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Woolworths Group (WOW)

A year of consolidation

Recommendation

Hold (Initiation)

Price

\$29.57

Target (12 months)

\$31.75 (Initiation)

Sector

Food and Staples Retailing

Expected Return

Capital growth	7.4%
Dividend yield	3.2%
Total expected return	10.6%

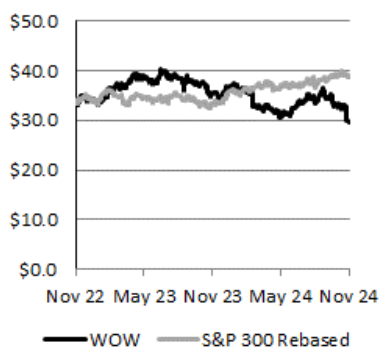
Company Data & Ratios

Enterprise value	\$52,817m
Market cap	\$36,122m
Issued capital	1,222m
Free float	100%
Avg. daily val. (52wk)	\$92.1m
12 month price range	\$29.60-37.59

Price Performance

	(1m)	(3m)	(12m)
Price (A\$)	32.86	34.30	35.50
Absolute (%)	-10.04	-13.50	-15.42
Rel market (%)	-10.29	-16.44	-33.47

Absolute Price



SOURCE: IRESS

Company background

Woolworths (WOW) was established in 1924 in Sydney Australia and today through its 1,693 points of presence in Australia and NZ, is a leading supplier of food and everyday needs with complementary investments in Foodservice and Digital marketing. Since FY20 WOW has generated CAGR earnings growth of +7.9% p.a. while paying out 80% of cumulative profits in ordinary dividends lifting to 87% with inclusion of special (vs. a target of 70-75%). Looking forward we anticipate FY25e to be a year of consolidation, with headwinds in discretionary categories (Big W and B2B Australia) mitigated by a continued shift in Australian food consumption to in-home channels. Beyond FY25e, we would anticipate a resumption of growth as discretionary sectors recover and WOW cycles off commissioning costs related to investments in automated distribution and customer fulfilment facilities (ADC/CFC). We initiate coverage with a Hold rating and \$31.75ps target price.

FY25e a year of consolidation, before a return to growth

On a normalised basis (for a 52wk period in FY24) we forecast +4.1% p.a. compound growth in revenue resulting in compound NPAT growth of +5.2% p.a.. This view is predicated on: (1) Delivering targeted returns on a ~\$1.5Bn capital investment program in ADC's and CFC's; (2) Growth in alternative revenue streams of digital marketing; (3) A recovery in consumer discretionary spending in FY26-27e benefiting Big W and Australia B2B; (4) Continued growth in core grocery retailing and Petcare segments; and (5) Mitigated in part by CDOB inflation and margin pressures FY25e. Articulation of a strategy to restore profitability in Big W is a potential alternative avenue for growth.

Investment view: Initiate coverage with a Hold rating

The recent share price correction in WOW following the commencement of legal action by the ACCC and softer 1H25 guidance in the Food business, sees WOW trade at a ~12% discount to its R2YA multiple. However, the greater relative exposure of WOW to discretionary categories that are likely to face sector headwinds in the near term and the modest trading premium to COL, sees us initiate with a Hold rating.

Earnings Forecast

Year end June	2024	2025e	2025e	2025e
Sales (A\$m)	67,922	69,962	72,667	75,239
EBITDA (A\$m)	6,001	5,924	6,260	6,692
NPAT (reported) (A\$m)	108	1,572	1,693	1,931
NPAT (adjusted) (A\$m)	1,669	1,642	1,763	1,931
EPS (adjusted) (cps)	140.4	128.7	138.6	158.1
EPS growth (%)	(0.6)	(8.3)	7.7	14.1
PER (x)	21.1	23.0	21.3	18.7
FCF Yield (%)	(1.4)	(2.1)	(0.3)	0.1
EV/EBITDA (x)	8.7	8.8	8.3	7.8
Dividend (¢ps)	144.0	95.0	103.0	117.0
Franking (%)	100.0	100.0	100.0	100.0
Yield (%)	4.9	3.2	3.5	4.0
ROE (%)	1.9	26.6	26.6	28.2

SOURCE: BELL POTTER SECURITIES ESTIMATES

Contents

Background and Investment view	3
Backdrop and themes.....	8
Financial drivers	11
ACCC issues	14
Board and Senior Management	16

Background and Investment view

Woolworths (WOW) was established in 1924 in Sydney Australia and today through its 1,693 points of presence in Australia and NZ is a leading food and everyday needs business with complementary investments in Foodservice and Digital marketing. Through a combination of growth in the core ANZ B2C grocery business (of +5.7% p.a.) and investment in ancillary business (~\$1.3Bn in deployed in acquisitions such as PFD, Petstock, MyDeal and Shoppers Media) WOW has generated group EBITDA growth of +7.6% p.a. (on a 52wk basis). A brief outline of WOW is detailed below.

Figure 1 - WOW at a glance

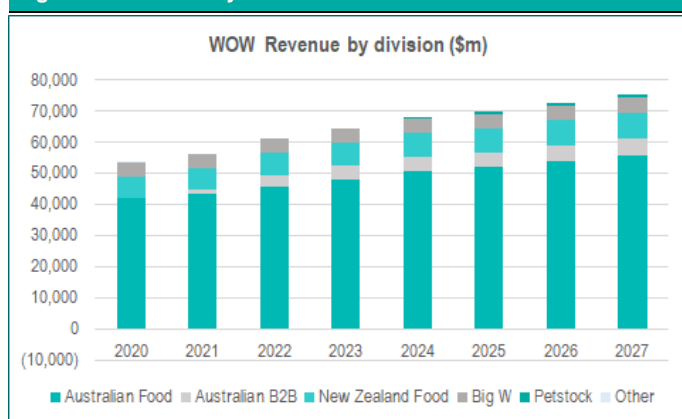
	Australian Food	Big W	W Living Petstock (55% interest)	Marketplace / HealthyLife	Australian B2B	NZ Food	Other
R12M Gross revenue	\$51.3Bn	\$4.7Bn	\$632m*	\$110m	\$5.7Bn	\$7.6Bn	\$230m
Profile	1,111 Stores 2,531,657 sqm (Jun'24)	177 Stores 1,009,596 sqm (Jun'24)	217 Retail / 26 Franchise 120,143 sqm (Jun'24)	GMV \$339m MyDeal (80% owned) Big W & Everyday Market HealthyLife	PFD Foodservice: #2 Player with 750 trucks and 68 DC's generating >\$2bn in revenue Primary connect provides transport to suppliers and EDV	188 Stores 418,750 sqm (Jun'24)	Shopper Media 2,000 marketing screens Quantum (78% Owned) Data Analytics Property and central costs
Growth levers	13% R12M eCom penetration Target 15-30 new sites p.a. 62 Refurbishments p.a. Investment in CFC's	10% R12M eCom penetration 10.1m active rewards members				14% R12M eCom penetration 1.6m active Rewards members Target 2-4 Supermarkets p.a. 8 Refurbishments p.a.	
Competitive Landscape	Food Inflation Population growth Competitive Top 4 ~82% share	Merchandise Inflation Competitive Fragmented	Growth in Pets numbers Population Growth 3 large specialists Online and General retailer	Online migration Competitive Fragmented	Food Inflation Competitive Top 5 ~40% share	Food Inflation Population growth Competitive Top 2 ~85% share	

* Petstock revenue is from Jan'24. PF T12M at acquisition ~\$860m

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES ECOMM PENETRATION AT 1Q25.

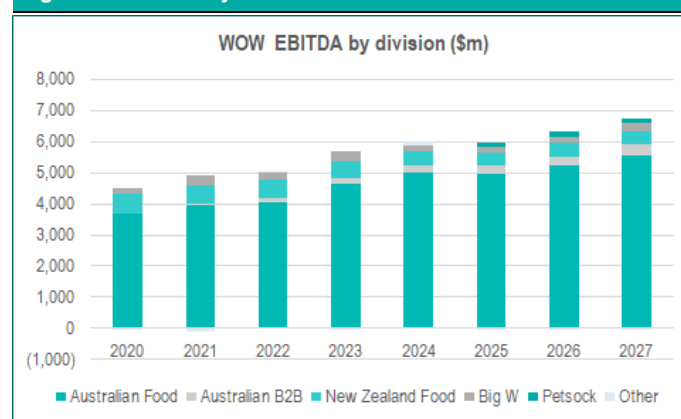
Excluding the demerged Endeavour (EDV), WOW has achieved top line compound growth of +6.0% p.a. since FY20, with the majority of this growth coming from Australian grocery and B2B Food businesses, with the latter growing at a compound rate of +11.6% p.a. with the benefit of acquisitions. Likewise, EBITDA has grown at a compound growth rate of +7.6% p.a., with investment in B2B and Petstock mitigating declines in NZ grocery. Moving forward we anticipate slowing growth rates in Australian Food to be mitigated by gains in discretionary categories in Big W and B2B (though this is more likely to be an FY26-27e story) and the cycling off of transition costs associated with ADC/CFC investments.

