News Release

Wesfarmers

20 February 2019

2019 Half-year Results and Special Dividend

- Wesfarmers has reported a net profit after tax of $4,538 million for the half-year ended 31 December 2018.
- This record profit includes post-tax significant items of $3,059 million relating to discontinued operations, including gains on the demerger of Coles and disposals of Bengalla, Kmart Tyre and Auto Service, and Quadrant Energy which were completed during the half-year.
- Net profit after tax from continuing operations increased 10.4 per cent to $1,080 million.
- Wesfarmers retained a very strong balance sheet. Net financial debt at the end of the period was $324 million, a decrease of $3,256 million below the balance at 30 June 2018.
- Directors have declared a fully-franked ordinary interim dividend of $1.00 per share.
- In addition, following successful completion of actions taken to reposition the Group's portfolio, directors have also declared a fully-franked special dividend of $1.00 per share, which will distribute $1,134 million to shareholders.

Wesfarmers Limited has reported a net profit after tax (NPAT) of $4,538 million for the half-year ended 31 December 2018. The reported profit includes post-tax significant items of $3,059 million relating to discontinued operations, including gains on the demerger of Coles and disposal of Bengalla, Kmart Tyre and Auto Service (KTAS), and Quadrant Energy which were completed during the half-year. NPAT from continuing operations increased 10.4 per cent to $1,080 million.

Managing Director Rob Scott said the period was one of significant change for the Group, with a number of actions taken to reposition the portfolio, including the successful demerger of Coles in November 2018.

"Earnings before interest and tax excluding significant items derived from the Group's continuing operations increased by 9.5 per cent compared to the prior corresponding period, underpinned by continued growth in Bunnings, Officeworks and the Chemicals, Energy and Fertilisers (WesCEF) business.

"Pleasing progress has been made on the Group's digital strategy, with the Advanced Analytics Centre in operation and formalisation of the flybuys joint venture during the period. The Group's retail businesses delivered further improvements in their respective e-commerce capabilities with strong growth in online sales of 34 per cent for the half.

"Strict capital disciplines were maintained and the Group retained a very strong balance sheet. Net financial debt at the end of the period was $324 million, a decrease of $3,256 million below the balance at 30 June 2018, reflecting the receipt of proceeds from portfolio management activity and ongoing strong cash generation in the Group's operating businesses.

"In line with the Group's dividend policy, the directors have declared a fully-franked ordinary interim dividend of $1.00 per share. In addition, following the successful completion of a number of actions taken to reposition the Group's portfolio, the directors have also declared a fully-franked special dividend of $1.00 per share, which will distribute $1,134 million to shareholders," Mr Scott said. "This capital management activity distributes to shareholders the profits realised on asset disposals and takes into account Wesfarmers' available franking credits, strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise."

Group results summary

Half-year ended 31 December ($m)	2018	2017	Variance %
Key financials			
Results from continuing operations[a]			
Revenue	14,388	13,814	*4.2*
EBITDA	1,911	1,454	*31.4*
EBITDA (excluding significant items)[b]	1,911	1,760	*8.6*
EBIT	1,645	1,196	*37.5*
EBIT (excluding significant items)[b]	1,645	1,502	*9.5*
NPAT	1,080	678	*59.3*
NPAT (excluding significant items)[b]	1,080	978	*10.4*
Results including discontinued operations[a]			
Revenue	31,152	35,903	*(13.2)*
EBITDA	6,020	1,763	*n.m.*
EBITDA (excluding significant items)[b,c]	2,770	3,000	*(7.7)*
EBIT	5,482	1,113	*n.m.*
EBIT (excluding significant items)[b,c]	2,232	2,350	*(5.0)*
NPAT	4,538	212	*n.m.*
NPAT (excluding significant items)[b,c]	1,479	1,535	*(3.6)*
Return on equity (excluding significant items)[b,c] (R12, %)	13.5	12.0	*1.5 ppt*
Cash flow			
Operating cash flow	1,987	2,897	*(31.4)*
Net capital expenditure	678	686	*(1.2)*
Free cash flow	2,393	2,228	*7.4*
Cash realisation ratio (excluding significant items)[d] (%)	98.5	132.6	*(34.1 ppt)*
Share data (cents per share)			
Basic earnings per share	401.2	18.7	*n.m.*
Basic earnings per share (excluding significant items)[b,c]	130.8	135.6	*(3.5)*
Basic earnings per share (from continuing operations and excluding significant items)[b]	95.5	86.4	*10.5*
Operating cash flow per share (wanos, incl. res shares)[e]	175.4	255.7	*(31.4)*
Interim ordinary dividend	100	103	*2.9*
Special dividend	100	-	*n.m*
Balance sheet and gearing			
Net financial debt[f]	324	3,864	*(91.6)*
Interest cover[b,c] (cash basis) (R12, times)	49.2	28.8	*20.4x*
Fixed charges cover[b,c] (R12, times)	4.2	3.0	*1.2x*

n.m. = not meaningful

[a] 2018 discontinued operations include Coles, KTAS, Quadrant Energy and Bengalla.
2017 discontinued operations include Curragh and BUKI.

