



18 August 2020

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2020 Full Year Results Release

Please find attached for immediate release to the market the 2020 Full Year Results Release for Coles Group Limited.

This announcement is authorised by the Board.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Daniella Pereira".

Daniella Pereira
Company Secretary

For personal use only

Results Release

colesgroup

18 August 2020

2020 Full Year Results Release

First year strategy delivered whilst supporting team members, suppliers and community through droughts, bushfires and COVID-19

Performance summary (retail non-IFRS basis)¹

- Full year sales revenue increased by 6.9% to \$37.4 billion with sales revenue growth across all segments
- 51st consecutive quarter of Supermarkets comparable sales growth, increasing by 7.1% in Q4
- Liquor comparable sales growth of 20.2% in Q4
- Express convenience (c-store) comparable sales growth of 8.3% in Q4
- Achieved Smarter Selling cost savings in excess of \$250 million
- Group EBIT growth achieved for the first time in four years, increasing by 4.7%
- Strong earnings per share growth of 7.1%
- Cash realisation of 111% and net debt of \$0.4 billion, providing significant capacity for future growth
- Fully-franked final dividend of 27.5 cents per share declared, a 14.6% uplift on the prior year final dividend
- Delivered a total shareholder return of 31.7% for the financial year
- Customer satisfaction improved across all segments in Q4
- Improved mysay team member engagement score by 7 percentage points, improved safety with 18.3% reduction in Total Recordable Injury Frequency Rate (TRIFR) compared to FY19

Financial results - 52 weeks ended 28 June 2020

	RETAIL				STATUTORY		
	FY20	FY20 (PRE-AASB 16)	FY19 ¹	CHANGE	FY20	FY19 ¹	CHANGE
Sales revenue (\$m)	37,408	37,408	35,001 ²	6.9%	37,408	38,176	N/M ⁶
EBIT ³ (\$m)	1,762	1,387	1,325	4.7%	1,762	1,467	N/M ⁶
Net profit after tax (NPAT) ³ (\$m)	935	951	888	7.1%	978	1,078	N/M ⁶
Basic earnings per share ⁴ (cents)	70.1	71.3	66.5	7.1%	73.3	80.8	N/M ⁶
Interim dividend per share ⁵ (cents)	30.0		-	N/M	30.0	-	N/M
Final dividend per share ⁵ (cents)	27.5		24.0	14.6%	27.5	24.0	14.6%
Special dividend per share ⁵ (cents)	-		11.5	N/M	-	11.5	N/M
Total dividend per share⁵ (cents)	57.5		35.5	N/M	57.5	35.5	N/M

¹Given the existence of a 53rd week in FY19, Coles has opted to disclose retail results for 52 weeks for the purposes of comparability with the current financial period. The FY19 statutory results are 52 weeks and one day. These financial periods are consistent with the presentation of the FY19 full year results. ²FY19 retail (non-IFRS) results have been adjusted as follows: (i) fuel sales revenue has been removed as the Group now recognises commission income following commencement of the New Alliance Agreement in March 2019; and (ii) sales revenue associated with Hotels has been removed to reflect the sale of this business in April 2019. ³Retail (non-IFRS) EBIT and NPAT excludes Hotels to reflect the sale of this business in April 2019, and significant items. ⁴Basic earnings per share attributable to equity holders of the Company from continuing operations. ⁵Dividends announced or paid. ⁶Growth rates are not meaningful ('N/M') as FY20 reported includes impact of AASB 16 and fuel sales whereas FY19 reported has not been restated. N/M denotes not meaningful.

Statutory (IFRS) results for FY20 reflect the adoption of AASB 16 Leases. Prior period comparatives have not been restated. To allow for a meaningful comparison, with the exception of the balance sheet, commentary is presented on a retail (non-IFRS) basis which excludes the impact of AASB 16 in the current period. Going forward, Coles will report its retail results including the impacts of AASB 16 and its statutory results will reflect a retail calendar for the current and comparative period at its interim FY21 result.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

¹ Statistics are pre-AASB 16 and pre-significant items

Strategic highlights

Inspire Customers – improvement in customer satisfaction across Supermarkets, Liquor and Express in Q4

- Utilised new data driven ranging tools to implement one of the largest tailored range change across stores in many years with more than 1,600 new SKUs introduced
- Delivered trusted value through the “Helping lower the cost of...” campaign and lowered the cost of living for customers with more than 1,500 new products on everyday low prices
- Achieved more than \$10 billion in Own Brand sales growing at 10% for the year, and contributing 31.2% of Supermarkets sales in Q4 with more than 1,850 products launched in the year
- Introduced a dedicated convenience meals section across almost 150 supermarkets with over 240 new lines launched including the new Coles Kitchen range from our recently acquired Jewel manufacturing facility in Sydney
- Almost doubled online capacity through rapid roll out of contactless Click & Collect; Launched Coles Online Priority Service (COPS) to serve the vulnerable; and re-platformed coles.com.au and all three Liquor banners websites
- Significant investment in flybuys to build a cloud-based data analytics and loyalty management platform that will benefit members through a seamless digital experience
- Refreshed Liquor strategy focusing on being a simpler, more accessible, locally relevant drinks specialist
- Double-digit revenue growth in meat Export business with strong growth in Asia

