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20 November 2015

2015 Annual General Meeting – 20 November 2015 Chairman's Address and Chief Executive Officer's Presentation

Myer Holdings Limited will today address shareholders at its Annual General Meeting to be held in Melbourne, commencing at 11.00am.

The Chairman's Address follows. We will lodge separately the Chief Executive Officer's presentation.

For further information, please contact:

Investors:

Davina Gunn, Investor Relations Manager, +61 (0) 400 896 809

Media:

Mel Ward, Corporate Affairs Manager, +61 (3) 8667 7596 or +61 (0) 438 101 078

Rhys Ryan, Interim General Manager Corporate Affairs and Media, +61 (0) 427 227 719

MYER HOLDINGS LIMITED

Annual General Meeting

Friday, 20 November 2015 at 11.00am

Mural Hall, Myer Melbourne

Chairman's Address

Good morning, and welcome to the 2015 Annual General Meeting of Myer Holdings Limited.

My name is Paul McClintock, I am the Company's Chairman.

I would like to thank those in the room for taking the time to join us today and also those listening via the webcast.

The time indicated in the Notice Of Meeting has passed and there being a quorum present, I now declare the meeting open.

I begin today by acknowledging the custodians of the land on which we meet, the traditional owners of the Kulin Nation, and I pay my respects to their elders, past and present.

The Notice Of Meeting was mailed to shareholders on 12th October along with the Annual Report for those who elected to receive it. With your approval, I will take the Notice Of Meeting as read.

I would also like to make you aware of a few housekeeping matters.

The emergency exits are located behind you, at the entrance to Mural Hall, and to my left. Should an emergency arise that requires evacuation, staff will be on hand to assist you.

If you have a mobile phone, please set it to silent or turn it off for the duration of the meeting. I ask that you do not use cameras, video or any other recording devices during the meeting.

Please also note that this meeting is being recorded and webcast live for those who can't be here today.

The first item of business for today will be my address, which will be followed by a business update by Myer's Chief Executive Officer and Managing Director, Richard Umbers.

Together, Richard and I will provide you with an overview of the past year and our priorities for financial year 2016. Richard will discuss in more detail the performance of the company and operational highlights for 2015.

Chris Froggatt, the Chairman of Myer's Human Resources and Remuneration Committee, will then provide an update on Myer's remuneration philosophy and strategy as well as key aspects of Richard's remuneration package.

We will then turn to the formal business of the meeting. Each item of business will be discussed in turn and shareholders will then have the opportunity to ask questions on that item of business.

MYER

I would now like to introduce the members of your Board and management who are with me on the stage.

- Second to my right is Rupert Myer. Rupert is Myer's Deputy Chairman and a Non-Executive Director, a member of the Audit, Finance and Risk Committee, the Human Resources and Remuneration Committee, and the Nomination Committee.

As announced in September this year, Rupert has notified the Board that he does not intend to seek re-election for a fourth term as a director of the Company, and so Rupert's membership of the Board will end at the conclusion of this Meeting.

- Next to Rupert is Chris Froggatt. She is the Chairman of the Human Resources and Remuneration Committee. Chris is also a member of the Nomination Committee. Chris will be standing for re-election today.
- Next to Chris is Ian Cornell. He is a member of the Human Resources and Remuneration Committee.
- On my far left is Bob Thorn who is a member of the Audit, Finance and Risk Committee.
- Next to Bob is Anne Brennan. Anne is the Chairman of the Audit, Finance and Risk Committee and a member of the Human Resources and Remuneration Committee and the Nomination Committee.
- On my immediate left is Richard Umbers, Myer's CEO and Managing Director.
- Next to Richard is Grant Devonport, Myer's Chief Financial Officer, appointed in July this year.
- And to my immediate right is Richard Amos, Myer's Chief General Counsel and Company Secretary. Richard was also appointed in July this year.

Our leadership team has a depth of talent and diversity of skills and experience, strengthened recently with the addition of a number of highly qualified and internationally experienced executives.

