

FOOD

SCOTT MARSHALL
CEO Supermarkets & Convenience

Metcash

Supermarkets & Convenience

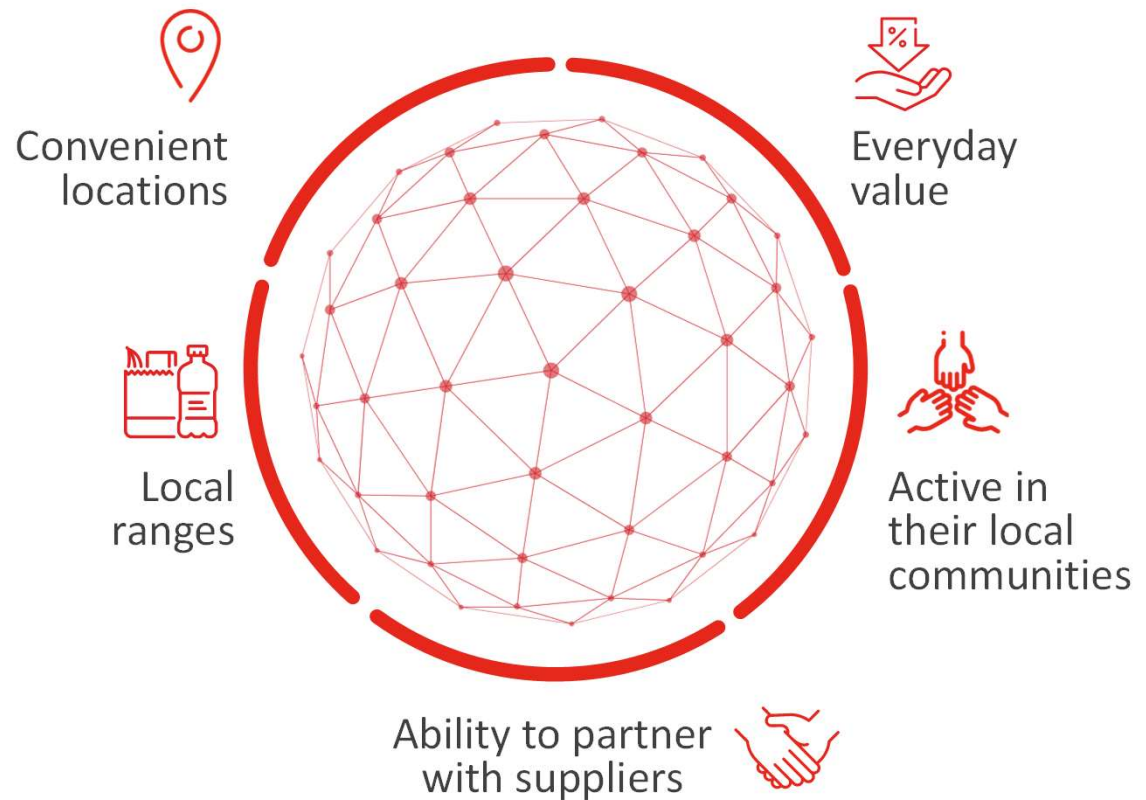


OUR DIFFERENCE

OUR NETWORK OF
SUCCESSFUL INDEPENDENTS
— INDEPENDENCE IS WORTH FIGHTING FOR —

Our Vision is to be the partner of choice for retailers and suppliers delivering a shopper-led range with the right prices through a responsive distribution network.

