



Metcash Limited

ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

7 December 2020

Market Announcements Office
Australian Securities Exchange Limited
20 Bridge Street
Sydney NSW 2000

Dear Sir/Madam

METCASH LIMITED – 2021 HALF YEAR RESULTS AND FINANCIAL REPORT

In accordance with ASX Listing Rule 4.2A, please find attached the following documents for release to the market:

- a) ASX Announcement – Metcash Limited 2021 Half Year Results
- b) Appendix 4D and Financial Report (including the Directors' Report and Independent Auditor's Review Report) of Metcash Limited and its controlled entities for the half year ended 31 October 2020.

Yours faithfully

A handwritten signature in black ink, appearing to read "Julie D. Hutton".

Julie Hutton
Company Secretary

**Metcash Limited**

ABN 32 112 073 480
1 Thomas Holt Drive
Macquarie Park
NSW 2113 Australia

7 December 2020

ASX Announcement – Metcash Limited 2021 Half Year Results

Metcash Limited (ASX:MTS) today released its financial results for the half year ended 31 October 2020.

Highlights

- Significant growth in sales volumes across all Pillars
- Strong earnings growth with underlying Group EBIT up 30.4% to \$203.0m
- Group revenue increased 12.2% to \$7.1bn and 12.3% to \$8.1bn including charge-through sales
- Strong sales growth underpinned by investment in MFuture initiatives
 - Food – move to ‘shop local’ and the improved competitiveness of retailers resulted in an increase in both foot traffic and average basket size
 - Liquor – high levels of demand across the retail stores more than offset the adverse impact of trading restrictions on ‘on-premise’ customers
 - Hardware – elevated demand from DIY customers and a return to growth in Trade
- Underlying profit after tax increased 43.0% to \$129.6m
- Statutory profit after tax of \$125.1m (1H20: Loss of \$151.6m¹)
- Strong cash generation and effective management of working capital
- Increase in interim dividend to [8.0] cents per share (1H20: 6.0 cents)
- Positive operating leverage supported through efficient management of costs while investing in COVID Safe work practices
- COVID related costs have been well managed and were ~\$8m in 1H21
- Continued investment in growth opportunities, including the acquisition of Total Tools and the Kollaras private label business
- Sales momentum has continued into the first five weeks of 2H21

Commentary

Group CEO, Jeff Adams said: “It has been a standout first half for Metcash, with unprecedented sales growth underpinning a significant lift in earnings and cash generation.

¹ Statutory loss after tax in 1H20 includes an impairment of goodwill and other assets of \$237.4m (post tax)

“All Pillars have performed exceptionally well, adapting quickly to the many challenges associated with COVID-19 while continuing to successfully execute their strategic initiatives and champion the success of our independent retailers.

“Our independent retailers delivered strong ‘like for like’ sales growth in the Food, Liquor and Hardware store networks. It was pleasing to see our retailers continuing to invest in growing their businesses, including new stores and refurbishments despite challenging circumstances. We remain committed to supporting this growth.

“Our retail banner groups are ideally positioned to continue benefiting from the change in consumer behaviour to more ‘local’ shopping, and their improved competitiveness supported by our MFuture initiatives is assisting them to retain new and returning customers to their stores.

“All pillars reported an improvement in their earnings and margins, reflecting the positive operating leverage generated from higher sales despite investing in COVID Safe work practices.

“The acquisition of a majority stake in Total Tools Holdings in the half, is in line with our strategy for the Hardware pillar, and provides us with significant growth opportunities. It also broadens our footprint in the hardware sector and diversifies the Group’s earnings base.

“I am pleased to report that the Group has had a good start to the second half, with strong sales momentum continuing in all pillars in the first five weeks of trading. We are also expecting strong trading over the Christmas and New Year period.

“We are well positioned to service the expected strong demand, particularly in South Australia where earlier this month we opened our new purpose-built distribution centre. The new facility improves the competitiveness of our retailers in South Australia through providing them with a wider range of products and increased efficiencies.

“The Group’s strong underlying cash flows have strengthened our financial position.

Metcash remains well placed to invest in growth opportunities, and continues to have a strong focus on costs,” Mr Adams said.

Results overview

Group reported revenue, which excludes charge-through sales, increased 12.2% to \$7.1bn (1H20: \$6.3bn). Including charge-through sales, Group revenue increased 12.3% to \$8.1bn (1H20: \$7.2bn) with significant growth in sales volumes across all Pillars.

Group underlying EBIT increased 30.4% to \$203.0m with strong earnings leverage in all Pillars. In Food, a significant increase in EBIT was underpinned by higher sales volumes and an improvement in the contribution from joint venture stores. The strong growth was achieved despite 1H21 including no sales to Drakes in South Australia² and only three and a half months of sales to 7-Eleven following the ending of their previous supply agreement in mid-August 2020.

In Liquor, strong earnings growth was underpinned by elevated demand in the IBA banner group, which more than offset the adverse impact of COVID-19 trading restrictions on ‘on-premise’ customers.

In Hardware, strong earnings growth was driven by a significant increase in higher margin DIY sales, as well as a return to growth in Trade sales and the contribution from acquisitions.

² Metcash ceased supply to Drakes in South Australia on 30 September 2019.

Group underlying profit after tax³ increased 43.0% to \$129.6m and statutory profit after tax was \$125.1m (1H20: statutory loss after tax of \$151.6m⁴). Underlying earnings per share increased 27% to 12.7 cents, reflecting an increase in profit after tax and the impact of the Company's equity raising in 2H20.

Group operating cashflow was materially higher in 1H21 at \$314.9m (1H20: \$88.8m), which reflects the higher earnings and a reduction in working capital. The Company is in a strong financial position and ended the first half with net cash of \$172.5m.

