



## Fosterisation, Mark II

*Stephen Mayne explains how Foster's is trying to rule the world – again*

Corporate Australia has been woeful at building internationally known brands. So Foster's CEO Trevor O'Hoy is keen to gloat that he's now the global leader in premium wine because no Australian company has ever led a specific consumer segment before. As the Foster's \$3.2 billion takeover bid for Southcorp appears likely to succeed, it will create the world's biggest premium wine company with brands including Rosemount, Lindemans, Penfolds, Wynns, Wolf Blass and Jamieson's Run.

Being the world's biggest wine company and Australia's biggest brewer may sound impressive. But the combined Foster's-Southcorp operation will only have sales of about \$5.5 billion, which pales in comparison with the old Elders IXL which turned over \$15.35 billion and declared a net profit of \$795 million in 1988, something the company has never matched since.

If there's one Australian corporate book that really needs to be written, it's the history of Foster's/Elders IXL. And former CEO John Elliott is the man for the job, because getting to this point of wine domination has been an incredible journey for the Melbourne-based company that only entered the wine business in 1996. Buying Southcorp for \$3.2 billion in cash may seem a big bite, but when Elliott was in charge these sorts of bids were commonplace.

John Elliott literally wanted to Fosterise the world, and he spent billions taking it to world number four brewer. But he was thwarted in failed takeover talks with global beer leader Heineken, US giant Anheuser-Busch and Diageo – the world's biggest liquor company, formerly known as Grand Metropolitan.

In December 1983, Elders pulled off the biggest takeover in Australian history with a \$1 billion bid for its then largest shareholder, CUB. This gave Elders access to a cash machine that it used to embark on a global spending spree, and that Foster's will use again to service debts approaching \$7 billion. In 1985 there was a \$3.4 billion cash bid for British group brewer Allied-Lyons, but Elders

backed out a year later despite winning a long battle with the UK competition regulators. In September 1986 Elliott instead opted to spend \$3.3 billion in cash buying Britain's sixth largest brewer Courage, which ended up costing shareholders more than \$1 billion over a decade. If that wasn't enough, a \$3.5 billion cash bid was launched for rival brewer Scottish & Newcastle in October 1988 but this was blocked by the British competition regulators and S&N ended up buying the Courage brewing business from Foster's for \$1.2 billion in 1995.

Ironically, Foster's almost went broke in 1992 when many of the loans it made to others through Elders Finance went bad in the recession we had to have. Elliott was progressively deposed as CEO and chairman as the company faltered in 1989 and 1990, but his final resignation from the board only came as a condition of a \$1 billion emergency rights issue in 1992, which was backed by 37% shareholder BHP.

What was BHP – now a \$110 billion global mining giant – doing on the register? Well, that relates to the earlier takeover battle for BHP when Elders, then our second biggest company, stepped in to save the Big Australian from Robert Holmes a Court. It also related to John Elliott's crazy attempt to privatise Elders in

1989 when he launched a \$5.5 billion management buyout, still unsurpassed in Australian corporate history, which netted him and his backers a fatal 56% stake that cost \$3.1 billion. Elliott now admits this was his biggest mistake and led to most of his subsequent troubles. But there were other errors, like the \$2.9 billion bid for Californian wine giant Beringer Estates in 2001. This made Foster's a global wine giant but they paid too much, just as is feared with the \$3.2 billion Southcorp takeover.

O'Hoy is a finance man who has been with Foster's for almost 30 years, so he's literally lived all these billion dollar deals. Which might explain why he appears so confident in having placed such a big bet on Southcorp.

### The 25-year Foster's Saga

- 1981:** CUB acquires major stake in Henry Jones (IXL) Ltd, then acquires 49% in Elder Smith Goldsborough Mort.
- 1983:** Elders spends \$1 billion bidding for its own largest shareholder, CUB, in a record Australian takeover at the time.
- 1986:** Elders IXL conducts world's biggest one-day sharemarket raid buying 20% of BHP for \$1.8 billion.
- 1986:** Elders buys British brewer Courage for \$3.3 billion.
- 1987:** Elders buys Canada's third largest brewer, Carling O'Keefe for \$480 million.
- 1989:** Elliott's Harlin Holdings spends \$3.1 billion buying 56% of Foster's.
- 1990:** Banker Nobby Clark replaces Elliott as chairman.
- 1992:** Ted Kunkel replaces Peter Bartels as CEO and unveils \$1 billion rights issue.
- 1995:** Foster's sells Courage Brewing for \$1.2 billion.
- 1996:** Foster's buys into Mildara Blass for \$482 million.
- 1998:** Foster's sells 50% stake in Canada's Molson Breweries for \$1.1 billion.
- 2000:** Foster's acquires Beringer Estates for \$2.9 billion.
- 2003:** Foster's sells its pubs and pokies business for about \$1.4 billion.
- 2005:** Foster's bids \$3.2 billion for Southcorp to become world's biggest wine company.