



Friday, 21 March 2014

**Metcash Limited**

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50 Waterloo Road  
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NSW 2113 Australia

## **ASX ANNOUNCEMENT**

### **METCASH ANNOUNCES TRANSFORMATION PLAN**

Metcash Limited today released details of its transformation plan following a strategic review that began in June 2013.

Ian Morrice, CEO of Metcash, said the transformation plan focussed on four strategic priorities that when implemented, would underpin long term sustainable growth for Metcash and independent retailers. These included:

- Transforming Metcash Food & Grocery (MFG), known as Project Diamond;
- Driving consolidation and sustainable network growth;
- Further enhancing its world class supply chain; and
- Enabling Successful Independents.

“Project Diamond is the key initiative for MFG. Following significant research we plan to reignite top line growth within the food and grocery channel through implementing six growth levers.

“The consolidation and sustainable network growth initiative will see Metcash focus on converting more independent retailers to our liquor, hardware and automotive banners; extend our retail footprint; reinvigorate our retail execution and enhance the category growth opportunities.

“Metcash is already well known for its logistics capabilities – but our benchmark is world best practice. We will drive efficiencies through further infrastructure investment; continue to invest in technology; increase flexibility to better serve customer needs and reduce our cost of service.

“The final initiative in the transformation plan is providing better support to independent retailers. We plan to do this by expanding our digital platform by introducing competitive omni-channel solutions locally tailored for retailers and providing enhanced analytics and insights capabilities. In addition we will provide programs through a Retail Academy, part of attracting and training new retailers to the independent network; developing existing retailers’ skills and capabilities and provide greater value-adding services to members,” Mr Morrice said.

Metcash is driving the transformation of MFG with significant investment over the next three years. Total capex is estimated to peak at between \$150m and \$180m in 2015, reducing to \$130m-\$150m in 2016 and 2017. The costs of the transformation plan are as follows:

- MFG transformation: \$100m - \$125m predominantly to fund store refurbishments, new stores and store buybacks;
- Supply Chain: \$160m - \$180m – DC Automation;
- Digital: \$15m-\$20m; and
- Other discretionary capex: \$85-\$130m – allocated for bolt on opportunities and network growth.

In order to fund the initiatives in the transformation plan Metcash will target further working capital improvements of \$30-\$40m over FY15 and FY16; reduce the Dividend Payout Ratio to 60% commencing from final FY14 dividend; and continue to offer its dividend reinvestment plan (DRP) to shareholders. The company retains flexibility in its capital management plan to underwrite the DRP. The DRP will provide balance sheet support and enable Metcash to continue to invest in the business and implement the initiatives from Project Diamond while maintaining a prudent capital structure.

Mr Morrice said management was confident in the work that had been completed on the transformation plan to date and acknowledged that success was dependent on very good execution. Initial pilot program results are very positive and retailers working with Metcash are strongly supportive of the plan.

Attached is the Strategy Briefing presentation detailing the transformation plan.

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## SUCCESSFUL INDEPENDENTS

STRATEGY BRIEFING, MARCH 21<sup>ST</sup> 2014



# INTRODUCTION & GROUP OVERVIEW

# Our purpose: Successful Independents

## Our values

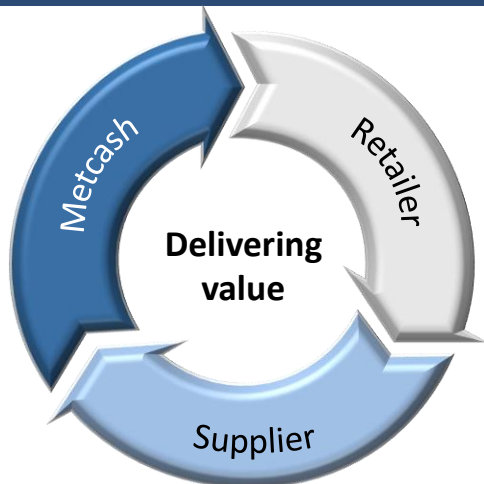
### Integrity is the foundation of our values:

- Supporting our customers and suppliers
- Our people are empowered and accountable
- Adding value in our community

## Our vision

- Growing our markets and delivering value to our stakeholders
- Distribution and merchandising excellence
- Retailer and consumer champions
- Successful and passionate independents
- Great place to work

## Our model



## Our markets



Food & Grocery



Liquor



Hardware



Automotive

# The strategic review



We remain very confident about the **future of independent retailing**:

- **Consumers** want a convenient, local, successful independent alternative to the chains
- **Retailers** want to continue to grow their businesses
- **Suppliers** can realise greater volumes via network growth
- **Shareholders** can realise long-term sustainable returns

We have a clear purpose and have identified four strategic priorities to underpin the long term sustainable growth of the independent network

June  
(Review  
kicked off)

Dec  
(1H14 Results  
– market  
update)

March  
(Investor Day)

# Our strategic priorities

To underpin **long-term sustainable growth** of the independent network we will:

- **Reinvest** in our core business
- Become **demand driven** not supply led
- Ensure group is **prudently funded**



