Treasury Wine Estates Limited, H2 2023, Earnings Call 2023-08-15

Presentation

Operator

Thank you for standing by, and welcome to the Treasury Wine Estates FY ’23 Full Year Results. — ***Operator Instructions*** — I would now like to hand the conference over to Mr. Tim Ford, Chief Executive Officer. Please go ahead.

Tim Ford

Thank you, and good morning. Thanks for joining the TWE 2023 Full Year Results Briefing. Joining me today on the call is per normal members of our leadership team, Matt Young, our CFO; Tom King, the Managing Director of Penfolds; Ben Dollard, President of Treasury, Americas; and Pete Neilson, the Managing Director of TPB.

I’m pleased to announce today our results for fiscal ’23, a year where we delivered margin accretive earnings growth built on our already strong platforms for Luxury wine growth with Penfolds globally and also without the United States portfolio and made significant progress in the strengthening of our operating model for the future.

EBITS increased 11% to $583.5 million in the year, and we grew EBITS margin by 2.9 percentage points to 24.1%. We are particularly pleased to report the margin expansion in an environment of elevated cost inflation as we continue to make progress towards our long-term EBITS margin target of 25% and then beyond. Our performance was driven by continued growth in our Luxury portfolio where our momentum remains very strong, particularly for Penfolds. Also through the successful implementation of price increases across several key brands with strong equity and also through incremental cost savings from our global supply chain optimization programs.

Pleasingly, premiumization trends are continuing in our key markets, with ongoing strength of Luxury wine and the overall resilience within the Premium wine category. And while commercial price point volumes remain in decline globally, we are acting both proactively and decisively to ensure that we have our operating model, our cost and asset base in the right shape moving forward with some excellent progress made in recent months, which I'll touch on in more detail shortly.

With that said, we enter F '24 well positioned to deliver growth, led by our Luxury brand portfolio, our culture-led Premium brand portfolio and the benefits of our asset and cost base optimization initiatives already delivered in FY '23. Our confidence in our future trajectory is underpinned by our diversified global business model, our brands, our markets, our channels and the multiple country of origin portfolios, which has proven to be a significant strength, enabling us to adapt and respond to the ever-changing consumer and economic environment over the past year in particular.

Now touching on some of the other key performance and financial highlights. Portfolio sales premiumization continued, reflecting Luxury sales growth as well as the commercial portfolio declines with 85% of our global revenue now generated from the Premium and Luxury portfolios, an increase of 2 percentage points from the prior year. Net sales revenue did declined 2% to $2.4 billion, with Luxury sales growth and price increases across key portfolio brands, partly offset by the commercial portfolio decline. This very strong sales mix, which reflects the ongoing premiumization of the category as well as our business saw revenue per case increase by 13%.

And in addition to strong EBITS growth, we delivered growth in net profit after tax, which along with earnings per share increased by 17%. Cash conversion was 61%, and excluding the change in Premium and Luxury noncurrent inventory was 76%, which is below our annual target of 90% or higher, reflecting the timing of our sales in Asia in the fourth quarter as well as the earlier timing of supplier payments and promotional spend by our brands in Treasury Americas and Penfolds. We expect our F '24 delivery for cash conversion to be in line with the target.

Leverage was at 1.9x, remaining within our 1.5 to 2x through the cycle target, leaving us once again with a strong balance sheet and with options to use this strength to continue to drive growth and shareholder value. And finally, the Board declared a final dividend of $0.17 per share, bringing the full year dividend to $0.35 per share, which is a payout ratio of 67% for the full year, which once again is towards the upper end of our target range and an increase of 13% in the prior year.

Our 3 brand portfolio divisions: Penfolds, Treasury Americas and Treasury Premium Brands, each made progress towards their strategic objectives in the year, with the delivery of NSR per case growth and margin expansion by each division on a constant currency basis are highlight. The Penfolds result was clearly a standout with strong double-digit top line growth reflecting the strength of this exceptional brand and the outstanding execution by the team who continue to build distribution and grow consumer demand globally.

In Treasury Americas, we have continued to build our exceptional Luxury portfolio platform, delivering price rises across a number of brands and growing distribution in a year of constrained wine availability. In our Premium portfolio, we saw another year of double-digit revenue growth for Matua. And whilst revenues for 19 Crimes declined in the year, overall, this brand is performing above market trends when you look at retailer Scan Data, reinforcing the strength of the brand equity in 19 Crimes. Overall EBITS margin for the division grew strongly, reflecting this portfolio mix as well as improved cost management.

And for Treasury Premium Brands, we maintained excellent momentum in a number of priority brands, which enabled double-digit growth in gross profit for both the Premium and Luxury portfolios for TPB. Whilst the top line was impacted by the category-wide decline in commercial portfolio volumes, improved mix and the delivery of price increases helped support gross profit expansion. And the team has made outstanding progress in delivering the new TPB operating model and the supply chain restructure to support that. Shortly, Tom, Ben and Pete will each provide some more detail on the performance of the 3 divisions.

Touching on sustainability, where in F ’23, we continued to make progress towards what is an ambitious suite of commitments in a number of very important areas. For climate change and energy, the launch of Australia’s largest winery solar installation in the Barossa Valley was a highlight, with a similar rollout to following California through fiscal ’24, and we are on track to deliver on our target for 100% renewable electricity across our operations by the end of calendar year 2024.

As a business with a significant agricultural footprint across key global winemaking regions, we have a responsibility to be a leader in water stewardship. And in F ’23, we delivered on our strategy called Treasuring Water, which was informed by the comprehensive review we completed the prior year. As part of this, we have committed to investing in smart water meter technology across all of our high- and medium-risk sites and vineyards and wineries by the end of F ’25, which will enable us to make smarter data-led decisions around our use of the water, particularly in our vineyards and wineries. We continue to target Destination Zero Harm as the core of our health, safety and well-being agenda. And in F ’23, we achieved our target for a reduction in the serious incident frequency rate, supported by the launch of the organization-wide Build Safe Together campaign, which included a particular focus on mental health to supplement the strength in physical health we already had.

Female representation remains a key element of our inclusion, equity and diversity commitments, and we saw continued improvement in F ’23 with an increase in total female representation to 42.8% of our total employee population, up 0.9 points in the year. While representation of females across our senior leader cohort held broadly stable.

And finally, on this topic, in terms of sustainable packaging, we did not achieve our goal for 100% of our packaging to be recyclable, reusable or compostable by the end of 2022 calendar year. But that doesn't mean we're not making great progress in the area. For example at the Barossa packaging center, approximately 90% of production is now recyclable with the remaining elements reflecting challenges for the broader industry, and we are seeking to work collaboratively with our dry goods partners and peers to solve for these problematic materials by the end of 2025.

We aspire to be a leader in sustainability, not just in the wine industry, but across the global beverage sector. And while we still have much to do, I'm very confident we're on the right track towards achieving our ambition.

At our full year results update 12 months ago, we shared our expectations for the wine category performance leading into a tightening economic environment with our message at the time, reflecting our confidence that category fundamentals would remain strong across our key markets through this cycle, particularly for Premium and Luxury wine. Pleasingly, 12 months on, it is playing out as we expected, with premiumization continuing to drive the category globally and with a number of key long-term consumption drivers enduring.

Luxury wine consumption remains strong, with double-digit value growth recorded in a number of markets through the 2022 calendar year as measured by IWSR, including in Asia, Australia and the U.K. Whilst in the U.S., we saw modest growth across the market, largely due to reduced availability from the 2020 vintage that was impacted, as we all know, by the wildfires in Napa. Great results there. All metric and indicators that we track constantly suggests this trend has continued through 2023 year-to-date. And consumption in Mainland China did decline during the period, largely due to impact from the pandemic, but we remain confident in the significant long-term opportunity for the category and our sales in that market.

The Premium segment has remained resilient as you can see on the chart, which shows value and volume trends as measured by Scan Data, which is the best measure of consumer demand. The Australia and U.K. Premium category has seen value growth over the past year, with the U.S. being in very slight decline, albeit the past 13-week data shows an improving trend to growth for the Premium wine segment in the United States. We see these trends in both the Premium and Luxury wine segments in our key markets remaining largely consistent in F ’24.

For TWE, our strong Luxury portfolio momentum continued in F ’23. It was another year of exceptional performance. Penfolds grew revenue by 15% or more in Asia, Australia and in EMEA whilst also achieving double-digit growth in distribution across the global target account universe. Portfolio expansion was another highlight, with the multi-country of origin focus, successfully expanding to include wine sourced from France and China across both the Ben portfolio and the newly launched One by Penfolds tier.

In Treasury Americas, despite constrained availability, we grew the breadth and quality of our distribution for the Luxury portfolio and implemented double-digit price rises across key brands such as Stags’ Leap and Beaulieu Vineyard. In addition, revenue through our cellar doors and wine clubs grew 10%, a pleasing return to growth for this highly profitable channel. And we return – as we return, I should say, to a normalized level of luxury portfolio availability from fiscal ’25, we remain very confident in our U.S. Luxury portfolio as a strong platform of future growth in Treasury Americas and for the group.

