FINANCIAL REVIEW

SE Companies and Markets

HD **Ghosts from Foster's past**

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WC 1,370 words

PD 4 October 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 38

LA English

LP

Inside the deal TPG's Project Fitzpatrick had some expert advice from ex-Foster's **wine** men, but KKR's Project Southern Cross offered higher value.

A towering figure loped into the United States head office of Treasury **Wine** Estates in the picturesque Napa Valley **wine** region in California in mid-August. As a potential $3.4 **billion** takeover loomed, the presence of Pete Scott, a former chief financial officer of Foster's **Group**, was an intriguing twist to an already complicated private **equity** play for the locally listed **wine** producer.

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Scott had been the chief number-cruncher for the Australian beer and **wine** giant from 2002 until early 2008 when he was based in Melbourne.

Strolling into the Napa Valley office with Scott was Walt Klenz. Klenz is also a person very familiar with the inner workings of Foster's and the Beringer **wine business** in the US. The US is at the centre of Treasury's troubled times over the past 18 months and its poor performance in that region is part of the reason why Treasury found itself fending off takeover bids. Klenz had in the 1990s been the chief executive of the same Beringer **business** in California which Foster's paid an eye-popping $2.9 **billion** for in 2000 to dramatically expand its global **wine** operations.

Scott and Klenz both live in California and run the Vincraft **Group**. They were two secret weapons enlisted by private **equity firm** TPG as part of its "Project Fitzpatrick" tilt to try and over-take rival **firm**Kohlberg Kravis Roberts in a battle to produce a winning bid of up to $3.4 **billion** for Treasury.

Treasury split off from Foster's in mid-2011 to become a separate entity, with **wine** brands including Penfolds, Wolf Blass, Rosemount and Lindemans, plus the large US **wine business** led by the Beringer **brand**.

Ultimately both KKR and TPG have come up empty-handed for now after an exhaustive due diligence process, Treasury will continue on as an ASX-listed **company**. But it has a much deflated share price.

More than $460 **million** has been wiped from the Treasury market capitalisation since the **board** led by chairman Paul Rayner officially announced on September 29 it had ended talks with both suitors because they wouldn't pay the price tag the **board** wants.

Treasury's **board** and advisers from Goldman Sachs led by investment bankers Christian Johnston and Zac Fletcher, who code-named their defence Project Kingdom, had a large amount of input from offshore fund managers who own stakes in Treasury.

They included Wellington Management, Capital **Group** and Harris Associates. Those fund managers were convinced that even at the indicative price outlined in early August of $5.20 per share the private **equity** firms would be racing off with Treasury at the bottom of the cycle.

Treasury chief executive Mike Clarke spoke to many of them on post-results investor roadshows overseas after the **company**'s unconvincing full-year results on August 21.

They were buoyed by the latent value of large amounts of Penfolds wines in storage due to come out onto the market over the next two years, plus a weakening Australian dollar which lifts the bottom line by $2.3 **million** for every one cent drop against the US dollar.

A series of phone hook-ups were then held with fund managers in the days leading up to Friday, September 26, most of whom thought $5.20 per share undervalued the **company**. Treasury set a 5pm deadline on September 26 for the suitors to show their final wares, to try and bring matters to a head. KKR was closest to the $5.20 mark with its indications of value, and had its financing completely locked in under the deal, code-named Project Southern Cross. It was well ahead of TPG. TPG wanted an extra week to see if it could get to the upper end of a range it had been working in of $4.50 to $4.70 per share. It was refused.

A pre-arranged Saturday morning Treasury **board** phone hook-up was reminded of the resolute view of big shareholders that $5.20 wasn't enough. But had KKR really played its last hand? Was this part of a broader tactical game? There were further phone calls between advisers over the weekend seeking absolute finality.

After one last re-read and check by **company** boffins early on Monday September 29, Treasury fired off an announcement to the ASX, revealing the plug had been pulled. It had been an exhausting and distracting six months since KKR first approached Treasury.

Nomura's joint head of investment banking John Hanson, and its executive chairman Peter Meurer worked closely with KKR and its junior partner Rhone Capital. KKR's **Hong Kong**-based consumer expert Steve Ko, and KKR's Australian boss Justin Reizes were closely involved.

A profit downgrade by Treasury on January 30 originally sparked KKR into action. It made an initial approach in mid-April, which wasn't publicly disclosed until a few weeks later by Treasury. The prize, if secured, would sit in KKR's Pan Asian Fund II, a monster $6 **billion** fund hunting across Asia for good deals.

There was extraordinary cross-over in specialist advisers used by both firms. KKR enlisted the help of former Coca-Cola Amatil managing director Terry Davis early in the process. Davis was running Foster's **wine business** in 2000 when it bought Beringer for $2.9 **billion**. Scott, an American who was finance director for Beringer at the time of that acquisition, then shifted to Australia to work for Foster's in 2002, while Klenz in late 2001 took over running Foster's entire global **wine** operations while still based in California. Klenz was abruptly put into that role when Davis left Foster's to begin his 13-year stint running the CCA soft drinks **business**.

TPG had been eyeing the Treasury**business** for more than three years. Project Fitzpatrick, named after former Carlton premiership captain Mike Fitzpatrick in the AFL, who is now a Rio Tinto director, has been alive since 2011. TPG is understood to have made an approach to Foster's about buying a **stake** in the Treasury**wine business** just before the de-merger of Foster's in May, 2011, but was spurned.

The glitz of showbiz also cast its shadow in the sales process.

Treasury's chief executive Clarke walked into Goldman Sach's Los Angeles headquarters at Fox Plaza on the Avenue of the Stars in LA in early September for a lengthy five-hour meeting with up to 60 bankers and financiers from TPG's bid team. At that point things were getting very serious. Treasury itself on August 29 announced it was delaying its annual meeting for shareholders because it may need to coincide it with a scheme of arrangement meeting where shareholders would vote on a buyout deal.

High-flying Los Angeles is in stark contrast to the Builders Arms Hotel in the trendy inner Melbourne suburb of Fitzroy. In all of the high-stakes negotiations, there was room for a laugh. Soon after TPG came roaring into the bidding process with a $5.20 indicative offer on August 11, Clarke, his chief financial officer Tony Reeves and TPG's key Australia executives Ben Gray and Simon Harle were invited to a dinner by Goldman Sachs bankers to foster good relations. The location was locked in at the Builders Arms. It was discovered only at a late hour they didn't have Treasury wines on the **wine** list. Some hasty BYO of Treasury's finest was organised.

Treasury shareholders though won't be laughing much now. The shares are wallowing around the low $4.20 mark. That is despite the **company** revealing on September 29 that trading was ahead of budgets on revenues and gross profit after the first three months of 2014-15. A week ago the shares were $4.92. The private **equity** suitors have vanished for now, but there is a strong sense among many in the market they could make a return.

CO trzwn : Treasury Wine Estates Ltd | eldixl : Foster's Group Ltd | tpgpar : TPG, Inc. | sabrew : SABMiller PLC

IN i41 : Food/Beverages/Tobacco | i426 : Wine | i427 : Brewing | ialco : Alcoholic Beverages/Drinks | ibevrge : Beverages/Drinks | icnp : Consumer Goods | ifinal : Financial Services | iinv : Investing/Securities

NS gwine : Wine | ccat : Corporate/Industrial News | gcat : Political/General News | gfod : Food/Drink | glife : Living/Lifestyle | gwbs : Wine/Beer/Spirits

RE austr : Australia | usa : United States | apacz : Asia Pacific | ausnz : Australia/Oceania | namz : North America

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