

Results Release

colesgroup

29 October 2019

2020 First Quarter Sales Results

Sales increase across all segments as Supermarkets deliver 48th consecutive quarter of comparable sales growth

First Quarter Sales – 13 Weeks from 1 July to 29 September 2019

\$ MILLION	1Q20	1Q19	CHANGE	COMPARABLE GROWTH ²
Supermarkets	7,705	7,586	1.6%	0.1%
Liquor	726	701	3.5%	0.7%
Express (c-store) ¹	264	256	3.1%	0.4%
Total first quarter sales	8,695	8,543	1.8%	0.2%

¹ Express no longer records Fuel sales as sales revenue under the New Alliance Agreement with Viva Energy.

² 1Q19 comparable growth rates are based on weeks 2 to 14 (2 July to 30 September 2018) to provide a closer comparable period to 1Q20. Refer Appendix 1 for further information.

First quarter sales performance highlights

- Group first quarter sales revenue increased by 1.8% to \$8.7 billion
- Supermarkets comparable sales growth of 0.1% in the first quarter of the 2020 financial year, surpassing the strong sales achieved in the prior corresponding period
- Liquor comparable sales growth of 0.7% with strong performance in First Choice
- First quarter of positive comparable fuel volume growth in four years
- In the early part of the second quarter, Supermarkets comparable sales growth has trended toward the level achieved in the fourth quarter of the 2019 financial year

Strategic highlights

- Investment to provide the best value food and drink solutions by lowering the cost of breakfast, lunch and dinner with a focus on meal solutions and Own Brand fresh products
- Reshaping our store portfolio with new format convenience and efficiency focused stores
- Improving Own Brand range and value with new products launched including 'Mum's Sause', raising over \$200,000 to help sick children in hospitals around Australia
- Coles is helping dairy farmers by moving to direct sourcing of milk from farmers in Victoria and Southern and Central NSW, delivering improved certainty of future income
- Initiatives implemented to help Coles meet its commitment to become Australia's most sustainable supermarket, including: an agreement with renewable power generation company Metka EGN to secure three new solar power plants to provide 10% of Coles' national electricity usage, the first deal of its kind to be made by a major Australian retailer; and a 4-week trial of a zero waste to landfill supermarket in NSW

Coles Group CEO Steven Cain said: "The refreshed strategy we set out to Win in Our Second Century has helped us to deliver a positive set of results for our first quarter. The increased sales momentum we are seeing in the second quarter demonstrates that the changes we are making to Inspire Customers are already making a difference."

Segment performance review

Supermarkets

Financial and Operating Metrics

	1Q20	1Q19	CHANGE
Sales revenue (\$m)	7,705	7,586	1.6%
Comparable sales growth ¹ (%)	0.1	5.1	(496)bps
Sales per square metre (\$)	16,664	16,607	0.3%
Net selling area (MAT) (sqm)	1,898,412	1,862,358	1.9%
Price inflation / (deflation) (%)	1.4	0.6	85bps
Price inflation / (deflation) ex tobacco and fresh (%)	0.2	(1.2)	146bps

¹ 1Q19 comparable growth rates are based on weeks 2 to 14 (2 July to 30 September 2018) to provide a closer comparable period to 1Q20. Refer Appendix 1 for further information.

Key highlights

Supermarkets sales revenue for the first quarter was \$7,705 million, up 1.6% on the prior corresponding period with comparable sales growth of 0.1%. As indicated at the full year results, cycling the 5.1% 1Q19 comparable sales growth from last year's highly successful Little Shop campaign would be a challenge given the competitor activity in the market. Despite this, the Little Shop 2 campaign was well received by customers with the Good Things, Great Value campaign, new products and additional investment in flybuys also contributing to the growth in comparable sales.

Coles Online sales revenue grew by 23.5% in the first quarter, cycling the strong growth from the prior corresponding period, and increased competitor activity. Click & Collect remains the fastest growing channel for online and is now available in all states.

Own Brand sales revenue grew by 4.7% in the first quarter with penetration now at 30%. New products and successful marketing campaigns all contributed to the growth in sales revenue. With a focus on offering customers the best value on the products they buy the most, crumpets for breakfast, wraps for lunch and RSPCA Approved chicken for dinner all resonated highly with our customers. 'Mum's Sause' was also launched during the quarter and became the most popular pasta sauce in the category. To date it has raised over \$200,000 in donations to help sick children in hospitals across Australia. Other new products launched include Nature's Kitchen meat-free range in meat, deli and seafood, and KOi, Coles' new soaps and bodywash range in health and home.

The long-term effects of the drought is having an impact which has contributed to price inflation for the quarter of 1.4%, in-line with the fourth quarter of FY19. Coles continues to play a collaborative role in partnership with our suppliers during these difficult times. Excluding the impact of tobacco and fresh, price inflation for the quarter was 0.2% with inflation over the period seen in the categories of dairy and grocery.

Supermarkets expanded and improved the store network during the period. An additional Format A store was opened at The Glen in Victoria with Eastgardens in New South Wales continuing to deliver strong incremental sales. Efficiency benefits are also being seen across the Format C stores with four additional stores completed in Victoria during the quarter. Coles remains on track for an expanded range of convenience meals to be rolled out across 100 stores by the end of the 2019 calendar year. In total, Supermarkets completed 10 refurbishments, opened 4 supermarkets and closed 1 during the quarter, ending the period with 824 supermarkets.

Liquor

Financial and Operating Metrics

	1Q20	1Q19	CHANGE
Sales revenue (\$m)	726	701	3.5%
Comparable sales growth (%)	0.7	1.4	(73)bps
Sales per square metre (\$)	14,381	14,201	1.3%
Net selling area (MAT) (sqm)	214,303	213,303	0.5%

¹ 1Q19 comparable growth rates are based on weeks 2 to 14 (2 July to 30 September 2018) to provide a closer comparable period to 1Q20. Refer Appendix 1 for further information.

