News Release

Wesfarmers

15 February 2023

2023 Half-year results

Highlights

Half-year ended 31 December ($m)	2022	2021	Variance %
Revenue	22,558	17,758	*27.0*
Revenue - excluding Wesfarmers Health	19,780	17,758	*11.4*
Earnings before interest and tax	2,160	1,905	*13.4*
Net profit after tax	1,384	1,213	*14.1*
Basic earnings per share (cps)	122.3	107.3	*14.0*
Operating cash flows	1,971	1,556	*26.7*
Interim ordinary dividend (fully-franked, cps)	88	80	*10.0*
Sustainability results			
Total recordable injury frequency rate (R12, TRIFR)	11.4	9.9	*15.2*
Aboriginal and Torres Strait Islander team members (#)	4,020	3,791	*6.0*
Scope 1 and 2 market-based emissions[a] (ktCO_2e)	616	574	*7.3*
Operational waste diverted from landfill[b] (% total waste)	71	70	*1 ppt*
Gender balance, Board and Leadership Team (women % total)	48	45	*3 ppt*

[a] Increase in Scope 1 and 2 market-based emissions is largely due to higher ammonia production in WesCEF following the significant planned shutdown in the prior corresponding period and the addition of the new Wesfarmers Health division.

[b] Excludes Wesfarmers Health.

Wesfarmers Limited has reported a statutory net profit after tax (NPAT) of $1,384 million for the half-year ended 31 December 2022, an increase of 14.1 per cent.

Wesfarmers Managing Director Rob Scott said that the pleasing financial results for the first half of the 2023 financial year highlighted the strength of the Group's operating model, with the Group's businesses responding well to trading and market conditions during the period.

"The retail businesses benefitted from their well-established value credentials and omnichannel offer as customer shopping behaviours began to normalise, and Wesfarmers Chemicals, Energy and Fertilisers' (WesCEF) continued strong operating performance enabled it to capitalise on favourable commodity price conditions.

"Pleasingly, the Group's largest divisions performed particularly well during the half," Mr Scott said. "Solid sales and earnings were reported in Bunnings together with strong earnings results delivered by both Kmart Group and WesCEF. Growth across the retail businesses also reflected the impact of COVID-related lockdowns in the prior corresponding period.

"Bunnings continued to demonstrate the resilience of its operating model, recording sales growth across all major trading regions, supported by strong growth from commercial customers and continued growth in consumer sales, despite prolonged wet weather on the east coast impacting spring trading.

"Significant earnings growth in Kmart Group was supported by strong underlying momentum, with comparable sales and volume growth during the half in addition to the benefit of cycling lockdowns. Officeworks' earnings benefitted from continued sales growth and a normalisation in demand for higher-margin categories, partially offset by increased price investment and promotional activity during the period.

"The strong earnings result in WesCEF was driven by continued elevated prices for ammonia and related products, as well as increased production due to continued strong plant operating performances and the impact of cycling a major planned shutdown that was completed in the prior corresponding period. It is also pleasing to report continued improvement in the performance of Wesfarmers Industrial and Safety.

"Investment in new platforms for growth continued during the half. Pleasing progress continued on the construction of the Mt Holland lithium project, with construction of the concentrator well advanced, and pre-strip mining in progress with first ore mined and stockpiled in December 2022. Wesfarmers Health reported improved trading results, and progress on the division's transformation plan accelerated during the half.

"The Group continued to advance the development of its data and digital capabilities during the half, supported by ongoing investments in the retail divisions and in OneDigital. The OnePass membership program was expanded through new partnerships with Bunnings Warehouse and Disney+, and additional member benefits both online and in stores. Key metrics for OnePass including member engagement, sales growth, shopping frequency, online sales conversion and cross-shopping rates have trended positively since the launch of the program.

"Digital engagement with customers remained strong during the half and the share of transactions with known customers continued to increase. Total online sales and online sales penetration declined during the period as customer traffic to stores increased, highlighting the importance of the Group's omnichannel operating model.

"Sales and earnings performance in Catch was disappointing, reflecting the moderation in online demand as well as the impact of operational and execution issues," Mr Scott said. "Restructuring activities within Catch commenced in December 2022, with $33 million in costs associated with these actions recognised in the first half."

