Foster's Group Limited

Wine Trade Operational Review
Investment Market Briefing
Presentation Transcript

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Panel
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Pete Scott – Chief Financial Officer
Walt Klenz – Managing Director – BBWE
Jamie Odell – Managing Director elect – BBWE
Andrew Leyden – Global Finance Director – BBWE

TREVOR O'HOY: Ladies and gentlemen, good morning and welcome to the results of the long-awaited wine trade operational review, the one we announced at the December half.

With me today, firstly, Walt Klenz, who you all know. Walt is going to provide us with some background in terms of the market, the business context in which this review has happened. Secondly, Jamie Odell. Jamie is going to present the main components of the review, clearly concentrating on our key performance objectives, the financial outcomes we expect to deliver, and the major business initiatives that will be required to achieve those financial outcomes. Thirdly, well known to you, Pete Scott, our CFO, is going to provide some insight and guidance on the evolving FGL financial model. Obviously, this is a big change. He is going to give you some financial performance guidance and finally put it all in the context of our new long-term plan. Right at the end is Andrew Leyden, Global Finance Director at BBWE, who is here to answer all the hard questions!

Before I start, I wanted to talk a little bit about our major priorities going forward, because this is such a fundamental change. About two years ago, in a very similar forum in a very similar environment, we announced the CUB operational review. While beer and wine are two very different products in two very different and varying markets, both of them have experienced structural change, and that structural change has required us to change our models as we go forward. I think that is very important to understand. In terms of the wine model and in terms of our beer model, we need to be more flexible in terms of our constantly changing marketplace. There is certainly going to be a lot more rigour and it has got to be sustainable. This is what this review is about in terms of wine.

In terms of the major Foster's priorities, clearly the number one priority is to maintain the momentum in the engine-room, CUB cash flow. I am happy to say today that that continues and indeed is accelerating under the new leadership of John Murphy. An example of that is the highly successful launch of Half Mile Creek last week, which once again is just one of those planks in its multi-beverage strategy that is leveraging one of the best distribution systems in the world.

Secondly, I am very happy to say that the Emanuel litigation [related to Lensworth] is now behind us and we can now as a group focus on maximizing shareholder value from that business. We will have something to say about that in the future but not today.

Thirdly, one of the priorities is to introduce a shared service platform in the Asia Pacific region, one that will give us a sustainable edge against our single product competitors here in the marketplace. That is an absolute priority within our group. Finally, the reason we are here today is to hear from Jamie and his team on how we are going to deliver the initiatives that we promised in the review. And more importantly, how we are going to build a flexible, robust and vigorous wine model. It has got to be a model that is going to minimise risk in terms of the demand side of the business. It has to be a model that provides us with funded continuous improvement and innovation, new product development and, indeed, long-term brand building. In the end that's the ultimate defence in the competitive marketplace.

Finally, it is a model that we believe will achieve world's best practice in relation to the major financial measures. Clearly in terms of earnings growth, which has always been a high priority. But on top of that we want to retain and build world-class margins, cash flow generation and, clearly, need to get a return at cost of capital and above. Ultimately that's a lot of words, but what we need to achieve is to get this group into top quartile performance, and that is all about performance. That is something that the new team is absolutely ready to do.

With all that said, I would now like to take the opportunity to hand over to Walt, who is going to give us some background into the marketplace and some of the reasons that this review is taking place. Thank you.

WALT KLENZ: Thank you, Trevor. Good morning, everyone. As Trevor said, I would like to cover very briefly three areas to try to put this trade operational review into both an historical and, more importantly, a current market context. First, just a quick review of the history of how Beringer Blass was put together. Then, I’ll spend a little bit of time looking at the highly challenging market conditions in North America, which obviously form an important part of the drivers for this review, and then very briefly a quick overview of the three or four things that we absolutely have to do to have this review be successful going forward.

First up, just a brief history, which many of you know. Foster’s put together Beringer Blass really over only about a four- or five-year period starting in the mid 90s through the early 2000s. Obviously the major acquisition of Wolf Blass was in the mid 90s and the acquisition of Beringer was in 2000, and there were some relatively smaller subsequent acquisitions. But really I think by any measure, that is an extraordinary achievement of growth through acquisition and through organic growth in a four- or five-year period, creating arguably the leading premium wine group in the world, with cases approaching 20 million and, most importantly, with the highest unit revenues and the highest unit margins of any premium wine group of our size in the world. And also very importantly for long-term growth, a major footprint in the two most important new world wine areas, Australia and the United States.

