HD **Woolworths Holdings Ltd Proposed Acquisition of David Jones in Australia M&A Call - Final**

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Presentation

OPERATOR: Good morning, ladies and gentlemen, and welcome to the Woolworths conference call regarding its proposed acquisition of David Jones. The call will be hosted by Ian Moir, Woolworths **Group**'s CEO, who will provide an overview of the **transaction**, before we turn to questions. Ian is also joined on the line by Reeza Isaacs, Woolworth **Group**'s CFO, and Ralph Buddle, Head of Woolworths' Corporate Finance. (Operator Instructions). Please also note that this conference is being recorded. I would now like to turn the conference over to Mr. Ian Moir. Please go ahead, sir.

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IAN MOIR, **GROUP** CEO, WOOLWORTHS HOLDINGS LTD.: Morning, everyone. Thank you for joining the call. I assume that you have all read the news. You've received a copy of the analyst report as well as our announcement on the JSE and our press announcement. Would that be correct? I'll take that as a yes, shall I?

Rather than go through the analyst presentation that you will have to hand, I'm happy to answer questions on that at the end. Why don't I just talk about what we're doing, why we're doing it here?

This is a major -- as you can see, it's a major acquisition for us. We've offered AUD4 a share for David Jones. It's a cash offer. It's fully funded at this stage. We will fund it ultimately through a mix of cash debt and equity. And that -- we'll send out a circular for that equity raise in mid May.

It's without doubt a paradigm-changing and very exciting move for Woolies. But it's consistent with where we've been driving. I think the world is changing. Retailers need to get wise to it and accept that there's going to be more competition. There's going to be more northern hemisphere guys coming into the southern hemisphere, trying to compete with southern hemisphere retailers. Omni-channel and online sales are going to change the way people look at retail going forward. And you either embrace that and build a competitive platform to compete against that or you're not going to survive.

And we also see a great opportunity here, essentially to build the biggest and the best department store in the southern hemisphere. We'll be one of the top 10 department stores in the world. We'll be able to benefit from significant economies of scale from being that business. And it's a culmination really of this drive to be a southern hemisphere retailer of real scale.

The big prize for me is we've done so much in the last five years in Woolies. If you look at what we've done in terms of getting faster to market, we've changed our apparel processes, our apparel systems, the way we source, how quickly we source. We can turn around 60% of our product in 90 days and we can get a significant amount of product on -- within five to seven weeks. We can trade in season and we've got highly efficient merchandise systems. We've got a product development and sourcing facility in Shanghai with about 60 or 70 people. We can get on-trend product. We can get it in quickly. We can turn it quickly.

We've increased the margins by going direct. And you've seen all of that in the Woolies business. We've increased our margins by 5% over the past five years. We've grown the business by around 10% per annum over the last five years. We've built up profit by about 20% per annum over the past five years.

And this is taking what we've done there, not just in this but also in things like CRM, in things like our merchandise system and our scientific approach to driving productivity per square feet in the stores. We can take what we've done there, all the learnings, all the hard work, all the design ability that we've created and production ability that we've created and put it into David Jones.

This is a department store that mirrors Woolies unbelievably well. It's at the top end of the market. Its customers are top-end customers. They're more affluent. It's a well-loved, iconic brand. But then when you stand back from it, it's got no private label business to talk of. It's got about 3%. And if I'm being honest, that's not worth having.

The quality of the goods is pretty woeful. They're pretty basic. They're sourced through wholesalers and indirectly through agents. And it's a type of setup that we had in Woolies many years ago. These guys will be taking significant margin on this product.

So what we can do is we can build that 3% to 20% and we can significantly enhance the margin of that product. And that's the principal driver of what we believe will be at least AUD130m per annum benefit to the bottom line within five years.

But it's not the only thing we're going to do. Obviously when we create the combined business we get benefits of the economy of scale that will flow back into the Woolies business and our cost of goods. So we can take it in margin or we can take it in price.

We also can introduce -- at the moment they don't have a CRM to talk of. Only 20% of their customers are on a card. You look at Woolies, we've got it to over 70%. In Country Road we've got it to 85%. And look at how we've used that information. We've used it to make sure that we use propensity modeling. We drive into the next category. We've encouraged our best customers to come in more often, spend more money with us. And it's given us an incredibly rich set of data that we use to inform our decisions, both about product and about our stores. And we can use all of that within David Jones as well.

And if you look at what we can do with online, we've got great online business in Country Road. About 10% of their sales, about AUD70m is through online at the moment. That's bigger than the David Jones online sales right now, despite it being a much bigger business than Country Road. And we can get the platform right. We can get the offer right. We can introduce private label and we can get the online offering right.

