

CASTLEMAINE TOOHEYS LIMITED

An Address by

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Managing Director, Castlemaine Tooheys Limited to The Securities Institute of Australia, Victorian Division, July 17, 1984.

This presentation covers some broad aspects of the brewing industry, why and how Castlemaine Tooheys has established leadership in that industry and the issues and problems facing us in 1984 and 1985. It reviews the wine and soft drink industries and touches on Castlemaine Tooheys' financial performance.

Industry History

The brewing industry in Australia went through three clear stages in its development:

During the period of the 1800's through to the early 1900's, breweries serviced local areas immediately surrounding them.

As transport improved, State breweries were formed with the production and marketing and distribution capability to service a wider area. By the time of the second world war, that structure seemed set in stone.

However, the early 1970's saw the start of a round of takeovers by large companies attracted by predictable cash flows from products that had considerable resilience even in periods of recession and social pressures on alcohol consumption.

From this rationalisation emerged larger, stronger companies which operate across State boundaries and on the international market.

What we are seeing now is an unprecedented round of competition as the industry responds to recent trends in beer consumption and looks for ways to expand and grow.

I will come back to the effects of that round of competition and our response to it later.

The fight for market share has been on in earnest for some time now, and it is a fight where there will be little joy for the losers.

Castlemaine Tooheys

There are three aspects of Castlemaine Tooheys' strategy responsible for its continuing success in one of

the most competitive industries in Australia.

- a sound understanding of, and *primary commitment to, the brewing industry;*
- *marketing and advertising* which effectively respond to the very different *regional markets* in which the company operates;
- *exceptionally strong operating units and a lean corporate centre*, to retain a closeness to the region and product that is the mainstay of each operating company.

Above all, Castlemaine Tooheys' companies are about marketing and their success in developing innovative advertising programs is well recognised.

Several of our recent television commercials illustrate how Castlemaine Tooheys adapts its marketing strategy to fit regional market differences.

One television commercial is aimed at the Queensland and New South Wales markets for XXXX beer.

A second one was developed for the United Kingdom where XXXX beer was recently launched with great success. This award winning commercial features our own Flying Doctor, an Australian institution known around the world.

Two advertisements were made for Tooheys, focusing on football. One shows the excitement of a rugby league match, the other, a more recent introduction in Tooheys' home territory, a VFL game.

Market for Beer

Australian beer consumption has fallen over the 10 year period between 1974 and 1984.

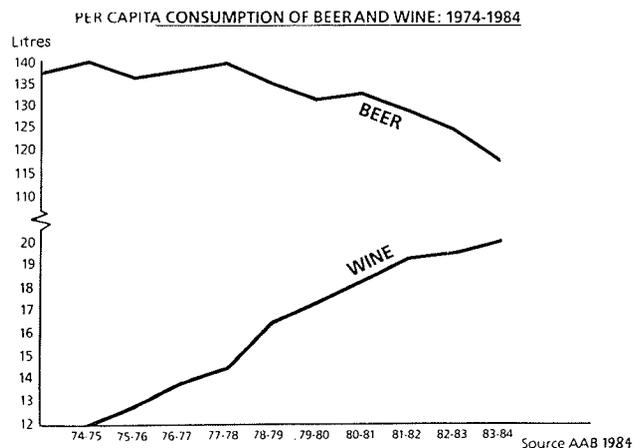
Recently, the decline in beer consumption has accelerated with per capita consumption falling by over 11 per cent during the last three years.

Over the same period, wine consumption has risen dramatically reflecting changing consumer tastes caused principally by its favoured taxation status.

As Figure 1 shows, in 1982/1983 Australians consumed a total of 146 litres of beer, wine and spirits per capita, compared with the 141 litres per capita they drank 10 years ago.

This means that consumers are drinking more overall. They are increasingly being drawn to wine which is sold at a lower price, due largely to the inequities in excise levels, in preference to beer.

Figure 1



National market figures for beer have continued to fall during the current year. For the 12 months' period to June 1984, beer sales dropped four per cent on the previous year.

Against this depressing background, Castlemaine Tooheys Group beer sales are marginally above the figures for the same period last year.

With the decline in the beer market and the rearrangement of market share, there is little doubt that overcapacity exists on the east coast.

Despite this, Castlemaine Tooheys' production capacity is well matched to its marketing needs.

Other issues will have a strategic influence on the beer market in Australia in the future.

