Status update
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Presentation

Tim Ford

Good morning, everybody, and thanks for joining today's call. I've got with me today Matt Young, our CFO, also.

So last Friday, the Chinese Ministry of Commerce announced provisional measures as part of their continuing anti-dumping investigation into Australian wine sold-in containers of 2 liters or less.

These provisional measures required a deposit at a rate of 169.3% be applied to the important value of Treasury Wine Estates portfolio entering China. Under China's antidumping regulations, these provisional measures are expected to remain in place for up to 4 months from their date of announcement. However, I do note that under special circumstances, this period may be further extended to 9 months, so an incremental 5.

As stated in our announcement we released earlier this morning, at the level of these provisional measures that have been announced by MOFCOM, we do expect that future demand for TWE's portfolio in China will be extremely limited.

Therefore, we are immediately implementing our plans to reduce the impact on our global business. While we are not in a position today to provide insight around specific impacts to earnings, as noted in our announcement, earnings for the 4 months to 31 October in Asia as a whole was approximately $75 million.

Trading will continue as normal in other Asian markets. And in China, whilst we have continued to trade during November, we've seen increasing inspection of containers at either inbound or outbound points, which has had an impact. We'll continue to monitor this situation closely as to what this will mean for our earnings in the coming months and provide an update during the normal course of our half year results in February.

We're extremely disappointed to find ourselves, our business partners and the Australian wine industry in this position. We will continue to engage with MOFCOM as the investigation proceeds to ensure that our position is well understood, and we also call on strong leadership from governments to find a satisfactory path forward.

Left unresolved, there will be a significant impact across many parts of our industry, which will cost jobs and hurt the regional economies and communities, which are the lifeblood of the Australian wine industry.

In our announcement to the ASX this morning, we provided details of our well-developed plans, which we will commence implementing immediately. I'll now highlight the key elements of these plans, beginning with our plan to drive incremental growth in global priority markets outside of China.

We will reallocate the Penfolds Bins and Icon range that we have planned to sell in China to other key Luxury growth markets, including key Asian markets outside of China, Australia, the U.S. and Europe. This reallocation will represent approximately 25% of our annual global Penfolds production volumes over time.

While there has been a lot of speculation recently around what this will mean for the pricing of our brands and the margins we earn for those brands, we will continue to apply our globally standardized margin structure to ensure the long-term brand health and price integrity of our portfolio. We are comfortable to retain inventory on our balance sheet, as required, for release in future periods to ensure that we continue to appropriately balance supply and demand across all markets whilst maintaining price integrity.

In support of these reallocation plans and to drive them further, we will accelerate our investment in sales and marketing resources across these other Luxury growth markets to drive incremental demand and expand the distribution footprint, for Penfolds in particular, now that we have product available to do so.

We will also look to reallocate Luxury-grade sourcing to our other premium Australian portfolio brands, which have been significantly supply-constrained over recent years and represent a growth opportunity that was not available to us over those recent years. These brands include Wynns, Wolf Blass, Seppelt, Pepperjack, amongst others.

With respect to our future business model in China, we will implement alternate operating and supply chain models and accelerate our multi-country of origin portfolio strategy, both from our existing asset base in France, and potentially over time, from China as well.

And finally, we will implement changes to our global operating model, including reductions in the cost of doing business and reductions to our future vintage intake plans, commencing with the upcoming 2021 vintage in Australia. In combination, we expect that these plans will progressively reach their full potential over a 2 to 3-year period and enable us to reduce the medium-term impact on our earnings.

We do note that whilst we will be implementing these plans immediately, the benefits in fiscal 2021 are likely to be limited.

Importantly, we remain comfortable with our existing inventory position and its valuation, and our flexible sourcing model will allow us to both quickly and efficiently adjust the intake for our Commercial and Masstige portfolios in response to the expected changes in demand.

With respect to our balance sheet, our flexible and efficient capital structure has been a long-term strength for Treasury Wine Estates and one that will enable us to manage through the impacts of measures or tariffs at the levels announced or higher.

Supporting this is our strong liquidity position, which currently totals approximately $1.5 billion, and the significant headroom we have in place with respect to the financial covenants under our borrowing facilities.

An immediate priority for us will be to work closely with our valued partners to understand the implications of these developments and how we can work with industry, governments and others to support the sector moving forward. In particular, we will continue to work very closely with our customers and partners in China to demonstrate to them our long-term commitment to the growing number of customers who enjoy and adore our brands in that market.

Finally, we are confident that the strength of our brands, including Penfolds, combined with our diversified global business model, will allow us to manage through the significant impacts of these tariffs over the next 2 to 3 years and reduce the medium-term impact.

Thank you for your time this morning for dialing in, and I now invite the operator to open up for questions.

Question and Answer

Operator

— ***Operator Instructions*** — Your first question comes from the line of David Errington from Bank of America.

David Errington

Tim, you mentioned that 25% of the global allocation currently goes to China, which is the Penfolds Bin and Icon series, which is the chocolates – let's be cut it – that's the chocolates of TWE, in my view at the moment. But the reality is, and it would be fair to say, that the majority of the growth of Penfolds Bin and Icons would have been earmarked to go to China.

