# FY20 Half Year Results

**5 December 2019**

Championing Successful Independents

Metcash

# Group update and divisional results

**Jeff Adams**
**Group Chief Executive Officer**



Metcash

## Our purpose

# Championing Successful Independents

## Our vision

- Best store in town
- Passionate about independents
- A favourite place to work
- Business partner of choice
- Support thriving communities

## Our values

**We believe:**

Independence is worth fighting for; in treating our people, retailers and suppliers the way we like to be treated; and in giving back to the communities where we live and work

# Group overview

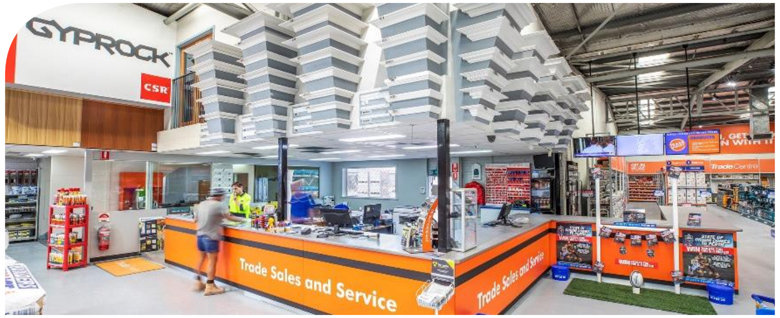
- Group highlights:
  - Total Food pillar sales (including charge-through) increased 1.2%, with Supermarkets wholesale sales ex tobacco being positive[1] for the first time since FY12
  - Liquor delivered its sixth consecutive year of earnings growth
  - Our Trade-focused Hardware pillar continued to perform well despite difficult trading conditions
  - MFuture programs progressing across all pillars
- Statutory results for 1H20 reflect adoption of the new Accounting Standard AASB16 *Leases*. Prior period comparatives not restated for impact of AASB16. To enable comparison, the results for 1H20 have been adjusted, where appropriate, to exclude the impact of AASB16
- Group sales (including charge-through sales) increased 0.5% to $7.2bn, reflecting sales growth in the Food and Liquor pillars, partly offset by a decline in Hardware sales
- Reported loss after tax of $151.6m includes an impairment of $237.4m (post tax) following the loss of the 7-Eleven contract (1H19 Pre AASB16: Reported profit after tax of $95.8m)
- Underlying profit after tax (pre AASB16) was $95.7m (1H19: $100.3m)[2]
  - Contribution from resolution of onerous lease obligations ~$10m higher in 1H19
  - Ceasing to supply Drakes in SA from 30 September 2019




1. Metcash ceased supply to Drakes in SA from 30 September 2019. Sales growth has been calculated by removing Drakes sales from the prior period (1 October 2018 to 31 October 2018).
2. In 1H20 underlying profit after tax excludes MFuture restructure costs of $4.8m (post tax) and asset impairment of $237.4m (post tax). In 1H19 underlying profit after tax excludes Working Smarter restructure costs of $4.5m (post tax).

# Group overview continued

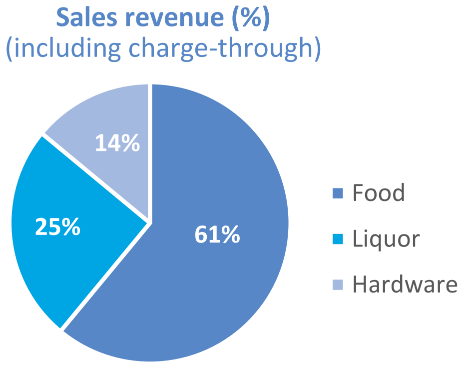
- Group underlying EBIT (pre AASB16) declined by $8.4m to $149.7m
  - Food EBIT decreased by $7.8m to $85.2m – contribution from resolution of onerous leases higher in 1H19 and ceasing to supply Drakes from 30 September 2019
  - Liquor EBIT increased by $0.5m to $29.6m – flow through from higher sales
  - Hardware EBIT decreased by $0.5m to $37.3m – impacted by lower Trade sales
  - Corporate EBIT was -$2.4m (1H19: -$1.8m)
- Underlying EPS (pre AASB16) declined by 0.9% to 10.5 cents
- Operating cash flows lower than 1H19 reflecting increased investment in working capital
- Strong balance sheet
- Interim dividend of 6.0 cents per share, fully franked

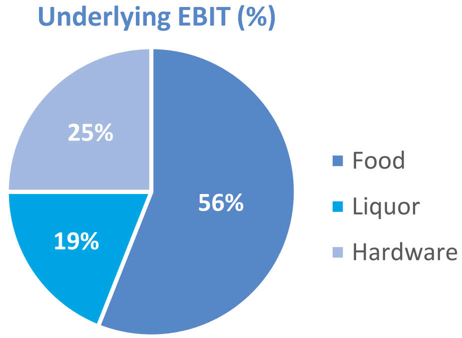



# Results overview by pillar

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| **Sales revenue (including charge-through sales)** | | | |
| Food | 4,381.1 | 4,330.9 | 1.2% |
| Liquor | 1,784.2 | 1,753.9 | 1.7% |
| Hardware | 1,044.2 | 1,089.6 | (4.2%) |
| **Total sales revenue (including charge-through sales)** | **7,209.5** | **7,174.4** | **0.5%** |
| Less: Charge-through sales | (919.7) | (985.2) | (6.6%) |
| **Total sales revenue (Statutory Accounts)** | **6,289.8** | **6,189.2** | **1.6%** |

