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WOW.AX - Full Year 2017 Woolworths Ltd Earnings Presentation

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PRESENTATION

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Thank you, everyone, for joining us for our FY '17 results announcement and particularly those who made the effort to be with us today and hopefully those on the phone can hear me via the microphone. I'm joined here today by a whole series of members of our team and let me quickly introduce them before I go into the highlights of the year. Of course, our CFO, David Marr; Head of BIG W, David Walker; the Head of Endeavour Drinks, Martin Smith; the Head of our newly formed WooliesX, Amanda Bardwell; Claire Peters, who has been with us for 8 weeks now, welcome, Claire, the head of Woolworths Supermarkets and I'm going to do an injustice, our Chief Legal Officer, Richard Dammary, somewhere causing mischief in the back row. But thank you again for joining us. Claire is 8 weeks in, for those who've asked, and we'll be talking and presenting the first half results for Woolworths Supermarkets in January. So I won't really be answering questions to them. They're very tricky and I can't answer them, but it's terrific to have you here with us.

What I wanted to do was just start with the highlights of the year and I'm just going to give you the qualitative highlights and turn to David to talk about the financial highlights of the year, and then we'll move into the detail of Australian Food, BIG W and then really leave a meaningful chunk of time for questions.

So let me -- without further ado, get into those highlights. Where have we got them, Jess, I'm putting them up on the back screen. I was just going to talk to the key 5 priorities we had for the year and how we've gone. Jess, can we put them on to the back screen? Sorry, I thought they would come up. It would just be easier for everyone to see. Are we on? Yes. So there's -- I don't know if that's easy.

But in terms of our highlights for the year, let me just go through them while they do that in parallel. As I said in the media call, it's now -- I'm 18 months into being the CEO of Woolworths Group. And 18 months ago, we laid out 5 priorities for the group and what I really wanted to talk to you was our progress against those 5 priorities and then highlight the focus going forward into F '18 against those priorities.

The first priority for us really has been to mold a customer and team culture inside Woolworths. We thought we had an enormous opportunity to shape our culture and in doing that lock all discretionary effort inside our business and win back trust with our customers, and it's been a really pleasing year for us on that front. As I said in the media call and you'll see in the results announcements, we've made great progress on Voice of



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the Customer scores. Now we still have some differences in the way we measure them across our business. That will not be the case when I come back and talk to you at the half year. But every one of our businesses have seen their Voice of the Customer or their resonance with customers improve over the course of the year. So that's been really pleasing.

And then very importantly, our Voice of the Team, our team engagement, has likewise improved not only across every business, but importantly, in our service and support areas, supply chain, IT and whatever area the case may be. So dramatic changes in our culture. We're still excited by the [unlocked] we still ahead of us, but it has been unequivocally the highlight of the year.

Just a few stats to add a bit of color to it. When you join Woolies now in the support office, you start in-store. So we do what we call the Woolies Welcome, and we now have had more than 600 people start their careers in our support office in a store and spent a week working in a store. And I think it's absolutely wonderful, sets the right tone. And virtually everyone who's done it or everyone who's spoken to me said that's been an unbelievable highlight to them to just understand a lot more practically what our business is really about.

In terms of team engagement, I said it's really gone up. But very importantly, a very simple and lead indicator way to think about team engagement is health and safety, and our health and safety score for the group improved by over 20%. So we're keeping our teams safer, which is unbelievably important. Close to 600 people went home and less people were injured in our business in the last year, which is quite a sobering number when you think about it, but it says something about the way we change in our psychology and our duty of care. Actually, in Australian Food and Woolworths Supermarkets, the improvement was over 30%. So we still think we have a lot of room to improve. We have dramatically lowered our TRIFR as well as our long-term injury frequency ratio and all of the other metrics, and we still aspire to do further, of course, in '18, but it says a lot to the business.

Very importantly for us, in changing our culture has been our desire to have everyone on the same basic short-term incentive plan, and that we achieved that substantially in '17, and it's clearly achieved in '18, and that really focuses everyone in knowing that we're all in this together and we're all working to the same goals, and that's something people don't talk about enough. But has been very important to us in changing our culture.

For those of you, just to remind you what those are, we have a customer measure, Voice of the Customer. We have a team measure, which is actually safety at the stage. We'll evolve as we go. We then look at sales, EBIT and an efficiency measure, which changes where you are in our business. If you had a store, it's stock loss, if you're above store, we've actually had working capital. But essentially, it's sort of like Lord of the Rings. It's one program. We're all in the same metrics, myself, David, the executive team, and that goes all the way down to a store manager or a department manager. And it does actually bring everyone together because it becomes very clear that there's just this one common goal, which is do the right thing for our customers, right thing for our team and the right thing for our shareholders. And that's been very important.

We've made a number of appointments during the year, and I'd like to say deliberately the words we talked about internal and external. We're all about building the right talent in our business. So Claire is one of the people who has joined us 8 weeks ago now, but John Hunt has joined us as our CIO for Woolworths South Africa. He has he hasn't left Woolworths. That's a good news. He been with Woolworths for 30 years. He's just changed the whatever it is particularly on that. But there've been a number of other appointments on the team, and we're very focused on developing our team. We've got a great store pathways leadership program in place and a whole lot more development going on inside the group, which is terrific.

Another highlight in terms of our culture, we're trying to get our customer culture right has been our creation of WooliesX. Everyone is asking questions about what is our response to Amazon. I'm sure I'll get some today. Actually, of course, the truth is the best response to any competitor, including Amazon, is to focus on your customer and meet their needs, and our customer needs are changing. Increasingly, our customers are becoming connected customers. They're expecting us to stitch together their different interactions with our business, whether it's the online interaction, the store interaction, the click and click or pickup interaction or whatever the case may be, and we need to find a way of stitching those together and personalizing the experience for the customer, and that is Amanda and her team's job in WooliesX. And what we've done is put all of talent together in one business in order to help us chart the pathway for the connected customer, and that's our digital assets as well as our loyalty assets. So that's what WooliesX is all about for us. Very early days but we think a very important strategic priority, not only to compete say, against the pure play e-commerce players but actually everyone else in the market.



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I think there are many, many other highlights, but those are the core ones for me. I really do feel we're back to believing what made us great in the first place. That is if we get customers to put us first and we put our team first, good things will happen in our business, and we saw a glimmer of that in '17 and I'm excited about what we'll see in '18. Of course, much more work to do on living this ethos in '18, and that's a key priority.

The second priority we had as a group was getting back into sustainable growth in Food and particularly, in our Australian supermarket business. There is nothing worse than the negative leverage that happens when you are not in positive growth at a comp level. And that really was unashamedly a material chunk of my time in '17 that we started to build some momentum. And the pleasing thing is you saw the momentum build over the year. We slowly gradually got better as the year went on in terms of growth. And the last thing about that growth was on the back of more customers shopping more frequently in our stores. And to me, that's the key quality of growth is foremost in our minds. So as well, our Voice of the Customer scores improved, and thank goodness the theory worked, we actually then saw traffic improve. And then most recently, we've seen items per basket start coming back. It was very frustrating in the early days of our turnaround that we were getting this transaction growth, but we were losing items per basket but we saw that change. So really good year in supers in terms of getting back some momentum in Australia.

In the second half in New Zealand, we started taking the same mindset into New Zealand. And if you look in the second half New Zealand results, you'll see improving customer scores, and you'll see modest improvement in sales as well. So more work to be done in New Zealand, in particular in '18 but the same mindset you've seen come through.

Apart from that, the other highlight that we don't talk necessarily nearly enough about, we talked a lot about price. I'm sure I'll get a price question later. But we've always been clear that we want to differentiate ourselves by leading on the range we provide our customers and the freshness we provide in our fresh food part of our business and just the quality fresh equation we aspire to deliver. Both of those things really had great progress during the year. Our fresh food business showed terrific growth in the year, and there was both volume, a materially volume growth, and we had a little bit of deflation and inflation that sort of came and went during the year. But there was great underlying volume growth. And in Long-Life, we did a program called Customer First Ranging, and this is not a program designed to drive profit but to actually get the right core range into our stores that resonated with our customers, and we believed that by having too much range in an individual store, our customers don't actually see the great range we have. So by taking judiciously some range out, we'll actually get a pop in terms of range, perception and store and volume growth, and we saw that with the rollout of Customer First Ranging. It rolled out across our Long-Life business. As at the end of June, just over half of our Long-Life categories have been redone. And in fact, we're in rollout by December, 90% of our Long-Life business would've had the range reset. Not necessarily a small range. We're not doing it to drive cost down in our business but to drive customer perceptions of range up. So something that we don't talk enough but I think really important to our business. It's very easy to get tempted when you're looking at range to go for the short-term fix to try to either get profit up or to try and simplify stores, but we've tried to thread the needle and I do think it will pay dividends for us going forward.

In terms of our Drinks business, which Martin runs, it really has been continuing to evolve that business going forward. It is a very strong business for us, and we've continued to work very hard in doing that during the year. You'll see the numbers, sales growth just over 4%. That needs to be seen in the context of a very modest market growth in the sector. So not a bad result relative to market. We've certainly seen share growth. But some of the highlights I would call out from where I sit has been the continued evolution of the business model, in particular Dan Murphy's, and we now have a loyalty program inside Dan Murphy's that has 2.4 million customers from a standing start just over about 3 years ago, which is remarkable when you think of the size of the business and how many people have joined it, and the 25% online growth we've seen inside Dan Murphy's. So continued evolution in that business and using digital and insights to really grow again forward.

We've also, in the last year, all of our BWS stores now provide 1 hour pickup or Click & Collect which, we think, is a very important part of our journey to become a truly great connected customer retailer. So evolution in that business, very challenging market but we continue to push forward.

