For personal use only

News Release

Wesfarmers

2018 Half-year Results

20 February 2018

Review of results and operations

Half-year ended 31 December 2017	Reported	Excluding significant items[a]	Variance to pcp (exc. sig. items)
Operating revenue	$35.9b	$35.9b	*2.8%*
Earnings before interest and tax	$1,113m	$2,350m	*(3.3%)*
Net profit after tax	$212m	$1,535m	*(2.7%)*
Basic earnings per share	$0.19	$1.36	*(3.2%)*
Operating cash flow per share (wanos, incl. res shares)	$2.56	$2.56	*8.9%*
Return on equity (R12)	6.4%	12.0%	*1.8 ppts*
Interim dividend (fully-franked) per share	$1.03	$1.03	-

[a] 2017 excludes pre-tax (post-tax) significant items of $931 million ($1,023 million) relating to Bunnings United Kingdom and Ireland, and $306 million ($300 million) relating to Target. 2016 ROE excludes post-tax non-cash impairments of $1,844 million.

Wesfarmers Limited has reported a net profit after tax (NPAT) of $212 million for the half-year ended 31 December 2017. The reported profit includes post-tax significant items of $1,323 million relating to Bunnings United Kingdom and Ireland (BUKI) and Target. Excluding these significant items, NPAT for the half-year decreased 2.7 per cent to $1,535 million.

Managing Director Rob Scott said the continued strong momentum in Bunnings Australia and New Zealand (BANZ), Kmart and Officeworks, in a competitive retail environment, was a highlight for the half.

“Strong production volumes and higher coal prices in the Resources business contributed to a significant increase in the Industrials division’s earnings,” Mr Scott said. “Higher earnings across a majority of the Group’s businesses were offset by losses in BUKI and lower Coles earnings following planned investments in price and service.

“The Group generated record operating cash flows of $2,897 million for the half, supported by proactive working capital management. Strict capital disciplines were maintained and the Group retained a very strong balance sheet, with improvements achieved in its credit metrics.

“In December 2017, the Group announced an agreement to sell the Curragh coal mine for $700 million, which also includes a value share mechanism[1] that allows Wesfarmers to participate in possible future coal price increases. On successful completion of the transaction, which is subject to a number of conditions precedent, the Group expects to record a post-tax profit on sale of approximately $100 million.

“In line with the Group’s dividend policy, which considers earnings, cash flows, franking credits and credit metrics, the directors have declared an interim dividend of $1.03 per share, in line with the previous corresponding period.”

[1] Wesfarmers will receive 25 per cent of Curragh’s export coal revenue generated above a realised metallurgical price of US$145 per tonne, paid quarterly over the next two years.

Group results summary

Half-year ended 31 December ($m)	2017	2016	Variance %
Key financials			
Revenue	35,903	34,917	*2.8*
EBITDA	1,763	3,064	*(42.5)*
EBITDA (excluding significant items)[a]	3,000	3,064	*(2.1)*
EBIT	1,113	2,429	*(54.2)*
EBIT (excluding significant items)[a]	2,350	2,429	*(3.3)*
NPAT	212	1,577	*(86.6)*
NPAT (excluding significant items)[a]	1,535	1,577	*(2.7)*
Return on equity (excluding significant items)[b] (R12, %)	12.0	10.2	*1.8 ppts*
Cash flow			
Operating cash flow	2,897	2,648	*9.4*
Net capital expenditure	686	400	*71.5*
Free cash flow	2,228	2,231	*(0.1)*
Cash realisation ratio (excluding significant items)[a,c] (%)	132.6	119.7	*12.9 ppts*
Share data (cents per share)			
Basic earnings per share	18.7	140.1	*(86.7)*
Basic earnings per share (excluding significant items)[a]	135.6	140.1	*(3.2)*
Operating cash flow per share (wanos, incl. res shares)[d]	255.7	234.9	*8.9*
Interim ordinary dividend	103	103	-
Balance sheet and gearing			
Net financial debt[e]	3,864	5,360	*(27.9)*
Interest cover[f] (cash basis) (R12, times)	28.8	18.9	*52.4*
Fixed charges cover[f] (R12, times)	3.0	2.7	*11.1*

[a] 2017 excludes pre-tax (post-tax) significant items of $931 million ($1,023 million) relating to BUKI and $306 million ($300 million) relating to Target.

[b] 2017 excludes post-tax significant items of $1,323 million. 2016 excludes post-tax non-cash impairments of $1,844 million.

[c] Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant items.

[d] Calculated by dividing operating cash flows by the weighted average number of ordinary shares (including reserved shares) on issue during the year.

[e] Interest bearing liabilities less cash at bank and on deposit, net of cross currency interest rate swaps and interest rate swap contracts.

[f] 2017 excludes pre-tax significant items of $1,237 million. 2016 excludes pre-tax non-cash impairments of $2,116 million.

