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Presentation

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Treasury Wine Estates FY '21 Half Year Results. — ***Operator Instructions*** — Please be advised that today's conference is being recorded. I will now turn the conference over to your first speaker today, Mr. Tim Ford, CEO for Treasury Wine Estates. Thank you. Please go ahead.

Tim Ford

Good morning, everybody, and thanks for joining the 2021 interim results briefing. I'm pleased to have me joining on the call today the following members of our leadership team: Matt Young, our CFO; Tom King, our Managing Director of Asia, based in Shanghai; Ben Dollard, President of Americas in California; Pete Neilson, the MD of the ANZ business; and Michelle Brampton from London, our Managing Director of the Europe, Middle East and Africa business.

We certainly have a comprehensive agenda for today's briefing. And in addition to the usual financial and the regional updates, I'll shortly provide an update on the implementation of our strategic agenda, including the new Treasury Wine Estates brand portfolio-led divisional operating model that we've announced today.

But starting with our first half 2021 financial performance. Net sales revenue declined 8%, with ongoing disruptions from the global pandemic on key sales channels for luxury wine; impacts to our China business from the ongoing MOFCOM investigations; and the continued proactive reduction of commercial wine volumes in the United States being the 3 key drivers.

When compared to the first half of fiscal '20, EBITS declined 23% to $284.1 million. EBITS margin declined 3.8 percentage points to 20.1% and earnings per share declined 24% to $0.243 per share, reflecting not only the decline in our top line performance, but also the impacts of higher cost of goods per case on the Australian-sourced commercial and masstige wines from the 2020 Australian vintage, in particular, which we've previously flagged, as well as one-off impacts relating to the California wildfires and the MOFCOM investigations.

Cash flow performance, however, was very strong with the 129% cash conversion outcome aided by the lower 2020 California vintage intake and earlier sales phasing than planned in China. Our capital structure remains strong, flexible and efficient with net debt reducing by over $400 million in the half, and our leverage ratio of 1.7x, in line with the prior corresponding period. As a result, the Board has declared an interim dividend of $0.15 per share, which represents a consistent payout ratio of 62% and is in line with our long-term dividend policy.

So whilst our key top line and profitability metrics are lower versus the prior corresponding period, the execution of our COVID-19 Plan Ahead Agenda, which we outlined in August, is driving positive momentum towards recovery throughout our business, which is evident when we compare our performance this half to the second half of fiscal 2020, a comparable period that was also impacted by the global pandemic.

At a group level, EBITS increased 70% half-on-half. And as shown on the chart on the screen, the recovery has been broad-based with every region delivering significantly improved performance, notwithstanding the varied disruptions that have been encountered, a true testament to the strength of our brand portfolios, our customer partnerships and the exceptional execution by our team globally in the conditions.

In order to fully understand our performance and provide insight into the prevailing demand dynamics, it is important to keep in mind that in all markets, key sales channels are in varied states of impact and recovery. Across the board, the retail and e-commerce sales channels remain open and continue to demonstrate strong growth, reflecting the consumer behavior shift towards in-home consumption of well-known and trusted brands during the pandemic, something which our focused brand portfolios cater to very well.

And whilst we are seeing a positive mix shift through both retail and e-commerce with consumers trading up, the disruption to sales channels for higher-margin luxury wine is continuing to have a negative impact on our overall business performance. As shown on the slide, the on-premise, cellar door and travel retail channels remain significantly disrupted in each of our markets. In the Americas and ANZ specifically, this has been a key driver of the declines in the sales volume, revenue and EBITS when you compare year-on-year.

We remain confident, though, that as these channels reopen and consumption demand returns through these channels, we are very well placed to further the pace of our recovery and however the timing of this is difficult to forecast, as I'm sure you'll agree.

So turning now to our strategic agenda. At the full year 2020 results announcement last August, I outlined the Treasury 2025 strategy and game plan and our 5 key priority areas for our business in F '21 that would begin to bring this game plan to life. Since that point, we have had to add another priority, which is the implementation of our global response plan to the measures that were announced by MOFCOM late last November.

Our top priority, though, has continued to be and will continue to be managing the business performance through the global pandemic period and the subsequent recovery. And as I outlined just earlier, the execution of this plan is driving positive momentum towards this objective. And you'll see in the regional presentation shortly from the team, our focus on shifting to a consumer-led and experience-led marketing model is progressing at pace, and I'm delighted with the innovation that we are delivering across our brand portfolios, coupled with a real focus on fewer but bigger and more disruptive, impactful campaigns.

The outstanding performance of 19 Crimes Cali Red in the U.S. is just one example of this priority being brought to life, with a number of other exciting launches and innovations in the pipeline for the second half of fiscal '21 and beyond.

The third priority around supply chain optimization, we are firmly on track to implement this year the range of initiatives that will deliver annualized cost savings of at least $50 million from F '23. With this timing reflecting the age of release of the wine and the flow-through of the P&L, the initiatives will be delivered through this year.

There's also been a great deal of focus and speculation in recent months and weeks around our plans to accelerate separate focus across our portfolio. And today, I'm delighted and excited to announce the new global divisional business model that Treasury Wine Estates will be operating under from the commencement of fiscal 2022. This carefully designed global model will drive a separate and increased focus and accountability from our teams and will, in turn, unlock our long-term growth potential as one standalone company.

The growth to unlock exists in our markets, in our brand portfolios, in our margins and in our people. And this leadership team is convinced the new operating model will enhance our ability to capture these. Under the new model, we will shift from a sales region-led business model to one that is brand-led, operating under 3 new stand-alone portfolio divisions. First one is Penfolds, which will be led by Tom King, which will have the opportunity to focus on becoming a truly global luxury iconic brand. The second, Treasury Premium Brands, which will be led by Peter Neilson, will elevate its focus on delivering consumer-centric and innovative premium offerings that meet multiple consumer occasions. And third, the Treasury Americas, which Ben Dollard will lead, will focus on leading the premium wine category in the Americas where we are already seeing the benefits that the increased focus brings.

Supporting the 3 portfolio-led divisions will be Treasury business solutions to be led by Matt Young, within his remit as CFO, which will be responsible for the delivery of and the continued centralization of business functions and processes that are common and repeated across the 3 portfolio divisions. It's the next evolution of our global business services model we announced a couple of years back.

Supply operations, led by Kerrin Petty, will be responsible for the growing, sourcing, production and delivery of all our portfolio in all geographies, except for the U.S. which will fall under the responsibility of Treasury Americas and Ben. And finally, a streamlined corporate center and smaller corporate center will be responsible for group strategy, culture, capital management and allocation, governance, IT and stakeholder management. We will be transitioning to reporting our business performance under the new portfolio divisions from F '22 onwards. And we will now progress at pace internally to complete the detailed design and commence the implementation.

Each of these portfolio divisions has unique strategic, geographic and consumer characteristics, in addition to distinct growth opportunities, the benefits of which will be enhanced through the focus and accountability that this divisional model will bring.

For Penfolds, we remain absolutely convinced that it will achieve significant benefits by having a stand-alone and separate focus while remaining an integral part of Treasury Wine Estates. Tom and his team will focus on driving future growth by building the consumer base globally, developing new sales channels in key geographies and by driving the new U.S. and French country of origin portfolios.

For Treasury Premium Brands, which is primarily comprised of Australian and New Zealand-sourced brands across all price points and sold in the Australia, New Zealand, EMEA and Asia regions predominantly, the focus for Peter and his team will be to drive top line momentum and to step change profitability, implement a fit-for-purpose capital base and unleash the potential of a diverse and iconic portfolio of brands through innovation, away from the shadow and competing needs of the Penfolds portfolio. We believe the ability to unlock the full potential globally of brands such as Wynns, Pepperjack, Squealing Pig, Seppelt, Wolf Blass and St Huberts The Stag, to name a few, must be enhanced with this separation.