We also saw a number of our Premium portfolio of brands continued their strong performance in F ’23, reflecting our ongoing focus on investment and innovation. Two highlights were Squealing Pig and Matua brands whose global revenue increased by 17% and 11%, respectively, in F ’23, with each of these brands growing across multiple markets. For Matua, in particular, it was the third consecutive year of double-digit revenue growth, driven by the United States. The 19 Crimes brand globally has strengthened over the course of F ’23. Firstly, in the U.S., 19 Crimes grew across scan channels for the year, delivering 1% growth against a premium segment, which I’ve already highlighted, which declined slightly, with momentum certainly improving considerably in Q4, in line with our plans and activation.

Outside of the U.S., 19 Crimes continued to perform strongly in all other markets, with revenue up 8%, driven by growth in particular, in EMEA and Asia. Our focus for this very important brand, 19 Crimes, in the first half of fiscal ’24 will be the global launch of our new brand platform, our new package and a very innovative consumer campaign. We expect continued growth and improved performance for this year to come through, in particular, in the second half globally. As we have previously explained throughout this year, 19 Crimes as a brand globally did perform below our internal expectations, however, it outperformed the market in the Premium category globally.

And in May, we announced our intention to implement a range of initiatives designed to strengthen the operating model for TPB. And before I step through those, it’s worth recapping and what we’ve learned about this business since it became a stand-alone division in July 2021, 2 years ago. The priority brands, which include Wynns, Pepperjack, Squealing Pig, 19 Crimes and St Huberts The Stag are proving to be a genuine growth engine, connecting strongly with consumers and providing a great platform to take advantage of the long-term category premiumization trends. To put some context to this, our priority premium portfolio has grown revenue at an annual compound growth rate of 25% over the past 3 years. The opportunity to grow this portfolio outside of the core Australian and U.K. retail markets, we believe, is significant, and we’re making good gains, particularly in Southeast Asia, where we've gained real traction over the past 2 years, building both awareness and distribution of our brands.

And with the essence of TPB centering on driving category-leading innovation, inventiveness is a core part of this business' DNA. And we've seen that through our product development in the better for you space with innovations like Pepperjack mid-strength and the introduction of new packaging formats like [Bagnams] reflecting the strength of focus of being consumer and insight-led within this business. These elements reinforce our confidence in the long-term trajectory for TPB with top line growth and margin expansion to be led by the continued growth of the premium portfolio, which now is over half of division revenue.

Commercial wine, however, in line with overall market trends, has seen consistent annual decline, driving the reduction in total division volume. We do expect the decline in commercial volume to continue, and with that in mind, we've embarked on a series of initiatives to get ahead of any long-term adverse impacts and that rightsizing the cost and asset base and ensuring greater operational and strategic flexibility to support the continued growth of these premium and luxury portfolio as I've talked about.

These initiatives have included reducing the overhead costs to align with the future scale and size of the business, implementing changes to our commercial wine supply chain to what will now essentially be an outsourced and more capital-light supply model as well as divesting and rationalizing our asset base. The transition of commercial wine production to outsourced third-party providers, the closure of the Karadoc winery and the divestment of commercial-grade vineyards have all been key actions that have or are being progressed through fiscal '24.

Upon completion of this program, we will have delivered a number of significant benefits, including variabilizing the commercial wine cost base, mitigating the impacts of higher

COGS as a result of reduced commercial portfolio volumes, thereby reducing TPB's exposure to this commercial wine segment. And increasing our strategic flexibility and optionality with respect to the remaining portfolio. As always, we continue to assess asset and brand optimization initiatives that we believe will further strengthen TPB's operating model. We are confident this business is now structured appropriately to continue its growth focus on the portfolio premiumization and margin growth strength that this business does have.

With that, I'll now hand over to Matt, who's going to run through the financial results.

Matthew Young

Thanks, Tim. Good morning, everyone. Pleased to share with you the highlights of our fiscal '23 financial results. Group net sales revenue declined 4.9% on a constant currency basis, reflecting commercial portfolio declines within TPB and Premium portfolio declines in Treasury Americas. Against these, however, Penfolds delivered revenue growth of 13.8%, and we saw the benefit of incremental pricing across all divisions. Those price increases plus the portfolio mix shift to a more Luxury/Premium wines delivered 9.6% increase in NSR per case, supporting our premiumization strategy.

COGS per case increased 2.8%, reflecting the premiumization of the portfolio. But it includes the benefit of our 2020 global supply chain optimization program, which delivered $62 million on a run rate for the year. On a mix-adjusted basis, COGS per case were in line with the prior year as expected. Cost of doing business margin increased 1 percentage point to 22% driven by lower NSR, but also the continued focus of brand investment across the portfolio. EBITS was $583.5 million, an increase of 8.6% on a constant currency basis, and EBITS margin improved to 24.1%, with margin expansion delivered through stronger portfolio mix, price rises and strong cost management. ROCE increased 0.6 percentage points to 11.3%, which is progress on our plans to restore and grow ROCE. And finally, our leverage increased modestly to 1.9x, in line with our through-the-cycle target range with flexibility to support investment in growth and the delivery of shareholder returns.

Our continued focus on revenue growth management has allowed us to deliver sustainable underlying growth of earnings and margin expansion in fiscal '23 and will be a continued focus in fiscal '24. We'll continue to invest strongly behind our brands, building on the current momentum we are experiencing in many markets to drive top line growth. When we presented in August last year, we talked about our plans to take targeted price rises in fiscal '23. And as you've heard from Tim and I already, those price rises were successful and supported our improved revenue per case and EBITS margin. On this slide, you'll see further detail of the price rises achieved on the brands we highlighted last year.

These included increases on the Penfolds' Luxury Cabernet Bins, such as $10 per bottle on Bin 407. Increases on Premium brands, including 6% increase for 19 Crimes in the highly competitive U.K. market and 10% increase on Matua in the U.S. And importantly, as we build on the Luxury portfolio platform in the U.S., we've taken double-digit pricing during the current period on supply-constrained brands, products such as Stags' Leap Cabernet, which you see here, but also similar price rises on the Chardonnay, as well as Beaulieu Vineyard among other brands. The strength of our revenue growth management disciplines will further support top line growth and margin expansion in the future.

Total material items of $109 million or $76 million after tax have been recognized in the year and generated net positive cash flows of $34.5 million. In addition to the previously announced programs of work, costs associated with the implementation of our new TPB operating model and supply chain restructure were recognized in the year. We expect this program will be complete in fiscal '24, with total one-off costs of approximately $90 million, cash costs of $30 million overall associated with that program.

Moving to the balance sheet. Net assets increased $90 million versus the prior year on a reported basis. Key factors impacting the balance sheet in the half outside of working capital include the acquisition of Château Lanessan and the divestment of noncore supply assets in Australia and the U.S.

And I'll turn to inventory in more detail. Total inventory value increased 8% versus the prior corresponding period. Current inventory increased $42 million, reflecting future demand expectations for our Premium and Luxury portfolios. Noncurrent inventory increased $112 million versus the prior year. Within this, we note that Premium inventory has increased, and this reflects the moderation of sales performance in our Premium portfolios, and this is being managed through the normal course operations through future sales plans or as we balance our inventory through future vintages.

In fiscal '24, we expect mix-adjusted COGS per case to be in line with fiscal '23. The impact of the lower yielding vintage '23 intake as well as reduced portfolio volumes is reflected in this expectation as are the benefits of our recently announced supply chain restructure. We believe holding cost of goods flat in a period of ongoing higher inflation is a pleasing outcome, testament to the flexibility of our teams to respond to the changes in the supply chain.

Turning to cash flow and net debt. Operating cash flow before interest, tax and material items was $443 million for the year, with reported cash conversion of 60.6%. Excluding the change in noncurrent Luxury and Premium inventory cash conversion was 76%, which was below our target of 90% or above. Cash conversion was impacted by the timing of sales, particularly into Asia, with a greater proportion of export sales shipping in May and June as opposed to March and April and May than we planned. Given the value of the sales and the standard credit terms with export customers, this impacted our cash conversion by approximately 10%.

Also impacting cash conversion was the timing of global supply payments and brand investment spend on Penfolds and Treasury Americas. In particular, in these markets, our spend on future programs was slightly earlier than previous years as we got ready for the important launches like One by Penfolds and the new 19 Crimes platform. We expect F '24 cash conversion to be in line with our stated targets of 90% or higher.

Moving now to CapEx. Total CapEx for the year was $141 million, which included maintenance CapEx of $102 million and the acquisition of a previously leased vineyard in the U.S. for $25 million. Our investment in solar technology in Australia and California was a highlight, and it will support the achievement of delivering 100% of energy from sustainable sources by 2024. We continue to expect maintenance CapEx for fiscal '24 to be approximately $100 million.

And finally, to capital management. Overall, our disciplined approach to capital allocation and cash flow has ensured we've maintained an efficient and flexible investment-grade capital structure. This remains a key source of business strength and importantly, will be enabler of continued investment in fiscal '24. Leverage was 1.9x at the end of fiscal '23, within our target range of 1.5x to 2x, and we expect to delever over the course of fiscal '24. Liquidity position remains strong, over $1.4 billion of cash and committed undrawn debt facilities, and proactive risk management will ensure that our cost of funds will only rise modestly in fiscal '24 despite an environment of increasing interest rates.