Now the other thing we can do with this is, quite frankly, because we own Country Road as well, we can make sure that we maximize the Country Road, Trenery, Witchery, Mimco space in the David Jones environment. We give them more space, more pads, and we enhance the profitability of the **Group** as a whole. And we don't just do that in the physical store; we do that online. At the moment -- and at the moment we don't offer any of our CRG brands on the David Jones online business. We'll change all that overnight.

So we're very confident that we can deliver at least that AUD130m worth within the five-year timeframe. And we think in particular the private label aspect of this we can affect pretty quickly. We've spent a lot of time. We've been to every single David Jones store. We've looked at every single layer. We know every category. We know every brand within every category. We know what we're going to change, how we're going to change it, what volumes we're going to get and we know what margin we're going to get.

So we're pretty confident of this. It's not -- we're not snatching at this one. This has been a long time in the making. But we believe it's absolutely right for Woolies and is going to deliver a significant return on investment for our shareholders. And we also think it's going to be EPS-neutral by FY16 and accretive thereafter. So that's based on the AUD4 price that we've offered.

So in summary, that's why we've done it. That's why we think we can -- it's great for our shareholders. And I'm sure you've got a lot of questions and I'm sure I haven't done the investor presentation justice in trying to go through it in five minutes. But I think you can read it. I'll come and visit all of our key investors one on one and we'll take you through the rationale in detail, answer all of your questions in detail.

But I wonder if I don't just pass over to you now so that you may ask any questions that you have, and understanding that if there's any difficult or financial ones, that Reeza and Ralph can answer those.

Questions and Answers

OPERATOR: (Operator Instructions). Rod Salmon, Barclays.

ROD SALMON, ANALYST, BARCLAYS: Hello, Ian. Hello, Reeza. Hi, Ralph. I wonder if you can answer a couple of questions for me. Can you hear me okay?

IAN MOIR: Yes, perfectly, Rod. How are you?

ROD SALMON: Okay. Very good, thank you. The private label benefit, you said it can be realized quite quickly. Could you put a time -- give us a time indication?

IAN MOIR: We've talked about delivering private label. We've talked about five years. But I see us building up this private label over the next two or three years really, Rod. And we'll build it up in some categories quicker than we'll build it up in others. We know where those opportunities are. We know what brands we'll bring in. So we'll bring in the likes of [RI], we'll bring in Studio. We'll look to have more of a private label David Jones offering in kid's wear and in women's wear.

Our classic -- the David Jones customers are older, so I think a classic offering will do extremely well. So I would envisage that within two to three years we'll be well on our way to that 20%.

ROD SALMON: Okay. And have you -- previously the South Africans have normally been destroyed by the unions. Have you got union approval for this move because that's the thing that has been a bugbear before?

IAN MOIR: By unions, who are you talking about, Rod?

ROD SALMON: The labor unions. If you look at what happened to Pick n Pay, if you look at what happened to Metcash and a lot of the others, it was the unions that really ganged up against them and gave them a very hard time and took away a lot of the opportunity.

IAN MOIR: Yes, Rod, I don't think we're going to have a problem with that. At the end of the day we're going to be -- this will create more jobs in South Africa and there's more opportunity for South Africa. For me this is about South Africa Inc. moving into Australia, taking what we've got there. And we'll have more product coming from South Africa, more product coming from our South African and SADC suppliers. We'll create more jobs in South Africa.

Yes, we've had the right conversations with the right people, Rod. We don't see this as a problem for us.

ROD SALMON: I was more talking about the unions in Australia, Ian.

IAN MOIR: I don't think we're going to have a problem with unions in Australia. We never have had -- Country Road, it's a non-unionized base. And the reality is David Jones is not significantly unionized. And the retail unions is pretty much a structure and prescribed environment. And these guys are well paid. We're not going to change that.

What we'll be doing in the David Jones stores environment is creating more employment because we'll open more stores. So I -- we don't envisage a problem at all. And there's no production left in Australia anyway so any of the textile unions or so on aren't going to be an issue at all. Most of the product already comes from **China** or from other countries.

ROD SALMON: Okay. And just going on on that, how many stores? What is your extent of chain? And do you expect to drive out the food business in Australia as well?

IAN MOIR: There's 30 stores currently. We see more stores than that over time. They've introduced a -- what we think is a great format of store that they're calling a village format store. It's a smaller store than the average Country Road -- David Jones store. And we think it's got the right brand mix. It's in the right demographic. We see quite a few of those over time. We've not factored that in to our AUD130m in any material way. We've allowed for three stores in total and there's already one there. So it's just a further two. So it's a very conservative AUD130m.

