



## DAVID JONES ANNOUNCES PLANS TO BECOME PRE-EMINENT DEPARTMENT STORE IN MELBOURNE

- David Jones (DJs) has unveiled plans to create Melbourne's pre-eminent department store by **investing \$85 million in the redevelopment of its two flagship Bourke Street Melbourne CBD stores**. The redeveloped sites will deliver **30% more selling space** for key categories & an **increased number of Australian & international brands**.
- **Enormous growth potential** exists for David Jones (DJs) in the **Melbourne metropolitan market** - DJs estimates the market opportunity of an additional **\$300 million in sales** over time.
- DJs today announced that it will consolidate its Melbourne CBD presence in the Bourke Street Mall by
  - **investing in the redevelopment** & refurbishment of its **two flagship Bourke St Melbourne CBD stores**; and
  - **selling its 'Home Store'** located at 266 Little Bourke Street.
- The recent sale of Myer's Bourke St & Lonsdale St properties to property developers (CFS JV) has provided DJs with a **'once in a century' opportunity to maximise value** from the **sale** of its adjoining **Home Store** – and is another example of Industry restructure benefits for DJs.
- DJs was able to capitalise on this opportunity as a result of its reacquisition of its flagship Melbourne & Sydney CBD stores in Sept 2006.
- DJs entered into **agreement with the CFS JV** on 19 Nov 2007, **to sell its Home Store** for a total transaction value in excess of **\$50 million**. This represents \$6,553 per sq. m - an **attractive premium** to the price paid by DJs in Sept 2006 & delivers a **'one-off profit' of \$10-\$12 million**.
- The **sale proceeds** will be **reinvested in the lucrative Melbourne market** by way of a **redevelopment & refurbishment** of David Jones' two flagship Melbourne **Women's & Men's Bourke St CBD stores**. The Home Store categories will be relocated to these sites as part of the redevelopment.
- Melbourne is a key growth market for DJs given:
  - Department Store Sales in this market have **grown by 60%** in the period 1995 – 2007 & continue to be strong;
  - DJs Melbourne sales over the same period have **tripled** (from \$120 mil in FY95 to \$352 mil in FY07); and
  - Since 2001, DJs Bourke St store sales have **increased by 60%** (from \$115 mil in FY01 to \$182 mil in FY07).
- The **redevelopment** does not require any debt funding - it will be **fully funded** by:
  - Net proceeds from the sale of 266 Little Bourke St (\$42 million); and
  - The DRP which will remain in place for a further year (FY10) (\$43 million from the DRP in FY09 & FY10).
- The redevelopment will be **EPS accretive in year 1** (FY10) & EBIT will be unaffected during the 18 month redevelopment, due to an \$8 million disruption compensation facility.
- The **redevelopment will commence in May 2008** and is expected to be **completed in time for Christmas trading in 2009**. A staged development process will be implemented to **minimise disruption for customers**.

## DAVID JONES



David Jones Limited (DJS) today announced that it has entered into an agreement with a joint venture consortium comprising Colonial First State Property Management and the Government Investment Corporation of Singapore (CFS JV), relating to the **proposed sale of its property at 266 Little Bourke Street Melbourne** (which currently houses the David Jones Melbourne CBD Home Store).

David Jones today also announced its plans to **reinvest the proceeds from the sale** of its Home Store into the fast growing and lucrative Melbourne market by **redeveloping its two flagship Melbourne CBD Women's and Men's Bourke Street stores**.

David Jones CEO Mark McInnes said, "David Jones opened the very first department store in Melbourne's Bourke Street Mall as Buckley and Nunn. Our Company has a strong commitment to the Melbourne market and we have identified this market as an enormous growth opportunity for our business in coming years.

"In the period 1995 – 2007 the Melbourne department store market has grown by 60% and continues to be strong. Over the same period David Jones has tripled its Melbourne metropolitan sales and our Bourke Street stores have enjoyed approximately 60% sales growth in the six year period from FY01 to FY07. We estimate that through investment in high value refurbishments and the opening of high value, high growth stores such as Doncaster, our business can generate an additional \$300 million of sales from the Melbourne market over time.

"In light of this enormous opportunity we are pleased to announce today our Company's \$85 million investment in the redevelopment and refurbishment of our Bourke Street stores. Upon completion in late 2009 we will deliver to customers in Melbourne an unprecedented department store retail experience, that is on par with the world's best such as Selfridges, Nordstrom and Bloomingdales. Our redevelopment plans have been inspired by the best international department stores and will reflect the latest trends in global retailing," Mr McInnes said.