WE HAVE A DIVERSE NETWORK OF LOCAL INDEPENDENT GROCERY STORES



MARKET CONDITIONS AND CHALLENGES

THE LAST 5 YEARS

The business has faced significant headwinds

- Intense competition
- Deflation
- Roll out of value formats
- Difficult economic conditions – WA

Our key challenges

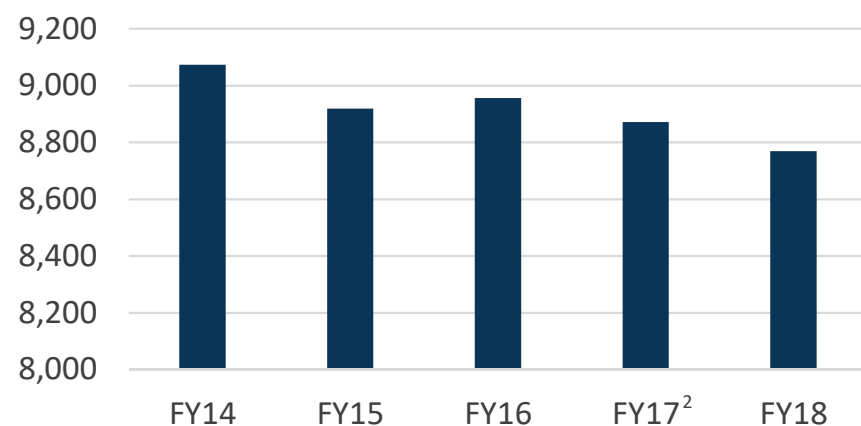
- Retailer compliance and working relationships
- Brand articulation
- Net decline in store footprint
- Under-indexed in growing categories – well-being, fresh and private label
- Under-investment in stores
- Cost pressures
- Loss of large customer – SA



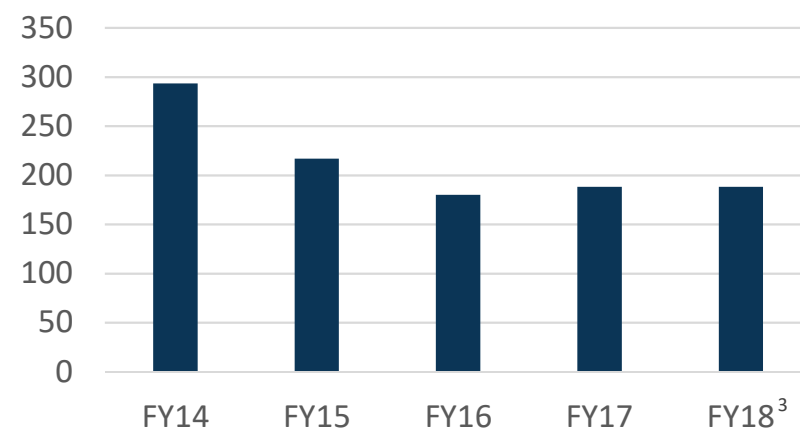
OUR JOURNEY

EARNINGS STABILISED THROUGH COST OUT PROGRAMS

SALES¹ (\$m)



EBIT (\$m)



Future strategy focused on both sales growth & cost efficiencies

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 weeks trading).
3. EBIT has been adjusted for AASB15 in FY18 only.

