



ASX Release

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ADDRESS BY MANAGING DIRECTOR AND CHIEF EXECUTIVE OFFICER STEVEN CAIN

COLES GROUP LIMITED 2021 ANNUAL GENERAL MEETING – 10 NOVEMBER 2021

Please see attached the address to be delivered by the Managing Director and Chief Executive Officer to shareholders at this morning's Annual General Meeting.

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This announcement was authorised for release by Daniella Pereira, Company Secretary.

Coles Group 2021 Annual General Meeting
Managing Director & Chief Executive Officer's address to shareholders

Thank you, Chairman, and good morning to our shareholders and guests joining us online – it's great to be giving my tie its first outing of the year!

As James noted, it is now two and a half years since we set out our strategy to transform our business so that we can win in our second century. Our vision is clear – we want Coles to be the most trusted retailer in Australia and grow long term shareholder value.

Since the beginning of the pandemic just over 18 months ago, our 120,000-plus team members have provided an essential service to the Australian community, completing more than 1.7 billion transactions in stores and online – for which I thank them.

The current Delta strain has undoubtedly been the most disruptive period for everyone in the industry – from our thousands of suppliers to the more than 20,000 team members we have had in isolation.

As customers, you will have seen the significant changes we have made in our stores in order to provide a safe environment in which to work and shop. It has become somewhat second nature for many of us that the weekly shop starts by pulling on a mask, scanning a QR code at the door, and sanitising.

Behind all of this is our supply chain team, who have also transformed their ways of working, including using shift bubbles and rapid antigen tests to ensure they remain safe and can keep our stores replenished.

While 2021 did not deliver the return to normality that we all hoped for, the path towards a safer Australia in which we can enjoy the freedoms we once took for granted depends on the success of the vaccination program.

Since the vaccine became available, we have encouraged all of our team members to be vaccinated against COVID-19 as soon as they can, subject to health advice. To make it easier for them to access vaccines, we have partnered with State and Federal Governments to provide COVID vaccinations on-site to eligible team members at our distribution centres and manufacturing facilities, as well as priority booking links for our store team members.

We have also supported our team by providing access to paid personal leave while they are attending vaccination appointments.

State government vaccination mandates for essential workers in Victoria and for high-risk Local Government Areas in New South Wales have been highly successful in increasing vaccination rates in the community and among our team.

More recently, the Northern Territory and Western Australian governments have made health orders requiring essential workers including our team members to be vaccinated, and we're working with our team to help them get their shots and comply with these regulations.

In New South Wales and the ACT, Coles and other major retailers have also made vaccination a requirement to work in stores, distribution centres or support centres, unless team members have a valid medical exemption.

The new measures will help Coles to protect the health of team members in New South Wales, the ACT, Victoria, the Northern Territory and Western Australia. This includes those

who are unable to be vaccinated for medical reasons, as well as vulnerable family members such as elderly relatives and children who are not eligible for vaccination.

We have been delighted with the uptake of the vaccine by our team members, with more than 70% of team members across Victoria and NSW now fully vaccinated, and more than 94% having had at least one dose.

Coles will continue to work with health authorities and team members to strongly encourage the uptake of vaccination in Queensland, South Australia and Tasmania.

I am pleased to say that alongside managing COVID, we have continued to execute our strategy while moving quickly to respond to changes in consumer demand and behaviour. In many ways your company is exiting the pandemic a better business.

With regards to inspiring customers, both our Supermarkets and Liquor businesses reported improvements in their Net Promoter Scores across the year, while analysis from Roy Morgan ranked Coles as one of Australia's most trusted consumer brands for the second year in a row.

In the first half of the financial year, we became the first and only mainstream Australian supermarket to cease door-to-door delivery of paper catalogues. Not only was this a win for sustainability as we removed 260 million catalogues every year from the waste stream, it also marked a step-change in the way we will use technology for more direct, personalised and relevant engagement with our customers through our digital platforms.

As ever, delivering trusted value for our customers remained at the forefront of our offer, and we placed a net 474 new products on everyday low prices during the year. Our Exclusive to Coles products accounted for 32% of sales by value, up from 29% in FY19 as customers increasingly embraced the value and award-winning quality in our Own Brand range.

In Coles Liquor, we have made significant progress in the first year of our refreshed strategy to become a simpler, more accessible, locally-relevant drinks specialist.

