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Company Results

Half-Year 2019

20 FEBRUARY 2019

WOOLWORTHS GROUP



Woolworths Group Limited

ABN 88 000 014 675

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H1 F19 summary



More challenging half across the Group but customer satisfaction remains high

Improved sales momentum in Australian Food in Q2'19 compared to Q1'19 but more subdued demand in November and December

Lower EBIT from Endeavour Drinks in a low growth market with focus on improving range, service and the customer experience, especially in digital

Improved sales growth from BIG W in H19 but profit impacted by category mix and clearance. Currently reviewing store and DC network

Sale of Petrol to EG Group expected to complete around end of March; intention to return up to \$1.7bn of capital

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Build growth platforms for the future



Create differentiation in all of our businesses



Redesign our E2E operating model



We create **better** experiences **together**.

WOOLWORTHS GROUP



Customer 1st Team 1st culture



- Launched 'I am here' as part of wide set of recent people initiatives
- Launched Everyday ACTs in Food
- Working closely with local communities during recent extreme weather events
- New EA in Woolworths Supermarkets benefitting >100,000 team members
- More to do in activating Agile Ways-of-Working

Connected, Personalised and Convenient Shopping Experiences



- Strong online (2U) sales growth in all digital businesses and strong NPS scores
- Woolworths Rewards customers able to earn points at over 680 Caltex sites
- Successfully scaling our ultra-convenient On Demand pilots in both Food & Drinks
- Refreshed Woolworths App launched; Successful Scan & Go trial in Double Bay
- More to do to continue to scale up online business to meet customer demands

Differentiate our Food Customer Propositions



- Customer scores consistently high despite challenging environment
- Flagship Renewals in Camberwell, Ascot & Bayfair NZ; Metro gaining scale with 34 stores
- Strong own brand performance in seasonal lines and growth in Health
- Numerous Good Acts - Discovery Tours, Landcare, Organic Growth Fund & food rescue
- More to do on localising range and value-added fresh

Accelerate Innovation in our Drinks Business



- Material improvement in integration of Food and Drinks in Renewal stores
- BWS strengthening Woolworths Rewards
- On Demand now available in 500 stores in BWS; Jimmy Brings launched in Brisbane
- Launched 30 minute Pick up and On Demand in Dan Murphy's metro areas
- More to do to position Dan Murphy's and Pinnacle for next growth horizon

Unlock Value in our Portfolio



- **BIG W** sales momentum improving; H19 comp sales growth of 3.8%
- Sale of **Petrol** expected to complete shortly; food supply agreements in place with EG Group & Caltex
- Quantum growing strongly and new commercial arrangements in place
- Enhanced ALH Responsible Gaming initiatives
- More to do to improve profitability of BIG W; complete network review

E2E Processes – 'Better for Customers' and 'Simpler for Stores'



- 1Store successfully rolled-out across all of Woolworths Group
- Commissioning of MSRDC underway with full commissioning expected by end Q1'20
- 'Simpler for Stores' program underway in AU and NZ Food and building momentum
- Good progress in safety during the half after slower progress in F18
- More to do to commission MSRDC; deliver stockloss and productivity agenda

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Financial Results

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Results H19 – modest sales and profit growth

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\$m	CONTINUING OPERATIONS		TOTAL GROUP	
		Change		Change
Sales	30,587	2.3%	33,166	2.5%
EBIT	1,445	1.0%	1,529	(1.5)%
NPAT attributable to Woolworths Group shareholders	920	2.1%	979	1.0%
Earnings per share (basic)	70.3¢	0.9%	74.7¢	(0.2)%
Dividend per share			45¢	4.7%
Return on average funds employed	24.1%	6 bps	24.6%	(353) bps
Return on average funds employed – lease-adjusted	13.8%	3 bps	14.1%	(122) bps

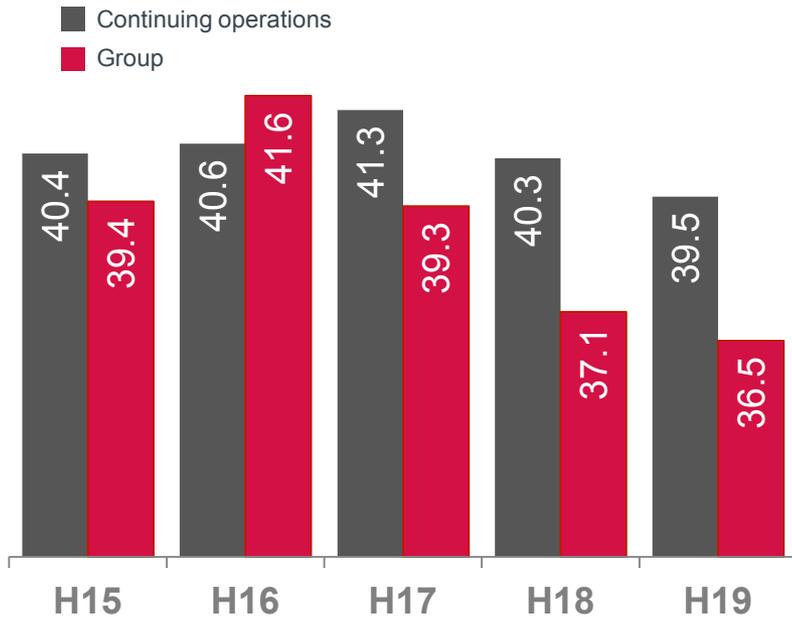
EBIT growth impacted by Endeavour Drinks