Figure 2 - Revenue by division



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Figure 3 - EBITDA by division



SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

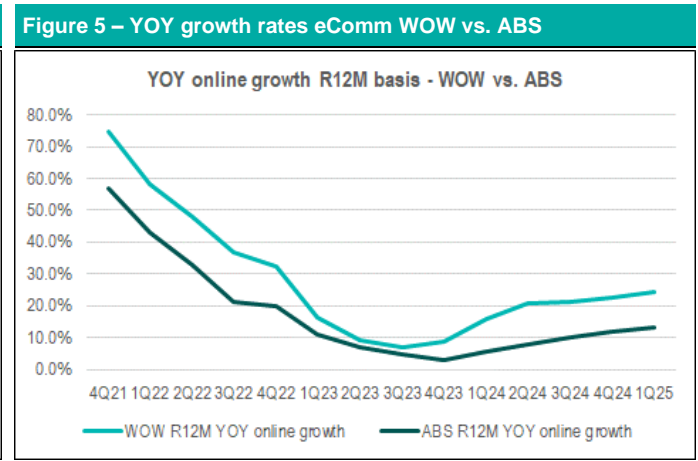
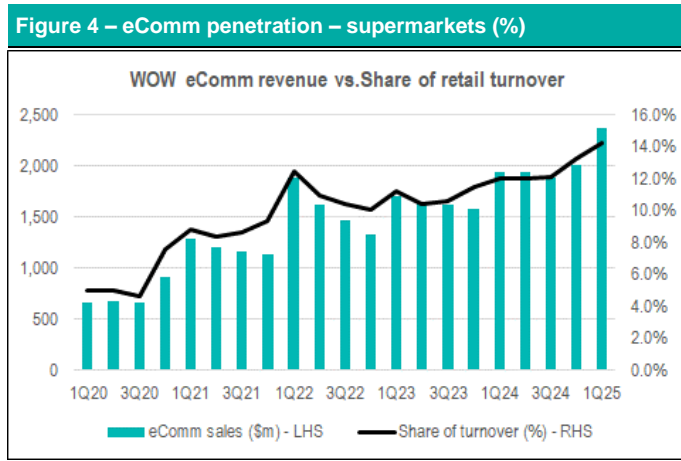
INVESTMENT VIEW

We initiate coverage on WOW with a Hold rating and \$31.75ps target price. Our view on WOW is predicated on:

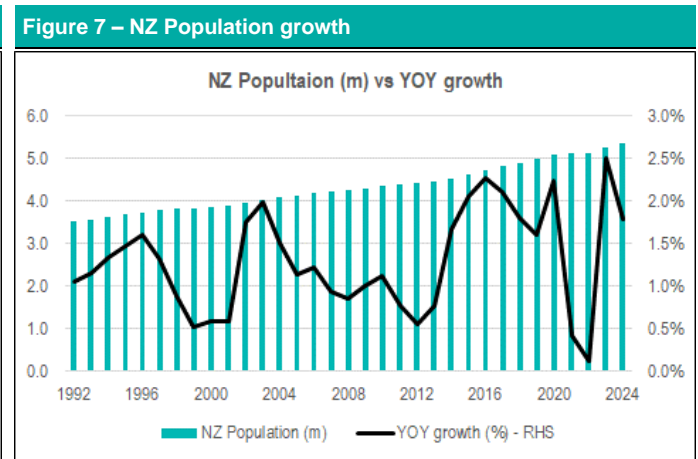
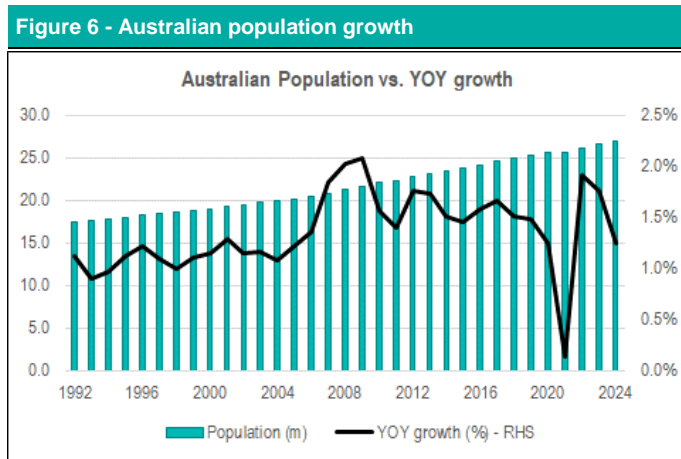
Investment in ADC/CFC capability in Australian grocery: WOW has deployed ~\$1.5Bn in capital (inclusive of leases) in developing new Automated DC's (ADC) at Moorebank and a new Customer Fulfilment Centre (CFC) at Auburn, which will progressively commence operations over FY25-26e. In this period WOW anticipates incurring commissioning and

duplicate running costs of ~\$90-100m p.a. before falling away in FY27e. Returns of >10% are targeted on the investment implying a >\$150m EBIT benefit being delivered, noting that the Melbourne south Regional DC achieved this return, having gone live in 1H20.

Investment in eCommerce capability: In the consumer facing businesses of grocery ANZ and Big W, eCommerce sales have grown from 5.0% of revenues in 1Q20 to 14.3% in 4Q24, with penetration reaching 14.4% in Australian grocery. WOW growth in 1Q25 eCommerce sales is well ahead of the sector and peer COL and the ongoing investment in CFC's and last mile delivery is expected to continue to drive growth in online sales.



Favourable near-term outlook on secular demand driver by population growth and a rotation to in-home consumption: Population growth of +1-2% pa is a favourable demand driver for food consumption in ANZ grocery channels. We would expect this to be supplemented in the near term (i.e. FY25e) by an ongoing rotation from out-of-home channels to in-home driving volume growth (+2.0% in 1Q25) mitigating headwinds in food pricing growth.



Exposure to discretionary spending categories a near-term headwind: WOW carries a higher level of revenue exposure to consumer discretionary categories (than COL) through its exposure to Big W and PFD Foodservice. We anticipate that over FY25e growth in these businesses is likely to be more subdued as consumers continue to rotate from out-of-home to in-home dining and reduce discretionary purchases. We would see these headwinds as likely to reverse in FY26e as the protracted benefit of real wage growth (through tax cuts) and potentially interest rate cuts filter through to spending but see this as a headwind near term.

ACCC allegation manageable: The recent ACCC move initially wiped ~\$2Bn off the value of WOW. While we do not speculate on the merit of the ACCC action, we would highlight two points: (1) the period in question in Federal court proceedings was a period of material price increase requests and is clearly visible in ASX listed food manufacturer results in that period; and (2) The supermarket inquiry may limit the ability of majors to hoard development sites, though as online grows as a proportion of spending this may become less of an issue on the longer horizon. We highlight the ACCC allegations on pages 14-15.

High payout ratio with history of dividend growth: WOW has paid on average 80% of cumulative earnings out as ordinary dividends since FY20, with this lifting to 87% with the inclusion of special dividends. We expect FY25e to be a year of consolidation in terms of earnings and dividend growth and then forecast growth to resume as discretionary categories resume growth.

TARGET PRICE

In determining our \$31.75ps target price we have considered a timeweighted midpoint of our sum of the parts and ROIC based approach. Major features of these approaches are detailed below.

ROIC based approach: grocery retailers tend to have a low asset beta of ~0.50x and this reflects the near utility nature of the business returns (though we have applied a premium to the sector average to reflect ACCC related risks). General merchandising retailers tend to be higher beta and our beta is reflecting of the relative earnings mix of the two. Our LGR is predicated on population growth of 1.0-2.0% and inflation of 2.0-2.5%. Based on capital turn and excess returns, our determined target EV/EBITDA is 8.5-9.0x FY25-26e.

Figure 8 – WOW ROIC based approach

WACC Drivers								
Risk Free Rate	4.0%	Terminal Growth Rate	3.0%	Current Share Price (\$ps)	29.57			
Borrowing Margin	2.5%	Cost of Debt	6.5%	Equity (MV \$m)	36,122.4			
Mkt Risk Premium	6.0%	Cost Of Equity	9.3%	Financial liabilities (\$m)	16,107.0			
Asset Beta	0.61	WACC (pre-tax)	8.5%	Shares On Issue	1,221.6			
Equity Beta	0.89			Net debt/(net debt+equity)	30.84%			
	2021	2022	2023	2024	2025	2026	2027	
EBITDA (ex-duplicate supply chain slabs)	4,843	5,051	5,694	6,001	6,024	6,360	6,692	
Depreciation & Amortisation	(2,079)	(2,361)	(2,578)	(2,778)	(2,859)	(2,991)	(3,087)	
EBIT	2,764	2,690	3,116	3,223	3,165	3,369	3,605	
Lease interest	(528)	(542)	(542)	(570)	(578)	(595)	(602)	
Lease adjusted EBIT	2,236	2,148	2,574	2,653	2,587	2,774	3,003	
Invested Capital		9,364	9,185	8,850	9,787	10,052	10,210	
Lease adj. ROIC (%)		22.9%	28.0%	30.0%	26.4%	27.6%	29.4%	
long-term growth rate (%)				3.0%	3.0%	3.0%	3.0%	
Pre-tax WACC (%)				8.5%	8.5%	8.5%	8.5%	
Depreciation & Amortisation				2778	2859	2991	3087	
EBITDA				6001	6024	6360	6692	
Derived EV/EBITDA (x)				8.9	8.5	8.7	8.9	
Enterprise Value				53215	51477	55090	59388	
Net cash		(3,260)	(2,620)	(3,280)	(3,868)	(3,698)	(3,354)	
Lease Liabilities				(12,144)	(12,510)	(12,652)	(12,794)	
Cash in transit				(683)	(709)	(735)	(760)	
Put options on minorities				(765)	(365)	(365)	(365)	
Petstock minorities (based on ROIC model)				(532)	(548)	(596)	(655)	
Franking Credits				1,550	1,581	1,775	1,997	
Market value				37361	35058	38819	43456	
Adjusted shares on issue				1218.7	1221.6	1221.6	1221.6	
Implied value (A\$ps)				30.66	28.70	31.78	35.57	

SOURCE: BELL POTTER SECURITIES

Sum of the parts: Our sum of the parts methodology looks at global peer multiples (see Fig.7) in determining a target price for WOW. The table below highlight major assumptions and comments that drive its determination.

