MYER

**ASX & Media Release**

**Thursday, 20 February, 2014**

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# Myer announces re-appointment of Bernie Brookes as Managing Director and Chief Executive Officer

Myer Holdings Limited ("Myer") has today announced it has reached an agreement to re-appoint Mr Bernie Brookes as Chief Executive Officer and Managing Director of Myer.

As a consequence of this decision Mr Brookes will continue in his role beyond the previously advised conclusion of his contract in August 2014.

Myer has reached agreement with Mr Brookes to re-engage him on an 'open term' contract. Key terms of his re-appointment are set out at the end of this release.

Myer Chairman, Mr Paul McClintock, said today "We are delighted to be able to confirm that Bernie will extend his term as CEO of Myer beyond August this year. Bernie is a world class retailer and Myer is fortunate to be able to secure his services for an extended period.

"In order to provide leadership clarity at Myer, the Board has taken the view that ceasing the CEO search at this preliminary phase and re-confirming Bernie is in the best interests of Myer and its shareholders.

"Bernie remains passionate about Myer and its future. Our five point plan is a product of his assessment of what our business needs to achieve its potential and he is committed to achieving that plan," Mr McClintock said.

In October 2013, Myer made a conditional, non-binding, indicative proposal for a potential merger of Myer and David Jones. The proposal included a process to jointly agree appointments of Chair, Board composition, the CEO and other senior management roles, head office location and corporate name.

In regard to the proposal, Mr McClintock said: "While we have made clear the selection of the CEO for any future merged entity would be a shared decision by both companies, Bernie's re-appointment provides us with at least one option for that role."

Mr Brookes said: "I am very pleased to be able to confirm my re-commitment to the CEO role at Myer. I continue to have a passion for retail, and Myer in particular, and believe there is much I can still contribute to the business. Should a transaction to merge Myer and David Jones be successfully completed, I can commit to presenting myself as a potential CEO for the merged entity."

A nil premium, all stock transaction was proposed as a fair and appropriate transaction where respective shareholders would effectively share ongoing ownership (so neither side gives up or obtains control) and where significant expected cost synergies of more than $85 million per annum were to be shared essentially equally by both sets of shareholders.

Mr McClintock said: "We continue to believe our proposal is attractive and compelling. However, it can only progress with the support of David Jones. To that end, I have written today to the David Jones Chairman to reiterate our willingness to engage collaboratively on the unique opportunity to merge our companies in order to create significant value for our respective stakeholders.

"We hope that David Jones may come to a view that such a transaction as proposed, or indeed as they might wish to review with us, would be in the interests of both companies' shareholders. We look forward to the opportunity to meet with David Jones in the future to discuss these matters," Mr McClintock said.

In the interest of the market remaining properly informed on this matter a copy of Myer's letter to David Jones is attached to this release.

**The key terms and conditions of Mr Brooke's re-engagement are described below:**

*Term*

The new contract is in the form of an 'open term' contract and replaces Mr Brookes' current fixed term contract which was to expire in August, 2014.

*Remuneration package*

Mr Brookes' remuneration includes his total fixed compensation (TFC) (being cash salary and superannuation), an annual short term incentive delivered in cash and equity and a long term incentive delivered in equity.

*TFC*

Mr Brookes' TFC is subject to annual performance based review and has been adjusted by 11.1% to $2.0 million per annum.

*Annual short-term incentive*

Mr Brookes is eligible to receive a target annual incentive payment equivalent to 120% of TFC under the Myer Annual Incentive Plan for achievement against targeted performance. The short-term incentive arrangements provide for payments up to 150% of TFC based on prescribed metrics. Subject to shareholder approval, 30% of any annual STI awarded will be deferred into restricted stock for two years. At the discretion of the Board, and subject to applicable law, this may be paid as a cash amount.

*Long-term incentive*

Subject to shareholder approval at the Annual General Meeting in November 2014, Mr Brookes will be entitled to receive performance rights to the value of 30% of TFC. These will be granted broadly on the same terms as performance rights granted to other senior executives participating in the Myer Equity Incentive Plan (MEIP). Mr Brookes will be eligible to participate in future grants of performance rights under the MEIP, with any such grants being subject to shareholder approval.

*Termination provisions*

Myer may terminate Mr Brookes' employment at any time by providing him with 12 months' written notice or payment in lieu of notice (or a combination of these).

Mr Brookes may terminate his employment by providing the company with six months' notice.

Mr Brookes will not be entitled to any payments or benefits upon termination where that payment would lead to a contravention of the Corporations Act or the ASX Listing Rules.

