

HD Treasury **Wine** Warning Sinks Investor Hopes

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SYDNEY--Investors in Australia's Treasury **Wine** Estates Ltd. are accustomed to bad news. But what the world's No. 2 winemaker said on Thursday must have disappointed even the most optimistic among them.

The maker of vintages ranging from the mass-market Beringer **brand** to the prestigious Penfolds Grange said it expected operating earnings in its financial year through June of between 190 **million** Australian dollars (US\$166 **million**) and A\$210 **million**.

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The top end of that range is A\$20 **million** below the bottom of the **company**'s October guidance of between A\$230 **million** and A\$250 **million**.

Even the lower end of the revised guidance could be in doubt, given the **company** anticipates earnings in the first half of its financial year of A\$46 **million** at most.

The vintner's bleak statement crushed what hopes there might have been that the **company** was near turning the corner following six months of turmoil that has seen its chief executive dismissed and thousands of gallons of unsold **wine** poured down the drain. Its shares fell as much as 22% in Sydney.

Treasury **Wine**, whose 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.

The problems in the U.S. were well documented in July, when the Melbourne-based **company** announced a A\$155 **million** charge incurred 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 Melbourne-based 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's 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.

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

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