### **SALE OF 266 LITTLE BOURKE ST. MELBOURNE (DAVID JONES HOME STORE)**

On 19 November 2007 David Jones Limited entered into an agreement with the CFS JV to sell its Home Store property. A number of standard pre-conditions must be satisfied in order for completion of the sale to occur in the second half of the 2008 Financial Year (2H08).

Total transaction value for the site is in excess of \$50 million, comprised of:

- Sale price of \$42 million;
- Disruption compensation of \$8 million;
- Commitment by the CFS JV to construct a new loading dock and pedestrian air-bridge linking to the Lonsdale St redevelopment and through to Melbourne Central.

From a financial perspective the sale will generate a one-off profit of approximately \$10-12 million (after tax) in 2H08, which will include writing off assets from the Little Bourke St store and accelerated depreciation for assets to be disposed of in the redevelopment of the Women's and Men's Bourke Street stores. The one-off profit will be shown in the FY08 accounts as a 'Significant Item'.

Mr McInnes said, "The transaction value achieved for our Home store is in line with recent transactions in this market and has the added benefit of not imposing any long term lease obligations on our Company. Importantly we still retain full ownership and control of our two flagship Bourke St Melbourne CBD stores, enabling us to enjoy the full benefits of our \$85 million redevelopment of these sites, both in the capacity as owner and tenant."

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In terms of timing, the sale of the Home store is scheduled to complete in mid July 2008. David Jones plans to complete the redevelopment by November 2009 and will at that stage relocate the Home categories to the Women's and Men's stores. The opportunity to consolidate David Jones' Melbourne CBD presence into two stores as opposed to three will result in a 30% increase in retail selling space and will provide operating and cost efficiencies.

## REDEVELOPMENT OF DJS WOMEN'S & MEN'S BOURKE ST. MELB STORES

### Strategic Benefits & Opportunities of the Redevelopment

Mr McInnes said, "Based on our trading history and market share benchmarks we estimate that there is an opportunity to generate an additional \$300 million in sales in the Melbourne market over time.

"Our refurbished Bourke St Cosmetics & Accessories Hall that was launched in October 2006 clearly indicates that there is significant appetite within the Melbourne market for a brand and retail offering such as David Jones.

"Our \$85 million investment in the redevelopment and refurbishment of our two Bourke Street Melbourne CBD stores will not only redefine department store retailing in this market but it will also provide our business with a solid platform to capitalise on the enormous growth opportunities that exist within the broader Melbourne market," Mr McInnes said.

### Funding of Redevelopment

The redevelopment of the Bourke Street stores will require total Capital Expenditure (Capex) of \$85 million over the financial periods 2H08, FY09 and 1H10. This Capex will be funded from:

- The **cash proceeds of the sale** of 266 Little Bourke Street of **\$42 million**; and
- The continuation of the Dividend Reinvestment Plan (DRP) for an additional year (FY10). It is expected that **\$43 million** will be funded from proceeds raised through the **DRP in FY09 and FY10**. The DRP was reinstated in September 2006 to finance the Company's new store development program.

### Key Features & Timing of the Redevelopment

Redevelopment of the Women's and Men's Bourke Street stores will commence in May 2008 and is scheduled to be completed in time for Christmas trading in 2009.

The Bourke Street redevelopment will leverage David Jones' past experience and expertise in store refurbishment projects. It will be undertaken with minimal impact to customers and will preserve and maintain original heritage fabric and features, which are synonymous with the David Jones shopping experience.

A staged development process will be implemented to minimise customer and trading disruption. When the Bourke St Cosmetics and Accessories Hall was refurbished in 2006, minimal customer disruption was experienced despite the fact that throughout the refurbishment approximately 50% of the Ground floor was closed off for construction. The proposed Bourke Street redevelopment will have a much smaller impact on selling space during construction and the Bourke Street frontage will be maintained at all times.

Key features of the redevelopment include:

- **Pivotal Location:** David Jones is located at the heart of Melbourne's CBD retail precinct – the redevelopment of both David Jones and Myer by Christmas 2009 will not only reinvigorate the retail precinct but will enable David Jones to anchor Bourke Street Mall with significant ground floor presence on both sides of the Mall. David Jones will also enjoy increased access points

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through the construction of a new pedestrian air-bridge linking David Jones' Women's store to the CFS JV Lonsdale redevelopment which links through to Melbourne Central.

