Start of Transcript

Brad Banducci: Welcome, everyone. Thank you for joining us for the announcement of our results today. I'd just like to start by introducing the team, there are a lot of new team members here that many of you may not have met. I think you all know our CFO, David Marr. But if I then just go across, Claire would you mind standing up? Our head of Woolworths Supermarkets, Claire Peters. It's actually just 12 months now I think that you've been in the business.

Sitting next to her is Amanda Bardwell, our Managing Director of WooliesX. Amanda has been with Woolworths a long time, but it is now literally a year since we created WooliesX and put together our rewards or customer loyalty and digital business to create what we think is a very important growth here for the future and I'm sure we'll get a few questions on it later.

David Walker, our head of Big W, I know [we'll get] questions on Big W. David's now been in the role for about 18 months I think, David. As we've talked about before, Big W is a challenging business and it's a long rotation business, especially in the apparel side, but now David's increasingly hopefully on top of the challenges we have in the apparel side. I'm sure hopefully we'll get a question about that later.

Steve Donohue is our newly appointed Managing Director of Endeavour Drinks. Steve actually started at Dan Murphy's at 19, so he's gone back home, I think it was 19, Steve? But obviously had been the Head of Buying for Woolworths Supermarkets prior to that, and prior to that in New Zealand.

Last but not least, on the phone is Natalie Davis, our new Managing Director of Woolworths New Zealand. The old Progressive Enterprises has gone back to being called Woolworths New Zealand, and if she has any questions she started in the role back in June.

I suppose for the sake of completeness there is another person that everyone should know, which is Colin Storrie, who's the head of our portfolio businesses and really has - talks the lead accountability on ALH, the petrol transaction, the Quantium investments and also helping David on the topic of Big W.

I'll move through the presentation in a relatively rapid fashion so we can leave a lot of time for questions either from the floor or from the phone, so let me get going, but don't hesitate to interrupt me with questions.

In terms of F18 it was we think a very good year for the Group. We made progress against our plans. The key focus for us as always is around our customers and our team and trying to build the right culture inside Woolworths of being very focused on the customer and of course if you're going to be focused on the customer in a business like us you have to be highly focused on the team, in particular the team that serve the customer, so the team that's in the stores.

We saw really good progress with our customer, Voice of the Customer scores increasing in all of our businesses, a lot more engagement on Voice of the Team and Woolworths as a place to work and a place to shop. We have 200,000 people that work for us, so if they could just advocate for us to their families, we'd be in great shape.

Then a real highlight for the year was Voice of the Supplier where the Australian supermarket business in the Advantage survey went back to being ranked number one in a number of key dimensions, including how we engage with our supply-base and work with them. So a really pleasing year on Voice of the Customer, Voice of the Team, Voice of the Supplier across all of our businesses. That to me is probably the most important highlight.

Unsurprisingly, we believe when you look after the customer or the team or work collaboratively with suppliers we had good outcome for the year and an even better EBIT outcome and then profit after tax of course being up even more through the work done on managing our debt profile.

So, strong sales result, 3.4% really on the back of Australian Food and Endeavour both being in the 4s. You saw the leverage that came through on the EBIT line, really driven primarily by Australian Food, and the second half, if you adjust for new year's, saw the same percentage growth as the first half. So it is traditionally as you know in retail a slower time of the year, people just seem to buy a little bit less going into winter so to sustain the first half growth we thought was particularly pleasing.

As I said when I introduced Amanda, we continued to invest in digital and data, it's an incredibly important part of our business not only in terms of driving sales of customer but also transforming our underlying core processes. How you measure this thing is a topic of a thesis in its own right but we are starting to make very good progress. They are referenced in the media call that on a run rate all of our digital businesses on direct digital sales are about $2 billion, we expect it to be hopefully a lot higher than that on the run rate leaving '19.

But actually, arguably it's the least interesting number in digital because we know that about 80% of our customers are influenced by digital in how they choose to shop us. We also know that rewards of data is key for us going forward.

We made good progress on WooliesX. It's only a year since we created the business, and the pleasing thing for us is one of the reasons we moved it to 406 Elizabeth Street was the war for talent. Very hard to get great data scientists and digital folks out at Norwest and we think we've created a very aspirational space and we have really made great progress in assembling what we think is a truly world class retail digital team there.

We've then taken the same thinking and replicated in June in New Zealand in a far more modest fashion. For those of you who know in New Zealand or kiwis present, it's actually above the Ponsonby store, the Countdown store in Ponsonby, so it's just upstairs which I love because I always love us to be close to a store so it's really nice that they're above it. We're replicating the same thinking in Endeavour but in a slightly different way given we've got a portfolio of brands. So, hard to believe it's a year but very good progress there.

The only thing I'd call out on loyalty for us is being Woolworths Rewards. We've now plugged it back into BWS and into Big W, and a plug back in of the newly formed program is working very well. Just of about two weeks ago we hit 11 million members in that new program. Still a long way to go to strengthen it but a real highlight for me in the year.

We've made progress in Big W but it's still a long way to go. I called out in the media call and I think I've called out in our last sales announcement that the key for us has always been turning around the negative trajectory we had in the number of customers buying products in the Big W shops. We saw really pleasing transaction in the item growth, item growths were sustainable across the year at over 4%. That led to a positive sales number for the first time since 2009.

Still a long way to go but you've got to start by shoring up the customer base and getting back into customer's shopping use, so a pleasing year in line with expectations but obviously a loss of $110 million is not the kind of numbers we aspire to deliver to our shareholders. A long way to go there and I'm sure we'll get some questions.

Then our various reincarnations of petrol, we've gone through many twists and turns and we ended up as you know just announcing at the end of the financial year the partnership

with Caltex, in the previous year it had been with BP. We had of course tried to reflect on the ACCC announcements and made sure we create a process that we could deliver on, and hence why we pivoted into the agreement with Caltex in a two-step process to really deliver against wholesale fuel prices and making them as competitive as possible and a number of other strategic benefits with Caltex.

Then we're now hard at work on the second phase which is a dual track IPO or trade sale of the Woolworths Food business. But we're very excited by the Caltex partnership and what we can do together. Whether it's providing Woolworths Rewards and extending it to a material new set of customers and giving more opportunities for our customers to earn, or what we can do in wholesaling food and building a proper supply chain for small [drop volumes into this part of the market, or what we think we can do with our new Metro format.

For those of you who live in the city you hopefully would have seen the Metro that we just opened on Pitt Street, if you haven't please go down there. It's a bit hard to find, we all know we've got to improve the signage to get you down the stairs, but it's performing very well and we're quite excited by it. It's a material step closer to where we want to be and we hope to take yet another step with the opening of Kirribilli.

Then finally, of course, David will talk further to capital management, there has been a lot of commentary, but we did have another year of good cash conversion in our group. Not quite as good as the previous year, and David will explain the reasons and hence why the final dividend of $0.50 and a special dividend of $0.10.

So we feel like we threaded the right line in the - did the right thing for our customers, the right thing for our shareholders and continue to advance our strategic agenda.

For those of you who are interested in a whole series of very simple houses, this is the Group strategy. It layers the food strategy layers up into it. What we're trying to do with the Group is build additional capabilities around our businesses, so that we can support the businesses, be as good as they possibly can. So for us the bottom of the house really in full in supply chain and IT really is about end-to-end process, it's about how we create a lean operating model and leverage digital and data to do that.

A priority for us this year is commission in the MSRDC which is an automated DC for us, which has huge productivity benefits downstream. The highlight for this year in IT was we

upgraded the wireless network in every store in the country and then we implemented at one store, which is a new POS system, a new ticketing system and a new inventory system. When I look at them simplistically as a non-IT person, the thing that we've done is transitioning to a more cloud-based IT infrastructure for our stores, and that creates enormous flexibility and benefits going forward. So we're working at the group really at the bottom on just trying to get digital and data, and using it through IT and supply chain to deliver for our teams.

Each one of the businesses of course has their own strategy in the middle of the house, and then the top of the house is how we try again as a Group work together. The culture, we're trying to have a very consistent culture in our business, but then the key thing we're trying to do in every one of our businesses, and we do the research, we know that our customers want more and more convenience. Their lives are stressful, we need to help them in every possible way and we know that they want to have frictionless experiences. So it's not only the amount of time an activity takes but making it as easy and frictionless as possible. We're working on both of those at the top and bottom of the house.

