



# Company Results

HALF-YEAR 2017  
22 February 2017

Woolworths Limited  
ABN 88 000 014 675



WOOLWORTHS GROUP



# Agenda

## Key highlights

**Brad Banducci**

### **Progress on our five key priorities**

- Building a customer and store-led culture and team
- Generating sustainable sales momentum in Food
- Evolving our Drinks business to provide even more value and convenience to customers
- Empowering our portfolio businesses to pursue strategies to deliver shareholder value
- Becoming a lean retailer through end-to-end process and systems excellence

## Financial Results

**David Marr**

## Business Update

**Business Leaders**

## Outlook

**Brad Banducci**

# Progress on our five key priorities

1

## CUSTOMER AND STORE-LED CULTURE AND TEAM

- New Australian Food purpose
- “Woolies Welcome” embedded
- New short term and long term incentives rolled out
- Food Academy up and running
- Key new hires



2

## GENERATING SUSTAINABLE SALES MOMENTUM IN FOOD

- Second quarter of positive comp sales in Q2'17
- Record VOC in December
- Lower prices across the store
- Renewal stores performing well
- Loyalty perception significantly improved

3

## EVOLVING OUR DRINKS BUSINESS

- 8 (net) new Dan Murphy's stores
- Strong Dan Murphy's online growth
- BWS investment in lower prices and empowerment of “Store CEO”
- 815 BWS stores now offer Click & Collect



4

## EMPOWERING OUR PORTFOLIO BUSINESSES

- Bars and Accommodation driving comp sales growth in Hotels
- Partnership with BP and sale of Fuel business announced
- New Acting CEO of BIG W

5

## BECOMING A LEAN RETAILER

- SAP Merchandising platform now stable
- New SAP Payroll Management System now live
- End-to-end process improvement underway



# Agenda

## Key highlights

**Brad Banducci**

## Progress on our five key priorities

### Financial Results

**David Marr**

- Results – Half-Year 2017
- Group EBIT
- Key Balance Sheet metrics
- Cash Flow Summary
- Capital Expenditure
- Capital Management

## Business Update

**Business Leaders**

## Outlook

**Brad Banducci**



# Financial Results



## Results – Half-Year 2017

|  | Continuing Operations |           | Total Group |           |
|--|-----------------------|-----------|-------------|-----------|
|  |                       | Change    |             | Change    |
| <b>Sales</b>   | \$29.1 bn             | 2.6%      | \$32.3 bn   | 1.1%      |
| <b>Earnings Before Interest and Tax (EBIT)</b>   | \$1,301.3 m           | (14.5)%   | \$1,257.8 m | 170.2%    |
| <b>Net Profit After Tax attributable to shareholders of Woolworths (NPAT)</b>            | \$785.7 m             | (16.7)%   | \$725.3 m   | 174.6%    |
| <b>Earnings Per Share</b>  | 61.3¢                 | (18.0)%   | 56.6¢       | 173.4%    |
| <b>Dividend Per Share</b>  |                       |           | 34.0¢       | (22.7)%   |
| <b>Return On Average Funds Employed<sup>1</sup> Before Significant Items<sup>2</sup></b> | 20.77%                | (660) bps | 20.09%      | (254) bps |

Refer to slide 38 for notes

## Group EBIT

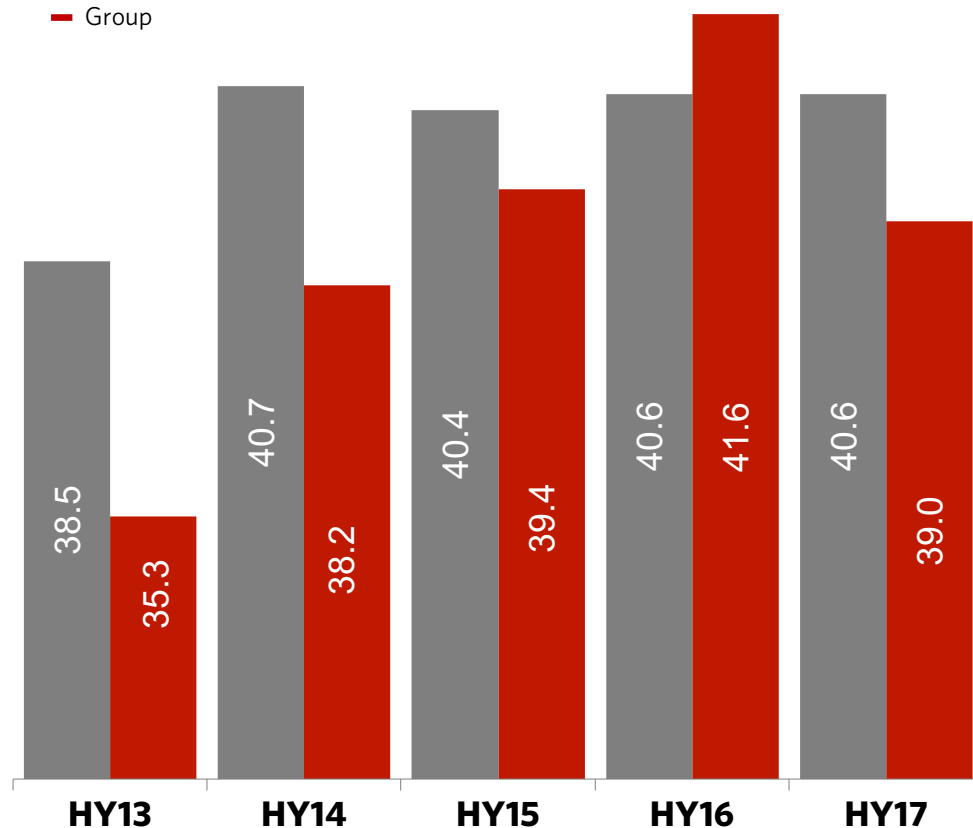
| \$m  | HY17           | HY16           | Change         |
|--|----------------|----------------|----------------|
| <b>Continuing Operations</b>                             |                |                |                |
| Australian Food  | 811.6          | 942.6          | (13.9)%        |
| Endeavour Drinks Group                                   | 302.3          | 293.3          | 3.1%           |
| New Zealand Food (AUD)                                   | 154.9          | 151.3          | 2.4%           |
| <i>New Zealand Food (NZD)</i>                            | 163.0          | 170.6          | (4.5)%         |
| BIG W  | (27.2)         | 72.9           | (137.3)%       |
| Hotels   | 139.3          | 135.1          | 3.1%           |
| Central Overheads  | (79.6)         | (72.4)         | 9.9%           |
| <b>EBIT from Continuing Operations</b>                   | <b>1,301.3</b> | <b>1,522.8</b> | <b>(14.5)%</b> |
| Discontinued Operations - Home Improvement               | (117.6)        | (125.0)        | (5.9)%         |
| Discontinued Operations - Petrol                         | 74.1           | 58.8           | 26.0%          |
| <b>Group EBIT (Before Significant Items<sup>2</sup>)</b> | <b>1,257.8</b> | <b>1,456.6</b> | <b>(13.6)%</b> |