- **Vision for the Future:** The Cosmetics and Accessories Hall that was launched in October last year has been an outstanding success, delivering to the Melbourne market 'world's best' practice in terms of department store retailing. It houses the world's leading cosmetics and accessories brands, and provides customers with a brand offering and shopping ambience on par with Selfridges, Bloomingdales and Nordstrom. As part of the proposed \$85 million redevelopment, the concept and vision encapsulated in the Cosmetics & Accessories Hall will be rolled-out across all categories and floors in both of David Jones' flagship Melbourne CBD stores.
- **Increase in Selling Space:** A **30% increase** in selling space will be achieved through a substantial rebuild of the Women's store to capture currently unused space. This will be achieved by constructing new levels 1, 2 and 3 at the rear of the current Women's store and constructing full new floors on levels 4 and 5. This will effectively complete the building structure and create a uniform footprint on all five levels.
- **Unprecedented World Class Brand & Retail Offering:** A key component of the redevelopment will be the provision to Melbourne shoppers of an unprecedented department store branded offer - on par with the world's best. An even bigger range of Australian and international brands in key categories will all be housed in the latest brand environments and concept areas.

The \$85 million redevelopment will enable David Jones to:

- triple the size of its Women's footwear offering and will create **Melbourne's largest destination of the world's leading footwear brands;**
  - expand the hugely successful **Cosmetics & Accessories Hall** by **15%** to include additional brands in both categories;
  - increase the size of its **Youth Fashion** categories by **40%** and further cement David Jones' position in the fast growing Melbourne younger fashion market;
  - expand the space allocated to **Lingerie and Sleepwear** brands by **50%** to include a greater range of international brands as well as much loved Australian brands;
  - increase space allocated to **Menswear** categories by **20%** and to introduce new brands in the fast growing Men's Youth & Sportswear business;
  - expand the space dedicated to **Bedroom & Bathroom** categories by **20%** and ensure the new Homewares floor offers a broad range of contemporary Manchester brands as well as doubling the floor space dedicated to **Tabletop and Kitchenware** brands; and
  - introduce a **new floor dedicated to Home Electronics** which doubles the floor space allocated to leading Electronics and large appliance brands.
- **Operating & Cost Efficiencies:** Operating and cost efficiencies will be generated as a result of operating out of two instead of three stores in the Melbourne CBD as well as through the introduction of a centralised loading dock and consolidation of back office areas.

#### Operating Profit Implications of Redevelopment

It is anticipated that Operating Profit for 2H08, FY09 and 1H10 will be largely unaffected by the redevelopment in the Melbourne CBD retail precinct given the agreement with CFS JV includes \$8 million disruption compensation over the redevelopment period.

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Upon completion in November 2009, the redeveloped Bourke Street sites are expected to be Earnings per Share (EPS) accretive by the end of FY10 – namely, within 8 months of trading post completion of the project. The redeveloped Bourke Street stores are expected to deliver a substantial increase in sales and store contribution and a strong return on investment.

An update relating to the financial implications of the sale of 266 Little Bourke Street and the redevelopment of the Women's and Men's Bourke Street stores will be provided by the Company at the time of its FY09-FY12 Strategic Plan announcement in the third quarter of FY08.

## CONCLUSION

Mr McInnes said, "The sale of our Melbourne CBD Home Store at above book value and above our repurchase price, together with the strategic \$85 million redevelopment of our two flagship Bourke Street stores are 'once in a century' opportunities that have arisen as a result of the recent industry restructure.

"Our Company has a tremendous market share growth opportunity in the Melbourne metropolitan market that has the potential to generate an additional \$300 million of sales for our business over time. We intend to fully capitalise on and leverage this opportunity through our investment of \$85 million in the redevelopment of our flagship Bourke Street stores. This project will not only enhance the David Jones brand and increase our market share in Melbourne but it will also deliver a strong return on investment and a compelling financial outcome for our shareholders.

"The people of Melbourne deserve a pre-eminent department store that is on par with the world's best. We are delighted to announce today that upon completion of our Bourke St redevelopment, David Jones will be delivering just that," Mr McInnes said.

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