# Results Release

colesgroup

**22 August 2019**

## 2019 Full Year Results Release

## Full year Supermarkets EBIT growth, final and special dividend announced

**Performance summary (retail calendar basis)**

- Full year Group sales revenue (excluding Fuel sales[1] and Hotels) increased by 3.1% to $35.0 billion
- Delivered 47th consecutive quarter of Supermarkets comparable sales growth
- Supermarkets EBIT growth of 2.2%; Group EBIT down 8.1% due to lower Express fuel volumes and corporate costs associated with being a standalone ASX company
- 30% online sales growth generating $1.1 billion in sales revenue, and first operating profit in FY19
- Strong cash realisation of 110% and robust balance sheet with net debt position improving to $0.5 billion, providing significant flexibility for long term growth
- The Coles Board has determined a total fully-franked dividend of 35.5 cents per share, comprising a final dividend and a special dividend which covers the period from 28 November 2018 (being the effective date of the demerger from Wesfarmers) to 30 June 2019. Refer page 3 and 4 for further information

**Strategic highlights**

- ASX listed following a successful demerger from Wesfarmers
- Strategic refresh to "sustainably feed all Australians to help them lead healthier, happier lives"
- Entered into an exclusive partnership with Ocado to bring the world's leading online grocery website, two automated single pick fulfilment facilities and home delivery solution to Australia
- Entered into a partnership with Witron to develop two world class automated distribution centres
- Strategic partnerships announced with Optus and SAP (HR, Procurement and Finance) to accelerate technology-led transformation of stores, support centres and supply chain
- Commenced the New Alliance Agreement with Viva Energy to restore fuel growth
- Entered into an incorporated Joint Venture with Australian Venue Co in relation to Coles' hotel and retail liquor business in Queensland to focus on liquor retailing
- Own Brand penetration reaching 30% at year end with over 1,200 new products launched in FY19
- Commenced roll-out of new store formats with Eastgardens in NSW and Clayton, Ardeer and Surrey Hills in Victoria
- Progress started on Smarter Selling initiatives with Store Support Centre simplification, transport hubs in Victoria and Western Australia, and wearable technology improving efficiency in store
- Improvements in team member safety and engagement scores
- $115 million contributed to communities and suppliers through SecondBite, Redkite, Community Bags, FightMND, drought relief and Coles Nurture Fund

**Financial results**

| | STATUTORY (IFRS) | | | RETAIL (NON-IFRS) | | |
|---|---|---|---|---|---|---|
| | FY19 | FY18 | CHANGE | FY19 (52 WEEKS) | FY18 (52 WEEKS) | CHANGE |
| Sales revenue ($m)[2] | 38,176 | 38,934 | (1.9)% | 35,001[1] | 33,961[1] | 3.1% |
| **EBIT ($m)** | 1,467 | 1,479 | (0.9)% | 1,325[2] | 1,442[2] | (8.1)% |
| **Dividend cents per share[4]** | 35.5 | N/A | 35.5 | N/A | - | N/A |

[1] Fuel sales have been excluded from retail (non-IFRS) results as Express no longer records fuel sales as sales revenue under the New Alliance Agreement. Retail (non-IFRS) sales revenue also excludes Hotels. Retail (non-IFRS) [2] EBIT excludes Hotels and significant items. [3] FY18 sales revenue has been restated due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue. Refer Appendix 6 for further detail. [4] The total fully-franked dividend of 35.5 cents per share is comprised of a final dividend of 24.0 cents per share and a special dividend of 11.5 cents per share. Refer page 3 and 4 for further information.



coles group

Coles CEO Steven Cain said Coles had delivered a solid performance in the face of a rapidly changing retail landscape. "It has been a year of substantial change for Coles following the successful demerger and ASX listing from Wesfarmers in November 2018. As highlighted at our Investor Day in June, consumer behaviours are changing faster than ever, we are heading into the most competitive period in Coles' history, and there are significant industry wide cost headwinds. With the return to profit growth in our core Supermarkets division we have made a solid start to our four year transformation program. Delivery of our sales growth strategy and the $1 billion Smarter Selling program will be critical to Group EBIT growth."

## Comparison of statutory (IFRS) and retail (non-IFRS) calendar reporting

To support an understanding of comparable business performance, this Results Release and the associated 2019 Full Year Results Presentation are presented as follows:

- on a retail calendar basis – given the existence of a 53rd week in FY19, Coles has opted to disclose retail results for 52 weeks applied consistently for the current and comparative period. The table below provides a comparison of the statutory and retail reporting periods;
- on a continuing operations basis – excluding the impact of Kmart, Target and Officeworks which were transferred to Wesfarmers as part of the demerger. The statutory results presented in Coles' Appendix 4E Preliminary Final Report include the results of discontinued operations; and
- excluding significant items – the provision of $146 million relating to Supply Chain Modernisation, the $137 million gain from the New Alliance Agreement with Viva Energy, the $133 million net gain associated with establishment of the Queensland Venue Co Pty Ltd joint venture and the $50 million net tax credit relating to Coles' decision to form an income tax consolidated group. These significant items are disclosed in Coles' Financial Report for 30 June 2019. The statutory results above include significant items.