\$m	H19	H18	Change
Continuing operations			
Australian Food	937	901	4.0%
Endeavour Drinks	290	309	(6.4)%
New Zealand Food	137	139	(1.3)%
<i>New Zealand Food (NZD)</i>	148	151	(2.0)%
BIG W	(8)	(10)	(20.8)%
Hotels	161	163	(1.5)%
Central overheads	(72)	(72)	0.1%
EBIT continuing operations	1,445	1,430	1.0%
Discontinued operations – Home Improvement	-	27	n.m.
Discontinued operations – Petrol	84	95	(11.9)%
Group EBIT	1,529	1,552	(1.5)%

Balance sheet metrics further improved

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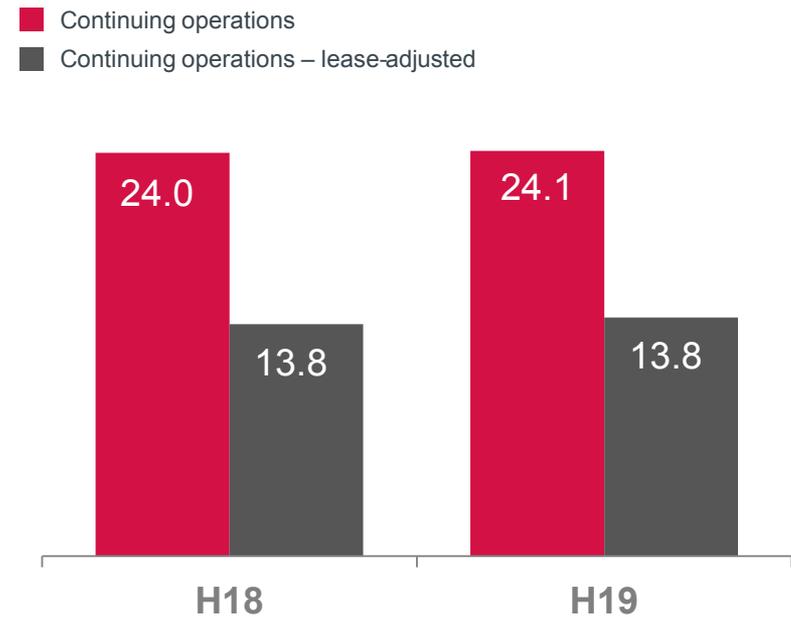
Average inventory days Days



Further reduction in average inventory days driven by Australian Food, New Zealand Food and BIG W

Note: all numbers exclude significant items in F16

ROFE – rolling 12m Percentage



ROFE up due to EBIT growth over the last 12 months and lower working capital offset by capital investment

Solid cash flow despite higher investment and dividends

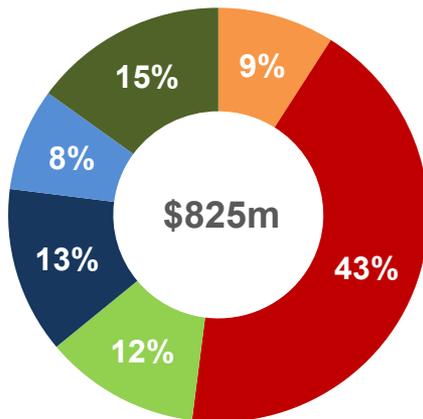
\$m	H19	H18	Change
Operating activities before interest and tax	2,487	2,406	3.4%
Interest and tax	(472)	(431)	9.5%
Operating activities	2,015	1,975	2.1%
Investing activities	(911)	(605)	50.8%
Free cash flow before dividends and share issues	1,104	1,370	(19.4)%
Dividends	(703)	(416)	69.1%
Free cash flow after dividends and share issues	401	954	(57.9)%
Cash realisation ratio	123%	125%	

Operating capex expected to be \$1.7-1.8bn in F19

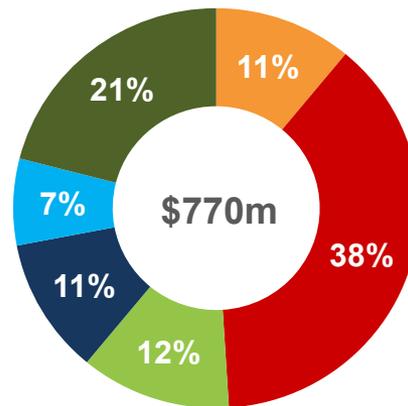
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\$m	H19	H18
Continuing operations		
Operating capex	825	770
Property development	201	107
Gross capex	1,026	877
Property sales	(101)	(24)
Net capex	925	853
Discontinued operations	18	(6)
Group net capex	943	847

