Assessment 1

22788 Accounting Practices and Tools - Spring 2024

Coles Group Limited

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Company & Competitor Introduction

Coles Supermarkets which was founded by Sir George Coles during the year 1914 in Collingswood, Melbourne is a big player in the Australian Grocery industry, operating 846 supermarkets, across Australia and employing nearly 120,000 people. As the second largest supermarket chain in Australia, it has nearly 28% market share in the grocery market. It has introduced many new initiatives among which is Coles Online to compete in the grocery market.

Fig.1: Coles' upgraded Prahran supermarket opens - Retail World Magazine

Woolworths Supermarkets was founded in 1924 by five Australian entrepreneurs in Sydney and is another big player in the Australian Grocery industry with a network of approximately 995 supermarkets and 90 Woolworths Metro convenience stores across Australia, the company has a market share of around 37% of the Australian grocery market. Woolworths is recognized for its commitment to quality and customer service. It has also introduced online services to compete against Coles and Aldis.

Fig. 2: Woolworths unveils new Mornington Central store - MPNEWS

Horizontal and Vertical Analysis

The horizontal analysis of Coles Group's balance sheet shares some mixed insights. From 2023 to 2024, total assets increased by $1.578 billion reflecting a 8.6% growth. This increase is primarily driven by a rise in non-current assets, particularly property, plant, and equipment, which grew by $1.175 billion (10.2%). The substantial growth in non-current assets indicates investment in long-term operational capacity or expansion efforts. Current assets showed a modest growth of $234 million (6.2%) with notable variations in individual components like a decrease in trade and other receivables has gone down suggesting that the company was able to receive cash against its trade receivables which will reduce its assets to cash conversion cycle thereby indicating a lower requirement of working capital.

On the liabilities side, total liabilities increased by $1.317 billion (8.8%) with the rise in long-term debt accounting for most of this increase, up by $1.011 billion (12.4%). This suggests a reliance on long-term borrowing to finance asset growth which will have a positive implication over a long-term period which also aligns with the vision of the management to expand the business in a sustainable manner. Current liabilities also grew by $363 million (5.7%) indicating a potential increase in the short-term interest payments. Total equity increased by $261 million (7.8%) driven by growth in retained earnings which rose by $234 million (14.6%). This reflects that more percentage of the profits is being reinvested back into he company through retained profits so that it can contribute to the overall financial stability of the company during its expansion efforts.

In the vertical analysis, We see that a majority of the Assets valuation comes from property, plant, and equipment representing 63.7% of total assets, up from 62.8% in 2023. This highlights a continued investment in fixed assets. The share of current liabilities relative to total liabilities increased significantly to 41.7% in 2024 up from 30.0% in 2023 signaling a higher short-term obligation compared to long-term liabilities which stands at 58.3% of total liabilities.

From the Income sheet, Coles Group's operating revenue increased by $3 billion reflecting consistent revenue growth with quite a notable rise of 7.6% from 2023 to 2024. This indicates robust operational performance. However, other revenue decreased by 18.0% in 2024 compared to 2023 reflecting a decline in non-core income sources.

Expenses have generally trended upwards. Cost of sales rose by $2.265 billion (7.5%) aligning with the revenue growth but impacting profitability. Employee benefits expense and occupancy and overheads also increased indicating higher operational costs which also is most likely in preparation for expansion plans in FY 2024-2025. A notable change is the net impairment expense, which swung from credit in 2023 to a significant debit in 2024, potentially due to increased provisions or asset write-downs which are not related to property but have not been exactly specified in the annual report and have only been categorized as “Other”. Despite these increases, net profit after tax grew by 1.8% from 2023 to 2024 reflecting effective cost management and revenue growth outweighing expense increases. However, this also highlights the drop in growth of net profit which was 4.8% growth from 2022 -2023 but 4.28% from 2021-2022, suggesting that while this decreasing growth in profit is not a trend, it is most likely due to increased investments following the expansion plan leading to a temporary decrease in realized profits as the new stores are yet to be opened.

If we look at the vertical analysis of Coles Income statement we see that in 2024, cost of sales constituted 74.1% of total revenue, compared to 74.2% in 2023. This stability indicates that cost control measures are in place despite revenue growth. The net profit margin was 2.6% in 2024 down from 2.7% in 2023 reflecting the impact of higher liabilities due to its expansion plans and unspecified impairment losses on profitability.

Cash flow from operations showed a slight decrease of 0.5% from 2023 to 2024, despite a 4.3% increase over the period from 2022 to 2023. While this decrease in cash generation from operations is minor indicating a stable operational cash generation, cash flow from investing activities saw a significant increase in 2024 compared to 2023, primarily due to higher capital expenditures or investment activities needed to support its future expansion plan which will help increase profits in the future. Cash flow used in financing activities has reduced by 33.2% in 2024 which may also be supported by the increased long term debt which has grown by 12.4% enabling the company to increase investments in property, plant and equipment for future expansion plans.

In 2024, Vertical Analysis for cash flow does not show much difference as there is very minor variation from last year suggesting that the cash flow has been controlled as per expectation and company planning.

Ratio Analysis Breakdown and Explanation

Profitability Ratios

Coles

Profitability Ratios	Formula	2021	2022	2023	2024
Return on Equity (ROE)	Net Profit / Average Equity		35.30%	33.89%	32.07%
Return on Assets (ROA)	Net Profit / Average Total Assets		5.67%	5.91%	5.86%
Profit Margin (PM)	Net Profit / Sales Revenue	2.61%	2.66%	2.71%	2.57%
Cash Flow Margin	Cash Flow from Operating Activities / Sales Revenue	7.36%	6.83%	6.93%	6.41%

Table 1:- Profitability Ratios for Coles from 2021-2024.

Woolworths

Ratios	Formula	2021	2022	2023	2024
Return on Equity (ROE)	Net Profit / Average Equity		39.70%	25.72%	1.93%
Return on Assets (ROA)	Net Profit / Average Total Assets		5.52%	7.34%	0.51%
Profit Margin (PM)	Net Profit / Sales Revenue	2.88%	2.56%	2.53%	0.17%
Cash Flow Margin	Cash Flow from Operating Activities / Sales Revenue	8.30%	5.55%	7.39%	6.42%

Table 2:- Profitability Ratios for Woolworths from 2021-2024.

Return on Equity(ROE):-

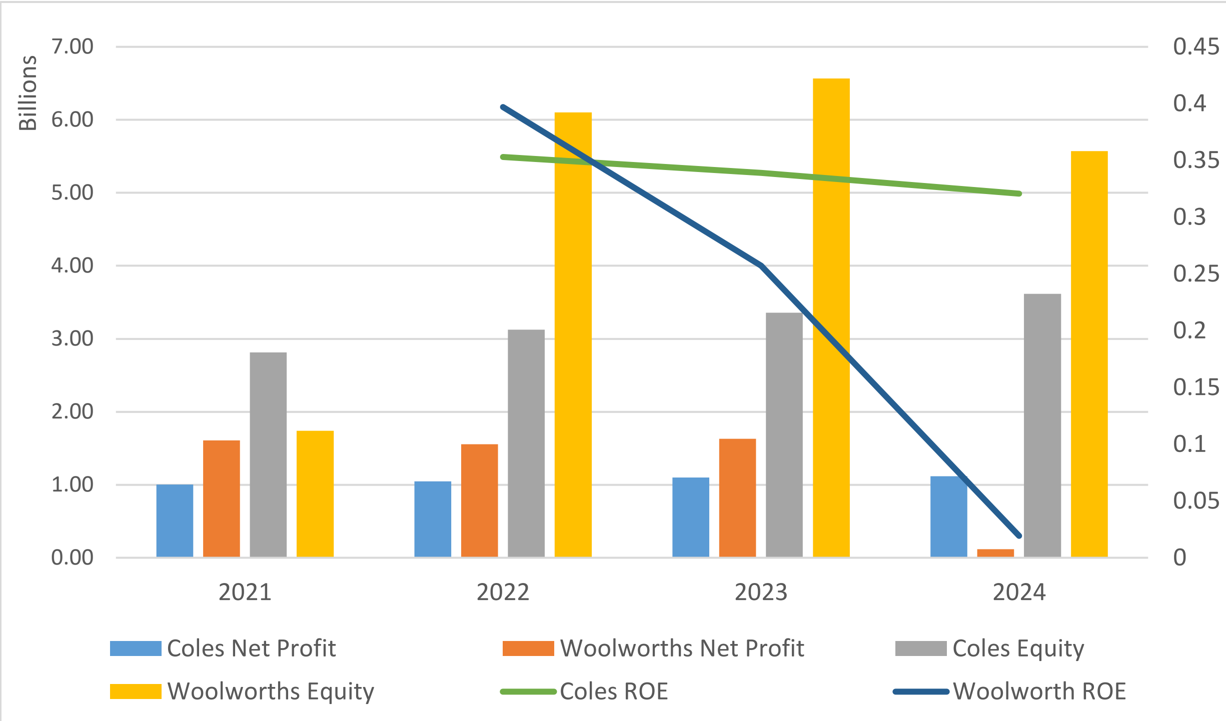

Chart 1:- ROE and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Profit	1,005,000,000.00	1,048,000,000.00	1,098,000,000.00	1,118,000,000.00	1.82%
Woolworths Net Profit	1,606,000,000.00	1,557,000,000.00	1,629,000,000.00	117,000,000.00	-92.82%
Coles Equity	2,813,000,000.00	3,124,000,000.00	3,356,000,000.00	3,617,000,000.00	7.78%
Woolworths Equity	1,739,000,000.00	6,104,000,000.00	6,565,000,000.00	5,570,000,000.00	-15.16%
Coles ROE		35.30%	33.89%	32.07%	-1.82%
Woolworth ROE		39.70%	25.72%	1.93%	-23.79%

Table 3:- ROE and its component data for Coles and Woolworths for 2021-2024

Return on Equity is a ratio that measures a company's profitability in relation to equity invested by shareholders which basically explains how effective a company is at using the money its shareholders have invested to generate profits.

We see ROE for Coles to be dropping steadily over the last three years even though it is still quite significantly high. ROE for Woolworths on the other hand has had a more drastic drop in ROE over the last 3 years.

For Coles, we see that the change in Net profit was 4.8% in 2023 and 1.8% in 2024, however, the change in Equity was 7.4% in 2023 and 7.8% in 2024. This widening gap between profit growth and equity growth suggests that the company is not using its increased equity base as efficiently as before to generate higher returns for shareholders.

Essentially, Coles is accumulating equity either through retained earnings or issuing more shares but is not converting that into proportionally higher profits. A lower leverage ratio also indicates that the company is taking on less debt, which decreases the potential magnification of returns on equity.

