blenheim partners

no limitations

Executive Search & Board Advisory

The Blenheim Report: The Retail Numbers

April 2015

RETAIL ($'000)																
Company	REVENUE HY1 FY2015	REVENUE HY1 FY2014	EBITDA HY1 FY2015	EBITDA HY1 FY2014	EBIT HY1 FY2015	EBIT HY1 FY2014	EBIT Margin HY1 FY2015 %	EBIT Margin HY1 FY2014 %	NPAT HY1 FY2015	NPAT HY1 FY2014	NPAT Margin HY1 FY2015 %	NPAT Margin HY1 FY2014 %	Comparable Sales HY1 FY2015 %	Comparable Sales HY1 FY2014 %	Inventory Turnover HY1 FY2015	Inventory Turnover HY1 FY2014
Dick Smith Holdings Ltd	694,000	637,000	44,700	41,700	37,700	36,200	5.4	5.7	25,200	25,000	3.6	3.9	2.0	-14.4	n/a	n/a
JB Hi-Fi Ltd	1,939,900	1,965,100	148,700	150,300	130,000	132,900	6.6	6.9	88,500	90,300	4.6	4.6	-0.7	2.8	5.9	5.9
Kathmandu Holdings Ltd	179,400	167,600	6,800	22,600	600	17,600	3.8	13.5	-1,800	11,400	-1.0	6.8	0.6	-3.5	1.6	1.5
Myer Holdings Ltd	1,133,400	1,122,000	145,300	172,200	100,200	126,600	5.7	7.3	62,200	80,800	5.5	7.2	0.9	1.2	3.5	3.5
Premier Investments Ltd	496,982	477,159							56,831	52,103						
- Retail	490,837	468,355			69,980	61,510	14.3	13.1					1.1	4.4	n/a	n/a
Speciality Fashion Group Ltd	413,020	324,281	22,617	31,178	11,274	21,757	2.7	6.7	5,855	16,229	1.4	5.0	5.7[2]	-4.9	n/a	n/a
Super Retail Group Ltd	1,158,700	1,096,000	124,000	125,200	94,100[1]	101,100	8.1	9.2	33,600	61,600	2.9	5.6	n/a	n/a	n/a	n/a
- Leisure Retailing	302,100	306,900	29,000	31,100	20,300	24,400	6.7	7.9					-5.1	1.6		
- Auto Retailing	431,500	415,000	55,400	54,500	44,200	44,900	10.2	10.8					2.1	2.3		
- Sports Retailing	421,500	370,200	48,300	46,200	38,600	38,400	9.2	10.4					6.1	5.5		
The Reject Shop Ltd	402,200	385,400	28,500	33,300	19,000	24,700	4.7	6.4	12,800	16,900	3.2	4.4	-3.3	0.0	2.3	2.5

RETAIL ($'000)																
Company	REVENUE HY1 FY2015	REVENUE HY1 FY2014	EBITDA HY1 FY2015	EBITDA HY1 FY2014	EBIT HY1 FY2015	EBIT HY1 FY2014	EBIT Margin HY1 FY2015 %	EBIT Margin HY1 FY2014 %	NPAT HY1 FY2015	NPAT HY1 FY2014	NPAT Margin HY1 FY2015 %	NPAT Margin HY1 FY2014 %	Comparable Sales HY1 FY2015 %	Comparable Sales HY1 FY2014 %	Inventory Turnover HY1 FY2015	Inventory Turnover HY1 FY2014
Wesfarmers Ltd	31,970,000	31,853,000	2,657,000	2,710,000	2,076,000	2,154,000	6.5	6.8	1,376,000	1,429,000	4.3	4.5	n/a	n/a	n/a	n/a
- Coles	19,483,000	18,946,000	1,171,000	1,076,000	895,000	836,000	4.6	4.4					4.2[3]	3.6[3]		
- Home Improvement	4,959,000	4,434,000	686,000	625,000	618,000	562,000	12.5	12.7					n/a	n/a		
- Kmart	2,442,000	2,321,000	333,000	299,000	289,000	260,000	11.8	11.2					2.4	0.3		
- Office Supplies	802,000	745,000	61,000	53,000	50,000	42,000	6.2	5.6					n/a	n/a		
- Target	1,935,000	1,965,000	112,000	113,000	70,000	70,000	3.6	3.6					-1.0	-4.2		
Woolworths Ltd	32,539,500	31,935,900	2,664,200	2,570,800	1,981,000	2,048,000	6.1	6.4	1,248,100	1,334,400	3.8	4.2	n/a	n/a	n/a	n/a
- Australian Food, Liquor and Petrol	25,506,000	25,142,000			1,895,600	1,766,100	7.4	7.0					1.7[4]	3.0[4]		
- General Merchandise	2,365,000	2,452,000			109,700	120,500	4.6	4.9					-5.4	0.2		
- Home Improvement	988,000	796,000			-103,200	-64,400	-10.4	-8.1					n/a	n/a		
- New Zealand Supermarkets	3,054,000	3,020,000			169,100	164,400	5.5	5.4					0.3	0.7		