# Key Balance Sheet metrics

## Average Inventory days

Days

— Continuing Operations  
— Group

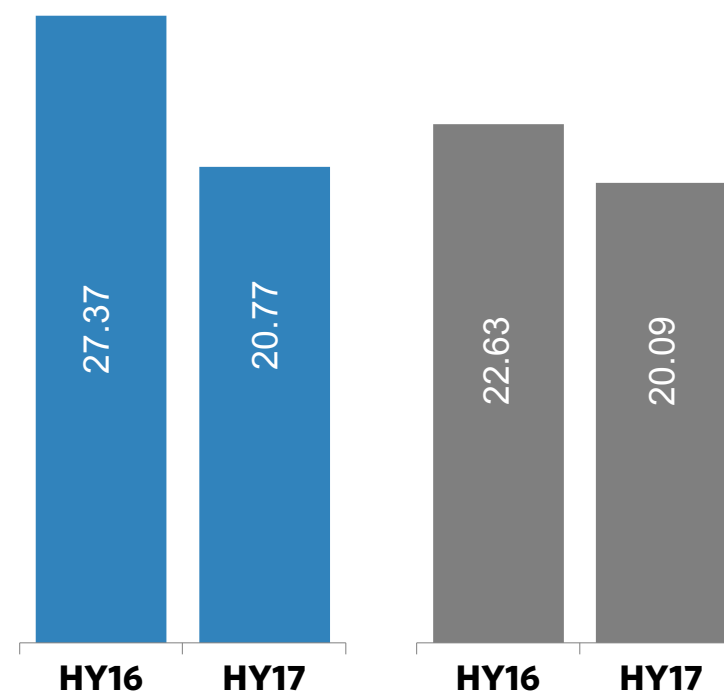


Average inventory days remained in line with the prior year with lower than expected sales in BIG W offset by stronger inventory management in Australian Supermarkets

## ROFE<sup>1</sup> (rolling 12 months) Before Significant Items<sup>2</sup>

Percentage

— Continuing Operations  
— Group



Decline due to lower EBIT in Australian Food and BIG W partly offset by lower Funds Employed



## Cash Flow Summary

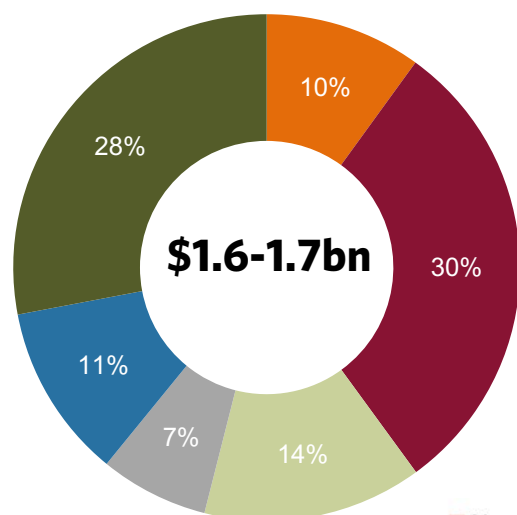
| \$m   | HY17           | HY16          | Change        |
|---|----------------|---------------|---------------|
| Operating Activities before Interest and Tax            | 2,757.6        | 2,022.2       | 36.4%         |
| Interest and Tax  | (561.9)        | (769.5)       | (27.0)%       |
| Operating Activities                                    | 2,195.7        | 1,252.7       | 75.3%         |
| Investing Activities                                    | (386.4)        | (599.1)       | (35.5)%       |
| Financing Activities                                    | -              | 107.9         |               |
| <b>Free cash flow before dividends and share issues</b> | <b>1,809.3</b> | <b>761.5</b>  | <b>137.6%</b> |
| Share Issue   | 55.5           | -             |               |
| Dividends   | (270.3)        | (818.6)       | (67.0)%       |
| <b>Free cash flow after dividends and share issues</b>  | <b>1,594.5</b> | <b>(57.1)</b> | <b>n.c</b>    |

Free cash flow up significantly due to working capital improvement and lower cash dividend payment

# Capital Expenditure

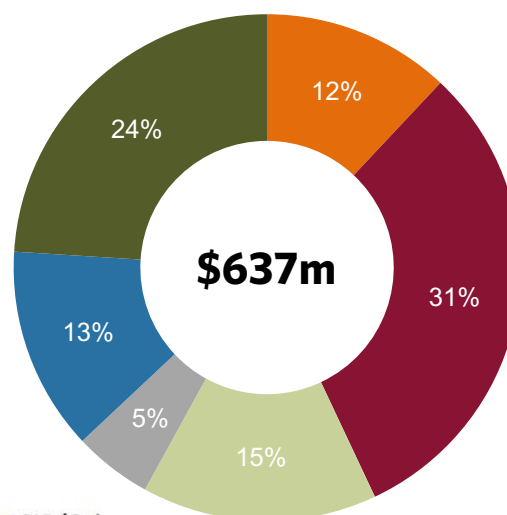
| \$m  | HY17       | HY16       |
|--|------------|------------|
| <b>Continuing Operations</b>               |            |            |
| <b>Operating Capex</b>                     | <b>637</b> | <b>586</b> |
| Property Development                       | 103        | 238        |
| <b>Gross Capex</b>                         | <b>740</b> | <b>824</b> |
| Property Sales                             | (162)      | (254)      |
| <b>Net Capex</b>                           | <b>578</b> | <b>570</b> |
| Discontinued Operations - Home Improvement | (6)        | 103        |
| Discontinued Operations - Petrol           | 14         | 22         |
| <b>Group Net Capex</b>                     | <b>586</b> | <b>695</b> |

