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HD **Treasury Wine** Warning Sinks Investor Hopes  
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SYDNEY—Australia's Treasury **Wine** Estates Ltd. knocked down its forecast for full-year earnings, pouring yet more disappointment on investors who are accustomed to bad news.

The owner of **wine** labels ranging from the mass-market Beringer to the prestigious Penfolds Grange said it now expects operating earnings between A\$190 **million** and A\$210 **million** (US\$166.7 **million** and \$184.3 **million**). That compares with its October guidance of between A\$230 **million** and A\$250 **million**. Treasury's fiscal year runs through June.

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Treasury **Wine**, whose dozens of other labels include Greg Norman Estates, St. Clement, Stag's Leap and Lindeman's, pinned the earnings downgrade on difficult conditions in the U.S., **China** and Australia. Its shares fell as much as 22% in Sydney on Thursday.

The bleak statement crushed what hopes there might have been that the vintner was close to turning the corner after six months of turmoil. During that period, Treasury's chief executive was dismissed and thousands of gallons of **wine** had to be poured down the drain.

Treasury **Wine** said it would provide a fuller update of its operations at its first-half results on Feb. 20.

The problems in the U.S. were well documented in July, when the Melbourne-based **company** incurred a A\$155 **million** charge after overestimating demand there. The miscalculation forced Treasury **Wine** to steeply discount or destroy older vintages that had passed their drink-by date.

About two months later, the **company** dismissed its chief executive, David Dearie, and still hasn't found a new one. A previously nonexecutive member of the **board**, Warwick Every-Burns, remains his temporary replacement.

"Any investor should be skeptical," said Brad King, a portfolio manager at Armytage Capital, which **sold** all its Treasury **Wine** shares last year. "There's no one running the place and the current **board** is part of the old regime. Any new CEO's probably going to wipe the slate clean, so there are further risks to the downside."

Another disappointment was **China**, once seen by the **company** as a beacon of hope. Prospects for its premium wines there have soured as economic growth continues to slow and Beijing clamps down on extravagant gift-giving among businesses and government officials as part of an anticorruption drive.

**China** accounts for about a fifth of Treasury **Wine**'s sales volume in Asia, according to some analysts.

In Australia, the vintner's decision to lift prices on some of its cheaper labels over the Christmas holiday appears to have backfired—hurting sales over a normally buoyant period.

**Wine** imports to Australia have also jumped in recent years, particularly from New Zealand, which produces white varietals such as Sauvignon Blanc that have steadily gained a reputation for quality

and value. Government figures show imports account for about 16% of Australia's **wine** market, compared with around 7% seven years ago.

Treasury **Wine** also said U.S. sales remained lackluster, with costs rising following heavier investments in branding. Australian wines rose to prominence in the U.S. during the 1990s, but their appeal has waned as South American exporters boosted their output.

"All three divisions appear to be struggling, given a multitude of reasons, but most likely reflecting a lack of leadership and direction," said Daniel Broeren, a Sydney-based analyst at CIMB, in a note to clients.

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