

Foster's Brewing Group Ltd. - Company Profile, Information, Business Description, History, Background Information on Foster's Brewing Group Ltd.

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Company Perspectives:

Foster's Brewing Group has a number of aims and business objectives which are all integral to the overall mission of enhancing shareholder value, including: rising returns on investment based on growth in profitability from ongoing improvements in profit margins, business expansion, efficient use of capital, optimising the Group's competencies; product innovation linked to consumer preferences; product quality and technical pre-eminence; marketing excellence; observance of the highest standards of corporate governance.

History of Foster's Brewing Group Ltd.

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With breweries in eight countries and distribution to 120 nations worldwide, Foster's Brewing Group Ltd. is Australia's largest beer producer and the fourth largest beer maker in the world. In the 1980s, the group evolved from a collection of independent business interests into Elders IXL Ltd., Australia's biggest conglomerate, with interests including commodities trading, real estate, and foods. Saddled with a mountain of acquisition-related debt, the company suffered consecutive losses in 1990, 1991, and 1992 totaling more than A\$2 billion. Shedding all but its international brewing interests, the company assumed its current name in 1990. The divestment process shrunk annual revenues from a peak of A\$17.6 billion in 1989 to A\$2.5 billion by 1996, thereby enabling Foster's to drastically reduce its debt and resume profitability in 1993.

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Though Foster's predecessors date to the late 19th century, many sources trace the company's emergence as a major force in Australian business to the activities of one man, John Elliott. Through an astonishing series of acquisitions over the course of more than a decade, Elliott assembled a major conglomerate using a moderately sized jam company as its nucleus. At about the age of 30, Elliott returned to Australia after a brief stay in the United States, where he had worked as a consultant. Beginning in the early 1970s, with his only significant business experience consisting of a short stint at Australia's largest corporation, Broken Hill Proprietary Co. (BHP), and a six-year engagement at the American consulting firm of McKinsey & Co. (two of those years in Chicago, the rest in Australia), Elliott set out to conquer the business world from the top, running his own company rather than working his way up from within one. After rounding up about A\$30 million in backing from a collection of Australian business leaders, Elliott purchased Henry Jones (IXL) Ltd., a Tasmanian company whose main businesses were making jam and canning fruit. (IXL was the food company's lead brand of jam. Its name was a phonetic spelling of "I excel.") Henry Jones grew during the rest of the 1970s through a series of acquisitions of companies that could provide necessary auxiliary services, including canning, packing, milling, and freezing operations.

One of the companies that had helped finance Elliott's takeover of Henry Jones was Elder Smith Goldsbrough Mort Ltd., Australia's leading stock and station agency business. In operation since 1839, this company provided a wide range of agricultural services, including livestock and wool auctioning, real estate services, and farming supply merchandising. In 1981 Elder Smith became the target of a takeover attempt by the Bell Group, a company controlled by one of the richest men in Australia, Robert Holmes à Court. Elder Smith's management asked Elliott to act as a "white knight" and rescue it from the hostile raider through a merger. What took place was essentially a reverse takeover, with the larger Elder Smith buying out Henry Jones (IXL), to create Elders IXL Ltd. The Jones management team assumed the new company's leadership positions.

One important asset that Elder Smith brought into the merged company was its fledgling banking operation, in which it provided farmers with a variety of financial services that included advances, acceptance of deposits, and mortgages. The company's work in the world of finance was expanded in 1982, when, a mere month after the merger's official completion, the company acquired the Wood Hall Trust, a British company with financial interests throughout the Far East and Australia. Elders also diversified into the oil business in 1982, with the purchase of a 19.9 percent interest in Bridge Oil Limited, a large publicly held company.

The next event of great importance for Elders was the 1983 takeover of Carlton & United Breweries Ltd. (CUB), best known as the makers of Foster's Lager. CUB was founded in 1888 by W.M. and R.R. Foster, American immigrants to the "land down under." Before their arrival on the Australian brewing scene, virtually all the country's beer was imported from Great Britain. The Foster brothers introduced lager beer—a lighter brew that was better suited to Australia's harsh climate than heavy British ales—well as refrigeration to the island. CUB began its long evolution into an international brewing powerhouse in 1901, when it shipped Fosters Lager to Aussies serving in the Boer War in Africa. In the early 1980s, CUB used Foster's growing worldwide reputation to overcome the Australian brewing industry's notorious provincialism. By the mid-1980s, Foster's Lager was the nation's top brand.