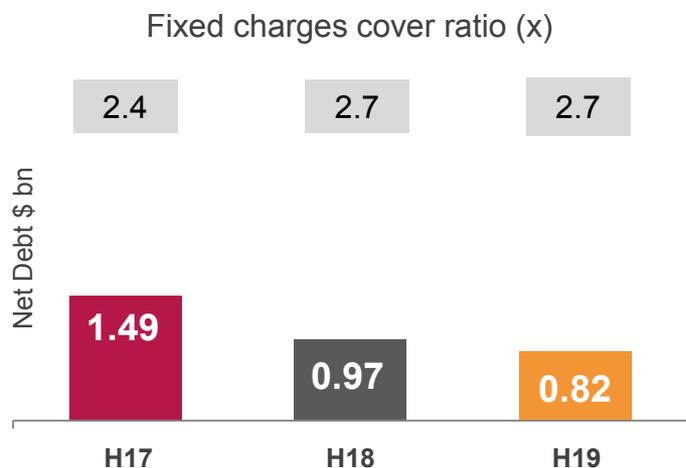
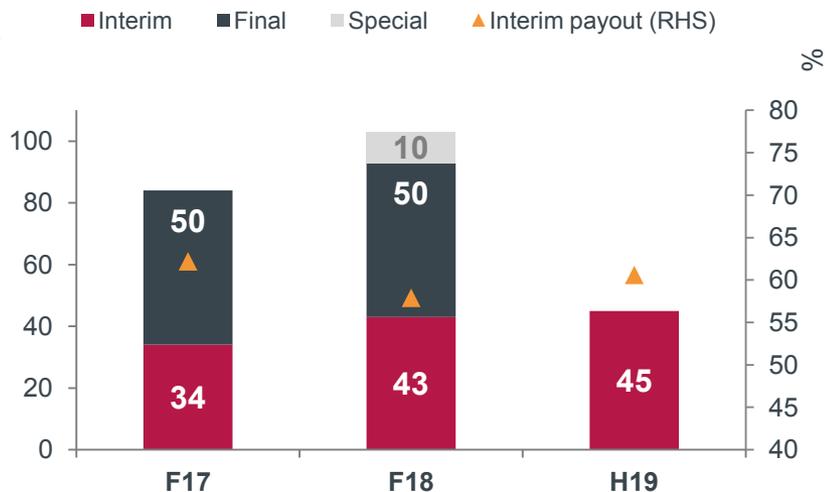
Operating capex – H19



Operating capex – H18



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



Capital management:

- Petrol sale likely to settle around the end of March 2019
- Board will consider capital management initiatives to return capital to shareholders, including an off-market buy-back. Details to be announced once a final decision has been made
- Group has strong free cash flow to support ongoing business activities

Dividend and Dividend Reinvestment Plan (DRP):

- Fully franked F19 interim dividend up 4.7% to 45 cps
- DRP remains active, no discount

Credit ratings:

- Committed to solid investment grade ratings with S&P and Moody's

Funding & liquidity:

- Sources of funding and liquidity remain strong
- A\$500m domestic Medium Term Notes maturing in March 2019

- AASB 16 brings majority of leases on balance sheet. Group will initially apply AASB 16 on 1 July 2019
- Well advanced for full implementation of standard in F20
- No impact on free cash flow of Group
- Estimated pro-forma H19 impact is \$14-15bn discounted lease liability on balance sheet (ex-discontinued operations)
- Corresponding lease asset of \$11-12bn
- Net impact, adjusted for deferred tax and reversal of current lease accounting recognised against retained earnings
- Will impact key financial metrics like EBIT, NPAT and ROFE
- Estimated pro-forma H19 impact is positive EBIT impact of \$340-360m and a non-cash decrease in PBT of \$40-50m (excluding discontinued operations)

The actual impact of applying the standard in F20 will depend on:

- 
- Group's borrowing rates at 1 July 2019
 - Composition of the Group's lease portfolio
 - Final determination of reasonably certain renewal options on 1 July 2019