And as Tim mentioned at the start, we've today announced a fully franked dividend of $0.17 per share with our full year payout of $0.35 continuing to be at the top end of our policy range. Thank you. I will now hand over to Tom.

Tom King

Thanks, Matt, and good morning, everyone. I'm delighted to report an outstanding result for Penfolds in a year that we've continued to see robust demand for Luxury wine and the Penfolds brand globally. As a team, we've remained laser-focused on executing against our strategic priorities and the results we are seeing are a testament to the quality of this effort, and I'm extremely proud of the Penfolds team.

Volume and NSR increased 7% and 14%, respectively, driven by strong momentum across the portfolio in Asia, Australia and EMEA, the successful launch of One by Penfolds in China and growth in our multi-country of origin portfolio. NSR per case improved 6%, reflecting improved mix and supported by price rises on our supply-constrained Luxury Cabernet Bins. COGS per case increased reflecting the release of wines from the higher-cost 2020 vintage and increased contribution from the higher cost U.S. and French portfolios. Cost of doing business increased 6% as we continue to invest in brand building to focus on accelerating our strong global momentum. This led to a 16% increase in EBITS to $365 million and an EBITS margin of 44.5%.

It's been an exciting year for Penfolds with many execution highlights around the globe. We took our strategic focus on building consumer demand to a new level, using our deep insights on our consumers, both Luxurians and [connoisseur] to recruit and re-recruit consumers to Penfolds, which is reflected in the 15% and above revenue growth we delivered in Asia, Australia and EMEA. We recently welcomed our first creative partner, NIGO, whose creative talent span fashion, art and music, to partner with us on One by Penfolds. Our new brand tier inspired by culture, collaboration and community focused on engaging the next wave of Penfolds consumers. We revamped and upgraded our re-corking clinics, a key way for us to engage with wine connoisseurs, providing collectors with an opportunity to connect with our winemakers and enjoy a luxury brand experience that is uniquely Penfolds.

We launched luxurious gifting formats in the Lunar New Year period, ensuring that Penfolds is front and center for consumers during key gift-giving periods. We also made significant headway growing global distribution and availability, continuing to roll out our targeted data-led approach to scaling our availability in the right outlets with the right portfolio and then bringing this to life in store with brand activation to drive rate of sale. Our approach is working with Penfolds outlets and listings growing across our priority growth markets.

In our emerging markets in Asia, we focus on growing the number of outlets in which we are distributed, and we saw strong double-digit growth across Singapore, Malaysia and Thailand continue, which sets us up well to continue growing our top line in these markets. Outlet growth in Hong Kong was slower, impacted by pandemic-related restrictions through the year.

In other key markets, we prioritize listings as the measure of distribution, and we also delivered improvement in these markets during the year. In Australia, listings grew 7%, a very pleasing result for a relatively mature market, where our revenue grew 18%. Listings in the U.K. doubled, driven by our collaborative partnerships with key grocery channel customers and increased brand investment in this market. And in the U.S., listings increased for both the Californian and Australian-sourced wines, driven by a significant focus in the on-premise and by the glass programming to drive brand awareness and trial. I'm excited by the significant opportunity ahead of us as we continue to increase our distribution, which we're confident will continue to support our delivery of top line growth.

Our other focus is expanding our portfolio, particularly through the acceleration of our multi-country of origin strategy. It was a milestone year for Penfolds collection, with the 2022 collection including the release of wines from 3 countries of origin, Australia, the U.S. and the inaugural release from France. This was followed more recently by another milestone release with our 2023 collection, including a fourth country of origin with the introduction of CWT 521, our first bin-level wine sourced and produced in Mainland China.

The successful launch of One by Penfolds was also a key highlight with over 100,000 cases sold in China through e-commerce, retail and on-premise. In July, we held our global launch of One by Penfolds, with wine from Australia, California and France adding to this portfolio.

This is just a glimpse at some of our highlights in the past year. We've connected with more consumers than ever before, and we're providing them with more choice to experience quality Penfolds wines through the expansion of our portfolio, and I'm excited about what is ahead for Penfolds in F'24. Thank you.

I'll now hand over to Ben Dollard.

Ben Dollard

Great. Thank you, Tom, and good morning. It's a pleasure to join you today from the U.S. I'm pleased to share the fiscal '23 results for Treasury Americas. Overall, the Americas business is in good shape. We have delivered margin expansion, and we've built on our key platforms growth throughout the year. Our Luxury brands led by Frank Family Vineyards, Stag's Leap and Beaulieu Vineyards now account for just under 40% of our revenue and continues to gain strength through distribution expansion and price accretion in a year where we've had less luxury wine to sell than in previous years. We are also well progressed in executing our plans for the new and refreshed 19 Crimes brand platform – from new package to the new consumer campaign, to the next wave of category-leading innovation, the brand has become known for.

Turning to the key financial metrics. Volume and NSR declined 25% and 18%, respectively, driven by the premium portfolio, in particular, 19 Crimes and Sterling Vineyards, and as we foreshadowed entering fiscal '23, reduced availability of luxury wine from lower-yielding 2020 Californian vintage. Volumes were impacted by shipments being 600,000 cases behind depletions. As distributors — ***Technical Difficulty*** — their inventory closely, a trend we are seeing not only across the wine industry, but broadly across other alcoholic beverage categories as well. Going forward, we are confident our strong and collaborative relationships and joint business plans with our key distributor partners will ensure that right levels of availability to continue growing our priority brands.

Pleasingly, NSR per case increased 9%, reflecting the shift in portfolio mix and successful delivery of price increases on key Luxury and Premium brands. COGS per case decreased slightly this period, with benefits from the global supply chain optimization program offsetting the mix shift impacts. Cost of doing business reduced, driven by lower discretionary overhead costs. We delivered EBITS of $204 million, in line with the prior period on a constant currency basis, and EBITS margin of 24.8%, just shy of our long-term margin ambition of 25%.

Turning to progress against strategic priorities, specifically growing our Premium and Luxury brand portfolios. In the Premium segment, we continue to invest in consumer engagement. Matua, our leading Sauvignon Blanc brand from New Zealand, has invested heavily in digital and event activation, providing our endless summer campaign. Matua is rapidly expanding and gaining in popularity with consumers, growing 10% in IRI channels and outpacing the New Zealand Sauvignon Blanc category. We have successfully launched new innovations, including Matua Lighter in the first half followed by Matua Coolers cans in the — ***Technical Difficulty*** — Likewise, St Huberts The Stag is the official wine sponsor for the X Games, connecting with consumers, the outdoor lifestyle. St Huberts The Stag is resonating strongly with consumers, achieving 19% value growth in scan — ***Technical Difficulty*** — year, specifically outpacing the total ultra-premium category.

In the Luxury portfolio, our execution was strong despite supply constraints. We are strengthening our Luxury platform and successfully implementing price increases across our priority portfolio. We have grown the breadth and quality of distribution nationally, another highlight for the improving performance of our cellar doors and wine clubs with

NSR up 10%. Our cellar doors are a key component of our overall Luxury strategy and an important way to engage directly with our consumers. Frank Family Vineyards was a highlight, delivering results ahead of expectations in its first full year as part of Treasury Americas. We look to increased availability of Chardonnay from Q4 of fiscal '24 to support the growth we expect for this brand. Beaulieu Vineyards achieved a significant milestone with the 2019 Georges de Latour awarded a 100-point score and Wine of the Year from James Suckling. In addition, the 2019 Napa Valley cabinet was awarded 1 spectator's #1 Wine Value of the Year.

Our preeminent Luxury portfolio is well positioned while availability will remain relatively constrained in fiscal — ***Technical Difficulty*** — albeit delivering growth, we look forward to return to normalized availability in fiscal '25, supporting our confidence in growth expectations.

Moving on to our next strategic priority, delivering category-leading innovation. The — ***Technical Difficulty*** — franchise remained in growth across scanned channels growing 1% over the year and outperforming the market, which declined slightly. This was driven by Cali Gold, a leading Sparkling Wine Innovation for 2022 and the #3 innovation in the total category and other innovations, including Cali Blanc. Our first limited time offer for Saint Patrick's Day of — ***Technical Difficulty*** — revolutionary red blend was a success, achieving significant demand and becoming one of our most productive SKUs in the period.

We are focused on the improved performance of the Classics tier and confident the launch of the brand's new consumer platform and packaging in H1 fiscal '24 will reinforce our belief in this important brand here within the 19 Crimes franchise. We have launched 2 new brands in the $20 to $25 price point, currently, a significant gap in our portfolio and a growing segment of the wine category in the United States. Lyric focused on the attractive — ***indiscernible*** — opportunity and Tapestry, good rate designed to appeal to the new luxury consumers. These wines will be on shelf and in restaurants starting Q1 fiscal '24.

We continue to make progress against our strategic priorities in the Americas business, and we are confident in our execution ability for fiscal '24 and beyond. Thank you.