Balance sheet and cash flow information presented in this Results Release and the associated 2019 Full Year Financial Results Presentation is consistent with information disclosed in the statutory presentation in the Appendix 4E Preliminary Final Report. Retail calendar disclosures constitute non-IFRS information which has not been audited but is based on IFRS information where available.

Coles' external auditors have performed agreed upon procedures relating to the adjustments between the statutory and retail calendar profit and loss disclosures for the current and prior corresponding period. Refer Appendix 2 for a comparison of statutory to retail calendar results. The table below sets out the differing reporting periods for the statutory and retail calendar results for FY19 and FY18.

| | STATUTORY | | RETAIL | | |
|---|---|---|---|---|---|
| | FY19 | FY18 | FY19 | FY19 | FY18 |
| Reporting period | 1 Jul – 30 Jun | 1 Jul – 30 Jun | 25 Jun – 30 Jun | 25 Jun – 23 Jun | 26 Jun – 24 Jun |
| Number of days | 365 days | 365 days | 371 days | 364 days | 364 days |
| Number of weeks | 52 weeks 1 day | 52 weeks 1 day | 53 weeks | 52 weeks | 52 weeks |

Due to rounding, numbers presented throughout this Results Release may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

# Group performance overview

## Retail calendar results

| $ MILLION | FY19 (52 WEEKS) | FY18 (52 WEEKS) | CHANGE |
|---|---|---|---|
| **Sales revenue** | | | |
| Supermarkets | 30,890 | 29,919 | 3.2% |
| Liquor | 3,063 | 3,006 | 1.9% |
| Express[1] | 1,048 | 1,035 | 1.2% |
| **Group sales revenue (excl. Fuel sales and Hotels)** | **35,001** | **33,961** | **3.1%** |
| Fuel sales[1] | 3,011 | 4,680 | (35.7)% |
| Hotels[2] | 140 | 163 | (14.2)% |
| **Group sales revenue** | **38,152** | **38,803** | **(1.7)%** |
| **EBIT** | | | |
| Supermarkets | 1,183 | 1,157 | 2.2% |
| Liquor | 120 | 111 | 8.4% |
| Express | 50 | 161 | (69.3)% |
| Other | (28) | 13 | N/M |
| **Group EBIT (excl. Hotels and significant items)** | **1,325** | **1,442** | **(8.1)%** |
| Hotels[2] | 13 | 17 | (26.0)% |
| **Group EBIT pre-significant items** | **1,338** | **1,459** | **(8.3)%** |

Note: The results for the year and the prior corresponding period reflect the elimination of a $30 million brand fee previously charged from Supermarkets to Express. Refer Appendix 3 for further detail. FY18 sales revenue has also been restated due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue. Refer Appendix 6 for further detail.
N/M denotes not meaningful.
[1] Express no longer records Fuel sales as sales revenue under the New Alliance Agreement with Viva Energy.
[2] Hotels sales excludes gaming revenue which is recorded as 'Other operating revenue'. FY19 includes 10 months of Hotels sales revenue.

Group sales revenue (excluding Fuel sales and Hotels) increased by 3.1% to $35.0 billion with sales revenue growth across Supermarkets, Liquor and Express. As part of the New Alliance Agreement with Viva Energy, Express no longer records fuel sales as sales revenue. Following establishment of the New Alliance Agreement, commission earned by the Express business will be recorded as 'Other operating revenue', which leaves Express sales revenue as being convenience (c-store) sales only.

Group EBIT (excluding Hotels and significant items) declined by 8.1% to $1.3 billion driven by lower Express fuel volumes, corporate costs associated with being a standalone ASX company and one-off demerger costs, both recorded in 'Other'. Pleasingly, Supermarkets EBIT returned to full year growth for the first time since FY16 through higher sales and improved gross margin.

The Coles Board has determined a total fully-franked dividend of 35.5 cents per share, comprising a final dividend of 24.0 cents per share and a special dividend of 11.5 cents per share which covers the period from 28 November 2018 (being the effective date of the demerger from Wesfarmers) to 30 June 2019.

As previously announced, for reporting purposes Coles has adopted a retail calendar going forward. In a typical year, the retail calendar has 27 weeks in the first half and 25 weeks in the second half, with every fifth or sixth year having a 53rd week. FY19 is a 53 week period, with 27 weeks in the first half covering the period from 25 June 2018 to 30 December 2018, and 26 weeks in the second half covering the period from 31 December 2018 to 30 June 2019.

The final dividend reflects a typical retail calendar second half period of 25 weeks and represents a 80.1% payout of earnings pre-significant items for that period. The incremental 53rd week in FY19 is reflected as part of the special dividend. The table below summarises the amount, underlying payout ratio and period each dividend relates to.

| DIVIDEND | AMOUNT (CENTS PER SHARE) | PAYOUT RATIO (%) | PERIOD |
|---|---|---|---|
| Final | 24.0 | 80.1 | 31 December 2018 to 23 June 2019 |
| Special | 11.5 | 85.2 | 28 November 2018 to 30 December 2018 **and** 24 June 2019 to 30 June 2019 |
| **Total** | **35.5** | **81.7** | **28 November 2018 to 30 June 2019** |

Note: Wesfarmers paid an interim dividend in March 2019, which reflected in part, Coles' earnings up to and including 27 November 2018. The record date for determining entitlements to both the final and special dividends is 29 August 2019, with the payment date being 26 September 2019. Payout ratios are based on NPAT pre-significant items.

