# Results Release

colesgroup

**18 February 2020**

## 2020 Half Year Results Release

## Successful strategy execution inspires customers and drives Supermarkets growth, interim dividend of 30 cents per share declared

**Performance summary (retail non-IFRS basis)**

- First half sales revenue (excluding Fuel sales[1] and Hotels) increased by 3.3% with growth in all segments
- 49th consecutive quarter of Supermarkets comparable sales growth, increasing to 3.6% in Q2
- Express comparable fuel volume growth of 4.2%, first consecutive quarters of positive growth in six years
- Earnings before interest and tax (EBIT)[2] increased by 0.4%, partially due to strong property disposal demand
- Interim fully-franked dividend of 30 cents per share declared, in line with demerger guidance

**Strategic highlights**

*Inspire Customers*

- Delivered trusted value for customers through the "Good things. Great value." campaign which focused on lowering the cost of breakfast, lunch, dinner and Christmas entertaining
- Most significant range change period in recent years with more than 3,000 new products introduced
- Healthier options including an expanded vegetarian range delivered through the convenience roll-out to 114 supermarkets
- Own Brand achieved sales in excess of $1 billion in December and grew by 6% in the first half
- 'Delivery Plus' subscription service introduced in Coles Online
- Tailored range change initiated in Liquor providing a more relevant customer offer

*Smarter Sellling*

- $95 million in cost-out due to Smarter Selling initiatives
- More than 1,000 stores now connected to high-speed broadband improving productivity
- Tailored store format strategy delivers two Format A, 13 Format C and the second Coles Local store

*Win Together*

- Improvements in team member safety with Total Recordable Injury Frequency Rate improving by 10%
- Initiatives to support health and wellbeing of team members including 3,000 leaders trained in mental health resilience
- Executive team strengthened with Ian Bowring, Group Transformation Executive (Jul 19), Sally Fielke, GM Corporate Affairs (Sep 19), Darren Blackhurst, Chief Executive Coles Liquor (Jan 20), and George Saoud joining (May 20) as Chief Executive Emerging Businesses
- More than $6 million contributed to rural firefighters and bushfire relief, support for farmers through varied product specifications

### Financial results - 27 weeks ended 5 January 2020

| | RETAIL (NON-IFRS) | | | | STATUTORY (IFRS) | | |
|---|---|---|---|---|---|---|---|
| | 1H20 REPORTED | 1H20 (PRE-AASB 16) | 1H19 REPORTED | CHANGE | 1H20 REPORTED | 1H19 REPORTED | CHANGE |
| Sales revenue ($m)[1] | 18,846 | 18,846 | 18,237 | 3.3% | 18,846 | 20,083 | (6.2)% |
| EBIT[2] ($m) | 910 | 725 | 722 | 0.4% | 910 | 567 | N/M[4] |
| Net profit after tax (NPAT)[2] ($m) | 489 | 498 | 489 | 1.7% | 489 | 381 | N/M[4] |
| Earnings per share[3] (cents) | 36.7 | 37.3 | 36.7 | 1.7% | 36.7 | 28.6 | N/M[4] |
| Dividend per share (cents) | 30.0 | N/A | N/A | | 30.0 | N/A | |

Note: 1H20 Statutory, 1H20 Retail and 1H19 Retail calendars are all based on 27 weeks. 1H19 Statutory is based on 26 weeks and one day. Refer Appendix 1 for more information.
[1] FY19 Hotels and fuel sales have been excluded from Retail (non-IFRS) results as the Group now recognises commission income following commencement of the New Alliance Agreement in March 2019. Sales revenue has also been restated to reflect the reclassification of the cost of flybuys points as a reduction in sales revenue. [2] Retail (non-IFRS) EBIT and NPAT excludes Hotels to reflect the sale of this business in April 2019, and significant items. [3] Basic and diluted earnings per share attributable to equity holders of the Company from continuing operations. [4] Growth rates are not meaningful as 1H20 reported includes impact of AASB 16 whereas FY19 has not been restated.



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Statutory results for 1H20 reflect the adoption of AASB 16 Leases. Prior period comparatives have not been restated. To allow for a meaningful comparison, with the exception of the balance sheet, commentary on a retail (non-IFRS) basis and year-on-year changes is based on pre-AASB 16 financial information.

