



**Metcash Limited**

ABN 32 112 073 480  
1 Thomas Holt Drive  
Macquarie Park  
NSW 2113 Australia

4 March 2019

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

Dear Sir/Madam

**METCASH LIMITED – STRATEGY UPDATE PRESENTATIONS  
(INCLUDING TRADING UPDATE)**

Metcash (ASX: MTS) attaches presentations that will be delivered at its Strategy Update being held in Melbourne today commencing at 9.30am. The presentations include a Trading Update.

A webcast of the presentations can be accessed at <https://encore.com.au/metcash>.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julie Hutton".

Julie Hutton  
Company Secretary

Attachments



Mitcash

# STRATEGY UPDATE

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04 MARCH 2019





# GROUP OVERVIEW

JEFF ADAMS

Group Chief Executive Officer

# AGENDA

## PRESENTATIONS

## PRESENTER

9.30am	Group overview	Jeff Adams, Group CEO
	Liquor	Rod Pritchard, Interim CEO Liquor
	Hardware	Mark Laidlaw, CEO Hardware
11.30am	Break	
	Food	Scott Marshall, CEO Supermarkets & Convenience
	Retailer comments	Joseph Romeo, Director Romeo Retail Group
	Summary and trading update	Jeff Adams, Group CEO
1.30pm	Buses depart for store tours	
	Packaged lunches to be served on bus	
	Ritchies SUPA IGA Rowville	
	Mitre 10 Tait Hardware, Tooronga	
4.00pm	Buses depart Tooronga for Melbourne CBD and airport	





# PURPOSE, VISION AND VALUES

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## OUR PURPOSE & VISION

# CHAMPIONING SUCCESSFUL INDEPENDENTS

## INDEPENDENCE IS WORTH FIGHTING FOR



Best store  
in town



Passionate about  
independents



A favourite place  
to work



Business partner  
of choice



Support thriving  
communities

## OUR VALUES

**We believe:** Independence is worth fighting for; in treating **our people, retailers and suppliers** the way we like to be treated; and in **giving back** to the communities where we live and work.

# OUR CURRENT POSITION

## LIQUOR

- Clear #2 in market
- Mature market
- Retailers well positioned to benefit from consumer trends
- Pursuing attractive growth opportunities
- New CEO to commence early FY20



## HARDWARE

- Clear #2 in market with strong Trade focus
- More favourable market structure following exit of Masters and acquisition of HTH
- Construction activity has softened, but still at solid levels
- Diversified sales profile
- Continued focus on costs
- Pursuing attractive growth opportunities



## FOOD

- Positioned as alternative to majors – independent, active in their communities, convenient and differentiated
- High rate of deflation and roll out of competitor footprint have adversely impacted results
- Earnings have benefited from successful Working Smarter program
- Next phase of strategy focused on both revenue growth and cost out
- Retailers are supportive of strategic direction



## FINANCIAL

- Strong balance sheet
- Strong underlying cashflows
- Net debt below target gearing ratio
- Well positioned with capacity to fund current growth plans





# WHY MFUTURE

## The prior three years

included a strong focus on cost reduction and limited growth initiatives



## Working Smarter

helped to partly offset the impact of challenging market conditions



## We are now in the final year

of our successful three-year Working Smarter program



## Strategy for the next 5 years is focused on a balanced approach to revenue growth and cost out

- Accelerating successful current initiatives
- Following the shopper into new growth initiatives across our pillars
- Improving our infrastructure to enable simpler and cheaper processes
- Ensuring we have a sustainable cost structure into the future
- Our focus is on delivering competitive and successful independent retailer networks across our pillars and identifying opportunities for vertical integration where appropriate

# MFUTURE – OUR 5 YEAR VISION

To deliver a pathway to long term sustainable growth



## Improved competitiveness for our retailer networks

- Range
- Service
- Price
- Location



## A sustainable cost base through a continued focus on simplification and efficiencies



## The trial of new store formats and ownership models

- Matching formats to customer shopping missions



## Our confidence is underpinned by:

- Retailer support for our strategic direction
- Alignment with our retailer and supplier partners on what will be delivered
- Experienced and tailored teams
- A history of successful cost-out programs



# KEY MFUTURE INITIATIVES



## LIQUOR

- Grow share of 'on-premise' market
- National roll out of Porters Liquor
- Corporate store trial
- Accelerate digital capability



## HARDWARE

- Acceleration of Sapphire program
- 'Whole of House' strategy
- Rollout of Hardings Plumbing and Tait flooring across the network
- Acceleration of digital capability roll out



## FOOD

- Clear brand strategy by store format
  - Appropriate range and pricing
  - Small format store pilot
- Delivered by acceleration of DSA program

**Pillar presentations provide further detail**

# LIQUOR

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ROD PRITCHARD  
Interim CEO Liquor



# OVERVIEW



**A mature market with value growth driven through 'premiumisation' trend**



**ALM is the 2nd largest player in Australian liquor market**



**IBA retail network has grown to ~55% share of total ALM business**

- Strong national retail brands, in both Australia & NZ
- Continued focus on growing and strengthening our store network
- Network investment to deliver 'Best Store in Town'
- Conversion of unbannered / wholesale customers to IBA network

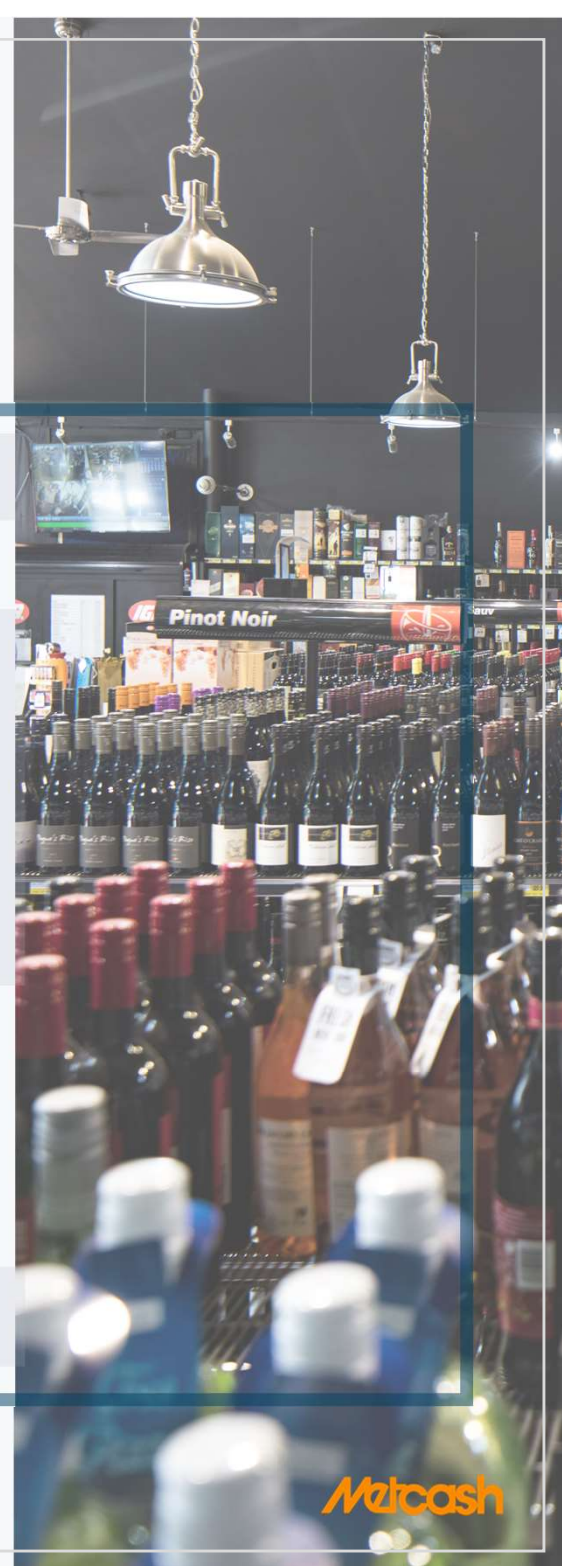


**IBA network well positioned to meet current shopper trends**

- Local and convenient store locations
- Range and programs tailored by retail banner
- Regional ranging strategy, with retailer flexibility to deliver local product offering



