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Operator: Thank you for standing by and welcome to the Woolworths Limited FY18 first-quarter results sales call, analysts. All participants are in a listen-only mode. There will be a presentation followed by a question and answer session. If you wish to ask a question, you will need to press the star key followed by the number one on your telephone keypad. I would now like to hand the conference over to your speaker today, Mr Brad Banducci, CEO, please go ahead.

Brad Banducci: Good morning, everyone, and thank you for joining us this morning for the Woolworths Group's first-quarter sales results announcement. Joining me in the room this morning are David Marr, our CFO; Martin Smith, Managing Director of Endeavour Drinks; Dave Chambers, Managing Director of Progressive Enterprises in New Zealand; Claire Peters, Managing Director of Woolworths Supermarkets; and Dave Walker, our Managing Director of Big W.

Today we are reporting Group sales from continuing operations for Q1 of $14.5 billion, up 3.7% on the same period last year. Australian food sales for the quarter were $9.6 billion, an increase of 4.7% on the previous year, or 5% on a like-for-like basis if you adjust out for agency sales, and I'm sure we'll talk about that a bit later. Comparable sales increased by 4.9% for the quarter and continued the positive sales momentum the business has delivered over the last few quarters. Importantly, our customers are continuing to notice the improvements we are making in our stores, with an increase in our overall customer satisfaction score and store-controllable VOC scores. Record scores were achieved in fruit and veg, time in queue, team attitude and availability. Our overall customer satisfaction, as reflected in our announcements, now includes a weighting of 25% to online, reflecting the importance we are placing on improving our online offer. Growth continues to be driven by an increase in customer numbers, with comparable transaction growth of 4.6% and comp items-per-basket growth of 1.4%.

We started the financial year with an upweighted focus on digital, aiming to deliver increasingly personalised and convenient shopping experiences for our customers. Our online sales growth for Q1 in Australia and New Zealand food grew in the strong double digits. We delivered a number of key digital initiatives in the quarter, including the rollout of pick-up across all of our supermarkets in both Australia and New Zealand. In FoodCo we have now almost completed our own-brand transformation, with 90% of Homebrand and Select now rebranded as either Essentials or the Woolworths [waffle] brand. Included inside the FoodCo result are our metro stores. They have traded very well during the quarter as well, with 28 stores now branded as metro at the end of the quarter.

In this quarter we completed seven renewals and 11 upgrades. We plan to complete at least another 30 renewals in the second quarter and actually have 31 stores at the end of the quarter in some form of disruption. This brings the total number of stores we have in our renewal format to 122 as at the end of the quarter. Endeavour Drinks has had a solid start to the year with sales growth of 3.8% in the quarter and comp growth of 3.3%. BWS sales growth was a particular highlight in this quarter, driven by strong execution around key sporting events. Both BWS and Dan Murphy's continued to outgrow the market. New Zealand food sales for the quarter were NZ$1.6 billion, an increase of 3.2% on the previous year. Comp sales increased by 2.7% and, while it is very early days, we have seen a positive response to our investment in service in New Zealand.

Big W sales of AU$890 million for the quarter increased by 2.5% on the previous year, with comp sales increasing by 2.9%. Adjusting for the timing of the toy sale, which we moved a week of it - you may remember - into this financial year, comp sales increased by 2.1%. While we are pleased by the improvement in the quarter, we're only very early in the stages - we're very early in the process of our multi-year journey. Hotel sales for the quarter were up 4.1% with the best performing part of that business being bars. Our petrol business reported sales growth of 4.6%, a growth on the previous year. Finally, as hopefully you're all aware, we announced that we have completed our exit from the home improvement business a few weeks ago.

In summary, we are pleased with the positive start to the year. Our focus for the remainder of FY18 is to build on the progress we have made in the first quarter. As we move into the critical Christmas trading period, our team are energised and excited about creating a positive, festive shopping experience for all of our shoppers across all of our businesses and all of our brands, and I would like to thank them for their commitments to putting our customers first. I would now like to turn the call over to questions. Can I please ask that you limit your questions to two per person.

Operator: Thank you. If you wish to ask a question, please press star one on your telephone and wait for your name to be announced. If you wish to cancel your request, please press star then two. If you are using a speakerphone, please pick up the handset to ask your question. The first question today comes from Shaun Cousins from JP Morgan, please go ahead.

Shaun Cousins: (JP Morgan, Analyst) Thank you, good morning all. My first question is regarding food. Can you just talk a bit about how fresh deflation played out during the quarter, was it varied by month or was it fairly consistent at negative 2.4%, please?