| | 1H20 Pre AASB16 $m | 1H19 Pre AASB16 $m | Change % |
|---|---|---|---|
| **Underlying EBIT** | | | |
| Food | 85.2 | 93.0 | (8.4%) |
| Liquor | 29.6 | 29.1 | 1.7% |
| Hardware | 37.3 | 37.8 | (1.3%) |
| **Business Pillars** | **152.1** | **159.9** | **(4.9%)** |
| Corporate | (2.4) | (1.8) | (33.3%) |
| **Total underlying EBIT (pre AASB16)** | **149.7** | **158.1** | **(5.3%)** |
| Add: AASB16 adjustment[1] | 6.0 | - | |
| **Total EBIT (Statutory Accounts)** | **155.7** | **158.1** | |




1. An analysis of AASB16 adjustments by Pillar is shown in the Appendix.

# Food – sales

## Food

- Total Food sales (including charge-through) increased 1.2% to $4.4bn (1H19: $4.3bn)

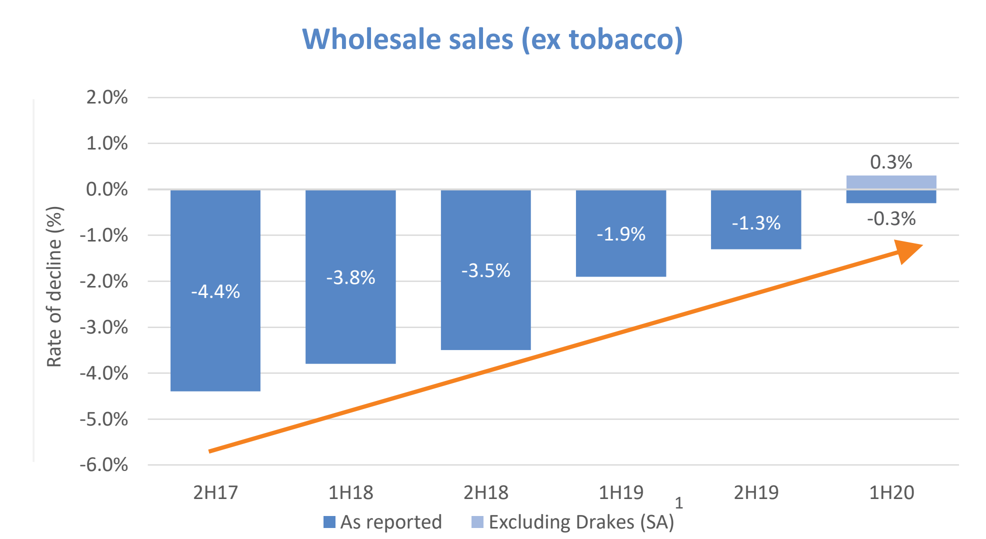
## Supermarkets

- Total sales (including charge-through) increased 0.8% to $3.6bn (+1.2% ex Drakes impact[1])
- Wholesale sales (ex tobacco) improved from -1.9% in 1H19 to -0.3% in 1H20 (+0.3% ex Drakes impact[1])
- Sales improvement supported by successful execution of growth initiatives and a reduction in price deflation[2] to -0.1% (1H19: -1.3%) despite continued price investment in 'Winning Range'
- Wholesale sales trajectory improved in all states
  - Qld was the strongest performing state
  - Sales growth in SA (ex Drakes impact[1]) with Foodland stores performing well
  - Significant improvement in WA sales trajectory, with sales now broadly in line with 1H19
- IGA retail LfL[3] sales growth of +0.4% (1H19: -0.2%)
- Net IGA store closures of 10 (9 openings, 19 closures). Net store openings expected in 2H20
- Teamwork score increased to ~74% (1H19: ~72%)
- Continued improvement in retailer and supplier satisfaction scores

## Convenience

- Total sales increased 2.8% to $784.6m due to sales growth from larger customers, mainly higher tobacco sales

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| **Food** | | | |
| **Supermarkets revenue (including charge-through)** | 3,596.5 | 3,568.0 | 0.8% |
| Charge-through sales | (472.2) | (470.8) | 0.3% |
| **Supermarkets revenue (excluding charge-through)** | **3,124.3** | **3,097.2** | **0.9%** |
| Convenience revenue | 784.6 | 762.9 | 2.8% |
| **Total revenue as per Statutory Accounts** | **3,908.9** | **3,860.1** | **1.3%** |




1. Metcash ceased to supply Drakes in SA from 30 September 2019. Sales growth has been calculated by removing Drakes sales from the prior period (1 October 2018 to 31 October 2018).
2. Excludes tobacco and produce.
3. Scan data from 1,093 IGA stores.