Notes

[1] Super Retail Group's EBIT reported is before restructuring costs.
[2] Specialty Fashion Group, comparable sales growth excludes Rivers.
[3] Coles comparable sales includes Food and Liquor but does not include Coles Convenience Stores.
[4] Woolworths Australian Food, Liquor and Petrol comparable merchandise sales includes Food and Liquor but does not include Petrol.

PROFIT GUIDANCE

Kathmandu flags store slowdown over Australian uncertainty
Australian Financial Review
24 MAR 2015

Activewear retailer Kathmandu says consumer confidence in Australia and New Zealand has swapped places in the past year or so, as it raised the prospect that its weak performance in Australia is structural rather than cyclical. While the results were in line with last month's downgrade, Kathmandu shares were smashed on Tuesday after telling investors there had been a 2 per cent fall in same-store sales in the first seven weeks of the new half, including a "soft" start to its Easter sales in Australia. The New Zealand-based company also said it planned to slow down the pace of Australian store openings, telling analysts it wasn't "confident at this stage that the sales performance in Australia is necessarily just cyclical".

"We need to be confident that Australian sales performance starts to come back, and when we see that coming back, then we'd be looking at store openings in line with that," acting chief executive Mark Todd said. "In that regard, only trading in the next three to six months tells us that."

Kathmandu said it would introduce less dramatic discounting in favour of improved perks for its 1.2 million loyalty club members, who comprise about two-thirds of its business. The company will also reduce its product range in Australia and improve the performance of its newer stores in local shopping centres.

"It's obviously tough going," one analyst said. "It faces quite a challenge to address its pricing model, which doesn't seem to be working."

For the six months to January 31, Australian earnings before interest, tax, amortisation and depreciation slumped 85 percent to $NZ1.7 million. Over the same period, same-store sales growth in Australia fell to 0.9 percent, compared with 6.6 per cent growth the previous corresponding period.

Mr Todd said the first-half results - a loss of $NZ1.8 million, due to weaker-than-expected sales, lower margins and higher costs - were "disappointing and below expectations". He said the company would not be adjusting its strategies if weakness continued. "We have to take a medium and longer-term view," he told Fairfax Media. Kathmandu's new CEO, Xavier Simonet, will start in July.

Comparing consumer sentiment in Australia and New Zealand, Mr Todd said: "In the last 12 to 18 months, it's definitely turned around. You would say that 18 months ago New Zealand consumers were a bit more cautious, but they're definitely more confident than Australia at this point in time." He said the "general economic and political uncertainty in Australia has not been helpful for sentiment". But he said Australia would remain Kathmandu's No. 1 market for some time, despite its aggressive push into Britain.

Kathmandu shares closed down 12 percent to $1.38 in a flat market, taking its year to date fall to 31.5 per cent. It will pay a 3¢ dividend on June 5.

http://www.afr.com/business/retail/kathmandu-flags-store-slowdown-over-australian-uncertainty-20150324-1m62mf

Solomon Lew's Premier Investments 'optimistic' for 2015
Australian Financial Review
23 MAR 2015

Solomon Lew's Premier Investments says it's optimistic about its prospects this year, as investors embraced its increased dividend and better-than-expected result for its stationery brand Smiggle, which has attracted more than 1000 franchise inquiries from overseas.

