

Results Release

colesgroup

29 April 2020

2020 Third Quarter Sales Results

**Supporting our team members, customers,
community and suppliers during COVID-19 and bushfires**

Statement from Coles Group CEO Steven Cain

"I would like to say a huge thank you to our team members, suppliers and community partners, SecondBite and Foodbank, for their enormous efforts during the third quarter to sustainably feed all Australians to help them lead healthier, happier lives at a time when bushfires and the impact of COVID-19 made that purpose more important than ever.

We would like to thank the Government for establishing the Supermarkets Taskforce. We are also grateful to the State and Federal Health authorities for their expert advice on how to combat the threat of infection in our stores and through our supply chain, and we continue to work with them to implement recommended measures to keep our team members and customers safe, including promoting the use of the Government's COVIDSafe app.

We have been encouraged to see the way that Australians have met this challenge as a community, taking the opportunity to help neighbours, family and friends wherever they can.

As we all continue to adjust to the many changes that have resulted from the pandemic, Coles is already taking steps to help restore Australia's economic recovery. This includes hiring an additional 12,000 team members, continuing our multi-billion dollar capital and operating expenditure plans to underpin future growth, continuing to prioritise value for customers, continuing sporting and community sponsorships, and paying an interim dividend of more than \$400 million to our shareholders, which directly and indirectly benefits millions of Australians."

Third Quarter Sales – 12 Weeks from 6 January to 29 March 2020

\$ MILLION	3Q20	3Q19	CHANGE	COMPARABLE GROWTH ¹
Supermarkets	8,230	7,232	13.8%	13.1%
Liquor	740	697	6.1%	7.2%
Express (c-store)	256	243	5.0%	4.3%
Total third quarter sales	9,226	8,173	12.9%	12.4%

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, 3Q19 is based on 7 January to 31 March 2019.

Third quarter sales performance highlights

- Group third quarter sales revenue increased by 12.9% to \$9.2 billion
- Supermarkets performed strongly in January and February prior to the impact of COVID-19, and achieved comparable sales growth of 13.1% for the third quarter, its 50th consecutive quarter of comparable sales growth
- Liquor was negatively impacted by bushfire smog over capital cities and floods in January and February, before being impacted by COVID-19 later in the quarter. Liquor achieved comparable sales growth of 7.2% for the third quarter
- Express fuel volumes peaked at ~70mL per week during the quarter, before being materially impacted by fewer vehicles on the roads as a result of COVID-19 measures late in the quarter, exiting the quarter at ~50mL per week

Strategic highlights

Inspire Customers

- Provided trusted value for customers by lowering the cost of BBQs and school lunchboxes
- Range reviews were conducted across more than 30 categories including skin care, coffee and snacks, with more new products and tailored ranges
- Introduced more than 260 'Own Brand' products during the quarter including the "GRAZE" grass-fed lamb range from Tasmania
- Refreshed websites across all three Liquor banners, delivering online sales growth of 34% in the third quarter
- Entered into an agreement to purchase Jewel Fine Foods, one of Australia's largest, state-of-the-art, ready-meal facilities, which will assist Coles to become a destination for convenience and health

Smarter Selling

- Continued capital and operating expenditure programs to ensure Coles is well placed when COVID-19 restrictions ease
- Opened three new supermarkets and six renewals through tailored store format strategy
- Progressed automation projects with the contracts relating to the Ocado sites in New South Wales and Victoria well advanced. Construction continuing throughout the quarter on the Witron distribution centre in Queensland
- Progressed integration of stores and supply chain to further drive end to end efficiencies

Win Together

- Played a significant role in providing an essential service to the community during this difficult time including investing in:
 - Prioritising team member and customer safety to support social distancing measures including additional in-store cleaning and security
 - Recruiting over 12,000 casual team members in a short period, allowing Coles to serve more customers, replenish shelves faster and offer employment opportunities for Australians impacted by COVID-19
 - Opening pop-up distribution centres in New South Wales, Victoria and Queensland, creating jobs and increasing the capacity and speed of our supply chain
 - Acknowledging the extraordinary efforts of our team members by providing additional team member discounts on their shopping
 - Making additional donations of food and groceries to SecondBite and Foodbank to the retail value of \$1 million a week to help Australians facing hardship
- Ensured Australia's elderly and most vulnerable together with emergency and healthcare workers are provided better access to groceries by introducing "Coles Community Hour" and launching Coles Online Priority Service ('COPS') in March
- Supported communities impacted by bushfires through additional donations to Red Cross Disaster Relief and Recovery Fund, distribution of gift cards to rural fire brigades as well as conducting an Executive Team offsite in Beechworth, Victoria, a bushfire affected region
- Executive team strengthened with the appointment of Ben Hassing, Chief Executive eCommerce, who is expected to join in May
- Coles named the Most Popular Retail and FMCG Employer in the Top100 Graduate Employers 2020 Awards
- Announced a five-year partnership to be the official supermarket of the Australian Football League (AFL) and the AFLW. The partnership aims to promote the participation of women in the AFL, a children's health program and Indigenous women participation via a relationship with the Essendon Football Club
- Announced a partnership with Stephanie Alexander's Kitchen Garden Foundation to encourage more Australian children to eat a healthier diet

