

# PREMIER INVESTMENTS LIMITED

(A.C.N. 006 727 966)  
(A.B.N. 64 006 727 966)

26 November 2010

## CHAIRMAN'S ADDRESS

### INTRODUCTION

The 2010 financial year was a good year for Premier.

Not an exceptional year – largely, but not exclusively, due to external factors which impacted the entire Australian retail sector.

Nevertheless, a year in which we achieved a solid result in a challenging external environment and continuing progress in the transformation and growth of our company.

Indeed, many other companies might consider Premier's 2010 'good' year to be an understatement if they were able to report to shareholders the following key outcomes for the 2010 financial year:

- A relatively strong consolidated profit in a difficult retail environment
- The maintenance of a robust balance sheet with no net debt and substantial cash reserves available for investment in future growth
- A continued focus on rewarding shareholders through strong and increased dividend payments.

The Premier Board believes that the successful achievement of these outcomes is consistent with our core objective – the prudent management of shareholder funds to deliver strong investment returns and grow sustainable long term shareholder value.

The Premier result is now highly contingent on the performance of Just Group, the company's main operating business.

Just Group – Australia's largest specialty retailer with over 1000 stores in Australia - New Zealand and South Africa, was acquired by Premier in the 2009 financial year, becoming a 100% owned subsidiary in October 2008.

It is now fully consolidated in the Premier accounts and operates very effectively under the Just Group Board, within the broader Premier structure.

Your Directors continue to be very satisfied with the Just Group acquisition and its operational and strategic importance in the ongoing transformation and growth plans for Premier as an owner and operator of retail and wholesale businesses.

## **PREMIER – 2010 FINANCIAL OVERVIEW**

Let me turn now to an overview of Premier's 2010 accounts.

Before I go into further detail, I do need to point out that a direct comparison between 2010 and 2009 is problematic for a number of reasons.

Firstly, due to the change of year end for 2009 following the Just Group acquisition, Premier's full year 2009 was comprised of 55 weeks and 5 days compared to 53 weeks in 2010.

Secondly, also as part of the consolidation process, the Group revised its estimated useful life of in-store assets, in line with the relevant accounting standard.

Thirdly, substantial cash reserves were utilised during 2009 for the acquisition of Just Group. Due to the timing of the payments Premier earned interest income on much higher cash reserves for part of 2009. The impact of this is clearly seen in the reduction in Premier's revenues excluding Just Group.

At this point, I'd like now to take the opportunity to point out some of the key metrics of Premier's performance. I would refer you to the slide headed 'Premier – Consolidated Income Statement'

Premier achieved an overall net profit after tax of \$79.6 million and earnings per share of 52.8 cents.

The largest contributor to this profit came, of course, from our operating business, Just Group. Just Group's EBIT for 2010 was \$84.2 million

The Board is very pleased with both the clean inventory position of Just Group and that the annualised stock turn remained above 5 times. I will discuss the Just result in more detail later.

Premier's profit was also impacted by a one-off tax benefit of \$16.6 million as a result of the tax consolidation of Just Group. This benefit was passed through to shareholders as part of the final special dividend for the year.

You will also note the 150% increase in available-for-sale financial assets to \$72.8 million, which reflects Breville Group Limited's higher share price.

Premier's balance sheet remains very strong with cash at year end of \$316 million, after having paid \$54 million in dividends during the year.

The strength of our balance sheet and funding position will continue to provide Premier with the ability to invest in Just Group's growth and capitalise on additional growth opportunities that may arise. The Board believes this is a key strength of our business in these times and delivers Premier a clear competitive advantage in pursuing growth opportunities, particularly should there be a future general tightening of financing and liquidity.

## **JUST GROUP – 2010 OVERVIEW**

Just Group's result was impacted by two significant factors: firstly - as all Australian retailers have noted - a very difficult general retail environment, and secondly, the impact of the turnaround of Portmans.

Good retailers are not defined when times are good. In retail the test of a good retailer is to deliver a credible result in a difficult retail environment.

