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Woolworths underpayments blow out to $390 million; 1350 jobs to go

By **Dominic Powell**

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Woolworths has revealed it will face one-off costs of nearly $600 million this financial year after identifying another $75 million in staff underpayments, blowing the total cost of its wage scandal to $390 million and taking the shine off a bumper fourth-quarter sales update.

The supermarket told investors on Tuesday it will spend a total of $185 million remediating workers in the 2020 financial year after identifying new payment shortfalls for its salaried staff at its ALH Hotels division, who were not paid in full compliance with the general hospitality industry award based on analysis of the 2018 and 2019 financial years.

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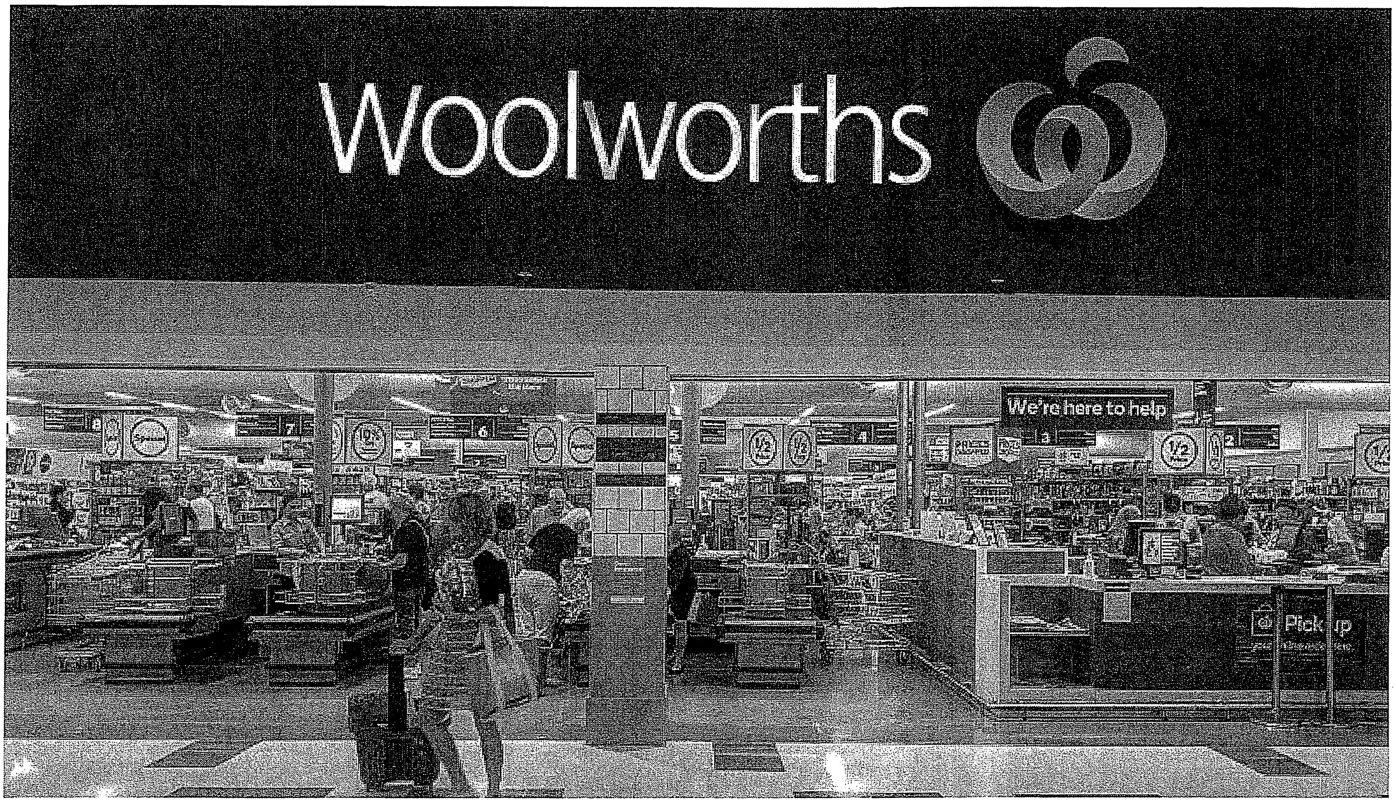


Woolworths' staff underpayment costs have ballooned out to $390 million.