# Food – EBIT

## Food

- Reported EBIT of $88.4m includes a positive AASB16 adjustment of $3.2m
- EBIT (pre AASB16) declined $7.8m (-8.4%) to $85.2m mainly due to:
  - A ~$10m decline in the EBIT contribution from the resolution of onerous lease obligations; and
  - Ceasing to supply Drakes from 30 September 2019 (~$1.5m)

  Partly offset by:
  - Improved wholesale sales (ex tobacco);
  - Cost savings which more than offset the impact of inflation;
  - Improved earnings from joint ventures and corporate stores; and
  - A positive contribution from the Convenience business.

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| Total revenue[1] (including charge-through) | 4,381.1 | 4,330.9 | 1.2% |
| **EBIT (Statutory Accounts)** | **88.4** | **93.0** | **(4.9%)** |
| Less: AASB16 adjustment | (3.2) | — | — |
| **EBIT (Pre AASB16)** | **85.2** | **93.0** | **(8.4%)** |
| EBIT margin[2] | 1.9% | 2.1% | (20bps) |

New DSA store: Romeo's Foodland, Rundle Mall, SA

1. Total revenue includes charge-through sales of $472.2m (1H19: $470.8m).
2. EBIT margin: EBIT (pre AASB16) / Total revenue (including charge-through sales).

# Food – MFuture initiatives

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## Brand Clarity

- Three year re-branding program (right brand, right offer, right location)
- Enforced standards to protect integrity of brand and better pricing for retailers that comply with promotional programs
- Retailer engagement delivering strong support. Working closely with National Retail Council
- Branding of large format store (SupaValue). First trial store to open in NSW in 2H20
- Branding of small format store complete (The Fresh Pantry by IGA) and trial underway
- Focus now on core IGA brand

## Diamond Store Accelerator

- Program accelerated through process simplification and funding assistance option
- A further 45 stores completed the program (1H19: 9 stores) with an additional 36 in progress
- Brings total stores through the program to ~450
- Average retail sales growth of ~15%. Sales improvement post upgrade maintained
- DSA program integral component of brand strategy


## Small format offer

- Trial of next generation IGA Xpress stores
- Focus on Fresh including meal solutions, while also catering for full grocery shop
- Each store offer tailored for local demographic
- Trial stores opened at Bondi, NSW (May 2019), Chatswood, NSW (Oct 2019) and North Sydney, NSW (Nov 2019). Trial delivering significant learnings for broader network
- Trial to be completed by end of FY20

## Community Co

- A further ~70 products added, bringing total products in Community Co private label range to ~350
- New products include: specialty cheeses, gluten free biscuits, value added meats, dishwashing products and an expanded range of eggs and fresh ready meals
- Community Co sales increased ~50% over 1H19
- Community Co Tomato Sauce was determined the best tomato sauce by CHOICE

## Systems & Logistics

- Automated charge-through now trading
- IGA rewards being rolled out to all states following successful trials in WA and QLD
- New tailored promotional platforms to be available 1H21 supporting the Brand Clarity initiative
- Partnership with Australia Post to help create Australia's largest collect & return network
- Supermarkets and Convenience logistics networks integrated
- Construction of new DC in SA progressing with completion expected in the 3rd quarter of 2020

**Focus is on further improving competitiveness of retailer network**

# Liquor – sales

- Total sales (including charge-through) increased 1.7% to $1.8bn
  - ‘Premiumisation’ trend continued to drive value growth
- LfL sales to IBA network increased 1.7% (1H19: 2.0%) supported by continued investment in the network
- Increase in wholesale sales to contract customers and non-bannered stores
  - Growth in customer base
  - Increase in ‘on-premise’ sales
- Proportion of sales through the IBA bannered network in line with last year at 54%
- National rollout of Porters Liquor gaining momentum
- WA Container Deposit Scheme to commence June 2020. Will result in schemes being in place in all states other than Victoria and Tasmania

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| Total revenue as per Statutory Accounts | 1,781.0 | 1,749.9 | 1.8% |
| Charge-through sales | 3.2 | 4.0 | (20.0%) |
| **Total revenue (including charge-through)** | **1,784.2** | **1,753.9** | **1.7%** |


IGA Liquor store, Strathfieldsaye, VIC

# Liquor – EBIT

- Reported EBIT of $30.7m includes a positive AASB16 adjustment of $1.1m
- EBIT (pre AASB16) increased $0.5m (1.7%) to $29.6m
  - The contribution from increased sales more than offset an increase in costs
- EBIT margin[2] maintained at 1.7%

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| Total revenue[1] (including charge-through) | 1,784.2 | 1,753.9 | 1.7% |
| **EBIT (Statutory Accounts)** | **30.7** | **29.1** | **5.5%** |
| Less: AASB16 adjustment | (1.1) | — | — |
| **EBIT (Pre AASB16)** | **29.6** | **29.1** | **1.7%** |
| EBIT margin[2] | 1.7% | 1.7% | — |


New Porters Liquor store: North Narrabeen, NSW

1. Total revenue includes charge-through sales of $3.2m (1H19: $4.0m).
2. EBIT margin: EBIT (pre AASB16) / Total revenue (including charge-through).

