

26 July 2016

PERPETUAL EQUITY INVESTMENT COMPANY LIMITED INVESTOR UPDATE

Perpetual Equity Investment Company has discussed our significant holding in Woolworths Limited with investors in recent months. Shareholders in Woolworths (WOW.ASX) received positive news this week – the company announcing to the market an update on the strategic review put in place by the new management team which is showing signs of progress and momentum in their core Supermarkets business.

Woolworths has announced decisions to significantly slow their new Supermarket rollout program, and close several underperforming or unprofitable stores. This will allow Woolworths to allocate more capital to renewing their existing network of stores, with the goal of increasing sales per square metre – a new long-term performance indicator. Woolworths has also announced it is reducing headcount by 500 people and exploring options to sell General Merchandise business EziBuy.

What are the investment implications for Perpetual Equity Investment Company?

Woolworth's share price has recently hit 5-year lows. The Manager believes that Woolworths has suffered from poor management over recent years and a failed venture into hardware has resulted in substantial shareholder value destruction. In the Manager's opinion, Woolworth's announcement demonstrates the commitment of Woolworth's new management to simplify and refocus on their core competency of Food & Liquor, with early signs of improvement.

The Manager has advocated for the last 12 months that Woolworths needs to focus back on its existing network and improve efficiency via an enhanced offer to their customers by diverting capital from its hardware business Masters (now being closed/sold) and into their current store network. Other retailers which have changed focus to sale per square metre (Nordstrom (USA), David Jones and Myer) by reducing space in market have shown material improvements in operating trends.

The Manager continues to view Woolworths as a high quality business trading at a significant discount to its intrinsic value. The announcement of the closure of the Masters hardware business has already resulted in an immediate and substantial upgrade to earnings, and management's decision to restructure the business and focus on its core operations in Food & Liquor should result in significant uplift in earnings.

As at 30 June 2016 Perpetual Equity Investment Company held 10.4% of its portfolio in Woolworths Ltd.

-ends-

This report has been prepared by Perpetual Investment Management Limited ABN 18 000 866 535, AFSL 234426 and Perpetual Trustee Company Limited ABN 42 000 001 007 AFSL 236643. It is general information only and is not intended to provide you with financial advice or take into account your objectives, financial situation or needs. You should consider, with a financial adviser, whether the information is suitable for your circumstances. To the extent permitted by law, no liability is accepted for any loss or damage as a result of any reliance on this information. No company in the Perpetual Group (Perpetual Group means Perpetual Limited ABN 86 000 431 827 and its subsidiaries) guarantees the performance of the Company or the return of an investor's capital.