

The background features a large, stylized, 3D-rendered logo for 'Toll' in a bright orange and yellow color. The logo is positioned diagonally across the upper half of the slide. The background itself is a gradient of green and blue, with a dark blue area at the bottom.

# **THE TOTAL INTEGRATED LOGISTICS SOLUTION**

**Why Patrick Shareholders Should  
Accept Toll's Offer**

**20 October 2005**

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## What Patrick Is Not Telling Its Shareholders in Its Target's Statement

# What Patrick Is Not Telling Its Shareholders in its Target's Statement

- **Patrick's funding issues**
- **The impact if Patrick does break up Pacific National**
- **Patrick's relative underperformance in making money for shareholders**
- **Patrick's uninspiring acquisition track record**
- **Where is the growth coming from?**

# Patrick's Funding Issues

- Despite “hockey stick” profit forecasts, Patrick has failed to provide any cash flow forecasts to its shareholders
- It has not done so because, in Toll’s view, it does not want to talk about a looming significant issue

## Patrick Appears Very Highly Geared<sup>(1)</sup>

All A\$m	Estimated Gearing as at 30 September 2006	
	Excluding Operating Leases	Including Operating Leases
Net Debt/Equity	62%	124%
Net Debt/NTA	103%	204%

(1) Estimated by Toll based on disclosures in Patrick Target’s Statement and other documents lodged with ASX

## And It Appears to Have a c.\$400m Cash Flow Deficit in F2006 - Before Acquisitions<sup>(1)</sup>

2006 Projections	A\$m
EBITDA per Target Statement	568
Capex per Target Statement	(666)
Additional Working Capital to Support Growth	Not Disclosed
Taxes	(102)
Interest Cost	(83)
Ordinary Dividends (40% payout)	(88)
Loan to FCL	(33)
<b>Cash Flows Before Financing</b>	<b>(396)</b>
New Acquisitions	?
<b>Total Cash Outflow in F2006</b>	<b>???</b>

**Will Patrick Need to Issue New Equity or Cut Its Dividend To Fund Its Proposed Growth?**

# Impact if Patrick Breaks Up Pacific National (PN)

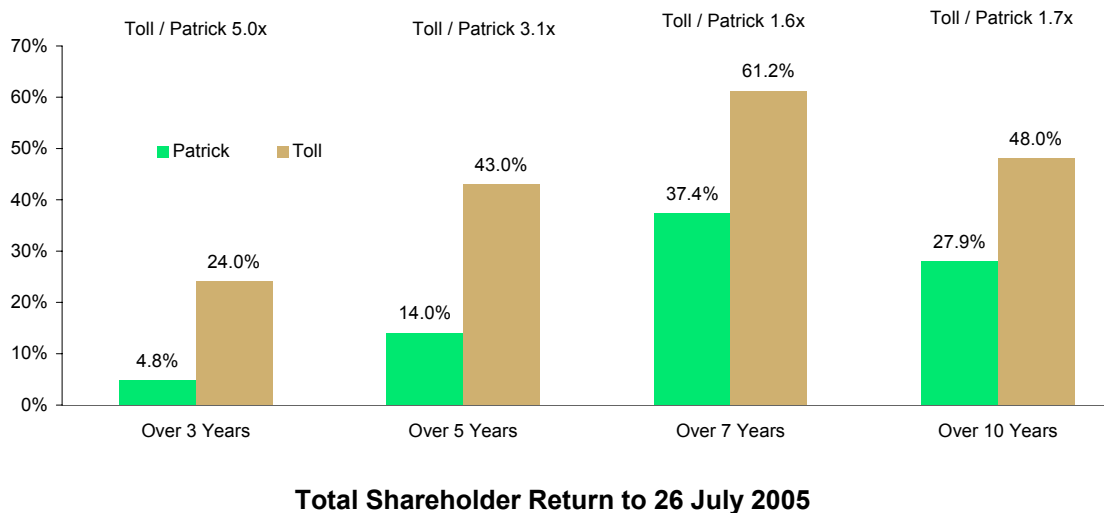
- Patrick has provided no information to investors on the likely impact and risks of any break up of PN. All of Patrick’s earnings forecasts and value analysis is presented on a “business as usual” basis for PN
  
- PN accounts for 25% of Patrick’s forecast 2006 “economic interest” EBITA. Patrick says that PN is “*material to Patrick’s financial performance*” (Target’s Statement, page 69)
  
- Examples of missing information that Patrick shareholders have a right to know:
 

<ul style="list-style-type: none"> <li>- <i>Estimated damage to value of PN inter-modal business from break up</i></li> <li>- <i>Estimated tax cost to PN shareholders from liquidation of PN assets</i></li> <li>- <i>Impact of break up on Patrick’s earnings forecasts</i></li> <li>- <i>How Patrick would fund any purchase of PN assets given its potential funding issues</i></li> </ul>	<ul style="list-style-type: none"> <li>Inter-modal business is an integrated network business</li> <li>Prospective \$300m+ cost based on Lonergan Edwards’ valuation</li> <li>Significant impact likely</li> <li>Substantial equity issue probably necessary</li> </ul>
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**Patrick is being evasive with its shareholders on PN**

# Patrick's Relative Underperformance

- Patrick has placed significant emphasis in its Target's Statement on what it argues to be the "superior quality of its businesses" vs Toll
- It neglected to make a single mention, in a 260 page document, of what should count to investors - share price performance and total shareholder returns
- **Toll has outperformed Patrick on any key financial measure over the past 10 years<sup>(1)</sup> in actually making money for its shareholders**

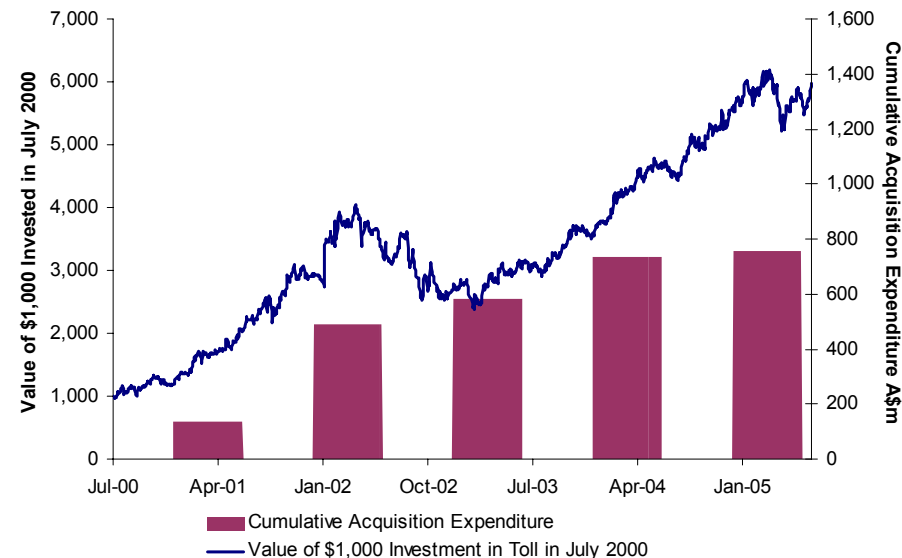


(1) Prior to speculation of Toll's offer, refer to Toll's Bidder's Statement for further details