The most senior members of that leadership team are seated in front of you and I invite you to take the opportunity to meet with them after this meeting over lunch.

I have already introduced Richard Umbers, Grant Devonport and Richard Amos. I would also like to introduce the other members of the leadership team:

- Daniel Bracken, Chief Merchandise and Marketing Officer and Deputy CEO;
- Mark Cripsey, Chief Data and Digital Officer (who joined the team last week);
- Gary Williams, Chief Transformation Officer;
- Louise Tebbutt, Executive General Manager Human Resources, Risk and Safety;
- Tony Sutton, Executive General Manager Stores; and,
- Timothy Clark, Executive General Manager Property, Store Development and Services.

Also here today are:

- Andrew Mill from our auditors PricewaterhouseCoopers;
- Rohan Connors from our remuneration adviser Ernst & Young;
- Joe Muraca representing our lawyers King & Wood Mallesons; and,
- Ashleigh Spears from Computershare.

Looking back over the 12 months since we last gathered in this beautiful hall I am reminded of the opening line of one of my favourite novels: *"It was the best of times, it was the worst of times"*. And so it has been for Myer.

Four weeks ago I spent the day in this same hall with our top 300 leaders at the Myer National Conference, and it was extraordinary. The talent, the creativity, the energy, the loyalty – all pulsed through the day. Visit our stores and you will see a compelling and transformative change is starting to take place.

If you have not visited a Myer store recently, I urge you to do so, I think you will be surprised just how much has changed in a very short time - but of course we have just begun.

And yet the share price remains subdued, and the final dividend has been passed. So what happened?

I used my speech at the Conference to answer that question for our leaders, and to explain how the Company has navigated the past three years. I thought those leaders were entitled to that explanation, and I believe the other group who needs to understand how we have made the decisions to lead us to New Myer are you, our shareholders. I will focus today on the past 18 months.

As you know, the top leadership team of Myer substantially changed during this past year, a new strategy for the Company was announced, and our balance sheet was strengthened in order to carry it out. The process that led to those changes, however, started a year earlier, and in fact built on the work we did to consider the proposed merger the previous year.

But let me take you back to the beginning of last year. Bernie Brookes was our long standing CEO and his retirement had been announced some years earlier to take place in the second half of that year. The global search for a replacement was well advanced and we had a short list.

At the same time there were two other issues apparent to the Board. First, the need to rebuild the leadership team meant more than just appointing a new Managing Director, and secondly we knew that if the expected upturn in bottom line results did not occur in FY15, a deep review of our strategic settings would be needed.

The normal approach would be to select your CEO, then let him or her select the top team, and then develop the strategy to reflect their collective skills. With the time needed to get new talent into the Company, we felt we did not have time for a sequential approach, so we decided to do all three tasks together. This required asking Bernie to stay on for a few months to settle the team in and to start the strategic review, which he agreed to do and did very well.

I would like to take this opportunity to thank Bernie for his significant contribution to our company during the nine years that he led the business and his willingness to play a part in preparing for the transformation during the past year.

I should say that we had a key advantage in making the decision to ask Bernie to stay on, as we knew that in the list of candidates we had a great new team with strong complementary skills, and if we could attract the ones we wanted and hold them through the CEO selection process then we would have a great start to tackling the first two challenges, and a team ready to lock in the new strategic direction.

There is energy and sparkle returning to Myer. New Myer is delivering the best ever array of wanted brands, experiences and services. We are bringing the love of shopping to life.

Across our company there is a renewed sense of momentum and opportunity. Later, our Managing Director Richard Umbers will speak to you in more detail about the New Myer strategy, vision and execution.

I acknowledged at the beginning of my remarks, however, that our excitement for the changes taking place at Myer must be balanced by an acute understanding and a clear recognition that the road to New Myer has not been an easy one, particularly for our shareholders. All of your Directors understand the depth of feeling among our investors regarding Myer's recent financial performance, and the disappointment that comes when a company decides that its current strategic direction is not aligned to its changing environment.

