

# WOOLWORTHS LIMITED

29 October 2015

## First Quarter Sales Results – Financial Year 2016 14 weeks to 4 October 2015

- Steady progress on our three-year transformation
- Incremental investment in price, service and loyalty
- Improvement in key customer metrics
- Update on expected H1'16 NPAT

	2016 (14 weeks)	2015 (14 weeks)	Increase
<b><u>First Quarter Sales (\$ million)</u></b>			
Australian Food and Liquor	11,064	11,015	0.4%
Petrol (dollars)	1,331	1,845	(27.9)%
<i>Petrol (litres)</i>	1,035	1,298	(20.3)%
<b>Australian Food, Liquor and Petrol</b>	<b>12,395</b>	<b>12,860</b>	<b>(3.6)%</b>
<b>New Zealand Supermarkets (AUD)</b>	<b>1,399</b>	<b>1,366</b>	<b>2.4%</b>
<i>New Zealand Supermarkets (NZD)</i>	1,559	1,501	3.9%
<b>General Merchandise</b>	<b>974</b>	<b>1,057</b>	<b>(7.9)%</b>
<b>Hotels</b>	<b>412</b>	<b>399</b>	<b>3.3%</b>
Masters	294	238	23.5%
Home Timber and Hardware	274	234	17.1%
<b>Home Improvement</b>	<b>568</b>	<b>472</b>	<b>20.3%</b>
<b>Total First Quarter Sales</b>	<b>15,748</b>	<b>16,154</b>	<b>(2.5)%</b>
<i>Total First Quarter Sales (excluding Petrol)</i>	14,417	14,309	0.8%

Media Release

Woolworths Limited Chief Executive Officer, Grant O'Brien said: "I am pleased with the positive steps we are taking to transform our business, particularly as we accelerate the pace of our change program across all of our businesses.

"At our FY15 results announcement in August, we advised that FY16 would bear the impact of our significant investment in price, service and customer experience resulting in lower margins in Australian Supermarkets. Since then, we have chosen to accelerate this investment whilst also absorbing significant cost inflation in categories like meat and relaunching our Woolworths Rewards loyalty program.

"We are encouraged that our investment is being recognised by customers with a consistent improvement in key customer metrics like Net Promoter Score since the beginning of the year," he said.

Woolworths Limited today announced first quarter FY16 sales of \$15.7 billion. Sales increased by 0.8% on the previous year excluding Petrol<sup>1</sup> and decreased by 2.5% including Petrol which was impacted by changes to the Woolworths-Caltex alliance<sup>1</sup> and declining fuel prices.

Australian Food and Liquor sales for the quarter were \$11.1 billion, an increase of 0.4% on the previous year. At the FY15 results announcement we indicated that comparable Food & Liquor sales had declined by 0.9% for the first eight weeks of FY16. The remainder of the quarter continued at a similar rate with comparable sales for the quarter declining by 1.0%.

New Zealand Supermarkets sales for the quarter were NZ\$1.6 billion, an increase of 3.9% on the previous year (2.4% in AUD). Comparable sales increased 2.5%<sup>3</sup> for the quarter.

General Merchandise sales were \$974 million, a decrease of 7.9%. Comparable sales declined by 8.1% for the quarter, an improvement on the first eight weeks where comparable sales declined by 8.9%.

Hotel sales for the quarter were \$412 million, an increase of 3.3% on the previous year with comparable sales increasing 2.0%.

Home Improvement sales increased by 20.3% during the quarter as we benefitted from new Masters store openings and the full year contribution of stores opened over the last 12 months.

## **H1'16 Earnings Update**

Woolworths Limited Chairman, Gordon Cairns, said: "The Board and management are focused on making the best long-term decisions across all our businesses. There will be short-term consequences, but we are confident that the decisions we are taking are necessary to realise the immense potential of the Group for our shareholders."

Given the significant change underway across all our businesses, it is important to be transparent about the impact of these changes to our H1'16 outlook. As a consequence of our increased investments described above, we currently expect Group Net Profit After Tax of \$900 million to \$1.0 billion for H1'16, 28% - 35% lower than H1'15 Group Net Profit After Tax before significant items.