Smarter Selling – achieved cost savings in excess of \$250 million as Coles pivots to greater use of technology to drive efficiencies

- Cost savings include:
 - Streamlining of the Store Support Centre with removal of 450 roles and implementation of new systems across Finance and Procurement
 - Establishment of transport hubs in Victoria and New South Wales enabling Coles to optimise logistics and significantly increase backhaul
 - Improved labour productivity through end-to-end supply chain optimisation (e.g. delivery frequency and full pallet picks)
 - New data and technology-led solutions in store (e.g. Deli easy ordering and bakery production tools)
 - Energy and waste management reductions (e.g. LED lights and refrigeration control system)
 - Measures to reduce loss in store (e.g. glass panels at front of store, anti-sweep shelving)
- Tailored format strategy continued with 70 renewals completed during the year, including 10 Format A, 31 Format C and three Coles Local supermarkets
- Developed artificial intelligence tools to drive greater efficiencies across the business in areas such as forecasting and dynamic markdowns
- Technology enabled transition of more than 3,000 store support team members Australia-wide to remote working
- Entered into long-term leases for development of Ocado online fulfilment sites in Sydney and Melbourne, construction commenced on the Melbourne site
- Structural work at Witron automated distribution centre in Queensland is progressing, New South Wales distribution centre now at the approvals stage

Win Together – improvements in team member engagement (+7pp) and safety scores (TRIFR 18.3% improvement)

- Continued to play a significant role to support community and team members through COVID-19 including:
 - A safe in-store environment for team members and customers through additional sanitiser, cleaning, safety screens, store signage to assist physical distancing and security
 - Introduced Community Hour, COPS and Coles Online Remote Delivery Service
 - Increased total headcount by more than 5,000 during the year, including additional casual team members through COVID-19
 - Additional food donations to the value of \$7.9 million to SecondBite and Foodbank
 - One-off thankyou payment to store and supply chain team members
 - Double discount on shopping and subsidised flu vaccinations offered to all team members
 - Mental well-being and staying connected packs sent to 110,000 team members and their families
- Supported communities with almost \$1 million raised for SecondBite Winter Appeal in just two weeks; \$5.2 million raised for FightMND; more than \$6 million contributed to rural firefighters and bushfire relief
- Launched Coles Group Values to guide the day-to-day decisions and actions of all team members, building on the existing Look ahead, Energise everyone, and Deliver with pride (LEaD) behaviours framework
- Increased diversity with more than 4,700 Aboriginal and Torres Strait Islander people across our stores, distribution centres and store support centres, representing 3.8% of Coles team members
- Strengthened Executive team with appointments across Transformation (Ian Bowring), Corporate Affairs (Sally Fielke), Liquor (Darren Blackhurst), Emerging Businesses (George Saoud) and eCommerce (Ben Hassing)

- Coles named the Most Popular Retail and FMCG Employer in the Top100 Graduate Employers 2020 Awards
- Entered into five-year agreement to be the official supermarket to the Australian Football League and the AFLW; a new partnership with Stephanie Alexander's Kitchen Garden Foundation to promote healthy eating, and continued sponsorship of the highly successful MasterChef which has inspired so many Australians during lockdown
- Building long-term relationships with dairy farmers by announcing a direct milk sourcing model to South Australia and Western Australia following the successful roll out in Victoria, Southern and Central New South Wales

Statement from Coles Group CEO, Steven Cain

"In June 2019, Coles set out a refreshed strategy to transform our business and lay the foundations to succeed in our second century. Since that time, we have been presented with a number of unforeseen challenges including drought, devastating bushfires, and of course the ongoing COVID-19 global pandemic. This has provided the greatest test of our lifetime and we are experiencing things we never thought we would see in a supermarket, or for that matter Australia. Coles for its part has become a designated "essential service", playing an important support role during these crises, and it will also play an important role as the nation recovers and returns to growth.

We owe a huge thank you to our team members, supply partners and the communities we serve for the way they have pulled together. I would also like to thank the federal and state governments for their speed of response, including establishing the Supermarket Taskforce, and unprecedented collaboration to help us continue to feed Australian families safely. There has, and will be, much to learn from COVID-19. We are determined to emerge as a better, stronger business and team. Our purpose of sustainably feeding all Australians to help them lead healthier, happier lives is now more relevant than ever. The pace of change in the business is accelerating, particularly with our digital assets and capabilities, and we are demonstrating true agility on a week to week basis.

For our many shareholders, we have successfully executed the first year of our strategic plan, restored group profit growth for the first time in four years, and are on track to grow long-term shareholder value. The interim and final dividend payments totalling \$767 million importantly benefit millions of Australians."

Group performance overview

Retail calendar results

\$ MILLION	FY20	FY19	CHANGE
Supermarkets	32,993	30,890	6.8%
Liquor	3,308	3,063	8.0%
Express	1,107	1,048	5.6%
Group sales revenue	37,408	35,001	6.9%

\$ MILLION	FY20	AASB 16 IMPACT	FY20 PRE-AASB 16	FY19	CHANGE
Supermarkets	1,618	(308)	1,310	1,183	10.7%
Liquor	138	(18)	120	120	0.0%
Express	33	(49)	(16)	50	N/M
Other	(27)	(0)	(27)	(28)	3.6%
Group EBIT	1,762	(375)	1,387	1,325	4.7%

N/M denotes not meaningful

Group sales revenue increased by 6.9% to \$37.4 billion with strong sales revenue growth across Supermarkets, Liquor and Express.