Coles Chairman James Graham said, "2019 had been a most significant year for Coles in its 105 year history." Mr Graham said that "during the year the management team had focussed upon setting up Coles for the longer term and it is pleasing to announce the payment of Coles' inaugural fully-franked dividend to shareholders."

# Segment performance review

## Supermarkets

### Retail calendar results

| $ MILLION | FY19 (52 WEEKS) | FY18 (52 WEEKS) | CHANGE |
|---|---|---|---|
| **Sales revenue** | **30,890** | **29,919** | **3.2%** |
| EBITDA | 1,735 | 1,714 | 1.2% |
| **EBIT** | **1,183**[1] | **1,157** | **2.2%** |
| Gross margin (%) | 24.8 | 24.6 | 20bps |
| CODB (%) | (20.9) | (20.7) | (24)bps |
| EBIT margin (%) | 3.8 | 3.9 | (4)bps |

Note: The results for the year and the prior corresponding period reflect the elimination of a $30 million brand fee previously charged from Supermarkets to Express. Refer Appendix 3 for further detail. FY18 sales revenue has also been restated due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue. Refer Appendix 6 for further detail.

[1] FY19 EBIT includes Smarter Selling restructuring provision of $19 million.

### Operating metrics

| vs. PRIOR CORRESPONDING PERIOD | FY19 (52 WEEKS) | 2H19 (25 WEEKS) | 1H19 (27 WEEKS) |
|---|---|---|---|
| Comparable sales growth (%) | 2.7 | 2.3 | 3.0 |
| NYE adjusted comparable sales growth (%) | 2.7 | 2.2 | 3.2 |
| Sales per square metre[1] (MAT $/sqm) | 16,704 | 16,704 | 16,533 |
| Customer satisfaction[2] (%) | 87.7 | 87.7 | 87.7 |
| Inflation / (deflation)[3] (%) | 0.8 | 1.2 | 0.5 |
| Inflation / (deflation) excl. tobacco and fresh[3] (%) | (1.2) | (1.2) | (1.2) |

[1] Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

[2] Based on Tell Coles data.

[3] Due to a change in methodology, Inflation / (deflation) historical figures have been restated. Details can be found in Appendix 5.

### Performance highlights

Supermarkets sales revenue was $30.9 billion for FY19, an increase of 3.2% on the prior year, with comparable sales growth of 2.7%. For the fourth quarter, Supermarkets sales revenue increased by 3.0% and comparable sales growth was 2.2% relative to the prior corresponding period, the 47th consecutive quarter of positive comparable sales growth.

Sales revenue growth was driven by online, new stores and successful collectable campaigns including Little Shop in the first quarter and Fresh Stikeez in the third quarter. Inflation also started to increase impacted by severe drought conditions in Australia. For the full year, comparable sales growth was largely driven by basket size although transaction growth also showed signs of improvement since the beginning of the second quarter.

Sales growth for the year was recorded across all states and category growth was particularly strong in bakery, meat and dairy. flybuys also had a positive impact on customer engagement and sales, with flybuys membership reaching record highs in the fourth quarter with 6.6 million active households.

To further embed trusted value, Coles continued to invest in lowering prices for its customers which saw deflation excluding tobacco and fresh of 1.2% for FY19, and 0.9% for the fourth quarter. Adverse weather conditions throughout the year, most notably the drought, resulted in a marked inflationary period in fresh food. Coles continues to work hard with our suppliers through these difficult times and to minimise the impact on our customers. Overall, total Supermarkets price inflation of 0.8% was recorded for FY19, and 1.4% in the fourth quarter.

Coles continued to lower the cost of living and provide an expanded and better value choice for our customers during the year through Own Brand. Own Brand sales grew by 5.9% in FY19 and now represents a $9 billion business. Sales also grew profitably and penetration was at 29.8% in the fourth quarter, up 91 bps compared to the prior corresponding period. New products were key to delivering this result, with over 1,200 new products introduced during the year across areas such as health foods, prepared and ready-to-cook meals, personal care and meat alternatives. New brands launched include Wellness Road health products, Nature's Kitchen vegan range, Curtis Stone's 'Cook with Curtis' and 'I'm Free From', designed for customers with allergies or intolerances. Of the new products introduced over the year, 90 products won awards for their quality including Gold at the Sydney Royal Cheese & Dairy Awards for the Coles Vanilla Bean and Coles Cookies and Cream ice cream, and 2019 Product of the Year win for Coles Finest White Sourdough Vienna bread. In addition to Own Brand, Supermarkets continued to deliver trusted and targeted value by driving our Down Down and Every Day Low Price offers which resonated highly with our customers.

Anytime, anywhere shopping is becoming increasingly important for customers and Coles Online achieved $1.1 billion of sales revenue in FY19, an increase of 30% on the prior year. Coles Online now contributes 3.6% of supermarket sales and importantly, achieved profitability for the first time in its 20-year history. Profitability has been largely achieved through scale, the growth in Click & Collect as well as technology investments in home delivery which have optimised van utilisation rates and reduced delivery times. Click & Collect also provides flexibility for customers and with over 1,000 locations at year end, contributed strongly to sales growth. Click & Collect now represents more than 30% of online sales and is the fastest growing part of the Coles Online offering. By increasing the number of delivery slots available for customers, shortening delivery windows and simplifying delivery fees, online customer satisfaction was maintained during the year.