## AUSTRALIAN FOOD, LIQUOR AND PETROL

**Australian Food and Liquor** sales for the quarter were \$11.1 billion, an increase of 0.4% on the previous year. Comparable store sales for the quarter decreased by 1.0%.

Our journey to transform our business is accelerating and key progress year to date has been as follows:

### Price

- Invested an additional \$100 million in the quarter to deliver on our price promise to customers
- New marketing campaign 'Price Drop' and 'Low Price, ALWAYS' to communicate our lower prices

### Service and customer experience

- Continued to invest in service with additional team hours in store with further increases planned in the lead up to Christmas
- Improved the shopping experience for our customers with a focus on Fruit & Vegetables, availability and queue times

### Loyalty

- Woolworths Rewards scheme relaunched with market leading benefits and an increased reward pool for our loyal customers
- Latest collectables campaign, Ancient Animals, launched with a good early response

Improvements in key customer metrics including NPS, value perception and service since the beginning of the year give us confidence that the progress we are making is being recognised by our customers. Deflation driven by significant price investment is currently outweighing volume growth, impacting sales. We remain confident that our Customer 1<sup>st</sup> Strategy will translate into improved sales momentum.

We continued to lower prices for customers as reflected by our investment of over \$100 million during the quarter driving a reduction in average prices of 1.8<sup>2</sup>%. Categories including groceries, produce, bakery and general merchandise experienced greater than average price reductions. As noted at our FY15 results, we have changed the way we disclose price inflation with a detailed explanation included in Appendix 2.

Our new store openings during the quarter included six (net) Australian Supermarkets bringing the total to 967, three (net) Dan Murphy's bringing the total to 199 and seven (net) BWS stores bringing the total to 1,254 (including both standalone and supermarket attached BWS stores). We will open our 200<sup>th</sup> Dan Murphy's store in Wollongong tomorrow.

Managing Director of Woolworths Food Group, Brad Banducci, said: "We are resetting our Food business to ensure a sustainable leadership position and maintain strong returns to shareholders. We are focused on our strategy to get customers to put us first as we invest in price, service and loyalty."

**Petrol** sales for the quarter of \$1.3 billion were impacted by the previously advised changes to the Woolworths/Caltex alliance<sup>1</sup> after which sales from Caltex operated sites are no longer recognised by Woolworths and a 10.6% reduction in average fuel sell prices (Q1'15: 147.1 cpl). Petrol sales in the second quarter will continue to be impacted by changes to the alliance until we cycle the final transition of the stores in December.

Comparable sales (dollars) decreased 12.2% and comparable volumes decreased 2.3%. Premium fuels and diesel continued to show strong growth offset by lower grade fuels and LPG.

Merchandise sales remained strong with growth of 10.0% for the quarter. Comparable merchandise sales increased 7.2%, driven by strong in-store promotions and seasonal product.

We opened one (net) petrol canopy during the quarter bringing the total to 517.

## **NEW ZEALAND SUPERMARKETS**

New Zealand Supermarkets' sales for the quarter were NZ\$1.6 billion, an increase of 3.9%<sup>3</sup> on the previous year (2.4% in AUD).

Comparable sales growth improved to 2.5%<sup>3</sup> for the quarter (Q1'15: decrease of 0.1%<sup>3</sup>). This was achieved despite low inflation, reflecting our 'Price Drop' and 'Price Lockdown' programs and a successful Domino Stars collectables promotion.

Countdown continues to lower the everyday price of groceries and help Kiwi families manage their budget through our 'Price Lockdown' program with 595 additional products added during the quarter. This is driving growth in our customer numbers and market share.

The Countdown Supermarkets food price index for the quarter was inflation of 0.5%.

Total Countdown Supermarkets at the end of the quarter were 180 with total franchise stores remaining at 60.

