THE AUSTRALIAN

SE Business

HD **Raiders to miss easy pickings**

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WC 815 words

PD 12 August 2014

SN The Australian

SC AUSTLN

ED Australian

PG 19

LA English

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Raiders too late for the easy pickings: insiders Even putting aside the extra $1 billion in value that private equity buyers are putting on Treasury Wine Estates, industry insiders say its prospective new owners will have their work cut out turning around a company with a patchy history of returns.

Unlike the standard slash-and-burn playbook of private equity investment, the heavy house cleaning Australia's wine majors have undertaken over the past five years means there is little low-hanging fruit for the new owners.

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Instead, the renewed interest in Treasury may be a bigger bet on an improvement in the macro conditions that have dogged the industry since at least 2007 when it was at its peak.

Between 1991 and 2007 it more than tripled in size from fewer than 400 million litres to 1.2 billion litres and achieved total revenues of $5bn in 2007. Exports surged from $212 million to $3bn, according to Winemakers' Federation of Australia figures.

Even with a rash of consolidation that has left Treasury the last man standing of a once thriving publicly traded wine industry, there has been too little demand growth to sustain an oversupplied market battling a high exchange rate, the emergence of supermarkets as competitors and the new-world wine producers from South America and South Africa.

From 2007 to 2012 the value of wine exports fell by $1.3bn, even allowing for the growth of the Chinese market.

Against this backdrop Treasury has suffered management upheaval — in Michael Clarke it is on to its third chief executive — that is the antithesis of the focus its separation from the Foster's brewing business in 2011 was supposed to achieve.

But set that against the increase in price that mooted buyer KKR has put on Treasury with a $3.4bn price tag, against $2.4bn-$2.7bn that was being mooted with the 2010 approach from Cerberus.

That's an extra billion dollars that is being ascribed to largely the same assets, even after the trauma of more writedowns since the initial approach. If nothing else the increase in price — not to mention the mere presence of serious money chasing these assets — indicates that after years of tough conditions there are some people starting to factor in some sort of upside for the wine industry.

By many estimates the industry is in better shape to profit from a recovery when it comes, having undertaken serious cost-cutting to counter the glut of grapes and the surge in the Australian dollar.

In 2011, when CHAMP Private Equity bought an 80 per cent stake in Accolade Wine, the owner of Australian wine brands such as Hardys and Banrock Station had already been through two years of rationalisation, which included sacking 350 staff and selling three wineries and 23 vineyards in 2008.

Accolade remains a work in progress, but the business has already put runs on the board. It is reported to have doubled profit, and last year landed a three-year deal to supply British supermarket giant Tesco's with home, exclusive and branded **wine**, making them the largest customer in the northern hemisphere.

Accolade also ceased packaging in Australia, focusing instead on Europe's biggest bottling plant in Bristol, to shift some of its costs into the currency of one of its biggest export markets.

A third bottling line for that plant has just been approved on the back of that Tesco contract and another with Morrison's supermarkets.

The macro environment remains against it, but a revamped management team — CHAMP replaced about half the senior managers, including the CEO — has been pinching bits here and there, waiting for the cycle to turn.

It is an imperfect comparison — Treasury is a larger **company**, produces and sells more into the US, has a higher weighting to premium **wine** and has already had to go through much of the harsh restructuring in the full glare of the public eye.

In a process that began before being spun out of former parent Foster's in 2011, TWE has over the past five years consolidated Australian production in a handful of huge facilities, **sold** off 3000ha of vines and three smaller wineries.

It has scrapped dozens of low-selling brands and hived off others such as Queen Adelaide into a manufacturing and distribution deal with SA cordial maker Bickford's. But even with a range of high-end brands it is beholden to conditions that are forecast to remain tough for a while to come.Analysis for the Winemakers' Federation of Australia by Centaurus Partners says the industry will continue to grapple with structural problems including the legacy of over-investment for export markets that have not just failed to grow but collapsed in value from a peak of $3bn in 2007 to $1.85bn in 2012.

CO trzwn : Treasury Wine Estates Ltd

IN i41 : Food/Beverages/Tobacco | i426 : Wine | ialco : Alcoholic Beverages/Drinks | ibevrge : Beverages/Drinks | icnp : Consumer Goods

NS ccat : Corporate/Industrial News

RE austr : Australia | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB News Ltd.

AN Document AUSTLN0020140811ea8c0003q

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