



ASX Release

13 November 2019

Address by Managing Director and Chief Executive Officer Steven Cain

Coles Group Limited 2019 Annual General Meeting – 13 November 2019

Please see the attached address to be delivered by the Managing Director and Chief Executive Officer to shareholders at this afternoon's Annual General Meeting.

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

Daniella Pereira
Company Secretary

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2019 Annual General Meeting – Managing Director & Chief Executive Officer’s address to shareholders

Thank you Chairman and good afternoon to all of our shareholders and guests. It is an immense privilege to be leading Coles as your CEO at such a pivotal moment of its 105-year history, and through the demerger from Wesfarmers, now almost one year ago!

The 2019 financial year was indeed one of major change at Coles, and further significant change is on the way as we execute our refreshed strategy to become the most trusted retailer in Australia and grow long-term value for you, our shareholders.

While the Australian food and beverage market continues to grow, customer needs and our competitive set are changing faster than ever. With these changes and a rising cost base, we have set out on a four-year transformation journey.

We believe our refreshed strategy, which we announced to the market in June, will allow us to at least maintain our market share in the medium term while maintaining a strong balance sheet and attractive dividends. We have declared that our purpose is to ‘sustainably feed all Australians to help them lead healthier, happier lives’. We will deliver this in three ways.

The first is by inspiring customers through best-value food and drink solutions to make their lives easier. To better understand our customers’ needs, we will be informed by insights from more than one billion transactions each year, using advanced analytics and artificial intelligence to make more informed decisions on our offer to customers including product ranging decisions in our stores. Value remains central to our customer proposition, and the growth of our Own Brand range and an increased focus on Everyday Low Prices will further build customer trust.

As part of our plan to become a destination for health solutions, we have launched new exclusive Own Brand ranges including Wellness Road health products, Nature’s Kitchen vegan range and our ‘I’m Free From’ products, which are designed for customers with allergies and intolerances.

With our research showing 50 per cent of customers say they don’t have time to cook from scratch, we have significantly expanded our range of ready-to-eat and ready-to-cook foods, so they can grab breakfast on the way to work, lunch between meetings, and make a fresh and delicious dinner without having to give up time with the family.

As customers increasingly shop across multiple channels, we are building a compelling digital experience that will enable us to lead in online shopping. Our exclusive partnership with Ocado will include an end-to-end online shopping solution from website to efficiently mapping delivery routes to get customers’ orders to their kitchen benches quicker and at a time that suits them.

Ocado will also build two automated customer fulfilment centres, one in each of Victoria and New South Wales. These facilities will increase our capacity to fulfil online shopping orders from a wider range of products while reducing costs – solving a problem faced by retailers around the world looking to grow their online sales.

Finally, Coles is already one of the biggest meat exporters in Australia, with customers in more than 40 countries and strong double-digit sales growth. We are looking to develop this business further to build on the brand credentials we have already established in key Asian markets.

The second pillar of our strategy is Smarter Selling, a company-wide program that will drive efficiency and pace of change, and among other things, deliver a gross cumulative cost saving of \$1bn over four years. In the past 12 months we have formed new partnerships

with technology leaders including Microsoft, Accenture, SAP and Optus. Together, these partnerships will help us improve our systems and processes to be more efficient.

Our new store format strategy will align store layouts and ranges to the needs of local demographics while making store operations more efficient, including a reduction in food waste. Last month, construction began on the first of two automated distribution centres being built in Queensland and NSW under our agreement with Witron, a world leader in automated warehousing. We believe that when these distribution centres open in 2023, they will be the most advanced facilities of their kind in Australia.

To ensure we can deliver on our strategic goals at pace, we are changing how we work – focusing on becoming more agile, and we are investing in the new skills we need to further strengthen the team.

The third pillar of our strategy is to Win Together with our team members, suppliers and communities. In speaking about change at Coles, it is important to note that the dedication of our 113,000 team members remains as strong as ever. They are an exceptional group of people, committed to bringing a great retail experience to our customers.

This is not something I or the rest of the leadership team take for granted – Coles is after all, a people business. It was very gratifying therefore when we recorded an increased level of team member engagement during the year through our 'mysay' survey. It was also great to see the strong support our team members gave to our share offer, demonstrating their confidence in Coles' future.

Safety is a priority for Coles, so it is very pleasing that over the past financial year our total number of recordable injuries decreased by more than 700 compared to the previous year. We know we are better together through diversity. I believe we have the most diverse team in Australia, reflecting the community we serve. This includes more Indigenous team members than any other private sector employer in Australia, and growing the number of women in leadership positions. By taking account of many different perspectives, the decisions we make as a business better reflect the needs of our customers and other stakeholders.

We are also proud that our community contributions rose by 26% to a record \$115 million in the past financial year, including our major partnerships with SecondBite and Redkite, helping provide meals for those in need and support for families of children with cancer.

As our Chairman mentioned earlier, Coles and our customers committed more than \$17 million in drought relief in FY19. I would like to provide a little more detail about how Coles has been helping farmers and communities in drought, with \$7.3 million for the CWA Drought Appeal, \$3.9 million from the Coles Dairy Drought Relief Fund, and \$5 million from the Coles Nurture Fund.