And in relation to food, Rod, the food business is tiny, tiny, tiny, and it's only in a couple of stores. We might be able to add value to that in time, predominantly through long life. It's a very upmarket deli-type offer that adds a bit of value to those top stores. So we can enhance it, improve it. But we're not going to come in with a major Woolies food offer.

ROD SALMON: Even if it's a separate small-store format like you have in South Africa?

IAN MOIR: Yes, look, it's very difficult to get the local sourcing and to -- we're predominantly a fresh business, as you know. And this is a highly competitive marketplace. So I can't see that happening. Obviously once we're in and under the bonnet, we'll have a good look. You never know. But at this point in time we couldn't bring anything in under the Woolworths label because we're precluded from doing that because of the Woolworths food supermarkets in this marketplace. But we'll have a look. But this play's an apparel play.

ROD SALMON: And -- thank you very much. And the last question is just about management dilution. Do you see that you're going to have to take many people from South Africa and is there a risk to the South African business?

IAN MOIR: No, we wouldn't do that. That's robbing Peter to pay Paul. And we've got a good team in place in South Africa. We're kicking goals. We've got good momentum. We're not going to mess with that, Rod. So we don't see any real number. In fact, if I saw one or two at the most, I'd almost be surprised at that.

There's some really good people in David Jones. There's some capable retail talent within Australia. I don't think we need to parachute in the South African regiments on this one.

ROD SALMON: Okay. Thank you very much.

IAN MOIR: Cheers, Rod.

OPERATOR: [Toby Loughner], Peregrine Capital.

TOBY LOUGHNER, ANALYST, PEREGRINE CAPITAL: Morning, Ian and team. Just the -- David Jones own a **property** portfolio of AUD600m, which is quite unique to Woolies' operating model in South Africa. Would it be your intention to sell off that **property**? Are we seeing a different risk/return profile from a combined **group** going forward is the first question?

IAN MOIR: Hi, Toby. How are you going? Toby, we haven't done anything in terms of looking at our options with that **property**. Obviously it's very nice to have AUD610m worth of prime real **estate** on your balance sheet. And what we do with that going forward, we'll have a good look when we get in there about what they've done previously, what deliberations they've had, what advice they've had and we'll take a view on that in time. We've not factored any benefit from any real **estate** deal within the AUD130m -- the minimum AUD130m that we've identified.

TOBY LOUGHNER: All right. Thank you. And possibly to save you a whole bunch of other questions, just can you give us an indication very roughly of what the split will be between equity funding and debt funding on this deal? I'm imagining every shareholder wants to know that answer.

IAN MOIR: We'll be giving that more detail in due course, Toby. So we're funding this through cash debt and equity. We'll finalize our split on that in our communication with you in due course. Particularly where we're having the one-on-ones with you, I think we can sit down and be clearer on that.

TOBY LOUGHNER: Thank you.

IAN MOIR: I wonder if it's just worthwhile me saying don't get panicky about the debt here. We'll have the right capital structure. And that capital structure won't constrain our growth in South Africa or Africa, if that's what you're concerned about. And within a year of this we'll get back to what for a retail business is very normalized levels of net debt to EBITDA.

So our foods business is still going to be the big food business it was going to be. Our apparel business is still going to grow in the same way it was going to grow. And we'll still open the stores in Africa that we were going to open. This is -- they're not mutually exclusive. This is an and; it's not instead of, if that's was where the question was coming from.

OPERATOR: Great. Thank you very much, sir. Next we have some questions from the webcast. Please go ahead.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Hello. We have three questions. Our first question is from Kirsty Laschinger from Investec Securities. She asks is Myer likely to not carry Country Road, Trenery and Mimco and Witchery as a result of this deal?

IAN MOIR: Kirsty, a good question. I don't think so. Look, the Country Road/Myer deal is profitable for both parties. And I wouldn't foresee Myer cutting off their nose to spite their face. This is -- the Country Road mix of brands is actually quite important to Myer. So that would be a big move. And I think the shareholders would look very dimly on that indeed if it was just them coming back and being a bit spiteful on this, so I don't expect so. Having said that, if it happened, it wouldn't be the end of the world and this deal certainly stacks up whether that happens or not.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Okay. And the following question comes from Imtiaz Suliman. He says how much overlap is there between the David Jones stores with the existing Country Road stores in terms of location?