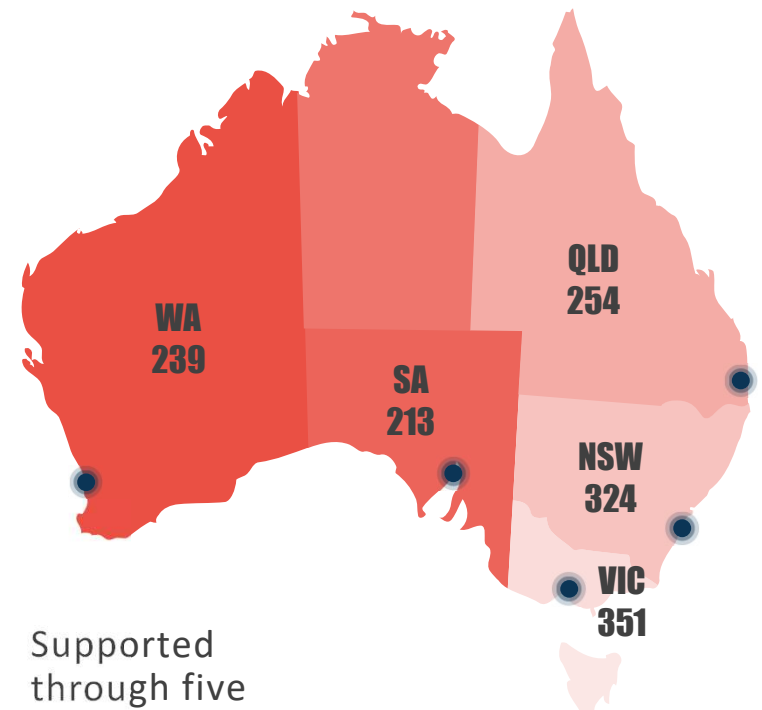
CURRENT NETWORK

A national network of >1,650 stores

	Supa IGA	244
	IGA	792
	IGA-Xpress	215
	Foodland	130
Total IGA stores		1,381
	Friendly Grocer / Eziway	285
Total network stores		1,666



National network of stores



Supported through five major distribution centres & smaller regional centres

 MAJOR DISTRIBUTION CENTRE

“Australia’s widest distribution network to the independent retail sector”



GLOBAL GROCERY TRENDS

DRIVEN BY SOCIETAL, COMPETITIVE AND TECHNOLOGICAL FORCES

Smaller, more frequent shops

In Australia BAYN trips are now 3X more than MAIN



More small stores, more convenient locations

Globally, 26% of grocery stores are "small" & they cover 70% of all trips



Less time spent in store

Today it's <20mins, and forecast to be <10mins in the future



More demand for eat now/ make now

Today it's 20% of basket, tomorrow it is forecast to be 40%



More eating out & eating on site

Eat on site has appeal but less than 1 in 4 stores offer it globally



More individual & more personal

More open to a personalised food and grocery experience



Demand for faster delivery & pick-up services



Reinvention of the instore experience

Shoppers become more willing to experiment with shopping and meal preparation



Health consciousness

Better for you movement with a "Natural Wellness" focus



Rising prices & premiumisation

Expect shoppers to favour quality, convenience and healthfulness over price



Expansion of e-commerce & seamless omnichannel experiences



Social awareness

Shoppers will want to make sustainable and ethical choices



Historical under-investment in responding to global trends

OVERVIEW – KEY INITIATIVES

OUR STORE FOOTPRINT POSITIONS US TO CAPITALISE ON THE MARKET TREND TO LOCAL AND CONVENIENCE



We will do this by being the partner of choice for:

RETAILERS



- Right brand and offer by format and location
 - Range – including Fresh
 - Price
 - Shopper experience

SUPPLIERS



- Wholesale – right range by location
- Flexible cost efficient supply chain
- Consistent execution of offer
- National route to market

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



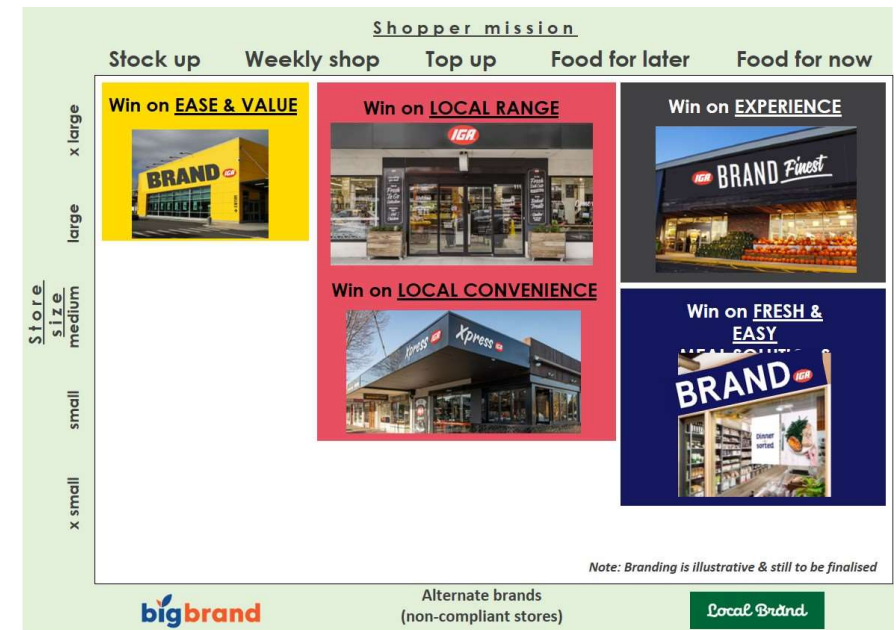
Brand clarity underpins our strategic initiatives