Divisional operating cash flows before interest, tax and the repayment of lease liabilities increased 13.4 per cent for the half, with divisional cash generation of 97 per cent. Divisional cash flow growth was supported by stronger divisional earnings, the addition of the Health division and a favourable net working capital result in Kmart Group, as the level of buffer stock held was reduced in line with stabilising global supply chains. These factors were partially offset by a continued normalisation of inventory cover in Bunnings and the timing impact of higher fertiliser prices on WesCEF's inventory position.

Reported operating cash flows increased 26.7 per cent to $1,971 million for the half, supported by higher divisional cash flows and lower tax paid due to the timing of tax payments.

Wesfarmers maintained significant balance sheet flexibility, supporting continued investment activity across the Group and providing capacity to manage the risks and opportunities under a range of economic scenarios. The Group recorded a net financial debt position of $4,716 million as at 31 December 2022, reflecting the payment of $1.1 billion of fully-franked dividends and higher capital expenditure during the half.

The Group retains significant headroom against key credit metrics and maintained its strong credit ratings during the half, with a rating from Moody's Investors Services of A3 (stable) and a rating of A- (stable) from S&P Global Ratings.

The Wesfarmers Board has determined to pay a fully-franked interim dividend of $0.88 per share, an increase of 10.0 per cent on the prior corresponding period.

The Group recognises the alignment between long-term shareholder value and performance on key sustainability measures, with continued focus on safety, diversity, inclusion, emissions management, and the circular economy during the half.

A continued focus on energy efficiency and renewable electricity use in the retail businesses supported pleasing reductions in Scope 1 and 2 market-based emissions across all retail divisions, most notably Bunnings, which achieved a 43 per cent reduction for the half. At a Group level Scope 1 and 2 market-based emissions increased 7.3 per cent, with the increase largely due to higher ammonia production in WesCEF following the significant planned shutdown in the prior corresponding period as well as a smaller impact from the addition of the new Health division. Adjusting for these factors, the Group's emissions declined for the period.

The Group remains above Indigenous employment parity, with the number of Aboriginal and Torres Strait Islander team members increasing by 6.0 per cent to 4,020 and representing 3.4 per cent of Australian team members at the end of the period. The Group continued to support career progression for Indigenous team members with more than 40 Aboriginal and Torres Strait Islander team members completing a Wesfarmers-sponsored Certificate II or Certificate IV in Indigenous Leadership during the half.

Wesfarmers' total recordable injury frequency rate (TRIFR) was 11.4, an increase from 9.9 in the prior corresponding period. The increase was largely attributable to a change in methodology within Bunnings from 1 July 2022 to align the classification of recordable injuries with the Group's other businesses.

Group results summary

Half-year ended 31 December ($m)	2022	2021	Variance %
Key financials			
Revenue	22,558	17,758	*27.0*
Revenue - excluding Wesfarmers Health	19,780	17,758	*11.4*
EBIT	2,160	1,905	*13.4*
EBIT (after interest on lease liabilities)	2,053	1,796	*14.3*
NPAT	1,384	1,213	*14.1*
Basic earnings per share (cps)	122.3	107.3	*14.0*
Return on equity (R12, %)	32.8	24.8	*8.0 ppt*
Cash flows			
Operating cash flows	1,971	1,556	*26.7*
Net capital expenditure	578	405	*42.7*
Free cash flows	1,365	949	*43.8*
Cash realisation ratio[a] (%)	89	79	*10 ppt*
Dividends and distributions			
Interim ordinary dividend (fully-franked, cps)	88	80	*10.0*
Balance sheet			
Net financial debt[b]	4,716	2,615	*80.3*
Debt to EBITDA[c] (x)	2.1	2.0	*0.1 x*
Sustainability results			
Total recordable injury frequency rate (R12, TRIFR)	11.4	9.9	*15.2*
Aboriginal and Torres Strait Islander team members (#)	4,020	3,791	*6.0*
Scope 1 and 2 market-based emissions[d] (ktCO_2e)	616	574	*7.3*
Operational waste diverted from landfill [e] (% total waste)	71	70	*1 ppt*
Gender balance, Board and leadership team (women % total)	48	45	*3 ppt*

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

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

[c] Total debt including lease liabilities, net of cash and cash equivalents, divided by R12 EBITDA.

