FINANCIAL REVIEW

SE Companies and Markets

HD **Tables turn on Treasury's Rayner**

WC 1,325 words

PD 31 January 2014

SN The Australian Financial Review

SC AFNR

ED First

PG 34

LA English



LP

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If precedent means anything then Treasury Wine Estates' chairman Paul Rayner should be thinking of sacking himself in the wake of a profit downgrade that wiped a chilling 20 per cent from the wine maker's share price.

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It was Rayner, of course, who despatched former chief executive John Dearie with North Korean efficiency last September, citing the need for a boss with "a stronger operational focus to deliver the **company**'s growth ambitions".

No matter what Rayner said at the time, the general conclusion was Dearie paid the ultimate executive price for a failure to get on top of a collection of legacy issues, the most profit-critical the complex, troublesome and exchange-rate pressured US business.

A little more than two months before Rayner's board took executive control, TWE was forced to take a $154.3 **million** above-the-line provision to pay for the destruction of aged and obsolete US stock and to cover the writedown on the net realisable value of excess bulk and bottled wine sitting undesired in US warehouses.

A month on, announcing a flat FY13 result, Dearie confirmed a circa 12 per cent slippage in FY14 profit guidance despite a reasonably solid outlook for Australia and pretty much everywhere else in the TWE world except the US.

It had been thus for TWE and its progenitor Foster's Group from the moment it paid $US2.9 **billion** for the **acquisition** of America's Beringer Wine Estates at the turn of the century. For reasons ranging from a failure to anticipate or manage the surge in the value of the Australian dollar, to the problems created by the different hemispherical cycles of the business, to managerial dislocation and infighting, and finally to bare-faced incompetence, that expensive US foothold has generated little but routine crisis for its Australian owner.

The US investment has never generated anything like its cost of capital and it gets ever harder to believe it will while it sits within TWE.

Nevertheless, Dearie had to go. Some argue (me included) his dumping was excessively harsh. The move was never satisfactorily explained to a market whose confidence in TWE was built in part on faith in the management and its long-term strategy.

What Rayner promised by introducing fellow director Warwick Every-Burns as interim chief executive was that management would be more operationally focused and that TWE would still hit its profit range of $230 **million** to $250 **million**.

The chairman appears to have delivered neither given Thursday's confirmation that TWE's FY14 EBIT target range had been trimmed by 16 per cent.

The really big problem for Rayner and Every-Burns is that the father of this latest setback is new and very local misjudgement rather than further stumbling in the US.

In its clipped statement, TWE observed that its interim numbers had been hurt by "higher than expected volume declines" in the Australian market as a result of a decision to defend margins over the vital Christmas.

TWE said the first half shortfall - which will see interim profit range between $42m and $46m - will not be recovered in the second half .TWE warned that the market challenge would endure through the second half but would not expand on what its response might be. We asked whether the **company** was sticking to its Christmas strategy of maintaining margin over volume . We got no answer.

Meanwhile, TWE's efforts to find a replacement for Dearie apparently continue along their systematic way.

Back in September TWE said it would take upwards of nine months to fill the job. It said yesterday that it remained on that schedule.

The market's savage reaction to this latest setback says only that June and a **firm** executive succession plan cannot come fast enough.

While we are talking market hammerings, how about the lashing handed out to the latest vehicle for Mark Rowsthorn's ambitions in logistics, McAleese Group?

Having already endured an inauspicious start to publicly listed life, McAleese has now lost two major petroleum haulage contracts, surrendered another and could yet lose a fourth.

The lost contracts, along with the strategic shift they represent, were plainly an unwelcome shock for investors. By the close of trade, McAleese shares had plunged 29 per cent to a post-float low of $1.09.

Given how little those lost and at-risk contracts contribute to the bottom line, one suspects that there was a degree of over-reaction here.

That said, the sense of market shock is well justified given the result of Thursday's news flow is that just more than two months after listing, McAleese has been forced to make a fairly profound change to an operational pillar, namely the Cootes Transport Group.

Cootes is a liquid transport specialist that has long carried fuel for Shell, BP, Caltex, 7-Eleven and Origin.

But, as things stand now, Cootes has lost the Shell contract to Toll, not even made the shortlist for BP's latest tender for the NSW business and walked away from a long-standing 7-Eleven fuel gig. Cootes remains in the tender for BP's national business but given the shift in its approach to tendering, it is hard to see the trucker retaining that contract either.

So there is a fair chance Cootes could emerge from this period of contract turmoil with just Caltex and Origin as core customers.

Obviously there can be no question that this collection of contractual setbacks is linked in part to the involvement of a Cootes petrol tanker in an explosive accident in the Sydney suburb of Mona Vale last October.

The Cootes truck rolled and exploded, killing two people and injuring five including its driver.

That accident remains the subject of investigation but a subsequent police audit of the Cootes fleet in NSW and Victoria saw 56 Cootes vehicles taken off the road.

In response, McAleese promptly committed $33 **million** to a rapid-fire upgrade of the Cootes fleet in NSW particularly. The need for that spend is instructive in the underlying financial and operational logics that have driven Cootes to a position of fundamental restructure. The contracts lost and surrendered generate about $90 **million** in revenue, which represents about 60 per cent of Cootes sales and about 30 per cent of McAleese's total revenues. But McAleese chief executive Paul Garaty insists that Cootes contributes pretty much nothing to his profit lines.

At the same time, Garaty estimates it was going to cost something near $25 **million** annually over the next few years to rebuild and sustain the Cootes trucking fleet.

 

As a result, when Cootes went tendering for its traditional business, it did so at prices that were patently not competitive. And it walked away from the 7-Eleven business for exactly the same reason. It is not going to throw capital at a business that does not generate a return.

Which all leaves Cootes facing a restructure of still unspecified in breadth but one that will apparently see a fair population of its staff seeded away in other corners of the McAleese empire and result in maybe 130 of its highly specialised **oil** tankers put on the market.

Fortescue's decade-long transition from glint in Andrew Forrest's eye to profitable investment grade **mining** house continues apace with quarterly production hitting new records, **mining** costs and debt under **firm** control, the exchange rate headed in the right direction and its 155 mt a year target securely in reach.

With all that in place, Fortescue is moving stealthily to add geographic diversity to a marketing effort that so far depends pretty much exclusively on **China** and long term contracts.

Boss Nev Power says he is selling small tonnes to Korea while keeping a weather eye out for Japan custom. He admits some enthusiasm for the potential of tendering into the emerging terminal market.


**CO** trzwn : Treasury Wine Estates Ltd

**IN** i41 : Food/Beverages/Tobacco | i426 : Wine | ialco : Alcoholic Beverages/Drinks | ibevrge : Beverages/Drinks | icnp : Consumer Goods

**NS** c151 : Earnings | ccat : Corporate/Industrial News | c15 : Performance | ncat : Content Types | nfact : Factiva Filters | nfcpin : FC&E Industry News Filter

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**PUB** Fairfax Media Management Pty Limited

**AN** Document AFNR000020140130ea1v0001b


 