

20 October 2023

Woolworths Group – Response to Questions on Notice

House Standing Committee on Economics – Inquiry into promoting economic dynamism, competition and business formation

Dear Committee Secretariat,

Thank you for providing Woolworths Group with Questions on Notice from the House Standing Committee on Economics.

Please see our responses to the questions our witnesses took on notice during the hearing below.

If Committee members would like any further clarification on any of the matters below, please direct them to contact governmentrelations@woolworths.com.au.

Warm regards,

Government Relations and Industry Affairs

Woolworths Group

Questions on Notice from House Standing Committee on Economics Hearing Inquiry

QUESTION 1: What have the Woolworths Group's EBIT and EBITDA been over the last five years, which would capture the pre and post COVID and the inflation surge? I'm going to be putting a question on notice to all of the witnesses in this space for those key metrics for the last 5-10 years.

ANSWER

The tables below outline reported EBITDA, EBIT and EBIT margin for Woolworths Group and its Australian Food segment over the past 10 financial years (FY).

They show Woolworths Group margins are lower than they were 10 years ago. This contrasts with ABS estimates of financial performance across the broader economy. The ABS' most recent [Australian Industry](#) data (released May 2023) estimated operating margins before tax across all ABS-tracked industries increased by 31% from FY13-FY22.

We invested over \$1 billion in lower food and grocery prices in FY16 to help retain customers in an increasingly competitive market. This reset Australian Food margins to lower levels and they remained stable through FY16-FY19.

In 2019, the Australian Accounting Standard Board (AASB) issued a revised accounting standard AASB 16 - Leases. This changed the accounting treatment of an entity's operating lease activities to split lease costs between lease depreciation and interest. For Woolworths Group, the AASB 16 changes resulted in a rebasing of EBIT margins to a structurally higher level (e.g. 1% for Woolworths Group / 0.8% for Australian Food in FY19). This means the EBIT margins listed below are not like-for-like comparisons pre- and post-2019. We have split this out to show the impact.

Our financial results through FY20-FY22 were affected by COVID-19. This included surges in demand, store closures and high costs to maintain customer and team safety and continuity of food supply. There was a one-off benefit in FY23 as \$300m in direct COVID costs from the prior year did not recur – driving a significant proportion of earnings growth in the year.

Woolworths Group* – \$ MILLION AUD (BEFORE SIGNIFICANT ITEMS)

Financial Year	2014	2015	2016	2017	2018	2019 [^] Pre AASB	2019 ^{^^} Post AASB	2020	2021	2022	2023
	Pre-AASB 16					Post-AASB 16					
EBITDA	4,772	4,948	3,431	3,364	3,651	3,944	5,534	4,453	4,843	5,051	5,694
EBIT	3,775	3,973	2,446	2,326	2,548	2,722	3,232	2,485	2,764	2,690	3,116
EBIT Margin	6.2%	6.8%	4.6%	4.2%	4.5%	4.5%	5.5%	4.7%	5.0%	4.4%	4.8%

Australian Food – \$ MILLION AUD (BEFORE SIGNIFICANT ITEMS)

Financial Year	2014	2015	2016	2017	2018	2019 [^] Pre AASB	2019 ^{^^} Post AASB	2020	2021	2022	2023
	Pre-AASB 16					Post-AASB 16					
EBITDA	3,948	3,508	2,166	2,221	2,430	2,583	3,427	3,707	3,954	4,044	4,651
EBIT	3,368 ^{**}	2,970 ^{***}	1,642	1,603	1,757	1,827	2,099	2,232	2,413	2,406	2,865
EBIT Margin	7.0% ^{**}	7.3% ^{***}	4.7%	4.5%	4.7%	4.6%	5.4%	5.3%	5.5%	5.3%	6.0%

[^] The introduction of the Australian Accounting Standard Board (AASB) 16 (replacing AASB 117) changed the accounting treatment of an entity's operating lease activities. AASB 16 is effective from annual reporting periods beginning from 1 January 2019.

^{^^} Normalised comparative numbers reported in FY20 assuming AASB 16 had been in place in FY19 and adjusting for the impact of the 53rd week

* Results reported are from 'Continuing Operations', except 2014, 2022 and 2023 where there were no 'Discontinued Operations'.

** Figures include Woolworths Petrol and Liquor

*** Figures include Woolworths Petrol

QUESTION 2: What proportion of total sales—and what's the trend in this, say, over the last 5-10 years—is Click and Collect, and what proportion is, say, online order and then delivered to the home? I imagine that both are increasing?

