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24 June 2024

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

Dear Sir/Madam

METCASH LIMITED – FY24 RESULTS ANNOUNCEMENT

Please find attached for release to the market the FY24 Results Announcement for Metcash Limited.

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

Yours faithfully

Julie D. Hutton

Julie Hutton
Company Secretary

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ASX Announcement

Metcash Limited FY24 Results

Metcash Limited (ASX:MTS) today released its financial results for the year ended 30 April 2024.

Highlights

- Strong results in challenging macro environment
- Results underpinned by diversification, resilience and disciplined execution
- Pleasing pillar performance in line with strategic positioning and current market conditions
- Food and Liquor delivered strong returns and positioned for structural growth
- Hardware continued to outperform the softer addressable market and remains ideally positioned for cyclical growth
- Retail networks healthy and strong – investments are delivering
- Independent offer continues to resonate with shoppers – increasingly relevant, differentiated and competitive
- Excellent cash, cost and operational performance underpinned by disciplined execution
- Plans, platform and capabilities in place to continue growing current, as well as future businesses
- Strong earnings since FY20 with EBIT up 56% (12% CAGR)

Financials

- Group revenue increased 0.7% to $15.9bn and 0.7% to $18.2bn including charge-through[1]
- Group underlying EBIT decreased 0.9% to $496.3m
- Underlying profit after tax[2] decreased 8.2% to $282.3m
- Statutory profit after tax decreased 0.7% to $257.2m
- Underlying EPS 28.3 cps, Statutory EPS 25.8 cps
- Operating cashflow up 29.5% to $482.6m (3yr average cash realisation ratio[3] ~90%, FY24: ~102%)
- Total dividends 19.5 cps (payout ratio ~70% UPAT)

Commentary

Group CEO, Doug Jones said: "I am pleased to report that the Company has delivered strong results for FY24, a year in which there was a further decline in the external environment. The results have been underpinned by our strategy, which is clearly working, and the disciplined execution of key initiatives.

Operationally, all pillars performed well, in line with their strategic positioning, demonstrating resilience in the current softer market conditions.

In Food, strong earnings growth was delivered in the most value-conscious shopping environment in recent memory, providing further evidence of its shift to a sustainable and resilient business model. The pillar is now structurally positioned for enduring growth.

Our Liquor pillar continued to outperform the market, win share and deliver strong earnings growth. Its diversified customer strategy and shopper preference for competitive localised offers were key drivers of the pleasing results.

The Hardware pillar also performed well in softer external conditions that included a rapid decline in builder confidence and increased competitive pressure. The business capitalised on these conditions to grow market share and remains ideally positioned for an improvement in activity levels.

Importantly, our retailers are continuing to invest in the network, and they remain resilient, healthy and confident. Their offer is well received by shoppers and customers, underpinned by improved quality, competitiveness and relevance.

The Company's cash performance was a standout for the year with operating cashflow growing 30% on the prior corresponding year. Our focus on disciplined execution with cash, costs and working capital initiatives is delivering significant tangible benefits.

The year was also a milestone for the Company from a strategic perspective with the announcement of major acquisitions in the Food and Hardware pillars. The acquisition of Superior Foods was completed earlier this month and will result in the further strengthening of our Food business. It also opens-up new growth opportunities in the attractive and adjacent foodservices market. While in Hardware, the acquisitions of Alpine Truss and Bianco Construction Supplies accelerates our 'whole of house' strategy and further strengthens the business' market position.

Metcash's diversified growth platform, capabilities and the successful execution of its strategy have underpinned strong results in recent years, with earnings increasing 56% (12% CAGR) since FY20.

The Company's transformation into a more diversified, resilient and high-quality business continues to position it for ongoing success", Mr Jones said.

Results Overview

Group reported revenue, which excludes charge-through sales[1], increased 0.7% to $15.9bn (FY23: $15.8bn). Including charge-through sales[1], Group revenue increased 0.7% to $18.2bn (FY23: $18.1bn) with growth in the Hardware and Liquor pillars more than offsetting a small decline in the Food pillar, driven by lower sales in tobacco.