Operating Capex - FY17E

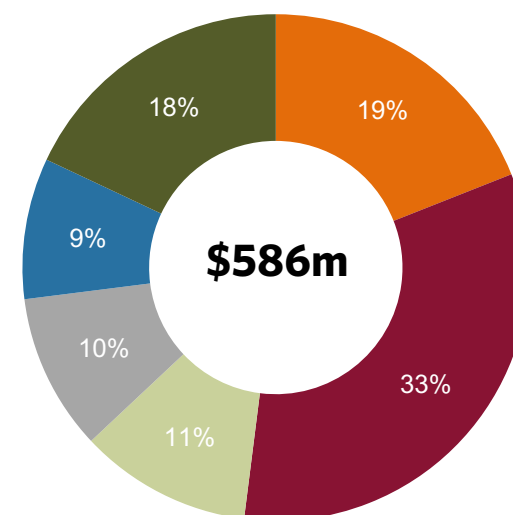


We expect FY17 Operating Capex to be \$1.6-1.7bn and Gross Capex from Continuing Operations of ~\$1.9-2bn

Operating Capex - HY17



Operating Capex - HY16



■ New stores    ■ Renewals/Refurbs    ■ SIB/Other  
■ Growth    ■ Supply Chain    ■ IT

# Capital Management

## **Debt and credit rating**

- Remain committed to solid investment grade credit rating
- Net Repayable Debt of \$1.5bn – significantly down on HY16 and FY16
- Fixed Charge Coverage Ratio of 2.4x

## **Dividend and DRP**

- Half-year dividend of 34 cents per share – consistent with typical HY payout ratio of 60% of Group NPAT

## **Portfolio businesses**

- Partnership with BP announced with proceeds from sale of fuel business of \$1.785m primarily to strengthen balance sheet. Completion no earlier than 2 January 2018
- Masters stores closed early December 2016

# Agenda

**Key highlights**

**Brad Banducci**

**Progress on our five key priorities**

**Financial Results**

**David Marr**

**Business Update**

- Australian Food
- Endeavour Drinks Group
- New Zealand Food
- BIG W

**Business Leaders**

**Outlook**

**Brad Banducci**



# Business Update





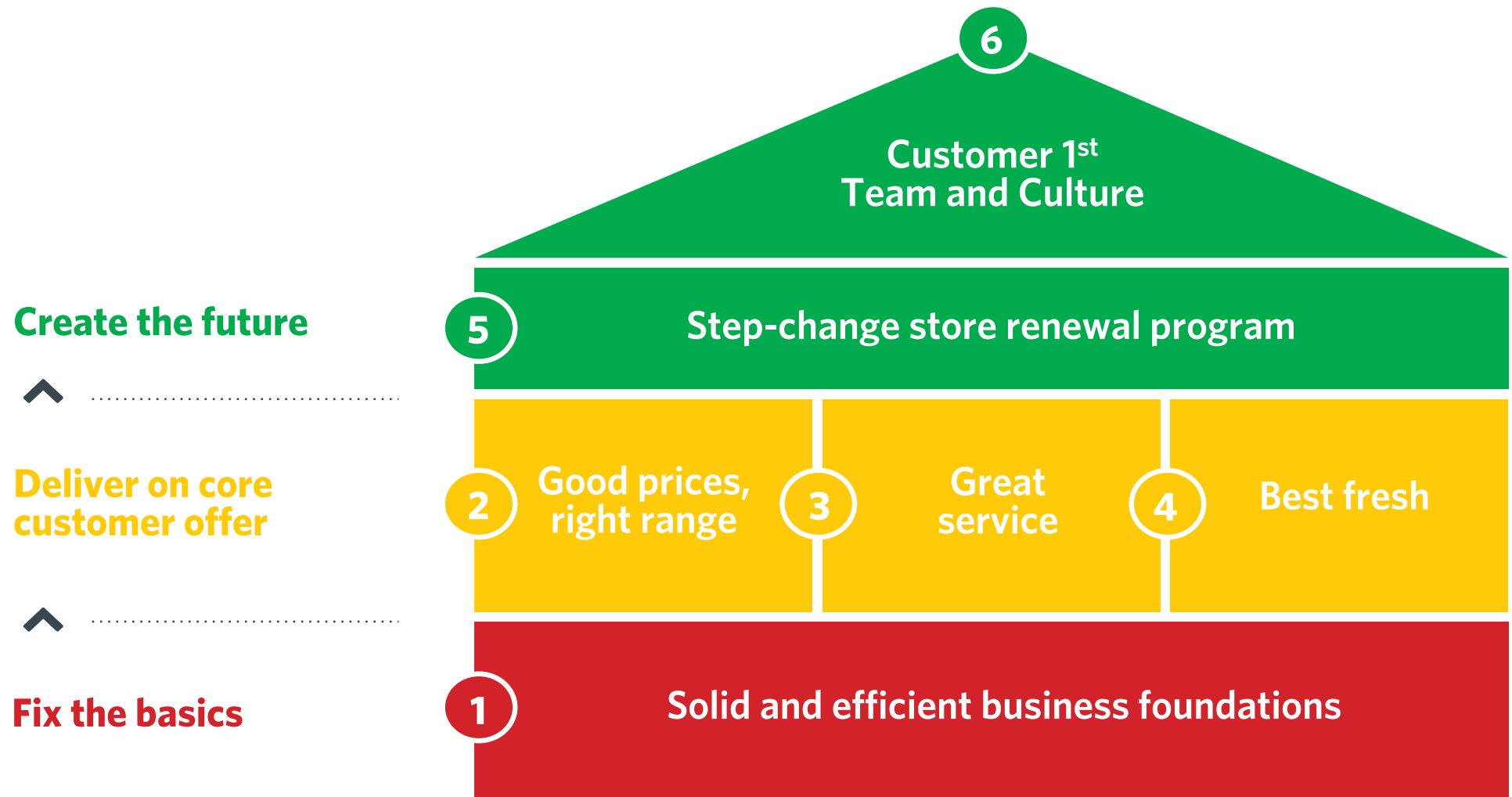
Woolworths  
*The fresh food people*

## Australian Food



|                             | HY17   | HY16   | Change     |
|-----------------------------|--------|--------|------------|
| Sales (\$m)                 | 18,713 | 18,195 | 2.8%       |
| EBIT (\$m)                  | 811.6  | 942.6  | (13.9)%    |
| Gross Margin (%)            | 27.88  | 27.38  | 50 bps     |
| Cost of Doing Business (%)  | 23.54  | 22.20  | 134 bps    |
| EBIT to Sales (%)           | 4.34   | 5.18   | (84) bps   |
| Sales Per Square Metre (\$) | 15,927 | 16,251 | (2.0)%     |
| ROFE <sup>1</sup> (%)       | 151.8  | 169.7  | (17.9) pts |

