10 May 2021

ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Demerger of Endeavour Group - Independent Expert Report

Attached for release to the market is a copy of Grant Samuel's full Independent Expert Report (IER) regarding the proposed demerger of Endeavour Group. A concise version of the IER is contained within the Demerger Booklet.

Authorised by: Kate Eastoe, Group Company Secretary

For further information contact:

Media: Woolworths Group Press Office: +61 2 8885 1033 media@woolworths.com.au
Investors and Analysts: Paul van Meurs, Head of Investor Relations: +61 407 521 651

WOOLWORTHS GROUP

FINANCIAL SERVICES GUIDE
AND
INDEPENDENT EXPERT'S REPORT
IN RELATION TO THE PROPOSED DEMERGER OF ENDEAVOUR GROUP LIMITED
BY WOOLWORTHS GROUP LIMITED

GRANT SAMUEL & ASSOCIATES PTY LIMITED
ABN 28 050 036 372

10 MAY 2021

GRANT SAMUEL

FINANCIAL SERVICES GUIDE

Grant Samuel & Associates Pty Limited ("Grant Samuel") holds Australian Financial Services Licence No. 240985 authorising it to provide financial product advice on securities and interests in managed investments schemes to wholesale and retail clients.

The *Corporations Act, 2001 (Cth)* ("Corporations Act") requires Grant Samuel to provide this Financial Services Guide ("FSG") in connection with its provision of an independent expert's report ("Report") which is included in a document ("Disclosure Document") provided to members by the company or other entity ("Entity") for which Grant Samuel prepares the Report.

Grant Samuel does not accept instructions from retail clients. Grant Samuel provides no financial services directly to retail clients and receives no remuneration from retail clients for financial services. Grant Samuel does not provide any personal retail financial product advice to retail investors nor does it provide market-related advice to retail investors.

When providing Reports, Grant Samuel's client is the Entity to which it provides the Report. Grant Samuel receives its remuneration from the Entity. In respect of the Report for Woolworths Group Limited in relation to the proposed demerger of Endeavour Group Limited ("the Woolworths Group Report"), Grant Samuel will receive a fixed fee of $800,000 plus reimbursement of out-of-pocket expenses for the preparation of the Report (as stated in Section 8.3 of the Woolworths Group Report).

No related body corporate of Grant Samuel, or any of the directors or employees of Grant Samuel or of any of those related bodies or any associate receives any remuneration or other benefit attributable to the preparation and provision of the Woolworths Group Report.

Grant Samuel is required to be independent of the Entity to provide a Report. The guidelines for independence in the preparation of Reports are set out in Regulatory Guide 112 issued by the Australian Securities & Investments Commission on 30 March 2011. The following information in relation to the independence of Grant Samuel is stated in Section 8.3 of the Woolworths Group Report:

> ***"Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Woolworths Group or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger.***
>
> ***Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.***
>
> ***Grant Samuel will receive a fixed fee of $800,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.***
>
> ***Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011."***

Grant Samuel has internal complaints-handling mechanisms and is a member of the Australian Financial Complaints Authority, No. 11929. If you have any concerns regarding the Woolworths Group Report, please contact the Compliance Officer in writing at Level 19, Governor Macquarie Tower, 1 Farrer Place, Sydney NSW 2000. If you are not satisfied with how we respond, you may contact the Australian Financial Complaints Authority at GPO Box 3 Melbourne VIC 3001 or 1800 931 678. This service is provided free of charge.

Grant Samuel holds professional indemnity insurance which satisfies the compensation requirements of the Corporations Act.

Grant Samuel is only responsible for the Woolworths Group Report and this FSG. Complaints or questions about the Disclosure Document should not be directed to Grant Samuel which is not responsible for that document. Grant Samuel will not respond in any way that might involve any provision of financial product advice to any retail investor.

GRANT SAMUEL

TABLE OF CONTENTS

THIS PAGE HAS BEEN LEFT BLANK INTENTIONALLY

1 Details of the Demerger

On 3 July 2019, Woolworths Group Limited ("Woolworths Group") announced the intention to combine its retail drinks business and ALH Group Pty Ltd ("ALH Group") to create Endeavour Group Limited ("Endeavour Group") (the "Restructure and Merger") and pursue a separation of Endeavour Group through a demerger or other value accretive alternative (such as an initial public offering or sale to a third party). The Restructure and Merger involved two steps:

- the establishment of a separate corporate entity, Endeavour Group, and the formal transfer of the assets and liabilities relating to Woolworths Group's retail drinks business and its 75% interest in ALH Group to Endeavour Group (the "Restructure"). Woolworths Group shareholders voted in favour of the Restructure scheme of arrangement on 16 December 2019 and it was implemented on 2 February 2020; and
- the acquisition by Endeavour Group of the 25% of ALH Group owned by Bruce Mathieson Group ("BMG") (the "Merger"). The Merger was completed on 4 February 2020 and resulted in BMG exchanging its 25% shareholding in ALH Group for a 14.6% interest in Endeavour Group, with the remaining 85.4% of Endeavour Group owned by Woolworths Group[1].

As part of the Restructure and Merger, Woolworths Group and Endeavour Group entered into a Restructure Deed to cover, among other things:

- pass through arrangements for short term trade and non-trade supplier arrangements for a period of 12 months, during which Endeavour Group entered into its own arrangements with those suppliers. This aspect of the Restructure Deed has essentially fallen away (other than in relation to "wrong pocket" transfers); and
- subleasing arrangements for certain retail stores. Approximately 560 *BWS* and *Dan Murphy's* stores (out of a total of 1,630 stores) occupy premises leased to Woolworths Group. Woolworths Group has entered, or will enter, into subleases with Endeavour Group in respect of these premises which have initial terms of between five and 12 years. The key terms and conditions of these subleases are set out in Section 7.10(f) of the Demerger Booklet.

In March 2020, the separation of Endeavour Group was postponed as Woolworths Group prioritised its response to the COVID-19 pandemic amid a highly uncertain operating environment. However, work continued to prepare Endeavour Group to operate as a standalone business, including the implementation of partnership agreements with Woolworths Group (refer below for details). On 24 February 2021, in conjunction with the release of its 1HY21[2] results, Woolworths Group announced that the separation of Endeavour Group was expected to take place in June 2021, most likely by way of a demerger of Endeavour Group to create a separate listed company on the Australian Securities Exchange ("ASX") (the "Demerger")[3]. Woolworths Group will retain a 14.6%[4] equity interest in Endeavour Group, with its remaining 70.8% shareholding distributed to Woolworths Group shareholders on the basis of one Endeavour Group share for each Woolworths Group share held.

The Demerger is to be effected via a distribution of Endeavour Group shares by way of a return of capital and a dividend ("demerger dividend") to Woolworths Group shareholders. The following steps are

1 Woolworths Group's 85.4% interest in Endeavour Group includes a small number of shares in Endeavour Group issued to an employee trust under retention arrangements implemented for certain Endeavour Group employees.

2 1HY21 is the 27 weeks ended 3 January 2021.

3 The legal and accounting separation of Woolworths Group and Endeavour Group will occur on the separation date (expected to be 28 June 2021) and the Demerger will be implemented on 1 July 2021.

4 Woolworths Group's retained 14.6% equity interest in Endeavour Group excludes a small number of Endeavour Group shares which will be transferred to the trustee of the Woolworths Employee Share Trust (which holds the same number of Woolworths Group shares at the date of the Demerger Booklet). The trustee will dispose of the Endeavour Group shares shortly after implementation of the Demerger.

required to implement the Demerger (if it is approved by Woolworths Group shareholders and other conditions precedent are satisfied or waived):

- Woolworths Group will undertake the capital reduction;
- the Woolworths Group Board will declare, and Woolworths Group will pay, the demerger dividend;
- by application to the ASX, Endeavour Group will be admitted to the Official List and shares in Endeavour Group will be quoted to trade on the market operated by the ASX; and
- the capital reduction and the demerger dividend will be satisfied through the transfer by Woolworths Group of Endeavour Group shares to Woolworths Group shareholders (other than ineligible shareholders[5] and selling shareholders[6]).

The effect of the Demerger is that Woolworths Group shareholders (other than ineligible shareholders and selling shareholders) will receive shares in Endeavour Group that represent, in aggregate, 70.8% of Endeavour Group's issued capital. BMG will hold a 14.6% interest in Endeavour Group. Woolworths Group will hold the remaining 14.6% of Endeavour Group as well as its other business operations and will remain listed on the ASX. The ongoing company is referred to in this report, where the context requires it, as "Woolworths Group post Demerger". BMG's and Woolworths Group's shareholdings in Endeavour Group will not be subject to any escrow or retention arrangements.

Ineligible shareholders and selling shareholders will not receive Endeavour Group shares. Such shareholders will receive in cash the proceeds from the sale on the ASX of the Endeavour Group shares to which they would otherwise have been entitled (free of any brokerage costs or stamp duty but after deducting any applicable withholding tax).

The Demerger requires Woolworths Group shareholders to pass an ordinary resolution to approve the capital reduction pursuant to Section 256C of the *Corporations Act, 2001 (Cth)* ("Corporations Act"). Woolworths Group shareholders will also be asked to approve the Demerger and all agreements and arrangements entered into by Woolworths Group and Endeavour Group to give effect to the Demerger.

If the Demerger is approved and implemented, Woolworths Group and Endeavour Group will operate independently of each other apart from the following ongoing key arrangements:

- subleasing arrangements for certain retail stores (refer above); and
- Partnership Agreements across five key platforms – supply chain and stores, loyalty and fintech, digital and media, business support and international. The business support agreements are focused on business continuity for a limited period while Endeavour Group establishes its own standalone capabilities. The other agreements are medium and long term partnership arrangements that are intended to be mutually beneficial to Woolworths Group and Endeavour Group:
  - certain business support services will be provided for specified periods generally of two to three years (other than information technology ("IT") services and finance services, which will be provided for an initial term of up to five years), predominantly charged on a cost recovery basis and passed through at materially the same standards on an overall basis as Woolworths Group has provided in the last 12 months. A number of these agreements provide for earlier termination where an appropriate transition plan is mutually agreed. These business support Partnership Agreements mainly relate to:

5 Woolworths Group shareholders other than those with registered addresses in Australia or its external territories, or in Canada, Hong Kong, Malaysia, New Zealand, Singapore, the United Kingdom or the United States or any other jurisdiction in respect of which Woolworths Group reasonably believes it is not prohibited or unduly onerous or impractical to implement the Demerger and to transfer Endeavour Group shares to Woolworths Group shareholders.

6 Woolworths Group shareholders who individually hold 800 or fewer Woolworths Group shares on the Demerger record date who elect to have the Endeavour Group shares that they would otherwise receive under the Demerger sold on the ASX via a share sale facility.

- IT services to be provided by Woolworths Group to Endeavour Group to ensure operational continuity for core retail systems and supporting infrastructure. The initial term of up to five years may be extended for a further 12 months; and
- other business services currently provided by Woolworths Group to Endeavour Group including people, financial, procurement and other incidental business services; and

- the medium and long term Partnership Agreements generally reflect the internal arrangements that currently exist within Woolworths Group in relation to the operation of the retail drinks business and are intended to allow each group to focus on its core strengths while retaining a strong working partnership. These Partnership Agreements cover:
  - supply chain services where Woolworths Group will provide Endeavour Group with warehousing, national and international transportation and linked support services. The ongoing provision of these services is linked to the term of leases for Woolworths Group distribution centres that will be used to service Endeavour Group's supply chain requirements and may be up to 10 years. Woolworths Group will also provide facility management to the majority of Endeavour Group's retail stores and tailored replenishment services across the Endeavour Group;
  - the operation of attached *BWS* and *Dan Murphy's* stores (i.e. *BWS* and *Dan Murphy's* stores that operate under a Woolworths Group head lease). The agreement will remain in place for the duration of the head lease for the combined premises (maximum term to 2040) and formalises how Woolworths Group and Endeavour Group will collaborate at these co-located sites to ensure Endeavour Group has continued access to certain facilities that are under the control of Woolworths Group at the co-located site (such as access to back dock facilities, short shift covers and stock support). Endeavour Group also has a first right of refusal in relation to liquor stores attached to new Woolworths supermarkets and Metro stores until 31 December 2030 (unless otherwise agreed between the parties);
  - loyalty and fintech services, under which *BWS* will continue to be a partner in the Everyday Rewards program, and Woolworths Group and Endeavour Group will be partners in relation to the ongoing marketing and honouring of Woolworths Group branded gift cards. Woolworths Group will provide customer payment services to Endeavour Group from point of sale through to settlement (with merchant fees charged on a cost recovery basis) and Endeavour Group will be able to participate in future customer payments innovations;
  - digital and media services, under which Endeavour Group will continue to have access to Woolworths Group's capabilities in data analytics. Woolworths Group will also continue to sell *BWS* liquor products on woolworths.com.au, will collaborate with Endeavour Group across marketing channels (e.g. catalogues, receipts, in-store point of sale) and develop food and liquor cross-shop opportunities through joint promotional activities; and
  - international distribution, where Woolworths Group and Endeavour Group will collaborate in respect of Endeavour Group's international markets, with Woolworths Group continuing to sell Pinnacle Drinks brands and products in its retail network in New Zealand and distributing Pinnacle Drinks brands outside of Australia and New Zealand through its international distribution networks.

  An overarching Commercial Alliance Agreement has also been put in place to capture the overall collaboration model. This agreement covers how the partnership is governed and the safeguarding of the partnership in the event of significant business changes (e.g. insolvency or change in control, which may have a material adverse impact on the unaffected party's reputation).

The Woolworths Group Board has unanimously recommended that shareholders vote in favour of the Demerger. Each Woolworths Group director who holds or controls Woolworths Group shares intends to vote in favour of the Demerger.

2 Scope of the Report

2.1 Purpose of the Report

The Demerger is subject to the approval of Woolworths Group shareholders in accordance with Section 256C of the Corporations Act ("Section 256C").

Section 256C governs reductions of share capital. It requires the prior approval of shareholders before a capital reduction can be effected. Section 256C does not require an independent expert's report to be prepared.

Although there is no requirement in these circumstances for an independent expert's report pursuant to the Corporations Act or the ASX Listing Rules, the directors of Woolworths Group have engaged Grant Samuel & Associates Pty Limited ("Grant Samuel") to prepare an independent expert's report setting out whether, in its opinion, the Demerger is in the best interests of Woolworths Group shareholders and to state reasons for that opinion. Grant Samuel has also been requested to give its opinion as to whether the demerger dividend and the capital reduction associated with the Demerger materially prejudices Woolworths Group's ability to pay its existing creditors. A concise version of the report will accompany the Notice of Meeting and Explanatory Memorandum ("Demerger Booklet") to be sent to shareholders by Woolworths Group. The full report will be available on the Woolworths Group website and the ASX website or available to Woolworths Group shareholders on request.

This report is general financial product advice only and has been prepared without taking into account the objectives, financial situation or needs of individual Woolworths Group shareholders. Accordingly, before acting in relation to their investment, shareholders should consider the appropriateness of the advice having regard to their own objectives, financial situation or needs. Shareholders should read the Demerger Booklet issued by Woolworths Group in relation to the Demerger.

Voting for or against the Demerger is a matter for individual shareholders based on their views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. Shareholders who are in doubt as to the action they should take in relation to the Demerger should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell securities in Woolworths Group (pre or post Demerger) or Endeavour Group. These are investment decisions upon which Grant Samuel does not offer an opinion and are independent of a decision on whether to vote for or against the Demerger. Shareholders should consult their own professional adviser in this regard.

2.2 Basis of Evaluation

There is no legal definition of the expression "in the best interests". The Australian Securities & Investments Commission ("ASIC") has issued Regulatory Guide 111 ("RG111") which establishes guidelines in respect of independent expert's reports. RG111 differentiates between the analysis required for control transactions and other transactions. In the context of control transactions (whether by takeover bid, scheme of arrangement, the issue of securities or selective capital reduction or buyback), the expert is required to distinguish between "fair" and "reasonable". A proposal that was "fair and reasonable" or "not fair but reasonable" would be in the best interests of shareholders.

For most other transactions the expert is to weigh up the advantages and disadvantages of the proposal for shareholders. This involves a judgement on the part of the expert as to the overall commercial effect of the proposal, the circumstances that have led to the proposal and the alternatives available. The expert must weigh up the advantages and disadvantages of the proposal and form an overall view as to whether shareholders are likely to be better off if the proposal is implemented than if it is not. If the advantages outweigh the disadvantages, the proposal would be in the best interests of shareholders.

RG111 also states that where a demerger or demutualisation involves one or more of a change in the underlying economic interests of shareholders, a change of control or selective treatment of different shareholders, an expert might need to consider whether using the "fair" and "reasonable" tests is appropriate.

The Demerger is not a control transaction. Accordingly, Grant Samuel has evaluated the Demerger by assessing the overall impact on Woolworths Group shareholders and formed a judgement as to whether the expected benefits outweigh any disadvantages and risks that might result. By definition, if the advantages outweigh the disadvantages, shareholders are likely to be better off if the Demerger is implemented than if it is not.

In forming its opinion as to whether the Demerger is in the best interests of Woolworths Group shareholders, Grant Samuel has considered the following:

- the impact of the Demerger on the business operations of Woolworths Group and Endeavour Group, including any strategic implications;
- the impact of the Demerger on earnings and dividends attributable to existing shareholders;
- the impact of the Demerger on the financial position and financial risk profile of the demerged entities;
- the implications of ongoing relationships between the demerged entities;
- the likely impact of the Demerger on the market value of shareholders' interests and the market for shares in Woolworths Group and Endeavour Group generally;
- any other advantages and benefits arising from the Demerger; and
- any disadvantages, costs and risks of the Demerger.

In forming its opinion as to whether the demerger dividend and the capital reduction materially prejudices Woolworths Group's ability to pay its existing creditors, Grant Samuel has considered the following:

- the key leverage metrics for Woolworths Group and Woolworths Group post Demerger;
- the debt facilities available to Woolworths Group post Demerger after the demerger dividend and the capital reduction; and
- the impact of the demerger dividend and the capital reduction on the financial position of Woolworths Group post Demerger.

2.3 Sources of Information

The following information was utilised and relied upon, without independent verification, in preparing this report:

Publicly Available Information

- the Demerger Booklet (including earlier drafts);
- annual reports of Woolworths Group for FY18[7] to FY20;
- half year announcement of Woolworths Group for 1HY21;

---

[7] Woolworths Group operates on a 52 or 53 week annual reporting period ending on the last Sunday in June. Consequently, the annual results for each period are for the 52 weeks ended 24 June 2018 ("FY18"), the 53 weeks ended 30 June 2019 ("FY19") and the 52 weeks ended 28 June 2020 ("FY20").

- pro forma financial information for Woolworths Group post Demerger and Endeavour Group for FY18, FY19, FY20, 1HY20[8] and 1HY21. The pro forma financial information for Woolworths Group post Demerger includes restated financial information[9] for Woolworths Group for these periods;
- press releases, public announcements, media and analyst presentation material and other public filings by Woolworths Group including information available on its website;
- brokers' reports and recent press articles on Woolworths Group and the retail food and everyday needs, drinks and hotel hospitality industries; and
- sharemarket data and related information on Australian and international listed companies engaged in the retail food and hotel hospitality industries.

Non Public Information provided by Woolworths Group

- selected presentations and board papers regarding the Demerger;
- information on Endeavour Group provided to potential lending banks to Endeavour Group; and
- other confidential documents and working papers.

In preparing this report, representatives of Grant Samuel held discussions with, and obtained information from, senior management of Woolworths Group and Endeavour Group and Woolworths Group's advisers.

2.4 Limitations and Reliance on Information

Grant Samuel believes that its opinion must be considered as a whole and that selecting portions of the analysis or factors considered by it, without considering all factors and analyses together, could create a misleading view of the process employed and the conclusions reached. Any attempt to do so could lead to undue emphasis on a particular factor or analysis. The preparation of an opinion is a complex process and is not necessarily susceptible to partial analysis or summary.

Grant Samuel's opinion is based on economic, sharemarket, business trading, financial and other conditions and expectations prevailing at the date of this report. These conditions can change significantly over relatively short periods of time. If they did change materially, subsequent to the date of this report, the opinion could be different in these changed circumstances.

This report is also based upon financial and other information provided by Woolworths Group. Grant Samuel has considered and relied upon this information. Woolworths Group has represented in writing to Grant Samuel that to its knowledge the information provided by it was then, and is at the date of this report, complete and not incorrect or misleading in any material respect. Grant Samuel has no reason to believe that any material facts have been withheld.

The information provided to Grant Samuel has been evaluated through analysis, inquiry and review to the extent that it considers necessary or appropriate for the purposes of forming an opinion as to whether the Demerger is in the best interests of Woolworths Group shareholders. However, Grant Samuel does not warrant that its enquiries have identified or verified all of the matters that an audit, extensive examination or "due diligence" investigation might disclose. While Grant Samuel has made what it considers to be appropriate enquiries for the purposes of forming its opinion, "due diligence" of the type undertaken by companies and their advisers in relation to, for example, prospectuses or profit forecasts, is beyond the scope of an independent expert.

---

8 1HY20 is the 27 weeks ended 5 January 2020.

9 The restated financial information for Woolworths Group reflects the impact of adopting AASB16 Leases, remediation of salaried store team members, reallocation of the Summergate business and the impact of the Restructure and Merger. Woolworths Group's financial position at 3 January 2021 has been restated to recognise the 1HY21 dividend paid on 14 April 2021 (including the impact of the dividend reinvestment plan) and the 1HY21 dividend to be declared and paid by Endeavour Group prior to the Demerger.

Accordingly, this report and the opinions expressed in it should be considered more in the nature of an overall review of the anticipated commercial and financial implications rather than a comprehensive audit or investigation of detailed matters.

An important part of the information used in forming an opinion of the kind expressed in this report comprises the opinions and judgement of management. This type of information was also evaluated through analysis, inquiry and review to the extent practical. However, such information is often not capable of external verification or validation.

Preparation of this report does not imply that Grant Samuel has audited in any way the financial accounts or other records of Woolworths Group, Woolworths Group post Demerger or Endeavour Group. It is understood that the accounting information that was provided was prepared in accordance with generally accepted accounting principles and in a manner consistent with the method of accounting in previous years (except where noted).

The information provided to Grant Samuel included pro forma historical financial information for Woolworths Group post Demerger and Endeavour Group:

- for FY18, FY19, FY20, 1HY20 and 1HY21 in relation to statements of profit and loss and cash flow; and
- at 3 January 2021 in relation to statements of financial position.

Woolworths Group is responsible for this financial information. The pro forma historical financial information was subject to review by Deloitte Corporate Finance Pty Limited ("Deloitte"). The Independent Accountant's Independent Limited Assurance Report is set out as Annexure B to the Demerger Booklet. On this basis, Grant Samuel considers that there are reasonable grounds to believe that the pro forma historical financial information on Woolworths Group post Demerger and Endeavour Group as presented in the Demerger Booklet has been prepared on a reasonable basis.

In forming its opinion, Grant Samuel has also assumed that:

- matters such as title, compliance with laws and regulations and contracts in place are in good standing and will remain so and that there are no material legal proceedings, other than as publicly disclosed;
- the assessments by Woolworths Group and its advisers with regard to legal, regulatory, tax and accounting matters relating to the Demerger are accurate and complete;
- the information set out in the Demerger Booklet sent by Woolworths Group to its shareholders is complete, accurate and fairly presented in all material respects;
- the publicly available information relied on by Grant Samuel in its analysis was accurate and not misleading;
- the Demerger will be implemented in accordance with its terms; and
- the legal mechanisms to implement the Demerger are correct and will be effective.

To the extent that there are legal issues relating to assets, properties, or business interests or issues relating to compliance with applicable laws, regulations, and policies, Grant Samuel assumes no responsibility and offers no legal opinion or interpretation on any issue.

3 Profile of Woolworths Group

3.1 Background

Woolworths Group began as a general merchandise store in Sydney which commenced operations in 1924. The business subsequently expanded to other states (Queensland and Western Australia) and New Zealand and opened its first dedicated food store in Sydney in 1957. By 1960, it was the first retailer to operate across Australia and continued to expand its supermarkets business, acquiring Safeway Inc.'s Australian stores (in 1985), 67 *Franklins* stores (in 2001) and Foodland Associated Limited's New Zealand supermarket business and 20 *Action* stores in Australia (in 2005).

From 1960, Woolworths Group diversified its operations, both organically and through acquisition, to include:

- liquor, acquiring its first store with a limited licence to sell liquor in 1960 followed by numerous liquor store acquisitions including *Dan Murphy's* in 1998. In 2001, the *BWS* chain was established as a network of standalone convenience liquor stores. Liquor stores attached to Woolworths supermarkets were rebranded to *BWS* in 2012. Langton's was acquired in 2009 and The Cellarmasters Group ("Cellarmasters") was acquired in 2011;
- specialised general merchandise, opening the first BIG W discount department store in New South Wales in 1976 and quickly expanding across Australia;
- consumer electronics, acquiring Dick Smith Electronics (60% in 1981 and the remaining 40% in 1983), and Tandy Electronics Australia (in 2001). The Dick Smith Electronics chain was sold in 2012;
- petrol, initially (in 1996) through wholly owned *Petrol Plus* outlets located in shopping centre carparks and, from 2003, partnering with Caltex Australia Limited ("Caltex") to co-brand select outlets as Caltex Woolworths (where Caltex supplied fuel and Woolworths fuel saving vouchers were accepted) (the "Petrol" business). Caltex changed its name to Ampol Limited ("Ampol") on 19 May 2020;
- financial services, initially (in 1999) through *Woolworths Ezy Banking*, a joint venture with the Commonwealth Bank of Australia, although this business was scaled back by 2006 and by 2008, Woolworths Group had established its own financial services capabilities with the launch of Everyday Money credit cards;
- hotels, through Bruandwo Pty Ltd ("Bruandwo"), a joint venture and its subsidiary owned by BMG and Woolworths Group (and initially others), which was established in 2001 to buy and operate hotels in Queensland. The joint venture was designed to enable Woolworths Group to undertake retail liquor and on-premises operations in Queensland (where licensing laws require that retail liquor stores are operated by a hotelier). In 2004, Bruandwo acquired Australian Leisure and Hospitality Group Limited, which owned and operated hotels and bottle shops across Australia. In 2005, ALH Group was established through the merger of Bruandwo (including Australian Leisure and Hospitality Group Limited) and certain hotel interests of the Mathieson family. ALH Group subsequently expanded its hotel portfolio through numerous acquisitions including the Taverner Hotel Group, the Compass Hotel Group and from the Laundy, Waugh, De Angelis and Bayfield Hotel Groups. Prior to the Restructure and Merger, ALH Group was 75% owned by Woolworths Group and 25% owned by BMG;
- home improvement and hardware in 2009 ("Home Improvement"), through a joint venture with United States home improvement retailer, Lowe's Companies Inc., which launched the *Masters* home improvement business and acquired Danks Holdings Limited, Australia's second largest hardware distributor; and
- online and catalogue retail, through the acquisition of direct to customer clothing and homewares retailer EziBuy Holdings Limited ("EziBuy") in 2013.

Following underperformance in the financial year ended 28 June 2015 and the appointment of a new Chairman, non-executive directors and Chief Executive Officer ("CEO"), Woolworths Group transformed its operating model and simplified its business portfolio over the following three years through:

- focusing on price competitiveness and investing in improved customer service and experience;
- selling or exiting non-core businesses including Home Improvement, EziBuy and Petrol; and
- developing strategic partnerships with companies including Qantas Airways Limited ("Qantas"), Ampol and EG Group ("EuroGarages"),

to enable Woolworths Group to focus on and differentiate its food, everyday needs, and retail drinks and hotels businesses.

The next step in this transformation was the Restructure and Merger to create Endeavour Group. The Restructure and Merger brought together, under a single corporate structure within Woolworths Group, the retail drinks businesses owned by Woolworths Group and ALH Group (so that all *Dan Murphy's* and *BWS* stores are owned by a single entity) and ALH Group's hotels business. Endeavour Group is 85.4% owned by Woolworths Group and 14.6% owned by BMG.

Woolworths Group is one of Australia's largest listed companies, with a market capitalisation of approximately $50 billion. It is also one of Australia's largest employers, with over 200,000 employees.

3.2 Business Operations

Woolworths Group's business operations are summarised below:

WOOLWORTHS GROUP – BUSINESS OPERATIONS

DIVISION	BUSINESS	DESCRIPTION
Australian Food	Woolworths The fresh food people	994 full-scale supermarkets offering fresh food, groceries and general merchandise across Australia
	Metro	70 small-scale stores generally located in high-density areas close to public transport with an emphasis on convenience, including grab-and-go and ready-made meals
	Food Company	Development and management of Woolworths Group's collection of in-house and exclusive brands (including *Macro* and *Freefrom*)
	WOOLIES X / everyday rewards	Digital, eCommerce, customer loyalty and customer service offering across Woolworths Group Everyday Rewards members program has 12.8 million members
	International	Consolidates Woolworths Group's export initiatives to develop a group-wide export strategy and build up the presence of own brands in Asia
	Woolworths Financial Services	Financial services platform offering insurance, credit cards and gift cards to Woolworths Group customers
	PRIMARY CONNECT	Operates a distribution network across Australia and New Zealand, consisting of road, rail and ocean transport services and third party logistics storage facilities
New Zealand Food	countdown	181 full-scale supermarkets offering fresh food, groceries and general merchandise across New Zealand Woolworths New Zealand also has wholesale operations which supply a further 71 franchised stores (SuperValue and FreshChoice supermarkets)
	countdown X / countdown one card	Digital, eCommerce, customer loyalty and customer service offering for Countdown customers Countdown Onecard loyalty/rewards program has 1.9 million members

WOOLWORTHS GROUP – BUSINESS OPERATIONS (CONT)

SEGMENT	BUSINESS	DESCRIPTION
Complementary Businesses	BIGW	179 discount department stores across Australia, focused on family consumers and a one-stop shop for general merchandise and household needs
	BIGW X	Digital, eCommerce and customer service offering for BIG W customers
	cartology	Development of in-store, digital and other media assets for supplier partners (established March 2019)
	quantium	Provides solutions in data science and artificial intelligence (47.2% interest[10])
Endeavour Group (85.4% interest)	Dan Murphy's LOWEST LIQUOR PRICE GUARANTEE My Dan's	Destination liquor retailer with 246 stores across Australia. Aims to offer the widest range of liquor at prices underpinned by the lowest liqour pirce guarantee Loyalty program across the *Dan Murphy's* network with 5.1 million members
	BWS	Convenience focused liquor retailer with 1,384 stores that are either standalone or co-located with *Woolworths* supermarkets or *Metro* stores
	ALH Hotels Nightcap Hotels Monty's Rewards	Operator of 332 licensed venues[11]. Hotels services including food and dining (~300 venues), on-premise drinks (900+ bars, nightclubs and themed areas), gaming (293 venues with a total of 12,364 electronic gaming machines), entertainment (~230 dedicated function rooms) and accommodation (~2,200 rooms across 103 locations, including 60 venues that operate under the Nightcap Hotels and Nightcap Plus brands) Monty's Reward membership program across most of the Hotels network
	Pinnacle Drinks	Collection of own and exclusive brands across wine, spirits, beer and other drink products supplied exclusively through Endeavour Group channels as well as export markets Wine manufacturing assets including vineyards, wineries, wine brands and bottling plants
	ENDEAVOUR X	Brings together Endeavour Group's digital and fulfilment capabilities and platforms and loyalty propositions and oversees the trading operations of the speciality and eCommerce businesses
	LANGTON'S	Fine wine auction house, private wine broking, wholesale and online sales and "Winery Direct"
	CELLARMASTERS	Direct to consumer wine subscription business servicing customers across Australia
	JIMMY BRINGS	Ultra-convenient online drinks delivery specialist servicing customers in Sydney, Melbourne, Brisbane, Adelaide, Perth, Canberra, the Sunshine Coast and the Gold Coast
	Shorty's Liquor	Corporate beverage supplier to businesses in the Sydney and Melbourne central business districts (80% interest)
	ENDEAVOUR DELIVERY	Specialist home delivery provider for *Dan Murphy's*, *BWS*, Langton's and Cellarmasters
	ALE PROPERTY GROUP	ASX listed property investment company which owns a portfolio of 86 hotels across Australia that are leased to ALH Group (8.9% interest)

Source: Woolworths Group

There are varying levels of integration between the Australian Food and Endeavour Group divisions, including the common usage of property, systems and services and administration functions.

In addition to its business operations, Woolworths Group has:

- an "other" division, which comprises:
  - Woolworths Group's property division responsible for the construction, development and management (including sale and leaseback) of retail centres around Australia; and

---

[10] On 20 April 2021, Woolworths announced that it had entered into an agreement to increase its shareholding in Quantium to 75%. The transaction is expected to complete prior to the end of FY21.

