Treasury Wine Estates, FY 2021, Earnings Call 2021-08-19

Presentation

Operator

Good day, and thank you for standing by. Welcome to the Treasury Wine Estate FY '21 Full Year Results Conference Call.

Please be advised that this conference is being recorded today, Thursday, the 19th of August 2021.

I would now like to hand the conference over to your speaker, Tim Ford, Chief Executive Officer of TWE. Thank you. Please go ahead.

Timothy Ford

Good morning, everybody, and thank you for joining the Treasury Wine Estates 2021 Full Year Results Briefing. In the spirit of reconciliation, Treasury Wine Estates acknowledges the traditional custodians of country throughout Australia and their connections to land, sea and community. We pay our respects to their elders, past and present, and extend that respect to all aboriginal and Torres Strait Islander peoples today.

So I'm very pleased to have joining me on the call today the following members of the leadership team, Matt Young, our CFO; Tom King, the Managing Director of Penfolds; Ben Dollard, the President of Treasury Americas; and Peter Neilson, the Managing Director of Treasury Premium Brands, or TPB, as I'm sure you'll hear us refer to it today.

Given our very recent Investor Day in May, today, we're going to focus the presentation and commentary on our FY '21 results and performance, supplemented by some additional and new proof points to highlight the progress we are making in delivering on our 2025 game plan and financial ambitions.

Firstly, I'll summarize the FY '21 financial highlights, which reflect strong execution and trading performance across the globe. Reported net sales revenue declined by 3%. However, on an organic basis, which excludes the impact of currency and the U.S. commercial brands divested in March, revenue increased by 4.4%. This top line growth was led by our $10 to $30 premium portfolio with strong performance delivered by a number of our priority brands throughout the Americas, Europe and Australia. The most pleasing aspect of the sales mix in FY '21 was the 6 percentage point increase in the luxury and premium portfolio contribution to our global NSR, which now sits at 77%.

EBITS of $510 million was essentially in line with FY '20 and EBITS margin improved 0.6 percentage points to 19.9%. And reflecting not only our top line performance but also improved cost of doing business, particularly in the Americas and Asia. We are especially pleased with this result when you consider the EBITS contribution of Mainland China declined $77 million in the year.

Cash flow performance was once again very strong with the 101% cash conversion outcome aided by the smaller 2020 California vintage intake and adjusted 2021 Australian vintage and the shift to our regional sales mix in China.

Net debt reduced by $376 million, assisted in part through favorable currency movement, driving a significant improvement in our leverage ratio to 1.6x, down from 2.1x at the end of fiscal '20.

The retention of our flexible and efficient capital structure throughout the year of significant disruption is testament to what has been and will continue to be a fundamental strength of

Treasury Wine Estates and something that will continue to support our performance, our investment and our growth well into the future.

Finally, the Board declared a fully franked dividend of $0.13 per share, an increase of 62.5% on the final F '20 dividend, resulting in a full year dividend of $0.28 per share. This is a payout ratio of 65% of NPAT, which is in line with our long-term dividend policy.

As we look at our performance across our regions, I want to specifically highlight and recognize the continued positive trajectory of our business in the Americas, which delivered significant growth in EBITS and EBITS margin and NSR growth on an organic basis.

H2 growth across our Asian markets outside of Mainland China was also extremely strong and reflects the initial success in half 2 for our Penfolds Luxury portfolio to satisfy previously unmet demand as well as the early benefits from the investment we are making in brand building and sales and marketing capability, setting a fantastic foundation to support future growth across that region.

As with every business around the globe, our fiscal '21 performance has been delivered against the backdrop of the ongoing impacts from the pandemic. Across all of our markets, key sales channels remained in varied states of impact and recovery and as can be seen on this slide, which is an update of the snapshot we shared at the first half results. Across the board, retail and e-commerce channels have demonstrated strong performance throughout the year, albeit with some recent moderation in growth as restrictions have eased across markets, such as the U.K. and the U.S.A., and we started to lap the pantry loading activity at the start of the pandemic in 2020. But at the same time, we've seen more favorable trends emerging in key sales channels for higher-margin luxury wine.

In Asia, significant disruption to these key luxury sales channels continues across large parts of the region with some deterioration in the second half, which also puts into context the excellent performance of our team, delivering the results they did in those markets during that period.

As vaccination programs gain momentum around the globe, enabling restrictions to ease, we expect to see further recovery of demand in these premium and luxury wine sales channels and have a strong belief we are very well placed to execute our plans to deliver growth as this occurs.

To summarize fiscal '21, it was a year of significant change and achievement for Treasury Wine Estates. You will recall at the full year 2020 results last August, I outlined our 2025 strategy and the 5 priority areas for our business that would bring this game plan to life throughout the year. During the year, we added another priority, which was implementing our global response to the tariffs placed on Australian wine imports to China. In this business, we take great pride in doing what we say we're going to do. And I'd like to highlight a few of the achievements we have delivered this year against these priorities.

Our #1 objective as we entered fiscal '21 was managing our performance through the global pandemic. And I'm very proud to say that we achieved this through the delivery of continued premiumization and organic top line and EBITS growth. This is a significant achievement in its own right and even more so when you take into account the impact on our business in China.

The shift to a consumer- and experience-led marketing model has been a real highlight for TWE, becoming a key driver of momentum across our brand portfolio. With foundations based on data and insights, we have brought bold innovation to our portfolio. We've utilized collaborations and partnerships with celebrities and key opinion leaders and focused on digital engagement to drive appeal across a broader and more diverse consumer base.

We are also now in the advanced stages of our extensive global supply chain optimization program, which we expect to deliver annualized benefits of at least $75 million from F '23 onwards. In addition to the focus on cost and efficiency, we have taken a transformational approach to this initiative that will leave our supply chain well positioned to support the future needs of our brand portfolio divisions and help us realize our company-wide growth ambitions.

Accelerating the separate focus across our brand portfolios was a leading priority for fiscal '21. And on the 1st of July, we transitioned to our new divisional operating model led by Penfolds, Treasury Premium Brands and Treasury Americas. Not only will this model deliver increased focus and accountability throughout our business, it will also ensure that we are fully leveraging the benefits of our global scale and diversification. Whilst it's still early days, 6 weeks in, we are already seeing the benefits of this significant change program, with each division focusing on their own set of strategic priorities and performance objectives and leaving us well placed to pursue previously untapped growth opportunities across the globe.

Our plans to deliver a future state premium wine business in the United States have progressed significantly, which Ben will outline in more detail later. And finally, our global response plan to the trade measures that were implemented in China took a significant step forward in the second half of the fiscal year as we satisfied demand for previously supply-constrained luxury product and wine. Early signs are promising, with strong growth for Penfolds Bins and Icons achieved in Australia and the Asian markets outside of Mainland China where NSR was up 15% and 38%, respectively, versus the prior year.

So with that, I'm now going to hand over to the team, and I'll firstly hand to Matt who will run through our financial results in some more detail for you.

Matthew John Young

Thanks, Tim. Good morning, everyone. Fiscal '21 was a year to be proud of at TWE for many reasons, but our financial delivery was certainly one of them.

Despite the challenges that presented us in the first half of this year, our teams are able to demonstrate incredible agility to develop strong response plans. But more importantly, they were able to execute those plans successfully, demonstrating the underlying strength of the business models, brands and talent here at Treasury Wines. As a result, I'm pleased to present to you our fiscal '21 financial results, which are in line with or ahead of our commitments and provide a strong base to continue the execution of our 2025 strategy.

We returned to top line growth in fiscal '21, with group net sales revenue increasing 1.3% on a constant currency basis and 4.4% on an organic basis. NSR per case rose in every region and was up 2.4% across the group, with momentum being led by our premium portfolio, which was the driver of mix improvement in the Americas, EMEA and ANZ. As a result, our luxury and premium portfolios contributed 77% of our global NSR, up 6 percentage points in fiscal '21.

COGS per case increased 10.6% on a constant currency basis, reflecting the favorable portfolio mix shift, along with the previously signaled higher COGS on the Australian-sourced commercial wine. A number of one-off impacts also impacted COGS in fiscal '21, including the impact of inventory damaged by the Californian wildfires, which was covered by insurance, and one-off costs incurred in response to the changes in China and as a result of Brexit.

Cost of doing business margin improved 1.8 percentage points to 20%, reflecting the organizational changes implemented in the Americas in the last quarter of fiscal '20 and more recently in China as we realigned our overall cost base to the reduction in sales volume in that market.

