

Melbourne 1914



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Melbourne 2023



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**coles**  
group

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## Winning in our Second Century

Coles Investor Day  
June 2019

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## Today's agenda

Topic	Time	Presenter
1 Growing long-term shareholder value	9:40am – 10:00am	Steven Cain
2 Inspire Customers	10:00am – 10:35am	Steven Cain
3 Smarter Selling	10:35am – 10:55am	Leah Weckert & Matt Swindells
Morning tea break	10:55am – 11:25am	
4 Win Together	11:25am – 11:40am	Steven Cain
5 Coles' financial framework	11:40am – 12:00pm	Leah Weckert
6 Concluding comments & Q&A	12:00pm – 12:40pm	Steven Cain, Leah Weckert & Matt Swindells
Lunch	12:40pm – 1:20pm	Coles' Own Brand chefs
Store visits	1:20pm – 4:00pm	



coles

# Coles wishes to acknowledge the Traditional Custodians of this land

We recognise their strength and resilience and pay our respects to their Elders past and present.

Coles extends that respect to all Aboriginal and Torres Strait Islander people, and recognises their rich cultures and their continuing connection to land and waters.

#### About the artwork:

The design portrays a bush tomato uniquely arranged to represent the Coles national community, existing towards greater confidence, welcoming pathways and respectful self-governance. The circular rings radiate, expressing our ambitions, development and success in our life cycle and beyond.

This original artwork design was created for Coles by Marcus Lee Design, a creative design agency accredited by Supply Nation.

# Safety briefing

## BUILDING SECURITY

03 9829 6900

## EMERGENCY LINE

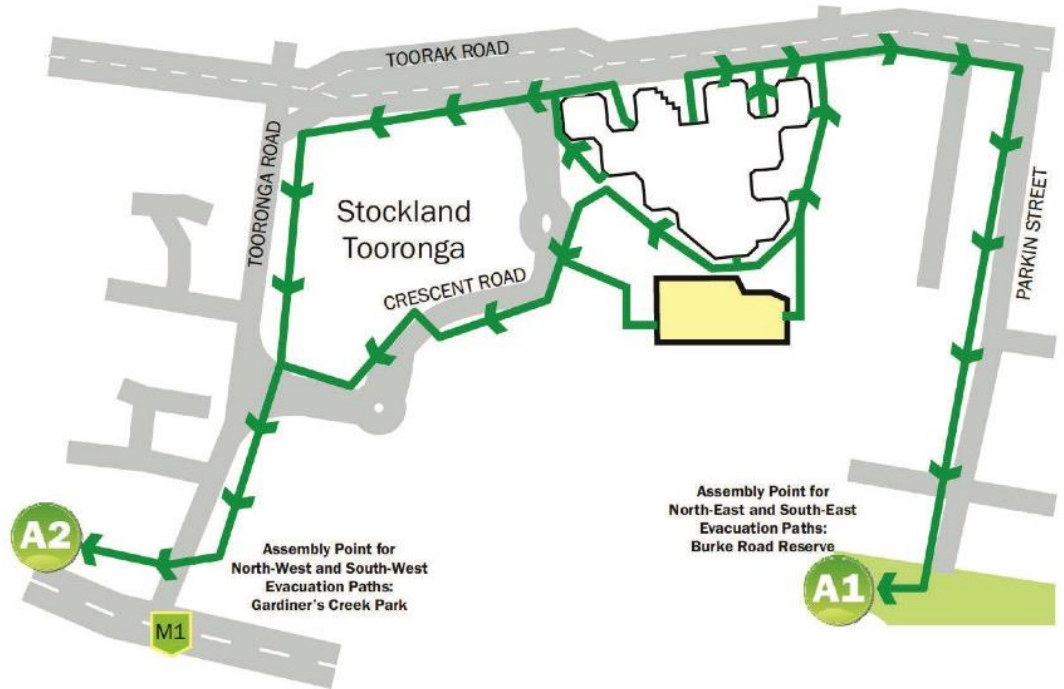
EXT. 99

**IN AN EMERGENCY, FOLLOW YOUR  
WARDEN'S INSTRUCTIONS.**

### Emergency Warning Tones

Alert: BEEP BEEP

Evacuation: WOOP WOOP



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# Disclaimer

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## **Non-IFRS financial information**

Retail profit & loss disclosures constitute non-IFRS information which has not been audited but is based on IFRS information where available. Balance sheet and cash flow information is consistent with the statutory results presented in Coles' Half Year Financial Report.

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.





