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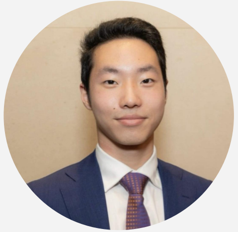
Woolworths Group (WOW-AU)



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Executive summary

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Recommendation	A **BUY** recommendation with a target price of **$41.40** and **upside of 7.74%**
Industry Overview	The supermarket industry is a fiercely competitive landscape that is subjected to macroeconomic pressures that challenges players to respond to changing market demands
Company Overview	Woolworths is the largest supermarket retailer due to its strong revenue growth as they lead in e-Commerce and sustainability opportunities
Investment Thesis	eCommerce and Data Analytics investments to drive sales growth; Sustainability initiatives capturing shifting consumer sentiment and reducing WACC; Price-Freezing strategy to target inflation boosts revenue growth
Valuation	Comparables and DDM suggest current price is at a premium; DCF implies current price is at a small discount; Valuation is moderately sensitive to capital spending and discount rates

Risks & Mitigations

Increased Competition	**Inflationary Pressures**	**Cybersecurity Threats**	**Supply Chain Disruptions**
Improving digital scale & shopping experience	Data driven insights, dynamic pricing strategy	Cybersecurity frameworks - Essential 8	Sustainable initiatives amongst supply chain

Overview

PESTLE analysis reveals many macroeconomic factors will shape Woolworths' future business operations and opportunities

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POLITICAL

- Product **pricing and profits** impacted by **trade regulations** and **tariffs**
- Subject to **Modern Slavery Act 2018** - mandatory reporting on risks and mitigations

ECONOMICAL

- Soaring levels of **inflation to increase cost** of products
- **Decrease in** discretionary **spending**
- Potential **higher gross margins**
- **Price locking** to retain customers

SOCIAL

- Consumer preferences shifting towards more **health-conscious and sustainable** products
- **Cost-effective** food items more appealing due to inflation
- Rise in **online grocery shopping** and delivery

TECHNOLOGICAL

- Strengthening **cyber resilience + data protection** laws
- Rise in online sales
- **Data analysis** investment to personalise strategies and promotions
- Technology to **improve supply chains** and **accelerate transport times**

LEGAL

- Laws to enact more ambitious **climate targets** (e.g. single-use plastic ban)
- Subject to ACCC, Food Regulation Laws, Food and Grocery Code of Conduct
- Concerns over **unconscionable conduct** and **anti-competitive behaviour**

ENVIRONMENTAL

- National and industry wide trend towards **sustainable practices and products**
- **Supply constraints** caused by increasingly frequent **natural disasters** (e.g. 2022 Eastern NSW Floods)

Sources: Company Filings, IbisWorld, MarketLine

Porter analysis indicates that Woolworths still manages to stand out in a highly competitive industry

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Threats of New Entrants

- Industry with **well-established** existing major **players**
- **High** barriers of entry
- Hard for new entrants to match existing economies of scales and low prices

Competitive Rivalry

- Woolworths is the **largest retailer** in an industry with a fair number of competitors
- Difficult to create unique value proposition due to lack of major specialisation opportunities
- Woolworths stands out due to its **low prices on essentials, market share, and focus on sustainability**
- Faces **competition from low cost retailers** such as Aldi and Costco

Bargaining Power of Suppliers

- As a large retailer, Woolworths has **access to a wide range of suppliers**
- **Limited** supplier bargaining power
- **Less susceptible** to disruptions and price fluctuations

Threats of Substitutes

- Few direct substitutes for groceries, a necessity
- However, still **easy to swap to similar competitors** (e.g. Coles)
- **Low switching costs** and cost of substitutes

Bargaining Power of Buyers

- Easy to swap to competitors
- **Highly competitive and price sensitive industry**
- Consumer **preference and trends can impact variety** of products available
- Incentive schemes to retain customers

Sources: MarketLine, IbisWorld

SWOT analysis exhibits Woolworths significant strengths and opportunities and where they can improve to maintain their dominant market position

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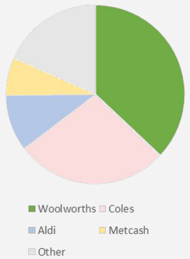
Strengths

36.6% Market Share



1400+ **Stores** across Aus + NZ → large and diverse operations

9.2% **Revenue Growth** from FY21 to FY22

13% **Net Profit Margin**, higher than industry average of 7.8%

Weaknesses

7.6% **Decline in Current Ratio,** 0.6 in FY22, lower than competitors**.** Low liquidity could **disadvantage funding** potential future opportunities

$390m **In underpayments.** Currently facing **trials from Fair Work** about underpayment. Previously underpaid 5,700 employees, leading to **public outcry and loss in reputation**

Opportunities

Continued Expansion into Online Retail
Increase fulfilment center and eCommerce investments to cater to **growing demand for online grocery shopping.**

Focus on Sustainability and Social Responsibility
Invest in **CSR projects + sustainable practices and products** to appeal to environmentally-conscious consumers. Opportunity to **differentiate from competitors, decrease costs, and increase brand reputation**

Threats

Supply Chain Disruptions
Woolworths' extensive supply chain is vulnerable to natural disasters. Potential for **product shortages, increased costs, and customer displeasure leading to profit reduction**

Increasing Online Theft
With the rise of online shopping, internet fraud is a major threat, with a **13% increase in cyber-crime reports** in FY2021-22. May force Woolworths to increase **investment into IT infrastructure, increasing operating costs**

Sources: Company Filings, ABC News, ACSC, IbisWorld, MarketLine

Share price trends indicates Woolworths is performing well but needs to be wary of increasing consumer price-consciousness

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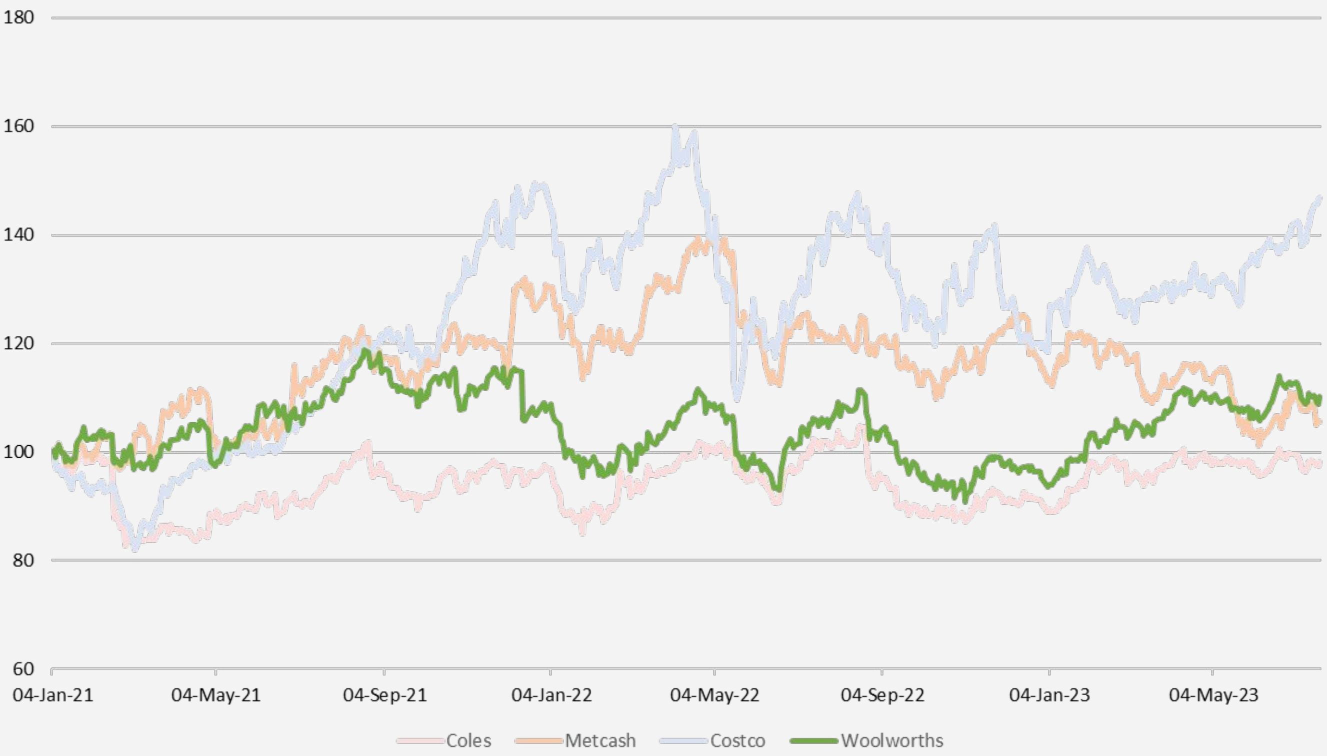

Note: Rebased from $100. Share Prices from Refinitiv via Excel

Investment Thesis

Investment Thesis 1: eCommerce Growth and Data Analytics investments to drive sales growth over the long term

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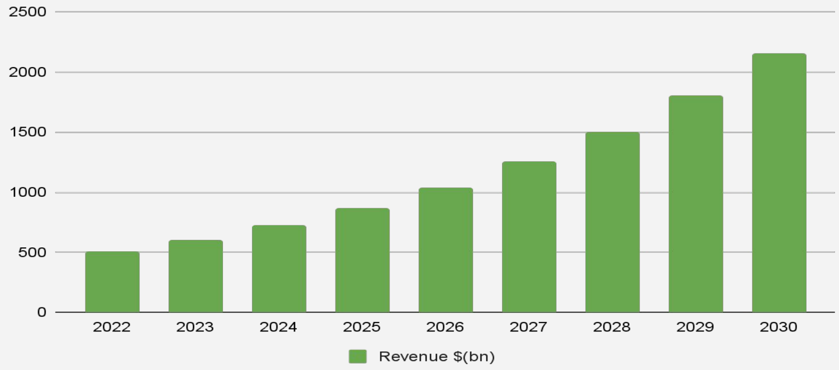
The global online grocery market is projected to grow steadily



Combined with investments into big data and IoT Technology

- **Analysing shopping habits** to build consumer loyalty and expand consumer reach
- Creating **personalised consumer marketing** to provide a competitive edge in retaining shoppers
- Developing strong **pricing strategies** to capture consumer market and remain competitive

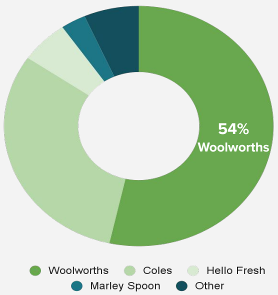
Woolworths has invested ahead of the curve in eCommerce Infrastructure

woolies X

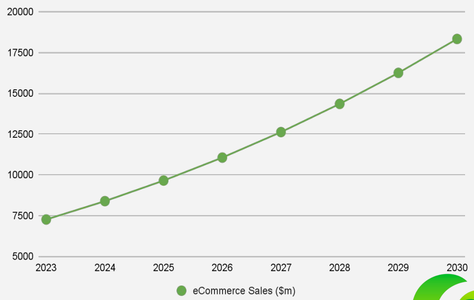
Average weekly traffic Q4 F22	eCommerce Sales	eCommerce Penetration
13.2M	**$4,677M**	**10.3%**
▲ 28.3% from Q4 FY21	▲ 42.3% from FY21	▲ 276bps from FY21

Leading competitors in eCommerce market share and driving sales growth

Grocery eCommerce market share



Woolworths projected eCommerce sales



Sources: Precedence Research, WOW-AU Annual Report 2022, IBISWorld
Notes: Projected eCommerce sales derived from DCF

Investment Thesis 2: Sustainability initiatives will capture shifting consumer sentiment and reduce cost of capital in the long term

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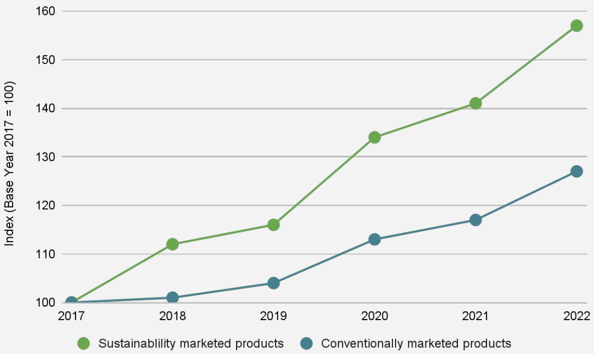
Sales of sustainable products have continued to grow annually



9.43% CAGR

For sustainability marketed products from 2017 to 2022

Woolworths has forefronted sustainability initiatives in the retail industry

- Phased **removal of plastic bags** and rollout of compostable barrier bags
- 31% reduction in scope 1 and 2 emissions from 2015
- **100% green electricity** by 2025
- **Zero food waste to landfill** by 2025

- Increasing sales from **organic and chemical free products** by 50bps
- 100% **sustainable own brand packing and sourcing** by 2025
- Investment into **alternative protein innovation**

With increasing consumer demand for sustainable products

92% Of consumers say they are more likely to trust companies that are environmentally and socially conscious

88% Of consumers will be more loyal to a company that produce sustainable goods

1 in 5

Consumers ranked sustainability as a key factor in purchasing decisions

Solidifying a strong ESG presence and reducing cost of capital

ESG Rankings

C+ **Woolworths**

C Coles

C- Costco

C- Walmart

10%

Drop in forecasted WACC

From **6.72%** to **6.05%** due to sustainability benefits

Sources: Stern NYU, Forbes, Glow Data, ISS ESG

Notes: Decrease in WACC derived from financial model

Investment Thesis 3: Inflation and Price-Freezing strategy driving defensive earnings and revenue growth

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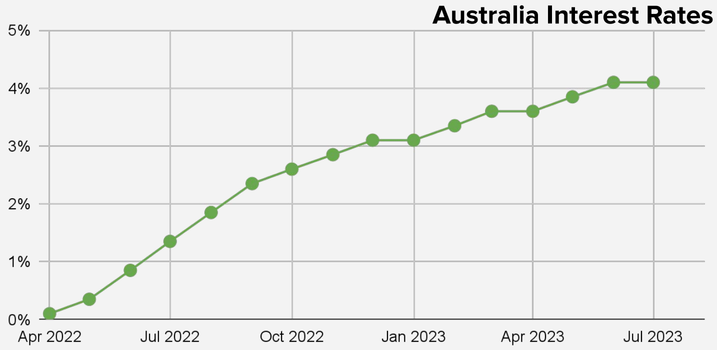
Macroeconomic Factors



Price-Freezing Strategy

Ongoing inflationary pressures keep **item prices high**

BUT Woolworths **price-locked 600 essential items**

Reliable prices maintains **customer loyalty** + **competitive advantage** over competitors

▲ 4% Increasing revenue as prices for goods are still generally rising. Valuation: Forecasted revenue growth of 4% per year

Defensive Earnings

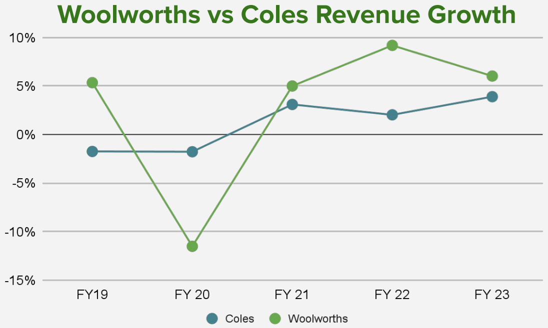
Consumer staple shares are regarded as the most defensive shares on the ASX.

Woolworths is more defensive than its competitors (Coles, Costco, etc) because:

▲ 8% In 2023, they had strong revenue growth. *4.1%* higher than Coles and *6%* higher than Costco.

Has paid dividends without fail since 1993.

