

Agreement to acquire UK home improvement & garden retailer Homebase



18 January 2016



Acquisition overview & rationale

Acquisition overview

- Acquisition of 100 per cent of Home Retail Group plc's holding in Homebase for £340 million (A\$705 million)¹
- Unanimously supported by Home Retail Group Board; Offer provides execution certainty & an attractive cash consideration for Home Retail Group shareholders
- Transaction completion conditional on approval of Home Retail Group shareholders & its banking syndicate
- Acquisition completion expected by end of first quarter calendar year 2016

Acquisition rationale

- £38 billion UK home improvement & garden market² (HI&G) is an attractive & growing market
- Homebase acquisition delivers an established & scalable platform with stores that are the right size for the UK market & support warehouse merchandising & a low cost operating model
- First step in a program including investment in the Homebase team & reinvigoration of core assets, building an exciting new Bunnings-branded business over three to five years
- Ability to improve existing Homebase performance in the short-term through operational improvement

(1) £:A\$ of 0.4822 at 15 January 2016 (Reserve Bank of Australia); (2) Bunnings estimates based on industry analysis

Attractive market entry opportunity

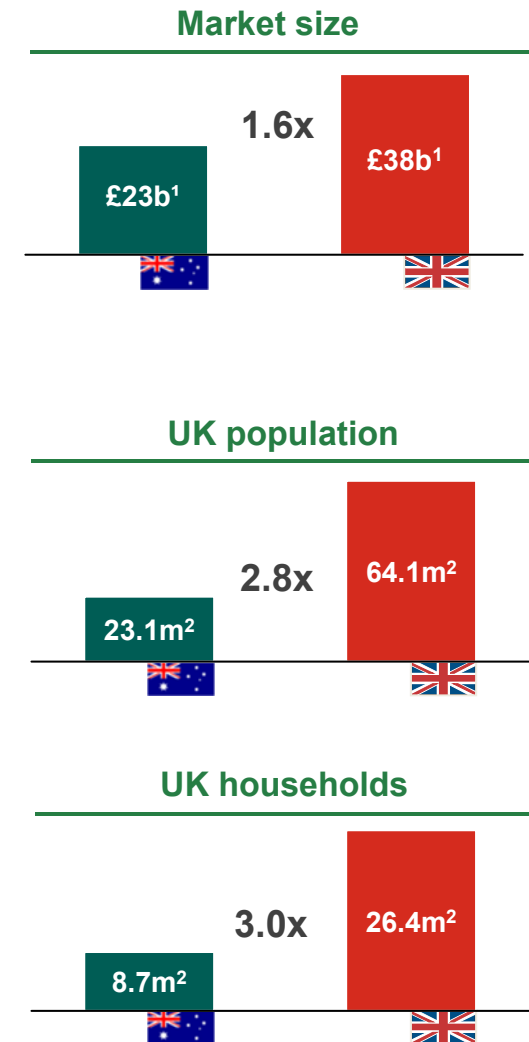
UK home improvement & garden market

Market overview

- Market size estimated to be £38 billion¹ (consumer & trade)
- Highly fragmented with top two players having < 15% market share competing across a variety of formats
- UK market forecast to grow at similar rate to Australia
- UK is a developed economy with positive macroeconomic environment

Housing fundamentals

- Similar home ownership rates (60% UK, 62% Australia)
- Smaller & older dwellings
 - 56% of England's housing stock is over 50 years old³
- Higher wear & tear due to size & climate
 - Higher refresh & replacement activity & weighting of spend in key categories (kitchens, bath, flooring & garden)⁴
- New household formation ~1.5 times that of Australia²



Sources: (1) Bunnings estimates based on industry analysis; (2) 2013 population, housing formation, occupied household estimates & gross disposable income sourced from Office for National Statistics (UK) & Australian Bureau of Statistics; (3) English Housing Survey Headline Report 2013-14; (4) HIA "Renovations out of the block" June 2014

Attractive market entry opportunity

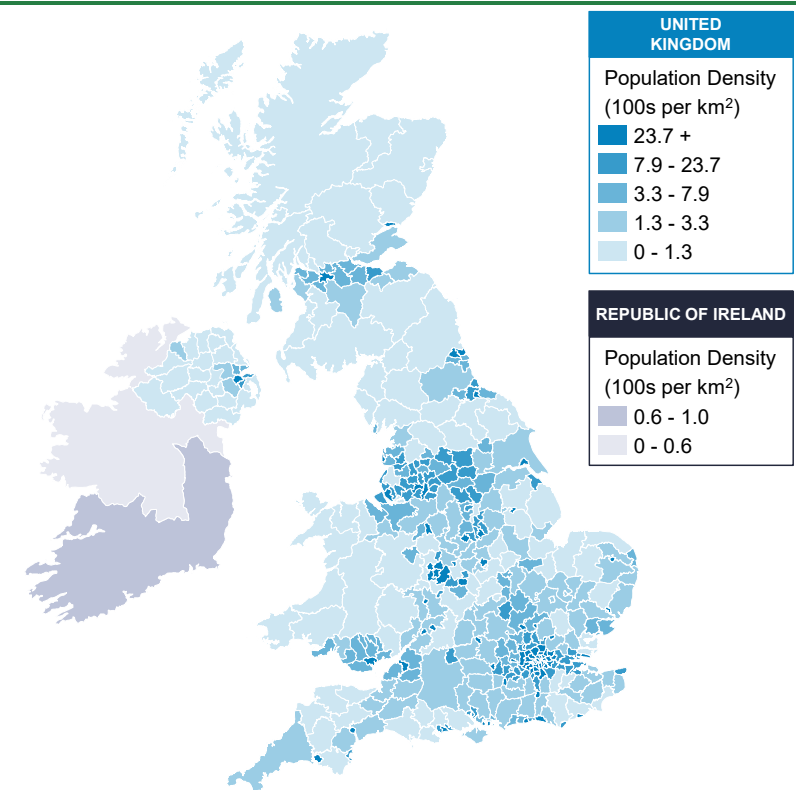
Established store network with opportunity to expand

- Established network with strong representation in high population density areas
 - Provides scalable platform for future growth
 - Currently with 265 stores: similar store numbers to Bunnings Australia network¹
 - ~75% in greater London & home counties
- Detailed analysis indicates significant potential for store network expansion under new Bunnings format

Homebase network¹



Population density²



Attractive market entry opportunity

Acquiring right sized stores with proven capability to operate similar sized stores



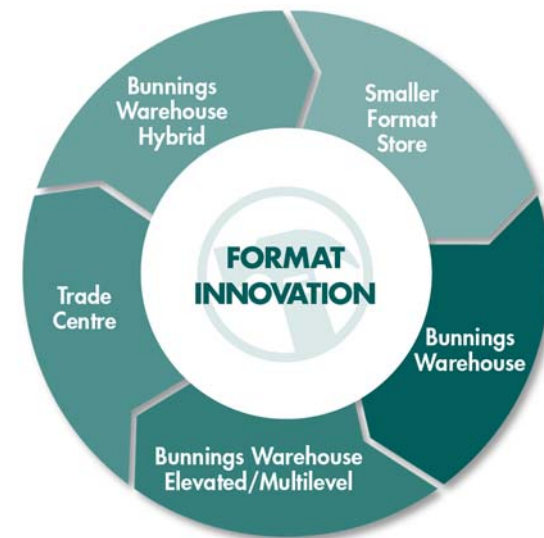
- Average store size of 4,500m² (including 1,000m² of nursery & landscape)
- Well-sized for market given high UK property costs, supporting warehouse merchandising & low cost operating model
- Good lease tenure & characteristics