Brad Banducci: Thanks, Shaun, and thanks for cutting to the chase. Obviously produce was very deflationary in the quarter. It actually got worse over the course of the quarter. Average produce deflation for the quarter for us was just under 10%, 9.8%. Which means that if you actually adjust what our food deflation was excluding produce, you get about 1.2% negative. So it did - we got more and more deflation as the quarter went on. It would be fair to say, in anticipation of your next question, that we are starting to see that slowly change as we go into Q2.

Shaun Cousins: (JP Morgan, Analyst) Okay, great, thanks. Just second question just in regards to the Big W, just where is the Big W price relative to Kmart, both I guess in reality and then from a perception in the minds of consumers, please?

Brad Banducci: Shaun, it's not an easy question to answer. Let me answer the second bit first. We certainly still trail on price perception and that is a particular focus to the team. In terms of actually measuring price indices, this is hard because it's very hard to find like-for-like comparators. We're rebuilding all of our indices as we speak, so I can't give you a definitive answer. What I can tell you is we are much more competitive today on key lines than we were three to five months ago. But it's just a tricky question given a lot of own-brand product in Kmart and how you link that through to Big W. So that's something we're working on and we'll talk about it a lot more at the end of the half.

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

Operator: Thank you. The next question comes from Michael Simotas from Deutsche Bank, please go ahead.

Michael Simotas: (Deutsche Bank, Analyst) Good morning, everyone. Just a question on Australian food sales growth. Total sales growth was a little bit less than comparable sales growth during the quarter, but you did actually finish the quarter with a few more stores than you had last year. Can you just talk us through that dynamic, what's driving that and whether you'd expect that to persist for the next few quarters?

Brad Banducci: Thanks, Michael, thanks for the question, a good question. As - and I'm going to turn over to David just to go through the ins and outs. It's actually readily explainable, but over to you, David.

David Marr: Yes, sure. Hi, Michael. We called out in the result the change in agency sales accounting. That accounted for - that was 30 basis points impact for the quarter. That is specifically in relation to news and mags. So during the third quarter of last year we changed our commercial arrangements in relation to our news and magazine business.

Michael Simotas: (Deutsche Bank, Analyst) Yes.

David Marr: Whereby we went from a principal relationship where we took ownership of the inventory and, therefore, bore any stock loss risk, to an agency relationship where we only pay on the products we sell. So that moved from principal to agency. That happened in the third quarter, progressively through the third quarter. We've made the change in how we account for it this year, because effectively in the second half it was not material. So that 30 basis points reflects effectively this year we've booked news and mags on a net basis, whereas last year it was on a gross basis. If you were to add that back to be like-for-like, just to be clear on the comp comparison, that would take your total sales up to 5% rather than the 4.7%.

The reason why that's quite still a small delta between comp and net is because, as you'll know, we've opened far fewer new stores than we had historically. In fact, first quarter versus first quarter last year, we've only opened a net three new supermarkets. We have opened a handful of metro stores, but in terms of the real drivers it's only three net new supermarkets. So that's why the delta is effectively so small this quarter.

Michael Simotas: (Deutsche Bank, Analyst) Yes, okay. So just to clarify on that agency change, is it wrong to look at the table you've given us with four-quarter sales - sorry, first quarter sales which shows 4.7% change? Because that looks like it's actually based on restated numbers in the PCP as well.

David Marr: The 4.7% is right, because both this year and last year have been adjusted.

Michael Simotas: (Deutsche Bank, Analyst) Yes.

David Marr: But the comp - and same with the comp. The comp actually doesn't change under both metrics. We've done the calc and the comp actually changed by I think it was one basis point. So the 4.9% is right for base. What you'll find through the - if you're thinking about how do we think about it for looking forward, Q4 '17 would be the most accurate baseline because effectively that's when news and mags were fully in the number. We launched it - we made the change in Q3. There wasn't a full quarter, the first full quarter was Q4.

Michael Simotas: (Deutsche Bank, Analyst) Okay, but it seems like the bigger driver anyway is the metro stores being added, which are obviously smaller and smaller sales, rather than the accounting change.

David Marr: That's right, yes. In terms of the comp to total differential, that's right.

Michael Simotas: (Deutsche Bank, Analyst) Yes, okay. Alright, that's good. Then the second question for me on renewals, now you've sort of addressed part of it, you did seven in the quarter and I think it was 11 lighter upgrades. You've said you'll do I think it was 30 in the next quarter. Does that mean you're still on track for the 70 or 80 for the full year that you've given guidance for, as well as the 50 lighter upgrades?