## 1. TRANSFORMATION OF METCASH FOOD & GROCERY

## 2. CONSOLIDATION & SUSTAINABLE NETWORK GROWTH

## 3. WORLD CLASS SUPPLY-CHAIN

## 4. SUPPORTING INDEPENDENTS

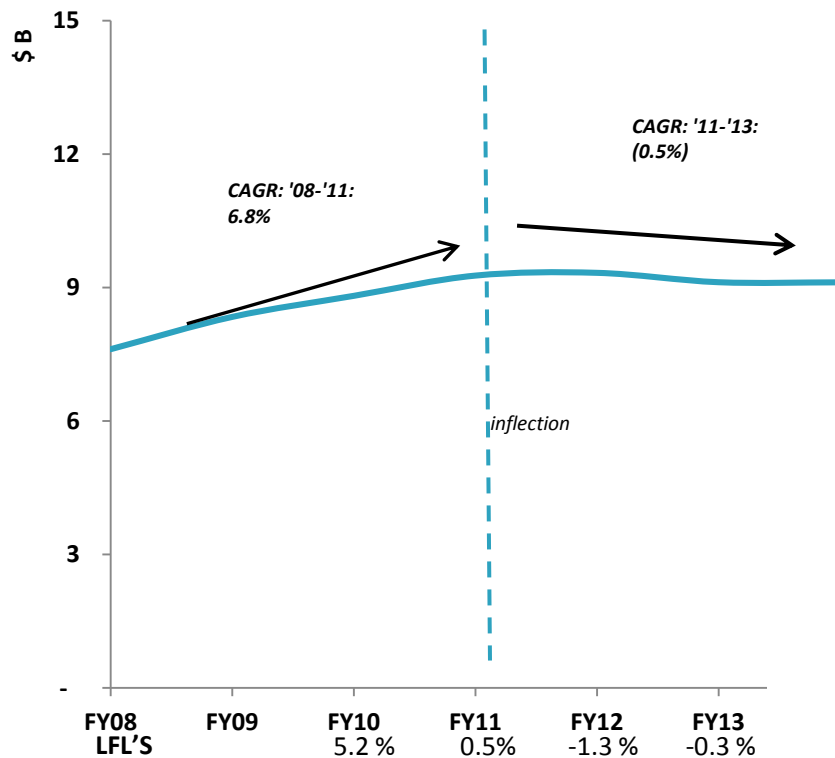


# 1. TRANSFORMATION OF METCASH FOOD & GROCERY

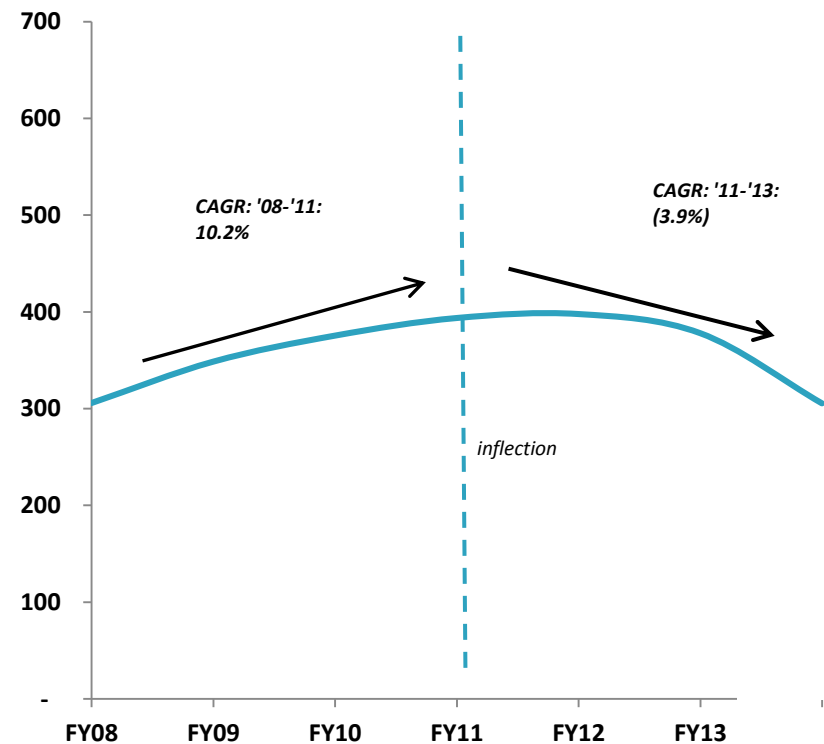


# We recognise that we must change

## MFG Revenues have plateaued



## Resulting in operating de-leverage



# Changing our network model

## Model must evolve to remain competitive

- Traditionally buying and ranging focused, rather than shoppers' needs
- Strategy for own brands has not kept pace with retailer and consumer expectations
- Inconsistency across the network on pricing, retail execution, and quality & consistency of the fresh offer
- Lack of investment in stores has resulted in limited delivery of compelling offer
- Current model unable to attract and retain high calibre retailers
- Underlying LFL sales have been lagging the market

## Developed a fact-driven shopper led strategy with input from key stakeholders

- Strategy is based on a deep understanding of shopper preferences:
  - Surveys, demographics and shopper interviews create visibility into shopper needs within geographic catchments
- Built deep understanding of value drivers:
  - Data driven conclusions on drivers of store over/underperformance and actions required for stores to achieve full potential
- Worked closely with retailers and suppliers to develop & test the solutions
- Pilot programs under way will allow us to refine assumptions

**Change is now necessary to underpin a successful & sustainable network**

# Transformation plan has identified six growth levers

1 Shopper-led ranging	2 Competitive pricing	3 Compelling fresh offer	4 Retail excellence	5 Network investments	6 Convenience reset
<ul style="list-style-type: none"><li>▪ Differentiated offer by catchment</li><li>▪ Localised range</li><li>▪ Compelling own brands</li><li>▪ Shopper –led category management</li><li>▪ Deliver ‘How the locals like it’ in-store</li></ul>	<ul style="list-style-type: none"><li>▪ Competitive shelf prices</li><li>▪ Continue aggressive promotions</li><li>▪ Focused shopper communication</li><li>▪ Format and occasion pricing</li></ul>	<ul style="list-style-type: none"><li>▪ Space and layout</li><li>▪ In-store standards, capabilities, execution</li><li>▪ Fresh capabilities (at MFG)</li><li>▪ Fresh tailored to occasion e.g. ‘Buy as you need’</li></ul>	<ul style="list-style-type: none"><li>▪ Store owner excellence</li><li>▪ Diamond<sup>1</sup> benchmarks identified</li><li>▪ Retailer academy</li><li>▪ ‘System’ efficiency</li><li>▪ Qualify for the right to the banner</li></ul>	<ul style="list-style-type: none"><li>▪ Launch Diamond<sup>1</sup> standard store</li><li>▪ Investment in refurbishments initially, then accelerate new store openings</li><li>▪ Build retailer services - digital and online</li></ul>	<ul style="list-style-type: none"><li>▪ Category focussed share of wallet strategy</li><li>▪ Customer sector approach to growth</li><li>▪ C-store sector consolidation</li><li>▪ Pilot small store formats</li></ul>

# To be executed over three phases

## Strategic Review

### 1. Fix the Basics

- Offer competitive prices and promotions
- Develop shopper-led range
- Competitive own brands
- Set 'fresh' standards
- Improve retail execution
- Build shopper-led culture
- Improve marketing competencies
- Build strong retail capabilities

### 2. Invest in Growth

- Expand innovation in price and promotions
- Grow new, exciting offers and categories (e.g. 'fresh' value-add)
- Tiered own brand offer
- Develop compelling fresh
- Retailers must be aligned with banner discipline / guidelines
- Make network investments

### 3. Sustain Growth

- Make every store famous as a local shopper destination
- Emphasise strong local focus
- New, tailored formats
- Digital platform in place
- Full 'independent' category management

**Fixing the basics and investing in growth is imperative to creating a sustainable independent network**

# 1. Shopper-led ranging: Will drive growth and differentiation

## Deliver on “How the Locals like it”

- Recognise that we will buy and range for shopper needs, not warehouse needs
- Develop an attractive own brands offer with three clearly defined tiers
- Manage range based on clear understanding of category structure and roles
- Tailor range to mission and catchment – differentiate based on analytics and local retailer insights
- Improve execution across the ‘system’

## Shopper and retailer benefits

- Present an appealing and tailored offer and range to the shopper
- Rationalisation of SKUs in order to create space to deliver the right offer
- Increase shelf productivity by ensuring space is freed up for growth categories

**15-40%**

sales/m<sup>2</sup> outperformance by stores with range tailored to their catchment