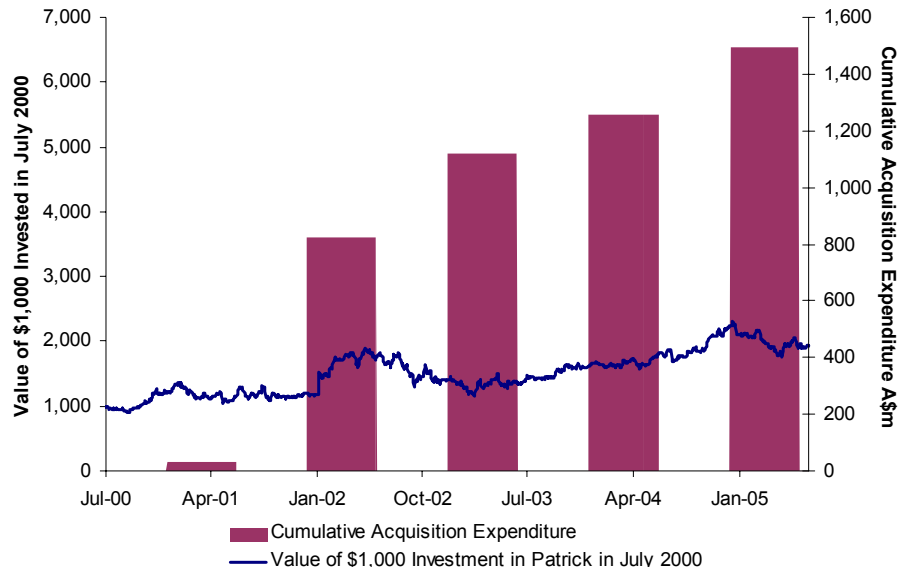
# Patrick's Uninspiring Acquisition Track Record

- Patrick is asking its shareholders to trust that it can replicate Toll's outstanding integrated logistics chain capabilities - in the immediate future
- However, Toll believes that Patrick's acquisition record should not inspire confidence in its ability to execute such a strategy successfully, even if it can find significant acquisition prospects
  - Inability to complete strategic acquisitions (Star Track, FCL)
  - Outlaid around twice Toll's purchases in past 5 years, with substantially poorer returns

**Toll**



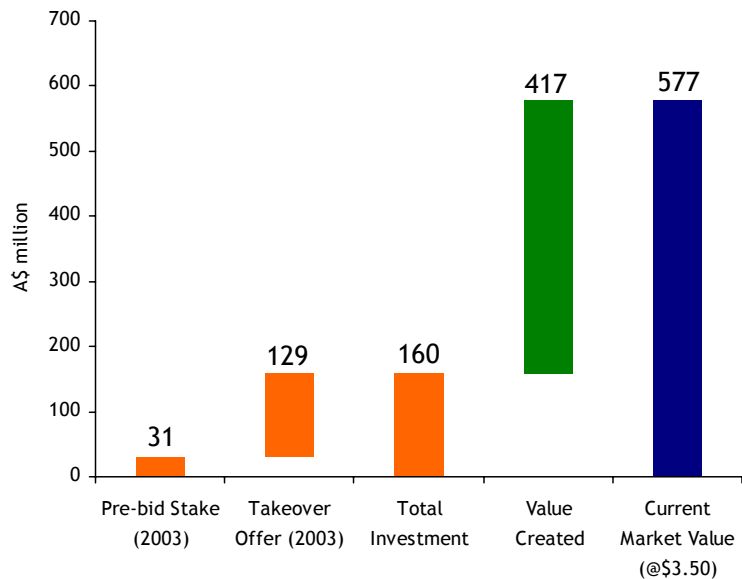
**Patrick**



# Patrick's Uninspiring Acquisition Track Record (cont.)

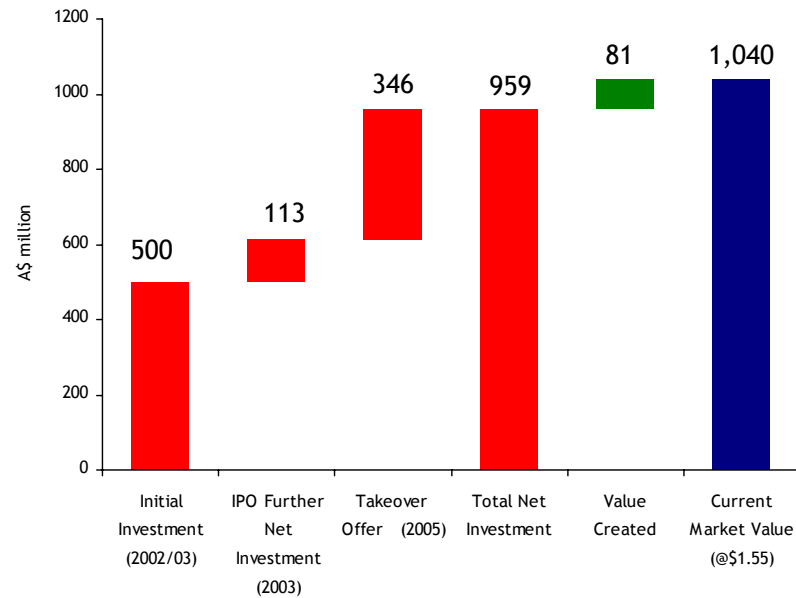
- Comparison of value add from recent Toll and Patrick acquisitions

## Toll's Investment in Toll NZ



**IRR of 78% p.a. at current market price**

## Patrick's Investment in Virgin Blue



**IRR of 5% p.a. at current market price**

- Grant Samuel's 2003 Independent Expert valuation of Transrail (Toll NZ) was A\$238m (midpoint) for Toll's 82.4% shareholding