Brad Banducci: Michael, we've actually got 31 stores in disruption as we speak. So we'll certainly hit our half-year numbers. We're pushing very hard of course to hit, or slightly exceed, the full-year number. Whether we can or not I think is a question of what's practical in the second half. In terms of the upgrades, again on that one we're actually ahead of track. We just need to figure out how many of those we want to do versus renewals and we'll do a reprioritisation early in the second half on that.

Michael Simotas: (Deutsche Bank, Analyst) Okay, and the 31 that you've got in disruption, is that disruption for a full renewal, not an upgrade?

Brad Banducci: I'm quoting renewal based…

Michael Simotas: (Deutsche Bank, Analyst) Yes, okay.

Brad Banducci: …disruptions.

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

Operator: Thank you. The next question comes from Rob Freeman from Macquarie, please go ahead.

Rob Freeman: (Macquarie Group, Analyst) Good morning, guys. Just to spend some more time on this comp number of 4.9%. The 6%-odd that you had to June I understand was supplemented by the fact that 28 new stores kind of entered the basket at the start of FY17 and you closed 27 underperforming stores at the back end of FY17. Are we still seeing the effects of that, and what are comps looking like on maybe a bit more of a standard comparable basis, please?

Brad Banducci: David, do you want to have a go and then I'll have a go?

David Marr: Sure. Rob, we didn't close 26 stores, through the year we closed 22 stores, 21 of which were supermarkets and one was a metro. What we did call out at the full year was the phasing of those stores was such that we closed half of them in the final quarter. So the impact of that will continue to cycle through, you're right. But it was 21 supermarkets rather than 26.

Rob Freeman: (Macquarie Group, Analyst) So given that they would be…

Brad Banducci: Does that answer the question, Rob, or did you want to follow up?

Rob Freeman: (Macquarie Group, Analyst) Well given - yes, we'll still stick with this, if that's okay. So given they are the more mature, slower-growth potentially stores declining, and within the basket I think you've put in obviously net new stores which would be growing much more quickly, what is the comp number maybe adjusting for that factor?

Brad Banducci: You know the new stores wouldn't necessarily all be in the comp number yet, Rob. I can tell you that the comp number we have has 93% of supermarkets and it's probably the most close to like-for-like you're ever going to see in our business because of the way we adjust for comps. So 93% of supermarkets are in the comp number. Some of the new stores of course need to be in there for a year to get into the comp number. So you're seeing, I think, a very clean comp number that's representative of the business in truth.

Rob Freeman: (Macquarie Group, Analyst) Then maybe how many stores have gone into the comp number for the first time this quarter?

David Marr: Sorry, Rob, we don't have that number at hand. But I mean it's back to the point, there's 93% of total stores are in the calc.

Brad Banducci: Certainly at the end of last year over 90% were in the comp. So it's got a few more in the comp but it's not anything material, to be honest. So we've been running at about 90%, so maybe a few, we can follow up afterwards.

Rob Freeman: (Macquarie Group, Analyst) I understand that. But we're obviously taking out 31 stores presumably that we assume are in disruption, we're taking out stores that have been closed that would presumably be underperforming, and we're adding in younger stores. So it just sounds like all of the stores are probably overstating performance.

Brad Banducci: …accept that actually. But you need to draw your own conclusion. But we've never had more stores in the comp number. It lines up with any way you want to do comp, adjusted comp, pure comp, like-for-like, sales per square. But you need to draw your own conclusion.

Rob Freeman: (Macquarie Group, Analyst) Just a final follow-up on that. So is the policy that when a store is kind of 24 months old, that it goes into the comp?

David Marr: It's 12 months, Rob.

Rob Freeman: (Macquarie Group, Analyst) Twelve months, okay. So that's even sort of slightly more aggressive. So when a store is one year old it goes into the comp numbers.

Brad Banducci: It hasn't been our policy for a long time, Rob.

Rob Freeman: (Macquarie Group, Analyst) Okay, and then just secondly on Big W, I think previously you said you were dropping prices by 20% on 2000 SKUs. Are we still seeing the effect of that obviously in the 4% implied deflation number this quarter? Or have you extended that price investment across more SKUs, please?

Brad Banducci: Yes, I'll turn over to David to talk to that, if I can. So over to you, Dave.

Dave Walker: Yes, thanks Rob. Yes, we have extended our Imagine Line program which is the program that underpins how we are looking at our price drop campaign. So back in August we had 2000 items that we dropped in price by about 20%. Since then we've dropped a further 700 lines, again with an average of about 20% from the original price. Certainly customers are noticing the changes we've made and that is having an impact on sales and it is having an impact on deflation.

Operator: Thank you. The next question comes from Craig Woolford from Citigroup, please go ahead.