So consequently, it's not the current allocation that is going forward, but the majority of the growth – certainly, in my estimates, I had the majority of the growth going to China.

Now with that door shut, you mentioned that there's other opportunities, other markets. Can you elaborate, please, where you're at currently with these other markets?

What are those other markets in Southeast Asia? Can you be a little bit more specific? And where you're at and how much do you believe these other markets can take without brand damage that would have been earmarked to go to China?

Because it's not the current allocation, it's the future growth that was going to come from those lines because the reality is that's the success really, how successful you can be to get other markets up and running.

So can you give a bit more granularity, please, on where you're at with these other markets? What are they? Who are they? And what sort of level of investment you're going to need to get them going?

Tim Ford

Yes. Sure. David, thanks for that. Well, I think hopefully, what we've done today as a starting point with the ASX, in particular, is to give a bit more insight and transparency into what that reallocation task and opportunity is, because clearly, that's the job ahead of us. First point I'll make is that we have a very good line of sight in terms of – with each of those markets, where our initial reallocation would take place to satisfy demand that has not been satisfied over previous years, given, as you say, a significant allocation to China. So that's step 1, what we will reallocate almost immediately to those markets.

The second is around the growth opportunity where we now have the wine available to drive growth in those markets. And if we step around the globe, we have opportunity further here in Australia.

We have opportunity within Asia, not just Southeast Asia, but also in the North Asian markets, whether that be within Hong Kong, Korea, Taiwan, a number of other markets in North Asia, but specifically within Southeast Asia, Thailand, Malaysia, the Indo-China region, less so Singapore at this point of time, we believe, because it's quite a mature market. But certainly those growth markets.

And then you think through what I would call emerging markets for Luxury wine, such as Thailand – sorry, such as Vietnam as an example, so we've got a list of priority markets that we have been driving.

Now we will increase our investment, increased investment is around people and the increased investment is around advertising and promotion and how we grow distribution of those, now we have those wines available. So that's the task that we will double down on as we now move forward.

When you combine those 2, we will also have some inventory that we will then maintain and hold on our balance sheet, which we would then reallocate across those markets over the future years, the next 2 to 3 years, with the inventory we now know we have. That will be step 3.

And importantly, those 3 steps, when you combine, I'm not going to provide a number today of how that all adds up because clearly, we're still working through a number of those plans, particularly on the second component around the growth opportunities. When you add all those up, we certainly believe that, that will allow us to maintain our pricing and maintain our margin structures across all markets around the globe, particularly for

Penfolds, without having a discount and maintain that for future growth.

So that is a key priority in terms of our allocation decisions, growth decisions and then what we would maintain on our balance sheet for the shorter-term to allow that medium-term growth and ensure that the margin protection exist in there.

So that's how we've worked through at this point in time. As I said, I'm not in a position to give how much of that 25% is allocated to each of those different buckets, if you like, in terms of our strategy moving forward. But we certainly believe with the wine now available, that it does unlock opportunities that we have not been able to take advantage of in the markets in Asia in particular.

The U.S., U.S. is a big one. From my perspective, U.S. is small today for a market like Penfolds – sorry, for a brand like Penfolds, David. And we just have not had the wine to drive that market.

So that is going to be a significant focus for us going forward as well within there. Europe, probably small in terms of reallocation, but some opportunity as well. So the beauty of, I guess, the sales models and distribution models we have around the globe is that we do have a very strong line of sight into what unconstrained demand is.

And as we layer in more investment, we also have very good insight as to what the incremental demand we can create as part of that. But clearly, that's going to play out over time.

Operator

Your next question comes from the line of Michael Simotas from Jefferies.

Michael Simotas

I've got 2 questions, if that's okay. The first one is just around your confidence that you can maintain profitability outside of this 25% of Penfolds Bin and Icon that you need to reallocate. So I guess pricing is one part of that. But then the other part of that is, are you making any allowance for the potential margin implications of selling less product from a scale perspective?

And then also, you've got a very concentrated customer base in Australia, which is a key market. Do you think you'll see any pricing pressure from those customers on your products, which are now in more of an abundant supply than what they have been for the past several years?

Tim Ford

Michael, thanks for that. Look, we are confident that we can maintain the pricing and margin structure there. Clearly, as you say, scale, as we build over time, will be different. And we actually have to adjust that cost base as well to manage that margin structure going forward.

So you rightly point out, pricing is one component which we certainly will maintain. But we do have to adjust our cost base, no doubt about that, which we will work through those plans as we implement them over the next period. So yes, we are very confident in doing that.

In terms of the Australian marketplace, I think the – there is unmet demand still in this market. Yes, the retail customers are an important part of our portfolio, but certainly through a number of our other sales channels, where we actually – particularly the Penfolds, we see there is still growth opportunities. And we know that given the demand that exists, given we haven't been able to supply over that period of time.

