



19 August 2020

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Woolworths Group to make a strategic investment in PFD Food Services

Please see attached an announcement authorised for release to the market.

Marcin Firek
Company Secretary
Woolworths Group Limited



19 August 2020

Woolworths Group to make a strategic investment in PFD Food Services

- Woolworths Group intends to extend its strategic partnership with PFD Food Services by acquiring a 65% equity interest, with the Smith family retaining 35%
- Woolworths Group will also acquire PFD's freehold properties
- Total purchase price for the 65% equity interest and freehold properties of \$552 million (excluding net debt)
- PFD will continue to operate as a standalone business, retain senior leadership team and partner with Woolworths Group to deliver better experiences for customers

Overview and rationale

Woolworths Group today announces it has agreed to extend its strategic partnership with PFD Food Services, one of Australia's leading foodservice suppliers, by acquiring a 65% equity interest in the business. Woolworths Group will also acquire 100% of PFD's freehold properties which primarily comprise 26 distribution centres.

Woolworths Group CEO, Brad Banducci, said: "We are excited by the opportunity to invest alongside the Smith family in PFD Food Services. It is a business we have long admired and we have a shared vision for continued innovation, customer focus and investment in the food sector. We look forward to delivering even better experiences together for our customers as we continue to respond to their changing needs in a post COVID world.

"This investment is a logical adjacency for Woolworths Group and further supports the evolution of the Group into a Food and Everyday Needs Ecosystem. It will build on our existing partnership with PFD, the number two player in the large and fragmented out-of-home foodservice and non-retail business-to-business markets.

"The investment will also unlock synergies for both businesses across the combined network and fleet. We will help to support PFD's growth through access to our logistics, digital and data analytics and operational capabilities. For Woolworths Group, it will enhance store range localisation and provide fleet synergies through better route and capacity optimisation across our combined network."

PFD will operate independently under CEO Kerry Smith. A separate board and governance structure will be implemented, with Rick Smith, the founder of PFD, continuing to be involved.

PFD Food Services CEO, Kerry Smith, said: "We are pleased to deepen our existing strategic partnership with Woolworths Group for the longer-term via their investment in our business. As a family owned and operated business which prides itself on its customer and supplier relationships, it is important that PFD operates as a standalone business, run by the existing team. In Woolworths Group, we are confident we have found a partner with shared experience and expertise, but also whose operations and vision for the future complement our own."



Transaction details

Woolworths Group will initially invest \$302 million¹ in PFD to acquire a 65% equity interest. The transaction implies a multiple of 11x pre-AASB 16 EBITDA² of \$57 million assuming net debt of \$157 million¹. Woolworths Group will also acquire PFD's freehold distribution centre properties for \$249 million which will be leased back to PFD.

Like many other businesses, PFD's current earnings have been impacted by COVID-19. Despite this, the investment is expected to be earnings per share accretive in the first full year of ownership and deliver a strong return on investment to Woolworths Group.

The transaction is subject to an earn-out at the end of F22 and F23 if earnings growth materially exceeds the business plan. Put and call options have also been granted to the Smith family and Woolworths Group respectively over the Smith family's remaining 35% shareholding, exercisable from the third anniversary of completion.

The transaction is subject to ACCC approval and the satisfaction of customary closing conditions with completion expected by the end of calendar year 2020. The purchase price will be funded from existing cash reserves and available debt facilities and is not expected to affect the Woolworths Group's existing credit metrics.

Analyst and investor call/ webcast

An analyst and investor call is scheduled for 2.30pm Australian Eastern Standard Time and will be webcast live at www.woolworthsgroup.com.au

- Ends -

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¹ Based on debt and debt-like items as at 31 May 2020. Note the transaction is subject to customary working capital completion adjustments

² Normalised pre-COVID EBITDA (pre-AASB 16) with customary normalisation adjustments and with annual rent payable to Woolworths Group from PFD of \$13 million on Woolworths Group acquired properties



Strategic partnership with PFD Food Services

Woolworths Group Limited
ABN 88 000 014 675

WOOLWORTHS GROUP



Woolworths Group to make a strategic investment in PFD Food Services

Woolworths Group and PFD Food Services to deliver better customer experiences together

Woolworths Group is evolving into a Food and Everyday Needs Ecosystem to better meet customer needs

- Woolworths Group's Ecosystem is built around customers and core food businesses, with growth into key adjacencies providing customers choice in how, when and where they shop
- Australian foodservice is a large adjacency (c.\$18bn market) which complements the Group's food and everyday needs offering

Woolworths Group to make a strategic investment in PFD

- Woolworths Group to acquire a 65% equity interest as well as 100% of 26 freehold properties
- Total investment of \$552m with 3 year put and call options for the Smith family's remaining 35% interest
- PFD will continue to operate as a standalone business run by its existing management
- Transaction subject to ACCC approval and customary closing conditions with completion expected by end of CY20

