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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Treasury Wine Estates FY '20 Annual Results Briefing. — ***Operator Instructions*** — And just please be advised that today's conference is being recorded.

But I will now hand the conference over to your first speaker for today, Mr. Tim Ford. Thank you, and please go ahead.

Tim Ford

Good morning, everybody, and thank you for joining the Treasury Wine Estates full year results briefing. I'm especially pleased today to have joining me on the call, some of the members of the leadership team of TWE; Matt Young, our CFO; Tom King from Shanghai, our Managing Director of Asia; Ben Dollard from California, our President of the Americas business; Pete Neilson, our Managing Director of Australia and New Zealand; and from London, late in the night, Michelle Brampton, who's our Managing Director for Europe, Middle East and Africa.

On the 9th of July, we provided the market with a business update, which covered our preliminary F '20 performance outcomes, along with the progress update on some of the key strategic initiatives. In today's briefing, we'll provide further detail on both of these. But importantly, I also want to take the opportunity to take time to detail the strategy of Treasury Wine Estates as well as the strengths and the opportunities of the business, outlining the road map that I'm extremely excited to lead.

We are a premium-brand focused global leader in wine, with strong positions in our priority markets, supported by a global footprint and business model that is unrivaled by any other player in our industry. Diversification is a feature of our business and at the heart of our strategy. We are diversified across multiregional sourcing and sales geographies, our iconic and award-winning brand portfolio, the price points in which we play and the diverse range of consumer experiences that our brands offer day in, day out.

Our premiumization focus continues to gain momentum in F '20 with premium wine now representing over 70% of our global revenue, up from around 50% only 4 years ago. Our talented and dedicated global team is over 3,000-people strong and has worked incredibly hard in recent years to transform this business into what it is today. And whilst we are proud of what we have achieved so far, there is much more for us to do to build on what is already a strong business and to position Treasury Wine Estates for the next phase of its growth journey and the achievement of our ambition, which is to be the world's most admired premium wine company.

Supporting this ambition is our long-term investment case, which comprises 5 key elements at its core. Starting with the wine category, where global consumption has increased in recent years, most notably in our priority markets. These growth rates have been driven by the consumption occasions that skew more to socializing, celebrating and sharing and trends, the wine category caters well to. Within wine, consumers have been trading up and across our regions, we continued to see the premium price points standing out and driving both volume and value growth, ahead of the commercial end of the market where overall consumption has been declining.

The growth of e-commerce and consumers purchasing through multiple different channels has accelerated definitely in this pandemic period, and this presents a significant future opportunity for the wine category.

Our global portfolio of well-known and trusted premium wine brands is capitalizing on these attractive category trends, led by our focused brand portfolios, which will continue to drive our momentum and growth in every region.

These brands cater to a wide variety of consumers through differentiated varieties, taste profiles, consumption occasions and price points and we will prioritize further strengthening this brand portfolio by taking an increasingly consumer-led approach to innovation, and brand building to ensure that we have the right brands and propositions in place to capitalize on the key drivers of the category growth.

Our competitively advantaged and differentiated route-to-market models provide us with a global distribution platform that is unrivaled in the wine industry, with our overarching goal to be as close as possible to our customers and consumers across each key market. Efficiency is a key advantage of this model and a driver of value for TWE and its customers and ultimately, the consumer, something that has supported the growth of our portfolios in recent years.

This has been most notable in a key growth region like Asia, where we have sustainably grown distribution and availability as well as depletion rates for our brands over multiple years through the continued and expanded investment to become the #1 important wine company in the region by both value and volume.

Our global asset base is a key foundation of the business, with world-class vineyard and production assets in internationally acclaimed winemaking regions such as the Barossa Valley in Australia, Napa Valley in California, the Marlborough region of New Zealand and the Bordeaux region in France, reflecting a truly global multi regional model that is unparalleled in the wine industry.

This asset base supports our focus as a growing premium wine company and reflects a multiregional sourcing model that allows us to mitigate challenging vintage conditions in any one region ahead of our competitors. Complementing this asset base are our winemakers and viticulturists who consistently produce wine of exceptional quality, which has seen a number of our brands win significant industry recognition and accolades.

The wine industry has traditionally been one that is highly capital intensive. And in recent years, we've increasingly focused on achieving the right balance between asset ownership and increasing external sourcing models such as grower and bulk wine partner relationships. This approach has contributed to the improved financial returns across our business as well as the ability to flex and be agile to consumer demand changes.

Finally, our strong, flexible and efficient capital structure leaves us very well placed to not only navigate the current market challenges but to continue investing in the future growth of our business, and support the ongoing delivery of returns for our shareholders. We believe this is a key competitive advantage for Treasury Wine Estates through the cycle. Each of these elements support our ambition for long-term growth throughout all our regions, with delivery of a group EBITS margin of 25% and higher remaining as our key financial metric target.

In Asia, our focus will be on expanding our market leadership by driving distribution depth, breadth and availability across our premium multi-country of origin portfolio, whilst maintaining strong margins in the high 30% range.

In the Americas, and in the U.S. specifically, our priority is to deliver a future state premium wine business in what is the world's largest wine market and where premiumization trends are particularly attractive. Our focused brand portfolio is performing strongly today and represents the future of our business in this region and market, and one that will drive our progress towards our 25% margin ambition for the region.

In ANZ, our priority will be to harness our category leadership to boldly innovate and elevate the category, whilst driving a channel mix shift to build our market value share ambitions.

And in EMEA, we'll have a dual focus on premiumization in this region, with continued improvement in our portfolio mix to key sales opportunity, along with increased investment in-sourcing luxury wine from the region, particularly in France where we completed our first investments in vineyard and production assets in fiscal '20.

Later in the briefing, I'll provide more details around our TWE 2025 strategic framework, our game plan, and within that, our key priorities for F '21.

Like many other industries and businesses, the COVID-19 pandemic has had a significant impact on Treasury Wine Estates in the recent months. During this period, in-home consumption of wine has increased significantly across many markets, driving higher levels of activity through the bricks-and-mortar retail channels, and as I mentioned earlier, accelerating activity through e-commerce sales channels.

Shoppers have been prioritizing speed and convenience of purchase and well-known and trusted brands are performing particularly strongly, which has resulted in our key focus brands continuing to perform well across these channels.

Away from retail and e-commerce, however, key sales channels for higher-margin luxury wine, which include on-premise, our cellar doors and our global travel retail business, have all been closed or significantly impacted during the period. Through the second half of fiscal '20, this has had a substantial negative impact on our overall portfolio sales volume mix and EBITS, particularly in Australia and the U.S. A reduction in gatherings, social occasions and events have also impacted consumption in key markets like Asia.

In recent months, however, we have seen gradual improvement in performance across some of our key markets as some of the most impacted channels do reopen and consumers adapt to what is a new normal, but we remain cautious on the near-term outlook given considerable uncertainty remains around the timing and pace of recovery, including the continued closure of some channels in the markets.

Across other key parts of our business, I'm very pleased to say we've had successfully managed through the impacts of COVID-19 with minimal disruptions. There's been no material interruption to our global supply operations. And the 2020 Australian vintage was successfully completed with key health and safety restrictions and protocols in place. We currently do not expect any interruption to our upcoming vintage in California.

Further, our capital structure, liquidity and very strong operating cash flow and cash conversion remain key strengths that will allow us to navigate through the pandemic whilst we keep investing in our brands and the asset base as appropriate to support our future growth ambitions.

Finally, our global workforce has transitioned smoothly to flexible and remote working arrangements, and we have prioritized the redeployment of our resources and our team members from the impacted parts of our business to support other markets and channels where activity has increased.

Our resilience through this period underlines the fundamental strength of our diversified global business, our brand portfolios and our organizational capability, which gives us optimism around our future return to both margin and profit growth. However, there are a number of recent trends from the pandemic, which we also think will become permanent changes in behavior and absolutely represent opportunities for us to harness in both the short and the long term.

Our COVID-19 Plan Ahead Agenda is focused on ensuring that Treasury Wine Estates emerges through this pandemic a fitter and stronger global business. Our first area of focus is around people trends, where changes to work and lifestyle arrangements will require us to think innovatively around our return to work and workplace models, with progressing the efficiency of remote working and near-term priority and one we're already doing a lot of work on.

Supporting our global workforce during this period has also been of critical importance to our leadership team, and we will continue to prioritize the rollout of employee support programs, which are focused on both physical and mental health and well-being. Linked to this, personal health has also become an increasing imperative for many of our consumers, and we will accelerate our programs to enhance our portfolio presence around the better-for-you category trend.

