



Metcash Limited

ABN 32 112 073 480
50 Waterloo Road
Macquarie Park
NSW 2113 Australia

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ASX ANNOUNCEMENT

FY14 GUIDANCE UPDATE

Metcash Limited today announced an update to its 2014 full year guidance. The company has previously announced its strategic review to address structural challenges within the business, details of which will be presented to the market on Friday, 21 March. Aspects of this plan are being implemented and have begun to impact current year's earnings. The company's January and February results were also below management's forecasts. Management now expects a decline in underlying EPS in the range of 13-15% (which includes approximately 3% of equity issuance dilution) for FY14.

Ian Morrice, CEO of Metcash said: "The reason for this update to guidance is entirely due to our Food & Grocery pillar. It is pleasing that retail sales for independent retailers have lifted since the run-in to Christmas, assisted by the capping of excessive fuel docket discounts, good weather and a strong fresh performance in stores. The drivers of these retail sales have primarily been in fresh departments and direct sales and items not stocked in our warehouses. Whilst Metcash is yet to see the benefit of these increased sales flow through our warehouses, plans that address these issues are being implemented as part of our Food & Grocery transformation plan.

"Over this period Metcash Food & Grocery's operating de-leverage has continued due to lower warehouse sales volumes than last year and on-going deflation. The company's income has also been further impacted over recent months as the necessary changes to our Food & Grocery operating model have commenced. Examples include: a significant inventory reduction to make way for range optimisation; beginning the re-structure of our private label offer; and implementing a 'Price Match' pilot which has seen the price of many products reduced. These changes are part of Project Diamond; a key part of the company's transformation plan which is underway and is already being resourced," Mr Morrice said.

In addition, as part of the transformation plan, Mr Morrice said Food & Grocery management had undertaken a critical assessment of the carrying value of certain non-core retail and other assets. This also reflects a significant change in focus from retail development activity to in-store execution and refurbishment as key elements of Project Diamond.

This has resulted in the carrying value of certain retail and other assets (retail development assets, stores held for resale and other retail and property investments) being impaired, which together are expected to total \$30-35m (pre-tax). These are predominantly non-cash in nature and will be treated as non-recurring significant items in the FY14 financial statements.

Mr Morrice said management had also fast-tracked the rationalisation of warehouse operations within Metcash Automotive following the successful acquisition of ATAP earlier in the year. These costs will also be treated as significant items.

“The Board and management of Metcash are firmly focussed on placing the business on a solid and sustainable footing. On a positive note, the initial results of the Price Match pilot being run in 34 stores nationally, have been very pleasing. More detail on Project Diamond and the transformation plan for the business will be announced on Friday 21 March,” Mr Morrice said.

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For further information:
Stephen Woodhill
Group General Manager Corporate Affairs
+61 (0)2 9741 3415 or +61 (0)413 318 455

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