And for Treasury Americas, which stands alone as a primarily U.S.-sourced portfolio of brands sold almost exclusively in the Americas region, Ben and his team will remain focused on finalizing the brand portfolio and asset optimization program that is underway, accelerating the very strong momentum currently behind the premium focused brand portfolio and finding opportunities to fill key portfolio gaps. But most importantly, staying the course on our previously outlined strategy for this business, which is into its second year of execution now.

Very importantly, the centralized supply chain structure in Australia and New Zealand and the Treasury business solutions divisions will act as the key service providers to these 3 portfolio divisions. They'll leverage the significant opportunities of TWE's global scale, supply asset base and our continued drive for best-in-class process and service efficiency.

And finally, this new operating model, we believe, will only enhance what the existing key elements of the long-term Treasury Wine Estates business case are, being the attractive category fundamentals across our key markets, the best portfolio of premium wine brands, winning route-to-market models that are unrivaled in the global wine industry, an unparalleled asset base in key sourcing geographies and a strong and flexible capital structure that will support the continued investment to drive future growth.

In terms of the U.S. business. Our plans to deliver the future state premium U.S. wine business remain firmly on track, and to recap, reflect a 3-stage strategy that we first announced last August. Post implementation of these plans, which we still expect to be complete by the end of the first half of fiscal 2022, the future state business will be won with broadly half the volume, a similar level of earnings to the first half of fiscal 2020 annualized, with significant progress having been made towards our 25% original EBITS margin target.

With respect to the divestiture of brands and assets, we are progressing the planned exit of a significant portion of the commercial brand portfolio in the U.S. And further, we are announcing today that we'll be exploring additional opportunities for brand, asset and lease portfolio rationalization as we continue to prioritize the growth of our focused premium brand portfolio to drive the future performance and growth in that region.

As part of these divestments and the restructuring activities, we expect to generate net cash inflows of at least $300 million, with one-off write-downs of approximately $100 million to be incurred relating primarily to noncash intangible and lease assets. Further, an incremental program has now been established to reduce the dis-synergies and stranded costs in the U.S. supply chain that are expected upon completion of the portfolio exits.

Turning now to our global response plan, to the provisional measures that were announced by the Chinese Ministry of Commerce in late November as part of their investigations into imported Australian wine, which is important to note, remain ongoing. The key elements of our response are in progress, and we expect the delivery of financial benefits to commence in this fiscal half.

Starting with driving of incremental growth across TWE's global priority markets. We've completed our detailed assessment of the key global markets for reallocation over the next 3 years, and we are becoming increasingly confident around our plans to reallocate the Penfolds Bins and Icon range that were destined for China to other markets. As such, we now expect modest financial benefits to commence towards the end of this fiscal year.

In support of reallocation, we have also implemented increased investment in the priority Penfolds growth markets of Asia, the United States and Australia, and we expect to start delivering the benefits from this investment from F '22 onwards. Further, we are allocating incremental volumes from the upcoming 2021 vintage intake to the supply-constrained – or previously supply-constrained Australian portfolio of brands, including Wynns, Wolf Blass, The Stag and Pepperjack, important for Treasury Premium Brands' future growth.

Implementing business model changes in China is another key element of our response plan, and we are currently working on plans to expand our multi-country of origin and brand innovation pipeline in the market which includes French Californian and potentially other country of origin sourced opportunities, of which benefits are also expected to commence in F '22. We've also completed detailed scenario work around alternate operating and supply chain models, which we will be in a position to explore once the MOFCOM investigation reaches its conclusion.

And finally, with respect to the global operating model changes. We have rebalanced our 2021 Australian vintage intake, which has already begun to align with expectations for future demand. And this has been focused largely on the commercial and masstige intake and portfolios. And we have determined cost base and overhead reductions for our China business across corporate and centralized functions, which net of reinvestment, will deliver annualized benefits of $10 million from F '22 onwards.

We do intend to retain a meaningful presence in China moving forward not only to drive a number of the key initiatives under the response plan such as growing the non-Australian country of origin portfolio, but also to maintain important customer relationships that we have built over many years, and very, very importantly, to preserve and protect the presence of the Penfolds brand within the China market.

And with that, I'll hand over to Matt, who will take you through the financial results in more detail.

Matthew Young

Thanks, Tim. Good morning, everyone. Once again, the diversity of our business in terms of sales regions, sourcing and brand portfolios has ensured we've delivered an excellent earnings result and maintained our healthy balance sheet despite a challenging environment.

Group net sales revenue declined 8.2% on a reported currency basis or 5.9% at constant currency, driven by the ongoing disruptions in key channels for luxury wine and the impact of the MOFCOM investigations on Mainland China volumes. Offsetting this was strong performance in retail and e-commerce channels in the Americas, ANZ and EMEA regions, in line with our response plans.

NSR per case declined 2.8% on a constant currency basis, driven by a masstige-led mix shift with the luxury and masstige portfolios combined now contributing 75% of global NSR, up from 73% in the prior year.

COGS per case increased 6.7% on a constant currency basis, reflecting, firstly, the portfolio mix shift; secondly, higher COGS on Australian sourced commercial and masstige wine; thirdly, the impact of inventory damaged by the Californian wildfires; and finally, one-off costs incurred in response to the changes in China, such as rework and logistics.

Cost of doing business margin decreased to 19.6%, driven by the organizational changes implemented in the U.S. in Q4 of last year and a rebalanced promotional investment in Asia and the U.S.

EBITS decreased 21.6% to $284.1 million, and EBITS margin decreased to 20.1%. And finally, ROCE declined 4.1 percentage points to 9.5%, reflecting the lower EBITS profile over the last rolling 12 months, particularly the second half of fiscal ’20.

There are some important amounts to explain within material items, which I’ll now cover. Total material item costs of $60.5 million or $45.6 million after tax were recognized this half. The main driver relates to the divestment plan in respect of U.S. brands and assets, which Tim explained before. As mentioned, we expect the wider program, once fully completed, to result in a net one-off loss of approximately $100 million, primarily relating to the write-downs of intangibles and leased assets. This impact will be recorded over the course of fiscal ’21 and ’22, and we recognized $50.7 million in the half.

The loss of $50.7 million primarily represents a write-down of commercial intangible brand values and a provision against commercial inventories and other costs. These write-downs are offset within the $50.7 million by a gain on sale on a Napa-based vineyard, which has been divested as part of the overall program. Further detail of the breakdown of these items is included in Note 7 to the half year financial report.

I want to acknowledge, writing down assets is not a decision we take lightly. However, the shift to our future state U.S. premium wine business is absolutely the right thing to do to drive shareholder value. Therefore, we must progress with the plan because we are starting to see the benefits of this already, and Ben will take you through this later. And further to shareholder value, we expect the wider program to generate a net cash inflow of at least $300 million, an important consideration we had when we weighed against the write-downs, which are largely noncash.

Moving now to the balance sheet, which continues to be strong, flexible and efficient. I know it’s something we say every 6 months, but again, it’s been a key strength in allowing us to manage through the ongoing recovery from the pandemic and the implementation of a global response plan in response to the changes in China. This strength in the face of major challenges has been something of which we're immensely proud.

Net assets were lower than the prior year, driven by a decline in working capital, primarily receivables and inventory. Trade receivables reduced as a result of earlier sales phasing in Asia. This was a result of both the recovery restock early in the half and the introduction of the MOFCOM investigation, which impacted purchasing patterns. We also saw a $393 million decline in net borrowings with our stronger cash flow allowing for repayment of U.S. private placement notes this half.

Turning to inventory in more detail, which has declined by $133 million to $2 billion valued at cost at the end of December 2020. Overall inventory volumes are down 18% on prior comparable period, driven by the lower-yielding 2020 vintages in both Australia and California. Current inventory has declined, reflecting the expected short-term decrease in sales volumes as a result of luxury channel disruptions and the impact of the MOFCOM provisional measures. Luxury inventory volumes declined 9% overall, which reflects the combination of those smaller 2020 vintages, partly offset by the retention of luxury inventory on the balance sheet for release in future periods.

