

20 April 2020

ASX Announcement

Metcash Limited

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Equity raising to strengthen balance sheet and liquidity position

Key points

- Equity Raising of up to \$330m, including:
 - a \$300m fully underwritten institutional placement
 - a non-underwritten share purchase plan of up to \$30m¹
- \$180m of additional short-term committed debt facilities from existing lenders
- Proceeds of the capital raising will be used to:
 - Provide working capital and operational support for the retail network
 - Continue investing in the MFuture growth program
 - Complete three bolt-on acquisitions that are expected to close in 1H21
 - Increase the Company's liquidity buffer providing flexibility in an uncertain economic environment
 - Position Metcash to capitalise on opportunities that align with our strategic direction
 - Fund contingent liabilities as required

Metcash Limited (ASX:MTS) today announced the launch of an Equity Raising through which Metcash is seeking to strengthen its balance sheet and enhance liquidity. The equity raising reflects the current heightened level of uncertainty related to the COVID-19 pandemic, and positions Metcash to capitalise on potential growth opportunities that may arise.

Metcash Group CEO, Jeff Adams said: "The COVID-19 pandemic has presented a unique set of challenges for Australian businesses including an unprecedented level of uncertainty.

"We have responded by changing our key priorities during this period to protecting the health and wellbeing of our people; keeping our supply chains open to ensure delivery of essential goods; and protecting our balance sheet.

"All our Pillars are currently trading, although trading restrictions are impacting the Liquor Pillar and there is a minor disruption in the Hardware Pillar. We have invested in additional working capital to further support our retailers through this period, particularly in Liquor where our Australian 'on-premise' customers and New Zealand retail customers are currently subject to restrictions.

"Sales in the Food Pillar have been strong due to a change in consumer behavior related to the COVID-19 restrictions. We have, however, incurred higher costs to both fulfil these sales and manage higher health and safety risks.

¹ Full details of the SPP are contained in the SPP offer booklet which will be sent to eligible shareholders in due course. Metcash may decide to accept applications (in whole or in part) that result in the SPP raising more or less than this amount in its absolute discretion.

“The equity raising together with the new debt facilities should provide us with flexibility in this uncertain environment. It will enable us to continue to support our independent retailers through this challenging period and progress our MFuture growth program. We will also be able to consider potential new growth opportunities should they arise and align with our strategic direction”, Mr Adams said.

Trading update, impact of COVID-19 and outlook

Food

The sales trajectory pre COVID-19 has continued to improve and there was a significant uplift in sales in March / early April reflecting a change in consumer behavior related to COVID-19 restrictions. The earnings benefit from higher sales in March / early April has been partly offset by increased costs to service the elevated demand and the need to manage health and safety risks.

Total Food sales for the five months ended March 2020 increased 4.3% (+7.6% ex Drakes)^{2, 3}. Supermarkets sales increased 4.8% (+8.9% ex Drakes) over the same period, and wholesale sales excluding tobacco were up 5.5% (+9.8% ex Drakes), a significant improvement on the 0.3% decline in 1H20 (+0.3% ex Drakes).

In the first four months of 2H20⁴, which were not impacted by COVID-19 restrictions, wholesale sales (ex-tobacco) in Supermarkets were down 1.6% (+2.5% ex Drakes).

It is unknown to what extent the elevated sales will continue, including once restrictions are relaxed or lifted.

FY21 will include lower sales arising from the cessation of the Drakes South Australia supply contract on 30 September 2019, and from 7-Eleven following advice that 7-Eleven will not be renewing its current supply agreement with Metcash when it concludes on 12 August 2020 (annualised EBIT impact ~\$15m). A continued focus on costs is expected to help offset the impact of the loss of earnings from 7-Eleven and other cost pressures expected in FY21.

Liquor

Sales growth pre COVID-19 continued in 2H20, with Liquor sales increasing 3.2% for the five months ended March 2020 (1H20: 1.7%)².