Review of Trading Results

Food

Total Food sales (including charge-through) increased 9.5% to \$4.8bn (1H20: \$4.4bn) or 16.3% excluding the impact of Drakes⁵ and 7-Eleven⁶.

In Supermarkets, total sales (including charge-through) increased 14.6% to \$4.1bn (1H20: \$3.6bn) and 18.3% excluding the Drakes⁵ impact.

Supermarket sales (ex-tobacco) increased 13.0% (+16.7% ex-Drakes⁵ impact), reflecting a change in consumer behaviour to more home cooking, an increase in the preference for local neighbourhood shopping and the success of our MFuture initiatives. These initiatives, which focus on store quality, product ranges and prices, have further improved the competitiveness of the retail network and helped in the retention of new and returning customers gained through COVID-19.

The IGA retail network performed strongly with 'like for like' (Lfl)⁷ sales increasing 16.4%, reflecting growth in both average basket size and number of transactions, which resulted in the IGA network gaining market share.

Supermarkets' teamwork score increased a further 50bps to 74.3% supported by growing product ranges, along with new and returning suppliers being serviced through our distribution centres.

Convenience sales decreased 14.3% but increased 5.2% excluding the impact of 7-Eleven⁶, with improved demand in rural and remote areas.

Food EBIT increased \$14.6m (+16.5%) to \$103.0m (1H20: \$88.4m) reflecting strong growth in sales volumes and an increase in the contribution from joint venture stores. The significant increase in earnings was achieved with no contribution from the resolution of onerous leases, no sales from Drakes in South Australia (1H20: 5 months) and only three and a half months of 7-Eleven sales (1H20: 6 months).

The Group has adapted well to COVID Safe work practices, however this has not resulted in materially higher costs.

The EBIT margin⁸ for Food improved by 10bps to 2.1% reflecting the positive operating leverage from higher sales volumes.

Liquor

Total Liquor sales (including charge-through) increased 14.3% to \$2.0bn (1H20: \$1.8bn) reflecting strong demand in the retail network, which more than offset the adverse impact of COVID-19 trading restrictions on 'on-premise' customers.

³ Excludes significant items: MFuture restructure costs of \$1.2m (post tax) and Total Tools acquisition costs of \$3.3m (post tax).

⁴ Statutory loss after tax in 1H20 includes an impairment of goodwill and other assets of \$237.4m (post tax).

⁵ 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 May 2019 to 30 September 2019).

⁶ Metcash ceased to supply 7-Eleven on 17 August, 2020. Sales growth has been calculated by removing 7-Eleven sales from the prior period (18 August 2019 to 31 October 2019).

⁷ Scan data from 1,144 IGA stores.

⁸ Based on EBIT and sales (including charge-through).

Sales to the IBA retail banner group increased 24.1% with strong growth in Cellarbrations, The Bottle-O and IGA Liquor supported by an increase in customer preference for local neighbourhood shopping, home consumption substituting 'on-premise' consumption and less overseas travel and duty-free sales. LfL sales⁹ in the IBA retail banner group increased 27%.

The business' 'on-premise' customers are at various stages of recovery from the adverse impact of COVID-19 trading restrictions.

Liquor EBIT increased \$9.4m (+30.6%) to \$40.1m reflecting the increase in sales volumes and the effective management of costs. The EBIT margin for Liquor increased 30bps to 2.0% as a result of the positive operating leverage from higher sales volumes.

Hardware

Hardware sales (including charge-through) increased 20.6% to \$1.3bn (1H20: \$1.0bn) with significant growth in higher margin DIY sales. Excluding acquisitions¹⁰, Hardware sales (including charge-through) increased 16.2%.

Strong DIY demand was underpinned by a change in consumer behaviour to more home improvement projects, gardening and maintenance activity, and the success of MFuture initiatives to further improve the competitiveness of the IHG retail network. There was also a significant uplift in teamwork score which included Home Timber & Hardware increasing to over 70%.

Online sales continued to grow strongly, increasing 104% in the first half.

The IHG banner group continued to perform well with LfL retail sales¹¹ increasing 13.2% (DIY +35%, Trade +4%). The return to sales growth in Trade reflects increased renovation activity supported by COVID-19 restrictions and Government stimulus.

The growth in higher margin DIY sales has resulted in a change in the sales mix to ~40% DIY and ~60% Trade (1H20: ~36% DIY, ~64% Trade).

Hardware EBIT increased \$25.6m (+ 65.8%) to \$64.5m, reflecting a significant increase in sales volumes, the increased weighting of higher margin DIY in the sales mix, an increase in the contribution from joint ventures / company-owned stores, and the earnings from acquisitions which included \$4.8m from two months of trading in Total Tools Holdings.

The EBIT margin for Hardware increased 140bps to 5.1%.

Financial Position

Group operating cash flows were significantly higher than in the prior corresponding period at \$314.9m (1H20: \$88.8m), underpinned by strong sales and working capital management.

The cash realisation ratio for the half was 151.8%, reflecting a reduction in working capital from the high levels in April 2020.

The Group had net investing outflows of \$102.1m, including capital expenditure of \$30.4m and acquisitions of businesses of \$101.1m. The acquisitions were predominantly in the Hardware pillar and included a majority stake in Total Tools Holdings.

The Group was in a net cash position at 31 October 2020 of \$172.5m (FY20: Net cash of \$86.7m).

⁹ Scan data from 573 IBA stores

¹⁰ Acquisitions include Total Tools and in FY20 G.Gay & Co, Keith Timber, Womersley's

¹¹ Based on scan data from 233 independent retail and corporate/JV stores (represents >50% of sales).

Interim dividend

The Board has determined to pay an interim dividend of 8.0 cents per share, fully franked. The record date for the dividend is 23 December 2020 and payment will be made on 29 January 2021.

