News Release

Wesfarmers

17 February 2022

2022 Half-year results

Highlights

Half-year ended 31 December ($m)	2021	2020	Variance %
Results excluding significant items[a]			
Revenue	17,758	17,774	*(0.1)*
Earnings before interest and tax	1,905	2,171	*(12.3)*
Net profit after tax	1,213	1,414	*(14.2)*
Basic earnings per share (cps)	107.3	125.0	*(14.2)*
Results including significant items[a]			
Net profit after tax	1,213	1,390	*(12.7)*
Basic earnings per share (cps)	107.3	122.9	*(12.7)*
Operating cash flows	1,556	2,216	*(29.8)*
Interim ordinary dividend (fully-franked, cps)	80	88	*(9.1)*
Sustainability highlights			
Total recordable injury frequency rate (TRIFR)	9.9	9.4	*5.3*
Aboriginal and Torres Strait Islander team members (#)	3,791	2,722	*39.3*
Gender balance, Board and leadership team (women % total)	45.4	42.1	*3.3 ppt*
Scope 1 and 2 emissions, Market-based (ktCO_2e)	574	669	*(14.3)*
Operational waste diverted from landfill (% total waste)	70	69	*1 ppt*

[a] There were no significant items in 2021. Significant items in 2020 of $34 million pre-tax ($24 million post-tax) relate to Target store closures and conversions in Kmart Group.

Wesfarmers Limited has reported a statutory net profit after tax (NPAT) of $1,213 million for the half-year ended 31 December 2021. Excluding significant items, NPAT declined 14.2 per cent for the half.

Wesfarmers Managing Director Rob Scott said that the solid financial result delivered in such a disruptive environment highlights the strength of the Wesfarmers portfolio, and the capacity of divisional teams to adjust rapidly to meet customer demand.

“The first half of the 2022 financial year was the most disrupted period for our businesses since the onset of COVID-19, with extended government-mandated store closures and trading restrictions in Australia and New Zealand. The Group also made significant investments in the half to support our team members, through payroll support and assistance programs, to help manage the significant personal impacts from extended lockdowns.

“The Group’s financial performance was supported by pleasing results from Bunnings and Wesfarmers Chemicals, Energy and Fertilisers (WesCEF),” Mr Scott said. “Bunnings continued to demonstrate the resilience of its operating model and ability to meet its customers’ needs in a difficult operating environment, delivering sales growth for the half, despite significant disruptions, temporary store closures and the cycling of very strong demand in the prior corresponding period.

“Strong earnings growth at WesCEF reflected a solid operating performance and higher commodity prices, particularly for LPG and ammonia. It was also pleasing to report continued improvement in the performance of Industrial and Safety.

“Relative to the Group’s other divisions, Kmart Group and Officeworks results were more significantly impacted by COVID-related disruptions during the half. Kmart Group in particular was affected by temporary store closures between July and October 2021.

“Across the Group’s retail businesses there were around 34,000 store trading days impacted by trading restrictions, representing almost 20 per cent of total store trading days for the half. This included more than 20,000 store days for which stores were completely closed to customers. In addition, operating costs and stock availability were impacted by ongoing supply chain disruptions and elevated team member absenteeism.

"Wesfarmers accelerated its investment to develop a market-leading data and digital ecosystem during the half, and good progress was made to build the strong foundations necessary for this initiative to deliver great value, convenience and experiences to customers across the Group," Mr Scott said. "This included investment in the shared data asset and scalable customer data architecture as well as the continued development of capabilities within the Advanced Analytics Centre, specialist technical expertise and robust data governance.

"Nicole Sheffield was appointed to the Wesfarmers Leadership Team as Managing Director of a new data and digital division, responsible for capabilities and businesses that support the Group's data and digital ecosystem agenda. This includes the Advanced Analytics Centre, the Group data asset, and the development of a new subscription program, OnePass.

"Earlier this month, the Club Catch subscription program was rebranded and repositioned as a new program named OnePass, at a reduced monthly fee of $4 or annual price of $40. Subscribers will continue to enjoy free delivery on eligible items purchased from Catch, exclusive deals and OnePass-only pricing. This program will form the basis of a broader subscription program with opportunities to provide even greater value and convenience to customers across the Group. Work is underway on a broader set of benefits that will be available to OnePass subscribers when shopping across Wesfarmers' retail businesses.

