



23 June 2020

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

NSW supply chain transformation, F20 significant items and trading update

Please see attached an announcement authorised for release to the market.

Marcin Firek
Company Secretary
Woolworths Group Limited

23 June 2020

NSW grocery supply chain transformation, F20 significant items and trading update

- Plans to develop two new automated distribution centres at Moorebank in NSW
- F20 expected pre-tax significant items of \$591 million (H2 F20: \$460 million)
- Strong sales growth in Q4, F20 EBIT before significant items expected to be \$3,200 - \$3,250 million

Transformation of NSW grocery supply chain network

Woolworths Group is today announcing plans to develop an automated regional distribution centre and a semi-automated national distribution centre at Moorebank Logistics Park in Sydney. Construction is expected to be completed by the end of calendar 2023 with initial benefits expected to be realised in financial year 2025.

Woolworths Group Chairman, Gordon Cairns, said: “The planned sites, which are subject to NSW Government planning approval, will materially increase our capacity for growth, improve efficiency, advance localised ranging efforts and deliver better and safer experiences for Woolworths stores, team and customers. The new facilities at Moorebank will build on the automated technology deployed at the Group’s Melbourne South Regional Distribution Centre (MSRDC).”

Once established, the facilities at Moorebank will replace the current ambient grocery operations at Woolworths’ Sydney Regional Distribution Centre (Minchinbury), Sydney National Distribution Centre (Yennora) and Melbourne National Distribution Centre (Mulgrave). Temperature controlled fresh food distribution will continue to be serviced out of the Sydney Regional Distribution Centre (Minchinbury).

Woolworths Group is expected to invest \$700 - \$780 million in technology and fitout of the two distribution centres over the next four years and has signed an initial lease term of 20 years with Qube Holdings Limited. The investment will be funded through the Group’s existing capital expenditure framework and is not expected to materially increase the Group’s levels of operating capex spend over the period of construction and installation. The investment is expected to deliver a significant reduction in the Group’s supply chain costs over time and deliver strong returns above the Group’s cost of capital.

Woolworths Group CEO, Brad Banducci, said: “Moorebank will transform the way we serve our NSW grocery customers. The new facilities will advance our localised ranging efforts, with the ability to hold over 30% more products than existing facilities. Automation will allow the creation of aisle-specific pallets by store, and in doing so, reduce the time to restock shelves and result in better on-shelf availability for customers.

“We have learnt a lot from our MSRDC development, which is delivering against its business case and this gives us the confidence that now is the right time to invest in our NSW network.

“Woolworths Group is committed to supporting team members at sites that will close. It will be a number of years until the closure of our existing facilities, which will provide the opportunity to explore meaningful redeployment opportunities for our team. We are also committed to a long-term investment in supporting all of our teams with the skills and training required for the workforce of tomorrow.”

The decision to proceed with the supply chain transformation will result in a one-off pre-tax cost of \$176 million which will be recorded as a significant item in F20. This and other significant items in F20 are detailed below.

Significant items to be booked in F20

Included in H1 F20 results were significant items of \$131 million associated with Endeavour Group transformation costs and salaried team member remediation costs. The Group expects to report the following pre-tax significant items for the second half and full year F20:

\$ MILLION	H1 F20	H2 F20	F20
NSW grocery supply chain transformation costs	-	176	176
Endeavour Group transformation costs	51	179	230
Salaried store team member remediation	80	105	185
Total significant items (pre-tax)	131	460	591

NSW grocery supply chain transformation costs

The decision to develop the two new facilities described above and close the current ambient operations in Minchinbury, Yennora and Mulgrave will regrettably impact a number of roles. The cost of \$176 million reflects the estimated redundancy for impacted team members.

Endeavour Group transformation costs

The Woolworths Group Board decided in March to defer the planned separation of Endeavour Group due to the impact of COVID-19 on Hotels. However, the majority of the costs for the restructure of Endeavour Drinks and merger with ALH to enable the separation of Endeavour Group have been incurred in F20. In H1 F20, costs of \$51 million were incurred with a further \$179 million expected in the second half. These costs primarily consist of stamp duty, external consultants and advisors, dedicated internal resources and IT related costs. Despite the deferral, the estimated total cost to complete the transformation and separation remains in line with the original estimate of \$275 million communicated in July 2019.

Salaried store team member remediation

In H1 F20, costs of \$80 million were incurred reflecting interest and other remediation costs associated with payment shortfalls for retail salaried team members across Woolworths Group's retail businesses subject to the General Retail Industry Award (GRIA). It represented management's best estimate of payment shortfalls against a range of potential outcomes and reflected the progress of the review at that date.

In H2, a further \$105 million is expected to be recorded to reflect costs associated with ongoing remediation efforts. This includes additional historical retail time and attendance records, accrued interest on back-payments yet to be completed, and the extension of the review to other awards applicable across the Group.

As part of this review, payment shortfalls have been identified for salaried venue team members within ALH Hotels, employed under the Hospitality Industry General Award (HIGA). The review has identified salaried venue team members were not paid in full compliance with the Group's obligations under HIGA based on an analysis of F18 and F19 time and attendance data.

