



20 April 2021

The Manager  
Market Announcements Office  
Australian Securities Exchange

Dear Manager,

**KMART BRIEFING PRESENTATION AND STORE TOUR**

Following is a presentation that will be given at a Kmart briefing and store tour on Tuesday 20 April 2021 at 8.30am AWST / 10.30am AEST.

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

The three videos included as part of the briefing and a virtual walk through of the Southland store are available at <https://www.wesfarmers.com.au/kmart-briefing-APR21>.

Yours faithfully,

A handwritten signature in blue ink that reads "V. Robinson".

**Vicki Robinson**  
Executive General Manager  
Company Secretariat

This announcement was authorised to be given to the ASX by the Wesfarmers Disclosure Committee.



# Kmart briefing and store tour

20 April 2021



## Three iconic Australian retail brands with differentiated customer propositions

### Focus of this presentation



Leading product development company and trusted brand offering everyday products at lowest prices



Offers high-quality and stylish products at affordable prices across apparel and general merchandise



Online marketplace offering branded products on both a first-party and third-party basis

### Supported by alignment and common focus areas across Kmart Group functions

Corporate Affairs  
and Sustainability

Commercial,  
Strategy and Risk

Joint Sourcing  
and Procurement

Property and  
Network Planning

Technology and  
Data

People and  
Capability

# Kmart Leadership Team



**Ian Bailey**  
*Managing Director  
Kmart Group*



**Aleksandra Spaseska**  
*Chief Financial Officer  
Kmart Group*



**John Gualtieri**  
*Retail Director  
Kmart Australia and New Zealand*



**Arjun Puri**  
*Director  
KAS Group Asia*



**Tristram Gray**  
*Chief People and Capability Officer  
Kmart Group*



**Brad Blyth**  
*Chief Information Officer  
Kmart Group*



**Tracie Walker**  
*GM - Corporate Affairs and Sustainability  
Kmart Group*

1	<b>Competitive advantages underpinned by market-leading scale</b>	<b>A strong brand with a sustainable lowest-price position, underpinned by a lowest-cost operating model, market-leading scale and unique product development capabilities</b>
2	<b>A large and growing addressable market</b>	<b>Number 1 or number 2 market position in every major category, with a highly-fragmented and substantial addressable market</b>
3	<b>A valuable store network at the centre of the business</b>	<b>Consistent fleet of standardised, high sales density stores with flexible layouts designed to evolve in line with category changes</b>
4	<b>Technology-enabled growth</b>	<b>Technology and data will deliver further improvements in customer experiences and strengthen Kmart's lowest-cost position</b>
5	<b>A sustainable development leader in Australian retail</b>	<b>Leveraging scale and global expertise to create meaningful and industry-leading impacts across the planet and people that Kmart touches</b>

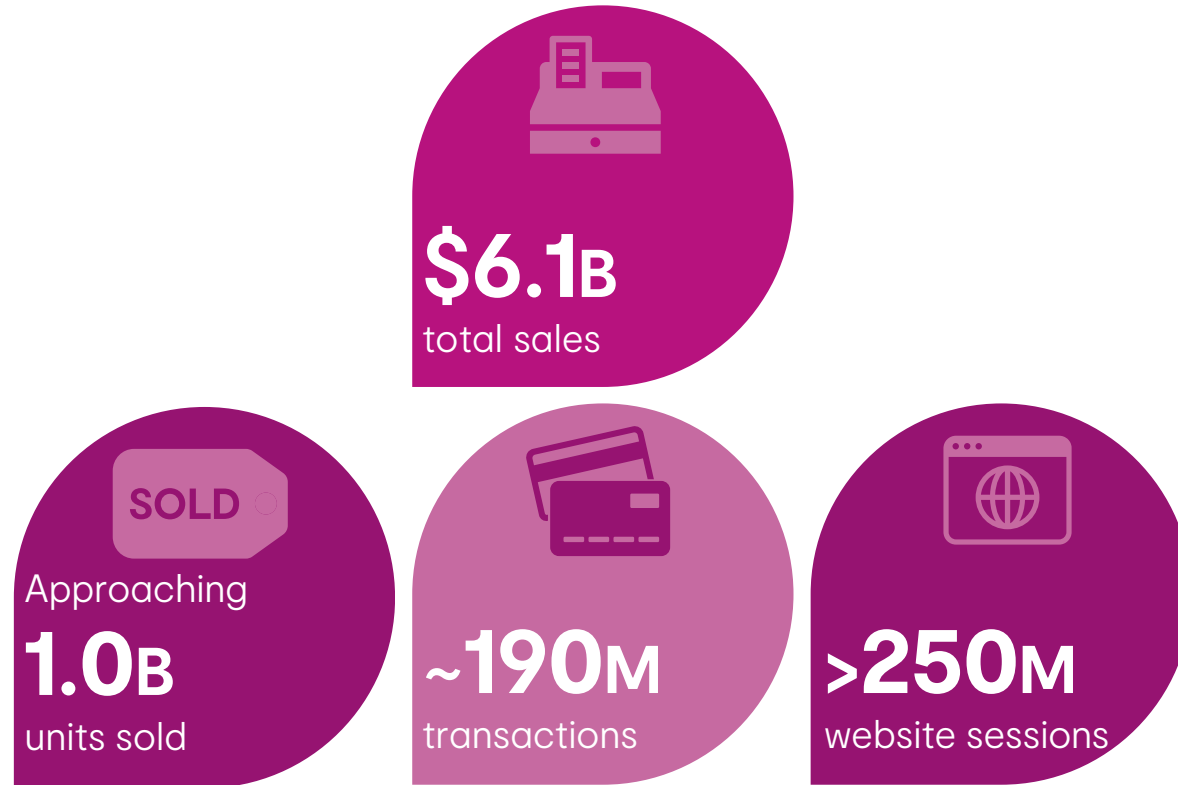


**Competitive advantages underpinned by  
market-leading scale**

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## Kmart's scale advantage



Statistics relate to the last 12 months as at 30 June 2020.

