



Wesfarmers

News Release

18 February 2021

2021 Half-year results

Financial highlights

Half-year ended 31 December (\$m)	2020	2019	Variance %
Results from continuing operations excluding significant items^a			
Revenue	17,774	15,249	16.6
Earnings before interest and tax	2,171	1,734	25.2
Earnings before interest and tax (after interest on lease liabilities)	2,057	1,615	27.4
Net profit after tax	1,414	1,127	25.5
Basic earnings per share (cps)	125.0	99.6	25.5
Results including discontinued operations and significant items^a			
Net profit after tax	1,390	1,210	14.9
Basic earnings per share (cps)	122.9	106.9	14.9
Operating cash flows	2,216	2,131	4.0
Interim ordinary dividend (fully-franked, cps)	88	75	17.3

^a Further detail on significant items and discontinued operations is set out on page 21 of the 2021 Half-year Report.

Wesfarmers Limited has reported a statutory net profit after tax (NPAT) of \$1,390 million for the half-year ended 31 December 2020. NPAT from continuing operations, excluding significant items, increased 25.5 per cent to \$1,414 million.

Wesfarmers Managing Director Rob Scott said it was pleasing to have reported strong sales and earnings growth across the retail businesses, as well as an improvement in the performance of Industrial and Safety, during a period of continued disruption and uncertainty due to COVID-19.

“Bunnings, Kmart Group and Officeworks delivered strong trading results for the half, reflecting their ability to adapt to changing customer preferences and provide a safe environment for customers and team members. In line with Wesfarmers’ objective of delivering superior and sustainable long-term returns, the retail divisions continued to invest in building deeper customer relationships and trust by providing greater value, service and convenience for customers during a period in which many Australian households faced significant challenges and uncertainty.

“The result in Chemicals, Energy and Fertilisers (WesCEF) reflected a solid operating performance, while Industrial and Safety reported an improvement in the performance of Blackwoods.

“Pleasing progress on the Group’s data and digital agenda in recent years supported strong online sales growth and digital engagement during the half. Total online sales across the Group more than doubled for the half, excluding Catch. Including the Catch marketplace, online sales of \$2.0 billion were recorded for the half.

“Good progress to accelerate the growth of Kmart and address the performance in Target continued during the half and, on a combined basis, Kmart and Target delivered a record earnings result for the period. Sales and transaction volume uplifts from Target stores that have been converted to Kmart stores continue to be very encouraging, and 19 stores were converted during the half. Target’s profitability improved significantly, supported by strong demand and the ongoing simplification of the business.

“The Group maintained its commitment to sustainable long-term value creation during the half. Across the Group, Scope 1 and 2 emissions reduced by eight per cent. Wesfarmers also employed approximately 9,500 more team members at the end of December 2020 compared with the prior corresponding period, reflecting continued investment in customer service and digital capabilities across the Group, as well as increased levels of activity in the retail businesses. Aboriginal and Torres Strait Islander team member numbers increased by 800, continuing the Group’s progress towards achieving employment parity of three per cent by 2022.”

Operating cash flows increased 4.0 per cent for the half to \$2,216 million, supported by strong divisional earnings growth, which was partially offset by the ongoing normalisation in working capital positions in the retail businesses following the abnormal balances recorded at the end of the 2020 financial year, as well as the timing of tax payments.

Wesfarmers has maintained a strong balance sheet as a result of the solid cash flow performance and the actions taken in the 2020 financial year in response to the uncertainty associated with COVID-19. The Group reported a net cash position of \$871 million at the end of the half.

The directors have determined to pay a fully-franked ordinary interim dividend of \$0.88 per share, reflecting the strong NPAT result and Wesfarmers' dividend policy, which takes into account available franking credits, balance sheet position, credit metrics and cash flow generation while preserving the flexibility to manage continued uncertainty associated with COVID-19, and to take advantage of value-accretive growth opportunities, if and when they arise.