Turning to North America, let me really focus most of my talk on the North American market and the wider context that we face today, which has driven so much of this review. Beringer was acquired in late 2000, as I said. I think by any measure it was the leading premium wine company in the United States in terms of premium wine market share, in terms of profitability, and in terms of market capitalisation as an independently traded company. It had literally a three-decade record starting from the early 70s through to the early 2000s of double digit growth. I think actually on a 30-year analysis, it had close to 13 per cent growth in Californian wine volume over that three-decade period. It also had substantial vineyard holdings to support this long history of growth and, as we have talked about, substantial supply commitments to support that growth, particularly at the $10 price point. that was an important part of the context at the time coming out of a period in the late 90s where the industry had gone through a long period of scarcity.

Now starting in FO2, towards the end of calendar year '01, obviously with the 9/11 event and the US recession that occurred just about the same time, we started to see a significant change in category dynamics in the United States. It became a very highly competitive market and there was a slowdown in the overall growth of premium wine. In some ways, more importantly than the slowdown in overall growth, I think we started to see a major shift in consumption really where value became king starting in about F02, and continues to this day. There are many manifestations of that which we have talked about. Extreme value wines obviously had enormous growth starting about a year to two years ago, and have flattened out but have still taken about five to seven million cases at least of premium wine from primarily that sweet spot of premium wine business, where we and others had done very well at the $5 to $10 Californian segment. Then, there has been the enormous success of the under $7 Australian category, which also has had a major impact on the growth of Californian wines.

We argue among ourselves all the time whether we are talking about structural changes in consumer behaviour or are we talking about cyclical changes? I think, frankly, the jury is still out on that. We are assuming that there may indeed be some structural change in terms of consumer behaviour, a slightly more value-oriented US consumer, a consumer that you have to remember over the last 30 years, starting in the early 70s, has shown a strong propensity to trade up from jug wine, as we called it in the 70s, to fighting varietals in the 80s, which were the wines selling for $4 or $5 a bottle, to the $8 to $12 category in the 90s. That is a decade-strong trend that clearly will remain in place to a certain degree. But we are assuming that some of the value orientation will also remain in place.

So what does that mean for Beringer Blass Wine Estates for that period? We saw our depletions which had been consistently low double digit growth - depletions being sales from our distributors to our retailers - had slowed, starting about 18 to 24 months ago, into the single, mid-single digit range. Frankly, seeing this as a short-term effect, shipments did not adjust as quickly as they could to that number, resulting in growth of distributor inventories that we have talked about to a degree over the last six months or so.

Also, with a substantial fixed component of grape supply coming in to the wineries, primarily to support this history of double digit growth at the $10 price point, we began to back up in bulk wine inventories as well, and we were forced to begin to use those wines in lower value products, particularly Stone Cellars, where we had an outsource model that worked very well in the early introduction of Stone Cellars. But as the $10 inventories backed up, we were forced to cascade that wine into Stone Cellars and lower value products.

The mix of spending in the market changed. We felt a need to divert more money into trade spending because of the enormously competitive pricing environment out there and, frankly, at the expense of some consumer spending, particularly on the Beringer brand. So what did that mean for BBWE North America? We obviously saw a contraction of our EBITA margins as we had higher costs and higher discounting activity, which took a substantial amount of our historical high 40s-50 per cent gross margins. We obviously had a doubled impact on our returns as EBITA margins declined and our capital employed grew faster than it would because of an excess of inventories. Really much of it can be attributed to this $10 category where we had enjoyed six or seven years of strong double digit, really mid-teen, growth, and had substantial supply commitments, to a continued double digit growth. That business really, in F02/F03, went flat.

So where are we really today in terms of this review? One of the things that we have to do in order to turn this business around - there are really two or three areas that we think are absolutely critical. The first and formost is to regain top-line growth. We obviously have a program here from Jamie that does a lot on the cost side and on the asset rationalisation side, but ultimately we need to drive/regain the kinds of top-line growth this company has enjoyed for many, many years, and that means increased spending against core brands at the consumer level and it also means much more aggressive new product development and innovation programs, which I know Jamie will be talking about.

