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HD **KKR borrows $1.4b for Treasury bid**

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United States private **equity** firms Kohlberg Kravis Roberts and Rhone Capital have a debt package worth about $1.4 **billion** all but finalised for the proposed $3.4 **billion** buyout of Treasury **Wine** Estates. They will run the **company** with lower gearing than in normal private **equity** investments.

The two firms also have teams primed to spend most of their due diligence period on the troublesome United States operations of Treasury because they regard this **business** as the biggest potential swing factor in formulating a final, binding proposal.

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KKR and Rhone are thought to have signed agreements with several firms for the debt package, including Credit Suisse, Nomura and Bank of America Merrill Lynch. They are all predicated on satisfactory due diligence. KKR and Rhone plan to use a conservative gearing ratio compared with traditional private **equity** investments because **wine** is an agricultural industry subject to seasonal conditions and fluctuating earnings.

The debt component is thought to be about 40 per cent. The introduction of New York-based Rhone Capital into the bidding vehicle with an intended 15 to 20 per cent Treasury **stake** if the offer is successful, has reduced the level of **equity** required by KKR, but combined, it will be about $2 **billion**.

Treasury, which owns brands including Penfolds, Wolf Blass, Rosemount, Lindemans, and Saltram, got a higher buyout offer from KKR and Rhone on Monday, pitched at $5.20 a share. It was 50¢ higher than a previous offer from KKR in mid-April of $4.70.

Treasury shares jumped more than 4 per cent on Monday after the higher bid was revealed and gained a further 2¢ on Tuesday to close at $5.17.

Advisers and lawyers for both sides are close to finalising a confidential agreement to allow KKR and Rhone to begin due diligence. They are likely to get access to the inner workings of the **company** later this week.

The Beringer Vineyards operations in California and the broader United States operations are a major focus for KKR and Rhone, given the major blunders at Treasury have been in the US, including the infamous mis-reading of the market in 2013 which resulted in overflowing stock levels in third-party US distributor warehouses of cheaper commercial **wine**. This resulted in the destruction of 6 **million** bottles of **wine**.

Treasury chief executive Mike Clarke was in his Melbourne head office on Tuesday working on his own strategic plans. **China**'s Bright Foods has ruled itself out as a Treasury buyer. US drinks giant Constellation Brands is an unlikely rival bidder after chief executive Robert Sands signalled in July when the **company** released its quarterly results, that the focus was on paying debt and not large acquisitions.

It comes as debate rages about the potential impact of a change in ownership of some of Australia's most prestigious **wine** brands to private **equity** firms. The private **equity** model generally revolves around owning a business for between five to seven years, before it is sold again in either a public float or a trade sale.

Mitchell Taylor, the chairman of Australia's First Families of Wines, an umbrella body of 12 family-owned wine companies with long histories, said the wine industry needed long-term planning and decisions that may not pay off for a decade.

"In the wine game I don't think it's good for the industry if there's that short-term quick-buck, in-and-out mentality. You do need that patient capital," he said.

Mr Taylor is managing director of Taylors Wines, based in Clare Valley, South Australia. It belongs to Australia's First Families of Wine which also include companies such as Brown Brothers, Henschke, Yalumba and Tyrrell's Wines. He said the family-owned groups would invest in the business, knowing the benefit may not flow fully until the next generation took over.

"We're looking at generational investments and decisions."

CO kkr : KKR & Co. L.P. | rhcap : Rhone Capital LLC | trzwn : Treasury Wine Estates Ltd

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