EBITS was $510.3 million, representing growth of 3% on a constant currency basis while, on an organic basis, EBITS grew 3.5%. EBITS margin increased 0.6 percentage points to 19.9%.

And finally, ROCE improved 0.6 percentage points to 10.8%, with lower capital employed reflecting improved cash flow, which facilitated repayment of borrowings.

Total material items cost of $88.5 million or $66.1 million after-tax were recognized in fiscal '21, and all relate to the previously announced programs of work. The most significant costs relate to the divestment of U.S. brands and assets, with the cost of $62.3 million relating primarily to the write-down of intangible brand values and inventories that were associated with the U.S. commercial portfolio divestment. These write-downs were offset by a gain on sale of a Napa-based vineyard that was sold in the first half.

To date, we have confirmed net cash proceeds of approximately $150 million as a result of the divestments and remain on track to deliver total inflows of approximately $300 million by conclusion of the program.

We also recognized $18.4 million of cost in relation to the ongoing overhead and supply chain restructuring program and an additional $7.8 million in respect to the luxury capacity expansion in South Australia.

Moving now to the balance sheet, which remains a major source of strength for Treasury and one that has enabled us to seamlessly manage through the necessary changes to our business in fiscal '21.

Net assets declined slightly versus the prior year. However, adjusting for the impact of currency, net assets increased by $113.4 million, with the repayment of borrowings from strengthened operating cash flow as a key driver. Other key factors influencing the balance sheet in the year included the U.S. commercial portfolio divestment and ongoing plans to divest further wineries, vineyards and brands in the Americas.

Turning to inventory in more detail, which has declined by $180 million to $1.9 billion valued at cost at the end of fiscal '21. Currency was a significant driver of the decline as was the divestment of the U.S. commercial portfolio brands, with the impact of this transaction reflected in the lower current inventory position and now seeing us hold less commercial inventory overall.

Noncurrent inventory was in line with the prior year with a high-yielding 2021 Australian vintage and the carry forward of inventory that had been allocated for sale in China, offset by the lower yielding 2020 California vintage.

Luxury inventory declined 2% in value terms, while volume was flat and remains a key component of our future growth ambitions. Current inventory has declined, also reflecting the expected short-term decrease in sales volumes as a result of luxury channel disruptions and the impact of reduced sales into China.

At our Investor Day in May, I provided insights of the risks to the Australian market as a result of the effective closure of China and, as a follow-on, the potential impact to our business. Three months on, the macro observations we shared then continue to hold.

Firstly, demand trends continue to be positive. In the domestic market, consumption through retail channels has been strong as evidenced by scan data, which shows growth of just under 6% in value terms in fiscal '21. Complementing this is the accelerated growth of Australian wine exports, with export value outside of Mainland China, up 12% in the 12 months to June.

On the supply side, the high-yielding 2021 Australian vintage helped restore the inventory position following the low-yielding 2020 vintage. This was also true for Treasury Wines where we elected to increase our holdings of luxury wine to address the 2020 vintage but also support long-term growth ambitions.

The current market position is reflected by retail pricing trends, which remains stable across all price points. However, we will continue to monitor this, including trends in private label.

So in summary, we remain in a strong position coming out of fiscal '21, and we'll continue to monitor closely both the domestic and global trends. We do recognize, however, that ongoing management of vintage intakes will likely be required across the next 1 to 2 luxury vintages. We've taken some proactive steps of our own to bring forward some long-planned vineyard redevelopment programs into fiscal '22, programs that were planned in future years, but doing them now helps manage the short-term intake while ensuring that the vineyards are set up to support growth in the future. At the same time, we are reviewing our upcoming grower contract renewals, with our expectation being that our intake from growers may need to be reduced over the medium term.

While we recognize this will continue to be a period of uncertainty for the industry, we remain well placed to manage through this period, both from an inventory and cost base perspective.

Turning to cash flow and net debt. Operating cash flow before interest, tax and material items was up 4% in the year with reported cash conversion of 100.8%. The primary drivers of this were the lower 2020 vintage intake in California and adjusted 2021 Australian vintage intake and the regional shift in sales mix in Asia. Excluding the change in noncurrent luxury and premium inventory, cash conversion was 97%, consistent with our target of 90% or higher.

Moving now to capex. Total capex for fiscal '21 was $121 million, of which growth capex was $66 million, including the investments in Luxury winemaking infrastructure in South Australia and in technology. Whilst total capex was slightly below our fiscal '21 expectations, this was primarily due to supply chain limitations. We expect fiscal '22 capex to be up to $150 million, including maintenance and replacement expenditure and continued investment to support growth. We've been disciplined in our management of cash flow but remain committed to delivering self-funded growth capex to support our strategy.

And turning finally to capital management where I'm delighted to say that we've retained our strong investment-grade capital structure despite a number of significant disruptions through the course of fiscal '21. Leverage reduced to 1.6x in the year, reflecting the $376 million decline in net debt and is now well back within our target of up to 2x through the cycle, which is where we expect it to remain moving forward. Importantly, our capital structure retains its flexibility, both in the short and long term, which leaves us in a great position to consider a range of opportunities as we continue to prioritize investing in future growth and incremental opportunities.

Our liquidity position of over $1.2 billion is supported by significant undrawn committed debt facilities across a well-diversified maturity profile. And this strong liquidity position supports the maintenance of our long-term dividend policy. And today, we declared a final fully franked dividend of $0.13 per share, representing a payout of 65%.

Thank you, and I'll now hand over to Tom in Shanghai to speak to you about the Asia region.

Tom King

Thanks, Matt, and good morning, everyone, from Shanghai. Across Asia, key channels for premium wine sales remain in a mixed state with China fully open for business and other key markets subject to continued disruption, with ongoing restrictions throughout the region continuing to cause significant disruptions most noticeably across the travel retail channel.

Against this backdrop and the introduction of tariffs in Mainland China, the TWE portfolio has held up well, with ongoing strong appetite for our brands assisting F '21 performance.

For the Asia region, net sales revenue declined 8% driven by reduced shipments to Mainland China from late November onwards when the provisional measures were announced. This decline was partly offset by a 20% increase in net sales revenue throughout the rest of Asia driven by meeting previously unmet demand and the strengthening of demand for our brand portfolio in key markets, including Malaysia, Thailand, Singapore and Hong Kong.

COGS per case increased 50.1% as a result of improved portfolio mix and one-off costs, including additional freight costs on clearance delays through Chinese ports. Cost of doing business improved 11% driven by the realignment of brand investment and overheads in China to our future state China business model. Regional EBITS was $205 million, and EBITS margin was 36%.

Our plans to grow demand and build distribution and availability for Penfolds Bins and Icons across key regional markets is progressing well, with people and brand building investment accelerating in the second half. As a result of these investments and our focus on driving distribution gains, in particular, in the retail and e-commerce channels, NSR for the Penfolds Bins and Icons range grew 38% in markets outside Mainland China. We also executed a number of route-to-market changes in H2 across the region, enabling us to get closer to our end consumers and setting our business up for further growth.

In Mainland China, we continue to invest behind our multi-country origin portfolio growth strategy, which is evolving with second half highlights, including the launch of the Penfolds

California collection and the release of Rawson's Retreat sourced from South Africa, both offerings generating strong trade appetite. We've also continued to invest behind the Penfolds brand in China where consumer demand remains strong. Moving forward, we expect to sell through some of the Penfolds Bins and Icons range in Mainland China at higher tariff inclusive retail prices. While we're yet to form a definitive view on what this will look like in volume terms, we do expect the EBITS contribution from China, net of investment, will be minimal in F '22.

While the impacts from the pandemic are continuing, we do expect to see strong growth across the region supported by greater availability and acceleration of our sales and marketing efforts. I feel very confident and excited about the growth potential of the Penfolds brand across not only Asia but the global luxury market, and I look forward to updating you on our progress moving forward on behalf of the Penfolds division.

Thank you, and I'll now hand over to Ben Dollard.

Ben Dollard

Thank you, Tom, and good morning, everyone, from Napa, California. It's a pleasure to join you today. Fiscal '21 was a milestone year with significant progress delivered against our key priorities.

Americas F '21 performance saw net sales revenue increased 2% driven by strong growth in the premium portfolio across retail and e-commerce. This was partly offset by the divestment of a significant portion of the U.S. Commercial brand portfolio in March. Excluding these divested brands, organic NSR increased 11%, which reflects the strong consumer demand for our focused TWE 10 brand portfolio.

