

COUNTRY ROAD GROUP

COUNTRY ROAD MIMCO TRENERY WITCHERY

21 July 2014

ASX Market Announcements
Australian Securities Exchange Limited
Level 4
North Tower, Rialto
525 Collins Street
Melbourne VIC 3000

TAKEOVER BID FOR COUNTRY ROAD LIMITED: TARGET'S STATEMENT

Pursuant to item 14 of subsection 633(1) of the Corporations Act 2001 (Cth), we enclose a copy of our Target's Statement (and accompanying independent expert's report) in relation to the off-market takeover bid by Woolworths International (Australia) II Pty Ltd ("Woolworths") for Country Road Limited.

A copy is also being provided to Woolworths and being lodged with ASIC today.

Yours sincerely



Melissa Hennessy
General Counsel & Assistant Company Secretary

COUNTRY ROAD GROUP

COUNTRY ROAD MIMCO T R E N E R Y WITCHERY

This is an important document and requires your immediate attention.

You should read all of the document. If you are in doubt as to what you should do, you should obtain independent advice from your investment, financial, tax or other professional adviser.

TARGET'S STATEMENT

Your Board Response Committee Directors unanimously recommend that,
in the absence of a superior proposal, you

ACCEPT

the Offer by Woolworths International (Australia) II Pty Ltd, a wholly-owned subsidiary of Woolworths Holdings Limited (South Africa), to acquire all of your shares in Country Road Limited for \$17 cash per share.

IF YOU HAVE ANY QUESTIONS ABOUT THE OFFER, PLEASE CONTACT THE
COUNTRY ROAD SHAREHOLDER INFORMATION LINE ON 1 800 669 269
(WITHIN AUSTRALIA) OR + 61 1 800 669 269 (OUTSIDE AUSTRALIA) BETWEEN
8.30AM AND 5.30PM (AEST) MONDAY TO FRIDAY

COUNTRY ROAD LIMITED (ACN 006 759 182)

Financial Adviser

Legal Adviser



FORT STREET
ADVISERS

Allens > < Linklaters

Important notices

Nature of this document

This Target's Statement is dated 21 July 2014 and is given by Country Road under Part 6.5 Division 3 of the Corporations Act in response to the Bidder's Statement by Woolworths Bidco dated 7 July 2014.

ASIC and ASX disclaimer

A copy of this Target's Statement has been lodged with ASIC and provided to ASX. None of ASIC, ASX or any of their respective officers takes any responsibility for the contents of this Target's Statement.

Defined terms and interpretation

Capitalised terms used in this Target's Statement are defined in Section 7.1. Section 7.2 also sets out some rules of interpretation which apply to this Target's Statement.

No account of personal circumstances

This Target's Statement should not be taken as personal financial, investment or tax advice, as each Shareholder's deliberations and decision will depend upon their own financial situation, tax position, investment objectives and particular needs.

Your BRC Directors encourage you to read this Target's Statement in its entirety and obtain independent advice from your investment, financial, tax or other professional adviser before making a decision whether or not to accept the Offer.

Forward looking statements

Some of the statements in this Target's Statement may be in the nature of forward looking statements. All statements other than statements of historical fact are forward looking statements. You should be aware that forward looking statements are only predictions and are inherently subject to uncertainties, in that they may be affected by a variety of known and unknown risks, variables and other important factors, many of which are beyond the control of Country Road. Actual values or results, performance or achievements may differ materially from those expressed or implied by such statements. The risks, variables and other factors that may affect the forward looking statements include matters specific to the sectors in which Country Road operates, as well as economic and financial market conditions; legislative, fiscal or regulatory developments; the price performance of Country Road Shares, including the risk of possible price decline in the absence of the Offer or other takeover or merger speculation; and risks associated with the business and operations of Country Road.

None of Country Road, any of its officers or employees or any person named in this Target's Statement with their consent or any person involved in the preparation of this Target's Statement makes any representation or warranty (express or implied) or gives any assurance as to the accuracy or likelihood of fulfilment of any forward looking statements, or any events or results expressed or implied in any forward looking statements, except to the extent required by law. You are cautioned not to place undue reliance on any such statements. The forward looking statements in this Target's Statement reflect views held only as at the date of this Target's Statement.

Disclaimer as to information

The information in this Target's Statement about Woolworths Bidco and Woolworths Holdings has been compiled from or is otherwise based on information obtained from Woolworths Bidco, Woolworths Holdings or publicly available sources, and has not been independently audited or verified by Country Road or its advisers. If the information obtained from Woolworths Bidco, Woolworths Holdings or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward looking statements.

The Independent Expert's Report has been prepared by the Independent Expert for the purposes of this Target's Statement and the Independent Expert takes responsibility for that report. Neither Country Road nor any of its officers, employees or advisers assumes any responsibility for the accuracy or completeness of the Independent Expert's Report, except, in the case of Country Road, in relation to the information which it has provided to the Independent Expert.

Privacy

Country Road has collected your information from the register of Country Road Shareholders for the purpose of providing you with this Target's Statement. The type of information Country Road has collected about you includes your name, contact details and information on your shareholding (as applicable) in Country Road. Without this information, Country Road would be hindered in its ability to issue this Target's Statement. The Corporations Act requires the name and address of Shareholders to be held in a public register. Your information may be disclosed on a confidential basis to external service providers (including the Country Road Share Registry and print and mail service providers) and may be required to be disclosed to regulators such as ASIC. If you would like details of information about shares you hold by Country Road, please contact the Country Road Share Registry on 1300 850 505 (within Australia) or +61 3 9415 4000 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Country Road Shareholder Information Line

Country Road has established the Country Road Shareholder Information Line, which Country Road Shareholders may call if they have any queries in relation to the Offer. The telephone number for the Country Road Shareholder Information Line is 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia) and will be available between 8.30am and 5.30pm (AEST) Monday to Friday.

Further information relating to the Offer can be obtained from the Country Road website at www.countryroad.com.au/Information/105120.

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Key dates

Offer Period opens	11 July 2014
Date of this Target's Statement	21 July 2014
Offer Period closes (unless extended or withdrawn)	11 August 2014

Letter from your Board Response Committee Directors

Dear Shareholder,

ACCEPT the Woolworths' Offer for your Country Road Shares, in the absence of a superior proposal

On 24 June 2014, Woolworths Holdings, which (via a wholly-owned subsidiary) currently owns 87.88% of all Country Road Shares, announced its intention to make an off-market takeover offer to acquire all of the shares that it does not own in Country Road. You would have recently received a Bidder's Statement in relation to the Offer.

Under the terms of the Offer, shareholders in Country Road will receive \$17 cash per Country Road Share. Woolworths Holdings has stated that the Offer is best and final and that it will not increase the Offer Price. The only remaining condition of the Offer is approval from the Foreign Investment Review Board.

Upon the Woolworths Holdings' announcement of its intention to make the Offer, the Country Road Board established a Board Response Committee (**BRC**). The BRC comprises Country Road executive directors Iain Nairn (Chief Executive Officer) and Oliver Kysela (Chief Financial Officer). The other directors on the Country Road Board are regarded as representatives of Woolworths Holdings and, given their connection with Woolworths Holdings, were not appointed to the BRC and are not making a recommendation in relation to the Offer.

The BRC was formed to evaluate and respond to the Offer, including to:

- appoint and instruct legal and financial advisers to assist Country Road in relation to the Offer;
- appoint an independent expert to opine on the Offer; and
- prepare this Target's Statement.

The BRC appointed Lonergan Edwards and Associates to prepare the Independent Expert's Report and it has concluded that the Offer is fair and reasonable. A copy of their report is included in Schedule 2 of this Target's Statement and you are encouraged to read that report in full.

In coming to its conclusion, the Independent Expert has taken into account Country Road's expected earnings per share range for FY14, which represents a 40-57% increase on FY13 as announced on 7 July 2014. As noted at the time, Country Road was pleased to have delivered continued strong growth despite some challenging market headwinds. The Offer Price represents a multiple of 25x to 28x this FY14 earnings per share range.

Having carefully considered the Offer, the BRC Directors believe that, in the absence of a superior proposal, you should ACCEPT the Offer. The reasons for the BRC Directors' recommendation are contained in this Target's Statement and include:

- the Independent Expert has concluded that the Offer is fair and reasonable;
 - the Independent Expert has valued 100% of the Country Road Shares at between \$14.92 and \$16.22 per Share;
- the Offer Price is above the recent and historical ASX trading prices of Country Road Shares, although given that Country Road Shares are very thinly traded, the ASX share price may not be a reliable guide to the fair value of Country Road Shares;

- the Offer is the best available offer for Country Road Shares at this time and there is no certainty that Woolworths Holdings would make another offer for Country Road Shares in the future;
 - o Woolworths Holdings has stated that the Offer is best and final and that it will not increase its price; and
 - o it is unlikely that a superior offer from another bidder will emerge and there is no certainty that Woolworths Holdings would make another offer for Country Road in the future; and
- there are potentially adverse consequences if you do not accept the Offer, including;
 - o the price at which you are able to sell your Country Road Shares after the Offer may be below the Offer Price of \$17; and
 - o given the lack of liquidity in trading of Country Road Shares, it may continue to be difficult to sell your Shares after the Offer, particularly if Country Road is de-listed from ASX.

Country Road's second largest shareholder, Australian Retail Investments Pty Ltd (**ARI**), owns 11.88% of Country Road Shares. Whilst ARI has not publicly stated their intentions in relation to the Offer, if ARI accepts the Offer for those shares, Woolworths Holdings will control 99.76% of all Country Road Shares and will then be entitled to compulsorily acquire all the outstanding Country Road Shares.

We strongly encourage you to read all of the information contained in this Target's Statement carefully and to seek independent advice if you are in any doubt as to how to respond to the Offer.

Instructions on how to accept the Offer are contained in Section 2 of the Bidder's Statement. The Offer is due to close at 7pm (Sydney time), 11 August 2014, unless extended or withdrawn.

We will keep you informed of any material developments in relation to the Offer.

If you have any questions about the Offer, please call the Country Road Shareholder Information Line on 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Yours sincerely,



Iain Nairn



Oliver Kysela

Board Response Committee

21 July 2014

1 BRC Directors' recommendation and reasons

1.1 BRC Directors' recommendation

Your BRC Directors recommend that, in the absence of a superior proposal, you accept the Offer. Your BRC Directors' reasons for their recommendation are set out below.

1.2 Reasons for recommendation

(a) The Independent Expert has concluded that the Offer is fair and reasonable

The Independent Expert has concluded that the Offer is fair and reasonable

The Independent Expert has valued 100% of the Country Road Shares at between \$14.92 and \$16.22 per Share and concluded that the Offer is both fair and reasonable.

In determining its valuation range, the Independent Expert has attributed \$130 million to \$160 million of value (\$1.26 to \$1.54 per Country Road Share) to the expected benefits to Country Road arising from Woolworths Holdings' acquisition of David Jones. These benefits relate primarily to a potential sales uplift in Country Road concessions within David Jones stores. The BRC Directors note that the timing and quantum of these benefits are inherently uncertain.

In addition, the Bidder's Statement estimates that Woolworths Holdings will generate at least \$30 million incremental EBITDA across the combined Woolworths Group should it acquire 100% ownership of both Country Road and David Jones. The Independent Expert views these benefits as being largely unique to Woolworths Holdings and has not included the value of these benefits in arriving at its valuation range. However, the Independent Expert notes that "it would appear that a proportion of these unique synergy benefits are being reflected in the Offer for Country Road Group".

In the opinion of the Independent Expert, there are a number of reasons why Country Road Shareholders should consider accepting the Offer:

- (a) the Offer Price exceeds its assessed value of Country Road Shares on a 100% controlling interest (standalone) basis;
- (b) the Offer provides all Country Road Shareholders with the ability to realise their shareholdings for cash should they wish to do so (in the absence of the Offer, the Independent Expert states that this may not be possible (other than at a discounted price) due to the low level of trading in Country Road Shares on ASX); and
- (c) the Offer Price is likely to significantly exceed the listed market price of Country Road Shares in the absence of the Offer (at least in the short-term).

The Independent Expert's Report appears in Schedule 2 to this Target's Statement. You should read the Independent Expert's Report in full.

(b) The Offer Price is above the recent and historical ASX trading prices of Country Road Shares

Country Road has never traded at a price at or above the Offer Price of \$17

The Country Road Share price has never traded at or above the Offer Price of \$17. While Country Road is a very thinly traded stock and so its ASX share price may not be a reliable guide to the fair value of Country Road Shares, the share price does represent a benchmark for the price that you may otherwise be able to sell your Shares. Up until 4 February 2014, Country Road Shares have

consistently traded below \$5 per Share. Prior to the announcement by Woolworths Holdings of its intention to make the Offer on 24 June 2014 (the **Announcement Date**), the highest closing price of Country Road Shares in the ~27 years that the Shares have been trading was \$15.40 per Share on 3 April 2014.



Source: Bloomberg¹

The Offer represents a significant premium to the recent ASX trading prices of Country Road Shares

The Offer Price of \$17 cash per Share represents a significant premium to the levels at which Country Road Shares were trading on ASX prior to the Announcement Date.

On 7 July 2014, Country Road announced its expected earnings per share range for FY14, which represents a 40-57% increase on FY13. The Offer Price represents a multiple of 25x to 28x this FY14 earnings per share range.

The Offer Price represents the following premia for trading periods up to and including 23 June 2014, being the last trading day prior to the Announcement Date:

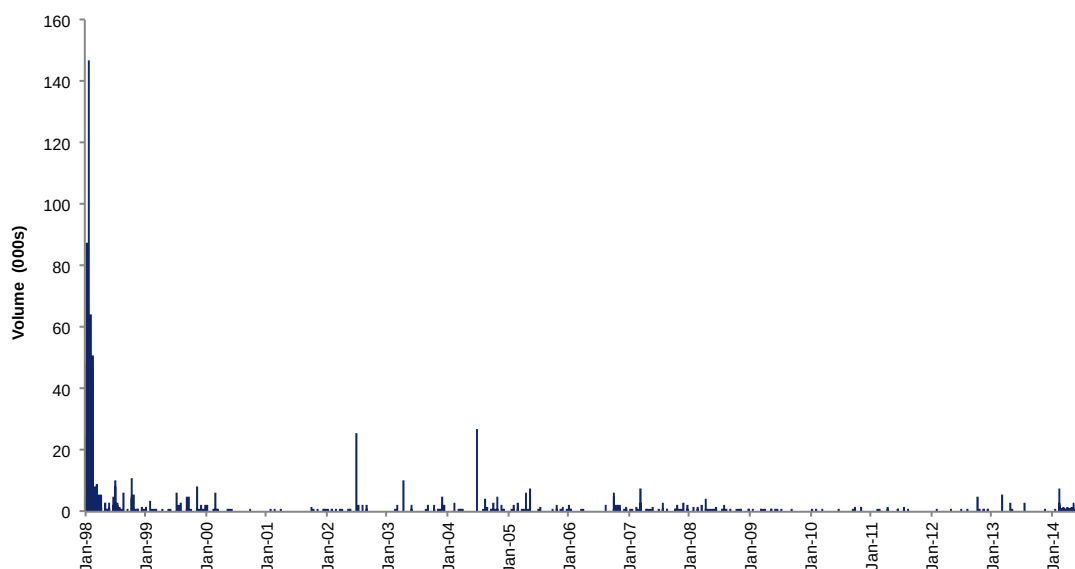
	ASX Price/VWAP	Premium
Premium over the closing price on 23 June 2014	\$14.00	21%
Premium over the 1 month VWAP	\$12.52	36%
Premium over the 3 month VWAP	\$12.33	38%
Premium over the 12 month VWAP	\$9.58	77%

Source: Bloomberg

Accordingly, the Offer Price provides you with an opportunity to realise your investment in Country Road at a premium to recent trading prices.

¹ This Target's Statement contains various references to trading data prepared by Bloomberg L.P. who has not consented to such use of references to that trading data in this Target's Statement.

However, in considering information in this Target's Statement regarding the prices at which Country Road Shares have traded or may trade on ASX, it should be noted that, as shown in the graph below, for many years Country Road Shares have been very thinly traded on ASX. In addition, the price on ASX of Country Road Shares can be volatile, given that trading in a relatively small volume of shares can have a material impact on the share price. Accordingly, the ASX share price may not be a reliable guide to the fair value of Country Road Shares.



Source: Bloomberg

- (c) **The Offer is the best available offer for Country Road Shares at this time and there is no certainty that Woolworths Holdings would make another offer for Country Road Shares in the future**

Woolworths Holdings has stated that the Offer is best and final

Woolworths Holdings has made an announcement that the Offer is best and final and that it will not increase the Offer Price.

It is unlikely that a superior proposal will emerge for your Shares

In light of Woolworths Holdings' 87.88% ownership of Country Road Shares (as at 11 July 2014), your BRC Directors consider it unlikely that a superior proposal will be forthcoming before the end of the Offer Period. Similarly, the Independent Expert has stated in its report that given Woolworths Holdings ownership interest in Country Road, there is no realistic likelihood that a competing offer for Country Road will be received prior to the close of the Offer.

There is no certainty that Woolworths Holdings would make another offer for Country Road in the future

Woolworths Holdings has been the majority owner of Country Road since 1998. Since that time, this is the first takeover offer made by the Woolworths Group for the Country Road Shares that they do not own. There is no certainty that Woolworths Holdings would make another offer for Country Road in the future.

Even if it did make such an offer, there is no guarantee that the offer would include value for the benefits it expects to derive from owning both Country Road and David Jones. As a result, the price offered may be lower than \$17 per Share.

(d) There are potentially adverse consequences if you do not accept the Offer

After the Offer, the price on ASX of Country Road Shares may trade below the Offer Price of \$17

The Country Road Share price has never traded at or above the Offer Price of \$17 per Share in the ~27 years that the Shares have been trading on ASX. Your BRC Directors believe that if, at the close of the Offer Period, Woolworths Bidco is not entitled to compulsorily acquire the remaining Country Road Shares, Country Road Shares may trade on ASX below \$17. You would also continue to be exposed to the risks of holding Country Road Shares, some of which are described in Section 3.3 of this Target's Statement.

After the Offer, it may be difficult to sell your Shares

As noted above, Country Road Shares have been very thinly traded on ASX since 1998 (the time at which Woolworths Holdings acquired its initial interest in Country Road). If your Country Road Shares are not acquired under the Offer or through compulsory acquisition, it may continue to be difficult for you to sell your Shares.

Further, in its Bidder's Statement, Woolworths Bidco has stated that if it does not become entitled to commence compulsory acquisition, Woolworths Holdings, together with the Country Road Board, will consider whether it continues to be appropriate to remain listed on ASX and may seek to de-list Country Road, subject to ASX's discretion.

If Country Road is de-listed, it may become significantly more difficult to sell your Shares and you may lose rights that are available to shareholders under the ASX Listing Rules. In that scenario and where Country Road has 50 shareholders or less, shareholders may also lose the protections granted by the takeover rules in the Corporations Act (for example, shareholders may not have the opportunity to participate in any future transaction under which Woolworths Holdings seeks to increase its ownership in Country Road).

Risk of compulsory acquisition

If Woolworths Bidco does proceed to post bid compulsory acquisition and your Shares are compulsorily acquired, you will receive the same consideration for your Country Road Shares that you would have received under the Offer, however, you will most likely receive the consideration later than those Country Road Shareholders who have accepted the Offer. Further details on compulsory acquisition, including the rights of objection, are described in Section 4.13 of this Target's Statement.

ARI holds 11.88% of all Country Road Shares (as at 11 July 2014). ARI has not announced its intention as to whether it will accept the Offer. If ARI does accept the Offer, Woolworths Bidco would be entitled to compulsorily acquire all outstanding Country Road Shares, which it has stated that it intends to do. If ARI does not accept the Offer and continues to hold those Country Road Shares, Woolworths Bidco would not be entitled to proceed to compulsory acquisition.

This is therefore an unusual scenario in that, by accepting or not, ARI can on its own determine whether the Offer will proceed to compulsory acquisition. If it does accept, disclosure will be required on ASX and so your BRC Directors recommend that you monitor Country Road's ASX announcements via www.asx.com.au or www.countryroad.com.au/Information/105120.

1.3 Possible reasons for not accepting the Offer

Set out below are some possible reasons for not accepting the Offer. In considering these reasons, it is important to remember that if ARI accepts the Offer for all its Country Road Shares, Woolworths Bidco will be entitled under the Corporations Act to proceed to compulsorily acquire all your Country Road Shares and it has stated its intention to do so. Accordingly, even if you do not accept the Offer, you may be compelled by law to sell all your Country Road Shares and so you may not be able to remain a shareholder in Country Road.

(a) You may disagree with the BRC Directors' recommendation and the Independent Expert's conclusion

You may hold a different view to the BRC Directors and the Independent Expert and believe that the value of the Offer Price is inadequate.

(b) You may wish to remain a shareholder in Country Road

If you accept the Offer, you will no longer be entitled to exercise the rights of a Country Road Shareholder and participate in the future performance of Country Road, including any potential benefits that may flow to Country Road as a result of David Jones becoming a 100% subsidiary of Woolworths Holdings.

(c) You may consider that there is potential for a superior proposal from Woolworths Holdings to emerge

The Bidder's Statement states that if both Country Road and David Jones are 100% owned by Woolworths Holdings the opportunities to leverage systems, processes, infrastructure and scale are likely to result in a material increase in the value of Country Road. The Bidder's Statement also notes that 100% ownership of both Country Road and David Jones is estimated to generate incremental EBITDA of at least \$30 million across the combined Woolworths Group. These benefits have not been incorporated into the valuation range prepared by the Independent Expert, as they are regarded by the Independent Expert as largely unique to Woolworths Holdings.

Woolworths Holdings has been the majority owner of Country Road since 1998. This is the first takeover offer since then made by the Woolworths Group for the Country Road Shares that they do not own. Nonetheless, while Woolworths Holdings has announced that the Offer is best and final and that it will not increase the Offer Price, you may think that if Woolworths Holdings does not own 100% of Country Road, it may return at some stage in the future with a superior proposal.

(d) You may consider that there is potential for a superior proposal from another party to emerge

Although it may be possible that a superior proposal for Country Road from another party could materialise in the future, no superior proposal has emerged and given Woolworths Holdings' ownership interest in Country Road, your BRC Directors consider it unlikely that such a proposal will emerge before the end of the Offer Period.

(e) The tax consequences of the Offer may not be suitable to your financial position

As set out in Section 8 of the Bidder's Statement, acceptance of the Offer is likely to have tax implications. You should carefully read and consider the tax consequences of accepting the Offer. You should not rely on the disclosure of the tax considerations in the Bidder's Statement as being advice on your own affairs. You should consult with your own independent tax advisers regarding the tax implications of accepting the Offer given your own particular circumstances.

1.4 Other matters

In considering whether to accept the Offer, your BRC Directors encourage you to:

- a) read both this Target's Statement, including the accompanying Independent Expert's Report, and the Bidder's Statement in their entirety; and
- b) obtain independent advice from your investment, financial, tax or other professional adviser.

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2 Answers to Frequently Asked Questions

This Section answers some frequently asked questions about the Offer. It is not intended to address all issues relevant to Country Road Shareholders. This Section should be read together with all other parts of this Target's Statement and the Bidder's Statement.

If you are in doubt as to what you should do, your BRC Directors encourage you to obtain independent advice from your investment, financial, tax or other professional adviser before making a decision.

Question	Answer
What is Woolworths Bidco offering for my Country Road Shares?	Woolworths Bidco is offering \$17 cash for each of your Country Road Shares.
What is the Bidder's Statement?	The Bidder's Statement is a document required by the Corporations Act which sets out the terms of the Offer and other required information. Woolworths Bidco served Country Road with a copy of the Bidder's Statement, which contains the Offer, on 7 July 2014 and a copy of that Bidder's Statement was dispatched to all Country Road Shareholders on 11 July 2014. A copy of the Bidder's Statement is available via www.asx.com.au (code: CTY) or www.countryroad.com.au/Information/105120 .
What choices do I have in response to the Offer?	As a Country Road Shareholder you have three options available: 1. Accept the Offer - To accept the Offer, you should follow the instructions set out in Section 2 of the Bidder's Statement and on the Acceptance Form. Your acceptance must be received before the end of the Offer Period. Further information on acceptance of the Offer can be found in Section 4.4 of this Target's Statement. - If you accept the Offer, you have to accept for all of your Country Road Shares. 2. Sell some or all of your Shares During the Offer Period, you may seek to sell some or all of your Country Road Shares (for example, on ASX), unless you have previously accepted the Offer in respect of your Country Road Shares and have not validly withdrawn that acceptance. 3. Reject the Offer and do nothing - To reject the Offer, you do not need to take any action. - If you reject the Offer, you may choose to either hold or sell some or all of your Country Road Shares. - Refer to Section 4.13 of this Target's Statement for details of Woolworths Holdings' entitlement to compulsory acquisition under the Corporations Act.

What is this Target's Statement?	This Target's Statement has been prepared by Country Road as required by the Corporations Act and provides Country Road's response to the Offer, including the recommendation of your BRC Directors and the accompanying report of the Independent Expert.
Who are Woolworths Bidco and Woolworths Holdings?	Woolworths Bidco is a wholly-owned subsidiary of Woolworths Holdings. Woolworths Holdings (via a wholly-owned subsidiary) currently owns 87.88% of Country Road Shares (as at 11 July 2014). Woolworths Holdings is a South Africa-based retail group that trades through more than 600 stores. Its core business focus is retail with a footprint predominantly in South Africa and sub-Saharan Africa. Woolworths Holdings is one of the top 40 companies listed on the Johannesburg Stock Exchange with a market capitalisation of approximately \$5.9 billion as at 7 July 2014. Woolworths Holdings is unrelated to the ASX-listed Woolworths Limited. For further information regarding Woolworths Holdings, please refer to the Bidder's Statement.
Why was the BRC established?	The BRC is a Committee of the Country Road Board established for the purpose of evaluating and responding to, and doing all other things necessary or desirable in connection with, the Offer. The BRC comprises Country Road executive directors Iain Nairn (Chief Executive Officer) and Oliver Kysela (Chief Financial Officer). The other directors on the Country Road board are Ian Moir, Norman Thomson, Paula Disberry and Zyda Rylands, and they are regarded as representatives of Woolworths (the Woolworths Representative Directors). Given their connection with Woolworths Holdings, the Woolworths Representative Directors were not appointed to the BRC and are not making a recommendation in relation to the Offer.
What are your BRC Directors recommending?	Your BRC Directors unanimously recommend that, in the absence of a superior proposal, you accept the Offer. The reasons for this recommendation are set out in the Section 1 of this Target's Statement. If there is a change in your BRC Directors' recommendation or there are any material developments in relation to the Offer, your BRC Directors will make the appropriate supplementary disclosure.
What does the Independent Expert say?	The Independent Expert has valued 100% of the Country Road Shares at between \$14.92 and \$16.22 per Share and concluded that the Offer is both fair and reasonable. The Independent Expert's Report is included in Schedule 2 to this Target's Statement. You should read that report carefully.