Figure 9 – WOW sum of the parts valuation approach

	EBITDA (\$m)		EBITDA multiple (x)		Valuation (\$m)		
	FY25e	FY26e	FY25e	FY26e	FY25e	FY26e	
Australian Food	4,971	5,223	9.0	9.0	44,740	47,003	Global average ex-WMT & COST
Australian B2B	257	305	6.5	6.5	1,673	1,984	Comparable multiple to MTS
NZ Supermarkets	412	419	9.0	9.0	3,709	3,767	Global average ex-WMT & COST
Big W	202	223	10.0	10.0	2,020	2,231	Discount to global peer avg.
Petstock (55%)					1,490	1,599	55% stake at Peer group multiple of 19x EBITDA
MyDeal					320	320	Based on put option metrics and implied residual
Development property Portfolio					1494	1494	Last reported Book value
Quantum					348	348	Based on grossed up FY21-22 value and NPAT for holding
Corporate overheads					(625)	(625)	
Enterprise Value					55,169	58,120	
Net Debt					(3,280)	(3,868)	
Lease liabilities					(12,144)	(12,510)	
Cash in transit					(709)	(735)	
Surplus Franking credits					1,550	1,581	
Estimated market value					40,586	42,589	
Adjusted shares on issue					1222	1222	
Implied value (ASps)					33.22	34.86	

SOURCE: BELL POTTER SECURITIES

The table below looks at the retail peer group we have considered when determining our SOP capitalisation multiples.

Figure 10 - Global grocery valuation multiples (as of 12/11/24)

Grocery Retail	Share Price	Shares Out (m)	Market Cap	Net debt (+ lease)	EV	ND/FY25e EBITDA	Revenue			EV/Revenue (x)			EBITDA			EV/EBITDA (x)			
							2024	2025	2026	2024	2025	2026	2024	2025	2026	2024	2025	2026	
Endeavour Group Ltd	EDV AU	4.34	1,790.98	7,773	5,770	13,543	3.6	12,304	12,277	12,679	1.1	1.1	1.1	1,660	1,611	1,700	8.2	8.4	8.0
Metcash	MTS AU	3.04	1,097.7	3,337	1,326	4,663	1.8	16,789	17,531	18,063	0.3	0.3	0.3	677	726	779	6.9	6.4	6.0
Woolworths	WOW AU	29.57	1,221.59	36,122	15,586	51,708	2.6	67,340	69,257	71,989	0.8	0.7	0.7	5,914	5,914	6,278	8.7	8.7	8.2
Sprouts Farmers Markets inc	SFM US	146.51	100.0	14,650	1,344	15,994	1.9	7,674	8,459	9,374	2.1	1.9	1.7	636	714	790	25.1	22.4	20.2
Kroger Co	KR US	59.60	723.49	43,120	16,589	59,709	2.1	149,585	149,515	151,973	0.4	0.4	0.4	7,885	7,843	8,037	7.6	7.6	7.4
Albersons Companies Inc	ACI US	19.36	579.3	11,216	13,923	25,139	3.5	79,368	80,468	82,083	0.3	0.3	0.3	4,309	3,954	3,989	5.8	6.4	6.3
Natural Grocers	NGVC US	33.89	22.79	772	351	1,123	4.2	1,236	1,332	1,421	0.9	0.8	0.8	74	83	n.a.	15.2	13.5	n.a.
Grocery Outlet Holdings	GO US	18.77	97.1	1,823	1,513	3,336	5.5	4,357	4,724	5,137	0.8	0.7	0.6	241	278	315	13.9	12.0	10.6
Walmart	WMT US	84.21	8,038.25	676,901	58,843	735,744	1.4	644,830	678,035	706,394	1.1	1.1	1.0	38,375	42,221	46,055	19.2	17.4	16.0
Costco	COST US	932.88	443.1	413,334	(2,546)	410,788	(2.0)	254,884	272,952	291,006	1.6	1.5	1.4	11,431	12,761	13,732	35.9	32.2	29.9
Ahold delhaize	AD NA	32.79	929.35	30,473	14,636	45,109	2.0	89,273	92,280	94,827	0.5	0.5	0.5	7,084	7,298	7,588	6.4	6.2	5.9
Dollar Tree	DLTR US	61.21	215.0	13,160	10,227	23,387	3.9	30,623	30,798	31,914	0.8	0.8	0.7	2,662	2,641	2,853	8.8	8.9	8.2
Carrefour SA	CA FP	15.00	677.97	10,170	15,850	26,020	3.1	84,958	88,108	90,554	0.3	0.3	0.3	4,637	5,052	5,435	5.6	5.2	4.8
Casino GUICHARD Perrachon	CO FP	2.14	400.9	857	2,883	3,740	4.0	8,753	8,880	9,066	0.4	0.4	0.4	699	721	770	5.4	5.2	4.9
AXFOOD AB	AXFO SS	241.20	216.84	52,303	10,773	63,076	1.5	84,124	89,088	92,215	0.7	0.7	0.7	6,676	7,387	7,733	9.4	8.5	8.2
Sainsbury PLC	SBRY LN	243.40	2,357.5	5,738	4,773	10,511	2.1	32,675	33,472	34,194	0.3	0.3	0.3	2,182	2,242	2,314	4.8	4.7	4.5
Tesco PLC	TSCO LN	343.90	6,772.81	23,292	9,244	32,536	1.9	68,842	70,026	71,714	0.5	0.5	0.5	4,625	4,764	4,900	7.0	6.8	6.6
Jerónimo Martins	JMT PL	18.52	629.3	11,655	3,436	15,091	1.4	33,486	35,600	37,908	0.5	0.4	0.4	2,184	2,372	2,594	6.9	6.4	5.8
DFI Retail Group Hlds	DFI SP	2.39	1,352.12	3,232	3,340	6,572	3.8	8,938	9,111	9,351	0.7	0.7	0.7	810	878	907	8.1	7.5	7.2
Sheng Siong Group Ltd	SSG SP	1.64	1,503.5	2,466	(256)	2,210	(1.2)	1,432	1,496	1,547	1.5	1.5	1.4	199	208	215	11.1	10.7	10.3
Dino Polska SA	DNP PW	394.00	98.04	38,628	584	39,211	0.2	29,368	34,534	40,354	1.3	1.1	1.0	2,253	2,808	3,317	17.4	14.0	11.8
Average							2.3				0.8	0.8	0.7				11.3	10.4	9.5
Average ex-WMT & COST							2.5				0.7	0.7	0.7				9.6	8.9	8.1
Petcare																			
Petco Health & wellness	WOOF US	4.52	236.57	1,069	3,035	4,104	9.1	6,212	6,134	6,284	0.7	0.7	0.7	400	333	368	10.3	12.3	11.2
Chewy Inc	CHWY US	33.52	160.1	5,367	8,159	13,526	14.4	11,117	11,802	12,366	1.2	1.1	1.1	350	565	682	38.6	24.0	19.8
Freshpet	FRPT US	156.44	48.54	7,593	150	7,743	0.7	977	1,217	1,506	7.9	6.4	5.1	156	204	272	49.5	37.9	28.5
Pets at Home Group	PETS LN	283.80	461.4	1,309	369	1,678	1.4	1,475	1,540	1,621	1.1	1.1	1.0	250	263	280	6.7	6.4	6.0
Average							6.4				2.7	2.3	2.0				28.3	20.1	16.4
General Merchandise																			
Lowes	LOW US	274.51	567.3	155,728	35,549	191,277	2.9	86,163	82,966	84,453	2.2	2.3	2.3	13,255	12,160	12,559	14.4	15.7	15.2
Target	TGT US	153.28	460.67	70,612	15,583	86,195	1.8	105,811	106,541	109,577	0.8	0.8	0.8	8,073	8,871	9,446	10.7	9.7	9.1
Best Buy	BBY US	89.29	214.7	19,173	2,709	21,882	1.0	43,387	41,571	42,405	0.5	0.5	0.5	2,690	2,635	2,783	8.1	8.3	7.9
Average							1.9				1.2	1.2	1.2				11.1	11.3	10.7

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

RISKS

Risks to an investment in WOW include but are not limited to:

Strategy and disruption risk: Consumer behaviour and preferences continue to change and are influenced by factors such as economic conditions, digital and technological development and disruption, healthy living trends, sustainability preferences and an increasing choice in both online and in-store retail options. If WOW fails to adjust or execute its strategies to respond to changes in consumer behaviour and preferences, this may have a material adverse impact on the Group's financial performance and profitability.

Competition risk: Any increase in competitive activity from new or existing competitors may have a detrimental effect on the Group's operations, particularly if WOW fails to respond effectively to that competitive activity or its response is delayed. Increased competition may also adversely impact WOW's long-term performance and profitability.

Economic risk: General macroeconomic conditions and factors including inflation, low levels of unemployment, monetary policy and variability in interest rates, changes in

governments and their approach to fiscal policy including increasing taxes, levies and other imposts, variability in energy and input costs, cyclicalities in building and construction markets, and changes in consumer purchasing behaviour may adversely impact WOW customers as well as WOW earnings, cost of doing business and profitability. Further, geopolitical tensions and actions of nation states, including trade wars, territorial disputes, incursions, and war may adversely impact WOW operations and supply chain, resulting in delivery delays or the unavailability of certain products or inputs, increased cost of doing business and subsequent impact on WOW profitability.

