

# MYER

## ASX & Media Release

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### Myer Full Year Results for 2010

**Record EBIT of \$271\* million +14.9%**

**EBIT margin increased to 8.25%\***

**Net profit after tax of \$169\* million +55.1%**

**Full year dividend for 2010 of 22 cents**

Thursday 16<sup>th</sup> September 2010

#### Financial summary\* (52 weeks to 24 July 2010 unless otherwise stated)

- Sales up 0.7% to \$3,284 million (2009: \$3,261 million), up 0.5% on a like-for-like basis
- Operating gross profit margin up 45 basis points to 39.63% (2009: 39.18%), against a prospectus forecast of 39.61%
- Earnings before interest and tax (EBIT) up 14.9% to \$271 million (2009: \$236 million), ahead of prospectus forecast of \$261 million
- EBIT margin up 102 bps to 8.25% (2009: 7.23%), 49 bps ahead of prospectus forecast
- Net profit after tax (NPAT), up 55.1% to \$169 million (2009: \$109 million), ahead of prospectus forecast of \$160 million
- Proforma basic earnings per share of 29.0 cents against prospectus forecast of 27.3 - 28.3 cents per share
- Gearing of 26.8% with net debt reduced to \$314 million; represents net debt/EBITDA of 0.94x on a rolling 12 month (53 weeks) basis
- Return on funds employed increased from 22.41% to 24.07% (rolling 12 months basis)
- Finished the year with an improved inventory position compared to 2009
- Final dividend of 11.5 cents per share (fully franked) to be paid on 4 November 2010. This takes the full year dividend for 2010 to 22.0 cents per share compared to the prospectus forecast range of 20.5 – 21.2 cents per share. The Record Date for the final dividend is 30 September 2010

\* Myer's FY2010 was a 53 week period for statutory reporting purposes (ended 31 July 2010), compared to FY2009, which was a 52 week period. For comparative purposes, this announcement includes sales and profit on a 52 week adjusted basis consistent with the Prospectus and FY2009. Sales include concession sales. Interest and tax have been adjusted to reflect the proforma interest expense as a result of the impact of the IPO. NPAT excludes IPO costs of \$96.4 million.

**Bernie Brookes, Chief Executive Officer said:**

“During the 2010 financial year, the retail environment was very challenging, characterised by global economic uncertainty and fragile consumer confidence. In addition we cycled the significant Federal Government stimulus package, which had provided sales momentum during 2009.

“Against this backdrop, and despite an extensive rebuild of our flagship Melbourne store, the refurbishment of three other stores and the rollout of major technology infrastructure in our new Point-of-Sale and CCTV systems, Myer reported a positive sales result. Our EBIT result was 14.9% above last year, and 3.9% above the prospectus forecast. Notably, our EBIT margin has grown to 8.25% today, an impressive result when compared to 2.3% when the current management team took over in 2006 and we see significant room for further improvement.

“Our performance during the year is evidence of the resilience and sustainability of our improved business model. After 50 months of fundamental business transformation, we have a significantly more efficient and profitable platform from which to grow.

“We are proud of the turnaround that we have achieved at Myer. We have reached an important milestone, however the journey is far from over and the team and I are excited about delivering on our growth promise and increasing returns to shareholders.”

**Business transformation delivers a solid platform for growth:**

- More than \$540 million of capital invested over four years to deliver fundamental business transformation and a highly efficient retail platform
- Developed new brand architecture across all categories and a significantly enhanced merchandise offer to satisfy all demographics and budgets;
- Consumer-led growth in Myer Exclusive Brands, now representing 17% of total sales
- Refurbished eight stores and enhanced visual presentation and merchandising standards across all stores
- Commenced total rebuild of flagship Myer Melbourne store
- Supply chain transformation to a world-class standard
- Significant investment in technology including:
  - New merchandising system MyMerch
  - Rollout of new point of sale well underway with 25 stores now operating with the new system
  - CCTV rollout completed to all stores (excluding those currently under refurbishment)
- Complete re-engineering of merchandise buying and financial systems
- Enhanced **MYER one** loyalty program with 3.7 million members now contributing 68% of sales
- Continued focus on building talent with reward and recognition programmes a key component of our strategy
- New support office in Melbourne’s Docklands

## **Business model built on four key pillars for growth:**

The next phase of Myer's journey is focused on growth and continuing to improve shareholder value and returns, and our strategy is based on four key pillars:

### **1. Growing Comparable Sales**

We will continue to focus on growing comparable sales through initiatives to attract customers into our stores and increase spending. This will be achieved via a number of projects to improve customer service, enhance the store environment (through refurbishments, enhanced visual merchandising, in-store theatre and events), an improvement in our in-store execution including a continued focus on space optimisation and ongoing improvements in our gift, bridal and online offerings.

### **2. Delivering our new store rollout and the Myer Melbourne rebuild**

We are currently on track to open a further 14 new stores by 2014, with scope to grow beyond 80 stores supported by our existing supply chain. The rebuild of our international-class flagship store Myer Melbourne is progressing well with two floors now open and seven of the nine floors expected to be opened in time for Christmas 2010.

