

17 February 2015

ASX Announcement

1H 2015 RESULT: DICK SMITH DELIVERS ON GROWTH STRATEGY

- The Company's **Growth Strategy** momentum accelerates & delivers results
- Total sales **up 8.9%** (1H 2015: \$693.8 million vs. 1H 2014: \$637.0 million)
- **400 stores by FY2015, with 11 stores opened** in 1H 2015 and 9 planned for 2H 2015
- Comparable sales **up 2.0%**, with **Australia up 4.0%**
- EBITDA **up 7.1%**¹ (1H 2015: \$44.7 million vs. 1H 2014: \$41.7 million); Australian EBITDA up 16.1%
- **NPAT \$25.2 million**, up 0.8% (1H 2014: \$25.0 million)
- Interim dividend of **7.0 cps fully franked** payable 30 April 2015

Dick Smith Holdings Limited today reported another strong performance as the Company's Growth Strategy gains momentum. Greater customer resonance in all Dick Smith formats drove strong sales growth of 8.9% for the 26 weeks ended 28 December 2014 (1H 2015).

Nick Abboud, Dick Smith Managing Director & CEO, said "Our result this half reaffirms that our Growth Strategy is performing strongly. We delivered profitable comparable and total sales growth, despite challenging market conditions. We expect further strong performance from our Growth Strategy and anticipate approximately 10% total sales growth in 2015."

Gross margin was 24.7% (1H 2014: 25.3%), with the Australian gross margin remaining strong at 24.9%, despite tougher trading conditions. New Zealand's gross margin was 23.4%, reflecting a more competitive market and increased promotional activity.

Dick Smith continues to drive cost efficiencies, resulting in Cost of Doing Business (CODB) decreasing 41bp to 18.3% of sales in 1H 2015. The continued successful implementation of Dick Smith's Growth Strategy increased interest and depreciation charges during 1H 2015.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) was \$44.7 million. This robust performance represents a 7.1% increase on the prior period (1H 2014: \$41.7 million) and was achieved despite increased competitive activity.

Net Profit After Tax (NPAT) was \$25.2 million (1H 2014: \$25.0 million).

Dividends

The Directors have declared a fully franked 7.0 cents per share interim dividend, to be paid on 30 April 2015. The dividend represents approximately 66% of 1H 2015 NPAT, consistent with the Board's 60-70% payout range. The record date for determining entitlement to the dividend is 12 March 2015.

A summary of the Company's financial performance for the 26 weeks ended 28 December 2014 is shown below:

	1H 2015	1H 2014 Pro forma	Variance (%)
Sales (\$m)	693.8	637.0	8.9
Gross Profit (\$m)	171.7	160.9	6.7
<i>Gross Margin</i>	24.7%	25.3%	(51bp)
CODB (\$m)	127.0	119.2	6.6
<i>CODB / Sales</i>	18.3%	18.7%	(41bp)
EBITDA (\$m)	44.7	41.7	7.1
<i>EBITDA Margin</i>	6.4%	6.6%	(11bp)
Depreciation (\$m)	7.0	5.5	27.4
EBIT (\$m)	37.7	36.2	4.0
<i>EBIT Margin</i>	5.4%	5.7%	(26bp)
Interest	1.5	0.5	219.2
Profit before Tax (\$m)	36.2	35.8	1.2
Tax	11.0	10.8	2.2
NPAT (\$m)	25.2	25.0	0.8
Basic EPS (cps)	10.7	10.6	0.8
Interim dividend, fully franked (cps)	7.0		n.m.

Growth Strategy

Dick Smith's strategy is to profitably grow sales by providing consumers with the product they want at competitive prices from locations and platforms convenient to them. This is being achieved by giving consumers access to an unparalleled network of 385 stores throughout Australia and New Zealand and an online purchasing experience via multiple platforms.

Since implementing the Dick Smith Growth Strategy 18 months ago, the Company has:

- opened 65 new stores and further expanded Australia's fastest growing consumer electronics store network with 11 stores opened in 1H 2015 and up to 9 new stores anticipated in 2H 2015;
- attracted new consumer demographics through the introduction of three new formats;
- increased brand awareness of Dick Smith and improved customers' price perception of the brand;
- increased online sales to over 7% of retail sales in 1H 2015 from over 5% in 2H 2014;
- grown Private Label sales, with the premium MOVE brand available in all stores; and
- launched 'MOVE by Dick Smith' at Sydney Airport which commenced trading today.