And coming back then to our portfolio, we don't talk much about our hotel business, but it was a very pleasing year for that business. It was terrific to see it back in growth on the top line, in particularly in VARs. It was really very pleasing growth in actually all aspects of that business. So that was a highlight and very good cost control on the back end.

We announced our deal with BP on our Petrol business. It was actually on Christmas eve at I think it was 5:00 on the 24th. So we all had a good glass of champagne from Dan Murphy's afterwards, as a very long process, but it was terrific to have that behind us. Clearly, we are -- (inaudible)



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and that process is ongoing. I won't comment on that for understandable reasons today, but we are excited by the potential partnership we have with BP and what it can unlock for us in terms of really, again, the convenience aspect of doing more convenience meals and leveraging the BP network to do that.

We also worked very hard on the exit from Home Improvement, sort of like the donkey in Shrek. Are we done yet? It always feels like we are, but we're not. But we have made material progress in the last couple of weeks in terms of having a very clear pathway to exit now from Home Improvement and the sales of Home Consortium, which we expect to take place by the end of September, and that's important.

Last but not least has been our sale of EziBuy. It's not a big business for us but had a lot of reputational risk for us in New Zealand. Actually, 400 employees working in Palmerston North, and it's terrific to be able to find a partner to take that business forward and invest in it. So a lot of work tidying up the portfolio.

And last but not least has been BIG W. A challenging year for BIG W, I know we'll get a lot of questions and I won't preempt those questions with the loss that we delivered, but it was a tough year unequivocally. But we've been working very hard since December really to take on board the lessons of why things haven't worked for us historically and trying to change that current (inaudible) so really can't change the narrative, engage our team, get their views on what our strategy should be, work with the board to sign off a plan, then find the right team to execute against the plan, and simply delighted that Dave formally took the job in February, I think, of this year. So an awful long way to go, but we are now underway, which is nice.

Clearly, the focus on that business in '18 for us is the basics and the foundations. Just like in Supermarkets, if you're going to climb a mountain, you climb it one step at a time. And so it's very practical focus in '18, which is -- which we think will be very important.

Last but not least is our multiyear journey to really become a lean retailer, and I know everyone wants to talk about Amazon, but I actually would suggest to you that digital and data more broadly has an unbelievable opportunity to transform retail, and we're really excited about the ability for that to happen. And in '18 and '19, you'll see us really start unlocking what I think will be some amazing opportunities for us as a group.

When you think about our business, we're all about moving products around, and we use manual decision-making tools to do that. In the world that we're moving to in '18 alone, we'll be doing much more machine-based learning to figure out how we put the right range into the right store with the right number of facings and use predictable ordering based on the weather pattern or the events in that environment to do that. So you'll see a lot of opportunities, and we're very excited by the potential that we have there. It's not easy to do, but we're excited. So we realized that we need to work very hard on end-to-end and become a truly great lean retailer. We think that digital investment will help us. We did make progress in '17, but I think the journey and the opportunity is still very much ahead of us. And we talked a lot in '17 about customer-led right (inaudible), right person, right day, right store. We made a lot of progress by launching our new software in store and getting our store managers to own it. That's been extremely well received. We still have some work to do to make sure our team actually live it, and we actually get the right level of service, in particular on weekends on between the power hours of 3:00 to 5:00. But the journey's underway and our team have bought into that. So that's been very important.

Paul Graham isn't here with us today. He's our Head of Supply Chain, but we're working hard to engage our supply chain team and feel them part of our business, not just a separate series of folks out in our distribution centers and get them linked into our stores to help us with the material opportunity we have in availability. We did improve availability significantly in '17 but it's still a major opportunity going forward. And I think, in one of the documents, essentially we had just over 1 million less out of stocks every week inside Supermarkets. Just think about it mathematically, but we still see it as one of our biggest opportunities in '18.

Last but not least, in terms of a highlight in terms of being lean, it's not only how we manifest that in the P&L but how we manifest it in our balance sheet, and it was a very good year for us in terms of working capital and in particular, reducing our inventory holdings. And the thing that I like most about it is we did thread the needle, we did get availability right into stores. Our store levels inventory service level, which says, is the product in the store, grew to about 98.5% for those of you technically orientated. But at the same time, we took 1.8 days of inventory out of our business. So it was a really pleasing year. Really has helped with the balance sheet and David can talk to it.



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So a lot of progress against the 5 priorities. More work to be done against all of them. This is a multiyear journey for us. The thematic we're talking about inside Woolworths in general, not inside BIG W specifically, is we're moving out of the turnaround phase to a transformation phase. We're really trying to get away from -- it's been 2 years of fixing things, and now we want to materially improve things and it makes a lot of excitement and optimism, I think, inside the group.

I'm not going to talk much to the group house. By popular demand, the Woolworths Supermarkets house means that every business has a house including the group. That was something I resisted for a long time, but we decided we would -- we'll build a village. But the group house is very orientated on the things I've just talked about. It's about team, about culture, it's about this connected customer and how we all try to path to better meeting their needs. It's about continuing the journey in our individual businesses, and it's about this end-to-end focus. And that's really working together end-to-end to be better for customers or simpler for stores.

I'll finish the intro just by talking about the outlook, and then we'll get into the numbers in the individual businesses and I'm sure there are many questions I expect you have.

In terms of outlook, as I alluded to, F '18 focus is on our 5 priorities. Of course, the emphasis is changing, as you would appreciate. One of the things we are very focused on is consistency inside our business. There was almost spontaneous applause in our business when they let -- what the house was for '18, and we said, the '17 house with a few changes that was -- it is a very large business for a lot of people and consistency of application is key to us. So it will be very much the same focus with different emphasis in '18. We really though will see a much bigger [up rating] as I just alluded to, on teamwork across our business. Want to be (inaudible) we need to work as a team, a lot more focus on us on how we use digital and data, an in particular data across the value chain. So you'll see that start working for us.

In H1 in particular, I should call out that we're already 8 weeks into the financial year, so we sort of talking about last year, but it feels very long ago in my mind. We're very focused right now on continuing to really embed Customer Led Rostering [prices]. It's there but we really want to embed it and get the hours right into the store going into Christmas. Really big thing for us. But very importantly, and non-shelf availability, right.

But the other thing I should call out is our desire to really pick up and able our whole business. So what I mean by pick up is we want every store inside Woolworths in Australia to provide a customer the option of either shopping the shop or being able to preorder and have in their delivery, their order ready for them in a trolley when they come to the front door. And we think pickup is a very important platform for how we service the connect to customer going forward. It's not a solution, but it's a very important step. And by the end of September, the whole -- every Woolworths Supermarket in Australia will be pickup enabled. In fact, this week, we are rolling out pickup services in 200 stores in Australia, which might not sound like a lot, by the way. It almost frightens me the ambition that we've got in the execution as well as we might have. So a lot of work going on there, which is very important to us.

In Australian Food specifically, and we talked about this in the press release, we don't provide guidance, so please don't ask me any questions on guidance later. But we did give you a sense that -- of how we traded for the first 8 weeks, and that very much was in line with the way we traded over the second half, not over the last quarter but over the second half. So at the end of 8 weeks, we're broadly in line with that in the -- a momentum sense.

In terms of BIG W specifically, again, we feel we have a good plan, but we're incredibly realistic about what we will achieve in '18. The number one thing we need to achieve in '18 is getting cut through and resonance with our customers and getting sales momentum back into the business. Given that we have taken a very clear and conservative view in terms of what we expect the profit outcome to be or the loss outcome that we expect it to be broadly in line with us (inaudible).

So that's enough for me in terms of introductory remarks. We'll be back at the altar soon to talk about how we've gone in Q1. Very sensitive to that. But in summary, it was a very important year for us. It was a foundation year. A lot to be done, but there's a lot to look forward to, and we are looking forward to '18 with guarded optimism.

I'm now going to turn over to David to talk to the numbers and then we'll come back to talk about Australian Food and BIG W, and then open the floor to questions you may have of us or any of the other businesses. Over to you, David.



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David Paul Marr - *Woolworths Limited - CFO*

Thanks, Brad. Just turn the screen around. Thank you.

Thanks, Brad. Good morning, everyone, and thank you for those in the room for joining us. I'll start the slides on Slide 9 for those following in the pack.

Consistent with our half year reporting, our fuel business has been classified as a discontinued operation, along with Home Improvement. The results for those are clearly separately disclosed in the materials released today.

So focus here on the left-hand side in terms of continuing operations. Sales from continuing ops were up 3.7%, and that was really driven, as you'll have seen, by Australian Food at 4.5% and our Endeavour Drinks business at 4.3%.

Earnings were down slightly 4.9%, largely reflecting the losses in BIG W. In the second half, our earnings from continuing operations before significant items, the equivalent line grew by 11%, and that was really driven by our Australian Food business at plus 13%, as you'll have seen in the pack.

NPAT from continuing operations attributable to the shareholders of Woolworths was \$1.4 billion, which was down 3.6% on the prior year, and I'll cover the return on funds employed shortly.

Just in terms of the EBIT breakdown on Slide 10. You'll see EBIT from Australian Food of \$1.603 million was down slightly 2.4% on the prior year. That was driven by higher team-based, performance-based bonuses, investments in training and higher depreciation, which we flagged at the first half results.

Food EBIT, as I said, in the second half, grew by 13%, really driven by stronger sales and an excellent result in stock loss in the second half.

Endeavour Drinks grew by 3.9% to \$503 million, and as Brad said, driven by strong sales result in a very competitive market, partly offset by some negative category mix. In the second half, EDG grew by 5.1%.

New Zealand, \$309 million, decreased by 1.4% and that's really driven by the investment in team hours which we have flagged as well, as well as the team performance-based bonuses. In the second half, that business grew by 2.2% at an EBIT level.