A NEW IGA BRAND PROPOSITION

ALIGNED WITH STORE EXPERIENCE AND SHOPPER MISSIONS

We will fundamentally change our retail network by having:

- A clear proposition for shoppers
- A differentiated range and price aligned to format
- Enforced standards that protect the integrity of the brand
- Better pricing for retailers who comply with promotional programs
- New trading terms for each brand that drive and reward the right behaviours
- A program to refurbish stores
- Alternate brands to house less-compliant stores



Redesign of brands based on target shopper mission, store size and retail offer

RESETTING OUR RETAIL BRANDS

GREATER FLEXIBILITY

Standards & Execution

HIGH

IGA

- Highest IGA brand standards
- Core, mission-based & localised range & price
- Reward for compliance
- National IGA marketing campaigns
- IGA promotional program
- Store blueprints

~70% of stores



HIGH

IGA ENDORSED (OPT-IN)

- Level of IGA brand standards
- Mission-based & localised range & price
- Reward for compliance
- Local area marketing
- Channel specific promotional program
- Store blueprints

~20% of stores



LOW

INDEPENDENT CONTROL BRANDS

- Independent brand standards
- Range and price guide
- No compliance checks
- Local area marketing
- Base promotional program

~10% of stores



Tailored solutions to meet both retailer requirements and shopper missions

CURRENT INITIATIVES

DSA

DIAMOND STORE ACCELERATOR PROGRAM

OLD PROGRAM

- 320 stores & over 250 retailers have participated
- Average sales improvement >10% achieved
- Retailers rewarded through rebates
- No capital investment by Metcash
- Retailer take-up through 'opt in'



NEW PROGRAM TO ACCELERATE GROWTH

- Linked to brand strategy and global supermarket trend
- Simplified process for retailers
- ~500 stores identified based on demographic analysis
- Metcash willing to support investment in stores
- Dedicated team in place to drive execution



Accelerated DSA program is core to delivery of brand strategy

CURRENT INITIATIVES

DSA EXAMPLES



NOOSA OUTLOOK IGA | QLD

- Complete store transformation
- New flooring, lighting and signage throughout
- Expanded fresh departments & new service deli
- New product ranges



Sales
increase

~17%



ROSEBERY IGA | NSW

- New flooring, lighting & signage
- Fresh departments relocated to front of store
- Deli re-ranged including hot food section & coffee
- Grocery, dairy, frozen reflowed



Sales
increase

~19%



MOSMAN PARK | WA

- Reconfigured checkouts and entry
- Fresh produce moved to front of store
- New categories including 'health and wellness'
- Full brand signage kit throughout



Sales
increase

~17%

Stores now aligned to global trend

CURRENT INITIATIVES

CORE RANGING AND PRICING

FEATURES

- Core range now more price focused
- Price focused key value lines to drive sales
- Range can vary by state and store to provide a differentiated localised offer
- Format specific ranging & pricing versus “one size fits all”
- Lower pricing supported by existing Metcash investment and more effective utilisation of supplier support