I'll now hand over to Pete Neilson in Melbourne.

Peter Neilson

Thanks, Ben, and good morning, everyone. I'm pleased to report TPB's results for fiscal '23, a period where we continued to see our priority brand portfolio build great momentum across our key markets, and we made significant steps towards setting our business for the future. Volume in NSR declined 10% and 5%, respectively, driven primarily by a decline in commercial volumes, most notably in the U.K. and Australia, reflecting the continuation of softening category trends for wine below $10. This was partly offset by strong performance in Southeast Asia, benefiting from our significant distribution growth over the past year and the continued momentum for 19 Crimes, which grew revenue by 8% across TPB geographies.

NSR per case increased 6%, reflecting the benefit of price increases across select brands and continued portfolio premiumization, with the Premium and Luxury portfolios now contributing 61% of divisional NSR, up from 58% this time last year. COGS per case increased, driven by portfolio mix shift and partly offset by benefits from the supply chain optimization program. Cost of doing business improved 3% and included a $6 million gain on the sale of assets in Australia in the first half and the prioritization of brand investment. As a result, EBITS increased 4% to $82 million, with EBITS margin improving to 10.4%.

Turning to some execution highlights. Category leading innovation is key to us achieving our TPB ambition of bringing the pleasure of premium wine to more people on more occasions. It is imperative that we continually innovate our portfolio to meet the needs of consumers now and their needs into the future. In F ’23, our innovation highlights included our partnerships and campaigns with the Australian Open, Sydney World Pride, the UFC in Asia, and our 19 Crimes campaign in the U.K., taking both Squealing Pig and 19 Crimes to more consumers than ever before through bold and innovative campaigns.

Disruptive 19 Crimes’ Obedience Gets You Nowhere campaign in the U.K. during the King’s Coronation received a lot of attention from U.K. consumers and was a key contributor to the strong performance of 19 Crimes in EMEA, where NSR was up 10% in F ’23. We also continued our track record of introducing innovative new products to the wine category, a highlight being the introduction of our mid-strength category with the launch of Pepperjack mid-strength Shiraz, a mid-strength wine that through its campaign tagline, Really it doesn’t taste like one.

We also made pleasing progress in taking our priority brands global and growing in new markets and channels. Wynns continued to grow its presence in Luxury channels. We have consolidated both Georges de Latour and Wynns John Riddoch under the [One Courtier, Wynns excellence], who is best placed to expand these great wines to a network of international fine wine buyers and collectors in over 100 countries through the internationally renowned fine wine marketplace, La Place de Bordeaux.

The Premium portfolio continued its global distribution expansion and a highlight this year was the strong depletions growth in Asia across all of our priority brands, with Malaysia and Thailand being key contributors to this growth. These are just a few of our execution highlights for the last financial year. We have some exciting plans underway for F’24 and remain very confident in the health and outlook for our core portfolio of brands that we know consumers love. And with the business now structured the right way for us to continue to premiumize, I’m confident we can continue to grow and improve our margin over time.

Thanks. I'll now hand back to Tim.

Tim Ford

Thanks, Pete. So if you heard from the team now, it has been another great year of progress, really for each of our brand portfolio divisions towards each of their strategic priorities, which remain unchanged going into F'24 with the execution very clear for each of the teams. Across TWE, again, consistency with what we're looking to execute. We'll continue to leverage our strengths and capabilities globally. And the progress – and make the progress on our key organization-wide priorities you see on the screen and on the presentation, elevating our culture and growing our talent and our people are our most important asset, progressing our investment in technology that unlocks long-term opportunities, great progress there, pursuing category-leading innovation, which we've talked about a lot already today and also pursuing complementary inorganic M&A, that will enhance our brand and asset portfolio and continue, as always, to drive towards the sustainability commitments that I outlined.

So to summarize, F'23, I'd characterize as a really important year for TWE, where we adapted and responded to deliver the performance we're pretty proud and outlining today. If we look back at the year and recognize that we delivered earnings and margin growth whilst navigating the ever-changing consumer and the tightening global economic environment, Penfolds continues to go from strength to strength, building distribution, engaging new consumers and delivering outstanding financial results.

Our U.S. Luxury business continues to build on its great platform, delivering distribution growth, direct-to-consumer growth and price rises in a year of constrained wine availability. And our premium portfolio has outperformed the market globally, led by strong brands, leading brands. And we also have taken the proactive steps that will strengthen our TPB operating model and broader business and our supply chain for the future.

So with that said, and as a result, we enter F'24 with even greater confidence in our strategy, our premiumization strategy, greater confidence in the strength of our diversified business and our ability as a team to seize and deliver on the opportunities that are before us in the year ahead. And financially, we expect the year ahead to support our long-term financial objective, which remains consistent as well, which is to deliver sustainable top line growth year in, year out and high single-digit average earnings growth with a group EBITS margin target of 25%, and then we work out where we go from there.

So with that said, that's the presentation and commentary. I will now hand over to the operator to open it up for questions.

Question and Answer

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

Craig Woolford
I wanted to ask about the cash flow, if I can. Obviously, the FY '23, the second half ended up a bit lower and you've explained some of the timing issues. I'd just like to clarify if it is timing, do you expect it to be well above 90% in FY '24. In other words, a period of hopefully normalizing. And 2 parts – other parts to it. Why were the sales in May and June? And I noticed you used some debtor funding this year or receivables. Can you explain the rationale on that one as well?

Matthew Young
Matt here. Thanks for your question. Look, the cash conversion was below our target. And as you've picked up there was primarily related to the timing of sales. And hopefully,

I gave a little bit of clarity that the timing of those sales, particularly in Asia, had an impact of around about 10% on cash conversion. And if I go a little bit deeper on sort of on why that was, many of you will know that particularly in Asia, we operate on largely a quarterly buying cycle and that's over a number of years that's been the case. And we have a very disciplined way in which we engage with our customers, ensuring that we've got insight to depletions, inventory levels. And that's been a process that we've had for a long period of time and served us very well in maintaining a really strong business there for the Penfolds brand.

There is no overarching trend here that gives us concern. Each customer circumstance is different, so whether it be shipping patterns and other brands that they sell, we have really strong partners, really strong payers who help us grow the brand in that market. That disciplined approach is a strength of ours. And if that results in some shipments moving from March to April or from April to May, the normal credit terms means that that's going to put some pressure on the cash conversion. But whilst not an excuse for missing the target, I consider that a positive reason and a positive factor of how we manage that business.

And hopefully, in terms of understanding the strength of that business, we've delivered half on half and half on half a year after year and Penfolds delivered that growth. And some of the data that Tom shared with you, not just last year, but this year, the growing availability and distribution gives us confidence in the strength of our partners and that brand. So I hope that sort of gives you a context that we don't see this as a challenge. It's a shame that we missed that target, but certainly for a positive reason in terms of the growth of the brand.

Craig Woolford

And just to clarify that receivables funding decision.

Matthew Young

Yes. I mean it was relatively minor. I think it was about $20 million, which in the broad case of our balance sheet probably isn't that significant generally. But I think if – when we've done this before, we've done it in previous years, where the credit quality of those customers allows us to get a cost of funds benefit, it still represents an advantage for us and the right financial decision but not a big factor in our cash conversion.

Operator

Next question comes from Michael Simotas from Jefferies.

Michael Simotas

The first question for me is on the outlook into FY '24. Firstly, just a clarification. Tim, I think you just made the comment right at the end of your prepared remarks that FY '24 will support the long-term financial objective. Does that mean you're expecting to deliver growth broadly in line with that long-term objective of high single digit? And what do you need to do to deliver that growth? Is that contingent on a change in the China regime or China – sorry, change in the China tariff regime? How important is the 19 Crimes relaunch to that as well?

Tim Ford

Michael, thanks for that. You are correct in how I said that statement of the important one to pick up. So thanks for asking the question, and I think your interpretation of it is pretty well right. How are we going to do that? It's continuation of Penfolds trajectory. If you roll that through, that's going to continue. Yes, we expect top line growth in the U.S. this year, some from luxury, but also improvement in the premium portfolio and you look at sort of where we sit versus the category and some of the category trends over the last 13 weeks, that's certainly not a heroic assumption.

We expect more improvement on 19 Crimes in the second half versus the first half, just on the back of inventory transition, new pack it takes a few months to get through. And then once we have that on shelf in the U.S. in particular, the brand investment will really kick in from that point of view. So we've got expectations on that, but certainly not overly significant expectations, what we've talked about in the past.

I think with TPB, their continued top line, strong performance on Premium and Luxury, which will be offset by commercial decline. So you put that as a top line perspective, roll that through with the COGS guidance, I think that's the shape to think about each of the divisions as we go into F '24, and that's what we plan to execute against.

Michael Simotas

Yes. That's really helpful. And then my second question is on Penfolds. I know you don't really talk about the word reallocation anymore. But if you sort of look at the amount of Luxury wine that you're selling into markets outside of China right now, what is that as a percentage of what you used to sell into China? And can you just talk a little bit more about the phasing of Penfolds, second half versus first half. It sounds like you're going to hold some product back just in case you do have improved access to China. Is that the right way to think about it?

