

WOOLWORTHS LIMITED

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Lean Retail Model to drive three-year growth plans

- 'Lean Retail' operating model enabling us to invest efficiency savings into all aspects of the customer offer
- Savings of more than \$500 million being realised across FY15-16 and \$125 million already put into lower prices
- Focus on improving the supermarket customer experience through improved service, refurbishments and innovative offers
 - Portfolio advantages to be leveraged for step-change in productivity
 - Woolworths' value position at its most competitive level since January 2014, with more to come

Woolworths Limited (Woolworths) today outlined its three year growth strategy, based on a new 'Lean Retail' operating model.

The Lean Retail model will deliver more than \$500 million of cost reduction across FY15-16 which will enable investment in improving all aspects of the customer experience including lower prices, better convenience, improved service and access, and a commitment to innovation.

Woolworths Limited CEO, Grant O'Brien, said the entire team was committed to doing what it takes to maintain and improve its position as Australia's leading retailer.

"Woolworths is a strong business with lots of growth potential, and we are absolutely aware of the challenges we face to realise that potential," Mr O'Brien said.

"Today we are outlining the strategy and detailed actions required to achieve growth over the next three years.

Lean Retail model to fund investment in the customer offer

"We place the customer at the centre of everything we do, and have updated our operating model to reflect evolving customer expectations.

"Our Lean Retail model builds on our historical approach of driving growth via seeking efficiency and investing in our customers but with a clear recognition that the approach needs to be tailored to a modern era. It is focused on three key outcomes:

- Cost: Improving our efficiency and cost position through taking 'real dollar' costs out in a low inflation environment;
- Customer: Investing in a multi-faceted and seamless offer to our customers; and
- Growth: Growing our customers and market share.

Woolworths' investment in the customer offer will be funded through a significant and ongoing focus on cost management within our non customer facing operations.

"Price is of course a key driver, and we will invest in ensuring we will not be beaten on price, but our customers also now expect greater use of technology and innovative offers to make their shopping easier and more enjoyable.

“We will turbo-charge our ‘Lean Retail’ model by investing more than \$500 million into delivering lower prices, better service, and more attractive offers.

“We started to identify savings in July 2014 from our non customer-facing operations. We have reduced our non-customer facing employee roles by around 400 full-time positions and found major areas of efficiency in our supply chain and back-office processes. We will reduce further non-customer facing roles by a further 400 positions by the end of H1-FY16 as we continue to identify process improvements.

“We are on track to achieve cost savings of more than \$500 million across FY15-16. This gives us great confidence that we will have greater than our original target to invest.

“Woolworths Food has already deployed \$125 million into lowering prices. In addition, we have boosted in store service levels and stock availability. However, this is just the beginning and the majority of the investment program will be deployed in FY16.

“As part of ‘Lean Retail’, we will invest in a significant supermarket refurbishment program with 80+ stores per annum slated for improvement over the medium-term. We will also take further steps to widen our advantage as Australia’s leading multi-channel retailer.

“We will also invest in manufacturing capability to bring greater product ranges to our Food customers, particularly in the ‘Food for Now’ and ‘Food for Later’ convenience categories.

“By executing these plans, we will achieve strong and sustainable sales growth which will drive long-term returns for our shareholders.”

Six Specific Challenges to Realising our Potential

Mr O’Brien said he would drive a relentless focus among his leadership team on the following core areas of execution:

1. *Regaining momentum in Australian Food* - Brad Banducci has developed clear plans to build customer trust and regain and sustain sales momentum in Australian Food by focusing on initiatives to have the customer put us first and investing in improving all aspects of our offer.
2. *Continuing to deliver Liquor growth* - Our Liquor division is the clear market leader and we are determined to extend that lead by providing innovative offers for every occasion via our store and multi-channel networks. We are well positioned to grow despite of the low-growth Liquor market.
3. *Making clear progress on Masters’ path to profitability* - We will focus on landing our new range and store format. Customers are responding well to both and we continue to see long-term growth opportunities in this fragmented market.
4. *Accelerating the reset of BIG W* - BIG W is progressing in its transformation and has a clear plan to capitalise on our strong place in the discount department store market.
5. *Accelerating our lean retail model to compete in a new environment* - We are building a low-cost foundation to give us options to serve all customer segments via a multi-channel approach. We have set up a central cost-out program called ‘Fuel for Growth’ to realise cost saving initiatives in non customer-facing areas and deliver benefits, which will be reinvested in lowering prices and improving all aspects of the customer experience.
6. *Maintaining disciplined portfolio management and capital allocation* - A disciplined approach to capital allocation will underpin our growth plans, with increased capital being directed to Australian Food and a strong focus on working capital management.

Key Enablers drive competitive advantages

“Underpinning our ability to deliver all of these priorities is the real strategic advantage of our unique structure. We have a series of key enablers stretching across our five business divisions which will drive efficiency and productivity saving to use as fuel for our future growth.

“Our retail portfolio affords Woolworths productivity and growth opportunities that are not available to our competitors, through cross-business scale and scope, logistics and customer service platforms, and sharing of innovation and best practice across divisions.

“Woolworths is Australia’s largest domestic online retailer and our fleet of 3,699 stores will continue to be harnessed to add convenience and flexibility for our online customers in how they interact with us. Around 250 new Click & Collect locations will be added over the next two years, taking the total Click & Collect network to approximately 1,000 stores.

“We are building a set of world-leading cross-business supply chains and integrated merchandising systems to create competitive advantage for all businesses and a platform for growth under Mercury 2.

“Woolworths is leveraging unique data assets to drive new insights and competitive advantage not available to other retailers. Ultimately this will drive our focus on the customer by making all decisions across the business starting from the customer perspective, using data on their actual needs and behaviour rather than surveys and stated behaviour.

Strong Leadership and Accountability

“We have streamlined our structure to bring Australian and New Zealand supermarkets into one division, which will now be called Woolworths Food Group under Brad Banducci as Managing Director.

“This structure will allow for greater sharing of opportunities and cost savings across our supermarkets operations so that we can find new ways to delight our customers.

Conclusion

“I am confident in the ability of our team to deliver on the full potential of Woolworths for our customers, our employees, our shareholders, and the communities we serve,” Mr O’Brien concluded.

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