In 2015, Myer recorded a full year Net Profit after Tax of \$77.5 million dollars - a decrease of 21.3%, before individually significant items.

This was unquestionably a disappointing result. But it is one which supports the case for our comprehensive agenda for change.

Our profit was achieved on the back of full year sales of \$3.2 billion, up 1.7% for the year and 1.1% on a comparable stores basis, leading again to cost growth outpacing sales growth.

At the time of the Full Year result, the Board resolved not to pay a final dividend. We also announced a \$221 million entitlement offer to strengthen the balance sheet and provide flexibility to implement the New Myer strategy. These factors have all contributed to the rebasing of our share price, which takes into account the expanded capital base and our earnings expectations through the transition period.

The Board is aware of shareholders' legitimate expectations in regard to the restoration of the dividend and it is important to state that the Board's decision covered only one dividend – our ongoing dividend policy has not changed and we will consider future dividends against our existing principles at the half year and beyond.

At the time of the FY2015 results, we issued guidance for FY2016, which will be a year of significant and necessary investment as we roll out the New Myer strategy. However the benefits of these investments won't be seen until FY2017 and beyond.

As a result, we confirm that we anticipate underlying Net Profit after Tax in FY2016 of between \$64 and \$72 million before taking into account implementation costs associated with New Myer. We aim to deliver a return to sustainable sales and earnings growth from FY2017.

As the Company's Chairman and as a shareholder, I acknowledge, on behalf of the Board, the impact that last year's result, the FY2016 guidance, the suspension of the FY2015 dividend and the capital raising have had on our share price. Whilst I will leave the details of the New Myer strategy to Richard I do want to make some preliminary remarks about that strategy.

As a newly listed company in 2009, Myer embarked on a path to build value by growing our store footprint and focusing on higher margin Myer Exclusive Brands. This strategy was well articulated at the float, and faithfully implemented. In recent years, as results started to fall, this approach was put under increasing scrutiny, but there was still the prospect that the investment in our stores would deliver an improved result in FY15. By this time last year, we accelerated the work already underway to review the strategic settings against the reality of the dramatically changing Australian retail environment.

As it happened the world changed faster than the original strategy envisaged, leading to a growing cost base and flat revenue. Our cost line was growing faster than our sales, and for repeated years, our profit was moving in the wrong direction. When we completed our deep dive on the impact of these changes to our customer base, we found a telling picture of declining relevance to some of our most important customers.

The Board acknowledges this and recognises that as a consequence we must earn back the confidence of the market, and the enthusiasm of our customers and shareholders.

We have publicly set out clear metrics on which you will be able to judge our progress, sales and EBITDA growth, productivity per square meter and Return on Funds Employed. We will report our progress against these metrics at each half and full year result.

As we refocus our operations around productivity metrics of sales and profit per square metre, we will be refining and reshaping our store network. Going forward, our operating footprint will become smaller but more productive.

For investors who have been on the Myer journey over recent years it is a sobering message to hear that the task of restoring value to our company will be a long one.

But we have never been better equipped to succeed.

Your Board does not underestimate the size of the task required to re-energise Myer and reshape the company around its new operating model.

The best strategy in the world will fail if it is not superbly executed.

The leadership team that has been assembled to implement New Myer is, without question in our view, the right team for the job.

Led by Richard, who will address you shortly, the team is an impressive mixture of new talent with our strongest, long-serving executives. The rebuilding continues, with some wonderful global talent recently being attracted by the challenge and opportunity of New Myer.

Our investment in human capital is one of the most important that we make, and we are proud of the team we have in place to deliver the New Myer strategy.

As part of the delivery of this strategy, our management team has also developed a new operating model, incorporating a new way of working.

This operating model, which Richard will explain in greater detail is designed to ensure we remain solidly on-strategy but are more nimble in our tactical implementation and more responsive to changes in the external environment.

