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ASX Announcement – Metcash Limited FY23 Full Year Results

Metcash Limited (ASX:MTS) today released its financial results for the full year ended 30 April 2023.

Highlights

- A record year with continued strong growth
- Outstanding three-year performance
- All pillars continued to perform well, supported by ongoing strong demand and the success of strategic initiatives
- Retail networks are healthy, confident and continuing to reinvest
- Group revenue increased 6.2% to $15.8bn, and including charge-through[1] by 5.7% to $18.1bn (3yr: +29.0%[2])
- Group underlying EBIT up 8.1% to $500.8m (3yr: +49.5%)
- Underlying profit after tax up 4.6% to $307.5m[3] (3yr: +54.7%)
- Statutory profit after tax up 7.6% to $259.0m
- Underlying earnings per share up 6.4% to 31.8 cents (3yr: +45.9%)
- Operating cashflow of $372.7m with strong second half (2H cash realisation ratio 120%)
- Total dividends for FY23 up ~5% to 22.5 cents per share (3yr: +80.0%)
- Solid sales growth has continued into early FY24
- Group well positioned for continued growth

Commentary

Group CEO, Doug Jones said: "It has been another record year for Metcash, and one that represents continued progress on the outstanding results in the prior two years.

Both sales and earnings were at record levels while facing additional challenges associated with the rapid increase in interest rates and cost of living, particularly towards the end of the year.

Our focus on further improving the competitiveness of our independent retail networks, as well as the success of our strategic acquisitions, particularly Total Tools, have been key factors in the strong performance.

Three-year growth rates have been outstanding, with earnings per share up ~46%. This helped us return ~$800m to shareholders, which included an 80% increase in dividends over the period.

Financial year 2022 results included a 53rd trading week. Comparisons with FY22 are based on a 52 week versus 52 week basis (using 52/53 calculation method) throughout this announcement.

Our retail networks in Food, Hardware and Liquor all continued to perform well, and importantly, they are healthy, confident and continuing to reinvest. There were a record number of IGA store openings in the year, and in Hardware, Total Tools continued to rapidly expand its store network, with more stores planned in FY24.

There are signs that the rapid increase in interest rates and cost of living are starting to impact consumer confidence and the behaviour of some shoppers. We continue to focus on ensuring our retailers remain competitive, with options that provide the right value for shoppers.

Importantly, sales growth has continued in all pillars early in FY24, with the rate of growth in Food similar, and Hardware up, compared with 2H23. In Liquor, underlying demand remains strong but there has been a noticeable shift to more 'value' options, particularly in on-premise sales.

Pleasingly, our ESG credentials again improved. We have been on a journey of continuous improvement in this important area, and this year we reached a number of key milestones towards achieving our ambitious goals. Our achievements were recognised in the Dow Jones Sustainability Index ESG assessment, which placed us in the 87th percentile of our international sector, up from the 69th percentile in the prior year.

We are continuing to replace our core Food and Liquor systems under Project Horizon to reposition Metcash as a modern, technology-led wholesaler and retailer. Our new inventory forecasting and replenishment system was rolled out in the year, and it is already delivering noticeable benefits through improved forecasting accuracy, and the core finance module has now been in place through two year-ends. To ensure we maximise project outcomes and benefits, and further de-risk Horizon, the completion of the build and subsequent deployment phases have been brought in-house, with the deployment timeline extended to support a phased, lower-risk roll out strategy.

Going forward, the fundamentals for our businesses remain sound, and we are well positioned to continue delivering growth and superior returns for shareholders through the cycle.

Metcash is now much larger, more diversified and stronger than it was three years ago, and our management teams and retail networks are experienced at managing well through challenges, including changes in the external environment.

Importantly, we have healthy, supportive and growing retail networks. Our financial position is strong and we have an experienced management team to continue progressing our growth plans," said Mr Jones.

Results Overview

Group reported revenue, which excludes charge-through sales[1], increased 6.2% to $15.8bn (FY22: $14.9bn). Including charge-through sales[1], Group revenue increased 5.7% to $18.1bn (FY22: $17.1bn), with growth in each pillar building on the strong sales performance over the prior two years.

