BURNS PHILP & CO. LIMITED

An Address by

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The Securities Institute of Australia, NSW Division
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INTRODUCTION

In March 1985, in my first address to the Securities Institute as the representative of the new management team of Burns Philp, I made a number of commitments — so to set the scene let me briefly review what we said just 19 months ago and what we have delivered.

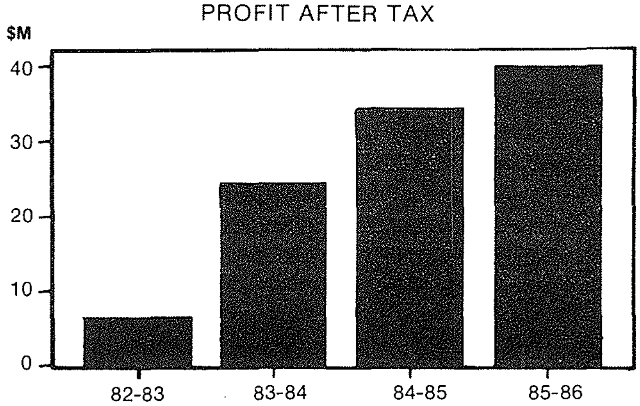
This is what we said in March 1985.

- that we would continue to concentrate on and expand in those segments of the market both in Australia and overseas in which we have a clear competitive edge.
- that we would expand our presence in the U.S. yeast industry.
- that we were attacking our problems in the Pacific, and
- that there was potential both in the medium and long term for continued substantial earnings growth.

The illustration shows what we have achieved shows our earnings growth 1983. From the turnaround year of 1984 we have shown bottom line growth rates of 64 per cent, and 17 percent respectively.

BURNS PHILP

PROFIT AFTER TAX



DISINVESTMENT AND INVESTMENT

We have disposed of businesses that didn't fit our strategy — and those included: Hanimex, Yencken Sandy Glass, Northstate Modular Systems, Robe River, Raco Homewares, Sun Lighting Industries and Burns Philp Wines & Spirits.

But while we disposed of those businesses, we have expanded our strategically important operations — foods, hardware, and shipping by acquiring businesses like the U.K. based producer Nisin, Alpin & Barrett, Dixie Yeast of the U.S.A., Nock & Kirby Holdings and Hardware Stores, and increasing investments in consolidated stevedores and terminals operations.

In addition, we have also invested

- $10 million in new stock control and point of sale systems at BBC Hardware.
- in new equipment for stevedoring.
- in a joint venture twist-off top plant in Canada, and
- in doubling capacity of Dixie Yeast in the U.S.A.

The initial investment in acquiring 50 percent of Dixie Yeast provided some very reliable, if expensive, market research.

It enabled us to test our technology, our management and our products in the world's most competitive market. That market research led us to confidently acquire the North American yeast and Vinegar operations of R J Reynolds/Nabisco this year when the opportunity came up and to make us, in one fell swoop in the U.S.A., number one in consumer yeast and number three in bakers yeast.

At that meeting in March 1985 we told you that we were attacking our problems in the Pacific and indeed we are. In the year just completed, the Pacific as a whole made a profit although the profit was about the same as the previous year.

We will discuss the Pacific in more detail later but basically the same strategies, management systems and disciplines that we proved had worked in Australia were put into place in Papua New Guinea and the results this year were substantially up on 1984/85. Considering that for the two years prior to that the total losses of our PNG operations were around $12 million, that's a fairly pleasing effort.

1985/1986 marked a turning point in recent Burns Philp history. We moved from cutting and culling to building.

While we sold businesses like Hanimex, Yencken Sandy Glass and Avis we built on our core businesses by acquisition and expansion.

Looking at the purchasing and selling over the past few years from a macro point of view, the group had something in the region of $800 million worth of assets, $400 million of which were travelling reasonably well and $400 million of which could only be regarded as sleepy assests.

We sold off over half of the sleepy assets and reinvested the proceeds, which amounted to around $250 million, into our mainstream operation. The bulk of this reinvestment has occurred in 1986 and we are yet to see the benefits of this investment.

You can see therefore that there are about $150 million worth of sleepy assets in the group, much of which is invested in properties in the Pacific and it will be much harder to get an adequate return from these assets or to sell them and use the cash for investment in the food and hardware areas.

Nevertheless we will continue with our programme and you will see over the next few years continuing divestment of non strategic or low performing assets.

It is important to realise that most of the recent expansionary moves we have made yet to have real impact on the results. The record profit last year of $40 million is without the benefit of our new acquisitions.

You should also realise that we have still retained a conservative view on gearing despite the acquisition of Fleischmann's.

FLEISCHMANN'S AND THE YEAST BUSINESS

As mentioned earlier, the Fleischmann's acquisition followed a very careful analysis of the North American Yeast market. We acquired 50 per cent of Dixie Yeast of North Carolina about two years ago. After 12 months we could clearly see from increases in profits and market share that our technology and systems were ideally suited to the U.S.A. market.

We took the immediate decision to double the size of the plant in Charlotte and began identifying new sites where we could build new plants, since we believed none of the three major U.S.A. operations were for sale.

Following the R. J. Reynolds-Nabisco Merger, the newly formed group decided to dispose of a number of non-strategic businesses to reduce the post merger debt. Fleischmann's yeast operations in the U.S.A. and Canada were put up for international tender. By bidding for both these operations and for the Fleischmann's ten vinegar plants we were able to short circuit the tender process and negotiate a very favourable deal.