ANSWER

We have invested hundreds of millions to support substantial growth in customer demand for online shopping over the past five years. Online sales have increased 252% from financial year 2019 (FY19) to financial year 2023 (FY23). This represents a Compound Annual Growth Rate (CAGR) of 29%.

In our FY19 profit result, we reported Australian Food eCommerce sales of \$1,444m. This made up about 3.65% of all Australian Food sales in F19. Delivery made up about 70% of these sales, while Pick Up (or Click and Collect) accounted for the remaining 30%.

In our FY23 accounts, we reported Australian Food eCommerce sales of \$5,079m. This made up about 10.6% of all Australian Food sales in F23. Delivery made up 62% of these sales, while 'Pick Up' (or 'Click and Collect') accounted for the remaining 38%.

FY19 was the first time we reported Australian Food's eCommerce sales to the Australian Stock Exchange (ASX). As such, we do not have detailed public financial records on our eCommerce sales as far back as FY14. As a guide, eCommerce sales represented about 1.5% of Australian Food sales in FY14. The vast majority of sales were for home delivery orders.

We fulfil more than 85% of eCom orders from stores. This includes a mix of free Pick Up/Direct to Boot and home delivery orders picked out of stores.

QUESTION 3: Given that complexity, how would award agreement simplification or streamlining improve the productivity and employment outcomes for everybody within the Woolworths Group and also improve the productivity and efficiency of the business?

ANSWER

We have more than 156,000 Australian team members employed across 28 separate Enterprise Agreements, using 13 different awards as the baseline. The key underpinning industrial instrument for the majority of our team (145,000) is the General Retail Industry Award (GRIA).

We have a long-standing position that the GRIA should be modernised so that we can continue to offer a vibrant and aspirational career path in retail. At a practical level, many of the rostering principles no longer reflect how stores operate, customers shop or team members want to work. For example, our team members tell us that they want to split their shifts across the day to work around their family commitments. However, the GRIA does not give our team the ability to opt-in to work more than one shift in a day. This is just one example of how modernising the GRIA could have significant benefits for our team members – enabling us to offer more hours at times that suit our team. As well as modernising the award, making it clearer, simpler and more comprehensible for employers would deliver efficiency and enhance productivity in retail.

The Fair Work Commission has recently announced a review of the seven most commonly used modern awards, including the GRIA. The objective is to make these awards easier to use while not reducing entitlements for employees. We welcome this important review and hope to see it deliver much-needed reform for the benefit of customers, team members and our business.

QUESTION 4: How are you seeing prices move across the store?