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

**Drought and bushfire commentary**

During the half, the ongoing drought and devastating bushfires had a significant impact not only on our business but also on many of our suppliers, our team members and the communities we serve. Eighteen of our stores had to close temporarily. Unfortunately, nine of our team members lost their homes in the bushfires, including several who selflessly continued coming in to work so that their communities and emergency services could access the food and other essentials they needed.

We are immensely proud of our team for their hard work in supporting their colleagues and communities at such a difficult time, not only in our stores but throughout our supply chain and in many cases by working directly with volunteer emergency services – something we are supporting with an allowance of up to 20 days' paid emergency services leave, and unlimited leave for most permanent team members. The disruption to our supply chain has been significant with road and rail closures – our team and suppliers have done an amazing job at maintaining food and water supplies at this unprecedented time in Australia's history.

To date (February 2020), Coles has collected and contributed more than $6 million for bushfire relief, including $3 million in gift cards to support 6,000 rural fire brigades across the country, over $3 million in donations to the Red Cross, as well as more than 170 pallets of food, water and essentials for distribution to communities and emergency services both directly and via Foodbank.

We are working with our suppliers to assist them in dealing with the impact of drought and fire, including adjusting product specifications for farmers where needed so that they can continue to sell their crops, and increasing payments to our directly-contracted milk suppliers in Victoria and New South Wales.

Coles CEO Steven Cain said: "Australians always come together in times of adversity. This included many Coles team members who have been able to help support the emergency services, communities and suppliers, and navigate the disruption caused by the devastating drought and bushfire emergencies to ensure that we maintain food supply.

I am pleased, in the release of our first half results, that we have delivered our demerger dividend commitments and are making clear, early progress on our strategy execution, particularly in Supermarkets."

# Group performance overview

## Retail calendar results

| $ MILLION | 1H20 | 1H19 | CHANGE |
|---|---|---|---|
| Supermarkets | 16,583 | 16,053 | 3.3% |
| Liquor | 1,691 | 1,637 | 3.3% |
| Express | 572 | 547 | 4.6% |
| **Group sales revenue (excl. Fuel sales and Hotels)** | **18,846** | **18,237** | **3.3%** |

| $ MILLION | REPORTED 1H20 | AASB 16 IMPACT | 1H20 PRE-AASB 16 | 1H19 | CHANGE |
|---|---|---|---|---|---|
| Supermarkets | 789 | (152) | 637 | 602 | 5.7% |
| Liquor | 76 | (9) | 67 | 74 | (9.9)% |
| Express | 28 | (24) | 4 | 51 | (92.0)% |
| Other | 17 | - | 17 | (5) | N/M |
| **Group EBIT (excl. Hotels and Significant items)** | **910** | **(185)** | **725** | **722** | **0.4%** |

N/M denotes not meaningful.

Group sales revenue (excluding Fuel sales and Hotels) increased by 3.3% to $18.8 billion with satisfactory sales revenue growth across Supermarkets, Liquor and Express.

Group EBIT (on a pre-AASB 16 basis, excluding FY19 Hotels and significant items) increased by 0.4% to $725 million, partially due to strong demand for our divestment properties. Supermarkets EBIT growth of 5.7% benefited from incremental costs incurred in the first half of the prior corresponding period which were not repeated in the first half of FY20. This was offset by lower EBIT in Liquor and Express.

Group EBIT also includes a provision of $20 million (comprising $16 million in Supermarkets and $4 million in Liquor) for estimated salary related payments, interest and on costs covering the prior six years, impacting less than 1% of our total team members, associated with the ongoing Award covered salaried team member review. For further information, please visit www.colesgroup.com.au/news.

The Coles Board has declared an interim fully-franked dividend of 30 cents per share, with a record date of 28 February 2020.

# Segment performance review

## Supermarkets

### Retail calendar results

| $ MILLION | REPORTED 1H20 | 1H20 PRE-AASB 16 | 1H19 | CHANGE |
|---|---|---|---|---|
| **Sales revenue** | **16,583** | **16,583** | **16,053** | **3.3%** |
| EBITDA | 1,421 | 932 | 887 | 5.1% |
| **EBIT** | **789** | **637** | **602** | **5.7%** |
| | | | | |
| Gross margin (%) | 24.7 | 24.7 | 24.4 | 31bps |
| CODB (%) | (20.0) | (20.8) | (20.6) | (22)bps |
| EBIT margin (%) | 4.8 | 3.8 | 3.8 | 9bps |