Update on the impact of COVID-19

Supermarkets

In late February, Supermarket sales growth was impacted by customer stock piling as a result of rising concerns relating to COVID-19, which continued throughout March. This unprecedented demand led Coles to begin placing product limits per customer in certain categories from early March. Further in late March, Government imposed social distancing measures led to more Australians working and spending more time at home, which in turn led to greater at home consumption of meals and other household items. The significant demand was seen across all categories, particularly grocery, health & home and meat. During this period, Supermarkets experienced very strong transaction and basket size growth, although the trends were also positive in the earlier part of the quarter. According to Nielsen, Australians made more than 30 million incremental trips to supermarkets in March¹.

While Coles Online sales were temporarily suspended on 18 March, COPS was launched in late March with a focus on delivering groceries to those Australians most vulnerable and in need during isolation. As a result of this temporary disruption and modified purpose, Coles Online sales growth for the quarter slowed to 14%.

To meet the challenges of recent customer demand, Coles is working closely with suppliers and supply chain partners to ensure stock is being delivered to store and our customers as quickly as possible. Three pop-up distribution centres were opened in New South Wales, Victoria and Queensland which increased capacity in each state. In addition, Coles invested in customer service which included hiring an additional 12,000 team members to ensure improved stock replenishment during this difficult time. Coles has also been working with Federal and State Governments and Health Departments to manage our response as well as other industry stakeholders to ensure continued supply.

While Coles experienced a sales uplift in the latter part of the quarter, in addition to the aforementioned costs, incremental costs were also incurred in cleaning and security to ensure our stores are a safe place to work and shop for our team members and customers.

Liquor

Liquor sales growth was also impacted as result of COVID-19. However, the impact on sales in Liquor only began to materially elevate in the latter part of March, following the Federal Government's decision to close hotels, pubs, clubs and licensed venue operators, which in turn led to Liquor placing limits of product per customers, soon thereafter.

Incremental costs incurred in Liquor to support the strong demand were largely consistent with Supermarkets, including in-store service, cleaning and security. Additionally, Liquor experienced margin deterioration during the period as customers moved towards more bulk and value-oriented products.

Express

In Express, there was some uplift in Convenience (c-store) sales in March as a result of the same pantry stocking experienced in Supermarkets. However, this was offset by lower fuel volumes late in March with less road traffic due to social distancing measures requiring people to largely remain at home. While weekly fuel volumes peaked at approximately 70mL during the quarter, the business exited the quarter at approximately 50mL per week.

¹ Source: Nielsen Homescan data 4 weeks to 22 March 2020

Segment performance review

Supermarkets

Financial and Operating Metrics

	3Q20	3Q19	CHANGE
Sales revenue (\$m)	8,230	7,232	13.8%
Comparable sales growth ¹ (%)	13.1%	2.4%	1,069bps
Sales per square metre (\$)	17,295	16,612	4.1%
Net selling area (MAT) (sqm)	1,911,630	1,884,330	1.4%
Price inflation / (deflation) (%)	2.6%	0.9%	165bps
Price inflation / (deflation) ex tobacco and fresh (%)	1.8%	(1.4)%	325bps

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, 3Q19 is based on 7 January to 31 March 2019.

Key highlights

Supermarkets sales revenue for the third quarter was \$8,230m, up 13.8% on the prior corresponding period with comparable sales growth of 13.1%. Strong sales growth in January and February pre COVID-19 was driven by continued successful execution of our strategy to deliver trusted value via our campaign to lower the cost of BBQs and school lunchboxes. Range reviews were conducted across more than 30 categories including skin care, coffee and snacks, with more new products and tailored ranges. Our now recyclable Fresh Stikeez collectible campaign returned to encourage more Australian children to eat a healthier diet supported by Curtis Stone, and Stephanie Alexander's Kitchen Garden Foundation.