**Pursuing sustainable growth opportunities – both wholesale and retail**



# OUR BUSINESS



ALM supplies ~12,000 hotels, liquor stores, restaurants & other licensed premises throughout Australia and NZ



Our IBA retail network consists of ~1,600 Tier 1 bannered stores across Australia & NZ



IBA supports independent retailers through:

- national buying power
- marketing support
- shopper-focused promotional programs
- network investment to provide 'Best Store in Town'

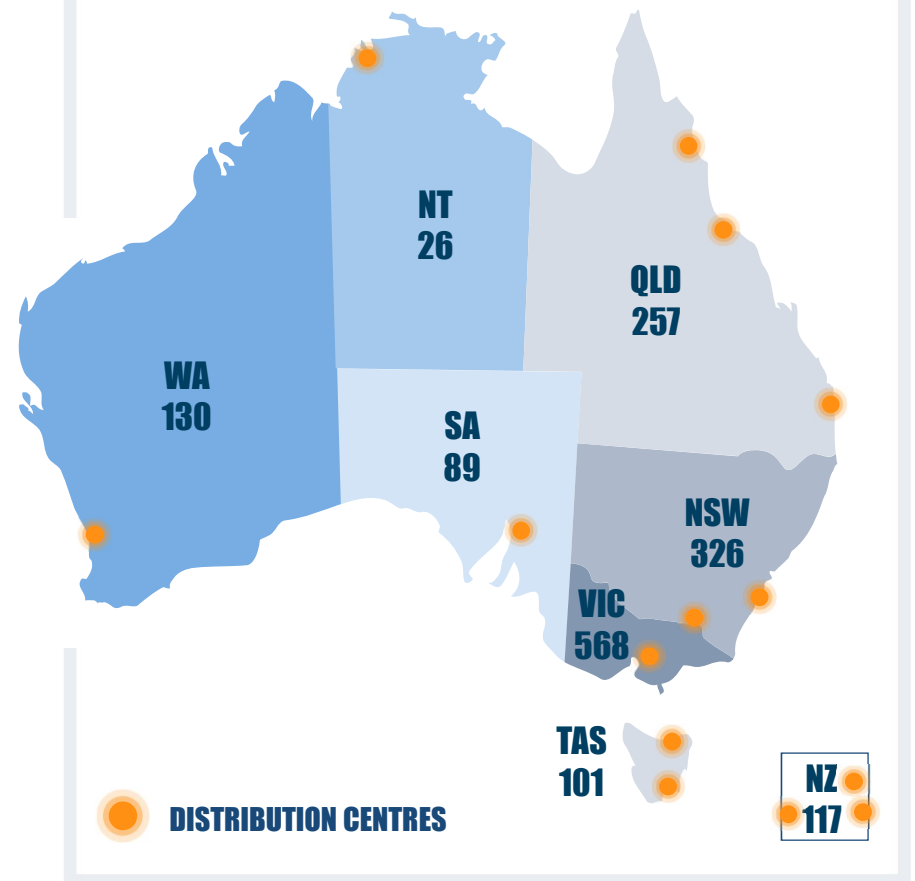


ALM also provides wholesale supply to several contract customers, unbannered liquor stores and to the 'on-premise' channel



