Treasury Wine Estates Limited, H1 2022, Earnings Call 2022-02-16

Presentation

Operator

Thank you all for standing by, and welcome to the Treasury Wine Estates FY '22 Half Year Results Briefing. — ***Operator Instructions*** — I'd now like to hand the conference over to Mr. Tim Ford, Managing Director and CEO. Thank you. Please go ahead.

Tim Ford

Thank you, and good morning, everyone. Thanks for joining the Treasury Wine Estates 2022 Interim 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.

It's a pleasure to have on the call with me today 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 likely to refer to it today.

I'm very pleased to be here today announcing our results for the first half of 2022, a period where we delivered strong performance across TWE globally, operating for the first time under the brand-led divisional portfolio model, while at the same time, continuing to implement a number of important changes across our business. The focused execution of the plans we've outlined previously and the priorities that we've laid out over the past 18 months are very much reflected in these results. And each of our global teams has been tremendous in driving this agenda forward. We firmly believe that we've now moved from a significant and important period of restructuring and recovery to the exciting growth phase and execution phase for TWE. And as we explained today, this has already begun.

Starting with our first half '22 financial highlights. 83% of our global sales revenue is now generated by the Luxury and Premium portfolios, an increase of 7 percentage points. And our net sales revenue per case improved 16% in the half. This has been achieved through strong Luxury brand performances in Penfolds and Treasury Americas in addition to Premium portfolio growth in Treasury Premium Brands, reflecting our continued focus. Net sales revenue in aggregate did decline by 10%, reflecting the divestment of the U.S. Commercial portfolio, the decline in shipments to Mainland China and also the reduced Commercial wine portfolio volumes in Australia and the U.K. following the heightened pandemic-related demand of the prior year.

EBITS declined 7% reported to $262.4 million. However, when you exclude the Australian country of origin sales to Mainland China, EBITS grew 28%, which points to the strength of our performance right across the business. EBITS margin also improved 0.8 percentage points to 20.7%, reflecting progress towards our group EBITS margin target of 25% and beyond.

Cash flow was once again very strong with 115% cash conversion outcome aided by the lower 2021 Californian vintage intake and some earlier phasing of shipments we put in place to reduce the supply chain risks in the market. And our capital structure remains in excellent shape with a leverage ratio of 1.8x, which is only marginally up on the prior corresponding period, notwithstanding the acquisition of Frank Family Vineyards, which was completed in December.

As a result, the Board has declared an interim dividend of $0.15 per share, which represents a payout ratio of 66% and is in line with our long-term and consistent dividend policy. The new divisional operating model has been a key enabler of the momentum and execution across the business with the benefits of separate focus and accountability already evident in the strong underlying earnings growth delivered by all 3 divisions in the half.

For Penfolds, we continue to build strong momentum across priority markets and channels, supported by global distribution gains with outstanding growth being achieved with revenue and EBITS growing 49% and 32%, respectively, when you exclude Mainland China. Most pleasingly, we saw this growth across a number of Asian markets, the United States and also in Europe.

With Treasury Americas now a significantly reshaped Premium wine-focused business, performance was led by gains in the above $11 Premium portfolio and in the Luxury portfolio. Excluding the impact from the U.S. Commercial brand divestment last March, Treasury Americas NSR and EBITS grew 14% and 46%, respectively, accompanied by strong margin growth, as you would expect. And in Treasury Premium Brands, there is good early progress towards the delivery of key divisional priorities, including portfolio premiumization, EBITS growth and EBITS margin expansion led by the growth in the $10 to $30 portfolio across a number of global markets.

Shortly, Tom, Ben and Pete will each provide more detail of the performance trends with each – within their divisions, including the progress they and their teams are making towards their respective priorities for fiscal ’22.

Consistent with our previous investor and market presentations, you will see our perspective of the channel impacts from the pandemic across the geographies in which we operate. Retail and e-commerce channels remain open and continue to operate above pre-pandemic levels, albeit there’s been some moderation in demand through these channels compared to the prior corresponding period where demand was particularly elevated.

Trends in on-premise and across our cellar door network have been mixed around the globe. In the U.S., we've seen continuation of the progressive reopening that commenced late in fiscal '21, supporting the growth in the Treasury America's Luxury portfolio, whilst here in Australia, as an example, extended lockdowns in Sydney and Melbourne saw on-premise venues shut for a significant portion of the half and did impact our execution plans outside of the large retailers, particularly for Penfolds. In Asia, disruptions to key Luxury sales channels continued, albeit with some signs of positive improvement late in the half.

So we're expecting the first half trading conditions across our key global markets and channels to remain broadly consistent through the remainder of F '22. And this has been our experience thus far through January and into February. But as borders continue to open and government restrictions continue to ease, there is a strong case for optimism for those channels still highlighted on this page in yellow and red as still constrained.

And with that, it's now over to the team, and I'll hand over to Matt for the financial results.

Matthew Young

Thanks, Tim. Good morning, everyone. I'm pleased to share with you the highlights of another strong financial result. Group net sales revenue declined 10% on a constant currency basis and 3.8% on an organic basis, which excludes the divested brands in Treasury Americas. Net sales revenue per case increased by 16% across the group, reflecting the 8 point increase in contribution of our Luxury and Premium portfolios to 83% of global revenue following the divestment of the U.S.-sourced Commercial portfolio, but most importantly, from the strong growth in the Luxury brand portfolio in Treasury Americas and the Premium portfolio in Treasury Premium Brands.

COGS per case increased 16%, in line with the portfolio mix shift and reflecting slightly higher global supply chain and logistics costs. Cost of doing business improved 9.3% to

$255.3 million, driven by reduced brand building investment in line with the reduced scale of business in Mainland China. Cost of doing business margin increased marginally but is now stable at around 20%. EBITS was $262.4 million, a decrease of 3.6% on a constant currency basis and 1.2% on an organic basis. And EBITS margin improved to 20.7%. And finally, ROCE improved 1% to 10.3%, reflecting an increase in EBITS for the last 12-month period and relatively consistent capital employed.

Total material item costs of $45.6 million or $35 million after tax were recognized in the first half, relating to previously announced programs of work and the acquisition of Frank Family Vineyards. The most significant cost in the half were in connection with the divestment of the U.S. brands and assets as well as costs relating to the acquisition of Frank Family. We note that previously flagged cost of integration for Frank Family of approximately $8 million will be mostly recognized in H2.

Moving to the balance sheet. Net assets increased slightly versus the prior year on a constant currency basis with the key factors impacting the balance sheet including the acquisition of Frank Family Vineyards and the divestment of noncore brands and assets in the U.S. Total inventory value has remained flat compared to first half '21, while volume declined 2%, reflecting the lower Commercial inventory following the divestment of the U.S. Commercial portfolio, offset by higher Luxury inventory holdings.

Overall Luxury inventory increased 17%, reflecting the high-yielding 2021 vintage in Australia as well as the acquisition of Frank Family Vineyards. Current inventory increased $90 million, driven by the improved near-term demand expectations for the Penfolds and Treasury Americas portfolios. And noncurrent inventory was $75 million lower than the prior year and includes the impact of the lower-yielding most recent 2021 California vintage.

As many will be aware, global supply chain disruptions have presented challenges for all organizations. But from an operational standpoint, our teams and partners delivered an outstanding result, proactively planning and navigating the challenges to deliver for our customers ahead of the key demand periods with 98.6% of all planned shipments completed.

Separately, we were not immune to the impacts of rising costs and saw some increases in cost of packing materials, shipping and labor. Given ongoing challenges, we expect these costs to remain elevated in the near term. As you would expect, we are executing plans to mitigate these costs, and we are also implementing selected price increases across several portfolio brands, which will partly mitigate these impacts going into H2 and beyond.

Turning to the local market here in Australia, where the wine industry continues to manage through the impacts of the introduction of tariffs in Mainland China. We continue to see that levels of wine exports to other markets remain strong, and we also see retail pricing in the domestic market remaining steady. As the vintage heads – sorry, as the industry heads into Vintage ’22 off the back of higher industry inventory levels, market expectations are for reduced pricing on grapes and bulk wine.