### **3. Improving gross margin**

We will continue to focus on improving gross margin through initiatives such as improved merchandise mix, reduced shrinkage, better sourcing, further leverage of our **MYER one** loyalty program and focus on "newness" and "fashionability" combined with targeted markdowns centred on more focused promotional activity.

### **4. Continuing to focus on costs and achieving operating leverage**

We have a continued focus on cost control and efficiency across the business. We continue to benefit from the investments in more efficient supply chain systems and processes implemented during the Turnaround Phase. Importantly, going forward as we grow the business we will benefit from operating leverage as costs are fractionalised across a larger sales base.

Overarching all of these objectives is a company-wide focus on and commitment to improving our service to customers. We have developed a comprehensive strategy to underpin this commitment, supported by a significant investment in a new point-of-sale system, which will dramatically improve service by making it quicker and easier for our team members to serve customers.

**Table 1 - Profit and Loss Statement for the 52 weeks to 24 July 2010**

	2010 Proforma \$m	2010 Prospectus \$m	% Change to Prospectus	2009 Actual \$m	% Change vs. 2009
<b>Total Sales</b>	<b>3,284</b>	<b>3,360</b>	<b>(2.3)</b>	<b>3,261</b>	<b>0.7</b>
Wholesale	2,840	2,937	(3.3)	2,843	(0.1)
Concession	444	423	4.9	418	6.1
Operating Gross Profit	1,301	1,331	(2.2)	1,278	1.9
<i>Operating Gross Profit margin</i>	<b>39.63%</b>	39.61%	+2bps	39.18%	+45bps
Cash Cost of Doing Business	(967)	(1,001)	(3.4)	(976)	(1.0)
<i>Cash Cost of Doing Business/Sales</i>	<b>29.43%</b>	29.80%		29.95%	
<b>EBITDA</b>	<b>335</b>	<b>330</b>	<b>1.5</b>	<b>301</b>	<b>11.2</b>
Depreciation	(64)	(69)	(7.2)	(65)	(1.8)
<b>EBIT</b>	<b>271</b>	<b>261</b>	<b>3.9</b>	<b>236</b>	<b>14.9</b>
<i>EBIT margin</i>	<b>8.25%</b>	7.76%		7.23%	
Interest*	(35)	(38)	(7.8)	(82)	(57.0)
<b>Net Profit Before Tax</b>	<b>236</b>	<b>223</b>	<b>5.7</b>	<b>154</b>	<b>53.3</b>
Tax*	(67)	(63)	6.7	(45)	48.9
<b>Net Profit After Tax (NPAT)*</b>	<b>169</b>	<b>160</b>	<b>5.6</b>	<b>109</b>	<b>55.1</b>

\* Interest and tax have been adjusted to reflect the proforma interest expense as a result of the impact of the IPO. NPAT excludes IPO costs of \$96.4 million.

Myer's FY2010 was a 53 week period for statutory reporting purposes (ended 31 July 2010), compared to FY2009, which was a 52 week period. For comparative purposes, this announcement includes sales and profit on a 52 week adjusted basis consistent with the prospectus and FY2009.

**Table 2: Balance Sheet as at 31 July 2010 (53 weeks)**

	<b>July 2010 Actual \$m</b>	<b>July 2009 Prospectus Proforma \$m</b>	<b>July 2009 Actual \$m</b>
Inventory	353	355	356
Other Assets	106	165	137
Less Creditors	(438)	(469)	(468)
Less Other Liabilities	(239)	(230)	(260)
<b>Net Trading Investment</b>	<b>(218)</b>	<b>(179)</b>	<b>(235)</b>
Property	28	29	29
Fixed Assets	440	371	372
<b>Tangible Funds Employed</b>	<b>250</b>	<b>221</b>	<b>165</b>
Intangibles	921	909	909
<b>Total Funds Employed</b>	<b>1,171</b>	<b>1,130</b>	<b>1,074</b>
Debt	420	417	631
Less Cash	(106)	(25)	(185)
Convertible Equity Note	-	-	248
<b>Net Debt</b>	<b>314</b>	<b>392</b>	<b>694</b>
Equity	857	738	380
<b>Total Investment</b>	<b>1,171</b>	<b>1,130</b>	<b>1,074</b>

**Table 3: Other Statistics and Financial Ratios**

	<b>2010</b>	<b>2009</b>
Capital Expenditure	118	132
Return on Total Funds Employed*	24.07%	22.41%
Gearing	26.81%	64.62%
Net Debt/EBITDA	0.94	2.30
Stock turn	3.8	3.9
Creditor Days	63.6	59.9

\* Calculated on a rolling 12 months basis

<b>Table 4: Shares and Dividends</b>	<b>Actual 2010</b>	<b>Prospectus 2010</b>
Shares on Issue	581.5 million	564.8 – 585.0 million
Proforma Basic EPS for 2010	29.0 cents	27.3 – 28.3 cents
Dividend per share	Final dividend 11.5 cents Total full year dividend 22 cents	2010 forecast dividend range of 20.5 to 21.2

## Financial Performance

Total sales for the 52 weeks to 24 July 2010 were \$3,284 million, up 0.7% compared to last year. Excluding the impact of the Myer Melbourne rebuild, total sales were up 1.3%. On a like-for-like basis, sales grew by 0.5%<sup>\*\*</sup>.

