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SE **Business**

HD **Why the future is not so rosé in the world of wine**

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SO A bid battle has broken out for Australia's largest wine producer Treasury Wine Estates. In the red corner is initial bidder US private-equity firmKKR alongside Rhône Capital. In the blue (or should that be white) corner is rival privateequity firmTPG Capital.

Both have bid A$3.4 billion (£1.9 billion) for the Australian business which owns such quaffable wine labels as Lindeman's, Rosemount and Wolf Blass.

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Both bidders, it seems pretty clear, will, somewhat unusually for privateequity buyers, be aiming to shrink rather than grow the business if they are successful.

The reasons for this seemingly bizarre strategy are quite simple. There is a global oversupply of cheap drinking wine with the South Americans more than giving the Australians a run for their money over the past few years. Quality has been rising while prices have stayed flat.

On the fine wine front my own experience tells the tale.

Way back in 1988 I bought a case of Penfolds Grange Hermitage 1980 (Bin 95). It was sold to me by a persuasive Frenchman in the Shepherd's Bush branch of Majestic at, for what then seemed to me a pricey £19.99 a bottle. But a Frenchman recommending a wine from the New World was then quite a rarity.

He suggested it would not really be drinking until the turn of the century. I took that advice and broached the first bottle in May 2000. It was well worth the wait.

In the meantime I have monitored the price of the wine as the vineyard changed hands from SABMiller to Foster's and eventually to Treasury. It touched a peak of just under £1000 a bottle but has now come back to around £350 a bottle. A fine investment if I had not drunk all but the last two bottles by now.

Just like Treasury and the major French chateaux I have been hit mainly by the clampdown on bribery and corruption among Chinese businessmen and officials. The bottom has fallen out of what was an overdone market.

Unlike Treasury I do not have to suffer massive financial writedowns on the prices it paid for wineries purchased in the past. Nor do I have to worry about how I am going to sell hectolitres of less fine cabernets and sauvignons in the future.

Whether KKR or TPG walks away with the spoils, the victor is going to have to do some major work on the business and the brands. It is one of the oldest lessons in business. It is better to make money from selling less for more than to simply pile the stuff high and sell it cheap. It will be long and hard work and I suspect the bids may actually come down rather than go up before the takeover is completed. Certainly at £1700 a case I have yet to be tempted to buy the most recently released Grange 2010. Any more generous offers? Leg work: Street entertainers perform on the Royal Mile at the Edinburgh Fringe

**CO** rhcap : Rhone Capital LLC | tpgpar : TPG, Inc. | trzwn : Treasury Wine Estates Ltd

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