MYER

ASX & Media Release

Friday 31 January 2014

Myer confirms David Jones merger approach

Myer today confirmed, in response to media speculation and a subsequent ASX and media release by David Jones, that it approached David Jones on 28 October 2013 with a proposal to merge the companies to create a sustainable, more competitive retailer, and provide growth opportunities for the combined business. Myer believed such a merger would have delivered compelling value for the shareholders of both companies, as well as providing strategic opportunities to grow both brands.

The Board of David Jones declined the opportunity to engage with Myer on the proposal.

Myer has for some time been reviewing and implementing a range of strategic initiatives to strengthen the company's competitiveness, and has made good progress in seeking to best position the business to adapt to a changing retail environment.

As part of this review one option considered was a merger with David Jones and significant analysis was undertaken over an extended period leading to an approach being made. The confidential, non-binding, indicative proposal was conditional and also subject to regulatory approvals, due diligence and the unanimous recommendation of the David Jones Board in support of the transaction.

The proposal had a number of fundamental features, including:

- The merged company would have operated Myer and David Jones as separate, iconic department store brands that would have been better equipped to compete effectively in the changing retail market;
- Myer and David Jones would have been more clearly differentiated and the two brands would have provided an enhanced merchandise assortment, brand portfolio, and exclusive and private label offering, meaning the company would have appealed to a broader customer base and given customers greater choice and a better shopping experience;
- The merged company would have generated pro forma sales and EBIT in FY2013 of approximately $5.0 billion and $364 million, respectively, before any cost synergies;
- Based on analysis conducted at the time Myer expected that a merger could have achieved more than $85 million of ongoing annual cost synergies within three years, creating the potential for more than $900 million[1] of value to be shared by Myer and David Jones shareholders; and
- The merger could also have provided opportunities to maximise the value of David Jones' property assets for shareholders.

[1] Potential value creation calculated based on annualised run-rate cost synergies multiplied by blended pro forma FY2014 EV/EBIT multiple of 10.6x (based on consensus FY2014 EV/EBIT multiples as at 25 October 2013).

Myer and its advisors believe that the transaction would have enhanced competition as it would have enabled the merged entity to more effectively compete in what is now a globally competitive market. The merger would have further assisted Myer's existing strategy in addressing the structural shifts in retail internationally, including consolidation, segment specialisation and the growing impact of online shopping on traditional department store markets.

Myer remains committed to delivering on its planned and communicated strategies for the business, exceeding customer expectations and generating the best possible returns to shareholders.

The proposal to David Jones was not intended for public release. However, since material elements have recently been disclosed, Myer believes the release of the entire proposal is in the interest of a fully-informed market. Accordingly, a copy of the proposal is attached to this announcement.

Myer was formally advised of the rejection of the proposal by the David Jones Board on 27 November 2013.

For further information please contact:

Investors:

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Media:

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Paul McClintock
Chairman
Myer Holdings Limited
Level 7, 800 Collins Street
Docklands VIC 3008

28 October 2013

Peter Mason
Chairman
David Jones Limited
86-108 Castlereagh Street
Sydney NSW 2000

NON-BINDING INDICATIVE PROPOSAL

Dear Peter,

I am pleased to submit for your consideration Myer Holdings Limited's ("Myer") confidential, conditional, non-binding indicative proposal ("Indicative Proposal") for the potential merger of Myer and David Jones Limited ("David Jones") as described below (the "Proposed Transaction").

In our view, the rationale for a combination of Myer and David Jones is highly compelling and has the potential to provide substantial benefits to both companies and their shareholders and customers. Importantly, under this proposal, Australia's most iconic department store brands, Myer and David Jones, would both continue.

We believe the merger would create a sustainable and more competitive omni-channel retailer and would deliver economies of scale and increased scope in operations that would enable the combined business to compete more effectively in the now global retail sector. This would facilitate growth in both brands, a better experience for customers, and deliver improved shareholder returns.

