

# Woolworths Group

WOW.AX | Consumer Staples | Food Retail

## KEY METRICS

Price	Mkt Cap	Fwd P/E	EV/EBITDA
A\$31.23	A\$41.2B	Pending	Pending
52wk Range	Div Yield	Revenue	NPAT
Pending	Pending	Pending	Pending

Coverage of WOW.AX is currently in Phase 1 (Baseline Ingest). As a provider in the Food Retail sector, we are prioritising narrative weight assessment and signal divergence tracking while detailed financial history is being audited.

## OVERALL SENTIMENT

Overall Sentiment	+25 UPSIDE
External Environment	+1
Company Research	+25

## KEY TAKEAWAYS

- The T1 narrative ('Managed Turnaround') currently dominates the valuation math with 50.0% probability. Evidence suggests: The evidence suggests Woolworths is in recovery mode. Margins are improving, digital sales are growing, and management is executing well on its transformation strategy.
- Risk profiling for WOW.AX prioritises If competition from ALDI and Costco intensifies faster than expected, margin recovery could stall.. We are monitoring Q3 FY26 margins and online penetration rate. If Australian Food EBIT margin holds above 5.5% and e-commerce grows >20% YoY, this narrative strengthens. as the primary diagnostic milestone for narrative survival (ACH-2).
- Market-wide regime is neutral (score: +1). External signals are enhancing the Consumer Staples sector's baseline trajectory.

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21 February 2026 | Sydney

## COMPANY OVERVIEW

Woolworths is Australia's largest supermarket chain, with around 37% market share. The company is currently in a recovery phase after a period of competitive pressure, with improving margins and a growing digital business.

## NARRATIVE ASSESSMENT

Woolworths is Australia's largest supermarket chain, with around 37% market share. The company is currently in a recovery phase after a period of competitive pressure, with improving margins and a growing digital business.

The narrative structure for WOW.AX follows the CONSUMER STAPLES GROCERY framework. Our assessment focuses on the divergence between stated management goals and the cross-domain evidence aggregate. Current survival scores reflect this probabilistic weighting.

## MARKET CONTEXT

Macro Environment: NEUTRAL (external signal: +1)

Indicator	Value	Change
ASX 200	9,101.3	+3.2% 1mo
AUD/USD	0.7066	-0.8% 5d
RBA Cash Rate	4.10%	cutting gradually
VIX	19.6	

The regime is currently in a neutral transition phase. Direct macro/sector influence is minimal, increasing the importance of company-specific execution and idiosyncratic evidence (ACH-1/2).

## SECTOR CONTEXT

Model: CONSUMER STAPLES GROCERY | Sector signal: +0 (company dominant)

## COMPETING HYPOTHESES

Dominant Narrative: T1: Managed Turnaround (survival probability: 50%)

### T1: Managed Turnaround [DOMINANT] 50%

The evidence suggests Woolworths is in recovery mode. Margins are improving, digital sales are growing, and management is executing well on its transformation strategy.

Watch: Q3 FY26 margins and online penetration rate. If Australian Food EBIT margin holds above 5.5% and e-commerce grows >20% YoY, this narrative strengthens.

Supporting evidence:

- Earnings Report: H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance
- Operational Data: Online sales +22% YoY; Everyday Market GMV doubling
- Management Guidance: Management guided FY26 Australian Food EBIT margin to 5.8-6.0%, up from 5.5% in FY25

### T2: Structural Margin Erosion 35%

Woolworths continues as a reliable, steady performer. Revenue grows roughly in line with the economy, margins stay stable, and the dividend keeps flowing. No fireworks, but no disasters either.

Watch: Revenue growth vs CPI inflation. If top-line growth consistently falls below inflation, the base case weakens.

Supporting evidence:

- Earnings Report: H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance
- Industry Data: ALDI national grocery share steady at 10.2%; growth rate moderating from prior years

### T3: Regulatory Squeeze 30%

The worry here is that competition from ALDI, Costco, and Amazon is eating into Woolworths' market share and squeezing its profit margins. If costs keep rising faster than prices, profits shrink.

Watch: ALDI market share data and quarterly cost inflation trends. If ALDI share exceeds 12% nationally, this narrative gains weight.

Contradicting evidence:

- Earnings Report: H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance

### T4: Competitive Disruption 25%

This is the worst-case scenario: a new competitor like Amazon Fresh launches in Australia and fundamentally changes how people buy groceries, making Woolworths' store network a liability rather than an asset.

Watch: Amazon Fresh AU launch timeline and any announcements of new international grocery entrants to the Australian market.

