



15 March 2018

The Manager  
Company Announcements Office  
Australia Securities Exchange

Dear Manager,

**INTENTION TO DEMERGE COLES - BRIEFING PRESENTATION**

Following is a presentation to be given at an investor briefing on the intention to demerge Coles to be held on Friday, 16 March 2018 at 8:00am AWST / 11:00am AEDT.

This briefing will be webcast and accessible via our website at [www.wesfarmers.com.au](http://www.wesfarmers.com.au).

Yours faithfully,

A handwritten signature in black ink, appearing to be "L J Kenyon".

**L J KENYON**  
COMPANY SECRETARY



# Intention to demerge Coles - Briefing Presentation

*Friday, 16 March 2018*



# Presentation outline

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# Overview & rationale

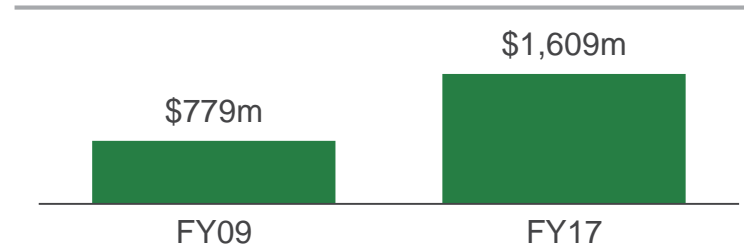


# The Coles transformation

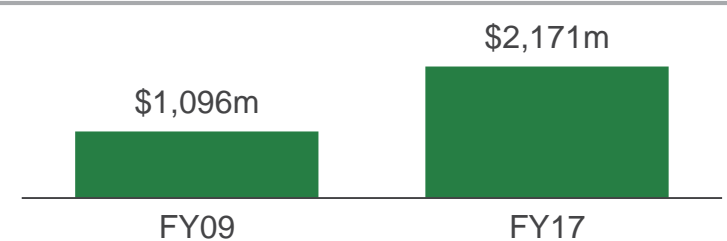
## *Wesfarmers has delivered a world-class retail transformation*

- Under Wesfarmers' ownership, Coles' position as a leading Australian retailer has been restored
- Strong financial performance since FY09<sup>1</sup>
  - 9.5%<sup>2</sup> EBIT CAGR
  - Over 30% increase in food sales density
  - Consistently positive comparable food & liquor sales growth
  - Strong cash generation