For further information please contact:

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*This release may contain "forward-looking statements". Forward-looking statements can generally be identified by the use of words such as "may", "will", "expect", "intend", "plan", "estimate", "anticipate", "believe", "continue", "objectives", "outlook", "guidance" and similar expressions. Indications of plans, strategies and objectives of management, sales and financial performance are also forward-looking statements. Forward-looking statements are not guarantees of future performance, and involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Myer. Actual results, performance or achievements may vary materially from any forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements, which are current only as at the date of this release. Myer assumes no obligation to update such information.*

Paul McClintock
Chairman
Myer Holdings Limited
Level 7, 800 Collins Street
Docklands VIC 3008

20 February 2014

Peter Mason
Chairman
David Jones Limited
86-108 Castlereagh Street
Sydney NSW 2000

Dear Peter,

I am writing to inform you that Myer Holdings Limited ("Myer") has today announced it has reached an agreement to re-appoint Bernie Brookes as Managing Director and Chief Executive Officer ("CEO") of Myer, and to reiterate our willingness to engage collaboratively with David Jones Limited ("David Jones") on the unique opportunity to merge our companies in order to create significant value for our respective stakeholders.

We are re-appointing Bernie to provide clarity about the leadership of Myer.

Bernie would also be available to lead the combined company should the merger occur and should we jointly agree that he should be the ongoing CEO, providing us both with at least one option for that role.

For complete clarity, our proposal was designed to ensure that 'social issues' are not an impediment to a transaction. Specifically, this would mean jointly agreeing the Chair, Board composition, the CEO and other senior management roles, head office location and corporate name. Bernie's reappointment will not change this in any way.

We remain convinced that the rationale for a combination of Myer and David Jones is highly compelling, creating a sustainable, more competitive retailer and delivering significant value for the shareholders of both companies. We believe there is strong support for the strategic rationale from the investment community.

You have raised concerns about whether our proposal of an all stock nil premium merger is fair and attractive for your shareholders. We don't see how it cannot be. There are four key points that I would make in that regard.

First, the transaction would be a true merger of equals, with neither party taking or ceding control of either the 'social issues' or ownership, and with the gain in value from what we believe to be very significant cost synergies of more than $900 million[1] essentially shared equally between both sets of shareholders.

Second, our nil premium proposal does not mean that the two companies are valued equally – David Jones already trades at a significant price earnings multiple premium to Myer – but it does accept that the prices put on both companies by the market over a significant period are probably about right. If your Board believes that the market has mispriced the two companies to such an extent that it should be reflected in the merger ratio then perhaps that view could be explained and factored into our discussions.

Clearly if our joint review throws up evidence that one party is contributing more than its share to the value creation, then that evidence could be reflected in the final terms. However, the final terms should not merely be driven by which company has done the work to get the proposal off the ground, in circumstances where neither party is giving up or obtaining control.

Third, we accept the synergy analysis which underpins the potential value gain is subject to confirmation and requires a review by us jointly. However, we have undertaken an extensive independent assessment of the synergy opportunity and execution risks with the help of a global expert on the retail sector, and we are as confident as we can be about our conclusions in the absence of discussions with you. This includes the plan to keep operating Myer and David Jones as separate, stand-alone, department store brands.

We note that our estimate of more than $85 million per annum in cost synergies[2] represents 1.8% of combined costs (defined as Sales less EBITDA) which is in line with precedent department store combinations such as Federated / May where the stated cost synergies were 1.7% of combined costs.

We would welcome the opportunity to share with you our views on the amount of the synergies, including more details on the breakdown by cost category, and the reasons for our confidence.

Finally, we acknowledge that any merger transaction of the scale we have proposed will have commercial, market, business and regulatory risks (including the ACCC clearance process). Based on our extensive preparation we are confident that the commercial, market and business risks are manageable and that the transaction would enhance competition. We would also be pleased to share with you our analysis and preliminary implementation and integration plans to allay your concerns on such matters.

In conclusion, we genuinely believe our proposal of an all stock nil premium merger to unlock such substantial synergy value was and still is both fair and compelling for our respective shareholders, with manageable risks. And the agreement to re-appoint Bernie as CEO of Myer provides us with both certainty of leadership from a Myer perspective and an option to lead the combined company.

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*[1] Potential value creation calculated based on annualised run-rate cost synergies multiplied by blended pro forma FY2014 EV/EBIT multiple of 10.6x (based on consensus FY2014 EV/EBIT multiples as at 25 October 2013). Excludes one-off implementation costs.*
*[2] More than $85 million of ongoing annual cost synergies expected to be achieved within three years.*

That being said, we cannot progress our proposal without your agreement and support.

We would welcome the opportunity to engage with you to explore whether we can achieve a mutually acceptable transaction. To that end, in addition to the points raised above, we are open to discussing the transaction structure, including the basis upon which your property portfolio could be separated out from the department store business were this considered to be in the interests of your shareholders.

In the interest of the market remaining properly informed on this matter, a copy of this letter has been included in our ASX release today.

I look forward to hearing from you.

Yours sincerely,

Paul McClintock
Chairman
Myer Holdings Limited