News Release

Wesfarmers

18 February 2020

2020 Half-year Results

Overview of Group results

Half-year ended 31 December ($m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance %[a]
Results from continuing operations				
Revenue	15,249	15,249	14,388	*6.0*
EBIT	1,734	1,637	1,645	*(0.5)*
Interest expense on lease liabilities	(119)	-	-	*n.m.*
EBIT (after interest on lease liabilities)	1,615	1,637	1,645	*(0.5)*
NPAT	1,127	1,142	1,080	*5.7*
Basic earnings per share (cps)	99.6	101.0	95.5	*5.7*
Results including discontinued operations				
NPAT from discontinued operations	83	83	3,458	*n.m.*
NPAT	1,210	1,225	4,538	*n.m.*
Return on equity (R12, %)[b]	21.4	20.4	13.5	*n.m.*
Interim dividend (fully-franked) per share	$0.75	$0.75	$1.00	*(25.0)*

n.m. = not meaningful

[a] Variance calculated on pre AASB 16 results.

[b] Excludes significant items.

Wesfarmers Limited has reported a net profit after tax (NPAT) of $1,210 million[1] for the half-year ended 31 December 2019. Excluding the impact of the new lease accounting standard and discontinued operations, Wesfarmers' NPAT increased 5.7 per cent to $1,142 million.

Managing Director Rob Scott said the result was underpinned by the strong performance of the Group's largest businesses in Bunnings and Kmart, and solid ongoing performance in Chemicals, Energy and Fertilisers (WesCEF).

"Bunnings, Kmart and Officeworks delivered a pleasing trading performance, with sales growth increasing relative to the prior corresponding period. Strict working capital management and disciplined capital expenditure also resulted in strong cash flow generation across the Group's operating divisions.

"In contrast to the rest of the Group, the Industrial and Safety result was disappointing and the performance of Target was below expectations. A number of initiatives are underway to address the underperformance of both businesses.

"Pleasing progress continues on the Group's digital strategy, with a number of divisions successfully implementing initiatives in conjunction with the Advanced Analytics Centre," Mr Scott said. "The Group's retail businesses also delivered further improvements in their respective e-commerce capabilities with strong growth in online sales of 35 per cent for the half. The enhancements in digital capability continue to complement existing store networks with sales density improving in the Group's retail divisions.

[1] Performance commentary in this report is focused on results excluding the impact from the adoption of AASB 16 Leases (AASB 16) in order to facilitate comparison to the prior period.

"During the period, the Group completed the acquisition of Kidman Resources Limited (Kidman) and Catch Group Holdings Limited (Catch). While modest, both investments provide new growth platforms that will benefit from the Group's existing capabilities and support shareholder returns over the long term.

"Reflecting the strong cash flow performance and disciplined capital investment, the Group retained a strong balance sheet with net financial debt of $2,317 million at the end of the period.

"The directors have declared a fully-franked ordinary interim dividend of $0.75 per share, reflecting earnings from continuing operations and Wesfarmers' dividend policy, which takes into account available franking credits, the strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise."

Following the payroll errors previously identified, Wesfarmers' businesses have conducted extensive reviews of their respective payroll systems and processes. As a result of these reviews, some additional payroll errors have been identified.

"Immediate steps are being taken to rectify identified issues, notify and repay affected team members, including interest, and ensure accuracy in the future through a robust program of auditing and monitoring," Mr Scott said.

The Group's first half results include the impact of the estimated payroll remediation costs and associated expenses. The remediation costs at Target and Industrial and Safety have been separately disclosed within the divisional results to outline the underlying performance of these businesses. The review did not identify any material errors in the remaining businesses.

Group results summary

Half-year ended 31 December ($m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance %[a]
Key financials				
Results from continuing operations				
Revenue	15,249	15,249	14,388	*6.0*
EBITDA	2,475	1,915	1,911	*0.2*
EBIT	1,734	1,637	1,645	*(0.5)*
Interest on lease liabilities	(119)	-	-	*n.m.*
EBIT (after interest on lease liabilities)	1,615	1,637	1,645	*(0.5)*
NPAT	1,127	1,142	1,080	*5.7*
Basic earnings per share (cps)	99.6	101.0	95.5	*5.7*
Results including discontinued operations				
NPAT from discontinued operations	83	83	3,458	*n.m.*
NPAT	1,210	1,225	4,538	*n.m.*
Return on equity (excluding significant items) (R12, %)	21.4	20.4	13.5	*n.m.*
Cash flow and dividends including discontinued operations				
Operating cash flow	2,131	1,666	1,987	*(16.2)*
Operating cash flow (after lease cash flows)	1,666	1,666	1,987	*(16.2)*
Net capital expenditure	207	207	678	*(69.5)*
Free cash flow	1,039	574	2,393	*(76.0)*
Free cash flow (after lease cash flows)	574	574	2,393	*(76.0)*
Cash realisation ratio (excluding significant items)[b]	114.1	117.3	98.5	*18.8 ppt*
Interim ordinary dividend (cps)	75	75	100	*(25.0)*
Special dividend (cps)	-	-	100	*n.m.*
Balance sheet				
Net financial debt[c]	2,317	2,317	324	*n.m.*

