun. I think, look, I lived up in that part of the world for a decade. So I've understood the complexities of the gray market. It's very formulized, quite developed and you need to remain diligent in relation to how you control it all the time. There's no doubt that we have developed markets in Southeast Asia and broader Asia. And in some instances, in some of those markets, it's possible that product can leak back into China. And again, it's just a constant diligence. It's not just our category. I mean luxury, all sorts of categories are exposed to the sophistication of cross-border and parallel into China.

So as I looked at it and saw some pricing in China, online in particular, that I thought may well disrupt our brand. I've had a very, very good look based on some of my past knowledge. And I think we've identified some areas that need to be reined in, and I think we need to do it quickly. The good news is that I think once you do that, once we identify it, we'll continue to remain diligent that we can stabilize pricing and really reinforce that formal distribution system that we've tried so hard in China to build because the big – one of the – another damage that is caused by parallel is that those formal distributors that are charged with building the brand are undermined by that lower pricing. So a really positive step, but one that's just through some of the uncertainty and volatility has got to the point where we've had to take concrete measures to restrict it.

Shaun Cousins

Sorry, Sam, have you been surprised that there hasn't been, I guess, a more sophisticated approach from TWE around the gray market? Because one of the concerns that when we speak to investors, many of the issues that you've come out here today in this announcement have been raised over previous calls, and they've either been downplayed at times or appear to have been underestimated. So like do you think there's a sufficient understanding in gray market or more broadly in your business about what's going on? Because we get a lot of concerns from investors, but oftentimes that the company has been reluctant to sort of admit some of those challenges that are facing the business in gray market but beyond.

Samuel Andrew Fischer

Shaun, hard for me to speak about the past, having not been here for very long. But when I have gone and looked at the numbers and assessed the situation with the teams, there's certainly some awareness. Has there been some slippage in recent times? Possibly. Not sure. But as I've looked at it, again, I've assessed the situation, be to China, had a look at that pricing, spoken to distributors and partners and hence, the measures that we're taking.

Operator

Your next question comes from Michael Simotas with Jefferies.

Michael Simotas

I'm just trying to get a better handle on what today's update means for the underlying go-forward earnings base of the business. And hopefully, we can talk about the 2 big ones, Penfolds and Treasury Americas. And I just want to make sure that we are getting our understanding right on the one-off impacts of resetting inventory that's already in the market or effectively giving back some of the earnings that were booked through Treasury's P&L over the last couple of years that probably shouldn't have been there based on the demand profile.

So Penfolds will do about $400 million of EBITs this year. Within that, there is the inventory adjustment of $215 million NSR, some of that this year, some of it next year. Is that the right earnings base for the business? Or is there a drag from that adjustment in this year? And then I'd like to have a similar conversation about the U.S. as well.

Stuart Boxer

Yes. Look, I'll take that one, Michael. I think what you've laid out in terms of the isolation of the revenue impact over 2 years is exactly the right thing to be focused on. And we've sort of given you that to sort of enable you to get a sense of the sort of the broad scale of that reduction over that 2-year period.

In terms of the splits between years, we can't provide anything further on that one, and – but that's sort of the broad numbers that you need. And it's actually a similar situation in the U.S., where, again, we've outlined the revenue impact. We already talked about the $100 million in California. We've given you the additional amount. So again, you can get a sense of the scale of that reduction that will flow through over that approximate 2-year period that's going to result in, if you like, a lower outcome than what would ordinarily have happened if you were doing that, making those changes. So that's sort of pretty much – you've pretty much got it, I think.

Michael Simotas

Okay. Well, so just to clarify on the Americas. So if I lay out all the pieces that you've given on this call and previous updates, so there was initially a $50 million NSR impact from distributor transition, plus another $100 million NSR to deal with the inventory sitting in California, then another $125 million of NSR adjustment split over 2 years and then a spillover of DAOU synergies of USD 10 million into future years. Should we think about all of that as one-off?

Stuart Boxer

So I'll isolate the $100 million to $125 million, that's very much the work-through of the inventory over the next 2 years, as I've talked about. The $50 million was a rebase. And so that was part of, if you like, a rebase of the outlook at that time for BBG versus what we previously had as an outlook within our R&DC contracts.

