

# Recommended Offer for Coles

2 July 2007



# Agenda

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Offer Overview

Richard Goyder

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Supermarkets, Liquor & Convenience

John Gillam

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Big Box Retailing

John Gillam

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Discount Department Stores

John Gillam

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Structure, Funding and Process

Gene Tilbrook

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Benefits for Stakeholders

Richard Goyder

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Questions

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# Offer Overview

Richard Goyder  
Managing Director

# Benefits to Shareholders

- NPV of Coles is value accretive to our shareholders
- Opportunity to acquire iconic Australian company with quality assets
- Performance improvement initiatives in Supermarkets and Kmart to provide value uplift in the medium term
- Target and Officeworks are well performing assets with potential to benefit from a more focused approach and ongoing investment
- Increased diversity of operations



# Key Offer Terms

- For every Coles share:
  - 0.2843 Wesfarmers shares
  - + \$4.00 cash
- Coles shareholders to receive a final, fully franked dividend of 25 cents per share
- Offer values Coles at:
  - \$17.25 per share or \$17.00 per share excluding the final dividend<sup>1</sup>; or
  - \$16.55 per share or \$16.80 per share including the final dividend<sup>2</sup>
- 100% acquisition via a scheme of arrangement (Coles shareholders to approve)
- Unanimously recommended by the Board of Coles
- Wesfarmers has a relevant interest in 12.6% of Coles

<sup>1</sup> Based on the Wesfarmers closing price on 29 June of \$45.73

<sup>2</sup> Based on the Wesfarmers adjusted 10 day VWAP of \$44.14



# Background

- In April, Wesfarmers acquired voting power over a 12.6% stake in Coles
- Due diligence commenced on 25 May
- Volatile US debt markets resulted in our original private equity-style approach no longer being considered optimal
- 100% Wesfarmers backed final offer was made on 30 June
- Recommendation from Coles Board obtained on 2 July



# Strategic Rationale

- Iconic Australian business in attractive markets with quality assets and significant growth opportunities
- Compelling opportunity to establish Australia's premier retailing operations
  - Extensive store portfolio with leading market positions
  - Businesses operate in attractive market structures
- Wesfarmers has proven track record in retailing
- Positive outlook for Australian retail
- Due diligence findings confirmed the value potential in the business
- Delivers benefits to all stakeholders
- Existing skills within Wesfarmers and Coles to be further strengthened by introduction of experienced retail executives



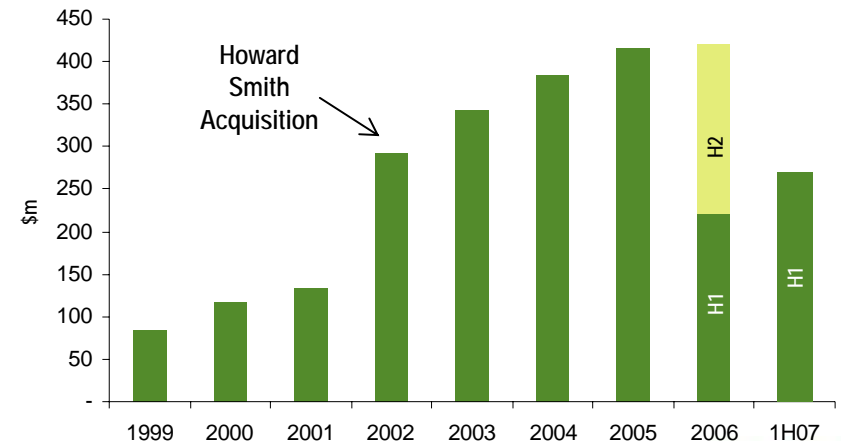
# Wesfarmers' Track Record

- \$8.9b annual revenue, \$1.6b annual EBITDA
- \$18b Market Capitalisation, investment grade S&P rating
- Proven track record of acquisition value creation
- Extensive operating experience in retail