Our strategy is focused on getting our customers to put us 1st





# Progress highlights



## Create the future

- Our purpose 'We bring a little **good** to everyone, every day' embedded across our team
- Customer 1<sup>st</sup> Team and Culture building. VOC for team attitude of 86 & Voice of Team improving
- Over 1,100 support team members worked in stores in the lead up to Christmas
- 26 Renewal stores and 41 Front End upgrades completed
- Metro and online experiencing strong growth rates



## Deliver on core customer offer

- 'That's why I pick Woolies' brand platform resonating with our customers
- Strong progress on lower shelf prices in HY17, with reduction in average prices of 2.4%
- Rebranding of own brand products as Essentials and Woolworths well progressed (44% complete)
- Continuing focus on better quality fresher fruit and veg with store feedback through quality app, informing DC checks
- 250 stores completed service training, focusing on friendly and fast checkout service



## Fix the basics

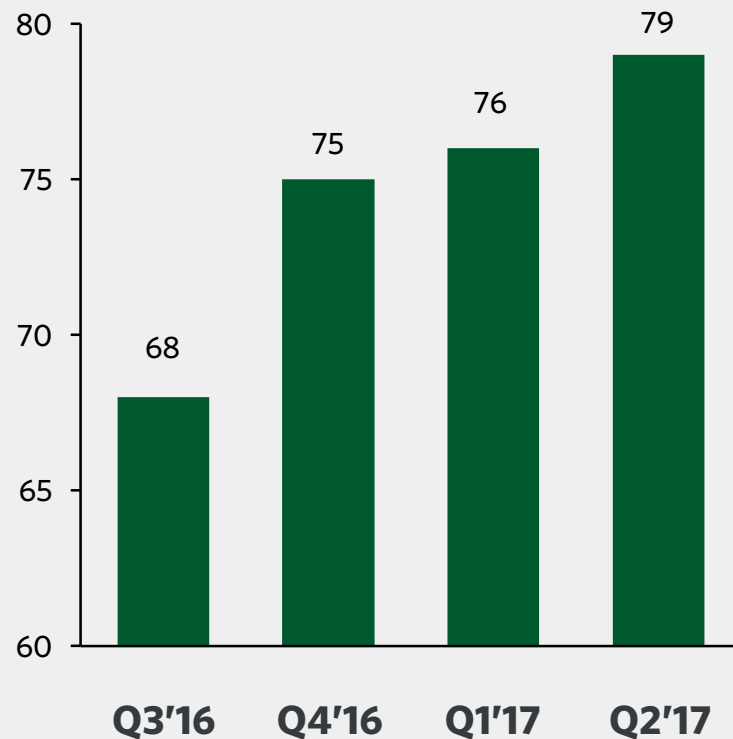
- 'Faster Fresher Food' delivering higher quality fresh to customers and significant improvements in stock loss. Over 250 stores graduated from program
- Better availability for our customers, through improved service levels to stores and increased focus on filling shelves by our store teams
- Customer-led rostering tool successfully piloted and now in rollout
- Positive customer response to evolution of Rewards program
- Voice of Supplier metrics improving, but more work to do