Patrick has Not Disclosed any Credible or Consistent Strategy Alternative to Toll's Bid

## Confused Strategy - Acquisition or Organic Growth?

- *Yesterday*  
- **Acquisitions:** Patrick 2004 Annual Report: *“Patrick has grown, mainly by acquisition”*
  
- *Today*  
- **Organic:** Patrick August 22, 2005: *“The proposal by Toll means Patrick’s shareholders would [experience] a change in exposure in management approach from organic growth to growth via acquisition”*
  
- *Tomorrow*  
- **Acquisitions:** Patrick Target’s Statement October 2005: *“Patrick intends to continue to make strategic purchases of transport companies”*

**Will Patrick’s strategy change again in 3 months time?**

## Confused Strategy - Ports or Replicate Toll?

- *Yesterday*
  - **Don't Dilute Ports:** Patrick August 22 2005: “[The proposal by Toll]...means Patrick’s shareholders would be **substantially lowering their exposure to the Ports Business in return for an increased exposure to the freight forwarding business**”
  
- *Today*
  - **Dilute Ports:**
    - “The alliance with FCL is an important step for Patrick in continuing to expand its freight forwarding operations”
    - “Patrick made a well publicised attempt to acquire Star Track Express....Patrick retains an intention to gain a substantial share of the growing express market...”

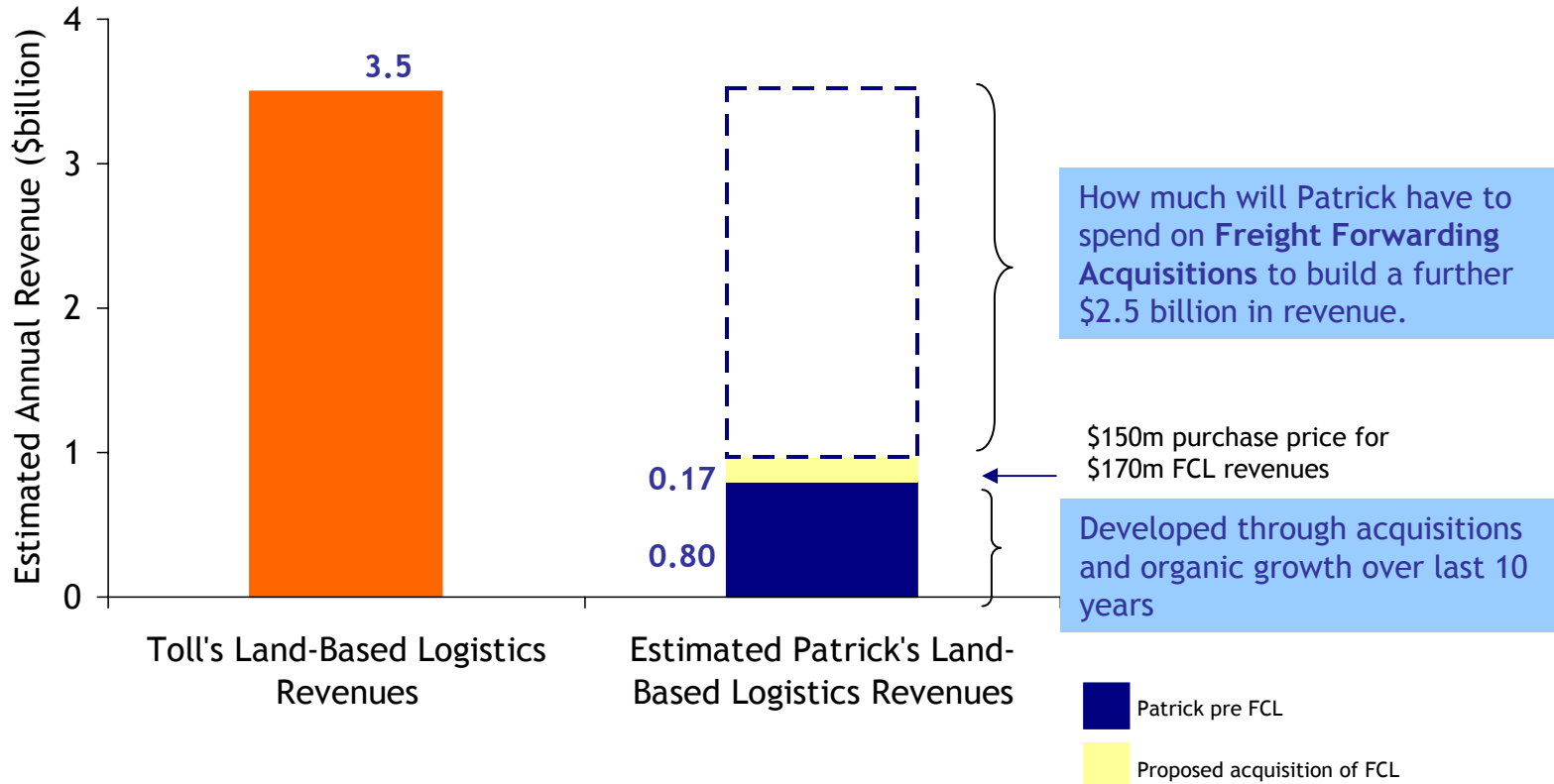
**We consider, Patrick (nee AFP, then Jamison Equity, now Patrick) is a deal-driven investment firm without any coherent or consistent strategy**

# Confused Strategy - Break Up or Retain Pacific National?

- Yesterday
  - Break Up PN:  
*“Well I think sadly that seems to be the direction that we are heading” and “[w]ell there is risk I suppose that Pacific National is broken up and that’s I think the route that seems to be inevitable.” 18 September 2005*
  
- Today
  - Retain PN:  
*“The forecast financial information in this section [Section 5] represents the Directors’ best estimates of Patrick’s forecast financial performance over the forecast period. The forecast financial information has been prepared on a “business as usual” basis broadly reflecting the assumed continuation of current circumstances and the Directors’ assumptions about likely operating and economic conditions over the forecast period” Patrick’s Target Statement*
  
- Tomorrow
  - Break Up PN:  
*“I’ve got to face the reality, which is a deteriorating situation day by day. I’ve got to face the reality that there is a really good chance this thing will be broken up. It’s got to be becoming increasingly probable” 18 October Media Briefing*

