

Results Release

colesgroup

29 April 2019

2019 Third Quarter Sales Results

Coles Supermarkets delivers 46th consecutive quarter of comparable sales growth

Third Quarter Sales – 12 Weeks to 24 March 2019

	Q3'19 \$'M	Q3'18 \$'M	CHANGE (%)	COMPARABLE GROWTH (%)	NYE ADJ. COMPARABLE GROWTH (%)
Supermarkets	7,272	7,049	3.2%	2.4%	2.2%
Liquor	735	705	4.3%	3.5%	0.9%
Total Supermarkets & Liquor	8,007	7,754	3.3%	2.5%	2.1%
Express ¹	874	1,292	n/a	n/a	n/a
Total third quarter sales	8,881	9,046	n/a	n/a	n/a

1) Express was in a transitional period for the quarter as a result of entering into the New Alliance Agreement on 1 March 2019. Fuel sales revenue is not included post this date, therefore 3Q19 Express sales is not comparable to the prior corresponding period

Sales performance highlights

- Supermarket sales grew 3.2% in the third quarter of the 2019 financial year, supported by a successful 'Fresh Stikeez' promotional campaign which drove high customer engagement
- Coles Online growth of 27%, with sales of over \$1 billion on a rolling 12-month basis
- Liquor comparable sales adjusted for New Year's Eve (NYE) timing increased 0.9%, with continued strong growth in Exclusive Liquor Brands in the wine category
- Strong growth in Coles Express food-to-go despite the impact of year-on-year fuel volume declines

Strategic milestones

- Commenced New Alliance Agreement with Express' fuel partner, Viva Energy, to restore growth in the Express business and better align both parties
- Entered into an incorporated Joint Venture with Australian Venue Co in relation to Coles' hotel and retail liquor business in Queensland which is expected to complete today
- Making life easier for customers through commencing trials with eBay and Uber Eats
- Entered into a strategic partnership with Optus to deliver high-speed broadband to all stores, allowing the business to become more digitally enabled and improve the customer experience

Coles Group CEO Steven Cain said: "We delivered a solid outcome for the third quarter. We know that customer expectations are changing faster than ever, and we are resolutely focused on delivering our Fresh Tomorrow strategy. We were also pleased to provide support for communities impacted by natural disasters such as floods in Far North Queensland, bushfires in Tasmania and Victoria, and Cyclone Veronica in WA."

Segment performance review

Supermarkets

Financial and Operating Metrics

	3Q19	3Q18	CHANGE
	\$'M	\$'M	(%/BPS)
Sales revenue	7,272	7,049	3.2%
Comparable sales growth (%)	2.4%	0.9%	151bps
NYE adjusted comparable sales growth (%)	2.2%	n/a	n/a
Sales per square metre (\$)	16,612	16,458	0.9%
Price inflation / (deflation) (%)	0.9%	(0.8)%	174bps
Price inflation / (deflation) ex tobacco and fresh (%)	(0.9)%	(1.1)%	25bps

Key highlights

Supermarkets sales revenue for the third quarter of \$7,272 million, up 3.2% on the prior corresponding period.

Comparable sales growth of 2.4% for the quarter was helped by the successful 'Fresh Stikeez' promotional campaign, which drove high customer engagement. Comparable sales growth was impacted by New Year's Eve (NYE), typically a strong trading day, which fell in the third quarter of this financial year compared to the second quarter last year. Adjusted for the timing of NYE, comparable sales growth for the third quarter was 2.2%.

Strong growth in average basket size continued to be a highlight during the quarter, largely underpinned by items per basket growth and price inflation in fresh categories. Transaction growth improved from the second quarter, particularly amongst larger basket customers, while customer satisfaction scores remained broadly steady relative to the second quarter.

Coles Online again delivered strong growth during the quarter with sales of more than \$1.0 billion achieved on a rolling 12-month basis, with an increased focus on improving profitability in the channel. Further investment in the Click & Collect channel was made during the period, which continued to contribute strongly to online sales growth.

Recently Coles announced it had entered into an exclusive partnership with Ocado Group to bring the world's leading online grocery platform, automated single pick fulfilment technology and home delivery solution to Australia. Under the agreement, two fully automated Customer Fulfilment Centres will be built, one located in each of Melbourne and Sydney prior to the end of the 2023 financial year.

Progress was made in the quarter on making life easier for customers through partnering with Uber Eats and eBay to trial more convenient ways for customers to shop with Coles. Coles also entered into a strategic partnership with Optus during the quarter to deliver high-speed broadband to all stores, allowing the business to become more digitally enabled and improve the customer experience.

A focus on product innovation saw over 190 Own Brand products launched during the quarter and 19 awards won at the Sydney Royal Cheese and Dairy Produce Show, with Gold medals awarded for Coles' Vanilla Bean and Cookies & Cream ice cream. Also, CHOICE magazine recommended Coles Brand Traditional Fruit Hot Cross Buns to be the best tasting buns in the market.

