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5 December 2022

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

Dear Sir/Madam

METCASH LIMITED – FY23 HALF YEAR RESULTS ANNOUNCEMENT

Please find attached for release to the market the FY23 Half Year Results Announcement for Metcash Limited.

This announcement was authorised to be given to ASX by a Committee of the Board of Directors of Metcash Limited.

Yours faithfully

Julie D. Hutton

Julie Hutton
Company Secretary

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ASX Announcement – Metcash Limited FY23 Half Year Results

Metcash Limited (ASX:MTS) today released its financial results for the half year ended 31 October 2022.

Highlights

- Strong growth in sales and earnings while facing higher inflation and cycling the impact of extensive lockdowns
- Exceptional three-year growth rates (pre COVID comparison)
- All pillars performed well with a continuation of robust demand and sales volumes
- Continuation of increased preference for local neighbourhood shopping underpinned by improved competitiveness and differentiated offer
- Independent retail networks are healthy, confident and continuing to invest
- Group revenue up 8.2% to $7.7bn, and including charge-through[1] by 7.8% to $8.9bn (3yr +31.7%[2])
- Group underlying EBIT up 10.3% to $255.1m (3yr +63.8%)
- Underlying profit after tax[3] up 9.1% to $159.9m (3yr +76.5%)
- Statutory profit after tax of $125.7m (3yr +182.9%[4])
- Underlying earnings per share up 13.7% to 16.6 cents (3yr +66.0%)
- Statutory earnings per share 13.0 cents (3yr +177.8%)
- Interim dividend for FY23 up 9.5% to 11.5 cents per share (3yr +91.7%)
- Balance sheet strength
- Significant improvement in ESG credentials
- Strong sales and underlying demand has continued in first four weeks of 2H23

Commentary

Group CEO, Doug Jones said: "It has been another pleasing half for Metcash with strong sales and earnings growth in the face of higher inflation and while cycling the impact of extensive lockdowns in 1H22.

"Importantly, the business continued to build on its record performances post the onset of COVID, achieving exceptional growth over the past three years in all pillars.

"The increased preference for local neighbourhood shopping continues to be seen in our strong sales performance, with shoppers recognising and enjoying the increased competitiveness, differentiated offer and relevance of our network of independent stores. Feedback from our retailers is that many shoppers have now changed their shopping habits to include local grocery, liquor and hardware stores.

"There was some improvement to the extensive supply chain challenges experienced in FY22, and our operations again exhibited resilience and flexibility which, together with our strategic investment in inventory, ensured our networks remained well stocked. All pillars continued to perform well, underpinned by robust demand and sales volumes. In the Liquor pillar, growth accelerated, which was a standout for the half.

"Keeping on-shelf prices highly competitive supported strong sales volumes in all pillars. As outlined at our recent Investor Day, we are prioritising volume growth, our core value driver, to keep our retailers competitive, particularly whilst facing their own cost pressures.

"Our independent retail networks performed well. Overall network health continued to strengthen, and retailers are operating with a high level of confidence and reinvesting to further improve the quality of their stores and offer.

"The success of our investments in Total Tools and IHG, and significant growth in the underlying performance of the Hardware pillar, has led to a rebalancing of the Group's earnings profile with Hardware now the largest contributor.

"We now have ~160 company-owned or joint venture stores in our hardware network that together are delivering significant sales growth.

"The Group's increased earnings and strong financial position led to the Board declaring an interim dividend for FY23 of 11.5 cents per share, an increase of 9.5% over last year, or ~92% on a three-year basis.

"Sales momentum has continued early in the second half with Group sales up 6.2% in the first four weeks.

"It was great to see the expansion and acceleration of our ESG program recognised in the recently released 2022 Dow Jones Sustainability Index assessment. Metcash now ranks in the 85th percentile of the international fast moving goods group of companies, up from the 69th percentile last year. While we have made good progress, further improvement remains a key focus for the Company.

"Project Horizon, aimed at repositioning Metcash to be a modern, technology-led wholesaler, continued to progress towards its target of completing Stage 1 by the end of 2023. We continue to focus our core capabilities and best talent in this area with our immediate priority on accessing benefits for the Food and Liquor pillars faster.

