Coles Group Limited
Transcript - 1H26 Results Announcement
27 February 2026

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Leah Weckert: Thank you for joining us for our half-year results call this morning. Before I begin, I would like to acknowledge the Traditional Custodians of this land on which we meet today, the Wurundjeri peoples of the Kulin Nation. We acknowledge their strength and resilience, and pay our respects to their Elders, past and present.

I'm joined in the room today by Charlie Elias, our CFO; Matt Swindells, our Chief Operations and Supply Chain Officer; Anna Croft, our Chief Commercial and Sustainability Officer; Michael Courtney, our Chief Customer Experience Officer; and Claire Lauber, our Chief Executive of Liquor.

Moving now to slide 3, I'm pleased that we've been able to deliver another very strong set of results in what is a competitive operating environment. We delivered strong supermarkets earnings growth, with continued sales momentum. E-commerce was a key contributor again, with sales growing by 27%. Our automation programs are delivering tangible benefits, and we delivered cost savings of $133 million through our Simplify and Save to Invest program.

Of course, what matters most to us is our customers, which is why the improvements in our customer satisfaction scores across the business during the half was a key highlight for me. Finally, we completed our Liquorland banner simplification program, and while there are challenges in the overall liquor market, we are seeing positive growth across our convenience portfolio, which is really pleasing.

Moving on to slide 4 and the financial results. We reported Group sales revenue of $23.6 billion, an increase of 2.5%. Excluding significant items, Group EBIT increased by 10.2%, and NPAT increased by 12.5%. In supermarkets, adjusted for the competitive industrial action in the PCP, and excluding tobacco, sales revenue increased by 6.1%, and supermarkets EBIT increased by a very strong 14.6%, underpinned by top line growth and EBIT margin expansion of 55 basis points. Charlie will talk more to the financials, in his presentation.

Moving on to slide 5. During the half, we maintained a consistent focus on executing against our strategic priorities, which once again underpinned our performance for the period. Let's get into this in some more detail, starting on slide 6 with our first pillar, destination for food and drink.

We know value remains front of mind for consumers, and delivering on our value commitment to customers remains a priority for us. During the half, we strengthened our value proposition, expanding our range of everyday value products, we ran a winter and spring value campaign, and our Shop, Scan, Win, and European Glassware continuity programs each delivered strong engagement with our customers.

Our Exclusive to Coles portfolio continues to perform well, with sales growth of 5.7%. We launched more than 500 new products, and the range was recognised, with 17 Product of the Year awards. We know our Own Brand portfolio was a unique differentiator for Coles, and these new products and awards underscore the momentum we are building in quality and innovation across the portfolio.

We also entered into some really exciting exclusive partnerships during the half. One of these was with Marks & Spencer, where we brought a number of their iconic favourites to Australian homes. This included their well-known Percy Pig and Colin the Caterpillar lollies, which turned out to be our most successful lolly launch ever.

Our partnership with Grill'd also proved popular, particularly with the rising Fakeaway trend for those who want to recreate their restaurant or takeaway dinner in their own home. These collaborations broaden our appeal, and help ensure we remain a destination for inspiration and everyday meals.

We were also pleased with how we executed over the Christmas period, starting with our Christmas range, which showcased more than 340 Own Brand Christmas products and exclusive speciality drinks.

We worked hard in the lead up to Christmas, to ensure value was felt where customers needed it most. Our $1 seasonal produce lines in the week before Christmas were a simple but powerful example of that commitment. Operationally, we delivered our highest monthly DIFOT results since December 2020, an important sign of the progress we are continuing to make in availability and overall execution.

This leads me to our customer satisfaction scores on slide 7. As I said at the start, the improvements in customer satisfaction scores were a real highlight, with strong improvement across our key metrics of quality, availability, store look and feel, and price. The big takeaway here is that customers are noticing the changes we are making.

Improved availability, sharper value, and better execution in stores are translating directly into stronger satisfaction scores, and that gives us real confidence as we look ahead. There is always more to do, but we are very pleased with the progress we are making.

Moving now on to slide 8, and the next pillar of accelerated by digital. We reported another strong half in our e-commerce business, with 27% revenue growth in supermarkets, penetration now over 13%, and double-digit growth across all shopping missions, whether that be same day, next day, Click & Collect, or our immediacy offering. We are focused on making sure we have a great offer across all online channels.

We've made a lot of progress in e-commerce over the last few years, and customers are responding to this. We know customers have different shopping missions throughout the week, and the investments we have made allow us to provide them with exceptional service that matches their shopping mission.

For example, our CFCs allow us to provide the biggest range, better availability, and improved freshness for those customers who are looking to do their weekly shop. Our expanded partnership with Uber and our Windowless Click & Collect Rapid offer provides us with a leading immediacy proposition.

During the period, we made investments in our digital assets, and have seen particularly strong growth in our app metrics, with monthly active known visitors to the app growing by 32%, and the app share of e-commerce revenue now at 54%.

Our CFC volumes increased in the half, with sales growth again outpacing total supermarkets e-commerce sales growth. Same day deliveries commenced in Melbourne in the first quarter, and

Sydney in the second quarter, and we also had a major catchment extension to Geelong and the Surf Coast in Victoria.

In terms of our immediacy offering, as I mentioned, we expanded our partnership with Uber Eats, with now up to 17,000 products available to purchase through the Uber Eats app. The Windowless Click & Collect Rapid was also expanded to 255 stores nationally. Overall, our online NPS saw a meaningful uplift, driven by improved availability, fulfilment, and the overall digital customer experience.

But one of the most important points to make here is that we were able to make all of these investments, grow our business, expand catchments and our immediacy offering while driving efficiencies through technology, scale, and a strong operational focus.

We made further improvements to our picking processes in store, increased orders per van, and installed two key automation technology features in the CFCs, with on-grid robotic pick arms and auto frame loading. So, it’s been a very pleasing half in terms of e-commerce.

Moving now to slide 9 and loyalty. Flybuys remains an important driver of customer engagement across Coles, as well as a key element of our overall value proposition. During the half, Flybuys exceeded 10 million active members, growing by 6.2%. This highlights the continued relevance of personalised value for our customers.

We were also pleased to see strong growth in our Coles Plus subscriptions, with customers recognising the additional benefits they’ve received by coming part of Coles Plus family, including free delivery, free Rapid Click & Collect, and double Flybuys points.

Moving now to slide 10 and our delivered consistently for the future pillar. Our SSI program remains a core part of our DNA. We know the importance of operational efficiency. Delivering consistent and sustainable cost savings through our SSI program enables us to help offset inflation and reinvest in the customer offer, and we see the benefits of that both in our top line as well as our bottom line.

This half, we delivered cost savings of $133 million. This brings us to around $700 million since the beginning of FY24, and we remain firmly on track to achieve more than $1 billion in benefits over the four-year program.

Consistent with previous years, there were many initiatives across different parts of the business that contributed. Again, a common theme was the use of AI and other technology automation to improve the effectiveness and efficiency of our processes.

This leads me to slide 11. We’ve been building and deploying AI for over a decade. What has changed recently is the pace of capability and the breadth of where we can apply it. For our customers, we are already scaling AI to drive more relevant offers and engagement through personalisation across the shopping journey.

AI is helping us deliver more personalised and relevant experiences. We are tailoring content and offers, improving product discovery and basket building, and embedding AI into our search and recommendation engines. This is improving relevance, conversion, and overall customer satisfaction. In parallel, we’re also now moving into the next wave, agentic commerce, conversational AI, and real-time personalisation, capabilities that will transform how customers engage with us over time.