# Liquor – MFuture initiatives

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## Store Investment

- Continuation of ‘Best Store in Town’ initiatives including investment to further improve the quality of the store network and shopper experience
- There were 36 stores ‘refreshed’ in the half, bringing total stores through the program to ~370
- Cool rooms continued to be upgraded with investment in a further 29 stores resulting in a total of ~640 upgrades at the end of 1H20

## Porters expansion

- Three-year national roll-out program to grow share of premium/higher value market
- Total stores in network at end of 1H20 increased to 25, mostly in NSW
- New stores at Balmain East and Glebe NSW, and first Victorian store opened at Moonee Ponds
- Expansion into WA and TAS planned for 2H20
- Total of 10 stores expected to be added to Porters network in 2H20
- 7 stores completed a ‘refresh’ program in 1H20

## Private & exclusive labels

- Expansion of the private label range continued to be a priority to help leverage the ‘premiumisation’ trend
- Additional SKUs were added across the wine, beer and spirit categories in the half. There were a total of ~90 SKUs in the category at the end of 1H20
- Sales of private label wine continued to grow, increasing ~20% on 1H19. Private label wine accounts for ~5% of total IBA wine sales and provides a significant growth opportunity

## On-premise

- Significant opportunity to address historical under-indexing in ‘on-premise’ market
- Launched ALM Agora, an online market place that connects ‘on-premise’ venues directly with suppliers. Good support from suppliers
- Addition of new customers and channel specific supply agreements supported sales growth of ~10% in 1H20

## Digital

- Strategic focus on accelerating opportunities through digital capability
- E-Commerce platform to be trialled in Porters network in 2H20
- Establishment of loyalty program being accelerated. Significant engagement and support for retailer network
- Preparation completed for pilot store trial of integrated POS system
- Commenced program with Complexica to incorporate artificial intelligence into promotional platforms

**Prioritising growth opportunities in private & exclusive label, on-premise and digital**

# Hardware – sales

- Total sales (including charge-through) decreased 4.2% to $1.04bn, mainly reflecting the impact of the slowdown in construction on Trade sales
- Excluding the loss of a large HTH customer in QLD in 1H19, total sales decreased 2.5%
- Total wholesale LfL sales to IHG banner group decreased 2.6%[1]
- LfL retail sales in IHG banner group decreased 3.2%[2]
- Trade sales account for 64% of total sales (1H19: 65%)
- Decline in Trade sales was partly offset by an improvement in DIY sales supported by an acceleration of the Sapphire program, core range and expansion of the digital platform

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| Total revenue as per Statutory Accounts | 599.9 | 579.2 | 3.6% |
| Charge-through sales | 444.3 | 510.4 | (13.0%) |
| **Total revenue (including charge-through)** | **1,044.2** | **1,089.6** | **(4.2%)** |

Recent Sapphire store: Mitre 10 Mackay, QLD

1. Includes sales to independent retailers and company-owned stores.
2. Based on a sample of 190 network stores that provide scan data (represents >50% of sales).

# Hardware – EBIT

- Reported EBIT of $38.9m includes a positive AASB16 adjustment of $1.6m
- EBIT (pre AASB16) decreased by $0.5m to $37.3m
- Impact of decline in Trade sales, partly offset by:
  - Contribution from improved DIY sales
  - Cost efficiencies (supply chain and overheads); and
  - Full synergy benefits from HTH acquisition
- IHG wholesale sales margin of 2.9%
- Total IHG EBIT margin increased 10bps to 3.6% (1H19: 3.5%) reflecting an increase in the proportion of retail sales (additional JV/company-owned stores)

| | 1H20 $m | 1H19 $m | Change % |
|---|---|---|---|
| Total revenue[1] (including charge-through) | 1,044.2 | 1,089.6 | (4.2%) |
| **EBIT (Statutory Accounts)** | **38.9** | **37.8** | **2.9%** |
| Less: AASB16 adjustment | (1.6) | — | — |
| **EBIT (Pre AASB16)** | **37.3** | **37.8** | **(1.3%)** |
| EBIT margin[2] | 3.6% | 3.5% | 10bps |

Recent Sapphire store: TM&H Mitre 10 MOE, VIC

1. Total revenue includes charge-through sales of $444.3m (1H19: $510.4m).
2. EBIT margin: EBIT (pre AASB16) / Total revenue (including charge-through).

# Hardware – MFuture initiatives





## Sapphire program

- Delivers modern leading edge stores
- Total stores through the program and in progress increased to 75
- Targeting ~200 stores to be upgraded by 2022
- Strong average retail sales growth of >15%
- IHG contribution up to 50% (between $50k - $200k depending on store size)

## Build Trade

- Potential to leverage IHG network to grow supply of house build from 30% to 70% through 'Whole of House' strategy
- Acquired two Frame and Truss plants through acquisition of Keith Timber in SA. Frame and Truss offer now available in all states
- Increased number of supply and install alliances to 15. Alliances in place with key players across all stages of a house build
- Continued rollout of Hardings through IHG network

## Grow Retail network

- Retail joint venture/company-owned network increased to 102 (1H19: 92) (37 company-owned/ 65 JV stores)
- Additions include Keith Timber in SA (5 stores), Portland HTH VIC and St George QLD
- Acquired existing minority interest in G.Gay & Co in VIC (3 stores)
- Company-owned/JV stores represent ~15% of total stores and ~40% of total IHG sales

## Digital & Trade technology

- Customer uptake continuing to grow
- Online sales up ~50% over 1H19
- Significant increase in SKUs available online to ~11,300 (FY19: ~3,000)
- Loyalty members up 4% to ~1m
- Strong growth in retailer uptake of Truck Tracker, Trade Online and Trade+ supporting our Trade business
- Expanded trial of 'Connected Home' to 15 stores. New digital technology offer to access, manage and monitor homes

## Cost efficiencies

- Strong focus on all costs in response to slowdown in construction activity
- Further rationalisation of DC network with closure of NSW DC
- Cost resets in JV/company-owned stores most exposed to slowdown
- Labor cost management initiatives

**IHG remains well positioned as the second largest player in the market**

# Financials

**Brad Soller**

**Group Chief Financial Officer**

# AASB16 *Leases*

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Metcash adopted AASB16 on 1 May 2019 which has resulted in the recognition of 'right of use' assets, lease receivables and lease liabilities.