### 9.5%<sup>2</sup> EBIT CAGR



### 98% increase in operating cash flows<sup>3</sup>



2007



Today

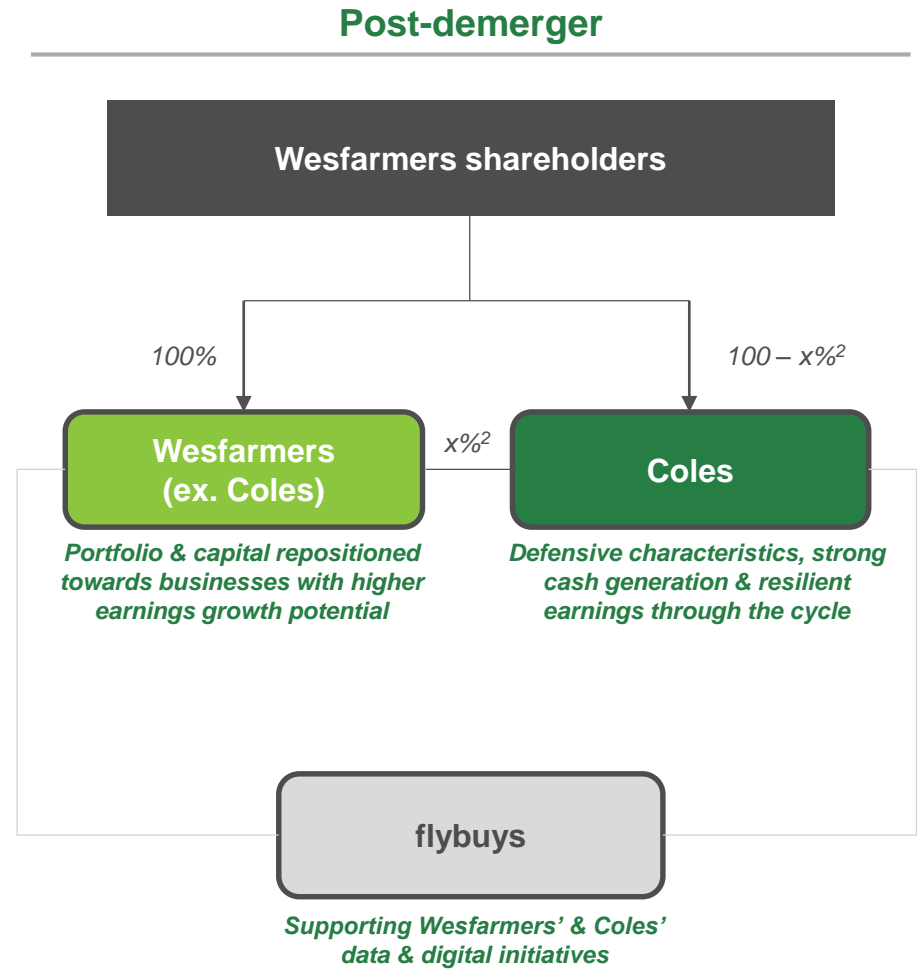


1. Represents the first full financial year under Wesfarmers' ownership.
2. FY09 EBIT includes property impairments & a restructuring provision release reported within Wesfarmers' "Other" segment.
3. Represents operating cash flows before tax.

# Demerger overview

## Creation of a new top 30 ASX company with leading positions in grocery, liquor & convenience

- Intention to demerge Coles into a separate ASX-listed company
- Shareholders would have the opportunity to vote on the demerger
- Wesfarmers would retain a minority ownership interest (up to 20%) in Coles & a substantial ownership stake in flybuys
- Shareholders would receive new shares in Coles proportional to their existing shareholding<sup>1</sup>
- Distribution of Coles shares expected to qualify for demerger tax relief, subject to ATO ruling
- Subject to final Board approval, third party consents, regulatory & shareholder approvals
- If approved, the demerger is expected to be completed in FY19



1. After taking into account any shares retained by Wesfarmers.

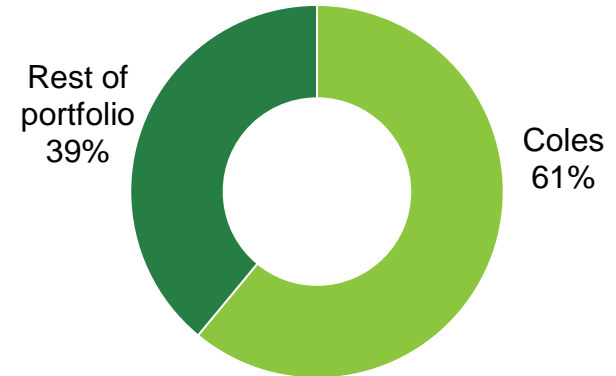
2. X% represents the ownership interest in Coles retained by Wesfarmers.

# Demerger rationale

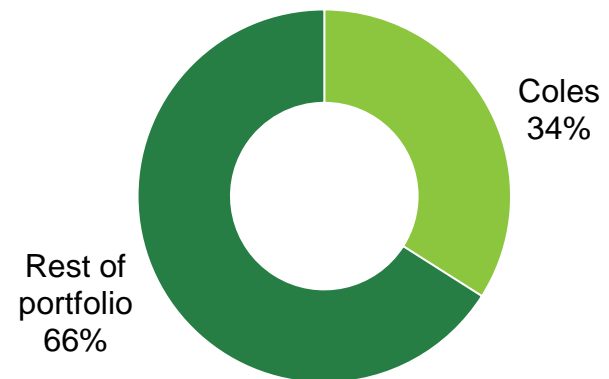
## *Repositioning Wesfarmers & Coles for the next decade*

- Wesfarmers is targeting a higher capital weighting toward businesses with strong earnings growth prospects
  - Successful turnaround of Coles has been delivered; future long-term growth expected to be more moderate
- Facilitating enhanced focus on organic growth opportunities & value accretive transactions, with greater impact
- Delivering shareholders an investment in two companies with different investment attributes
- Coles is expected to be attractive to shareholders seeking earnings growth with defensive characteristics
  - Strong cash generation & resilient earnings
- Extends Wesfarmers' long history of proactive portfolio management