We are improving the relevance, timing, and effectiveness of offers and rewards for customers, and helping them to find value, whilst improving our promotional effectiveness. In our operations, AI is embedded across operational decision-making, with a clear focus on outcomes, to improve availability, reduce waste, and lift productivity.

We're using AI in forecasting, demand planning, and ranging, to improve accuracy and availability. In stores and in our e-commerce business, AI is helping optimise rostering, improve workflows, peak efficiencies, and dynamic work. Across our supply chain, AI supports optimisation in transport and improved workflows. We're also using AI in stores, for computer vision, for object recognition, and loss technology.

Now looking ahead, we're building an end-to-end optimisation capability across the supply chain, from automated DC pallet flows to transport to replenishment so decisions are all made as one system and not in silos.

A digital twin also lets us simulate scenarios before we change operations. Then we can apply this to execute the best plan in the real network. The result is improved availability, lower waste, lower cost-to-serve, and faster response time to any disruptions.

We're also looking to optimise online fulfilment capacity across our stores, CFCs, and DCs, helping us to decide where orders should flow, how much capacity to allocate, and when to flex resources.

Finally, for our team members, we're embedding AI tools that make work easier and more productive. Our Knowledge Assistant is helping teams quickly access policies and procedures, and we've rolled out AI productivity tools, including ChatGPT Enterprise and Microsoft Copilot, and we're partnering with OpenAI on team training.

So, it's fair to say that AI is well and truly entrenched within our business, is delivering strong results, and has been for some time. But the pace of change is accelerating, and we are really excited by the opportunities that are emerging, particularly in customer-facing agentic AI, and we will be talking about this more in the future as they start to scale.

Moving to the next slide, alongside our financial performance, we remain committed to the role we play in supporting our team members, suppliers, communities, and the environment. So, before I hand over to Charlie, I would like to cover off some of our achievements in these areas.

I will start with our team members. Through our November team engagement poll survey, we maintained our highest-ever team member engagement score, remaining in the top quartile. This is a strong reflection of the culture and leadership across the business.

Almost 70,000 team members provided their feedback, and it was pleasing to see that delivering for our customers remained one of our strongest areas, with 90% of team members recognising our commitment to meeting our customer needs.

We also continue to support the wellbeing of our team members, including through initiatives such as R U OK? Day, where our stores and distribution centres came together to reinforce our care and courage values.

We recently launched round 14 of the Coles Nurture Fund, continuing our long-standing commitment to supporting innovation, sustainability, and growth within the Australian supplier community. We celebrated excellence across our supply base in the 2025 Supplier Partner Awards, recognising achievements across each of our key trading categories.

Our community partnerships remain a defining part of who we are. This half, we raised more than $1.6 million for Movember, and more than $1.8 million for the SecondBite Christmas Appeal, helping to provide over nine million meals for Australians experiencing food insecurity.

Finally, we continue to make progress on our sustainability commitments. 87.7% of eligible packaging is now recyclable or reusable, and we maintained 100% renewable electricity usage across our operations, and we continue to divert more than 85% of solid waste from landfill. With that, I'm now going to hand over to Charlie, who will take you through the financial results in some detail.

Charlie Elias: Great. Thank you, Leah. Good morning, everyone. I'm now on slide 14, which details our Group results. Excluding significant items, we reported Group sales revenue of $23.6 billion, an increase of 2.5%, Group EBITDA of $2.2 billion, an increase of 7.8%, and Group EBIT of $1.2 billion, an increase of 10.2%. NPAT, excluding significant items, increased by 12.5%.

Off the back of these results, the Board declared a fully franked interim dividend of $0.41 per share, an increase of 10.8% compared to the prior corresponding period. This is a consistent progression of shareholder returns over time.

Moving on to the segment overview on slide 15, let's start with supermarkets. Sales revenue increased by 3.6%, with our value proposition continuing to resonate with customers. If we adjust for competitor industrial action and excluding tobacco, sales revenue increased by 6.1%. EBIT increased by 14.6%, reflecting the strong top line growth, coupled with EBIT margin expansion of 55 basis points to 5.8%, which was underpinned by a 65 basis point increase in gross profit margin.

The strong gross profit result was achieved notwithstanding the significant investments we made in value during the period and reflects the annualised benefits from our ADC program, strategic sourcing, SSI initiatives, and the growth of Coles 360. Lower tobacco sales also contributed 37 basis points to GP margin.

In liquor, sales revenue declined by 3.2%. The liquor market remained subdued as competitive intensity increased through the period, particularly at the big box end of the market. During the half, we completed our simple Liquorland store conversion program, and our convenience portfolio, representing around 90% of our store network, delivered positive sales growth.

We are seeing a shift in customer behaviours towards convenience-led purchases and, pleasingly, our stores are well-positioned in this convenience space. There is some work to be done to optimise our Liquorland warehouses now that the conversion is complete. Overall, liquor EBIT was impacted by a softer top line and $13 million in one-off costs relating to the Simply Liquorland conversions.

In other, revenue relates solely to the Product Supply Agreement we have with Viva Energy. As outlined in the results released, the PSA, which was due to expire in April, has been extended and is now due to expire at the end of November, to allow Viva to complete the transition to New South Wales, WA, and Queensland. The increase in other EBIT was predominantly due to the higher net property gains in the prior corresponding period.

Turning to operating cash flow on slide 16, before discussing the numbers, I want to highlight a timing impact. The half year ended on 4 January and, similar to last year, it resulted in an additional payment run in the final week, creating an additional cash outflow of approximately

$560 million. The timing effect impacted several metrics, including cash realisation, working capital, and net debt. These metrics will normalise in the second half.

Operating cashflow excluding interest and tax was $1.5 billion, with a cash realisation ratio of 69%. Adjusting for this additional payment run, the cash realisation ratio was 94%. For the full year, we continue to expect cash realisation of 100%, with the first half timing impact reversing in the second half.

The working capital movement primarily reflects increased inventory to support availability over the Christmas period, and lower trade and other payables following the additional payment run. The movement in provisions and other largely reflects the FWO provision, which is non-cash but recognised in EBITDA.

Now I'll now move to capital expenditure on slide 17. Gross operating capital expenditure on an accrued basis was $476 million, a decrease of $66 million compared to the prior corresponding period. We had a higher weighting towards store renewals and new stores across supermarkets and liquor this half, as well as a lower spend in relation to our Victorian ADC. This was as a result of a milestone payment having been recorded in a prior corresponding period. Pleasingly, our Victorian ADC remains both on time and on budget.

We also incurred lower capital expenditure in relation to our investments in loss technology. As you know, CapEx falls into four key areas: store renewals, growth initiatives, efficiency initiatives, and maintenance.

Within renewals, we completed around 160 store renewals across our network, consisting of 35 supermarkets and 127 liquor stores. These included 122 Simply Liquorland conversions. Within growth, we opened six new supermarkets and 11 new liquor stores. We also continue to invest in our e-comm business.

Efficiency initiatives included investments in the Victorian ADC, store front-end service transformation, and Liquor Easy Ordering. Maintenance capital included our ongoing refrigeration electrical replacement programs, and life cycle replacement of store and technology assets.

We continue to optimise our property portfolio, with net property capital expenditure increasing by $157 million, primarily due to an increase in property acquisitions and developments, and lower proceeds from divestments. To reiterate the guidance we provided at our FY25 results, we continue to expect capital expenditure of approximately $1.2 billion for the full year, as we continue to invest in store renewals, digital and technology, and growth initiatives.

Turning to funding and dividends on slide 18, our funding position remains strong. At the end of the half, our weighted average drawn debt maturity was 4.4 years, with undrawn facilities of $1.9 billion.