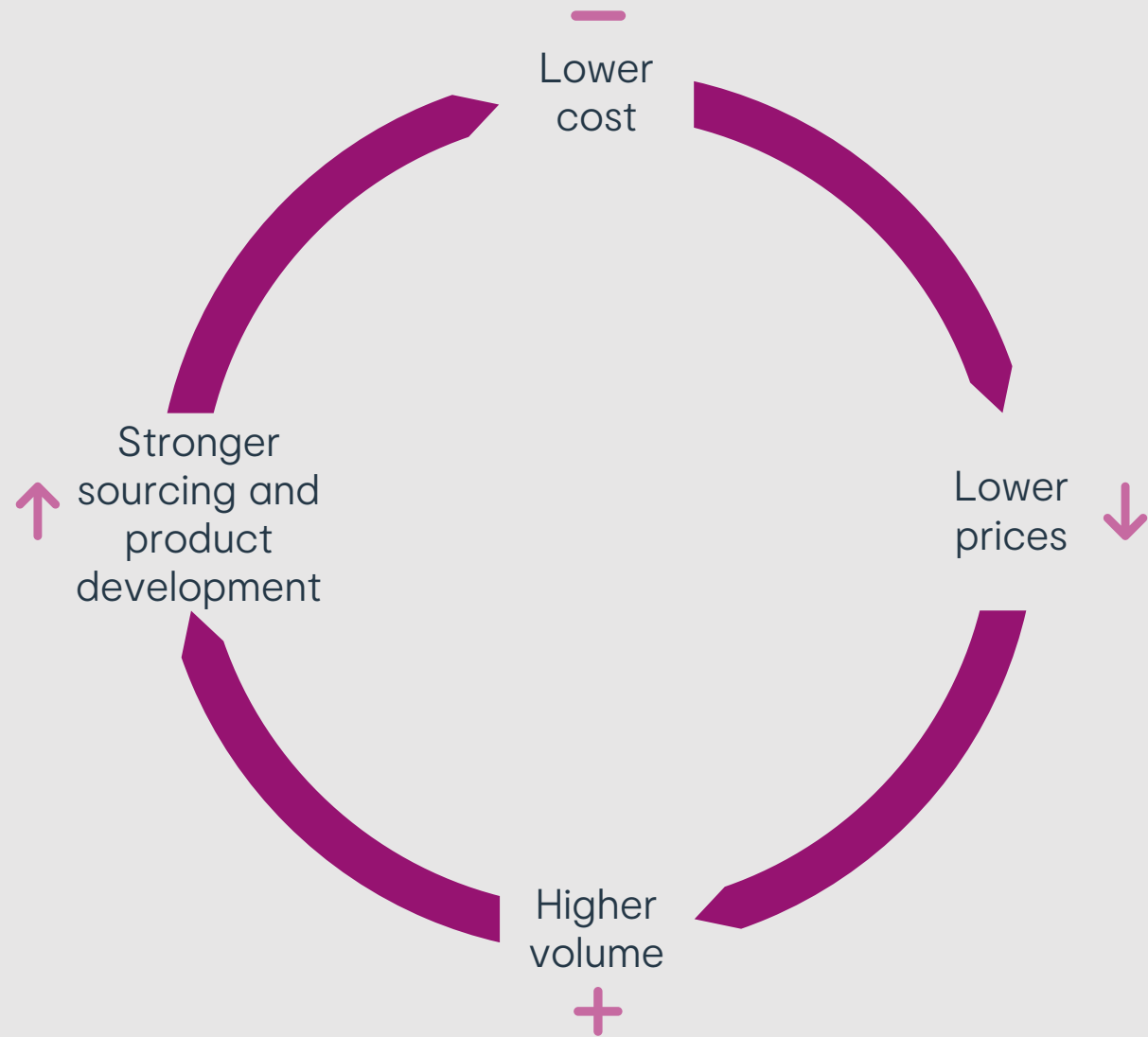


*Kmart's scale and sourcing capabilities underpin our low-cost business model,*

*which allows us to deliver lowest prices to our customers,*

*driving even greater demand and scale,*

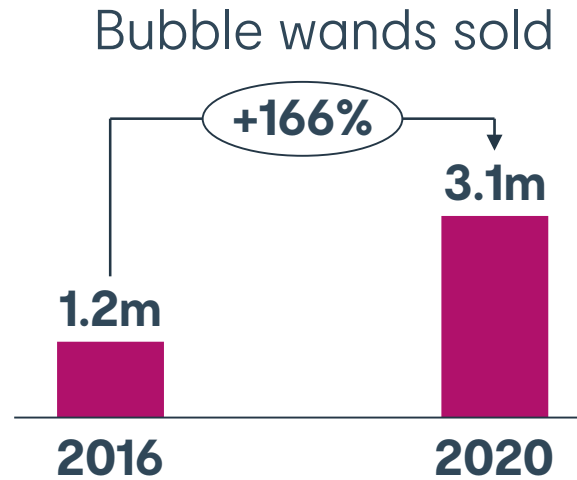
*allowing us to further advance our sourcing and product development capabilities.*



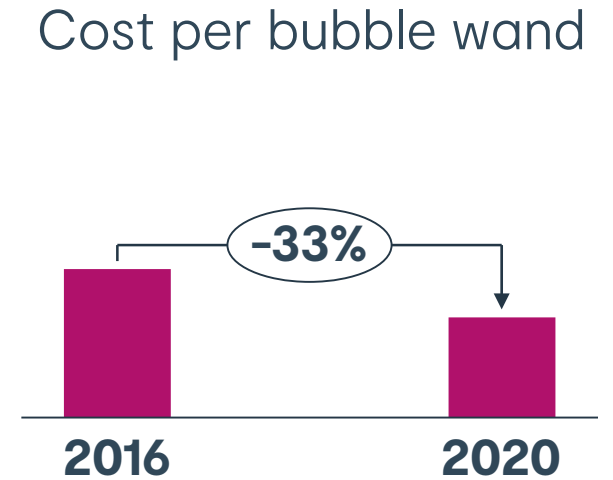
*Scale and sourcing capabilities deliver price leadership...*



*...driving significant volume growth...*



*...that further lowers the cost of production*



**50c bubble wand,  
down from \$1 in 2016**

**3.1 million units sold,  
up 166% since 2016**

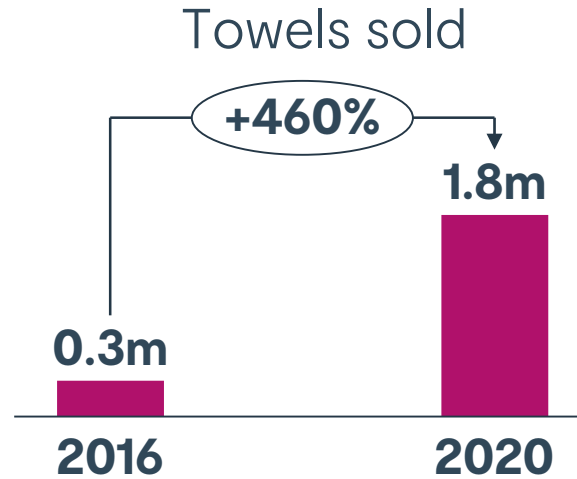
**Unit cost down 33%**

*Scale and sourcing capabilities deliver price leadership...*



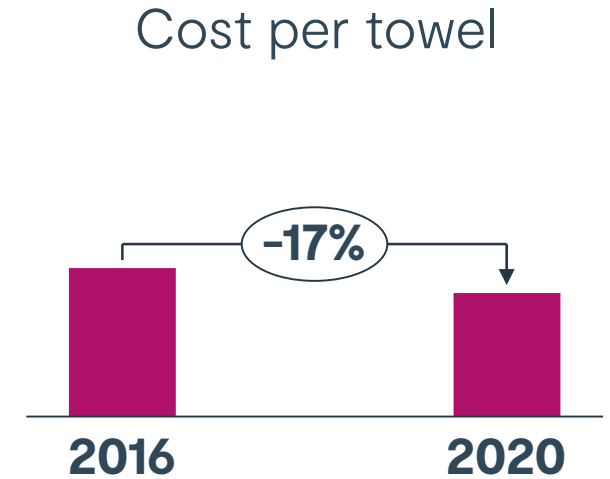
**\$5.75 towel, down from \$8 in 2016**

*...driving significant volume growth...*



**1.8 million units sold, up 460% since 2016**

*...that further lowers the cost of production*



**Unit cost down 17%**

# Best-in-class sourcing and product development capabilities



*Kmart has the largest direct-sourcing business by volume and value relative to any other Southern Hemisphere retailer.*

Australia's single largest importer of containerised freight

Best-in-class people capability, with ~800 local team members across Asia<sup>1</sup>

Strong relationships, with a geographically diverse supplier base of over 1,000 factories

Production of ~80% of own-brand products, including ~100% in Home and Women's Apparel