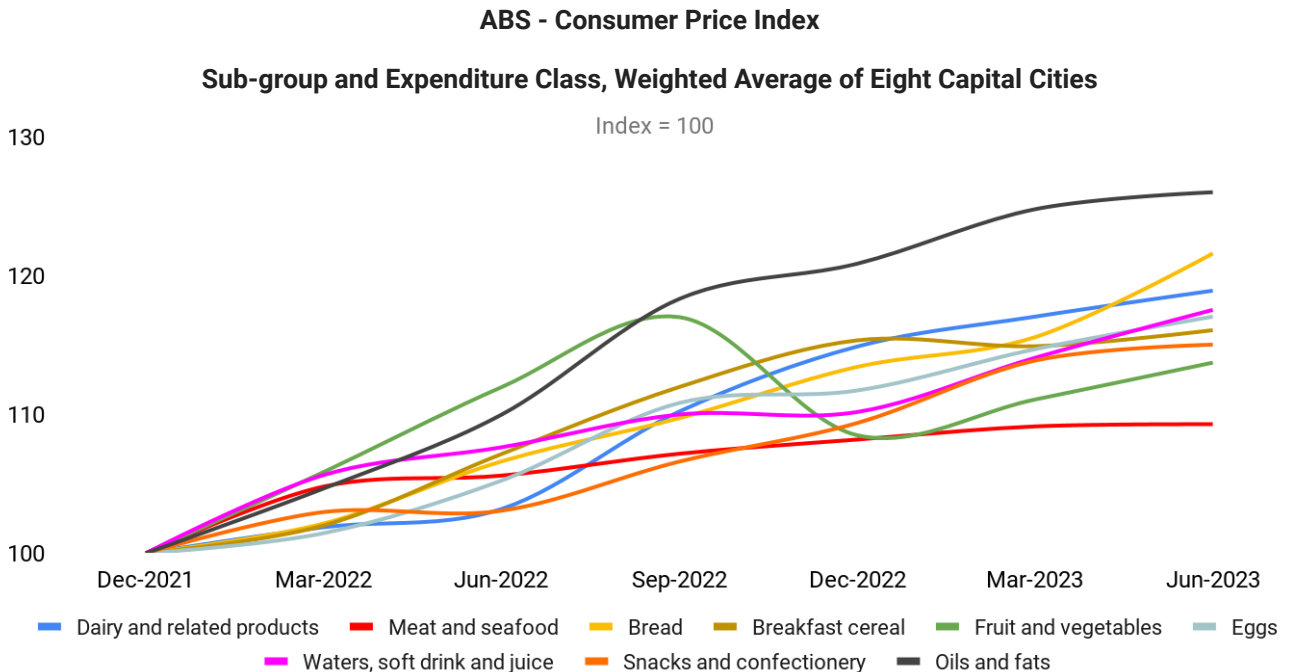
ANSWER

We have seen different dynamics in our fresh food (fruit and veg, meat, dairy and bakery) and long life (grocery, frozen food, pet, personal care, cleaning, household, health and beauty) categories over the past two years.

Fresh food inflation came on sharply in the middle of 2022 as flooding and poor growing conditions affected fruit and vegetable supply. As supply has recovered in 2023, we have seen fruit and vegetable pricing fall and overall fresh food inflation moderate.

Long life inflation started ticking up earlier – at a slower rate – in 2022 and it has been more persistent. Suppliers have been passing on higher costs in the form of higher wholesale prices. This has been reflected in retail pricing.

The Australian Bureau of Statistics (ABS) also publishes detailed category movements across the food and grocery sector each quarter. We are a contributor to the dataset, along with other major grocery outlets. We have set out a graph with the movements in selected categories since the onset of this inflationary wave in December 2021 below.



The chart shows the biggest movement in products affected by the war in Ukraine. Oils and fats and bread have significantly increased as the global supply of vegetable oil and wheat has tightened. The other big mover is dairy as the farmgate milk prices paid to dairy farmers have increased materially over recent years.

It also shows sizable increases in breakfast cereals, snacks and confectionery, and soft drinks. Suppliers in these categories often have large domestic manufacturing operations and are exposed to rising commodity costs, including sugar and wheat, and other input costs, including energy, labour and transport.

QUESTION 5: Are there situations where price rises coming through from suppliers during this period of higher inflation seem to be leading to margin expansion as well as cost recovery?

ANSWER

It is difficult for us to assess this as most suppliers do not report financial results on the ASX. Our large multinational suppliers typically report financial results at a global or regional level. Smaller suppliers tend to be privately owned.

We can and do ask for information to help assess cost increases, but suppliers are not obliged to provide cost information to us under the Food and Grocery Code of Conduct. This means our information on suppliers' costs tends to be more general than specific in nature.

The most common rationale for cost increases from suppliers is the rising cost of commodities, including sugar, cocoa, oil, milk and wheat. Other inputs, such as energy, freight, labour and packaging, are also raised by suppliers. Public sources indicate there has been pressure across these inputs over recent years.

QUESTION 6: Does the variance that you referred to seem to be correlated with concentration in different categories?

ANSWER

Our ability to test the underlying costs behind a wholesale increase is often limited to our knowledge of general market data and commodity prices. Many suppliers provide little supporting data or refer only to public sources.

Large multinational fast-moving consumer goods suppliers make up about 70% of the packaged groceries we stock. There can often be one or two major brands together holding significant market share in a single grocery category.

In categories with a broader supply base, we can more easily assess a wider range of requests and identify where a supplier might be out of step with similar products.

On average, the cost increase requests across our entire supply base have been higher than headline CPI. This is understandable as not all inputs are captured by CPI (e.g. fertiliser, packaging, commercial transport and wages).

Pleasingly, the number of cost increase requests from suppliers has fallen since the peak in July 2022. For the six months ended September 2023, the volume of cost increase requests from suppliers was less than half the equivalent period in 2022. They remain about 30% higher than the pre-inflation levels we saw in 2021.

While we understand suppliers have faced genuine cost pressures, we are always mindful of the need to balance viable trading relationships with our customers' needs for an affordable shop.