For Treasury Wines, we continue to deliberately and proactively manage our own inventory position, particularly Luxury wine. As part of that, we are planning for a smaller intake from Vintage ’22. This will likely moderate the level of benefit we achieve from any lower grape and bulk wine pricing in this vintage and will reduce overall winery throughput. However, we remain confident that our long-term initiatives and the ongoing market dynamics are still expected to deliver a reduction in COGS over time.

Striking the right balance for Vintage ’22 is an important decision, and we believe the approach we are taking achieves this balance, firstly, by ensuring we hold the right level of inventory to satisfy future demand and manage vintage variation; secondly, that we deliver long-term reductions to vintage costs; and finally, and most importantly, in the near term, protecting our retail pricing and margin structures, particularly for our Luxury portfolio globally. We will continue to be disciplined and considered in this approach as we return to more balanced Luxury inventory positions.

Turning to cash flow and debt. Operating cash flow before interest, tax and material items was $386.5 million for the half year, with reported cash conversion of 115.1%. Excluding the change in noncurrent Luxury and Premium inventory, cash conversion was 94.1%, which is in line with our stated target. Of the confirmed total net cash proceeds of $300 million relating to the divestments in Treasury Americas, approximately $235 million has been received as cash at the end of the half, with the remainder expected to be received in calendar '22.

Total CapEx for the first half was $59 million, of which there was growth CapEx of $30 million, including the investment in Luxury wine-making infrastructure in South Australia, which will be commissioned for the Vintage 2022. We now expect F '22 CapEx to be approximately $120 million, down from $150 million previously. Supply chain and labor constraints have impacted the timing of several larger projects, particularly those on our technology road map, and will be deferred into implementation into F '23.

Turning finally to capital management. Leverage increased very marginally to 1.8x at the end of the half. This position, which includes the recent Frank Family acquisition, leaves the balance sheet in a very strong position. We now expect leverage to remain below our stated target of 2x through the cycle.

First half '22 financing highlights included the establishment of Sustainability Linked Loans on $1.4 billion of existing committed debt facility commitments and the establishment of a USD 240 million bridge facility to support the acquisition of Frank Family Vineyards. The retention of our strong investment-grade capital structure ensures that we retain the flexibility to continue investing in growth opportunities in addition to exploring additional capital management opportunities going forward.

Thank you, and I'll now hand over to Tom King in Shanghai.

Tom King

Thanks, Matt, and good morning, everyone, from Shanghai. I'm pleased for a very strong first half performance of Penfolds, a period where we continue to progress on our priorities of recruiting new consumers and growing distribution and availability across key markets and channels despite the ongoing pandemic-related disruptions.

Volume and NSR declined 15.8% and 16.3%, respectively, driven by the decline in shipments to Mainland China, partly offset by strong growth in other key markets. Outside of Mainland China, NSR increased by approximately 50%, testament to the progress we are making in growing the Penfolds brand globally. NSR per case was in line with the prior period, highlighting the retention of our pricing structure across the globe.

COGS per case increased 3.7% in this period, reflecting the release of the higher-cost 2020 Australian vintage. Cost of doing business improved 19.2%, driven by reduced costs in Mainland China and some temporary phasing of overheads and promotional investments that will normalize in H2. This led to an EBIT decline of 17% to $165 million, a strong result given there were 5 months of shipments to Mainland China in the comparative period and reflected by the growth in our EBITS outside of Mainland China, which grew 32%.

As we called out in the disclosures, we expect F '22 EBITS to be weighted to the first half by approximately 1% to 2%, reflecting the timing of the annual Penfolds release and key gift-giving occasions in addition to the change to northern hemisphere release date.

Turning to our F '22 strategic priorities and an update on our execution towards these. A number of notable brand-building initiatives were undertaken this half, focused on scaling our Luxury credentials and attracting new consumers to the Penfolds brand. In Australia, Penfolds announced its partnership with the Victorian Racing Club as the new Victoria's Derby Day partner. This 4-year sponsorship agreement includes the naming rights to Australia's oldest classic race and is a perfect platform to leverage Penfolds' status as a luxury icon and reflects our plan to grow the brand in the Australian market. This sponsorship was a huge success with influencer activity alone generating over 25 million organic views across social media during the week.

We also launched our new Venture Beyond thematic, the global activation platform that talks to Penfolds' pioneering spirits and unwavering self-belief, demonstrated here at the China International Import Expo in Shanghai, where we showcased our portfolio of Penfolds wines sourced from the most luxurious winemaking regions around the world in a new and disruptive way.

In November, Penfolds partnered with BlockBar, a leading NFT marketplace, to launch a limited edition NFT tied to a rare Penfolds Magill Cellar 3 barrel of wine. The NFT sold out in just 12 seconds for USD 130,000. And with the newly launched BlockBar gifting service, we recently sold out a further 300 NFTs priced at USD 465 per bottle, presenting an exciting opportunity for consumers to gift Penfolds in a new and innovative way. This is just a snapshot of some of the fabulous activities undertaken this half to recruit new consumers to the Penfolds brand.

Our second priority is growing global distribution and availability. And in the first half, we saw strong growth in distribution, volume and NSR delivered across priority markets and channels. Asia is the highlight with NSR growing 119% ex Mainland China, led by markets such as Malaysia, Singapore, Thailand, Hong Kong and Taiwan. We also delivered strong growth in the Americas and EMEA, with NSR growth of 39% and 14%, respectively.

Optimizing the portfolio for long-term growth is our third strategic priority. A key highlight this half was the acquisition of additional French production assets in Bordeaux, which will support future French portfolio growth. In addition, we are continuing to explore the potential to produce a China-sourced Penfolds portfolio in the future.

We also announced our intention to transition to one focused global release date for the Penfolds Collection comprising our Australian, Californian and French wines. This change commencing in August 2022 will allow us to showcase our entire portfolio of wines to customers and consumers, demonstrating the enduring and limitless nature of the Penfolds House Style and maximizing the benefits of the collection release globally.

In summary, in the first half of F ’22, we’ve made excellent progress towards our strategic priorities, and I feel increasingly confident and excited about the growth potential of the Penfolds brand across the global luxury market.

Thank you. I’ll now hand over to Ben Dollard.

Ben Dollard

Thanks, Tom. Good morning, everyone. It’s a pleasure to join you today from California. Treasury Americas is now a reshaped Premium-focused wine business with expanding margins and a growth profile. Our results reflect the execution of our strategy over the past 18 months.

Looking at key results for the first half of fiscal ’22. Organic NSR grew 13.6%, driven by strong growth in our Luxury brand portfolio, supported by gains in both distribution and velocity as well as the progressive reopening of on-premise and DTC channels. We successfully transitioned nearly 40% of our U.S. business to RNDC, and our partnership is off to a solid start, with momentum building in the second quarter and points of distribution growing 30% across Premium and Luxury portfolios in California.

Reported volume and NSR declined due to the impact of the Commercial brand divestment in March 2021. NSR per case increased significantly, reflecting our Premium and

Luxury mix now contributing over 90% of our net sales revenue compared to 73% this time last year.

COGS per case increased this period, reflecting the improved mix and the impact of the release of higher-cost 2020 Australian and U.S. vintages. Cost of doing business improved 8.6%, and this has included insurance proceeds relating to lost profits from the ongoing closure of wildfire-impacted cellar doors. This led to H1 fiscal '22 EBITS of $85 million, an increase of 19% on a reported basis or 46% on an organic basis.

Looking ahead, we expect trading conditions in the second half to be broadly consistent with those in the first half of the year. In addition to our financial results, I'm pleased to report we have delivered significant progress against our key priorities this half.

Outstanding brand innovation has driven expansion of our Premium brand portfolio. 19 Crimes Cali Rose became the leading U.S. wine market innovation of 2021, the second consecutive year the 19 Crimes franchise delivered the most successful new product introduction following the hugely positive Cali Red launch in 2020. Following on this momentum, we are currently introducing 19 Crimes first California Chardonnay in collaboration with America's lifestyle icon, Martha Stewart. Initial trade, media and consumer reaction has been exceptionally positive. Another exciting Premium brand innovation was the release of Matua Lighter, building on the success of the Matua brand in the U.S. and tapping into the conscious consumption trend.