Sales have been negatively impacted by the COVID-19 related closure of our New Zealand operations and the closure of ‘on-premise’ businesses in Australia. These closures took effect in the last week of March and sales to these customers account for ~20% of total Liquor sales.

The business experienced elevated sales in the Australian retail network in March / early April, which helped partially offset the decline from ‘on-premise’ businesses and the New Zealand operations. It is unclear as to the timing of any lifting or relaxing of the COVID-19 restrictions. The business is focused on adapting to the changed external environment including accelerating the growth of its digital capability.

² Sales (including charge-through) for 5 months ended March 2020 versus prior comparative period

³ Metcash ceased to supply Drakes SA from 30 September 2019. Sales growth has been calculated by removing Drakes sales from the prior comparative period (5 Months: November 2018 to March 2019, 4 Months: November 2018 to February 2019)

⁴ Sales (including charge-through) for 4 months ended February 2020 versus prior comparative period

Hardware

Hardware sales declined 1.3% in the five months ended March 2020², which is an improvement on the decline in 1H20 of 4.2%.

In March there was an increase in demand across both the Trade and DIY segments. The increase in Trade was partly attributable to pre-purchasing based on concerns about COVID-19 restrictions being introduced for Hardware retailers. Stronger DIY sales in March have continued into early April, particularly in the paint and garden categories.

Currently, there are no material⁵ restrictions on the ability of Hardware stores to trade. However, Hardware sales in 2H20 have continued to reflect the slowdown in construction activity, and there is a risk of a further decline in construction activity related to COVID-19, which is not expected until 2H21.

FY20 financial statements

A review of the carrying value of assets will be undertaken as part of the year-end process, with any impairments that may be required reflected in the FY20 financial statements. The review will take into account the impact of COVID-19, the potential for a general deterioration of future economic conditions and other factors that could impact future cashflows. Particular focus will be given to goodwill, trade debtors and the provision for onerous lease obligations.

Further investment in working capital is likely as a direct result of the impacts and restrictions related to COVID-19.

Balance sheet and liquidity position

The combination of net proceeds from the equity raising (\$292m)⁶ and additional liquidity obtained through short term facilities from our existing lenders (\$180m) is expected to provide Metcash with \$852m⁷ of proforma headroom versus the historical average gross debt level⁸.

This additional financial flexibility will position Metcash to:

- Support the independent retail network during the COVID-19 pandemic by investing in working capital and operational support;
- Continue investing in the MFuture growth program and complete three bolt-on acquisitions that are expected to close in 1H21 (~\$45m investment);
- Increase our liquidity buffer during the COVID-19 pandemic to provide flexibility in an uncertain economic environment;
- Capitalise on potential opportunities that align with our strategic direction; and
- Fund contingent liabilities should the obligation relating to these liabilities be triggered.

⁵ Seven stores in North Tasmania currently have trading restrictions applied

⁶ Institutional placement proceeds of \$300m less \$8m of estimated transaction costs. This excludes any equity that may be raised through the SPP

⁷ Proforma headroom represents the proforma facility limit of \$1,040m (being \$860m of existing facility plus the new short term \$180m facility), less proforma gross debt

⁸ Historical average gross debt of \$480m represents the average debt over the 11 months ended 29 March 2020, including guarantees. Proforma average gross debt of \$188m represents historical average gross debt of \$480m less \$292m of estimated net Placement proceeds

Equity Raising details

Placement

The \$300m placement (**Placement**) is fully underwritten and will be offered to institutional investors at \$2.80 per share (**Placement Price**), representing a 7.9% discount to the last traded price of \$3.04 on Friday 17 April 2020. The Placement will result in the issue of 107,142,858 shares, representing approximately 11.8% of Metcash's existing shares on issue.

The Placement is being conducted today, Monday, 20 April 2020, with Metcash's shares to remain in a trading halt pending completion of the Placement.

The Placement is within Metcash's placement capacity, and accordingly no shareholder approval is required in connection with the Placement.