As you roll forward to where we are today, given the considerable weakening of the market in the U.S., we've now had a further look at the depletions outlook, so – and what we've outlined today sort of takes account of that. But – so it's really the $100 million and $125 million that you should be thinking about when you're trying to, if you like, isolate the nonrecurring components over the next couple of years, if that makes sense.

Michael Simotas

And the DAOU synergies, will you get them eventually?

Stuart Boxer

Yes. I mean the reduction in DAOU synergies really reflects the fact that a significant proportion of the synergies as we talked through was to do with procurement, which was linked to volume. And so the reduction that we've talked about today reflects the fact that we're going to be producing less of the product over the next year. So the flow-through is going to be lower. As volumes build in the future, then that synergy number will increase. But I think the reality is we'll probably stop reporting it after the end of this financial year and then just becomes part of base business.

Operator

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

David Errington

I'd like to say Merry Christmas, but Santa has given us a gift that I don't really want at the bottom of my tree. I'm not being smart there, but anyway. Look, Sam, one question, it's a big one, but one question that concerns me from today, all powder to you for stepping up and having the courage to do what you're doing in rebasing. I think that, that's what a good new CEO is expected to do. But the one area that disappointed me is on Slide 7, where you've come out and you've said the U.S. remains significant opportunity requiring stronger execution.

Sam, I've seen 3 U.S. – I've seen 3 TWE CEOs lose their job over the U.S. I don't want to see a fourth. Why are you committing to the U.S., why? Because to me, it sounds like the U.S. is in real trouble because you don't have the flexibility in the supply. You don't have the capability of reducing inventory coming in. You've got fixed-term contracts, you've got vineyards that your own. This, to me, sounds like you're going to have to basically do what you did in 2013 and buy back inventory, which is another layer of disappointment.

What's the game in the U.S., Sam? Because you've got a wonderful business in Penfolds. What's the deal in the U.S.? Why can't – it's just so frustrating, $40 million in a half, Sam, for luxury when you've paid $2 billion in the last 3 years on Frank Family and DAOU, $40 million. And then Treasury Collective, the U.S. is going backwards in depletions going backwards so much. The exasperation of sticking with the U.S., I've covered this company for 30 years. You've never got the U.S. right. So why make a comment that Treasury Americas has got opportunity. It's just down to execution. I mean opportunity for what? What's the opportunity there other than just releasing things like you've done today on us. If you could go through that, and I know all power to you for doing what Penfolds is doing, all power to you. But the U.S., please.

Samuel Andrew Fischer

David, thanks for the comment and also a little bit of the history useful for me, having not been privy to much of that. I guess what I am privy to is the fact that in all of the business that I've worked in, in beverage alcohol for about 30 years, I've had a really strong contribution from a great U.S. business. And that's based on the fact that it is the largest luxury wine market in the world. It's genuinely been stable. Margins have been great. And if you've got a strong position that allows you to get a decent share of voice with distributors, then there's no reason why through great execution, you can't see consistent returns.

So that's why I'm focused on the execution piece, David, because I do think that's the area that we need to focus on the shelf in the on-premise, in the off-premise, how are we showing up? How are we telling our stories that allow us to engage and recruit consumers. If we do that well, why can't we beat competition.

Now I've only been here for 6 months, but I look at the portfolio – sorry, 6 weeks. I look at the portfolio and I say, gee, we're blessed, especially in luxury wine. We have got a privileged portfolio. We're in the #1 position in the U.S. So why can't we deliver on that promise? And I'm going to go there. I'm going to get heavily involved in all of these structural things that we need to address, and I'll do that with real urgency. And then I'm going to start to point the organization at how we execute unbelievably in all of those channels with customers across the country so we can realize the full potential of those brands. So that's where my perspective comes from, David.

We've just bought DAOU. It's an amazing asset. I went there, I saw it. I spoke to customers, and we've only just scratched the surface of the potential of that. Frank Family is extraordinary. We've got Beringer, BV, Etude, Penfolds, I mean, such an extraordinary portfolio. So that's where it comes from. I know the collective is a bit challenged. And certainly, Matua, we're lapping some tough numbers. We've got some new innovation coming on Matua. So I'm hoping that, that's going to get some reinvigoration – sorry, on 19 Crimes. We've got some new innovation coming.