### Wesfarmers total shareholder return



### Bunnings EBIT





# Valuation

- Acquisition meets Wesfarmers' investment criteria
- Consistent DCF valuation approach used
- Investment exceeds our hurdle rate excluding synergies
- Franking credits will allow dividend payout in excess of EPS for several years
- Transformation and simplification FY08-FY10
  - Transformation one-off operating expenditure \$210m
  - Transformation capital expenditure \$300m
  - Simplification cash outflow \$130m
- Total Supermarkets, Liquor and Convenience capital expenditure c. \$1b pa



# Business Direction

John Gillam

Managing Director, Bunnings Group



# Overview

- Three core retailing streams with common offer characteristics:
  - Stream 1: Supermarkets, Liquor and Convenience (Coles)
  - Stream 2: Big Box retailing (Bunnings and Officeworks)
  - Stream 3: Discount Department stores (Target and Kmart)
- Maximise synergies and eliminate waste
- Businesses released from centralised corporate structure
- Maintain focus on transformation and simplification agenda



Stream 1  
Coles - Supermarkets,  
Liquor & Convenience

# Current situation

- Recent underperformance
  - Poor trading from one-off impacts; execution issues, sale process and simplification
- Business is adopting stronger management principles
- Recent investment in price and “fresh” proposition
- Confidence in supply chain transformation; outcomes will be delayed
- Performance well short of domestic and international peers
- Fundamentals unchanged
  - Outstanding market position and brand recognition
  - Irreplaceable national property footprint



# What's going to change?

- Clear consistent strategy and accountability
- Eliminate bureaucracy
- Drive out complexity and improve execution
- Educate and communicate to our team
- Strong offer improvement agenda



# Supermarket Improvement Agenda



- Drive a stronger customer proposition around value and convenience
  - ✓ Fresh Initiatives
  - ✓ Value
  - ✓ Format
  - ✓ Expand housebrands
  - ✓ General merchandise
  - ✓ Availability
  - ✓ Simplification



# Liquor and Convenience



- First Choice: widest range at lowest prices, continue network roll out
- Liquorland: repositioning to a convenience offering
- Vintage Cellars: premium market focus, refurbishments to lift offer



- Drive convenience via refurbishments and merchandising initiatives
- Work to selectively add new sites





# A Reinvigorated Coles Team

- Focus on cultural and strategic alignment
- Improved processes supported by cultural change on the shop floor
- Drive improved customer proposition for service, stock availability and fresh
- Drive out bureaucracy
- Restore pride in the business



Stream 2  
Big Box Retail  
Bunnings & Officeworks

# What Wesfarmers Adds

- Proven “big box” retailing skills
- Ability to extract co-location synergies
- Build on current management team strengths
- Strong focus on retail disciplines
- Supply chain expertise
- Cultural and strategic alignment



# Officeworks



- Unique position in Australia
- Clear market leader
- Well positioned brand
- Unrivalled store network in segment
- Significant growth opportunities
  - Accelerate store roll-out
  - Improve merchandise performance
- Build on team and culture



**Stream 3**  
**Discount Department Stores**  
**Target & Kmart**

# Unique Position in Australia



- Target: an iconic Australian brand, high customer loyalty and a reputation for quality and value
- Target has unique brand equity transitioned into house brand merchandise
- Kmart struggling against competitive forces
- Unrivalled network coverage in Australia
- Strategic global sourcing position



# Growth Strategies



- Optimise store network by brand
- Build on respective brands' strengths:
  - Particularly Target apparel expertise
- Leverage assortment and category opportunities
- Refurbish stores for consistency and improved customer experience



# Structure, Funding and Process

Gene Tilbrook  
Finance Director



# Structure

Supermarkets, Liquor, Convenience
Big Box
Discount Department Stores
Energy
Insurance
Industrial & Safety
Chemicals and Fertilisers
Coal



# Funding

- Corporate debt facilities in place to fund cash portion of offer
  - Final debt levels associated with the transaction are subject to a range of potential capital management alternatives
- Impact on rating will be reviewed prior to final scheme implementation
- Insurance underwriting activities will be ring-fenced to retain A- rating
- Maintains Wesfarmers' flexibility in funding capex, potential acquisitions and potential capital management initiatives