Craig Woolford: (Citigroup, Analyst) Morning Brad, morning David. I just wanted to understand I guess the shape of the like-for-like sales in the food segment. It was a much better result in items-per-basket. Just what are your reasons for the improvement in items-per-basket and what other features are you seeing? Because the average item value didn't drop as much as the overall deflation figure, which it still feels like there's a bit of trading up behaviour. But the items-per-basket really stood out for me.

Brad Banducci: Yes, thank you, Craig, it's a good question. One of the areas we've been struggling in, and it still remains an opportunity for us, has been the big-basket family. As you know, we've sort of been seeing shrinking items-per-basket; we had quite a long period where that happened to us. We've been very focused on that customer and slowly we're starting to get a few more of them into our stores, which is why you've seen the item-per-basket lift. So that's been very pleasing. Can you just elaborate on the second bit of your question, on the trading up, just to make sure I understand it completely before I try and answer it?

Craig Woolford: (Citigroup, Analyst) Yes, sure. I mean we can infer an average item value out of the other elements of the like-for-like sales figure that you publish in the release. So like the change in the average item value would have been minus 1.1% to make it all additive to a 4.9% comp. Yet the food inflation index that you had inclusive of tobacco was minus 2.4%. I mean they are very different measures of price, but the one that's embedded in the like-for-like sales calculation should be a reflection of a changing mix of sales and that would suggest…

Brad Banducci: Got you. Sorry, yes, it is going to be mix driven. I would actually point to - and I don't have the perfect number in front of me - but we've seen very strong growth despite the deflation in volume and produce. So while we had minus 10% deflation, we actually had double-digit volume growth which is I think very important. I would also point to then pleasing progress is made in our perishables - both of these have above - more than average sales price, as you'd know, Craig. The other one I'd point to is perishables, which is our chiller, and really nice growth that we've seen in the chiller which has been high-single digits. So those would have distorted the ASB as you would back filtered.

Craig Woolford: (Citigroup, Analyst) Alright, and so…

Brad Banducci: By the way, in line with obviously our strategic plan and our aspirations.

Craig Woolford: (Citigroup, Analyst) Yes, and that perishables one would be a function of better availability and just execution?

Brad Banducci: I think we can always do a better job of availability. We think this is down to our customer-first ranging reset that we've done. We've felt that our perishables category, if you went back a year, was very hard to shop and very confusing for customers and we've done a lot on making it more shoppable. Then very interestingly, in that category, if you get to yoghurts and things like that, there is a bit of trading up going on. We've got a lot of really interesting innovation coming into the category. I would say around 20% of sales we get in out of that category would be NPD. So it's a really nice category where there's a lot of NPD as people move out of sugar-based products into other alternatives. So, yes, it's been a really pleasing story for us around trying to get the right ranging for our customers.

Craig Woolford: (Citigroup, Analyst) Okay. Last question just on Big W, the improvement in customer transactions and items-per-basket, in the release it says it was driven by both price investment and clearance activity. Given clearance activity is hopefully something that will ease back, can you give some sense of how much of that improvement in Big W's comparable store sales was due to clearance activity?

Brad Banducci: It's a really hard question to answer. I can assure you that it wasn't just about clearance though. Because we do track the uplift we've got from our price investments and it certainly has been a combination of the two. Plus actually, to be honest, just our stores I think looking better and being more - you know, opening up the front ends and focus on the customer experience. So it is not [fully] on clearance, but clearance is clearly part of it.

Craig Woolford: (Citigroup, Analyst) [Unclear].

Brad Banducci: Hard to really break that one down.

Operator: Thank you. The next question comes from David Errington from Merrill Lynch, please go ahead.

David Errington: (Merrill Lynch, Analyst) Morning, Brad, David and team. Yes, Brad, this would have to be probably the best set of Woolworths numbers I've seen probably in 10 years right across the board, so I'm really pleased with that. That'll load into my second question. But my first question is, I note - and you've talked about this for a while - you've got record scores in store-controlled voice-of-customer and fruit and veg, timing queue, team attitude and availability. The one area that obviously is lagging is price perception. Where - will you ever get to be top in price perception? What will it take to improve it? Or is it just an unrealistic target because you're up against Aldi and these sorts of guys, the discounters? So what is a realistic aim for voice-of-customer in price perception and how far away are you from achieving what you would consider to be where you want to be?

Brad Banducci: Thanks, David, I was touching vinyl when you made your comments on our results; I wish there was wood in the room. On this one, we actually have made progress on price perception, but it still is an opportunity. Our aspiration of course is to close the gap with our key other mainline competitor in the form of Coles. So that is our aspiration to close that gap. But for us everything is about balance. Every time we're out of balance, we just don't get to where we need to get to. We've got to balance the price perception agenda with leading on range and continuing to innovate on range - as per the perishables example I just called out - and the service and community agenda. So we're trying to get balance between the three. It would be terrific to really, as I say, close out that. But we're realistic on our ability to lead on that, given our broader agenda around range, freshness and community.