Group underlying EBIT decreased by 0.9% to $496.3m due to earnings growth in Food and Liquor being more than offset by lower earnings in Hardware and increased corporate costs. All pillars were supported by good operating discipline and the success of strategic initiatives, including acquisitions in Hardware. Superior Foods will be incorporated in Metcash's FY25 results from 3 June 2024.

The Food pillar continued to perform well in an environment of increased value-conscious shopping, providing further evidence of its shift to a sustainable and resilient business model. Earnings increased 3% to $210.1m, reflecting its strong trading performance.

The Liquor pillar continued to perform strongly underpinned by its diversified customer strategy and the ongoing preference for localised liquor offers. Earnings increased 4.9% to $109.2m, reflecting the strong trading performance, strategic buying and good cost management.

The Hardware pillar delivered pleasing results in a market of rapidly slowing builder confidence and reduced market activity. IHG continued to outperform market trends, while Total Tools faced significantly increased competition in the second half. Earnings decreased 3.8% to $210.9m, reflecting the more challenging conditions and increased cost pressures. Pleasingly, IHG margins remain above its historical trend (pre COVID).

Group underlying profit after tax[2] decreased 8.2% to $282.3m, reflecting lower earnings in the Hardware pillar and increased finance costs. Statutory profit after tax decreased 0.7% to $257.2m and includes the impact of $25.1m (after tax) of significant items in relation to Project Horizon, put option valuation adjustments, business acquisition costs and mega distribution centre transition costs.

The Group cash performance was again a standout with operating cashflow increasing $109.9m or 29.5% to $482.6m (FY23: $372.7m), with the cash realisation ratio[3] ~102% for the year. This results in an average three-year cash realisation ratio[3] of ~90%. A strong focus on working capital was a key driver of the result.

Net debt at the end of the financial year was $251.9m (FY23: $349.6m), with average net debt $582m. The debt leverage ratio[4] (DLR) at the end of FY24 was 0.45x (FY23: 0.62x) or 1.03x on average. Post the end of the financial year the Company paid $390m for the purchase of Superior Foods (with a potential additional $22.3m earn-out due after the end of Superior Foods' financial year). Metcash expects to be in the mid to upper end of its target DLR range (1.0x to 1.75x) for the next two years.

The Board determined to pay a final dividend for FY24 of 8.5 cents per share, bringing total dividends for the year to 19.5 cents per share fully franked, in line with the target payout ratio ~70% of underlying profit after tax. This represents the Company's strong cash performance balanced with its desire to invest in future growth opportunities.

Review of Trading Results

Food

Total Food sales (including charge-through[1] and excluding tobacco) increased 4.6%, with strong growth in both Supermarkets and Campbells and Convenience. Including tobacco, total Food sales declined 0.5%.

In Supermarkets, the business continued to perform well in an environment of increased value-conscious shopping. Wholesale sales excluding tobacco were up 4.7%, underpinned by further improvement in network competitiveness and inflation. The independent network offer continues to resonate, with shoppers retaining IGA in their shopping repertoire even as they increasingly shop around in their search for value. Foot traffic into stores increased for the year, albeit items per basket declined reflecting cost of living pressures on household grocery budgets. Sales of private label products increased 15.5%, and sales of items on promotion grew faster than those not on promotion.

Sales volumes[5] were positive for the year, with growth in the second half more than offsetting a small decline in the first half. Wholesale price inflation continued to moderate with inflation[5] for the year at 4.8% (FY23: 7.6%), and fourth quarter inflation down to 2.4%. The teamwork score ex-tobacco increased 1.6 percentage points to 69.7%, and was flat at ~74% including tobacco.

The IGA retail network continued to invest in growth and remains healthy, strong and confident. There were a record 26 new store openings in the year, and 15 closures. Retail like for like[6] sales growth in the IGA network was +2.2% ex-tobacco.

Tobacco sales declined 13.9% in the year due to an acceleration in illicit trade and the shift to alternatives.

In Campbells and Convenience, total sales excluding tobacco increased 4.0% reflecting stronger sales from its major banner group customers.