During COVID-19, restrictions were placed on a number of categories including toilet rolls, hand sanitiser, pasta, rice and mince meat. These restrictions are gradually being lifted as demand reduces and supply improves.

Coles Online sales revenue grew by 14% in the third quarter, despite Home Delivery and Click & Collect being temporarily suspended in March prior to the launch of COPS. Growth was supported by the expansion of the network and stronger seasonal volumes across the January holidays. Coles Online is now seeking to increase capacity to meet the demand of customers by recruiting more team members and extending and increasing pick and delivery shifts, leading to additional pick capacity and delivery slots for customers.

Coles strives to inspire customers with great value and innovation through Own Brand, reporting sales growth of 15% in the third quarter. Own Brand continues to grow faster than proprietary brands and achieved sales contribution of 30% at the end of the quarter. Over 260 new products were launched during the quarter, including innovations such as the "GRAZE" lamb range, which is the first purely grass-fed lamb from Tasmania delivered by an Australian supermarket, and the Woofin Good range, an innovative dog food and treats offer made from carefully selected ingredients to provide complete and balanced nutrition. Coles also received the CHOICE Recommended Award for Coles Traditional Fruit Hot Cross Buns, making Coles the only retailer to receive this award three times in a row.

Coles recorded inflation excluding tobacco and fresh of 1.8% in the third quarter with overall Supermarkets inflation of 2.6% as unprecedented demand and uncertainty of supply led to a lower promotional mix. Inflation was seen across all categories, particularly dairy, deli and meat, with the latter largely a result of the break in the drought and increased availability of feed causing farmers to restock their herds thus limiting supply.

Supermarkets completed six renewals during the quarter, including five Format C renewals. In addition to the renewals, three supermarkets were opened and one closed with Coles ending the period with 825 supermarkets.

Liquor

Financial and Operating Metrics

	3Q20	3Q19	CHANGE
Sales revenue (\$m)	740	697	6.1%
Comparable sales growth ¹ (%)	7.2%	3.7%	354bps
Sales per square metre (\$)	14,720	14,282	3.1%
Net selling area (MAT) (sqm)	214,886	213,955	0.4%

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.

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, 3Q19 is based on 7 January to 31 March 2019.

Key highlights

Liquor sales revenue for the third quarter was \$740m, up 6.1% on the prior corresponding period with comparable sales growth of 7.2%. Liquor sales increased as a result of COVID-19 later in the quarter.

Prior to the onset of COVID-19, the liquor market remained subdued as customer drinking habits were impacted by the bushfire smog and subsequent floods. Over the quarter there was strong growth in the spirits category, offset in part by lower volumes and beer and ready-to-drink categories during the period when bushfire smog impacted air quality in January.

The renewal program across the First Choice Liquor Market continued with four renewals completed during the quarter. The Vintage Cellars trial concept store is also operating with encouraging early results, particularly in the spirits and wine categories. During the quarter, refreshed websites were launched across all three banners which delivered online growth of 34%. Investments were also made in online capacity to support the growing demand for online delivery.

Sales growth from Exclusive Liquor Brands increased by 10%. A total of 10 Exclusive Liquor Brand lines were launched during the quarter with 36 awards, medals and accolades received. Coles' Scotch Whisky partner, Loch Lomond continues to deliver exceptional whisky that is highly awarded, most recently picking up two Double Gold medals at the World Spirits Competition in San Francisco for the Loch Lomond 18-year-old Single Malt and Loch Lomond 12 year old Single Malt. Fili Prosecco also picked up Gold at the Mundus Vini 2020, one of the most prestigious wine shows in the World.

Liquor opened two new stores during the quarter and closed six, bringing the total network to 913 retail liquor sites.

Express

Financial and Operating Metrics

	3Q20	3Q19	CHANGE
Convenience (c-store) sales revenue (\$m)	256	243	5.0%
Comparable c-store sales growth ¹ (%)	4.3%	(0.5)%	485bps
Weekly fuel volumes (mL)	63.6	59.2	7.4%
Fuel volume growth (%)	7.4%	(10.9)%	1,833bps
Comparable fuel volume growth (%)	5.3%	(11.4)%	1,679bps

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, 3Q19 is based on 7 January to 31 March 2019.