**Does Patrick Want to Break Up PN or Keep it Intact?**

# What Is The Time Frame And Cost For Patrick Building A Land-Based Logistics Business Comparable To Toll's?



**Exactly What Acquisition Targets Does Patrick Propose to Pursue to Achieve this Goal, at What Cost and Returns, and Over What Time Period?**

# Toll Offers All of the Benefits of Patrick's Latest "Strategy", Without the Risks

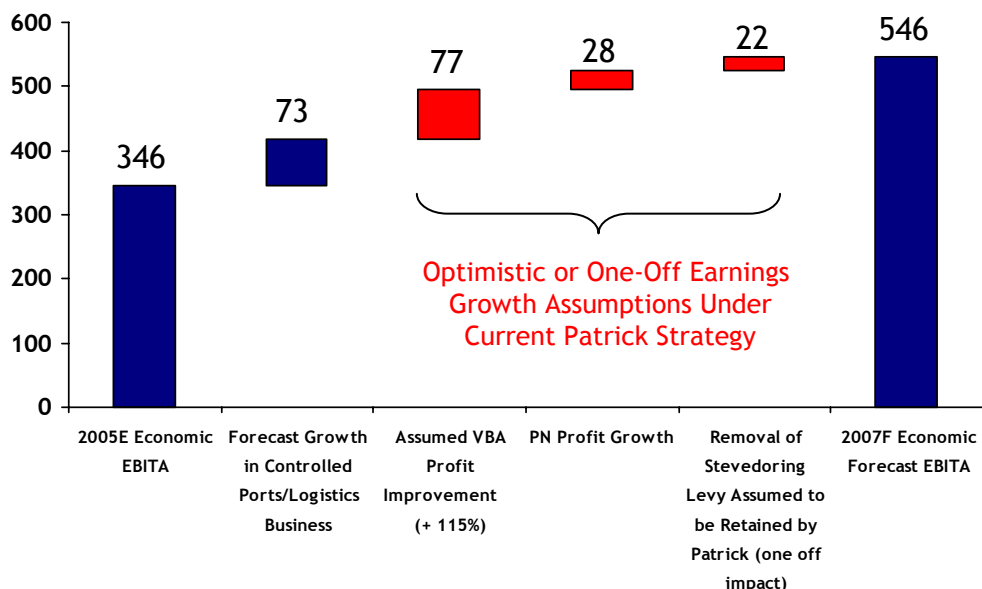
	Toll Offer	Patrick "Strategy"
Value Impact	\$65m synergies p.a.	Acquisition price risk PN value bust up risk
Land-Based Logistics Capabilities	Strong and proven track record	Unproven
Critical Mass Land-Based Logistics Customer Base	Strong and proven track record	"Rapid expansion" - unidentified acquisitions
Growing Express Market	Strong and proven track record	Failed bid for Star Track
Exposure to Passenger Aviation Business	c. 5% of capital employed	c. 38% of capital employed
International Expansion	Grow with customers in Asia	Domestic only

Why risk Patrick executing a land-based logistics expansion strategy when you can get the benefits of merging with Australia's largest land-based logistics company immediately?

## Patrick's Defence Lacks Credibility

# Patrick's "Hockey Stick" Earnings Forecasts

- Patrick's valuation argument depends on highly optimistic and dubious assumptions re FY2007 earnings, including:
  - A 115% earnings improvement in Virgin Blue, the majority of which by deduction arises from Qantas' corporate travel market deserting its convenience and dominant frequent flyer program for Virgin Blue's pay per view in-seat videos and other "initiatives" to be introduced
  - Patrick keeps benefit of removal of stevedoring levy, despite likely market pressure to pass it on to its customers
  - PN continues to grow, notwithstanding speculation of a break up of the business

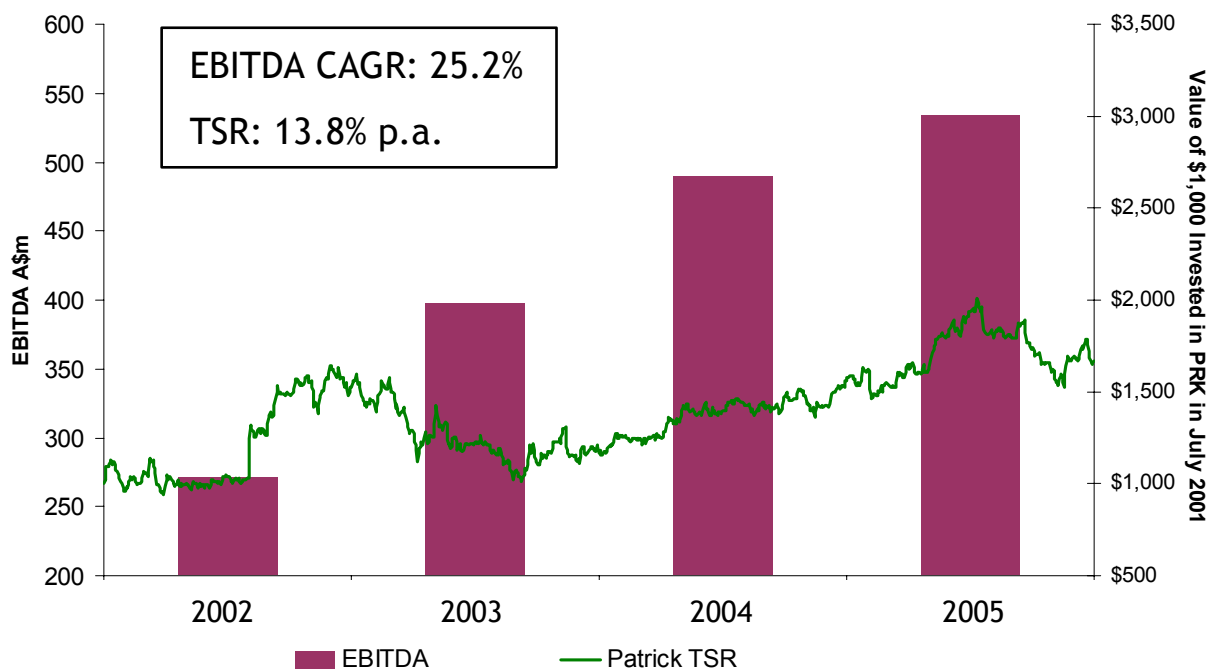


- Assuming "normal" Ports/Logistics EBITA growth of c. 5% pa, implied returns on Patrick's \$520m Ports/Logistics capex program over 2005/2006 appear to be only around 10% in 2007

