Woolworths Group

WOW.AX | Consumer Staples | Food Retail

KEY METRICS

Price	Mkt Cap	Fwd P/E	EV/EBITDA
A$31.70	A$41.2B	Pending	Pending
52wk Range	**Div Yield**	**Revenue**	**NPAT**
Pending	Pending	Pending	Pending

OVERALL SENTIMENT

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

KEY TAKEAWAYS

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

- If competition from ALDI and Costco intensifies faster than expected, margin recovery could stall.

- External environment is neutral (score: +1). Macro contribution is incorporated in the three-layer sentiment model.

Marc Duncan | DH Capital Partners

marc@dhcapital.com.au

20 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.

MARKET CONTEXT

Macro Environment: NEUTRAL (contribution: +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	

SECTOR CONTEXT

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

COMPETING HYPOTHESES

Dominant Narrative: T1: Growth/Recovery (72%)

T1: Growth/Recovery   **72%**

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: Managed/Base Case   **65%**

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: Risk/Downside   **31%**

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: Disruption   **18%**

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 items are most informative.

KEY DISCRIMINATORS

- H1 FY26 NPAT beat consensus by 6%; raised FY26 margin guidance [ASX Filing]
- Management guided FY26 Australian Food EBIT margin to 5.8-6.0%, up from 5.5% in FY25 [Earnings Call Transcript]

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:

- Management guidance on forward P/E and revenue trajectory — required to validate Growth/Recovery hypothesis.
- Independent market share data — needed to assess competitive dynamics and test downside scenarios.
- Balance sheet composition and net debt position — required to stress-test valuation under rate scenarios.
- Analyst consensus estimates and revision trends — to calibrate sentiment score against market positioning.
- Customer cohort data or NPS trends — to validate operational execution claims in company guidance.

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.

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.

CONTACT

Marc Duncan

DH Capital Partners

marc@dhcapital.com.au

Sydney, Australia