BENEFITS



Retailers

improved price competitiveness of key lines



Suppliers

greater retailer compliance



Shoppers

better everyday value



NEW INITIATIVES

GROW NETWORK FOOTPRINT



Store closures have been a significant headwind (closures mostly larger stores while openings mainly smaller stores)



Rate of decline has stabilised



New store openings and strong pipeline of new stores underpinned by increased retailer confidence



Brand and channel segmentation, and right offer by location driving retailer confidence



Metcash support



Expect to move to net store growth going forward



Improved retailer confidence has underpinned a strong pipeline of new stores

CURRENT INITIATIVES

PRIVATE LABEL

GROWING STRONGLY

1



Private label under-indexed at ~5% of Metcash sales

2



Grow private label through award winning Community Co brand

3



Community Co growing strongly in brand awareness and network coverage

4



Total Community Co products on offer ~250

5



Opportunity to expand in fresh / ready meals

6



10 product of the year awards for Community Co



Improvement in competitive position – opportunity to increase private label offer to ~750 products

CURRENT INITIATIVES

CUSTOMER LOYALTY / INSIGHTS



Smarter Marketing

Targeted,
relevant,
personal

Based on
actual shopper
behaviour



Smarter Promotions

Margin
management

Increased
flexibility



Smarter Insights

Detailed
shopper
behaviour

Measurable
marketing
impact

IGA REWARDS



30 Store Pilots running in WA since April 18



50k shopper members



50% Retailer engagement (half the stores in WA and now QLD have signed up)



75% of our marketing content to members is unique and personalised, and more relevant information for suppliers



We've achieved **significant member sales** uplifts in the pilot (over 11 months)

Significant insight opportunities for marketing, ranging, category management and store planning

SMALL FORMAT CONVENIENCE OFFER



Shopper trends reflect preference for small format stores

- Fastest growing format globally
- Australia well behind global trend



Metcash has competitive advantage through existing footprint

- Typical store size 220 – 280 square metres
- Stores located in easy to access, convenient locations



Growth opportunity

- Identified market opportunity ~\$1bn sales p.a.
- ~500 IGA Xpress and smaller IGA stores fit format
- Further opportunity in greenfield sites
- Potential for significant improvement in team score



Current focus on getting the right offer

- First store in Bondi expected to be operational mid 2019
- Trial of 10 stores expected to be completed by end of FY20



Initial roll out target ~150 stores (subject to outcome of trial)

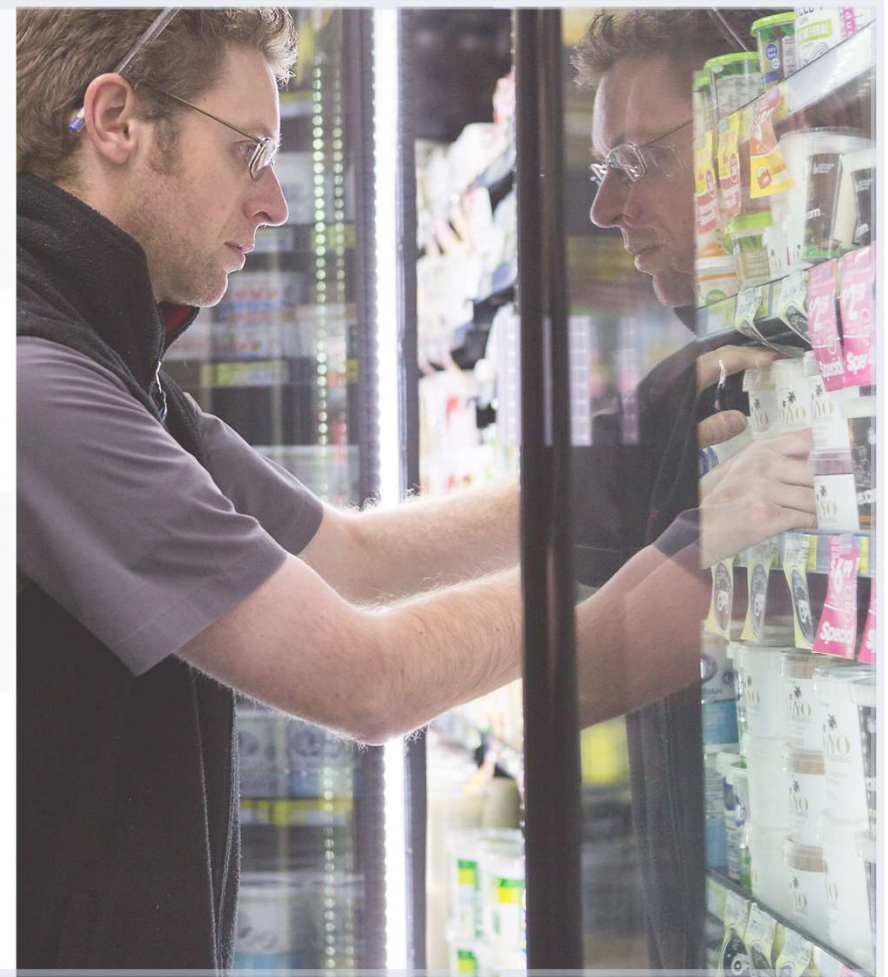
- Mix of corporate and independently owned stores