We have undertaken significant analysis of the proposal over a long period of time. We have engaged a range of key advisors including financial, competition, legal, property, tax and accounting, and management consultants to assess and validate the strength of this proposal.

We look forward to engaging with you in constructive, co-operative discussions to finalise a proposal that brings benefits to our companies and our shareholders. Our desire is to engage collaboratively with you and the David Jones business on this unique opportunity.

1. INDICATIVE PROPOSAL

Myer is proposing an all-stock nil-premium merger executed via a David Jones Scheme of Arrangement resulting in a merged company ("Merge Co"). Myer is proposing a fixed exchange ratio of 1.06 Myer shares for each David Jones share which represents the exchange ratio equivalent to Myer and David Jones's respective twelve month volume weighted average share prices to 25 October 2013. We also believe this ratio is a fair reflection of the relative value of our two companies taking into account David Jones's property assets and it is in-line with the ratio implied by the median broker price targets for each of us.

Other terms of the Indicative Proposal include:

- Both the Myer and David Jones department store brands to be retained;
- Myer and David Jones Boards to agree:
  - Chairman appointment;
  - Composition of the Merge Co Board;
  - Chief Executive Officer appointment;
  - Corporate name change on completion of the transaction;
  - Location of head office and any additional office locations;
- An agreed process regarding senior management appointments to be determined; and
- Any future costs that are incurred in the assessment of the proposal by Myer and David Jones will be borne separately, unless agreed in writing by Myer and David Jones to be shared.

2. THE FUTURE OF THE MERGED ENTITY

Merge Co would keep operating Myer and David Jones as separate, stand-alone, department store brands. Merge Co would grow both businesses, appealing to a broader group of customers by offering an enhanced merchandise assortment and brands including exclusive and private label merchandise.

The operating model would provide for two independent merchandise and store operations teams. The same level of customer service would be maintained. To deliver the financial benefits of the merger, one head office incorporating shared support services would be established for the combined business. The integration of support services would be delivered over a period of up to three years and would include adopting best-of-brand systems, processes and supply chain, and a rationalisation of duplicated support roles and functions.

Merge Co would continue the store optimisation plans of both companies, including previously flagged new store openings, the rationalisation of certain stores, rollout of small format David Jones stores and an ongoing refurbishment program to revitalise the in-store experience for our customers.

3. BENEFITS OF THE MERGER

Strategic benefits of the merger

The merger would create a sustainable, more competitive omni-channel retailer in the global retail sector, which would provide improved returns for shareholders while providing greater opportunities for customers, suppliers, landlords and employees. The strategic plans of both companies would be accelerated.

- **Leading omni-channel offer:** Single investment in harnessing best-of-breed capabilities and extensive product volume and range, enhancing potential profitability
- **More defined department store brand differentiation:** Growing our share in key segments with a more focused proposition competing across the broad retail sector including specialty and online
- **Enhanced merchandise assortment, brand portfolio and exclusive labels:** Increase foot traffic, improve in-store conversion and basket size through a more relevant and appealing customer offer; and enhance margins by optimising product mix, in particular exclusive brand, private label and premium label contribution
- **Unrivalled combined store footprint with prime locations across Australia:** Opportunity to optimise and repurpose space with store network plans for both Myer and David Jones to continue. Further potential store rationalisation to be considered where beneficial
- **More compelling financial services offer and strengthened loyalty programs:** Combining capabilities in financial services and loyalty for more targeted customer engagement
- **Supplier benefits:** Merge Co to deliver a more efficient supplier business process through one head office and supply chain, greater opportunities to reach a broader customer base, as well as the shared benefits of improved customer service in store and online
- **Adoption of technology:** Optimisation of technology systems; leverage combined 'know-how' of Myer and David Jones as well as combined investment in technology
- **Accelerate other potential platforms for growth:** Expand and license stores regionally or internationally; license exclusive brands or private label internationally; attract new brands / partners due to increased scale; roll out of standalone merchandise and small format stores