# Funding – Sources and Uses



Uses of Funds	\$bn
Coles equity	18.1-18.6
Coles net debt	1.0
Refinanced bridge facility	2.1
Fees	0.4
<b>Total Uses</b>	<b>21.6-22.1</b>

Sources of Funds	\$bn
WES scrip issue	13.5-14.0
WES new debt	8.1
<b>Total Sources</b>	<b>21.6-22.1</b>

Value of \$16.55 to \$17.00 per Coles share (excluding final Coles dividend of \$0.25 per Coles share)





# Process

- Current expectation is that the transaction will be completed in October

<b>Indicative timetable</b>	
Scheme lodgement with ASIC	August 2007
Scheme booklet dispatch	August 2007
Coles Shareholder Meeting	September 2007
Court approval of Scheme	October 2007



# Benefits to Stakeholders

Richard Goyder  
Managing Director

# Benefit to Coles Shareholders

- Partial roll-over relief available to larger shareholders
  - Expected to meet high proportion of demand
- Ability to share in the turnaround of Coles through Wesfarmers equity
- Full and fair price, representing a significant premium to standalone trading



# Benefit to Coles Employees and Customers

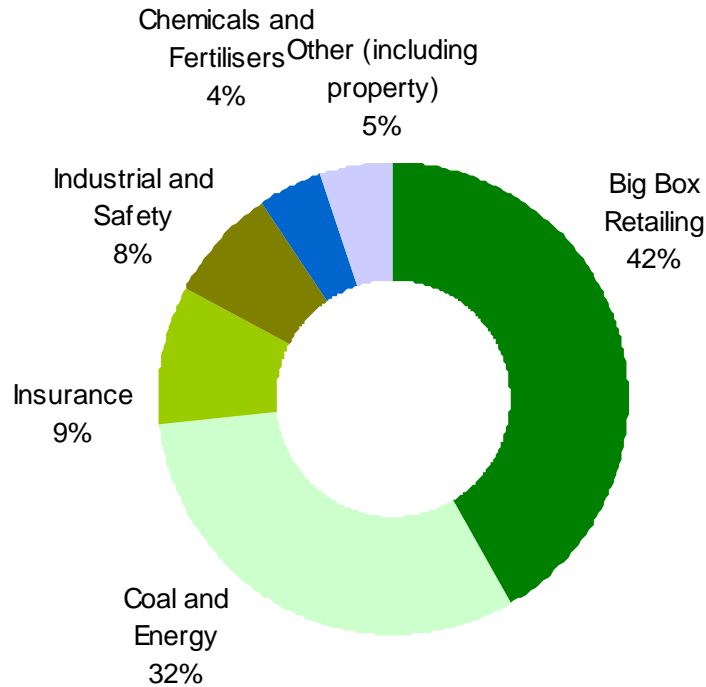
- Coles will remain Australian-owned
- Individual businesses will have a stronger market focus
- Ultimately a better customer experience around improved value and convenience
- A more rewarding and attractive place to work