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# Growing long-term shareholder value

Steven Cain – Chief Executive Officer

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## Overview of Coles Group

# 105

years in Australian retailing

# 114,000



engaged team members, leading indigenous employer



# 2,450

stores - supermarkets, liquor, fuel & convenience

# 80%

of Australians are within a 10 minute drive of a Coles store

\$39bn sales<sup>1</sup>  
\$1.4bn EBIT<sup>1</sup>

# 46↑

quarters consecutive comp growth

## Flybuys

# 6.6m

active households

Investing

# \$1bn+

in Witron & Ocado supply chain automation

 **80m** meals donated to **SecondBite**

### ... built on strong foundations

<sup>1</sup> Demerger of Coles scheme booklet

## Wesfarmers / Coles demerger investment highlights, Nov 2018

#1

Operates in resilient and growing markets

#2

Market leading position in an evolving competitive landscape

#3

Established, non-replicable national store network

#4

*Making life easier* for customers strategy

#5

Strong cash generation, attractive dividend payout ratio and robust balance sheet

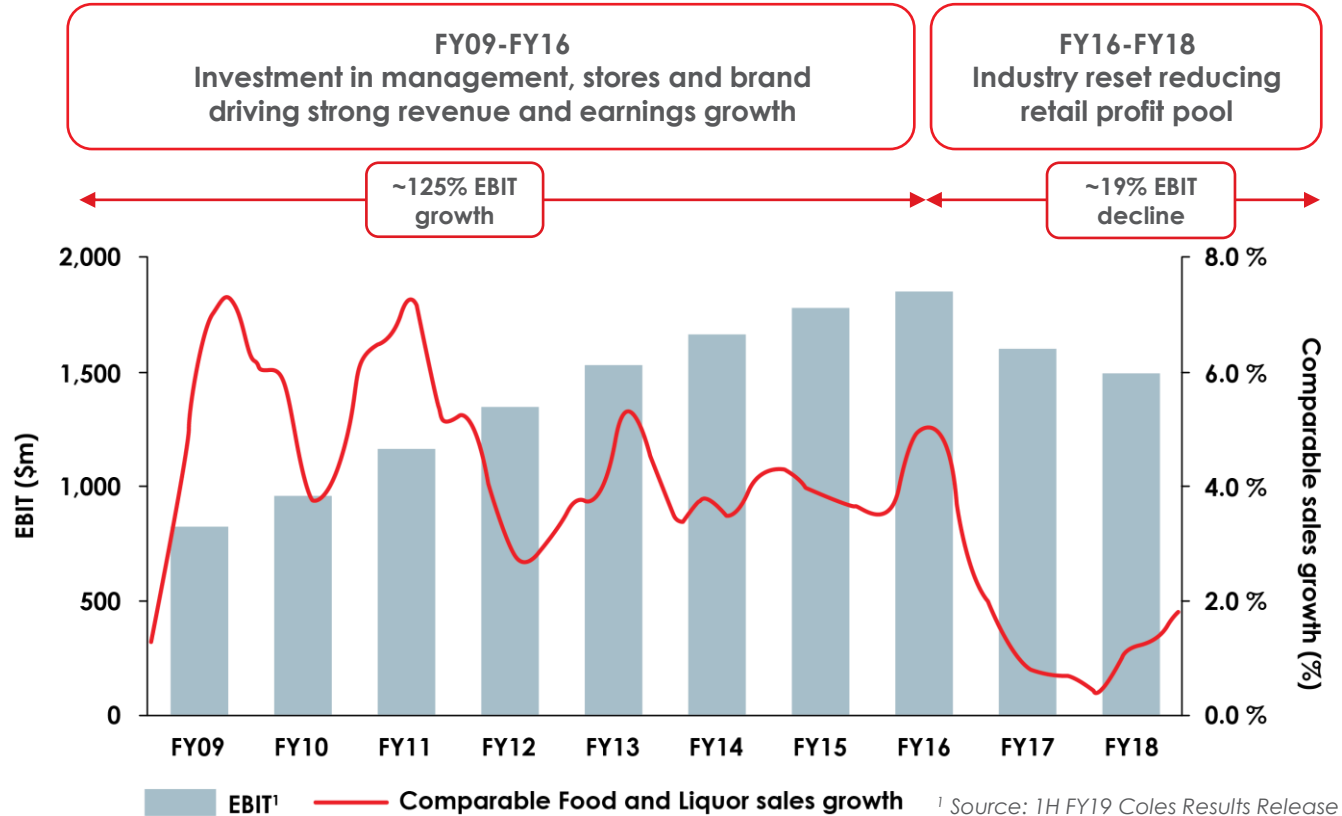
#6

Highly experienced Board and executive leadership team



# It's time for a new era at Coles to grow long-term shareholder value

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## Recap on initial CEO observations, Feb 2019

### Coles' specific factors

Competitive pressures continue:

- NSW supermarkets, higher demographics, convenience foods
- Vintage Cellars & First Choice Liquor Market
- Fuel

Online growth but at a lower margin

CODB rising faster than sales

Further systems upgrades required & renewal performance needs to improve

### Market wide factors

Customer expectations & behaviours changing faster than ever

Market growth being chipped away by convenient & discount food alternatives

Greater alignment required between retailers and suppliers on long term domestic investment and innovation priorities

Supermarkets 'High / Low' promotions impacting trust and efficiency

# Early progress to address headwinds

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1

NSW Supermarkets, higher demographics, convenience food

2

Vintage Cellars and First Choice Liquor

3

Fuel

4

Online growth but at lower margin

5

CODB rising faster than sales

6

Further systems upgrades required and renewal performance needs to improve

1

- ✓ NSW operational focus has improved sales
- ✓ Launched 75 convenience meals with more to come