[b] 2018 excludes pre-tax (post-tax) significant items comprising $2,312 million ($2,252 million) gain on demerger of Coles, $679 million ($583 million) gain on sale of Bengalla, $267 million ($219 million) gain on sale of KTAS, $138 million ($107 million) gain on sale of Quadrant Energy, partially offset by a $146 million ($102 million) provision for supply chain automation in Coles. 2017 excludes Target's non-cash impairment of $306 million ($300 million).

[c] 2017 excludes pre-tax (post-tax) significant items of $931 million ($1,023 million) relating to BUKI.

[d] Operating cash flows as a percentage of net profit after tax, before depreciation and amortisation and significant items.

[e] Calculated by dividing operating cash flows by the weighted average number of ordinary shares (including reserved shares) on issue during the year.

[f] Interest bearing liabilities less cash at bank and on deposit, net of cross currency interest rate swaps and interest rate swap contracts.

Divisional earnings summary

Half-year ended 31 December ($m)	2018	2017	Variance %
EBIT			
Bunnings	932	864	*7.9*
Kmart Group – *continuing operations*[a]	383	398	*(3.8)*
Officeworks	76	68	*11.8*
Industrials – *continuing operations*	227	233	*(2.6)*
Divisional EBIT	**1,618**	**1,563**	***3.5***
Discontinued operations[b]	587	848	*(30.8)*
Other	27	(61)	*n.m.*
Significant items[c]	3,250	(1,237)	*n.m.*
Reported EBIT	**5,482**	**1,113**	***n.m.***

n.m. = not meaningful

[a] 2017 excludes a pre-tax non-cash impairment of $306 million relating to Target.

[b] 2018 discontinued operations include Coles, KTAS, Quadrant Energy and Bengalla.
2017 discontinued operations include Curragh and BUKI.

[c] 2018 includes pre-tax significant items comprising $2,312 million gain on demerger of Coles, $679 million gain on sale of Bengalla, $267 million gain on sale of KTAS, $138 million gain on sale of Quadrant Energy, partially offset by a $146 million provision for supply chain automation in Coles.
2017 includes pre-tax significant items of $931 million relating to BUKI and a $306 million pre-tax non-cash impairment of Target.

Performance overview – divisional

Bunnings Australia and New Zealand (BANZ)

Revenue for BANZ increased 5.2 per cent to $6,909 million for the half, with earnings increasing 7.9 per cent to $932 million.

"Earnings growth was achieved despite a moderation of trading conditions and high levels of growth in the prior corresponding period and was assisted by an ongoing focus on cost control and continued favourable commercial property market conditions resulting in further positive outcomes on property divestments," Mr Scott said.

"During the period, improvements were made to the in-store and online customer experience, and the focus on long-term value creation was maintained through continued investment in price and data analytics, ongoing category expansion and refresh and further growth in the store network."

Kmart Group

During the half, the Department Stores division was renamed to the Kmart Group, reflecting the transition of both Kmart and Target away from the traditional department store model.

Kmart Group revenue increased 0.8 per cent to $4,639 million for the half. Earnings for the division (excluding KTAS) of $383 million were 3.8 per cent lower than the prior corresponding period. Including earnings from KTAS for the period of ownership until 1 November 2018, divisional earnings were $393 million for the half.

"Kmart's earnings declined compared to the prior corresponding period primarily due to weaker sales in apparel, lower growth in non-seasonal products and increased store and supply chain expenses," Mr Scott said. "Despite these challenges customer feedback remained strong and was reflected in increased units sold during the half."

"Target delivered earnings growth through improved trading margins reflecting increased levels of direct sourcing, an improved sales mix and the benefit of annualised cost savings received during the half."

Officeworks

Officeworks' revenue increased 8.2 per cent to $1,100 million, with earnings increasing 11.8 per cent to $76 million.

"Customers continued to respond favourably to Officeworks' 'every channel' strategy, with strong sales growth achieved across stores and online," Mr Scott said. "Higher earnings growth was achieved through a combination of strong sales growth, an improvement in sales density, and effective management of gross margin and the cost of doing business."

"The uplift in earnings coupled with disciplined capital management delivered an increase in return on capital of 1.5 percentage points to 17.2 per cent."

Industrials

Earnings for the Industrials division from continuing operations were $227 million, marginally below the prior corresponding period, largely reflecting lower earnings in Industrial and Safety.

"WesCEF revenue of $874 million was 14.4 per cent above the prior corresponding period, with all businesses contributing to revenue growth," Mr Scott said. "Earnings (excluding Quadrant Energy) of $185 million were 2.2 per cent higher than the prior corresponding period, impacted by higher ammonia costs and customer discounts to secure longer term volume commitments in the ammonium nitrate (AN) business.