**\$127m (approximately 2/3rds) of assumed Patrick EBITA growth from F2005 to F2007 is highly optimistic or one-off under Patrick's current strategy**

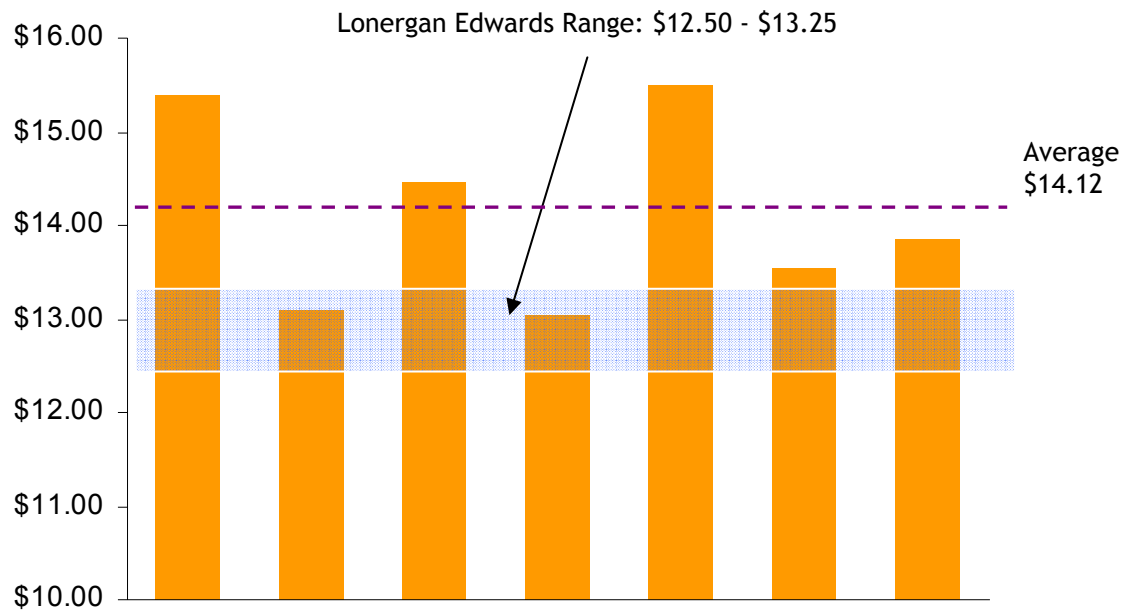
# Patrick Shareholders Should Not Assume That Projected EBITDA Growth Translates Into Shareholder Value Growth

- Patrick quotes its 2005-2007 forecast EBITDA growth as providing a “significantly superior” growth outlook to Toll
- Patrick has in recent years achieved EBITDA growth rates higher than it is forecasting for F2005 - F2007 (in Toll’s view primarily through acquisitions), but this has not translated into commensurate shareholder value growth:



# Lonergan Edwards' Valuation of Toll Lacks Credibility

## Toll Broker Valuations<sup>1</sup>



1) As at 18 October 2005

**Most market research analysts don't agree with Lonergan Edwards**

# Lonergan Edwards' Valuation Multiples Lack Credibility

## Patrick's Views on P/E Multiples

"Price-Earnings Multiples. . . are fairly widely used in valuing most companies. . . 18 to 22 times projected earnings is high by most standards but for an airline its so high as to be ludicrous."

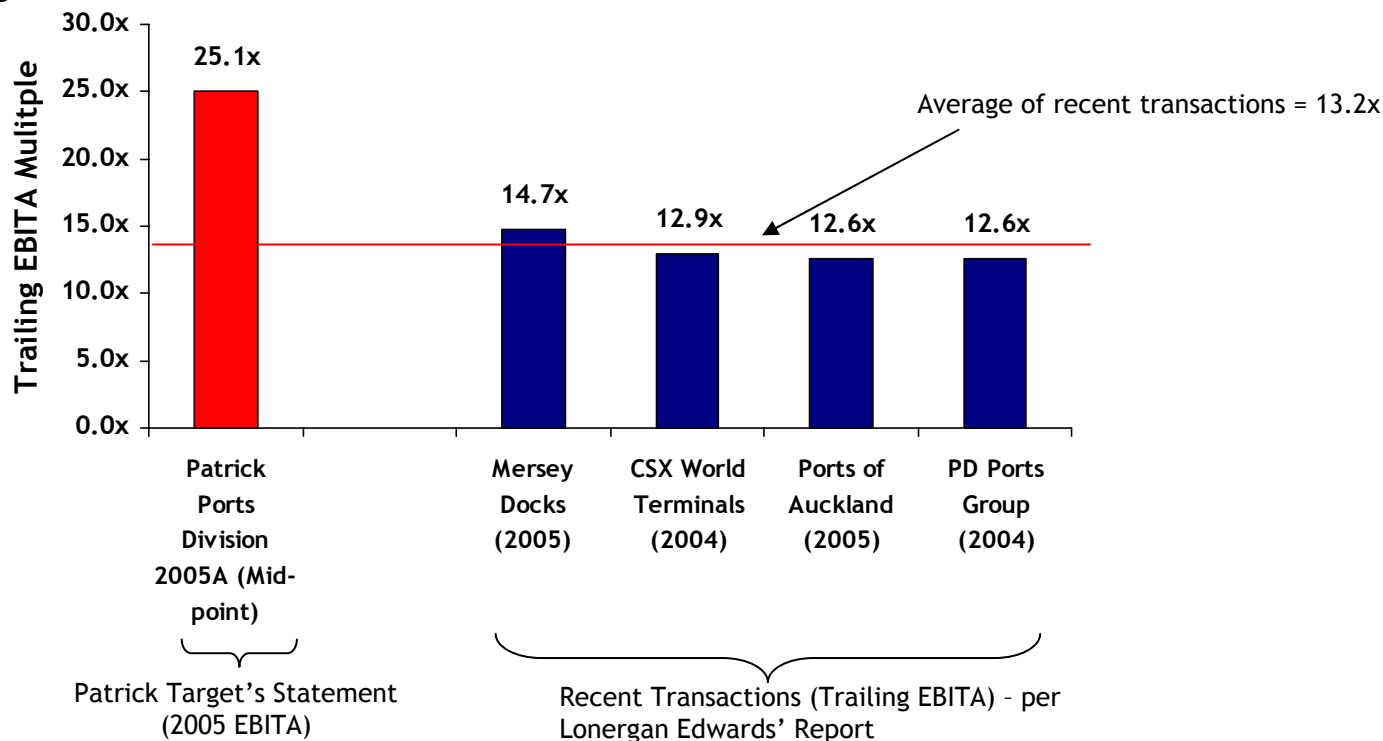
Chris Corrigan quoted in Patrick Media Announcement, 28 February 2005