In terms of the key priorities, I've already spoken to a few, I'll just give you a bit of a sense of a few others and we'll turn to David. These are the priorities that we had agreed with the Board that flow off the house, and the ones I feel accountable together with my fellow Group exco members. On the customer Team 1st culture we do believe in purpose, we create better experiences together, and that's the Group purpose and we are looking at how we activate it through our ways of working and our core values. There's been really good progress on that, we just need to continue to embed those.

I've talked about our Voice of the Customer, Voice of the Team, Voice of the Supplier scores. We've managed to standardise all the metrics across the Group, not an insignificant achievement, and now we really do use it to reward our team and to drive decision-making, and that's the key.

The one I should talk to that it wasn't on the summary but is actually a source of some pride inside the Group is us changing the team member experience inside Woolworths, and we're trying to do that in a whole range of ways. We've got a new financial wellbeing program in partnership with Good Shepherd, where we're trying to provide our team with very easy zero interest micro-finance loans and get them out of the payday lending challenges that we found a number of them had and we were quite shocked by that.

We worked very hard on that, we have also worked very hard on the Friendly Nation initiative of actually placing the number of refugees into our business and training them and giving them careers. We've done a lot of work on Indigenous employment and are now the biggest employer of Indigenous team members in Australia. We've held an 80% retention on the 900 we've recruited in the last year and we just got gold status for the AWEI, which I can never pronounce. Paul, what does it stand for? The Australian Workplace Equality Index.

But basically, the work we're doing on LGBTI and trying to get everyone to bring their whole self to work and really trying to create a very inclusionary workplace, which is incredibly important for us. So a lot of work on customer and teams, still plenty to do. There's still so many things in our team experience that we think are sub-optimal, but a lot of exciting initiatives that we'll take into '19.

The connected, personalised and convenient shopping experiences, it can sound jargonistic but it isn't meant to be. We know that the future is very different, well, the present is actually very different to the way we've operated historically. F18 was the year of pickup for us, we decided to make sure each one of our force could provide a pickup experience. So you not only can shop the physical store but you could pickup at the store, and we activated that across every store inside Woolworths, except for our Metro stores, due to some constraints around space inside the Metro stores.

That was enabled across every store, it created a lot of growth for us, but it also creates an opportunity for the next generational growth for us, importantly if you can do pickup at a store you can do on-demand deliveries from the store, and that's the next generation of growth. That plus drive throughs and trying to let a customer get their groceries loaded into their boots. A very important achievement I think for the year, but as I say we do believe on-demand is going to be critical as we go into '19. We'll probably get an Amazon question, we think Amazon Prime now is the key vehicle, we see them being successful on the US and we simply all need to be better at on demand.

BWS is actually leading the charge for the Group on this and we have 340 stores where you can order and get your chilled wine or beer delivered to you within less than an hour, we encourage all of you to give the service [inaudible] two hours? Hopefully it's an hour, I'd encourage you to all give the service a go. We bought a small business, Jimmy Brings which actually delivers in less than 30 minutes, the reason for that was to just force our

team to confront the new world that we operate in and the need to get faster and faster and what is possible.

So I've talked about CountdownX. We had a really good year on renewals and our mindset to renewal is hopefully everyone knows is to recreate a store, not just to do a refurb. That mindset we're now trying to apply to all parts of our business, and that includes drive throughs which we've committed to trying to do 200 in F19, but also the Metro store that I alluded to down the road and other stores inside, they will roll out aside the rest of our Group.

Australia and New Zealand Food, it was a good year in Australian Food in terms of the numbers I'm sure we'll come back to F19 trading. The number one thing I wanted to call out was our Voice of the Customer on fruit and veg, it was outside of pickup our biggest improving score. We know that at the core of our business is fruit and veg, so we focus on it, we executed against it and we've still got a number of exciting initiatives there.

We continued on the renewal and upgrade program, we're starting to rebalance renewals and upgrades. Some of you may ask what the difference is. One is a full store reactivation, the other is actually a more deliberate reactivation of certain components in the store, about half the spend and materially less disruption. Just for some of our stores we won't get the ROI of a full renewal but we can do well on an upgrade.

Upgrades will become a more and more important part of our business going forward. But we did 54 last year, we'll ramp that number up this year and we'll change the shape of those as well very importantly for us. We will do macro space relays as well as a number of other things outside of just upgrading the front end which is what we used to do.

Talk to you on New Zealand Food, we deliberately as everyone knows, invested in New Zealand Food, or hopefully everyone knows in '18, you've seen in the numbers. We did dial back our EBIT, but the investments we did in fruit and veg, service and online have paid great dividends for us. Still early days, we need to deliver for the shareholders, we're aware on that.

But you'll see that through the Voice of the Customer and the strong item growth we've seen in the business end, particular in online which grew at about 37% for us. Very different compared to the market but a really important strategic learning run for us in the online space. Obviously, a lot more still to do in both of those businesses. The expression

we use inside Woolworths in these businesses is being consistently good on the fundamentals and then getting points of difference. We know that you can never walk away from the fundamentals, and those are in-stock positions on shelf, managing down stock loss in a sensible way so that you get fresher, faster product through your supply chain. Doing a great job on the front end, leveraging what once store will help for us, pick out which is a really important experience. Then just of course just getting our efficiency right instore as well.

Endeavour Drinks really was a good year but on the EBIT side we were slightly lower than our expectations had been. That is at least partly driven by the SouthTrade sale which was in previous year's number, which was $9 million. If you isolate for that you see proper growth slightly less than sales growth. But it was a challenging second half in some of our categories and we're hoping that we'll have as we reset our plan for '19 that you'll see that narrative change.

But in a good year, we'll call out My Dan Murphy's which Woolworths Rewards has 11 million members, My Dan Murphy's has 3 million, which is remarkable. It just shows the resonance inside the brand outside of [unclear] Big W.

The portfolio, we've talked to Big W, talked to Caltex, ALH was actually a very pleasing year and you will see the two announcements of the reviews that have just been done on the external review, given the [speak up] complaints as well as Responsible Gaming, Canada looking at our Responsible Gaming policies. They both reaffirmed that we've got opportunity to improve but we don't start from a bad place, so we're obviously very focused on actioning both of those.

Finally, end-to-end processes. As I say 1Store is an enormously important strategic initiative to have implemented for us. It's taken four years. At its peak we had 350 people rolling it out in '18. So the opportunity cost of our team to do this has been ginormous, and we really want to focus now on clearly getting the benefits from that. The program we're using to really draft process cost-out inside our business is simpler for stores and better for customers.

We know that the key for us is not squeezing down individual costs but improving end-to-end process. Invariably it requires investment upstream to get benefits downstream, but that process is well underway. The team are cycling through all the core processes in the

store and coming up with exciting short and long-term opportunities to improve it, which is exciting for us.

One of the key ones that we do have of course is MSRDC, again it's been a material investment over the last couple of years. It is an automated shed that will actually pick [unclear] for us and do a carton pick [unclear] so we can drive [inaudible]. We commissioned that in February of next year. There will be some challenges as we dual run Hume and MSRDC in Victoria, until we switch across fully to the MSRDC in July of the next year. But the potential for us in what this can do in simplifying our instore processes is very exciting but of course very daunting at the same time.

There are lots of other interesting initiatives we have underway. The big IT initiative for us this year is implementing JDA. And now that we've done 1Stoer, we've pivoted to JDA which will help us be a lot better at forecasting and managing our sheds. So those are the priorities. Pleasing progress against all of them. The great thing in our business is there's plenty more to be done and plenty more value to be unlocked and shared between our customers and shareholders.

Without further ado I'll turn over to David Marr, to talk about the financial highlights of the year. Over to you, David.

David Marr: Thank you, Brad; good morning, everyone. For those on the phone I'll start on slide 8 of the pack. Consistent with 2017 and the first half reporting, petrol continues to be classified as a discontinued operation and we had a very small impact from home improvement, which is also reflected in the first half as a discontinued operation.

Focusing firstly on the left-hand side, continuing operations. Sales from continuing operations were $56.7 billion, up 3.4% on the prior year, driven largely by Australian Food at 4.3% and Endeavour Drinks sales growth of 4.5%. EBIT from continuing operations of $2.55 billion was up 9.5% on the prior year, primarily due to Australian Food at 9.6%. All businesses reported an improved result, with the exception of New Zealand due to the investments that Brad had just mentioned.

