

# ASX Release

5 November 2020

### ADDRESS BY MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVEN CAIN

# COLES GROUP LIMITED 2020 ANNUAL GENERAL MEETING - 5 NOVEMBER 2020

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

#### For more information:

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This announcement was authorised for release by Daniella Pereira, Company Secretary.

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#### 2020 Annual General Meeting – Managing Director & Chief Executive Officer's address to shareholders

Thank you, Chairman, and good morning to our shareholders and guests joining us online.

Last year we laid out our refreshed strategy to become the most trusted retailer in Australia and grow long-term value for you, our shareholders.

As part of that strategy, Coles declared that our purpose is to 'sustainably feed all Australians to help them lead healthier, happier lives'. We could not know at the time how immediately important that purpose would soon become not just to Coles, but to the Australian community as a whole.

As James said, the year presented us with a number of unforeseen challenges including worsening drought, devastating bushfires, floods, and of course the ongoing global pandemic of COVID-19.

As now a designated "essential service", Coles has played an important role not just in keeping Australians safely supplied with food, beverages and fuel, but in supporting the national economy through the employment of 118,000 team members and hundreds of thousands more who work for the businesses who supply and support us.

We pride ourselves on our ability to adapt at pace – and this year we certainly had plenty of opportunities to demonstrate just that. As demand for food surged in early March to levels that surpassed even Christmas-trading levels, we increased our supply chain capacity in a matter of days by establishing pop-up distribution centres.

At the same time we worked with suppliers to prioritise the production of the most indemand items, and through the Federal Government's Supermarkets Taskforce we were able to work collaboratively with governments and other stakeholders to formulate industry-wide hygiene and distancing protocols to keep our customers and team members safe, and remove barriers to increasing deliveries to our stores.

To help us manage demand, we introduced Community Hour to serve the vulnerable and emergency services workers. After product availability issues led us to suspend Coles Online services in March, we reopened in April with almost double the capacity to serve our customers across home delivery and contactless Click & Collect, as well as the new Coles Online Priority Service aimed at those most in need, including the elderly and those living with disability.

As the initial rush of panic buying subsided and government restrictions were introduced many customers adapted to the 'new normal,' working from home, sanitising the home, home schooling, a daily walk from home, home improvement, and Masterchef inspired cooking from scratch at home, supplemented by the odd cocktail - at home! Whilst travel restrictions meant fuel volumes were down at Coles Express its role as a local convenience store saw shop sales increase.

Throughout it all, safety has been our number one priority, and I am very proud of the way our team have worked to support our customers – safely serving more than half a billion of them with pride since the pandemic began.

Despite the many challenges we faced in the 2020 financial year, I am pleased to report that we have made substantial progress against each of the pillars of our transformation strategy.

It is important to note that we were beginning to see some early benefits of the strategy prior to the first wave of COVID, and that rather than abandoning our transformation plans while we dealt with the more immediate concerns of daily operations, we actually accelerated the pace of change so that Coles will emerge from the pandemic as a better, more sustainable business including record team and supplier engagement.

In the past year we have executed one of the largest range updates in Coles' history, using data-driven ranging tools to tailor our customer offer and introduce more than 1,600 new product lines.

With value more important than ever for customers, our campaigns to Help Lower the Cost of Breakfast, Lunch and Dinner introduced more than 1,500 new products at everyday low prices, while sales of Own Brand grew by 10% to exceed \$10 billion for the first time – accounting for more than 31% of supermarket sales.

Customer demand for online shopping was already growing strongly before COVID, and this has only accelerated since the pandemic began.

In Liquor, our Exclusive Liquor Brands continue to collect accolades, bringing home a total of 372 medals and awards during the year, and we have begun the process of transforming our stores to become simpler, more accessible, and relevant to the needs of local customers.

It is testament to the dedication of our team that in some of the most difficult trading conditions in living memory, we recorded an improvement in customer satisfaction across Supermarkets, Liquor and Express in the fourth quarter.

As part of our Smarter Selling strategy to reduce costs by \$1 billion we are increasing our use of technology to manage our business more efficiently. Last year, we delivered cost savings of more than \$250 million, through a number of initiatives including streamlining our Store Support Centre and implementing new systems in our Finance and Procurement functions. Transport too became more efficient as we made increasing use of trucks to carry both inbound and outbound loads, rather than making their return journey empty.

We also rolled out new technology underpinned by Artificial Intelligence to help our store teams order the right amount of stock – reducing waste and improving availability for customers – and reduced energy consumption by installing LED lights and refrigeration control systems in our stores.

We renewed 70 of our stores, tailoring them to the needs of the local community – including 10 Format A stores, 31 Format C and three Coles Local supermarkets. One of these was our first Coles Local for New South Wales, our Rose Bay store. For those of you who live in Sydney, we are opening another Coles Local in Chatswood next week and another in Manly prior to Christmas, so I hope you get the chance to take a look. I'm also hoping to take a look myself soon – borders allowing!

