Wesfarmers Limited
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NEWS

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WESFARMERS PLANS FOR COLES BUSINESSES

Wesfarmers today outlined the development of its three part plan to reinvigorate and grow the Coles businesses following the expected completion of the acquisition in November.

Today's detailed market update addresses:

- organisational structure and management plans;
- business-specific initiatives; and
- value creation opportunities (including Wesfarmers' expected outcomes from reductions in overheads, supply chain cost savings as well as the potential earnings uplift from restoring sales momentum).

The Managing Director of Wesfarmers, Richard Goyder, described the proposed Coles acquisition as a unique opportunity.

"The combination of Coles' leading market positions, its irreplaceable portfolio of retail business assets and Wesfarmers' retail expertise through our Bunnings business provides a strong platform for the merged company to create shareholder value," he said.

"Our detailed assessment of all the Coles businesses shows they meet our key investment criterion in that they will deliver a positive net present value for Wesfarmers and will therefore create value for our shareholders. Target and Officeworks will be value accretive from the date of acquisition and we see substantial value creation in the food, liquor and convenience businesses in the medium term."

Structure

Three new business divisions will be created to integrate the Coles operations into the Wesfarmers organisational structure:

- Food, Liquor and Convenience
- Big Box Retailing (Bunnings and Officeworks)
- Target

Kmart will be operated as a separate division while Wesfarmers undertakes a detailed strategic review of the various options for the business to optimise shareholder value.

Consistent with the existing Wesfarmers' divisions, these business groups will report to the Wesfarmers Managing Director who will chair the board of each new division.

"Our management philosophy is built around having a lean head office that provides only services that add value to the operating businesses and divisional offices that recognise the specific needs of each business. Each business is given the authority and responsibility to manage their operations," said Mr Goyder.

Wesfarmers has developed a tailored management strategy for the Food, Liquor and Convenience Division, which will include the addition of international retail expertise and strong incentives to drive management performance.

"John Gillam, who has very successfully run Bunnings since 2004, will be the managing director of the combined Bunnings/Officeworks businesses," said Mr Goyder.

"Commercial executives from Wesfarmers will join the leadership team of each of the new divisions and I will be appointing a senior Wesfarmers person to oversee the entire integration process.

"As previously advised, senior managers for the Coles businesses will be drawn from current Wesfarmers and Coles managers and we will bring in leading retail expertise from outside. A global search is underway to identify candidates. I expect to announce key appointments about the time of completion in November so that certainly the most senior executives are in place and ready to proceed when we complete."

Value Creation Opportunities

Wesfarmers has identified a number of value creation opportunities, which have the potential to substantially increase earnings. It is intended to reinvest a proportion of those incremental earnings to improve the customer offer and drive sales growth.

Overhead Reductions

Wesfarmers is targeting corporate overhead reductions in the order of $385 million per annum, expected to be achieved by late 2008/09. This includes the $100 million in savings already achieved under the Coles Simplification programme.

Supply Chain Cost Savings

Supply chain cost savings are projected to reach $540 million per annum by 2013, including the $90 million achieved to date.

Mr Goyder said Wesfarmers and its supply chain consultants had thoroughly reviewed the current cost savings programme.

"The programme is well designed but end-to-end implementation needs to be improved to deliver the programme's full potential. Wesfarmers has detailed strategies to address implementation issues. The principal beneficiaries of the programme, the Food, Liquor and Convenience Division, will become responsible for the delivering the benefits."

Supermarket Sales Momentum

The short term focus will be on reversing current sales momentum as the first step in targeting comparable store sales growth in line with the market (three to three and a half per cent) by 2009/10. Each one per cent increase in comparable store sales growth per annum is estimated to generate an EBIT benefit of about $150 million in year five (before the benefit of new store rollouts).

Working Capital

Wesfarmers has set a goal of releasing more than $300 million in working capital over the next five years from the supply chain initiatives and a particular focus on a centrally managed range and auto-replenishment. Responsibility for implementing these improvements will be specifically delegated to operational managers.

Kmart Review

Kmart will be subject to a detailed strategic review based on three options – improving the trading performance of the businesses as it now is; converting some stores to other formats; and a sale of part or all of the business.

"It is my strong preference to retain Kmart but all ways of maximising shareholder value need to be considered, including a combination of the three options identified," said Mr Goyder.

Synergies

Wesfarmers has identified a number of synergy opportunities at both the head office level and at the retail brand level. Public company costs will be reduced and the move to the Wesfarmers' model of divisional autonomy will be positive in cost terms. At the operational level, Bunnings is expected to benefit from Coles global sourcing, particularly in buying on the Asian market.

"As is well known, Wesfarmers has a very small corporate office which provides specialist support to the business divisions," said Mr Goyder.

"Under our ownership, each of the current Coles' businesses will be given the resources they need to operate most efficiently rather than having to rely on functions centralised at the Tooronga head office.

"I want the divisional back up to be moved as quickly as possible out of Tooronga and into the operations. We plan to exit that building as soon as is achievable subject to the current lease arrangements."

Capital Expenditure

About $5 billion will be spent in the Coles' businesses over the next five years with $1 billion to $1.2 billion estimated in each of 2008/09 and 2009/10.

"Wesfarmers has a history of being prepared to invest in its businesses to deliver shareholder value," said Mr Goyder.

“Approximately 70 per cent of the projected capital expenditure on the Coles’ businesses will be invested in the network across the brands through new store rollouts, increased refurbishments and maintenance.”

Further details of Wesfarmers’ plans for Coles are available from the detailed presentation released today through the Australian Securities Exchange and available on the Wesfarmers’ website at www.wesfarmers.com.au

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