Our Luxury brand portfolio also expanded significantly in the half with the addition of Frank Family Vineyards' award-winning portfolio, further enhancing our credentials as a leading player in the U.S. luxury wine market and elevating us to the #2 supplier of Chardonnay above USD 25. The integration of Frank Family is well underway, 2 months in, and we are pleased and excited with regards to the opportunity. Our engagement with Rich and Leslie Frank and the broader team has been rewarding, and we're excited for the opportunity to nurture one of Napa's preeminent brands through the next generation of growth.

Moving to e-commerce. The rapid expansion of this channel continues, and our strategic and consistent investment behind retail e-commerce has resulted in H1 sales beating the category significantly, making TWE the #4 supplier in the U.S. online wine market. We will build on this momentum with proprietary consumer insights and strong trade partnerships.

Our second priority, delivering asset portfolio and cost optimization, also took a significant leap forward in the half. We have now substantially completed our program of divesting nonpriority U.S. portfolio of brands and assets with total net cash proceeds of approximately $300 million now confirmed.

In summary, our focus and deep understanding of category trends and consumer behavior continues. Premiumization remains the dominant theme in the market, and we will continue to evolve our brand portfolio to meet consumer needs. We've restructured our business to be Premium focused, and our ambition is to lead this segment of the market in the U.S. We have achieved many milestones in the first half of fiscal '22, and I'm pleased with the progress we are making. I'm confident we have the brands, assets and best team in place to continue on this positive trajectory.

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

Peter Neilson

Thanks, Ben, and good morning, everyone. Treasury Premium Brands delivered a solid first half performance with our results showing positive early momentum towards our key financial priorities of premiumization, earnings growth and margin expansion. Volume and NSR declined 11.7% and 6.3%, respectively, driven by a 20% decline in Commercial volumes, most notably through U.K. retail channels as we cycled elevated pandemic-related sales in the first half of fiscal '21, along with reduced Commercial volumes in ANZ. This was partly offset by strong Premium portfolio performance in EMEA and Asia.

NSR per case increased 6.1%, reflecting portfolio premiumization with the Premium and Luxury portfolios now contributing 58% of divisional NSR, up from 52% in first half '21. COGS per case increased, driven by the improved mix, higher cost from the 2020 Australian vintage release and increased supply chain costs. Cost of doing business improved, driven by more focused and strategic investment across our brand portfolio and the timing of some key promotional activity that will occur in the second half.

As a result, EBITS increased 21% to $39 million, with EBITS margin improving to 9.3%. Looking ahead, we expect trading conditions in the second half to be broadly consistent with those in the first half of the year across key global markets and channels.

Turning to some execution highlights against our F '22 priorities. Premium and Luxury portfolio expansion has been key to the period's result. We've delivered strong growth from our priority brand portfolio, led by 19 Crimes, Squealing Pig and Pepperjack, and also made solid progress building the global presence of key brands. We continue to see exceptional growth in 19 Crimes across our priority global markets with strong sales growth continuing in EMEA and sales and distribution growth across Asia.

Pepperjack continued its momentum in Australia and successfully gained distribution in new markets overseas, including Sweden, Singapore, Thailand and Malaysia, with other markets to follow pending customer registration. Wins also achieved significant overseas growth with strong depletions in Southeast Asia, significant distribution growth in Hong Kong and some major listings in U.K. retail in the on-premise.

We successfully launched Wolf Blass Zero in the half, premiumizing the fast-growing nonalcohol segment with an icon wine. Early performance indicators have been strong with positive customer feedback and wine reviews and leading rates of sale in distributed outlets. This is an area we will continue to invest in, further evolving our technology and offerings in this segment.

Maintaining sales momentum across our portfolio this half was an outstanding achievement given the continued resilience of retail demand and the presence of logistical challenges. In Europe, in particular, our supply team's management of inventory levels was exceptional, lessening the impact of shipping challenges and enabling us to gain share as a result.

Turning to our second priority, accelerating in priority growth markets, channels and countries of origin. Our performance in EMEA and China is a call-out here with NSR up 35% and 38%, respectively, in the half. We also successfully expanded our multicountry of origin portfolio with new brand offerings for Rawson's Retreat and Blossom Hill sourced from Chile and Spain, respectively, with both brands continuing to resonate strongly with consumers in key markets.

In terms of our third priority, implementing a fit-for-purpose cost and capital base, we have taken direct action to optimize our cost base under the new divisional structure, including a more focused and prioritized approach to brand investment in addition to undertaking a strategic review to optimize the cost base of our products. A key execution highlight was our work to change the Blossom Hill country of origin to Spanish, a transformational move for this brand from a contribution perspective.

In summary, I'm very pleased with TPB's first half performance. We've made significant progress on our strategic priorities, and we see a tremendous amount of opportunity for future growth from the fabulous foundations of brands and assets we have to build from. I'll now hand back to Tim.

Tim Ford

Thanks, Pete and the rest of the team. At our fiscal '21 results last August, I certainly was hopefully clear in outlining our strategic priorities for the year ahead, and we see them on the presentation there. As you've just heard from Tom, Ben and Pete, the 3 brand portfolio divisions have absolutely begun to deliver on their respective very clear paths towards their objectives. And after what has been a significant period of change across our business, we're now very focused on ensuring that each team is now given the time and resource to continue executing on these plans. Sticking the course and driving execution is the key mantra. Globally, we're also making excellent progress in leading the delivery of our 4 group-wide priorities driving value for TWE as a whole.

Starting with the elevation of our culture and talent, our most important resource. We continue to invest in our most important assets, the people, with a number of development programs in train to ensure that we remain future fit, including ongoing investment in the next generation of our leaders, building organizational-wide capability in key growth areas such as innovation, digital data and analytics and evolving our ways of working to shape the new habits and skills necessitated by not only our new operating model but the blended work models brought on by the pandemic. And we continue to make an impact through our inclusion, equity and diversity agenda, driven by our people within our multiple employee resource groups located in every geography around the world.

Our investment in technology is gaining pace also. We've progressed as planned our investment behind our global data and analytics capability and platform, working towards our ambition of unlocking significant long-term opportunities through data across winemaking, viticulture as well as our customer and consumer engagement spheres of our business, in other words, right throughout TWE.

The evolution of our e-commerce platforms continues to be a high priority with what is a must-win channel for Treasury Wine Estates, not only by enhancing the capability of our own business models, but also enhancing our partnering with our customers to better connect through their platforms to improve the consumer experience. Ensuring our brands and wines engage on the digital shelf as well as the physical shelf or menu is the paradigm shift in our business.

Investment behind innovation and inorganic opportunities supported by our strong balance sheet and disciplined approach to our capital allocation was a real highlight in the first half. Whilst the Frank Family Vineyards transaction was the most notable investment, the acquisition, as outlined by Tom, of incremental vineyard and winemaking facilities in Bordeaux was another important step towards growing our French country of origin sourcing to support Penfolds.

And as we look ahead, we'll continue to pursue opportunities to grow our portfolios, leveraging our strengths and building new capabilities to drive incremental growth and maximize our shareholder returns. The 3 heads of the divisions have already talked about numerous examples of how we are leading the categories through innovation. And whilst impressive, the work on our future pipeline over the multiple-year horizon ahead is even more exciting.

And finally and very importantly, we continue to take considerable steps towards embedding sustainability across TWE as we progress towards our sustainability ambition of cultivating a brighter future. Through this half year, we have refined our strategy and broadened the suite of targets and commitments against which we will hold ourselves to account. Most importantly, we have developed the specific initiatives to implement to achieve these targets with very clear road maps now in place.

We are also broadening our external networks to collaborate in this space, joining RE100, a global initiative bringing together the world's most influential businesses committed to 100% renewable electricity. And another highlight we announced in December was the establishment of the Sustainability Linked Loans of $1.4 billion of our existing debt, creating for the first time a direct link between our sustainability performance and our cost of capital.

Going forward, we certainly plan to include updates on our sustainability performance in each of our half and full year results investor communications. And we look forward to sharing that with you over time.

