

Woolworths



# Proposal to Establish "SCA Property Group"

5 October 2012

# Establishment of SCA Property Group

**Woolworths has today announced the intention to create a new ASX listed real estate investment trust, established by undertaking an in-specie distribution of Stapled Units in SCA Property Group to all Woolworths shareholders**

**This transaction is consistent with Woolworths stated strategy of acting on its portfolio to maximise value for shareholders**

**A key element of Woolworths growth has been the continued rollout of our store network**

- Following the GFC Woolworths decided to greater utilise its strong balance sheet to facilitate continued growth in its store network during the slowdown in the property development market

**Woolworths has previously stated it is not a long term owner of property assets and the Company considers on an ongoing basis strategic alternatives to reduce the property exposure on Woolworths balance sheet**

**This proposed transaction will involve the transfer of neighbourhood and sub-regional shopping centres and freestanding retail assets to the SCA Property Group, allowing Woolworths to focus on its core retailing business**

- 69 shopping centres and freestanding retail assets, backed by Woolworths as an anchor tenant
- Valued at approximately \$1.4bn<sup>1</sup>
- Located across Australia and New Zealand

**The Woolworths Board believes creating SCA Property Group via an in-specie distribution is an effective way to release value to Woolworths shareholders. Shareholders will receive one Stapled Unit in SCA Property Group for every five Woolworths shares they currently own, distributed as part of the proposal**

**The proposal is subject to Woolworths shareholder approval at the AGM on 22 November 2012**

1. Represents the Australian dollar value of properties in the Portfolio as at 1 December 2012 assuming the 13 properties under construction are complete, based on independent valuations

# Key benefits of the proposed transaction

## The key benefits of the proposed transaction for Woolworths shareholders include

- Partial ownership in a defensive property portfolio through an investment in SCA Property Group
- Choice to retain, top up or trade out of the Stapled Units in SCA Property Group
- Reduction in the quantum of real estate held on Woolworths balance sheet of approximately \$1.27bn at Allotment
- Improvement in Woolworths Return on Funds Employed (“ROFE”)
- Expected cash receipts to Woolworths of at least \$850m if the equity offer proceeds



# Implications for Woolworths Financials and Capital Reduction

## Woolworths Financials

- In the context of Woolworths financials, the establishment of SCA Property Group is not material
- On Allotment the transaction is forecast to reduce property, plant and equipment on the Woolworths balance sheet by approximately \$1.27bn
- A further \$0.13 bn will be paid by SCA Property Group to Woolworths for completion of the Development Portfolio
- Woolworths will receive at least \$850m in cash to on the basis that the equity offer proceeds
- If the equity offer proceeds, Woolworths EPS is expected to decrease by less than 1.0% for the first full financial year (2014) after the transaction takes place due to
  - An increased rental cost and loss of specialty income partly offset by
    - Reduced financing costs
    - Reduced depreciation expense
- Offsetting this expected earnings dilution, Woolworths shareholders will receive one SCA Property Group Stapled Unit per five Woolworths shares, with a forecast NTA value per unit of \$1.58 which equates to ~32¢ per Woolworths share
- ROFE is expected to increase on an annualised basis
- The transaction is forecast to give rise to a one-off loss of approximately \$30m in FY13 relating primarily to rental guarantees provided to SCA Property Group as part of the Transaction

## Capital Reduction

- In consideration for the transfer of properties:
  - SCA Property Group will issue stapled units to Woolworths, which in turn will be distributed to Woolworths Distribution Participants in the form of an in-specie distribution of one Stapled Unit for every five shares held by Woolworths Distribution Participants as at the Distribution Record Date
  - Woolworths will receive cash consideration of approximately
    - Between \$0.7 bn and \$0.8 bn if the equity offer proceeds (depending on the amount raised under the equity offer)
    - \$0.3 bn if the equity offer does not proceed
- Woolworths forecasts the Capital Reduction Amount to be approximately
  - \$0.3 bn if the equity offer proceeds<sup>1</sup>
  - \$0.5 bn if the equity offer does not proceed