Lower overhead driven by the new organization structure implemented in June 2020 reduced our cost of doing business, and in combination with strong top line momentum, resulted in a 54% increase in regional EBITS to $168 million, and our EBITS margin increased 5.7 points to 17%. On an organic basis, EBITS increased by over 66%.

These are pleasing results despite the ongoing impact of on-premise and cellar door closures during the period. We successfully navigated COVID-induced challenges, delivered best-in-class innovation and significantly transformed the business to one that is premium focused and positioned for long-term sustainable growth.

Our transformation is ongoing. However, I'm pleased with the progress we made throughout the year. U.S. market dynamics shifted in the second half, with retail and e-commerce channels remaining strong but moderating as we saw reopening of the on-premise venues across the U.S. While the on-premise and cellar doors are now largely reopened, trading activity remains below pre-pandemic levels. This dynamic is due to constraints on staff availability, reduced number of on-premise locations and ongoing travel restrictions. COVID restrictions permitting, we expect to see continued uplift in these channels in the first half as we lead into the key holiday period, and we are well positioned to accelerate our performance once fully operational. We will continue to monitor closely local and national mandates surrounding COVID and potential impacts for the trading environment.

U.S. consumer trends continue to premiumize, with the above $11 price points growing in U.S. retail by 12% for fiscal '21 and the above $20 price points growing 20% in the same period. Our focused portfolio of premium brands continued to outperform the market, growing 23% in value for the year led by 19 Crimes, Penfolds, Beringer Brothers, Matua and St. Huberts The Stag. Underpinning the performance of these brands have been tremendous retail execution, along with outstanding innovation and success.

19 Crimes Cali Red strongly resonated with consumers and finished the fiscal year as the #1 growth SKU in the category. 19 Crimes Cali Rosé launched in March and was also very successful, finishing as the #10 growth SKU for H2. Building on our innovation success, we've just signed a second iconic celebrity to join Snoop as we expand the 19 Crimes franchise. Our new product will launch in spring of 2022 with standout packaging and world-class augmented reality, providing the perfect complement to Cali Red and Cali Rosé. We will continue to innovate with new 19 Crimes partnerships, varietals and formats, all while disrupting the world of wine.

The Penfolds California collection launch was a success with outstanding response from credit, retail customers and consumers. Our depletion momentum was facilitated by our newly created dedicated luxury selling theme, the Vault Collective. We have seen strong velocity and reorder rates since the launch, along with healthy on-premise mix. Pleasingly, we've seen increased distribution and interest on the Penfolds Australian portfolio as we have launched the California collection.

Another exciting innovation is the recent release of Matua Lighter launched for the U.S. summer and tapping into the conscious consumption trend. While early days, trade response has been positive.

Our restructuring activities to deliver a future state U.S. premium wine business are on track to be completed by the end of the calendar year. The divestment of a significant portion of our commercial portfolio in March was an important milestone. Our portfolio is now focused on the premium and luxury segments. We are continuing to explore further brand and asset rationalization in addition to our supply chain optimization that is currently in progress. This will be one of our top priorities in fiscal '22.

Another key highlight was the announcement of our partnership with Republic National Distributing Company. This relationship spans approximately 1/3 of our business, importantly, in our key markets of California and Texas. Our transition plans are progressing well, and we are optimistic with regards to the outlook across the RNDC network.

In summary, fiscal '21 was a year of material progress and momentum. Our business continues to be all about focus, meeting the needs of the consumers, retail customers and distributors.

I will now hand over to Peter Neilson in Melbourne.

Peter Neilson

Thanks, Ben, and good morning, everyone. The ANZ business delivered a solid F '21 performance driven by our key luxury and premium brands in the retail and e-commerce channels. While there has been intimate reopening of on-premise venues in Australia, key sales channels for higher-margin luxury wine, including travel retail and cellar doors, remain subdued, and this has continued to impact our performance.

For the ANZ region, NSR was 2% above the prior comparative period driven by growth in our luxury and premium portfolios, partly offset by reduced contribution from the commercial portfolio. COGS per case increased 14% due to the mix shift, along with higher COGS on Australian-sourced wine and some incremental costs associated with finished goods that had been intended for sale in China.

Cost of doing business reduced 9% driven by lower overheads and reduced A&P during the pandemic-impacted period. This led to regional EBITS of $143 million, up 3% on F '20. Pleasingly, the premiumization trend remains strong with retail category growth driven by the above $10 price points. The premium segment, $10 to $30, growing 11%; and above $30, growing 26% in value terms over the year.

Despite seeing some soft retail data in the second half as we cycled the peak pantry-loading period in F '20, our priority brands continued to deliver strong growth led by Pepperjack, St. Huberts The Stag, Wynns, 19 Crimes and Squealing Pig. Notably, Penfolds Bins and Icons also delivered strong gains with NSR up 15% driven by increased availability and, for some SKUs, increased price.

While premium price segments drove category growth, the commercial segment continued to decline, and there is no doubt that we expect this segment to remain challenging. This is a result of both consumers shifting away from the sub-$10 category and retailers deleting brands in favor of their own private label strategies. We are proactively managing the commercial portfolio and the role it plays in our business. This includes working in conjunction with our retail partners to agree the role of our brands, with our financial ambitions of EBITS and margin growth firmly guiding our decisions.

The step change in our innovation agenda during the year delivered some impressive results. Highlights included the expansion of Pepperjack into Chardonnay, Malbec, Grenache and Tempur Neo, with TWE becoming a leader in the fast-growing Malbec and Grenache varietal.

The launch of our Squealing Pig Ginsecco was another tremendous success on the innovation front, building on the already strong momentum behind the Squealing Pig brand.

In the background, we've been very busy on the innovation front, and I look forward to sharing what we are bringing to life in the first half of F '22.

While the positive momentum behind our focus brands is pleasing, the impact of COVID and higher COGS have hurt our financial performance in the past 2 years. There is clearly work to do to return the business to a high-teens margin, but there is a significant opportunity here and a clear road map to our destination. We are working closely with suppliers to reduce COGS, and we'll use our strong innovation focus and multi-country of origin strategy to drive incremental growth.

Sourcing Argentinian Malbec this year is an example of our multi-country of origin strategy in action and part of the driver of the growth of both Pepperjack and 19 Crimes this period.

Beyond COGS, on the cost management front, we were very focused on F '21 on how and where we were investing, making very conscious decisions on the cost lines we have control over. This will be an ongoing discipline moving forward as we optimize our cost and capital base.

In summary, I'm very pleased with the F '21 ANZ performance. There is work to do, but I'm confident in the significant opportunity before us as part of the broader Treasury Premium Brands division.

Turning now to performance in EMEA where strong execution and continued restrictions on people movement drove retail sales upside across the region, notably in the U.K. and the Nordics. Unfortunately, this strong top line performance didn't translate to bottom line with reduced contribution from the Nordics and Continental Europe due to the impact of travel restrictions and range rationalization in a key retailer. The Middle East and Africa performance was also subdued due to the lack of tourism.

For the EMEA region, net sales revenue increased 15% driven by growth in the premium and luxury portfolios through retail channels with contribution of the luxury and premium portfolio, increasing 7 percentage points to 42% of the EMEA's regional NSR. COGS per case increased 7% driven by the improved portfolio mix and higher cost of Australian- and U.S.-sourced wine. Cost of doing business increased 10% with accelerated brand-building investments for key portfolio brands and one-off Brexit-related costs, the key drivers. This led to a regional EBITS increase of 1% to $47 million and EBITS margin of 11%.

Our priority brand portfolio enjoyed strong growth in retail channels. 19 Crimes continued its stellar performance, with distribution gains, a strong NPD pipeline and engaging marketing campaigns driving a 152% increase in dollar sales in the U.K. where it is now a top 15 brand and also strong growth across other key markets in the region. Lindeman's remained the #1 brand in Sweden and the Netherlands, with the brand sustainability focus driving increased relevance with consumers. Blossom Hill's strong brand equity saw its sales back in growth with increased demand in U.K. grocery and impulse channels during COVID.

On the luxury front, Wynns and Beaulieu Vineyards were successfully launched on indiscernible, a global distribution channel for our icon wine and a step towards their ambition of building the awareness of our luxury portfolio outside of Australia.