Our existing store footprint provides a significant competitive advantage

CONVENIENCE

- ✓ Convenience reporting being merged into Supermarkets commencing FY20 – Convenience sales will no longer be reported separately
- ✓ Convenience network to be integrated into overall logistics supply chain
- ✓ Campbells focused on delivering “everyday” price competitive offer to small independent customers
- ✓ Food service growing rapidly, albeit off a low base. Daily fresh trial currently underway with 7-Eleven in WA and BP in Victoria



HOW WE ARE MAKING THE CHANGE

RETAILER ENGAGEMENT & SUPPORT

- Strategic direction endorsed by the NRC
- Working with retailer groups - NRC & State retail boards
- New promotions working group established to ensure competitive pricing



NETWORK INVESTMENT

- Small format trial – world class convenience
- Consumer brands to match network footprint
- New DSA program signed off
 - Simplified processes to drive more network investment
 - ~500 stores identified and ranked for upgrades
- Shopper loyalty – IGA rewards (WA trial expanding to QLD)



OPERATING MODEL

- Wholesale focus for suppliers while delivering retail execution
- Channel specific teams
- Channel specific ranges - promotions and pricing
- Retailer incentives for compliance
- Continued focus on costs and simplification



FOOD INITIATIVES

FINANCIAL SUMMARY

Network investment



- Rebranding of network
- Right offer, right location, right brand
- Funded jointly by Metcash and retailers
- Metcash willing to support retailers with secured loans
- Investment ranges from paint ups to DSAs and greenfield sites

Potential capex of ~\$100m

Small store pilot



- Trial of 10 small format convenience stores
- Capex of ~\$800k per store
- Initial start up investment of \$2m
- Potential roll out to 150 stores on completion of trial

Potential capex of ~\$10m* over FY20

Logistics



- Investment in new SA DC (limited to fit out)
- No new automation investment needed
- Investment in cross dock capability
- Hub and spoke alignment of logistics network

Potential capex of ~\$25m over next 3 years

Systems investment



- A number of key investments to support strategic plan
- Automated charge-through
- Shopper loyalty
- New promotions platforms
- Simplified systems to deliver efficiencies

Potential capex of ~\$30m over next 3 – 5 years

Potential capex of ~\$165m* over 5 years

*Additional capital would be required for the roll out of stores beyond the trial.