So to wrap up before Q&A. In the first half of fiscal ’22, we delivered strong underlying growth with group EBITS increasing by 28% outside of Mainland China, underlining the positive momentum that we now have globally across TWE. The transition to our new divisional operating model has been a success, and I’m very, very pleased with how our team are focusing on executing their respective priorities and plans.

And as I said at the outset of this call, we have shifted our focus from a mindset and work focus of recovery and restructuring to one of growth and innovation delivered through execution, and we have now entered a very exciting phase of our journey with significant opportunities before us in the global markets in which we operate.

Thank you for listening, and I’ll now hand over to the operator, who will open up the line for questions.

Question and Answer

Operator

— ***Operator Instructions*** — Our first question comes from Michael Simotas at Jefferies.

Michael Simotas

The first question for me is on the second half outlook commentary that you’ve given. And

I thought it was interesting that the first point in your outlook slide was that in the first half, you did 28% EBITS growth excluding China. You've given us some color on Penfolds. And then generally, you've suggested trading conditions will be similar in the second half to the first half. Should we be looking at that 28% growth ex Australian country of origin into China as reflective of what you might be able to do in the second half?

Matthew Young

Michael, it's Matt here. I think the – obviously, we've been fairly transparent and clear in how to think about the second half, both on a divisional and a group basis. And I think there's an element where you can sort of work through. I think particularly when we consider second half on second half, obviously, we're comparing 2 periods without China.

And the second thing I would probably highlight is more so in reflect of Asia ex China. So you'll see that we've delivered some very strong growth there in Penfolds of 119% NSR growth in the half. I'm certainly feeling quite confident around those markets, particularly as we build the availability in distribution and that we should be able to see continued growth fairly close with what we've seen in the first half into the second half in Asia.

Tim Ford

I think, Mark, if you think about it and look at Penfolds, and I'm sure it's a question most have after the first half of Penfolds operating in its own right. What we've tried to do with the statements we've put out there today with the first half, second half, 1% to 2% difference between those for Penfolds is just highlight that a Penfolds business globally without China, which was much more first half focused in terms of its selling pre-Chinese New Year, et cetera, the first half, second half difference, we don't expect to be as wide as what it was previously when we did have the China market. So we thought it was important to spell that out so that everyone did understand that as to how we now see the sort of mix between the half 1 and half 2 for Penfolds globally. So hopefully, that's helpful.

Michael Simotas

Yes. No, it does because we're all getting used to the seasonality. So that helps. And then the second question for me is around the supply chain pressures and costs. How do you sort of see that relative to what you saw in the first half? Do you think it's just more of the same or we're past the worst?

And interesting to see you talk about price increases. There are a couple of other U.S. producers that are talking about price, which probably gives some indication that it sticks. But I thought it was really interesting that you're talking about price in Australia given the concerns that many in the market have had about potential price pressure in Australia following the China tariffs. So any comments on that would be helpful.

Tim Ford

Yes, sure. I'll take the pricing discussion and then hand over to Matt for more of the supply chain piece. But we've been very deliberate with how we have looked at where we can take price increases around the globe and quite deliberate around it in terms of where our brands sit in price points today versus competitive sets, obviously, where price increases can be taken where we're not going to negatively impact the growth trajectory we have. And it is different in different markets, in different channels, in different countries around the world. So we've spent a lot of time in the last 2 to 3 months, in particular, being quite deliberate around that.

And it's not just price. It's also promotional mechanics and executions as well to make sure that we are, where we can, recovering some of the cost increases that Matt will outline in a moment, but not broad brush percentage increases across the board because that's – that doesn't help the consumer. That doesn't help our customers. And to be honest, it doesn't help the trajectory of our brands. So we've been quite deliberate on that front. So it's quite difficult to give a broad brush answer as I know some have in other commentary over the last week or so because that's not the approach we've taken.

Matthew Young

And Michael, on costs, we are essentially expecting a similar level into the second half. The impact on us, it's probably been in the range of $5 million to $10 million across the business, and we're expecting that to continue into the second half. It's important just to recognize, particularly in relation to our cost of goods, 55% to 70% of the makeup depending on the product comes from the cost of the grapes and the juice. So we are less exposed than others in this space, but not immune.

We've seen the costs rising in freight, particularly in container costs as well as packaging, whether – particularly those that are more energy intensive. So for us, those disruptions appear likely to continue into the second half, which forms the basis for our expectation. But as Tim said, we've got more – we are slightly less exposed. We've got mechanisms that we're looking at as well as a fairly good discipline in our business of mitigating cost increases, which we'll continue to seek to deliver as well.

Tim Ford

Yes. And I think that's come to light in these first half results. I mean it contains that in there. So we've managed to improve our margins whilst achieving that as well. And it's not your question, but I'm going to use the opportunity because I've got to give a shout to our supply chain team around the globe because to deliver the service levels and their ability to service customers with the performance that we outlined here today where there has been disruptions is just testament to their planning.

So we feel our ability to manage through this from a service and shipment point of view, which was a very small proportion of what our order book was in the first half that rolled into the second half, was an outstanding performance. So I know it's not answering your question, but it just prompted me to really share that because we're pretty proud of that.

Operator

Our next question comes from David Errington at Bank of America.

David Errington

I've got 2 questions, but they both entwine into one another. Matt, may I – this is probably directed to you. May I guide you to Slide 10, please, your inventory analysis. Now when I look at that, when I do the basic math of your current inventory, which, by definition, is your next 12 months of sales compared to your last 12 months of sales, if you do the math there, there is a significant step-up in the availability or what you plan to sell of [inventory]. And in terms of just doing the math, the current inventory of Luxury that you sold in the last 12 months was $248 million, but you're planning to sell $421 million of cost of Luxury wine in the next 12 months, which is a huge step-up. And on the flip side, Commercial at cost is going to drop from $297 million to $201 million.

So am I right in expecting for the next 12 months, and I know – I got to tell you, Matt, your political diplomacy in answering Michael's question was right off the top shelf. You answered it absolutely beautifully, but you didn't say anything. But may I go again, the next 12 months on the numbers of what you're planning to sell based upon your inventory, you're looking to sell nearly $200 million at cost of Luxury wine in the next 12 months. That is a huge step-up. Am I reading that right, Matt?

Matthew Young

Yes, David, you are right. I'll…

David Errington

If you look at the margin, the margin accretion that we can expect in the next 12 months is significant given the drop-off in Commercial and the step-up in Luxury. That's a huge increase in the next 12 months that you're planning.

Matthew Young

Yes. So a couple of things to call out, and I appreciate the commentary on my answers. Obviously, it is a 12-month view. So we have not been – we have not shied from the fact that as we head into fiscal '23 and beyond, increased building of the availability and distribution of Penfolds globally, the strength of our Premium and Luxury growth in other markets, TPB and TAM are expected to come to fruition. I think the results today suggest that we're on the right track.

So to that extent, we feel confident that there is a long-term trajectory. And you are right, that is a 12-month view of our expectations of inventory that will be sold over 12 months. I will say it's over 12 months. So fiscal '23 is important to remember there. I would just call out only the Commercial piece. A lot of that Commercial does represent the divested brands as well. So that's – there's a bit of a structural element to that. Yes.

David Errington

Yes. But just on the rule of numbers, the number step-up is huge. I mean you're talking nearly $200 million at cost of Luxury that you're going to sell in the second half of '21 and the first half of '22. That's a huge increase. So I don't think I've seen such a big step-up. So you obviously – this is flowing into my second part of the question, which is – I'll finish on this, but probably this is to you, Tim. And this probably goes into Slide 5.

Obviously, you've got huge bullish expectations that you're going to sell it. Which part of that slide is – you're likely to see opening up for you that you can achieve these really optimistic, bullish outlook? Is it the wholesale in Asia? Because – can you give us a bit of an overrun as to which part is holding you back at the moment and which part you're getting a sign that you could open up based upon reopenings?

Tim Ford

Yes. Thanks, David. Look, I think the other thing I'll add to the [inventory pace] is that the devil's in the detail around some of the cost of goods impact on different vintages as well. We can go through all of that in detail. But directionally, the point is important, which is it is based on a forward demand plan. So we are clearly optimistic of continuing the growth we've seen in the first half in multiple markets.