Group EBIT (on a pre-AASB 16 basis) increased by 4.7% to \$1.4 billion with strong growth in Supermarkets EBIT of 10.7% partially offset by lower fuel volumes in Express.

The Coles Board has declared a final fully-franked dividend of 27.5 cents per share, a 14.6% increase on the final dividend of the prior year with a record date of 28 August 2020.

Update on the impact of COVID-19

Supermarkets

In the fourth quarter, COVID-19 factors continued to have an impact on both the level and mix of supermarket sales. Following a subdued and socially distanced Easter, sales improved as a result of increased in-home consumption. Home cooking categories such as meat and poultry benefitted, partially offset by declines in impulse, food-to-go and prepared salads. Customers made fewer trips to supermarkets while basket size increased significantly. However, the mix of sales evolved following the initial period of panic buying and pantry filling, with April and May seeing a degree of de-stocking in canned and ambient pantry lines. As social distancing eased towards the end of the period, customer demand again evolved with signs of increased demand for home entertaining resulting in uplifts in categories such as gourmet cheese and flowers. More recently, the reinstatement of restrictions in Victoria has resulted in a reversion to the earlier pattern of trade in the State. Product restrictions were lifted throughout the fourth quarter but partially reinstated as COVID-19 cases began to rise late in the quarter.

There was also a parallel change in the pattern of shopping with customers migrating to convenient neighbourhood stores at the expense of CBD, shopping centres, or resort stores, however we started to see some reversion of this pattern towards the end of the fourth quarter with small uplifts in adversely impacted locations.

COVID-19 also had an impact on Coles Online and demand for home delivery. After a brief suspension of service on 16 March, due in part to the panic buying impact on product availability, the business was relaunched both to increase capacity and reorient towards service for those most in need through Coles Online Priority Service. During April, we also introduced the Coles Community Box of ambient supplies for the most vulnerable including remote Indigenous communities. Online demand and sales grew strongly in May and June with growth rates above 30% supported by substantial increases in capacity both for store pick and delivery vehicles and the rollout out of contactless Click & Collect to more than 400 stores. Underlying consumer sales growth was even stronger as B2B sales declined during their business closure period.

Coles supply chain performed well despite the extraordinary strains of increased demand for pantry and ambient lines during the panic buying period. This performance was helped by recent investment in capacity, including pop-up distribution centres, but also the integrated stock replenishment system and advanced data analytics to improve availability. Throughout the period Coles has been collaborating actively with industry bodies and suppliers including the Industry Taskforce established by the Federal Government.

The fourth quarter also brought continuing higher COVID-19 related operating costs of approximately \$170 million. These included the one-off thank you payment to team members in our stores and distribution centres, extra safety cleaning costs, greeters in the stores, and additional team member discounts. The incremental costs also include operating the pop-up distribution centres and costs incurred following positive COVID-19 cases in the Laverton distribution centre in the last week of the financial year. Of these incremental costs approximately \$70 million are one-off items such as the thank you payment but the evolution of other costs will depend on the future pattern of demand and social distancing restrictions.

Liquor

Liquor sales remained elevated throughout the fourth quarter as government restrictions on the opening of hotels, pubs, clubs and licensed venue operators remained in place for most of the quarter across most states. Trading at CBD and shopping centre stores was negatively impacted, while First Choice Liquor Market contribution to sales increased as customers preferred shopping in bigger format stores. Online sales were also strong, growing in excess of 70%. Customers moved towards more value-oriented larger pack sizes in beer and spirits, impacting margins.

Consistent with Supermarkets, Liquor incurred incremental COVID-19 related costs of approximately \$5 million, including thank you payments to team members, of which approximately \$2 million are non-recurring in nature.

Express

In Express, c-store sales were highly resilient as some customers completed their 'top-up' shops at Express sites rather than visiting a supermarket. Sales in ambient categories were strong as were tobacco sales with the business benefiting from lower CBD footfall. As government restrictions on movement began to ease across parts of the country during the second half of the quarter, core convenience and impulse categories, such as food-to-go and confectionery showed an improving trajectory.

As previously indicated, fuel volumes were impacted by COVID-19 'stay-at-home' restrictions which significantly impacted traffic, with weekly fuel volumes averaging 46mL for the fourth quarter. As restrictions began to ease during May and June, fuel volumes began to improve, exiting the quarter with average June fuel volumes of 53mL per week.

Segment performance review

Supermarkets

Retail calendar results

\$ MILLION	FY20	FY20 PRE-AASB 16	FY19	CHANGE
Sales revenue	32,993	32,993	30,890	6.8%
EBITDA	2,867	1,879	1,735	8.3%
EBIT	1,618	1,310	1,183	10.7%
Gross margin (%)	25.5	25.1	24.8	30bps
CODB (%)	(20.6)	(21.1)	(20.9)	(16)bps
EBIT margin (%)	4.9	4.0	3.8	14bps

Operating metrics

	FY20	2H20	1H20
Comparable sales growth ¹ (%)	5.9	10.0	2.0
Sales per square metre ² (MAT \$/sqm)	17,547	17,547	16,800
Net selling area (MAT sqm)	1,915,798	1,915,798	1,907,692
Customer satisfaction ³ (%)	87.1	85.9	88.3
Inflation / (deflation) (%)	2.4	3.1	1.7
Inflation / (deflation) excl. tobacco and fresh (%)	1.5	2.6	0.4

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, FY19 is based on 2 July 2018 to 30 June 2019. 2H19 is based on 7 January to 30 June 2019 and 1H19 is based on 2 July 2018 to 6 January 2019.

² Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

³ Based on Tell Coles data.

Performance highlights

Supermarkets performance was strong and reflected the results of the implementation of the refreshed strategy, in particular growth in Online, increased penetration of Own Brand, the roll out of tailored ranges and the start of the Smarter Selling efficiency program.

Supermarkets sales revenue was \$33.0 billion for the year, an increase of 6.8% on the prior year, with comparable sales growth of 5.9%. For the fourth quarter, Supermarkets sales revenue increased by 7.6% and comparable sales growth was 7.1% relative to the prior year, the 51st consecutive quarter of comparable sales growth. EBIT for the full year increased by 10.7% to \$1,310 million and EBIT margin improved by 14bps to 4.0%.

Supermarkets' sales trajectory was improving prior to Christmas and in the early part of the third quarter prior to COVID-19, as customers responded to strategic initiatives. In addition to the sales uplift from COVID-19, sales revenue growth was driven by trusted value campaigns throughout the year to lower the cost of breakfast, lunch and dinner, extensive range reviews providing a more tailored range for customers and the execution of Coles' tailored store format strategy. Collectible campaigns including Little Shop 2 and Spiegelau glassware also contributed to sales revenue growth while the Coles sponsored MasterChef saw record ratings during the year. Basket size grew strongly, partially offset by lower transaction growth.

Customer satisfaction, as measured by Tell Coles, increased in the fourth quarter to 88.2% (3Q20: 83.4%) as availability improved following the initial pantry stocking seen in the third quarter. Trust in the Coles brand also strengthened as Coles prioritised safety, serving the most vulnerable members of the community and ensuring as many customers as possible had access to essential food and groceries.

Coles Online sales revenue grew by 18.1% for the year after services were temporarily disrupted in March and April during the COVID-19 pandemic. Online invested heavily throughout the year in expanding capacity in Home Delivery, largely through extended pick times and the recruitment of additional drivers. Click & Collect capacity was predominantly delivered through the expansion of contactless Click & Collect. Unattended delivery was also introduced with a positive customer response, allowing Online to service customers more quickly. Despite the significant drag on profitability as a result of the temporary suspension, Online contributed a modest profit to Supermarkets for the year.

During the year, Coles conducted more tailored range changes and doubled the tailored layouts in stores to meet the changing tastes and preferences of customers. Using advanced data analytics to ensure the right product was offered in the right store, range changes took place across the majority of categories and on a more regular basis, capturing the latest innovation in the market in areas such as ready meals, health foods, coffee and pet food. Coles also delivered trusted value to customers by placing more than 1,500 products on everyday low prices, contributing to an improved performance across the Tell Coles Price Satisfaction metric during the year.

Own Brand reported more than \$10 billion in sales for the year with sales growing by 9.7% with over 1,850 new products launched. Highlights included the Coles Asia and Coles Mexico ranges, Daley Street premium range of Columbian and Kenyan arabica coffee beans blended locally in Melbourne, and Coles Kitchen and Coles Finest convenience ranges which provide customers with quick and healthy restaurant-quality meals.

Coles Own Brand continued to drive generational sustainability with the Marine Stewardship Council awarding Coles the Best Sustainable Seafood Supermarket in Australia, an award held since 2017. Coles also won the Australian Packaging Covenant's large retailer industry award for our achievements in sustainable packaging design and recycling initiatives.

Coles recorded inflation excluding tobacco and fresh of 1.5% for the year and 3.3% for the fourth quarter. Total Supermarkets price inflation of 2.4% was recorded for the year and 3.6% in the fourth quarter. Inflation in the fourth quarter was driven by cost inflation, lower product availability, and mix impacts. Cost inflation was largely a result of increases in tobacco due to excise, dairy following milk cost price increases earlier in the year and vegetables, with some lines impacted by weather conditions such as drought, bushfires and storms. Further, reduced availability of key lines due to pantry stocking led to lower promotional activity, particularly in pantry and homecare, and increased at home eating trends led to a shift to premium products for many customers. Inflation showed a declining trend in the latter part of the quarter as availability normalised.

Coles continued to optimise the network as part of its tailored store format strategy with 70 renewals completed during the year, representing the biggest renewal program since 2012. This included 10 Format A and 31 Format C stores. Coles now has 29 Format A, 33 Format C and four Coles Local stores across the network, including the first Coles Local in New South Wales at Rose Bay. All Format A stores are delivering sales uplifts while Format C stores are delivering sales and efficiency benefits. Since launch, Coles Local stores are also delivering strong sales and improved customer satisfaction metrics. For the year, eight new store openings and five closures were completed. At the end of the period there were 824 Supermarkets.

Gross margin increased by 30bps to 25.1% driven by strategic sourcing benefits particularly in Own Brand, a more efficient supply chain as Smarter Selling benefits are realised, and a favourable mix as a result of COVID-19 customer purchasing, most notably in the health and home and fresh produce categories. This growth in gross margin is despite significant value investments made for customers during the year. Coles improved relationships with suppliers throughout the year, recording the highest Net Favourable score in the Advantage Supplier Survey.