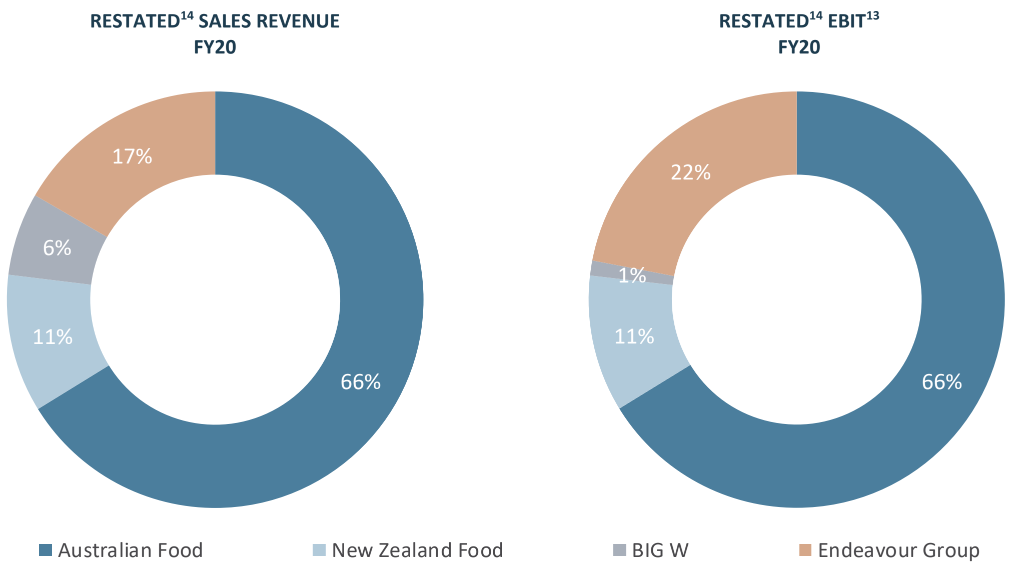
[11] Excluding five Victorian clubs managed by Endeavour Group for third parties.

- central overheads, which primarily represent the cost of unallocated support functions for Woolworths Group; and

- key partnerships (in addition to its investment in The Quantium Group Holdings Pty Limited ("Quantium")) with:
  - Qantas (since June 2009, refreshed in October 2019), to enable customers to convert their Everyday Rewards points to Qantas Frequent Flyer points;
  - Caltex (now Ampol) (new 15 year alliance from July 2018), across convenience, wholesale food, redemption, loyalty and fuel supply, including the rollout of a convenience offering under the *Metro* brand to up to 250 Ampol sites over six years;
  - EuroGarages (15 year commercial alliance following completion of the sale of its Petrol business in April 2019), covering fuel discount redemption and loyalty amongst other things; and
  - Takeoff Technologies Inc. ("Takeoff Technologies"), implementing automated micro-fulfilment capabilities to enhance Woolworths Group's growth in online sales.

Woolworths Group's Australian Food division is the largest contributor to Woolworths Group's sales revenue and EBIT[12]:

WOOLWORTHS GROUP – CONTRIBUTION BY BUSINESS DIVISION



Source: Woolworths Group

In FY20, Woolworths Group's Australian Food division contributed 66% of restated[14] group sales revenue and restated group EBIT, with Endeavour Group representing 17% of restated group sales revenue and 22% of restated group EBIT.

3.3 Business Strategy

Woolworths Group has completed a three year turnaround, commenced in 2016, to initially stabilise, and then simplify and differentiate its business operations. To continue to adapt to the rapidly changing retail environment and meet changing customer needs, Woolworths Group has moved to a period of transformation, evolving into a food and everyday needs "ecosystem" with long term alliances and partnerships that extend the group's range and services.

---

12 EBIT is earnings from continuing operations before net finance costs, tax and significant items. It includes share of profits of associates although this is immaterial in the context of Woolworths Group's earnings.

13 EBIT in this chart excludes "other" (i.e. various support functions including property and central overheads).

14 See Section 3.4.2 for an explanation of restated revenue and restated EBIT.

Woolworths Group's key priorities have remained broadly consistent since 2016 and focused on putting the customer first. Woolworths Group's FY21[15] strategy consists of six priorities that reflect Woolworths Group's transformation into a food and everyday needs ecosystem and focus on the key growth drivers to deliver positive outcomes for customers and employees, and in turn, grow shareholder value:

- **better together for a better tomorrow for its customers, teams and communities**. Woolworths Group:
  - tracks, and seeks to continually improve, Voice of Customer ("VOC")[16], VOC Net Promoter Score ("VOC NPS")[17], Voice of Supplier ("VOS")[18] and Voice of Team ("VOT")[19];
  - has set up a share recognition program (the Better Together Recognition Award) to reward and thank team members who were not already eligible for existing variable reward schemes;
  - has committed to 100% green energy by 2025; and
  - seeks to embed Woolworths Group's ways of working and values into its businesses to earn trust and grow advocacy by delivering its brand promise to communities;
- **accelerate digital, eCommerce and convenience for increasingly connected customers**, providing customers with more choice on how they can shop across Woolworths Group's brands through:
  - ongoing investment in the digital customer experience to drive digital traffic and eCommerce sales and increase eCommerce capacity and range of services across its digital businesses (i.e. WooliesX, CountdownX, BIG WX and EndeavourX) including through mobile apps, digital catalogues and digital receipts;
  - enhancing on-demand and delivery capabilities through rolling out dedicated online customer fulfilment centres ("CFC") and automated micro-fulfilment centres ("eStores"); and
  - improving personalisation and increasing redemption opportunities and offers for Everyday Rewards, Countdown Onecard and My Dan's members;
- **differentiate the food customer propositions** through:
  - continuing the renewals and upgrades program across Australian Food and New Zealand Food and opening new stores (with a medium term annual target of 10-20 *Woolworths* supermarkets, 5-15 *Metro* stores and 3-4 *Countdown* stores); and
  - continuing to invest in development of its own brands to provide fresh, convenient and healthy options, range localisation to meet the unique demands of local communities (e.g. international foods) and other exclusive products to create a point of difference;
- **stand up Endeavour Group** with the focus for FY21 on:
  - progressing the operating model to build more effective shared capabilities across Endeavour Group; and
  - completing the separation of Endeavour Group;
- **evolve the portfolio businesses and build strong adjacencies** by:
  - continuing BIG W's turnaround plan to create a sustainably profitable store and distribution centre network though the closure of three BIG W stores in January 2021, the closure of a

---

15 FY21 is the financial year ending 27 June 2021.

16 VOC is an externally facilitated survey of a sample of Woolworths Group customers where customers rate Woolworths Group businesses on a number of criteria.

17 VOC NPS is based on feedback from Everyday Rewards members.

18 VOS is an externally facilitated survey of a broad range of suppliers used to provide an ongoing measure of the effectiveness of business relationships with the supplier community.

19 VOT is a survey measuring sustainable engagement with Woolworths Group team members as well as their advocacy of Woolworths Group businesses as a place to work and shop.

distribution centre in the fourth quarter of FY21 and the transition to a third party distribution network in the second half of FY21, including two new warehouse sites; and

- building out the Woolworths Group retail ecosystem and complementary businesses and partnerships including scaling up Cartology, Woolworths International and Woolworths@Work, extending Primary Connect to become an end-to-end logistics service provider including to third party customers and completing the acquisition of a 65% interest in PFD Food Services Pty Ltd subject to Australian Competition and Consumer Commission ("ACCC") approval (expected to be announced on 10 June 2021) and other customary closing conditions; and

▪ **keep the business COVIDSafe and future proof the end-to-end operating model** to be "better for customers" and "simpler and safer for stores and support" with a focus on:

- driving improvements in end-to-end productivity, safety, stock flow and inventory levels;
- simplifying store operations and better aligning to customers' habits with a greater focus on fresh food, convenience and customer service;
- progressing the supply chain transformation through delivering the benefits from the automated Melbourne South Regional Distribution Centre (to 2.5 million cases per week) and developing new distribution centres (Palmerston North in New Zealand and Healthwood in Queensland) using improved fulfilment technologies; and
- leveraging IT infrastructure and applications platforms to deliver efficiencies and create new business opportunities.

3.4 Financial Performance

3.4.1 Historical Group Performance

Reported Performance

Woolworths Group's reported historical financial performance from FY18 to FY20 and for 1HY21 is summarised below:

WOOLWORTHS GROUP – SUMMARISED REPORTED HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY18 ACTUAL 52 WEEKS PRE AASB16	FY19 ACTUAL[20] 53 WEEKS PRE AASB16	FY20 ACTUAL 52 WEEKS POST AASB16	1HY21 ACTUAL 27 WEEKS POST AASB16
Sales revenue from continuing operations	**56,944**	**59,984**	**63,675**	**35,845**
EBITDA[21]	**3,651**	**3,944**	**5,677**	**3,415**
Depreciation and amortisation	(1,103)	(1,222)	(2,458)	(1,323)
EBIT	**2,548**	**2,722**	**3,219**	**2,092**
Net finance costs	(154)	(126)	(843)	(412)
Income tax expense	(718)	(779)	(730)	(505)
Non-controlling interests (continuing operations)	(71)	(66)	(44)	(40)
OPAT[22] attributable to Woolworths Group shareholders	**1,605**	**1,751**	**1,602**	**1,135**
OPAT from discontinued operations[23]	119	112	-	-
Significant items after tax[23]	-	829	(437)	-
NPAT[24] attributable to Woolworths Group shareholders	**1,724**	**2,692**	**1,165**	**1,135**

20 FY19 actual has been sourced from the FY19 comparative included in Woolworths Group's FY20 annual report which was represented to conform with the FY20 presentation. In particular, the impact of the costs to remediate salaried team members has been corrected.

21 EBITDA is earnings from continuing operations before net finance costs, tax, depreciation and amortisation and significant items. It includes share of profits of associates although this is immaterial in the context of Woolworths Group's earnings.

22 OPAT is operating profit from continuing operations after tax but before significant items.

23 OPAT from discontinued operations and significant items after tax are the amounts attributable to Woolworths Group shareholders.

24 NPAT is net profit after tax.

WOOLWORTHS GROUP – SUMMARISED REPORTED HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS) (CONT)

	FY18 ACTUAL 52 WEEKS PRE AASB16	FY19 ACTUAL[20] 53 WEEKS PRE AASB16	FY20 ACTUAL 52 WEEKS POST AASB16	1HY21 ACTUAL 27 WEEKS POST AASB16
STATISTICS				
Basic earnings per share before significant items	*132.6¢*	*142.8¢*	*127.5¢*	*90.5¢*
Dividends per share	*103.0¢*[25]	*102.0¢*	*94.0¢*	*53.0¢*
Dividend payout ratio[26]	*71%*	*70%*	*74%*	*59%*
Amount of dividend franked	*100%*	*100%*	*100%*	*100%*
Sales revenue growth	*+3.4%*	*+3.4%*[27]	*+8.1%*[27]	*+10.6%*[28]
EBIT growth	*+9.5%*	*+5.0%*[27]	*-0.4%*[29]	*+10.5%*[28]
EBIT margin	*4.5%*	*4.5%*	*5.1%*	*5.8%*
Interest cover[30]	*16.5x*	*21.6x*	*3.8x*	*5.1x*
Return on funds employed[31]	*24.1%*	*24.2%*[27]	*13.7%*	*14.4%*

Source: Woolworths Group and Grant Samuel analysis

The table above shows the summarised historical financial performance:

- of Woolworths Group's continuing operations on a basis consistent with FY19 and FY20. FY18 has been restated to exclude the financial performance of Home Improvement and Petrol, which are shown as discontinued operations for the entire period;
- on a consolidated basis. It includes 100% of ALH Group's financial performance in sales revenue and earnings up to 3 February 2020 and 100% of Endeavour Group's financial performance in sales revenue and earnings from 4 February 2020. BMG's non-controlling interest in ALH Group (up to 3 February 2020) and Endeavour Group (from 4 February 2020) is shown as a single line adjustment to OPAT; and
- prior to any adjustments to reflect:
  - AASB16 Leases ("AASB16"), which was adopted by Woolworths Group from 1 July 2019 (i.e. the financial performance for FY20 and 1HY21 adopt AASB16 but the financial performance for prior years has not been adjusted); and
  - the payment shortfall to current and former salaried team members for FY18. The total one-off cost of remediation for the salary payments shortfall is currently estimated to be $500 million (including $50 million recognised in FY19 and $185 million recognised in FY20).

  The impact of AASB16 and remediation of salaried team members on the financial performance of Woolworths Group is set out at the end of this Section.

The operating performance of Woolworths Group's continuing operations over the past three and a half years reflects the turnaround and simplification of the business. FY18 delivered strong sales revenue and EBIT growth, underpinned by Australian Food and supported by consistent growth in Endeavour Drinks and Hotels, as Woolworths Group's investment in its online businesses and improvement in customer service

25 Includes special dividend of 10 cents per share.

26 Dividend payout ratio excludes special dividend and is based on NPAT attributable to Woolworths Group shareholders before significant items.

27 Normalised for the 53 week year in FY19.

28 Growth rates are over the prior corresponding period (i.e. 1HY20).

29 Normalised for the 53 week year in FY19 and the impact of AASB16.

30 Interest cover is EBIT divided by net finance costs.

31 Return on funds employed is EBIT for the previous 12 months as a percentage of average (opening, mid and closing) funds employed. Funds employed is net assets excluding net borrowings (including debt hedging derivatives), other financial assets and liabilities and tax balances.

and experience had a material impact on sales revenue and EBIT. However, this was partially offset by a decline in New Zealand Food and continued losses at BIG W (albeit less than the prior year).

Positive sales revenue and EBIT momentum continued in FY19, particularly across Australian Food and New Zealand Food. Online sales continued to grow strongly, increasing by 32% on a normalised basis to $2.5 billion. Group EBIT increased by 5% on a normalised basis, driven by a 10% increase in the second half. Growth was achieved across Australian Food and New Zealand Food and through reduced corporate overheads (from a $50 million one-off payment from Caltex (now Ampol) and a $37 million reversal of an impairment on a property subsequently classified as held for sale). This was partly offset by margin decline in Endeavour Drinks (where EBIT included an impairment charge against the Summergate business[32] and charges related to new operating models in stores and support office) and losses at BIG W (although again reduced relative to the prior year).

Despite a volatile trading environment in FY20, impacted by the bushfires across Australia, the ongoing drought in the eastern states and the COVID-19 pandemic, Woolworths Group reported sales revenue and EBIT growth across all divisions other than Hotels. The closure of Hotels for much of the last four months of FY20 led to a material decline in its sales revenue and EBIT in 2HY20[33] and resulted in a slight decline in group EBIT (of -0.4% on a normalised basis) in FY20. Excluding Hotels, EBIT increased by 5.8% (on a normalised basis). There was strong growth in online sales across all businesses (of 41.8%) and an increase in online sales penetration from 4.2% to 5.5%. Customer visits to digital assets (including eCommerce and loyalty websites and apps) increased by 63.8%. BIG W continued to improve, reporting a profit for the first time since FY16[34]. EBIT margins benefited from the adoption of AASB16 as well as Woolworths Group's execution of efficiency initiatives including the Melbourne South Regional Distribution Centre, customer operating model and total stock loss, offset by higher costs associated with maintaining a COVIDSafe environment in 2HY20 (incremental costs of $404 million across the group), higher team member payments under new enterprise agreements and one off items reducing central overheads in FY19.

The financial performance of Woolworths Group in 1HY21 continued to be impacted by the COVID-19 pandemic. Sales revenue and EBIT grew strongly (by 10.6% and 10.5% respectively), driven by record Christmas trading across Australian Food, BIG W and Endeavour Drinks. Sales revenue growth in New Zealand Food slowed as the reduction in international tourism resulted in lower market growth. Sales revenue trends in Hotels improved over the half year but growth was well below that achieved in 1HY20 due to continued COVID-19 pandemic related operating restrictions. Growth in EBIT was achieved despite higher costs to maintain a COVIDSafe environment (incremental costs of $277 million across the group) and the lower EBIT contribution from Hotels, assisted by the significant improvement at BIG W, where EBIT increased by 166%.

The performance of Woolworths Group's business divisions is discussed in more detail in Section 3.4.2 of this report.

Woolworths Group's interest cover, while reasonably conservative, has improved over the past three and a half years, albeit in FY20 and 1HY21 it has been impacted by the adoption of AASB16. Calculated on a pre AASB16 basis, interest cover has ranged from 16.5 times in FY18 to 33.4 times in 1HY21. This general improvement reflects:

- the upturn in Woolworths Group's operating performance in FY18 and FY19; and
- declining net finance costs as debt has been repaid and maturing debt is refinanced at lower margins, although net finance costs increased in FY20 (calculated on a pre AASB16 basis) reflecting lower capitalised interest due to the completion of several major long term projects in FY19.

---

32 The Summergate business (i.e. Woolworths (HK) Holdings Limited and its subsidiaries) was transferred from Endeavour Group to Woolworths International (part of Australian Food) from 1 July 2019.

33 2HY20 is the 25 weeks ended 28 June 2020.

34 FY16 is the 52 weeks ended 26 June 2016.

Return on funds employed ("ROFE") was above 24% in FY18 and FY19 driven by improvement in EBIT and relatively flat average funds employed over the period. Reported ROFE in FY20 (of 13.7%) and 1HY21 (of 14.4%) has been impacted by the adoption of AASB16 but was relatively steady relative to FY19 when calculated on a consistent basis (FY19 ROFE post AASB16 was 14.1%).

The impact over the past three and a half years of the turnaround and simplification of Woolworths Group is also reflected in:

- the sale of or exit from non-core businesses including Home Improvement, EziBuy and Petrol, whose financial performance (attributable to Woolworths Group shareholders and before significant items) is shown as a single line, OPAT from discontinued operations; and
- significant items (from continuing and discontinued operations, attributable to Woolworths Group shareholders) incurred in FY19 and FY20:

WOOLWORTHS GROUP – REPORTED SIGNIFICANT ITEMS (AFTER TAX) ($ MILLIONS)

	FY18 ACTUAL 52 WEEKS	FY19 ACTUAL 53 WEEKS	FY20 ACTUAL 52 WEEKS	1HY21 ACTUAL 27 WEEKS
Continuing operations				
BIG W network review	-	(259)	-	-
New South Wales supply chain transformation costs	-	-	(123)	-
Salaried store team member remediation (interest and other)	-	-	(129)	-
Endeavour Group transformation costs	-	-	(185)	-
Discontinued operations				
Gain on sale of Petrol business	-	1,088	-	-
Significant items (after tax)	**-**	**829**	**(437)**	

Source: Woolworths Group

In FY19, significant items related to the gain on sale of the Petrol business and restructuring, onerous lease and impairment charges associated with the planned BIG W store and distribution centre closures following the strategic review of BIG W. FY20 significant items represent the redundancy costs associated with the closure of three sites as part of the New South Wales grocery supply chain transformation, interest and other remediation costs incurred as a result of payment shortfalls for salaried team members and costs associated with the Endeavour Group Restructure and Merger.

Over the past three and a half years, Woolworths Group has consistently delivered a dividend payout ratio of 70-75% of NPAT attributable to Woolworths Group shareholders before significant items (with dividends typically weighted towards the second half of the financial year). The dividend payout ratio was slightly higher in FY20 (at 74%) reflecting the impact of AASB16 on NPAT but remained at 70% on a pre AASB16 basis. The dividend payout ratio was 59% in 1HY21, reflecting the growth in NPAT over the period.

In addition to ordinary dividends, Woolworths Group has undertaken further capital management initiatives (in FY18 and FY19) to return capital to shareholders, consistent with its long term capital structure objectives and to enhance shareholder value. In FY18, it paid a special dividend of 10 cents per share, reflecting improved trading performance, balance sheet strength and a strong franking credit balance, as well as the benefits from its petrol alliance with Caltex (now Ampol). In FY19, the proceeds from the sale of the Petrol business were returned to shareholders through a $1.7 billion off-market share buyback completed in May 2019 (at $28.94 per share, comprising a capital component of $4.79 per share and a fully franked dividend component of $24.15 per share).

Restated Performance

Woolworths Group's restated historical financial performance from FY18 to FY20, along with its reported historical financial performance for 1HY21, are summarised below:

WOOLWORTHS GROUP – SUMMARISED RESTATED/REPORTED HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY18 RESTATED 52 WEEKS	FY19 RESTATED 53 WEEKS	FY20 RESTATED 52 WEEKS	1HY21 REPORTED 27 WEEKS
Sales revenue from continuing operations	**56,944**	**59,984**	**63,675**	**35,845**
EBITDA	**5,180**	**5,655**	**5,675**	**3,415**
Depreciation and amortisation	(2,129)	(2,322)	(2,461)	(1,323)
EBIT	**3,051**	**3,333**	**3,214**	**2,092**
Net finance costs	(1,089)	(1,043)	(842)	(412)
Income tax expense	(847)	(900)	(730)	(505)
Non-controlling interests	(60)	(58)	(34)	(36)
OPAT attributable to Woolworths Group shareholders	**1,055**	**1,331**	**1,608**	**1,139**
STATISTICS				
EBIT growth	*na*	*+7.2%*[35]	*-1.8%*[35]	*+10.7%*[36]
EBIT margin	*5.4%*	*5.6%*	*5.0%*	*5.8%*
Interest cover	*2.8x*	*3.2x*	*3.8x*	*5.1x*
Return on funds employed	*na*[37]	*14.1%*[27]	*13.7%*	*14.4%*

Source: Woolworths Group and Grant Samuel analysis

Woolworths Group's restated historical financial performance reflects:

- the adoption of AASB16 (in FY18 and FY19), which results in:
  - an increase in EBITDA as rent[38] is no longer recognised as an expense;
  - an increase in EBIT as the straight line depreciation of the lease asset is less than the rent[38] that is no longer recognised as an expense; and
  - a reduction in OPAT as the combined impact of the depreciation and interest expense is greater than the rent[38], reflecting the long term nature of the majority of Woolworths Group's leases.

  Relative to its reported FY18 and FY19 performance, Woolworths Group's restated EBIT margin increases and its liquidity metrics and ROFE decline. These movements do not indicate any deterioration in the financial health of Woolworths Group but are relevant for the purposes of considering the impact of the Demerger (see Section 5.3); and
- remediation of salaried store team members in FY18. Although the annual amount was not material to the performance of Woolworths Group, management of Woolworths Group considers the cumulative understatement to be material and therefore the understatement has been corrected by restating the financial performance.

The Restructure and Merger had no material impact on Woolworths Group's consolidated operating performance (although it does have an impact on business division performance, see Section 3.4.2).

35 Normalised for the 53 week year in FY19. Normalised growth rates have been estimated by Grant Samuel based on comparable normalised FY19 sales revenue growth disclosed in Woolworths Group's Annual Reports of 3.4% in FY19 and 8.1% in FY20 and assuming the restated FY19 EBIT margin remains as reported.

36 Growth rate is over the prior corresponding period (i.e. 1HY20).

37 na = not available.

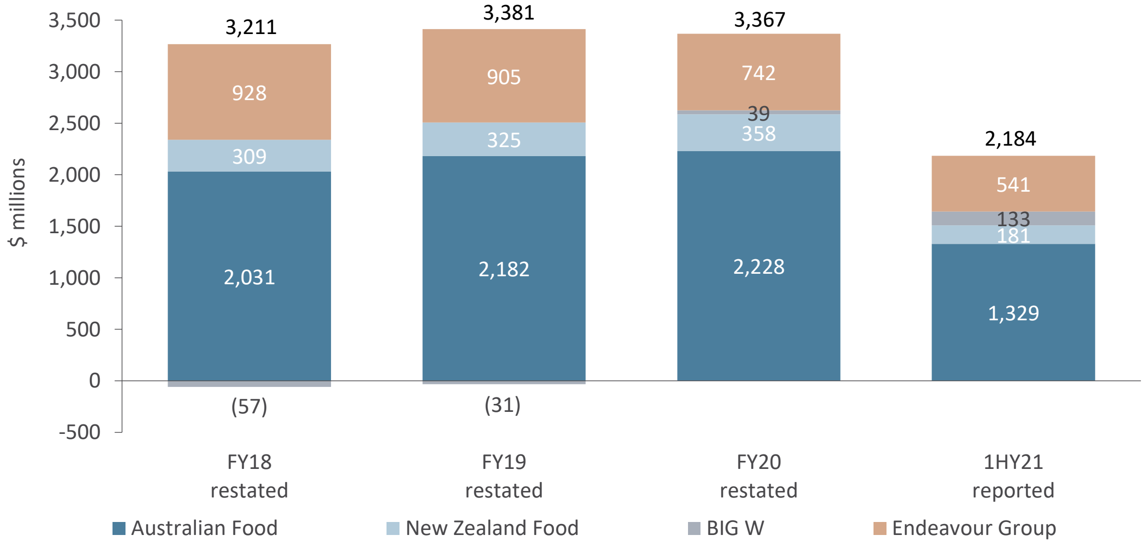
38 Rent is net of the service component and rent relating to short term leases which continue to be expensed.

3.4.2 Historical Business Division Performance

Woolworths Group's restated EBIT by business division from FY18 to FY20 along with its reported EBIT by business division for 1HY21 is shown in the chart below:

WOOLWORTHS GROUP – RESTATED/REPORTED EBIT BY BUSINESS DIVISION[39]

FY18 – 1HY21

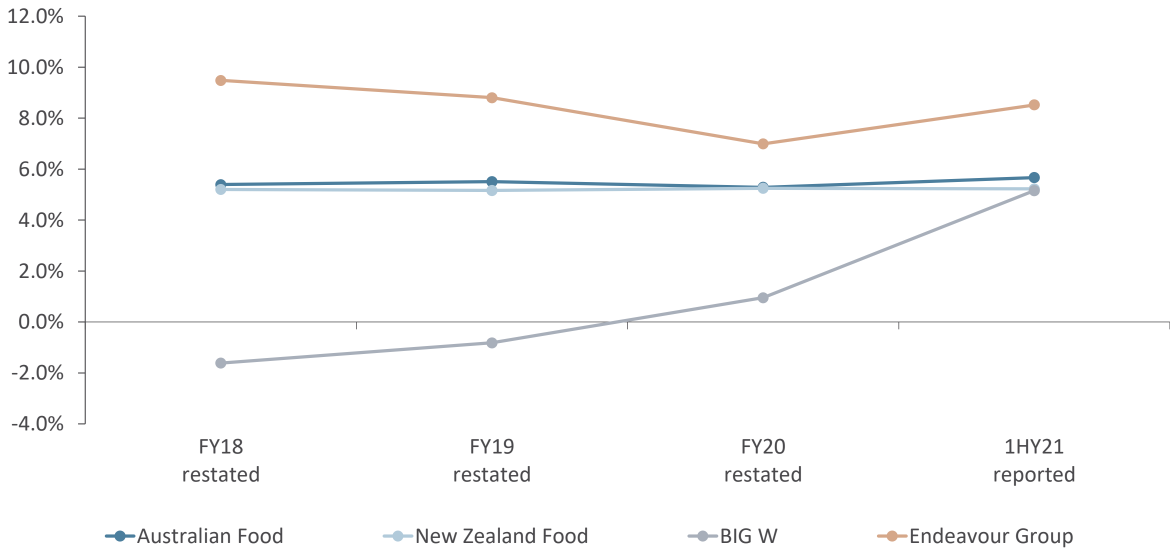


Source: Woolworths Group

The restated/reported EBIT margins for each of Woolworths Group's business divisions are set out below:

WOOLWORTHS GROUP – RESTATED/REPORTED EBIT MARGIN BY BUSINESS DIVISION

FY18 – 1HY21



Source: Woolworths Group

The restated EBIT and EBIT margins for each of Woolworths Group's business divisions reflect:

[39] EBIT contribution by business division excludes "other" (i.e. EBIT from various support functions including property and central overheads).

- adoption of AASB16 (in FY18 and FY19), which results in an increase in the EBIT and EBIT margin for each of Woolworths Group's business divisions (see Section 3.4.1 above). The quantum of the adjustment is greatest for Australian Food and Endeavour Group, which have historically represented around 80% of Woolworths Group's rent expense. The impact on Woolworths Group's other business divisions is less material;
- restatement for remediation of salaried store team members, which is not material to any business division in FY18;
- the transfer of the Summergate business from Endeavour Drinks (now Endeavour Group) to Woolworths International (part of Australian Food) from 1 July 2019. As a result, the Summergate business's sales and earnings (losses) have been reallocated from Endeavour Group to Australian Food (in FY18); and
- the Restructure and Merger, which included the following reallocations between Woolworths Group's business divisions:
  - certain non-liquor sales and earnings, particularly for tobacco, sold through *BWS* stores attached to *Woolworths* supermarkets and *Metro* stores, which were historically recognised as part of Australian Food have been reallocated to Endeavour Group;
  - dividends received from the investment in ALE Property Group have been reallocated from Woolworths Group to Endeavour Group;
  - due to the reallocation of certain fixed assets between Australian Food and Endeavour Group, charges previously made between divisions for the use of these fixed assets have been replaced with the applicable depreciation charges; and
  - the gain/loss on sale of hotels previously recorded within the Woolworths Group "other" division has been reallocated to Endeavour Group's Hotels business.

EBIT Contribution

Australian Food is the largest contributor to Woolworths Group's EBIT (excluding other) at around 65%. Combined with New Zealand Food, Woolworths Group has consistently generated around 75-80% of annual EBIT from its food divisions. These percentages have changed in 1HY21 as BIG W has become more profitable and Endeavour Group's Hotels division has been adversely impacted by the COVID-19 pandemic, with Australian Food's contribution to group EBIT falling to around 60% and the combined food divisions generating around 70% of EBIT (although the financial performance of Woolworths Group, in particular, BIG W, is affected by seasonality where earnings are typically greater in the first half of the financial year due to the Christmas trading period).

The benefit from investment in customer service and experience in earlier years translated into sales and EBIT growth for Australian Food in FY18 and FY19. Strong growth in sales and EBIT continued in FY20 and 1HY21, with FY20 sales benefiting from the successful Lion King collectibles and Discovery Garden community program in 1HY20 and COVID-19 pantry loading and higher at-home consumption in 2HY20 (which continued into 1HY21). Growth in EBIT was achieved despite cost pressures from implementation of a new enterprise agreement during FY19, higher supply chain costs and additional costs related to the COVID-19 pandemic in FY20 and 1HY21. New Zealand Food reported steady growth in sales and EBIT in FY19 driven by successful marketing campaigns and a greater focus on cost control and a reduction in stock loss. Sales and EBIT in FY20 and 1HY21 also benefited from strong COVID-19 related demand (albeit this demand has moderated in 1HY21) with growth in FY20 EBIT also assisted by ongoing stock loss reduction, mix improvement and use of data driven tools in category management, offset in part by higher team member wages from implementation of a new enterprise agreement in 1HY20 and additional COVID-19 related costs in 2HY20.

The performance of BIG W has historically been impacted by aggressive clearance activity, underperforming seasonal apparel and stock losses. A turnaround plan was implemented in FY16 to stabilise the business by rebuilding customer trust on price and enhancing the range and shopping experience in-store and online. EBIT losses in FY18 (as well as FY17[40]) reflect the additional investment made to turnaround the business. While EBIT losses continued in FY19, the quantum of the loss reduced as a result of sales growth and store efficiencies. In FY20, BIG W reported a profit for the first time since FY16, as sales continued to grow across all categories despite a challenging market, and there was improved category mix and cost control. This growth momentum continued in 1HY21, with sales increasing by 20% over the prior period (buoyed by solid seasonal events such as Halloween, Click Frenzy, Black Friday and Christmas) and EBIT benefiting from fewer mark downs, less clearance activity, improved stock loss and strong cost management offsetting investment in safety, digital and COVID-19 related costs.

In FY18 and FY19, Endeavour Group contributed 27-29% of Woolworths Group's EBIT (excluding other). Endeavour Drinks is the primary contributor to Endeavour Group, consistently generating 84% of sales and around 60% of EBIT. Hotels is a relatively small contributor to sales revenue and EBIT, although its contribution to EBIT is greater than its contribution to sales revenue given the significantly higher margins it generates (21-22% compared to 6.5-7% for Endeavour Drinks, all on a restated basis). In FY19, EBIT for both businesses declined slightly, with sales growth offset by higher freight costs and investment required to position the Endeavour Drinks business for the future (e.g. customer experience, ranging and data and analytics) as well as subdued gaming earnings. The COVID-19 pandemic had a material impact on Endeavour Group's FY20 and 1HY21 performance. Endeavour Drinks benefited from unprecedented demand from higher in-home consumption resulting in an 8% increase in FY20 sales and a 19% increase in 1HY21 sales. However, EBIT increased by only 3% in FY20 (not normalised for the 53 week year in FY19) reflecting a COVID-19 related mix shift to value products and larger pack sizes and an increase in higher cost online sales as well as COVID-19 related costs, higher team wages and salaries and targeted investments in digital, online and in-store customer experience. In 1HY21, EBIT increased by 24%, driven by lower promotional activity, premiumisation and strong sales of Pinnacle Drinks brands. The COVID-19 pandemic had a material adverse impact on Hotels sales revenue and EBIT as government restrictions resulted in the closure of venues for much of 2HY20 and some continued closures and restrictions on hotel capacity during 1HY21. Sales declined by 21% in FY20 and by 27% in 1HY21. EBIT declined by 51% in FY20, impacted by reduced leverage from fixed and unavoidable costs (including occupancy, team costs, COVID-19 related costs and depreciation and amortisation). While EBIT also declined in 1HY21, the decline (of 46%) was lower (relative to FY20) as average selling prices improved and there was less promotional activity. As a result, Endeavour Group contributed only 22-24% of Woolworths Group's EBIT (excluding other) in FY20 and 1HY21.

