

# **PREMIER INVESTMENTS LIMITED**

(A.C.N. 006 727 966)

2 December 2016

## **CHAIRMAN'S ADDRESS**

### **INTRODUCTION**

On behalf of my fellow Directors, it is with pleasure that I am able to report to shareholders on another successful financial year. Your Board shares a strong collective optimism for your company and its future prospects.

Premier's 2016 result, and our confidence in the prospective outlook, reflect the success of our strategy. This strategy has been implemented by the best retail management team in Australia and overseen by a very experienced Board with the relevant set of skills and knowledge.

Our performance has been hard earned by processes put in place by the Board and senior management team against the background of an extremely challenging external environment. Where other retail businesses have failed or faltered, Premier continues to grow and create shareholder value.

This point does not relate to the past year only. In my address to shareholders at the 2015 AGM, I said that two consecutive themes have characterised my address to shareholders in recent years.

The first has been to acknowledge the extraordinarily challenging environment for Australian business generally and certainly for the retail sector.

The second has been to report strong performance by Premier, notwithstanding the adverse environment of that year - an environment which has now been sustained over a period which is unprecedented in my over 50 years' experience of the ups and downs of retail cycles.

And so it was for 2016.

Issues such as unseasonable weather and soft consumer confidence are a part of life for retail businesses and affect all competitors.

What was unusual for 2016 was the warmest Autumn on record in Australia and an extraordinarily long election campaign which served to exacerbate already low consumer confidence arising from a range of other factors.

Those factors are well known. In Australia, issues such as cost of living pressures, under and unemployment and high levels of personal debt exist against the background of the poorly managed transition from the mining boom, volatility in equity markets, commodity prices, currency and the relative instability of the political environment in recent years.

Overlaying these domestic issues is the uncertainty arising from international geopolitical events and the continued fragility of the international markets and economies.

We have seen the confluence of all of these factors with the challenges of the structural changes impacting on the international retail sector, as well as the arrival in Australia of formidable international retailers.

Our ability to deliver continued strong performance in this context - and outperformance relative to our competitors - is the outcome of excellence in the implementation of retail disciplines and consciously taken actions.

In simple terms, that includes ensuring that we have both the right strategy in place and the right people in place to successfully execute. Very simple to say - very hard to do.

However, the real test for our shareholders is what has been delivered to you as the owners of the company. I will refer later in this report to the strength of our financial position but let me point to one metric which demonstrates that we have met this test.

In the past 5 years - a period as difficult as I have ever encountered in Australian retail and which has seen the demise or decline of iconic Australian retail businesses – the market capitalisation of Premier Investments has more than doubled from less than \$1 billion to over \$2 billion while also returning over \$300 million in fully franked dividends to our shareholders.

Over this period, the Group performance has been underpinned by the strong performance of our core operating business, Premier Retail. In 2016 Premier Retail reported both record sales and a record net profit - which I will now turn to as I outline our financial performance for the year.

## **STRONG PERFORMANCE**

Premier Investments reported a net profit after tax of \$103.9 million in the 2016 financial year, an increase of 17.9% from 2015 and an underlying net profit before tax of \$145.4 million, an increase of 22.6% on 2015.

This result comprises:

- the contribution from Premier Retail and its seven retail brands;
- earnings from Premier's 27.5% ownership in Breville Group Limited; and
- interest earned on Premier's substantial cash balance.

## **PREMIER RETAIL**

A significant milestone was achieved by Premier Retail in 2016 with total sales exceeding \$1 billion for the first time. In part, this is attributable to the continuing expansion of our international store footprint but it is pleasing to also note the overall sales performance in our core market.

Premier Retail achieved underlying earnings before interest and tax of \$133.3 million, an increase of 26.1% on the prior year. Underlying net profit before tax increased by 28.1% to \$129.2 million.

The strong trading result demonstrates the continued successful implementation of the Premier Retail strategy to drive growth through Smiggle, Peter Alexander and the online platforms while rejuvenating and enhancing the brand integrity and market position of our core apparel brands.

A further integral component of the strategy is the continuing implementation of a very disciplined cost efficiency program which is able to both meet the challenges of rising input costs while contributing to significant reinvestment in our core brands.

