# News Release

Wesfarmers

5 October 2018

## Wesfarmers' demerger of Coles

- Demerger of Coles to reposition the Group's portfolio and set up both Wesfarmers and Coles for future success
- Wesfarmers to retain 15 per cent of Coles and 50 per cent of flybuys
- Eligible shareholders will receive one Coles share for every Wesfarmers share
- Wesfarmers Board recommends shareholders vote in favour of the demerger of Coles
- The Independent Expert, Grant Samuel & Associates, has concluded the demerger proposal is in the best interests of Wesfarmers shareholders
- Shareholder vote scheduled for Thursday, 15 November 2018, with demerger to be completed in November 2018, subject to shareholder, court and regulatory approvals

Wesfarmers today announced the Supreme Court of Western Australia has ordered a meeting (Scheme Meeting) of Wesfarmers shareholders be convened to vote on a scheme of arrangement for the proposed demerger of Coles.

If the demerger proceeds Wesfarmers shareholders will retain their Wesfarmers shares. Eligible shareholders will be entitled to receive one Coles share for every Wesfarmers share held at the demerger record date.

Wesfarmers Chairman Michael Chaney said Wesfarmers directors unanimously recommended shareholders vote in favour of the proposed demerger resolutions. Each Wesfarmers director intends to vote their own shares in favour of the demerger.

An Independent Expert engaged by the Wesfarmers Board, Grant Samuel & Associates, also concluded the demerger was in the best interests of Wesfarmers shareholders.

"Demerging Coles enhances Wesfarmers' prospects of delivering satisfactory returns to shareholders by shifting our investment weighting and focus towards businesses with higher future earnings growth prospects," Mr Chaney said.

"Following a successful turnaround since it was acquired by Wesfarmers in 2007, Coles is once again a leading Australian retailer, well positioned to grow as a defensive business with strong investment characteristics."

Further information in relation to the demerger will be provided to shareholders in the scheme booklet, which is expected to be lodged with the ASX and posted on the Wesfarmers website later today, and sent to shareholders from 12 October 2018. Shareholders should read the scheme booklet carefully, and consult with their professional advisers, before making any voting or investment decisions in relation to the demerger.

**Wesfarmers following the proposed demerger**

Wesfarmers Managing Director Rob Scott said the demerger represented a significant repositioning of the Group's portfolio and would set up Wesfarmers for success over the next decade.

"The demerger will reposition the Group's portfolio to target a higher capital weighting towards businesses with strong future earnings growth prospects," Mr Scott said. "After the demerger, Wesfarmers will have a portfolio of cash generative businesses, with strong returns on capital, good momentum and leading positions in their respective markets."

Wesfarmers plans to retain a minority ownership interest of 15 per cent in Coles and a 50 per cent interest in the flybuys joint venture with Coles.

"Maintaining a strategic stake in Coles provides an important connection with Wesfarmers to reinforce opportunities to collaborate in the data, digital and loyalty areas. flybuys will be better able to realise its potential as a leading loyalty company through the ongoing support and investment of both Coles and Wesfarmers and by leveraging the broader networks of the Wesfarmers Group, including the existing partnerships with Kmart and Target," Mr Scott said.

Wesfarmers will retain a strong balance sheet, providing flexibility to invest in opportunities to create value for shareholders when they arise. The Group expects to retain its current, strong investment grade credit ratings, supported by good cash flow generation and disciplined capital management.

Wesfarmers' dividend policy will remain unchanged following the demerger. It is anticipated that, taken together, the dividends to be declared by Coles and Wesfarmers for the year ending 30 June 2019 will be broadly equivalent to the dividends that Wesfarmers would otherwise have declared if the demerger did not proceed (including in respect of franking).

**Coles following the proposed demerger**

Coles' separation from Wesfarmers will create a new top-30 Australian listed company with leading positions in fresh food, groceries, liquor and convenience. Coles is highly cash generative, which will underpin investment and dividend distributions, and offers an earnings profile that is expected to be resilient through economic cycles.

Mr Scott said Wesfarmers was committed to ensuring Coles was set up with a strong foundation for success and growth as an independent listed company.

"Coles will be demerged with a strong balance sheet, including a net debt level that supports strong investment grade credit ratings," Mr Scott said. "Coles' experienced board and executive team ensures it will be led by an exceptional group of people with the background, knowledge and skills necessary to drive continued success in a dynamic and competitive environment."

Coles Managing Director Steven Cain also said that Coles was well positioned for success over the next decade.

"We will continue to focus on ensuring that Coles remains a trusted brand for Australians and maintains its market leading position by continuously improving the customer experience," Mr Cain said. "Coles will continue to deliver on its 'Fresh Tomorrow' strategy to improve its food offer, and move towards 'Everyday Low Prices'. We remain focused on offering anytime, anywhere shopping, landing the right offer in every location, reducing costs and continuing to engage with team members, customers and the community."

Wesfarmers also announced today that Coles had entered into a heads of agreement with Witron to develop two new automated distribution centres for Coles over a five year period. Further details are set out in the accompanying announcement.

Following the demerger, Coles will have a strong balance sheet, providing funding capacity to support strategic and operational objectives and to support dividends for Coles shareholders. As previously announced, the balance sheet is expected to support strong investment grade credit ratings.

Coles has secured committed bank facilities of approximately $4.0 billion, to support net debt of approximately $2.0 billion at demerger, from a group of leading domestic and international banks with a prudent maturity profile. These facilities will provide significant liquidity headroom to cover cash flow variations, including peak working capital requirements, capital expenditure, dividend payments and bank guarantees.

Coles' approach to dividends will be determined by the Coles Board at its discretion and may change over time. It currently intends to pay dividends with regard to available franking credits, current earnings and cash flows, future cash flow requirements and targeted credit metrics. This approach is expected to deliver a dividend payout ratio ranging from 80 per cent to 90 per cent while enabling Coles to retain strategic flexibility.

**Demerger mechanism and timing**

The demerger will be effected by way of a scheme of arrangement and a reduction of Wesfarmers' share capital. The effect of the demerger is that Wesfarmers shareholders will retain their Wesfarmers shares and eligible shareholders will be entitled to receive one Coles share for every Wesfarmers share held. The demerger does not require any Wesfarmers shareholders to pay cash for Coles shares.

It is expected that the distribution of Coles shares to Wesfarmers shareholders will qualify for demerger tax relief, subject to a final Australian Taxation Office ruling being obtained.

The Scheme Meeting and the General Meeting will be held on Thursday, 15 November 2018 at the Perth Convention and Exhibition Centre, 21 Mounts Bay Road, Perth, Western Australia. In addition to the Scheme Meeting, a General Meeting will also be held to consider resolutions associated with the demerger. The General Meeting will be held at the later of 1:30pm (AWST) or 30 minutes after the conclusion of Wesfarmers' Annual General Meeting, with the Scheme Meeting to follow the General Meeting.

The demerger is subject to regulatory, court and shareholder approvals. Subject to the necessary approvals, it is expected that the second court hearing will take place on Monday, 19 November 2018, with Coles shares to commence trading on the ASX on a deferred settlement basis from Wednesday, 21 November 2018.

Further information in relation to the proposed demerger is available in the scheme booklet.

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