I'll take a moment to confirm that we have closely reviewed our inventory positions, particularly in light of the current shifts in trading conditions across all markets, including Australia and China. We've sensitized a range of different outcomes, including conservative scenarios, and we remain very comfortable with inventory position from a valuation perspective. We also continue to remain confident that our luxury and masstige inventory remains a source of future earnings growth.

Turning now to cash flow and net debt. Operating cash flow before interest, tax and material items was $467.7 million, and cash conversion was 128.9%. Excluding the change in noncurrent luxury and masstige inventory, cash conversion was 121%, which was above our target of 90%-plus, reflecting 2 major events in the year. These were the impacts of the lower 2020 California vintage and earlier sales phasing in China. Operating cash flow performance outside these factors was excellent. However, these 2 factors did play the primary role in the over delivery. We expect F '21 full year cash conversion to be in line with our cash conversion target.

Turning to CapEx. Total CapEx for the first half was $68 million, of which growth CapEx was $38 million, including the investment in luxury winemaking infrastructure in South Australia and investments in e-commerce platforms and demand planning systems. The New South Australia luxury winery is on track to be operational in time for the 2022 vintage.

And as you can see from the bottom of this page, referencing that red outlined section, it's a truly incredible facility from a sense of scale alone. Having had the pleasure to walk the site only last month, I was amazed at what this investment will represent for TWE and the industry. And it's a great credit to all the team who are working very hard every day to deliver this fantastic project.

We expect F '21 CapEx to be up to $150 million, including maintenance and replacement expenditure and continued business investment to support future growth. We've been prudent in managing our cash flow, but remain committed to maintaining self-funded growth CapEx, which is critical to our strategy.

And turning finally to capital management, where our capital structure continues to reflect an investment-grade credit profile. Leverage reduced to 1.7x in the first half, reflecting a $414 million decline in net debt and well back within our target of less than 2x through the cycle. Looking forward, we do expect leverage may increase modestly in the short term, but we remain comfortable that we have a clear path of deleveraging through both trading and inorganic opportunities that will continue to see us below our 2x target certainly by F ’22. Therefore, we believe our balance sheet retains its flexibility, both in the short and long term. Our liquidity position remains strong with cash of $481 million and undrawn committed debt facilities of just over $1 billion across a well-diversified maturity portfolio at the end of December, providing total liquidity of over $1.5 billion.

This strong liquidity position supports the maintenance of our long-term dividend policy, and we today declared an interim fully franked dividend of $0.15 per share, representing a payout of 62%.

Thank you. And I’ll now hand over to Tom King in Shanghai to speak to you about the Asia region.

Tom King

Thanks, Matt, and good morning, everyone. Across the different markets in Asia, channels remained in a mixed state with varying degrees of restrictions impacting consumption, particularly across on-premise and travel-related channels.

In China, we saw progressive and consistent recovery through the first half, ending the period with channel operation largely back to normal. From a consumer perspective, it was pleasing to see strong consumption and demand for TWE’s brands throughout Asia, including China. Despite external challenges, our depletions growth in the first half in China remained strong, and we also saw very positive momentum in a number of emerging regional markets, including Malaysia, Thailand and Korea, giving us further confidence for growth in those markets.

In the first half for the Asia region, net sales revenue declined 18.1%, driven by the impact of channel restrictions on luxury trading performance as well as reduced shipments to China following the commencement of investigation by MOFCOM in August, primarily of commercial and masstige brands.

Improved mix within the portfolio, led by demand for higher-end Penfolds Bins, partially offset the impact of reduced regional volumes. This mix shift led to NSR per case growing 25.3% versus the prior corresponding period.

Cost of doing business improved 11.3%, driven by alignment of brand investments, service volumes and general cost management. Regional EBITS was $127 million, and EBITS margin was 38.2%.

As foreshadowed in November, we are actively implementing a global response plan following the introduction of provisional measures in China. This includes investing in sales and marketing capability to support distribution and availability in other key markets and channels to support reallocation plans for the Penfolds Bins and Icon range. We are also aligning our brand investment and overheads with revised volume expectations over the short to medium term. The early progress we have made is giving us confidence in the demand for Penfolds in other markets. And as Tim mentioned earlier, we expect to see some benefits from the Penfolds Bins and Icon range reallocation activity commencing in the fourth quarter.

Despite the impact of the MOFCOM measures, we will continue to work with our customers and partners to demonstrate our long-term commitment to our consumers and the China market. It’s very clear that strong consumer appetite still exists for our brands.

Turning to brand highlights for the half. To celebrate the 60th anniversary of Bin 389, Penfolds unveiled a partnership with Chinese luxury lifestyle brand, Shang Xia, extending the luxury credentials of the Penfolds brand and supporting the Penfolds ambition to become a global luxury icon.

In Southeast Asia, we executed a number of activations around food and wine, with a focus on increasing consumer awareness of wine as a complement to traditional flavors in Asian cuisine, focused on driving more consumption occasions. As part of this, Wolf Blass launched a Wok-Off campaign in Singapore, Malaysia and Indonesia with a celebrity chef online cooking challenge.

We also launched the Penfolds Meet Extraordinary digital campaign with Bin 389 in Singapore and Thailand, focused on strengthening and amplifying Penfolds' positioning as a premium luxury brand throughout Asia.

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

Ben Dollard

Thanks, Tom, and good afternoon, everyone, from California. It's a pleasure to join you today. I'm really pleased with the progress we're making in the U.S. We are continuing to invest in our portfolio with a focus on our priority premium brands, and this effort is paying off. While the job is vastly done, we are building confidence and momentum in the business.

The U.S. market dynamics have evolved since I spoke to you in August. During the COVID period, consumers have continued to shift channels, specifically retail and online outlets. The consumer continues to premiumize with the $11 to $20 and above $20 price points growing in U.S. retail by 18% and 26%, respectively, in the 6 months to December. These dynamics had a positive backdrop for our premium brand portfolio, reinforcing why this will be the focus of our business moving forward.

While performance in the retail and e-commerce channels remained strong, our first half results continued to be impacted by significant disruptions to key channels for luxury wine, being the on-premise, cellar door and travel retail as a result of ongoing pandemic-related restrictions. In addition, the California wildfires, which disrupted cellar door traffic through the Napa Valley and Sonoma, the reopening of tasting rooms and the on-premise channels will allow us to further build on our momentum.

For the Americas region, H1 net sales revenue declined 7%, driven by the channel disruptions, along with our continued proactive reductions in commercial volumes. This was partly offset by the execution of plans on our focus brands, which in turn, led to positive performance in retail and e-commerce, led primarily by the masstige portfolio.

Reduced overheads as a result of our new organizational structure put in place in June 2020, along with aligning our promotional spend to the current market dynamics, resulted in original EBITS of $83.1 million and EBITS margin of 15.5%. NSR and EBITS rebounded strongly from second half '20, reflecting strong retail execution and resonance of our brands with consumers.

Our focused premium brand portfolio is continuing its strong growth trajectory, materially beating the market, growing 31% in value in the half, led by 19 Crimes, Matua, Beringer Brothers and St Huberts The Stag. Underpinning the performance of these brands is our focus on consumer-led innovation. The launch of 19 Crimes Cali Red has been a tremendous success for us in the half. Recognized as the most successful launch of a new brand in the category in 2020, with IRI scans more than 2x the next brand introduction. Of note, we are delighted that 77% of Cali Red consumers are new to the 19 Crimes brand, and 20% of consumers are new to the wine category. We are very pleased with the trade and consumer response.

We continue to invest in our luxury portfolio and have seen strong performance in distribution and velocity. Our focus will ensure our luxury brands are well positioned as channels continue to reopen.