As I have made the point previously, the management of those things we can control through excellence in the execution of basic retail disciplines has been a key factor in our success in these difficult times and is a credit to our management team and staff.

## **GROWTH INITIATIVES**

Your Directors continue to be exceptionally pleased and excited by the outstanding performance and future outlook for Smiggle. Sales for 2016 were \$188 million, an increase of 41.8% over the prior year and 79% over two years.

Smiggle now has stores in Australia, New Zealand, England, Scotland, Wales, Singapore, Hong Kong and Malaysia. In every market we enter this unique brand outperforms our initial expectations and confirms our investment in the growth of the brand and its potential to have a very substantial international footprint. In excess of 50% of Smiggle's revenue for the past financial year was delivered by international stores and this percentage will continue to rise as we expand to new markets.

During 2016 we opened 52 new Smiggle stores taking our total Smiggle store count at financial year end to 239 stores. In the United Kingdom we imposed a brief pause on new stores following the unanticipated Brexit vote. Management then undertook a comprehensive analysis of all potential issues which may impact on our UK growth objectives and closely monitored post Brexit trading. Trading proved to be as good, or better, post the Brexit vote than before.

The strong trading performance combined with the existing strong UK market position reinforced our confidence in the continued expansion of Smiggle UK with an objective of annual sales in excess of \$200 million by calendar year 2019.

The Premier Board continues to also be very pleased by the outstanding performance of the Peter Alexander brand. Sales growth for the 2016 financial year increased by 20.4% to \$169.1 million in Australia and New Zealand based on the strength of the product offer, new product categories and innovative promotional campaigns.

Peter Alexander opened 11 new stores in 2016 including a flagship store in Queen Street Auckland and the brand's first airport store, in Brisbane. Management plans to open between five and seven new stores each year over the next three years.

We are very proud of both of these unique Australian brands and their success. Both Smiggle and Peter Alexander are design led with proprietary products designed by very talented in house teams located in Melbourne. Both brands have a loyal and ever growing customer base who seek out new products which are priced to be affordable, and therefore relatively resilient. Both brands also have outstanding management and teams who have been exceptional in executing growth initiatives while enhancing brand integrity and profit. Again, simple to say - very hard to do.

The third and potentially very significant growth channel for Premier is online. In 2016 online sales growth increased by 39.6% over the prior year which had seen over 30% growth in 2015. We continue to significantly outperform the market and have set an objective of \$100 million in annual online sales by 2020. To achieve this we have recently again undertaken a comprehensive review of our capabilities and needs and will make significant investments in people and technology to ensure that our presence in this channel will be benchmarked at international best practice in order to optimize sales.

## **INVESTMENT IN CORE BRANDS**

Premier Retail's core apparel brands, Just Jeans, Jay Jays, Portmans, Dotti and Jaquie E, are a fundamental part of our business and represent both our heritage and future. During 2016 management continued to make targeted investments across the brands. 18 new stores were opened, 33 stores were relocated and refurbished and a further 28 stores were refurbished in their existing locations.

In addition to investment in store location, presentation and our service focus we have undertaken substantial changes and improvements to design capabilities, sourcing, our supply chain and logistics. We continue to maintain a relentless focus on cost controls and efficiencies and are very pleased that 2016 again saw an increase in gross margins for Premier Retail.

I refer shareholders to the full year Investor Presentation released in September and our Annual Report for detailed information in relation to each of the brands.

## **FINANCIAL STRENGTH**

The strong balance sheet of Premier Investments has been maintained with cash on hand at financial year end of \$283.2 million and the equity accounted investment in Breville at \$213.4 million. The current market value of Premier's holding in Breville is approximately \$320 million.

In consideration of the strength of our balance sheet, together with the continued strong performance by and outlook for Premier Retail, the Board determined to declare total ordinary dividends for the year of 48 cents per share, fully franked. This represents an increase of 6 cents per share on ordinary dividends in 2015.