As I said earlier, the Coles Board declared a fully franked interim dividend of $0.41 per share, which is a 10.8% uplift versus first half '25, and shows a consistent progression of shareholder returns over time. We'll also have a franking credit balance of approximately $600 million after the payment of our interim dividend.

Finally, we retained headroom within our rating agency credit metrics, and a strong balance sheet to support growth initiatives, with our current published credit ratings of BBB+ with S&P

Global, and Baa1 with Moody's. With that, I'll hand it back to Leah to take us through the outlook and concluding comments.

Leah Weckert: Thanks, Charlie. So, turning to the outlook on slide 26, in the first seven weeks of the third quarter, supermarket revenue increased by 3.7%, or 5.3% excluding tobacco. We're pleased with this strong sales result, as we can see through the market share data that it represents above-market growth, continuing the sales momentum we have had for some time.

It indicates that in Victoria, we have retained a portion of the customers that we gained as a result of our competitor's supply chain disruption last year, and grown share on top of that. In Liquor, in the first seven weeks, our sales decline moderated to negative 2.5%, so continuing to deliver positive sales growth. As I said at the start, the focus for liquor this period is on leveraging our unified brand, simplifying our processes, and improving the performance of our Liquorland warehouse stores. Overall, I'd say, we have had a strong first half and a good start to the third quarter. With that, I'll now hand back to the operator for Q&A.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone, and wait for your name to be announced. If you wish to cancel your request, please press star two. If you're on a speakerphone, please pick up the handset to ask your question. In the interest of time, we do ask that participants limit themselves to asking one question. To ask further questions, you are welcome to rejoin the queue. Your first question comes from Ben Gilbert from Jarden. Please go ahead.

Ben Gilbert: (Jarden, Analyst) Good morning, team. Thanks for taking the question. Just, Leah, [I might just ask you] a few questions on the trading update, but just on your comments around market growth, [do you think] you could give us some colour, potentially, ex-Victoria, and how within that trading update you've seen some of the key categories in terms of your health, beauty, versus fresh, versus the food category? Thank you.

Leah Weckert: Thanks for the question, Ben. As I said, we're quite pleased with the first seven weeks, for two reasons, really. One is that, based on the market share data, we can see that it's above market growth, and that means we have retained a portion of those customers, which means our Victorian sales numbers actually aren't that far off where we are from a national basis, and then we have grown some share on top of that.

The data point we received on Wednesday is entirely consistent with the market share data that we have, which is that our major competitor has also performed ahead of market, but that share is not coming from us, and we can see that it's coming from others.

I think the second reason that we're pleased with that first seven weeks is that it just really shows consistency. For those seven weeks this year, we've got 5.3% ex-tobacco. Last year, it was 4.5%. The year before that, it was 6.4%. That represents really strong sales growth year in, year out.

We are really focused on continuing to drive the flywheel that we talk about, which is strengthen the top line, unlock our operating leverage, and then reinvest that back into the customer offer, so that's what we're intending to do.

In terms of strength of categories, food continues to be very strong for us. We've seen good strengths across the fresh areas, and you'll see on the customer satisfaction scores that quality is really stepping up. That is actually directly related to our fresh categories. I would call out meat as one area where we are seeing outperformance in the market in that space.

In the non-food area, that's been a real focus for us, and we would say we're quite encouraged by the emerging trends that we're seeing in that area. We have reconfigured categories in the half, to respond to some of the pricing dynamics that we are seeing in the broader market, which means that we have introduced a lot more lines onto EDLP.

I mean, we know that we're a convenient destination to pick up many of these non-food products, you know, you think your cleaning products, your paper products, your baby products, it actually makes sense to grab those when you come in to do your grocery shop.

We're taking very much a category-by-category approach, so to maybe just give you a bit of colour on that, we've invested, for example, into our CUB wipes and our Ultra range in cleaning, so beauty – oh sorry – baby and cleaning, our private label. That has driven really strong volume growth for us in that space.

We've also taken action on some of the proprietary lines in pet, for example, to be more competitive with some of the players in the market that have recently moved into that space. On the back of that, we've seen double-digit growth on those lines, so really encouraging in terms of where we're headed there and more to come.

Operator: Thank you. Your next question comes from David Errington from Bank of America. Please go ahead.

David Errington: (Bank of America, Analyst) Morning, Leah. Look, I'd like to pick up on that, particularly slide 7. It's a fantastic-looking slide, it's brilliant, in terms of customer resonance, and you highlight it as one of your key highlights, but can you bring it to life a little bit? What does it actually mean, like, 330 basis points, can you put it in context as to how big a jump that is in availability?

I mean, they look really impressive, but I don't know what to make of it. What does shine for me a little bit is price, you know, up only 180 basis points. I don't know if that's good or not. Your gross margin was very powerful. Could you have gone a bit harder on price? Can you basically bring slide 7 to life.

Because that looks an incredibly powerful chart, great execution, great improvement in margin, can you bring to life what drove that and, maybe, given that you are higher margin than your competitor, how much firepower that you've got going forward to maintain that sales momentum that you've got? Bit in that question, but if you could have a go at it, that'd be really appreciated.

Leah Weckert: Thanks, David. We'll try and unpack it. I mean, it was a highlight, I think, for all of us as a team, because we do have a fundamental belief that if we're increasing customer satisfaction, it's one of the things that helps us to drive transactions and engagement in store.

I think it is a real combination of the execution focus we've had but, also, the benefits are starting to flow through some of the transformational investments that we've made over a long period of time now, so I think the benefits we're getting from the ADCs, the CFCs, but also the step up that we've made in terms of the renewal investment.

Maybe I might ask Anna and Matt to give us a little bit of colour. We'll maybe just work through the slide in order of what the headings are. We'll start with quality. Do you want to cover that one, Anna?

Anna Croft: Yes. Hi, David. It's Anna. When it comes to quality, obviously it's important across the store, but very, very important in fresh, and we've been running a really big fresh transformation program. That really has seen us take an end-to-end review of quality, so taking every touchpoint on where we might aggregate that and how we would look to solve it.

Actually, just to give you a bit of a sense of what we've been doing, we've been working through our supplier base to make sure that we have the right suppliers that are fit for the future, and we've gone into deeper end-to-end partnership with that.

We've also coupled that with an upweight in our technical resource, to really work with those suppliers, to really unlock quality and cost. We've really then also focused particularly in meat around our manufacturing network, to make sure it's actually closer to stores, so think WA to WA. Queensland, we've got a pork facility there now, which means that we're faster and we get fresher product to stores and then, therefore, give life to customers in store. We know that's how they measure quality when they see life at home.

The other bit we've done is we've invested quite significantly in store team training and also central team training, to really focus on quality. Coupled with the work that Matt and the team have been doing in supply chain around faster, fresher flows that mean we are flowing product from our supplier base to the stores in a very nuanced way, that means we get better life.

On the back of that is probably to hand over to Matt to give a bit of flavour on that, because reducing lead times has been a key priority, so I might hand to you before we then talk about availability as well.

Matt Swindells: Yes, sure. Thanks, Anna. Morning, David. Look, it makes it easier when Anna and the team are super focused upon right supply, right range by store, and the right price and promo plans. That does then set us up to leverage the changes that we've made around our supply chain operations and our store operations.

The game we're playing here is speed. So, the faster we can move products, the fresher it will be and, importantly, the less waste and markdown we also get. So, our Faster Fresh Flows is essentially a shift away from bringing product in, and racking and stacking, to then wait to come and pick it later. We really are moving things through the supply chain as fast as possible, and measuring in hours as opposed to days, and then similarly tying that in with the store execution, where we've got the right display space and the right resourcing, to really make sure that the product gets in front of the customer in the least possible time.