2

- ✓ First Choice Liquor Market gaining traction and new Vintage Cellars format in FY20
- ✓ Core retail focus through QLD retail liquor JV with AVC

3

- ✓ Viva Alliance restructured; business reset for future growth

4

- ✓ Announced Ocado partnership to provide leading online customer experience and drive profitable growth

5

- ✓ Smarter Selling program introduced, targeting ~\$1bn cumulative cost savings by FY23

6

- ✓ SAP support systems, high speed store network roll-out with Optus
- ✓ New format renewal returns encouraging

# The Australian retail landscape is changing faster than ever

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## Evolution of retail

- Shift to online: home delivery and Click and Collect
- Hard discounters growing
- New international entrants coming
- More smaller store formats



## Changing consumer behaviours

- Trusted value, premiumisation, ethnicity
- Convenience and immediacy
- Health focus
- Ever increasing digital engagement



## Automation & data

- Automation
- AI and machine learning
- Personalisation
- Cloud computing



## Sustainability

- Food waste
- Packaging
- Supply chain
- Energy resources (e.g. power, water)

## Coles' strategic differentiators

- ✓ Win in online food and drinks with an optimised store and supply chain network
- ✓ Be a great value Own Brand powerhouse and destination for health
- ✓ Achieve long term structural cost advantage through automation and technology partnerships
- ✓ Create Australia's most sustainable supermarket
- ✓ Deliver through team engagement and pace in execution



## Our vision.

**Become the most trusted retailer  
in Australia and grow long-term  
shareholder value**



## Coles' purpose

**Our purpose.**  
**Sustainably feed all**  
**Australians to help**  
**them lead healthier,**  
**happier lives**



## Coles' strategy

1. Inspire Customers  
through best value food  
and drink solutions to  
make lives easier



## Coles' strategy

# 2. Smarter Selling through efficiency and pace of change



## Coles' strategy

# 3. Win Together with our team members, suppliers and communities



# Coles' purpose and strategy



# Strengthening Coles' leadership team in FY19



**Daniella Pereira**  
Company Secretary



**Kris Webb**  
Chief People Officer



**Lisa Ronson**  
Chief Marketing Officer



**Ian Bowring<sup>1</sup>**  
Group Executive, Transformation

<sup>1</sup> Announced FY19 to commence in FY20



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## Coles' strategy aligns to long-term shareholder value

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- Long-term revenue growth at least in-line with market growth
- Cumulative cost-out of ~\$1bn by FY23
- Increased levels of capital expenditure at returns in excess of cost of capital
- Strong cash generation and balance sheet to fund growth and pay attractive dividend payout ratio





# Inspire Customers

Steven Cain – Chief Executive Officer

# Customer expectations and behaviours are changing faster than ever



Weaker wage growth (~2%) and household debt ratio high (1.9x disposable income)

Top 30% of customers are growing faster than the market

**Trusted value & premiumisation**



~64% of population growth driven by immigration

~30% of population born outside of Australia and forecast to grow

**Tailored range**



Increasingly time poor – full time employees working longer & rising female workforce participation (~61%)

1 in 3 adults use food delivery services with an average annual spend of ~\$1,600 per household

**Convenience meals and home delivery**



67% of population are obese or overweight

1 in 3 have special dietary requirements

**Health focus**

**Inspire Customers expected to deliver revenue growth at least in-line with market**



# Inspire Customers through best value food and drink solutions to make lives easier.

## Inspire Customers

- Customer obsessed
- Tailored offer with trusted and targeted value
- Own Brand powerhouse
- Destination for convenience and health
- Leading anytime, anywhere shopping
- Accelerate growth through new markets



# Customer obsessed

## Insights to drive decision making

- Utilise ~27k Tell Coles surveys per week, Mum's panel and proprietary research to drive insights
- Leverage flybuys customer (6.6m active households) transaction data to build a full picture of customer needs
- ~35 data scientists to analyse >1bn customer transactions per annum
- Using advanced analytics to make decisions on range, forecasting, promotions, markdowns etc



# Tailored offer with trusted and targeted value

## Tailor range to stores, expand online range

- Tailoring 40% of layouts to ensure stores are optimised for demographics and operating efficiencies
- Leverage Ocado to double online range (~40,000 SKUs) at minimal incremental cost

## Embed trusted value

- Accelerate Own Brand across price tiers to ~40% of sales by lowering the price of shopping and differentiate
- Continue to move towards EDLP and reduce ineffective promotions
- Build on strong marketing assets





# Own Brand powerhouse

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World class innovation

Unique brand identities

Partnerships

## Destination for convenience and health



### Convenience

- Expanded choice in convenience range
- Trial meal solutions
- Dedicated front of store convenience space starting with 100 stores by end of CY19
- Establish last-mile solution partnerships



### Health

- Expand choice in Fresh departments through improved availability and shelf life through faster fresh flows
- Grow Own Brand to become a leading health focussed food offer (e.g. Eureka blueberries, Cone Bay barramundi, Caulini)
- Target growing non-food categories to address share gaps (e.g. vitamins)