[d] Increase in Scope 1 and 2 market-based emissions is largely due to higher ammonia production in WesCEF following the significant planned shutdown in the prior corresponding period and the addition of the new Wesfarmers Health division.

[e] Excludes Wesfarmers Health.

Divisional earnings summary

Half-year ended 31 December ($m)	2022	2021	Variance %
Earnings before tax (EBT)			
Bunnings	1,278	1,259	*1.5*
Kmart Group[a]	475	222	*114.0*
WesCEF	324	218	*48.6*
Officeworks	85	82	*3.7*
Industrial and Safety	47	41	*14.6*
Health[b]	27	-	*n.m.*
Catch[c]	(108)	(44)	*n.m.*
Divisional EBT[d]	**2,128**	**1,778**	***19.7***

n.m = not meaningful

[a] 2021 restated to exclude Catch.

[b] 2022 includes depreciation and amortisation expenses of $7 million relating to assets recognised as part of the acquisition of Australian Pharmaceutical Industries Ltd (API).

[c] 2022 includes restructuring cost of $33 million. 2022 includes $3 million and 2021 includes $5 million of amortisation expenses relating to assets recognised as part of the acquisition of Catch Group Holdings Limited.

[d] Excludes OneDigital results associated with OnePass and supporting capabilities, which are reported as part of Other.

Performance overview

Bunnings

Revenue for Bunnings increased 6.3 per cent to $9,792 million for the half, with earnings increasing 1.5 per cent. Excluding the net contribution from property, earnings increased 2.1 per cent to $1,243 million.

“Bunnings delivered pleasing sales and earnings results for the half, demonstrating the resilience of its operating model and the continued strong execution of its strategic agenda,” Mr Scott said. “Sales growth was supported by strong growth from commercial customers and resilient consumer demand, despite prolonged wet weather on the east coast impacting spring trading.

“During the half, Bunnings continued to focus on delivering great value for customers and strengthened its consumer offer through the refresh and expansion of its range, and the trial of new store-in-store concepts. Price investment during the period was supported by a disciplined focus on cost and the delivery of technology-enabled productivity improvements.

“Good progress continued on Bunnings’ ‘Whole of Build’ commercial strategy, including investments to enable a more convenient offer for commercial customers and the expansion of Tool Kit Depot into the east coast of Australia. A new frame and truss plant opened in Victoria during the half, expanding capacity to meet growing customer demand and enabling deeper engagement with customers at the commencement of a project.”

Kmart Group

Revenue for Kmart Group increased 24.1 per cent to $5,714 million for the half, with earnings increasing 114.0 per cent to $475 million.

“Kmart Group’s significant earnings result reflected strong operational execution, with comparable sales and volume growth, in addition to the impact of a normalisation in trading conditions following significant COVID-related restrictions in the prior corresponding period,” Mr Scott said.

“Customers continued to respond positively to Kmart’s lowest price positioning, and sales growth was achieved across all categories. Target’s performance reflected continued improvements in the product offer, particularly in the focus categories of apparel and soft home. With more normal trading conditions during the half, the full benefits of the significant network change program undertaken across Kmart and Target were also able to be realised.

“Kmart Group continued to improve the digital experience for customers during the half, with ongoing investments in the Kmart and Target apps, and the launch of instore benefits for OnePass members. Kmart also continued to progress strategic initiatives to profitably grow its share of wallet, develop its data and digital assets, and digitise its operations.”

Chemicals, Energy and Fertilisers

WesCEF's revenue increased 30.2 per cent to $1,402 million for the half, with earnings increasing 48.6 per cent to $324 million.

"Strong earnings growth in WesCEF was supported by favourable global commodity prices for LPG, ammonia and related products together with increased ammonia production and strong plant operating performances," Mr Scott said.

"Progress continued on the construction of the Mt Holland lithium project, with construction of the concentrator over 70 per cent complete at the end of the period and first ore mined and stockpiled in December 2022. While discussions are ongoing, good progress was made on lithium offtake arrangements with major global counterparties during the half."

Estimates for WesCEF's expected share of capital expenditure to develop the Mt Holland lithium project have been updated and are detailed on page 8 of this release.