1. Assuming \$465 million is raised under the equity offer

# SCA Property Group overview

- SCA Property Group will be a separate standalone entity listed on the ASX, with its own independent Board and Management
- SCA Property Group will own a portfolio of 69 shopping centres located across Australia (55) and New Zealand (14)
- The Portfolio has been independently valued at \$1.4bn<sup>1</sup> for the purpose of determining the transfer price
- The Portfolio comprises 56 completed properties valued at \$1.1bn and 13 properties under development valued on a completed basis at \$0.3bn
- SCA Property Group has been established with the objective of offering investors (including Woolworths Shareholders) exposure to a defensive and secure income stream underpinned by long term leases to quality anchor tenants
  - Woolworths will account for 61% of SCA Property Group gross rental income
  - Initial weighted average lease expiry will be 15.8 years, predominately due to new long term Woolworths leases
  - All centres anchored by a Woolworths group business as tenant
- SCA Property Group has a forecast earnings yield of between 7.9% and 9.4% and a forecast distribution yield of between 6.9% and 8.3% for the first full financial year to 30 June 2014 depending on the Final Offer Price

Balance Sheet	Implementation
NTA per unit (\$)	1.58
Total Assets (\$m)	1,279
Total Liabilities (\$m)	355
Gearing (Net Debt / Total Assets)	27%

Portfolio Overview	Completed Portfolio	Development Portfolio	Total
No. of Properties	56	13	69
GLA (square metres) <sup>2</sup>	331,577	85,366	416,943
Woolworths % of GLA	75%	76%	75%
Gross income (fully leased) <sup>3</sup> (A\$m)	114	32	146
Woolworths % of Gross Income	61%	65%	61%
Portfolio Occupancy at Opening (by GLA) <sup>4</sup>	95%	N/A	95%
Independent Value (A\$m) <sup>5</sup>	1,074	332	1,406
Portfolio Cap Rate	8.1%	7.9%	8.1%
WALE (Years) <sup>6</sup>	15.8	N/A	15.8

1. Represents the Australian dollar value of properties in the Portfolio as at 1 December 2012 assuming the 13 properties under construction are complete, based on independent valuations

2. Gross Lettable Area

3. Fully leased Gross Income for the first full year from Implementation Date for the completed portfolio and from completion date for each of the properties in the development portfolio