On Matua, we continue to see real potential. Sauvignon Blanc continues to grow, and

Matua has got a great position. So there's the key ingredients. My instinct is to get underneath the cover to really look at what it's going to take for us to deliver on that promise. And that's what I'm communicating today, David.

David Errington

But that structure in there, Sam, that structure where you don't have the flexibility that you do in Australia. That execution, I know you got to give us more than just improved execution. There's got to be something fundamentally wrong with TWE operating a U.S. asset. It just can't just be execution. It's got to be more than that. I'll leave it there. I know, but I just can't accept it's execution. It's got to be something more. $40 million for half in luxury is just not good enough. It's not acceptable.

Samuel Andrew Fischer

Yes. I take that on board, David. But I think another thing in relation to the operating model is how are we competing? What is it going to take to compete? Do we need to invest in resource to help us to compete? I mean these are the kinds of things that I need just a little bit of time to look at through Ascent. And that could give us a little bit of horsepower to put back in the market to realize something that clearly hasn't been delivered in your time. That's really my area of focus.

David Errington

Okay. All power to you, Sam. Good luck.

Operator

Your next question comes from Caleb Wheatley with Macquarie.

Caleb Wheatley

Relatively tough act to follow. Just in terms of sort of managing the branded initiatives you're looking at, clearly, from a consumer point of view, if there is this sort of broader destocking process happening, particularly for Penfolds in China and in the U.S., what sort of other initiatives especially are going to be running to sort of make sure that the value of the brand isn't diminished as you work through that process. And so you're in the right position once you get through the next 2 years to sort of drive that luxury and ultra luxury growth again...

Samuel Andrew Fischer

So Caleb, just so I've got the question, you're talking specifically about Penfolds and the type of initiatives that we're going to do to continue to strengthen that brand?

Caleb Wheatley

Yes, alongside what may be a period of fairly significant discounting as distributors are working through sort of rightsizing their inventory.

Samuel Andrew Fischer

Yes. No, great question. And look, I look forward to bringing a little bit more of that to you in some of the future updates where you can get an insight into just all of the work we're doing to build the brand. But I have to say, I went to Penfolds. They call it Ben Fu in China. It's absolutely revered as a brand. It's one of the few brands in beverage alcohol that can be gifted, that plays a role in the food occasion. And there's still just so much opportunity for distribution gains for penetration, for trial. And I think the role for us in China is to continue to, if you like, develop all of those opportunities through activation of the brand through the distribution opportunities and through elevation.

We just did a collab with Maybach. I mean it was just extraordinary to see all of those very high-end consumers of luxury cars engaging with Penfolds trying the brand. So much, much more of that, putting the brand into key gifting occasions, key festive occasions through China, collab opportunities with luxury brands that really cement our image and our premium positioning.

So I'm so excited about that because we're in such a strong position today. We're going to remove some of that pricing ambiguity, really cement the position that we're looking for through stable pricing and continue to work with our distributors to drive distribution and penetration.

Operator

Your next question comes from Phillip Kimber with E&P Capital.

Phillip Kimber

My question is just sort of a little bit similar to Shaun's, but more on outside of China and parallel importing. The fact that depletions have been well below shipments, and it feels like it's been maybe for a little period of time. Are you comfortable you've got the systems and the processes to keep track of that? Because if we just take the U.S., I mean, all the data that we see, and I know we don't see the whole playing field, do you know the IRR and Nielsen data.

But I mean, they've been horrible for a number of good 12 months. And yet it feels like we're only now saying, well, actually, we've been shipping ahead of depletions. So I'm just – I'm wondering if the systems in that are good enough to pick it up a lot earlier than it seems to get being picked up at the moment.

Stuart Boxer

Look, I'll start, Phil, on that one, and Sam might sort of step in a little bit. I just want to sort of go back to what's got us to this sort of position. And it really does come back to what's happening in the market, both in terms of the change in market conditions in China given the reduction in large-scale banqueting and the continued weakness in the market in the U.S.