We have reshaped stores so they're easier for customers to shop, delivered trusted value by lowering prices for longer, and executed range changes in key growth categories such as local craft beers, gin, and low- or no-alcohol products.

Our portfolio of exclusive products continues to collect awards across the country and around the globe, bringing home a total of 479 medals and awards during the year – that's over 100 more than we collected the year before.

In Express where coffee is a top seller, customer satisfaction has also risen significantly since we installed Swiss-made automated espresso machines that allow you to be your own barista for just \$1. The coffee beans, which are ground fresh for every cup, are blended specifically for Express by Melbourne-based coffee roaster, Aurigin, and collected more awards than any other coffee at the 2020 Golden Bean competition, the largest competition for coffee roasters in the world.

Our Smarter Selling program to drive efficiency in every part of our business and reduce costs by \$1 billion has now delivered total cumulative savings of more than \$550 million over two years, including approximately \$300 million in FY21.

In our supply chain this includes the use of advanced logistics planning tools to reduce truck movements and deliver products to our stores quicker, so that they stay fresher for longer at home. We have also introduced new technology to help our stores forecast demand and

improve availability for customers, while artificial intelligence helps us to manage markdowns more effectively.

In our Store Support Centre, we have implemented a new people and payroll system, replacing more than 16 legacy systems and simplifying ways of working for our team.

We also completed 65 store renewals, including 10 Format A, 36 Format C and four Coles Local supermarkets, including the first Queensland Coles Local store in Ascot.

In Liquor, the rollout of the First Choice Liquor Market format reached 79% of the First Choice network, and we continue to receive positive feedback from customers on the trial of our new black-and-white Liquorland format.

Of all the progress we have made against our strategic goals, one of the things we are proudest of is the way we are fulfilling our ambition to be Australia's most sustainable supermarket – much of which James has already covered, and as you have just seen in the video.

Within our Winning Together pillar, being "Better Together" is about truly engaging an increasingly diverse team to make Coles a great place to work – for everyone.

We have continued to invest further in mental health and wellbeing, working with The Resilience Project to help build our team's inner strength, with regular challenges focused on the key areas of Gratitude, Empathy and Mindfulness. Throughout this month, we are a major partner of Movember to raise funds for men's health across the group.

Our leadership in LGBTQI+ inclusion was recognised with our first Gold Australian Workplace Equality Index award, and a focus on the development of female leaders in store manager and technology roles contributed to a 2.3 percentage point improvement in women in leadership positions.

Since the end of the financial year, we have further committed ourselves to progress in this space, converting \$1.3 billion of our bank debt facilities to Sustainability-Linked Loans that reward us with lower interest rates if we reach agreed targets in three key areas of our sustainability strategy – namely the diversion of waste from landfill, reduction in greenhouse gas emissions, and an increase in the percentage of women in leadership roles.

Our supplier relationships have never been more important to us than they have been during the pandemic, and this was reflected in our highest ever engagement score in the 2021 Advantage supplier survey, the widest supplier survey in Australia.

Working with our dairy farmers, we extended our direct milk sourcing model to Tasmania, and we further expanded the model in Victoria, New South Wales, and South Australia to supply milk for Coles Brand cheese, allowing more dairy farmer suppliers to enter longer-term, direct relationships with Coles.

I will turn now to our financial performance.

In a year of continued disruption during which we were also cycling the escalated demand seen in the first few months of the pandemic in 2020, I am pleased to be able to report that Coles not only increased annual revenue and earnings for all three operating divisions, but also that earnings growth exceeded revenue growth as we achieved operating leverage in Supermarkets, Liquor and Express.

Our Supermarkets increased sales by 2.6%, or 9.6% on a two-year basis. Our Victorian stores saw elevated demand during the first half as a result of the extended lockdown, while our

customers nationally responded positively to value campaigns, including helping lower the cost of breakfast, lunch and dinner, and the MasterChef cookware and knife campaigns.

A highlight was the growth we have achieved in eCommerce as we worked to improve the customer experience, including expansion of our home delivery and Click&Collect offers, the launch of same-day home delivery, our same-day Click&Collect service Coles Rapid, and our eCommerce subscription business Coles Plus.

Our Supermarkets EBIT margin increased by 13 basis points, as stronger sales and the benefits of Smarter Selling and strategic sourcing initiatives were offset by the COVID costs incurred during the year.