Broader consumption trends we have seen at home, food-led wine consumption growing, and as I mentioned earlier, the demand for well-known and trusted brands has stood out during this period. In response, we will increase our investment in our focused-brand portfolio, and we will take a consumer and experience-led approach to brand building to implement interactive models that enhance engagement with the consumer whilst at home using technology more so than traditional formats.

We are rethinking the way in which we engage with our luxury wine consumers, and we have commenced a significant and detailed global research study, which we will use to refine our route to market, portfolio and innovation strategies for our luxury brands. We also expect hygiene and sustainability trends to remain a high priority for consumers. Therefore, the innovation of our pack formats is also going to be a key area of focus for us.

Purchasing trends have also changed significantly in recent months, and in many respects, reflect years of evolution in just a very short space of time. We believe these changing trends will have a permanent impact on our channel mix long term, and they present us with a unique and exciting opportunity. Among the key initiatives, we will pursue the increased use of customer data and insights to drive engagement and transactions, and we will increase our investment behind both existing and new e-commerce platforms, which are well positioned to meet the increased consumer need for convenience of purchase going forward.

We'll also partner with our customers in this space to help drive this opportunity for their own existing platforms. We'll have more to say around the progress and evolution of our Plan Ahead Agenda over the coming months.

So turning now to our fiscal '20 financial performance, which I believe reflects a resilient performance through extremely challenging trading conditions. Net sales revenue declined 6% in fiscal '20, with the strong performance in the first half offset in the second half, where our portfolio mix was significantly impacted by the COVID-19 impacts I've described earlier. In the U.S., challenging market conditions resulted in revenue decline also across the year.

EBITS declined 22% to $533.5 million. Our EBITS margin declined 4 percentage points to 20.1%, and earnings per share declined 26% to $0.4390 per share, reflecting not only the decline in our top line performance but also the impacts of higher cost of goods sold per case through fiscal '20, particularly across our Australian sourced Commercial and Masstige portfolios and driven also by lower volume.

Pleasingly, our cash flow performance was strong, with a 95% cash conversion outcome up 16 percentage points on the prior year, supporting the maintenance of our strong balance sheet. And as a result, we have declared a final dividend of $0.08 per share, representing a $0.28 per share payment for the full year and a payout ratio of 64%, which is in line with our long-term dividend policy.

So with that introduction, I'll now hand over to Matt, who will provide more detail on the financial results.

Matthew Young

Thanks, Tim. Good morning, everyone. The diversity of our business across global markets, channels, sourcing regions, brands and price points has been a deliberate strategy and a source of pride for TWE for many years, but its importance to ensuring the ongoing strength of our business has only been highlighted in the current environment. Our global model has ensured that despite challenges, we have remained profitable, capitalized on areas of opportunity, delivered strong cash flow and maintained our healthy balance sheet. We're especially proud of our strong financial position that has allowed us to continue to invest behind brands, continue to invest behind our premiumization strategy while still returning – providing returns to shareholders.

And we are confident that as trading conditions improve in our key markets and as we implement the key elements of our strategic agenda, we will be well positioned to become an even stronger business in the future.

Looking to our key measures of performance in F '20. Group net sales revenue declined 6% on a reported currency basis or 9% at constant currency, driven by a 9% decline in volume. NSR per case increased, driven by the continued portfolio premiumization, particularly in the first half, but offset by disruptions to key channels for higher-margin luxury wine through the second half. Despite this, the Luxury and Masstige portfolios now contribute 71% of global NSR in F '20, up from 69% in the prior year.

COGS per case increased 6% or 3% on a constant currency basis, reflecting higher COGS on Australian sourced Commercial and Masstige wine and U.S. sourced Luxury wine.

Cost of doing business margin increased slightly to 21%, driven primarily by the reduction in net sales revenue. Total costs of doing business improved in F ’20, largely driven by key organizational changes that were implemented in F ’19, and proactive cost management of discretionary expenditure through the second half, which did include the nonpayment of all discretionary incentives in respect of F ’20 performance.

EBITS decreased 22% to $533.5 million, and EBITS margin decreased to 20.1%. And finally, ROCE declined 3.3 percentage points to 10.6% reflecting the decline in EBITS and a relatively stable capital base.

Before moving to the balance sheet, I wanted to highlight some important aspects to help everyone navigate our F ’20 results, recognizing that this is clearly an unusual year.

Firstly, as for many companies, to understand our performance in F ’20, it’s important to think of the business in 2 halves. You will hear reference to this a little bit from the team today about – as they speak about their regions. And to make it easier, we’ve broken down our first half and second half performance in the appendices to our profit report. And Tim has already given you a good insight in terms of how COVID-19 impacted us in the second half.

Secondly, and on this slide, in respect of material items, which relate to long-term structural changes, and in other years, major acquisitions, disposals and write-downs and are excluded from EBITS, we incurred cost of $37 million or $26 million after-tax in F ’20. These related firstly to our investment in Luxury winemaking capacity in South Australia, which will deliver a 1/3 capacity increase in Luxury wine making. In addition, we’ve incurred approximately $11 million of restructuring costs in the U.S. associated with our strategic agenda program. In both cases, we expect further costs to be incurred over the course of both projects, which we’ve highlighted on the slide, but will also deliver long term improvements, which we’ve also highlighted, and Tim will discuss these a little later.

And the final point relates to a number of items, which were recognized in F '20 within EBITS as they usually are. These relate to asset sales, write-downs and incremental provisions. They're primarily related to our Americas region, given ongoing programs of work in that region over the course of several years and the F '20 market conditions, which we've explained previously. And further details are set out on this slide.

In the case of incremental inventory and trade receivables provisions, these relate to the increased uncertainty we face in the current environment, both as a result of COVID-19 trading conditions and the ongoing U.S. bulk wine market. And we've taken a prudent approach to maintain a high level of provisioning in F '20.

We wanted to set these out on a single page to give investors insights to the underlying trade impacts. As well as providing that transparency, I hope this slide will show that the quality of earnings, both at a group level and a regional level, is clear.

Moving now to the balance sheet, which continues to remain strong, flexible and efficient. Net assets were broadly in line with the prior year, driven by higher net debt and lower working capital and tax balances. We'll cover the elements of inventory, CapEx and debt on the following slides, but let me quickly touch on receivables.

Trade receivables have declined as a result of the lower second half sales, which we've outlined earlier. Investors will note in our financial statements, a modest increase in our receivables aging in F '20, but I'd like to reassure investors that this does not give us cause for concern. We have continued to support and, in turn, have been well supported by our customers as we manage through this uncertain trading environment. And where we have needed to be patient and more supportive in a small number of circumstances, we have been. And I know that these trading relationships are strong and will remain strong into F '21. And whilst not wanting to labor the point, we do not have any customers in financial distress and no bad debts were written off in F '20 in any of our key markets.

Turning to inventory in more detail, which has increased by $29 million to $2.1 billion, valued at cost at the end of June 2020. Overall inventory volumes declined 9% on a prior comparable period, offset by a more premium mix in inventory held as well as higher vintage costs for inventory on hand. The primary driver of the volume trends was both the impact of the lower-yielding and higher cost 2020 Australian vintage as well as the carryover of Luxury inventories from the second half of fiscal '20.

Luxury inventory increased 8% overall, primarily as a result of the higher cost recent Australian and Californian vintages. In volume terms, total Luxury inventories declined 5%, which reflects the combination of a smaller 2020 Australian vintage, which was down 45% at a luxury level, partly offset by the carryover of unsold wine, which had previously been allocated to the second half of fiscal '20.

As we've stated previously, our Luxury allocation model is a key strength of our business, and it provides us with the flexibility to manage through changes in short-term demand or single vintage variation, as we've seen in fiscal '20 and still deliver long-term growth. It's also important to note, we remain very comfortable with our Luxury and Masstige inventory position as a source of future earnings growth. While short-term consumption has been impacted due to disruptions in some of our key channels for luxury wine, consumer demand for luxury wine in all our key markets remains a long-term dynamic, and we have confidence in and has shown resilience over previous long-term economic cycles.

Turning now to cash flow and net debt. As you can imagine, we've been very focused on cash flow management over this period, and our balance sheet and strong liquidity position reflect that. Operating cash flow before interest, tax and material items was $661 million, in line with the prior year. While we've been prudent in managing our cash flow expenditure, we have continued to invest in the business and behind our brands where it makes sense to do so. In some cases, brand investment were shifted to support growing sales channels such as e-commerce.