BIG W loss of \$150 million was driven really by 5.8% lower sales, increasing clearance activity as we make way for the new range and additional price investments, which Dave will cover, no doubt.

Hotels had a pleasing year, up 11.7% to \$233 million, really driven by improved bar sales and margins. Its central overhead is \$154 million. If you strip out the EziBuy loss, that number was about \$152 million, which is broadly in line with the \$150 million that we've continued to provide for that line.

Just briefly on the discontinued operations, EBIT attributable to discontinued operations was \$317 million. Of which, \$159 million was Home Improvement, which includes the first half losses, the HTH sales and inventory clearance, offset by gains associated with the asset and provision reassessment in the second half.

Petrol had a very strong result at \$158 million, up 34% on the prior year, partly benefiting from lower depreciation as we moved that business into assets held for sale.

On Slide 11, just the key balance sheet metrics. Brad's touched on the average -- the improvement in our average inventory days, which across the group improved by 2.3 days, which was quite a pleasing effort. Australian Food at 1.8 of that, but also EDG and New Zealand Food, both showed improvement. That was offset, to some degree, by BIG W obviously given the lower sales result.



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Return on funds employed on the right-hand side, excluding Home Improvement and Petrol, was 22.3%, up 61 basis points on the prior year, really driven by that working capital improvement, which offset or more than offset the 4.9% reduction in earnings.

On a cash flow basis on Slide 12, this is total group including discontinued operations. Cash flow before interest and tax from an operating activity line was \$4 billion, which increased by \$529 million. Excluding Home Improvement, that line increased by \$287 million, and that really largely reflects the net investment in inventory improvement.

Interest and tax were both down, reflecting lower debt levels and lower effective interest rates as well as lower tax installments given lower FY '16 earnings.

Cash realization ratio, which isn't on that slide, excluding Home Improvement, was 122.5%. This does benefit from increased provisions for team incentives. If you excluded those incentive provision increases, our cash realization was about 114%. And again, that largely reflects the improvement in net inventory.

Cash flow from investing activities increased by \$165 million, and that's largely the Home Improvement proceeds from the sale of HTH. And then the lower cash outflows from dividends and share issues were driven by lifting the participation cap on the dividend. Our former participation without a discount or a cap was about 12%. Since we've introduced -- removed the gap and introduced the discount, that's increased to about 37%.

Just finally in terms of our CapEx -- sorry, 2 slides. CapEx on Slide 13. Operating CapEx for the year was \$1.6 billion, actually just at the bottom end of the guidance we gave at the half of between \$1.6 billion and \$1.7 billion, and really reflects the investments we said we would make, and that is to increase our investments toward store renewals and fewer stores as well as continuing our spend in both supply chain and our [tea] assets. Property development CapEx was down for the same reason as we've really focused more towards renewals rather than new properties. And our sales from properties were also down as we, very much in line with our capital management strategy.

Finally, on capital management on Slide 14, the board today approved a fully franked final dividend of \$0.50 per share, which is up \$0.17 on the prior year. That brings the total FY '17 dividend to \$0.84, which is 70% of our group NPAT and very much consistent with recent years. There is an element of this final dividend that relates to the NPAT in the Home Improvement business, which is not expected to recur. The board remains committed to a solid investment-grade credit rating and pleasingly, our credit metrics with both Moody's and S&P increased or improved during FY '17.

Our fixed charge cover ratio from continuing operations was 2.4x, on the slide, consistent with the prior year and pleasingly, at the bottom, as I said. Our net repayable debt of \$1.9 billion reduced significantly on the prior year due to the strong cash flow improvement in the year.

Thank you. I'll look forward to your questions a little later. I'll pass back to Brad.

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Thank you, David. I'm just going to move to talk about Food. As discussed, I can't see the slide, but I won't talk to the numbers, and I'll come back to any questions I might have on the numbers. I'll just talk to the qualitatives and talk about the numbers in situ.

Hopefully, everyone is aware of our '17 house and all the objectives we set ourselves very broadly against it. What I thought I would do is just report back against progress against both house and not repeat some of the highlights in the intro but some of the more specific points as they relate to Food.

So if I look at where we've been trying to go and start just on the roof of the house, which is really been about trying to create this issue of differentiation. We've had 2 really important things that we worked on in '17. One was culture and the other was renewal. They were both we thought were going to be central to long-term differentiation. What does our format look like? And then, of course, within the context of that, how do our team behave? So hopefully, that makes good sense. We made really good progress on both of those. The purpose inside our food group



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to remind everyone is we bring a little good to everyone every day, and we break it into good food, good prices, good acts. This purpose is really owned and resonates with our store team, and it's just amazing to see the number of good acts you see in our business, and that might sound very small, but is really, really important to us, whether it's us providing Free Fruit for Kids, which has now become actually a very big program of 20 million pieces of fruit given away a year, or just those small ways we either support a customer or a team member if they have any issues or stress in our stores. And we celebrate and share those stories. Clearly, unashamedly, of course, Food is a very important part of it as well. So that's -- we feel really owned by our team, and it's a collective endeavor we're on. And I used the word noble, but actually there's something really good about wanting to execute against this purpose and we think that's really important for us as a team, in particular for the younger members of our team.

Now on renewals itself, I never talked about in the highlights, but obviously, it is a central part of our strategy. We had said we were going to do 80 renewals in F '17 for those of you who remember our aspiration. We only got to 72. But we also did open 19 new stores, so we did sort of 91 in the new format. The format, however, over the year, while we didn't open up as many as we said, has made dramatic improvements. And so we've really iterated and iterated, and it's not yet where we would like it to be, but we feel it's a lot closer to that goal. And I'd say tough taskmaster, we're sort of at 75% of where we need to get to right now. We'll open our next version, our 3.0 will open in December, which we think would be another jump yet again to get to the goal. It's not what I think about the meals that counts, it's about what our customers think and our customers are liking them. We're getting great resonance. We're getting great sales growth out of them, and that sales growth is in particular coming in our fresh categories, which was obviously central to why we were doing it. So great fresh growth. We had that across the business, but it jumped even more so inside our renewal stores.

In parallel, with doing our renewal stores, we sort of had a smaller program, which was to just try and fix up the basics of stores, and we started by saying it was minimum standards project. We just wanted each store to meet certain minimum expectations for a customer. It wasn't like that you could walk into one Woolworths and feel very good and you've got an amazing one that's not part of our ethos. And so we started a program called our Upgrade program. And actually, that program turned out to be very big program for us for the year. We started putting more and more things in those, and we started feeling really good about it. So when you think about a renewal, it's when we really dramatically change macro space allocation, so we move everything around in the shop. It is quite disruptive. It's very material, material reset. Upgrade, increasing has become a situation where we don't change macro space but really do renew all the key aspects that should be renewed, whether it's our front end and the flow of customers through our checkout or the fixtures and visual feel of our fruit & veg section or in some cases, the lighting, a number of other factors.

That program, actually we did a lot more of those in the year than we expected to do and that's because actually we had great results, and our customers felt good about it, and our team felt good about it so we did a lot more than we expected. So we did, I think, it was 80 of those. So in total, we touched close on 19% (inaudible) of the fleet in '17. And as I said, we got great resonance from doing that. We're, of course, planning to repeat the same program as we get into this year. And very importantly this year, we want to take the same mindset from that program into online and Metro, where we actually, thinking about the store from the customer, we're trying to reset everything and now we're working very hard on the U.S. on our website and things like that, for example. So really, a lot of work in the roof of the house. Very important to us.

If I then come back to the core proposition, another thing we don't talk much about is our brand platform. And our brand platform at the moment is why I picked Woolworths. It's not a brand campaign. It's a brand platform. We want it to be in everything we do. We want to ask ourselves clearly why should someone pick us, whether our customers, our team, our suppliers, our community, whatever the case may be. And the brand platform is really resonating for us. We're starting to get people to understand it. Very importantly, they get people now understand that it's different, and that's key to us. So really good progress on brand. I could show you a lot of really nice soft measures on it, but you are not a soft measure audience, so I'll resist the temptation. But it is very important to us and we don't talk about it nearly enough.

On shelf prices, another good year of progress. As I said, we talked in the previous call and in the last time we met everyone that we feel we've been price competitive for the last 2 years. In aggregate, when you look at a basket or you look at an index, however you want to chop it up, we have been price competitive, but we've been unhappy on the shape of it, and we felt we didn't have enough everyday low prices on these routine predictable grocery items. And we were too promotionally driven in categories where you needed to have more predictable prices. That has materially changed over the course of the year. We now have over 3,500 products in our red program, and our red program for us is now as big as our yellow program. So we've materially addressed shape. There are still specific SKUs. Of course, we're working on in pricing, we need to reengineer, so the price journey never ends, but the shape issue is materially addressed at a high level. And we try to address that we're (inaudible) Customer



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First Range and every time we rolled out a new category of Customer First Range, we reviewed all of the prices, the mix of prices, the role of own brand within that and the resets, so you saw it all come through. Now we still do -- have a lag effect on price perception. So while we feel we're in a good place on price as of today, who knows what the future holds. We still have work to do on price perception. And that really comes to the issue we're very focused on, which is trust. We really need our customers to trust us and trust that every time they shop Woolworths, they will get a great price. And that's something we will need to continue to work on going forward, but we do see it as opportunity.

