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**PRESS RELEASE**

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**Metcash Limited Gains Major Benefits From Foodland Acquisition**

Australian owned national grocery and liquor wholesale distributor and marketer, Metcash Limited expects the newly acquired Australian assets of Foodland Associated Ltd (FAL) to generate incremental Earnings Before Interest and Tax (EBIT) of between \$80 and \$90 million on a normalised, annualised basis.

The expected growth in EBIT will be struck on an anticipated \$1.86 billion lift in normalised wholesale revenue and is in line with original expectations.

In a market update on the first 100 days following the acquisition of FAL, directors expect a positive cashflow impact of about \$150 million from the divestment of 50 Action stores to IGA retailers - 40 of which are located in Queensland and 10 in Western Australia.

About 11 IGA buyers have been identified for the purchase of the Queensland Action stores, a process expected to be completed by October 2006. Meanwhile more than 68 expressions of interest have been received for the Western Australian Action stores.

Metcash plans to retain temporarily 12 large format Action stores in Western Australia as the group looks to identify a single IGA multi-store buyer.

Chief Executive Officer of Metcash, Mr Andrew Reitzer, said "We believe these stores need to be owned and operated as a single chain. We expect to operate them as company owned stores for at least 12 months until a single purchaser is finalised.

"We are delighted with the enthusiastic response from potential buyers of the stores and will deliver on our promise that every one will be sold. All of the stores are being re-branded as IGA or Supa IGA stores and we are planning a major re-launch in May, 2006", he added.

FAL's fresh fruit and vegetable distribution business, currently achieving annual revenue of \$75 million, is being transformed into a \$300 million business to supply fruit and vegetables to the national IGA network of about 1,300 stores.

Mr Reitzer said "We are finding very good synergies and economies of scale being achieved across all of the divisions, with cost savings and efficiency gains delivered through the integration of people, systems and the warehouse operations.

"In addition, our ability to offer national deals to our major suppliers will provide even greater savings and efficiencies for the merged group, which is now a strong third force in the market.

"A 40 per cent lift has been achieved in our buying power, with the stores we supply now having a 20 per cent share of grocery sales across Australia. This is great news for independent retailers, suppliers consumers and shareholders", concluded Mr Reitzer.

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**METCASH LIMITED**

***“Champion of the  
Independent Retailer”***

**“FAL+100 DAYS”**

**MARKET BRIEFING**

**6 MARCH 2006**

# AGENDA

- Recap – What we bought, what we paid, how we financed it
- Recap – What we previously said we would do with FAL
- Challenges/ Opportunities
- Integration Status
- Earnings Guidance
- Conclusions

# RECAP – WHAT DID WE BUY?

- Australian assets of FOA comprising:
  - ◆ 60 Action stores (38 QLD + 22 WA)
  - ◆ WA Franchise & Supply wholesale business
  - ◆ Foodlink Foodservice business (WA)
  - ◆ Cash & Carry business (WA)
  - ◆ 16 Quickstop petrol stations (WA)
  - ◆ Other Assets including small land bank + development sites
  - ◆ Good people
  - ◆ Excellent independent retailer customers in WA

# RECAP – WHAT DID WE SPEND?

## ■ WHAT IT COST?

- ◆ Share Consideration = 234m shares (\$1,012m)
- ◆ Cash Consideration = \$40m

## ■ HOW IT WAS FINANCED?

- ◆ As per above
- ◆ But change in Metcash balance sheet reflects Metoz acquisition also
  - ◆ Debt raised ~ \$800m
  - ◆ Combined Equity raised ~ \$1,312m
  - ◆ Cash

# RECAP – WHAT WE PREVIOUSLY SAID WE WOULD DO?

## STATED INTENTION

Perform general operational review

- ◆ Completed over Xmas period whilst restricted in ability to make any significant operational changes

Close FAL Head Office

Close Melbourne Buying Office

Integrate Franchise & Supply Operations (WA)

- ◆ Convert Franchised stores to IGA
- ◆ Review Foodlink & Quickstop and assess retention
- ◆ Fold C&C business into Campbells

Close Richlands & move to Loganlea (QLD)

# RECAP – WHAT WE PREVIOUSLY SAID WE WOULD DO?

## STATED INTENTION

### Action

- ◆ Sell stores to independents as IGAs with supply contracts – run as chain and drive hard until sold

### Dispose of Surplus Property/ Assets

### Implement own systems

- ◆ IT/ Logistics/ Finance & Administration

### Retain best people wherever feasible and implement Metcash policies & culture

### Review, build and grow FAL Fresh operations

### Realise immediate short-term buying & marketing synergies

# CHALLENGES/ OPPORTUNITIES

Cross subsidisation of  
Action v Franchise &  
Supply

Costly business strategies  
& structures owing to  
conflict of interest  
between owned vs  
independent stores

No consolidation of  
buying power

**Volume = Expectations**

**Fresh = big opportunity**

**Trading terms gap and  
other synergies in line  
with expectations**

**Strong People**

**Great Independents in  
WA**

**Good facilities**



# INTEGRATION STATUS

## ■ WA Operations:

- ◆ Agreed IGA rebranding strategy with all key stakeholders in WA with major relaunch in May 06
- ◆ Implemented IGA>D state structure & buying office
- ◆ Warehouse conversion to EXE/ Voice Pick/ Eng'd Standards
  - ◆ Commenced & expect completion by end July 06
  - ◆ Expect 16% productivity improvement to flow post completion
- ◆ Converting high Direct Store Delivery to 'via warehouse'
  - ◆ Better leverage of economies of scale
  - ◆ Match Metcash supply arrangements
- ◆ Stock management processes converted to Metcash best practice
- ◆ Retail Development strategy switched from building Action-type stores to Independent-styled stores