EBIT Margins

Australian Food's EBIT margin has ranged from 5.3-5.5% over the period from FY18 to FY20 and increased to 5.7% in 1HY21, supported by effective cost controls, ongoing improvements in stock loss and favourable product mix, partially offset by COVID-19 costs, higher eCommerce and supply chain costs and IT and digital investment in FY20 and 1HY21. New Zealand Food's EBIT margin has generally been consistent at around 5.2% over the past three and a half years. The flat EBIT margin for New Zealand Food in 1HY21 (relative to Australian Food) reflects higher team member wages with the implementation of a new enterprise agreement in 1HY20, as well as more subdued growth in sales revenue in 1HY21. BIG W's EBIT margin has been more variable, at -1.6% in FY18, improving to -0.8% in FY19, 0.9% in FY20 and 5.2% in 1HY21 as the business has successfully implemented its turnaround plan. Endeavour Group's EBIT margin declined from 9.5% in FY18 to 8.8% in FY19 as sales increased but EBIT declined. The FY20 EBIT margin declined to 7.0%, primarily due to the adverse impact of the COVID-19 pandemic on Hotels EBIT (which generates a substantially higher margin than Endeavour Drinks). While there was a recovery in the EBIT margin to 8.5% in 1HY21 as venues reopened and COVID-19 restrictions eased, it remained below FY18 and FY19 levels.

---

[40] FY17 is the 52 weeks ended 25 June 2017.

Return on Funds Employed

ROFE for each of Woolworths Group's business divisions from FY18 to FY20 and for 1HY21 is summarised below:

WOOLWORTHS GROUP – RETURN ON FUNDS EMPLOYED BY BUSINESS DIVISION[41]

	FY18	FY19[42]	FY20	1HY21
Australian Food	na	24.8%	25.0%	25.9%
New Zealand Food	na	7.9%	8.8%	8.9%
BIG W	na	(2.4)%	3.6%	11.9%
Endeavour Drinks	na	13.8%	15.1%	18.0%
Hotels	na	8.7%	4.2%	1.7%
Woolworths Group	**na**	**14.1%**	**13.7%**	**14.4%**

Source: Woolworths Group

Australian Food has historically reported very high ROFE of around 25% as a result of growing the business organically (rather than through acquisition and the recognition of intangible assets).

In contrast, New Zealand Food and Endeavour Group (which have grown through acquisitions) have reported much lower ROFE of around 8-9% for New Zealand Food, 14-18% for Endeavour Drinks and (up until FY20), 9% for Hotels. ROFE for Hotels declined considerably in FY20 and 1HY21 due to the impact of the COVID-19 pandemic on EBIT (normalised funds employed has been broadly consistent over this period).

3.4.3 Outlook

Woolworths Group does not provide earnings forecasts. However, on 24 February 2021, in conjunction with the release of its 1HY21 results, Woolworths Group provided the following statements on the outlook and priorities for its business divisions:

- sales for all business divisions (except Hotels) are expected to decline over the March to June period compared to the prior year as they cycle through the COVID-19 sales surge in FY20;
- COVID-19 related costs are also expected to be materially below the prior year (subject to no further widespread prolonged lockdowns);
- Hotels 2HY21[43] EBIT is expected to be well above 2HY20 assuming venues can continue to trade without further restrictions;
- business divisions will have a productivity focus in 2HY21 as they look to reduce COVID-19 costs and improve end-to-end process efficiency;
- Woolworths Group will continue to accelerate digital and eCommerce capacity. As growth rates in 2HY21 slow, there is an opportunity to optimise eCommerce at scale and deliver further efficiency;
- there will be a focus on personalising value for customers by leveraging reward programs and continuing to evolve store propositions to provide the right range for the local community; and
- the intention to complete the separation of Endeavour Group, moving from ownership to partnership.

On 29 April 2021, Woolworths Group announced third quarter sales results that were consistent with this outlook. The third quarter consisted of two distinct trading periods, the first seven weeks before Woolworths Group started to cycle the impact of the COVID-19 pandemic (where group sales growth was

---

41 ROFE has been adjusted for the impact of AASB16, remediation of salaried store team members (in relation to the General Retail Industry Award only in FY19) and the transfer of the Summergate business from Endeavour Drinks to Australian Food but has not been adjusted for the impact of the Restructure and Merger.

42 Normalised for the 53 week year.

43 2HY21 is the 25 weeks ending 27 June 2021.

strong over the prior year) and the second six weeks as it cycled the growth of the prior year (where group sales fell relative to the prior year as food and drink sales declined). Overall, in the third quarter, Australian Food and New Zealand Food sales revenue declined by 0.7% and 6.9% respectively and BIG W reported sales revenue growth of 18.3%. Endeavour Drinks sales revenue increased by 6.3% (after increasing by 14.4% for the first seven weeks) and Hotels sales revenue continued to improve with growth of 11.5% over the prior year.

3.5 Financial Position

The financial position of Woolworths Group at 3 January 2021 (reported and restated) is summarised below:

WOOLWORTHS GROUP – SUMMARISED FINANCIAL POSITION ($ MILLIONS)

	AT 3 JANUARY 2021	
	ACTUAL	RESTATED
Trade and other receivables and prepayments	853	853
Inventories	4,808	4,808
Trade and other payables[44]	(8,530)	(8,530)
Net working capital	**(2,869)**	**(2,869)**
Lease assets	12,759	12,759
Property, plant and equipment	8,960	8,960
Intangible assets	7,740	7,740
Provisions	(2,642)	(2,642)
Other (net)[45]	650	650
Total funds employed	**24,598**	**24,598**
Net tax balances (net deferred tax assets and current tax payable)	917	917
Net assets employed	**25,515**	**25,515**
Cash and cash equivalents	2,135	1,515
Borrowings	(2,626)	(2,626)
Derivative financial instruments (net)	44	44
Net borrowings (excluding lease liabilites)	**(447)**	**(1,067)**
Lease liabilities	(15,386)	(15,386)
Net borrowings (including lease liabilities)	**(15,833)**	**(16,453)**
Net assets	**9,682**	**9,062**
Non-controlling interests	(327)	(288)
Equity attributable to Woolworths Group shareholders	**9,355**	**8,774**
STATISTICS		
Shares on issue at period end (million)	*1,265.4*	*1,267.6*
Net assets per share	*$7.39*	*$6.92*
NTA[46] per share	*$1.28*	*$0.82*
Leverage[47] (including lease liabilities)	*2.7x*	*2.8x*
Gearing[48] (excluding lease assets and liabilities)	*3.5%*	*8.4%*
Gearing (including lease assets and liabilites)	*62.1%*	*64.5%*

Source: Woolworths Group and Grant Samuel analysis

44 Trade and other payables includes accruals and contract liabilities. Contract liabilities represent consideration received for performance obligations not yet satisfied. Substantially all of the revenue deferred at period end will be recognised in the following period.

45 Other includes non-current trade and other receivables, assets held for sale, investment in listed equities and associates and loans provided to related parties offset by net defined benefit liability.

46 NTA is net tangible assets, which is calculated as equity attributable to Woolworths Group shareholders less intangible assets. This calculation of NTA understates NTA per share to the extent that intangible assets relate to the non-controlling interests, but it is consistent with the basis on which Woolworths Group reports NTA per share.

47 Leverage is net borrowings plus lease liabilities divided by EBITDA for the previous 12 months.

48 Gearing is net borrowings divided by net assets plus net borrowings.

Woolworths Group's restated financial position at 3 January 2021 adjusts the reported position for the:

- 1HY21 dividend of $0.53 per share declared by Woolworths Group on 24 February 2021 and paid on 14 April 2021 (including the impact of the dividend reinvestment plan, see Section 3.8.1); and
- the 1HY21 dividend of $269 million to be declared and paid by Endeavour Group prior to the Demerger (which, on a consolidated basis, impacts cash and non-controlling interests for the quantum of the dividend paid to BMG but has no impact on net assets).

Negative working capital of $2.9 billion reflects the operating cycle of supermarket and retail businesses where inventory is generally moved through the network and sold for cash (including credit card payments) with the related creditors paid later. Trade and other receivables generally have terms of less than 30 days whereas Woolworths Group's payment terms with suppliers are generally less than 60 days.

The majority of Woolworths Group's total funds employed of $24.6 billion is represented by lease assets and property, plant and equipment. Property, plant and equipment is primarily plant and equipment and leasehold improvements. Woolworths Group does own some freehold land, warehouse, retail and other properties as well as development properties, but the majority of retail premises and warehouse facilities are leased. Following adoption of AASB16 from 1 July 2019, the net present value of Woolworths Group's operating lease commitments is shown on its balance sheet as a lease liability of $15.4 billion (refer below) along with corresponding right of use lease assets of $12.8 billion. While lease agreements generally have initial terms of between five and 25 years, most include multiple renewal options for additional five to 10 year terms and at 3 January 2021, more than half of the lease liability was payable beyond five years.

Intangible assets include $4.2 billion of goodwill, primarily associated with the acquisition of businesses that make up New Zealand Food (51%) and Endeavour Group (40%). Other intangible assets ($3.5 billion) are primarily liquor and gaming licences, customer relationships and property development rights associated with Endeavour Group.

Almost 60% of the provisions balance relates to employee benefits (including provisions relating to salaried team members remediation), but it also includes provisions for self-insured risks associated with workers' compensation and public liability claims and for restructuring costs, onerous contracts and store exit costs.

Non-controlling interests of $327 million predominantly represent the 14.6% of Endeavour Group held by BMG.

Woolworths Group has a diversified funding mix that includes unsecured bank loans with a number of domestic and international banks (approximately 67% of total facilities) as well as capital markets debt (approximately 33% of total facilities):

WOOLWORTHS GROUP – NET BORROWINGS AT 3 JANUARY 2021 ($ MILLIONS)

FACILITY	FACILITY SIZE	AMOUNT DRAWN	CARRYING VALUE	TERM/MATURITY
Short term money market loans	-	37	37	at call
Bank loans	1,544	31	31	January 2021 to October 2024
Syndicated bank loans	2,000	500	500	November 2023 to November 2026
Bank loans	84	84	84	April 2021
US senior notes (US144A market)	424	424	569	April 2021
Medium term notes (Green Bonds)	400	400	419	April 2024
Medium term notes	400 600	400 600	400 600	May 2025 May 2030
Unamortised borrowing costs			(14)	
Total interest bearing liabilities	**5,452**	**2,476**	**2,626**	
Cash and short term deposits			(2,135)	
Derivative financial instruments (net)			(44)	
Net borrowings (before lease liability)			**447**	

Source: Woolworths Group

At 3 January 2021, Woolworths Group had available undrawn facilities of $3.0 billion. Woolworths Group repaid the $424 million in US Senior Notes (at 4.55%) and $82 million in banks loans that matured in April 2021 by drawing upon existing bank facilities.

Woolworths Group holds various types of derivatives to hedge its exposures to variability in interest rates and foreign exchange rates (including forward exchange contracts, foreign currency options, cross currency swaps and interest rate swaps). At 3 January 2021, the mark-to-market of these hedging arrangements was a net unrealised gain of $44 million.

Woolworths Group had very modest gearing (excluding lease assets and lease liabilities) at 3 January 2021 of 3.5% (or 8.4% after payment of the 1HY21 interim dividends). The substantial increase in gearing including lease assets and liabilities (at 62.1%, increasing to 64.5% after payment of the 1HY21 interim dividends) reflects the relatively long initial terms and renewal options in place in relation to its leases. Leverage (including lease liabilities) was also conservative at 2.7 times (or 2.8 times after payment of the 1HY21 interim dividends).

In FY20, Woolworths Group's weighted average borrowing rate was 3.68%. Woolworths Group has not disclosed its 1HY21 weighted average borrowing rate. However, during 1HY21, $65 million in bank loans, $654 million in US Senior Notes and $229 million in European Medium Term Notes matured and were refinanced with domestic Medium Term Notes issued in May 2020. This change in composition of Woolworths Group's debt facilities has resulted in a material decline in the weighted average borrowing rate in 1HY21.

Woolworths Group has an investment grade credit rating of BBB (stable outlook) from Standard & Poor's and Baa2 (stable outlook) from Moody's.

At 3 January 2021, Endeavour Group had intercompany borrowings from Woolworths Group totalling $1.480 billion. These intercompany borrowings are eliminated on consolidation (other than in relation to the carrying value of the non-controlling interest).

3.6 Cash Flow

Woolworths Group's reported cash flow from FY18 to FY20 and for 1HY21 is summarised below:

WOOLWORTHS GROUP – SUMMARISED HISTORICAL CASH FLOW ($ MILLIONS)

	FY18 ACTUAL 52 WEEKS PRE AASB16	FY19 ACTUAL 53 WEEKS PRE AASB16	FY20 ACTUAL 52 WEEKS POST AASB16	1HY21 ACTUAL 27 WEEKS POST AASB16
EBITDA	**3,651**	**3,946**	**5,677**	**3,415**
EBITDA from discontinued operations	195	112	-	-
Changes in working capital and other adjustments[49]	(7)	(200)	390	358
Operating cash flow before interest and tax	**3,839**	**3,858**	**6,067**	**3,773**
Net interest paid – leases	-	-	(701)	(407)
Net interest paid – non leases	(184)	(166)	(155)	(67)
Tax paid	(661)	(744)	(650)	(419)
Operating cash flow	**2,994**	**2,948**	**4,561**	**2,880**
Capital expenditure (net)	(1,763)	(1,814)	(1,888)	(707)
Acquisitions/divestments (net of cash)	249	1,602	(57)	(9)
Repayment of lease liabilities	-	-	(1,066)	(618)
Dividends paid	(780)	(1,318)	(1,199)	(524)

49 Other adjustments include the cash impact of significant items.

WOOLWORTHS GROUP – SUMMARISED HISTORICAL CASH FLOW ($ MILLIONS) (CONT)

	FY18 ACTUAL 52 WEEKS PRE AASB16	FY19 ACTUAL 53 WEEKS PRE AASB16	FY20 ACTUAL 52 WEEKS POST AASB16	1HY21 ACTUAL 27 WEEKS POST AASB16
New shares issued, share buyback and payments for shares held in trust	(64)	(1,761)	(102)	(1)
Other	4	(34)	-	6
Net cash generated/(used)	**640**	**(377)**	**249**	**1,027**
Adjustments[50]	34	-	(52)	(72)
Adjusted cash generated/(used)	**674**	**(377)**	**197**	**955**
Net borrowings – opening	*(1,896)*	*(1,222)*	*(1,599)*	*(1,402)*[51]
Net borrowings – closing	*(1,222)*	*(1,599)*	*(1,402)*[51]	*(447)*[51]
STATISTICS				
Cash realisation ratio (pre AASB16)[52]	*101%*	*98%*	*na*	*na*
Cash realisation ratio (post AASB16)	*na*	*na*	*124%*	*115%*

Source: Woolworths Group and Grant Samuel analysis

Woolworths Groups' businesses are highly cash generative, illustrated by the consistently high (~100%) cash realisation ratio and reflecting the retail nature of the majority of its business operations (which have negative net investment in inventory). The higher cash realisation ratio in FY20 and 1HY21 was primarily driven by higher trade payables due to additional purchases to support COVID-19 driven sales and payment timing in New Zealand. The adoption of AASB16 has also impacted the cash realisation ratio as lease payments are not included in EBITDA but are replaced with lease interest and repayment of lease liabilities (repayment of lease liabilities is below the operating cash flow line and NPAT is slightly lower under AASB16 but this is largely offset by an increase in depreciation and amortisation that is added to NPAT to calculate the ratio).

Gross capital expenditure has been in the range $1.9-2.2 billion per annum over the three years to FY20, representing continued investment in the store network (new stores as well as refurbishments and renewals) and expenditure associated with supply chain and IT initiatives (including enhancement of online capabilities). Annual gross capital expenditure includes:

- operating capital expenditure for both continuing and discontinued operations of $1.6-1.8 billion (of which $1.6-1.7 billion has related to continuing operations); and
- property development capital expenditure, which has increased from $245 million in FY18 to $585 million in FY20.

Gross capital expenditure in 1HY21 was consistent with this trend at $1.0 billion ($835 million in operating capital expenditure and $174 million in property capital expenditure).

Capital expenditure in the table above is shown net of property sales. While Woolworths Group's property portfolio is predominantly leasehold, it is actively involved in the acquisition, development and sale and leaseback of retail properties in Australia and New Zealand.

The vast majority of Woolworths Group's capital expenditure relates to Australian Food:

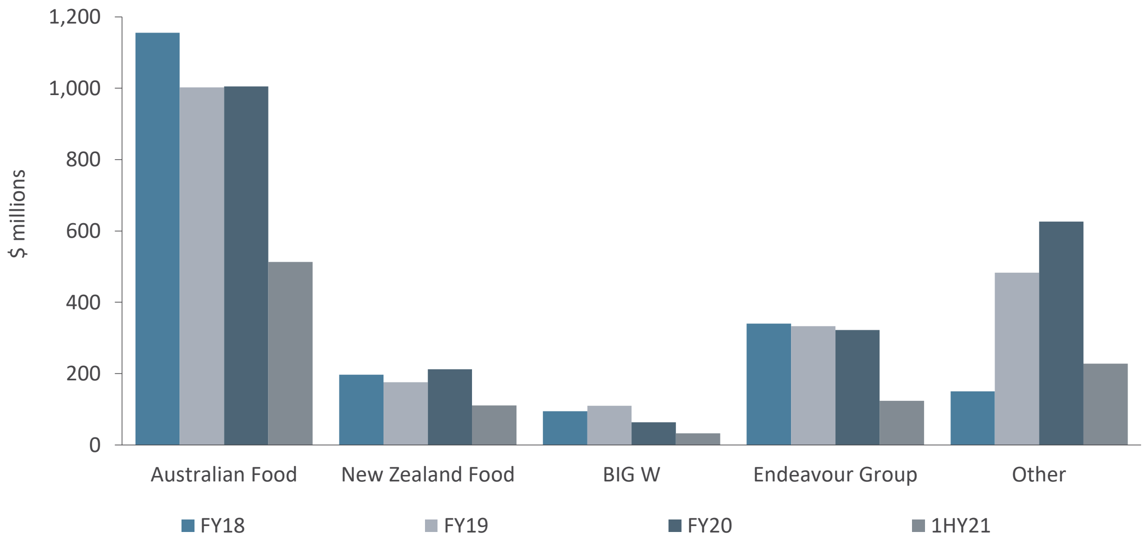
50 Adjustments represents the net impact of cash reported in assets held for resale, foreign exchange effects on cash balances, cash acquired as part of the purchase of businesses, cash disposed of as part of the sale of subsidiaries and investments and the non-cash impact of derivatives.

51 Net borrowings excludes lease liabilities.

52 Cash realisation ratio is operating cash flow as a percentage of group NPAT before depreciation and amortisation. FY19 has been normalised for the 53 week year and significant items.

WOOLWORTHS GROUP – RESTATED CAPITAL EXPENDITURE[53] BY BUSINESS DIVISION (CONTINUING OPERATIONS)

FY18 – 1HY21



Source: Woolworths Group and Grant Samuel analysis

Annual capital expenditure for Australian Food has been at or above $1 billion from FY18 to FY20, reflecting increased expenditure on renewals, IT (digital, WooliesX) and the roll out of the smart store concept (part of the "simpler for stores" program comprising upgraded point-of-sale software and hardware, inventory management and ticketing software to all Australian Food stores and attached *BWS* stores) and the Melbourne South Regional Distribution Centre. Endeavour Group also increased its capital expenditure over the FY18-FY20 period relative to prior years, investing in new store openings and the digital experience. In contrast, annual capital expenditure for BIG W has declined in line with the reduction in the number of stores and distribution centres. Other capital expenditure includes property development and has been lumpier, with the relatively low investment in FY18 and 1HY21 related to the increased capital expenditure requirements of Woolworths Group's operating businesses in those periods.

The major divestments over the past three and a half years have been the exit from Home Improvement in FY18 and the sale of the Petrol business for $1.7 billion in FY19. The proceeds from the sale of the Petrol business were returned to shareholders through a $1.7 billion off-market share buyback completed in May 2019.

The increase in dividends paid reflects the increase in the declared dividend per share, which grew by around 10% in FY18 and FY19 (from 93 cents per share in FY18[54] to 102 cents per share in FY19), as well as the timing of dividend payments. The dividends paid in FY19 also reflect payment of the 10 cents per share special dividend in October 2018. Dividends paid declined only marginally in FY20, reflecting the impact of the 10 cent per share special dividend in FY19 combined with payment of the higher final FY19 (in part due to the 53 week year) and interim FY20 dividends.

---

[53] Capital expenditure for the purpose of this chart is property, plant and equipment and intangible asset additions and includes assets acquired on the acquisition of businesses. FY18, FY19 and FY20 capital expenditure has been restated to reflect the reallocation of capital expenditure from the operating businesses to other to reflect property acquisitions being included in property development (i.e. other) rather than operating capital expenditure and to reflect the reallocation of certain fixed assets between Endeavour Group and Australian Food (i.e. in relation to the transfer of the Summergate business from Endeavour Group to Australian Food and the transfer of *BWS* stores attached to supermarkets from Australian Food to Endeavour Group).

[54] Excluding the 10 cents per share special dividend declared in FY18.

3.7 Taxation Position

Under the Australian tax consolidation regime, Woolworths Group and its wholly owned Australian resident entities have elected to be taxed as a single entity. Endeavour Group comprises some entities that were previously members of the Woolworths Group tax consolidated group and some entities that were previously members of the ALH Group tax consolidated group. Following implementation of the Restructure and Merger, Endeavour Group is eligible to form a new separate tax consolidated group but has not elected to do so at the date of this report. Consequently, each Endeavour Group entity is subject to tax on a standalone basis.

At 3 January 2021, Woolworths Group had:

- unused capital losses of $1,171 million which are available to offset against future capital gains. These losses have not been recognised in Woolworths Group's statement of financial position as it is not probable that there will be sufficient capital gains available against which these losses can be utilised in the foreseeable future; and
- $1,475 million in accumulated franking credits (on a tax paid basis at a 30% tax rate). The accumulated franking credits exclude those attributable to Endeavour Group, which at 3 January 2021 had accumulated franking credits of $609 million.

3.8 Capital Structure and Ownership

3.8.1 Capital Structure

Woolworths Group has the following securities on issue:

- 1,267,650,832 ordinary shares (including 2,824,442 shares held in trust);
- 7,941,268 performance share rights; and
- 2,299,945 other share rights.

Woolworths Group operates the following incentive plans for key executive management:

- a short term incentive ("STI") of which 50% is delivered in cash and 50% is deferred in share rights for two years;
- a long term incentive ("LTI") under which executives and senior employees are granted performance share rights which vest after three years; and
- sign-on and retention share rights issued to new hires and certain middle management and executives.

Woolworths Group also has in place a non-executive director equity plan under which non-executive director share rights are allocated quarterly and convert into shares each half-year, subject to compliance with Woolworths Group's securities trading policy.

The holders of share rights issued in accordance with Woolworths Group's STI and LTI are entitled to dividends over the vesting period which are mandatorily reinvested in additional share rights. These additional share rights vest on the same conditions as the underlying STI or LTI award to which they relate. Share rights have no voting rights. Each share right entitles the holder to one fully paid ordinary Woolworths Group share, subject to meeting applicable performance and vesting conditions. Sign-on and retention share rights generally do not have performance conditions attached to them and vest subject to the executive remaining employed by Woolworths Group, generally for two or more years.

The custodian of Woolworths Group's share plans holds ordinary shares equivalent to the estimated vesting of these share rights.

Woolworths Group operates a dividend reinvestment plan which enables shareholders[55] to reinvest some or all of their dividends in new ordinary shares at a discount determined by the Woolworths Group Board (currently nil). The plan is currently active. In relation to the 1HY21 dividend, shares were allocated to shareholders based on the average of the daily volume weighted average market price for ordinary shares in Woolworths Group traded on the ASX over the period of 10 trading days from 9 March 2021. On 14 April 2021, Woolworths Group issued 2,286,030 new shares at a price of $39.1986 per share to satisfy its obligations under the dividend reinvestment plan.

3.8.2 Ownership

Woolworths Group has approximately 355,000 registered shareholders. The top 20 registered shareholders represent approximately 60% of the ordinary shares on issue.

The top ten registered shareholders are principally institutional nominee/custodian companies or listed investment companies. Woolworths Group has a significant retail investor base with a majority of registered shareholders classified as retail although this represents less than 40% of shares on issue. Woolworths Group shareholders are predominantly Australian based investors (over 98% of registered shareholders and 99% of ordinary shares on issue).

Woolworths Group has received notices from the following substantial shareholders:

WOOLWORTHS GROUP – SUBSTANTIAL SHAREHOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	PERCENTAGE[56]
BlackRock Group	29 May 2019	80,972,196	6.4%
The Vanguard Group, Inc	30 March 2020	75,845,088	6.0%

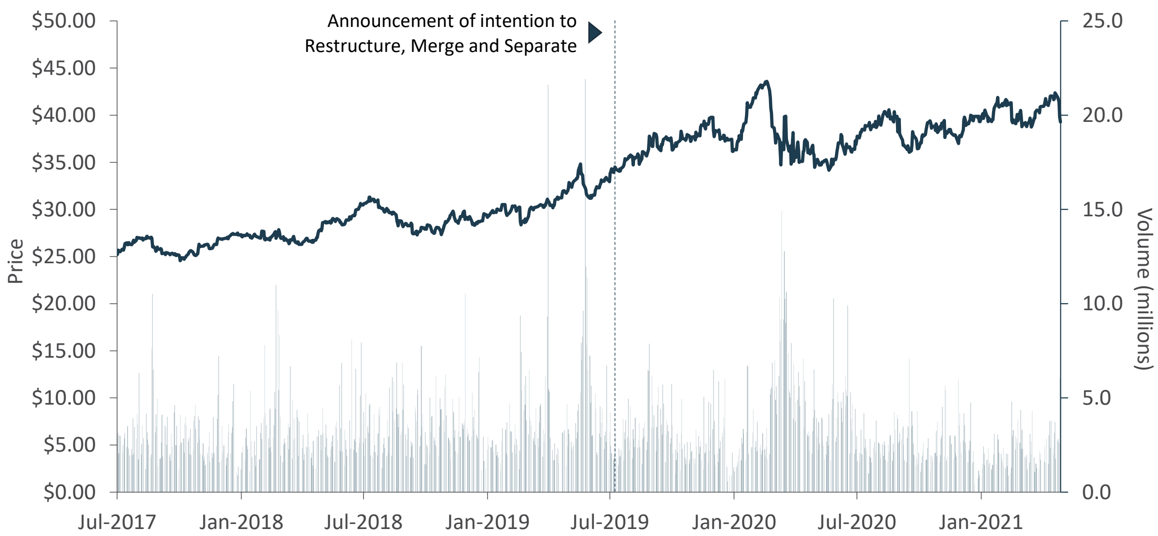
Source: Woolworths Group

3.9 Share Price Performance

The following graph illustrates the movement in the Woolworths Group share price and trading volumes since July 2017:

WOOLWORTHS GROUP – SHARE PRICE AND TRADING VOLUME

JULY 2017 TO APRIL 2021



Source: IRESS

[55] Other than shareholders with a registered address outside Australia and New Zealand.

[56] Based on 1,267,650,832 shares on issue.

Movements in the Woolworths Group share price over the past three and a half years have corresponded with the performance of its business operations. The chart above shows three phases:

- moderate improvement in the share price over the period from July 2017 to August 2018, as a strategic review was undertaken that resulted in transformation of Woolworths Group's operating model (with a focus on price competitiveness and investing in improved customer service and experience) and simplification of its business portfolio through the sale of, or exit from, non-core and underperforming businesses including Home Improvement, EziBuy and the proposed sale of the Petrol business[57]. Woolworths Group shares were trading as high as $31.48 by mid-July 2018;
- a strong increase in the share price over the period from September 2018 to mid-February 2020 on the back of strong group results in FY18 (especially from Australian Food and smaller losses at BIG W) as well as a 10 cent per share special dividend, the sale of the Petrol business to EuroGarages (announced in November 2018 and completed in April 2019), the $1.7 billion off-market share buyback in April 2019 (through which Woolworths Group bought back 58.7 million shares at $28.94 per share), the intention to separate Endeavour Group post the Restructure and Merger announced 3 July 2019 and further improved FY19 results in August 2019. The Woolworths Group share price increased by almost 50%, trading at over $40 for the first time in late November 2019 (assisted in part by investor demand for defensive stocks with reasonably predictable dividends and relatively high yields in a low interest rate environment). While the share price lost momentum in December, this was in line with a general market decline, and it bounced back in January 2020, assisted by the announcement of Kaufland's withdrawal from the Australian market in late January 2020. The share price reached an all-time high of $43.96 on 20 February 2020; and
- a sharp (20%) decline in the share price in late February-mid March 2020, in line with a global equities market correction associated with the COVID-19 pandemic and an oil price war between Russia and Saudi Arabia as well as a muted response to the announcement of Woolworths Group's 1HY20 results on 26 February 2020. While Woolworths Group reported sales and earnings growth across all divisions, investors reacted negatively to weaker same store sales growth for Australian Food and a slowing outlook as well as increased remediation costs for salaried store team members. The share price was volatile through to the end of May 2020 (including following the release of third quarter sales result at the end of April 2020 which showed, strong growth in sales for all business divisions other than Hotels, which had been closed since 23 March 2020). The share price reached a low of $34.35 before gradually improving following the announcement of the New South Wales grocery supply chain transformation and a better than expected trading update on 23 June 2020.

  The share price has generally continued to increase, reflecting Australia's positive response to, and containment of, the COVID-19 pandemic, with only temporary declines in the share price following the announcement of Woolworths Group's FY20 full year results on 27 August 2020 (reporting an increase in sales, particularly online sales, but a decline in EBIT and NPAT[58] due to materially higher customer and team safety costs and a lower final dividend per share compared to FY19) and following the FY20 Annual General Meeting on 12 November 2020.

Woolworths Group is a relatively liquid stock with no restrictions on its free float. Average weekly volume over the twelve months prior to 24 February 2021 represented approximately 1.3% of average shares on issue or annual turnover of around 70% of total average issued capital.

Woolworths Group is the tenth largest company listed on the ASX, with a current market capitalisation of around $50 billion. It is a member of various indices including the S&P/ASX 20, S&P/ASX 50, S&P/ASX 100

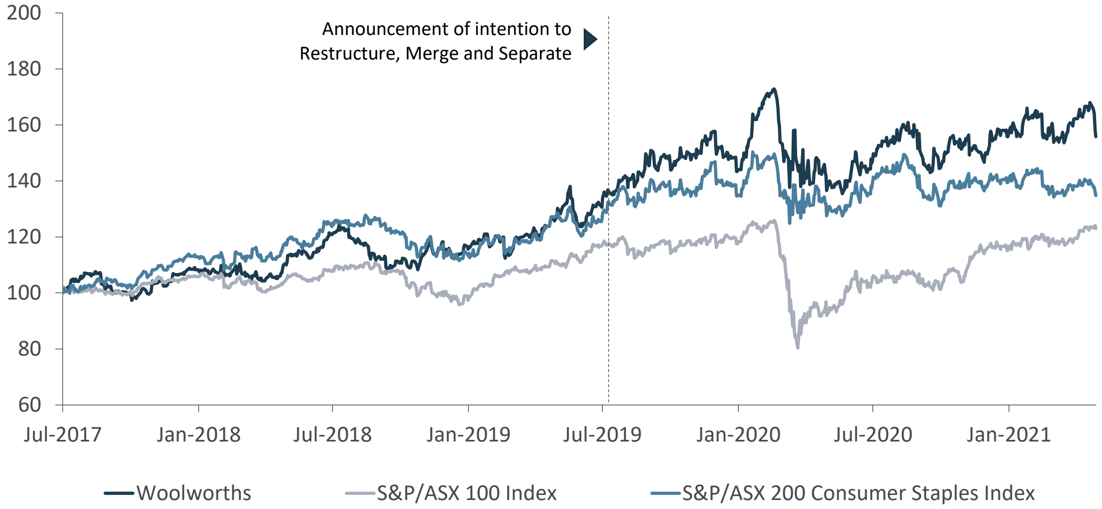
57 The proposed sale of the Petrol business to BP Australia Pty Ltd announced in December 2016 was ultimately opposed by the ACCC in December 2017, following the release of an issues statement in August 2017.

58 Based on FY19 normalised results (which have been adjusted to remove the impact of the 53rd week and as if AASB16 had been in place in FY19).

and S&P/ASX 200, where its weighting ranges from 3.3-5.9%. It is also the largest member of the S&P/ASX 200 Consumer Staples index with a weighting of 46%. The following graph illustrates the performance of Woolworths Group shares over the past three and a half years (since July 2017) relative to the S&P/ASX 100 index and the S&P/ASX 200 Consumer Staples index:

WOOLWORTHS GROUP VS S&P/ASX 100 INDEX VS S&P/ASX 200 CONSUMER STAPLES INDEX

JULY 2017 TO APRIL 2021



Source: IRESS

Since July 2017, Woolworths Group shares have:

- generally traded in line with (up to mid 2019) and then outperformed the S&P/ASX 200 Consumer Staples index. This outperformance has been achieved despite Woolworths Group's significant weighting in the index (just under 30% prior to the demerger of Coles Group Limited ("Coles") from Wesfarmers Limited ("Wesfarmers") in November 2018, and more than 40% post the demerger of Coles) and reflects the relative performance of Coles during this period, particularly the negative response to Coles' results for 1HY19[59] in February 2019 (its first results as a standalone ASX listed entity). Coles represents just under 20% of the S&P/ASX 200 Consumer Staples index; and
- outperformed the S&P/ASX 100 index, primarily due to the relatively poor performance of the banks, particularly from December 2017, following establishment of, and repercussions from, the Royal Commission into Misconduct in the Banking, Superannuation and Financial Services Industry. The four major banks collectively represent over 20% of the S&P/ASX 100 index (compared to Woolworths Group, which represents less than 3% of the index).