Over the course of 2015, the Board has been working to ensure that it is appropriately structured to deliver the best possible outcomes for the Company.

As a part of this process, the Board has been undertaking a review of the breadth and depth of the Board's skills to ensure the Board is able to bring the necessary expertise to bear on our strategic execution and the complex issues we will confront in the years ahead.

In addition to this, in September, the Board announced a change to its Charter which has the effect that, generally, the Board will not recommend the re-election of a Director who has already served nine years on the Board.

As a result of this change to the Board Charter, Rupert Myer informed the Board that he would not be seeking re-election at this meeting.

I wish to pay sincere tribute to Rupert's contribution to the Board and to the Company, particularly during his tenure as Deputy Chairman, which included the period of the strategic review.

Rupert has been a source of trusted and wise counsel to myself, the Board and our executive leadership team.

His insight and overwhelming sense of duty and care, towards investors and Myer employees at all levels of the Company have been the hallmarks of his valuable service to Myer.

On behalf of us all, I would like to thank Rupert for his contribution and later in the meeting I will invite him to say a few words to mark the occasion of his retirement.

Today we are delighted to announce the appointment of a new Director, David Whittle. David's appointment will commence on 30 November this year. David comes to the Board with exceptional retail experience in the fields of digital, data and marketing. He has spent ten years with M&C Saatchi in a number of local and international roles including Managing Director of M&C Saatchi Australia for three years. On behalf of the Board and management, I take this opportunity to welcome David to the Board and look forward to benefiting from his significant and very relevant experience.

I would also like to take this opportunity to thank Andrew Jennings for his valuable contribution during the past year, in his role as Advisor to the Board and management. Andrew is a highly experienced global retailer, particularly in department store retailing, and his insights has been critical in developing our New Myer strategy.

As the Chairman of Myer, and indeed as a citizen of Australia, I have been encouraged by a recent change in emphasis in our national dialogue and Prime Minister Turnbull's call for a more innovative Australia.

As a major Australian employer, confronting digital disruption, and an evolving economic and social market place, change has become the new normal for Myer.

And our ability to respond and adapt will become one of our greatest assets. So it is fitting that the national dialogue is also evolving to consider the difficult questions of how we become more agile and responsive as a nation, quick to address risks and threats, and capture opportunities.

For many years now we have spoken consistently about the need for GST reform for online purchases and we are indeed heartened by the progress that is being made towards a level playing field for Australian retailers and offshore online competitors.

In the same vein, we believe there is now the space and opportunity for a mature discussion about how we unlock the power of our workforce so that we can have a genuinely omni-channel workforce – serving an omni-channel retail model.

I'll explain this in a little more detail.

It wasn't that long ago when the stores closed their doors at 5pm, all but a small number of employees went home.

Today, Myer is a 24 hour retailer. Always open whether in-store or online.

Our young sales employees today are digital natives, connected by devices and Wi-Fi. Logistics, online order fulfillment, pick and pack has become a rolling 24-hour operation. Our team members are looking to us as employers to deliver new ways of working that keep them engaged and productive.

This is not an impossible task, but is made so much harder when the default response to any discussion about the future workplace is assumed to be bad news for employees.

Far from it. There is a world of opportunity to be captured by creating lively, innovative, productive and engaging work for future generations.

We are doing a great disservice to future generations by shying away from these necessary debates, and I for one very much look forward to participating in a new national dialogue about how this vision can be achieved.

To conclude, 2015 has been a year of intense focus on laying the strategic foundations for our future success.

In 2016, the hard work of delivery gains momentum and we look forward to demonstrating the successful execution of our strategy.

By 2017, successful implementation will see a return to sustainable sales and earnings growth.

We have the strategy, the team, the energy and the focus to deliver and it is with optimism for the future of our company that I would now like to invite our Managing Director and CEO Richard Umbers to present his inaugural CEO's address to a Myer AGM.