## Balance Sheet

- Recognition of 'right of use' asset, sublease receivable and offsetting liability
- Initial asset value of $936.8m (includes 'right of use' assets of $601.5m and sublease receivable of $335.3m)
- Initial liability of $939.1m (includes both Metcash occupied properties and back to back retail lease obligations)

## Profit and Loss

- The new standard results in a 1H20 increase in EBIT of $6m and an increase in EBITDA of $55.4m
- This is offset by higher depreciation of $49.4m and net finance costs of $13.2m
- The impact on Net Profit After Tax in 1H20 was to reduce profit by $5.1m

## Cashflows

- No impact on net cashflows
- Increase in reported operating cashflows offset by higher investing and financing cashflows

## Comparatives

- The prior comparative half has not been restated in the statutory accounts

**Further details are contained in Appendix B of the 1H20 statutory financial report**

# Asset impairment

## 7-Eleven contract

- Metcash announced on 22 November 2019 that 7-Eleven will not be renewing the current supply agreement when it concludes on 12 August 2020
- Metcash determined that it could not meet 7-Eleven's supply requirements on an economic basis
- Discussions with 7-Eleven are continuing in relation to supply in Western Australia and a number of smaller categories on the east coast
- Total annualised sales to 7-Eleven are ~$800m and comprise predominantly lower-margin tobacco sales
- Estimated annualised EBIT impact of ~$15m from 12 August 2020, after adjusting for mitigating cost savings

## Impairment of goodwill and other assets

- Assessment of carrying value of assets is regularly undertaken as part the accounts preparation process
- Change to assumptions concerning future cash flows following the advice from 7-Eleven
- An impairment of goodwill and other assets in the Food pillar of $237.4m (post tax) has been recognised in the 1H20 accounts
- In accordance with Australian Accounting Standards, the carrying value of goodwill cannot take into account future mitigating cost savings
- The impairment is non-cash in nature and has no impact on debt facilities or compliance with banking covenants

# Profit & Loss

| | 1H20 (Post AASB16) $m | 1H20 (Pre AASB16) $m | 1H19 (Pre AASB16) $m | Change (Pre AASB16) % |
|---|---|---|---|---|
| Sales revenue | 6,289.8 | 6,289.8 | 6,189.2 | 1.6% |
| **EBITDA** | **234.7** | **179.3** | **186.2** | **(3.7%)** |
| Depreciation and amortisation | (79.0) | (29.6) | (28.1) | 5.3% |
| **EBIT** | **155.7** | **149.7** | **158.1** | **(5.3%)** |
| Net finance costs | (27.0) | (13.8) | (14.5) | 4.8% |
| **Profit before tax and NCI** | **128.7** | **135.9** | **143.6** | **(5.4%)** |
| Tax | (37.6) | (39.7) | (42.5) | 6.6% |
| Non-controlling interests | (0.5) | (0.5) | (0.8) | 37.5% |
| **Underlying profit after tax** | **90.6** | **95.7** | **100.3** | **(4.6%)** |
| MFuture restructure costs (post tax) | (4.8) | (4.8) | — | |
| Working Smarter restructure costs and HTH integration costs (post tax) | — | — | (4.5) | |
| Impairment of goodwill and other assets (post tax) | (237.4) | (237.4) | — | |
| **Reported (loss)/profit after tax** | **(151.6)** | **(146.5)** | **95.8** | |
| EPS based on underlying profit after tax | 10.0c | 10.5c | 10.6c | (0.9%) |
| ROFE[1] | 26.1% | N/A | 22.3% | N/A |

1. ROFE based on underlying EBIT and the average of opening and closing funds employed.

# Cashflows

| | 1H20 (Post AASB16) $m | 1H20 (Pre AASB16) $m | 1H19 (Pre AASB16) $m |
|---|---|---|---|
| Net cash from operating activities | 88.8 | 59.3 | 120.3 |
| Net cash used in investing activities | (29.8) | (51.2) | (26.8) |
| Capital expenditure | (30.5) | (30.5) | (24.7) |
| Acquisitions of businesses | (23.2) | (23.2) | (3.4) |
| Proceeds from sale of businesses/assets and net loan movements | 2.5 | 2.5 | 1.3 |
| Receipts from subleases | 21.4 | - | - |
| Dividends paid | (63.6) | (63.6) | (68.3) |
| Payments for lease liabilities | (50.9) | - | - |
| Other financing activities | (4.3) | (4.3) | (0.9) |
| Off-market share buy-back | - | - | (150.3) |
| **Increase in net debt** | **(59.8)** | **(59.8)** | **(126.0)** |
| Cash realisation ratio (CRR) [1] | 52.4% | 47.3% | 93.7% |

- AASB16 has no impact on net cashflows but does require significant reclassifications. Comparatives are on a pre AASB16 basis
- Operating cashflows in 1H20 reflect increased investment in working capital in the half
- Capital expenditure broadly in line with depreciation and amortisation (pre AASB16). MFuture capital expenditure weighted to 2H20 and FY21
- The outflow from acquisitions of businesses relates to acquisitions in the Hardware pillar

1. Cash realisation ratio (CRR) = Cash flow from operations/underlying NPATDA (depreciation and amortisation not tax effected).