59 1HY19 is the 27 weeks ended 30 December 2018.

4 Background on Demergers and Spin-offs

A "demerger" or "spin-off" is generally understood to be a pro-rata transfer of shares in a wholly owned subsidiary to shareholders of the parent company. The broad principle underlying demergers is that sharemarkets do not reward corporate diversification unless there are substantial synergies available to a corporate holder of a diversified portfolio of assets or there is some other strategic rationale. Investors can achieve diversification themselves and it is generally accepted that investors prefer the investment flexibility resulting from the separation of assets into separate companies that have relatively focused businesses. Consequently, demergers have typically been undertaken to create investment opportunities with a single geographic focus, a single industry focus or a single product focus. However, demergers may be undertaken for a variety of strategic reasons.

A pure demerger involves the transfer to existing shareholders of 100% of the shares in the subsidiary and there is no dilution of equity or transfer of ownership from the current shareholders. There are a number of variants that are also loosely referred to as demergers including:

- a partial demerger, where the parent distributes a portion of its interest in the subsidiary's shares to existing shareholders and either retains the remaining shares for a period or sells them immediately through an initial public offering ("IPO") or other sale process. The portion distributed could be a majority (>50%) or minority (<50%) interest. The carved-out subsidiary has its own board, management and financial statements while the parent company may provide strategic direction or central resources. The level of influence by the parent will reflect the interest retained and other factors;
- an equity carve-out, where the parent company sells a portion of a subsidiary's shares (usually less than 50%) through an IPO. Similar to a partial demerger, the carved-out subsidiary will have its own board, management and financial statements while the parent company provides strategic direction and central resources; and
- a divestiture IPO, where 100% of the shares in the subsidiary are sold to the public, often with some kind of preferential rights offered to the parent company shareholders.

The use of demergers as a method of divesting a subsidiary has become a common feature of equity markets. Demergers implemented in Australia from 2010 include:

SELECTED RECENT DEMERGERS IN AUSTRALIA[60]

DATE[61]	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Oct 2020	Iluka Resources Limited	Mineral sands and rare earths	Deterra Royalties Limited	Resources (iron ore) royalty	80%
Oct 2020	Cassini Resources Limited	Base and precious metals development and exploration	Caspin Resources Limited	Mineral exploration	100%
Jul 2020	Alkane Resources Limited	Gold production and exploration	Australian Strategic Materials Limited	Critical materials	100%
Jun 2020	TPG Telecom Limited	Telecommunication services	Tuas Limited	4G mobile network in Singapore	100%
Mar 2020	GrainCorp Limited	Grain handling, storage, trading and processing	United Malt Group Limited	Commercial malt manufacture	90%
Oct 2019	Cardno Limited	Consulting	Intega Group Limited	Quality testing and measurement	100%

60 The following demergers have been excluded from the table:
- the June 2013 demerger of the publishing business of News Corporation (now renamed Twenty-First Century Fox Inc.) from News Corporation as both are United States listed companies with secondary listings on the ASX; and
- Reckon Limited's August 2017 demerger of GetBusy Plc on the AIM Market of the London Stock Exchange which also involved a £3 million capital raising for working capital purposes.

61 Implementation date (i.e. when trading commenced as separate entities).

SELECTED RECENT DEMERGERS IN AUSTRALIA[60] (CONT)

DATE[61]	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DEMERGED
Jul 2019	Gindalbie Metals Limited	Iron ore exploration	Coda Minerals Limited	Copper-cobalt exploration	100%
Nov 2018	Wesfarmers Limited	Conglomerate	Coles Group Limited	Supermarket, liquor, convenience, financial services businesses	85%
Jun 2018	Westfield Corporation	Shopping centre development, management and ownership	OneMarket Limited	Retail technology	100%[62]
Nov 2017	Fairfax Media Limited	Media	Domain Holdings Australia Limited	Online property	40%
Dec 2016	Metals X Limited	Base metals	Westgold Resources Limited	Gold	100%
Jun 2016	APN News & Media Limited (renamed HT&E Limited)	Media and entertainment (Australia)	NZME Limited	Media and entertainment (New Zealand)	100%
Feb 2016	National Australia Bank Limited	Banking (Australia and New Zealand)	CYBG Plc	Banking (United Kingdom)	75%
May 2015	BHP Billiton	Resources	South32 Limited	Metals and mining	100%
Dec 2013	Amcor Limited	Flexible and rigid plastics packaging (global)	Orora Limited	Diversified packaging (Australasia) and packaging distribution (North America)	100%
Dec 2013	Brambles Limited	Pallet and container pooling solutions	Recall Holdings Limited	Document management	100%
Jun 2011	Tabcorp Holdings Limited	Wagering, gaming and keno	Echo Entertainment Group Limited	Casinos	100%
May 2011	Foster's Group Limited	Beer	Treasury Wine Estates Limited	Wine	100%
Jul 2010	Orica Limited	Mining services, chemicals	DuluxGroup Limited	Coatings and home improvement products	100%
Jul 2010	Arrow Energy Limited	Coal seam gas (Australia)	Dart Energy Limited	Coal seam gas (international)	100%
Jan 2010	Macquarie Infrastructure Group (renamed Intoll Group)	Toll roads	Macquarie Atlas Roads Group	Toll roads	100%

Source: IRESS

Notably, the majority of demergers in Australia have involved distributing 100% of the subsidiary entity and in most other cases the balance was a minority interest that was either sold through other means or retained for a limited period[63]. However, partial demergers have occurred in Australia and other jurisdictions.

62 While 100% of OneMarket Limited was demerged, OneMarket Limited only owned 90% of the OneMarket business with the remaining 10% retained by Westfield Corporation and acquired by Unibail-Rodamco SE as part of its acquisition of Westfield Corporation.

63 In relation to the less than 100% Australian demergers from 2010:

- Iluka Resources Limited retained a 20% interest in Deterra Royalties Limited at demerger as a long term investment although there are no restrictions on its ability to sell this shareholding (e.g. escrow arrangements);
- GrainCorp Limited retained a 10% interest in United Malt Group Limited at demerger although there are no restrictions on its ability to sell this shareholding (e.g. escrow arrangements);
- Wesfarmers Limited retained a 15% interest in Coles Group Limited at demerger on the basis that it provides an alignment of interests (given ongoing contractual arrangements and joint ownership of *flybuys*) and demonstrates its confidence in the business. Wesfarmers Limited sold a 4.9% interest in Coles Group Limited on market in February 2020 (retaining a 10.1% interest);
- Fairfax Media Limited retained a controlling 60% interest in Domain Holdings Australia Limited at separation; and
- National Australia Bank sold the residual 25% interest in CYBG Plc via an IPO at the time of the demerger.

There has also been a number of high profile divestiture IPOs in Australia from 2010 including:

SELECTED RECENT DIVESTITURE IPOS IN AUSTRALIA

DATE	PARENT	BUSINESS/ MARKET FOCUS	DEMERGED ENTITY	BUSINESS/ MARKET FOCUS	% DIVESTED
Dec 2012	Woolworths Limited	Retail	Shopping Centres Australasia Property Group	Property ownership	100%
Dec 2011	Fairfax Media Limited	Media	Trade Me Group Limited	Online classifieds in New Zealand	34%
Dec 2010	Westfield Group	Shopping centre development, management and ownership	Westfield Retail Trust	Property ownership	100%

Source: IRESS

The outcome is similar whether the transaction is undertaken by way of a distribution of shares or an IPO. For example, Fairfax Media Limited's IPO of a 34% interest in Trade Me Group Limited in December 2011 created a standalone company (albeit controlled by Fairfax Media until it sold its residual 51% interest in December 2012).

The benefits typically cited for demergers largely revolve around the differences in business focus or strategic direction between the parent company and the demerged entity. However, at the same time there are a number of disadvantages, potential risks and costs associated with demergers. The primary issues raised are listed below:

ISSUES ASSOCIATED WITH DEMERGERS

ADVANTAGES/BENEFITS	DISADVANTAGES/RISKS/COSTS
• transparency • investor attraction and interest • enhanced flexibility to shareholders • clarity in capital allocation • flexibility in raising capital • independence and strategic flexibility to undertake growth initiatives • better targeted incentives and management/board focus	• loss of synergies • transaction costs • duplication of corporate costs • increased financing costs • loss of diversification and scale • reduced sharemarket liquidity and rating in key indices

There is little definitive evidence as to whether or not demergers have been successful in enhancing shareholder value, largely because it is not possible to measure what the share prices would have been had the demergers not occurred (i.e. there is no counterfactual) and most of the academic studies relate to demergers in the United States or in Europe. Some of the evidence and views that have emerged are summarised below:

- several studies[64] have found that there was a positive impact on the share price (of around 3-6%) at the time of announcement (with a similar rise occurring where there was a targeted share or equity carve-out). One study[65] found that the positive impact on share price is lower in Australia (2.93%) than studies indicate for the United States market. Another study has shown that, in some circumstances, there is no decline in share price even if the demerger is ultimately withdrawn[66];

---

64 See for example: P.L. Anslinger, S.J. Klepper and S. Subramaniam, "Breaking up is good to do", The McKinsey Quarterly, 1999 Number 1; Thomas Kirchmaier, "The Performance Effects of European Restructures", Centre for Economic Performance, London School of Economics and Political Science, May 2003; UBS Investment Research, "Q-Series: Spin-offs and restructures", UBS Limited, 14 April 2005, Roger Rüdisüli, "Value Creation of Spin-offs and Carve-outs", Doctoral Dissertation, University of Basel (Switzerland), May 2005, CIMB Quantitative Research, "Spin-off Candidates", CIMB Securities (Australia) Ltd, September 2013, S. Zweiphenning, "Corporate Spin-Offs in the United Kingdom", Masters Thesis, Tilburg University, August 2014.

65 D. Chai, K. Lin and C. Veld, "Value-creation through spin-offs: Australian evidence", Australian Journal of Management, Vol 43, 2017.

66 K. Alli, G. Ramirez and K. Yung, "Withdrawn Spin-offs: An Empirical Analysis", The Journal of Financial Research, Winter 2001.

- several studies[67] have also found significantly positive abnormal returns over an extended period (of up to three years) following the demerger for the demerged company, the parent and the demerged company/parent combination. On the other hand, one study[68] found that demergers only delivered long term value benefits for the demerged subsidiary (and not the parent) and another study[69] found significant evidence that spin-offs create more value than carve-outs. In particular, recent studies[68,70] report weak evidence for long term wealth effects when using more refined measuring techniques;
- one analyst report[71] found that following a demerger, where the resulting entities are relatively similar in size, both entities generally underperform the market for a period of approximately six months. In the long term however, both stocks tend to outperform the market (implying that the market awaits a reporting period before committing to the new entities). In comparison, where the subsidiary is much smaller than the parent, the demerged entity is typically a strong outperformer while the parent moves with the market; and
- some of the reasons found to be associated with positive abnormal returns have included:
  - corporate restructuring activity[72]. Both the demerged subsidiary and the parent experience an unusually high incidence of takeovers in comparison to their control group comparable companies. The abnormal performance is limited to companies involved in takeover activity. The findings suggest that demergers provide a low-cost method of transferring control of corporate assets to bidders who are able to create greater value. This benefit will not apply in the case of partial spin offs where the parent company retains control of the spun out entity;
  - mitigation of information asymmetry[73]. The hypothesis was that value would be enhanced if the demerged subsidiary is able to convey more information about its operating efficiency and future prospects when it is a separate entity than when it is part of a larger combined unit. The findings were that firms that engage in demergers have higher levels of information asymmetry compared to their industry and size matched counterparts and the information problems decrease significantly after the demerger as analyst scrutiny increases. The relationship is more pronounced for those companies that demerge related subsidiaries;
  - increased management and board focus[74] translating into better operating and sharemarket performance. The abnormal returns for focus-increasing demergers are significantly larger than the corresponding abnormal returns for the non-focus-increasing demergers. A focus-increasing demerger reduces the diversity of assets under management and thereby increases the efficiency of management. However, an analysis of non-focus increasing demergers showed that

---

67 See for example: J. Wyatt, “Why Spinoffs Work for Investors”, Fortune, October 16 1995, p72; P.J. Cusatis, J.A. Miles and J.R. Woolridge, “Restructuring Through Spin-outs, The Stock Market Evidence”, Journal of Financial Economics, Volume 33 No. 3, June 1993, T.A. John, “Optimality of Spin-outs and Allocation of Debt” Journal of Financial and Quantitative Analysis, 1993, B.J. Hollowell, “The Long-Term Performance of Parent Firms and their Spin-offs”, The International Journal of Business and Finance Research, Volume 3, No.1, 2009 and Morgan Stanley Asia Insight, “BHP Billiton Limited: A Detailed Look at South32”, Morgan Stanley, April 2015.

68 Thomas Kirchmaier, “The Performance Effects of European Restructures”, Centre for Economic Performance, London School of Economics and Political Science, May 2003.

69 Roger Rüdisüli, “Value Creation of Spin-offs and Carve-outs”, Doctoral Dissertation, University of Basel (Switzerland), May 2005.

70 S. Zweiphenning, “Corporate Spin-Offs in the United Kingdom”, Masters Thesis, Tilburg University, August 2014, N. Zakaria and G.C. Arnold, “Spin-off and Value Creation: The Case of Malaysia”, 2014 and D. Boreiko and M. Murgia, “European Spin-offs: Origin, Value Creation, and Long-Term Performance”, Draft Paper, Free University of Bolzano-Bozen, April 2013.

71 Macquarie Research Equities, “Australian Gas Light: Acquisitions, Restructures and Au Revoirs”, 1 November 2005.

72 P.J. Cusatis, J.A. Miles and J.R. Woolridge, “Restructuring Through Spin-outs, The Stock Market Evidence”, Journal of Financial Economics, Volume 33 No. 3, June 1993.

73 S. Krishnaswami and V Subramaniam, “Information asymmetry, valuation and the corporate spin-out decision” Journal of Financial Economics, Volume 53, No. 1, July 1999.

74 See for example: H. Desai and P.C. Jain, “Firm performance and focus: long-run stock market performance following spin-outs”, Journal of Financial Economics, Volume 54, No. 1, October 1999 and L. Daley, V. Mehrotra and R. Sivarenmar, “Corporate Focus and Value Creation: Evidence from Spinoffs”, Journal of Financial Economics, Volume 45, 1997.

companies are likely to undertake these demergers to separate underperforming subsidiaries from their parents with efficiency not being a major motivating factor. Indeed, positive returns after the demerger have been found to be due to pre-announcement sharemarket weakness;

- improved financing decisions[75]. Conglomerates tend to divide resources evenly between divisions thus investing too little in strong industries and too much in weaker industries. The study showed that capital expenditure showed greater sensitivity to changes in growth opportunities after a division became independent; and
- rebalancing of shareholdings by investors[76]. The study indicates that the ratio of continuing investors who choose to only hold one of the entities after spin-off is a significant predictor of abnormal returns. Therefore, it is differences in the opinions of shareholders about the relative prospects of the demerged entities which leads to excess returns rather than the business impacts of the transaction. This outcome is consistent with the thesis that separation will mean that each company will attract investors that are likely to value it the highest.

However, while finding a significant spin-off announcement effect, a recent study[65] concludes that none of these factors offers a solid explanation for the effect in Australia.

Grant Samuel has reviewed the relative performance of Australian companies that have undertaken demergers since 2000. While an admittedly imperfect basis of analysis and somewhat crude (given the wide range of factors that influence share prices), this review tends to support the thesis that demergers enhance shareholder value, particularly having regard to sharemarket performance one to two years after the demerger.

The following graph summarises the combined share price performance of the parent company and the demerged entity relative to the S&P/ASX 200 index, from last close prior to announcement to three months, one year and two years after the date the demerged entity was listed on the ASX for demergers from 2000 (with certain exclusions noted below):

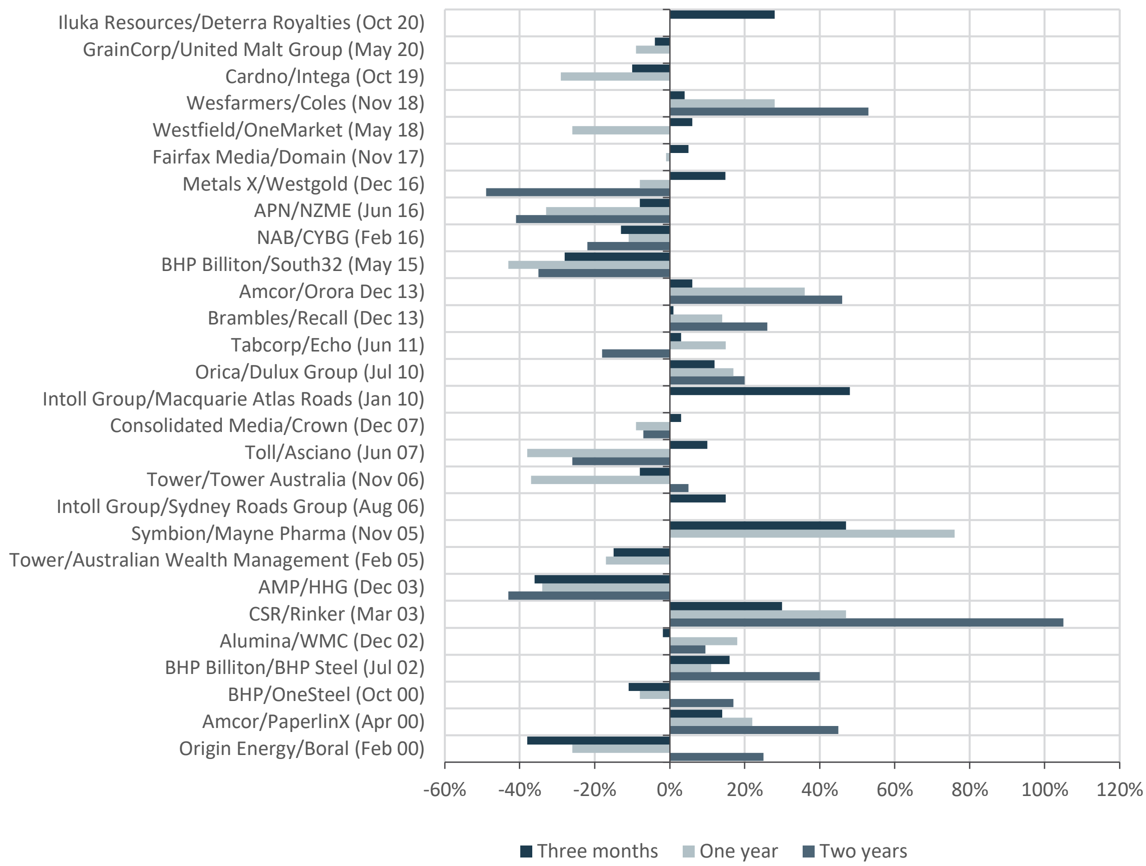
---

75 R. Gertner, E. Powers and D. Scharfstein, "Learning About Internal Capital Markets From Corporate Spinoffs", November 2000.

76 T. Bhandari, "Differences of Opinion and Stock Prices: Evidence from Spin-Offs and Mergers", Draft Doctoral Dissertation at MIT Sloan School of Management, November 2013.

RETURNS OF SELECTED RECENT DEMERGERS VS S&P/ASX 200 INDEX

(MEASURED FROM LAST CLOSE BEFORE ANNOUNCEMENT TO PERIOD AFTER LISTING)



Source: IRESS

Notes:
(1) The share price performance from last close before announcement to listing is for the parent company. The share price performance subsequent to listing is the aggregated performance of the parent company and the demerged entity.
(2) No returns are shown in the chart for:
- Cassini Resources/Caspin Resources as Cassini Resources was acquired by OZ Minerals Limited on demerger;
- Alkane Resources/ASM as the ASM share price has increased substantially since the demerger on the back of production success. The combined outperformance three months following the demerger was 470%;
- TPG Telecom/Tuas as the demerger of Tuas was undertaken in conjunction with the merger of TPG Telecom with Vodafone Hutchison Australia Limited;
- Gindalbie Metals/Coda Minerals as Gindalbie Metals was acquired by Angang Group Hong Kong (Holdings) Limited on demerger;
- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger; and
- Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
(3) No one and two year returns are shown in the chart for:
- Iluka Resources/Deterra Royalties which commenced trading separately on 23 October 2020;
- Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger; and
- Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger.
(4) No two year returns are shown in the chart for:
- Graincorp/United Malt Group which commenced trading separately on 24 March 2020;
- Cardno/Intega which commenced trading separately on 24 October 2019;
- Westfield/Onemarket as Onemarket was delisted from the ASX on 2 December 2019;
- Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
- Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
- Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

The above analysis indicates that the combined performance of demerged entities from announcement to immediately post demerger has been mixed, but that demerged entities have generally outperformed the market within two years of listing[77]. However, this analysis must be treated with caution as, at best, it provides only a partial analysis of the market value consequences of demergers. In particular, it:

[77] This is supported by analysis by Goldman Sachs Australia in "Equity Strategy: Reviewing Large Cap Demerger Strategies", 15 February 2011; Bank of America Merrill Lynch in "Delivering Returns in Tough Times", 29 May 2013, Macquarie Securities (Australia) Limited in "Demergers: Breaking Up is Hard to Do", 14 June 2013 and CIMB Securities (Australia) Ltd in "Spin-off Candidates", 3 Sept 2013.

- does not fully reflect returns to shareholders following demerger as it either excludes entirely or only partially includes demergers where either the parent or demerged entity was acquired within two years of the demerger (e.g. Fairfax Media/Domain, Arrow Energy/Dart Energy, Foster's Group/Treasury Wines). In these cases, shareholders also benefited from receipt of control premia;
- does not reflect that some of the entities were either acquired (Recall, Rinker, WMC Resources) or were involved in other corporate activity (Tower Australia, Australian Wealth Management) more than two years after, but within 3-4 years, of their demergers; and
- measures performance against an overall market index. The results may differ if performance is measured against a relevant sector index.

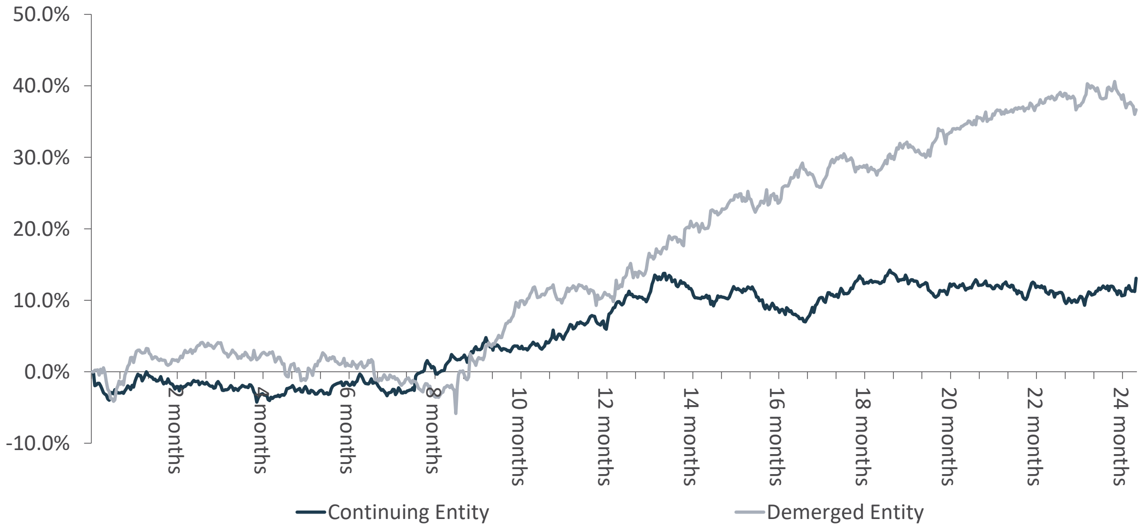
Furthermore, in many cases, significant underperformance or overperformance in the two years after listing reflects overall market conditions or factors specific to the demerging companies or the industries in which they operate and may not be attributable to the demerger itself. For example:

- AMP/HHG was impacted by a substantial write down in certain assets and a capital raising at a significant discount which were announced in conjunction with the demerger. The returns from this demerger measured from listing (rather than announcement) are positive;
- Tower/Tower Australia was impacted by the underperformance of the insurance sector relative to the market during 2007;
- Toll/Asciano was impacted by Asciano's need to reduce high gearing levels following the global financial crisis in 2008/2009;
- Consolidated Media/Crown was impacted by the underperformance of the media industry relative to the market following the global financial crisis in 2008/2009;
- Tabcorp/Echo was impacted by various legal and regulatory decisions relating to gambling and casino operations as well as competitive concerns;
- BHP Billiton/South32 was impacted by significant falls in commodity prices;
- NAB/CYBG was impacted by the 25% decline in NAB's share price from announcement of the demerger of CYBG in May 2015 to implementation in February 2016 as a result of a dilutive capital raising and the significant correction in global equities in August 2015;
- APN/NZME was impacted by the underperformance of the legacy media sector, the termination on regulatory grounds of the proposed merger of NZME with Stuff Limited (previously Fairfax New Zealand Limited) and the acquisition proposal received for NZME's Adshel business;
- the two year returns for Wesfarmers/Coles reflect the relatively limited impact of the COVID-19 pandemic on Coles' share price in particular (compared to the market as a whole); and
- the one year returns for Cardno/Intega were severely impacted by the resignation (effective immediately) of Cardno's CEO in November 2019 (shortly after the demerger of Intega was completed) and the COVID-19 pandemic. Both companies withdrew earnings guidance for the 2020 financial year and their share prices fell by substantially more than the market as a whole.

Another way to assess the performance of demergers is to aggregate the data for all the entities. This analysis also indicates a significant level of outperformance, albeit over time. While the outperformance over the S&P/ASX 200 index is inconsequential over the first nine months post demerger, the benefits then begin to be steadily realised over the following 15 months. The relative outperformance over the S&P/ASX 200 index for the two year period is approximately 37% for the demerged entities and 13% for the continuing entities:

AGGREGATE DEMERGER PERFORMANCE RELATIVE TO S&P/ASX 200 INDEX

(MEASURED FROM DATE DEMERGER IMPLEMENTED)



Source: S&P Global Market Intelligence, Bloomberg and Grant Samuel analysis

Notes:
(1) The relative performance calculation is based on the relative returns between the S&P/ASX 200 index and the average closing share prices of Continuing Entity and Demerged Entity measured from the date the demerger was implemented.
(2) No returns are shown in the chart for demergers that do not have two years of post demerger data i.e.:
- Iluka Resources/Deterra Royalties which commenced trading separately on 23 October 2020;
- Graincorp/United Malt Group which commenced trading separately on 24 March 2020;
- Cardno/Intega which commenced trading separately on 24 October 2019;
- Westfield/Onemarket as Onemarket was delisted from the ASX on 2 December 2019;
- Arrow Energy/Dart Energy as Arrow Energy was acquired by PetroChina Co. Ltd and Royal Dutch Shell plc on demerger;
- Foster's Group/Treasury Wines as Foster's Group received a takeover offer from SABMiller plc within two months of the demerger.
- Intoll Group/Sydney Roads Group as Sydney Roads Group was acquired by Transurban Group within one year of the demerger;
- Intoll Group/Macquarie Atlas Roads as Intoll Group was acquired by CPPIB within one year of the demerger;
- Fairfax Media/Domain as Fairfax Media was acquired by Nine Entertainment Co. Holdings Limited within two years of the separation;
- Tower/Australian Wealth Management as Tower demerged a second entity (Tower Australia) within two years of the demerger; and
- Symbion/Mayne Pharma as Mayne Pharma was acquired by Hospira Inc within two years of the demerger.

On the other hand, some studies have found that demergers may negatively impact value and that conglomerates have outperformed the market over some periods[78]. Conglomerate structures do have benefits including financial size and strength, better liquidity and higher index rating, lower earnings volatility and risk (if business units are not correlated in terms of economic cyclicality), greater depth of management and lower cost of capital (depending on other factors).

While the balance of evidence does favour demergers as adding value, the alternate views underline the fact that there is no universal structure for businesses. While some demergers create substantial value, others do not. In the end, the success of demergers depends on the specific circumstances of each case.

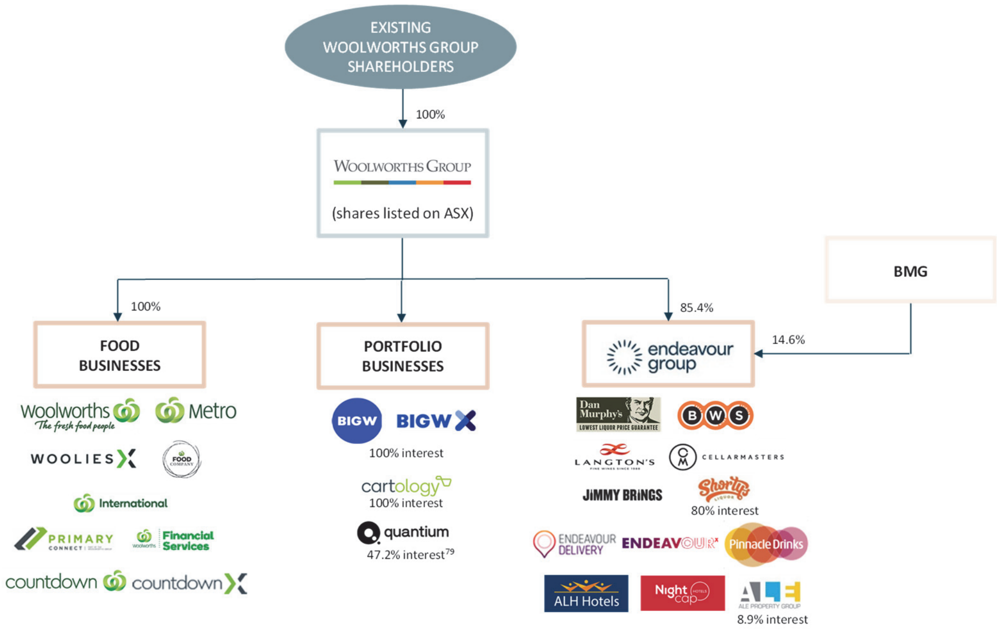
[78] Boston Consulting Group, "Conglomerates Reports", 2002.

5 Impact of the Demerger

5.1 Structure and Ownership

The structure and ownership of Woolworths Group prior to the Demerger is shown below:

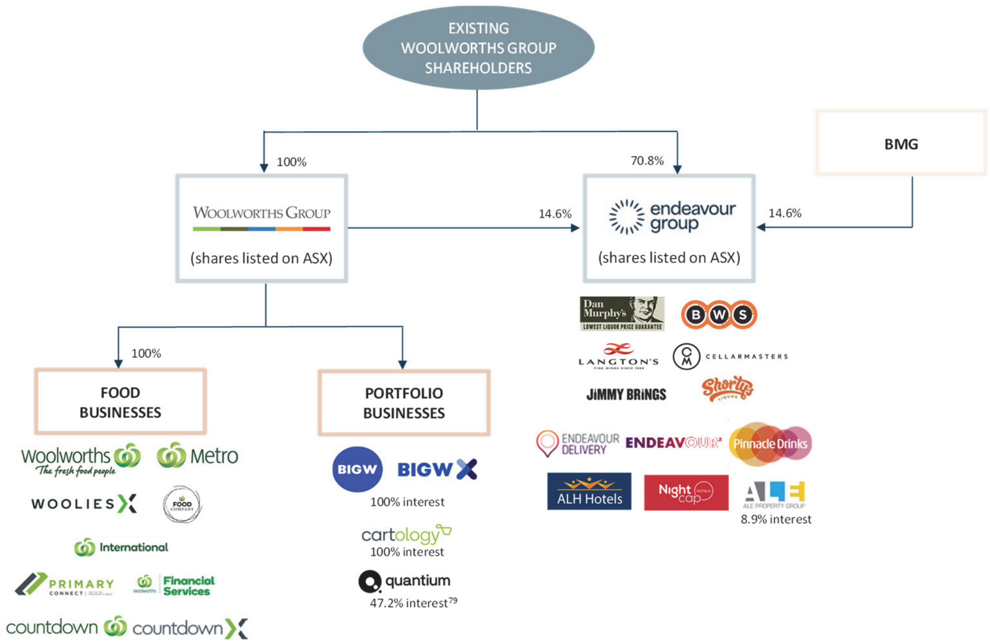
WOOLWORTHS GROUP STRUCTURE – PRIOR TO THE DEMERGER



Woolworths Group

The structure and ownership of Woolworths Group and Endeavour Group immediately after the Demerger is shown below:

WOOLWORTHS GROUP AND ENDEAVOUR GROUP STRUCTURES – AFTER THE DEMERGER



Source: Woolworths Group

---

79 On 20 April 2021, Woolworths announced that it had entered into an agreement to increase its shareholding in Quantium to 75%. The transaction is expected to complete prior to the end of FY21.

Following the Demerger, the relative ownership interest held by each Woolworths Group shareholder (other than ineligible shareholders and selling shareholders) in Endeavour Group will be equal to their ownership interest in Woolworths Group prior to implementation of the Demerger. However, the ownership interest will be held 70.8% directly and 14.6% indirectly (via Woolworths Group).