### Operating metrics

| | 1H20 | 2Q20 | 1Q20 |
|---|---|---|---|
| Comparable sales growth[1] (%) | 2.0 | 3.6 | 0.1 |
| Sales per square metre[2] (MAT $/sqm) | 16,800 | 16,800 | 16,664 |
| Net selling area (MAT sqm) | 1,907,692 | 1,907,692 | 1,898,412 |
| Customer satisfaction[3] (%) | 88.3 | 88.5 | 88.1 |
| Inflation / (deflation) (%) | 1.7 | 1.9 | 1.4 |
| Inflation / (deflation) excl. tobacco and fresh (%) | 0.4 | 0.6 | 0.2 |

[1] To better align the timing of comparable sales between the FY20 and FY19 financial periods, 1H19 is based on weeks 2 to 28 (2 July 2018 to 6 January 2019). 1Q19 is based on weeks 2 to 14 (2 July to 30 September 2018) and 2Q19 is based on weeks 15 to 28 (1 October 2018 to 6 January 2019).
[2] Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.
[3] Based on Tell Coles data.

### Performance highlights

Supermarkets sales revenue was $16.6 billion for the half, an increase of 3.3% on the prior corresponding period, with comparable sales growth of 2.0%. For the second quarter, Supermarkets sales revenue increased by 4.8% and comparable sales growth was 3.6%. Comparable sales growth was driven by both increased basket size and transaction growth. Coles is now coming to the end of the first year of its new "Winning in our Second Century" strategy with progress on trusted value, new health and convenience ranges, and tailored store formats. As a result, Supermarkets successfully cycled Little Shop in Q1 and delivered a strong Christmas performance in Q2.

Trusted value was delivered through increased Own Brand sales and our new "Good things. Great value." campaign launched in September. This featured 'lowering the cost of breakfast, lunch, dinner and Christmas entertaining'.

Own Brand reported sales growth of 6% in the half, growing at almost three times the rate of proprietary brands, and for the first time achieved sales in excess of $1 billion in December, growing by 7% in the month. Twenty-six Own Brand products received awards during the half including the triple layer Coles Drip Cake, Coles Crackling Ham, Coles Finest sourdough rolls by Laurent, Ash Brie and Coles Green Choice Bathroom Cleaner, all receiving "Product of the Year 2020" awards.

Increased tailored range reviews inspired customers with the launch of more than 3,000 new products. Examples of this include the soft drink category where healthier drink options were introduced to support the growing Kombucha and plant-based drink trend, and the launch of 'Pet treat bars'.

Coles' tailored store format strategy aims to meet customers' diverse and changing needs. This has continued during the half with two Format A and 13 Format C stores refurbished. The second Coles Local store opened in St Kilda, Victoria and is delivering sales significantly above the pre-refurbishment levels. Coles now has three Format A and 15 Format C supermarkets across the store network.

Coles' dedicated convenience space featuring our 'food for now' and 'food for later' range was also successfully delivered to 114 stores by Christmas. During the half, 32 renewals (including the refurbished stores noted above), five openings and three closures were completed. At the end of the period there were 823 Supermarkets.

Collectibles continue to resonate with many Australian consumers with Little Shop 2 in Q1 and Spiegelau European glassware in Q2 increasing engagement.

Tell Coles customer satisfaction increased to 88.5% in the second quarter (4Q19: 87.8%) on the back of an increased investment in check-out customer service.

Coles recorded inflation excluding tobacco and fresh of 0.4% for the first half and 0.6% for the second quarter, largely driven by inflation in dairy following milk price increases. Overall, total Supermarkets price inflation of 1.7% was recorded for the first half and 1.9% in the second quarter as the long-term effects of the drought continue to have an impact. Coles is working closely with farmers during these difficult times with the introduction of varied product specifications to maintain income for farmers, as well as availability for customers. Since July, Coles has also been sourcing milk directly from farmers in Victoria and southern and central New South Wales for Coles Brand 2L and 3L milk, providing certainty of future income for dairy farmers.

Coles Online achieved sales revenue growth of 24% on the prior corresponding period and is now 4.0% of Supermarkets sales revenue. The roll out of an additional 142 Click & Collect locations and Home Delivery supermarkets, and the launch of 'Delivery Plus', the new subscription program to drive customer loyalty, all contributed to increased sales. Sites have now been identified for the two Ocado Customer Fulfilment Centres (CFCs) in Sydney and Melbourne.