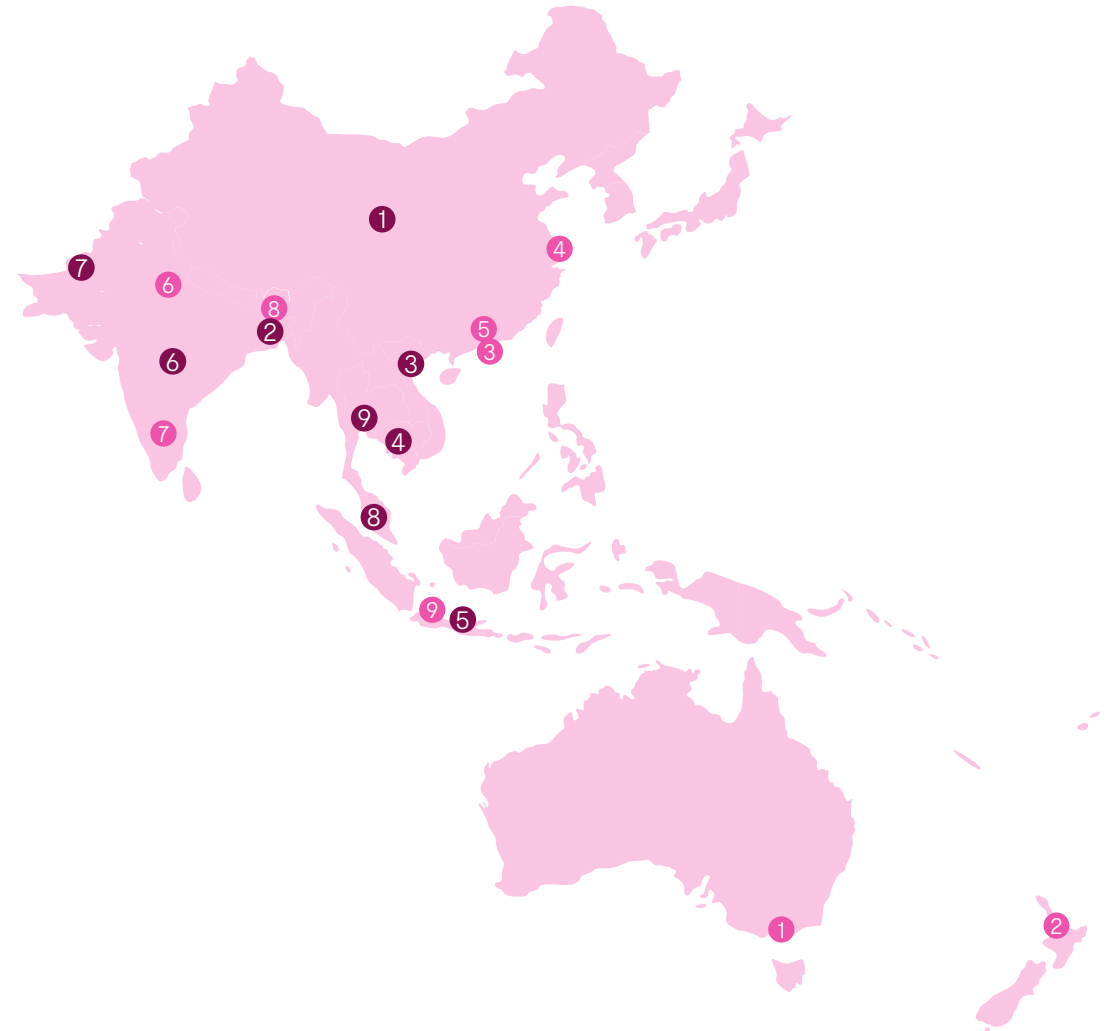
Range cohesion and merchandise advantages through control over product design

## Sourcing offices:

- 1 Melbourne, Australia
- 2 Auckland, New Zealand
- 3 Kowloon, Hong Kong
- 4 Shanghai, China
- 5 Dongguan, China
- 6 New Delhi, India
- 7 Bangalore, India
- 8 Dhaka, Bangladesh
- 9 Jakarta, Indonesia

## Locations of factories: (multiple in each country)

- 1 China
- 2 Bangladesh
- 3 Vietnam
- 4 Cambodia
- 5 Indonesia
- 6 India
- 7 Pakistan
- 8 Malaysia
- 9 Thailand



<sup>1</sup> ~600 team members across sourcing offices and ~200 team members at the Kmart Group Global Capability Centre in Bangalore.



*Sourcing and product development overview video –*

*Available from: <https://www.wesfarmers.com.au/kmart-briefing-APR21>*

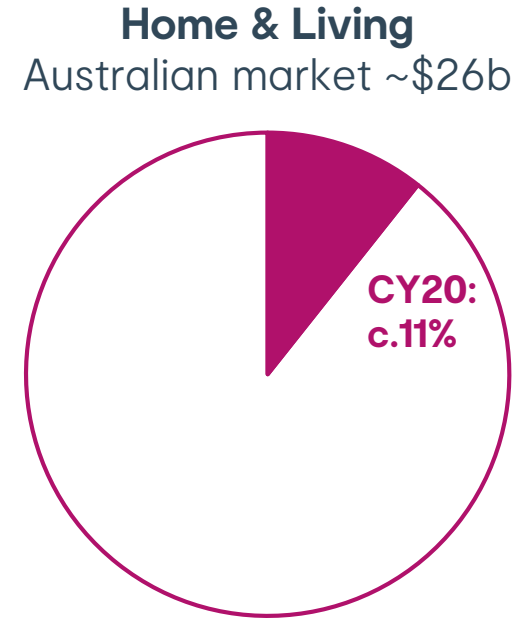
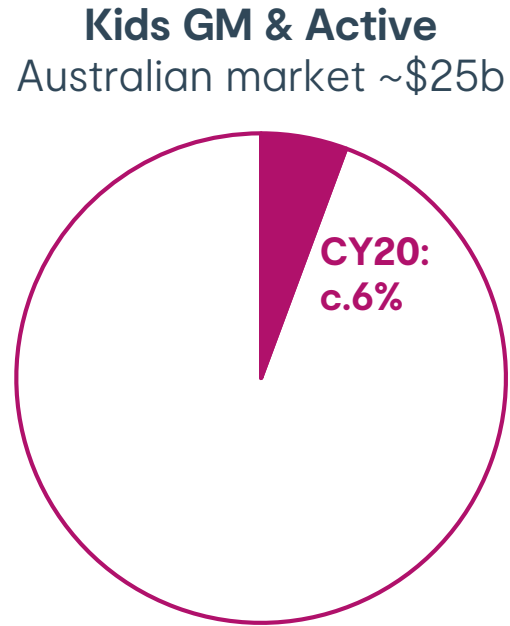
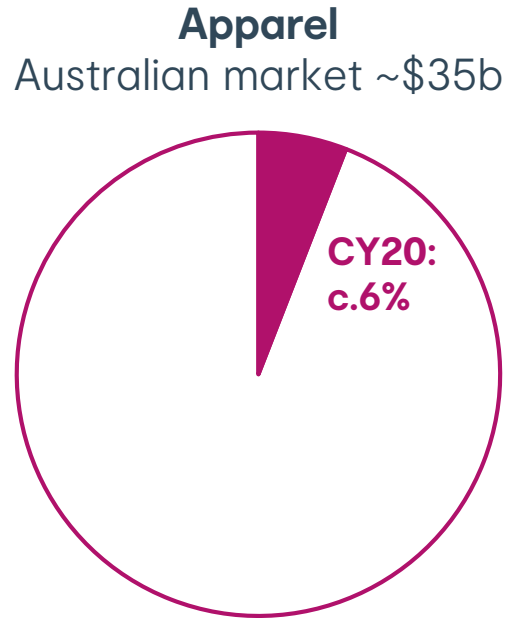
**A large and growing addressable market**



# Kmart operates in a large addressable market



## Kmart's addressable market (\$86b)



Kmart operates in a broad and highly-fragmented addressable market that provides significant opportunity to:

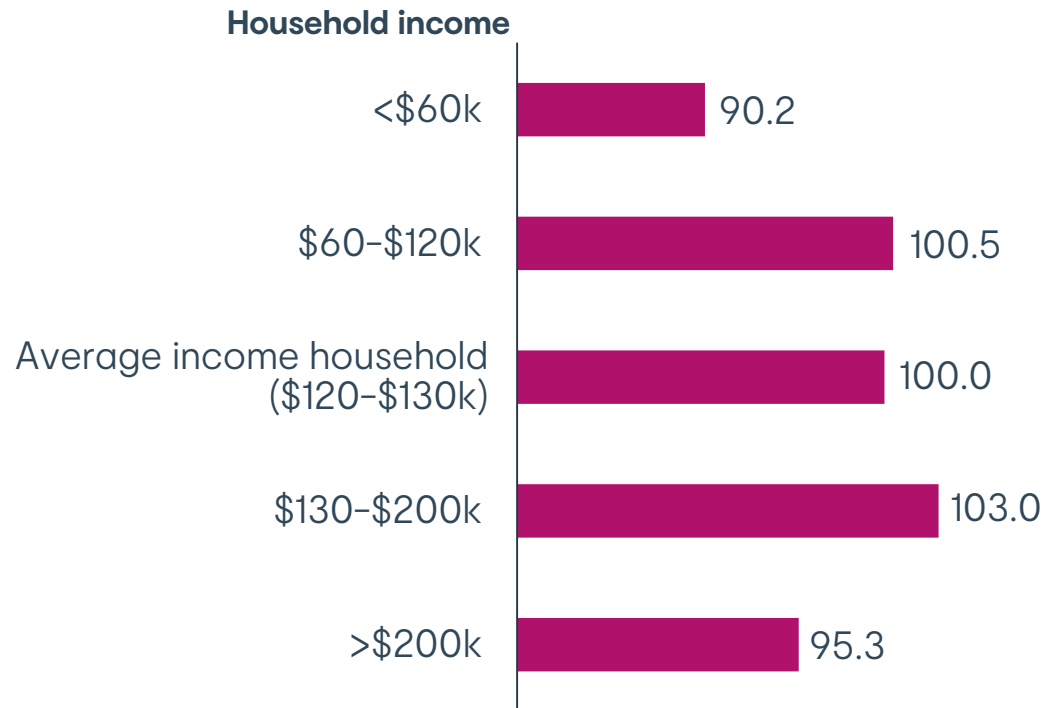
- Expand market share in existing categories
- Leverage product development capability to opportunistically enter new product categories