I did talk about Customer First Range already, and we think it's been enormously helpful, but it would be remiss of me not to talk about our own brand in the context of Food. We have been furiously working on one of the biggest rebranding, well it is the biggest rebranding exercise ever undertaken by a consumer company in Australia, which is essentially rebranding Select and Homebrand into Essentials and the Woolworths brand. And in doing that, we haven't just been trying to change the packaging. We've been trying to reformulate the product to make it healthier, wherever we can, trying to hold up our Australian credentials and Australian sourcing in that, and we've been very focused on making sure it's at the right price point. During the course of the year, we reformulated and relaunched 3,000 SKUs. Kind of remarkable if you think about it. By December of this year, 80% of our rebranding exercise will be complete. So a lot of work. It is a key point of difference going forward. We've just tried to do it in -- under the radar's the wrong work but just by category by category just so we don't in any way cause any inconvenience for our customers. But we are getting very good resonance from it. And very importantly, I should mention within that is, wherever we can on a Woolworths brand of product, it will be -- have no preservatives or colorants. We're absolutely will not put -- our name on a product that has that, artificial preservatives or colorants. And secondly, in every product we can, we're now putting a 5 star, star rating system. So we're really trying to make sure our products are not only ethically sourced but have a wherever we can have the right health attributes to them and we communicate those very, very clearly to our customers.

So a lot of work on the core offer, as I said. A lot of training in store. Really important, if you want to do a great Fruit & Veg offer or a great bakery offer, that you train the team. We spend a lot of time on that as well as our customer service training. A lot more work to be done on this, to be honest. Once you start training, you open people's eyes to all the things they would like to know or engage on, so we've got a lot more work to do but a lot of work is on activating the offer.

The less interesting stuff, which is unbelievably important to us, is fixing the basics, and that was a really good year for us as well. In our numbers, you would all have noticed the material benefit we got from improving stock loss. That has really materially helped the GP growth that you saw. It's the 91 basis points of net benefit we got over the course of the year from improvements to stock loss. So incredibly important initiative for us.

The best thing about stock loss at this point in our journey has been we've done it and created a better experience for our customers. We've all been focused on good stock loss, not bad stock loss. Really easy to drive down stock loss and drive up out of stocks. At this stage of our journey, it hasn't happened and it's been fresher food flow through more quickly. That's given us most of the benefit. That's stock loss, unbelievably important, somewhere around the 3% mark now for us. We know we've got another opportunity ahead of us in '18, and we're working on opening and accessing that opportunity as well.

I talked about availability. Material improvements, but we're actually think there's as much to be done going forward as there was in the last year. The last year was about fixing the basics of availability for us. It was just getting the right flow of product into the store, holding our suppliers to account for the loss product into our warehousing. It was really basic plumbing. What we've done in parallel is spend 6 months reengineering the whole way we flow product into -- from the back room into the shelf. And so it's redoing our routines. The terrible thing inside our business, the hardest working business come to work after everyone else has left the store and that's our [nightful] team, and we don't give them the right level of training or tools or procedures to do their job effectively. They tend to, by the way, leave before anyone else [pitches up]. So they start at 10:00 and they leave at 3:00. And we've been spending a lot of time with that team and help them retrain, give them the support they need. We're really excited by the potential the rollout of the new program into '18. But given the process right and agreed, 125,000 people has been our focus. So we're excited that we see a lot of opportunity.

Voice of the supplier, very importantly, has also improved. We still have work to do here, but it's nice to no longer be in the last quartile but be on the cusp of the top quartile, we need to keep our team focused on this. But we have changed the way we engage with suppliers. A lot of work to be done, but as I say, the whole treating suppliers with respect and as part of our team is essential to our long-term success and we think we are



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getting a lot better at it, and you'll see it in our stores. Not only ones we've had, but some of our colleagues in other sectors have been doing the same surveys. So nice to be on progress there. Anxious to continue that, of course.

I'll talk to our working capital, so I won't -- but the last topic I should talk about is store IT infrastructure. This is something that materially lead us down. And we are working and one of our biggest sources of investment is to address it. And we did make a progress in '17. We got rid of all those old self-service checkout, which were in our most premium stores. So they're all gone, what we call the V4 (inaudible). If anyone wants to know what that means, it means it went into our store in 2004. So if you want a collector's item, they are for sale at Woolworths. They're not in our stores, but I'm sure we can find you one in a warehouse. So a lot of work on infrastructure. Wireless connectivity, [scopes] and other massive opportunity for us though in '18 as we roll out what we call 1Store, which is our whole new software platform that we need to layer this hardware. Very pleasing progress. Hopefully, you get a sense of it.

The rest of the slides, I'm not going to belabor. You'll see them. Hopefully, they corroborate what I was talking to. And I just wanted to finish by talking about culture. And so, we do think it is our point of difference. We've been very focused on bringing a little good to everyone every day. We have subsequently then dialed up 2 other very important aspects that we want our team to focus in '18, which is core values and really making sure we've all individually lived our core values, but more importantly, to the next stage in our journey is how we work together and how we work together as a team, and it's a topic of great conversation inside Woolworths.

I'm not going to go through the 5, except to say, they are important to our transformation and they've been deliberately designed to help us unlock the next level of growth. And something we are having a lot of conversations in our group on. The one I'm personally most passionate about is freedom within the framework. We will never provide truly great store service unless we actually give clarity and framework to our store managers and our store team and empower them to make immediate decisions on behalf of our customers. And so these are the kinds of things we are discussing, which we think will help us execute the next level of change.

That's it from me. As I said, we'll take questions on Endeavor and New Zealand from the floor as we go. We're not going to go through the slides for, in the interest of time. But I know you all do want to talk about BIG W. So without further ado, I'm going to get Dave to come and give you a bit of a sense on where we're at and, of course, we do expect a lot more questions on the topic of BIG W. So over to you, David.

David Walker

Thank you. So thank you, Brad. Today, clearly, I want to cover off the FY '17 results at a high level, but I suspect that you want a more focus on what we're going to do moving forward. So we're going to really focus on the plan and share with you some of the thoughts we have on why we're confident we can turn this business around. But be clear, we are realistic. We have lots to do in this business, and it is going to be a multiyear journey.

So the results clearly a very challenging year for BIG W. Very disappointing results. But ultimately, it's off the back of many years of declining transactions across the business. When we spoke to our customers, they told us very clearly that they didn't believe we were giving them the best value in the market, and our prices weren't on the money. And I believe, and all the research that we've done confirms that actually, we think that's a major driver behind the consistent decline in transactions across our business.

So sales are the main driver of the increase in losses, but GP has had an impact. And as David mentioned, we have made some price investments through the year. In the first half, that was in the form of promotional investments. But certainly, in the second half, we have invested or started to invest in a Price Drop campaign, which gives us the framework for how we start to rebuild the price credentials that we have or we're looking to get back with our customers.

We are more disciplined with our event and seasonal clearance than we've been in previous years. So clearly, BIG W is a seasonal business, an event-driven business, so Christmas, Easter, summer, making sure that we get into the right season and out of the right season is important, and that has had some impact on GP, but it certainly helped our cleanliness of our inventory position at the end of the year.

Costs, we are managing costs pretty well. They are flat if you exclude the impact of the impairment charge from the first half. But clearly, we have lots of issues and challenges in fixing core basic processes in our business. So we believe, we have to fix those and focus on fixing those core



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processes to unlock the efficiency opportunities we have in the business. And we've got to fix those in order to make sure that we can provide our customers a better experience by making it simpler for our stores to operate. But it's obvious, no surprise, we have to do a lot of work to turn this business around.

So I'm very aware that this is not the first time you'll have seen a new plan for BIG W. And we did want to talk about the process that we've been through to really kind of try and give you some comfort that this is a rigorous process that we've gone through.

So we started by listening to our customers. We spoke to over 5,000 customers through surveys, focus groups, shop-alongs. We spoke to our 19,000 team members, of which 50% of them, or just over, actually gave us some really good insight about what customers were telling them they were looking for. So we've used that to develop a pretty clear and simple customer value proposition, something I can tell you I don't think BIG W has had for a number of years now.

So when you take the customer value proposition, you combine it with the market data, you look at the changing environment in the retail environment, through, both internationally and Australia, we've now formulated a plan. The first step in that plan is making sure that we got the right team that has the capability and the experience to execute the plan. The good news is that the leadership of the BIG W is now in place, and we're feeling very comfortable with the experience that we've got, particularly around turnaround, on the leadership team. We're really focused on the next level down, making sure that the next layer, we've got the right levels of capability across the business, but we're making good progress there.

We're also now getting really great support from the rest of the Woolworths Group, both in recruiting people with experience in turnarounds but also in lots of other ways.

So the plan, we now have a plan. We are very focused on what it means for us in FY '18 because frankly, as Brad said, there's lots to do. We're focused on what we've got to do immediately and what we've really got to focus on in the next 12 months. Ultimately, what we heard from our customers and what we heard from our team is that we got to get trust back. In order to do that, we've got to listen to them and be very clear with them, and we've got to keep listening and we've got to do that for our team as well because you can imagine working in BIG W for a number of years now, it must be pretty challenging because it's been a declining business over a number of years.

So in order to do that, we're looking to orientate our business around what customers really are looking for and what -- how they want to shop. To do this, we've also got to revitalize our brand because what customers told us was that our brand is dated and dormant. So we are not speaking to them and we haven't been doing that for a number of years.

The next step then is to give customers what they want, which forms the part of really the customer value proposition. And what customers told us they wanted, they want low prices without compromising quality. In order to do that, we've taken the first step of dropping the prices on over 2,000 items in our business. We dropped them on an average by around 20%. Now dropping prices alone won't change perception, and this is the challenge. You have to have the right prices on products that matter for the customer. But you've also got to demonstrate that you've got low prices to the customer. And I think, historically, it's one of the areas BIG W's not been great at, particularly over the recent years, not only having the right prices and products that matter to customers but telling the customers about it. So both those elements are really important.

Customers also told us that they wanted better ranges. They want choice. They want to buy brilliant basics, which are quality products at a low price, but they also want the ability to trade up, trade up in terms of features, quality or brand. And that's what we are looking to do. And we are progressively doing that, I'll come back to that in the next couple of slides.