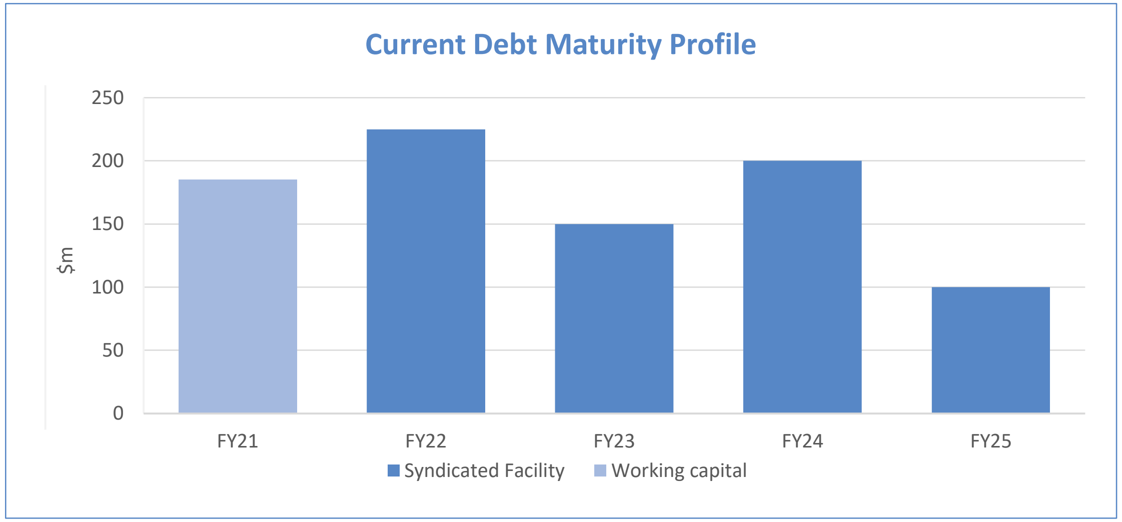
# Balance Sheet

| | 31 October 2019 (Post AASB16) $m | 30 April 2019[1] (Pre AASB16) $m | 31 October 2018[1] (Pre AASB16) $m |
|---|---|---|---|
| Trade receivables and prepayments | 1,526.2 | 1,472.5 | 1,492.5 |
| Inventories | 1,061.0 | 779.3 | 916.2 |
| Trade payables and provisions | (2,333.6) | (2,051.5) | (2,218.6) |
| **Net working capital** | **253.6** | **200.3** | **190.1** |
| Intangible assets | 586.4 | 793.5 | 792.3 |
| Property, plant and equipment | 204.9 | 218.0 | 208.3 |
| Equity accounted investments | 78.4 | 87.7 | 88.6 |
| Customer loans and assets held for resale | 61.2 | 48.2 | 49.8 |
| **Capital investments** | **930.9** | **1,147.4** | **1,139.0** |
| **Total funds employed** | **1,184.5** | **1,347.7** | **1,329.1** |
| Lease receivables | 288.1 | - | - |
| 'Right of use' assets | 517.2 | 7.8 | 7.9 |
| Lease provisions | (71.6) | (159.0) | (151.7) |
| Lease liabilities | (904.5) | (7.4) | (7.4) |
| **Lease balances** | **(170.8)** | **(158.6)** | **(151.2)** |
| | | | |
| Net debt | (95.3) | (35.5) | (77.8) |
| Tax, put options and derivatives | 110.4 | 96.5 | 112.7 |
| **Net Assets / Equity** | **1,028.8** | **1,250.1** | **1,212.8** |

1. The Group revised the presentation of lease balances on its Balance Sheet upon adoption of AASB16. Comparative information has been reclassified to align with the current presentation.

# Net debt

- Net debt of $95.3m (FY19: $35.5m)
- Average net debt of ~$368m (FY19: ~$310m)
- Average tenor of debt 2.4 years
- Balanced debt maturity profile
- No debt maturities until FY21




| | 1H20 $m | FY19 $m |
|---|---|---|
| **Net debt[1]** | | |
| Gross debt | (218.5) | (178.1) |
| Cash and cash equivalents | 123.2 | 142.6 |
| **Net debt** | **(95.3)** | **(35.5)** |

| Debt metrics and ratios | | |
|---|---|---|
| Weighted average debt maturity | 2.4 years | 2.9 years |
| Weighted average cost of debt[2] | 3.1% | 3.4% |
| % Fixed debt | 47% | 50% |
| Interest coverage[3] | 25.4x | 25.2x |
| Gearing ratio[4] | 8.5% | 2.8% |
| Underlying EBITDAR coverage[5] | 3.6x | 3.8x |
| Gross debt coverage[6] | 0.6x | 0.5x |