Sources: Company information



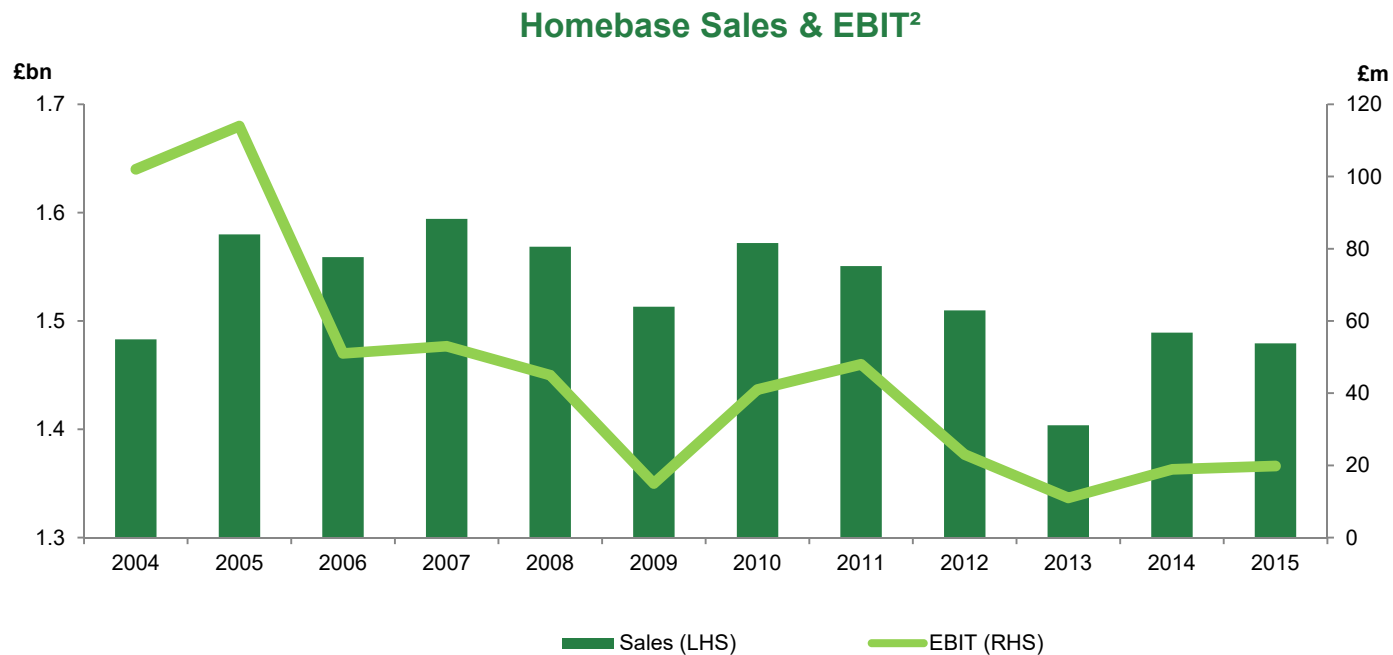
- Format flexibility a core strength (inner urban, small & large, multi level)
- Expertise in developing & operating similar formats in Australia & New Zealand
 - ~25% of Bunnings network < 7,000m²
- Constant format innovation & evolution
 - unlocks market opportunities
 - supports merchandising growth



Attractive market entry opportunity

Performance improvement opportunity

- Recent earnings improvement: EBIT of £26 million (A\$52 million)¹ for 12 months to 29 August 2015, up 35%
- Sites capable of significantly higher volumes
- Ability to leverage platform & fixed cost base
 - UK occupancy costs as a percentage of sales ~3.5x Australia
 - Higher property costs reinforces importance of right-sized stores & merchandising intensity



(1) £:A\$ of 0.4822 at 15 January 2016 (Reserve Bank of Australia); (2) Homebase company filings – financial years (February year end)

Attractive market entry opportunity

Earnings performance improvement opportunity



LOWEST PRICES Everyday Lowest Prices

Premium pricing
High-low promotional activity



WIDEST RANGE
Widest range
World leading brands
Consumer & trade
Strong availability

Limited range authority
Home brand focus
Home furnishing & consumer
Low in stock position
High income demographic



BEST SERVICE
Best service
Convenience & accessibility

Low service intensity
Condensed trading hours

Post acquisition implementation

Improvement plans & investment

Phase 1

Build strong business foundations

- Retail basics focus
- Invest in team
- Invest in core business activities
- Develop pilots for Bunnings Warehouse

First 12 months

Phase 2



Introduce new Bunnings branded offer

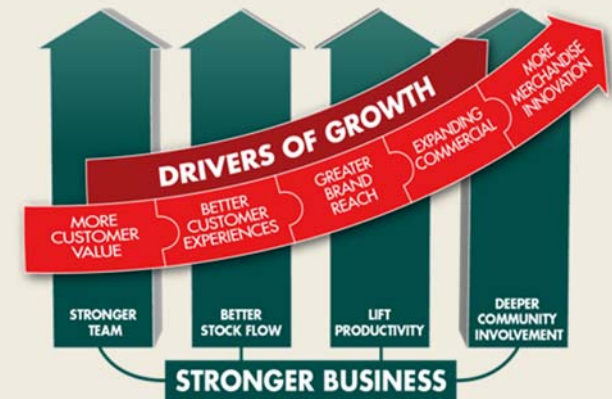
- Combine essential local elements with best of Bunnings to build new business
- Warehouse format
- Lowest prices, wider choice with trusted brands, great service
- Easy to get to with hours to suit all customers
- Extensive digital engagement
- Servicing both consumer & trade
- “Everything you want under one roof”

In 3 to 5 years

Phase 3



Drive long-term growth



5 years plus

Post acquisition implementation

Improvement plans & investment

Phase 1

**Build strong
business
foundations**

- Retail basics focus
- Invest in team
- Invest in core business activities
- Develop pilots for Bunnings Warehouse