# INTEGRATION STATUS

## ■ Queensland Operations:

- ◆ Commenced transfer of store supply from Richlands to Loganlea – expect to be completed by end May
- ◆ Tenants identified for Richlands site saving approx \$5m pa in rent, labour and equipment
- ◆ Commenced expansion of mega DC at Crestmead
  - ◆ \$70m investment (off balance-sheet; Metcash will rent)
  - ◆ +70,000m<sup>2</sup> (36% increase)
  - ◆ Completion/ relocation expected by early '07
  - ◆ Will yield additional productivity savings

# INTEGRATION STATUS

## ■ Action:

- ◆ Being run as company-owned chain until last store sold
- ◆ Overhead reduced significantly
- ◆ Strong product and price promotional offering
- ◆ Reversed negative sales trend
- ◆ Convert FAL House Brands to MTS House Brands

## ■ Action QLD:

- ◆ Preferred purchasers identified for all 40 QLD Action stores
  - ◆ Approx 11 Retailers
  - ◆ Sales being documented
  - ◆ Approx \$120m to be realised
  - ◆ Estimated completion by Sept/ Oct 06

# INTEGRATION STATUS

## ■ Action WA:

- ◆ Stores split into two strategic parcels:
- ◆ 10 Stores identified for immediate sale
  - ◆ 68 'Expressions of Interest' received from top class retailers
  - ◆ Preferred Purchasers expected to be identified from 2<sup>nd</sup> tender process by end March
  - ◆ Approx \$30m to be realised
  - ◆ Estimated completion by Aug/ Sept 06
- ◆ 12 Stores to be retained for time being and run as corporate-owned chain (Supa IGA)
  - ◆ Large/ complex stores; market requires them to be run as chain; 24/7 rules in WA prevent sale to most of existing customer base
  - ◆ Looking to identify single operator ('baron') to take on these stores – best run as a collective group

# INTEGRATION STATUS

## ■ Fresh (Fruit & Veg) Business:

- ◆ Currently turning over ~ \$75m
- ◆ Identified potential to grow to over \$300m
  - ◆ New division to be established
  - ◆ Sale of Action stores with fresh supply contract
  - ◆ Conversion of IGA fresh DSD over time

## ■ Foodlink:

- ◆ Strongly performing foodservice business in WA
- ◆ Producing healthy EBIT
- ◆ Decided to retain business

## ■ WA C&C:

- ◆ 4 branches subsumed into Campbells network providing national coverage

## ■ Quickstop:

- ◆ 16 sites to be sold by end June

# INTEGRATION STATUS

## ■ People:

- ◆ Lot of work completed re:
  - ◆ Culture
  - ◆ Structure - Responsibility and Accountability
  - ◆ Recognition & involvement & communication
  - ◆ Sharing rewards – options

## ■ Suppliers:

- ◆ Very supportive
- ◆ MTS trading terms applied from Day 1 (buying synergies in line with expectations)
- ◆ New combined trading terms negotiations commenced

# EARNINGS GUIDANCE

- Incremental EBIT estimated to be in range of \$80-90m on normalised basis
  - ◆ Consistent with expectations
  - ◆ P/EBIT Multiple of Deal = 6.8 (on cash equivalent basis net of store divestment proceeds)
- Incremental Sales Analysis (normalised)
  - ◆ IGAD WA ~ \$1,170m (includes wholesale sales to Supa IGA 12)
  - ◆ IGAD QLD ~ \$370m
  - ◆ Fresh (F&V) ~ \$75m
  - ◆ C&C ~ \$145m
  - ◆ Foodlink ~ \$100m
  - ◆ Total Normalised Wholesale Sales ~ \$1,860m

Note: Supa IGA 12 ~ \$300m Retail Sales; \$180m Wholesale. The wholesale value of these sales would be excluded on consolidation

# EARNINGS GUIDANCE

- Restructure Costs ~ \$30m in line with expectations
  - ◆ ~65% falling in FY06, balance in FY07
- Transaction Costs ~ \$40m expensed (\$9m in FY05 + \$31m in FY06)
  - ◆ Expensed costs primarily relate to CULS&CUPS
  - ◆ Other transaction costs capitalised to equity, debt and goodwill
- Cashflow impact from Action divestment estimated to be ~ \$150m
- Capital Management
  - ◆ Restricted by s.257CA “10/12” limit – not before 7/4/06 without shareholder approval
  - ◆ Then restricted by results announcement timing
  - ◆ Consideration postponed until after financial year-end



# CONCLUSIONS

- No Material Surprises
- Integration Plans Well Advanced
- Action Store Divestment On Track
- 'Supa IGA 12' To Be Retained As Corporate Run Group For Now
- Fresh Business Identified As Major Growth Opportunity
- Synergies Achievement (In Line With Our Expectations)
- Restricted Capital Management Ability Until at Least Mid 06

**METCASH LIMITED**

*The “Third Force” in  
Australian grocery  
retailing*