Premier shares touched a record high of $12.72 on Monday as it said leadership instability in Canberra had not hurt consumer confidence and expressed confidence the government's May budget would be "positive for the Australian public". The owner of fashion brands Peter Alexander, Just Jeans and Portmans also warned landlords it would walk away from stores if the rents were too high and predicted the Reserve Bank would leave rates as is until the federal budget.

Premier continued to keep its powder dry on acquisitions, despite a $286 million cash pile, and a franking credit pool of $205 million, before the dividends declared on Monday. The dividends – an improved interim dividend of 21¢ and special dividend of 9¢ – will provide a further windfall for its billionaire chairman Lew, who owns 42 per cent of Premier Investments.

While declaring "nothing is off the table" for acquisitions, Mr Lew – a former chairman of Coles Myer – spent plenty of time fending off questions about a potential bid for struggling department store Myer. Mr Lew made a hefty profit last year after selling his stakes in retailers David Jones and Country Road to the new DJs owner, South African firm Woolworths. He said Premier didn't own any shares in any department store, Myer was a "very, very important customer" of Premier and Breville, the appliance company in which it holds a major stake.

"We hope that Myer has a turnaround, and in the interests of the industry, does well," he said. Myer's market capitalisation has dwindled to $790.7 million.

When questioned whether Premier should focus on higher-growth Smiggle than "older-school" retail brands such as Dotti and Portmans, Mr McInnes said: "I don't think we give up on our children that easily. We love all of our children the same, and if we don't love them all the same they'll deteriorate."

Mr McInnes said Premier had "started the new season well", with fashion brands Dotti and Portmans turning around same-store sales declines in the first half to post total sales growth of 4.5 per cent and 2.4 per cent in the first seven weeks of this half. Mr McInnes said the first-half weakness at Dotti and Portmans was down to "bad product choices" rather than a weak market or international competition. "It's a very fast turnaround in fashion brands if you get it right," Mr McInnes told analysts. "We're optimistic, to be honest with you."

Premier posted a 9 per cent rise in profit to $56.8 million, in line with expectations, as revenue rose 4.2 percent to $497 million, slightly below Bloomberg consensus. But like-for-like group sales edged up just 1.1 percent for the six months ended January 24, compared with 4.4 per cent like-for-like growth in the previous corresponding period.

http://www.afr.com/business/retail/fmcg/solomon-lews-premier-investments-optimistic-for-2015-20150323-1m59qy

Myer vows action after disappointing double-digit downgrade
Australian Financial Review
9 MAR 2015

Department store chain Myer has pledged to take "courageous" action after revealing a surprise downgrade that is expected to prompt questions from market regulators. Myer disappointed the market on Thursday by forecasting a full-year profit up to 24 percent below last year's result, and well below analyst consensus forecasts. Shares in Myer closed down 10.13 percent to $1.38 after it posted a first-half result marred by rising costs, declining margins and fierce competition.

Myer had forecast profit and earnings growth for this financial year. Its new forecast, for annual profit of between $75 and $80 million before one-off costs, compared with analyst consensus of an $89.6 million full-year profit. The downgrade prompted repeated media and analyst questions on why the company didn't bite the bullet more than two weeks ago when it announced the replacement of long-serving chief executive Bernie Brookes with new boss Richard Umbers.

It is understood the ASX is likely to issue an "aware" letter questioning Myer's compliance with continuous disclosure law, which is always made public a few days later when the recipient responds. Regulator Australian Securities and Investments Commission said it would "consider any unusual price movements in accordance with our usual procedures around material market movements". Mr Umbers said Myer didn't have the key information then that led to Thursday's downgrade.

"With the benefit of having the February [profit and loss] results in and seeing the downward margin pressure we experienced in February, we conducted a full management review. We then looked at the projections for the full year, and it became apparent that we did have to make an amendment," he said. He said the key factor behind the downgrade was an inability to pass on higher costs to customers. "We saw our sales under pressure and we saw our margin under significant pressure. As the dollar falls, it isn't always possible to pass those costs on in terms of price. In fact, we don't want to. We want to obviously stay competitive in the marketplace, and that's in fact what eventuated."

