

WOOLWORTHS LIMITED

Wednesday, 24 August 2016

Woolworths Update on Home Improvement Exit

Key Points:

- Woolworths Limited (Woolworths) has agreed three separate contracts to facilitate its exit from Home Improvement for estimated gross proceeds of \$1.5 billion
 - Masters will cease trading at all stores on or before 11 December 2016
 - Woolworths will work hard to find Masters employees jobs within the Group, or will pay full redundancy where suitable roles are not available
 - Woolworths will honour all customer gift cards, product warranties, returns, lay-bys and contracted home improvement projects and will work constructively with all suppliers
1. Metcash to acquire Home Timber & Hardware Group (HTHG) for a headline purchase price of \$165 million, with the business continuing to trade
 - Woolworths will take assignment of three residual HTHG leases
 - Transaction approved by Lowe's and Hydrox Holdings Pty Ltd (Hydrox), the joint venture company owned by Woolworths and WDR Delaware Corporation (WDR), a subsidiary of Lowe's Companies, Inc. (Lowe's)
 2. GA Australia has provided an underwritten recovery for the value of the Masters Home Improvement (Masters) inventory and has been appointed to manage the sell-down of Masters inventory. The underwritten recovery is subject to certain adjustments and is estimated to deliver gross proceeds of approximately \$500 million
 - Sell-down of Masters inventory to be conducted over the coming months
 3. Subject to Lowe's consent, Home Consortium (Aurum Group, Spotlight Group and Chemist Warehouse) has proposed to purchase the Masters properties through acquisition of 100% of the shares in Hydrox. The transaction will include 40 Masters freehold trading sites, 21 Masters freehold development sites and 21 Masters leasehold sites. Home Consortium plans to repurpose the former Masters sites into multi-tenant large format centres
 - Woolworths will acquire three Masters freehold sites and take assignment of 12 leases to facilitate a complete exit of Hydrox
- Estimated gross proceeds of \$1.5 billion from the collective sale contracts
 - Estimated net proceeds of approximately \$500 million¹ are expected after wind-down costs and prior to any shareholder payments

Woolworths said today that, following a seven month sale process, it has agreed three transactions to sell its Home Improvement business, Hydrox, to a collective bidder group of GA Australia, Metcash and Home Consortium.

¹ Includes a \$105 million commitment from Woolworths to acquire three Masters freehold sites.

Home Consortium is comprised of the investors behind three major Australian privately owned companies - Aurrum Group, Spotlight Group and Chemist Warehouse Group.

After estimated wind-down costs, Woolworths expects to receive proceeds of approximately \$500 million² prior to any shareholder payments, following Lowe's consent to the Home Consortium transaction.

"When I was appointed CEO in February, I said exiting the Home Improvement business was a top priority. Today's announcement delivers on that commitment. These agreements are the result of an intensive seven month process of reviewing all possible options for exit and extensive negotiations. This decision means management can focus on driving the momentum in our core businesses," Woolworths CEO Brad Banducci said today.

"The agreements provide certainty to our Masters team, suppliers and customers. It is the right resolution for our shareholders. The Home Consortium transaction remains subject to Lowe's consent.

"Woolworths' top priority remains to do the right thing by our employees, customers, suppliers and shareholders. We will provide a certain and transparent timetable to all our stakeholders during the exit process.

"Since the sale process began, our 7,700 staff in the Home Improvement businesses have worked extremely hard in an uncertain environment and we sincerely thank them for their commitment." Mr Banducci said.

The three transactions:

Home Timber & Hardware Group

HTHG will continue to trade and service independent hardware customers throughout the country, providing access to leading domestic and global brands and products as well as leverage ongoing relationships with suppliers.

Metcash will acquire 100% of the shares in Danks Holdings Pty Limited, the holding company for HTHG, for a headline purchase price of \$165 million. Metcash has indicated that it intends to exit two company-owned stores (Gungahlin and Launceston (Dowling St)) and one distribution centre (South Dandenong). Woolworths will take assignment of the leases for these sites. Woolworths will work to find staff affected by these closures, jobs within the Group and offer full redundancy where jobs are not available within the Group. A detailed transition plan has been prepared.

On 21 July this year, the ACCC said it would not oppose a bid from Metcash to acquire HTHG from Woolworths after accepting a court-enforceable undertaking from Metcash. The details of that undertaking are publicly available.

Masters Inventory

GA Australia has provided an underwritten recovery for the value of the Masters inventory and has been appointed to manage the sale of the inventory. The underwritten recovery is subject to certain adjustments and is estimated to deliver gross proceeds of approximately \$500 million.

GA Australia is part of the Great American Group, a wholly-owned subsidiary of B.Riley Financial Inc., one of the

² Includes a \$105 million commitment from Woolworths to acquire three Masters freehold sites.

world's largest inventory divestment specialists.

Masters stores will cease trading on or before 11 December 2016. Until then, Masters staff will support GA Australia to manage the sale of Masters inventory.

"We will work hard to find Masters employees jobs within the Group, or pay full redundancy where suitable roles are not available," Mr Banducci said.

Woolworths will begin discussions with Masters' suppliers immediately about the transition timetable to minimise the impact on trade suppliers.

Woolworths will honour all customer gift cards, product warranties, returns and lay-bys, and the completion of any contracted installation projects such as kitchens, bathrooms and floor coverings. Gift cards can be used at other Woolworths Group stores and at Masters up until closure.

Masters Property

Home Consortium have agreed to acquire 100% of the shares in Hydrox.

Woolworths has granted an exclusive call option over its two-third share in Hydrox to Home Consortium on economic terms consistent with Home Consortium's proposal.

The Home Consortium will seek to implement plans to repurpose the existing Masters sites into multi-tenant, large format centres anchored by a selection of Australia's leading home, hardware, family and lifestyle retailers (subject to landlord and authority consents where required).

Joint venture update

On 18 January 2016, each of Woolworths and Lowe's announced their intention to exit their Home Improvement joint venture following Lowe's notice to exercise its put option under the JVA. On 16 February 2016, Woolworth's exercised its call option under the JVA to acquire Lowe's shareholding in Hydrox in accordance with the option mechanism in the JVA. As of the date of this release Lowe's currently owns 33% of Hydrox and Woolworths owns 67% of Hydrox.

Woolworths has today exercised its right to terminate the JVA with Lowe's and WDR, and the associated option contracts arising under the JVA, as a result of a dispute about the process to value Lowe's shareholding under the option mechanism in the JVA. The confidentiality provisions in the JVA survive termination of the JVA and accordingly no further comment will be made about any dispute between the shareholders.

Citi is acting as financial advisor to Woolworths.

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