Cost of doing business (CODB) as a percentage of sales increased by 16bps to 21.1% as higher store expenses, including the one-off thank you payment to store and supply chain team members, were partially offset by Smarter Selling initiatives relating to a more streamlined Store Support Centre, new data and technology-led solutions in store and energy and waste management reductions including the replacement of fluorescent lights with more efficient, lower maintenance LED lights in store. CODB also includes a \$16 million charge as a result of the Award covered salaried team member review.

Leases have now been signed for the two Ocado sites in Sydney and Melbourne. Development and construction of the Witron ambient automated distribution centres and the Ocado online fulfilment centres will continue in FY21 and beyond. In-line with the business cases, as project activities peak in FY22 and FY23 Coles expects to incur incremental operating expenditure. This operating expenditure relates to project implementation costs, and in FY23, includes double-running costs. In FY22, Coles expects these costs to be up to \$75 million. Further detail on these costs will be provided as the project progresses.

Liquor

Retail calendar results

\$ MILLION	FY20	FY20 PRE-AASB 16	FY19	CHANGE
Sales revenue	3,308	3,308	3,063	8.0%
EBITDA	242	149	153	(2.6)%
EBIT	138	120	120	0.0%
Gross margin (%)	21.6	21.6	22.3	(72)bps
CODB (%)	(17.4)	(17.9)	(18.4)	44bps
EBIT margin (%)	4.2	3.6	3.9	(28)bps

Note: The above table does not include the financial performance of Coles' Hotels business, which was subject to the transaction with Australian Venue Co that completed in April 2019.

Operating metrics

	FY20	2H20	1H20
Comparable sales growth ¹ (%)	7.3	13.9	1.5
Sales per square metre ² (MAT \$/sqm)	15,438	15,438	14,370
Net selling area (MAT sqm)	214,864	214,864	214,538

¹ To better align the timing of comparable sales between the FY20 and FY19 financial periods, FY19 is based on 2 July 2018 to 30 June 2019. 2H19 is based on 7 January to 30 June 2019 and 1H19 is based on 2 July 2018 to 6 January 2019.

² Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

Key highlights

Liquor sales revenue was \$3.3 billion for the year, an increase of 8.0% on the prior year, with comparable sales growth of 7.3%. For the fourth quarter, Liquor sales revenue increased by 20.3% and comparable sales growth was 20.2% relative to the prior year due to strong performance across all three banners as a result of COVID-19 and government imposed restrictions on hotels, pubs, clubs and licensed venue operators. EBIT for the full year was in line with the prior year at \$120 million and EBIT margin decreased by 28bps to 3.6%. The result also includes a \$4 million charge as a result of the Award covered salaried team member review.

The new leadership team under Darren Blackhurst, who joined in January 2020, has now completed a review of operations and reset the Liquor strategic framework to become a simpler, more accessible, locally relevant drinks specialist with a differentiated offer. The new Liquor Strategy will create a more relevant and accessible offer for our customers, delivered through improved service. It will be implemented over the three horizons of "Simplify and refocus", "Differentiate" and "Grow". A plan to simplify and refocus the operating model has been accelerated by COVID-19, providing an opportunity to fast-track clearance activity for slow moving and deleted stock, which is now largely complete. Range reviews in the second half of the year were completed with a greater focus on more local and Exclusive Liquor Brands (ELB) ranges with encouraging results across gin, craft beer and rosé wine categories. The closure of on-premise venues as a result of COVID-19 also provided the opportunity to support and engage with over 100 new local suppliers listing over 300 new 'local' product lines during the fourth quarter.

Targeted investment in online platforms to increase capacity and improve customer experience across all three banners supported strong online sales growth of 40.3% for the year. For the fourth quarter, online sales increased in excess of 70% driven in part by changing customer preferences towards online shopping alternatives during COVID-19.

The First Choice Liquor Market conversions continue to perform strongly with the format now rolled out to 61% of the First Choice network. Following extensive customer-led research, a refreshed Liquorland trial concept store has been developed in Oakleigh. The concept store will help inform the next evolution of the Liquorland renewal program over the coming years. The Vintage Cellars trial concept store in Ashburton also continues to show positive signs.

ELB continued to perform strongly reporting sales growth of 7.5% for the year and 17.7% for the fourth quarter. Overall, 74 new ELB lines were launched during the year, including Vintage Cellars Collaborations range in partnership with leading Australian wineries. A total of 372 medals and awards were also received during the year.

Optimisation of the Liquor store network continued during the year with 20 new stores opened and 20 stores closed, maintaining a total of 910 Liquor sites. We will maintain a robust focus on underperforming stores whilst developing a pipeline for future growth.

Changes in mix during COVID-19 and ongoing clearance costs associated with range change negatively impacted gross margin with gross margin decreasing by 72bps to 21.6%.