**Tailored range to drive retailer sales and GP**

# 1. Shopping-led ranging: Tiered own brand offering is key

Tier	Current offer	Ambition
Premium/ controlled	<ul style="list-style-type: none"><li>None at present</li></ul>	<ul style="list-style-type: none"><li>Build/source strong premium brand to differentiate product range</li><li>Build controlled brand offer</li></ul>
Everyday		<ul style="list-style-type: none"><li>Significantly strengthen IGA Signature and introduce new everyday product</li><li>Redirect significant volume from discount tier to manage margin and price perception</li></ul>
Discount		<ul style="list-style-type: none"><li>Reduce shelf price to be competitive</li><li>Deliver a consistent brand proposition</li><li>Decrease reliance on discount tier as volume shifts to premium and everyday</li></ul>

**Tiered own brand offer to meet consumer needs**

## 2.Competitive Pricing: Price Match is a key initiative

**We've reduced prices to match the major national supermarket chains.**



- Price Match will achieve sustainable competitiveness in shelf prices and communicate this clearly to the shopper
- Metcash Food & Grocery (MFG) and retailers are making a significant investment to match competitors' prices on thousands of everyday products
- Competitive pricing will deliver ~\$100m of value to consumers
- We are currently piloting Price Match in 34 IGA stores across the country, and will review and refine to ensure a successful roll out across the network

**Competitive pricing drives volume**

### 3. Compelling fresh offer: Starts with retail execution

Initial focus will be on investing in our internal resources and helping develop retailer capabilities

- 1 Implement optimal fresh format and in-store designs
- 2 Improve in-store execution
- 3 Achieve consistent range, price and promotions in stores
- 4 Provide an effective sourcing solution for retailers

**35-40%**

Higher sales/m<sup>2</sup> for stores with fresh mix over 30% of total sales

**Strong fresh offer drives sales and margin**



### 3. Compelling fresh offer: Leverage existing network excellence

#### Best practice example: Romeo's Supa IGA St Ives, NSW

Quality space allocation and format design



Open, and spacious

Prominent display for seasonal product



Great in-store execution



Clear ticketing, abundant and appealing

Dedicated resource



Consistent high quality and wide range



Wide range on offer

High quality and consistent price



## 4. Retail excellence: Underpins retailers reaching potential

- Well-trained retail consultants and fresh specialist field force will be increased by 50%
- The role of field staff will change from auditor to value-add partner
- Complete 'Diamond Standard'<sup>1</sup> tool-kit which establishes path to excellence for store operators
- Build a training academy to develop skills for owners and staff
- Fresh execution is a critical priority across all initiatives
- Renewed focus on driving down retailers' cost of doing business



**Improve retail execution**

**Empower business owners**

**Foster people development**

## 5. Network investment: Two pronged approach

1

### First invest in current network to improve customer offer

- Working together to ensure retailers can fund refurbishments as needed
- Initially targeting over 400 stores for refurbishment over the next 3-4 years
- Improving the quality and space allocation of retailers' fresh section is a critical focus
- 'Refurbishment pilot' plans are under way



Romeo's Supa IGA St Ives

2

### Then invest in new store openings

- Re-start investment in new sites when we have fully tested the optimised model and proposition
- In the interim we will continue to support retailers who are pursuing store expansion



Ashcrofts Supa IGA, Orange

# IGA retailer support for change is strong

## Retailer Engagement

- Strong level of retailer engagement / consultation from the beginning
  - Pilot retailers and working groups
  - National Council and State Boards
- Shift in Metcash: from supply led → demand driven
- Retailers committed to disciplines around execution
- Executable plans creating genuine retailer support & excitement

## Store Pilots

- Ryan's stores are part of 34 store pilot program
- Built on data / insights and analysis not previously available
- Genuine store staff engagement
- Driving consistent execution storewide
- Developed through strong Metcash / Retailer partnering
- Pilot results are strong/encouraging

**Changes at MFG are welcomed by retailers**

## 6. Convenience strategy: Improve and grow the business

1

### Improve C-Store Distribution performance and profitability

- Target broader share of wallet within existing accounts
- Grow sales of higher margin product (e.g. Grocery, GM)
- Leverage supply chain investment
- Drive lower cost sourcing

2

### Improve Campbells Wholesale performance and profitability

- Improve key elements of value proposition: price, promotions and service
- Target growth in more profitable segments
- Engage customers via digital platforms that make it easy to shop

3

### Consolidate C-store sector

- Create a c-store offer to support existing independent service stations
- Develop distinct value add offer to each banner
- Leverage MFG buying power
- Actively consolidate fragmented c-stores into Banner groups

4

### Develop our retail formats

- Test fresh-focussed formats with ready-to-eat and ready-to-cook ranges
- Potential for converting existing sites in metro areas
- Develop modules to use within other banners (e.g. ready-to-eat)



# The transformation has begun

- We have defined our vision for the future of MFG
  - Our transformation will be sales growth-led
  - Shopper-driven organisation with an appealing offer to customers
  - Offer that is competitive against the majors, but differentiated by being targeted to local communities
  - Data has been collated and analysed to support model
  - A retail model that is sustainable and attracting new retailers
- And we've started the journey:
  - Retailers have endorsed the vision
  - Suppliers are supportive of the transformation
  - The Metcash organisation is aligned for the journey
  - Pilots for two key initiatives are underway with more in the pipeline



# Financial impact of MFG Transformation

**Revenues:**  
Returning to  
trend growth

- Sales trajectory expected to return to growth in FY15 as we execute the strategy
- Returning to the market<sup>1</sup> growth rate over the medium term
- Significant investment in the underlying retail offer
  - Significant further investments in fresh execution, own brand offer, retail training / development and development of merchandise & shopper insight capabilities
- Total opex investment impact of \$40m - \$45m over FY15
- Return to earnings growth from FY16

**Earnings:**  
Short term  
investment to  
fund growth  
plan

**Capital:**  
Co-invest with  
retailers in the  
network

- \$100-125m of growth capex to underpin the transformation over the next 5 years
  - Majority for co-investment with retailers on refurbishments and store development



## 2. CONSOLIDATION & SUSTAINABLE NETWORK GROWTH





# AUSTRALIAN LIQUOR MARKETERS

# Customer base



>12,000

Hotels, liquor stores & other  
licensed customers

- Independent retailer **banner groups**
- Most efficient **source of supply**
- **Full service** model
- Continue to grow **On-premise**

**ALM has achieved strong growth in a flat liquor market**

# IBA's growth is consumer led

- Grow **convenient locations**
- Provide **everyday value**
- **Category focus** (optimal localised range)
- Consumer led **Category management**
- Excellent in-store **execution**
- **Strategic Supplier** relationships

**64%**

of shoppers look at price before they start their journey<sup>1</sup>



**24%**

of shoppers actually shop on price<sup>1</sup>



**Outperforms the market consistently like for like**

# Future growth

- Right banner to the catchment
- Continue to convert fragmented players to Independent Brands Australia (IBA)