This performance is testament to the strength, efficiency and flexibility of our business model and reflects the work we have done to improve our merchandise offer. In particular, Myer Exclusive Brands delivered another excellent performance, and now contribute over 17% of total sales. Our performance also reflects ongoing benefits from our efficient, low cost supply chain, and the successful execution of a number of initiatives to drive sales in a challenging environment. An example of these initiatives is Project Blue Sky, a collaborative campaign between Myer, our suppliers and our media partners which was a huge success, with participating suppliers recording sales in excess of 10% above non-participating suppliers. We also successfully leveraged our **MYER one** database through a number of innovative promotions such as “Secret Sales” and Double Points Days.

The best performing states were Victoria (excluding Myer Melbourne), New South Wales, South Australia and Western Australia. Womenswear, menswear, childrenswear, toys, footwear and furniture were the top performing categories during 2010.

Operating gross profit margin increased by 45 basis points to 39.63% compared to 39.18% 2009 due to an improved merchandise mix, a reduction in shrinkage, as well as improved buying and sourcing. In addition, the gross margin improvement reflects our ability to respond to a competitive pricing environment, particularly during the months when we cycled the Federal Government Stimulus, by leveraging our **MYER one** database to achieve more targeted promotional activity.

Myer’s cash cost of doing business as a percentage of sales fell by 52bps to 29.43% compared to 29.95% in 2009, and 37bps below the prospectus forecast. This result was driven by ongoing and sustainable cost efficiencies as a result of Myer’s investment in technology and supply chain over the last four years, as well as improved procurement practices, and lower marketing costs due to improved media spend under new arrangements with our media-buying agency Ikon Communications. The reduction in the cash cost of doing business as a percentage of sales was achieved despite additional costs in 2010 associated with store rents, our new support office, and costs associated with being a public company, particularly in the second half of 2010.

The timing of expenditure associated with the rollout of the new point of sale and the rebuild of Myer Melbourne resulted in depreciation of \$64 million being below prospectus guidance of \$69 million.

Despite subdued sales in a challenging retail environment, Myer delivered a strong EBIT result, up 14.9% to \$271 million, well ahead of the prospectus forecast of \$261 million. The EBIT margin increased from 7.23% in 2009 to 8.25% in 2010, well ahead of the prospectus forecast of 7.76%, and a strong result when compared to 2.3% in 2006.

Net profit after tax was \$169 million, 5.6% above the prospectus guidance of \$160 million and 55.1% ahead of 2009, reflecting improved profitability as well as the impact of Myer’s enhanced capital structure as a result of the Initial Public Offering (IPO). We ended the year with \$106 million in cash and continue to improve our cash position.

Disciplined management of inventory across all categories resulted in a clean inventory position at the end of the year, with stocks of \$353 million (including stock holding for our new store at Top Ryde, which opened on 4 August 2010) compared to \$355 million in 2009. Creditor days improved again to 63.6 days. Stock turns on a 52-week rolling basis were 3.8 times, and we will continue to focus on improving stock turns in 2011 and beyond.

Capital expenditure during 2010 amounted to \$118 million (compared to the prospectus forecast of \$140 million). This was predominantly due to the timing of capital expenditure associated with the

point of sale rollout and the rebuild of Myer Melbourne. Capital expenditure is expected to total circa \$120 million during 2011 then settle at circa \$90 million per annum beyond 2011.

Following the change in Myer's capital structure as a result of the IPO, and with strong cash generation during the year, net debt reduced from \$694 million to \$314 million and gearing improved from 64.6% to 26.8%. Return on funds employed (ROFE) improved from 22.41% in 2009 to 24.07% as a result of continued strong EBIT growth.

The Board of Directors has declared a final dividend of 11.5 cents per share to be paid on 4 November. This takes the full year dividend for 2010 to 22.0 cents per share; ahead of the prospectus forecast range of 20.5 to 21.2 cents per share.

## **Merchandise**

Myer continues to focus on being the destination for fashion, providing inspiration to everyone. Our merchandise offer targets a broad range of customers across different demographics, in different climates and with varying budgets. While we stock over 2,000 brands, importantly, we offer meaningful breadth and depth of range in the brands that we stock, resulting in better choices for customers.

The growth of Myer Exclusive Brands continues to be driven by customer demand across the key categories of womenswear, menswear, childrenswear and home (including furniture). The strength of our relationships with our exclusive designers, and the breadth of our department store offer have seen some of our designers successfully diversify into new categories. For example, Jane Lamerton now designs homewares as well as womenswear, and Wayne Cooper has successfully expanded from womenswear into menswear, accessories, shoes and childrenswear.

Many of our National and International brands, such as Chanel, Apple, Ben Sherman and Pleasure State performed strongly, supported by new product development and vendor brand marketing. In addition, we continued to see strong performances across several categories from key Australian and International icon brands such as Country Road, Sportscraft, Politix, Esprit, Swarovski, Pilgrim, Anthea Crawford, Perri Cutten, Sandler, Mossimo, Jag, Sealy, Antler and Lego.