### Capital employed contribution (R12 Dec 17)

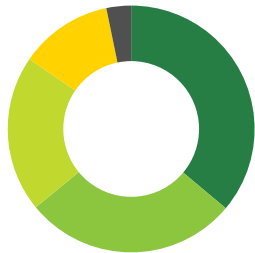
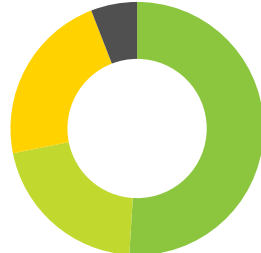
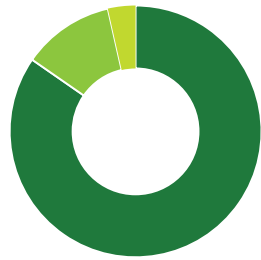


### Divisional EBIT contribution (R12 Dec 17)



# Demerger impact

## Simplifying the Wesfarmers portfolio & reducing operational complexity

	Wesfarmers today	Wesfarmers post-demerger <sup>1</sup> (exc. Resources)	Coles
FY17 revenue (\$b)	68.4	27.5	39.2
FY17 EBIT (\$b)	4.4	2.4	1.6
FY17 operating cash flows (\$b) <sup>2</sup>	5.2	2.6	2.2
Dec-17 R12 ROC / ROC (ex. g/w) <sup>3</sup> (%)	15.9 / 33.6	23.6 / 38.6	9.0 / 24.2
Dec-17 R12 capital employed (\$b)	27.2	10.1	16.5
Employees (#) <sup>4</sup>	~223,000	~114,000	~109,000
Retail stores (Australia & NZ) (#) <sup>5</sup>	3,813	1,313	2,500
FY17 divisional EBIT contribution (%)			

Note: Financials do not include any one-off or ongoing separation costs resulting from the proposed demerger.

1. Excludes Coles & Resources.
2. Represents operating cash flows before tax.
3. Excluding significant items.
4. R12 as at 31 December 2017.
5. As at 31 December 2017.



## Summary & next steps

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- Today's announcement is an important milestone for the future of Wesfarmers & Coles
- Following the transformation under Wesfarmers' ownership, Coles is well-positioned to prosper as a separately listed company
- The demerger would reposition Wesfarmers' portfolio & capital towards businesses with higher earnings growth potential
- The demerger would be subject to final Board approval, third party consents, regulatory & shareholder approvals
- Further information about the demerger & Wesfarmers & Coles post-demerger will be provided in due course

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# Questions

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# The Wesfarmers Way



# The Wesfarmers Way

Wesfarmers' objective is to deliver **satisfactory returns** to shareholders over the **long term**