Cash conversion, at a reported level, was 94.7%, an improvement of 16.3 percentage points versus the prior year. It's driven by lower sales in Q4 and the smaller Australian vintage, offset by the higher levels of luxury wine inventory that was carried forward from the second half of fiscal '20.

We have chosen to update our long-term target guidance approach for cash conversion. Rather than an overall reported 80% target cash conversion, we will more directly target cash conversion of 90% or higher, excluding the annual change in Luxury/Masstige noncurrent inventory. You've heard me talk repeatedly about this metric previously, and feedback from investors tells us this is a better formal target, and we hope it gives greater clarity around our cash flow, particularly as we remain focused on continuing to invest in luxury inventory to support future growth ambitions. And as shown on the page, we have consistently delivered 90% cash conversion, excluding that investment in noncurrent inventory.

Moving to CapEx. We also took a prudent approach to CapEx in the second half, as we prioritize managing liquidity in conjunction with continuing to invest for future growth.

Total CapEx for the year was $189 million, of which growth CapEx was $106 million, including the investment in luxury wine making infrastructure in South Australia and the acquisition of vineyard and production assets in Bordeaux. The investment in luxury winemaking infrastructure in South Australia is progressing well, and we accelerated some elements of the project during the year. However, we have experienced delays in sourcing some equipment from overseas due to the COVID-19 supply chain impacts. And as a result, the new infrastructure is now expected to be operational in time for the 2022 vintage, 1 year later than initially planned. But please note this delay will not have any impact on our production capacity for the 2021 vintage.

We expect fiscal ’21 CapEx to be up to $200 million, including maintenance and replacement expenditure in line with the prior year guidance and continued investment to support future growth.

And finally, turning to capital management, where our capital structure continues to reflect an investment-grade credit profile. Leverage increased to 2.2x in the year, reflecting the decline in earnings, however, we remain confident of maintaining our target of less than 2x through the cycle.

Our liquidity position remains strong with cash of $449 million and undrawn committed debt facilities of $920 million across a well-diversified maturity profile at the end of June, providing total liquidity of just under $1.4 billion. This strong liquidity position supports the maintenance of our long-term dividend policy and is reflected in the strong, confident but prudent decision to declare today a final dividend of $0.08 per share, fully franked, delivering a full year payout of $0.28 or 64%.

Thank you. And I now have the genuine pleasure of handing over to Tom King in Shanghai to talk to you about the Asia region.

Tom King

Thanks, Matt, and good morning, everyone. Despite the challenges in the second half of F ’20, we continue to see strong and growing support for our brand portfolio throughout Asia, and the strength of our business model is becoming even more evident.

For the Asia region, net sales revenue declined 14.7%, driven by second half volume declines in all key regions, with the majority of sales channels being shut down during February and March. NSR per case grew 12% on prior year as we continue to grow our Luxury and Masstige portfolios. EBITS declined 14% to $244 million, resulting in an EBIT margin of 39.5%.

In China, the market is showing signs of recovery as consumption occasions resume, with improving weekly trends across all channels from April onwards and channel operation now largely back to normal.

Consumption trends are recovering quickly as more off-premise outlets reopen and traffic increases. Our depletions in the second half reflect broader market trends, with sharp declines in Q3, followed by depletions growth in Q4 driven by the list of government restrictions and also continued investment behind our core brands. June depletions were up approximately 40% on the prior year.

E-commerce sales, already on a strong growth trajectory pre-COVID, accelerated further and TWE was the clear market leader across total wine, achieving 84% value growth in F '20 compared to 28% for the total capital. For TWE, sales in this channel also reflected continued premiumization despite the broader market shift online towards lower value wine. We continue to work closely with our partners to ensure alignment between shipments and depletion rates, and we are comfortable with our current inventory levels in the market.

In the first half, we called out an inventory resell of competitive brands by distributors and wholesalers. Declining trends in import base were across all countries of origin suggest that this resell can continue, and in fact, accelerated due to COVID-19 and its impact on working capital.

Whilst we closely monitor the geopolitical environment, our focus will remain on building brands, investing in the market, engaging with our partners and ensuring that our own compliance. To this point, we've not seen any evidence of any issues that have impacted us or our customers' businesses.

Turning to performance across other Asian markets where similar to China, after strong momentum in the first half, we saw volume declines across key markets in Q3, ahead of signs of recovery in Q4. Markets and channels exposed to tourism remain subdued, however.

On a full year basis, Southeast Asia EBITS grew 8%, driven by very strong first half performance and we remain optimistic about the opportunities for long-term growth in these markets.

In terms of highlights for F ’20, our strategic focus on driving distribution and availability has continued to result in substantial gains for our portfolio and our depletions are a testament to this. Key priority brands, including Penfolds, Wolf Blass, Maison de Grand Esprit and Rawson’s Retreat delivered full year depletion growth and significant market share gains. Our business model is centered on self-distribution and our investment in marketing and pull-through programs is continuing to drive growth in this market.

You will also note that we have lifted our EBITS margin guidance for the Asia region from 35% plus previously, now to be in the high 30% range, which is in line with what we’ve been delivering in recent years, and we expect to maintain moving forward.

Turning to brand highlights. The Rawson’s Retreat Your Ideal Wine Moment was a successful digital campaign aimed at expanding our consumer base. The campaign generated increased brand awareness with 190 million online impressions, 5% depletion growth and took the leadership on e-commerce in the commercial wine system.

For Penfolds, we launched the 60th anniversary — ***indiscernible*** —, which was supported by powerful in-store activations, featuring unique number animations. And in Southeast Asia, Wolf Blass partnered with the Michelin guys to showcase wine pairing with Southeast Asian flavors through iconic recipes created by Michelin star chef. The campaign reached over 20 million consumers keeping the momentum despite government restrictions. The program expanded to include virtual and home dining experiences for consumers, highlighting wine pairings with iconic local dishes.

Clearly, our brand investment remains strong and focused in F ’20 and delivered lots of positive momentum, and we look forward to building on this in F ’21.

I’ll now hand over to Ben Dollard to discuss performance in the Americas region.

Ben Dollard

Great. Thank you, Tom, and good afternoon, everyone from Napa Valley, California. As an Australian who was born and raised in Adelaide just around the corner from Penfolds’ Magill Estate winery, I’m delighted to be speaking to you today as a member of the Treasury Wine Estates leadership team and President of our Americas region.

I’ve spent the last 25 years working in the U.S. market in the alcohol beverage industry, including the majority of that time in the wine industry. I’m looking towards leading Treasury Wine Estates on what is going to be an exciting period ahead for us in this region.

In F ’20, net sales revenue declined 12% and EBITS declined 44%, with our performance reflecting the persistence of challenging U.S. wine market conditions through the second half, including the effects of COVID-19 and the continued acceleration in the growth of private label, which had 2 direct impacts on us: First, there were significant disruptions to the on-premise and cellar door traffic; the other key channels outside retail and e-commerce, which are weighted to higher-margin luxury wine, and as a result, our overall portfolio mix was adversely impacted. Second, in response to these disruptions, there was industry-wide destocking from distributors to reduce inventory holdings which, in turn, led to our shipments being below depletion by 7% in F ’20.

While retail channels continue to perform strongly, and we have seen positive momentum through our direct-to-consumer and e-commerce platforms, the pace of stabilization in these other channels has been gradual, and as such we remain optimistic but cautious on the short-term outlook.

In recent months, we have fundamentally evaluated the strategic direction of our business and reimagining it with a view to assessing how we best realize our opportunity in the U.S. market long term. Later in this briefing, Tim will update on the significant structural changes that we are implementing. But ahead of that, I want to touch on some of the key elements that I firmly believe puts Treasury Wine Estates in a strong position to succeed moving forward.

The U.S. is the world's largest premium wine market, and it continues a multiyear trend of premiumization, led by strong growth in premium price points. This trend has not been impacted by the COVID-19 or recent market oversupply dynamics. In the 12 months to June 2020, the $8 and $20 and above $20 price points grew in U.S. retail by 10% and 19%, respectively. Driving this growth has been the evolution of the U.S. wine consumer, which includes the next-generation of wine drinkers, who are entering the category and have been trading up to higher price points.