In summary, a strong top line performance in the region with our brands resonating strongly with consumers. Similar to the ANZ region, there are some challenges to overcome on the COGS front, but there is also a significant opportunity in a large and premiumizing market.

Thank you. I'll now hand back to Tim.

Timothy Ford

Thanks, Pete, Tom, Ben and Matt. So F '22, which we're now into, we certainly are moving into the next phase of executing the TWE 2025 game plan, which is focused on our ambition of becoming the world's most admired premium wine company. With our new divisional operating model now in place, our F '22 priorities will be led by our brand portfolio divisions and the execution of their respective strategic and growth priorities.

Tom and the Penfolds team are focused on growing global demand for the brand by attracting new consumers and also expanding distribution and availability in the priority channels and markets whilst optimizing the portfolio for long-term growth with the execution of our multi-country of origin strategy within the portfolio. With Treasury Americas now a fundamentally change business, Ben and his team will be delivering more of the same in fiscal '22. More of the same, that is driving relentless focus on premiumization across the business, delivering portfolio expansion through bold consumer-led innovation and completing the brand and asset optimization program.

For Pete and the TPB team, the focus is on expanding a fantastic portfolio of premium brands across priority growth markets globally and the channels within those markets, building out the multi-country of origin consumer offering you spoke of and also establishing, and very importantly, a sustainable fit-for-purpose cost and capital base that will support the margin ambitions we have outlined for that division.

Importantly, supporting the divisional growth objectives are 4 TWE group-wide priorities being led by our corporate and central functions to be implemented throughout the business.

The first of these is to continue to elevate our culture and our talent with a real focus and investment on nurturing and developing the next generation of leaders within our business, which we began strongly in FY '21. Our teams and our people are without doubt our greatest strategic asset and strength and at the heart of our game plan guided by the TWE DNA.

Embedding sustainability throughout our business is the second global priority. Following the launch of our next phase sustainability agenda at our Investor Day in May, we are now working at pace to implement initiatives and measures right across TWE focused on the delivery of key imperatives in the areas of health, safety and wellness, water stewardship, greenhouse emissions and sustainable packaging, to name a few. Cultivating a brighter future is what we will do.

Thirdly, investing in technology, tools and platforms to generate data and insights will set TWE up to build capability and become digitally enabled right throughout our business from the front-end example, to drive enhanced consumer engagement; through the back-end example, to increase the efficiency of our vineyard and winery operations. This year, we are step changing our level of investment in technology as we look to build the TWE business of the future.

And finally, we will pursue global innovation and inorganic growth opportunities that can either fill premium portfolio gaps across our brand portfolio divisions, can leverage our existing strengths or build new capabilities for the future.

We are now in a fantastic position to consider a range of investment opportunities that will drive incremental growth in our business and maximize shareholder returns because we have the support of a capital structure that is in as good a shape as it's ever been.

So in closing, fiscal '21 was a year of significant change but, more importantly, achievement for TWE, one where we delivered organic top line and EBITS growth despite major disruptions and challenges. In F '22, our focus will be on continuing the strong momentum of our premium portfolios across all markets, in addition to executing our plans to drive growth of the Penfolds Luxury portfolio across key global channels and markets. We are positive on the outlook in F '22 across all of our key markets outside of Mainland China.

Our belief in focusing on what we can control is critical. And in F '22, we are very clear on what our priorities are and, once again, doing what we say we're going to do. This is a truly exciting point in time in the history of our business as we progress deliberately and at pace towards our ambitions and goals led by our new brand portfolio divisional model.

So thank you for joining us today, and I'll now hand over to the operator who will open up the line for questions.

Question and Answer

Operator

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

Michael Simotas

The first one for me is just on the very strong performance in the Asia business ex China, just hoping you can give us a little bit more color around that. How much of that was reallocation of wine away from China? How much was just sort of strong underlying growth in some of those markets anyway? And was there a temporary boost to any of those markets because China shut down? Or do you see that performance as sustainable?

Timothy Ford

Michael, thanks for the question. I'll answer broadly, and then I'll hand over to Tom in Shanghai who can take you through a bit more detail. I think as we outlined our plans around the global response, if you like, to the tariffs in the China market, we did say our priorities were twofold in the second half of the fiscal year just gone. The first one was we had a strong belief, and it's now come to life, that there was unmet demand due to supply constrained wines over that period of time. So that was step 1. Everyone else likes to call it reallocation. We like to call it satisfying demand, and we'll continue to do so.

The second part of it was then really reorienting our focus on resources, investments to build distribution, make sure we have the right partners to build distribution in a number of these different markets as well. So without giving you a percentage split, which I'm sure you don't expect or would do between what is those 2, clearly, there was the -- for want of a better way to put it, the one-off building of demand, satisfying of demand but, more importantly, I think the work -- and Tom can go into more detail -- we've done in terms of really driving the agenda in some of these markets is what we're most excited about to set us up over the future years.

So Tom, do you want to build on that?

Tom King

Yes. Thanks, Tim. Thanks, Michael. I think it's important that we don't forget we did have very strong Penfolds businesses, businesses that were growing before the impact to China. And also, we started this planning pretty much a year ago this week when the initial investigation was announced. So there's been a lot of work that's gone into identifying where we're going to be investing, where we see the opportunities. And already in H2, and particularly in Q4, we're seeing some of that upside come to fruition.

In terms of the markets within Asia, outside of China, Hong Kong, Singapore, Malaysia, into China, Thailand and Taiwan, we've really been focusing, as Tim said, on identifying where we can recruit new consumers, driving the distribution availability to support the availability for those consumers and ensuring we've got the right portfolio in place to meet the demands of consumers from different need states and different occasions and different channels. We've been following a pretty similar approach to that, that we've followed in China, and that's driven a lot of our success in recent years.

Firstly, ensuring a really clear portfolio plan, like I said, that delivers on consumer occasions and need states. A lot of this has been driven by the insights we've had from our luxury wine consumer study that we invested in last year. And then working with the right partners really to ensure that we've got the right partners on the ground with us who are aligned on our strategy and our ambition and with the right capability and then supporting them with actually our own people on the ground, so bringing in new capability to the team across a number of different disciplines, whether that's key account sales managers to support with retail and e-commerce businesses where we're focused more on driving the entry level of the luxury portfolio, and working with customers to add category value by growing the premium and luxury segments, in addition luxury sales managers who are focused on broadening our availability across fine wine but also luxury retail and into high net worth individuals as well. And above all of this, ensuring that we've got the right representation in terms of brand ambassadors to educate traders and consumers.

And I'm really pleased to see actually, whilst there was an immediate opportunity to reallocate some of the product that was previously unable to be allocated due to excess demand, it's really a combination of the results of these investments and that reallocation that started to come through in H2 and give us confidence going forward not just on those Asian markets that I've highlighted but also across the U.S., U.K. and Australia. I'll bring it to life a little bit more and give you an example of Thailand where, working with a great partner on the ground there, we've aligned behind a very strong plan with investment, and it's led to multiple new listings and distribution with key retailers, whether that's indiscernible, the Masstige into convenience channels or luxury wines into premium retail as well as expanding our broader wholesale network.

Similarly in Malaysia, a strong business plan with our distributors and the end customers helping us grow distribution into retail channels. Singapore has been a highlight from an e-commerce perspective, really strong growth, particularly for Penfolds, and that's been driven by a focus on ensuring we've got the right internal capability. We're working with the right platforms and partners to leverage the data to inform our investments behind the portfolio. And then the final piece, slightly different, is where we have -- and I mentioned this in my script that we've made some route-to-market changes in the likes of Japan and Vietnam in the second half to ensure we're setting ourselves up with the right partners who are looking to invest and support our growth ambition and then into China where we made a pretty big transition from 1 regional distributor to work directly with more multiple local distributors to get closer to customers, closer to consumers and, ultimately, closer to the market.

These are our priorities going forward. This is how we're going to be running the Penfolds division going forward under the new model. And if there's much sharper focus in everything that we do that's already starting to -- we're already starting to see it come to life also in Australia, in Europe where, in Australia, we stood up a dedicated on-premise sales team, a dedicated independent retail sales team. And in Europe, we've now got dedicated retail account managers, and we're starting to see some really positive conversations come to life at a customer level. So I appreciate that was a bit of a long-winded answer, but I really wanted to bring it to life that, yes, there was some short-term reallocation, as we like to call it, but our focus now is absolutely on recruiting consumers driving that distribution and ensuring we've got the right portfolio to meet those consumer demands.