Outlook

The **Group** has had a strong start to the second half with sales momentum continuing in all Pillars in the first five weeks of 2H21.

Subject to an adverse change in government restrictions, it is expected that trading will benefit from more people travelling domestically over the Christmas and New Year period and our retail network's strong representation in regional/rural areas.

The second half will cycle the negative impact of bushfires in 2H20, and it also includes the cycling of significantly higher sales volumes in Food and Hardware in March and April 2020.

In **Food**, sales in the first five weeks of 2H21 are up 2.4% (+12.1% ex 7-Eleven impact), with Supermarket sales up 12.1% (+8.4% ex-tobacco). Sales in 2H21 will be negatively impacted by the previous supply agreement with 7-Eleven ending in August 2020. The Food pillar will continue to progress its MFuture initiatives to further improve the competitiveness of the retail network and assist in the retention of new and returning customers gained through the COVID-19 period. The business continues to have a strong focus on costs to help offset the impact of inflation and other cost pressures, including those related to COVID Safe work practices.

In **Liquor**, sales in the first five weeks of 2H21 are up 16.9% with continued elevated demand in the IBA retail network more than offsetting the adverse impact of COVID-19 restrictions on 'on-premise' customers. 'On-premise' customers have started to recover in states with easing restrictions. Sales to the IBA retail banner group over the same five weeks are up 22.6%. The business is continuing to progress its MFuture growth initiatives, particularly the expansion of its private and exclusive label range and digital strategy, while supporting customers adversely impacted by COVID-19 restrictions.

In **Hardware**, sales in the first five weeks of 2H21 are up 25.3% (+19.3% ex-Total Tools) with sustained strong demand in DIY and Trade sales continuing to track positively. The business will continue to focus on its MFuture growth initiatives across Trade, DIY and digital, and retaining customers gained through the COVID-19 period. The second half will include a full six months of trading by Total Tools, including the four stores acquired and anticipated acquisition of a majority interest in a further eight independent stores.

There continues to be a high level of uncertainty as to the potential impact on all our Pillars of any changes to COVID-19 related restrictions and resulting changes in consumer behaviour.

This announcement is authorised by a Committee of the Board of Directors of Metcash Limited.

ends

For further information:

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Metcash Group

Metcash Limited (ABN 32 112 073 480) and its controlled entities

Appendix 4D for the half year ended 31 October 2020 (1H21)

Results for announcement to the market

	1H21 \$m	1H20 \$m	Variance \$m	Variance %
Sales revenue	7,059.7	6,289.8	769.9	12.2
Underlying earnings before interest, tax, depreciation and amortisation (EBITDA)	280.9	234.7	46.2	19.7
Depreciation and amortisation	(77.9)	(79.0)	1.1	1.4
Underlying earnings before interest and tax (EBIT)	203.0	155.7	47.3	30.4
Net finance costs	(21.3)	(27.0)	5.7	21.1
Underlying profit before tax	181.7	128.7	53.0	41.2
Tax expense on underlying profit	(51.7)	(37.6)	(14.1)	(37.5)
Non-controlling interests	(0.4)	(0.5)	0.1	20.0
Underlying profit after tax (UPAT) (i)	129.6	90.6	39.0	43.0
Significant items	(5.1)	(249.3)	244.2	98.0
Tax benefit attributable to significant items	0.6	7.1	(6.5)	(91.5)
Net profit/(loss) for the period attributable to members	125.1	(151.6)	276.7	182.5
Underlying earnings per share (cents) (ii)	12.7	10.0	2.7	27.0
Reported profit/(loss) per share (cents)	12.2	(16.7)	28.9	173.1

- (i) Underlying profit after tax (UPAT) is defined as reported profit after tax attributable to equity holders of the parent, excluding significant items identified in Note 3 (vii) of the Metcash Half Year Financial Report.
- (ii) Underlying earnings per share (EPS) is calculated by dividing underlying profit after tax by the weighted average shares outstanding during the period.

Explanatory note on results

Group reported revenue, which excludes charge-through sales, increased 12.2% to \$7.1 billion (1H20: \$6.3 billion). Including charge-through sales, Group revenue increased 12.3% to \$8.1 billion (1H20: \$7.2 billion) with significant growth in sales volumes across all Pillars.

Group underlying EBIT increased 30.4% to \$203.0 million with strong earnings leverage in all Pillars. In Food, a significant increase in EBIT was underpinned by higher sales volumes and an improvement in the contribution from joint venture stores. The strong growth was achieved despite 1H21 including no sales to Drakes in South Australia¹ and only three and a half months of sales to 7-Eleven following the ending of their previous supply agreement in mid-August 2020.

In Liquor, strong earnings growth was underpinned by elevated demand in the IBA banner group, which more than offset the adverse impact of COVID-19 trading restrictions on 'on-premise' customers.

In Hardware, strong earnings growth was driven by a significant increase in higher margin DIY sales, as well as a return to growth in Trade sales and the contribution from acquisitions.

Group underlying profit after tax² increased 43.0% to \$129.6 million and statutory profit after tax was \$125.1 million (1H20: statutory loss after tax of \$151.6 million³). Underlying earnings per share increased 27% to 12.7 cents, reflecting an increase in profit after tax and the impact of the Company's equity raising in 2H20.

¹ Metcash ceased supply to Drakes South Australia on 30 September 2019.

² Excludes significant items: *MFuture* restructure costs of \$1.2 million (post tax) and Total Tools acquisition costs of \$3.3 million (post tax).

³ Statutory loss after tax in 1H20 includes an impairment of goodwill and other assets of \$237.4 million (post tax).

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2020.