Underwhelming trade in March and questions over whether the retailer would reach its second-half guidance of 3 to 4 percent sales growth contributed to the share-price fall. Myer has reported declining sales since its 2009 sharemarket listing and has yet to exceed sales levels recorded in 1994, or go anywhere near its $4.10 listing price.

Deutsche Bank analyst Michael Simotas said: "Our primary concern is the balance sheet." While management had suggested it was comfortable with its balance sheet, there wasn't much headroom, given the investment required in the business, Mr Simotas said. Myer will respond to its strategic review later this year, with speculation it will close stores and conduct a capital raising. Mr Umbers said Myer was a cash-generative business and "ultimately it might mean that our [store] footprint is impacted".

In the meantime, Mr Umbers said Myer was exploring four "opportunities" to boost growth: focusing on customers, looking at its brands, continuing to invest in online sales, and improving the productivity of its assets, including stores and supply chain.

http://www.afr.com/business/retail/clothing-and-accessories/myer-vows-action-after-disappointing-doubledigit-downgrade-20150319-1m1f3k

Solid expectations despite Dick Smith downgrade
Australian Financial Review
9 MAR 2015

Dick Smith Holdings missed market expectations in its profit reporting last month. While that has forced a downward revising in future earnings expectations, the news for the retailer seems mostly good.

Electrical retailer Dick Smith Holdings delivered a net profit of $25.2 million for the half-year, missing brokers' forecasts for its performance. Though the profit for the six months to December 31, 2014 represented a slight improvement on the previous corresponding period, the result fell short of Foster Stockbroking's forecast of $26.8 million. The broker has subsequently reduced its profit forecasts for 2014-15 and 2015-16 by 7 per cent and 12 per cent.

While these are fairly substantial downgrades, the broker had previously factored in significant growth over those periods, so the revised numbers imply respectable compound annual earnings per-share growth of 10 per cent per annum.As a means of comparison, based on consensus forecasts, Dick Smith's larger rival JB Hi-Fi is forecast to generate compound annual earnings per share growth of 5.5 percent over the same period.

Foster Stockbroking has maintained its "buy" recommendation with the expectation the group's new format MOVE stores featuring a unique fashion/electronics blend will drive significant sales growth in coming years. Though Dick Smith continues to experience challenges with its New Zealand operations, like-for-like sales growth of 4 per cent in its Australian operations is encouraging.

http://www.afr.com/business/retail/solid-expectations-despite-dick-smith-downgrade-20150309-13z5k3

Woolworths facing slowest growth in 19 years as strategy resets
The Sydney Morning Herald
27 FEB 2015

Woolworths has announced a management shake-up in its food, liquor and petrol business and slashed its full-year profit growth guidance to about 1.8 percent after reporting a 3.1 per cent fall in December-half net profit to $1.28 billion. Woolworths is facing its slowest profit growth in almost 20 years, after finally acknowledging what analysts have been saying for years - that Australia's largest grocery retailer needs to cut prices to compete with Coles and Aldi.

Woolworths shocked investors on Friday by slashing its full-year profit growth guidance and announcing plans to sacrifice earnings growth for at least the next two years by investing more than $500 million of cost savings into food and grocery prices and improving service in its 900-odd supermarkets. The strategic change in direction, prompted by weak sales and market share losses in the December quarter, will return Woolworths to the "virtuous double loop" strategy that fuelled a decade of strong double-digit profit growth between 1999 and 2009.

However, the move has triggered fears of a full-blown price war similar to that in Britain, if Aldi and Coles match or undercut Woolworths' prices, and has rung alarm bells among suppliers, who fear they will come under further pressure to hand over more of their rapidly dwindling margins. Woolworths chief executive Grant O'Brien played down fears of an all-out price war, saying Woolworths would act in a "rational and disciplined" way, but said Woolworths prices needed to be cheaper if it were to remain leader in the $88 billion food and grocery market. "We're the market leader, and we should have market-leading prices and market-leading stores - this investment will ensure that's the case," Mr O'Brien said.