Supermarkets continued to invest in the store network with the roll-out of new formats and tailored store offerings to meet local customer tastes and demand. Coles has commenced the roll-out of its new Format A stores focused on convenience and a premium fresh food offer. One store in Eastgardens, NSW has already been completed. The roll-out of Format C stores, focused on driving operational efficiencies, also continues with Clayton and Ardeer in Victoria already completed. Separately, a dedicated front of store convenience space featuring our expanded food for now and food for later range is expected to be rolled out to 100 stores by the end of the 2019 calendar year. Supermarkets expanded and improved its network during the year with 51 refurbishments, 22 openings and 10 closures, ending the period with 821 supermarkets.

Gross margin increased by 20 bps to 24.8%, primarily due to strategic sourcing and the continued execution of Coles' Own Brand powerhouse strategy.

Costs of doing business (CODB) as a percentage of sales increased by 24 bps to 20.9%. Costs during the year included higher energy costs and wages, following the implementation of the new store enterprise bargaining agreement in April 2018 which resulted in pay increases granted to the majority of Coles' in-store team members.

Despite the cost pressures, EBIT increased by 2.2% to $1,183 million, including 4.2% in the second half driven by higher sales and improved gross margin, noting second half EBIT included the Smarter Selling restructuring provision of $19 million. EBIT margin was flat year on year, excluding the Smarter Selling restructuring provision.

## Liquor

### Retail calendar results

| $ MILLION | FY19 (52 WEEKS) | FY18 (52 WEEKS) | CHANGE |
|---|---|---|---|
| Sales revenue | 3,063 | 3,006 | 1.9% |
| EBITDA | 153 | 146 | 4.5% |
| **EBIT** | **120** | **111** | **8.4%** |
| Gross margin (%) | 22.3 | 21.9 | 41bps |
| CODB (%) | (18.4) | (18.2) | (18)bps |
| EBIT margin (%) | 3.9 | 3.7 | 23bps |

Note: The above table does not include the financial performance of Coles' Hotels business, which was subject to the transaction with Australian Venue Co that completed in April 2019. FY18 sales revenue has also been restated due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue. Refer Appendix 6 for further detail.

### Operating metrics

| vs. PRIOR CORRESPONDING PERIOD | FY19 (52 WEEKS) | 2H19 (25 WEEKS) | 1H19 (27 WEEKS) |
|---|---|---|---|
| Comparable sales growth (%) | 1.2 | 2.6 | (0.1) |
| NYE adjusted comparable sales growth (%) | 1.2 | 1.2 | 1.1 |
| Sales per square metre[1] (MAT $/sqm) | 14,354 | 14,354 | 14,161 |

[1] Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

### Key highlights

Liquor sales revenue was $3.1 billion for the year, an increase of 1.9% on the prior year with comparable sales growth of 1.2%. For the fourth quarter, Liquor sales revenue increased by 2.2% and comparable sales growth was 1.5%. The performance in Liquor was positively impacted by the benefit of the First Choice Liquor Market (FCLM) roll-out during the year and growth in online, partially offset by moderating growth in the broader retail liquor market.

Liquorland continued to grow during the year, albeit at a lower rate as its renewal program neared completion. FY20 will see the commencement of the next evolution of the Liquorland renewal program. The refreshed FCLM format is generating some early wins, with sales performance being ahead of the rest of the fleet. Progress has been made in developing a Vintage Cellars trial store concept which will commence the renewal program for Vintage Cellars, expected to launch in the first half of FY20.

At the end of the year, 23 Liquorland and 29 FCLM conversions were completed. In August 2019, FCLM received the Australian Retailers Association 'Store Design and Fit Out of the Year' Award for the FCLM transformation program.

Investment in the Liquor store network continued with 27 new stores (all Liquorland) opened and 16 stores (one FCLM, two Vintage Cellars and 13 Liquorland) closed, resulting in a total of 910 Liquor sites at the end of the year.

Across all banners, Exclusive Liquor Brand (ELB) sales in the wine category continue to be strong with ELB sales growth more than double the rate of the rest of the Liquor business. There were 64 new Exclusive Liquor Brand lines launched and a total of 189 medals and awards received over the year.

Gross margin increased by 41 bps to 22.3% due to margin improvements from Exclusive Liquor Brands and improved supplier collaboration.

EBIT growth of 8.4% for the full year was driven by gross profit improvements. Second half EBIT growth of 2.0% was impacted by a $2 million gain included in CODB in the prior comparable period related to a one-off asset sale. Excluding the one-off gain, full year and second half EBIT grew by 10% and 7%, respectively.

As previously announced, Coles entered into an incorporated Joint Venture with Australian Venue Co in relation to the Spirit Hotels business, formerly operated by Coles and Coles' associated retail liquor business. The transaction was completed in April 2019. AVC now focuses on the operations of the hotels business while Coles focuses on the operations of its retail liquor businesses under the Liquorland, First Choice and Vintage Cellars brands. Since completion, Queensland Venue Co has expanded its hotel portfolio providing future expansion opportunities in retail Liquor.