These favorable premiumization dynamics set a very positive backdrop for our focused brand portfolio, which are by both portfolio of luxury and premium offerings that fit the profile of where the consumer is going, include brands like Beringer, BV, Stag's Leap, Penfolds, 19 Crimes, Beringer Brothers, Matua and St. Huberts The Stag. This portfolio very much represents the future of our business and has been in strong growth throughout F '20, with that growth having accelerated in the past 6 months to be up over 27% in retail versus prior year.

Nielson and IRI retail channels were large and critical to the wine category, capture a portion of the market. We expect that other key channels such as independent on- and off-premise, direct-to-consumer and e-commerce will also be fast-growing channels in the Americas for our focused brands going forward. We are actively investing in these channels and engaging with both our consumers and retail partners in this space.

Supporting execution across the existing core and growth channels will be our redesign, sales and operating models, which we have recently implemented. These models will focus on a number of key areas, including a dedicated luxury sales team that will bring our brands to life across on-premise, independent and retail chain accounts. In addition, we are improving our approach in harnessing our brand-building skills and working more closely with our distributors to drive the strategic direction of our business together.

Highlights across our focused brand portfolio include: The recent successful launch of 19 Crimes Cali Red, a multiyear partnership with entertainment icon Snoop Dogg, which sees our first California wines from the 19 Crimes label; we've had tremendous success with the #StayHome with Stags' Leap promotion, which ran during the recent lockdown period, accompanied by targeted digital advertising and driving over 500% growth in e-commerce for the brand; and finally, our Matua brand continues to go from strength to strength, driving significant distribution gains in cold box across the market.

Thank you. I'll now hand over to Peter Neilson in Melbourne.

Peter Neilson

Thank you, Ben, and good morning. The ANZ business navigated a difficult second half relatively well, with strong retail channel performance, partly offsetting the impact of the closure of other key sales channels. As we have called out previously, retail channel performance was, however, weighted to the Masstige portfolio, with lower sales of high-margin luxury wines impacting financial performance.

For the ANZ region, NSR declined 1.7% with NSR per case broadly in line with the prior year, despite declining in the second half due to a mix shift away from TWE's upper end luxury portfolio. COGS per case increased 4.3% due to higher cost of goods on Australian sourced, Commercial and Masstige wine from the 2019 vintage. This led to regional EBITS of $133 million and a margin of 22.5%.

The current retail market is still seeing elevated sales volumes, with growth driven by the above $10 price points. TWE is growing ahead of the market in the $10 to $20 price segment, led by focus brands including Squealing Pig, 19 Crimes and The Stag. We have also seen strong Wolf Blass, Lindeman's and Pepperjack depletions as consumers increasingly seek well-known and trusted brands in the current environment.

Pleasingly, in F '20 we have continued to premiumize our portfolio and deliver a mix shift towards premium volumes as we target specific opportunities for growth across different price points, varietals and occasions. Consumer behavior has evolved even more rapidly in the COVID environment, and we will continue to review our business models and offerings to connect with consumers in more convenient and impactful ways.

Finally, I would highlight the performance of our viticulture, winemaking and production teams who did an amazing job through clearly trying environments to not only maintain production levels, but also successfully deliver the 2020 Australian vintage, despite the logistical challenges in doing so.

In terms of brand highlights for F '20, 19 Crimes continues to go from strength to strength and was the leading brand in the wine category in terms of value growth in F '20. In March, we delivered the most successful through-the-line campaign to date for the brand, with 630 disruptive prison ship displays as part of the Find the 19th Cap promotion. 19 Crimes was also ranked #4 in the world's most admired wine brand by Drinks International, an incredible result, particularly having not previously ranked in 2019.

Another highlight was celebrations for Penfolds 175th anniversary. A gala event was held at Penfolds' Magill Estate, with more than 100 guests from around the globe dining in the transformed drives. As part of the celebrations, Penfolds unveiled a new rare wine, Special Bin 111A, a Clare Valley, Barossa Valley shiraz from the 2016 vintage. It has been almost a decade since Penfolds last released a special bin wine, a testament to the quality, criteria and craftsmanship required to create a wine of this stature.

We continued to invest in strategic partnerships to support the growth of our core brands. Seppelt once again partnered with the Victorian Racing Club during the Melbourne Cup Carnival, which includes naming rights of the Seppelt Wines Stakes Day.

TWE returned as the official wine supplier for the Australian Open 2020, following a successful partnership in 2019. We returned to Melbourne Park for the Grand Slam event, serving up a stellar selection of wines from across our Australian portfolio.

Wolf Blass also continued its association with the AFL, having been the official wine partner of the AFL since 2016. With a long tradition of involvement with Australian football, the brand has a strong connection to sport, specifically pursuing triumph in sport.

That's just a snapshot of some of the many activities we have underway, supporting focused investment behind our core brands. In summary, I'm very pleased with the ongoing performance of the ANZ business. I see the changes in buying patterns for luxury wine is temporary and still see opportunity to accelerate premiumization in this market.

I'll now hand over to Michelle Brampton to discuss performance in Europe, Middle East and Africa.

Michelle Brampton

Thanks, Peter, and good morning, everyone, from London. While we have seen retail sales upside from lockdown channel changes, notably in the U.K. and Nordics, F '20 results were impacted by declines in the second half outside of those 2 markets and non-retail channels.

For the region, volume and NSR declined by 4% and 3.7%, respectively. With second half declines in Continental Europe, the Middle East and Africa and GPR, due to channel closures, partly offset by strong Masstige portfolio performance through retail in the U.K.

COGS per case increased by 7%, reflecting an improved mix shift and higher COGS on Australian and U.S. sourced commercial wine. Favorable cost of doing business reflects our continued disciplined approach to brand building investments and overheads management through F '20. Regional EBITS declined by 25% led by lower top line performance in Continental Europe, Middle East and Africa and GTR through the second half.

The wine category is now in strong growth across most European retail markets, driven by the globally consistent trend of switching from on-trade to off-trade. Positively, there is strong momentum for higher-priced wines and branded wines, particularly Masstige wine and TWE brands offer that premium choice.

In the U.K., TWE's second half performance is being driven by accelerated demand for Blossom Hill, Lindeman's and the continued strong growth of 19 Crimes. Like other regions, we've seen a strong acceleration in e-commerce sales across key markets, with consumers increasingly shifting to this channel for convenience and personal safety. The majority of sales in the EMEA region come from our 5 core brands: Lindeman's, Blossom Hill, 19 Crimes, Wolf Blass and Penfolds. And investment behind these core brands continued in F '20.

Some of the highlights included the very successful launch of Blossom Hill Gin Fizz. Gin Fizz is the brand's latest MPD offering. It increased volume sales by 195% during F '20, capitalizing on the trends that blurs the lines between drink categories. The launch was supported through Blossom Hill's summer sampling campaign in Q1 of F '20 and featured in the online campaign, Friendship Fridays in June ’20.

Recently, TWE launched a premium B2C platform, The Winery Collection, to connect with consumers and give them direct access to our multi-country of origin luxury portfolio and respond to the online trends. We also entered into a partnership with Wolf Blass and Deliveroo, where 20,000 samples of Wolf Blass were delivered with Deliveroo orders and at building the quality credentials of the Wolf Blass brand.

Despite recent challenges, we are focused on supporting our customers and planning for recovery. Our regional strategy, which is to create sustainable growth and premiumization, ensuring our brands are relevant to consumers whilst continuing to drive a mid-teens EBITS margin remains firmly in place.

I’ll now hand back to Tim.

Tim Ford

Thanks, Michelle. So I’m now very pleased to present externally what we spent the last month presenting internally, which is what we’ve called TWE 2025, which sets out our blueprint for the next 5-year plan at Treasury Wine Estates. It replaces the strategy house that many of you will know well and is an evolution, not a revolution of our strategy, but setting out how we’re going to achieve our ambition to be the world’s most admired premium wine company.

To deliver on this ambition, we will be bold in our decision-making and the way in which we innovate to drive change in the world of wine, and this will be the TWE way: To boldly lead change in the world of wine.

Supporting this importantly will be our DNA. The cultural code with which we will act and will form the experience that everyone who touches TWE has. It reflects the next phase of the cultural journey of our organization. And our game plan describes how we will operate and grow our business, and what success looks like for each part of our company, across our brands, sales models, sourcing platforms, partnerships and our talent.

Whilst there's a lot that we're doing that is working well, we will pursue change and transformation in a number of key areas, acknowledging that we need to do things differently to deliver the next chapter of our growth story.

