HD **Wine lovers face sour taste as private equity eyes off Grange**

BY Julie McIntyre, Lecturer in History at University of Newcastle; Paul Docherty, Senior Lecturer, Newcastle Business School at University of Newcastle

WC 1,020 words

PD 22 May 2014

SN The Conversation

SC CONVAU

LA English

CY Copyright 2014. The Conservation Media Group.

LP

Penfolds Grange is in the news again, a month after a 1959 bottle of Australia's most iconic wine figured in the resignation of New South Wales premier Barry O'Farrell. This time it is attracting attention as the ultra-premium status of the multi-vineyard Shiraz blend from South Australia tempts corporate raiders.

TD

After circling for some months around Treasury Wine Estates (TWE), American-based private equity firmKohlberg Kravis Roberts (KKR) has this week made a failed bid to take over the company which is the world's second largest wine group and ailing owner of a suite of international brands, including Penfolds.

If KKR does succeed with a subsequent offer, its priority to maximise returns to its shareholders will see it prise apart TWE's assets in order to harvest the most profitable for resale, starting with Penfolds - the undisputed star in the firmament of Australian premium products.

Bleak future for unprofitable brands

Under such a carve-up of assets however, the fate of unprofitable brands is bleak. Familiar brands that have been discounted out of profitability will disappear, unless reinvigorated by new owners.

Of greater concern is the fate of premium brands on a lower tier than Grange but which still boast historic origins and vineyards of recognised terroir.

Such brands may be safe for now, but this next stage of corporatisation in the Australian wine industry may threaten the medium- or long-term future of many grape growers and winemakers.

Big businesses have consistently failed to understand and properly manage the wine business, impairing the overall reputation of premium Australian wine and reducing the diversity of affordable Australian fine wines in our drinking glasses.

The irony is that international perception of the quality of Australian wine brands – and Brand Australia in wine sales and tourism – depends on historical ties to vineyard sites and experience in wine making. This is emphasised on the websites of Treasury Wine Estates and fellow wine giant Pernod Ricard Australia where early Australian vineyard plantings and wine enterprises are represented as treasures.

A less known story than KKR's attempted raid is this week's announcement that Pernod Ricard Australia is to close the cellar door at Australia's oldest extant vineyard and winery site - Wyndham Estate in the Hunter Valley. In a wine world that continues to be heavily influenced by French concepts of wine history and heritage, such sites are gold.

While this closure will have little impact on wine products available, it serves as a cautionary tale about the future of wine history as Australian cultural heritage, as the fate of TWE unfolds.

Ripe for a takeover

Australia's wine corporatisation trend first began in the 1980s with the growth of Southcorp into Australia's biggest winemaker after it acquired a number of small vineyards. In 2005, Southcorp was acquired by the Foster's Group, but in 2011 Foster's spun off its troubled wine division into the renamed Treasury Wine Estates.

TWE has been vulnerable for a takeover. It is asset rich but has been performing poorly since its demerger. Its financial woes are due chiefly to the reduced demand for premium wines following a **Chinese** government crackdown on expensive liquor and an international over-supply of **wine**.

Symbolic of its problems was last year's destruction of **millions** of gallons of **wine** in the United States and a sudden reversal in January of its discounting of premium brands.

Private **equity** ownership would signify a more stringent move along this continuum, as private **equity** funds are diversified investors who seek to make a quick return without any interest or attachment to the underlying **business**.

There are concerns this sort of ownership would continue the recent devaluing of brands by failing to protect valuable vineyards and historic roots, threatening the quality and diversity of products in the national – as well as global - **wine** glass.

"Safe" and not-so-safe brands

According to a report in the Australian Financial Review, KKR is being joined by other potential bidders. But so far the **business** media has ignored the impact on the wider Australian **wine** industry, consumers, and the communities that host the history and heritage of lower tier brands.

TWE does not report individually on **brand** profitability but brands such as Penfolds, Lindemans, Saltram, Seppelt, Wolf Blass, Wynns, Heemskerk and Coldstream, which can all trade on genuine historical narrative in their marketing and valuable terroir, are likely to be safe.

Rosemount, which has been devalued as a fine **wine brand** through heavy discounting in British supermarkets, is not on our "safe" list of TWE assets. Also not safe - if KKR takes control and assumes wines are like toys, luggage or Oreo cookies - are Annie's Lane, Jamieson's Run and Ingoldby.

While the future of Australian **wine** mattered less to domestic consumers in the past, our status as a **wine** drinking, as well as a **wine** making country, has changed that. In other **wine** market news this week, as it was reported that the United States has for the first time overtaken France as "the biggest internal market in the world in terms of volume", Australia placed ninth in the same measure of world **wine** consumption.

At the heart of fears over the consequences of a takeover of TWE is that some goods and services lend themselves to corporatisation and others don't. The **wine** industry is adamant that its products are in the second category. Whether KKR will be prepared to acknowledge this is doubtful.

Julie McIntyre's book First Vintage: **Wine** in Colonial New South Wales (Sydney: UNSW Press, 2012) was published with support from the **wine** industry. She collaborates with **wine** companies on historical sociological research while also publishing critical **wine** studies scholarship independent of industry.

Paul Docherty does not work for, consult to, own shares in or receive funding from any **company** or organisation that would benefit from this article, and has no relevant affiliations.

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

IN i81502 : Trusts/Funds/Financial Vehicles | i8150203 : Private Equity | ialtinv : Alternative Investments | ifinal : Financial Services | iinv : Investing/Securities | i41 : Food/Beverages/Tobacco | i426 : Wine | ialco : Alcoholic Beverages/Drinks | ibevrge : Beverages/Drinks | icnp : Consumer Goods

NS cacqu : Acquisitions | gwine : Wine | c18 : Ownership Changes | c181 : Acquisitions/Mergers/Takeovers | cactio : Corporate Actions | ccat : Corporate/Industrial News | gcat : Political/General News | gfod : Food/Drink | glife : Living/Lifestyle | gwbs : Wine/Beer/Spirits | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

RE austr : Australia | nswals : New South Wales | apacz : Asia Pacific | ausnz : Australia/Oceania

PUB The Conversation Media Group Limited

AN Document CONVAU0020140523ea5m0000f