

A RETURN OF CONFIDENCE

An Address by

Ian E. Webber,

Managing Director, Mayne Nickless Limited

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There is little doubt that for my company, like most others, 1982/83 was one of the toughest on record. Considering the operating environment, I think we did reasonably well, even though our result did not measure up to last year's record. The 1981/82 result gave us a difficult act to follow. Viewed over a longer time frame, we have I feel, progressed satisfactorily, recording what was, after all, our second best-ever profit, some 27 per cent ahead of 1980/81.

To recap our result; we made a net profit of \$25.113 million from a revenue base of \$705 million. This compared with \$27.391 million profit and \$612 million revenue in the previous year.

Our issued capital and share premium reserves were increased during the year by \$42.3 million by way of a one-for-four renounceable share issue, a private placement and an employee share issue. An immediate effect of the additional equity was a reduction in earnings per share from 42.4 cents to 30.8 cents per share.

Our net tangible backing at \$1.92 per share increased from \$1.81 for the previous year.

I have heard analysts in the past describe Mayne Nickless as a recession-proof company. While we have come through the past twelve months in better shape than many others, it gives me little comfort to advise those analysts that we may be recession resistant but we certainly are not recession proof! Indeed, after the past year, the list of companies which justify that description must be very short!

The factors which made business so difficult are well known to all of you — a slowdown in manufacturing; a reduction in imports; less primary produce as a result of the drought — all these things impacted heavily on our transport activities. One example I can quote is the movement of containers through out major ports. In Melbourne, there was a drop of 13 per cent during 1982/83. In Sydney, I only have figures for the March quarter which show a drop of 20 per cent when compared to March '82.

And fewer jobs meant fewer payrolls for our armoured cars and computer payroll facilities. Despite this, there

were some bright spots. Our Computer Services Division performed well, as did our security services and some of our specialised transport activities. In most areas of operation, we increased market share and thereby reduced the impact of finer margins.

Having given you a quick run-down of the past year let us look to the future, and what it may hold for the industries in which Mayne Nickless operates.

Transport is the industry with which we are traditionally associated. This is not surprising as we started as a horse and wagon outfit in Melbourne 97 years ago. It is also common for us to be grouped with TNT and Brambles as the "Transport Majors". However, I am sure that most of you are aware that the majors are engaged in a far wider range of activities.

Mayne Nickless' other main spheres of interest are in security and computing services. Our participation in these industries came in a logical progression from our transport interests. In the late thirties we sought a safe way of transporting cash and developed the armoured car business.

From armoured cars we grew into a wide range of security services and from the payroll aspects of armoured car work grew our interests in computerised payrolls and then other computer services.

Thus we see a great deal of synergy in the industries in which we now operate, despite their apparent diversity.

It is these three industries — transport, security, and computing services which I would now like to discuss in further detail.

TRANSPORT

The transport industry for us means the carriage of freight, by road, rail, sea and air in our freight forwarding, courier and express businesses. We also participate in container handling and other wharf-related activities.

The transport industry is often regarded as a lead indicator of economic activity. So far, there are no signs of an upturn, but the industry does seem to have "bottomed out" and we are hopeful of moving increased freight volumes early in 1984.

Road freight was particularly hard hit during the past year, with some areas reporting drops in volumes of up to 35 per cent. Some of this was diverted to rail, but our best estimates suggest that this was no more than five or six per cent.

Nevertheless, transport has been a growth industry over many years — between 1960 and 1976, the total Australian freight task nearly quadrupled with road transport being by far the greatest growth area. There is no reason to doubt that transport will continue to grow in the future. Despite all the new technology, we will continue to move goods from one part of the country to another, and into and out of the country. In recent years, road transport has grown despite oil crises, labour costs, vehicle costs and a variety of other adversities.

An example of these adversities comes from this year's budget — or at least the latest version of it. For every cent per litre added to fuel costs, the transport operator will, on average, see his annual fuel bill rise by \$1,000 for each prime mover. Little wonder that the owner-driver and small fleet owner is finding it harder than ever to stay in business.

Despite these adversities, I believe we will continue to see a strong, traditional road transport sector for the foreseeable future.

Certainly electronic mail, facsimile and other advanced communication modes will deprive couriers of some of their traditional business. On the other hand, the use of computers in freight forwarding, customs clearance and other aspects of traditional transport are making the industry much more efficient and flexible. Technology has had a rather quiet and unspectacular impact on the transport industry — particularly in comparison to some other industries.

Mayne Nickless' continuing commitment to the future of the transport industry can be seen through the acquisitions we made during the past year — the Skyroad Group and Australian Courier Express. Both acquisitions offered a strong synergy with our interests in air freight, in the case of Skyroad, and regional, time-critical and secure courier services in the case of A.C.E. Skyroad has fitted in well alongside Wards Express and Jetspress Air Couriers, giving us market leadership in the air freight market. A.C.E., which trades as Country Couriers, fits with Security Express and gives us a wider network in this courier market.