I think in terms of reopening, we – the way our plan looks at the moment is, yes, half 2, we're working on more of the same is actually a really simple way to look at it, brought from a channel point of view. Now that might change. But as we've seen in the last half, some channels end up performing better than what we expected. Some are behind. You have different moves each month across different markets.

But it doesn't change the overarching perspective, is that luxury channels and luxury markets as borders open up, as tourism begins, as travel starts to open up, as more on-premise and as more consumers get out and about as – back into cities, back on to corporate credit cards, all of those things that point towards incremental luxury growth across the globe, we expect those to continue to improve over the course of 2022, probably more into the next fiscal year than in this half, to be honest.

But that's how we see all of those channels going forward. I mean we – it's one of those areas with these channels where I think it's been an important way to explain what's happening in our business to this point. But I'd like to think that in our full year results, yes, we're working on a view that the channels are what the channels are. And as they continue to open up, we'll see improvement from a mix point of view, in particular, in our business as well.

But to be specific to your question around markets, Asia is continuing to be constrained as we know. Hence, why I think the performance in Asia is a standard that we're really pleased with and probably ahead of where our expectations would have been at the end of the 6 months given the constraints that still exist. So time will tell as channels open up as to what the difference is, but it's tough to actually really forecast that in detail, but the trajectory is strong.

David Errington

And Australia being held back, too, Tim. So there's a lot of room for optimism here in the next 12 months. So I'm really looking forward to seeing you guys get some positive momentum behind you. Well done.

Tim Ford

Thank you. And I think the other point to make is how we think about it as well as we build up – what we're focused 95% of the time is on how we're building distribution across the different channels and the different markets around the world. And that's the lead indicator. Now will consumers take our wine off the shelf compared to others? Well, we have to have it on the shelf to start with. So we're really, really pleased with the distribution gains we've made in the focused channels around all markets around the world.

Operator

Our next question comes from Richard Barwick of CLSA.

Richard Barwick

I just wanted to ask a question around China specifically. I just noted some China Customs announcement this morning they've seized some Penfolds, which was going in illegally into Shenzhen. Just wanted to know, do you guys have a view as to how much Penfolds is actually entering China illegally? So any sort of color you could give there? And then more widely, I think, on China. If you could give us a little bit of update as to what you are actually doing there, particularly within Penfolds, I suppose, under the new tariff regime.

How much of a market is there? Does anything persist? And how are you thinking about that on a forward-looking basis?

Tim Ford

No problem. I'll take the first one, and then I'll let Tom talk about what we're doing in Penfolds in China going forward as well, though your information, as always, is very, very much on the money, Richard. So we're certainly aware of an instance where a small volume – it's a small volume. I mean in the order of about 80 cases of wine has been seen at Customs. As we go through this monitoring process over the last 6 months I'll talk about, yes, we've seen a handful of instances of offers of our wines, which generally are combined with other wines as well. So there's packages of wine being offered to customers in China.

But as I said, it's – you can count them on one hand. And in terms of the volumes involved, they're always relatively small. So we – once we get that information, clearly, we investigate it. And we will find on the majority, and in the last 6 months, majority of cases, specifically, that yes, it's not our customers we're selling to. It's where it gets on sold to, et cetera, as well. So we can trace that back through. And we deal with it, and we deal with the customers that we deal with because of that.

Because it's important that we actually do monitor that. We do manage that. And our relationship and our ongoing dialogue with Customs in China, they are well aware of our commitment to doing that as well, and we work pretty closely with them on that front. So it's a continual monitoring. Interestingly, it comes from the U.S., it comes from Europe, probably more so than it comes from other parts of Asia when we do find these instances and investigate them. I mean that's just our ongoing process where we've got to maintain vigilance.

But key point is it's relatively small and relatively infrequent when it does actually come to our attention, to answer the specific question, because we've got to manage it. I touched on in the half at the last half, and I'll just reiterate it. We want to maintain our brand integrity and our pricing integrity and all things integrity-wise when it comes to product in China, and we're pretty vigilant on that.

But Tom, I'll hand over to you just to talk about, for Rich, the future view on how we're – what we're doing with Penfolds in China at the moment and then going forward, which I think is pretty exciting.

Tom King

Yes, sure, Tim. Thanks. And thanks for the question, Richard. We've maintained a pretty significant presence on the ground here in China with some key talent within the team maintained. At a consumer level, we still see positive demand for Penfolds across the board in channels where we still have inventory available. And with that inventory, as it makes its way through to the consumers, we're seeing the price increase continued to increase and pretty significantly in some instances. Clearly, there's more elasticity across some areas of the portfolio than others, and there is appetite from some of our customers for parts of the portfolio at tariff-inclusive prices.

So we are working with our customers, and we have a small level of Australian country of origin Penfolds coming into the market. It's still too early to make an assessment of how meaningful this will be ongoing. So the majority of our team's time and effort with our partners at the moment is continuing to focus on the portfolio from California, California Collection, our Penfolds Special Bottling range, which includes our brandy and champagne, and preparing in advance of the release of our first French wines later in 2022.

So we continue to invest behind the brand. But clearly, our focus is on the elements of the portfolio that aren't from Australia, building that awareness, building that demand so that we maintain a significant presence at a brand level with consumers in the market here. Clearly, that will evolve over time as we build out the multicountry of origin portfolio under the Penfolds Collection. But as we've always said, that won't happen overnight. We can't turn the tap on, on these things.

So no, lots of positive belief in our strategy on the ground with our partners here, lots of engagement with consumers that continue to appreciate the ones that we are able to provide, and we continue to monitor the situation in terms of the Australian portfolio with the elasticity side of things.

Richard Barwick

Tom, can I just follow on from that? Obviously, with the French must be being released in the August release, I take it from what you've said, what sort of volumes – and again, my understanding is the French Penfolds is basically targeted to China more so, but we've been told all along that the Californian Penfolds is designed more for the American product. And so therefore, there was very small volumes only available for China. Can you give us a bit more color there in terms of materiality? And how soon or how quickly would you expect to be able to get more of the Californian Penfolds into China? Is this in FY '23? Or we have to think longer dated than that?

Tom King

Look, the real positive from the release of the California Collection is that we're seeing huge demand for it globally. This is across the board. So we're having a tough time in terms of managing the allocation of that to where the demand is. Priority markets where we've been allocating that are absolutely the U.S. and where that is now supporting our ambition to build the Australian portfolio, and we're seeing some really strong results at the back of that, and also in China given the situation we faced at the moment with the Australian portfolio.

When it comes to French, look, this will be our first limited release in August. They will be small in scale and scope for that first release. Importantly, and this is really important when we talk about whether it's Californian, French or other countries of origin in the future, all of our wines will be absolutely made to a Penfolds House Style and the quality standards. And that's nonnegotiable in all of this. Clearly, over the coming months, as we look to release some more details of what those French lines are, we'll be more than happy to share more at that point in time.

Operator

Our next question comes from Darshana Nair at Goldman Sachs.

Darshana Nair Syama

First of all, a quick one on the Americas channel recovery. Can you provide us some color on how direct-to-consumer and on-premise channels are progressing and if there's any early progress on leveraging FFV strength in these areas to the rest of the portfolio?

Tim Ford

Sure. I'm going to just hand that straight to Ben because I think he's best placed to answer.

Ben Dollard

Thank you. With regards to the cellar doors and the reopening, look, we are seeing progressive openings in terms of how we're viewing consumers coming back. And we're pleased with that progress, and we expect that, that will continue through the second half. Now we've activated some really compelling digital programs around that and engaging with our consumers as they come back. And so again, really confident with regards to the programs we have in place and the playbook that we have in place to welcome consumers back.

With regards to Frank Family, look, it is an iconic location in Napa Valley and a very loyal consumer following. And we expect that as we integrate Frank Family into the broader portfolio and into all of our sites in Napa that we can certainly leverage Frank Family's expertise and also ours and combine them together to make, I think, for a really compelling experience.

And the same is true with regards to Frank Family's on-premise distribution here in California. We see it as an opportunity for a brand like Penfolds, as Tom just said, to continue to penetrate the on-premise, and Frank Family has done an incredible job, and we look to ride with that with regards to the rest of our Luxury portfolio as well. So as we saw it in the first half, we expect that trend to continue in the second half.