Phase 2



Introduce new
Bunnings
branded offer

Phase 3

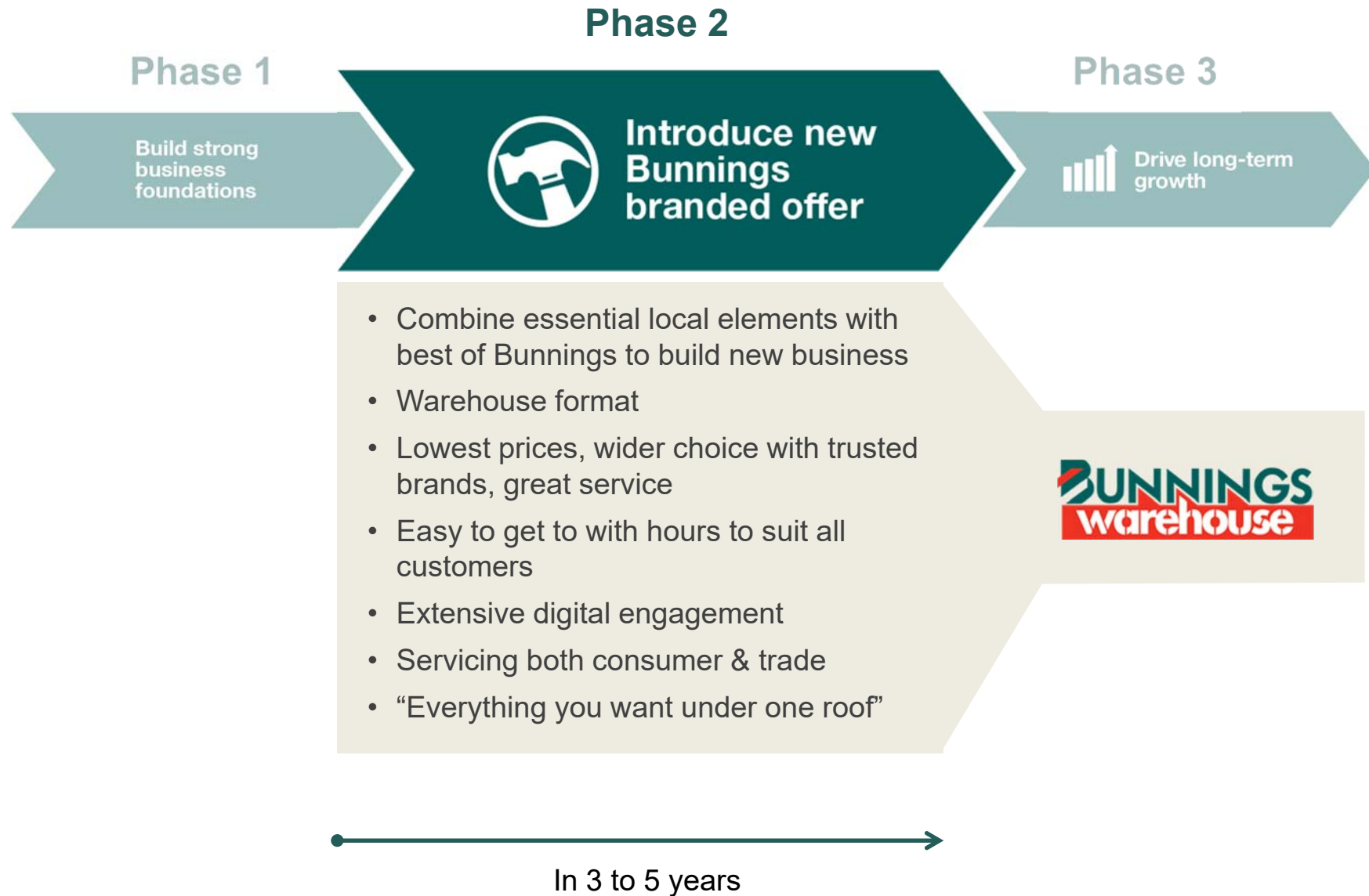


Drive long-term
growth

First 12 months

Post acquisition implementation

Improvement plans & investment



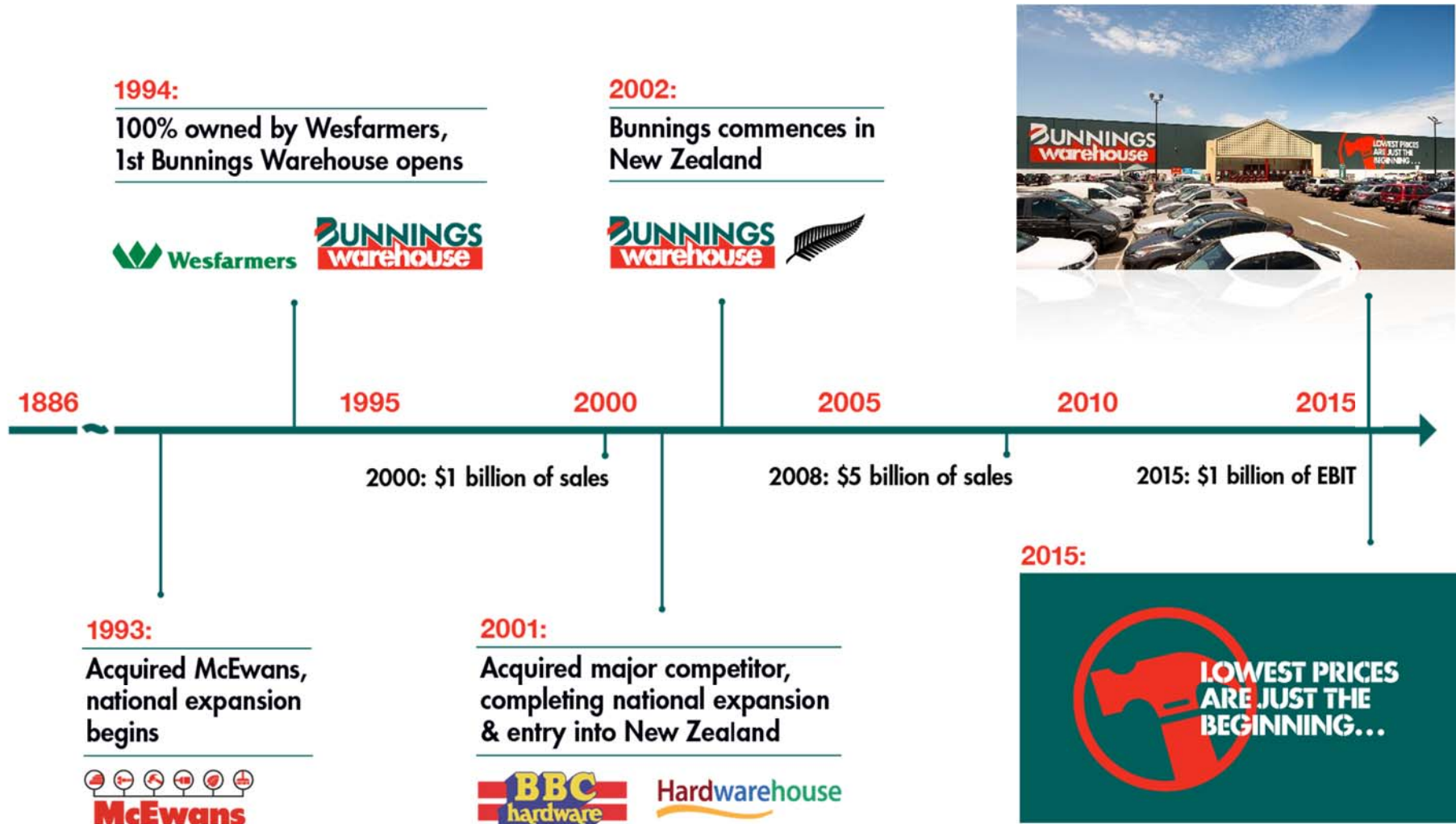
Post acquisition implementation

Improvement plans & investment



Execution capability

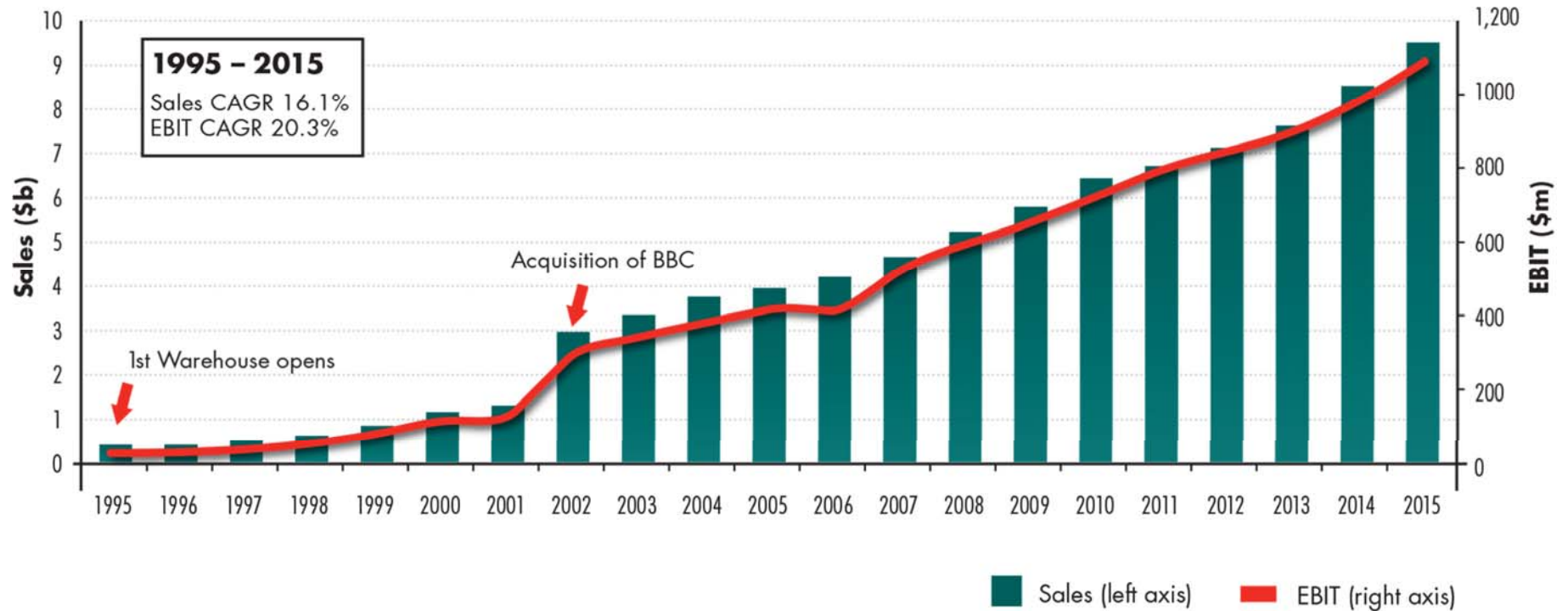
Long-term growth through investment & new market entry