Cost effective and efficient route-to-market through our network of 14 DCs

## IBA NATIONAL NETWORK OF STORES

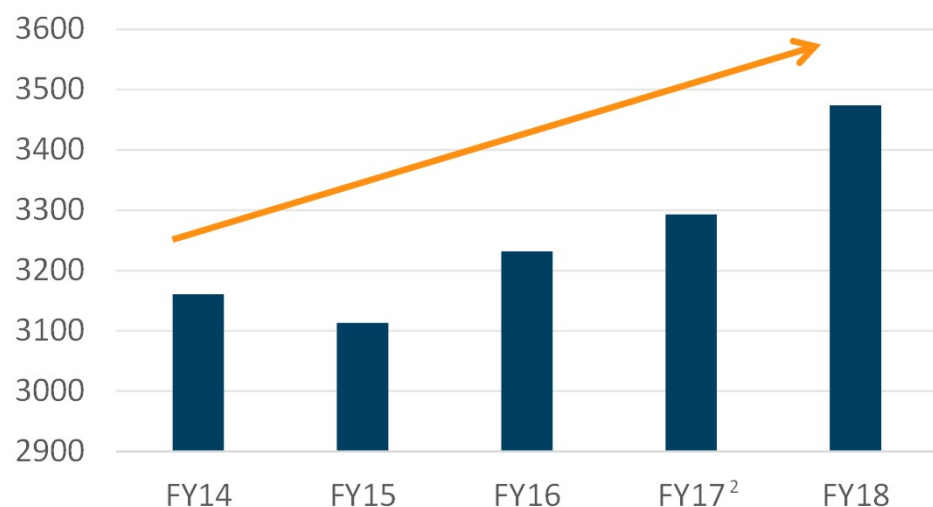




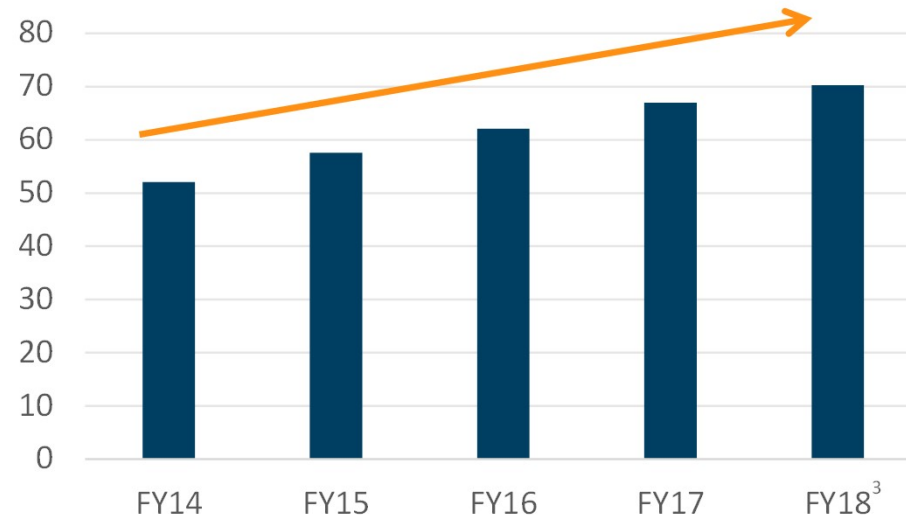
# OUR JOURNEY

## A HISTORY OF SALES AND EARNINGS GROWTH

### SALES<sup>1</sup> (\$m)



### EBIT (\$m)

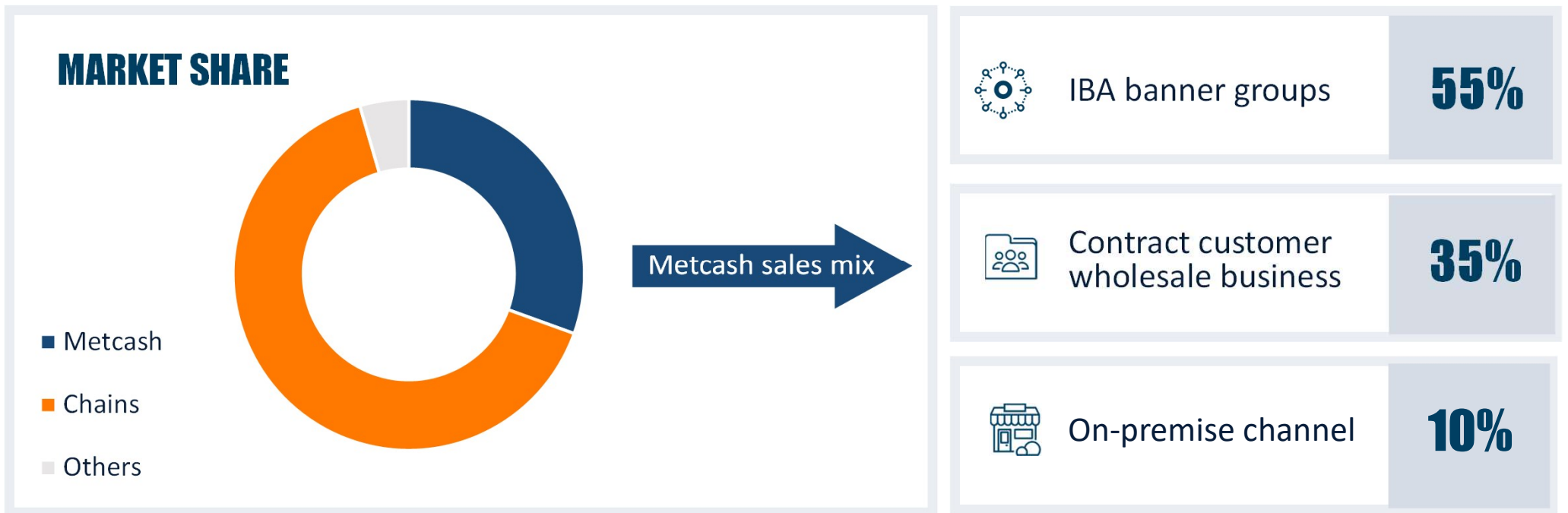


**Conversion of unbannered customers to IBA network a key driver of growth**

1. FY15 to FY18 Sales revenue has been adjusted to reflect the adoption of AASB15: *Revenue from Contracts with Customers*.
2. FY17 Sales revenue has been adjusted to reflect 52 trading weeks (FY17 included 53 trading weeks).
3. EBIT has been adjusted for AASB15 in FY18 only.

# MARKET POSITION

## 2ND LARGEST PLAYER IN RETAIL PACKAGED LIQUOR



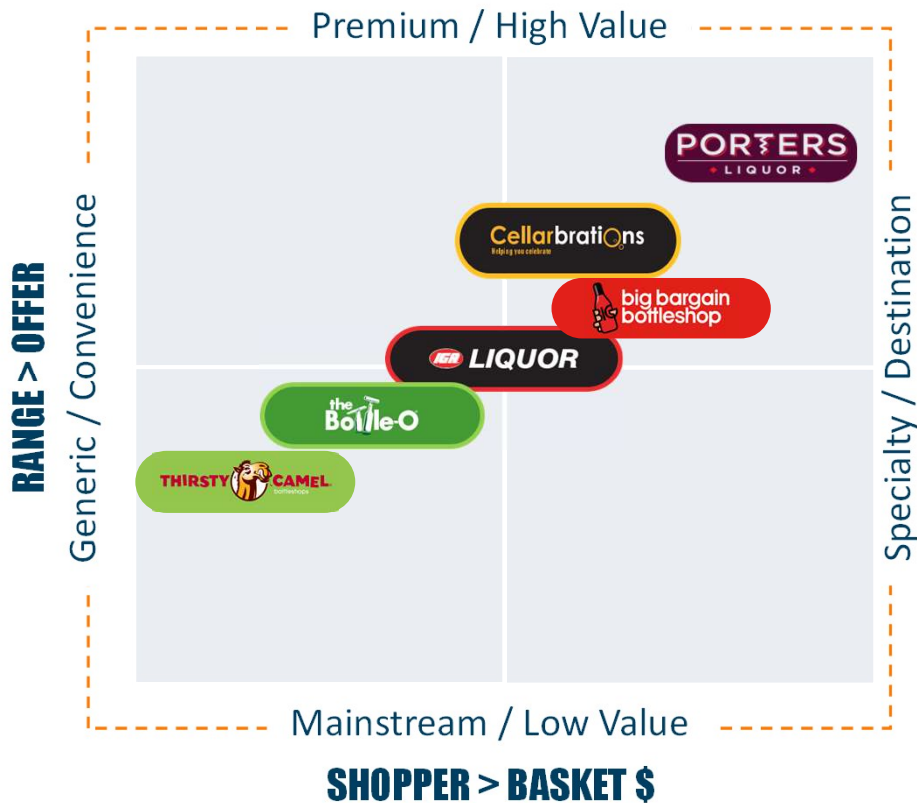
Source: Iri – MAT Jan 2019

**IBA network well positioned with competitive tailored offers in convenient local locations**


# IBA NETWORK

## A FULL SPECTRUM OF STRONG BRANDS

### SHOPPER PROPOSITION








### IBA RETAIL STORE NETWORK

 INDEPENDENT BRANDS AUSTRALIA PTY LTD	1,614
Cellarbrations	557
the Bottle-O	356
IGA LIQUOR	466
THIRSTY CAMEL bottleshops	156
big bargain bottleshop	54
PORTERS LIQUOR	25



# CONSUMPTION TREND DRIVING VALUE GROWTH

- 'Premiumisation' trend – consumers are drinking less, but higher quality
- Reflected in growth in premium spirits & wine, craft beer and RTD
- Trend expected to continue
- Container Deposit schemes and CPI increases contributed to value growth

	Category share of market - IBA	Category share of market	Value growth	Volume growth
	43.4%	35.2%	-0.2%	-2.1%
	16.3%	21.3%	5.3%	2.7%
	18.5%	26.4%	2.7%	-0.2%
	19.0%	14.3%	4.3%	1.1%
	2.8%	2.8%	-3.5%	-3.9%

Source: Iri – MAT Jan 2019

**Focus for growth on categories where IBA network is under-indexed**

# STRATEGIC FOCUS

## WHOLESALE



- Product ranges to align with consumption trends
- Low cost route-to-market for independent retailers and on-premise customers
- Leverage IBA retail network to grow share of on-premise channel volumes

## RETAIL



- Further conversion of retailers into the IBA network
- Trial of company-owned stores
- Product range tailored to individual banners and local consumption



# IBA GROWTH INITIATIVES



## CURRENT

- Drive retail investment initiatives to deliver 'Best Store in Town'
- Regional core range supported by localised product offerings
- Growth through Private Label portfolio

## NEW

- Porters Liquor national footprint
- Corporate store trial
- Increased focus on 'on-premise' market
- Accelerate digital capability
  - Loyalty
  - Data insights
  - Intelligent promotions
  - Trialling home delivery



# IBA GROWTH INITIATIVES

## BEST STORE IN TOWN



Ongoing investment to improve quality of IBA store network and shopper experience

- ~290 store refreshes completed
- ~550 cool room upgrades completed



Regionalised core ranging, tailored for local communities and changing consumption trends