How do I accept the Offer?	To accept the Offer you should follow the instructions set out in Section 2 of the Bidder's Statement and on the Acceptance Form. Your acceptance must be received before the end of the Offer Period. Further information on acceptance of the Offer can be found in Section 4.4 of this Target's Statement. If you require assistance, please contact the Country Road Shareholder Information line on 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia).
When does the Offer close?	The Offer is currently scheduled to close at 7pm (Sydney time) on 11 August 2014, unless withdrawn or extended. Shareholders are encouraged to monitor filings via www.asx.com.au (code: CTY) or www.countryroad.com.au/Information/105120 for any updates on the Offer.
What happens if I accept the Offer?	If you accept the Offer in respect of your Country Road Shares, then unless withdrawal rights are available at the applicable time and you exercise those rights, you will not be able to sell those Shares on ASX or to any other bidder that may make a takeover offer, or deal with them in any other manner. See Section 4.5 of this Target's Statement for more details.
If I accept the Offer now, can I withdraw my acceptance?	You may withdraw your acceptance at any time until the FIRB Defeating Condition has been satisfied or waived. You may also withdraw your acceptance in limited circumstances prescribed under the Corporations Act, notably if Woolworths Bidco extends the Offer Period for more than 1 month and the Offer remains conditional. See Section 10.5(a) of the Bidder's Statement which describes in more detail the ability to withdraw your acceptance.
If I choose to accept the Offer, when will I receive my consideration?	If you validly accept the Offer and it becomes unconditional, Woolworths Bidco has said that it will pay the cash consideration for your Country Road Shares by the earlier of: 5 Business Days after this Offer is accepted or 5 Business Days after all of the conditions have been satisfied or waived (whichever is the later); and 5 Business Days after the end of the Offer Period. Further details of when consideration will be paid is set out in Section 10.6 of the Bidder's Statement.

What if Country Road pays a dividend?

No decision has been made by the Country Road Board as to whether a dividend will be paid in respect of its 2014 financial year. That decision will need to be considered by the Board in the circumstances at the relevant time. However, under the terms of the Offer, if you accept the Offer and it becomes unconditional, Woolworths Bidco will be entitled to all of the Rights attaching to your Country Road Shares, which includes the value of any dividends or distributions declared or paid by Country Road after the Announcement Date.

If you receive a Country Road dividend to which Woolworths Bidco is entitled under the terms of the Offer, Woolworths Bidco will deduct the value of the dividend from the \$17 cash per Share to be paid to you. For further details, see Section 10 of the Bidder's Statement.

What are the tax implications of accepting the Offer?

A general outline of the tax implications of accepting the Offer for certain Australian resident Country Road Shareholders is set out in Section 8 of the Bidder's Statement.

You should not rely on that outline as advice on your own affairs. It does not deal with the position of certain Country Road Shareholders. It also does not take into account the particular circumstances of each Country Road Shareholder. You should therefore seek your own professional financial and tax advice before making a decision as to whether or not to accept the Offer for your Country Road Shares.

Can I be forced to sell my Country Road Shares?

You cannot be forced to sell your Country Road Shares unless Woolworths Holdings controls more than 90% of all Country Road Shares. In that scenario, subject to the satisfaction of various legal requirements, Shareholders who did not accept the Offer may be forced to sell their Country Road Shares to Woolworths Bidco under the compulsory acquisition rules.

If Woolworths Bidco proceeds to post bid compulsory acquisition, you will receive the same consideration for your Country Road Shares that you would have received under the Offer, however, you will most likely receive the consideration later than those Country Road Shareholders who have accepted the Offer.

Woolworths Bidco has stated that it intends to exercise its rights of compulsory acquisition if it is entitled to do so. See Section 4.13 for further details, including the rights of Shareholders to object to compulsory acquisition.

What happens if ARI accepts or does not accept the Offer?	ARI holds 11.88% of Country Road Shares (as at 11 July 2014). ARI has not announced its intention as to whether it will accept the Offer. If ARI does accept the Offer, Woolworths Bidco would be entitled to compulsorily acquire all outstanding Shares, which it has stated that it intends to do. If ARI does not accept the Offer and continues to hold those Country Road Shares, Woolworths Bidco would not be entitled to proceed to compulsory acquisition. In its Bidder's Statement, Woolworths Bidco has stated that if it is not entitled to proceed to compulsory acquisition, Woolworths Holdings, together with the Country Road Board, will consider whether it continues to be appropriate to remain listed on ASX and may seek to de-list Country Road, subject to ASX's discretion.
During the period of the Offer, can I sell my Country Road Shares on ASX?	Yes, you may sell some or all of your Country Road Shares through ASX for cash at the prevailing market price of Country Road Shares at the time of sale, provided you have not accepted the Offer for those Shares (or, if you have accepted the Offer, provided you have validly withdrawn that acceptance). You should be aware that the market price of Country Road shares may rise or fall during the Offer Period. If you sell all or some of your Country Road Shares on ASX, you: a) may be liable for capital gains tax or income tax on the sale of those Shares; b) may incur a brokerage charge; and c) will lose the opportunity to receive future returns from Country Road in relation to that portion of Shares sold or sell those Shares into the Offer.
What are the conditions of the Offer?	As at the date of this Target's Statement, the only condition to the Offer is that there is no objection to Woolworths Bidco acquiring Country Road Shares under the <i>Foreign Acquisitions and Takeovers Act 1975 (Cth)</i> (the FIRB Defeating Condition). See Sections 4.6 and 4.7 of this Target's Statement and Section 10.7 of the Bidder's Statement for further details. All other conditions of the Offer have been satisfied or waived.
When will Woolworths Bidco announce the status of the Offer conditions?	Section 2 of the Bidder's Statement indicates that Woolworths Bidco will give a Notice of Status of Conditions on 4 August 2014.
What happens if the FIRB Defeating Condition is not satisfied or waived?	If the FIRB Defeating Condition is not satisfied or waived before the Offer closes, then the contract resulting from your acceptance of the Offer is void and you will retain ownership of those Shares in respect of which you had accepted the Offer. You would then be free to deal with your Country Road Shares.
Can Woolworths Bidco raise the Offer Price?	On 30 June 2014, Woolworths Holdings announced that the Offer was best and final, and that it will not increase the Offer Price.

What happens if a superior proposal is made by a third party?	Your BRC Directors will carefully consider the merits of any competing proposal and will advise you whether the competing proposal affects their initial recommendation that Country Road Shareholders accept the Offer. In light of Woolworths Holdings' 87.88% ownership interest in Country Road (as at 11 July 2014), your BRC Directors consider it unlikely that a superior proposal will be forthcoming before the end of the Offer Period. If you have already accepted the Offer, then you may not be able to participate in any competing proposal. See Section 4.5 for further information.
Can I accept the Offer for only some of my Shares?	No. You cannot accept the Offer for only some of your Shares. You may only accept the Offer for all of your Shares.
What are the risks associated with Country Road and its business?	A discussion of some of the risks associated with Country Road and its business are set out in Section 3.3 of this Target's Statement.
Who should I call if I have questions in relation to the Offer?	You can contact the Country Road Shareholder Information Line on 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday, or you can speak to your investment, financial, tax or other professional adviser.

3 About Country Road

3.1 Profile

The Country Road Group is one of Australia's largest specialty fashion retailers with complementary brands and a market leading position in the mid to upper tier of specialty fashion.

(a) Our brands

The Group operates four brands – Country Road, Mimco, Trenery and Witchery.

- Country Road: launched in 1974 as a niche Australian women's shirting business, the Country Road brand has evolved into one of Australia's most iconic lifestyle brands for women, men, children and home. The Country Road brand is renowned for stylish, high-quality apparel, accessories and homeware.
- Mimco: launched in Australia in 1996 as an accessories designer, Mimco opened its first standalone boutique in Melbourne in 2001. The Mimco brand is positioned as an accessible luxury accessories brand, designed with quirk. It celebrates unique design, eclectic styling, quality and collectability. The Country Road Group acquired Mimco in 2012 as part of the Witchery Group acquisition.
- Trenery: launched in 2009, Trenery is designed for women and men who appreciate the beauty of simple, sophisticated collections that are modern in approach and classic in style.
- Witchery: launched in Australia in 1970 as a womenswear brand, the Witchery brand is positioned as the 'STYLE AUTHORITY', providing the latest apparel and accessories trends for women, men, girls and boys. The Country Road Group acquired Witchery Australia in 2012 as part of the Witchery Group acquisition.

Each of the Group's brands operate stores in Australia, New Zealand and South Africa. In South Africa, the Group's brands operate within Woolworths Holdings concession stores, as well as standalone stores.

In addition, the Group has a fast growing digital business with capability to sell internationally.

(b) Corporate history

- 1974: Country Road brand launched
- 1987: Country Road listed on ASX
- 1998: Woolworths Holdings secured a controlling interest in Country Road
- 2004: Country Road brand re-launched with a fresh modern identity
- 2008: Country Road brand launched in South Africa in standalone and Woolworths Holdings concession stores
- 2009: Trenery launched in Australia and South Africa
- 2010: Trenery launched in New Zealand
- 2012: Country Road Group acquired the Witchery Group, comprising the Witchery and Mimco brands
- 2013: Witchery brand was repositioned as the 'STYLE AUTHORITY'
- 2014: Relaunch of Witchery and launch of Mimco into South Africa

(c) Additional information

Further information about the Country Road Group and its operations are set out in the following Country Road ASX announcements:

- 'Distribution and Fulfilment Transformation Project' dated 20 May 2014;
- 'Presentation' dated 9 May 2014; and
- 'Trading update and profit guidance' dated 7 July 2014.

3.2 Trading update and profit guidance (unaudited)

(a) Trading update

As announced on 7 July 2014, sales performance for the Country Road Group for the year ended 28 June 2014 against the corresponding period last year was as follows:

	52 Weeks Ending 28 June 2014 (\$m)	52 Weeks Ending 29 June 2013* (\$m)	Total Sales Growth (%)	Comparable Sales Growth (%)
Total Sales	849.6	706.3	+20.3%	+8.0%
Total Sales - Australasia	759.3	630.9	+20.3%	+7.2%
Total Sales - South Africa	90.3	75.4	+19.8%	+12.8%**

* Sales from the Witchery and Mimco brands are included from the effective date of the Witchery Group acquisition on 29 September 2012.

** Total sales in South African Rand (which excludes the impact of translation to Australian dollars) increased by +25.8% and total comparable store sales increased by +18.1%.

Total retail space increased by +3.6% net of closures.

(b) Profit guidance

Profit performance for the Group for the year ended 28 June 2014 against the corresponding period last year is expected to be within the following ranges:

	52 Weeks Ending 28 June 2014		52 Weeks Ending 29 June 2013*	Profit Growth	
	High	Low		High	Low
	(\$m)	(\$m)	(\$m)	(%)	(%)
Profit before tax	95.0	87.0	55.9	+70.1%	+55.7%
EBITDA	123.7	115.7	82.1	+50.8%	+41.0%
EBIT	100.9	92.9	60.8	+66.0%	+52.8%
Earnings per share	68.3	60.9	43.5	+57.2%	+40.1%

* Profit derived from the Witchery and Mimco brands is included from the effective date of the Witchery Group acquisition on 29 September 2012.

The financial information in this Section 3.2 has not been audited, reviewed or reported upon by Country Road's external auditors. The full audited results for FY14 are scheduled to be announced on or around 8 August 2014.

(c) Store opening update

In May this year, Country Road provided information on its operations to the market, including future store openings. Since that time, the contemplated store opening figures have been updated for Australasia and South Africa as follows:

	FY14/15					FY15/16					FY16/17					Total
New stores (net of closures)	CR	M	T	W	Total	CR	M	T	W	Total	CR	M	T	W	Total	Group
Australasia	7	2	8	1	18	4	2	10	-	16	4	2	10	-	16	50
RSA (standalone & concession)	3	4	3	10	20	3	4	3	10	20	3	4	3	10	20	60

*CR = Country Road, M = Mimco, T = Trenery, W = Witchery

3.3 Risk factors relevant to continuing to hold Country Road Shares

If you choose not to accept the Offer (and do not otherwise sell your Shares or your Shares are not otherwise compulsorily acquired), you will remain a Country Road Shareholder and continue to be subject to a number of business risks including financial risks, strategic risks and risks related to Country Road's operations. These include, but are not limited to, risks associated with:

- the retail environment and general economic conditions, which can affect consumer behaviour;
- the highly competitive environment in which Country Road operates, which is subject to increasing competition from international retailers and online retail platforms;
- the potential erosion of Country Road's reputation, and the value associated with its brand names, in the event of product quality concerns, incorrect pricing, incorrect brand segmentation, litigation or disputes, or adverse media coverage;
- the rapid and occasionally unpredictable changes in customer preferences in the fashion market, from which a significant proportion of Country Road's revenue is generated;
- implementation of Country Road's expansion strategy;
- Country Road's South African operations, including political instability, consumer risk, product affordability, exchange rate risk and restrictions on the repatriation of funds to Australia;
- unsuccessful marketing or advertising campaigns by Country Road, which may adversely impact margins;
- Country Road's product sourcing and manufacturing arrangements, which are primarily based in Asia;
- loss of key personnel;
- exchange rate and interest rate risk, and risks inherent in holding shares;
- failure of Country Road's information systems, which could have a significant impact on Country Road's ability to trade; and
- changes in the regulatory environment, and litigation and disputes, which may arise from time to time.

The above risks of Country Road and its business are in addition to the risks identified elsewhere in this Target's Statement which apply to those persons who remain as Country Road Shareholders after the Offer, in particular, in relation to the prospect of Country Road de-listing (see Section 4.12) and the risk of the timing and extent to which the potential benefits from the acquisition of David Jones may be able to be realised (see Section 1.2).

4 Details of the Offer

Woolworths Bidco served Country Road with a copy of the Bidder's Statement, which contains the Offer, on 7 July 2014 and a copy of that Bidder's Statement was dispatched to all Country Road Shareholders on 11 July 2014.

4.1 The Offer

Woolworths Bidco is offering to acquire all of your Country Road Shares, including any Rights attaching to those Shares, on the terms and conditions set out in the Bidder's Statement.

You can only accept the Offer for all of your Shares.

4.2 Offer Price

Woolworths Bidco is offering \$17 cash for each of your Country Road Shares.

4.3 Offer Period and acceptance

The Offer is open for acceptance from 11 July 2014 until 7pm (Sydney time), on 11 August 2014, unless it is withdrawn or the Offer Period is extended in accordance with the Corporations Act.

4.4 How to accept the Offer

If you choose to accept the Offer, then your acceptance must be received by Woolworths Bidco before the end of the Offer Period. Instructions on how to accept the Offer are set out in the Bidder's Statement and on the Acceptance Form that accompanies the Bidder's Statement. If you want to accept the Offer, you should follow these instructions carefully to ensure that your acceptance is valid.

How you accept the Offer depends on the nature of your holding.

- If your Country Road Shares are on **Country Road's issuer sponsored subregister** and you want to accept the Offer, you should complete and deliver the Acceptance Form in sufficient time that it is received by Woolworths Bidco before the end of the Offer Period.
- If your Country Road Shares are in a **CHESS holding** and you want to accept the Offer, you should:
 - o complete and deliver the Acceptance Form in sufficient time so that your Controlling Participant (normally your broker) has sufficient time to effect your acceptance before the end of the Offer Period; or
 - o give instructions to your Controlling Participant (normally your broker) in sufficient time to allow your Controlling Participant to initiate your acceptance under the CHESS system before the end of the Offer Period.
- If you are a **Participant** and you want to accept the Offer, acceptance of this Offer must be initiated in accordance with Rule 14.14 of the ASX Settlement Operating Rules before the end of the Offer Period.

4.5 Effect of acceptance

If you accept the Offer and it becomes or is declared unconditional, you will be entitled to be paid the Offer Price by Woolworths Bidco in accordance with the terms of the Offer (see Section 2 of the Bidder's Statement for further information on timing of payment of the Offer Price).

The effect of acceptance of the Offer is explained in more detail in Section 10.5 of the Bidder's Statement. You should read those provisions in full to understand the effect that acceptance will have on your ability to exercise the rights attaching to your Country Road Shares and the representations and warranties that you are deemed by Woolworths Bidco to give to it by accepting the Offer.

It is worth noting that accepting the Offer would (subject to the possible withdrawal rights set out below):

- prevent you from participating in any competing superior proposal that may emerge;
- see you relinquish all of your Country Road Shares to Woolworths Bidco with no right to payment until the Offer becomes, or is declared, unconditional; and
- prevent you from otherwise selling your Country Road Shares.

4.6 Conditions of the Offer

The Offer only remains subject to the FIRB Defeating Condition. All other conditions of the Offer have been satisfied or waived.

Full details on the FIRB Defeating Condition are set out in Section 10.7 of the Bidder's Statement.

If the FIRB Defeating Condition is not satisfied or waived by the end of the Offer Period, then the contract resulting from your acceptance of the Offer is void.

Woolworths Bidco has stated in its Bidder's Statement that if the FIRB Defeating Condition is not satisfied or waived by 4 August 2014, it intends to extend the Offer by 2 weeks until 25 August 2014.

4.7 Notice of Status of Conditions

The Bidder's Statement indicates that Woolworths Bidco will give to ASX and Country Road a Notice of Status of Conditions on 4 August 2014 (subject to extension in accordance with the Corporations Act).

Woolworths Bidco is required to set out in its Notice of Status of Conditions:

- whether its Offer is free of any or all of the conditions of the Offer;
- whether, so far as Woolworths Bidco knows, any of the conditions have been satisfied; and
- Woolworths Bidco's voting power in Country Road at that time.

If the Offer Period is extended before the Notice of Status of Conditions is to be given, the date that Woolworths Bidco must give its Notice of Status of Conditions will be taken to be postponed for the same period. In the event of such an extension, Woolworths Bidco is required, as soon as reasonably practicable after the extension, to notify ASX and Country Road of the new date for giving the Notice of Status Conditions.

If the FIRB Defeating Condition is satisfied during the Offer Period but before the date on which the Notice of Status of Conditions is required to be given, Woolworths Bidco must, as soon as practicable, give ASX and Country Road a notice stating that the FIRB Defeating Condition has been satisfied.

4.8 Extension of the Offer Period

If the Offer becomes or is declared unconditional, Woolworths Bidco may extend the Offer Period at any time before the end of the Offer Period.

However, until the FIRB Defeating Condition is satisfied or waived, Woolworths Bidco may extend the Offer Period at any time before it gives ASX and Country Road a Notice of Status of Conditions.

Woolworths Bidco has stated in its Bidder's Statement that if the FIRB Defeating Condition is not satisfied or waived by 4 August 2014, it intends to extend the Offer by 2 weeks until 25 August 2014.

Woolworths Bidco may only extend the Offer Period after it gives its Notice of Status of Conditions in limited circumstances.

You should note that, because the current voting power in Country Road of Woolworths Holdings is more than 50%, there will be no automatic extension of the Offer Period if Woolworths Holdings becomes entitled to own a majority of Country Road Shares in the last seven days of the Offer Period.

Woolworths Holdings is obliged to file notices at ASX each time its interest in Country Road Shares changes by 1% or more. You should monitor these filings via www.asx.com.au (code: CTY) or www.countryroad.com.au/Information/105120, if you wish to wait until Woolworths Holdings has a particular level of holding before deciding what to do.

4.9 Your withdrawal rights

If you accept the Offer, you will have a right to withdraw your acceptance in some circumstances. Those withdrawal rights comprise general statutory withdrawal rights under the Corporations Act and a withdrawal right to the extent that the conditions of the Offer remain unsatisfied.

In summary:

(a) **Statutory withdrawal rights under the Corporations Act**

Under the Corporations Act, you may withdraw your acceptance of the Offer if Woolworths Bidco varies its Offer in a way that postpones, for more than one month, the time at which Woolworths Bidco needs to meet its obligations under the Offer. This will occur if Woolworths Bidco extends the Offer Period by more than one month and the Offer is still subject to conditions.

In those circumstances, you will have a period of one month after the date that the Offer is extended to withdraw your acceptance. Your statutory withdrawal rights will terminate upon the expiry of that one month period, although if the Offer Period is then further extended you may receive further statutory withdrawal rights.

(b) **Offer conditions**

You may withdraw your acceptance if the FIRB Defeating Condition of the Offer has not, at the time of your withdrawal, been satisfied or waived. This is because the completion of this Offer and any contract that results from an acceptance of this Offer is subject to satisfaction of this condition.

The manner in which you can withdraw your acceptance will depend on whether the Country Road Shares the subject of the acceptance were held in an CHESS holding or in an issuer sponsored holding.

Issuer sponsored holdings

If the Country Road Shares were held in an issuer sponsored holding you should send a written notice of withdrawal to Woolworths Bidco's share registry provider, Computershare Investor Services Pty Ltd, GPO Box 2115 Melbourne, Victoria Australia.

CHESS Holdings

If the Country Road Shares were held in a CHESS holding, you should contact your Controlling Participant (normally your broker) to instruct them to effect the withdrawal.

4.10 Withdrawal of the Offer by Woolworths Bidco

Woolworths Bidco may be able to withdraw the Offer if it obtains the written consent of ASIC, subject to the conditions (if any) specified in such consent.

4.11 Lapse of the Offer

The Offer will lapse if, at the end of the Offer Period, the FIRB Defeating Condition is not satisfied or waived. If this occurs then acceptances given by Country Road Shareholders will be cancelled and those Shareholders will continue to own their Country Road Shares (and will be free to deal with them as they choose).

4.12 De-listing

In its Bidder's Statement, Woolworths Bidco has stated that if it does not become entitled to commence compulsory acquisition, Woolworths Holdings together with the Country Road Board will consider whether it continues to be appropriate to remain listed on ASX and may seek to de-list Country Road, subject to ASX's discretion.

If such de-listing is successful, it may become significantly more difficult to sell your Shares and you may lose rights that are available to shareholders under the ASX Listing Rules. In that scenario and where Country Road has 50 shareholders or less, shareholders may also lose the protections granted by the takeover rules in the Corporations Act (for example, shareholders may not have the opportunity to participate in any future transaction under which Woolworths Holdings seeks to increase its ownership in Country Road).

4.13 Compulsory acquisition

(a) Post bid compulsory acquisition

Woolworths Holdings has stated that if it becomes entitled to proceed to compulsory acquisition of the outstanding Country Road Shares in accordance with Part 6A.1 of the Corporations Act, it (through Woolworths Bidco) intends to proceed with such compulsory acquisition and it would also arrange for Country Road to be de-listed.

Under the post bid compulsory acquisition regime, Woolworths Bidco will be entitled to acquire compulsorily any outstanding Country Road Shares for which it has not received acceptances on the same terms as the Offer if, during or at the end of the Offer Period, Woolworths Bidco (taken together with its associates):

- has a relevant interest in at least 90% (by number) of Country Road Shares; and
- has acquired at least 75% (by number) of Country Road Shares for which it has made an Offer.

If Woolworths Bidco is entitled to proceed to post bid compulsory acquisition, Woolworths Bidco will have one month from the end of the Offer Period within which to give compulsory acquisition notices to Country Road Shareholders who have not accepted the Offer, but it may choose to commence compulsory acquisition as soon as the relevant thresholds are satisfied.

A Country Road Shareholder has statutory rights to challenge compulsory acquisition, but this will require the relevant Shareholder to establish to the satisfaction of a court that the terms of the Offer do not represent fair value for Country Road Shares.

See Section 7.3 of the Bidder's Statement for further details in respect of compulsory acquisition and other intentions of Woolworths Holdings.

(b) General compulsory acquisition

Under Part 6A.2 of the Corporations Act, Woolworths Holdings would be entitled to compulsorily acquire any Country Road Shares if Woolworths Holdings (either alone or together with a related body corporate) holds:

- full beneficial interests in at least 90% (by number) of Country Road Shares; or
- 90% voting power in Country Road and full beneficial interests in at least 90% by value of all securities issued by Country Road.

If these thresholds are met, Woolworths Holdings will have six months after it becomes a 90% holder within which to give compulsory acquisition notices to the relevant Country Road Shareholders. The compulsory acquisition notices sent to the Country Road Shareholders must be accompanied by an independent expert's report and an objection form.

The independent expert's report must set out whether the terms of the compulsory acquisition give 'fair value' for the Country Road Shares concerned and the independent expert's reasons for forming that opinion.

If Country Road Shareholders with at least 10% of Country Road Shares covered by the compulsory acquisition notice object to the acquisition before the end of the objection period (which must be at least one month from the date of the compulsory acquisition notice), Woolworths Holdings may apply to the court for approval of the acquisition of the Country Road Shares covered by the notice. The costs incurred by any Country Road Shareholder who objects in legal proceedings in relation to the compulsory acquisition must be borne by Woolworths Holdings, unless the court is satisfied that the Country Road Shareholder acted improperly, vexatiously or otherwise unreasonably.

5 Other material information

5.1 Country Road capital structure

As at 16 July 2014, Country Road's issued capital comprised 103,585,233 fully paid ordinary shares.

Country Road has no options or other securities on issue.

5.2 Country Road Securities Trading Policy

Dealing in Country Road Shares by Directors, officers and employees of Country Road is restricted by the Country Road Securities Trading Policy.

Under that policy, the Directors, officers and employees of Country Road are prohibited (except in certain circumstances) from dealing in Country Road Shares outside of the following periods:

- in the four weeks following the release of annual accounts;
- in the four weeks following the release of half-yearly results; and
- in the four weeks following Country Road's annual general meeting.

Even during 'open' periods, Directors and senior officers of Country Road are required to obtain the consent of the Company Secretary before dealing in their Shares.

The Board has resolved to permit trading by Directors and employees in Country Road Shares during the period between release of this Target's Statement to ASX and the end of the Offer Period. However, if the Offer Period is extended the permission to trade will be reviewed on an ongoing basis.

5.3 Potential impact of the Offer on Country Road's material contracts

As at the date of this Target's Statement, Country Road is not aware of any contract that has been entered into by Country Road or a subsidiary, that Country Road regards as material to the Country Road Group, that contains a change of control provision that would be triggered if Woolworths Bidco acquires the Country Road Shares the subject of the Offer.

5.4 Changes in financial position

So far as known to any Director, the financial position of Country Road has not materially changed between 29 June 2013 (the date of Country Road's last audited financial report) and the date of this Target's Statement, except as disclosed in this Target's Statement (including in the Independent Expert's Report in Schedule 2) and in Country Road's announcements to ASX since 29 June 2013, including 'Half Year Report & Accounts' released on ASX on 3 February 2014 and 'Trading Updating and Profit Guidance (unaudited)' released on ASX on 7 July 2014.

5.5 Material disputes

As at the date of this Target's Statement, Country Road has no knowledge of any actual, nor is on notice of any threatened, litigation or dispute that is material in the context of the Country Road Group.

5.6 Impact of Country Road employee incentive share schemes

Country Road does not operate any employee incentive share or option schemes.