"In December 2021, the Group's partnership with Flybuys was extended to include Bunnings and Officeworks customers, creating a platform with over eight million members and opportunities for points to be earned on over 120 million transactions each month. Flybuys' operating model was also updated to provide greater flexibility and value to Wesfarmers and Coles, and to provide more opportunities for Flybuys to deliver value for its members.

"The Group also continued to invest in building platforms for future growth, delivering good progress on the construction of the Mt Holland lithium project, progressing the proposal to acquire Australian Pharmaceutical Industries Limited (API), and further developing Bunnings' commercial offer with the completion of the Beaumont Tiles acquisition and the expansion of Tool Kit Depot into Western Australia.

"The Group recognises the alignment between long-term shareholder value and progress on key sustainability metrics, and good progress was made on diversity and inclusion, emissions reduction and operational waste during the half.

"Wesfarmers continued to prioritise team member and customer safety, with increased mental health and wellbeing support to team members impacted by lockdowns and other restrictions. Wesfarmers' total recordable injury frequency rate (TRIFR) increased 5.3 per cent to 9.9 for the half year, in part driven by additional manual handling associated with elevated online sales, which is now an area of increased focus.

"At the end of the half year, the Group employed an additional 1,000 Aboriginal and Torres Strait Islander team members compared to a year earlier, with 3.4 per cent of Australian team members identifying as Indigenous, exceeding Wesfarmers' goal to reach employment parity of 3.0 per cent by 2022. The Group maintained gender balance within the Board, Leadership Team and overall workforce, and remains focused on attaining gender balance across senior management roles.

"The Group's Scope 1 and 2 emissions declined by 14.3 per cent under the Market-Based Emissions Standard, which captures renewable electricity. This progress reflects the impact of strategies to further improve energy efficiency, increased utilisation of renewable electricity and re-investment in abatement catalysts at WesCEF, along with a one-off benefit from the scheduled ammonia plant shutdown during the period. Excluding the impact of the ammonia plant shutdown, the Group's Scope 1 and 2 emissions declined by 9.5 per cent. The Group also progressed its mapping of material Scope 3 emissions, expected to be completed during the 2022 financial year.

"Wesfarmers maintained its longstanding focus on sourcing ethically and deepening the understanding and respect for human rights across the Group's domestic and international supply chains. Internationally, the Group's ethical sourcing programs benefit from significant in-country teams. Across the Group, work accelerated to develop and implement circular economy strategies, including efforts to reduce operational waste to landfill, diverting resources for re-use or recycling."

Wesfarmers continued to manage its balance sheet to maintain a high degree of flexibility during the half, and took opportunities to optimise the Group's debt maturity profile and cost of borrowing, including through the issue of a EUR600 million sustainability-linked bond with targets aligned to the Group's decarbonisation strategies. Following the distribution of $2.3 billion of surplus capital by way of capital return in December 2021, the Group recorded a net financial debt position of $2,615 million at the end of the half.

The directors have determined to pay a fully-franked ordinary interim dividend of $0.80 per share, reflecting the solid NPAT result and Wesfarmers' dividend policy, which takes into account available franking credits, balance sheet position, credit metrics and cash flow generation and requirements while preserving the flexibility to manage continued uncertainty and to take advantage of value-accretive growth opportunities, if and when they arise.

Impact of COVID-19

While many practices to manage the ongoing disruptions associated with COVID-19 have become increasingly integrated into the Group's normal operating processes, extended government-mandated store closures and trading restrictions in Australia and New Zealand meant that the first half of the 2022 financial year was the most disrupted period since the onset of the pandemic.

The Group continued to provide paid pandemic leave to team members and continued to pay all permanent and many casual team members through periods of prolonged lockdown, even where there was no meaningful work for them, and when they were required to isolate. This investment, which totalled approximately $37 million during the half, provided much needed certainty to team members and their families, and benefited the Group's businesses as they sought to re-engage teams when restrictions eased.