**87%**

of liquor shopping occasions are in small format stores



Within **12 min**  
from home

Competitor 1  
**~900**  
stores



Competitor 2  
**~1,300**  
stores



  
INDEPENDENT BRANDS  
AUSTRALIA  
**~1,200**  
stores



Rest of market  
**~2,000**  
stores



# ALM strategic priorities

## ALM CUSTOMERS

- Provide the best low cost supply chain to independents
- Focus on reducing CODB
- Support our contract retail customers
- Continue to build on-premise supply

## CONTROLLED MARKETING GROUPS

- Consumer focused offer at store level
- Continue the growth of licensed retail brands
- Give suppliers a sustainable route to consumers
- Meet the demand in each local market
- Utilise multiple channels to maximise reach

## RETAILER SUPPORT

- Online training academy in place
- Build on IT platforms, Scan data analysis
- Share benchmarks of best practice
- Continue to provide consumer insights to ensure offer meets their needs

## CULTURE

- Empowered and accountable people
- Customer service focus
- Continue to develop and grow our people
- Employer of choice





# MITRE 10

# Significantly improved network

- Converted 74 independent stores to M10
- Established national footprint of JV's (trade based)
- Alliance with Natbuild trade buying group
- 83% of network brand compliant
- Brand repositioning: "Mighty Helpful"
- Automated DC's & China 3PL



Since acquiring M10 in 2010, Metcash has significantly improved operational performance



# M10 strategic priorities – consumer driven



1. **Value** to the consumer
2. Shopper led-**range**
3. **Retail excellence**
4. **Trade focused**
5. Optimal **location & convenience**
6. Superior **customer service**
7. **Locally owned**



# M10 strategy is consumer driven

## RANGE & PRICE

- Shopper led range
- Support quality brands
- Aggressive catalogues
- 75 competitive seasonal KVI's
- Private label refresh

## RETAIL EXCELLENCE

- Convert independent non-aligned stores to M10
- Improve in-store execution
- Optimise JV's
- "Store of the future"

## DOMINATE TRADE

- Natbuild alliance
- Relationship driven
- Technology for the tradie
- Convenient (get in get out)
- Drive thru & delivery

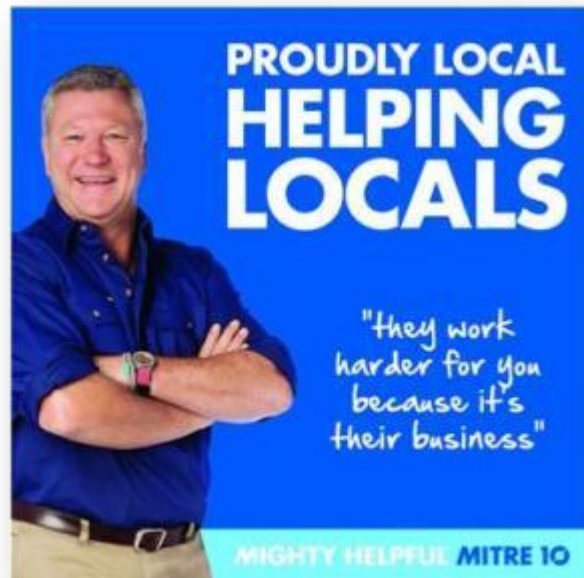
## SUPERIOR CUSTOMER EXPERIENCE

- Omni-channel expectation
  - Physical store
  - Web (research)
  - On-line (click & collect)
  - Smart phone
- Superior service & advice  
"Mighty Helpful"



# Strong focus on the local market

- Mitre 10 is well positioned in both trade and customer service because our stores are locally owned
- Local ownership only makes a difference if our 'consumer strategy' is effectively executed





# METCASH AUTOMOTIVE

# Australian Independent Automotive Market Overview

**17.1M**  
Vehicles

**10** years average  
age

**2.4%**  
Annual growth

**\$11BN**  
**WHOLESALE**



**\$30BN**  
**TOTAL AUTO MARKET**

ACCESSORIES

CHEMICALS

FILTRATION

OILS

FLUIDS

TYRE

BRAKE

SUSPENSION

COOLING

ELECTRICAL

BATTERY

GENERAL

RETAIL

TRADE

SERVICE

TYRE

Industry is:

- Fragmented
- Diverse
- Independent

**Metcash**  
**Automotive**  
**Focus**

# Metcash has made three strategic entries into Automotive

**AUTOMOTIVE BRANDS GROUP**  
JULY 2012

**AUSTRALIAN AUTOMOTIVE**  
**DISTRIBUTION**  
MAY 2013

**PARTCO**  
DECEMBER 2013

**RETAIL**



**TRADE**



**SERVICE**



- Foundation entry
- 246 store network
- Strong brands

- Wholesale / trade entry
- Brake / Suspension
- Service Entry – 53 Franchised Outlets

- Adjacency expansion - water pump, steering & suspension

# Metcash Automotive strategy is consumer driven

## CUSTOMER VALUE

- Consumer led ranging
- Innovative and effective marketing
- Strong consumer value proposition
- Disciplined merchandising standards
- Enhance store training and development

## LOWEST COST TO SERVE

- Increase retailer profitability through lower COOB
- Optimise supply chain with multi-service DC's and JIT capability
- Expand direct sourcing and leverage growing scale
- Strong cost control

## UNIFIED CULTURE

- Build talent profile
- Share learnings and best practice across business platforms
- Drive empowerment & accountability