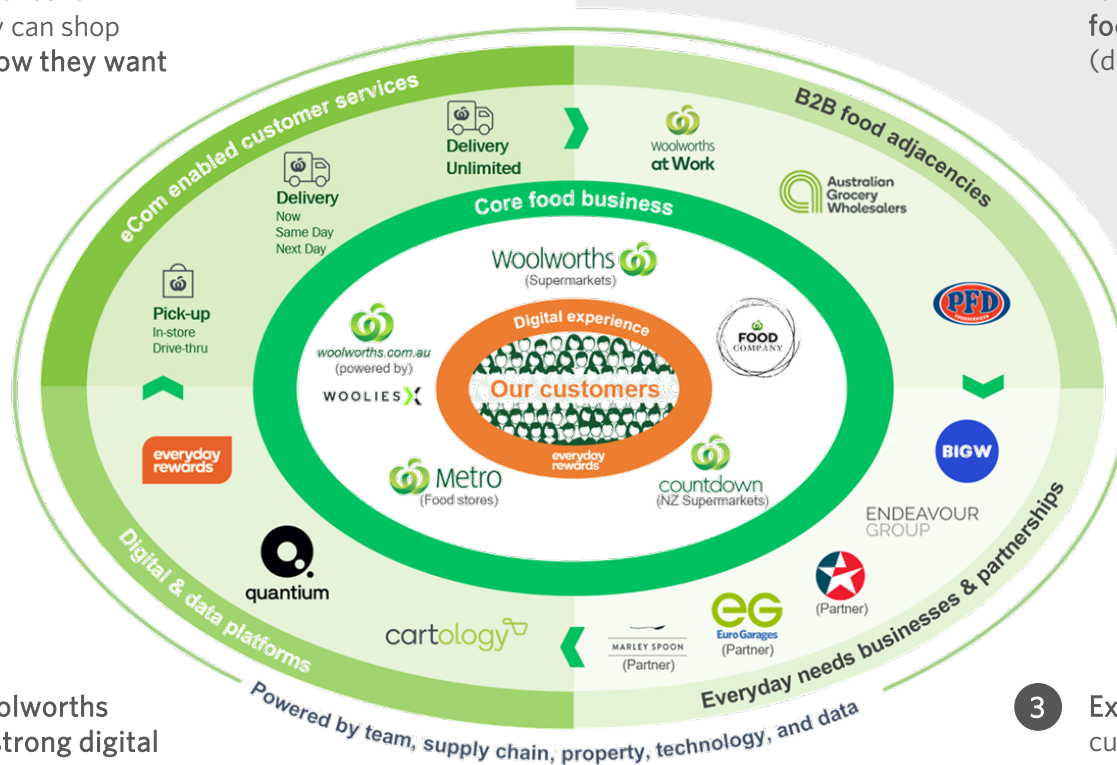
PFD provides exposure to a fragmented, growing market with many synergy opportunities

- PFD Food Services is the #2 player in a fragmented market
- Exposure to the attractive out-of-home food and non-retail B2B markets
- Combining capabilities and creating synergies across the combined network and fleet including:
 - Enhanced store range localisation for Woolworths Supermarkets (range tailored by store to meet customer needs)
 - Synergies through better route and capacity optimisation across entire network (incl. Primary Freight and Metro)
 - Leveraging Woolworths Group platforms - data analytics, digital capabilities, commodity sourcing

Woolworths Group Food and Everyday Needs Ecosystem

1 Providing additional services and points of presence for customers so they can shop when, where & how they want





2 Leveraging our Food business for B2B customers and foodservice adjacencies (domestic & international)



4 Enabling our Woolworths businesses with strong digital platforms (e.g. Digital & Media, Loyalty & Fintech)

3 Extending choice for our customers to meet their everyday needs (via our businesses and partners)

Partnership with PFD extends Woolworths Group's B2B strategy into foodservice, providing exposure to a new customer segment

	Business	Wholesale	Foodservice	Exports
Target customers	Businesses & Institutions (e.g. Healthcare, Childcare)	Ecosystem Partners (Caltex)	QSR, Pubs, Restaurants, Cafes, Convenience	Overseas Businesses/ Distributors
Customer proposition	Business focused portal ¹ to facilitate recurring purchases of retail grocery needs at business prices with line of credit	Wholesale business focused on servicing partners with long standing contracts which leverages Woolworths Group's logistic capabilities	Foodservice business focuses on hospitality industry, providing value add inputs at scale to ensure business needs	Sale of Australian products (particularly Woolworths own brand) to offshore retailers & distributors for resale
Product nature	Recurring retail grocery products purchased to consume	Products (bulk) purchased in final state for resale	Business purchases (bulk) product to value add	Products (bulk) purchased in final state for resale
Average order value \$	\$200 - \$300 per order	\$10,000 - \$20,000 per order	> \$500 per order	> \$20,000 per order
Serviced by:				

Note: 1. Currently purchased from Woolworths stores or retail eCommerce platforms

PFD is the largest privately owned food distribution business in Australia delivering fresh, frozen and dry goods to over 39,000 customers across Australia