5.7 Tax considerations for Country Road Shareholders

Section 8 of the Bidder's Statement provides a brief guide of the potential Australian tax consequences of accepting the Offer.

Country Road Shareholders should consult their own tax adviser for tax advice tailored to their own particular circumstances. Country Road Shareholders should not solely rely on Section 8 of the Bidder's Statement in relation to the tax implications of accepting the Offer. In particular, Country Road

Shareholders who are subject to tax outside Australia should obtain their own advice as to the tax consequences for them of the Offer, which may be different to those applicable to Australian resident Country Road Shareholders.

5.8 Reliance on information obtained from Woolworths Bidco, Woolworths Holdings or public sources

The information in this Target's Statement about Woolworths Bidco and Woolworths Holdings has been compiled from or is otherwise based on information obtained from Woolworths Bidco, Woolworths Holdings or publicly available sources, and has not been independently audited or verified by Country Road or its advisers. If the information obtained from Woolworths Bidco, Woolworths Holdings or the public sources is inaccurate or incomplete, this may affect the information included in this Target's Statement. In particular, if the information has been used as the basis for forward looking statements in this Target's Statement, this may add to the risk that actual values, results, performance or achievements will differ materially from those expressed or implied by the forward looking statements.

5.9 Publicly available information

This Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX by Woolworths Holdings or Woolworths Bidco. Those documents are:

- the announcement lodged with ASX on 24 June 2014 titled 'Intention to make an off-market takeover bid for Country Road Limited';
- the announcement lodged with ASX on 30 June 2014 titled 'Announcement in respect of off-market takeover bid for CTY';
- the Bidder's Statement lodged with ASX on 7 July 2014 titled 'Bidder's Statement';
- the announcement lodged with ASX on 11 July 2014 titled 'Dispatch of Bidder's Statement'; and
- the announcement lodged with ASX on 18 July 2014 titled 'Satisfaction and waiver of certain conditions'.

As required by ASIC Class Order 13/521, any Country Road Shareholder who would like to receive a copy of any of those documents (or relevant extracts from those documents) may obtain a copy free of charge by contacting the Country Road Shareholder Information Line on 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday. Copies of the documents filed with ASX may also be obtained from the ASX website at www.asx.com.au (code: CTY) or the Country Road website at www.countryroad.com.au/Information/105120.

5.10 Continuous disclosure

Country Road is a 'disclosing entity' under the Corporations Act and is subject to regular reporting and disclosure obligations under the Corporations Act and the ASX Listing Rules. These obligations require Country Road to notify ASX of information about specified matters and events as they occur for the purpose of making that information available to the market. In particular, Country Road has an obligation (subject to limited exceptions) to notify ASX immediately on becoming aware of any information that a reasonable person would expect to have a material effect on the price or value of Country Road Shares.

Copies of the documents filed with ASX may be obtained from the ASX website at www.asx.com.au (code: CTY) or the Country Road website at www.countryroad.com.au/Information/105120.

In addition, Country Road will make copies of the following documents available for inspection at its registered office (between 9am and 5pm on Business Days):

- Country Road's Annual Report for the year ended 29 June 2013;
- Country Road's Constitution; and

- any document lodged by Country Road with ASX between the lodgement of its 2013 Annual Report on 30 September 2013 and the date of this Target's Statement. A list of these documents is included in Schedule 1.

Copies of the documents are also available on Country Road's website

(www.countryroad.com.au/Information/105120), or may be requested to be provided free of charge by contacting the Country Road Shareholder Information Line on 1800 669 269 (within Australia) or + 61 1800 669 269 (outside Australia) between 8.30am and 5.30pm (AEST) Monday to Friday.

Copies of documents lodged with ASIC in relation to Country Road may be obtained from or inspected at an ASIC office.

5.11 Other information

This Target's Statement is required to include all the information Country Road Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer, but:

- only to the extent to which it is reasonable for investors and their professional advisers to expect to find this information in this Target's Statement; and
- only if the information is known to any of the Country Road Directors.

The BRC Directors are of the opinion that the information that Country Road Shareholders and their professional advisers would reasonably require to make an informed assessment of whether to accept the Offer is:

- the information contained in the Bidder's Statement (to the extent that the information is not inconsistent with or superseded by information in this Target's Statement);
- the information contained in Country Road's 2013 Annual Report;
- the information contained in Country Road's announcements to ASX prior to the date of this Target's Statement; and
- the information contained in this Target's Statement, including the Schedules to this Target's Statement.

The BRC Directors have assumed, for the purposes of preparing this Target's Statement, that the information contained in the Bidder's Statement is accurate (unless they have expressly indicated otherwise in this Target's Statement). The Country Road Board does not take any responsibility for the contents of the Bidder's Statement and is not to be taken as endorsing, in any way, any or all statements contained in it.

In deciding what information should be included in this Target's Statement, the BRC Directors have had regard to:

- the nature of the Country Road Shares;
- the matters Country Road Shareholders may reasonably be expected to know;
- the fact that certain matters may reasonably be expected to be known to the professional advisers of Country Road Shareholders; and
- the time available to Country Road to prepare this Target's Statement.

5.12 Details of Directors

The Directors of Country Road as at the date of this Target's Statement are:

Name	Position
Ian Moir	Non-Executive Director and Chairman
Iain Nairn	Executive Director and Chief Executive Officer
Norman Thomson	Non-Executive Director
Paula Disberry	Non-Executive Director
Zyda Rylands	Non-Executive Director
Oliver Kysela	Executive Director, Chief Financial Officer and Company Secretary

Each of Ian Moir, Norman Thomson, Paula Disberry and Zyda Rylands are the Woolworths Representative Directors. They are executives or former executives of Woolworths Holdings. Having regard to their connection to Woolworths Holdings, they do not consider themselves to be independent for the purposes of the Offer and for that reason are not making a recommendation in relation to the Offer.

5.13 BRC Directors' recommendation

In assessing the Offer, your BRC Directors (being executive directors Iain Nairn and Oliver Kysela) have taken into account many considerations, including matters set out in the Bidder's Statement and in this Target's Statement.

The BRC Directors have also considered whether, as executives of Country Road (a subsidiary of Woolworths Holdings), they are able to make a recommendation in relation to the Offer. The BRC Directors are aware of their duties as directors and are satisfied that they have performed their duties appropriately during this process. The BRC Directors are also satisfied that appropriate protocols have been put in place during this process, that they have been advised appropriately by external advisers and that they have not been subject to any undue influence from Woolworths Holdings. Accordingly, they are satisfied that they are able to make a recommendation.

Based on the BRC Directors' assessment, and for the reasons set out in preceding Sections of this Target's Statement, each of your BRC Directors recommends that Country Road Shareholders accept the Offer in respect of all of their Shares, in the absence of a superior proposal.

In considering whether you wish to follow your BRC Directors' recommendation, you should:

- read the whole of this Target's Statement, including the accompanying Independent Expert's Report;
- consider your individual risk profile, investment strategy, tax position and financial circumstances; and
- obtain independent financial and tax advice if you believe that is necessary.

If you decide that you wish to sell your Country Road Shares now, you should consider either accepting the Offer or, if the ASX price for Country Road Shares (less brokerage costs) is above the Offer Price, selling your Country Road Shares on ASX.

5.14 Directors' interests in Country Road or Woolworths Bidco securities

As at the date of this Target's Statement, no Director has a relevant interest in any securities of Country Road or Woolworths Bidco.

5.15 Directors' interests in Woolworths Holdings securities

Except as set out below, no Director has a relevant interest in any securities of Woolworths Holdings as at the date of this Target's Statement.

Director	Ordinary shares held directly or indirectly	Shares pursuant to Woolworths Holdings Deferred Bonus Plan	Rights to shares pursuant to the Woolworths Holdings Appreciation Rights Scheme	Conditional share awards pursuant to the Woolworths Holdings Long Term Incentive Plan	Shares pursuant to the Woolworths Holdings Restricted Share Plan	Shares pursuant to the Woolworths Holdings Share Ownership Trust
Ian Moir	215,641	29,600	381,334	400,186	793,280	-
Norman Thomson	1,611,655	-	-	-	-	-
Paula Disberry	44,924	11,300	119,851	125,229	137,712	-
Zyda Rylands	2,082,735	14,700	533,111	139,223	103,125	1,250,000

5.16 Dealings by Directors in Woolworths Holdings securities

No Director acquired or disposed of any securities in Woolworths Holdings within the period of four months immediately preceding the date of this Target's Statement.

5.17 Conditional agreements

No Director is a party to any agreement or arrangement with any other person in connection with or conditional on the outcome of the Offer.

5.18 Interests of Directors of Country Road in any contract with Woolworths

No BRC Director has an interest in any contract entered into by them with Woolworths Bidco or Woolworths Holdings. The Woolworths Representative Directors, who are not making a recommendation in this Target's Statement, have interests in agreements entered into by them with Woolworths Holdings that relate to their executive positions within the Woolworths Group.

5.19 Payments and benefits

As a result of the Offer, no benefit (other than a benefit permitted by section 200F or 200G of the Corporations Act) will or may be given to a Director in connection with their retirement from office in Country Road or a related body corporate of Country Road.

5.20 Consents

The following persons have given and have not, before the date of issue of this Target's Statement, withdrawn their consent to:

- be named in this Target's Statement in the form and context in which they are named;
- the inclusion of their respective reports or statements noted next to their names and the references to those reports or statements in the form and context in which they are included in this Target's Statement; and
- the inclusion of other statements in this Target's Statement that are based on or referable to statements made in those reports or statements, or that are based on or referable to other statements made by those persons in the form and context in which they are included.

Name of Person	Named as	Reports or Statements
Allens	Legal adviser	N/A
Fort Street	Financial adviser	N/A
Lonergan Edwards and Associates	Independent Expert	Independent Expert's Report in Schedule 2

Each of the above persons:

- does not make, or purport to make, any statement in this Target's Statement other than those statements referred to above and as consented to by that person; and
- to the maximum extent permitted by law, expressly disclaims and takes no responsibility for any part of this Target's Statement other than as described in this Section with the person's consent.

As permitted by ASIC Class Order 13/521, this Target's Statement contains statements that are made, or based on statements made, in documents lodged with ASIC or ASX. Pursuant to this Class Order, the consent of persons to whom such statements are attributed is not required for the inclusion of those statements in this Target's Statement.

Additionally, as permitted by ASIC Class Order 03/635, this Target's Statement may include or be accompanied by certain statements:

- fairly representing a statement by an official person; or
- from a public official document or published book, journal or comparable publication.

Pursuant to that Class Order, the consent of persons to whom such statements are attributed is not required for inclusion of those statements in this Target's Statement.

Further, as permitted by ASIC Class Order 07/429, this Target's Statement contains share price trading data sourced from the Bloomberg Enterprise Solutions services provided by Bloomberg L.P without its consent.

6 Authorisation

This Target's Statement has been approved by a resolution passed by the Directors of Country Road.

Signed for and on behalf of Country Road:



Iain Nairn
Director



Oliver Kysela
Director

21 July 2014

7 Definitions and interpretation

7.1 Definitions

The following definitions apply in this Target's Statement unless the context requires otherwise.

Acceptance Form means the Acceptance Form provided to you by Woolworths Bidco with its Bidder's Statement containing instructions on how to accept the Offer.

Announcement Date means the date on which the intention to make the Offer was announced by Woolworths Holdings, being 24 June 2014.

ARI means Australian Retail Investments Pty Ltd (ACN 074 747 292).

ASIC means the Australian Shares and Investments Commission.

ASX means ASX Limited (ABN 98 008 624 691) or, as the context requires, the financial market known as 'ASX' operated by it.

ASX Listing Rules means the listing rules of ASX.

ASX Settlement means ASX Settlement Pty Ltd (ABN 49 008 504 532).

ASX Settlement Operating Rules means the operating rules of ASX Settlement or of any relevant organisation which is an alternative or successor to or replacement of, ASX Settlement or of any applicable CS facility licensee.

Bidder's Statement means the bidder's statement served on Country Road by Woolworths Bidco on 7 July 2014 in relation to the Offer.

BRC means the Board Response Committee which comprises the BRC Directors.

BRC Directors means Iain Nairn and Oliver Kysela.

Business Day means a day which is not a Saturday, Sunday or a public holiday in Melbourne.

CHESS means the Clearing House Electronic Subregister System, which provides for electronic security transfer in Australia.

Corporations Act means the *Corporations Act 2001* (Cth).

Country Road Board or **Board** means the board of directors of Country Road.

Country Road or **Company** means Country Road Limited (ACN 006 759 182).

Country Road Constitution means the Constitution of Country Road as amended.

Country Road Director or **Director** means a director of Country Road.

Country Road Group or **Group** means Country Road and its subsidiaries.

Country Road Share or **Share** means a fully paid ordinary share in Country Road.

Country Road Shareholder or **Shareholder** means a person who is registered as the holder of a Country Road Share in the Country Road register of members.

Country Road Share Registry means The Registrar, Computershare Investor Services Pty Limited of GPO Box 2975, Melbourne VIC 3001.

CS facility licensee means a person who holds a licence under the Corporations Act that authorises the person to operate a clearing and settlement facility.

David Jones means David Jones Limited (ACN 000 074 573).

EBIT means earnings before interest and tax.

EBITDA means earnings before interest, tax, depreciation and amortisation.

FIRB means the Foreign Investment Review Board.

FIRB Defeating Condition has the meaning given to it in Section 2.

FY13 means the 2013 financial year.

FY14 means the 2014 financial year.

Independent Expert or **Lonergan Edwards and Associates** means Lonergan Edwards and Associates Limited (ABN 53 095 445 560).

Independent Expert's Report means the report and related financial services guide prepared by the Independent Expert, as set out in Schedule 2.

Notice of Status of Conditions means Woolworths Bidco's notice disclosing the status of the conditions of the Offer, which is required to be given under section 630(3) of the Corporations Act.

Offer or the **Woolworths' Offer** means the takeover bid by Woolworths Bidco to acquire all of the Country Road Shares that Woolworths Holdings does not have a relevant interest in on the terms and conditions set out in the Bidder's Statement.

Offer Price means \$17 per Country Road Share.

Offer Period means the period within which the Offer is open for acceptance in accordance with the Bidder's Statement and the Corporations Act.

Rights means all accretions, rights or benefits of whatever kind attaching or arising from Country Road Shares directly or indirectly at or after the Announcement Date (including, but not limited to, all dividends or other distributions and all rights to receive them or rights to receive or subscribe for shares, shares, notes, bonds, options or other securities declared, paid or issued by Country Road or any of its subsidiaries).

Target's Statement means this document, being the statement of Country Road under Part 6.5 of the Corporations Act in relation to the Offer. It includes the Independent Expert's Report.

VWAP means volume weighted average price.

Woolworths Holdings or **Woolworths Holdings Limited (South Africa)** means Woolworths Holdings Limited (Registration No. 1929/001986/06).

Woolworths Group means Woolworths Holdings and its subsidiaries.

Witchery Australia means Witchery Australia Holdings Pty Ltd (ACN 120 925 368) .

Witchery Group means Witchery and its subsidiaries.

Woolworths Bidco means Woolworths International (Australia) II Pty Ltd (ACN 600 437 063).

Woolworths Representative Directors means Ian Moir, Norman Thomson, Paula Disberry and Zyda Rylands.

7.2 Interpretation

The following rules of interpretation apply unless the context requires otherwise.

- (a) A term not specifically defined in this Target's Statement has the meaning given to it (if any) in the Corporations Act, the Listing Rules or the ASX Settlement Operating Rules (as is appropriate to the context).
- (b) A gender includes all genders.
- (c) The singular includes the plural, and the converse also applies.

- (d) A reference to a person includes a corporation, trust, partnership, unincorporated body or other entity, whether or not it comprises a separate legal entity.
- (e) A reference to legislation or to a provision of legislation includes any modification or re-enactment of it, any legislative provision substituted for it and any regulations and statutory instruments issued under it.
- (f) A reference to a person includes a reference to the person's executors, administrators, successors, substitutes (including, but not limited to, persons taking by novation) and assigns.
- (g) A reference to a right or obligation of any two or more people comprising a single party confers that right, or imposes that obligation, as the case may be, on each of them severally and each two or more of them jointly. A reference to that party is a reference to each of those people separately (so that, for example, a representation or warranty by that party is given by each of them separately).
- (h) A reference to an agreement or document is to the agreement or document as amended, supplemented, novated or replaced.
- (i) Headings used in this Target's Statement are for ease of reference only and do not affect the meaning or interpretation of this Target's Statement.
- (j) A reference to a Section or Schedule is to a section of, or schedule to, this Target's Statement unless otherwise specified.
- (k) If a word or phrase is defined, its other grammatical forms have a corresponding meaning.
- (l) \$, A\$ or AUD is a reference to the lawful currency of Australia.
- (m) A reference to time is a reference to Australian Eastern Standard Time.
- (n) All numbers in this Target's Statement, unless otherwise stated, have been rounded to two decimal places.
- (o) As at 11 July 2014, Woolworths International (Australia) Pty Limited, a wholly owned subsidiary of Woolworths Holdings, is the holder of 87.88% of Country Road Shares. References in this Target Statement to Woolworths Holdings' current ownership of Country Road Shares are references to this shareholding. In its 18 July 2014 announcement to ASX, Woolworths Bidco noted that its voting power as at that date was 88.90% (which Country Road presumes is as a result of some acceptances of the Offer being received).

Schedule 1 - Country Road ASX Announcements

Satisfaction and waiver of certain conditions	18 July 2014
Dispatch of Bidder's Statement	11 July 2014
Country Road consents to early dispatch Bidder's Statement	9 July 2014
Country Road Limited receives Bidder's Statement	7 July 2014
Becoming a substantial holder	7 July 2014
Bidder's Statement	7 July 2014
Trading Updating and Profit Guidance (unaudited)	7 July 2014
Announcement in respect of off-market takeover bid for CTY	30 June 2014
CRL advise WHL intention to make takeover offer	24 June 2014
DJS: Update on Scheme of Arrangement with WHL	24 June 2014
Intention to Make Takeover Bid	24 June 2014
Distribution & Fulfilment Transformation Project	20 May 2014
Presentation	9 May 2014
Half Year Report & Accounts	3 February 2014
Trading and Profit Update (Unaudited)	16 January 2014
Change of Director's Interest Notice	10 December 2013
Change of Director's Interest Notice	5 December 2013
Change of Director's Interest Notice	28 November 2013
Trading Update to 16 November 2013	21 November 2013
Final Director's Interest Notice	7 November 2013
Final Director's Interest Notice	7 November 2013
Results of Meeting	7 November 2013
CEO's Address to Shareholders	7 November 2013
Chairman's Address to Shareholders	7 November 2013
Change of Director's Interest Notice	28 October 2013
Change of Director's Interest Notice	21 October 2013

Schedule 2 - Independent Expert's Report

See next page.

The Board Response Committee
Country Road Limited
Building 3
658 Church Street
Richmond VIC 3121

21 July 2014

Subject: Takeover offer for Country Road Limited

Dear Committee Members

Introduction

- 1 On 24 June 2014 Woolworths Holdings Limited (Woolworths SA) announced a takeover offer for all the ordinary shares that it does not already own in Country Road Limited (Country Road Group or the Group) at an offer price of \$17.00 cash per share (the Offer).
- 2 The Offer values the total equity in Country Road Group at approximately \$1,761 million¹ and was subject to a number of conditions which are outlined in Section I.
- 3 On 30 June 2014 Woolworths SA declared that the Offer is its “*best and final offer*”, meaning that the Offer will not be increased. It also announced its intention to waive certain Offer conditions if Woolworths SA’s acquisition of 100% of David Jones Limited (David Jones) was successful. On 17 July 2014, following a shareholder vote in favour of the acquisition, the David Jones Scheme of Arrangement was approved by the Federal Court of Australia. With one exception therefore, the Offer conditions have now been satisfied.

Scope

- 4 As Woolworths SA currently owns approximately 87.88% of the shares in Country Road Group, and Woolworths SA and Country Road Group have common directors, there is a regulatory requirement for Country Road Group to obtain an independent expert’s report (IER) on the merits of the Offer. Accordingly, the Board Response Committee has requested Lonergan Edwards & Associates Limited (LEA) to prepare an IER stating whether, in LEA’s opinion, the Offer is “fair and reasonable” to the shareholders in Country Road Group other than Woolworths SA (the Minority Shareholders).
- 5 LEA is independent of Country Road Group and Woolworths SA and has no other involvement or interest in the outcome of the Offer, other than the preparation of this report.

¹ Being 103,585,233 shares at \$17.00 per share.

Summary of opinion

- 6 LEA has concluded that the Offer is fair and reasonable. We have arrived at this conclusion for the reasons set out below.

Valuation of Country Road Group

- 7 LEA has valued 100% of the ordinary shares in Country Road Group at between \$14.92 and \$16.22 per share:

Country Road Group – equity value (on a 100% controlling interest basis)		
	Low \$m	High \$m
Base business value	1,400	1,500
NPV ⁽¹⁾ of Distribution and Fulfilment Transformation Project	25	30
NPV of expected benefits from Woolworths SA acquisition of David Jones	130	160
Business value	1,555	1,690
Less net debt	(10)	(10)
Equity value	1,545	1,680
Shares on issue	103.6	103.6
Equity value per share	\$14.92	\$16.22

Note:

- 1 Net present value.
2 Refer paragraphs 146 to 148.
3 Refer paragraphs 150 to 155.

Assessment of fairness

- 8 Pursuant to Australian Securities & Investments Commission (ASIC) Regulatory Guide 111 - *Content of expert reports* (RG 111), an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

- 9 This comparison is shown below:

Comparison of Offer and Country Road Group value			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	17.00	17.00	17.00
Value of 100% of Country Road Group shares	14.92	16.22	15.57
Extent to which the Offer consideration exceeds the value of Country Road Group shares	2.08	0.78	1.43

- 10 As the consideration offered by Woolworths SA is greater than our assessed value of 100% of the ordinary shares in Country Road Group, in our opinion, the Offer is fair.

Assessment of reasonableness

- 11 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

Reasons to accept the Offer

- 12 In our opinion, there are a number of reasons why Country Road Group Minority Shareholders should consider accepting the Offer:
- (a) the Offer consideration exceeds our assessed value of Country Road Group shares on a 100% controlling interest (standalone) basis
 - (b) the Offer provides all Country Road Group shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer, this may not be possible (other than at a discounted price) due to the low level of trading in Country Road Group shares on the Australian Securities Exchange (ASX)
 - (c) in our opinion, the Offer price is likely to significantly exceed the listed market price of Country Road Group shares in the absence of the Offer (at least in the short-term).
- 13 Further, as Woolworths SA already owns approximately 87.88% of the shares in Country Road Group, there is no realistic likelihood that a competing offer for Country Road Group will be received prior to the close of the Offer².
- 14 Minority Shareholders should also note that the Offer has been declared “*best and final*”, which means that the Offer will not be increased.

Synergies

- 15 It its Bidder’s Statement, Woolworths SA has stated that 100% ownership of both David Jones and Country Road Group would allow ‘significant economies and efficiencies to be realised by the combined group’. These benefits which Woolworths SA has estimated at (at least) \$30 million per annum in incremental EBITDA include:
- (a) sourcing benefits through lower cost of goods and speed to market
 - (b) supply chain and logistics benefits
 - (c) reduced cost of doing business through amalgamation of service functions
 - (d) a far more efficient merchandise planning process resulting in improved stock turns and lower markdowns
 - (e) consolidating certain back-office functions across the combined group
 - (f) an unencumbered ability to utilise a common IT platform across financial, merchandise, customer relationship management and online processes; and
 - (g) combined scale as a single tenant across numerous landlords.
- 16 These benefits are largely unique to Woolworths SA and arise from its acquisition of 100% of both David Jones and Country Road Group. As a result, they are not reflected in our value assessment³.

² We consider it highly unlikely that Woolworths SA would elect to sell its shareholding in Country Road Group given the complementary nature of the two businesses.

³ RG 111.11 specifically prohibits the inclusion of a share of unique synergies in the valuation of the target company when assessing the ‘fairness’ of an offer. As noted above however, our valuation of Country Road Group includes the value of the benefits expected to arise from a Woolworths SA acquisition of David Jones.

- 17 However, as the Offer consideration exceeds our assessed (standalone) valuation range, it would appear that a proportion of these unique synergy benefits are being reflected in the Offer for Country Road Group.
- 18 Woolworths SA may also be prepared to pay more for the shares in Country Road Group than our assessed (standalone) valuation range because of the potentially higher earnings which Woolworths SA may be able to generate from ownership of 100% of Country Road Group due to factors including:
- (a) an ability to grow the business at levels higher than reflected in our valuation⁴
 - (b) an increased certainty of achieving the benefits associated with the Distribution and Fulfilment Transformation Project and the incremental earnings before interest and tax (EBIT) from a successful acquisition of David Jones (both of which we have risk adjusted for valuation purposes).

General

- 19 In preparing this report we have considered the interests of the Minority Shareholders as a whole. Accordingly, this report only contains general financial advice and does not consider the personal objectives, financial situations or requirements of individual shareholders.
- 20 The taxation consequences of accepting the Offer depend on the individual circumstances of each shareholder. Shareholders should consult their own professional adviser if in doubt as to the taxation consequences of the Offer.
- 21 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. Shareholders considering their response to the Offer should be aware that our assessed value of Country Road Group shares has been determined having regard to their medium / longer term prospects.
- 22 If shareholders are in doubt about the action they should take in relation to the Offer or matters dealt with in this report, shareholders should seek independent professional advice.
- 23 For our full opinion on the Offer, and the reasoning behind our opinion, we recommend that Country Road Group shareholders read the remainder of our report.

Yours faithfully



Craig Edwards
Authorised Representative



Martin Holt
Authorised Representative

⁴ For example, as indicated in paragraph 171 an increase in the terminal value growth assumption of 0.5% (above that reflected in our valuation) would increase the value of Country Road Group by around \$85 million and give rise to a value per share (at the high end of our assessed range) slightly above the Offer price.

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I Outline of the Offer

- 24 On 24 June 2014 Woolworths SA announced a takeover offer for all the ordinary shares that it does not already own in Country Road Group at an offer price of \$17.00 cash per share (the Offer).
- 25 Woolworths SA has since declared that the Offer is its “*best and final offer*”, meaning that the Offer will not be increased.

Conditions

- 26 The Offer was subject to the following conditions:
- (a) Foreign Investment Review Board (FIRB) approval
 - (b) Woolworths SA becoming entitled to 100% ownership of David Jones
 - (c) no regulatory actions which restrain, prohibit or impede or materially adversely impact upon the Offer, completion of any transaction contemplated by the Offer or the rights of Woolworths SA in respect of Country Road Group shares
 - (d) no prescribed occurrences listed in section 652C of the *Corporations Act 2001* (Cth) (Corporations Act) taking place before the end of the Offer period.
- 27 On 30 June 2014 Woolworths SA announced its intention to waive the regulatory action and prescribed occurrence conditions (i.e. conditions (c) and (d) above) if Woolworths SA’s acquisition of 100% of David Jones was successful. On 17 July 2014, following a shareholder vote in favour of the acquisition, the David Jones Scheme of Arrangement was approved by the Federal Court of Australia. Accordingly, the only remaining condition of the Offer is FIRB approval.
- 28 More detail on the above conditions is set out in the Bidder’s Statement dated 7 July 2014.