And as we work through those stock levels, they're reflective and the calculations are reflective of the forward-looking numbers on depletions. And so as we've integrated those outlooks for the market and also adjusted our depletion numbers, and that's impacted those stock levels. And so those effects drive those high stock levels that we're now acting on. So those – that's really the situation. So we do have the visibility, but this is what's got us to this position.

Samuel Andrew Fischer

Yes. I'd only add that we do get – obviously, Circana Sips source, we're getting depletion information. But when we do start building this executional rigor that I talk about, I do think there'll be very quickly the development of some core dashboards that show us kind of what distribution improvement looks like across different channels in different states, in different markets. So we can start having conversations around how we're progressing in relation to being best-in-class from an execution perspective and then holding teams to account for really how we're doing. So I think we've got reasonably good information, certainly at a macro level, but there's an opportunity for us to get a little bit more forensic as we look at measuring and holding teams to account for execution in market, and I'll be happy to share them for you once they're fully developed.

Operator

Your next question comes from Tom Kierath with Barrenjoey.

Thomas Kierath

I've got a question on the balance sheet, which I think you guys would agree is in really poor shape at the moment, 2.5x of leverage. And I think what you're saying is that the leverage will go up in the full year when the covenants are tested again in June, just given the intake and the lower earnings in the back half. So there's obviously a lot of speculation around what the covenants are. But could you give us some color there on what the banking covenants are and what the relationships are like at the moment with your lenders, please?

Stuart Boxer

Yes. So I'll give you what I can, Tom. So I'll sort of step through your comments a bit one by one there. And so your inference around what it will look like at the full year, obviously not giving any guidance on that, but sort of your calculations around the flow-through of the full year earnings resulting in a higher ratio without any mitigations at full year. That's sort of a reasonable calculation to do.

The point I will make, again, is that we have significant headroom to our covenants. I'm not going to tell you the numbers there, but those covenants, we have significant headroom. The 2 covenants we do have are a net debt-to-EBITDA covenant and an interest cover covenant. And that, for those with a keen eye, was included in Note 18 of our annual report last year. And so they're the ones that we're closely managing to.

And I think when we look forward at the profile of our net debt to EBITDA, we've got a program of activity to get us down into that target level over 2 years and quite a lot of levers that we already have underway to manage to that. So that gives us confidence that we can manage this effectively, notwithstanding that it's obviously higher and above our range at this point in time.

Thomas Kierath

And just the ability to reduce the intake. Is that – like how do you do that? Like I understand that there's contracts in place, but are you able to do that fairly easily? And are there penalties involved with that? Because I assume what you're saying is demand is lower for Penfolds and so your intake needs to be reduced pretty significantly over the next few years?

Stuart Boxer

Yes. So for us, there's sort of 2 different stories there. For Australia, we actually have pretty good flexibility. So notwithstanding that we've got a combination of owned vineyards, grape supply contracts and bulk wine contracts sort of roughly 1/3, 1/3, 1/3. We do have pretty good flexibility in that in terms of how they roll off the sort of variable portion, et cetera. So we're able to manage that one pretty effectively.

So as we said on the slide, we think over the next 2 or 3 vintages, we can manage that effectively. And then when you combine that with the long release date and sort of aging profile of the wine, we think it's manageable for Penfolds, as we did sort of post the China tariffs back in 2020. For the U.S., it's a little harder, which is why we've outlined structural change potential to manage that one because we do have longer-term contracts there. So we're obviously working through what that means in terms of our own footprint and contracts and the like to manage that. So that one will take a little bit more work to manage.

Operator

Your next question comes from Ben Gilbert with Jarden.

Ben Gilbert

Just sort of following on from a couple of the other questions. Just in terms of, I suppose, sort of coming to the business and taking a bit more of a sort of a harsher lens in terms of optimism because obviously, as we talked on the call, the results, you said that if there was any impact to demand in China, that wouldn't have any impact to guidance for Penfolds, obviously had a buyback going a few weeks ago, which obviously seems to change materially. I'm just interested in terms of how you come in and sort of change the mentality in terms of the optimism around planning and sort of plan for the worst, hope for the best. And if you do think that you've been sort of pessimistic or negative enough in terms of this rebase that this will be the bottom, assuming that conditions from a top line perspective don't get worse from here. I'm just interested in how you've changed that mindset. Do you think you need to change that mindset within the group?

