

Agreement to acquire UK retailer Homebase

18 January 2016

Acquisition overview

- Acquisition of 100 per cent of Home Retail Group plc's (Home Retail Group) holding in Homebase for £340 million (A\$705 million)¹
- Unanimously supported by the Board of Home Retail Group
- Expected to complete in the first quarter of calendar year 2016, subject to approval by Home Retail Group shareholders and its banking syndicate

Acquisition rationale

- £38 billion UK home improvement and garden market is an attractive and growing market
- Homebase delivers an established and scalable platform with stores that are the right size for the UK market and support warehouse merchandising and a low cost operating model
- Acquisition is the first step in a program which will invest in the Homebase team and reinvigorate core Homebase assets to build an exciting new Bunnings-branded business over three to five years
- Ability to improve existing Homebase performance in the short-term through operational improvement

Wesfarmers Limited (ASX: WES) has entered into an agreement to acquire Homebase from Home Retail Group (LSE: HOME) for £340 million (A\$705 million)¹. This follows the announcement on 14 January 2016 confirming that a conditional offer had been made to acquire Homebase. Homebase is the second largest home improvement and garden retailer in the United Kingdom (UK) and Ireland. Homebase reported revenue of £1,461.2 million for the 12 months ended 29 August 2015 and currently has 265 stores.

Wesfarmers Managing Director Richard Goyder said the acquisition of Homebase provides a long-term value creation opportunity for Bunnings which will complement the strong growth trajectory of the Australian and New Zealand business.

"Bunnings is well placed to unlock value from the Homebase business and has a proven track record in delivering growth both organically and through acquisition," Mr Goyder said. "Our offer provides significant execution certainty and an attractive cash consideration to Home Retail Group shareholders.

"The £38 billion UK home improvement and garden market is a large and growing market with strong fundamentals. The opportunity to enter this attractive market through the acquisition of Homebase has been comprehensively researched and carefully considered by Wesfarmers and Bunnings. The Bunnings team has done a lot of work to make sure it understands the market and the opportunity, including having visited hundreds of stores, spending significant time researching the market and closely studying international retail expansions into the UK and other markets. Detailed due diligence has been completed and implementation and improvement planning is well advanced."

Due to early transformation activity, the acquisition is expected initially to have an immaterial effect on Wesfarmers' earnings per share and return on equity. From the third year post acquisition, the acquisition is projected to be progressively accretive reflecting long-term growth prospects.

¹ £:A\$ of 0.4822 at 15 January 2016 (Reserve Bank of Australia)

Bunnings Managing Director John Gillam said the acquisition represents a compelling opportunity to enter the attractive UK home improvement and garden market.

“Homebase has an established and scalable store platform with strong representation in high density areas,” Mr Gillam said. “The stores are well-sized for the UK market and support warehouse merchandising and a low cost operating model.

“The acquisition is the first step in building a further growth platform for Bunnings with additional planned investment of approximately £500 million (A\$1,037 million)¹ in the Homebase team and assets to build a new Bunnings-branded business over three to five years. We will combine essential local elements with the best of Bunnings to bring customers in the UK and Ireland an exciting new home improvement and garden offer.”

Management structure

Following completion, a new management structure will be put in place at Bunnings to drive continued strong performance in the existing operations and effectively implement the Homebase acquisition plans. John Gillam will be Chief Executive Officer of Bunnings, with management teams established in the two distinct operational regions. Key leadership appointments within the new Bunnings structure include:

Bunnings Australia and New Zealand

- Mike Schneider, Managing Director (currently Director of Store Operations)
- Clive Duncan, Chief Operating Officer (currently Director of Merchandising & Store Development)
- Justin Williams, Chief Financial Officer (currently General Manager Information Technology & Financial Services)

Bunnings UK and Ireland

- Peter (PJ) Davis, Managing Director (currently Chief Operating Officer)
- Rodney Boys, Finance Director (currently Chief Financial Officer)

Transaction funding, approval and timetable

The acquisition will be funded by new GBP-denominated debt facilities. Rating agencies Standard & Poor's and Moody's Investors Service have been updated on the transaction. Whilst no change is expected to the Group's existing credit ratings (A- and A3 level respectively), the anticipated short-term impact on credit metrics may result in a change to the Group's outlook.

The acquisition is subject to approval by Home Retail Group shareholders under the UK Financial Conduct Authority's Listing Rules for Class 1 transactions. The Board of Home Retail Group has unanimously recommended the transaction to shareholders. Subject to the approval of Home Retail Group shareholders and its banking syndicate, transaction completion is expected by the end of the first quarter of calendar year 2016.

Lazard is acting as Wesfarmers' financial advisor.

Analyst briefing

An analyst briefing will be held at 7:30am AWST / 10:30am AEDT on Monday 18 January 2016. This briefing will be webcast and accessible via the Wesfarmers website at www.wesfarmers.com.au.

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About Homebase

Homebase is the second largest home improvement and garden retailer in the UK currently with 265 stores across the UK and Ireland. Homebase is 100 per cent owned by Home Retail Group which is listed on the London Stock Exchange. For the 12 months to 29 August 2015, Homebase reported sales of £1,461.2 million and operating profit of £26.3 million. Homebase employs 17,000 people. For the six months to 29 August 2015, Homebase employed an average of c.15,000 employees.

About Bunnings

Bunnings is a leading home improvement and outdoor living retailer in Australia and New Zealand, with revenue of A\$9.5 billion and earnings before interest and tax (EBIT) of A\$1.1 billion in the year to 30 June 2015. Over the past 20 years, it has achieved compound sales growth of 16.1 per cent per annum and compound EBIT growth of 20.3 per cent per annum. It has 338 stores in a variety of formats in Australia and New Zealand and employs 40,000 team members.

About Wesfarmers

Wesfarmers is a diversified conglomerate listed on the Australian Securities Exchange (ASX) with a market capitalisation of approximately A\$44 billion. Headquartered in Western Australia, its business operations cover: supermarkets, liquor, hotels and convenience; home improvement and office supplies; department stores; and an industrial division which has businesses in chemicals, energy and fertilisers, coal, and industrial and safety products. It is Australia's largest private sector employer with approximately 210,000 employees.

Biographies

Michael Schneider

Michael has been with Bunnings for more than 10 years in a range of senior operational roles. Most recently he has held the role of Director of Store Operations with responsibility across Australia and New Zealand. Prior to joining Bunnings, Michael worked at senior levels in the retail and financial services sectors.

Clive Duncan

Clive's career at Bunnings spans more than three decades and includes a range of senior roles across merchandising, marketing, store development and operations. He has been closely involved in many key milestones in the growth of the Bunnings business. Most recently he has held the role of Director of Merchandising & Store Development.

Justin Williams

Justin's career within the Wesfarmers group spans 20 years and includes work on a number of large scale acquisition and divestment projects. Since joining Bunnings in 2003, Justin has held senior roles in strategic planning and commercial analysis, IT and finance. Most recently he has held the role of General Manager Information Technology & Financial Services.

Peter (PJ) Davis

Peter has over 35 years' experience in the hardware and home improvement industry. He has held a range of senior roles in operations, marketing, merchandising and property. He has been instrumental in the growth and development of Bunnings, including leading the team responsible for the inception of the Bunnings Warehouse format. Since 2004 he has held the role of Chief Operating Officer.

Rodney Boys

Rodney has over 20 years' experience working in a variety of senior roles within Wesfarmers group companies. He joined Bunnings in 2003 and led significant change in the IT area before taking on senior roles in logistics, finance and business support functions. Most recently he has held the role of Chief Financial Officer.