Restrictions may be placed on the advertising of alcoholic products, and social pressures on alcohol consumption, such as random breath testing measures, may become more intense.

The Market for Wine

The wine market is another important area of business for Castlemaine Tooheys.

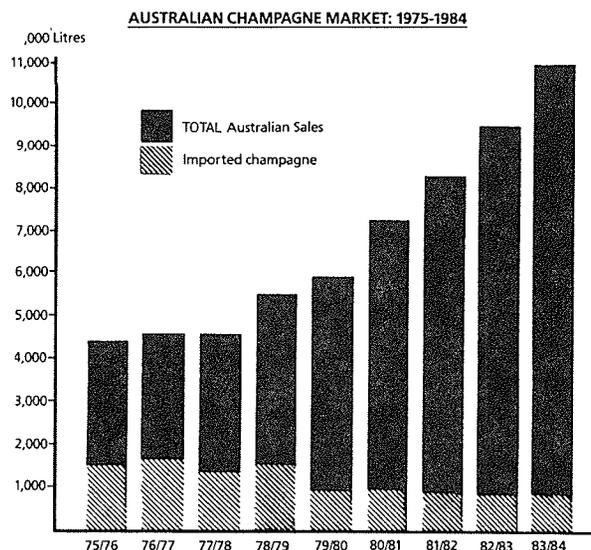
Wine consumption is clearly growing, and this trend continues to produce some interesting developments.

In contrast to the beer market, success in the wine business does not fundamentally depend on changes in market share, but rather on how much of a company's production can be sold in the high gross margin range.

Castlemaine Tooheys was first in introducing wine casks into the bulk wine market. We are now scaling down our activities in the very low price and even lower margin area of the market, to concentrate on the premium end, because that is where the profit is to be made.

Figure 2 shows the rapid growth in champagne sales in Australia, particularly for the local product.

Figure 2



Sales of Australian and imported champagne have more than doubled in less than 10 years, from 4.4 million litres in 1975/77, to 10.9 million litres in April/May 1984.

We are seeing the emergence of the champagne segment, a market that is both growing and still satisfactorily profitable for a company with superior brands.

There is possibility that we may now be at the point where Australia could support its own champagne house — a Moet et Chandon, Veuve Cliquot or a Heidsieck, and Castlemaine Tooheys may expand that way.

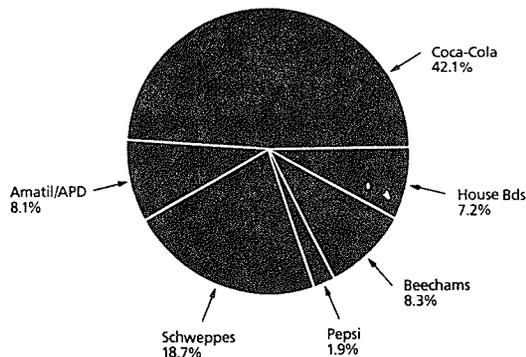
The Market for Soft Drinks

Position at the top end of the market is also important to Castlemaine Tooheys in another area of operations.

We entered the soft-drink market in January 1984, with the acquisition of the Coca-Cola Sydney franchise, and we did it at the premium price end of the market, with the market leader, as shown in Figure 3.

Figure 3

ESTIMATED SHARES: NATIONAL SOFT-DRINK MARKET
NOVEMBER/DECEMBER 1983



Source: A.C. Nielsen 5 city combined

We knowingly paid a high price for the most important soft drink operation in Australia, for a front-row seat in the grandstand.

Since January, Castlemaine Tooheys has increased its involvement with Coca-Cola through the acquisition of franchises at Newcastle, Tamworth and Dubbo, so that we now control 90 per cent of the New South Wales market.

We have been very encouraged by the performance of our soft drink operations to date.

However, we are not seeking at this time to extend these operations beyond New South Wales.

Castlemaine Tooheys' Corporate Profile

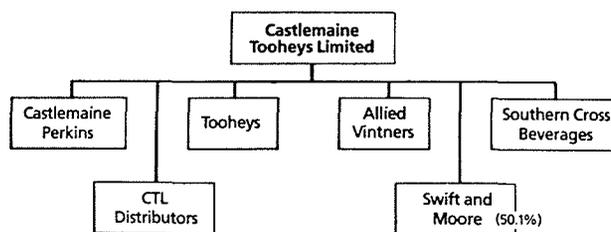
Before we look at some aspects of our financial performance, I would like to touch on how we operate as a corporate entity.