Operational risk: WOW operations require compliance with various regulatory requirements including work health and safety, food and product safety, environmental, workplace industrial relations and public and product liability. Further, the businesses of WOW are highly regulated in many markets in which they sell their products. These regulations govern many parts of the operations, including the import, marketing, advertising, distribution and sales of its products. Examples of such regulation include industry codes of conduct and country of origin labelling laws. The introduction of new laws and regulations, or reform to existing laws and regulations, could materially impact WOW operational and financial performance, including through increased expenditure on compliance and controls and any required adjustments to how WOW conducts its business.

ACCC risk: with federal court proceedings commenced against WOW and the supermarkets inquiry ongoing there is the risk that WOW, may incur legal costs and/or settlement costs.

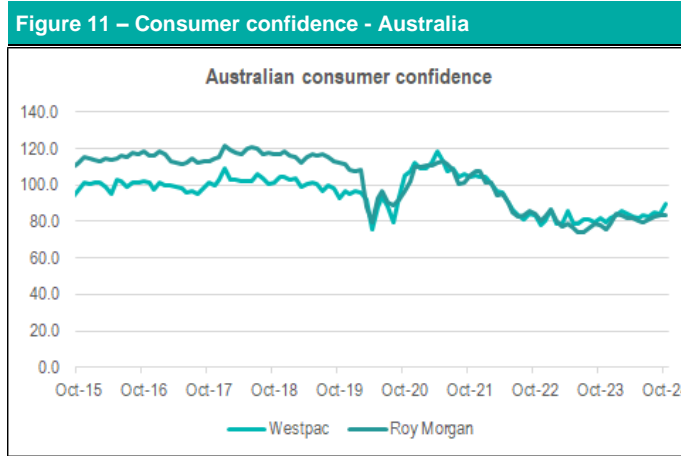
Property and facilities risk: WOW leases facilities for the distribution and retailing of grocery, fresh produce, liquor and other fast-moving consumer goods. Damage to or destruction of these facilities could result in the loss or reduction of distribution capability and hence adversely impact WOW financial results.

Technology and cyber security risk: WOW relies on a number of complex information technology systems to support its warehousing and distribution, supply chain, retail, customer service, marketing and finance operations. A severe disruption to the information technology systems may significantly impact the operations and value of WOW.

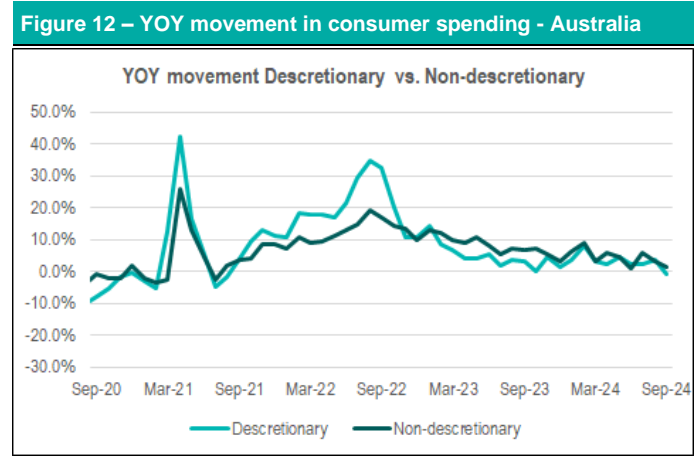
Backdrop and themes

1. WEAKER CONSUMER BACKDROP IN AUSTRALIA

Australian consumer confidence indicators have experienced a modest recovery in recent months but remain at historically low levels. Discretionary spending remained in YOY decline in the Sep'24 quarter (but was up in the final month), while growth in spending in non-discretionary categories remains modest (+3% YOY in the Sep'24 Qtr and +1% YOY in the final month). We would expect the lagged benefit of tax cuts, real wage growth and interest rate cuts to become a potential tailwind for non-discretionary categories in 4Q25-1H26e.



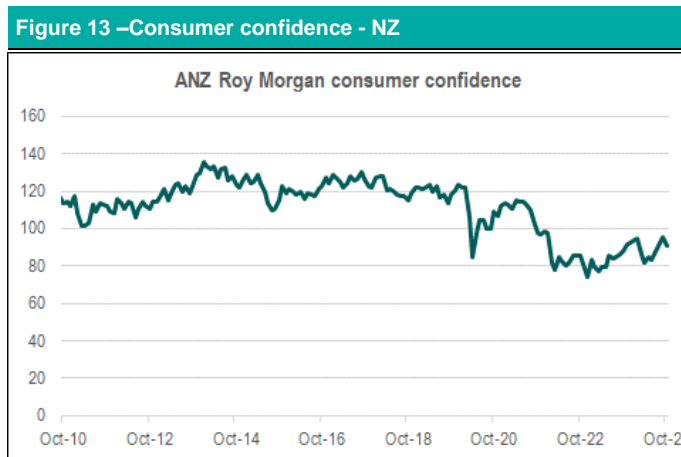
SOURCE: WESTPAC MELBOURNED INSTITURE



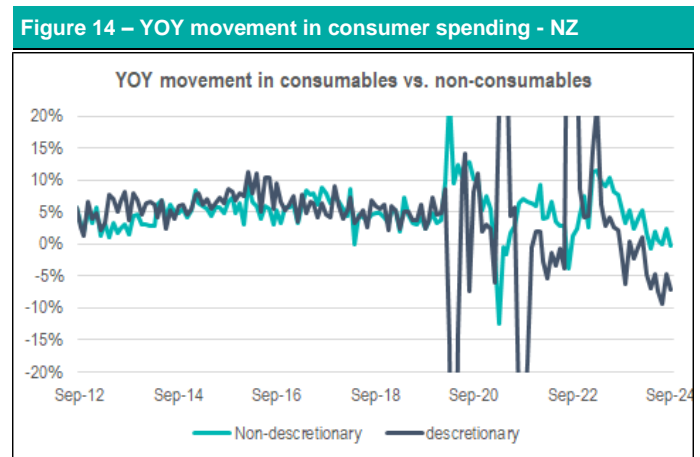
SOURCE: RBA AND ABS DATA

2. NZ CONSUMER CONFIDENCE TURNING

NZ consumer confidence dipped in Oct'24 following three months of gains. Electronic card transactions, which historically carries a 94% correlation to quarterly retail spending data, demonstrates high single digit YOY declines in discretionary categories and modest growth in non-discretionary spending (+1% YOY for Sep'24 Qtr). Recent interest rate cuts would likely imply NZ is approaching if not at the bottom.



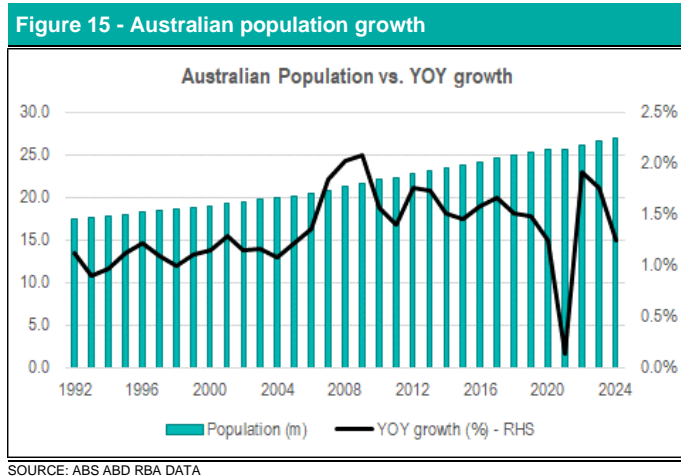
SOURCE: WESTPAC MELBOURNED INSTITURE



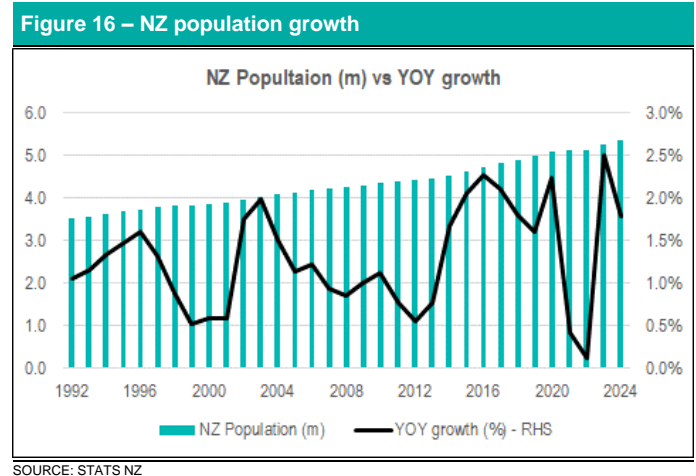
SOURCE: RBA AND ABS DATA

3. POPULATION GROWTH

Australian population growth has recovered in recent years up near 1.8-1.9% p.a. over the past two years and forecast to remain at an average of 1.5% p.a. through to FY28e. NZ population growth returned to 2.0-2.5% p.a. in 2022-24 and is forecast to growth at 0.8% p.a. through to FY28e, or modestly below the 20yr average of 12% p.a.. Population growth is the primary structural growth driver of volume.