For Woolworths, we see that the change in net profit was 4.6% in 2023 and -92.8% in 2024, however, the change in Equity was 7.6% in 2023 and -15.2% in 2024. While it did initially face the same problem that coles does in 2023, there was a major event which led to a nearly 92.8% drop in their profit margins in 2024 which was that they sold their 5% stake in the Endeavour group which owned a chain of bars and restaurants realizing a loss of nearly a 1.7B AUD. This along with its struggling New Zealand supermarket chains has led to a major drop in overall profits for FY24 compared to the past year's numbers. More information verifying and supporting this is available in an article published by Channel News Australia.

The massive fall in net profit and equity explains why the impact on ROE was so magnified. However, this is a one time non-recurring abnormal event and with the right strategy, woolworths can recover from this loss in potential profit. However, in the short term, Woolworth will be struggling to generate returns for its shareholders.

While 2 years ago Woolworths was giving better returns to its shareholders, currently Coles is in a far better position and doing much better financially than Woolworths, however its dropping ROE, is definitely something that the company can look to turn around as it has the cash reserves and ability to take leverage their position to increase profits in the next few years and we can see that they are doing this with significant increase in their long term debt in FY24 supporting their plans to open eight new supermarket stores, close five, and renew approximately 50 stores. Similarly, the company aims to open 13 new liquor stores and close 10 stores. More information supporting this can be found in the article here published by the Motley Fool.

Return on Assets (ROA)

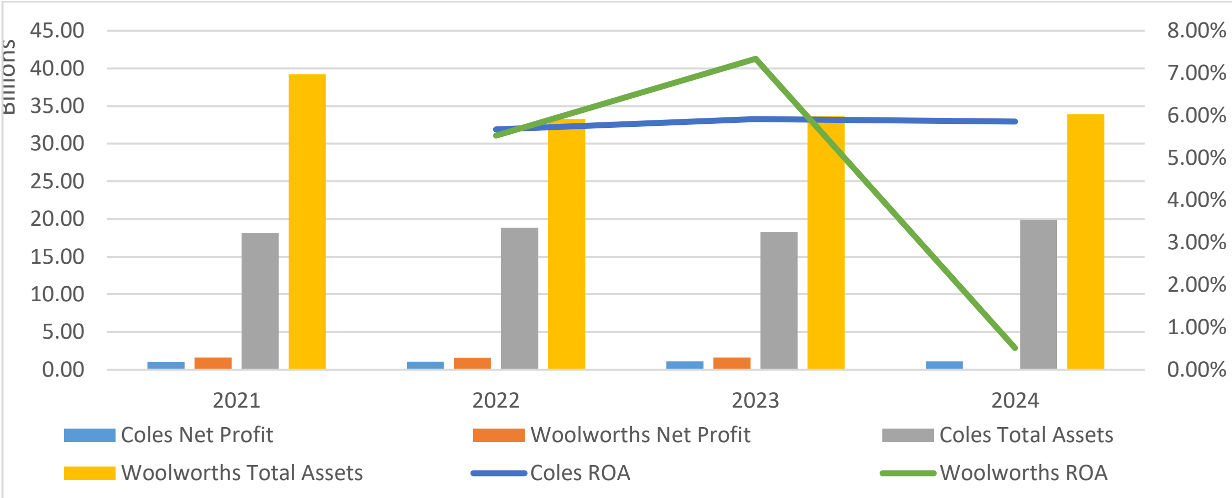

Chart 2:- ROA and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Profit	1,005,000,000.00	1,048,000,000.00	1,098,000,000.00	1,118,000,000.00	1.82%
Woolworths Net Profit	1,606,000,000.00	1,557,000,000.00	1,629,000,000.00	117,000,000.00	-92.82%
Coles Total Assets	18,123,000,000.00	18,836,000,000.00	18,292,000,000.00	19,870,000,000.00	8.63%
Woolworths Total Assets	39,236,000,000.00	33,273,000,000.00	33,648,000,000.00	33,936,000,000.00	0.86%
Coles ROA		5.67%	5.91%	5.86%	-0.06%
Woolworths ROA		5.52%	7.34%	0.51%	-6.83%

Table 4:- ROA and its component data for Coles and Woolworths for 2021-2024

Return on Asset Ratio indicates the company's ability to generate profit from its assets and gives a better understanding of what kind of cashflow its assets can produce.

We see that the ROA has remained fairly stable from 5.67% to 5.91% from 2022 to 2024 for Coles which is relatively quite stable supported by its stable asset turnover ratio suggesting that there is enough cash flow for operations, investments and financing activities as is confirmed from the cashflow sheet. This explains that Coles is taking measures to increase its profits but is doing so in a thoughtful and safe manner without increasing its leverage too much, thereby ensuring a safer strategy to increase profitability. The relatively stable asset turnover Ratio and Profit margin and minor increase to assets also seem to support this conclusion.

Woolworth, however, saw a significant drop from 7.34% to 0.51% in its ROA. While this drop can be explained by the actions of releasing the 5% stake in the Endeavor group, holistically, even though their total assets have grown by 0.9%, the realizations of this demerger overshadow this growth, causing the net profit to drop significantly which is magnifying the drop in the ROA. However since this is a one-time issue, This means that the management will have to plan on investing or acquiring more assets through debt financing instead of equity as even their reserves are in negative following the demerger. From this, we can say that, if Woolworth increases its leverage and uses it to acquire more assets which will in turn ultimately restabilise its net profit, thereby allowing it to return to its original ROA, however currently, this one-time demerger cost is impacting this ratio severely and it is not correct to say that overall the assets of Woolworths is performing badly as that is not the case.

In terms of ROA, Coles is playing it safe with good financing strategies and has a good cash turnover cycle while Woolworth will need to do some work to overcome the challenges created in its cashflows cycles from the demerger.

Profit Margin (PM)

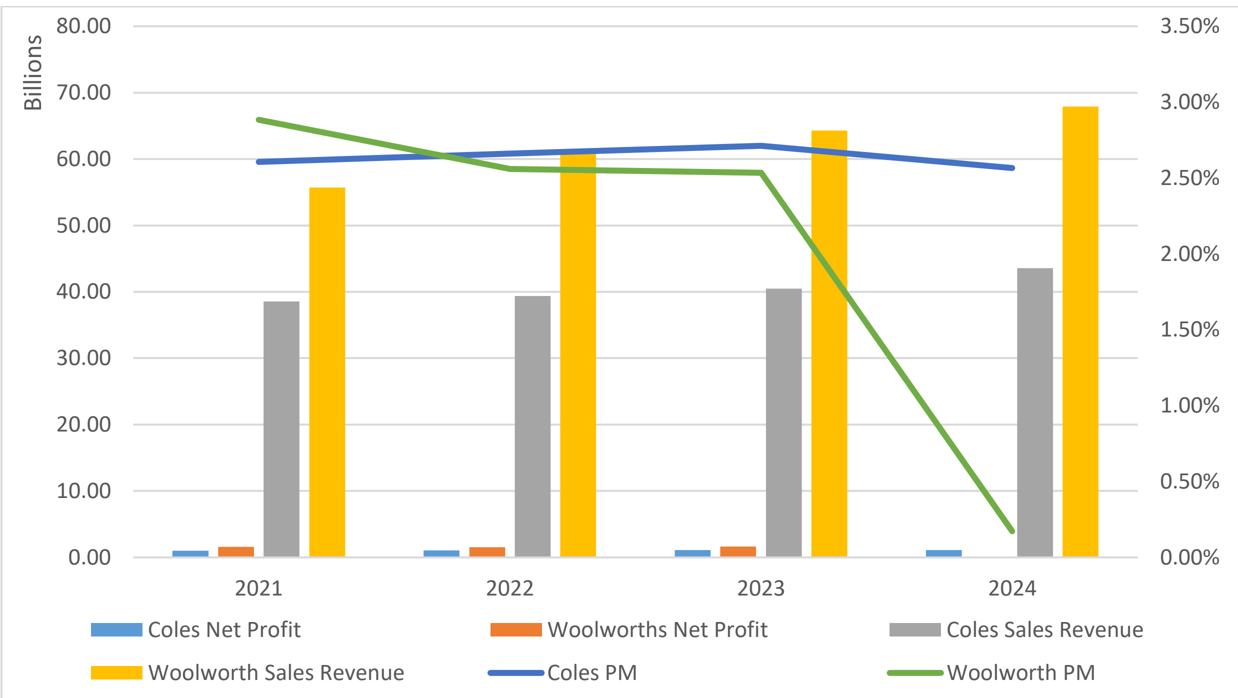

Chart 3:- PM and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Profit	1,005,000,000.00	1,048,000,000.00	1,098,000,000.00	1,118,000,000.00	1.82%
Woolworths Net Profit	1,606,000,000.00	1,557,000,000.00	1,629,000,000.00	117,000,000.00	-92.82%
Coles Sales Revenue	38,562,000,000.00	39,369,000,000.00	40,483,000,000.00	43,571,000,000.00	7.63%
Woolworth Sales Revenue	55,694,000,000.00	60,849,000,000.00	64,294,000,000.00	67,922,000,000.00	5.64%
Coles PM	2.61%	2.66%	2.71%	2.57%	-0.15%
Woolworth PM	2.88%	2.56%	2.53%	0.17%	-2.36%

Table 5:- PM and its component data for Coles and Woolworths for 2021-2024

Profit Margin is a ratio that explains the one to understand a company's profit margin so that they can analyze the profitability of a company. A higher figure demonstrates that the company has pricing power assuming no revenue drop. There are few companies who prefer to target large volumes of customers and thereby are ready to sacrifice the margins with the intention of volume growth, which will make up for the reduction in margins, such as Coles and Woolworths.

Coles has maintained the figure of around 2.5-2.7% over the two years with a slight drop in net profit, which can be attributed to the increased interest payments from debt and borrowings which have increased by 71% in FY24. This further supports the idea that Coles has plans for asset acquisition to help reverse its dropping profit margin and increase overall profitability.

Woolworth's profit margins were similar to Coles's in 2023 displaying a yearly decrease in growth of net profit however, with the demerger, the net profit has dropped considerably by 92.8% and to such an extent that they were only able realize some profit through minor additional sources of income which is up 11.9% from last year but this income was less than 1% of its 2023 operating revenue.

While Coles has already taken adequate steps to address its minor but steady drop in net profit growth, Woolworths has a lot it has to do in order to acquire new assets that will allow it to offset the current loss from this demerger. Its not correct to say that Woolworths has lost its ability to make a profit as its revenue continues to increase year on year, however its more correct to say that Woolworth has lost out on its potential profit and cash generation which it will recover with other ventures and investments it will be making in the future.