As a result of these contributions, Coles has:

- Helped more than 3,200 drought affected farming families to help cover household expenses through the CWA Appeal;
- Distributed grants to 639 eligible dairy farmer applicants through the Dairy Drought Relief Fund;
- Provided Coles Nurture Fund grants to 16 food producers across Australia to undertake projects to reduce the impact of drought and help protect their businesses for the long term. As examples, the Crust family in Toowoomba used a \$183,000 Coles Nurture Fund grant to increase their water storage by 20% by lining their dam. In Coolac, the Coles Nurture Fund supported the Crowe family to build an automated indoor facility that produces fodder for their cattle to supplement grass feeding.

In October, Coles launched a new fundraising campaign for the CWA drought relief fund, collecting donations at the checkout to provide assistance to farming families across Australia. We kicked this appeal off with a \$1 million donation from the Coles Nurture Fund and we have now raised more than \$350,000 in customer contributions to date.

We are also working with drought-affected communities to help local residents facing critical water shortages. For example, we recently worked with the local shire council and NSW Farmers to deliver 40,000 litres to the residents of Tenterfield, where the water supply is unsuitable for human consumption due to both drought and fires. Over the next week, we will be delivering additional water to Tenterfield and other towns in NSW affected by drought and now by fire.

Our thoughts are with those affected by the fires in New South Wales and Queensland, among them some of our suppliers and team members. Our store teams have been providing practical support to emergency crews and relief workers with donations of food, water and other essentials, and we are liaising with state governments and relief organisations about how we can provide further assistance.

Turning to our financial results for the financial year, Coles delivered a solid performance despite increasing competition and higher costs that are being felt across the retail sector. On a statutory basis, group revenue of \$38.176 billion was down 1.9%, while earnings before interest and tax were \$1.467 billion, down 0.9%.

On a retail basis, our revenue was up 3.1% to \$35 billion. This number excludes significant items as well as fuel sales and hotels, which do not make an ongoing contribution following the new agreement with our fuel alliance partner and the hotels joint venture as mentioned by our Chairman earlier. Lower fuel volumes and new corporate costs associated with the demerger and ASX listing resulted in group EBIT being 8.1% below FY18. Supermarkets, the biggest contributor of Coles Group's revenue and earnings, continued to show resilience in an increasingly competitive market, increasing sales by 3.2%, with total revenue of \$30.89 billion for the year on a retail basis. One highlight for the year was the fact that this increase in sales coupled with an improvement in our gross margin enabled Supermarkets to generate EBIT of \$1.183 billion, up 2.2% – the first full-year EBIT growth from this business in three years.

Another was Coles Online, which delivered sales growth of 30% for the year to report \$1.1 billion in revenue, and made a positive contribution to earnings for the first time in its 20 year history.

Our Liquor business achieved sales growth of 1.9% to \$3.063 billion excluding hotels, while also improving gross margin to lift EBIT by 8.4% to \$120 million.

Coles Express reported EBIT of \$50 million, down from \$161 million in the prior year as a result of lower fuel volumes and in line with guidance provided at the time we announced our new alliance deal with our fuel partner, under which we will no longer recognise revenue from fuel sales but will instead earn a commission on every litre sold.

Our objective is to provide shareholders with sustainable earnings growth and attractive dividends over the long term, and we have structured our financial framework accordingly. We are committed to maintaining a strong balance sheet and credit metrics, as well as sustainable cash flow generation. We take a disciplined approach to capital allocation, which is focused on growth and efficiency initiatives.

Over the course of the year we reduced our net debt despite increasing gross operating capital investment by almost \$250 million to \$893 million, and we continue to aim for cash realisation greater than 100% each year.

On 29 October we announced our sales results for the first quarter of the new financial year, including growth in our Supermarkets, Liquor and Convenience store businesses on both a headline and comparable-store basis.

It was particularly pleasing to report our 48th quarter of continued growth in comparable Supermarkets sales and our first growth in fuel volumes in four years.

As we near the key Christmas trading period, we are seeing increased sales momentum that demonstrates the changes we are making to Inspire Customers are beginning to make a difference.

Our team have pulled out all the stops to make this Christmas and holiday season a great one for our customers, including a fantastic range of exclusive products to lower the cost and make entertaining easier. If you haven't already, I encourage you to try some of these products outside at our Christmas display after the meeting, as well as collecting our bonus Spiegelau glasses!

Here's a selection of our Christmas adverts to give you a sense of how we're going to make this a great holiday season at Coles.

I will conclude on a note of thanks. I would like to thank the Board for their support and insights as we set our future course; our team members who aim to the best retail experience possible for our customers; our more than 7,000 suppliers whose products help us inspire our customers and enable our businesses to grow together; and of course our 21 million weekly customers – we are working harder than ever to help you live healthier, happier lives with your friends and family.

Finally, thanks to you, our approximately 460,000 shareholders. We truly appreciate your support as we work to provide you with long-term growth. There is clearly much to be done, and we look forward to keeping you updated on our progress as we execute on our strategy to Win in our Second Century.

I will now hand back to our Chairman.