Samuel Andrew Fischer

Look, I think as we've mentioned, Ben, I think the optimism comes from the strength of our brands. I've been privileged to get up into China and the U.S. and just see them, and that gives me a real sense of, well, these have got huge potential. We know the category is tough. We know that there's volatility, and we know that we've got some specific issues like RNDC that we need to deal with, and I want to reiterate that we're dealing with them. But we're trying to control what we can control and really by focusing on the opportunities that exist in the market, whether that's new customers, new channels that we can open up, e-commerce, B2B, B2C, there's still a wealth of opportunities that if we go out with these amazing brands that we can unlock. So just pointing the whole business at trying to drive depletions that helps us with some of these structural challenges, but also builds that momentum that we think will carry us forward longer term.

So we're not giving guidance because there's far too much volatility, but we're giving you some ingredients that we think are going to set us up for the longer term, including Ascent, which is clearly very proactively trying to address the cost base. That's in our control, and so is how we execute. So that's where the confidence comes from because that's something that I've been involved in for most of my life, and I'm already working on with all of the teams in the markets to realize all of that potential. I think that's the best answer that I can give you, Ben.

Ben Gilbert

So this – sorry, just finally, does that then lead to simplification? Is that what needs to be? I know you talked about M&A feels opportunistic, but obviously been more recycling. Do you think that the business there seems to be simplified materially in terms of folks?

I know you've obviously already done an iteration, but allow you to be more nimble or allow you to really lean in sort of a bit following from Mary's question around whether opportunities to derisk to really sort of lean into the Penfolds and we do have some really strong opportunities. Do you think it's just got too complicated?

Samuel Andrew Fischer

Look, I've just been here a short period of time, but I definitely have seen complexity inside the business, a huge opportunity for us to simplify to ensure we've got resources where we need them to be to compete and to win. I think we've already started a project on our DD&T platform, which I can see will really help us with process simplification, which is the digital data and tech stack, if you like. It's a big cost center, and we've already started to attack that, and I can see massive opportunity. So look, I'm confident that there is an opportunity to attack complexity, to drive simplicity to make sure we're focused on servicing those customers and those consumers and build the brand. So yes, I'm confident in that number, and we're already on it.

Operator

Your next question comes from Craig Woolford with MST Marquee.

Craig Woolford

Just a follow-up around that cost-out program. Can I just – how would you like the investment market to interpret it? Two things or a couple of things. One, around the timing of the benefit. A lot of cost-out programs that companies announce, we never really see it in the P&L because it gets absorbed by other issues. So are you saying $100 million benefit to EBIT? Or is it to be thought of in a different way? And the other part to that is what are the significant items or costs we should expect in implementing the Ascent program?

Stuart Boxer

Yes. Craig, I'll have a crack at that. So in terms of the timing of the benefit, what we've outlined is a 2- to 3-year period for that program to be implemented with some initial benefits coming from F27. And as Sam said a minute ago, there's already been some work underway within the organization in the DD&T, digital data and technology area and certainly – and across other parts of our cost base. So we've got a pretty decent head start towards considering some of those savings. And so that's the time frame piece.

In terms of what drops to the bottom line, what we've said is that those benefits will be used for a number of different ways, potentially to reinvest in growth, potentially to mitigate any impacts of any portfolio rationalization that comes out of Project Ascent or to drop to the bottom line. So at the moment, we can't be definitive on exactly how much will drop to the bottom line for those reasons. But what we can be definitive of is that we have a really good line of sight and confidence around the $100 million, and it will be sort of useful to help sort of execute on that strategy.

And final piece is in terms of the one-off costs, we don't have a view we can share on that. As we work through the next level of detail, we'll come to that. There will be one-off costs as they usually are in these sorts of programs. And as soon as we have more line of sight, we'll share a sort of view of those with you.