Group underlying EBIT increased 8.1% to a record $500.8m, with earnings growth in all pillars reflecting continued strong demand, good operating discipline and the success of strategic acquisitions and initiatives. On a three-year basis, Group underlying EBIT increased 49.5%.

The Food pillar continued to perform well delivering EBIT growth of 3.8% (3yr: +11.7%) reflecting the strong trading performance and improved leverage, supported by an improved retail network that is more relevant and competitive than ever before.

Hardware continued to build on the exceptional earnings growth over the past two years, delivering a further 16.8% increase in EBIT (3yr: +160.3%). The strong growth reflects robust underlying demand and the increased contribution from majority-owned company and joint venture stores in IHG and Total Tools. This strategy of investing in our own stores, often with independent partners, has proved to be a very effective growth driver.

The Liquor pillar continued to outperform, delivering a further 8.9% increase in EBIT (3yr: +43.0%) buoyed by ongoing strong sales to retail customers and continuation of the recovery in on-premise sales which were cycling the adverse impact of COVID-related trading restrictions.

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Group underlying profit after tax[3] increased 4.6% to $307.5m, and statutory profit after tax increased 7.6% to $259.0m. Underlying earnings per share increased 6.4% to 31.8 cents reflecting the increase in profit after tax.

Group operating cashflow was $372.7m (FY22: $432.3m) with a cash realisation ratio of ~77%, which is below our historical average. This reflects additional tax payments, an increase in working capital from a strategic investment in inventory, growth in the Hardware pillar and the adverse impact of 'significant items'. As guided, the cash realisation ratio was higher in the second half of the year (120%).

Net debt at the end of the financial year was $349.6m (FY23: $189.0m). The Group has significant undrawn facilities which include new Sustainability Linked Finance facilities totalling $525m.

The Group's lift in earnings and strong financial position led to a ~5% increase in total dividends for FY23 to 22.5 cents per share, fully franked. This represents an 80% increase in total dividends on a three-year basis.

Review of Trading Results

Food

Total Food sales (including charge-through[1]) increased 2.8% to $9.6bn on a normalised basis (+16.6% 3yr normalised[2]) despite cycling elevated sales in the second half of FY22 due to strong in-stock positions during floods and rail disruptions. Supermarkets sales increased 2.1% (+16.1% 3yr normalised[2]) and Convenience increased 9.7% (+20.4% 3yr normalised[2]) driven by the addition of new customers, strong food service demand and the normalisation of customer activity post COVID restrictions.

Tobacco sales declined 6.8% reflecting the acceleration of illicit trade and continuation of the decline in smoking. On an ex-tobacco basis, total Food sales increased 7.0% (+19.7% 3yr normalised[2]) with Supermarkets wholesale sales +6.4% (+19.2% 3yr normalised[2]) and Convenience +12.8% (+22.5% 3yr normalised[2]).

Underpinning the strong performance is the continued successful execution of our strategic initiatives to further improve the competitiveness of the IGA network, with particular focus on prices, ranges, store quality and standards to drive value for shoppers. Sales have also been buoyed by wholesale inflation which averaged 7.6% for the year, and reached a peak of 9.1% in the third quarter.

There has been a noticeable change in some shoppers behaviour from early calendar 2023, to focus more on 'value' items. The network continued to retain the majority of shoppers gained in recent years with 'foot traffic' increasing. The impact of cost of living pressures and increased focus on value was seen in a flat average 'basket size'.

Retail like for like[4] sales growth in the IGA network was 0.9% and +3.0% ex-tobacco (3yr: 21.4%). The network remains healthy, confident and continues to reinvest. A record number of 39 new stores were opened in the year.

Food EBIT increased 3.8% on a normalised basis to $204.0m reflecting the strong trading performance, which more than offset the impact of additional costs, particularly labour and freight.

The Food EBIT margin[5] was maintained at 2.1% despite these additional costs.