## BUILDING BRANDS

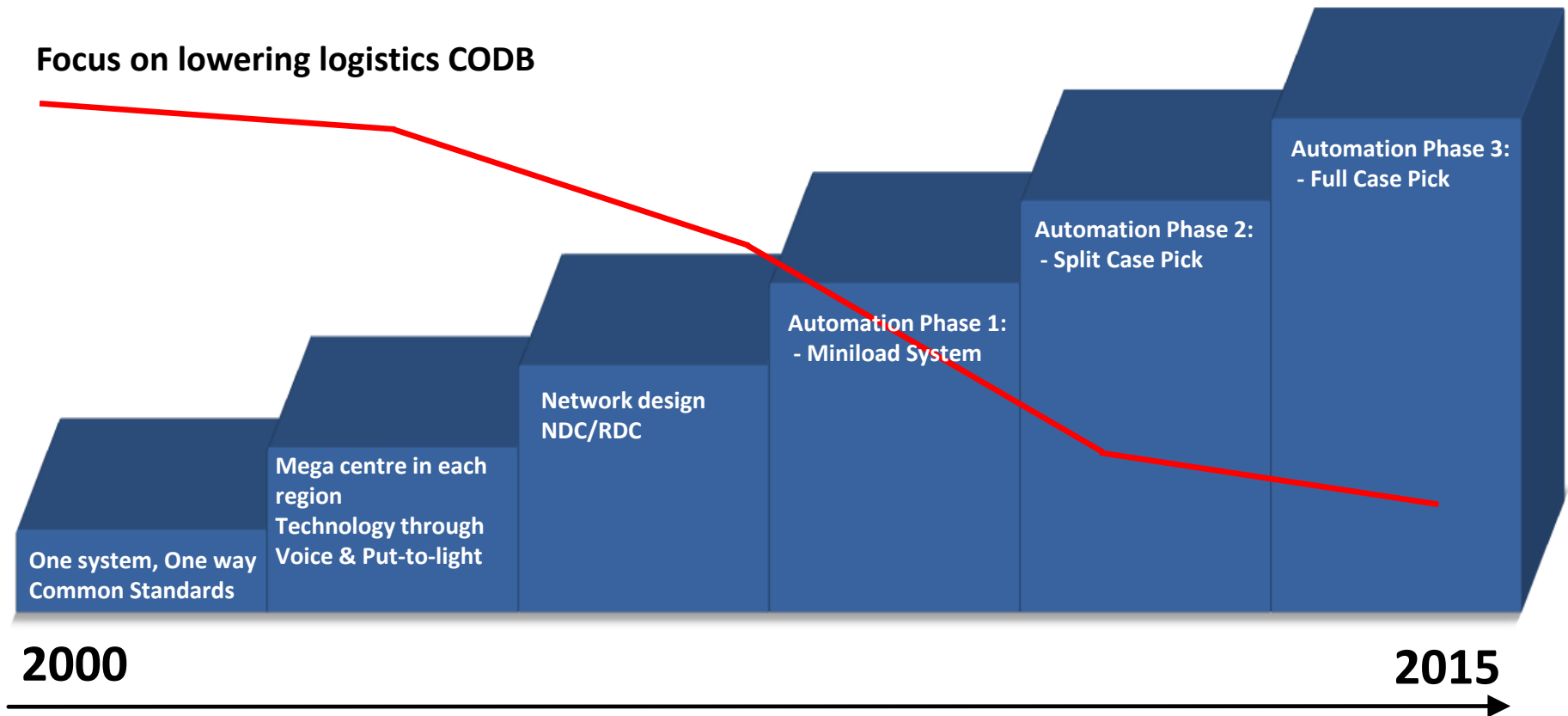
- Network growth via greenfield development and independent conversions
- Grow presence in service
- Participate in industry consolidation
- Extend product development and heritage brand relationships





### 3. WORLD CLASS SUPPLY-CHAIN

# Our capabilities continue to grow and evolve



Metcash already has best in class distribution capabilities



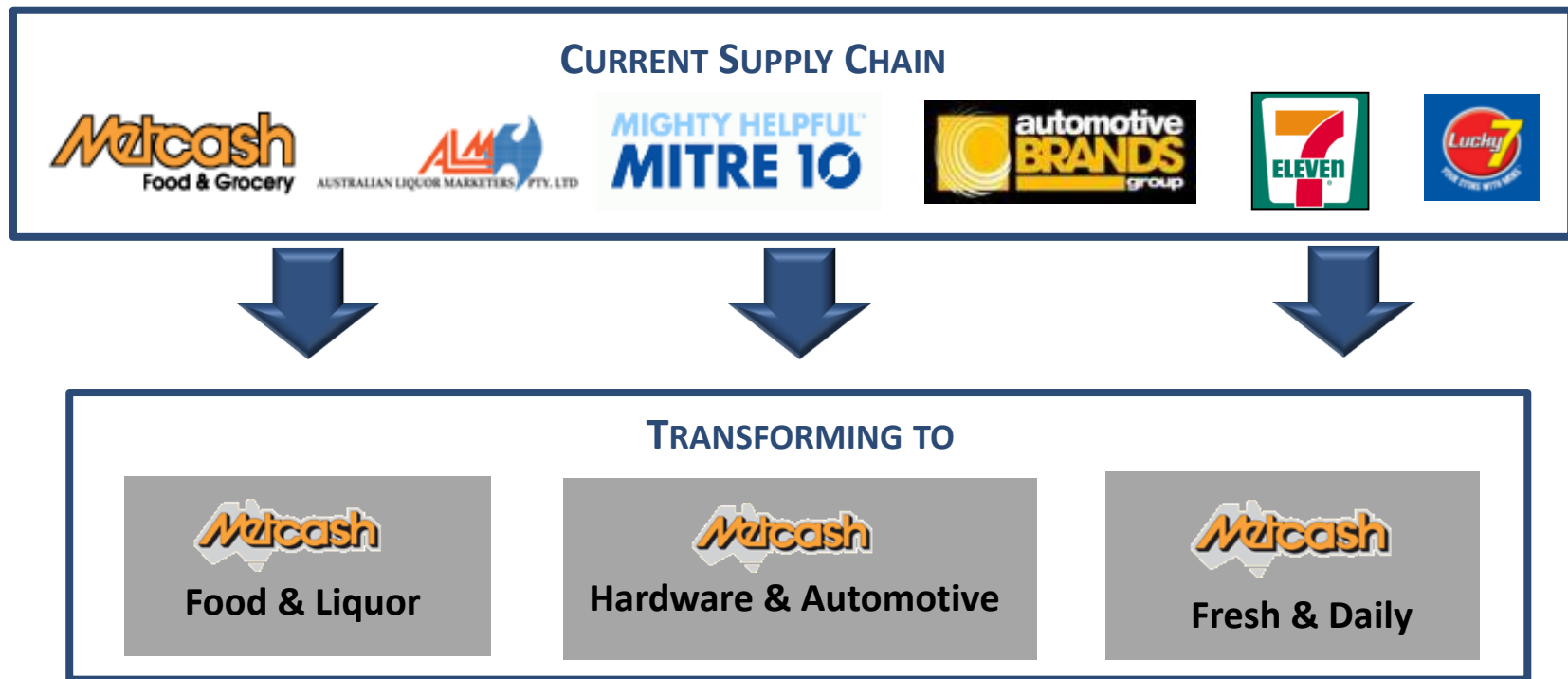
# Strategic priorities for supply chain

1. Better **align** our supply chains to the **needs of retail customers and suppliers**
2. Continue to **optimise “Cost-to-Serve”** equation through operational excellence
3. Ensure a **safe work environment** whilst reducing reliance on manual handling through investment in automation
4. **Leverage distribution synergies and technologies** across our businesses

**Global best practice is our benchmark**



# Aligning our supply chain to deliver benefits



# Investing in Automation

## Execution

- **Deploying technology** in 3 operational areas:
  - Split case and single pick goods-to-man
  - Robotic full case automation picking – Project Mustang
  - Inbound delivery management