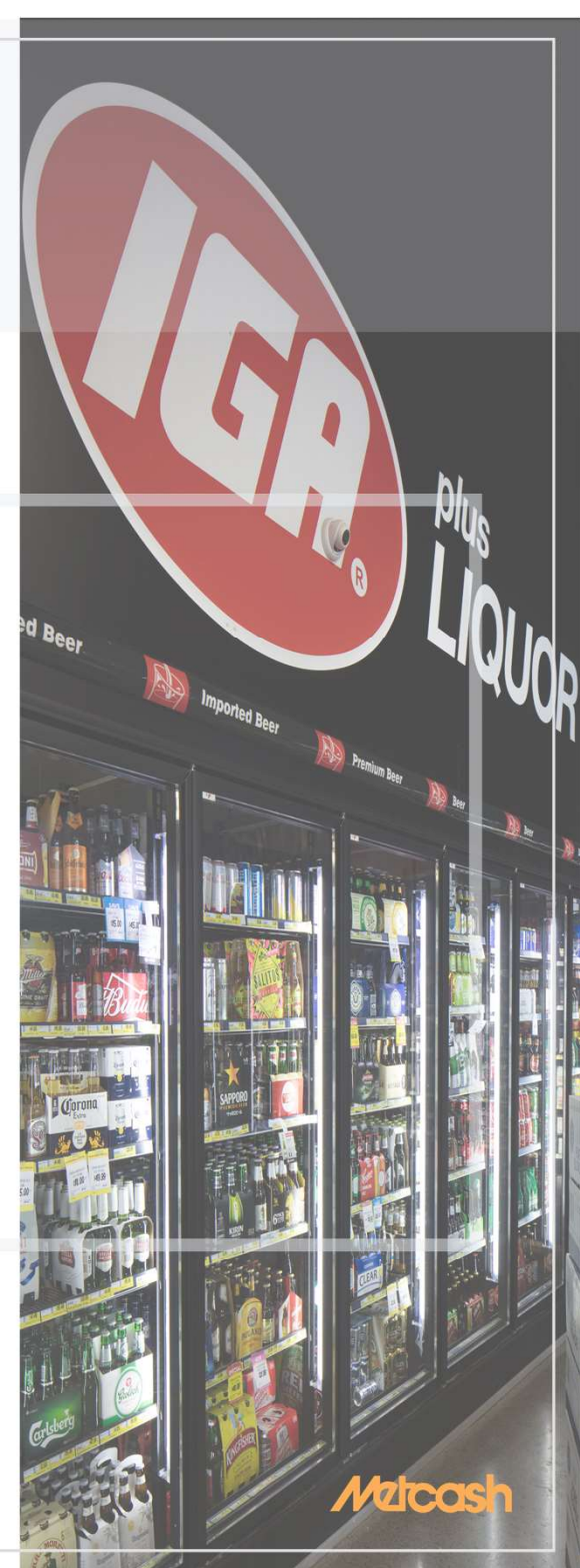


'Cellar Selections' premium range marketing program – ~250 stores participating



'5 Star audit' process drives and rewards retail execution standards

**Quality stores with localised range, personable and knowledgeable service**



# IBA GROWTH INITIATIVES

## PRIVATE AND EXCLUSIVE LABELS



Grow 'award winning' private label portfolio



Currently ~70 SKUs across wine, beer & spirits



Strong focus on growing wine category



Continue to evolve and premiumise private label range



Increase retailer profit margin and basket size



In-store execution to engage shoppers



**Potential to grow private and exclusive label offer**

# IBA GROWTH INITIATIVES

## PORTERS LIQUOR



Grow IBA share of premium / higher value market



Acquired Porters brand in 2017 (21 stores in NSW only)



Completed brand review leading to store refresh project



Targeting national network of stores



Planned three year roll out



Network support and investment from Metcash

**Plan to grow share of premium / higher value market**



# IBA GROWTH INITIATIVES

## CORPORATE STORE TRIAL

- Establish a portfolio of 'best in class' company-owned stores
- Targeting existing retail stores outside IBA network, along with greenfield sites
- Trial of 10 stores
  - Three stores currently in operation
  - Targeting 10 stores by December 2019
  - Trial to be completed by end FY20
  - Potential roll out commencing FY21 based on successful trial
- Benefits:
  - Platform to 'test and learn' new retail concepts
  - Retailer 'proof-source' to support roll out of new programs across IBA network
  - Accelerate network growth
  - Integrated margins



# ALM GROWTH INITIATIVES

## 'ON-PREMISE' MARKET

- 🔍 Renewed focus within 'on-premise' channel
- 📊 Metcash historically under-indexed in 'on-premise'
  - ~10% of ALM sales v ~20% of total market
- 📦 Growth strategy:
  - Strengthen alignment between keen partners including suppliers and customers
  - Investment in dedicated 'on-premise' team, tools and capability
  - Better leverage of existing network
- 📅 New contract customers (Compass, Sodexo)

**Targeting ~\$250m of sales growth over next 5 years**



# SUMMARY



Position of strength – 2nd largest player in Australian market



Strong retail network with local and convenient stores



'Best Store in Town'



Grow Private Label



Expand Porters Liquor network



Corporate store trial



Grow share of 'on-premise' market



Accelerate digital capability



Capex for growth initiatives over 5 years ~\$15m (incl. corporate store trial)





# HARDWARE

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MARK LAIDLAW  
CEO Hardware



# OVERVIEW



IHG is 2nd largest player in Australian hardware market



Integration of HTH has delivered significant synergies



Strong Trade focus, but Retail/DIY remains important



Company-owned / JV stores core to strategy



Challenging market due to softening of construction activity



Diverse portfolio of store owners and end customers reduces exposure



Continued focus on costs and efficiencies



Pursuing attractive growth options



# MITRE 10 – 60 YEAR ANNIVERSARY

## IN 1959

eight Timber & Plumbing independents joined together to form a buying group. They met at the Mitre Tavern Melbourne.

## TODAY

we have a network of ~700 stores with sales over \$2bn.



1959



1965



1986



2007



2016



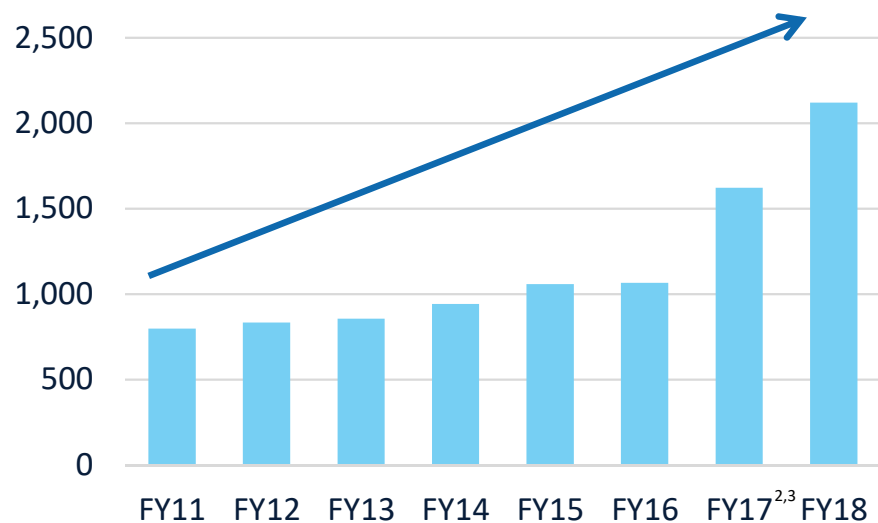
2017



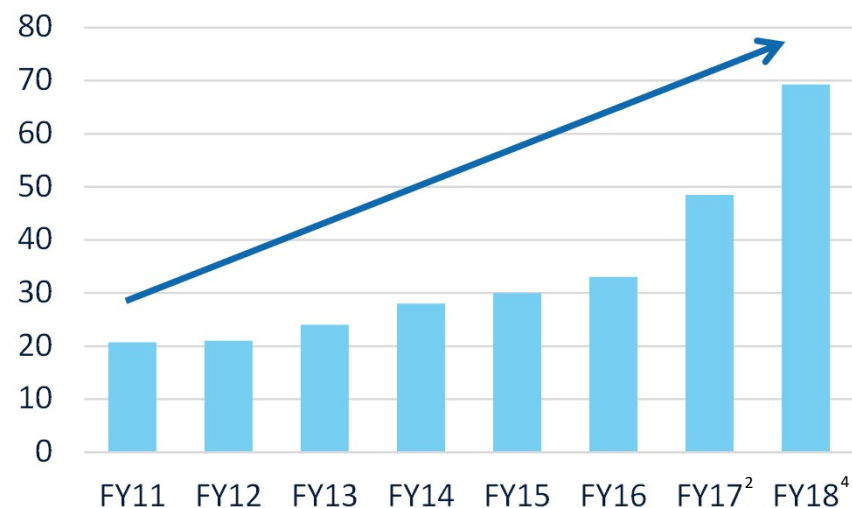
# OUR JOURNEY

## STRONG SALES AND EARNINGS GROWTH

### SALES<sup>1</sup> (\$m)



### EBIT (\$m)



1. FY15 to FY18 Sales revenue has been adjusted to reflect the adoption of AASB15: *Revenue from Contracts with Customers*.
2. Metcash acquired Home Timber & Hardware in FY17.
3. FY17 Sales revenue has been adjusted to reflect 52 trading weeks (FY17 included 53 trading weeks).
4. EBIT has been adjusted for AASB15 in FY18 only.

