THE AUSTRALIAN

SE Business

HD **Nice touch, but last-gasp Penfolds promotion too little too late …**

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WC 1,010 words

PD 9 August 2014

SN The Australian

SC AUSTLN

ED Australian

PG 34

LA English

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AS private equity giant Kohlberg Kravis Roberts looks to wrap up its $3.4 billionTreasury Wine Estates takeover, the world's biggest listed winemaker is relishing its last gasp of independence.

Instead of meekly accepting its fate, new Treasury boss Mike Clarke is seriously considering an expansion of the company's largest-ever promotion — a discounted, $650 wine fridge with every six bottles of high-end Penfolds wine — into its other regions, which include the Americas, Asia and EMEA (Europe, the Middle East and Africa).

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So successful has the promotion been in Australia that stocks of precious Penfolds have been flying out the door.

Unfortunately for Treasury, it's too little too late.

It won't alter the course of the takeover, but Clarke has at least shown some grit and a willingness to back his flagship brand, which is more than some of his predecessors could claim.

On Monday, KKR and its partner Rhone Capital kicked down the door at Treasury, forcing the board to engage and offer due diligence by lifting an indicative, $4.70-a-share proposal, made on April 16 by KKR alone, to $5.20 a share.

The revised offer is indicative as well, so there is no guarantee that a bid will emerge after due diligence, let alone one that carries a $5.20-a-share price tag.

Despite this, the terms are seen as attractive.

The 14.7 EV/EBITDA (enterprise value divided by earnings before interest, tax, depreciation and amortisation) multiple might be well south of other wine transactions, but many of those comparable deals were in the noughties, when Treasury's former owner Foster's was splashing money around, believing that the global grape shortage would last forever.

For example, Foster's disastrous $3.2bn purchase of Southcorp in 2005 equated to an eye-watering multiple of 18.2, but even that was topped by Peter Lehmann's 19.4 multiple when it was snapped up for $169 million in 2003 by Hess Group of Switzerland.

Times are very different now, with the industry reverting its traditional position of a wine surplus, with badly burned investors now much more conscious, as well, of agricultural risk.

At $5.20 a share, many Treasury shareholders will be savouring the 41 per cent premium to the company's $3.69 closing price on April 15 — the day before KKR first approached the target's board.

However, longer term investors — those who got their Treasury stock from the Foster's demerger in 2011 — will shudder when they add up accumulated losses from the brewer's ill-advised multi-beverage strategy, which kicked off in 1996 with the $482m purchase of Mildara Blass.

Had it stopped there and been satisfied with the high-returning Mildara, Foster's could have been remarkably well placed. Instead, it was enticed by the whiff of global scale and relevance, shelling out $2.7bn for Beringer in California's famed Napa Valley region.

Then-Mildara boss Ray King had refused requests to make overtures to Beringer. Undeterred, Foster's went ahead and bought it in 1999, three months after King retired.

The circumstances surrounding the 2005 Southcorp deal are even more grim. While the Southcorp deal was itself bad enough — King said in 2010 it was "just stupid" — The Australian has learned it could have been far, far worse, with some directors at the time pushing for a dual-pronged acquisition strategy.

If they'd had their way, it would have been Southcorp-plus — the local winemaker in addition to US-based Constellation Brands, which was considering bids at the time. Constellation never came under Foster's umbrella, but it almost played a role in de-risking the Southcorp deal by acquiring the latter's low-end, commercial brands such as Lindemans, which remain troublesome to this day.

In its wisdom, Foster's chose to do all the heavy lifting and ultimately paid for it, with KKR/Rhone's $3.4bn bid for Treasury representing all that's left of Foster's $8bn **wine** folly.

If the bid proceeds, the Penfolds **brand** will have its seventh corporate owner since 1976 — a tale of misery for one of the nation's best-loved brands that, even now, accounts for about 75 per cent of Treasury's profits.

Treasury, understandably, wants to avoid the disruption of a prolonged, non-exclusive due-diligence program. If no other bidders emerge, it's hoping to shut down the data room within four to six weeks.

Clarke, in the meantime, will make every effort to ensure it's **business** as usual. On Monday, he urged 3500 Treasury employees in an email to concentrate on delivering the 2015 financial year's plan and ensure that speculation about the **company**'s ownership "does not distract you from making, marketing and selling our fabulous wines".

Clarke, for his part, will continue to implement his June strategy, which has attracted a surprising level of support for a **company** that has given new meaning to the description trouble-prone. It involves a reorganisation of the **company** into separate divisions, focused on the one hand on high-end, luxury wines and, on the other, lower-end, commercial wines.

There's also a large-scale cost-cutting program, with 5 per cent of the workforce to go, and a major rationalisation of Treasury's "tail" of smaller and underperforming brands, in a bid to lift returns.

While the plan would require patience from shareholders, they won't be stuffing their pockets with KKR cash in the short term, either. With due diligence taking four to six weeks, a scheme meeting to arrange and the deal almost certainly requiring sign-off from the **Chinese** regulator MOFCOM (Ministry of Commerce), expectations are that completion won't occur before September 2015.According to JPMorgan, the present value of the current indicative offer is $4.73-$4.95 a share. Still, it's a lot better than $3.69 last April.

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

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