Endeavour Group's board and management will be standalone, and the companies will operate at arm's length. However:

- Woolworths Group will own 14.6% of the issued capital of Endeavour Group and will nominate one non-executive director to the Endeavour Group board; and
- there will be a number of ongoing commercial arrangements in place, including:
  - subleasing arrangements for certain Endeavour Group retail stores that occupy premises leased to Woolworths Group;
  - short term Partnership Agreements under which certain services (IT and other business support services) will be provided for specified periods generally of three years (or five years for IT and finance); and
  - medium and long term Partnership Agreements relating to supply chain and replenishment services, attached *BWS* and *Dan Murphy's* stores and other site support, loyalty and fintech, digital and media and international distribution (by Woolworths Group) and supply of liquor products (by Endeavour Group).

5.2 Endeavour Group

5.2.1 Operations and Strategy

If the Demerger is implemented, Endeavour Group will be the leading retail drinks and hospitality business in Australia with $10.6 billion in pro forma FY20 sales revenue and pro forma FY20 EBIT of $693 million.

Endeavour Group will have two key divisions:

- **Retail**, Australia's leading retail drinks network across multiple channels, formats and brands comprising:
  - a retail footprint of 1,630 stores operating under the *Dan Murphy's* and *BWS* brands (including operation of the My Dan's loyalty program across the *Dan Murphy's* division and participation in Everyday Rewards across *BWS*);
  - specialty retail and online drinks brands Cellarmasters, Langton's, Jimmy Brings and Shorty's Liquor;
  - products and services capabilities across the group through Pinnacle Drinks, including building a portfolio of exclusive drinks brands, vertically integrated production and services (including owned vineyards, wineries and bottling facilities) and premium wine brand ownership; and
  - shared digital and delivery platform capabilities (EndeavourX and Endeavour Delivery); and
- **Hotels**, operator of a portfolio of 332[80] licensed venues across Australia providing a range of hospitality experiences including:
  - food, with approximately 300 venues operating on-premise restaurants, bistros and cafes;
  - beverages, across its venues which operate 900+ on-premise bars;
  - 12,364 electronic gaming machines across 293 venues[80] as well as approximately 290 TABs and KENO in 250+ venues. Endeavour Group's Hotels division is the leading operator of electronic gaming machines across Australia (excluding Western Australia where electronic gaming machines are not permitted);

---

80 Excluding five Victorian clubs managed by Endeavour Group for third parties.

- accommodation, with ~2,200 rooms across 103 locations, including 60 venues that operate under the Nightcap Hotels and Nightcap Plus brands; and
- entertainment, with ~230 dedicated function rooms.

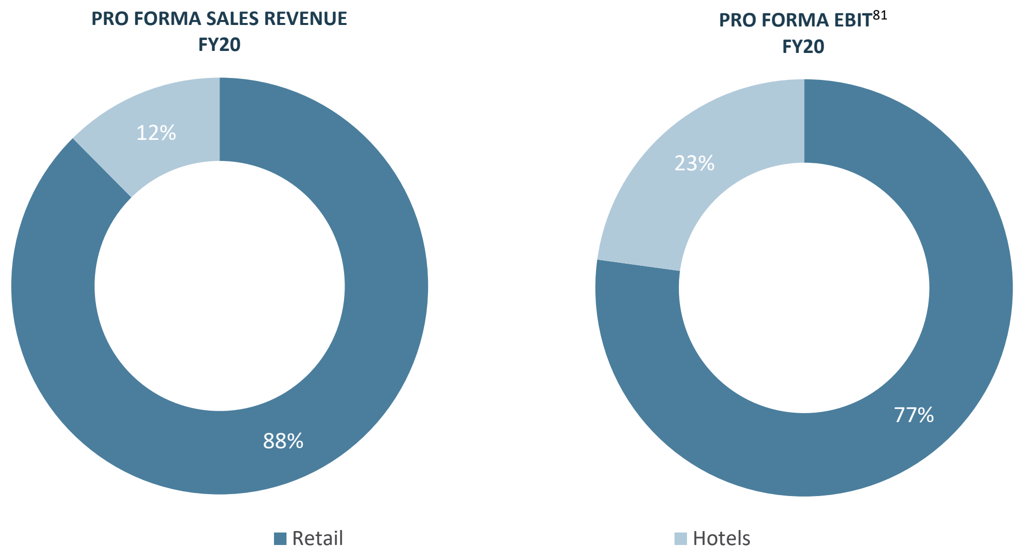
The Monty's Rewards loyalty program operates across most of the Hotels network.

Endeavour Group also holds an 8.9% interest in ALE Property Group (which owns a portfolio of 86 hotels across Australia that are leased to Endeavour Group).

Endeavour Group aims to be the industry leader in the responsible service of alcohol and the responsible conduct of gaming.

Retail represented the vast majority of pro forma FY20 sales revenue and pro forma FY20 EBIT:

ENDEAVOUR GROUP – CONTRIBUTION BY BUSINESS DIVISION



Source: Demerger Booklet, Grant Samuel analysis

COVID-19 had a material impact on the composition of Endeavour Group's FY20 sales revenue and EBIT, with the closure of Hotels venues for much of the last four months of FY20, although this was partially offset by strong growth in the Retail business due to an increase in at-home consumption. In FY18 and FY19, Hotels contributed 16% of pro forma sales revenue and 38% of pro forma EBIT.

Retail is predominantly a consumer staples business with reasonably defensive characteristics. Despite arguably being a discretionary purchase, the business has generated stable earnings and cash flows through economic cycles (including the COVID-19 pandemic) and is highly cash generative. Both the Retail and the Hotels businesses have upside from growth opportunities due to the fragmented nature of the retail drinks (outside of Endeavour Group, Coles, Metcash and ALDI) and hotel hospitality sectors (see the discussion on strategy below).

Following the Demerger, Endeavour Group intends to pursue growth through the creation of simplified and customer centric businesses that will focus on three core pillars of its strategy:

- **knowing our customer**: continuing to invest in knowing its customers, supplemented by leveraging its customer data (VOC and NPS) and targeted market research to generate customer insights that are incorporated into Endeavour Group's decision making;

---

[81] Pro forma EBIT excludes "other" (primarily Endeavour Group's standalone corporate overheads as well as dividends received from the investment in ALE Property Group).

- **innovating to meet customer needs**: through a focus on five key areas of growth opportunity:
  - growing digital engagement by continuing to invest in digital to grow customer traffic, loyalty and sales (e.g. the development of capability to personalise digital interaction for *Dan Murphy's* customers) and continuously strengthening its web and app experience focusing on search optimisation, content and convenient shopping to improve conversion;
  - increasing the productivity of its store and venue footprint through a focus on the in-store and in-venue experience and continuous innovation in new formats as well as rolling out new tools to support product discovery and efficiency:
    - across Hotels venues, Endeavour Group will invest in renewals to deliver the best local pub experience to customers, focused on locally relevant food and drinks and a renewed gaming room experience; and
    - the Retail network is a core component of Endeavour Group's digital and eCommerce capabilities, enabling seamless experiences through Pick Up, Drive-Thru and delivery, across Australia's most extensive range of over 24,000 products;
  - strategic expansion of the network to better serve communities including continuing the acquisition and development of new Hotels venues, the roll out of new Retail stores into strategic catchments, deploying new eCommerce fulfilment capabilities across the network and expanding speciality businesses such as Jimmy Brings.

    Despite being Australia's leading retail drinks network, there are a number of locations across Australia where Endeavour Group is underrepresented. There are also consolidation opportunities in the hotels sector that would enhance Endeavour Group's national footprint. Although Endeavour Group operates around twice as many venues as its nearest competitor (Australian Venue Co. Limited ("Australian Venue Co")), the market remains highly fragmented and is dominated by small, independently owned hotels;
  - expanding product range and reach by:
    - using its reach, customer insights and data analytics platform to respond to emerging trends such as the ongoing introduction of premium products. Premiumisation is the most significant trend influencing the alcoholic drinks market; and
    - using Pinnacle Drinks' capabilities to introduce new and exclusive products that meet evolving customer preferences and trends (including premiumisation) and growing the customer resonance of Pinnacle Drinks brands both within Endeavour Group and offshore through selective partnerships; and
  - enhancing end-to-end cost and asset efficiency by:
    - operating more efficiently and continuing to reduce the cost to service its customers and communities. A key driver will be the continued expansion of technology capabilities to support growth and adopting more agile and integrated ways of working; and
    - unlocking further value in its freehold and leasehold property assets over time (e.g. through ongoing portfolio optimisation and redevelopment opportunities including, for example, exploring opportunities for alternative uses for venues that offer mixed use development potential); and
- **being one team living our purpose and values**: through a culture in which team members are strong advocates for Endeavour Group and are empowered to express Endeavour Group's purpose of *creating a more sociable future together*. Core to this purpose is Endeavour Group's commitment to being Australia's most responsible operator of retail drinks and hospitality venues.

A detailed description of Endeavour Group is set out in Sections 3.4-3.7 of the Demerger Booklet.

5.2.2 Earnings and Dividends

The pro forma historical financial performance of Endeavour Group from FY18 to FY20 and for 1HY21 is summarised below:

ENDEAVOUR GROUP – SUMMARISED PRO FORMA HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY18 PRO FORMA 52 WEEKS	FY19 PRO FORMA 53 WEEKS	FY20 PRO FORMA 52 WEEKS	1HY21 PRO FORMA 27 WEEKS
Sales revenue	**9,795**	**10,294**	**10,624**	**6,357**
EBITDA	**1,320**	**1,336**	**1,172**	**772**
Depreciation and amortisation	(435)	(475)	(479)	(257)
EBIT	**885**	**861**	**693**	**515**
Net finance costs	(214)	(214)	(217)	(106)
Income tax expense	(209)	(202)	(148)	(131)
OPAT	**462**	**445**	**328**	**278**
STATISTICS				
Sales revenue growth		*+2.2%*[82]	*+6.1%*[82]	*+11.3%*[83]
EBIT growth		*-5.4%*[82]	*-17.2%*[82]	*-4.6%*[83]
EBIT margin	*9.0%*	*8.4%*	*6.5%*	*8.1%*
Interest cover	*4.1x*	*4.0x*	*3.2x*	*4.9x*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical financial performance for Endeavour Group has been prepared on the basis that:

- the Demerger was effective from 26 June 2017;
- discontinued businesses and significant items have been excluded;
- the starting position is Endeavour Group's restated financial performance from FY18 to FY20 and for 1HY21, which reflects adoption of AASB16, remediation of salaried store team members, reallocation of the results of the Summergate business from Endeavour Group to Woolworths Group and the impact of the Restructure and Merger (see Section 3.4.2). These adjustments are unrelated to the Demerger;
- it reflects:
  - sales revenue that was previously classified as intercompany (and therefore eliminated on consolidation) which will be external sales to Woolworths Group post Demerger. This adjustment does not result in any change to EBITDA or EBIT;
  - the additional costs that Endeavour Group will incur as a standalone, ASX listed company including corporate functions, the cost of maintaining a board of directors, company secretarial costs, ASX listing fees, share registry costs and insurance; and
  - other segment revenue and costs related to Endeavour Group that was included in the Woolworths Group other segment;
- interest on borrowings has been calculated based on the financing structure that will be implemented on Demerger, including amortisation of bank fees;
- income tax expense has been calculated on the basis of the tax status of Endeavour Group following the Demerger (see below);

[82] Normalised for the 53 week year in FY19. Normalised growth rates have been estimated by Grant Samuel based on comparable normalised FY19 sales revenue growth disclosed in the Demerger Booklet of 2.3% for Retail and 1.9% for Hotels and assuming EBIT margins remain as reported.

[83] Growth rates are over the prior corresponding period (i.e. 1HY20).

- there has been no adjustment for transaction costs associated with the Demerger on the basis that those costs will be incurred by Woolworths Group and are reflected in Woolworths Group's pro forma financial position (see Section 5.3.3).

The detailed pro forma historical financial performance for Endeavour Group (including a description of the assumptions and adjustments made) is set out in Section 3.13 of the Demerger Booklet.

While pro forma revenue has grown consistently over the past three and a half years, pro forma EBIT has declined. In FY19, the decline in pro forma EBIT was across both Retail and Hotels, with above inflation cost pressures and higher freight and eCommerce delivery costs as well as investment in customer experience, ranging, and data and analytics impacting Retail, and changes in business mix and increasing input prices for food impacting Hotels. The COVID-19 pandemic had a material impact on the composition of pro forma FY20 sales revenue and EBIT, with Retail experiencing increased demand from at-home consumption but Hotels venues being closed for much of the last four months of the year. Hotels sales revenue declined by 19.6%[84] but this was more than offset by an 11.1%[84] increase in Retail sales revenue. However, a 4.9%[84] increase in Retail EBIT was more than offset by the 50.1%[84] decline in Hotels EBIT as it continued to incur fixed costs such as occupancy, team costs and depreciation. This trend continued in 1HY21.

As a result of additional operating costs, on a pro forma basis the standalone Endeavour Group generates lower EBIT margins (~35-50 basis points lower) than as part of Woolworths Group.

As the separation is expected to occur on 28 June 2021, FY22[85] will be the first full year of Endeavour Group as a standalone listed company.

Endeavour Group is eligible to form a new separate tax consolidated group but has not elected to do so at the date of this report. Consequently, each Endeavour Group entity is subject to tax on a standalone basis.

Endeavour Group's approach to dividends will be determined by the Endeavour Group board at its discretion and may change over time. Endeavour Group intends to follow Woolworths Group's long established dividend policy which has regard to current year earnings, available franking credits, future cash flow requirements and targeted credit metrics. This approach is expected to initially deliver a dividend payout ratio ranging from 70% to 75% of NPAT (before significant items). Endeavour Group intends that its dividends will be franked to the maximum extent possible, although the extent to which a dividend can be franked will depend on Endeavour Group's franking credit balance (and forecast franking position for the relevant income year) at the time the dividends are declared. Endeavour Group had an accumulated franking balance of $609 million at 3 January 2021 and is expected to continue to generate franking credits post Demerger. Endeavour Group has confirmed to Woolworths Group that it expects to pay a dividend during the second half of calendar year 2021 of 70% to 75% of 2HY21 NPAT, subject to the Endeavour Group directors at that time being satisfied that the payment of the dividend is in accordance with legal requirements for the payment of dividends and is appropriate having regard to their fiduciary and statutory duties.

84 Normalised for the 53 week year in FY19. Normalised growth rates have been estimated by Grant Samuel based on comparable normalised FY19 sales revenue growth disclosed in the Demerger Booklet of 2.3% for Retail and 1.9% for Hotels and assuming EBIT margins remain as reported.

85 FY22 is the financial year ending 26 June 2022.

5.2.3 Financial Position

The pro forma financial position of Endeavour Group at 3 January 2021 is summarised below:

ENDEAVOUR GROUP – SUMMARISED PRO FORMA FINANCIAL POSITION ($ MILLIONS)

	AT 3 JANUARY 2021	
	PRO FORMA	NORMALISED
Trade and other receivables and prepayments	153	153
Inventories	1,436	1,436
Trade and other payables	(1,749)	(1,565)
Net working capital	**(160)**	**24**
Lease assets	3,150	3,150
Property, plant and equipment	1,838	1,838
Intangible assets	3,838	3,838
Provisions	(288)	(288)
Other[86] (net)	116	116
Total funds employed	**8,494**	**8,678**
Net tax balances (net deferred tax assets and current tax payable)	(245)	(245)
Net assets employed	**8,249**	**8,433**
Cash and cash equivalents	566	382
Borrowings	(1,832)	(1,832)
Net borrowings (excluding lease liabilities)	**(1,266)**	**(1,450)**
Lease liabilities	(3,788)	(3,788)
Net borrowings (including lease liabilities)	**(5,054)**	**(5,238)**
Net assets	**3,195**	**3,195**
STATISTICS		
Shares on issue at period end (million)	*1,790.5*	*1,790.5*
Net assets per share	*$1.78*	*$1.78*
NTA per share	*$(0.36)*	*$(0.36)*
Leverage	*4.4x*	*4.5x*
Gearing (excluding lease assets and liabilities)	*24.8%*	*27.4%*
Gearing (including lease assets and liabilities)	*61.3%*	*62.1%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma financial position of Endeavour Group has been prepared on the basis that the Demerger was implemented on 3 January 2021. Specifically, it reflects the:

- amounts payable to Woolworths Group that will arise as a result of Endeavour Group operating on a standalone basis (primarily relating to payables under the Partnership Agreements);
- drawdown of external borrowings and settlement of intercompany borrowings with Woolworths Group. The estimated cost of establishing the external borrowing facilities of approximately $20 million is capitalised against the external borrowings and will be amortised over the life of the borrowings. Endeavour Group has a seasonally low level of intercompany borrowings which is offset by a seasonally high level of trade and other payables at 3 January 2021 due to the Christmas and New Year holiday trading period. The level of pro forma external borrowings reflects the estimated amount that would have been drawn down had the Demerger been implemented on 3 January 2021. Immediately after the separation date, it is expected that Endeavour Group will have net borrowings in the range $1.4-1.5 billion (an increase of $134-234 million over the pro forma net borrowings at 3 January 2021 of $1.266 billion) as cash is absorbed into working capital. Endeavour Group's pro forma

86 Other includes non-current trade and other receivables ($40 million) and Endeavour Group's listed equity investment in ALE Property Group ($80 million) as well as a put option over the remaining 20% interest in Shorty's Liquor ($3 million liability).

financial position "normalised" for the impact of seasonality and based on net borrowings of $1.45 billion (the midpoint of the expected range) is shown in the table above;

- settlement of stamp duty costs accrued on completion of the Restructure. As these costs are being funded by Woolworths Group post Demerger, the costs are set against a receivable held with Woolworths Group post Demerger which was established at the time of the Restructure; and
- non cash settlement of balances between Endeavour Group and Woolworths Group post Demerger for commitments established at the time of the Restructure that will be settled prior to the Demerger.

The pro forma financial position also reflects the 1HY21 dividend of $269 million to be declared and paid by Endeavour Group prior to the Demerger. Payment of this dividend is not related to the Demerger.

Prior to allowing for the seasonally high level of trade and other payables at 3 January 2021, Endeavour Group had a small pro forma negative investment in working capital. After allowing for the seasonally high level of trade and other payables, Endeavour Group would have a pro forma positive investment in working capital (in contrast to Woolworths Group). This small investment in working capital reflects lower stock turns for retail drinks (i.e. stock is held for longer periods) relative to supermarkets.

Endeavour Group's pro forma financial position at 3 January 2021 includes a provision for:

- self insured risks relating to the Endeavour Group businesses of approximately $40 million. Endeavour Group has been partially externally insured from the time of the Restructure and is expected to be fully externally insured from the time of the Demerger (except to the extent that it self insures workers compensation insurance). However, it will retain the self insured risks provision in relation to claims relating to the period prior to the Demerger; and
- payment shortfalls to Endeavour Group team members of $77 million. Subsequent to the Demerger, Endeavour Group will remain liable for all payment shortfalls for past and present Endeavour Group team members except for award-based salaried team members that transferred to Endeavour Group as part of the Restructure (which is a liability that was retained by Woolworths Group as part of the Restructure).

Intangible assets of $3.8 billion is made up of $1.7 billion of goodwill and $2.1 billion of other intangible assets (primarily liquor and gaming licences). The significant intangible assets balance (it is greater than net assets of $3.2 billion) results in pro forma negative net tangible assets per share.

A detailed pro forma financial position (including a description of the assumptions and adjustments made) is set out in Section 3.13 of the Demerger Booklet.

Endeavour Group is expected to have a moderately leveraged capital structure, with pro forma book gearing of 24.8% (before leases) (27.4% on a normalised basis). It will have:

- committed syndicated revolving credit facilities and bilateral revolving credit facilities totalling $2.5 billion. These facilities have maturities of three to five years and are on market standard terms and conditions consistent with facilities of this nature. Pro forma drawn debt at 3 January 2021 is $1.852 billion[87]. The higher level of drawn debt relative to the intercompany borrowings at 3 January 2021 (of $1.48 billion) is offset by a relatively high cash balance and reflects the normal seasonal trading cycle where there is a lower level of intercompany borrowings arising over the Christmas and New Year trading period; and
- lease liabilities totalling $3.8 billion with a weighted average lease profile of 12.6 years and approximately 36% of leases (by dollar value on an undiscounted basis) expiring within the next five years.

This capital structure is expected to be consistent with an investment grade credit profile.

87 Borrowings in the statement of financial position is shown net of the $20 million of capitalised borrowing costs.

There is expected to be sufficient headroom in the bank facilities (in conjunction with Endeavour Group's operating cash flows and its substantial portfolio of freehold properties) to fund Endeavour Group's working capital and capital expenditure requirements as well as potential growth opportunities. Net capital expenditure is around $280-310 million per year. Endeavour Group's freehold properties had a pro forma carrying value at 3 January 2021 of $592 million that it will be able to use to provide liquidity (e.g. through sale and leaseback) or as development opportunities.

While Endeavour Group's pro forma financial position at 3 January 2021 does not include any net derivatives, Endeavour Group may enter into interest rate swaps or other arrangements (to manage its fixed and floating exposures on its debt facilities) and foreign exchange derivatives (to hedge a portion of its foreign exchange exposure).

5.2.4 Cash Flow

The pro forma historical cash flow for Endeavour Group from FY18 to FY20 and for 1HY21 is summarised below:

ENDEAVOUR GROUP – SUMMARISED PRO FORMA HISTORICAL CASH FLOW ($ MILLIONS)

	FY18 PRO FORMA 52 WEEKS	FY19 PRO FORMA 53 WEEKS	FY20 PRO FORMA 52 WEEKS	1HY21 PRO FORMA 27 WEEKS
EBITDA	**1,320**	**1,336**	**1,172**	**772**
Changes in working capital and other adjustments	(71)	14	257	295
Operating cash flow before interest and tax	**1,249**	**1,350**	**1,429**	**1,067**
Net interest paid – leases	(181)	(180)	(184)	(101)
Net interest paid – non leases	(29)	(30)	(29)	(15)
Tax paid	(226)	(207)	(183)	(138)
Operating cash flow	**813**	**933**	**1,033**	**813**
Capital expenditure (net)	(309)	(276)	(288)	(116)
Net payments for businesses	(3)	(67)	(44)	(17)
Repayment of lease liabilities	(218)	(229)	(230)	(121)
Operating cash flow after investing activities	**283**	**361**	**471**	**559**
STATISTICS				
Cash realisation ratio	*91%*	*101%*	*128%*	*152%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical cash flow for Endeavour Group has been prepared on the same basis as the pro forma historical financial performance set out in Section 5.2.2 of this report. It has been presented before financing activities.

Endeavour Group is expected to have a strong cash realisation ratio of around or above 100%. The considerably higher cash realisation ratio in 1HY21 reflects the impact of the Christmas and New Year trading period. The cash flow benefit from this seasonality reverses early in the new year.

On a pro forma basis, capital expenditure was around $280-310 million per year over the period from FY18 to FY20. Endeavour Group had capital expenditure commitments at 3 January 2021 of $22 million.

5.2.5 Directors and Management

On Demerger, Endeavour Group's board will comprise eight directors:

- one non-executive director, Holly Kramer, who will be Woolworths Group's nominee on the Endeavour Group board;
- one non-executive director, Bruce Mathieson (Senior), who will be BMG's nominee on the Endeavour Group board;
- five non-executive directors, four of whom will be independent of Woolworths Group and BMG, including the Chairman, Peter Hearl as well as Duncan Makeig, Joanne Pollard and Catherine West. The fifth non-executive director will be Colin Storrie. Colin Storrie is currently Managing Director of New Business and Partnerships at Woolworths Group and led the shareholder aspects of the Restructure and Merger and Demerger but his role as an executive of Woolworths Group will conclude on 27 June 2021; and
- one executive director (Managing Director and CEO-elect, Steve Donohue).

Endeavour Group intends to appoint a further independent non-executive director to the Endeavour Group board shortly after the Demerger is implemented, following which the Endeavour Group board will have a majority of independent directors.

The senior management of Endeavour Group will include Endeavour Group's current Managing Director, Steve Donohue, who has been appointed as CEO-elect. Shane Gannon has been appointed as Chief Financial Officer ("CFO") and commenced in April 2021, supported by the current Finance Director, Kate Beattie, who will become Deputy CFO.

The existing operational management team is to remain in place. Further details of the board and senior management of Endeavour Group are set out in Section 3.8 of the Demerger Booklet.

5.2.6 Capital Structure and Ownership

On implementation of the Demerger, Endeavour Group will have approximately 1,790.5 million shares on issue. Woolworths Group shareholders will collectively hold 70.8% of the shares on issue, Woolworths Group will hold 14.6% and BMG will hold 14.6%.

Woolworths Group and BMG will be the only substantial shareholders. Other than the Woolworths Group and BMG shareholdings, Endeavour Group will have a relatively open share register.

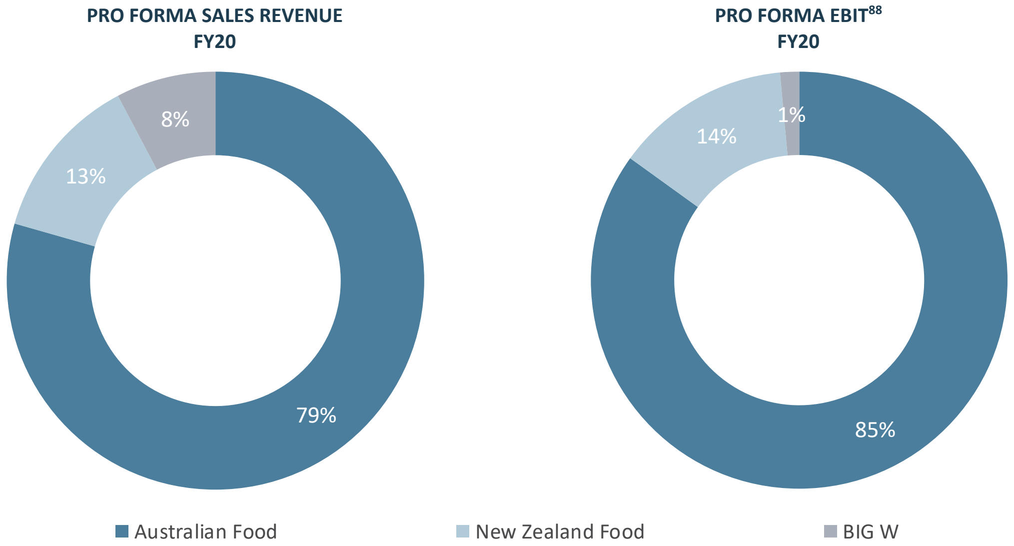
Endeavour Group has established several equity-based plans for executive management and salaried team members to align their interests with the interests of Endeavour Group shareholders. The details of these equity plans are set out in Annexure C to the Demerger Booklet. While aligned to Endeavour Group performance and measures (where applicable), the equity plans represent a continuation of the structure of the equity arrangements in place at Woolworths Group. Post Demerger, the Endeavour Group board will review the remuneration framework on an ongoing basis to ensure that it meets the strategic needs of Endeavour Group.

5.3 Woolworths Group post Demerger

5.3.1 Operations and Strategy

If the Demerger is implemented, Woolworths Group will remain Australia and New Zealand's leading food and everyday needs business. It will have a retail food business, strong digital and data capabilities (through WooliesX, CountdownX and BIG WX) and complementary businesses and partnerships (including BIG W, Cartology, its investments in Endeavour Group and Quantium and its partnerships with Qantas, Ampol, EuroGarages and Takeoff Technologies). The focus of Woolworths Group post Demerger will be its supermarkets businesses in Australia and New Zealand, which represented 93% of FY20 pro forma sales revenue and 99% of FY20 pro forma EBIT:

WOOLWORTHS GROUP POST DEMERGER – CONTRIBUTION BY BUSINESS DIVISION



Source: Demerger Booklet

Woolworths Group post Demerger will continue its strategy that leverages its food and everyday needs retail business to build a retail ecosystem that attracts more partners and services for the benefit of customers (see Section 3.3 for details of Woolworths Group's strategy). It intends to continue to increase its physical and digital reach, where appropriate, and add new services for customers through complementary adjacencies and partnerships, including:

- expanding points of presence to adjacent services to meet customers where and how they want to shop;
- growing the food offering into broader channels including B2B, wholesale and exports;
- entering strategic partnerships to extend choice for customers in new categories; and
- leveraging its platforms and service businesses for Woolworths Group and its partners.

A detailed description of Woolworths Group post Demerger is set out in Section 4 of the Demerger Booklet.

[88] Pro forma EBIT excludes "other" (i.e. various support functions including property and central overheads).

5.3.2 Earnings and Dividends

The pro forma historical financial performance of Woolworths Group post Demerger from FY18 to FY20 and for 1HY21 is summarised below:

WOOLWORTHS GROUP POST DEMERGER – SUMMARISED PRO FORMA HISTORICAL FINANCIAL PERFORMANCE ($ MILLIONS)

	FY18 PRO FORMA 52 WEEKS	FY19 PRO FORMA 53 WEEKS	FY20 PRO FORMA 52 WEEKS	1HY21 PRO FORMA 27 WEEKS
Sales revenue	**47,209**	**49,758**	**53,131**	**29,538**
Operating EBITDA	**3,815**	**4,268**	**4,449**	**2,607**
Depreciation and amortisation	(1,695)	(1,847)	(1,982)	(1,066)
Operating EBIT	**2,120**	**2,421**	**2,467**	**1,541**
Share of profits of associates[89]	67	64	52	50
EBIT	**2,187**	**2,485**	**2,519**	**1,591**
Net finance costs	(701)	(663)	(658)	(322)
Income tax expense	(420)	(519)	(558)	(362)
OPAT	**1,066**	**1,303**	**1,303**	**907**
STATISTICS				
Sales revenue growth		*+3.3%*[90]	*+8.9%*[90]	*+10.5%*[91]
Operating EBIT growth		*+11.9%*[90]	*+4.0%*[90]	*+16.4%*[91]
Operating EBIT margin	*4.5%*	*4.9%*	*4.6%*	*5.2%*
Interest cover	*3.0x*	*3.7x*	*3.7x*	*4.8x*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical financial performance for Woolworths Group post Demerger has been prepared on the following basis:

- the Demerger was effective from 26 June 2017;
- it shows Woolworths Group post Demerger's continuing operations only and is before significant items;
- the starting position is Woolworths Group's restated financial performance from FY18 to FY20 and for 1HY21, which reflect adoption of AASB16, remediation of salaried store team members, reallocation of the results of the Summergate business from Endeavour Group to Woolworths Group and the impact of the Restructure and Merger (see Section 3.4.1). These adjustments to Woolworths Group's financial performance are unrelated to the Demerger;
- it includes the expected impact of the Partnership Agreements that will be in place with Endeavour Group following the Demerger (changes to the accounting classifications associated with the revenues to be derived from certain Partnership Agreements which do not result in any change in EBIT);
- Woolworths Group post Demerger will equity account its 14.6% interest in Endeavour Group. The pro forma share of profits of associates primarily reflects Woolworths Group post Demerger's 14.6% equity accounted share of Endeavour Group's pro forma NPAT (adjusted to take account of items such as additional depreciation and amortisation of depreciable assets based on their fair values at the date of

89 Share of profits of associates primarily represents Woolworths Group's 14.6% investment in Endeavour Group but also includes other equity accounted investments that are immaterial in the context of Woolworths Group post Demerger's earnings.

90 Normalised for the 53 week year in FY19. Normalised growth rates have been estimated by Grant Samuel based on comparable normalised FY19 sales revenue growth disclosed in the Demerger Booklet of 3.1% for Australian Food, 3.4% for New Zealand Food and 5.3% for BIG W and assuming EBIT margins remain as reported.

91 Growth rates are over the prior corresponding period (i.e. 1HY20).

separation), but also includes the NPAT from other equity accounted investments that are immaterial in the context of Woolworths Group post Demerger's earnings ($2 million in FY18 and FY19, $7 million in FY20 and $12 million in 1HY21);

- it includes the impact on Woolworths Group post Demerger's net finance costs of the financing structure in place following repayment of the intercompany borrowings from Endeavour Group;
- it includes the impact of the separation of Endeavour Group on Woolworths Group post Demerger's income tax expense; and
- there has been no adjustment for:
  - any costs that were previously allocated to Endeavour Group but will remain with Woolworths Group post Demerger ("stranded costs") that are not able to be mitigated and reduced over time; and
  - transaction costs associated with Demerger on the basis that those costs (which will be incurred by Woolworths Group) are reflected in Woolworths Group post Demerger's pro forma financial position (see below).

The detailed pro forma historical financial performance for Woolworths Group post Demerger (including a description of the assumptions and adjustments made) is set out in Section 4.6 of the Demerger Booklet.

As a result of no longer including the higher margin Endeavour Group businesses, on a pro forma basis Woolworths Group post Demerger generates lower EBIT margins than Woolworths Group (generally 70-90 basis points lower although only 40 basis points lower in FY20 due to the impact of the COVID-19 pandemic on Endeavour Group's EBIT margin).

Woolworths Group's financial results for FY21 will fully consolidate Endeavour Group (and include a non-controlling interest for the 14.6% of Endeavour Group held by BMG) as the separation date is expected to be 28 June 2021. FY22 will be the first full year following the demerger of Endeavour Group and will include Woolworths Group's 14.6% interest in Endeavour Group as an equity accounted investment (i.e. Woolworths Group's share of Endeavour Group's FY22 NPAT will be included in earnings).

