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HD A SOBERING THOUGHT

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Treasury **Wine** Estates, the world's largest listed **wine company**, is fighting for its corporate life. Rural Editor Nigel Austin reports.

TREASURY **Wine** Estates, owner of many of the nation's greatest **wine** brands including Penfolds, the jewel in the crown of the Australian **wine** industry, is once more fighting for its future.

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As rumours circulate about the potential for another takeover of the **company**, the **wine** giant is under siege from a plummeting share price, a series of profit downgrades and criticism of its management.

Its share price has nearly halved since it peaked in May of last year, crashing under the weight of a series of issues including its decision to destroy aged **wine** in the United States, the dumping of former chief executive David Dearie on September 23 and profit downgrades.

Treasury's raw figures have been disappointing since its first year as a stand-alone **wine company** after being demerged from the Fosters **Group** in 2011, when it **sold** 33.2 **million** cases of **wine** for \$1.758 **billion** and achieved earnings before interest and tax (EBIT) of \$195.2 **million**.

The **company**'s problems went from bad to worse yesterday, when its half-year results showed the outlook is considerably worse for this year with the first half result down 38.9 per cent to \$45.8 **million** as the **company** flounders, struggling to identify its future in a sea of **wine**.

It blamed austerity measures in **China** for impacting on consumer demand for premium **wine** and a series of on-going problems in the Australian and US markets.

It has trebled its production since 2001, when Southcorp and Rosemount **Estate** merged to form Australia's largest **wine company**, producing 11 **million** cases of **wine** a year.

Through organic growth and a series of mergers and takeovers, Treasury has ended up owning more than 80 brands, including some of the great names of Australian **wine**.

The pantheon of famous names includes Penfolds, Lindemans, Rosemount **Estate**, Wolf Blass, Wynns Coonawarra **Estate**, Mildara, Seppelt, Great Western, Saltram, Jamiesons Run, Rothbury **Estate**, Yellowglen, Devil's Lair, Seaview and Leo Buring.

Treasury and a series of forerunners have struggled for success in the past three decades as it has trodden a difficult corporate path, through six different owners and a myriad of chief executives.

As in the days of legendary winemaker Max Schubert, when **company** executives famously tried to prevent him from making Penfolds Grange, the questions again surround whether the **company** is failing despite its winemaking excellence.

For despite its technical expertise in grape growing and winemaking, something is not quite right at the winemaking giant.

At a time the **company** claims an overwhelmingly optimistic outlook for the world **wine** industry, its sales are static and it faces trouble in a series of markets.

Acting chief executive Warwick Every-Burns went further yesterday, describing the **company**'s previous structure and operation as inefficient.

"This **company** does not have good enough processes and systems in some instances," Mr Every-Burns said. "Our processes and systems will be reviewed." Mr Every-Burns said it was very disappointing to have to report a 30 per cent decline in earnings before interest and taxes for the first-half year, and he blamed the performance on decisions made in early 2013.

In an analysts' briefing yesterday, he was met by a critical and sceptical investment community and a lack of faith in TWE's ability to turn the situation around.

Criticisms included the lack of **wine** experience among its three key decision makers, while analysts slammed its disappointing Christmas sales and decisions to raise **wine** prices and reduce promotion during the critical sales period.

Company executives later admitted that Treasury was not likely to regain that lost market share this half.

Analysts were also sceptical about the outlook for this half-year, describing the **company**'s forecasts as being over-optimistic.

But Mr Every-Burns remained steadfast: "We are extremely confident that our brands and the strength of our products will see the **company** through this period." Treasury's troubles last year came to a head when Mr Dearie ordered the destruction of **wine** in the US. In destroying it, Treasury made a \$160 **million** provision (before tax) to destroy old and aged **commercial** stock, ensuring only the freshest and best quality wines are available for **brand**-conscious US buyers.

Mr Dearie left the **company** two months later, little more than two years after his appointment just before TWE's demerger from the Foster's **Group** in May 2011, leaving **board** member Warwick Every-Burns in temporary charge.

Legal proceedings were launched against TWE on November 4, on behalf of a **group** of shareholders claiming the **company** had breached its continuous disclosure obligations in connection with the performance of its US operations, between August 17, 2012 and July 14, 2013.

Treasury denied the claim, but the ensuing storm that erupted following its decision to destroy the **wine** (announced on July 15), signalled a sharp decline in its share price.

The investing community has been left sceptical about the **company** and its ability to achieve the potential that goes with being the world's largest listed **wine company**.

Yet, despite the problems, it continues to win a string of awards and accolades, including 100 points by both Robert Parker's **Wine** Advocate and **Wine** Spectator magazine for the 2008 Penfolds Grange. Wolf Blass also won the red winemaker of the year award last year.

Nowhere is the famous **company** more significant or important than in South Australia where it owns five wineries, Wolf Blass, Penfolds (Nuriootpa and Magill), Rosemount in McLaren Vale and Wynns Coonawarra **Estate**. It also owns 7350ha of vineyards, employs 1000 people and operates seven cellar doors and two restaurants here.

Treasury, also the proud owner of 11,000 hectares of vineyards, is critical to the Australian **wine** industry. It is not only the flag-bearer for Australian **wine**, it provides considerable strength to the entire national industry, buying grapes from growers and employing more than 3500 winemakers, viticulturists and other staff here and in 15 other countries.

This six months will prove critical for Treasury, especially the release of the **company**'s all important Penfolds red wines and the need for a great sales result.

But the best prospects for a revival emerged yesterday, with the **company** appointing a new chief executive, Michael Clarke, who will take up his position on March 31.

Chairman Paul Rayner **sold** his incoming chief executive as one of the best credentialed executives ever to come to Australia.

His background includes transforming Premier Foods in Europe from a basket case, after achieving excellent results at both Kraft Europe and Coca Cola in north west Europe. If Mr Clarke succeeds at

Treasury **Wine** Estates, it should help turn it from being the world's largest listed **wine** producer to the world's best **wine company**, with commensurate benefits for the whole of the Australian **wine** industry.

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