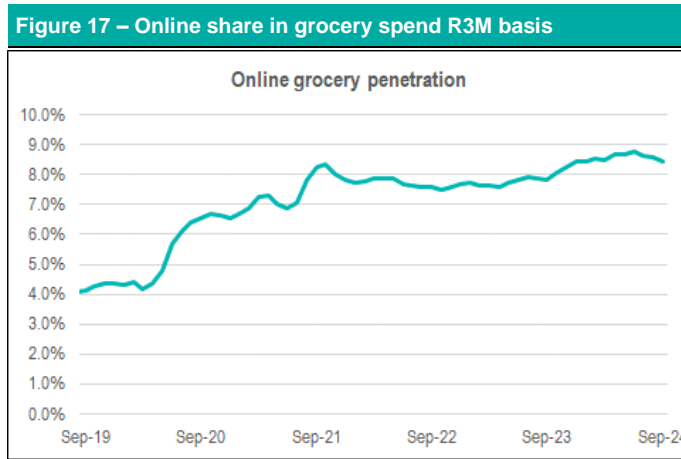
SOURCE: ABS ABD RBA DATA



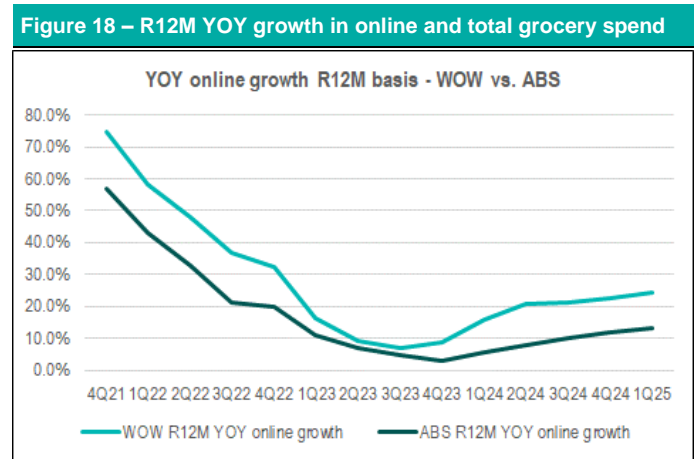
SOURCE: STATS NZ

4. WOW OUTPACING SECTOR GROWTH IN ONLINE IN AUSTRALIA

Since 2020, online grocery spending has more than doubled its share of wallet, reaching 8.5% in Sep'24 (R3M basis) and continues to experience double digit YOY growth rates compared to low single digit growth across the sector. Spending patterns in Australia compare favourably to other regions such as the USA (~10.5%) and UK (~13%). Which would imply a reasonable runway from growth. WOW grocery eComm sales in grocery as a share of ABS totals reached 45% in the Sep'24 Qtr. In total WOW eComm revenues now make up 14.3% of group turnover (in grocery and Big W) and experiencing high double-digit growth rates.



SOURCE: ABS DATA



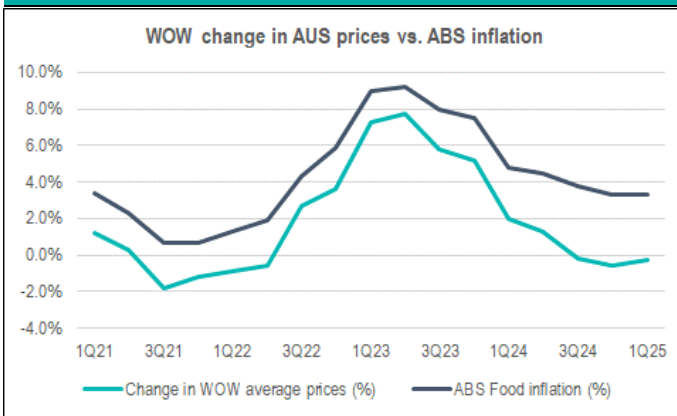
SOURCE: ABS AND COMPABY DATA

5. FOOD INFLATION TO MODERATE

Historically there is a high directional correlation in Australian and New Zealand food inflation and WOW reported supermarket inflation (at 96% in AUS and 95% in NZ), albeit historically WOW realised changes in prices has lagged headline inflation by 238bp in AUS and 239bp in NZ.

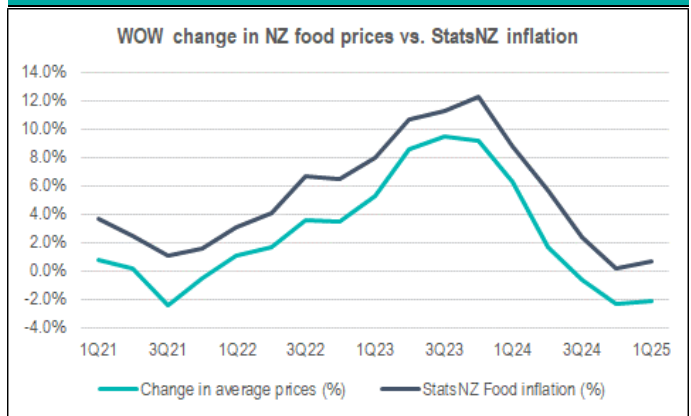
Slowing requests for price increases from suppliers is likely to see food inflation slow from recent levels to levels more consistent with log-run food inflation, which is ~2.4% p.a. in AUS and ~2.6% p.a. in NZ. In addition we note that in recent quarters realised pricing from both WOW and COL has experienced a higher underperformance relative to historical levels and this is incorporated in our near term views (i.e. FY25-26e) on revenue growth in domestic food retailers.

Figure 19 –AUS Food inflation vs. WOW change in prices



SOURCE: ABS AND COMPANY DATA

Figure 20 – NZ Food inflation vs WOW change in prices



SOURCE: STATS NZ AND COMPANY DATA

6. CODB INFLATION

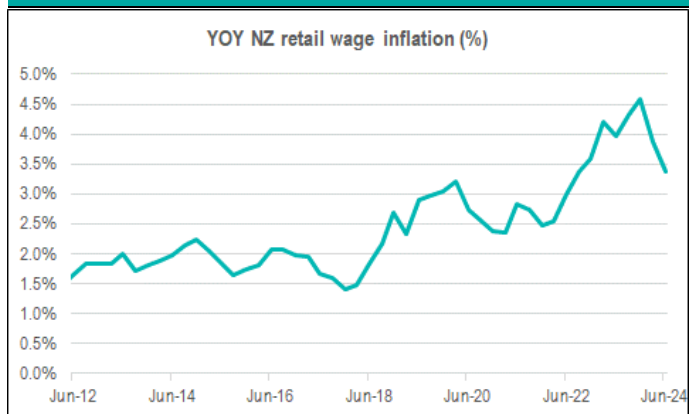
We see two areas of cost inflation in the near term; being: (1) Depreciation (~15% of branch and admin costs), which is lifting the asset base and after a period of investment; and (2) Wages (~60% of branch and admin costs), noting that retail worker growth has been outpacing headline wage inflation in both Australian and NZ in recent years. NZ retail wage inflation has been slowing towards 3.0-4.0% from recent peaks, while Australian retail wage inflation has remained at 4.0-5.0%.

Figure 21 – AUS retail Wage inflation



SOURCE: WESTPAC MELBOURNE INSTITUTE

Figure 22 – NZ retail wage inflation



SOURCE: RBA

Financial drivers

PROFIT AND LOSS

The table below is a high level overview of the key drivers of our COL forecasts. We note a \$42m contribution to NPAT in FY24 from an additional week of trading which is difficult to cycle in FY25e, hence tend to focus on CAGR growth rates relative to the 52wk comparison. At a high level we are forecasting compound growth in revenues of +4.1% p.a. (on 52wk FY24 basis) to FY27e and EBITDA growth of +4.3% p.a. over the same time period, which once growth in depreciation and interest is considered leads to +5.2% pa growth in NPAT. We expect growth in discretionary categories to outperform grocery in FY26-27e, particularly B2B.