IAN MOIR: Look, there's a fair amount of overlap, but there always has been. So if you have a look at -- and I can answer this question unfortunately from bitter experience because we withdrew completely from David Jones previously and we assumed that we would get the benefit flow into Country Road. But the reality is we didn't. And we didn't because it's different customers. It's different customers, even though there's an overlap of location.

And we are confident that we can continue to build the Country Road business as we'd planned. And we can actually put more Country Road pads, bigger pads, we can put Trenery into the David Jones business. And interestingly, the Trenery brand is the best overlap for the David Jones business. It matches their customer perfectly. So it's going to do better than any of our other brands. So that'll be an exciting addition to the David Jones offering and very profitable for Woolies and for Country Road and for David Jones.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Okay. The final question comes from Omri Thomas from Abax Investments. Would you be looking to sell off own flagship properties to part fund the **transaction**?

IAN MOIR: No. We're not part funding the **transaction**. The **transaction**'s fully funded. And we're very clear on how that funding mix will be established and achieved. And as I said to you earlier, we'll share that with you in time. But the properties are not factored into that. What we do with those properties in the future we'll get to.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Okay. That's all from the webcast. Thank you.

OPERATOR: Zaheer Joosub, Citigroup.

ZAHEER JOOSUB, ANALYST, CITIGROUP: Hi, Ian. Hi, Reeza. Hi, Ralph. I just wanted to find out, obviously since you did the Witchery deal, your actual market share in Australian market grew considerably, I think you're the second or third biggest player. Now post this deal, if you just aggregate your Australian businesses, are you the biggest now or how does that play out?

IAN MOIR: Yes. We'd be, if you combined the businesses, we'd be the biggest apparel player at the middle-top end of the market. You've still got some big players at the bottom end of the market. BigW and Kmart are very big businesses. But at the top end of the market, we'd be pretty much owning the top end.

ZAHEER JOOSUB: And Ian, in that sort of market, there's obviously benefits to -- it's a very developed market and obviously if you've got the biggest slug of the share, is that also incrementally what you're building in into your AUD130m, that obviously with this consolidated base and offering that also builds into the AUD130m? Or is it just -- it seems a lot of it seems to be through sourcing initiatives, probably efficiency improvements and the like. Is top line coming through that number of the AUD130m?

IAN MOIR: No. We're -- my view, that AUD130m has been very conservatively calculated. We'll deliver at least that. We haven't assumed taking market share. We've been very conservative on our growth projections, very conservative indeed. This is really about margin build. And we're really confident of that. We've done it in SA. You've seen that. We'll just do the same here.

ZAHEER JOOSUB: So you're replicating the SA strategy down at David Jones?

IAN MOIR: Exactly right.

ZAHEER JOOSUB: Okay. And then just a last thing from my side, the 38 stores that you talk about, those are all in Australia, right? There's no Asian or any other stores?

IAN MOIR: No, no. They're all Australian and they're in every state apart from the Northern Territories.

ZAHEER JOOSUB: Okay. So they're all domestic (background noise). And your growth going forward, I know it's too early to talk about. This is just something quite new. But is it something in the longer term that you think is an offering that could be expanded geographically into other regions or is it going to be domiciled largely in Australia?

IAN MOIR: No. It's going to be domiciled largely in Australia. If it went anywhere, it might go to New Zealand, but we've not really looked at that in any detail or factored it in. But there is more than enough in this marketplace for us to concentrate on.

It's a bit like our position in South Africa. We need to focus on the customers that we've got and get them to come in more often and spend more money with us. And I think there's a great opportunity to do that. But we haven't even assumed that. All we've assumed is this margin build in our calculations.

ZAHEER JOOSUB: Okay. And just a last thing from my side, obviously now for the first time you're going to have quite a bit of international brands that you're going to be managing in a departmental store type of arena. How does that alter -- you've spoken to obviously the brands and the like, just carry on as per normal or is there going to be some (inaudible) looking to in terms of the different sphere of business for you now?

IAN MOIR: Look, it's not so different. It might be a different sphere of business for Woolies but it's (technical difficulty) sphere of business for David Jones. This is what they've done. Now obviously their product mix is going to change because we're going to have more private label in there and we're going to have more of the Country Road group in there. But with the science that we have applied to our own stores, to get our productivity to the second best returns per square meter in the marketplace is exactly the science that we'll apply here.

They don't really -- they haven't really done that in DJs. It's a mix of concession and wholesale, with very little own retail brand. And I think they're competing with Myer on who can get the most international and domestic labels in, who can get them exclusively. And they've kind of lost sight of the customer, I think, here. And what we need to do is get the right brands for the customer, for the demographic, and sort it out that way.