A more efficient supply chain and strategic sourcing, particularly in Own Brand, positively impacted gross margin, which increased by 31bps to 24.7%.

Costs of doing business (CODB) as a percentage of sales increased by 22bps to 20.8% as higher store expenses were partially offset by Smarter Selling initiatives relating to efficiencies in the Store Support Centre and supply chain.

EBIT increased by 5.7% to $637 million driven by higher sales and cycling incremental costs incurred in the first half of FY19 relating to the removal of plastic bags and increased flybuys promotions which were not repeated in the first half of FY20. EBIT margin was 3.8%. The result also includes a provision of $16 million (of which $12 million relates to estimated salary related payments and $4 million relates to interest and on costs) as a result of the ongoing Award covered salaried team member review covering the prior six years.

## Liquor

### Retail calendar results

| $ MILLION | REPORTED 1H20 | 1H20 PRE-AASB 16 | 1H19 | CHANGE |
|---|---|---|---|---|
| **Sales revenue** | **1,691** | **1,691** | **1,637** | **3.3%** |
| EBITDA | 127 | 81 | 91 | (10.4)% |
| **EBIT** | **76** | **67** | **74** | **(9.9)%** |
| | | | | |
| Gross margin (%) | 21.9 | 21.9 | 22.3 | (41)bps |
| CODB (%) | (17.4) | (17.9) | (17.8) | (16)bps |
| EBIT margin (%) | 4.5 | 3.9 | 4.5 | (58)bps |

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.

### Operating metrics

| | 1H20 | 2Q20 | 1Q20 |
|---|---|---|---|
| Comparable sales growth[1] (%) | 1.5 | 2.1 | 0.7 |
| Sales per square metre[2] (MAT $/sqm) | 14,370 | 14,370 | 14,381 |
| Net selling area (MAT sqm) | 214,538 | 214,538 | 214,303 |

[1] To better align the timing of comparable sales between the FY20 and FY19 financial periods, 1H19 is based on weeks 2 to 28 (2 July 2018 to 6 January 2019). 1Q19 is based on weeks 2 to 14 (2 July to 30 September 2018) and 2Q19 is based on weeks 15 to 28 (1 October 2018 to 6 January 2019).
[2] 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 $1.7 billion for the half, an increase of 3.3% on the prior corresponding period, with comparable sales growth of 1.5%. For the second quarter, Liquor sales revenue increased by 3.1% and comparable sales growth was 2.1% relative to the prior corresponding period due to the timing of public holidays, improved performance in Liquorland and strong online sales growth of 28%. Customers responded to clearance activity to support the implementation of tailored range change.

The refreshed First Choice Liquor Market conversions also contributed to sales growth and continue to perform strongly ahead of the rest of the fleet, with conversions rolled out to 47% of the First Choice network. In December 2019, the Vintage Cellars trial store concept was also launched in Ashburton, Victoria.

Investment in the Liquor store network continued with 13 new stores opened and six stores closed, resulting in a total of 917 Liquor sites at the end of the half.

Exclusive Liquor Brand (ELB) sales continued to grow, particularly in the wine category which recorded sales growth of 5.7%. Overall, 55 new ELB lines were launched during the half including the James Busby range, Coles' Pinnacle wine offering, and Somma, an Australian first alcoholic mineral water. A total of 248 medals and awards were also received during the half, including Ballewindi Pinot Noir which was awarded best-in-class at the Sydney International Wine Competition.

Tailored range change commenced during the half across the spirits, white and sparkling wine and craft beer categories. The associated clearance and promotional activity impacted gross margin which declined by 41bps to 21.9%, and EBIT which declined by 9.9% to $67 million. The result also includes a provision of $4 million (of which $3 million relates to estimated salary related payments and $1 million relates to interest and on costs) as a result of the ongoing Award covered salaried team member review covering the prior six years.