## Express

### Retail calendar results

| $ MILLION | FY19 (52 WEEKS) | FY18 (52 WEEKS) | CHANGE |
|---|---|---|---|
| **Express sales revenue (excl. Fuel sales)** | 1,048 | 1,035 | 1.2% |
| EBITDA | 76 | 187 | (59.4)% |
| **EBIT** | **50** | **161** | **(69.3)%** |
| Gross margin (%) | 61.4 | 70.5 | (909)bps |
| CODB (%) | (56.7) | (55.0) | (175)bps |
| EBIT margin (%) | 4.7 | 15.6 | (1084)bps |

Note: The results for the year and the prior corresponding period reflect the elimination of a $30 million brand fee previously charged from Supermarkets to Express. Refer Appendix 3 for further detail. FY18 sales revenue has also been restated due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue. Refer Appendix 6 for further detail.

### Operating metrics

| vs PRIOR CORRESPONDING PERIOD | FY19 (52 WEEKS) | 2H19 (25 WEEKS) | 1H19 (27 WEEKS) |
|---|---|---|---|
| Comparable c-store sales growth (%) | 0.1 | (1.4) | 1.5 |
| Weekly fuel volumes (mL) | 60.9 | 59.5 | 62.4 |
| Fuel volume growth (%) | (13.0) | (9.6) | (15.8) |
| Comparable fuel volume growth (%) | (13.7) | (10.0) | (16.7) |

### Key highlights

C-store sales growth was 1.2% for the year and 0.1% on a comparable c-store sales growth basis, largely a result of declining tobacco sales. For the fourth quarter, c-store sales growth decreased by 0.5% and on a comparable c-store sales basis, declined by 2.3%.

Outside of tobacco, the trends were positive with the food-to-go (FTG) category growing at double digit rates. Coles continues to roll-out convenience offerings in store, delivering healthy meal solutions with the FTG offer now rolled out to 93% of stores. Express has an extensive network and during the year, six new sites were opened and three sites closed, taking the total network to 714 sites.

Fuel volumes declined by 13.0% during the year with comparable fuel volumes declining by 13.7%. In February 2019, Coles announced the New Alliance Agreement with Viva Energy which now sets the price of retail fuel while Coles earns a commission on fuel volumes sold throughout the network. The Agreement came into effect in early March 2019 and from that time, fuel sales were no longer reported in Express' sales revenue. Fuel volumes remained broadly flat since the Agreement took effect to the end of FY19.

CODB as a percentage of sales increased to 56.7%, impacted by higher store operating costs. Consistent with the guidance provided in February 2019, FY19 EBIT for the Express business was $50 million. Despite recording broadly flat EBIT in the second half, Coles expects volumes to grow over the medium to long term, consistent with previous announcements.

## Other

Other includes corporate costs, Coles' 50% share of flybuys net profit and the net gain or loss generated by Coles' property portfolio. Coles reported $22 million of net costs for the second half and $28 million of net costs for the full year.

Corporate costs incurred for the second half were slightly below the estimated annualised costs of $66 million noted in the Demerger Scheme Booklet. This was due to the full run rate of costs only being reached in the second half once all corporate functions had been established. Despite the lower costs for FY19, Coles expects costs of $66 million per annum to be a reasonable estimate of corporate overheads going forward.

Furthermore, as noted in the 2019 Half Year Results Release, Coles estimated there would be a number of one-off costs included in FY19 as a result of the demerger, estimated to be approximately $10 million to $15 million in the second half. Pleasingly, the actual costs incurred in the second half were lower than expected at $7 million, taking one-off demerger costs to $17 million for the full year.

Coles' share of net profit for its 50% equity interest in flybuys for the second half was a $1 million loss which compares to a $6 million profit in the first half. This decline is predominantly due to investment in setting up flybuys to operate as an independent standalone business and higher redemptions experienced in the first half particularly during the Christmas period.

As noted in the 2019 Half Year Results Release, Coles expected a number of property settlements to occur in the second half. This resulted in a net gain from property related activities of $7 million for the full year.

# Balance sheet (non-IFRS)

| $ MILLION | 30 JUNE 2019 | 30 DECEMBER 2018 |
|---|---|---|
| Cash and cash equivalents | 940 | 582[2] |
| Inventories | 1,965 | 2,429 |
| Trade and other receivables | 360 | 462[2] |
| Trade and other payables | (3,380) | (3,991) |
| **Working capital** | **(115)** | (518) |
| Property, plant and equipment and equity investments | 4,331 | 4,213 |
| Intangibles | 1,541 | 1,660 |
| Provisions | (1,341) | (1,292) |
| Other | 37 | (28) |
| **Capital employed** | **4,452** | 4,035 |
| Interest bearing liabilities | (1,460) | (1,630) |
| Net tax balances | 365 | 267 |
| **Total net assets** | **3,357** | 2,672 |
| Inventory days | 25 | 25 |
| Trade payable days[1] | (27) | (27) |
| Net inventory days | (2) | (2) |

[1]Trade payable days as at 30 December 2018 has been restated from 29 to 27.

[2] Debit and credit card transactions not yet settled have been reclassified from trade receivables to cash and cash equivalents.