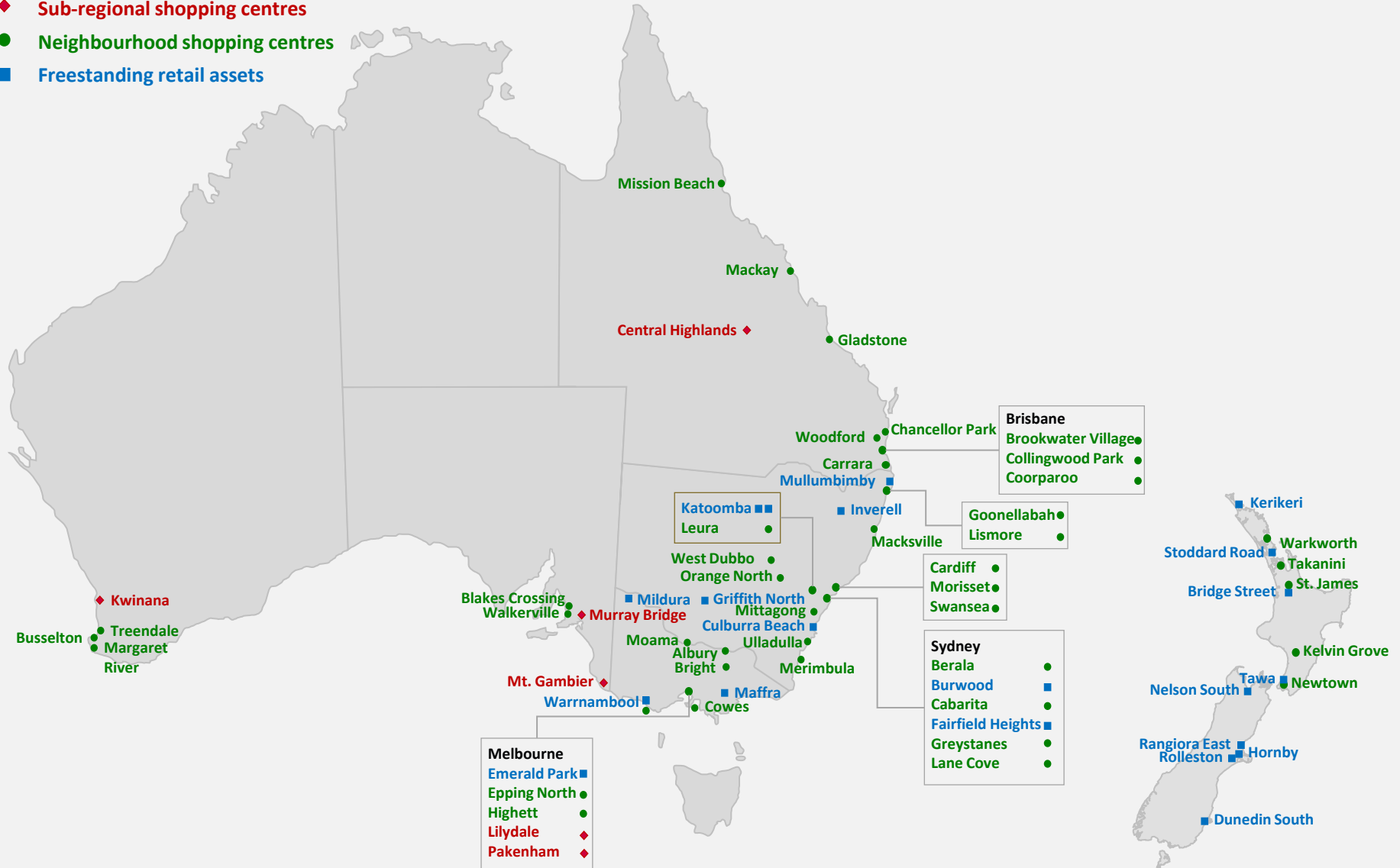
4. Expected occupancy as at 1 December 2012 for completed portfolio and on completion of development portfolio

5. Based on independent valuations as at 1 December 2012

6. Weighted average lease expiry as at 1 December 2012, weighted by GLA

# SCA portfolio locations

- ◆ Sub-regional shopping centres
- Neighbourhood shopping centres
- Freestanding retail assets



# Nature of Woolworths and SCA future relationship

## Lease Agreements

- Woolworths will enter into long term lease agreements with SCA Property Group
  - 15-23 year initial lease terms + options
  - Standard Woolworths / Countdown Supermarkets, BIG W and Dan Murphy's turnover based leases

## Development Management Agreement (DMA)

- Woolworths is responsible for completing 13 development properties at a predetermined value

## Transitional Services Agreement

- Woolworths has committed to provide SCA Property Group with some transitional services at cost relating to the day to day management and administration of the Trust for the initial 12 month period

## Rental Guarantee

- Woolworths has agreed to provide 2 year rental support over vacant specialty tenancies for completed assets from the implementation date and for development assets from completion



# Structure and timetable

## Overview

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- SCA Property Group will undertake an equity offer of 337 million new SCA Stapled Units
- The equity offer price range is between a 20% and 5% discount to Net Tangible Assets (NTA) of SCA Property Group
- The final price of the equity offer will be determined via an institutional book-build process which will be undertaken after the AGM
- It is expected that SCA Property Group will trade on a normal basis under the ASX Code "SCP" from 19 December 2012
- The in-specie distribution is not subject to the equity offer proceeding

## Event

## Date

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Transaction Announcement

Friday, October 5, 2012

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Woolworths AGM

Thursday, November 22, 2012

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Institutional book-build closes