Some brand highlights across our portfolio. The launch of 19 Crimes Cali Red in partnership with entertainment icon, Snoop Dogg, saw significant success from day 1. Augmented reality activations and strong consumer support helped the brand become the #1 new wine innovation of 2020. We are really excited to announce the launch of Cali Rosé in March to coincide with the spring season.

In IRI channels, Beringer Brothers grew 37% during H1. This growth was driven in part by a partnership with the Country Music Association and with featured wine of choice for country star Kelsea Ballerini in her music video reaching over 4.3 million views.

Finally, the inaugural release of Penfolds California collection in March will be an important milestone for the brand in the U.S. Led by Peter Gago, the Penfolds winemakers have processed a range of wines that present the best regional characteristics of California in a style that is distinctly Penfolds. This launch is garnering a great deal of attention from our distributor and trade partners and will be supported through a robust media and marketing plan. I'm excited to announce that we have received our first 100-point score from the Somm Journal for the inaugural vintage of Penfolds Quantum, the icon of the range.

I'm confident that we can build on these accomplishments and make 2021 a year to remember. I look forward to updating you on the successes of these activities at the end of the fiscal.

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

Peter Neilson

Thank you, Ben, and good morning. The ANZ business delivered a strong first half performance, driven by growth in our key luxury and masstige brands in the retail and e-commerce channels. While we did see gradual reopening of on-premise venues throughout the period, key sales channels including cellar doors and travel retail remain impacted by restrictions on people movement.

For the ANZ region, NSR was just below the prior comparative period, declining 0.6%, with NSR per case increasing 3%, reflecting growth in the luxury and masstige portfolios. COGS per case increased 9.7% due to the mix shift, along with higher COGS on Australian sourced commercial wine. We also incurred some incremental costs associated with finished goods previously intended for sale into the Chinese market.

Cost of doing business increased due to long-term investment in e-commerce and planning systems. This led to regional EBITS of $75 million and a margin of 23.3%.

Our decision to focus our efforts on fewer, bigger brands is paying off. We have seen increased availability and strong growth across our priority brand portfolio with the brands collectively growing at 2.5x the category in the half, led by 19 Crimes, Pepperjack, Wynns and Squealing Pig. We did make strategic decisions not to cycle promotional programs that drove some commercial volume decline but improve the operating margin of the commercial portfolio.

Touching briefly on the impact of provisional measures or tariffs on Australian wine and the impact that this may have on the Australian wine market. At this point, we are not seeing any change in domestic sales activity or downwards price pressure in response to these changes. However, I would note that it is early to be drawing conclusions as it is ultimately the demand in other global markets and the nature of the next vintage in Australia that will drive market dynamics. So it is something we'll continue to monitor.

Turning to some brand highlights. Squealing Pig continues to dominate across the market, and we successfully activated our largest campaign to date this half across media and retail channels. Squealing Pig is a great example of product innovation to meet consumer demands across different consumption occasions, and we have seen tremendous success with our Prosecco and Sparkling Rosé and the recent addition of Ginsecco to the portfolio.

19 Crimes had an exceptional start to F '21, driving category growth through new displays

and NPD with consumers showing a love for this brand that mirrors the exciting results we've seen from overseas.

Another success on the innovation front was the expansion of the Pepperjack portfolio into high-growth varietals. While retaining its #1 Australian Shiraz position, Pepperjack now has the #1 Cab Sauv and the #1 Malbec in the market. These are just a couple of the recent success stories we have had with our brands.

Having a consumer-focused premium brand portfolio is a key component of our game plan, and we are currently executing a step change in our innovation agenda. This is really exciting, given the fabulous foundation we have to build from.

In summary, I'm really proud of our results in the first half. We've seen some great achievements across our brand portfolio and with our retail execution.

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. We have continued to see excellent sales performance through retail channels, which have remained very strong through the pandemic, notably in the U.K. and the Nordics market. This performance reflects our core strength in retail channel execution and our expanding portfolio of brands, which continue to grow in relevance with consumers as they increasingly turn to well-known and trusted brands during the pandemic.

We've worked really hard to service our customers as best we can and also focused on digital marketing to support online purchasing and visibility of our brands.

For the region, volume and NSR increased by 12.8% and 15.2%, respectively, driven by strong masstige portfolio performance in the U.K. channels and the Nordics. The largest contributor to volume growth was 19 Crimes, increasing volumes by 150% across the region. And while largely driven by the U.K., the brand is now growing in all markets outside of the U.K., and we are really excited about the future growth potential for the brand across the region.

Blossom Hill also delivered solid volume growth with strong brand equity helping the brand capitalize on the heightened demand in these retail channels. Wolf Blass and Lindeman's also delivered volume and value growth, and Lindeman's continues to be the #1 brand in the Netherlands and Sweden.

COGS per case increased 10.2%, reflecting portfolio mix shift and higher costs on Australian and U.S sourced commercial wine. An increase in cost of doing business reflects first half weighted investments behind our focus brands, in addition to one-off overhead costs to support the Brexit transition, which was well managed.

Due to the higher costs, regional EBITS declined 26.5% to $25 million, with margin at 11.5%. We continue to target a mid-teens margin but note that this will be impacted in F '21 due to the higher COGS I just outlined. Longer term, our portfolio is well placed to take advantage of the premiumization trends we are seeing across key markets in EMEA.

Turning to some brand highlights in the first half. The acceleration of 19 Crimes continued, with 19 Crimes now a top 20 brand in the U.K. A really strong Halloween campaign comprising social media and in-store activity drove significant uplift in sales. The Gin Fizz innovation under Blossom Hill has also been a success, blurring the lines between categories to drive new consumption occasions, and we're excited to see the results of the recent launch of a new flavor, Blood Orange.

Lindeman's worked in partnership with the Carbon Trust and achieved certification as carbon neutral, and this is a significant milestone on our sustainability journey as consumers increasingly make conscious consumption choices, whether that's through scrutiny of the end-to-end supply chain, packaging or health and wellness choices.

So in summary, some great momentum behind our brands in these markets. And we will continue to use our portfolio to take advantage of the market premiumization trends.

Thank you, and I'll hand back to Tim.

Tim Ford

Great. Thanks, team. Well done. So to summarize, our first half fiscal 2021 performance reflects the strong execution of our COVID-19 Plan Ahead Agenda, which is driving positive trends towards recovery in all of our regions as evidenced by the growth rates this half compared to the second half of fiscal 2020, which was impacted also by the global pandemic.

Looking ahead, we expect that trading conditions and our performance will remain relatively consistent across all key markets throughout the second half outside of China. In China, specifically, we are expecting minimal earnings contribution whilst the provisional measures implemented by MOFCOM remain in place. But we are increasing in confidence around our Penfolds Bins and Icon range reallocation plans, and as I said earlier, are expecting modest benefits to commence towards the end of the half.

Reflecting this, second half fiscal '21 EBITS is expected to be below the first half. And away from the near-term performance, the momentum behind our strategic agenda continues to build as we lay the foundations for future growth and the delivery of our Treasury Wine Estates 2025 game plan. The new brand-led divisional operating model, Penfolds, Treasury Premium Bands (sic) [Brands] and Treasury Americas will set our business up for long-term success as one stand-alone company, driving increased focus and accountability and in turn, unlocking our growth potential across these separate portfolios.

In the U.S., we continue to progress on our key restructuring initiatives to deliver the future state premium wine business. And the exit of our commercial brand portfolio, when completed, will be a significant milestone. And we'll explore further rationalization of our asset and brand portfolios as we continue to stick to course and prioritize our premium brand portfolio to drive the future performance and growth in that region.

The implementation of our global response plan to the provisional measures implemented by MOFCOM is in progress, and we expect to see, as I said, the benefits to flow through, as outlined in the presentation earlier. The fundamentals, importantly, of our diversified global business model are remaining strong, and I'm very, very confident we'll continue to support our execution into the future. We do have the best global portfolio of premium wine brands with strong market conditions – positions, I should say, an unrivaled global distribution footprint, world-class asset base, a great team and a strong and flexible capital structure.