The Group also maintained the important measures implemented to protect the health and safety of customers and team members, incurring additional costs of approximately $43 million during the half associated with additional cleaning, security and protective equipment.

The Group's retail businesses experienced volatility in sales during the half as a result of COVID-19. Retail sales between July and October 2021 were significantly affected by widespread lockdowns across New South Wales, Victoria, the Australian Capital Territory and New Zealand, with around 34,000 store trading days impacted and periods where almost half of the Group's retail stores were either restricted or closed.

Sales momentum improved as lockdowns and other restrictions were eased before deteriorating towards the end of the half, as cases of the COVID-19 Omicron variant began to rise.

Ongoing constraints in global supply chains led to delays and additional costs, including higher container shipping expenses during the half. Domestic supply chains were also impacted by labour availability pressures as a result of isolation requirements and elevated absenteeism, leading to additional costs and impacting stock availability in some areas.

The Group's investment in digital capabilities over recent years supported increased online penetration across the retail businesses, although online sales growth moderated in the second quarter as customers returned to stores and the businesses cycled periods of strong online demand in the prior year.

Further detail on the operational impact of COVID-19 is provided in the divisional results commentary.

Group results summary

Half-year ended 31 December ($m)	2021	2020	Variance %
Key financials			
Revenue	17,758	17,774	*(0.1)*
EBIT	1,905	2,137	*(10.9)*
EBIT (after interest on lease liabilities)	1,796	2,023	*(11.2)*
EBIT (after interest on lease liabilities) (excluding significant items)[a]	1,796	2,057	*(12.7)*
NPAT	1,213	1,390	*(12.7)*
NPAT (excluding significant items)[a]	1,213	1,414	*(14.2)*
Basic earnings per share (excluding significant items)[a] (cps)	107.3	125.0	*(14.2)*
Return on equity (excluding significant items)[a] (R12, %)	24.8	24.7	*0.1 ppt*
Significant items[a]			
Pre-tax significant items	-	(34)	*n.m.*
Post-tax significant items	-	(24)	*n.m.*
Cash flows and dividends			
Operating cash flows	1,556	2,216	*(29.8)*
Net capital expenditure	405	243	*66.7*
Free cash flows	949	1,964	*(51.7)*
Cash realisation ratio (excluding significant items)[a,b] (%)	79	102	*(23 ppt)*
Interim ordinary dividend (fully-franked, cps)	80	88	*(9.1)*
Balance sheet			
Net financial debt / (cash)[c]	2,615	(871)	*n.m.*
Debt to EBITDA (excluding significant items)[a,d] (x)	2.0	1.3	*0.7 x*

n.m. = not meaningful

[a] There were no significant items in 2021. Significant items in 2020 of $34 million pre-tax ($24 million post-tax) relate to Target store closures and conversions in Kmart Group.

[b] Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation.

[c] Interest-bearing liabilities less cash at bank and on deposit, net of cross-currency interest rate swaps and interest rate swap contracts. Excludes lease liabilities.

[d] Total debt including lease liabilities, net of cash and cash equivalents, divided by EBITDA excluding significant items.

Divisional earnings summary

Half-year ended 31 December ($m)	2021	2020	Variance %
Earnings before tax (EBT) excluding significant items[a]			
Bunnings	1,259	1,274	*(1.2)*
Kmart Group	178	487	*(63.4)*
Officeworks	82	100	*(18.0)*
WesCEF	218	160	*36.3*
Industrial and Safety	41	37	*10.8*
Divisional EBT (excluding significant items)[a]	**1,778**	**2,058**	***(13.6)***

[a] There were no significant items in 2021. Significant items in 2020 of $34 million pre-tax ($24 million post-tax) relate to Target store closures and conversions in Kmart Group.

Performance overview

Bunnings

Revenue for Bunnings increased 1.7 per cent to $9,209 million for the half, while earnings declined 1.2 per cent to $1,259 million.