# Strong engagement across all Australian household groups



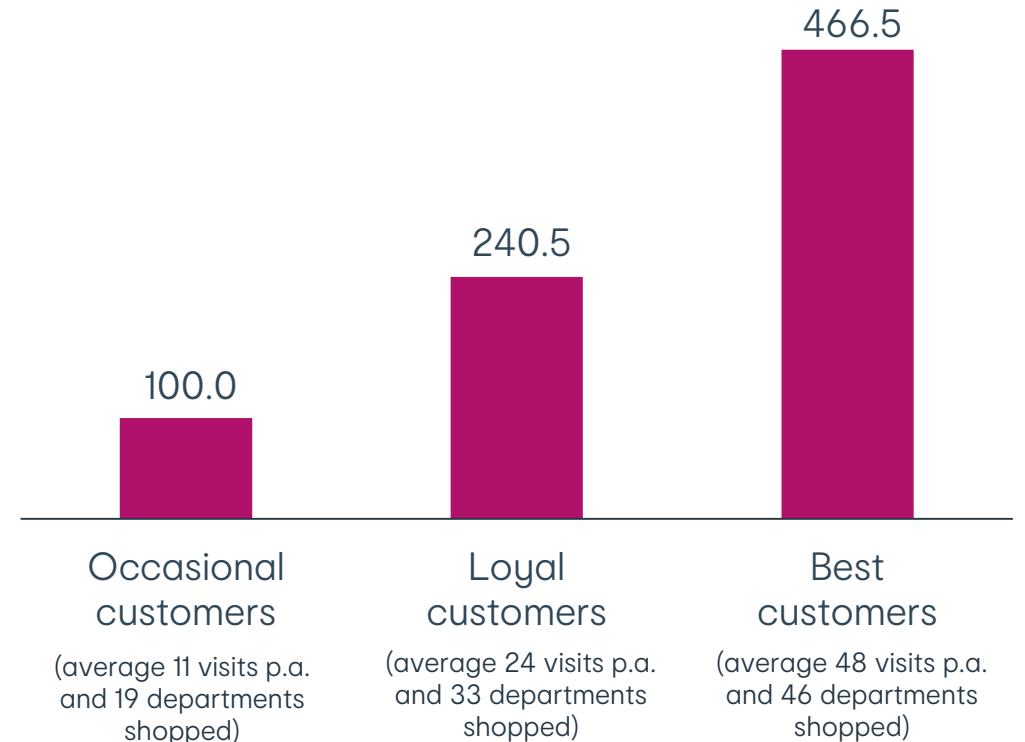
*Kmart has strong engagement across all household income groups...*

Kmart participation<sup>1</sup> by household income  
(index: average income = 100)



*...with growth potential as customers expand their participation across the range*

Average annual Kmart spend by customer<sup>2</sup>  
(index: occasional customer = 100)



Sources: Roy Morgan Household Income and Kmart Shopping survey (July 2018–June 2020), ABS Household Income data (June 2020), Kmart customer insights data (2019).

<sup>1</sup> Share of households that visited Kmart the last 12 months relative to the share of average income households.

<sup>2</sup> Based on Kmart segmentation of customers.



# Unique operating model enables growth



*Kmart's core competitive advantages differentiate it from department stores and category specialists.*

## Scale

- Aim for #1 or #2 in each category
- High volume provides opportunities to reduce cost
- Cost benefits re-invested in lower prices



## Product development

- Specialist design capability delivers better products at lowest cost
- Enables product differentiation without branding cost
- Design features also embed sustainability considerations



## Sourcing model

- Lowest-cost sourcing due to extensive sourcing reach and direct relationships
- Ability to offer higher-quality products at the lowest prices
- Strong relationships with diverse supplier base

## Product examples



*Over the last 5 years, Kmart has grown to become a leading seller of fitness equipment and activewear<sup>1</sup>.*



*Over 5 million wooden toys sold in last twelve months<sup>2</sup> (23% above last year).*



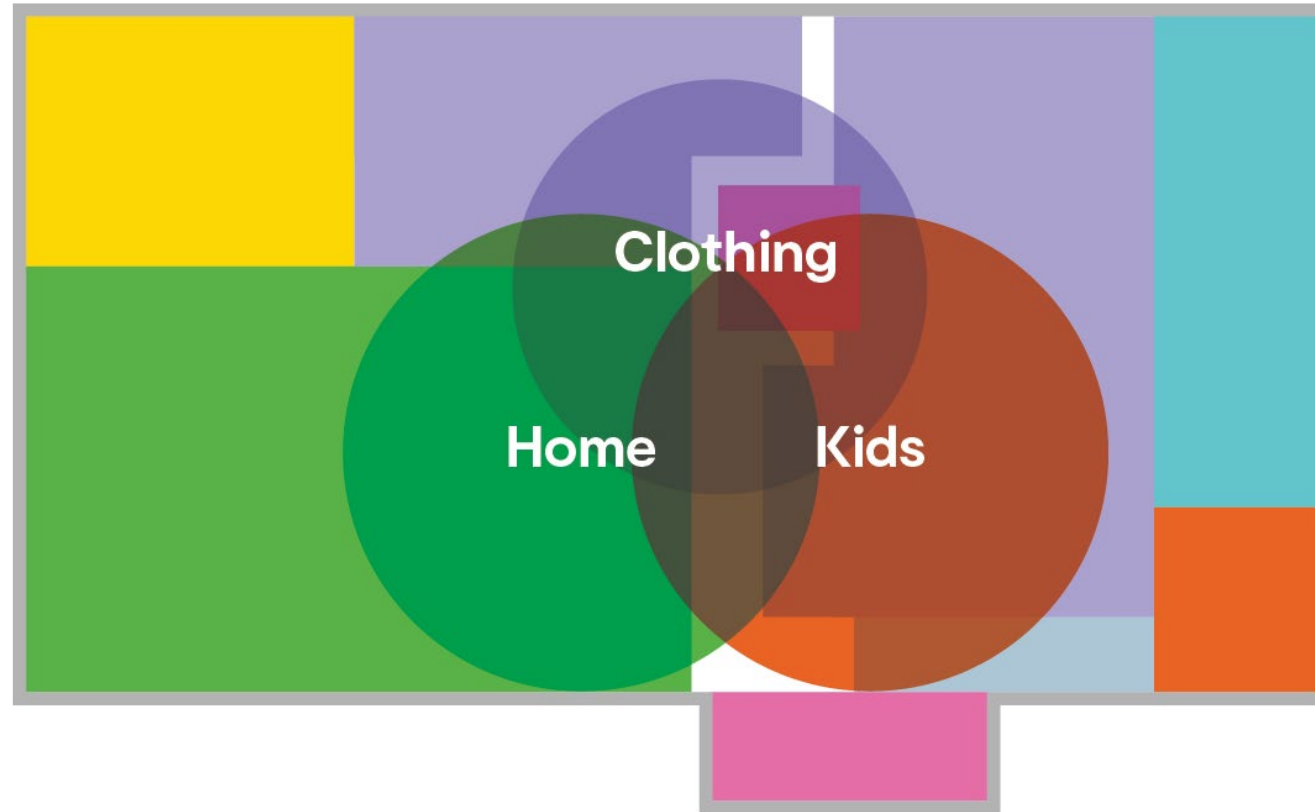
*Kmart is a leading seller of knitwear in Australia, with the ability to offer the lowest price on quality merino wool products.*