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Business Update

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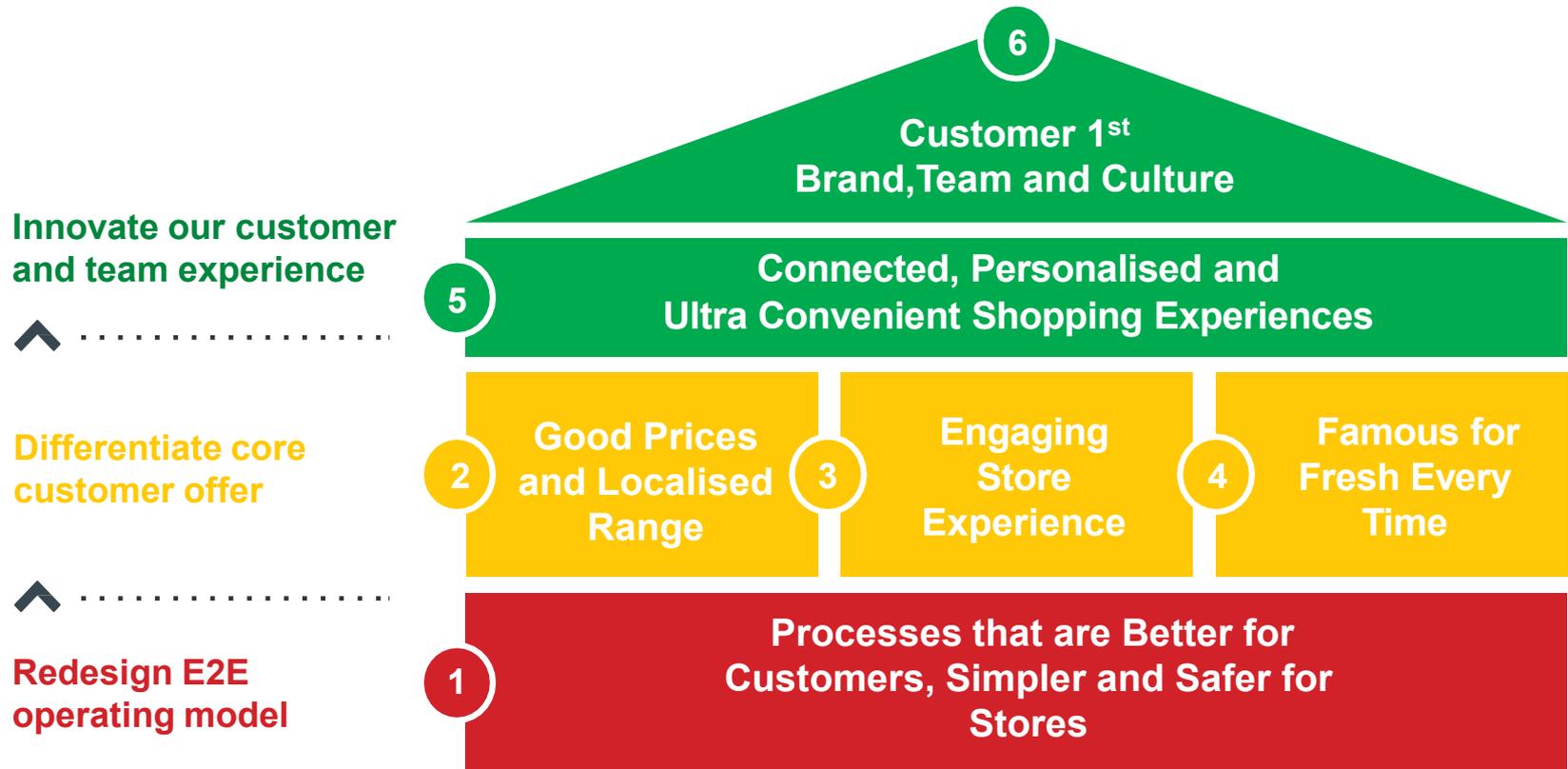


Woolworths 
The fresh food people

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	H19	H18	CHANGE
Sales (\$m)	19,892	19,436	2.3%
EBITDA (\$m)	1,317	1,242	6.0%
EBIT (\$m)	937	901	4.0%
Gross margin (%)	28.7	28.7	2 bps
Cost of doing business (%)	24.0	24.1	(5) bps
EBIT to sales (%)	4.7	4.6	8 bps
Sales per square metre (\$)	16,624	16,338	1.7%
ROFE (%)	162.7	199.0	(36.3) pts

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

Innovate our customer and team experience

- VOC NPS (Store and Online) and Store-controllable VOC both improving on last year and the previous quarter increasing 4 pts to 54 and 1 pt to 83% respectively
- Successful conclusion of new enterprise agreement for team members, effective H2'19
- Investment in digital and data capability driving 26.6% online sales growth in H19 and strong VOC
- Woolworths Rewards members growing by 0.4 million since June to 11.3 million
- Numerous Good Acts – Kids Discovery Tours, Bag for Good, Green Fund, S.T.A.N.D, drought relief milk, OzHarvest Christmas Appeal

Differentiate core customer offer

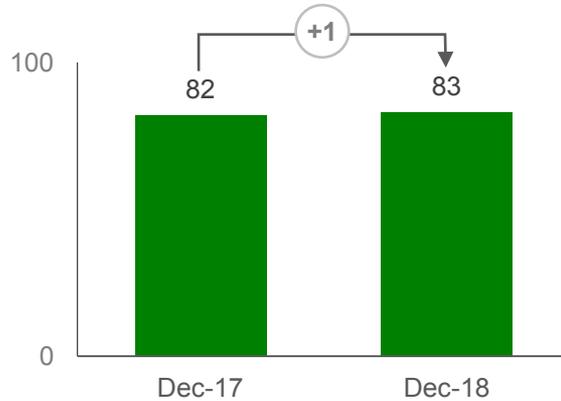
- We continue to lower shelf prices with over 5,200 SKUs on Dropped & Always programs at the end of H19
- Improved customer perceptions of Fresh as we continue to focus on quality and availability
- Growth in health category supported by new Macro lines and price drops
- Flagship Renewals in Camberwell, Ascot & Hope Island; 9 net new Supermarkets, 1 Metro and 43 Renewals
- Everyday ACTs, our new engagement program, launched in stores and Customer Hub

