18 August 2015

ASX Announcement

FY2015 NPAT of $43.4m reflects solid 2H 2015 performance

- **Growth Strategy** delivered solid underlying performance and a strong result in Australia
- Total sales **up 7.5%** (FY2015: $1,319.7 million vs. FY2014: $1,227.6 million); Australia up 10%
- **EBITDA[1] up 7.3%[2]** (FY2015: $79.8 million vs. FY2014: $74.4 million); Australian EBITDA up 21.9%
- **Solid 2H 2015,** with EBITDA[1] up 7.4%, **NPAT up 6.3%** and Australian EBITDA up 30.1%
- **NPAT[1] $43.4 million**, up 3.1% (FY2014: $42.1 million)
- Final dividend of **5.0 cps fully franked** payable 30 September 2015

Dick Smith Holdings Limited today reported a second year of solid performance as the Company's Growth Strategy continues to resonate. Sustained investment in trading, new store formats and new stores resulted in sales growth of 7.5% for the 52 weeks ended 28 June 2015 (FY2015), with comp sales increasing 1%, and Net Profit After Tax (NPAT[1]) before restructure costs improving 3.1% to $43.4 million.

Nick Abboud, Dick Smith Managing Director & CEO, said "We are pleased to have delivered another solid underlying profit performance in this our second year as a listed company. Second half NPAT[1] increased 6.3% reflecting improved leverage, with Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA[1]) up 7.4% on sales growth of 6% impacted by an intentional reduction in unsupported promotions, patchy trading conditions and one less trading day in the important 'tax-time' June sales period. Australia continues to stand out, achieving 21.9% EBITDA growth for the year and 30.1% EBITDA growth in the second half, resulting in an Australian EBIT margin of 5.5% for the year."

Gross margin for the year was 24.8% of sales (FY2014: 25.1%), with the Australian gross margin consistent at 24.9% of sales. New Zealand's gross margin was 23.5% of sales, reflecting a more competitive market and increased promotional activity, particularly in 1H 2015.

Dick Smith continues to drive cost efficiencies, with cash Cost of Doing Business (CODB) decreasing 32bp to 18.7% of sales in 2015. Increases in depreciation and interest charges during the year reflect further investment to grow longer term shareholder value through the implementation of Dick Smith's Growth Strategy.

EBITDA[1] grew 7.3% to $79.8 million (FY2014: $74.4 million), before restructuring charges of $7.9 million and was achieved despite increased competitive activity.

Dividends

The Directors have declared a fully franked 5.0 cents per share final dividend, to be paid on 30 September 2015. Total dividends declared in 2015 of 12 cents per share, represents approximately 65% of 2015 NPAT before restructuring costs, which is consistent with the Board's guidance of a 60-70% payout range. The record date for determining entitlement to the dividend is 31 August 2015 and will be paid on 30 September 2015.

A summary of the Company's underlying financial performance for the 52 weeks ended 28 June 2015 is:

(A$m)	FY2015	FY2014 Pro forma	Variance
Sales	**1,319.7**	**1,227.6**	**7.5%**
Gross profit	326.8	308.0	6.1%
Gross margin	*24.8%*	*25.1%*	*(33)bp*
CODB	247.0	233.6	5.7%
CODB/Sales	*18.7%*	*19.0%*	*(32)bp*
EBITDA (before significant items)	**79.8**	**74.4**	**7.3%**
EBITDA margin	*6.0%*	*6.1%*	*(1)bp*
Depreciation	14.8	12.8	15.6%
EBIT (before significant items)	**65.0**	**61.6**	**5.5%**
EBIT margin	*4.9%*	*5.0%*	*(9)bp*
Interest	3.7	1.4	168.8%
Profit before tax	61.3	60.2	1.8%
Tax	17.8	18.0	(1.1)%
NPAT (before significant items)	**43.4**	**42.1**	**3.1%**
Significant items after tax	(5.5)		
Reported NPAT	37.9		
Basic EPS (cps)	18.4	17.8	3.2%
Reported EPS (cps)	16.0		
Dividends, fully franked (cps)	12.0	8.0	