And there are 5 pillars to this game plan. Firstly, across our portfolio of brands, our focus will be firmly on the consumer and the personalized experiences we want them to have with our brands every time. Over time, we've done a good job of internal our business with a change in mindset from being agricultural-led to brand-led, and the next critical stage of our brand-building journey will be to hold the consumer even more so at the heart of everything we do and in every decision we make.

Our diverse multiregional and multichannel sales model are a key strength and will drive even more balance in our sales mix through a specific focus on growing our premium brands through B2C, and retail e-commerce in all of our markets and regions where they are a priority. Whilst doing this, we will continue to build on what we have strong relationships with our key distributor and retailer partners today and take those to another level. Having access to premium sourcing through our sustainable multiregional sourcing and winemaking models in some of the world's most iconic winemaking regions is a significant competitive advantage for our business. And we plan to build on this in a way that is truly innovative, consumer-driven and sustainable.

We will make the wines our consumers demand at the very best cost and we'll become an industry champion and leader in sustainability throughout our supply chain whilst continuing to operate with the utmost efficiency. Building on this, we are going to drive a step change in the way we approach partnerships. While we have always talked about the importance of partnerships and have cultivated many enduring relationships and networks across our business, we must do more for the next phase. This evolution of mutually beneficial partnerships across a wide range such as customers, growers, suppliers, government, industry bodies and the communities in which we operate, will be an absolute priority for us.

And finally, to our most important pillar of the game plan, our people, who are without doubt our most important asset and the key to our future success. Under my leadership, we are going to drive increased engagement across our global team with an elevated focus on how we recognize and reward more broadly and how we better support and connect with one another, and how we continue to evolve to becoming the fun, bold and highly motivating culture we aspire to achieve in this business.

Whilst components of the game plan and initiatives within will naturally evolve over time, you can expect the key elements that underpin TWE 2025 to remain consistent as a very clear path to the next phase of our long-term growth journey.

Across our business, there will be 5 priority focus areas in F ’21, which will see us bring this game plan to life. Managing performance, number one, and particularly through the COVID-19 impact – impacted trading environment is our top priority. We will stay the course in the areas where we are winning, led by our focused brand portfolio, which continues to perform well across our markets, whilst continuing to work closely with our customers and suppliers together to manage through the recovery. And we will focus on harnessing those opportunities we’ve talked about that have been created by changes in consumer and shopper behavior.

Accelerating our shift to a consumer and experience-led marketing model, brand-building model will also be a key priority. We will do this by prioritizing inset and data-led decision-making, technology development and investing behind fewer but bigger, more disruptive campaigns and innovation priorities.

Supply chain optimization is the next priority for us in F '21. Many of you will recall, the successful supply chain optimization program we implemented some 5 years ago, which not only significantly reduced cost and improved the efficiency of our global supply network, but importantly, set us up through increased wine availability to support the premiumization strategy that has delivered strong growth over multiple years.

The time is ripe now to undertake this expansive program driven approach again in F '21, to ensure we maximize our asset utilization and drive the additional focus on sustainability where, as I said earlier, we intend to become an industry leader in what is a very, very important space. We expect annualized cost savings from these initiatives to be at least $50 million by F '23 based on the wine age of release.

Turning now to the Americas and our plan to deliver the future state premium wine business in the U.S. where, as Ben said earlier, we've reimagined our business to determine how best to realize what we believe is a significant opportunity for TWE long term. This future state business will be one with broadly half the volume of today, but heavily concentrated to premium price points, differentiated brands, resulting in a similar level of earnings, but with significant progress towards our 25% regional EBITS margin ambition and a growth portfolio.

This brand portfolio, which has been in strong growth and is outperforming the category in the U.S. retail trade represents the future of our business in this market and gives us confidence around achieving our ambitions over time.

We'll continue to progress the previously announced restructuring initiatives through to the end of calendar year 2021, noting that the organizational restructure, which has been significant and recently completed with $35 million of annualized cost benefit to commence in F '21.

And finally, to our plans to accelerate the separate focus across our portfolio. As I stated in last month's update, we believe there is long-term value that will be created from a separate focus for Penfolds and our other premium brands. And our priority in this fiscal year will be to determine what the best operating model to deliver that growth and value creation is, which may include the potential demerger or internal divisionalization model as another alternative.

As you can see on the slide, the characteristics of the separate portfolios are differentiated across key items such as your brand hierarchy, the price point center of gravity, strategic priorities as well as the future respective drivers of growth underlining, hopefully, the rationale and the benefits that a separate focus will bring to both portfolios. And we'll provide further update on these initiatives by our first half of our F '21 results.

So in closing, F '20 was a unique year for Treasury Wine Estates, our industry and in markets with which we operate. Our results reflect a resilient performance despite 2 significant market factors: COVID-19, which adversely impacted overall demand and mix; and the U.S. market oversupply dynamics. Notwithstanding these challenges, consumers continue to engage with our brands at premium price points. Our operating performance remains strong, supported by strong cash conversion and a healthy balance sheet.

Whilst there's positive signs of recovery, which have emerged in some of our key markets, we remain cautious on the near-term outlook, given the uncertainty that remains around the pace of that recovery. But we are well placed, we believe, to return to sustainable growth in the future once our markets stabilize.

Supporting this confidence is the strength of our global business, including the attractive category fundamentals across our key markets where we have a strong market position, the best global portfolio of premium wine brands, a global distribution footprint, which is unrivaled in the world of wine, and our world-class asset base, supported by a strong and flexible capital structure. And all this gets brought together by our world-class talent, our team.

So our refreshed strategic blueprint TWE 2025 lays out for all to see, our ambition, our DNA and our game plan, and sets the basis for our clearly defined F ’21 priorities, which are focused on a balanced agenda that addresses the near-term challenges we face whilst laying the foundations for the next phase of our sustainable long-term growth journey, or as I like to call, the 2-speed operating model with the catch cry, we take care of business today, whilst planning for tomorrow.

So thank you for joining us today. Our presentation has gone a little longer than what we would normally do, but I think it was important that everyone and our investors, in particular, heard from a number of people from our leadership team. So I trust you’ve appreciated and enjoyed that as well.

So before we go to Q&A, I’ll just apologize for the July 9 upfront, where we received some feedback that we did cut short the Q&A, a little too early. So apologies for that, and we’ll ensure that as we go through the questions today, I would ask you to leave it to one question per person, if you can, that we give everyone the time to ask what you want to know.

So with that, operator, I will open up for Q&A.

Question and Answer

Operator

— *Operator Instructions* — So we’ve got our first question from Craig Woolford from Citi.

Craig Woolford

Tim and team. I’ll – as everybody got one question, I might focus – I’ve got more than one. I'll focus on the Americas, it's the more fundamental issue, I am interested in China, but I'm sure someone will ask about that.

So with the outlook for that Americas business. Looking at one of the pie charts in the deck, it looks like that it could be upwards of a $5 million price reduction in volumes for that business. Is that something you're committed to irrespective of whether you're able to sell that? In other words, you would exit without necessarily selling out at a meaningful price?

And related to that, does it impact your ability to do direct distribution in the U.S. in those key states where you've shifted to that model.

And I know sort of last question. I'm surprised why you're so focused on reducing commercial in the Americas. Why is that not a global focus for the business?

Tim Ford
Thanks, Craig, and good morning to you. I think the – I'll take the majority of the question, but I'll also ask Ben Dollard to comment on the distribution model, also when I finished answering my components.

I think the first – certainly, the ambition around the volume where we believe the business and the ambition we want to achieve is broadly half the size of the business today. And that links to playing to our strengths is the way I call it. And that's the idea behind the strategy and really driving the strategy we're working towards in the United States. So where we have premium price points, premium differentiated brands that deliver us the margin uplifts and are growing, and we have the consumer base that is believing and purchasing those brands, that is the priority portfolio that Ben touched on, the core, call it, 9 brands in that market.

With the commercial portfolio, we have a number of different alternatives we're exploring in terms of, yes, divestment's one of those. But there's also the potential that based on our planning and inventory over time, that we actually just reduce those naturally in a quicker manner than what we've done over the last 5 years. That's another alternative. And there's different models we're actually looking at.

So that answers the question on the, I guess, the shape of the U.S. business from a volume point of view. From a global perspective, I think the commercial focus across our business. And I think as you've seen with the numbers we presented today, we continue to increase the percentage of our total NSR from a premium brand, Luxury/Masstige combined above 70% now, and we'll continue to drive that. And we'll continue to focus on that as a key metric for our business.