Hardware

Hardware sales (including charge-through[1]) increased 10.6% on a normalised basis to $3.4bn (+63.1% 3yr) reflecting continued growth in both IHG and Total Tools and the impact of acquisitions ($173.2m). Combined sales in the IHG and Total Tools retail networks increased 4.5% to ~$4.5bn (+~40% 3yr LfL basis).

Demand remained robust in DIY and Trade, with Trade continuing to be underpinned by a strong pipeline of construction activity and an improvement in supply availability. Inflation continued to be elevated in both DIY and Trade.

IHG sales (including charge-through[1]) increased 3.7% normalised to $2.8bn (+35.0% 3yr) underpinned by solid underlying demand and inflation. Sales in the year were impacted by adverse building conditions in the second and third quarters, and from the impact in the second half of the retail network actively managing working capital

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in response to more challenging external conditions, particularly the decline in affordability and consumer confidence.

The IHG retail network continued to perform well with like for like retail network sales increasing 2.7%[6] (+34.7% 3yr), with Trade +3.8% (+25.8% 3yr) and DIY + 0.6% (+53.9% 3yr).

Total Tools sales[7] increased 61.9% to $583.5m reflecting strong Trade activity and the impact of additional majority-owned joint venture stores. Total network sales increased 11.6% to $1.085bn (FY22: $972m) with like for like sales up 4.8%[8] (+56.2% 3yr). The network continued to expand in line with its growth strategy adding a further 10 stores, bringing total network stores to 110 at year end.

Hardware online sales increased by 0.6% to represent ~6% of total Hardware sales.

Hardware EBIT increased 16.8% to $219.2m on a normalised basis reflecting strong trading, particularly in retail and the impact of acquisitions. Excluding acquisitions, the increase was $12.5m or 6.7% on a normalised basis. IHG normalised EBIT increased $10.3m or 8.2% to $135.7m reflecting the strong sales performance and the contribution from acquisitions, which was partly offset by additional fuel, freight and labour costs. The IHG wholesale margin was 2.9%. Total Tools normalised EBIT increased $21.2m or 34.0% to $83.5m reflecting the strong sales performance and the impact of majority-owned joint venture stores acquired during the current and prior years. Excluding acquisitions the increase was 6.9%.

The Hardware EBIT margin was 6.5%[5] (FY22: 6.1%) which includes the positive impact of Total Tools and the retail margin from joint venture and company-owned stores.

Liquor

Total Liquor sales (including charge-through[1]) increased 8.3% on a normalised basis to $5.1bn (+37.7% 3yr basis) with continued growth in sales to retail and on-premise customers.

The retail network again performed well with strong demand buoyed by improved competitiveness, a preference for local shopping and continuation of the at-home consumption trend. While sales increased to both the IBA network and contract customers, the rate of growth tapered in the fourth quarter reflecting the impact of higher cost of living pressures with some switching to lower priced value choices. Sales of Owned and Exclusive brands increased 17% in the year.

Wholesale sales to the IBA banner group and contract customers increased 5.6%. Average basket size and spend were both up for the year driven by growth in the RTD and spirit categories.

Sales to on-premise customers increased a significant 31.3% reflecting expansion of the customer base through the successful execution of the on-premise growth strategy, as well as the impact of cycling COVID lockdowns in the prior financial year.

Liquor EBIT increased 8.9% to $104.1m on a normalised basis reflecting the contribution from the strong trading performance, partly offset by additional fuel, freight and labour costs. The EBIT margin[5] for Liquor increased to 2.1% (FY22: 2.0%).

Financial Position

Group operating cashflow[9] was $372.7m (FY22: $432.3m) with a cash realisation ratio ~77%, which is below our historical average. This reflects additional tax payments, an increase in working capital from a strategic investment in inventory, growth in the Hardware pillar and the adverse impact of 'significant items'. As guided, the cash realisation ratio was higher in the second half of the year (120%).

The Group had net investing outflows of $199.6m, including capital expenditure of $152.1m and acquisitions of businesses of $60.4m. The business acquisitions were predominantly in the Hardware pillar including the acquisition of an additional eight joint venture stores in Total Tools.

