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HD **Winemaker takes stock**

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Treasury Wine Estates pulled off a rare feat on Wednesday. It announced a significant asset write-down, and sent its shares up by almost 5 per cent.

A survey of Treasury's wine businesses and brands has generated a write-down of up to $260 million after tax that will be included as a non-cash item in its result for the year to June 30 when it is released in August. Mid-range wines in the United States are the source of most of the write-down, and it is a significant hit, equal to about 8.6 per cent of shareholders' equity.

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A mixture of investor relief, speculation and appreciation of the way new chief executive Michael Clarke is changing the company overwhelmed the write-down news, however.

Treasury's shares closed 24¢ higher at $5.07 - 8.5 per cent above a $4.70 share approach from US price equity groupKohlberg Kravis Roberts that Treasury said on May 20 had been rejected.

There was relief that Treasury didn't downgrade earnings guidance that had already been cut by $40 million, to between $190 million to $210 million in January.

Clarke didn't say outright on Wednesday that January's guidance would be met, but he did say that he felt "pretty positive".

He is boosting Treasury's marketing budget by 50 per cent and a fridge giveaway that will accompany purchases of $200 of Penfolds wine in the new financial year is already boosting wholesale shipments.

With the June 30 rule-off date only four days away, a profit result within the guidance range looks assured.

There was also speculation on Wednesday that French luxury house LVMH, China's Bright Foodgroup and the US wine, beer and spirits conglomerate, Constellation Brands, were considering bidding for all or part of Treasury.

KKR is still understood to be the only suitor or potential suitor to have made contact with the company.

Counter-bidders would probably wait for Treasury's profit result and KKR's next move before showing their hand, however, and the speculation also supported Treasury's share price.

Finally, there was support for the changes the new CEO is making, and his stronger focus on premium wine sales in particular.

Clarke announced that Treasury would separately manage the Australian premium wine business that centres on Penfolds and shift the launch date for wines including Grange and Penfolds Bin labels from the March quarter to mid-October.

The moves are not without risk. They introduce change to a Penfolds range that already sells out every year, pull premium vintages forward by six months, and pitch premium vintage launches into the final months of the year, the pre-Christmas corridor that is already crowded with luxury brands.

Several key executive positions are also unfilled.

Clarke says he is aware of the risk of being swamped in the Christmas rush and is discussing ways to avoid it with retailers and distributors.

He also says the $260 **million** write-down is part of a "reset" for the **group**, and he has two reasons to move quickly.

New CEOs need to recognise inherited problems and take action early, or they end up owning them. And in this case, Clarke also needs to show that he can unlock the hidden value that KKR targeted with its takeover approach.

Treasury's premium **wine** stocks have grown from about $50 **million** to about $280 **million** since 2011. Profits from the build-out are ready to flow, and when they do the value of Penfolds and Treasury's premium **wine** stable will be highlighted.

Clarke and the Treasury**board** decided that KKR's $4.70 a share approach didn't value the potential, that KKR intended to capture the value for itself, in effect.

With KKR still circling, the onus is on Treasury to show that it can also extract the hidden value, however. Absent a new offer from KKR or another suitor, Treasury may have just bought a bit more time to do so.

CO trzwn : Treasury Wine Estates Ltd

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