NPAT from continuing operations of $1.61 billion was up 12.9% with EPS on a similar basis up 11.4%. NPAT including discontinued operations on the right-hand side, $1.7 billion was up 12.5% for the year. I'll cover dividends and return on funds employed in a moment.

Turning now to slide 9 for the EBIT breakdown. EBIT from Australian Food as I mentioned was up 9.6% to $1.76 billion, driven by a strong sales performance, higher GP in part driven by stock loss improvement and offsetting some of the continued investment we're making in areas such as digital and data, some one-off costs which we called out today and higher depreciation. Endeavour Drinks EBIT of $516 million increased 2.8% on the prior year, but as Brad rightly pointed out if you exclude the gain on sale in the prior year, EBIT increased by 4.7%. Lower underlying EBIT growth in the second half in Endeavour reflected a more competitive environment and some higher supply chain costs.

New Zealand EBIT of NZ$284 million decreased 8.2% on the prior year, driven by the investments we mentioned in fruit and veg, service in stores and online. Those investments have been recognised by our customers with our recent sales growth the strongest in a number of years.

Big W reported a loss before interest and tax of $110 million, which was within the range of the $80 million to $120 million provided at the first half results. Big W reported its first positive annual comparable sales growth since 2009 and an improvement in GP. We expect losses to reduce further in FY19; however, obviously we remain very early in the Big W turnaround.

Hotels delivered EBIT of $259 million, an increase of 11.1% on the prior year, driven by sales growth across all key parts of that business as well as some mixed improvements and good cost control. EBIT growth in the second half was more moderate as we cycled very strong earnings in the prior year. Finally, central overheads of $136 million declined on the previous year, largely driven by a $13 million gain on sale of properties. We do continue to expect central overheads of about $150 million for FY19.

In terms of discontinued operations, as I mentioned there was a very minor EBIT contribution of $1 million from home improvement in the first half. Petrol delivered $168 million, which was an increase of 7.1% on the prior year. You might note that the first half benefited from a reduction in depreciation once we reclassified the business as a discontinued operation, and on a normalised basis FY18 EBIT declined marginally.

Turning to slide 10 which is the key balance sheet metrics. Average inventory days for continuing operations reduced by 1 day to 39 days as part of our continued focus on working capital improvement across the group, which was in addition to the improvements

made in FY17. We saw average inventory day improvement in Australian Food, Endeavour Drinks and Big W, and New Zealand remained broadly flat.

The 9.5% EBIT improvement for the Group drove a 1.9% improvement in return on average funds employed for continuing operations, and that number is 24.1%. On a lease-adjusted basis ROFE for continuing operations was up 90 basis points to 14%.

Cash flow on slide 11, we're quite pleased for the cash generation through the period. Cash from operating activities before interest and tax was up of $3.8 billion and was driven by very strong EBITDA result and continued operations of 8.6% and a GROUP EBITDA including all businesses of 3.8%. Comparison of that line to the prior year is distorted by the home improvement exit in the prior year, as well as lower STI provisions, [STIP] provisions. Adjusting for these, operating cash flow increased by 3.6% which is broadly in line with the EBITDA growth.

Interest payments were lower than FY17, reflecting lower debt levels. Tax remained broadly the same due to reduction in the tax instalment rate. Our cash realisation ratio was positive at 101% with working capital benefits more than offsetting the cash utilisation of provisions. Cash used in investing activities increased by $79 million to $1.51 billion, but lower proceeds of property, plant and equipment and businesses and investments slightly offset by lower purchases of PP&E.

Cash dividends of $780 million effectively reflected the stronger earnings and therefore the final '17 and interim '18 dividends. As I said free cash generation for the full year was up $640 million, which resulted in a very strong further reduction in net debt.

Turning to CapEx on slide 12, our operating CapEx for the year was $1.69 billion, an increase of just over $100 million in the prior year and at the low end of our previous guidance of $1.7 billion to $1.8 billion. CapEx on renewals and refurbishments was roughly a third of that, you can see that in the pie chart at the bottom, as we ramped up our renewal and upgrade program across all businesses, not just in Australian food but across all businesses with other growth investments including digital also increasing. Property development CapEx was broadly in line with the prior year, however property sales were lower, reflecting our strategy to keep more properties on balance sheet.

In '19 we expect operating CapEx to remain broadly at the same level, but depreciation and amortisation will continue to increase as some of the multiyear transformational programs that Brad's mentioned, 1Store and our MSRDC start depreciating this year.

Slide 13, capital management, the Board today approved a fully franked final dividend of $0.50 per share as well as a special dividend of $0.10 per share, reflecting our improved balance sheet position and benefits from the recently announced Caltex deal. This dividend results in a 22.6% increase in the total dividend for the year and 104% payout ratio for the second half. We do continue to target a 70% payout ratio for '19, subject of course to trading conditions. However, assuming a successful sale of the petrol business and further capital management would be considered at that time.

Net repayable debt decreased by 35.5% to $1.2 billion, down the left-hand side of that slide, at the end of the period due to the strong free cash generation as I mentioned. Finally, fixed charge cover ratio continued to improve and increased to 2.6 times compared to 2.5 times on the prior year.

Finally, I wanted to touch briefly on the transition for the new accounting, lease accounting standard. We are well advanced in our preparation for the full implementation of the standard which comes into effect in FY20. Whilst it's not going to change how we run the business or in fact it has no cash flow implication, it will significantly change our financial statement disclosures which we're working through at the moment, we're trying to work through exactly how we best account for these disclosures going forward.

Assuming the standard was implemented this year, the year report of FY18, you would see $14 billion to $15 billion of lease liabilities come onto the balance sheet. There would be a corresponding right-of-use asset of in the order of $12 billion to $13 billion. This mismatch creates a deferred tax asset and the balance largely gets recognised through retained earnings. Clearly a big change and we'll continue to keep you informed on our implementation as we progress.

Thank you, now I'll just pass you back to Brad.

Brad Banducci: Thanks, David. I just have to flip through, hopefully everyone's - hopefully the slides are all pretty understandable. We come back to the outlook for F19. Slide 42, so any questions on any of the other slides we'll pick them up in the Q&A if that makes sense. As I alluded to in my introductory comments, we still see enormous opportunities

to improve our business and we're working very hard on those. In Australian Food we called out in our result that we've had a more challenging start to the year than we had expected, with sales of 1.3% in the first seven weeks.

This is due to a whole series of factors coming together, the phase-out of single use plastic bags which made quite a challenging start to July, as we saw less items in baskets, in particular in small basket shoppers as people just got used to bags or being bag free and how they then balanced up their shopping experience. We've also had the impact of competitor activity in general but then the continuity program that one of our key competitors is running, which came into action later in July. We had moved and cycling Earn and Learn program from last year which had been running at the same time, which we're not running at this point in time.

So those factors impacted us, plus also the ongoing deflation we've seen in fruit and veg and to some extent in meat, although we've seen that change as we go forward. That's caused us some short-term sales challenges of course, but when we look at our numbers and we look at our customer metrics, what we've seen is our customer metrics have all bounded back to where they were prior to the changes, particularly single use plastic bags.

Then very important our brand metrics have started to show an increasingly positive sign in terms of us building gaps against our competitors, in particular on price perception, brand preference and fruit and veg. So we look at those together with our trading plan as we go into Christmas and feel very confident that we need to focus and execute against those plans and as you know it's all about the run to Christmas in all of our businesses, but in particular Big W.

In New Zealand Food, we saw strong core sales momentum growth in '18, it's how we then translate that into improved results in '19. The team are focused on that as well as continuing the investment into CountdownX. It shouldn't be nearly as a material investment as we had in WooliesX given the team are planning and are already drawing off the capabilities being built here.

Endeavour Drinks is really about continuing to involve the experience, not only in a convenience sense but also what the team have called range curation but is given the right range in the right store. It's worked very well for us in BWS and it's a question of how we apply it more forensically to Dan Murphy's, as well as getting the service proposition right. So quite a lot of work there and of course leverage in digital and data through that.

Big W is a year of reducing the losses, but as I alluded to it's all about the run to Christmas. So it's not something that we can look at in any - it will be determined by the next couple of months, it's very hard to say much more than that.

Lastly, as David alluded to, further capital management will be dictated on where we get to on fuel, and the team are working very hard on our plans in that regard. Frighteningly, we will be back to see you on 1 November to talk about how all these numbers have gone anyway, so that's not very long away.

So without further ado I'll just turn the floor open to questions. Are we going to do the floor questions first and then the - sure. I think Brian beat you, David.