### Key highlights

Coles aims to maintain a strong balance sheet with investment grade credit metrics and at 30 June 2019, reported working capital of $(115) million, capital employed of $4.5 billion and net assets of $3.4 billion.

Property, plant and equipment and equity investments is the largest component of total assets at $4.3 billion. Inventories of $2.0 billion comprises stock held in Supermarkets and, to a lesser extent stock held in the Liquor and Express network.

The largest components of liabilities are trade and other payables of $3.4 billion largely relating to trade payables to suppliers for goods for sale and goods not for resale, and provisions of $1.3 billion relating to employee benefits, lease provisions and self-insurance liabilities. The restructuring provision in relation to Supply Chain Modernisation is also included in this balance.

Interest bearing liabilities of $1.5 billion relates to Coles' external borrowings. At the time of the demerger, Coles drew down $2 billion from the initial $4 billion committed debt facilities. Since then, part of this debt has been repaid to take gross debt to $1.5 billion as at 30 June 2019. The repayment of the debt is a result of strong cash generation during the period together with the proceeds received from the New Alliance Agreement with Viva Energy and the sale of the hotels portfolio to AVC. Net debt as at 30 June 2019 was $0.5 billion, noting Coles will pay its inaugural dividend in September. The weighted average debt maturity is 4.6 years.

The leverage ratio at 30 June 2019 was 0.5x which provides headroom within current published credit ratings. The current ratings of BBB+ with Standard & Poor's and Baa1 with Moody's will assist Coles to diversify its funding profile and increase the average tenor of debt over time, subject to market conditions. Borrowing costs for the period from 28 November 2018 to 30 June 2019 averaged approximately 2.9% per annum.

Further details on the anticipated transitional AASB 16 lease accounting impact can be found on page 11.

## Normalised cash flows from operating activities (non-IFRS)

| $ MILLION | FY19 | FY18 |
|---|---|---|
| Statutory EBIT pre-significant items | 1,343 | 1,479 |
| Depreciation and amortisation | 640 | 650 |
| EBITDA pre-significant items | 1,982 | 2,129 |
| Movement in working capital | 81 | 201 |
| Movement in provisions and other | 125 | 74 |
| **Net cash from operating activities – excluding interest and tax** | **2,188** | **2,404** |
| **Cash realisation – excluding interest and tax (%)** | **110%** | **113%** |
| Interest and tax paid | (464) | (494) |
| Significant item - payment from Viva associated with the New Alliance Agreement | 137 | - |
| Other demerger related items | 414 | - |
| **Net cash from operating activities** | **2,275** | **1,910** |

Note: Cash flows have been normalised for demerger items relating to self-insurance provisions and intercompany balances. The proceeds from the sale of the Hotels business is not included in the above reconciliation to net cash from operating activities as it is classified as investing cash flow for statutory purposes.

### Key highlights

Coles has successfully converted earnings into cash, with cash realisation at 110%. Net cash from operating activities - excluding interest and tax - decreased by $216 million to $2.2 billion compared to the prior corresponding period, primarily driven by lower Express EBIT and higher corporate costs associated with being a standalone ASX company.

The movement in working capital for the period was favourable by $81 million, with reductions in underlying inventories being the main driver. The movement in provisions and other liabilities were primarily a result of higher employee provisions, the recognition of the Smarter Selling restructuring provision and an increase in gift card liabilities, in-line with the increase in sales revenue. Coles will continue to target working capital reductions in the future to drive efficiencies.

The significant cash item relates to the New Alliance Agreement in Express of $137 million. Included in Other demerger related items is the recognition of the self-insurance provision and intercompany balances. These items have been excluded from the cash realisation calculation. Coles will continue to report cash realisation excluding interest and tax, with a target above 100% in future years.

### Capital expenditure

Net capital expenditure on an accrued basis increased by $209 million during the year to $770 million, in-line with guidance of $700 million to $800 million. The increase was largely a result of an increased investment in efficiency initiatives and the store renewal program. Cash capital expenditure was slightly higher at $816 million due to higher accrued capital expenditure at the commencement of FY19.

Within Supermarkets, capital expenditure increased as a result of the initial payments in relation to Supply Chain Modernisation which was incurred during the second half. Investments in store renewals also contributed to the increase. Liquor capital expenditure was focused on FCLM conversions while investments were made in FTG infrastructure across the Express network.

Coles continued to optimise its property portfolio during the year with a focus on investments in new greenfield sites. Divestments were focused on property that had been recently developed.

## AASB 16 lease accounting impact

Coles will apply AASB 16 from 1 July 2019 using the modified retrospective approach. Operating leases will be recognised on the balance sheet as lease liabilities with a corresponding right of use asset. Straight-line operating lease rental expense will be replaced by straight-line depreciation of the right of use asset and interest will be charged on the reducing lease liability balance.

A completed indicative assessment of AASB 16 and the estimated impact on FY19 financials are as follows:

- Positive impact on EBIT of $400 million to $450 million
- Positive impact on Profit before tax of $0 to $50 million
- No impact on cash, debt covenants or credit ratings

These estimated pro forma impacts may differ from actuals due to changes in the lease portfolio.

Other operating items, such as EBIT margin and credit metrics will move materially and Coles will provide metrics on a consistent basis to assist with comparative analysis.