Timothy Ford

Thanks, Tom. I think, Michael, one other thing I'll just add to this, and this is probably the most exciting part of the work that Tom and the team have done is when you sort of think back to the slide that we had in the deck before around where some of the key luxury selling channels sit within Asia at the moment, in particular, we have seen some deterioration of those over that half. The foundations that are being built by the team in some of these other key markets and cities within these key markets, it really does give us the confidence that we're setting ourselves up to succeed as things reopen as well. So yes, they've done a terrific job. So thanks, Michael.

Michael Simotas

Can I just ask a question on COGS as well? Just on the outlook commentary, you talked about elevated COGS. And that's not surprising given the spillover of B20 in Australia as well as the U.S. vintage. How should we think about COGS in FY '22 versus FY '21? So should we take those comments to mean they're elevated relative to what you think a normal level is? Or will there be another step up in F '22 versus '21?

Matthew John Young

I think what you should go into that is remain elevated. So we see COGS at the moment has elevated off the back of historical vintage challenges, Vintage 20 for commercial. The word is it's intended to be remain elevated. Now the only thing I would add is we are clearly focused on addressing that. And as we called out in the Investor Day, we've done the bulk of the work to do that and/or we have reasonable expectations that there are natural trends that will lower that over time through Vintage 21 in Australia and early insights in terms of long-term pricing trends. So from our perspective, we haven't set in our hands and we're looking to address that. But the benefit of those is likely to come through fiscal '23 and beyond. So for fiscal '22, it's a remain type comment, but our long -- our focus is on the longer term where we have more positivity.

Michael Simotas

Okay. So just to make it simple and be clear that the drag sounds like it will be similar in '22 relative to '21, so not worse.

Matthew John Young

That's a reasonable conclusion. Yes.

Operator

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

David Errington

Tim, look, I don't want to sound negative here because I'm very optimistic, and I'm positive, and I think you're doing a great job. And I think the team is in great shape. So please, these are just 2 questions that I think that I don't understand. And I think that TWE, if you can get this right, there's a lot more upside. But your COGS, following on from Michael's question there, to go through, you had a 10% increase in COGS this year per case. The previous year, you had a 3% increase in COGS and the previous year before that, you had an 8.1% increase in COGS per case.

Now given all your supply chain optimization, given all your investments that you've been making, given that you're the largest producer in Australia, I just don't understand why you still have a COGS issue. There's always a COGS issue with Treasury Wine. It's been going on since years ago. Why can't you get on top of this COGS issue given that you are the buyer of choice, you are the largest? You should have the best systems. You've got all the investment. I mean your spending $150 million. That's more than anyone else. Why do you still have a COGS issue? I don't understand it.

Timothy Ford

Thanks, David. And I guess I'll top line my view on it, and then Matt can sort of go through a little bit more of the detail because it is a significant challenge for us, and we don't hide from that. The first thing I'll say is, as you say, with our size, scale and capability, we should be absolutely leading the charge when it comes to cost of goods. And we think and know that we are best placed to deal with some of the issues that have occurred over previous vintages. So from a cost of goods across the board, yes, we think where we sit as a comparator than it is in line with what we would hope to be when you look at it from an industry point of view.

However, the increases are unacceptable for us as we've seen over the last period of time. And I think if you look through, for example, the Treasury Premium Brands business, the implications that has for that business means not only do we have to understand the supply chain restructuring and go through those processes, which we have and will start to flow through from fiscal '23, but we have to take also a very critical look at how we're actually starting from the front end of the business, how we're actually looking at right from an end-to-end part of our business, are we developing our products, our innovation, our plans that actually deliver us a margin structure that allows us to actually have some flexibility when it does come to some variations that may occur vintage on vintage?

So it's a broader issue for us than just the supply chain optimization. It's one we feel like now, particularly with this divisional structure and model, where our measurement will be on those portfolios not only on a cost of goods point of view but also the asset base that supports it, that we're now better placed to focus on that in a different way to where we have been before. That's what gives us the belief in terms of we will address this issue.

But Matt, do you want to add to that?

Matthew John Young

Yes. Sure. Thanks, Tim. Look, -- and just -- I'll start, just David, on the scale of the numbers you've mentioned. I think it's important to back out mix. So I will use this year as a 10% increase, but we have seen a step-up in the premiumization of our products. So I will -- I'll just -- in terms of the scale of challenge you described, mix does play a role in our COGS per case, which I'm sure you understand, not getting away from the fact that the challenges we've seen. The other context thing to understand is we do feel like we have the best systems, processes, network. And particularly in Australia, we have the scale with which to manage our costs, and we are proactive in this space, the key drivers that you're hearing about.

However, what I would say is the greatest contribution to cost of goods is grapes and bulk wine. And when we do have lower-yielding vintages, they do tend to be higher costs. Whether it be through the network or the price of grapes, those are challenges that are industry-wide and are set by the market. So for us, that is something that we look to manage through the flexibility of our supply. And as we say, we are in good shape, but there are elements of that we have to -- we just have to navigate.

Now as I say, as we look to Vintage 21, we see some positivity. It was a larger vintage and it has filled our network, and we see good opportunity for cost of goods improvement for our Vintage 21 in Australia. But that driver of the grape increases across America of lower-yielding vintages in Australia is the one. And of course, the age of release takes that across a couple of years. So I still feel very confident that we are best placed and tackling particularly those costs that we can control, and we are proactively doing that. We are using our network to the best effect. And as I said before, we see the longer-term outlook as more positive off the back of more normal size vintages and the work that we've undertaken.

David Errington

Okay. Okay. The second question, Tim, this is probably to you and to Ben. When I look at a snapshot of your divisions, I look at Slide 18, Asia in '21, the EBITS is higher than '18. When I look at ANZ, EBITS in '21 is higher than '18. When I look at EMEA, EMEA is not -- it's a bad case. When I look at the U.S., EBITS is still below what it was in '18, despite having invested $1 billion in the Diageo acquisition.

Now you guys really talk up the U.S. big time. You're really saying that this is it. And you give a lot of good reasons, whether it's portfolio expansion, it's always been the same. But when you look at that Slide 18 -- or Slide 19, and you look at the actual EBITS performance, FY '21 is still a long, long, long way away where FY was in '17 in EBITS. And yet that's after $1 billion investment in Diageo. So can you -- I don't know what's going on there, you probably need to -- but can you tell us in a couple of points why we should be bullish on the Americas business from in terms of future EBITS performance? Because when you look at that Slide 19, you're still tracking a long way away from where you were in '17, and that's after $1 billion investment in Diageo.

Timothy Ford

Yes, sure. Look, I think a couple of points I'll start with is that our Americas business, and I think I've been pretty consistent with this over the last -- particularly the last 2 halves, and I will pass to Ben to comment as well once I've given my responses. But yes, there's a consistency with how we're executing in the market in the U.S. that we've seen over the last 12 months, which is, I think, sticking the course in terms of a very clear strategy and plan. And I think that's number one, we actually are sticking the course and it's working. Our portfolio is more and more playing to where the consumer is going, is more and more playing to the price points where the consumers are increasing their consumption of wine in that market. So we have the shape of the portfolio closer to where we want it to be from an ongoing growth point of view. We're not having a balance, half of the business is performing well where half of the business is a drag on the business, which is where we've been over that period of time.

The second point I'd say is that I think the proof points of what we've delivered over the course of this year, which have been delivered with the backdrop of circa 1/4 or 25% of our channels within that market still significantly impacted by the pandemic in the U.S., when you actually build that back into historical financials and where we actually sat before the pandemic, that certainly gives me confidence as well. That's still to come, and we're in place to execute that. And we've got the right resourcing in place. We've got the right partners in place.

I think the third one I'd add is that the U.S. business, and this is hard to measure but I guess this is how I feel about it and what gives me confidence, yes, they've delivered and executed a plan. And I think Ben will probably add, and I'm sure he will that, yes, it's one step down the path of a trajectory. But at the same time, by managing to deliver a significant change in that business whilst delivering really, really good outcomes. And Ben and the team, as we do with most of our business, spend most of our time focusing on the how we go about things, are we running this 2-speed business that I talk about quite often, which is deliver today and make sure we've got the right set of initiatives, strategies and plans for tomorrow. And if you think about they've adjusted their route to market to a platform, which will be a growth platform for us going forward, restructured the organization some 14 months ago now, but delivered on that whilst delivering the business results as well as some of the portfolio and asset changes we've made, it gives you confidence, and it gives you belief that they can actually continue to run the business that way. And the decisions we're making are building blocks to continue to grow over time.