David Errington: (Merrill Lynch, Analyst) I would have thought you closed the gap though, Brad.

Brad Banducci: But we are progressing. For us it's all about trust, and customers trusting that they get a price every time they shop Woolworths. It doesn't come easily or quickly, but it did improve over the quarter I should be clear.

David Errington: (Merrill Lynch, Analyst) So you don't reckon you're cheap as Coles yet.

Brad Banducci: In a pure price index sense - however you want to do it, shelf or basket weighted promotional prices, visual prices, however you break it down, amount of product on EDLP - we feel that we are now competitive with Coles, absolutely.

David Errington: (Merrill Lynch, Analyst) Right.

Brad Banducci: But we can't walk away, that said, from perception. Because how the customer sees it is the way we need to see it.

David Errington: (Merrill Lynch, Analyst) Okay, and the second question - and this is a broad question and I know it's a sales call and I'm not breaching areas of profitability, but it's a broad question and I want to hear what your comments are. There's four key stakeholders of any retail company really - and I'm not telling you how to suck eggs or anything - but you've got your suppliers, your customers, your employees and of course you've got your shareholders. Today, the first two years we've seen phenomenal improvement and huge rewards. Suppliers, everyone that I speak to are very happy with Woolworths. Customers, obviously clearly with your voice-of-customer they're loving you, The momentum's strong leading into a key Christmas period. It must be very pleasing to have record voice-of customer and store-controllables leading into this key event.

Your employees, everyone I talk to on the floor - because your bonuses, you pay back huge bonuses, more than double Coles. Even in their very best year your bonuses are record high levels. So they love you. But when can we, as shareholders, start to love you? Because clearly at the moment that's what's lagging. When can we - what's your attitude toward this? When do we, as shareholders, get rewarded for this hard work that you're doing? Now we are to a little bit, but we've paid a big price. When can we expect to start seeing the rewards that the other three key stakeholders are getting?

Brad Banducci: Look, David, as you say, it is a sales call and you'll be able to demand a very good answer to that at the half year and the full year when we talk about earnings. But rest assured, we are all about balance. We've never walked away from that. We are acutely aware of responsibilities to all four groups of our stakeholders. So we do understand that. When we started our journey we were very clear that, in order for us to create a sustainable business that had sustainable growth to it, both top-line and earnings, we needed to focus on our customer and our team. If we did that, the rest would come. So we are aware of it and we are working on it.

David Errington: (Merrill Lynch, Analyst) Okay, thank you.

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

Tom Kierath: (Morgan Stanley, Analyst) Morning, guys, just a couple of questions on food. It looks like the like-for-like has slowed a bit in the last six weeks versus what you indicated for the first eight weeks. Can you just talk to the drivers of that? Whether it's lapping the loyalty program that was so successful last year, or whether it's all this deflation in fresh that you're talking to?

Brad Banducci: Yes, thanks, Tom. Really it is primarily the fresh story as the amount of deflation flowed through. So that's really the core - there's lots of ups and downs, as you know, but that really is the core to it.

Tom Kierath: (Morgan Stanley, Analyst) So with deflation kind of easing, has the comp improved in October? Like where is it today?

Brad Banducci: Look, we're not going to call out where we are, it's just too early in the quarter to start putting the peg in the ground. Especially on Halloween, Tom, I don't know if that'll be a trick or a treat.

Tom Kierath: (Morgan Stanley, Analyst) Fair enough. Just the second one, the overall customer satisfaction has ticked up I think from 78% to 79% in food. But it says that you're including I think 25% weighting from online now. If you just went to the old methodology of using just the store one, would it change that number at all? Is there much of a difference there? Just trying to get a like-for-like comparison with the June number.

Brad Banducci: Yes, absolutely. So on the store-controllable it would be - did you say, [Steve], was it 80%?

Unidentified Company Representative: 80…

Brad Banducci: 83%.

Unidentified Company Representative: …83.

Brad Banducci: It's 83% on store-controllable and 80% in total would be the comparable. The reason we've put online by the way, the online for us includes pick-up. We really wanted - as we've rolled pick-up across all of our stores, we wanted all of our stores to really make sure that we did a good job of executing against it. That's why we've put it into the overall score.

Tom Kierath: (Morgan Stanley, Analyst) Okay, great, that's clear, thanks.