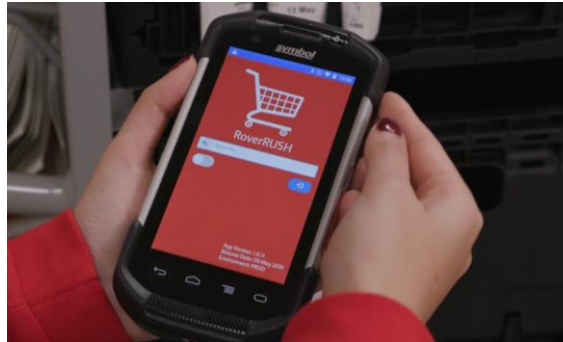
# Leading anytime, anywhere shopping

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## Customer offer

- Increased home delivery slots in peak times
- Same-day delivery available nationally
- Click and Collect at 1,200 locations
- Single digital ecosystem to drive loyalty



## Profitability

- Picking efficiency through technology improvements
- Volume driven cost fractionalisation
- Improved margin through user experience enhancements



## Ocado

- Expanded range in growth categories
- Best-in-class product availability and order fulfilment
- Increased product life, fresh product quality and reduced wastage
- World's leading grocery website for customers

# Accelerate growth through new markets - export



**Asia:**  
4bn people

**Australia:**  
25m people

## Focus on meat

- Focus on meat export – Coles has a significant meat export business today with ~\$400m in annualised revenue across 40+ countries
- Expand into other product areas once meat strategy scaled

<sup>1</sup>Source: ABC Index Report 2019, Australian Brands in China



## Australian Brands in China Index 2019<sup>1</sup>

### Top FMCG and retail brands

1. Dairy Farmers
2. Capilano Honey
- 3. Coles**
4. Chemist Warehouse
5. T2 Teas

## Leverage competitive advantage and invest in capability

- Leverage Australian and Coles credentials to support the development of new sales channels
- Invest in systems, process and capability to enable growth

# Accelerate growth through new markets - flybuys

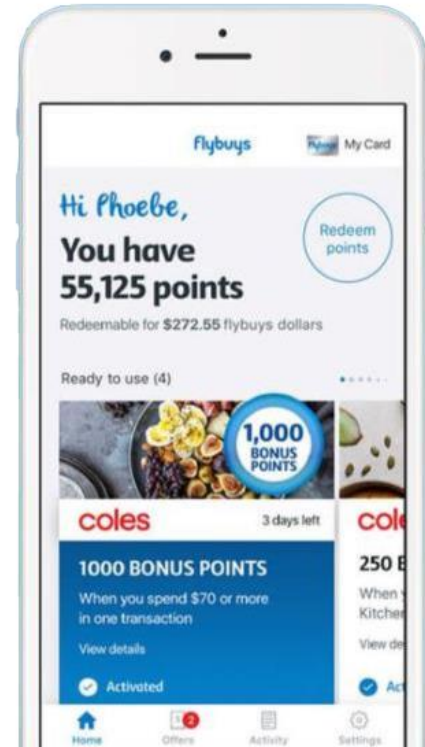
# flybuys

## Today

- 50:50 JV with Wesfarmers
- flybuys supports Coles on value, loyalty and data insights
- Key part of offer to customers with targeted offers driving incremental sales

## Strategy

- Modernised loyalty
  - Expanded partners and rewards
  - Subscription program
- Data products and services
  - Digital audiences
  - Retail insights
- Payments and financial services
  - Mobile payment solutions
  - New services



## Inspire Customers: Liquor

- Re-platform website and rollout on-demand services
- Increase personalised offers through flybuys and Vintage Cellars Wine Club
- Range tailoring facilitated by new range and space systems
- Drive Exclusive Liquor Brand penetration and increase innovation in low/no alcohol drinks
- Continue value investment and reduction of promotional intensity
- Renewal program across all banners





## Inspire Customers: Express

- Enhanced coffee offer through roll-out of new machines
- Compelling meal solutions range across breakfast, lunch, dinner and snacking
- Leverage food-to-go infrastructure across ~90% of the network
- Deliver fresh bakery, healthy snacking, fresh produce, meat and chilled offer to support weekly top-up shops



## Inspire Customers: summary

- Analyse >1bn transactions per annum to anticipate our customers' needs
- New innovative convenience meals range to be rolled-out following successful Pagewood trial. Expand range to be a leading health focussed retailer
- Tailored layouts to land the right range in stores. Move towards EDLP
- Continue to improve online customer experience while improving profitability. Successfully execute Ocado partnership to win in online shopping
- Grow revenue outside the core retail business (export and flybuys)