Of some concern to the immediate future of road transport are the plans of State and Federal Governments. Labor Governments appear anxious to re-regulate an industry which has fought for many years to remain deregulated. Deregulation has given Australia a highly competitive and therefore highly cost effective road transport system. Should there be a return to regulation, the efficiency of the industry will be

impaired. Attempts to make railways more viable by coercing customers to use rail when road is the cost effective mode will only lead to increased transport costs for the community.

Some of you may be aware that the Minister of Transport, Mr. Morris, has ordered an inquiry into the road freight industry, and is keen to introduce the long anticipated Interstate Commission. I welcome the inquiry, but I do not welcome the Commission, as I cannot perceive any worthwhile benefit for either the industry, or our clients in the establishment of yet another statutory authority — whatever its powers or terms of reference.

An inquiry will, I believe, show that deregulation has been of great economic benefit, and is the way to go in the future.

You should not infer from what I have just said that Mayne Nickless is in any way against the use of rail for freight. Indeed freight forwarders are the nation's largest users of the railways. Forwarders have the task of taking freight from door to door and tend to use the best available transport mode for the task at hand. In doing this, they may use several modes, including rail for line haul — that is, getting the freight from the point at which it is consolidated to the point at which it is deconsolidated.

Typically, a freight forwarder will pick up a number of consignments in one city by truck, send the consolidated goods to some other city by rail, and then deliver to a variety of destinations.

Freight forwarding is a relatively recent development in Australia, having come into prominence after the last war. In both domestic and international terms, it has grown dramatically and represents a significant refinement of the freight transport industry. As customers come to expect a door to door service, freight forwarding will continue to prosper, particularly in those companies, like Mayne Nickless, that offer a full range of services and modes to meet every transport need.

SECURITY

Security has been another major growth industry in Australia. Greater urbanisation and, in recent times, harsher economic conditions have led to a growth of the security industry in its many forms.

Some people view the armoured car business as a declining industry, and that the advent of the cashless society is imminent. I do not share this view. The cashless society, according to studies we have done, and to evidence from overseas, is still a long way off. Indeed, there is some evidence to suggest that plastic money is losing its popularity in some markets, particularly some retailing sectors, where the cost of credit cards is proving a burden.

Since the 'sixties, money, that is, notes and coins on issue, has remained a relatively stable factor of gross domestic product. While there has been some decline in the 'eighties, there has, on the other hand, been an increase in the velocity of circulation. Thus, notes and coin are being handled more often, thereby sustaining the demand for cash carrying and handling.

Certainly the day when a large proportion of business is carried out electronically will come. Nevertheless there will be an important role for Armaguard in the foreseeable future, and if the U.S. experience is any guide that will still be a very worthwhile business — as the Brinks and Loomises can testify!

In the fields of general surveillance and property protection, there has been growth in both the human and electronic spheres. We estimate this market to be worth over \$130 million and that it is growing at 15 to 20 per cent per annum. Guards and patrols are in demand for all kinds of premises and assets. Even racehorse trainers now employ security guards to look after their Caulfield and Melbourne Cup fancies.

While the guard and patrolman have also been the victim of redundancy predictions, we see a healthy demand for his services for some time to come. That is why MSS, the Mayne Nickless security organisation, offers its electronic alarms customers the back-up of a large patrol service. Remember that the most sophisticated alarm system is useless without an effective form of response. That response, for some years yet, is likely to be human intervention.

I should explain the difference between a guard and a patrolman. A guard generally occupies a static post at a factory gate or office foyer. A patrolman usually services a number of premises on a spot check basis.

The private security industry receives some criticism from time to time. The "Private Army" image of gun-toting guards is far from reality. The incidence of abuse of fire arms is negligible, particularly in the case of the large, well-known security organisations. Many of our guards do not carry arms and we only permit them to do so on specific assignments. The recent shooting of an intruder by a security guard (not one of ours) was an unusual incident, and I only know of one other similar case in Australia this year.

Electronic surveillance and protection is a rapidly growing industry. The days of mechanical alarms is fast disappearing and it is now becoming commonplace for high rise buildings to install equipment which monitors and operates the security, fire protection, locking, air-conditioning and lighting systems.

In this area, Mayne Nickless has a manufacturing interest through our West Australian based business, Deltec Pacific. Its products are gaining market

acceptance not only in Australia, but also overseas. We see a very strong future for Computa Guard and other products it has developed in recent years.

In the United States, domestic systems which make use of cable television capabilities are now being made. With domestic crime on the increase, the demand for inexpensive and effective domestic alarms certainly exists in this country. To date, cost has been a major impediment to expanding the Australian domestic market, but I believe that this situation will change in the near future.