Appendix 4D (continued)

For the half year ended 31 October 2020

Dividends on ordinary shares

On 7 December 2020, the Board determined to pay a fully franked FY21 interim dividend of 8.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 23 December 2020 and payable in cash on 29 January 2021. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

Other disclosures

Net tangible assets⁴ backing

At 31 October 2020, the net tangible assets was 68.7 cents per share (1H20: 48.7 cents per share).

Entities where control has been gained or lost

On 1 September 2020, the Group acquired 70% of the shares of Total Tools Holding Pty Limited ('Total Tools') for a total purchase consideration of \$56.7 million. Total Tools is the franchisor to the largest tool retail network in Australia with 82 bannered stores nationwide as at 1 September 2020.

Other than the above, there were no changes in control that were material to the Group. Refer Note 4 (i) of the Metcash Half Year Financial Report for further details.

Statement of compliance

This report is based on the consolidated half year financial report of Metcash Limited and its controlled entities which has been reviewed by Ernst & Young. The financial report was lodged with the ASX on 7 December 2020.

Metcash Limited has a formally constituted audit committee.

On behalf of the Board



Jeff Adams

Director

Sydney, 7 December 2020

⁴ The calculation of net tangible assets per share includes the right-of-use assets and lease liability.

This Appendix 4D should be read in conjunction with the Metcash Half Year Financial Report for 31 October 2020.

FINANCIAL REPORT

For the half year ended 31 October 2020



Metcash

ABN 32 112 073 480

DIRECTORS' REPORT

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

Your Directors submit their report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group' or 'Metcash') for the half year ended 31 October 2020 ('1H21').

BOARD INFORMATION

The directors in office during 1H21 and up to the date of this report are as follows:

Robert Murray (Chairman)
Jeffery Adams (Chief Executive Officer)
Peter Birtles
Tonianne Dwyer
Christine Holman (appointed 14 September 2020)
Murray Jordan
Helen Nash

REVIEW OF RESULTS AND OPERATIONS

Consolidated net profit for the period after income tax attributable to shareholders of the Company was \$125.1 million (1H20: net loss of \$151.6 million).

AUDITOR'S INDEPENDENCE

The auditor's independence declaration for the half year has been received and is included on page 16.

SUBSEQUENT EVENTS

In November 2020, the Group cancelled \$150.0 million of unused syndicated facilities which were due to expire in April 2021. The Group maintains credit facilities at a level sufficient to fund its operations.

Other than the matters disclosed in this report, there were no events that have occurred after the end of the half year that would materially affect the reported results or would require disclosure in this report.

ROUNDING

The amounts contained in this report and in the financial statements have been rounded to the nearest \$100,000 (where rounding is applicable) under the option available to the Company under *ASIC Corporations Instrument 2016/191*.

Signed in accordance with a resolution of the Directors.



Jeff Adams
Director
Sydney, 7 December 2020

STATEMENT OF COMPREHENSIVE INCOME

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

	Notes	1H21 \$m	1H20 \$m
Sales revenue	2	7,059.7	6,289.8
Cost of sales		(6,342.8)	(5,659.6)
Gross profit		716.9	630.2
Other income	3	23.6	17.8
Employee benefit expenses	3	(346.4)	(320.3)
Depreciation and amortisation	3	(77.9)	(79.0)
Lease expenses	3	(36.8)	(37.9)
Provisions for impairment, net of reversals	3	(26.6)	(8.9)
Other expenses		(49.8)	(46.2)
Finance costs, net	3	(21.3)	(27.0)
Significant items	3	(5.1)	(249.3)
Profit/(loss) before income tax		176.6	(120.6)
Income tax expense		(51.1)	(30.5)
Net profit/(loss) for the period		125.5	(151.1)
Other comprehensive loss for the period, net of tax		(1.8)	(0.9)
Total comprehensive income/(loss) for the period		123.7	(152.0)
Net profit/(loss) for the period is attributable to:			
Equity holders of the parent		125.1	(151.6)
Non-controlling interests		0.4	0.5
		125.5	(151.1)
Total comprehensive income/(loss) for the period is attributable to:			
Equity holders of the parent		123.3	(152.5)
Non-controlling interests		0.4	0.5
		123.7	(152.0)
Earnings/(loss) per share attributable to the ordinary equity holders of the Company:			
Basic earnings/(loss) per share (cents)		12.2	(16.7)
Diluted earnings/(loss) per share (cents)		12.2	(16.7)

The above Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

STATEMENT OF FINANCIAL POSITION

AS AT 31 OCTOBER 2020



	Notes	1H21 \$m	FY20 \$m
ASSETS			
Current assets			
Cash and cash equivalents		172.5	275.1
Trade receivables and loans	6	1,677.8	1,578.2
Lease receivables		54.4	55.6
Inventories		1,109.1	1,032.2
Assets held for sale		11.4	11.4
Other financial assets		0.7	1.5
Total current assets		3,025.9	2,954.0
Non-current assets			
Trade receivables and loans	6	19.8	25.7
Lease receivables		220.6	237.1
Equity-accounted investments		76.9	77.6
Net deferred tax assets		130.9	120.0
Property, plant and equipment		217.1	214.0
Right-of-use assets		471.0	485.4
Intangible assets		666.7	581.8
Total non-current assets		1,803.0	1,741.6
TOTAL ASSETS		4,828.9	4,695.6
LIABILITIES			
Current liabilities			
Trade and other payables		2,322.6	2,064.1
Lease liabilities		172.6	173.4
Provisions		125.4	116.3
Income tax payable		23.2	1.7
Other financial liabilities		10.4	7.2
Total current liabilities		2,654.2	2,362.7
Non-current liabilities			
Interest bearing borrowings		-	188.4
Lease liabilities		684.3	712.7
Provisions		52.3	58.1
Other financial liabilities	4	69.0	2.1
Total non-current liabilities		805.6	961.3
TOTAL LIABILITIES		3,459.8	3,324.0
NET ASSETS		1,369.1	1,371.6
EQUITY			
Contributed equity		867.0	853.5
Retained earnings		493.2	505.5
Other reserves		(5.3)	(2.3)
Parent interest		1,354.9	1,356.7
Non-controlling interests		14.2	14.9
TOTAL EQUITY		1,369.1	1,371.6

The above Statement of Financial Position should be read in conjunction with the accompanying notes.