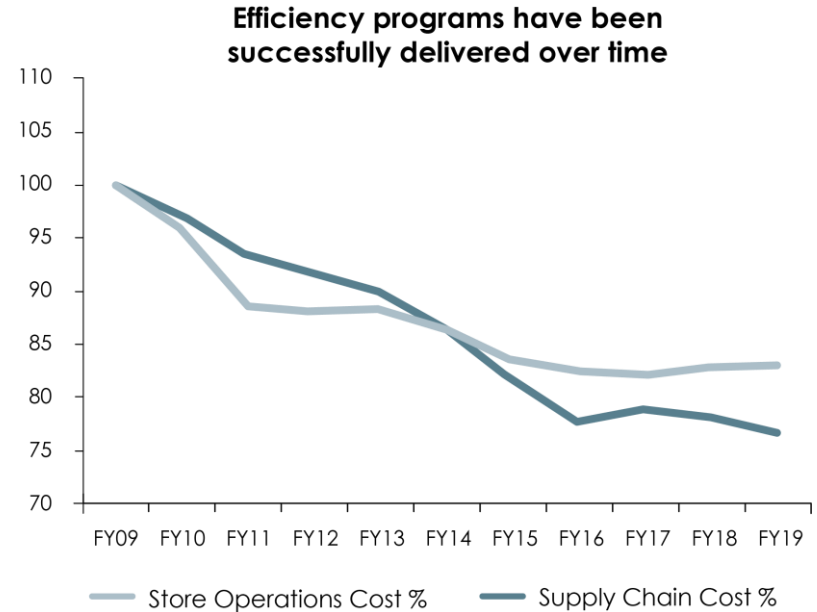


# Smarter Selling

Leah Weckert & Matt Swindells

# Cost headwinds require intensified and disciplined approach

- Wage costs are significant and increasing ahead of comparable store sales growth
- Energy and fuel input costs as well as waste are all growing
- Sales transfer to online channel picking up pace, putting pressure on profitability of bricks and mortar
- Under investment in some core IT systems, particularly in store support centre (SSC)
- Supply chain network approaching capacity
- Future cost reduction program needs to focus on E2E integration



**Productivity programs such as Easy Ordering, One Shop and Stockless Stockrooms have delivered step change improvements in the cost base**

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## \$1bn cumulative cost reduction by FY23 through Smarter Selling

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# Smarter Selling through efficiency & pace of change.

- Technology-led stores & supply chain
- Strategic sourcing
- Optimised network and formats
- Efficient and agile SSC

# Technology-led (stores)



## Store operating model

- Automation of manual tasks (e.g. Easy Ordering in fresh, wearable technology)
- Stockless Stockrooms process improvements
- Simpler checkout (e.g. New ACO software, trolley friendly ACOs)
- Investment in service in key departments and stores

## Profit protection

- Next generation security (e.g. smart EAS gates)
- Simpler stocktake
- Markdown optimisation through AI

## Expenses

- Energy cost reductions through reduced usage and switch to renewables
- Waste diversion from landfill through donation, recycling and reverse logistics



# Technology-led (supply chain)



## One Coles supply chain

- Automation program execution (Ocado and Witron)
- Primary and secondary transport integration
- Network consolidation



## Productivity gains

- Labour planning tools
- Transport control towers
- Store friendly deliveries



## Improved freshness

- Faster fresh flows to give product life back to customer at lower cost to serve
- Fresh automated ordering to maximise freshness and availability whilst increasing network capacity

# Strategic sourcing



## Smarter buying

- Monitoring input prices
- Simplified and transparent supplier terms
- Grocery code training and compliance



## Global sourcing and value

- Own Brand program to improve quality and engineer cost-out
- Own Brand global sourcing via buying groups and partnerships



## Deepen supplier relationships

- Strategic partnerships to create competitive advantage and manage supply risks
- Joint business plans with key suppliers
- Focus on collaboration and supporting innovation (e.g. Coles Nurture Fund)



## System and process enablers

- SAP Ariba implementation to support procurement process
- Focus on building 'owner's mentality' culture and greater accountability

COGS

GNFR

# Optimised network

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## Future store network









- Slow the rate of bricks and mortar network growth
- Optimise future fleet size via rationalisation of low profitability stores, if alternative actions to improve are not possible
- Shorter lease terms tailored to format and market



## Focus on greenfield and quality growth

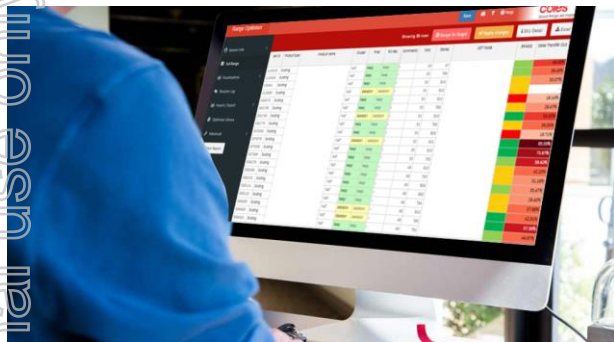
- Focus supermarket store openings in sites with significant population growth
- Reduce the amount of infill locations, opening only where high population density and low market share deliver a superior financial return
- Coles Local potential upside opportunity

# A tailored store format strategy

	 <b>Format A</b>	 <b>Format B</b>	 <b>Format C</b>	 <b>coles local</b> <small>- SURREY HILLS -</small>
<b>Proposition</b>	 A premium, foodie and convenience offer with extended range	 Standard Coles offering	 Low cost, self service operating model and simple to shop	 Premium offer focused on health, fresh and convenience
<b>Demographics &amp; volume</b>	Mid-high affluence, high volume	Medium affluence, medium volume	Mid-low affluence, low volume	High affluence low-medium volume
<b>FY20 roll-out plan</b>	~10 new supermarkets and 3 replacements		-	~4 new stores and conversions
	~75 renewals			
<b>Store examples</b>	Eastgardens	Coburg North	Ardeer, Clayton	Surrey Hills