Tim Ford

Ben, you might just want to give some color to what you've seen over the 6 months in terms of the, I guess, demand through on-premise in the U.S. more broadly.

Ben Dollard

Yes, sure. Look, I think with regards to the on-premise, a similar story as to what we've seen with DTC, progressive reopening. The premiumization trend is continuing in the on-premise brands with stories. And certainly, trusted brands like within our portfolio are certainly finding a place in the on-premise, and that's what we're seeing with our Luxury portfolio brands like Stags' Leap and Beringer and Knights Valley. So again, as we as we continue to see progression in the on-premise, we are very well positioned. And we've also initiated through our Luxury selling team a very focused approach to the on-premise. So again, I think in the second half, we expect what we saw in the first half to continue.

Darshana Nair Syama

Yes, right. Secondly, on the CapEx program. You did mention there was going to be a delay in some of the programs into the next year. Can you give us some color on what exactly you're seeing? And which of these programs are being impacted?

Matthew Young

Sure. It's Matt here. Look, fundamentally, it's mostly in the technology space. So we had some programs of work in the consumer and some of the supply chain. We've prioritized the investment in our data and analytics program, [Program Helix]. But some of our projects have been a little bit delayed. They will still commence, but we won't be as progressed by the end of the year. So no stopping, but more availability of labor has proven a challenge in that space. So that's the major area where we've had some deferral.

Operator

Our next question comes from Shaun Cousins at UBS.

Shaun Cousins

Just 2 questions just related to TPB, I guess, the smallest business but with the most sort of upside to your EBITS margin target. I mean, Matt, could you help us with this? Just how are you thinking about Australia in terms of the impact of falling bulk wine and grape prices following the reduction in exports to China? You've noted that retail prices are held. Are you sort of expecting that to continue such that margins expand for you? And also, how does that sort of potential boost to your gross margins tie in with broader changes in sort of supply chain costs that you might be enduring as well, which you've called out also?

Matthew Young

Sure. There's a couple of elements, and I'll get Pete to build if there's any sort of elements he's got on the ANZ view as well. Look, longer term, we do see cost of goods improvement generally through the market dynamics, lower pricing for grapes and bulk wine but also the delivery of our supply chain initiatives of $75 million globally. So they are things that we see as things within our control that can deliver that impact.

Within Australia, we are seeing less, I guess, of the same supply chain impacts that we've seen globally. So some of those supply chain impacts around shipping, energy costs, which are predominantly hitting overseas at the moment, are less impacted in ANZ. However, yes, not as immune – not going to be completely immune or make a call on that longer term. So fundamentally, from a margin perspective in Australia, they would be, I guess, the cost drivers. And maybe, Pete, I mean, the other element from a margin perspective is going to be at the top line and the mix that we sell.

Peter Neilson

Yes. And for us, the focus for us is around that $10 to $30 portfolio. And so we've been actually looking at revenue growth as a growth driver as opposed to price deflation. Our customers have also spent a number of years now focused on driving price realization across the category. So I think there'd be an unwillingness to see that reverse in any way, shape or form. As Tim said earlier, we've looked at our brands around their ability to realize price, their brand health, competitive set, the occasion that we're going after and the consumer we're trying to talk to and repositioning brands accordingly. And to date, that work has been around price realization, not price deflation.

Shaun Cousins

Great. And maybe just secondly, again, just more skewed to TPB. Can you just talk a little bit about the size of your exports to the United Kingdom? Just in that TWE has been quite vocal about the potential changes in taxation in the U.K. Just curious around what the impact could be. You've broken out your EMEA business. Just – is that – is the U.K. half that or 2/3 that? But then also, does it skew more Commercial than other parts of your EMEA sort of business, please?

Tim Ford

Yes. I'll touch on the tax piece, and then I'm sure Pete is going to want to talk at length around our performance in the U.K. because it's going pretty well. Yes, the vocal nature of media, I guess, we've seen around the tax reforms, which clearly we've played a part, is the – there's 2 components to it. One is – and the most important part is the workability of the proposed tax reforms in the U.K. are going to be very challenging in their current form, the way it was proposed by Her Majesty's Treasury. And so we've been working very closely with them over the last period of time in terms of developing a more workable solution that we also think will allow the industry as well as us to mitigate, by and large, any of the flow-on cost implications as well.

So it's more around workability and actually being able to operate and trade in that market with the tiers of taxation that were being proposed. And I guess what was a fair bit of media a month ago, we are very confident and really happy with the way we've been engaged with the key bodies in the U.K., in particular, yet to come to a better solution from that point of view. So we're feeling much more confident down that path. Yes, the implication financially, to be frank, will be immaterial at the end of the day to our business.

But Pete, you might want to talk about some of the trends in the U.K. And the U.K. is the dominant part of our EMEA numbers for TPB.

Peter Neilson

Yes. As we shared in April last year, the U.K. and Nordics represent a significant part of our EMEA business. But what we have done through great supply chain management is delivered an exceptional first half in the U.K. specifically, where we've gained share across the board and been the leading growth supplier. But where we still see opportunities in the U.K. especially is how we continue to build our premium portfolio that's either Australian country of origin as well as U.S. Luxury wine opportunities.

We do see country of origin expansion as we build that out for – with a focus on Asia, it will still represent opportunities within Europe for countries of origin that we don't currently play in to allow us to continue to grow in the U.K. But what that will also do for us is give us the opportunity to enter new markets down the track with a relevant brand for consumers or relevant portfolio before we enter those markets. So we still see plenty of revenues for growth in that market, including Oz country of origin, but outside that as well.

Tim Ford

I think with Europe as well and TPB plus Penfolds, I think as we – one of the byproducts of the operating model is that the focus on that market and Europe, but particularly the U.K., given that was the topic of the question, yes, we certainly see now is probably more of a growth opportunity than I certainly have seen in the last 3 to 5 years. There's no doubt about that in my mind. Consumers are premiumizing, and there is demand for that wine.

I mean 19 Crimes is a premium part of our portfolio. It's probably not well understood, but U.K. is fast approaching the U.S. in terms of the volume sold of 19 Crimes across that globe. Trajectory is significant. I mean 19 Crimes globally for us is broadly 40% sold outside of the U.S. So whilst it's performing brilliantly for us in that market, the U.K. is leading the charge, as are some of the markets around Asia and ANZ as well. So our focus within TPB, given it is such a substantial part of their earnings and from a growth perspective, this operating model when you get underneath it is allowing us to, I guess, get more focused on delivery and executing opportunities there as well.

Operator

Our next question comes from Larry Gandler at Credit Suisse.

Larry Gandler

Two questions, naturally. Just with Asia ex China, net sales revenue growth of 119%, strong growth in distribution. Can you give us a feel for shipments versus depletion there? Obviously, you're building out distribution, whether the shipments-depletion ratio won't be neutral in the second half, you might still be building distribution.

Matthew Young

It's Matthew. Look, generally, the trend is following align shipments versus depletions half-on-half. There has been some strong depletions. We had, I guess, a build in the second half last year as we were building that out. Market by market, it is quite different. So it's hard to make a definitive percentage growth versus, but the most important thing is we look at inventory levels on a forward basis. They are consistent period-on-period. So generally, the shipment growth is driven by the depletions growth, which is driven by the availability in distribution, which is driven by the brand building activity. So it is the right trend, and the shipments are driven by that depletion trend as well.

Larry Gandler

So if I can just see if I can parse those words out, Matt. It might be that you are still building inventory in Asia ex China but anticipating greater sales. So the inventory levels are right for your expected sales.

Matthew Young

The inventory levels are right. They will be different in each market. I'll take a market like Taiwan or Korea, where we are slower in – we are a bit behind other markets like Thailand, Malaysia, Singapore in terms of that growth trajectory. But the inventory is there ready for that future growth.

Larry Gandler

Okay. Great. And just while – still the first question here, just in terms of China. You said 5 months of shipments in the PCP. Were there any shipments to China in the June half last year?

Matthew Young

Yes, there were. There were some shipments that cleared and went through in the second half last year into China.