Cash Flow Margin

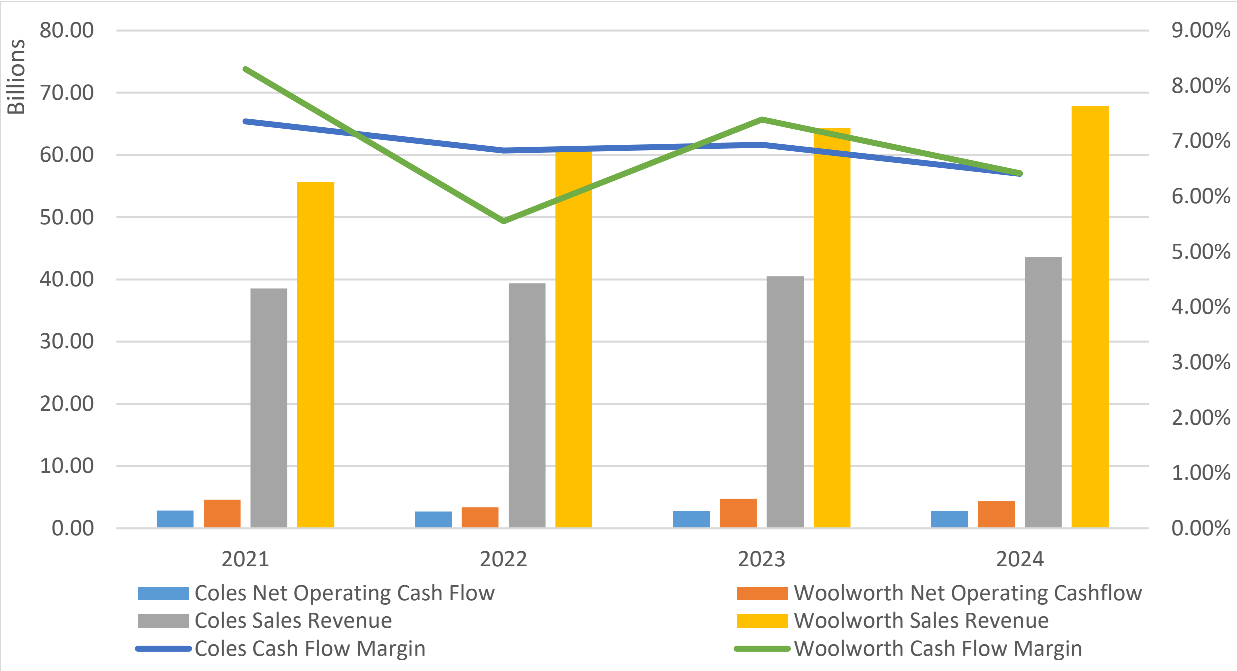

Chart 4:- CFM and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Operating Cash Flow	2,837,000,000.00	2,690,000,000.00	2,807,000,000.00	2,793,000,000.00	-0.50%
Woolworth Net Operating Cashflow	4,624,000,000.00	3,378,000,000.00	4,754,000,000.00	4,359,000,000.00	-8.31%
Coles Sales Revenue	38,562,000,000.00	39,369,000,000.00	40,483,000,000.00	43,571,000,000.00	7.63%
Woolworth Sales Revenue	55,694,000,000.00	60,849,000,000.00	64,294,000,000.00	67,922,000,000.00	5.64%
Coles Cash Flow Margin	7.36%	6.83%	6.93%	6.41%	-0.52%
Woolworth Cash Flow Margin	8.30%	5.55%	7.39%	6.42%	-0.98%

Table 6:- CFM and its component data for Coles and Woolworths for 2021-2024

Cash Flow Magin is a Ratio used to measure how effectively a company is able to turn its sales into cash. A higher figure is considered better but a lower figure is not necessarily bad as long as the company is utilizing the cash to purchase assets with an intention to expand the business.

Since Coles is investing capital to open new stores, its ratio has dipped from 6.93% in FY’23 to 6.41% in FY’24.

Woolworth has also dropped to 6.42% suggesting that some of its cash generation abilities have been impacted due to the demerger despite increasing sales revenue.

While Coles has had a more stable cash generation metric over the years suggesting good control and proper credit terms, Woolworths has had more variation in its Cash Flow Margin, However in 2024 both have a near identical value showing that at present both companies are able to generate good amount cash from their operations.

Efficiency Ratios

Coles Group Limited

Efficiency Ratios	Formula	2022	2023	2024
Asset Turnover Ratio (ATO)	Sales Revenue / Average Total Assets	2.13	2.18	2.28
Days Inventory	Average Inventory / Cost of Sales * 365 days	28.46	28.99	28.40
Days in Receivables	Average Accounts Receivable / Sales Revenue * 365 days	3.88	4.85	4.61

Table 7 :- Efficiency Ratios for Coles for 2021-2024

Woolworths Group Limited

Efficiency Ratios	Formula	2022	2023	2024
Asset Turnover Ratio (ATO)	Sales Revenue / Average Total Assets	1.68	1.92	2.01
Days Inventory	Average Inventory / Cost of Sales * 365 days	27.35	28.24	29.15
Days in Receivables	Average Accounts Receivable / Sales Revenue * 365 days	4.01	5.31	5.70

Table 8 :- Efficiency Ratios for Woolworths for 2021-2024

Asset Turnover Ratio (ATO)

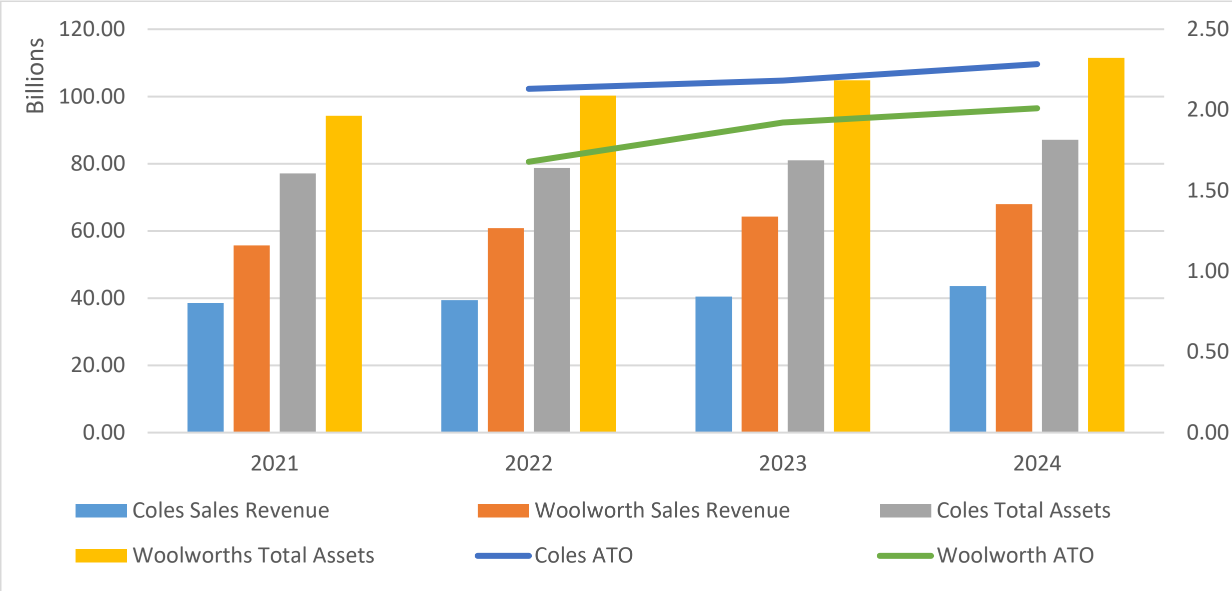

Chart 5:- ATO and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Sales Revenue	38,562,000,000.00	39,369,000,000.00	40,483,000,000.00	43,571,000,000.00	7.63%
Woolworth Sales Revenue	55,694,000,000.00	60,849,000,000.00	64,294,000,000.00	67,922,000,000.00	5.64%
Coles Total Assets	18,123,000,000.00	18,836,000,000.00	18,292,000,000.00	19,870,000,000.00	8.63%
Woolworths Total Assets	39,236,000,000.00	33,273,000,000.00	33,648,000,000.00	33,936,000,000.00	0.86%
Coles ATO		2.13	2.18	2.28	4.71%
Woolworth ATO		1.68	1.92	2.01	4.61%

Table 9 :- ATO and its component data for Coles and Woolworths for 2021-2024

ATO measures how effectively a company is able to generate revenue from it's assets. The higher ATO value is, the better the company's ability is to generate revenue from its assets.

Coles has been doing a great job year on year as its efficiency in generating revenue from assets continues to increase. As revenue grows by 7.6% and total assets grows by 8.6% from 2024, overall ATO grows to 2.28 highlighting that if this continues Coles will be able to generate even more revenue from its existing assets. Sales revenue and total assets have seen good growth over the last few years predicting even better forecasted ATO.

Woolworths comparatively was not as efficient as Coles over the last two years, however Woolworths is catching up as there is a very minor difference with respect to Coles and if Woolworth's ATO continues to increase despite a fall in profit, this most likely means that they are focusing on increasing returns from their main assets possibly through store expansions or better inventory management which is the case as the impact from the demerger is an abnormal impact. Despite any issues, their Sales Revenue continues to increase as do their assets which goes to show that work is being done to make the process of revenue generation from assets more efficient. Even with this effort, Coles seems to be doing a better job of growing their ATO than Woolworths.