II Scope of our report

Purpose

- 29 As Woolworths SA currently owns approximately 87.88% of the shares in Country Road Group, and Woolworths SA and Country Road Group have common directors, there is a regulatory requirement for Country Road Group to obtain an IER on the merits of the Offer. Accordingly, the Board Response Committee has requested that LEA prepare an IER stating whether, in LEA's opinion, the Offer is "fair and reasonable" to the Minority Shareholders.
- 30 This report has been prepared to assist the Board Response Committee in making its recommendation to Minority Shareholders in relation to the Offer, and to assist the Minority Shareholders assess the merits of the Offer. The sole purpose of this report is to set out LEA's opinion as to whether the Offer is fair and reasonable to the Minority Shareholders. This report should not be used for any other purpose.
- 31 The ultimate decision whether to accept the Offer should be based on each shareholders' assessment of their own circumstances, including their risk profile, liquidity preference, tax position and expectations as to value and future market conditions. If in doubt about the Offer or matters dealt with in this report, shareholders should seek independent professional advice.

Basis of assessment

- 32 In preparing our report we have given due consideration to the Regulatory Guides issued by ASIC, particularly RG 111. RG 111 distinguishes "fair" from "reasonable" and considers that:
- (a) an offer is "fair" if the value of the offer price or consideration is equal to, or greater than the value of the securities that are the subject of the offer. This comparison must be made assuming 100% ownership of the target company
 - (b) an offer is "reasonable" if it is fair. An offer may also be "reasonable" if, despite not being "fair" but after considering other significant factors, shareholders should accept the offer in the absence of any higher bid before the close of the offer.
- 33 Our report has therefore considered:

Fairness

- (a) the market value of 100% of the shares in Country Road Group on a 100% controlling interest basis
- (b) the value of the consideration offered (i.e. \$17.00 cash per share)
- (c) the extent to which (a) and (b) differ (in order to assess whether the Offer is fair under RG 111)

Reasonableness

- (d) the Offer price compared to the recent listed market price of Country Road Group shares (noting the low level of share trading due to the small free float⁵)

⁵ Interests associated with Woolworths SA and Mr Solomon Lew hold some 99.76% of Country Road Group shares on issue.

- (e) Woolworths SA current shareholding in Country Road Group
- (f) the potential synergies available to Woolworths SA from 100% ownership of Country Road Group, having regard in particular to the potential 100% ownership by Woolworths SA of David Jones (which is a condition of the Offer)
- (g) the premiums paid in other similar minority interest buy-out transactions
- (h) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

Limitations and reliance on information

- 34 Our opinions are based on the economic, sharemarket, financial and other conditions and expectations prevailing at the date of this report. Such conditions can change significantly over relatively short periods of time.
- 35 Our report is also based upon financial and other information provided by Country Road Group and its advisers. We understand the accounting and other financial information that was provided to us has been prepared in accordance with the Australian equivalents to International Financial Reporting Standards where appropriate. We have considered and relied upon this information and believe that the information provided is reliable, complete and not misleading and we have no reason to believe that material facts have been withheld.
- 36 The information provided was evaluated through analysis, enquiry and review to the extent considered appropriate for the purpose of forming an opinion on the Offer from the perspective of the Minority Shareholders. However, we do not warrant that our enquiries have identified or verified all of the matters which an audit, extensive examination or “due diligence” investigation might disclose. Whilst LEA has made what it considers to be appropriate enquiries for the purpose 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 IER.
- 37 Accordingly, this report and the opinions expressed therein should be considered more in the nature of an overall review of the anticipated commercial and financial implications of the proposed transaction, rather than a comprehensive audit or investigation of detailed matters.
- 38 An important part of the information base used in forming an opinion of the kind expressed in this report is comprised of the opinions and judgement of management of the relevant companies. This type of information has also been evaluated through analysis, enquiry and review to the extent practical. However, it must be recognised that such information is not always capable of external verification or validation.
- 39 We in no way guarantee the achievability of budgets or forecasts of future profits. Budgets and forecasts are inherently uncertain. They are predictions by management of future events which cannot be assured and are necessarily based on assumptions of future events, many of which are beyond the control of management. Actual results may vary significantly from forecasts and budgets with consequential valuation impacts.

III Profile of Country Road Group

Overview

- 40 Country Road Group is one of Australia's largest specialty fashion retailers operating four differentiated brands targeting the mid to upper tier of the clothing, accessories and homewares market. The Group extends across Australia, South Africa and New Zealand with over 500 Country Road, Trenery, Mimco and Witchery stores. Country Road Group operates through an omni-channel strategy that combines physical stores (both standalone and concessions within department stores) with E-commerce / online capabilities.

History

- 41 A summary of the key historical developments of the Country Road Group is set out below:

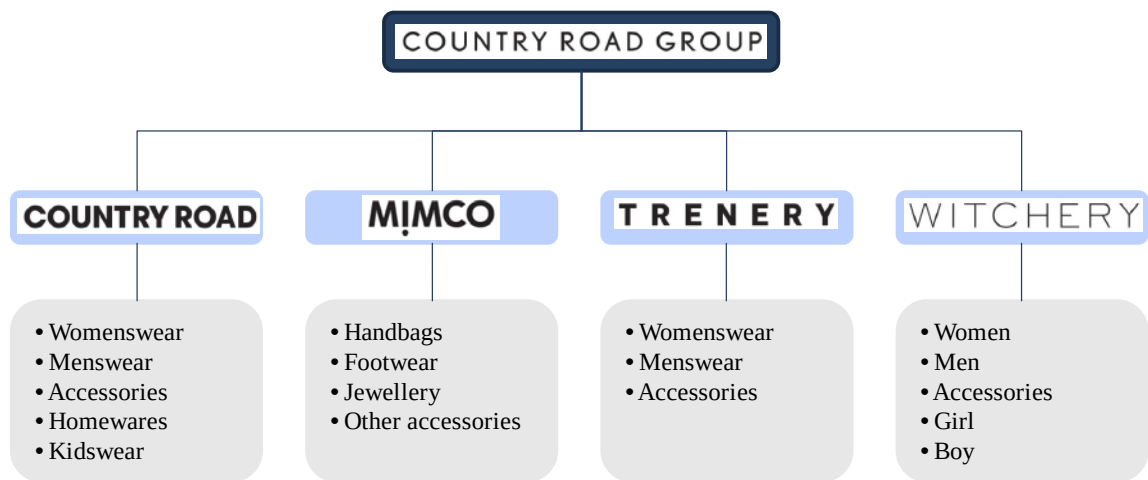
Country Road Group – history

Date	Key development
1974	Country Road was founded as a niche womens shirting business
1984	Menswear was added to the Country Road range
1989	Homewares was added to the Country Road range
1996	Mimco was founded as an accessories designer
1998	Woolworths SA acquired a controlling interest (88%) in Country Road Group
2001	Country Road launched childrenswear
2004	Country Road brand was relaunched with a fresh modern identity
2008	Country Road launched in South Africa
2009	Trenery was launched concurrently in Australia and South Africa
2010	The Group's E-commerce platform was launched
2012	- On 1 August 2012 Country Road Group announced: - the acquisition of Witchery Group, comprising the Witchery and Mimco businesses (Witchery Group), for a combined consideration of \$172 million - that the acquisition would be funded via a rights issue at \$2.66 per share to raise \$92 million, along with a new five year \$92 million syndicated bank facility - Witchery8Fourteen was added to the Witchery range
2013	Witchery repositioned as the 'style authority'
2014	- Witchery was relaunched in South Africa in Woolworths SA's stores and standalone - Mimco expanded into the South African market in Woolworths SA's stores and standalone

Current operations

- 42 Country Road Group operates from a Melbourne head office and employs approximately 4,840 staff. The Group has extensive experience in the management of upper tier fashion brands, with a substantial market share in this segment of the apparel industry. A diagrammatic overview of Country Road Group's operations is set out below:

Country Road Group – operations



- 43 The Group's Australian operations represented 81.6% of sales in the half year to 31 December 2013. However continued expansion in South Africa, primarily through the rollout of concession stores for the four Group owned brands, is expected to increase the contribution from the Group's South African operations over time.
- 44 The distribution of stores by brand and location (Australasia and South Africa) as at 30 June 2012, 2013 and 2014, is set out in the table below⁶:

Country Road Group – store numbers at year end

As at	30 Jun 12 ⁽¹⁾	30 Jun 13	30 Jun 14
Australasia			
Country Road	153	149	153
Trenery	13	15	18
Witchery	199	195	192
Mimco	97	98	96
Total	462	457	459
South Africa			
Country Road	22	23	26
Trenery	24	25	25
Witchery	10	2	11
Mimco	-	-	8
Total	56	50	70
Total	518	507	529

Note:

- 1 Witchery and Mimco store numbers are as at 2 October 2012 (being the date of acquisition).

⁶ Group management have been reviewing and fine tuning the portfolio of Australasian stores by closing underperforming outlets and opening new stores in more prospective locations. As a result store numbers have not been increasing in a straight line.

- 45 Store numbers as at 30 June 2014 can be broken down into Australia (275 standalone stores, 143 concession stores), South Africa (14 standalone stores, 56 concession stores) and New Zealand (33 standalone stores, 8 concession stores). The greater number of concession stores relative to standalone stores in South Africa reflects, in part, Country Road Group's relationship with its major shareholder Woolworths SA, which has a large store network in that country.
- 46 In respect of the South African operations, the Group:
- (a) closed its Witchery concession stores within Stuttafords (a competitor department store to Woolworths SA) in the year ended 28 June 2014 (FY14) and relaunched the brand under a concession arrangement with Woolworths SA and standalone stores in March 2014
 - (b) opened its first Mimco stores in March 2014 in both a concession format in Woolworths SA as well as standalone stores
 - (c) has benefited from Trenery performing strongly in this market, after launching with scale in 2009.

Country Road

- 47 Country Road is an iconic Australian lifestyle brand that offers a range of contemporary womenswear, menswear and childrenswear apparel and accessories, as well as homewares products. The brand was previously underperforming for a number of years. However, following a number of key initiatives, including the relaunch and modernisation of the brand in 2004 and the expansion into the South African market in 2008, the brand has developed into one of the most successful Australian retail businesses.

Mimco

- 48 Mimco was established in 1996 and is a leading Australian designer accessories brand offering a range of bags, jewellery, footwear and other statement pieces. The Mimco brand is positioned as an accessible luxury accessories brand, designed with quirk. It celebrates unique design, eclectic styling, quality and collectability. In FY14 Mimco expanded into the South African market.

Trenery

- 49 Trenery was created by Country Road Group management in 2009 and was launched in Australia and South Africa concurrently. The brand offers simple, sophisticated collections for men and women that are designed to be modern in approach and timeless in style. Trenery products cover mens and womens clothes, footwear and other accessories.

Witchery

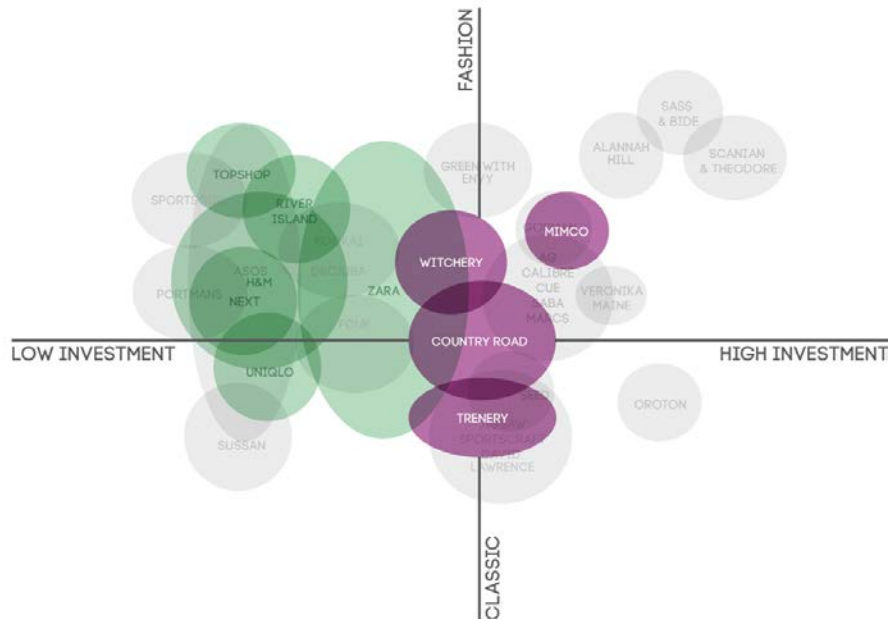
- 50 Witchery is positioned as the 'style authority', providing the latest apparel and accessories trends for women, men, girl and boy. The brand was launched in 1970 and for a long time focused on the womens market. In 2009, the business expanded its offering with the launch of WitcheryMan, followed by WitcheryKids in 2010 and Witchery8Fourteen in 2012. In 2014 WitcheryKids and Witchery8Fourteen were consolidated to Girl and Boy.

Strategy and operations

- 51 Country Road Group operates a portfolio of complementary brands across three primary geographic markets. It has implemented an omni-channel strategy that enables the company to communicate to its customers through a range of media including, inter alia, online, direct mail, emails, social media, mobile phone applications, as well as bricks and mortar stores. The Group's E-commerce platform has enabled the company to grow online sales above industry benchmarks and its Australian competitors and supplement its store growth in both Australia and South Africa.
- 52 On 20 May 2014 Country Road Group announced that it had committed to the development of a purpose-built fulfilment facility in Melbourne, Victoria at a cost of approximately \$55 million. This facility is to be owned by the Group and along with a new outsourced fulfilment facility in New Zealand is central to the Group's online growth plans. These facilities are expected to lead to significant cost savings from around June 2015 (in Australia) and August 2015 (in New Zealand), when operational.
- 53 While the apparel industry in general has been beset with numerous problems, including increased competition from international retailers and online, flat or declining sales, limited growth options, related high inventory levels (as reflected by numerous profit downgrades by ASX listed retailers⁷), Country Road Group's profits have been growing strongly. This is attributable to a number of factors, including:
- (a) a successful online / E-commerce offering, complementing the store network
 - (b) an advanced loyalty program with some 2.4 million members across the Group
 - (c) an advanced stock management system and sophisticated operating systems in general
 - (d) the rollout of new stores in locations and formats not previously serviced (hence increasing market share) and closure of less profitable stores
 - (e) the conversion of Mimco's David Jones business from wholesale to concession and the uplift in business and related profitability as a result
 - (f) general synergies and economies of scale arising from the Witchery Group acquisition
 - (g) the repositioning of the brand portfolio, which primarily involved repositioning the Witchery brand (see below); and
 - (h) competition from global fast fashion brands targeting lower price points than Country Road Group's brands (refer to the market positioning graphic below).
- 54 Post the acquisition of the Witchery Group, Country Road Group undertook a brand repositioning to reduce the overlap in target markets. As a result the market positioning of the four brands within the Group relative to other fashion retailers is now as follows:

⁷ The majority of listed apparel retailers have faced declining earnings in FY14 compared to FY13.

Country Road Group – market positioning



Financial performance

55 The financial performance of Country Road Group for the two years ended 29 June 2013 and the half year to 31 December 2013, is set out below:

Country Road Group – financial performance

	FY12 Audited \$m	FY13 Audited \$m	1H14 Reviewed \$m
Sale of goods	419.0	706.3	422.0
Other income	1.8	3.1	1.4
Total revenue	420.8	709.4	423.4
Gross profit	244.9	443.0	267.5
Employment expenses	(97.6)	(169.6)	(96.7)
Occupancy expenses	(83.7)	(131.2)	(75.3)
Marketing expenses	(11.4)	(16.8)	(9.8)
Other expenses	(18.1)	(36.7)	(21.9)
EBITDA ⁽²⁾	34.1	88.7	63.8
Depreciation and amortisation	(12.9)	(20.8)	(11.3)
EBIT	21.2	67.9	52.5
Significant items ⁽³⁾	(0.6)	(9.0)	-
Net finance costs	(0.1)	(3.0)	(2.0)
Profit before tax	20.5	55.9	50.5
Income tax expense	(4.4)	(14.7)	(12.5)
Profit after tax	16.1	41.2	38.0
Gross profit margin (%)	58.2	62.4	63.2
EBITDA margin (%)	8.1	12.5	15.1
EBIT margin (%)	5.0	9.6	12.4

Note:

1 Excluding interest income.

2 Earnings before interest, tax, depreciation and amortisation.

3 Significant gains (losses) comprise:

Impairment charges	(0.4)	(0.4)	-
Insurance recoveries	1.1	-	-
Integration costs associated with acquisitions	-	(2.6)	-
Transaction costs associated with acquisitions	(1.3)	(6.0)	-
Total significant gains (losses)	(0.6)	(9.0)	-

Commentary on historical results

- 56 Retail trading conditions in Australasia in the second half of FY12 were difficult as consumers cut back on discretionary spending. While total sales grew by 1.8% to \$419 million, this was primarily due to a 35.7% increase in sales in South Africa. In Australasia sales reduced 2.6% in FY12 compared to FY11, with comparable same store sales down 6.6%. In part, the lower sales in Australasia reflected reduced discounting across Country Road and Trenery. However, the investment in the E-commerce business and the closure of unprofitable stores improved margins in the Australasian business. Five new stores were opened in South Africa, with one new store in each of Australia and New Zealand.
- 57 Witchery and Mimco were acquired effective 29 September 2012, significantly increasing the revenue and profitability of the combined group. At the date of acquisition, Country Road announced that it expected the acquisition to be earnings per share accretive by more than 20% on a full year (pro-forma) FY12 basis prior to synergies. Synergies arising from the acquisition were estimated by Country Road Group management at approximately \$10 million per annum. These were expected to be realised over four years. Integration and transaction costs relating to the acquisition of Witchery and Mimco totalling \$8.6 million were expensed (disclosed as significant items).
- 58 Comparable same store sales for FY13 for Country Road and Trenery increased by 11.0% in total, reflecting a 12.0% and 5.3% increase in comparable same store sales in Australasia and South Africa respectively. In constant currency terms, total sales in South Africa increased by 32.2% and same stores sales increased by 17.7%.
- 59 Sales increased 27.4% in the first half of FY14. However, the prior corresponding period only included the results of Witchery and Mimco from 29 September 2012. Same store sales growth of 6.6% was achieved overall, with 5.5% growth achieved in Australasia and 13.6% growth achieved in South Africa.

Results for FY14

- 60 On 7 July 2014 Country Road Group released a trading update, stating that sales for the 52 weeks ended 28 June 2014 were \$849.6 million. This implied sales growth of 20.3% on the previous 52 week period and comparable sales growth of 8.0% in Australia and 12.8% in South Africa (in South African Rand total sales increased 25.8% and same store sales growth was 18.1%). However, the FY13 result only reflected approximately nine months trading from Witchery and Mimco.
- 61 Additionally, the trading update provided guidance for profit performance for FY14, with the Group stating that it expected EBIT to range between \$92.9 million and \$100.9 million and

profit before tax to range between \$87 million and \$95 million⁸. Compared to FY13, this implies growth of 53% to 66% for EBIT and 56% to 70% for profit before tax. However, as noted above, the FY13 result did not reflect a full year earnings contribution from Witchery and Mimco. The Chief Executive Officer (CEO), Mr Iain Nairn, also stated the following in the trading update:

“We are pleased to have delivered continued strong growth in sales and profit for the full financial year despite some challenging market headwinds from increased competition, unseasonably warm weather and contractionary fiscal policy in the second half of the financial year.”

Financial position

- 62 The financial position of Country Road Group as at 29 June 2013 and 28 December 2013 is set out below:

Country Road Group – financial position		
	29 Jun 13	28 Dec 13
	\$m	\$m
Debtors and prepayments	11.1	12.6
Inventories	77.7	87.3
Creditors, accruals and provisions	(102.1)	(123.0)
Net working capital	(13.2)	(23.1)
Plant and equipment	74.4	71.6
Intangible assets / goodwill	148.2	148.5
Prepayments (non-current)	0.1	0.1
Deferred tax assets (net)	12.4	16.3
Provisions (non-current)	(16.6)	(13.4)
Total funds employed	205.3	200.0
Cash and cash equivalents	95.3	95.1
Interest bearing liabilities	(78.6)	(78.9)
Derivative financial instruments (net)	14.7	10.3
Net cash / (borrowings)	31.4	26.5
Net assets attributable to Country Road Group shareholders	236.7	226.5

Rounding differences exist.

Source: Country Road Group and LEA analysis.

- 63 Consistent with retailers generally, the net working capital requirements for Country Road Group are low, due to the fact that cash is received at the point of sales and suppliers are paid on terms. These trading terms are reflected in the negative working capital shown above.
- 64 Inventory levels are low relative to annual sales turnover, with the annual stock turn ratio likely to improve with the inclusion of a full year's sales from the Witchery Group acquisition. The Group has had no significant historical aged inventory issues.
- 65 Plant and equipment primarily relates to leasehold improvements and fixtures, fittings and equipment at Group leased stores. Post the reporting period, Country Road Group purchased a site to build its planned distribution and fulfilment facility. As at 29 June 2013 the Group had off balance sheet commitments of \$378.2 million with respect of operating lease commitments, primarily in relation to its stores.

⁸ The Country Road Group EBIT guidance in the ASX announcement includes interest income.

- 66 Intangibles primarily relate to the acquisition of the Witchery Group in August 2012. The breakdown of these assets as at 28 December 2013 was goodwill (\$71.7 million), brands (\$70.1 million) and development costs (\$7.0 million).
- 67 The Group had a net cash position after allowing for interest bearing debt and net financial derivatives as at 29 June 2013 and 28 December 2013. The debt facility was established for the Witchery Group acquisition. Derivatives relate to net gains on cash flow currency hedges, primarily in relation to United States dollars (US\$).
- 68 The syndicated financing facility obtained for the Witchery Group acquisition is a five year term facility that attracts market interest rates plus a variable margin. The loan is secured by a first charge over Country Road Group's assets. The Group also has access to other facilities for working capital and capital expenditure purposes.

Cash conversion ratio

- 69 The historical cash conversion ratio for Country Road Group (a comparison of un-gearred pre-tax cash flow to EBITDA) is set out below:

Country Road Group – cash conversion ratio			
	FY12 Audited \$m	FY13 Audited \$m	1H14 Reviewed \$m
EBITDA	34.1	88.7	63.8
Operating cash flow	36.0	96.5	53.4
Add net tax paid	0.4	8.4	6.3
Add net interest paid	0.1	3.0	0.6
Ungeared pre-tax cash flow	36.5	107.8	60.3
Profit to cash conversion (%)	107.1%	121.6%	94.5%

Rounding differences exist.

Source: LEA analysis based on Country Road Group financial statements.

- 70 As noted Country Road Group has achieved a high conversion ratio of earnings into cash, reflecting primarily the cash based nature of annual revenues.

Share capital and performance

- 71 As at 30 June 2014 Country Road had 103,585,233 fully paid ordinary shares on issue. There were no options or performance rights on issue.

Significant shareholders

- 72 As at 30 June 2014 the significant shareholders in Country Road Group were Woolworths SA with 91.0 million shares (87.88% of Country Road's issued capital) and Australian Retail Investments Pty Limited (AR Investments)⁹ with 12.3 million shares (11.88%).

⁹ A company controlled by Mr Solomon Lew.

Share price performance

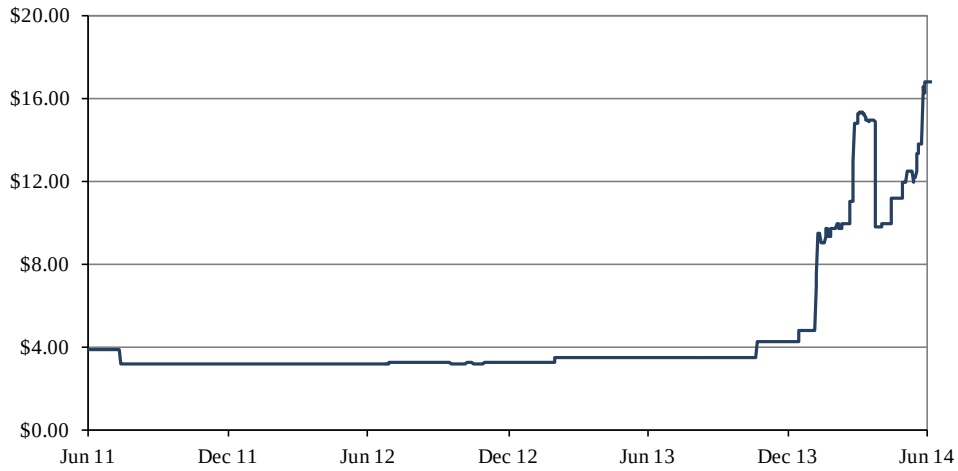
- 73 The price of Country Road Group shares from 1 July 2011 to 30 June 2014 is summarised below:

Country Road Group – share price performance				
	High \$	Low \$	Close \$	Actual volume
Quarter ended				
September 2011	3.91	3.20	3.20	1,769
December 2011	3.20	3.20	3.20	-
March 2012	3.20	3.20	3.20	1
June 2012	3.26	3.20	3.26	875
September 2012	3.28	3.26	3.28	625
December 2012	3.32	3.25	3.32	7,333
March 2013	3.52	3.32	3.50	5,861
June 2013	3.52	3.50	3.50	3,242
Month ended				
July 2013	3.55	3.50	3.54	3,150
August 2013	3.55	3.54	3.54	-
September 2013	3.55	3.54	3.54	-
October 2013	3.55	3.54	3.54	-
November 2013	4.30	3.54	4.30	870
December 2013	4.30	4.30	4.30	-
January 2014	4.83	4.30	4.83	40
February 2014	10.90	4.83	9.74	19,286
March 2014	15.00	9.75	14.80	4,566
April 2014	15.40	9.80	9.80	3,129
May 2014	12.00	9.80	12.00	5,045
June 2014	16.99	12.00	16.80	5,718

Source: Bloomberg.

- 74 As shown in the above table, trading in Country Road Group's shares is largely illiquid. This is due to 99.8% of the total shares on issue being held by two parties (i.e. Woolworths SA and AR Investments).
- 75 The following chart illustrates the movement in the share price of Country Road Group from 1 July 2011 to 30 June 2014:

Country Road – share price history
1 July 2011 to 30 June 2014



Source: Bloomberg.

- 76 As shown above, the share price of Country Road Group has increased significantly since January 2014, which prima facie can be attributed to factors such as the substantial increase in profitability of the Group and the successful integration of the Witchery and Mimco businesses. However, as stated above, the relative illiquidity of the shares means that very small numbers of shares traded can disproportionately influence the market price of the Group's shares.

