Metcash Limited
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4 December 2023

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

Dear Sir/Madam

METCASH LIMITED – FY24 HALF YEAR RESULTS ANNOUNCEMENT

Please find attached for release to the market the FY24 Half Year Results Announcement for Metcash Limited.

This announcement was authorised to be given to ASX by the Board of Directors of Metcash Limited.

Yours faithfully

Julie Hutton
Company Secretary

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ASX Announcement – Metcash Limited FY24 Half Year Results

Metcash Limited (ASX:MTS) today released its financial results for the first six months of FY24 ended 31 October 2023.

Highlights

- Further sales growth consolidates recent extraordinary sales performance
- Strong earnings performance in Food and Liquor
- Hardware retail network resilient
- Good cost management
- Outstanding cash result
- Well positioned with platform and resilience for future growth and strong returns
- Significant growth opportunities – footprint and M&A

Financials

- Group revenue increased 1.3% to $7.8bn and 1.6% to $9.0bn including charge-through[1]
- Group underlying EBIT decreased 3.4% to $246.5m
- Underlying profit after tax[2] decreased 10.9% to $142.5m
- Statutory profit after tax increased 12.2% to $141.0m
- Underlying EPS 14.7 cps, Statutory EPS 14.5 cps
- Operating cashflow up 143% to $217.7m (cash realisation ratio ~92%)
- Interim FY24 dividend of 11.0 cps

Commentary

Group CEO, Doug Jones said: "The diversity and resilience of our portfolio of businesses are clearly evident in the first half results for FY24.

Standouts for the half include continuation of sales growth on a very strong comparative period, and in more challenging conditions, as well as the outstanding cash performance.

Sales growth was delivered in all pillars and in our independent retail networks, with the differentiated offer of the independent network and its compelling value proposition continuing to resonate with shoppers, builders and tradespeople.

Our independent retail networks are healthy, and importantly they are continuing to reinvest to further lift their overall store quality and competitiveness.

Our Food and Liquor pillars performed particularly well, delivering increased earnings on the strong comparative period. It was also pleasing to see our Supermarkets business return to volume growth in the second quarter as inflation slowed.

In Hardware, sales in both our Independent Hardware Group (IHG) and Total Tools networks continued to be resilient in a more challenging market. Sales growth was delivered in both retail networks, however increased cost pressures and a further reduction of inventory in the IHG retail network weighed on Hardware's earnings for the half.

Last month we announced that our ownership in Total Tools Holdings would be increasing from 85% to 100%. Total Tools has been a great acquisition for us. The business, including our network of retail joint venture stores which now represents around half of network sales, has delivered significant value for shareholders.

Also announced last month, was the positive news that put option arrangements with our Total Tools joint venture partners were being reset to keep them in the business longer. The reset allows us to retain the experience and enthusiasm of these great store operators for longer than anticipated, and is a reflection of their confidence in the continued growth of those businesses. Many are looking to reinvest in their stores or open new stores and want to remain both invested and engaged in their ongoing success.

Pleasingly, Metcash's focus on further improving its ESG credentials was recognised in the recent Dow Jones Sustainability Index assessment, with the Company lifting to the 89th percentile of its international sector (FY23: 87th percentile).

Looking forward, Metcash's continued transition to a bigger, stronger and more diversified Group provides the Company with an ideal base for future growth and strong returns through the cycle. We remain well positioned with solid fundamentals in all our pillars, healthy and supportive retail networks, leading market positions, a strong financial position and an extensive pipeline of strategic growth opportunities," Mr Jones said.

Results Overview

Group reported revenue, which excludes charge-through sales[1], increased 1.3% to $7.8bn (1H23: $7.7bn). Including charge-through sales[1], Group revenue increased 1.6% to $9.0bn (1H23: $8.9bn) with growth in all pillars on their very strong sales performance in 1H23.

Group underlying EBIT decreased by 3.4% to $246.5m due to earnings growth in Food and Liquor being more than offset by lower earnings in Hardware and increased corporate costs. All pillars were supported by solid demand, good operating discipline and the success of strategic initiatives and acquisitions.

The Food pillar continued to perform very well delivering earnings growth of 3.6% to $101.7m, reflecting the strong trading performance and improved leverage. The differentiated offer and improved competitiveness of our independent network is continuing to provide an attractive value proposition for shoppers.

Hardware earnings declined 5.1% to $110.6m with continued earnings growth in Total Tools offset by a decline in IHG earnings. While sales in both the IHG and Total Tools retail networks have been relatively resilient in a more challenging market, increased cost pressures had an adverse impact on first half earnings.

The Liquor pillar has again performed strongly with earnings increasing 3.0% to $50.8m supported by continued strong demand from retail customers and improved leverage.