With the clear exception of the Portmans brand the Just Group performance was credible. This was due to both management initiatives and also the defensive features inherent in the Just Group business model – a suite of strong brands with discrete core customers, demographics and price points, leveraging an industry benchmark shared operating platform.

Consumer sentiment through FY10 was very fragile, and this was reflected in the sluggish retail sales across the board. As I noted in my Chairman's report, 2010 was a year of two distinct halves. A strong first half was supported by the continuing effects of the substantial government stimulus measures. However, the second half was impacted by the cycling of the stimulus effects, abnormal weather, extensive industry discounting and successive interest rate rises.

Just Group's management response to the environment was to focus on efficiencies and sustainable cost savings which will benefit future earnings. At the same time, Just management continued to invest in future growth by growing store numbers by 53 in Australia and New Zealand and 6 in South Africa.

The overall Just Group performance was also impacted by the poor performance of the Portmans brand as management undertook a substantial transformation process. The benefits of this transformation will significantly enhance the future profitability of the group. I am pleased to announce that we are already starting to see the benefits of this transformation although it will take some time before Portmans achieves its true potential.

I would like to again thank the Just Group management team, led by Jason Murray, the Just Group Board and all of our team members for their commitment and contribution during the year.

A key priority for Premier continues to be improvement and enhanced returns from our Just Group investment.

## **PREMIER'S COMMITMENT TO SHAREHOLDERS**

As I have said previously the Premier Board recognizes that we have responsibilities to all of our stakeholders, including our employees, customers, suppliers and the communities in which we operate.

But we also fully understand that our business would not exist without the continuing confidence and support of our shareholders – the owners of the company who have invested at risk funds and expect that their money will be well managed to be both secure and profitable.

We believe that our history as a Board delivers on this understanding.

FY2010 was the eighth consecutive year that our shareholders have been rewarded with increased ordinary dividends. Over this 8 year period Premier's ordinary dividend per share has increased by an average of 40% per annum.

In addition, the Premier Board's commitment to capital management has enabled substantial special dividends to be paid to shareholders and further franking credits to be distributed to shareholders.

In FY2010, your Directors declared total fully franked dividends of 66 cents per share. This was comprised of fully franked ordinary dividends of 36 cents per share and fully franked special dividends of 30 cents per share.

If I can now make a few remarks in relation to issues which affect our company and are also matters of broader public interest.

Firstly, interest rates.

## **INTEREST RATES**

As a former member of the Reserve Bank Board I have a very high regard for the institution, its record and the current Governor and Board.

I fully understand the difficult task of balancing a range of factors and taking decisions in the present to meet anticipated future outcomes.

That said, I very strongly disagree with the Bank's recent decisions on official interest rates.

The series of successive interest rate rises and the effective signalling of more to come has had, and continues to have, a clear and demonstrably negative effect on already fragile consumer confidence, the retail sector and other sectors of the economy.

Retail is a significant driver of the national economy and employment.

Measures to counter potential adverse consequences arising from a mining boom should not be at the expense of such an important contributor to our economy – the retail sector, which is already confronting a range of external adverse factors – through the blunt instrument that continued increases in official interest rates represent.

The 'real economy' – which our customers inhabit – seems to be a very different world to the numbers on paper the Reserve Bank decisions appear to rely on.

## **INTERNATIONAL ONLINE RETAILERS**

Given the recent public interest in relation to international online retailers operating in Australia, I think it appropriate to make a brief mention of our views.

Online stores and sales will inevitably become an increasingly important sales channel with increasing market share.

Just Group has an online presence and will continue to develop its capability to be an active and highly competitive player in this space as it develops, consistent with both the market growth and the business case.

The issue is not about a fear of competition.

It is about unfair competition and its consequences.

The Australian retail sector is one of the most competitive in the world – we thrive on competition and the continuous improvement it delivers.

The real issue arising from unfair competition is the impact on Australian retailers, Australian jobs, Government revenues and the billions of dollars that are being sent offshore that would otherwise be circulating in Australia – to the Australian consumer - and driving economic activity and growth.