They also want an easy shopping experience. They told us that our stores were dated, a little tired. And we have just started a light refresh to a number of stores so the customer starts to notice that BIG W is beginning to change. But we've got a lot of work to do in that space. This is just the first step.

The last I want to know of it and I touched on it in a previous slide is we've got to fix the basics. We've got to fix the core processes. They are not clear. They are not stable. And frankly, until we do that, we're not going to unlock the efficiencies that we see in this business. The key ones that



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we're focusing on at the moment are stock availability, our ability to direct source product at the right price, at the right quality and our ability to fulfill online. They are the 3 areas that we're really driving hard on, but there's a number of others that we're pretty well focused on.

So as part of what we're trying to do to win back trust on customers, we want to give our customers a really cohesive offer on the way that they -- the way that they want to shop. When we listened to our customers, there were some really common themes, and you won't be surprised by them. Our customers are Australian families. There are lots of elements of the family. There's lots of members in the family. And generally, they will shop with us. But the most frequent shopper in the family is the mother. And what she told us surprisingly consistently is that when she's coming into our store, she wants to buy for her kids and her home. When she's in our store, she'll look to buy something for her pet, her partner and only at the end, if the price is right and the quality is right, will she look to treat herself if she saved money on the rest of her journey. It's a really simple story, and I'm being a little facetious with it, but sometimes simplicity is important to anchor around a theme that we're trying to create for the customer.

Customers also told us that they want to shop across category when they're shopping for their kids, their home or themselves. So what we've now done is we created 6 universes in our business. These universes are about reflecting core customer needs in the way that we organize our business and ultimately, how we organize our offer. So we operate in a \$40 billion value general merchandise market. We've used the data around the market, the growth potential that we see and the changing environment, and we are now very confident, the kids and home destinations, or universes, are our destination. They are the things that we are looking to really drive customers into our store. When they're in the store, the other universes are really important, but kids and home we see is the core of what we're trying to do. We will, in time, look to organize our stores so that they reflect to customers the way they want to shop. That's going to take time. We've got 185 stores, and it will take time to relay those stores and that's not what we're focused on right now.

We have started to flow how customers want to shop with us through how we structure our team. So we are traditionally, through our commercial team, structured around hard goods and soft goods, which reflects how we source product, either through domestic national brands or direct source. What we've moved to now is structuring our commercial team around universes. So the heads of each of those universes now look after the customer strategy around kids, around home, about every day, her, him and leisure, and what we're trying to do is embed the customer view into how we operate this business.

So customers also told us they wanted better ranges. They want choice. They don't always want cheap and cheerful. In order to give customers the right choice, you've got to give them options to trade-up. Trade-up means better quality, more features or brands. We now have a clear brand and range strategy, a brand strategy, a range architecture. That should allow us to provide consistency of offer to the customer as we progressively work through our ranges.

So what does it mean? It means that we are looking to give our customers brilliant basics. So that's quality products at consistently low prices. We want to give them the opportunity to trade-up, trade-up in terms of quality and trade up in terms of features. And we're looking for our exclusive brands to provide those choices to customers. You know customers love brands, and we want to make sure we offer those choices to customers as well, particularly around the better and best element of our ranges. So we are, as Brad talked about in Supermarkets, we are using a very similar methodology around Customer First Ranging to make sure that we progressively refine our ranges, so that they reflect what we've gone through in terms of brand and range strategy. We're still at the very early stages. And what I can tell you is that from the 3 categories we've started with, we have cut back range. We have cut back some brands. So my favorite subject at the moment is kitchen spoons. It's not going to change BIG W outcome, but it's one small step. So we used to range 14 kitchen spoons across 8 different brands in our business. Customer First Ranging has gone in. We're now looking at 8 spoons because some of them had slightly different uses against -- with 4 brands. So it's a first step, it's a small step.

So we've started. We've come a long way in building a team with the right experience and capability to start this turnaround. We have a clear and simple plan. We started to refresh our brand, and we started to talk differently to our customers in store about the value we're trying to deliver them. But we're realistic. We've got so much to do. We have a lot more to do in this business and it is going to take time. This year, FY '18, we're very focused on regaining trust of our customers, particularly on price. And we're really focused on fixing the core process in our business because until we do that, it's going to be tough to move this business forward. Thank you.



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Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Thanks, thanks, Dave. We're now going to turn the floor open for questions. We'll take questions from the room first, and then we'll take questions from the teleconference. So have we got a microphone? I think it's for you, (inaudible), do you want to just identify and stand up when you ask the question.

QUESTIONS AND ANSWERS

Shaun Robert Cousins - JP Morgan Chase & Co, Research Division - Senior Analyst

Shaun Cousins, JPMorgan. Just a question on BIG W guidance. The wording, I think, is that profit won't be any better than this year. So can you confirm the idea that you could lose \$200 million or more than what you've guided to, so probably than what you've achieved here? I'm just curious about your wording relative to then your trying to say, hey there's no improvement. Just curious about your guidance.

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

I think it's nuance, Shaun, we're not expecting any improvement in the level of loss for all the reasons we've talked about. It's very early days. We're on the journey. We've started making some investments but we don't know how long that will take. So in the short term, it's --

Shaun Robert Cousins - JP Morgan Chase & Co, Research Division - Senior Analyst

We've seen quite a few sort of examples of Woolworths trying to address the loss of BIG W in terms of, I think, over the last few years, you've had a few MDs. You've ripped up a lot of money in the back -- in the second half. I mean, why haven't you kitchen sinked, or taken enough pain in the second half of fiscal '17 to address some of these issues to move towards profitability? I'm just curious some of the issues. This isn't a -- this is a presentation, which has got a lot of detail. You know some of the cost you need to incur. I'm curious why you haven't taken more pain in the second half of '17 rather than extend it and prolong it for fiscal '18?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Good question. First, we should observe, as you would be well aware that we did take an impairment in '16 against BIG W and in '15, actually I think. So we do have a history of impairments. We're trying to get away from being in the impairment business, as you know. But also the issue we've had, quite frankly, and Dave alluded to it, was the same issue we've had in supers which is money spent without achieving an outcome in terms of enhancing the customer experience is just money wasted. And so we've had to get clarity on strategy and execution. It's been really important. So yes, sure, could we have invested more aggressively in say, '17 and taken a bigger loss in '17 to get a bit of sales ramp in '18? Maybe. But we needed to [re] the product. We needed to re the price point. We needed to get the stock flow right. So we've been just very practical about the issue and learned from experience. When you execute without the plan perfectly in place, it's just -- you don't kind of -- you don't get there. So that's been a major factor behind this more structured, can be slower but hopefully, ultimately more successful process.

Shaun Robert Cousins - JP Morgan Chase & Co, Research Division - Senior Analyst

How do you go about -- think about the speed of the Food turnarounds was one where you had traffic the whole time. The customer was choosing not to shop with you, but they're always in your store. There's a lot of consumers that don't know BIG W or won't actually go into a BIG W, so I recognize you have to schedule the turnaround, you have to get the offer right but how you actually -- how are you actually going to get customers in the door and get them to spend where you don't have that in your -- in BIG W as you did in Food?



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Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

A couple of things. Firstly, but look, BIG W is often -- BIG W is co-located with supermarkets, and the traffic to supermarkets does have some ancillary benefits that we need to work very hard in making sure that we achieve. We've done quite a good job in BWS. We now need to tune our mind to how we do that in BIG W. But secondly, we are rolling out traffic counters in how many -- we've got it 8 -- in all stores. What we've been finding is we're not suffering traffic into the store, but we're battling on conversion in store and in size of basket when they're in store. So to be honest, just getting a conversion rate marginally up and getting remotely close to what is [overseas] best practice in items in basket will give us a lot of upside.

Shaun Robert Cousins - *JP Morgan Chase & Co, Research Division - Senior Analyst*

And just on Food, could you talk a bit about the process efficiency plans that you have and how that can be reducing cost and working capital? And what we should anticipate in Food that comes through for effectively on a cost out and working cap out plan for fiscal '18, please?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

We haven't given guidance to what the percentage numbers would be, Shaun. I would say to you, it's an '18, '19 issue. And in some cases, it goes into '20. One of the initiatives we called out there, for example, is the new automated single pick [MSI] to see our new warehousing system, which we'll commission in November of next year. And so that will materially improve the whole way that we deliver product and stock it on shelf. So that kind of thing will take us 2 or 3 years. Unbelievably important benefits we'll get from executing it. So there's -- it's a kind of a multiyear journey. Our 1 plus -- or 1Store is very important to us. We are rolling it out, as you know, in the context of this year. We won't get a material benefit from it in '18 but boy, it will be fantastic for us in '19 because it changes the whole way we do cash management in the back office, the whole ticketing process. So that's an '18 one. Coming back to '18 itself, our new availability process on face value has enormous benefits to us. So we're in roll out, and we're hoping to get that share. So we're kind of balancing the 3. We don't give numbers, but they're all important, as I say. One of my frustrations in '18 is we will bear some depreciation for benefits later. So we've got to offset that in our '18 numbers. But it is a multiyear journey.

Bryan Raymond - *Citigroup Inc, Research Division - VP and Analyst*

Bryan Raymond from Citi. Just questions on gross margins. In the second half, your gross margins rose by 90 basis points. Just interested in the drivers of that. You mentioned stock loss earlier was a better than expected result. Can you weigh up how much that 90 basis points was impacted by stock loss and how much came from price investment in response to your major competitor, albeit they've slowed that profile more recently? And then, the third piece or the residual might be put down to supply support or essentially having technical trade then flow back to you. So a bit of color on the gross margin line would be really interesting.