The undiscounted lease commitments at 30 June 2019 date were $10.6 billion.

## Outlook for FY20

By way of a Q1 FY20 trading update, Little Shop 2 has again resonated with our customers and is driving strong engagement. As envisaged, cycling the comparable sales growth from last year's highly successful Little Shop campaign will be challenging given competitor activity in the market.

In Express, growth in fuel volumes has been encouraging following more competitive fuel pricing and the introduction of the Little Shop 2 campaign. However, it will take time to build volumes to target levels, and as a result, Coles expects earnings growth under the New Alliance Agreement to remain subdued in FY20.

Coles made a number of statements relating to capex outlook, renewals, new stores and formats at the recent Investor Day in respect of FY20 and these remain unchanged. The Smarter Selling initiatives in FY20 are anticipated to deliver annualised benefits in excess of $150 million.

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## Appendix 1 – Retail calendar dates for FY19, FY20 and FY21

| | RETAIL 1H19 | RETAIL 2H19 | RETAIL 2H19 ADJ | RETAIL 1H20 | RETAIL 2H20 | RETAIL 1H21 | RETAIL 2H21 |
|---|---|---|---|---|---|---|---|
| Reporting period | 25 Jun – 30 Dec | 31 Dec – 30 Jun | 31 Dec – 23 Jun | 1 Jul – 5 Jan | 6 Jan – 28 Jun | 29 Jun – 3 Jan | 4 Jan – 27 Jun |
| Number of days | 189 days | 182 days | 175 days | 189 days | 175 days | 189 days | 175 days |
| Number of weeks | 27 weeks | 26 weeks | 25 weeks | 27 weeks | 25 weeks | 27 weeks | 25 weeks |

## Appendix 2 – Comparison of statutory to retail calendar results

| $ MILLION | STATUTORY FY19 | RETAIL FY19 | CHANGE | STATUTORY FY18 | RETAIL FY18 | CHANGE |
|---|---|---|---|---|---|---|
| **Sales revenue** | | | | | | |
| Supermarkets | 30,993 | 30,890 | 104 | 30,018 | 29,919 | 99 |
| Liquor | 3,067 | 3,063 | 4 | 3,018 | 3,006 | 12 |
| Express | 1,050 | 1,048 | 2 | 1,039 | 1,035 | 4 |
| Other | 0 | 0 | 0 | 0 | 0 | 0 |
| **Sales revenue** | **35,110** | **35,001** | **109** | **34,076** | **33,961** | **115** |
| Fuel Sales | 2,928 | 3,011 | (83) | 4,696 | 4,680 | 16 |
| Hotels | 137 | 140 | (2) | 163 | 163 | 0 |
| **Group sales revenue** | **38,176** | **38,152** | **24** | **38,934** | **38,803** | **131** |
| **EBIT** | | | | | | |
| Supermarkets | 1,191 | 1,183 | 8 | 1,172 | 1,157 | 15 |
| Liquor | 121 | 120 | 0 | 113 | 111 | 2 |
| Express | 46 | 50 | (4) | 164 | 161 | 2 |
| Other | (28) | (28) | 0 | 13 | 13 | 0 |
| **EBIT** | **1,330** | **1,325** | **5** | **1,462** | **1,442** | **20** |
| Hotels | 13 | 13 | 0 | 17 | 17 | 0 |
| **EBIT pre-significant** | **1,343** | **1,338** | **5** | **1,479** | **1,459** | **20** |
| Significant items | 124 | 124 | 0 | 0 | 0 | 0 |
| **Group EBIT** | **1,467** | **1,462** | **5** | **1,479** | **1,459** | **20** |

Note: The Group's FY19 Retail (53 Week) EBIT is $1,487m including Significant Items. Excluding Significant items, FY19 Retail (53 week) EBIT is $1,363m.

## Appendix 3 – Brand fee reconciliation

| $ MILLION | RETAIL FY19 | RETAIL FY18 |
|---|---|---|
| Supermarkets EBIT including brand fee | 1,213 | 1,187 |
| Brand fee charge | (30) | (30) |
| **Supermarkets EBIT as reported** | **1,183** | **1,157** |
| | | |
| Express EBIT including brand fee | 20 | 131 |
| Brand fee | 30 | 30 |
| **Express EBIT as reported** | **50** | **161** |



coles group

## Appendix 4 – Number of stores

| | OPEN AS AT 30 JUNE 2018 | OPENED | CLOSED | OPEN AS AT 30 JUNE 2019 |
|---|---|---|---|---|
| Supermarkets | 809 | 22 | (10) | 821 |
| Liquor | 899 | 27 | (16) | 910 |
| Express | 711 | 6 | (3) | 714 |
| **Group store numbers (excl.Hotels)** | **2,419** | **55** | **(28)** | **2,445** |
| Hotels | 88 | 0 | (88)[1] | 0 |
| **Group store numbers** | 2,507 | 55 | (116) | 2,445 |

[1] Relates to Joint Venture agreement with AVC in 3Q19 (87 hotels) and one closure in 1Q19.