Mr Abboud said, "Our Growth Strategy is based on the premise that we will ensure we are competitive in the marketplace but we will also focus on identifying new target customer groups not currently being catered for by the market."

"Our new store roll-out program, in which we envisage approximately 450 stores by 2017, is progressing well. We are on track to open 9 stores in 2H 2015. In addition, today we commenced operating in several high traffic areas within Sydney Airport, in partnership with Heinemann, the operator of the Duty Free business, under the 'MOVE by Dick Smith' banner and we look forward to its contribution to the business," Mr Abboud said.

"Our online operations have surpassed our expectations. Online sales continue to grow strongly and now represent over 7% of our retail sales, compared to a run rate of over 5% in 2H 2014. We anticipate achieving our objective of more than 10% of retail sales online well before FY2017," said Mr Abboud.

Sales

Total sales for the half were \$693.8 million, growing 8.9% on the corresponding prior year period (1H 2014: \$637.0 million). Comparable sales for the half were up 2.0%. Australian sales grew 12.2%, with Australian comparable sales up 4.0%, on the prior comparative period. Growth accelerated in 2Q 2015. New Zealand sales declined 9.3%, impacted by aggressive competitive pricing and a deterioration in consumer sentiment, particularly in the second quarter.

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

“Throughout the half we were able to deliver sales growth and gained market share in our core categories. Achieving this growth is particularly pleasing given that independent industry data from GfK² suggests that throughout the half Australian consumer electronics were flat in terms of total sales. This echoes our collaborative and successful approach in improving our brand and pricing perception in the marketplace and enables us to focus on key growth categories,” Mr Abboud highlighted.

The Company increased its Private Label share of total sales to 12% during the half and is well positioned to grow its Private Label business to 15% of total sales in 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 the 40% expansion of our range during 1H 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 24.7% of sales (1H 2014: 25.3%). The Australian gross margin was well managed through mix and Private Label. Impacting the gross profit was a 201bp reduction in the New Zealand gross margin, reflecting significantly increased competitive activity and a deteriorating retail market.

Cost of Doing Business (CODB)

The Company continues to focus on driving cost efficiencies throughout the business. CODB in 1H 2015 was 18.3%, down 41bp on the previous corresponding period. The reduction reflects the benefits of the amalgamation of the New Zealand support office into Australia in February 2014, which saw New Zealand CODB reduce by NZ\$2.1 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 23bp impact on Company CODB from the softness in New Zealand sales.

Balance sheet

Dick Smith’s balance sheet remains strong, with no debt as at 28 December, 2014. Inventory was tightly managed throughout the half. The increase in inventory levels during 1H 2015 strongly positions the Company for sustainable growth. This includes the ongoing opening of new stores, continued expansion of our Private Label brands, utilising our warehousing capacity in Sydney and Auckland to benefit from currency movements and positioning the Company for future growth, including five new ‘MOVE by Dick Smith’ locations at Sydney Airport. The Company also availed itself of a number of opportunities in January/February, which necessitated purchasing inventory prior to Christmas.

Outlook

Dick Smith's sales performance in the second half year to date has accelerated from the 8.9% total sales increase reported in 1H 2015, despite continued challenging conditions in New Zealand. With January (calendar) month sales up over 17% and February sales to date exhibiting double-digit growth, total sales growth for the year to date now exceeds 10% and comparative sales growth is over 3%.

Incorporating anticipated benefits from the Company's growth initiatives, management expects FY2015 sales to increase by around 10%, with comparative sales growth of around 3%³.

"Dick Smith is well placed to deliver further strong sales and profit growth over the next 18 months. We have a solid Growth Strategy and a track record to date of delivering both sales and cost reduction targets outlined in our strategy. In addition to the Sydney Airport Duty Free stores, commencing today, we plan to open 9 new stores in 2H 2015 and aim to open 20 new stores in FY2016. In FY2015, we anticipate EBITDA growth of 7-9%³ and NPAT and EPS growth of 3-5%³, reflecting the continued investment in future growth opportunities," said Mr Abboud.

For further information please contact:

Investors: David Cooke, Director of Investor Relations, +61 (0) 411 885 041
Media: Mandy Galmes, Fuel Communications, +61 (0) 412 490 926

Analyst and investor conference call:

A conference call will be held for analysts and investors at 9:00am (AEDST) today, with the presentation available at dicksmithholdings.com.au

¹ Growth rates and comparisons are based on 1H 2014 pro forma numbers

² GfK Retail Management Australia Summary, period ended December 2014.

³ Subject to prevailing market conditions continuing.