Metcash Limited
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2 December 2024

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

Dear Sir/Madam

METCASH LIMITED – FY25 HALF YEAR RESULTS ANNOUNCEMENT

Please find attached for release to the market the FY25 Half Year 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 1H25 Results

DIVERSIFIED PORTFOLIO STRATEGY CONTINUES TO DELIVER

Metcash Limited (ASX:MTS) today released its financial results for the half year ended 31 October 2024.

Overview

- Diversified portfolio strategy continues to deliver
- Market share held in Food and Hardware, up in Liquor
- Strong earnings growth in Food
- Standout sales performance in Liquor
- More challenging external conditions, particularly in Hardware
- Hardware responding to weaker activity, and ideally positioned for market improvement
- Acquisitions performing as expected given market conditions
- Synergy realisation on track
- New mega DC opened in Victoria and already ahead of legacy efficiency levels in most areas

Financials

- Group revenue increased 6.3% to $9.6bn and 8.1% to $8.5bn excluding charge-through[1]
- Group underlying EBIT decreased 0.2% to $246.1m
- Underlying profit after tax[2] decreased 5.5% to $134.6m
- Statutory profit after tax increased 0.6% to $141.8m
- Underlying EPS 12.3 cps, Statutory EPS 13.0 cps
- Operating cashflow $164m (3yr average CRR[3] ~86%)
- Interim dividend 8.5 cps (payout ratio ~70% UPAT)

Commentary

Group CEO, Doug Jones said: “Our diversified portfolio strategy continues to deliver in the face of a challenging external environment. Conditions were difficult for all our pillars, but particularly in Hardware where the decline in Trade activity accelerated in the second quarter.

Despite this, Group sales were up significantly, with growth in the Food, Liquor and Hardware pillars.

The independent value propositions continue to resonate with shoppers in a highly value-conscious environment, underpinned by the improved quality of those offers, including competitive pricing positions.

Importantly, market shares were held in the Food and Hardware pillars, and grew materially in Liquor.

Food earnings increased substantially, reflecting the addition of Superior Foods from June this year, as well as growth in our Supermarkets and Campbells & Convenience businesses despite a further large decline in tobacco sales.

Pleasingly, Superior Foods has continued to perform well as part of the Metcash Group, winning new contracts and delivering strong sales growth. Our Food business is now much larger, more diversified and resilient, and positioned with significant growth opportunities.

The Liquor pillar delivered another strong result with independents outperforming the chains, led by the IBA network. Their tailored, localised and competitive offer has again driven strong performance.

The rapid decline in Trade activity led to a challenging half for our Hardware pillar, particularly in retail stores where lower volumes placed pressure on their margins. The business is responding to the current conditions through aggressive cost initiatives and accelerating growth plans in both the Trade and DIY segments.

Looking forward, as the leading wholesaler and service provider to independent businesses across Australia, our more diversified Group provides an ideal base for future growth. Our Food and Liquor pillars are well positioned for structural growth, while in Hardware we remain confident that the long-term market fundamentals remain positive for both IHG and Total Tools. These businesses are ideally positioned to capitalise on an improvement in activity levels," Mr Jones said.

Results Overview

Group reported revenue, which excludes charge-through sales[1], increased 8.1% to $8.5bn (1H24: $7.8bn). Including charge-through sales[1], Group revenue increased 6.3% to $9.6bn (1H24: $9.0bn) with growth in the Food, Liquor and Hardware pillars, partly buoyed by acquisitions.

Group underlying EBIT was broadly flat at $246.1m, with growth in Food including the addition of earnings from Superior Foods being partly offset by lower earnings in Hardware and Liquor. In Hardware, a further slowdown in Trade activity weighed on earnings, while in Liquor there was a small decline in EBIT related to reduced strategic buying with lower wholesale price inflation.