Redesign E2E operating model

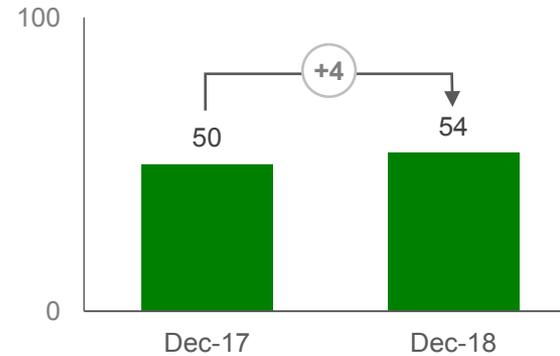
- Rollout of 1Store resulting in Country of Origin Labelling in stores on time in July to meet legislative commitments
- 'Simpler for Stores' starting to build momentum
- Significant improvement in Safety with 8% fewer customer and 8% fewer team injuries

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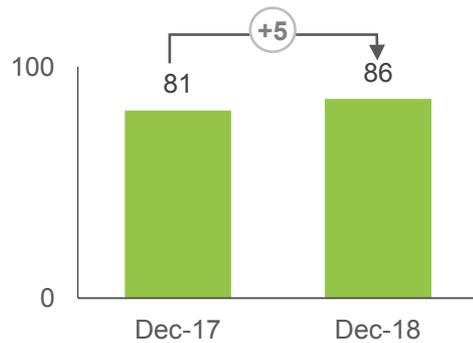
Store-controllable VOC
% customers satisfied, 6 or 7 out of 7



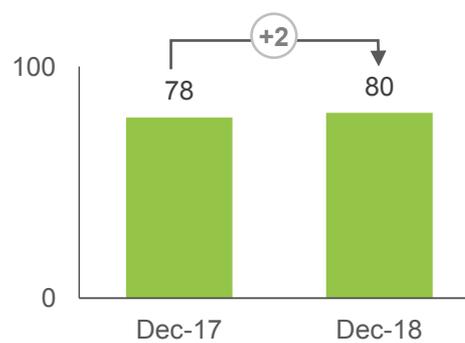
NPS - Store & Online
% promoters - % detractors



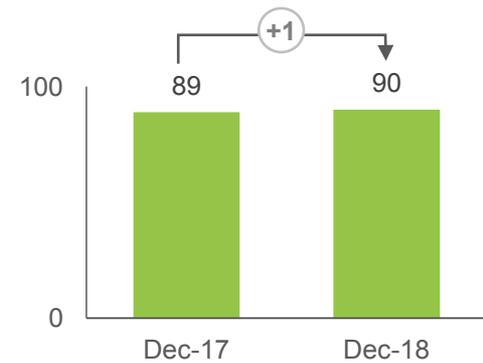
Ease of Pick up
% customers satisfied, 6 or 7 out of 7



Product availability
% customers satisfied, 6 or 7 out of 7



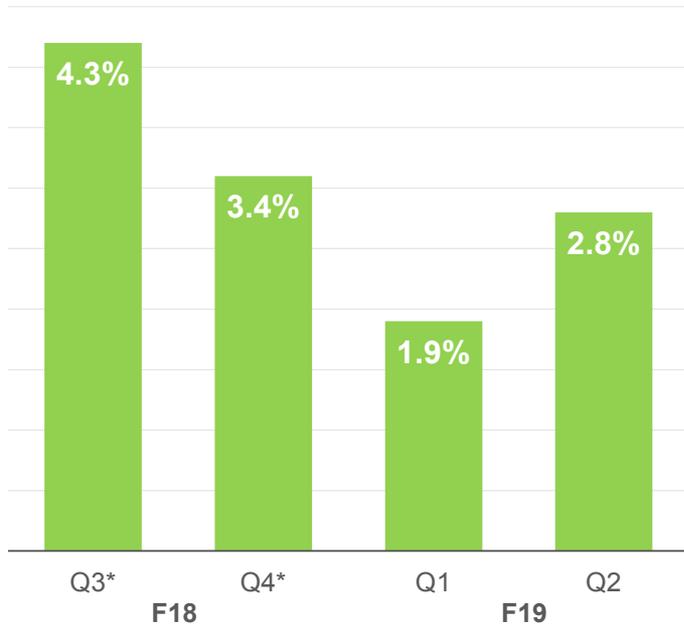
Team attitude
% customers satisfied, 6 or 7 out of 7



Note: Store-controllable VOC in F19 includes seven measures with more weight given to the most important drivers. F18 has been restated for comparability.