WesCEF continued to progress capacity expansion opportunities during the period, both in relation to its existing Kwinana operations and preliminary feasibility work to evaluate an expansion of the mine and concentrator at Mt Holland.

Officeworks

Officeworks' revenue increased 4.5 per cent to $1,651 million for the half, with earnings increasing 3.7 per cent to $85 million.

"Officeworks' sales growth was supported by an increase in demand across key categories including print & create, stationery, art and education, which were impacted by lockdowns in the prior corresponding period," Mr Scott said. "The sales mix towards lower-margin technology and furniture categories declined for the half, but remains higher than pre-COVID levels.

"Officeworks' earnings growth was supported by sales growth and a focus on productivity initiatives. This was partially offset by continued price investment and higher promotional activity, partly due to increased competitive intensity in technology.

"Officeworks continued to invest to modernise its supply chain, including the delivery of productivity improvements at the Victorian Customer Fulfilment Centre (CFC) and progress on the development of a Western Australian CFC."

Industrial and Safety

Revenue for Industrial and Safety increased 3.6 per cent to $978 million for the half, with earnings increasing 14.6 per cent to $47 million.

"Industrial and Safety's results were supported by higher sales across the division. Earnings increased in Workwear Group and Coregas, while Blackwoods' earnings were impacted by higher cost inflation and continued investment in customer service and digital capabilities, including the final deployment of the enterprise resource planning (ERP) system during the half," Mr Scott said.

On 1 August 2022, the division completed the sale of the Greencap consulting business to WSP Global Inc, resulting in lower revenue growth and the realisation of a modest gain on sale included within the division's earnings result for the half.

Health

Wesfarmers Health reported revenue of $2,778 million and earnings of $27 million. Earnings were $34 million excluding depreciation and amortisation expenses of $7 million relating to assets recognised as part of Wesfarmers' acquisition of API.

"Transformation activities in the Health division continued to accelerate, with investment in supply chain capabilities, network changes and merchandise strategies increasing during the half," Mr Scott said.

"Sales results for the period were supported by strong sales growth in the Pharmacy Distribution business, underpinned by customer acquisition and strong demand, as well as elevated sales of COVID-19 anti-viral products and price inflation. Priceline recorded strong growth in health and beauty categories for the half, and both Priceline and Clear Skincare benefitted from an increase in foot traffic as customers returned to stores."

Catch

Catch's gross transaction value (GTV) declined by 26.8 per cent during the half. Catch reported a loss of $108 million for the half, including restructuring costs of $33 million relating to inventory provisions, redundancies and asset write-offs.

"The disappointing financial performance in Catch reflected operational and execution challenges in addition to the broader decline in online retail demand during the period," Mr Scott said.

"Catch's earnings were impacted by significantly lower margin in the in-stock business due to increased clearance activity, as well as higher fulfilment and delivery costs associated with layout and process inefficiencies during commissioning of the new Moorebank fulfilment centre in New South Wales.

"Management changes to strengthen leadership capabilities were implemented during the half, with a new Managing Director, Brendan Sweeney, joining the business in October 2022, along with other key leadership appointments in the retail, technology and supply chain teams. Restructuring activities to reduce overhead costs were commenced in December 2022 and additional commercial controls on range and inventory management have been implemented."

Group data and digital initiatives

"The development of the Group's data and digital capabilities continued during the half, with initiatives and investment across the retail businesses and through OneDigital to further strengthen customer connections," Mr Scott said.

"As a result of investment and focus over recent years, the Group's retail divisions are benefitting from deeper customer insights, stronger digital platforms and materially improved e-commerce capabilities. These capabilities, combined with extensive store networks and compelling instore offers, provide an omnichannel offer that is resonating with a wide cross-section of customers."

"Leveraging loyalty and membership programs, including Flybuys, OnePass, PowerPass and Sister Club, and with a base of over 210 million digital interactions and millions of instore visits each month, the Group actively progressed opportunities to build engagement and provide incremental value to customers both online and in stores. As connectivity and engagement increased, the Group's share of sales to known customers has grown to over 55 per cent in the first half of the 2023 financial year, enabling a more relevant and personalised customer experience."

Investment continued in the development of the OnePass membership program and Group customer insights, with the financial results associated with these initiatives included in 'Other'.