Secondly, supply chain flexibility and efficiency is something we have to change. We have to change how we organise our supply chain in terms of planning and enable demand and supply forecasting, and in terms of exchanging best practices across our geographies and looking at a much more disciplined, much more flexible supply chain. That is an absolutely critical area for us to achieve success going forward.

Finally, we won't be able to do either one of those if we don't look at how we are organised, both in terms of the organisation and in terms of the capabilities of the team. In the market facing side of the organisation we are looking at significant upgrades and particularly in the new product development area, where we are going to be much more aggressive and much more innovative in terms of using not just the wine division resources but the total resources of the Fosters Group in driving innovation across all our geographies. Supply chain will also be critical in terms of increasing the capabilities of our supply chain organisation, having a much more centralised control of our supply chain system, yet having strong global implementation of that program. Getting that right balance will be critical to our success going forward.

Those are the challenges; those are the opportunities that Beringer Blass Wine Estates faces. To take you through the details of those opportunities, it is my pleasure to introduce Jamie Odell.

JAMIE ODELL: Thanks, Walt. Good morning. Well, it has been an exhilarating, exciting and sometimes exhausting five months we have been working together on this plan. We have put a significant amount of time and effort into this project and we have made some significant decisions. The one key message, though, is there is still a lot of work in progress. A fundamental part of our plan going forward is going to be continuous improvement in the business model we will be taking forward.

This review has really represented a unique opportunity to rebase our business, to make some tough decisions and to prepare it for sustainable success in the changing and competitive marketplace that we now compete in. Within this we have acknowledged things we haven't done well, taken some pain but, most importantly, delivered a sustainable and flexible business model for the future. I believe the upside speaks for itself and I am confident in our ability to deliver it.

Specifically, the North American business has been built around meeting the strong demand growth from three decades of growth, as Walt outlined. The fact is, though, that growth has slowed, and this plan is a more balanced business model to deal successfully with the market dynamics of today but also tomorrow. This is a new model which gives equal priority to distribution reach, product quality, supply efficiency and flexibility. But most importantly, it is built on aggressive top line growth and building strong brand equity through our already market-leading premium wine brands. These are the areas I will be talking to you about this morning.

The actions we are taking will not only resolve the current issues we face within the supply chain but ensure we don't make these mistakes again. This is a fundamental change in the way we will do business at Beringer Blass and ultimately will be driven by greatly enhanced organisational capabilities. But as I have already said, the key will be accelerated sales growth throughout our portfolio. And that is something we have already proven we can achieve consistently in our business, as I will show you later. So in terms of issues and actions, firstly, we must accellerate revenue growth to drive our profit growth. We have got a sustainable model in Asia Pacific, a business which has proven its ability to grow well ahead of the market. We will be leveraging that successful model in North America and Europe through increased investment in brand building and innovation. As a premium business, key focus for us is at the key $10 to $15 price point, where we already outperform our competitors, and this will not change. Our return on capital from wine is currently not acceptable. In response, our production infrastructure will see consolidation in both North America and Asia Pacific, and will continue to develop further our outsource market.

These supply assets must be servants to our brands, and we are fundamentally changing our structure to ensure we deliver what the consumer wants, not what the winery produces. We are taking excess inventory out of the system, as you will see, and significantly enhancing our global supply and demand capabilities to ensure we have no repetition of recent problems.

Supply chain flexibility is key to our model, and within that we are taking the opportunity to reduce vineyard ownership to required levels and to exit surplus grape contracts. These actions will allow us to deliver savings through moving to more competitive blend structures for key products.

In terms of key performance goals, I will talk in detail about how we will drive revenue growth. In addition, we will deliver incremental shareholder value by enhancing our already industry leading profit margins. We will achieve this by cutting costs out of the supply chain. The actions we are taking will not only resolve the current issues but, just as importantly, upgrade our capabilities as an organisation going forward. This will include implementing global structures for the supply chain and also the key area of innovation. The combination of these initiatives represents a balance and integrated business plan for sustainable improvement and profit growth.