Figure 23 - WOW summary P&L and drivers

	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024 53wk	2024 52wk	2025e	2026e	2027e
Australian Food													
Revenue	42,151	43,509	45,740	24,560	23,487	48,047	25,899	24,842	50,741	49,825	52,039	53,942	55,787
EBITDA (\$m)	3,707	3,954	4,044	2,317	2,334	4,651	2,531	2,475	5,006	4,921	4,971	5,223	5,573
Stores	1,051	1,074	1,084	1,093	1,095	1,095	1,104	1,111	1,111	1,111	1,126	1,141	1,156
Sales per sqm - simple avg. (\$)	16,714	18,011	18,565	18,672	19,124	19,245	19,526	19,895	19,988	19,707	20,265	20,711	21,167
Gross Margin (%)			27.4%	27.9%	28.3%	28.1%	28.9%	28.9%	28.9%	28.9%	28.8%	29.0%	29.2%
Australia B2B													
Revenue		1,222	3,684	2,258	2,066	4,324	2,323	2,266	4,589	4,510	4,727	5,086	5,345
EBITDA (\$m)		45	154	101	75	176	133	117	250	246	257	305	349
EBITDA Margin (%)		3.7%	4.2%	4.5%	3.6%	4.1%	5.7%	5.2%	5.4%	5.4%	5.4%	6.0%	6.5%
NZ Food (NZD m)													
Revenue	7,192	7,146	7,563	4,079	3,833	7,912	4,172	3,994	8,166	8,015	8,345	8,602	8,866
EBITDA (\$m)	634	633	611	286	286	572	242	207	449	446	453	460	467
Stores	182	184	190	193	191	191	189	190	190	190	192	194	196
Sales per sqm - simple avg. (\$)	17,770	17,522	18,194	9,630	9,031	18,750	9,884	9,509	19,407	18,554	19,824	20,223	20,630
Gross Margin (%)			23.2%	22.8%	23.4%	23.1%	22.6%	22.4%	22.5%	22.5%	22.5%	22.5%	22.5%
W Living (Big W pre-FY25e)													
Revenue	4,583	4,583	4,431	2,708	2,077	4,785	2,595	2,090	4,685	4,598	5,762	5,989	6,226
EBITDA (\$m)	207	348	245	239	109	348	163	62	225	224	321	353	387
Group level summary													
Australian Food	42,151	43,509	45,740	24,560	23,487	48,047	25,899	24,842	50,741	49,825	52,039	53,942	55,787
Australian B2B		1,222	3,684	2,258	2,066	4,324	2,323	2,266	4,589	4,510	4,727	5,086	5,345
New Zealand Food	6,652	6,652	7,092	3,703	3,537	7,240	3,858	3,693	7,551	7,414	7,586	7,820	8,060
W Living (Big W pre-FY25)	4,583	4,583	4,431	2,708	2,077	4,785	2,595	2,090	4,685	4,598	5,762	5,989	6,226
Other and intesgmt	18	(233)	(98)	(60)	(42)	(102)	(40)	396	356	326	(153)	(170)	(179)
Total Revenue	53,404	55,733	60,849	33,169	31,125	64,294	34,635	33,287	67,922	66,673	69,962	72,667	75,239
Australian Food	3,707	3,954	4,044	2,317	2,334	4,651	2,531	2,475	5,006	4,921	4,971	5,223	5,573
Australian B2B		45	154	101	75	176	133	117	250	246	257	305	349
New Zealand Food	600	589	573	259	265	524	223	193	416	408	412	419	425
W Living (Big W pre-FY25)	207	348	245	239	109	348	163	62	225	224	321	353	387
Other and intesgmt	(61)	(93)	35	8	(13)	(5)	29	75	104	117	(38)	(40)	(42)
EBITDA	4,453	4,843	5,051	2,924	2,770	5,694	3,079	2,922	6,001	5,916	5,924	6,260	6,692
Depreciation & Amortisation	(1,968)	(2,079)	(2,361)	(1,287)	(1,291)	(2,578)	(1,387)	(1,391)	(2,778)	(2,766)	(2,859)	(2,991)	(3,087)
EBIT	2,485	2,764	2,690	1,637	1,479	3,116	1,692	1,531	3,223	3,150	3,065	3,269	3,605
Net Interest Income	(671)	(613)	(600)	(354)	(323)	(677)	(358)	(382)	(740)	(740)	(800)	(820)	(809)
Pre-tax profit	1,814	2,151	2,090	1,283	1,156	2,439	1,334	1,149	2,483	2,410	2,265	2,449	2,796
Tax	(555)	(647)	(566)	(380)	(327)	(707)	(397)	(366)	(763)	(763)	(680)	(735)	(839)
....Tax expense	31%	30%	27%	30%	28%	29%	30%	32%	31%	31%	30%	30%	30%
Minorities	-10	0	(10)	(4)	(7)	(11)	(8)	(1)	(9)	(9)	(14)	(21)	(26)
NPAT	1,249	1,504	1,514	899	822	1,721	929	782	1,711	1,669	1,572	1,693	1,931
NRI's and discontinued after tax	-84	570	6,420	(62)	(41)	(103)	(1,710)	107	(1,603)		0	0	0
NPAT post abnormals	1,165	2,074	7,934	837	781	1,618	(781)	889	108	1,669	1,572	1,693	1,931

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Inflation: As noted previously there is a 95-96% correlation between WOW reported supermarket pricing growth and ANZ food inflation. Food inflation over the past three years has been elevated at +3.6% p.a. in Australia and +6.5% p.a. in NZ, well above the historical long run average of +2.4% p.a. in AUS and 2.6% p.a. in NZ. We project growth rates more consistent with historical averages in Australia and NZ moving forward.

New store development and refurbishments: Our forecasts are consistent with WOW medium term targets of opening 10-20 net new full range supermarkets, 5-10 new metros

and 2-4 new NZ supermarkets each year. Our forecasts assume 15 net opening in Australia (vs. 7YA of 16) and 2 in NZ (vs. 7YA of 1).

Gross margins and CDOB: Group gross margins were up +60bp YOY in FY24 and up +80bp in 2H24, driven for the most part by higher margins in the Australian grocery and B2B businesses. CDOB grew +9% YOY in dollar terms (or +70bp as a proportion of revenues) and reflected wage increases of +6.25% in Australia and +7% in NZ within the grocery business. We note that NZ wage costs have risen +19% in the past two years. We would expect wage inflation to remain a headwind in FY25e., albeit at a lower rate with the WOW SDA highlighting a +3.75% YOY lift in FY25e in Australia and +5.2% increase in NZ (based on the Jul'23 two-year agreement).

Commissioning costs: Commissioning and transition costs linked to the Auburn CDC and ADC are expected to total ~\$100m in FY25-26e, before reducing thereafter.

CASHFLOW AND BALANCE SHEET

WOW runs a negative working capital position, a function of paying suppliers on average within 55-60 days but in general receiving cash from transactions in less than 6 days. In this light operating cash realisation (on a post lease basis) has historically exceeded underlying NPAT. High levels of operating cashflow have enabled a relatively high dividend payout ratio (targeting 70-75% payout ratio fully franked) as well as investment in the business to sustain top line growth (WOW has invested on average \$1.8Bn pa over FY19-24 in its operating business ex-property and targeting \$2.0-2.2Bn operating capex).

Figure 24 – WOW summary operating cashflow and capex drivers

Operating cash metrics	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Lease adj. operating cashflow	3,495	3,466	2,359	1,569	2,118	3,687	1,930	1,291	3,221	3,379	3,659	3,987
Realisation against NPAT	280%	230%	156%	175%	258%	214%	208%	165%	188%	215%	216%	206%
Debtor days - Revenue	5.1	4.3	5.1	5.4	6.0	5.8	5.2	5.8	5.7	5.7	5.7	5.7
Inventory days - COGS			29.2	29.6	29.6	28.6	29.0	30.9	30.7	30.7	30.7	30.7
Creditor days - COGS			56.9	56.5	61.0	59.1	58.8	57.3	56.8	56.8	56.8	56.8
Capex drivers	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Sustaining capex	1,104	1,228	1,396	645	726	1,371	702	849	1,551	1,804	1,834	1,865
New Stores	162	111	111	73	51	124	55	45	100	60	62	64
Digital	160	140	121	72	79	151	54	84	138	138	138	138
eCom	0	85	147	69	54	123	43	74	117	117	117	117
Other	218	193	146	69	50	119	53	52	105	45	45	45
Group Capex	1,644	1,757	1,921	928	960	1,888	907	1,104	2,011	2,164	2,196	2,229
Property and acquisitions	369	585	418	322	272	486	378	216	594	543	367	380
Gross Store openings:												
Australian Food	30	30	17	14	4	18	15	9	24	15	15	15
NZ Food	3	6	7	4	0	4	1	0	1	2	2	2
BIG W	0	0	0	1	0	1	0	1	1	0	0	0
Store refurbishments												
Australian Food	69	65	60	25	18	43	23	22	45	45	45	45
NZ Food	3	10	3	9	3	12	5	5	10	25	25	25
BIG W	0	3	1	0	2	2	3	3	6	6	6	6

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

Over FY19-24 we note that WOW has developed on average 23 new sites in Australia and 3 new sites in NZ annually. In addition WOW has refurbished on average 69 sites in total, with on average 49 of these in the Australian grocery business. New store development is forecasts to remain consistent with the lower end of WOW medium term targets.

Total indebtedness to EBITDA was 2.68x at FY24, when adjusted for credit card receivables included in cash (\$683m in FY24), which will reclassify from cash to receivables in future periods with the adoption of AASB 2024-2 from Jan'26. We expect this to lift in FY25e largely on the back of acquisitions, business investment and higher lease values (expanding store base) before a modest deleveraging thereafter.

Figure 25 - COL indebtedness

Debt structure	2020	2021	2022	1H23	2H23	2023	1H24	2H24	2024	2025e	2026e	2027e
Gross debt	3,931	2,872	4,292	4,165	3,755	3,755	4,232	4,578	4,578	5,195	5,061	4,752
Lease liabilities	14,728	12,016	12,471	12,102	11,980	11,980	11,835	12,144	12,144	12,510	12,652	12,794
Cash	2,068	1,009	1,032	1,059	1,135	1,135	1,696	1,298	1,298	1,328	1,363	1,398
Less cash in transit						665			683	709	735	760
Net debt (ex-leases)	1,863	1,863	3,260	3,106	2,620	3,285	2,536	3,280	3,963	4,577	4,433	4,114
Net Indebtedness (inc. leases)	16,591	13,879	15,731	15,208	14,600	15,265	14,371	15,424	16,107	17,087	17,085	16,909
Net Indebtedness / EBITDA	3.73	2.87	3.11	2.83	2.68	2.68	2.46	2.68	2.68	2.88	2.73	2.53
Net Interest			600	354	323	677	358	382	740	800	820	809
ROU depreciation			1,039			1,066			1,151	1,143	1,177	1,191
Net fixed charges			1,639			1,743			1,891	1,942	1,998	1,999
EBITDA to fixed charge			3.08			3.27			3.17	3.05	3.13	3.35

SOURCE: COMPANY DATA AND BELL POTTER SECURITIES ESTIMATES

PUT-OPTIONS

In the FY24 accounts, WOW had put option liabilities totalling \$675m, of which \$400m related to PFD, which was exercised post-balance date. As such there are two remaining put options covering:

Quantium (22.3%): Calculated primarily based on a three-year revenue and EBITDA margin growth, which is applied to the Last Twelve Months (LTM) revenue at exercise date and is subject to a floor. The put option was exercisable from 30 June 2024.

MyDeal (19.8%): Primarily referenced to a Gross Transaction Value (GTV) multiple, where the exit enterprise value is calculated as the exit LTM GTV multiplied by an exit multiple which is adjusted for profitability factors, changes in working capital, and net debt to arrive at an equity value. The put option is exercisable from 30 September 2025.