A strong balance sheet has been a consistent objective of the Premier Board and has enabled us to fund our international and organic growth opportunities while maintaining the capacity to pursue other opportunities should they arise. In these uncertain times we consider the strength of our balance sheet to be a valuable asset.

## **CURRENT ISSUES**

The technology-based changes which have had, and will continue to have, such a profound effect on the international retail industry offer both opportunity and threat.

Opportunity - to achieve world best practice and to substantially increase the reach and size of our target markets. Premier Retail certainly understands the opportunities and will seek to optimize the potential upside.

We also understand the potential threat of not being world class in all aspects of our business - the right products at the right price point and outstanding service, presentation, sourcing, logistics and technology.

We believe that we have the management capacity to aggressively compete with any direct competitor - domestic or international - if we do so on a level playing field.

For a number of years there has been no level playing field for Australian retailers who have competed for sales with offshore retailers who were effectively exempted from collecting the GST and therefore provided with a potential price advantage.

The good news, finally, is that I believe the current Government and Treasurer Morrison fully understand the issue and this positive discrimination in favour of offshore competitors will end in the very near future. I commend the Treasurer for this and urge the Government to act without further delay. We have seen too many Australian retailers go out of business, too many jobs lost as well as much needed government revenue foregone.

We also urge the Government to address the issue of weekend penalty rates. Let me repeat what I said in this very forum one year ago because, I regret to report, (that) nothing has changed.

'The structure of the current regime of weekend penalty rates is incompatible with the world we live in, where most consumers shop on weekends and can also shop online 24 hours a day, 7 days a week. Our penalty rate system functions in a way which is economically unproductive and provides less jobs. Our own experience in the United Kingdom shows that, without penalty rates, we can employ more people who want to work on weekends. This is enhancing the shopping experience for customers whilst raising the level of productivity.

I will cite one key statistic when thinking about penalty rates. It costs us over 100% more per hour per employee to work on a Sunday in Australia than it does in the United Kingdom, Singapore or New Zealand (and now also Hong Kong and Malaysia). In a global market this is uncompetitive and stops growth.'

I certainly don't want to be in the position where I am able to again repeat this same point next year. We look forward to the Government addressing the issue as an urgent matter.

## **LEADERSHIP AND GOVERNANCE**

The 2016 result of Premier Retail record sales and net profit is a credit to our senior management team, led by Mark McInnes, and under whose leadership we have seen year on year improvements in very challenging times. Premier Retail has not only outperformed local direct competitors but has created a significant international revenue and profit channel.

Your Board is very conscious that we are now competing in the international retail space for customers, suppliers and, critically, talent. We are running an increasingly complex multi- jurisdictional business. Management has been outstanding in the transformation of our business and the ultimate beneficiaries of their performance is, of course, our shareholders through the substantial increase in the value of Premier and our dividend increases.

During the year shareholders approved a new employment agreement for Mark McInnes with performance incentives to be tested out to 2020. The Board is delighted that Mark has recommitted to a long term tenure with Premier and we look forward to his continued contribution to fully realising the potential of our brands and increasing shareholder wealth.

Also during the year we announced the appointment of Mr Terry McCartney as an independent non-executive Director. Terry is a former Managing Director of both Myer Grace Brothers and Kmart and a highly valued advisor to investors in the retail sector in Australia and internationally. He has also been strongly involved in the growth of Smiggle as a non - executive Director of Just Group. We are very pleased that Terry accepted the invitation to join the Premier Board and trust that this will also be reflected by shareholders in his proposed election today, which we will come to in a few minutes as an Agenda Item.

## **CONCLUSION**

Let me now provide my annual snapshot of where we stand as a company and why your Directors remain very confident of our future:

We have a proven record of achieving outstanding results whatever the state of the operating environment.

- In 2016 Premier Retail delivered record sales and net profit and all brands are profitable.

- Smiggle International will continue to expand with substantial potential upside.
- Premier Retail has a clear growth strategy which is successfully being delivered with the capacity and flexibility to further diversify revenues.
- Premier Retail has the outstanding senior management team in Australia, and can be benchmarked internationally.
- Premier retains its strong financial position with the strength of the balance sheet and substantial cash reserves providing the capacity for flexibility and growth.
- Our investment in Breville provides for future upside as it continues to innovate and pursue new markets.
- We have a proven record of shareholder focus through both significant capital growth and strong dividend returns.