In Liquor, sales increased by 6.6%, or 15.1% on a two-year basis, as venue closures and lockdowns boosted at-home consumption. eCommerce sales growth of 79% was underpinned by the opening of three dark stores in Victoria, Queensland and Western Australia during the year. Liquor EBIT grew by 19.6% as fixed costs were fractionalised across a base of elevated sales.

For Express, Convenience store sales grew by 7.7%, driven by growth in food-to-go, in particular our award-winning coffee. Express EBIT grew by 103% despite challenges in fuel volumes from reduced road traffic, as we focused on Convenience store sales and cost control.

Our balance sheet remains strong, with the flexibility to fund our future growth.

At the end of the financial year, we had net debt of \$355 million, down \$7 million from the prior year, with undrawn facilities of \$2.4 billion. Over the course of the year, our leverage ratio reduced from 3.1 times to 2.8 times EBITDA, and we lengthened our average debt maturity from 5.6 years to 6.9 years by issuing \$450 million of debt securities, comprising \$300 million of 10-year fixed rate notes and \$150 million of five-year floating rate notes, with the proceeds used to repay bank debt.

We remain committed to diversifying our funding sources and extending our debt maturity profile over time.

On 28 October we released our sales result for the first quarter of the new financial year, which included strong eCommerce revenue growth of 48% for Supermarkets, with two-year growth of 132%. We have invested to support this increased demand, with eCommerce accounting for 9% of Supermarket sales in the quarter, compared to 3.6% at the end of FY19.

In our physical stores we have seen growth in both Supermarkets and Liquor as lockdowns continued across New South Wales, the ACT and Victoria.

This included comparable Supermarket sales growth of 1.4%, or 11.1% on a two-year basis, while Liquor reported comparable sales growth of 1.4%, or 19.2% on a two-year basis.

The impact of lockdowns on traffic numbers in New South Wales, the ACT and Victoria contributed to a 9.5% decline in comparable sales from our Express Convenience stores. As we said at the time of the results announcement, lower fuel volumes are expected to impact profitability until traffic numbers return to more normal levels.

Looking ahead, as vaccination rates continue to rise across the country, we are optimistic on the outlook for the Christmas period as Australians adjust to life after lockdown and are once again able to enjoy time with family and friends.

Our Christmas range is focused on great value, easy entertaining that will allow more time together, and includes our first turducken – 3 birds in one! – as well as our most sustainable Christmas crackers ever, and plenty of local, low- and no-alcohol drink options.

After another year in which we've all been eating more meals at home, we've also brought back our popular MasterChef knives loyalty program to reward customers with professional-quality stainless steel kitchen utensils, including a miniature food processor to save even more time in the kitchen.

Yesterday we also announced that from early December, Bunnings and Officeworks will both become flybuys partners just in time for Christmas, providing customers with more opportunities to collect and redeem points, and helping us to learn more about their shopping preferences so that in the future we can serve them even better, and in a more personalised way. Flybuys points will now be eligible to be collected on \$5.5 billion of purchases, and more than 120 million transactions, each month.

I'd like to express my sincere thanks to James and the board for their invaluable support and guidance, and to our dedicated leadership team for their outstanding work to continue transforming our business for long-term growth, while meeting the many operational challenges that have emerged over the course of the year – not least of all home schooling!

While 2022 will be the third financial year in which the pandemic will exert an influence on our business and the lives of Australians, we are moving into a new era of COVID normal, one in which we live and work alongside the virus in the community.

Accordingly, the safety of our team and the communities we serve remains our highest priority at Coles, and I would like to thank our team for their ongoing commitment to serving the community in their capacity as essential workers. It is their efforts that have made Coles one of the most trusted brands in Australia.

To our customers, Coles remains committed to our purpose of sustainably feeding all Australians to help them lead healthier, happier lives. We are very much looking forward to helping you celebrate and enjoy what I am sure will be a very special Christmas and summer – we have even started selling rapid antigen test kits so you can make your events at home even safer!

For our shareholders, I am pleased to say that for all the progress we have made on our strategy over the past two years, the best is yet to come as our automation and digitalisation programs will help us to inspire customers and deliver market-leading efficiencies.

Finally, I'd like to share with you our Coles Christmas advert, which launched last week, before the Chairman takes you through the rest of the meeting.

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