Cash generation will remain a key focus for us and, very importantly, you will see an aggressive improvement in our returns profile over the life of this plan. That's a 50 per cent improvement over the base between FO5 and FO9. However, I fully knowledge that we need to further mprove returns, and this will remain an absolute priority for us going forward. We have work in progress to achieve this. The drive for continuous improvement supplemented by continuous innovation is a key part of our new sustainable growth model.

Details of the cost savings achieved as a result of the Wine Trade Review are within the press release, and we can handle this in more detail during the Q and A session. As you can see, we will be delivering cost savings of $60 million in FO7, up to $85 million in FO9, with targeted cost of goods reductions of around 10 per cent. More than half of these savings will be reinvested in driving the top-line growth I have been speaking to you about. The actions we are taking in North America/Asia Pacific to consolidate our production infrastructure will require incremental capex of around $90 million, which is 40 per cent below the amount we previously advised of around $150 million. Total BBWE capex will be around $100 million per annum.

During the last few months, we have been taking action in the US to reduce inventories in our distributors, and that will result in an impact on forthcoming FO4 results of around $22 million. This actually will have a benefit stream in FO5 and beyond. As you will note in the release, we are taking writedowns and making specific provisions of between $270 million and $300 million. These are broken down in the slide and in today's ASX release.

We are moving now to address excess supply. Our view is that the wine industry in California has now passed the worst, based on bulk wine prices showing improvement and new vineyard plantings reducing. But regardless of that, a key objective of this review has been to realign our supply to future demand and to ensure we have ongoing flexibility in the market to succeed no matter what point in the cycle we find ourselves. We are taking the opportunity to realign our model, to increase the level of outsourcing at sub $10 products, and throughout our portfolio to move towards ideal costs and quality blend structures for our brands. Furthermore, increased efficiency in wine making will take additional costs out of the system. Our new global procurement initiative will assist our local teams in delivering yet further savings through reduced packaging costs.

Let me give you an example of how we are realigning supply in California. This map shows the primary grape growing regions in California with the relative prices per tonne we achieve. We have 70 per cent vineyard ownership in Central Coast, which is too high for our needs. Exiting some of these will allow us to reach optimum blend structures by integrating more lower cost fruit from Northern Interior into some of our commercial blends. But please note, importantly, that reduced price doesn't mean lower quality. We remain committed to best quality at each price point.

This chart shows simply the steps we are taking to align supply, from reducing finished goods currently in the supply chain through to ensuring that we optimise the model going forward. It is not just about current supply, it is about future supply. These three steps will ensure that we exit from current surpluses of bulk and finished goods and, importantly, have a more flexible, cost-efficient model for future supply.

In terms of realigning supply in the US, I have already talked about the effect of the reduction in distributor inventories which we have been implementing during the last few months. We are also writing down around $140 million of stock which is excess to our demand requirements, primarily in the US. A real benefit of this is that it will allow us to return immediately to the outsource model for Stone Cellars that we originally developed.

The sale of non-strategic vineyards in California and Australia and reduced intake from non-required contracts in North America will help us to align our future supply with demand and add the flexibility to our supply model which I have been talking about this morning. Vineyard sales will also deliver capital management benefits. You can see on the slide our estimated writedowns in carrying values and our provisions for ending those contracts which result from these decisions.

In relation to supply chain efficiencies, we are looking to deliver the optimum infrastructure to support above market profitable growth, at the same time as having increased flexibility in the model. Let me assure you that in all of these actions the need to continue to deliver the best quality product at each price point has been a fundamental driver of our thinking. We will not, and have not, made any concession in the quality of our wines. We are leaders in premium wine quality and we will remain that way. These actions we are taking include the consolidation of sites in both the US and Australia as well as a number of cost reduction initiatives in the wine making and packaging process.

For example, in California we are simplifying our production facilities and reducing the number of movements between sites. Specifically as you can see on the slide, we will be moving bottling from the Central Coast to the North Coast. The map shows you how much we will significantly reduce the distance that both dry goods and finished goods need to travel.

In Australia, as you know, we are very proud of our Wolf Blass Winery in the Barossa. It's a high-quality, flexible and cost-efficient site, and we are implementing further consolidation over here. Production costs at Wolf Blass Winery are approximately half those of the sites that we are closing. All together the changes we are now announcing mean that we will have consolidated six sites in Australia during the last three years.