SUMMARY

- Earnings stabilised through cost out programs
- Going forward our focus is on revenue growth and cost efficiencies
- Our strategy centres on 'following the shopper' and improving retailer competitiveness
- We are well positioned to capitalise on the shopper trend to convenience
- A realignment of our brands underpins our strategic initiatives
- Renewed retailer confidence is driving network investment
- Our strategic direction has been endorsed by retailers





SUMMARY & TRADING UPDATE

JEFF ADAMS

Group Chief Executive Officer

SUMMARY

MFUTURE – A PATHWAY TO LONG TERM SUSTAINABLE GROWTH

NEXT

5 →

YEARS



Focus on both revenue growth and a sustainable cost base



Revenue growth through acceleration of current successful initiatives and implementation of new growth initiatives



Cost management focused on offsetting the impact of inflation



Implementation cost mainly through capital expenditure funded from internal sources

SUMMARY

KEY GROWTH INITIATIVES

HARDWARE



Retail growth through acceleration of Sapphire program including Core Range

- Roll out to ~200 stores
- Average sales growth per store >15%
- Accelerate digital strategy



Trade growth through 'Trade Only' stores and 'Whole of House'

- Conversion to Trade Only stores through Sapphire program
- Roll out of plumbing (Hardings) and flooring (Tait) offer to network
- Expand 'Whole of House' offer and build partner alliances
- Targeting to grow share of house build from ~30% to ~70%



Expand footprint of company-owned / JV stores



SUMMARY

KEY GROWTH INITIATIVES

LIQUOR



Focus on delivering current and new initiatives including:

- National rollout of Porters Liquor
- Grow share of 'on-premise' market from ~10% to ~20% of total sales
- Corporate store trial
- Accelerating digital capability



New CEO to commence early FY20 – update with 1H20 results



SUMMARY

KEY GROWTH INITIATIVES

FOOD



Retail brand offer – right brand per store

- Clear understanding of brand standards and expectations
- Match location to shopper mission