Key highlights

Liquor sales revenue for the first quarter was \$726 million, up 3.5% on the prior corresponding period with 0.7% comparable sales growth. Comparable sales growth was impacted by the timing of public holidays in Queensland, New South Wales, South Australia and ACT.

Sales performance was driven by a strong performance in First Choice, supported by the roll-out of the First Choice Liquor Market renewal program, and contributions from Exclusive Liquor Brands, offset by softer trading conditions in Liquorland. Growth in Vintage Cellars in the first quarter was largely a result of improvements across the categories of wine and spirits. The first Vintage Cellars trial concept store is on-track to be delivered in the first half of FY20.

Exclusive Liquor Brands continued to contribute to sales with penetration at 19.1%, an increase of 1.1 percentage points compared to the fourth quarter of last financial year, and improvements across all categories of wine, beer and spirits. A total of 26 Exclusive Liquor Brand lines were launched during the quarter with 136 medals and awards received including 'Tinnies Pale Ale' winning the World's Best Pale Bitter at the World Beer Awards in London.

Growth continues in the online channel with planned website upgrades expected to land through the remainder of FY20. An extension of the UberEats trial from Supermarkets into Liquor also commenced during the quarter which improved the convenience offer for customers.

Investment in the Liquor store network continued in the quarter with 7 new stores opened and 3 closed, resulting in a total of 914 retail liquor sites at the end of the period.

Express

Financial and Operating Metrics

	1Q20	1Q19	CHANGE
Convenience (c-store) sales revenue (\$m)	264	256	3.1%
Comparable c-store sales growth (%)	0.4	3.4	(300)bps
Weekly fuel volumes (mL)	64.9	64.0	1.4%
Fuel volume growth (%)	1.4	(14.8)	1620bps
Comparable fuel volume growth (%)	1.9	(15.9)	1782bps

¹ 1Q19 comparable growth rates are based on weeks 2 to 14 (2 July to 30 September 2018) to provide a closer comparable period to 1Q20. Refer Appendix 1 for further information.

Key highlights

Convenience (c-store) sales revenue for the first quarter was \$264 million, up 3.1% on the prior corresponding period with comparable c-store sales growth of 0.4%. The result was largely a result of the Little Shop 2 campaign driving improvements in transaction growth, partially offset by a decline in tobacco sales. Food-to-go remains the key growth category in store.

Fuel volumes increased by 1.4% during the quarter, a significant improvement on the 13.0% decline experienced in FY19 and represents the first quarter of fuel volume growth in four years. This was driven by more competitive fuel pricing and the benefits of the Little Shop 2 campaign. Comparable fuel volumes increased by 1.9% in the quarter.

Express opened 1 new site during the quarter, bringing the total network to 715 sites.

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Appendix 1 – Retail calendar dates for FY20 and FY21

	RETAIL 1Q20	RETAIL 1Q19	COMPARABLE SALES GROWTH PERIOD
Reporting period	1 Jul – 29 Sep 2019	25 Jun - 23 Sep 2018	2 Jul - 30 Sep 2018
Number of days	91 days	91 days	91 days
Number of weeks	13 weeks	13 weeks	13 weeks

	RETAIL 1H20	RETAIL 2H20	RETAIL 1H21	RETAIL 2H21
Reporting period	1 Jul – 5 Jan	6 Jan – 28 Jun	29 Jun – 3 Jan	4 Jan – 27 Jun
Number of days	189 days	175 days	189 days	175 days
Number of weeks	27 weeks	25 weeks	27 weeks	25 weeks

Appendix 2 – Restatement of flybuys

Due to the change in the classification of the cost of flybuys points from cost of sales to sales revenue (as disclosed at the full year results announcement), sales revenue that has been previously disclosed has been restated as follows:

\$ MILLION	PREVIOUSLY REPORTED 1Q19	ADJ	RESTATED 1Q19	PREVIOUSLY REPORTED 2Q19	ADJ	RESTATED 2Q19
Supermarkets	7,657	(71)	7,586	8,538	(71)	8,467
Liquor	703	(2)	701	939	(3)	936
Express	259	(3)	256	293	(2)	291
Group sales revenue (excl. Fuel sales and Hotels)	8,618	(75)	8,543	9,770	(76)	9,694
Fuel sales	1,178	-	1,178	1,211	-	1,211
Hotels	41	-	41	48	-	48
Group sales revenue	9,838	(75)	9,762	11,029	(76)	10,953

Appendix 3 – 1H19 Sales and EBIT comparative information

\$ MILLION	STATUTORY 1H19	RETAIL 1H19
Supermarkets	15,574	16,053
Liquor	1,587	1,637
Express	529	547
Group sales revenue (excl. Fuel sales and Hotels)	17,690	18,237
Fuel sales	2,305	2,389
Hotels	87	89
Group sales revenue	20,083	20,715

\$ MILLION	STATUTORY 1H19	RETAIL 1H19
Supermarkets	587	602
Liquor	73	74
Express	47	51
Other	(5)	(5)
EBIT (excl. Hotels)	702	722
Hotels	11	11
Group EBIT pre-significant items	713	733
Significant items	(146)	(146)
Group EBIT	567	587

Appendix 4 – Number of stores

	OPEN AS AT 1 JULY 2019	OPENED	CLOSED	OPEN AS AT 29 SEPTEMBER 2019
Supermarkets	821	4	1	824
Liquor	910	7	3	914
Express	714	1	-	715