I would also add, we've now got a couple of years under our belts of our replenishment forecasting system. This was the RELEX implementation we did in the final part of our integrated replenishment plans for the team, and so they get better at forecasting too. So, it's a number of parts that drive the difference in quality.

In answer to your question around 330 basis points shift, it is a really big shift. If I think about the 390 basis points we've then seen in improvement in availability, that is at levels that previously we've not really seen, so they are extremely good results.

On availability itself, you probably think about this in three areas, so the first – and I've talked about this again in the past – we call it focus on foundations. This is where we've made the op model changes, and we've got the commercial teams really focused upon range, supply, collaboration, the supply chain team focused upon forecast and the logistics of moving product, and the store teams super focused replenishment.

But it's the consistency with which the teams now work together that's driving the difference, and so we've got a really solid base that we can build on. Importantly, our supplier inbound fulfilment, our DIFOT, is at a six-year high. Through the Christmas period, where it traditionally falls away, we saw it maintain a level. So, we've got stability, not just consistency, there.

The second part then that enables us to really drive investments and is making the difference. That's the ADCs that we had talked to, and the CFCs. We are putting more cartons and more products through those ADCs, to drive the benefit of not just efficiency but service.

We've also now rolled out our transport management system, which has enabled us to have better control and visibility of our fleet. That means we are better at picking up from suppliers through Coles Collect, and we're better at delivering to stores as well. So, those investments drive a difference.

The final part, which I think is probably where we're going to see the next level, is really a shift from being reactive to being proactive. This is where we're starting to use data and AI to look for gaps before they occur. So, where can we see the problem before it becomes an issue in the store.

We're able to identify at a store SKU level, potential out-of-stocks, and target team members, to go and manage the inventory closely so that we can then be proactive around availability, and prevent any issues before they even occur.

I think that's then the next level: foundations first, technology driving the difference, and then the AI and data really becoming proactive rather than reactive. That's setting us up for even further improvements in availability. Anna, I might throw to you for the store look and feel, the third part.

Anna Croft: There's a number of key areas that go into the store look and feel metric. A couple of things I would say driving this certainly is our renewal program. If I take you back to '22, we would've done 40 renewals. This year, we will complete 70. Actually, what we have done is maintain the blueprint now for some years, to get consistency.

What that does is gives customer a consistency in every store they go into, but it's also enabled us to take the cost per renewal down to do more of those, so certainly a key focus. We really started to address what I would call some of the long-term underinvested stores as part of this program, and we're seeing really good progress in customer response there.

The other bit that's in this metric is ease of shop, and we focus on the shelf edge through our range program and macro space. We've really stepped on both navigation of space and aisle. The one big thing here, we've really thought about the integration of our omni-channel, to actually remove the friction we see from customers in store through that, so good progress there.

The biggie is we fixed up our checkout space through the service transformation program, so that has been a real meaningful step on from customer satisfaction. So, I'd say there's lots of initiatives driving this. We are certainly focused on how do we continue to elevate this and how do we take it to the next level. So, much more to do, but we're pretty pleased with where we are.

Then if I come to the final one on price, funnily enough, actually, it is always the hardest metric to move, and moves the slowest from a customer perspective. So, we are really pleased with 180 basis points. That's come from all the work that we've talked about before around fewer, deeper, more targeted promotions, removing the noise, and making it easier for customers to shop.

We're seeing the increase in EDLP in the right categories, really driving that price satisfaction. Again, the work we have done, not only on simplifying the range but also tailoring the range to the store, has made it easier for customers to find value and find the products they want on the shelf, so a number of key things.

Now, there's an awful lot more to do in here, and we're really focused around that, but it's pleasing to see that the work we've done over the last 18 months is really starting to come to fruition here, so they would be the big drivers, David, across those four.

Operator: Thank you. Your next question comes from Shaun Cousins from UBS. Please go ahead.

Shaun Cousins: (UBS, Analyst) Thank you. Good morning, Leah and Charlie and team. Maybe just a question just on the first seven weeks. Sorry, you dropped out, Leah, when you were talking in your outlook. Do you think you were hurt by the – cycling the Jan '25 period in that Woolworths is now indicating that they got – that they were hurt in Jan '25.

So, did Coles benefit there and, hence, you're cycling against a period there, which actually means that 3.7 could be a bit stronger in that you're getting some big industrial action headwind and my second question is really more around liquor, just in terms of like-for-like sales are down 2.5 to start the year.

Leah Weckert: Wonderful. Okay. I might reiterate the points I made when Ben asked the question. We are definitely still cycling over some disruption from the industrial action last year in the January period.

We are pleased, though, with our first seven weeks of sales performance, and there's really two reasons driving that. Based on the market share data, what we have reported today is above market growth. That means that we have retained a portion of the customers that came to shop with us last year, and we have grown some share on top of that.

And the data we received on Wednesday is entirely consistent with that market share growth – with that market share data, I should say. Our major competitor has also performed ahead of market, but that share is not coming from us. We can see in the market share data where that is coming from, so we feel that we have the right pitch in terms of customer at the moment, because we are retaining customers and we are stepping it up.

The second thing we're really pleased about on the result is just the consistency, which is something we really prioritise. If you look back in prior years, those first seven weeks – we reported 5.3% ex-tobacco today – that was 4.5% last year, and it was 6.4% the year before.

So, that represents really strong sales growth year in, year out that we are delivering, and we believe that is part of what we're managing to get to work through the strategy of the flywheel, of strengthening the top line, unlocking the operating leverage and re-investing into the customer offer. Did you get all that, Shaun?

Shaun Cousins: (UBS, Analyst) We lost you. We got most of that and, I think, across the two answers, I think we've got it. My question is around liquor, just in terms of your like-for-like to start the year is down 2.5%. Your earnings were down 37% in the first half.

You've called out the aggression from Dan Murphy's. As Dan Murphy's remains aggressive on price, and really tries to re-establish its price leadership, which is quite existential for them, how does Coles Liquor actually perform, in terms of does your big box just continue to suffer?

Just curious around the outlook for earnings, should we be anticipating earnings to be down another 30%? Again, you've got a fixed cost base there, and a competitor that's quite aggressive. Just curious around the outlook there, please.

Leah Weckert: Well, we won't be giving any guidance on where the EBIT will go, but let me make a few comments. First of all, we're pleased that we've completed the 222 Liquorland conversions as part of the Simply Liquorland project. Along with that, we have reset range and we have reset value mechanics in our stores. Ultimately, that entire program of work has really been about, how do we attract customers into our offer?

What we're really encouraged by is – and I have to say it's early days. We only finished this process in the middle of December. But, you know, early days, we're very encouraged by the NPS uplift that we are seeing. It is a very significant and material uplift that we are seeing in customer satisfaction. That tells us that those changes are really resonating, which is the first thing you have to achieve with your customers.

Now, there is no doubt that the backdrop to all of that is the market is very challenging. We have a subdued market, which is a combination of a structural shift, which is generational around consumption of liquor, but you've also got the impacts in there of cost of living. Certainly in Q2, we saw an elevation in the competitive intensity in the market, and that disproportionately impacted our large box, so the Liquorland Warehouse stores, which is only about 10% of our network.

So, what we were really pleased about is, even though those stores were impacted, the 90% of the network, which makes up the convenience formats of Liquorland and Liquorland Cellars, that component of our network was in positive growth.

So, you team that up with strong customer scores and positive growth in the heart of our network, we think that that is actually really positive in terms of setting ourselves up longer term to lean into what we are seeing as quite a few convenience trends coming through in liquor purchasing. Now, that being said, we've got work to do on the warehouses, and that's going to be a big focus for us over the next six to 12 months.