Within winemaking we will be utilising our sites more efficiently as well as introducing far greater sharing of best practice across our businesses, including techniques for more efficient management of barrels throughout the system. Our local procurement teams, as I have mentioned, have been supplemented by a global procurement capability which will aggressively target costs around the business, specifically in dry goods.

As I mentioned previously, all of these initiatives will incur less capex than we had initially indicated to you in the previous year end. They will result in material benefits across the supply chain. The adjustments are detailed in the release of our carrying values. They will be in the region of $10 million to 15 million. Onerous contract provisions relating to more efficient barrel usage will be between $35 million and $45 million.

Now to initiatives directed at accelerating revenue growth, which as I said at the outset is the key and most important factor which will drive our business successfully into the future. Revenue growth will come from four key areas - brand development, brand investment, new product development and innovation. But note that we are starting here from a very strong position. In Beringer and Wolf Blass we already have the No. 1 bottle brands by value in their home market. That is a premium footprint which is unique and only Beringer Blass can claim.

We are forecasting wine category growth in all our markets but, importantly, we expect the premium segments, where we are strong, will see higher growth than the overall category. This is our heartland and our strength. In the US we have a 16 per cent share of the $8 to $12 market and a great opportunity for future growth. We have distribution strength and strong support from our distributor network. In Australia, we have an impressive 23 per cent share of the $10 to $15 market and we are growing there at 29 per cent versus growth in the segment of 8 per cent. That is almost four times category growth in the $10 to $15 segment in Australia. Overall the wine category is still showing healthy growth and we have a unique competitive advantage due to our strength in the premium segments.

Here are the four ways in which we will be delivering accelerated revenue growth. Starting with investment in our core brands, let me talk to you about Beringer. As I mentioned already, the No. 1 premium brand by value in the US, and we will be enhancing that position through increased brand investment as well as through new product introductions. You will have seen recently the Blush Sparkling White Zinfandel introduced to the market. That has already made a great start. Shortly you will see the new 187 millilitre size of Zinfandel in the market. Our investment will enhance the No. 1 position we have in the US, as well as investing in the UK to become the No. 1 premium Californian brand at above $5.

As I already mentioned, the $8 to $12 category in the US is an area of great strength for us, where we have a 16 per cent share. It has been the backbone of our business in California for many years. We have enormous capabilities in this segment, which we will urgently re-energise by investing in current products, Beringer Founder's Estate and Meridian, and also in meaningful new product development.

Founder's Estate will specifically benefit from the increased above the line brand investment we are going to be spending in the US. Meridian will also get great focus particularly in terms of distribution and some more focused programs on trade. We have appointed a new innovation director in the US, and their first role will be new product development in this $10 category which is key to us.

I can use the example of Wolf Blass in Australia. I suggest to you that four years ago Wolf Blass in Australia was a brand operating between $10 and $15 which was in decline and you can see the turnaround we have done on that. I believe these brands, Meridian and Founder's Estate, are in a far healthier condition than we saw Wolf Blass four years ago.

So, moving on to Wolf Blass. It is not only the No. 1 bottled brand by value in Australia but it is still the fastest growing table wine in the top 10, at 29 per cent. So it is No. 1 and growing faster than the others. We have the No. 1 position in Australia but also No. 1 value share in the category in Canada, Ireland, Singapore and Hong Kong. We will be leveraging that strength with increased brand investment to enhance our position in Australia; to become the No. 1 premium Australian brand in the US above $10; No. 1 premium Australian brand in the UK above £5, and to move to number one brand by volume, as well as by value, which we already are in Ireland.

Let me talk to you briefly about the importance of secondary brands in the wine category. The wine category is diverse and consumers are looking for choice continually. That is represented perhaps by the fact that the leading brands and key markets, like Australia and the US, only have a six per cent value share of the marketplace. What that means is an enormous opportunity to develop secondary brands, and in our portfolio we have great brands waiting for that kind of development. In Australia I will talk to you about the success we had with Saltram, with Jamieson's Run, and in the US we have similar brands, with St Jean, Stags' Leap, St Clement and Etude. Many, many secondary brands which we can now build up through investment.