CUB's relationship with Henry Jones had started in 1980, when the brewery purchased Elder Smith's pre-merger, 33 percent stake in that company. CUB had also acted as something of a matchmaker during the formation of Elder IXL by buying Holmes à Court's share of Elder Smith, and thereby eliminating the specter of further takeover attempts by him. Between these two actions, CUB had become Elders IXL's major shareholder at over 49 percent by 1983. Toward the end of that year New Zealander Ron Brierley, head of investment holding company Industrial Equity Ltd., launched a bid to take over CUB. Once again Elliott responded quickly, raising US\$720 million in two days with which to start buying up CUB stock. Within a couple of weeks, Elliott had taken control of over half of the brewery's stock, and by the middle of 1984, he had gained full ownership.

Evolution of Elders IXL in the 1980s

The rest of the 1980s was marked by a non-stop series of acquisitions in a variety of industries, including mining operations and more beer companies. One result of this period was a reputation for Elliott as one of a rising breed of Australian takeover artists, a group whose members included Holmes à Court, media mogul Rupert Murdoch, and Alan Bond (also known as the man who took America's Cup out of America). The takeover of CUB, the largest in Australia up to that time, also created a substantial debt for Elders. The strategy for reducing the debt was to sell off the unprofitable parts of the various acquired companies at the same time new ones were being sought. For example, by the middle of the decade, there was no longer a food division at Elders, whereas food was once the company's core industry. By 1986 the old jam factory in the suburbs of Melbourne, now housing the company's headquarters, was nearly the only remnant of the old version of Elders. Also dumped were the 350 pubs once controlled by Carlton & United. Among the company's purchases during the mid-1980s were a 40 percent stake in Roach Tilley Grice & Co., a major Australian stock brokerage, and a 20 percent interest in Kidston Gold Mines Ltd., both in 1984.

In 1985 Elliott launched a takeover bid for Allied-Lyons PLC, a company four times the size of Elders. Elliott's initial bid for Allied, a British brewery and food conglomerate in which he already held a six percent share, totaled \$2.3 billion, the money coming from a multinational banking syndicate led by Citicorp. The move for Allied reflected a desire on the part of Elders' management to expand substantially into European markets, prompted by the limitations of Australia's population of only 15 million. The bid for Allied eventually reached \$2.7 billion, but it was allowed to lapse without achieving its goal. One reason for the failure of the takeover attempt was Allied's merger with the Canadian liquor company Hiram Walker, which was itself fending off a takeover bid. Meanwhile, Elliott once again became involved in a raid orchestrated by Holmes à Court, this time saving BHP, Australia's largest corporation, from a hostile takeover. With Holmes à Court's Bell Resources in control of 18 percent of BHP in the midst of its unfriendly bid, Elliott suddenly came up with about 19 percent of that company over the course of just a few hours and was invited to join BHP's board. Though grateful for Elliott's assistance in warding off the raid, BHP in turn purchased 19 percent of Elders in order to preclude the possibility of that company launching a BHP takeover attempt of its own. Before 1986 was over, Elders became the first foreign company to own a major British brewery when it acquired not Allied-Lyons, but Courage Brewing Ltd., England's sixth-largest brewer. Elders paid \$2.1 billion for the brewery and the 5,000 pubs the company also controlled. This purchase greatly expanded the presence of Foster's beer in Europe. Previously there had been a licensing agreement with Watney's.

By the end of 1985, Elders was selling beer in about 80 countries around the world. The company's profit for that year was A\$112 million, a 73 percent increase over the previous year, on revenues of A\$5.4 billion. In 1987 Elders made its first North American beer acquisition, purchasing Carling O'Keefe Breweries, the third-largest brewer in Canada, for about \$300 million. By that year, Elders was the world's number six beer maker. It was a heady time for Elliott in other ways as well. He was a rising star in Australia's Liberal Party, and his Carlton Football Club won the Australian equivalent of the Super Bowl.

In 1988 Elders bought the remaining 60 percent of Roach & Co. Ltd., the stock brokerage into which it had bought five years earlier. That year there was widespread speculation that Elders would mount a takeover bid for Anheuser-Busch, which controlled about 40 percent of the beer market in the United States. These rumors were fueled in part by the fact that the Bond group, the company's chief rival in its home country, with whom it virtually split in half the Australian beer market, had recently purchased G. Heileman Brewing Co. of Milwaukee, establishing a strong American base of operations. Although Elders held about one percent interest in Anheuser-Busch, no action was taken toward a takeover at that time. Acquisitions had expanded the company substantially over the last half of the decade, from A\$7 billion in 1985 to A\$17.6 billion in 1989. Net worth multiplied rapidly as well, from A\$112 million to a peak of A\$795 million in 1988 before ending