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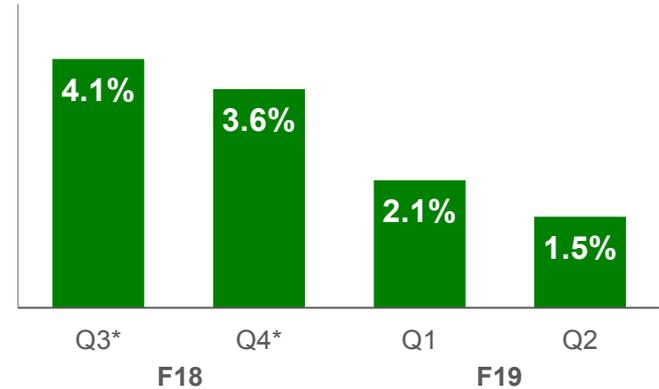
Total sales
(% year on year)



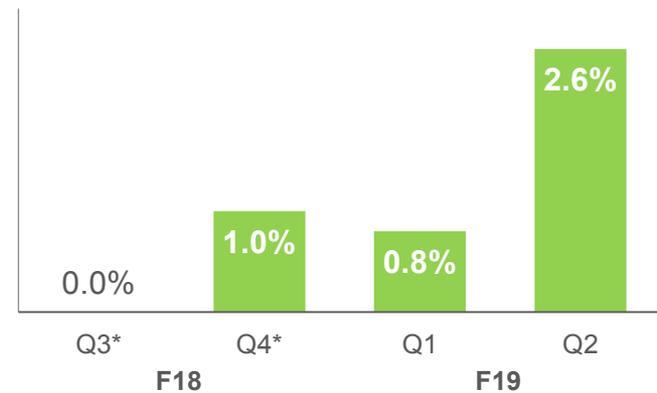
Comp sales (%)	4.1	3.3	1.8	2.7

* Adjusted for the timing of Easter

Comp transactions (% year on year)



Comp items per basket (% year on year)



Renewal progress

We are in the third year of our five year plan. So far this year we have launched:

43

Renewal
stores

57

Upgrade
stores

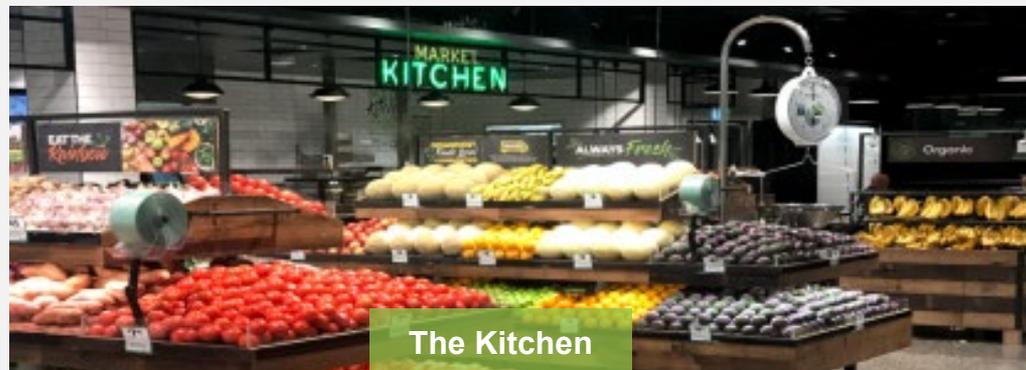
Our proposition is resonating well with Premium customers with an opportunity to improve further with our Budget customers

Ascot and Camberwell represent the continued evolution of our program, launching in August and November respectively. Both stores are performing well

Most recently: Kirribilli Metro; our smallest yet and The Kitchen with entirely organic fruit and vegetable range

Key metrics

- Renewals continue to make a significant contribution to Woolworths Supermarkets sales growth
- VOC and Team Attitude Renewal scores have increased +2 pts on average during H19



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Ultra-convenient experiences

Continue to invest in our digital experience and mobile app with >3 million customers researching products and recipes every week on woolworths.com.au

Piloting new, ultra-convenient propositions:

- Testing On Demand delivery in Sydney & Melbourne
- Trialling Scan & Go technology in Double Bay



eCom (2U)

eCom growth continued to be very strong at **26.6%** in H19



eCom VOC and NPS at record highs in December; significant improvement in digital experience (+5 pts yoy) and Pick up (+5 pts yoy)

Won Canstar Blue award for No.1 in Customer Satisfaction in 2018 and was rated #1 for Online Grocery delivery by Choice Recommended



Woolworths Rewards

Rewards program grew to **11.3m** members in December (+0.4m vs June) with scan rates improving



Expanded partnership with Caltex; allowing Rewards members to earn Reward points at over 680 new Caltex locations



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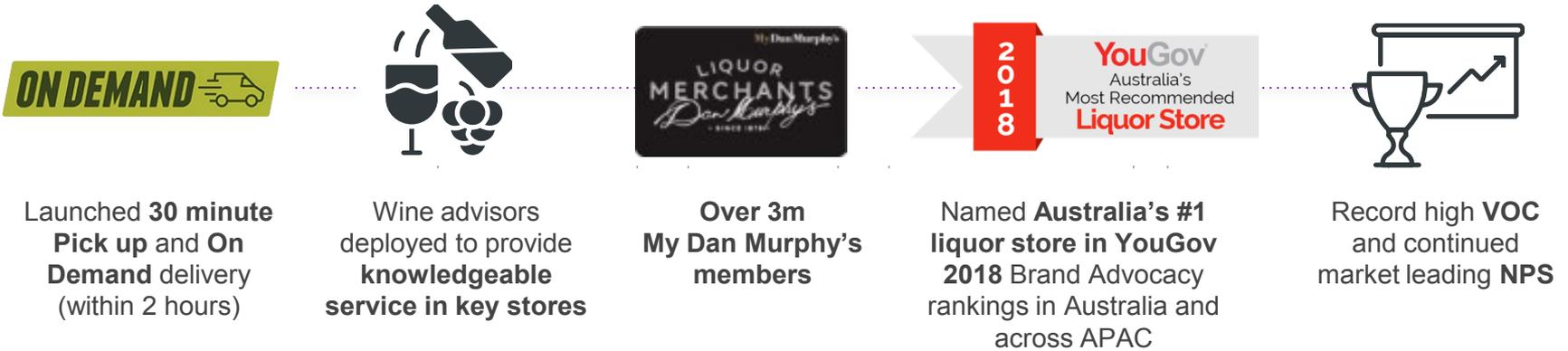
ENDEAVOUR
DRINKS GROUP