STATEMENT OF CHANGES IN EQUITY

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

	Notes	Contributed equity \$m	Retained earnings \$m	Other reserves \$m	Owners of the parent \$m	Non-controlling interests \$m	Total equity \$m
At 1 May 2020		853.5	505.5	(2.3)	1,356.7	14.9	1,371.6
Total comprehensive income/(loss), net of tax		-	125.1	(1.8)	123.3	0.4	123.7
Transactions with owners							
Proceeds from equity raising, net of costs	4	13.5	-	-	13.5	-	13.5
Dividends paid	5	-	(66.5)	-	(66.5)	(1.1)	(67.6)
Recognition of put option liability	4	-	(61.9)	-	(61.9)	-	(61.9)
Share of associate's adjustment on initial adoption of AASB 16 <i>Leases</i>		-	(9.0)	-	(9.0)	-	(9.0)
Shares issued to employees	4	-	-	(3.9)	(3.9)	-	(3.9)
Share-based payments expense		-	-	2.7	2.7	-	2.7
At 31 October 2020		867.0	493.2	(5.3)	1,354.9	14.2	1,369.1
At 1 May 2019		559.2	680.5	(0.8)	1,238.9	9.6	1,248.5
Total comprehensive loss, net of tax		-	(151.6)	(0.9)	(152.5)	0.5	(152.0)
Transactions with owners							
Dividends paid	5	-	(63.6)	-	(63.6)	(0.9)	(64.5)
Shares issued to employees		-	-	(4.9)	(4.9)	-	(4.9)
Share-based payments expense		-	-	1.7	1.7	-	1.7
At 31 October 2019		559.2	465.3	(4.9)	1,019.6	9.2	1,028.8

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

STATEMENT OF CASH FLOWS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

	Notes	1H21 \$m	1H20 \$m
Cash flows from operating activities			
Receipts from customers		8,743.7	7,814.9
Payments to suppliers and employees		(8,375.9)	(7,658.0)
Financing component of lease payments, net		(13.7)	(14.5)
Interest and dividends, net		(5.0)	(9.1)
Income tax paid, net of tax refunds		(34.2)	(44.5)
Net cash generated from operating activities		314.9	88.8
Cash flows from investing activities			
Proceeds from sale of businesses and assets		0.2	4.9
Payments for acquisition of assets		(30.4)	(30.5)
Payments for acquisition of businesses, net of cash acquired	4	(101.1)	(23.2)
Receipts from subleases, excluding the financing component		22.2	21.4
Loans repaid by/(provided to) other entities, net		7.0	(2.4)
Net cash used in investing activities		(102.1)	(29.8)
Cash flows from financing activities			
Proceeds from equity raising, net of costs	4	13.5	-
(Repayments of)/proceeds from borrowings, net		(188.4)	40.1
Payments for on-market purchase of shares		(2.8)	(3.1)
Payments for lease liabilities, excluding the financing component		(70.1)	(50.9)
Payment of dividends to owners of the parent		(66.5)	(63.6)
Payment of dividends to non-controlling interests		(1.1)	(0.9)
Net cash used in financing activities		(315.4)	(78.4)
Net decrease in cash and cash equivalents		(102.6)	(19.4)
Add: opening cash and cash equivalents		275.1	142.6
Cash and cash equivalents at the end of the period		172.5	123.2

The above Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

1. CORPORATE INFORMATION

The half year report of Metcash Limited (the 'Company') and its controlled entities (together the 'Group') for the half year ended 31 October 2020 was authorised for issue in accordance with a resolution of the Directors on 7 December 2020.

Metcash Limited is a for profit company limited by ordinary shares incorporated and domiciled in Australia whose shares are publicly traded on the Australian Securities Exchange. The registered office of the Company is 1 Thomas Holt Drive, Macquarie Park, NSW 2113.

The basis of preparation for these financial statements and the significant accounting policies applied are summarised in Appendix A.

2. SEGMENT INFORMATION

The Group has identified its operating segments based on the internal reports that are reviewed and used by the Chief Executive Officer (the chief operating decision maker) in assessing performance and in determining the allocation of resources. Discrete financial information about these operating segments is reported on at least a monthly basis.

The information reported to the CEO is aggregated based on product types and the overall economic characteristics of industries in which the Group operates. The Group's reportable segments are therefore as follows:

- **Food** activities comprise the distribution of a range of products and services to independent supermarkets and convenience retail outlets.
- **Liquor** activities comprise the distribution of liquor products to independent retail outlets and hotels.
- **Hardware** activities comprise the distribution of hardware products to independent retail outlets and the operation of company owned retail stores.

The Group operates predominantly in Australia. The Group has operations in New Zealand that represent less than 5% of revenue, earnings or assets of the Group. The Group does not have a single customer which represents greater than 10% of the Group's revenue.

Sales between segments are on similar terms and conditions to those with third party customers.