The Food pillar again performed well delivering strong earnings growth, with the quality and competitiveness of the independents' offer continuing to resonate with shoppers in a highly value-conscious environment. The Superior Foods business was acquired on 3 June 2024 and has delivered strong growth underpinned by new contract wins. Earnings increased 17.9% to $119.9m reflecting growth in both Supermarkets and Campbells & Convenience and the addition of Superior Foods.

The Liquor pillar again performed strongly, underpinned by the independents' localised offer and the improved execution of the business' diversified customer strategy. Earnings were down $1.7m to $49.1m reflecting the strong trading performance, offset by the impact of reduced strategic buying.

In Hardware, total sales increased reflecting the impact of acquisitions in IHG and new stores in Total Tools. The further softening in Trade activity, particularly in the second quarter, placed increased pressure on retail margins. Earnings declined 15.1% to $93.9m reflecting the weaker Trade activity, increased cost pressures and intense price competition in the professional tools market in the first quarter. Both IHG and Total Tools have maintained their market share and taken strong actions in response to the current conditions.

Group underlying profit after tax[2] decreased 5.5% to $134.6m reflecting lower earnings in the Hardware and Liquor pillars, increased finance costs and increased depreciation and amortisation. Statutory profit after tax increased 0.6% to $141.8m. This included a $15.0m gain arising from the reversal of a previously impaired loan to an associate (Dramet Holdings Pty Ltd), put option valuation adjustment gains and acquisition costs of $7.7m (net gain), Project Horizon implementation costs of $8.7m and mega DC transition costs of $6.8m, all post tax.

Operating cashflow for the first half was $164.0m and resulted in a three-year average cash realisation ratio[3] of ~86%, in line with the Company's guidance of 75% - 85%.

Net debt at the end of the first half of the financial year was $725.0m (FY24: $251.9m), with average net debt $791m (FY24: $582m). The debt leverage ratio[4] (DLR) at the end of the first half was 1.26x (FY24: 0.45x). The increase in debt largely reflects the purchase of Superior Foods in the first quarter. Metcash expects to be in the mid to upper end of its target DLR range (1.0x to 1.75x) in FY25 and FY26.

The Board determined to pay an interim dividend for FY25 of 8.5 cents per share, fully franked, in line with the target payout ratio ~70% of underlying profit after tax.

Review of Trading Results

Food

The Food pillar is now larger, more diversified and more resilient, underpinned by the competitiveness of the independents' offer and the addition of Superior Foods.

Total Food sales (including charge-through[1] and excluding tobacco) increased 18.8% to $4.2bn, reflecting growth in both Supermarkets and Campbells & Convenience and the inclusion of Superior Foods from 3 June 2024. Including tobacco, total Food sales increased 10.0%.

In Supermarkets, the independents' offer continues to resonate in an environment of heightened value-conscious shopping. Wholesale sales excluding tobacco were up 3.1% reflecting volume growth and a low level of inflation. Foot traffic into stores was in line with the prior corresponding half, and items per basket declined reflecting cost of living pressures on household grocery budgets and shoppers' increased propensity to visit multiple stores. Sales of private label products increased 9.0%, and sales of items on promotion continued to grow faster than those not on promotion.

Sales of tobacco declined 16.5% (1H24: 12.2%), primarily driven by acceleration in illicit tobacco trade, even as Metcash Food's share of the legal market increased.

Wholesale price inflation[5] for the half moderated to 1.8% (1H24: 6.5%), with October lower at 1.2%. The teamwork score increased 0.3ppt to 70% (on an ex-tobacco basis).

The IGA retail network continued to invest in growth and remains healthy and confident. There were 15 new stores in the half, five closures and six stores transferred to non-IGA independent brands. The new stores were mostly medium size formats. Retail like-for-like[6] sales in the IGA network increased 2.2% ex-tobacco.

In Campbells & Convenience, total sales excluding tobacco increased 4.1% underpinned by customer growth and a wider product range being shopped.

Superior Foods performed well, as expected, delivering strong sales growth of 6.1%[7]. The growth reflects an increase in underlying performance and new contract wins. The rate of growth moderated towards the end of the half due to the cycling of a number of larger contract wins.

