Fisk Capital Pty Ltd
ACN 679 831 906
81-83 Campbell Street
Surry Hills NSW 2010
+61 403 494 734
www.fiskcapital.com.au

**Draft – Confidential Investment Note**

13 June 2025

**Subject: Treasury Wine Estate (ASX: TWE) Investment Opportunity**

Dear Ryan

The below note provides a high-level summary of an investment opportunity in Treasury Wine Estate (ASX: TWE) with an estimate ~30% upside based on a current share price of $8.08 per share. We see two catalysts to unlocking shareholder value in the medium-term (1) Sale of Treasury America's and Treasury Premium Brands, and (2) Resumption of Australian Country of Origin wine in Mainland China. We also believe that TWE, based on its current valuation, presents an attractive takeover target which could similarly catalyze a result in share price appreciation to its fair value – although, that is not purpose of this note.

## 1. Company Overview:

Treasury Wine Estates (TWE) is one of the world's largest pure-play wine companies, headquartered in Melbourne, Australia. The company owns and manages a portfolio of internationally renowned wine brands including Penfolds, 19 Crimes, Wolf Blass, Lindeman's, Squealing Pig, and more recently, DAOU Vineyards. It operates across three core divisions:

(1) **Penfolds** (luxury wine, predominantly sold in Asia and Australia)

(2) **Treasury Americas** (US-based premium and luxury portfolio including DAOU, a recent acquisition)

(3) **Treasury Premium Brands (TPB)** (includes Australian and European premium wine brands)

## 2. Key Financials:

| Key Financials | Units | 2020 | 2021 | 2022 | 2023 | 2024 | CAGR '20-24 |
|---|---|---|---|---|---|---|---|
| Revenue | $M | 2,678 | 2,684 | 2,532 | 2,488 | 2,808 | 1% |
| COGS | $M | (1,425) | (1,509) | (1,340) | (1,266) | (1,418) | 0% |
| **Gross Profit** | **$M** | **1,254** | **1,175** | **1,192** | **1,222** | **1,390** | **3%** |
| *GP Margin* | *$* | 47% | 44% | 47% | 49% | 49% | |
| SG&A | $M | (556) | (514) | (520) | (491) | (577) | 1% |
| **EBITDA** | **$M** | **698** | **661** | **672** | **731** | **814** | 4% |
| *EBITDA Margin* | *$* | 26% | 25% | 27% | 29% | 29% | |
| Depreciation | $M | (144) | (134) | (132) | (118) | (141) | 0% |
| Amortisation | $M | (21) | (16) | (17) | (29) | (15) | -8% |
| **EBIT** | **$M** | **534** | **510** | **524** | **584** | **658** | **5%** |
| Other pre-tax income / (expenses) | $M | (78) | (79) | (79) | (174) | (392) | 50% |
| **Statutory EBIT** | **$M** | **456** | **431** | **444** | **410** | **267** | **-13%** |
| Net interest income / (expenses) | $M | (86) | (74) | (71) | (73) | (98) | 3% |
| **EBT** | **$M** | 370 | 358 | 373 | 337 | 168 | -18% |
| Tax | $M | (109) | (108) | (110) | (83) | (69) | -11% |
| **Net Income** | **$M** | 261 | 250 | 263 | 254 | 99 | **-22%** |
| **Adj. Net Income** | **$M** | 315 | 305 | 319 | 376 | 373 | **4%** |

| **Other Metrics** | | | | | | | |
|---|---|---|---|---|---|---|---|
| Net PP&E | $M | 1,949 | 1,805 | 1,990 | 2,011 | 2,227 | 3% |
| Goodwill and acquired intangibles | $M | 1,236 | 1,103 | 1,360 | 1,393 | 2,147 | 15% |
| Operating intangibles | $M | 96 | 53 | 40 | 34 | 36 | -22% |
| Total debt | $M | 1,926 | 1,528 | 1,674 | 1,938 | 2,159 | 3% |
| Net debt | $M | 1,477 | 1,080 | 1,243 | 1,372 | 1,700 | 4% |
| Gearing (Net debt / equity) | % | 41% | 30% | 33% | 36% | 37% | |
| Statutory EPS | Cents | -0.02 | 0.13 | 0.08 | 0.01 | -0.20 | 74% |
| Adj. EPS | Cents | 0.05 | 0.20 | 0.16 | 0.18 | 0.14 | 26% |
| DPS | Cents | 0.38 | 0.22 | 0.28 | 0.34 | 0.32 | -4% |
| ROIC (excl. goodwill and acquired i | % | 9% | 9% | 9% | 10% | 11% | |
| ROIC (incl. goodwill and acquired ir | % | 7% | 7% | 7% | 8% | 8% | |