Express

Retail calendar results

\$ MILLION	FY20	FY20 PRE-AASB 16	FY19	CHANGE
Convenience (c-store) sales revenue	1,107	1,107	1,048	5.6%
EBITDA	167	12	76	(84.2)%
EBIT	33	(16)	50	(132.0)%
Gross margin (%)	53.7	53.7	61.4	N/M ¹
CODB (%)	(50.8)	(55.2)	(56.7)	153bps
EBIT margin (%)	3.0	(1.5)	4.7	N/M ¹

Operating metrics

	FY20	2H20	1H20
Comparable c-store sales growth ² (%)	4.6	6.4	2.9
Weekly fuel volumes (mL)	59.5	54.2	64.4
Fuel volume growth (%)	(2.3)	(9.0)	3.3
Comparable fuel volume growth (%)	(2.5)	(9.9)	4.2

¹ FY19 sales exclude fuel sales and has been restated for flybuys. However, the change in gross margin and EBIT margin may not be meaningful ('N/M') as the fuel margin model changed under the New Alliance Agreement during FY19.

² To better align the timing of comparable sales between the FY20 and FY19 financial periods, FY19 is based on 2 July 2018 to 30 June 2019. 2H19 is based on 7 January to 30 June 2019 and 1H19 is based on 2 July 2018 to 6 January 2019.

Key highlights

C-store sales revenue was \$1.1 billion for the year, an increase of 5.6% on the prior year, with comparable c-store sales growth of 4.6%, largely driven by COVID-19 related pantry stocking and strong basket size growth in the latter part of the year, which more than offset lower foot traffic in-store following government 'stay at home' directives across the country. For the fourth quarter, c-store sales revenue increased by 8.4% and comparable c-store sales growth was 8.3% relative to the prior year.

Express continued to invest in the customer offer, commencing a network wide roll out of new self-service coffee machines in the fourth quarter, providing customers with a high quality and improved coffee offering. The roll out of fast-lane fridges was also completed during the fourth quarter with pleasing results in the drinks category. During the year, seven new sites were opened and eight sites closed, taking the total network to 713 sites.

Fuel volumes declined by 2.3% during the year with comparable fuel volumes declining by 2.5%. Average weekly fuel volumes of 59.5mL per week were recorded during the year. Prior to COVID-19, fuel volumes were trending positively compared to the prior year, peaking at approximately 70mL per week during the third quarter. As previously announced, in the first four weeks of the fourth quarter, average weekly fuel volumes declined to approximately 40mL with less road traffic due to government 'stay at home' restrictions. Average weekly fuel volumes showed an improving trajectory throughout the fourth quarter as restrictions began to ease during May in parts of the country.

CODB as a percentage of sales decreased by 153bps to 55.2% as a result of cost control and efficiency measures throughout the year. Consistent with previous guidance, Express recorded a loss for the full year of \$16 million as a result of a material decline in fuel volumes and in part, c-store margin deterioration as customers shifted towards top-up and non-food categories in the latter part of the year.

Other

Coles reported net costs of \$27 million for the year, including \$43 million in the second half of the financial year. Other includes corporate costs, Coles' 50% share of flybuys' net result, the net gain or loss generated by Coles' property portfolio and self-insurance provisions.

Underlying corporate costs were broadly in-line with previous guidance of \$66 million, offset by the self-insurance provision release of \$15 million in the first half. Approximately \$10 million of additional COVID-19 related corporate costs including donations were also incurred, some of which are expected to be one-off in nature. Earnings from property operations were \$37 million.

Coles' 50% share of flybuys' net result was a loss of \$6 million. Coles continues to invest in flybuys alongside Wesfarmers to enhance the digital experience. Active households increased by 1.9% to 6.8 million during the year and flybuys proved an invaluable communication channel throughout COVID-19, allowing Coles to keep members up to date on the latest information on staying safe in stores, product quantity limits and Community Hour shopping times.

Balance sheet

\$ MILLION	28 JUN 2020 POST-AASB 16	30 JUNE 2019 PRE-AASB 16
Inventories	2,166	1,965
Trade and other receivables	434	360
Trade and other payables	(3,737)	(3,380)
Working capital	(1,137)	(1,055)
Property, plant and equipment and equity investments	4,344	4,331
Intangibles	1,597	1,541
Provisions	(1,333)	(1,341)
Other	38	37
Capital employed	3,509	3,512
Right-of-use assets	7,660	-
Lease liabilities	(9,083)	-
Net lease liability	(1,423)	-
Cash and cash equivalents	992	940
Interest bearing liabilities	(1,354)	(1,460)
Net debt	(362)	(520)
Net tax balances	891	365
Total net assets	2,615	3,357
Inventory days	29	25
Trade payable days	33	27

Key highlights

Coles maintained a strong balance sheet providing flexibility for future growth. Net assets of \$2,615 million as at 28 June 2020 decreased \$742 million compared to 30 June 2019 with the recognition of a net lease liability of \$1,423 million following the adoption of AASB 16, partially offset by an increase in net tax balances which was largely driven by deferred tax assets associated with the implementation of AASB 16 during the year.

Working capital of (\$1,137) million improved from the prior year with higher inventories being more than offset by an uplift in trade and other payables to support the heightened trading activity, particularly in Supermarkets and Liquor, during the fourth quarter.

Property, plant and equipment and equity investments remained relatively stable year on year, while property acquisitions moderated. Provisions were relatively flat, comprising employee entitlements which increased as team members took less of their annual leave entitlements in the latter part of the year, offset by a decrease in lease provisions arising from the implementation of AASB 16.