## Metcash Benefits

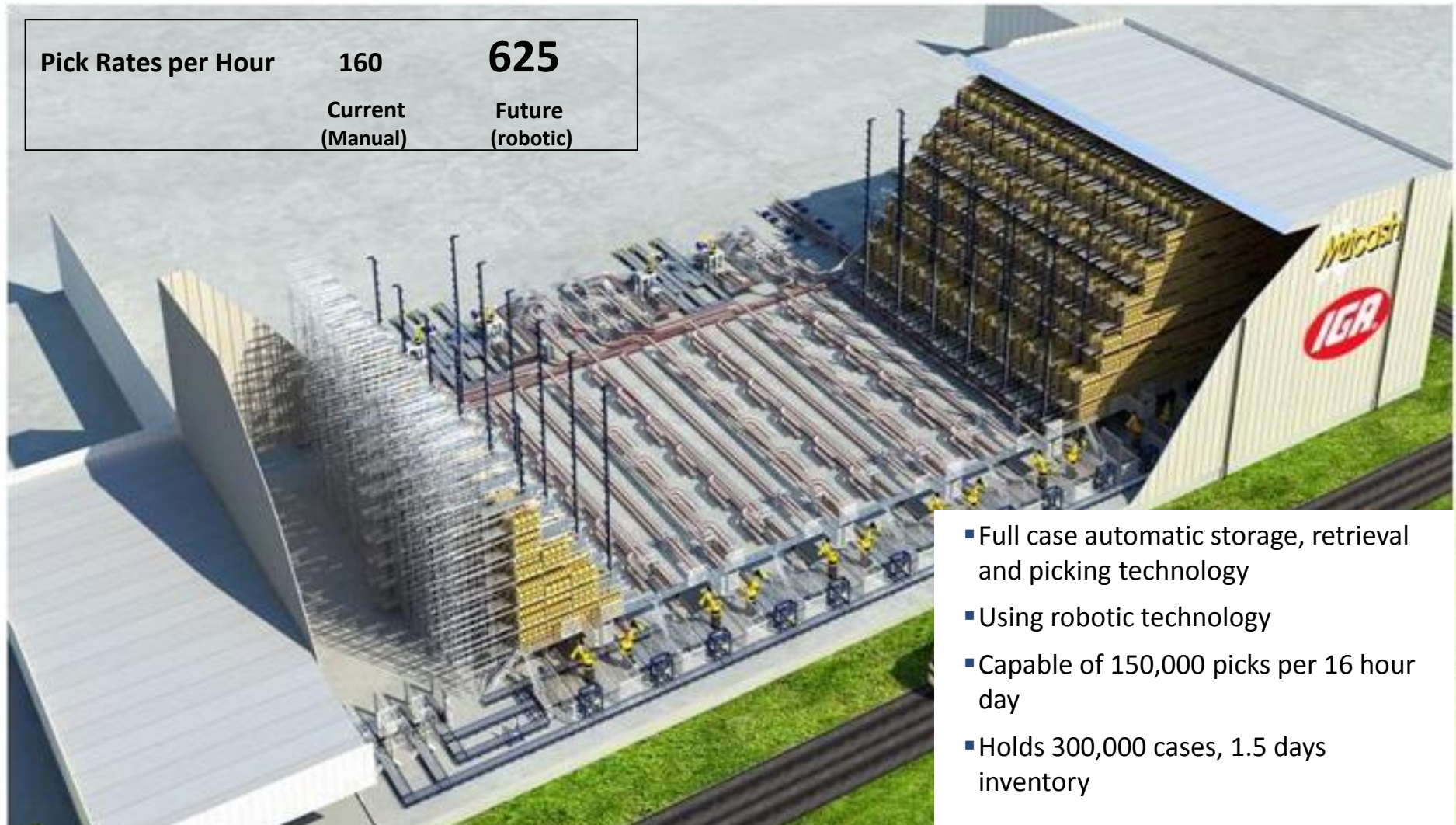
- Cost reduction
- Regulatory compliance
- Improved productivity
- Higher service levels

## Retailer Benefits

- Store friendly pallet deliveries
- Improved order to delivery lifecycle
- Improved transport utilisation



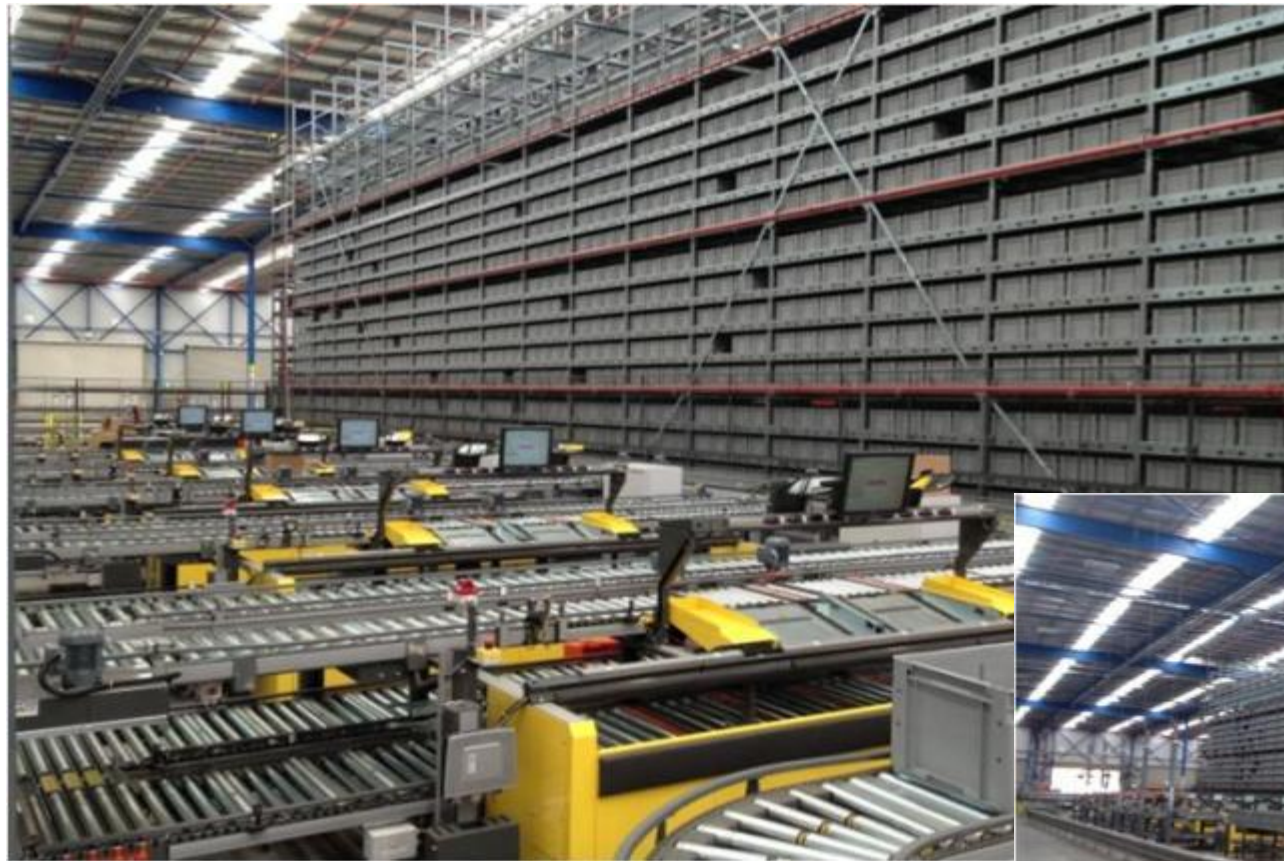
# Automation – Full Case Pick ( Project Mustang)