ACCC issues

ACCC FEDERAL COURT PROCEEDINGS

On 23/09/24 the ACCC announced it had commenced separate proceedings in the Federal Court against WOW and COL for allegedly breaching the Australian Consumer Law by misleading consumers through discount pricing claims on hundreds of common supermarket products. At a high level I make the following comments:

ACCC allegations: The ACCC allegations cover 266 products for WOW across 20mths and 245 products for COL across 15 months. The allegations essentially infer that price increases of at least 15% were applied to products that were then subject to Prices Dropped and Down, Down promotions to levels that were either equal to or greater than the price in the months prior to the uplift, with the breaches occurring between Feb'22-May'23. The ACCC is alleging that COL and WOW would have sold "tens of millions" of the affected products and derived significant revenue from those sales. No allegation is being made on collusion by the ACCC or and contravention by suppliers that are covered in this announcement.

Potential penalties: Laws changed in the period. For each breach that occurred after the 10/11/22, a penalty is determined up to a maximum of: (1) \$50m; (2) if the Court can determine the value of the 'reasonably attributable' benefit obtained, then three times that value; or (3) 30% of adjusted group turnover over the period where a benefit cannot be determined. The previous laws were \$10m, three times the benefit or 10% of turnover. The penalties noted above are above are a maximum. In previous cases (i.e. against QANTAS) penalties have shown a consideration for deemed gains and been materially lower than the limit.

WOW has stated that the Group will carefully review the claims made by the ACCC and will continue to engage with the ACCC on the matter.

SUPERMARKETS INQUIRY 2024-25

On 25/01/24, the Australian Government announced that it will direct the ACCC to conduct an inquiry into Australia's supermarket sector. The ACCC received the formal direction from the Australian Government and the terms of the reference for the inquiry on 01/02/24. On 29/02/24, the ACCC published an online survey and issues paper seeking views from consumers, farmers and other interested parties. On 27/09/24 the ACCC released its interim report for the supermarkets inquiry. At a high level the review highlights:

1. **Consumers have lost trust in supermarket pricing:** Consumers are concerned around supermarket prices, with the average basket having experienced inflation of 20% over the past five years. Some consumers have highlighted concerns with loyalty programs.
2. **Suppliers report facing unfavourable terms:** Some of the issues raised by suppliers include being required to pay rebates to retailers for specials and promotions, to use retailer-specified advertising and transport services, and to comply with burdensome accreditation and packaging requirements. Perishable product suppliers raised concerns about procurement practices, including accreditation obligations, demand forecasting, the application of quality standards and weekly tendering processes that lack transparency and transfer considerable risk on to suppliers.
3. **Barriers to expansion:** The ACCC observes that ALDI has taken more than 20 years to reach a 9 per cent share of national supermarket retail sales, demonstrating the difficulty in entering and expanding in the sector. The ACCC had received submissions raising concerns about alleged 'land banking' but are yet to form any view on this issue. Information supplied suggested WOW had interest in 110 and COL in 42 future

development sites. By way of comparison ALDI suggested it had 13 undeveloped sites.

The ACCC had identified 14 products for further analysis: beef, chicken, pork, bananas, apples, strawberries, cucumbers, potatoes, eggs, milk, cereal, biscuits, petfood and dishwashing tablets. The final report is due to be provided to the Government by 28/02/25.

Board and Senior Management

AMANDA BARDWELL - CHIEF EXECUTIVE OFFICER & MANAGING DIRECTOR

Amanda Bardwell was appointed Chief Executive Officer and Managing Director on 21 February 2024, effective 1 September 2024.

Prior to this, Amanda was Managing Director of WooliesX, leading the Group's eCommerce, digital and rewards and loyalty businesses since March 2017. Amanda joined Woolworths Group in 2001 and has held a number of roles across both the Supermarket and Drinks businesses. Amanda holds an MBA from the University of New South Wales and a Bachelor of Business from the University of Technology Queensland and is a member of Chief Executive Women.

STEPHEN HARRISON - CHIEF FINANCIAL OFFICER

Stephen Harrison was appointed Chief Financial Officer for Woolworths Group in August 2019. Prior to his appointment, Stephen held the role of Finance Director for Australian Food from July 2015 and before that, was Finance Director for Endeavour Drinks from July 2013.

Before joining the Group in 2013, Stephen worked for a number of leading FMCG businesses in Australia and New Zealand, including as Finance Director for Valspar ANZ (formerly Watty Paints) and Finance Director for Bluebird Foods in New Zealand, a subsidiary of PepsiCo.

Stephen also spent time working for PepsiCo in Australia and prior to that worked for Foster's for four years. Stephen is a Chartered Accountant, spending over a decade with KPMG, following his graduation from Macquarie University.

SCOTT PERKINS - CHAIR

Appointed Chair: 26 October 2022. Director since 1 September 2014

Background and experience: Scott is an experienced public company director and has extensive Australian and international experience as a leading corporate advisor on strategy, mergers Jennifer Carr-Smith and acquisitions and capital market matters. He held senior executive leadership positions at Deutsche Bank from 1999 to 2013, including; Managing Director and Head of Corporate Finance for Australia and New Zealand, membership of the Asia Pacific Corporate and Investment Bank Management Committee and Chief Executive Officer of Deutsche Bank New Zealand.

Other roles: Chair of Origin Energy since October 2020 (Director since September 2015), Director of Brambles (since June 2015) and Chair of the Garvan Institute of Medical Research (since December 2023).

MAXINE BRENNER

Appointed: 1 December 2020

Background and experience: Maxine has extensive corporate advisory experience, particularly in mergers and acquisitions and corporate restructures. She is a former Managing Director of Investment Banking at Investec Bank Limited Australia. She also practised as a corporate lawyer with Freehill Hollingdale & Page (now Herbert Smith Freehills) and spent several years as a lecturer in the Faculty of Law at both the University of NSW and the University of Sydney. She was previously a Director of Orica Limited (April 2013 to December 2022), Growthpoint Properties Australia Limited (March 2012 to November 2020) and Qantas Airways Limited (August 2013 to February 2024).

Other roles: Origin Energy (since November 2013), Telstra Group Limited (since February 2023) and a member of the University of NSW Council.

JENNIFER CARR-SMITH

Appointed: 17 May 2019

Background and experience: Jennifer is a seasoned board director and online retail executive with experience across organisations undergoing rapid growth and transformation in a number of sectors including consumer packaged goods, apparel and grocery. Jennifer has over 25 years' experience with diverse organisations from start-ups to large global companies. She has previously held roles as Senior Vice President, General Manager of North America Local at Groupon, President and CEO of Peapod, an online grocery delivery service, director of Full Harvest (January 2020 to December 2022), Chair of Blue Apron and Chief Operating Officer of Athena Consumer Acquisition Corporation.

Other roles: Director of Local Bounty Corporation (since April 2023) and Perdue Farms (since February 2019).

PHILIP CHRONICAN

Appointed: 1 October 2021

Background and experience: Philip has extensive strategic, financial and management expertise. He was responsible for the Retail and Commercial business of the Australia and New Zealand Banking Group Limited (ANZ) in Australia. Prior to joining ANZ, Mr Chronican had a long career at Westpac Banking Corporation (Westpac), including the roles of Group CFO of Westpac and Group Executive of its Institutional business consecutively. He also served as NAB Interim Group CEO from March to November 2019. Philip also has broad experience in M&A activity and post-merger integration, and has taken an active and public role in advocating for greater transparency and ethics in banking and promoting workforce diversity.

Other roles: Chairman of NAB since November 2019 (Director since May 2016).

HOLLY KRAMER

Appointed: 8 February 2016

Background and experience: Holly is an experienced non-executive Director and chief executive, with extensive experience in retail and consumer markets across a range of industries. She is the former CEO of Australian retailer, Best & Less and has more than 25 years' experience in general management, marketing and sales, including roles at the Ford Motor Company (in the US and Australia), Telstra Corporation and Pacific Brands. Holly was previously Deputy Chair of Australia Post, Chair of Lendi Group and director of Abacus Property Group (2018 to November 2022), AMP Limited, former director of the Goodes-O'Loughlin Foundation and former Pro Chancellor of Western Sydney University. In her role as Chair of the Board Sustainability Committee, Holly is engaged with numerous sustainability activities. Holly is a director of agtech start-up Nbryo Pty Ltd and a Senior Advisor to climate investment firm Pollination.

Other roles: Director of Fonterra Co-operative Group Limited (since May 2020), ANZ Group Holdings Limited (since 1 August 2023), President of the Commonwealth Remuneration Tribunal (June 2024) and Chair of the Susan McKinnon Foundation Advisory Board (2024).

KATHEE TESIJA

Appointed: 9 May 2016

Background and experience: Kathee has extensive retailing experience in the US market, particularly in merchandising and supply chain management. During a 30-year executive career with Target Corporation in the US, she served as Chief Merchandising and Supply Chain Officer and Executive Vice President. Kathee continued her involvement

in Target as a Strategic Advisor until 2016. Ms Tesija was previously a Director of Verizon Communications, Inc.

Other roles: Director of the Clorox Company (since May 2020) and a senior advisor and consultant for Simpacful, a retail consulting agency in the US.

WARWICK BRAY

Appointed Director: 1 March 2023

Background and experience: Warwick has extensive finance and strategy expertise, bringing decades of experience in the international telecommunications, technology and media sectors. He is the former Chief Financial Officer of Telstra, and held various senior roles at Telstra including Group Managing Director Mobile and Wireline Products, and Executive Director, Head of Corporate Strategy. Earlier in his career he was a Partner with McKinsey in Europe, and was a Managing Director and Head of Telecommunications Equity Research with JP Morgan and Dresdner Kleinwort Wasserstein.

Other roles: Non-executive Director of Spark New Zealand Limited since 2019

TRACEY FELLOWS

Appointed Director: 1 March 2023

Background and experience: Tracey is an experienced global technology and digital media executive. She was previously President of Global Digital Real Estate for News Corp, responsible for driving the strategy and growth of News Corp's digital real estate interests, and Chief Executive Officer of REA Group for 4.5 years leading its growth within Australia and expansion into southeast Asia and India. Prior to this, Tracey was Executive General Manager of Australia Post leading transformation and integration for delivery of physical and digital mail for customers, President of Microsoft Asia Pacific, and CEO of Microsoft Australia.