Friday, November 23, 2012

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SCP commences conditional and deferred trading on ASX

Monday, November 26, 2012

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Implementation Date

Tuesday, December 11, 2012

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SCP commences deferred settlement trading on ASX

Wednesday, December 12 2012

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SCP commences normal trading on ASX

Wednesday, December 19, 2012

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# Summary

**The creation of SCA Property Group is in line with Woolworths stated strategy to act on the company's portfolio to maximise shareholder value**

**The Woolworths Board believes creating SCA Property Group via an in-specie distribution is an effective way to release value to Woolworths shareholders**

**The key benefits of the Proposed Transaction include**

- Partial ownership in a defensive property portfolio through an investment in SCA Property Group
- Choice to retain, top up or trade out of the Stapled Units in SCA Property Group
- Reduction in the quantum of real estate held on Woolworths balance sheet of approximately \$1.27bn at Allotment
- Improvement in Woolworths Return on Funds Employed ("ROFE")
- Expected cash receipts to Woolworths of at least \$850m if the equity offer proceeds

**The Woolworths Board of Directors unanimously recommend that Woolworths shareholders vote in FAVOUR of the Capital Reduction Resolution at the AGM on Thursday, 22 November 2012**

# Appendix: SCA Board and Management Team

## **Philip Clark AM**

### **Chairman**

Mr Clark was formerly Managing Partner of law firm Minter Ellison from 1995 to 2005. Prior to joining Minter Ellison, Mr Clark was a Director and Head of Corporate with ABN Amro Australia, and prior to that he was Managing Partner of law firm Mallesons Stephen Jaques for 16 years.

Mr Clark is a member of the J.P. Morgan Advisory Council and serves on a number of government and private company boards. These include his position as Director of Ingenia Communities Group, Chairman of M & K Lawyers Holdings Limited, Chairman of Advent-Balance Lawyers Pty Ltd, Chair of Aurora Projects Pty Ltd, Chair of the Education Investment Fund Advisory Board and Chair of Tasmanian Infrastructure Advisory Council.

Mr Clark is also a Director of St James Ethics Centre, serves on the Advisory Council of Europe Australia Business Council and is a Director of several not-for-profit foundations.

Mr Clark has significant prior board experience in the listed REIT sector, having been a Director and Chair of the Audit Committee of ING Management Limited, the responsible entity of several Australian listed REITs managed by ING Real Estate.

Mr Clark was made a Member of the Order of Australia in June 2007 for service to the legal profession and business.

## **James Hodgkinson**

### **Non-executive Director**

Mr Hodgkinson is a Senior Investment Banker with real estate specialisation, most recently, as an Executive Director of Macquarie Group.

Mr Hodgkinson has extensive experience as Principal in the establishment, strategy and growth of a number of both listed and unlisted investment vehicles and operating businesses in Australia, Asia and North America. Mr Hodgkinson was also Chief Executive Officer of Macquarie Industrial Trust for six years prior to that trust's merger with Goodman Industrial Trust. He is a Director of Goodman Japan Limited and from February 2003 until September 2011 was a Director of the Goodman Group and was a member of its Audit Committee.

Mr Hodgkinson is an alumni member of the Advisory Committee of the Macquarie Foundation and is active in the 'not for profit' sector. He has initiated and assisted in the fund raising initiatives and strategic support of a number of community based organisations, including as a Founding Governor of the Cerebral Palsy Foundation and as Founder and Chairman of the Cerebral Palsy Alliance of NSW's 20/Twenty Challenge.

Mr Hodgkinson has a Bachelor of Economics Degree, is a Certified Practising Accountant and is a Fellow of the Australian Property Institute.

# Appendix: SCA Board and Management Team

## **Ian Pollard**

### **Non-executive Director**

Dr Pollard has been a company director for over 30 years. He is currently Chairman of RGA Australia and a director of Milton Corporation and the Wentworth Group of Concerned Scientists.

Dr Pollard's previous listed company directorships include retailers Just Group (Chairman) and OPSM Group, as well as Corporate Express Australia (Chairman), GIO Australia and DCA Group.

