Attention ASX Company Announcements Platform
Lodgement of Open Briefing®

Wesfarmers Limited
Wesfarmers House
40 The Esplanade
Perth Western Australia 6000

Date of lodgement: 30-Jun-2009

Title: Open Briefing®. Wesfarmers. Coles MD on Transfer of Stores

Record of interview:

corporatefile.com.au
Wesfarmers Limited has announced the transfer by subsidiary Coles of 45 supermarkets and eight associated Liquorland stores to FoodWorks for $35 million. What is the rationale for the transfer and how is this transaction positioned within Coles' turnaround strategy?

Coles MD Ian McLeod
The transaction is part of our broader plans to improve and invest in the overall store network and is an important step in the Coles turnaround. As a result of a comprehensive review of our entire supermarket portfolio we selected these 45 stores for transfer because they're unlikely to meet our future store network plan due to their size, location, format or other factors. The supermarkets in our continuing network have an average selling size of approximately 2,150 square metres and annual sales per square metre of more than $12,700 whereas the ones we're transferring have an average selling size of approximately 1,400 square metres and annual sales per square metre of around $7,200.

We saw transfer to a more suitable owner as a preferable outcome for all stakeholders, particularly customers, team members and landlords. The stores' size, location and format are much better suited to the FoodWorks network.

corporatefile.com.au
As a result of the transfer, Coles' supermarket network will be reduced by approximately 6 per cent. How does the transfer position you in terms of your

ability to deliver growth, achieve improved efficiencies and close the market share gap between you and your largest competitor?

Coles MD Ian McLeod
The transaction represents a 4 per cent reduction in selling area and only 2 per cent of sales, and we remain committed to pursuing our stated growth strategy, including the development of new sites and further investment in our existing stores to improve the customer experience.

Our review of the supermarket portfolio critically assessed our ability to deliver growth not only through new sites, but also at existing locations. An important consideration was whether the existing sites fit our future store network plan in terms of size, location and format. The transfer will increase the average size and turnover of our network and improve its overall operating efficiency.

corporatefile.com.au
Is the store transfer expected to have a negative impact on Coles' purchasing power or the rebates you receive from suppliers?

Coles MD Ian McLeod
We don't anticipate any impact given the stores represent only 4 per cent of selling area and only 2 per cent of our supermarket sales.

corporatefile.com.au
To what extent are the transferred stores those against which provisions and/or impairment charges were booked in the June 2008 year? How will the transaction impact reported earnings?

Wesfarmers Finance Director Terry Bowen
All of the transferred stores were included in the June 2008 impairment review that resulted in provisions and impairment charges being recognised. The transaction will result in a non-trading profit of approximately $30 million to $35 million (pre-tax) in FY09, mainly as a result of a write-back of provisions.

Any gain or loss on the sale is expected to be negligible.

corporatefile.com.au
Coles will still have over 700 supermarkets following the transfer of the stores to FoodWorks. What are your key store retention metrics and what percentage of the remaining portfolio doesn't meet these standards?

Coles MD Ian McLeod
As part of our portfolio review, we assessed each store against a broad range of criteria including current market and store characteristics and the likely return on any future investment. Our store strategy continues to evolve but we don't expect any further significant transfers.

corporatefile.com.au
Of the 45 stores being transferred to FoodWorks, eight are Bi-Lo stores, which will further reduce the scale of the Bi-Lo network. What is Coles' strategy for the remaining Bi-Lo stores and the Bi-Lo brand?

Coles MD Ian McLeod
Our analysis showed a small number of Bi-Lo stores were unlikely to fit the Coles operating model going forward and we've included them in the transfer.

Bi-Lo remains a part of the Coles group. It has improved its performance over the past 12 months.

corporatefile.com.au
Coles will provide vendor financing to FoodWorks for the transaction. Why are you providing this finance and when do you anticipate being repaid in full? What security will you have around the funding you're providing, and what are the risks?

Wesfarmers Finance Director Terry Bowen
We've provided vendor financing to facilitate the transfer of the stores to the most logical owner. We've worked closely with FoodWorks to establish acceptable three year payment terms, including covenants and an appropriate security package. FoodWorks has undertaken significant work on confirming its capacity to successfully execute its strategy for these stores and we're confident it can operate them successfully.

We're also providing up to $12 million of short-term financial support – with appropriate covenants and security in place – for the significant work and investment that's required to convert the stores to the FoodWorks model. We're determined to ensure a smooth transition for customers, team members and landlords.

corporatefile.com.au
What is the expected reaction of landlords to Coles' transfer of the stores to FoodWorks?

Coles MD Ian McLeod
We've developed a landlord engagement plan to facilitate the transition process.

corporatefile.com.au
Will Coles retain any lease liabilities relating to the stores after their transfer?

Coles MD Ian McLeod
Post completion we'll retain contingent lease liabilities valued at about $12 million relating to the transferred stores. This will progressively diminish over the next few years.

corporatefile.com.au
Most of the stores appear to be smaller ones. Does this suggest an increased focus on store scale? What will this mean for customer service, merchandise range and working capital requirements?

Coles MD Ian McLeod
One of the key criteria of our renewal plan was to ensure stores were of an appropriate size to fit the evolving Coles operating model. The transferred stores are typically smaller than Coles' average store size.

Whilst larger sites typically have scale benefits, including stock management efficiencies, this needs to be balanced against the demands of each store's catchments and customer requirements. We'll therefore continue to invest in a range of store sizes.

Our analysis supported the view that these stores would be more valuable in the hands of an alternative owner who could implement tailored store formats to optimise performance.

corporatefile.com.au
What will be the annualised impact of the transfer on Coles' EBIT and ROC?

Coles MD Ian McLeod
We expect a small improvement in EBIT margin and ROC as a result of the transfer.

corporatefile.com.au
Will transfer of the stores have a material impact on inventory turnover or other working capital metrics?

Coles MD Ian McLeod
The transfer is expected to reduce the cost of doing business, improve stock turns and the cash conversion cycle but the impact is unlikely to be material given the stores represent only 4 per cent of selling area and 2 per cent of sales.

corporatefile.com.au
What impact do you expect the phased transfer process to have on customer retention and staff engagement?

Coles MD Ian McLeod
We've worked closely with FoodWorks to develop an appropriate transition plan that reflects the local market environment and team structure for each store. A key consideration was that the time frame for transition allowed us to provide the appropriate care and attention to each site. FoodWorks will be working closely with the team members at each store to ensure that the transition process is managed efficiently and with minimum impact on customers.

corporatefile.com.au
Coles' Easter-adjusted March quarter food and liquor sales were up 8.3 per cent, with comparable store sales up 6.6 per cent. What was the trend in sales in April and May and can you comment on current trading conditions?

Coles MD Ian McLeod
The business is travelling in line with our expectations. We will provide a more detailed update at the Wesfarmers full year results announcement on 20 August.

corporatefile.com.au
Thank you Ian and Terry.

For further information on Wesfarmers Limited visit www.wesfarmers.com.au

To read previous Wesfarmers Open Briefings, or to receive future Open Briefings by email, visit www.corporatefile.com.au