Bunnings Warehouse and Disney+ joined the OnePass program as partners during the half, expanding the value and convenience offered to members. Although still nascent, results during the half provide encouraging evidence that the OnePass value proposition is resonating with customers, with pleasing growth in member engagement, sales growth, shopping frequency, online sales conversion and cross-shop rates.

Other businesses and corporate overheads (Other)

Other business and corporate overheads reported a loss of $75 million for the half, compared to earnings of $18 million in the prior corresponding period.

Earnings from the Group's associates and joint ventures decreased by $51 million due to lower property revaluations in BWP Trust, partially offset by higher earnings from other associates including Gresham and Wespine.

Other EBIT includes an operating loss of $41 million for OneDigital, excluding Catch, relating to investment in the OnePass membership program, technology costs and further development of Group customer insight tools during the half. The OneDigital result, excluding Catch, was broadly in line with the prior period. While Catch became part of OneDigital during the half, bringing together the Group's digitally native businesses, it is reported as a segment to reflect its operating nature.

Other corporate earnings were $38 million lower than the prior corresponding period, driven by a lower Group Insurance result, the benefit of the Homebase equity distribution in the prior corresponding period, and lower dividends received from API and Coles following the completion of the API acquisition in March 2022 and the sale of a 2.1 per cent interest in Coles during April 2022. Group overheads increased by 4.0 per cent to $78 million for the half.

Portfolio actions

Integration of the API business, acquired on 31 March 2022 within Wesfarmers Health, was largely completed during the period. Work has commenced on transformation activities to improve the division's financial performance and strengthen the competitive positions of its operating businesses and pharmacist partners.

Project development and construction activities continued for the integrated Mt Holland lithium project, with first ore mined and stockpiled in December 2022. The project continues to be supported by favourable lithium market conditions and strong long-term demand for battery electric vehicles, and preliminary feasibility studies are underway to evaluate the opportunities of expanding the capacity of the lithium mine and concentrator.

Wesfarmers made a non-controlling investment in Tecsa, a UK-based specialist customer data and loyalty analytics consultancy, during the period. The investment builds on the Group's existing partnerships with Tecsa and provides access to talent and global expertise in retail customer analytics.

During the half, Wesfarmers Health agreed to increase its stake in the digital health business SiSU to 60 per cent, with the investment expected to complete in the second half of the 2023 financial year. SiSU provides health stations in Priceline stores for customers to measure key health metrics.

On 1 August 2022, the Industrial and Safety division completed the sale of the Greencap consulting business to WSP Global Inc.

Cash flows, financing and dividends

Divisional operating cash flows before interest, tax and the repayment of lease liabilities increased 13.4 per cent for the half, with divisional cash generation of 97 per cent. Divisional cash flow growth was supported by stronger divisional earnings, the addition of the Health division and a favourable net working capital result in Kmart Group, as the level of buffer stock held was reduced in line with stabilising global supply chains. These factors were partially offset by a continued normalisation of inventory cover in Bunnings and the timing impact of higher fertiliser prices on WesCEF's inventory position.

Reported operating cash flows increased 26.7 per cent to $1,971 million for the half, supported by higher divisional cash flows and lower tax paid due to the timing of tax payments.

Gross capital expenditure of $676 million was 16.0 per cent higher for the half, in line with expectations and largely due to continued investment in the development of the Mt Holland lithium project. Proceeds from the sale of property, plant and equipment of $98 million were $80 million lower than the prior corresponding period. The resulting net capital expenditure of $578 million was 42.7 per cent higher than the prior corresponding period.

Free cash flows of $1,365 million were 43.8 per cent higher for the half, reflecting higher operating cash flows and the impact of cash consideration relating to the Group's purchase of a 19.3 per cent stake in API and completion of the Beaumont Tiles acquisition in the prior corresponding period.

The Group recorded a net financial debt position of $4,716 million as at 31 December 2022, comprising interest-bearing liabilities, excluding lease liabilities, net of cross-currency swap assets and cash at bank and on deposit. This compares to a net financial debt position of $4,296 million as at 30 June 2022 and $2,615 million as at 31 December 2021. The increase in net financial debt during the half was largely driven by the payment of $1.1 billion of fully-franked dividends and higher capital expenditure.

The Group retained significant headroom against key credit metrics and maintained its strong credit ratings during the half.