## Efficient and agile



### Investing in systems

- Systems implementation to facilitate self service of insights and data (e.g. SAP Success Factors)
- Increased use of data analytics in decision making
- Automation of manual tasks reducing errors and rework



### SSC operating model

- Simpler, streamlined organisation removing duplication
- More empowered decision making
- Business Units to drive E2E accountability with stores' operations



### Increased pace of change

- Future focussed
- Building agile capability across key projects
- Introduction of Quarterly Business Review cadence to speed up strategy delivery



## Smarter Selling: summary

- Reduce costs through more efficient and agile organisation
- Deploy technology to transform productivity
- Partnering better with world class suppliers to reduce costs
- Optimising the existing bricks and mortar property network to grow sales density whilst focussing on greenfield and quality growth of the network





## Win Together

Steven Cain – Chief Executive Officer

Coles employs **9%**  
of **total employees**  
in the retail trade sector

We employ over  
**4,200**

indigenous team members  
Coles is the **largest corporate**  
sector employer of indigenous  
team members in Australia

Gross capital  
expenditure  
almost  
**\$1bn**  
per year  
on average  
more than **30%**  
of the **entire food**  
and **beverage**  
manufacturing sector

**\$30bn**  
in payments to  
suppliers per year



**\$92m**  
in direct and  
indirect community  
**support**

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## Win Together

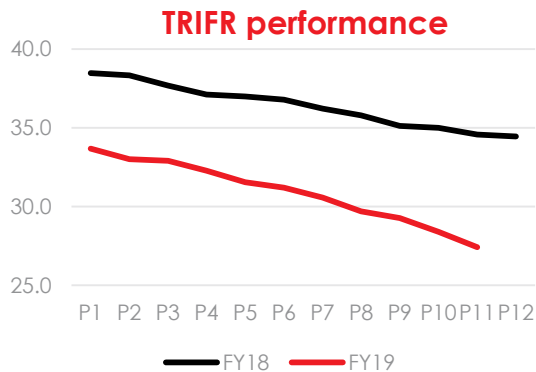


**Win Together  
with our team  
members,  
suppliers and  
communities.**

- Wellbeing and safety in our DNA
- Great place to work – increase engagement
- Drive generational sustainability
- Better together through diversity
- Innovation through partnerships



# Wellbeing and safety in our DNA



## Safety leadership & culture

- Health, safety & wellbeing in the DNA of Coles
- Savings made on workers' compensation
- TRIFR performance improvement of 20%

## Critical risk reduction

- Coles is recognised for innovation in safety
- ~800 fewer team members injured than this time last year

## Health & wellbeing

- Coles is known for being a mentally healthy workplace
- 40,000 individuals completed mental wellbeing program



# Great place to work – increase engagement

## LEaD

### Our LEaD behaviours



### LEaD behaviours

- The behaviours we demonstrate when Coles is at its best
- Embedded in our induction and development programs



### Engaged team

- 80,000 of our team members responded to recent mysay survey with a ~3% increase in team member engagement
- Detailed action plan executed post each survey
- Key action to communicate Coles' strategy to team members commences post Investor Day



### Talent development and retention

- Retail Leaders program in Supermarkets and Express stores
  - Almost ~3,000 participants over past 3 years
- Leading graduate program
  - More than 800 graduates since 2014
- Coles' functional academies

# Drive generational sustainability



## Sustainable communities

- 'Australia First' sourcing policy
- Coles Nurture Fund - \$19m contributed since launch to 50 suppliers
- Community partners – SecondBite, Redkite, Children's hospitals
- Coles contributed \$92m to community and charity partners
- Local store initiatives



## Sustainable products

- Ethical, sustainable and welfare credentialed sourcing
  - No hormone beef, Own Brand cage free eggs, sow stall free pork, RSPCA Approved chicken & turkey and sustainably sourced seafood
- Encourage healthy food choices
- Reduce packaging waste
  - Own Brand water bottles 100% recycled material, removal of single use plastic bags



## Sustainable practices

- Greener stores with reduced greenhouse emissions
  - Greenhouse gases reduced ~2.5% in FY18 and \$25m invested in energy efficient stores
- Significantly reduced food waste, supported by SecondBite
  - Over 100m meals donated since 2003, including over 80m meals to SecondBite since 2012
- REDcycle in all Coles' supermarkets

# Better together through diversity - FY23 charter

## Accessibility

**1** **>90%** of our team members across Supermarkets, Coles Express and Liquor to have completed **Disability Confidence Training**, ensuring that we are offering the best quality service and support to our Team Members and customers.

**2**  **Quiet hour** offered in all eligible stores nationally.

**3**  **Strive for best practice towards disability inclusion** in our stores, sites and workplaces by scoring in the **top 25th percentile** in the Australian Network on Disability's Access and Inclusion index.