Michael Simotas

Okay. And then the second question is around the balance sheet. So you talked about the liquidity position that you've got now as well as the headroom in the covenants. Can you give us any more color on what those covenants are so we can make an assessment going forward?

Because to be fair, where you stand at November probably isn't the key driver, it's more going to be what this looks like when demand does end up pretty close to zero in the Chinese market?

Matthew Young

It's Matt. Thanks, Michael. Look, as we've said today, and we always have said, we maintain a very flexible and strong capital structure. This will allow us and the work we've done to manage the impact of these measures now and into the future.

It allows us to be really clear that we can hold inventory on our balance sheet, both current and future vintages. It leaves us with the strength to still maintain our CapEx plans as well as explore accretive acquisitions in the future, which we can now do with certainty given the shape of what our business is going to look like.

I hope that does provide some confidence that we're certainly not in a position with our balance sheet where we need to do anything like a dilutive equity raise. We are in a very strong position. I won't comment specifically on what our covenants are. However, I will say, it's not a concern by any stretch.

Operator

Your next question comes from the line of Ross Curran from Macquarie.

Ross Curran

I was wondering about your ability to reallocate the Penfold series to other markets. Can you give us some sort of feel for the volume that you sold of Penfolds-branded wines over the last 12 months versus PCP? So is Australia a growing or a shrinking market for

Penfolds?

Tim Ford

Yes. I think I'll link a couple of points here, I suppose. So clearly, although it's not often talked about in the last 48 hours, but there's still a number of our Luxury wine channels that are recovering strongly from the pandemic situation in terms of closure of channels, et cetera.

So when you compare us to a prior period, the pre-COVID conditions, I guess, I'd say at this point in time, given the channel structures in place, we are still behind where we were same time last year on Penfolds in this market.

And we talked about that at the trading update at the AGM. The recovery, though, in this half versus the second half of last fiscal year, which was called the depths of the pandemic and the closures and the channel structure disruption, we're certainly in a much, much stronger position. So the recovery of the brand and sales within this market, we're feeling really good about for this half.

Matthew Young

And the only other data point which we shared at the full year results, just in terms of other markets, we did comment Southeast Asia, for us, was the only region that in the middle of the pandemic is it actually still grew year-on-year.

Now that is a Luxury range of markets as well. So in terms of the trend of growth for Penfolds in multiple markets, particularly those 2 ones where it's well established, like Southeast Asia, rest of North Asia and Australia, the potential for growth of Penfolds is still strong.

Ross Curran

And then secondly, you've mentioned that the plan will take 2 to 3 years to be fully implemented. So it doesn't sound like you're expecting a quick reversal of fortune in China. This seems like it's a medium-term – medium to long-term new world we're in now. Is that how you're seeing things?

Tim Ford

Yes. I think, if anything, Friday taught us is that the outcomes – we need to plan our business around these being short, medium and long term. And that's what we're doing.

Our attention is very clearly on building our business outside of China over the next period of time, which if it is shorter-term or medium term, given the environment we're operating in, then we'll have done the work, we'll have done the investment, we'll have actually built a much stronger than we have today, which is still strong, diversified business around the globe.

So we are moving on with the plan that we've outlined today to build the markets outside of China, and that's what we will continue to do.

I guess, from our perspective, our approach is quite clear on that, hopefully, for you, Ross. Because things may change, and we'll deal with that as they change, but we're sort of dealing with the cards that we know at the moment without a strategy of hope, if you like, because the strategy of hope is not a very smart strategy. So we're getting on with the business that we have outside of that market.

Ross Curran

I guess one point was, are you going to keep your cost base in China intact if it is a medium-term issue?

Tim Ford

Now we'll need to address our cost base in China over the next period. And clearly, this is eventuated on Friday.

We’re not in a position to go into any detail on that. However, if it’s a smaller business in China, we’ll have a smaller cost base in China going forward as well. That would be clear.

Operator

Your next question comes from the line of Richard Barwick from CLSA.

Richard Barwick

Can we talk about what, if anything, you think we’ll have left in China? I mean, obviously, it put the whole business under a lot of pressure, but do you think there’ll be any demand for any of Bin or Icon range? And are there any other sort of alternative channels if you’re thinking tax-free zones and maybe cross-border, Diageo et cetera? Just how badly should we be thinking about China here?

Tim Ford

Richard, look, the upside is – it’s actually quite – it’s actually a bit early to tell. As we’re engaged with a number of conversations across our customers, et cetera, over the next week, as you can imagine, we’re going to get a better line of sight to that view going forward. Will the Penfolds brand still exist in China? You would expect that at certain levels, it still will.

But from our planning point of view, I guess, what we’re trying to outline today is what we will do – with what you have to expect that these tariff levels would be a significant impact on demand.

So yes, there would still be – I would expect, given the strength of the brand – I mean, the reason why we put the depletions demand, if you like, in the ASX today was not to try and to throw people off the task of what we’re trying to explain, but just to confirm.

I mean, the consumer strength of those brands has just been phenomenal. So you have to assume there will be some demand. How the channel markets and the channels will restructure or open up over that period of time is still to be seen.