*Note: TWE, reports an EBITS measure which is a management view on EBIT before material items and SGARA. Therefore, it is difficult to reconcile some of Management's numbers with the statutory figures in the annual reports. We have made a best-efforts approach based on public information.*

## 3. Recent Performance:

TWE's share price fell from ~$17 per share in January 2020 pre-COVID, to ~$10.5 at the beginning of 2024, and, as of 13 June 2025, now trades at $8.08 per share – reflecting an [X]% p.a. decline since early January 2020 (see Exhibit 1 – TWE Share Price). In turn, TWE's Total Returns to Shareholders (TRS) have also declined 9% p.a. since 2020 – driven entirely by share price declines rather than dividends which has grown consistently (se Exhibit 2 – TWE Total Returns to Shareholders). Key drivers of TWE's share price decline include:

- **Declining revenues driven by China tariffs and consumer uncertainty –** China was historically TWE's most profitable market, accounting for approximately one-third of EBIT at its peak in FY19

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[source]. The imposition of anti-dumping tariffs (up to 218%) in late 2020 effectively eliminated this profit pool. Between FY20 and FY22, TWE's China revenue collapsed by over 97%, and EBIT from the region fell by more than $75M p.a [source]. Despite the removal of tariffs in March 2024, investor confidence has been slow to recover due to ongoing uncertainty around true consumption (depletions vs. shipments), channel stuffing risk, and fragile Chinese consumer demand.

- **Earnings downgrades – I**n February 2025, while trading at ~$10 per share, TWE provided revised FY25 EBITS guidance of $780M, at the lower end of its previous $780–810M range. The company explained that this was driven by a decline in US volumes, particularly 19 Crimes. Again, in June 2025, TWE released a non-earnings, market announcement advising that RNDC, one if its primary US distributors in California, would cease operations. RNDC accounted for 10% of Group NSR and Management provided another revised FY25 EBITS guidance of $770M, down from $780M [source].

- **Historically poor M&A track-record –** TWE has done a substantial amount of M&A (including [X] transactions over the past five years). These acquisitions have resulted in a significant amount of acquired goodwill and intangible assets on its balance sheet worth $2.1B. Based on our Economic Profit Analysis below, TWE's M&A has eroded economic profit and therefore, shareholder value. More recently, we believe, in line with the market, that the purchase of DAOU Vineyards in FY24 for an estimated EV of >A$1B was a questionable use of capital given the US market is oversupplied, TWE's current valuation and performance at historic lows. Whether DAOU becomes value accretion remains dependent on synergies delivered but given current earnings revisions, it would seem so far underwhelming.

- **Inconsistent strategy and execution –** TWE has for several years flagged the sale of its Treasury Premium Brands (TPB) commercial portfolio – which includes labels like Wolf Blass, Lindeman's, and Yellowglen – as part of its premiumisation strategy. However, despite being non-core and margin-dilutive, TWE has not succeeded in completing a sale, citing weak buyer interest and a soft global M&A market for commercial alcohol assets. The continued retention of this division both drags on group EBIT margins (~12% for TPB vs. >40% for Penfolds) and undermines management's strategic narrative. We believe that until monetisation or closure is achieved, TPB remains an overhang on sentiment and valuation.

Overall, we believe that TWE's current share price does not reflect the intrinsic value of the company and instead reflects a short-term market overreaction based on the above factors.

## 4. <u>The Investment Case:</u>

The TWE investment, represents an opportunity to own one of the world's leading wine brands Penfolds.

### 4A. Value:

Our 12-month price target of ~$10.30 is based on a blended valuation of DCF ($10.60), Simplified Sum of the Parts valuation ($9.50) and P/E Relative valuation ($10.74). TWE currently trades at historic nine-year low with EV / EBIT and EV / Revenue well below many peers. The current share price of $8.08 represents upside of ~30% against our blended 12-month valuation target of $10.30.