Australia has been targeted by international online retailers as a very lucrative market. Their costs to sell in Australia are marginal relative to their core markets. That is fine - we intend to be selling our goods internationally and enjoy the same advantage. This is overlaid however by the fact that they do not pay Australian taxes or duty or collect the GST. Not only do they have an unfair price advantage but they contribute nothing to the Australian economy. Australia collects no taxes, duty, the money is sent offshore and it costs jobs.

I believe that the foregone revenue to Government in relation to the non payment of import duty is almost equivalent to the current billion dollar plus in foregone GST revenue.

The Government should act to enable a level playing field and promote real competition.

If I can turn now to the issue of acquisitions.

## **ACQUISITIONS**

In my address to you at the 2009 AGM I said the following (and I quote):

*“Premier is not in the business of pursuing growth for its own sake or in order to give the appearance of activity and the promise of blue sky.*

*We will be very disciplined and any acquisition will need to be consistent with our focus on the creation of long-term shareholder value.*

*With that very clear qualification, I think it is more likely than not that we will have another business at this time next year.”*

As is now clear, that very clear qualification prevailed.

We actively reviewed a number of potential opportunities, some to quite an advanced stage but, in the end, none were able to deliver the potential returns we require.

Your Directors are very comfortable with this.

We understand the view that our substantial available cash needs to be put to work.

But we are also absolutely focused on ensuring that we create real value and wealth for our shareholders through the right acquisitions and commercial arrangements.

The Premier Board is unambiguously committed to growing our company – and acquisitions will play an important part in our future, whether we leverage our Just Group platform or independent of that.

That said, we are continuing to actively pursue opportunities. There will be acquisitions – but not driven by anything other than your Directors’ assessment of value and wealth creation.

## **OUTLOOK**

At the time of the release to the market of the Premier FY2010 annual result Premier confirmed its expectation that FY2011 Just Group EBITA would be in the range of \$100 million to \$110 million. Your Directors also expressed their caution in relation to the general economic environment. This caution continues to be a very important factor going forward through 2011.

The FY2011 Just Group guidance also assumed a challenging first quarter. The combination of such factors as continued extensive industry discounting, abnormal weather in major markets and interest rate pressures has meant that Q1 was even more difficult than anticipated with Group total sales being marginally below last year.

Just Group management has a comprehensive plan for each of its 7 brands for the critical Christmas and January sales period and is well positioned to leverage any significant upturn in retail spending. Directors anticipate a significant improvement in the second half as the business cycles the abnormal retail environment of 2H FY2010. Subject to the anticipated performance over Christmas and January, and to the overall level of retail spending, Premier believes that FY2011 Just Group EBITA will be at the bottom of the range (\$100 million) previously provided to the market.



# AGM 2010

26 November 2010



JayJays



peteralexander



JACQUIE



Just Jeans



portmans



dotti

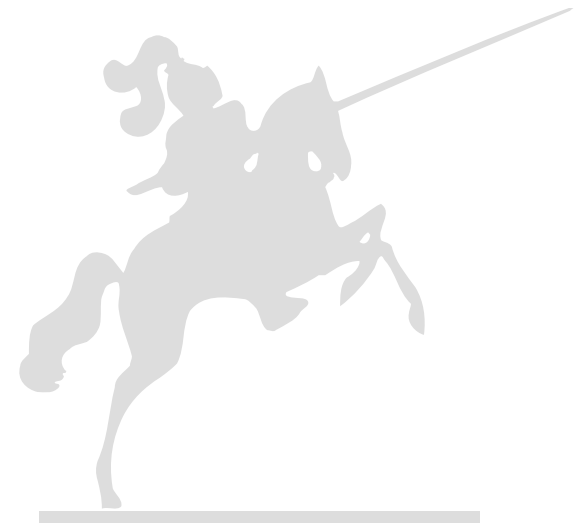


smiggle

THE **JUST** GROUP

# Agenda

- 1 Chairman's Address
- 2 Resolutions



THE **JUST** GROUP





# ① Chairman's Address



JayJays



peteralexander



JACQUIE-E



Just Jeans



portmans



dotti



smiggle

THE **JUST** GROUP

# Highlights

- Solid profit result in tough trading conditions
- Ongoing shareholder returns
  - FY2010 total dividends of 66c per share comprising:
    - Fully franked ordinary dividends of 36c per share; and
    - Fully franked special dividends of 30c per share
- Positioned for future growth
  - Significant organic growth potential
  - Substantial cash reserves
  - Assessing new growth opportunities with focus on long term value creation