Group underlying profit after tax[2] decreased 10.9% to $142.5m, reflecting lower earnings in Hardware and increased finance costs. Statutory profit after tax increased 12.2% to $141.0m.

The cash performance of the Group was a standout this half with operating cashflow increasing $128.1m to $217.7m (1H23: $89.6m), with a cash realisation ratio of 91.9% (1H23: 36.5%). This reflects a reduction in incremental investment in working capital, a reduction in the effective tax rate and lower cash costs associated with significant items.

Net debt at the end of the financial year was $329.4m (1H23: $349.6m). The Group had undrawn debt facilities of ~$670m at the end of the first half, with an additional $200m of committed facilities added in November 2023 to help facilitate future growth opportunities. The debt leverage ratio[3] at the end of 1H24 was 0.59x (1H23: 0.65x).

The strong cash performance and financial position of the Group supported the determination to pay an interim dividend of 11.0 cents per share fully franked, which is in line with the Company's annual target payout ratio of ~70% of underlying profit after tax.

Review of Trading Results

Food

Total Food sales (including charge-through[1] and excluding tobacco) increased 5.7%, with strong growth in both Supermarkets and Convenience. The increase was 0.6% including tobacco sales.

In Supermarkets, wholesale sales excluding tobacco increased 6.0% underpinned by further improvement in network competitiveness and inflation. The differentiated offer of the retail network, supported by continued improvement in prices, ranges and store quality resonated with shoppers, resulting in the retention of IGA in their shopping repertoire. Foot traffic into stores increased, but items per basket decreased reflecting cost of living pressures on household grocery budgets. Sales volumes returned to growth in the second quarter and were close to flat for the half. Wholesale price inflation moderated through the half with inflation[4] of 7.7% in Q1 and 5.3% in Q2, and 6.5% for the half.

Retail like for like[5] sales growth in the IGA network was +2.8% ex-tobacco. The network remains healthy, confident and continues to reinvest. There were 18 new stores opened in the half and eight closures.

Tobacco sales declined 12.2% due to an acceleration in illicit trade and the trend to alternatives.

Food EBIT increased $3.5m or 3.6% to $101.7m reflecting the strong trading performance ex-tobacco, continued strong support from suppliers and the effective management of costs. Food EBIT also includes a one-off restructuring cost of $2.8m related to the alignment of capabilities and resources to support the acceleration of strategic growth initiatives.

The Food EBIT margin[6] increased 6bps to 2.15% reflecting the strong sales performance ex-tobacco and change in sales mix.

Hardware

Hardware sales (including charge-through[1]) increased 2.9% to $1.8bn, with growth in Total Tools offsetting a slight decline in IHG. Excluding acquisitions, sales declined 1.1%.

Sales in the combined IHG and Total Tools retail networks were resilient in more challenging conditions, increasing 2.1%.

In IHG, sales were broadly flat at $1.43bn with wholesale sales down 1.9%, reflecting growth in DIY being more than offset by a decline in Trade. Scan sales for the IHG retail network[7] increased 0.7% (LfL flat) with DIY +1.4% and Trade +0.3%. There was a further reduction in inventory levels in the retail network due to supply availability returning to more normal levels.

In Total Tools, sales increased 18.2% to $350.9m largely reflecting the impact of additional majority-owned joint venture stores. Excluding these additional stores, sales decreased 2.6%.

Retail network sales[8] for Total Tools increased 4.1% to $589.7m with a softer retail market evident in the second quarter. Foot traffic was down in the half, but customer conversions increased driven by Total Tools' competitiveness and leading market position.

Hardware online sales declined 7.2% to represent 5.1% of non-account sales.

Hardware EBIT decreased $6.0m or 5.1% to $110.6m with increased earnings in Total Tools more than offset by a decline in IHG earnings. Excluding acquisitions, the decrease was 11.8% which reflects lower sales volumes and increased cost pressures. EBIT was adversely affected by regulatory cost increases (primarily in Victoria), higher labour costs (including the impact of Fair Work), higher occupancy costs and other cost inflation. Lower sales volumes incorporate a one-off adverse sales impact in Total Tools associated with the transition of its exclusive brands inventory to the new Ravenhall Distribution Centre in Victoria.

In IHG, EBIT decreased 12.2% to $61.3m and the wholesale margin was 2.9%. Total Tools EBIT increased $2.5m or 5.3% to $49.3m. Excluding acquisitions, EBIT decreased 8.1%, and includes the adverse impact associated with its transition to the new Ravenhall Distribution Centre.

The Hardware EBIT margin[6] was 6.2% (1H23: 6.7%) with IHG 4.3% and Total Tools 14.0%.

Liquor

Total Liquor sales (including charge-through[1]) increased 2.4% to $2.5bn with continued growth in sales to independent retail customers despite a more challenging market.