Myer continues to build strong relationships with exclusive department store brands which bring specialist expertise or must-stock merchandise that are important to our diverse customer base. For example Cue and Sunglass Hut are offered in all 66 stores bringing high street fashion and an excellent range of designer sunglasses to customers across the country. Additional exclusive department store concessionaires include PANDORA (Accessories); Charlie Brown, Karen Millen, Leona Edmiston and TS 14+ (Womenswear); Princess Highway (Miss Shop); Dom Bagnato, Rhodes & Beckett and Rodd & Gunn (Menswear) and Dangerfield (Youth).

We continue to expand our range of international designers as demand grows for premium labels in our flagship stores. In preparation for the launch of the new Melbourne store, we have secured a number of additional prestige labels to join our portfolio from November onwards to be announced in due course.

A key part of our strategy is to develop great Australian talent through building relationships with promising Australian designers that reinforce our fashion credentials. The latest Australian designers to be secured by Myer include L'Oreal Fashion Festival Young Designer finalist Ellery, Magdalena Velevska in Womenswear; JLH for Siren and Jewellery brand Mezi.

Our recently launched Spring/Summer 2010 collection has been widely applauded by the fashion press and customers alike, and sees us focus on trend and fashionability, newness and a merchandise range that is "Hot Right Now".

Menswear was a top performer in 2010 as we focused on rebuilding our core offer. During the year we launched Jeff Banks casual range, Macpherson Men underwear, Blaq and Kenji Suiting as well as Youth brands Hey Zeus, Ambiguous and James Marlon. Our men's Businesswear range had a very strong year as we refined our suiting offer by store according to our customer's needs. In addition, our new range of Myer Exclusive Brands men's Footwear including Wayne Cooper, Blaq, Maddox and Jeff Banks also performed well.

Our women's Footwear category performed very well with an ongoing focus on fashionability and a more focused range. Sales of Myer Exclusive Brands in footwear and handbags doubled driven by strong performances of brands such as Innovare made in Italy, Urban Soul, Basque and Wayne by Wayne Cooper. Innovare made in Italy and Urban Soul are premium exclusive brands, which have filled a gap in the overall footwear market and have successfully served to attract a new customer to our store. Core national brands such as Sandler, Jane Debster and Diana Ferrari were also popular with our customers.

Childrenswear continued to perform strongly and has grown to become a powerful point of difference for Myer as customers embrace our wide range of high quality exclusive brands such as Jack & Milly, Sprout, Tili, Milkshake and Origami. Exclusive brands in this category complement our traditionally strong national brands such as Mossimo, Bardot and Esprit Kids.

Home, and in particular furniture, was a standout performer. In furniture we refined the range to be more 'on trend' and introduced "Quick Ship" which aims to ensure delivery by the next weekend.

As part of our ongoing focus on allocating space in stores to the most profitable and high returning categories where we have a competitive advantage, we made a decision to exit white goods, which were offered in 58 stores. In most stores, the space allocated to white goods will be used for an expanded fashion and furniture offering, which includes a new range of outdoor furniture for summer 2010. In addition, during August 2010, we took the decision to take back the management of music from a concession arrangement with Virgin. By managing music as a wholesale business we believe we will generate superior returns on space.

Cosmetics benefited from the launch of a number of new products during the year including Freeze Frame, No No hair removal, CPRX, Marc Jacobs Lola Eau de Parfum, and Dior Serum de Rouge Lipsticks. We have also introduced new brands into our portfolio including Illamasqua – arguably the hottest colour brand in the world, Makeup store and Modelco. In response to customer demand, we stock an increasing number of cosmeceutical products, which have therapeutic breakthrough benefits.

The entertainment category had a challenging year with significant competition and price deflation in a number of key categories, in particular in the visual category. With new management in place and a number of key initiatives underway to drive sales in the business we are confident that we can be competitive in this area, which represents an important part of our merchandise offering. We have introduced a new visual standard for the display of electrical merchandise across all stores in order to improve the customer experience. In addition we rationalised the range, improved buying terms, introduced a new and competitive commission scheme, hired more qualified selling staff, improved product knowledge with training, promoted interest free credit terms and made it easier for our staff to be competitive with price matching. Sales of the iPad have been a highlight for us in 2010 although, in line with the wider market, availability of stock was an issue.

### **New stores and store refurbishment program**

We remain on track to open a further 14 new stores by FY2014, taking the total number of stores from 66 to 80. Leases for all but one of these 14 new stores have been signed. Construction began on our new stores in Mackay in May 2010 and in Townsville in July 2010.

The official opening of Top Ryde (NSW) took place on 4 August. The success of the store's launch and trading in its first few weeks is attributable to the combined and coordinated efforts of a number of our teams including property, space, design, procurement, IT, merchandise, store operations, marketing, public relations and events. We are looking forward to the official opening of our new store at Robina (QLD), which is expected to open at the end of October 2010.

During 2010, we announced the signing of two new leases, the first in the Lakeside Joondalup Centre in the northern suburbs of Perth, which will take our total number of stores in Western Australia to seven. We are also pleased to have signed a lease at Fountain Gate (VIC), in the outer southeastern suburbs of Melbourne. The Fountain Gate store is expected to open in financial year 2012, together with new stores at Mackay and Townsville. All three of these stores are located in established shopping centres, with significant population catchment areas and above average income levels.