Days Inventory

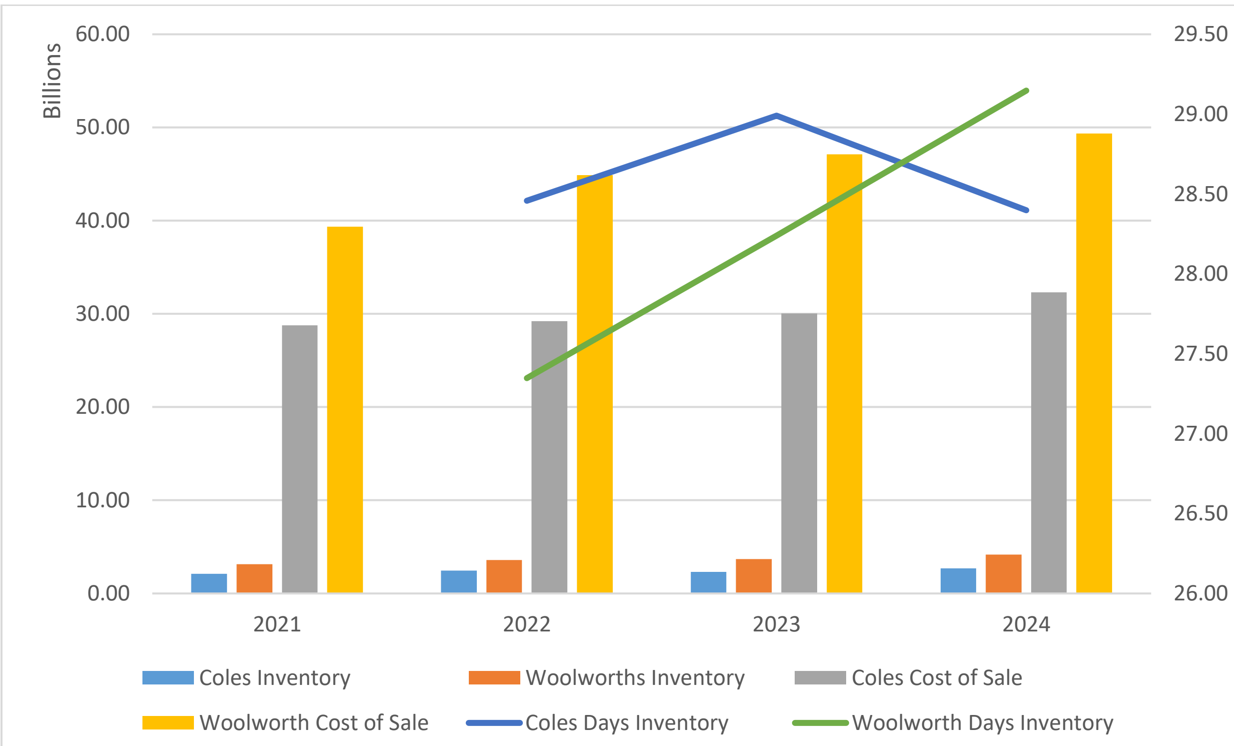

Chart 6:- DI and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Inventory	2,107,000,000.00	2,448,000,000.00	2,323,000,000.00	2,703,000,000.00	16.36%
Woolworths Inventory	3,132,000,000.00	3,593,000,000.00	3,698,000,000.00	4,187,000,000.00	13.22%
Coles Cost of Sale	28,773,000,000.00	29,210,000,000.00	30,034,000,000.00	32,299,000,000.00	7.54%
Woolworth Cost of Sale	39,366,000,000.00	44,878,000,000.00	47,118,000,000.00	49,370,000,000.00	4.78%
Coles Days Inventory		28.46	28.99	28.40	-2.04%
Woolworth Days Inventory		27.35	28.24	29.15	3.21%

Table 10 :- DI and its component data for Coles and Woolworths for 2021-2024

Day inventory is a ratio that measures the number of days on average that the company is able to convert its inventory into cash. The higher the number, the more time it takes to receive the cash.

For Coles, we can see that it's fairly stable, suggesting that there are no major shifts or policy changes towards inventory management.

However for Woolworths, what was originally a better days inventory ratio than Coles 2 years ago can now be seen increasing year on year which could either be due to sluggish sales which does not seem to be the case as revenue continues to grow every year or could be due to inefficient stock management which is most likely the case here.

While Coles does not need to do much work and has good control over their inventory management, Woolworth might need to take a look at the stock management and predict category-wise daily and monthly sales more accurately and check this against its restocking expense so that it can order only as much as they can sell to make this entire cycle as profitable as possible and will bring DR value back down to its original levels.

Days in Receivable

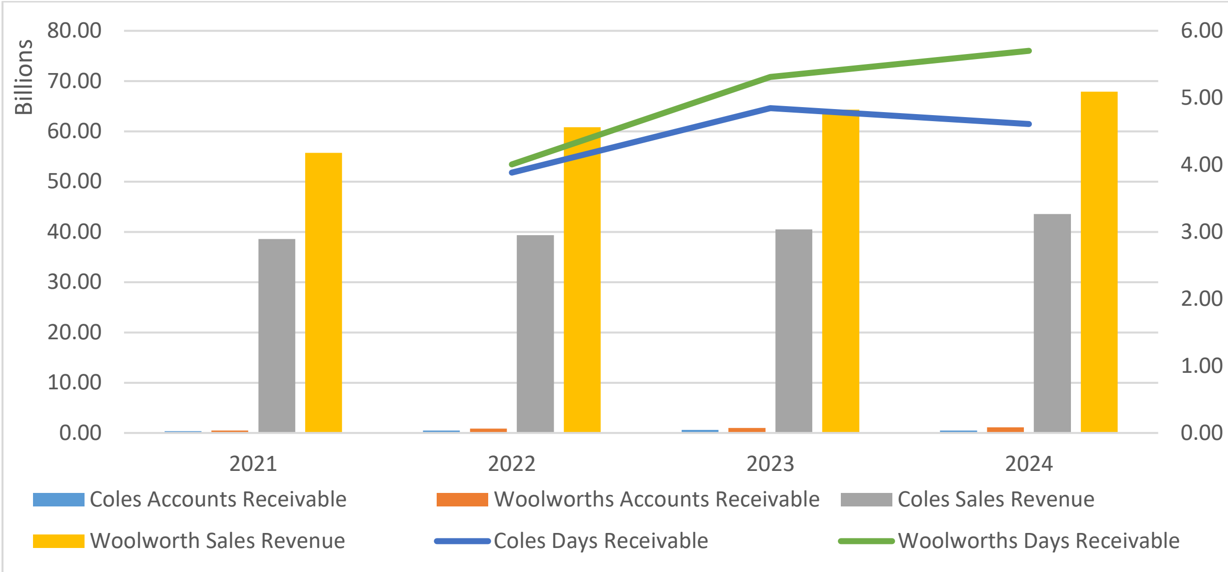

Chart 7:- DR and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Accounts Receivable	368,000,000.00	470,000,000.00	605,000,000.00	496,000,000.00	-18.02%
Woolworths Accounts Receivable	480,000,000.00	856,000,000.00	1,016,000,000.00	1,106,000,000.00	8.86%
Coles Sales Revenue	38,562,000,000.00	39,369,000,000.00	40,483,000,000.00	43,571,000,000.00	7.63%
Woolworth Sales Revenue	55,694,000,000.00	60,849,000,000.00	64,294,000,000.00	67,922,000,000.00	5.64%
Coles Days Receivable		3.88	4.85	4.61	-4.84%
Woolworths Days Receivable		4.01	5.31	5.70	7.30%

Table 11 :- DI and its component data for Coles and Woolworths for 2021-2024

Days Receivable Ratio is quantifying the average days that the company is receiving cash from it's debtors/customers. The lower the value, the quicker the company is receiving cash for goods sold previously.

For Coles, we can see that their Days receivable ratio continues to increase slightly year on year. While currently, it is not very high, it shows signs of growing with time and will cause issues during those periods when the company is suffering from low sales or bad economy or bad business decisions or a sudden need for cash.

Woolworths also have a growing Days Recievable ratio which increases year on year but is increasing at a higher percentage than Coles.

This most likely indicates loose credit terms or struggling customers, which could be a sign of economic pressure. While it's not too high currently for either company, this is a metric to monitor to predict customer spending in the future.

Liquidity Ratios

Coles Group Limited

Profitability Ratios	Formula	2021	2022	2023	2024
Current Ratio	Current Assets / Current Liabilities	0.59	0.58	0.59	0.59
Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	0.21	0.19	0.21	0.17
Operating Cash Flow Ratio	Cash Flow from Operating Activities / Current Liabilities	0.49	0.42	0.44	0.41

Table 12 :- Liquidity Ratios for Coles for 2021-2024

Woolworths Group Limited

Profitability Ratios	Formula	2021	2022	2023	2024
Current Ratio	Current Assets / Current Liabilities	0.68	0.57	0.54	0.55
Quick Ratio	(Current Assets - Inventory - Prepayments) / Current Liabilities	0.54	0.22	0.23	0.21
Operating Cash Flow Ratio	Cash Flow from Operating Activities / Current Liabilities	0.20	0.31	0.40	0.34

Table 13 :- Liquidity Ratios for Woolworths for 2021-2024

Current Ratio

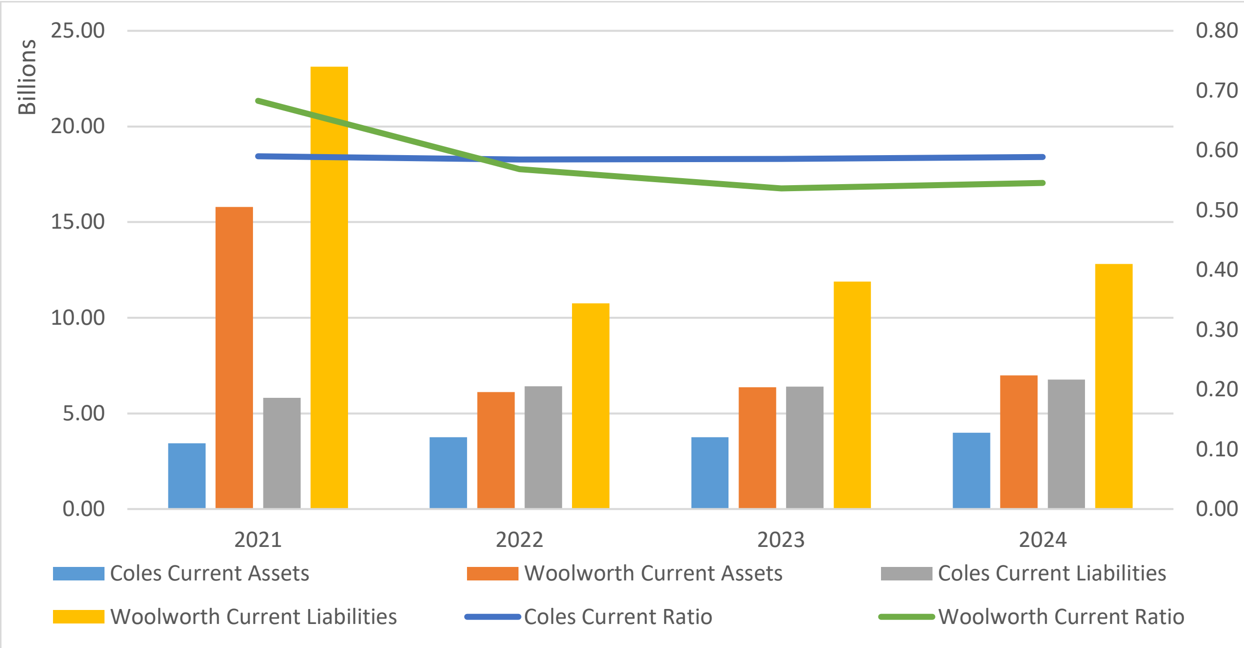

Chart 8:- CR and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Current Assets	3,434,000,000.00	3,751,000,000.00	3,752,000,000.00	3,986,000,000.00	6.24%
Woolworth Current Assets	15,786,000,000.00	6,110,000,000.00	6,375,000,000.00	6,991,000,000.00	9.66%
Coles Current Liabilities	5,819,000,000.00	6,415,000,000.00	6,408,000,000.00	6,771,000,000.00	5.66%
Woolworth Current Liabilities	23,117,000,000.00	10,750,000,000.00	11,886,000,000.00	12,819,000,000.00	7.85%
Coles Current Ratio	0.59	0.58	0.59	0.59	0.54%
Woolworth Current Ratio	0.68	0.57	0.54	0.55	1.68%

Table 14 :- CR and its component data for Coles and Woolworths for 2021-2024

Current ratios are a way to find out how much of current liabilities can be financed by current assets. Ideally this should be above 1 for all companies.