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	H19	H18	CHANGE
Sales (\$m)	4,596	4,513	1.8%
EBITDA (\$m)	341	355	(4.1)%
EBIT (\$m)	290	309	(6.4)%
Gross margin (%)	22.8	22.9	(10) bps
Cost of doing business (%)	16.5	16.1	45 bps
EBIT to sales (%)	6.3	6.9	(55) bps
Sales per square metre (\$)	18,079	18,019	0.3%
ROFE (%)	16.5	17.6	(1.2) pts

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H19 Highlights



H2'19 Focus



Customer 1st
Ranging



Digital wine
assistant national
rollout



Development and trial
of new store formats



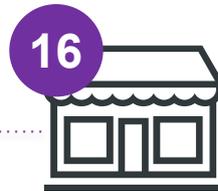
Building new
leadership

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H19 Highlights



On Demand delivery available through c.500 stores



Opened 16 net new stores bringing the total store network to 1,332; 41 renewals and refurbishments



Strengthened Rewards program and partnership with Woolworths Supermarkets



Record VOC scores, with improvements in team, value and range

H2'19 Focus



Leverage technology and enhance online customer experience through the BWS mobile App



Expansion of On Demand delivery, incl. Jimmy Brings



Continue to improve our integrated Food and Drinks experiences through store renewal



Continue to build the capability of the team

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countdown 

	H19	H18	CHANGE
Sales (\$m)	3,401	3,337	1.9%
EBITDA (\$m)	212	217	(2.2)%
EBIT (\$m)	148	151	(2.0)%
Gross margin (%)	24.3	24.1	20 bps
Cost of doing business (%)	19.9	19.5	37 bps
EBIT to sales (%)	4.4	4.5	(17) bps
Sales per square metre (\$)	16,009	15,319	4.5%
ROFE (%)	9.3	9.9	(57) bps

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H19 highlights

Improving customer perception

- ✓ Voice of Customer improvement
- ✓ Fruit & Vegetables VOC +7 pts on last year

Brand advocacy strengthened with significantly improved community and environment perceptions

Online and digital momentum



40% H19 online sales growth

- ✓ Online penetration of 6.5% in Q2'19

Core sales growth

3.2%

Comparable sales growth

Renewal step-change



New Bayfair format and Takapuna renewal

H2'19 focus

Customer 1st Team 1st Culture



Fresh Provenance



Affordable Health



Online process improvement



Starting to build brand momentum and differentiation

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	H19	H18	CHANGE
Sales (\$m)	2,091	2,037	2.7%
EBITDA (\$m)	34	31	10.3%
LBIT (\$m)	(8)	(10)	(20.8)%
Gross margin (%)	31.2	31.8	(58) bps
Cost of doing business (%)	31.6	32.2	(69) bps
LBIT to sales (%)	(0.4)	(0.5)	(11) bps
Sales per square metre (\$)	3,442	3,369	2.1%
ROFE (%)	(25.2)	(30.6)	5.4 pts

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H19 highlights

- ✓ Investing in our Team through roll-out of training programs
- ✓ Improvement of price perception on track; new customer signage and ticketing
- ✓ Additional categories refreshed through Customer 1st Ranging
- ✓ Initiatives rolled out to improve store and online experience including Pick up
- ✓ Substantial review on stock availability and associated processes under way



H2'19 focus

- ① Further align team around our Purpose, *'we make a real difference for families'*
- ② Continue building price trust by focusing on 'better' prices
- ③ Refining Customer 1st ranges with real focus on simplification
- ④ Continue to improve store experience based on VOC feedback and testing
- ⑤ Enhance underlying processes to further improve stock availability



	H19	H18	CHANGE
Sales (\$m)	865	861	0.5%
EBIT (\$m)	161	163	(1.5)%
Gross margin (%)	84.2	84.3	(6) bps
Cost of doing business (%)	65.7	65.4	30 bps
EBIT to sales (%)	18.6	18.9	(37) bps

- Slower sales growth than recent periods as we cycled strong events in prior year
- Improved sales performance in December driven by Bars and Food
- Small reduction in EBIT in the half as a result of lower sales growth

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Outlook

Remain focused on opportunities to simplify our businesses and improve productivity. Continue to invest in areas that will drive the long-term success of the business with digital and data key areas of focus.