ZAHEER JOOSUB: Okay. So long term you're looking roughly 20% private label, 80% branded. Is that more or less --?

IAN MOIR: Yes. That will change. It'll be different. Some stores will have more. Some stores will have less. But the average will be about 20%. And that 20% will deliver the AUD130m or at least a large chunk of that AUD130m.

ZAHEER JOOSUB: Excellent. Thanks, Ian.

IAN MOIR: Cheers.

OPERATOR: (Operator Instructions). Mukhtar Mustapha, Credit Suisse.

MUKHTAR MUSTAPHA, ANALYST, CREDIT SUISSE: Hi, guys. I think some of the questions have been dealt with already in terms of funding. Just one then from my side. Effectively we've seen South African companies take a lot of pain in Australia in the past. And this play makes contribution from Australia much more significant. Are you concerned in one sense that your overall growth would be lower, i.e. going into a developed market?

IAN MOIR: Look, it's more about the profitability of this than the growth it'll necessarily drive within the Australian marketplace. We will get growth, but we will be significantly more profitable. And we wouldn't do this unless we were very confident. This is a big play for us.

We've got a lot of experience of the Australian marketplace. We know it well. We've had a lot of success with Country Road. The acquisition of Witchery and Mimco was a very good one that's very quickly turned a very good profit for us. Now you're sitting -- they're now 16% of our profit in the Country Road Group. So we are confident it'll get to about 43% of our revenue overall. But it's a natural rand hedge. It's a business in a market that we're confident about. And it's the Woolworths model already established and successful that's going to make the difference here and is going to drive the profitability.

MUKHTAR MUSTAPHA: Okay. Thank you.

OPERATOR: Luke Ho, Imperia.

LUKE HO, ANALYST, IMPERIA: Hi. Just wanted to get some more clarity around timing of the rights issue and whether that will occur following the scheme vote -- the David Jones shareholder scheme vote in Australia.

IAN MOIR: So if you've got the presentation, it's on page 29, Luke. But in essence we'll put out a circular to our shareholders mid May. Looking to have the shareholder vote by mid June, with the offer being launched in September.

LUKE HO: And can you just confirm whether the rights -- the 75% shareholder vote for the Woolworths shareholders for the rights issue, whether that is a condition of the David Jones scheme proposal?

IAN MOIR: Yes, it is.

LUKE HO: Thank you.

OPERATOR: [Mark Witter, Kason Asset Management].

MARK WITTER, ANALYST, KASON ASSET MANAGEMENT: Morning, guys. Thanks very much. So my question was actually around the debt equity structure, which is -- you've dealt with. I just wanted to understand, in Australia there's quite a difficult retail environment, especially on the apparel side, growing at roughly 2% per annum. Are there plans to bring this business back to South Africa potentially or how else do you expect to generate the kind of growth to justify the -- there's quite an expensive multiple paid for a business to general AUD130m five years out.

IAN MOIR: Yes. Look, we've evaluated this very carefully and the AUD130m over the phasing that we've identified will deliver a significant IRR. And as I said before, EPS neutral 2016, accretive thereafter. And we are confident of that. We've assumed minimal growth levels in Australia on that basis to deliver those returns.

And do we believe that we're going to do better than that in terms of growth? Yes, we do. But we haven't factored it in to our calculations, into our AUD130m. We wanted to be conservative.

But the market's turning here. We're getting 6% in -- 6%, 7% in Country Road. David Jones itself has picked up from -- it's actually seeing positive growth. Other retailers in the market are seeing a tick up in consumer spending. It's been through a tough time. I think we're buying a business just at the right time here. Now obviously we're buying it for the long term, but this is a business that was on a share price twice of what -- at well over AUD6 less than two years ago. So I think we're buying it at the right time in the cycle and we're buying it capable of more growth than we've factored into our calculation of IRR.

OPERATOR: Sorry, Mark, do you have any further questions?

MARK WITTER: Sorry, thank you. I said thank you. I don't know if you heard me.

OPERATOR: Tatyana Mursalimov, Goldman Sachs.

TATYANA MURSALIMOV, ANALYST, GOLDMAN SACHS: Yes. Thank you. Thank you for the presentation. Can we go back a little bit to the private label development as you've mentioned it's the biggest driver for the profitability improvement? I've got a couple of questions. One is can you roughly say how much of this AUD140m of incremental profit is going to be achieved because of the private label?

And my second question would be from what I understand from our Australian colleagues, the business of David Jones is [really to] household brand and that's why people go there. So is there a risk that the brand could be damaged by a significant increase of private label?