# Flexible store layouts support deeper engagement

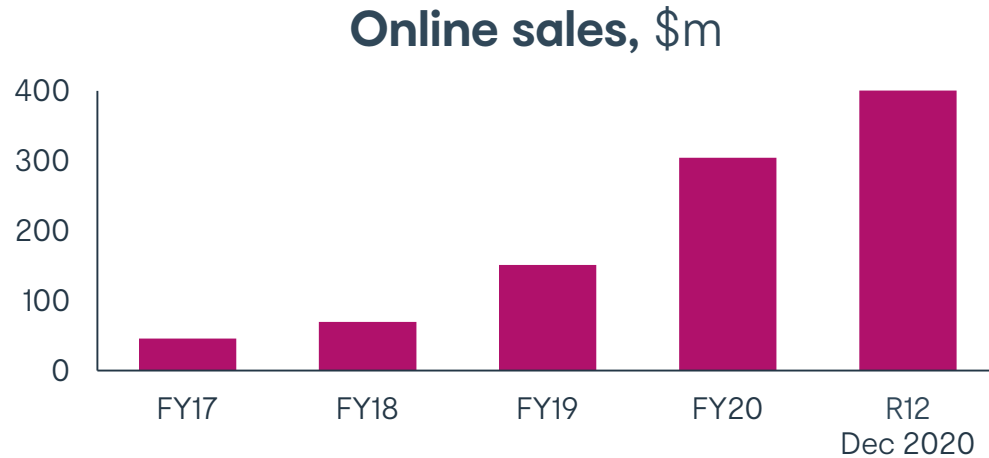


*Categories compete for space in a store format designed to accommodate changing customer preferences and Kmart's product development capabilities.*

**Southland store: Plan C format**



## Increasing online engagement and scale...



## Flexible online fulfilment:

Click & collect

Home delivery

K Hub  
click & collect

Anko products  
sold via Catch

## ...supports Kmart's growth and product development

- ~95% of Kmart's in-store products available online
- Launch of Kmart Online Exclusives in February 2021
  - Leverage product development capabilities to trial new products before introducing in-store
  - Offer larger, bulkier items suited toward online shopping (e.g. furniture)

**Kmart Online Exclusives**

Discover our collection of online exclusive products – including a broad range of indoor and outdoor furniture, outdoor play equipment and LEGO sets. With everything from cubby houses to cots, sofas, desks, egg chairs and beds, you'll love our fabulous online exclusive products – all available at our low prices for life.

Subject to availability, these lines are available for purchase in NSW, QLD, VIC, WA, SA and TAS. Some products are exempt from free shipping, please see [FAQs](#) for further information.

Living Furniture      Bedroom Furniture      Office Furniture      Outdoor Furniture

# A valuable store network at the centre of the business

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# Our stores are at the centre of everything we do



## **“A Great Place to Shop”**

a simple and consistent layout that makes shopping easy for customers and operations easy for the team.

## **The flexibility and agility to support product development**

store formats continue to evolve to support category expansion and new product launches.



**92%**

of Australian retail shoppers visited Kmart in the last 12 months<sup>1</sup>



**83%**

of Australia's population live within 10km of a Kmart store<sup>2</sup>



**~190M**

transactions in-store and online<sup>3</sup>

## **Stores underpin Kmart's operating model...**

**High sales density**

**Efficient in-store operations**

**Robust and flexible network**

## **...and will be the key enabler of new growth opportunities for Kmart**

**Omnichannel fulfilment**

**Digital technologies**

**Customer insights**

<sup>1</sup>As at 31 March 2021.

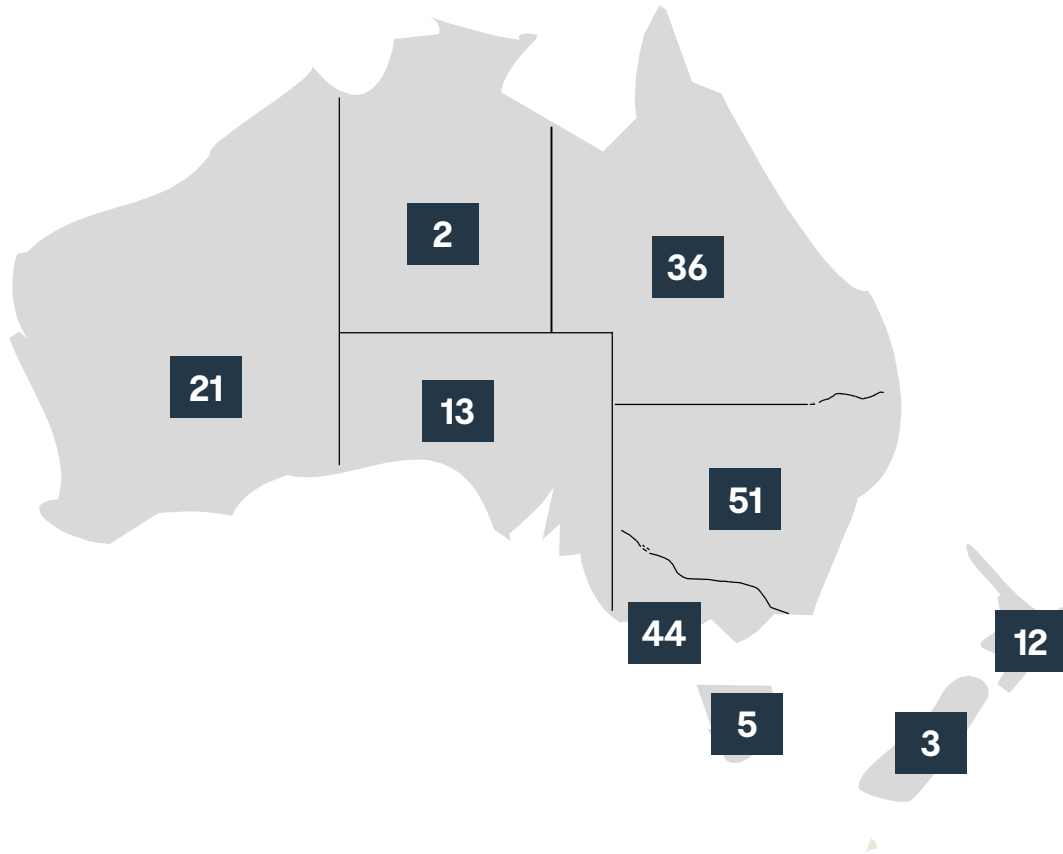
<sup>2</sup>As at April 2021, based on proximity to both Kmart and K Hub stores.

<sup>3</sup>Last 12 months as at 30 June 2020.