- **Combination would accelerate both Myer and David Jones's growth strategies:**
  - David Jones would accelerate the growth of its private label business by leveraging Myer's vertically-integrated exclusive brand infrastructure
  - Margin growth for David Jones through the application of best practice shrinkage management
  - Both omni-channel platforms would be more globally competitive because of increased scale, increased investment, sharing of best practices and a differentiated product offering
  - Any redevelopment of David Jones properties would be better realised with the flexibility of the combined store footprint and leveraging Myer's recent experience in the significant rebuild of its flagship Melbourne store
  - David Jones's strong financial services skills combined with Myer provide an opportunity to drive significant shareholder value

Cost synergy benefits of the merger

Based on our analysis we expect that within three years the combined entity would achieve more than $85 million of ongoing annual cost synergies, driven by:

- **Structural efficiencies:** One entity, one executive team, one set of corporate functions and systems in one head office; consolidation of procurement of non-merchandise goods and services

- **Operational and supply chain:** Trade terms harmonisation; optimise store space; one omni-channel platform with two virtual experiences; one set of IT systems; and one end-to-end supply chain including direct sourcing opportunities

- **General and administrative:** Procurement of consumables, cleaning and maintenance; removal of duplicate store services

We expect the cost of achieving the synergies to the combined business to be up to two times the annual synergy value. Synergy and implementation estimates have assumed the head office would be located in Melbourne based on implementation costs and the capacity requirements of the combined business.

Financial benefits[1]

- David Jones pro forma ownership of 49%, compared with sales contribution of 37%, 41% of EBIT and 45% of NPAT based on last 12 months reported results for both companies
- Implied capitalisation of earnings multiples that place significant value on both David Jones's property assets and its department store business
  - FY2014 EV / EBIT multiple of 11.8x for David Jones compared to 9.7x for Myer[2]
  - FY2014 P/E multiple of 16.5x for David Jones compared to 12.7x for Myer[3]
- Value creation through cost synergies of over $390 million for David Jones shareholders, equivalent to 27% of its current market capitalisation[4]
- EPS accretion of 36% and DPS accretion of 27% for David Jones in the first fiscal year using phased synergies (43% and 33% respectively using full run-rate synergies)
- Pro forma net debt / EBITDA of 1.0x deleveraging to 0.7x by FY2016

4. CONDITIONS TO A FINAL AND BINDING OFFER

It is necessary that the following conditions be met before any final and binding proposal can be agreed (and we assume David Jones would require reciprocity):

- Myer completes commercial due diligence and synergy due diligence on David Jones (see below);
- No material adverse change in David Jones, including:
  - David Jones does not return any return of capital or make any other distribution to shareholders, including through the payment of a dividend not already announced by David Jones. Any return of capital or distribution to shareholders would result in an adjustment reducing the share exchange ratio;
  - David Jones does not acquire nor divest any material assets including its owned property assets;
- The Myer and David Jones Boards approve entry into the transaction;
- Myer and David Jones enter into a Scheme Implementation Agreement prior to announcement, with market standard terms and conditions; and
- The David Jones Board unanimously recommends the transaction on the terms set out in this document.

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[1] *Financial benefits based on cost synergies of $85 million (phased 31% in year 1, 78% in year 2 and 92% in year 3 and 100% thereafter); no revenue synergies; and one-off implementation costs of $109m (phased 58% in year 1, 33% in year 2 and 9% in year 3).*
[2] *Implied multiple calculated based on consensus FY2014 EBIT as at 25-October-2013.*
[3] *Implied multiple calculated based on consensus FY2014 EPS as at 25-October-2013.*
[4] *Value creation calculated based on annualised run-rate cost synergies multiplied by blended pro forma FY2014 EV / EBIT multiple of 10.6x (based on pro forma ownership and consensus FY2014 EV / EBIT multiples as at 25-October-2013).*