Net debt reduced by \$158 million, with net leverage including lease liabilities of 3.1x. The weighted average debt maturity was 5.6 years as at 28 June 2020, with undrawn facilities totalling \$2,182 million. Coles issued \$600 million unsecured fixed rate Australian dollar medium term notes during the year, comprising \$300 million of seven-year notes and \$300 million of 10-year notes. The seven-year notes were priced with a coupon of 2.20% and the 10-year notes were priced with a coupon of 2.65%.

Both inventory and payable days increased compared to the prior year, reflective of the change to the recognition of duties and taxes on tobacco inventory, and the exclusion of fuel inventory and payables for the full year in FY20 upon implementation of the New Alliance Agreement with Viva Energy in the second half of FY19.

Normalised cash flows from operating activities

\$ MILLION	FY20	FY20 PRE-AASB 16	FY19
Statutory EBIT pre-significant items	1,762	1,387	1,343
Depreciation and amortisation	1,495	634	640
Statutory EBITDA pre-significant items	3,257	2,021	1,982
Movement in working capital	60	60	81
Movement in provisions and other	168	159	125
Net cash from operating activities – excluding interest and tax¹	3,485	2,240	2,188
Cash realisation – excluding interest and tax	107%	111%	110%
Interest and tax paid	(933)	(534)	(464)
Significant items and demerger related items	-	-	551
Net cash from operating activities	2,552	1,706	2,275

¹Cash flows have been normalised for demerger items relating to self-insurance provisions and intercompany balances. The proceeds from the sale of the Hotels business are not included in the above reconciliation to net cash from operating activities as they are classified as investing cash flow for statutory purposes.

Key highlights

Net cash from operating activities excluding interest and tax (pre-AASB 16) was \$2,240 million, with strong cash realisation of 111%. This reflects both a strong trading performance and disciplined working capital management with inventory reducing faster than trade payables towards the end of the financial year.

The movement in provisions and other is largely a result of an increase in employee entitlements as team members took less of their annual leave entitlements in the latter part of the year as a result of COVID-19, and the \$20 million provision relating to the Award covered salaried team member review.

Capital expenditure

As we invest for future growth, gross operating capital expenditure on an accrued basis was \$833 million, in-line with the previously communicated guidance of \$750 million to \$850 million. This was a strong outcome during a year that presented many challenges, particularly with the impact of COVID-19 affecting project deliveries in the second half. Within Supermarkets, capital expenditure decreased as a result of delays in the roll out of new and replacement stores, offset by increased investments in the store renewal program. Liquor capital expenditure was focused on new store openings while investment in First Choice Liquor Market conversions also continued, with 30 stores converted during the year. Spend in Coles Express was focused on opening new sites and store refrigeration.

Approximately \$100 million of capital expenditure was also incurred in relation to the Witron ambient automated distribution centres with the Queensland distribution centre build commencing during the year.

Coles continued to optimise its property portfolio with a focus on redevelopment activities, in addition to the further divestment of recently developed assets to benefit from a strong Australian property market, resulting in a net property inflow of \$167 million and in-line with guidance provided at the interim result. This contributed to net capital expenditure of \$666 million for the year.

Outlook for FY21

COVID-19 continues to have a significant impact on our team members, suppliers and the communities we serve and we believe the impact on the overall supermarkets sector is likely to be ongoing well into calendar year 2021. Whilst the environment in which we operate remains highly uncertain, Coles is in a strong position to take advantage of opportunities as they arise.

In the first six weeks of the first quarter of FY21, Supermarkets comparable sales remain broadly in-line with the levels achieved in the second half. There is significant variation between states and between stores locations within states as a result of the continuing impact of COVID-19 restrictions around Australia. In Online, following the significant increase of capacity in the second half, sales are up approximately 60% in the first six weeks of FY21, driven by Victoria. On 11 August, Coles announced it will be phasing out the delivery of printed catalogues to be replaced by coles&co, a brand-new digital channel to inspire customers with our very best specials, new products, tips and recipes.

As outlined in the Supermarkets segment commentary, inflation declined in the latter part of the fourth quarter. In the early part of the first quarter of FY21, this trend has continued with inflation broadly in-line with the third quarter of FY20. The decline was driven largely by grocery, dairy, frozen and non-food grocery, offset by continued inflationary pressures in meat.

Coles has continued to incur significant incremental COVID-19 costs in the early part of FY21 in relation to additional safety including door greeters, security and cleaning in stores and in distribution centres, as well as the reintroduction of the double discount for Victorian team members for six weeks from August. Given these incremental costs, Supermarkets is achieving an EBIT margin consistent with the FY20 full year. The extent and duration of these incremental costs will depend upon a number of factors as we continue to proactively manage the unfolding COVID-19 situation.

In Liquor, sales have remained elevated with any moderation of sales growth dependent on social distancing restrictions for hotels, pubs, clubs and licensed venue operators. Aside from incremental COVID-19 costs, Liquor also expects to step-up its investment in customer service in the coming 12 months as it implements its new strategy.

In Express, average weekly fuel volumes in the early part of the first quarter are broadly in-line with the June exit rate, with significant variation between states.

In Other, FY21 corporate costs are also expected to be slightly above FY20 recurring corporate costs driven by a market-wide increase in insurance costs, while net earnings from property operations are expected to be more modest than FY20 and weighted toward the first half due to lower anticipated disposal activity. Coles' 50% share of flybuys' net result is also expected to be broadly in-line with FY20.