<u>DCF:</u>

Our DCF valuation is based on the combination of a five-year forecast plus a continuing value. We conservatively project revenue growth of ~7% p.a. to 2030 and relatively flat EBIT margin of 25%. Overall, we are assuming EBIT growth of ~8% which is below Management's guidance of 15% EBITS growth FY26-27. We've also conservatively estimated capex as a proportion of revenue (using historic ratios that reflect a portion of PP&E growth through inorganic acquisition) ~$300-350M, compared with Management's guidance of $165M in FY25. Under a scenario where capex is closer to managements guidance between $150M-250M, we would see an additional $0.90 of upside to the DCF value (totaling $11.50).

| | | | 2025 | 2026 | 2027 | 2028 | 2029 | 2030 | 2031 | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Metric** | **Case** | **Unit** | 0 | 1 | 2 | 3 | 4 | 5 | 6 | **CAGR '21-'24** | **CAGR '24-30** |
| **FCF** | | | | | | | | | | | |
| **Revenue** | | **$M** | 3,032.96 | 3,245.27 | 3,472.44 | 3,715.51 | 3,975.60 | 4,253.89 | | 1.52% | 7.17% |
| *YoY Change* | | % | *8.00%* | *7.00%* | *7.00%* | *7.00%* | *7.00%* | *7.00%* | | | |
| **EBITDA** | | **$M** | 921.12 | 985.60 | 1,054.59 | 1,128.41 | 1,207.40 | 1,291.92 | | 7.17% | 8.01% |
| *EBITDA Margin* | | % | *30.37%* | *30.37%* | *30.37%* | *30.37%* | *30.37%* | *30.37%* | | | |
| Depreciation & Amortization | | $M | -180.20 | -192.30 | -203.73 | -215.97 | -229.06 | -243.07 | | 1.05% | 7.73% |
| Depreciation | | $M | -151.25 | -163.35 | -174.78 | -187.02 | -200.11 | -214.12 | | 1.59% | 7.22% |
| Amortization | | $M | -28.95 | -28.95 | -28.95 | -28.95 | -28.95 | -28.95 | | -3.60% | 12.09% |
| **EBIT** | | **$M** | 740.92 | 793.30 | 850.86 | 912.44 | 978.34 | 1,048.85 | | 8.85% | 8.08% |
| *EBIT Margin* | | % | *24.43%* | *24.44%* | *24.50%* | *24.56%* | *24.61%* | *24.66%* | | | |
| Tax | | $M | -222.28 | -237.99 | -255.26 | -273.73 | -293.50 | -314.66 | | 8.85% | 8.08% |
| *Operating Tax Rate* | | % | 30% | 30% | 30% | 30% | 30% | 30% | | | |
| **NOPAT** | | **$M** | 518.64 | 555.31 | 595.60 | 638.71 | 684.84 | 734.20 | 793.50 | 8.85% | 8.08% |
| Depreciation & Amortization | | | 180.20 | 192.30 | 203.73 | 215.97 | 229.06 | 243.07 | | 1.05% | 7.73% |
| +Depreciation | | $M | 151.25 | 163.35 | 174.78 | 187.02 | 200.11 | 214.12 | | 1.59% | 7.22% |
| + Amortization | | $M | 28.95 | 28.95 | 28.95 | 28.95 | 28.95 | 28.95 | | -3.60% | 12.09% |
| **Gross Operating Cash Flow** | | **$M** | 698.84 | 747.61 | 799.33 | 854.68 | 913.90 | 977.26 | | 6.65% | 7.99% |
| **Gross Investments in Operating Assets** | | **$M** | -386.78 | -400.35 | -428.37 | -458.36 | -490.44 | -524.78 | | | -12.03% |
| (Investments) / Reductions in Operating Net Working Capital | | $M | -57.35 | -68.62 | -73.42 | -78.56 | -84.06 | -89.94 | | | 62.42% |
| (Investments) / Decreases in gross PP&E - Capex | | $M | -329.43 | -331.73 | -354.95 | -379.80 | -406.39 | -434.84 | | 17.04% | 16.25% |
| (Investments) / Decreases in gross PP&E - Other changes | | $M | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | -100.00% |
| (Investments) / Decreases in Other Operating and Intangible Assets Net (incl. Sale of Assets) | | $M | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | -100.00% |
| **Free Cash Flow Before Net Investments in Goodwill & Non-Operating Intangible Assets** | | **$M** | 312.06 | 347.26 | 370.96 | 396.32 | 423.45 | 452.49 | | | |
| **Gross Investments in Operating Assets** | | **$M** | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | -100.00% |
| Gross Increase (Decrease) in Goodwill | | $M | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | | -100.00% |
| Gross Increase (Decrease) in Other Intangible Assets | | $M | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | 0.00 | | 0.00% | 0.00% |
| **Free Cash Flow After Net Investments in Goodwill & Non-Operating Intangible Assets** | | **$M** | 312.06 | 347.26 | 370.96 | 396.32 | 423.45 | 452.49 | | | |