Impact of COVID-19

During the half, COVID-19 had a significant impact on the Group's operations and financial results. The Group maintained many of the important measures implemented in the second half of the 2020 financial year to protect the health and safety of customers and team members, and continued to support government efforts to limit the spread of COVID-19. Costs associated with providing a COVID-safe environment of approximately \$30 million were incurred during the half.

The Group continued to provide paid pandemic leave to team members and also paid team members during the Stage 4 restrictions in metropolitan Melbourne, even where the Group's businesses did not have meaningful work for them.

The Group's retail businesses experienced significant volatility in sales during the half due to changes in store traffic as a result of government restrictions and physical distancing requirements. Customers spending more time working, learning and relaxing at home, in part due to travel restrictions, continued to support strong demand in some product categories. Government stimulus measures, including those designed to provide income support to households and businesses, also had a positive impact on the Group's retail sales during the half.

COVID-19 has accelerated shifts in customer preferences, with significant increases in digital engagement and online purchases during the half. The Group's investment in digital capabilities over recent years supported strong online sales growth, and investment in this area continued during the half. Some additional fulfilment costs were incurred within stores and distribution centres to accommodate peak periods of online demand.

Disruptions and capacity constraints in global supply chains also led to some inventory delays and higher ocean freight charges.

Many of the changes made to ensure COVID-safe operations and respond to changing customer shopping preferences have been integrated into normal business practices.

Further detail on the operational impact of COVID-19 is provided in the divisional results commentary contained in the 2021 Half-year Report.

Group results summary

Half-year ended 31 December (\$m)	2020	2019	Variance %
Key financials			
Results from continuing operations^a			
Revenue	17,774	15,249	16.6
EBIT	2,137	1,734	23.2
EBIT (after interest on lease liabilities)	2,023	1,615	25.3
EBIT (after interest on lease liabilities) (excluding significant items) ^b	2,057	1,615	27.4
NPAT	1,390	1,127	23.3
NPAT (excluding significant items) ^b	1,414	1,127	25.5
Basic earnings per share (excluding significant items) ^b (cps)	125.0	99.6	25.5
Results including discontinued operations^a			
NPAT from discontinued operations ^a	-	83	n.m.
NPAT	1,390	1,210	14.9
NPAT (excluding significant items) ^b	1,414	1,127	25.5
Return on equity (excluding significant items) ^b (R12, %)	24.7	21.4	3.3 ppt
Cash flows and dividends including discontinued operations^a			
Operating cash flows	2,216	2,131	4.0
Net capital expenditure	243	207	17.4
Free cash flows	1,964	1,039	89.0
Cash realisation ratio (excluding significant items) ^{b,c} (%)	102	114	(12 ppt)
Interim ordinary dividend (fully-franked, cps)	88	75	17.3
Balance sheet			
Net financial debt / (cash) ^d	(871)	2,317	n.m.

n.m. = not meaningful

^a Further detail on discontinued operations is set out on page 21 of the 2021 Half-year Report.^b Further detail on significant items is set out on page 21 of the 2021 Half-year Report.^c Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation.^d 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)	2020	2019	Variance %
Earnings before tax (EBT) excluding significant items^a			
Bunnings	1,274	938	35.8
Kmart Group ^b	487	343	42.0
Officeworks	100	82	22.0
WesCEF	160	173	(7.5)
Industrial and Safety ^c	37	7	n.m.
Divisional EBT (excluding significant items)^a	2,058	1,543	33.4

n.m. = not meaningful

^a Further detail on significant items is set out on page 21 of the 2021 Half-year Report.

^b 2019 includes \$9 million of payroll remediation costs relating to Target.

^c 2019 includes \$15 million of payroll remediation costs.

Performance overview – divisional

Bunnings

Revenue for Bunnings increased 24.4 per cent to \$9,054 million for the half, with earnings increasing 35.8 per cent to \$1,274 million. Excluding the net contribution from property, earnings increased 39.0 per cent.

“The strength of the sales and earnings results reflects Bunnings’ solid execution of the strategic agenda and the ability of the operating model to successfully adapt to changing customer behaviour and operating environments,” Mr Scott said.