And the previous experience of Australian retailers in private label seemed to be, as for what we know, more successful in the lower-income or mid-income categories rather than upmarket consumers, who seem to be a bit more affluent, going up to the big international brands. Can you elaborate more on that, please?

IAN MOIR: Okay. Hi, Tatyana. On your first question, how much of the AUD130m. We're not actually breaking down the synergies and giving an amount by each synergy or the phasing of each of those. We're happy to talk about it in more detail when we're one on one. But essentially the bulk or a significant proportion of the AUD130m relates to the private label. That's why we're so confident about this.

And to answer your second question that you're obviously getting from Aus, I presume, if you look at Myer, Myer is the biggest direct competitor with David Jones. 30% of their business is private label and it made a significant difference to their business when they introduced that. And certainly they have been on a drive to increase that over time. Most department stores worldwide have around 30% private label within their business.

And for me, it was unsuccessful in David Jones in 1990. That's a very long time ago. But nothing much has changed in David Jones' ability to do that because they're not a private label business. So they don't have the design infrastructure. They don't have the sourcing capability. They don't have the systems in place to be able to do that. Woolies is a private label business, as you know. Country Road's a private label business. This is stuff that we know. This is stuff that we do. This is stuff that we've effected in South Africa to drive our top and bottom line significantly.

So we're going to do it here. And the question is whether the customer's going to react to it. David Jones is iconic. It's a well-loved, iconic, aspirational brand. But it's also very accessible. It's very similar to Woolies. And it's not just sitting at the cream of the very top of the market. And yes, some of its stores, the top four stores will store the likes of Chloe and Prada, etc. But when you get down the chain, you're getting to a business that looks very like Woolies as you get down the chain.

And the private label business, well, they make this business far more accessible and I think far more successful than it's been. Why would you not have -- if this is the most loved brand in Australia from a retail point of view, why wouldn't it have its own private label? They just haven't been able to do it because they don't have the skills, the infrastructure to do it. We do, and that's why we can come into this business and create value very quickly.

TATYANA MURSALIMOV: Thank you.

OPERATOR: Roger Williams, Centaur Asset Management.

ROGER WILLIAMS, ANALYST, CENTAUR ASSET MANAGEMENT: David Jones's turnover's gone down about 5% over the last four years. How do you intend reigniting the growth? It really looks like an ex-growth business. How can you get that moving forward again?

IAN MOIR: Wel,l it's already moving forward again, so the momentum is positive not negative. And we're going to enhance that by all the things I've talked about. If we introduce a great CRM system, if we have a great online channel, if we have a great private label business, then there's no doubt in my mind that we can create excitement. Look at the growth we're achieving in South Africa. Look at the growth we're achieving in Country Road. We can drive real momentum in this business.

And I think we can be unbelievably competitive against Myer. These guys have -- it's almost as if they've forgotten about the customer. They've been competing against each other, trying to introduce as many exclusive brands as they possibly can to the point where it's cluttered, the consumer is confused. And we have an opportunity to come in, de-clutter, focus on the customer, get the product mix right and significantly increase the margin of this business.

ROGER WILLIAMS: Thank you.

OPERATOR: (Operator Instructions). [Sadika Danwe], Absa.

SADIKA DANWE, ANALYST, ABSA: Hi. My question is WHL has always remained really conservative in terms of the gearing. How will this debt equity structure of the acquisition impact on the level of gearing going forward?

IAN MOIR: Obviously it's going to have an impact on gearing because of the debt that we'll take on, and we'll share that with you. But we are a conservative business and we wouldn't mess with that. We're very clear and you know our **Board** are a very conservative, experienced **board**. It was one of the big questions that they had. How quickly do we get back to normalized net-debt-to-EBITDA levels? And we've been very clear on that.

So we're not going to put the WHL business at risk. We're not going to over-leverage this business. We're not going to stretch our balance sheet. This is a solid deal that's based on good principles. And again we'll share more of that detail with you when we sit down with you one on one.

SADIKA DANWE: Thank you.

OPERATOR: Thank you very much. We have further questions from the webcast.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Hello. We have three further questions, the first being from Luis Colaco from BPI. He said won't you face any problems regarding antitrust authorities after this acquisition? What is your market share in the clothing sector in Australia?

IAN MOIR: We're not going to have any issues with the ACCC. We've already -- we've had very good legal advice on that and there is no issue. We're informing them as a matter of courtesy so there will be no regulatory issues over that.

Myer coming together with David Jones may have had an issue with the ACCC. We won't. If you combine Country Road and David Jones and look at the market as a whole, the market share is still relatively small and we're very confident that the ACCC won't have an issue with this.