\$2.1bn revenue¹
#2 player with ~11% market share²



39,000+ customers nationally
85% foodservice, 15% QSR



22,000+ SKUs
1,500+ suppliers



~2,800 employees



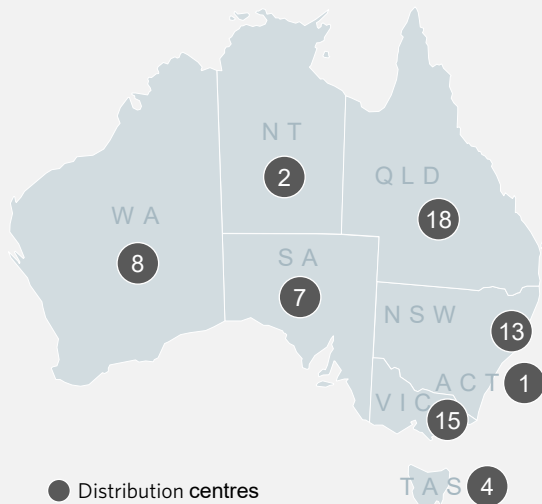
~750 trucks



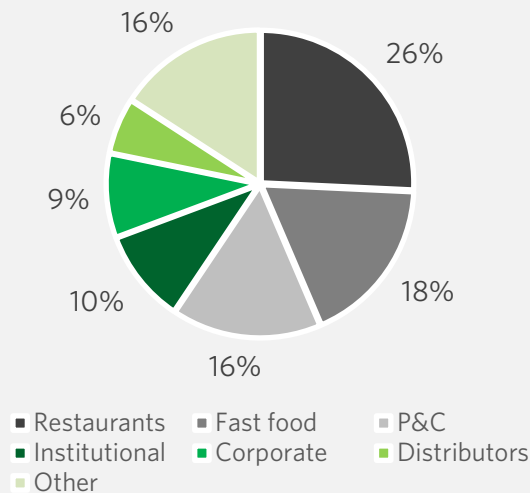
68 distribution centres

Founded as fresh fish merchant J Hill & Son in 1864. Rick Smith became the sole owner in 1988. CEO Kerry Smith has 25 years experience in growing the family business

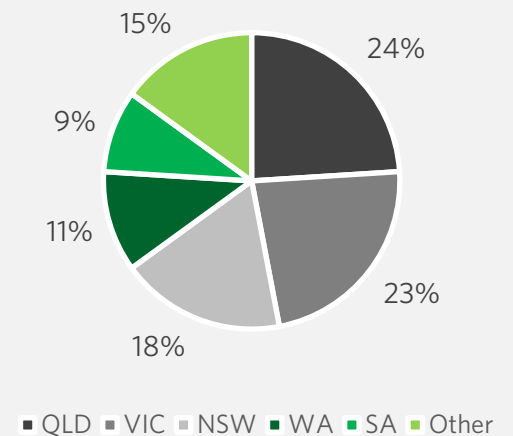
Geographic distribution of operations



Revenue contribution by customer segment¹



Revenue contribution by state¹



Source: Euromonitor, IBISworld, ABS, Woolworths Group

Notes: 1. Based on LTM pre-COVID revenue 2. Based on an estimated foodservice market size of \$18bn

Woolworths Group to make strategic investment alongside the Smith family, and acquire 26 freehold properties

<p>PFD investment and property acquisition</p>	<ul style="list-style-type: none"> • Woolworths Group to invest \$302m in PFD for a 65% equity interest with the Smith family retaining 35% <ul style="list-style-type: none"> ▪ EV/EBITDA multiple of 11x based on pre-AASB 16 LTM EBITDA of \$57m¹ and \$157m of assumed net debt² ▪ Acquisition value subject to potential earn-out payments in F22 and F23 for material outperformance against business plan • Woolworths Group to also acquire 100% of 26 freehold (primarily DC) properties from PFD and related entities for \$249m which will be leased back to PFD • The investment is expected to be EPS accretive in the first full year of ownership and deliver a strong return on investment to Woolworths Group
<p>Governance</p>	<ul style="list-style-type: none"> • PFD will continue to operate as a standalone business run by its existing management team • Kerry Smith to remain as CEO. Rick Smith will continue to be actively involved
<p>Put & call options</p>	<ul style="list-style-type: none"> • Put and call options over the Smith family's remaining 35% interest • Exercisable from third anniversary of completion based on entry multiple
<p>Funding and completion</p>	<ul style="list-style-type: none"> • Transaction will be funded from existing cash reserves and/or available debt facilities and is not expected to impact Woolworths Group's existing credit ratings • Transaction subject to ACCC approval and customary closing conditions • Completion is expected by the end of CY20

Notes:

1. Normalised pre-COVID EBITDA (pre-AASB 16) with customary normalisation adjustments and with annual rent payable to Woolworths Group from PFD of \$13 million on Woolworths Group acquired properties
2. Based on debt and debt-like items as at 31 May 2020. Note the transaction is subject to customary working capital completion adjustments

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