So I guess that's my sense in response to it. But Ben, what would you like to add to that?

Ben Dollard

Yes. Thanks, Tim. Look, thanks for the question. And I think Tim highlighted a number of key steps that we're taking. And I'll just build on it with a couple in terms of how we're thinking about focus and the benefits of that. And I think the areas around portfolio and tracking where the consumer is going, I think we're really well dialed in, in that space, and we will continue to exert a significant amount of effort not only around the TWE 10 portfolio but also how we think about innovation.

I'd say, importantly, the restructuring activities to deliver our future state premium wine business are on track, but they're not completed. So that's a process that we're continuing to insert a significant amount of effort around, be it how we sort of vineyards, our wine assets, our brands but continuing to challenge costs. And that gives me confidence that we're on -- certainly on the right path.

And the other area that is not as easy to put some specific metrics to, but around the team. Over the last 18 months, we've built, I'd say, a best-in-class team. We've got continuity around our leadership team, which I think gives us a great platform from which to tackle the business now. And so to that end, I feel that all of the blocks are in place for us continue this momentum we've got. Plus the relationships we have with our distributors and the retailers as well is continuing to improve day in and day out. So I think, based on what Tim said, and as I see it, I think it should give us confidence.

Timothy Ford

Actually -- so there was one other thought that just came to mind as Ben was answering that. I mean I actually like the way you've asked the question, David, because even with the negative tone, but yes, the previous years, is something we focus on a lot when we're actually seeing how we're tracking against our plans because it's easy to move on from the pre-pandemic period and start measuring yourself against the prior years and, for our instance, it's the prior years with the pandemic and China are the 2 major issues. So I think it's important that how we run the business and how we measure ourselves is not necessarily just on year-on-year but how we're going to compare when we look back with those periods of time before the pandemic and what our metrics are around that. It's a really key measure for us internally. So thanks for raising it.

Operator

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

Ross Curran

Ross Curran from Macquarie. Just wondering if we could perhaps talk about the new divisional structures, so this is Slide 31, and how we should think about margins by the new divisions going forward, whether where they're trading at the moment. That sort of 44% EBITS margin for Penfolds. Is that the right level we should think about going forward? And then secondly on that, maybe if you can just dig into a bit of that Penfolds performance, particularly in Asia, whether we have actually sat at a level there with nearly $500 million of sales, if that's the right base for us to use.

Timothy Ford

Yes, I'll touch on the margin structure, and then Matt can jump in after me as well. I think -- hopefully, we're quite clear with our Investor Day margin structure ambitions that we certainly see Penfolds continuing to be in the range of 40% to 45% over the journey as we go forward. Now clearly, over the course of this fiscal year, as Tom has outlined, there is some investments that we're making to build that distribution and build that capability in the markets. So our expectation is we'd still be within that range that we deliver. I think it also gives a proof point. And hopefully, everyone has picked this up over the last 6 months. We're not seeing pricing reductions around the markets for the Penfolds portfolio. We are doing a good job. Our customers are doing a good job as well of maintaining the margin structure and profitability of that portfolio as we look to build that demand over the different markets around the globe. So that's Penfolds.

The U.S., we remain committed to our ambition of 25% EBITS margin, and not going to stop until we get there is our first step and then how do we continue to grow that from there. So that's been pretty consistent now for a period of time. And we're very, very strong. That's still our ambition. TPB, clearly, TPB, or Treasury Premium Brands, when you look at the results when they are Treasury Premium Brands, that's our most significant margin challenge and gap to our ambition, which is around the teens ambition and the high teens ambition that we outlined at the Investor Day. So that's still what we're going to get to. We believe we have the road map to get that and start to see that over the next 12 months. It's not going to be in the first 12 months, clearly. However, over the long term of our plans, we have a real strong road map of multi-levers that we need to pull to achieve that.

And I think it's a great example of why we have a strong belief in the operating model that we've moved to. The understanding the Treasury Premium Brands, P&L, financial structure portfolio and how we can actually change that business is really, really important, clearly, for Treasury Wine Estates as we then build 3 very, very strong divisions because we have the portfolio, the demand is there, the consumer engagement with these brands is there. We now focus on how we not only grow them but improve the margin structure. And growing the top line is still the best way to improve that margin structure. So yes, that's broadly our ambition of how we'll continue to focus the business and talk about those 3 divisions.

But Matt, do you want to build any of that?

Matthew John Young

Yes, I think just for the Penfolds in Asia, unfortunately, not quite as simple as take that as the base. There's probably 3 factors as you think about that going forward. First of all, those numbers do include the first half of China. So there's obviously an element there that would not be repeated going forward. Tom talked you through the distribution and brand building plans that we're doing. We're seeing some success of that in Q4, and that will be a path forward for fiscal '22. And then the third element, it's a key factor to remember, a big driver of the performance in Asia of Penfolds comes through luxury channels and through the movement of people. So again, those are elements that you need to consider around what that would look like going forward.

Operator

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

Richard Barwick

Just to follow on a little bit on Ross' question on the Treasury Premium Brands. I guess the area of weakness that stands out is Asia with a 46% step-down in revenue. How much of that relates to Rawson's that would have been sold into China?

Matthew John Young

A vast majority of it. Asia in general, but certainly Rawson's and other brands that we had going into China. As you can probably imagine, with the announcement in August, it was certainly a conversation with partners there around taking brands with some uncertainty. And whilst we were successful in selling Penfolds in the lead up to November, that was a tougher challenge, which we talked about at the first half for Rawson's and other brands in Asia.

Richard Barwick

And then if you look at Penfolds in the Americas, I was a bit surprised that, that has gone backwards given the launch of the Californian collection. I mean is that a reflection going back to I think Tim's answer earlier to Dave's questions just around the channels that are shut. So if we think about Penfolds in the U.S., it is because of the cellar door on-premise?

Matthew John Young

Yes. beneath that is a strong performance of the Californian collection, albeit released late in Q -- in the year. So you've essentially got 1 quarter of performance there. But you're right, channels such as crews, travel and on-premise closures during the year did have an impact in the Americas but still pretty comfortable with how that's performing in the U.S.

Richard Barwick

Right. So if we do think about Penfolds in the U.S., it's skewed to those channels that are still under pressure.

Matthew John Young

And independent luxury retail on-premise -- independent luxury retail and travel retail.

Richard Barwick

Yes. Okay. And just the last one for me. I know you talked about minimal EBITS from China in FY '22. Can you just clarify and confirm that by minimal, you're still meaning positive?

Matthew John Young

Close to 0 or small positive.

Operator

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

Shaun Robert Cousins

Just a question regarding, I guess, 19 Crimes. Can you just -- given you've called out, it's over 1 million cases in EMEA, can you just quantify the size of the brand overall? And should we envisage some of the brand extensions that have been successful in the United States? Should we expect that to be occurring in other markets? It just seems to be a brand where you've been able to take it broadly, and it's obviously been rather successful as well. So I'm just curious around the scope of it now and maybe the plan forward for that brand, please?

Timothy Ford

Yes. Sure, Shaun, nice to hear from you. And your definition of rather seems a little harsh, but it's been very successful. Well, look, yes, we've got a second global brand on our hands. Penfolds is clearly a global brand. But clearly, 19 Crimes has now become that. It's broadly, within a few cases, about a 5 million case business for us globally now. And the point you make, I think, is a really, really important one to understand how we think about 19 Crimes. So clearly, the United States has been the starting point for the growth of 19 Crimes where the core range of 19 Crimes core, as we call it, has continued to have a fantastic results for a number of years. The addition of innovation around the partnerships with Snoop Dog and Cali Red and Cali Rosé. And as Ben said, more to come is a road map where we continue to innovate. We continue to engage differently to other wine brands with consumers. And clearly, it's working, and clearly it's a nontraditional wine way of connecting with consumers. And we certainly feel like we've learned a hell of a lot as we've built this in the United States.