Tim Ford

Yes. I think it's not – I don't like talking about reallocation, Michael. It's just that it's done. So I guess in the future should things change with tariffs in China, we're going to be talking reallocation again and that's cool. I look forward to that day, actually. But in terms of our Asia, I think what we explained about Asia and in terms of the build, it's really about constant continual distribution growth. And hopefully, the data points we've given you today and also in previous presentations, just show half-on-half incremental demand-driven distribution growth is what's driving the performance. It's fairly aligned with what the financial performance is across most of the markets. So yes, it sounds like a really boring explanation for Penfolds, but continue to build distribution, bring new consumers into the category, bring new consumers into the brand. And they're consistently doing that, and Tom might want to add to that as well, and I'll come back to the second part.

Tom King

Yes. No, you're right. The concept of reallocation is well and truly done. And the results today are really reflective of the multifaceted growth opportunities that we knew were there when we set up the division a couple of years ago. Some particular highlights, from my perspective, released today, the growth in Australia. We knew this was a market that was going to take a bit of time. We had some work to do to win back some hearts and minds with the trade and with consumers and put the right resourcing and investment in place.

And what we're seeing now is some really strong activity that's driving awareness and consideration at a consumer level, bringing new younger consumers into the category for the first time with some of our activation that we're doing and some really positive changes in our distribution. And whilst that listings number of 7% growth might seem small, it's on a significant base across the Australian market. So you factor in the increase in demand, the increase in the availability, and that's helping to drive the top line growth. Other markets around the world are in a slightly different stage in terms of their maturity. Asia continues to go from strength to strength. I say that quite broadly because while we talk about some of the key markets in Singapore, Malaysia, Thailand, some of the more emerging growth markets for the long term are delivering great growth rates as well. And it's a pretty similar playbook that we roll out across the globe in terms of how we go about building that demand and also that availability.

Tim Ford

And your second question, Mike, on the first half, second half split. As we've looked to plan out the year and clearly, there's an option and there's potential that things change within the government interactions with China. To us, it's prudent to give ourselves some flexibility more towards the second half of the year to manage our Penfolds allocation, particularly the bins and above in a more strategic manner this year. It doesn't change the depletions plan. Over the year, depletions is consistent month in, month out, but it's more our shipment profile where we will look at this point of time, to give ourselves that option around shipping more in the second half versus the first half than we ordinarily would just because the opportunity may exist for us to reallocate some of that volume to different markets, should things change within the China tariff scenario, which I think we're all aware of at the moment.

So that's the logic behind it. We think it's quite a strategic way to run the business. What we wanted to flag it today was because we don't want to get to the half and then surprise investors. We will clearly give an update most likely at the AGM in terms of what our plans would be around it in a couple of months' time. So we're sort of thinking through how we run the business over multiple periods and just flagging that today as what our plans are internally.

Operator

Next question comes from Tom Kierath from Barrenjoey.

Thomas Kierath

Yes, maybe just another one on the first half, second half seasonality. So it sounds like Penfolds second half skewed, 19 Crimes, second half skewed. I think you're lapping a gain on sale in the first half and $30 million of Frank contribution in the first half. Is it fair to assume the first half will be down in EBITS, with the second half kind of catching up to get to that high single-digit number?

Matthew Young

Tom, it's Matt here. Look, clearly, we haven't given a specific first half, second half across the group, but I think what you've touched on. One is a very strategic approach that we're taking to Penfolds, which will be for the benefit of the long term. And across the rest of the business, we think the trends are pretty consistent. And I think the gain on sale, you referenced is pretty minor in the grand scheme of things. So look, we're clearly focused on top line growth, average earnings growth in sort of driving that over the long term and F '24 supporting that, and we think we've got all the building blocks towards that. I think the most important sort of thing to call out today was around Penfolds and the strategic way in which we're managing that.

Tim Ford

Yes. I'll just add, Tom, the 19 Crimes component of that, when I referenced the second half, we'd expect it where the transition to the new pack will have happened in the U.S., more than just not with the other markets. We expect the other markets to be pretty consistent over the course of the year with their growth profile. So when you sort of combine that all together around the 19 Crimes brand, I think it will add up to relative consistency with a slight increase in expectation in the second half but not heavily weighted.

Thomas Kierath

Yes. Yes. No. Got it. And the second one, I want to ask is just on depletions versus shipments in Americas. I see that you've said depletions ahead by 600,000 cases shipments, excluding new products that you've launched. I just wondered if you could give us a number like an all-in number, so not excluding NPD, which I know is pretty big. I guess the reason I ask is it just seems like there's a whole heap of stock that distributors and retailers have got and they're kind of destocking and that's been happening for a little while now, but I just want to understand where exactly you are in that kind of destocking position over in Americas?

Matthew Young

Tom, sure. I might let off and I think Tim can also give some context on the U.S. market. So yes, the 600,000 is probably the most important one. I think the degree of NPD and that's relatively small. I wouldn't worry about it. We tried to give the number that matters the most. I think you've touched on an important factor around the wider market in the U.S. and certainly that the – we have seen across the industry, retailers, distributors look to manage their inventory levels more tightly.

We know that with rising interest rate costs and no longer the same degree of tighter supply chains in that market, that's been a proactive piece of work that they've done and that's similar to Treasury Wine Estates and other customers well. And we continue to be laser-focused on depletions as well. But we also shouldn't shy away from the fact that our performance of the Premium portfolio was below expectations as well. So that has played a role in the degree of that – of some of that destocking as well. But fundamentally, that is a part, and that's a driver of the results in the fiscal '23.

I don't know, Tim, if you want to add more on the wider U.S....

Tim Ford

I think you've explained it well. Tom, I just wanted to give you a complement actually, which is not something I always do, is the note you wrote around the, I guess, the state of U.S. distributors and inventory around wine, spirits and broader alcohol, I think was pretty well bang on from that perspective. So I think you've got the drivers right and all the rest of it that you had in that note. I do wish we'd seen a spike a few months back than what it seems the analysis shows others have, which we didn't. But your point around distributors really driving their inventory, and particularly the cost of their inventory and the cost of capital required to maintain their inventory is a real issue and is real across the whole U.S. state – all U.S. states at the moment. So we think going forward, the depletions will be much closer to shipments. With our plans, we've got aligned with our key distributors, particularly BBG and RNDC are our 2 biggest partners across that market. But yes, we'll manage that fairly closely, but you wouldn't expect to see such a disparity going forward.

Operator

Your next question comes from Sean Cousins from UBS.

Shaun Cousins

Maybe just a question regarding the cost savings that come out of the premium brands operating model. That'd be above the cash cost of $30 million. When are they expected to be received? Are any – will any be received in fiscal '24? And how will they be used to achieve the Premium Brands EBITS margin expansion target? Or will some need to be used to offset, say, some operating deleverage as volumes moderate in TPB, please?

Matthew Young

Sure. I would say, Shaun, the margin target that we've given is all in, it includes the degree to which there is a deleverage and with reduced portfolio volumes. And it also includes the benefits of that program, but not to also ignore the opportunity for incremental premiumization that Peter and the team have been doing. So I'll start with that more macro. The specific program with the benefits, we are expecting a full run rate of that by fiscal '24. So a very short payback on that piece of work, particularly on the cash cost side of it. So you'll start to see that run rate in the expectations. But we've essentially – it's important to highlight the point that we made is the impact of that is mitigating incremental costs that we're seeing, either through lower portfolio volumes or increased input cost to cost of goods. So within the year for fiscal '24, we'll deliver those benefits, but it is to a mitigation of the challenges we've seen.

Shaun Cousins

Do you think any will be net? Do you think you'll actually generate net savings?

Matthew Young

As in savings over and above?

Shaun Cousins

Yes, please.

Matthew Young

At this stage – we'll update if we believe we're going to deliver more than that. At this stage, we feel comfortable giving that it's going to be broadly in line or above the $30 million.

Shaun Cousins

Okay. And my second question is just around the plans for 19 Crimes Classic. Can you just talk a bit about the confidence in the label relaunch. How the old label product is being cleared without damaging the long-term health of the brand, especially, I guess there's been evidence in market of second-tier SKUs being sold at very low prices? Just I guess, maybe how you're managing clearing old product without damaging brand health and ultimately, without impeding the success of the 19 Crimes Classic relaunch, please?

Tim Ford

I'll kick it off, and then I am sure, Ben will want to add to this as we go. I think the – we've got a very clear plan around the execution of the new platform, the new pack. Yes, you move through inventory over that period of time. And I think you've seen in the market over there as well. I think we've got the balance right now between aggressive promotional activity to drive volume, get it into consumers' hands as well as getting the balance of what the brand needs to stand for the brand health, which is pretty strong still. So the plans the guys have implemented over the last quarter give us more confidence that we've got that right. I think it takes that period of time state by state in the U.S. where it does require a new pack before we'll go with the big investments. Yes, you'll see small examples. I'm sure you've seen them. We've seen them. Everyone's seen bits and pieces where the pricing is not within our strategy, and we deal with that as we go, and we welcome you sending those through when you do, Shaun, so keep doing that place.