# OUR BUSINESS TODAY

A national network of 690 stores



313



198



172



7

Sales mix weighted to Trade

65% trade



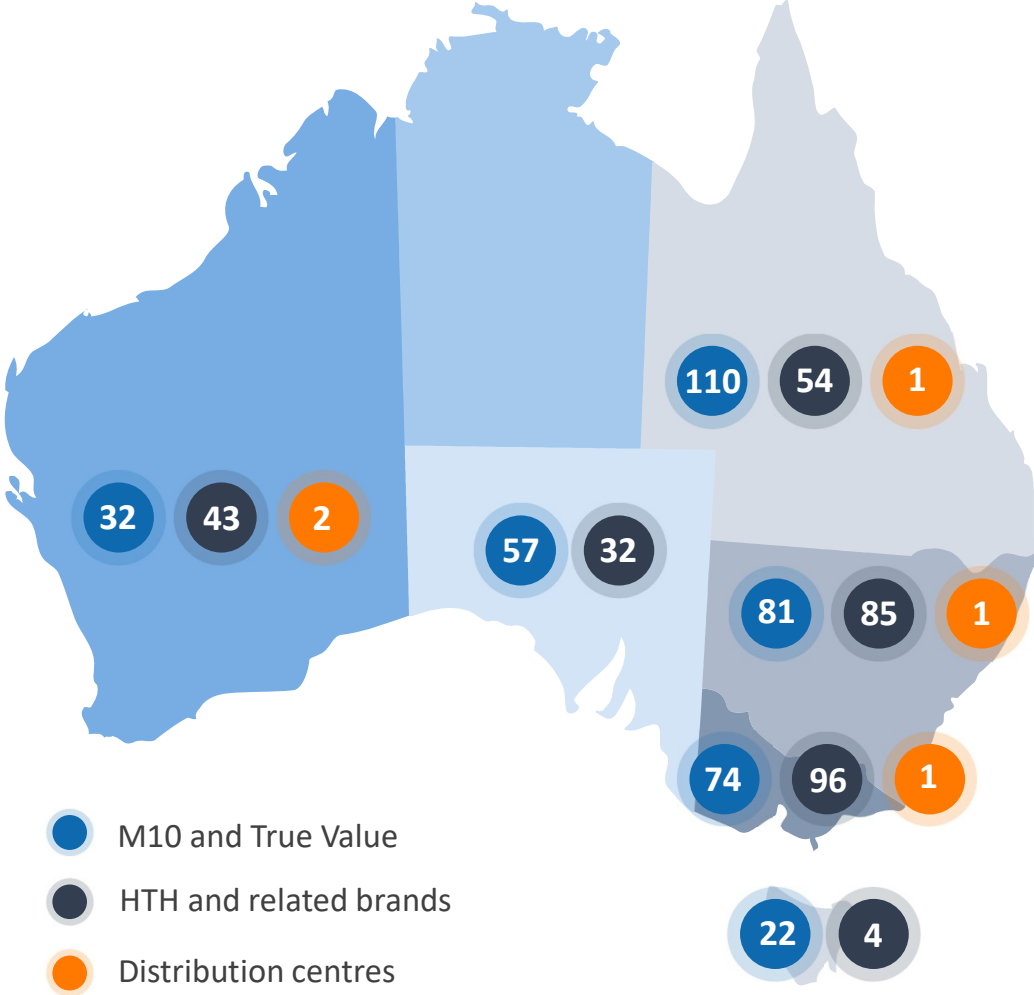
35% DIY

Wide distribution network

5



Distribution centres (7 on acquisition of HTH)

