Title : Open Briefing. Wesfarmers CEO on Ownership Simplification
Date of lodgement: 15 February 2001

---

corporatefile.com
Wesfarmers Limited recently announced a plan to simplify the ownership structure of Wesfarmers. The plan releases about $500 million in value to investors who held Wesfarmers indirectly via Westralian Farmers Co-operative Limited (WFCLI) and The Franked Income Fund (FIF). What are the advantages for Wesfarmers shareholders that hold stock directly in the company?

CEO Michael Chaney
The advantage for Wesfarmers shareholders is that they will own shares with higher liquidity, the value of which should therefore be enhanced over time.

corporatefile.com
What else motivated you to undertake the simplification?

CEO Michael Chaney
It became more apparent in recent years that the complexity of the ownership structure was causing some institutions, particularly international ones, to shy away from investing in Wesfarmers. We felt the structure was no longer serving its original purpose, which was to distribute value to the Co-operative shareholders, and that it was time to dismantle it.

corporatefile.com
Do you believe mooted changes to sharemarket indices would result in a lower Wesfarmers shareprice if the simplification does not proceed?

CEO Michael Chaney
Probably. MSCI has foreshadowed that it will determine index weightings on a free-float basis later this year. The evidence suggests that a lower share index weighting would have a negative affect on a shareprice.

corporatefile.com
How have changes to Australian taxation laws made the ownership simplification possible?

CEO Michael Chaney
The main change is the availability of rollover relief on scrip for scrip transfers. That, however, did not mean that the restructuring was simple. It has been unimaginably complex. We've been working on it for eight months and we're delighted that we've found a solution.

corporatefile.com
Why don't FIF option holders get capital gains rollover relief?

CEO Michael Chaney
The legislation only allows relief on certain exchanges and the exchange of options in a trust for shares or for other securities isn't covered under the legislation. So we were unable to find a way of obtaining rollover relief for those security holders. Fortunately the value of the FIF option is only about 2 per cent of the total

corporatefile.com
The plan requires you to issue new shares while also buying back nearly 50 percent of Wesfarmers controlled by the Co-operative and the FIF. What will the net change be in total shares on issue?

CEO Michael Chaney
At the end of the total restructuring, there will be about 2 million less shares on issue. There are costs involved of over $40 million, mostly stamp duty. While these will be capitalised, there is an interest cost involved in paying those costs. In order to preserve our earnings per share, we're issuing about 2 million less shares than the number we are cancelling.

Each step of the ownership simplification is not totally conditional on the other steps and it's possible that if the Co-operative shareholders rejected the proposal, that the FIF step would still proceed. In this event, we would issue new shares to the FIF unit holders, but would not cancel the shares held by WFCLI. Under that scenario, our total issued capital would increase by around 50 percent but, on consolidation, it would fall again to its present level and the holding of WFCLI would be down around 30 percent rather than 45 percent.

corporatefile.com
You have stated the plan will be EPS neutral. How will the plan impact on Wesfarmers' future income and expenses?

CEO Michael Chaney
Once the proposal is implemented, there should be no ongoing impact on Wesfarmers' income and expenses.

corporatefile.com
Who needs to approve the plan?

CEO Michael Chaney
It has to be approved by the shareholders of Wesfarmers, by the unit and option holders in the FIF and by the members of the Co-operative. And then sanctioned by the court.

If the Co-operative members do not approve, my expectation is that we would proceed with the remainder of the restructuring. However, if the FIF unit holders or Wesfarmers shareholders did not approve, none of the restructuring would occur.

corporatefile.com
The plan also involves the purchase of Gresham Partners Management Limited (GPML). For that you are paying 1.1 million Wesfarmers shares, which equates to nearly $20 million. What role has GPML played and why is it being paid?

CEO Michael Chaney
The restructuring itself was proposed and developed by Wesfarmers. GPML manages the FIF. The complexity of the transaction and the requirements for capital gains tax rollover relief, dictated our final course of action. The trustee unit which exists in FIF sets it apart from other managed trusts and has to be converted into a managers unit in a company. This has to happen in order to have exactly the same interests in the trust before and after the conversion, in order to maintain capital gains tax rollover relief.

We had extensive external, legal and commercial advice about the best way to proceed. The purchase consideration for GPML is below the value that was calculated by an independent party, Chase Ord Minnett.

GPML will, overall, experience a significant income fall as a result of the proposal. As it stands, GPML receives about 3 percent of the dividends flowing to the FIF. The purchase price for GPML represents less than 1 percent of the capital value of FIF's assets.

corporatefile.com
So presumably it's being paid because you are buying out their management contract?

CEO Michael Chaney
Yes, it's effectively that, but also because GPML is one of Wesfarmers associated company investments. Gresham is losing very substantial income as a result of the restructuring and it's in Wesfarmers' interest to ensure that all of the stakeholders in the scheme, including its associated company, have their rights recognised.

Our firm view is that it would simply not have been possible to bring about the transaction any other way.

corporatefile.com
When will the new shares issued participate in Wesfarmers' dividends?

CEO Michael Chaney
They will participate in the final dividend this financial year, which will be payable in November.

corporatefile.com
Will your dividend policy change as a result of the restructure?

CEO Michael Chaney
No. We expect to continue to pay out 100 percent of our profits on a fully franked basis. I have previously said that if in future we find ourselves with excess unfranked income that we want to pay out, the existing structure would have been tax inefficient because of the taxation of unfranked dividends at the WFCLI level. Under the proposed structure that would not be a problem. In any case, we believe that our future dividends will be fully franked at a 100 per cent payout ratio.

corporatefile.com
How might Wesfarmers' corporate strategy evolve now all investors have a direct and liquid investment in Wesfarmers?

CEO Michael Chaney
I don't think the restructure will have any affect on our strategy. There was potential for the existing structure to provide some constraints on capital raisings. It was the elimination of that potential that was one of the attractive features of the restructuring although, in practice, we haven't found it a problem so far.

corporatefile.com
On Tuesday night you completed a placement of 11 million shares at $19 raising $209 million. To what extent did overseas institutions participate?

CEO Michael Chaney
We believe around 5-10 per cent was to overseas investors.

corporatefile.com
What impact will the placement have on gearing?

CEO Michael Chaney
The gearing of the company at 30 June, 2001 will depend upon the take-up of acceptances in the IAMA offer. Given 100 percent acceptance, we estimate our net debt to equity ratio would be about 60 percent by June after the shareholder simplification and the share placement.

corporatefile.com
Thank you Michael. We look forward to the next Open Briefing with Wesfarmers.