Our operating model within that market, we're in the middle of a piece of work that – yes, there is options for us to continue to look at that market in a different way. And we've said on the announcement today, whether we restructure our supply chain, whether we look at opportunities in terms of moving more production, if you like, packaging, those sorts of things into the market in China would be one of those as well as enhancing this as quick as we possibly can, the multi-country of origin sourcing.

Because whilst this tariff is in place for Australian-produced wine, it's not in place for other produced wines. So we want to ensure that we maintain the brand through multiple different ways, particularly Penfolds, over the medium and short term to ensure that if there is long-term differences and changes, and you got to assume that this isn't going to be forever, but we still maintain brand presence in that market.

So multifaceted. Hard to say right at this point. But certainly, we would expect to have some presence in China over that period of time.

Richard Barwick

Okay. And just to clarify, I mean, you talk about the China's allocation of the Bin and Icon, representing 25% of global Penfolds volumes. Just want to be clear, what – if Bin – if that 25% of the Bin and Icon in China, what proportion of global Bin and Icon does China represent?

Because I assume if you're comparing this Bin and icon, then we're comparing it to global Penfolds, which will include everything from Koonunga Hill and up.

Matthew Young

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Yes. Well, look, the reason for sharing that scale is to really give a sense of the size of the reallocation effort, right? So this is – that's the important point. And hopefully, our expectation is that maybe some people thought it was bigger than that, and so just hopefully just giving a sense of the scale of effort that we are going through. That's point number one.

Point number two is on those other brands, we need to think differently as opposed to allocation. So it's actually around other supply chain models but also growth of those outside of markets because they are less supply-constrained, the Masstige, Koonunga Hill, et cetera. So that's how we're thinking about the chain there and why it's important to focus on the Luxury and Bins as opposed to the full portfolio.

Richard Barwick

Okay. You've given the revenue anyway, so you're allocating – reallocating 39% of revenue?

Tim Ford

Yes.

Operator

Your next question comes from the line of Andrew McLennan from Goldman Sachs.

Andrew McLennan

Thanks for this extra detail. Obviously, there's a lot of moving parts. Might as well appreciate that. I just – I guess, in the short term, what is available on your balance sheet in China at the moment?

Is there any stock out of your DC that – sorry, out of your warehouse that can be sold ex tariff that might provide a tail over the next sort of 6 months or so? And then I'll come back on my second question, please.

Matthew Young

Sure. So we currently have stock that's in our warehouse. Some of that stock is in what we call the outbound stage, and we are understanding the status of that and the likelihood that, that can still be sold ex tariff.

But there's still some work to be done there. There is also wine that has recently been moved to the warehouse in Shanghai. So that's under inspection process at the port. It's still available to us once it clears that inbound process, and we will reassess that product. That product would be subject to the new provisional measure. So our focus there is that product becomes available for reallocation.

Andrew McLennan

Okay. So just then in terms of how you're going to manage inventory. I mean, on our numbers based on the potential sensitivity around earnings aligned, the impact on sort of cash conversion, et cetera, your debt-to-EBITDA would be heading sort of at the sort of the 2x mark, again, just our estimate.

So not really that valid, but just an indication of where this could go. I'm just wondering, how are you sort of anticipating managing intake on the one hand? Obviously, that's going to have a flow back through to your suppliers. And unfortunately, you won't be the only one looking to do that either. But then on the other hand, you've also mentioned the delay in the sales of wine.

I mean, I guess, the one big thing that concerns that wine isn't made like spirits. You might be able to delay it for a short period, but you will still really need to move this inventory on.

So can you just talk about your expectations for the sort of the cash flow impact and maybe where you anticipate your debt position to go over the next sort of year or so?

Matthew Young

Sure. Let me just cover a few different points there. So if I start with inventory. Certainly, from an intake perspective, we still remain committed to our premiumization journey and the commitment to Luxury entry. So at those high levels, we will still continue to build that inventory as a source of future growth. However, across Luxury, but particularly with our commercial and Masstige, we have a very flexible model. So in terms of potential intake levels, we are able to adjust that very easily.

Now to your point, that's a Treasury view. That is going to have an impact on the industry, which is guiding for the industry, right? So that is – that's an important flow through. But from our perspective, the ability to adjust our position is very flexible on the inventory.

What that turns into, however, from a cash flow perspective, we do expect cash conversion to be impacted in this fiscal year as we plan around, particularly the Luxury intake for vintage '21.

However, as we adjust our intake and adjust – and rebuild our demand mitigation plans we've taken today, we expect cash conversion to start to return back towards those previously communicated levels in fiscal '22 and beyond.

Look, from a debt perspective, with that flexibility in mind, that's what's supporting our level of commentary today around the strength of the balance sheet and our confidence at that level.

And we feel quite confident that there's a number of things within our control to both manage that in the course of the natural business as usual, but other activities, that if we needed to adjust that, there's plenty of flexibility as well.

Tim Ford

I might just add one more comment to that, if I can, and it sort of links back to David's question at the start around the reallocations and the different steps that we will take.