You then go to the next big market for us in size, which is the U.K., again, similar playbook. And you should expect, over time, we'll continue to then take what we've done in the U.S., as an example, roll that through the U.K. and it becomes part of the expansion plan of 19 Crimes. Same in Australia, same in Asia. There's a number of markets in Asia. So those sort of 4 is the sequence. And as we continue to build the markets like leading with America, into the U.K., into Australia, into Asia, we'll then transpose the successes we've had because it is about how we actually activate that brand and connect with those consumers. So thinking about it as a global brand, thinking about as a brand that requires and we'll continue to have investment behind innovation but also how we do it through partnerships and digitally enabled channels is really what is key to that and bringing new consumers into the wine category. So yes, it's a pretty exciting future for the 19 Crimes franchise, as we call it internally, but hopefully we've explained how we think about the model. We're not going to try and do everything in all markets all at once. You need to build that over time. And clearly, the U.K. and Europe becomes the next port of call as we develop it.

Shaun Robert Cousins

And if we think about that 5 million cases, is that roughly 3 million in the United States, in the Americas, and then the other 2 million , 1 million in EMEA and then the other 1 million down in Australia. Is that the way to think about it?

Timothy Ford

Close, roughly right in terms of U.S. and U.K., Australia and then Asia. So Australia or Asia is probably -- Australia is not 1 million. It's below that, and then Asia picks up the rest.

Shaun Robert Cousins

Great. And just a question for Matt, just on cash conversion. You highlighted the regional sales mix changes had an impact. Is that as you've gone to more distributors or different distributors you're effectively getting paid earlier? And so should we anticipate that we've seen a step-up in cash conversion as a result of the change in the route to market? Or can you just amplify a little bit more about that regional sales mix change and the impact on cash conversion, please?

Matthew John Young

There's a slight structural shift in shifting away from China that was sort of on slightly longer credit terms to other partners in the rest of Asia, which are on slightly shorter which largely links to the time of shipping. So that -- and as a result of slightly earlier shipping times this year as the main part. So I wouldn't say it should majorly change models around cash flow, but there's a slight structural shift in that sort of shift away from China.

Operator

Your next question comes from the line of Phil Kimber from Evans & Partners.

Phillip Kimber

First question was on taking different tack on cost of goods sold. I noticed, for the first time in a long time, your Sigara number is actually positive. I assume that's a bit of a leading indicator for the outlook for COGS sort of not on a 1-year view, but on a 2-, 3-, 4-year view. Is that correct? And does that give you confidence that there's actually a decent COGS tailwind coming sort of from FY '23 and beyond? Just wanted to explore that a bit further.

Matthew John Young

I've got to say, Phil, it's a glorious moment when I get to talk about Sigara on an investor call. Nobody ever asked me this question. That is a REIT. So look, I would say Sigara includes current and the impact of prior vintages. But in fiscal '21, the current vintage impact of Australia is -- as a Sigara is a profit, which does indicate a lowering of cost of goods for Vintage 21 in Australia. It's not a necessary impact of a trend because it will impact by future vintages, et cetera. However, certainly for Vintage 21 in Australia, that is a positive sign, yes.

Phillip Kimber

And that's really '23, '24 that -- I mean commercial comes through year 1, but I mean that's also got -- I know you changed your terminology now, but I can't recall it. So Masstige and Luxury is coming through on a sort of 2, 3, 4 year.

Matthew John Young

Commercial this year, call it, premium next year, the year after and luxury thereafter.

Phillip Kimber

Yes. And then my second question was just around the signpost that we, on this side of the fence, can see are very off-premise market driven, particularly in the U.S. And those numbers are all turning south because of base effects now. So I just wanted to get a sense of, as the on-premise side of the business starts to improve, I mean, I just wanted to double-check that. The switching channel from on-premise to off-premise, did actually net-net was a drag on your earnings. So therefore, as they gradually unwind, hopefully, it will be a tailwind on earnings. So I just wanted to make sure there wasn't a risk that with the off-premise on a year-on-year basis starting to come off just because of base effects that there was -- the risk around there being a little bit of a hole in case the on-premise doesn't sort of pick up quite as fast.

Timothy Ford

Yes. I think your premise in your question is spot-on because we do see, as on-premise opens up, the mix of our sales and portfolio will continue to improve and then, hence, the margin structure of our mix will also improve. So yes, we certainly do see that as a positive going forward as these channels open up. And we've seen it to a degree in the U.S. So the U.S. is a good example of the dynamics, and Ben can probably talk a bit about the U.S., is probably the best example we have went off finished. So point number one, yes, we certainly see the trajectory as the vaccination rolls out and things reopen with those more luxury channels, and that's a positive for us from a growth point of view.

The second comment in there, and it is -- it's something we've been monitoring pretty closely internally. As you say, you look at the Nielsens or IRRs or whichever data set you want to look at, and year-on-year, the retail channels are down versus the trends of what it was last year where there was that initial real spike in the retail channels. So that's factual broadly across the board, certainly pockets of certain premium price points, that's not right, but broadly across the board. When you go back 1 more year, and you look at what is the market now versus what it was pre-COVID, it's still elevated. So that's a really important point to have. And when we look at our numbers and how are we performing rather than looking at and talking about lapping COVID and all the stuff that everyone likes to talk about at the moment is, are we being the competitive set in that market today, yes or no, and are we actually ahead of where we were on a pre-COVID basis in fiscal '19 for want of a better way to put it.

So the dynamics in retail are still pretty good when you go back and have a look at it from that perspective. So there are sort of 2 points to that, that yes, there's that softness in retail that you referred to. But as a mix going forward, we certainly see the 1 plus 1 hopefully equaling more than 2, what it did in F '19 is the way we think about it.

But Ben, do you want to add anything from color on that from a U.S. point of view because you are living and breathing it?

Ben Dollard

Yes, 2 points. And as I mentioned earlier, dynamics are shifting in the U.S. market. And certainly, we saw it in the second half around retail -- off-premise retail. And I'd say there's 2 key areas. One is the emergence or the rapid expansion of e-commerce and the engagement and commitment by our retail partners and the consumers' desire to shop online. That's been a -- and it will continue to be an enormous area of focus for us and one that we're starting to see the fruits of our labor. And then the other is the cellar doors and how we've been thinking about cellar doors and the closures that we saw this time last year. And as we reopen and reinvite consumers back in, obviously, that's a positive from a margin standpoint for our luxury portfolio, and that's a definite shift that we're going to see in the back half, assuming the landscape continues to evolve as it is today.

Timothy Ford

All right. So hopefully, that gives you a fulsome answer, Phil. It's always good to hear from Ben because he's got that positivity and he's always got life like when you start to get vaccination programs rolling out for us here in Australia. So it's good -- I talk to him every morning to keep myself up. Thanks, Phil.

Operator

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

Ben Gilbert

One short-term question, one longer-term question. First one, I know all the language around your medium-term targets and cost-out, et cetera, is all pretty similar, if not the same, since the Strategy Day. But you've obviously sort of left that caveat in there around COVID impact or ability to hit that sort of higher single-digit earnings growth for this year at least. Do you still think, given the reopening, and Tim, to your point, just same that the U.S. is opening it pays on-premise that's going pretty well, that's conceivable for this year? Was there any reason to leave that caveat in or it's just general uncertainty?

Matthew John Young

It's Matt here. The general uncertainty is important, and it's important that people understand the slide we've given in the deck around where we're at in terms of the various channels is the other important point. The way to sort of interpret is that from an outlook perspective, we are not expecting major changes to the landscape as a general statement, other than slow reopening around on-premise. We're not expecting a lot in the way of increased travel, which I think is a reasonable assumption. And so therefore, it's a relatively stable base. It's more just so that people can understand, particularly that slide, the dynamics of what it does to revenue in making assessments as they look forward.

Ben Gilbert

And Matt, did you get any benefit in the second half from China profit from Penfolds products you shipped in pre December? Because obviously, it looks like the sell-through for sales of Penfolds is still pretty strong in the Chinese market. Everything is standing with product effective to sell at a much higher price. Did you have any profit in the second half?

Matthew John Young

Nothing meaningful that you should think about in terms of ongoing. There was a small parcel that made its way from a -- through the process. But no, there's clearly still product in market, and Tom can sort of talk to that. But no, nothing to consider from an ongoing perspective. The focus now is what does that look like forward. And I know there's some -- and maybe, Tom, if you want to give an insight longer term of how we think about Australian-based Penfolds for China.