IV Retail industry

Overview

77 Country Road Group operates in the mid to upper tier of speciality fashion in Australia, South Africa and New Zealand. In the half year to 31 December 2013 the Group generated 81.6% of its revenue from the Australian market, with South Africa (8.3%) and New Zealand (10.1%) contributing the remainder. Future plans include the continued growth of the Australasian operations, along with an accelerated expansion of the South African store network. This section therefore focuses on the Australian retail apparel industry, together with a broad overview of the South African and New Zealand retail apparel sectors.

Key drivers

78 The key factors driving the performance of the retail industry include changes in the level of disposable income, household wealth, consumer confidence and macro economic factors such as general economic growth, interest rates and fluctuations in the Australian dollar. A description of these items is as follows.

Disposable income

79 A key determinant of demand for clothing and apparel is the level and change in real¹⁰ household disposable income. There is a positive correlation between the change in real household disposable income and clothing sales. Disposable income (i.e. an indication of household income available to support consumption) is determined by factors such as labour market growth, wage growth and changes in interest rates, taxation and social security. In this respect we note that:

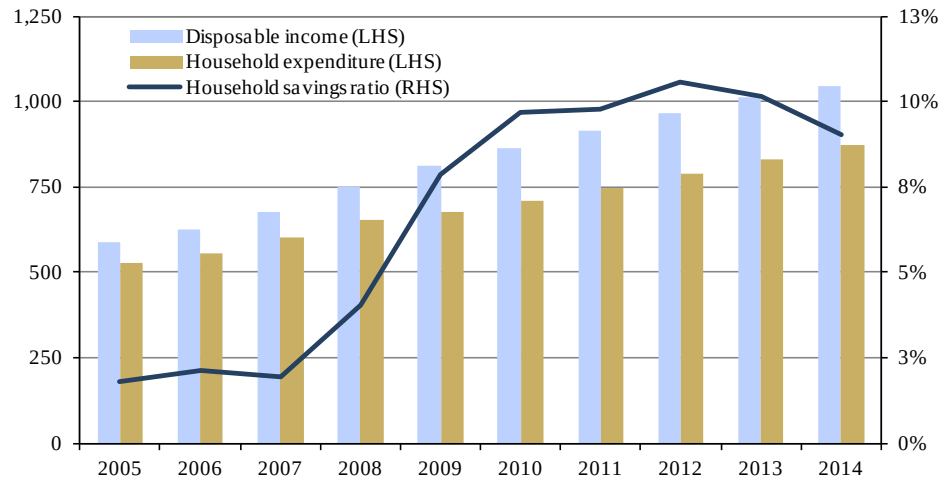
- (a) the Australian labour market has grown at 2% per annum in the last 10 years, driven by the combination of population growth of approximately 1.6% per annum and an increasing participation rate¹¹
- (b) Australia's unemployment rate remained steady at 6.0% in June 2014, consistent with the 6.0% at the commencement of 2014 (after a drop to 5.8% in the interim). Unemployment levels have remained at relatively low levels since the early 2000s, in part due to the private sector's significant investment in mineral resources related activity over this period and the strength of the Australian economy in general
- (c) real wages decreased by 0.3% in the year to 31 March 2014 after posting growth of 1.2% in the year to 31 March 2013
- (d) Reserve Bank of Australia (RBA) interest rates have remained at record lows of 2.5% since August 2013, which has reduced the cost of borrowing and contributed to a rising stock market and higher house prices. This has increased household wealth (refer below)
- (e) increased taxes or reductions in social security payments foreshadowed in the Federal Government Budget are likely to reduce future disposable income and (based on observations of market commentators) have had a negative impact on consumer confidence.

¹⁰ That is after adjusting for inflation.

¹¹ Source: Australian Bureau of Statistics (ABS).

- 80 A chart showing the growth in nominal household disposal income, expenditure and savings over the 10 years to 31 March 2014 is shown below:

**Household disposable income, expenditure and savings
10 years to 31 March 2014 (A\$ billion)**



Source: ABS, 5206.

- 81 Nominal household disposable income has grown at a compound annual growth rate (CAGR) of around 6.6% per annum over the last 10 years. There has also been a notable increase in the household savings rate since the global financial crises (GFC), although this has since dipped from its peak in 2012. In real terms household disposable income grew by 1.7% and 1.0% respectively in the two years to 31 March 2014¹².

Household wealth

- 82 Household wealth is the value of all household assets less liabilities at a particular point in time. As stated above, the impact of low interest rates has, inter alia, increased the value of both the share market and house prices over recent periods (with the S&P/ASX 200 index increasing by 14% and combined capital city home values increasing by 10.7% over the year to 31 May 2014), which have overshadowed slow wages growth. House price growth in particular has lowered household gearing levels, which has the potential to lead to increased consumer confidence and an uplift in household spending.

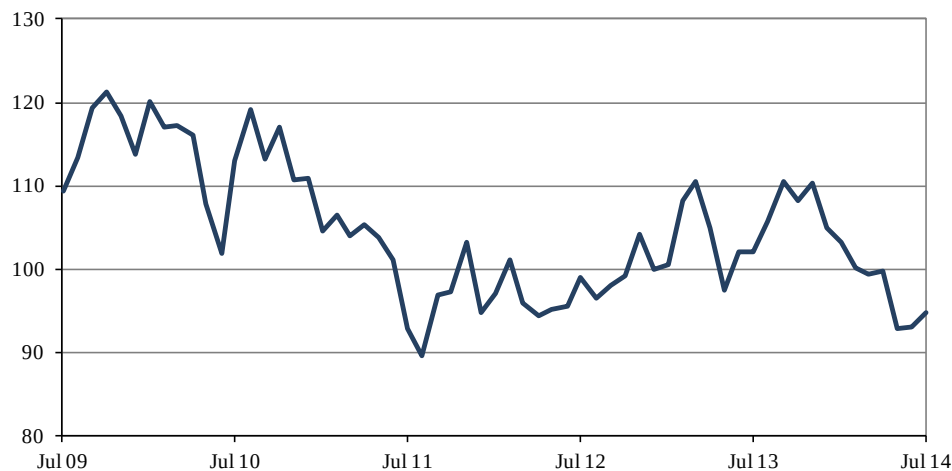
Consumer confidence

- 83 The Westpac Melbourne Institute Consumer Confidence Index (Consumer Confidence Index) is an average of five component indexes which reflect consumer evaluations of their household financial situation, anticipated economic conditions and buying conditions for major household items. Whilst indices of consumer confidence can potentially be misleading¹³, they provide some insight into how consumers are interpreting the present economic environment and their expectations for the future. The Consumer Confidence Index over the five years to July 2014 is as follows:

¹² Source: Deloitte Access Economics (DAE).

¹³ Consumer confidence can vary materially between socio-economic groups resulting in different spending trends in the premium (targeted by Country Road), mid and value retail segments.

Consumer Confidence Index 5 years to June 2014



Source: Westpac Melbourne Institute.

- 84 The Consumer Confidence Index rose marginally in June 2014 and again in July 2014 but remains below 100, down 4.8 points from its pre Federal Government Budget levels in April 2014 and down 7.3 points in comparison to June 2013. This indicates that consumers have a more pessimistic outlook for the Australian economy in general¹⁴, primarily attributable to reaction to the April 2014 Federal Government Budget and associated family budget concerns.

Macro economic factors

- 85 Whilst global economic growth is trending upwards, the combination of lower commodity prices, the slow transition of the Australian economy from the mining sector led growth towards other sectors such as building and construction, as well as restricted government spending are adversely impacting the growth potential of the Australian economy. Concurrently, record low interest rates, a modest decline in the value of the Australian dollar¹⁵ and higher export volumes are offsetting these impacts to some extent.

Australian clothing retail industry

Historical performance

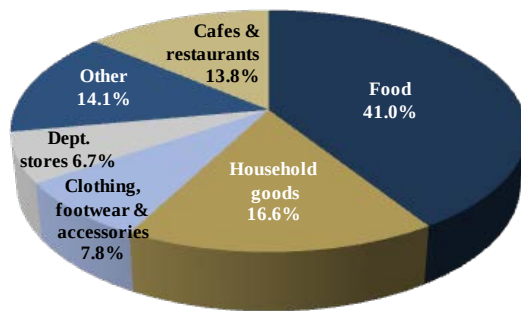
- 86 The Australian retail industry generated \$271.8 billion in revenue in the year to 31 May 2014, up some 4.3% on the previous comparable full year period. Food sales were the largest contributor to growth up 5.4% to \$148.9 billion (with cafes and restaurants exhibiting the highest growth of all sectors), whilst non-food retail growth increased 2.9% to \$122.9 billion.
- 87 Clothing, footwear and accessories (the ABS segment in which Country Road Group operates), represented some 17.2% or \$21.2 billion of non- food retail sales and department stores (a key market for the Group given the concession stores operated within) represented approximately 14.8% or \$18.1 billion of non food retail sales. A breakdown of these sectors in comparison to the total retail industry is set out below:

¹⁴ Family finances were the main focus of consumer concerns.

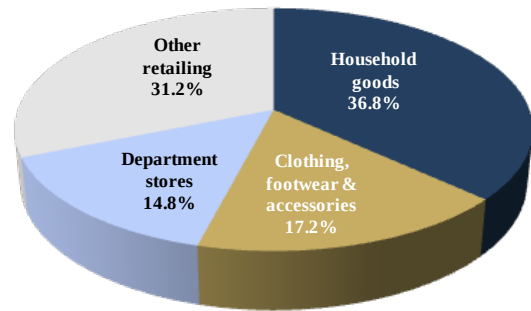
¹⁵ In recent months, the RBA has maintained a view that further declines in the value of the A\$ would have an overall beneficial impact on the Australian economy.

Australian retail industry – year to 31 May 2014

Sector contributions



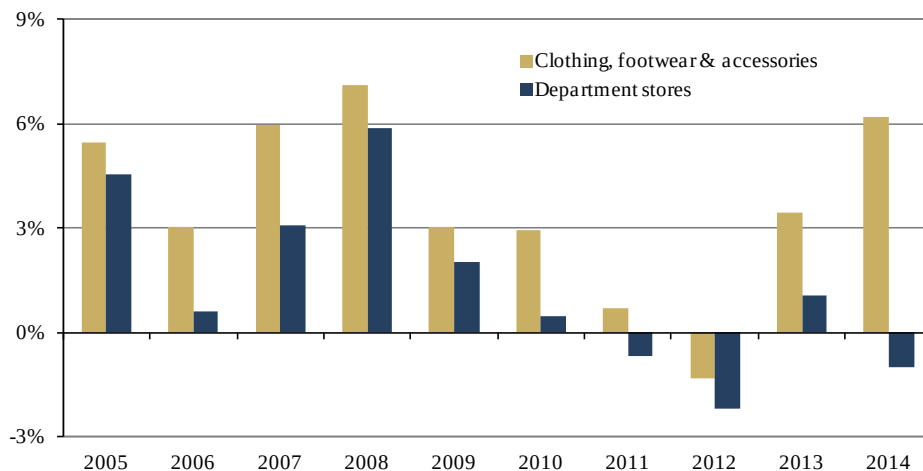
Sector contributions (excluding food related)



Source: ABS, 8501.

- 88 Sales growth for clothing, footwear and accessories for the year to 31 May 2014 increased by 6.2%, which was the strongest annual growth since the GFC in 2008. In contrast, department store sales declined by 1.0% over the same period. Annual growth for the 10 years to 31 May 2014 for these two sectors is shown in the graph below, noting that growth for clothing, footwear and accessories has consistently outpaced that for department stores:

**Sales growth – clothing, footwear and accessories and department stores
10 years to 31 May 2014**



Source: ABS, 8501.

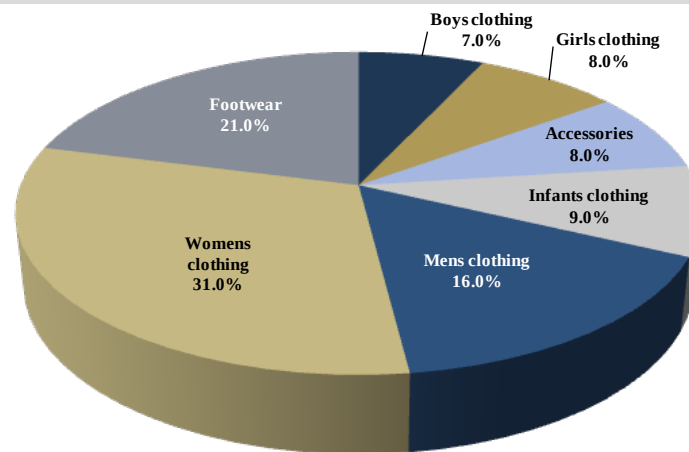
- 89 Department stores have represented a declining share of the total retail sector, with growth lagging other non-food retail sectors over the last 20 years. Possible explanations include growth in specialty retailing over this period, exposure to items faced with price deflation (such as electronics) and more recently, competition from online platforms and lower priced international fast fashion retailers.
- 90 The clothing, footwear and accessories segment recorded strong growth in the year to 30 April 2014 as consumers showed a greater propensity to spend on such items than in previous periods. This may be attributable to the wealth effect of higher house and share market prices and the flow on to consumer expenditure as real disposable income growth over this period was low. However, a mild start to the current winter season is likely to have

impacted sales levels more recently (which are not yet included in the statistics above), as evidenced by recent (negative) commentary by a number of industry participants.

Market segments and competition

- 91 The large number of operators makes for a highly competitive apparel industry, with competition generally based on one or more factors including price, range, style, quality, brands, service and location. The level of industry concentration remains low due to the varied range of segments (i.e. mens, womens, footwear, kids as well as discount, mid and upper tiers etc.). These multi-layered segments give consumers an abundance of choice and make it difficult for major players to cover a significant share of the market, with most retailers choosing to target one niche demographic or style.
- 92 Not surprisingly, the womens customer segment represents a disproportionately large percentage of Australian apparel sector sales, with footwear the next largest, as shown below:

Australian apparel retailing industry production segmentation



Source: PAS Group IPO prospectus.

- 93 The major external competitors of specialty retail clothing outlets are department stores, such as David Jones and Myer at the upper end of the market and Target, Big W and K-Mart at the lower end of the market (however some operators such as Country Road Group offer concession stores within department stores in addition to standalone stores). Department stores are estimated to account for around 35% of womens and mens clothing sales.
- 94 While the capital costs required to establish new stores are considered low for small retailers, the primary barrier to entry into the industry is securing premium real estate in the best centres (this is particularly the case for the international retailers who require large store footprints). In order to compete on a larger scale costs can be substantial, notwithstanding that a number of Australian operators with considerable market shares exist, including Country Road Group as well as Premier Investments, Cotton On Group and Specialty Fashion Group.

Recent trends

- 95 The Australian retail apparel industry has been presented with a number of challenges in recent periods, with many ASX listed companies issuing earnings downgrades for FY14¹⁶. These include apparel retailers Kathmandu Holdings, Pacific Brands, RCG Group and Noni B and other specialty retailers such as Super Retail Group and The Reject Shop. While recently this may be attributable to weaker sales from lower consumer confidence post the April 2014 Federal Government Budget and the prevalence of discounting due to the recent unseasonably warm autumn weather (which impacted sales in May 2014), other contributing factors include the increased acceptance and growth of online retailing and the expansion of international fast fashion retailers into the Australian market¹⁷.

Online retailing

- 96 Online retail growth levels have significantly outpaced growth in traditional sales channels over the past five years. Australian retailers were generally slow to target online retailing as a market in itself, and as a result international companies were the first to exploit the Australian online retail market (including pure play retailers such as womens retailer ASOS, that do not sell through physical stores). International retailers also have the benefit of avoiding charging goods and service tax (GST) on sales of up to \$1,000, which provides them with the ability to offset higher shipping charges.
- 97 According to the NAB Online Retail Sales Index report, Australian online retailers now account for 74% of online sales¹⁸, however many apparel retailers are still to derive a meaningful level of sales from this medium. Australia's online retail expenditure grew 5.1% to \$15.3 billion in the year to 31 May 2014, representing approximately 5.6% of spending at traditional bricks and mortar retailers (excluding cafes, restaurants and takeaway food)¹⁹. This growth appears low compared to the 20% to 30% growth rates recorded in earlier years²⁰, however, we understand that online apparel sales are growing much faster than the rate of 5.6% noted above²¹. Based on the experience from more mature online markets such as the United Kingdom and United States, there would appear to be significant growth potential for Australian online apparel retailers.
- 98 Australia has one of the highest smart phone penetrations in the world and retailers have been increasingly forced to provide mobile friendly websites that integrate seamlessly with other internet channels to drive sales. Growth in mobile related sales is expected to continue as spontaneous mobile access to relevant information is expected to continuously integrate and enhance the physical and virtual shopping experience.

International retailers

- 99 Globalisation of the retail sector is not a new phenomenon. However, Australia's vast distance from other key markets has until recently largely insulated Australian companies from such competition. The resilience of the Australian economy during the GFC highlighted the prospectivity of the Australian market to industry participants overseas, with a number of

¹⁶ In addition, the majority of listed apparel retailers have faced declining earnings in FY14 compared to FY13.

¹⁷ The pressure on domestic retailers as a combined result of these challenges is evidenced by a number of companies entering external administration.

¹⁸ However, some 22% of sales are attributable to bulky items such as food and alcohol (as at 30 April 2014).

¹⁹ NAB Online Retail Sales Index, dated May 2014.

²⁰ NAB Online Retail Sales Index, dated April 2014.

²¹ Source: Country Road Group.

renowned international retailers either setting up or formulating plans to open in Australia shortly.

- 100 The most significant of the recent entrants have been global companies such as Zara, H&M, Top Shop and Uniqlo, which are successful fast fashion retailers, with a focus on affordable apparel²². These companies have a precedent Australian following and reputation that provides them with immediate market share gains at the expense of existing Australian retailers. The international retailers tend to have larger stores and lower prices than their Australian counterparts and also access to greater economies of scale and efficiencies created by vertical integration. This is offset by the challenges of managing dual hemisphere ranges and the idiosyncrasies of the Australian market (e.g. Queensland versus Melbourne in winter).

Exchange rate

- 101 The majority of clothing imported from Asia is priced in US\$. Further, the Chinese Yuan has historically been pegged to the US\$, although in recent times a gradual appreciation in value against the US\$ has been allowed. Consequently, Australian clothing imports are primarily exposed to movements in the A\$/US\$ exchange rate, the history of which is set out below:

A\$/US\$ exchange rate
10 years to 30 June 2014



Source: Bloomberg.

- 102 The A\$/US\$ exchange rate increased over the period from \$0.71 on 1 July 2004 to \$0.95 as at 1 July 2014, after hitting a high of \$1.10 on 27 July 2011²³. The strength of the Australian dollar has lowered the costs of manufacturing for many retail wholesalers who manufacture their products in overseas markets such as China. However, in more recent times, this advantage has been partially offset by international online competition (lower prices) and the impact of net tourism on Australian retail sales.

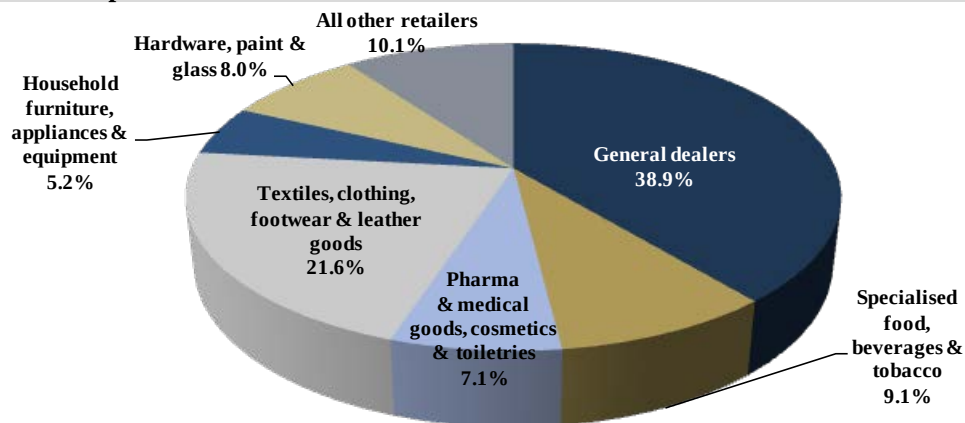
²² Country Road Group brands are not materially exposed to this segment.

²³ As illustrated, the value of the A\$ relative to the US\$ declined dramatically subsequent to the GFC, before subsequently recovering due to factors including the resource sector based strength of the Australian economy.

South African retail industry

- 103 The South African clothing retail industry is a subset of the total retail industry, which generated ZAR717.3 billion²⁴ (approximately A\$71.8 billion²⁵) in the year to 30 April 2014²⁶. The textiles, clothing, footwear and leather goods sector (as classified by Statistics South Africa) contributed 21.6% or ZAR155.3 billion (approximately A\$15.6 billion²⁵) of this amount²⁶. A breakdown of the segments of the South African retail industry is set out below:

South African retail industry – sector contributions
12 months to 30 April 2014



Source: Statistics South Africa, statistical release P6242.1.

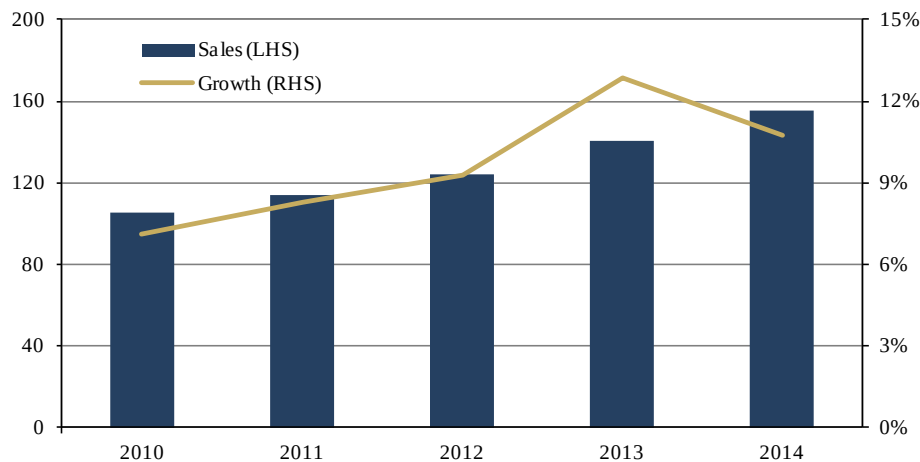
- 104 Retail sales increased by 6.9% in the year ended April 2014 compared with the previous year, with the main contributor to growth the textiles, clothing, footwear and leather goods segment with a 10.7% increase in sales. The textiles, clothing, footwear and leather goods sector has been growing significantly faster than the overall retail industry, due primarily to the urbanisation of South Africa and the development of new infrastructure.
- 105 The performance of the textiles, clothing, footwear and leather goods segment of the South African retail industry for the five years to 30 April 2014 is as follows:

²⁴ ZAR is South African Rand.

²⁵ Converted at an exchange rate of A\$1=ZAR9.985 as at 1 July 2014.

²⁶ Source: Statistics South Africa.

Retail sales – textiles, clothing, footwear and leather goods
5 years to 30 April 2014 (ZAR billion)



Source: Statistics South Africa, statistical release P6242.1.

- 106 The South African apparel industry has undergone significant technological change and has benefitted from the country's increasingly sophisticated transport and communications infrastructure development in recent years. The South African market is aligning itself with first world retail markets and the local clothing and textile industry is benefitting and growing accordingly.
- 107 Retail sale forecasts provided by the University of South Africa (UNISA) for 2014 estimate industry growth of 4.7% for 2014, with the clothing, footwear and leather sector expected to show the highest growth rate at 10.2%²⁷. However, the 50 basis point increase in interest rates in January 2014 by the South African Reserve Bank seems to have impacted household expenditure, while the economy is also facing rising cost pressures, slow wages growth and high levels of unemployment.
- 108 Woolworths SA, and to a lesser extent Country Road Group, have benefitted from the significant growth in top income earners in South Africa over the last decade (i.e. their target demographics). This is the result of an increasingly wealthy indigenous population that represented just 10% of the demographic some 10 years ago, but has grown to around 40% today²⁸. As a result upper tier retailers in South Africa have benefitted greatly over this period.
- 109 The level of the ZAR/US\$ exchange rate has a flow on impact on the cost of apparel imports into South Africa, which has proved volatile of late²⁹. At the same time South Africa has a 40% duty on imports (designed to preserve or stimulate the South African textile industry), which translates into higher import costs per unit in comparison to Australia.

²⁷ Source: UNISA bureau of market research.

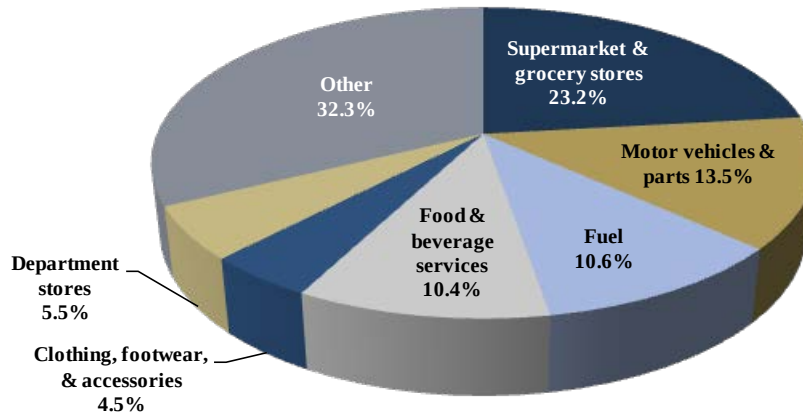
²⁸ Source: Woolworths SA.

²⁹ Country Road Group reported earnings are also impacted by the A\$/ZAR exchange rate.

New Zealand retail industry

- 110 The New Zealand clothing retail industry is a subset of the total retail industry, which generated NZ\$73.4 billion in the year to 31 March 2014³⁰ with the footwear and accessories sector contributing 4.5% or NZ\$3.3 billion of this amount³⁰. A breakdown of segments in the New Zealand retail industry is as follows:

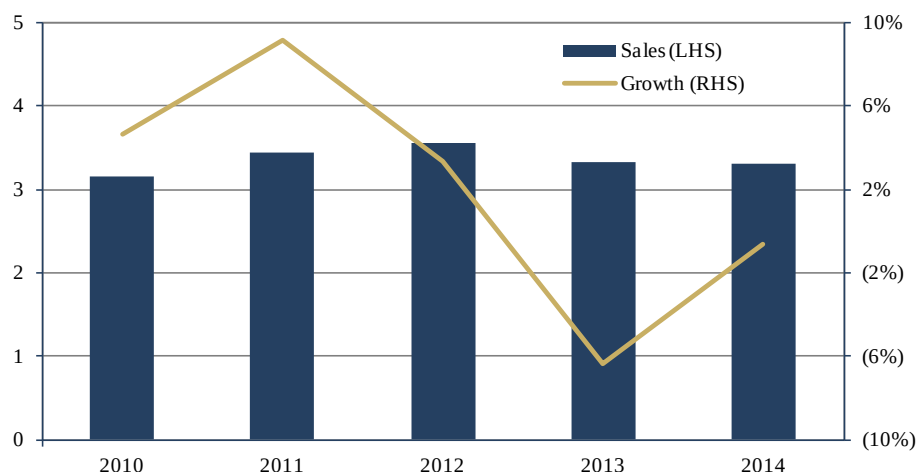
New Zealand retail industry – sector contributions
12 months to 31 March 2014



Source: Statistics New Zealand, retail trade survey: March 2014 quarter.