Here is what we bought, for the total approximately A$200 million, we paid:

US $130 million (approximately A$178 at the time) was for

- Fleischmann's U.S.A. yeast operations
- Fleischmann's Canadian yeast operations, and
- Fleischmann's U.S.A. vinegar operations.

We also acquired the 50 per cent of Dixie Yeast we didn't own, and we set aside money to improve plant and funds for working capital. The funds for these acquisitions were borrowed in US and Canadian dollars — in other words naturally hedged.

The deal is such that on a fully geared basis, with no added input from our scientists, technologists or marketing people, Fleischmann's in the first year will make a material contribution to Burns Philp profits. The Fleischmann's acquisition gives us the dominant share of the North American consumer yeast market, makes us number three in the baker's yeast market, and the only national producer is industrial vinegar in the U.S.A.

We believe there is considerable potential to improve the efficiency and productivity of the Fleischmann's operations. The Dixie yeast purchase enabled us to work with and bring into the Burns Philp fold high quality U.S.A. management.

While our food division general manager, Ian Clack, is personally supervising the Fleischmann's move from R. J. Reynolds-Nabisco to Burns Philp, the former head of Dixie Yeast is already in place as Ian's heir apparent. Carl Schaefer joined Dixie Yeast from the top job at Universal Foods yeast business. He is now vice president of Burns Philp Food's North American operations.

I have visited each of the U.S.A. plants and am very impressed with the quality and dedication of the local management. They are committed yeast industry enthusiasts and for that reason get on very well with our yeast people who are equally fanatical about those little cells.

While we have officially owned Fleischmann's only since July 2, we report that we are very pleased with the first three months — particularly as there was a price rise of 8 per cent in baker's yeast — the first for over three years — as soon as the acquisition was announced.

In conversation, we have suggested that we may well follow the same strategy to that used in the U.S.A. —buying into a small plant in a strategic geographic location, testing our technologies and systems and then expanding — in continental Europe.

We have been actively pursuing that course and have now announced the acquisition of 80 per cent of a Portuguese yeast manufacturer. The plant is strategically located on the Iberian Peninsula which is four times the size of the Australian yeast market.

CORPORATE STRATEGIES

You can see that our basic strategy remains unchanged: we are committed to concentrating our management and financial resources on segments of those industries in which we have clear long term growth. What are our businesses — let me review them for you:

Burns Philp is structured into five divisions with five excellent divisional managers reporting directly to the chief executive. Those divisions are food, hardware, shipping/trading, Pacific and finance. To jog your memory on the difference, the Burns Philp organisation chart just four years ago would have looked an old English maze with over 200 different businesses, divisional managers, sector managers and boards of advice.

To come back to the present, the sales and profits of our basic business are:

	Sales	Profits
• Hardware	254,386,000	6,345,000
• Shipping & Trading	289,433.000	4,716,000
• Food	222,682,000	10,893,000
• Pacific	309,378,000	4,791,000
• Finance		804,000

We have already discussed at some length on our food business, so here are a few brief points about the other divisions.

HARDWARE

The hardware business is well known to you, BBC is now one of Australia's largest retailers although it operates in only the ACT, NSW and Queensland. We believe with the excellent management systems we have in place, and the benefits that are already becoming apparent from the ICL "handi-system", that the path is becoming clearer to carefully expand into other states. At BBC, we have a great mixture of long-time hardware professionals and aggressive specialist managers.

The shipping/trading division brings together all our trading business under one management. We have cut out two head offices and are currently examining the future of these various businesses.

One business we can talk about confidently is the liquid storage terminals. We have now announced the acquistion of one of our major competitors, giving us the lion's share of this market.

PACIFIC REGION

All our Pacific operations are now under control of the same team that so successfully turned our Papua New Guinea business. The major area for them to address is the Fiji operations which, as you saw from this year's results, certainly need the Papua New Guinea treatment. The team is focussing on encouraging those activities that have the capacity to produce satisfactory returns and getting out of those that don't.

We are working hard on the Pacific. As we demonstrated in Papua New Guinea, we believe we have the answers, but we do not regard the Pacific as an area of real growth or future investment.

Finally, our finance businesses are basically small-time operations operating in a big-time market. They are profitable, have a very limited downside and therefore we will not be taking any immediate action there in the term.

MANAGEMENT RESPONSIBILITY

Before summing up, I would like to make some points on the topic that seemed to gain the most prominence in the media last financial year: some remarks were made very public about Australia 2000. By the way, I am pleased to see that this organisation is now so well established that it has its own club tie. Those remarks were based on my very strong belief that the only security for a company and its management is, and should be, performance.

Every action of management should be geared to the shareholders' interest. That being the case — that performance is the best takeover defence — it follows that the shareholders of companies which are not performing may be better off if those companies were taken over.

An immediate reply to me is "That's easy to say — look at the defences in place at Burns Philp". Well, quite frankly, that is an inherited situation and I am not idealistic enough to spend every board meeting trying to dismantle it. It is a fact of life but you will find that over the next few years, our register will become even more open than it has over the past three years.

SUMMARY

Last year we said we would do four things. We have achieved all four and I think quite a deal more. Burns Philp in 1986 is a well managed international group. We are putting the runs in the board in every area of our operations and we have the depth of management to keep on doing it.

We have made and will continue to make very substantial investments in the food, hardware, and trading businesses. Our company is truly international with major market shares in over ten countries including the U.S.A. and Canada and, more importantly, our international operations are profitable.

This coming year, over 60 per cent of Burns Philp's profit will come from offshore. However, we remain committed to improving the basics of our business as ever — to improve our management and financial controls — to continuing decentralising, and pushing responsibility on to good operating management.

We will continue to stay close in the market and we will continue to work to our policy of no surprises.