## Express

### Retail calendar results

| $ MILLION | REPORTED 1H20 | 1H20 PRE-AASB 16 | 1H19 | CHANGE |
|---|---|---|---|---|
| **Convenience (c-store) sales revenue** | **572** | **572** | **547** | **4.6%** |
| EBITDA | 95 | 19 | 64 | (70.3)% |
| **EBIT** | **28** | **4** | **51** | **(92.0)%** |
| | | | | |
| Gross margin (%) | 56.2 | 56.2 | 12.2 | N/M[1] |
| CODB (%) | (51.2) | (55.5) | (10.5) | N/M[1] |
| EBIT margin (%) | 4.9 | 0.7 | 1.7 | N/M[1] |

### Operating metrics

| | 1H20 | 2Q20 | 1Q20 |
|---|---|---|---|
| Comparable c-store sales growth[2] (%) | 2.9 | 5.1 | 0.4 |
| Weekly fuel volumes (mL) | 64.4 | 63.9 | 64.9 |
| Fuel volume growth (%) | 3.3 | 5.2 | 1.4 |
| Comparable fuel volume growth (%) | 4.2 | 6.4 | 1.9 |

[1] Growth rates are not meaningful as 1H19 includes fuel sales and has not been adjusted for the change in classification of the cost of flybuys points from cost of sales to sales revenue (as disclosed at the full year results announcement). Fuel sales have been excluded in 1H20 under the New Alliance Agreement.

[2] To better align the timing of comparable sales between the FY20 and FY19 financial periods, 1H19 is based on weeks 2 to 28 (2 July 2018 to 6 January 2019). 1Q19 is based on weeks 2 to 14 (2 July to 30 September 2018) and 2Q19 is based on weeks 15 to 28 (1 October 2018 to 6 January 2019).

### Key highlights

Convenience store (c-store) sales revenue was $572 million for the half, a 4.6% increase on the prior corresponding period. Comparable c-store sales growth was 2.9% for the half, driven by the successful Little Shop 2 campaign. For the second quarter, c-store sales growth increased by 6.1% with comparable c-store sales increasing by 5.1%, largely a result of growth in seasonal categories such as drinks and ice-cream, and food-to-go. The drinks category was also supported by a targeted range review implemented during the half which saw the introduction of healthier drink options such as Kombucha and probiotic drinks.

During the half, one new site was opened and two sites closed, taking the total network to 713 sites.

Fuel volumes increased by 3.3% during the half, with comparable fuel volumes increasing by 4.2%. Average weekly fuel volumes of 64.4mL were recorded in the half, supported by investment in fuel prices by our Alliance partner and the successful Little Shop 2 campaign. For the second quarter, fuel volumes increased by 5.2% with comparable fuel volumes increasing by 6.4%, representing the first consecutive quarters of positive growth in six years.

The roll-out of energy efficient LED lighting commenced during the half with LED lighting installed in all South Australian metropolitan sites. As expected, EBIT declined to $4 million under the arrangements of the New Alliance Agreement announced in March 2019.

### Other

Coles reported $17 million of EBIT for the first half. Other includes corporate costs, Coles' 50% share of flybuys' net profit, the net gain or loss generated by Coles' property portfolio and self-insurance provisions.

Corporate costs incurred in the half were broadly in line with the estimated annualised costs of $66 million noted in the Demerger Scheme Booklet. In addition, the result was impacted by favourable timing and non-operating items including a $15 million self-insurance release of the workers compensation provision largely as a result of improved safety performance, and earnings from property operations of $33 million, including net gains from property disposals due to strong investor demand for Coles' properties.

Coles continues to invest in flybuys alongside Wesfarmers. Flybuys membership and sales participation continue to grow and flybuys continues to be Australia's favourite loyalty program.

## Balance sheet (non-IFRS)

| $ MILLION | 5 JAN 2020 POST-AASB 16 | 30 JUNE 2019 PRE-AASB 16 |
|---|---|---|
| Inventories | 2,473 | 1,965 |
| Trade and other receivables | 353 | 360 |
| Trade and other payables | (3,665) | (3,380) |
| **Working capital** | **(839)** | **(1,055)** |
| Property, plant and equipment and equity investments | 4,139 | 4,331 |
| Intangibles | 1,553 | 1,541 |
| Provisions | (1,218) | (1,341) |
| Other | 39 | 36 |
| **Capital employed** | **3,674** | **3,512** |
| Right-of-use assets | 7,347 | - |
| Lease liabilities | (8,761) | - |
| **Net lease liability** | **(1,414)** | **-** |
| Net debt | (566) | (520) |
| Net tax balances | 825 | 365 |
| **Total net assets** | **2,519** | **3,357** |
| Inventory days | 30 | 25 |
| Trade payable days | (31) | (27) |

### Key highlights

Coles reported net assets of $2,519 million as at 5 January 2020, a decrease of $838 million compared to 30 June 2019 with the recognition of a net lease liability of $1,414 million following the adoption of AASB 16 partially offset by an increase in inventories.