"Despite a modest increase in revenue for the half, Industrial and Safety earnings of $42 million were $10 million or 19.2 per cent below the prior corresponding period, reflecting Blackwoods' ongoing investment in customer service, data and digital and supply change transformation activities."

Discontinued operations and significant items

During the half-year Wesfarmers divested its interests in Bengalla, KTAS, Quadrant Energy and completed the demerger of Coles. Earnings from these discontinued operations under the period of ownership were $587 million.

Pre-tax significant items of $3,250 million recorded during the half relate to gains on asset disposals and the gain on the demerger of Coles, and were partially offset by a non-cash provision for supply chain automation in Coles recognised during the five month period of Wesfarmers' ownership during the half.

Other businesses

Other businesses and corporate overheads, excluding significant items, reported a profit of $27 million compared to an expense of $61 million in the prior corresponding period.

Earnings from this segment included Wesfarmers' 15 per cent share of Coles' net profit after tax and investment in flybuys following the demerger of Coles, as well as a $42 million gain on the Group's investment in Barminco following its purchase by Ausdrill and receipt of $16 million from the value sharing arrangement entered into as part of the sale of the Curragh coal mine.

Cash flows, financing and dividends

The Group generated operating cash flows of $1,987 million during the half, a decrease of 31.4 per cent on the prior corresponding period primarily due to the demerger of Coles and disposals of Bengalla, KTAS and Quadrant Energy. While divisional cash generation remained strong, the Group's cash realisation declined during the period, reflecting a number of one-off items, including the timing of the demerger of Coles, the timing of property disposals, a reduction in income tax payable of $91 million and the non-cash gain on the Group's investment in Barminco.

Gross capital expenditure of $955 million (including discontinued operations) was $49 million lower than the prior corresponding period. The decrease was primarily due to the acquisition by Kmart Group of the rights to the Kmart brand name in Australia and New Zealand in the prior corresponding period, as well as the timing of new stores in Bunnings, partially offset by increased capital expenditure in Coles during the period under Wesfarmers ownership.

Free cash flows of $2,393 million (including discontinued operations) were $165 million above the prior corresponding period. This increase was primarily due to the proceeds from disposals of Bengalla, KTAS and Quadrant Energy, largely offset by lower operating cash flows from the removal of divested businesses, the demerger of Coles as well as the transfer of Coles' cash on hand and in transit.

In line with the Group's dividend policy, which considers available franking credits, earnings, cash flows and credit metrics, the directors have declared a fully-franked ordinary interim dividend of $1.00 per share. As set out in the Coles demerger documentation, the interim dividend reflects Coles earnings up to the effective date of the demerger (28 November 2018) and will be the last Wesfarmers dividend paid with respect to wholly-owned Coles earnings. Future dividends will reflect earnings from continuing operations and Wesfarmers' 15 per cent interest in Coles.

Capital management

Following the completion of a number of actions taken to reposition the Group's portfolio, the directors have also declared a fully-franked special dividend of $1.00 per share, which will distribute $1,134 million to shareholders. This capital management activity distributes to shareholders the profits realised on asset disposals and takes into account Wesfarmers' available franking credits, strong balance sheet, robust credit metrics and cash flow generation while preserving balance sheet capacity to take advantage of value-accretive growth opportunities, if and when they arise.

Outlook

The Group remains well-positioned for growth over the long term. Actions taken to reposition the portfolio have significantly strengthened the balance sheet and placed the Group in a strong position to deliver improved shareholder returns.

Cost of living pressures and a decline in residential housing conditions have contributed to a moderation in retail spending growth and consumers remain cautious and value conscious. Despite this, the Group's retail divisions will continue to invest in their offer to customers to deliver even greater value, quality and convenience. This includes further developing the digital offer to meet the changing needs of customers and to create a platform for expanding addressable markets, while improving operating efficiencies. Bunnings, Kmart, Target and Officeworks will remain steadfast in their focus on customers and on managing the businesses for long-term success and value creation.

The performance of the Group's industrial businesses will continue to be subject to international commodity prices, exchange rates, competitive factors and seasonal outcomes. The short-term outlook for the WesCEF business is generally positive, however earnings over the medium term are expected to be adversely affected by an oversupply of explosive grade ammonium nitrate (EGAN) in the Western Australian market.

Following the capital management initiative announced today, the Group's balance sheet is expected to remain strong and Wesfarmers remains well positioned to take advantage of value-accretive growth opportunities, if and when they arise, to create value for shareholders over the long term.

For more information:

More detailed information regarding Wesfarmers' 2019 half-year results can be found in Wesfarmers' 2019 Half-year Report.

Media
Cathy Bolt
Media and External Affairs Manager
+61 8 9327 4423 or +61 417 813 804
CBolt@wesfarmers.com.au

Investors
Erik du Plessis
Manager, Investor Relations
+61 8 9327 4603 or +61 439 211 630
EduPlessis@wesfarmers.com.au