## Gender Balance

**1**  Be recognised as an Employer of Choice for **Gender Equality** by achieving and maintaining citation.

**2** Make year on year progress to achieving representation of women in leadership positions of an organisational level and at least **40%** representation of any gender at an overall functional level.

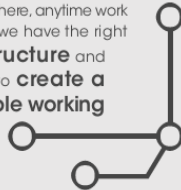
**3** **Achieve pay parity** by having the right policies, practices and governance in place to reach **balance** and offer the **same opportunities** to all Team Members to build great careers at Coles.

## Flexibility

**1** All roles to support **flexible working**.


**2** Provide anywhere, anytime work by ensuring we have the right **IT infrastructure** and workplaces to **create a truly flexible working culture**.

**3** Offer a range of leading policies that **support** all Team Members to **balance** their **work and life commitments**.



## Pride

**1** Be recognised as an active and influential leader in **LGBTI workplace inclusion**, by achieving and maintaining status in the Australian Workplace Equality Index.

**2**  **Build a strong ally network at Coles** by establishing state based pride networks and immersing ourselves in local LGBTI communities and events at a state level.

**3** **Increase** our Team Members' **confidence** to be their authentic selves at work by offering both **mandatory and optional training** to all Team Members and allies **on LGBTI inclusion in the workplace**.

## Indigenous

**1** Aboriginal and Torres Strait Islander Team Members to represent of all **trade skilled and leadership positions** and **3%** of our total workforce demonstrating our commitment to build great careers at Coles.

**2** **Continue to support Aboriginal and Torres Strait Islander suppliers** by increasing the number of opportunities available to participate in our supply chain.

**3**  **Develop mutually beneficial and sustainable relationships** with Indigenous community organisations.

## Win Together: summary

- Sustainably embed wellbeing and safety into Coles' culture to provide a great place to work, shop and partner with
- Attract, engage and retain talented team members to deliver on Coles' purpose
- Be recognised as Australia's most sustainable supermarket
- Become an employer of choice by building and retaining a diverse team
- Step change the pace of innovation across Business Units and functions through partnerships







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## Coles' financial framework

Leah Weckert – Chief Financial Officer

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# Coles' financial framework aligns with shareholder objectives



## Sustainable cash flow generation

Cash flow realisation > 100%



## Disciplined approach to capital allocation

Focus capex on growth & efficiency initiatives  
Returning surplus capital to shareholders



## Maintain a strong balance sheet

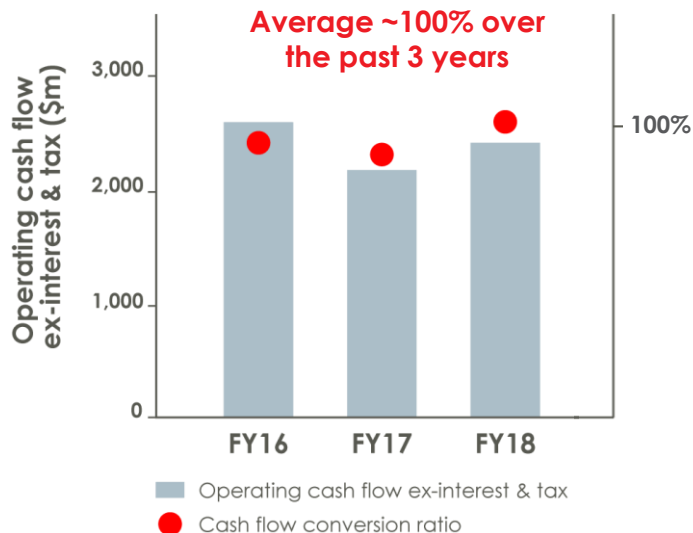
Maintain solid credit metrics

**Objective to provide shareholders with sustainable EPS growth and attractive dividend payout over the long-term**



## Sustainable cash flow generation

### Historical cash flow realisation<sup>1</sup>



### Key areas of focus

- Improved working capital management
- Disciplined focus on operating costs
- Enhanced capital allocation framework

**Coles is a highly cash generative business which aims to achieve cash realisation >100%**

<sup>1</sup> Cash realisation represents cash flow before interest + tax divided by EBITDA



## Disciplined approach to capital allocation

### Historic focus on...

- ~1.5% - 2% space growth
- Roll-out of capital spend across entire store network

### Renewed focus on...

- Targeted new space – focus on population growth corridors
- Store renewal capital expenditure targeted to drive better and more consistent returns
- Capital spend focused on growth and efficiency initiatives
- Robust internal hurdle rates
- Recycle capital tied up in non-core assets where appropriate

**Coles revised capital expenditure framework to focus on returns above cost of capital**





## Disciplined approach to capital allocation

- FY19 net capital expenditure guidance unchanged. Net capital expenditure to be \$700-800m
- Going forward focus will be on gross operating capital expenditure given property capital expenditure and disposals are dependent on market conditions
- FY20 capital expenditure outlook
  - Gross operating capital expenditure (excluding property) of \$700m - \$900m, broadly consistent with FY19
  - Capital expenditure skewed toward growth and efficiency initiatives
- Property acquisitions/divestments to be managed but in any given year should not exceed +/- \$100m on a net basis
- Gross operating capital expenditure not expected to exceed \$1.0bn per annum in peak years of supply chain modernisation project (FY21/FY22)