There are all kinds of Orwellian overtones in the subject of electronic surveillance and I feel it is important for the community to decide on what is, and what is not acceptable. Nobody would argue with the private citizen's right to both privacy and asset protection. What degree of one is provided at the expense of the other is an issue which I am sure we will hear more about. Providing the technology seems easy by comparison.

COMPUTER SERVICES

Speaking about the computer industry could take the rest of today so I will merely cover a couple of points relating to computer bureaux — the area in which Mayne Nickless is involved.

Our interests in this area are covered by three bureaux which, between them employ over 1,000 people and have a combined revenue of over \$50 million. These bureaux have been amongst our fastest growing businesses.

For at least a decade, pundits have been predicting the demise of computer service bureaux because of the growth and sophistication of mini and personal computers. Certainly hardware which cost a million dollars a few years ago is now being out-performed by products which cost around ten per cent of that and occupy a fraction of the floor space. Thus, organisations which could not afford in-house facilities in the past, and used bureaux for their requirements, are now able to buy their own computers.

This has not eliminated the computer bureau, but rather changed its nature. While the traditional client still exists, Bureaux are now providing a range of specialised services which either support, or add to, a client's own capabilities.

One example of this is the recent decision by the Australian Federation of Travel Agents to foster a videotex network amongst member agents and tour wholesalers. The advent of videotex into this country is a major step forward and I am pleased to say that one of Mayne Nickless's bureaux, Computer Accounting Services, won AFTA's approval as the favoured supplier. The network will give the travel industry access to vast amounts of information through data bases available

through the bureau. It would not be feasible for the travel industry to marshal and maintain such a data base on its own, which will be as good as anything available anywhere in the world, and thus its requirement for a bureau service.

The retail industry is also turning to computer service bureaux to supply information and support for computerised cash registers and bar code scanning systems. In the near future, these support services will be commonplace amongst both large and small retailers and supermarkets.

According to a report from Computer Technology, another of our bureaux which specialises in computerised payroll, microcomputers will have negligible impact on the payroll business because the large volume of processing, and the need for frequent updates, make in-house payroll processing a difficult and time-consuming task.

It does not take much imagination to conclude that bureaux will continue to prosper if they can offer the right products at the right price to their customers. Just like patrolmen and the armoured cars, I think computer service bureaux will be around for a long long time. Certainly we look to our three bureaux to provide Mayne Nickless with sound growth in the years ahead.

OVERSEAS

Many of you will be aware that Mayne Nickless operates in several international markets. We operate largely in the same industries there as we do here.

I am happy to say that we are seeing signs of the upturn in North America, where we have some 5,000 people employed in transport, domestic removals and security work. In Britain, and parts of Western Europe, there is some cause for cautious optimism. I visited our operations in this part of the world a couple of months ago and am confident that it represents a growth area for the company. Currently, we have armoured car, alarms and computer services operations centred in the British Midlands, and we are a part-owner of a security company based in Belgium. We also have investments in Japan and New Zealand. In New Zealand we have a 24 per cent interest in the nation's largest transport company, Freightways, which has just announced a \$10 million profit — down 73 per cent on last year. Its final dividend was unchanged at 14 per cent per share.

Like other large Australian companies, Mayne Nickless sees the need to grow as an international company. At present, we earn around 25 per cent of our revenue from

overseas, and see this increasing substantially in the years ahead. By the end of this decade, our overseas investments may represent half our revenue, and hopefully half our profit.

IN CONCLUSION

As you can see, I am confident about the future of the industries in which Mayne Nickless operates. While there are no easy solutions to take us out of the current recession, I see the rest of this decade being, on balance, one of growth, despite some predictions about a trough to follow the projected recovery of 1984/85.

Recovery in this country can be helped, or hindered, by governments, by unions, and by industry itself. Governments must strike a balance between the need to balance their books and the disincentive of excessive taxation. They must also assess the cost of regulating commerce and industry against potential benefits to the community. Will, for example, the Victorian Government's aversion to supermarket checkout scanners really help the consumer, or merely add costly delays to an inevitable development?

Industrial relations have definitely improved this year. We have seen the numbers of days lost through disputes halved from just over four million to two million and a better spirit of co-operation between management and unions than we have had for some years. All this could be lost if a new series of demands is initiated in anticipation of better times ahead. Without a realistic wages policy, the chances of the recovery being short-lived must increase.

For industry's part, it must foster better planning and better personnel training. If there is one thing we have learned from the events of past years, it is that our investment in people has been fully justified. Companies with the greatest depth of management talent will be those which survive and prosper in difficult times.

I hope you all share my optimism for the future of this country and its economy. If our institutional investors, stockbrokers and analysts can foster a stable and confident financial environment, I know that the many industries in which Mayne Nickless is involved will play their part. As one of Australia's few locally-owned multinational companies it is my view that our company will have a particularly important role in the complex and rapidly changing environment that business must face in the years ahead.