### Indicative opening dates for 14 new stores

FY2011	FY2012	FY2013	FY2014
Top Ryde (NSW) (Opened 4 August 2010) Robina (QLD) (Expected to open in October 2010) <i>Myer Melbourne rebuild</i>	Mackay (QLD) Townsville (QLD) Fountain Gate (VIC)	Shell Harbour (NSW) Watergardens (VIC) Mt Gravatt (QLD) Woden (ACT)	Greenhills (NSW) Plenty Valley (VIC) Joondalup (WA) Coomera (QLD) Tuggerah (NSW) <i>Myer Melbourne expansion (c7.000m<sup>2</sup>)</i>

When all of the stores named above are open, Myer will be present in 29 of the top 30 shopping centres in Australia. We have already identified opportunities to continue to expand beyond 80 stores and our existing supply chain is designed to accommodate 100 stores.

We continue to focus on the effective management of space in stores through refurbishments, space optimisation (space allocated to different categories and brands, product positioning and adjacencies) and visual merchandising.

Following a total rebuild, Myer's flagship store in Bourke Street, Melbourne, will deliver circa 32,000m<sup>2</sup> of selling space in a single store over nine levels in the centre of Melbourne. An additional circa 3,000m<sup>2</sup> is taken up by Mural Hall and dedicated event and promotional space. Myer Melbourne will be one of the biggest standalone department stores by turnover in the Southern Hemisphere and will rank as one of the best department stores in the world.

The store's design combines the best of the old and the new with its heritage listed Bourke Street façade, which has been fully restored to include a new glass canopy, and the reopening of the Bourke Street windows from levels one to six. In addition, we have fully restored the iconic Mural Hall, Melbourne's most famous ballroom that will be open to the public for events.

The store will showcase the biggest range of local and international brands across all categories, and the range of services and amenities will provide customers with a unique shopping experience. Included in the store will be a world-class cosmetics hall and technology department, a champagne bar, a scent room for fragrances, a Benefit Pretty Room and local Melbourne favourite Brunetti's Café. There will be personal shopping throughout the store including a new Youth personal shopping area and an upgraded personalised shopping service on the fashion floors. We have also secured a number of prestige fashion labels for the new store.

The store is expected to attract up to half a million visitors each week and represents significant sales upside. Due to the late completion compensation arrangements in place, we do not expect to see an increase in EBIT until the store achieves sales of \$300 million. The basement and part of the ground floor are now trading, with levels one to five expected to commence trading before Christmas. The top two levels, including Mural Hall are expected to open in early 2011. In addition to the seven trading floors in the new Bourke Street store, Myer has negotiated with the developer of the site to retain space on a number of levels of the Lonsdale Street store during the Christmas and Stocktake sale period. In 2014, on completion of the Emporium redevelopment on Lonsdale Street, we are anticipating taking up our option to acquire an additional c7,000m<sup>2</sup> space (to be linked by a new four-level bridge to the Bourke Street store).

Our store refurbishment program continues to deliver positive results and represents an important driver of sales growth for the business. Some of the most recent refurbishments at Sydney City, Geelong, Doncaster, Castle Hill and Blacktown continue to deliver impressive results and we continue to apply the learnings from each project to enhance the way we manage our property and store development activities. The refurbishments of Canberra, Garden City and Charlestown are underway and we expect the stores will be re-launched by December 2010.

In April 2010, Myer re-located its National Support office to a new building at 800 Collins Street, in Melbourne's Docklands. This new office is home to approximately 900 team members including the merchandise, supply chain, finance, IT, human resources and store operation teams. The building is a symbol of Myer's commitment to ensuring that its people have the best possible environment to work in. In particular, facilities for merchandise, quality assurance testing, visual merchandising and marketing have been significantly improved in the new office.

From the latest technology, to the availability of more personal and shared amenities, as well as better energy and water management systems, every aspect of the building gives Team Members the opportunity to perform at their best. In particular, the increase in the amount of open and shared spaces in the building will help foster a culture and sense of community – one that is based on team work, information sharing and greater interaction between teams. The new building has achieved a 5 Star Green Star – Office Design Rating from the Green Building Council of Australia.

## **Store operations**

Our stores teams are focused on improving the shopping experience and environment for all our customers.

During 2010, we made progress on a number of initiatives to improve customer service including completing the first stage of a major project to align our store team member rosters to customer shopping patterns, leading to improved labour productivity and enhanced customer service results. Over 5,000 rosters were adjusted to ensure sufficient store members were working at peak times at weekends and in the middle of the day.

The new Point of Sale (POS) system, which has been successfully rolled out to 25 stores will be in all stores before Christmas this year. The new POS will improve customer service in many ways including shortening transaction times so that team members can spend more time helping customers.

In addition, we continue to invest in skills development and training programs to allow our people to sell confidently across a range of product lines, and the automation of a number of administrative processes is allowing store managers to spend more time on the floor coaching staff and serving customers.

While we've made progress towards improving service, we recognise that there is significant opportunity to do more. In July 2010 we launched the Sales and Service Improvement Program

("Priority One"), which aims to provide clearer expectations for team members and store management and ensure they have the associated skills required to deliver quality service and achieve or exceed sales targets.