Increasing Revenue Growth



Sources: The Guardian, RetailWorld, Trading Economics, Financial Review, ABCNews

Financial Ratio Analysis against Competitors: High EBITDA, Low Net Debt/EBITDA

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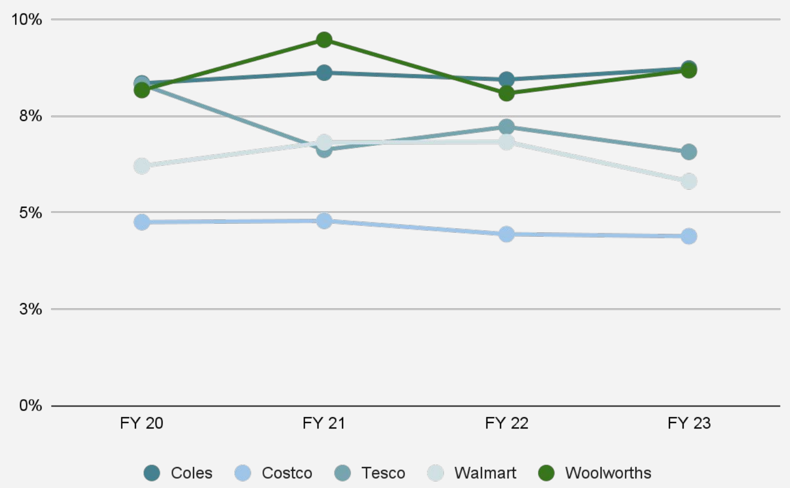
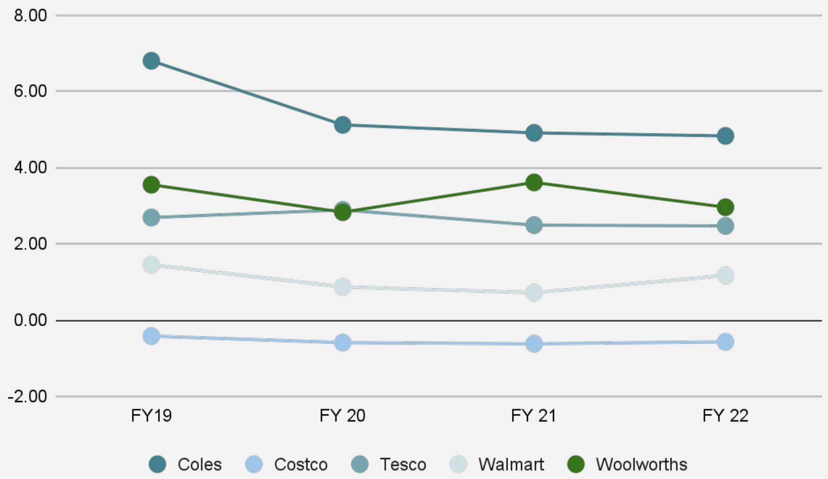
EBITDA Margin



- Woolworths’ EBITDA Margin outperforms its competitors, signifying **lower operating costs**
- **Stronger** than the industry average of 6.83%

Net Debt/EBITDA



- Woolworths’ Net Debt/EBITDA is **steadily decreasing** again after 2021
- Woolworths’ Average: 3.24

Sources: Factset, FullRatio

Valuation

Football field analysis indicates a target price of $41.40, 7.74% above the current market price

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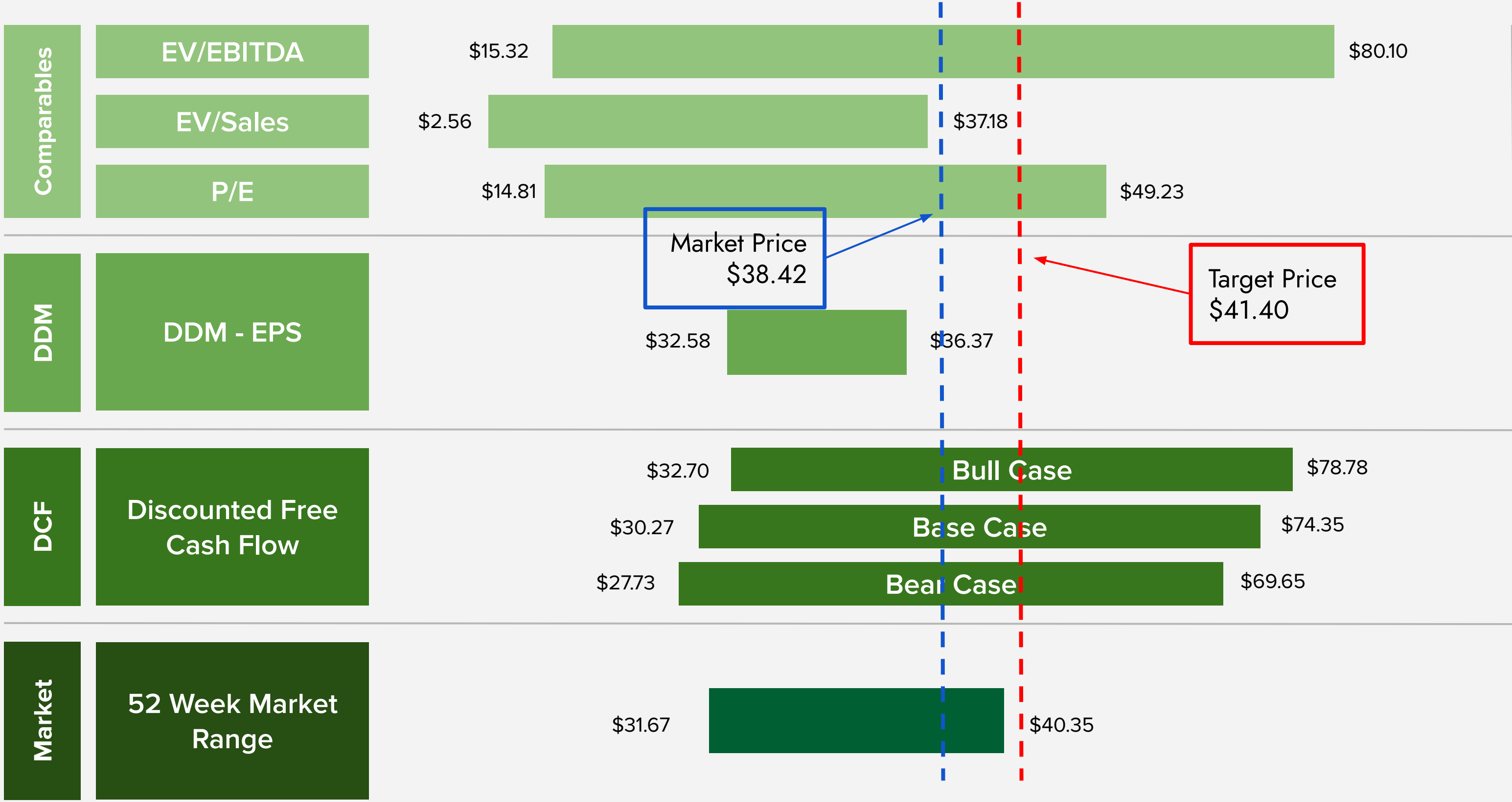

Comments

- Includes Coles, Metcash, Costco, Tesco and Walmart
- Not many companies very similar in terms of market share and location
- **10% Weighting**

- Cost of equity 6.74%
- Terminal growth rate 2.00%
- **20% Weighting**

- WACC of 6.05%
- Terminal growth rate 2.00%
- **70% Weighting**

- Low at 3rd Nov 2022
- High at 22nd Jun 2023
- **0% Weighting**

Financial analysis with account of investment thesis suggest a **BUY** with a fair share price of **$45.05**

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Rationale and Supporting Assumptions are as follows:

Shift towards higher percentage in eCommerce sales

- Supermarket eCommerce platforms will experience a **11.7% annualised year-on-year growth**
- Online stores could account for up to **18-30%** of the **food-at-home market**

Continued investment towards sustainability

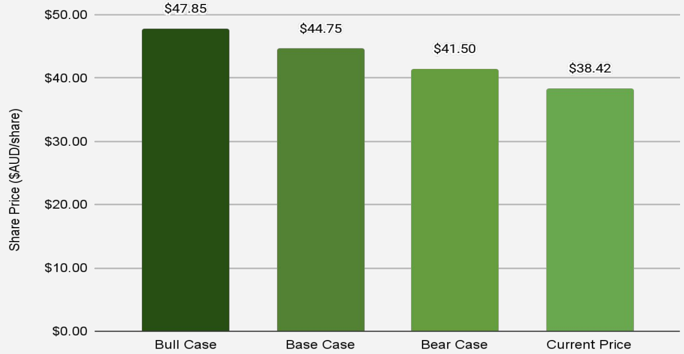
- **$2.7 million invested** in digital accelerator programs
- Continued funding into sustainability could result in **increased market share** in the future

Price freezes limit the impact of inflation on costs

- Promised freeze prices for items would **negate inflationary pressures**
- Inflation acting as a **lesser cost driver** for both revenue and expenses

Sources: McKinsey, Grocery Dive, WOW-AU Annual Report 2022

DCF Model Outcomes



Base Case Share Price: WACC vs TGR Sensitivity Analysis

WACC (%)	Terminal Growth Rate (%): 1.60%	1.80%	2.00%	2.20%	2.40%
5.05%	57.88	61.23	65.03	69.36	74.35
5.55%	48.32	50.75	56.46	56.46	59.87
6.05%	40.95	42.76	44.75	46.95	49.39
6.55%	35.06	36.45	37.96	39.61	41.42
7.05%	30.27	31.36	32.54	33.81	35.19

Worst scenario: 32% price downside
Best scenario: 66% price upside

Risk & Mitigations

The dampening of macroeconomic conditions presents the greatest risks to Woolworths' profit margins and share price.

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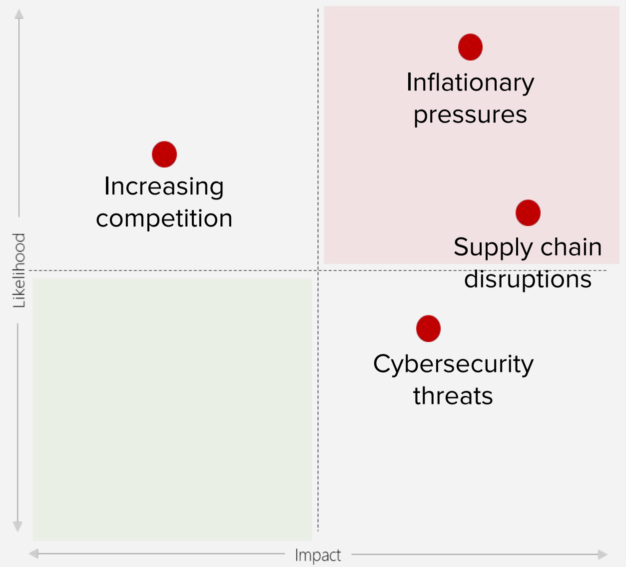

Rise of price-conscious and online grocery competitors

- **Online grocery delivery startups** like MilkRun and **low-cost competitors** like Aldi and Costco compete on the basis of price
- Aldi **increased market share** from **8.8% in 2022 to 10.1% 2023** with their small range of value products

Post-pandemic inflationary pressures

- Food and non-alcoholic beverages' price **inflation reached 7.9%** in 2023FY
- With a projected **pessimistic Consumer Confidence Index of 95** in 2024, increasingly frugal customers are likely to spend less or switch to price conscious competitors
- **Hard to pass on costs to consumers**

Geopolitical tensions & climate change causing supply chain disruptions

- Russia-Ukraine conflicts causing **damaged infrastructure, worker shortages, and export sanctions** drive up global food and fuel prices
- Australia's Eastern state **floods** (2022) - closed critical supply lines, loss of perishable goods and **inventory shortages** which hikes up prices

Cyber security threats due to increased eCommerce activities

- Average cost of $3M for a cyber crime attack to a business (source: UpGuard)
- 2.2M customers of MyDeal, a Woolworths Group subsidiary, was affected in a data breach in 2022
- Caused an **immediate 4% drop in share price** and reputation damages

Sources: IBISWorld, ABS, SkyNews

Woolworths must remain agile and transparent in mitigating macro risk factors that impact its long term sustainable growth

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Today, the Group effectively applies the widely adopted **three lines of accountability risk management model** with clearly defined roles and responsibilities across all pillars.

Increased Competition

- ***#3 ranking digital retailer*** by weekly SimilarWeb website traffic rankings in 2022
- **Increasing digital scale** via Woolies X & Everyday Rewards App
- Differentiate via improvements to **in-person shopping experience** via market research and customer feedback

Inflationary Pressures

- Investments in **data driven insights** via Quantium & loyalty program Everyday Rewards to **influence dynamic strategic pricing decisions**
- Woolworths CEO Brad Banducci on customer centricity: *"always running hard to find out where our customers are at"*
- Green Supermarket of the Year by Finder FY22 - its **strong supplier relationships** to negotiate favorable pricing

Supply Chain Disruptions and Climate Change

- Increase **resilience in the value chain** via **Woolworths Dairy Innovation Fund** to support sustainable farmer projects that show efficiency and seasonal resilience.
- Encouraging **low carbon and green practices** across Woolworth's network of stores, communities and suppliers

Cybersecurity and Data Privacy Threats

- Woolworths has **doubled its cybersecurity team** and financial investment in this area over the last 3 years.
- Continually enhancing, monitoring and testing our critical technology processes
- **Adhere to cybersecurity frameworks like Essential Eight** by the **Australian Cyber Security Centre (ACSC)**

Source: WOW-AU Annual Report FY22, Deloitte

Recommendation

Final Recommendation: BUY

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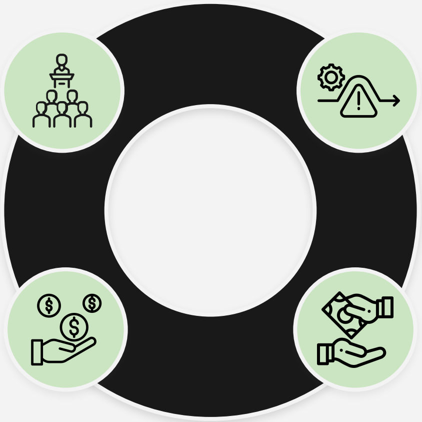
Investment Theses

- eCommerce
- Data analytics
- Sustainability initiatives
- Price-freezing strategies

- Drive revenue growth
- Reduce cost of capital



Risks and Mitigations

- Grocery competitors
- Inflationary pressures
- Geopolitical tensions
- Cyber security

Mitigated by new investments and operations.

Valuation

Weighed:

- 70% to DCF
- 20% to DDM
- 10% to comparables valuation

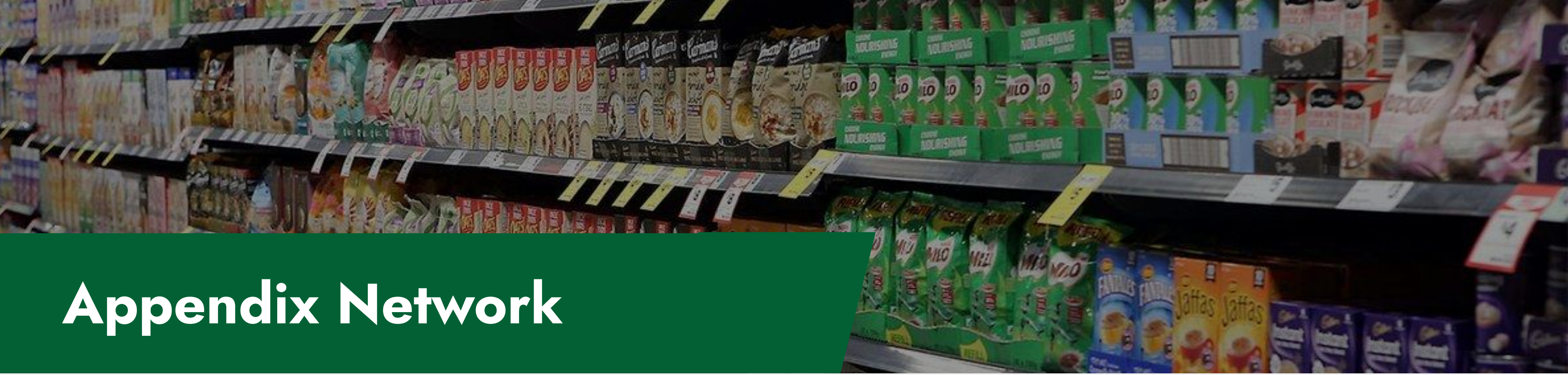
Moderately sensitive to WACC and terminal growth rate. Higher weighting towards upside supports buy.