# Customer 1<sup>st</sup> strategy driving growth in customer satisfaction, particularly in-store experience



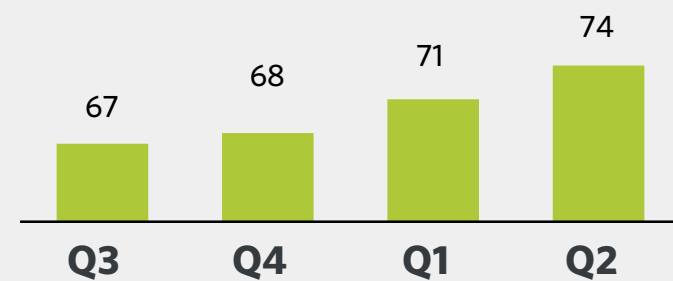
## Overall Customer Satisfaction

% customers satisfied, 6 or 7 out of 7



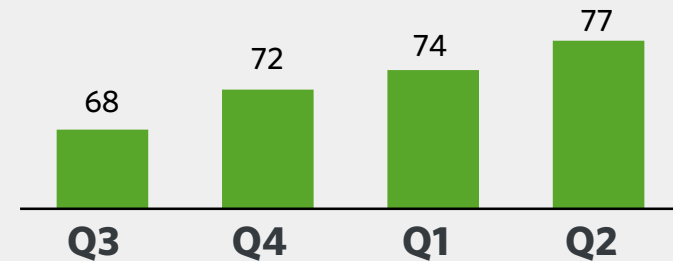
## Product Availability

% customers satisfied, 6 or 7 out of 7



## Queue Wait Times

% customers satisfied, 6 or 7 out of 7

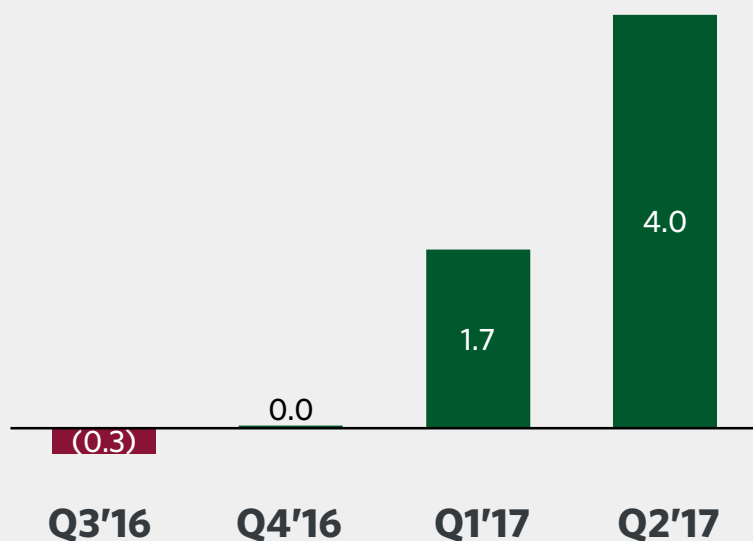


# Sales momentum continues, with growth in visits and more recently items/basket



## Total Sales

% year on year

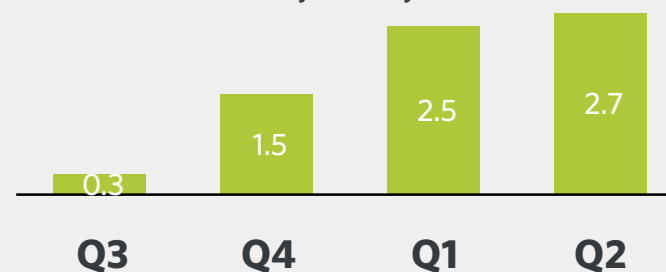


Comp Sales % year on year

**(1.3)**      **(1.1)**      **0.7**      **3.1**

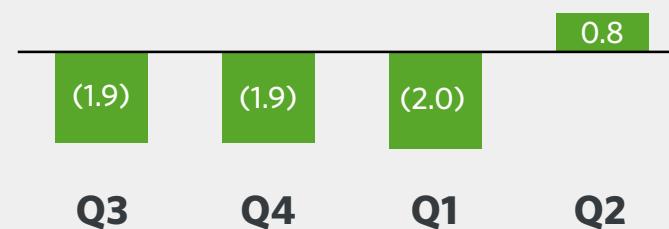
## Comp Transaction growth

% year on year



## Comp Items per basket growth

% year on year



**Our team is living our purpose and our customers are experiencing more reasons to Pick Woolies**



*Our people. It's our team that make the difference.*

*It's an active thing - actions speak louder than words.*

*Good Food, Good Prices, Good Acts. This is what customers expect from us.*

*The little things we can all do that help customers and each other.*

**We bring  
a little good  
to everyone,  
every day.**

*Every day we have the opportunity to make a difference to our customers - to help them live better lives.*

*We're for every Australian, no matter what their budget, age or where they live.*

Woolworths   
The fresh food people



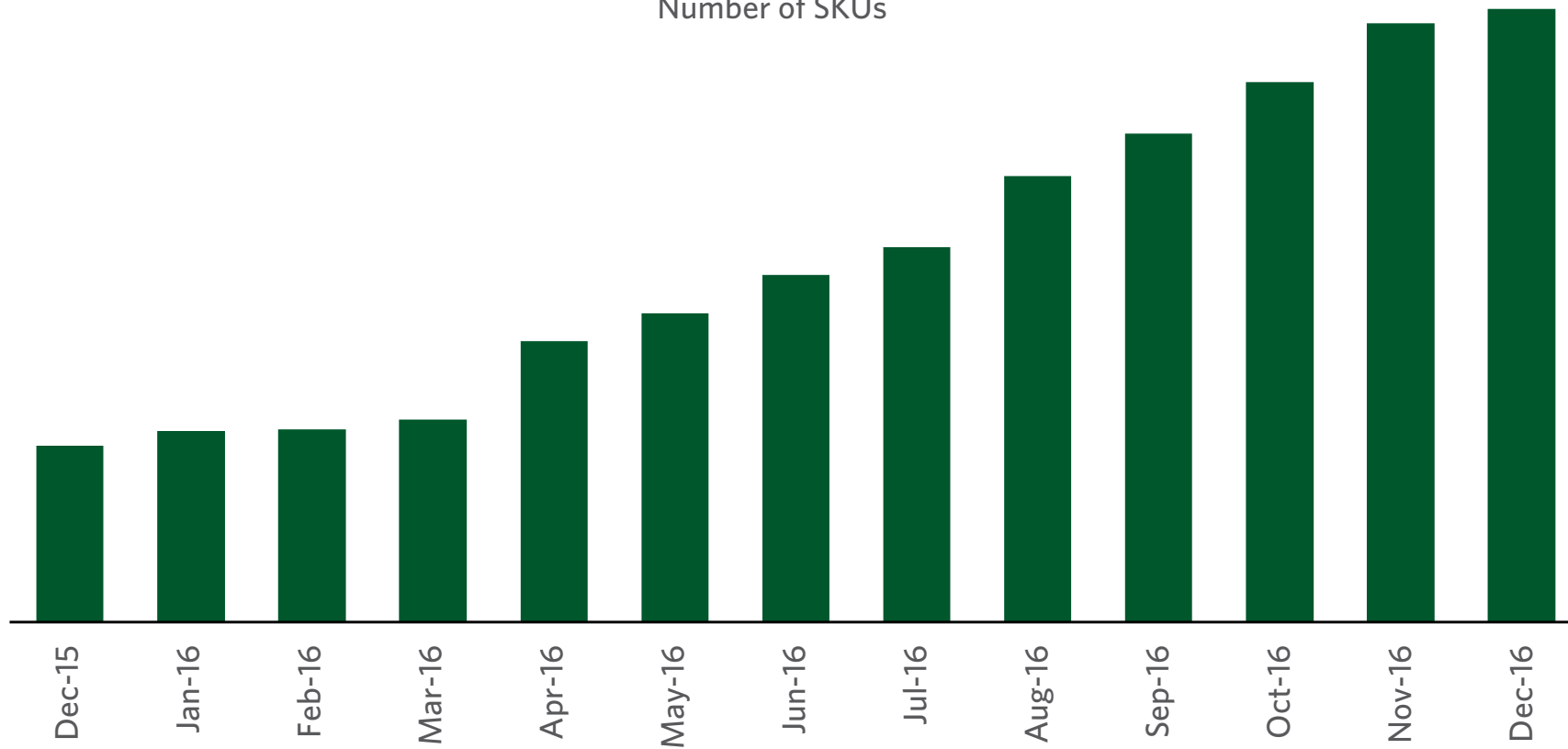


## We continued to deliver value to our customers by lowering shelf prices



### Always and Prices Dropped SKUs

Number of SKUs



'Woolworths is great. The fruit and veg are fresh and it always provides good low prices.'