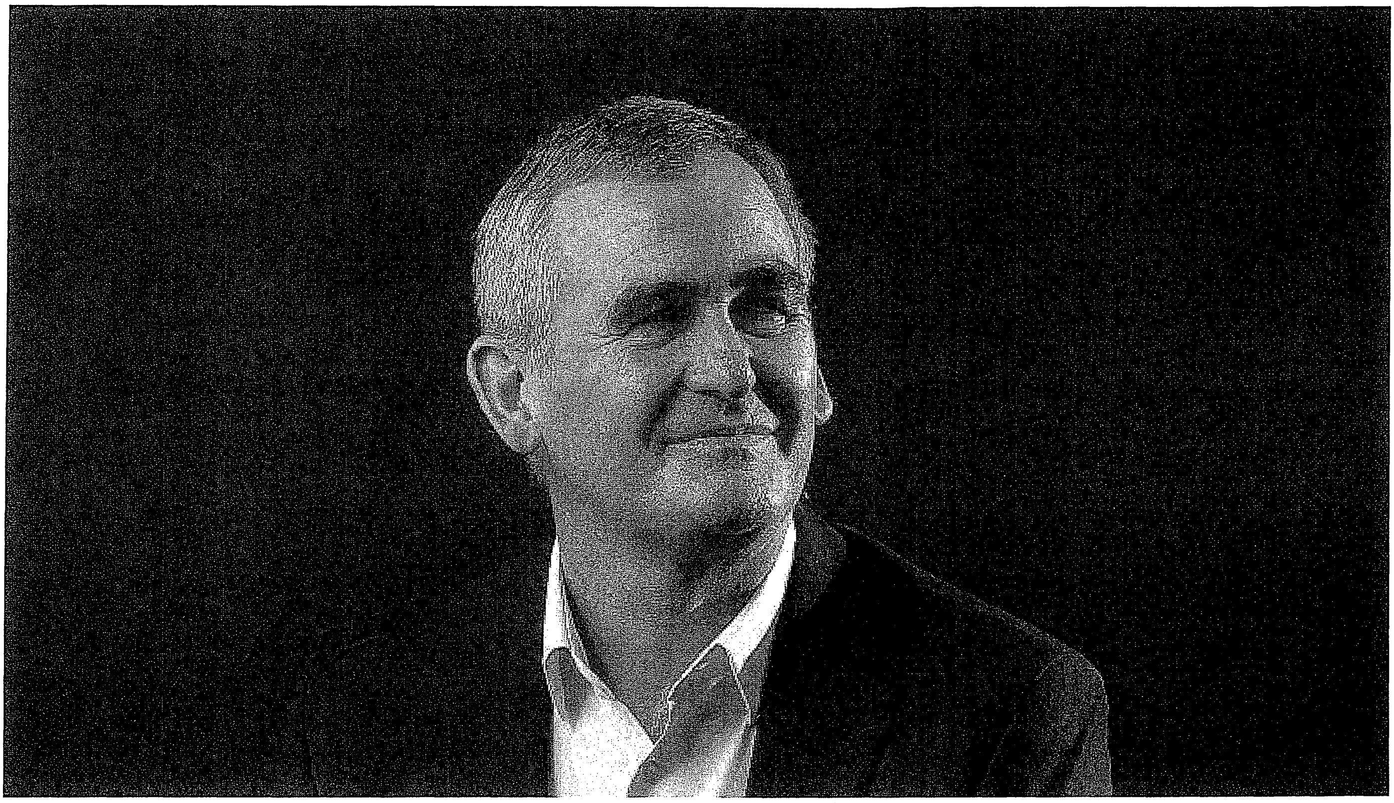
Another $176 million will be spent in redundancy costs for up to 1350 workers following the closure of three of the company's distribution centres in the NSW suburbs of Minchinbury, Yennora and Mulgrave, which will make way for two new automated centres Woolworths plans to build in Moorebank in southwest Sydney.

The new centres will cost between $700 million and $780 million to build and will be done by 2023, with aims to improve the company's supply chain capacity and better prepare it for future growth.

Woolworths chief executive Brad Banducci said he hoped to redeploy a number of the 1350 affected workers in other parts of the business or at the new sites, noting he was taking a "conservative" approach to the redundancies.

Anton Du Preez, a fund manager at Woolworths shareholder Pengana Capital, said the new automated distribution centres, which will cost Woolworths close to $1 billion including the redundancy costs, were "absolutely the right move".

"[Automation] is the way they have to go anyway," he said. "As a shareholder, I'm very glad they're doing it."



Brad Banducci, chief executive of Woolworths. JOEL CARRETT

Mr Du Preez was unconcerned about the higher wage remediation bill, which the company has warned could continue to increase as it completes its payroll review. However, Mr Banducci said he hoped this would be the final time the company would have to update the total quantum of its underpayments.

"We have been very forensic with our analysis and we certainly hope that this is where it lands," he said.

The company first announced the underpayments in October last year, which at the time were thought to be between $200 and $300 million, however, earlier this year the group adjusted the underpayment amount to $315 million.

The supermarket also revealed its coronavirus-induced record sales run across the third quarter of the financial year had continued into the fourth quarter, with supermarket revenue up 8.6 per cent for the 10 weeks ending June 14.

Sales similarly skyrocketed at Big W, up 27.8 per cent, and the Endeavour bottle shops, up 21.4 per cent. However, these increased sales will not translate into a boost in profit for the full year, with the company flagging a 1.2 per cent to 2.7 per cent drop in full-year earnings before interest and tax, which are now expected to come in at between $3.2 billion and $3.25 billion.

This is partially due to a $185 million to $195 million shortfall in earnings at Endeavour's hotels, which were shut during the pandemic lockdowns, and $275 million in additional costs across all its stores for COVID-19-related cleaning and security measures, Woolworths explained.

A final $230 million in costs were noted for the restructure and transformation of the Endeavour pubs and drinks division, which Woolworths now expects to de-merge in the second half of 2021.

When announcing the delay of the de-merger earlier this year, Mr Banducci left open the option of axing the spin-off entirely. However, he now confirmed the company is still seeking to push ahead with the project.

"If there's a silver lining in this, by the time it actually does go ahead it will be very well organised," he said.

Woolworths shares dropped 0.65 per cent to $36.42 on Tuesday.

Dominic Powell

Dominic Powell writes about the retail industry for the Sydney Morning Herald and The Age.