So I think from that point of view, there's a very clear plan, very clear strategy. Yes, distributors are very engaged in it going forward. I think the one thing we've seen over the course of the year is the brand equity is still strong. It's still outperforming the market. Probably, if you go back to our March Investor Day, we probably beat ourselves up a bit around, our performance versus our internal plans, but we're still beating market, and we've got a lot of pretty exciting platform to come. So Yes, we're feeling good about it. No question around that. And it's in all markets around the world.

So Ben, do you want to add to that?

Ben Dollard

Yes, yes, sure. And I think, look, just a couple of builds to that. And as Tim said, it's been very tightly managed. But it goes beyond the label. The label is a key component in the upgrade and the consumer testing we've done. No doubt we're excited to have that hit the shelves. But in addition to that, we're launching a pretty exciting new campaign to support that. We've also learned a lot over the past 6 months just around our pricing management, our programming activity, our engagement with our retailers, and we've seen some positive results on that, particularly on the Classics tier. So we look at it as an all-in program across the 19 Crimes franchise.

And then the last component of that, which I think we've done a particularly good job of over the past period of time is our innovation platform. So in addition to the new label launch, we're also be introducing new innovations, certainly, as we come into the

Halloween period. So there's a lot to look forward to, as Tim said. And I concur, it's being very tightly managed in terms of the transition.

Tim Ford

Shaun, I have more to give you. No, no, because you look at this closely in the numbers on the call a bit closely is the IRI data as well. And you'll see over the last 13 weeks, the average price for 19 Crimes has reduced, but only marginally when you look at it right across the category. So on average, across all retail channels across the whole, it's certainly in line with our plan. We had planned to be more aggressive with the promotional activity to get on the end caps, to get it in consumers' hands and it is working. So I think from – you look at that data there as well, the gap from where we were 13 weeks ago, 26 weeks ago, while slightly down in price is still solidly in that mid-$10 range across the board. So that also is a pretty good guide of what we're doing with the brand.

Operator

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

David Errington

On, Tim. Look, I apologize upfront if I come across in any way, rude. But I want to talk about your U.S. business. Now I know that there's been a lot of rhetoric and there's a lot of talk, and you guys have really sold it today that it's a pretty good result. But when I look at the actual numbers and the return that you're generating on your investment, not let alone your return on your effort, you dropped 1.2 million cases in the second half. Your EBIT on a constant currency basis, if you strip out Frank Family, went backwards $20 million. You're guiding us in the market that it's probably going to be down another $20 million this year because where you've highlighted that your EBIT margin is expected to be in the range of 22% to 23%, when this year it was 25%. And that's obviously because there's another range here. I mean, there's always an excuse coming, Tim, that's either the COGS this year or it was the bushfires 3 years ago.

I just don't understand – I just don't get your strategy in the U.S., where every year, your EBIT seems to go backwards by $20 million, and it's likely to go backwards another $20 million on an underlying basis. In fact, on a – I think you said to Michael, that your revenue would be slightly up, but your margin is going to be down over 200 basis points. So I mean, that's a pretty big downgrade. You've downgraded the market that your EBIT is going to be about $180 million. I don't think anyone's picked that up yet.

What's the go in the U.S., Tim? I mean, what is the go because the EBIT is just falling away and it's taking away some of the great things that you're looking to do in Penfolds. So can you give us a bit of an overview of the U.S., please? Why are you're still there? Because on the numbers today, you guys are going backwards at a very fast rate. And if your second half launch of 19 Crimes doesn't work, well, I don't know what plan C or D will be. So can you give us a bit of an update, maybe Ben wants to kick in because I'm pretty disappointed with the Americas performance today.

Tim Ford

Good morning, David. Good morning to you as well. Yes. Of course, I can. One thing I would say is that if you think my statements have guided to a further downgrade in the U.S. from an EBITS point of view, that was not my intention for fiscal '24. So that's, I guess, point one. But to go back to the macro…

David Errington

Tim, that's what it says in the bottom bullet point, FY '24 margin expected to be in the range of 22% to 23%, and this year's margin was 24.8%. And you basically said that you're hopeful of getting slightly higher sales because it's still constrained. That means that EBIT next year is going to be lower than this year. Can you explain why that's not the case?

Tim Ford

We expect to have top line growth through the year. And yes, the margin will through the mix, will drop back a point, we think. But we are not saying – and I'm not saying that we expect EBITS to go backwards year-on-year. So that's the point there.

I think on the U.S. business, more broadly, I actually have greater belief in the health of that business than I did 12 months ago, and I fully understand you disagree me. And that's the good conversation we're about to have. I think if you look at our Luxury portfolio, it's not an excuse. We've called it out for years. They're coming into this year. We had less Luxury wine to sell. So what do you do when you have less Luxury wine to sell? You focus on where you want to build distribution and you improve the margin structure of that business through price increases, and we've done both of those, yes.

So we feel like the platform for Luxury growth, less so in '24, we'll see growth in '24, but certainly into '25 because we've got a lot more wine coming online to sell. And so you have to have the distribution right and your margin structure right. So it's in better shape for those future years.

From a Premium portfolio point of view, again, we are outperforming the market. When it comes to 19 Crimes, Matua significantly outperforming the market. We've got 1 million case brand this year on our hands. I will end up being a 1 million case brand from Matua across its core portfolio as well as its innovation, which gives us 2 important brands, greater than 1 million cases in the U.S. market, which will grow going forward as well. So if you think about the 2 strengths that gives us, what we've also learned this year, though, is that we're not playing strong enough in the price points between $15 to $35 – $35, $40. Good top end, very happy where that's going. Couple of big brands that are driving premium growth for us into the future. But we need more, and you see some of the innovation that we've launched here today.

So I think from a business health point of view, I think it hasn't delivered the stellar EBITS growth. And you mentioned, I think, that year-on-year, we dropped for 2 years there, we grew substantially through innovation, through our top line and through EBITS. This year, we have not. We're not hiding from that. But what I'm explaining is the reasons I believe and the question you asked me around what gives me confidence and belief in that business. And I have it. And I think the team there, through adapting this year and the way they've responded, is pretty impressive. So that's my belief, David.

David Errington

Yes. But you're only 40% Luxury, Premium, Tim, how are you going to offset that? And look, I get it, maybe we take it offline. But jeez, you've been talking up the U.S. for a long time now. I mean we're talking 20 years. It's never delivered. I don't know when you ever can see it will – but I suppose we can take that offline. But the inventory, what worries…

Tim Ford

Just 1 point there. We're – 40% is Luxury. I think it's 94% of the business is Luxury and Premium. So the majority of that business is now Luxury and Premium. We're essentially out of the commercial wine category.

David Errington

So are you saying it's a good result this year, Tim, the EBIT. And don't forget the last 2 years, it's really been a COVID recovery. I mean really, you can't say that you've been growing. I mean, if you look at your earnings, say, 3, 4 years ago, look through COVID, you're still backwards. So I'm not – anyway, I suppose I've made my point.

On the inventory, I'm really concerned if you could explain the big increase in the premium side. If you look at the numbers, you've increased premium by about $100 million this year. And that's when, effectively, if I look at the inventory, total premium has gone up to $737 million from $637 million. And then my concern is particularly noncurrent inventory, that's where there's a massive excess supply of [B and C-grade red]. So what's going on in that? Is that a worry going forward? I think Matt said that you had plans to sell that through. But are you – what are you going to do with that? Because that to me is a real concern. That's the real area that you're in oversupply. That's where the glass is. Are we going to have an inventory write-down on this or what?

Matthew Young

David, it's Matt here. I think we're in really good shape there. I think the work that the team has done over multiple vintages has got us in good stead. Certainly, you are seeing an increase there based on the changes in the outlook for the Premium portfolio. But when you're talking C-grade, it's a highly flexible grade of growth that we can manage, and we've got plans to manage that already in place as we look forward to vintage '24, but also the sales plans that the teams have in place. So we have very low risk in that space. We have a way to manage that. We've done a great job over the last period of time to the point where rebalancing the Luxury. So in your word, the B and the A, that's in great shape now in terms of balance. And at an industry level, there is challenge at the commercial, sort of the D and E. And that's something the industry is managing through. But certainly, we feel like we've got our inventory in a good position, certainly within our control, and we've had good experience in this. I also call that we've – over a number of years, we've taken a very conservative approach to the way that we value inventory when it comes to if there are provisions that are needed. We've held conservative provisions for a long period of time. So in our world, we've got the protection there if things were to move against us.

Operator

The next question comes from Bryan Raymond from JPMorgan.

Bryan Raymond

Just on – back on the Americas. Just wanted to understand the pricing movement into FY ’24. You’ve obviously taken a fair bit in ’23. Just want to understand if there’s incremental price rises coming through given ongoing supply constraints or if there’s just annualization of existing price rises you’ve already made? Or if we should be expecting limited movement on price into ’24.