Following the Demerger, Woolworths Group will remain the head company of the Woolworths Group Australian consolidated tax group (from which Endeavour Group has already exited) and the unused capital losses and franking credits are expected to be preserved in Woolworths Group.

While the level of future dividend payments is a matter for the board of Woolworths Group, Woolworths Group's dividend policy is not expected to change as a result of the Demerger. Woolworths Group's first dividend on a post Demerger basis is likely to be the final dividend for 2HY21, which will be paid in September/October 2021. Post Demerger, Woolworths Group will receive any dividends declared by Endeavour Group in relation to its 14.6% post Demerger interest in Endeavour Group. It will recognise its share of Endeavour Group's NPAT in its earnings and this will form part of the profits from which Woolworths Group post Demerger will subsequently declare its own dividends.

5.3.3 Financial Position

The pro forma financial position of Woolworths Group post Demerger at 3 January 2021 is summarised below:

WOOLWORTHS GROUP POST DEMERGER – SUMMARISED PRO FORMA FINANCIAL POSITION ($ MILLIONS)

	AT 3 JANUARY 2021 PRO FORMA
Trade and other receivables and prepayments	802
Inventories	3,372
Trade and other payables	(6,814)
Net working capital	**(2,640)**
Lease assets	9,609
Property, plant and equipment	7,122
Intangible assets	3,902
Investment in Endeavour Group	1,569
Provisions	(2,354)
Other[92] (net)	829
Total funds employed	**18,037**
Net tax balances (net deferred tax assets and current tax payable)	1,177
Net assets employed	**19,214**
Cash and cash equivalents	2,699
Borrowings	(2,624)
Derivative financial instruments (net)	44
Net borrowings (exlcuding lease liabilities)	**119**
Lease liabilities	(11,932)
Net borrowings (after lease liabilities)	**(11,813)**
Net assets	**7,401**
Non-controlling interests	(29)
Equity attributable to Woolworths Group shareholders	**7,372**
STATISTICS	
Shares on issue at period end (million)	*1,267.6*
Net assets per share	*$5.82*
NTA per share	*$2.74*
Leverage	*2.5x*
Gearing (excluding lease assets and liabilities)	*-1.2%*
Gearing (including lease assets and liabilities)	*61.5%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma financial position of Woolworths Group post Demerger has been prepared on the basis that the Demerger was implemented on 3 January 2021. Specifically it reflects the:

- removal of assets and liabilities related to Endeavour Group;
- working capital that will arise between Endeavour Group and Woolworths Group post Demerger, primarily relating to receivables under the Partnership Agreements;
- interest in Endeavour Group as an equity accounted associate (at its estimated fair value). The pro forma financial position assumes that Woolworths Group will record a gain on Demerger of $6.3

92 Other includes non-current trade and other receivables ($417 million), assets held for sale ($175 million), investment in listed and unlisted equity securities and convertible notes and loans provided to related parties ($86 million) and other assets ($198 million) offset by net defined benefit liability ($47 million).

billion[93], although the actual profit recorded will depend on the trading price of Endeavour Group shares immediately after implementation of the Demerger;

- settlement of the intercompany borrowings between Woolworths Group and Endeavour Group following the drawdown of external debt by Endeavour Group and non-cash settlement of balances between Endeavour Group and Woolworth Group post Demerger for commitments that were established at the time of the Restructure that will be removed prior to the Demerger; and
- one-off transaction costs estimated to be approximately $50 million associated with the Demerger that are expected to be incurred by Woolworths Group after 3 January 2021 (together with associated deferred taxes). These costs are in addition to approximately $230 million that was incurred in FY20, predominantly in relation to the Restructure and Merger.

The pro forma financial position also reflects recognition of lease liabilities that were allocated to Endeavour Group on the Restructure for properties that are occupied by Endeavour Group and for which Woolworths Group post Demerger either holds the head lease or owns the property, together with a lease receivable recognising the amounts due from Endeavour Group. These lease liabilities and lease receivables were previously eliminated on consolidation.

A detailed pro forma financial position (including a description of the assumptions and adjustments made) is set out in Section 4.6 of the Demerger Booklet.

The pro forma financial position of Woolworths Group post Demerger indicates (relative to Woolworths Group's restated financial position at 3 January 2021):

- a slightly smaller negative investment in net working capital as Endeavour Group's pro forma negative investment in net working capital at 3 January 2021 is removed;
- net assets per share falls from $6.92 to $5.82 due to the removal of Endeavour Group's net assets but NTA per share increases from $0.82 to $2.74 as a result of no longer recognising goodwill and liquor and gaming licences associated with Endeavour Group. No new intangible assets arise as a result of the Demerger; and
- a reduction in net borrowings and gearing (before and after leases) as a result of repayment of the intercompany borrowings by Endeavour Group. Gearing before leases falls from 8.4% to -1.2% (i.e. a net cash position) and gearing after leases falls from 64.5% to 61.5%. The relatively smaller reduction in gearing after leases reflects the significant proportion of lease assets and liabilities attributable to Woolworths Group's Australian Food and New Zealand Food businesses. Woolworths Group post Demerger will have lease liabilities totalling $11.9 billion, 36% of which (by dollar value on an undiscounted basis) relate to leases that expire in the next five years.

  All of Woolworths Group's existing debt facilities are expected to remain in place and Woolworths Group post Demerger expects to retain its existing investment grade credit rating. As a result, Woolworths Group post Demerger has substantial balance sheet capacity.

[93] This gain on Demerger is not a prediction or a forecast and it may vary substantially depending on the trading price of Endeavour Group shares over the first five trading days following implementation of the Demerger. See Section 4.6(n) of the Demerger Booklet for more information.

5.3.4 Cash Flow

The pro forma historical cash flow for Woolworths Group post Demerger from FY18 to FY20 and for 1HY21 is summarised below:

WOOLWORTHS GROUP POST DEMERGER – SUMMARISED PRO FORMA HISTORICAL CASH FLOW ($ MILLIONS)

	FY18 PRO FORMA 52 WEEKS	FY19 PRO FORMA 53 WEEKS	FY20 PRO FORMA 52 WEEKS	1HY21 PRO FORMA 27 WEEKS
Operating EBITDA	**3,815**	**4,268**	**4,449**	**2,607**
Changes in working capital and other adjustments	211	(171)	489	394
Operating cash flow before interest and tax	**4,026**	**4,097**	**4,938**	**3,001**
Net interest paid – leases	(545)	(539)	(517)	(306)
Net interest paid – non leases	(182)	(164)	(153)	(66)
Tax paid	(413)	(531)	(461)	(288)
Operating cash flow	**2,886**	**2,863**	**3,807**	**2,341**
Dividends received	47	45	34	34
Capital expenditure (net)	(1,452)	(1,538)	(1,599)	(591)
Net proceeds from sale of/(payments for) businesses	(9)	(14)	(14)	7
Loans to related parties	-	(38)	(4)	-
Repayment of lease liabilities	(681)	(777)	(823)	(482)
Operating cash flow after investing activities	**791**	**541**	**1,401**	**1,309**
STATISTICS				
Cash realisation ratio	*105%*	*91%*	*116%*	*119%*

Source: Demerger Booklet and Grant Samuel analysis

The pro forma historical cash flow for Woolworths Group post Demerger has been prepared on the same basis as the pro forma historical financial performance set out in Section 5.3.2 of this report, except that it uses Woolworths Group post Demerger's operating EBITDA as a starting point as this is before Woolworths Group post Demerger's share of NPAT from its 14.6% investment in Endeavour Group (which is a non cash item) and recognises dividends received from the investment in Endeavour Group (based on a retained interest of 14.6% and assuming a dividend payout ratio of 70% of Endeavour Group's pro forma NPAT for each period)[94].

Woolworths Group post Demerger continues to have a strong cash realisation ratio which has generally been around or above 100%. On a pro forma basis, net capital expenditure was around $1.5-1.6 billion from FY18 to FY20. Woolworths Group post Demerger had capital expenditure commitments at 3 January 2021 of $770 million.

5.3.5 Directors and Management

Woolworths Group post Demerger's board will comprise the current directors of Woolworths Group.

Gordon Cairns will continue as the Chairman, Brad Banducci will continue as Managing Director and CEO and Stephen Harrison will continue as CFO following implementation of the Demerger.

---

[94] This presentation differs from that set out in Section 4.6 of the Demerger Booklet which uses at its starting point EBITDA that includes Woolworths Group post Demerger's share of NPAT from its 14.6% interest in Endeavour Group.

5.3.6 Capital Structure and Ownership

There will be no change to the number of Woolworths Group ordinary shares on issue or the ownership of Woolworths Group immediately following implementation of the Demerger.

The impact of the Demerger on the various incentive plans and share purchase plans operated by Woolworths Group will vary depending on:

- the plan and the awards granted under the plan; and
- whether the plan participant remains an employee of Woolworths Group post Demerger or will be an employee of Endeavour Group.

The treatment of each type of plan is set out in detail in Annexure C to the Demerger Booklet.

6 Evaluation of the Demerger

6.1 Opinion

In Grant Samuel's opinion, the Demerger is in the best interests of Woolworths Group shareholders.

6.2 Summary and Conclusions

Retail drinks has been part of Woolworths Group's business operations for approximately 60 years, and its entry into the hotel sector was an outcome of a desire to expand this business into Queensland, where licensing laws require that retail liquor stores are operated by a hotelier. Woolworths Group facilitated this expansion through a joint venture with BMG (and others) in 2001, initially to buy and operate hotels in Queensland. The joint venture was highly successful, culminating in the formation of ALH Group in 2005 which grew to become Australia's largest hotels business.

Recognising its potential, BMG has been keen to accelerate ALH Group's hotels business (now the Hotels division of Endeavour Group) growth in the fragmented hotels sector. However, this desire has, at times, differed from the interests of Woolworths Group which:

- had to prioritise investment in its food businesses (particularly in 2016 and 2017) to protect its market share from growing competition from domestic and international competitors; and
- generally required investments or acquisitions undertaken by ALH Group's hotels business to be aligned with Woolworths Group's broader retail strategy (including return on capital profiles), resulting in a lack of appetite for the acquisition of hotels without a retail component and several hotel opportunities being deferred or forgone.

The Woolworths Group board determined that the growth objectives of ALH Group and the Woolworths Group's retail drinks business (given the shared *BWS* and *Dan Murphy's* banners) would be better achieved if they were separated from the food and everyday needs business but on a basis that preserved a seamless integrated customer offering. A merger of Woolworths Group's retail drinks business and ALH Group to establish Endeavour Group and the subsequent separation of the combined entity (with commercial agreements in place) was determined to be the most viable option given the compatibility of both businesses and the Queensland liquor licensing requirements.

The primary advantage of the Demerger is its attraction relative to alternative divestment methods, such as a trade sale or IPO. A trade sale would be challenging to execute, particularly given the size of Endeavour Group (broker valuations have been in the range $9.3-12.5 billion). There are no obvious trade or strategic acquirers of Endeavour Group (as opposed to financial buyers). A trade sale process would be protracted and disruptive and would have no certainty of success, particularly in current market conditions. Importantly, the process and outcome would not be within Woolworths Group's control and an unsuccessful process could have a material adverse impact on Endeavour Group's business. A 100% IPO of Endeavour Group is highly unlikely to be achievable, again largely due to the size of Endeavour Group. A staged exit, with progressive sell downs over time, is potentially more realistic, but would be wholly dependent on market conditions and pricing at each stage would inevitably reflect some discount. Both a trade sale and an IPO would crystallise a significant capital gains tax liability for Woolworths Group.

In contrast, the Demerger:

- can be executed relatively quickly and with a high degree of certainty;
- provides Woolworths Group shareholders with the opportunity to retain exposure to the upside potential from realisation of significant growth opportunities by Endeavour Group; and
- is expected to provide Woolworths Group shareholders with demerger tax relief, enabling them to defer any tax payable until the sale of their Endeavour Group shares.

The Demerger is definitionally fair as shareholders (except ineligible shareholders and selling shareholders) will hold exactly the same underlying economic interests in the business before and after the Demerger is implemented. Evaluation of whether the Demerger is in the best interests of shareholders therefore involves subjective judgements about the benefits such as financial and strategic flexibility and management focus weighed against the risks, costs and other disadvantages of the Demerger, rather than analysis of quantifiable financial or other verifiable factors.

In some circumstances there is a clear case for a demerger because the relevant businesses are in completely different industries or there is some "hidden" value that will emerge through re-rating by the market of the separate companies. This is not the situation with Woolworths Group. The key benefit of the Demerger is that it gives both Endeavour Group and Woolworths Group post Demerger the strategic and financial flexibility to better execute on their core strategies:

- Endeavour Group will have greater ability to take advantage of significant growth opportunities in the retail drinks and hotel hospitality sectors (including new store roll-outs to expand its national footprint, vertical integration in Retail, consolidation of the highly fragmented hotels market and development opportunities across the existing Hotels portfolio). Across its available facilities and its substantial portfolio of freehold properties, Endeavour Group has access to liquidity to fund these growth opportunities. It will also be able to pursue strategic opportunities by offering its own scrip (which is likely to be more attractive to vendors or merger partners than Woolworths Group scrip); and
- Woolworths Group post Demerger will be able to focus on its food and everyday needs business and pursue other opportunities consistent with its retail ecosystem strategy. It will also benefit from an effective increase in available debt facilities and will have the opportunity to undertake capital management initiatives if appropriate.

At the same time, the synergies between the two businesses are expected to be preserved though the Partnership Agreements, including enabling Woolworths Group to continue to provide a seamless customer experience across supermarkets and liquor in Australia.

The Demerger will have other benefits (which are common to most demergers):

- greater board and management focus on each company's strategic objectives and priorities, enabling decision making appropriate to the risk/return profile of each business and specific operational and regulatory issues to be addressed in a timely manner;
- simplified decision making processes resulting in greater clarity and speed of decision making;
- enhanced ability to provide targeted management incentives that are directly related to the business under the respective management team's control;
- increased scrutiny (e.g. in terms of disclosure, public profile and interaction with analysts and investors) that should place additional pressure on management to perform and, in the longer run, lead to better outcomes; and
- flexibility for shareholders to choose their level of exposure to either the food and everyday needs business (i.e. Woolworths Group post Demerger) or the retail drinks and hospitality business (i.e. Endeavour Group) as they see fit.

Nevertheless, there are a number of risks, disadvantages and costs arising from the Demerger. The main risk of the Demerger is that the key Partnership Agreements and sublease arrangements between Endeavour Group and Woolworths Group post Demerger give rise to commercial risks that could adversely affect shareholders, even if they retain their shareholdings in both entities:

- Endeavour Group will be reliant on Woolworths Group for critical aspects of its business (e.g. IT support, supply chain and attached *BWS* stores). Failure by Woolworths Group to provide services at the expected level may have a material impact on Endeavour Group;
- there may be disputes under the agreements or they may not cover situations that emerge over the term of the relevant agreement;
- there may be divergence of interests or strategy, particularly as new management teams without the benefit of history take over; and
- extension of the Partnership Agreements beyond the initial term has not been formalised, so it is possible that any new terms could favour either party or either party could elect not to renew certain (or all) Partnership Agreements, which could disadvantage the other or both parties.

Essentially, while entry into the subleases was unavoidable in the circumstances, they mean that Endeavour Group does not have unfettered control over the subleased premises. There is a risk that a sublease is terminated, renewed or relocated and the result is not optimal for Endeavour Group.

While these risks are real, the Partnership Agreements generally reflect the internal arrangements that currently exist within Woolworths Group, and formalising the existing arrangements may encourage those involved to prioritise the partnership to ensure that it succeeds. Separate ownership may lead to more intense efforts to “make it work” whereas common ownership runs the risk of taking the success of the arrangements for granted. Ultimately, the success of the key Partnership Agreements and the sublease arrangements will rest on the individuals involved and their commitment to making the arrangements work. Further, the Partnership Agreements have been in place and operational since July 2020 and were subject to a review in January/February 2021. Neither Endeavour Group nor Woolworths Group identified any major issues with the operation of the agreements.

The main disadvantage of the Demerger is the loss of diversification and increased vulnerability to external shocks. While Endeavour Group and Woolworths Group post Demerger will both be very substantial businesses, the Demerger will result in two smaller and less diversified companies than Woolworths Group that will individually be less able to readily absorb the financial and business impact of significant adverse events as the events will have a greater relative impact (e.g. the impact of bushfires, drought, the COVID-19 pandemic, etc). Woolworths Group is less likely to be severely impacted as it operates in the consumer staples retail sector. While Endeavour Group will be the leading retail drinks and hospitality business in Australia, its exposure to the hotels sector is likely to make its performance more volatile than that of Woolworths Group or Woolworths Group post Demerger.

Other risks and costs of the Demerger (which are common to most demergers) include:

- transition and implementation risks associated with the separation of Endeavour Group from Woolworths Group at an operational level;
- the relationships between the new board and Endeavour Group management and the relationships within the board itself are untested. However, there is continuity and experience through the Woolworths Group and BMG representatives on the board and the experience of the CEO-elect;
- additional corporate and operating costs for Endeavour Group (estimated at approximately $47 million per annum) and stranded costs for Woolworths Group; and
- there will be one-off transaction and implementation costs which are estimated to be approximately $50 million (subsequent to 3 January 2021).

While these risks, disadvantages and costs of the Demerger cannot be disregarded, the risks and disadvantages are not outside the normal risks of any corporate restructuring transaction and/or have mitigating factors and the costs are not material in the overall context of the demerged entities.

Following the Demerger, Woolworths Group will hold a 14.6% interest in Endeavour Group and have a representative on its board. Given the integrated nature of Endeavour Group's retail drinks business with Woolworths Group, Woolworth Group's ownership interest and board representation may assist in maintaining a culture of collaboration, ameliorating any tensions as a result of having a better understanding of Endeavour Group's position and strategy and providing confidence in Endeavour Group as a standalone business. However there is no certainty that the investment or the board representation would, on its own, solve any significant issues that might arise in relation to the Partnership Agreements. While Endeavour Group will be a liquid investment listed on the ASX, the Woolworths Group investment could create a potential overhang and the relatively large size of the shareholding may make it difficult to sell quickly or in one line (although neither of these impacts have been evident in Wesfarmers retention of a 15% interest in Coles and the subsequent sale of 4.9% of this interest in February 2020 and a further 5.2% in March 2020). On balance, while Woolworths Group's investment in Endeavour Group is probably not critical, it may provide some benefits and is unlikely to be detrimental to either party.

The critical question is whether shareholders are likely to realise greater value over time if the Demerger is implemented than if Woolworths Group's current structure is maintained. The evaluation is essentially subjective. While the benefits are real, they are not quantifiable or testable. The benefits are, at least to some extent, a matter of perception. However, in Grant Samuel's view, the potential advantages of the Demerger outweigh the potential disadvantages. While implementation of the Demerger is not a guarantee of future performance, shareholders are ultimately likely to be better off if the Demerger proceeds.

6.3 Approach to Evaluation

Woolworths Group shareholders are being asked to split their current investment into two parts, a shareholding in Woolworths Group post Demerger and a separate shareholding in Endeavour Group.

The transaction is a "clean" split in so far as there is no change in the underlying economic interest of each shareholder (except for ineligible shareholders and selling shareholders). They will, in aggregate, continue to own 85.4% of the Endeavour Group business, but in a different form, with 70.8% held directly and 14.6% owned indirectly through their ongoing shareholding in Woolworths Group. There is:

- no purchase or sale of equity in either Endeavour Group or Woolworths Group to third parties;
- no value leakage to third parties from either entity; and
- not expected to be any adverse tax consequences for the separate entities and for the vast majority of Woolworths Group shareholders (see Section 6.8.2).

Accordingly, the Demerger is definitionally fair as shareholders (except ineligible shareholders and selling shareholders) will hold exactly the same underlying economic interests in the Endeavour Group business before and after the Demerger is implemented. Evaluation of whether the Demerger is in the best interests of shareholders therefore involves weighing up the advantages and disadvantages of the Demerger for shareholders. This involves judgements about the advantages and benefits such as strategic and financial flexibility and management focus weighed against the disadvantages, costs and risks such as duplicated operating costs and transaction costs, rather than analysis of quantifiable financial or other verifiable factors.

6.4 Rationale for the Demerger

Retail drinks has been part of Woolworths Group's business operations for approximately 60 years and was one of its first efforts to diversify its activities beyond supermarkets. Its first store with a limited liquor licence was acquired in Western Australia in 1960 and the business subsequently expanded to other states through a number of acquisitions including Victorian based *Dan Murphy's* in 1998, Langton's in 2009 and

Cellarmasters in 2011. *BWS* was established in 2001 and liquor stores attached to Woolworths supermarkets were rebranded to *BWS* in 2012.

Woolworths Group's entry into the hotel sector was the outcome of a desire to expand its retail drinks business into Queensland, where licensing laws require that retail liquor stores are operated by a hotelier. To facilitate its expansion, in 2001 Woolworths Group entered into a joint venture with BMG, a leading operator of hotels in Victoria (and others). The initial aim of the joint venture was to buy and operate hotels in Queensland, giving Woolworths Group an entry to the state's retail liquor market, as well as on-premises activities. Under the joint venture arrangement, Woolworths Group managed the retail liquor outlets and BMG had oversight of the hotel operations. The joint venture was highly successful, acquiring a portfolio of 31 hotels and 110 retail liquor outlets in three years. It subsequently expanded across Australia with the acquisition of Australian Leisure & Hospitality Group Limited in 2004 (133 hotels and 261 retail liquor outlets across five states, predominantly in Queensland and Victoria), and merged with certain hotel interests of the Mathieson family (to create ALH Group) in 2005. ALH Group continued to expand its hotel portfolio through numerous acquisitions including the Taverner Hotel Group (33 hotels across Victoria, South Australia and New South Wales), the Compass Hotel Group (12 hotels in Western Australia) and from the Laundy, Waugh, De Angelis and Bayfield Hotel Groups (29 hotels and 10 retail liquor outlets). Prior to the Restructure and Merger, ALH Group was 75% owned by Woolworths Group and 25% owned by BMG.

Recognising its growth potential, BMG has been keen to accelerate the growth of ALH Group's hotels business in the fragmented hotels sector. However, this desire has, at times, differed from the interests of Woolworths Group, which:

- had to prioritise investment in Australian Food and New Zealand Food (particularly in 2016 and 2017) to protect its market share from growing competition from Coles and international entrants, ALDI and Costco; and
- generally required investments or acquisitions undertaken by ALH Group's hotels business to be aligned with Woolworths Group's broader retail strategy. This included consideration of return on capital (Hotels generates lower return on funds employed than Australian Food), resulting in a lack of appetite for the acquisition of hotels without a retail liquor component and several hotel opportunities being deferred or foregone. Consequently, the number of hotel venues across the business has been broadly the same since 2013.

The Woolworths Group board determined that the growth objectives of ALH Group and the Woolworths Group's retail drinks business (given the shared *Dan Murphy's* and *BWS* banners) would be better achieved if they were separated from the food and everyday needs business but on a basis that preserved a seamless integrated offering for customers. As a result, in February 2020, Woolworths Group implemented the Restructure and Merger to create Endeavour Group. The Restructure and Merger brought together, under a single corporate structure within Woolworths Group, the retail drinks businesses owned by Woolworths Group and ALH Group (reported as Endeavour Drinks) (so that all *Dan Murphy's* and *BWS* stores are owned by a single entity) and ALH Group's hotels business. Endeavour Group is Australia's leading retail drinks (with 1,630 retail outlets) and hospitality (with 332 hotels) business and is 85.4% owned by Woolworths Group and 14.6% owned by BMG.

The Restructure and Merger to create Endeavour Group (and the subsequent separation of the combined entity) was determined to be the most viable option given the compatibility of both businesses and the Queensland liquor licensing requirements (which were not expected to change materially in the near future). While the approach of separating its supermarket and liquor operations is contrary to the situation in most of the rest of the world (where supermarket and liquor operations are typically fully integrated), an outright sale by Woolworths Group of its 75% interest in ALH Group would have resulted in part of the *Dan Murphy's* and *BWS* networks being owned by an independent third party. The Restructure and Merger enabled the existing integrated national liquor footprint to be retained. In any event, Woolworths Group retains its exposure to liquor in New Zealand (where liquor is sold in supermarkets).

Having made the decision to separate Endeavour Group, a number of alternative separation methods were available to Woolworths Group. These included:

- trade sale (to a global strategic acquirer or private equity);
- IPO (of 100% or with retention of a minority interest); or
- demerger (of 100% or with retention of a minority interest).

While it is inevitable that any proposal will involve some compromises and drawbacks, the board and management of Woolworths Group have considered each of these alternatives and determined that the Demerger is the most effective means of achieving its objectives.

A trade sale would have its attractions, particularly if there was an acquirer that could extract significant synergies, but:

- there are no obvious trade/strategic acquirers of Endeavour Group. It is a very substantial business and would be the largest Australian listed retail drinks and hospitality group. Broker valuations of Endeavour Group have been in the range $9.3-12.5 billion (enterprise value). A private equity funded acquisition is more likely, but an acquisition of this scale would require a consortium of financial investors and the universe of available co-investors may be limited by Endeavour Group's exposure to liquor and gaming (e.g. certain middle eastern sovereign wealth funds have restrictions on investments in liquor or gaming). A consortium of financial investors would also be likely to be heavily leveraged, increasing execution risk and the ability to maximise the acquisition price;
- a trade sale process would be protracted and disruptive and there would be no certainty of success. A failed trade sale process could have an adverse impact on the Endeavour Group business; and
- a trade sale would crystallise a significant capital gains tax liability for Woolworths Group and there would be tax leakage on any distribution of proceeds to shareholders.

In any event, there is no impediment to a trade sale taking place either before or after the Demerger. Woolworths Group has commented that it remains open to considering any proposal up until the Demerger is implemented. Endeavour Group will have an open share register except for the 14.6% interests that will be held by each of Woolworths Group and BMG, neither of which are subject to any escrow or retention arrangements, so an interested party could make a takeover offer or other change of control proposal. Since announcement of the Restructure and Merger and separation, Woolworths Group has received a number of preliminary, confidential and incomplete proposals from third parties in relation to the acquisition of Endeavour Group. However, Woolworths Group and the third parties were not able to reach agreement.

An IPO would be subject to significant uncertainty as to value and timing (or even achievability given the number of large Australian IPOs that have been pulled in the past 12 months and ongoing market volatility associated with the COVID-19 pandemic). It would be dependent on market conditions at the time as well as investor perception developed throughout the marketing program. In any event, the size of Endeavour Group is a significant impediment to a 100% IPO. A staged exit, with progressive sell downs over time, is more realistic, but would be wholly dependent on market conditions and pricing at each stage would inevitably reflect some discount. An IPO would also be subject to the same tax issues on the proceeds as a sale.

While a demerger would incur one-off costs and some dis-synergies, it has several advantages:

- it provides much more certainty of execution compared to the other options. The outcome is largely in the control of Woolworths Group;
- Woolworths Group shareholders are provided with the opportunity to retain exposure to the upside potential from realisation of significant growth opportunities by Endeavour Group. As a result of

Woolworths Group retaining a 14.6% interest in Endeavour Group, Woolworths Group will also benefit from this upside potential;

- it provides shareholders with ownership of Endeavour Group at its market value and, to the extent that shareholders wish to sell their Endeavour Group shares, they will receive the full market price (less brokerage costs) on sale and will (in general) have the flexibility to choose when to sell; and
- demerger tax relief should be available to Woolworths Group shareholders, deferring any tax payable until they sell any of their Endeavour Group shares (see Section 6.8.2).

Ultimately, the board settled on the Demerger of Endeavour Group as the preferred way forward. Woolworths Group has decided to retain a 14.6% interest in Endeavour Group given the ongoing commercial relationships with Endeavour Group. The advantages and disadvantages of Woolworths Group's retention of an interest in Endeavour Group are discussed in Section 6.7.1 of this report.

6.5 Advantages and Benefits of the Demerger

6.5.1 Strategic Flexibility

The Demerger will enable Endeavour Group and Woolworths Group post Demerger to pursue growth and strategic opportunities independently, whether by way of capital investment (new/renewal/refurbishment) programs, new business and product innovation, acquisitions or divestments.

Woolworths Group is a financially robust business with minimal leverage and strong cash flows. While it is not capital constrained, the reality is that there are always limits on capital investment and acquisitions financially as well as in terms of alignment with strategic priorities. Managerial and operational capacity to implement such initiatives efficiently with adequate oversight and control is also limited. Within almost any business, individual business units need to compete for these resources.

Just over $1 billion has been invested in the retail drinks and hospitality business over the past three and a half years (including the contribution from BMG in relation to its 14.6% interest in Endeavour Group) to open new stores and enhance the digital experience. Woolworths Group has directed the majority of its capital resources over this period (over $4 billion) towards the much larger (and higher return on capital) Australian Food division, which represents the vast majority of sales revenue and earnings and is the business of primary interest to many of Woolworths Group's institutional investors.

Within the Woolworths Group structure, Endeavour Group must compete to secure the capital required to take advantage of significant growth opportunities in the retail drinks and hotel hospitality sectors, including:

- further development of exclusive brands;
- pursuit of inorganic growth opportunities for retail drinks (such as vertical integration, especially through Pinnacle Drinks, or international expansion);
- consolidation of the highly fragmented hotels market, particularly where the hotels did not come with meaningful retail opportunities; and
- development opportunities across the existing hotel portfolio (e.g. one-off mixed use redevelopments).

As a standalone entity, Endeavour Group will have a significant degree of freedom and greater capacity and flexibility to pursue its own strategic agenda. Management of Endeavour Group intends to aggressively pursue these opportunities over the next few years.

The Demerger is a logical extension of Woolworths Group's strategy of transformation and building long term alliances and partnerships that extend the group's range and services. Woolworths Group post Demerger will have greater ability to:

- focus on its food and everyday needs businesses; and
- pursue other opportunities consistent with its retail ecosystem strategy,

while retaining the benefits of the integration of Endeavour Group (particularly for eCommerce, loyalty and marketing, *BWS* attached stores, supply chain and international distribution and supply) through partnership rather than ownership.

6.5.2 Financial Flexibility

Endeavour Group is being established with its own capital structure tailored to its operations and growth profile. A summary of Woolworths Group's existing borrowing facilities and the new external borrowing facilities to be entered into by Endeavour Group is set out below:

EXTERNAL BORROWINGS

	WOOLWORTHS GROUP ACTUAL (3 JANUARY 2021)			ENDEAVOUR GROUP PRO FORMA		
Type of borrowing	Syndicated facilities	Capital markets debt	Bank loans	Syndicated revolving facilities	Syndicated revolving facilities	Bilateral revolving facilities
Size	$2.0 billion	$1.9 billion	$1.5 billion	$1.0 billion	$0.9 billion	$0.6 billion
Initial term/maturity	up to 7 years	5-10 years	up to 5 years	5 years	4 years	3 years
Weighted average term to maturity	4.0 years	4.6 years	1.2 years	5 years	4 years	3 years

Source: Woolworths Group and Grant Samuel analysis

Woolworths Group does not expect to make any changes to its external borrowing facilities as a result of the Demerger. The Demerger does not trigger any change of business or change of control provisions that would enable its lenders to exit or renegotiate the existing facilities and any relevant consents will be obtained. The debt facilities put in place by Endeavour Group essentially represent access to "additional" funding capacity that will be available solely to meet the working capital requirements and fund growth opportunities for Endeavour Group (albeit these debt facilities will be drawn to $1.852 billion following repayment of the intercompany borrowings to Woolworths Group and recognition of a normal level of trade and other payables[95]). The smaller size of Endeavour Group's facilities relative to those of Woolworths Group largely reflect its size and different risk profile (with exposure to hotels), given that both businesses are highly cash generative. Woolworths Group post Demerger will benefit from an effective increase in its available debt facilities, subject to continuing to meet financial covenants, given it will no longer provide funding to Endeavour Group.

In addition to its available debt facilities, Endeavour Group will also have:

- access to a substantial portfolio of freehold properties to fund or pursue growth opportunities. At 3 January 2021, Endeavour Group had pro forma freehold properties with a carrying value of $592 million that it will be able to use to provide liquidity (e.g. through sale and leaseback) or as development opportunities; and
- greater ability and flexibility to pursue strategic opportunities such as scrip based mergers or acquisitions. Under the current structure such transactions are problematic:
    - vendors of retail drinks and hospitality businesses are unlikely to be attracted to scrip in Woolworths Group with its significant exposure to the Australian and New Zealand supermarket sector; and

---

95 Endeavour Group has a seasonally high level of trade and other payables which is offset by a seasonally low level of intercompany borrowings at 3 January 2021 due to the impact of the Christmas and New Year holiday trading period.

- alternatively, Woolworths Group receiving a scrip interest in a merged entity through the sale of Endeavour Group that is then locked up under Woolworths Group ownership may not be attractive to Woolworths Group or its shareholders (and, in any event, is considered highly unlikely).

In contrast, scrip in a pure retail drinks and hospitality business such as Endeavour Group may be highly attractive to vendors (and Endeavour Group will have some ability to include cash in the mix). In an environment where:

- Endeavour Group will be the only significant listed retail drinks and hospitality business in Australia; and
- there is an expectation of consolidation in the highly fragmented Australian hotels market,

this flexibility may be very valuable for shareholders.