n.m. = not meaningful

[a] Variance calculated on pre AASB 16 results.

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

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

Divisional earnings summary

Half-year ended 31 December ($m)	2019 Post AASB 16	2019 Pre AASB 16	2018 Reported	Variance %[a]
Earnings before tax (EBT)				
Bunnings	938	961	932	*3.1*
Kmart Group – *continuing operations*[b]	343	345	383	*(9.9)*
WesCEF – *continuing operations*	173	174	185	*(5.9)*
Industrial and Safety[c]	7	6	42	*(85.7)*
Officeworks	82	79	76	*3.9*
Divisional EBT	**1,543**	**1,565**	**1,618**	***(3.3)***
Other	72	72	27	*n.m.*
Discontinued operations	-	-	587	*n.m.*
Significant items	-	-	3,250	*n.m.*
Group finance costs (excl. interest on lease liabilities)	(69)	(69)	(97)	*(28.9)*
Group profit before tax	**1,546**	**1,568**	**5,385**	***n.m.***

n.m. = not meaningful

[a] Variance calculated on pre AASB 16 results.

[b] 2019 includes $9 million of payroll remediation costs relating to Target.

[c] 2019 includes $15 million of payroll remediation costs.

Presentation of divisional earnings performance under AASB 16

Wesfarmers has applied AASB 16 from 1 July 2019 using the 'modified retrospective approach', which does not require historical periods to be restated. Broadly, the adoption of AASB 16 results in a reduction of occupancy expenses which is offset by an increase in depreciation on the right-of-use asset, and an increase in interest on lease liabilities. In order to present divisional earnings performance on a comparable basis, divisional earnings is reported on an earnings before tax (EBT) basis. Divisional EBT does not include any allocation of Group finance costs.

Performance overview – divisional

Bunnings

Revenue for Bunnings increased 5.3 per cent to $7,276 million for the half, with earnings increasing 3.1 per cent to $961 million. Excluding the net contribution from property, earnings increased 4.3 per cent on the previous corresponding period.

"Solid earnings growth was achieved despite a lower net property contribution due to fewer property sales, underpinned by an ongoing focus on store cost control and continued growth in consumer and commercial markets across all major trading regions and in all product categories," Mr Scott said.

"Bunnings continued to execute its strategic agenda and made significant improvements to the in-store and online customer experience during the period, including range expansion, the rollout of click and collect in Australia and the launch of Bunnings' online marketplace in November 2019, Bunnings MarketLink."

Kmart Group

Kmart Group revenue increased 7.6 per cent to $4,990 million for the half. Kmart sales increased $241 million, more than offsetting a sales decline of $67 million in Target. Earnings for the division of $345 million were 9.9 per cent lower than the prior corresponding period. Excluding a provision for one-off payroll remediation costs recognised in Target during the half, earnings of $354 million were 7.6 per cent lower than the prior corresponding period. The results for the half include Catch from 12 August 2019.

"Following strong sales growth, Kmart's earnings increased compared to the prior corresponding period despite unfavourable foreign exchange rate impacts and higher team member wages," Mr Scott said. "Earnings growth was underpinned by a continued focus on lowest price positioning, strong operational execution and an enhanced product range delivering growth across all categories.

"While Target remained profitable, earnings were below expectations and decreased significantly compared to the prior corresponding period due to a reduction in customer transactions and poor performance in key apparel categories.

"Kmart Group continued to invest in technology and digital capabilities throughout the half. The acquisition of Catch has strengthened the digital expertise in the Kmart Group and will help drive improvements in online execution and innovation."