Matthew Young

At a macro level, Bryan, I think consistency is probably the way to think about it. There will be parts and pockets in the Luxury portfolio where our pricing road map where we will take some pricing, but we did a lot of the work fiscal ’23. But certainly, building off the strength of some of our brands, there’s certainly opportunities in brands like Beaulieu Vineyard with the accolades it’s getting. But yes, they are longer-term plans. The other thing you’ll start to see is that the strength of pricing we’ve done around Matua will continue, not with increased prices, but you’ll get the run rate of that. And then I think Tim talked about before the increased investment in feature and display and the way we manage that spend within the 19 Crimes portfolio will also be a factor. But I think at the macro level, assuming an ongoing run rate is the way to think about it.

Bryan Raymond

Right. Okay. That’s helpful. And then just on the guidance for what now appear to be high single-digit growth at a group level and 45% Penfolds margin. Just wanting to – just want to confirm should the China opportunity present itself, would that all be incremental around, I would assume NSR per case and margin to those? Or is that sort of somewhat built into your existing guidance?

Tim Ford

Yes. There is no incremental China tariff change built into any of the statements, guidance or plans that we have this year. But that’s – that will all be incremental.

Bryan Raymond

Okay. Great. And then just a final one for me is just on the longer term, just thinking about the ability for you to increase volumes in China. Should that opportunity present itself? Clearly, this is an issue for maybe 3, 4 years' time in terms of the financial results, but just trying to understand the ability for you guys to leverage increased volume of Luxury grade you've been an Icon range is out of the key growing regions. How agriculturally constrained are you? Is that something that you would see as something where you could drive volume meaningfully? Or is it more going to be just about pricing realization and margin accretion?

Tom King

Yes, Bryan, it's Tom here. Maybe I'll take this 1 and let Tim jump in. Look, obviously, it's still pretty early days. We're obviously encouraged by the recent strengthening in relations. And as we should do, we'd been doing some scenario planning around what this could potentially mean for us in the future. Initially, the opportunity is largely going to be around how we optimize our allocations and revenue management across the Penfolds collection. But we're going to be looking to secure incremental sourcing from V '24 onwards.

The beauty of the model that we've developed over the last few years in terms of sourcing from different countries of origin is that we've got multiple now platforms to increase our sourcing and grow our volume at the Luxury and hopefully, Icon level as well. So the opportunity is there. We've been encouraged by the first releases that we've had from France and now from China. The most recent vintage in France was very encouraging for us in terms of the scale of what we're able to produce. So we're feeling pretty excited around the potential for what would be a genuine multi-country of origin play.

If things do change at the moment, there are certain things that won't change in our strategy for Penfolds as it comes to China. We'll continue to engage closely with the local wine industry and look to be a much more significant player in that industry off the back of our trial while making to date, the multi-country of origin portfolio growth strategy will be maintained, and we'll continue to grow and focus on markets around the world. We had some really great progress over the last 2 years. We've got a very balanced business now when it comes to our diversification from a demand perspective around the globe. But we will, as we said, I think, 6 months ago, we're looking to reallocate a portion of our Penfolds, Luxury and Icon tiers from the Australian collection to China if things do change. So yes, there is opportunity for us to scale the portfolio, but it will take time.

Tim Ford

You know now our whole strategy around what we're going to do. So it's very, very clear and very multifaceted side. It's – yes, let's see.

Operator

Your next question comes from Lisa Deng from Goldman Sachs.

Lisa Deng

Two questions from me, mainly on Penfold. One is a follow-up on China. I think last year, you guys gave us the number that Mainland China was about $23 million in revenue and just breakeven. I did – that could be envelope sort of calc on this global – sorry, the global launch of One by Penfolds 100 cases – 100,000 cases. That would be over $20 million by my calculation. Can you give us an update on what China was in FY '23, please, both revenue and profit, if you will – if you can?

Matthew Young

Lisa, it's Matt here. Look, I will say it's not something we plan to continue to share. It was certainly useful in the past as we were making that transition so that people understood it. As a broader comment, I would say the plan is to continue to support our base and investment in China with the multi-country of origin, and it's not going to be a big profit driver for us as an individual market. It's around retention there. But we don't intend to continue to share sort of the specific China market metrics.

Lisa Deng

Got it. A second follow-up to that, I guess, is the implied sort of envelope of growth for Asia Penfolds because I don't know if I'm right, but if I get to somewhere close to $45 million, $50 million sales for China this year, FY '23, and the backed out sales is closer to just over [$400 million] for Asia, but we've actually had very decent distribution growth that you've shown on Page 24. So does that mean that the sales per point of distribution has actually been down. I just wanted to understand sort of the sales per point of distribution or the reorder or repeat orders from that expanded distribution footprint for the rest of Asia.

Matthew Young

It may be something we need to take offline. And I think applying a mature market calculation around point of distribution in the Asian market is going to be very difficult, given the availability of data and that sort of thing. I think the way to understand – the way that we're hoping people understand it is that we are building distribution and growth in each of these markets. And we've been successful in that with double-digit distribution, whether it be listings, whether it be outlets. That's the path that we lay out for growth. And we've seen in last year's presentation, the runway that lays ahead of us, and we have multiple years of growth that we can do that. We will continue to build out distribution – point of distribution at each of those over multiple years. But linking that back to rate of sale in markets, some of those emerging markets is going to be a little bit difficult.

Operator

The next question comes from Richard Barwick from CLSA.

Richard Barwick

I got a question around the Penfolds target margin. So you've upped that to 45% from the previous target of 40% to 45%. So I guess just following on from Lisa's question a little bit. Can you talk to why that increase – I'm particularly interested in the context of One by Penfolds, which I'd imagine would be lower margin. And that should be a driver of volume growth over the next couple of years. So just how that's fitting into that expectation of a higher sustained Penfolds margin.

Matthew Young

Sure, Richard, I would say the previous target of 40% to 45% is probably the 1 metric we've never hit we've always done pretty – been unsuccessful in delivering a lower margin on the Penfolds business is probably where I'd start. I think to that point, the growth of Premium was one of the factors as well as potential investments right. And we're now in a position where we've got the right level of investment for Penfolds to grow in multiple markets. So we don't see that as a major driver of pulling the margin down.

Secondly, we have an outlook around the growth in Premium and the margin that we will get that in by Premium, the — ***indiscernible*** — and the new One by Penfolds. So I think the way you should interpret it interpret that is we have good growth ambitions for those parts of the portfolio. But we also have good ambition and growth for their Bins and Icons in the upper level, and that's what's giving us the confidence now as we look out of our future plans of a margin around about that 45% is sustainable going forward.

Tom King

I'll just add to that. Okay. And then sorry, Richard, just a bit more context on One by Penfolds. I think it's important to remember the balance here that we've got around driving volume on that, but also the strategic role that plays within the portfolio and how it's been positioned now for a very new consumer segment that we're targeting for the first time. And ultimately, over the long term, the intent would be – and the ambition is to bring those new consumers into Penfolds, maybe into wine for the first time and see them over time, enjoy more of the Luxury wine through the collection. So it is – the volume is there as an ambition, but much more strategically a role in bringing new consumers in to enjoy Luxury wines.

Richard Barwick

I think you talked at the Strategy Day of a 300,000 case target for One by Penfolds. Is that still in place? I mean, I was surprised to see you deliver 100,000 cases already just in China?

Tom King

Yes. That's still in target.

Richard Barwick

Okay. Just other question on the U.S. margins, if I could. So obviously, you're guiding down in FY '24. And there's – I guess, there's a bunch of reasons there. But as an offset, you called out direct-to-consumer up 20 – sorry, up 10% revenue in FY '23. Obviously, a strong outcome. And as you pointed out, Tim, that's a very high-margin channel. What are your expectations for direct-to-consumer? I would have thought we'd see more recovery there, and that would have been a real positive tailwind for U.S. margins, and yet you are guiding it for overall margins to be backwards.

Tim Ford

Yes. I think that's one of the increase components, I guess, that we – when we look at our total picture from '24, we continue to see ourselves perform better in the D2C business than our competitors in that market as well. So as you build up the total picture of our Luxury portfolio, Premium portfolio, including investment behind driving that plus the D2C business. That mix, if you like, within that, we still see D2C continuing to grow. No doubt about that. And we – I don't think it was going to take another step up in terms of recovery, just continuing to outperform others is the way we look at that business.

Operator

Your next question comes from Ben Gilbert from Jarden.

Ben Gilbert

Just 2 questions for me. Just firstly on Penfolds. Just trying to sort of put together everything sort of talked about on the call. So the comments for distribution and volume growth to remain consistent made you think you can still do that sort of mid- to low teens – sorry, that higher single-digit volume with the NSR per case type growth. And just on that – is it with the second half skewed, is this sort of by design or by your choice, a, you just want to be prepared for China. I just want to confirm that because I suppose you're still seeing strong demand and what's the risk you start to put some of these markets? You spent a lot of time in such as Australia off-site if you start shorting the market or giving less volume than they might like because there's just some talk around sort of smaller sales forces, et cetera, in Australia and concerns that if China does reopen, you might put some of the key customers to the back burner again?