However, differentiated commercial brands are not bad for our business. 19 Crimes, you could argue, is a commercial wine that has a strong differentiation point with our consumer base. And where you have brands that are strong and aren't necessarily subject to the marketplace volatility, so again, a strength for us, we believe that those brands will continue to be important to our business going forward.

So Ben Dollard, I might hand over to you to comment on the distribution arrangements in the U.S.

Ben Dollard

Sure. Thanks, Tim. I think it's a cornerstone of our strategy and certainly our strategy moving forward, is the focus on our core 9 brands, and that strategy is certainly paying dividends relative to the market performance.

To that end, and to the question, Craig, we don't see anything changing relative to the markets where we operate directly relative to the relationship we have with our retailers and how we interact with our retailers. And again, it's going to largely hinge on our focus on our core 9 brands and driving and investing by them. So I think for us, it's very much a focus – a focused effort and working very closely with our retailers and our distributors in those direct markets.

Tim Ford

And then the last comment I'll make, Craig, is that there's a view that scale is crucial when it comes to total volume. I'd argue that scale of growing brands and brands that deliver margin to ourselves, our retailers and our distributor partners, the brands that will get the focus of not only their sales teams, but also their promotional activity, et cetera, as well. So when we talk scale and when I talk scale, I want scale as a large percentage of our business of brands that are growing and delivering margin to all of our partners in the value chain. So maybe reorienting the scale discussion a little bit there as well.

Operator

And your next question comes from Michael Simotas from Jefferies.

Michael Simotas

I'll ask the question on China. So the depletion number that you've given for June, clearly very strong. Can you just give us a little bit of color please around both depletions? And in particular, be interested in things like how much of that is distributors clearing stock that's in the channel through promotion or other means, some comments around on-premise versus off-premise as well as the type of wine that's driving that promotion is – sorry, driving those depletions in terms of where they sit in the price spectrum, please.

Tim Ford

Michael, I'll ask Tom to answer that question.

Tom King

Thanks, Tim. Michael, yes. Look, obviously, we're very pleased with the recovery we've seen in depletions in Q4, particularly in June. At this point, we remain cautiously optimistic because things can change pretty quickly.

In terms of what's been driving that depletion, particularly in the June number, is a return of people gathering together ultimately as a result of restrictions being lifted, venues opening, business and social occasions coming back, not quite back to pre-COVID levels.

So it's been across the board, across all channels. Obviously, in June, there is a big online shopping festival, the 618 Festival. So that was a very positive part of our June performance. And it's across the portfolio as well. So not any specific part of our priority portfolio or any specific part of our business from a channel perspective.

For us, we really need to wait and see what happens from the mid-Autumn Festival. We've got strong quarterly programs lined up across the portfolio. But I think it's fair to say customers are feeling pretty good about our brand, because they are cash-generative for them. And we obviously will continue to invest as we have done throughout H2 in our priority portfolio.

So very pleased with how June came out, but remain cautiously optimistic looking forward.

Tim Ford

So I think, Michael, the other point I'll add to that is the point of your question around, is it sort of liquidation of stock, I think you were getting that in the question. Yes. We've certainly seen that the pull-through of our brands is driving – and the depletions of our brands is actually similar in terms of channels and where we saw it pre-COVID as well.

So yes, there's been the odd occasion of pricing dislocation on a couple of SKUs and brands, which has been quite isolated, to be frank, over the last couple of months. And I'm sure a number of the analysts on the call might have seen a couple of those things.

But Tom and the team are picking those up very quickly and also being very disciplined in terms of how we deal with and manage our partners through that process as well to ensure that the long-term, or medium and long-term strength and health of our brands, which is driven in a large way by our pricing structures continues to be managed effectively over time.

Operator

Your next question comes from Niraj Shah from Morgan Stanley.

Niraj-Samip Shah

Just a question around the intake. Obviously, down significantly, particularly the Luxury intake this year. Can you just give us a bit more color on the flexibility you have to, I guess, smooth out the allocation? And how you can manage that?

Matthew Young

Matt here. I'll take that one. So you're right, we have talked a little bit in July and again today, giving insight in terms of the 2020 vintage in Australia, down 30% overall. And we did call out today Luxury at 45%.

The value in our model, as we've also said, is that we are able to manage across multiple – with multiple regions, but also multiple years as we do that. Some of the ways in which we do that, clearly, we allocate to multiple regions. And we released wines at the right time and spread that, whether that be through back vintages, whether that be through working through channels where vintage release is more or less important. Those are key flexible natures of our model that we see as an advantage.

You do see elements from us in previous years where we've done special releases or back-vintage releases and the ability to continue to do that and plan for that over multiple years. But the core element of it is that clearly, the luxury wine is sought after. It's sought after over multiple years from both collectors and immediate consumers alike. And that model allows us to be flexible in the way and the timing in which we release it.

Operator

Thanks. Okay. Your next question just comes from Larry Gandler from Crédit Suisse.

Larry Gandler

I just want to come back to Asia. Tim, Mike, in my assessment up there, it seems like in a number of regions and instances, treasuries, retail and wholesale pricing for Penfolds has come off since COVID, which sort of makes sense because there might have been some excess stock after Chinese New Year.

I'm just wondering, you talked about it as being somewhat isolated. It doesn't feel that way. Can you sort of give us a feel for maybe where the average retail wholesale pricing you're seeing for Penfolds is? And what that means for the long-term health of the brand? How are you guys trying to perhaps restore value for your retailers and wholesalers?

Tim Ford

Yes. Thanks, Larry. Look, I'll headline that and then ask Tom to comment as well. I think it's important to hear from the guys in the markets as well.

I think – I certainly don't believe we have a widespread issue in terms of our wholesale/resale pricing across the major markets across any of the channels they have. I firmly believe they have been isolated. And we've seen, particularly on some of the Bin ranges, Bin 389 as an example. We know there's been pricing that's particularly on online channels, that we would not want to see in that market and hasn't continued once we've actually got underneath how the stock has been received by some of these customers and partners within the market there in China.

So from my perspective, our retail pricing is holding up effectively. We have not decided to take price increases this year. It's a really important point, which is something we've done consistently over the last 5 years is take price increases. But certainly, just to manage the market and ensure that we have a much better view, given the uncertainty around the future demand profile, we just wanted to maintain the pricing structures as best we can until we have much better understanding of the – not only the pace, but also the demand of recovery. Tom, do you want to build on that?

Tom King

Yes. I think the – just to start with that, not really important to clarify that obviously, we don't control either retail or wholesale pricing in the market. And look, sometimes we do see pockets of – that have pretty heavy discounting. But often, that's driven by new or newer entrants into the market looking to drive footfall or traffic. And ultimately, those partners of ours will burn through their limited allocations on a pretty quick basis when they do discounting.

But an evolution of our market management policy, we have a model where each of our partners have a defined territory and/or a defined channel scope as part of our annual agreements with them. And that's something that we've had in place throughout F '20.

Moving forward and from the 1st of August, we've refined that policy, whereby we're now putting in additional measures linked to some of our products that will only be available at the Shanghai warehouse on a monthly basis, where we'll be able to trade those products back to our direct customers. And ultimately, where we see people operating outside their defined contractual territories or channels, that gives us the ability to take recourse to those customers.

And as we've said before, we're not afraid to make changes in our model, where we don't have alignment strategically with any of our partners around our brand strategy and the execution of that strategy in the market.

Tim Ford

Thanks, Tom. And so the last comment I'll make, Larry, just to sort of round out the question is this is a constant challenge and a constant focus for us, not only in China but also in other parts of Asia as well. So it's a high priority. And I think what Tom outlined is quite a significant step forward in terms of how we are managing the partner network within – and the channel conflict that can potentially happen within the China business. So thanks for the question.

Operator

Your next question comes from Richard Barwick from CLSA.

Richard Barwick

Tim, the way you were talking back in July 9, I thought there would have been a very strong chance you might have sold one or more of your commercial brands in the U.S. by now or being able to announce something. So what can you tell us now about the progress on that front and the prospects on actually divesting commercial brands, like Coastal or Main & Vine, for instance?

Tim Ford

Richard, nice to hear from you. I'm sorry to disappoint. The – I guess the progress, I'm really pleased with the progress we're making in the U.S. in terms of the how we're going about the options we have for divestment or the, I guess, call it, shrinking of the brands that we don't see as our priority brands for the long-term growth of the U.S. business.

