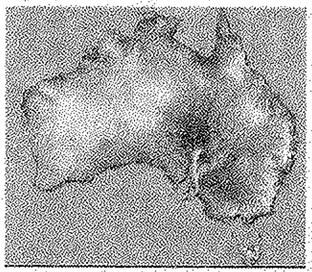
A procession of exhausted, good men



AUSTRALIA
Nevil Gibson

The exodus of top executive talent from Goodman Fielder is unlikely to affect its sharemarket performance

“A global food shortage and rising demand – the world population is increasing six million a month and predicted to reach nine billion by 2050 – should make companies supplying that need a no-brainer for share investors.”

But not when you are Australasia's largest list food manufacturer. Goodman Fielder has failed to excite investor interest ever since it relisted in December 2005.

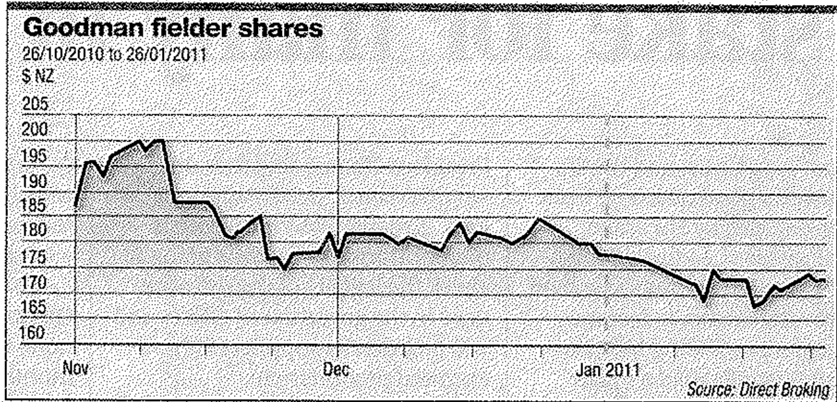
Sure, it floated at the top of the market and hit a high of $A2.70 in August 2007 but for most of that period has struggled to justify its existence. Now it is losing its chief executive in a move that reflects the tough task of running a large food business.

Australian press commentary on the departure of Peter Margin, who leaves on April 30 and follows finance chief David Goldsmith late next month and longtime home ingredients head Geoff Erby last year, noted the near-impossible challenges they faced.

“Mr Margin has pressed all the right buttons and turned in an heroic performance on cash generation, with operating cashflow increasing by a factor of almost four in the past five years despite falling margins,” columnist John Durie wrote in *The Australian*.

Mr Margin did this by rationalising obsolete and inefficient plants, opening new and competitive ones, and investing heavily in R&D and product innovation.

The executive exodus has been viewed negatively, with most analysts scaling down the company's prospects. Macquarie has re-rated the



stock to “neutral” from “outperform.” Its target price is $A1.37, versus UBS' at $A1.32 and Deutsche Bank's at $A1.40.

The shares dropped on last week's announcements and at around $A1.31 remain below the issue price of $A1.85. Neil Kearney the former chief executive officer at Warrnambool Dairy, will step in as an interim finance chief until a permanent replacement is found, while Andrew Hipperson has replaced Erby as head of the home ingredients division. Hipperson's role as managing director Asia/Pacific will be taken by Aaron Canning.

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During that time the company has returned negative 12% and underperformed the market by 36%. (At $1.74 on the NZX this week, the shares are mid-way between their 12-month high of $2.07 and low of $1.54.)

Some say Goodman Fielder was handicapped from the start, because it was formed from the low-growth portfolio of bread, bakery and edible fats products in Burns Philp along with those of NZ Dairy Products, a relatively minor player versus Fonterra in the New Zealand market.

Worse, owner Graeme Hart was seen as keeping the jewel, Uncle Toby, which he sold to Nestlé for $A890 million in 2006.

Mr Durie notes that whoever replaces Mr Margin will continue to face the same challenges: “Commodity prices are set to keep rising and its biggest customers, Woolworths and Coles, would prefer to share profits with their customers than Goodman with its shareholders.”

The same goes for New Zealand where Coles is replaced by Foodstuffs in a supermarket duopoly.

Mr Margin himself says his biggest disappointment was the rejection of last year's planned $A240 million sale of its edible oils business to Cargill by the Australian Competition and Consumer Commission.

During that year-long process, the company began restructuring and rebranding the operation because the uncertainty was affecting its performance. The result was a feature of last year's annual shareholders' meeting, held in Auckland.

Nothing seems to have sparked the flow of senior executives, except perhaps exhaustion. At 50, Mr Margin is hardly ready for retirement.

“I think five to six years is about it. I'm in my sixth year and I think it's the right time to hand over,” he was quoted as saying.

Except for Mr Margin's successor and a permanent chief financial officer, all of the vacancies have been filled by an internal reshuffle. It has also been suggested Mr Margin will be replaced by one of two division heads, Peter Readie or Clive Stiff.

This implies continued stability as a defensive stock and investors taking a devil-you-know approach. But short of a takeover from an outside company, possibly a cashed up Japanese or Chinese one, Goodman Fielder looks likely to continue to be a well-run food brands company that “fails to rise.”

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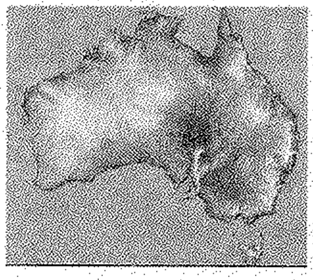

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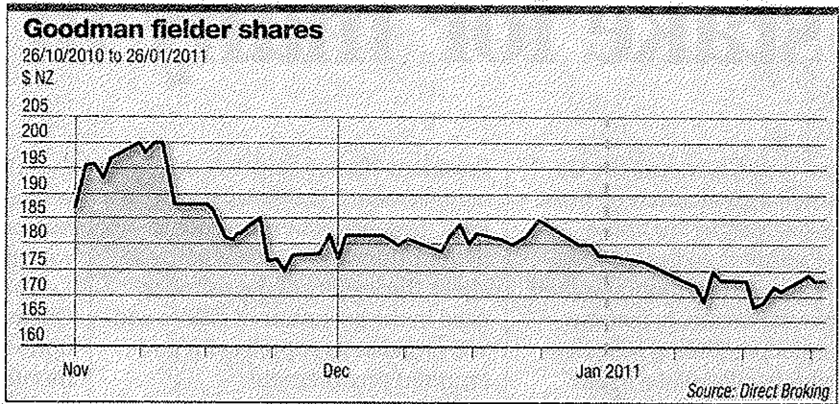

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