THE **JUST** GROUP



# Premier—Consolidated Income Statement

| \$m   | 26 Jul 09<br>to 31 Jul 10 | 1 Jul 08<br>to 25 Jul 09 |
|---|---------------------------|--------------------------|
| Premier revenues (ex Just Group)                    | 16.7                      | 25.5                     |
| Premier expenses (ex Just Group)                    | (3.7)                     | (3.4)                    |
| Just Group EBIT                                     | 84.2                      | 95.2                     |
| Finance costs                                       | (7.9)                     | (9.1)                    |
| FX accounting benefit due to acquisition accounting | -                         | 2.4                      |
| <b>Profit before income tax</b>                     | <b>89.3</b>               | <b>110.6</b>             |
| Income tax expense                                  | (9.7)                     | (27.9)                   |
| <b>Net profit</b>                                   | <b>79.6</b>               | <b>82.7</b>              |

-  Premier NPAT for FY2010 of \$79.6m
-  Just Group reported sales for FY2010 up 3 percent to \$870m and EBIT of \$84.2m in tough trading conditions
-  EPS of 52.8 cents



THE **JUST** GROUP



# Premier - Consolidated Balance Sheet

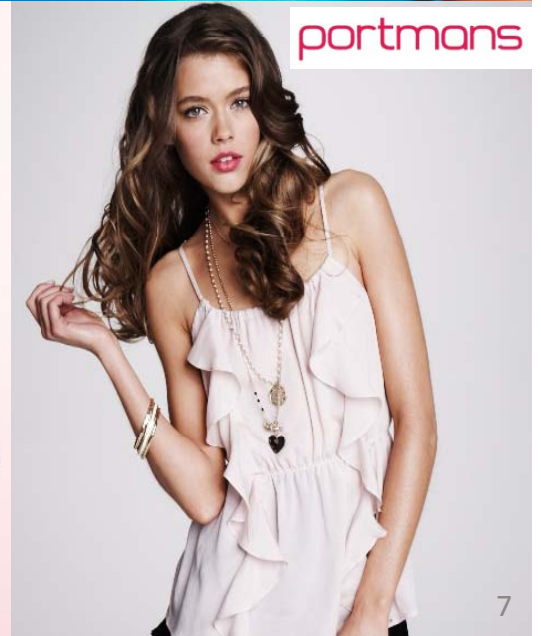
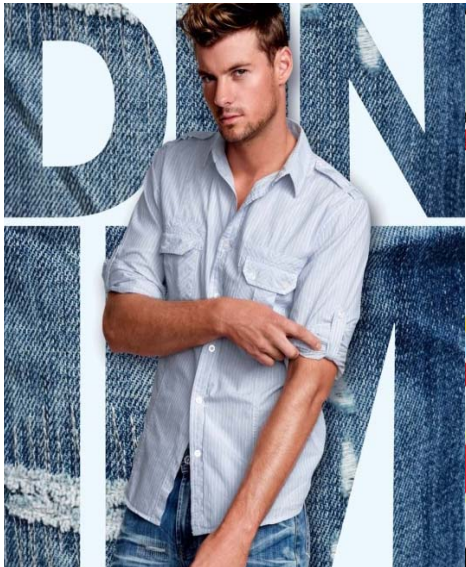
| \$m  | 31 Jul 10      | 25 Jul 09      |
|--|----------------|----------------|
| <b>Assets</b>                                    |                |                |
| Cash and cash equivalents                        | 316.6          | 328.7          |
| Inventories                                      | 71.7           | 69.5           |
| Plant and equipment                              | 91.2           | 73.3           |
| Other assets                                     | 36.3           | 36.2           |
| Available-for-sale financial assets              | 72.8           | 28.7           |
| Intangible assets                                | 854.2          | 850.1          |
| <b>Total assets</b>                              | <b>1,442.8</b> | <b>1,386.5</b> |
| <b>Liabilities</b>                               |                |                |
| Interest bearing loans and borrowings            | 100.7          | 95.7           |
| Trade payables, provisions and other liabilities | 129.6          | 136.8          |
| <b>Total liabilities</b>                         | <b>230.3</b>   | <b>232.5</b>   |
| <b>Equity</b>                                    |                |                |
| Contributed equity                               | 608.6          | 549.2          |
| Reserves   | 27.5           | (5.1)          |
| Retained earnings                                | 576.4          | 609.9          |
| <b>Total equity</b>                              | <b>1,212.5</b> | <b>1,154.0</b> |