Larry Gandler

Okay. So are those material in nature? Do we need to kind of consider that in our forecasting?

Matthew Young

I wouldn't – certainly wouldn't be expecting them to be repeated. And I think there's certainly enough information to understand how big they were. They weren't particularly big and certainly not meaningful in an ongoing trajectory.

Larry Gandler

Of course. Okay. Great. And the other question I had was around cost of goods and TPB. So you guys are indicating that hopefully, for you guys, grape costs might decline in the March '22 vintage. I'm just sort of, I guess, asking for some help around what sort of savings there might be as we look into TPB's margins for F '23 and '24. I think you called out that 55% of your costs are grape costs.

Matthew Young

Yes. I think – I mean, just to reiterate, we are seeing those grape price declines. They vary by sourcing region within Australia and the price points. The declines in grape prices are more likely at the commercial level. At the sort of Luxury, we're seeing slight declines, but nowhere near. And it's predominantly in the reds as well. So that is going to benefit Vintage '22 overall cost.

As we have called out today, just for absolute transparency, we will take in a slightly lower Vintage '22, which would mean we won't participate quite as fully as if we've taken in a full vintage. So that's important to recognize. And that vintage will be sold in later periods. In

Commercial, it will start being sold in fiscal ’23 and beyond. So it’s a long-term trajectory.

I don’t know, Pete, is there anything you wanted to add to how much that contributes?

Peter Neilson

More from a margin expansion perspective. As we said, our ambition to get to high teens hasn’t changed, but it will happen over multiple years. I think we’ve done a good job of growing margin in the first half. But as we think of margin expansion in the outer years, it will come down to multiple factors. It will be portfolio premiumization. It will be mix. It will be cost management, product strategy with our supply team. Plus we’ll see reopening of more profitable channels through global travel retail, cellar doors and on-premise. So there’ll be multiple factors that influence margin expansion with cost being one element of that.

Operator

Our next question comes from Ross Curran at Macquarie Group.

Ross Curran

Actually, I was just sort of wanting to dig a little bit more into Asia by countries. The Wine Australia data that came out a few days ago just gave us some pretty good detail on sort of country exports. But particularly, Singapore looks to have done exceptionally well over the last sort of 12 months. And I’m assuming you’re driving some of that. Are you able to give us a bit more flavor by country throughout Asia, what you’re seeing?

Tim Ford

First, I’ll reiterate, for the sake of being boring, that very – just be careful reading Wine Australia data as our performance, and I just can’t help myself but say that because it can confuse, Ross.

But that being said, your point is spot on. I mean Singapore, we’re certainly using Singapore as a hub, particularly through some of the shipping delay and supply chain challenges we've seen over the last 6 to 9 months in particular, getting product out of Australia into Singapore and then shipping further on to other countries, South Malaysia, Thailand, Taiwan. Tom has talked through a number of them through the opportunities that we're chasing and the growth that we're seeing. Singapore has played a key role in that, but largely to deal with our supply chain channels. And we think we're going to keep doing that because it's proven to be very effective in getting our product in a timely manner into the market.

So the Wine Australia data, which if I recall was up 100-odd percent plus over that period of time, a lot of it is driven by that from our perspective. Now I'm not going to comment on how others are doing it. I think as you see across that data as well, there's strong growth across all of the markets. And I think pleasingly, yes, you see Hong Kong returning back to somewhat of a normal trajectory in terms of inconsistent trajectory with other Asian markets, particularly for Luxury wine, which I think supports the point that I was saying before in terms of our management of potential parallel import risk that is a concern for a number of investors.

Operator

Our next question comes from Tom Kierath at Barrenjoey.

Thomas Kierath

Just a question on the Asia ex China growth. I think last time, you commented it was growing at 19% for the 3 months ended August. It's obviously accelerated a bit. Can you just talk through what's changed in the past? I guess it's 4 or 5 months in that market.

Matthew Young

Not a lot in our overall planning. Important to call out there, obviously, a very different period. We are shipping in ahead of key gift-giving periods. And that Q2 is always a much larger part of, I guess, the shipping profile for our business. So nothing significantly has changed in our overall plans or in our expectations when we talked at the AGM.

Predominantly, what we were looking to do at the AGM was probably provide more clarity around the products depleting and pulling through because there was some feedback and some questions off the full year results was how much of the shipment in, I guess, was, I guess, a stock build or pipeline build for the future. What we were trying to do was show that even in quieter times of consumption, we were seeing strong depletions. That was the reason for sharing that and ongoing repurchase. So as I – just to reiterate, no changes in our expectations of how that's performed over the half.

Thomas Kierath

Okay. Cool. And then you're also kind of commenting, I suppose, that distribution – the number of distribution points are increasing in Asia. So how long do you think that increases for? And when do you kind of get to like a steady state where you're in all the outlets or all the distributors that you want to be in?

Tim Ford

Yes. Tom, I'll hand that one to you. You're best placed to answer that.

Tom King

Yes. No, it's a great question. We still see significant runway ahead of us, not just in Asia but across the globe in terms of that distribution build. Previously, I don't think we necessarily have the visibility of the scale of the opportunity. But during half 1, we've actually set up a dedicated team to invest in proprietary data and insights that enables us now to identify at the outlet market across a number of – at the outlet level across a number of key markets where we're going to be prioritizing our distribution efforts. And we're now starting to see some initial results of that in terms of working with our – whether it's our third parties on the ground or the dedicated temple of things that we've put in place to run our business in various markets.

Some of that is now starting to come through, obviously, in the first half, and we're feeling increasingly confident that there is further scope to go. I'm not going to give percentages of further headroom ahead of us, but we've got a really clear road map now across a number of different markets, by channel, by outlet of how we're going to target, what portfolio we're going to put in place in each of those outlets and then how we're going to activate against that to drive greater sales.

So distribution is one thing. But it's that rate of still having that ongoing purchase, repurchase at the consumer level, which is where our marketing investment comes in over and above to build that awareness, build that demand. So a lot of positive progress on this level. Back to the work we're doing at a total company level around data and analytics, this is what is going to be driving our insight and our approach to building distribution over the long term.

Tim Ford

Yes. I might add a bit of spot-on answer. I think it's an important point I want to raise to explain the methodology of how we're executing and delivering against this because what we did when China was still the market that it was a couple of years ago for us as it was growing was we had great information to drive our distribution growth, right channel, right tier of distributor, right market, right city. And Tom and the team are replicating that now through the other markets in Asia, where having the right information has been challenging over a number of years.

By getting access to that, it allows us to be much more targeted. And it might sound a bit boring, but it's so crucial to driving that distribution and then understanding the velocity of that distribution for those outcomes. So we've been doing it for years in Australia and in America, et cetera, as well. And I guess bringing that to some of these other Asian markets is a really important, fundamental next step of how we're just going to keep delivering and executing over time. Thanks, Tom.

Operator

Our next question comes from Phil Kimber at E&P.

Phillip Kimber

I just also had a question on Premium brands, which was a great result, and just trying to understand how much that business can grow going forward because even with the great result, I think – and this is a pretty crude way of looking at it, but it's about 60 – the first half is about 60% of first half '19 EBITS, where the other 2 divisions are sort of around 80%. So I know you touched on it before, but what are the key drivers in sort of getting that to head back towards FY '19 levels? Is it the market opening up that's the biggest driver? Or is it going to be more about cost coming down and other cost savings? So I just wanted to maybe explore a little bit more what the key drivers will be?

Tim Ford

Yes. Thanks, Phil. There's a number of things we believe are still opportunities for us to grow that will play out over the next few years. What we have done in the first 6 months of operating under the new model is have the opportunity to really refine where we prioritize and focus and when. We can't do everything at once. We just simply don't have the resources to do that. So we've had to take a step back and actually lay that out over multiple years to focus on the right things at the right time for the foundations for future growth.

A couple of things that we're doing at the moment, China still represents a huge opportunity for us. And the first step was to actually get Rawson's reestablished in the market. So we moved that to South African country of origin. We've introduced a Chilean country of origin for that brand, which is highly recognized in the market and sought after as a foundation.