**WA, 26/12/16**

'Grocery items easy to find, the store is always clean. Staff friendly and prices are always low.'

**VIC, 05/12/16**

# Strong customer response to our focus on delivering high quality, good value fresh fruit and veg



## Key Initiatives

### 1. Focus on quality and freshness

- Coaching store teams on handling fruit and veg
- Introduced 'Store Quality App.' instore

### 2. Delighting our customers with Free Fruit for Kids

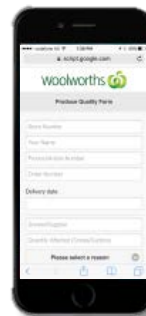
- Approximately 1,800 tonnes of fruit given away

### 3. Better prices, especially on most important fruit and veg products

- Hero lines merchandised at front of store

### 4. Starting to simplify and tailor range, including ongoing development of the Odd Bunch

### 5. Established a new approach to engaging and partnering with our best growers



## Customer Responses

'I recently shopped at your store the day before Christmas and was pleasantly surprised to find all the fruit & veg really fresh and priced competitively. (...) thanks and keep up the great quality.'  
**WA, 24/12/16**

'I like the "Odd Bunch" as I agree that fresh produce doesn't have to look perfect.'  
**SA, 02/12/16**

# Renewal stores are step-changing our customer experience with early progress positive



## Renewal progress

- 26 Renewal stores completed in HY17
- 41 Front End upgrades completed
- Warringah Mall, driving further innovation in customer experience

## Key figures

- Renewal Overall Satisfaction VOC **+9%pts**
- Customers that “believe that the store is better than other stores in area” **+13%pts**



*“Love the new store layout, great range of products - love Jamie Oliver range and European food selection and not forgetting the choice of fresh breads and fruit and veg seemed really fresh.”*

*“Plenty of fresh produce, at special prices. Love the market atmosphere. Friendly and helpful staff.”*

*“Couldn't believe the amount of product choice at this Woolworths and loved the deli and new cheese room. Also was great to have more room to move in the aisles, didn't feel so cramped.”*

## Our FY17 business priorities



### Create the future

Create a winning proposition by listening to our customers and transforming our business store-by-store