Inventories increased by $508 million largely a result of the seasonal build of inventory associated with the Christmas and New Year trading period and the recent change in the treatment of tobacco excise. This change which came into effect from 1 July 2019, whereby the excise value is now recognised from point of acquisition rather than when the stock is delivered to stores, also had an impact. This change in treatment, as well as seasonality, also impacted trade and other payables which increased by $285 million.

During the period, inventory days increased largely driven by the tobacco excise mentioned above as well as no longer holding fuel inventory under the arrangements of the New Alliance Agreement. Fuel inventory typically turns over at a faster rate compared to grocery and liquor inventory.

The reduction in property, plant and equipment and equity investments of $192 million is reflective of the higher property divestments which occurred in the half as Coles took advantage of favourable market conditions.

The application of AASB 16 has resulted in the recognition of Right-of-use assets, being the right to use the underlying leased asset, and lease liabilities, reflecting the lease obligation for these assets, resulting in a net lease liability of $1,414 million. Retained earnings were impacted by the adoption of AASB 16 resulting in a decrease of $831 million. The overall impacts to the balance sheet were broadly in line with previous estimated impacts.

In October 2019, Coles issued new $300 million seven-year and $300 million 10-year senior unsecured fixed-rate medium term notes. The transaction was strongly supported by debt investors and recognised by KangaNews, with Coles awarded the Australian Dollar Corporate Bond Deal of the Year 2019. Net debt increased by $46 million with payment of the ordinary and special dividends within the half, working capital increased largely as a result of additional payments in the first half compared to the prior corresponding period due to the timing of payments to suppliers, offset by property divestments and cash generation from ordinary earnings.

The leverage ratio at 5 January 2020, pre-AASB 16, was 0.6x which provides headroom within current published credit ratings of BBB+ with Standard & Poor's and Baa1 with Moody's. Maintaining these ratings will assist Coles in further diversifying its funding profile and increasing the average tenor of debt over time, subject to market conditions. Borrowing costs for the period averaged approximately 2.2% per annum.

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

| $ MILLION | 1H20 | 1H20 PRE-AASB 16 | 1H19 |
|---|---|---|---|
| EBIT pre-significant items | 910 | 725 | 713 |
| Depreciation and amortisation | 755 | 329 | 321 |
| **EBITDA pre-significant items** | **1,665** | **1,054** | **1,033** |
| Movement in working capital | (220) | (220) | 153 |
| Movement in provisions and other | 91 | 86 | 141 |
| **Net cash from operating activities – excluding interest and tax** | **1,536** | **920** | **1,327** |
| **Cash realisation – excluding interest and tax** | **92%** | **87%** | **128%** |
| Interest and tax paid | (512) | (313) | (409) |
| Other demerger related items | - | - | 663 |
| **Net cash from operating activities** | **1,024** | **607** | **1,581** |

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 are not included in the above reconciliation to net cash from operating activities as they are classified as investing cash flow for statutory purposes.

### Key highlights

Normalised pre-AASB 16 cash flow before interest and tax decreased by $407 million to $920 million compared to the prior corresponding period, primarily due to the timing of the half year end relative to the prior year which in turn impacted working capital.

Cash realisation in the half was impacted by the adverse movement in working capital of $220 million which is expected to unwind in the second half. The movement in working capital was largely a result of additional payments in the first half compared to the prior corresponding period due to the timing of payments to suppliers. The impact of AASB 16 does not impact Coles' objective of targeting above 100% cash realisation.

### Capital expenditure

Gross operating capital expenditure decreased by $44 million to $316 million. The majority of the decline relates to capex spend on net new space in the half and fewer Click & Collect locations rolled out compared to the prior corresponding period. This was partially offset by higher efficiency initiatives with investments made in the store operating model in relation to loss prevention measures, and capex in relation to the Supply Chain Modernisation Project with the Witron Queensland distribution centre build commencing.

## Outlook for the remainder of FY20

In the early part of the third quarter, comparable Supermarkets sales have remained broadly consistent with the levels achieved in the second quarter. Further, the incremental costs associated with the removal of plastic bags and increased flybuys promotions which were a benefit to Supermarkets EBIT growth in the first half of FY20 will not occur in the second half of FY20. However, Supermarkets EBIT growth in the second half of FY20 will benefit from a Smarter Selling provision of $19 million which impacted Supermarkets EBIT in the second half of FY19 which is not expected to reoccur.

