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The content of this Open Briefing reflects management and analyst discussion at the Wesfarmers Bunnings Briefing Day held in Melbourne on Wednesday May 14, 2003.

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Can you outline the size of the market in which Bunnings Hardware operates in Australia and the outlook for the industry?

MD Bunnings Building Supplies Peter Davis

We believe that the market in which Bunnings operates is about \$22 billion plus in sales. We expect growth to slow a little, largely due to the fact that domestic housing starts are slowing, although we expect the renovations and DIY segments to remain relatively strong over the next five years. So whilst we say the market is slowing, we still think there will be good growth levels.

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Can you comment on your competition and how they're performing?

Peter Davis

Competition has been relatively strong for Bunnings, particularly in the last 12 months. Big W has certainly improved in many areas, we're seeing the revitalisation of the K-Mart operation and we've also seen The Warehouse group move into the industry.

Importantly, all the discount specialists only compete with us on a limited range of items. Usually it's quite often the high volume, low margin items but because of Bunnings' wide range of products, we're able to compete strongly with those operators. In addition, some new specialists have entered the market, such as the Outdoor Furniture group and Barbecues Galore has recently become a little more

aggressive than they have been. Then, of course, we continue to compete with the traditional hardware operators such as Mitre 10 and Danks.

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So what's Bunnings' market share by state?

Peter Davis

These are internal estimates only but it's about 14.1% for Australia overall, 11.4% in NSW, but that has some real upside potential, 14.7% in Victoria, 16.5% in Queensland, 20.6% in WA, 10.8% in South Australia, 9.0% in Tasmania and 11.0% in Northern Territory.

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So how many stores by type do you now have across Australia and what's the rollout plan?

Peter Davis

As at 31 March 2003, we have 114 warehouse stores, 100 traditional stores and 18 WA Salvage stores across Australia and New Zealand. We have a strong store network throughout all the Australian states and we have a reasonable presence in the north island of New Zealand and we're soon to expand into the south island with the opening of a store in Christchurch in October.

Over the last 10 years, we've opened more than 50 warehouse stores and we've undertaken large numbers of property developments to achieve that. Our skills and expertise in that area have improved over the last few years and we've now appointed a General Manager for property based in Sydney, which should strengthen that market.

We currently have eight warehouse stores under construction, which we expect to open by Christmas and we're committed to opening eight to twelve per year for the next several years.

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How does the rollout plan differ from when you acquired Howard Smith?

Peter Davis

The rollout for new stores, whilst below expectation in the 2002/03 year, is expected to be back on track next fiscal year and we foresee openings of between 8 to 12 stores for the foreseeable future.

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Your NSW market doesn't seem to be going very well. Why is that? How far behind other states is it and what are you doing about it?

Peter Davis

NSW cash sales are in line with expectations and store on store sales growth is double digit. Trade sales particularly in this market have been significantly affected by a number of closures of non-strategic businesses such as Frame & Truss plants, plaster Board Distribution and wholesale timber businesses. We are experiencing reasonable growth in cash in the Hardwarehouse store locations.

The market in both NSW & Victoria are more difficult than other states.

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Why is it that you can't find enough managers to employ in NSW? Aren't you paying them enough?

Peter Davis

The EBA for BBC and BWH is being renegotiated. The basis in which we structure this is to reward people for performance and as such we are in a position to be more flexible in our arrangements.

It's difficult for Bunnings to find the right people, it is key to our strategies to ensure that the right people are employed.

A great deal of effort is being made to resolve these issues and we are seeking to source people from various employment pools such as technical colleges and other.

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Can you please update progress on the BBC/Hardwarehouse integration?

Peter Davis

Over the last 18 months, we've completed either temporary or permanent re-branding right across the network and we've rolled out the Australian Stage One re-merchandising plan, which included bringing all the Bunnings imported lines and promotional lines into the stores. We've therefore ensured we can run one catalogue throughout the organisation and that in itself achieves some significant cost savings.