Execution capability

Bunnings has demonstrated performance over the long-term

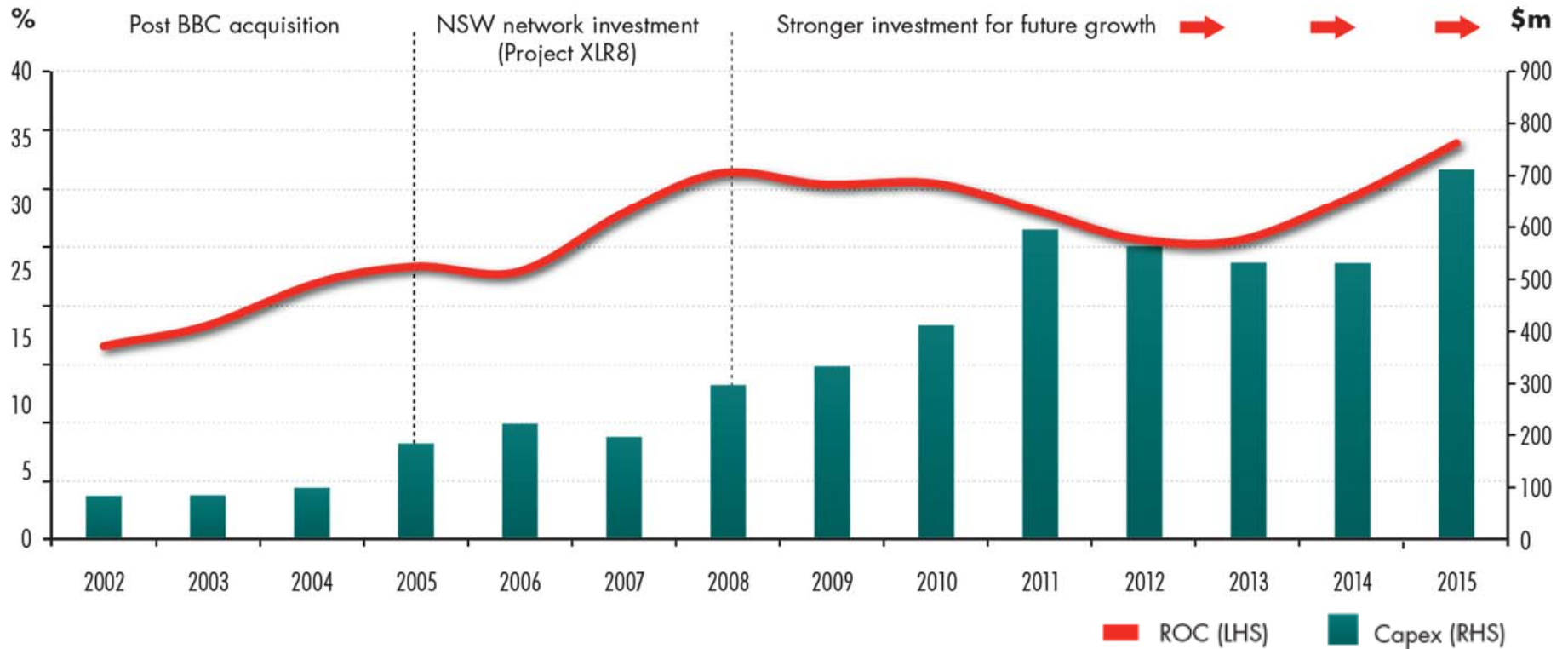
- Strong track record of investment, returns & growth over the long-term
 - Compound sales growth of 16.1% per annum (20 years to FY15)
 - Compound EBIT growth of 20.3% per annum (20 years to FY15)
- Business behaviors that build trust
 - Australia's most trusted retail brand for 10 consecutive years



Execution capability

Bunnings has achieved long-term growth & sustainable returns

- Strong track record of investment, returns & growth over the long-term
 - A\$3.3b capital expenditure investment over five years to 30 June 2015
 - Return on capital of 33% (R12) at 30 June 2015



Bunnings post acquisition

Management structure & governance

- Bunnings run by John Gillam as Chief Executive Officer
- Locally focused management & operations tailored to market
 - Bunnings Australia & New Zealand
 - Mike Schneider: Managing Director
 - Clive Duncan: Chief Operating Officer
 - Justin Williams: Chief Financial Officer
 - Bunnings UK & Ireland
 - Peter (PJ) Davis: Managing Director
 - Rodney Boys: Finance Director
- Overarching organisational structure to provide strong governance & commercial guidance
 - Ensuring brand alignment & Bunnings business principal disciplines
 - Extracting business model leverage (e.g. global sourcing & IT)
 - Driving continued high performance in Australia & New Zealand
 - Supporting market entry plans in UK & Ireland



Transaction benefits, economics & timing

- Due to early transformation activity, initial immaterial effect on Wesfarmers' EPS & ROE; EPS & ROE progressively accretive (third year post acquisition) reflecting long-term growth prospects
- Transaction & subsequent Bunnings UK & Ireland capital requirements to be 100% debt financed
 - GBP denominated facilities, guaranteed by Wesfarmers & funded through existing relationship banks
 - Subsequent investment of ~ £500 million (A\$1,037 million)¹ (comprising capital expenditure & net working capital investment)
- Rating agencies Standard & Poor's & Moody's Investors Service have been updated on transaction
 - Whilst no change expected to Group's existing credit ratings (A- & A3 level respectively), anticipated short term impact on credit metrics may change Group's outlook
- Continued commitment to distribute available franking credits to shareholders
- Indicative timing has acquisition completion by end of first quarter of calendar year 2016, conditional on approval of Home Retail Group shareholders & its banking syndicate

(1) £:A\$ of 0.4822 at 15 January 2016 (Reserve Bank of Australia)



Supplementary Information



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1. Background on Wesfarmers
2. Overview of Australian & New Zealand Home Improvement & Outdoor Living market
3. Background on Bunnings