Generally, the figure is recommended to be higher, but market leaders tend to have lower current ratios deliberately as they tend to negotiate with suppliers to increase the payable period, which allows them to have minimum working capital requirements. For those companies that have very high inventory turnover cycles, like supermarket stores such as Coles and Woolworths, they can make back the money they require very quickly due to their shorter asset-to-cash cycles, which is why they reduce their minimum working capital and invest in other areas to increase their profits.

Here, you can see that for Coles and Woolworths, Current Ratio is relatively quite stable, and there are no major issues or future problems that need to be highlighted.

Quick Ratio

For Supermarkets and similar companies, the story for quick and current Ratio is usually quite similar except for the fact that it disregards assets that take time to be converted into cash such as inventory and prepayments which can't be withdrawn once paid. Both Coles and Woolworths show quite a stable Quick Ratio for reasons mentioned during the discussion regarding Current Ratios. Even though they are lower than the acceptable threshold they can make it back in their short asset turnover cycles.

Operating Cash Flow Ratio

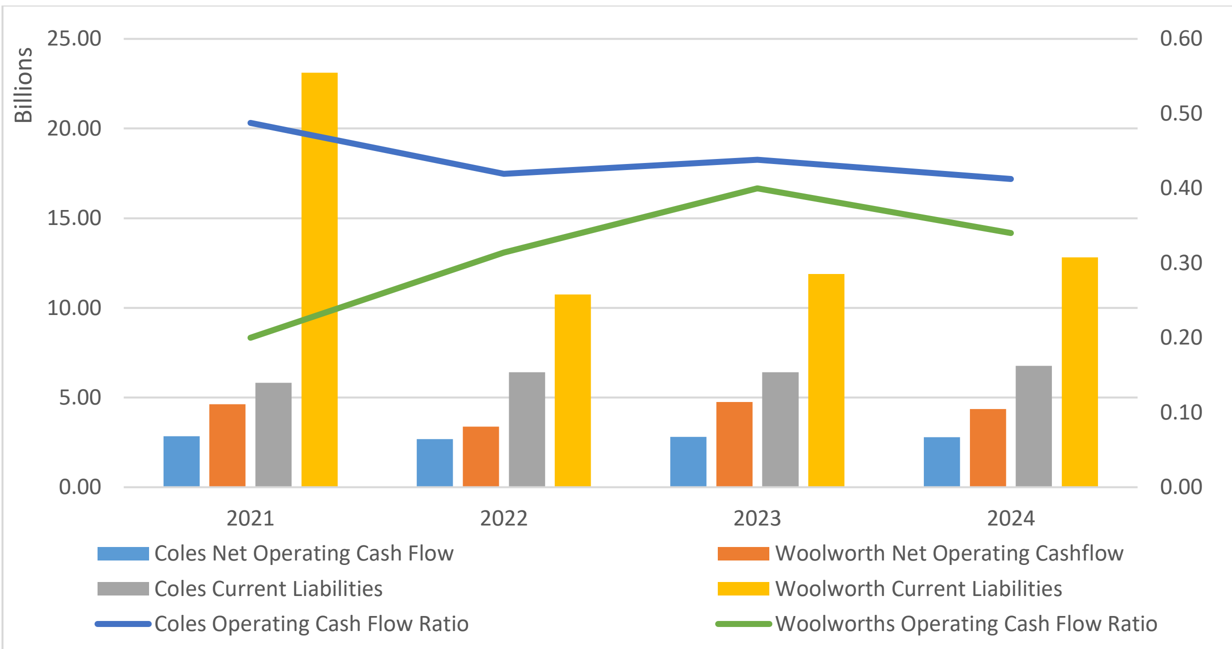

Chart 9:- OCF and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Operating Cash Flow	2,837,000,000.00	2,690,000,000.00	2,807,000,000.00	2,793,000,000.00	-0.50%
Woolworth Net Operating Cashflow	4,624,000,000.00	3,378,000,000.00	4,754,000,000.00	4,359,000,000.00	-8.31%
Coles Current Liabilities	5,819,000,000.00	6,415,000,000.00	6,408,000,000.00	6,771,000,000.00	5.66%
Woolworth Current Liabilities	23,117,000,000.00	10,750,000,000.00	11,886,000,000.00	12,819,000,000.00	7.85%
Coles Operating Cash Flow Ratio	0.49	0.42	0.44	0.41	-5.83%
Woolworths Operating Cash Flow Ratio	0.20	0.31	0.40	0.34	-14.98%

Table 15 :- OCF and its component data for Coles and Woolworths for 2021-2024

Operating Cash Flow Ratio is computed to determine what percentage of current liabilities can be met with cash that is generated from operations. A higher number is recommended, but certain companies that are mostly cash-rich prefer to invest the cash into fixed assets and don’t mind keeping the ratio lower. Supermarkets are such companies as they have short asset-to-cash conversion cycles and do not need to maintain high cash reserves to pay their liabilities.

While Coles has a less than 1 Operating cash flow, it has remained stable over the years suggesting that the company wants to keep it at this level so that it can invest more cash into its operations thereby further increasing its profits.

Woolworth on the other hand had a drop in Operating Cash flow, this year even though it has been increasing over the last few years, which indicates that the company's ability to generate cash from operations to cover its current liabilities is weakening, which may be due to increasing liabilities or lower cash inflows from operating activities which may have been an impact of the demerger. Although liquidity is strained, Woolworths can still generate enough cash from operations to cover liabilities due to its short asset to cash conversion cycle. This supports the idea that while profitability is falling, the company still generates enough operating cash.

Coles is in more control of its Cashflow than Woolworth and this is something that Woolworth needs to work on urgently as it impacts its current liquidity and ability to meet its current financial obligations.

Capital Structure Ratios

Coles Group Limited

Profitability Ratios	Formula	2021	2022	2023	2024
Debt to Equity (D/E)	Total Liabilities / Total Equity	5.44	5.03	4.45	4.49
Debt to Assets	Total Liabilities / Total Assets	0.84	0.83	0.82	0.82
Equity Ratio	Total Equity / Total Assets	0.16	0.17	0.18	0.18
Interest Coverage Ratio	(Net Profit + Interest Expense + Tax Expense) / Interest Expense	4.38	4.72	4.88	4.60
Debt Coverage Ratio	Non-current Liabilities / Cash Flow from Operating Activities	3.35	3.46	3.04	3.39

Table 16 :- Capital Structure Ratios for Coles for 2021-2024

Woolworth Group Limited

Profitability Ratios	Formula	2021	2022	2023	2024
Debt to Equity (D/E)	Total Liabilities / Total Equity	21.56	4.45	4.13	5.09
Debt to Assets	Total Liabilities / Total Assets	0.96	0.82	0.80	0.84
Equity Ratio	Total Equity / Total Assets	0.04	0.18	0.20	0.16
Interest Coverage Ratio	(Net Profit + Interest Expense + Tax Expense) / Interest Expense	4.51	4.31	4.20	2.08
Debt Coverage Ratio	Non-current Liabilities / Cash Flow from Operating Activities	3.11	4.86	3.20	3.57

Table 17 :- Capital Structure Ratios for Woolworths for 2021-2024

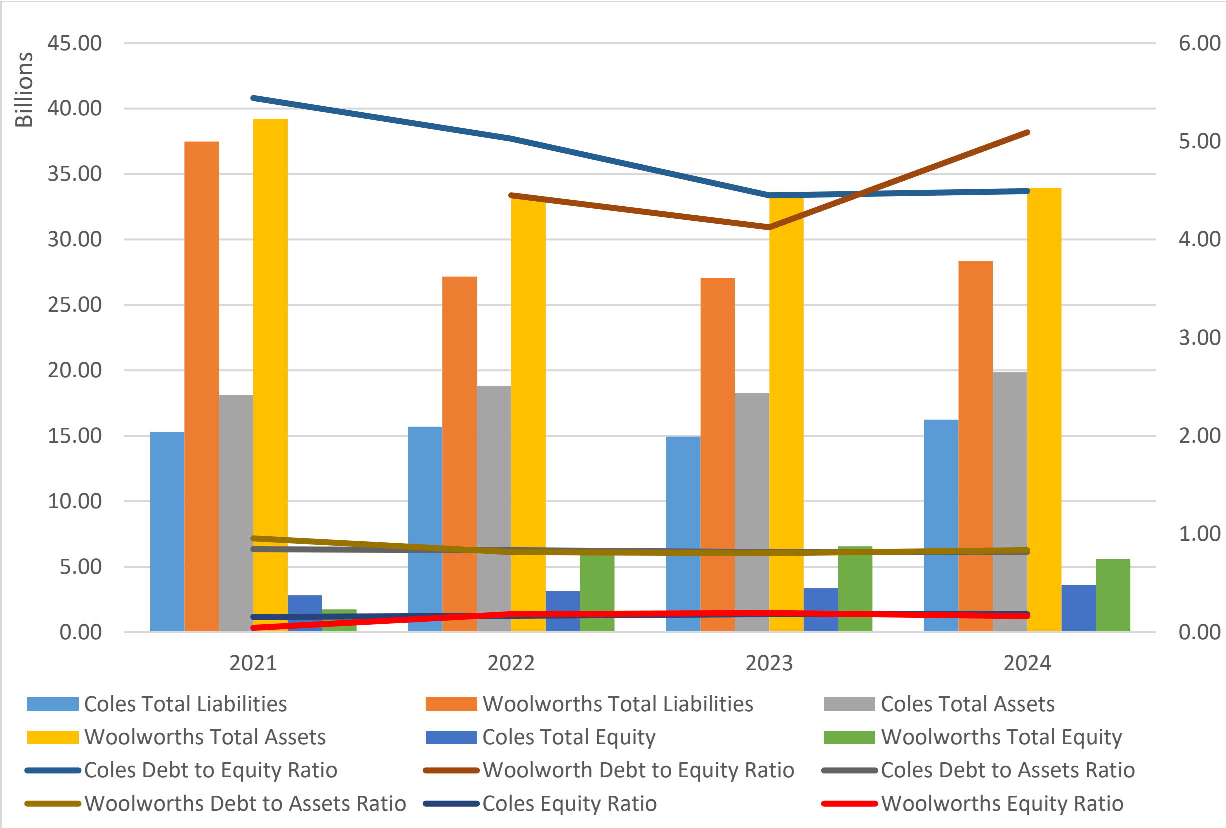

Chart 10:- D/E, D/A, DR and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Total Liabilities	15,310,000,000.00	15,712,000,000.00	14,936,000,000.00	16,253,000,000.00	8.82%
Woolworths Total Liabilities	37,497,000,000.00	27,169,000,000.00	27,083,000,000.00	28,366,000,000.00	4.74%
Coles Total Assets	77,124,000,000.00	78,738,000,000.00	80,966,000,000.00	87,142,000,000.00	7.63%
Woolworths Total Assets	94,256,000,000.00	100,218,000,000.00	104,777,000,000.00	111,493,000,000.00	6.41%
Coles Total Equity	2,813,000,000.00	3,124,000,000.00	3,356,000,000.00	3,617,000,000.00	7.78%
Woolworths Total Equity	1,739,000,000.00	6,104,000,000.00	6,565,000,000.00	5,570,000,000.00	- 15.16%
Coles Debt to Equity Ratio	5.44	5.03	4.45	4.49	0.97%
Woolworth Debt to Equity Ratio		4.45	4.13	5.09	23.45%
Coles Debt to Assets Ratio	0.84	0.83	0.82	0.82	0.18%
Woolworths Debt to Assets Ratio	0.96	0.82	0.80	0.84	3.85%
Coles Equity Ratio	0.16	0.17	0.18	0.18	-0.78%
Woolworths Equity Ratio	0.04	0.18	0.20	0.16	- 15.88%

Table 18 :- D/E, D/A, DR and its component data for Coles and Woolworths for 2021-2024

Debt to Equity Ratio

Debt to Equity ratio measures the proportion of debt to a shareholders' equity. It shows the extent to which a company is financing its operations through debt vs own funds.