Industrials

"WesCEF continued its solid performance with revenue increasing 1.7 per cent to $889 million, as Chemicals and Fertilisers growth offset a decline in Energy due to lower prices," Mr Scott said. "Earnings of $174 million were 5.9 per cent lower than the prior corresponding period, impacted by a decline in Energy revenue, customers rolling on to new pricing under long-term contracts in the ammonium nitrate (AN) business and work to refine the AN emulsion product.

"Industrial and Safety revenue declined by 2.1 per cent to $858 million, while earnings excluding payroll remediation costs were $21 million. Earnings were impacted by the disappointing performance in Blackwoods and a weaker performance from Workwear Group."

Officeworks

Officeworks' revenue increased 11.9 per cent to $1,231 million, with earnings of $79 million up 3.9 per cent on the prior corresponding period.

"Strong revenue growth was delivered in both stores and online as a result of continued investment in the customer experience, with pleasing momentum maintained in the business-to-business segment," Mr Scott said. "Earnings growth was impacted by continued price investment and higher sales of lower-margin products."

Other businesses

Other businesses and corporate overheads reported a profit of $72 million compared to a profit of $27 million in the prior corresponding period.

Earnings from this segment benefitted from a full period contribution from Wesfarmers' 15 per cent share of Coles Group Limited's (Coles) NPAT following the demerger of the business, property revaluations in the Bunnings Warehouse Property Trust, and also included $9 million from the value sharing arrangement entered into as part of the sale of the Curragh coal mine.

Discontinued operations and significant items

Post-tax significant items of $83 million were recorded during the half, which primarily relate to the recognition of tax losses following the divestment of the Bunnings United Kingdom and Ireland business in June 2018.

Cash flows, financing and dividends

"Strict working capital management and disciplined capital expenditure resulted in a strong cash flow performance with divisional cash generation of 126 per cent, an 11 percentage point improvement on the prior corresponding period," Mr Scott said. "The Group's cash realisation ratio also increased 19 percentage points during the half to 117 per cent, reflecting strong divisional cash generation and higher dividends from associates, including Coles."

The Group's operating cash flows decreased relative to the prior corresponding period which included operating cash flows from Coles and other discontinued operations.

Gross capital expenditure in continuing operations of $455 million was in line with the prior corresponding period. Lower capital expenditure in Kmart Group due to the timing of store refurbishments was offset by increased investment in the Bunnings digital offer as well as higher capital expenditure in WesCEF relating to the Covalent Lithium joint venture.

Free cash flows also decreased on the prior corresponding period primarily due to the acquisitions of Kidman and Catch during the half, while the prior period included proceeds from the divestment of the Bengalla Coal Mine, Quadrant Energy and Tyre and Auto Pty Ltd as well as the operating cash flows from the divested businesses and Coles.

The directors have declared a fully-franked ordinary interim dividend of $0.75 per share, reflecting earnings from continuing operations and Wesfarmers' dividend policy, which takes into account available franking credits, the strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise.

Outlook

Following a period of significant change, the Group's portfolio of cash-generative businesses with leading market positions is well-placed to deliver satisfactory shareholder returns over the long term. Given Wesfarmers' commitment to maintaining a strong balance sheet, and the diversity and resilience of the Group's portfolio, it remains well-positioned for a range of economic conditions.

The Group's retail divisions will remain steadfast in their focus on customers and will continue to invest in their offers to deliver even greater value, quality and convenience. Bunnings, Kmart Group and Officeworks will continue to enhance their digital offers to meet the changing needs of customers while expanding addressable markets and improving operating efficiencies.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, exchange rates, competitive factors and seasonal outcomes. While demand from key end-markets is expected to remain robust, earnings in the WesCEF business are expected to be impacted by an oversupply of explosive grade ammonium nitrate in the Western Australian market.

The Group's operating divisions are assessing the impact of the coronavirus outbreak, including the impact on supplier operations in affected regions. At this stage, the outbreak has not had a significant impact on the Group's businesses but the situation is being monitored closely.

All of the Group's divisions will remain focused on managing their businesses for long-term success and value creation, while the Group will accelerate plans to address unsatisfactory returns in Industrial and Safety, and Target.

The Group will continue to develop and enhance its portfolio of businesses, building on its unique capabilities and platforms to take advantage of growth opportunities within existing businesses, recently acquired investments and to pursue transactions that create value for shareholders over the long term.

For more information:

More detailed information regarding the Wesfarmers 2020 half-year results can be found in the Wesfarmers 2020 Half-year Report.

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This announcement was authorised to be given to the ASX by the Wesfarmers Limited Board Sub-committee.