



ASX Release

5 March 2019

AGREEMENT TO ENTER INTO INCORPORATED JOINT VENTURE IN RESPECT OF COLES' HOTELS AND QUEENSLAND RETAIL LIQUOR BUSINESS

Key highlights:

- **Coles has entered into an incorporated Joint Venture with Australian Venue Co in relation to Coles' hotels business, Spirit Hotels**
- **Under the Joint Venture, AVC will manage the day-to-day operations of Spirit Hotels and will receive the economic benefit of this business. Coles will manage the day-to-day operations of the 243 retail liquor stores in Queensland and 10 retail liquor stores attached to Spirit Hotels venues in Western Australia and South Australia, and will receive the economic benefit of this business**
- **AVC is a highly experienced and responsible operator of hospitality assets, with a portfolio of more than 60 venues across Australia**
- **Coles will receive cash consideration of approximately \$200 million at completion, subject to satisfying certain conditions**

Coles Group Limited (Coles, ASX: COL) announced today that it has agreed to enter into an incorporated joint venture (Queensland Venue Co) with a wholly owned subsidiary of Australian Venue Co. Limited (AVC), for the ongoing operation of:

- the 87 hotels that comprise Coles' hotel and gaming business (the Spirit Hotels business); and
- the 243 retail liquor stores in Queensland and 10 retail liquor stores attached to Spirit Hotels venues in South Australia and Western Australia, which operate under the Liquorland, First Choice, First Choice Liquor Market and Vintage Cellars brands (collectively the Retail Liquor business).

The establishment of Queensland Venue Co, the JV Company in which Coles and AVC will own an equal number of shares, will enable the parties to pursue the expansion of both businesses in Queensland.

To comply with applicable liquor and gaming laws, all primary functional assets, including the licences and authorities, will be held by Queensland Venue Co. The JV Company's board will have ultimate oversight and responsibility for compliance with applicable laws affecting both businesses.

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AVC will manage the day-to-day operations for, and receive the full economic benefit of, the Spirit Hotels business. Coles will manage the day-to-day operations for, and receive the full economic benefit of, the Retail Liquor business. This structure will allow both parties to focus on their core competencies, whilst having joint oversight over the entire operation.

As previously foreshadowed, Coles has been through an extensive strategic review process in respect of its Spirit Hotels business. AVC has been selected as a partner given its strong reputation as an operator of hotel venues across Australia, as well as its experienced management team and willingness to invest in the hotel network to create an enhanced customer experience. AVC is majority owned by funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR). Furthermore, AVC's access to capital will allow the JV Company to grow its network in the future.

The Spirit Hotels business comprises of a portfolio of 87 hotels, 76 of which are located in Queensland, seven in South Australia and four in Western Australia. The Retail Liquor business comprises 253 retail liquor stores, 243 of which are located in Queensland and 10 retail liquor stores that are currently attached to Spirit Hotels' venues in the states of South Australia and Western Australia. Other than those mentioned above, Coles' retail liquor stores outside of Queensland will be unaffected by this transaction.

Relevant liquor and gaming authorities in Queensland, South Australia and Western Australia have been engaged and indicated they have no objections with the structure.

On completion of the transaction, Coles will receive proceeds of approximately \$200 million which is expected to result in an associated book loss on sale of approximately \$20 million. The net impact on the Liquor segment had the transaction been in place for the 12 months ended 30 December 2018 would have been a reduction of both revenue of approximately \$300 million and EBIT of \$13 million. The transaction is subject to certain conditions, which include obtaining consent from a small number of landlords.

Coles Chief Executive Officer, Steven Cain said "The agreement with AVC will enable each party to bring relevant expertise to the joint venture. Over the past 12 months Coles has undertaken an extensive review of its Spirit Hotels business to identify a suitable partner. AVC is a highly experienced and responsible operator of quality hospitality venues with their current portfolio of more than 60 hotels. AVC has plans to grow the hotel portfolio in Queensland which will in turn provide Coles with the opportunity to further grow its Retail Liquor business in that state."

"I would like to thank all Spirit Hotels team members for their outstanding efforts in growing and improving the business over the past few years and, in advance, for their continued focus and commitment during the transition to the new structure."

Subject to satisfying conditions precedent, the transaction is expected to complete prior to the end of the 2019 financial year.

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About AVC:

Established in 2003 and headquartered in Melbourne, AVC has significant experience in ownership and operation of a diverse portfolio of pubs/hotels, bars and restaurants. AVC currently operates nationally with more than 60 unique venues, each with a distinct brand identity. The business has a successful track record of acquiring and integrating venues to improve their operational performance and customer offering. Funds advised by Kohlberg Kravis Roberts & Co. L.P. (KKR) acquired a majority interest in AVC during 2017 to provide financial and operational support to continue to grow AVC. AVC is led by a well-credentialed and experienced management team. AVC is chaired by Bob East who was formerly CEO of Mantra Group and current Chair of Tourism Australia and Experience Co. Paul Waterson is the CEO and Managing Director of AVC, formerly Group General Manager at Spotless and Chief Operating Officer Pathology and Medical Centres at Healthscope.

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