Price inflation for the quarter was 0.9% driven by adverse supply side conditions across all fresh categories. Drought conditions in key growing areas and the impact of the Queensland cyclone resulted in increased cost pressures in fresh produce in particular, while higher underlying commodity prices impacted meat and bakery input prices. Excluding the impact of tobacco and fresh, price deflation for the quarter was 0.9% as Coles continued to invest in lowering prices for customers.

Supermarkets continued to expand and improve the store network during the period. In the quarter, Supermarkets completed 7 refurbishments, opened 3 supermarkets and closed 1, ending the period with 818 supermarkets.

Liquor

Financial and Operating Metrics

	3Q19	3Q18	CHANGE
	\$'M	\$'M	(%/BPS)
Sales revenue	735	705	4.3%
Comparable sales growth (%)	3.5%	0.7%	276bps
NYE adjusted comparable sales growth (%)	0.9%	n/a	n/a

Key highlights

Liquor sales revenue for the third quarter of \$735 million, up 4.3% on the prior corresponding period.

Comparable sales growth was impacted by NYE, typically a strong trading day in the liquor calendar, which fell in the third quarter of this financial year compared to the second quarter last year. Comparable sales growth was 3.5% for the quarter and 0.9% on a NYE adjusted basis. Sales performance was driven by both improvements in average basket size and transaction numbers, with the Spirits category the strongest performer in the quarter.

Trading conditions for Liquorland were impacted by a subdued market and lower promotional intensity in beer, particularly in January. Exclusive Liquor Brand (ELB) growth continued to be strong in the wine category, lifting ELB penetration and Liquorland's market share in the wine category.

During the quarter, the Rapaura Springs Sauvignon Blanc 2018 priced at \$10 a bottle, a wine sold exclusively at Coles, won the prestigious Gold Medal at the 24th Grand International MUNDUS VINI Wine Award in Germany from a panel of 260 wine experts from 50 countries. This is the third prestigious gold medal from a major wine competition to be collected by the wine.

The First Choice format continued to evolve with four First Choice Liquor Market brand conversions completed during the quarter, bringing the total number of conversions to 19. An additional 10 conversions are scheduled to be rolled out in the fourth quarter. Converted store sales grew by almost double the rate of unconverted stores, with customers responding positively to the renewed format and range on offer.

Trading conditions for Vintage Cellars remained challenging during the period, largely driven by softer growth in the wine category and two store closures.

Investment in the store network continued in the quarter with 4 new stores opened and 2 closed, resulting in a total of 910 retail liquor sites at the end of the period.

As previously announced on 5 March 2019, Coles entered into an incorporated Joint Venture with Australian Venue Co (AVC) in relation to Coles' hotel business, Spirit Hotels, and its Queensland retail liquor business. Under the agreement, AVC will manage the day-to-day operations of the hotels business and receive the full economic benefit, while Coles will manage and retain the economic interest in the Retail Liquor business. Completion of the transaction is expected to occur today.

Express

Financial and Operating Metrics

	3Q19	3Q18	CHANGE
	\$'M	\$'M	(%/BPS)
Sales revenue ¹	874	1,292	n/a
C-store sales growth (%)	1.5%	0.9%	56bps
C-store comparable sales growth (%)	(0.5%)	1.3%	(184bps)
Fuel volume growth (%)	(10.9%)	(14.6%)	369bps
Comparable fuel volume growth (%)	(11.4%)	(15.9%)	443bps

1) Express was in a transitional period for the quarter as a result of entering into the New Alliance Agreement on 1 March 2019. Fuel sales revenue is not included post this date, therefore 3Q19 Express sales is not comparable to the prior corresponding period

Key highlights

Express sales revenue, including fuel, for the quarter of \$874 million, a decline of 32.4% on the prior corresponding period, driven predominantly by changes to the terms of the Alliance Agreement. As previously announced on 6 February 2019, Coles announced a New Alliance Agreement with Viva Energy until 2029. This new Alliance Agreement which came into effect on 1 March, saw Express move to a commission agent model and Viva Energy take responsibility for setting the retail price of fuel.

Convenience store (c-store) sales increased 1.5% for the quarter while comparable c-store sales declined by 0.5%. The slowdown in trading was primarily driven by lower fuel transactions and slowing tobacco growth in line with a softer market. Food-to-go (FTG) continued to be the strongest performing category in the c-store, underpinning improvements in shop-only transactions during the period.

Express continued to grow the network during the quarter, opening 2 new sites and bringing the total network to 715 sites. Express launched one additional non-fuel site in the period in Ripponlea, Victoria.

Fuel volumes declined 10.9% in the third quarter and declined 11.4% on a comparable fuel volume basis.

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Appendix 1 – Number of stores

	OPEN AS AT 30 DECEMBER 2018	OPENED	CLOSED	OPEN AS AT 24 MARCH 2019
Supermarkets	816	3	1	818
Retail Liquor	908	4	2	910
Spirit Hotels	87	-	-	87
Express	713	2	-	715