Food EBIT increased 17.9% to $119.9m, reflecting the strong trading performance (ex-tobacco) and the addition of Superior Foods. Supermarkets and Campbells & Convenience EBIT increased 3.8% to $105.6m, and Superior Foods EBIT was $14.3m. The EBIT margin[8] increased 15bps to 2.3%, reflecting good cost management, the change in sales mix associated with the decline in tobacco sales and the addition of Superior Foods.

Liquor

The Liquor pillar continued to outperform and gain market share in a challenging market. Total sales (including charge-through[1]) increased 2.1% to $2.5bn, with growth in sales to independent retail and contract customers more than offsetting a small decline in on-premise sales.

Liquor's strong sales performance has been underpinned by the independents' localised and competitive offer, as well as the improved execution of the business' diversified customer strategy.

Wholesale sales to retail and contract customers increased 2.4%, reflecting increased shopper preference for the independents' tailored local range and convenience. There continued to be signs of recovery in the on-premise segments with sales to on-premise customers down 0.6% compared with a 2.6% decrease in the prior corresponding half.

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

Liquor EBIT decreased 3.3% to $49.1m, reflecting the contribution from the business' strong trading performance, the impact of reduced strategic buying with lower wholesale price inflation and increased costs. The EBIT margin[8] was 10 basis points lower at 1.9%.

Hardware

The Hardware pillar held market share in an environment of rapidly slowing Trade activity.

Total Hardware sales (including charge-through[1]) increased 2.5% to $1.8bn buoyed by acquisitions and store growth in Total Tools. On a like-for-like[9] basis, total Hardware sales declined 5.6%. Total sales in the combined IHG and Total Tools retail networks were slightly lower at $2.3bn.

In IHG, sales increased 2.7% and include the impact of acquiring Alpine Truss and Bianco Building Supplies in March this year. Excluding these acquisitions, sales were 3.7% lower. Scan sales for the IHG retail network[10] declined 6.4% with Trade down 9.2% and DIY 1.2% lower. Online sales increased 5.4% and DIY loyalty sales were 1.8% higher.

There have been several specific actions taken in response to the current weak market conditions. These include aggressive cost management, accelerating the Whole of House strategy and ensuring the delivery of synergies from recent acquisitions. We are seeing pleasing early benefits from these initiatives.

In Total Tools, sales increased 1.6% to $356.6m, largely reflecting the impact of new stores, partly offset by weaker Trade activity, the impact of cost-of-living pressures on trades people and intense price competition in the first quarter.

Total retail network sales increased 4.3% to $614.8m, with sales strengthening in the second quarter (1Q: +2.6%; 2Q: +6.4%). There was strong growth in exclusive brands (wholesale +25%, retail +6%), commercial (+22%) and online (+20%). Sales in Total Tools Holdings joint venture retail stores decreased 0.3%.

There is an equally strong focus on costs in Total Tools, as well as specific initiatives to optimise margins. The business expects to accelerate new store openings in the second half and to continue the strong focus on the commercial segment, exclusive brands and online sales.

Hardware EBIT decreased 15.1% to $93.9m, with both IHG and Total Tools delivering lower earnings compared to the prior corresponding half.

In IHG, EBIT decreased 14.2% to $52.6m, reflecting the impact of lower sales volumes on retail margins and additional costs. The wholesale margin was steady at 2.8% (1H24: 2.9%).

In Total Tools, EBIT was $41.3m, a decline of 16.2% reflecting the impact of intense price competition in the first quarter, lower retail store margins and cost pressures. Retail store EBIT margins, while below long-term trends, remain healthy at 7.3% for stores open more than 2 years. Earnings are expected to improve in the second half of FY25 compared to the prior corresponding half.

The Hardware EBIT margin[8] was 5.1%, with IHG 3.6% and Total Tools 11.6%.

Financial Position

Group operating cashflow was $164.0m (1H24: $217.7m) with the three-year average cash realisation ratio 85.5%, in line with the Company's guidance of 75% to 85%.