Operator: Thank you. Your next question comes from Adrian Lemme from Citi. Please go ahead. Pardon me, Adrian, your line is now live.

Adrian Lemme: (Citi, Analyst) Apologies. Hi, Leah and Charlie. Just want to follow on in terms of the liquor commentary. One of the things you talk to there is lower consumption of liquor, a structural shift. I'm just wondering, in supermarkets, oral GLP-1s seem to be coming down the pipe and may be cheaper, which could drive increased uptake in your customer base. How are you thinking about the impacts on demand across the supermarket store, particularly in impulse categories, please?

Leah Weckert: It's a great question, and one we've been discussing quite a bit as a team I mean, if I come up a level, we're actually seeing a huge trend from customers generally around healthful eating. We're seeing that play out in our offer that we have in stores today, so things like the fact that coconut water is up over 30% on sales, the fact that we're going to get growth out of health powders and supplements.

Even things like we've seen a shift even just in the last six months in the penetration of fresh produce that is hitting customers' baskets, and you've got items, snacking fresh produce items like baby cucumbers, snacking carrots, celery sticks, they're all in double-digit growth.

So, we are looking at that customer, and seeing this behavioural change as there is a shift, again, a bit of a generational shift into healthful eating. We're excited by that. We think that's a really big opportunity and it actually plays to many of the strengths that we have in the fresh area of the business but also the way in which we're leaning into our convenience business.

So, if you think about our ready meals, fresh ready meals that we have in the dairy section, and frozen meals, our PerForm meals in particular are growing really, really strongly in that space, and they're dietician-designed meals that actually tailor the nutritional content to nutrient-rich and high protein.

So, with that as a backdrop, we're already starting to make a shift with a lot of the product development that we're doing and also the ranging work that we do with suppliers, to bring in more healthful options in every category.

We look at GLP-1, and we're observing closely what's happening overseas, and what we are seeing from those customers is, actually, what they're really looking for is solutions. They want to find nutrient-rich food in the supermarket, and the supermarket that helps them to navigate that as easily as possible. One of the pieces of feedback we hear is it's really hard to navigate your supermarket shopping as a GLP-1 user. They have a real potential to be a winner here, and that's what we want to lean into.

Operator: Thank you. Your next question comes from Tom Kierath from Barrenjoey. Please go ahead.

Tom Kierath: (Barrenjoey, Analyst) Morning, guys. Just got a question on the gross margin. It's up to 65 bps, and I understand you've made some restatements there. I guess I'm just trying to square away the comment that you're investing in price. Could you maybe just step us through the moving parts on the gross margin? Because it's obviously a pretty big move there and, I guess, quite different to what Woolworths reported a couple of days ago.

Charlie Elias: Thanks, Tom. Firstly, I just want to lead off with the restatement was a prior period restatement, so we didn't actually restate anything for this half. Look, we're really pleased with the progression in gross profit margin, as you'll note, 65 basis points. If we look at the drivers, what are the drivers that are actually leading to that growth?

Firstly, we're actually seeing the annualised benefits of the investments we're making in the ADCs and, specifically this half, Kemps Creek. If you recall, Kemps Creek was in ramp-up last year, in FY25. So, what we're seeing at the moment is both the ADCs at business case in this FY26 year. We're definitely seeing benefits in the first half, and we'll continue to see that in the second half.

Strategic sourcing and SSI benefits, again, are two really important drivers in terms of how we look at gross profit margin. SSI, you would've seen that we delivered a $133 million dollars this half. A good portion of that goes into GP. In fact, I think we're really pleased with that particular program.

Coles 360 was actually in double-digit growth for the half, and that is on the back of a number of halves now of double-digit growth, so we're pleased with how that's tracking. Then we've also called out previously the mixed benefits from tobacco. As you know, tobacco sales are lower. That contributes in terms of a gross profit margin benefit – not gross margin dollars, but gross profit margin. So, we're actually really pleased with how they're tracking.

The ADCs are obviously the implementation costs, so we successfully removed and unwound those implementation and dual running costs, and that created a benefit for the half. So, look, at this time and as we did, we continue to make these targeted investments in value and, therefore, we've been investing in value that's allowed us to do that, which is also driving that top line growth that you're seeing in our results.

Tom Kierath: (Barrenjoey, Analyst) Thanks. Can I just clarify the SSI benefit, like, how much came through gross margin versus CODB of the $133 million?

Charlie Elias: Well, look, typically, it's been, as you know, over a longer period of time, it's been a third to two-thirds: a third in GP, and two-thirds in CODB. This half was a little bit more weighted to CODB, for example, so it's a little bit more weighted to CODB, and more like a quarter in GP, and three-quarters in CODB.

Operator: Thank you. Your next question comes from Michael Simotas from Jefferies. Please go ahead.

Michael Simotas: (Jefferies, Analyst) Morning, everyone. Could I just follow on from Tom's question on gross margin? I think the message here is that gross margin would've declined if not for mix, Coles 360, SSI, the ADC benefit, et cetera. Can I just confirm that that is the case?

Then you're investing in value for customers, which is great. Do you think you're getting enough support from the supplier base to continue to do that and justify what has been or reward what has been a period of very strong execution from Coles?

Leah Weckert: Maybe I'll start that question, and Anna can talk to the supplier piece. We haven't done the add up specifically on the gross margin. I mean, I think one of the biggest drivers in the gross margin expansion is the tobacco impact, which is the 37 basis points. So, that obviously is a very significant mix impact in there. Then you've got the initiatives that we've been doing, that Charlie outlined, like the ADC, Coles 360, strategic sourcing, et cetera.

We have made investments into value, and so that is definitely an offset in that line, and a big one during the half has been in the red meat space, as we've seen costs increase in terms of costs are good on that. We know that's really important for customers, so we haven't passed all of that through into retail.

What I would say is it's a core job of ours as management to make sure that we're just managing that GP period to period, and we put in place a plan that works to have a look at what do we think the impact will be and, therefore, what initiatives do we need to hit with the right degree of timing to be able to get those benefits coming through? So, we're pleased with the overall result that we've been able to get there. Anna, did you want to talk about the relationship with suppliers?

Anna Croft: Yes, happy to. What I would say, Michael, is that engaging with our supplier base more broadly to optimise the range and strengthen the customer offer as business as usual for us, and we're incredibly focused on that and that won't change.

I won't go into any specifics on the commercials, because that wouldn't be appropriate. What I would say is that we are incredibly focused on working collaboratively, taking a much longer term view, to drive a real meaningful step change in our offer and our commercials collectively. It's about getting further ahead together, taking a real end-to-end view of our businesses, and in a way that accelerates our true differentiation.

That's really where we've been focused and working with our supplier bases on, and that has taken a fully collaborative, cross-functional approach; not just a trading approach. We're taking it from a supply chain, from an in-store perspective, and we're really looking cradle to grave as to how we think about that going forward. So, more work to do, but we're absolutely working with the supplier base on that.

Charlie Elias: So, Michael, what you're actually seeing is actually a 3D strategy actually in action, so that flywheel effect, where we're making very deliberate, targeted investments in programs in GP, cost discipline in our CODB, allowing us to reinvest that back into the customer offer, driving top line sales, and getting that operational leverage and efficiency because, all through that, what you actually saw was also an expansion in our EBIT margin bottom line. So, it's really our 3D strategy in action.

Operator: Thank you. Your next question comes from Craig Woolford from MST Marquee. Please go ahead.