Other roles: Director of REA Group Ltd (since August 2014) and Hemnet Group AB (since November 2020).

Table 1 - Financial summary

June year end	2020	2021	2022	2023	2024	2025e	2026e	2027e		
Profit & Loss (A\$m)									Recommendation	Hold
Australian Food	42,151	43,509	45,740	48,047	50,741	52,039	53,942	55,787	Share price (\$ps)	29.57
Australian B2B		1,222	3,684	4,324	4,589	4,727	5,086	5,345	Target price (\$ps)	31.75
New Zealand Food	6,652	6,652	7,092	7,240	7,551	7,586	7,820	8,060	Shares on issue (m)	1,222
WLiving (Big W pre-FY25)	4,583	4,583	4,431	4,785	4,685	5,762	5,989	6,226	Market cap (\$m)	36,122
Other and insgment	18	(233)	(98)	(102)	356	(153)	(170)	(179)	Net Debt	3,868
Total Revenue	53,404	55,733	60,849	64,294	67,922	69,962	72,667	75,239	Lease liabilities	12,144
									Cash in transit	683
									Enterprise value (\$m)	52,817
Australian Food	3,707	3,954	4,044	4,651	5,006	4,971	5,223	5,573		
Australian B2B	0	45	154	176	250	257	305	349		
New Zealand Food	600	589	573	524	416	412	419	425		
WLiving (Big W pre-FY25)	207	348	245	348	225	321	353	387		
Other and insgment	(61)	(93)	35	(5)	104	(38)	(40)	(42)		
EBITDA	4,453	4,843	5,051	5,694	6,001	5,924	6,260	6,692		
Deprec. & amort	(1,968)	(2,079)	(2,361)	(2,578)	(2,778)	(2,859)	(2,991)	(3,087)		
Australian Food	2,232	2,413	2,406	2,865	3,110	3,022	3,145	3,402		
Australian B2B		12	56	63	122	129	177	221		
New Zealand Food	358	336	296	228	100	93	96	99		
WLiving (Big W pre-FY25)	39	172	55	145	14	38	71	104		
Other and insgment	(144)	(169)	(123)	(185)	(123)	(218)	(220)	(222)		
EBIT	2,485	2,764	2,690	3,116	3,223	3,065	3,269	3,605		
Interest expense	(671)	(613)	(600)	(677)	(740)	(800)	(820)	(809)		
Pre-tax profit	1,814	2,151	2,090	2,439	2,483	2,265	2,449	2,796		
Tax expense	(555)	(647)	(566)	(707)	(763)	(680)	(735)	(839)		
... tax rate	31%	30%	27%	29%	31%	30%	30%	30%		
Minorities	(10)	0	(10)	(11)	(9)	(14)	(21)	(26)		
Operating NPAT	1,249	1,504	1,514	1,721	1,711	1,572	1,693	1,931		
Abs. & extras.	(84)	570	6,420	(103)	(1,603)	0	0	0		
Reported Profit	1,165	2,074	7,934	1,618	108	1,572	1,693	1,931		
Normalisation to 52wk					(42)					
CDC/ADC Start-up costs						100	100			
Tax effect						(30)	(30)			
Adjusted NPAT	1,249	1,504	1,514	1,721	1,669	1,642	1,763	1,931		
Cashflow (A\$m)										
EBITDA	4,453	4,843	5,051	5,694	6,001	5,924	6,260	6,692		
Tax Paid	(650)	(738)	(838)	(587)	(774)	(721)	(707)	(787)		
Net Interest Expense	(856)	(800)	(601)	(675)	(730)	(770)	(810)	(815)		
Change in Wkg Capital	620	352	(133)	356	(396)	89	94	87		
Principle lease payments	(1,066)	(1,158)	(1,019)	(1,067)	(1,138)	(1,143)	(1,177)	(1,191)		
Other	994	967	(101)	(34)	258	0	0	0		
Operating Cash Flow	3,495	3,466	2,359	3,687	3,221	3,379	3,659	3,987		
Operating Capex	(1,564)	(1,971)	(1,930)	(1,925)	(2,005)	(2,164)	(2,196)	(2,229)		
Property Capex	(585)	(418)	(486)	(594)	(543)	(367)	(380)	(394)		
Div Paid (gross of DRP)	(1,199)	(1,154)	(1,012)	(1,031)	(1,188)	(1,610)	(1,197)	(1,319)		
Free Cash Flow	147	(77)	(1,069)	137	(515)	(762)	(114)	45		
Acquisitions	(91)	(244)	(457)	(403)	(573)	(479)	0	0		
Disposals	295	408	385	1,020	808	654	284	298		
Share Issues	(102)	(177)	(2,125)	(110)	(44)	0	0	0		
Other	0	90	1,869	(4)	(336)	0	0	0		
(Inc.)/dec. in net debt	249	0	(1,397)	640	(660)	(588)	170	344		
Performance Ratios										
EBITDA/sales (%)	8.3%	8.7%	8.3%	8.9%	8.8%	8.5%	8.6%	8.9%		
EBIT/sales (%)	4.7%	5.0%	4.4%	4.8%	4.7%	4.4%	4.5%	4.8%		
ROE (%)	12.9%	119.3%	130.0%	24.6%	1.9%	26.6%	26.6%	28.2%		
ROIC (%)	22.8%	76.7%	28.7%	33.9%	36.4%	31.3%	32.5%	35.3%		
Asset Turn (years)	2.26	2.33	2.14	2.21	2.16	2.07	2.09	2.17		
Capex/Deprn (x)	0.79	0.95	0.82	0.75	0.72	0.76	0.73	0.72		
EBIT Interest cover (x)	3.70	4.51	4.48	4.60	4.36	3.83	3.98	4.46		
Indebtedness/EBITDA (x)	3.73	2.87	3.11	2.56	2.57	2.76	2.61	2.41		
Net debt/Equity (%)	20.6%	107.1%	53.4%	39.9%	58.9%	65.3%	58.2%	48.9%		
Net debt/(Net debt + Equity) (%)	17.1%	51.7%	34.8%	28.5%	37.1%	39.5%	36.8%	32.9%		
Balance Sheet (A\$m)										
Cash & near cash	2,068	1,009	1,032	1,135	1,298	1,328	1,363	1,398		
Receivables	740	649	856	1,016	1,062	1,094	1,136	1,176		
Inventories	4,434	3,132	3,593	3,698	4,187	4,329	4,488	4,637		
Other	883	10,996	629	526	444	451	459	468		
Current assets	8,125	15,786	6,110	6,375	6,991	7,201	7,447	7,679		
Fixed assets	8,742	7,477	8,231	8,881	9,678	10,155	10,604	11,028		
Right of use assets	12,062	9,553	9,995	9,467	9,604	9,894	10,006	10,118		
Intangibles	7,717	4,671	5,278	5,693	4,873	4,846	5,012	5,124		
Other	1,826	1,749	3,659	3,232	2,790	2,822	2,864	2,905		
Non current assets	30,347	23,450	27,163	27,273	26,945	27,717	28,486	29,176		
Total assets	38,472	39,236	33,273	33,648	33,936	34,918	35,933	36,855		
Creditors	7,508	6,467	7,002	7,623	7,762	8,025	8,320	8,597		
Borrowings	2,027	119	354	466	712	712	712	712		
Lease liabilities	1,826	1,495	1,572	1,637	1,599	1,647	1,666	1,685		
Other	2,096	15,036	1,822	2,160	2,746	2,105	2,347	2,624		
Current liabilities	13,457	23,117	10,750	11,886	12,819	12,489	13,045	13,617		
Borrowings	1,904	2,753	3,938	3,289	3,866	4,483	4,349	4,040		
Lease liabilities	12,902	10,521	10,899	10,343	10,545	10,863	10,986	11,110		
Other	1,177	1,106	1,582	1,565	1,136	1,163	1,198	1,232		
Non current liabilities	15,983	14,380	16,419	15,197	15,547	16,509	16,534	16,382		
Total liabilities	29,440	37,497	27,169	27,083	28,366	28,998	29,579	29,999		
Net assets	9,032	1,739	6,104	6,565	5,570	5,919	6,354	6,856		
Share capital	6,022	5,253	5,207	5,406	5,604	5,604	5,604	5,604		
Reserves	391	(6,989)	(7,400)	(7,567)	(7,609)	(7,609)	(7,609)	(7,609)		
Retained earnings	2,329	3,115	8,173	8,586	7,413	7,824	8,259	8,761		
Outside equity interests	290	360	124	140	162	100	100	100		
S/holders' funds	9,032	1,739	6,104	6,565	5,570	5,919	6,354	6,856		
Net Debt (Cash)	1,863	1,863	3,260	2,620	3,280	3,868	3,698	3,354		
Group indebtedness	16,591	13,879	15,731	14,600	15,424	16,378	16,350	16,149		

SOURCE: BELL POTTER SECURITIES ESTIMATES

Recommendation structure

Buy: Expect >15% total return on a 12 month view. For stocks regarded as 'Speculative' a return of >30% is expected.

Hold: Expect total return between -5% and 15% on a 12 month view

Sell: Expect <-5% total return on a 12 month view

Speculative Investments are either start-up enterprises with nil or only prospective operations or recently commenced operations with only forecast cash flows, or companies that have commenced operations or have been in operation for some time but have only forecast cash flows and/or a stressed balance sheet.

Such investments may carry an exceptionally high level of capital risk and volatility of returns.

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