Operator: Thank you. The next question comes from Phil Kimber from Evans and Partners, please go ahead.

Phil Kimber: (Evans and Partners, Analyst) Hi, guys, just a question, you called out the fresh produce deflation but you had strong volume growth that looked like it offset it. Was the total growth in fresh - did that moderate over the period, so when you just look at total dollars?

Brad Banducci: Absolutely, Phil. I mean what we found is actually it was terrific for our customers that fresh food was a lot more affordable. But the volume growth didn't offset the deflation. So you do get some price elasticity in fresh as prices go down. But it's a volume elasticity but it wasn't enough to offset the deflation.

Phil Kimber: (Evans and Partners, Analyst) Okay, that's great. Then the second one for me was just you mentioned in your key priorities 1POS is now in 285 stores in Australia. What's the sort of rollout profile of that, when do you think that'll be done? Then I guess, just broadly speaking, the main benefits that come from the new point-of-sale system?

Brad Banducci: Thank you. We're rolling out somewhere in the order of 80 1POS stores a week right now. So actually we're about between 550 and probably 600, if I gross up to this week, stores that it's been rolled out into. We'll freeze that in the next couple of weeks as we go into Christmas trading, as you might imagine. Our goal is to have 1POS and [One Store] in general completely rolled out by 30 June of this year. So we can go into '18, which would be terrific, with a new standardised platform. Which would be enormously helpful to us as we try and drive our [simpler for stores] program and really simplify tasks in store, streamline process. One Store in general has a number of benefits to us in sort of a process improvements and, hence, a productivity sense. Apart from actually the POS just being quicker, the training is easier, the sign-on/sign-off process is very simple, the cash management process is materially enhanced.

We've got another part of the program which is centralised ticketing which is essentially ticketing in the cloud where we can sequence tickets much better to each store and, therefore, reduce wastage and time on how we sequence and put tickets up in our stores. The third bit is really our back office and how our inventory processes work. We've got a whole sync process right now between our SAP system and our in-store system called [SYS]. That goes away, so it's one system, it's real-time syncing of stock. So just enormous benefits in having this done. When we talked about SAP before, that was really SAP [merch]. This will be the - this is almost like the equivalent of SAP for stores. So a very important, a very powerful enabler on personalising office at the front end and complying very easily then with the country-of-origin labelling and so on. A topic really that I think you should be asking questions on, in particular as we go into FY18.

Phil Kimber: (Evans and Partners, Analyst) Okay, that's great. But it sounds like it's a pretty important enabler for your simplification.

Brad Banducci: It gives you a few grey hairs on the way through, as with any of these upgrades, but it's good to be now well underway which is very pleasing.

Phil Kimber: (Evans and Partners, Analyst) Great, thanks Brad.

Operator: Thank you. The next question comes from Richard Barwick from CLSA, please go ahead.

Richard Barwick: (CLSA, Analyst) Hi, Brad, I've got a question on Big W. Obviously reasonably positive sales growth, albeit flattered a little bit by the timing of the toy sale. Just wondering if you're standing by the comment that you made at the full-year result, that you're not expecting any improvement on the FY17 EBIT result for Big W?

Brad Banducci: Yes, Richard, I think you know, so we're not talking to profit on this call, except to point out that Q2 is important in every retail business, but in particular so in discount department stores. It is the key quarter and it's just, quite frankly, too early to be wanting to make a material adjustment to what we talked about. It'll certainly be a topic of course as we get to the end of the quarter.

Richard Barwick: (CLSA, Analyst) Okay, fair enough. Can I just clarify a comment on the Endeavour Drinks? I mean you've called out that both BWS and Dan's delivered positive comps. But am I right in saying that BWS was a little stronger than Dan's? If you can just -

if that's the case, just talk through exactly what would have driven that? Realistically, are we seeing any sort of switch in people's shopping or buying behaviour with regards to alcohol?

Brad Banducci: Yes, look, again, it's early in the quarter. Dan Murphy's is more of an events-driven business than BWS and so it really comes into its own as we get into Spring Carnival and Christmas. But there's actually an improvement in BWS. So there used to be a bit of a gap between Dan's and BWS in growth rates and comps. So it was really pleasing to see BWS come up to Dan's equivalent levels. It would be fair to say that a significant proportion of it was in our attached BWS stores. So the increased traffic in Woolworths supermarkets did help those attached stores. As did the Woolworths Reward program and as we get better at personalising offers, and BWS is a participant in that program. So it really was a case of strengthening BWS as much as anything else, in all honesty.

Richard Barwick: (CLSA, Analyst) Okay, great, thank you, that's helpful.