For personal use only

Divisional earnings summary

Half-year ended 31 December ($m)	2017	2016	Variance %
EBIT			
Bunnings Australia and New Zealand	864	770	*12.2*
Bunnings United Kingdom and Ireland[a]	(165)	(48)	*n.m.*
Coles[b]	790	920	*(14.1)*
Department Stores[c]	415	387	*7.2*
Officeworks	68	62	*9.7*
Industrials[d]	449	377	*19.1*
Divisional EBIT	**2,421**	**2,468**	***(1.9)***
Other	(71)	(39)	*(82.1)*
Significant items[e]	(1,237)	-	*n.m.*
Reported EBIT	**1,113**	**2,429**	***(54.2)***

n.m. = not meaningful

[a] 2017 excludes pre-tax significant items of $931 million, including non-cash impairments, write-offs and provisions. 2016 includes $21 million of restructuring and one-off repositioning costs

[b] 2016 includes $39 million profit on sale of Coles' interest in a number of joint venture properties to ISPT.

[c] 2017 excludes a pre-tax non-cash impairment of $306 million relating to Target. 2016 includes $13 million of restructuring costs associated with the planned relocation of Target's store support office.

[d] 2016 includes $22 million profit on sale of land for Wesfarmers Chemicals, Energy and Fertilisers (WesCEF).

[e] 2017 includes pre-tax significant items of $931 million relating to BUKI and a $306 million pre-tax non-cash impairment of Target.

Performance overview – Divisional

Bunnings Australia and New Zealand

Revenue for BANZ increased 10.2 per cent to $6,566 million for the half, with earnings before interest and tax (earnings or EBIT) increasing 12.2 per cent to $864 million.

"BANZ achieved another very strong result during the half, underpinned by continued sales growth across all of its market segments, productivity initiatives and operating leverage," Mr Scott said. "The solid momentum in BANZ reflected continued strong execution of its strategy, with further investments made in customer value, product ranges, the store network and digital. BANZ's return on capital increased during the period and continued to be a strong characteristic of its performance."

Bunnings United Kingdom and Ireland

BUKI reported a loss before interest and tax of £97 million ($165 million) for the half, compared to a loss of £28 million ($48 million) in the prior corresponding period. Revenue for BUKI decreased 15.5 per cent to £517 million (15.7 per cent to $875 million).

"The loss for the half reflected continued trading and execution challenges as a result of the rapid repositioning of Homebase following the acquisition," Mr Scott said. "The management team has been strengthened and a review is underway to identify the actions required to improve shareholder returns."

In addition to BUKI's reported loss, pre-tax significant items of £531 million ($931 million) were recorded in the half, reflecting the current trading performance of Homebase and a moderated outlook for BUKI.

Coles

Coles' earnings decreased 14.1 per cent to $790 million for the half, with revenue broadly in line with the prior corresponding period. The decline in earnings reflected the annualisation of investments made in the customer offer in the 2017 financial year, lower property earnings due to a one-off gain in the prior year, lower financial services earnings following the sale of Coles' credit card receivables in February 2017 and lower fuel earnings.

"Coles maintained good sales momentum during the half, with transaction growth accelerating in the second quarter and reaching the highest level of quarterly comparable transaction growth in six quarters," Mr Scott said. "The business continued to improve its customer offer across value, quality, product innovation and service, resulting in overall improvements in customer satisfaction metrics.

For personal use only

"Liquor progressed its transformation, continuing to generate positive comparable sales growth, while Coles Express' earnings decreased due to changes in the commercial terms of its fuel supply arrangement."

Department Stores

Revenue for the Department Stores division increased 3.2 per cent to $4,769 million, with continued strong growth in Kmart partially offset by lower sales in Target. Department Stores' earnings increased 7.2 per cent to $415 million, the highest level of combined Kmart and Target first half earnings since the 2010 financial year.

"Kmart invested significantly in the customer offer during the half, delivering greater value for customers and driving continued growth in volumes," Mr Scott said. "Target stabilised its earnings through productivity initiatives and improved trading margins, while continuing to reposition its merchandise offer. Good capital disciplines resulted in a strong cash result for the Department Stores division."

During the half, a pre-tax non-cash impairment of $306 million was recorded in Target. The impairment reflected difficult trading conditions in an increasingly competitive market and a moderated outlook for the business.

Officeworks

Officeworks' revenue increased 9.7 per cent to $1,017 million, with earnings also increasing 9.7 per cent to $68 million.

"Strong sales growth, coupled with effective cost control, delivered an increase in return on capital of 1.8 percentage points to 15.7 per cent," Mr Scott said. "Growth was driven by continued improvements in the core offer, complemented by new and expanded product ranges, improvements in layouts and store design, and further enhancement of the omnichannel offer."