And finally, I'm also pleased to inform you that we'll be hosting an Investor Day on the 13th of May to be held at The Hilton in Sydney. This will coincide with the week which is our 10-year anniversary as a stand-alone company, as Treasury Wine Estates. And we look forward to showcasing not only our leadership team and our talent, but providing more content around our consumer and experience-led marketing approach, the strategic execution priorities of our new portfolio divisions and the continued progress on our sustainability and technology journeys, amongst other related topics.

So thank you for joining us today. And I'll now hand over to the operator for questions and would appreciate if we could keep questions to one per person and then rejoin the queue. We've got plenty of time, and we'll get through as many as we can. So thanks for listening. And over to the questions.

Question and Answer

Operator

— ***Operator Instructions*** — And your first question today comes to the line of David Errington.

David Errington

Tim, can I ask a question on a business that I'm not – or haven't been overly endeared with, and that's the U.S. You seem to have done a pretty good performance here. And this is probably – I know it's one question per person, and it's probably a multi-tiered question, but when you look at Slide 7, 25% of your sales avenue was shut, which is on-premise, cellar door and travel. Then my belief would be that's probably 40% to 50% of your earnings. So consequently, you've had a really good first half where your performance – you've delivered about $80 million. And you've got – you're clearing out the other stuff. And your comment is that you're only expecting effectively $200 million of EBIT.

I'm a little bit surprised that you're not a bit more optimistic toward the U.S. business because now you're getting $300 million of cash in the bank. You're sort of like half of your channel was shut. Profitability-wise, you've still been able to get some great results. You've been – I mean, the way Ben spoke, I was getting excited about the U.S. And yet when you said, "Oh, by the way, the outcome is just doubling what you did in first half '20," which means that you're only targeting $200 million, has left me a little flat.

So can you give us a bit of an update on that? Because it seems to be a lot of good things going there. You did a great result in the first half, given that your most profitable channels were shut. You're getting out of the stuff that makes losses or whatever. You're getting $300 (sic) [$300 million] and yet you're telling us only to expect $200 million. I just think that – I said the dog ate your homework last time. It just seems that, that dog might still be hanging around, eating the homework, if you can only deliver $200 million after all the stuff you're doing.

Tim Ford

Thank you. Thanks, David, and good morning to you. So I think the best – I'll let Ben – I want Ben to spend a bit of time answering this as well, but I'll start with it.

I guess, I'll go back to my response to your statement back in August where you did say around the dog, it was eating the homework on the U.S. business. And my response at the time is we need to prove over time that we can deliver on the strategy and the plans that we have in the U.S. business before there's going to be a level of trust, I'm sure, from investors and others around the ongoing performance. And I shouldn't – hopefully, my commentary has not tried to play down my belief in our U.S. business and our U.S. portfolio either because that certainly wasn't the intention. I think the progress the team have made has been outstanding in the environment they're operating in, and as you rightly say, with some of the channel disruptions that exist there.

However, in saying that, we have delivered a good half. We've delivered on the strategic agenda. We've got a lot more work to do. And for mine, delivering on multiple halfs and consecutives is when I'll certainly get more bullish around the future prospects of that business. I have absolute strong belief in what we're doing in that market. And I talked to a lot of our distributor partners, in particular, quite often and the belief is building right through the chain within the U.S. business. But it's a start and the team have made a great start.

But Ben, I'll throw to you to provide a little more context and hopefully excitement with your voice versus mine, I guess.

Ben Dollard

Sure. Thanks, David and Tim. Look, the expectation as we – as channels continue to reopen. So we think about visitation to our tasting rooms. We also think about the on-premise, which is in a varied state of reopening across the country. Well, then naturally, our belief is that our luxury business will once again have a consumer, and we will see an uptick as it relates to that business. So – and that's going to happen over time because there's no one hard and fast date that everything is going to reopen.

So we are very well prepared for when that happens. And we've planted – set forth a lot of really good plans as the market starts to reopen. But I would also say that we have seen a shift from those channels into retail, and that's exactly the momentum we're seeing in our business. And we expect that will continue as well as the change over to more online and e-commerce-related platforms.

But look, we – as Tim said, we are building momentum. We are building confidence. The engagement and the planning that we have with our wholesale partners across the U.S. and also our retail partners, I think, have – has good depth and very much forward-looking in terms of growth. But we've still got a lot of work to do. The strategy is very clear in terms of focus on our [core wines].

David Errington

It just looks good. It looks more promising.

Matthew Young

Sorry, I know you – I don't want to build too much on what the team has said. But just to clarify for what you're saying, the $200 million or so that you've backsolved against that pro forma, that's the pro forma target. Again, the new base from which to grow. So please don't interpret the $200 million is the target or the cap. It's the base from which this team and this business will grow using the focused priority brands that they're delivering on today.

David Errington

Okay. Okay. Okay. And when does the $300 million come into that?

Matthew Young

The $300 million will be over the course of the plan. So we're looking to complete the program over the course of this calendar year.

Operator

And your next question today comes from the line of Shaun Cousins from JPMorgan.

Shaun Cousins

Just a question in regards to how you're reallocating wine that was previously going to China, particularly in the luxury market. Can you talk a little bit about how you're thinking about Hong Kong and how important that will be as a market? I'm conscious of the very strong wine export data in the month of December for luxury on a value basis. Are you looking to get to China by way of Hong Kong? I'm just curious if you could sort of explain how Hong Kong plays a role. And if you could explain that December movement, please.

Tim Ford

Yes, sure. I'll – thanks, Shaun. I'll start with the reallocation process, if that's all right, how we're going about that. And then I'll get to the question specifically around Hong Kong.

And I think to give a bit of more of a probably fulsome answer as to how the work we've done over the last couple of months because I think it's important for everyone to understand how we're going about this that supports the statements, I guess, we've made today.

The increasing confidence comes from a couple of aspects, first being engagement with our customers in these markets, which will form our markets that we're going to work to increase our investment, increase our own focus to allocate more luxury wine to but haven't had that opportunity previously. But as part of those discussions and the work we've done, it's also understanding what the current distribution footprint and the focused outlet universe where Penfolds exists today and where it does not in those markets. And that's understanding also the desire for the brands in these markets and the awareness that already exists because it's important to say – I guess, state because I assume everybody understands this. But these are not new markets. They're not market entry strategies for us. We've been there for a very long time in most of these markets. We just haven't had the wine to allocate. So we're building on a platform, which is a really strong strength that we have across our business.

And it's different in different regions that gives us this confidence. So for example, in Asia, pure growth of distribution and availability supported by the increased investment in that activation with people, within our teams, in those markets, engaging those accounts together with our partners will build distribution within those specific account universes. So that's the focus, if you like, within markets like Asia and also the opportunity that exists here in Australia, particularly in our independent retail and on-premise channels within this market where we have a significant distribution increase opportunity.

The U.S. is different. And again, why it gives us confidence, the U.S. is the dynamics that we're building the Penfolds brand for the long term is the way I look at the U.S. and I know the way Ben and the team look at the U.S. It's still about distribution and availability. And you're going to get bored of me talking about distribution availability and velocity, as Ben put it as well, but that is the key to the success around this reallocation. We have to invest behind building the brand awareness in the U.S. and the launch of the Californian collection, which hits the market as we speak, is a two-pronged attack with the U.S. and our luxury selling team is treated as our largest new product development or innovation go-to-market across the globe in the U.S. over this coming half, which is fantastic.

So that's the difference. And when you compare our distribution in the U.S. of Penfolds, whether it be Californian, which is – clearly hasn't been distributed yet or the Australian portfolio and you compare it to our luxury brands such as Beringer, Stags' Leap, BV, the gap is significant. So as our selling team and our luxury sales focus starts to build that, we see that opportunity there.