"Bunnings delivered pleasing sales and earnings results in the context of the significant disruptions to trading conditions during the half and the very strong growth in the prior corresponding period," Mr Scott said. "Bunnings' performance for the half reflected its ability to meet customers' needs through a range of operating conditions and further highlighted the resilience and flexibility of its model. Bunnings continued to incur additional costs to ensure a safe environment for team members and customers, as well as to manage COVID-related supply chain disruptions.

"Bunnings continued to accelerate the development of its digital offer during the half, with improved search performance and greater personalisation for DIY customers, as well as the launch of a new e-commerce platform for commercial customers.

"Good progress continued on the growth of Bunnings' commercial offer, including through the further development of its specialist brands, with the expansion of Tool Kit Depot into Western Australia and the completion of the Beaumont Tiles acquisition during the period."

Kmart Group

Kmart Group's revenue declined 9.6 per cent to $4,917 million for the half, with earnings before significant items declining 63.4 per cent to $178 million.

"Combined Kmart and Target earnings declined 55.8 per cent to $222 million for the half, reflecting the significant impact of government-mandated store closures, which led to the loss of almost 25 per cent of store trading days during the half, as well as higher costs and lower stock availability as a result of domestic supply chain disruptions," Mr Scott said. "The Group's commitment to pay team members where there was no meaningful work during lockdowns and when they were required to isolate also led to additional costs during the half.

"The planned changes to the Target store network were completed during the half and the performance of Kmart stores that have been converted from Target stores continues to be pleasing and in line with the initial business case, after adjusting for the impact of lockdowns.

"Kmart and Target continued to invest in data and digital capabilities, and strong growth in online sales for the half of over 44 per cent reflected ongoing improvements to the digital experience for customers, as well as elevated online demand during lockdowns.

"Gross transaction value for Catch increased 1.0 per cent for the half, and 97.5 per cent on a two-year basis. Lower earnings in Catch reflected the continued investment in team, technology, marketing and capabilities to support long-term growth, as well as higher levels of inventory clearance compared to the prior year."

Officeworks

Revenue for Officeworks increased 3.7 per cent for the half to $1,580 million, while earnings declined 18.0 per cent to $82 million.

"Sales growth was supported by continued strong demand in technology and furniture, which was partially offset by declining sales in higher-margin office supplies and print & copy categories, which continued to be adversely impacted by COVID-related restrictions, including government-mandated temporary store closures," Mr Scott said.

"Officeworks' earnings were impacted by higher costs of doing business as a result of elevated volumes of online orders needing to be picked and packed from stores during lockdowns, inefficiencies associated with the transition to a new customer fulfilment centre (CFC) in Victoria, and additional costs associated with managing COVID-related disruptions, as well as accelerated investment in data, digital and e-commerce capabilities.

"Officeworks' long-running investment in its every-channel capabilities supported an increased online penetration to 46.0 per cent for the half."

Chemicals, Energy and Fertilisers

WesCEF's Fertilisers revenue increased 29.8 per cent to $1,077 million for the half and earnings increased 36.3 per cent to $218 million.

"WesCEF delivered a solid operating performance for the half, and strong sales and earnings growth was supported by higher global commodity prices, particularly for LPG, ammonia and ammonia-related products," Mr Scott said.

"WesCEF continued to evaluate potential capacity expansion opportunities and progressed the development of the Mt Holland lithium project, with construction activity ramping up during the half and the project continuing to track the announced schedule."

Industrial and Safety

Industrial and Safety's revenue increased 5.1 per cent to $944 million and earnings increased 10.8 per cent to $41 million for the half.

"The solid performance of Industrial and Safety was supported by higher sales and increased operating efficiencies at Blackwoods, as well as continued growth in demand from Coregas' industrial and healthcare customers," Mr Scott said.

Other businesses, including data and digital

Other businesses and corporate overheads reported earnings of $18 million for the half, compared to a loss of $1 million in the prior corresponding period. This result includes expenses associated with the new data and digital division.

Earnings in this segment benefited from a significant contribution from property revaluations in BWP Trust as well as higher earnings from the Group's interests in Wespine and Gresham. The result also benefited from a favourable Group insurance result, an increase in dividends received from Coles and API, and the receipt of proceeds from an equity distribution as part of the value share mechanism agreed on the sale of Homebase in 2018. These benefits were partially offset by higher corporate overheads and the accelerated investment in the data and digital ecosystem.