Operator

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

Mark Southwell-Keely

Can you hear me?

Samuel Andrew Fischer

Yes, we can.

Mark Southwell-Keely

Fantastic. Sam, with respect, you've only been in the position for a very short period of time. And I'm just wondering, I'd just like to explore a particular, I guess, capability that the company may or may not have. But when you go up to China, it's quite normal to be received in official meetings and having banquets yourself and with distributors and key customers, let's say. And it's quite normal, can be quite typical for a scenario to develop where you're more or less, I guess, participating in an echo chamber.

So you're receiving very positive feedback from the particular people that you're meeting with and talking to, but you're not necessarily receiving, I guess, a full and wholesome kind of view of the market. And in particular, with China, there is the way that products – consumer products, luxury products are sold quite different from a traditional Western-type structure where you have very sort of controlled supply chains and distribution, the distribution and sale of a luxury product, consumer product in China can go through so many different layers.

And in fact, the product can end up being resold by multiple private participants such that when you think that inventory is sold to a consumer, it's actually just been resold by various sort of third parties, profiteers and private operators.

So I'm just – I guess my question is twofold. It's one is – and I know you've only been there for a very short period of time, but how do you develop, I guess, the capability where you're not only receiving these sort of reports from your immediate customers and distributors, but you have a more full kind of sophisticated picture of the broader market and the deeper layers of the product?

And secondly, in terms of the, I guess, complexity of that, when you talk about your SKUs in your portfolio, you do have 2 fantastic SKUs in 389 and 407, but you've also got a long tail sort of 20, 30 SKUs, where the market dynamics are very different for each SKU. It's, in some cases, completely different dynamics. So I'm just wondering to what extent you think you have that capability, what steps you might be taking to develop that capability and how you approach such a complex portfolio?

Samuel Andrew Fischer

Yes. Thanks, Mark. A good question. I think I mentioned previously that I lived in Asia for about 20 years. I lived in China, too, in the spirits business, which is probably, I would say, even more exposed to the nuances of routes to market and the complexity that exists inside of China. So I'm well aware of kind of all of the measures and intelligence that you need to be able to gather in order to make informed decisions about how best to serve your consumer. And it's complex. And product comes from everywhere. It's a sophisticated parallel market where they capitalize on arbitrage opportunities from all over the world.

And while I was there, I did speak to our distributors who are very, very disclosed. You call it an echo chamber, but actually, they love telling you the challenges and the things that you need to address. We know some of the operators that are participating in these parallel markets and they are sources of intelligence. You've got consumers. So I think you're right, it's very key that we get a full picture so that we understand how we can serve the market in the best possible way to build our brand.

Now while I was there, having lived there, I went to a lot of them, not just our people, but outside, spoke to distributors outside, and I always do that just try and get the appropriate intelligence. Most of the parallel comes in through, what I would call, e-commerce or these cross-border channels.

And I think we are really starting to invest in capability in China to make sure that we've got really active participation on all of those e-commerce channels, those cross-border channels in a way that ensures that we not only capture that business, but we also do it in a way that enhances our brand positioning, and it's not disrupting pricing. So as we transition, I think it's very important that we understand all of what you refer to in relation to those complexities and that we've built structures that allow structures that allow us to service it.

I think it's middle of Jan. I'm sitting with the Penfolds team to do a full review of the portfolio. I think we're going to have a look at the role that each one of our SKUs is playing in servicing specific consumers in markets. And if there is an opportunity for us to simplify or be more clear and focused, then I think that's the opportunity for us to have that conversation. I've still got more to learn. The team is excited. We're very positive about the brand, but I'm also clear that if there is possibilities for us to crystallize through simplicity, more focus then that will be part of the conversation.

Mark Southwell-Keely

Would you be open to reviewing the pricing architecture.

Samuel Andrew Fischer

I think I'll be led by the team based on the opportunities that we see. I think I'm clear that the luxury and icon portfolio, the 707 and Grange continues to – there's a continued need for that to be the real masthead that we've got to continue to elevate it and make it even more aspirational. That is absolutely critical, particularly in a market like China. And then I'll have a look at the rest of the portfolio just to see the competitive set, the pricing that we need in order to compete in that set and maintain the position of the brand. So I expect that we'll do it all in that session.