David Paul Marr - *Woolworths Limited - CFO*

(inaudible) to add to the comment on (inaudible) if you actually try to do a waterfall reconciliation (inaudible), it is a very large waterfall with many ups and downs. But essentially at the end of the day, the headline effect is that's the stock loss number on aggregate you see. So really what you've seen is (inaudible) from stock loss in GP number. Now we worked very hard all year on, of course, on terms with our suppliers, often in the context of Customer First Ranging. As importantly, we worked as hard on own brand cost because we can control that a lot more. We can flow it through a lot more effectively. And thirdly and very importantly, we worked on trying to improve promotional effectiveness. We still are running too many promotions inside our business, and we're actually, as I may have mentioned to some of you, we're running like 3,800 promotions a week, most of them in stores, about 3,200 in-store. And we're trying to work through what are the winners and losers and how many of those that we do and we squeeze back the number of promotions by somewhere in the order of 7% to 8%. So there was a lot of overs and unders and quite a complex waterfall that went into the GP. I should also reference, of course, changes in mix in GP. So a lot of our growth in fresh is very good for our long-term business, but in short term can be GP diluted. So there's a little bit of that going on as well as, lastly I should call out the meat price pressure we had in the second half, where we had a lot of input cost increase. We chose not to pass those onto our customers given the importance of meat. So a very complex tale with lots of overs and unders, but essentially, all of the savings in own brand or in supply terms or in promotion (inaudible)



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were invested to be competitive on price and match our competitors on many cases drive further than our competitors, and the net-net impact was a lot of the stock loss.

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

I don't know David, I think that captures it exactly. Stock loss on a net basis. (inaudible)

Bryan Raymond - *Citigroup Inc, Research Division - VP and Analyst*

Okay, great. And then just on (inaudible). In FY '18, it's in the profile, I mean your CapEx, if you'd back out the percentages and the dollar figures that you presented in the slide, it implies about a 32% uplift in CapEx on the renewals and refurbishments and I'm assuming incorporates your upgrades as well. What is the profile for renewals and upgrades into '18? Are we expecting the renewals to head back above 100 at some point in the short term? Or is that too optimistic for '18?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Yes, I've actually -- it's a topic of great conversation. I feel pretty comfortable in the 70% to 80% range and quality over quantity has become a big issue to me. When you go through the practical aspects of really activating the renewal and you're ideally going to work with a landlord, you're going to get a landlord contribution, they're going to improve amenities in the carpark, travel [leaders,] signage, flow and then you're going to try and retrain the team, you're going to rearrange the store, you're going to engage the store manager on the rearranging. As we go through all of that, I'm not certain we can just in the capacity sense due more than 80 really well. And so I've firstly come to a view that says less and better -- it's a better path forward. One of the issues we have and I always just one of our renewals, I happen to like it I was in (inaudible) in Coulton. We did a great job in a mall, not (inaudible) and you look at why it's not performing, and the center is in bad condition. There's been no work done to the travelators into our store. There's (inaudible) you can't find us. So you kind of want to get the whole thing right. So less is better in a way. And by the way, now that we've done 20% in some form of touch (inaudible) you're starting to build on these things, so I think we can just be a little bit more focused.

Bryan Raymond - *Citigroup Inc, Research Division - VP and Analyst*

(inaudible) then in terms of those upgrades. If you think your 80 is kind of your capacity on the full renewal, would you see that upgrade number start to rise without (inaudible) a lot of capital?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Potentially. It's evolving as we go. I mean, it sounds like a very precise program. But actually, as we add in more things into it, we're finding interesting differences in the property yet, so I wouldn't be surprised. And this year, we said we were going to do 50 upgrades and we did 80. I wouldn't be surprised if we ended up in the same position next year. And we're leaving ourselves the discretion to do that. And so, taking a more dynamic approach.

Bryan Raymond - *Citigroup Inc, Research Division - VP and Analyst*

And one final clarification, just on that end. Just the CapEx of the sales uplift you are getting or expect on each of those 2 types of refurbishments or the renewal versus the uplift, is it \$5 million for renewal and \$1 million for an upgrade? And then is it sort of a higher sales uplift, I'd imagine on the renewal? Can you give us relativities there?



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David Paul Marr - *Woolworths Limited - CFO*

I always get nervous about how much guidance I give. I know the numbers, but I can't break them down. So the reverb -- renewal CapEx is sort of \$4 million to \$5 million. It's obviously a lot less than that for an upgrade. Materially, it is. We haven't called out that number but because it does depend on what exactly is in the upgrade. We haven't called out uplifts other than to say broadly, they're hitting our expectations at this point. Just to clarify your earlier point, whilst we may end up doing more than this number, we do have 50 upgrades, further upgrades in the plan for next year as well as the circa 80 for renewals.

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Are there any more questions from the floor before we turn to the phone? Over to you to ask for questions for anyone on the teleconference line.

Operator

The first question comes from Michael Simotas from Deutsche Bank.

Michael Simotas - *Deutsche Bank AG, Research Division - Research Analyst*

Just a question on (inaudible) the time (inaudible) I just like to get a sense of where we are in the journey in reinvesting (inaudible) FY '17 (inaudible)? Can we expect that comp growth to start to moderate?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Michael, we couldn't hear you, but I'm going to assume that you were talking about the evolution of our CODB going forward and how much more investment we think we need to put into it and how much do we think we can get by way of efficiency. The first thing I should add -- is that, right?

Michael Simotas - *Deutsche Bank AG, Research Division - Research Analyst*

Yes, it is.

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

I don't know why you're asking about it. The first thing I should point out is obviously, '16 and '17, we did make some material investments back into our business. It wasn't only in hours in-store. It was in training and getting back into what we call a team incentive, but it's a bonus for people when they perform. And so we've had a lot of investments that we've put back into the business. We will, of course, increasingly, be annualizing those. So that's to our benefits going forward. We do still see more opportunity required in training. As I said, it's one of these things, the more you dig through, the more find you need to do. But we've had a decent bonus pool for '17 and we'd be delighted to be in that same position to be frank for '18, and would require pretty good performance for the business to do that. And in general, we feel we've put the right hours back into our business now. It's actually getting them on the right time of day or day of week. So we still got a yield issue. We still don't have hours when we need them. So there are, of course, inflationary pressures in CODB. And so the first thing we need to do in '18 is work very hard to find efficiencies to offset the inflation we have. And we have -- we think a robust plan to do that. We've got to offset the CPI we've seen in wages and we also, of course, have to offset the material increases we've seen in (inaudible). And we've got an efficiency plan for '18 and we're working very hard to get that offset. So we're not giving a projection as to what our CODB will be for the year, but there are a lot of positive things in the business but there's also natural things we need to offset. As we get out of '18 into '19 and '20, we will get some more structural benefits that I alluded to in Shaun's question, whether it's in our warehousing automation or just the way we go through the technology investments we've had in the store. David, is there something you'd like to add?



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David Paul Marr - *Woolworths Limited - CFO*

No, I think that's a good summary here.

Michael Simotas - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. That's helpful. And then just a question on New Zealand. (inaudible) a comment that FY '18 will be a year of investment. Can you just talk a little bit more about what that means? And sort of note that the gross margin improved in '17. Is it about investing in price or about investing in CODB?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Firstly, I should give Dave Chambers apologies for not being here today. Unfortunately, he's had a bereavement in the family and that comes first. So he's not here to answer the question. We've actually started invested technically into New Zealand in the second half of '17, and you will see that in the result. And you'll also see it in the customer sales performance. What we believe we need to do is really get a bit -- execute it an equivalents agenda in New Zealand as we had in Australia, but we start at a much more stable business in New Zealand. So the level of investment required is far less dramatic. In truth, the New Zealand team has done a pretty good job on price in Long-Life, but there is some opportunity for us to be a bit more aggressive on our pricing in fresh, and that something we've looked at for '18. We've also looked at '18 trying to replicate some of the learnings we had on CODB, which is getting the service level right in the store and trying to make sure therefore that we get the level right level of service into the store. And then thirdly, we have a terrific opportunity in digital and loyalty in New Zealand, with Onecard is actually the leading program in New Zealand, and we are already the market leader in digital in New Zealand by nature of the fact that we compete against the Cooperative. We really do want our New Zealand team to really drive that agenda for us because we think it will be very useful for the group. So those were the areas we're planning to invest in, some price in fresh, service and a bit of training and then loyalty and online.

Michael Simotas - *Deutsche Bank AG, Research Division - Research Analyst*

And given that you have called out that requirement to investor intention to invest, should we interpret that to mean earnings from New Zealand will probably decline in '18 based on the current trends that you're seeing and allowing for that investment?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Yes.

Operator

The next question comes from David Errington from Merrill Lynch.

David Errington - *BofA Merrill Lynch, Research Division - Head of Consumer Research for Australia and Asia*

Brad, following on from the cost of doing business line of questioning, I note that when you do the sums, your sales increased by \$1.5 billion, and your cost of doing business increased by \$750 million. Now there's a lot of team incentives and stuff like that in there and I understand that, depreciation and some staff training, but there's also an inflation. But there's also -- I mean, that's a big increase so you can understand our line of query. How big an impasse is it on your cost of doing business at this point in time the sudden increase in volume growth? And how unprepared is your business to increase this volume growth? So you're wearing heavy cost impasse. And what can you do in the future to reduce that impasse so we can start seeing positive leverage from such a strong sales growth? That's my first question. And my second question is going to be on the CapEx and where it's going and the positive flow in the balance sheet. But if you can answer that first question.