From the data, we can see that the Debt-to-Equity Ratio is higher than 2 but continues to decline for Coles, showing a slightly decreasing reliance on debt. However, since supermarkets have a high asset to cash conversion cycle, they take higher leverage to increase their cash generation. So overall, the decreasing ratio shows that Coles is in control of their debt and is methodically reducing it to try and increase their net profits.

Woolworths was also in the same boat until the demerger where it had to take additional debt to try and ensure that they can realise better profits over the next few years to offset the losses from the demerger.

Overall, Both Coles and Woolworths are in control here and for any other company, this would be very risky in case of an economic downturn; for supermarkets, this is within acceptable margins, as is common with big companies who have the bargaining power to pay their supplier and creditors late.

Debt to Assets Ratio

Debt to Assets Ratio measures how many assets the company has financed by debt.

For Coles and Woolworths, the debt-to-assets ratios are quite stable and very close to 1, as is normal for companies with higher asset-to-cash cycles, showing that while 80% is financed by debt, they can recover that cash back just as quickly if needed.

However, while Coles has a growing equity from year on year, which is minimising the risk, Woolworths recent drop in equity by approximately 15% due to the demerger is definitely a cause for concern and if they cannot bring back enough profit next year to ensure that base equity is back where it originally was, then Woolworths may be bringing onto itself higher financial risk.

Equity Ratio

This shows the proportion of total assets financed by shareholders equity.

While the equity ratio for Coles is quite stable suggesting that their equity financing strategy is working as expected and they have had no unexpected surprises or issues.

On the other hand, Woolworths Equity Ratio has dropped quite a bit, suggesting that the company's financial risk has increased to make up for the losses in the demerger as explained before.

Interest Coverage Ratio

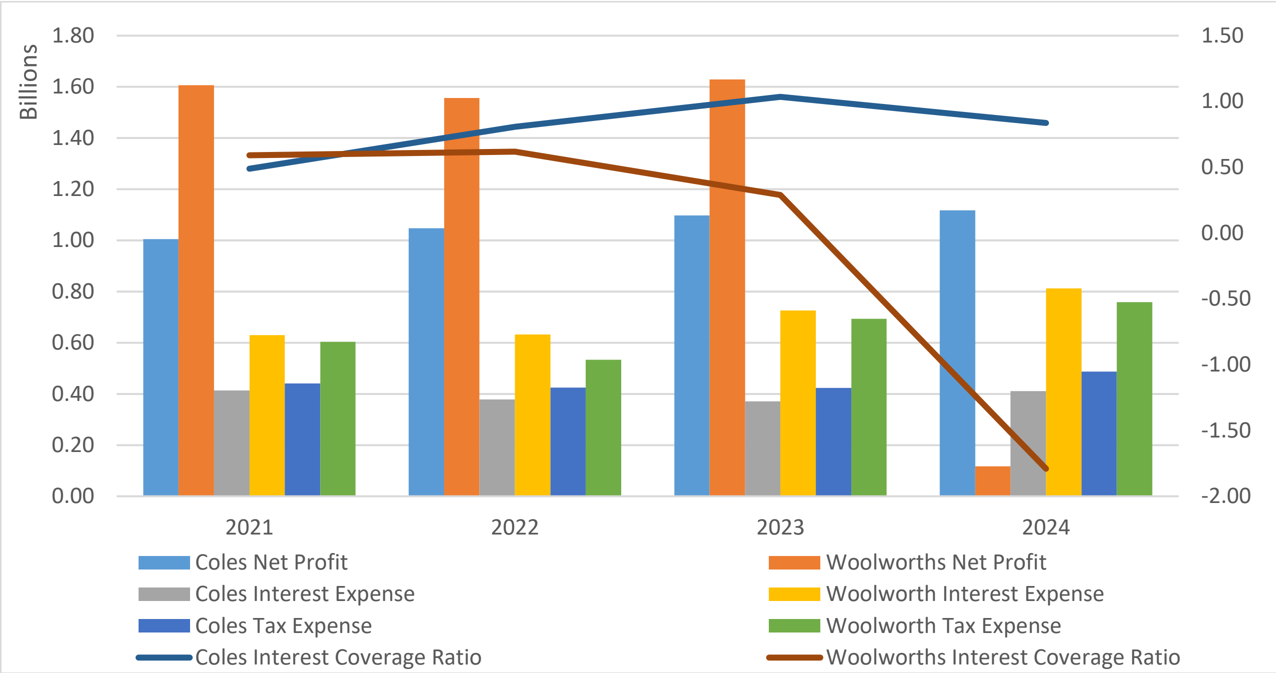

Chart 11:- ICR and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Profit	1,005,000,000.00	1,048,000,000.00	1,098,000,000.00	1,118,000,000.00	1.82%
Woolworths Net Profit	1,606,000,000.00	1,557,000,000.00	1,629,000,000.00	117,000,000.00	-92.82%
Coles Interest Expense	413,000,000.00	379,000,000.00	371,000,000.00	411,000,000.00	10.78%
Woolworth Interest Expense	630,000,000.00	632,000,000.00	726,000,000.00	812,000,000.00	11.85%
Coles Tax Expense	441,000,000.00	425,000,000.00	423,000,000.00	487,000,000.00	15.13%
Woolworth Tax Expense	604,000,000.00	534,000,000.00	693,000,000.00	759,000,000.00	9.52%
Coles Interest Coverage Ratio	0.49	0.81	1.04	0.84	-19.14%
Woolworths Interest Coverage Ratio	0.59	0.62	0.29	-1.79	-719.05%

Table 19 :- ICR and its component data for Coles and Woolworths for 2021-2024

Interest Coverage Ratio explains if a company can cover its interest payments based on its current net profit.

While Coles could have faced some issues with interest payments in 2021, that is definitely not the case in 2024, where even though the ratio dropped slightly to 0.84, Coles can still cover its interest expenses but with less buffer than in 2023. This is due to the new debt that has been undertaken in order for expansion activities, as discussed above, but Coles remains in a better position than it was in 2021.

Woolworths, on the other hand, has never had a comfortable enough buffer to pay its interest payments. However, in 2024, with demerger, the situation is highly concerning as the ratio is now -1.79. It indicates that Woolworths is not generating enough profits to cover its immediate interest expenses. This is a critical financial distress signal, and Woolworths could be at risk of defaulting on its debt if this situation persists.

Woolworths declining interest coverage ratio signals growing financial strain. The negative value in 2024 suggests that the company is facing significant operational or financial issues, such as negative earnings, rising debt levels, or both which we can see from its income statement. This trend contrasts sharply with Coles more stable and improving ability to cover its interest expenses. Woolworths may need to take urgent steps to restructure its debt, improve profitability, or reduce its interest burden to avoid further financial difficulties.

Debt Coverage Ratio

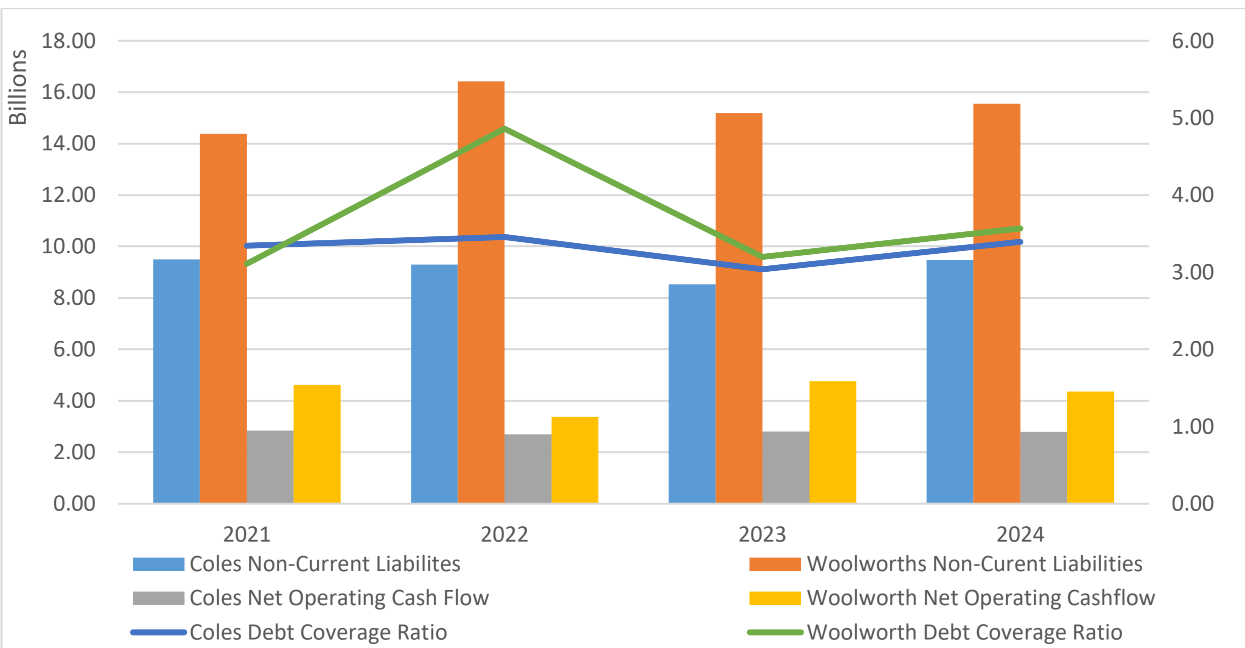

Chart 12:- DCR and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Non-Current Liabilites	9,491,000,000.00	9,297,000,000.00	8,528,000,000.00	9,482,000,000.00	11.19%
Woolworths Non-Curent Liabilities	14,380,000,000.00	16,419,000,000.00	15,197,000,000.00	15,547,000,000.00	2.30%
Coles Net Operating Cash Flow	2,837,000,000.00	2,690,000,000.00	2,807,000,000.00	2,793,000,000.00	-0.50%
Woolworth Net Operating Cashflow	4,624,000,000.00	3,378,000,000.00	4,754,000,000.00	4,359,000,000.00	-8.31%
Coles Debt Coverage Ratio	3.35	3.46	3.04	3.39	11.74%
Woolworth Debt Coverage Ratio	3.11	4.86	3.20	3.57	11.57%

Table 20 :- DCR and its component data for Coles and Woolworths for 2021-2024

Debt Coverage Ratio highlights a company's ability to pay its long-term debt. The lower this number is, the greater the cause for concern.