Segment results

	Segment revenue		Segment results	
	1H21 \$m	1H20 \$m	1H21 \$m	1H20 \$m
Food	4,264.9	3,908.9	103.0	88.4
Liquor	2,035.5	1,781.0	40.1	30.7
Hardware	759.3	599.9	64.5	38.9
Segment total	7,059.7	6,289.8	207.6	158.0
Corporate			(4.6)	(2.3)
Group underlying earnings before interest and tax ('EBIT')			203.0	155.7
Finance costs, net			(21.3)	(27.0)
Significant items (Note 3)			(5.1)	(249.3)
Profit /(loss) before income tax			176.6	(120.6)

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

3. EXPENSES

	1H21 \$m	1H20 \$m
(i) Other income		
Lease income - rent	3.4	6.5
Lease income - outgoings recoveries	8.3	8.0
Share of profit of equity-accounted investments	11.1	3.4
Net gain/(loss) from disposal of property, plant and equipment	0.8	(0.1)
	23.6	17.8
(ii) Employee benefit expenses		
Salaries and wages	301.3	276.2
Superannuation expense	21.6	21.0
Share-based payments expense	2.7	1.7
Other employee benefit expenses	20.8	21.4
	346.4	320.3
(iii) Depreciation and amortisation		
Depreciation of right-of-use assets	50.5	51.9
Depreciation of property, plant and equipment	13.9	13.5
Amortisation of software	11.2	11.2
Amortisation of other intangible assets	2.3	2.4
	77.9	79.0
(iv) Lease expenses		
Property rent	3.7	4.0
Property outgoings	27.3	28.6
Equipment and other leases	5.8	5.3
	36.8	37.9
(v) Provision for impairment, net of reversals		
Trade receivables and loans	7.5	7.3
Inventories	17.1	8.3
Onerous contracts provisions	0.4	(5.7)
Other impairments, net	1.6	(1.0)
	26.6	8.9
(vi) Finance costs, net		
Interest expense	6.3	7.9
Transaction fees in relation to customer charge cards (Note 6)	1.3	3.0
Deferred borrowing costs	1.0	0.6
Financing component of lease payments, net	13.7	14.5
Finance costs from discounting of provisions	1.1	2.6
Interest income	(2.1)	(1.6)
	21.3	27.0
(vii) Significant items		
Total Tools acquisition costs (Note 4 (i))	3.3	-
MFuture implementation costs (Note 4(ii))	1.8	6.9
Impairment of goodwill and other assets	-	242.4
Total significant items before tax	5.1	249.3
Income tax benefit attributable to significant items	(0.6)	(7.1)
Total significant items after tax	4.5	242.2

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

4. SIGNIFICANT EVENTS AND TRANSACTIONS

The following note provides an explanation of significant events and transactions since the end of the last annual reporting period, as required under AASB 134 *Interim Financial Reporting*.

(i) Business combinations

Total Tools Holdings Pty Ltd ('Total Tools')

On 1 September 2020, the Group acquired 70% of the shares of Total Tools. Total Tools is the franchisor to the largest tool retail network in Australia with 82 bannered stores nationwide as at 1 September 2020.

Details of the purchase consideration and the provisional fair values of the net assets acquired at the date of acquisition are as follows:

	\$m
Net assets acquired	
Cash and cash equivalents	8.4
Trade and other receivables	17.1
Inventories	15.7
Trade payables and provisions	(26.8)
Property, plant and equipment	3.5
Right-of-use assets	6.5
Lease receivable	2.9
Lease liabilities	(8.6)
Deferred tax assets (net)	4.7
Income tax payable	(1.6)
Net identifiable assets acquired	21.8
Non-controlling interest	(6.5)
Goodwill	41.4
Total purchase consideration	56.7

Given the proximity of the acquisition to the half year reporting date, the fair values ascribed to assets and liabilities, as shown in the above table, are provisional. From the date of acquisition, Total Tools has contributed \$18.6 million of sales revenue and \$3.4 million to the net profit (after tax) of the Group.

Put and call options written over minority shareholding

In accordance with the transaction agreements, the minority shareholders have the right to require Metcash to acquire their 30% shareholding in Total Tools via a put option, exercisable between 1 November 2023 and 31 January 2024. Metcash has the right to acquire the remaining 30% equity interest in Total Tools via a call option, exercisable at any time from 1 November 2023. The exercise price of the call and put option is based on an EBITDA multiple adjusted for a number of items, including net debt and working capital.

In accordance with the Australian Accounting Standards, the Group has recognised a financial liability for the put option at a provisional fair value of \$68.4 million and has derecognised the non-controlling interest of \$6.5 million related to the acquisition. The net amount of \$61.9 million has been recognised as an adjustment to retained earnings as shown below:

	\$m
Non-controlling interest derecognised	6.5
Adjustment recognised directly in equity (retained earnings)	61.9
Fair value of put option - recognised as a financial liability	68.4

Any changes in the fair value of the put option financial liability that occur subsequent to initial recognition will be recognised in the Statement of Comprehensive Income and will be disclosed within significant items.

Purchase consideration – cash outflow

	\$m
Cash consideration	57.5
Less: Cash and bank balances acquired	(8.4)
Net outflow of cash – investing activities	49.1

Costs of \$3.3 million that were incurred in relation to the acquisition are included in significant items in the Statement of Comprehensive Income and in operating cash flows in the Statement of Cash Flows.

4. SIGNIFICANT EVENTS AND TRANSACTIONS (CONTINUED)

Other business combinations

In June 2020, Metcash acquired a private label brand portfolio from Kollaras & Co, which is a key accelerator of the Liquor pillar's private label growth strategy, for a total purchase price consideration of \$26.0 million, of which \$20.2 million is allocated to goodwill.

During the period, the Group also entered into a number of other business combinations that were not material to the Group, individually or in aggregate. The total purchase price consideration for these businesses was \$26.0 million, including \$21.2 million allocated to goodwill.

The accounting for the above business combinations is provisional as at 31 October 2020.