Unidentified Participant: [Inaudible - microphone inaccessible].

Brad Banducci: Okay, age over youth, David. I think you might so people can hear you online, apologies.

David Errington: (Bof A Merrill Lynch, Analyst) Visitors first anyway. Brad, I'm trying to get a read on what the 1.3% means, because clearly, it's been a big slowdown. I'm trying to work out was it because you weren't able to respond to the tactical strategies that the competitor was doing? Was it because you failed - that's probably too harsh a word, but you mis-executed on the plastic bags? What is your read on how we should read, because clearly from our perspective we're disappointed on the 1.3%. We're disappointed given all the investment that you've been making, given the momentum that you had, given the Voice of the Customer, everyone's liking what Woollies are doing. The 1.3% leaves us a little bit flat. So what's your read on that?

Brad Banducci: It is of course the key question. I mean I'll point out seven weeks doesn't make a year, as you know, David, especially a 53-week year. But a combination of factors came together I think over in July and August that have resulted in this outcome. Funnily enough, the brand and customer metrics are strong and growing, and so we really see some really exciting mid-term potential from those metrics.

But single use plastic bags, I think we're all - the impact and the time for customers to get used to it has been greater than any of us had thought. We did make a few things that we would do differently the second time around in terms of how we try to holistically solve it for our customers. But it was and has been a more painful adjustment than we thought

and out of line with what we'd seen in South Australia, Tasmania, the UK, France, South Africa, so it has been quite painful.

But we know that from our experience in our pilot stores that at eight to 10 weeks people adjust, so we're still in that early stages of the adjustment. But it was a lot harder than we thought and we were surprised in the small basket shopper to see a few of the items fall away. We thought it might happen in the big basket shopper. I know that you're nodding your head because it was a good note that you wrote, so may I say, [Grant]. But we were surprised by that short-term issue on the way through.

But we see it come back. That was of course the major issue in July. Then the continuity program, I think the fact we aren't doing one at the moment is part of our challenge, and there is one in market. It's a successful program, it is having traction, we've run many as you know in the past. The last one we ran was 13 months ago so there's been a lot of clear air between them. It was moved at the last moment so it wasn't something that was anticipated. Now it's supposed to be back in in May. We felt we had a good plan, the program has gone well, we know that these are short-term programs and we need to just keep focusing on what our plan is coming out of the program.

Were the numbers greater than we expected? Probably a little bit, but actually when we went back and looked at the history in New Zealand and South Africa with Shoprite, Checkers and New World in New Zealand, probably a little bit but not as much as first thought. So those two factors, they are what they are in the first seven weeks. The produce one is we're starting to see that turn, David, which will be very positive, I mean it's just been a painful process all the way through. It's been great for item growth, great for customer expectations, great for healthy eating, but we will hopefully see a click back into information in the short-term, and hopefully the same will be true in meat.

So we think we can see our way through that. But as I say the metrics look good, seven weeks doesn't make a year. It's all about how we now rotate out of that and build into Christmas, we feel pretty confident to where we're at.

David Errington: (Bof A Merrill Lynch, Analyst) I mean it's no secret they're coming to list in November, so it should be no surprise to you that they're pumping to get a bit of momentum, I mean that's no surprise, that's not a secret. What have you got planned then coming into Christmas? Are you going to do anything different than what you did last year? Or have you got a few things up your sleeve? I'm not expecting you to share, but

what's disappointed us in the market I suppose is that we've seen Woollies probably a little asleep at the wheel in the last two months. That's the general feedback that while Coles have hit the market pretty hard, you guys really haven't done much. Is this just a period of time that you're just consolidating and you're going to come hard at Christmas?

Is it a period there that it's just a quiet time in your promotional program? What is it? Because at the moment the feedback that everyone's getting is Woollies aren't really - they're not that noisy at the moment, they're quiet. So what is going on at the moment?

Brad Banducci: Look, watch this space. It is obviously in the middle of winter and the trading period of winter, it is all about the run to Christmas. Clearly, we believe we have a strong trading plan and 1 November we'll be able to talk about how it's gone. So rest assured we are very focused and clear in the team, and all of us are very focused...

David Errington: (Bof A Merrill Lynch, Analyst) So you're not that worried? You just [unclear] the short-term [bit]?

Brad Banducci: I worry about every day, David, just so you know. When I get up at 5:30 and look at the numbers and worry, I've got plenty more grey hair since I took this job. I do worry about every day, but what I do know is short-term reactions don't succeed. Good planning, good execution with the right long-term plan is the key, and that's what we're focused on.

David Errington: (Bof A Merrill Lynch, Analyst) And you're comfortable with all that?

Brad Banducci: Now we also need to learn from mistakes we've made. We've talked a lot about things we may have done differently with plastic bags, and I think there are - we wouldn't have changed our decision but we would have changed the way we executed against it. We also have to learn from what we're doing and we're having a lot of dialogue about that, but we feel that if we execute and we're focused and calm about execution, that it'll resonate with our customers and we'll get the right results.

Brian Raymond: (Citi, Analyst) Brian from Citi. My first one's a follow on actually on the trading update. Just wanting to put a few numbers around it, so you had about 180 basis point slowdown from the fourth quarter '18 to the first quarter '19, from the 3.1% to 1.3%. Just trying to work out how much is in each of those buckets, as broadly as we can. Now deflation is probably a bit more quantifiable I'd imagine than Little Shop and plastic bags, but perhaps through the lens of transaction numbers and item growth, you've called

out some broader trends. But that 180 basis points, is that more in the items per basket area than...

Brad Banducci: In such a short timeframe as you can imagine, not to be disingenuous, it's actually quite hard to unpick it because of the timeframe. Plastic bags really was an item per basket issue, once you isolated for what both major players did, it really was a few less items in the basket, you don't need many to impact the basket. Then the continuity program was really a transaction issue with some of the transactions. Particular for grandparents buying plastic toys for their kids went to the competitors, so that was the broad macro trend between the two.

Because they happened at the same time it's very hard to in truth unpick it, but they both contributed to where we were. It wasn't immaterial though the deflation issues and a little bit of infant formula as we came back into supply and we've just adjusted the can limit. So, I wouldn't overplay those but they were the other factor there.

Brian Raymond: (Citi, Analyst) Okay, so my other question then is around the margin composition in food in the second half versus my numbers anyway, we're continually surprised that gross margin is stronger than we think and then cost through in business is also higher on a per square metre basis, all relevant to sales irrespective. Can you talk a little bit about first of all the stock loss profile? You've given us some numbers in the past of what the benefit was to gross margin from that, and then maybe we'll come unto [unclear].

Brad Banducci: Yes, can I just say by the way you need to look at department gain and not CODB separate to GP, because they are highly related and I'll come back and talk about that, I think it's one of the simplistic ways that we look at running the business. I'll come back to talk about that, but stock loss we made progress as we talked about, so we had on average in F17 run at about 3.1% over the year. You run the highest profit loss in the second half to the first because of the different sales velocities and seasonal variations in fruit and veg. We went from about 3.1% or somewhere thereabouts to about 2.8%, so you saw that benefit come through, which is what we called out in the GP.

The other thing that worked up for us in the GP by the way was we saw quite strong growth in perishables or chilled products, which is a slightly higher GP product, it also has some additional cost to merchandise it and additional costs to deliver it. So you see a little bit of it come through as a mix into those numbers, there are a few other factors that went

the other way but it was one of the highlights for us of quite a strong part of our performance, and very deliberately given we see it as part of fresh in our business.

Brian Raymond: (Citi, Analyst) Then just on the cost of doing business side, so on a per square metre basis probably the simplest way to think about it, you're still growing around that 4.5% mark in the second half, which was consistent with the first half. I'd just like to understand it because when we were sitting here in the first half, we're talking about some investments you made in second half '16, first half '17 which you were annualising through service and labour hours et cetera, totally understandable. The question is that was supposed to annualise through and cycle out. Clearly you found either more things to invest in or you put more hours in. Can you just talk about that second half '18 profile of cost doing business and what might have lifted that above what's an organic run rate of 3%-ish per cent, 2%.

Brad Banducci: Yes, so there were a couple of factors there and we called a few out in the PA itself. David, unless you want to just go breakdown into the individual activities which you've got sitting ready there to answer that question?