1. The Group revised the presentation of Net debt on its Balance Sheet upon adoption of AASB16. Net debt excludes all liabilities related to AASB16 and lease liabilities. Finance lease obligations which were previously classified as net debt are now separately disclosed as Lease Liabilities on the Balance Sheet under the new standard (FY19: $7.4m).
2. Weighted average cost of debt over the period (excludes line fees).
3. Underlying EBITDA/Net Interest Expense (pre AASB16; on a 12-month rolling basis).
4. Net Debt/(Shareholders' Equity + Net Debt).
5. Underlying EBITDAR/(Net Interest Expense + Net Rent Expense) (pre AASB16; on a 12-month rolling basis).
6. Gross Debt/Underlying EBITDA (pre AASB16; on a 12-month rolling basis).

# Dividends

- FY20 interim dividend
  - 6.0 cents per share, fully franked
  - Ex-dividend date: 17 December 2019
  - Record date: 18 December 2019
  - Payment date: 23 January 2020
- Dividend payout ratio of ~60% of underlying earnings per share

# Group Outlook

**Jeff Adams**
**Group Chief Executive Officer**



Metcash

# Group outlook

**Food**

- The growth in Supermarkets wholesale sales ex tobacco reported in 1H20 has continued in the first five weeks of 2H20, excluding the impact of Drakes
- Supermarkets sales in 2H20 will, however, be negatively impacted by ceasing to supply Drakes in South Australia
- While the Group will continue to look for opportunities to exit onerous lease contracts the contribution to profit in future periods is expected to reduce
- A continued focus on costs is expected to help offset the impact of cost inflation over the remainder of FY20

**Liquor**

- We expect market growth over the remainder of FY20 to continue to be influenced by the ‘premiumisation’ trend (higher quality but lower consumption)
- The business is continuing to progress its growth initiatives under the MFuture program with opportunities in private and exclusive label, the ‘on-premise’ market and digital being prioritised under the new Liquor CEO

**Hardware**

- Trade sales over the remainder of FY20 are expected to continue to be impacted by the slowdown in construction activity
- Our non-trade sales are expected to be less impacted than Trade sales due to the level of DIY activity and acceleration of the Sapphire store upgrade program
- The business continues to have a strong focus on costs to help offset the impact of the slowdown in construction activity
- The medium to long-term market fundamentals remain positive with construction activity expected to be underpinned by population growth and an undersupply of housing

# Appendices

1. Financial history
2. AASB16 reconciliation
3. Bannered store numbers

# 1. Financial history

| | 1H20 (Post AASB16) | 1H20 (Pre AASB16) | 1H19[1] (Pre AASB16) | 1H18[1] (Pre AASB16) | 1H17[1] (Pre AASB16) | 1H16[1] (Pre AASB16) |
|---|---|---|---|---|---|---|
| **Financial Performance** | | | | | | |
| Sales revenue ($m) | 6,289.8 | 6,289.8 | 6,189.2 | 6,054.8 | 5,743.7 | 5,698.5 |
| EBIT ($m) | 155.7 | 149.7 | 158.1 | 156.3 | 132.1 | 140.7 |
| Net finance costs ($m) | (27.0) | (13.8) | (14.5) | (15.2) | (16.9) | (19.8) |
| Underlying profit after tax ($m) | 90.6 | 95.7 | 100.3 | 99.1 | 82.8 | 86.9 |
| Reported (loss)/profit after tax ($m) | (151.6) | (146.5) | 95.8 | 93.0 | 74.9 | 122.0 |
| Operating cash flows ($m) | 88.8 | 59.3 | 120.3 | 161.4 | 130.6 | 3.1 |
| Cash realisation ratio [2] (%) | 52.4% | 47.3% | 93.7% | 127.3% | 114.2% | 2.6% |
| **Financial Position** | | | | | | |
| Shareholder's equity ($m) | 1,028.8 | N/A | 1,212.8 | 1,633.9 | 1,538.4 | 1,275.2 |
| Net (debt)/cash ($m) | (95.3) | N/A | (77.8) | 19.9 | (189.7) | (425.9) |
| Gearing ratio [3] (%) | 8.5% | N/A | 6.0% | (1.2%) | 11.0% | 25.0% |
| Return on funds employed [4] (%) | 26.1% | N/A | 22.3% | 18.8% | 15.3% | 13.4% |
| **Share Statistics** | | | | | | |
| Fully paid ordinary shares | 909.3 | 909.3 | 909.3 | 975.6 | 975.6 | 928.4 |
| Weighted average ordinary shares | 909.3 | 909.3 | 947.9 | 975.6 | 941.3 | 928.4 |
| Underlying earnings per share (cents) | 10.0 | 10.5 | 10.6 | 10.2 | 8.8 | 9.4 |
| Reported (loss)/earnings per share (cents) | (16.7) | (16.1) | 10.1 | 9.5 | 8.0 | 13.1 |
| Dividends declared per share (cents) | 6.0 | 6.0 | 6.5 | 6.0 | – | – |

