Australian British

Chamber of Commerce

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'The Changing Face of Global Logistics'

20 Minutes – Plus Q&As

The Park Hyatt

1 Parliament Square, Melbourne

Introduction

In the 70s and 80s, transport was dominated in this country by three multi nationals:

- Mayne Nickless
- TNT
- Brambles

These companies which had grown to dominate the transport sector in Australia, had each taken their business offshore into Asia, Europe and the US, with mixed levels of success.

Unfortunately each tried to grow too quickly in too many locations, and at the same time, took their eye off the ball within Australia, allowing the opportunity for companies like Linfox, K&S and Toll to emerge.

Today however, competition in Australia comes from new global players:

- UPS
- Exel
- Vector
- Semcorp
- Plus others

Global Snapshot of Major Providers

Today, global logistics markets are grouped into three major zones – USA, Europe and Asia.

The impact of globalisation in the Asian sector will create many opportunities for companies willing to embrace the challenges of high growth, relatively poor infrastructure and the need to develop alliances with local logistics operators.

At Toll, we are seeing significant interest from our major multi-national customers, to partner them in better managing their supply chains into Australia and New Zealand from Asia, and also within Asia.

By way of example:

- Toll recently won contracts with BlueScope Steel for distribution services in Malaysia and Vietnam.

This trend by multi-nationals is particularly evident in the Retail, Automotive and the Resource sectors.

The expanding Australian trade with Asia is a reality of the 21st century. The only question for Australian transport and logistics providers, is whether or not they compete for a slice of the trade, or leave Australia's trade in the hands of international competitors.

Australian and New Zealand Freight & Logistics Sector

The Australian and New Zealand freight & logistics sector is estimated to be valued at $A66billion pa.

The sector in both countries is forecast to double in size by the year 2017.

Of the total sector, $A36 billion is still performed in-house by Governments and companies, that are yet to outsource to an external provider, like Toll.

- Woolworths distribution to its Safeway Stores is an example of an in-sourced logistics operation.

Whilst the transport and logistics market in Australia and New Zealand remains very competitive, and major transport providers contribute $A12 billion or 40% of the outsourced sector, our industry remains very fragmented. This makes the sector somewhat less efficient than it could be, and this factor alone, will see industry consolidation continue to occur.

Consolidation and changing logistics management technologies are offering Australian businesses enormous opportunities for supply-chain efficiencies.

Asian Regional Strategy

Toll's expansion into the Asian Region over the past five years, has been gradual and aimed at servicing existing Australian and New Zealand major customers.

We are developing specialist skills with China and India trade lanes, and focusing on retail, textile, clothing and footwear, together with automotive industries.

Coles Myer is a good example of an Australian retailer wanting more control over its supply chain:

- 72,000 Boxes
- Direct sourcing ex Factory Gate

Looking forward however, Toll is keen to expedite its Asian growth to take advantage of escalating opportunities.

Further acquisitions or joint ventures within the Asian region will continue to be considered, in line with our criteria of:

- Low risk profile, including capital commitments ie asset light strategy.
- Attractive customer base and segments, in line with our current market strategy and focus.
- Retaining control over any new venture, including operations and structure.
- Only partner with professionally run companies, that clearly demonstrate specialisation in their field.

Within Australia however, operators like Toll are better positioned to develop and operate supply chain infrastructure for Australia's benefit. Unlike financial institutions, operators have an incentive to invest in and improve infrastructure and operational efficiency, rather than focus more heavily on cash flow and profit, to the detriment of longer term requirements of supply-chain users – our customers.

Toll's vision is to integrate supply lines into and out of Asia. Today importers deal with up to 10 separate service providers during the movement of container traffic between Asia and Australia.

Toll will link all aspects of the operational task and overlay each movement with smart technology, giving greater visibility and management control to the customer.

Other benefits for customers include:

- Reduced transit time
- Reduced cost
- Reduced inventory levels
- Greater reliability
- One point of contact

Efficient supply lines are not just good for our business - it makes our customers more efficient and lowers costs for Australian importers and exporters.

Strategic Rationale for Patrick Bid

The acquisition of Patrick by Toll, is an exciting opportunity that we believe is strategically compelling and indeed the market has anticipated it for some time.

- Specifically, Toll and Patrick are highly complementary businesses, with Patrick's international stevedoring focus and Toll's traditional domestic freight focus.
- The acquisition will see the creation of Australia's leading transport and logistics business, with a key focus on the Asian region.
- The merging of Patrick and Toll's operations will create an organisation with global scale and diversity of activities, significantly benefiting customers, particularly in the Asian logistics sector.

With that opportunity before us, I can only describe as 'myopic' the strategy outlined in the Patrick Corporation Target's Statement, for an Australia-focused business. Patrick's 'lack of vision' would have it expand down-stream into freight forwarding – probably Australia's most competitive sector, where it is likely to have little influence, and turn its back on the growth opportunities created by changing technology and trade growth with Asia.

Merged Group – Global Logistics Sector

The Merged Group will become a relevant and meaningful player capable of competing with other global players, such as UPS, DHL and Exel.

The transport and logistics sector is consolidating on a global scale and the emphasis on the Asian Region is growing strongly.

The proposed Merged Group will have the scope to capitalise on opportunities with multi-national customers seeking global and regional transport and logistics solutions, and the scale to consider international expansion opportunities beyond the immediate resources of either company individually.

In addition, the Merged Group will have a conservative capital structure with low gearing and strong earnings. This will leave it in a strong position to fund currently planned and future capital expenditure, as well as the ability to participate in regional growth opportunities as and when they arise.

Patrick's Defence Lacks Substance

- To date, the Patrick defence of our Bid has been built around a somewhat confused strategy.

  There has been no recognition of the influence China and India in particular, and Asia generally, will have on Australian Logistics.

  Patrick have also failed to recognise that future competition within our industry here in Australia, will come increasingly from global heavyweights.

- Moving onto rail, Pacific National, the Toll / Patrick jointly owned rail business, is an excellent company and shouldn't be broken up.

  Nobody other than Patrick will support this attempt to destroy $1 Billion of value.

- With share price performance and total shareholder returns, Toll has outperformed Patrick, on any measure over the past 10 years, in actually making money for its shareholders.

  - Shareholder returns

  - Organic Growth

  - Operating cash flow

  - EPS

  - Return on capital employed

Toll V Patrick – Last Five Years

	Toll	Patrick
Total Shareholder returns CAGR	43%	14%
Organic Growth	7%	
Operating Cash Flow CAGR	30%	6%
EPS Growth CAGR	30%	9%
Average Return on Capital Employed (No VBA No PN for PRK or TOL)	21%	13%
Spent on Acquisitions	$910 m (incl PRK)	$1.7 b (incl VBA)

CAGR - Compound Average Growth Rate

Conclusion

Finally, as I hope I have explained, our proposed merger with Patrick is not just a benefit for the Toll and Patrick shareholders. It is also an opportunity to make Australian businesses more efficient, and for us to take a leading role in Australia's growing trade with Asia.