So that's the how we're going about driving where the opportunity is for the reallocation of the Penfolds portfolio that was destined for China. I think, hopefully, what it also explains to you is while we say it's not going to happen overnight because it's a week in, week out, month-on-month out build that will take us time to do so, but that's the method we go about. And I always talk internally to our teams about it's about how we do this and the outcome will take care of itself.

So that's how we're planning to do it. And while it's also difficult to give you exact detail, although a lot of people would like us to do so, around when and what the financial implications and when that will occur around the reallocation. So that's a fulsome answer, but I think an important one for you to understand just how we're going about it.

In regards to your other question around Hong Kong. Hong Kong is a focus market for us going forward. There's no question around that for future growth in terms of the different channels that exist in that market. The – I'll just start with reiterating the point I know we've made before, is it's very, very important not to take Wine Australia data points and treat that as a read-through of Treasury Wine Estates' performance or what we've actually done from a shipment perspective out of Australia.

So difficult for me to comment on the total Wine Australia data because we're only a component of that. But as I said, Hong Kong will be a focused market for us. But also with the market dislocation we've seen, and I'll get to the point of – you didn't ask it, but I'm going to answer it because I know it's underpinning the question. Parallel import in our product across borders is something that we monitor very, very closely. And it's an important issue for us from a brand health, from a pricing management perspective and how we actually manage the business going forward. Because as the dynamics have shifted with the China investigation, clearly, the risk of this happening does increase.

So Tom and the team in China and the rest of the Asian team are very focused on this, and we continue to work with our customers. They are customers that we've worked with over a number of years now. And I think we've become pretty good at understanding where inventory ends up in markets and understanding where the actual brand is and the price points are. And I know a lot of people do a lot of market surveys, and I think you can see the improvement in how we've managed that. But we must continue to monitor and manage it for the health of the Penfolds brand long term.

So I think I've captured the 2 questions, Shaun, and maybe added a third in there that – I know it was underpinning your question. Does that answer what you're after?

Shaun Cousins

Yes. So maybe just to be really clear. You're not looking to go use Hong Kong as a way to get access to China. Really is Hong Kong – any exports to Hong Kong is a focus market because of Hong Kong demand only rather than growing market into China?

Tim Ford

We will build brands in the markets with the consumer programs we have, correct.

Operator

And your next question today comes from the line of Larry Gandler from Crédit Suisse.

Larry Gandler

I guess, I'd like to learn a bit more about reallocation samples. I know you guys are becoming increasingly confident. That also suggests that maybe you can help us define what the task at hand is. And it's something that we analysts were trying to grapple with at the time of the MOFCOM announcement. So maybe you can help us really get a handle on what's involved in terms of reallocation, maybe volumes sales that need to be moved across.

Matthew Young

Look, Larry, it's Matt here. We've tried to give a sense of scale of the challenge back in November when we talked about the announcement in terms of the scale of what that business was and the level of luxury and icon bin range that now needed to be reallocated. And I think that was around 25% of the total portfolio that we're selling. Turning that into numbers and values is a bit difficult for us at the moment. We still feel that the plans we put in place will be built up over those 3 years. I'll say we're not yet confident in calling that we have fixed everything in 3 years, but the plans will be in place, and we'll be doing everything we can to achieve that.

So I know that's not giving you exactly what you need, but it should hopefully give a sense of where – how to think about the task that we're working through. But the – I mean, the information we've given today clearly gives you a really good line of sight of the levers we've got. So the reallocation plan, the reallocation of wine into other brands, our ability to carry that inventory forward for future years are all strengths of ours and plans that we're well versed at executing. So we – that's part of the reason for our ongoing confidence in those plans.

Larry Gandler

Maybe just related to this. Can you describe what's actually happening in China at the moment in terms of brand performance? Can you give us a feel for that, whether you're seeing pricing going up because of lack of availability? And also, how you maintain those relationships, those customer relationships? You talked about trying to do that.

Tim Ford

Yes, sure. It's a really, really important question. I'll hand straight to Tom. He's dealing with it day to day, so he's best placed to provide you the color.

Tom King

Yes. Thanks, Tim, and thanks, Larry. Look, I think the headline is demand for our brands and consumer sentiment towards our brands remain strong. Obviously, at this point in time, we've got a lower level of inventory in the market than we would generally like. But our focus was ensuring that we had confidence that we would have product available for consumers across the portfolio throughout Chinese New Year.

Depletion performance over the festive period is likely to be impacted by COVID-related restrictions on travel and gatherings across parts of the country. But we've also started to see a number of our customers in certain channels increasing prices over the last couple of months to maintain availability, minimize their out of stocks and manage their own cash flow.

In addition to that, we're obviously working with our current customer base to support the execution of our brands in the market. That includes our brand protection work that remains ongoing. And then as we've talked about today, we've got the Penfolds California collection which will be launching in China in H2, and we're seeing strong demand for this. And at the same time, looking further forward, there is strong appetite and demand for the Penfolds French portfolio, of which we are continuing the development at pace.

So yes, pricing is going up, and you'll have seen that in your market surveys as well, I'm sure. But that's a factor of low inventory levels and our customer base looking to maintain availability and manage their own cash flow.

Larry Gandler

And Tom, how are you going to deliver small EBITS? Or you said, I think that was the term, minimal EBITS. With the fixed cost base there, have you wound back the fixed cost bases that you can actually deliver profit in China?

Tom King

Yes, look, we've already taken measures to reduce and manage our ongoing cost base, and that's throughout the different lines of the P&L, whether it's reallocating brand investment across the region or managing our overall fixed cost base.

Look, at this point in time, I think it's important to remember that these are only provisional measures, and we haven't given up on China. So we remain committed to our consumers on the China market and our customers, and that maintaining a team here is critical to us executing our response planning in H2 and looking forward to F '22 and beyond.

Operator

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

Richard Barwick

I want to ask around slide – Page 12 of the press, you're talking about the $300 million of net cash inflows. Clearly, that's, in some part, referencing the expectation that you can actually divest some of the commercial brand portfolio. What else would – is captured within the $300 million? And just to clarify, Matt, did you say that $300 million you're expecting that across calendar '21?

Matthew Young

I'll take the question. Thanks, Richard. Look, the wider $300 million is a result of the divestments of assets and brands. I would highlight, we've already recognized $50 million of it in the result to date. So through a divestment of a vineyard. So $50 million does contribute to that. The remainder of the transactions, we are looking to complete in – if we are in line with our plan of completing this by first half fiscal '22, we would expect the remainder to be completed this year.

Probably underlying your question, do we feel confident around that level? We are progressed on our plans, and we are feeling confident that we are on track with the wider program, yes. And so yes, that – we are expecting that, that cash flow across this calendar year is still the right time line.

Richard Barwick

You're also reducing your commercial volumes, though, Matt. Does that actually weaken your – the value of what you're divesting or the opportunity to divest?

Matthew Young

At this stage, no. With the plans that we're going through, the execution and the potential parties that we may be engaged in, we still see opportunity. And the – and I would say the values that we – we are not going to be greedy, and we've said this before, this is not new news. We are not greedy in terms of the recovery of value of these. We are – but we are going to be patient and make sure that the outcome that we deliver is a better result for shareholders than continuing to operate the brands.

Operator

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

Ross Curran

I was just wondering maybe if you could talk about the competitive dynamics at the moment. Are you seeing – or how are your conversations with distributors going in light of the fact that a lot of Australian wine producers will have been frozen out of the Chinese market and extra volumes coming back, retention to the domestic market? But more broadly, how are you thinking about how the competitive dynamics evolve?

Tim Ford

Yes, Ross. Look, I think I'll give a bit more color to the statements Pete made in the speech before as well. I guess, we're monitoring it pretty closely in this market. And just for clarity, I assume you're talking more around the Australian market, right, in terms of the customer base here and the pricing dynamics and margin impacts, yes?

Ross Curran

Yes. Yes.