I also wanted to talk to you about the unique position we have in terms of super premium and luxury wines and our continuing commitment to luxury wines in our portfolio. Some of them are on the chart here. This is a unique positioning for a large-scale wine producer and it is a distinct piece of competitive advantage for Beringer Blass. We are recognised for making some of the best wines in the world. I will give you some examples from recent US reports. Robert Parker's Wine Advocate in December had Beringer's Sbragia Chardonnay at 95 points, St Clement and Chateau Souverain at 96 points. The Wine Spectator in April had the Beringer Sbragia Chardonnay rated 94, Chateau Souverain Chardonnay rated 92. The Wine Spectator in January picked two Beringer Blass wineries in the top 50 smart picks of wineries, which was Chateau Souverain and Wolf Blass.

So what we have here is a real reputation for producing high quality luxury wine, some of the best wines in the world. Not only is that important in terms of the quality of wine you produce, we also have been able to leverage it down through price point successfully on our work with both Beringer and Wolf Blass.

Let me talk to you briefly about premium innovation. You have seen quite a lot of innovation, I can give you some good examples of innovation. I have talked to you about Pink; Pink sparkling wine, which was launched 12 months ago. It is the third largest selling SKU in this marketplace and a major contributor to our business. We have seen the same with Greg Norman Estates in the US. It now sells 150,000 cases at premium price points here in Australia. Here are some of the examples where immediately we are doing more premium innovation, leveraging Greg Norman further in California. Some of you will have seen the new Shadowood product from the Eden Valley, at a premium price point, entering the marketplace. There is a lot more in the pipeline we will be talking to you about at a more appropriate time.

I also want to talk to you about expanding our playing field. There are changing marketplace dynamics, as we've indicated to you. We do have unique skills, brand building skills and outsource skills, which are unique capabilities which do allow us to play successfully in this expanding playing field. Just a couple of examples. Kangaroo Ridge will sell almost half a million cases in FO4. Since late January, well over 100,000 cases have been sold into the US already.

The Foster's Group has a unique opportunity in CUB through the wine making and wine skills of Beringer Blass using the powerhouse of the CUB market distribution. This demonstrates that we can think differently, driven by our consumer and trade insights. Together with CUB across Foster's we have a fast, flexible, highly efficient and highly responsive model.

In summary, therefore, it is all about growing ahead of the market. But let me repeat myself: We are premium; premium quality at all price points and we have proven brand building and new product development skills, but it is the premium nature of our business which gives us our unique competitive advantage and we will now be building on that, that strong strategic footprint that we have already developed in our key markets, into new markets.

I just want you to pause for a while and you will be asking yourself: "Well, how confident am I about delivering all of this revenue growth that I am talking to you about which is so fundamental clearly to our plan going forward?" The answer is I am very confident because we have already proven, as this evidence shows you, that we can do this consistently.

I will give you an example. In Asia Pacific I talk again and again about Wolf Blass. It's a phenomenal success story. The volume has more than doubled in three years and had a growth way, way, way above the growth of the category. Yellowglen is the No. 1 Australian sparkling brand by value and it has grown 44 per cent. That is phenomenal growth for a leading brand in the category. That is phenomenal growth for a leading brand in the category, versus second at nine per cent. Saltram, one of the secondary brands that I talked to you about, now growing at 74 per cent versus the prior year. Jamiesons Run has now moved to become the No. 1 brand by value from Coonawarra. It has grown 24 per cent, again remembering that that is against segment growth of five per cent. In Europe - we are now focused on Wolf Blass growth - it has grown 119 per cent and is the fastest growing Australian brand. As I said, we are heading towards becoming the leading premium Australian brand in the UK market. Wolf Blass in Ireland is not only the No. 1 brand by value; again, it is growing at 24 per cent. So we don't just get to be leading brands, we get to be leading brands and then we go further.

In North America we have a fantastic opportunity. Beringer is the No. 1 brand by value in the US. Beringer Blush White Zinfandel is the No. 1 still table wine SKU in the marketplace. I talked to you about some of the innovation with sparkling Blush White Zinfandel, which has already exceeded our expectations in the US market. In Canada we have a very strong position in Wolf Blass; the No. 1 Australian brand by value. We have proven that we do have these capabilities to deliver accelerated revenue growth.