- Premier has maintained a robust cash position
- Clean inventory position with a stock turn of 5.1 times
- Available-for-sale financial assets value has increased as a result of Breville's higher share price



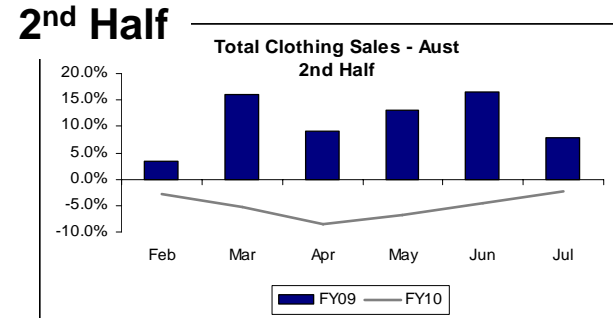
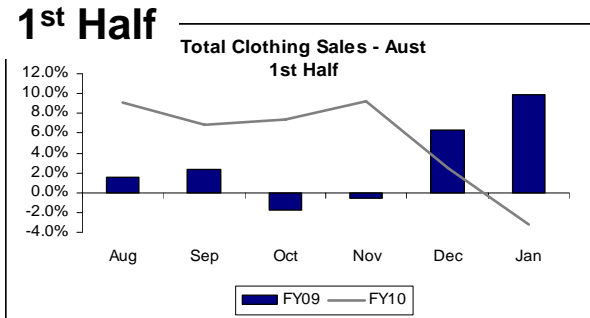
THE **JUST** GROUP





# FY10 – Two distinct halves...

## Economy



- Economy generally strong, although interest rates beginning to rise as the economy began to cycle the gov't stimulus payments.

- Clothing spend continued to decline throughout the 2<sup>nd</sup> half
- Interest rates continued to rise as the economy cycled the full benefit of the gov't stimulus payments between April and June

## Results

- Strong sales growth - +9.0%
  - Just Jeans, Jay Jays, Dotti, Peter Alexander and Smiggle strong
  - Portmans weak
- 32 new stores opened – 958 stores at end

- Sales declined 3.5%
  - Just Jeans and Jay Jays most affected by weak economy
  - Smiggle and Peter Alexander continued to be solid
- 21 new stores opened – 979 stores at end