Operating expenditure relating to the data and digital division of $44 million was incurred for the half, compared with costs of $5 million in the prior period. These costs include expenses associated with the Advanced Analytics Centre, the development of OnePass and the establishment costs as part of the expansion of the partnership with Flybuys.

More details on the data and digital ecosystem, including the OnePass program, will be provided at the Strategy Day in June 2022. Financial results for the new division will continue to be disclosed separately as part of the Group's Other businesses segment for the 2022 financial year.

Portfolio actions

Wesfarmers continued to progress its proposal to acquire API, working closely with API management. On 11 February 2022, the Australian Competition and Consumer Commission (ACCC) advised that it will not oppose the proposed acquisition. Subject to satisfaction of remaining conditions, including approval by API shareholders, the transaction is expected to complete around the end of the first quarter of the 2022 calendar year.

Subsequent to the end of the half, Emily Amos was appointed to the Wesfarmers Leadership Team in a senior executive role responsible for the Group's health-related opportunities. Emily brings over 25 years of health, retail, strategy and digital leadership experience and will commence in late April 2022, working closely with the API CEO and management team.

In November 2021, Bunnings completed the acquisition of Beaumont Tiles, which supports Bunnings' broader investment in expanding its commercial offer and specialist brands strategy.

Cash flows, financing and dividends

Operating cash flows of $1,556 million were 29.8 per cent below the prior corresponding period, driven by lower earnings for the half, lower cash flows from working capital movements, the payment of team member incentives relating to the 2021 financial year, a reduction in employee benefit provisions as employees took more leave following the easing of COVID-related restrictions, and higher tax instalments. Divisional operating cash flows before interest, tax, and the repayment of lease liabilities declined 16.1 per cent compared to the prior corresponding period. The Group's cash realisation ratio was 79 per cent for the half.

The Group's working capital position was impacted by higher ending inventory, particularly in Kmart as a result of additional purchasing decisions to prioritise availability while COVID-related disruptions persist, combined with the impact of lockdowns and significant domestic supply chain constraints. As such, the Group's cashflow result for the period was lower than would normally be expected during the first half. Despite this, the Group maintains its focus on disciplined working capital management, and Kmart's inventory position, which is concentrated in non-seasonal lines, is expected to normalise as COVID-related disruptions ease. The closing inventory position for WesCEF was also elevated, driven by higher commodity prices impacting the value of fertiliser stock being accumulated for the 2022 growing season.

Gross capital expenditure of $583 million was 42.2 per cent above the prior corresponding period, largely driven by investment of $139 million in the development of the Mt Holland lithium project, partially offset by lower spend associated with the timing of property and new store projects at Bunnings. Property disposals of $178 million were $11 million above the prior corresponding period, reflecting higher property divestment activity in Bunnings during the half. The resulting net capital expenditure of $405 million was $162 million, or 66.7 per cent, higher than the prior corresponding period.

Free cash flows of $949 million were 51.7 per cent below the prior corresponding period, as a result of lower operating cash flows during the half, higher net capital expenditure, as well as the purchase of a 19.3 per cent stake in API during October 2021 for $131 million and completion of the Beaumont Tiles acquisition in November 2021.

The Group recorded a net financial debt position of $2,615 million as at 31 December 2021, comprising interest-bearing liabilities, excluding lease liabilities, net of cross currency swap assets and cash at bank and on deposit. This compares to a net financial cash position of $871 million as at 31 December 2020, and a net financial cash position of $109 million as at 30 June 2021. The increase in net financial debt during the half was largely driven by the distribution of $2.3 billion of surplus capital by way of capital return to shareholders in December 2021 as part of the Group's repositioning of its balance sheet.

The directors have determined to pay a fully-franked ordinary interim dividend of $0.80 per share, reflecting Wesfarmers' dividend policy, which takes into account available franking credits, balance sheet position, credit metrics and cash flow generation and requirements. The Group has maintained balance sheet flexibility to respond to the high levels of uncertainty associated with COVID-19, and to take advantage of value-accretive growth opportunities, if and when they arise.