Growth Strategy

Since implementing the Dick Smith Growth Strategy 30 months ago, the Company has:

- opened 70 new stores, including 14 new Dick Smith and 6 new MOVE stores in FY2015, for a **28 June 2015 store base of 393 stores** in Australia and New Zealand;
- attracted new consumer demographics through the introduction of three new formats;
- **increased online sales to over 8% of retail sales** in FY2015 from over 4% in FY2014 through the adoption of Pay & Collect from all stores and over 210 stores shipping directly to customers;
- **grown Private Label to over 12% of sales** with the premium MOVE brand available in all stores;
- increased Dick Smith brand awareness and improved customers' price perception of the brand; and
- **launched 'MOVE by Dick Smith'** at Sydney International Airport.

FY2016 is expected to benefit from further implementation of Dick Smith's Growth Strategy:

- New stores: a strong pipeline of new stores in Australia will underpin the Company's expectation of 420 to 430 stores by FY2017.
- Omni-channel: The Company's objective of online sales representing more than 10% of retail sales by FY2017 should be achieved with the expansion of the shipping from store model from all stores.
- New categories: The Company is offering consumers the convenience of its store network for purchasing **small appliances**, ranging premium floor, kitchen, personal care and linen care products **in 100 stores in FY2016**. This rollout of 'Connected Home by Dick Smith' commenced with George St (Sydney), which is now trading. The Company has identified additional new category opportunities which can be offered online or in store, with consumers benefiting from Dick Smith's convenient locations for collection or delivery.
- MOVE by Dick Smith: presently at four temporary locations at Sydney Airport, the relocation to the permanent high traffic position before Christmas is expected to drive additional sales.
- Cost base: **The completion of the cost base restructure**, which will deliver further CODB benefits in FY2016, should maximize sales growth leverage.
- Macro-economic headwinds: mitigating the anticipated benefits of controllable factors is likely to be macro-economic headwinds, including economic volatility on consumer sentiment and a potential impact on spending and prices of a substantial fall in the Australian Dollar.

2H 2015 performance indicative of Growth Strategy benefits

Dick Smith achieved strong NPAT growth in 2H 2015. A focus on driving profitable sales saw sales a 6.0% uplift leveraging into EBITDA growth of 7.4% and NPAT growth of 6.3% (compared to 0.8% in 1H 2015). The Company employed a disciplined approach to promotional activity, despite turbulent macro-economic headwinds, including patchy consumer sentiment and challenging trading conditions, particularly in New Zealand. Less promotional activity on lower margin product and the intentional purchase of stock ahead of currency-related price increases ensured gross margin was maintained in 2H 2015, despite the impact of online sales growth and competitor activity.

Sales

FY2015 sales were $1,319.7 million, an increase of 7.5% year-on-year (y-y) (FY2014: $1,227.6 million). Comparable sales were up 1.0%. Australian sales grew 10.0% y-y, with 2.4% Australian comparable sales growth. The growth profile was consistent with our previously stated intention to focus on higher margin sales. It incorporates the timing of store openings (more weighted to June), patchy consumer trading conditions and the impact of one less 'tax-time' trading day. New Zealand sales declined 6.9%, impacted by aggressive competitive pricing and a deterioration in consumer sentiment, particularly in the first half.

"We are pleased with the Australian sales performance, which was achieved in the face of an increasingly competitive environment that saw more promotional activity than the prior year. This reaffirms that the Dick Smith's Growth Strategy is working and reinforces our ongoing commitment to providing value and convenience to our customers," said Mr Abboud.

"We continue to deliver sales growth and gain market share. Recent independent industry data from GfK[3] indicates that Dick Smith gained 60bp of share in FY2015, with gains of a percentage point or more in our core categories. This is testimony to the success of our Growth strategy and our successful approach to improving our brand and pricing perception in the marketplace," Mr Abboud highlighted.

Store formats

During the year, the Company continued to enhance its multi brand format, with the continued rollout of MOVE and the successful launch of MOVE by Dick Smith at Sydney International Airport. With 10 stores in Australia, MOVE is experiencing strong comparative sales growth, consistent with internal expectations.