As Woolworths shares plunged almost 10 percent, posting their biggest intra-day losses for six years, Mr O'Brien defended his decision to slash Woolworths' full-year profit growth guidance from between 4 and 7 percent to about 1.8 percent, the lowest rate of growth since 1996. He said Woolworths could have chosen to deliver its 4 to 7 per cent growth guidance this year but had decided instead to bite the bullet and sacrifice short-term profit growth in favour of longer-term returns.

"We could have chosen to meet guidance (but) we made a deliberate choice not to do that and use some of that profit to invest," he said after reporting a 3.1 per cent fall in first-half net profit to $1.28 billion. Underlying net profit, before taking into account $103 million of provisions in general merchandise, rose 4.7 percent to $1.38 billion, in line with market forecasts. "We're not happy with sales in our supermarket business. The investment we talked about today is exactly what we need - we're competitive, but we can be cheaper. That's what this investment is about, providing greater value to consumers." The investment would not come from suppliers' profits but from a pipeline of more than $500 million of cost savings in supply chain, IT, logistics and store support services, he said.

Aurora Funds Management senior portfolio manager Sheridan Hure said the shares could fall further until earnings started to improve. "Given the inroads of Aldi we definitely see there's potential for a re-rating or a reduction in margins over the next few years and that could cause a de-rating in the company's share price," she said.

Mr O'Brien also announced a management shake-up in supermarkets and flagged further changes as the company attempts to regain the upper hand over Coles. Brad Banducci, the head of Woolworths' liquor business, has been promoted to managing director of Australian food and liquor and Dave Chambers, who has been running Woolworths' New Zealand supermarkets for four years, will be director of Woolworths supermarkets, reporting to Mr Banducci. Woolworths' well-regarded managing director of Australian supermarkets and petrol, Dutch-born Tjeerd Jegen, is returning to Europe after four years in Australia.

Australian food, liquor and petrol earnings rose a respectable 7.3 percent as gross margins rose 29 points to 25.46 percent and EBIT margins fattened to a record 7.43 per cent from 7.02 per cent. However, Woolworths noted that trading in December was subdued, and the weaker trend had continued into January. Like-for-like sales growth in Australian food and liquor slowed from 2.1 percent in the first quarter to 1.2 percent in the December quarter, the weakest rate of growth for many years and well below the 4 per cent like-for-like sales growth at Coles.

Losses at Masters and Home Timber & Hardware stores exceeded forecasts, blowing out to $103.2 million, compared with $64.4 million in the year-earlier period, while EBIT fell 9 percent at BIG W and Ezibuy and hotel profits declined 11.8 percent to $144.6 million. Mr O'Brien said home improvement would eventually make a profit but declined to say when. "It's not a question of profitability, it’s a question of speed to profitability," he said.

http://www.smh.com.au/business/woolworths-facing-slowest-growth-in-19-years-as-strategy-resets-20150227-13q0vs.html

Rivers loss drags down Specialty Fashion result
The Australian
25 FEB 2015

SPECIALTY Fashion Group chief executive Gary Perlstein says it could take two years for the company's Rivers menswear chain to turn profitable. But he does not regret acquiring the struggling business, despite a loss of more than $11 million for the December half. The loss at Rivers, which -Specialty Fashion acquired for $3.6m in 2013, will cost shareholders their interim dividend.

After purchasing the business, Mr Perlstein said Specialty Fashion — which also owns women's apparel stores Millers, Katies, City Chic and Crossroads — was confronted by a mountain of unwanted stock.

"We had to take on 8.6 million units of distressed product which had not been cleared in the business. So in order to clear that and to clear it effectively, you do drag the profit down,'' he said. "We decided to clear that in half the period of time and that is what has affected the trading result because you are having to really discount heavy and deep.''

Rivers posted a loss of $11.2m for the half, and Mr Perlstein said a turnaround would take up to 18 months. The menswear chain would be repositioned to move away from Rivers' traditional reliance on steep discounts and promotions to return some equity and value to the brand, he said.

Rivers dragged down the rest of the company, with Specialty Fashion yesterday posting a 63.9 per cent fall in profit to $5.8m as sales — fuelled by the fire sale at Rivers — rose 27.4 percent to $413m. Underlying like-for-like sales growth from the company's stores rose 5.7 per cent.

Cyan Investment management director Dean Fergie said investors could have been surprised by the level of discounting needed at Rivers to wipe away -excess stock.