Our position at this point, and we've done a lot of work on this – on the multiple scenarios that – including this scenario over the last month since the start of this investigation, and we are not planning to significantly reduce our Luxury intake in 2021.

So it's an important point. As we overlay all of our plans and as we roll that up to a 3 and 5-year plan for this business, it does not require us to make reductions and significant – of any significance across our Luxury intake, which I think is a really important point to understand, that we still have that belief that intake will drive growth for us across multiple brands over that horizon.

Operator

Our next question comes from the line of Phil Kimber from E&P.

Phillip Kimber

I just wanted to explore pricing just a little bit. I understand you've got your sort of range around the world that you don't like pricing to fall too far away from. But I mean, I think, we've also been told in the past that the demand from China basically helped maintain pricing for Penfolds in markets such as Australia because there was always this view where if you won't buy it at that price, we've got untapped demand up in China.

And you can see quite a few of the Penfolds have had reasonable price rises over the last 5 or 6 years. So I just wanted to explore whether that needs – will potentially unwind somewhat because you don't have that massive market that you can use to help leverage price elsewhere in the world?

Tim Ford

Yes, sure. The first one I'm going to make is what – with those price increases, now I think it's a fair statement to make probably 3 or 4 years ago, the demand in China certainly drove our ability to globally take price at that period of time. No question about that.

As we've now built the brands at those price levels around the globe, our consumers are willing to pay that price going forward. So the consumers will actually be the ones driving the outcome here, which I think is a really important point to understand. And we certainly have confidence given the growth across multiple markets at those price points that we can maintain that price going forward.

So from that perspective, as I said, I'm laboring the point because I think it's a really important one, yes, we are not going to discount for us to move volume. We don't believe we need to do that.

Through the strategies we've outlined, and particularly having the strength of the balance sheet, that will allow us over the next 3 years, 4 years with the inventory we know, to spread that more evenly over that period of time to ensure we maintain that price integrity.

The margin challenge, I believe, is actually more on how we work our cost base to ensure that we can maintain that margin challenge, and that's what we would do.

Matthew Young

The only other field outside, Phil, is what — ***indiscernible*** — I mean, the level of pricing that we have taken in the last 12 to 18 months on Penfolds has been very limited. So the pricing has held up. It's maintained its structure. And so that – it's not a – the China market has not been a major driver of price increases in the last short period of time.

However, the – and obviously, with that coming out, we will be looking at the other markets. And I'll reiterate the point sort of made before in terms of the growth of Penfolds in Southeast Asia, North Asia, Australia in recent years.

There is still growth there that can still drive that scarcity element, and focusing on these new markets that we will be driving – accelerating investment in, that's how we will also maintain that scarcity. And if we need to hold the inventory to drive that scarcity, we will do the same.

Phillip Kimber

Sure. And can I ask, just in terms of holding the inventory, are we sort of talking – obviously, there's the normal maturation cycle there, which is brand or product-specific. And then on top of that, how you allocate that. I mean, is it 2 to 3 years? Can it be up to 5 years? I mean, how long – how much optionality do you have around that putting it onto the balance sheet?

Tim Ford

Yes. I think the – and that's – given the scale of, I guess, this reallocation job ahead of us, of the 25%, hopefully gives a view that as you build other markets and as you do reallocate to meet demand, we're not talking reallocation of 2 to 3 years' time, we're talking of shifting between months and quarters as we balance our inventory over that period of time.

So that's our current view. And clearly, we're in the middle of driving what – now we have this availability, what is the growth opportunity truly in some of these other markets? And we'll nuance that and refine that every quarter as we do historically up until this point. So it's certainly not a case of, "We would take whole vintages and shift them into next fiscal years," for example. It's balancing throughout fiscal years, Phil.

Operator

Your next question comes from the line of Craig Woolford from Citi.

Craig Woolford

I just wanted to clarify there's no documentation of retrospective tariffs. Do you expect any impact on the $75 million worth of EBIT that you've already generated?

Matthew Young

Two parts of that. First is you're right. There was no inclusion or discussion around retrospective tariffs from the MOFCOM announcement. So we have no insight or further insight other than that. Second point, the tariffs will be imposed at the point of import on the quarter. So it's not something that would come to Treasury Wine Estates as a financial impact. It would have more of an impact on our importers, i.e. Chinese-located and owned companies.

Craig Woolford

Okay. Great. And then just on the reallocation. Obviously, we're spending all of our time, as we would, on Bin and Icon. But what is the likely direction of travel on Koonunga Hill and Rawson's Retreat? And then in the wine, you're talking about increasing sales and marketing spend in other markets. Is that just the dollars that you would have spent in China? Or do we expect the total sales and marketing spend for Treasury Wines to be higher as a result of the reallocation efforts?

Tim Ford

Yes. So the first part of that around the Koonunga Hill example, there's a number of alternatives we'll explore around different supply chain models as a first step. But secondly, given the grade of wine and what we would call the Masstige grade that goes into that brand, we certainly have the flexibility to manage that inventory level through our intake over the next vintage in particular.

