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## Coles Group Limited

Information current as at 1 August 2023

### What are the main business activities?

Coles Group Limited is one of Australia's largest retailers selling fresh food, groceries and liquor through its supermarkets, liquor stores and eCommerce platforms. The group has a store network of about 1,800 store outlets and roughly 80% of Australians live within a 10-minute drive from their nearest Coles store. The retailer employs some 120,000-plus team members and has more than 7,000 suppliers who process over 20 million customer transactions a week.

### Why is this firm attractive to its customers?

Coles is one of the most trusted consumer brands in Australia with its core competencies including merchandising, product development and supplier relationships, marketing, customer service and maintaining and operating a national store and online network.

Coles' core value proposition is its large product offering, convenient store locations (and online offering), value for money whilst also offering rewards program via its “Flybuys” incentive program.

Coles have set the following goals to win over customers:

- Be customer obsessed
- Tailored offerings with trusted and targeted value
- Be Own Brand powerhouse
- A destination for convenience and health
- Leading anytime, anywhere, anyhow shopping
- Accelerate growth through new markets/consumers



## ESG observations

(S) - Coles appear to be making progress on addressing modern slavery within the supply chain and they are aware of products containing prawns from Thailand. Coles has moved to a longer-term focus for contracts and they have a policy to address a living wage. Coles are aware that social audits, whilst good for governance, are unlikely to uncover issues of modern slavery, therefore they are looking to grievance hotlines/processes, media and government organizations for assistance.

(E) - Coles has also committed to reducing greenhouse gas emissions associated with its operations by 75% on 2020 levels by 2030, and a further commitment to net-zero emissions by 2050.

## Why does the portfolio hold this stock?

We believe the key players in the Australian retail food sector are acting rationally regarding pricing. This is the first time in more than a decade that all players have been behaving rationally concurrently. At the same time, cost inflation within the food supply chain is pushing inflationary pressure on shelf prices. We expect both these trends to be supportive of revenue growth for all players. We see operational capability at Coles improving, relative to peers, which, aligned with the unwinding of customers' preference to "shop locally" due to COVID (which disproportionately impacted Coles), should lead to incremental market share gains for Coles.

Coles is a stable business that has delivered stable EBIT margins over the last few years, despite the material impacts on operations due to COVID. Coles ability to control costs and margins leads to very stable earnings through time.

Coles is a quality business, operating in an environment of two large players controlling >70% of the retail food market. Coles continues to invest in their supply chain infrastructure, including material investments in automated DCs (Distribution Centers) that should provide operational benefits over the coming years.

Coles is reasonably valued. It is our view that the combination of growing market share (improved operations and unwinding of COVID constraints) and a growing market (inflation and rational pricing), may potentially see Coles improve revenues in 2023 ahead of their peers.

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