"Looking forward, the business remains well placed with good growth opportunities, a strong financial position and strategic initiatives that are delivering significant benefits. We are also accelerating targeted growth and value creation initiatives in areas such as loyalty, digital and eCommerce, data, network optimisation and development, as well as addressing legacy technology risks through Project Horizon", Mr Jones said.

Results Overview

Group reported revenue, which excludes charge-through sales[1], increased 8.2% to $7.7bn (1H22: $7.2bn). Including charge-through sales[1], Group revenue increased 7.8% to $8.9bn (1H22: $8.2bn) reflecting growth in all pillars despite cycling the impact of extensive lockdowns. This was underpinned by continued strong demand, inflation and acquisitions. On a three-year basis, which provides a comparison with pre-COVID trading, Group revenue including charge-through sales increased 31.7% on a normalised basis[2].

Group underlying EBIT increased 10.3% to $255.1m, reflecting the robust sales performance and success of recent strategic acquisitions, partly offset by increased costs (fuel, freight and labour). On a three-year basis, Group underlying EBIT increased 63.8%.

The Food pillar continued to perform well, delivering EBIT growth of 3.2% despite cycling the impact of extensive lockdowns in New South Wales and Victoria. The lockdowns led to demand for Food being elevated in the prior corresponding half. On a three-year basis, Food EBIT is 11.1% higher.

In Hardware, EBIT increased 17.9% with growth in both IHG and Total Tools. Underlying demand in the Trade and DIY segments remained robust, and there was an increase in the contribution from majority-owned company and joint venture stores in IHG and Total Tools. Three-year EBIT growth in this pillar is 199.7%.

In Liquor, EBIT increased 11.3% reflecting the contribution from strong sales to retail customers, and a recovery in sales to on-premise customers post the lockdowns and easing of other COVID-related restrictions. The three-year EBIT growth in Liquor was 60.6%, with very little contribution from acquisitions.

Group underlying profit after tax[3] increased 9.1% to $159.9m, and statutory profit after tax was $125.7m, an increase of ~183% over three years[4]. Statutory profit after tax includes $34.2m of after tax significant items including put option valuation adjustments of $21.3m and Project Horizon implementation costs of $12.8m. Underlying earnings per share increased 13.7% to 16.6 cents, an increase on a three-year basis of 66.0% or 177.8% on a reported basis.

Group operating cashflow was $89.6m (1H22: $212.1m) with the cash realisation ratio 36.5% (1H22: 91.6%), reflecting the increased working capital associated with higher level of Group sales including inflation; the increased weighting of Hardware in the Group sales portfolio which has higher outstanding days and inventory in stores; and the impact of compliance with shorter payment terms for small suppliers.

The Group ended the financial year with net debt of $364.4m (FY22 net debt $189.0m) reflecting the impact of an increase in working capital, dividends paid, and capital expenditure. The level of net debt is below the Company's target debt leverage ratio.

The increase in Group earnings and strong financial position led to a 9.5% increase in the interim dividend for FY23 to 11.5 cents per share, fully franked. This represents a ~92% increase on a three-year basis.

Review of Trading Results

Food

Total Food sales (including charge-through[1]) increased 3.1% to $4.7bn (+20.5% 3yr normalised[2]). Excluding tobacco, total Food sales (including charge-through[1]) increased 6.5% (+23.7% 3yr normalised[2]).

Supermarkets sales increased 2.0% (+20.4% 3yr normalised[2]) or +5.6% ex tobacco, with continued shopper support for local neighbourhood stores, underpinned by their differentiated offer and a further improvement in network competitiveness.

Good progress was made on the business' strategic initiatives, including those focused on competitive pricing, ranges, store standards and quality, and the further roll out the IGA online and loyalty platforms.

LfL sales[5] in the IGA retail network increased 0.5%.

Wholesale price inflation[6] was 6.2% in the half after accelerating in the second quarter (Q1: 4.9%, Q2: 7.4%).