Key highlights

Convenience (c-store) sales revenue for the third quarter was \$256 million, up 5.0% on the prior corresponding period with comparable c-store sales growth of 4.3%. The result benefited from COVID-19 related pantry stocking late in the quarter with strong demand in non-food categories such as toilet paper and cleaning products. Sales were also supported by the Fresh Stikeez collectible campaign which included a 'Secret Stikeez' only available at Coles Express. Range reviews in hot food-to-go also contributed to volume and sales growth with a focus on range simplification that delivered availability on key lines including the Coles Express Beef Pie and Sausage Roll lines.

During the quarter, a network-wide roll-out of fast-lane fridges also commenced. This will allow Coles Express to provide a more compelling offer to customers in drinks and snacks in the highest foot traffic area of the store. The roll-out to the remainder of the network is expected to be completed in the fourth quarter.

The COVID-19 sales uplift was partially offset by the impact of significant weather events earlier in the quarter, including bushfires and associated smoke haze, and floods in New South Wales and Queensland, both leading to less traffic into Express stores, as well as several site closures.

Express opened one new site during the quarter and closed three, bringing the total network to 711 sites.

Outlook

In the first four weeks of the fourth quarter, which included the Easter period and ANZAC Day, Supermarkets comparable sales growth has broadly trended back toward the levels seen in the early part of the third quarter (pre COVID-19). During this period, Coles has seen an increase in basket size which has been partially offset by a decline in transactions driven by social distancing measures.

Extended trading hours in selected states, including across the Easter weekend and ANZAC Day, were popular with customers and team members and helped reduce queues at our busiest times. Easter trading was more subdued this year than prior years due to restrictions on traditional family and friends events and celebrations.

As more customers either work at home or stay at home there is early evidence of customers changing their habits, purchasing less convenience and impulse products and moving towards more cooking and baking from scratch. This is supported by the best viewer numbers of MasterChef in five years. As the Federal and State Governments successfully flatten the COVID-19 curve we are also beginning to see destocking of some pantry lines like pet food.

In the fourth quarter, Coles expects an elevated cost base as a result of the additional investment it is making as a result of COVID-19. This investment includes the following:

- Higher remuneration costs due to additional team members in store to ensure a safe environment for customers and team members;
- Investment in additional cleaning, security and queuing systems in order to comply with social distancing guidelines, more hand sanitiser, the introduction of check-out screens, and flu vaccination rebates for our team members;
- Extra grocery donations to SecondBite and Foodbank;
- Absorbing cost price pressures largely as a result of the effects of the drought and bushfires; and
- Additional team member discounts reflecting their extraordinary efforts in response to COVID-19.

Liquor is expected to continue to experience elevated sales as long as restrictions on hotels, pubs, clubs and licensed venue operators continues. Margin deterioration associated with change in mix is expected to persist for the period that these measures remain in place, as will the incremental COVID-19 costs. Further, range review activity continues in Liquor with the associated clearance activity expected to continue to impact EBIT, consistent with the trends seen earlier in the year.

In response to the 'stay at home' directives from the Federal and State Governments, the first four weeks of the fourth quarter saw fuel volumes in Express decline to an average of approximately 40mL per week. This in turn has led to a material deterioration of fuel related commission revenues. Further, c-store sales relative to the prior corresponding period are also expected to be negatively impacted with less visits to Express sites. Express now expects to report an EBIT loss, on a pre-AASB 16 basis, for the 2020 full year and is actively working with its partners on options to mitigate these losses.

Depending on the extent or timing of the existing or any future Government measures, as well as when measures may also start to ease, it is unclear how long the various impacts of COVID-19 outlined above may continue to impact the business. Coles recognises however that there will be higher unemployment for an extended period of time and that value will be top of mind for many customers. Coles is actively working with suppliers to improve our branded specials program and our trusted value Own Brand ranges.

Coles will also continue to review operational and strategic learnings and opportunities that emerge as we exit COVID-19 that accelerate delivery of our long term plan.

The renewal program is back in full swing following a slow down in the third quarter due to delays in refrigeration equipment being shipped out of China, and meat export sales are now back on track. Gross operating capex in FY20 is now expected to be in the range of \$750 million to \$850 million subject to any unexpected COVID-19 impacts in the final two months of the year.

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

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

Appendix 2 – Number of stores

	OPEN AS AT 6 JANUARY 2020	OPENED	CLOSED	OPEN AS AT 29 MARCH 2020
Supermarkets	823	3	(1)	825
Liquor	917	2	(6)	913
Express	713	1	(3)	711
Group store numbers	2,453	6	(10)	2,449