

SE Report on **Business**
HD **Private equity's** growing taste for **wine**
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Australia's Treasury **Wine** Estates receives two multibillion-dollar offers as it struggles against low-priced competition

The Australian maker of well-known **wine** brands including Penfolds, Beringer, Lindeman's and Wolf Blass is the subject of a multibillion-dollar takeover battle as it fends off a glut of low-priced competition.

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Melbourne-based Treasury **Wine** Estates Ltd. has been struggling for a couple of years, particularly in the United States, the world's largest market for **wine** imports, as it faces a global oversupply of low-priced Australian and southern French **wine**. Last year, the **company** was forced to destroy thousands of gallons of product past its drink-by date, leading to a \$160-**million** Australian (\$162million Canadian) writedown for 2013.

On Monday, the struggling vintner announced it had received a second offer from an unnamed bidder to **acquire** the **company** for approximately \$3.38-**billion** (Australian) or \$5.20 a share. The new, non-binding offer matches one made by New York private **equity firm** Kohlberg Kravis Roberts & Co. LP in partnership with Rhône Capital last week.

According to reports, the new bidder is Fort Worth, Tex.-based TPG Capital.

Whichever **firm** wins, observers suggest they could turn a profit either by spinning off the better-performing parts of the **business**, or by refocusing the marketing of brands that many say have become undervalued. Treasury **Wine** Estates, KKR and TPG Capital all declined to comment.

"You have properties such as Chateau St. Jean, it's doing a pretty good job ... On the flipside you have something like Meridian, which they have allowed to degenerate," said Tony Correia, founder of industry consultancy Correia **Company**. That is despite the fact that the Santa Barbara-based **brand** historically turned out decent wines, and had some cachet. "... It's on the shelves in the [U.S.] grocery stores, and it's always the subject of some two-for-one **sale**."

Beringer, too, has launched lower-priced versions of its product, which has caused the entire **brand** to appear more down-market.

That's a problem for Treasury because the market for lowerpriced wines in the U.S. is highly competitive and is not growing. By comparison, while the market for wines over \$15 is still very small, it has more growth potential.

"It's your classic aspirational **wine** market," said Barbara Insel, chief executive officer of Stonebridge Research **Group** LLC in California, and a global industry consultant. "And yet, the Australians have approached the U.S. as a cheap and cheerful market..."

Maybe [the bidders] saw a depressed [stock] price. You just have to talk to a few people in the industry in the U.S. to see that there's room for improvement, and the brands are undervalued."

The global **wine** industry has seen a shift: European **wine** sales have been in decline as consumers who traditionally drank **wine** are moving to other beverages.

Meanwhile, **wine** consumption in North America has grown. Many vintners have also marketed their brands heavily in **China**, where aspirational consumers are developing a taste for it. However, Treasury was among the **wine** makers affected by a government crackdown on gift-giving last year, which hit sales.

Treasury **Wine** Estates is the world's second-largest publiclytraded **wine** maker, after U.S.-based Constellation Brands Inc. It was spun off from Foster's **Group** Ltd. – maker of Australia's most famous lager – in May, 2011. Foster's has since been acquired by SABMiller PLC.

TPG, formerly known as Texas Pacific **Group**, owned Treasury's largest **brand**, California-based Beringer, before it was **sold** to Foster's in 2000 for \$2.9-**billion**.

Treasury also faces an image problem for its Australian wines. The popularity of competing **brand** Yellow Tail, which peaked in the U.S. two years ago, has cast a pall, Ms. Insel said. Many people now associate Australian wines with sweet shiraz, rather than complex or high-end products.

(Treasury owns more than 80 brands produced in Australia, the U.S., New Zealand and Italy.)

Treasury does not just suffer from greater competition in lowend wines; it also struggles with managing its supply. Cheaper wines actually do not get better with age, so a **company** that sells them cannot ride out a lull in demand by shelving its products; hence last year's big dump.

Since then, observers have been waiting for takeover bids to emerge, Mr. Correia said.

"They do have a sizable portfolio of brands and properties," he said. "A play could be to install some new management ... that could be a fairly long-term, and expensive proposition, to turn this back into a highly profitable **company**. It's going to need some really effective, strong management."

BIG **BUSINESS**

\$3.4-**billion** Takeover offer (in Australian dollars) for Treasury **Wine** Estates.

15.3 **million** Nine-litre cases shipped by Treasury **Wine** Estates in the first half of 2014.

\$811-**million**Treasury **Wine** Estates' sales in the first half of 2014.

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