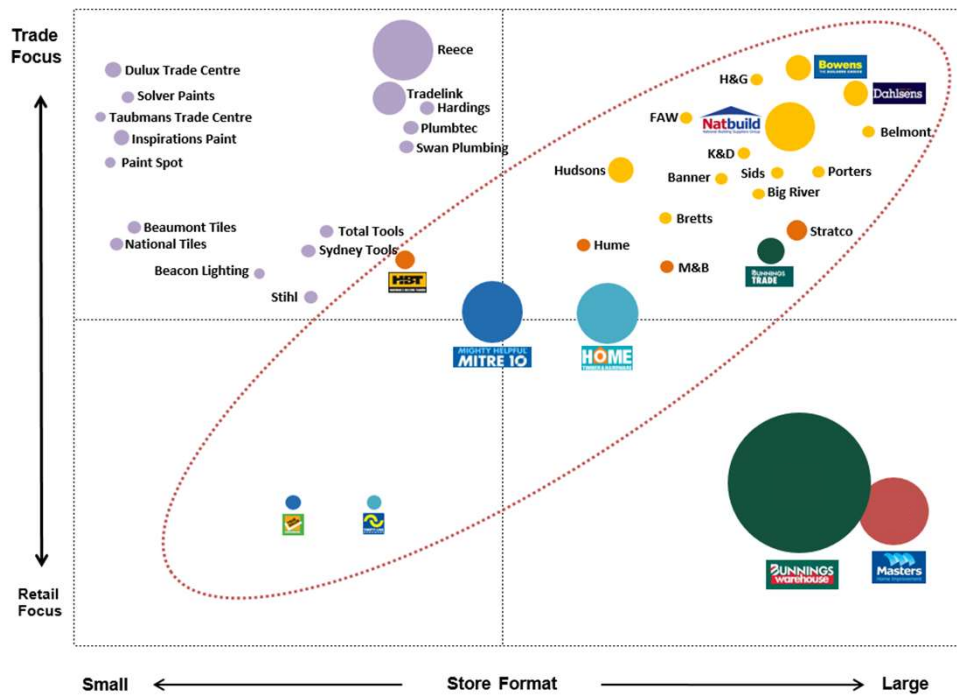




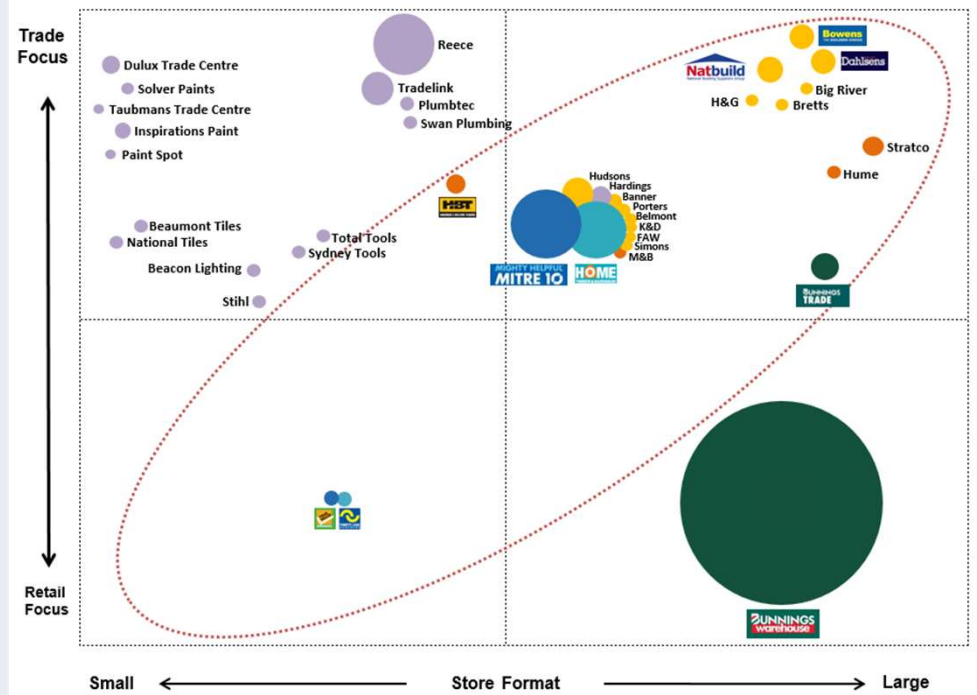
# MARKET STRUCTURE

## SIGNIFICANT CONSOLIDATION

### POSITION 2015



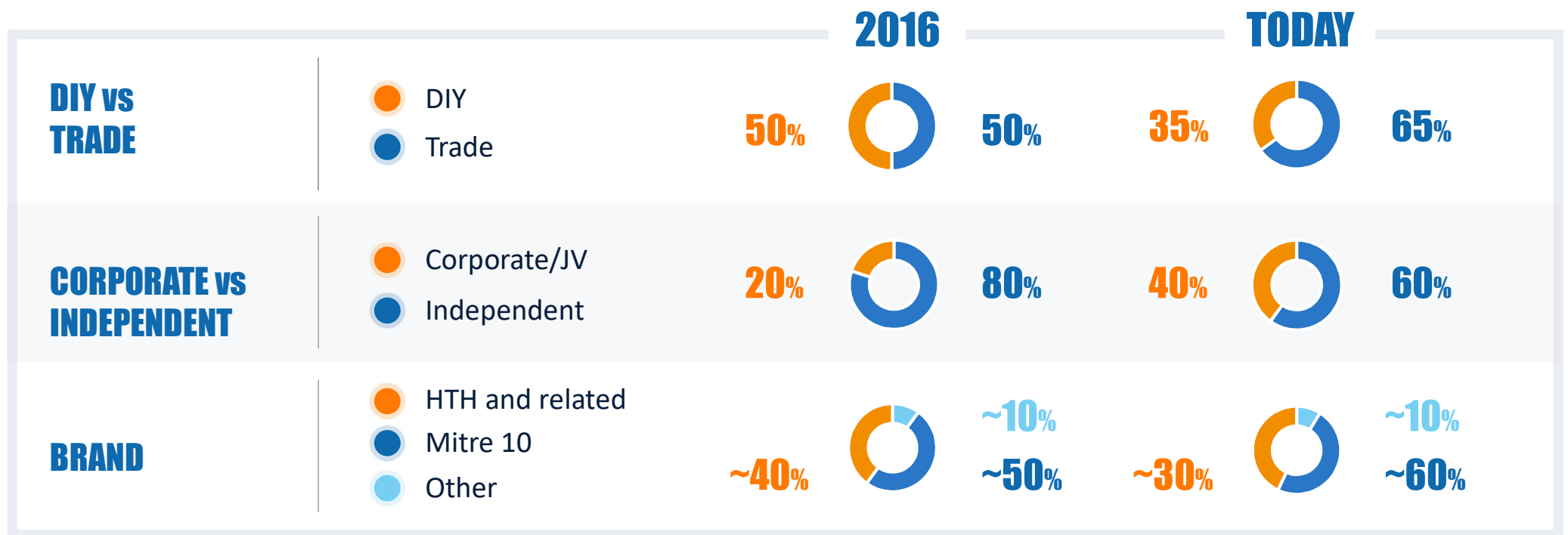
### POSITION TODAY



**IHG is the 2nd largest player in hardware with sales of over \$2bn**

# CHANGE IN SALES MIX

**STRONGER IN TRADE, MORE COMPANY OWNED / JV STORES AND BRANDS**



**HTH acquisition has driven change in sales mix**

# MARKET OUTLOOK



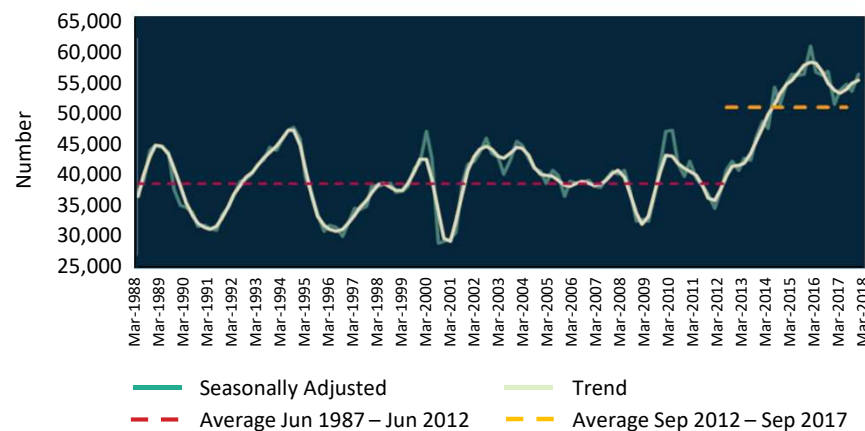
Slow down in construction, but activity expected to be at solid levels



Diversified portfolio of retailers and end customers limits exposure to any particular segment

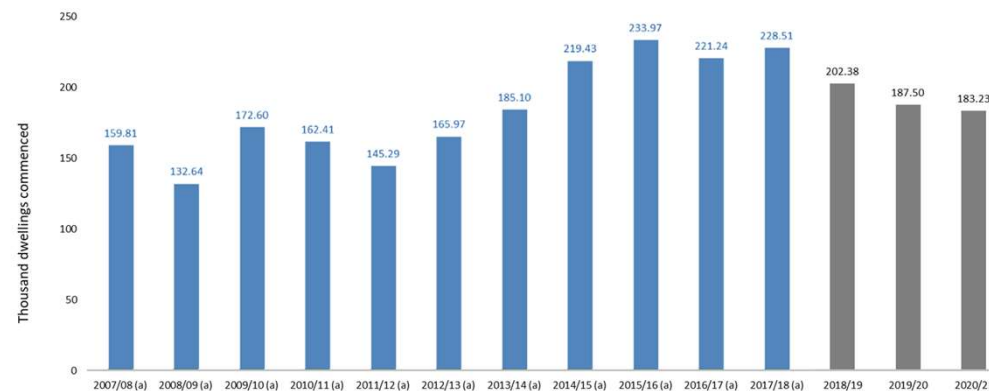
## The boom is over, but still at record levels