Operator: Thank you. Once again, to ask a question, please press star one on your phone. The next question comes from Grant Saligari from Credit Suisse, please go ahead.

Grant Saligari: (Credit Suisse, Analyst) Thank you, so a question just on food deflation. If you leave out produce and you leave out tobacco, which I guess you'd argue are the least relevant for profitability of the business, so ex those it still looks like deflation's running at around 3%. We've certainly noticed in price surveys that we're not seeing any significant increase in shelf prices in long-life, either private label or branded; in fact, some decreases. So just wondering whether you could talk about what's still driving that fairly high level of deflation through the industry in long-life and any prospect of returning to some inflation? Because I think the industry probably needs it given the cost pressures that it's under.

Brad Banducci: Yes, thank you, Grant. As I mentioned at the outset, if you took our produce deflation from our Q1 deflation number of 2.4%, it becomes negative 1.2%. Now of course there's - and that excludes tobacco or produce. If you then though come back and dig through that, the area that is still relatively deflationary is sort of that core grocery category. Which is deflationary in Australia and, in fact, also at the moment, in New Zealand. Inside that category, we are starting to see deflation slowly soften, but it's still a long way to go before it's inflationary. So we are seeing it soften, but it still has some ways to go. So minus 1.2% excluding tobacco and produce, really the core driver of that is still core package groceries. We are actually seeing it improve but it still has some ways to go.

Grant Saligari: (Credit Suisse, Analyst) Yes, okay. Just to follow up maybe on Big W as well, and maybe taken from a price angle, the price investment that's being made in Big W is sort of fairly hefty. Could you talk to the extent to which that's mark-down driven versus planned price adjustments that you've made? Whether you're still investing I guess ahead of changes in cost of goods, or whether these are reflective of all the cost-of-goods changes.

Brad Banducci: Yes, thank you. As per the answer to a previous question, it is a combination of being very deliberate in our price investments against core image lines, as Dave Walker's talked about previously. Plus making sure that we take action against indices and lines and we don't let them hang around in our stores or in our stockrooms. So it is a combination of the two. It is pretty hard to unpick, but it is a deliberate - a material chunk of it is very deliberate investment in our Image Line program which is continuing to grow. In terms of those lines, it is investment in line with where we think we need to be from a price perspective in the market, not in line with where our COGS are. So we're trying to be honest with ourselves and getting our customer proposition right and then of course re-engineering the back end. So in some cases it will be in line with COGS reductions, but in many cases it could lead those.

Grant Saligari: (Credit Suisse, Analyst) I think you'd see the unplanned in the mark-down expense, but perhaps you just don't want to comment on that at this stage.

David Marr: [Unclear] to repeat the question.

Brad Banducci: Do you mind repeating the question? Sorry, I missed that.

Grant Saligari: (Credit Suisse, Analyst) Oh well just to follow on, just to respond to what you said. I think you'd see the unplanned in the marked-down expense, but perhaps you don't want to comment on that at this point.

Brad Banducci: No, as I say, I think it's a combination of the two. It's very hard for us to split it. I don't think I could add much at this stage [unclear].

Grant Saligari: (Credit Suisse, Analyst) Okay, alright, I appreciate the comments, thanks.

Operator: Thank you. The next question is a follow-up from Michael Simotas from Deutsche Bank, please go ahead.

Michael Simotas: (Deutsche Bank, Analyst) Guys, thanks for taking another one. I was just hoping you could give a little bit more colour on the rollout of pick-up across the store? I mean you did quite a big rollout quite quickly. You've made some comment on it on the first page of the release. Could you just comment on early signs, what the consumer interest level has been in that, and just generally how the stores are coping with it and whether there's been any disruption?

Brad Banducci: Thanks, Michael. Well I think the key word is it's early, it's very early in the process for us. So what we really wanted to do was provide this option to all of our customers across actually all of our businesses in Australia. So you've seen the rollout. It's sort of a catch-up with Dan's who's had pick-up or click-and-collect in the store for close on four years and BWS who rolled it out last year. Of course Big W we've got other priorities, but we will look at the rollout in the new year. So it is just us trying to provide this optionality for all of our customers. It would be fair to say it's been a really pleasing customer response to pick-up. It's not something we've actually actively promoted at this stage because we're trying to get the experience right; we're quite fearful of providing a poor experience. But the pick-up's been, excuse the pun, pleasing. But it just is early days.