I hope I was clear previously to say that the whole sequence of work we're doing in the U.S. started with the internal restructure, the internal cost management, the redefining of how we operate with our retailers and distributors going forward, which has been absolutely the #1 priority through these last 2 or 3 months, and I think Ben and the team have done an outstanding job of delivering what is a significantly different resource model within the U.S. business.

And we're making the progress that we want to on the potential divestments of the assets and the brands, and we have multiple alternatives to do that. I mean these things – yes, it's a substantial piece of work we're undertaking. It's also a – there's substantially different options we can take as we go down that path. And we need to be very deliberate in terms of the sequencing of how we actually go about that, to ensure a couple of things.

One is that we continue to manage those brands effectively over the next period of time while we are seeking to reshape the business in the U.S. as well, but also these things take time. And we've got to make sure that we're not going to either sell or divest these assets at any cost either. We need to ensure we get the right – either price or the right operating model or the right exit strategy that adds value from both a shareholder and to our P&L as well. So it's a complex set of tasks we're undertaking underneath that strategy.

So long story short, I am sorry to disappoint you. I actually think the progress we're making is very strong, and we're working pretty hard at it. And no one wants to achieve that quicker than me, believe me. Or maybe Ben Dollard does, but I certainly, certainly have a very high priority. And hence, why we've outlined it under our F '21 real key priorities that we must, must deliver best reshape of that business.

Richard Barwick

Can I just clarify, Tim, just on that. So I appreciate what you're saying. Obviously, it's balanced, and there's a lot of moving parts in. But is it your expectation that you will be able to actually divest some brands, or is it too early to say?

Tim Ford

Too early to say, but certainly there, where we sit at the moment, I do have the expectation, we will be able to. Wasn't it? The second part, I do have the expectation, we will be able to, Richard.

Operator

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

David Errington

Tim, you've been the ex-supply chain guru this is probably to you, and Matt might chip in as well, as it's on the inventory. I can remember the intake, in particular, I remember 2011 vividly, when that was a really bad harvest caused by the opposite of what we had recently, drought and hot weather, this time was flood. And I remember vividly, there was no 707 made at all, and you really have the scrounge around to get some grange.

Can you give a bit more color with regards to that 45% drop? Because the chocolate's is really in that iconic area, the grange in the 707s where you produce at $30, $40 a bottle. But you sell it for 10, 15x that. Can you give us a bit of color as to what the impact has been for those iconics? Was it down uniformly with the 45%? Or were you able to perform better in those super iconics? So the drop may not be as detrimental to future profitability.

And the second point, I'm really a bit confused as to how the value of the inventory can go up as much yet the volume in Luxury down. I would have thought – because the mix, et cetera, the 45% drop in Luxury, 30% total drop, yet the value still went up. If that seems to me that your COGS really must have gone up a lot, which worries me a little bit further for future profitability as well.

So there's 2 prongs to that question. I apologize for that, but it's an important issue for me.

Tim Ford

Sure thing. No problems at all . The first answer to the, I guess, the spread, if you like, of the vintage impact, I would assume the best way to assume it without going into a SKU by SKU basis is relatively uniform across the board. So clearly, it was a challenging vintage right across the full portfolio of our luxury wines with that intake.

The good news is, and I want to make sure it's landed, and I think everyone knows this, but as a smaller vintage doesn't mean quality is impacted. So we're certainly important to understand we make to that quality standard. And at times, that will mean lower vintages in terms of intakes. So it is pretty consistent across the board. David, in terms of what the mix of that reduction looks like.

I guess the other point I'd make around inventory, and I'll let Matt talk more around the balance between cost and volume and how the makeup of that inventory and what we've presented today is. But the key being there from high – and this is something you would normally not say, but I guess through the COVID period, where we've actually sold a lot less luxury wine than what we plan to sell in the first half, if you're ever going to have a vintage intake that was lower on a luxury point of view, this was the year to actually have it because we can rebalance the future years to a degree based on that.

So I'm trying to take a positive out of a negative there. I understand that fully. But I guess one of my big concerns going into the COVID period and when we realized what was ahead of us, was what that meant for our future inventory positioning as well. And certainly, with the smaller intake it's not going to create an issue, anywhere near an issue for us here in Australia. And I think as Matt outlined today, we've been quite transparent around other inventory provisions, and we feel like our balance of inventory even with the COVID implications, it's pretty strong across the board, but we can still grow consistently year-on-year, albeit it is a smaller intake.

So that's how I'd answer the first part, and then I'll let Matt tackle the second.

Matthew Young

Yes. Let me just help dimensionalize in terms of volume versus costs – cost/mix. So clearly, we've called out the volume of luxury wine is down 5%. So there's 2 elements to that. Clearly, the vintage for 2020 was lower, 40% – 45%, sorry, at a luxury level. And offsetting that was the carry forward of the vintage that we intended to sell in the second half of 2020 with it.

So that's – from a volume perspective, that's there. From a mix and cost perspective, yes, 2020 vintage be a higher cost, and that's because it's a lower-yielding vintage, which means a recovery of costs. But that's one driver of it. The other driver is that normally, we would have the 2020 vintage would be bigger and it would be early in its stage of production, it would be bulk wine. That's lower. But what we've carried forward is finished goods from fiscal '20.

So there's an element of the stage of production, which I'll call mix. But I am recognizing it is a higher cost vintage for the fiscal '20 because it's a lower yielding, and the cost of the winery, et cetera, will be absorbed at a higher rate.

So there are a couple of dynamics there. Hopefully, we've helped clarify that.

Tim Ford

The last point I'll add to it is, I think it's – hopefully, we made it clear today as we recognize we've got a cost of goods challenge on our hands. There's no doubt about that. And the program of work we're putting in place to deal with that, we're partway through. And hence, what we've talked about today in terms of the goals financially on that. However, we need to go stronger, harder than what we – and we've got more work to do on that front. There's no doubt about that.

Operator

Your next question comes from Andrew McLennan from Goldman Sachs.

Andrew McLennan

Maybe just following on from that, the global supply chain cost out of $50 million that you mentioned. So Tim, are you saying that, that's sort of been implemented to offset the issues that you've just referred to in terms of your increased cost of goods sold? Obviously, you'll have greater duration than 1 vintage. But I thought that was an interesting development in terms of the cost-out program. So if you could just talk through what the expectations are of that global supply chain cost out, and how we should think about it from a net basis as well as a gross basis.

Tim Ford

Yes. Sure. I think the key with these global supply initiatives is it's not necessarily on the back of a – we've had a challenging vintage cost out of Australia, commercial wine, for example. It is essentially – it's a program of work that you really, as a business, you need to do every 3 to 4 years at a minimum, I think. Because demand changes, your infrastructure changes, I sort of like I was saying, the trends that you have from a supply chain point of view today is not going to be the right set of carriages in 4 or 5 years' time, and you always need to be continually reviewing that. So this is certainly one of the programs I was very keen to put in place as I took over the leadership that we go again in terms of that program of work. And it is broader, it is global, and it goes from how do we deal with our packaging all the way through to our infrastructure behind it as well.

So we know the playbook you got to go through with these programs. We've done it before. We think we know how to get these things done. And what we've highlighted today is a $50-million-plus target that will be delivered based on the age of release of wines by F '23, and that's just driven by financial years and how wine gets made and sold based on that age of release. But fair to say, the supply chain team know they can –

there's pressure to do more than that over the period of time as well.

Matthew Young

Yes. And I'll add to that. I recognize the fact that the 50 links to the 50 we talked about in July for this fiscal year. But I'll dimensionalize that what we talked about at July that clearly, there's elements of that, which is increasing Australian commercial cost of goods, but also the particular vintage that we faced. So there are elements of that, that are linked to this specific vintage that in a normal vintage would normalize out and not recur in future years.

So – but as Tim said, this program of work, we had started at pre-vintage, pre-Australian vintage, is a long-term piece of work that is part of the rhythm that we should always have. So they are slightly different with the longer-term piece of work being a stable thing that should last us for a long period of time. And what we've talked about for COGS this year is a single vintage related issue.

Operator

Your next question comes from Shaun Cousins from JPMorgan.

Shaun Cousins

Just a question regarding the ex-retail channel in the Americas. I think you highlighted the 12% of volumes and 25% of NSR in July. Can you just talk a little bit about what that is from an EBITS perspective in the Americas? And maybe if you could provide that breakdown in other markets.

And maybe for Ben, where are you seeing that x retail market right now and the path to recovery there, please?