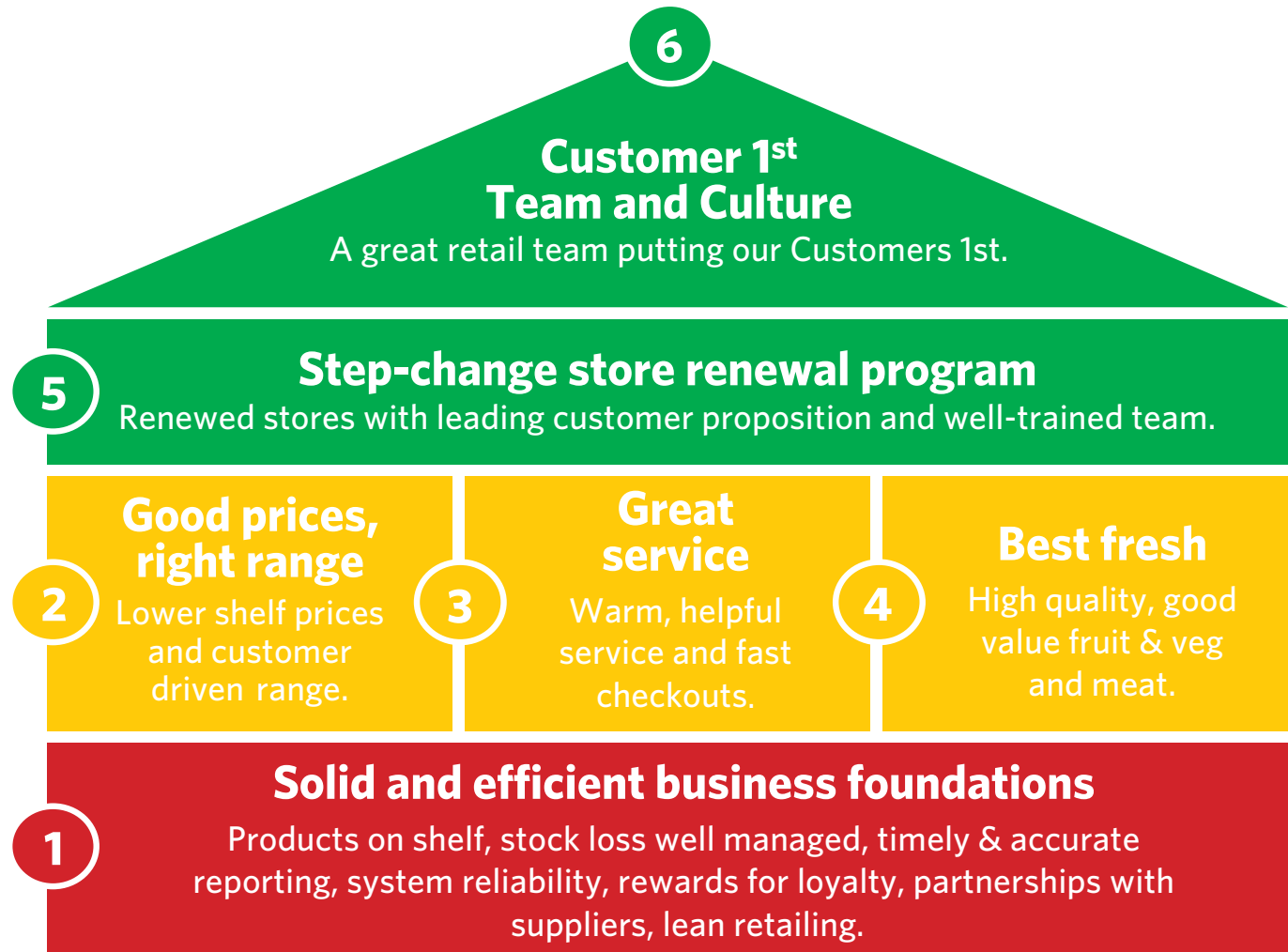
### Deliver on core customer offer

Create reasons for customers to choose us for more of their shopping

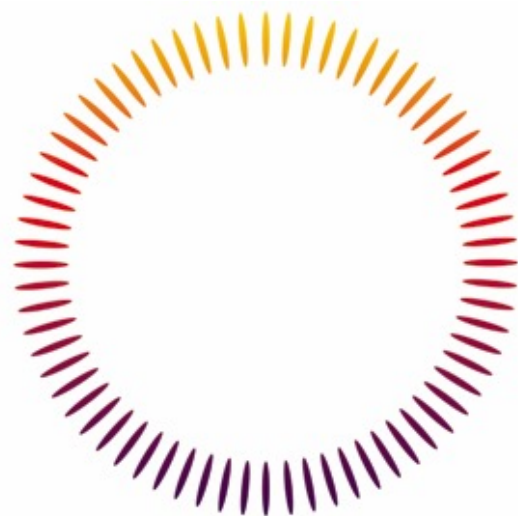


### Fix the basics

E2E process excellence







ENDEAVOUR  
DRINKS GROUP

# Endeavour Drinks Group



|                             | <b>HY17</b> | <b>HY16</b> | <b>Change</b> |
|-----------------------------|-------------|-------------|---------------|
| Sales (\$m)                 | 4,319       | 4,152       | 4.0%          |
| EBIT (\$m)                  | 302.3       | 293.3       | 3.1%          |
| Gross Margin (%)            | 23.08       | 23.43       | (35) bps      |
| Cost of Doing Business (%)  | 16.08       | 16.37       | (29) bps      |
| EBIT to Sales (%)           | 7.00        | 7.06        | (6) bps       |
| Sales Per Square Metre (\$) | 17,987      | 18,004      | (0.1)%        |
| ROFE <sup>1</sup> (%)       | 16.66       | 16.57       | 9 bps         |

# Continues to deliver solid sales growth in a highly competitive market



## HY17 Progress

- Industry leading NPS in Dan Murphy's and strong NPS scores maintained in BWS
- Comp growth of 2.4% in a low growth market with pleasing market share gains
- Strong transaction, basket and items growth across retail
- Strong double digit sales growth from Summergate
- Working capital improvement through reduction initiatives
- Multiple local and international awards for our wines and Spirits

## FY17 Focus

- Continuing to drive growth ahead of the market
- 27 new stores: 13 (net) Dan Murphy's and 14 (net) BWS stores
- Continued investment in customer experience across all businesses
- Reinvigorating our Direct to Consumer businesses (Cellarmasters and NZ Wine Society)
- Continuing to build Pinnacle Drinks with compelling brands
- Building customer loyalty through a stronger last mile



1,507 Stores



# Maintained leadership through new stores, refurbishments and new formats



## HY17 Progress

New format  
"Dan Murphy's Cellar"



8 (net) new stores  
4 Refurbishments



## FY17 Focus

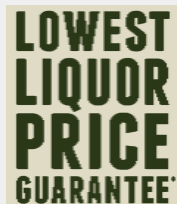
Building a greater destination  
offer through greater  
collaboration with Langtons



Offer greater seamless  
customer experience for  
Click & Collect



Launch of TV ad and  
the Dan's Price Promise



Store of Learning trial complete  
and 3 female senior operations  
leaders appointed



Excellence and innovation  
through experimenting and  
exploring new thinking



My Dan Murphy's building  
better brand engagement  
through personalisation and  
seamless experience



# Investment in value and customer service for stronger differentiation



## HY17 Progress

Strong sales and profit results from intensified focus on customer value in our convenience business



Solid comp growth despite competitive environment



## FY17 Focus

Continuing to build insights and momentum through the VOC in operations and support



Optimising the partnership with Food for further growth and improving customer led ranging



Launched click and collect in 815 stores and fully integrated with our retail offer



Maintained strong NPS scores through the first half and reached the highest price perception score since December 2015

+10

Leveraging the digital engine across the business



Building on solid Voice of Team and refinement of the Store CEO initiative





**countdown**



## New Zealand Food



| <b>NZ\$</b>                 | <b>HY17</b> | <b>HY16</b> | <b>Change</b> |
|-----------------------------|-------------|-------------|---------------|
| Sales (\$m)                 | 3,227       | 3,176       | 1.6%          |
| EBIT (\$m)                  | 163.0       | 170.6       | (4.5)%        |
| Gross Margin (%)            | 23.81       | 23.51       | 30 bps        |
| Cost of Doing Business (%)  | 18.76       | 18.14       | 62 bps        |
| EBIT to Sales (%)           | 5.05        | 5.37        | (32) bps      |
| Sales Per Square Metre (\$) | 15,058      | 15,120      | (0.4)%        |
| ROFE <sup>1</sup> (%)       | 10.09       | 10.41       | (32) bps      |

# Investing in price, service and fresh food driving customer perception improvement



## HY17 Progress

### Customers and team

|                                 |  |
|---------------------------------|--|
| Net Promoter Score              | <b>Up 10 pts vs H1'16</b>                            |
| Customer perception improvement | ✓ <b>Price</b><br>✓ <b>Service</b><br>✓ <b>Fresh</b> |
| Store team engagement           | <b>81%</b>   |

### Continued to lower prices



**> 3,400 products**  
now at low prices every day

## FY17 Focus

### Improve pricing for customers



Continue to extend our Price Down program to deliver lower prices every day

### Strengthen fresh food proposition



Further improve fruit & vegetable freshness, including focus on store team excellence

### Loyalty enhancement



Successfully launched new Onecard partnership with AA Smartfuel in Oct

### Tailored ranging to meet local needs



**> 20 stores**  
completed to date

### Make things easy



Maintain improved service  
Embed enhanced loyalty offer  
Drive further online growth

### Segment & renew stores



Continue range segmentation  
Focus capital on refurbishment as we step up network renewal



|  | <b>HY17</b> | <b>HY16</b> | <b>Change</b> |
|--|-------------|-------------|---------------|
| Sales (\$m)                                | 2,050       | 2,187       | (6.3)%        |
| Trading EBIT (\$m)                         | 8.1         | 72.9        | (88.9)%       |
| Impairment and Onerous Lease charges (\$m) | (35.3)      | -           | n.c           |
| Reported (LBIT)/EBIT (\$m)                 | (27.2)      | 72.9        | (137.3)%      |
| Trading Gross Margin (%)                   | 31.52       | 33.02       | (150) bps     |
| Trading Cost of Doing Business (%)         | 31.12       | 29.69       | 143 bps       |
| Trading EBIT to Sales (%)                  | 0.40        | 3.33        | (293) bps     |
| ROFE <sup>1</sup> (%)                      | (21.7)      | 11.3        | (33.0) pts    |