Background on Wesfarmers

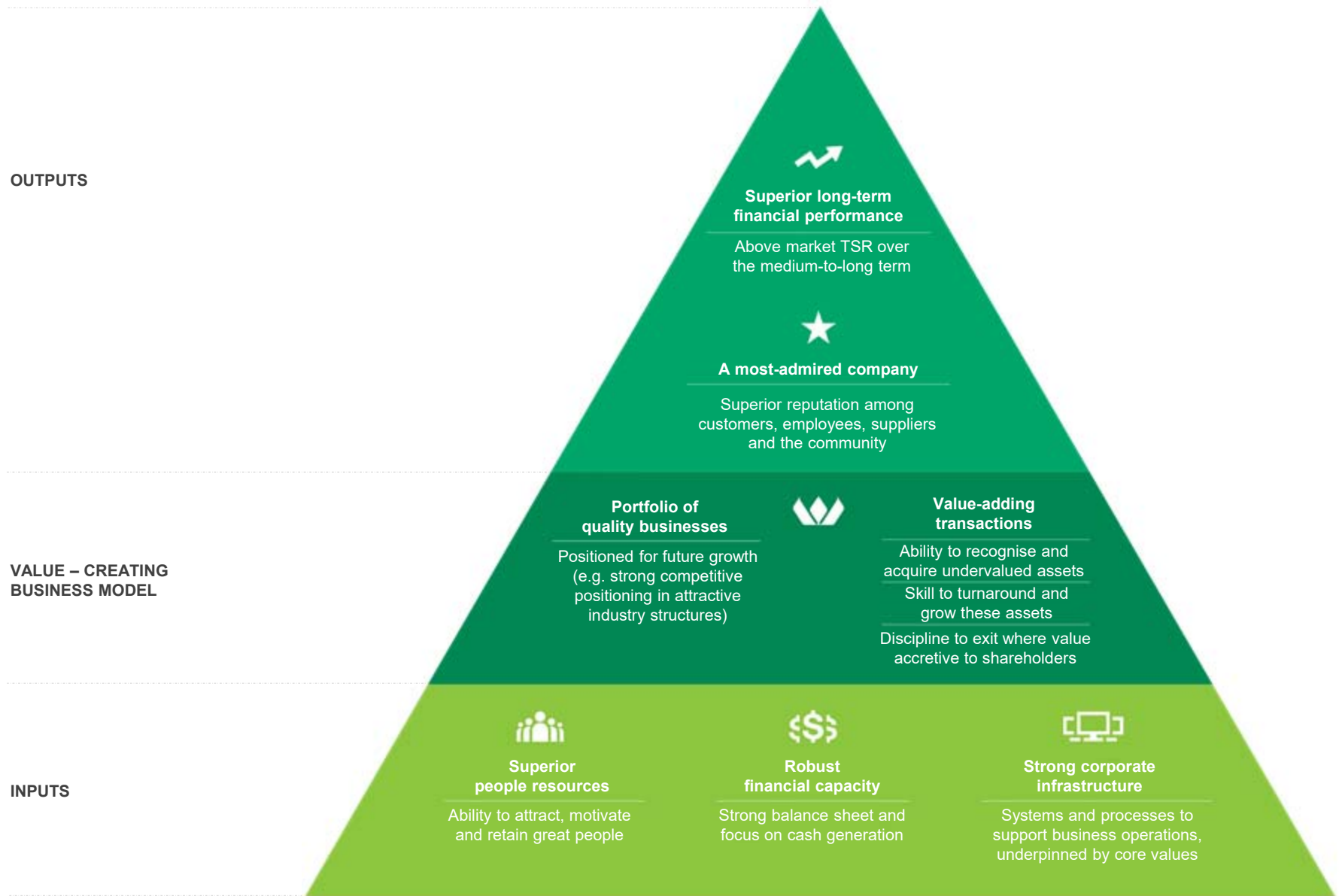


The Wesfarmers Way



Our objective	Value creating strategies	Growth enablers	Core values
To provide a satisfactory return to shareholders	<ul style="list-style-type: none">  Strengthen existing businesses through operating excellence and satisfying customer needs  Secure growth opportunities through entrepreneurial initiative  Renew the portfolio through value-adding transactions  Ensure sustainability through responsible long-term management 	<ul style="list-style-type: none"> Outstanding people Commercial excellence Empowering culture Innovation Social responsibility Robust financial capacity 	<ul style="list-style-type: none"> Integrity Openness Accountability Boldness

Wesfarmers operating model



Strong corporate infrastructure

Strong corporate infrastructure

Wesfarmers' core values underpin key corporate systems, processes & initiatives:

- Lean corporate office
- Divisional Boards
- Group-wide planning, budgeting & monitoring processes
- Executive talent development & key role succession planning
- Strong governance: centralised statutory accounting, tax, legal, treasury & investor relations
- Business development team: evaluation of value adding transactions & significant capex

Core values

Integrity

Openness

Accountability

Boldness

Disciplined approach to delivering long-term shareholder returns

Cash flow generation

- Drive long-term earnings growth
- Manage working capital effectively
- Strong capital expenditure processes

Balance sheet strength

- Risk management of maturities
- Diversify funding sources
- Optimise funding costs
- Maintain strong credit metrics



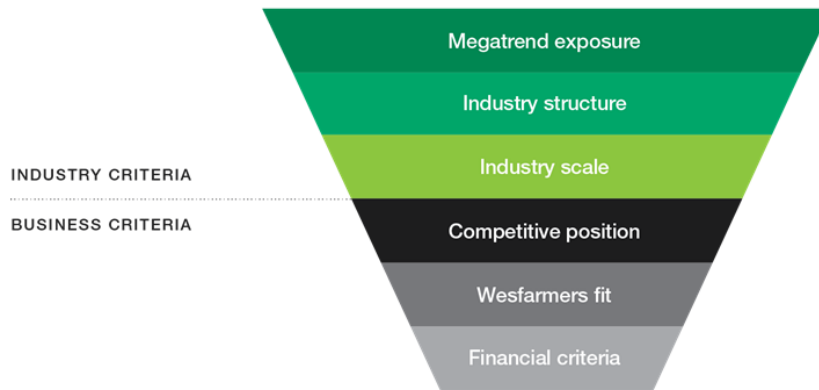
Delivery of long-term shareholder returns

- Improve returns on invested capital
- Grow dividends over time
- Effective capital management
- Invest above the cost of capital
- Financial discipline

Value creating business model

Opportunity identification & investment approach

Opportunity identification



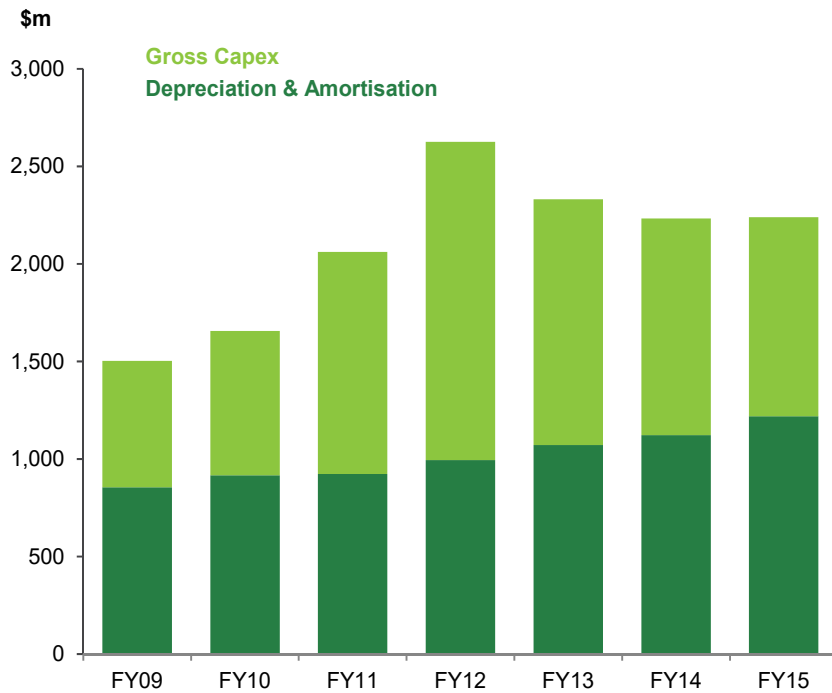
- Growth orientation
- Long-term time horizon

Investment approach

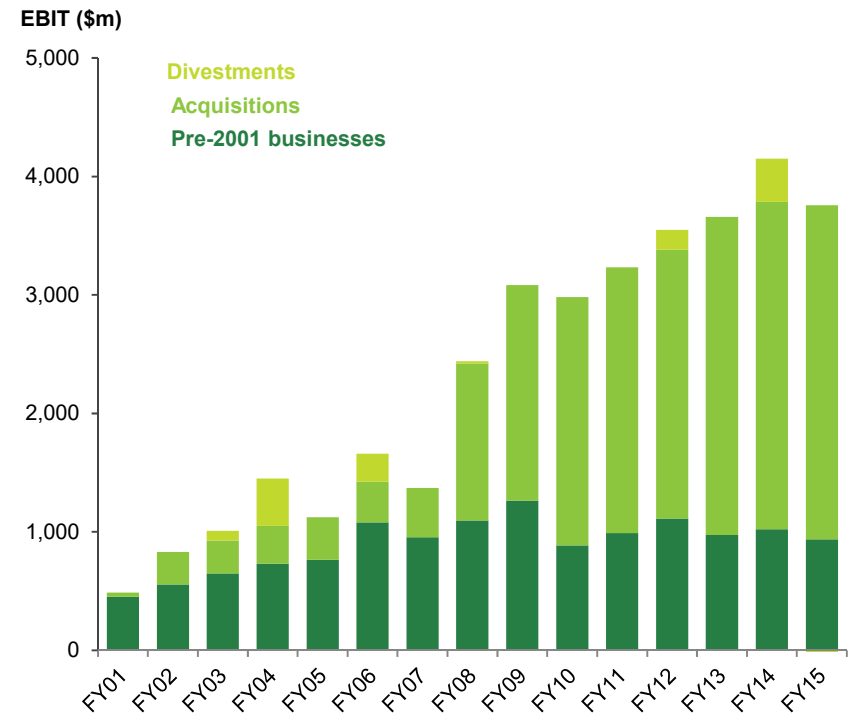
- Capacity to act through strong balance sheet & focus on cash flow
- Flexibility through alternate ownership models (e.g. minority interest, full control, partnerships)
- Remain opportunistic to sector, structure & geography
- Financially disciplined including investment comparison to capital management alternative