This summary of our position has been achieved through the experience and deep knowledge of what I consider to be the best credentialed Board for a retail business in Australia.

I want to sincerely thank my fellow Directors for the support, guidance and professional expertise they have contributed over the year.

I would also like to thank Mark McInnes, the senior executive team and our over 7,000 team members who strive to deliver excellence every day.

Finally, on behalf of all of your Directors, I thank our shareholders for your continued support. We will work very hard to ensure that your support is maintained over the coming year and years.

Thank you.

Premier Investments Limited  
Annual General Meeting  
2 December 2016



dotti

JACQUIE



peteralexander

portmans

smiggle



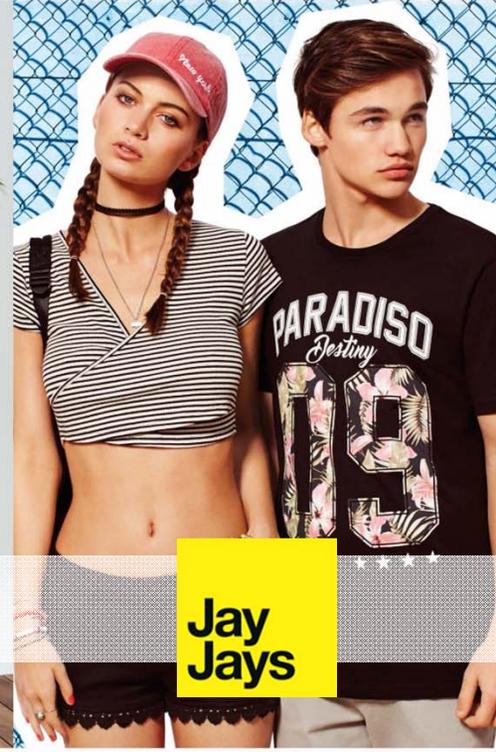
portmans



Just Jeans



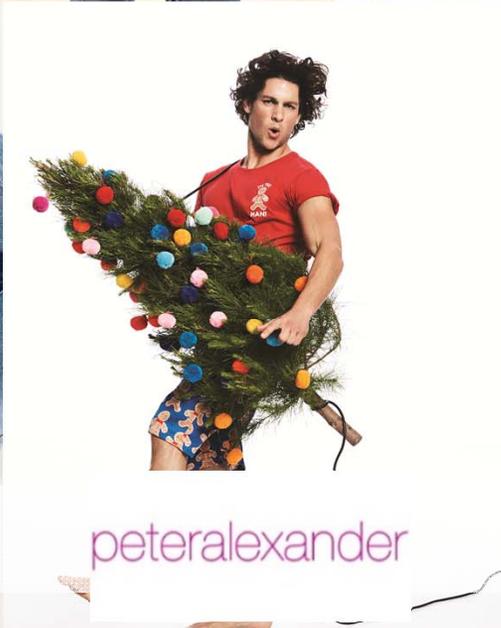
JACQUIE



Jay Jays



dotti



peteralexander



Smiggle

# Agenda

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Chairman's address

2

Resolutions



# 1. CHAIRMAN'S ADDRESS



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Just  
Jeans.



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WE ARE  
DOTTI  
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# Financial review