(ii) *MFuture* implementation costs, including SADC

The five-year *MFuture* program commenced in FY20 and includes initiatives aimed at growth and maximising the effectiveness of the Group's cost of doing business ('CODB'). During the period, the Group incurred \$1.8 million of implementation costs which specifically related to the *MFuture* program. These costs are non-routine in nature, such as redundancies and restructuring costs. The program also includes costs associated with the move to a new distribution centre in South Australia (SADC), which was completed in November 2020.

(iii) COVID-19 impairments

In FY20, an impairment charge of \$15.6 million was recognised primarily in relation to expected credit losses from specific groups of trade receivables impacted by the COVID-19 restrictions and the write-off of prepaid commitments for events. During the period, \$3.0 million of the previously recognised allowance for impairment loss was utilised. The Group continues to be subject to volatility and uncertainty in its trading environment and operations due to potential changes in COVID-19 restrictions and have retained provisions for COVID-19 impairments of \$12.6 million at balance sheet date.

(iv) Equity raising, net of transaction costs

On 20 May 2020, Metcash announced the successful completion of its Share Purchase Plan ('SPP') which raised \$13.5 million, net of transaction costs and resulted in 5,963,215 new shares being issued at \$2.28 per share.

(v) FY18-FY20 LTI plan

As foreshadowed in FY20, the FY18-FY20 LTI plan vested in August 2020 at 67.4% which resulted in the vesting of 1,478,780 performance rights. Each performance right entitles the participant to one Metcash share. Metcash acquired 1,022,632 shares on market and allocated these to the participants in August 2020. The balance relating to good leavers was settled in cash.

5. DIVIDENDS

	1H21 \$m	1H20 \$m
Dividend paid on ordinary shares during the period		
Final fully franked dividend for FY20: 6.5c (FY19: 7.0c)	66.5	63.6
Dividend determined (not recognised as a liability as at 31 October 2020)		
Interim fully franked dividend for FY21: 8.0c (FY20: 6.0c)	81.8	54.6

On 7 December 2020, the Board determined to pay a fully franked FY21 interim dividend of 8.0 cents per share, sourced from the profit reserve established by Metcash Limited (Parent Company), with a record date of 23 December 2020 and payable in cash on 29 January 2021. The Dividend Reinvestment Plan remains suspended with effect from 26 June 2017.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

6. TRADE RECEIVABLES AND LOANS

	1H21 \$m	FY20 \$m
Current		
Trade receivables	1,337.9	1,242.7
Allowance for impairment loss	(58.4)	(58.9)
Trade receivables	1,279.5	1,183.8
Customer charge cards agreement (a)	224.1	226.5
Other receivables and prepayments	157.3	148.7
Trade and other receivables	1,660.9	1,559.0
Customer loans	20.2	23.8
Allowance for impairment loss	(3.3)	(4.6)
Customer loans	16.9	19.2
Total trade receivables and loans – current	1,677.8	1,578.2
Non-current		
Customer loans	19.8	25.7
Total trade receivables and loans - non-current	19.8	25.7

(a) Amounts receivable under the customer charge card agreements are fully offset by a corresponding amount included in trade and other payables.

7. FINANCIAL RISK MANAGEMENT - PUT OPTIONS

Ritchies Stores Pty Ltd (Ritchies)

At the end of the half year, Metcash held a 26% ownership interest in Ritchies, which is recognised as an equity-accounted investment on the Group's balance sheet. The remaining shareholders in Ritchies have the right to put their 74% ownership interests to Metcash, via put option, subject to a margin related annual financial hurdle ('hurdle') being achieved.

The put option can be exercised collectively by all shareholders during a prescribed period following the approval of Ritchies' annual audited financial report ('group put option' representing the remaining 74% shareholding) or in certain circumstances by individual minority shareholders within a prescribed period ('small shareholder put option').

Should the hurdle be achieved and the shareholders elect to exercise any put option, the purchase consideration payable by Metcash is based on a multiple of the prior year reported earnings adjusted for a number of material factors that are subject to commercial negotiation and agreement between the parties.

At the date of this report, Metcash has not received any put option exercise notice from Ritchies shareholders in respect of Ritchies' 2020 financial year.

Whilst the financial hurdle was achieved in respect of Ritchies' 2020 financial year, the group put option is not expected to be exercised in relation to that year. Metcash estimates that the group put option consideration payable to Ritchies shareholders in respect of the 2020 financial year would be between \$240 million and \$260 million. It is possible that certain small shareholders may choose to exercise their put options.

If the put options were to be exercised in future years, the exercise price will be determined with reference to Ritchies' results for that financial year and the consideration payable would reflect those results.

The group put option is recognised at a fair value of nil. The put option agreement terminates when Metcash ceases to hold shares in Ritchies or if Ritchies lists on the ASX.

7. FINANCIAL RISK MANAGEMENT - PUT OPTIONS (continued)

Total Tools Holdings Pty Ltd ('Total Tools')

Metcash holds a 70% equity interest in Total Tools. As disclosed in Note 4 (i), the Group has recognised an initial liability of \$68.4 million in respect of the put option held by minority shareholders in Total Tools.

The put option agreement allows minority shareholders to sell their 30% equity interest to Metcash, exercisable between 1 November 2023 and 31 January 2024. The put option exercise price is based on a multiple of Total Tools' EBITDA over the 12 months period ending on 29 October 2023 and adjusted for a number of items, including net debt and working capital.

The put option liability was initially measured at the present value of the put option exercise price estimated to be payable under the option. The liability is subsequently remeasured at each reporting date at the estimated put option exercise price, with any change in value recorded as a significant item within the Statement of Comprehensive Income, together with the net present value unwind on the put option liability.

As a result of recognising the put option as a financial liability, Metcash has derecognised the minority shareholders' non-controlling interest in Total Tools and ceased accounting for the non-controlling interest. Accordingly, the Statement of Comprehensive Income includes 100% of the net profits of Total Tools.