THE JUST GROUP



# Just Group – Summary Result

|                                | FY10          | FY09          | Var           |
|--------------------------------|---------------|---------------|---------------|
| Sales                          | 870,385       | 844,853       | +3.0%         |
| LFL sales*                     | -3.7%         | -1.6%         |               |
| Gross Profit**                 | 519,073       | 500,827       |               |
| Gross margin (%)**             | 59.6%         | 59.3%         | 36bps         |
| Salaries                       | (195,767)     | (175,127)     | +11.8%        |
|                                | 22.5%         | 20.7%         | 176bps        |
| Rent                           | (168,386)     | (156,013)     | +7.9%         |
|                                | 19.3%         | 18.5%         | 88bps         |
| Advertising & Direct Marketing | (12,131)      | (13,611)      | -10.9%        |
|                                | 1.4%          | 1.6%          | -22bps        |
| Depreciation & Impairment      | (19,644)      | (25,350)      | -22.5%        |
|                                | 2.3%          | 3.0%          | -74bps        |
| Other CODB                     | (48,183)      | (40,351)      | +19.4%        |
|                                | 5.5%          | 4.8%          | 76bps         |
| Other income                   | 8,873         | 5,109         | +73.7%        |
| Share of JV Profit             | 492           | (145)         |               |
| <b>EBITA</b>                   | <b>84,327</b> | <b>95,339</b> | <b>-11.6%</b> |
|                                | 9.7%          | 11.3%         | -160bps       |
| Amortisation                   | (133)         | (153)         |               |
| <b>EBIT</b>                    | <b>84,194</b> | <b>95,186</b> | <b>-11.6%</b> |
| Borrowing Costs                | (7,869)       | (9,082)       | -13.4%        |
| <b>Profit before tax</b>       | <b>76,325</b> | <b>86,104</b> | <b>-11.4%</b> |

| Issue   | Response   |
|---|--|
| Stores increased by 53<br>Increased hourly rates under new EBA  | Reduced store rosters<br>Headcount freeze outside of stores  |
| 70% of leases with fixed escalations of between 3% and 5%<br>80 new stores                                    | Limited increases on renewals<br>Closing poor performing stores (27 closures)                          |
| General inflation across estate (utilities etc)<br>53 new stores<br>Redirected marketing to in-store activity | Reduced discretionary costs<br>Negotiated new pricing and volume discounts<br>New policies e.g. travel |

## Notes:

\* LFL based on same 53 weeks in FY09

\*\* Gross profit adjusted to exclude sales to South Africa JV



THE JUST GROUP



# Portmans: Turnaround on track...

| <b>Five key drivers</b>                          | <b>Status</b>  |
|--|--|
| 1. Understand the customer and brand proposition | Target customer clear and brand alignment progressing well                                       |
| 2. Have the right team                           | Team in place  |
| 3. Improve the product offer                     | Improved offer receiving encouraging response from existing and new customers                    |
| 4. Right locations & store design                | Flagship Sydney CBD store opened<br>Poor performing stores closed<br>Portfolio review continuing |
| 5. Enhance the brand experience                  | In-store focus delivering good results   |

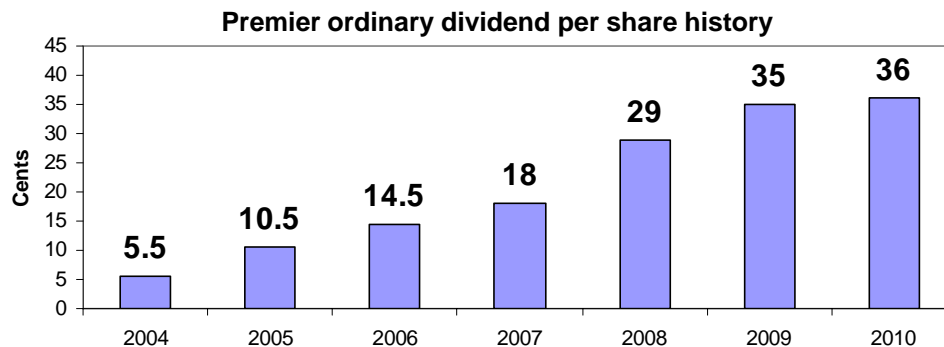


THE **JUST** GROUP



# Dividend and capital management

- Premier's Board continues to focus on rewarding shareholders and maintaining cash reserves for opportunities that may arise
- Total FY2010 dividends of 66c per share
  - Fully franked ordinary dividends of 36c per share
  - Fully franked special dividends of 30c per share
- Reaffirms the confidence Directors have in Premier's performance and underlines our commitment to Capital Management.
- FY2010 dividends have continued to reward Premier shareholders with real wealth creation.



In addition to the ordinary dividends, special dividends declared in FY2010 totalled 30c per share (FY2009 - 40c per share)



THE **JUST** GROUP