| **DCF AND EQUITY VALUE** | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **Free Cash Flow After Net Investments in Goodwill & Non-Operating Intangible Assets** | **$M** | | 14.53 | 347.26 | 370.96 | 396.32 | 423.45 | 452.49 | |
| **Net Present Value of FCF** | **$M** | | 14.53 | 320.79 | 316.55 | 312.41 | 308.35 | 304.37 | |
| **Continuing Value** | **$M** | | | | | | | | 13,183.04 |
| **Net Present Value of Continuing Value** | **$M** | | | | | | | 8,867.78 | |
| **Present Value of Cash Flows** | **$M** | 10,430.25 | | | | | | | |
| **Mid-Year Adjustment Factor** | **Factor** | 1.04 | | | | | | | |
| **Value of Operations** | **$M** | 10,835.08 | | | | | | | |
| **Value of Non-Operating Assets** | **$M** | 518.53 | | | | | | | |
| **Enterprise Value** | **$M** | 10,948.78 | | | | | | | |
| **Value of Claims Against Enterprise Value** | **$M** | 2,300.40 | | | | | | | |
| **Equity Value** | **$M** | 8,648.38 | | | | | | | |
| **Shares Outstanding** | **Shares outstanding, m** | 811 | | | | | | | |
| **Equity Value per Share** | **$** | 10.66 | | | | | | | |
| **Current Share Price** | **$** | 8.05 | | | | | | | |
| *(Discount)/Premium to Share Price* | % | 32.40% | | | | | | | |

Sum of the Parts:

Our sum of the parts valuation ($9.52) is based on estimate EV / EBIT multiples for each of the TWE's reported segments: Penfolds, Treasury Americas, TPB and Corporate costs.

Given the sale difficulty for TPB, we've assumed in the low and base case, an enterprise value of its net book value, less goodwill and intangibles. Multiples for Treasury America's were based on the median US alcohol company, while Penfolds was based on the median French luxury company.

On a standalone basis, we estimate Penfolds alone to be worth ~$6.54 per share assuming corporate costs, non-operating assets, and claims against EV in line with its EBITS contribution (60%). This represents significant immediate value for investors where TPB can be sold at book value for $0.61 per share, implying a market value for Treasury Americas of ~$1.1 per share (at current valuations) vs. our $2.37 estimate.

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| X SUM OF THE PARTS | | | |
|---|---|---|---|
| **Implied Share Price (Average)** | **9.52** | | |
| Penfolds Standalone Price (including equity value adjustments and corporate costs) | 6.54 | | |
| Penfolds Standalone Price (excluding equity value adjustments) | 8.31 | | |
| Treasury Amercia's Standalone Price (including equity value adjustments and corporate | 2.37 | | |
| Treasury America's Price (excluding equity value adjustments) | 3.33 | | |
| TPB Amercia's Standalone Price (including equity value adjustments and corporate cost | 0.61 | | |
| TPB America's Price (excluding equity value adjustments) | 0.92 | | |
| | **Low** | **Medium** | **High** |
| **Implied Share Price** | 7.98 | 10.28 | 10.29 |
| Implied Group EV | 8,256.09 | 10,119.29 | 10,134.59 |
| + Cash and non-operating other assets | 518.53 | 518.53 | 518.53 |
| - Value of Claims Against Enterprise Value | 2,300.40 | 2,300.40 | 2,300.40 |
| Equity Value | 6,474.23 | 8,337.43 | 8,352.73 |
| Number of Shares | 811 | 811 | 811 |
| **Implied EV Multiples** | **Low** | **Medium** | **High** |
| Group | 8,256.09 | 10,119.29 | 10,134.59 |
| Penfolds | 5,898.20 | 7,162.10 | 7,162.10 |
| Treasury Americas | 2,305.00 | 2,904.30 | 2,904.30 |
| TPB (Treasury Premium Brands) | 744.70 | 744.70 | 760.00 |
| Corporate Costs | -691.81 | -691.81 | -691.81 |
| **Implied EV Multiples** | **Low** | **Medium** | **High** |
| Penfolds | 14.00 | 17.00 | 17.00 |
| Treasury Americas | 10.00 | 12.60 | 12.60 |
| TPB (Treasury Premium Brands) | Book Value (Net Assets, Less Intangible | Book Value (Net Assets, Less Intangible | 10.00 |
| Corporate Costs | 9.93 | 9.93 | 9.93 |
| **Management EBITS** | **2024** | | |
| Group | 658.10 | | |
| Penfolds | 421.30 | 58% | |
| Treasury Amercias | 230.50 | 32% | |
| TPB (Treasury Premium Brands) | 76.00 | 10% | |
| Corporate Costs | -69.70 | | |