Other put options

Refer note 15 of the Group's FY20 financial report for further information on other put options.

8. CONTINGENT LIABILITIES

	1H21 \$m	FY20 \$m
Bank guarantees to third parties in respect of property lease obligations	13.9	16.6
Bank guarantees in respect of Work Cover	2.0	2.7

Financial guarantee contracts

The Group has granted a financial guarantee contract relating to the bank loan of a joint venture, Adcome Pty Ltd. Under the contract, the bank has the right to require Metcash to repay the debt under certain prescribed circumstances of default. The estimate of the maximum amount payable in respect of the guarantee, if exercised, is \$37.6 million (FY20: \$46.5 million).

Had the guarantee been exercised at 31 October 2020, the amount payable would have been \$37.6 million (FY20: \$39.1 million). The fair value of the financial guarantee contract at the reporting date was \$0.8 million (FY20: \$1.1 million) and is recognised as a financial liability.

Put options

Refer note 7 for details of put options outstanding at balance sheet date.

9. SUBSEQUENT EVENTS

In November 2020, the Group cancelled \$150.0 million of unused syndicated facilities which were due to expire in April 2021. The Group maintains credit facilities at a level sufficient to fund its operations.

Other than the matters disclosed in this report, there were no events that have occurred after the end of the half year that would materially affect the reported results or would require disclosure in this report.

APPENDIX A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1 Basis of Preparation

The half year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the Group as the annual financial report.

The half year financial report should be read in conjunction with the annual financial report of Metcash Limited for the year ended 30 April 2020 ("FY20"). It is also recommended that the half year report be considered together with any public announcements made by Metcash Limited during the half year ended 31 October 2020.

The half year financial report has been prepared in accordance with the requirements of the *Corporations Act 2001*, AASB 134 *Interim Financial Reporting* and other mandatory professional reporting requirements.

The report presents the results of the current period, which comprised the 26-week period that commenced on 27 April 2020 and ended on 25 October 2020. The prior period results comprise the 26-week period that commenced on 29 April 2019 and ended on 27 October 2019.

2 Changes in Accounting Policy

The accounting policies adopted in the preparation of the half year financial report are consistent with those applied in the annual financial report, except for the adoption of new standards effective as of 1 May 2020.

Several amendments and interpretations apply for the first time in 1H21, but do not have an impact on the half year financial report of the Group. These are as follows:

- AASB 2018-6 *Amendments to AASB 3 Definition of a Business*
- AASB 2018-7 *Amendments to AASB 1 and AASB 8 Definition of Material*
- AASB 2019-3 *Amendments to AASB 7, AASB 9 and AASB 139 Interest Rate Benchmark Reform*
- AASB 2019-1 *Conceptual Framework for Financial Reporting*
- AASB 2017-6 *Amendments to Australian Accounting Standards (AASs) – Prepayment Features with Negative Compensation*
- AASB 2020-4 *Amendments to AASs - Covid-19-Related Rent Concessions*
- AASB 2018-2 *Amendments to AASs - Plan Amendment, Curtailment or Settlement*

A number of new accounting standards (including amendments and interpretations) have been issued but were not effective in FY21. The Group has not elected to early adopt any of these new accounting standards in this financial report.

NOTES TO THE FINANCIAL STATEMENTS

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

APPENDIX B – EQUITY-ACCOUNTED INVESTMENTS

The following table presents key information about the nature and extent of the Group's interests in joint ventures and associates.

INVESTEES	PRINCIPAL ACTIVITIES	REPORTING DATE	1H21 %	FY20 %
Associates				
Ritchies Stores Pty Ltd	Grocery retailing	30 June	26.0	26.0
Dramet Holdings Pty Ltd	Grocery retailing	30 June	26.0	26.0
Metcash Export Services Pty Ltd	Grocery retailing	30 April	15.0	15.0
Joint ventures				
Adcome Pty Ltd	Grocery retailing	30 April	45.0	45.0
BMS Retail Group Holdings Pty Ltd	Grocery retailing	30 June	49.0	49.0
Waltock Pty Limited	Hardware retailing	30 June	49.0	49.0
LA United Pty Ltd (a)	Liquor wholesaling	30 June	75.3	75.3
Liquor Alliance Pty Ltd (a)	Liquor wholesaling	30 June	66.7	66.7

- (a) The Group has a direct ownership of 26.0% in LA United Pty Ltd, an indirect ownership of 49.3% via its interest in Liquor Alliance Pty Ltd. While the Group has beneficial ownership of more than 50% of the entity, key operating and financial decisions require the unanimous consent of other joint venture partners. Accordingly, LA United Pty Ltd and Liquor Alliance Pty Ltd are accounted for as joint arrangements.

DIRECTORS' DECLARATION

FOR THE HALF YEAR ENDED 31 OCTOBER 2020

In accordance with a resolution of the directors of Metcash Limited, I state that, in the opinion of the directors:

- a. The financial statements and notes of the consolidated entity:
 - i. give a true and fair view of its financial position as at 31 October 2020 and of its performance for the half year ended on that date; and
 - ii. comply with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*; and
- b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



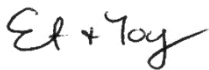
Jeff Adams
Director
Sydney, 7 December 2020

Auditor's Independence Declaration to the Directors of Metcash Limited

As lead auditor for the review of the financial report Metcash Limited for the half-year ended 31 October 2020, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Metcash Limited and the entities it controlled during the financial period.



Ernst & Young



Christopher George
Partner, 7 December 2020

Independent Auditor's Review Report to the Members of Metcash Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Metcash Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 October 2020, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 October 2020 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 October 2020 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Christopher George
Partner
Sydney
7 December 2020