Total Dwelling Starts - Australia



Source: ABS 8752m HIA | 2018 HIA Construction Outlook Breakfast, Melbourne

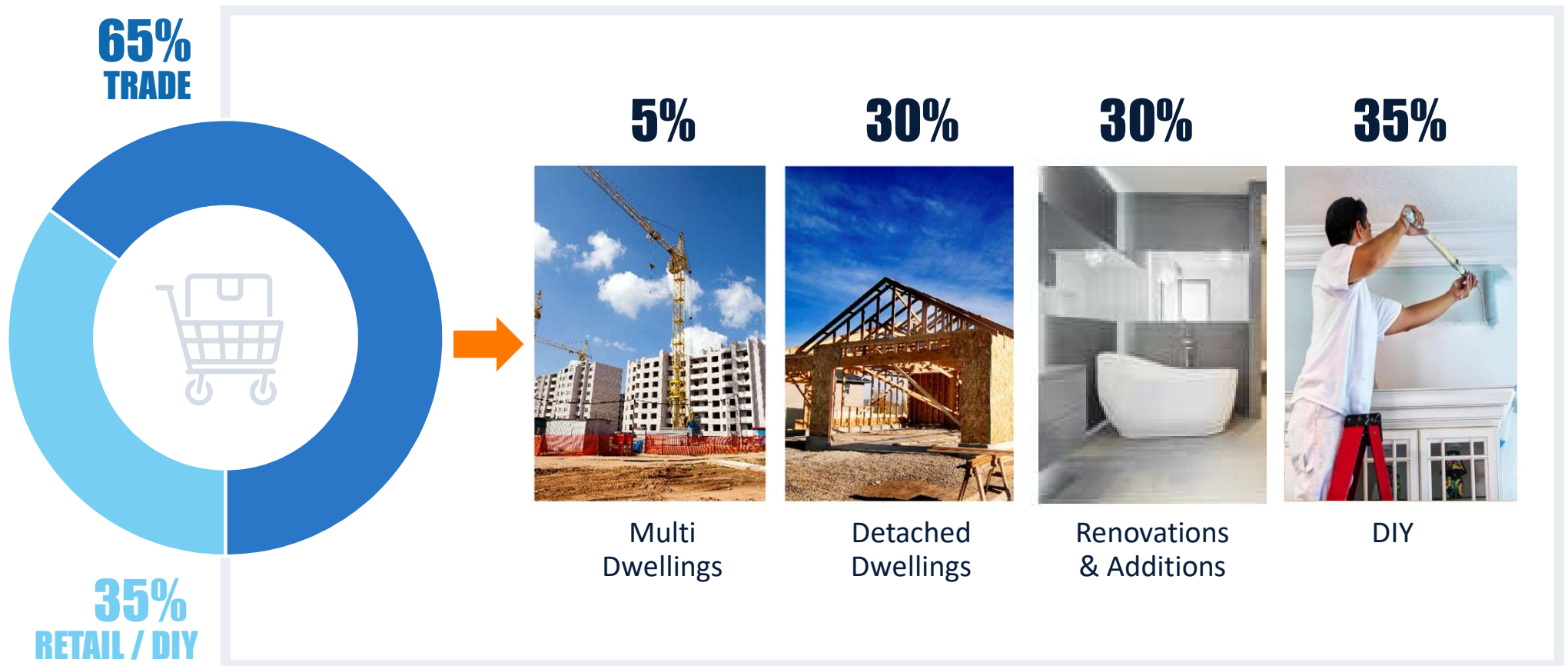
## Australian Housing Starts Forecast



Source: HIA Economics Nov-18

# CUSTOMER SEGMENTATION PROFILE

## DIVERSIFIED EXPOSURE TO CONSTRUCTION SEGMENTS





# INTEGRATION OF HTH

## SIGNIFICANT SYNERGIES DELIVERED

#1

**Integration largely complete**



#2

**Annualised gross synergies of \$34m delivered (end FY18)**



#3

**Dual branding strategy accepted by store owners**

- Mitre 10 primary brand, HTH strong second brand
- All Sapphire conversions branded Mitre 10
- Target store mix ~70% Mitre 10, ~30% HTH



#4

**Continued focus on cost efficiency**



#5

**Strong network support**

- Only one large retailer has left the network since the HTH acquisition

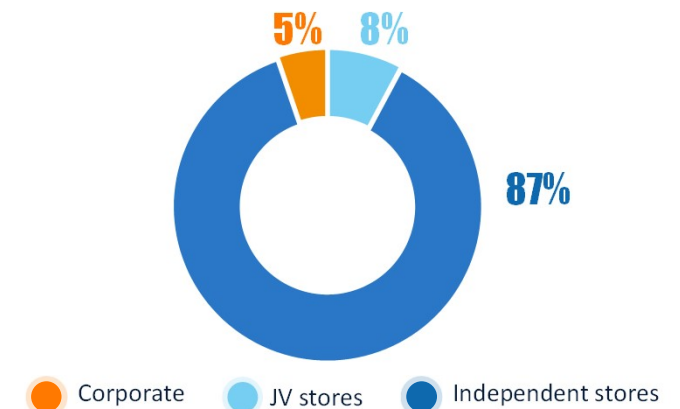


# CORPORATE STORES

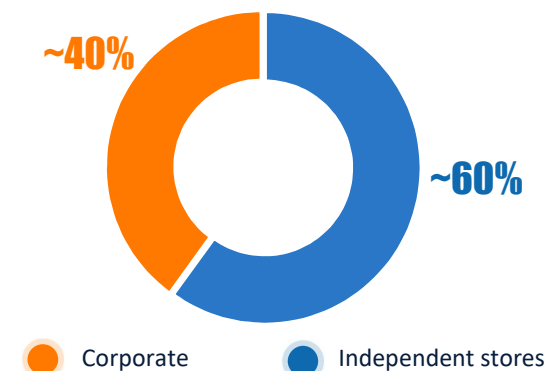
- Currently 90 corporate stores (company-owned / JV stores)
  - 36 stores in HTH / 54 stores in Mitre 10
- Corporate stores make up ~40% of IHG wholesale sales
- Independent retailers are supportive of corporate stores
  - Enables trial of new concepts
  - Underpins independent retailer confidence
  - Core range
  - Sapphire
  - Trade Only stores
  - IHG does not favour corporate stores over independent stores
- Suppliers are supportive of the model
  - Take-up of Core Range
  - Compliance
- Corporate stores provide an exit route for independent retailers without a succession plan
- Potential to expand footprint of corporate stores

**Corporate / JV stores core to strategy**

## BANNERED STORES



## WHOLESALE SALES MIX



# PURSUING ATTRACTIVE GROWTH INITIATIVES



## ACCELERATE CURRENT SUCCESSFUL STRATEGIES



Sapphire Store Upgrade Program



Core Ranging



Digital, Data and Insights



Grow Trade



## GROW SHARE OF 'WHOLE OF HOUSE'



Foundations



Frame & Truss



Lock up



Fix



Fit out



# SAPPHIRE PROGRAM

## OBJECTIVE

- To keep stores modern and leading edge
- Up to 50% investment contribution by IHG



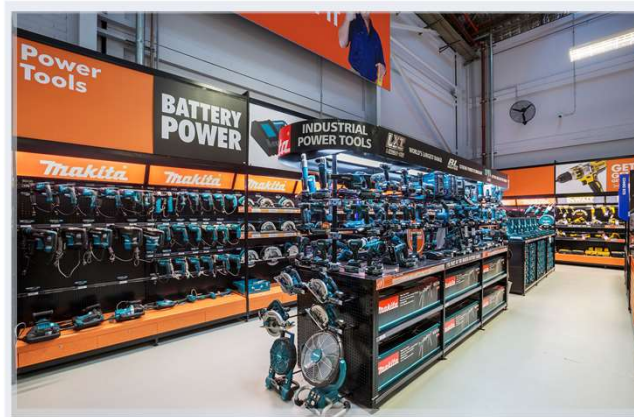
## ROLL OUT PLAN

- 56 to be completed by April 19
- Accelerate roll out – ~200 stores by 2022 (+144 stores)



## RESULTS

- Sapphire store sales up > 15%



**Sapphire stores delivering strong growth**



# SAPPHIRE FORMATS AND DELIVERABLES

## TRADE ONLY

- 11 completed
- Potential for a further ~30
- Greenfields & upgrades
- Average Metcash investment of \$120K per store

## MIXED TRADE & DIY

- 37 completed
- Potential for a further ~90
- Average Metcash investment of \$200K per store

## SMALL DIY < 700M<sup>2</sup>

- 8 completed
- Potential for a further ~25
- Average Metcash investment of \$50K per store

## TRADE DELIVERABLES

- Trade drive through
- Separate trade desk
- Quality undercover timber
- Early opening, clean facilities & coffee
- Relationship at all touch points
- Rapid response (DIFOT)
- Recognition program & technology

## DIY DELIVERABLES

- Consumer led core range
- Retail focused store layout
- Superior customer service



# RECENT SAPPHIRE CONVERSIONS

## MIXED TRADE / DIY


















**Katoomba, NSW**



**Bendigo, Vic**

# CORE RANGE IMPLEMENTED ON KEY LINES

		Before	After
	<b>FASTENERS</b> 164 Stores   2,182 SKUs   ITW Range		
	<b>HAND TOOLS</b> 64 Stores   1,327 SKUs   Black Fixtures		
	<b>POWER TOOLS</b> 48 Stores   483 SKUs   Black Fixtures		
	<b>PAINT</b> 64 Stores   1,818 SKUs   Front of Store		
	<b>CEMENT</b> 230 Stores   7 SKUs		