## **GENERAL MERCHANDISE**

General Merchandise sales for the quarter decreased 7.9% on the previous year with comparable sales decreasing 8.1% with an improving sales trend as the quarter progressed.

Our in-stock position normalised with the impact of our BIG W business transformation and systems implementation issues now largely resolved. Party, Books, Baby Consumables, Sleepwear and Underwear all performed well with solid sales of new season fashion.

We made good progress in rolling out visual merchandising improvements to some of our core destination categories such as Party, Toys, Apparel and Childrenswear and have launched our refreshed brand campaign focusing on value.

Our program to clear unproductive inventory has now been completed ahead of the original schedule freeing up space in store for inventory aligned to our new customer strategy.

Sales trends have further improved in October which we expect to continue during the second quarter.

Total BIG W and EziBuy stores at the end of the quarter were 185 and five respectively.

## HOTELS

Hotel sales for the quarter were \$412 million, an increase of 3.3% on the previous year with comparable sales increasing 2.0%.

While trading conditions remain challenging, sales momentum has improved on previous quarters with New South Wales continuing to be the best performing state.

Total Hotel venues at the end of the quarter were 331.

## HOME IMPROVEMENT

Home Improvement sales for the quarter were \$568 million, an increase of 20.3% on the previous year.

**Masters** sales for the quarter were \$294 million, up 23.5% on the previous year. We opened four stores in our new format during the quarter and we completed a refit of one store in Victoria. With new store openings and refits, we plan to have approximately half of our network in the new format by the end of the financial year.

FY15 new stores continue to exceed the average sales per store of those in the original format by more than 30%. It is still too early to properly assess the performance of new stores opened in FY16 to date. Whilst we are pleased with the progress of the new format stores, there remains much more to do.

During the quarter we launched a number of new products in our stores including market leading Honda mowers, Sherwin Williams paint and Loctite adhesives.

**Home Timber and Hardware** sales for the quarter were \$274 million, up 17.1% on the previous year, driven by sales from recent store acquisitions.

The four Masters stores opened during the quarter bring the total to 62 with Home Timber and Hardware store numbers remaining unchanged at 44.

– Ends –

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**Appendix One: New Stores and Refurbishments**

<u>First Quarter</u>	Gross New Stores	Net New Stores	Refurbishments
Australian Supermarkets (inc Convenience)	6	6	25
Thomas Dux	-	-	-
Liquor (inc attached liquor stores)	16	10	14
New Zealand Supermarkets	4	3	1
Petrol	1	1	2
BIG W	1	1	1
EziBuy	-	-	-
Hotels	1	1	5
Masters	4	4	1
Home Timber and Hardware Retail	-	-	-
<b>Total</b>	<b>33</b>	<b>26</b>	<b>49</b>

**Appendix Two: Notes**

<sup>1</sup> Petrol sales and volumes are not comparable with the prior period given changes to the Woolworths-Caltex alliance that became effective progressively during Q2'15.

Given operational changes under the new arrangements with Caltex, Woolworths no longer recognises sales from the Caltex-operated sites in its financial results. The new arrangements do not have a material profit impact on the Woolworths Group.

Further details on the revised arrangements with Caltex are provided in our ASX announcement dated 20 November 2014.

<sup>2</sup> We have adopted a revised method for calculating inflation for our Australian Food and Liquor business and will only disclose an average price inflation measure going forward. In developing the revised measure we consulted with Deloitte Access Economics. The new measure uses the Fischer methodology to weight changes in average quarterly prices by the average of current quarter and preceding quarter volumes and reflects the effects of promotional activity and changes in volume. We believe this measure is the most appropriate representation of the average price changes of items that consumers have bought during the quarter. Note that due to the change in methodology, the data is not directly comparable to previously reported data. Below is restated data for FY15 using the new method.

Average price changes	Q1'15	Q2'15	Q3'15	Q4'15	Q1'16
Price change (% year on year)	1.3%	1.3%	0.4%	-1.2%	-1.8%

<sup>3</sup> Growth for New Zealand Supermarkets is quoted in New Zealand Dollars