

FINANCIAL REVIEW

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HD **Wesfarmers puts shares on table**
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Almost seven years after splurging \$20 **billion** in cash and scrip on the Coles Group, Wesfarmers has not ruled out using its high-priced shares to fund new deals as it scours local and overseas markets for potential acquisitions.

Wesfarmers managing director Richard Goyder, who is under pressure to make another transformational deal or return capital to shareholders after selling \$4 **billion** in assets over the past two years, says the group would be prepared to issue shares to pay for an **acquisition**.

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"It's a valuable currency and there are advantages in terms of using scrip for acquisitions in Australia because of capital gains tax rollover relief," Mr Goyder told investors at the group's annual investor strategy update. "We'll always value our scrip at what we think it's worth.

"But we don't look for a moment in time when there's a different ratio between our scrip and someone else's scrip – eventually when you're acquiring that **company** those people become your shareholders anyway."

Wesfarmers shares are trading close to historic highs after several years of strong earnings growth, prompting analysts and investors to ponder whether the conglomerate will use its scrip to part-fund another deal.

Mr Goyder confirmed that Wesfarmers was evaluating potential value-adding transactions locally and offshore to augment growth from its retail, industrial and resources **operations**. Mr Goyder said the group would continue to make acquisitions or sell assets where it created value for shareholders .

But he declined to comment on recent speculation that Wesfarmers is eyeing private hospital operator, Healthscope, explosives maker Orica or its chemicals business, which is up for **sale**. Wesfarmers has also been named as a potential buyer of equipment hire group Coates Hire, consumer electronics and appliances retailers JB Hi-Fi and The Good Guys, and **Hong Kong**-based supermarket chain PARKnSHOP.

"We continue to evaluate opportunities to create value for shareholders – we'll be patient and disciplined on that," he said. "We always have a view of the long term when we do these things.

"We employ rigorous due diligence processes and maintain a strong balance sheet so we can act quickly when opportunities arise. We look to acquire businesses we can improve and build over time and we'll divest businesses where we think it's absolutely in the interests of shareholders to do so."

Mr Goyder said Wesfarmers would be "negligent" if it did not eventually move into international markets, but he appeared in no hurry to do so.

"I do believe we do need to build a capability to do things offshore," he said. "People should not be alarmed by that. I'm talking about building a capability over the next 20 years."

The Perth-based conglomerate is cashed up after selling its insurance **operations** for \$3 **billion** this year. It expects to book net profits of \$1.5 **billion** from the insurance deals – about \$500 **million** more than analysts forecast.

Analysts believe that with at least \$2 **billion** in cash and low gearing Wesfarmers has sufficient firepower to fund a \$7 **billion** deal.

However, finance director Terry Bowen urged analysts to take into account the group's total liabilities of \$19.4 **billion**, including off balance sheet leases of \$13.8 **billion** and external debt including **bonds** of \$5.6 **billion**.

Mr Goyder did not rule out a capital return, but said the timing would depend on work under way to right-size the balance sheet.

"It's shareholders' money and our approach is to do the best thing we can by shareholders with it. If we return money to shareholders we have to do it in a tax efficient way," he said,

The group plans to invest between \$1.2 **billion** and \$1.5 **billion** in net capital expenditure this year – down from initial forecasts between \$1.5 **billion** and \$1.9 **billion** – and to "recycle" about \$1.1 **billion** of property.

Mr Goyder painted a bright outlook for Wesfarmers's retail and industrial businesses, but said conditions in **coal** remained challenging .

He played down the impact of the budget on retail, but expressed disappointment at reaction to the budget, saying Australians needed to think about the resilience of the economy rather than the impact of the budget on household budgets.

CO	wsfrm : Wesfarmers Ltd colsgj : Coles Group Ltd
IN	i64 : Retail/Wholesale i656 : Mixed Retailing i6560002 : Department Stores i8396 : Diversified Holding Companies ibcs : Business/Consumer Services iretail : Retail
NS	c18 : Ownership Changes c312 : External Markets cacqu : Acquisitions ccat : Corporate/Industrial News c181 : Acquisitions/Mergers/Takeovers c31 : Marketing cactio : Corporate Actions ncat : Content Types nfact : Factiva Filters nfcpin : FC&E Industry News Filter
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