So we're not concerned around the inventory levels of that, and it's essentially an unconstrained product or brand here within Penfolds that we don't allocate. We let anyone in any of our markets sell as much as they can sell at the right price point for that brand. So that's – it's a difference treated differently within our internal processes from that point of view, if that makes sense.

I think the second part of your question is a good one. We still got to work through the detail of those plans. However, yes, the investment we've made to build our brands and have the success we've had in China, over the last 2 years in particular, has required significant investment, and we continue to drive that. You would not expect the roll-up of all of the incremental investment across our other markets at this point in time wouldn't meet that same level of what we've been investing in China, I don't believe. But that's – it's a bit early to give specific numbers, but directionally, hopefully, that gives you a guide.

Operator

Your next question comes from the line of Niraj Shah from Morgan Stanley.

Niraj-Samip Shah

Just a couple for me. One, you guys have mentioned the flexibility on the intake a few times. So I was just wondering if you could give us a little bit more color on the sort of the structure and the duration of some of the third-party contracts that you have? And secondly, I appreciate it's only been a weekend, but does this sort of change your plans for Bilyara at all?

Matthew Young

I'll start with the intake plans. We've given sort of insight before in terms of how much we take from our own vineyards and leased or contracted bulk wine, which is roughly 1/3, 1/3, 1/3. From a commitment and a contract perspective, on the lower tiers, the Commercial/Masstige, very short. 1 to 2 years generally is the commitment level on average. Luxury level is longer.

I won't give specifics because it's a few number of suppliers, and so I'm probably giving away too much on there. But it's very manageable. And we – as – the reason I'll reiterate the flexibility, it's less around the length of contract, it's the volume to which we are committed against our demand targets and the amount that which we would then go out and buy either a spot or short-term contracts.

So it's less particularly at Luxury around those length of contracts. It's – we have a certain level that we commit to, and we manage our way through that during the quarter as we get closer to the vintage.

From a Bilyara perspective, look, it's a good question. It's – I mean, look, as a reminder, look, the investment there at Bilyara represents both the consolidation of facilities as well as an expansion, the consolidation of our facility at Nuriootpa. It was also built with the expectation of global growth – being built with the expectation of global growth.

And whilst 25% of that volume of Luxury and Icon does now need reallocation to other growth markets and acceleration, the 75% is still growing strongly. So it is still a good investment. Overall, the investment still makes sense. We will naturally review the scale and timing of that investment, and clearly, we're looking at that now. But in terms of commitment to the Bilyara facility expansion and consolidation, there's no change there.

Operator

Your next question comes from the line of Shaun Cousins from JPMorgan.

Shaun Cousins

I've got 2 questions. Maybe just on ANZ. And I think this has sort of been addressed a little bit. Can you maintain price and margins in the ANZ market? Just given that, I think Australia has exported around 15 million cases to China in the 12 months end of December, and a lot of that's going to come down here.

So are you seeking to maintain margins and volumes in this market? Or will you – you highlighted price and margin as a focus, particularly for Penfolds. Or will your ANZ business has to become smaller by volume and you'll maintain margins possibly with a bit of Penfolds mix there? Just how does your rest of your ANZ business look now post this?

Matthew Young

Good call. I'm just going to give a little bit of context. So you're right, that about 11.5 million cases of packaged goods that go to China, about 1.5 of that is Luxury. And we're clearly the majority of that. That 10 million of that is at the Masstige/Commercial tiers. We're a small part of that, but that – those are the sort of – just to give you some scale. And then the sense of the Australian market, total consumption is about 60 million cases, and production about 130 million cases.

Now the 2 considerations we've got just there around discounting of Luxury product, as we said, we think the likelihood of that is low. We are the majority of that volume. We – and as we've clearly explained today, we are not in a position where we need to discount. And we assume that others will continue to look to grow their brands in other markets and protect their brand equity as well.

The second part to that is that increased level of commercial supply here in the market. Now that is a volume that needs to be absorbed by the market. There are ways that, that gets done.

Clearly, other markets at the moment such as the U.S., U.K. are growing quite strongly for those price tiers. So I'm sure that players will look at that. However, there is going to be incremental pressure here on the industry. And as we said before, we're really disappointed about that, particularly given what everyone has been through in the industry here.

We – they are – from a Treasury Wines perspective. Clearly, those parts of the portfolio are not the focus of our strategy. We will look to sort of maintain what we can, but the focus will be on margin there and adjusting our cost base to manage it as such.

The second part to it – again, this is a Treasury lens, but clearly, with that incremental supply, it is likely to reduce the cost of goods of those products. So is a potential other side of the coin, so to speak. We're not as excited about that given the impact on the industry. However that, yes, from a Treasury lens, that's the other factor.

Shaun Cousins

Great. And my second question is just – you've spoken on previous calls, and it seems to be a slightly later priority now building the Penfolds demand in the United States. Can you just talk a little bit about how much Penfolds do you sell in the U.S. today?