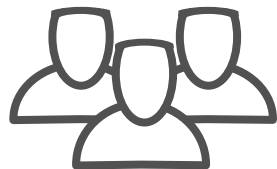
ENABLERS

Divisional autonomy

Active portfolio management

*Underpinned by a strong balance sheet & sustainable practices*

AREAS OF FOCUS



World's best talent



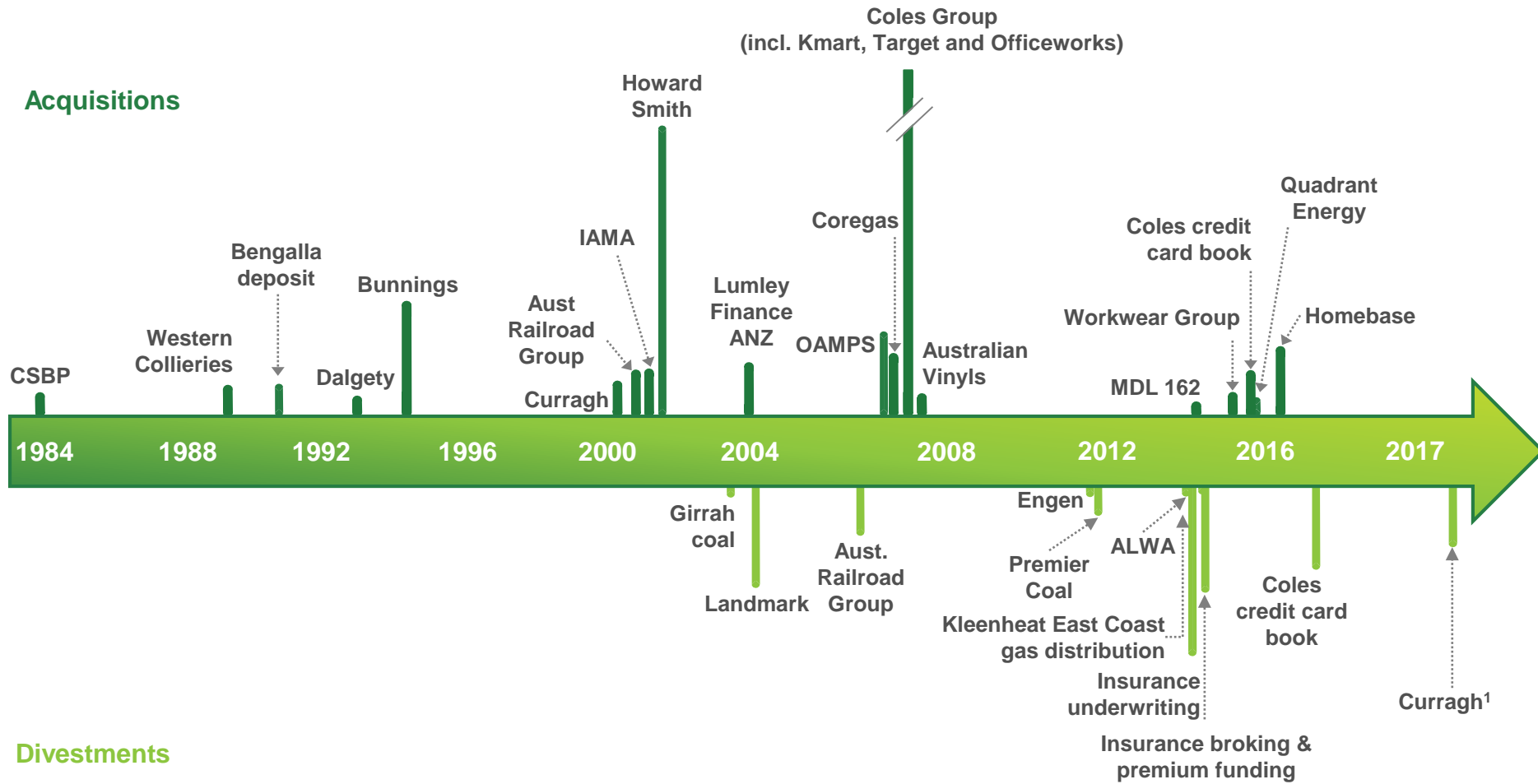
Leveraging data &  
digital capabilities



Entrepreneurial  
initiative

# Active portfolio management

## Group transaction activity (inflation adjusted transaction size)



1. Subject to completion.

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# Wesfarmers post-demerger

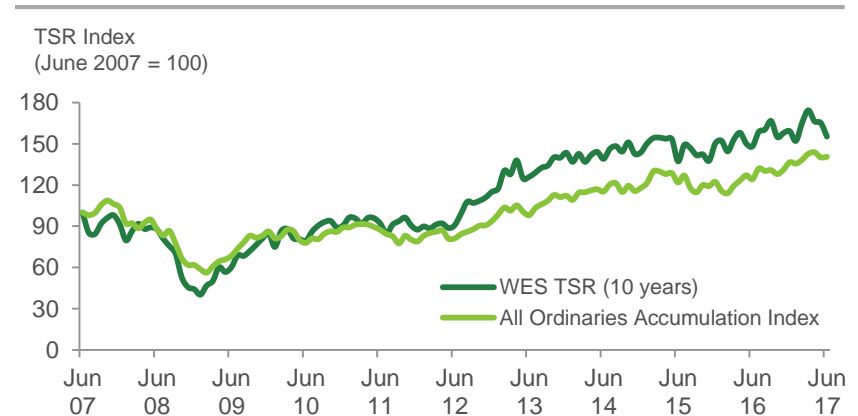


# Wesfarmers post-demerger

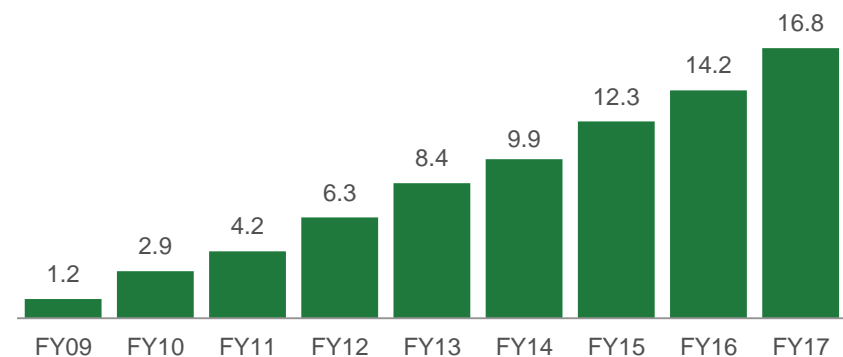
## Wesfarmers' objective would remain the delivery of satisfactory returns over the long term