Australian Food – we expect the market to remain challenging including ongoing input cost pressure. New EA takes effect in January; improving benefits for team members but will result in higher cost with full impact in H20. Simpler for Stores productivity program is continuing to build momentum and we are focused on improving stockloss. We remain confident with our plans for F19 and F20 to deliver sales growth and a return on investments.

New Zealand Food – remain focused on building on the new brand platform, improving our Fresh and affordable Health offer, innovating the digital experience for customers and realising the financial benefits of these investments.

Endeavour Drinks – evolve offer and business model to meet rapidly changing consumer expectations and capitalise on our market leading position. Strong plans are in place to ramp-up digital, deliver more localised ranges, better service and greater convenience for customers. We expect good progress in H2'19 but F19 EBIT expected to be below F18.

BIG W - remains a work-in-progress; however, we expect a reduction in losses in F19. Continued focus on improving price perception, range and the customer experience both in-store and online and translating sales growth into improved profitability. Network review is underway and we will share further detail in next four to six weeks.

Q3'19 sales release is currently scheduled for 2 May 2019. As a reminder, F19 will be a 53 week year.

Cash realisation ratio	Operating cash flow as a percentage of Group net profit after tax before depreciation and amortisation
Comparable sales	Measure of sales which excludes stores that have been opened or closed in the last 12 months and demonstrable impact on existing stores from store disruption as a result of store refurbishment or new store openings
Cost of doing business (CODB)	Expenses which relate to the operation of the business
Customer 1st Ranging	Developing a clearly defined range to provide an easier shopping experience for the customer
Customer fulfilment centre	Customer fulfilment centres are dedicated online distribution centres
Fixed charges cover ratio	Group earnings before interest, tax, depreciation, amortisation and rent (EBITDAR) divided by rent and interest costs. Rent and interest costs include capitalised interest, but exclude foreign exchange gains /losses and dividend income
Free cash flow	Cash flow generated by the Woolworths Group after equity related financing activities including dividends
Funds employed	Net assets employed excluding net tax balances
Net assets employed	Net assets excluding net debt and other financial liabilities
Net Promoter Score (NPS)	A loyalty measure based on a single question where a customer rates a business on a scale of 0-10. The score is the net result of the percentage of customers providing a score of 9 or 10 (promoters) less the percentage of customers providing a score of 0-6 (detractors)
Net debt	Borrowings less cash balances including debt hedging derivatives
On Demand	An express or scheduled delivery service providing online orders at the customer's convenience
Pick up	A service which enables collection of online shopping orders in-store or at select locations
Renewals	A total store transformation focused on the overall store environment, team, range, offer and process efficiency (including digital)
Return on funds employed (ROFE)	EBIT before significant items for the previous 12 months as a percentage of average funds employed (opening, mid and closing). Lease-adjusted ROFE adjusts funds employed for the present value of future lease obligations and EBIT for the implied interest on those obligations
Sales per square metre	Total sales for the previous 12 months by business divided by average trading area
Simpler for Stores	Simplification of end-to-end processes for store teams, improving customer experience and productivity
Stockloss	The value of stock written-off, wasted, stolen, cleared, marked-down or adjusted from all stores nationally (sometimes expressed as a percentage of sales)
Upgrades	A lighter upgrade typically involving a front-of-store upgrade and Produce/Bakery enhancement
Voice of Customer (VOC)	Externally facilitated survey of a sample of Woolworths Group customers where customers rate Woolworths Group businesses on a number of criteria. Expressed as the percentage of customers providing a rating of six or seven on a seven point scale
VOC NPS	VOC NPS is based on feedback from Woolworths Rewards members. VOC NPS is the number of promoters (score of 9 or 10) less the number of detractors (score of 6 or below)
Voice of Supplier (VOS)	Bi-monthly survey (six times a year) of a broad spectrum of Australian Foods' suppliers facilitated by an external provider. The survey is used to provide an ongoing measure of the effectiveness of business relationships with the supplier community. VOS is the average of the suppliers' rating on a seven point scale across various attributes. The score is the percentage of suppliers that provided a rating of six or seven on a seven point scale
Voice of Team (VOT)	Survey measuring sustainable engagement of our team members as well as their advocacy of Woolworths Group businesses as a place to work and shop. The survey consists of nine sustainable engagement questions, three key driver questions and two advocacy questions

Other non-IFRS measures used in describing the business performance include:

- Earnings before interest, tax, depreciation and amortisation (EBITDA)
- Earnings before interest, tax, depreciation, amortisation and rent (EBITDAR)
- Cash flow from operating activities before interest and tax
- Significant items
- Fixed assets and investments
- Net investment in inventory
- Free cash flow after equity related financing activities excluding dividends
- Net assets held for sale
- Net tax balances
- Closing inventory days
- Closing trade payable days
- Average inventory days
- Change in average prices
- Trading area
- Easter-adjusted metrics
- Margins including gross profit, CODB and EBIT/(LBIT)
- Volume productivity metrics including transaction growth, items per basket and item growth

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This presentation has not been audited in accordance with Australian Auditing Standards.

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