"In their defence they said they would take a haircut in the first-half to clear up stock. I just don't think the market realised how much of a haircut they were going to have to take. "Rivers has cost them millions and millions. They've got 1100 stores and (Rivers) is 160 stores, and it's had a massive impact on their profitability. I would suspect it has clearly been worse than the market expected.''

http://www.theaustralian.com.au/business/companies/rivers-loss-drags-down-specialty-fashion-result/story-fn91v9q3-1227237669957

Wesfarmers profit slides due to sold businesses; underlying earnings surge
ABC Online
19 FEB 2015

Wesfarmers has reported a 4 per cent slide in its first half profit to $1,376 million, negatively affected by sold off insurance and industrial gas businesses slipping out of its accounts. When the loss of earnings from those businesses were taken into account, Wesfamers' profit from ongoing businesses was up 8.3 per cent. Underlying sales revenue was up 4 percent to $32 billion.

The result was driven by solid earnings growth in its retail arm which more than compensated for weaknesses in its industrial and resources businesses. The Coles supermarket chain saw earnings (before interest and tax) increase 7.1 percent to $895 million. Overall, sales at Coles grew by 2.8 per cent while food and liquor were up 5.3 per cent.

Bunnings and Officeworks were again standout performers. Bunnings earnings increased 10 percent to $618 million while Officeworks earnings were also up 10 percent to $50 million.

In department stores, Kmart continued to recover with an 11 percent increase in earnings to $289 million, while Target maintained its less than stellar run with earnings down 2 percent to $70 million - largely due to the need to heavily discount winter stock.

The industrial division remained the biggest drag on earnings growth. The chemicals, energy and fertiliser businesses reported a 14 per cent fall in earnings to $95 million. Resources – which is dominated by Wesfarmers' coal mining interests – predictably saw earnings crash, down 41 percent to $35 million.

"The group's industrial divisions continued to operate in difficult external environments, with commodity price declines reducing business activities in many industrial sectors," chief executive Richard Goyder said. He said the industrial division would continue to work hard on controllable factors such as improving productivity and cutting costs. "Despite variability in the domestic economy and volatility in global markets, the group delivered a pleasing increase in underlying earnings," Mr Goyder said. "The trading momentum of our retail businesses improved through the half, culminating in a strong performance in the all important Christmas period."

Mr Goyder said the company was well positioned to take advantage to the expected transition in the domestic economy away from a high reliance on investment in the resources sector. "The group's portfolio of retail businesses is positioned well in an environment where - notwithstanding low-interest rates and recent declines in fuel prices – consumers continue to manage household budgets carefully," he noted.

Wesfarmers announced an interim dividend of 89 cents cent per share, up from 85 cents in the previous corresponding period.

http://www.abc.net.au/news/2015-02-19/wesfarmers-profit-slides-due-to-sold-businesses/6146534

Super Retail profit slumps 45.5pc on outdoor leisure exit costs
Sydney Morning Herald
19 FEB 2015

Super Retail Group plans to spend more than $25 million overhauling its Ray's Outdoor stores, adding products such as kayaks, mountain bikes and hiking boots to cater to more adventurous customers and win market share from outdoor leisure specialists such as Anaconda and Kathmandu. After a long-running strategic review, Super Retail has decided to reposition Ray's Outdoors but close its loss-making FCO Fishing Camping and Outdoor chain in New Zealand at a total cost of $27 million.

One-off restructuring costs associated with the FCO exit and repositioning of Ray's Outdoors sent Super Retail Group's net profit tumbling 45.5 percent to $33.6 million in the December-half. Despite 5.7 per cent sales growth, underlying net profit fell 5.6 percent to $58.1 million as weaker earnings from the leisure division offset modest earnings growth at Super Cheap Auto and Rebel and Amart sporting goods stores.

However, chief executive Peter Birtles is confident that underlying earnings will rise around 20 percent in the second half, in line with market consensus forecasts, underpinned by higher margins and a rebound in same-store sales across all three divisions.