# Store network growth: last 10 years

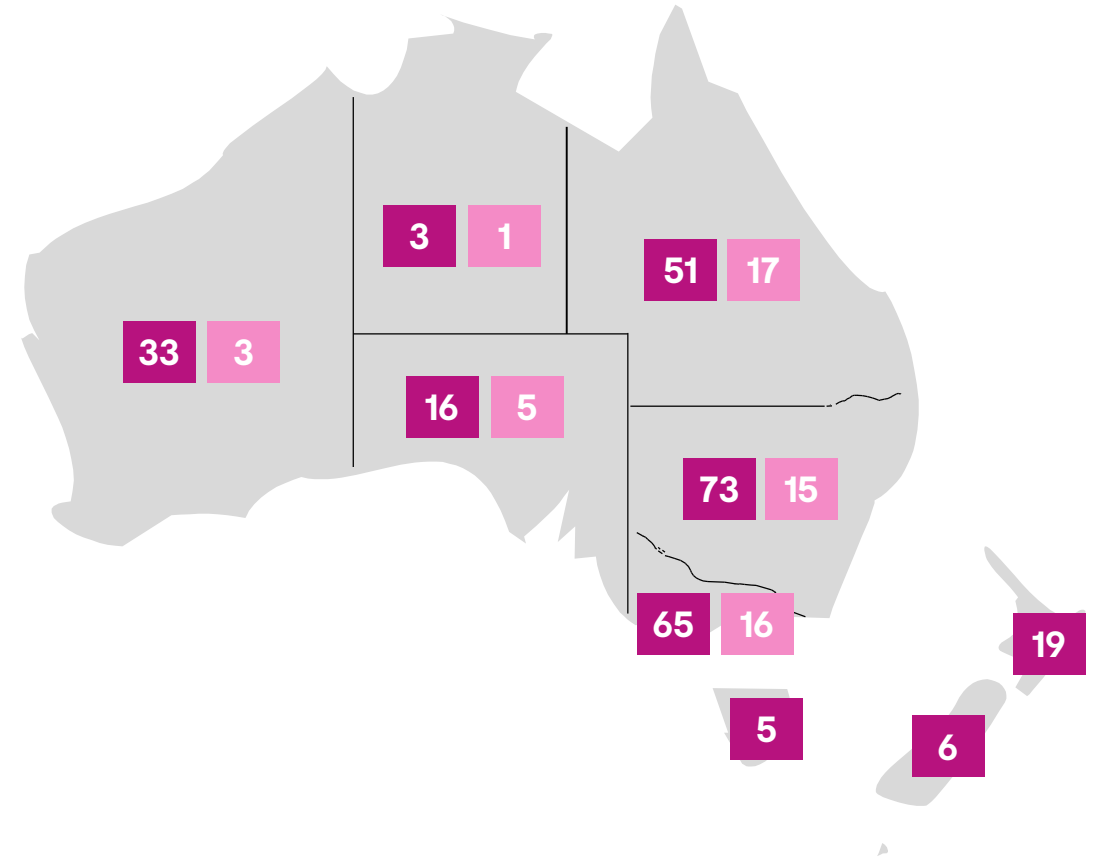


Kmart network 10 years ago  
(June 2011)



**187 stores**

Kmart network post conversions  
(December 2021 estimate)<sup>1</sup>



**271 Kmart stores**

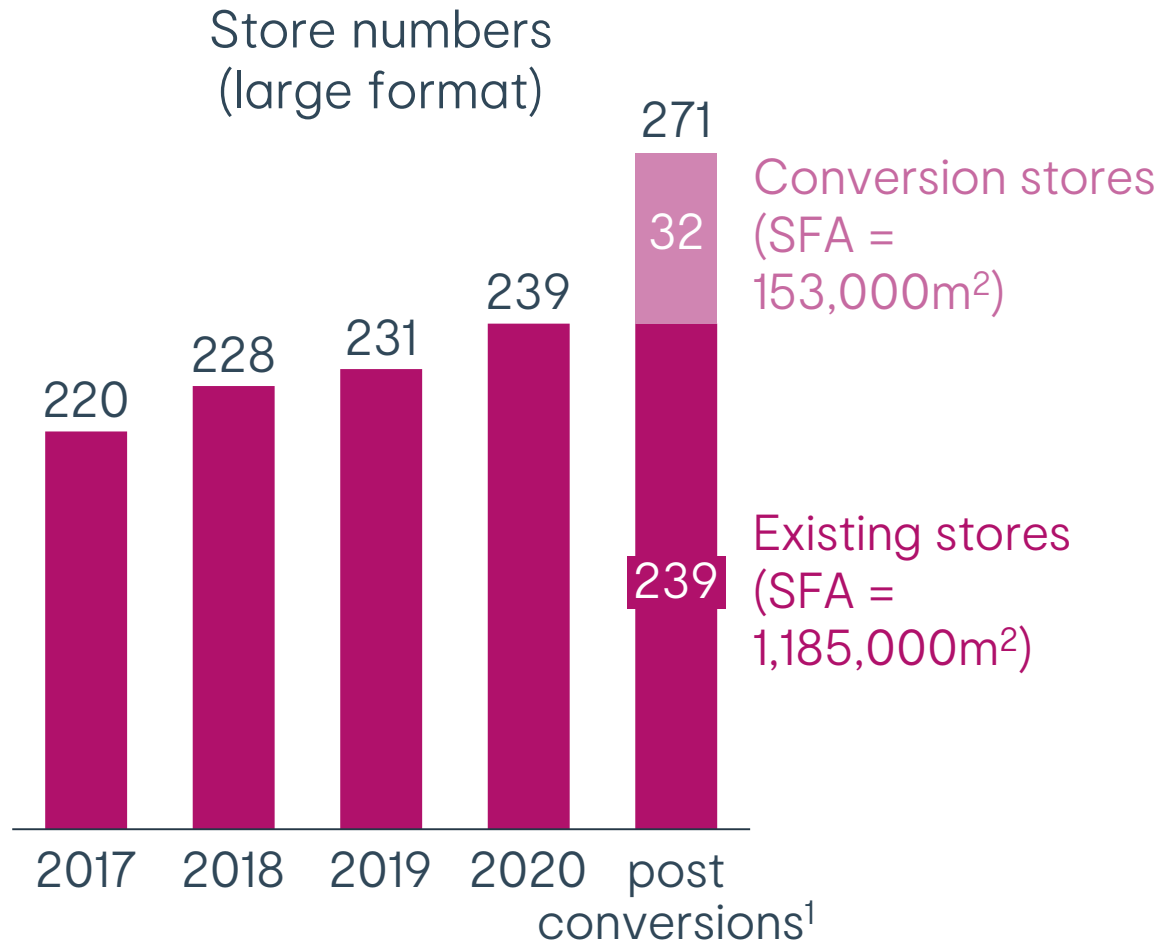
**57 K Hubs**

# Conversions will support the growth of Kmart



*Accelerating Kmart's store network strategy to support growth...*

*...under a business case that will enhance the overall value of Kmart Group*



- Significant increase in sales density
- Unlock additional scale benefits and deliver an uplift in earnings
- Aligned with Kmart's broader network strategy and addresses key market gaps
- Increase the flexibility of the Kmart store fleet
- Simplify the Target business and reduce costs

Note: SFA = selling floor area.

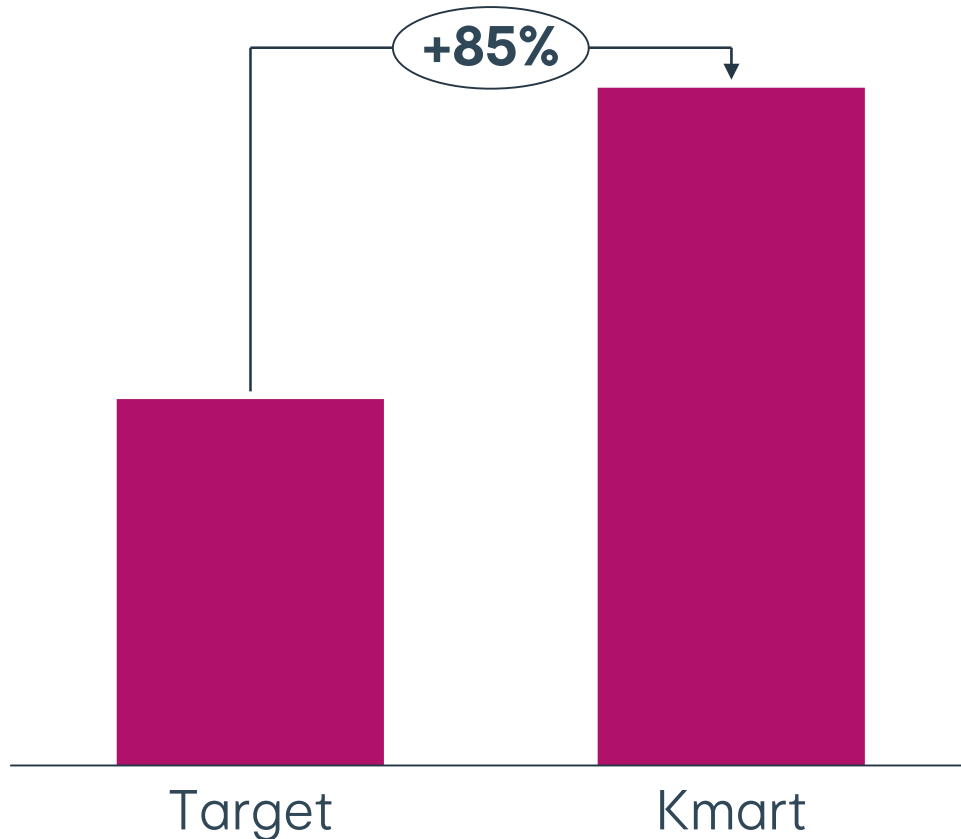
<sup>1</sup>Post conversions as at 31 December 2021 (estimate). Includes conversions agreed with landlords only. Estimated movement in existing stores from 30 June 2020 to 31 December 2021 reflects 7 store openings and 7 store closures that have been completed or are scheduled.