Craig Woolford: (MST Marquee, Analyst) Good morning, Leah and team. I'm interested in the comments about the market share performance. It looks – it is a great result, and interesting how it's played out for both Coles and Woolworths.

I assume you're referring to supermarket market share. I'd be interested in how much work you're now doing on other definitions of the market, if we look at results from Chemist Warehouse or Bunnings or the strength in dining out more generally. Maybe the bigger question is, how do supermarkets ensure they don't lose share from other retailers as well?

Leah Weckert: Thanks, Craig. It did cut out in the middle, but I think we've probably got the gist of it. So, yes, we were talking about supermarket share when we were making those comments around the outlook growth.

Obviously, it's a much more competitive and broader competition market than it was 10 years ago. So, the likes of Chemist Warehouse, Bunnings, and I think we could probably, based on the comments that you've just made, also talk about things like QSR in that mix and, for us, what – the approach that we've been taking is to really break that down category by category, and so even within the non-food space, being very particular about how we think about the different categories in there. I'll let Anna maybe talk to that one.

Certainly, on the food front, we continue to expand our convenience options for customers. We actually introduced a number of new products into both the meat range but also into frozen and convenience dairy over the half, which are really leaning into that. I mentioned the Grill'd burgers. They're a great example of where we can actually bring share back into the supermarkets channel by giving a product to customers that they feel like it's something that they might eat when they're out but, actually, they can prepare it in their own homes.

We've seen fantastic growth in our convenience-based meals out of the freezer section, for example. That's an area that we've expanded significantly. So, it is a focus area for those categories that we're talking about there. They are in double-digit growth for us, so they're outperforming the rest of the supermarket. Do you want to talk a bit about non-food and how we think about the different competitors there, Anna?

Anna Croft: Yes, of course. Craig, I think we've spoken about this quite a lot. It is a clear area of focus for us. What I am pleased is we're starting to see some real green shoots coming through in both sales, performance, and market share. When we look at that, we look at supermarkets market share but, more broadly, we look at health and beauty and our pet business at a total market read because, as you said, our competition is far broader than the supermarket space.

I think what we're pleased about, the progress has really been driven by a couple of things. I think sharpening our value and moving to a trusted pricing position through EDLP has made a marked difference. In the quarter, we moved 400 lines in that space, and we made 1,900 value bays in store to really emphasise the value we have, and we're starting to see that come through.

We've really focused on range where it matters, so in pet and baby and in beauty, that's really come through. We're using the CFCs very strategically to go deeper on range that really matters, as well as a bulk strategy, which really means that we are competing with others outside of the supermarket arena in terms of both neutralising the value, but making sure that we keep the volume within our business.

I think, in baby, we've talked about the importance of that, and Leah mentioned we've been really doubling down on CUB, our Own Brand. Actually, we've invested in both value and quality, and we're seeing that now being the number one in both volume and value line in those categories. Then on pet, as we said, we've done a lot of work on both value and bulk, and that is playing through.

We ultimately know this that we are the right convenient spot for customers to buy these categories, so we actually will take a category-by-category approach, and make sure that we are being really tailored where we need to put innovation in, where we need to deal with value, and where we need to deal with range so, certainly, not a one-size-fit approach, and we're taking very much a total market view in these categories rather than the supermarket lens.

Operator: Thank you. Your next question comes from Caleb Wheatley from Macquarie. Please go ahead.

Caleb Wheatley: (Macquarie, Analyst) Morning, Leah and team. Wanted to follow up, I know this has been a bit of a discussion so far, particularly around the forward-looking thoughts on the capacity to reinvest. I mean, as you've spoken about, GP margins are up fairly materially; EBIT margins are up fairly materially. I know there's one-offs and things dropping out that are helping that, but on a go-forward basis, how are you thinking about now the capacity to reinvest from an operational point of view?

I know prices has been a bit of a focus, but just more broadly in the suite of options you have to reinvest from an operational point of view, whether it's service or store ops or loyalty, how are you thinking about your flexibility now, do you have that margin expansion to reinvest, and where the more meaningful opportunities are from here, please?

Leah Weckert: It's a great question. I think the expansion that we have got in the margin does give us flexibility as we move forward. I think we've been fairly clear in all of our results presentations that we intend to maintain competitiveness. So, we do continue to monitor very closely price, and not just from one competitor, but from a full suite of competitors, depending on the category that we are talking about, and we will continue to do that.

However, we have even, you know, just in the last seven weeks been what I would say is nuancing our operating model. That's something that's just BAU for us, which is we look at performance, we look at where we see some opportunities, and we will put money in to help us to capture opportunities.

A good example of that would be that we've actually seen some real strength in our Sunday trade. As a result of that, we have made the move to invest more into store remuneration, to help us to support that, and from a category perspective in the store, investing into the online space, because we can see that there's latent capacity there that we can access, and we're not afraid to put some investment in to really capture that.

And particularly through Flybuys, and we will flex on that to get the right outcome that we want. I'm told that you might have missed part of that because we're struggling with line clarity today. So, I'll just reiterate that one of the things that we've noticed, coming into the first seven weeks of the calendar year, has been real strength on Sunday trade in our stores. We have, as a result of that, made additional investments into store remuneration, so our team, to help us to capture the upside of that and, in particular, in the online space.

Caleb Wheatley: (Macquarie, Analyst) Thank you, Leah.

Operator: Thank you. Your next question comes from Bryan Raymond from JP Morgan. Please go ahead.

Bryan Raymond: (J.P. Morgan, Analyst) Morning, Leah and Charlie and team. Just mine's a bit of a follow-on, actually, around cost growth. On my numbers, excluding implementation costs, you had 6.6% cash CODB growth in the half. I know there's a lot of moving parts in there, but I just wanted to walk through that because there was a bit of a surprise on the upside to me, that cash cost growth.

I acknowledge you've had a pretty big online channel shift that would be a higher cost channel. You just talked to Sunday trading, and there's obviously loading there, labour hours in store. Given you had $100 million of SSI benefits, which is the three-quarters of the $133 million in the period in CODB, I'm just surprised that cost growth is running that high. So, if you could help us understand why that is, and if that is the path that should continue, or if there's some one-offs in there that we need to adjust for? Thanks.

Charlie Elias: Bryan, thanks for the question. Look, as you know, when we look at CODB and look at cost generally, we look at it as a percentage of sales. I actually think we are pleased we have been able to keep this in a relatively tight band over a number of years now in terms of as a percentage of sales, particularly if you exclude the D&A element of that.

Cost discipline in our business is very much part of our DNA, and you've seen that through our SSI program. Leah mentioned earlier, you know, to date, over the last, you know, since FY24, we actually delivered over $700 million on that. That's going to continue, we're going to continue delivering on that, and we're going to continue delivering around that $250 million a year in SSI benefits going forward.

Look, we did successfully unwind the implementation costs, as you did call out, and that was a clear positive. We have been making very deliberate strategic investments in our customer offer, including our CFCs, which are now fully embedded in our cost base. So, our CFCs are fully embedded in our cost base. They're delivering results and in line with expectations. You've seen that result fall to the bottom line.

We're actually making very deliberate investments in data and technology, which is all about improving that customer experience and online growth and omnichannel growth really across the board. So, with these investments, they are driving our top line. One of the things that I do look at is I look at the P&L as a whole, including GP and including our CODB. What we're seeing is, these investments are driving not only EBIT growth but margin growth in our business.

Operator: Thank you. Your next question comes from Richard Barwick from CLSA. Please go ahead.

Richard Barwick: (CLSA, Analyst) Good morning, Leah and team. I've got a question around the CFCs. You do mention that the CFC sales growth was ahead or outpacing your total online or e-commerce growth. Can you put some metrics around that, just to give us a sense of how much better your New South Wales and Victoria would be doing online versus the rest of the country?

