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HD **Treasury Wine Estates Rejects KKR Takeover Offer**

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SYDNEY-- Treasury Wine Estates Ltd. rebuffed a 3.05 billion Australian dollar (US$2.85 billion) takeover bid from KKR & Co. L.P., even as the world's No. 2 vintner grapples with setbacks, including poor sales last year in the U.S., which forced it to destroy thousands of gallons of wine.

The rejected bid sets the stage for the U.S. private-equity firm to either raise its A$4.70-a-share cash offer for the vintner, go hostile or walk away.

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If KKR pulls out, Treasury Wine will become the latest in list of failed Australian deals in recent years for the New York firm that included rejected bids for a fund manager and an underwear manufacturer.

If KKR does raise its bid, Treasury Wine, which was spun off from brewer Foster's Group a few years ago, may get an owner that will cut costs and sell assets to squeeze more value out of its global brand portfolio.

In a sign that investors believe KKR will raise its bid or another bidder will step forward, Treasury Wine shares closed up 18% Tuesday in Sydney at A$4.80.

"KKR is looking to split it up, clean up the U.S. business for an eventual trade buyer who can benefit from synergies," said Will Seddon, a portfolio manager at Sydney-based White Funds Management, which owns Treasury Wine shares. "There's a lot of debate about what the company is worth, but in our view the stock isn't cheap, so the offer price isn't a lowball number."

Treasury Wine, which owns the mass-market Beringer label and the premium brand Penfolds Grange, among others, said it held initial talks with KKR after being approached about a deal on April 16. The vintner, advised by Goldman Sachs Group Inc., then decided to make details of the offer public after learning that the private-equity firm's adviser, Nomura, had approached some of its shareholders. KKR confirmed it made a takeover approach, but denied it had jeopardized any confidentiality commitments when it unilaterally approached the vintner's investors.

A KKR spokesman wouldn't comment on whether it is prepared to raise its offer.

A series of missteps by Treasury Wine, which counts Constellation Brands Inc. as its biggest rival, has made it a vulnerable target for private-equity firms.

The value of Treasury Wine nearly halved in the 10 months through March, in large part due to problems in the U.S., where it overestimated sales of brands such as Beringer and was forced to destroy wine that had passed its prime. The wine destruction, which involved crushing bottles with steamrollers, was the basis of a A$155 million write-down and contributed to the departure of former Chief Executive David Dearie in September. Treasury Wine's U.S. unit is based in California's Napa Valley.

An attempt by Treasury Wine to raise prices in Australia before the Christmas holiday season also backfired by scaring consumers away. Meanwhile, hopes that China could become a big new market were dented by Beijing's campaign against extravagant gift-giving by government officials, which has hurt demand for premium brands.

Australia hasn't been a happy hunting ground for KKR. Its biggest takeover attempt in the country unraveled in 2007, when it pulled the plug on a bid for supermarket chain Coles, which was eventually bought for about A$20 billion by Australian conglomerate Wesfarmers Ltd. In 2010, KKR failed in an attempt to buy fund manager Perpetual Ltd., while in 2012 it backed away from a move on underwear and workwear maker Pacific Brands Ltd. An attempted IPO of its Australian mining investment Bis Industries Ltd also flopped at the end of last year, although an investment in health-care specialist Genesis Care in 2012 was more successful.

Australia is one of the few counties in the Asia Pacific region, apart from Japan, where private-equity firms can deploy large amounts of money and buy out targets. In China, for example, investors are often limited to minority stakes. Private-equity firms including KKR, Blackstone Group L.P. and TPG Inc. are flush with cash after taking advantage of buoyant share markets to sell earlier investments worth hundreds of billions of dollars combined. Indeed, KKR raised US$6 billion for a new Asia fund, its biggest ever private-equity fund devoted to the Asian-Pacific region, and a deal of Treasury Wine's size, if it goes ahead, could dent that.

If it makes a new offer, or decides to go hostile by taking the bid directly to shareholders, KKR will need to convince investors that Treasury Wine's new Chief Executive Michael Clarke won't be able to turn the business around quickly and help its share price.

Mr. Clarke, who once steered Kraft Food Group Inc.'s European business and has held senior positions at Coca-Cola Co., joined Treasury Wine on March 31. He wants to steady the ship by focusing on Treasury Wine's most profitable brands and by cutting costs. A spokesman for Treasury Wine said Tuesday the company intends to lay off about 5% of its staff, or 175 positions.

"There's a number of brands in our portfolio that we can nurture and strengthen," Mr. Clarke said Tuesday.

Analysts said the company faces a tough road to recovery, even if it is able to fend off KKR's advances.

Problems have trailed Melbourne-based Treasury Wine since its 2011 spinoff from Foster's, which was later bought by SABMiller. Back then, a glut of Australian grapes and weak sales in the U.S. weighed on profit. It made a A$1 billion write-down of the business before the spinoff.

The Australian dollar's relative strength--it was above parity with the U.S. dollar from October 2010 until May of last year--has made Australia's products less competitive against wines from rival regions, such as California's Napa Valley and South American markets. The company has also suffered from changing U.S. wine tastes, with consumers increasingly opting for more expensive labels than the mass-market offerings that are Treasury Wine's U.S. focus.

Some analysts and investors have called on Treasury Wine to sell its U.S. business, or even look to create a new company for premium assets such as Penfolds that could be listed on the Australian Securities Exchange.

"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," analysts at Macquarie said.

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CO kkr : KKR & Co. L.P. | trzwn : Treasury Wine Estates Ltd

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