We really felt what was key for us was doing it in every store so that every store team is part of the operating rhythm, focused on it and did it. When we were just doing it in a subset of stores, we never - we were worried we couldn't get quite the same consistency of experience as we can when we do it in every store. I think putting it into our voice-of-the-customer metrics has really helped reinforce its importance and has really helped us with making sure we do the perfect order for the customer, i.e. we pick exactly what the customer wanted us to do. So some pleasing benefits. One of the things that pick-ups does do for us, I should call out, is it does give us the ability cautiously and thoughtfully to move into express home delivery. Because you need to do a pick-up in a store to do express home delivery.

We've seen that in BWS. We've now turned on express delivery in BWS, as of today, to 284 BWSs. So you've got to be able to do an in-store pick then to use a crowd-sourced type home delivery mechanic. We're trialling that in a small subset of supermarkets. So it is an important precursor to providing express where we think it can add value to our customers, but early days.

Michael Simotas: (Deutsche Bank, Analyst) Okay, and has the execution in store roughly gone to plan so far?

Brad Banducci: You know, as all things in our businesses, the challenge is consistency and being good at it every day. At this stage, on average, we've seen a really pleasing response and all of our store teams have really got behind it. So we feel positive but cautious. As I say, for us it's all about consistency every day and there's been lots of learnings on the way through.

Michael Simotas: (Deutsche Bank, Analyst) Great, thank you.

Operator: Thank you. The last question comes from Rob Freeman from Macquarie, please go ahead.

Rob Freeman: (Macquarie Group, Analyst) Thanks, guys. So just on these store-controllable voice-of-customer scores, so obviously they're up around 5% just looking at the change in the score. In terms of the achievement of that, should we be thinking of it as a kind of OpEx number on training? Also could you comment on average staff levels per store, please?

Brad Banducci: The overall improvement in voice-of-the-customer has been across a whole range of factors. I call [from that actually] fruit and veg, which clearly the [reducement] in price gives you a bit of a halo on fruit and veg and we shouldn't kid ourselves. But also we just see less time, dwell time, across our network on fruit and veg. So fruit and veg has really lifted for us. Very pleasingly so has availability, which has been a key one for us we've been working on and we've seen a nice bounce on that. That's all been about our new availability process that we've rolled out across our network. The third one that it's actually gone up very well has been perceptions around range. Which is not in store-controllable, but [an] average one where, all of a sudden, all the work we're doing on range is starting to bounce through for our customers.

So we are seeing it improve. Clearly part of the improvement, particularly in fruit and veg, has been in-store service, in-store training. We are continuing to invest in training. Fruit and veg does require a lot of training and we started that investment, as you may be aware, in Q4 of last year. It's one of the things we talked about which was in our investment profile. In number of hours in store or how many people in the store, we feel we've got the right investment in total hours in store. But we know we still need to work about when those hours are scheduled in our store, which goes back to the conversation we've had around customer-led rostering. We know that we're still - we're improving but we are under index really still in the number of hours we have, in some cases on Saturdays or Sundays and moving them out of weekdays.

That is improving. It's a learning process as our teams get to see what they scheduled and what they should have scheduled and how they then adjust going forward. So overall hours in store we feel good about. Level of investment in the team in stores, we need to land it better but it really should be increasingly baked into our numbers. Shape of when people are in our stores is still a work in progress, but we're getting better at it.

Rob Freeman: (Macquarie Group, Analyst) So that hours in store would be kind of static versus 4Q. Then in terms of the training time, do you think of that as hours in store? So is this literally training that's occurring on the floor? Or is training hours in addition to that?

Brad Banducci: The comments I've made about investment in training are in addition. Of course the ultimate training is on the floor, but it's in addition. Once we started - yes, if we want someone to do something in addition to standard on-the-floor training, then we've baked it into our training investment.

Rob Freeman: (Macquarie Group, Analyst) Is there a way to think about training hours per annum per staff? How should we think about training costs?

Brad Banducci: I think what we've called out is that a lot of training was dropped out of the business historically and we've increasingly put it back in. You saw it in FY17, in particular in the second half of '17. So we called out the fact that we didn't get as much cost leverage as you may have expected because of our investment in training. Increasingly our training investment is fully baked into our financials. So we feel we've got the right amount of training going in. But like all things, we can improve the training, leverage more technology in the training. So it's still a lot of work for us, but you see it more baked into our numbers than you did historically.

Operator: Thank you. At this time we're showing no further questions, I'll hand back to Mr Banducci for closing remarks.

Brad Banducci: Well thank you everyone for joining us on the call today. Hopefully you get a sense of where we are and on our journey. We feel we're on track at this stage in terms of our core priorities and what we're trying to achieve in the year. However, retail is all about Christmas, so we've got a very important mountain to climb over the next six to eight weeks. So look forward to hopefully seeing you in our stores. This is the critical quarter. But thank you, as always, for your questions and your support.

End of Transcript