UNIDENTIFIED **COMPANY** REPRESENTATIVE: Okay. Then the following question is from James Easterbrook. He asked what assessment should one make around antitrust issues with this deal, which you've answered already. Sorry.

Imtiaz Suliman asked department stores are a declining business. Australia is a mature business with lots of competition. Does the deal hinge solely on driving up the private label participation?

IAN MOIR: Look, I understand the Australian business better than most -- the Australian market better than most. And I think there is a real opportunity to compete at this level. Yes, it's a competitive market. But it's very competitive at the bottom and middle end of this marketplace. There's a fair amount of free space and room to wiggle at that top end.

And I think focusing and being clear who we were when we're at Woolies has had a really positive impact for this business. We are what we are. We're top end. And we'll only try to be top end. We don't want to be anything else. And I think that focus in David Jones is going to work for us well. And I think with all of the advantages that Woolies can bring to the David Jones business, we'll be very competitive in the Australian marketplace at that top end.

UNIDENTIFIED COMPANY REPRESENTATIVE: Okay. Thank you. And the final question comes from Tota Tsotsoto from Batuang Capital. He asks how much Australian debt and non-South-African-denominated debt could you utilize for this transaction?

IAN MOIR: Look, we will -- the debt will be split between Aussie debt and rand debt. So essentially we'll take debt against our South African cash flows. We'll take Aussie debt against our Australian dollar cash flows. The mix between the two and the mix between debt and equity, as I say, will be clear to you later on.

But one of the things I think I'm not getting across is that the gearing, when we buy this business, when we go into this business, the gearing won't be abnormal. It's -- our gearing at the moment is abnormal. And we will get back -- we will have normalized net debt to EBITDA as we start this deal and will get back to a pretty conservative net debt to EBITDA within a very short space of time.

So when we come and speak to you and when you have Reeza and Ralph, who can explain this much better and in more detail than I can, I think you'll get a great deal of comfort as to the capital structure that we're proposing and the impact it has on our net debt to EBITDA.

UNIDENTIFIED COMPANY REPRESENTATIVE: Thank you. That is all from the webcast.

OPERATOR: [David Morton, Merits Capital].

DAVID MORTON, ANALYST, MERITS CAPITAL: Hi, guys. Just wondering if you could talk about the multiple paid. It looks like it's 24 times FY14 consensus earnings. You could have got Myer for a significant discount to that. I'm just wondering if you consider that and why you decided against it.

IAN MOIR: Yes. Look, don't quote me on this, but I guess you get what you pay for. We didn't want Myer. We knew we could get it for less, but we didn't want it. The reality is David Jones is a perfect match for us. It's got more opportunity. We can do more with it. It's an absolutely mirror image of Woolies. And we can come in and make a real different to the David Jones business.

And I think the David Jones business has got more legs in that middle- to top-end customer than Myer has. So I think we've paid the right price for a bigger opportunity. And yes, the multiple looks steep. But at the end of the day, if we can deliver at least AUD130m to the bottom line, the return to our investors or to our shareholders, it's a rich return. It's well above our cost of capital.

DAVID MORTON: Okay. Thanks. And just one other question, I guess you talked about not needing to bring any South African management across. Sounds like you've got quite a few easy wins. So doesn't that reflect badly on the existing management, to a degree?

IAN MOIR: Not necessarily because you're dealing with a business that has had a different approach, different model. To turn around -- they know what they need to do. But knowing what you need to do and having the infrastructure, skills, experience and expertise sourcing set to be able to do that, it's pretty different. And I think what we can do is bring them and bring them quickly. It doesn't mean the management are bad.

Now obviously we've not got into the business. I don't -- I haven't met all of the management team. And when we do, we'll make that judgment. And if we don't like the look of them and don't think they can do the job then we'll deal with that when we get there.

DAVID MORTON: Okay. Thanks.

OPERATOR: [Donny Pretorius], (inaudible) Capita.

DONNY PRETORIUS, ANALYST: Good morning, guys. Beyond what you're paying for the business, is there any additional capital that's going to be required over the next couple of years?

IAN MOIR: Yes, there will be. I don't know, Ralph, do you want to cover that? Are you talking just in terms of working capital?

DONNY PRETORIUS: I guess working capital and CapEx.

RALPH BUDDLE, HEAD CORPORATE FINANCE, WOOLWORTHS HOLDINGS LTD.: Yes, Don. It's Ralph here. We'll obviously be sharing that a lot with you in the fullness of time. But obviously there will be a process of ensuring that we have the appropriate levels of facilities coming in as we structure the profile of the amortization of the debt. There will be bullet portions and amortization portions and there will be, I'm sure, further [taxes] as we go along, depending on the profile.