- 111 The New Zealand clothing, footwear and accessories sector grew over the three years to 31 March 2012, but has since declined slightly over the two years to 31 March 2014 (with negative growth in each of those years), as shown in the chart below:

Sales – clothing footwear and accessories
5 years to 31 March 2014 (NZ\$ billion)



Source: Statistics New Zealand, retail trade survey: March 2014 quarter.

- 112 Conditions in the clothing, footwear and accessories sector in New Zealand were difficult for apparel specialist retailers in New Zealand during 2013, with outlet and selling space declining year on year³¹. Apparel specialist retailers with brick and mortar stores were

³⁰ Source: Statistics New Zealand.

³¹ Euromonitor International.

negatively impacted by internet retailing, which totalled NZ\$3.8 billion in 2013. This is forecast to grow to NZ\$4.15 billion in 2014, with 40% of online shoppers purchasing from the clothing, shoes and accessories category³².

- 113 Gross domestic product (GDP) is forecast to grow at 4% for the year to 31 March 2015 and unemployment is forecast to decline below 5%³³, while the official cash rate has been increased from 2.5% to 3.25% between March and June 2014 in an attempt to contain inflation and return interest rates to a more normal longer-term level.

Outlook

- 114 A combination of contractionary fiscal policy, unseasonably warm autumn weather and increased competition has provided challenging market conditions for apparel retailers. While the east coast of Australia has since been faced with very cold conditions, the timing of improvement in general consumer sentiment is still uncertain.
- 115 Country Road Group has benefitted from a number of industry trends such as:
- (a) the expansion of its target markets (i.e. upper income households) in all its markets. That is, as populations have become more affluent there has been a propensity for people to upgrade purchases. For example, those previously purchasing mid range value apparel items have upgraded to upper tier apparel purchases
 - (b) competition from global fast fashion brands being targeted at lower price points than Country Road Group's brands
 - (c) growth in online sales, which the Group is at the forefront of in its target markets.
- 116 With respect to the future key drivers of the Australian retail apparel industry we note the following:
- (a) while a cooling of the mining boom and cutbacks in the State and Federal Government sectors in response to budget deficits has the potential to reduce job opportunities, future population growth is likely to drive employment growth
 - (b) DAE are forecasting annual wage growth of 2.5% to 3.0% per annum (nominal) over FY14 to FY16 and higher levels thereafter. However, DAE also expects real wage growth to be nominal over FY14 to FY16
 - (c) DAE expects real disposable income to grow by 2% to 3% over the three years to FY17 (much higher than recent growth)
 - (d) based on its analysis of the April 2014 Federal Government Budget, DAE estimates that by FY17 household expenditure will drop by \$10 billion, or approximately 1% of total household expenditure. Key measures expected to reduce disposable income include indexation of the pension to inflation rather than wages, freezing family payments and tightening means tests
 - (e) based on the ASX 30 Day Interbank Cash Rate Futures Implied Yield Curve, interest rates are not expected to rise prior to 31 December 2015, which is consistent with recent statements by the RBA that interest rates are expected to remain on hold for 12 months

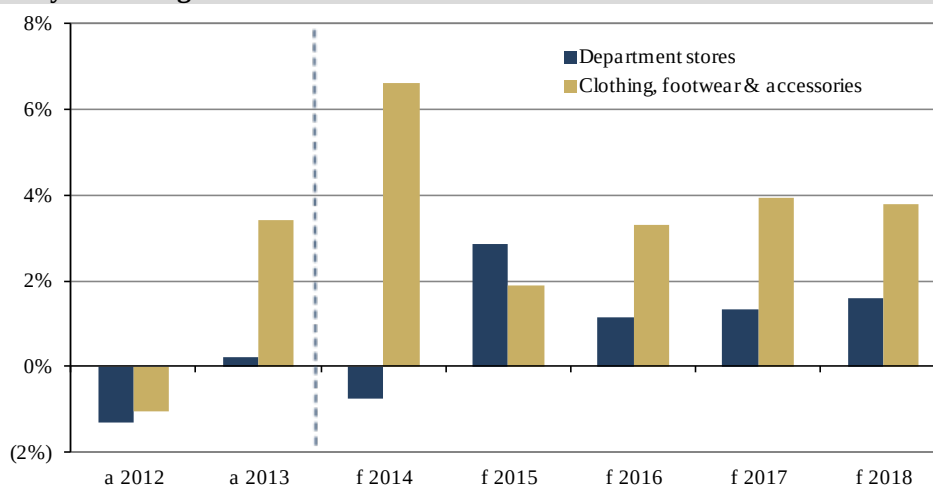
³² Nielsen report.

³³ New Zealand treasury.

- (f) household wealth is likely to continue to be supported in the short-term by the prevailing record low interest rates and the positive impact this has had on the value of key assets such as houses and shares
- (g) the RBA has estimated Australia's GDP growth in FY14 at 2.75%³⁴, with FY15 and FY16 estimated at mid-points of 2.75% and 3.25% respectively. DAE has forecast GDP growth of 2.7% for FY14 and FY15 and 2.8% for FY16 per annum respectively, broadly consistent with the RBA estimates for these years.

- 117 Set out below are the implied forecast levels of sales growth for the clothing footwear and accessories and department stores sectors to FY18:

Sales growth forecast, clothing footwear and accessories versus department stores
Forecasts for year ending 30 June



Source: DAE.

- 118 Much of the forecast slowdown for clothing, footwear and accessories post FY14 is attributed to the impact of the aforementioned budget cuts, which are expected to commence in FY15. While department store growth is expected to be lower than clothing, footwear and accessories (aside from FY15), this is consistent with historical experience, and reflects a continued loss of market share to other specialty retailers.
- 119 Overall, based on the drivers mentioned above, the current trajectory for interest rates, household wealth and nominal disposable income and the forecasts provided by DAE, the short to medium outlook for the Australian retail apparel industry appears positive with modest growth being forecast.
- 120 With respect of Country Road Group's international operations and the outlook for their respective apparel industries, we note the following:
- (a) **South Africa** – the economy has been performing strongly, although the resultant recent increase in interest rates by 0.5% may dampen retail apparel demand in the short term. However, the apparel industry has been leading the retail sector in terms of

³⁴ RBA (May 2014), Statement of Monetary Policy.

growth and this is expected to continue (at least) in the short-term with growth of around 10% in 2014³⁵

- (b) **New Zealand** – the retail (bricks and mortar) sector is facing significant competition from online specialists (noting that Country Road Group has a strong online offering in New Zealand), and while interest rates have been raised recently, the New Zealand economy is performing strongly which is likely to have a positive flow on impact on retail sales as consumer confidence rises.

³⁵ Source: UNISA Bureau of Market Research.

V Valuation methodology

- 121 ASIC Regulatory Guideline 111 – *Content of expert reports* (RG 111) outlines the appropriate methodologies that a valuer should consider when valuing assets or securities for the purposes of, amongst other things, share buy-backs, selective capital reductions, schemes of arrangement, takeovers and prospectuses. These include:
- (a) the discounted cash flow (DCF) methodology
 - (b) the application of earnings multiples appropriate to the businesses or industries in which the company or its profit centres are engaged, to the estimated future maintainable earnings or cash flows of the company, added to the estimated realisable value of any surplus assets
 - (c) the amount that would be available for distribution to shareholders in an orderly realisation of assets
 - (d) the quoted price of listed securities, when there is a liquid and active market and allowing for the fact that the quoted market price may not reflect their value on a 100% controlling interest basis
 - (e) any recent genuine offers received by the target for any business units or assets as a basis for valuation of those business units or assets.
- 122 Under the DCF methodology the value of the business is equal to the net present value (NPV) of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.
- 123 Methodologies using capitalisation multiples of earnings or cash flows are commonly applied when valuing businesses where a future “maintainable” earnings stream can be established with a degree of confidence. Generally, this applies in circumstances where the business is relatively mature, has a proven track record and expectations of future profitability and has relatively steady growth prospects. Such a methodology is generally not applicable where a business is in start-up phase, has a finite life, or is likely to experience a significant change in growth prospects and risks in the future.
- 124 Capitalisation multiples can be applied to either estimates of future maintainable operating cash flow, earnings before interest, tax, depreciation and amortisation (EBITDA), earnings before interest, tax and amortisation (EBITA), earnings before interest and tax (EBIT) or net profit after tax. The appropriate multiple to be applied to such earnings is usually derived from stock market trading in shares in comparable companies which provide some guidance as to value and from precedent transactions within the industry. The multiples derived from these sources need to be reviewed in the context of the differing profiles and growth prospects between the company being valued and those considered comparable. When valuing controlling interests in a business an adjustment is also required to incorporate a premium for control. The earnings from any non-trading or surplus assets are excluded from the estimate of the maintainable earnings and the value of such assets is separately added to the value of the business in order to derive the total value of the company.
- 125 An asset based methodology may be applicable in circumstances where neither a capitalisation of earnings nor a DCF methodology is appropriate. It can also be applied where

a business is no longer a going concern or where an orderly realisation of assets and distribution of the proceeds is proposed. Using this methodology, the value of the net assets of the company are adjusted for the time, cost and taxation consequences of realising the company's assets.

Methodologies selected

- 126 The market value of Country Road Group has been assessed by aggregating the market value of its business operations, together with the realisable value of any surplus assets and deducting net borrowings.
- 127 We have adopted the DCF approach as the primary method to value the shares in Country Road Group. In our opinion, this is the most appropriate methodology because:
- (a) Country Road Group has indicated that it plans to rollout 104 new stores³⁶ (in total) over the next three years (representing an increase in store numbers of over 19%)
 - (b) store numbers in South Africa are forecast to more than double over the next three years, with further significant growth expected
 - (c) profit margins are forecast to significantly improve in Country Road Group's South African stores over the next three to five years as efficiency and scale benefits are realised
 - (d) Country Road Group recently committed to the development of a purpose-built fulfilment facility in Melbourne, Victoria (to be owned by Country Road Group) at a cost of approximately \$55 million³⁷. This facility (and a new outsourced fulfilment facility in New Zealand) is expected to lead to significant efficiency savings from around June 2015 (in Australia) and August 2015 (in New Zealand)
 - (e) Woolworths SA has indicated that it expects to generate significant revenue and earnings improvements at Country Road Group if it is successful in acquiring 100% of David Jones (refer Section VI). However, these benefits are not estimated by Woolworths SA to be realised until FY15 to FY17 (and hence a DCF method is appropriate).

Cross-checks

- 128 As a cross-check, we have also considered the value of the business (prior to the initiatives referred to in (d) and (e) above) as a multiple of EBIT and profit after tax or price earnings (PE) approach.
- 129 We have not placed any reliance on the listed market price of Country Road Group shares due to the very low level of share trading³⁸.

³⁶ Net of store closures.

³⁷ Known as the Distribution and Fulfilment Transformation Project.

³⁸ Interests associated with Woolworths SA and Mr Solomon Lew hold some 99.76% of Country Road Group shares on issue.

VI Valuation of Country Road Group shares

- 130 As set out in Section V we have concluded that the DCF method of valuation should be used as the primary method to value Country Road Group. Under the DCF methodology the value of the business is equal to the NPV of the estimated future cash flows including a terminal value. In order to arrive at the NPV the future cash flows are discounted using a discount rate which reflects the risks associated with the cash flow stream.

Cash flow projections

- 131 Our DCF valuation is based on free cash flow projections derived by LEA having regard to, inter alia, discussions with management, Country Road Group's three year strategic plan and other information (including information on store profitability by brand and planned store rollouts).
- 132 Whilst LEA believes the assumptions underlying the cash flow projections are reasonable and appropriate, it should be noted in respect of these projections that:
- (a) the major assumptions underlying the projections were formulated in the context of current economic, financial and other conditions
 - (b) the projections and the underlying assumptions have not been reviewed by an investigating accountant for reasonableness or accuracy of compilation and application of assumptions
 - (c) future profits and cash flows are inherently uncertain
 - (d) by their nature, the projections do not take into account the operational flexibility available to management to react to changes in the market conditions in which Country Road Group operates
 - (e) the achievability of the projections is not warranted or guaranteed by Country Road Group or LEA, as they are predictions of future events that cannot be assured and are necessarily based on assumptions, many of which are beyond the control of Country Road Group and its management; and
 - (f) actual results may be significantly more or less favourable.
- 133 Free cash flow represents the operating cash flows on an un-g geared basis (i.e. before interest) less taxation payments³⁹, capital expenditure and working capital requirements. The free cash flow on an ungeared basis is adopted to enable the value of the business to be determined irrespective of the level of debt funding employed.
- 134 The free cash flow projections cover the period to 30 June 2019 (being a period of five years (Forecast Period)). A terminal value has been adopted at the end of the forecast period.
- 135 As the detailed cash flow projections are commercially sensitive they have not been set out in our report. However, we set out below information on the major assumptions underlying the free cash flow projections.

³⁹ Also calculated on an ungeared basis.

Major assumptions

New store numbers

136 The projections assume the following store additions (net of store closures):

Store additions (net)					
	FY15	FY16	FY17	FY18	FY19
Australasia					
Country Road	7	4	4	2	2
Trenery	8	10	10	6	6
Witchery	1	-	-	-	-
Mimco	2	2	2	1	1
Total	18	16	16	9	9
South Africa					
Country Road	3	3	3	3	3
Trenery	3	3	3	3	3
Witchery	10	10	10	10	10
Mimco	4	4	4	4	4
Total	20	20	20	20	20
Total	38	36	36	29	29

137 The growth in store numbers for the three years to FY17 is consistent with the growth forecast by Country Road Group management as disclosed in the Target's Statement. In the subsequent two years we have assumed:

- (a) growth in store numbers in Australasia is forecast to be at lower levels (reflecting the mature market and total number of existing stores)
- (b) strong growth in South African store numbers is forecast to continue (reflecting the size of the potential market and the smaller number of stores currently in place, in particular the Mimco and Witchery brands).

138 Based on the above new store additions, the total number of stores by brand and location over the Forecast Period is as follows:

Store numbers at year end							
	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Australasia							
Country Road	149	153	160	164	168	170	172
Trenery	15	18	26	36	46	52	58
Witchery	195	192	193	193	193	193	193
Mimco	98	96	98	100	102	103	104
Total	457	459	477	493	509	518	527
South Africa							
Country Road	23	26	29	32	35	38	41
Trenery	25	25	28	31	34	37	40
Witchery	2	11	21	31	41	51	61
Mimco	-	8	12	16	20	24	28
Total	50	70	90	110	130	150	170
Total	507	529	567	603	639	668	697

Comparable sales growth

139 For the purposes of our base case projections we have assumed:

- (a) same store sales growth of 2.5% per annum for Australasian stores (consistent with inflation)
- (b) same store sales growth for South African stores of 7% per annum initially, reducing to 5% per annum over the Forecast Period. In contrast, same store sales growth in local currency terms was 17.7% and 18.1% in FY13 and FY14 respectively⁴⁰
- (c) online sales growth of 15% per annum initially, reducing to 9% per annum over the Forecast Period. This is a reduction from the current growth rate and is assumed to reduce over time in relative terms due, in part, to the higher level of online sales being achieved⁴¹.

'Store EBIT' margins

140 'Store EBIT' represents the profitability after store expenses, but is before direct and indirect overheads (e.g. marketing costs, design costs and corporate costs etc). It includes the profit contribution from online sales (although online sales and margins have been forecast separately).

141 Our base case projections assume:

- (a) Australasian 'store EBIT' margins from stores and online sales⁴² remain consistent with those achieved in FY14⁴³ (reflecting in part, the ability to lower costs is constrained by the nature of the major store cost items e.g. lease rentals and staff costs)
- (b) South African 'store EBIT' margins (which are currently significantly lower than in Australasia) improve over the Forecast Period consistent with management's expectations (reflecting benefits such as increased scale).

142 Direct and indirect overheads (with the exception of certain items such as marketing costs, which are assumed to vary with revenue) have been increased by 3.5% per annum.

Witchery / Mimco integration benefits

143 At the date of acquisition, Country Road Group estimated that integration benefits of approximately \$10 million per annum would be achieved as a result of acquiring Witchery and Mimco. These benefits were estimated to be realised over a period of four years⁴⁴.

144 Management have advised that realisation of these synergy benefits remains on track, with approximately \$3.5 million in annual benefits (before tax) still to be realised. Implementation costs in relation to the remaining synergy benefits are expected to be relatively modest.

⁴⁰ In Australian dollar terms, same store sales growth was 5.3% and 12.8% in FY13 and FY14 respectively.

⁴¹ Empirical evidence indicates that higher online sales growth than that reflected in the forecasts has been achieved in established online sales markets overseas (e.g. UK, US).

⁴² Online profit margins are higher than store margins.

⁴³ As 'store EBIT' margins by brand and location are commercially sensitive we have been asked not to disclose the actual margins achieved.

⁴⁴ Source: ASX announcement dated 1 August 2012.

- 145 After allowing for implementation risks, we have assumed \$2.75 million in additional annual benefits (before tax) will be realised.

Distribution and Fulfilment Transformation Project

- 146 On 20 May 2014 Country Road Group announced that it had committed to the development of a purpose-built fulfilment facility in Melbourne, Victoria (to be owned by the Group) at a cost of approximately \$55 million (including \$2 million in one-off transition costs)⁴⁵. This facility (and a new outsourced fulfilment facility in New Zealand) is expected to lead to significant cost savings from around June 2015 (in Australia) and August 2015 (in New Zealand) when the facilities become operational. The facilities are expected to have an economic life of not less than 20 years.
- 147 Country Road Group also announced that the project was expected to generate an “*internal rate of return well above the Group’s cost of capital and with an expected post-tax payback period of less than 10 years*”⁴⁶.
- 148 Management’s detailed feasibility study indicates that annual benefits of around \$8.0 million (after tax) are expected to be generated from FY17. After allowing for implementation risks we have adopted \$7.0 million in annual benefits (in real terms) from FY17. Smaller savings are expected in FY16 due to the timing of operations.

Customer relationship management (CRM) / loyalty program initiatives

- 149 Country Road Group has recently committed to a new CRM platform prior to the launch of a new Group loyalty program. Country Road Group management expect that this initiative has the potential to further increase sales and reduce operating costs. However, as the potential benefits are inherently uncertain, they have not been specifically reflected in our DCF valuation.

Impact of Woolworths SA acquisition of David Jones

- 150 As noted in Section I, the Offer is conditional upon Woolworths SA acquiring 100% of David Jones. Accordingly, in our view, it is appropriate to consider the value implications of this acquisition on the Country Road Group.
- 151 In an Investor Presentation announced to the ASX on 9 May 2014, Woolworths SA stated that the acquisition of David Jones was expected to result in significant growth in Country Road Group sales through David Jones (concession) stores. The total EBIT impact was estimated by Woolworths SA at \$30 million to \$40 million per annum, with the benefits being realised over FY15 to FY17 (and continuing thereafter). We understand that this estimate reflects the incremental EBIT which may accrue to David Jones and Country Road Group in total.
- 152 Country Road Group management have provided us with a detailed analysis of the benefits which are expected to accrue to Country Road Group only. These benefits are estimated by Country Road Group management at \$27 million per annum (EBIT) and primarily result from:

⁴⁵ To date the land in Melbourne has been acquired at a cost of some \$8.0 million and the company has entered into contractual arrangements regarding construction of the facility.

⁴⁶ Source: Announcement to the ASX on 20 May 2014 titled Distribution & Fulfilment Transformation project.

- (a) introducing Country Road Group's brands into all 36 David Jones stores⁴⁷. In this regard we understand that:
 - (i) Country Road currently sells mens and womens apparel in only 26 David Jones stores
 - (ii) Mimco and Witchery are currently operating in 34 David Jones stores (but only offer womenswear)
 - (iii) no Trenery concession stores currently operate in David Jones stores
- (b) increasing the floor space allocated to Country Road Group brands in David Jones stores (in order to promote Woolworths SA's own brands more heavily)
- (c) the introduction of new categories into David Jones stores (e.g. Country Road Home and Country Road Kids, WitcheryMan and WitcheryKids, Trenery and Mimco soft goods and shoes)
- (d) making Country Road Group products available on the David Jones website / online store; and
- (e) launching new village format stores as stated by Woolworths SA.

153 As Country Road Group also has concession stores in Myer⁴⁸, there is a risk that Myer could reduce the level of Country Road Group merchandise in its stores as a result of the David Jones takeover. In this regard we note that Group sales through Myer stores were some 30% below Group sales through David Jones stores in FY14. However, we note that on 26 April 2014 Mr Bernie Brookes (the CEO of Myer) was quoted in The Australian newspaper stating that Myer would continue to stock the Country Road brand as *"not to do so would mean we weren't being customer-led"*.

154 Having regard to the above, and after allowing for the inherent implementation risks, we have adopted \$20 million in incremental EBIT in real terms (per annum). Allowance has also been made for some \$32 million in associated capital expenditure, which primarily relates to the cost of expanding the store footprint in existing David Jones stores and the rollout in David Jones stores where Country Road Group currently has no concession stores.

155 It should be noted that these benefits arise from a successful acquisition by Woolworths SA of David Jones and should therefore accrue to Country Road Group regardless of whether the Offer is successful. Accordingly, they should not be regarded as synergy benefits pursuant to the Offer.

Incentives

156 Country Road Group operates short and long-term incentive (STI / LTI) plans for its employees (staff receive STI only) and key executives. Payments in relation to the schemes are dependent on the financial performance of the Group relative to expected performance (with respect of STI) and the level of profit growth achieved (with respect of LTI).

157 The recent performance of the businesses, together with the acquisition of Witchery and Mimco, has provided a step change in the financial performance of the group which was not anticipated when some of the performance benchmarks in the STI / LTI plans were set. As a

⁴⁷ There are an additional two David Jones seconds stores as well as its online store.

⁴⁸ No Mimco, Trenery or Witchery concession stores operate in Myer.

result the cost of the incentive plans in FY14 was some \$6 million higher than is likely to be incurred on an ongoing basis.

158 Accordingly, for valuation purposes we have:

- (a) reduced the ongoing cost of the STI / LTI plans by \$6 million (before tax) per annum (compared to the cost in FY14) in our DCF valuation. The ongoing costs have then been inflated at 4% per annum; and
- (b) allowed for the payments associated with the current plan liabilities in our estimate of net debt.

Capital expenditure

- 159 Sustaining capital expenditure (mainly related to store refurbishments) is assumed to be equal to depreciation. This is broadly consistent with the historical experience of the Country Road Group businesses, and is considered reasonable as the number of store refurbishments each year will be relatively consistent given the large number of stores.
- 160 Capital expenditure associated with the fit out of new stores is estimated at \$420,000 per store (consistent with the average level of capital expenditure on new stores in FY14). This fit out cost has been escalated at 2.5% per annum in subsequent years (reflecting expected inflation).

Listed company costs / synergies

- 161 Listed company costs of around \$0.4 million were incurred in FY14. In addition, we believe any large purchaser of Country Road Group with a significant presence in Australia could generate further cost savings from improved efficiencies of scale.
- 162 Having regard to the nature and total head office costs incurred, we have assumed total savings from 100% ownership of Country Road Group of \$2.5 million per annum. This estimate excludes any unique synergies which Woolworths SA might also be able to achieve (consistent with the requirements of RG 111).

Discount rate

- 163 As set out in Appendix C we have applied a discount rate of 10.5% per annum (after tax). This discount rate reflects:
 - (a) a risk-free rate of 4.5% per annum. This exceeds the average yield to maturity currently prevailing on 20 year Australian Government bonds (of approximately 4.0% per annum as at 30 June 2014)⁴⁹ as we believe current yields (notwithstanding their long-term nature) remain at unsustainably low levels due to, inter alia, the effect of quantitative easing measures by major overseas central banks to stimulate economic activity
 - (b) a market risk premium (MRP) of 6.0% per annum, reflecting our view on the additional return above the risk-free rate sought by equity investors in Australia in the current market conditions
 - (c) a beta of 1.1 to 1.2, consistent with recent beta estimates for the retail sector⁵⁰

⁴⁹ The average yield to maturity prevailing as at 30 June 2014 on 10 year and 15 year Australian Government bonds was 3.54% and 3.90% respectively.

⁵⁰ The retail sector analysis excludes Woolworths, Wesfarmers and Metcash which are not considered comparable.

- (d) a cost of debt of 6.5% per annum, which reflects an appropriate borrowing margin of 2.0% over the adopted risk-free rate
- (e) the prevailing corporate tax rate of 30%
- (f) an assumption that over the long-term the business operations are financed by a combination of 85% to 90% equity and 10% to 15% debt.

164 Based on the above our adopted discount rate is derived as follows:

Country Road Group – adopted discount rate		
	Low	High
	%	%
Risk-free rate	4.5	4.5
MRP	6.0	6.0
Beta	1.1	1.2
Cost of equity	11.1	11.7
Cost of debt		
Pre-tax	6.5	6.5
After tax	4.6	4.6
Proportion of equity funding	85.0	90.0
Proportion of debt funding	15.0	10.0
Weighted average cost of capital (WACC)	10.1	11.0
WACC – adopted	10.5	

165 This discount rate has also been applied when determining the NPV of the Distribution and Fulfilment Transformation Project and the benefits expected to flow to Country Road Group from Woolworths SA. No additional risk margin has been applied on the basis that significant risk adjustments have been applied in the respective cash flows.

Terminal value

166 We have estimated the terminal value of the Country Road Group businesses as at 30 June 2019 based on the free cash flow projected in the year ending 30 June 2019.