**Sales growth of  
7% TO 23%  
across  
categories**

Now being  
rolled out  
through HTH



# 'WHOLE OF HOUSE'

## STRATEGY TO GROW CATEGORIES NOT HISTORICALLY SOURCED THROUGH ING



### FOUNDATIONS

Slab Hardware & Floor Systems



### FRAME & TRUSS

Wall Frames, Roof Trusses & Engineered Timber



### LOCK UP

Roofing, Facia, Gutters, Insulation, Windows, Flooring & Cladding



### FIX

Plaster, Linings, Doors, Architraves, Skirting, Kitchen & Joinery



### FIT OUT

Plumbing, Appliances, Paint, Door Furniture, Floor Coverings & Finishes

**Potential to grow supply from ~30% to ~70% of house build**



# 'WHOLE OF HOUSE'

## ALLIANCES ESTABLISHED WITH KEY PLAYERS

### FRAME & TRUSS

- Collective volume via one source
- Earlier access to site
- Grow member sales
- Victorian trial, National rollout

### PRE-FABRICATION

- Expand market
- Offsite construction
- Reduced construction time
- Assist with trade shortages

### SUPPLY & INSTALL

- Plasterboard & insulation
- Single channel of supply
- Quality controlled channel
- Provide SLA for all members

### FOU, APPLIANCES & KITCHENS

- Tailored range to segmentation
- Broaden offer to the builder
- Expand Design 289 showroom
- Selection Centre Trial



VELOCITY

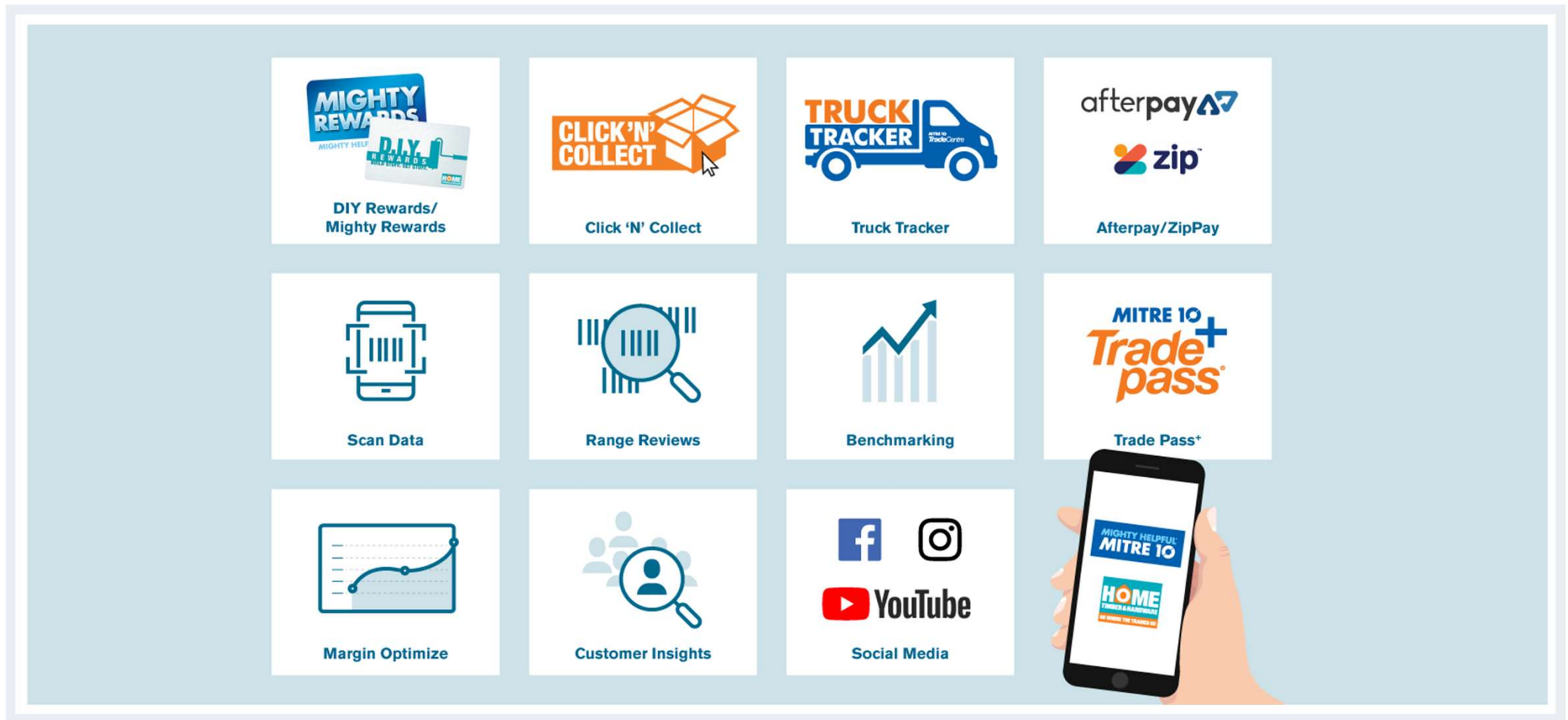


Principal.

Leveraging the IHG network

# DIGITAL, DATA AND INSIGHTS

## A MARKET LEADING OFFER



# DIGITAL

## CUSTOMER UPTAKE GROWING STRONGLY



**1.5M – 2.5M**

searches on  
M10 website  
per month



**100k+**

visitors  
per week



**\$220+**

average basket



**800k+**

loyalty  
members



**400+**

stores per month  
with orders

**NEW MARKETS &  
NEW AUDIENCES**



**Provides a much broader product range to customers versus in-store**

# HARDWARE INITIATIVES

## FINANCIAL SUMMARY

### Sapphire program



- Potential for a further ~145 stores to be upgraded by 2022
- Average capital investment per store:
  - Mixed Trade/DIY ~\$200k
  - Trade Only ~\$120k
  - Small DIY ~\$50k

Potential capex of  
~\$20m

### Build Trade



- Investment in 'Whole of House' strategy
  - Frame & Truss
  - Appliances and Kitchens
- Hardings Plumbing
  - Expand Design 289
- Supply & Install

Potential capex of  
~\$10m

### Grow retail network



- Acquire existing minority interest in JV store in Victoria
- Build a network of corporate stores around strong JV stores in all states
- Potential to acquire a further ~25 stores

Potential capex of  
~\$50m

### Digital & IT support



- Continued investment in
  - Tradies Online
  - Trade + Pass
  - Click 'n' Collect
  - Truck Tracker

Potential capex of  
~\$10m

**Potential capex of ~\$90m – weighted to first 3 years**



# SUMMARY



IHG clear number 2 in Hardware market with an extensive national footprint



Integration of HTH nearly complete with significant synergies delivered



Strong focus on supporting Independent store owners



Dual Brand Strategy accepted by our store owners



Sapphire and Core Range program delivering strong growth and are now being rolled into HTH stores (Trade and DIY)



We have a strong position in Trade segment which accounts for ~65% of our sales



Future focus on 'Whole of House' – well positioned through existing network and relationships



Our Digital program has shown strong growth



Some headwinds due to softening of construction activity



Continued focus on costs



Well placed to take advantage of future growth opportunities



# OUR WAY FORWARD

## INCREASED SHOPPER FOCUS

### Retail network & brand clarity – WHAT?

- We will deliver channel clarity to meet shopper trends
- Right brand by format (previously we have stretched the IGA brand too far)
- Aligned shopper experience by format
- Match location to shopper mission – ‘Best Store in Town’
- Competitive everyday pricing
- Unmatched local service
- Default control brand for less compliant retailers

### Retail network & brand clarity – HOW?

- Delivered through acceleration of DSA program
- Retailer compliance – opt in to new offer
- Rewards for execution



**Brand clarity underpins our strategic initiatives**