"After four months of trading, Duty Free sales and contribution continue to exceed our initial expectations. We are confident of further improvement when we re-locate the main store from our temporary position, to a high-traffic permanent site in December. We see MOVE by Dick Smith as a strong growth opportunity during the next few years," said Mr Abboud.

The closure of two stores and relocations within a number of other stores has impacted the Electronics Powered by Dick Smith at David Jones' performance, with sales representing approximately 3% of Company sales at a lower than average margin. Changes to improve performance are expected to be implemented before Christmas.

The Company's omni-channel strategy continues to resonate with consumers, with online sales doubling to represent over 8% of retail sales in FY2015.

The Company increased its Private Label share of total sales to over 12.5% during the year and is well positioned to grow its Private Label business to 15% of total sales by FY2017.

"Customers have embraced both our Dick Smith and MOVE branded Private Label products. The quality, aesthetic and price points of these products appeal to a broad cross section of our customer base as well as a range of new customers looking for great quality at an affordable price. We are excited with the performance of our Private Label products with consumer demand driving a 40% expansion of our range during 2015. This has allowed us to price our branded products more competitively, enabling us to grow our market share," Mr Abboud said.

Gross profit

Dick Smith achieved a gross profit margin of 24.8% of sales (FY2014: 25.1%). The Australian gross margin was maintained at 24.9% (FY2014: 25.0%) through product mix and Private Label growth. The Australian gross margin grew 22bp in the second half on improved promotional and mix management. Impacting the gross profit was a 218bp reduction in the New Zealand gross margin.

Cost of Doing Business (CODB)

The Company continues to focus on driving cost efficiencies throughout the business. CODB in FY2015 was 18.7%, down 32bp y-y. The reduction reflects the benefits of the amalgamation of the New Zealand support office into Australia in February 2014, which reduced New Zealand CODB by NZ$3.0 million, as well as further efficiency initiatives in Australia and fixed cost leverage associated with the new stores opened in Australia. The reduction was achieved despite an approximately 28bp impact on the Company CODB from the softness in New Zealand sales. There was a modest benefit in 2015 from the recent Australian Support Office and Supply Chain restructure (announced March 2015), with the majority of the benefit expected in 2016.

Balance sheet

Dick Smith's balance sheet remains strong. The Company took advantage of buying opportunities in branded and Private Label product to enhance its competitive advantage, which resulted in buying earlier in the cycle in 2H 2015. This impacted cash conversion during the year, resulting in net debt at 28 June 2015 of $41.0 million and trade payables of $200.8 million. This impact is expected to substantially reverse in 2016. The higher inventory at June 2015 (compared to 2014) reflects new store requirements, the continued expansion of our Private Label brands, the positioning of the Company for future growth and the timing of year end, with one additional 'tax-time' sales day in the new year.

Outlook

Dick Smith achieved July sales growth of 6% for total sales and 0.1% for comparative sales, reflecting the sales performance a year ago[4] and a weaker New Zealand Dollar. Australian comp sales grew over 1%.

Management is confident its previously outlined strategic growth initiatives will deliver further profit improvement in FY2016, including from the opening of 15 to 20 new stores (of which 15 are confirmed), the introduction of small appliances in 100 Dick Smith stores and the completion of the cost base restructure, which will deliver further CODB benefits in FY2016. Also influencing the outlook are macro-economic conditions, such as the potential impact of consumer sentiment, a softer New Zealand market and currency movements, which remain volatile.

Reflecting this potential impact and the performance expected from the Company's growth initiatives, 2016 NPAT is likely to be between $45 million and $48 million. A further update will be provided at the Company's AGM in October.

For further information please contact:

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Analyst and investor conference call:

A conference call will be held for analysts and investors at 9:30am (AEDST) today, with the presentation available at dicksmithholdings.com.au

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[1] *Underlying, excluding restructuring charges of $7.9 million ($5.5 million after tax).*

[2] *Growth rates and comparisons are based on FY2014 pro forma numbers*

[3] *GfK Retail Management Australia Summary, period ended June 2015.*

[4] *For the first seven weeks of 2014, total sales growth was 14.4% and comparative sales growth was 1.8%*