167 Growth in perpetuity of 3.2% per annum has been assumed after 30 June 2019. The selection of this growth rate (which reflects the weighted average terminal growth rate applied to earnings from Australasia and South Africa) has been based on our review of:

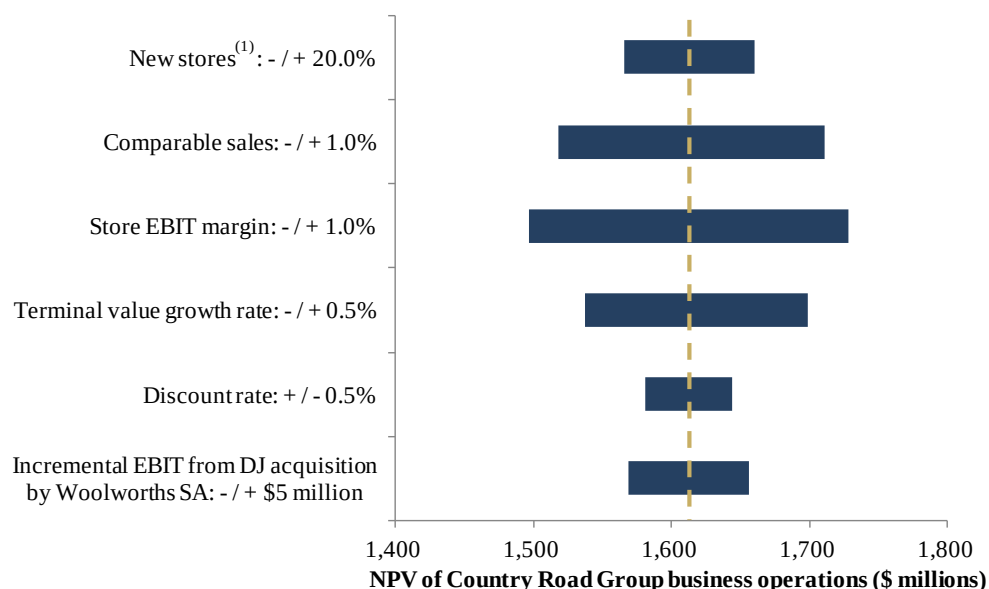
- (a) the growth in revenue and EBIT projected over the period to 30 June 2019
- (b) the projected number of stores as at 30 June 2019, and the potential for store growth beyond that date. In this regard we note that the Australasian market is relatively mature, but further growth opportunities exist in South Africa
- (c) the likely growth in same store sales and the related mix of store and online sales; and
- (d) long-term inflation rates and GDP forecasts.

168 On this basis the terminal value of the Country Road Group business as at 30 June 2019 represents 9.6 times projected EBIT in FY19 (which we consider reasonable).

Sensitivity analysis

- 169 As noted in paragraph 132 above, there are inherent qualifications that apply to cash flow projections on which DCF valuations are based. In addition, the cost of capital can vary between industry participants based on factors such as differing perceptions / acceptance of risk and willingness to assume debt funding obligations.
- 170 It is important therefore not to credit the output of DCF models with a precision it does not warrant. It follows that any DCF valuation process should consider a range of scenarios, having regard to the respective key valuation drivers of the business being valued.
- 171 We set out below therefore the sensitivity of the Country Road Group business value (on a cash and debt free basis) to changes in the key value drivers:

Country Road Group – sensitivity analysis



Note:

- 1 Whilst the 20% sensitivity appears high, given the Group's substantial existing store network a 20% increase in new stores only increases total store numbers by around 4% by 30 June 2019.
- 2 Sensitivities have been applied to the base business value only.

Business value

- 172 Having regard to the above, including the results of the sensitivity table in respect of key value drivers, we have assessed the value of the Country Road Group business (on an ungeared basis) at \$1,555 million to \$1,690 million as shown below. This represents the value of the business on a 100% controlling interest basis:

Business value (on a cash and debt free basis)

	Low \$m	High \$m
Base business value	1,400	1,500
NPV of Distribution and Fulfilment Transformation Project	25	30
NPV of expected benefits from Woolworths SA acquisition of David Jones	130	160
Business value	1,555	1,690

Net debt

- 173 As at 30 June 2014 the amount owing under the Group's term debt facility was approximately \$72 million. This facility was established to fund the acquisition of Witchery and Mimco in 2012.
- 174 Country Road Group also holds significant cash resources. However, as a result of seasonality, the Group's investment in working capital (predominantly inventory) and its net cash level varies materially during the year.
- 175 When determining the value of the equity in Country Road Group we are therefore of the opinion that it is appropriate to consider the average net cash / debt level throughout the year rather than the net cash / debt level at a point in time. For valuation purposes, we have also had regard to the level of STI / LTI liabilities yet to be paid.
- 176 As part of its risk management, the Group also enters into various currency hedges (primarily in US\$). Country Road Group management have advised that the Group did not have any material gain or loss on such contracts as at 30 June 2014.
- 177 Having regard to the average net cash / debt level throughout the year, we have adopted net debt of \$10 million for valuation purposes.

Shares on issue

- 178 Country Road Group currently has 103,585,233 shares on issue. There are no options or performance rights on issue.

Value of equity in Country Road Group

- 179 On this basis, the value of 100% of Country Road Group on a controlling interest basis is as follows:

Country Road Group – equity value (on a 100% controlling interest basis)		
	Low \$m	High \$m
Base business value	1,400	1,500
NPV of Distribution and Fulfilment Transformation project	25	30
NPV of expected benefits from Woolworths SA acquisition of David Jones	130	160
Business value	1,555	1,690
Less net debt	(10)	(10)
Equity value	1,545	1,680
Shares on issue	103.6	103.6
Equity value per share	\$14.92	\$16.22

Cross-check based on EBIT approach

- 180 As shown above, our assessed value of Country Road Group comprises the value of the base business plus:
- (a) the value attributed to the Distribution and Fulfilment Transformation Project; and

- (b) the incremental value expected to flow to Country Road Group if Woolworths SA acquires 100% of David Jones.

181 As the additional earnings from (a) and (b) above arise over time, we have cross-checked the value attributed to the base business as a multiple of EBIT (i.e. excluding the value from these additional initiatives).

Implied FY14 EBIT multiple

182 As set out in Section III, Country Road Group expects to report EBIT for FY14 of between \$92.9 million and \$100.9 million⁵¹. For the purposes of the implied EBIT multiple calculation we have adopted the approximate mid-point of this range (net of interest income) being \$97 million.

183 As noted above:

- (a) employee incentive costs under STI and LTI plans were some \$6 million higher in FY14 than is likely to be incurred on an ongoing basis
- (b) our valuation reflects further integration benefits from the acquisition of Witchery and Mimco of \$2.75 million per annum which are not reflected in the FY14 earnings.

184 Accordingly, we set out below the FY14 EBIT multiple implied by our value of Country Road Group (before initiatives) based on both the actual and normalised EBIT for FY14. To enable comparison with the listed comparable companies we have not attempted to normalise EBIT to:

- (a) add back the loss at the EBIT line from stores closed during the year (some \$2 million); or
- (b) reflect the expected full year earnings contribution from those stores opened during the year (some \$9 million)

Implied EBIT multiple				
EBIT multiple based on	Actual EBIT		Normalised EBIT	
	Low \$m	High \$m	Low \$m	High \$m
Base business value	1,400	1,500	1,400	1,500
Actual EBIT	97	97	97	97
Normalisation adjustments:				
Employee incentive costs	-	-	6	6
Witchery / Mimco integration benefits	-	-	3	3
EBIT for implied multiple purposes	97	97	106	106
Implied EBIT multiple (x)	14.4	15.5	13.2	14.2

⁵¹ Country Road Group's EBIT guidance for FY14 includes interest income.

Listed company multiples

- 185 We set out in Appendix D the listed company multiples for Australasian listed apparel retailers and specialty (non-apparel) retailers. These multiples are based on the listed market price of each company's shares (and therefore exclude a premium for control).
- 186 As we are valuing Country Road Group on a 100% controlling interest basis it is appropriate to include a premium for control. Empirical evidence undertaken by LEA indicates that the average premium paid above the listed market price in successful takeovers in Australia ranges between 30% and 35% (assuming the pre-bid market price does not reflect any speculation of the takeover). This broadly translates to a premium of 20% to 25% at the EBIT multiple or enterprise value (EV) level, although this varies depending on the level of debt funding employed in each company.
- 187 After adding a premium for control of 32.5% (consistent with the empirical evidence) to the listed company values⁵² we note that:
- (a) the average and median EBIT multiples for FY14 for the listed apparel companies were 11.7 and 11.3 times respectively (excluding Billabong International and Pumpkin Patch which are considered outliers)
 - (b) Premier Investments is trading on a controlling interest EBIT multiple⁵³ of 14.2 times forecast EBIT for FY14
 - (c) OrotonGroup is trading on a controlling interest EBIT multiple of 14.7 times forecast EBIT for FY14.
- 188 The EBIT multiple implied by our valuation range is therefore consistent with the high end of the listed company multiples (adjusted for a premium for control). In our view, this is warranted as Country Road Group has not been adversely impacted by the issues that listed Australian apparel retailers have faced in general, including static or declining sales and earnings, limited growth options and high inventory levels (as reflected by numerous profit downgrades by the ASX listed retailers). In contrast, Country Road Group's results have been on an upward trajectory. Therefore, based on the Group's recent performance and the future growth prospects of the business (particularly online and in South Africa) we believe the implied EBIT multiple is appropriate.
- 189 We also note that Woolworths SA is trading on an implied EBIT multiple of 14.2 times FY14 EBIT. With allowance for a control premium, this equates to an EBIT multiple of 18.9 times. This is a high multiple for a retailer in general, and is reflective of high historical sales growth and positive earnings momentum, primarily due to a repositioning of the company's retail offering in recent years and favourable demographics.

Transaction evidence

- 190 There has been limited transaction evidence in the apparel retail sector in recent periods. With respect to the implied EBIT (and PE) multiples set out in Appendix E we note that:

⁵² Excluding net cash (where the listed company had a net cash position).

⁵³ Premier Investments Limited's EBIT multiple has been calculated by treating the company's investment in Breville Group Limited as a separate asset.

- (a) Woolworths SA's offer for 100% of David Jones implies an EBIT multiple of 16.6 times the average broker EBIT forecast for FY14. However, in our view, this EBIT multiple should not be directly compared with the EBIT multiples for Country Road Group implied by our valuation range. This is primarily because of the very high level of synergies identified by Woolworths SA from the potential acquisition relative to the standalone earnings of David Jones. In this regard we note that Woolworths SA identified synergy benefits of around \$130 million within five years from acquiring David Jones, which are very high compared to broker consensus EBIT forecasts for FY14 for David Jones of \$135.4 million. As the acquisition of Country Road Group by Woolworths SA provides a much lower level of relative synergies, in our opinion, lower implied multiples for Country Road Group (compared to the implied multiples for David Jones) are appropriate (notwithstanding the Group's higher growth potential).
- (b) the acquisition of the Witchery Group by Country Road Group in September 2012 comprised two of the businesses the subject of this valuation (being Witchery and Mimco). However, at the date of acquisition Witchery Group's historical earnings were broadly unchanged from the previous year (i.e. they had not grown). In comparison Country Road Group:
- (i) has recorded significant earnings growth in FY14 (i.e. its most recent financial year), even when allowance is made for the three months that Witchery Group was not owned by the Group in FY13; and
 - (ii) is significantly larger than the Witchery Group businesses at the date of the acquisition.

Accordingly we would expect the EBIT multiple for Country Road Group to be significantly higher than that for Witchery Group (6.5 times EBIT⁵⁴) at the date of acquisition

- (c) with respect to the other apparel retail company transactions of significance, we note the following:
- (i) at the time of acquisition of Rebel Sport by Super Retail Group in October 2011 the company had reported immaterial growth in earnings and declining sales in its last full year period. The implied historical multiple of 9.5 times EBIT was therefore reflective of this low growth
 - (ii) Just Group reported an earnings down grade during the period in which the offer by Premier Investments was open and as a result the historical earnings of the business at the time were below the previous full year period. The implied historical multiple of 8.6 times EBIT therefore reflected this
 - (iii) Colorado Group received two related takeover offers. The first resulted in the acquisition of 83.6% of the company in July 2006 and implied an historical EBIT multiple of 10.4 times. The second offer, to mop up the minority shareholders in May 2007, implied an historical EBIT multiple of 13.9 times (although this offer appeared to be an above market offer to secure control of the business)⁵⁵.

⁵⁴ EBITDA was provided by Country Road Group in respect of this transaction. We have estimated depreciation to derive EBIT.

⁵⁵ The independent directors of Colorado Group stated at the time that, in their view, the offer price exceeded the value of Colorado shares.

Conclusion on implied EBIT multiples

191 Having regard to the above, we have therefore concluded that the implied EBIT multiples for Country Road Group are reasonable and appropriate.

Cross-check based on PE approach

192 The PE multiple implied by our base business value is shown below:

Implied PE multiple				
PE multiple based on	Actual NPAT		Normalised NPAT	
	Low \$m	High \$m	Low \$m	High \$m
Equity value	1,545	1,680	1,545	1,680
Less value attributed to Distribution and Fulfilment Transformation Project	(25)	(30)	(25)	(30)
Less NPV of expected benefits from Woolworths SA acquisition of David Jones	(130)	(160)	(130)	(160)
Base equity value (pre initiatives)	1,390	1,490	1,390	1,490
EBIT (as above)	97	97	106	106
Net finance costs ⁽¹⁾	(4)	(4)	(4)	(4)
Profit before tax	93	93	102	102
Tax at 30%	(28)	(28)	(31)	(31)
Profit after tax	65	65	71	71
Implied PE ratio (x)	21.4	22.9	19.6	21.0

Note:

1 Estimated net interest and finance costs for FY14.

193 Whilst the implied PE multiples are high, we note that they are not inconsistent with the PE multiples implied from share market trading for Premier Investments and Orotongroup once a premium for control is applied. Furthermore, Woolworths SA's offer for David Jones implies a PE ratio of 23.6 times (broker) forecast earnings after tax for FY14 (although this is likely to be reflective (in part) of the relatively high level of anticipated synergies).

VII Evaluation of the Offer

Summary of opinion

194 LEA has concluded that the Offer is fair and reasonable to the Minority Shareholders. We have formed this opinion for the following reasons.

Assessment of fairness

195 Pursuant to RG 111 an offer is “fair” if:

“The value of the offer price or consideration is equal to or greater than the value of the securities the subject of the offer.”

196 This comparison is shown below:

Comparison of Offer and Country Road Group value			
	Low \$ per share	High \$ per share	Mid-point \$ per share
Value of Offer consideration	17.00	17.00	17.00
Value of shares in Country Road Group	14.92	16.22	15.57
Extent to which the Offer consideration exceeds the value of the shares in Country Road Group	2.08	0.78	1.43

197 As the consideration offered by Woolworths SA is greater than our assessed value of 100% of the ordinary shares in Country Road Group, in our opinion, the Offer is fair.

Assessment of reasonableness

198 Pursuant to RG 111, an offer is reasonable if it is fair. Consequently we have concluded that the Offer is both fair and reasonable.

199 In assessing whether the Offer is reasonable LEA has also considered:

- (a) the Offer consideration compared to the recent listed market price of Country Road Group shares
- (b) Woolworths SA current shareholding in Country Road Group
- (c) the potential synergies available to Woolworths SA from 100% ownership of Country Road Group, having regard in particular to the potential 100% ownership by Woolworths SA of David Jones (which is a condition of the Offer)
- (d) the premiums paid in other similar minority interest buy-out transactions
- (e) other qualitative and strategic issues, risks, advantages and disadvantages associated with the Offer.

200 These issues are discussed below.

Listed market prices

- 201 We note that the Offer consideration of \$17.00 per share represents a 21.4% premium to the last traded market price of Country Road Group shares prior to the announcement of the Offer. However, as noted in Section III:
- (a) interests associated with Woolworths SA and AR Investments⁵⁶ hold some 99.76% of Country Road Group shares on issue
 - (b) trading in Country Road Group shares is therefore infrequent and trading volumes are very low.
- 202 Given the above, we do not consider the listed market price of Country Road Group shares to be an appropriate reference point to assess the value of the Group. Accordingly, we consider any calculation of the implied Offer premium compared to the listed market price to be of limited relevance.
- 203 We also note that the last trade (and bid and ask quotes) for Country Road Group shares as at 14 July 2014 (i.e. post the announcement of the Offer) were below the Offer price.

Extent to which shareholders are being paid a share of synergies

- 204 It its Bidder's Statement, Woolworths SA has stated that 100% ownership of both David Jones and Country Road Group would allow 'significant economies and efficiencies to be realised by the combined group'. These benefits which Woolworths SA has estimated at (at least) \$30 million per annum in incremental EBITDA include:
- (a) sourcing benefits through lower cost of goods and speed to market
 - (b) supply chain and logistics benefits
 - (c) reduced cost of doing business through amalgamation of service functions
 - (d) a far more efficient merchandise planning process resulting in improved stock turns and lower markdowns
 - (e) consolidating certain back-office functions across the combined group
 - (f) an unencumbered ability to utilise a common IT platform across financial, merchandise, customer relationship management and online processes; and
 - (g) combined scale as a single tenant across numerous landlords.
- 205 These benefits are largely unique to Woolworths SA and arise from its acquisition of 100% of both David Jones and Country Road Group. As a result, they are not reflected in our value assessment⁵⁷.
- 206 However, as the Offer consideration exceeds our assessed (standalone) valuation range, it would appear that a proportion of these unique synergy benefits are being reflected in the Offer for Country Road Group.

⁵⁶ A company owned by Mr Solomon Lew.

⁵⁷ RG 111.11 specifically prohibits the inclusion of a share of unique synergies in the valuation of the target company when assessing the 'fairness' of an offer. As noted above however, our valuation of Country Road Group includes the value of the benefits expected to arise from a Woolworths SA acquisition of David Jones.

207 Woolworths SA may also be prepared to pay more for the shares in Country Road Group than our assessed (standalone) valuation range because of the potentially higher earnings which Woolworths SA may be able to generate from ownership of 100% of Country Road Group due to factors including:

- (a) an ability to grow the business at levels higher than reflected in our valuation⁵⁸
- (b) an increased certainty of achieving the benefits associated with the Distribution and Fulfilment Transformation Project and the incremental EBIT from a successful acquisition of David Jones (both of which we have risk adjusted for valuation purposes).

208 In respect of the Offer consideration relative to our assessed (standalone) valuation range we also note that:

- (a) there are other examples where a controlling shareholder has paid a significant premium above the Independent Expert's valuation range to acquire the remaining shares.

For example, in 2007 ARH Investments offered a price of \$6.20 per share for the remaining 16.4% interest in Colorado Group that it did not own. At the time the Independent Directors of Colorado Group stated that, in their view, this offer price exceeded the value of Colorado Group shares, which was also consistent with the Independent Expert's view
- (b) as the price is only being paid to a small group of Minority Shareholders, the Offer price may not be representative of the price which Woolworths SA would be prepared to pay for 100% of the company.

Likely market price of Country Road Group shares if the Offer lapses

209 If the Offer lapses and no higher offer or alternative proposal emerges, we expect (at least in the short-term) that Country Road Group shares will trade at a significant discount to both:

- (a) our valuation (consistent with the difference between the value of the shares on a portfolio basis and the value on a 100% controlling interest basis); and
- (b) the Offer price of \$17.00 per share.

210 Minority Shareholders who wish to sell their shares are therefore likely to realise a better price by accepting the Offer (which also provides increased certainty of an ability to trade).

Likelihood of an alternative offer

211 In our opinion, there is no realistic likelihood that a competing offer for Country Road Group will be received during the Offer period. This is because:

- (a) Woolworths SA holds approximately 87.88% of the shares in Country Road Group

⁵⁸ For example, as indicated in paragraph 171 an increase in the terminal value growth assumption of 0.5% (above that reflected in our valuation) would increase the value of Country Road Group by around \$85 million and give rise to a value per share (at the high end of our assessed range) slightly above the Offer price.

- (b) any alternative offer by another party for 100% of the Group could not succeed unless Woolworths SA agreed to sell its shareholding
- (c) Woolworths SA has held its majority shareholding in Country Road Group since 1998 and has not indicated any intention of selling it
- (d) the Country Road Group business is highly complementary to Woolworths SA's other businesses (particularly if Woolworths SA is successful in acquiring 100% of David Jones).

212 Minority Shareholders should also note that the Offer has been declared "*best and final*" by Woolworths SA, which means that the Offer will not be increased.

Summary

213 In our opinion, there are a number of reasons why Country Road Group Minority Shareholders should consider accepting the Offer:

- (a) the Offer consideration exceeds our assessed value of Country Road Group shares on a standalone basis (as noted above)
- (b) the Offer provides all Country Road Group Minority shareholders with the ability to realise their shareholdings for cash should they wish to do so. In the absence of the Offer, this may not be possible (other than at a discounted price) due to the low level of trading in Country Road Group shares on the ASX
- (c) in our opinion, the Offer consideration is likely to significantly exceed the listed market price of Country Road Group shares in the absence of the Offer (at least in the short-term).

214 Based upon the above we have concluded that the Offer is fair and reasonable to the Minority Shareholders in Country Road Group.

Financial Services Guide

Lonergan Edwards & Associates Limited

- 1 Lonergan Edwards & Associates Limited (ABN 53 095 445 560) (LEA) is a specialist valuation firm which provides valuation advice, valuation reports and independent expert's reports (IER) in relation to takeovers and mergers, commercial litigation, tax and stamp duty matters, assessments of economic loss, commercial and regulatory disputes.
- 2 LEA holds Australian Financial Services Licence No. 246532.

Financial Services Guide

- 3 The *Corporations Act 2001 (Cth)* (Corporations Act) authorises LEA to provide this Financial Services Guide (FSG) in connection with its preparation of an IER to accompany the Target's Statement to be sent to Minority Shareholders in connection with the Offer.
- 4 This FSG is designed to assist retail clients in their use of any general financial product advice contained in the IER. This FSG contains information about LEA generally, the financial services we are licensed to provide, the remuneration we may receive in connection with the preparation of the IER, and if complaints against us ever arise how they will be dealt with.

Financial services we are licensed to provide

- 5 Our Australian Financial Services Licence allows us to provide a broad range of services to retail and wholesale clients, including providing financial product advice in relation to various financial products such as securities, derivatives, interests in managed investment schemes, superannuation products, debentures, stocks and bonds.

General financial product advice

- 6 The IER contains only general financial product advice. It was prepared without taking into account your personal objectives, financial situation or needs.
- 7 You should consider your own objectives, financial situation and needs when assessing the suitability of the IER to your situation. You may wish to obtain personal financial product advice from the holder of an Australian Financial Services Licence to assist you in this assessment.

Fees, commissions and other benefits we may receive

- 8 LEA charges fees to produce reports, including this IER. These fees are negotiated and agreed with the entity who engages LEA to provide a report. Fees are charged on an hourly basis or as a fixed amount depending on the terms of the agreement with the entity who engages us. In the preparation of this IER, LEA is entitled to receive a fee of \$200,000 plus GST.
- 9 Neither LEA nor its directors and officers receives any commissions or other benefits, except for the fees for services referred to above.

Appendix A

- 10 All of our employees receive a salary. Our employees are eligible for bonuses based on overall performance and the firm's profitability, and do not receive any commissions or other benefits arising directly from services provided to our clients. The remuneration paid to our directors reflects their individual contribution to the company and covers all aspects of performance. Our directors do not receive any commissions or other benefits arising directly from services provided to our clients.
- 11 We do not pay commissions or provide other benefits to other parties for referring prospective clients to us.

Complaints

- 12 If you have a complaint, please raise it with us first, using the contact details listed below. We will endeavour to satisfactorily resolve your complaint in a timely manner.
- 13 If we are not able to resolve your complaint to your satisfaction within 45 days of your written notification, you are entitled to have your matter referred to the Financial Ombudsman Services Limited (FOS), an external complaints resolution service. You will not be charged for using the FOS service.

Contact details

- 14 LEA can be contacted by sending a letter to the following address:

Level 27
363 George Street
Sydney NSW 2000
(or GPO Box 1640, Sydney NSW 2001)

Appendix B

Qualifications, declarations and consents

Qualifications

- 1 LEA is a licensed investment adviser under the Corporations Act. LEA's authorised representatives have extensive experience in the field of corporate finance, particularly in relation to the valuation of shares and businesses and have prepared hundreds of IERs.
- 2 This report was prepared by Mr Edwards and Mr Holt, who are each authorised representatives of LEA. Mr Edwards and Mr Holt have over 20 years and 25 years experience respectively in the provision of valuation advice (and related advisory services).

Declarations

- 3 This report has been prepared at the request of the Board Response Committee to accompany the Target's Statement to be sent to Minority Shareholders. It is not intended that this report should serve any purpose other than as an expression of our opinion as to whether or not the Offer is fair and reasonable to the Minority Shareholders of Country Road Group.

Interests

- 4 At the date of this report, neither LEA, Mr Edwards nor Mr Holt have any interest in the outcome of the Offer. With the exception of the fee shown in Appendix A, LEA will not receive any other benefits, either directly or indirectly, for or in connection with the preparation of this report.
- 5 LEA has had no prior business or professional relationship with Woolworths SA or Country Road Group prior to the preparation of this report.

Indemnification

- 6 As a condition of LEA's agreement to prepare this report, Country Road Group agrees to indemnify LEA in relation to any claim arising from or in connection with its reliance on information or documentation provided by or on behalf of Country Road Group which is false or misleading or omits material particulars or arising from any failure to supply relevant documents or information.

Consents

- 7 LEA consents to the inclusion of this report in the form and context in which it is included in Country Road Group's Target's Statement.

Assessment of appropriate discount rate

- 1 The determination of the discount rate or cost of capital for an asset requires identification and consideration of the factors that affect the returns and risks of that asset, together with the application of widely accepted methodologies for determining the returns demanded by the debt and equity providers of the capital employed in the asset.
- 2 The discount rate applied to the projected cash flows from an asset represents the financial return that will be demanded before an investor would be prepared to acquire (or invest in) the asset.
- 3 Businesses are normally funded by a mix of debt and equity. The weighted average cost of capital (WACC) is a widely used and accepted basis to calculate the “representative” rate of returns required by debt and equity investors. The required rate of return for equity is frequently evaluated using the capital asset pricing model (CAPM) and the required rate of return for debt funding is determined having regard to various factors such as current borrowing costs and prevailing credit ratings. The cost of equity and the cost of debt are weighted by the respective proportions of equity and debt funding to arrive at the WACC.
- 4 Consequently, we set out below an explanation of:
 - (a) the WACC and its elements (including the CAPM, its application in determining the cost of equity, the cost of debt and debt equity mix)
 - (b) our assessment of the appropriate parameters to be used in determining the discount rate to apply.

Weighted average cost of capital

- 5 The generally accepted WACC formula is the post-tax WACC, without adjustment for imputation⁵⁹ as shown below:

WACC formula

$$WACC = R_e \frac{E}{V} + R_d(1 - t) \frac{D}{V}$$

where:

R_e = expected equity investment return or cost of equity in nominal terms

R_d = interest rate on debt (pre-tax)

t = corporate tax rate

E = market value of equity

D = market value of debt

V = market value of debt plus equity

⁵⁹ Given free capital flows between developed countries and the small size of the Australian stock market (as a percentage of global markets), the cost of capital of listed companies (other than perhaps regulated infrastructure assets) should be assessed in a global context ignoring Australian imputation. This is the approach generally adopted by independent experts.