# Conversions are an accelerator of value



*A unique opportunity to rapidly enhance the productivity of Kmart Group's selling space by converting Target stores to Kmart stores.*

**Sales density, R12 Dec-20**



## To date, the conversion program has delivered:

- Sales density in line with the broader Kmart fleet
- Transaction, sales and gross profit growth above expectations
- Positive customer feedback
- Strong landlord partnerships
- Further fractionalisation of Kmart's fixed cost base to support Kmart's low-cost leadership



# Leveraging the store network to support online growth



*Kmart's store network has underpinned innovations to the online offer and will continue to support a seamless omnichannel experience for customers.*

## Kmart's store network has been a key enabler of online growth...

- ~100% of online orders fulfilled through stores
- Click & collect represents around 1/3<sup>rd</sup> of online sales
- Offering click & collect for Target and Catch products at Kmart and K Hub stores
- Contactless click & collect to ensure team member and customer safety through COVID-19
- Temporary conversion of stores to 'dark' stores to support periods of peak online demand through COVID-19

## ... and will continue to be at the centre of online fulfilment initiatives

- Technology-enabled improvements to in-store picking processes and split order fulfilment
- Enhancements to current click & collect offer including additional pick-up locations and shorter lead times



# Technology-enabled growth

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# Technology and data will be key enablers of future growth



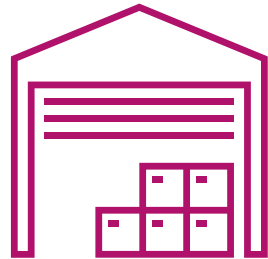
Investment in technology is expected to drive significant value for Kmart by:

- Delivering further improvements in customer experience
- Strengthening Kmart's lowest-cost position

Kmart has prioritised four areas where accelerated investment in technology is expected to step-change business performance:



**Improving the  
online offer**



**Increasing flexibility  
and efficiency of  
the supply chain**



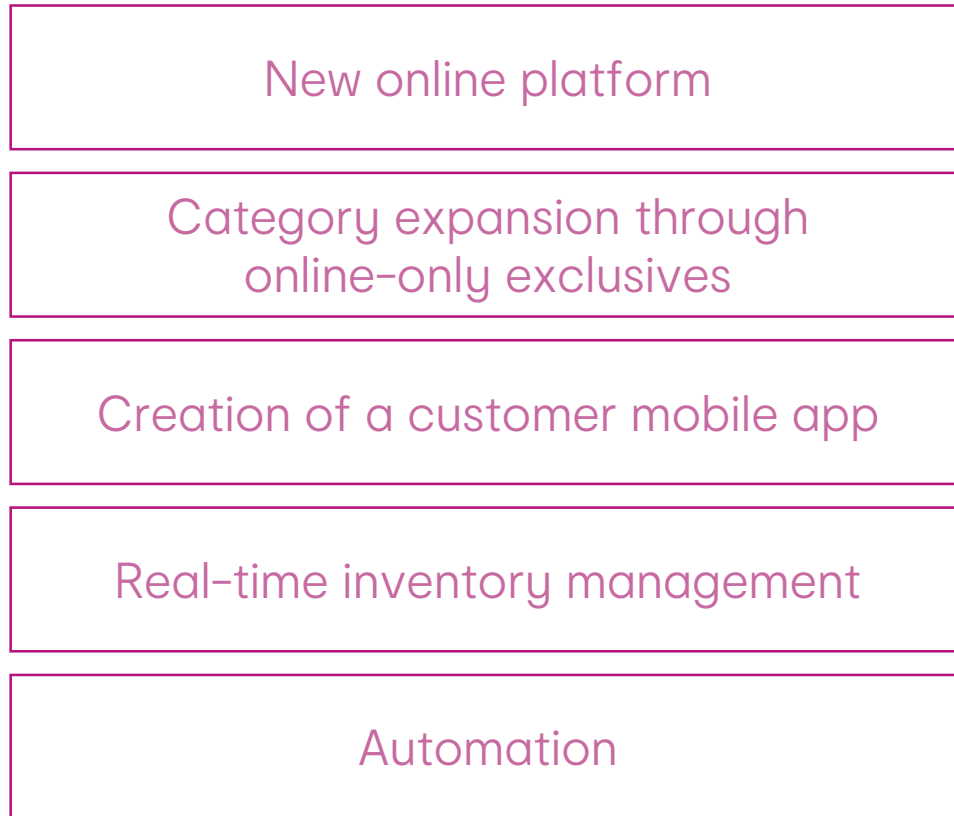
**Creating a  
digitally-enabled  
store of the future**



**Personalising the  
customer offer**

*Several initiatives are underway to streamline Kmart's omnichannel offering...*

*...which will significantly improve the customer experience*



## Digitally-enabled supply chain project

### Flexible supply chain



Real-time decision-making to respond to changes in production or demand



Optimisation of stock buffering points, and pick and pack processes to reduce stock in stores and increase flexibility to respond effectively to real-time demand

### Faster product development



Tailored product lifecycle management system to improve productivity and provide full visibility and monitoring of entire product development process



Digitisation of fabric library and 3D prototyping to reduce physical samples and waste, as well as product development lead times

### Demand sensing



Better understanding of customers and macro trends to develop on-trend ranges



Systematic approach to assortment planning and forecasting decisions

### Enabling:

Improved use of data for buying and allocation decisions driving better stock availability with less markdowns

Greater visibility and flexibility of product development reducing wastage

Shorter lead times supporting on-trend product ranges that evolve in line with customer demand

# Creating a digitally-enabled store of the future



*Kmart is investing in a multi-year program to transform the in-store customer experience and deliver operational efficiencies and even greater value for customers.*

**As part of the first phase of its multi-year program, Kmart is utilising in-store RFID technology to provide real-time inventory tracking...**

- Enhanced customer experience through greater stock integrity and transparency on product availability
- Improved replenishment systems
- Increased efficiency of in-store fulfilment of online orders

**... which will provide the foundation to create a digital store of the future**

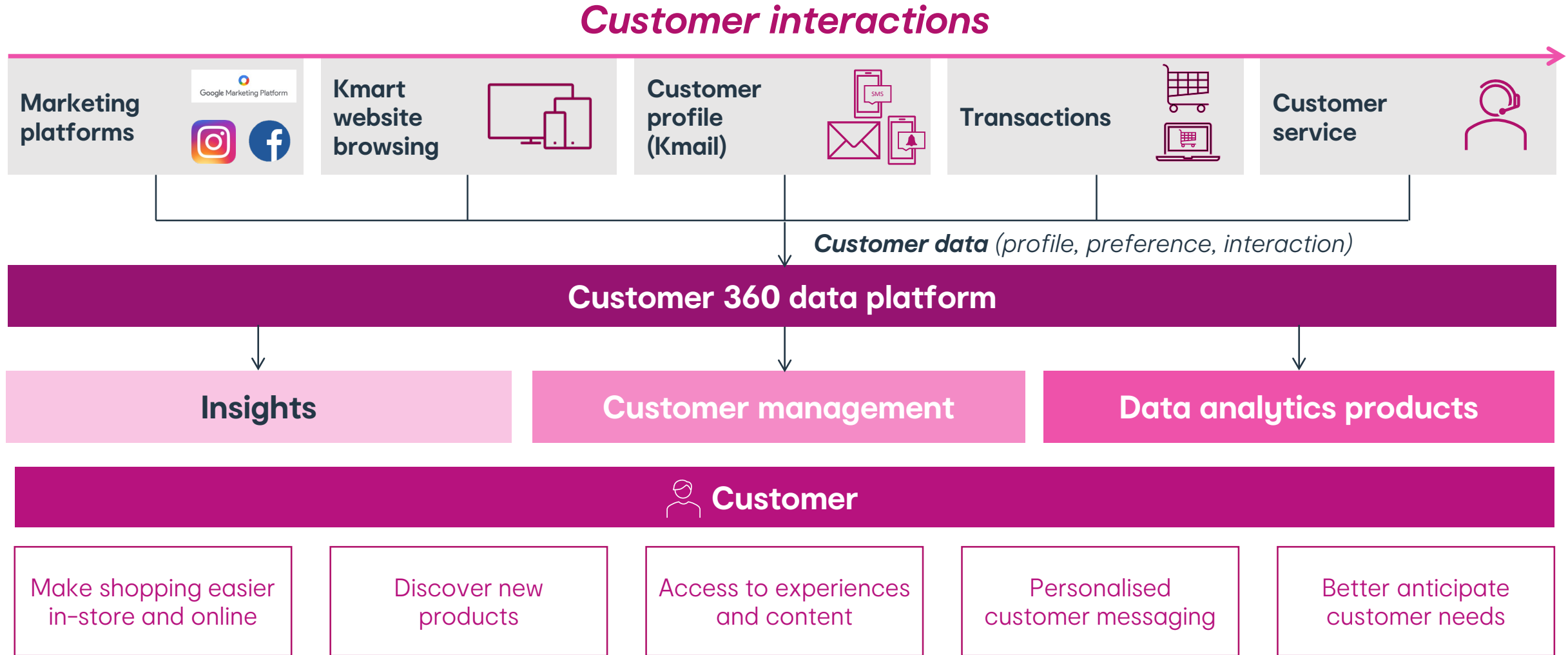
- Ability to innovate with a level of speed and agility previously not possible
- Automation, digitisation and optimisation of in-store inventory management and merchandising processes
- Personalisation of the in-store customer experience