## Implied P/E Multiple of Lonergan Edwards' Valuation

	Low	High
Patrick Valuation	\$7.75	\$8.31
2006F EPS	32.0	32.0
<b>Projected F2006 P/E Multiple (including Virgin Blue)</b>	<b>24.1x</b>	<b>26.0x</b>

# Over-Valuation of Patrick's Ports Division

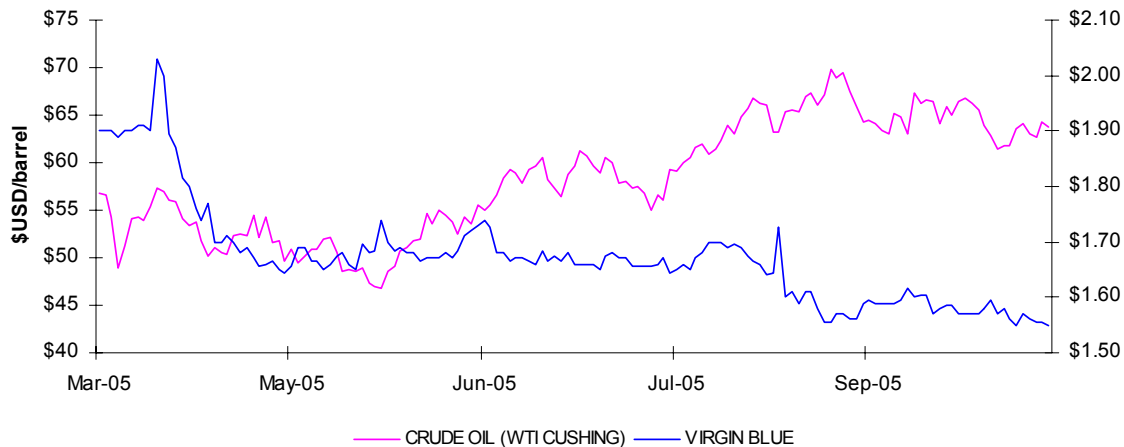
- Multiples are extremely high relative to recent M&A transactions, a number of which involved faster growing businesses in mainland China
- And only around 2/3 of Patrick's Ports Division is Container Terminals - the remaining Patrick Ports Division businesses are in land-based logistics and should be valued on lower multiples using Patrick's own logic



**Value difference of \$1.6bn (\$2.08 per Patrick share) between Lonergan Edwards' selected multiple and industry average**

# Over-Valuation of Virgin Blue

- Lonergan Edwards' control value range of \$1.90 to \$2.06
  - Who are the likely buyers of the stake at this price?
  - Valuation assumes "normalised" profits of \$160m vs \$105m 2005 actual (\$30m in last 6 months)
- Patrick acquired control of Virgin Blue in February 2005 at a 22% discount to the bottom of the then independent expert's valuation of Virgin Blue (a valuation described by Patrick as "off the wall" and "both fundamentally flawed and ludicrously inflated"). Since that time:
  - Oil prices have risen approximately 20% (while Virgin Blue has remained unhedged)
  - Virgin Blue's share price has fallen approximately 20% to current level of \$1.55
  - Virgin Blue has not implemented any new strategies



**We consider Lonergan Edwards' valuation of Patrick is overstated by c. 35 - 40¢ per share for Virgin Blue alone**

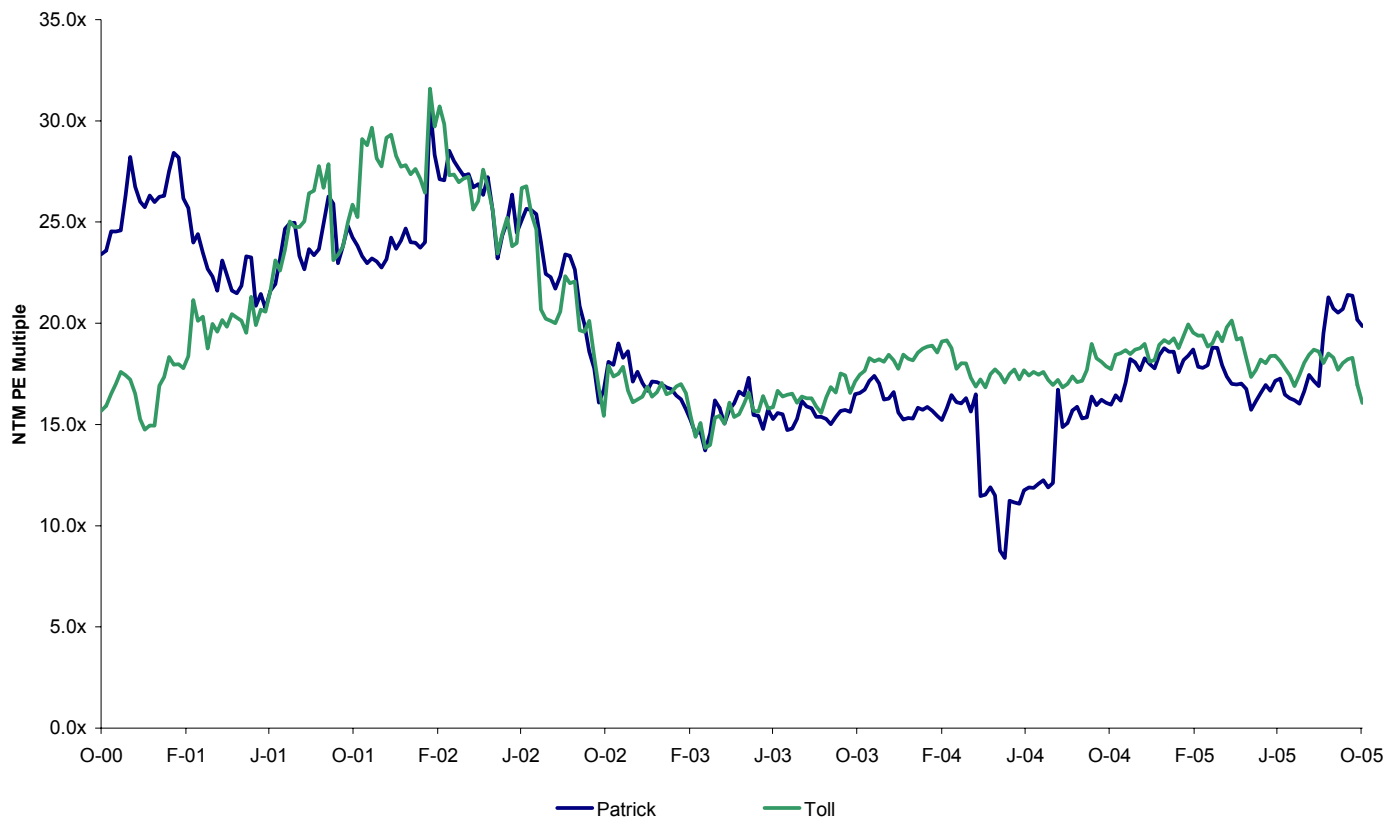
## Other Misleading Information from Patrick