Over the coming months, we will focus on a number of initiatives to improve customer service aimed at making it easier for us to serve customers, and enhance the shopping experience. These are:

- Navigation & signage - we will invest \$1.7 million to design and install 'best in class' directional and category signage systems by Christmas 2010 to enable customers to more easily find their way around our stores.
- POS allocation - we will review the layout of POS in each store to improve customer service by making it clearer and quicker to purchase.
- Promotions & Ticketing – a new ticketing approach will reinforce our overall customer positioning and emphasise our focus on "newness" and "on trend", with new tickets including information on product features and benefits.
- Service Models & Rostering - we will re-invest in key full service categories such as Womenswear and Women's Footwear to ensure we have the right number of team members in the right departments to meet the needs of customers.
- Induction - from February 2011 we will increase the induction requirements for new Team Members to ensure that they have a clear understanding of our sales and service culture when they begin working in our stores.
- Service & Selling Skills Development – we will continue to focus on developing programs to build core service and selling skills for all team members, while developing advanced training programs for high service areas.
- Competency Framework – we are developing clearer behaviours, values and expectations for all team members and roles to ensure consistency across the business.
- Communication to and from the Front Line – we will improve communications between teams including weekly editions of MyTV, and a monthly service focused newsletter. The new POS will also assist in improving communication with Team Members.

Improving the shopping environment by enhancing the look and feel of our stores has also been a key focus. The visual merchandising refresh program called Project Batman was completed in 2010. This program enhanced the visual appeal of stores through lighting, store décor, brand emphasis, and product positioning and adjacency. We will continue to reinvigorate stores with ongoing enhancements, for example we have introduced new branding in intimate apparel and cosmetics. We have also launched Project Lipstick in 16 of our smaller stores where we have installed a new generic cosmetics suite and extended our range in essentials, fragrances and cosmetics, to dramatically enhance the customer experience. We have revised and improved our nationwide presentation standards for the entertainment business to support a reinvigorated approach.

Reducing shrinkage (theft) continues to be one of the stores' ten key imperatives. Our shrinkage reduction strategy covers three key areas: strategic shrinkage reduction planning, team engagement and operational tactics, such as fitting room control and merchandise protection. One of the key elements of this during 2010 was the installation of 6,000 closed-circuit television cameras (CCTV) in all stores (except those under refurbishment). The benefits of the new system have been immediate and, combined with other initiatives; have delivered an average reduction of 50bps in the percentage of sales lost to shrinkage post implementation.

## People and Culture

We continue to focus on building talent from within to support the growth of the business. As an example, the Management Development Program was launched in FY2007 to reward and recognise high performing team members from stores. On completion of the Program, the majority of participants have attained new roles. In turn, the Store Manager Development Program was established in FY2010 to build competency among high potential senior store team members to take on senior leadership positions at Myer.

Building specific competencies is also a focus. Working with RMIT and the Australian Centre for Retail Studies (ACRS) at Monash University, we have so far engaged, and subsequently employed, a number of talented product development interns from RMIT in our buying and merchandise areas, while over 240 executives have gained valuable insights into key national and international retail trends through seminars, international study tours, and training programs conducted by the ACRS

Since the reintroduction of the Graduate Program in FY2007, 40 team members have successfully completed the program, with 29 candidates placed in roles within the business. In July 2010, one of our Team Members who is taking part in the Myer Graduate Program - Kaylee Albronda from the Myer Support Office – was named Young Retailer of the Year 2010 at National Retail Association (NRA) Young Retailer Awards which are designed to recognise and reward excellence among young retailers under the age of 25 and to promote retailing as a career for young people.

One of the key planks of our strategy to attract and retain elite sales professionals in our business is the CEO's High Performers Club (HP Club), which currently recognises and rewards 317 store team members. Entry into the HP Club is by invitation and through store management nomination, and endorsed by the CEO and Director of Retail Stores. A member of the High Performance Club achieves on average 60% higher sales per hour when compared to other team members. We are looking to increase the number of Team Members in the CEO's High performance Club to over 1,000 members by 2012.

A separate service recognition program was launched in May 2010 with the goal of creating a service culture built on a positive Team Member attitude. Many Team members have been recognised, either by inclusion on Wall of Fame boards or by receiving one of the four-tiered service and attitude badges.

We have a number of initiatives in place to reward and recognise our team members including the 25 Year Club to reward loyal service and the Inspirational People Awards, which recognise excellence across a range of disciplines.

We have reinforced our commitment to Team Members with a diverse range of employee benefits available through the "MYER for Me" program. This program is designed to acknowledge the contribution of our team by offering rewards, benefit packages, lifestyle and health initiatives, together with the career development opportunities available at Myer. This exclusive program is constantly evolving and now includes a wide range of incentives including financial, employment and family benefits.

Safety remains a key imperative and we continue to make progress in reducing lost time injuries with a 32 % reduction in our lost time injury frequency rate from last year. This is reflective of a company wide focus on looking after our people through initiatives such as manual-handling and safe work practices training, safety team talks and a focused education program for our managers. Our Safety Audit Program continues to be a key platform for assessing the overall performance of our Safety System.