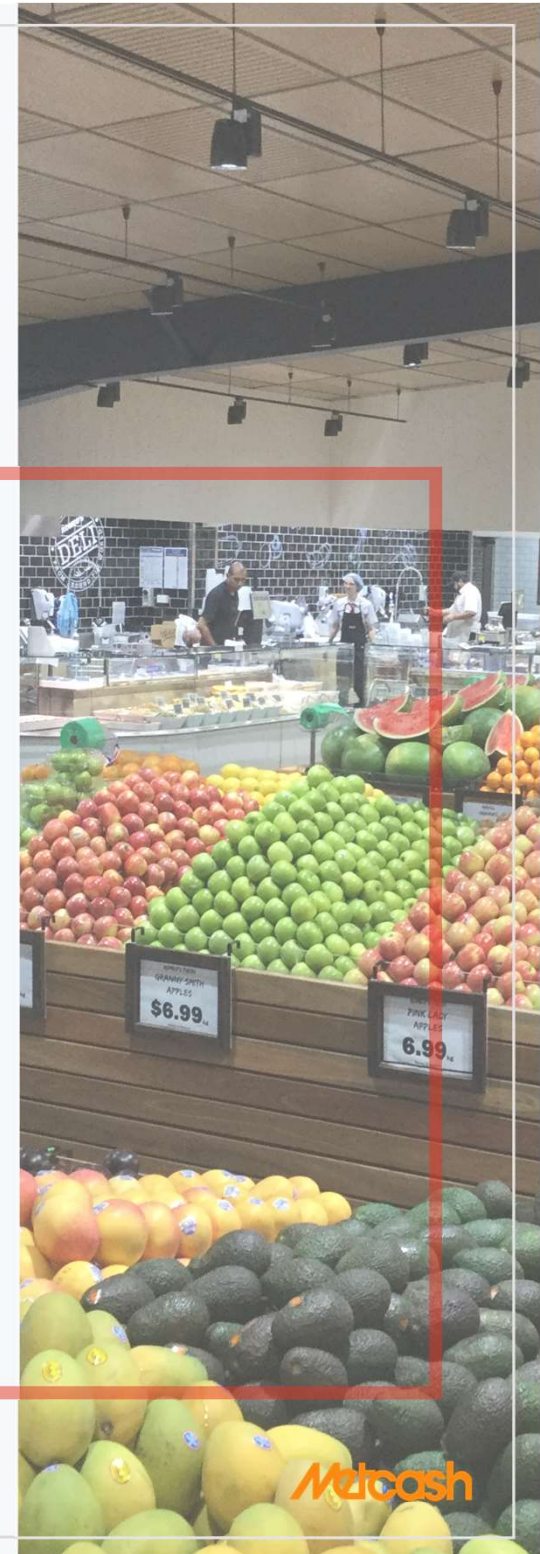
Acceleration of DSA program

- Stores completed 320 – average sales improved >10%
- Additional ~500 stores targeted
- Program simplified for retailers and new funding arrangement in place



Trial small format convenience stores

- Trial of 10 stores
- Potential to rollout to ~150 stores (subject to success of trial)
- Roll out likely to be a mix of company and independently owned stores
- Current network includes ~500 stores of suitable size for small format offer



SUMMARY

COST MANAGEMENT



Our aim is to offset the impact of inflation over next 5 years (~\$25m p.a.)



Initial savings identified and confident of achieving ~\$50m over FY20 and FY21 (primarily in Food)

- DC rationalisation
- Efficient marketing & promotions
- Organisational redesign
- Logistics costs
- Property costs



Implementation costs less than Working Smarter at ~25% of savings

- Implementation costs to be separately identified



We have a strong history of delivering on our cost reduction targets

MFUTURE INITIATIVES

A DISCIPLINED INVESTMENT PROCESS



Capital investment proposals must deliver returns above risk adjusted WACC

MFUTURE INITIATIVES

SOURCES AND APPLICATION OF FUNDS (FY20-FY24)

POTENTIAL GROWTH FUNDING (\$m)

Food ¹	165
Hardware	90
Liquor ²	15
Restructuring costs	30
Growth capex	300

TOTAL POTENTIAL FUNDING:
~\$300m



FUNDED BY

ILLUSTRATIVE FUNDING SOURCES (\$m)

Underlying cashflows ^{3,4}	250
Less: dividend payments ⁵	(130)
Retained cashflows p.a.	120
Retained cashflows over five years	600
Maintenance capex ⁶	(300)
Retained cash over five year plan (post maintenance capex)	300
Debt capacity ⁷	250

ILLUSTRATIVE AVAILABLE FUNDING:
~\$550m

- Food capex includes the trial of the new small format convenience stores. Additional capital would be required for the roll out of stores beyond the trial.
- Liquor capex includes the corporate store trial.
- Underlying cashflows based on FY18 earnings pre depreciation and amortisation. Future earnings will differ to those reflected in the above table.
- Underlying cashflows assume a cash conversion ratio of 90%. Future cashflows will differ to those reflected in the above table.
- Dividend payments assume dividend payout ratio of 60% of FY18 underlying profit after tax. Future dividends will differ to those reflected in the above table.
- Maintenance capex based on depreciation and amortisation for FY18 (excluding amortisation of customer contracts) of ~\$60m. Future maintenance capex will differ to that reflected in the above table.
- Debt capacity is based on 1H19 balance sheet and a target gearing of 20% (net debt/net debt+equity).

TRADING UPDATE

FOOD

- YTD Total Food sales are marginally higher than the corresponding prior year period. In Supermarkets, the rate of decline in wholesale sales ex tobacco is broadly in line with that reported for 1H19.



LIQUOR

- Liquor sales in 2H19 have remained strong supported by increased wholesale customer volumes



HARDWARE

- As foreshadowed at 1H19, Hardware sales in 2H19 have softened reflecting the slow-down in construction activity in the Trade sector
- Full synergy benefits from the acquisition of HTH are expected to be realised by the end of FY19