Now what we're doing is looking at the other brands we have and the role they can play in that market. And we see plenty of opportunities, both with priority brands that we've called out as well as creation of new brands into that market using different countries of origin. We're seeing great distribution gains in priority brands like Squealing – sorry, Pepperjack wins, 19 Crimes throughout the rest of Asia. Tim spoke about the growth of 19 Crimes into Europe. But even within Europe, the country of origin strategy will also allow us to play a bigger role in a market where we already have strong presence and great relationships.

So there's no one single thing. COGS will absolutely be a part of it and how we work with supply collaboratively to manage that and optimize it for the portfolio, but multiple avenues of growth over many years, but we've now laid that out clearly as to where we want to focus and when.

Phillip Kimber

Yes. That's great. Can I just ask a second one? With respect to a lot of the industry players, people are getting nervous now about the big Vintage '21. Who knows what V '22 is going to be like, but Vintage '21 was a big vintage. At the same time, Australia lost its biggest trading or export market, and there's concerns around excess supply and what that might do. You seem that fairly confident that retailers wouldn't use that opportunity to take price. Maybe if you could just explore that a little bit, if that's what – if I heard you correctly.

Tim Ford

Yes. Certainly in Australia, I don't see it. We're seeing premiumization across the board in Australia and in Europe. So that trend is continuing, and that's where consumers are wanting to shop. We're also seeing the growth of some of the emerging varietals. Rose has been in growth for a number of years now, but Malbecs, Tempranillo, Pinot, which all operate at a more premium price point.

And so being – continuing to be – or have offerings that the consumer is looking for means I don't see that we'll see a shift down because I think despite the ability to potentially take higher percentage margins when you look at it from a cash perspective, trading a consumer down wouldn't be a wise thing to do. So I think they'll continue to hold the line with where they are with their pricing across the market. And as I said, we're seeing that premiumization trend everywhere.

Ben Dollard

I think they're a really important dynamic to understand with this upcoming vintage. And there is going to be – most companies will be similar to ourselves, where going into Vintage '22, we need to balance our inventories with smaller intakes or carry some inventory over into Vintage '23. I think that's how most will manage it.

But the growing varietals and the lighter-style varietals and the white wine varietals, for example, I'm not seeing price reductions at all. If anything, in some instances, they're broadly flat, but there might be some small increase, whereas the traditional red, the Shiraz, Cabernet, those that are really impacted by what was a bulk wine market for China.

So it's the tail of different varietals as well, which then plays through the challenge around how you manage that from a price point of view that brands generally have the full portfolio across it as well. So with line pricing being the norm on most portfolios, particularly under $15, that's just a dynamic that I think will also add that complexity, too. So it's sort of another layer of detail, just to answer your question specifically.

Operator

Our next question comes from Bryan Raymond at JPMorgan.

Bryan Raymond

Just one for me. Just on the marketing costs. I'm just interested to see how you see that playing out over the next few years given Penfolds' reallocation, 19 Crimes, obviously, brand extensions happening and premiumization. Should we expect that to start rising? It was pretty flat in dollars and up a bit as a percentage of NSR. But just interested to see if that's sort of a level you expect it to remain at and that just gets reallocated or if there's actually investment in that marketing line that needs to happen to achieve your strategic goal?

Matthew Young

Look, it's Matt here. I'll start. Generally, we expect it to remain fairly consistent at a total global level. We think we invest fairly carefully within our brands. However, on a market-by-market and brand-by-brand basis, it will move around a little bit. Generally – and if I take Penfolds, for example, there are some markets where we need to do brand building effort. And in some markets, we will invest ahead of the curve in those and at higher levels. However, in other markets, we've got the right level.

And if I take divisions like TPB and TAM, probably the right level of investment, but we need to think differently and more clearly around where we invest that, whether that be in traditional or digital and making sure that our brands are being invested at a point where consumers are seeing them. So it is a multilayered answer to that question. But overall, we feel that we invest a good and the right level, but we're continually reviewing where is the right place to put that.

Tim Ford

It's a really, really, really good question. I think it's an important shift that each of the 3 divisions, in particular, are taking around where that investment goes. And I talked earlier about the digital shelf versus the physical shelf, and then you have the sort of the brand building, brand awareness piece on top of it as well. And yes, the mix within that is really important. And it can be a very efficient and effective use of funds in terms of you can get it right, driving the awareness and engagement through the digital shelf as well more than some of the traditional marketing methods. So it's – but we feel like our investment model we've got right now is pretty strong and is right for the growth that we expect to see going forward.

Operator

Our next question comes from Sam Teeger at Citi.

Sam Teeger

I appreciate that you haven't taken a broad brush price increase strategy across the portfolio. But if you're able to, can you please help us understand what proportion of your products have seen price rises and where you've done so, just a magnitude of them?

Matthew Young

Look, I can't – as you can reasonably imagine, we're in lots of discussions around the world on different things. Where I can tell you where we would do it, it's where brands have strong equity, where we – particularly where we're challenged with supply. So they'll be in the Luxury space and in those strong brands in markets where – and I think both Peter has talked about some of his markets and Ben as well, opportunities within his market as well, are going to be where. We've obviously included some word in here where we expect them to partly mitigate cost increases. So hopefully, that gives you a bit of a steer what it would do into the second half, but it's very difficult to give a specific.

Tim Ford

I'll give you one specific, Sam, which is New Zealand Sauvignon Blanc. It's been supply constrained. The market – the demand is significantly outstripping supply around the globe. So yes, that's – we're certainly targeting and focused on that in key markets around the globe. So that's one area. The rest of it's – we go – it will take us half an hour to go through, and we're not going to.

Sam Teeger

Okay. Fair enough. And can you discuss and quantify the first half earnings benefit, if any, from the transition to RNDC?

Matthew Young

What I can share, so we had around about 300,000 cases where essentially that was a benefit, I guess, in terms of shipments versus depletions, which is a one-off. And I think through structure of the P&L, you can work out what that has sort of delivered. So relatively minor. But I would say underlying trading has built up pretty well in Q1, and we feel like we're really hitting our rhythms there in Q2 with the RNDC transition. So we're very positive on that new relationship, particularly as it pertains to California given the growth that I think we've quoted there in distribution in California. So we're very positive about that for the long term.

Operator

The next question comes from Craig Woolford at MST Marquee.

Craig Woolford

Just wanted to – I like the Slide 5 that gives that traffic light of the channels. Any chance we can just get a better feel for how far off normality they are? I know that's a bit difficult to answer, but just trying to get a sense of what sort of revenue upside and probably more importantly the gross margin impact you'll have as some of those channels recover.

Matthew Young

Look, it's a bit – it's Matt here. I'll start, and maybe Tim and the team can provide some clarity on the ground. Just to the size and structure. I can point you back to previous versions of this slide where we showed what the size of these channels were pre-pandemic. We aren't sharing that anymore, but it is a reference base you can use because we're no – it is not right for us to guide to what that recovery would look like. We're now really talking about where the shape of these – but generally, and as you can imagine, going down the page, the margin improves as you go into on-prem, into direct-to-consumer and travel retail, partially because of products but also partially because of the structural change there.

I don't know, Tim, if there's more.

Tim Ford

Craig, I have nothing more to be able to give you detail because I'd love to know myself. It's something we're just monitoring on a week-by-week, month-by-month basis. And I guess that's – it's not trying to dance around it. It's really, really difficult to forecast that. And I think what we've seen over the last 2 years is our forecast that we have in each of our channels and each of our markets around the globe, we've seen different conditions month-by-month, quarter-by-quarter, et cetera, as well. But the balancing item of the different opening and reopening and pandemic conditions in the different markets has given us good strength across the globe, but very difficult to be specific going forward.

But thanks, Craig, and appreciate your patience there as well.

All right. Just to quickly wrap up. Firstly, thank you for joining us today. Certainly, our pleasure to share the results.

Quick summary for me. Yes. In the first half of this year, we've delivered against our objectives, and we're really pleased with that. Today, we've reiterated our long-term guidance as well. And the belief that the team has, I'm sure, has come through in the confidence we have in our growth agenda going forward. And with H2, we plan to deliver and execute more of the same. So I look forward to talking to a number of you over the next couple of weeks as well. And obviously, the team will get on and keep delivering. So thank you. Cheers.