



28 April 2021

The Manager
Company Announcements Office
Australian Securities Exchange

Dear Sir or Madam

Coles Group Limited – 2021 Third Quarter Sales Results

Please find attached for immediate release to the market the 2021 Third Quarter Sales Results Release for Coles Group Limited.

This announcement is authorised by the Board.

Yours faithfully,

A handwritten signature in black ink, appearing to read "Daniella Pereira".

Daniella Pereira
Company Secretary

For personal use only

Results Release

colesgroup

28 April 2021

2021 Third Quarter Sales Results

Coles cycles COVID-19 pantry stocking impacts with signs of normalising consumer behaviour now emerging

Third Quarter Sales - 12 weeks from 4 January 2021 to 28 March 2021

| \$ MILLION | 3Q21 | 3Q20 | HEADLINE GROWTH | | COMPARABLE GROWTH | |
|--------------|--------------|--------------|-----------------|---------------------|-------------------|---------------------|
| | | | 1-YEAR | 2-YEAR ¹ | 1-YEAR | 2-YEAR ² |
| Supermarkets | 7,724 | 8,230 | (6.1)% | 6.8% | (6.4)% | 6.7% |
| Liquor | 759 | 740 | 2.6% | 8.9% | 2.1% | 9.3% |
| Express | 275 | 256 | 7.4% | 13.2% | 6.3% | 10.6% |
| Total | 8,758 | 9,226 | (5.1)% | 7.2% | (5.4)% | 7.0% |

¹Headline 2-year growth is calculated as growth between 3Q21 and 3Q19.

²Comparable 2-year growth is calculated as the aggregate of 3Q21 and 3Q20 growth rates.

Third quarter performance summary

For the third quarter, Supermarkets sales decreased by 6.1% as Coles cycled the significant impacts of COVID-19 that occurred during late February and throughout March of the prior corresponding period. Liquor and Express sales increased by 2.6% and 7.4% respectively, as the COVID-19 impact on these businesses began to occur in late March 2020 when Australia entered a national lockdown which led to the closure of bars, clubs and hospitality venues and reduced levels of road traffic.

The two-year sales growth results are presented on both a headline and comparable basis to provide an overview of performance that excludes the unusual trading that occurred during the prior corresponding period.

COVID-19 costs were at the low end of previous guidance. Both capital and operating expenditure investments in strategic initiatives continue.

Normalising consumer behaviour

At the end of the third quarter and in the first few weeks of the fourth quarter, consumer behaviour has started to normalise, including:

- Australians enjoying Easter together, with Easter confectionery and entertaining among the strongest performing categories
- Customers returning to shopping centres and CBD stores, workers returning to offices and positive indicators that 'local shopping' is beginning to unwind
- Increased shopping trips and improved transaction growth supporting a recovery in impulse, convenience and food-to-go categories
- Sunday returning to the busiest trading day of the week supported by normalised routines of going to the office and children going back to school

Strategic highlights

Inspire Customers

- Supermarkets B2C eCommerce sales growth of 57% with continued improvement in Perfect Order Rate; launch of Click & Collect Rapid (order to pick-up in 90 minutes) and Coles Plus membership offer
- Delivered trusted value by placing more than 400 new products on everyday low prices (EDLP) in Supermarkets and lowering prices for longer in Liquor
- Provided a tailored offer for customers with more than 130 range changes completed including confectionery and deli seafood categories in Supermarkets, and craft beer, ready-to-drink (RTD) and cider categories in Liquor
- Own Brand delivered \$2.5 billion in sales reaching 31.6% penetration with seven Own Brand products winning awards, including Coles' chocolate and traditional fruit hot cross buns

Smarter Selling

- Smarter Selling on track to deliver cost savings in excess of \$250 million in FY21
- Commenced construction of the Witron automated distribution centre in New South Wales
- Completed 18 Supermarket renewals including three Format A and 14 Format C stores, including a renewed Format A store in Moonee Ponds, Victoria which showcases Coles' sustainability focus

Win Together

- Launched 'Together to Zero' strategy, to drive generational sustainability, involving a long-term aspiration towards zero emissions, zero waste and zero hunger. The new strategy includes the following commitments:
 - To deliver net zero greenhouse gas emissions by 2050
 - For the entire Coles Group to be powered by 100% renewable electricity by the end of FY25
 - To reduce combined scope 1 and 2 greenhouse gas emissions by more than 75% by the end of FY30 (from an FY20 baseline)
- Signed an agreement with Lal Lal Wind Farms for the purchase of large-scale generation certificates to further increase Coles' renewable electricity to 45% of total consumption by FY23
- Supported communities in times of need including during COVID-19 state-based snap lockdowns in Queensland, Western Australia and Victoria; donated and raised more than \$350,000 for communities impacted by floods in New South Wales and Queensland, and more than \$330,000 for the Lord Mayor's Distress Relief Fund to support bushfire-affected residents in Western Australia
- Announced partnership with RMIT University, RED Group and Replas to recycle millions of soft plastic packaging to develop new Polyrok concrete, a sustainable alternative to aggregate minerals used in concrete
- Committed to reducing plastic waste by no longer selling single-use plastic tableware products from 1 July 2021, diverting 1.5 million kilograms worth of single-use plastic from landfill each year
- Re-launched Moonee Ponds store featuring innovations in health and sustainability for customers, including trolley baskets made from 90% recycled milk bottles and 10% recycled plastic collected through REDcycle

Statement from Coles Group CEO, Steven Cain

"I am pleased to be reporting ongoing successful execution of our refreshed strategy, continued support of communities in need, including those impacted by the NSW floods, and the beginnings of a return to normality for Australians' everyday lives."

Segment performance review

Supermarkets

Retail calendar results

| | 3Q21 | 3Q20 | CHANGE |
|---|-----------|-----------|----------|
| Sales revenue (\$m) | 7,724 | 8,230 | (6.1)% |
| Comparable sales growth (%) | (6.4) | 13.1 | N/M |
| Sales per square metre ¹ (MAT \$/sqm) | 17,789 | 17,295 | 2.9% |
| Net selling area (MAT sqm) | 1,933,336 | 1,911,630 | 1.1% |
| Inflation / (deflation) (%) | (0.2) | 2.6 | (278)bps |
| Inflation / (deflation) excl. tobacco and fresh (%) | (0.8) | 1.8 | (255)bps |

N/M denotes not meaningful.

¹ Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

Key highlights

Supermarkets sales revenue was \$7.7 billion for the third quarter, a decrease of 6.1% on the prior corresponding period (increase of 6.8% on two-year growth basis¹), with comparable sales decreasing by 6.4% (increase of 6.7% on a two-year growth basis²) as Coles cycled the elevated sales from COVID-19 in the prior corresponding period when Supermarkets comparable sales growth was 13.1%. Coles was also cycling the Fresh Stikeez collectible campaign in the prior corresponding period. Pleasingly, customer satisfaction metrics improved during the quarter.

eCommerce sales grew by 49%³ with sales penetration increasing to 5.5% in the third quarter, up from 5.3% in the second quarter. eCommerce B2C sales grew by 57% with B2B sales returning to growth in the third quarter. Pleasingly, the Perfect Order Rate reached a record high during the quarter as a result of improved availability.

Customer-led range change activity continued with more than 130 range changes completed while Coles delivered trusted value for customers with more than 400 products placed on EDLP.

Own Brand continued to deliver value and innovation for customers with sales in the third quarter of \$2.5 billion. Over 260 new products were launched in the quarter including Coles Perform, a new sports nutrition brand with a range of nutritionist-approved frozen meals, and the Urban Colour brand offering cosmetics for customers seeking affordable luxuries. Own Brand won a total of seven awards in the third quarter including four Choice awards across products such as Coles' Hot Cross Buns (chocolate and traditional fruit), Coles 100% Australian Durum Wheat Spaghetti and Organic Wholemeal Spaghetti. Own Brand also won three Royal Sydney Cheese and Dairy Show Awards for Coles' Finest Cheeses.

Coles recorded deflation excluding tobacco and fresh of 0.8% for the third quarter. Total Supermarkets price deflation of 0.2% was recorded for the third quarter, the first quarterly deflation since FY18. Deflation in the quarter was largely a result of the cycling of pantry stocking which led to uncertainty of supply and lower promotional mix, and fresh produce deflation particularly in vegetables, as a result of droughts and bushfires in the prior corresponding period.

Coles completed 18 renewals during the quarter including three Format A and 14 Format C stores. For the quarter, one new store opening and three closures were completed. At the end of the period there were 831 Supermarkets.

¹ Headline two-year growth is calculated as growth between 3Q21 and 3Q19.

² Comparable two-year growth is calculated as the aggregate of 3Q21 and 3Q20 growth rates.

³ Coles Online cycled approximately two weeks in late March of the prior corresponding period where online services were reduced ahead of the launch of Coles Online Priority Service. In the fourth quarter, Coles Online will also be cycling approximately four weeks of reduced online services.

Liquor

Retail calendar results

| | 3Q21 | 3Q20 | CHANGE |
|--|---------|---------|----------|
| Sales revenue (\$m) | 759 | 740 | 2.6% |
| Comparable sales growth (%) | 2.1 | 7.2 | (512)bps |
| Sales per square metre ¹ (MAT \$/sqm) | 16,632 | 14,720 | 13.0% |
| Net selling area (MAT sqm) | 216,303 | 214,886 | 0.7% |

¹ Sales per square metre is on a moving annual total (MAT), or exit rate calculated on a rolling 12 months of data basis.

Key highlights

Liquor sales revenue was \$759 million for the third quarter, an increase of 2.6% on the prior corresponding period, with comparable sales growing by 2.1% despite the significant impact of COVID-19 on liquor sales late in the prior corresponding period. Strong performance in eCommerce and Liquorland underpinned sales growth while spirits and RTDs were the key drivers of growth at the category level.

Liquorland and First Choice Liquor Market delivered trusted value for customers by lowering prices for longer. An enhanced range continues to be a strategic focus with range reviews completed across craft beer, cider and RTDs while investments in the customer offer and capabilities have translated in to strengthening customer metrics.

Strong eCommerce sales growth of 72% was supported by the implementation of customer experience enhancements, including the introduction of SMS order confirmations and order tracking functionality. Capacity was supported by the opening of three dark stores in the prior quarter.

Renewal activity continued across all three Liquor banners. The new Liquorland trial concept store continues to perform well and the trial has been expanded. First Choice Liquor Market conversions have continued and have now been rolled out to 74% of the First Choice network. The new Vintage Cellars trial format is also showing positive signs with one renewal completed during the quarter.

During the quarter, three new Liquor stores were opened and four stores closed, taking the total network to 924 Liquor sites.

Express

Retail calendar results

| | 3Q21 | 3Q20 | CHANGE |
|---|-------|------|--------|
| Convenience (c-store) sales revenue (\$m) | 275 | 256 | 7.4% |
| Comparable c-store sales growth (%) | 6.3 | 4.3 | 195bps |
| Weekly fuel volumes (mL) | 58.8 | 63.6 | (7.5)% |
| Fuel volume growth (%) | (7.5) | 7.4 | N/M |
| Comparable fuel volume growth (%) | (9.3) | 5.3 | N/M |

N/M denotes not meaningful.

Key highlights

C-store sales revenue was \$275 million for the third quarter, an increase of 7.4% on the prior corresponding period, with comparable c-store sales growth of 6.3%.

Sales growth was driven by core convenience categories, such as food-to-go, drinks and confectionery. While forecourt and tobacco sales continued to contribute to growth, the growth did moderate relative to recent periods. Recent investments in self-service coffee machines and Express' award-winning Rainforest Alliance Certified Urban Coffee Culture blend has also driven double-digit growth in coffee sales and a strong uplift in customer satisfaction.

Fuel volumes declined by 7.5% with comparable fuel volumes declining by 9.3%. Average weekly fuel volumes of 58.8mL per week were recorded, despite the impact of seasonal factors and state-based snap lockdowns that restricted the movement of people. However, average weekly fuel volumes did trend positively after the traditional holiday season with March volumes of approximately 61mL per week.

During the quarter, one new site was opened and three closed, taking the total network to 721 sites.

Outlook

In the first four weeks of the fourth quarter, Supermarkets sales, adjusted for ANZAC Day timing, increased by approximately 4% while two-year growth increased by approximately 8%. Early signs of normalising consumer behaviour were observed including improved transaction growth, a recovery of COVID-19 impacted categories such as impulse, convenience and food-to-go, Sunday returning to be the busiest trading day of the week and positive indicators of the unwind of 'local shopping' as customers returned to shopping centres and CBD stores. In the fourth quarter of the prior year, Supermarkets sales in the month of April were subdued due to social distancing restrictions on traditional family events such as Easter, as well as some pantry destocking following the surge experienced in March.

Coles expects both capital and operating expenditure investments in strategic initiatives to continue for the remainder of the year.

Further information will be provided at Coles' Strategy Day on Wednesday, 9 June 2021.

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Appendix 1 – Calendar dates

| | 3Q21 | 4Q21 | 1Q22 | 2Q22 | 3Q22 | 4Q22 |
|------------------|-------------------------|--------------------------|--------------------------|------------------------------|-------------------------|--------------------------|
| Reporting period | 4 Jan to 28 Mar 2021 | 29 Mar to 27 Jun 2021 | 28 Jun to 26 Sep 2021 | 27 Sep 2021 to 2 Jan 2022 | 3 Jan to 27 Mar 2022 | 28 Mar to 26 Jun 2022 |
| Number of days | 84 | 91 | 91 | 98 | 84 | 91 |
| Number of weeks | 12 weeks | 13 weeks | 13 weeks | 14 weeks | 12 weeks | 13 weeks |

Appendix 2 – Number of retail stores

| | OPEN AS AT 3 JAN 2021 | OPENED | CLOSED | OPEN AS AT 28 MAR 2021 |
|----------------------------|--------------------------|----------|-------------|---------------------------|
| NSW & ACT | 260 | 0 | (1) | 259 |
| QLD | 182 | 0 | 0 | 182 |
| VIC & TAS | 233 | 1 | (1) | 233 |
| SA & NT | 62 | 0 | (1) | 61 |
| WA | 96 | 0 | 0 | 96 |
| Supermarkets | 833 | 1 | (3) | 831 |
| Liquor | 925 | 3 | (4) | 924 |
| Express | 723 | 1 | (3) | 721 |
| Group store numbers | 2,481 | 5 | (10) | 2,476 |