The Group continues to review the estimated payment shortfall liability, which is based on calculations involving a high degree of complexity, and which remains subject to further analysis of historical years and the completion of the review of all awards applicable across the Group. The total cost of remediation is expected to be approximately \$390 million (excluding interest and other costs).

Woolworths Group CEO, Brad Banducci, said: "The Group remains committed to fully rectifying any payment shortfalls across all Group businesses as quickly as possible. We thank everyone for their patience through this process."

Trading update

Total sales growth

% change on prior year	H1 F20	Q3'20	Q4'20 to date*
Australian Food	6.4%	11.3%	8.6%
New Zealand Food (NZD)	4.8%	13.7%	15.1%
BIG W	2.8%	9.5%	27.8%
Endeavour Drinks	4.7%	9.5%	21.4%

*Q4 to date is 10 weeks ending 14 June

Woolworths Group CEO, Brad Banducci, said: "I continue to be humbled by the commitment of our team and what we have achieved together over this uniquely challenging second half. The recently announced recognition bonus reflects our appreciation of the efforts of our team. I would again like to thank our customers, suppliers and shareholders for their support, patience and understanding.

"Trading has remained strong in Q4 to date, with the exception of Hotels where venues were closed until the end of May and have just begun to enter different stages of reopening. In Australian Food and Endeavour Drinks, sales growth improved in May and June following a more subdued April impacted by unusual trading patterns around Easter and Anzac Day.

"New Zealand Food sales remained strong throughout the quarter but have more recently moderated to high-single digit growth as restrictions continue to ease. BIG W reported very strong growth during the quarter across all major categories. Inventory levels are now running below where we would like but the team is responding quickly to address shortages.

"At Q3 sales, we also announced expected Q4 incremental costs related to COVID-19 of \$220 - \$275 million. Incremental costs have been towards the high end of the range in the quarter. As the operating environment continues to normalise, these higher operating costs, which primarily relate to store hygiene, social distancing and increased supply chain flexibility, are gradually and cautiously being wound back.

"Hotels have begun to reopen but around two thirds of our venues are in Victoria and Queensland where operating conditions remain more restricted, particularly for gaming. As a result, sales remain materially below prior year levels and the Hotels business is expected to continue to be loss-making until more venues operate with a full service offer. Given the continued uncertainty around Hotels operating at 'normal' levels, it appears unlikely that a separation could take place before the second half of the 2021 calendar year", he said.

For the financial year 2020, the Group currently expects to report EBIT (post-AASB 16 and before significant items) of \$3,200 - \$3,250 million. For comparison, on an AASB 16 adjusted basis, F19 Group EBIT from continuing operations before significant items was \$3,290 million on a 53-week basis. Hotels EBIT is expected to be \$160 - \$170 million (F19: \$355 million). All numbers are still subject to year-end finalisation, auditor review and Board approval. Full year results are scheduled for 27 August 2020.

- Ends -

Investor and analyst call/ webcast:

An investor and analyst call is scheduled for **10.15 am AEST** and will be webcast live at www.woolworthsgroup.com.au

For further information contact:

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Appendix

Investing in our Supply Chain Network

Two new purpose built facilities co-located in Moorebank, NSW

Regional Distribution Centre
Fully automated
Capacity: 2.8m cartons/week

National Distribution Centre
Semi automated
Capacity: 2.5m cartons/week

Changes to the Supply Chain network

- Constructing and opening two new purpose built facilities co-located at Moorebank NSW
- Closure of Minchinbury Regional DC Ambient
- Closures of Melbourne National DC (Mulgrave) and Sydney National DC (Yennora)
- Relocation of the Support Offices (Vic and NSW)
- NSW Fresh distribution to continue to be serviced from Minchinbury DC

These sites will transform the way we serve our stores, strengthen our network, and deliver on our ambition to create Australia's best food and grocery supply chain.

- Improved safety** of our team members - reduced manual handling
- Reduced truck movements**
- Improved efficiency** - automation, ¾ pallets, rail access (port/interstate)
- Provide supply chain significant **capacity for growth**
- Improved **environmental outcomes** - 5 star green rating, truck movements, solar

New Moorebank Logistics Park sites

Sydney Regional Distribution Centre: 34,600 sqm automated site. It is expected to receive and dispatch more than 6,000 products from over 800 suppliers to more than 266 stores. Product lines will include fast-moving packaged grocery, health and beauty and general merchandise.

National Distribution Centre: 40,700 sqm semi-automated site. It is expected to receive and dispatch more than 9,000 products from over 900 suppliers to more than 1,020 stores. Product lines will include slower moving packaged grocery and general merchandise.

About Qube Holdings Limited

Qube is Australia's largest integrated provider of import and export logistics services operating in over 130 locations across Australia, New Zealand and South-East Asia. Qube comprises two business units – the Ports, Bulk and Logistics division and the Infrastructure and Property division. Qube is also a 50% owner of Patrick Terminals.