David Marr: Given the growth is the same in both halves broadly year on year, it's probably just a - we'll focus on the full year actually. So, the full year CODB growth in terms of dollars was up about 6%. About half of that is underlying inflation in new store growth which is volume less than productivity. So that sort of explains almost exactly half. The other half we've tried to lay out for you in the pack and there's sort of three broad areas.

The first one was areas of strategic investment or the costs associated with some calls we've made, whether that's some one-off costs as you will have seen. It was about $35 million in there. It's $55 million of high depreciation and then there's about $40 million across WooliesX, some customer first ranging, et cetera. It's all sitting on that page in the Australian Food. That's the first bucket.

The second bucket is what we call customer impacts which effectively shift the shift of wages out of the week into weekend to meet the trade requirement. All of which, by the way, we've tried to put some measures against or proof points against in terms of voice of customer improvements or availability improvements et cetera. So that's a big one as well as growth of online, online being a very material one whether it's pick up or home delivery

and fresh produce units growing faster than sales, so having to move - obviously our wages are based on units moved rather than dollars. That's the second bucket.

The third bucket was really around what we call structural and that's effectively electricity increases you will have seen. You know, we're not the only ones in that, as well as just the change in mix of customers tender type. They're no longer taking cash out where we used to get a rebate for that and they're using cards more than cash, as you know, and therefore we pay merchant services fees on those. But some of those - the structure will remain, online growth will remain, depreciation will increase but some of those will fall away, like the one-off costs.

Brian Raymond: (Citi, Analyst) [Inaudible - microphone inaccessible] change as well you guys this year which had an impact on your staffing costs levels. Or when did that kick in properly?

Brad Banducci: Well, we're in negotiations right now and so we quite sort of talk to what are pretty confidential negotiations. So that process is well progressed and we'll hopefully in the next month or two will be able to give an announcement on that. So that process is underway. But the cost structure does reflect obviously a sensible view of what those costs are, given we are in the process.

Brian Raymond: (Citi, Analyst) Final one for me just on this [unclear] point is that the return of funds employed lease-adjusted at 14%. How do you think about the return on investment you're getting out of some of these? Obviously, electricity et cetera doesn't have a return on it but some of these investments you've made, do you feel it's roughly accretive on the basis of the way you think about your investment profile? Do you think it's getting you the return you're after?

Brad Banducci: Yes, absolutely. I mean, I think you've got to split up the SRB from the growth investment. I mean, that's the key of it and there's no question we've been in the catch up on SRB. Whether it's a [unclear] if it doesn't work in a store which was a big investment. It does work now or the refrigeration and the contingent liability we've had there. So, if you split those up, there's no question on the growth investment we're getting the right return.

Brian Raymond: (Citi, Analyst) Thanks.

Michael Simotas: (Deutsche Bank) It's Michael Simotas from Deutsche Bank. Could we follow on from that investment point please? In the outlook slide you've got up there, there's investment mentioned a couple of times. Interestingly, it's not in Australian Foods. So firstly, does that mean you're coming towards the end of your investment cycle in Australian Food? I was just hoping you could put a little bit more context around the investments that you've got planned in New Zealand, ie does that mean earnings go backwards again and then in liquor as well?

Brad Banducci: Yes, thanks, Michael. I mean, in Australian Food, we really, the narrative is if we haven't, we will have annualised investments we made to get to the right shape of our business. So, you know, we [felt we're really in a] catch up pace and digital and data we've invested but we're increasingly annualising those and there's only so much capacity you can have to invest and that's been the story in Australian Food. It's been about annualising what we've done.

Michael Simotas: (Deutsche Bank, Analyst) Just to be clear...

Brad Banducci: So, if I then come back - sorry, after you.

Michael Simotas: (Deutsche Bank, Analyst) Just to be clear on that, so that means we should start to think about cost growth on an inflation type basis, less than productivity plus these structural impacts that you've called out.

Brad Banducci: As we go forward, absolutely. You know, how it winds its way through will of course be dictated by the sales profile of the year but increasingly, that's where our focus is. The big hurdle we've got this year though is in the second half, the commissioning of the MSRDC which should have enormous benefits in F20 but will be commissioned in February. But outside of that, that is certainly the focus.

On New Zealand, we made a number of investments last year. We do not expect to see the EBIT go back. Whether it goes forward is, of course, the team are working very hard to start realising some of the benefits of the additional growth. But we have factored in some investment into digital given the cooperative nature of our key competitor. There's a very important strategic opportunity there for us that we need to take advantage of. The same narrative really inside Endeavour Drinks and making sure that we position the business effectively for the md-term digital and data but in both of those, we certainly don't expect to see it go backwards.

Michael Simotas: (Deutsche Bank, Analyst) Okay. Then just a second question from me just to round out the plastic bag issue. Can you just qualitatively give us some commentary on the additional cost associated with the disruption [unclear].

Brad Banducci: Yes, I'd like to see our competitors' version of numbers when they think it's marginally [unclear].

Michael Simotas: (Deutsche Bank, Analyst) Zero impact.

Brad Banducci: Yes. I'll get my calculator out. Look, it was never going to be a profit driver in truth, even in a theoretical sense, setting 2007 reports that were done a decade ago. It was always going to be based on faith in our bags to make Australia a better place and some slow down at the checkouts meaning that any incremental dollar you had through not giving away a free bag would be more than used by the erosion of checkout speeds.

So, on the $0.15 bag and then on the $1 bag we declared that we would be giving away the profits, which we are, to charity. So, there's never really going to be a productivity boom but it was an important factor we thought in brand positioning and doing the right thing in the context of Australia and pending government legislation in, as you know, in WA Queensland and inside Victoria. So, it is certainly not a profit generator. It's proved to be more challenging than we thought, so therefore it has caused more cost than had been thought in particular in the short term on the checkout and we've had to invest very deliberately back into putting the right hours in the store so that we get those checkout Voice of the Customers experiences right.

Michael Simotas: (Deutsche Bank, Analyst) And long term, is there a material change in the number of items that a checkout person can process?

Brad Banducci: We don’t - with our new - we think with our new 1Store system which does increase the scanning speed and make it much simpler for our checkout operators, plus the way we are now changing our flow on the checkout, we don’t think so. That's not our experience in South Australia. So, when we sort of modelled the whole thing, we looked at it say in particular the [unclear] metric on this one. But it does - when you got - we've got 120,000 people who work inside Woolworths supermarkets, it does take a lot for everyone to get into the new rhythm, absolutely.

Michael Simotas: (Deutsche Bank, Analyst) Thank you.

Shaun Cousins: (JP Morgan, Analyst) Just a question regarding maybe just further on CODB. I'm just curious about your confidence that maybe you might have misinterpreted the answer to Mike's question. But do you think you can get sort of CODB to grow at a slower rate even though you've got - you need 3% comps say to fractionalise fixed costs and you're running well below that now and your MSRDC cost is going to be a reasonable sort of impost and it looks as though the only cost that drops out from fiscal 18 is the $35 million, whereas what we've really seen so far in fiscal 18 has just been a step up. You're not paying your WooliesX people less. You're just hopefully getting some sales benefit out of them. I'm just curious about - maybe just to be clear there, do you think CODB to sales will actually be flat this year or will it - sorry.

Brad Banducci: Shaun, we're not in the process of giving a forecast on it. The point I tried to make was we are annualising a lot of the investments we've done so there's not a lot of incremental investment coming through. So, it's an annualisation story for us in Australian Food. To what extent that leads to an improving CODB will be dictated by the sales profile of the year plus how we manage the MRSDC transition in the second half. So, we're not in the process of giving a forecast. Our aspiration of course is to get the CODB to be growing lower than the sales number. But those are the key factors that we're working through this year.

Shaun Cousins: (JP Morgan, Analyst) Okay, that's helpful.

David Marr: If I can just add, just recognising though, depreciation will increase as I mentioned earlier. So, depreciation will increase and the growth in online will obviously increase as well. So, they're the two sort of going the other way.

Shaun Cousins: (JP Morgan, Analyst) Maybe then I guess philosophically the aim here for Woolworths is to try and invest with a view that you get the win in sales growth and comp growth and get op leverage is really the way you win it rather than actually hey, we get to a phase where we can actually get dollar CODB to grow at a lower rate.

Brad Banducci: I mean, the name of the game is to drive profit growth and cash conversion and how we do that is while we're trying to balance between making sure we don't underinvest in what's happening in digital at the same time as we drive true efficiency in our store without compromising the customer experience. So, we're balancing those factors. I don't see CODB as unrelated to GP. They both end up in the same place and that's what we need to be judged on, no question.