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Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Yes. Thanks, David. As we said in the media call, really, F '17 was a year of 2 halves. Actually, we did start getting some positive leverage from the sales growth in the second half. You saw that in our improvement in EBIT by 13%, and that's even after the increased team incentives that we put into the second half. So we did start getting some leverage in the second half. We didn't have it in the first. As you know, one of the things we've been battling is volume growth but not sales growth. And so we've actually had a double de-leverage where we've been working harder but getting less money, given the price investments. So, that's been hidden behind the surface but we've started to get some leverage. Some of our leverage in the second half unashamedly was into team incentives. In fact, if you took that out, our underlying profit leverage was over 20% in truth. So we did see a major leverage start taking place. We're acutely aware of trying to get that going forward. Your question as to whether there's a bottleneck in our business that prevents us, the answer is no. The key to realizing it though, is much better planning and predictability in our business, and that's where Customer Led Rostering is essential to our business. We have a [miss yield] of about between 10% and 15% of ours onto their the right time. So the Customer Led Rostering is key to making sure that we get the leverage. And the second thing that's key to the leverage unashamedly is stock flow from warehouse to shelf, which our new availability process, in particular nightfall is key. If you are not efficient either given the right forecast for the store or the right team member hours at the right time of day or you don't have the right process to actually get the product onto the shelf, you can be penalized, and we were historically penalized. But we should be able to and are working very hard to address those in '18.

David Errington - BofA Merrill Lynch, Research Division - Head of Consumer Research for Australia and Asia

So where is the pickup have to be? Is it back of store to get it on shelf? Or is it in the actual warehouse to get into the back of the store? Where is this leverage going to come from? Because I've noticed a huge pickup in the service in store, so it's not a case of checkout. Is it actually getting -- is it actually back of store people packing shelves? Where is that actual improvement going to come from?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Well, David, there's 2 issues. There is a mid- to long-term issue of redesigning the whole way product flows into the store from the warehouse and having it perfectly, minimizing the number of touches you have on the product. And so whether it's using (inaudible) pallets or whatever putting pallets into some of your key categories where they apply or you've got it all family group for a particular aisle. So there's a midterm opportunity. But in the short term, it is just the way that we receive the product, the way we break it down and the way we pull the shelf. To look at your availability process in a store, to give you a sense, the store spends in the region of 1,000 hours a week flowing product into the long life categories. And so engineering that process and getting it right can unlock some amazing opportunities. In some instances, it will be a sales opportunity, where you're given the product on shelf and having used out of stock. And in some cases, you can bank material a number of hours. So the focus in '18 is on product flow from back dock to shelf. And then the midterm product focus is really the whole (inaudible) supply chain, which is sort of what we've alluded to in our strategy. But '18, there is a really exciting opportunity on that product flow. How would you be able to see it in the store? Well, firstly, you should see more shelf friendly packaging. You should see less out of stocks. But most of the magic in truth happens after you've left the shop, and we close the doors and how we manage that process then is the key to this.

Operator

The next question comes from Ben Gilbert but from UBS.

Ben Gilbert - UBS Investment Bank, Research Division - Executive Director and Analyst

Just firstly, (inaudible). Just on the (inaudible) labor efficiency pace. I know you've done a lot of work benchmarking globally. How different do you think your wage cost is as a percentage of sales in (inaudible) markets versus industry best practice?



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Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Ben, I think the wage rate differences and the complexity of the enterprise agreements we have in Australia makes percentage benchmarking unbelievably difficult to do. If you just look at ours for a moment and just kind of park that, I think -- which is quite hard to do I might add. I think, you get a different answer. Actually, controversially, I do not think, in general, we're very bad compared to a lot of our North American colleagues. But we've got quite a lot to learn from our European colleagues, and this is the single touch product flow issue, and it's one of the reasons I'm delighted that Claire has joined us and to bring some of that experience from Europe to us. I think the European retailers are far more -- have had far more structured and organized in how many times they touch a product in the product flow all the way from the warehouse through to the shelf. So we can see an opportunity there. That's the one we're trying to access, as I speak. In terms of the rest of it, look, once we've got one store in place, can we run productive front ends? Absolutely. I don't think we will be as good as anyone in the world, quite frankly. And in fact, our (inaudible) mix will be such that we may be ahead of a number of overseas retailers, but that's a conscious choice, whether we want human interaction or not. On the fresh side of the business, it is all about what you want to invest for what return you want to have. So it's not an efficiency issue. It's an investment issue. We feel that we will continue to invest in fruit & veg. We do think there's some things we can do in bakery to make it more efficient. But the bigger opportunities is this (inaudible) stock flow really, and we know, in our sense, we're not where we want to be. We also fully accept that relative to our major competitor in Australia, we're also behind them at this stage of our journey. But that's something we want to think about very carefully because we do want to provide a great store service experience. And so we've got to resist the temptation to just suck ours out in the short term and undo the difference our customers are seeing in the experience they're getting in our stores. So a very long answer to a very simple question. There's a lot of work we can do in flow and long life products from warehouse to shelf and into customer's baskets.

Ben Gilbert - UBS Investment Bank, Research Division - Executive Director and Analyst

Follow-up for me on BIG W. What's your view around how quickly -- I'm not trying to get guidance, how quickly you can sort of turn that towards -- moving towards a breakeven or profitable position? And how should we think about it looking from the outside in when you (inaudible)? Is this something we're going to need (inaudible) or shut down or it's not going to work that's eventually (inaudible)?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Well, I think you probably asked me this question at least 3 times on Supermarkets, when the turnaround was going to come, and the truth was we didn't know. It does come at some point and you have to have that as an article of faith and do the right things and eventually, there's a system effect and you do get that moment. So I can't tell you. And if I said I knew it, it would be false precision. But what I can tell you unequivocally that every rock we look over in BIG W presents opportunity. Dave, wouldn't you say in terms of just basic things we can do better. And the second thing I can tell you is interestingly enough, in BIG W even more than in Supermarkets, when you change something, the customer does notice and they do act on it. So when we drop a price, we do see a very immediate volume effect more so than we saw in Supermarkets. So customers are walking in our stores. They are noticing what we do. We can see a lot of things to improve. We should believe that they will respond to that improvement. But there's no hiding from the fact that '18 is a big year for us. We have to show that we can deliver demonstrably, if not in the financials, in the customer volumes that we sell and the way the customers feel about our business. And there'll be no hiding from that. So as with supermarket, you have to judge us from what we can deliver at the half and then at the full year.

Operator

The next question comes from Andrew McLennan from Macquarie bank.

Andrew J. McLennan - Macquarie Research - Analyst

Just another one on the cost of doing business. In the -- sorry, the Voice of the Customer surveys, one area which has improved but not as much as others is product availability. Can you just -- I've noticed that one area of difference between yourselves and your major competitor is that you've still got sort of daytime shelf packing in particularly in the morning. Do you think that's going to be a permanent part of your offering? And do you think that's playing into the relative underperformance in that product availability area?



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Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Thanks, Andrew. Our new availability process looks at the whole 24 hours of how we manage stock to shelf. So it covers everything that we do. You will still see and should see us filling stock during the day because we do have stock weight capacity issues. Some stock we have does not last for a day on shelf. And if we do need to replenish during the day, we've got some new technology we've just rolled out, which is our lost sales measure, which is a predictive tool that tells us dynamically if the stock's not there and then sends the (inaudible) alert back to our team to fill that spot. It's a really good use of smart data. So you will still see us stocking our shelves during the day. One of our cost (inaudible) we actually had in our business ironically was to take our early evening and put it into night, and pay the penalty rates. It's one of the things we decided to do. We are not going to go back into early evening fulls in big trailers, especially ones the (inaudible) because that really upset our customers. But you will still see our team filling stock during the day. Hopefully, it will be smarter (inaudible) than it has been historically, and there's a lot of things in our new process that will help us materially. In terms of Voice of the Customer, you rightly point out that we still have a huge opportunity on on-shelf availability, and that's why we focused on it quite frankly for '18. We think we can reduce cost and we can drive up availability and drive up sales and sort of the same win-win-win as stock loss. I should mention, however, in on-shelf availability, one of the things we get penalized by for customers and this is understandable is planogram changes. And often we'll change a planogram. And in doing that, we'll be out of stock at the start of the planogram and at the end. And the customer doesn't care why you're out of stock. You're out of stock. And so one of the big processes we need to be much better at is how we actually do our planogram changes, and that is, again, a big opportunity for us. So when we change the planogram, we can have a situation where 10% of (inaudible) can be unsupplied i.e., we don't have them when we do the planogram change. Therefore, you come in and see our new planogram, and it's partly empty. And understandably, customers are singularly not impressed in that. So a long answer to a simple question. A lot of work on Voice of the Customer availability. Actually, it's ticking up quite nicely, but there's a lot more we can do, which is terrific. You will still see people stocking our shelves, but it will be more targeted. In a renewal, I should add in finishing, we're much more thoughtful on capacity to sales, i.e., you want to ideally have enough stock on shelf to last a day so you only have to touch it once when everyone's gone home. So we are trying to be much more thoughtful when we do a renewal where you can have the opportunity to relay your macro and [midi] space to address the issue.

Andrew J. McLennan - Macquarie Research - Analyst

Just in relation to online, I'm just wondering if you could talk about -- you're mentioning pickup in store. I'm just wondering whether drive through is going to be a feature of your online capability over the medium term. It's had a huge positive outcome in countries like France. I'm just wondering if that is going to be part of the process. And secondly, will alcohol and BIG W be playing a role in your online growth ambitions going forward?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Thanks, Andrew. You're quite right. Actually, I haven't been there, but I'm told that the French are actually market leaders in drive through. What we really want to do is provide our customer whatever option they would -- a multitude of options how they shop us, whether it's in store, with it's pickup at store, whether it's pickup in front of store or whether it's pickup or drive-through or whether it's home delivery to a designated time or whether it's an on-demand express home delivery within an hour. So we have an aspiration to activate every one of those opportunities, and we have an aspiration to activate them for Food, in the short term for Food and Drinks, and longer term, with Food, Drinks and general merchandising. So over 3 years, you should have all of those opportunities available inside the Woolworths Group to shop us. And we think that's the key to meeting the needs of our connected customer. And we want to be able to recognize the customer for what they do and whatever other store they shopped at or whatever other form of electronic communication they had to us. If you think about

(technical difficulty)

I remember we used to have a very large parcel pickup delivery network. We're finding to our enjoyment in some days, Amanda's out there in back of malls finding old drive-throughs that we never knew existed and we're sort of dusting off the cobwebs, giving them a coat of paint, but it will be a journey.