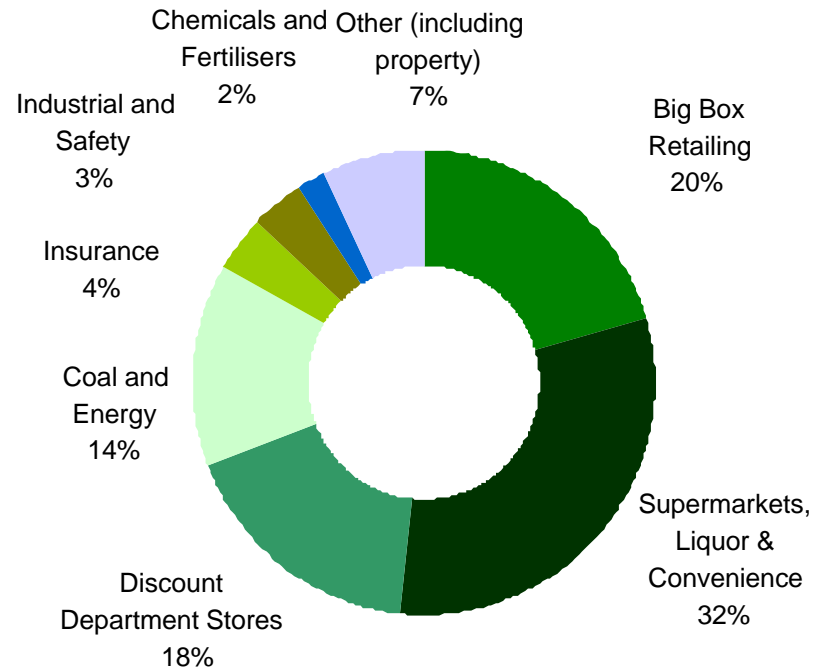
# Indicative Earnings Breakdown



**Pre acquisition (1H07 EBIT)**



**Post acquisition (1H07 EBIT)**



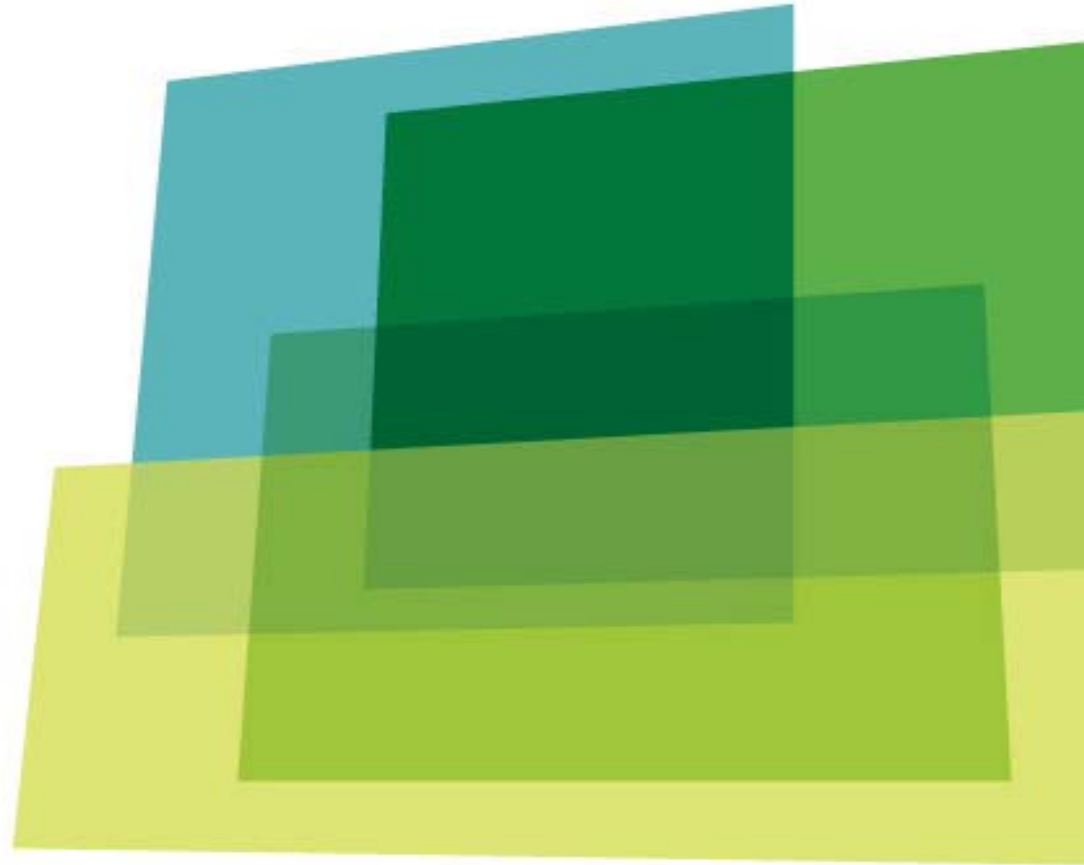
Note - Based on Wesfarmers' and Coles' 1H07 segment results







Questions





**Wesfarmers**

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