Shaun Cousins: (JP Morgan, Analust) Fair point. Maybe just in terms of Big W, particularly given the strong comps you did in the fourth quarter, were they just more expensive to get which meant that your profit or [unclear] the EBIT loss was a little bit towards the higher end of your $80 million to $120 million. I'm just curious about how you think about the trajectory to breakeven. Is that possible and kind of what needs to happen for that to occur?

Brad Banducci: I think that's a great question. I'll have a bit of a go at it and then I'll ask Dave to make some qualitative comments. Q4 was quite strange because we had the end of summer followed by the snap winter so there was a kind of almost like a quarter of two halves. There wasn't winter and then all of a sudden there was. So, it was quite a confusing quarter I think to actually - to look through on the apparel side, in particular. But Dave, I don't know if you want to give any other colour to Q4.

David Marr: I think that the key third is - the challenge was the late winter which was widely reported. The challenge for the late winter is you don't typically [unclear]...

Brad Banducci: Dave, you just need to start again.

David Marr: Okay, sorry. Brad's right. The key challenge for us was obviously the late start to winter and typically when winter starts late, you don't make up the sales. We're fortunate that we tailored our buy for winter so we ended up finishing our year with a lower inventory position, particularly in winter. So, we're in a good position now.

The other challenge that we had obviously was Easter and the school holiday transition that we talked about in Q3 which really, Easter - we're still quite a heavy event driven business and when the key events are challenged because of the school holiday Easter, then that obviously then flows through.

But certainly, I mean, the other element in Q4 that worked strongly for us is our toy sale. So, we finished with our annual toy sale and that really - that lifted in the last week or so, or the last few days and then bled on into July. So, we finished the year, the last few days of it, pretty strongly with a key toy sale event and we saw that leading into July for that period.

Shaun Cousins: (JP Morgan, Analyst) Great, and the outlook and breakeven [unclear].

Brad Banducci: Well, in truth, it's not to be disingenuous but it is so leveraged Big W to Q2 that anything we gave would just be, honestly, we don't want to give guidance anyway as

you know but, on this area, I think we would be - it's hard to tell. But we have got a decent start to the year as Dave alluded to. We did have a good toy sale half in F18, half in F19, better than we had expected given the issues with the liquidation of stock inside Toys"R"Us. So, we'll see how we go.

Shaun Cousins: (JP Morgan, Analyst) Just finally, how do you think about hotels just given maybe either for you Brad or for Colin at the portfolio business, do you think Big W's loss making so can't really be moved on and petrol you've been quite upfront about considering new ownership options. How does the Company think about hotels? Are you watching the Coles potential divestment in Queensland as an angle there given that it seems like the reputation impact is arguably intensifying rather than deteriorating? I'm just curious about what the plans are for the hotels division as a portfolio business.

Brad Banducci: I'll throw it to Colin in a moment. Look, it had a good F18. As I say, there was some good work done in responsible gaming which we still need to implement. When we look at the reputational issue, Shaun, in truth it is in very small pockets. Having someone like us as a very responsible player we think it can work and does work but we just need to make sure we have the right [bar] associated with that. It will be interesting to see what happens on the other side. I mean, it all comes down to legislation in Queensland but I don't know. Colin, is there anything else you would want to add?

Colin Storrie: Not really, Brad. I think you've covered most of it. We do think it's going to be quite difficult for that structure to get through the regulator.

Shaun Cousins: (JP Morgan, Analyst) Great, thanks.

Richard Barwick: (CLSA, Analyst) Thanks, Brad. Richard Barwick, CLSA. Can I just ask going back to the first quarter the start, the description you've given the Voice of Customer numbers sound super strong and heading in the right direction, and yet obviously the like-for-like step down you've talked of some of the reasons. But obviously in talking to your customers, do you get a sense that part of the strong promotion from Coles will lead to a fleeting boost to them and they're shopping at Coles because they wanted to before they got their 30 little goods and then they're back to you after that?

Brad Banducci: It will all depend on how well we execute against our store experience which is in truth, so that's what our focus is on, making sure we've got a great experience. So, when they come back into store, they realise why they normally shop at Woolworths.

So, to us it's as straightforward as that. We've run these programs before so we have some experience with them but that's our focus.

Richard Barwick: (CLSA, Analyst) I was just wondering more if it's a case of people saying, we actually like what you're doing but we're shopping at Coles just for the month of July or August, sorry.

Brad Banducci: I don't know if people quite say it like that. I did intercept a lot of customers outside of Coles stores with a green bag and asked them the question, as you might imagine. Thank goodness no one arrested me. But we know that our customers like us and we know if we [unclear] experience all things being equal, they will shop us and that's what we need to focus on. Who knows on some customers whether they like that experience, on the other hand there probably are some people who might have felt polarised by it so that will be the question which only time can tell.

Richard Barwick: (CLSA, Analyst) Okay, and maybe one to David. One of the comments you made was about the less property sales as part of the strategy to actually hold more property on balance sheet. Is that, are we talking selective properties in FY18? Is this part of a new strategy that you'll be keeping more going forward? What should we think about property sales because that's a reasonable delta when we're thinking about net CapEx?

David Marr: Yes, it is, yes. Look, we would - we normally focus on operating CapEx anyway. It's the underlying CapEx invested in the Group. Sales of property and/or development of property tends to be very lumpy as you know. We never quite get it right even when we do forecast for it just because things can happen.

More broadly though, we're a very lease intensive organisation as you know and more recently we've just said we want to diversify away a little bit from that. It will take some years but we've tiered our assets into tier 1, 2 and 3. Clearly, tier 1 assets where we feel they're in key markets and we feel have a greater value we would like to hold rather than develop and sell. So, it will be a migration over time rather than an enormous change overnight.

Richard Barwick: (CLSA, Analyst) Okay, thank you. Just, I guess, partially following on from that, depreciation obviously picked up this year just reported. How shall we think about the depreciation leading into 2019?

David Marr: Yes, well, I've certainly indicated it will continue to grow. One of the challenges we've had, as you know, is we've increased our CapEx spend quite materially the last two or three years. We said we needed to catch up, particularly on IT foundational spend and getting to a run rate of renewals. We're now at that level and in addition to that, we've had two big programs that have taken several years, the 1Store program and the MSRDC, both of which will be complete, largely complete already on 1Store, MSRDC. Both of those come out of assets under construction and start being depreciated. So, depreciation will rise across the group. It will be slightly into the double digits we would think but we haven't called it out by business but overall.

Richard Barwick: (CLSA, Analyst) In absolute.

David Marr: In absolute terms just slightly double digits.

Scott Ryall: (Rimor Equity Research, Analyst) Thanks very much. Scott Ryall from Rimor Equity Research. I was, Brad, intrigued with your microloans to employees. Really quick question on that. How do you communicate that with 100,000-something staff?

Brad Banducci: Not very easily. But it's in all the team rooms. It's a big narrative in the store. My lens through the business which is when you look at Australia, we are a microcosm of Australia with the number of people who work with us with all the challenges that the Aboriginal Australians face, that's our team members. So, we found a number of team members couldn't get a credit rating to get a Woolworths credit card which is how the journey started for us and we were deeply shocked by this. Then we had a look at it and found out what the key issue was and were lucky enough to engage with Good Shepherd to provide the microloans and process them for us. We take on the - it's a zero interest loan.

So, that's how we started on the journey. It has been communicated. We're starting to get quite a lot of uptake on it. It does - it's quite a painful experience to realise just how challenged some of our team members are and how prevalent payday lending is. But we're the biggest microfinance I think corporate facility in Australia now and we're focusing on not promoting it to the wrong team members but to those who need it. It's actually not something we talk a lot about but it's a good story for the kinds of things we want to do for our team.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, thank you. Can you comment on where you think - obviously some of the deflation items have been a bit all over the place in the last little while? Just looking forward three to five years, do you see a deflationary environment in general in Australian supermarket retail?

Brad Banducci: Boy, that's a big question. I don't think I can predict the future, to be honest with you. We've got enormous cost pressures building on fresh supply costs as you would know. We have seen some inflation come through on butter and cream and certain portions of it. So, on the fresh side, there is inflation building. I think the drought will unfortunately cause yet more inflation in that part of the business. If I look at long last groceries, it's probably not quite as acute the natural inflationary pressure there but there is pressure there, clearly. So, I'd hate to give a forecast on this one because I simply don't know. We aren't...

