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**Deutsche Bank**  
**Australasian Conference**

29 November 2005

***'The Changing Face of Asian Global Logistics'***

20 Minutes – Plus Q&As

2.00 pm

(Arrive 1.00 pm for lunch or between 1.30-1.45 pm)

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## Introduction

In the 70s and 80s, transport and logistics was dominated in Australia by the three well known multi nationals:

- Mayne Nickless
- TNT
- Brambles

Each of these three companies had grown to dominate in their respective sectors and had each taken their business offshore into Asia, Europe and the US, with mixed levels of success.

Unfortunately each was guilty of growing too quickly in too many locations, and at the same time, took their eye off the ball within their traditional market in Australia, allowing the opportunity for companies like Linfox, K&S and Toll to emerge from relatively small beginnings.

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

- **UPS**        The largest of the global express groups with a market cap around \$AUS100 billion and with domestic transport and logistics services now on offer within Australia.
- **Exel**        A European based 3PL and 4PL operator and under takeover from DHL, specialising in the Auto and pharmaceutical sectors. Market cap around \$8.3 billion.
- **Vector**      A US based 4PL specialist, with a major focus on the Automotive sector.

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- **Semcorp** A Singaporean based Asian logistics firm with operations in many locations including China, India, Japan and Australia.
  - These four logistics companies, two large and two small, are examples of global groups focusing on different markets, and each now active in the overall Australian logistics market.

### **Global Snapshot of Major Providers**

Whilst logistics service providers are being encouraged to develop global capability, markets are still grouped into three major zones within USA, Europe and Asia.

The impact of globalisation on the logistics industry, has seen a shift in demand from a fragmented and less efficient market, to one with a far greater aggregation of the task, built around significantly fewer locations.

Speed to market, the integration of supply chains and a greater use of smart technology, are each major drivers of coping with the physical challenges presented by globalisation.

Within the Asian logistics sector however, there are currently around 20 major service providers collectively with consolidated revenue of approximately \$AUS110 billion per annum.

By comparison, within the more mature US and European logistics markets, Asia presents as the outstanding future opportunity for our industry, particularly when considering the dynamic growth forecast for countries such as China and India.

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There is no denying the risks associated with poor infrastructure, financial and political instability etc - but Asia is evolving quickly as a global economic powerhouse and those wishing to be part of this exciting opportunity, need to stand up now.

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 significant contracts with BlueScope Steel for distribution services for steel products in Malaysia and Vietnam.

This trend by Toll's multi-national customers is particularly evident in the Retail, Automotive and the Resource sectors.

The exciting expansion in trade between Australia and Asia, is a reality of the 21<sup>st</sup> century. The only question for Australian transport and logistics providers is, whether or not they compete for a slice of the market, or leave Australia's trade in the hands of international competitors.

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## **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 or 55% is still performed in-house by Governments and companies, that are yet to outsource to an external provider.

- Woolworths distribution to its Victorian 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 like Toll and Patrick contribute \$A12 billion or 18% of the total sector, the 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 and NZ businesses, enormous opportunities for supply-chain efficiencies.

Major retailers are a good example of an industry that can significantly benefit from improvement in supply-chain efficiencies. Woolworths' investment in inventory, is on average \$64 m per day, so one day saved along the supply-chain, has a very significant impact on Woolworths' supply chain cost and ultimately its bottom line profit.

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## Asian Regional Strategy

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

We are now 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. They currently import 72,000 containers pa - all of which are directly sourced ex factories in China and India.

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

Further acquisitions and 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.

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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 door-to-door transit time, enhancing speed to market
- Reduced overall logistics costs
- Reduced inventory levels and associated investment
- Greater reliability and predictability, avoiding stock outs and unpleasant surprises
- One point of contact along the entire chain, producing enhances management control.

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

## **PATRICK BID UPDATE**

On 22 August 2005, Toll made an off-market bid for Patrick Corporation. This proposal will create a Leading World Class Transport and Logistics Business, servicing the Asian region.

Specifically, the merged business will have a market capitalisation over \$8 billion, making the company a top 25 ASX listed entity, and at the same time, producing a consolidated balance sheet with strong financial capacity for future growth initiatives.

### **Strategic Rationale**

This is an exciting opportunity for Toll Shareholders, and strategically compelling, and indeed the market has anticipated it for some time.

Toll and Patrick are highly complementary businesses, with Patrick's international stevedoring focus and Toll's land based logistics focus, significantly enhancing our total service offering to the market.

This acquisition will see the creation of Australia's leading transport and logistics business, with a key focus on the Asian region.

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Furthermore, the merging of Toll and Patrick's operations will create an organisation with global scale and diversity of activities, significantly benefiting all customers and the economy as a whole.

We estimate from our experience and understanding of Patrick, that we can achieve minimum synergies of approximately \$65 million pa over a 2 -3 year period.

The transaction will create an entity with a strong financial capability, enhancing further investments and regional expansion, and will maximise value for both groups of shareholders, with participation in a mostly scrip bid, capturing the synergistic benefits of merging two strong logistics groups.

## **TRANSACTION HIGHLIGHTS**

Some of the key transaction highlights include:

- Our offer is a scrip and cash off-market takeover bid.
- Patrick shareholders will own approximately half of the merged group. Pro forma earnings per share will be accretive for both groups of shareholders in the first full year.
- The bid results in a conservative capital structure, providing financial strength for future investment in critical freight infrastructure and growth.
- Our offer is conditional on 90% minimum acceptance, ACCC approval and other conditions, included in the announcement and bidders statement.

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- With Virgin Blue, we propose a better structured exposure to the volatile aviation business, through a reduced shareholding plus an alliance on airfreight linehaul.

### **Diversified Revenue Mix**

The diversified revenue mix of Toll and Patrick are created with the merging of complementary businesses that don't materially compete.

Where Toll and Patrick's businesses do compete, these businesses operate in fragmented freight forwarding markets and in 'arms-length' sea and rail linehaul sectors.