The Wesfarmers Board has determined to pay a fully-franked ordinary interim dividend of $0.88 per share, reflecting Wesfarmers' dividend policy, which takes into account available franking credits, balance sheet position, credit metrics and cash flow generation and requirements.

Outlook

Wesfarmers remains focused on long-term value creation and continues to invest to strengthen its existing businesses and develop platforms for growth. The Group's strong balance sheet and portfolio of cash-generative businesses with market-leading positions provide the flexibility to respond to potential risks and opportunities under a range of economic scenarios.

Elevated inflation and higher interest rates are expected to impact demand in parts of the Australian economy and result in households continuing to become more value conscious. In this environment, the strong value credentials and low-cost operating models across the Group's retail businesses mean they are well positioned to meet changing customer demand as customers adjust to cost pressures.

Recent investments will enable Wesfarmers to take advantage of growing consumer and industrial demand in the health and critical minerals sectors, and the Group's balance sheet position and strong financial discipline provide further capacity to pursue value-accretive opportunities that may arise as economic conditions change.

Retail trading results through the first five weeks of the second half of the 2023 financial year have been broadly in line with growth reported for the first half, supported by strong growth in those areas most affected by COVID-related disruptions in January 2022 when elevated cases of the Omicron variant were impacting operations and customer behaviour.

Elevated cost of doing business pressures in Australia and New Zealand are expected to persist in the second half, as general inflation together with labour market constraints impact personnel costs and costs in domestic supply chains. As a result of actions taken during the last 12 months, the Group's businesses are well progressed with key productivity and efficiency initiatives, and remain focused on opportunities to leverage their scale and sourcing capabilities to mitigate the impact of cost increases.

Investments in data and digital will continue through the expansion of divisional capabilities and the addition of new benefits and partners to the OnePass program. Restructuring actions are underway in Catch to address operational and execution challenges, and to refine the value proposition for customers.

The performance of the Group's industrial businesses remains subject to international commodity prices, foreign exchange rates, competitive factors and seasonal outcomes. WesCEF is expected to continue to benefit from favourable commodity prices in the second half, and will continue to advance offtake discussions with key lithium customers.

Construction of the mine and concentrator at Mt Holland is well advanced, with first earnings for the project expected in the first half of the 2024 calendar year as sales of spodumene concentrate ramp up. First production of lithium hydroxide is now expected in the first half of the 2025 calendar year, around six months later than previous guidance.

WesCEF's share of capital expenditure for the overall project is expected to be between $1,200 million and $1,300 million in nominal terms and excluding capitalised interest. The updated estimate reflects changes due to labour availability pressures, refinery engineering delays and COVID-related restrictions impacting the delivery of key capital items, and represents an increase of approximately 10 to 20 per cent on the prior guidance of approximately $1,085 million, based on $950 million in real 2021 dollars escalated by actual and forecast Australian CPI.

The Covalent team will continue to progress significant work evaluating and developing its operational readiness. Preliminary feasibility studies to evaluate the expansion of the Mt Holland lithium mine and concentrator have commenced and will continue to be progressed.

Wesfarmers will continue to invest in its existing operations and in the development of platforms for long-term growth and shareholder value creation. The Group expects net capital expenditure of between $1,000 million and $1,200 million for the 2023 financial year.

Wesfarmers will continue to manage its businesses and the portfolio with carbon awareness, and remains focused on delivering progress against its net zero and renewable electricity targets. The Group will make disciplined investments to strengthen the climate resilience of its businesses and responsibly support the energy transition, while having regard to the security of supply of strategically essential materials that support Australia's competitiveness in critical industries and responsibly managing the impact of transition on customers and communities.

The Group will continue to develop and enhance its portfolio, building on its unique capabilities and platforms to take advantage of growth opportunities within existing businesses and to pursue investments that create value for shareholders over the long term.

For more information:

Media
Rebecca Keenan
Media and Public Affairs Manager
+61 8 9327 4423 or +61 402 087 055
RKeenan@wesfarmers.com.au

Investors
Simon Edmonds
Investor Relations Manager
+61 8 9327 4438 or +61 409 417 710
SEdmonds@wesfarmers.com.au

This announcement was authorised to be given to the ASX by the Wesfarmers Board.