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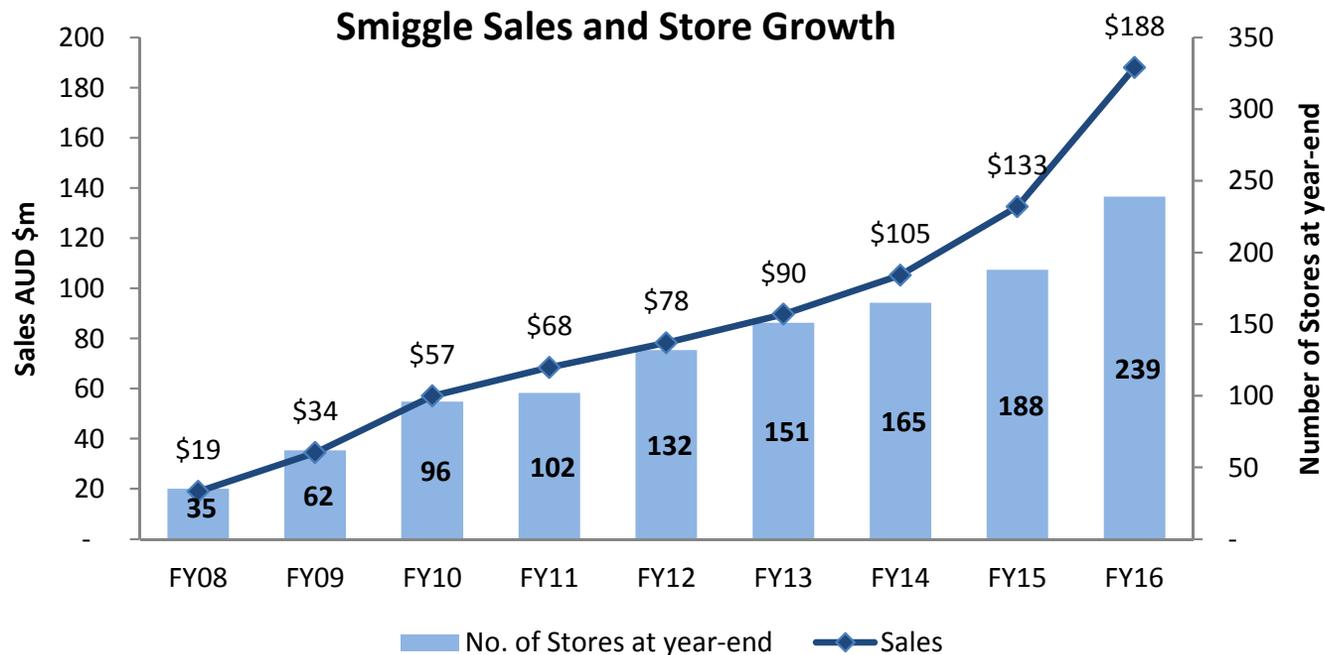
- Group profit
  - Underlying net profit before tax \$145.4 million, up 22.6% on FY15<sup>1,3</sup>
  - Reported net profit after tax \$103.9 million, up 17.9% on FY15<sup>1</sup>
  
- Premier Retail contribution to Premier Investments performance
  - Sales of \$1,049.2 million, up 10.9% on FY15<sup>1,2</sup>
  - Underlying EBIT of \$133.3 million, up 26.1% on FY15<sup>1,3</sup>
  - Underlying Profit before tax of \$129.2 million, up 28.1% on FY15<sup>1,3</sup>

Note:

1. Group result in FY16 includes 53rd week contributing \$16.8m in sales and \$7.4m in EBIT.
2. Excluding sales to South African Joint Venture in FY15.
3. Underlying EBIT and NPBT excludes non-recurring costs in FY16 regarding a one-off litigation expense (\$2.3m) included within 'Other Expenses' in the statutory accounts and in FY15 associated with exit from South Africa joint venture (\$1.7m).

# Smiggle: global expansion driving growth

- FY16 sales of \$188m, up 41.8%
- Strong LFL sales recorded in all countries
- More than 50% of total global revenue was generated outside Australia in FY16
- 52 new stores opened in FY16
- Sales have grown from \$19m in FY08 to \$188m in FY16





Peter Alexander  
sales up by  
20.4% to  
\$169.1 million





**Jay  
Jays**

# Premier Investments balance sheet remains strong

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- Cash on hand of \$283.2 million at end of FY16
- Balance sheet at end of FY16 shows investment in associate (Breville) as \$213.4 million. The current value of the investment is approximately \$320 million
- Franking credit pool of \$198.8 million at year end
- Total full year dividends of 48 cps fully franked (FY15 ordinary: 42 cps)



Jay  
Jays



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# Smiggle





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## 2. RESOLUTIONS

Premier Investments Limited  
Annual General Meeting  
2 December 2016



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