Woolworths Group post Demerger will have minimal gearing and conservative leverage ratios. It is intended that the repayment of the intercompany borrowings by Endeavour Group will be held in cash (at least initially), providing Woolworths Group with the opportunity to undertake capital management initiatives (e.g. share buybacks, special dividends) if appropriate. Woolworths Group's capital management strategy is to return capital to shareholders when this is consistent with its long term capital structure objectives and where it will enhance shareholder value.

6.5.3 Board and Management Focus

The Demerger will result in the creation of two companies with separate boards and senior management teams focused on their respective businesses. The board and management of each company will be able to focus on their business' strategic objectives and priorities, make decisions appropriate to each business' risk/return profile and address specific operational and regulatory issues in a timely manner.

Under Woolworths Group's current structure, the time of the Woolworths Group board needs to be divided between each of the businesses and may not always be reflective of the size and earnings of the business. As a standalone entity, Endeavour Group, in particular the Hotels business, will be more relevant and will by definition get more attention. Similarly, while the management teams of the Australian Food, New Zealand Food and Endeavour Group divisions currently operate largely independently from each other, Woolworths Group's CEO and other senior head office functions need to split their time between the businesses.

Woolworths Group post Demerger should also benefit from a dedicated board and management team that can focus on the supermarkets business and is not distracted by the operating, legal and regulatory demands of Endeavour Group. In particular, Woolworths Group post Demerger should be able to better execute against its core strategy to build a retail ecosystem leveraging its assets, customer loyalty and data.

6.5.4 Simplified Structure and Decision Making

While a simpler corporate structure was in part achieved through the Restructure and Merger, Endeavour Group remains a jointly owned subsidiary (i.e. the position is essentially the same as prior to the Restructure and Merger). Decision making processes remain complicated by BMG's interest in Endeavour Group in that key decisions will involve each of Endeavour Group, Woolworths Group and BMG management and the Woolworths Group board. Inevitably, this results in longer decision making processes and the potential for conflict. As part of Woolworths Group, Endeavour Group is also subject to the same operating procedures (e.g. terms of trade), a number of which are not necessarily appropriate for the smaller Endeavour Group business.

The Demerger will simplify the decision making process as decision making will only involve Endeavour Group management and the board. The Demerger should therefore lead to greater speed of decision making which can be important in taking advantage of investment opportunities. It will also simplify Endeavour Group's dealings with suppliers, staff and other stakeholders as operating procedures can be tailored to the specific requirements of Endeavour Group.

In the case of Woolworths Group post Demerger, there is arguably little or no change. However, as oversight of the Endeavour Group business will become the responsibility of the Endeavour Group board (albeit Woolworths Group will have a representative on the Endeavour Group board), the Woolworths Group board and management will no longer have the distraction of the Endeavour Group and dealing with the jointly owned subsidiary and should be able to give greater attention to the remaining businesses. It should also benefit from being able to remove a layer of management and communication, which should result in greater clarity and speed of decision making.

6.5.5 Management Incentives

The Demerger will enable each of the companies to align management remuneration and incentives more closely with the financial performance of the business that is directly under the respective management team's control and the consequent share price performance. At present, equity based incentive schemes in Woolworths Group mean that remuneration for senior management in either Australian Food or Endeavour Group is impacted by the performance of the other business (for better or worse). The more targeted regime achievable under the Demerger is expected to create a more transparent link between management performance and remuneration and better align the interests of shareholders and management.

While the evidence is inherently anecdotal, previous demerger transactions indicate that the cumulative effect of these factors will be improved management performance over time.

6.5.6 Increased Scrutiny

The Demerger should increase the incentives for the boards and management of the demerged companies to improve performance. Analysts and investors will be focused on the performance of each business separately and the board and management will be directly answerable to investors. As a separate listed company, Endeavour Group will come under a much greater level of scrutiny including:

- higher levels of financial disclosure (compared to being a business segment of Woolworths Group);
- a higher public profile;
- focused research by analysts;
- regular interaction between management (and potentially board members) and analysts and institutional investors (e.g. during financial results roadshows); and
- annual general meetings.

In theory, all of this focus should be able to occur under the current structure. Woolworths Group discloses detailed performance data for each business. However, the reality is that, in practice, separation generally brings a greater intensity. Each company will also be obliged to fund future growth from its own resources, providing additional discipline on capital and operating expenditure.

While it is not possible to establish any direct or measurable link, it is not unreasonable to believe that this increased scrutiny will put additional pressure on management to perform which should, in the longer run, lead to better outcomes.

6.5.7 Shareholder Flexibility

Immediately following the Demerger, Woolworths Group shareholders (except ineligible shareholders and selling shareholders) will retain their existing economic exposure to Woolworths Group's assets by holding both Endeavour Group and Woolworths Group shares. Shareholders' interests will simply be split in two (albeit with part of the retail drinks and hospitality exposure held via Woolworths Group post Demerger). The Demerger will therefore provide shareholders with increased flexibility to manage their investment exposures to each company.

Notwithstanding that both businesses operate predominantly in the broader retail sector, the two entities will have different investment characteristics and it is likely that they will appeal to different sets of investors:

- Endeavour Group will provide investors with an exposure to the retail drinks and hotel hospitality sectors which generate higher margins and have greater growth potential. However, the earnings profile of Endeavour Group could potentially be more volatile as it is heavily regulated (with regulation varying from state to state) and any change in the regulatory environment can materially impact the profitability of the business; and
- Woolworths Group post Demerger will provide exposure to a lower growth, but stable and defensive retail food business with strong market positions in Australia and New Zealand, no exposure to gaming[96] (which may have deterred some investor interest in the combined entity) and steady dividend payments supported by its strong cash generation.

At present, Woolworths Group shareholders by definition have an exposure to both businesses. They cannot make their own investment decision between these exposures, their only alternative is to have no exposure at all. Following the Demerger, shareholders will be able to make their own investment exposure decisions and shift their relative exposures between the two businesses as they see fit. The higher growth potential of Endeavour Group is likely to appeal to investors seeking capital growth, while Woolworths Group post Demerger with its stable and defensive cash generation would attract yield focused investors. The ability to make more precisely targeted investments into these businesses should also be attractive to investors who wish to invest in specific sectors and may attract investors who would not choose to invest in Woolworths Group in its current form.

Woolworths Group post Demerger's retention of a 14.6% interest in Endeavour Group does "muddy the waters" for shareholder flexibility and attractiveness to investors in some respects, but the retained investment is immaterial in the overall context of Woolworths Group post Demerger's overall operations and will be treated as an equity accounted investment for accounting purposes.

6.5.8 Additional Advantages

Section 1.3 of the Demerger Booklet details a number of other perceived advantages of the Demerger. Shareholders should consider these factors in making a decision on whether to vote for the Demerger.

6.5.9 Other Typical Advantages of Demergers

The relative size of Endeavour Group means that some of the typical advantages of demergers (set out in Section 4 of this report) do not apply to the Demerger:

- the Demerger does not result in any substantial improvement for Endeavour Group in terms of transparency. Woolworths Group has reported Endeavour Group's predecessor business segments (Endeavour Drinks and Hotels) as separate segments since FY16 (Endeavour Drinks) and FY05[97] (Hotels). A significant amount of information on Endeavour Group is already disclosed by Woolworths Group, including:
  - sales revenue split between retail drinks and hospitality; and

---

96 Other than through the retained 14.6% interest in Endeavour Group.

97 FY05 is the 52 weeks ended 26 June 2005.

- key financial metrics such as gross margin, sales per square metre, ROFE, total sales revenue growth and comparable sales growth (quarterly), online sales, sales growth and penetration, store (freestanding and attached)/hotel numbers and gross and net store/hotel openings, renewals/refurbishments and trading area.

While a separately listed Endeavour Group will inevitably provide more information (and with greater granularity), the market already has access to sufficient information to enable assessment of Endeavour Group's performance and outlook (and comparison to its peers); and

- the Demerger is also unlikely to result in any increase in takeover potential for the demerged entities. Endeavour Group and Woolworths Group post Demerger will be substantial entities, and both will be among the 50 largest companies listed on the ASX based on market capitalisation. The size of both entities will be a deterrent to any takeover.

6.6 Risks, Disadvantages and Costs of the Demerger

6.6.1 Ongoing Risks from Key Partnership Agreements and Sublease Arrangements

As part of the Demerger, future commercial dealings between Endeavour Group and Woolworths Group post Demerger will be governed by key Partnership Agreements (see Section 1). In addition, there are sublease arrangements in place for certain retail stores (where a *BWS* or *Dan Murphy's* store occupies premises leased to Woolworths Group).

Services provided under the Partnership Agreements (including IT support, supply chain, attached *BWS* stores, loyalty and fintech, eCommerce, international distribution and other business support services) generally reflect the internal arrangements that currently exist within Woolworths Group in relation to the operation of the retail drinks business. The majority of services will be provided at cost but in some instances, will include a margin (e.g. payments, eCommerce). The agreements run for two to five (or more) years but the commercial terms (other than term) of some Partnership Agreements (e.g. eCommerce and loyalty) can be reviewed midway through the term.

The commercial agreements are intended to allow each group to focus on its core strengths while obtaining the mutual benefits from a strong working partnership (including enabling Woolworths Group to continue to provide a seamless customer experience across supermarkets and liquor in Australia).

Such arrangements give rise to a number of commercial risks that could adversely impact shareholders even if they retain their shareholdings in both entities:

- while the Partnership Agreements should enable Woolworths Group to maintain a seamless customer interface and Woolworths Group post Demerger will have representation on the Endeavour Group board, Woolworths Group post Demerger will not control Endeavour Group's strategy and there is the potential that Endeavour Group's strategy will not align with the interests of Woolworths Group over the long term;
- Endeavour Group will be reliant on Woolworths Group's performance under key Partnership Agreements for critical aspects of its business (e.g. IT support, supply chain and attached *BWS* stores). Failure by Woolworths Group to provide services at the expected level may have a material impact on Endeavour Group. The cost of these services is around $564 million annually;
- there could be disputes under the agreements or they may not cover situations that emerge over the term of the relevant agreement. Disputes involving two public listed companies will inevitably be more difficult to resolve than disputes between Woolworths Group and its unlisted subsidiary and could be detrimental to the performance or reputation of either or both businesses and a distraction for management;

- there could also be divergence of interests or strategy (particularly as new management teams without the history of the current management teams takeover) and this divergence of interests is almost inevitable over time; and
- extension of the Partnership Agreements beyond the initial term has not been formalised. It is possible that:
  - any new terms agreed could favour one party or the other to a significant degree; and
  - either party could elect not to renew certain (or all) Partnership Agreements, which could disadvantage the other or both parties.

More generally, the two companies as separate listed entities could fail to fully exploit the mutual benefits of the partnership.

All of these risks are real, but:

- the Partnership Agreements generally reflect the internal arrangements that currently exist within Woolworths Group in relation to the operation of the retail drinks business rather than a whole set of "new" arrangements (albeit that they are on a more formal and comprehensive basis);
- formalising the existing arrangements with an external third party (rather than the arrangements being internal) may encourage those involved to prioritise the partnership to ensure that it succeeds (rather than just taking it for granted). Indeed, some of the Partnership Agreements (e.g. payments, eCommerce) include incentives (i.e. margins) to ensure the partnerships work effectively and help both businesses to grow;
- self interest normally drives parties to reach sensible commercial agreement on business relationships that are mutually beneficial;
- Woolworths Group post Demerger's continuing 14.6% shareholding in Endeavour Group (and board representation) may assist in ensuring that:
  - both companies continue to seek to maximise the value of the relationships; and
  - disputes are dealt with having regard to common goals;
- it is unlikely that the agreements will not be renewed if they are providing mutual benefits to both parties (and if they are not, the end of the initial term provides an opportunity to revise those terms so that they are mutually beneficial); and
- longer term contracts that lock parties into pricing or other terms make little sense in the rapidly changing retail environment and changing customer needs.

Subleases between Woolworths Group and Endeavour Group commenced on 3 February 2020 and have initial terms of five to 12 years (to align with the term of the relevant head lease). While entry into subleases was unavoidable in the circumstances, they do give rise to some risks that would not exist if Endeavour Group was a party to a separate head lease for the relevant retail stores. For example:

- the sublease automatically terminates if the head lease is terminated or surrendered for any reason;
- where a head lease includes an obligation to trade as a liquor store, Endeavour Group is obliged to exercise its option to renew a sublease if Woolworths exercises its right to renew the lease;
- while Endeavour Group is the beneficial owner of the liquor licence, it can only vary the terms and conditions of the liquor licence with Woolworths Group's consent (which cannot be unreasonably withheld or delayed); and
- if the head lease allows Woolworths Group to relocate the premises, Endeavour Group must relocate the liquor premise so that it continues to form part of the supermarket premises (unless Endeavour

Group, acting reasonably, considers that the area, access, amenity of the proposed liquor premises or the payment terms for recovery of its relocation costs are not acceptable, in which case it may surrender the sublease for the liquor premises without penalty).

Essentially, the sublease arrangements mean that Endeavour Group does not have unfettered control over the subleased premises. There is a risk that a sublease is terminated, renewed or relocated and the result is not optimal for Endeavour Group.

Ultimately, the success of the key Partnership Agreements and the sublease arrangements will rest on the individuals involved and their commitment to making the arrangements work.

In addition, in anticipation of separation, the Partnership Agreements have been in place and operational since July 2020 and were subject to a review in January/February 2021. Neither Endeavour Group nor Woolworths Group identified any major issues with the operation of the Partnership Agreements.

6.6.2 Vulnerability to External Shocks

The Demerger will result in two smaller and less diversified companies than Woolworths Group. Definitionally, this means that each will be individually less able to readily absorb the financial and business impact of significant adverse events as the events will have a greater relative impact. These adverse events might include, for example, the impact of bushfires, drought, the next equivalent of the COVID-19 pandemic, etc.

Woolworths Group is less likely to be severely impacted as it operates in the consumer staples retail sector, which has defensive investment characteristics and is less volatile than other retail and market sectors. It is therefore less prone (although not exempt from) shock events. Endeavour Group will be the leading retail drinks and hospitality business in Australia. However, its exposure to the hotels sector is likely to make its performance more volatile than that of Woolworths Group or Woolworths Group post Demerger. The impact of adverse events on Endeavour Group, in particular, has been witnessed during the COVID-19 pandemic, when the closure of pubs and clubs forced deferral of the original separation process.

However:

- Endeavour Group and Woolworths Groups will both be very substantial businesses. Endeavour Group had pro forma FY20 sales revenue of $10.6 billion and pro forma FY20 EBIT of $693 million[98] and Woolworths Group post Demerger had pro forma FY20 sales revenue of $53.1 billion and pro forma FY20 EBIT of $2.5 billion;
- Endeavour Group's largest exposure is to retail drinks which has similar characteristics to the consumer staples sector;
- Woolworths Group post Demerger will have a pro forma net cash position and Endeavour Group will have moderate pro forma gearing of 24.8% (before leases) (27.4% after adjusting for seasonality). Endeavour Group's pro forma gearing is not materially different to its gearing prior to the Demerger of 21.6%. Endeavour Group and Woolworths Group post Demerger will have pro forma FY20 interest cover ratios of 3.2 times and 3.7 times respectively. These interest cover ratios are not particularly conservative but are impacted by long term leased assets. The comparable interest cover ratios excluding leases are around 16.6 times for Endeavour Group and around 14.4 times for Woolworths Group post Demerger. Woolworths Group post Demerger will have a conservative leverage ratio (including leases) of 2.5 times. While Endeavour Group will have a higher leverage ratio (of 4.4 times or 4.5 times after adjusting for seasonality), this ratio is also impacted by long term leased assets (Endeavour Group has a weighted average lease term of 12.6 years compared to Woolworths Group post Demerger of 10.1 years as hotel leases tend to be longer than other retail leases) and the impact

98 Endeavor Group's pro forma FY20 EBIT was impacted by the COVID-19 pandemic. Pro forma EBIT in FY18 and FY19 was around $860-880 million.

of the COVID-19 pandemic on EBITDA over the last 12 months. Endeavour Group's comparable leverage ratio before leases is 1.8 times (or 2.0 times after adjusting for seasonality) and is 1.4 times (or 1.6 times after adjusting for seasonality) based on FY19 EBITDA which was not impacted by the COVID-19 pandemic. These ratios are indicative of capital structures that have the ability to withstand significant adverse events; and

- both Endeavour Group and Woolworths Group should have access to equity markets to raise additional equity capital if necessary.

6.6.3 Transition and Implementation Risks

Any separation of two organisations is a complicated exercise at an operational level. There are inevitably risks relating to the implementation of the Demerger, including:

- delays and increased costs in achieving legal and practical separation of the businesses, including a full business support service capacity for Endeavour Group;
- failure to obtain any third party consents required as a result of triggering change of control clauses in supplier or service contracts or property leases;
- disruption and management distraction during the implementation period; and
- retention of key management personnel.

Grant Samuel does not regard these risks as being outside the normal risks of any corporate restructuring transaction. In any event:

- Endeavour Group is already established as a separate business with its own management team and premises. The operational separation largely relates to corporate office functions, shared infrastructure (i.e. IT) and the restructuring of group wide arrangements and there are dedicated teams in place to isolate these activities from the operation of the core business;
- Woolworths Group and Endeavour Group have assessed the need to obtain consents from key suppliers and lessors. The process has been completed in relation to key suppliers and is underway for lessors and Woolworths Group and Endeavour Group consider that the risk of disruption as a result of a consent being validly withheld is unlikely to be material; and
- there are Partnership Agreements which provide for the sharing of business support services for a period post the Demerger. This should facilitate the smooth establishment of standalone support services capacity at Endeavour Group over time.

6.6.4 Newly Formed Board

Endeavour Group will be a new standalone ASX listed company with a new board of directors including a number of recently appointed non-executive directors. The relationships between the new board and Endeavour Group management and the relationships within the board itself are untested and, inevitably, there is a risk that it does not work as planned. In addition, certain of the senior management of Endeavour Group (including the CEO-elect) do not have previous experience in their roles in a public listed company. However:

- the board will have continuity and experience with the business through the appointment of:
  - Holly Kramer as Woolworths Group's representative on the Endeavour Group board. Ms Kramer has more than 25 years' experience in executive management, marketing and sales and has been on the Woolworths Group board since February 2016;
  - Bruce Mathieson (Senior) as BMG's representative on the Endeavour Group board. Mr Mathieson (Senior) is the founder of BMG and has over 45 years' experience in the hotels

business. He is a director of BMG, other privately held companies and ASX listed Mayne Pharma Group Limited (since February 2007), was previously a director of ALH Group and is an existing director of Endeavour Group; and

- Colin Storrie as a non-executive director. Mr Storrie is currently the Managing Director of New Business and Partnerships at Woolworths Group but his role as an executive at Woolworths Group will conclude on 27 June 2021. He has held various senior roles at Woolworths Group since 2015 and is an existing director of Endeavour Group;

- the Chairman, Peter Hearl, is an experienced ASX50 director. He is currently a non-executive director of Telstra Limited and Santos Limited and was previously a non-executive director of Treasury Wine Estates Limited and Goodman Fielder Limited. He has also held several senior executive leadership roles in the hospitality and food and beverage sector, including PepsiCo Restaurants International and YUM! Brands Incorporated;
- the CEO-elect, Steven Donohue, has been with Woolworths Group for over 25 years and has held numerous leadership roles across Woolworths Group in food, drinks and hospitality, including as Managing Director of Endeavour Drinks since April 2018;
- while Shane Gannon has only recently been appointed as CFO of Endeavour Group, he is an experienced public listed company CFO, having previously held the position of CFO at Mirvac Group, Goodman Fielder Limited and CSR Limited. He also has extensive experience in the property industry through his role at Mirvac as well as 10 years with Lendlease Group where he held a number of finance executive roles. This experience will be relevant to the strategic opportunities for Hotels; and
- more than half of the other key members of the Endeavour Group senior management team have been with Endeavour Group (or its antecedent entities) for at least 10 years.

The Demerger has implications primarily for the management of Endeavour Group and any organisational change involves some degree of risk. However, change is a regular part of corporate development and any negative impact is unlikely to be material.

6.6.5 Additional Corporate and Operating Costs

The Demerger will result in the loss of the financial benefits of operating the two businesses under a single corporate structure. These benefits are largely derived from operating a corporate head office and the central provision of a number of administrative functions.

Although the businesses already operate independently in many respects, they currently share infrastructure and corporate overheads in addition to costs related to being a listed company. While certain services will be covered by short term Partnership Agreements for a period, ultimately each of the demerged companies will have to support these overheads from its own resources.

Following the Demerger, Endeavour Group will incur additional corporate and operational costs including:

- costs associated with listing Endeavour Group on the ASX such as listing fees, share registry, annual reports, shareholder communications, legal and regulatory compliance, board of directors and secretarial;
- a separate executive team;
- funding facilities;
- insurance costs; and
- other corporate functions to support a standalone listed company.

These incremental costs are estimated by Woolworths Group to be approximately $47 million per annum.

In addition to these incremental corporate and operating costs, Woolworths Group may incur stranded costs (i.e. costs that were allocated to Endeavour Group prior to the Demerger relating to shared services that will remain with Woolworths Group and will not be provided to Endeavour Group on an ongoing basis). These potential stranded costs have not been quantified. However, Woolworths Group intends to mitigate and reduce some portion of the impact of the stranded costs over time. The Partnership Agreements are expected to minimise stranded costs for Woolworths Group arising from the Demerger.

6.6.6 One-Off Transaction and Implementation Costs

Woolworths Group estimates that costs of implementing the Demerger (subsequent to 3 January 2021) will total $50 million on a before tax basis. These costs include external consulting and adviser fees, costs associated with regulatory requirements, fees associated with the ASX listing of Endeavour Group and other costs, and are in addition to approximately $230 million of costs incurred in FY20, predominantly in relation to the Restructure and Merger. Approximately $25 million of the total costs of $50 million will have been incurred prior to the Woolworths Group shareholders' meeting to approve the Demerger. Therefore, additional costs to be incurred if the Demerger proceeds are approximately $25 million. All of these transaction costs are being paid by Woolworths Group. It is not expected that Endeavour Group will incur any material additional one-off separation costs to allow it to operate as an independent entity.

The total one-off transaction costs (before tax) of the Demerger are not significant, representing less than 0.1% of Woolworths Group's current market capitalisation.

There is a risk that total transaction and implementation costs could exceed the estimate of $50 million (before tax). However, any excess is unlikely to be material in the context of Woolworths Group as a whole.

6.6.7 Additional Disadvantages and Risks

Sections 1.4 and 1.5 of the Demerger Booklet detail a number of other disadvantages and risks relating to the Demerger and investment in Endeavour Group and Woolworths Group post Demerger. Shareholders should consider these factors in making a decision on whether to vote for the Demerger.

6.6.8 Other Typical Disadvantages of Demergers

The relative size of Endeavour Group means that some of the typical disadvantages of demergers (set out in Section 4 of this report) do not apply. The Demerger is unlikely to have any material impact, for Endeavour Group or Woolworths Group post Demerger, on market liquidity:

- Endeavour Group and Woolworths Group post Demerger will be substantial listed companies, with both among the 50 largest companies listed on the ASX;
- for index tracking or benchmarked investors, Woolworths Group post Demerger and Endeavour Group are both expected to be included in all relevant indices (S&P/ASX 50, S&P/ASX 100 and, most importantly, the S&P/ASX 200), even after allowing for the retained interests in Endeavour Group held by Woolworths Group and BMG (collectively almost 30%) which would not be included in the free float. The aggregate market capitalisation included in the indices will, all things being equal, be the same. Consequently, there should be no forced selling by index investors;
- both companies operate in the broad retail sector. Existing investors were, by definition, happy to be exposed to both businesses as each represents a significant proportion of Woolworths Group and were therefore a fundamental feature of any investment. There is no obvious reason for there to be a high level of selling of either entity by existing investors although it could be argued that there is more likely to be some pressure on Endeavour Group given its exposure to liquor and gaming; and
- there may be some short-term impacts, but the net effect on overall demand is likely to be minimal. For example:

- selling by holders of small parcels of Endeavour Group shares, although the sale facility made available to Woolworths Group shareholders who individually hold 800 or fewer Woolworths Group shares will allow these Endeavour Group shares to be placed with investors in a more structured manner that should minimise any impact on the Endeavour Group share price;
- there are reasons to expect that there may be some level of “new” demand for Woolworths Group post Demerger shares, particularly from environmental, social and governance (“ESG”) and socially responsible investment (“SRI”) focused investors who want to participate in the defensive supermarket sector, but were deterred from investing in Woolworths Group because of its exposure to liquor and/or gaming; and
- there may be demand for Endeavour Group shares given it will be the only significant pure listed retail drinks and hospitality business in Australia with a number of attractive features, including its strong market position in the highly fragmented hotels sector with potential for consolidation, vertically integrated retail liquor business with a strong national footprint and growing digital platform and substantial real estate and land bank with significant redevelopment potential.

6.7 Other Considerations

6.7.1 Market Value

For any demerger to be in the best interests of shareholders it must ultimately be expected to enhance shareholder value relative to the status quo (albeit that this can never be proven in hindsight given the absence of a counterfactual).

Sometimes, it is expected that a demerger will create value immediately or in the very short term because the market is believed to be mispricing the existing combined business for some reason. For example, one of the businesses, often a smaller business, is not being closely scrutinised and may warrant a higher multiple than the group but is just rolled up in the overall multiple applied to the dominant business. This undervaluation may also occur where a business unit is loss making or in the early stages of development and therefore not contributing to group earnings.

Similarly, adverse market attitudes to the “core” business may be tainting all of the businesses in a group in terms of value parameters (or vice versa).

These arguments tend to be less prevalent when the listed company is relatively large (and therefore closely followed and scrutinised by a range of analysts and sophisticated investment institutions) and both businesses are substantial contributors in which case disclosure rules mean that investors have reasonably detailed information on the performance of, and outlook for, each of the businesses. Analysts (and others) can easily undertake a comprehensive “sum of the parts” valuation.

Accordingly, as most larger entities enjoy a well informed and liquid market, the arguments for a demerger are typically not so much about immediate value uplifts but rather around the incremental value expected to be created in the future through factors such as enhanced strategic and financial flexibility, management and board focus, better alignment of incentive structures in remuneration, and increased takeover potential (over and above incremental costs). In these situations the incremental value emerges only over time although there is often a small “bump” at the time of announcement (effectively a risk adjusted present value market estimate of the benefits).

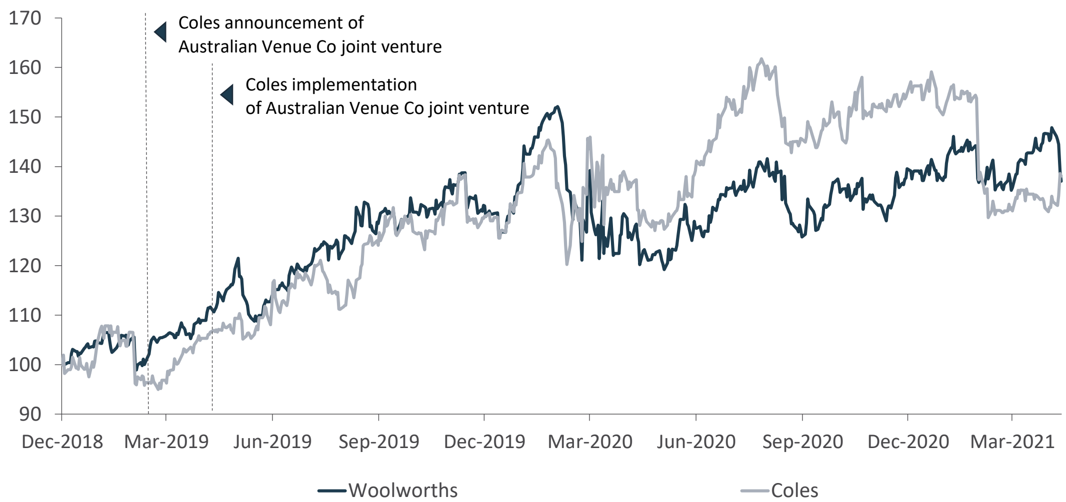
In the case of Woolworths Group the case for any market re-rating is not strong:

- prior to the Demerger, Woolworths Group was capitalised at approximately $50 billion and was ranked among the top 10 companies listed on the ASX. It receives close scrutiny from investment analysts and fund managers as it is the largest listed supermarket business in Australia;

- there is already a significant level of disclosure in relation to Woolworths Group and its underlying businesses. Woolworths Group discloses financial performance (sales revenue, EBITDA, EBIT, average funds employed, etc) by business division; and
- there is no reason to believe that Woolworths Group's share price is not a true reflection of the fair market value of Woolworths Group's businesses, or that it has traded at a discount relative to its major competitor, Coles, since Coles listed on the ASX (even subsequent to Coles establishing the joint venture with Australian Venue Co that effectively removed hotels from its remit):

WOOLWORTHS GROUP VS COLES SHARE PRICE

DECEMBER 2018 TO APRIL 2021



Source: IRESS
Note: Share prices have been rebased to 100 from 19 December 2018, four weeks after Coles listed on the ASX on 21 November 2018, to allow a period for the Coles share price to settle following its listing. The Coles share price was particularly volatile during this period, reaching a high of $13.30 in its first week of trading and a low of $11.26 the following week, before settling at around $11.80.

While there have been periods of underperformance/outperformance by both companies (e.g. outperformance by Coles in late February-early March 2020 at the start of the global equities market correction associated with the COVID-19 pandemic), the differential in share price performance has not been material or sustained.

There are arguments that suggest that the separate companies could be rated more highly by the market following the Demerger (i.e. the aggregate market capitalisations of the separate companies may exceed the current market capitalisation of Woolworths Group, all other things being equal):

- as a separately listed company, Endeavour Group will have a higher level of visibility to the investment community. It will be the only Australian listed retail drinks and hospitality company of any magnitude;
- the success, or otherwise of Endeavour Group's ability to participate in the significant growth opportunities in the retail drinks and hotel hospitality sectors will be more transparent and assume greater relative importance;
- compared to Woolworths Group, Woolworths Group post Demerger will benefit from:
  - a more focused business (and potentially, better execution against its core strategy);
  - a simplified organisation structure; and
  - financial flexibility; and

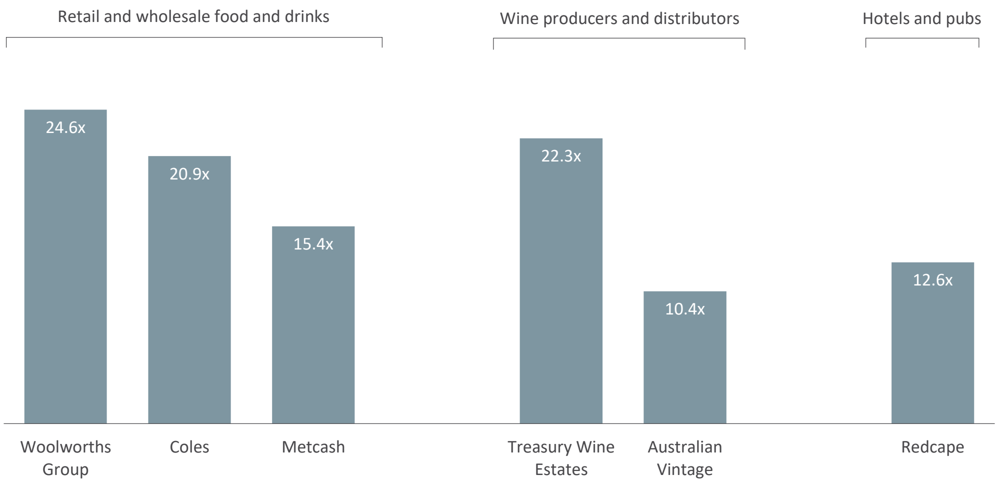
- the marginal (i.e. price setting) investors in both entities should be those investors that value the respective businesses most highly.

The question of where Endeavour Group shares might trade is a difficult one given its particular characteristics:

- while it is a retail drinks and hospitality business, retail drinks represents the vast majority of sales revenue and earnings (88% of FY20 pro forma sales revenue and 77% of FY20 pro forma EBIT). Consequently, it is exposed to the same key drivers (population and consumption growth) and defensive characteristics (an earnings profile that is resilient through economic cycles) as Woolworths Group;
- Endeavour Group will be the only significant Australian listed company with exposure to both the retail drinks and hotel hospitality sectors and the ability to benefit from the synergies of operating both businesses. There is no listed company in Australia or internationally that is directly comparable to Endeavour Group:
  - in Australia, the closest comparable companies for Retail are Woolworths Group, Coles and Metcash Limited ("Metcash") as well as Treasury Wine Estates Limited ("Treasury Wine Estates") and Australian Vintage Limited ("Australian Vintage") (for the Pinnacle Drinks business) and Redcape Hotel Group ("Redcape") for Hotels:

ENDEAVOUR GROUP – COMPARABLE COMPANIES

FORECAST FY22 PRICE EARNINGS MULTIPLES



Source: S&P Global Market Intelligence
Note: Based on share prices at 30 April 2021

Woolworths and Coles trade at very high forecast FY22 price earnings multiples (of 20-25 times), but this reflects their scale (with market capitalisations of $50 billion and $22 billion respectively) and leading positions in the Australian retail food market. Metcash trades at a lower multiple of 15.4 times, reflecting a combination of its smaller scale (market capitalisation of $3.6 billion) and its operations as a wholesaler (rather than retailer) of food, drinks and hardware. Wine producers and distributors and hotels and pubs businesses generally trade at lower multiples. Redcape's trading multiple of 12.6 times reflects its relatively small scale (market capitalisation of $560 million), geographical concentration (32 pubs and hotels and 23 bottle shops in New South Wales and Queensland) and higher gearing (36% excluding leases) and its share price has not yet recovered to pre COVID-19 levels given its exposure to the hotels sector. Treasury Wine Estate's higher multiple reflects its larger size (market capitalisation of $7.2 billion compared to $205 million for Australian Vintage) and lower gearing (10% compared to 14%, excluding lease assets and liabilities). While Treasury Wine Estate's share price had been adversely impacted by challenging market conditions in the United States, a provisional anti-dumping measure on imports of certain categories of wine from Australia into China and the COVID-19 pandemic, it has partially recovered due to greater confidence in the reallocation of its premium wine range from China to other markets, a turnaround in the performance of its United States business, the announced divestment of its commercial brand portfolio in the United States and recent takeover speculation.