Contradicting evidence:

- Earnings Report: H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance

## DIAGNOSTIC EVIDENCE

The following evidence items have the highest discriminating power between hypotheses:

Evidence Item	T1	T2	T3	T4	Diagnosticity
H1 FY26 NPAT beat consensus by 6%; raised FY26 margin...	C	C	I	I	HIGH
Management guided FY26 Australian Food EBIT margin to 5.8-6.0%, up...	C	C	I	N	HIGH
Online sales +22% YoY; Everyday Market GMV doubling	C	N	N	I	MEDIUM
ALDI national grocery share steady at 10.2%; growth rate moderating...	N	C	I	I	MEDIUM

C = Consistent, I = Inconsistent, N = Neutral. Diagnosticity = ability to discriminate between hypotheses. HIGH/CRITICAL items are most informative.

## KEY DISCRIMINATORS

The following high-diagnosticity evidence items are most informative for discriminating between hypotheses:

- H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance (Supports: T1, T2; Contradicts: T3, T4)
- Management guided FY26 Australian Food EBIT margin to 5.8-6.0%, up from 5.5% in FY25 (Supports: T1, T2; Contradicts: T3)

## TRIPWIRES

Condition	Trigger	Action
Q3 FY26 margins and online penetration rate. If Australian Food EBIT margin...	Per hypothesis thresholds	Reassess T1 narrative
Revenue growth vs CPI inflation. If top-line growth consistently falls below inflation,...	Per hypothesis thresholds	Reassess T2 narrative
ALDI market share data and quarterly cost inflation trends. If ALDI share...	Per hypothesis thresholds	Reassess T3 narrative

## TECHNICAL PICTURE

Technical analysis pending - signals will be incorporated when the TA agent is deployed.

## ANALYTICAL GAPS

The following information would materially improve the confidence of this analysis:

### RESEARCH AGENDA: 90-Day Analytical Objectives

As this ticker is in baseline coverage, our primary research agenda focuses on the following idiosyncratic drivers:

- Management guidance on Consumer Staples demand trajectory - required to validate narrative survival for dominant hypothesis (ACH-1).
- Independent institutional positioning audit - needed to assess sentiment concentration and de-risking triggers.
- Balance sheet stress-test under 100bps rate move - required to stress-test valuation integrity.
- Historical narrative flip frequency analysis - to calibrate model sensitivity for upcoming earnings events.

## UPCOMING CATALYSTS

Catalyst calendar pending. Key items to monitor:

- Last narrative event: 2026-01-15 - H1 FY26 earnings beat +6% vs consensus; margin guidance upgrade
- Next results date: Pending (monitor ASX announcements)
- Monitor hypothesis tripwires for narrative-change signals.

## IMPORTANT INFORMATION

This document is prepared by DH Capital Partners Pty Ltd for informational purposes only. It does not constitute financial advice, a recommendation, or an offer to buy or sell any securities.

## METHODOLOGY

This analysis uses the Analysis of Competing Hypotheses (ACH) framework, originally developed by Richards Heuer at the CIA for intelligence analysis and adapted here for equity research. ACH evaluates multiple competing explanations against diagnostic evidence, ranking hypotheses by the fewest inconsistencies rather than the most confirmations. This approach is designed to reduce confirmation bias and anchoring effects common in traditional equity research.

Sentiment scores are generated by a three-layer decomposition model separating macro environment, sector/commodity factors, and company-specific research. The 40/60 rule ensures company-specific research always contributes at least 60% of the overall sentiment, maintaining focus on idiosyncratic stock drivers.

## NARRATIVE INTELLIGENCE PHILOSOPHY

Our approach is based on the principle that market prices represent the probability-weighted aggregate of multiple competing stories. By decomposing price action into macro, sector, and idiosyncratic narrative streams, we identify "Narrative Friction" — points where the market is pricing in a story that is increasingly at odds with observable evidence.

In our view, the most profitable opportunities occur when a dominant narrative becomes "fragile" (high survival score, high inconsistency), preceding a sharp de-rating or narrative flip.

## LIMITATIONS

- Hypothesis scores are model outputs, not price targets or investment recommendations.
- Evidence assessment involves subjective judgement and may contain errors.
- Past price performance is not indicative of future returns.
- This analysis does not account for individual investor circumstances, risk tolerance, or tax position.
- Data sources include ASX announcements, broker research, company filings, and market data. Errors in source data will propagate.

## CONFLICTS

DH Capital Partners and/or its principals may hold positions in securities discussed in this document. Positions may change without notice.

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