BUY Recommendation

Target Share Price: $41.40
Potential Upside: 7.74%

Investment theses, valuation and mitigated risks upside provides margin of safety to buy.

Appendix



Appendix Network

Main Deck

2. Executive Summary
4. PESTLE Analysis
5. Porter's 5 Forces
6. SWOT Analysis
7. Woolworths' Price History
Investment Thesis 1, 2, 3
12. Woolworths' Financial Ratio Analysis
14. Football Field Analysis
15. DCF & Sensitivity Analysis
17. Risk Matrix
18. Mitigation Strategies
20. Investment Recommendation

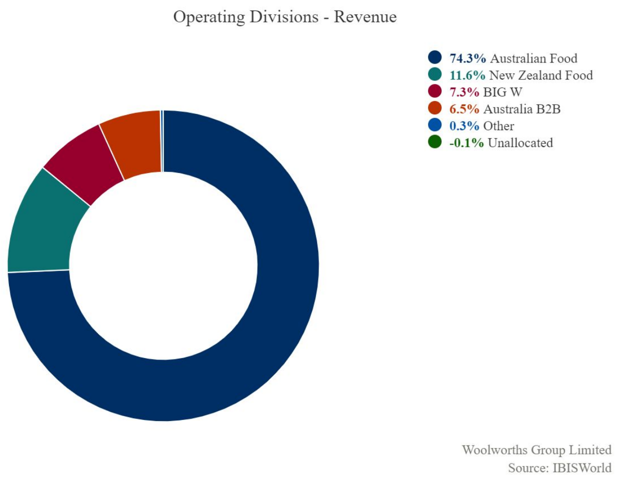
Appendix

23. Woolworths Background
24. Macroeconomic and Industry Trends
25. ACCC Intervention
26. Woolworths Underpayment Trial
27. eCommerce Growth & Data Analytics
28. Sustainability Initiatives
29. Price-Freezing Strategy
30. Australia Inflation Figures
31. Terminal Growth Rate Justification
32. Adjusted WACC Justification 1, 2
34. Financial Model: Investment Thesis Assumptions
35. Inputs: Key Drivers
36. Inputs: Assumptions
37. Inputs: Recalculated WACC 1, 2
39. Model: Income Statement
40. Model: Projected Gross Profit
41. Model: Cash Flow Statement
42. Model: External Financing Schedule
43. Model: Balance Sheet
44. Model: Debt Schedule
45. Model: Working Capital Schedule
46. Model: Depreciation Schedule
47. Model: Asset Schedule
48. Model: Unlevered Free Cash Flow Schedule
49. Comparables Valuation
50. Financial Ratio Analysis
51. Risks & Mitigation 1, 2, 3, 4, 5, 6
57. Mitigations - Essential 8 Framework

APPENDIX

Woolworths Background

- Woolworths is a Public Company that generates the majority of its income from the Supermarkets and Grocery Stores industry.
- In 2022 the company generated total revenue of $61,097,000,000 including sales and other revenue. In 2022 Woolworths had 198,000 employees including employees from all subsidiaries under the company's control
- Australian Food - The company operates approximately 1,064 Woolworths and Metro branded Supermarkets.
- New Zealand Food - Woolworths operates approximately 181 Countdown grocery stores across New Zealand, and is engaged in wholesale operations to an additional 70 stores.
- BIG W: The company operates approximately 179 Big W discount department stores in Australia retailing hardware, stationery, books, homewares, toys, sporting goods, clothing, recorded media, software, automotive goods, pet food and health & beauty products.
- Main competitors: Coles, Aldi, Metcash, Costco



Source: IbisWorld

Macroeconomic and Industry Trends

Key Trends

- Inflationary pressures have boosted supermarket and grocery profit margins.
- Increased demand for groceries during the COVID-19 pandemic has boosted industry revenue
- The industry's consolidation has deterred new industry entrants
- Industry competition is expected to remain fierce but not heavily focus on price-based strategies
- Online sales are projected to become increasingly important for industry operators
- Technological investment is anticipated to remain strong, with a focus on supply chain improvements
- Demand for supermarkets and grocery stores rose significantly following the COVID-19 outbreak

The Supermarkets and Grocery Stores industry is one of the most fiercely competitive industries in Australia. The continued expansion of Aldi and Costco has forced the two established industry giants, Woolworths and Coles, to remain price competitive. To differentiate themselves from low-cost supermarkets, Coles and Woolworths have increasingly focused on improving customers' shopping experience through store refurbishments and increased online shopping capabilities. These supermarket giants are increasingly relying on loyalty programs and promotions rather than discounts. Coles and Woolworths have also displayed a lot of interest in data analytics, have strengthened their relationships with analytics firms and taken a lot of capabilities in house.

Supermarket and grocery store income rose significantly following the COVID-19 outbreak. Household expenditure shifted towards retail industries amid restrictions on many services industries. Panic buying behaviour by customers and supermarkets' discontinuation of many of their specials and promotions drove grocer turnover. Overall, revenue has stacked up by an annualised 2.2% to $130.2 billion over the five years to 2022-23. The current cost-of-living crisis is primarily benefiting supermarket and grocery store incomes, with many stores passing on purchase cost increases onto customers. Inflationary pressures have pushed up profit margins for supermarkets and grocery stores to 4.2% and industry revenue is set to rise by 2.1% in 2022-23.

Supermarkets and grocery stores are set to continue performing positively and industry revenue is slated to climb at an annualised 1.8% over the five years through 2027-28, to $142.2 billion. Continuing inflationary pressures are set to keep store prices and incomes high. Concerns over costs will continue driving some customers to price-conscious stores like Aldi and Costco. Eventually, when inflationary pressures subside and consumer sentiment returns to a positive level, supermarkets and grocers will be well positioned to take advantage of consumer appetite for value-added and premium goods. Strong growth in online sales is set to continue, benefiting larger supermarket chains that can augment their existing store networks to offer competitive delivery options.

Source: IbisWorld

APPENDIX

ACCC Intervention

Date	6 June 2013

The Australian Competition and Consumer Commission today announced it would oppose the proposed acquisition by Woolworths Limited (Woolworths) of a supermarket site at Glenmore Ridge in the suburb of Glenmore Park, New South Wales.

The ACCC concluded that the proposed acquisition would be likely to result in a substantial lessening of local supermarket competition.

“Woolworths already operates the only supermarket in the suburb of Glenmore Park, and it has the next closest supermarket located in the nearby suburb of South Penrith. The Glenmore Ridge site represents the only opportunity for a competing supermarket to enter Glenmore Park in the foreseeable future, other than an ALDI that is due to open in 2014,” ACCC Chairman Rod Sims said.

Date	26 May 2023

The ACCC opposes Woolworths' proposed acquisition of the SUPA IGA in Karabar, NSW and its co-located Liquor Boss store, after concluding the transaction would be likely to substantially lessen competition in the supply of groceries in the local area.

“The proposed acquisition would see Woolworths operate three of six supermarkets in the local Queanbeyan/Jerrabomberra area. Local consumers would be left with just one Coles and two ALDI stores as alternatives,” ACCC Chair Gina Cass-Gottlieb said.

“We concluded that the removal of the SUPA IGA would likely result in a substantial lessening of competition in the area.”

Source: ACCC

APPENDIX

Woolworths Underpayment Trial

Coles and Woolworths short-changed workers on overtime by setting up a payment structure that was foreign to Australia's industrial awards system, the Federal Court has been told.

A joint trial, brought by the Fair Work Ombudsman and two class action claimants against the supermarket giants, commenced in the Federal Court on Monday, alleging underpayment of workers over a number of years.

Key points:

- The joint trial commenced in the Federal Court today and is expected to last seven weeks
- The Fair Work Ombudsman and two class action claimants allege Coles and Woolworths underpaid workers for years
- Fair Work told the court the companies knew people were working above rostered hours "day in day out"

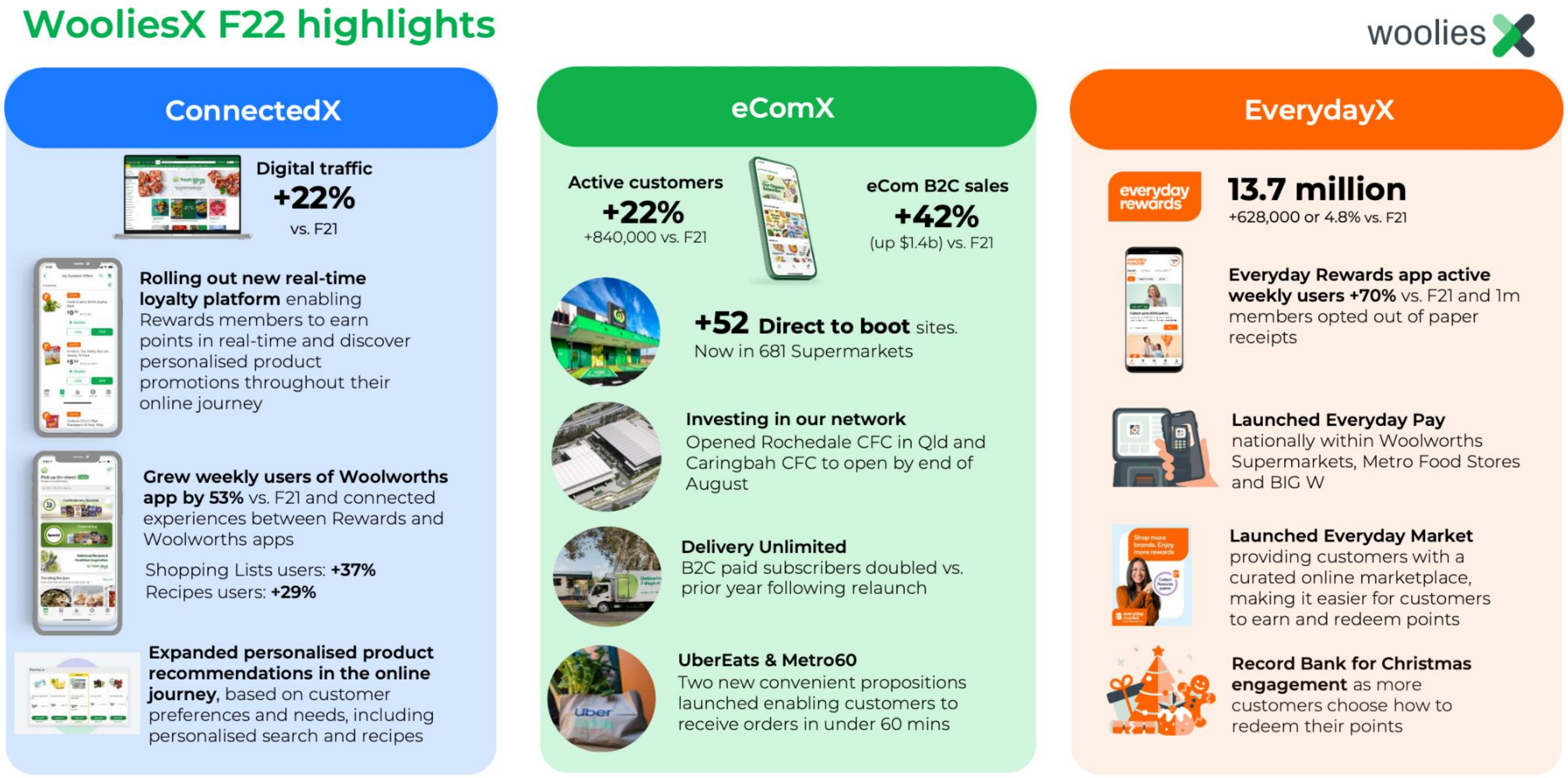
It comes after Coles last week said it had set aside another $25 million to repay salaried managers it underpaid for years, while Woolworths has previously disclosed underpaying thousands of employees to the tune of around $390 million.

In his opening address, Fair Work Ombudsman barrister Justin Bourke KC argued the "entirely foreign" payment structure covering some workers would always "end badly for Woolworths and Coles and its employees".

Source: ABC News (Posted 5th June 2023)

APPENDIX

eCommerce Growth and Data Analytics



Source: Woolworths Full Year Results 2022

Sustainability Initiatives

Consistent progress on our sustainability goals[1]

People
Making a positive change to the future of our people, our partners and our communities

AWEI Gold Tier status achieved in 2021

11.13
Total recordable injury frequency rate
▼9% from F21

$41.4m
direct community contribution
▲ from $34.9m F21

$2.7m
invested in digital accelerator programs[2]

Planet
Ensuring we leave the environment better off for future generations

31%
reduction in scope 1 & 2 emissions from 2015 baseline

100%
green electricity in South Australia from July 2022

100%
Woolworths Supermarkets and Countdown stores with food rescue partners as at 30 June

55 suppliers
across 6 priority categories engaged in scope 3 emissions program

Product
Having a positive impact on people and the planet through the product and services provided

>10,000t
virgin plastic packaging reduction
▼22% vs F18 baseline[3]

#1
Australia's Healthiest Supermarket Own Brands[4] third year in a row

100%
own brand whole shell eggs cage free

>19m
pieces of free fruit for kids

Source: Woolworths Full Year Results 2022

APPENDIX

Prize-Freezing Strategy

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Monday 22 August, 2022: Woolworths is reducing the price of more than 400 springtime grocery staples, from chicken, bread, yoghurt, vitamins to entertaining essentials like cheeses, dips, and more to help millions of customers save across a wide range of food and everyday products.

The investment by Woolworths represents millions of dollars in savings for customers to help them get more value from their overall basket this Spring. The prices dropped will be available online and in store from Wednesday August 24 - 29 November 2022 and reflect popular seasonal products, including spring entertaining and cleaning staples.