The Group ended the financial year with net debt of $349.6m (FY23: $189.0m). The Group has significant undrawn facilities which include new Sustainability Linked Finance facilities totalling $525m.

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Dividends

The Board has determined to pay a final dividend of 11.0 cents per share, bringing total dividends for FY23 to 22.5 cents per share fully franked, an increase of 4.7% on the prior corresponding year (+80% on a 3yr basis). The increase in FY23 reflects the Group's higher earnings and strong financial position. The record date for the final dividend is 19 July 2023, with payment to be made on 21 August 2023.

Dividend Reinvestment Plan (DRP)

The Board has today reactivated the Company's DRP to provide flexibility for shareholders resident in Australia and New Zealand to reinvest in Metcash cost effectively, while also delivering incremental support and flexibility for Metcash to pursue attractive growth opportunities. The discount rate in respect of the final dividend has been set at 1.0%. The last day for shareholders to notify their participation in the DRP is 20 July 2023. The pricing period is from 24 July 2023 to 4 August 2023. Metcash will announce the DRP price and shares to be issued on 7 August 2023, with shares issued on 21 August 2023.

Existing shareholders resident in Australia and New Zealand will be sent an invitation to participate in the DRP. Full DRP details are provided on Metcash's website at: www.metcash.com/investor-centre/DRP.

Outlook

Group

Solid sales growth has continued in the first seven weeks of FY24 with all pillars continuing to perform well. Group sales increased 2.3%, with the rate of growth in Food similar, and Hardware up, compared to 2H23.

While demand continues to be solid in all pillars, the impact of higher interest rates and cost of living has started to impact consumer confidence and the behaviour of some customers and shoppers in our retail networks.

The business is actively managing increased cost pressures, particularly labour, as well as an increased tax burden in Victoria due to recently announced changes in workers compensation, payroll and land tax. The estimated increase in Victorian tax is ~$10m in FY24.

We are well positioned to continue delivering growth and superior returns for shareholders through the cycle. The fundamentals for our businesses remain sound, supported by high employment, increasing population and immigration and continued government investment in infrastructure and housing.

Our Group is much larger, more diversified and stronger than it was three years ago, and our management team and retail networks are experienced at managing well through challenges, including changes in the external environment.

Importantly, we have healthy and supportive retail networks and an increasing pipeline of growth opportunities. Our financial position is strong and we have an experienced management team to continue progressing our growth plans.

Sales update – first 7 weeks of FY24

In **Food**, total sales increased 6.8% ex-tobacco (+2.0% incl. tobacco) compared with the prior corresponding period reflecting strong demand in both the Supermarkets and Convenience businesses. Supermarkets wholesale sales increased 6.9% ex-tobacco (+1.9% incl. tobacco) with wholesale price inflation (ex-tobacco and produce) for May was 8.0%.

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In **Hardware**, total sales increased 5.0% compared with the prior corresponding period, driven by continued solid underlying demand in both IHG and Total Tools and the contribution from acquisitions. IHG sales increased 1.6% with members actively managing working capital in a more challenging external environment. Total Tools sales increased 19.9%.

In **Liquor**, total sales increased 1.2% with growth in retail partly offset by a slight decline in on-premise sales reflecting the impact of some on-premise patrons spending less and the management of working capital by our on-premise customers.

This announcement is authorised 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 3yr Food sales revenue is calculated on a normalised basis – 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. Sales have been adjusted to 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 and acquisition costs of $30.0m, Project Horizon implementation costs of $24.2m, Mega Distribution Centre transition costs of $3.0m and other impairment reversals of $8.7m (net benefit) (all post tax)

4 Based on scan data from 1,122 IGA stores

5 EBIT margin: EBIT/Total revenue (including charge-through)

6 Based on a sample of 307 network stores that provide scan data (represents >70% of sales)

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

8 Based on scan data from 100 network stores

9 Includes investment in working capital of $98m (FY22: $62m)

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