Earnings supported by organic investment & acquisition activity

Investment for growth

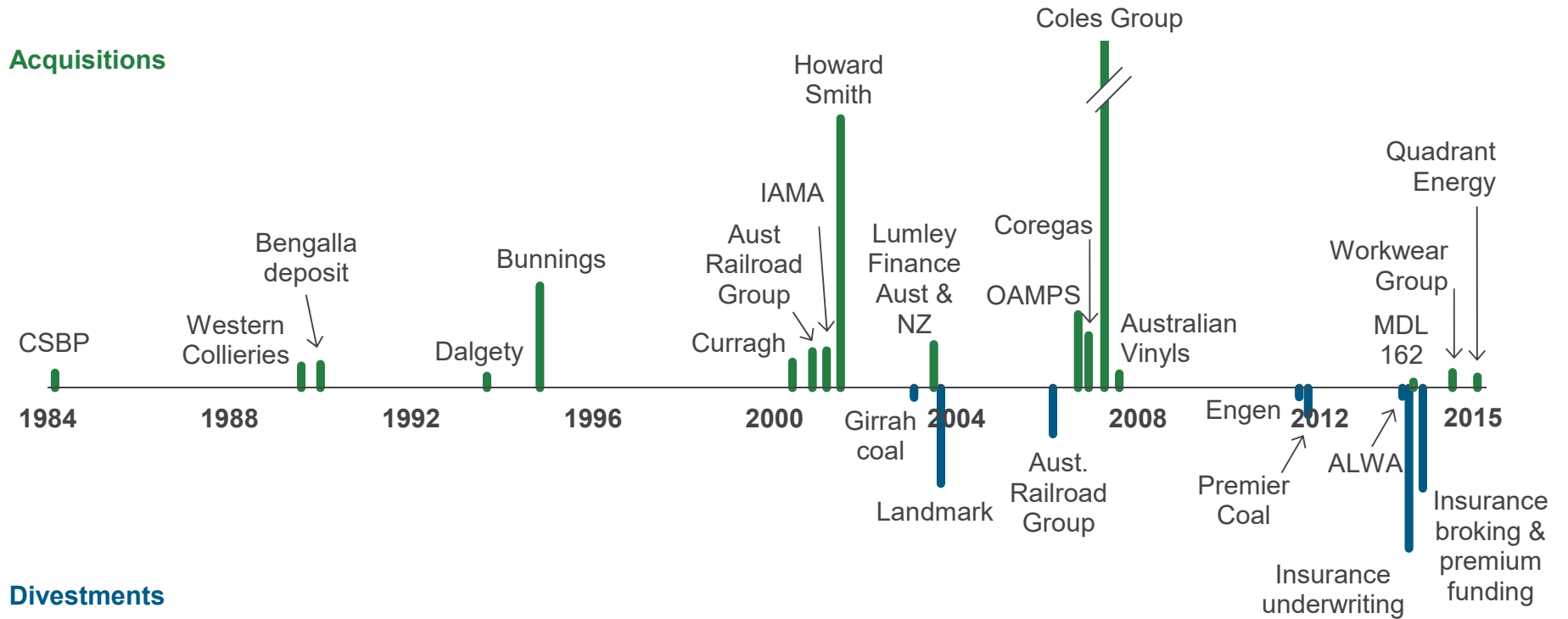


Acquisition activity



History of value adding transactions

Group transaction activity (inflation adjusted transaction size)



Superior long-term financial performance

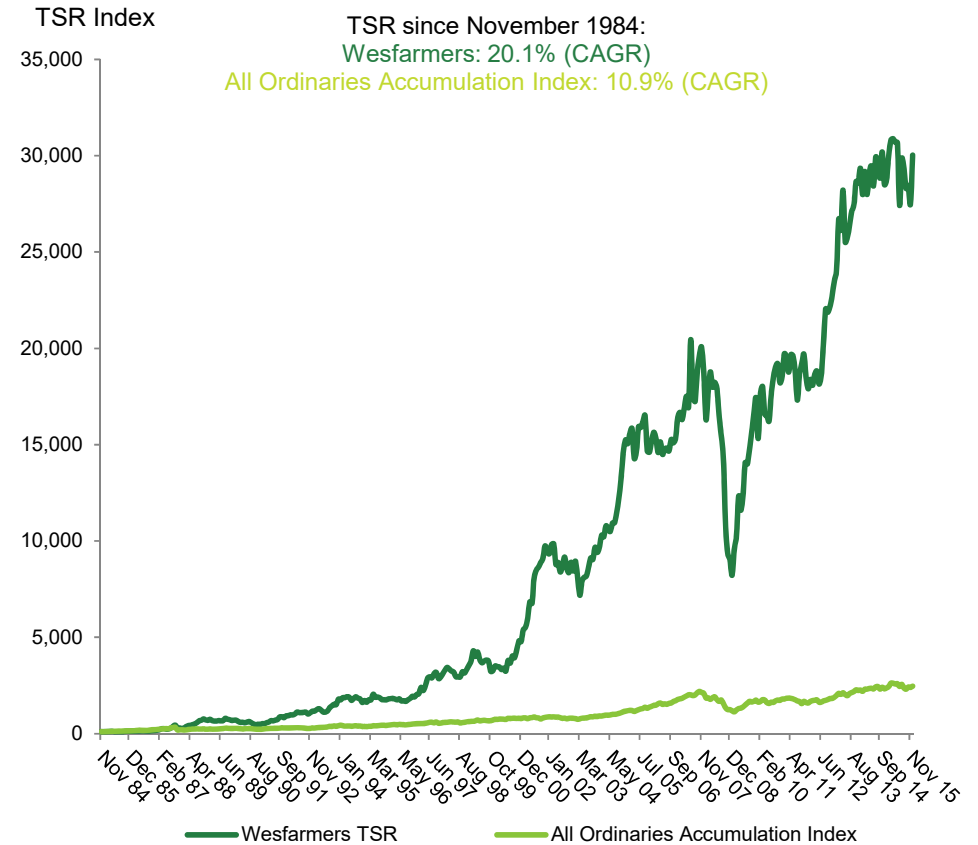
Key statistics¹

Share price	A\$/share	39.32
Market capitalisation	A\$m	44,279
Net debt ²	A\$m	6,209
Enterprise value	A\$m	50,488
Credit Rating		
- S&P		A- (stable)
- Moody's		A3 (stable)

Financial performance - year ended 30 June 2015

Revenue	A\$m	62,447
EBITDA	A\$m	4,978
EBIT	A\$m	3,759
NPAT	A\$m	2,440

Total Shareholder Return³



(1) As at 15 January 2016 unless otherwise stated; (2) As at 30 June 2015; (3) Assumes 100% dividend reinvestment on the ex-dividend date, & full participation in capital management initiatives e.g. rights issues, share buybacks as at 31 December 2015
 Source: Annual report & IRESS

Strength through diversified earnings

EBIT (\$m) Year ended 30 June	2015	2014	↑% ↓%	Percentage of divisional EBIT FY15	EBIT growth
Food, liquor & petrol retailing	1,783	1,672	6.6		+\$111m
Coles	1,783	1,672	6.6		
Home Improvement & Office Supplies	1,206	1,082	11.5		+\$124m
Home Improvement	1,088	979	11.1		
Office Supplies	118	103	14.6		
Department store retailing	522	452	15.5		+\$70m
Kmart	432	366	18.0		
Target	90	86	4.7		
Industrials	353	482	(26.8)		(\$129m)
WesCEF	233	221	5.4		
Resources	50	130	(61.5)		
Industrial & Safety	70	131	(46.6)		