Outlook

Since the onset of COVID-19, Wesfarmers and its businesses have focused on supporting team members, and building deeper customer relationships and community trust, while continuing to invest for the long term. Strong progress in these areas, combined with a strong balance sheet and a portfolio of cash-generative businesses with market-leading positions, make Wesfarmers well positioned to deliver satisfactory returns to shareholders over the long term.

Overall economic conditions in Australia remain favourable, supported by strong employment and high levels of accumulated household savings. The Group continues to actively manage increasing inflationary pressure and will leverage its scale to mitigate the impact of rising costs. The Group's retail businesses will increase their focus on price leadership and are well positioned to continue to provide customers with great value on everyday products as rising cost-of-living pressures impact household budgets.

Wesfarmers will continue to focus on providing safe and inclusive environments for team members and customers, and will further expand the broad health and wellbeing support provided to team members. The Group has maintained its commitment to pay team members impacted by isolation requirements and continues to recognise the strong alignment between team member engagement, community and customer trust, and sustainable long-term value creation.

Retail trading conditions were subdued in January due to rising cases of the COVID-19 Omicron variant impacting both customer traffic and labour availability, but trading momentum has improved in recent weeks.

The Group has continued to incur additional costs and experience stock availability impacts as a result of ongoing global supply chain disruptions, elevated team member absenteeism and delays with third party logistics providers. Supply chain disruptions, elevated transport costs and constraints in domestic labour markets are expected to continue in the second half.

As a result of progress in recent years to develop deeper customer relationships, stronger digital engagement and expanded ranges of everyday products, the Group's retail businesses are well positioned to manage the transition as COVID-related restrictions are eased.

The Group's retail businesses will maintain their focus on meeting changing customer needs and delivering even greater value, quality and convenience for customers. Investment in divisional digital capabilities will continue and is expected to support enhancements to customer value propositions, expansion of addressable markets and delivery of operating efficiencies.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, foreign exchange rates, competitive factors and seasonal outcomes. WesCEF is expected to continue to benefit from elevated global commodity prices and will continue to progress the development of the Mt Holland lithium project. Industrial and Safety will maintain its focus on delivering improvements in performance and profitability.

Despite recent and ongoing disruptions as a result of COVID-19, Wesfarmers remains committed to investing in strategic initiatives that will support long-term growth.

Progress will continue to accelerate on the development of strong foundations to support the Group's data and digital ecosystem, which will provide customers a more seamless and personalised digital experience across the Wesfarmers retail businesses. This includes the progressive extension of the OnePass subscription program to provide greater value to customers across the Group's retail businesses. In line with previous guidance, operating expenditure associated with the Group's data and digital ecosystem of approximately $100 million is expected during the 2022 financial year.

Wesfarmers will continue to manage its businesses with deep carbon awareness, actively considering climate change risk when making key business decisions and managing the portfolio. The Group remains focused on delivering progress against its net zero and renewable electricity targets and aspirations, and will make disciplined investments to strengthen the climate resilience of its businesses.

Wesfarmers will maintain an appropriately strong balance sheet to preserve flexibility to invest in long-term growth initiatives across the Group and manage the ongoing uncertainty associated with COVID-19. The Group expects net capital expenditure of between $900 million and $1,100 million for the 2022 financial year.

The proposed acquisition of API is expected to complete around the end of the first quarter of the 2022 calendar year, subject to remaining conditions, including approval by API shareholders.

The Group will continue to develop and enhance its portfolio, building on its unique capabilities and platforms to take advantage of growth opportunities within existing businesses and to pursue investments and transactions that create value for shareholders over the long term.

For more information:

Media
Rebecca Keenan
Media and Public Affairs Manager
+61 8 9327 4423 or +61 402 087 055
RKeenan@wesfarmers.com.au

Investors
Simon Edmonds
Investor Relations Manager
+61 8 9327 4438 or +61 409 417 710
SEdmonds@wesfarmers.com.au

This announcement was authorised to be given to the ASX by the Wesfarmers Board.