5. DUE DILIGENCE

It is our current expectation that due diligence undertaken by both parties would comprise of two primary components:

- Commercial due diligence (approximately two weeks), for which we propose reciprocal due diligence contact between respective CEOs, CFOs, General Counsel, Head of HR and other senior executives as required. Myer proposes key topics and contacts to cover: i) financial; ii) management and employees; iii) material contracts, legal and other; iv) IT; and v) Property, and limited to key areas not available to be sourced from public information. Documents are proposed to be selectively exchanged; and
- Synergy due diligence (approximately three weeks, simultaneous with above), for which we propose jointly appointing Bain & Co as an independent third party specialist to quantify the synergies while protecting our respective commercially sensitive information. Bain & Co would prepare a summary report to each of Myer and David Jones to consider. Key aspects of synergy due diligence include: i) corporate functions; ii) supply chain; iii) store operations; iv) cost of goods sold; v) information technology; and vi) other.

The due diligence document outlines each proposed due diligence workstream in further detail including an expected list of required information.

This approach reflects the fact that both Myer and David Jones are listed entities required to disclose continuously and who have both recently released market updates that should be sufficient for each of us to be in a position to confirm comfort with the Proposed Transaction, so long as the mutually agreed information is provided in a timely and complete manner.

6. COMPETITION AND CONSUMER ACT

Myer has made preliminary confidential contact with the ACCC in relation to the potential merger of Myer with David Jones. Myer and its advisors have done a significant amount of work in relation to the impact of the potential merger on competition, which it would look to work with David Jones to finalise and submit to the ACCC. Based upon this analysis we believe that the transaction is pro-competitive as it enables the merged entity to more effectively compete in what is now a globally competitive market.

7. APPROACH TO LANDLORDS

We believe the merger would create a sustainable omni-channel retailer able to compete more effectively with a strong balance sheet and a more diversified business, all of which would benefit landlords.

We believe any change of control consents from landlords can be managed. Through the existing operations of Myer and David Jones, both business should have a good appreciation of how landlords would likely respond. Based on our proposed transaction structure we believe Myer leases would not trigger change of control consents. David Jones has fewer leased stores which means a maximum exposure of 38 stores compared to Myer's footprint of 67 stores. Situations of single tenants with duplicate leases are not unfamiliar to landlords (for example Wesfarmers, Premier Investments, Super Retail Group etc). We believe if we engage early with landlords, explain the business model and communicate that no immediate changes are proposed to the combined store footprint, other than those already flagged, this process can be effectively managed.

8. FUNDING

Myer would be able to commit to funding any debt that is required to be refinanced as part of the transaction, for example as a result of triggering a change of control clause, via bridge financing.

Appendix A includes a highly confident letter from Goldman Sachs which indicates Goldman Sachs' willingness to underwrite any funding requirement of the transaction, subject to the conditions therein described.

9. TRANSACTION DOCUMENTS

The detail of the Proposed Transaction would be agreed between Myer and David Jones and reflected in transaction documents.

10. NON-BINDING AND CONFIDENTIAL PROPOSAL

This Indicative Proposal is intended as an expression of our interest and is not intended to constitute, and does not constitute, a legally binding offer. This Indicative Proposal does not constitute a proposal to make a takeover bid for the purposes of section 631 of the Corporations Act. It represents an incomplete and non-binding proposal. Any legally binding obligations would be subject to, among other things, the execution of definitive transaction documentation.

This letter is provided on the understanding and condition that neither the existence of the letter, its substance, nor Myer's interest in merging with David Jones would be disclosed publicly or privately by or on behalf of David Jones, except with the written permission of Myer. This non-disclosure requirement does not prevent any disclosure required by law or the listing rules of the Australian Securities Exchange. Should David Jones determine that it is required by law to disclose the existence of, or any details pertaining to, Myer's interest, Myer would appreciate being consulted in advance regarding the terms of the disclosure and, in all circumstances, Myer's identity must not be disclosed without our prior agreement.