**Increased capital expenditure to support  
Coles' sales and earnings growth**



## Disciplined approach to capital allocation

### FY20 capital expenditure examples

#### Store renewals

- ~75 supermarket renewals (~50 FY19)
- Format innovation

#### Growth initiatives

- ~10 new supermarket stores (~21 FY19)
- Convenience meals roll-out
- Online store footprint

#### Efficiency initiatives

- DC automation
- Dynamic markdowns
- Fresh easy ordering roll out

#### Maintenance

- Systems investment and upgrades (People and Culture (HR) / Procurement)
- Critical refrigeration





## Disciplined approach to capital allocation

- Target dividend payout ratio of 80% - 90%
- Coles Board reconfirms a target dividend payout ratio of 80% - 90% of underlying earnings from 28 November 2018 to 30 June 2019 which will be payable in September 2019
- Dividend decision to be considered by the Coles' Board periodically
- Dividends will be franked to the maximum extent possible

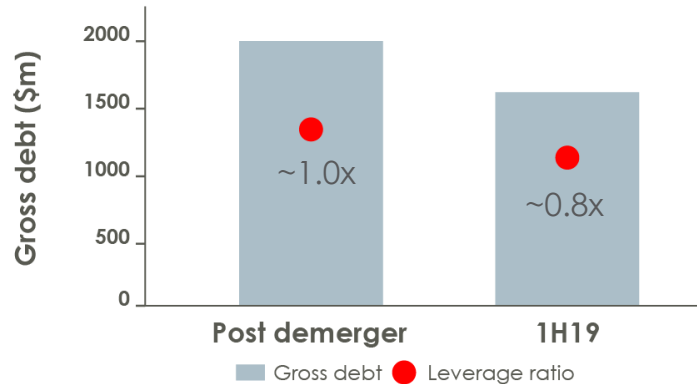
**Objective to maintain an attractive dividend pay out ratio**





## Maintain a strong balance sheet

### Gross debt and leverage



### 1H19 balance sheet position

- Undrawn committed credit facilities A\$2.1bn with an average maturity equating to 3.7 years
- Gross debt of A\$1.6bn (impacted by favourable working capital seasonality)
- Exploring potential capital market alternatives to diversify funding sources and extend maturity profile
- Moody's rating: Baa1 (stable outlook) and S&P rating: BBB+ (stable outlook)

**Objective to maintain an investment grade credit rating**

## Financial framework: summary

- Aim to achieve cash realisation greater than 100%
- Refocus capital expenditure on growth and efficiency initiatives and deliver returns above cost of capital
- Smarter Selling to deliver cumulative ~\$1bn cost-out by FY23
- Commitment to maintain investment grade credit rating
- Coles' financial framework aligns with shareholder objectives



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## Updated outlook and summary of significant items

- Supermarkets expect Q4 FY19 comparable sales to be in the upper half of the range between Q2 and Q3 adjusted results
- Net capex remains within guidance of \$700m - \$800m
- Smarter Selling restructuring provision of \$15m - \$20m to be included in FY19 Full Year Results, however, offset by other initiatives
- Summary of significant items:

Item	\$m	Comment
Supply chain modernisation project	(146)	Provision associated with lease exit costs and redundancies for existing DCs
Revised alliance with Viva	137	Cash gain in relation to payment from Viva for forgoing retail fuel margin under revised Alliance Agreement
Queensland Retail Liquor JV	100-140	Includes non-cash loss on disposal of economic interest in Spirit Hotels business, transaction costs, and non-cash gain on fair value recognition of Coles' interest relating to the Queensland Retail Liquor Business in the QVC JV

### Total significant items

91-131

Note: the amounts in the table are unaudited

## Estimated impact of AASB 16

### AASB 16 lease accounting to be adopted from 1 July 2019

- Estimated proforma opening balance sheet impact on FY19 financials:
  - Additional \$8 - 9bn lease liability (as at 1 July 2018)
  - Additional \$7 - 8bn right-of-use asset (as at 1 July 2018)
  - Net impact, adjusted for deferred tax and reversal of current lease accounting recognised against retained earnings
  - No expected impact on credit rating
  - No impact on cash flows
- FY19 accounts will be presented on a pre-AASB 16 basis, however, an update will be provided as part of the full year disclosures

**Coles is actively managing its lease liabilities and WALE (6.0 years) given market dynamics**

Note: Estimate may differ to actual impact on initial application in FY20 due to: changes in composition of the Group's lease portfolio; future economic conditions, including the Group's borrowing rates at 1 July 2019; changes to material judgement areas, such as final determination of reasonably certain renewal options on 1 July 2019; final determination of contracts containing a lease. The impacts are subject to finalisation and audit review.





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# Summary of today

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## Measures of success of Coles' strategy

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 **Safety  
TRIFR**



Increased customer  
satisfaction



Increased  
sales density

**EBIT  
growth**



Increased team  
member  
engagement



Sales growth at least  
in line with market

Cost-out of  
**~\$1bn**  
by FY23

**>100%**  
cash conversion

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# Q&A

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