# Patrick's Attempt to Provide a Misleading Picture of Toll

- **A high P/E multiple vs Patrick**
- **Lower quality businesses than Patrick**
- **Accounting issues**
- **Toll NZ Earnings and Growth Prospects**

# Does Toll Have a High P/E Multiple vs Patrick?

- Forward P/E multiples for Toll and Patrick are almost identical over five years

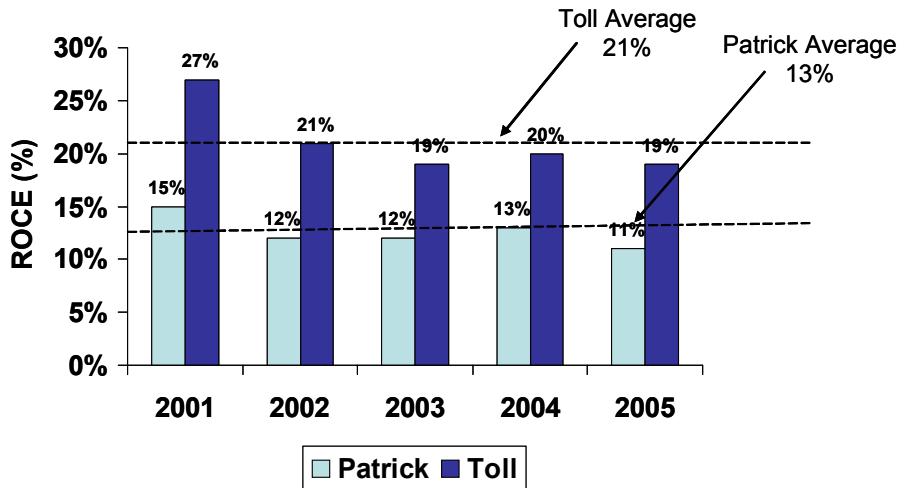


**No evidence of market support for Patrick's view that it deserves a P/E premium to Toll**

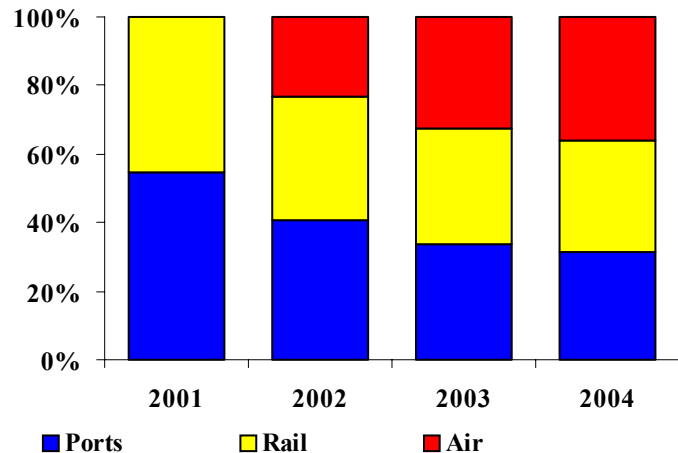
# Are Patrick's Businesses of "Superior" Quality to Toll?

- Toll's businesses have over the last 5 years consistently generated higher returns on capital than Patrick's
- Patrick's "high quality" Container Terminals are in any event less than 30% of Patrick's group capital employed

## Returns on Capital Employed



## Patrick's Divisional Assets Contribution



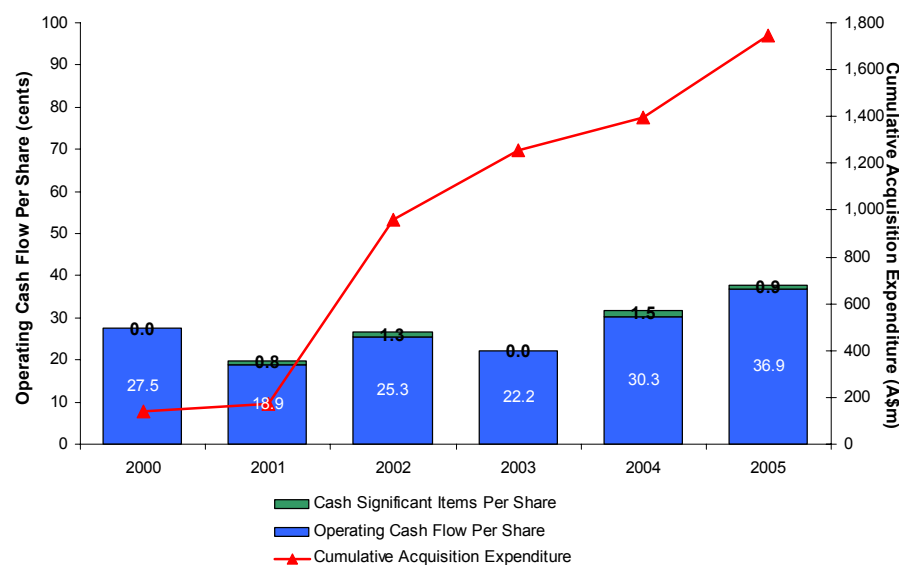
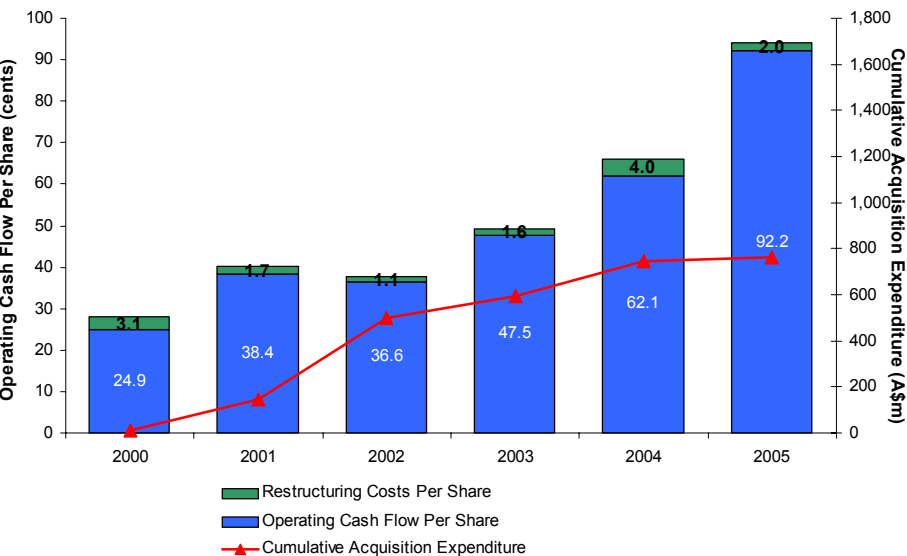
Long term investment returns for shareholders are almost always correlated with returns on capital invested in the business