- Well-positioned to deliver continued growth in earnings & returns
  - **Retail:** continued improvement of store networks, merchandise ranges & customer experience, including online, & new market opportunities
  - **Industrials:** continued operational excellence & platforms for future inorganic growth
  - **Data & digital:** developing data & digital capabilities to deliver greater personalisation & value to customers
- Minority ownership interest (up to 20%) in Coles & ownership stake in flybuys would create opportunities to leverage data & digital capabilities
- Cash generative assets & a strong balance sheet will continue to support Wesfarmers' capacity to act opportunistically
- Maintain strong capital disciplines with respect to capital allocation & investment decisions
- Expect to retain strong credit ratings
- Dividend policy to remain unchanged

### Total shareholder return<sup>1</sup>



### FY09-17 cumulative operating cash flows (\$b)<sup>2</sup>








1. Assumes 100% dividend reinvestment on the ex-dividend date & full participation in capital management initiatives; as at 30 June 2017.

2. Represents cumulative operating cash flows before tax; excludes Insurance and Resources.

# Wesfarmers post-demerger

## Portfolio of cash generative businesses with strong growth prospects

	Bunnings	Department Stores	Industrials	Officeworks	Other
					
	<ul style="list-style-type: none"> <li>Leading retailer of home improvement &amp; outdoor living products</li> <li>Iconic brand with strong community engagement</li> <li>Pipeline of new stores, reinvestment in existing stores &amp; developing digital offer</li> <li>UK business under review</li> </ul>	<ul style="list-style-type: none"> <li>Kmart is Australia's leading general merchandise and apparel retailer. Its sourcing model underpins a lowest price position in the market</li> <li>Target offers quality, fashion &amp; basics across apparel, homewares &amp; general merchandise</li> </ul>	<ul style="list-style-type: none"> <li>Diversified portfolio of industrial businesses</li> <li>Strong operational expertise in industrial chemicals</li> <li>Leveraging technology to enhance service &amp; grow markets</li> <li>Platform for the pursuit of inorganic growth opportunities</li> </ul>	<ul style="list-style-type: none"> <li>Leading retailer &amp; supplier of office products &amp; solutions</li> <li>World-class omni-channel offer</li> <li>Driving growth through range extension &amp; merchandise investments</li> </ul>	<ul style="list-style-type: none"> <li>Minority ownership interest in Coles (up to 20%)</li> <li>An interest in flybuys, one of Australia's most popular &amp; well-recognised loyalty programs, with ~8 million active members</li> <li>Data &amp; digital capabilities</li> <li>Other businesses<sup>1</sup></li> </ul>
<b>FY09-17 EBIT CAGR</b>	8.3%	Kmart 22.5% Target n.m.	9.8% <sup>2</sup>	10.5%	n.a.
<b>Dec-17 ROC</b>	30.7%	26.2%	18.3% <sup>2</sup>	15.7%	n.a.