We've inducted more than 12,000 new team members and we've re-structured all management teams within Hardwarehouse. However, we still require more managers because getting the large number of managers into the Hardwarehouse stores has proven more difficult than we expected. We've undertaken a head office rationalisation, as well as opening a 17,000 square metre distribution centre at Smithfield.

In October last year, we converted all stores to Bunnings Point Of Sale Operating Systems (BPOS) and we've also switched all administration, processes, procedures and policies to the Bunnings style from about June last year.

Overall, we've completed some 59 store closures and 11 openings and we're ahead of our forecast synergy savings.

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What are the ongoing integration issues?

Peter Davis

We have to get the Bunnings range into all Hardwarehouse stores as quickly as possible but in a profitable manner. In a number of areas we have two major suppliers competing for the total business and we expect that'll improve our margin moving forward.

We need to develop more modern inventory systems to manage the larger scale business. We're yet to fully instil the Bunnings culture throughout all Hardwarehouse stores and have more to do with team member development. Finally, there are significant operational and merchandising improvements that we can achieve, particularly in the Hardwarehouse stores.

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What's the outlook for Bunnings versus BBC stores?

Peter Davis

The outlook for both is positive but obviously the opportunity exists to grow the former BBC stores faster from a lower base. This will be driven largely through the re-merchandising plans.

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What's the mix between trade and DIY sales in Bunnings and BBC stores?

Peter Davis

Trade is obviously higher in the BBC stores as it has been historically. Retail continues to grow faster than trade as it has done historically. Overall our business mix is 73% cash and 27% trade. We see this shifting to a lower percentage of trade due to the faster growth rates being experienced in our retail business.

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What warehouse store upgrades and traditional store conversion do you plan each year?

Peter Davis

A significant opportunity exists within the current store network through upgrading Bunnings warehouse stores and Hardwarehouse stores and also by upgrading and converting traditional stores.

The new "9000 series" warehouse stores, for example, have a much greater product range than the older "7000 series" warehouse stores. For instance, the range in the 9000 series stores for Garden & Leisure is 20% greater, Decorator 43% greater, Flooring 91%, Plumbing 27% and Promotional & Seasonal 20%.

We plan between seven and fourteen warehouse store upgrades each year and we've planned for twelve traditional store conversions in 2003/04. The aim is obviously to have a greater product range, more customers and more sales per customer. The Carlingford store has experienced a lift in sales of between 30% to 40% after undergoing a conversion.

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Your March 2003 quarter results were covered well in your ASX releases, however can you talk about why the EBITA/Sales ratio was down from 9.8% in the March 2002 quarter compared to 9.0% in the March 2003 quarter?

Peter Davis

That's probably not representative of the wider trend. If we look at year to date figures, you'll see that the EBITA/Sales ratio is 10.4% for the year to March 2003 compared with 9.6% for the same period to March 2002.

If you look back over several years, Bunnings trading EBIT as a percentage of sales has steadily increased. For the year to date, it stands at 10.2%, which is up from 6.5% in 1997.

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What about store on store growth?

Peter Davis

Store on store growth for the year to date is approximately 9%. We've had some mixed results, not just by region, but particularly our mix between cash and credit. We're not unhappy with our cash store on store growth of 10+% in difficult trading conditions but the market has softened.

I must say that trade sales have been disappointing though. There's been a number of reasons for that including low volume account closures, we've rationalised non-strategic, poor return businesses such as the MLM timber wholesale business and we've lost sales from the closure of isolated stores.

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Margins in the third quarter were affected by inventory writedowns, competitive issues and probably the underestimation of shrinkage in the previous six months. Can you explain in more detail the impact of shrinkage on margins?

Peter Davis

No. We're not prepared to provide that detail.

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Can you please give more detail on the inventory writedowns then?

Peter Davis

We were conservative following the acquisition of BBC in our provisioning for obsolete stock. A more aggressive approach would have provisioned an additional \$30 million, and that is about the effect of inventory writedowns, clearance sales etc.

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Thank you Peter.

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