The key to our future success and, very importantly, avoiding repetition of the issues we now face is enhancing the capabilities of our organisation, that is, people, processes and technology. Beringer Blass will be an integrated global business combining the best of our local businesses with global processes and global best practice management. We have a new MD in the US, Dan Leese, and a new global management team driving all of these initiatives. Our finance director, Andrew Leyden is here today. Randolph Bowen, who runs the supply chain globally for us; John Phillips, the MD for Europe; and Anthony Davie, who has just recently been appointed to succeed me in the Asia Pacific business. I can tell you that during the last six months we have been working together extremely effectively as a global team on putting together these new initiatives.

This is our "way to grow model". It's the sustainable growth model that we have been using, and which we developed in, the Asia Pacific. If has now become our tool to enforce performance orientation across the global business. The way to grow model ensures that all key targets within the business plan are identified and then set as individual and team measures aligned across the business and then delivered consistently. It's an holistic approach to ensure that the entire business is fully aligned in its shared responsibility to deliver our key business outcomes. It has worked for us in Asia Pacific and I am confident that it will now work in all our markets.

So let me show you what we will deliver. In the US we will restore our above market performance and lead international market growth aggressively. We will be seeing high single to low double digit top line growth and EBITAS margins above 20 per cent. We will be brand building and investing to extend Beringer's No. 1 position in the USA; exploiting the potential for the Wolf Blass brand in the premium Australian category through an active brand investment program; and increasing capability in innovation and new product development; and supporting all of this through an integrated, flexible and sustainable lower cost supply chain.

In Europe we will still need to develop scale, and we will be doing that through investment whilst managing margins in that competitive marketplace. You will see high double digit top-line growth, EBITAS margins still around the 20 per cent mark, while we grow scale/distribution. But we will be utilising our brand-building skills particularly to get behind Wolf Blass, Beringer and some of our regional Australian portfolio. We will be establishing our portfolio as a leading player in the premium above £5 category in the UK. In the rest of Europe we will see selective penetration of markets where we can justify them.

In Asia Pacific it is a question of sustaining success in leveraging the model which has worked so well over the last three years; continuation of low to double digit top-line growth; EBITAS margins in the high 20s; the market's leading brand builder; extending Wolf Blass' position as the No. 1 in its market through brand investment; and further building our secondary brands, as I showed you a little bit earlier. Overall it is about exploiting the flexibility we have developed in this model and continued through the site consolidation. In the rest of Asia, as in Europe, we will be looking for opportunities as they arise to increase our investments and returns.

The majority of the initiatives I outlined have either already started or will be implemented from the beginning of July. Understandably those relating to site consolidation will take a little longer, but they will all be pursued with urgency and with rigour. We are committed to keeping you in touch with our progress and look forward to hosting a number of you at the forthcoming visits to both the Napa and the Barossa.

In summary, this business already has great and uniquely powerful premium brands. The markets we operate within are still growing and we are committed to investing heavily behind our already proven brand building capabilities to grow aggressively and to deliver increased value to Fosters shareholders. During this review we have learnt a great deal and we have made some tough decisions. But, most importantly, we know what we have to deliver and we will deliver. Thank you.

PETE SCOTT: I have just a handful of slides, and then we will turn it over to Q and A. I thought it made sense to try and put some of this wine review material into an FGL context. As such, we thought it made sense to actually go back to what had been our financial model at FGL, which was generally, at least in my terms, more of a corporate portfolio model, with FGL being essentially a holder of several different operating conditions, each of which had both a specific role and specific financial characteristics. You can see obviously CUB had a cashflow role, basically participating in a very stable industry, expecting limited top-line growth but generating some modest earnings and highly cash generative, while Beringer, participating in a growth category, was looked at as the driver of top-line and EBITAS growth, with category plus volume growth expectations, double digit earnings growth, strong margins and what has been improving cashflows over the last couple of years. FBI, as you know, as the brand champion for Fosters worldwide, has a relatively low base of earnings governed primarily by the licence agreements that you are aware of; growth, however, on that small base. Lensworth we have been talking about for some time as being non-core. And then the Corporate Group, the corporate centre, is basically a cost centre with, you know, flat to low single digit growth and overall spend.

