MYER'S 1H 2018 NUMBERS DON'T LIE

22 March 2018 – Premier Investments Limited ("Premier") has studied the numbers released by Myer yesterday for the first half of FY 2018 and wishes to draw its fellow shareholders' attention to a range of issues.

As usual, Myer's Executive Chairman, Mr Hounsell, was long on hype and false optimism, and very short on detail around the issues lurking in his numbers.

Premier believes all Myer shareholders should be greatly concerned by the following:

1. **Myer's rate of online sales growth HALVED between Q1 2018 and Q2 2018.** Far from being a positive, as claimed by Mr Hounsell yesterday, Myer's online performance was likely the root cause of its two downgrades during the half. (For more on this issue, please see the attachment.)

2. **Myer's stores sales decreased by 5.8% or $100 million during the half.**

3. **Myer again relied on "one-off" and "implementation" costs to fudge its results**. These so-called "one-offs" actually seem to be more of a constantly recurring feature of Myer's mathematical gymnastics, with one-off items totalling $65m in 2H 2017 and $18m in 2H 2016. Now 1H 2018 has $14m of "one-offs". These appear to be ongoing costs of operating the Myer business, and if they were treated as such the underlying EBIT for 1H 2018 would have been $48.3m, down 49% on last year (1H 2017: $95.2m). This is on the back of a 4% drop in sales!

4. **The second half will be even worse**. Myer refused to say if they expected a EBIT loss in 2H 2018 but, it is clear that if the declining sales trend of 1H 2018 continues there will be a large EBIT loss in 2H 2018. No indication of early 2H 2018 trading was provided to the market yesterday, leaving shareholders to assume the worst.

5. **Myer is taking out store staff**. The decrease in store sales and the significant increase in stock shrinkage are indicative of Myer removing sales staff from the floor.

6. **Myer has lost control of costs**. Cost of doing business went up 105 bps as a % of sales for the half.

7. **Myer's stance on impairments is precarious.** What we know is that as long as the market capitalisation of the company (circa $350m) remains lower than the balance sheet equity (circa $580m) there remains a risk of further impairments and issues on covenants. Note 3 of the Myer accounts clearly states the sensitivities for further impairments – i.e. every additional 0.4% decrease in the EBIT margin creates a further impairment of $103m. In 1H 2018, Myer experienced a 1.73% drop in EBIT margin.

8. **Is Myer squeezing its suppliers to hide its inventory problem?** Despite rapidly declining sales, inventory levels are reported by Myer as being the same currently as at end of July 2017 (both $372m), yet trade and other creditors have increased by $92m (from $379m to $471m). Has Myer forced its suppliers to extend their payment terms from 30 days out to 60, 90 or even longer to cover their inventory crisis?

9. **There is little room left on the debt covenants.** Yesterday's release only provides the 1H 2018 results versus the covenants, but these covenants are normally assessed on a full-year basis. With 2H 2018 looking increasingly like a loss, the so called "head room" looks very low.

10. **Don't mention the acquisitions.** Sass & Bide is still sitting on the balance sheet when it should have been written off entirely – perhaps to make the total write-off smaller, or perhaps to not further embarrass Myer director Julie Ann Morrison? (Ms Morrison was appointed to the Myer Board in November 2017 and has overseen the demise of Sass & Bide over the last two years as a director of the Sass & Bide Board). We also don't know how Marcs and David Lawrence impacted sales and gross margin.

11. **The Board no longer assesses the management team's performance against their publicly-stated hurdles.** Myer presented its 1H 2018 results to the market WITHOUT benchmarking against the performance hurdles re-set by the company as recently as November 2017. These hurdles are:

    - Greater than 10% improvement in sales per sqm from FY17-FY20 (previously, the company was targeting greater than 20% improvement in sales per sqm and +3% in average sales growth to 2020)
    - Improvement (i.e reduction) in CODB to sales of at least 50 bps by FY20
    - Underlying EPS improvement of at least 5% CAGR over FY17-FY20 (previously, the company was targeting EBITDA growth ahead of sales growth)
    - ROFE greater than 10% by FY20 (previously the company was targeting greater than 15% ROFE)

    Had the Myer Board reported out against its November metrics yesterday, shareholders would have observed:

    - Myer's sales per sqm are down 2.6% on a 12-month rolling basis
    - Myer's CODB as a percent of sales has actually increased by 105 bps
    - Underlying EPS has deteriorated by 36%
    - ROFE has deteriorated to 6.5% on a 12-month rolling basis

    Perhaps that's why the Myer Board gave up and stopped measuring results! However, any Board that doesn't hold its management team to account has lost the right to represent shareholders.

Premier asks: "Why should Myer shareholders trust Mr Hounsell and his Board?" when:

- They slashed performance hurdles in November 2017 and then abandoned them altogether in March 2018
- They said the New Myer strategy was the right one and that the Board played an instrumental role in developing and overseeing it – but yesterday there was no talk of New Myer
- No alternative strategy has been presented and the future is completely unclear
- The Executive Chairman has repeatedly lied to, and misled, shareholders
- The Board lacks the retail credentials to save Myer
- The Board refuses to be accountable to its shareholders

Chairman of Premier, Mr Solomon Lew said: "I am again calling for all Myer shareholders to unite and save our company from the Myer Board. Yesterday was surely the final nail – there can be no sensible argument mounted in defence of the Myer Board. It's now just a matter of how and when we replace them. Premier continues to caucus with fellow Myer shareholders with the objective of calling an EGM to replace the failed Myer Board with a new, performance-focused Board."