Tim Ford

So at this point, we really – we haven't seen any significant sales pressure, any significant margin pressure. Or for a better way to put it, moving stocks through at a lower costs to mitigate the changes driven by China demand. I think it's important the context around it is approximately, call it, 10% of Australian produced wine was exported to China on an annual basis and about 75% of that would be more of the commercial wine end in terms of the volume.

So I think – and the reason why I explain that is, as we now enter this vintage, there are – I'm sure other companies, which I can't comment on, but I know what we've done is rebalanced our intake to ensure it's aligned with our future demand to ensure that our inventory levels are right, that doesn't then necessitate the moving of wine that sits within our own network at a reduced price. So that will see flow through in terms of pricing in the commercial-grade market, bulk wine, et cetera, which we're already starting to see as a reduction, but also potentially growers where people are not taking fruit from growers, which I think as I explained through the MOFCOM investigation announcements, was one of the challenges in the industry we have to deal with.

So in balance, I think if there is going to see that sort of pricing pressure, et cetera, it's more likely to be May, June once vintage is understood and vintage is through. However, the other counter to that is, and it's a positive, is that the market in the U.K. at the moment through the pandemic period, as you've seen with our results of what Michelle saw earlier, which is broadly across that market, the Australian commercial wine segment in the U.K. is sort of a – certainly having one of its better volume periods that it's had for a very long time. So that's actually mitigating a lot of the supply because the demand has increased out of Europe and the U.K. over that period. So that's a helpful factor, which I think is playing to not seeing any compression of margins or selling at lower prices in the market at the moment. Our conversations with the customers are consistent along those lines also.

Operator

And your next question today comes from the line of Craig Woolford from Citi.

Craig Woolford

Tim and team, just wanted to exploit your confidence about the reallocation of China wines, which is quite encouraging. First up, I just want to understand the Asia EBITS contribution in November and December. There was a release from last year of $75 million of EBITS for the first 4 months. It's actually a higher run rate in November and December. So if you can clarify that. And is that the reason for the confidence about reallocation as you exit FY '21?

Matthew Young

Craig, it's Matt here. I might take that. We did share at the time, yes, it was 4 months. And the, I guess, the announcements were at the end of that fifth month. So you can imagine we continue to trade in that market, particularly selling product in for the lead-in to the gift-giving season. We also recognize there was some product that was most of the way through our outbound process through our warehouse there that was not subject to tariffs. And those volumes continued through and were able to make their way into the market in December. So that's the primary driver, I guess, from a China perspective. So there was still earnings from China in that market, albeit at pre-tariff situations.

Craig Woolford

Understood. And the confidence about reallocation? Like is it just the order volumes you've heard from customers in other markets? Or is there something else giving you that confidence?

Tim Ford

No. I think in terms of – goes back to – I've summarized, I guess, a lot of the points I've tried to make earlier then, which is our conversations with the customers, it's their future view. I mean, with each of these customers, we build out multiyear business plans and that drives our investment plans and that drives our allocation of those wines.

As we continue to engage, and we're 2 months into that engagement process now, it might seem like a long time ago, but it was only 2 months ago when these announcements were made. That's what's giving us that confidence as we build that out and as we see the distribution opportunity, and as we understand in each market the awareness that exists, particularly for a brand like Penfolds within that market. So that's – they're not – it's hard to wrap numbers around those, Craig. I appreciate that. But I guess that's why trying to give the color of the methodology we're going through here that does give us that confidence, which is the most important aspect.

Operator

And your next question today comes from the line of Phil Kimber from Evans & Partners.

Phillip Kimber

My question was in the release to the ASX, not the presentation. You actually provided Mainland China earnings. And I'm just looking at $124.2 million for the first half '20, which wasn't COVID impacted. Is there much seasonality in the Mainland China business? Or is that a good business – a good guide for us to think about what the actual earnings contribution from China was pre COVID?

Matthew Young

A couple of factors in there within the Mainland China results. Firstly, the MOFCOM investigation, which was announced in August, did impact the organization – did impact our, I guess, non-Penfolds opportunity from that point, given the risk of potential tariffs landing. And then essentially, from November, the impact on Penfolds volumes and the luxury volumes, et cetera. So that's an important part.

I think I've talked a little bit around the dynamics that we saw. We did see earlier sales, I guess, phasing within China and Asia this year. And in particular, the last couple of months, there were still some volumes that went out potentially even after the provisional measures were announced because they've moved further enough through our process to not be impacted by the tariffs.

To your original part of the question around is there some seasonality. Yes, generally, there is some seasonality within the China market and Asia market generally. That's usually in the lead-in towards gift-giving season. So we sell a reasonable amount of our product in market for it to land in time for those markets as well. However, to steer you, that phasing is pretty consistent across Asia. So if you're looking to understand that balance, our previous delivered results around Asia would give you a reasonable steer on that.

Phillip Kimber

Right. And sorry, just to be clear, I was referring to first half '20, not first half '21. So that – the $124 million of EBITS, that's a long time before any COVID or MOFCOM issues. I guess, I was wondering, is that the guide, a usual guide, is there anything unusual in that number to just get an understanding of what actual Mainland China EBIT is? And from that, we can come up with our own view of how much you can claw back from redistribution of wine that you've talked about. But I just sort of wanted to get the baseline first of what the earnings were because I think you've only ever given sales, not [earnings].

Matthew Young

Yes. I understand. That is a reasonable base. Unimpacted by COVID, unimpacted by MOFCOM and on a reasonable growth trajectory during that period. So yes, that's the only dynamic to sort of take into how you're thinking about it, was the growth trajectory from – within that market.

Phillip Kimber

Okay. And then any seasonality, which you said, have a look at Asia as a guide?

Matthew Young

Yes.

Operator

And your next question today comes from the line of Michael Simotas from Jefferies.

Michael Simotas

Just a question from me on the new organizational structure. So clearly, it's brand-led. How is the sales organization and then also the supply organization fit around that? I guess the Americas are reasonably straightforward, but just be interested to see whether there'll be any change in the approach around bundling and cross-selling and then also procurement of product, given the overlap in the supply chain.

Tim Ford

Yes. So Michael, thanks for that. I think I'll start with the first question. The separate focus around our sales and marketing businesses, if you like, within these portfolios is absolutely one of the key changes that we'll be driving across the business, that drives that separate focus, drives that separate measurement of margins, drives a separate measurement of growth objectives and the initiatives that will drive those portfolios. So there will be separation around the globe.

From a supply chain perspective, the reason why we've maintained the, I'd call it, ANZ supply business as well as the Treasury business solutions function and division within our business is there is those opportunities and procurements, one of them you touched on, but there's numerous across the board, whereby the benefits of the global business and the collective and the scale that we have and the ability to drive efficiencies, we believe, is much stronger in that centralized structure, servicing the 3 portfolio divisions. So that's certainly the structure we are putting in place going forward. But with the separation around sales, marketing, finance, strategy, P&C, all the other functions that will be serviced by these centralized 2 divisions.

The U.S. one, as you rightly point out, supply within the U.S. business, given it is largely a business that supplies itself and sells within its own market, it just provides end-to-end accountability for Ben Dollard and the team there to drive the margin expansion agenda and ensure that the alignment of the asset base and the supply chain in the U.S. is 100% aligned to the commercial agenda across the business. So hopefully, that explains those dynamics.

I mean, I'm sure there will be numerous questions of how this operating model is going to work. And that was one of the key drivers, Michael, of why we decided to have the Investor Day in May because it would be a great opportunity for us to really delve into the detail of the strategies that are going to drive the growth of these portfolio businesses because it can get to sort of part of a broader announcement, that's the intention of that

May day as well. So we're looking forward to sharing more detail at that point as well. But hopefully, I've answered your question effectively.

Michael Simotas

Yes, that helps. Can I just clarify one thing, though? Just to be clear on the separation of the sales and marketing side of things. Will the premium brand business, for example, be able to leverage the Penfolds brands when selling into market? Or will it just be completely separated, so that won't happen anymore?