In the latter part of FY21, Coles will be cycling the impacts of COVID-19 across the business as it relates to comparative sales growth.

Having made a strong start to the Smarter Selling program in FY20, Coles retains its \$1 billion cost-out target to be achieved between FY20 and FY23. In FY21, Coles will continue to focus on realising cost-out opportunities however, the timing will be dictated, in part, by COVID-19.

Coles' optimised store network and formats is already transforming the make-up and performance of our extensive store network with plans to renew approximately 65 stores and to open in the range of 15 to 20 new stores in FY21, including five stores that were delayed in FY20 due to COVID-19.

Gross operating capital expenditure is expected to be approximately \$1 billion and includes increased investment on the Witron ambient automated distribution centres as the project enters its third year. In addition, Coles also expects net property capex to be approximately +/- \$100 million in FY21.

For further information, please contact:

Investors

Mark Howell
Mobile: +61 400 332 640

Lisa Zimmet

Mobile: +61 428 857 242

E-mail: investor.relations@colesgroup.com.au

Media

Blair Speedy

Mobile: +61 431 960 249

E-mail: media.relations@coles.com.au

For personal use only

Appendix 1 – Retail and statutory calendar dates for FY21 and FY22

	RETAIL & STAT 1H21	RETAIL & STAT 2H21	RETAIL & STAT 1H22	RETAIL & STAT 2H22
Reporting period	29 Jun 2020 - 3 Jan 2021	4 Jan 2021 - 27 Jun 2021	28 Jun 2021 - 2 Jan 2022	3 Jan 2022 - 26 Jun 2022
Number of days	189 days	175 days	189 days	175 days
Number of weeks	27 weeks	25 weeks	27 weeks	25 weeks

Appendix 2 – Number of stores

	OPEN AS AT 30 JUN 2019	OPENED	CLOSED	OPEN AS AT 28 JUN 2020
NSW & ACT	256	0	(1)	255
QLD	176	5	(1)	180
VIC & TAS	229	3	(1)	231
SA & NT	63	0	(1)	62
WA	97	0	(1)	96
Supermarkets	821	8	(5)	824
Liquor	910	20	(20)	910
Express	714	7	(8)	713
Group store numbers	2,445	35	(33)	2,447

Appendix 3 – Reported Supermarkets Gross Profit and CODB adjustment

On transition to AASB 16, distribution centre lease payments, which are recorded in Gross Profit, were incorrectly reversed out from CODB in 1H20, impacting the below rates reported at the interim results:

	1H20 REPORTED	1H20 ADJUSTED
Gross margin (%)	24.7	25.1
CODB (%)	(20.0)	(20.3)
EBIT margin (%)	4.8	4.8

Appendix 4 – Glossary of terms

Non-IFRS financial information

- This Results Release contains non-IFRS financial information which in the ordinary course, are not subject to audit or review.
- IFRS or Statutory financial information is financial information that is presented in accordance with all relevant accounting standards.
- Any non-IFRS financial information is clearly labelled to differentiate it from the Statutory/IFRS financial information.
- The use of non-IFRS information in the 2020 Full Year Results Release provides readers of these documents with meaningful insights into Coles' financial performance.

Average basket size – A measure of how much each customer spends on average per transaction

bps: Basis points. One basis point is equivalent to 0.01%

Cash realisation – Calculated as operating cash flow excluding interest and tax, divided by EBITDA (excluding significant items)

CODB – Costs of doing business. These are expenses which relate to the operation of the business below gross profit and above EBIT

Comparable sales – A measure which excludes stores that have been opened or closed in the last 12 months and excludes demonstrable impact on existing stores from store disruption as a result of store refurbishment or new store openings

EBIT – Earnings before interest and tax

EBITDA – Earnings before interest, tax, depreciation and amortisation

EPS: Earnings per share

Gross margin – The residual income remaining after deducting cost of goods sold, total loss and logistics from sales, divided by sales revenue

Group sales revenue or Group EBIT – Total sales revenue or EBIT generated by Group for the period

IFRS – International Financial Reporting Standards

Leverage ratio – Calculated as net financial debt, add lease liabilities, divided by EBITDA (post-AASB 16)

MAT – Moving annual total. Sales per square metre is calculated as Sales divided by Net selling area. Both Sales and Net selling area are based on a MAT, or exit rate calculated on a rolling 12 months of data basis.

pp: Percentage point

Retail calendar basis – A reporting calendar based on a defined number of weeks, with the annual reporting period ending on the last Sunday in June

Significant items – Large gains, losses, income, expenditure or events that are not in the ordinary course of business. They typically arise from events that are not considered part of the core operations of the business

SKU – Stock Keeping Unit

Tell Coles: A post-shop customer satisfaction survey completed by over two million customers annually, through which Coles monitors customer satisfaction with service, product availability, quality and price

TRIFR: Total Recordable Injury Frequency Rate. The number of lost time injuries, medically treated injuries and restricted duties injuries per million hours worked, calculated on a rolling 12-month basis. TRIFR includes all injury types including musculoskeletal injuries

Working capital – Includes all current assets and liabilities that form part of the day-to-day operations of the business (cash on hand, cash in transit, inventories, receivables and payables)