Share purchase plan (SPP)

Eligible shareholders in Australia and New Zealand will have the opportunity to apply for up to \$30,000 of new fully paid ordinary shares (**SPP Shares**) free of any brokerage, commission and transaction costs, and subject to scale back in accordance with the policy set out in the SPP offer booklet.

The price paid by eligible shareholders for SPP Shares will be the lower of:

- the Placement Price; and
- a 2.5% discount (rounded to the nearest cent) to the 5-day VWAP of Metcash shares up to, and including, the closing date of the SPP (expected to be 15 May 2020).

Further details of the SPP will be provided to eligible shareholders in due course.

All shares issued under the Placement and the SPP will rank *pari passu* with existing shares on issue from the date of allotment and will be entitled to the FY20 full year dividend if, and when, the Board determines to pay a final dividend in respect of FY20.

A timetable in respect to the Placement and SPP is provided at Appendix A.

Additional information

Further information is provided in the company's Equity Raising investor presentation provided to the ASX today. The presentation includes important information including key risks and international offer restrictions with respect to the Equity Raising.

Ends

Authorised by a Committee of the Board of Directors of Metcash Limited

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Appendix A – Placement and SPP timetable

EVENT ¹	DATE
Record date for the SPP	7:00pm (Sydney time), Friday, 17 April 2020
Trading halt and announcement of the Equity Raising	Monday, 20 April 2020
Placement bookbuild	Monday, 20 April 2020
Announcement of outcome of Placement	Tuesday, 21 April 2020
Trading halt lifted – trading resumes on ASX	Tuesday, 21 April 2020
Settlement of Placement Shares	Thursday, 23 April 2020
Allotment and normal trading of Placement Shares	Friday, 24 April 2020
SPP offer opens and SPP offer booklet dispatched	Monday, 27 April 2020
SPP offer closes	Friday, 15 May 2020
Announcement of results of SPP	Wednesday, 20 May 2020
SPP allotment date	Friday, 22 May 2020
Normal trading of SPP Shares and dispatch of holding statements	Monday, 25 May 2020

The timetable above remains subject to change without notice.

Important Notice

FORWARD-LOOKING STATEMENTS

This announcement contains certain “forward-looking statements”. The words “expect”, “anticipate”, “estimate”, “intend”, “believe”, “guidance”, “should”, “could”, “may”, “will”, “predict”, “plan” and other similar expressions are intended to identify forward-looking statements. Indications of, and guidance on, future earnings and financial position and performance are also forward-looking statements. Forward-looking statements, opinions and estimates provided in this announcement are based on assumptions and contingencies that are subject to change without notice and involve known and unknown risks and uncertainties and other factors that are beyond the control of Metcash, its directors and management. This includes statements about market and industry trends, which are based on interpretations of current market conditions.

You are strongly cautioned not to place undue reliance on forward-looking statements, particularly in light of the current economic climate and the significant volatility, uncertainty and disruption caused by the outbreak of COVID-19. Forward-looking statements are provided as a general guide only and should not be relied upon as an indication or guarantee of future performance. Actual results, performance or achievements may differ materially from those expressed or implied in such statements and any projections and assumptions on which these statements are based. These statements may assume the success of Metcash's business strategies. The success of any of those strategies will be realised in the period for which the forward-looking statement may have been prepared or otherwise. Readers are cautioned not to place undue reliance on forward-looking statements and except as required by law or regulation, none of Metcash, its representatives or advisers assumes any obligation to update these forward-looking statements. No representation or warranty, express or implied, is made as to the accuracy, likelihood of achievement or reasonableness of any forecasts, prospects, returns or statements in relation to future matters contained in this announcement. The forward-looking statements are based on information available to Metcash as at the date of this announcement. Except as required by law or regulation (including the ASX Listing Rules), none of Metcash, its representatives or advisers undertakes any obligation to provide any additional or updated information whether as a result of a change in expectations or assumptions, new information, future events or results or otherwise. Indications of, and guidance or outlook on, future earnings or financial position or performance are also forward-looking statements.

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