Matthew Young

And I'll cover the first part and then hand over to Ben just to give a sense of where things are looking at the moment.

We did give that color. We haven't broken that down at an EBITS level. But what I would share is that, clearly, they are Luxury channels, particularly our direct-to-consumer business, cellar doors, in particular, and they are strong businesses of ours in the U.S., particularly with the experience and the, I guess, the wine tastings, the cable car and other elements and the experience that you get in the U.S. business.

So they are profitable, so they generate from a shape of P&L, higher gross profit and earnings there. We haven't shared that previously and don't intend to continue to do that today, but I take your point and we'll think about it in the future. But they have been closed. So there are elements just for everyone's understanding, they have been closed. They are profit pools that will come back to us as those channels open.

Ben, did you want to give a sense of how you're seeing things on the ground at the moment in those channels?

Ben Dollard

Yes, sure. Thanks, Matt. Just a quick build on what you just covered. I think the – we've obviously also seen an impact in our travel retail, particularly in Latin America, as the cruise line industry effectively has shut down. So that's been another consideration for us as well.

We have seen a gradual opening of our visitors attendance here in California. But that has been extremely gradual and evolving and remains quite fluid.

But very clearly, our e-commerce platform as part of both our direct-to-retail and also our B2B e-commerce platform has continued to be particularly strong opportunities for us.

So we are cautiously optimistic as we think about the B2C component of our business opening back up. But certainly, as we have reimagined the business, we have also invested heavily in how we think about e-commerce as we move forward and building out a team to be focused on that space.

So again, kind of cautiously optimistic as we move forward here.

Shaun Cousins

And the x retail channel in other regions, Matt, please?

Matthew Young

The primary focus, clearly, we gave at the same time was ANZ, which is the main driver. Europe is predominantly retail. So you can – there's no point really breaking that one down. It's nearly all retail, all convenience and impulse.

And in Asia, we haven't quite – we haven't shared that. It's a little bit more complicated to do that given the model that we have. So – but again, we took that sort of a notice that it's something we'll continue to think about how we disclose that in the future, but our disclosures previously around, I guess, our customer base as opposed to channel is the best way that we've shared at the moment.

Operator

Your next question comes from Phillip Kimber from Evans & Partners.

Phillip Kimber

Just a follow-on around Asia. It was obviously very positive to hear that depletions of 40% in June. But are you able to give us a sense of shipments? And do you expect a material lag between shipments and depletions in that market until things really return back to more normal levels?

Tim Ford

Yes. I – in terms of the shipments to our depletions plan, I mean, we are always going to manage our shipment plans based on replenishing to what the forward depletions forecast looks like into China, in particular. So there is – is there a lag, I mean, there is a difference in timing, no question because clearly, our P&L and profitability is measured by what we ship into that market as well.

So we certainly manage very, very closely, particularly over the last 4 or 5 months, the inventory levels with the pandemic in mind. And in terms of cash flow challenges that potentially would come to some of our partners there in China. And I think we've been really disciplined with how we have shipped product to meet forward demand once we know what the forward demand is.

So from that perspective, I think the process we've had in place won't change. If we see continual growth in the forward forecast that is in line with what we've seen across Q4 in Asia, then clearly our shipments will match that going forward with likely some lag, as you see the replenishment cycle is working. So probably the best way to answer that, that's just our normal processes.

Operator

We have a question from Ross Curran from Macquarie.

Ross Curran

Perhaps I might just ask a strategic question. The wording around the potential demerger of Penfolds seems to have softened, and you've talked about a few other options that are available to the group. Can you give us a feel for how you're thinking around the Penfolds portfolio has perhaps moved since our last strategic update a couple of months ago?

Tim Ford

The Penfolds work, and I will call it the separate focus work we've been doing because that's actually what it is. And I'm glad you asked the question because I think it's important to clarify a couple of these things.

The statements we've made around the exploring of the Penfolds demerger is absolutely still on our agenda, right? So I want to make that very, very clear. We didn't announce that in April, when I wasn't CEO and all of a sudden, we're backing away from that, now I am, that's not the case.

As we've gone through the work, right? The diligence we need to go through, and I'm sure every shareholder would expect that of us as a management team and as a board, we need to ensure that what is the right operating model, including demerger as an alternative to grow our business the most effective way going forward.

Now clearly, when we announced this in April, we also didn't expect to still be in the middle of a global pandemic. So have we actually slowed some of that work down to focus on the current business today? Absolutely, we have. Are we actually walking away from it? Absolutely not.

Yes, the divisionalization alternative that I put into the presentation today, if you think about a demerger, a sensible first step would be to actually set up your business as it is today in a divisional structure that allows you then to manage the change program of a demerger to ensure that you take a stepped approach into achieving what we're trying to achieve here, which is ensuring we have the right operating model to grow the business with a separate focus, and then what the structural outcome of that looks like, will also come down to that growth ambition but also to create the shareholder value that we seek to create as part of this work.

So hopefully the sequence, and I'm going to keep using this term, I suppose, there's a sequence of events you sort of go through. And to me, there's a softening of the language, so to speak, is just to try and explain the sequencing we would go through. And I'll be frank, I don't feel time pressure to make this decision because it's a serious – it's a big decision. And the Board and I are in constant conversation around it, and we'll continue to update as we feel we need to, as we move through that sequence of events.

So hopefully, that gives a bit more color. And what we tried to do today with the slide in the pack that we talked to, was just to explain the rationale behind it because that's separate focus on what the 2 portfolios. And when I say 2 portfolios, Penfolds, which is essentially 5 tiers under an umbrella luxury brand, is different on so many different fronts versus the broader portfolio we have across the remaining TWE.

So that's the intention to try and show that today, some of the thinking and rationale. Hopefully, that gives you a bit more color. And hopefully clarifies some of the – I think, some of the confusion, certainly some of the questions, I'm sure, investors and others have in their mind at the moment.

Operator

And we have another question from Aryan Norozi from UBS.

Aryan Norozi

Just 2 new ones, sorry. In your second half, [Asia wine] was down 38%, can you just please give us an idea around how the trend sort of progressed third quarter versus fourth quarter year-on-year, particularly like you've given the color on depletion? And what's the driver of raising your – the higher EBITS margin — ***indiscernible*** — to the high 30s versus previous guidance, please?

Matthew Young

It's an interesting question in a results where I feel like we've given quite a lot of detail to go into quarter-by-quarter. I don't think I'm ready yet. So I'm going to hold on that one.

The key message, I think that Tim and Tom have both given is we have – clearly, we entered into Q3 approaching Chinese New Year and the challenges of COVID-19 on those channels created a new challenge for us to work through. And throughout Q3 and Q4, we have been observing depletions, working closely with our customers and making sure that they have been matched as our customers have needed to work through that as well and to give us confidence of the strength of market to grow from, which I think the confidence across Q3 – sorry, Q4 depletions of flat to then growing is a good data point for us to feel confident or to grow our cautious optimism on there as well.

And sorry, the second part of the question was around the target. So clearly, over the past few years, we have delivered high 30s, even 40% this year in terms of our EBITS margin. The message you've heard consistently from us is that we've guided to 35% plus because of an intention to grow Masstige wine in that market, which may grow the profit pool but reduce the EBITS margin and change some of the metrics and it's just being to flag that.

As we look out longer-term right now, we feel we can actually maintain that high level of EBITS margin whilst growing both Masstige and Luxury brands. So it's recognizing that now that we have a stronger visibility of our portfolio and growth, et cetera, for that market. That's why we've lifted and raised that marker for everyone.

Tim Ford

I think the other key part of that is that we've delivered, call it, 38%-plus EBITS margin for multiple halves in a row now, even in the last half. So having a 35%-plus target, which we've stated for a number of periods now can sometimes be mistaken as a downgrade to your current performance, which is what we wanted to avoid as part of this, to be frank.

Operator

There are no further questions at this time. I'll now hand the conference back to your presenters for any closing remarks.

Tim Ford

Right. Thank you. Thank you, everybody, for joining us. I hope what today gave you was a more expansive, I guess, understanding of how we're managing the day-to-day and managing the challenges we have in the business, but also, I think importantly, reminding everyone around the fundamentals of our business and the forward plans and how we're driving those 2-speed agendas, as I like to call them. And also giving you some insight and introduction to the broader leadership team because at the end of the day, that's what it all comes down to.

So I appreciate everyone's time and interest and look forward to numerous discussions over the next couple of weeks, cheers.