## Appendix 5 – Restatement of inflation / (deflation)

Due to the adoption of a new methodology, historical inflation / (deflation) figures have been restated as follows:

| | 1Q19 | 2Q19 | 1H19 | 3Q19 | 4Q19 | 2H19 | FY19 |
|---|---|---|---|---|---|---|---|
| Supermarkets | 0.6% | 0.4% | 0.5% | 0.9% | 1.4% | 1.2% | 0.8% |
| Supermarkets excl. fresh and tobacco | (1.2%) | (1.1%) | (1.2%) | (1.4%) | (0.9%) | (1.2%) | (1.2%) |
| Supermarkets excl. tobacco | (0.4%) | (0.7%) | (0.5%) | 0.0% | 0.7% | 0.4% | (0.1)% |

## Appendix 6 – Restatement of flybuys

Due to a change in the classification of the cost of flybuys points from cost of sales to sales revenue, sales revenue that has been previously disclosed has been restated as follows:

| | PREVIOUSLY REPORTED 1H18 | ADJ | RESTATED 1H18 | PREVIOUSLY REPORTED 1H19 | ADJ | RESTATED 1H19 | RESTATED CHANGE |
|---|---|---|---|---|---|---|---|
| Supermarkets | 15,629 | (104) | 15,525 | 16,195 | (142) | 16,053 | 3.4% |
| Liquor | 1,629 | (4) | 1,626 | 1,642 | (5) | 1,637 | 0.7% |
| Express | 541 | (4) | 537 | 552 | (5) | 547 | 1.8% |
| **Group sales revenue (excl. Fuel** | **17,800** | **(112)** | **17,688** | **18,388** | **(152)** | **18,237** | **3.1%** |
| Fuel sales | 2,454 | 0 | 2,454 | 2,389 | (0) | 2,389 | (2.7)% |
| Hotels | 91 | 0 | 91 | 89 | (0) | 89 | (1.9)% |
| **Group sales revenue** | **20,345** | **(112)** | **20,233** | **20,867** | **(152)** | **20,715** | **2.4%** |

| | PREVIOUSLY REPORTED 3Q18 | ADJ | RESTATED 3Q18 | PREVIOUSLY REPORTED 3Q19 | ADJ | RESTATED 3Q19 | RESTATED CHANGE |
|---|---|---|---|---|---|---|---|
| Supermarkets | 7,049 | (40) | 7,009 | 7,272 | (39) | 7,232 | 3.2% |
| Liquor | 669 | (2) | 667 | 700 | (2) | 697 | 4.5% |
| Express | 242 | (2) | 239 | 245 | (2) | 243 | 1.6% |
| **Group sales revenue (excl. Fuel** | **7,959** | **(44)** | **7,915** | **8,216** | **(44)** | **8,173** | **3.3%** |
| Fuel sales | 1,051 | 0 | 1,051 | 629 | 0 | 629 | (40.1)% |
| Hotels | 36 | 0 | 36 | 35 | 0 | 35 | (0.8)% |
| **Group sales revenue** | **9,046** | **(44)** | **9,002** | **8,881** | **(44)** | **8,837** | **(1.8)%** |

**Appendix 7 – Glossary of terms**

Non-IFRS financial information

- This Results Release contains non-IFRS financial information.
- IFRS financial information is financial information that is presented in accordance with all relevant accounting standards.
- Non-IFRS financial information is financial information that is presented other than in accordance with all relevant accounting standards e.g. EBITDA and EBIT.
- Any non-IFRS financial information is clearly labelled to differentiate it from reported/IFRS financial information and is defined in this glossary.
- A reconciliation between statutory results and the restated retail calendar results is provided to allow the reader to clearly reconcile between the IFRS and non-IFRS financial information.
- Coles believes that the use of additional non-IFRS information in its 2019 Full Year Results presentation provides readers of these documents with a greater understanding into the way in which management analyses the business as well as meaningful insights into Coles' financial performance.

Average basket size – A measure of how much each customer spends on average per transaction

Cash realisation – Calculated as operating cash flow excluding interest and tax, divided by EBITDA (excluding significant items)

CODB – Costs of doing business. These are expenses which relate to the operation of the business below gross profit and above EBIT

Comparable sales – A measure which excludes stores that have been opened or closed in the last 12 months and excludes demonstrable impact on existing stores from store disruption as a result of store refurbishment or new store openings

EBIT – Earnings before interest and tax

EBITDA – Earnings before interest, tax, depreciation and amortisation

Gross margin – The residual income remaining after deducting cost of goods sold, total loss and logistics from sales, divided by sales revenue

Group sales revenue or Group EBIT – Total sales revenue or EBIT generated by Coles Group for the period

IFRS – International Financial Reporting Standards

Leverage ratio – Gross debt less cash at bank and on deposit, divided by EBITDA

MAT – Moving Annual Total. Sales per square metre is calculated as Sales divided by Net selling area. Both Sales and Net selling area are based on a MAT, or exit rate calculated on a rolling 12 months of data basis.

Retail calendar basis – A reporting calendar based on a defined number of weeks

Significant items – Significant items are large gains or losses from events that are not in the ordinary course of business. They are typically gains or losses arising from events that are not considered part of the core operations of the business. These items have been highlighted to help users understand Coles' financial performance during the reporting period. Significant income items are included in 'Other income', while significant expenditure items are included within 'Other expenses' or 'Income tax expense' in the consolidated statement of profit or loss

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (cash on hand, cash in transit, inventories, receivables and payables)