## Marketing and Loyalty

**MYER one** continues to represent an important competitive advantage with 68% of sales now attributed to **MYER one** customers. There are a total of 3.7 million members and over 5 million cards in circulation. During FY2010, membership grew by 545,000 and we have increased the number of email addresses for **MYER one** members to 1.6 million - an increase of 35%. **MYER one** customers with valid emails spent on average 15% more than **MYER one** customers without email addresses in FY2010. Accumulating email addresses therefore remains a key focus for store members.

The growing value of the **MYER one** program to customers is evidenced by the fact that we now have over 20,000 Gold members who spend in excess of \$7,500 per annum at Myer. During FY2010, we focused on offering our **MYER one** customers relevant exclusive and early offers including invitations to Secret Sales, promotions within specific categories, VIP shopping events and other offers.

Over the last year we rewarded our loyal **MYER one** customers with over \$51 million in gift cards through our quarterly distributions. For every \$1,000 spent, a customer earns a \$20 gift card. During FY2010 customers continued to spend on average 3.3x the value of the gift card on redemption.

During FY2010, our quarterly fashion magazine, Emporium, reached on average 250,000 **MYER one** customers. Average spend of **MYER one** members who received Emporium was 82% higher than members who did not receive the magazine.

The **MYER one** affiliates program continues to gather momentum. Over 600 affiliates are now associated with **MYER one**, enabling our customers to earn shopping credits when they spend across a number of sectors including hotels, petrol stations, cafes, restaurants, retail outlets, wine outlets, flowers, travel, hairdressing, health insurance and box office.

During FY2010, we launched a suite of general insurance products in association with QBE. QBE is Australia's largest international general and reinsurance group. **MYER one** members will be entitled to earn shopping credits on the dollars spent on any policy and enjoy competitive prices.

We continue to undertake detailed analysis of **MYER one** data, and in particular customers' shopping patterns, to further improve our merchandise offering and space planning. We have made significant advances in our ability to analyse and segment our **MYER one** customer database. This gives us valuable insights into customer behaviours and customer motivations.

Looking ahead, we see huge opportunities to further increase our use of **MYER one** data and our understanding of the customer to continue to improve our targeting, to develop new ways to excite our most loyal customers, and to re-engage with customers who haven't shopped with us for a while.

The Myer Visa card continues to play an important part in our customer loyalty strategy, giving customers more reasons to shop at Myer as they accrue shopping credits through spending on their credit cards. During the year we signed up more than 35,600 Myer Visa cards. **MYER one** members with Myer Visa cards spent on average 28% more than **MYER one** members without Myer Visa cards in FY2010.

We continued to use events and in store theatre including designer pop-up shops, fashion parades, sponsorships and celebrity appearances to excite and inspire our customers during the year. Myer is at the forefront of Australian fashion through association with Fashions on the Field events and its highly anticipated seasonal fashion parades. Our brand ambassadors, Jennifer Hawkins, Rebecca Twigley, Kris Smith, Laura Dundovic and more recently Jessica Hart have played an important role in the year in helping us to connect with customers through real people that embody the Myer brand - friendliness, warmth, great fashionability and style.

## **Digital and online**

At Myer we pride ourselves on applying innovative, integrated and customer-centric marketing campaigns to engage our customers across all media. We have progressively updated our website, [www.myer.com.au](http://www.myer.com.au), and enhanced our gifts on line ecommerce capability resulting in over 9 million visits to the site, an increase of 39% compared to FY2009. We now have approximately 2,300 items available to purchase online across a wide assortment of merchandise categories and are looking to expand this offering in FY2011 and beyond.

In July 2010, we launched a Myer iPhone application through which customers can browse and search latest store catalogues, receive exclusive offers, view the fashion gallery, and purchase from a range of 1,500 products including gift cards directly from their iPhone. Already we have had over 23,000 sign ups to the iPhone application.

## **Supply chain and IT**

Speed to market is critical for any retailer, and the significant investment we have made in our supply chain and technology platforms over the past four years means we are better able to respond to fashion trends and customer preferences. During FY2010 we have maintained shipping lead-times from Asia of 24 days despite moving much of the production further North in China. We recently implemented a web-based product development tool to further shorten our product lead-times.

Floor ready & source tagging remain a focus for all our merchandise to ensure product is quickly available to customers in stores. The commitment by our suppliers to deliver floor ready merchandise has now reached 90%, which is a significant achievement. The merchandise arrives in our stores already tagged and hung, ready to be presented to customers, which results in significant time saving for our store members and ensures that stocks are replenished as quickly as possible, which improves the customer experience.

To support the growth of Myer Exclusive Brands, we continue to move our direct sourcing to Northern China and other countries in Asia to secure the best possible product at the most competitive prices for our customers. In addition, we are focusing on working with suppliers to continue to expand the percentage of merchandise sourced directly from Asia.

The rollout of our new point of sale is well underway and we currently have 25 stores successfully operating the new system. The new point of sale system will contribute to improved customer service at Myer through faster transaction times, improved stock look up (near real time stock availability across all stores), automated markdowns (which will be particularly beneficial in peak sales periods) and customer recognition. Efficiency gains from the new system will be reinvested into service enhancement. Information on team member productivity, and the status of lay-bys and returns, will be fully centralised and store administrative processes dramatically streamlined. For example the time taken to close a store at the end of day will be reduced from up to two hours to in many cases under a minute.