As you will have seen in our sustainability video, we have made much progress on many fronts. I would like to recognise the work of our dairy team who now have long term own brand milk contracts in place directly with around 70 dairy farmers in VIC, NSW, WA and SA which means these farmers can now plan for a sustainable future.

As many of you know we have an incredible 8 Coles Team members who have worked for Coles for more than 50 years – each! I salute them and in particular Brenda who received the Order of Australia medal in June for 53 years' service to the Malvern community here in Victoria.

I am also proud that Coles continues to be the largest private employer of indigenous Australians, with our focus now on creating pathways to management and leadership positions.

I will turn now to our financial performance.

It is pleasing that the first full financial year of operations under our refreshed strategy, and the first full year as a listed entity in our own right, should also mark a return to our first year of group profit growth in four years. I am also happy to report a Total Shareholder Return, or TSR, of 32% in the year, one of the highest in Australian retail and indeed in supermarkets globally.

Supermarkets, which remains our largest contributor of sales and earnings, increased sales by 6.8%, driven by increased Own Brand penetration and the roll-out of tailored ranges, as well as greater at-home consumption and pantry stocking seen in response to COVID-19. Supermarkets EBIT increased by 10.7% as increased sales and smarter selling savings were partially offset by COVID health and safety costs.

Coles Online grew sales by 18.1% and would have been even stronger if not for the temporary suspension of operations in March and April. This was necessary due to limited product availability, and so we could we reset the business to meet the needs of the most vulnerable in our community with increased capacity and priority service.

Our Liquor business reported sales growth of 8.0% as customers responded to our refreshed range in high-growth categories, as well as a shift to at-home consumption in response to COVID. Liquor EBIT was stable at \$120 million as stronger sales were offset by ongoing clearance activity associated with the range reset, and some mix changes associated with COVID.

Coles Express reported a 5.6% increase in sales from our convenience stores, driven by customers stocking up on items such as toilet paper in the second half of the year. While they are not included in sales revenue, commissions received from our alliance partner Viva on fuel sales volumes were down in the second half as a result of stay-at-home restrictions. This led to Express reporting a loss of \$16 million for the year.

We continue to maintain a strong balance sheet which will provide the flexibility to invest for future growth and take advantage of opportunities as they arise. Over the course of the year we reduced our net debt by \$158 million to \$362 million, and we diversified our debt portfolio and lengthened our average debt maturity to 5.6 years by issuing \$600 million of unsecured fixed rate Australian dollar medium term notes during the year. The funds were used to repay bank debt, and at the end of the financial year we had undrawn facilities totalling just over \$2 billion. On 28 October we released our sales for the first quarter of the new financial year, with sales remaining elevated across all segments, particularly in online and in Victoria under lockdown.

This included comparable sales growth of 9.7% for our Supermarkets, 17.8% in Liquor and 10.2% in Coles Express convenience stores. Pleasingly fuel volumes are beginning to recover as restrictions ease.

Coles Online sales growth of 57%, liquor online sales growth of 80%, and the launch of Coles&Co to replace more than 4 million hand delivered paper catalogues every week demonstrate that we are committed to a digital and sustainable future.

Since our last AGM our executive leadership team has been strengthened with the arrival of Darren Blackhurst as Chief Executive Liquor, Ben Hassing, Chief Executive of eCommerce, and George Saoud Chief Executive of Emerging Businesses. We presented our refreshed liquor strategy at the full year results earlier this year and we will present our refreshed e-commerce strategy at the interim results in February 2021.

Christmas and summer 2020 will be like no other. The impossibility of overseas travel has prompted forecasts of more than one million additional Australians spending the holidays at home this year. Meanwhile the ongoing need for social distancing means large celebrations are likely in many cases to be replaced by many smaller gatherings at home.

Like the best Christmas guests, Coles is ready to lend a hand in the kitchen. We have more than 270 new or improved products to help our customers lower the cost of easy entertaining. And following on from our successful Spiegelau crystal glassware giveaway last year, we are rewarding customers with stainless-steel MasterChef kitchen knives to bring a little professional flair to their improved home cooking skills.

As part of our commitment to looking after the mental health of our team members, we have continued to work with the Resilience Project. One of the practical techniques in this program is to write down three things you are grateful for – every day for 21 days.

I am grateful for an outstanding board and executive leadership team, their tireless commitment, innovation and agility to circumstances changing every day, our 118,000 team members working to keep customers safe and fed, and our suppliers and community partners without whom none of this would have been possible.

To our customers, on behalf of Coles' team members I thank you for your custom, your feedback, and the respect and understanding you have shown.

To you, our shareholders, I thank you for the opportunity to continue transforming Coles into the most trusted retailer in Australia so that we can deliver long-term sustainable returns for you and your families.

As I hand back to our Chairman, I'd like to share with you our new Christmas TV advertisement, which forms part of our Value The Australian Way campaign, celebrating the role we play at the heart of Australian families and communities.

[Value The Australian Way Christmas TV advertisement to play]