## HY17 Update

- Disappointing progress in the first half
- David Walker appointed Acting CEO, BIG W in November
- Good cost discipline across support office, stores and supply chain
- Ended December with lower seasonal inventory
- First in-house designed ranges in Apparel and Homewares landed with positive customer reaction

## FY17 Focus

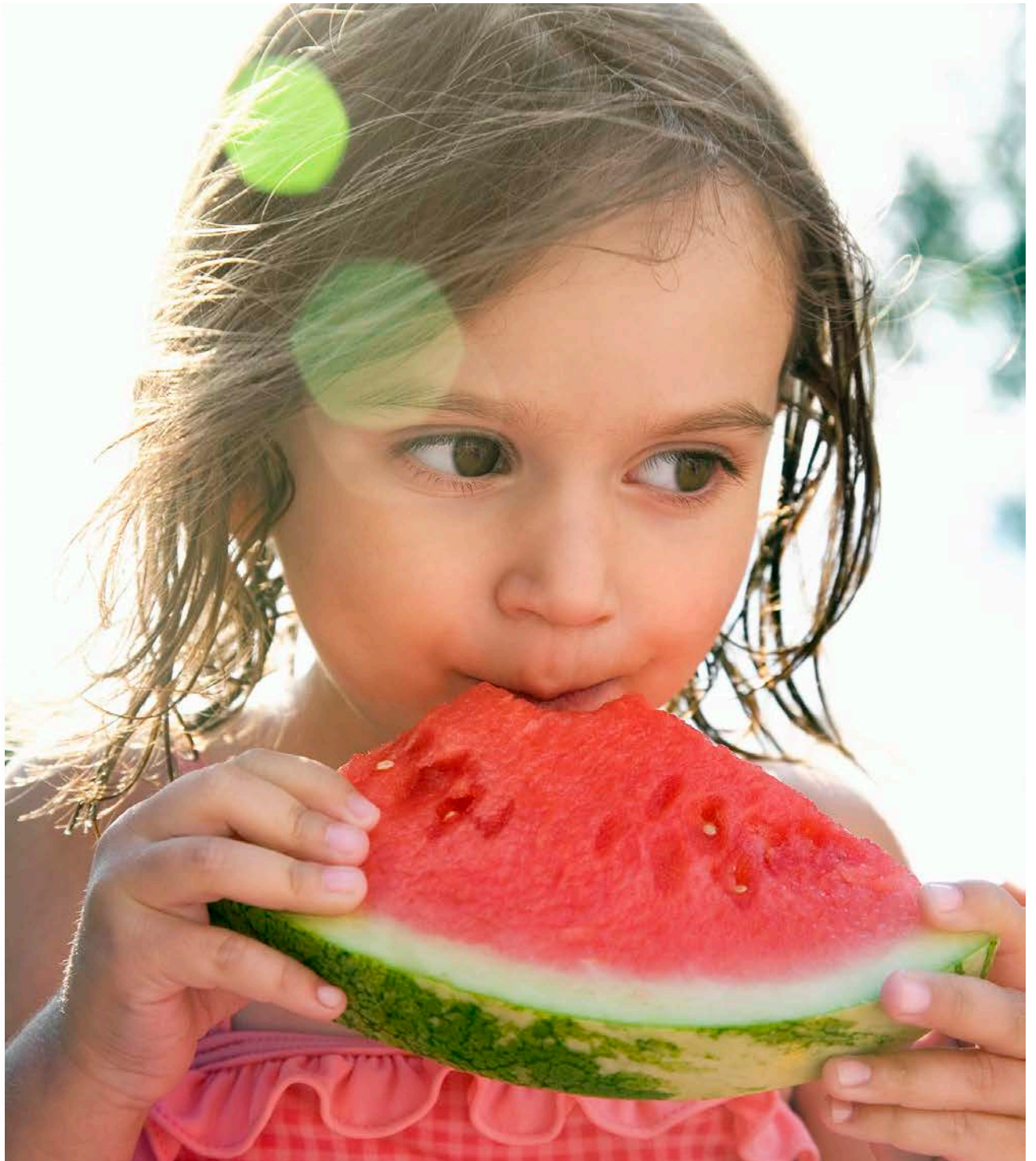
- Implementing the first stages of BIG W strategic plan
- Continuing to rationalise our range with in-house design increasingly prominent
- Trialing a new format
- Further integration of our digital presence with the overall customer experience
- Building team capabilities and morale



**BIG W remains a business in transition**



# Outlook





# Outlook

- The focus of the Woolworths Group for H2'17 remains on our five key priorities, and with the exception of BIG W, we expect to see further progress in the second half. However, we still have a long way to go...
- In the second half we will continue to invest in improving the shopping experience and expect higher depreciation and team incentive payments
- We continue to be vigilant about the competitive environment for all of our businesses. We also note the benefit to our Food and Drinks businesses from the unseasonably warm weather, particularly in January and early February
- Our Q3'17 sales release is scheduled for 2 May 2017

## Notes

1. Return on funds employed (ROFE) is calculated as EBIT before significant items for the previous 12 months as a percentage of average (opening, mid and closing) funds employed. This methodology has been adopted for HY17 and HY16. In previous reporting periods, ROFE was calculated as EBIT for the reporting period as a percentage of average (opening and closing) funds employed.

HY17 and HY16 funds employed for Australian Food and Endeavour Drinks Group has been restated primarily as a result of changes made in FY16 to the Woolworths Group operating model.

2. There were no significant items recognised in HY17. Significant Items in FY16 represent costs of \$4,013.7m (before tax) or \$2,627.8m (after tax and non-controlling interests) resulting from the write down of the Home Improvement business and certain significant expenses incurred outside the ordinary course of our trading operations, resulting from a Group wide review.

A close-up photograph of a young child with curly, reddish-brown hair and freckles. The child is holding a large red apple to their mouth, taking a bite. The background is a soft-focus green, suggesting an outdoor setting. The text "Thank you" is overlaid in a large, white, sans-serif font across the center of the image.

**Thank you**

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