Wholesale sales to retail customers increased 2.8%, underpinned by a continuation of the increased preference for local shopping and the at-home consumption trend. The value offered by the independent retail network through convenience, tailored ranges, competitive prices and local friendly service continued to drive the strong performance. Sales to on-premise customers declined 2.6% in line with market trends.

Higher cost of living pressures led to more shoppers switching to lower priced value choices with the beer and RTD categories delivering the highest growth.

Liquor EBIT increased $1.5m or 3.0% to $50.8m reflecting the contribution from the strong trading performance, improved leverage and good cost management. The EBIT margin[6] for Liquor increased one basis point to 2.04%.

Financial Position

Group operating cashflow increased $128.1m to $217.7m (1H23: $89.6m) with a cash realisation ratio[9] of 91.9% (1H23: 36.5%). This reflects a reduction in incremental investment in working capital, a reduction in the effective tax rate and lower cash costs associated with significant items.

The Group had net investing outflows of $71.1m, including capital expenditure of $57.2m and acquisitions of businesses of $19.0m. The business acquisitions were predominantly in the Hardware pillar including the acquisition of an additional five joint venture stores in Total Tools.

Net debt at the end of the financial year was $329.4m (1H23: $349.6m). The Group had undrawn debt facilities of ~$670m at the end of the first half, with an additional $200m of committed facilities added in November 2023 to facilitate future growth opportunities. The debt leverage ratio[3] at the end of 1H24 was 0.59x (1H23: 0.65x).

Dividends

The strong cash performance and financial position of the Group led to the Board determining to pay an interim dividend of 11.0 cents per share fully franked, which is in line with the Company's annual target payout ratio of ~70% of underlying profit after tax. The record date is 15 December 2023 and payment is on 30 January 2024.

Metcash reactivated its Dividend Reinvestment Plan (DRP) in June 2023 to provide flexibility for shareholders resident in Australia and New Zealand to reinvest in Metcash cost effectively, while also delivering incremental support and flexibility for Metcash to pursue attractive growth opportunities.

The discount rate in respect of the interim dividend for FY24 has been set at 1.0%. The last day for shareholders to notify their participation in the DRP is 18 December 2023. The pricing period is from 8 January 2024 to 19 January 2024. Metcash will announce the DRP price and shares to be issued 22 January 2024, with shares issued on 30 January 2024.

Existing shareholders resident in Australia and New Zealand will be sent an invitation to participate in the DRP. Full DRP details are provided on Metcash's website at: www.metcash.com/investor-centre/DRP.

Outlook

Group

Sales growth has continued in the first four weeks of 2H24.

The Food and Liquor pillars are performing well, supported by their competitiveness and differentiated value proposition. Hardware continues to perform better than the market and remains ideally positioned in the detached home and professional tools segments to capitalise on an improvement in consumer confidence and activity levels.

The Company continues to have a strong focus on costs and working capital management, and expects to deliver between $14m to $16m of annualised savings from its cost optimisation program in the second half.

Metcash remains well positioned for future growth and strong returns through the cycle. This is underpinned by a balanced portfolio of businesses that have solid fundamentals, healthy and supportive retail networks, leading market positions, a strong financial position and a significant pipeline of strategic growth opportunities.

Sales update – first four weeks of 2H24

Total Group sales increased 0.8% with growth in Food ex-tobacco, Hardware and Liquor compared to the prior comparative period.

Total **Food** sales ex-tobacco increased 4.8% (approx. flat including tobacco), with Supermarkets wholesale sales ex-tobacco up 4.9% (approx. flat including tobacco) with the return to volume growth seen in the second quarter continuing. Wholesale price inflation for November (ex-tobacco and produce) was 4.4%.

Total **Hardware** sales increased 2.4% reflecting a return to growth in IHG, with sales up 1.6% and a 6.2% increase in Total Tools buoyed by store footprint expansion and acquisitions.

Liquor sales were 1.5% higher with growth in sales to retail and on-premise customers.

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1 Direct sales from suppliers to retailers, invoiced through Metcash
2 Underlying profit after tax excludes significant items: Project Horizon implementation costs $5.1m, put option valuation adjustment ($3.9m), and Mega DC transition costs of $0.3m
3 Debt leverage ratio: net debt/(underlying EBITDA – depreciation of ROU assets)
4 Excludes tobacco and produce
5 Based on scan data from 1,132 IGA stores
6 EBIT margin: EBIT/Total revenue (including charge-through)
7 Based on a sample of 365 network stores that provide scan data (represents >85% of sales)
8 Based on 100 network stores' scan data
9 Cash realisation ratio (CRR): cash flow from operations/underlying NPATDA (depreciation and amortisation not tax effected)