The Group had net investing outflows of $465.5m[11], including capital expenditure of $71.0m and acquisitions of businesses of $400.1m. The acquisition of Superior Foods in June this year accounted for the majority of this.

Net debt at the end of the first half of the financial year was $725.0m (FY24: $251.9m), with average net debt $791m (FY24: $582m). The debt leverage ratio[4] (DLR) at the end of 1H25 was 1.26x (FY24: 0.45x). The increase in debt largely reflects the purchase of Superior Foods. The Group had undrawn debt facilities of $727m at the end of the half. Metcash expects to be in the mid to upper end of its target DLR range (1.0x to 1.75x) in FY25 and FY26.

Dividends

The Board has determined to pay an interim dividend of 8.5 cents per share fully franked, in line with the Company's annual target payout ratio of ~70% of underlying profit after tax. The record date is 16 December 2024 and payment will be made on 29 January 2025.

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. There is no discount applicable.

The last day for shareholders to notify their participation in the DRP is 17 December 2024. The pricing period is from 6 January to 17 January 2025. Metcash will announce the DRP price on 20 January 2025, with shares issued on 29 January 2025.

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 and trading update

Total Group sales have been strong with growth in the Food, Liquor and Hardware pillars, partly buoyed by acquisitions.

Total **Food** revenue has increased significantly buoyed by the acquisition of Superior Foods. Supermarkets sales ex-tobacco continued to grow, reinforcing the business' resilience in a highly value conscious environment. Superior Foods is continuing to win new customers and perform in line with expectations.

In **Liquor**, the independents are continuing to win market share, led by the IBA network. This is being underpinned by the network's tailored, localised offer and convenience.

In **Hardware,** soft Trade activity continues to place pressure on volumes and retail store margins. In IHG, a strong focus on costs and accelerating growth initiatives is expected to provide earnings benefits in the second half of FY25. In Total Tools, competition remains strong, albeit at more normal levels. The business expects trading in the second half to be stronger than the second half of FY24.

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

Sales – first 4 weeks of 2H25

Total Group sales for the first four weeks increased 8.0%.

Total **Food** sales (excluding tobacco) increased 22.6% (+12.4% including tobacco). Total Supermarkets and Campbells & Convenience sales were up 2.9% (-2.6% incl. tobacco), with Supermarkets wholesale sales up 2.3% (-3.7% incl. tobacco). Wholesale price inflation (ex tobacco and produce) moderated further to 0.2%. Sales in Superior Foods increased 6.1%[12].

Total **Liquor** sales increased 4.4%, with wholesale sales to IBA retail and contract customers up 5.0%. Wholesale sales to on-premise customers were flat.

In **Hardware**, IHG sales increased 3.6%, (-2.1% excluding the impact of Alpine Truss and Bianco) and Total Tools sales in the first three weeks of 2H25 increased 2.6%[13] with network sales up 6.5%[13] and network LfL sales flat.

ends

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1 Direct sales from suppliers to retailers, invoiced through Metcash

2 Underlying profit after tax excludes significant items: a $15.0m gain arising from the reversal of a previously impaired loan to an associate (Dramet Holdings Pty Ltd), put option valuation adjustment gains and acquisitions costs of $7.7m (net gain), Project Horizon implementation costs of $8.7m, and Mega DC transition costs of $6.8m

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) (rolling 12 months basis)

5 Excludes tobacco and produce

6 Based on scan data from 1,137 IGA stores

7 Superior Food sales growth is for the period 3 June 2024 to 27 October 2024 vs Superior Foods' PCP

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

9 LfL results reflect sales on a same store basis

10 Based on a sample of 358 network stores that provide scan data (represents >85% of sales)

11 Excluding any lease related cashflows

12 Superior Foods' sales growth is compared against Superior Foods' PCP

13 Total Tools sales are for the first 3 weeks of 2H25. Week 4 is impacted by the timing of Black Friday trading (i.e. not in week 4 2H25, but in PCP)