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CAPM and the cost of equity

- 6 The CAPM stems from the theory that a prudent investor would price an investment so that the expected return is equal to the risk-free rate of return plus an appropriate premium for risk. The CAPM assumes that there is a positive relationship between risk and return. That is, rational investors are risk adverse and demand higher returns for accepting higher levels of risk.
- 7 The CAPM is based on the concept of non-diversifiable risk and calculates the cost of equity as follows:

Cost of equity calculation

$$R_e = R_f + \beta_e [E(R_m) - R_f]$$

where:

- R_e = expected equity investment return or cost of equity in nominal terms
 R_f = risk-free rate of return
 $E(R_m)$ = expected market return
 $E(R_m) - R_f$ = market risk premium (MRP)
 β_e = equity beta

- 8 The individual components of the CAPM are discussed below.

Risk-free rate

- 9 We have applied a risk-free rate of 4.5% per annum. This exceeds the average yield to maturity currently prevailing on 20 year Australian Government bonds (of approximately 4.0% per annum as at 30 June 2014⁶⁰) as we believe current yields (notwithstanding their long-term nature) remain at unsustainably low levels due to, inter alia, the effect of quantitative easing measures by major overseas central banks to stimulate economic activity.

Market risk premium

- 10 The MRP, $[E(R_m) - R_f]$, represents the additional return above the risk-free rate that investors require in order to invest in a well diversified portfolio of equity securities, i.e. the equity market as a whole. Strictly speaking, the MRP is equal to the expected return from holding shares over and above the return from holding risk-free government securities. Since expected returns are generally not observable, a common method of estimating the MRP is based on average realised (ex-post) returns.
- 11 Because realised rates of return, especially for shares, are highly volatile over short periods, short-term average realised rates of return are unlikely to be a reliable estimate of the expected rate of return or MRP. Consequently the MRP is measured over a long period of time. It should also be noted that the standard error of the estimate of the mean for longer periods is typically lower than the standard error of the mean where a shorter period is used. This supports more reliance being placed on the average MRP calculated over the longer term.

⁶⁰ The average yield to maturity prevailing as at 30 June 2014 on 10 year and 15 year Australian Government bonds was 3.54% and 3.90% respectively.

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- 12 Based on our review of empirical studies on the long-term MRP in Australia, the MRP used in Australian regulatory decisions and by valuation practitioners generally, we adopted an MRP of 6.0%.

Equity beta

- 13 Beta is a measure of the expected volatility of the return on an investment relative to the market as a whole. The CAPM assumes that beta is the only reason expected returns on an asset differ from the expected return on the market as a whole. A beta greater than 1 suggests that an investment's returns are expected to be more volatile and risky than average (and accordingly a higher return than the market is required), whereas a beta less than 1 suggests that future returns will be less volatile and risky.
- 14 Similar to MRPs, expected equity betas are not observable. Historical betas are usually estimated and used as a reference to determine the appropriate forward-looking betas. In addition, factors such as betas of comparable companies and relevant industry sectors and a qualitative assessment of the systematic risks of the subject business are also considered. The determination of the appropriate beta to apply is, therefore, ultimately a matter of judgement.
- 15 In determining the appropriate equity beta for Country Road Group we have considered:
- (a) the risks faced by Australian retail companies generally
 - (b) the risks associated with the retail businesses of Country Road Group
 - (c) the beta estimates for comparable retailers and the relevant sector.
- 16 The equity betas for selected retail companies are set out below:

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Listed retail company betas						
Company name	Market cap A\$m ⁽¹⁾	Gearing % ⁽²⁾	SIRCA beta ⁽³⁾	SIRCA R-square ⁽⁴⁾	Bloomberg beta ⁽⁵⁾	Bloomberg R-square ⁽⁴⁾
Country Road Group	1,699	(1.6)	1.1	0.07	2.1	0.05
Apparel retailers						
Premier Investments	1,316	(27.8)	1.4	0.37	1.4	0.31
Myer Holdings	1,195	15.7	1.9	0.39	2.1	0.41
Kathmandu Holdings	588	10.6	1.4	0.16	1.1	0.09
Pacific Brands	486	25.7	1.2	0.18	0.9	0.09
Billabong International	485	10.4	4.0	0.19	4.2	0.15
Specialty Fashion Group	169	(14.9)	1.8	0.25	1.7	0.20
Oroton Group	163	(10.5)	0.8	0.13	0.8	0.14
Hallenstein Glasson Holdings	162	(11.0)	na	na	1.2	0.15
RCG Corp	156	(9.1)	1.4	0.35	1.4	0.32
Pumpkin Patch	69	39.1	na	na	2.4	0.19
Specialty retailers						
JB Hi-Fi	1,806	0.3	1.0	0.13	1.2	0.15
Super Retail Group	1,639	15.2	1.0	0.18	1.1	0.20
Briscoe Group	521	(18.0)	na	na	0.5	0.03
Michael Hill International	442	9.0	na	na	1.1	0.17
The Reject Shop	251	(7.8)	1.2	0.18	1.3	0.19
Nick Scali	215	(10.7)	1.3	0.26	1.3	0.22
Fantastic Holdings	160	(8.2)	1.7	0.25	1.1	0.15

Note:

- 1 Market capitalisation as at 1 July 2014.
 - 2 Gearing calculated as net debt divided by EV. A negative gearing ratio indicates that the company had net cash as at the most recent reporting date.
 - 3 SIRCA betas are estimated as at 31 March 2014 using four years of monthly data (the latest available).
 - 4 R-square is a statistical measure of how well the regression line approximates the real data points. It has a value between zero and 1. The closer R-square is to 1 the more reliable the beta estimate.
 - 5 Betas obtained from Bloomberg using four years of monthly data as at 26 June 2014.
- na – not available.

17 No meaningful beta can be derived for Country Road Group due to the very low level of trading in its shares. Further, the betas for individual stocks are generally significantly less reliable than the betas for industry sectors (as evidenced by the low R-squared values for individual stocks).

18 Accordingly, we set out below the industry betas for the Australian retail sector (excluding Woolworths, Wesfarmers and Metcash which are not considered comparable):

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Data period ended ⁽¹⁾	Retail sector	
	Beta	R-square
March 2014	1.13	0.55
March 2013	1.18	0.58
March 2012	1.34	0.64
March 2011	1.34	0.65
March 2010	1.39	0.67
March 2009	1.28	0.60

Note:

1 Using four years of monthly returns.

Source: SIRCA.

19 The above industry betas are consistent with our expectation that the beta for Country Road Group should exceed one (due, in part, to the sensitivity of business performance to factors including changes in disposal income levels, seasonality of weather conditions and the implicit short-term nature of fashion trends in apparel).

20 Accordingly, we have adopted an equity beta of 1.1 to 1.2 for Country Road Group.

Gearing

21 The gearing level adopted should represent the level of debt that the asset can reasonably sustain and is not necessarily equivalent to the gearing level of the entity owning the asset. The factors that affect the “optimum” level of gearing will differ between assets. Generally, the major issues to address in determining this optimum level will include:

- (a) the variability in earnings stream
- (b) working capital requirements
- (c) the level of investment in tangible assets
- (d) the nature and risk profile of the tangible assets.

22 In general, the lower the expected volatility of cash flows (i.e. risk), the higher the debt levels which can be supported (and vice versa). Furthermore, as the equity beta is a function of both business risk and financial risk (being the level of financial leverage or gearing), it is important to adopt in the WACC calculation a level of gearing which is consistent with the gearing ratios of the listed companies for which equity betas were used to assess the appropriate beta. If this is not done then, in theory, the equity beta would need to be adjusted to reflect the different level of gearing adopted. However, this adjustment is subject to considerable estimation error and is therefore not preferred. Consequently, when assessing the appropriate gearing level it is appropriate to consider the gearing levels of “comparable” listed companies over the period over which the beta estimates were calculated. The gearing ratios of selected listed retailers are shown in paragraph 16 of this Appendix.

23 As noted in Section III, the net debt position and gearing ratio of Country Road Group has been low. However, in our view, the business has the capacity to increase its level of borrowings, should it choose to.

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- 24 Accordingly, for the purposes of our discount rate assessment we have adopted a gearing ratio of 10% to 15% debt to 85% to 90% equity. This gearing ratio also recognises the respective debt servicing capacity of the company.

Cost of debt

- 25 A cost of debt of 6.5% per annum has been adopted. This reflects a borrowing margin of around 2.0% above the adopted risk-free rate

Calculation of WACC

- 26 Based on the above we have adopted a discount rate of 10.5% per annum (after tax) for Country Road Group:

Country Road Group – adopted discount rate		
	Low %	High %
Risk-free rate	4.5	4.5
MRP	6.0	6.0
Beta	1.1	1.2
Cost of equity	11.1	11.7
Cost of debt		
Pre-tax	6.5	6.5
After tax	4.6	4.6
Proportion of equity funding	85.0	90.0
Proportion of debt funding	15.0	10.0
WACC	10.1	11.0
WACC – adopted	<u>10.5</u>	

Appendix D

Listed retail companies

- 1 We have cross-checked the value attributed to the base Country Road Group business as a multiple of EBIT and PE (i.e. excluding the value attributed to the Distribution and Fulfilment Transformation Project and the incremental value expected to flow to the Group if Woolworths SA acquires 100% of David Jones) to observed share market trading multiples for similar or comparable listed companies in both Australia and New Zealand. In order to gain a representative sample of the listed retail companies with similar operations to Country Road Group we have classified them into two categories:
 - (a) **Apparel retailers** – including those with wholesale operations. Whilst apparel retailers are by definition specialty retailers, the grouping and analysis of this sub-division is useful as these companies are more comparable to Country Road⁶¹ Group
 - (b) **Specialty retailers** – these companies tend to focus on a specialised niche of the retail industry (for example, furniture) and are not directly comparable to Country Road Group. However, they are exposed to general discretionary retail expenditure.
- 2 A summary of the earnings multiples and a brief company description of the apparel and specialty retailers are set out below:

Listed company trading multiples ⁽¹⁾							
	Enterprise value ⁽²⁾ \$m	EBITA multiples ⁽³⁾			PE multiples ⁽³⁾		
		Forecast FY14	Forecast FY15	Forecast FY16	Forecast FY14	Forecast FY15	Forecast FY16
		x	x	x	x	x	x
Apparel retailers							
Myer Holdings	1,418	8.0	7.4	7.2	11.3	10.4	9.9
Premier Investments ⁽⁴⁾	886	10.7	9.7	9.0	20.0	18.5	17.0
Kathmandu Holdings	658	12.4	10.2	8.9	15.0	12.3	10.6
Pacific Brands	654	6.9	7.4	6.5	9.1	10.0	8.5
Billabong International	509	18.0	12.0	9.1	nm	nm	21.3
Specialty Fashion Group	147	8.1	6.1	5.3	13.5	9.7	8.3
OrotonGroup	147	11.1	9.0	7.2	18.3	14.7	11.7
Hallenstein Glasson	146	8.5	7.5	7.0	13.0	11.4	10.6
PAS Group	143	5.9	5.5	n/a	8.3	7.8	n/a
RCG Corp	143	9.1	7.7	6.8	12.3	11.2	10.5
Pumpkin Patch	113	24.1	13.7	9.8	nm	21.0	10.5
Average ⁽⁵⁾		9.0	7.8	7.2	13.4	11.8	10.9
Median ⁽⁵⁾		8.5	7.5	7.1	13.0	11.2	10.6

⁶¹ David Jones has been excluded from this group as it is currently subject to a takeover offer from Woolworths SA. The multiples implied by this transaction are included in the transaction evidence set out in Appendix E.

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Listed company trading multiples ⁽¹⁾							
	Enterprise value ⁽²⁾ \$m	EBITA multiples ⁽³⁾			PE multiples ⁽³⁾		
		Forecast FY14 x	Forecast FY15 x	Forecast FY16 x	Forecast FY14 x	Forecast FY15 x	Forecast FY16 x
Specialty retailers							
Super Retail Group	1,932	10.8	10.0	8.8	15.1	13.7	11.6
JB Hi-Fi	1,811	9.6	8.9	8.4	14.2	13.4	12.5
Michael Hill International	486	11.3	9.6	8.6	17.2	12.7	12.3
Briscoe Group ⁽⁶⁾	442	10.1	9.4	8.9	15.9	14.7	0.3
The Reject Shop	233	10.3	8.0	6.9	16.1	13.6	11.8
Nick Scali	194	10.2	9.1	8.1	15.8	14.1	12.5
Fantastic Holdings	128	11.2	7.7	6.0	20.1	12.7	10.0
Average		10.5	8.9	8.0	16.3	13.5	10.1
Median		10.3	9.1	8.4	15.9	13.6	11.8

Note:

- 1 Enterprise value and earnings multiples calculated as at 24 June 2014.
- 2 Enterprise value includes net debt (interest bearing liabilities less non-restricted cash), preference shares, convertible notes, net derivative liabilities, net pension liabilities, market capitalisation adjusted for material option dilution, share placements (for the purpose of reducing debt) and buybacks, excludes surplus assets, and adjusts for the cash effect of special dividends.
- 3 Forecast earnings are based on Bloomberg broker average forecast (excluding outliers and outdated forecasts).
- 4 Adjusted to remove the impact of its associate investment in Breville Group.
- 5 Excludes Billabong Group and Pumpkin Patch which are considered outliers.
- 6 As Briscoe Group has a 31 January 2014 year end the multiples for this company have been lagged to provide a consistent year end period with the other listed retail companies.

nm – not meaningful.

Source: Bloomberg, latest full year statutory accounts, latest interim accounts, company announcements, LEA analysis.

Apparel retailers

Myer Holdings Limited

- 3 Myer Holdings is Australia's largest department store group with 66 stores in prime retail locations across Australia and New Zealand. It offers a range of core product categories including womenswear; menswear; miss shop; childrenswear; intimate apparel; beauty, fragrance and cosmetics; homewares; electrical goods; toys; footwear; handbags and accessories; and general merchandise. In late October 2013 Myer Holdings made an unsuccessful attempt to merge with rival department store operator David Jones.

Premier Investments Limited

- 4 Premier Investments own a range of well known brands including Just Jeans, Jay Jays, Portmans, Jacqui E, Peter Alexander, Dotti and Smiggle, which it acquired as part of its acquisition of Just Group in August 2008. It is primarily a clothing retailer of casual and

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business clothing for men and women, but also sells stationery products through its fast growing Smiggle brand⁶².

Kathmandu Holdings Limited

- 5 Kathmandu Holdings is a leading retailer of clothing and equipment for travel and adventure. The company operates 136 retail stores throughout Australia, New Zealand and the United Kingdom. Its product breakdown is approximately 60% apparel and 40% equipment. In November 2009 the company dual listed on the ASX and New Zealand Stock Exchange. Kathmandu Holdings recently issued a forecast earnings downgrade of between 10% and 15% for FY14 as result of warmer than usual autumn / early winter temperatures.

Pacific Brands Limited

- 6 Pacific Brands is a wholesaler of underwear, workwear, footwear and outerwear and homewares . The company's operations are primarily based in Australia but also span New Zealand, the United Kingdom, Malaysia, China and Indonesia. Its notable brands includes Bonds, Sheridan, Hard Yakka, Berlei, Hush Puppies and Julius Marlow. There are four distinctive operating groups within the company covering Pacific Brands Underwear, Sheridan Tontine, Pacific Brands Workwear and Brand Collective. On 10 June 2014 Pacific Brands issued profit downgrade for FY14 associated with poor consumer confidence and unseasonably warm weather.

Billabong International Limited

- 7 Billabong International's core business is the marketing, distribution, wholesaling and retailing of apparel, accessories, eyewear, wetsuits and hard goods in the board sports sector. Its key brands include Billabong, Element, Von Zipper, Honolua Surf Company, Kustom, Palmers Surf and Nixon. The company's products are licensed and distributed in more than 100 countries and are available in approximately 10,000 stores.

Specialty Fashion Group Limited

- 8 Specialty Fashion Group is the largest retailer of womens fashion in Australia, with well over 1,000 stores and seven online businesses. The group has operations in Australia, New Zealand and the United States and its brands include Autography, City Chic, Crossroads, Katies, Millers and Rivers. Specialty Fashion Group also runs one of the largest womens customer communities in Australasia, with over 7 million members who account for over 80% of sales.

OrotonGroup Limited

- 9 OrotonGroup is an Australian luxury fashion accessories company that owns and operates over 50 retail leather, clothing and accessories stores throughout Australia, New Zealand, Singapore and Malaysia. OrotonGroup manufactures and markets its products under the Oroton, Brooks Brothers and GAP brands. Prior to July 2013 OrotonGroup was also the exclusive licensee for the Ralph Lauren apparel brands.

⁶² There has been press speculation that the Smiggle business would be floated separately at a value of up to \$500 million.

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Hallenstein Glasson Holdings Limited

- 10 Hallenstein Glasson Holdings owns and operates retail stores that sell mens and womens apparel products and sportswear. The company operates 85 stores in New Zealand and 25 in Australia. Its brands include, Glasson's which is New Zealand's most visited womens fashion store, Hallenstein's which is an iconic New Zealand menswear store and Storm which offers designer apparel for women.

PAS Group Limited

- 11 The PAS Group owns over 20 integrated brands and is diversified across the retail, e-commerce and wholesale sectors in Australia, New Zealand and South Africa. The company has both retail operations, including 223 company owned stores, as well as wholesale distribution arrangements with David Jones, Myer, Target, Kmart, Farmers and over 1,000 independent retailers. Its most prominent brands include Review, Metalicus, Black Pepper, Designworks Brands, Yarra Trail, Marco Polo, Fiorelli and Annapelle.

RCG Corporation Limited

- 12 RCG Corporation owns and operates a number of footwear businesses in the performance, comfort and active lifestyle sectors. These include the Athlete's Foot and Podium Sports as well as RCG Corporation's wholesale and distributions subsidiary RCG Corp Brands, which is the Australian distributor for the Merrell, Saucony, Cushe, Chaco, CAT and Sperry Top-Sider brands of footwear and apparel. The company issued an earnings downgrade for FY14 in June 2014 attributable to poor consumer confidence and unseasonably warm weather.

Pumpkin Patch Limited

- 13 Pumpkin Patch retails a wide range of childrens apparel products from baby through to pre-teen, as well as maternity clothing. The company operates over 190 stores and wholesale operations in 24 markets globally including Australia, New Zealand, United Kingdom, United States, Asia and the Middle East. Its product range includes brands such as Pumpkin Patch Kid Culture, Urban Angel, Patch Maternity and Charlie & Me Clothing Company.

Specialty retailers

Super Retail Group Limited

- 14 Super Retail Group is one of Australasia's top 10 retailers operating over 600 retail stores throughout Australia and New Zealand. The company's brands include Supercheap Auto, Rebel Sport, Amart Sports, BCF (Boating Camping Fishing), FCO (Fishing Camping Outdoors), Goldcross Cycles, Ray's Outdoors, and Workout World. Its stores sell a wide range of goods including automotive parts, tools, camping products, gardening and outdoor equipment and boating equipment.

JB Hi-fi Limited

- 15 JB Hi-fi retails consumer electronics products in Australia and New Zealand. The company operates through over 180 stores as well as its online business. Products include computers, tablets, televisions, cameras, hi-fi, speakers, home theatre, portable audio, music, games and movies. In late 2011, JB Hi-fi launched a digital music streaming service which now also includes video streaming and e-book products.

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Michael Hill International Limited

- 16 Michael Hill International manufactures, wholesales and distributes jewellery through stores in New Zealand (53 stores), Australia (166 stores), Canada (52 stores) and the United States (8 stores). The company currently generates 66% of revenue from Australia, 20% from New Zealand, 12% from Canada and 2% from the United States. It employs over 2,000 employees across sales, manufacturing and administration.

Briscoe Group Limited

- 17 Briscoe Group operates approximately 80 stores throughout New Zealand within the homewares and sporting goods sectors. The company's brands include Briscoes Homeware, Living & Giving and Rebel Sport (operated under a franchise arrangement). The Briscoe Group announced a record full year profit for the 52 week period ending 26 January 2014, which represented a 55% increase over profits reported three years earlier.

The Reject Shop Limited

- 18 The Reject Shop operates in the discount variety retail sector with over 250 stores in Victoria, New South Wales, South Australia and the Australian Capital Territory. The company's discount stores offer a wide variety of general consumer merchandise with particular focus on toiletries, cosmetics, homewares, personal care products, hardware, basic furniture, household cleaning products, kitchenware and confectionary as well as seasonal merchandise. The Reject Shop issued a profit downgrade for FY14 in June 2014 blaming warm weather and dwindling consumer confidence.

Nick Scali Limited

- 19 Nick Scali retails furniture in Australia through 34 stores and distribution centres. The company imports over 4,000 containers of furniture per year, which it sources from low cost overseas markets, and specialises in leather and fabric lounges, dining rooms, bedroom furniture and occasional furniture. The company's key brands include Nick Scali, Sofas2GO and Chateau d'Ax.

Fantastic Holdings Limited

- 20 Fantastic Holdings is a discount furniture retailer and manufacturer that operates over 134 stores across five retail chains including Fantastic Furniture (over 76 stores), Plush (35 stores), Dare Gallery (8 stores), Le Cornu (2 stores) and the Original Mattress Factory (13 stores). The company is Australia's third largest furniture retailer by sales value, largest sofa manufacturer and the largest vertically integrated furniture group.

Appendix E

Transaction evidence

- 1 There have been limited transactions in the Australasian specialty apparel retail sector in recent times. We therefore set out below transaction evidence for the Australian retail sector generally, including speciality retailers and department stores as well as apparel retailers. This analysis provides evidence of the prices that potential purchasers might be prepared to pay for a controlling interest in Country Road Group:

Retail transactions							
Date ⁽¹⁾	Target	Acquirer	EV ⁽²⁾ \$m	EBIT multiples		PE multiples	
				Hist. x	Fore. x	Hist. x	Fore. x
Apr 14	David Jones ⁽³⁾	Woolworths SA	2,249	15.1	16.6	21.1	23.6
Aug 13	Ezibuy	Woolworths	307	12.3	na	na	na
Jul 13	Dakine	Altamonts Partners	69	7.3	na	na	na
Aug 12	Witchery Group	Country Road Group	173	6.5 ⁽⁴⁾	na	na	na
Oct 11	Rebel Sport	Super Retail Group	610	9.5	9.2	na	na
Feb 11	Sass & Bide	Myer Holdings	63	6.3 ⁽⁴⁾	na	na	19.8
Mar 08	Just Group	Premier Investments	861 ⁽⁵⁾	8.6 ⁽⁶⁾	8.2	12.3	11.5
May 07	Colorado Group	ARH Inv. – acq. of minorities	650	13.9	12.5 ⁽⁶⁾	19.8	17.9
Dec 06	Repco Corp.	CCMP Capital Asia	570	10.9	12.3	15.5	17.5
Nov 06	Rebel sport	Archer Capital	335	10.6	11.0 ⁽⁶⁾	15.2	15.8
Nov 06	Brazin	MCCH	329	14.4	8.8 ⁽⁶⁾	20.6	12.5
Jul 06	Colorado Group	ARH Investments – acq. of 83.6%	451	10.4	8.5 ⁽⁶⁾⁽⁷⁾	14.8	12.2
Jul 06	Myer	Newbridge Capital	1,000	18.6	11.8 ⁽⁸⁾	26.6	16.8
May 06	Super A-mart	Ironbridge Capital	500	10.1	na	14.4	na
Aug 05	Barbeques Galore	Ironbridge Capital	82	31.0	18.3 ⁽⁶⁾	na	na
Nov 04	OPSM	Luxottica – acq. of minorities	616	14.6	11.6 ⁽⁶⁾⁽⁷⁾	20.8	16.5
Oct 04	New Price Retail	Australian Pharma.	167	10.1	na	14.4	na
Jul 04	Noel Leeming	Gresham Private Equity	NZ\$139	7.1	na	10.1	na
Feb 04	New Clicks Aust. Operations	ABN Amro, CHAMP, Investec Wentworth & Management	107	7.2	na	10.3	na
Aug 03	Freedom Group	Leveraged buy-out by management	246	8.9	na	13.0	na
Jul 03	R M Williams	Strathig Partnership	32	21.8	na	31.1	na
Apr 03	OPSM	Luxottica – acquisition of 82.6%	572	16.6 ⁽⁶⁾	12.2 ⁽⁶⁾⁽⁷⁾	15.7	17.4

Note:

- 1 Date of announcement.
 - 2 100% basis.
 - 3 Transaction has not yet complete.
 - 4 As EBIT was not available, we have estimated depreciation to derive EBIT.
 - 5 Based on mid-point of range.
 - 6 EBITA multiple rather than EBIT multiple.
 - 7 Forecast based on future maintainable EBIT as assessed by the independent expert.
 - 8 Based on the premise that the Melbourne Flagship was purchased separately for \$400 million.
- na – not available.

Source: LEA analysis using data from ASX announcements, broker reports and company annual reports.

Appendix F

Glossary

Term	Meaning
A\$	Australian dollar
ABS	Australian Bureau of Statistics
AR Investments	Australian Retail Investments Pty Limited
ASIC	Australian Securities & Investments Commission
ASX	Australian Securities Exchange
CAGR	Compound annual growth rate
CAPM	Capital asset pricing model
CEO	Chief Executive Officer
Consumer Confidence Index	Westpac Melbourne Institute Consumer Confidence Index
Corporations Act	<i>Corporations Act 2001 (Cth)</i>
Country Road Group or the Group	Country Road Limited
CRM	Customer Relationship Management
DAE	Deloitte Access Economics
David Jones	David Jones Limited
DCF	Discounted cash flow
EBIT	Earnings before interest and tax
EBITA	Earnings before interest, tax and amortisation
EBITDA	Earnings before interest, tax, depreciation and amortisation
EV	Enterprise value
FIRB	Foreign Investment Review Board
Forecast Period	The five year period covering FY15 to FY19
FOS	Financial Ombudsman Services Limited
FSG	Financial Services Guide
FY	Financial year
GDP	Gross domestic product
GFC	Global financial crisis
GST	Goods and Services Tax
IER	Independent expert's report
LEA	Loneragan Edwards & Associates Limited
LTI	Long-term incentive plan
Minority Shareholders	Shareholders in Country Road Group other than Woolworths SA
MRP	Market risk premium
NPAT	Net profit after tax
NPV	Net present value
NZ\$	New Zealand dollar
Offer	\$17.00 cash per Country Road Group share
PE	Price earnings
RBA	Reserve Bank of Australia
RG 111	Regulatory Guide 111 – <i>Content of Expert Reports</i>
STI	Short-term incentive plan
UNISA	University of South Africa
US\$	United States dollar
WACC	Weighted average cost of capital
Witchery Group	Purchased by Country Road Group effective 29 September 2012. This included the Witchery and Mimco businesses
Woolworths SA	Woolworths Holdings Limited
ZAR	South African Rand

SHAREHOLDER INFORMATION

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CORPORATE INFORMATION

Country Road Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange ("ASX") under ASX Code: CTY.

The principle activities of the Country Road Group are the designing and retailing of apparel, accessories and homewares.

SHARE REGISTRY

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