Supermarkets sales volumes grew in all states other than New South Wales and Victoria, which were cycling the impact of extensive lockdowns. Both these states returned to volume growth after cycling the lockdowns. Total volumes for Supermarkets were down slightly in the half (-0.9%).

Convenience sales increased, driven by improved competitiveness and growth in the customer base as food service demand and consumer activity normalised.

Food EBIT increased $3.0m or 3.2% to $98.2m reflecting the strong trading performance and an increase in the contribution from joint venture stores. The EBIT margin[7] was maintained at 2.1%.

Hardware

Hardware sales (including charge-through[1]) increased $248.9m or 16.8% to $1.7bn with continuation of significant growth in both IHG and Total Tools. The increase in sales represents strong underlying demand in both the Trade and DIY segments, a high level of inflation and a ~$134m contribution from new joint venture/company-owned stores.

In the Independent Hardware Group (IHG), total sales increased 7.9% (+37.5% 3yr basis) with sales growth of +11.8% in the first quarter and 4.7% in the second quarter.

While underlying demand remained robust in the second quarter, the growth rate was impacted by a number of factors including: adverse building conditions in the final six weeks of the quarter, with significant wet weather and flooding in New South Wales and Victoria restricting access to building sites and impacting spring sales in the outdoor, garden and paint categories; the Day of Mourning public holiday; and the cycling of a competitor's temporary store closures in the Sydney metropolitan area.

There was an improvement in the significant level of supply chain challenges experienced in FY22, and the availability of supply recovered to be at close to normal levels.

The IHG banner group continued to perform well with retail LfL[8] sales increasing 4.1%. This included +5.2% in Trade and +1.5% in DIY (Trade +12.0% and DIY +40.0% 3yr basis).

In Total Tools Holdings, sales[9] increased 93.4% to $296.9m, reflecting strong underlying Trade activity and the impact of additional majority-owned joint venture stores. Excluding the impact of acquisitions, sales increased by 9.5%.

Sales in the Total Tools retail network were $566.7m, or ~$1,030m on a rolling 12 month basis (FY22 retail network sales: $972m). On a LfL basis[10], retail network sales increased 4.7% (+57.6% 3yr basis).

The Total Tools retail network continued to expand, with a further two stores added in the half bringing total network stores to 102. A further two stores have opened in the second half to date.

Total online sales in Hardware were ~6% of sales, after declining 9.9% against the prior corresponding half as online sales cycled the impact of lockdowns.

Hardware EBIT increased $17.7m or 17.9% to $116.6m. IHG's EBIT increased $4.0m or 6.1% to $69.8m, and was up 3.4% excluding the impact of acquisitions. The earnings growth was underpinned by the strong trading performance, particularly in IHG's company-owned / joint venture stores, partly offset by additional fuel, freight and labour costs.

Total Tools Holdings EBIT increased $13.7m to $46.8m, reflecting the strong sales performance in the network and sales of exclusive brands, and a $12.4m incremental contribution from the acquisition of majority-owned joint venture stores.

The Hardware EBIT margin[7] was 6.7% (IHG: 4.9%, Total Tools: 15.8%) which includes the positive impact of Total Tools and the retail margin from IHG joint ventures and company-owned stores.

Liquor

Total Liquor sales (including charge-through[1]) increased $252.4m or 11.6% to $2.4bn (+36.0% 3yr basis), reflecting a recovery in sales to on-premise customers post lockdowns, and continuation of strong demand in the retail network.

Wholesale sales grew across both the retail network and contract customers supported by continuation of the increased preference for local neighbourhood shopping and at-home consumption.

Wholesale sales to the IBA banner group increased 1.2% (+25.7% 3yr basis) despite retail sales in the prior comparative period benefiting significantly from extensive lockdowns. Sales to IBA on-premise customers increased 47.8% due to the cycling of lockdowns, growth in underlying demand and new customers.

RTDs and spirits were the strongest growth categories, and wine continued to perform well. Sales of Owned and Exclusive brands increased 14.7% as the business continued to leverage the acquisition of the Kollaras private label brands.