It is important, in considering our competitive position, to have an understanding of how our commercial units are structured.

Figure 4 shows how Castlemaine Tooheys will look after we have disposed of Robert Timms, the tea and coffee operation.

Castlemaine Tooheys has operating units that are almost autonomous in their separate markets. Their relationship to one another is one of business associates rather than segments of a centralised business entity.

Figure 4



There could not be two brewers that are more different than Castlemaine Perkins and Tooheys, yet each sits very comfortably in its own environment.

Our corporate umbrella is as small as we can make it.

In this way, we are quite different from our principal competitor who maintains a larger central management structure.

These differences in corporate structure have important implications for how the two opposing groups go about marketing their products.

While we have not yet stepped outside our traditional activities in a major way, we have been a dynamic company since the merger.

Since the beginning of 1984, we have

- sold our tea and coffee subsidiary, Robert Timms;
- purchased a number of New South Wales Coca-Cola franchises which give us 90 per cent of the biggest Coca-Cola market in that State and have established us as a leader in the soft drink industry;
- launched XXXX beer nationally and reinforced our presence in the UK with a beer produced there under licence;
- purchased eight hotels in Melbourne to reinforce our move into Victoria with XXXX beer.

Financial Summary

As we are at the tail end of our reporting cycle, I would like to touch on several points which illustrate our financial performance.

Castlemaine Tooheys measures up well in performance among Australian brewers. Figure 5 shows the most recent figures at June 1984.

Figure 6 shows the percentage change in earnings on shareholders' funds for each year since 1980.

Figure 7 shows the percentage change in the ratio of earnings before interest and tax to assets for each year in the same period.

Figure 5

INDUSTRY STATISTICS: JUNE 1984

	Revenue		Pre-Tax Profit		Pre-Tax Margin	
	\$Mill	Rank	\$Mill	Rank	%	Rank
CUB	961.1	1	87.1	2	9.1	3
CTL	883.5	2	101.6	1	11.5	2
Tooth	690.3	3	11.9	4	1.7	6
Swan	310.4	4	11.0	5	3.5	5
SA Br	159.6	5	23.3	3	14.6	1
Cascade	87.7	6	5.9	6	6.7	4

Source: Australian Business
June 1984

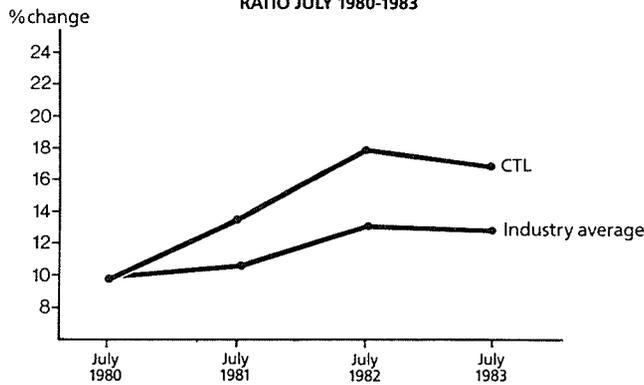
When looking at these results, bear in mind that 1980 was the year of the Castlemaine Perkins/Tooheys merger, and that Tooheys profits are included only from March of that year.

Conclusion

We are optimistic about the future because we believe we have unique qualities, not the least of which is our financial strength. We take comfort from being in an industry that has been around for some thousands of years.

Figure 6

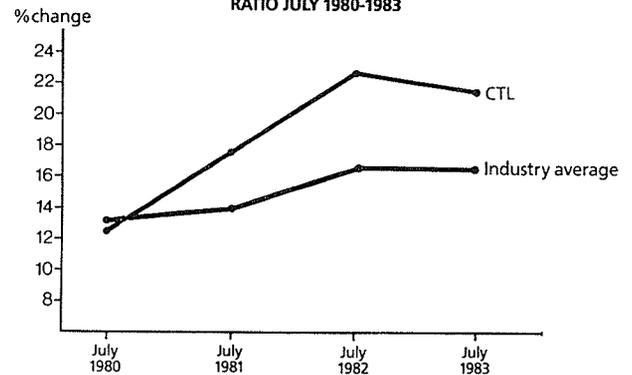
**EARNINGS ON SHAREHOLDERS' FUNDS
RATIO JULY 1980-1983**



Source: STATEX 1984

Figure 7

**EBIT ON TOTAL ASSETS
RATIO JULY 1980-1983**



Source: STATEX 1984