*TORY RFID video –*

*Available from: <https://www.wesfarmers.com.au/kmart-briefing-APR21>*





# A sustainable development leader in Australian retail

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# Kmart is a sustainable development leader in Australian retail



*“Better Together” video –*

*Available from: <https://www.wesfarmers.com.au/kmart-briefing-APR21>*

# Our unique scale positions us to drive change



Our price leadership and the volume of product we sell mean we need to minimise our impact



The scope of our operations gives us unprecedented scale to make a real difference across many areas



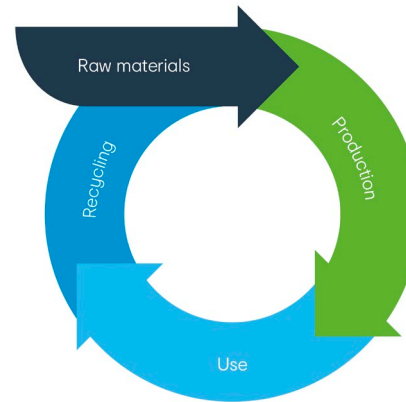
Our relationships with global sustainability partners, suppliers and peer retailers positions us to lead the change in Australia

## Examples

**100% sustainably-sourced cotton**



100% of the cotton we source for our own-brand clothing, bedding and towels is now ordered as Better Cotton, organic or recycled.



Kmart has committed to banning single use plastic shopping bags and 10 priority own-brand products by July '21, which will remove over 500 million single-use plastic items per annum from the environment.

## Public commitments and ambitions

A full list of our commitments is available on our website at: [www.kmart.com.au/bettertogether](http://www.kmart.com.au/bettertogether)

# Summary

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# The fundamentals of Kmart are unlike other multi-category stores



**A strong brand with a sustainable lowest-price position, underpinned by a lowest-cost operating model, market-leading scale and unique product development capabilities**



**Number 1 or number 2 market position in every major category, with a highly-fragmented and substantial addressable market**



**Consistent fleet of standardised, high sales density stores with flexible layouts designed to evolve in line with category changes**



**Technology and data will deliver further improvements in customer experiences and strengthen Kmart's lowest-cost position**



**Leveraging scale and global expertise to create meaningful and industry-leading impacts across the planet and people that Kmart touches**

**Questions?**

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# Appendix

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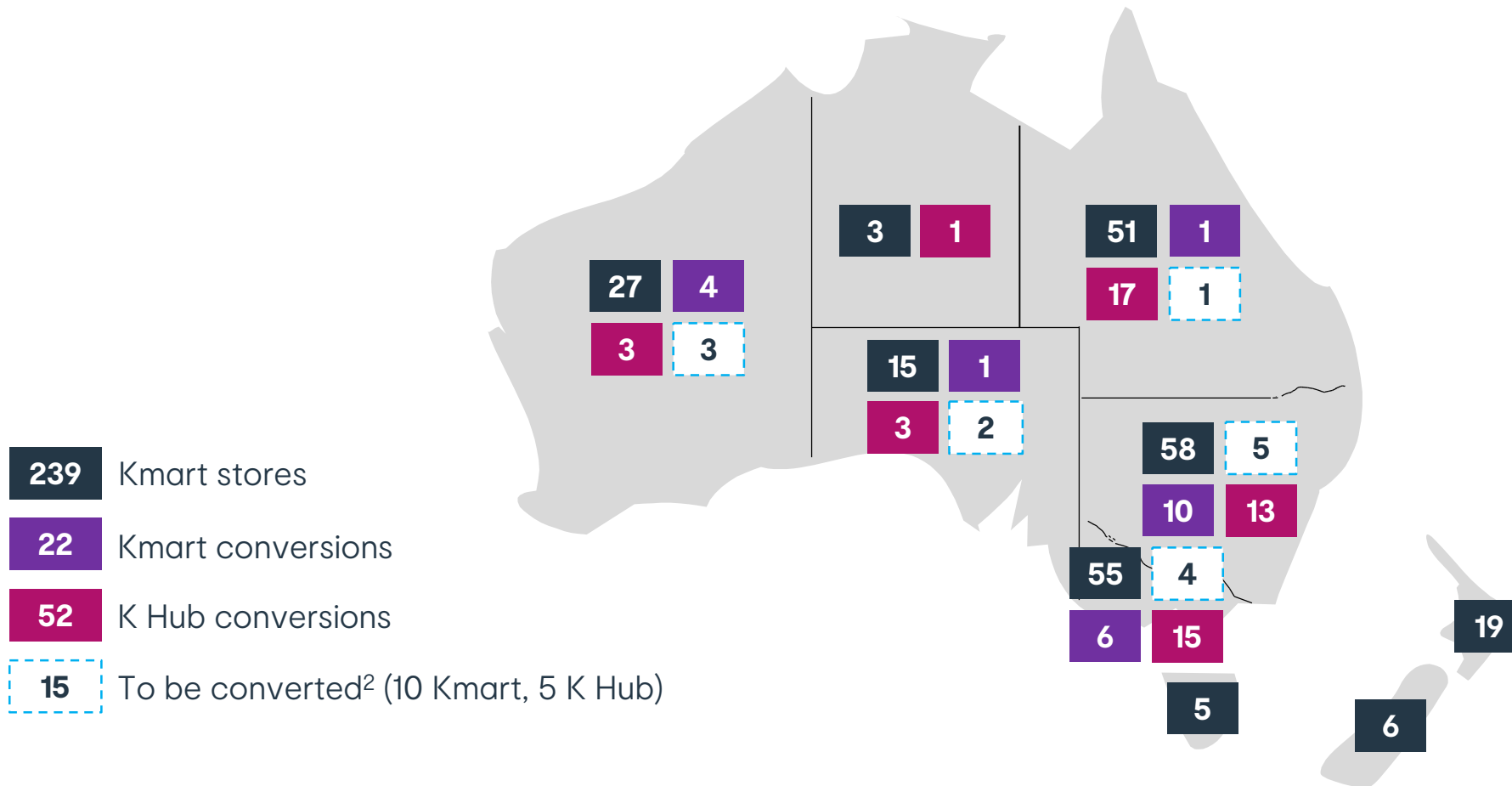


# Current Kmart store network and planned store conversions



*Kmart operates a network of 313 stores across Australia and New Zealand as at 20 April 2021.*

**Kmart network<sup>1</sup>**



<sup>1</sup>As at 20 April 2021.

<sup>2</sup>Includes conversions agreed with landlords only.



# Store conversion program timeline



*The majority of the store conversions are expected to take place in FY 2021.*

Store conversions <sup>1</sup>	1H 2021	2H 2021	FY 2021	1H 2022	Total
Kmart	12	19	31	1	32
K Hub	7	47	54	3	57
<b>Total</b>	<b>19</b>	<b>66</b>	<b>85</b>	<b>4</b>	<b>89</b>