

**HD**      **UPDATE 3-Australia's TreasuryWine rejects \$2.9 bln KKR bid**

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**LP**

\* Shares jump ahead of expected higher bid

\* 3rd reported takeover bid in three weeks

**TD**

\* Treasury counting on Penfolds to boost value (Adds Breakingviews link)

By Byron Kaye

SYDNEY, May 20 (Reuters) - Australia's TreasuryWine Estates is betting its Penfolds brand and a cost-cutting new CEO will boost earnings and justify its decision to reject a \$2.90 billion takeover offer from private equity giant Kohlberg Kravis Roberts & Co LP.

The world's No. 2 winemaker declared its glass was half full on Tuesday as it announced it had rejected KKR's bid as too low, sending its share price above the bid value as investors rushed to get in ahead of any new offers from other parties.

Asia's growing appetite for wine, the value of the Penfolds label and an ongoing restructuring are helping turn perceptions of Treasury's prospects around after a horror 2013 saw profits slump 38 percent in the six months to February.

"The KKR bid presumably is based on the old earnings expectations and the board's backing the new CEO to run the business a lot better than previous management," said Morningstar analyst Daniel Mueller.

"Penfolds has a lot of brand value that would be worth a lot. I would think they would hang on to all (wine labels) in the absence of some ridiculous offer."

Melbourne-based Treasury said U.S. firm KKR made the offer on April 16. The winemaker had planned to keep the offer secret but disclosed it after KKR approached investors directly.

KKR confirmed that it had made the offer and had discussed it with Treasury shareholders in the past week. A spokeswoman for Wellington Management Co LLP, Treasury's biggest shareholder, declined to comment.

Treasury shares soared 18 percent to A\$4.80, a 2 percent premium to the KKR offer, as investors braced for a higher offer either from the New York-based private equity firm or another party.

"Despite offering what we believe is an already reasonable price, we believe it most likely that KKR will further sweeten their bid in coming weeks, albeit not materially higher," Macquarie Securities (Australia) Ltd analysts Craig Collie and Ben Tedder said in a research note.

#### NEW LEADERSHIP

Treasury's shares have fallen from an all-time high of A\$6.43 a year ago amid slashed earnings forecasts, oversupply problems in its U.S arm and sluggish sales in China.

Treasury's problems are reflected in the broader Australian wine industry which has struggled through volatile market conditions and a high currency in recent years.

Australian **wine** sales fell 1.9 percent annually to A\$5.7 **billion** (\$5.33 **billion**) in the five years to 2013-14, although they will stabilise by 2019 thanks to growing sales to Asia, market research **firm** IBISWorld said.

Treasury - which posted sales worth A\$1.7 **billion** in the 2013 financial year - has tried to stave off takeovers by cutting costs and installing new CEO Michael Clarke in April.

Former CEO David Dearie was sacked in September last year after presiding over a A\$160 **million** charge due to the destruction of thousands of gallons of cheap **wine** exported to the United States.

In a separate statement on Tuesday, the **company** said a Clarke's efficiency drive will generate A\$35 **million** in savings in the 2015 financial year by shedding jobs and rationalising office space, I.T. and non-essential spending.

Treasury has also said it is counting on a forthcoming Penfolds release to boost sales in the second half of the 2013-14 financial year.

In February, Bank of America CorpMerrill Lynch analyst David Errington wrote that the Penfolds label alone was worth about A\$3 **billion** and Treasury's U.S. assets were worth A\$800 **million**, Australian media reported.

Earlier this month, Treasury denied media reports that French liquor giant Pernod Ricard SA and U.S. **wine** behemoth Constellation Brands had made separate approaches for its U.S. **business**. (\$1 = 1.0696 Australian Dollars) (Additional reporting by Stephen Aldred; Editing by Stephen Coates)

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