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HD **Treasury Wine Douses Earnings Fears**

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SYDNEY-- KKR & Co. is under pressure to raise its 3.05 billion Australian dollar (US$2.86 billion) bid for Treasury Wine Estates Ltd. after the winemaker cooled fears of a profit warning.

Treasury Wine shares jumped as much as 6.8% to A$5.16 on Wednesday--well above KKR's A$4.70 bid price--after Chief Executive Michael Clarke refrained from adjusting profit guidance.

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Instead, Mr. Clarke told investors on a conference call that promotions were helping to increase wine sales in the final weeks of the company's financial year, which ends in June.

Some equity analysts recently said an earnings downgrade was possible given the scale of improvement needed in the second half to deliver on guidance, which was provided in January.

"I haven't said we've delivered [on the guidance]," Mr. Clarke said on the investor call. But he added: "We're clearly, as you can sense, feeling pretty positive." Treasury Wine reports full-year earnings in August.

Treasury Wine also said Wednesday it will record a A$260 million write-down linked to slowing demand for mass-market wines in the U.S., and a reassessment of the cost of some earlier acquisitions. Mr. Clarke flagged the potential need for a write-down in April.

The bigger concern for investors is if Treasury Wine fails to meet its guidance for operating earnings of A$190 million to A$210 million. Operating profit ignores the impact of any impairments.

"KKR were probably hoping they'd miss guidance," said Jamie Nicol, Brisbane-based chief investment officer at Dalton Nicol Reid, which owns more than 4 million Treasury Wine shares. "With good management execution, we see value well in excess of the implied value from KKR's initial bid."

KKR approached the vintner with its offer on April 16, which was rejected a month later; Treasury said it was too low. The private-equity firm hasn't said whether it plans to raise its offer.

If it doesn't, Treasury Wine may join a list of failed Australian deals in recent years for the New York firm--including rejected bids for a fund manager and an underwear manufacturer.

If KKR does raise its bid, Treasury Wine might get an owner that would cut costs and sell assets. A KKR spokesman declined to comment Treasury's latest announcement.

Treasury Wine's standing pat on guidance indicates it rightly expected to perform much better in the second half than in the first, when the company reported earnings of just A$46 million.

Treasury Wine, which sells its products mainly in Australia, New Zealand and the U.S., owns wines ranging from the mass-market Beringer label to the premium Penfolds Grange brand.

Mr. Clarke said Treasury Wine released new wines under the Penfolds label that would be promoted heavily this year through special incentive deals with liquor stores.

"The first-quarter promotion we've put in place, which is massive, that's clearly helping us pull through the inventory from the release," he said.

Treasury Wine investors have become accustomed to write-downs in recent years. Just before the business was spun off by beverage-maker Foster's in 2011, the company announced a A$1 billion impairment charge linked to an Australian grape glut and weak U.S. sales.

And last year, Treasury Wine announced a A$155 million write-down after it was forced to destroy thousands of gallons of unsold wine in the U.S. that had passed its drink-by date. The incident prompted the departure, in September, of former Chief Executive David Dearie.

The company's expansion plans have also run into problems, particularly after Beijing moved to clamp down on extravagant gift-giving by government officials, which hurt Treasury Wine's hopes that China would become a big new market.

Treasury Wine's long-running problems have been reflected in its shares, which closed at A$4.07 the day before KKR's bid went public.

"Today's announcement of an asset impairment further highlights the need for Treasury Wine to do things differently," said Mr. Clarke said. "The current business model is not being optimized."

KKR could choose to revise its bid or go hostile by taking the offer directly to shareholders. A hostile bid would require KKR to convince investors Mr. Clarke will struggle to turn the business around.

Mr. Clarke once steered Kraft Food Group Inc.'s European business, and has held senior positions at Coca-Cola Co. He has said he wants to steady Treasury's ship by focusing on the company's most profitable brands and cutting costs.

One measure will be to change the seasonal release date of Penfold wines to October--from March and May currently--to help increase its availability for key festive periods, such as Christmas and Lunar New Year.

The Penfolds brand has garnered a huge following among drinkers and collectors alike, with bottles of the rarest vintages, including Penfolds Grange, selling for tens of thousands of dollars.

The company also said it would revamp its Australian and New Zealand businesses by creating "commercial" and "luxury" categories and by giving each unit its own manager. Meanwhile, its Asian and European operations will begin to be managed independently.

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