For Coles, this ratio is quite stable, suggesting that they have great cash reserves and are generating a good amount of cash for each asset to cash cycle.

Woolworths is in a more precarious financial position. While its Debt Coverage Ratio is still an adequate signal for its long-term obligations, the company is facing major issues with profitability, as shown by the severely negative Interest Coverage Ratio in 2024. Woolworth's inability to cover interest expenses raises red flags about its debt sustainability and overall financial health. Immediate action may be required to restructure debt or improve profitability to prevent further deterioration.

Market Performance Analysis.

Coles Group Limited

Market Performance Analysis	Formula	2021	2022	2023	2024
Earnings Per Share (EPS)	Net Profit / Number of ordinary shares	$ 0.753	$ 0.784	$ 0.820	$ 0.835
Price to Earnings Ratio (PE)	Current Share Price / Earnings Per Share	22.34	22.71	22.43	20.40
Market to Book Ratio (M/B)	Current Market Capitalisation / Net Assets	7.98	7.62	7.34	6.31

Table 21 :- Market Performance Ratios for Coles for 2021-2024

Woolworth Group Limited

Market Performance Analysis	Formula	2021	2022	2023	2024
Earnings Per Share (EPS)	Net Profit / Number of ordinary shares	$ 1.267	$ 1.283	$ 1.337	$ 0.096
Price to Earnings Ratio (PE)	Current Share Price / Earnings Per Share	33.85	27.65	29.82	352.80
Market to Book Ratio (M/B)	Current Market Capitalisation / Net Assets	31.26	7.05	7.40	7.41

Table 22 :- Market Performance Ratios for Woolworths for 2021-2024

Earnings Per Share (EPS)

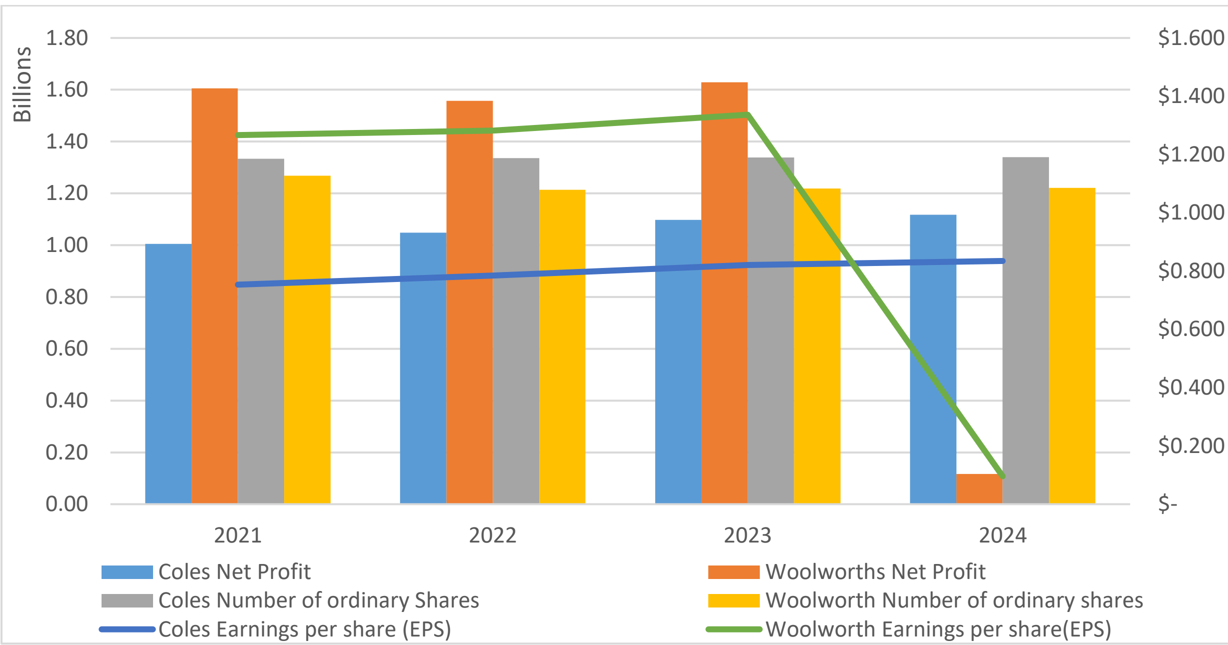

Chart 13:- EPS and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Net Profit	1,005,000,000.00	1,048,000,000.00	1,098,000,000.00	1,118,000,000.00	1.82%
Woolworths Net Profit	1,606,000,000.00	1,557,000,000.00	1,629,000,000.00	117,000,000.00	-92.82%
Coles Number of ordinary Shares	1,333,900,000.00	1,336,100,000.00	1,338,400,000.00	1,339,400,000.00	0.07%
Woolworth Number of ordinary shares	1,267,700,000.00	1,213,900,000.00	1,218,700,000.00	1,221,600,000.00	0.24%
Coles Earnings per share (EPS)	$ 0.753	$ 0.784	$ 0.820	$ 0.835	1.75%
Woolworth Earnings per share(EPS)	$ 1.267	$ 1.283	$ 1.337	$ 0.096	-92.83%

Table 23 :- EPS and its component data for Coles and Woolworths for 2021-2024

Earnings per share is how much profit a company generates per share of its stock. It enables investors to understand profitability on a per-share basis.

EPS for Coles shows a steady increase from $0.753 in 2021 to $0.835 in 2024, indicating that Coles is consistently growing its profits per share. This is a positive sign for investors, as the company is becoming more profitable yearly. This can be majorly attributed to the steadily growing net profit.

EPS for Woolworths grew steadily from $1.267 in 2021 to $1.337 in 2023 but then plummeted to $0.096 in 2024. The sharp drop in 2024 indicates a significant decline in net profit, majorly realized by the demerger.

While both companies show growth in EPS up until 2023, Woolworths experienced a major downturn in 2024, which could be alarming for investors. Coles, on the other hand, demonstrates stable and consistent growth in EPS, which may make it more appealing from a profitability standpoint in 2024.

Price to Earnings Ratio

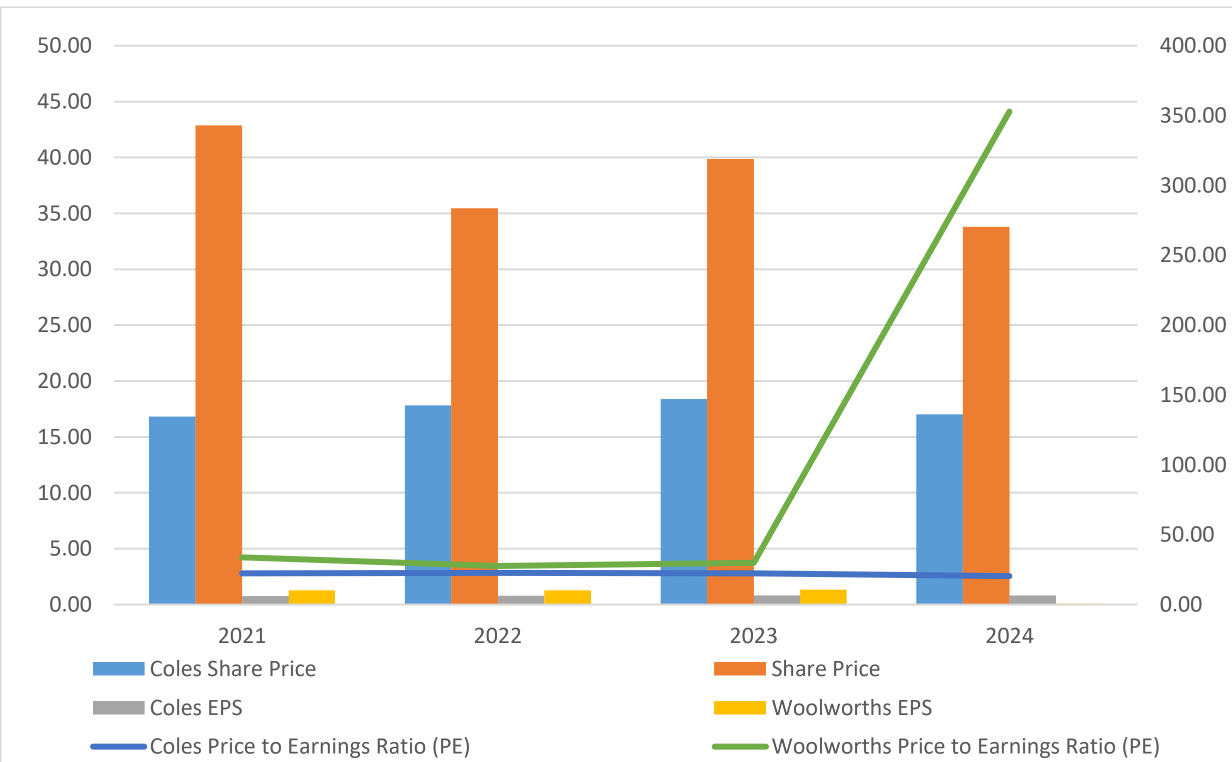

Chart 14:- P/E and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Share Price	16.83	17.81	18.40	17.03	-7.45%
Share Price	42.88	35.46	39.86	33.79	-15.23%
Coles EPS	$ 0.753	$ 0.784	$ 0.820	$ 0.835	1.75%
Woolworths EPS	$ 1.267	$ 1.283	$ 1.337	$ 0.096	-92.83%
Coles Price to Earnings Ratio (PE)	22.34	22.71	22.43	20.40	-9.03%
Woolworths Price to Earnings Ratio (PE)	33.85	27.65	29.82	352.80	1083.09%

Table 24 :- P/E and its component data for Coles and Woolworths for 2021-2024

P/E Ratio shows how much investors are willing to pay for $1 of earnings. A higher P/E suggests that investors expect higher growth in the future, while a lower P/E may indicate that the stock is undervalued or that investors have lower expectations. The P/E ratio remained relatively steady and fluctuated between 22.34 and 22.43 in 2021-2023 but dropped to 20.40 in 2024. The stable P/E indicates that investor's expectations for Coles are consistent, and the drop in 2024 suggests that while earnings have grown, investors are slightly less optimistic about future growth. This could reflect market-wide conditions or reduced growth prospects or apprehensions about profitability from expansion plans.