What's the average price point of Australian wine that you sell in the U.S.? I assume it's maybe 10-ish. And I'm just curious about how you can actually drive demand for Luxury Australian wine in the U.S. given what I think is a fairly low retail price point. And it's generally a Yellow Tail, 19 Crimes market rather than Australian wine is not known as Luxury. Just curious around your numbers on your U.S. Penfolds business and how you think you can grow the demand for Luxury Penfolds in the medium term, please?

Tim Ford

Yes, sure. The – I guess, when I answered the question earlier, and had – did have the U.S. as the last, I guess, market I talked about in terms of our growth and expansion. That certainly shouldn't be taken as it's our last priority, point one.

So just want to clear that up as the first point. I mean, the Luxury wine market in the U.S. is the, outside of China, the largest Luxury wine market in the world. Consumers continue to premiumize in that market and the dynamics of it are fabulous from that perspective.

For the brand, Penfolds, it is – and I'm not going to give you numbers, but it is small in terms of its distribution footprint today.

As we have said previously, we have pulled back significantly on what we've allocated to that market because we've also had other priorities in the U.S., as everyone on this call is well and truly aware of.

As we now become very clear and very focused on becoming the premium business and having the right Luxury selling capability, Luxury marketing capability within that market, my confidence of growing Penfolds is significantly ahead of where it would have been 12 months ago, 24 months ago.

The Australian wine issue in the U.S. from a perception point of view is one hand, but consumers still buy brands. And the Penfolds brand in the U.S. is strong even though we haven't necessarily invested significantly behind it over the last couple of years. And when you couple a drive behind investment and drive behind incremental salespeople focused on selling Luxury and getting distribution in the U.S. with our launch of the Californian-sourced Penfolds in March this year – or March this financial year, I should say, coming up.

That combined gives us great belief in our ability to grow that market. And we've seen that with our distribution growth across our U.S. Luxury brands as well over the last 6 and 12 months, in particular.

So there are the data points that we use that give us confidence. It's the largest opportunity of the smaller space we have globally. And it's something that we are going to drive very, very hard and invest behind and back ourselves to really drive that market for Penfolds Australian-sourced and US-sourced.

Operator

Your next question comes from the line of Aryan Norozi from UBS.

Aryan Norozi

So trying to suspect, I mean, you make that $420 million of revenue and the costs are about $230 million. How much of the $230 million of costs is variable? And can it sort of be switched up pretty quickly, please?

Matthew Young

Look, I won't reference the numbers because clearly, there's a comment in there where you've got good – the cost of goods flows all the way back to the Australian element. Now to the points around other SG&A, advertising and promotion spend, which will represent the vast majority of our incremental spend in China, is variable.

From an overhead, otherwise, we operate a fairly variable style in that space. So we will look at that, and we will get that – if we need to, get that cost base right for the business. We don't have a concern on our ability to get that cost base to the right size for whatever shape of business we have in China.

Aryan Norozi

Perfect. And second one is just – I mean, you've mentioned that the margin for an otherwise identical product is similar in China than ex-China. But if I look at price per case, how do I think about the differential in that? And between China and in other regions, for example, Australia?

Matthew Young

Largely product mix. So the mix that we sell within Asia is a more Luxury mix as compared to, say, Europe, which is a predominantly commercial mix. The difference in margin is mix related, not price related.

Aryan Norozi

Yes. So just to clarify. For an otherwise – for identical products, if you sell one, perhaps it's the same thing that's reallocated into Australia. The pricing per case, how different will that be between the 2 regions if it's exactly the same product?

Matthew Young

Yes. Essentially, to us, yes, it will be at the same price. Our structures, our margin structure ensure that pricing is generally within 10% around the world, depending on the market. And that's – we try to keep it as close as possible.

Operator

Your next question comes from the line of Larry Gandler from Crédit Suisse.

Larry Gandler

I guess, maybe a bit of optimism. Given that it's possible that this all lasts only 4 months, although unlikely, but if it does, can you talk to how many days inventory you have of outbound stock in China?

Tim Ford

Yes. Thanks, Larry. I appreciate the time of the message and the question. It's a good one. Yes. Look, with the depletions demand we've seen, the inventory levels in our customers within China at the moment are relatively low compared to what you would see going into a typical Chinese New Year or festive season as well.

So yes, there's certainly is – would be a desire where possible to actually certainly get that stock from a customer perspective. And again, too early to tell their response after Friday's announcement. But certainly, up until last week, the desire from customers to place orders, get the orders for the stock that was going through the inspection processes was a daily call, finding out when they can get it, because the demands there and the inventory levels are relatively low at this point in time.

Larry Gandler

And I mean in your warehouse? Same in your warehouse?

Tim Ford

Yes. Very similar comment from that point of view. Our – or majority of – not majority, a large number of the containers going through inspections at the wharf at the moment at the port of Shanghai was replenishment for our warehouse. So that's essentially the stock we were bringing up into that market. Outside of that, our stock levels and holdings in China and our warehouse are very low.

Larry Gandler

Okay. Great. And with regards to your reallocation, let's call it, initiative. It's going to have a cost. I think you guys spent something like $350 million on sales and marketing in a year. Is this a cost to reallocate that maybe would be similar to what you can save out of China? Or do you think it will be a substantial one-off investment in sales and marketing?