DONNY PRETORIUS: Okay. Thanks a lot.

IAN MOIR: Donny, it's probably just worth adding that we've -- in those AUD130m per annum, it's net. So we have assumed the necessary investment to deliver those synergies. And the depreciation cost of the capital involved within that or the DevEx involved within that is factored into the AUD130m. So it's a net figure.

DONNY PRETORIUS: Okay.

OPERATOR: Rod Salmon.

ROD SALMON: Hi. I just wondered if you could give us some indication of sustainable margins going forward, both at the EBIT, profit after tax and also the gross margin, because the gross margin doesn't look that different from what Woolies is now, but there's certainly a difference in the EBIT.

And also to grow your -- to get that AUD130m and basically keeping the same sort of margins that they've got now, you would have to add about AUD1.4b in sales. I'm just wondering if you can give some indication of how we should model this.

IAN MOIR: Yes. Look, Rod, I thought we were clear earlier on, this is not top-line growth we're talking about here. This is margin enhancement. If you look at the returns we get in Woolies, now sure, we're not going to get to 17% on the closing business. But we can improve it significantly from where it is. And that's where we're essentially -- that AUD130m is driven from margin enhancement on existing sales. It is not driven from assuming high revenue growth and margin improvement.

And the margin, we've gone in category by category, store by store, to identify which labels we take out and which product we would put in. We've built it up over each of the 38 stores and it's that that gives us the bulk of that AUD130m within the five-year timeframe. But we have been very conservative in terms of our revenue growth assumptions.

ROD SALMON: So could you give us an indication of what a sustainable gross margin would be?

IAN MOIR: No, we can't at this stage, Rod, unless Reeza and Ralph are prepared to jump in. We wouldn't normally disclose that and we're not in a position to disclose that now. I think as we -- as this deal gets done and as we get closer and as we get more confident, I think we could start to disclose that. It might not be in our interest to disclose all of that right now, to be frank.

ROD SALMON: Okay. It just looks -- if you're not going to increase your top line that much, it looks a big ask in margin and profit growth. It doesn't look that much if you're going to add some top line to that. But I just am trying to work out the difference between the cost savings, the gross margin growth to get to that extra AUD130m.

IAN MOIR: Yes, Rod, I understand where you're coming from and we will get revenue growth. We have not factored it in because we've taken a conservative view of this business. The margin might look rich, but look at what we've done in Woolies over the past five years. What we're doing is applying the same model here.

And we know we're going to do this. We've been through it category by category, brand by brand, and we know exactly where we're going to deliver this. It's not pie in the sky. It's conservative, well structured, well thought through. And we have really taken a conservative point of view. And we were talking about AUD130m in five years' time. We're very confident we'll deliver more than that.

ROD SALMON: Okay. Thanks very much.

REEZA ISAACS, **GROUP** FINANCE DIRECTOR, WOOLWORTHS HOLDINGS LTD.: Ian, if I can add that -- Reeza here -- that we haven't factored any cost savings into the model.

ROD SALMON: Could you give an indication of the split, because it has quite a financial services profit as well. It's about a third of it. Would you be looking at just growing the department store or have you looked at growing the financial services margin as well?

IAN MOIR: Yes, Rod, we haven't factored anything in on that. But one of the things we want to do as soon as we get in there is get down and dirty with Amex and their loyalty card. It's 20% of their business. It's ridiculous. We can really build that and do all of the things that we've done in Woolies.

So yes, we see an opportunity to build the FS. But more importantly we see the opportunity really to build the CRM program and build the extent to which it's available. We have cards available to the customers and customers are transacting on a card, be it FS or otherwise.

ROD SALMON: Okay. Thank you very much.

OPERATOR: Thank you very much. Gentlemen, we have no further questions. Do you have any closing comments?

IAN MOIR: No, I guess that's being asked of me. I think we've covered everything. I think the presentation is clear. I'm sure I'm going to be seeing all of you and talking to you in more detail as time progresses.

We're very excited about this. This is the right deal for Woolies. It's going to give our shareholders a very good return. And I look forward to seeing you when -- I'm back on a plane tomorrow so I'll be back in the country tomorrow night. So I look forward to seeing you over the next few weeks.

Thank you.

OPERATOR: Thank you very much, sir. Ladies and gentlemen, on behalf of Woolworths, that concludes today's conference. Thank you for joining us. You may now disconnect your lines.

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