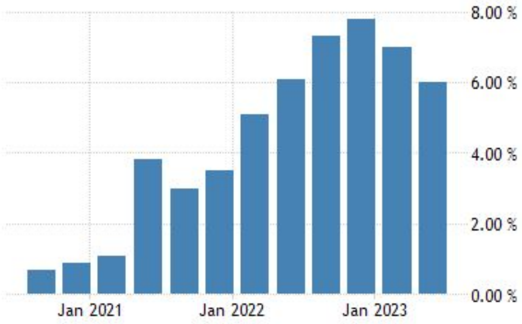
More affordable spring essentials include:

- WW RSPCA Chicken Mince 500g (was $6.50/each, now $6/each)
- KB's Prawn Gyoza 1kg (was $22.70 now $17.00)
- Chobani Fit 170g (was $2.50 now $2.00)
- Mersey Valley Cheese 180g (was $7.50 now $6.00)
- Dilmah Premium Leaf Tea 50g (was $5.30 now $3.70)
- Western Star Salt/Butter 500g (was $7.50, now $7.00)

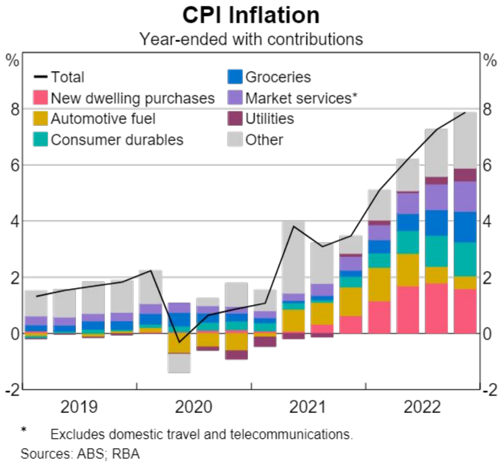
Source: Woolworths Group

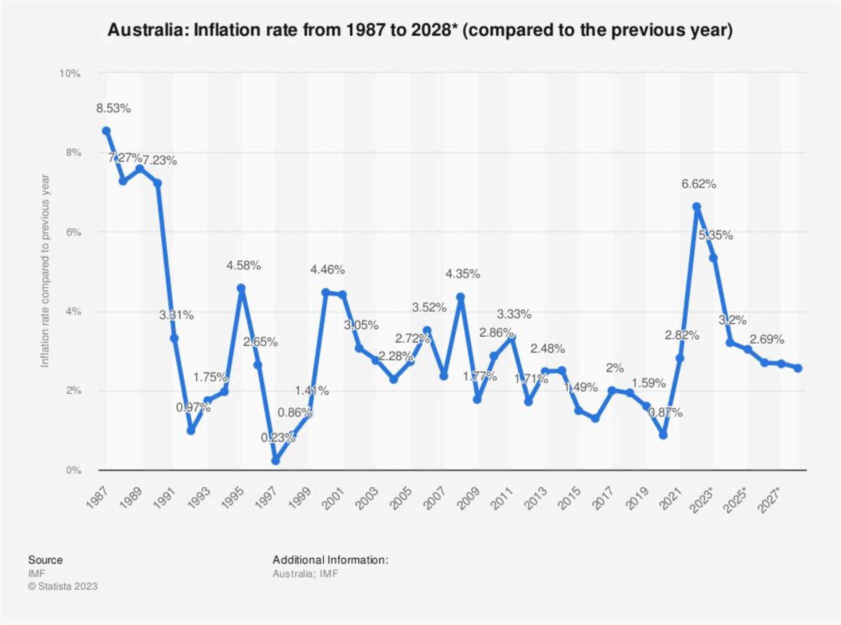
APPENDIX

Australia Inflation Figures



Source: Trading Economics





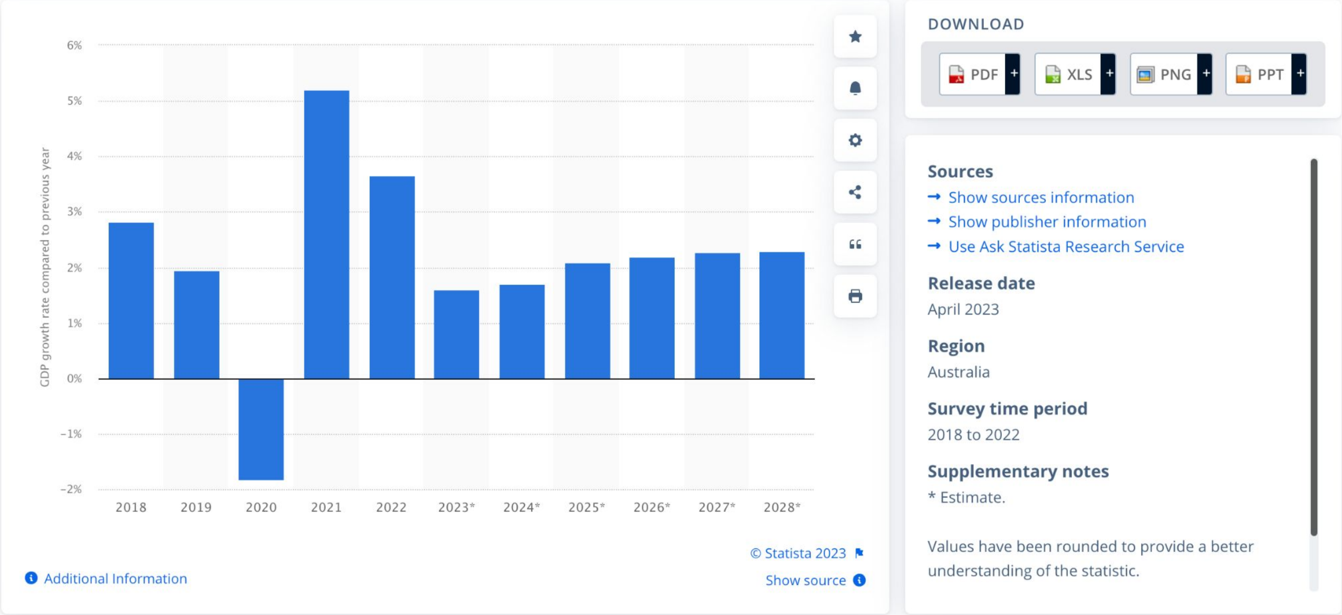
Source: Statista

APPENDIX

Terminal Growth Justification

Australia: Real gross domestic product (GDP) growth rate from 2018 to 2028*

(compared to the previous year)



Source: Statista

- "GDP in Aus has been able to get a steady foothold, whereas the GDP growth rate in the US plummeted into the minus zone" - Statista
- GDP growth is forecast to 1.5% over 2023, and to remain around that rate before picking up slightly towards the end of the forecast period in 2025." - RBA

APPENDIX

Adjusted WACC Justification (Cost of Equity)

Robin Nuttall: The first question you need to answer is, to what extent does good ESG translate into good financial performance? On that, there have been more than 2,000 academic studies and around 70 percent of them find a positive relationship between ESG scores on the one hand and financial returns on the other, whether measured by equity returns or profitability or valuation multiples. Increasingly, another element is the cost of capital. Evidence is emerging that a better ESG score translates to about a 10 percent lower cost of capital as the risks that affect your business, in terms of its license to operate, are reduced if you have a strong ESG proposition.

Sean Brown: And with a lower cost of capital you have higher value and more dry powder to make acquisitions—which brings us back to the M&A conference and your discussion there. What are some of the key findings you shared with the audience?

Robin Nuttall: We looked at the reasons behind the relationship between ESG performance and financial outcomes and identified five sources of fundamental business value that explain these findings. The first is top-line growth. If you are a consumer goods company with a stronger sustainability proposition, you are more likely to attract customer loyalty and new customer segments. There is evidence that brands with more sustainable impact grow faster than brands that have a less sustainable proposition. On the business-to-business side, there also is a link. Large companies are seeking to channel ESG through their value chain. If you want to be a supplier to one of the world's largest retailers, for example, you had better have a strong sustainability proposition on plastics, packaging, water use, and so on.

The second aspect is cost. If you are more resource-efficient, more water-efficient, have less packaging, you will generally have a lower unit-cost structure. The third area are your regulatory relationships. If you are more responsible about your assets' environmental footprint, then the chances of an adverse, punitive regulatory outcome are lower, so there is potentially regulatory value here.

Source: McKinsey and Company (Why ESG scores are here to stay)

The fourth is talent. These days, newer recruits and millennials demand purposeful work and if you are an employer that can meet that need, you will attract and retain that talent, and likely higher productivity in the workplace. The evidence suggests that this is worth roughly 2 percent of your stock price each year. Then the fifth factor we found is investment optimization. There are downside risks of holding assets that become stranded. Coal assets and oil tankers, for example, have seen significant write-downs in recent years. Conversely, there are enormous opportunities in ESG-related investments. For example, there is a huge demand for technology that could improve air quality. When you add up all five factors, they explain this roughly 10 percent advantage in your cost of capital.

Does sustainability foster the cost of equity reduction? The relationship between corporate social responsibility (CSR) and riskiness worldwide

Salvi A;

2018-01-01

Abstract

The relationship between sustainable practices and a firm's financial performance is an open debate among academics, managers and investors worldwide. Despite large literature in the field of corporate social responsibility (CSR) and corporate financial performance (CFP), there is still a lack of unanimous consensus around the impact of sustainability on a firm's economic achievements. This study aims to analyse this relationship and fill some of the gaps within existing literature using two geographical samples, a European and a global one, proceeding to compare obtained results. Such analysis was performed employing an ex ante implied proxy for the cost of equity, which has been selected in order to overcome methodological weaknesses of previous studies. Results show that sustainability can reduce the cost of equity due to lower firm riskiness, as perceived by markets and investors. Geographical specificities, on the other hand, do not play a significant role. CSR practices have the potential to create a type of goodwill or moral capital for more sustainable firms that acts as protection when negative events occur, preserving shareholder value and reducing the firms' cost of equity.

Source: African Journal of Business Management (Does sustainability foster the cost of equity reduction?)

Adjusted WACC Justification (Cost of Debt)

Abstract

As sustainable investing becomes central to capital allocation in many markets, the Environmental, Social and Governance (ESG) metrics and scores have become of critical importance. This study aims to analyze the relation between the cost of debt and ESG scores. We provide evidence that the cost of debt for borrowing firms is associated with their ESG score/rating. Firms that have low ESG scores are considered to be riskier, in the sense that they are exposed to liabilities related to Environmental, Social and Corporate factors that ultimately increase their probability of default. In case of a bankruptcy unsecured bondholders' claims may be subordinate to those liabilities. Using a framework for evaluating ESG performance developed by Refinitiv, this study investigates whether firms within S&P 500 over the period 2010–2019 that exhibit strong ESG scores benefit from lower bond spreads and better bond ratings relative to firms with weaker ESG scores. After controlling for other risk characteristics our analysis points that better ESG rating is associated with lower cost of unsecured debt in the primary bond market. Our findings are consistent over the aggregate metric and all E,S, and G pillars. Furthermore, they support the ongoing calls for improved transparency, which would allow for the reporting of quantifiable ESG information in firms' disclosures.

Source: Energy Economics (ESG Scores and Cost of Debt)

Box 1 provides an example where ING bank links the interest rate on a loan facility for health technology company Philips to its sustainability performance and rating. If the rating goes up, the interest rate goes down and vice versa. Philips is thus incentivised to improve its sustainability, while ING reduces the risk of its loan.

Box 1: Banks provide sustainable credit facilities

In April 2017, the healthcare technology company Philips agreed an innovative €1bn loan facility with a consortium of banks that features an interest rate linked to the technology firm's year-on-year sustainability performance. The nature of the revolving credit facility means if Philips' sustainability performance improves, the interest rate it has to pay goes down, and vice versa. The five-year loan facility, which matures in April 2022, will be used for "general corporate purposes". The loan is different to previous green loans and bonds, where the pricing is linked to specific green covenants, or the use of proceeds is limited to green purposes.

As part of the consortium of 16 banks offering the loan, ING Bank has conducted the credit risk assessment and acts as the sustainability coordinator for the syndicated loan. Philips' current sustainability performance has been assessed and benchmarked by Sustainalytics, an independent provider of environmental, social and corporate governance (ESG) research and ratings. The potential discount is around 5 to 10 per cent of the credit spread.

ING indicates that the loan agreement with Philips was an additional way for the bank to support and reward clients seeking to become more sustainable. The loan facility follows Philips' 'Healthy People, Sustainable Planet' programme, through which it is aiming to become 'carbon-neutral' throughout its global operations and source all of its electricity needs from renewable sources by 2020 (SDG 12) and to improve the lives of three billion people a year by 2025 by making the world healthier and more sustainable through innovation (SDG 3).

Source: ING and Philips

Source: Rotterdam School of Management Erasmus University (Cost of Capital and Sustainability: A literature Review)

Financial Model: Assumptions made in relation to Investment Thesis: Justification

Gross Profit

Continued Expansion into Online Retail
Assumption: As online grocery shopping grows, it is inevitable that the growth in in-person grocery shopping will reduce.

Predicted 11.7% annualised growth year on year for eCommerce supermarket stores

- Leads to a 11.7% reduction in annualised growth year on year for in-person stores

There was an initial, unrealistic boom in online sales due to COVID-19, hence Woolworth's year on year growth was above this average

Capex Investments Growth Rate

Continued Expansion into Online Retail
Assumption: Woolworth's Capex Growth rate will decline as the demand to open new brick-and-mortar stores decline

"Capex investments mainly relate to investment in new stores" - WOW Annual Report

Woolworths opens new stores when there is demand. Currently the Australian net population growth is -0.06%. Assume that Capex's growth rate decreases by 0.06% per year due to less demand for new stores

Impact of Inflation

Woolworth's Price Freeze Initiative
Assumption: Inflation plays a lesser degree in revenue prices. Maintain constant inflation impact on prices of 1.47% (average inflation rate for next 10 years (est.))

Inflation will ultimately drive prices for goods upwards so that Woolworths can keep a reasonable profit margin on their items. However, their price freeze schemes will keep customers loyal and shopping at Woolworths.

Capex & Opex Lease Obligations + Appropriate Reserves

Return to pre-COVID figures
Assumption: before COVID-19, Woolworths took on 0 lease obligations. Assume that Woolworths will return to this debt structure eventually

Woolworths had maintained consistent asset and liability management before COVID-19. We predict that Woolworths will return to their original structure once the impacts of COVID-19 die off

APPENDIX

Inputs: Key Drivers

Key Drivers

	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Driver Switch 2 Base Case											
Online Sales Percentage (%)	**15.75%**	**15.30%**	**14.85%**	**14.40%**	**13.95%**	**13.50%**	**13.05%**	**12.60%**	**12.15%**	**11.70%**	**11.70%**
Bull Case	*15.95%*	*15.50%*	*15.05%*	*14.60%*	*14.15%*	*13.70%*	*13.25%*	*12.80%*	*12.35%*	*11.90%*	*11.90%*
Base Case	*15.75%*	*15.30%*	*14.85%*	*14.40%*	*13.95%*	*13.50%*	*13.05%*	*12.60%*	*12.15%*	*11.70%*	*11.70%*
Bear Case	*15.55%*	*15.10%*	*14.65%*	*14.20%*	*13.75%*	*13.30%*	*12.85%*	*12.40%*	*11.95%*	*11.50%*	*11.50%*
Cost of Goods Sold as % of Sales	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**	**67.32%**
Bull Case	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*	*66.82%*
Base Case	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*	*67.32%*
Bear Case	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*	*67.82%*
Capex Year on Year Growth (%)	**3.90%**	**3.84%**	**3.78%**	**3.72%**	**3.66%**	**3.60%**	**3.54%**	**3.48%**	**3.42%**	**3.36%**	**3.30%**
Bull Case	*3.40%*	*3.34%*	*3.28%*	*3.22%*	*3.16%*	*3.10%*	*3.04%*	*2.98%*	*2.92%*	*2.86%*	*2.80%*
Base Case	*3.90%*	*3.84%*	*3.78%*	*3.72%*	*3.66%*	*3.60%*	*3.54%*	*3.48%*	*3.42%*	*3.36%*	*3.30%*
Bear Case	*4.40%*	*4.34%*	*4.28%*	*4.22%*	*4.16%*	*4.10%*	*4.04%*	*3.98%*	*3.92%*	*3.86%*	*3.80%*
SG&A Adjustment Factor	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**	**-0.41%**
Bull Case	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*	*-0.21%*
Base Case	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*	*-0.41%*
Bear Case	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*	*-0.61%*

APPENDIX

Inputs: Assumptions

Assumptions

INCOME STATEMENT ASSUMPTIONS		EXPLANATION
COGS % sales	67.3%	Maintain the past
Non-operating income % sales	0.33%	
Equity in Earnings of Affiliates % sales		
Current tax % EBIT (implied tax rate)	28.70%	Maintain the past
Deferred tax % EBIT	-3%	
BALANCE SHEET ASSUMPTIONS		
Long-term investments % sales	1.31%	
Intangible Assets % sales	11.26%	
Deferred Tax Assets % sales	1.96%	
Other Assets % sales	0.22%	
Other Liabilities	347.3	
DEPRECIATION ASSUMPTIONS		
Buildings % PPE	7.37%	6 year average used
Construction in Progress % PPE	4.47%	6 year average used
Machinery & Equipment % PPE	52.06%	6 year average used
Other PPE % PPE	16.29%	6 year average used
Operating Lease % PPE	19.81%	6 year average used
EXISTING ASSET DEPRECIATION		
Useful Life: Buildings	30	
Useful Life: Other PPE	13	
Useful Life: Machinery & Equipment	13	
Straight-line depreciation assumed for all		

Inputs: Recalculated WACC

Forecast Period WACC

Cost of Debt (Post-Tax)	5.55%	
Cost of Equity	7.70%	
Debt Ratio	45.61%	
WACC	6.72%	
Adjusted WACC due to sustainability benefits	**6.05%**	Reduce by 10% due to benefits from sustainability initiatives
Adjusted For Sustainability		Work backwards from adjusted WACC above to determine individual adjustment for cost of debt and cost of equity
Cost of Debt Reduction Multiplier	1	Reduction due to lower risks and borrowing costs as higher ESG is associated with lower bond spreads and better bond ratings
Cost of Equity Reduction Multiplier	3	Reduction due to lower firm riskiness, as perceived by markets and investors. Higher weighting as more factors reduce cost of equity compared to cost of debt
Base Reduction Benefit	0.32%	Working backwards from adjusted WACC
Cost of Debt (Post-Tax)	5.23%	
Cost of Equity	6.74%	
Debt Ratio	45.61%	
Adjusted WACC due to sustainability benefits	**6.05%**	