Food EBIT increased 3.0% to $210.1m, reflecting the strong trading performance ex-tobacco, continued strong support from suppliers and the effective management of costs. The EBIT margin[7] increased 7bps to 2.2%, largely reflecting the change in sales mix associated with the decline in tobacco sales, as well as good cost management.

Liquor

The Liquor pillar continued to outperform in a more challenging market with total sales (including charge-through[1]) increasing 1.7% to $5.2bn, with growth in sales to independent retail and contract customers more than offsetting a decline in on-premise sales.

An increase in cost of living pressures continued to drive shopper focus on value, lower consumption and a decline in on-premise sales.

Wholesale sales to retail and contract customers increased 2.2%, resulting in further market share gains. Sales growth was underpinned by continuation of the increased preference for localised offers, including convenience, tailored ranges, competitive prices and local friendly service. Sales to on-premise customers declined 1.9% in line with market trends, albeit some improvement was evident in the second half.

The highest growth categories were again RTDs and beer, with cost of living pressures driving shopper preference for lower priced value choices.

Liquor EBIT increased 4.9% to $109.2m, reflecting the contribution from the business' strong trading performance, strategic buying and good cost management. The EBIT margin[7] increased 6bps to 2.1%.

Hardware

The Hardware pillar delivered a pleasing result in the face of a rapid slowing in builder confidence and reduced market activity. Total Hardware sales (including charge-through[1]) increased 2.7% to $3.5bn, with growth in Total Tools sales more than offsetting a decline in IHG sales. On a like for like[8] basis, total Hardware sales declined 2.7%. Total sales in the combined IHG and Total Tools retail networks were flat at $4.5bn.

The IHG business capitalised on the challenging conditions to outperform the softer addressable market through strong relationships with trade customers, the success of the Whole of House strategy and an improved DIY offer. Sales for the year were broadly flat at $2.8bn and declined 3.0% on a like for like basis. Scan sales for the IHG retail network[9] increased 0.3% (LfL -2.6%) with DIY +2.7% and Trade -1.0%.

In Total Tools, sales increased 16.4% to $679.1m, largely reflecting the impact of new stores and additional majority-owned joint venture stores. On a like for like basis, sales declined 1.3%.

Retail network sales[10] for Total Tools increased 2.6% to $1,112.3m. On a like for like basis, sales declined 2.3% reflecting more challenging market conditions and intense pricing pressure in the market, particularly in the fourth quarter. Foot traffic was down in both the first and second half, but customer conversions increased, driven by Total Tools' competitiveness and leading market position. The pricing pressure had a short-term impact on Total Tools' gross margin as the business responded to protect market share. Margins normalised towards the end of the fourth quarter following more precise and strategic responses by Total Tools.

Hardware EBIT decreased 3.8% to $210.9m, with both IHG and Total Tools delivering lower earnings compared to FY23. The year included a significant increase in regulatory costs (primarily in Victoria), higher labour and occupancy costs, and other cost inflation. On a like for like basis, Hardware EBIT declined 11.0%.

In IHG, EBIT decreased 4.9% to $129.0m, reflecting the impact of lower sales volumes and additional costs. An increase in cost savings initiatives in the second half enabled the business to offset most of the additional costs and helped return the business to EBIT growth for the half.

In Total Tools, EBIT was $81.9m, a decline of 1.9% or 11.5% on a like for like basis, and includes the one-off adverse impact associated with its transition to the new Ravenhall, Victoria distribution centre in the first half, and the increase in competitive intensity experienced in the fourth quarter. Total Tools EBIT margins continue to trend towards retail levels as the proportion of earnings from owned retail stores increases.

The Hardware EBIT margin[7] was 6.1% with IHG 4.6% and Total Tools 12.1%.

Financial Position

Group operating cashflow increased $109.9m to $482.6m (FY23: $372.7m) with the cash realisation ratio[3] 101.8% (three-year average ~90%). Good cost management and a strong focus on the effective management of working capital were key drivers of the excellent cash outcome.

The Group had net investing outflows of $328.4m, including capital expenditure of $135.9m and acquisitions of businesses of $205.6m. The business acquisitions were predominantly in the Hardware pillar and include the purchase of Alpine Truss and Bianco Construction Supplies in March.