Overview of Australian & New Zealand Home Improvement & Outdoor Living Market



Market evolution

Addressable market expanded by evolution & innovation

Bunnings' focus:

- Grow the market
- Grow our share



Market evolution

Addressable market expanded by evolution & innovation



Wider market opportunities

Addressable market expanded by evolution & innovation opportunities to sell into every other market where HIOL products are used



Market evolution

Addressable market wider than just home improvement & outdoor living...



toilets in every building



light fittings everywhere



ply for formwork & hoarding



line trimmers for grounds work everywhere

... most products used in & around homes & gardens have much wider everyday use in every building, structure & grounds ... used for repairs, refits, maintenance, construction & business operations

HIOL market structure & drivers

Multiple Drivers

- Household disposable income
- Renovation activity
- Housing
– churn, value & formation
- Weather
- Lifestyle / demographic trends
- Government activity
- Technology

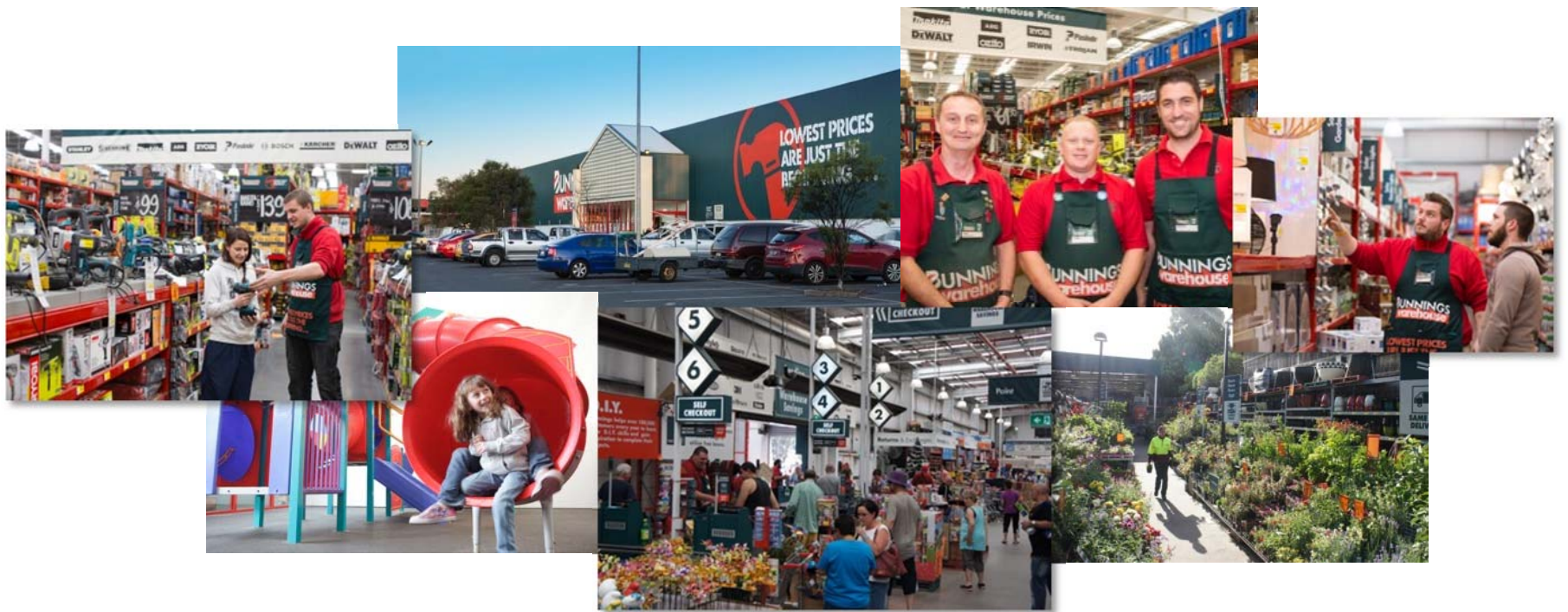
Varied Formats

nb: online activity prevalent in all formats

1. Category specialists
2. Hard goods mass merchants
3. Traditional hardware
4. Suppliers direct-to-market
5. DDS & supermarkets
6. HIOL category killer



Background on Bunnings



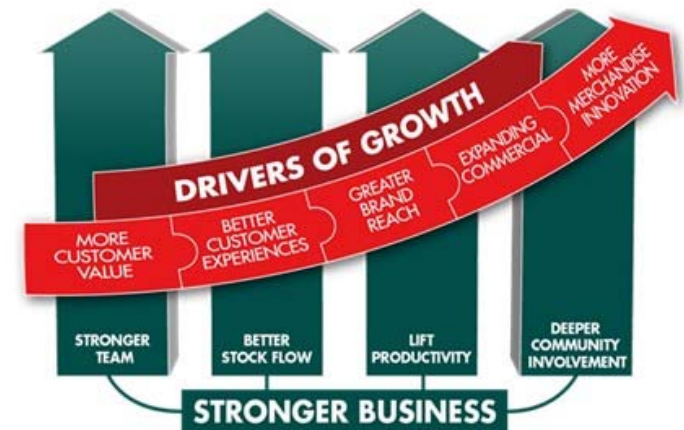
Long-term value creation

1. A winning offer to customers
2. An engaged, focused & committed team
3. Business behaviour that builds trust
4. Sustainable satisfactory shareholder returns



Strategic agenda & drivers of growth

- **A consistent strategic agenda**
 - Focus on customers, team & community
 - Grow the market
 - Grow share of the market
 - Create long-term shareholder value
- **Focused on long-term value creation**
 - A winning offer to customers
 - An engaged, focused & committed team
 - Business behaviour that builds trust
 - Sustainable satisfactory shareholder returns
- **A winning offer to customers**
 - Relentless improvements to offer & business model
 - Innovated to develop a total market capability across physical & digital, consumer & commercial
 - Ongoing innovation growing the market & growing market share



Positioned for continued growth

- **Lots of runway in +\$46b Australian market**
- **Strong momentum**
 - growing participation levels
 - all categories & all regions
 - consumer & commercial
- **Investing for long-term growth ...**
 - “winning offer” from all growth drivers: value, service, brand reach, commercial & merchandising
- **Focus on the best long-term outcomes**
- **Strong customer loyalty & brand trust**
- **More gains from productivity & capital management work**



Greater brand reach

Three elements to brand reach

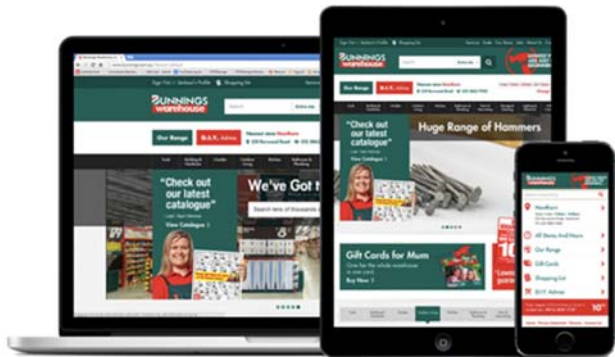
1. Widening our digital eco-system
2. Expanding our physical network
3. More in-home services

We are accelerating all activities



Greater brand reach

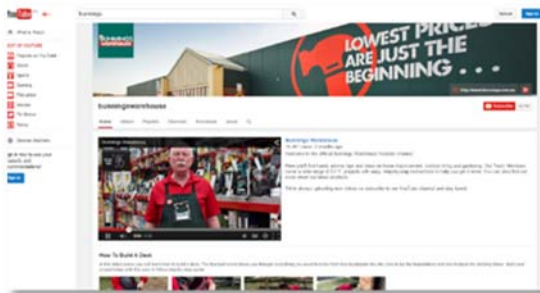
- **Deeper customer engagement & involvement**
 - pre & post-shop + services
 - online + in home + on site + in store
 - across multiple dimensions
- **Expanded capability**
 - more consumer
 - more commercial
- **Pathway to complementary adjacencies**