“Bunnings continued to invest in the customer experience through its commitment to lowest prices, expansion of online product ranges and upgrades to in-store product displays across kitchen and garage organisation ranges. Travel restrictions and customers spending more time undertaking projects at home continued to support sales growth.”

Kmart Group

Kmart Group’s revenue increased 9.0 per cent to \$5,441 million for the half. Earnings before significant items and payroll remediation costs increased 38.4 per cent to \$487 million. Good progress was made during the half on executing the planned changes to the Kmart and Target store networks, with initial trading results from converted stores exceeding expectations. Including significant items associated with these changes, Kmart Group recorded earnings of \$453 million.

“Kmart’s earnings growth for the half was driven by higher sales and lower clearance costs,” Mr Scott said. “Kmart’s inventory position improved over the half, with higher stock weights in key product lines supporting trade through the Christmas period. Kmart also continued to invest in new in-store retail technology and the development of its data and digital capabilities, and recorded an increase in online penetration to 8.7 per cent for the half.

“Target’s profitability improved significantly in the half, reflecting a higher proportion of full-price sales and lower operating costs, supported by the ongoing simplification of the business,” Mr Scott said. “Target also made enhancements to its product offer, particularly in apparel and soft home, and continued to prioritise online growth, with online penetration increasing to 15.9 per cent for the half.

“Pleasing progress continued in Catch, with gross transaction value increasing 95.6 per cent for the half, supported by strong growth in both in-stock and marketplace offerings,” Mr Scott said. “Catch’s earnings were impacted by accelerated investment in technology, marketing and fulfilment capacity to support future growth.”

Officeworks

Officeworks’ revenue increased 23.7 per cent to \$1,523 million for the half. Earnings increased 22.0 per cent to \$100 million.

“Strong sales growth was driven by increased demand for technology and home office products as customers spent more time learning and working from home. Officeworks delivered strong earnings growth despite some gross margin compression from continued investment in prices and changes in sales mix towards lower margin technology products. COVID-19 restrictions also adversely impacted sales across higher margin categories such as office supplies and print, copy & create,” Mr Scott said.

“Officeworks’ long-running investment in its every-channel capabilities supported an increase in online penetration to 37.1 per cent for the half.”

Chemicals, Energy and Fertilisers

WesCEF's revenue decreased 6.6 per cent to \$830 million. Earnings decreased 7.5 per cent to \$160 million.

"WesCEF delivered a solid operating performance for the half and, as expected, earnings were impacted by additional supply from a competitor ammonium nitrate (AN) plant in the Burrup. This impact was moderated by recent work by CSBP to establish contracted positions and strong AN demand from the iron ore sector, as well as the continued development of new growth opportunities across the WesCEF portfolio," Mr Scott said.

"Earnings were also impacted by continued weakness in the Saudi Contract Price and weaker export demand in the sodium cyanide business as a result of international gold mine closures due to COVID-19."

Industrial and Safety

Industrial and Safety's revenue increased 4.7 per cent to \$898 million. Earnings increased to \$37 million, up from \$22 million, excluding payroll remediation costs, in the prior corresponding period.

"The performance of Industrial and Safety was supported by higher sales and cost improvements in Blackwoods and continued growth in demand from Coregas' industrial and healthcare customers", Mr Scott said.

Other businesses

Other businesses and corporate overheads reported a loss of \$1 million compared to a profit of \$72 million in the prior corresponding period.

Earnings from this segment benefited from a positive contribution from property revaluations in BWP Trust and a reduction in corporate overheads. This was offset by the reclassification of the Group's 4.9 per cent interest in Coles to a financial asset following the sale of the Group's 10.1 per cent interest in the second half of the 2020 financial year, as well as the conclusion of the Curragh value sharing arrangement.

Significant items and discontinued operations

Post-tax significant items of \$24 million (\$34 million pre-tax) recorded during the half relate to Target store closure and conversion costs as part of the restructuring actions in Kmart Group announced during the 2020 financial year.

Post-tax significant items of \$83 million recorded in the prior corresponding period relate to discontinued operations and primarily comprise the recognition of tax losses relating to the Bunnings United Kingdom and Ireland business which was divested in June 2018.