Matthew Young

Essentially, the way we are thinking about it is similar levels. So we'll start with the level of investment that we would have – that we would be making into China, so to speak, so reallocate the product, reallocate the spend that goes associated with that.

There may be pockets or channels or areas where there may be a short-term investment and say, let's call it, feet on the ground or initial distribution build. But we certainly think that as a short-term impact.

Now that is going to be in new markets if you think about that because it's really around focus on building distribution and brand awareness from where it is today.

That is not an issue for us in markets around Asia. It's not an issue for us here in Australia. Whereas in Europe, in America, those would be the markets that would probably see an early investment until we see sort of brand levels up to the level where they would take care of themselves.

Tim Ford

And I think, Larry, it would be different market by market as well. It's probably worth just spending 30 seconds on it because depending on the distribution in the market, the brand strength and the time in the market, the mix of how investment will actually change market by market.

So where we have very strong distribution brand awareness, it will be more around consumer-focused advertising and promotion. Whereas in certain markets where distribution, if you like, is low because we just haven't allocated it, that requires feet on the street, that requires investment to drive that distribution in the first instance before you start really investing heavily in the consumer side of it.

So it'll be a balance across all. So it's market by market. We've got that mapped out as to how we would drive that.

Larry Gandler

Okay. Great. Good luck with nailing through this.

Tim Ford

Thanks.

Operator

We have a question from Jason Palmer at Taylor Collison.

Jason Palmer

A couple of quick ones from me. I just wanted to just double-check your comment around the reallocation of 25% of the Bin and Icon range. I remember a few calls back, we were mentioning global Penfolds volumes of roughly 10% of group volume, which might have been 3.4 million cases at a Bin range. Can you maybe just help me understand those 2 data points? I would have thought that China was close to 50%, which assumes you're going to keep a reasonable presence in that market.

Matthew Young

The – I'll sort of go back to the question, I think, asked earlier around. So we're clearly focused on that 25% being the Luxury business because that's the part that is most supply-constrained, and we would look to actively reallocate. On the non-Bins and Icons range, we'll look at supply chain models and other opportunities to retain that volume in Asian markets or otherwise.

Jason Palmer

Okay. That's helpful. And then my second question is just looking at the Wine Australia data over the last 5 years. So just quickly sort of cut bottled by value, Asia and China, when I look at China, China has tripled over a 5- year period and Asia is flat – or the rest of Asia is flat.

So I'm really interested to – and some of those markets are quite mature. So I'm really interested to understand a bit more around how you're going to actually activate those markets, please.

Tim Ford

Yes. I think I'll start by saying – and we've said it before, you'd be careful translating Wine Australia data to Treasury Wine Estates performance. I think the guide we gave and the specifics around our Southeast Asian performance over the last 12 months in our F '20 results, that gives a very good guide to the growth we've achieved in those other markets around there.

So the value growth can sometimes be – and the brand-specific growth can sometimes be lost in the broader volume data and value data as well that can be translated. Believe me, we are seeing strong depletions growth for our Luxury brands, in particular, and in all those markets I talked about earlier.

Now that's where – obviously, channels are still closed in some of those markets. So we shouldn't forget that. But as they reopen and as tourism reopens over time, et cetera, we have strong confidence that our growth profile we saw pre-COVID and through COVID, when those channels that are open will continue over the next 3 to 5 years. And in fact, we can drive it harder.

Operator

We have a follow-up question from Michael Simotas from Jefferies.

Michael Simotas

It might be a difficult question to answer at this stage, but how are you thinking about Hong Kong? Like Hong Kong was one of the markets that you mentioned as potentially having the capacity to take more of the Penfolds Luxury wine, and it's a fairly substantial market for you right now. Given the changing political landscape associated with Hong Kong, how are you planning for that?

Tim Ford

Yes. Hong Kong, we treated as we do with the other markets around Asia, how we're going to drive the right investment to build within that market itself, the portfolios.

Hong Kong is another market where we have allocated less wine to that market than what demand would say is there. And sort of building that brand within that market, yes, we certainly see – it's probably one of those that is already strong today.

So you compare it – they're not quite to a Singapore, but certainly opportunity there. But it's certainly not from a more emerging market that we've seeing great sort of growth like over the last 4 or 5 years like a Thailand or Malaysia or Indo-China. So it's sort of the way we've categorized those market opportunities, Hong Kong would sit in that more mature but still opportunity, but not the larger percentage growth that we will see in other markets in Asia.

Michael Simotas

But do you think there are any political winds with the Hong Kong market?

Matthew Young

Not really up for us to sort of comment on that, Michael.

Tim Ford

Okay. That's – we understand that's – everyone's had their chance to ask their question. So I thank you for joining us. We hope the ASX also today did give you some answers to a number of your questions.

We did try and be as transparent in detail as we can, given the point of time we're at with the announcement from Friday afternoon. So clearly, we look forward to continuing to talk and engage in the future. So thanks for joining. Cheers.