Sources

Cost of Equity Impact	Does sustainability foster the cost of equity reduction? The relationship between corporate social responsibility (CSR) and riskiness worldwide
	Why ESG scores are here to stay | McKinsey
Cost of Debt Impact	ESG scores and cost of debt
	Cost of Capital and Sustainability: A Literature Review

Cost of Debt

Effective Interest Rate on Debt

		FY 2018	FY 2019	FY 2020	FY 2021	FY 2022
Interest Expense		154.0	126.0	671.0	613.0	600.0
Total Debt (including lease liability)		2,199.0	2,855.0	14,806.0	13,274.0	14,837.0
Effective Interest Rate		7.00%	4.41%	4.53%	4.62%	4.04%
Implied Pre-Tax Cost of Debt	4.92%					
Tax Rate		30.71%	30.46%	32.33%	22.20%	22.61%
Implied Tax rate	22.41%					
Implied Post-Tax Cost of Debt	3.82%					

Market Comparables - Moody Credit Reporting

Credit Rating	Baa2
Implied Credit Risk Spread	5.37%
Risk Free Rate	4.01%
Implied Pre-Tax Cost of Debt	9.38%
Tax Rate	22.41%
Implied Post-Tax Cost of Debt	7.28%

Method	Cost of Debt	Weighting
Effective Interest Rate on Debt	3.82%	50%
Credit Rating	7.28%	50%
Triangulated Cost of Debt	5.55%	

Inputs: Recalculated WACC

Cost of Equity

CAPM Pricing Model

Risk-free rate	4.01%		
Market risk premium	5.96%		https://www.gurufocus.com/economic_indicators/5878/australia-total-equity-risk-premium
Beta	0.48	Factset (52 week average)	
Cost of equity	6.87%		

Dividend Discount Model

Current Share Price	$38.42	(as of 21st July)
Current Dividend	$0.99	
Dividend Growth Rate	6.50%	Factset (5 yr)
Cost of equity	9.24%	

Method	Cost of Equit	Weighting	
CAPM	6.87%	65%	Increase CAPM Weighting as it considers risk
DDM	9.24%	35%	
Triangulated Cost of Equity	7.70%		

APPENDIX

Model: Income Statement

	Historical						Forecasted										
	2017A	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**Terminal**
Income Statement																	
All figures in AUD millions and million units unless stated																	
Inflation	1.95%	1.91%	1.61%	0.85%	2.86%	7.30%	6.75%	3.50%	3.00%	2.86%	2.71%	2.57%	2.43%	2.29%	2.14%	2%	2%
Revenue	55,034.00	56,944.00	59,984.00	53,080.00	55,733.00	60,849.00	64,518.55	67,263.06	69,992.63	72,725.82	75,481.07	78,276.19	81,127.80	84,050.95	87,058.68	90,161.68	93,471.30
year on year growth (%)		*3.47%*	*5.34%*	*-11.51%*	*5.00%*	*9.18%*	*6.03%*	*4.25%*	*4.06%*	*3.90%*	*3.79%*	*3.70%*	*3.64%*	*3.60%*	*3.58%*	*3.56%*	*3.67%*
COGS	38,067.00	39,132.00	41,320.00	35,292.00	36,797.00	40,446.00	43,432.17	45,279.70	47,117.17	48,957.08	50,811.85	52,693.44	54,613.07	56,580.86	58,605.58	60,694.44	62,922.39
Gross Profit	**16,967.00**	**17,812.00**	**18,664.00**	**17,788.00**	**18,936.00**	**20,403.00**	**21,086.38**	**21,983.36**	**22,875.46**	**23,768.73**	**24,669.23**	**25,582.74**	**26,514.73**	**27,470.09**	**28,453.10**	**29,467.24**	**30,548.91**
SG&A	13,809.00	14,352.00	15,379.00	13,452.00	13,657.00	15,483.00	16,353.36	16,982.09	17,601.74	18,217.05	18,832.67	19,452.99	20,082.07	20,723.47	21,380.26	22,054.82	22,774.15
year on year growth (%)		*3.78%*	*6.68%*	*-14.33%*	*1.50%*	*11.79%*											
% difference between sales growth & SG&A growth		*0.31%*	*1.34%*	*-2.82%*	*-3.50%*	*2.61%*	*5.62%*	*3.84%*	*3.65%*	*3.50%*	*3.38%*	*3.29%*	*3.23%*	*3.19%*	*3.17%*	*3.16%*	*3.26%*
EBITDA	**3,158.00**	**3,460.00**	**3,285.00**	**4,336.00**	**5,279.00**	**4,920.00**	**4,733.02**	**5,001.28**	**5,273.72**	**5,551.68**	**5,836.56**	**6,129.75**	**6,432.66**	**6,746.61**	**7,072.84**	**7,412.42**	**7,774.76**
Depreciation & Amortisation	1,038.00	1,103.00	1,222.00	2,458.00	2,608.00	2,361.00	2,110.12	2,265.56	2,426.88	2,594.20	2,767.65	2,947.34	3,133.39	3,325.91	3,525.02	3,730.82	3,943.41
D&A % sales	*1.89%*	*1.94%*	*2.04%*	*4.63%*	*4.68%*	*3.88%*											
EBIT	**2,120.00**	**2,357.00**	**2,063.00**	**1,878.00**	**2,671.00**	**2,559.00**	**2,622.91**	**2,735.72**	**2,846.84**	**2,957.48**	**3,068.91**	**3,182.42**	**3,299.27**	**3,420.70**	**3,547.82**	**3,681.60**	**3,831.35**
Operating profit margin %	*3.85%*	*4.14%*	*3.44%*	*3.54%*	*4.79%*	*4.21%*											
Interest	202.0	154.0	126.0	671.0	613.0	600.0	599.83	653.93	539.72	542.77	472.51	445.98	394.00	348.82	296.23	243.82	213.74
Non-Operating Income	252.0	191.0	288.0	148.0	152.0	109.0	235.49	245.51	255.47	265.45	275.51	285.71	296.12	306.79	317.76	329.09	341.17
	0.46%	*0.34%*	*0.48%*	*0.28%*	*0.27%*	*0.18%*											
Unusual Expense - Net	38.0		-	-	- -	23.0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Pre Tax Income	**2,132.00**	**2,394.00**	**2,225.00**	**1,355.00**	**2,210.00**	**2,091.00**	**2,258.57**	**2,327.29**	**2,562.59**	**2,680.16**	**2,871.91**	**3,022.15**	**3,201.39**	**3,378.67**	**3,569.35**	**3,766.88**	**3,958.78**
Current Tax	651.0	718.0	667.0	417.0	604.0	534.0	752.77	785.15	817.04	848.80	880.78	913.35	946.89	981.74	1,018.22	1,056.62	1,099.60
Deferred Tax	122	98	-48	-118	-140	-42	-78.69	-82.07	-85.41	-88.72	-92.07	-95.47	-98.98	-102.62	-106.43	-110.45	-114.94
Total Tax	**773**	**816**	**619**	**299**	**464**	**492**	**674.09**	**703.08**	**731.64**	**760.07**	**788.71**	**817.88**	**847.91**	**879.12**	**911.79**	**946.17**	**984.66**
Consolidated Net Income	**1,481.00**	**1,676.00**	**1,558.00**	**938.00**	**1,606.00**	**1,557.00**	**1,505.79**	**1,542.14**	**1,745.55**	**1,831.37**	**1,991.13**	**2,108.79**	**2,254.49**	**2,396.93**	**2,551.13**	**2,710.26**	**2,859.18**

Model: Projected Gross Profit Schedule

	Historical						Forecasted										
	2017A	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**Terminal**
Projected Gross Profit Schedule																	
Inflation	1.95%	1.91%	1.61%	0.85%	2.86%	7.30%	6.75%	3.50%	3.00%	2.86%	2.71%	2.57%	2.43%	2.29%	2.14%	2%	2%
Revenue	55,034.00	56,944.00	59,984.00	53,080.00	55,733.00	60,849.00											
year on year growth (%)		*3.47%*	*5.34%*	*-11.51%*	*5.00%*	*9.18%*											
Total eCommerce Sales			2,534.00	3,523.00	5,364.00	6,263.00	$7,249.29	$8,358.30	$9,599.37	$10,981.54	$12,513.34	$14,202.53	$16,055.86	$18,078.82	$20,275.35	$22,647.57	$25,297.34
year on year growth (%)				*39.03%*	*52.26%*	*16.76%*	*15.75%*	*15.30%*	*14.85%*	*14.40%*	*13.95%*	*13.50%*	*13.05%*	*12.60%*	*12.15%*	*11.70%*	*11.70%*
Total brick-and-mortar Sales		56,944.00	57,450.00	49,557.00	50,369.00	54,586.00	$56,337.14	$57,933.00	$59,382.06	$60,693.58	$61,877.23	$62,942.78	$63,899.86	$64,757.82	$65,525.56	$66,211.52	$66,823.56
year on year growth (%)			*0.89%*	*-13.74%*	*1.64%*	*8.37%*	*3.21%*	*2.83%*	*2.50%*	*2.21%*	*1.95%*	*1.72%*	*1.52%*	*1.34%*	*1.19%*	*1.05%*	*0.92%*
eCommerce sales % of sales							*11.40%*	*12.61%*	*13.92%*	*15.32%*	*16.82%*	*18.41%*	*20.08%*	*21.82%*	*23.63%*	*25.49%*	*27.46%*
Total Revenue							**$63,586.43**	**$66,291.29**	**$68,981.42**	**$71,675.12**	**$74,390.57**	**$77,145.31**	**$79,955.72**	**$82,836.64**	**$85,800.92**	**$88,859.09**	**$92,120.89**
Increase in rev. due to inflation							$932.12	$971.77	$1,011.20	$1,050.69	$1,090.50	$1,130.88	$1,172.08	$1,214.31	$1,257.76	$1,302.59	$1,350.41
Total Revenue (inflation adjusted)							**$64,518.55**	**$67,263.06**	**$69,992.63**	**$72,725.82**	**$75,481.07**	**$78,276.19**	**$81,127.80**	**$84,050.95**	**$87,058.68**	**$90,161.68**	**$93,471.30**

Model: Cash Flow Statement

	Historical						Forecasted										
	2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Cash Flow Statement																	
Net Income / Starting Line	**1,481.00**	**1,676.00**	**1,558.00**	**938.00**	**1,606.00**	**1,557.00**	**1,505.79**	**1,542.14**	**1,745.55**	**1,831.37**	**1,991.13**	**2,108.79**	**2,254.49**	**2,396.93**	**2,551.13**	**2,710.26**	**2,859.18**
Depreciation, Depletion & Amortization	1,038.00	1,103.00	1,222.00	2,458.00	2,608.00	2,361.00	2,110.12	2,265.56	2,426.88	2,594.20	2,767.65	2,947.34	3,133.39	3,325.91	3,525.02	3,730.82	3,943.41
Deferred Taxes & Investment Tax Credit	122	98	-48	-118	-140	-42	-78.69	-82.07	-85.41	-88.72	-92.07	-95.47	-98.98	-102.62	-106.43	-110.45	-114.94
Other Funds	362	9	-879	95	-181	-6,597	-1,891	-1,970	-2,467	-2,914	-1,882	-2,310	-2,308	-2,393	-2,354	-2,223	-2,341
Changes in Working Capital	-12	-7	-101	877	146	-247	255.79	-219.15	-214.00	-218.80	-213.63	-196.37	-237.17	-228.60	-234.45	-241.68	-256.79
Operating Cash Flow	**2,991.00**	**2,879.00**	**1,752.00**	**4,250.00**	**4,039.00**	**- 2,968.00**	**1,902.50**	**1,536.11**	**1,406.28**	**1,203.95**	**2,571.55**	**2,453.86**	**2,743.55**	**2,998.42**	**3,381.70**	**3,865.62**	**4,089.51**
Capital Expenditures Growth Rate							3.90%	3.84%	3.78%	3.72%	3.66%	3.60%	3.54%	3.48%	3.42%	3.36%	3.30%
Capital Expenditures	-1,910.0	-1,848.0	-1,991.0	-2,149.0	-2,389.0	-2,416.0	-2,318.00	-2,407.01	-2,498.00	-2,590.92	-2,685.75	-2,782.44	-2,880.93	-2,981.19	-3,083.15	-3,186.74	-3,291.90
Net Assets from Acquisitions	-6.0	-38.0	-80.0	-91.0	-209.0	-425.0	-241.67	-258.50	-269.39	-213.89	-256.52	-247.26	-246.60	-239.22	-250.13	-244.36	-245.32
Sale of Fixed Assets & Businesses	481.0	372.0	1,859.0	295.0	408.0	385.0	633.33	633.33	633.33	633.33	633.33	633.33	633.33	633.33	633.33	633.33	633.33
Purchase/Sale of Investments	0.0	0.0	0.0	0.0	-35.0	-32.0	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17	-11.17
Other Funds	0.0	0.0	-38.0	-4.0	12.0	-20.0	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33	-8.33
Investing Cash Flow	**-1,435.0**	**-1,514.0**	**-250.0**	**-1,949.0**	**-2,213.0**	**-2,508.0**	**-1,945.83**	**-2,051.68**	**-2,153.55**	**-2,190.98**	**-2,328.43**	**-2,415.86**	**-2,513.70**	**-2,606.58**	**-2,719.44**	**-2,817.27**	**-2,923.39**
Cash Dividends Paid	-541.0	-724.0	-1,267.0	-1,133.0	-1,104.0	-1,444.0	-1,368.75	-1,401.79	-1,586.69	-1,664.69	-1,809.92	-1,916.87	-2,049.31	-2,178.79	-2,318.95	-2,463.60	-2,598.97
Payout Ratio	*-36.53%*	*-43.20%*	*-81.32%*	*-120.79%*	*-68.74%*	*-92.74%*											
Change in Capital Stock	56.0	-64.0	-1,761.0	-102.0	-177.0	-2,125.0	1,500.00	-680.00	700.00	-150.00	500.00	100.00	280.00	220.00	300.00	280.00	500.00
Issuance/Reduction of Debt	-1,222.0	-280.0	162.0	755.0	-554.0	1,544.0	-696.05	147.34	-1,144.63	-468.42	-1,109.92	-791.69	-1,047.66	-1,041.68	-1,176.00	-1,217.29	-719.42
Repayment of Operating Lease Liabilities			0.0	-1,066.0	-1,158.0	-1,019.0	-619.45	-645.80	-672.01	-698.25	-724.71	-751.54	-778.92	-806.99	-835.86	-865.66	-897.43
% of sales	*0.00%*	*0.00%*	*0.00%*	*-2.01%*	*-2.08%*	*-1.67%*											
Other Funds	-22.0	-56.0	-51.0	-66.0	-50.0	1,707.0	243.67	243.67	243.67	243.67	243.67	243.67	243.67	243.67	243.67	243.67	243.67
Financing Cash Flow	**-1,729.4**	**-1,124.4**	**-2,917.8**	**-1,613.2**	**-3,043.7**	**-1,337.9**	**-940.59**	**-2,336.59**	**-2,459.66**	**-2,737.70**	**-2,900.88**	**-3,116.44**	**-3,352.23**	**-3,563.78**	**-3,787.14**	**-4,022.88**	**-3,472.16**
Net Change in Cash	**- 173.37**	**240.57**	**- 1,415.81**	**687.77**	**- 1,217.71**	**- 6,813.94**	**-983.92**	**-2,852.16**	**-3,206.93**	**-3,724.73**	**-2,657.76**	**-3,078.44**	**-3,122.38**	**-3,171.94**	**-3,124.89**	**-2,974.53**	**-2,306.03**
Payout ratio	90.90%																
Sale of fixed assets & businesses	633.3																
Purchase/sale of investments	-11.2																
Other funds	-8.3																
Repayment of operating liabilities % sales	-0.96%																