11. CONTACTS

If you should have any questions about this Indicative Proposal, please do not hesitate to contact our financial advisor using the details provided below.

Christian Johnston
Goldman Sachs
christian.johnston@gs.com
03 9679 1144

Zac Fletcher
Goldman Sachs
zac.fletcher@gs.com
02 9320 1060

I trust that this Indicative Proposal demonstrates the seriousness of Myer's interest in the Proposed Transaction as well as its attractiveness to David Jones shareholders.

We have completed significant research and analysis on the benefits of this proposal, including the input from leading international experts and advisors: Goldman Sachs (financial advisor); Flagstaff Partners (corporate advisor); Bain & Co (management consultant); Allens (competition legal advisor); Clayton Utz (legal advisor); KPMG (tax advisor); Michel Retail (property consultant); and John Connolly and Partners (public relations and political advisor).

I reiterate our Board's desire to engage on a friendly basis with the David Jones Board and look forward to hearing from you once you have had a chance to consider.

Yours sincerely,

Paul McClintock
Chairman
Myer Holdings Limited

Appendix A

PRIVATE AND CONFIDENTIAL

Mr. Paul McClintock
Chairman
Myer Holdings Limited
Level 7, 800 Collins Street, Docklands
Melbourne, Victoria, 3008

21st October, 2013

Dear Mr. McClintock,

Goldman Sachs Australia Pty Ltd (together with its affiliates, ***Goldman Sachs***) is pleased to present its preliminary indication of support to Myer Holdings Limited (***Myer***) to potentially provide debt facilities (the ***Debt Financing***) as part of the financing you may require for the proposed merger with David Jones Limited (***David Jones***) (the ***Merger***).

We are very enthusiastic about your proposed Merger and excited about the opportunity to work with you on the Debt Financing subject to the terms of this letter. We believe that the Merger will create an entity with a credit profile that should be attractive to debt investors. Goldman Sachs is therefore highly confident of our ability to arrange and underwrite the Debt Financing subject to the terms of this letter. We believe that we will be able to work expeditiously with you towards completing the Debt Financing required for the Merger based on (i) our understanding of the industry sector, (ii) our extensive experience in the Australian debt financing market and (iii) our strong relationship with Myer.

This letter of interest is subject to customary conditions, including, amongst others: (i) determination of the structure of the Merger and the Debt Financing, (ii) satisfactory completion by Goldman Sachs of its due diligence with respect to the Debt Financing and the Merger, (iii) receipt of all internal credit committee and any other required external or internal approvals, (iv) no material adverse change in the capital and/or broader financing markets or in the business, financial condition, assets or prospects of Myer or David Jones and (v) execution of Merger and Debt Financing documentation in a form and substance satisfactory to Goldman Sachs.

The terms of this letter and its existence are confidential. This letter of interest is issued for your benefit only and no other person or entity may rely on it, except that you may disclose a copy to the board of directors of David Jones and its advisers for the purpose only of substantiating our interest in the Debt Financing, subject always to the terms of this letter and on the basis that the board of directors of David Jones and its advisers may place no reliance on it and may not disclose it to any other party. Goldman Sachs shall not be responsible or liable to you or to any other person or entity for any damages or loss that may be alleged as a result of this letter.

Save for your obligation of confidentiality described above, this letter is not intended to create legal relations between us and is not an offer of financing or a commitment with respect to the Debt Financing or any other financing and creates no obligation or liability on Goldman Sachs to provide, arrange, underwrite or participate in any financing.

We look forward to working with you to complete the Merger and Debt Financing.

Yours sincerely,

Goldman Sachs Australia Pty Ltd

Signed by: ______________________ Signed by: ______________________

As attorney As attorney