

The Sydney Morning Herald

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HD **Woolworths clotheslines Wesfarmers with a Hills heist**
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Distribution

Wesfarmers may have to source the iconic Hills Hoist clothes line from arch rival Woolworths after Australia's largest retailer signed a strategic partnership that gives it exclusive distribution rights to the Hills brand for almost 20 years.

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Hills has granted Woolworths exclusive distribution rights in Australia and more than 20 overseas markets to the Hills brand, which covers 240 products including clothes lines, clothes care and garden sprayers.

Woolworths plans to roll out a new range of private-label hardware and laundry products under the Hills brand and could take the brand into new overseas markets, taking advantage of its global sourcing and supply chain capabilities.

However, there are question marks over whether Hills brands will continue to be sold in Bunnings, the leader in the \$45 **billion** home improvement market, or in Mitre 10 stores supplied by Metcash.

If Bunnings and Mitre 10 decide to delist the Hills' brand in favour of other brands such as Daytek, Yates and Hozelock, Hills' sales could halve, undermining the value of the deal.

Woolworths said it would continue to supply stockists and it would be up to retailers to decide whether they would continue to stock the Hills brands. Bunnings was giving little away, saying it stocked many leading brands in all categories, including Daytek in clothes lines, and it had a long-standing commitment to deliver the lowest prices, best service and widest range to customers.

Under the partnership, Hills will receive an up-front fee from Woolworths and annual licensing fee from the use of the brand and Hills intellectual property. The fee will rise if product sales exceed agreed levels.

Woolworths home improvement managing director Matt Tyson, who was hired earlier this year from the UK to turn around the loss-making business, said Masters, Home Timber and Hardware and BIG W would now have access to the biggest range of Hills products at the lowest prices.

Hills chief executive Ted Pretty said the deal was a "win-win" for both companies. It would boost Hills' profits, strengthen the balance sheet and enable Hills to focus on building its technology business, particularly in security and healthcare.

Hills' original laundry and hardware products now accounted for less than 5 per cent of sales, he said, and the group was struggling to make an adequate return on capital due to lack of scale.

The 70-year old Hills Hoist still accounted for about half the rotary clothes-line market but demand was dwindling.

"The quarter-acre block is something that's leaving - people want indoor dryers and wall-mounted lines," Mr Pretty said. "Woolworths is one of Australia's pre-eminent retailers with national coverage and penetration across a range of retail channels. We have no doubt that Woolworths is the right partner to successfully distribute and market our products."

The licence agreement runs for an initial term of seven years, with Woolworths having three options to renew for four-year periods.

The deal with Hills is the second announced by Woolworths this week. Woolworths acquired an alcoholic drinks distributor in **China** for about \$US25 **million** (\$29.7 **million**), its first **acquisition** outside Australia since the Progressive Enterprises deal in New Zealand in 2005.

Hills shares rose 6¢ to \$1.25 and Woolworths shares closed 37¢ higher at \$31.27.

In the latest of a series of broker profit downgrades, Bank of America Merrill Lynch forecast a 1.5 per cent fall in Woolworths' net profit in 2016 and 5 per cent in 2017 - the first fall in underlying profits for about 16 years.

Merrill Lynch cut its price target for Woolworths to \$25 from \$27 after downgrading earnings forecasts by 5 per cent to \$2.52 **billion** in 2016 and 13 per cent to \$2.39 **billion** in 2017. These new forecasts are well below current consensus forecasts of \$2.72 **billion** for 2016 and \$2.87 **billion** for 2017.

Merrill Lynch **lead** retail analyst David Errington believes the retailer will achieve 4.5 per cent underlying net profit growth this financial year, towards the bottom end of the **company's** 4 per cent to 7 per cent guidance.

CO wsfrm : Wesfarmers Ltd | wolwth : Woolworths Limited

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