1. Other than 1H20, no prior periods have been restated for the impact of AASB16.
2. Cash flows from operations / Underlying NPAT + Depreciation and Amortisation (depreciation and amortisation not tax effected)
3. Net Debt / (Shareholders' Equity + Net Debt)
4. Underlying EBIT / Average funds employed

# 2. Impact of AASB16 – Profit & Loss

| | 1H20 | | |
|---|---|---|---|
| | Pre AASB16 $m | AASB16 adjustment[1] $m | Post AASB16 $m |
| Food | 85.2 | 3.2 | 88.4 |
| Liquor | 29.6 | 1.1 | 30.7 |
| Hardware | 37.3 | 1.6 | 38.9 |
| Total Pillar EBIT | 152.1 | 5.9 | 158.0 |
| Corporate | (2.4) | 0.1 | (2.3) |
| **Total underlying EBIT** | **149.7** | **6.0** | **155.7** |
| Net finance costs | (13.8) | (13.2) | (27.0) |
| Tax | (39.7) | 2.1 | (37.6) |
| Non-controlling interest | (0.5) | – | (0.5) |
| **Underlying profit after tax** | **95.7** | **(5.1)** | **90.6** |

| | 1H20 $m |
|---|---|
| Total underlying EBIT pre AASB16 | 149.7 |
| Add: Net rent | 59.1 |
| Less: Depreciation of 'Right of Use' assets | (49.4) |
| Less: Other movements | (3.7) |
| **Total underlying EBIT post AASB16** | **155.7** |

1. Details relating to the change are included in Appendix B of the 1H20 statutory financial report.

# 2. Impact of AASB16 – Balance Sheet

| | 30 April 2019 (As reported) $m | AASB16 reclassifications $m | AASB16 adjustments $m | 1 May 2019 (Post transition) $m |
|---|---|---|---|---|
| Trade receivables and prepayments | 1,472.5 | - | - | 1,472.5 |
| Inventories | 779.3 | - | - | 779.3 |
| Trade payables and provisions | (2,210.5) | 159.0 | - | (2,051.5) |
| **Net working capital** | **41.3** | **159.0** | **-** | **200.3** |
| Intangible assets | 793.5 | - | - | 793.5 |
| Property, plant and equipment | 225.8 | (7.8) | - | 218.0 |
| Equity accounted investments | 87.7 | - | - | 87.7 |
| Customer loans and assets held for resale | 48.2 | - | - | 48.2 |
| **Capital investments** | **1,155.2** | **(7.8)** | **-** | **1,147.4** |
| **Total funds employed** | **1,196.5** | **151.2** | **-** | **1,347.7** |
| Lease receivables | - | - | 316.0 | 316.0 |
| 'Right of use' assets | - | 7.8 | 546.7 | 554.5 |
| Lease provisions | - | (159.0) | 74.1 | (84.9) |
| Lease liabilities | - | (7.4) | (939.1) | (946.5) |
| **Lease balances** | **-** | **(158.6)** | **(2.3)** | **(160.9)** |
| Net debt | (42.9) | 7.4 | - | (35.5) |
| Tax, put options and derivatives | 96.5 | - | 0.7 | 97.2 |
| **Net Assets / Equity** | **1,250.1** | **-** | **(1.6)** | **1,248.5** |

# 3. Bannered store numbers

| | October 2019 | April 2019 |
|---|---|---|
| **Pillar** | | |
| Supermarkets | 1,623 | 1,673 |
| Campbells | 16 | 17 |
| Liquor | 2,699 | 2,667 |
| Hardware | 653 | 668 |
| **Total** | **4,991** | **5,025** |

| | Supermarkets | Campbells | Liquor | Hardware | Total |
|---|---|---|---|---|---|
| **Store movement** | | | | | |
| Number of stores at April 2019 | 1,673 | 17 | 2,667 | 668 | 5,025 |
| Stores opened / joined banner group during the period | 29 | - | 262 | 2 | 293 |
| Stores closed / left banner group during the period | (79) | (1) | (230) | (17) | (327) |
| **Number of stores at October 2019** | **1,623** | **16** | **2,699** | **653** | **4,991** |

# 3. Bannered store numbers

| | October 2019 | April 2019 |
|---|---|---|
| **Supermarkets** | | |
| Supa IGA | 362 | 373 |
| IGA | 753 | 792 |
| IGA-Xpress | 222 | 220 |
| **Total IGA bannered stores** | **1,337** | **1,385** |
| Friendly Grocer / Eziway | 286 | 288 |
| **Total Supermarkets** | **1,623** | **1,673** |
| **Liquor** | | |
| Cellarbrations | 566 | 557 |
| Bottle-O & Bottle-O Neighbourhood | 244 | 237 |
| IGA Liquor | 469 | 467 |
| Porters | 25 | 22 |
| Thirsty Camel (NSW/ACT, QLD, TAS, SA/NT) | 153 | 150 |
| Big Bargain | 48 | 54 |
| Other | 1,194 | 1,180 |
| **Total Liquor** | **2,699** | **2,667** |
| **Hardware** | | |
| Mitre 10 | 306 | 308 |
| Home Timber & Hardware and related brands | 288 | 300 |
| True Value Hardware | 59 | 60 |
| **Total Hardware** | **653** | **668** |

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