Tim Ford

Ben, well, the first half, second half is purely around shipment volume, and we've got very clear line of sight on depletions plans and inventory. So we're not going to short market, so to speak, that means that product is not going to be available to continue that distribution growth. So it's quite a detailed and clear plan we've got on that front. Yes, we will just monitor what we allocate over the next 4 to 5 months, in particular, which might see, in essence, what you're seeing is we may actually ship more in the second half to different markets, but we're not going to pull back from the growth we've seen in these other key priority markets.

Yes. In terms of – and we've said this to our Australian customer base as well. Australia will continue to be an important market for us going forward. Yes, if there is – the odd comment that may exist out there, then that's not fact-based. That's certainly nothing we're planning to do in terms of continuing to build what is a real strength here in this market now because we've worked pretty hard in the last 3 years, in particular, to start to see the fruits of that pay off. So I know Tom and the team are very focused on ensuring that this market continues to be a growth engine for Penfolds going forward. So there'll be natural skepticism, I guess, from some particularly independent owners out there, but that's not going to happen.

Matthew Young

And Ben, I might just add also to the first part of your question around – yes, that top line growth expectation for Penfolds as a division is expected to support our growth at a total company. So we do expect we're going to be looking for similar trends in Penfolds off the back of the incremental distribution and opportunity that sits there, but also that should support the wider group. And just to reiterate the point that Tim sort of made around the ANZ business. It's been a real success this year and calling out, second half '23 versus second half '24 in ANZ is up 35%. So it's a really strong market. It's not one that we're certainly walking away from. And I think that's a late – it's starting to show the success of building up what that team has delivered.

Ben Gilbert

Just a second one for me. Just could you talk through why the COGS commentary has changed so materially over the last 12 months. So obviously, at one point is expected to be pretty material tailwind sort of $50 million plus into '24, but it's sort of now expected to be flat on a like-for-like basis. And I appreciate you've got things like glass cost [attached] with energy, but – and the vintages. But obviously, commercial, which is this current vintage is smaller now, we're talking over say the last few years when costs should be down, plus in theory, you've also got some pretty material freight benefits. And to your point, you had a couple of million case brands into the U.S., which decent chunk comes out of Australia and New Zealand. It just surprised me that we've sort of moved back to flat. I thought we should still see some tailwinds on a like-for-like COGS basis?

Matthew Young

Yes, sure. Look, and I'll clarify the language we had used for fiscal '24 that we expected to see improvement. We never gave a specific number. But look, what I would say is, look, I'm really proud of the work that the team has done over multiple years to manage costs. That work has been significant. And to deliver flat COGS in the current environment is one that we think should be recognized as an achievement. Now the benefits that we talked about before that we expected are coming through, whether that be the lower cost 2021, 2022 vintages and the full run rate of global supply chain optimization, the sort of $90 million that we expect to come through, they are all still coming through.

However, we are yet to see meaningful changes in respect of logistics or energy and dry goods. Those are still challenges, and we expect them to be. And the newer challenges that we're sort of seen in the last 6 to 9 months, which have emerged, that are impacting cost of goods would be around the lower volume outlook than our expectations. That impacts production recoveries and costs. But also the vintage '23 in Australia was lower yielding, and that does put increased pressure on cost of goods. Now that particularly – well, for our portfolio, but particularly for commercial wines.

Now the ability of the team to adapt to that and address a position that was probably worse than we were looking at, I think, is significant and just reinforces the underlying strength we have to manage that. So we're very comfortable with the outlook that that's a good outcome. It is slightly below where we'd like, but it reflects the flexibility the team has been able to respond with.

Ben Gilbert

Can I just follow up just quickly 1 thing there. Just on the freight, do you think this is more a timing. It's just taking longer for some of the freight costs to normalize when you're coming out of sort of some of the ports in South Australia and New Zealand. So do you think those benefits will come? And was the COGS, was it around some of the disease stuff or wins? Has that impacted as well? Or it's more vintaging in South Australia?

Matthew Young

Yes. We continue to believe from a logistics perspective, it's generally timing related to Australia. But at this stage, we're yet to see that come through and the language is there still unwinding yet to come. So sort of into fiscal '24. It's not one that we're prepared to put our hand up and say we expect that to come through.

On vintage '23, look overall, the vintage was down. And yes, you're right, whether it be the weather or disease impacting parts of the industry or generally lower intake off the back of outlook for volumes that has reduced the overall intake for the industry. Treasury Wine Estates included, which given our fixed asset-based infrastructure, et cetera, and COGS will increase the cost per case of vintage '23.

Tim Ford

But not a bad overall thing for the industry.

Matthew Young

That's right.

Operator

Your next question comes from Phil Kimber from E&P Capital.

Phillip Kimber

First one was on Treasury Premium Brands. With the revised mid-teen margin and it's a little bit above 10% at the moment. The pathway to get there, does that require another sort of major move in terms of removing some of the commercial brands? Or is that pathway there based on the changes that you're making in FY '23 and into FY '24?

Peter Neilson

Yes. Phil, a couple of things. We've done the majority of the work we need to do around restructuring, and we feel like we're well set up for shape of the business and the growth we want to drive in the future. There's really 2 key elements that are going to help us get to that number, which is a continuation of the growth in our Premium portfolio with the work we're doing on our priority brands across all markets, but also the other elements of the Premium portfolio within markets. And then secondly is a continuation of the focus on innovation. And we know there's an opportunity to unlock new occasions for consumers that Wine is not currently participating in. And done – well can be done in a margin-accretive way for us as a division. We also expect to see a continuation of a decline, in line with the market across all markets for the commercial category. And the sum of those parts is what will get us to the outlook we have. We don't – there's nothing that we don't have in our plan that we need to get us to that number. The continuation of the trends and the focus on innovation is what will get us there.

Phillip Kimber

Right. And then my second question, and sorry, I know we've talked a lot about the U.S. But if I look at FY '23 as a whole, EBITS in constant currency, flat, organic down 10%. So you've had a cracking result in Frank Family Vineyard. Should we think about that similar shape going forward in FY '24? Were you talking about earnings growth that the – the organic business probably head backwards and another great result from Frank Family Vineyard? Or is it more a case that those declines in the organic business are sort of rebasing now and so you won't have that drag again? I was just trying to broadly understand the shape.

Tim Ford

Sure. I understand, Phil. And more than happy to talk about the Americas business, and hopefully, that's come across today. We don't expect it to be purely Frank Family-led in FY '24. We know the wine we've got available on stags on BV, Beringer and the other Luxury brands as well. So it would be a much more consistent Luxury portfolio performance across those given the wine availability. So that's the plan. And there'll be a bit of incremental Frank Family Chardonnay, our first vintage, kicks in the – first vintage since we acquired that business, kicks in, in Q4. So there'll be a little bit of that. That will give us the start of a step-up in Q2 in Q4, but majority through F '25, but it will be consistent across the Luxury portfolio.

Operator

Your next question comes from Sam Teeger from Citi.

Sam Teeger

Tim, excluding cellar doors, which grew NSR 10%, can you give us some more insights into the general U.S. on-premise trends and how it evolved over the last 6 months?

Matthew Young

Sure. Look, I think the way to think about that is how Tim described it for, which is continued improvement in growth. Certainly, the trends of visitation are slowly improving the trend of availability of staff to be able to open on more occasions in the U.S. market are continuing.

Tim Ford

Ben Dollard can jump into this one if you want to from over there as well.

Matthew Young

Ben, do you want to give a bit more insight on the…

Ben Dollard

Yes, yes, yes. For certain. So look, we've seen certainly a stabilized environment with regards to the on-premise and in consideration to cellar door business and the performance there. And then we've seen a similar result with our on-premise business in quality of distribution, and that's what we're focused against with our Luxury portfolio. So we've actually been really pleased with the expansion of distribution for our Luxury portfolio, and being very focused on the right accounts across the country. And so the on-premise is a very important component of our overall growth and how we think about growth and a very viable retail outlet as well. So yes, I think the on-premise business, as we see it, is strong. We expect that it's going to continue to be strong and particularly well aligned to where we're headed with our Luxury portfolio.

Sam Teeger

All right. And for the new 19 Crimes products in the Americas, what multiple you – have you started booking shelves to distributors? And when will it be on the shelves for consumers to buy?

Ben Dollard

Yes. So we – there's not 1 answer to that question in regards to it's all going to start to appear at one time. It's a very carefully managed process based on rate of sale and retail, feature and display and promotional activity. So in some markets, we've started to see the new package launch – sorry, hit the market, certainly our **— *indiscernible* —** and some key retailers. But we expect to see the real impact is going to occur in H2. When we see the broad component of the classic tier is going to be in the new package. But as I mentioned, there's not 1 answer for the whole country. It's going to depend based on timing across the country. .

Tim Ford

With any of these changes, Sam, it's going to be progressive month in, month out. And that's – we're not saying it's going to all hit in H2. What we're saying is at that point in time we expect it to be throughout the market in a meaningful way. So thank you for that.

All right. I think that's all the questions. I'm glad everyone got a chance to ask those. Thank you. Great set of questions, and look forward to talking to a number of you in more detail over the coming days. Thanks for joining us. Cheers.