Recently, however, the performance generated by that model has been mixed.

We have seen CUB outperform its expectations, with very strong revenue growth as well as earnings growth and, as expected, strong cash flows. Beringer has significantly underperformed its growth expectations, driven by a weaker category, particularly in the US. The exchange rate obviously has moved against us and, as has been discussed in the last 45 minutes or so, there has been a reduced brand investment, which I think many of you are aware of over the last couple of years.

FBI, Lensworth and the Corporate group generally in the last few years have performed as expected and, as a result of that, FGL generally has underperformed. Our normalised net income has underperformed our target growth rate. Our EPS growth has been obviously impacted by increased share count over the last couple of years. During that time there has been, I would note, a number of important positives. The operating cashflow has strengthened. You are aware of many of the more significant portfolio management activities, most notably the disposition of ALH, resulting in a much stronger balance sheet.

As we go forward, and taking note of Jamie's comments just recently delivered, we integrate those Beringer metrics into an overall FGL financial plan or integrated business model, which I will talk about in just a moment, and we develop expectations and targets for CUB which we have been talking to you about as being at the high end of a 6 to 8 per cent EBITA growth range. We are also looking at CUB generated cashflows at about 100 per cent of EBITDA. Beringer - Jamie has just talked about delivering low double digit EBITAS growth, with cashflows expected to exceed 70 per cent of EBITDAS. FBI - continuing its high single digit earnings growth and EBITA growth rates, with cash flows at or about 90 per cent of EBITDA. Lensworth is still considered to be the non-core, and the Corporate Office continuing to generate flat to low single digit growth in its overall spend.

An important element of this - it's not necessarily a topic for today - is the evolution of its business model from what I have described as the corporate portfolio model to a much more integrated business model in which the operating units in CUB, Beringer and FBI begin to operate in a much more coordinated, much more cooperative means within each one of the major markets. Again, I think that is a topic for another time.

What this means from my standpoint, from an FGL standpoint, for the intermediate term is combined operating division EBITAS growth in the high single digits, continued leverage over corporate expenses and interest expense, producing double digit earnings growth, clearly no plan to grow share count over the long and intermediate terms, so that double digit earnings growth should translate to double digit normalized EPS growth, and then an ongoing improving return profile, growth in economic profit, strong cash flows, as we talked about on the bar slide, resulting in our current low teen return on capital employed growing to the mid and high teens over the intermediate term, which we were generally thinking about as a three- to five-year period.

Importantly, throughout it is our intent to maintain the BBB+ credit rating. Within that context, let me talk about some of the more near-term guidance. As you know, for F04 we have been talking about growth in normalised net earnings from continuing business due to the complexity associated with the portfolio management changes that we made and the share count changes that have gone on during the course of the year. We in the first half, if you recall, grew the normalised net earnings from continuing business about 2.9 per cent, and gave guidance at that time that our expectation was the back half and therefore the full year would be at or above that rate of growth. Because of the adjustments that Jamie has talked about, the North American reduction in distributor inventories, which took about $22 million worth of EBITAS out of F04, and the adjustment to our Services business, which was included in our disclosure this morning which indicates that Services will likely be no more than $20 million EBITA, we are advising that guidance for F04 is that our expectation for normalised net earnings for continuing business should grow approximately 1 per cent for the full year.

For F05, Beringer expected to be slightly under the low double digit EBITAS growth target that we have talked about recently. That is due to the ramp up in brand spend. I am talking about increased brand investment. So we expect to be slightly under that double digit EBITAS growth due to the pretty significant increase in brand investment next year. All other divisions are expected to perform, as I outlined, in line with the targets. Interest expense will increase, and in fact we will get negative leverage through the P&L interest expense as the share buyback continues in F05. As a result of that, our expectation is that FGL's normalised earnings per share are expected to grow high single digits in F05, moving to double digit growth in F06. I will tell you that in F05 that normalized EPS growth is high single digit digit, tantalisingly close to double digit, and obviously we will do what we can and make every effort to get that target. High single digit growth for F05 from an EPS standpoint, driven by growth in earnings and by capital managment activities next year. With that, I will turn it back to Trevor, who will open it up to Q and A.