Endeavour Group is smaller than Woolworths Group and Coles, but larger than Metcash, and is a retailer so would be expected to trade at higher multiples than Metcash. Pinnacle Drinks is only a very small part of Endeavour Group's business and provides the benefits of vertical integration (e.g. higher margins). Redcape does not have the scale and geographical diversification of Endeavour Group's hotels business. Endeavour Group would be expected to trade at higher multiples than Australian Vintage and Redcape; and

- international comparable companies are exposed to different operating and regulatory environments. The international retail drinks market is highly fragmented with many businesses being family owned or independently operated. In addition, most overseas jurisdictions (including New Zealand) allow the sale of alcohol in convenience stores and supermarkets. As a result, there are no listed pure retail drinks companies. Different regulatory environments also make comparisons across markets more difficult.

It is difficult to draw any definitive conclusions from the available market evidence, particularly taking into account Endeavour Group's relative size, mix of business, gearing and growth outlook.

In any event, the actual trading price of Endeavour Group and Woolworths Group post Demerger shares is uncertain and will depend on a range of factors at the time of listing including:

- equity market conditions (particularly the current volatile market conditions);
- economic conditions (including the effects of the COVID-19 pandemic and temporary government stimulus packages on employment and household incomes);
- interest rates;
- factors specific to each company including:
  - operating performance;
  - the ability to successfully achieve growth and to identify and pursue investment opportunities;
  - market perceptions about earnings prospects;
  - the effectiveness in communication by each company of its strategy and prospects to analysts, institutional investors and other market participants; and
  - differentiating factors between the companies and their peers.

On balance, Grant Samuel believes it is unlikely that there would be any immediate material value gain through re-rating. Incremental value for shareholders is more likely to be realised over time either through improved performance (relative to the status quo), successful execution of the growth strategy (for Endeavour Group) or through a realisation event such as a takeover (albeit a takeover is considered unlikely given the size of both companies). Equally, it is unlikely that there will be a diminution in value because of factors such as incremental costs.

6.7.2 Funding Costs

The Demerger is not expected to have any impact on the funding costs of Woolworths Group post Demerger relative to Woolworths Group prior to the Demerger:

- the existing debt facilities of Woolworths Group will remain on foot on their current terms; and

- Woolworths Group post Demerger remains a very substantial company and it is expected that it will retain the current investment grade ratings of Woolworths Group (BBB (stable outlook) from Standard & Poor's and Baa2 (stable outlook) from Moody's):
  - on 23 February 2021, Standard & Poor's released a statement that Woolworths Group was well placed to deal with the complexities around its plan to separate its drinks and hotels business, although the reduction in the group's scale and diversity could weigh on credit quality; and
  - there is no dramatic impact on Woolworths Group's financial metrics, with Woolworths Group post Demerger having lower gearing (before and after leases) as a result of repayment of intercompany borrowings by Endeavour Group.

Following the Demerger, Endeavour Group will have to raise its own finance to fund growth and capital investment without the financial support or credit profile associated with being part of the larger Woolworths Group. Given Endeavour Group's smaller size and different risk profile relative to Woolworths Group, as well as it being a new, untested credit it might be expected that it would incur higher interest margins than Woolworths Group would incur in the same circumstances.

However, it is not straightforward to isolate this impact because the Woolworths Group facilities in place comprise a portfolio of facilities that were established in different market conditions and involve different debt structures (e.g. maturity profiles), funding strategies and access different debt markets. Specifically:

- Endeavour Group is putting in place a relatively vanilla funding structure based on bank debt (revolving credit facilities and syndicated facilities with terms of 3 to 5 years), while Woolworths Group has a diversified funding mix including domestic and international capital markets debt (with terms of 5-10 years) as well as bank debt (with terms of up to 7 years); and
- the base rates on Endeavour Group's new facilities will reflect current market conditions, which have been positively impacted by government stimulus in response to the COVID-19 pandemic as well as other factors, and which will apply to Endeavour Group for the term of the facilities.

In this context, Woolworths Group has advised that the margins on Endeavour Group's new facilities result in an all up cost well below Woolworths Group's weighted average cost of debt (given Woolworths Group's different capital structure including capital markets debt) and not inconsistent with the margins on Woolworths Group bank debt taking into account current market conditions. While there may be some incremental cost relative to funding the status quo structure over the long term, the impact on the net earnings of Endeavour Group is unlikely to be material.

Just as important as interest cost are the other terms of the facilities (in particular financial and other covenants) as these can have a significant impact on financial flexibility. The key financial covenants of the Endeavour Group facilities are the same as those that apply to Woolworths Group's facilities (fixed charges cover and leverage). The ratio limits applicable to the facilities:

- are not materially different to the covenants that Woolworths Group currently has in place; and
- provide sufficient headroom and flexibility relative to Endeavour Group's pro forma leverage ratio of 1.8 times (before leases) (or 2.0 times after adjusting for seasonality)[99].

---

[99] Noting that this leverage ratio is based on EBITDA for the 12 months to 3 January 2021 and has been impacted by the COVID-19 pandemic. The leverage ratio based on FY19 EBITDA (unaffected by the COVID-19 pandemic) is 1.4 times (or 1.6 times after adjusting for seasonality).

6.7.3 Dividends

Following implementation of the Demerger, the level of dividends paid will be a matter for the boards of each of the companies having regard to a range of company specific factors. However:

- in relation to the final dividend for 2HY21 (which is yet to be determined), it is anticipated that shareholders will be no worse off as a result of the Demerger (i.e. in aggregate, the final dividends to be declared by Woolworths Group and Endeavour Group for 2HY21 will be broadly comparable to the final dividend that would have been declared by Woolworths Group if the Demerger did not proceed);
- Woolworths Group post Demerger intends to maintain the same dividend policy and Endeavour Group intends to initially target a dividend payout ratio of 70-75% of NPAT before significant items; and
- if the Demerger proceeds, it is estimated that, in aggregate, incremental corporate and operating costs of $47 million plus incremental net interest costs of around $30 million (as a result of a higher level of aggregate gross borrowings and after taking into account interest earned on Woolworths Group post Demerger's substantial cash balance) will be incurred annually.

On this basis, it is likely that (at least initially) the aggregate dividends paid by Endeavour Group and Woolworths Group post Demerger will be similar to (or marginally less than) those that would have been paid by Woolworths Group in the absence of the Demerger.

In relation to the level of franking of dividends, Woolworths Group post Demerger's accumulated franking credits will be impacted by:

- the reduction in tax instalment income as a result of some Endeavour Group entities that were previously members of the Woolworths Group tax consolidated group no longer being members of Woolworths Group's tax consolidated group following the Restructure and Merger (although this is not an impact of the Demerger and has been the case since 3 February 2020); and
- the extent of its non-Australian sourced earnings (expected to be less than 15%).

However, Woolworths Group has substantial accumulated franking credits (of $1,475 million at 3 January 2021) and is expected to be able to continue to pay fully franked dividends subsequent to the Demerger.

Endeavour Group's ability to frank future dividends will depend on the amount of Australian income tax paid in the future. It will start with an initial balance of franking credits available from within ALH Group and accumulated since the Restructure and Merger (of $609 million at 3 January 2021), and close to 100% of earnings are expected to be sourced from Australia. As a result, Endeavour Group's dividends are expected to be fully franked. Endeavour Group electing not to form a separate tax consolidated group is not expected to have any impact on its ability to pay fully franked dividends.

6.7.4 Investment in Endeavour Group

Following the Demerger, Woolworths Group will retain a 14.6% interest in Endeavour Group and have one representative on the board of Endeavour Group.

Woolworths Group's stated rationale for retaining a 14.6% interest in Endeavour Group is that it:

- provides alignment of interests given the ongoing commercial relationships (Partnership Agreements) between Woolworths Group and Endeavour Group; and
- provides an initial balance of control and influence (with BMG).

The 14.6% interest in Endeavour Group should provide Woolworths Group with a "voice" at board meetings, particularly in relation to the ongoing Partnership Agreements, which generally have terms of at least five years, with some (in relation to attached *BWS* stores) having an average term of 16 years. Given the integrated nature of Endeavour Group's retail drinks business with Woolworths Group, particularly the common customer base and the attached *BWS* stores, Woolworths Group's ownership interest and board representation may provide benefits such as:

- assisting to maintain a culture of collaboration between Endeavour Group and Woolworths Group;
- ameliorating any tensions that might arise as a result of having a better understanding of Endeavour Group's position and strategy;
- reassuring investors of Woolworths Group's conviction and commitment to Endeavour Group (although the opposite can also occur, creating investor concern when a decision is made to sell); and
- enabling Woolworths Group to benefit from the upside potential from realisation of significant growth opportunities by Endeavour Group and/or corporate activity.

Endeavour Group may also benefit from the experience and insight a Woolworths Group director is able to offer the newly formed Endeavour Group board.

However, there is no certainty that the investment or representation on the board would, on its own, solve any significant issues that might arise in relation to the Partnership Agreements.

While Endeavour Group will be a liquid investment listed on the ASX:

- the Woolworths Group investment in Endeavour Group could create a potential overhang if Woolworths Group was perceived either as a seller or not a long term holder of the interest. In this regard:
  - Woolworths Group considers its investment in Endeavour Group to be a reflection of the strategic importance of the Partnership Agreements in providing a framework for Woolworths Group and Endeavour Group to exploit joint growth opportunities and develop shared capabilities for their mutual benefit; and
  - by way of example, Wesfarmers' retention of a 15% interest in Coles following its demerger in November 2018 did not result in Coles trading at any material discount to Woolworths Group (after allowing for the Coles share price to settle following its listing) (see the chart in Section 6.7.1); and
- the relatively large size of Woolworths Group's shareholding as Endeavour Group's largest shareholder (along with BMG) may mean that it is difficult to sell quickly or in one line and may restrict the price at which Woolworths Group is able to sell its interest.

  However, Wesfarmers was able to execute the sale of a 4.9% interest in Coles (reducing its shareholding to 10.1%) on 19 February 2020 and the sale of a further 5.2% interest in Coles (reducing its interest to 4.9%) on 31 March 2020:

  - the initial 4.9% interest was sold at a price of $16.08 per share (a 4% discount to the closing share price on 18 February 2020 of $16.75) and the subsequent 5.2% interest was sold at a price of $15.39 per share (an 8.5% discount to the closing share price of $16.82 on 30 March 2020, albeit this was post the global equities market correction associated with the COVID-19 pandemic over the period from late February to mid March 2020). Recent ASX block trade discounts have typically ranged from 3-10%;
  - while there was a fall in the Coles share price on 19 February 2020, closing down 4.2% when the market was relatively flat, it was up 0.7% (closing at $16.15) on 20 February 2020, prior to the global equities market correction. There was also a fall in the Coles share price on 31 March 2020, closing down 9.9% (with the market down 2.0%). Again, the Coles share price recovered over the following two days, up by 5.9% (closing at $16.05 on 2 April 2020) compared to a market increase of only 1.5% over the same period; and

- substantial pre-tax proceeds of $2.11 billion were realised ($1.86 per Wesfarmers share), representing a pre-tax profit on sale of approximately $290 million.

On balance, while Woolworths Group's investment in Endeavour Group is probably not critical, it may provide some benefits and is unlikely to be detrimental to either party.

6.7.5 Ineligible Shareholders

Ineligible shareholders will not be entitled to receive Endeavour Group shares under the Demerger. The Endeavour Group shares that would otherwise have been distributed to them will be transferred to a sale agent and sold on the ASX on their behalf and they will receive the net proceeds (free of any brokerage costs or stamp duty but after deducting any applicable withholding tax). Ineligible shareholders may also be required to pay tax on any profit on that disposal (in their country of residence). However:

- the Endeavour Group shares will be sold for market value;
- they can acquire Endeavour Group shares through the ASX following listing if they wish to retain (or increase) their exposure to the Endeavour Group business; and
- shareholders representing around 0.1% of Woolworths Group registered shareholders and less than 0.05% of Woolworths Group's issued shares are expected to be impacted by the ineligible shareholder provisions.

6.7.6 Selling Shareholders

Woolworths Group shareholders who individually hold 800 or fewer Woolworths Group shares on the Demerger record date (25 June 2021) may elect to have all the Endeavour Group shares that they would otherwise receive under the Demerger sold on the ASX via a share sale facility. In this case, selling shareholders:

- will receive the net proceeds (free of any brokerage costs or stamp duty but after deducting any applicable withholding tax) following sale of the Endeavour Group shares for market value;
- will not be able to be defer the capital gains consequences of the Demerger. However, the net cash proceeds will be available to meet any capital gains tax liability; and
- can acquire Endeavour Group shares through the ASX if they wish to retain an exposure to the Endeavour Group business.

Shareholders representing 60% of Woolworths Group shareholders but less than 5% of Woolworths Group's issued shares will be able to elect (but will not be obliged) to participate in the sale facility as selling shareholders.

6.8 Taxation Issues

6.8.1 Corporate Taxation

The Demerger is not expected to result in any capital gains tax ("CGT") or income tax liability for Woolworths Group.

The CGT consequences of the Demerger are set out in Division 125 of the *Income Tax Assessment Act 1997 (Cth)* ("the demerger provisions"). Woolworths Group is seeking a private ruling from the Australian Taxation Office ("ATO") confirming that demerger tax relief is available to it under the demerger provisions (i.e. the transfer of Endeavour Group shares to Woolworths Group shareholders will have no CGT implications for Woolworths Group).

Woolworths Group has Australian unused capital losses. These losses are expected to be preserved within Woolworths Group post Demerger. Endeavour Group has no Australian unused income losses or capital losses.

Following implementation of the Demerger, Woolworths Group Limited will remain the head company of the Woolworths Group post Demerger Australian tax consolidated group.

The effective tax rates of Woolworths Group post Demerger and Endeavour Group as standalone companies are expected to be different from the rates that would have applied to Woolworths Group in the absence of the Demerger. The pro forma FY20 effective tax rates for Woolworths Group post Demerger and Endeavour Group are 30.0% and 31.1% respectively which compares to Woolworths Group's effective tax rate in FY20 (before significant items) of 30.8%. The difference in the effective tax rates reflect the tax rates that apply in the different jurisdictions in which each company operates (e.g. Woolworths Group post Demerger will operate in Australia and New Zealand (corporate tax rates of 30% and 28% respectively) while Endeavour Group will operate primarily in Australia (corporate tax rate of 30%). Going forward, the effective tax rate for Woolworths Group post Demerger is not expected to be materially different to that of Woolworths Group if the Demerger did not proceed.

6.8.2 Tax Consequences for Australian Resident Shareholders

The Demerger is not expected to give rise to any adverse tax consequences for shareholders who are residents of Australia for income tax purposes and hold Woolworths Group shares on capital account.

Woolworths Group has applied to the ATO for a class ruling to confirm the Australian income tax consequences of the Demerger for Australian resident shareholders. Woolworths Group has received a draft of the class ruling which sets out the ATO's preliminary views. In summary, for Australian resident shareholders who hold their shares on capital account and elect to obtain demerger tax relief, the tax consequences of the Demerger are expected to be as follows:

- any capital gain that arises in relation to the capital reduction will be disregarded;
- the demerger dividend (i.e. the difference between the fair value of Endeavour Group shares and the amount of the capital reduction) will not be assessable to Australian resident shareholders; and
- the existing cost base of their Woolworths Group shares will be apportioned between the Woolworths Group post Demerger shares and Endeavour Group shares on the basis of market values of the respective shares immediately following the Demerger.

For Australian resident shareholders who hold their shares on capital account and do not elect to obtain demerger tax relief, the CGT consequences are expected to be similar to shareholders who elect to obtain demerger tax relief except that the cost base of the Woolworths Group shares must be reduced by the amount of the capital reduction and, to the extent that the capital reduction amount exceeds the cost base, will realise a capital gain. Any capital gain may be eligible for the CGT discount concession.

6.8.3 Disclaimer

The analysis set out above outlines that major tax consequences for Australian resident shareholders of the Demerger and should be viewed as indicative only. It does not purport to represent formal advice regarding the taxation consequences of the Demerger for shareholders. Further details of the taxation consequences of the Demerger are set out in Section 6 of the Demerger Booklet. In any event, the tax consequences for shareholders will depend upon their individual circumstances. If in any doubt, shareholders should consult their own professional adviser.

The non-Australian taxation implications for non-Australian resident Woolworths Group shareholders will depend on the country of domicile of the shareholder. Non-Australian residents should seek their own taxation advice in relation to the taxation consequences of the Demerger.

6.9 Shareholder Decision

Grant Samuel has been engaged to prepare an independent expert's report setting out whether in its opinion the Demerger is in the best interests of shareholders and to state reasons for that opinion. Grant Samuel has not been engaged to provide a recommendation to shareholders in relation to the Demerger, the responsibility for which lies with the directors of Woolworths Group.

In any event, the decision whether to vote for or against the Demerger is a matter for individual shareholders based on each shareholder's views as to value and business strategy, their expectations about future economic and market conditions and their particular circumstances including risk profile, liquidity preference, investment strategy, portfolio structure and tax position. In particular, taxation consequences may vary from shareholder to shareholder. If in any doubt as to the action they should take in relation to the Demerger, shareholders should consult their own professional adviser.

Similarly, it is a matter for individual shareholders as to whether to buy, hold or sell shares in Woolworths Group (pre or post Demerger) or Endeavour Group. These are investment decisions upon which Grant Samuel does not offer an opinion and they are independent of a decision on whether to vote for or against the Demerger. Shareholders should consult their own professional adviser in this regard.

7 Impact on Woolworths Group's Ability to Pay its Creditors

7.1 Approach

If the Demerger is approved, Woolworths Group will declare a demerger dividend and undertake a capital return (which together comprise the demerger distribution). The demerger distribution will result in a reduction in Woolworths Group's shareholders' funds. However, it will not be distributed in cash but instead will be used on behalf of shareholders as consideration for Endeavour Group shares.

Grant Samuel has been requested to express an opinion as to whether the demerger distribution (comprising the demerger dividend and the capital reduction arising from the capital return) materially prejudices Woolworths Group's ability to pay its existing creditors.

Section 256B(1)(b) of the Corporations Act provides that a company may reduce its share capital if the capital reduction, among other things, does not materially prejudice the company's ability to pay its creditors. While this requirement relates only to the capital reduction (and not the demerger dividend):

- the capital reduction and demerger dividend will occur concurrently;
- the amount of the demerger distribution will be equal to the volume weighted average price of Endeavour Group shares for its first five trading days; and
- the allocation between capital return and demerger dividend will be determined by the relative market values of Woolworths Group post Demerger and Endeavour Group.

Consequently, the quantum of the capital reduction is unknown at this point. It is therefore difficult to assess whether the capital reduction by itself will materially prejudice Woolworths Group's ability to pay its existing creditors[100]. However, the nature of a demerger means that the analysis does not rest on the actual quantum as the underlying financial effects are the same regardless of the actual amount of the capital return or the demerger dividend.

Strictly, the question applies only to the head company (i.e. Woolworths Group Limited). The position of, and the effect on, each creditor of Woolworths Group will depend on the nature of their exposure, the particular entity with which they have contracted, the nature of any security they hold (e.g. lessors) and the term of their credit.

7.2 Background

Creditors of Woolworths Group are subject to the following arrangements:

- **Deeds of Cross Guarantee**

  Woolworths Group Limited and certain of its wholly owned subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others in the event of their winding up (the "Woolworths Group Closed Group").

  The Woolworths Group Closed Group comprises most (but not all) of the Australian subsidiaries of Woolworths Group and includes most of the Australian Food division and the BIG W business.

  The subsidiaries outside the Woolworths Group Closed Group mostly comprise the New Zealand Food division and Endeavour Group. Endeavour Group and certain of its wholly owned subsidiaries are parties to a deed of cross guarantee under which each company guarantees the debts of the others in the event of their winding up (the "Endeavour Group Closed Group"); and

[100] Although it is noted that Section 254T(1)(c) of the Corporations Act provides that a company must not pay a dividend unless payment of the dividend does not materially prejudice the company's ability to pay its creditors. This provision would apply to payment of the demerger dividend.

- **Financial Covenants**

  Woolworths Group Limited (the head company) is the primary borrowing entity for the group's bilateral and syndicated borrowing facilities. There is no common terms deed or guarantor group. This reflects Woolworths Group's structure where the vast majority of the Australian Food business and the BIG W business are within Woolworths Group Limited (rather than being separate legal entities). As a result, lenders primarily have access only to the assets of Woolworths Group Limited (the head company) for repayment, although this would include the value of most business operations and access to any dividends received from New Zealand Food and Endeavour Group. However, the financial covenants in place relate to the financial health of the whole group (including New Zealand Food and Endeavour Group as a consolidated entity).

The net effect of these arrangements is that:

- creditors of entities in the Woolworths Group Closed Group have access (e.g. in a winding up) to all the assets of the Woolworths Group Closed Group and any remaining equity in New Zealand Food and Endeavour Group;
- creditors of entities in the Endeavour Group Closed Group have access (e.g. in a winding up) to all the assets of the Endeavour Group Closed Group;
- creditors of entities outside the Woolworths Group Closed Group and the Endeavour Group Closed Group (e.g. New Zealand Food creditors) have access (e.g. in a winding up) only to the assets of the individual entities with whom they have contracted; and
- only creditors of Woolworths Group Limited (the head company) have access to the group's liquidity (i.e. cash or undrawn borrowing capacity).

7.3 Impact of the Demerger

The Demerger will result in two independent corporate groups, Endeavour Group and Woolworths Group post Demerger.

However, the Demerger differs from most other demergers in that Woolworths Group and Endeavour Group have been operating as separate entities (from a creditors perspective) since implementation of the Restructure and Merger in February 2020 (i.e. over 12 months).

The current deeds of cross guarantee will continue on foot for Endeavour Group and for Woolworths Group post Demerger. The Demerger does not result in any change to the Woolworths Group Closed Group or the Endeavour Group Closed Group. At the time that the Restructure scheme of arrangement was put to Woolworths Group shareholders, the Woolworths Group directors formed the view that creditors of Woolworths Group (at the time) would not be materially prejudiced by the Restructure. This view was supported by an independent report by KPMG Financial Advisory Services (Australia) Pty Ltd and was ultimately accepted by the Federal Court.

There will be no change to Woolworths Group's financial covenants subsequent to the Demerger and it will remain well within these covenants, even after excluding Endeavour Group as a consolidated entity and including only the 14.6% equity interest in Endeavour Group. Endeavour Group has put in place separate banking arrangements which contain appropriate financial covenants.

7.4 Evaluation

The issue relating to a capital reduction materially prejudicing the ability to pay creditors arises because:

- existing creditors will have formed their own views about whether or not to extend credit to Woolworths Group, at least in part, on the basis of Woolworths Group's existing financial parameters including operating cash flows (e.g. quantum and volatility) and capital structure (e.g. the amount of shareholders' equity and the degree of financial leverage); and

- capital returns (which are traditionally cash returns to shareholders) change the risk profile for a creditor by changing the financial position of the entity or group. Specifically, they:
  - reduce shareholders' funds (i.e. equity capital);
  - reduce cash resources and/or increase debt; and
  - reduce net operating cash flows (reduced interest income and/or increased interest expense).

Accordingly, there is a concern as to whether creditors interests have been materially adversely impacted by a capital reduction. However, the question in relation to a capital reduction or a demerger distribution (combining both the demerger dividend and capital reduction components) in connection with a "clean" demerger is different:

- there is no cash return to shareholders (i.e. no cash is removed from the group except for transaction and implementation costs). The financial structure of the business is, in total, unchanged. The equity capital base is not reduced, it is simply being split between two new corporate groups. Similarly, debt is split between the two groups; and
- in this case, there is no change to the relevant "closed groups". Woolworths Group creditors will remain creditors of Woolworths Group (and certain of its wholly owned subsidiaries), operating as Woolworths Group post Demerger. Endeavour Group creditors will remain creditors of Endeavour Group (and certain of its wholly owned subsidiaries).

Consequently, in Grant Samuel's view, the critical issue is the impact of the Demerger on the financial stability of Woolworths Group.

If the Demerger is implemented, Woolworths Group post Demerger:

- will remain a leading Australian supermarket business, with a strong market share in a mature industry with relatively high barriers to entry. Woolworths Group post Demerger will retain its defensive characteristics (e.g. an earnings profile that is resilient through economic cycles);
- will have a net cash position and despite the removal of Endeavour Group's earnings, cash flows and net assets, will have generally improved credit metrics relative to Woolworths Group and more conservative leverage and gearing than its primary competitor, Coles:

WOOLWORTHS GROUP VS WOOLWORTHS GROUP POST DEMERGER VS COLES – KEY LEVERAGE METRICS

	WOOLWORTHS GROUP RESTATED	WOOLWORTHS GROUP POST DEMERGER PRO FORMA	COLES RESTATED[101]
Net borrowings (excluding lease liabilites) (3 January 2021)	(1,067)	119	(523)
Net borrowings (including lease liabilites) (3 January 2021)	(16,453)	(11,813)	(10,214)
FY20 interest cover (including leases)	3.8x	3.7x	4.0x
Leverage (including leases)	2.8x	2.5x	2.8x
Gearing (excluding lease assets and liabilities) (3 January 2021)	8.4%	not meaningful	9.5%
Gearing (including lease assets and liabilities) (3 January 2021)	64.5%	61.5%	80.3%

Source: Demerger Booklet and Grant Samuel analysis

Despite Woolworths Group post Demerger having a longer weighted average lease tenure of 10.1 years compared to Coles (around 4.5 years), it has considerably lower gearing (including lease assets and liabilities) due to its higher net assets ($7.3 billion at 3 January 2021 compared to $2.8 billion for Coles);

---

101 Coles' FY20 leverage metrics have been adjusted to reflect the payment of the 1HY21 dividend (consistent with the basis on which the Woolworths Group leverage metrics have been calculated).

- has committed medium term debt facilities and significant unutilised capacity within those facilities:

WOOLWORTHS GROUP POST DEMERGER – FACILITY PROFILE ($ BILLIONS)

	WOOLWORTHS GROUP POST DEMERGER
Bank loans	1.5
Syndicated bank loans	2.0
Capital markets debt	1.9
Total facilities	**5.4**
Pro forma borrowings (gross) at 3 January 2021	2.6

Source: Demerger Booklet and Grant Samuel analysis

- expects to retain all of its existing debt facilities. These facilities do not contain any change of business or change of control provisions (i.e. there is no ability for banks to reassess their exposure to Woolworths Group post Demerger) and any relevant consents will be obtained. Woolworths Group management has advised that it does not expect any breach of its financial covenants as a result of the Demerger as the headroom under its financial covenants is sufficient to cover the replacement of Endeavour Group on a consolidated basis with a 14.6% equity interest in Endeavour Group; and
- as a substantial listed company would, if necessary, have access to the public equity markets to raise funds to support creditor payments (although there is no indication that this might be required).

Accordingly, in Grant Samuel's opinion, the demerger distribution (comprising the demerger dividend and the capital reduction) does not materially prejudice the ability of Woolworths Group to pay its existing creditors.

7.5 Other Factors

Other factors relevant to creditors include the following:

- most trade creditors are short term in nature (i.e. typically repayable within 60 days at any point in time) and accordingly their existing debts will be repaid within, say, 2-3 months and they will have the opportunity at the time of implementation of the Demerger to reassess for themselves whether they wish to continue to grant credit to Woolworths Group post Demerger.

  In this respect, the primary trade creditors at risk from the Demerger are those with exposures that are medium to longer term in nature. While this includes lessors (Woolworths Group post Demerger has lease liabilities of circa $12 billion), these creditors are protected through ownership of the underlying assets (e.g. properties); and
- the directors of Woolworths Group have stated that in their opinion, the demerger dividend and the capital reduction will not materially prejudice Woolworths Group's ability to pay its existing creditors.

7.6 Disclaimer

Grant Samuel makes no warranty, express or implied, as to the potential recoverability of existing or contingent debts owed by Woolworths Group at the date of this report or at any subsequent time. Grant Samuel's opinion relates only to the impact of the Demerger on Woolworths Group's ability to pay its existing creditors. Future creditors must rely on their own investigations of the financial positions of Endeavour Group and Woolworths Group post Demerger.

8 Qualifications, Declarations and Consents

8.1 Qualifications

The Grant Samuel group of companies provide corporate advisory services in relation to mergers and acquisitions, capital raisings, debt raisings, corporate restructurings and financial matters generally. The primary activity of Grant Samuel & Associates Pty Limited is the preparation of corporate and business valuations and the provision of independent expert's reports in connection with mergers and acquisitions, takeovers and capital reconstructions. Since inception in 1988, Grant Samuel and its related companies have prepared more than 565 public independent expert and appraisal reports.

The persons responsible for preparing this report on behalf of Grant Samuel are Jaye Gardner BCom LLB (Hons) CA SF Fin GAICD and Stephen Wilson MCom (Hons) CA SF Fin. Each has a significant number of years of experience in relevant corporate advisory matters. Wendy Chen BCom (Liberal Studies) CFA assisted in the preparation of the report. Each of the above persons is a representative of Grant Samuel pursuant to its Australian Financial Services Licence under Part 7.6 of the Corporations Act.

8.2 Disclaimers

It is not intended that this report should be used or relied upon for any purpose other than as an expression of Grant Samuel's opinion as to whether the Demerger is in the best interests of shareholders and whether the demerger dividend and the capital reduction associated with the Demerger materially prejudices Woolworths Group's ability to pay its existing creditors. Grant Samuel expressly disclaims any liability to any Woolworths Group shareholder who relies or purports to rely on the report for any other purpose and to any other party who relies or purports to rely on the report for any purpose whatsoever.

Grant Samuel has had no involvement in the preparation of the Demerger Booklet issued by Woolworths Group and has not verified or approved any of the contents of the Demerger Booklet. Grant Samuel does not accept any responsibility for the contents of the Demerger Booklet (except for this report).

Grant Samuel has had no involvement in Woolworths Group's due diligence investigation in relation to the Demerger Booklet and does not accept any responsibility for the completeness or reliability of the process which is the responsibility of Woolworths Group.

8.3 Independence

Grant Samuel and its related entities do not have at the date of this report, and have not had within the previous two years, any business or professional relationship with Woolworths Group or any financial or other interest that could reasonably be regarded as capable of affecting its ability to provide an unbiased opinion in relation to the Demerger.

Grant Samuel had no part in the formulation of the Demerger. Its only role has been the preparation of this report.

Grant Samuel will receive a fixed fee of $800,000 for the preparation of this report. This fee is not contingent on the conclusions reached or the outcome of the Demerger. Grant Samuel's out of pocket expenses in relation to the preparation of the report will be reimbursed. Grant Samuel will receive no other benefit for the preparation of this report.

Grant Samuel considers itself to be independent in terms of Regulatory Guide 112 issued by the ASIC on 30 March 2011.

8.4 Declarations

Woolworths Group has agreed that it will indemnify Grant Samuel and its employees and officers in respect of any liability suffered or incurred as a result of or in connection with the preparation of the report. This indemnity will not apply in respect of the proportion of any liability found by a court to be primarily caused by any conduct involving negligence, wilful misconduct or breach of law by Grant Samuel. Woolworths Group has also agreed to indemnify Grant Samuel and its employees and officers for time spent and reasonable legal costs and expenses incurred in relation to any inquiry or proceeding initiated by any person. Any claims by Woolworths Group are limited to an amount equal to two times the total fees paid to Grant Samuel. Where Grant Samuel or its employees and officers are found to have been negligent, engaged in wilful misconduct or guilty of breach of law Grant Samuel shall bear the proportion of such costs caused by its action.

Advance drafts of this report were provided to Woolworths Group. Certain changes were made to the drafting of the report as a result of the circulation of the draft report. In particular, following the provision of a full draft report, Grant Samuel received the pro forma cash flows for Endeavour Group and Woolworths Group post Demerger, revised pro forma statements of profit or loss and revised pro forma statements of financial position for Endeavour Group and Woolworths Group post Demerger and details of Endeavour Group's debt facilities. There was no alteration to the methodology, evaluation or conclusions as a result of issuing the drafts.

8.5 Consents

Grant Samuel consents to the issuing of this report in the form and context in which it is to be included in the Demerger Booklet to be sent to shareholders of Woolworths Group. Neither the whole nor any part of this report nor any reference thereto may be included in any other document without the prior written consent of Grant Samuel as to the form and context in which it appears.

8.6 Other

Grant Samuel has prepared a Financial Services Guide as required by the Corporations Act. The Financial Services Guide is set out at the beginning of this report.

GRANT SAMUEL & ASSOCIATES PTY LIMITED

10 May 2021

Grant Samuel & Associates