Model: External Financing Schedule

			Historical									Forecasted					
	2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
External Financing Schedule																	
Total Assets		24,061	23,917	38,474	39,237	33,274	35,707.32	36,519.80	37,432.56	38,184.42	38,955.79	39,641.80	40,310.11	40,934.13	41,530.02	42,093.41	42,637.51
Total Current Liabilities		9,029.0	8,885.0	13,457.0	23,117.0	10,750.0	11,549.23	12,040.87	12,525.89	13,016.07	13,503.27	13,977.16	14,497.46	15,016.30	15,549.39	16,099.16	16,684.57
Total Long-Term Liabilities excl. Long-Term Debt		1,983	1,692	14,079	11,627	12,481	11,694	10,654	9,614	8,574	7,534	6,494	5,454	4,414	3,373	2,333	1293.333333
Total External Financing Required		**13,049**	**13,340**	**10,938**	**4,493**	**10,043**	**12,464.15**	**13,825.04**	**15,292.85**	**16,594.59**	**17,918.82**	**19,171.00**	**20,359.07**	**21,504.32**	**22,607.17**	**23,660.85**	**24,659.61**
Debt Outstanding before Financing:		2,777.0	2,199.0	2,855.0	14,806.0	13,274.0	3,938	4,065.88	5,185.20	5,012.92	5,516.76	5,378.55	5,557.58	5,479.25	5,405.12	5,194.57	4,940.36
Common Equity before Financing:		9,999	10,269	8,578	2,110	6,067	6,898	9,320	9,580	11,228	12,040	13,513	14,600	15,879	17,113	18,440	18,981
Change in Common Stock:		482	-168	164	-731	-87	1500	-680	700	-150	500	100	280	220	300	280	500
Debt Outstanding after Financing:		**2,568**	**3,239**	**2,196**	**3,114**	**4,063**	**4,065.88**	**5,185.20**	**5,012.92**	**5,516.76**	**5,378.55**	**5,557.58**	**5,479.25**	**5,405.12**	**5,194.57**	**4,940.36**	**5,178.90**
Long-Term Debt/External Financing		*19.68%*	*24.28%*	*20.08%*	*69.31%*	*40.45%*	*32.62%*	*37.51%*	*32.78%*	*33.24%*	*30.02%*	*28.99%*	*26.91%*	*25.14%*	*22.98%*	*20.88%*	*21.00%*
Equity/External Financing		*80.32%*	*75.72%*	*79.92%*	*30.69%*	*59.55%*	*67.38%*	*62.49%*	*67.22%*	*66.76%*	*69.98%*	*71.01%*	*73.09%*	*74.86%*	*77.02%*	*79.12%*	*79.00%*
Debt/Equity Ratio		*0.22*	*0.28*	*0.22*	*1.30*	*0.65*	*0.58941*	*0.55636*	*0.52327*	*0.49135*	*0.44671*	*0.41126*	*0.37530*	*0.34039*	*0.30355*	*0.26791*	*0.27285*
Debt/Equity Ratio Objective							0.61	0.57	0.53	0.49	0.44	0.40	0.36	0.32	0.28	0.24	0.24

APPENDIX

Model: Balance Sheet

	Historical						Forecasted										
	2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Balance Sheet																	
All figures in AUD millions and million units unless stated																	
Cash & Short-Term Investments	925	1,273	1,066	2,068	1,009	1,032	1,396.40	1,430.11	1,618.74	1,698.32	1,846.48	1,955.59	2,090.71	2,222.80	2,365.79	2,513.36	2,651.47
Short-Term Receivables	411	420	470	548	480	856	764.98	797.52	829.88	862.29	894.96	928.10	961.91	996.57	1,032.23	1,069.02	1,108.27
Inventories	4,207.0	4,233.0	4,280.0	4,434.0	3,132.0	3,593.0	4,526.09	4,718.63	4,910.11	5,101.85	5,295.13	5,491.22	5,691.26	5,896.33	6,107.32	6,325.00	6,557.18
Other Current Assets	1,578.0	1,088.0	482.0	1,075.0	11,165.0	629.0	1,114.94	1,162.37	1,209.54	1,256.77	1,304.38	1,352.69	1,401.96	1,452.48	1,504.46	1,558.08	1,615.27
Total Current Assets	**7,122**	**7,015**	**6,299**	**8,127**	**15,787**	**6,111**	**7,802.41**	**8,108.62**	**8,568.27**	**8,919.23**	**9,340.95**	**9,727.59**	**10,145.85**	**10,568.17**	**11,009.80**	**11,465.47**	**11,932.18**
Net PPE	8,438.0	9,026.0	8,252.0	20,804.0	17,030.0	18,226.0	18,387.20	18,488.60	18,539.05	18,536.75	18,479.95	18,366.99	18,196.38	17,966.86	17,677.41	17,327.39	16,916.54
Long Term Investments	578	599	736	339	268	1,945	843.25	879.12	914.80	950.52	986.53	1,023.06	1,060.33	1,098.54	1,137.85	1,178.41	1,221.66
Intangible Assets	6,533.0	6,465.0	7,793.0	7,717.0	4,671.0	5,278.0	7,262.93	7,571.88	7,879.15	8,186.83	8,496.99	8,811.64	9,132.65	9,461.71	9,800.29	10,149.60	10,522.17
Deferred Tax Assets	998.0	940.0	736.0	1,327.0	1,371.0	1,337.0	1,267.05	1,320.95	1,374.55	1,428.23	1,482.34	1,537.23	1,593.23	1,650.64	1,709.71	1,770.64	1,835.64
Other Assets	1	16	101	160	110	377	144.48	150.62	156.73	162.86	169.03	175.28	181.67	188.22	194.95	201.90	209.31
Total Non-Current Assets	**16,548.0**	**17,046.0**	**17,618.0**	**30,347.0**	**23,450.0**	**27,163.0**	**27,904.91**	**28,411.18**	**28,864.29**	**29,265.19**	**29,614.83**	**29,914.20**	**30,164.27**	**30,365.96**	**30,520.22**	**30,627.94**	**30,705.32**
Total Assets	**23,670**	**24,061**	**23,917**	**38,474**	**39,237**	**33,274**	**35,707.32**	**36,519.80**	**37,432.56**	**38,184.42**	**38,955.79**	**39,641.80**	**40,310.11**	**40,934.13**	**41,530.02**	**42,093.41**	**42,637.51**
ST Debt and Current LT Debt	254.0	604.0	274.0	3,853.0	1,614.0	1,926.0	1,600.46	1,668.54	1,736.25	1,804.05	1,872.40	1,941.73	2,012.47	2,084.98	2,159.59	2,236.56	2,318.66
Accounts Payable	5,195.0	5,149.0	5,219.0	5,843.0	4,832.0	5,216.0	5,960.69	6,214.25	6,466.43	6,718.94	6,973.49	7,231.72	7,495.17	7,765.24	8,043.11	8,329.79	8,635.56
Income Tax Payable	81.0	110.0	84.0	131.0	252.0	12.0	111.67	116.78	117.91	123.56	122.32	100.70	115.49	116.13	116.02	115.70	114.39
Other Current Liabilities	3,422.0	3,166.0	3,308.0	3,630.0	16,419.0	3,596.0	3,876.41	4,041.31	4,205.31	4,369.52	4,535.06	4,703.00	4,874.33	5,049.96	5,230.67	5,417.11	5,615.96
Total Current Liabilities	**8,952.0**	**9,029.0**	**8,885.0**	**13,457.0**	**23,117.0**	**10,750.0**	**11,549.23**	**12,040.87**	**12,525.89**	**13,016.07**	**13,503.27**	**13,977.16**	**14,497.46**	**15,016.30**	**15,549.39**	**16,099.16**	**16,684.57**
Long-Term Debt	2,777.0	2,199.0	2,855.0	14,806.0	13,274.0	14,837.0	14,466.49	14,545.75	13,333.41	12,797.18	11,618.91	10,757.89	9,639.49	8,525.30	7,274.69	5,980.42	5,178.90
Long-Term Debt excl Lease Obligations	2,775	2,199	2,855	1,904	2,753	3,938	4,065.88	5,185.20	5,012.92	5,516.76	5,378.55	5,557.58	5,479.25	5,405.12	5,194.57	4,940.36	5,178.90
Capital and Operating Lease Obligations	2	0	0	12,902	10,521	10,899	10,401	9,361	8,320	7,280	6,240	5,200	4,160	3,120	2,080	1,040	0
Provision for Risks & Charges	1,074.0	993.0	1,041.0	918.0	804.0	846.0	946.0	946.0	946.0	946.0	946.0	946.0	946.0	946.0	946.0	946.0	946.0
Deferred Tax Liabilities	626.0	669.0	345.0	204.0			0	0	0	0	0	0	0	0	0	0	0
Other Liabilities	364.0	321.0	306.0	55.0	302.0	736.0	347.3	347.3	347.3	347.3	347.3	347.3	347.3	347.3	347.3	347.3	347.3
Total Non-Current Liabilities	**4,841.0**	**4,182.0**	**4,547.0**	**15,983.0**	**14,380.0**	**16,419.0**	**15,759.82**	**15,839.08**	**14,626.74**	**14,090.52**	**12,912.25**	**12,051.22**	**10,932.82**	**9,818.63**	**8,568.02**	**7,273.76**	**6,472.24**
Debt Ratio	12.81%	11.65%	13.08%	48.50%	37.94%	50.38%											
Total Liabilities	**13,793.0**	**13,211.0**	**13,432.0**	**29,440.0**	**37,497.0**	**27,169.0**	**27,309.05**	**27,879.95**	**27,152.63**	**27,106.58**	**26,415.52**	**26,028.38**	**25,430.29**	**24,834.94**	**24,117.42**	**23,372.92**	**23,156.81**
Common Stock	5,719	6,201	6,033	6,197	5,466	5,379	6,879	6,199	6,899	6,749	7,249	7,349	7,629	7,849	8,149	8,429	8,929
Retained Earnings	3,554	4,073	3,783	2,329	3,115	8,173	8,310	8,450	8,609	8,776	8,957	9,149	9,354	9,572	9,805	10,051	10,311
Other Appropriate Reserves	253	207	285	216	-7,202	-7,572	-6,791	-6,010	-5,228	-4,447	-3,666	-2,885	-2,103	-1,322	-541	240	240
Total Shareholders' Equity	**9,526**	**10,481**	**10,101**	**8,742**	**1,379**	**5,980**	**8,398**	**8,640**	**10,280**	**11,078**	**12,540**	**13,613**	**14,880**	**16,099**	**17,413**	**18,720**	**19,481**
Accumulated Minority Interest	351	368	383	290	360	124	0	0	0	0	0	0	0	0	0	0	0
Total Equity	**9,877**	**10,849**	**10,484**	**9,032**	**1,739**	**6,104**	**8,398**	**8,640**	**10,280**	**11,078**	**12,540**	**13,613**	**14,880**	**16,099**	**17,413**	**18,720**	**19,481**
Total Liabilities & Shareholders' Equity	**23,670**	**24,060**	**23,916**	**38,472**	**39,236**	**33,273**	**35,707.32**	**36,519.80**	**37,432.56**	**38,184.42**	**38,955.79**	**39,641.80**	**40,310.11**	**40,934.13**	**41,530.02**	**42,093.41**	**42,637.51**

Model: Debt Schedule

	Historical						Forecasted										
	2017A	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**Terminal**
Debt Schedule																	
EXISTING LONG TERM DEBT																	
Beginning Balance		2,775	2,199	2,855	1,904	2,753	3,938.00	4,065.88	5,185.20	5,012.92	5,516.76	5,378.55	5,557.58	5,479.25	5,405.12	5,194.57	4,940.36
Ending Balance	**2,775**	**2,199**	**2,855**	**1,904**	**2,753**	**3,938**	**4,065.88**	**5,185.20**	**5,012.92**	**5,516.76**	**5,378.55**	**5,557.58**	**5,479.25**	**5,405.12**	**5,194.57**	**4,940.36**	**5,178.90**
Interest Rate	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Debt Interest	56.89	101.97	103.61	97.56	95.47	137.17	164.08	189.65	209.06	215.86	223.35	224.19	226.26	223.13	217.29	207.77	207.44
Old Operating Lease Interest	145.1	52.0	22.4	573.4	517.5	462.8	426.42	383.78	341.14	298.50	255.85	213.21	170.57	127.93	85.28	42.64	0.00
Total LT Debt Interest	202.0	154.0	126.0	671.0	613.0	600.0	**590.50**	**573.43**	**550.20**	**514.36**	**479.21**	**437.40**	**396.82**	**351.06**	**302.58**	**250.41**	**207.44**
Interest rate 4.10%																	
NEW LONG TERM DEBT																	
Beginning Balance	0	0	0	0	0	0	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Increase/(Decrease)							127.88	1,119.32	-172.28	503.84	-138.21	179.03	-78.34	-74.13	-210.55	-254.20	238.54
Paying off new debt							19.18	167.90	-25.84	75.58	-20.73	26.85	-11.75	-11.12	-31.58	-38.13	35.78
Ending Balance	**0**	**0**	**0**	**0**	**0**	**0**	147.07	1,287.21	-198.12	579.41	-158.94	205.89	-90.09	-85.25	-242.13	-292.33	274.32
Total Debt (incl. operating leases)	**2,777**	**2,199**	**2,855**	**14,806**	**13,274**	**14,837**	**14,466.49**	**14,545.75**	**13,333.41**	**12,797.18**	**11,618.91**	**10,757.89**	**9,639.49**	**8,525.30**	**7,274.69**	**5,980.42**	**5,178.90**
Debt match up?	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Interest Rate	4.10%	4.10%	4.10%	4.10%	4.10%	4.10%	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04	0.04
Debt Interest	0	0	0	0	0	0	3.01	26.39	-4.06	11.88	-3.26	4.22	-1.85	-1.75	-4.96	-5.99	5.62
Operating Lease/Debt %							2.60	2.02	1.63	1.38	1.15	0.95	0.75	0.57	0.39	0.21	0.00
New Operating Lease Interest							7.84	53.40	-6.63	16.43	-3.73	4.01	-1.39	-1.00	-1.95	-1.23	0.00
Total New LT Debt Interest							**10.85**	**79.79**	**-10.69**	**28.30**	**-6.99**	**8.23**	**-3.24**	**-2.75**	**-6.91**	**-7.22**	**5.62**
Total Debt Interest (LT and ST)	56.89	101.97	103.61	97.56	95.47	137.17											
Total Operating Lease Interest (Old and New)	145.1	52.0	22.4	573.4	517.5	462.8											
Total Interest Expense	**202.00**	**154.00**	**126.00**	**671.00**	**613.00**	**600.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Interest							**601.35**	**653.22**	**539.51**	**542.66**	**472.22**	**445.64**	**393.59**	**348.31**	**295.67**	**243.19**	**213.07**