# Cash Flow Does Not Lie

- Toll has generated significantly superior operating cash flow per share while spending significantly less than Patrick on acquisitions over the last 6 years

Toll

Patrick



# Toll NZ Earnings and Growth Prospects

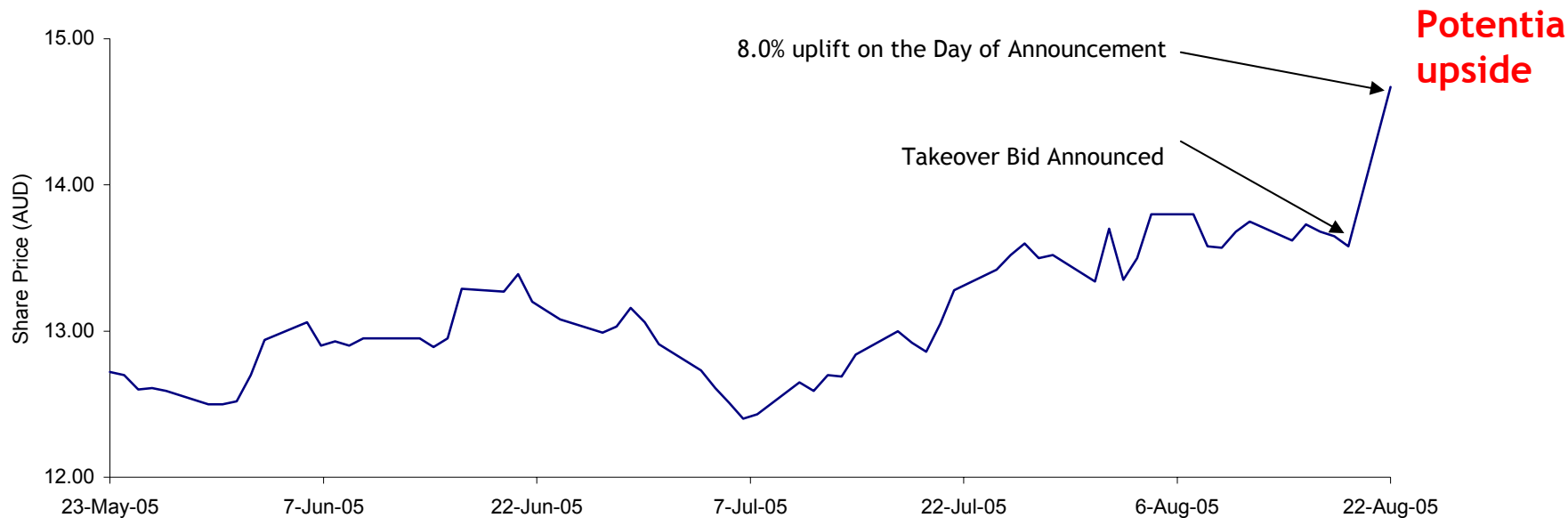
- Net cash flows from operating activities have increased from NZ\$27.2m in 2003 to NZ\$82.9m in 2005
- Value has increased as evidenced by share price for remaining minority interest
- Patrick has analysed Toll NZ's results ignoring that the business under Toll's control is now highly integrated
- Toll remains confident of a positive outcome on speed restrictions in Marlborough Sound
- Strong and aligned relationship with Crown on rail
- Patrick's comments on accounting for Toll NZ are misleading and inconsistent with Patrick's own acquisition accounting and Target's Statement (eg. page 45 "significant items of income and expense have been excluded...to allow a clearer depiction of underlying trends")



## Summary Benefits of the Toll Offer

# Toll Has Significant Share Price Re-rate Potential

- Initial market reaction on day of Toll’s takeover bid announcement (\$14.67) highlights re-rate potential once market has clarity about prospects for the offer’s success
- Patrick’s attempted value destruction tactics on Pacific National and speculation on ACCC approval may have impacted Toll’s share price in the short term



Potential for Toll and Patrick shareholders to benefit from a significant post acquisition re-rate

# Summary Benefits of Toll Offer vs Patrick's "Strategy"

	Toll's Offer	Patrick's Stand Alone Strategy
Share value uplift for Patrick shareholders	+ 20% <sup>(1)</sup>	??
Reduced exposure to volatile airline earnings	✓	✗
Coherent & consistent strategy	✓	✗
Proven ability to execute strategy	✓	✗
Disciplined approach to capital investment	✓	✗
Global growth ability	✓	✗

(1) Premium of offer value as of 22 August 2005 vs Patrick share price pre market speculation about a possible Toll offer. Excludes re-rate potential

**Toll's offer provides many benefits for Patrick shareholders**

# Important Notice

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Further information about Toll, Patrick and their respective businesses and operations are contained in their annual reports and other reports which can be accessed on their websites at [www.toll.com.au](http://www.toll.com.au) and [www.patrick.com.au](http://www.patrick.com.au). Toll does not undertake any obligation to revise the information in this Presentation to reflect any future events or circumstances.

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