Liquor EBIT increased $5.0m or 11.3% to $49.3m, reflecting the contribution from strong sales growth which more than offset the impact of additional fuel, freight and labour costs. The EBIT margin[7] for Liquor was in line with the prior comparative period at 2.0%, despite the additional costs.

Financial Position

Group operating cashflow was $89.6m (1H22: $212.1m) with the cash realisation ratio 36.5% (1H22: 91.6%), reflecting the Group's increased working capital.

The Group had net investing outflows of $85.3m, including capital expenditure of $81.1m, and acquisitions of businesses of $28.6m, which were primarily in the Hardware pillar and included a further 3 Total Tools joint venture stores.

The Group ended the period with net debt of $364.4m (FY22: $189.0m), reflecting the impact of the investment in working capital, dividends paid, and capital expenditure. The level of net debt remains below the Company's target debt leverage ratio.

Dividends

The Board has determined to pay an interim dividend for FY23 of 11.5 cents per share, which is an increase of 9.5% on the interim dividend for FY22 of 10.5 cents (+91.7% 3yr basis). The increase in the interim dividend reflects the Group's higher earnings and strong financial position.

Outlook

Group

All pillars have continued to trade well in the first four weeks of 2H23, with Group sales up 6.2% as consumers continue to enjoy the improved competitiveness and differentiated offer of the network's local neighbourhood stores.

Sales growth rates have moderated compared to the very high levels during COVID, but continue to be driven by robust underlying demand and inflation, with volume growth remaining broadly positive. Underlying demand in Hardware is expected to remain strong in 2H23, with an expected improvement in the adverse building conditions to support volumes.

While supply chain challenges have improved, they continue to be a risk for all pillars in 2H23, as do additional fuel, freight and labour costs. There continues to be uncertainty over the level of inflation going forward, as well as how the impact of inflation and other cost of living increases may impact consumer behaviour in the retail networks of our pillars, and Metcash.

Pillar sales update – first 4 weeks of 2H23

In **Food**, sales growth accelerated post the end of 1H23, increasing 4.0% (+10.6% ex tobacco) compared with the prior corresponding period, reflecting continued strong demand in both the Supermarkets and Convenience businesses and inflation. Supermarkets sales increased 3.2% (+9.5% ex tobacco) with a return to volume growth post cycling the impact of lockdowns. Wholesale price inflation[6] continued to trend up, averaging 8.8% in November.

In **Hardware**, total sales increased 8.0% compared with the prior corresponding period, with continued strong underlying demand in both IHG and Total Tools, the contribution from acquisitions and inflation. IHG sales were 1.6% lower due to the impact of significant adverse building conditions in New South Wales and Victoria. Total Tools sales increased 101.4%.

In **Liquor**, total sales increased 8.9% compared with the prior corresponding period reflecting continuation of strong demand across retail stores and on-premise customers. Sales to IBA on-premise customers increased 20.3% reflecting the cycling of a gradual return to on-premise consumption following the end of lockdowns, and new customers.

This announcement was authorised to be given to the ASX by a Committee of the Board of Directors of Metcash Limited.

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[1] Direct sales from suppliers to retailers, invoiced through Metcash

[2] The previous East Coast supply agreement with 7-Eleven concluded on 17 August 2020 and Metcash ceased to supply Drakes in South Australia from September 2019. To enable comparison, normalised sales exclude the sales to Drakes and 7-Eleven in the relevant sales period, as appropriate

[3] Underlying profit after tax excludes significant items: put option valuation adjustments of $21.3m, Project Horizon implementation costs of $12.8m, Mega Distribution Centre transition costs of $1.5m and a Covid-19 impairment reversal of $1.4m (all post tax)

[4] 1H20 Reported profit after tax includes asset impairments of $237.4m

[5] Based on scan data from 1,138 IGA stores

[6] Excludes tobacco and produce

[7] EBIT margin: EBIT/total revenue (including charge-through)

[8] Based on a sample of 311 network stores that provide scan data (representing >70% sales)

[9] Total Tools sales include exclusive brand sales, franchisee fees, joint venture and company-owned store sales and other services

[10] Based on scan data from 91 network stores