Tim Ford

Treasury Premium Brands will be completely separated from them. I might get Pete to talk a little bit about it with his ANZ current hat on, with his future Treasury Premium Brands hat on, because I think there's a perception of the leverage utilized with Penfolds in some of our markets around the globe. But it will be completely separate. There'll be 2 conversations. It will be a separate growth plan. It will be a separate customer business plan for those portfolios across the organization.

Maybe, Pete, do you want to add some color to that?

Peter Neilson

Yes, Tim. Michael, there's a couple of things I'd say. Firstly is both ANZ and Europe, there hasn't been any portfolio selling in those markets. So there's no reliance on leveraging Penfolds, as you say, in either of those markets for the business we have today. What we have is sustainable, self-sufficient and stands on its own.

What we have done over the last couple of years throughout Asia is actually have a more focused portfolio with customers being less reliant on Penfolds to establish and build that business. We have a smaller number of brands that retailers are depleting, enjoying, standing on their own two feet in that market. So we're not expecting to need the leverage of Penfolds to continue to grow that business in that market. And as I said with ANZ and Europe, we're very much self-sufficient without the Penfolds brand in those markets.

Operator

Your next question today comes from the line of Ben Gilbert from Jarden.

Ben Gilbert

Just on the results, very strong results versus expectations. Just wanted to understand the selling expenses because there's quite a material reduction there. And just to Craig's point around China looking like the run rate was a bit better. Were you not having to put as much cost in, in terms of selling? I'm just trying to understand how sustainable that reduction in selling expenses was or if it was just a quick reaction to manage costs.

Matthew Young

It's Matt here, Ben. The main thing you're seeing there is the changes we made in our U.S. business in the fourth quarter of last year. So we did reorganize our sales and marketing organization generally, a more focused team there, part on the journey to where we're going with this business, but with separate luxury teams, separate distribution, management teams and a more – on a more focused portfolio that did drive a step change in our old model there. So that's what you're seeing as the main change year-on-year in selling costs.

Ben Gilbert

Okay. So we should think of that as sort of a sustainable base? And the edges as some of the COVID issues age?

Matthew Young

That's right.

Operator

Your next question comes from the line of Glenda Korporaal from The Australian.

Glenda Korporaal

It's Glenda Korporaal here. I'm just checking, are you now able to sell any wines at all from Australia, perhaps any bulk wines? Is anything coming through the warehouse? And what's happening to the baijiu brand, the brand of wine and Chinese baijiu? And over time, then, so if we look at Penfolds Grange, if Penfolds Grange is sold in China, will that be fake? I mean, obviously, there are supplies that are coming from Australia. But at what point will the Australian wine in China come to an end? Or are you able to get any wine through in any bulk sense or from other areas?

Tim Ford

Thanks, Glenda. Good to hear from you. And I'll take the last part of that, and then I'll hand over to Tom to talk about the sales as we see them in China going forward.

I think you touched on a really key point of why we need to maintain our presence in China and our team in China on certain key aspects, in particular, for the long-term health of the Penfolds brand. We have a very strong program around the management of the IP and the brands that we have in that market, and we're going to continue – and it's a cost, but we're going to continue to wear that cost to ensure that we continue to work with authorities in China, which we've been doing for a number of years now to try and put these counterfeit wines and the counterfeit labels, et cetera, out of business. And we've had great support from all of the authorities in China to do so. So that must continue.

The future supply of Grange into that market, well, again, it's an ongoing investigation. So with the current tariff levels, the future demand of that and willingness to pay a price in China is still to be determined really, Glenda, from that point of view. And we'll see what the market dynamics would be really when the investigation is complete, I would suggest.

But Tom, do you want to add to the questions just around what we can and are selling and also around the Lot. 518 question?

Tom King

Yes, sure. So the provisional measures that have been put in place are only applicable to still wine. So our Penfolds special bottling range, which covers Lot. 518 and Lot. 618 of baijiu-infused fortified wine, don't fall within the remit in investigation, similar to our Penfolds brandy ranges. So they're still able to clear it as normal.

And like I said, going forward, in the second half, we'll be launching the California collection, the Penfolds California collection into China. And so we're going to be maintaining a presence, a visibility for the Penfolds brand in the market and supporting those products with activity. And to Tim's point, absolutely maintaining the dedicated team that we have here that works across all of our brand protection initiatives as a priority.

Tim Ford

The other thing I'll add, too, is that with the future operating model with Penfolds and Tom taking the leadership role of Penfolds, we have – you might be thinking, going, well, there weren't a lot of cost just by staying in China. Tom and a number of his future leadership team will remain based in Shanghai because I think he said it earlier, we're not giving up on China at this point. It's still an ongoing investigation. Plus a lot of our most talented and – individuals within our business are in our Shanghai and China business, and they will play key roles in the future Penfolds leadership team going forward in our new operating model.

So yes, the remit will be broader potentially than just China, and I'm not going to go through the detail of all structures right now, but I think that's important context as we transition to these changes to our internal operating model. So hopefully, we've captured all your questions, and you gave me a chance to add one more, Glenda. So thanks for that.

Operator

And your next question today comes from the line of Jason Palmer from Taylor Collison.

Jason Palmer

Just one question, if I can, around the supply side of things. I know at the end of fiscal '20, Matt, you spoke to COGS headwinds in Australia, in particular, for masstige and commercial. And so my question is that now that we're starting to see some great price reductions, in particular in the commercial reds, which obviously feeds into 19 Crimes globally, whether you could talk about maybe the quantum of potential COGS benefits to come through or to unwind through FY '22, if you could.

And then secondly, in respect of the smaller vintage in the U.S., given that you're heavily reliant on leased and owned vineyard on the premium end of the portfolio, the level of COGS pressures you may start to feel there and the timing around that.

Matthew Young

Thanks, Jason. It's a little bit early in the vintage now to be going out with, I guess, directional numbers. I think when we talked last summer, it was close to the end of the fiscal year, so we're a little bit off that. However, to, I guess, focus on your point, we believe there's increasing optimism around COGS in the longer term. So clearly, some of the drivers historically around major events, availability of water, general industry balance have put pressure. We've been working very hard on that. There's no dog-ate-your-homework mindset here on that. We've driven major programs of work over a number of years. The program around driving COGS down by $50 million plus. And on Kerrin's behalf, I will emphasize the plus, driving a sustainability strategy to make sure we are balanced. But also, we are better placed than most companies to manage through it.

But in terms of, I guess, my comment around reason for optimism. So it is early to predict, but we are seeing a return to more normal vintage sizes in Australia. Water prices and conditions are normalizing. And as you say, as Tim sort of alluded to earlier, in terms of volumes in the Australian production market that will help, we think, in the long term. And our major programs of work are coming to fruition, and we remain confident of those targets over the period.

And look, the only other thing I would add, future operating model. We're optimistic that we could – through the way we are designing the accountability and focus, we believe we can continue to do better. So if I think about accountability and focus of sales and marketing sitting within Treasury Premium Brands and Penfolds, where they identify the consumer need, be that price point, varietal product and supply focus on making that product at the right price, we think it will force different ways of thinking and operating models from the way we are today to drive opportunities around cost and asset base. So we see that as a further opportunity to, through that focus and accountability, to drive an improvement.

Initially on the U.S., it is a little bit early today until the, I guess, the wider vintage is balanced, I guess, allocated within our process for us to give a sense of that. Certainly, the vintage is down on prior years. But we'll have more to, I guess, update once we've got a better sense of that allocation process.

Jason Palmer

Okay. So some positives and some negatives may be offsetting each other?

Matthew Young

Reason for increasing optimism.

Operator

There are no further questions on the line at this time. I would now like to hand the conference back to today's presenters for closing remarks.

Tim Ford

Okay. Thank you. And well, thanks, everybody, for your attendance today. It was a lot to cover. I sure look forward to talking to a number of those on the call over the next couple of weeks and appreciate your support. So we're bang on time. I know it's a busy day for a lot of people today. So thanks very much. Cheers.