- Full case automatic storage, retrieval and picking technology
- Using robotic technology
- Capable of 150,000 picks per 16 hour day
- Holds 300,000 cases, 1.5 days inventory



# Automation – Split Case Pick



- Single pick and split-case Goods-to-Man automation technology
- Capable of 85-100,000 picks per day
- Supports convenience strategy
- Perfect technology for Single Pick & Deliver, B2B or B2C



Pick Rates per Hour	250	675
	Current (manual)	Future (automated)



## 4. SUPPORTING INDEPENDENTS

# The Metcash training academy

## METCASH CENTRE OF EXCELLENCE



### NEW BLOOD RETAILERS

### EXISTING RETAILERS

### INTERNAL TALENT

#### FORMAL ASSESSMENT

- Established competency assessment
- Psychometric profile matching
- Sourcing plan / retailer portfolio
- Identifying opportunities for up-skilling

#### STRUCTURED TRAINING & DEVELOPMENT

- Standardisation and centralised best practice training
- Set curriculum & core competency framework
- Measure results for continuous improvement

#### SPECIFIC TO PILLAR

- Retail management skills & execution
- Product / department training
- Store Operations & OHS
- Commercial acumen; financial / performance management

### SUCCESSFUL & SUSTAINABLE INDEPENDENTS

# Digital strategy - deliver leading digital experiences

## 1. Fix the Basics

- Align strategies across pillars
- Select common solutions
- Build internal expertise
- Learn how to optimize loyalty data with selected retailers
- Measure and act on digital ROI
- Make B2B easy to transact

## 2. Invest in Growth

- Develop retailer specific digital service offering
- Aggregate retailer loyalty data
- Develop consumer driven promotional programs
- Common loyalty platform
- Intent is to create economies of scale






## 3. Sustain Growth

- Innovative retail technologies
- Localise, customise and personalise
- Differentiate and tier retailer service offerings
- Create aligned partnerships

**Scale solutions tailored to retailers' local needs**



# Activity is structured around five work streams

	OBJECTIVES	ACTIVITY	
Brand engagement	<ul style="list-style-type: none"> <li>Build brand equity through digital channels, extending consumer reach and relevance</li> </ul>	<ul style="list-style-type: none"> <li>IGA Valentines Day campaign named by Twitter as “Best in Australia”</li> <li>Managed web pages for 915 stores</li> </ul>	
Analytics and Insights	<ul style="list-style-type: none"> <li>Transform culture, putting consumer insights at the heart of decision making</li> </ul>	<ul style="list-style-type: none"> <li>Partnership with Teradata – Gartner Magic Quadrant provider</li> </ul>	
Direct consumer engagement	<ul style="list-style-type: none"> <li>Personalise and customise communications and offers at a retailer level</li> </ul>	<ul style="list-style-type: none"> <li>Fishers IGA pilot rolling out after successful test</li> <li>Mighty Rewards program expansion</li> </ul>	
eCommerce	<ul style="list-style-type: none"> <li>Deliver seamless multi-channel shopping with local retailer execution</li> </ul>	<ul style="list-style-type: none"> <li>Hybris partnership – Forrester eCommerce Global Leader for both B2C &amp; B2B</li> <li>Convenience online platform replacement</li> </ul>	
Retail execution	<ul style="list-style-type: none"> <li>Leverage scale to bring innovation to retailers and support local propositions</li> </ul>	<ul style="list-style-type: none"> <li>Digital advertising roll-out to 800 stores</li> <li>Skyfii – free in-store wifi program</li> </ul>	

**Enterprise platforms and capability delivering local content, consumer engagement and execution**



# FINANCIALS

# Capital Expenditure

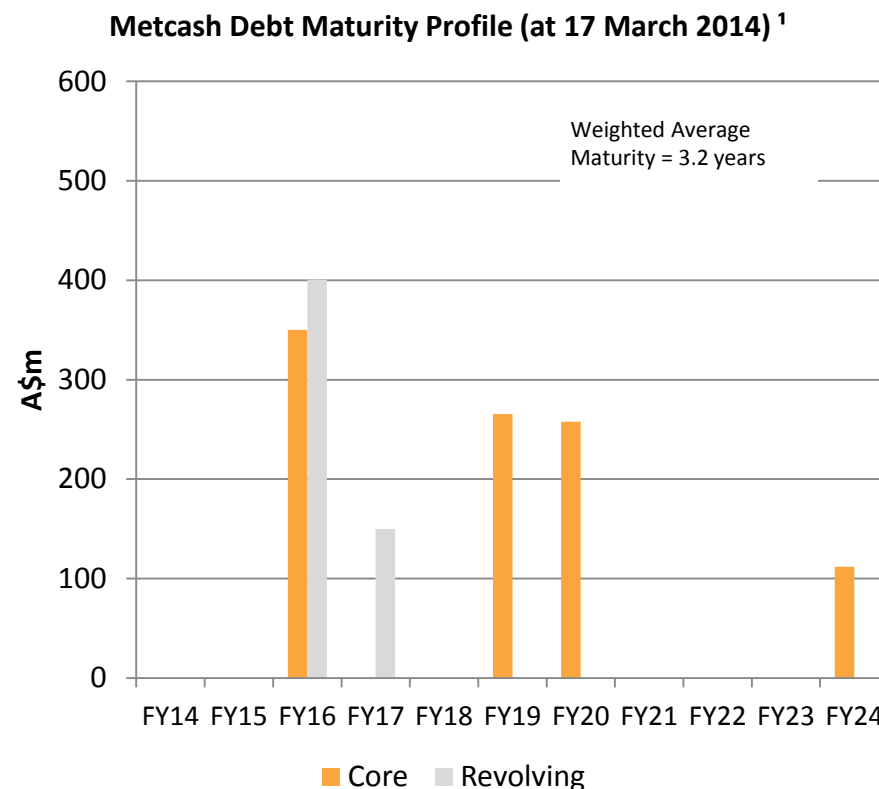
	TOTAL SPEND NEXT 5 YEARS	KEY COMMENTS
Maintenance Capex	<ul style="list-style-type: none"> <li>Approximately inline with D&amp;A</li> </ul>	<ul style="list-style-type: none"> <li>In line with previous years</li> </ul>
Growth Capex	<ul style="list-style-type: none"> <li>MFG Transformation (~\$100 – 125m)</li> </ul>	<ul style="list-style-type: none"> <li>Store refurbishments</li> <li>New stores</li> <li>Store buybacks</li> </ul>
	<ul style="list-style-type: none"> <li>Supply Chain (~\$160 – 180m)</li> </ul>	<ul style="list-style-type: none"> <li>DC automation</li> <li>First Project Mustang to go live by September 2014</li> <li>Next Mustang not before 2017</li> </ul>
	<ul style="list-style-type: none"> <li>Digital (~\$15-20m)</li> </ul>	<ul style="list-style-type: none"> <li>Digital platforms and consumer engagement</li> </ul>
	<ul style="list-style-type: none"> <li>Other discretionary capex (~\$85 -130m)</li> </ul>	<ul style="list-style-type: none"> <li>Bolt-on opportunities</li> <li>Network growth</li> </ul>
Total Capex	<ul style="list-style-type: none"> <li>Total capex over 5 years of \$575-675m                             <ul style="list-style-type: none"> <li>Peak in 2015 at \$150 - 180m</li> <li>Reduces to \$130 - 150m for 2016 and 2017 as MFG transformation initiatives give way to supply chain</li> </ul> </li> </ul>	