Operator

Your next question comes from Sam Teeger with Citi.

Sam Teeger

Look, I think it's sensible that you're rightsizing inventory, but how much of the inventory issues are a function of short-term incentives based on NSR and EBITS really unless we see incentives evolve and take a longer-term focus, then won't we be back here at some point in the future?

Stuart Boxer

I'll have a go at that one, Sam. I mean I think the first thing to sort of comment on is that obviously, in F25, we had an outcome where we shipped ahead of depletion. So we're well aware of that and disclosed it. And that's very much been just driven by driving performance in the markets that we're operating at that time. So I can't make a comment around the linkage to STIs. As we look forward at STIs, something for the Board to consider around how best to get the sort of incentive structures right to support the appropriate growth of the business, but we're not at a point yet where we can decide that.

And obviously, the other part of the incentive program for the organization and the exec team is the LTIs, big proportion linked to the share price. And obviously, they are significantly out of the money. And so there's pretty strong alignment across the group that we need to make sure that we're managing the business for long-term and long-term growth to drive share price performance and realize LTIs.

Sam Teeger

Makes sense. And then kind of following on from that. What I do find slightly concerning is that we and other market participants have been able to consistently identify weak trends and market challenges prior to hearing about them from the company, which does suggest there are some deficiencies in potentially communication between the company's overseas offices and the head office in Melbourne. In fact, we're hearing about some of these things while the company was buying back stock. And look, Sam, I'm wishing you all the best in the new role, but do you think the head office gets adequate, accurate and timely communication from its offshore offices and you'll need that to make the right decisions for shareholders going forward?

Samuel Andrew Fischer

Yes. I couldn't agree more. Again, leading back into my past life, I've been part of multinationals, most of my life and making sure that we've got crystal clear and timely comms through the processes that we put inside the business through the rhythm and that those are sense checked with other sources so that we can get the most accurate and realistic view that we possibly can. And again, I will be very transparent in relation to what we're seeing and more importantly, what we're doing about it so that we identify any trends, positive or negative. And as a result of what we learned, we move very quickly to either mitigate risks or capitalize on opportunities. So I think I'm in violent agreement. It will be part of the early remit as I start to build systems that give me that information, including depletions and execution.

Operator

Your next question comes from Michael Simotas with Jefferies.

Michael Simotas

How should we think about cash realization over the next couple of years as you look to rightsize your intake? I mean normally, that should be a cash benefit, but just trying to understand the offsets around money you might need to spend in the Americas business to make those adjustments as well as one-off costs for TWE Ascent?

Stuart Boxer

Yes. So there's a few things to consider there. So first and foremost, when we think about sort of cash flow and leverage, there's a range of levers that we're focused on to manage that, Michael. So that includes the potential non-core asset sales and sort of tightening up our capital expenditure program. So that's sort of the first sort of piece of the puzzle.

Obviously, as we look to things like intake. We've talked about the approach that we're taking with the Australian Vinci starting from '26. So there will be some benefits we're looking to achieve there in terms of that intake, but obviously, sort of a longer-term view for the U.S. And so as we look forward, it's a balance between those sort of cash generation initiatives around the non-core asset sales, et cetera, as outlined with the decisions around structural changes to sourcing and Ascent. And based on everything we see in front of us, we think it's actually really manageable through that period of time.

Michael Simotas

Okay. But it doesn't sound like there's going to be a step-up in operating cash realization?

Stuart Boxer

Well, I think it's going to sort of represent the things I talked about. So I can't sort of go any further other than what I've just outlined in terms of those components, and we're obviously sort of monitoring it pretty closely.

Operator

Your next question comes from Jason Palmer with Taylor Collision.

Jason Palmer

My question is a follow-on from Michael's first question around the inventory rebalancing, both in Penfolds and the Americas. I'll ask it a bit more direct. How much of the 215 NSR rebalancing is embedded in the first half of '26 for Penfolds? And how much of the rebalancing of the 225 combined program in Americas relates to the first half?