APPENDIX

Model: Working Capital Schedule

		Historical						Forecasted										
		2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Working Capital Schedule																		
All figures in AUD millions and million units unless stated																		
Days in Period		365	365	365	365	365	365	365	365	365	365	365	365	365	365	365	365	365
Revenue		55,034.00	56,944.00	59,984.00	53,080.00	55,733.00	60,849.00	64,518.55	67,263.06	69,992.63	72,725.82	75,481.07	78,276.19	81,127.80	84,050.95	87,058.68	90,161.68	93,471.30
COGS		38,067.00	39,132.00	41,320.00	35,292.00	36,797.00	40,446.00	43,432.17	45,279.70	47,117.17	48,957.08	50,811.85	52,693.44	54,613.07	56,580.86	58,605.58	60,694.44	62,922.39
AMOUNTS PER DAY																		
Accounts Receivable	*(Days)*	3.4	3.5	3.6	4.6	4.0	6.8	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Inventory	*(Days)*	40.3	39.5	37.8	45.9	31.1	32.4	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8	37.8
Accounts Payable	*(Days)*	49.8	48.0	46.1	60.4	47.9	47.1	49.9	49.9	49.9	49.9	49.9	49.9	49.9	49.9	49.9	49.9	49.9
TOTAL AMOUNTS																		
Accounts Receivable & ST Receivables		517	549	591	676	611	1,129	764.98	797.52	829.88	862.29	894.96	928.10	961.91	996.57	1,032.23	1,069.02	1,108.27
% of revenue		*0.94%*	*0.96%*	*0.99%*	*1.27%*	*1.10%*	*1.86%*											
Inventory		4,207	4,233	4,280	4,434	3,132	3,593	4,526.09	4,718.63	4,910.11	5,101.85	5,295.13	5,491.22	5,691.26	5,896.33	6,107.32	6,325.00	6,557.18
% of revenue		*7.64%*	*7.43%*	*7.14%*	*8.35%*	*5.62%*	*5.90%*											
Accounts Payable		5,195	5,149	5,219	5,843	4,832	5,216	5,960.69	6,214.25	6,466.43	6,718.94	6,973.49	7,231.72	7,495.17	7,765.24	8,043.11	8,329.79	8,635.56
% of revenue		*9.44%*	*9.04%*	*8.70%*	*11.01%*	*8.67%*	*8.57%*											
Accounts Receivable & ST Receivables		517	549	591	676	611	1,129	764.98	797.52	829.88	862.29	894.96	928.10	961.91	996.57	1,032.23	1,069.02	1,108.27
Inventory		4,207	4,233	4,280	4,434	3,132	3,593	4,526.09	4,718.63	4,910.11	5,101.85	5,295.13	5,491.22	5,691.26	5,896.33	6,107.32	6,325.00	6,557.18
Other Current Assets		1,578	1,088	482	1,075	11,165	629	1,114.94	1,162.37	1,209.54	1,256.77	1,304.38	1,352.69	1,401.96	1,452.48	1,504.46	1,558.08	1,615.27
Total Current Assets		**6,302**	**5,870**	**5,353**	**6,185**	**14,908**	**5,351**	**6,406.01**	**6,678.51**	**6,949.53**	**7,220.91**	**7,494.48**	**7,772.00**	**8,055.14**	**8,345.37**	**8,644.01**	**8,952.11**	**9,280.72**
ST Debt and Current LT Debt		254	604	274	3,853	1,614	1,926	1,600.46	1,668.54	1,736.25	1,804.05	1,872.40	1,941.73	2,012.47	2,084.98	2,159.59	2,236.56	2,318.66
Accounts Payable		5,195	5,149	5,219	5,843	4,832	5,216	5,960.69	6,214.25	6,466.43	6,718.94	6,973.49	7,231.72	7,495.17	7,765.24	8,043.11	8,329.79	8,635.56
Income Tax Payable		81	110	84	131	252	12	111.67	116.78	117.91	123.56	122.32	100.70	115.49	116.13	116.02	115.70	114.39
Other Current Liabilities		3,422	3,166	3,308	3,630	16,419	3,596	3,876.41	4,041.31	4,205.31	4,369.52	4,535.06	4,703.00	4,874.33	5,049.96	5,230.67	5,417.11	5,615.96
Total Current Liabilities		**8,952**	**9,029**	**8,885**	**13,457**	**23,117**	**10,750**	**11,549.23**	**12,040.87**	**12,525.89**	**13,016.07**	**13,503.27**	**13,977.16**	**14,497.46**	**15,016.30**	**15,549.39**	**16,099.16**	**16,684.57**
NET WORKING CAPITAL																		
Current Assets		6,302	5,870	5,353	6,185	14,908	5,351	6,406.01	6,678.51	6,949.53	7,220.91	7,494.48	7,772.00	8,055.14	8,345.37	8,644.01	8,952.11	9,280.72
Current Liabilities		8,952	9,029	8,885	13,457	23,117	10,750	11,549.23	12,040.87	12,525.89	13,016.07	13,503.27	13,977.16	14,497.46	15,016.30	15,549.39	16,099.16	16,684.57
Net Working Capital		- 2,650	- 3,159	- 3,532	- 7,272	- 8,209	- 5,399	-5,143.21	-5,362.36	-5,576.36	-5,795.16	-6,008.79	-6,205.16	-6,442.33	-6,670.93	-6,905.38	-7,147.06	-7,403.85
Change in NWC			**- 509**	**- 373**	**- 3,740**	**- 937**	**2,810**	**255.79**	**-219.15**	**-214.00**	**-218.80**	**-213.63**	**-196.37**	**-237.17**	**-228.60**	**-234.45**	**-241.68**	**-256.79**

Model: Depreciation Schedule

	Historical						Forecasted										
	2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Depreciation Schedule																	
All figures in AUD millions and million units unless stated																	
Capex Increase Percentage							3.90%	3.84%	3.78%	3.72%	3.66%	3.60%	3.54%	3.48%	3.42%	3.36%	3.30%
ALLOCATION OF FUTURE CAPEX							2,000	2,077	2,155	2,235	2,317	2,401	2,486	2,572	2,660	2,750	2,840
Gross PPE	**13,932**	**14,970**	**14,886**	**29,058**	**24,366**	**26,192**	**28,192**	**30,269**	**32,424**	**34,660**	**36,977**	**39,378**	**41,863**	**44,436**	**47,096**	**49,845**	**52,686**
Buildings	1,436	1,472	1,647	1,527	1,027	924	147.3	153.0	158.8	164.7	170.7	176.9	183.1	189.5	196.0	202.6	209.2
% of PPE	*10.31%*	*9.83%*	*11.06%*	*5.26%*	*4.21%*	*3.53%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*	*7.37%*
Construction in Progress	519	729	722	1,055	1,096	1,369	89.3	92.8	96.3	99.9	103.5	107.2	111.0	114.9	118.8	122.8	126.9
% of PPE	*3.73%*	*4.87%*	*4.85%*	*3.63%*	*4.50%*	*5.23%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*	*4.47%*
Machinery & Equipment	9,258	10,241	9,534	10,645	9,247	10,188	1,041.3	1,081.3	1,122.2	1,163.9	1,206.5	1,249.9	1,294.2	1,339.2	1,385.0	1,431.6	1,478.8
% of PPE	*66.45%*	*68.41%*	*64.05%*	*36.63%*	*37.95%*	*38.90%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*	*52.06%*
Other Property, Plant & Equipment	2,719	2,528	2,983	3,769	3,443	3,716	325.8	338.3	351.1	364.1	377.5	391.0	404.9	419.0	433.3	447.9	462.6
% of PPE	*19.52%*	*16.89%*	*20.04%*	*12.97%*	*14.13%*	*14.19%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*	*16.29%*
Operating Lease	0	0	0	12,062	9,553	9,995	396.3	411.5	427.0	442.9	459.1	475.7	492.5	509.6	527.1	544.8	562.7
% of PPE	*0.00%*	*0.00%*	*0.00%*	*41.51%*	*39.21%*	*38.16%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*	*19.81%*
NEW ASSET DEPRECIATION																	
TOTAL ASSET DEPRECIATION																	
Existing Buildings							64.32	64.32	64.32	64.32	64.32	64.32	64.32	64.32	64.32	64.32	64.32
Existing Construction in Progress							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Existing Machinery & Equipment							1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99	1,048.99
Existing Other PPE, Plant & Equipment							328.17	328.17	328.17	328.17	328.17	328.17	328.17	328.17	328.17	328.17	328.17
Existing Operating Lease Right-of-Use Assets							518.94	518.94	518.94	518.94	518.94	518.94	518.94	518.94	518.94	518.94	518.94
Existing Assets							**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**	**1,960.42**
New Buildings							4.91	10.01	15.30	20.79	26.48	32.38	38.48	44.80	51.33	58.08	65.06
New Land & Improvements							0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
New Machinery & Equipment							80.10	163.28	249.60	339.13	431.93	528.08	627.64	730.65	837.19	947.31	1,061.07
New Other PPE, Plant & Equipment							25.06	51.08	78.09	106.10	135.13	165.21	196.36	228.58	261.91	296.37	331.95
New Operating Lease Right-of-Use Assets							39.63	80.77	123.48	167.77	213.68	261.24	310.49	361.46	414.16	468.64	524.91
New Assets							**149.70**	**305.14**	**466.46**	**633.78**	**807.23**	**986.92**	**1,172.97**	**1,365.49**	**1,564.60**	**1,770.40**	**1,982.99**
Existing Assets							1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42	1,960.42
New Assets							149.70	305.14	466.46	633.78	807.23	986.92	1,172.97	1,365.49	1,564.60	1,770.40	1,982.99
Total Depreciation							**2,110.12**	**2,265.56**	**2,426.88**	**2,594.20**	**2,767.65**	**2,947.34**	**3,133.39**	**3,325.91**	**3,525.02**	**3,730.82**	**3,943.41**

APPENDIX

Model: Asset Schedule

	Historical						Forecasted										
	2017A	**2018A**	**2019A**	**2020A**	**2021A**	**2022A**	**2023F**	**2024F**	**2025F**	**2026F**	**2027F**	**2028F**	**2029F**	**2030F**	**2031F**	**2032F**	**Terminal**
Asset Schedule																	
All figures in AUD millions and million units unless stated																	
Opening Net PPE		8,438.0	9,026.0	8,252.0	20,804.0	17,030.0	18,226.0	18,387.2	18,488.6	18,539.1	18,536.8	18,479.9	18,367.0	18,196.4	17,966.9	17,677.4	17,327.4
Opening Intangibles		6,533.0	6,465.0	7,793.0	7,717.0	4,671.0	5,278.0	7,262.9	7,571.9	7,879.1	8,186.8	8,497.0	8,811.6	9,132.6	9,461.7	9,800.3	10,149.6
Opening Net PPE & Intangibles		**14,971.0**	**15,491.0**	**16,045.0**	**28,521.0**	**21,701.0**	**23,504.0**	**25,650.1**	**26,060.5**	**26,418.2**	**26,723.6**	**26,976.9**	**27,178.6**	**27,329.0**	**27,428.6**	**27,477.7**	**27,477.0**
Capex	- 1,910.0	- 1,848.0	- 1,991.0	- 2,149.0	- 2,389.0	- 2,416.0	-2,318.00	-2,407.01	-2,498.00	-2,590.92	-2,685.75	-2,782.44	-2,880.93	-2,981.19	-3,083.15	-3,186.74	-3,291.90
Depreciation & Amortisation expense	1,038.0	1,103.0	1,222.0	2,458.0	2,608.0	2,361.0	2,110.12	2,265.56	2,426.88	2,594.20	2,767.65	2,947.34	3,133.39	3,325.91	3,525.02	3,730.82	3,943.41
Closing Net PPE & Intangibles	**14,971.0**	**15,491.0**	**16,045.0**	**28,521.0**	**21,701.0**	**23,504.0**	**23,711.9**	**25,791.6**	**26,131.6**	**26,414.9**	**26,641.7**	**26,812.0**	**26,926.2**	**26,984.3**	**26,986.7**	**26,933.6**	**26,825.5**
Closing Net PPE						18,226.0	18,387.2	18,488.6	18,539.1	18,536.8	18,479.9	18,367.0	18,196.4	17,966.9	17,677.4	17,327.4	16,916.5
Closing Intangibles						5,278.0	7,262.9	7,571.9	7,879.1	8,186.8	8,497.0	8,811.6	9,132.6	9,461.7	9,800.3	10,149.6	10,522.2
Closing Net PPE + Intangibles						**23,504.0**	**25,650.1**	**26,060.5**	**26,418.2**	**26,723.6**	**26,976.9**	**27,178.6**	**27,329.0**	**27,428.6**	**27,477.7**	**27,477.0**	**27,438.7**

Model: Unlevered Free Cash Flow Schedule

	Historical						Forecasted										
	2017A	2018A	2019A	2020A	2021A	2022A	2023F	2024F	2025F	2026F	2027F	2028F	2029F	2030F	2031F	2032F	Terminal
Unlevered Free Cash Flow Schedule																	
All figures in AUD millions and million units unless stated							**2023**	**2024**	**2025**	**2026**	**2027**	**2028**	**2029**	**2030**	**2031**	**2032**	**Terminal**
EBIT	2,120.00	2,357.00	2,063.00	1,878.00	2,671.00	2,559.00	2,622.91	2,735.72	2,846.84	2,957.48	3,068.91	3,182.42	3,299.27	3,420.70	3,547.82	3,681.60	3,831.35
Taxes	773	816	619	299	464	492	674.09	703.08	731.64	760.07	788.71	817.88	847.91	879.12	911.79	946.17	984.66
D&A	1,038.00	1,103.00	1,222.00	2,458.00	2,608.00	2,361.00	2,110.12	2,265.56	2,426.88	2,594.20	2,767.65	2,947.34	3,133.39	3,325.91	3,525.02	3,730.82	3,943.41
Capital Expenditure	-1,910.0	-1,848.0	-1,991.0	-2,149.0	-2,389.0	-2,416.0	-2,318.00	-2,407.01	-2,498.00	-2,590.92	-2,685.75	-2,782.44	-2,880.93	-2,981.19	-3,083.15	-3,186.74	-3,291.90
Change in NWC	-	509 -	373 -	3,740 -	937	2,810	255.79	-219.15	-214.00	-218.80	-213.63	-196.37	-237.17	-228.60	-234.45	-241.68	-256.79
Free Cash Flow	**475.00**	**1,305.00**	**1,048.00**	**5,628.00**	**3,363.00** -	**798.00**	**1,485.15**	**2,110.33**	**2,258.08**	**2,419.49**	**2,575.73**	**2,725.80**	**2,940.98**	**3,114.90**	**3,312.36**	**3,521.19**	**92,736.68**
Present Value of FCF							1400.44	1876.45	1893.30	1912.92	1920.28	1916.25	1949.59	1947.10	1952.42	1957.13	51544.44

Total PV of FCF	18,725.88		
PV of Terminal FCF	51,544.44		
Enterprise Value	70,270.32		
Plus: Cash	1,032		
Less: Debt	16,763.0		
Equity Value	54,539.32	Terminal GR	2.00%
Fully Diluted Shares Outstanding	1,219	WACC	6.05%
Implied Share Price	**$44.75**		

Comparables Valuation

Company Name	Ticker	EV/EBITDA (x)	EV/SALES (x)	P/E (x)	Market Share Grocery Retail (2023)
Woolworths Group	WOW-AU	11.6x	1.x	28.5x	37% in Australia
Coles Group	COL-AU	9.1x	0.8x	22.2x	27.7% in Australia
Metcash	MTS-AU	7.7x	0.3x	12.3x	6.8% in Australia
Costco Wholesale	COST-US	23.1x	1.x	38.9x	2.4% in Australia
Tesco	TSCO-GB	6.9x	0.5x	11.7x	27.1% in UK
Walmart Inc	WMT-US	12.7x	0.7x	22.9x	25.2% in USA

Key Figures	FY22
EBITDA	$4,920.00
Sales	$60,849.00
Net Income	$1,557.00
Cash and Cash Equivalents	$1,032
Other non-core assets	$629
Total debt	$16,763

Forward Multiples Summary			
Forward Multiples:	EV / FY23 EBITDA	EV / FY23 Sales	Price / FY23 Earnings
Average	11.85x	0.72x	22.75x
Median	10.35x	0.75x	22.55x
Minimum	6.9x	0.3x	11.7x
Maximum	23.1x	1.x	38.9x

Price ($/share)			
Forward Multiples:	EV / FY23 EBITDA	EV / FY23 Sales	Price / FY23 Earnings
# Shares	1,219	1,219	1,219
Average	$35.45	$23.39	$29.07
Median	$29.39	$25.06	$28.81
Minimum	$15.46	$2.59	$14.95
Maximum	$80.86	$37.54	$49.70
Weighting	1/3	1/3	1/3

Implied Share Price	
Average Share Price	$29.30
Median Share Price	$27.75

Financial Ratio Analysis

ROE	Coles	Costco	Tesco	Walmart	Woolworths	Average	Median
FY19	32.64%	26.10%	10.62%	8.87%	14.50%	18.55%	14.50%
FY 20	32.75%	23.87%	5.48%	20.22%	9.96%	18.46%	20.22%
FY 21	37.03%	27.93%	4.15%	17.37%	31.74%	23.64%	27.93%
FY 22	35.30%	30.59%	10.97%	16.66%	42.04%	27.11%	30.59%