Woolworths P/E ratio fluctuates from 33.85 in 2021 to 29.82 in 2023, showing that investors had higher expectations for Woolworths than Coles during these years. However, in 2024, Woolworths' P/E ratio jumps dramatically to 352.80, a red flag for investors. This increase and a drop in EPS indicates that investors may still believe in Woolworths' future potential despite very low earnings, which could signal overvaluation. The dramatic rise in P/E suggests a disconnect between market expectations and the company's actual earnings performance, possibly due to anticipated recovery or optimism around future strategies, which is the case as the impact from the demerger is an abnormal expense that is not expected in this volume again next year.

Coles maintains a more stable and reasonable PE ratio, indicating that investor's expectations are more grounded in reality, whereas Woolworth's high P/E ratio in 2024 suggests that the stock is currently overvalued in 2024 given the collapse in its profits, which could make it a riskier investment, but we know that this one-time abnormal expense will be recovered with future strategies from the business.

Market to Book Ratio (M/B)

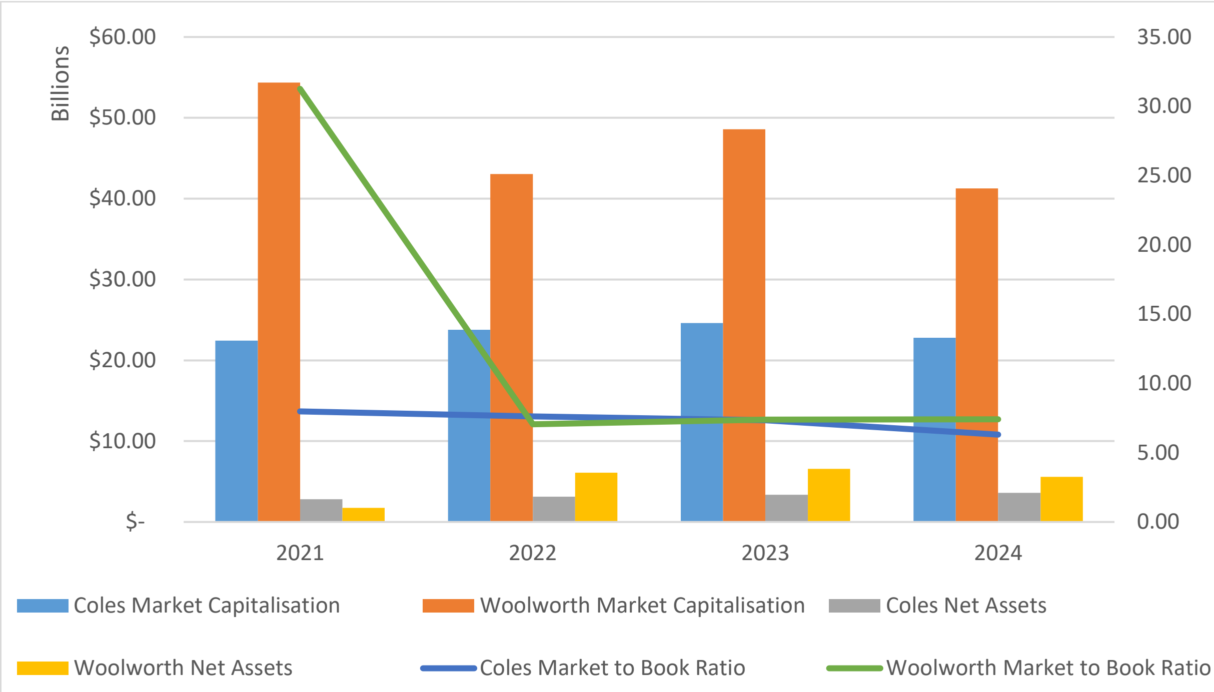

Chart 15:- M/B and its component trends for Coles and Woolworths for 2021-2024

Variables	2021	2022	2023	2024	2024 % Change
Coles Market Capitalisation	$22,449,537,000.00	$23,795,941,000.00	$24,626,560,000.00	$22,809,982,000.00	-7.38%
Woolworth Market Capitalisation	$54,358,976,000.00	$43,044,894,000.00	$48,577,382,000.00	$41,277,864,000.00	- 15.03%
Coles Net Assets	2,813,000,000.00	3,124,000,000.00	3,356,000,000.00	3,617,000,000.00	7.78%
Woolworth Net Assets	1,739,000,000.00	6,104,000,000.00	6,565,000,000.00	5,570,000,000.00	- 15.16%
Coles Market to Book Ratio	7.98	7.62	7.34	6.31	- 14.06%
Woolworth Market to Book Ratio	31.26	7.05	7.40	7.41	0.15%

Table 25 :- P/E and its component data for Coles and Woolworths for 2021-2024

M/B Ratio compares the company's market value to its book value (assets - liabilities). A high M/B ratio indicates that the market values the company significantly more than the book value of its assets, often due to growth prospects, goodwill, or intangible assets.

For Coles, The M/B ratio declines from 7.98 in 2021 to 6.31 in 2024. The steady decline indicates that the market is valuing Coles lower in relation to its book value with time. This could be due to market conditions, investor caution, or a perception that growth prospects are slowing, which makes sense because of the decreasing growth of profit margin with time, which justifies this sentiment. It could also be apprehension about its expansion plans which might also bring this ratio down. However, it remains a relatively healthy ratio, indicating that the company is still valued above its book assets.

For Woolworths, The M/B ratio starts much higher at 31.26 in 2021 and drops significantly to 7.05 in 2022, remaining relatively steady around 7.41 by 2024. The sharp decline from 31.26 to 7.41 shows that the market's valuation of Woolworths relative to its book value has corrected significantly. This could reflect the impact of declining profitability and investor sentiment adjusting to Woolworths real financial performance.

Woolworths M/B ratio started much higher than Coles, but by 2024 both companies have similar M/B ratios. This suggests that while Woolworths was previously valued far more highly relative to its book value, the market has revised its expectations downward, possibly due to worsening financial performance. Coles, on the other hand, has had a more stable valuation.

DuPont Analysis

Profit Margin (PM)

Coles Profit Margin is consistently strong, improving slightly from 2.61% in 2021 to 2.71% in 2023, with a small dip to 2.57% in 2024. This means that Coles maintains a stable and slightly improving profit margin, which shows that the company has good cost control and efficiently converts sales into profits. The slight dip in 2024 is due to expansion efforts to offset the decreasing Profit Margin growth change over the years, but overall, Coles shows a healthy ability to generate profit from sales.

Woolworths, on the other hand, has seen a sharp decline from 2.88% in 2021 to a worrying 0.17% in 2024 due to the demerger as discussed above. Woolworths is earning very little profit per dollar of sales in 2024, indicating a potential crisis in profit generation if this trend continues.

Coles has consistently maintained a more stable profit margin, while Woolworth's profitability has sharply deteriorated. This could signal that Woolworths is struggling with cost management and requires a better strategy to recover the loss in profit.

Asset Turnover Ratio (ATO)

Coles has seen a Steady improvement from 2.13 in 2022 to 2.28 in 2024. The improvement suggests that Coles is utilising its assets better each year due to increased productivity, better asset management, or optimisation in operations. Overall, this shows greater operational efficiency.

Woolworths has gradually improved from 1.68 in 2022 to 2.01 in 2024. Woolworths also shows improvement in asset efficiency, although it starts at a lower level than Coles. While

Woolworths is improving at using its assets to generate revenue, it still lags behind Coles's overall efficiency. The lower ATO could suggest that Woolworths is less efficient in managing its asset base.

Leverage

Leverage is gradually decreasing from 6.23 in 2022 to 5.47 in 2024. A decreasing leverage ratio indicates that Coles is reducing its reliance on debt relative to equity. This is generally seen as a positive trend, implying lower financial risk and a healthier balance sheet. However, we know that while the debt has been taken on, the assets have yet to be acquired for the expansion plans, which is why, temporarily, it looks like leverage has slightly reduced, which is not the case. Leverage will go up in 2025.

For Woolworths, Leverage drops significantly from 9.25 in 2021 to 5.28 in 2023 but slightly rises to 5.57 in 2024. Woolworths started with much higher leverage, indicating it was relying more heavily on debt financing than Coles. The sharp drop in leverage from 2021 to 2023 suggests Woolworths took steps to deleverage its balance sheet, potentially by paying down debt or raising equity. However, the slight increase in 2024 shows Woolworths might be increasing its financial risk again, which could be problematic given its declining profitability. However, they may not have a choice as they require newer assets to generate cash to increase profits to offset the loss in realised profit from the demerger in 2024.

Coles has consistently maintained lower leverage than Woolworths, which means it has less financial risk. Woolworths' higher leverage, especially in the earlier years, indicates a more aggressive use of debt, which could make it more vulnerable to financial instability, especially with its worsening profitability. The slight uptick in Woolworth's leverage in 2024, combined with its declining profit margin, raises concerns about its financial health.

Overall, Coles is in a more stable and efficient position overall. It is consistently maintaining a healthy profit margin, utilizing its assets effectively, and reducing its reliance on debt. This positions Coles as a company that is managing its finances well and improving operational efficiency over time, as opposed to Woolworths, which is facing significant profitability challenges. Although it has been improving its asset turnover and reducing leverage, the sharp drop in profit margin and a slight increase in leverage in 2024 indicate potential financial strain. Woolworths may need to focus on cost control, improving profitability, and ensuring it does not become overly reliant on debt, especially as its ability to generate profits is diminishing.

Forecast

Given Coles consistent ability to maintain a healthy profit margin despite external challenges, we can expect Coles to continue generating stable profits in the near term. The slight dip in 2024 is due to investments for expansion plans, which will also eventually contribute to increasing profits with a range of almost 2.5 to 2.7%, which seems realistic for the next 12 months. Coles also has a great ATO currently, but with expansion plans, it might take them a little while to get the new asset turnover rates for the new stores to more efficient levels, which is why a minor decrease in efficiency over the next 12 months is predicted. To expand their business, they are taking more long-term debt, and their current debt is quite manageable, which in turn allows them to increase their leverage by taking on more debt financing decisions that allow them to increase their risk appetite to reverse their reducing growth in profit margin and ultimately provide more value to its shareholders.

While many financing, liquidity and profitability ratios for Coles are stable or growing, the same cannot be said for Woolworths. With an increasing ATO (currently 2.28), Coles is expected to maintain superior operational efficiency. While Woolworths has improved its ATO to 2.01, it still lags behind Coles and may not close the gap in the near future. Coles will likely continue to generate revenue from its assets more efficiently. Coles, combined with its good Debt to Equity ratio and profitability ratios, when increasing its leverage, while risky, is a sign of the company's aim to grow and expand, which is something that investors will definitely invest in, however, The slight increase in Woolworths' leverage, combined with poor profitability, suggests higher financial risk, which could lead to liquidity issues if not addressed.

Overall, based on current trends in profitability, asset efficiency, and leverage, Coles is likely to outperform Woolworths over the next 12 months. Woolworth's profitability and financial risk pose significant challenges that will need excellent strategies to be resolved correctly, minimising impact and restoring the company's growth and potential.

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