Tom King

Yes, I can jump in there. I think the real positive for us is Penfolds as a brand is still in high demand at the consumer level, even though we've seen profits continue to elevate and certain parts of the portfolio really now at a pretty significant elevation to what they were a year ago. We're planning to bring in the new Australian collection during H1 this year. That will obviously be at tariffs-impacted prices. So a bit too early to say whether the elasticities the Penfolds brand can stress to that extent and what the actual demand will be at those elevated prices. But positive is the brand remains strong at the consumer level. We are losing some distribution as retailers and wholesalers do struggle to maintain supply and stock. And many of our partners are continuing to manage their own cash flow and businesses to keep and set up for growth as we launch the multi-country of origin portfolio in F '22 and beyond.

Ben Gilbert

That's helpful. And then just second one for me, just on the strategic side. I noticed, Tim, that you put some talking around your capacity for funding. One, did you guys have a decent crack at St. Michelle? I was surprised because I thought you guys probably would have had most synergies, particularly with some of the benefit you got in your RNDC deal. And secondly, are you seeing much out there at the moment from an M&A standpoint, particularly in the U.S., I think is as probably the biggest opportunity.

Timothy Ford

Yes. So I'm not going to comment on whether we did or didn't look at certain things. But I think I'll probably catch it by saying that our acquisition targets that we do look at, we'll look at, should look at, where those opportunities do arise, we'll have to play to our premium price point of our portfolio. So if there's a center of gravity below that premium price point, then you can take from that, that by and large, unless there's a huge strategic reason outside of that, are not going to be a priority for us in terms of the investment of our capital going forward. So they need to be additive. Any acquisition would need to be additive to our portfolio, would need to be complementary to what we have today. I don't think we need necessarily more of exactly the same. What we need is to actually build out the portfolio that builds on the strengths we've got. U.S. is certainly a market. I mean we've all seen there's a fair bit of activity in that market at the moment. And I think it will continue to be the case over the next year or 2 in particular. So yes, I mean, there's opportunities that will come up. I have no doubt about that, but hopefully, that gives you the color and shape of what our priorities are when we're looking at those.

Operator

Your next question comes from the line of Peter Marks from Barrenjoey Capital.

Unidentified Analyst

Just wondering if you can give us a bit more color on how much of that non-HR growth was building availability versus sell-through? I guess what I'm trying to understand is what's sell in and what's sell out because -- I mean I would have thought -- maybe I'm not seeing you about the right way, but isn't that -- wouldn't that be the best indication of demand?

Matthew John Young

Yes, I'm still quite comfortable. We try to manage -- from an inventory perspective, we try to manage forward days inventory cover in line with the prior year, and I'd say we're still in that space. So certainly, as we've sold and satisfied that demand that was, I guess, latent in the market. Certainly, the sell-in is to satisfy that demand. As you've probably seen in multiple years for Asia, shipments are ahead of depletions, largely off the back of growing demand for the brands. And that's certainly the case with what we've done. There's no pipe fill that I would say in terms of a bump to need to worry about. I do think it is a genuine -- an underlying performance within those markets.

Unidentified Analyst

Okay. That's really helpful. And then just my second one, I just wanted to clarify some of the one-off costs that might have been above the line. So it looks to me like there's an $8 million benefit from the wildfire insurance claim, but then there might have been like sort of an equivalent headwind in China from some one-off costs. So they could essentially net out. But then can you give us any color on the one-off costs in ANZ related to that product initially testing for China? And then how big is the Brexit cost in EMEA?

Matthew John Young

Sure. I'll take that. I'll start with the insurance. And for those that would sort of want to digest, particularly balance sheet, P&L, Note 4 to our financial statements in the annual report is a good one to look at because there are some large movements there. You're about right. In a net P&L sense, it's about an $8 million impact. What that represents is the effect of the closure of our sterling tasting room as well as lost profit from the product that was damaged. So it is, I guess, an underlying base that's right to keep in the -- above the line. From an ongoing -- from other one-off costs, a range of different things in terms of reworking products in China, in Australia that was destined for China, as well as Brexit costs. We haven't broken those out separately within the accounts. We're sort of just given them as color around the COGS impact. From that perspective, yes, they are one-off and they won't continue next year. But we've -- I think the most of those sit within COGS and the guidance we've given around elevated COGS for fiscal '22 is the right way to think about that line.

Unidentified Analyst

Yes. And then have you quantified the Brexit impact?

Matthew John Young

No, we haven't. Not in that market.

Operator

Your next question comes from the line of Bradley Beckett from Credit Suisse.

Larry Gandler

It's Larry from Credit Suisse. A couple of questions. I just wanted to clarification going way back to Michael Simotas' question. Matt, you agreed with Michael saying that remains elevated, means the drag will be similar in FY '22 as FY '21. And that was a contradiction to the earlier part of the answer you gave, which basically said elevated was kind of similar. That's a big distinction. I just want to clarify. Is FY '22 going to be a similar drag or a similar absolute level of COGS?

Matthew John Young

A similar absolute COGS per case on a mix adjusted basis -- volume mix adjusted basis.

Larry Gandler

Got it. So if FY '21 was impacted with the drag, FY '22 will not have such a drag because we're talking about similar COGS.

Matthew John Young

That's right. We're not having incremental drag. It will remain at those elevated levels that it was in fiscal '21, again, on a volume mix adjusted basis, with longer term for that to decline as a result of the programs and roll through of lower cost vintages.

Larry Gandler

Okay. That's an important clarification. Now on the matter of lower-cost vintages, I know Matua might seem somewhat a smaller proposition, although a very important growth brand, particularly in the U.S. As you guys know, the grape supply situation there is almost a point of desperation, no new plantings in Marlborough pretty much can be undertaken. And we're in short supply. I think grape costs are heading up towards 50%. So given that, I know you guys have done an amazing job in sourcing grape for FY '22. But longer term, what's the plan there for Marlborough, Sauvignon Blanc Matua for you guys? And how does that affect your overall grape costs?

Timothy Ford

Yes. Thanks, Larry. Longer term -- so I'm not going to necessarily reveal our plans that we are looking at, at the moment because it's -- there's a few options that we're in the middle of assessing for the longer term. As you say, FY '22, FY '23, our teams have done a fabulous job to gain the access to the supply for Sauvignon Blanc, not just for Matua for the U.S., but Squealing Pig here in Australia and some of the other markets around the globe as well. And it is a growth engine for us, and it will require us to gain more access to more fruit over the coming years. And we do think there is certain ways we can do that. We do have certain plans to implement across that, none of which have come to life of, say, V24 and beyond at this point. But it's important for us, and it's a high priority for us because we see this category continuing to grow, continuing to be a growth engine for us.

And Ben touched on the launch of Matua Lighter earlier, and he sort of joined the dots on consumer trends around health and wellness, he's joined the dots on Sauvignon Blanc as a varietal, lighter style, a lighter in alcohol or even 0 alcohol proposition for New Zealand Sauvignon Blanc, you can certainly see having great demand in the future as well. So it is one of those where our short to medium term is covered, but we've got some work to do on the long term. So your points in the notes you've written on them, which I read with interest I think you're right, it's a challenge for us to deal with, but we feel like we've got some levers still to pull. And then clearly, as the constraints occur, prices are just adjusted in the market as well. And you've seen that with the U.S. as well, in particular, across some of the other big Sauvignon Blanc brands as well, which we continue to use that as a potential for us going forward to protect the margin structure of the portfolios as well given the rising cost of the fruit over the last vintage or 2.

Larry Gandler

So maybe this is a question for Matt. Just as -- is the Sauvignon Blanc cost of grapes increase enough to move the dial for your overall COGS outlook?

Matthew John Young

Not at that level. The only thing I'd add, and I think that's -- the comment around Australia is probably more relevant. The only thing I'd also add to Tim's is clearly part of the challenge of COGS for this year for New Zealand, when I say this year, this year's vintage, also the size of the vintage, the vintage being impacted late in the process. So there is a -- it was a lower-yielding vintage overall. A more normal size vintage going forward would correct some of that cost base.

Timothy Ford

Okay. Unfortunately, we've run out of time. So we did have a smaller presentation time today and hopefully longer on Q&A and to provide more expansive responses. I know a couple haven't had a chance to ask a question, but we'll certainly follow those up with the one-on-one sessions that we're having over the next couple of weeks.

So to wrap up, thank you for joining us today. Thank you for your support of TWE and your analysis of TWE. And hopefully, you share our belief in what has been a great year for our business in terms of the circumstances, in particular, and set ourselves up for a strong period ahead for our business and our team. So cheers, enjoy the rest of your day.

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