Scott Ryall: (Rimor Equity Research, Analyst) So you don't think competition dictates that? You're actually thinking more the input costs?

Brad Banducci: No, I think it's a combination of the two. It's the underlying characteristic of what's going on and we certainly aren't against inflation. We've got to be very careful that our products are affordable for our customers in truth and doing the right thing for them, but it's not a philosophical issue we're against it.

Scott Ryall: (Rimor Equity Research, Analyst) Maybe if I can just ask a question of either Amanda or Claire. I don't mind who answers it but how often do you guys sit down together please?

Brad Banducci: I'm glad you're both sat together today. [Unclear] give different answers.

Amanda Bardwell: Well, we [inaudible - microphone inaccessible]. Okay. We sit down very regularly, don't we, Claire? Not just today. We're frequent text communicators more than anything but no, we spend a lot of time together and we, I think, both understand that for our digital and our store teams to work well together, produces a better outcome for our customers and so our teams also spend a lot of time together as well.

Scott Ryall: (Rimor Equity Research, Analyst) Okay. So, can I just get a bit more clarity on that? Text messages aside, maybe I'm from the generation that doesn't see those as effective forms of communication, but how often do you guys actually talk or sit down together? If you can quantify that please? Once a week? Twice a week?

Amanda Bardwell: Oh, multiple times a week and multiple times we'd be in the same meetings together as would our teams be as well.

Claire Peters: I think my add-on to that would be, Amanda and I have got specific teams who report both into Amanda and myself. So, at every state level, there'd be teams who are dedicating on online and pick up and they would report into the supermarket teams as well. So, daily review on whether that's efficiencies, whether that's customer data from all the online channels which then Amanda and I would review weekly and monthly. On specific issues like bags, it would be hourly.

Scott Ryall: (Rimor Equity Research, Analyst) Okay, thank you. That's all I have.

Brad Banducci: We have our five-hour meeting on Thursday I should lobby for. But in all seriousness, the Australian Food with the way we do it, we've got the food co team focusing on quality own brand, the digital team on trying to get that digital experience right and then really it all comes together with Woolworths supermarkets and how we then interact the own brand into the strategy for Woolworths supermarkets or the digital experience. That's something we all collectively work on and it's a big issue. When we talk about ways of working, it's not meant to be a soft word. It's meant to address that very specific issue which is how do we work together. But also have enough focus on the key issues that matter instead of trying to be good at everything which none of us can be. So, it's the ongoing challenge.

Johannes Faul: (Morningstar, Analyst) Brad, Johannes Faul from Morningstar. I have a question on the private label strategy within in Australian Food. Do you have a long-term target you're heading towards and where do you currently sit in terms of…

Brad Banducci: No, yes, it's always an interesting issue: do you have set targets for own brand penetration is an issue that's been around for a very long time. Everyone has a different view. Our view is that we don't because we want to do the right thing for the customer and so each brand needs to rise and fall on its resonance with the customer, whether its ours or a third-party brand. So, we take quite a hard line on it and we think that that's appropriate given what we want a cheap range and we do want a leading range in Australia. That's not through having the biggest range necessarily but by having the right range in every store.

When you look at it, we want to solve for that store, so what we might want to do in Woolworths Double Bay could be very different to what we want to do in [unclear] or whatever the case would be and we might have a higher own brand penetration in the second versus the first. So, we resisted the temptation to put in targets because that can just lead to very short-term decision-making. It makes it a bit harder, I might add but we think that's right for our customers.

Johannes Faul: (Morningstar, Analyst) Yes, that makes perfect sense. Whereabouts do you sit now?

Brad Banducci: Look, I think do we break it out? I'm not certain that we...

David Marr: We're still less than 20%.

Brad Banducci: Still less than 20. We don't break it out. It is actually going well and that's because the brands are actually better than they were. We've just reformulated 5,000 SKUs and really with a focus on Select becoming Woolworths what was - editing the number of essential products we have, so that's there as well as growing our macro range and some of our category brands in non-food. So, it is going well. 5,000 SKUs for when you really convert a product, it's way less than 20.

One of the dangers when everyone quotes own brand is if you just include lettuces or fresh food that haven't been converted, you can get to very large numbers but it's not truly own brand. So, for our conversion numbers it's 16%, 17%. But the range is 16% smaller and has 5% more volume growth than it did two years ago which was key to us. We needed less SKUs that had more customer resonance at higher volumes so we could get better costs and that's happened. Now are all much healthier and with [5-star] ratings where possible we've taken out every - we don't have any artificial colourings or flavourings in it and so we're feeling it's becoming more what we would like it to be.

Johannes Faul: (Morningstar, Analyst) Thanks. Just a quick one on shrinkage if I may. You're currently sitting around 2.8% and you've done obviously great in bringing that down the last two years. Do you see this as a sustainable level or can you push that down further do you think?

Brad Banducci: Well, it's - there are material opportunities to improve it. We've got to be very careful on how we do it from here on in. I think we both agree because of the risk of doing it, you want good stock loss, not bad, where you don't supply a product or you sell a

product that's not as fresh as you might like. We need to be quite careful how but we still see a lot of opportunities. I don't know, Claire, if you'd like to...

Claire Peters: Yes, the only piece that I'd add on is similar to what Brad's describing consistently good. So, you know, when across 1,000 stores you can definitely see some stores where there's still further opportunity which we'd put through what we would call an accelerated program. We also know we've probably got 50 stores where we'll need to put some added infrastructure support into those stores and we also know as we transition through to our different partnership with Hilton in meat, that there will be opportunity in the future there as well that won't be as significant as what we've seen in past two years.

Johannes Faul: (Morningstar, Analyst) Right, thank you.

Brad Banducci: I know we [unclear] questions by phone. Is that right? Anyone do [unclear], is someone going to read them out?

Operator: Thank you. The first phone question comes from Rob Freeman from Macquarie Group. Please go ahead.

Rob Freeman: (Macquarie, Analyst) Good morning, guys. Just on the CODB commentary, so just to be clear. In your mind, the only item that is genuinely one-off is the $35 million which is around 10 basis points of sales.

David Marr: Hi Rob, it's David here. No, no, there are a few things it's probably worth just pointing this out. So, the shift in the weekend hours effectively we've now normalised in the base. The things that will remain higher will be continued growth in online and pick up, so there's a run rate here that just by virtue of our plans and the customer need that will continue to grow. The structural impacts just by their definition will continue to grow, which we called out for you, and effectively higher depreciation which hopefully I've covered today. The one-off costs are now effectively in the base and the shift of hours into the weekend is largely in the base and the WooliesX invest is largely annualised, as Brad mentioned.

Rob Freeman: (Macquarie, Analyst) But those weekend hours are obviously not coming back so it won't be a source of profit next year, neither will the credit card fees. So just to the high level, you're calling out New Zealand to be flat and hopefully Big W is slightly less loss making. There'll be a bit of profit from Drinks in terms of growth but with 1% comps

and the kind of investment phase still increasing. How should we think about your ability to grow next year?

Brad Banducci: I don't think we said that New Zealand was going to be flat, just for the record. I think we said that we expect the momentum we had in 2018 to continue in 2019 and we expect to get some return out of it even though we continue to invest in Countdown X. So, I don't think we said that. Also, I don't think we said that we expect to have 1% sales comp for 2019. We said we are having a challenging start to the year but we feel we have a good plan as we go into the critical second quarter. We certainly hope for more than just a little bit of improvement in Big W. So, we're not giving an outlook here but I don't think that's what we've said. So, apologies for that. David, did you want to add anything?

David Marr: No, I think that's right.

Operator: Thank you. The next phone question comes from Ben Gilbert from UBS. Please go ahead.

Ben Gilbert: (UBS, Analyst) Morning, all. Just one from me just around I suppose the ability to get the customers back in store sort of post [obviously] Coles Little Shop. It's interesting. Obviously, your Voice of Customer scores are looking quite strong but I think if that's obviously an absolute [unclear] score and if we look at some of the shopper metrics as well with Coles looks like they're improving. It's similar from [unclear] and some other sort of studies out there.

I suppose on that basis I'm just wondering how you think about whether you're actually getting appropriate return on the investment that you're putting into the business at the moment because you've got more staff per store and in theory you've got better capabilities with respect to data et cetera, et cetera. But Coles have seemed to rip a lot customers away very quickly and reasonably easily over the last six to eight weeks. I suppose what's your level of confidence in getting those back.