"Last year we had a tough second half, with cannibalisation in leisure and there was a six-week period post the budget where we had a real slowdown that impacted on profits," Mr Birtles told Fairfax Media. "We've sorted out the cannibalisation and system (SAP) issues, we have good momentum, and we wouldn't expect that same post-budget issue we had last year," he said.

Fragile consumer sentiment
While other retailers have described consumer sentiment as fragile, Mr Birtles says Super Retail Group's customers are feeling more positive thanks to lower petrol prices and falling interest rates.

"We tend to have more of that mass market customer, and they have more dollars to spend," he said.

Over the last seven weeks, like-for-like sales had grown by around 3.5 per cent in the auto division, 6.5 per cent in leisure and 9 per cent in sports, well above growth rates in the first-half and last year.

"We will be focusing on lifting gross margin, but we need to be careful to manage the trade-off with sales momentum in an environment in which customer confidence is still patchy," Mr Birtles said. "Our ability to manage this trade-off will be critical." Prices were expected to rise in auto and sporting goods to counter the effects of the weaker Australian dollar.

Reflecting this confidence, Super Retail maintained its interim dividend at 18.5¢ a share, payable April 2. Super Retail shares, which have fallen almost 20 percent over the last 12 months, jumped 56¢ to $9.39, a six-month high.

Morgan Stanley analyst Tom Kierath said the result showed that Super Retail had overcome SAP issues in sporting goods and sales growth in leisure in the last few weeks was the best in years.

Mr Birtles said the outdoor leisure market was worth $3.5 billion a year and rather than exit the category altogether, Super Retail would rejig the Ray's Outdoor business – closing five underperforming stores, relocating other stores and changing the product range to include water sports equipment, mountain bikes, bushwalking gear and trail running footwear.

"The business has focused historically on the traditional customer, and that traditional customer is a declining part of the market," Mr Birtles said. "We are seeing the whole market moving from general leisure to adventure – two-thirds of customers are looking for some form of adventure as they undertake their camping or caravanning trips."

Super Retail has hired Anthony Heraghty, the former head of Pacific Brands' underwear business, to run the leisure division.

http://www.smh.com.au/business/super-retail-profit-slumps-455pc-on-outdoor-leisure-exit-costs-20150219-13ikb7.html

The Reject Shop sales stabilise after 24% profit fall
Sydney Morning Herald
17 FEB 2015

Discount retailer The Reject Shop expects to return to profit in the second half of 2015 but new chief executive Ross Sudano has stopped short of declaring the worst is over for the chain, even after positive same-store sales over the past seven weeks.

"We'd like to make a small profit in the second half (compared with a loss of $2.4 million in the second half of 2014), but we are still in the very early stages of turning our business around," Mr Sudano said after reporting a 24 per cent drop in December-half net profit to $12.82 million. "I hope what we've done is stabilised the business, and it will continue to improve as we move forward, but it depends on changes we make over the next six months to three years," he said. "I'm not saying our business is fixed - it's not. We are on a journey to changing things, but as we've demonstrated over the last 15 weeks, when we get our offer right our customers very strongly engage with us."

Mr Sudano said same-store sales had turned positive in the past seven weeks, suggesting that consumers were responding favourably to changes in the product range after two years of sluggish sales. Same-store sales had fallen by 1.7 per cent in the December quarter and by 5.4 percent in the September quarter.

The Reject Shop shares, which have fallen 50 percent over the past 12 months, jumped 23 percent before closing up 95 cents at $6.35.

"What we saw in the result was that management has a strategy to get the company back into like-for-like sales growth and the strategy seems plausible," Alleron Investment Management senior investment manager Sean Sequeira said. "They have a big job ahead of them but ... in the first seven weeks they've moved into positive growth. That type of momentum had not been priced into the market," Mr Sequeira said.

The Reject Shop has moved out of low-growth categories such as manchester, food and furniture and expanded its offer in higher-growth categories such as household cleaners, party needs, pet care and gardening products. The group is negotiating lower rents when leases come up for renewal and plans to open fewer new stores - 10 to 15 a year over the new three years, compared with earlier targets of 15 to 20 a year. Mr Sudano has also flagged big changes to the company's sourcing and supply chain systems to reduce costs and improve speed to market. It is considering shifting sourcing from China to cheaper countries such as Vietnam and establishing a joint venture or opening a direct sourcing office in Asia.