## **Community**

Our expanded Local Area Marketing program continues to be a great success story, providing a genuine connection with communities across Australia at a grassroots level. This year a total of \$850,000 was allocated to stores to spend on community initiatives and local marketing opportunities.

Through the combined fundraising efforts of the Store Team Members and the Myer Stores Community Fund, more than \$372,000 was donated to 66 store-nominated charities. The Community Fund matched the Store's efforts dollar-for-dollar. The principal fundraising activity of the Myer Stores Community Fund, The Precious Metal Ball, raised more than \$730,000 in May 2010. This year, the Ball was complemented by a Mother's Day concert featuring Olivia Newton-John in the Bourke Street Mall, outside Myer Melbourne. An estimated 1,500 people attended the concert. As a part of its agreement, The Myer Stores Community Fund will donate \$1 million to the Olivia Newton-John Cancer & Wellness Centre over four years.

Donations of \$100,000 were also made to the Royal Children's Hospital in Melbourne, the Sydney Children's Hospital at Westmead and the Surf Lifesaving Foundation.

The annual Spirit of Christmas CD raised more than \$197,000 and approximately \$160,000 was raised through cause-related marketing activities including Movember, Jeans for Genes, CanTeen, Miracle Babies, Reach and the National Breast Cancer Foundation.

The Myer Charity Gift-wrap program for Christmas, Mother's Day and Father's Day raised more than \$175,000, with all proceeds donated back to the participating charities including Vision Australia, The Salvation Army, Australian Red Cross and Children's Medical Research Institute.

We recently announced an extension to Vision Australia's Carols by Candlelight agreement and we have continued our commitment to Myer Melbourne's Christmas Parade. In conjunction with the opening of Myer Melbourne, we will continue to stage the hugely popular Myer Christmas window displays and Santa parade.

## **Outlook**

Commenting on the outlook for financial year 2011, Bernie Brookes, Chief Executive Officer said:

“As we move into a new phase of growth, the full benefits of the company's extensive transformation are still to be seen. The team and I are excited about the re-opening of our flagship store in Bourke Street, Melbourne, and about the opportunity to reward customers with a truly international class store that will rank as one of the best department stores in the world.

“During the next financial year our performance will benefit from a significant uplift in sales at Myer Melbourne, as well as a full year of sales from our new store at Top Ryde and nine months sales contribution from our new store at Robina. In addition, our refurbished Canberra City, Charlestown and Garden City stores are due to relaunch ahead of Christmas 2010.

“One of our top priorities in FY2011 is improving our level of service to customers. We've put in place a comprehensive strategy to address service, underpinned by our investment in a new point-of-sale system, which is in final rollout, and will dramatically improve our team members' ability to serve customers more quickly and more efficiently.

“We will continue to enhance the look and feel of our stores and we plan to refurbish further stores in FY2011 as well as complete a refresh of sixteen cosmetics halls. Our merchandise offer will increasingly reflect our focus on “newness”, and delivering customers up-to-the-minute fashion solutions to suit every budget.

“Our results this year demonstrate that we have the right strategy and the right team in place to successfully grow the business in FY2011 and beyond.

“During the first quarter of FY2011 we cycle the strong comparative performance from the first quarter of FY2010 (sales increased by 5.2%).

“In the 2011 financial year we will experience one off costs associated with Myer Melbourne and POS totalling approximately \$10 million and reduced income tax benefits from the Government Investment Allowance.

“Assuming reasonable trading conditions and on the basis of our numerous growth initiatives, we anticipate NPAT in FY2011 will grow between 5% - 10%.”

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**NOTES:**

*Outlook for FY2011 NPAT growth of 5 – 10% is based on the FY2010 proforma NPAT of \$169 million*

*\*\* In the like-for-like sales calculation, Myer excludes sales from stores that are impacted by refurbishments or major centre disruptions, both during the disruption period as well as in the corresponding period 12 months later. The stores that are excluded from the comparatives on this basis are Doncaster, Sydney, Geelong, Melbourne, Northland, Castle Hill, Blacktown, Canberra and Charlestown.*

*During 2011, Myer will continue to release Q1 and Q3 sales results however the Q2 and Q4 sales numbers will form part of the first half and full year profit announcements.*

*All numbers are unaudited.*

*This release includes “forward-looking statements” within the meaning of securities laws of applicable jurisdictions. Forward-looking statements can generally be identified by the use of forward-looking words such as “may”, “will”, “expect”, “intend”, “plan”, “estimate”, “anticipate”, “believe”, “continue”, “objectives”, “outlook”, “guidance” or other similar words, and include statements regarding certain plans, strategies and objectives of management and expected financial performance. These forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which are outside the control of Myer, and its officers, employees, agents or associate. Actual results, performance or achievements may vary materially from any projections and forward looking statements and the assumptions on which those statements are based. Readers are cautioned not to place undue reliance on forward-looking statements and Myer assumes no obligation to update such information.*

*Where statements and numbers that reference the prospectus were not specifically disclosed in the prospectus, they are derived from the calculations that supported the numbers that were disclosed.*