Net debt at the end of the financial year was $251.9m (FY23: $349.6m). This includes the impact of the Company's equity raise in February/March to support strategic acquisitions in the Food and Hardware pillars.

The Group had undrawn debt facilities of ~$845m at the end of the financial year (prior to the settlement of the $412.3m purchase price for Superior Foods post year-end). The debt leverage ratio[4] at the end of FY24 was 0.45x (FY23: 0.62x). The Company expects to be in the mid to upper end of its targeted debt leverage ratio of 1.0x to 1.75x for the next two years.

Dividends

The strong cash performance led to the Board determining to pay a final dividend of 8.5 cents per share fully franked, bringing total dividends for the year to 19.5 cents per share, fully franked. This is in line with the Company's annual target payout ratio of ~70% of underlying profit after tax. The record date is 17 July 2024, and payment will be made on 27 August 2024.

The Dividend Reinvestment Plan (DRP) remains in place 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 for FY24 has been set at 1.0%. The last day for shareholders to notify their participation in the DRP is 18 July 2024. The pricing period is from 22 July 2024 to 2 August 2024. Metcash will announce the DRP price and shares to be issued on 5 August 2024, with shares issued on 27 August 2024.

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

Total Group sales for the first seven weeks of FY25 increased 2.2%, and were flat excluding Superior Foods which have been included in Metcash sales from the date of acquisition (3 June 2024).

Food (ex-tobacco) and Liquor have continued to perform strongly underpinned by their resilience and the continued successful execution of strategic initiatives.

Superior Foods is also performing strongly and winning new customers as expected.

The Hardware business is continuing to perform better than its softer addressable market, also demonstrating its resilience and the successful execution of initiatives. In professional tools, there are signs of some abatement to the intense pricing pressure seen in recent months.

The Company continues to have a strong focus on costs and working capital management and expects to deliver an additional $15m of annualised cost savings in FY25.

Metcash is well positioned with the plans, platform, capabilities and diverse business portfolio for future growth and strong returns through the cycle.

Sales update – first seven weeks of FY25

Total Group sales (including two weeks of Superior Foods sales) increased 2.2%. Excluding Superior Foods, total sales for the first seven weeks were flat compared to the prior corresponding period.

Total **Food** sales (excluding tobacco and Superior Foods) increased 3.6% (-1.7% including tobacco), with Supermarkets wholesale sales ex-tobacco up 3.8% (-2.0% including tobacco) reflecting an acceleration in sales volumes. Wholesale price inflation continued to moderate and was 1.9% in May. Sales in Superior Foods increased 9.2% for the period 1 May 2024 to 16 June 2024, compared to the prior corresponding period.

Total **Liquor** sales increased 3.1%, with continued growth in wholesale sales to IBA retail and contract customers (+4.0%). Sales to on-premise customers were flat.

Total **Hardware** sales increased 0.6%, reflecting a continuation of the challenging macro environment, the acquisitions of Alpine Truss and Bianco Construction Supplies, and increased competitive activity in the professional tools market. IHG sales increased 1.3% (4.9% excluding the impact of Alpine Truss and Bianco Construction Supplies). Total Tools sales decreased 1.9% (like for like network sales -3.3%).

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1 Direct sales from suppliers to retailers, invoiced through Metcash
2 Underlying profit after tax excludes significant items: Project Horizon implementation costs $14.4m, put option valuation adjustment and business acquisition costs $8.7m, and Mega DC transition costs of $2.0m
3 Cash realisation ratio (CRR): cash flow from operations/underlying NPATDA (depreciation and amortisation not tax effected)
4 Debt leverage ratio: net debt/(underlying EBITDA – depreciation of ROU assets)
5 Excludes tobacco and produce
6 Based on scan data from 1,133 IGA stores
7 EBIT margin: EBIT/Total revenue (including charge-through)
8 LfL results reflect sales or EBIT (as appropriate), excluding acquisitions
9 Based on a sample of 380 network stores that provide scan data (represents >85% of sales)
10 Based on 118 network stores' scan data