"Our objective is to reduce our cost of products to enable us to invest part of the savings in cheaper pricing to increase transactions and grow sales, while at the same time providing additional dollars to the bottom line," he said.

The Reject Shop's total sales for the six months ending December rose 4.4 percent to $402.2 million, fuelled by 19 new stores while same-store sales fell 3.3 percent. Higher operating costs dragged earnings before interest, tax, depreciation and amortisation (EBITDA) down 14.3 percent to $28.5 million, in line with the company's profit warning last month.

The Reject Shop cut its interim dividend from 21.5 cents to 16.5 cents a share, payable on April 13.

http://www.smh.com.au/business/the-reject-shop-sales-stabilise-after-24-profit-fall-20150218-13hhf0.html

JB Hi-Fi expects flat year as first-half profit dips
Sydney Morning Herald
2 FEB 2015

Shares in JB Hi-Fi have risen more than 3 percent after the consumer electronics retailer reported a 1.9 per cent fall in first-half net profit to $88.5 million and confirmed flat earnings for the full year.

Chief executive Richard Murray reaffirmed guidance for full-year sales of $3.6 billion after the retailer posted stronger sales growth in the December quarter and a surge in sales in January. Mr Murray said net profit for the 12 months ending June was expected to come in between $127 million and $131 million, compared with $128 million in financial 2014. The new profit guidance was in line with market forecasts around $130.1 million. JB Hi-Fi shares, which had fallen 8 per cent over the last 12 months, rose 3.4 percent to $17.27.

JB Hi-Fi's sales rose 1.3 percent to $1.965 billion in the six months ending December and jumped 8.9 per cent in January. Same-store sales fell 0.7 percent in the December-half before surging 7 per cent in January, taking comparable store sales growth for the year-to-date to 0.2 per cent. Gross margins rose a stronger-than-expected 11 basis points to 21.74 percent, but costs rose at a faster rate, due to reduced operating leverage and the rollout of JB Hi-Fi's HOME appliance stores. The cost of doing business rose 29 basis points to 14.17 percent of sales. As a result, earnings before interest and tax slipped 2.2 percent to $130 million (down 9.1 percent in New Zealand), and EBIT margins fell 24 points to 6.61 per cent.

Weak sales of tablets partially offset growth in gadgets such as selfie sticks and fitness accessories, forcing JB Hi-Fi to slash prices to compete with rivals such as Dick Smith and The Good Guys. JB Hi-Fi said hardware and services sales rose 4.7 per cent in Australia in the first half, driven by telecommunications, fitness, games hardware and appliances, but sales of software such as DVDs and games fell 10.8 percent. New Zealand sales fell 4.3 percent in the first half as the country cycled the digital switchover a year ago.

The first-half result fell short of market forecasts. Analysts had been forecasting an interim net profit of $90.5 million (vs $90.3 million before one-off costs in the first half of 2014) and earnings before interest and tax of $134 million. But the full-year guidance received a more positive reception from analysts.

"Overall this release is a positive data point in our view given the very strong January trade and net profit guidance, which is above our expectations," said Deutsche Bank analyst Michael Simotas. "Notwithstanding this, it is worth remembering that the midpoint of the guidance range represents relatively flat net profit growth year on year," he said.

The company declared an interim dividend of 59¢, up from 55¢ previously, fully franked and payable February 27.

http://www.smh.com.au/business/retail/jb-hifi-expects-flat-year-as-firsthalf-profit-dips-20150202-133ogr.html

Confidentiality

This report and the information contained in it are confidential and proprietary information belonging to Blenheim Partners. The report contains confidential and proprietary information based on data from public and private sources, including Blenheim Partners’ proprietary database of information. **The recipient will not use or disclose, or permit the use or disclosure of, this Report by any other person or for any other purpose.** The information contained in this report is preliminary in nature and subject to verification by Blenheim Partners. Blenheim Partners does not guarantee its accuracy or completeness.

blenheim partners

no limitations

Executive Search & Board Advisory

ABN 21 160 009 236

Level 14, 9 Castlereagh Street, Sydney NSW Australia

p +61 2 9253 0950

w blenheimpartners.com