Cash flows, financing and dividends

Operating cash flows of \$2,216 million were 4.0 per cent higher than the prior corresponding period, with strong divisional earnings growth partially offset by a normalisation in working capital positions in the Group's retail businesses, targeted investments to increase stock weights in Kmart to meet higher demand, and the timing of tax payments. Disciplined working capital management and capital expenditure resulted in pre-tax divisional operating cash flows after net capital expenditure and repayment of finance leases increasing 16.1 per cent. The Group's cash realisation ratio was 102 per cent for the half.

Gross capital expenditure of \$410 million was 9.9 per cent below the prior corresponding period, with increased investment in data and digital initiatives across all divisions and progress on the conversion of Target stores to Kmart stores offset by lower new store and refurbishment expenditure in Bunnings and Kmart Group. Property disposals of \$167 million were \$81 million below the prior year, reflecting fewer property sales in Bunnings. The resulting net capital expenditure of \$243 million was \$36 million, or 17.4 per cent, higher than the prior corresponding period.

Free cash flows of \$1,964 million were 89.0 per cent higher than the prior corresponding period, reflecting the increase in operating cash flows during the half and acquisition consideration for Kidman and Catch of \$1.0 billion in the prior corresponding period.

The directors have determined to pay a fully-franked ordinary interim dividend of \$0.88 per share, reflecting the strong NPAT result and Wesfarmers' dividend policy, which takes into account available franking credits, balance sheet position, credit metrics and cash flow generation. The Group has maintained balance sheet flexibility to respond to the high levels of uncertainty associated with COVID-19, and to take advantage of value-accretive growth opportunities, if and when they arise.

Outlook

Economic conditions in Australia have recovered strongly and the outlook is more positive, subject to future COVID-19 risks. While the continued impact of COVID-19 on customer demand and operations presents significant uncertainty, the Group's portfolio of cash-generative businesses with leading market positions remains well-placed to deliver satisfactory shareholder returns over the long term.

Sales across the Group's retail businesses have continued to remain strong through January and February, with some impact from government-mandated trading restrictions in Victoria, Western Australia and New Zealand. Consumers spending more time at home while travel restrictions persist is likely to continue to support higher demand in some of the Group's businesses. Retail sales growth is expected to moderate from March as the businesses begin to cycle the initial impacts of COVID-19 in the prior year, particularly in Bunnings and Officeworks.

The Group also expects to continue to incur costs of approximately \$10 million per quarter, reflecting additional operating costs to provide a COVID-safe environment for customers and team members.

The Group's retail businesses will maintain their focus on meeting changing customer needs and delivering even greater value, quality and convenience for customers. Investment in Group and divisional digital capabilities will continue and is expected to support enhancements to customer value propositions, expansion of addressable markets and delivery of operating efficiencies.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, foreign exchange rates, competitive factors and seasonal outcomes.

On 17 February 2021, Wesfarmers announced the joint approval, together with Sociedad Quimica y Minera de Chile S.A. (SQM), of the final investment decision for the Mt Holland lithium project. Following receipt of all relevant approvals, construction of the mine, concentrator and refinery is expected to commence in the first half of the 2022 financial year. The first production of lithium hydroxide is expected in the second half of the 2024 calendar year. Wesfarmers' share of capital expenditure for the development of the project is estimated at approximately \$950 million¹.

Wesfarmers will maintain an appropriately strong balance sheet to preserve flexibility to invest in long-term growth initiatives across the Group and manage the ongoing uncertainty associated with COVID-19.

Wesfarmers will continue to actively consider climate change risk in the context of key business decisions and manage the portfolio with deep carbon awareness. The Group will maintain its focus on delivering progress against its net zero emissions targets and aspirations, and continue to make disciplined investments to ensure appropriate climate change resilience in each of its businesses.

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

For more information:

More detailed information regarding the Wesfarmers 2021 half-year results can be found in the Wesfarmers 2021 Half-year Report.

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

¹ Real 2021 terms.