In Liquor, it is expected that earnings will remain under pressure in the second half as a result of the tailored range reviews and clearance activity which commenced in the first half. The bushfires have also had an impact on volumes. The new leadership team, under Darren Blackhurst who joined in January 2020, is undertaking a review of operations and an update will be provided at the full year results announcement.

In Other, as previously communicated, the first half FY20 earnings from property operations are expected to represent the vast majority of the full year FY20 property earnings. Corporate costs are expected to be broadly in line with the $66 million annualised costs noted in the Demerger Scheme Booklet, offset by the $15 million provision release in workers compensation due to an improved safety performance.

Gross operating capex continues to be on track for $700 million to $900 million full year spend although coronavirus is delaying renewal refrigeration equipment being shipped out of China. Some impact is expected on the renewal program and export sales. Due to strong supermarket property conditions, a net property capex inflow (i.e. divestments to exceed purchases) is expected to be between $130 million to $180 million, noting +/- $100 million previously communicated.

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### Appendix 1 – Retail and statutory calendar dates for FY19 and FY20

| | STAT 1H19 | STAT 2H19 | RETAIL 1H19 | RETAIL 2H19 | RETAIL & STAT 1H20 | RETAIL & STAT 2H20 |
|---|---|---|---|---|---|---|
| Reporting | 1 Jul – 30 Dec | 31 Dec – 30 Jun | 25 Jun – 30 Dec | 31 Dec – 23 Jun | 1 Jul - 5 Jan | 6 Jan - 28 Jun |
| Number of days | 183 days | 182 days | 189 days | 175 days | 189 days | 175 days |
| Number of | 26 weeks 1 day | 26 weeks | 27 weeks | 25 weeks | 27 weeks | 25 weeks |

### Appendix 2 – Number of stores

| | OPEN AS AT 30 JUN 2019 | OPENED | CLOSED | OPEN AS AT 5 JAN 2020 |
|---|---|---|---|---|
| Supermarkets | 821 | 5 | (3) | 823 |
| Liquor | 910 | 13 | (6) | 917 |
| Express | 714 | 1 | (2) | 713 |
| **Group store numbers** | **2,445** | **19** | **(11)** | **2,453** |

### Appendix 3 – Comparable sales growth rates

The below table provides comparable sales growth rates on an un-adjusted basis. That is, 1Q19 is based on weeks 1 to 13 (25 June to 23 September 2018) and 2Q19 is based on weeks 14 to 27 (24 September to 30 December 2018).

| COMPARABLE SALES (%) | 1Q20 WEEK 1-13 | 1Q20 AS REPORTED | 2Q20 WEEK 14-27 | 2Q20 AS REPORTED | 1H20 WEEK 1-27 | 1H20 AS REPORTED |
|---|---|---|---|---|---|---|
| Supermarkets | 0.3 | 0.1 | 3.8 | 3.6 | 2.2 | 2.0 |
| Liquor | 2.4 | 0.7 | 2.3 | 2.1 | 2.4 | 1.5 |
| Express | 0.7 | 0.4 | 4.5 | 5.1 | 2.7 | 2.9 |

### Appendix 4 – Reclassification of EFT receivables to cash

As previously disclosed at the 2019 Full Year Results Release, debit and credit card transactions not yet settled have been reclassified from trade receivables to cash and cash equivalents with the following impact on cash flows:

| $ MILLION | PREVIOUSLY REPORTED 1H19 | ADJUSTMENT | RESTATED 1H19 |
|---|---|---|---|
| EBIT pre-significant items | 713 | - | 713 |
| Depreciation and amortisation | 321 | - | 321 |
| EBITDA pre-significant items | 1,033 | - | 1,033 |
| Movement in working capital | 286 | (133) | 153 |
| Movement in provisions and other | 141 | - | 141 |
| **Net cash from operating activities – excluding interest and tax** | **1,460** | **(133)** | **1,327** |
| **Cash realisation – excluding interest and tax (%)** | **141%** | (13)bps | **128%** |

## Appendix 5 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information which in the ordinary course, are not subject to audit or review.
- 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.
- Coles believes that the use of additional non-IFRS information in its 2020 Half 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.

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)