David Marr: Yes, thanks. Ben, I think it's a great question. I distinguish between Voice of the Customer and brand NPS which are quite different. Voice of the Customer is people who have shopped with us, what do they think, how do they feel. They're our core customer. Brand is actually asking everyone in the market what they think and it's only in the last month we lead on price perception, we lead on brand preference and we lead on

fruit and veg and that's been building over about four months. The other two have flicked across in the last six to eight weeks.

So, we see increasing points of difference for us at a brand level with our competitors which is very pleasing. That's not to say we're not worried about how we get our customers back into our store at the end of this continuity program and make sure they get a great experience. But it is the first time since 2013 that we've seen those metrics - certainly, my first time that we actually have some stability and differentiation in those core metrics.

Ben Gilbert: (UBS, Analyst) Okay, great. Just one final one, just on the fuel piece as well. Is there any update on timing with respect to a decision or any sort of action with respect to the fuel business?

Brad Banducci: Let me just say the team are working very hard so that we don't spend Christmas Day yet again talking about fuel which we have the last two years. I don't want the trifecta but we're working hard. I don't know, Colin, if there's anything else you'd like to add.

Colin Storrie: We are making good progress. We did have a fair interest in trade and we're progressing the dual track so we've got a lot of strong momentum in the IPO. process. My benchmark is not to have it at Christmas Eve this year.

Brad Banducci: Three years in a row, exactly. Thanks Colin.

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

Tom Kierath: (Morgan Stanley, Analyst) Morning, guys. My first question is on the remuneration report on page 44. You've achieved your stretch EBIT targets but your sales target I think on my maths came in, or your sales came in $1.35 billion below the stretch target. Please explain kind of how that happened? I mean, usually when your sales are stronger, your EBIT does better and it kind of looks like the reverse has happened.

Brad Banducci: It looks like you've been reading the reports instead of looking into the presentation, Tom, but that's okay. We forgive you. Look, what in truth we had very high stretches against a lot of our numbers because that's the issue our Board has had as we've come out of the challenging times. They've expected a lot to pay at stretch so the stretch has been quite challenging in truth across the whole Group and that's the reason why we

didn't get there. So, I can't give you much else. David, I don't know if there's anything else we can add.

David Marr: Just on the sales pieces, the sales were impacted slightly by the fuel volume. We had fuel volume going against us giving the higher price. So, there's this slight mismatch there.

Tom Kierath: (Morgan Stanley, Analyst) Okay. That's answered, thanks. Just a second one. I think the Coles Little Shop happened about halfway through the quarter. Is it fair to say then that your comps have decelerated through the quarter as that impact happened in the second half of the quarter?

Brad Banducci: Look, it's so hard to even talk about seven weeks, never mind to try and split the two. We haven't broken it out and it's actually quite hard to break it out in truth. I don't think we can comment on this. David, is there anything you'd like to add?

Operator: The next question comes from Grant Saligari from Credit Suisse. Please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Good morning, thank you. The new distribution centre in Southern Melbourne, once you actually get that up and running, can you talk to how much more competitive that makes you? Like, what does it actually do for the business?

Brad Banducci: Yes, thank you, Grant, and apologies, Shaun, for calling you Grant. I just had this mental thing I've got to get over. So, we go in spurts. The MSRDC really is an indicator to the future. There have been a number of these sheds I should add built across the globe. I believe there's over 20 now operating globally. But what it is, is essentially a very automated distribution centre and it can basically assemble pick by carton and assemble pallets for specific aisles in a store. So, what it does is it can change the whole store efficiency where you can drop a pallet into an aisle and basically be able to replenish the shop directly from that pallet which is very hard outside of this automation. So obviously it saves money in the shed but it does give a material in-store efficiency.

As importantly you get a much bigger pick phase because you don't get to regulate a pick phase. Everything becomes a pick phase in one of these automated sheds and so you can put - if you've got long tail products into the shed and deliver them to the right spot in the store. We still have way too many [DSD] orders to a store. I think we have over 100 a

week going directly to store, causes a lot of inefficiency in the store and if - and it also prevents us from range in a number of really interesting products we'd like to range in localised demographics. So, there is efficiency in the shed but then it is just changing the whole DSD experience of the store as well as changing the whole in store pick experience. That's key. I don’t know, Claire, if there's anything else you'd like to add?

Claire Peters: I think that's everything you've covered. I think the only obvious one that our customer would see as well is it gives us the ability to change when we replenish our stores by matching the infill and outfill time that the product gets to the store and particularly in some of our high sales stores in Victoria, that would have a significant improvement of ease of congestion by replenishing overnight.

Brad Banducci: The other point I should add is that our current capacity, we're over capacity so we use a lot of overflow facilities as we go into Christmas and things like that. So, there's all those hidden efficiencies that should come out ultimately, of course, as well.

Grant Saligari: (Credit Suisse, Analyst) So the reports that I've seen indicate a CapEx of around $350 million and maybe you'd want to sort of outline whether that's incorrect or not and that you're planning another one, well, you're planning one for Sydney as well. I mean, my thinking on that type of CapEx which would be you'd have to be looking at sort of a four or five-year payback to make these numbers stack up on that type of investment. Could you maybe correct me if I'm incorrect there or outline in a bit more detail?

Brad Banducci: Yes, look, this is a decision that was made quite a few years ago in truth. It's been a long time in the pipeline. You're broadly correct. We would like to see how it goes before we do something somewhere else, so we are watching and learning from this before we make major commitments outside of this one shed. So, the proof will be in the pudding on this one before we go and commit to a whole series of additional ones, in truth. We certainly haven’t announced any additional ones at this stage. I don’t know, David, if…

David Marr: Grant, the CapEx number is broadly right and as you would expect, the benefits which are yet to be proven will be in the tens of millions of dollars both in supply chain and then a flow on of benefits through the store. We haven’t quantified the actual dollar benefit yet because we're going to get it operational. But they should be significant.

Operator: Thank you. The next phone question comes from Andrew McLennan from Goldman Sachs. Please go ahead.

Andrew McLennan: (Goldman Sachs, Analyst) Good morning, everyone. Just a quick question on the costs again. You did highlight in quite a lot of detail what happens in 2018, so thanks for that. But what other issues such as the wage inflation and further energy costs are likely to play it through? Are there any significant issues we need to contemplate there?

Brad Banducci: I don't know if I fully heard the question.

David Marr: Well, the energy costs [unclear] covered. The energy costs are included in that structural sort of bucket that I outlined, Andrew, so we would expect those to continue to run through to 2019 along with the tender point on cash out. On the EBA, as Brad said, it's still very early to call. We're still in confidential negotiations. We would expect an increase clearly and so I would expect at least an increase in line with our history, possibly a little more but we haven't yet concluded that.

Andrew McLennan: (Goldman Sachs, Director) Do you know roughly when that's likely to be concluded?

David Marr: Well, we're working through that. We're close.

Andrew McLennan: (Goldman Sachs, Director) Okay. Just in terms of online, another strong growth rate here from both yourselves and your competitors. I'm just wondering how you're seeing competition online compared to sort of previous years? On my calculations, and correct me if I'm wrong here, it looks like about a third of your average sales per square metre growth was represented by online. Can you just comment about that trend?

Brad Banducci: Look, it's a material part of our growth. Most of it in 2018 was related to pick ups so it was store related. It wasn't separate to the store, just how you choose to account for it. But it is an important part of our growth profile. We've seen Coles actually just [line] price their online with their store. We did this two years ago so they've clearly also invested and become more competitive there and the two of us are obviously competing for that connected shopper because we know that someone who buys online tends to also buy more in store and you get a greater share of wallet from the individual customer. So, there is a lot of investment of both businesses.

We're annualising what we chose to do which takes a while to ramp up but that's because it is a critically important area for growth. In terms of the overall online market place,

clearly that's all about how the Amazon story unfolds during the year. It's still too early with the launch of Prime to really have a clear lead on that right now in truth. But it is very competitive. We've seen a few of the smaller players exit which is probably not a bad thing but it's still early days. We'll see how it plays out over this year. I think it will be an important year in online.

Operator: Thank you. At this time, we're showing no further questions over the phone.

Brad Banducci: Unless there are any further questions from the floor, thank you all for joining us today. We will, of course, see you on 1 November and I said to all the media, please, the best way to shop Woolworths is - experience Woolworths is to come and shop in our shops. So, [unclear] see in the store and look forward to any comments you might have on that experience. Thank you very much.

End of Transcript