Dr Pollard was previously Managing Director of Development Capital of Australia (later DCA Group, which he founded in 1984) and Managing Director of investment bank Development Finance Corporation Limited.

An actuary and Rhodes Scholar, Dr Pollard is the author of a number of books, including three on Corporate Finance.

## **Philip Redmond**

### **Non-executive Director**

Mr Redmond has over 30 years of experience in the real estate industry including over five years with AMP's real estate team and over 12 years with the investment bank UBS from 1993 to 2005.

At UBS, Mr Redmond held the position of Managing Director, Head of Real Estate Australasia and played a significant role in establishing the bank's real estate business in Australasia and the development of the listed property trust sector in Australia.

Between 2006 and 2010, Mr Redmond was a non-executive director of the responsible entity of several Australian listed REITs managed by ING Management Limited and he continues to hold a non-executive directorship with Galileo Funds Management Limited, the responsible entity for Galileo Japan Trust.

Mr Redmond holds a Bachelor of Applied Science (Valuation), a Master of Business Administration from the Australian Graduate School of Management, and is a Member of the Australian Institute of Company Directors.

# Appendix: SCA Board and Management Team

## **Belinda Robson**

### **Non-executive Director**

Mrs Robson is an experienced real estate executive, having worked with Lend Lease for over 20 years in a range of roles including most recently as the Fund Manager of the Australian Prime Property Fund Retail.

At Australian Prime Property Fund Retail, Mrs Robson was responsible for portfolio management and the development and implementation of the fund strategy, as well as reporting to the Fund Board and its Investor Advisory Board.

Mrs Robson's previous roles with Lend Lease included Head of Operations, Australian Prime Fund Series, and Portfolio Manager, Australian Prime Property Fund Retail.

Mrs Robson holds a Bachelor of Commerce (Honours) from the University of New South Wales.

## **Anthony Mellowes**

### **Chief Executive Officer (Interim)**

Mr Mellowes is an experienced property executive currently acting as Head of Asset Management and Group Property Operations for Woolworths. Mr Mellowes has been employed by Woolworths since 2002 and has held a number of senior property related roles within Woolworths.

Prior to joining Woolworths, Mr Mellowes was Asset Development Manager for Lend Lease Real Estate Investments and Development Finance Manager for Lend Lease Developments. Prior to Lend Lease, Mr Mellowes worked in portfolio management for Westfield Limited, and commenced his career at Ferrier Hodgson & Co.

Mr Mellowes holds a Bachelor of Financial Administration and has completed the Macquarie Graduate School of Management's Strategic Management Program.

# Appendix: SCA Board and Management Team

## **Kerry Shambly**

### **Chief Financial Officer**

Ms Shambly is an experienced finance executive who is currently employed as Manager – Capital Transactions Group at Woolworths and will be employed by SCA Property Group from the Implementation Date. Ms Shambly has been employed by Woolworths since 2002 and has also held the role of General Manager Finance – Property.

Prior to joining Woolworths, Ms Shambly held a number of senior roles at Lend Lease, including Investment Manager – Private Equity and Infrastructure, Chief Financial Officer – Private Equity and Infrastructure, and Group Taxation Manager. Ms Shambly also previously worked in Corporate Finance and Treasury roles at Hoyts Cinema Group. Ms Shambly commenced her career as an accountant at Ernst & Young.

Ms Shambly is a Chartered Accountant and holds a Bachelor of Commerce, and has completed the Macquarie Graduate School of Management's Strategic Management Program and the Chief Executive Women's (CEW) Leaders Program.

## **Mark Lamb**

### **General Counsel and Company Secretary**

Mr Lamb is an experienced transactional lawyer with over 20 years experience in the private sector as a partner of Corrs Chambers Westgarth (and subsequently Herbert Geer) and in the listed sector as General Counsel of ING Real Estate.

Mr Lamb has extensive experience in retail shopping centre developments, acquisitions, sales and major leasing transactions, having acted for various REITs and public companies during his career.

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