“Research online, purchase offline” dominant in home improvement & outdoor living market

Greater brand reach – physical & digital

- **Customers living their lives more & more virtually**
 - Digital brand reach everywhere & anywhere
- **The more customers live virtually, the more they value “touch & feel”**
- **Physical & digital fully leverages Home Improvement capabilities**
 - Humanises technology, takes service to new levels
- **24/7 product & project knowledge, how to, inspiration, engagement**

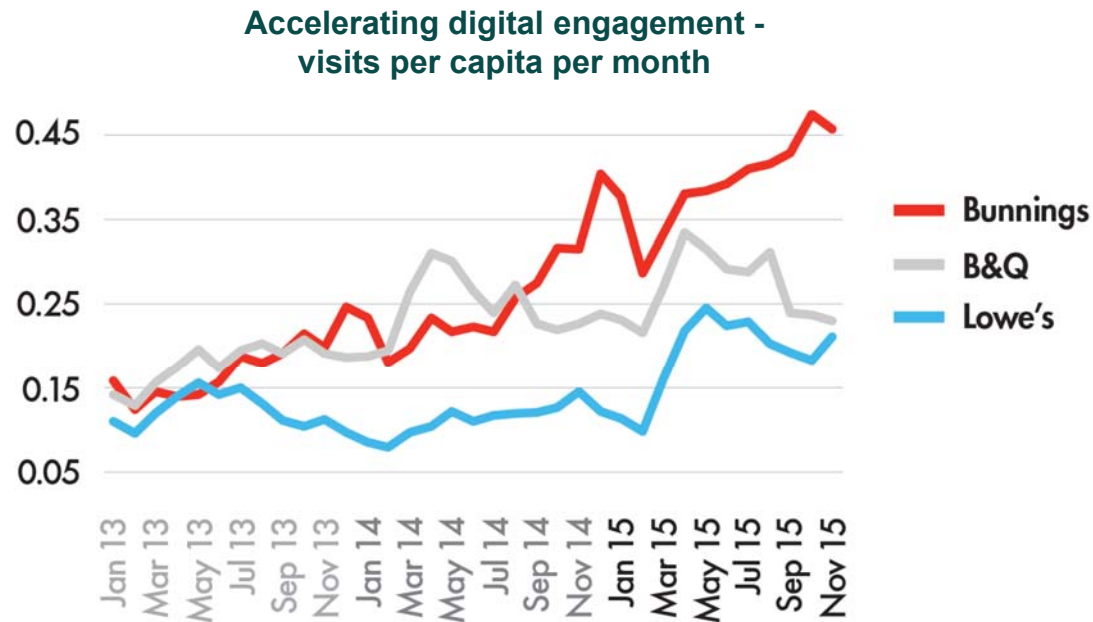


Greater brand reach – digital

Market leading customer engagement & involvement

Leveraging eco-system capability

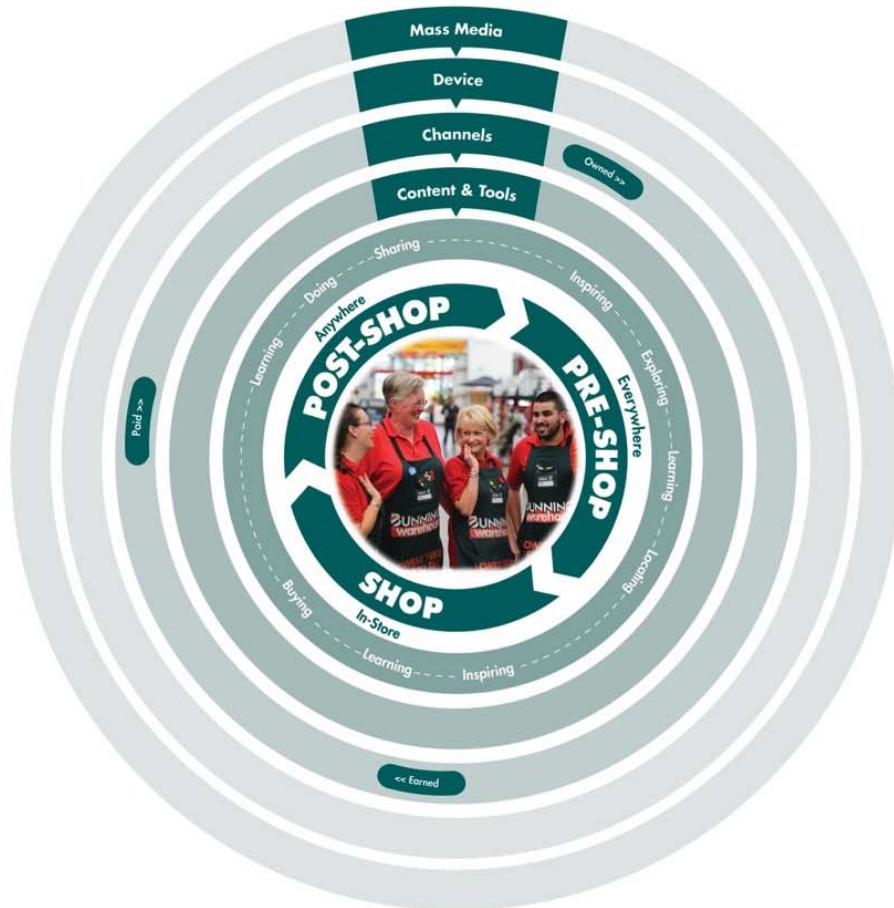
Accelerating all digital activities



Source: Experian Hitwise, Aust, UK, US

Greater brand reach – digital eco-system

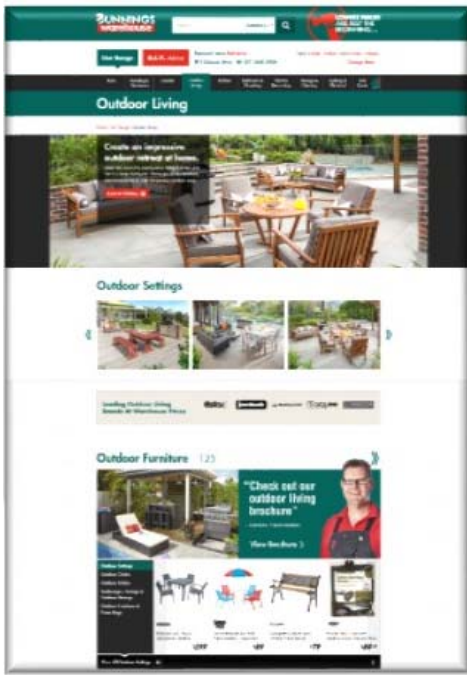
Digital brand reach everywhere & anywhere...



...Customers living their lives more & more virtually...the more customers live virtually, the more they value “touch & feel”...physical & digital fully leverages Home Improvement capabilities...24/7 product & project knowledge, how to, inspiration, engagement

Greater brand reach – digital

*Product & project knowledge,
how to, inspiration,
engagement*



*Supplier partnerships...
product & project knowledge,
how to, inspiration, engagement*



*Media partnerships...
inspiration, engagement*



Greater brand reach – physical

Expanding our physical network

- Leverage total market capability
- Excellence in every channel
- Highly flexible & innovative
- Constant format evolution
- Commercially disciplined; driving return on space
- Linking seamlessly with digital



BUNNINGS

BUNNINGS
warehouse

BUNNINGS
TRADE

Greater brand reach – physical

Bunnings Warehouse



- large format; highly flexible
- cornerstone brand
- ~5,000m² to ~20,000m²
- retail & commercial customers
- 240 in network
- format adaptability supports growth
- open 15 to 18 in FY16 & FY17
- open 10 to 14 p.a. long term
- constant innovation & evolution

Greater brand reach – physical

Bunnings: smaller format



- heritage format “home centres”
- ~2,000m² to ~5,000m²
- regional & metro markets
- retail & commercial customers
- 67 in network
- opening 2 to 4 p.a. long term
- greenfield & acquisition