Part of that answer just makes me wonder if you are outpacing online within Victoria, just why – so, it sounds like it wasn't quite enough to get your Victorian sales growth ahead of cycling the industrial action, because I think you did call out that Victoria was a little softer than the national rate of growth, so just put those two pieces together for us.

Michael Courtney: Richard, it's Michael here. I did get the first part of the question, which was about CFC growth, and then I missed the second part of the question. So, maybe, I'll answer the first part first, and then maybe you can follow up and just clarify what the second part of the question was.

We're not giving specific growth rates for the CFCs. But if I take a step back and talk about proposition types, where we've got Click & Collect, where we've got same day delivery, where we've got next day delivery, and where we've got immediacy, I think the really pleasing part was that all of those offer types were in double-digit growth throughout the first half.

Then next day delivery, which obviously the CFCs form part of, is still by far and away our largest offer type. So, to be still getting really strong growth through that, with the CFCs being a driving factor, is really pleasing for us.

The proposition continues to ramp up and continues to get really strong customer feedback. I think that, when you look across the positive feedback that we're getting from customers across range, availability, and freshness, it's great to see that the customers are seeing the differentiation that is in that offer.

So, we're getting really good growth. The operating metrics are in a really good spot in terms of Ocado partners globally, where they're the top-performing partner on key operational measures. As Charlie mentioned at the start, we're continuing to invest in that proposition. When you look at things like an on-grid robotic pick, there's other efficiency measures.

So, we're getting really strong growth. It's becoming a really important part of our proposition. The NPS is growing. An important part also in that, as part of being an omnichannel retailer, is that we've seen, as those volumes have come out of stores and gone into the CFCs, the NPS in store has also improved, which speaks to the benefit of the CFCs, not just as a sales driver but as a really key part of an omnichannel fulfilment network. I might, though, would you mind just clarifying the second part of your question?

Richard Barwick: (CLSA, Analyst) The second part was just reconciling that commentary with the comment that Victoria was not growing as quickly as the rest of the country. I realise that it was in part because of the industrial action, but just trying to square those two pieces together.

Just as a little adjunct to that, at what point are you completely clear of any lingering headwinds from last year's industrial action for Woolworths? So, when are you in clear air there, so we're no longer having to make adjustments for that issue?

Leah Weckert: Thanks, Richard. I think that is the million-dollar question. As we shared, if we go back to when all this was unfolding last year, our big expectation was that there was going to be a cohort of customers that experienced the industrial action, where they only came to us because it wasn't convenient to shop somewhere where there was really poor availability. It's likely that all those customers have just returned back to our competitor.

Then there was a cohort of customers making an active decision between us and our major competitor, where the stores are quite closely located. Then there were our online customers that came to us. It's really the two second buckets that we have been working over the course of the last 12 months to put together a plan to say, how do we make sure that now that we've had those customers come and shop with us, that we can retain them?

What we're seeing in this first seven weeks of data is that we have been successful in retaining a proportion of them, but we are definitely still going over the top of some of the disruption for last year. I think I'm hopeful that we're past it. We aren't spending a lot of time trying to pull it out of the numbers, if I'm honest now. We're just cracking on with continuing to drive sales and do what we need to do. My expectation would be that Q4 in particular should be very clean.

Richard Barwick: (CLSA, Analyst) That's the important one because, obviously, there's a lot of comparisons with your rate of growth versus Woolworths', quarter by quarter. It seems like it's made a difference obviously for the first seven weeks, but if we're – so, that's going to impact the third quarter, but if you, I mean, effectively, your answer is all clear in the fourth quarter; that's what's important.

Leah Weckert: That's my expectation. Definitely, obviously, we didn't actually receive all the sales that were disrupted as part of the industrial action last year, and I think you're seeing some very interesting reversions going on in the market share data because of that.

Operator: Thank you. Your next question comes from Peter Marks from Goldman Sachs. Please go ahead.

Peter Marks: (Goldman Sachs, Analyst) Good morning, Leah and team. My question's just on liquor again. Just wanted to touch on the gross margins, I guess, surprised to see them up in the half. I think you had a 21 basis point headwind from range optimisation costs there as well, so I think, underlying, they're probably up 40 basis points or so, if that's right.

I think you would've been lapping like a strong period last year as well. So, I guess, have you managed to drive that improvement in the liquor gross margins in the half? Then just wondering on your trading update, the sales down 2.5%, are you able to give any indication of whether you're losing share there? What's your liquor market data showing in the first seven weeks? Thanks.

Leah Weckert: Thanks, Peter. The line was a bit garbled, so let me play back what I think we're answering here. The second question you had was around what's our viewpoint on market share. Then the first part was around the expansion of the gross margin, which I might get Claire to answer. Maybe just on the market share issue though.

The data that we have available these days for market share in the liquor market, post the changes that were made to the ABS data that's available to us, is quite poor these days. So, it's actually difficult for us to have a view on that, until we see our major competitor come out with their results. So, at this stage, we probably couldn't give you a clear view on that one. On the gross margin, Claire, I might ask you maybe to cover that one off, and how we've achieved expansion in the half.

Claire Lauber: Thanks, Leah. So, Q2 was obviously a heightened and intense competition quarter. We were managing price and promotion intensely through the quarter, with a focus to offer compelling offers for our customers.

Despite being competitive-intensive, we were really pleased that we thought we struck the right balance between driving sales and managing margin, with delivering the gross margin result of the 17 basis points improvement.

Operator: Thank you. Your next question comes from Phil Kimber from E&P Capital. Please go ahead.

Phil Kimber: (E&P Capital, Analyst) Hi, guys. My question was just on the online business, we just called out that they'd been a step up in competition from all the various players in there. Is that what you are seeing? I mean, your growth rates are very strong. Are you seeing reactions now from a competitive point of view that are maybe higher than they were in the last three to six months? Thanks.

Michael Courtney: Thanks, Phil. Firstly, in terms of our own offer, when we look at whether it's customer acquisition or investment in the customer offer, we haven't increased the investment relative to the prior year. We've obviously had very strong sales growth, so the level of dollars that we're investing with customers has gone up, but that's a good thing based on the sales growth. Our investment in the customer offer as a percentage of our sales hasn't gone up, so I wouldn't say that we are investing more.

In terms of competition, where I would say that there's been an increase in competition is probably on the immediacy platforms because, depending on the platform, you've seen more competitors in the grocery space enter, which, you know, more competitors leads to more competition.

That's why we've taken a really proactive step of expanding our partnership with Uber. So, that's something that will allow us to partner more closely with Uber, giving a better offer in terms of range, being able to partner more closely on things like loyalty and reach.

That's something that's a world first for Uber in terms of the way that we're partnering. We think it's something that's going to allow us to have differentiation in this market as it relates to immediacy, and ensure that we have a leading customer offer with strong economics. Whilst there might be increased competition in certain parts of the market, I think we've taken some really proactive steps to ensure that we've got a winning offer.

Operator: Thank you. Your next question comes from Ben Gilbert from Jarden. Please go ahead.

Ben Gilbert: (Jarden, Analyst) Morning. Thanks for the follow up. Just another one on liquor. It sounds like, obviously, you've probably done pretty well, given the pricingcompetition is more just across 10% of the portfolio.

Do you see anything in how you've seen the pricing deck across the residual 90, a smaller format where you think you're doing better? Because, just anecdotally, your pricing probably seems much sharper than the market there. I'm wondering if that's where the risk is, if your competitors go after the smaller formats, which is probably being left alone a little bit at the moment.