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Operator

The next question comes from Tom Kierath from Morgan Stanley.

Thomas Kierath - Morgan Stanley, Research Division - Executive Director

First question on shrinkage. Can you just clarify that it was just 3%? I think it was in the preamble? (inaudible) Food?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Yes.

Thomas Kierath - Morgan Stanley, Research Division - Executive Director

Right. And just on that, I think, historically, (inaudible) and that was obviously before self-service checkout and fresh had grown. Is that the ambition, to get back to that [mid-2s] level when you're kind of starving, and not you guys, but the prior management was starving the business of (inaudible)?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Look, some people would controversially quote their best practices in the low 2s and not in mid-2s, but you make a very good point that you need to think about your fresh balance to get that number right because your fresh is always going to run materially higher in stock loss than your long life categories. And so we're averaging into a number where it's actually, you need to look at the component separately. But we think the mid-2s is the right aspiration for us. The key issue we have though is absolutely making sure that we don't achieve it by giving the customer a bad experience in our store. And this is this a slippery slope. It's easy to get there. We have got there. We could get there tomorrow, but it would lead to out of stocks in our fresh categories in particular, whether it's in the bakery late in the day, being able to get a fresh loaf of bread out of Woolworths or in any other fresh department you might choose. So good stock loss is our mantra, and we need to get there the right way so we don't cause a bad experience for our customer. But is the goal achievable? Absolutely. There's a lot of techniques we can use to get there, but we have to get there the right way and a sustainable way because we have been there, but we weren't there the right way and then to what outcome. The number one thing we need to do is give the customer a great experience. And the number two thing, of course, is to do it as cost-effectively as possible.

Operator

The next question comes from Grant Saligari with Crédit Suisse.

Grant Saligari - Crédit Suisse AG, Research Division - Head of the Consumer Staples, Discretionary Retail, and Agriculture and Director

Brad, fiscal '17 was obviously a very unusual year for the level of price investment by yourselves and also by Coles. Could you talk about what you'll see in terms of the right to price investment in more recent months relative to where you might expect that to be and whether you think price investment is just an ongoing sort of feature of the industry over the next 12 months?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

So Grant, sorry, the thematic for us is we've gone from crude material chunks of investment to a more thoughtful process of looking category by category and what our customers need and how do we meet the needs of all of our customers, whether it's someone who wants an aspirational product or someone who wants a value product. So the major dramatic big moves relatively sledgehammer like for us are hopefully a thing of the



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past, and we're much more into a thoughtful process of trying to understand what each customer segment wants and how we unlock and meet the needs of our value customer in that segment, the mainstream and premium. So really, it's from sledgehammer to forensic for us. But price always needs to be part of the retail narrative because it is such an important part of the household expenditure. So it will be more forensic, more thoughtful from us, but it has to be an important part of what we do going forward. What we would like to do is get into more running our own race on this. We felt again part of it sledgehammer like, we've been very reactive. We'd like to get into running a strategy that's right for our business and our brand and our customers. So it's unavoidable that price will always be part of the narrative. But as I said, it's much more thoughtful way that we would like to do it.

Grant Saligari - *Crédit Suisse AG, Research Division - Head of the Consumer Staples, Discretionary Retail, and Agriculture and Director*

And any surprises from (inaudible) Coles in recent months in terms of their fresh pricing, which (inaudible) sharp in recent months?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

No. I mean, it's a competitive market. It's great for our customers in Australia, quite frankly, and making fresh affordable I think is even better because it does create a healthier country. Have we -- some people think it's got harder when you've been where we've been, it doesn't feel any more or less hard than it's been. I would say we're not seeing -- we haven't seen anything irrational in the last couple of months. Many of you may remember the chicken wars of a year ago. Those kinds of things aren't as prevalent right now, the roast chicken wars, for those of you who weren't around. So it's much more rational, sensible and it's good for Australian consumers.

Operator

The next question comes from [Philip Winsley] from Paradise Investments.

Unidentified Analyst

I'm just wondering if I can ask a little bit more about the price investment in BIG W. Of the 2,000 SKUs that you dropped prices by 20%, what proportion is the total SKU number in store is that 2,000 SKUs? What was the time of that sort of 20% price drop? And do you think this has completely fixed the problem of price perception amongst some customer in this business?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Philip, I'm going to turn over to David to give some color to that. So over to you, David.

David Walker

Yes. So thank you, Philip. The price investment that we took was really at the start of our Price Drop campaign we started in March, and the 2,000 items effectively cover somewhere close to 130 SKUs across our business. We're not going to talk about the actual amount of the investment that we took, but what I can tell you is customers are noticing at least where we move price and we call it out. And they're seeing it and we are seeing some volume increases when we make -- when we do that effectively. So as Brad said earlier, customers are in our stores. And when we give them reasons to respond, then they respond. .

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

It goes -- if I may just finish David, and to your point earlier, one of the issues we've had out of stocks in some of these lines, and that's -- you've got to actually plan these things appropriately is we've had a very pleasing uplift. But then it causes an out of stock and then you get the opposite



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customer dissonance at the end of it of a great price and there's no product there. It's one of the reasons -- being cautious on how we do it so you don't have a secondary consequence.

Operator

The last phone question today comes from Richard Barwick from CLSA.

Richard Barwick - *CLSA Limited, Research Division - Research Analyst*

Brad, can you just -- I want to understand the sales improvement in the Aussie food markets a little more. How widespread has the sales improvement? Or perhaps better asked, how even is the growth across the store portfolio?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

Richard, I think, that's a great question actually. One of the things that really struck me 2.5 years ago when I came into Australian Food or Supermarkets was the fact that we had a sales decline virtually across the whole of our portfolio, which said to me, it came back to a broader macro customer trust issue. And there were overs and unders, of course, but it really was quite a step down across the fleet. It would be fair to say in the last 12 months and particularly in the last 6, we've seen the whole fleet improve. So it has been quite consistent across the business. Now there are some very positive patches, but each one has a story associated with it. But it has been actually across each one of our states, which is one of the things I'm proudest about for our team. Everyone has done their bit.

Richard Barwick - *CLSA Limited, Research Division - Research Analyst*

Okay. A quick one on BIG W as well. Can you just remind us what the store closure plans there? I know that you had taken provisions (inaudible) numerous places. And I guess, my question really is is the stores that you've called out as being closed or said to be closed, should that leave the BIG W business capable of returning to profit? Or should we be expecting more store closures?

Bradford Leon Banducci - *Woolworths Limited - MD, CEO & Executive Director*

David, do you want to...

David Paul Marr - *Woolworths Limited - CFO*

Richard, it's David Marr here. We closed 2 stores in the fiscal '17 year and we opened one. So we closed on a net basis only one. There are a number of stores we are looking at, but separately, there is the onerous lease provisions where we took an impairment last year. We haven't called out an overall number of this, so it's part of our review. It's part of our ongoing review of BIG W. We may end up with fewer stores, but that's not a number we've called out yet.

Operator

Thank you. At this time, there's no further questions from the phone.



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Unidentified Analyst

(inaudible) I've got 2 questions. One around your outlook for food inflation into FY '18. It did dip in the fourth quarter of '17. There's other factors such as input cost pressures, which probably does relate to the second question, what is your expectation of the impact of the electricity cost increases on your business?

Bradford Leon Banducci - Woolworths Limited - MD, CEO & Executive Director

Just in the fourth quarter, our reported deflation declined, as you point out, Craig. That really has been on the back of what we had was seasonal increase in fruit & veg inflation on the back of the cyclone, I get confused, which cyclone was it now. That's right, cyclone Debbie, which led to tomatoes, capsicums, bananas having a material price increases. It kind of in a way distorted the underlying deflation that we've seen in our business. And actually, as we've gone into the first quarter of '18, we've seen fruit & veg prices move more in line with what they were before. So this inflation has softened. In terms of what we -- if we look out over the year though, as we cycle our material investments increasingly, I think you'll see hopefully that, that reduced the material level of deflation we've had in grocery, which we've called out, which has been in the order of 4%. Now this is not a mix adjusted inflation. This is a like-for-like volume and product adjusted inflation. So we'd expect to see that reduce, Craig, but I can't tell you exactly by how much or such an uncertain -- so uncertain at this stage of the year.

Electricity, yes, a favorite topic of mine. Obviously, a material pressure on us as with everyone else. And to contextualize, there's wages, rent and then there's electricity in our business, those are our biggest cost to give everyone a sense of the magnitude and importance of the issue.

We're working very hard to offset that cost in truth in our business through a whole series of energy saving initiatives, and we've got a big LED lighting program. We're working very hard through renewals on replacement refrigeration, which is enormously beneficial. And we're also working on renewals on new technologies on air conditioning, which is -- refrigeration, air-conditioning, lighting, by the way, are the 3 biggest components of our electricity bill. So we're working very hard on it. I don't think we're going to be able to offset at all in '18. But actually, if you look forward and you believe what we're doing actually, we believe, over the midterm, we can offset it all through things like, plus a bit of solar here or there, just the whole to optimize the electricity flows and control centers to make sure we're not using electricity when we're not in-store. So I'm not positive in the midterm this will cause a bit of pressure for us in the CODB sense in '18, no question.

Thank you, everyone, for all of your questions and joining us today, and I urge you to judge our progress for yourselves. Please visit our stores and buy something while you're there. Thank you very much, everyone. Have a good day.

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