Stuart Boxer

Yes. So unfortunately, I can't give you the specifics of that beyond what we've already shared that there is some in Penfolds and across the other 2 businesses as we outlined, Penfolds starting in the third quarter, and we've outlined that there's already been some in the first half.

Look, in terms of the sort of the weighting between half and second half and then the following year, at this stage, we can't share any more of those details. The focus we have is driving depletions and driving depletions across those markets will then enable us to sort of balance that, but we can't give anything further. The one thing we can say, though, just to point out is in the first half, the Treasury Americas business was also impacted as was the Treasury Collective business by the California transition, which has had a bigger impact than we had originally expected. So that's one of the drivers of the result.

Jason Palmer

Okay. I'm struggling reluctance to tell us this because we're all trying to work out what the base business might be. And I'm trying to work out if you just – you're reluctant to tell us because you don't know or there's another reason?

Stuart Boxer

There's a whole range of factors that will ultimately impact what it is. We've outlined some pretty good disclosure around the sales quantum of that inventory reduction amount for Penfolds and for Treasury Americas over that sort of approximate 2-year period. So we think we've given you a reasonable amount of information for you to make some assumptions on that as you build your models. Beyond that, in terms of giving you specifics, we can't do that at this particular point in time. Obviously, as we get through the half, et cetera, if there's more we can share, we will. But at this point in time, that's all we can give you.

Jason Palmer

Okay. Just a follow-up question in respect of that. Like what level of conviction do you have around the Americas business, that's not a cabinet rebasing to that business?

Samuel Andrew Fischer

I think we've talked a little bit about the volatility that we've got there, Jason, in RNDC. So there's a few moving parts. I think this focus we've got on this depletion and execution, I think, is what really underpins that confidence and that focus is really real. We've already taken quite specific actions in that business. And the Ascent program coming in, obviously, in the medium to longer term is going to have an impact. So I recognize the volatility in our history but some of the measures we're taking is what is really giving me confidence, albeit I recognize category is still volatile, and we've got this RNDC thing to fix, which I'm going over there very shortly to try and accelerate.

Operator

Your next question comes from Phillip Kimber with E&P Capital.

Phillip Kimber

I was going to ask about the U.S. as well. So if we put the $125 million that is the new information that you've given us today to one side, the $100 million NSR impact relating to the distributor change. I mean – so what does that mean really? That mean – does that mean they're not buying inventory in other states because they're using the inventory that they've got in California that they no longer need? And therefore, that $100 million, I mean, could that all sort of be hitting in the first half? Or is it spread across the year? I'm trying to understand specifically the $100 million that you've called out NSR impact from changing the distributors and how that flows?

Stuart Boxer

Yes. So look, I really can't sort of add any more to what I've already said, Phil, and I understand what you're trying to do to try to get some more specifics there. But that $100 million and the other $125 million will be spread across the period of time. Now which components are when I can't really go into. But we did obviously say that there was some impact of some of that destocking activity in the first half. So there's some of it in there. But in terms of splitting it between what's the $100 million and the rest, I can't give you any more detail at this stage.

Phillip Kimber

But am I right in thinking that $100 million is just – the sales impact of $100 million, is that RNDC are no longer – are using inventory that they had in California that they're moving to other states. So therefore, they're just not buying as much from you at the moment until that clears and then hopefully, they'll go back to a normal rate of buying. Am I understanding that right? Because that would imply more of it's going to happen upfront than it's going to be more first half skewed. That's what I'm trying to understand.

Stuart Boxer

And look, the idea you're talking about, which is that effectively, our customers will buy less until that inventory is worked through is the right concept. In terms of the phasing, there's lots going on in terms of distributor transition and what's happening in different markets. So it's not as easy just to sort of pick through and say it's as linear as what you're describing around California. But your concept is right, but we can't sort of share any more at this time in terms of the specific components in the first half.

Operator

Thank you. There are no further questions at this time. I'll now hand back to Mr. Sam Fischer for closing remarks.

Samuel Andrew Fischer

Great. Thank you very much, and thank you for all of the questions. I look forward to coming back in February to give you a further update on all of our progress. Wish you all a Merry Christmas. Thanks again. Bye.