Industrials

"Earnings for the Industrials division were $449 million, $72 million higher than the prior corresponding period, largely reflecting higher coal prices and strong production volumes in the Resources business," Mr Scott said.

Earnings for Wesfarmers Chemicals, Energy and Fertilisers (WesCEF) were $188 million for the period, compared to underlying earnings of $165 million in the prior year, with higher Chemicals and Energy earnings partially offset by lower Fertilisers earnings due to continued competitive price pressures.

"During the half, the ammonium nitrate (AN) business successfully commenced production and sales of AN emulsion, providing a new alternative use for AN production," Mr Scott said.

Earnings from the Industrial and Safety business of $52 million were in line with the prior year.

"A strong focus on operational efficiencies, and improved pricing and sourcing disciplines, offset a 1.7 per cent decline in revenue to $869 million and investments in supply chain, merchandising and customer service," Mr Scott said.

Resources' earnings of $209 million were $71 million above the prior corresponding period, primarily due to revenue growth of 44.3 per cent.

"Growth in revenue reflected the continued strength in export coal prices and strong production volumes in Curragh, partially offset by higher unit cash costs resulting from initiatives to increase production," Mr Scott said.

Other businesses and cash flows

Other businesses and corporate overheads, excluding significant items, reported an expense of $71 million compared to an expense of $39 million in the previous corresponding period. A stronger contribution from BWP Trust was offset by higher corporate expenses, which included increased provisions for claims associated with the 2011 New Zealand earthquakes that are expected to be greater than was anticipated at the time of the sale of the Insurance underwriting business.

Significant items of $1,237 million (pre-tax) were recorded during the half, reflecting impairments, writedowns and provisions in BUKI of $931 million and impairments in Target of $306 million.

For personal use only

Operating cash flows increased $249 million to $2,897 million for the half, driven by continued good working capital management. Reflecting the strong cash generation during the half, the cash realisation ratio increased 12.9 percentage points to 132.6 per cent[2].

Gross capital expenditure of $1,004 million was $80 million or 8.7 per cent higher than the prior corresponding period, primarily due to the acquisition of the rights to the Kmart brand name in Australia and New Zealand for $100 million, and additional BANZ store openings, partially offset by lower expenditure in Coles due to the timing of store refurbishments. Net capital expenditure increased $286 million to $686 million, reflecting lower proceeds from property disposals compared to the prior year, which included one-off transactions in Coles and WesCEF. The increase in net capital expenditure offset the growth in operating cash flows during the half, resulting in free cash flows of $2,228 million.

In line with the Group's dividend policy, which considers earnings, cash flows, franking credits and credit metrics, the directors have declared an interim dividend of $1.03 per share, fully-franked**.**

Outlook

The Group will continue to focus on delivering satisfactory returns to shareholders by improving its underperforming businesses, proactively managing its portfolio and investing in value-accretive growth opportunities. Cash flow generation, capital disciplines and balance sheet strength will continue to be prioritised to take advantage of opportunities, if and when they arise, to create value for shareholders over the long term.

Overall, the Group remains well-positioned for the future. BANZ is expected to continue building on the strong results achieved in the first half and will continue to invest in the customer offer to drive further growth and create better experiences for customers and the wider community. The review of BUKI is ongoing and an update will be provided to the market in June 2018. The short-term focus for the business is on improving the trading performance of Homebase. Coles' supermarkets business is expected to continue to improve, as it delivers better value, quality, service and convenience for customers. The strong performance of Kmart is expected to continue and the repositioning of Target's merchandise offer will be further progressed. Officeworks has had a strong start to the second half of the financial year, supported by the critical back-to-school trading period, and is well-positioned to drive growth in a competitive environment with a market-leading omnichannel offer.

WesCEF expects the continuation of strong demand for Chemicals in the second half of the financial year, and earnings will be subject to international commodity prices and exchange rates, as well as seasonal conditions in Fertilisers. Industrial and Safety is expected to experience generally stable market conditions for the remainder of the financial year and remains focused on realising the benefits associated with recent investments in supply chain and customer service. Resources' earnings will be subject to rail capacity and thermal and metallurgical coal prices, and the full-year earnings contribution of the business will be dependent on the timing of the completion of the sale of Curragh. Work to achieve satisfaction of the conditions precedent relating to the sale is ongoing and an update will be provided to the market when appropriate.

For more information:

More detailed information regarding Wesfarmers' 2018 half-year results can be found in Wesfarmers' 2018 Half-year Report.

Media
Cathy Bolt
Media and External Affairs Manager
+61 8 9327 4423 or +61 417 813 804
cbolt@wesfarmers.com.au

Investors
Aleksandra Spaseska
General Manager, Investor Relations
+61 8 9327 4416 or +61 488 911 678
aspaseska@wesfarmers.com.au

[2] Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant items.

For personal use only