1. Includes BWP Trust, Gresham & Wespine.

2. Excludes Resources.

n.m. = not meaningful; n.a. = not applicable



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# Coles post-demerger



coles

coles.com.au

coles

VINTAGE CELLARS

first CHOICE liquor

LIQUORLAND

spirit  
HOTELS

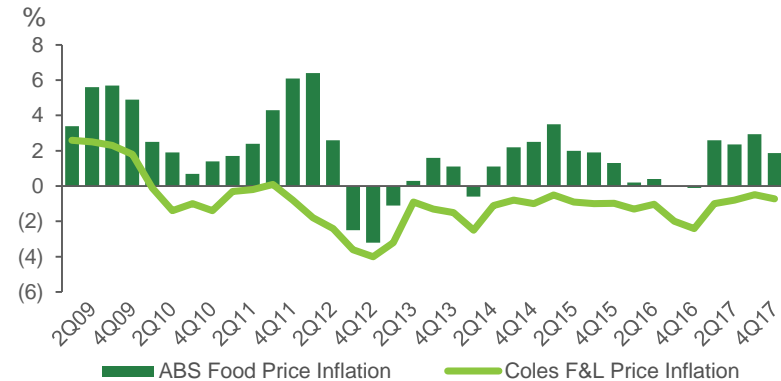
coles Financial Services

# The Coles investment

## Significant investment has positioned Coles well for continued future growth

- Over \$8b of capital invested since FY09
- 8 years of lowering the cost of the weekly shop for customers
- 184 new supermarkets opened, 134 closed & 43 re-branded & 80% of the supermarket network refurbished
- Omni-channel capabilities established & more than 800 'click & collect' sites expected by the end of FY18
- Long-term, collaborative partnerships with fresh suppliers & \$50m Nurture Fund established
- Liquor transformation progressed
- Strengthened convenience food offer
- Community support through SecondBite

## 8 years of lowering prices for customers



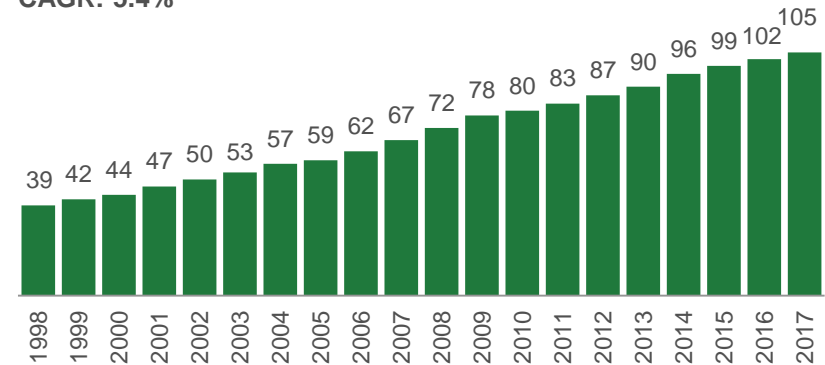
# Coles post-demerger

## Attractive investment for shareholders seeking defensive characteristics

- Expected to demerge as a top 30 ASX listed company
- Well-positioned to continue to grow earnings over the long term
- Earnings profile is expected to be resilient through economic cycles
- Expected to be demerged with a strong balance sheet
- Strong cash generation capability to support dividend distributions
- Relatively low additional costs for corporate functions required as a listed company
- Further detail on capital structure & dividend policy to be provided in due course





### ABS supermarket sales (\$b)<sup>1</sup>

CAGR: 5.4%



1. ABS, 8501.0 – Retail Trade, Australia, Jan 2018 (Table 11. Retail Turnover, State by Industry Subgroup, Original).

# Coles portfolio<sup>1</sup>

Food	Liquor	Convenience	Other
 <p><b>coles</b> coles.com.au</p>	 <p><b>LIQUORLAND</b> first CHOICE liquor VINTAGE CELLARS spirit HOTELS</p>	 <p><b>coles</b> express</p>	 <p><b>coles</b> Financial Services</p>
<ul style="list-style-type: none"><li>• A leading Australian full-service supermarket, committed to lowering the cost of the weekly shop for customers &amp; delivering trusted value every day</li><li>• Existing network of 806 stores &amp; a significant &amp; growing online presence</li></ul>	<ul style="list-style-type: none"><li>• Three national liquor chains, each with a distinctive value proposition</li><li>• National network of 894 liquor stores &amp; 88 hotels</li><li>• Strong exclusive brand presence, developed in partnership with established winemakers &amp; craft beer brewers</li></ul>	<ul style="list-style-type: none"><li>• National network of 712 stores offering fuel &amp; convenience retailing</li><li>• Exclusive alliance with Viva Energy Australia Pty Ltd</li><li>• Leading convenience store offer, with strong growth in the food-to-go range</li></ul>	<ul style="list-style-type: none"><li>• An interest in flybuys, one of Australia's most popular &amp; well-recognised loyalty programs with ~8 million active members</li><li>• Strong data &amp; digital capabilities</li><li>• Growing financial services business with over one million credit card, debit card &amp; insurance policy holders</li></ul>

1. Store numbers as at 31 December 2017.



**Wesfarmers**