ROA	Coles	Costco	Tesco	Walmart	Woolworths	Average	Median
FY19	9.52%	8.49%	2.50%	3.15%	6.22%	5.98%	6.22%
FY 20	6.37%	7.93%	1.34%	6.53%	3.01%	5.04%	6.37%
FY 21	4.87%	8.72%	1.07%	5.53%	4.13%	4.86%	4.87%
FY 22	5.03%	9.47%	3.21%	5.50%	4.27%	6.40%	5.03%

EPS	Coles	Costco	Tesco	Walmart	Woolworths	Average	Median
FY19	1.08	8.26	0.17	2.26	1.22	2.60	1.22
FY 20	0.73	9.02	0.13	5.19	0.93	3.20	0.93
FY 21	0.75	11.27	0.09	4.75	1.64	3.70	1.64
FY 22	0.79	13.14	0.19	4.87	1.26	4.05	1.26

Net Debt/EBITDA	Coles	Costco	Tesco	Walmart	Woolworths	Average	Median
FY19	6.8	-0.42	2.69	1.45	3.55	2.814	2.752
FY 20	5.12	-0.59	2.89	0.87	2.83	2.224	2.527
FY 21	4.91	-0.62	2.49	0.72	3.61	2.222	2.356
FY 22	4.83	-0.57	2.47	1.17	2.96	2.172	2.321

EBITDA Margin	Coles	Costco	Tesco	Walmart	Woolworths	Average	Median
FY 20	8.34%	4.75%	8.32%	6.20%	8.17%	7.16%	7.66%
FY 21	8.62%	4.78%	6.62%	6.81%	9.47%	7.26%	7.04%
FY 22	8.44%	4.44%	7.22%	6.83%	8.09%	7.00%	7.11%
FY 23	8.73%	4.38%	6.57%	5.81%	8.68%	6.83%	6.70%

Coles	EBITDA	Total sales	EBITDA Margin
FY19	1866	38464	4.85%
FY 20	3153	37784	8.34%
FY 21	3358	38955	8.62%
FY 22	3355	39746	8.44%
FY 23	3576	40958	8.73%

Costco	EBITDA	Total sales	
FY19	6.32	152.7	4.14%
FY 20	7.92	166.76	4.75%
FY 21	9.37	195.93	4.78%
FY 22	10.07	226.95	4.44%
FY 23	15.66	357.23	4.38%

Tesco	EBITDA	Total sales	
FY19	4578	63911	7.16%
FY 20	4831	58091	8.32%
FY 21	3835	57887	6.62%
FY 22	4427	61344	7.22%
FY 23	4320	65762	6.57%

Walmart	EBITDA	Total sales	
FY19	32.6	514.4	6.34%
FY 20	32.5	524	6.20%
FY 21	38.1	559.2	6.81%
FY 22	39.1	572.8	6.83%
FY 23	35.5	611.3	5.81%

APPENDIX

Risks and Mitigation References

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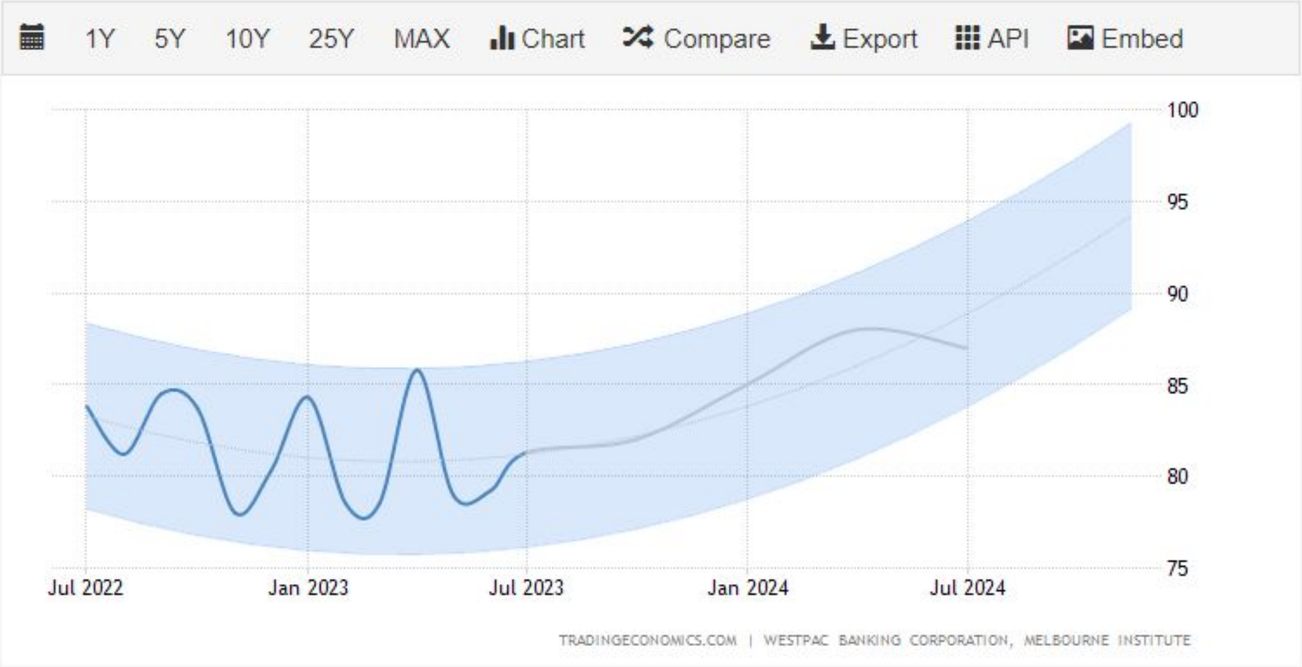
Risks and Mitigation: Australia Consumer Confidence Forecasts



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APPENDIX

Risks and Mitigation - Woolworth's current risk management model

Risk management oversight

Below is an overview of risk governance and management at Woolworths Group together with key responsibilities of the Board and Board Committees, the Group Executive Committee, the risk community, internal audit and business leaders. The Group applies a three lines of accountability model approach to managing risk and compliance obligations.

THREE LINES OF ACCOUNTABILITY

1ST LINE OF ACCOUNTABILITY	2ND LINE OF ACCOUNTABILITY	3RD LINE OF ACCOUNTABILITY
Business	Oversight functions	Independent assurance
Owns and manages risk	Oversees and sets frameworks and standards. Independently monitors and provides analysis and reporting on risks and controls	Provides independent assurance of frameworks and controls effectiveness
Group businesses Group platforms	Group Risk People team Group Safety, Health & Wellbeing Group Legal & Compliance Group Finance Group Sustainability	Internal audit External audit

Woolworths Group Annual report FY22

Explore the three lines of defense model

Regardless of how mature and integrated the three lines of defense model is within organizations, there are a number of challenges that limit its effectiveness:

Challenges that limit its effectiveness

- **Early-stage adoption** – In early stages of the 3LOD framework, management does not have a strong awareness or ownership of risk and controls. There may be a risk function in place, but often its role is to facilitate the maintenance of the risk register, without insight or challenge by IA. Depending on the industry and sector, regulatory compliance risks are absorbed into both risk and IA functions, with specialist teams existing in pockets or one-off "silos" not seen as assurance functions (for example, health and safety in construction firms or clinical governance in the health care industry) nor well integrated within a broader risk management program. In smaller firms, given the similar risk and control skill sets, the IA and risk functions are seen crossing the boundaries between the second and third lines, causing inefficiencies and duplication.

- **Established lines of defense** – As the 3LOD framework becomes established, the focus on stakeholder management, developing internal capabilities, and delivering the assurance activities in the second-line functions often creates a silo mentality, leading to a lack of coordination, duplication of risk areas, gaps, and misaligned or conflicting assurance opinions. Where these positions become entrenched, the third line is typically perceived as combative, reactionary, and retrospective in its approach. This combination has led to an ineffective 3LOD model, where the board are receiving conflicting and disjointed points of view of its key risks. This challenge was highlighted in Deloitte's 2018 CAE Global survey, where respondents cited improvements in coordination within the 3LOD as an important business imperative.

https://www2.deloitte.com/us/en/pages/advisory/articles/modernizing-the-three-lines-of-defense-model.html

APPENDIX

Risks and Mitigation - Cybersecurity Risk Case Study

Australia News

Woolworths group's MyDeal website hit by data breach compromising personal details of 2.2 million customers

The latest data breach has exposed the email addresses, phone numbers, delivery addresses and birth dates of about 2.2 million MyDeal customers.

Mega grocery retailer Woolworths has experienced a fall in its share price today by almost four per cent. This number comes as Woolworths additionally reports a...

About 2.2 million customers of a website owned by Woolworths have had their personal details exposed in a data breach.

MyDeal, which is owned by the Woolworths Group, said it identified on Friday that a compromised user credential was used to gain unauthorised access to its Customer Relationship Management (CRM) system.

The details exposed in the data breach include email addresses, phone numbers, delivery addresses and birth dates.

Risks and Mitigation - Analysing the supermarket industry risks

APPENDIX

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NAVIGATION

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- Industry Performance
- Industry Outlook
- Products & Markets
- Competitive Landscape
- Major Companies
- Operating Conditions
- Key Statistics
- Call Preparation Questions

AUSTRALIA INDUSTRY (ANZSIC) REPORT G4111 / RETAIL TRADE

Supermarkets and Grocery Stores in Australia

Report by: Darcy Gannon | January 2023

About

Recent Developments

Last updated January 10, 2023

Russia-Ukraine conflict drives up menu prices

The Russia-Ukraine conflict is causing price increases among many staple foods, hitting Australian food service providers. As fuel prices and fertiliser costs soar, the hospitality sector is struggling to feasibly compete, and is often being forced to pass these price increases onto consumers. Both the COVID-19 pandemic and eastern state floods have also contributed to supply-side pressures, as the Russia-Ukraine conflict stifles the supply of key inputs for food service providers. In addition, as COVID-19 restrictions continue to ease, demand for key Russian and Ukrainian food exports will continue to rise. Rising menu prices are expected to reflect this demand until alternative supply solutions are found, or the Russia-Ukraine conflict deescalates significantly.

Australia's flood crisis disrupts supply for fresh food retailers

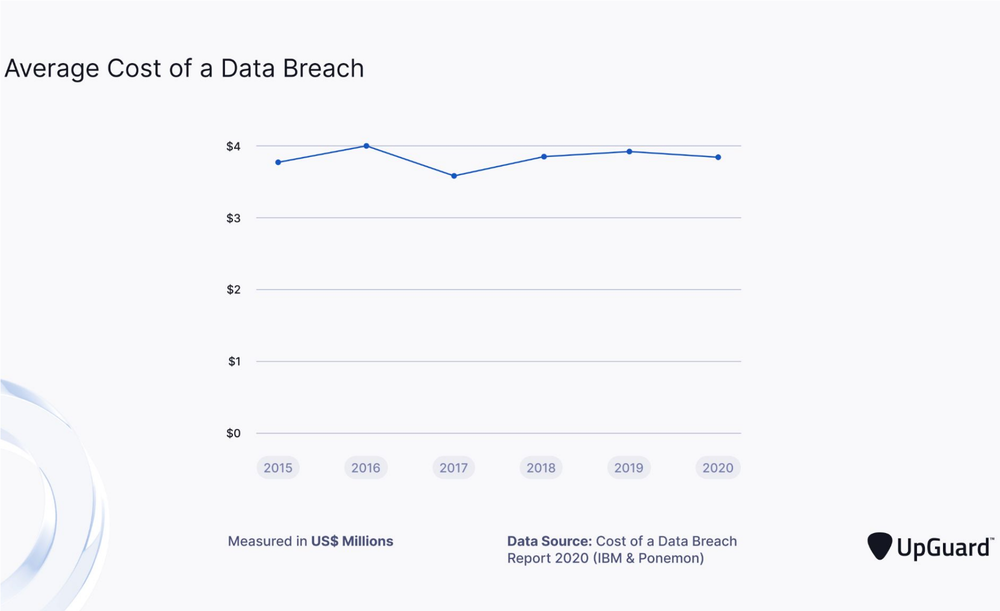
The Australian eastern state floods have disrupted the supply of many staple fruit and vegetables, hindering downstream retailers. As fuel prices and fertiliser costs soar, food retailers struggled to keep prices down even before the flood crisis. Therefore, key fruit and vegetable prices will likely remain elevated until supply chains have recovered and flood damage is mitigated.

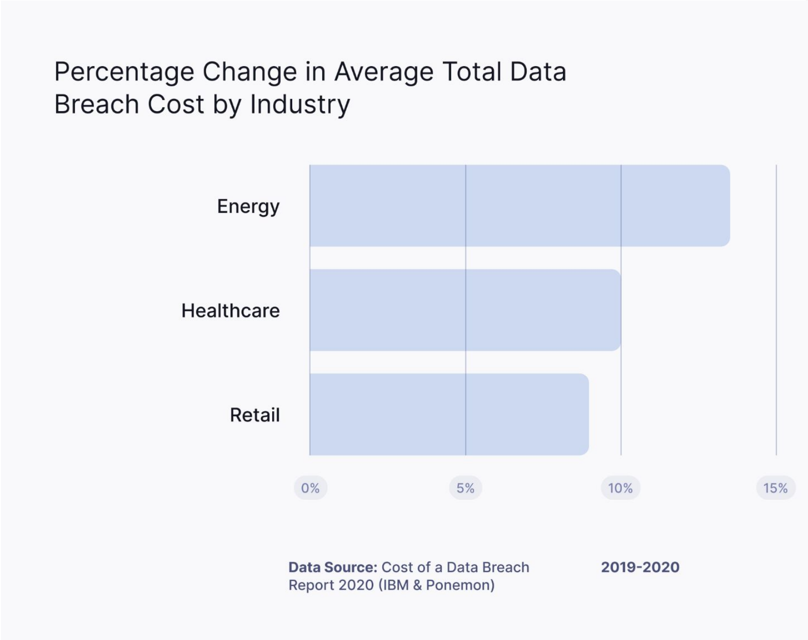
Rising food and beverage prices are squeezing profit margins

According to the ABS, food and non-alcoholic beverages' price inflation reached 5.9% over the year through June 2022. This rise stems from strong price increases across several product segments, including fruit and vegetables and non-alcoholic beverages. Prolonged labour shortages, soaring fuel costs, disrupted logistics due to the COVID-19 pandemic and the Russia-Ukraine conflict, and extreme flooding on Australia's east coast can underpin price rises in ingredients and finished goods. Operators cannot easily pass these costs on to consumers due to competitive pressures, and industry profit margins are likely to shrink as a result.

APPENDIX

Risks and Mitigation - Costs of cybercrime





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Mitigation - Essential 8 framework for Cybersecurity

4. USER APPLICATION HARDENING
Configure web browsers to block Flash (ideally uninstall it), ads and Java on the internet. Disable unneeded features in Microsoft Office (e.g. OLE), web browsers and PDF viewers.

5. RESTRICT ADMINISTRATIVE PRIVILEGES
Restrict Administrative Privileges Restrict administrative privileges to operating systems and applications based on user duties. Regularly revalidate the need for privileges. Don't use privileged accounts for reading email and web browsing.

3. CONFIGURE MICROSOFT OFFICE MACRO SETTINGS
Block macros from the internet, and only allow vetted macros either in 'trusted locations' with limited write access or digitally signed with a trusted certificate.

6. PATCH OPERATING SYSTEMS
Patch/mitigate computers (including network devices) with 'extreme risk' vulnerabilities within 48 hours. Use the latest operating system version. Don't use unsupported versions.

2. APPLICATION PATCHING
Flash, web browsers, Microsoft Office, Java and PDF viewers. Patch/mitigate computers with 'extreme risk' vulnerabilities within 48 hours. Use the latest version of applications.

7. MULTI-FACTOR AUTHENTICATION
Implement multi-factor authentication (MFA) for VPNs, RDP, SSH and other remote access, and for all users when they perform a privileged action or access an important (sensitive/ high-availability) data repository.

1. APPLICATION CONTROL
To prevent execution of unapproved/malicious programs including .exe, DLL, scripts (e.g. Windows Script Hosts, Powershell and HTA) and installer.

8. DAILY BACKUPS
Maintain a daily backup of important new/changed data, software and configuration settings, stored disconnected, retained for at least three months. Test restoration initially, annually and when IT infrastructure changes.