## P/E Relative:

On a relative PE basis, TWE is also undervalued by 33% when compared to the ASX200 Consumer Discretionary index.

| X PE RELATIVE VALUATION | | | |
|---|---|---|---|
| **Implied Share Price** | | 10.74 | |
| Premium / Discount | | 33% | |
| ASX Consumer Discretionary PE Ratio | | 20.90 | *https://simplywall.st/markets/au/consumer-discretionary* |
| Adjusted P/E Ratio | Treasury Wine Estate (TWE) | | |
| | | 15.67 | |
| Adjusted Net Income | | 416.90 | |
| Post-Tax (Material Items) | | 318.00 | |
| P/E Ratio | | 66.05 | |
| Price per Share | | 8.05 | |
| Number of Shares | | 811.43 | |
| Net Income | | 98.9 | |

## Economic Profit:

TWE has demonstrated consistently positive economic profit excluding goodwill and acquired intangibles – growing from $[X]M in 2020 to $[Y]M in 2024. This growth has been driven by improvements in EBIT margin (from 19.9% in 2019 to 23.4% in 2024) amid relatively flat capital turns. Given the disconnect between share price performance and the businesses underlying economic profit excluding goodwill and acquired intangibles, we conclude that the share price either reflects (1) TWE's poor M&A track-record, or (2) is disconnected from the underlying business and its fundamental value – likely a combination of both.

### 4B. Quality:

We believe that the strengths of the TWE business are driven by:

- **World renowned leading wine brand** – Penfolds is among the most recognised luxury wine brands globally, with a heritage dating back to 1844 and a reputation for consistency and prestige. It contributes over 60% of group EBIT and commands ~45% EBIT margins, making it one of the highest-margin assets in the global wine industry.

- **World-class technical expertise and intellectual property** – TWE maintains proprietary viticultural, winemaking and blending expertise developed over decades. Penfolds' Grange and Bin series are protected by trademarks and sustained through in-house cellar ageing programs, which are difficult to replicate at scale.

- **Expanding global footprint of Penfolds** – TWE has actively invested in diversifying Penfolds' production and distribution base, including France- and California-sourced Penfolds SKUs and direct-to-consumer channels. This enhances supply chain resilience while expanding global brand reach across North America, EMEA and Asia.

### 4C. Catalysts:

- **Unlock underlying value of Treasury America's portfolio through a sale –** Divesting the US-based Treasury Americas division (contributing ~25% of group sales) could unlock significant shareholder value, reduce execution complexity, and allow sharper focus on Penfolds and Asia-led growth. Based on our estimates, the Treasury America's portfolio is potentially +50% undervalued by the market – our implied $2.30 vs. the markets $1.10.

- **Alignment of business model and strategy through sale / disposal of TPB** – The TPB portfolio, which includes margin-dilutive commercial brands, continues to weigh on investor sentiment. A successful sale or spin-off, even at book value, would align the operating model with the premiumisation strategy and uplift overall group margins.

- **Resumption in Australia country of origin wine sales in Mainland China** – The removal of tariff's on Australian wine exports to China has resulted in a relatively sharp rebound in shipments exceeding $1B in the 12-months following the lift. This return to pre-tariff levels (see Exhibit [X]), does not appear to be priced by  the market. Management estimates that Penfolds' re-emergence in China will drive double-digit EBIT growth through FY26 and FY27.

## 5. Key Risks:

- **Monitor short seller activity –** As reported by Capital Brief earlier this month, there is significant short-seller interest in TWE, amounting to ~8% of the shares outstanding [source]. A targeted short-seller campaign could result in further downward pressure on TWE's share price.

- **Portfolio concentration** – Divestment of the Treasury America's and TPB portfolio would leave TWE with a significantly smaller and more concentrated portfolio. It would be a portfolio skewed towards Asia sales, accounting in 2016 for ~60% of NSR. In this scenario, TWE would need to continue its focus on growing the Penfolds brand internationally, particularly in the Americas' and EMEA – where it already as COO presence.

Looking forward to your thoughts and opinions.

Sincerely,
Fisk Capital

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Exhibit [X]: