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ASX Market Announcements Office
Australian Securities Exchange
20 Bridge Street
Sydney NSW 2000

Woolworths Group H1 F22 trading update

Please see attached a Woolworths Group H1 F22 trading update announcement.

Authorised by: Kate Eastoe, Group Company Secretary



Woolworths Group H1 F22 trading update

Summary

- Australian Food sales and customer NPS remain strong relative to the overall market
- Direct and indirect COVID costs have impacted H1 F22 EBIT, with Australian Food EBIT expected to be \$1,190 million to \$1,220 million
- Positive sales momentum going into Christmas with improved Group financial performance expected in H2

Overview

Woolworths Group today provides an update on its financial year 2022 first half trading performance.

Woolworths Group CEO, Brad Banducci, said: “The first half of F22 has been one of the most challenging halves we have experienced in recent memory due to the far-reaching impacts of the COVID Delta strain and its impact on our end-to-end stock flow and operating rhythm. We have continued to put the health, safety and wellbeing of our customers and team first in the context of this challenging and volatile operating environment.

“Sales growth in Australian Food is positive on a one-year basis and strong on a two-year basis but moderated in Q2 following the easing of restrictions in NSW and Victoria. We are pleased with our sales growth compared to the overall market and our customer NPS scores have remained strong. As we head into the key Christmas trading period we have a good in-stock position and positive trading momentum, and our team is working hard to ensure that our customers have access to all they need to make this a special Christmas.

“However, the ongoing material costs of operating in a COVID environment has impacted our expected earnings in H1. COVID has had a significant impact on costs, even more so than last year due to the combination of both direct COVID-related costs, together with the indirect impacts from disruption caused by COVID. This includes the significant disruptions we have seen across the end-to-end supply chain, and the material inefficiency this causes in our stores, distribution centres and transportation.

“In addition, to recognise the significant efforts of all the Group’s front line teams across Australia and New Zealand, our H1 results will also include a special **Group Team Christmas Thank You** bonus payment of \$35 million to \$40 million as previously disclosed.

“Despite the various disruptions, we have made good progress activating our strategy and have continued to selectively invest in building out our customer proposition and broader retail ecosystem. As customer behaviours begin to normalise and COVID-related supply volatility reduces, we expect an improvement in our underlying operating performance and

we will provide a more detailed update on the outlook for the remainder of F22 at our H1 results in late February.”

Australian Food

Following the easing of lockdowns in NSW and Victoria during October, sales in Australian Food have moderated as customers return to more normal shopping habits. Sales have also been impacted by inclement weather, primarily in NSW, which has reduced outdoor entertaining occasions, as well as a material ongoing decline in tobacco sales. Total sales in Q2 to date¹ increased by 2.0% compared to the same period in the prior year (Q1'22: 3.9%), while sales on a two-year average basis have increased by 5.2% (Q1'22: 8.7%). Total sales in H1 to date have increased by 3.0% (two-year CAGR: 6.9%).

For H1, direct COVID costs in Australian Food are expected to be approximately \$150 million² (0.6% of sales), with the costs split between supply chain (including customer fulfilment centres), and stores, to ensure the safety of customers and team.

In addition, the indirect disruption to stores and distribution centres from operating in a COVID environment has led to elevated operating costs of approximately \$60 million to \$70 million in the half. This includes the deferral of a number of planned performance improvement initiatives that have been delayed to allow teams to focus on serving customers in the lead up to Christmas. Supply chain costs were also impacted by higher volumes, fuel price increases and the impact of balancing supply across distribution centres on the Eastern Seaboard.

Both direct and indirect COVID costs are expected to reduce significantly in H2, subject to no further widespread COVID disruptions; with direct COVID costs reducing in line with reduced COVID safety settings, and efficiency levels expected to improve over Q3 as the business returns to a more sustainable, predictable and productive operating rhythm.

eCommerce sales have continued to grow strongly, increasing by approximately 50% (two-year CAGR: over 60%) in the half. In H1 to date, eCommerce has comprised over 100% of Woolworths Supermarkets sales growth with eCommerce sales penetration of 11.0%. While the profitability of eCommerce continues to improve, eCommerce sales are lower margin, which together with a decline in store-originated sales has also impacted overall profitability in the half.

Approximately \$40 million has also been invested in continuing to build eCommerce capabilities, leveraging advanced analytics, and growing digital demand generation. Initiatives include improvements to the Delivery Unlimited subscription proposition, standing

¹ 10 weeks to Sunday 12 December

² Excludes Group Team Christmas Thank You bonus which will be recorded at a Group level

up Q-Retail, the launch of HealthyLife and Everyday Market, and investments in digital and data talent more broadly.

For H1 F22, Australian Food's EBIT is currently expected to be \$1,190 million to \$1,220 million (H1 F21: \$1,312 million)³.

Other businesses

BIG W's sales momentum in Q2 has improved on Q1, as stores in NSW and Victoria reopened to customers during October. Sales in Q2 to date have decreased by 3.3% (Q1'22: -17.5%) but increased over two years at a CAGR of 8.2%. Despite the improvement in Q2, given the impact of closures for much of the first four months of the half, BIG W's EBIT for H1 F22 is expected to be \$20 million to \$30 million (H1 F21: \$133 million).

New Zealand Food's sales growth has been strong in H1, benefitting from extended lockdowns and higher inflation in the country.

All figures are subject to half-year finalisation and review.

Woolworths Group will host a conference call to discuss the trading update at **10.15 am AEDT** and will be webcast live at www.woolworthsgroup.com.au.

For further information contact:

Media: Woolworths Group Press Office: +61 2 8885 1033 media@woolworths.com.au

Investors and Analysts: Paul van Meurs, Head of Investor Relations: +61 407 521 651

³ As disclosed at Q1 F22, Australian Food results will be restated in H1 F22 to reflect the new Australian B2B segment which will include PFD and other B2B revenue. The impact of the restatement on H1 F21 is currently expected to be approximately \$17 million