Leah Weckert: It's a great question, Ben. I mean, we're definitely seeing a good uptick in our customer satisfaction around value and price in the small format stores. We have been very sharp on KPIs there.

As we've said, we think that, with the shift to convenience, building brand loyalty to Liquorland in that convenient format will be really key going forward. The value proposition that we have in there is a really important part of that.

Operator: Thank you. Your next question comes from Adrian Lemme from Citi. Please go ahead.

Adrian Lemme: (Citi, Analyst) Thanks. Just one quick one, please. Just on tobacco, I think we've seen a bit of a crackdown in recent months on illegal tobacco shops. Are you seeing any slight improvement yet coming through in your tobacco performance? It's obviously still a big drag on sales.

Leah Weckert: Sales week to week are pretty consistent now for us, and they have been for the last six months. We have seen some slight improvements week to week, when we've seen a couple of the crackdowns, particularly in Queensland and WA. But I'd probably describe it as quite marginal, and it doesn't tend to have longevity around it. So, it can go for a matter of days or a couple of weeks, and then we tend to see it revert back. That's why, overall, we're still in a similar position to what we reported at Q1.

Operator: Thank you. Your next question comes from Michael Simotas from Jefferies. Please go ahead.

Michael Simotas: (Jefferies, Analyst) Thanks for taking another one. Charlie, I just wanted to pick up on a comment that you made about the CFCs being embedded in the cost base, to understand exactly what that means. Last year, you called out $40 million of effectively start-up costs for the CFC model. How do we think about that going forward?

Look, I'm not asking for specific numbers on that, but are there still some costs in the P&L that will come down over time, or has that flipped to a positive contribution? Then, just generally, what's the profitability of your online business look like right now, noting that your competitors disclose margins, and they effectively doubled year-on-year?

Charlie Elias: Michael, let me take that. Great question. So, a couple of things. Firstly, let me go to the CFC side of that equation. We're really pleased with the financial performance of the CFCs. They're absolutely in line with our expectations. As we said, the CFCs love volume. We're seeing great volume growth, as Michael articulated a little earlier. What we have seen now is performance in the second half of '25 is better than the first half.

And certainly improvement half-on-half and year-on-year on the CFCs. All the one-off implementation, any of those costs, they absolutely fell away. So, there is no lingering cost from that perspective.

All we're really saying, all I really mentioned when I said – mentioned about the CFCs is that they're now in the cost base. It's actually part of our business going forward. They're fully embedded there. I would just encourage again, as I said earlier, there are elements that go into GP, there are elements that go into CODB, and again, really pleased with the growth, a positive contributor to earnings. And from that perspective, we're seeing the operating leverage actually drop to the bottom line.

You would've seen our e-comm business now has grown at 27% this half. Last half, it was a similar sort of very strong growth rate. In that time, we've not only grown our earnings rate, we've absolutely grown our EBIT margin through that perspective. That's the lens which I would look at in terms of the profitability of our business.

Operator: Thank you. Your next question comes from Craig Woolford from MST Marquee. Please go ahead.

Craig Woolford: (MST Marquee, Analyst) Hi, Leah and Charlie. Just a follow-up on the inflation path. Without getting bogged down on the technicalities of how Woolworths and Coles measure it, it was surprising to see Coles measure accelerated in 2Q versus Q1, whereas Woolworths measure decelerated in 2Q versus Q1. So, perhaps there's some elements in your basket you can talk to that may have added to inflation. What's your perspective on that inflation outlook over the next 12 months or so?

Leah Weckert: Thanks, Craig. We did see it accelerate 30 basis points, as you just highlighted, quarter on quarter. I probably would say that, over time, ours has tracked quite closely to what we do see in the CPI data, which gives us some confidence around how the reporting that we do actually aligns to that.

The most significant areas of pressure for us from an inflationary perspective have been in the red meat space, so beef and lamb. Livestock prices coming in, we haven't passed all of that through to consumers, but definitely some of it has moved through, particularly in the lamb space.

We've also seen a bit of inflation in the dairy for chilled desserts and milk. Some of that related to capacity constraints in the market around yoghurt. Equally, there's been others on the other side of the ledger. So, eggs have come off now that we're passed the avian flu impacts. We've still got deflation in quite a few of the non-food categories, where there continues to be very intense price investment across the market.

Operator: Thank you. The next question comes from Tom Kierath from Barrenjoey. Please go ahead.

Tom Kierath: (Barrenjoey, Analyst) Thanks. Just a quick one on depreciation and amortisation. I think, before, you had said it would rise by $115 million this year, and it only went up by $46 million in the first half. How should we think about that for the second half or the full year?

Charlie Elias: Thanks, Tom, for that question. Look, we'd expect the second half to be around that sort of $50 million increase. So, we're probably expecting, if you think about the full year, you know, these things are not always a precise science– because they do vary on when capital investments and things land. Depreciation is probably more like $100 million or thereabouts for the full year of ’26.

Tom Kierath: (Barrenjoey, Analyst) Great, thank you.

Operator: Thank you. Your next question comes from Bryan Raymond from J.P. Morgan. Please go ahead.

Bryan Raymond: (J.P. Morgan, Analyst) Thanks for taking the follow-up. It might be one for Anna. Just around – there’s obviously an ACCC case going at the moment. I don’t expect you to comment on that specifically, but just wanting to get your thoughts around value perception impacts that might come through from all the press coverage, but particularly how you’re thinking about red versus yellow tickets longer term.

Like, this might be increasing a bit of distrust in some of those red tickets, and whether you need to pivot a bit more to high-low. I’d just be interested in how you’re thinking about the composition of your promotional program going forward. Thanks.

Anna Croft: Thank you, Bryan. I won’t comment on the case; I don’t think that would be appropriate. I think that we remain really focused on how do we give our customers great value across the entire basket, and making sure we’ve got the right mechanics in every category. As we’ve said, some categories, we’ve had to move more onto EDLP. The program we’ve been running around actually doing fewer, bigger, bolder promotions and that interconnectivity with EDLP seems to be really working for us, and we can see that through some of those areas.

So, I think, look, we’re just really focused on actually using data and AI to work out how do we get the right promotions to meet the right customer cohorts, and how do we think about that longer term. Actually, what we are seeing is the work that’s done in range is making it simpler for customers to find value.

Obviously, our Own Brand growth in the quarter around really driving quality and value is another lever we have to really simplify that and ongoing levels. So, look, we’re really focused, the outcomes will be the outcomes of where we are on the ACCC, and we’ll work through that, whatever that may be.

Again, it comes back to making sure that we’re doing the right thing across the basket, not in any particular category, but lowering the cost of shopping, and giving customers the right value in the right way and in the right categories. I don’t know whether you want to add anything, Leah.

Leah Weckert: I think that’s a good answer.

Operator: Thank you. There are no further questions at this time. I’ll now hand back to Leah Weckert for closing remarks.

Leah Weckert: Great. Thank you for joining us this morning. In summary, we’d say we’re very pleased with the financial results and the strategic achievements that we’ve delivered over the last half, including strong supermarket sales and EBIT growth, and strength in online, the fact that our automation and operational efficiency programs are now delivering really tangible benefits, the improved customer satisfaction scores, and the completion of the Liquorland banner simplification.

So, we’re seeking to be laser-focused going forward on what really matters to customers, both in the short term and the long term. We know that if we do that, we will continue to move the dial in each period. We know that's what is going to drive our top line, translate to sustainable earnings, and create long-term value for our shareholders. Thank you for your time this morning, and I look forward to speaking to you again at our third-quarter results in April.

[END OF TRANSCRIPT]