



ASX Release

18 June 2019

“WINNING IN OUR SECOND CENTURY” – COLES UNVEILS REFRESHED STRATEGY TO SUSTAINABLY FEED ALL AUSTRALIANS AND TO CREATE LONG-TERM SHAREHOLDER VALUE

Key highlights

- At its first Investor Day since listing on the ASX in November 2018, Coles has announced its purpose of sustainably feeding all Australians to help them lead healthier, happier lives
- This purpose is underpinned by a refreshed strategy based on three pillars:
 - **Inspire Customers** through best value food and drink solutions to make lives easier
 - **Smarter Selling** through efficiency and pace of change
 - **Win Together** with team members, suppliers and communities
- Coles CEO Steven Cain details Coles' strategic differentiators as:
 - Win in online food and drinks with an optimised store and supply chain network
 - Be a great value Own Brand Powerhouse and destination for health
 - Achieve long term structural cost advantage through automation and technology partners
 - Create Australia's most sustainable supermarket
 - Deliver through an engaged team and pace in execution
- Coles has outlined its financial objectives for the next four years:
 - Revenue growth expected to be at least in line with market growth over long term
 - Approximately \$1bn of cumulative cost savings targeted by FY23
 - Maintain an attractive dividend payout ratio

Outlook update

- Comparable Supermarket sales growth for fourth quarter expected to be in the upper half of the range between second and third quarter comparable growth, adjusted for New Year's Eve
- Net capex for FY19 unchanged at \$700m-\$800m

Coles Group Limited (Coles, ASX: COL) today announced its refreshed strategy to deliver on its vision of becoming the most trusted retailer in Australia to grow long-term shareholder value.

Coles Group CEO Steven Cain said Coles, an Australian-owned retailer that began as a single store 105 years ago, wants to sustainably feed all Australians to help them lead healthier, happier lives as it sets the foundations for a second century of sustainable growth.

“Our strategy will truly differentiate Coles in the Australian retail market, allowing us to lead in Online through an optimised network, as well as making Coles an Own Brand Powerhouse and a destination for health,” he said.

“It will also provide long term structural cost advantages while making us Australia’s most sustainable supermarket.”

The strategy is based on three pillars: **Inspire Customers** through best value food and drink solutions to make lives easier; **Smarter Selling** through efficiency and pace of change, and **Win Together** with our team members, suppliers and communities.

“Our strategy directly aligns with the creation of long-term shareholder value by growing revenue at least in line with the market, reducing costs, and generating sufficient cash to fund growth and innovation while delivering an attractive dividend payout ratio,” Mr Cain said.

“As time-poor customers increasingly demand solutions to feed their families easily without compromising on quality, value or nutrition, Coles will expand its convenience and health offerings. We will make extensive use of data analytics and artificial intelligence to ensure we are anticipating and fulfilling customer needs as they continue to evolve – we want Coles to be a truly customer-obsessed retailer.”

Smarter Selling is expected to deliver \$1 billion in cumulative savings by FY23 through initiatives including the use of technology to automate manual tasks and simplifying above-store roles to remove duplication, allowing Coles to offset the impact of rising costs including energy and labour.

Coles will optimise its store network to increase sales density and improve profitability, tailoring up to 40 per cent of floor space in stores to meet the needs of local customers.

“Stores catering to value-focused customers will have a simplified range focused on essential items and self-service; where there is demand for a more premium offering, stores will have an extended range including more ‘foodie’ oriented and convenience products,” Mr Cain said.

New store openings will be carefully targeted, with expansion opportunities focused on areas with significant population growth, while Coles Online will focus on improving profitability as the Ocado partnership enables an expanded range and more flexible delivery options.

The growth of Coles Own Brand will remain a focus, with improved quality and lower costs through deeper more collaborative relationships with suppliers that will foster innovation, while additional resources will be allocated to driving incremental revenue streams including meat exports, and leveraging the flybuys joint venture.

“We have an ambitious change program ahead of us, and as we deliver it we are determined not to lose sight of the things that matter most to the communities we serve. That’s why we are embedding sustainability processes across the business to improve outcomes in areas like energy use and waste that will set Coles up to be recognised as Australia’s most sustainable supermarket,” Mr Cain said.

Trading update

Coles will report its full year results on 22 August 2019. Comparable Supermarket sales growth for the fourth quarter is now expected to be in the upper half of the range between the second and third quarter results, adjusted for the impact of New Year's Eve.

Net capex expectation for FY19 is unchanged at \$700m-\$800m.

A schedule of significant items for FY19 and estimated pro forma AASB 16 lease accounting impacts can be found as an Appendix to this release.

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APPENDIX

AASB 16 lease accounting impact to be adopted from 1 July 2019

The estimated pro forma balance sheet impact on FY19 financials from the adoption of AASB 16 lease accounting will be an additional \$8 - 9bn lease liability (as at 1 July 2018) and an additional \$7 - 8bn right-of-use asset (as at 1 July 2018)¹. The net impact, adjusted for deferred tax and reversal of current lease accounting, will be recognised against retained earnings. It is expected that there will be no impact on debt covenants or credit ratings and no impact on cash flows.

Coles' FY19 accounts will be presented on a pre-AASB 16 basis, however an update will be provided as part of the full year disclosures.

Significant items

The table below summarises Coles' significant items for FY19. Coles has previously announced the significant items in relation to the supply chain modernisation project and the one-off gain relating to the restructured Alliance Agreement with Viva.

In addition to the previously-announced loss on the disposal of the Hotels business, Coles also expects to recognise a non-cash gain in respect of fair value recognition of its interest in the Queensland Venue Co Joint Venture. The overall net gain is expected to be between \$100m and \$140m for the transaction.

Item	\$m
Supply chain modernisation project	(146)
Revised Alliance with Viva	137
Queensland Venue Co JV transaction	100-140
Total significant items	91-131

Note: The significant items are subject to finalisation and audit review.

While not a significant item, a restructuring provision related to Smarter Selling of \$15m-\$20m will also be included in the FY19 accounts. This will be offset by other initiatives and is not expected to impact the current outlook.

¹ The estimate may differ to actual impact on initial application in FY20 due to: changes in composition of the Group's lease portfolio; future economic conditions, including the Group's borrowing rates at 1 July 2019; changes to material judgement areas, such as final determination of reasonably certain renewal options on 1 July 2019; and final determination of contracts containing a lease.