# Funding requirements and Capital Management

- Strategic review & transformation plan has identified the need to invest in the core business over the next few years
- Metcash has delivered a high dividend payout over the last few years (consistent with its philosophy of returning funds to investors in the absence of suitable investment opportunities)
- To fund these initiatives Metcash will:
  - Target working capital improvements of \$30 – 40m over FY15 to FY16 as a result of the MFG Transformation initiatives
  - Reduce the dividend payout ratio (DPR) to 60%, which is in line with policy (commencing from final FY14 dividend)
  - Continue to offer its dividend reinvestment plan (“DRP”) to shareholders and will decide whether to underwrite the DRP closer to the FY14 full year results.
- The DRP will provide balance sheet support and enable Metcash to continue to invest in the business and implement the initiatives from Project Diamond while maintaining a prudent capital structure
- Management will continue to monitor credit metrics throughout the Transformation period to ensure prudent levels of gearing are maintained

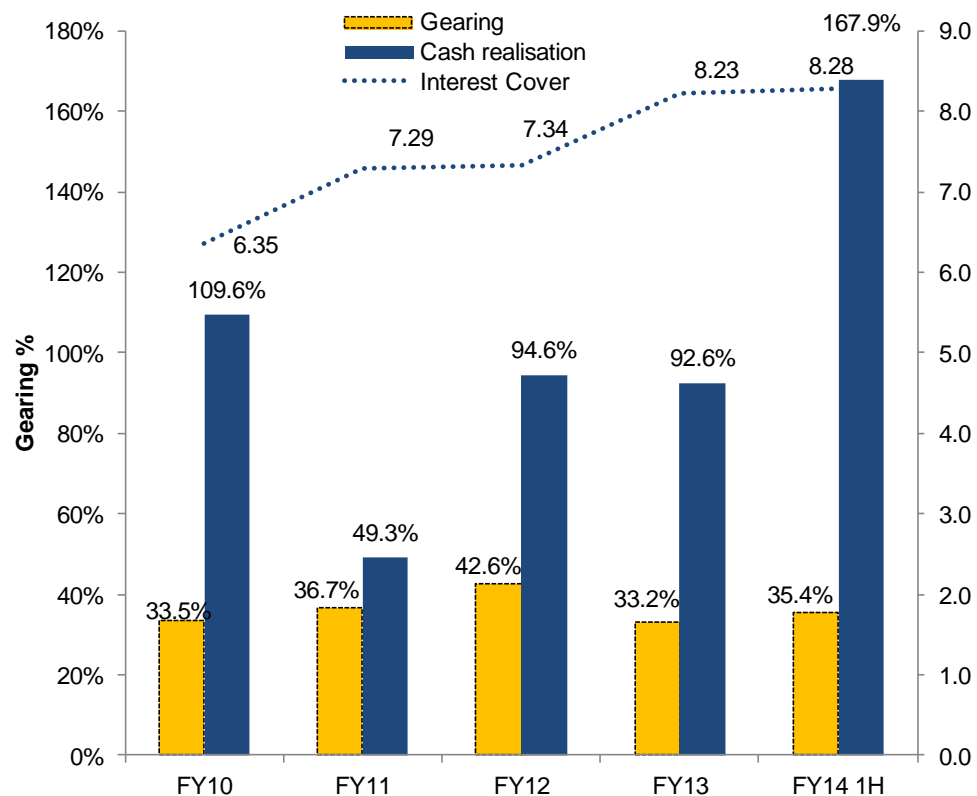
# Metcash Debt Maturity Profile

- Refinance of the A\$400m Tranche of Syndicated Facility (Core debt) maturing December 2014
  - Completed in March 2014
  - Two new tranches: A\$200m maturing June 2018 (FY19) and A\$225m maturing June 2019 (FY20)
  - Relationship banks have been supportive in this refinancing
- Sufficient headroom to financial covenants to support MFG transformation investment
- No debt refinancing required until FY16



# Gearing, cash realisation ratio & interest cover

- Metcash will target strong financial metrics through the MFG transformation
- Gearing (preferred target <40%) to 'spike' in FY15 but then improve with earnings
  - 'Managed' in short term via lower DPR & ongoing DRP
- Cash realisation targeted to remain above 100%
  - Aided by further improvements to working capital management and declining cash outflows from servicing legacy provisions
- Interest cover in the preferred range of 7 - 8x
  - Anticipated decline in short-term (FY15) as project is deployed, with recovery from FY16
  - Aided in short term via lower DPR and ongoing DRP
- Conservative approach to balance sheet management appropriate in context of MFG transformation
  - Near term reduction to DPR and ongoing DRP
  - Return to targeted metrics within strategy execution horizon



# Summary

- Near term Opex investment peaking in FY15 will be reflected in FY15 earnings
- Significant capital investment over 5 years - \$575-675m causing a spike in gearing in FY15
- Prudent capital management solutions including working capital initiatives, reductions in dividend payout ratio and ongoing DRP with potential to underwrite as required
- A return to targeted metrics within the strategy execution horizon
- Management will continue to monitor credit metrics throughout the Transformation period to ensure prudent levels of gearing are maintained



# WRAP-UP



# Path forward is strong

## OUR PURPOSE: SUCCESSFUL INDEPENDENTS



**1. TRANSFORMATION OF METCASH FOOD & GROCERY**



**2. CONSOLIDATION & SUSTAINABLE NETWORK GROWTH**



**3. WORLD CLASS SUPPLY-CHAIN**



**4. SUPPORTING INDEPENDENTS**



SUCCESSFUL INDEPENDENTS

THANK YOU