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Presentation

BERNIE BROOKES , CEO, MD, EXECUTIVE DIRECTOR, MYER HOLDINGS LTD : Good morning, everybody. Welcome to those people that have travelled into the office today; appreciate the support. (Conference Instructions).

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In a moment, I'll introduce the executive general management group for Myer and then, with the help of Mark Ashby , give you an update of our half-year result.

I'd like to welcome Mark Ashby , our CFO; Greg Travers , our Executive General Manager of Business Services and Strategy; Adam Stapleton , our Executive Group General Manager, Merchandise; Tim Clark , our Group General Manager Property, Store Development and Services; also Tony Sutton , our Executive Group General Manager of Stores; Graham Dean , Group General Manager, Home and Entertainment; Megan Foster , Group General Manager of Freestanding Stores; Nicole Naccarella, Group General Manager of Women's Fashion.

Also, a welcome to Louise Tebbutt , our Group General Manager of Human Resources, Risk and Safety; Anthony Coelho, our General Manager of IT; Richard Harrison, General Manager of Online; and, of course, Marion Rodwell, our Company Secretary and Legal Counsel.

Our results are sound, certainly reflecting performance of our five-point plan. Together with Mark, I'll give you an overview of the result and then run through an update in regard to the financials, Mark taking you through the balance sheet, and then talk about each aspect of our five-point plan, from a performance point of view, and then provide an outlook and an update on our strategic plan initiative re David Jones, and also then take questions at the end.

A sound and solid result, from a financial point of view. Our total sales were up 0.3% to AUD1.73 billion, 1.2% for the half, but you'll notice the quarter sales were up 1.7% on a comp store basis, which was pleasing. Our Q2 sales were up 0.2%, reflecting, firstly, that six out of this last seven quarters in the business has been positive comp sales growth. And also reflecting, equally importantly, that we've had 3 major stores under refurbishment, 3 of our top 20 stores, and also closed a store at Dandenong during that period.

Our operating gross profit margin was down 21 basis points to 41%, and we'll talk at length about that operating GP margin. And, as flagged, our cost of doing business was up 2.1%, reflecting the investment in omni-channel, the investment in the three refurbishments, the investment in new stores, and the continued impact of wages through the Fair Work Act.

Our EBITDA at AUD172 million, a margin of just short of 10%; our EBIT at AUD127 million, a margin of 7.3%; our net profit at AUD81 million. Our net debt was down, just on 5%, to AUD230 million, and that's after paying AUD30 million for the last part of the acquisition of the sass & bide business.

A really strong cash flow, as Mark will highlight to you, and this morning the Board approved an interim dividend of AUD0.09 per share, fully franked.

It does reflect, this result, our continued investment in service that we'll talk about, the refurbishments that we're undertaking, the procurement of a number of new, exciting brands that are starting to give us benefit, and will give us benefit going forward, our investment in omni-channel, and the revitalization of our loyalty program.

The continued sales growth, despite the fact that we were cycling very strong results from the previous year, so this is growth on growth which is quite pleasing, and despite Miranda, Indooroopilly and the CBD of Adelaide being under major refurbishment, and closed the Dandenong, Victoria store as well.

Myer exclusive brands were up 2%, outgrowing the rest of our **business**, and they now 20.2% of our overall **business**. The full **acquisition** of sass & bide now provides 100% ownership and an exciting way forward with our sass & bide **business**. And it has achieved, once again, strong sales in the first half of this year, reflecting increased demand and interest by our customer base.

With over 50,000 people surveyed, we were pleased to win the 2013 Department Store of the Year under the Roy Morgan Customer Satisfaction Awards, demonstrating the hard work by Tony, but also by all of our 13,000 staff throughout Australia.

A few examples of some of the exciting brands that we've been able to procure and put into store this year; I think firstly, Napoleon Perdis has been a tremendous success, and I'll touch on that later.

Exciting to have Dita Von Teese visit a lot of our MYER One customers in Sydney and Melbourne and launched an exciting range with us. And our own Piper **brand** growing double digit and certainly being one of our best-performing Myer exclusive brands.

Strong growth in our online metric. From an online point of view, every metric, whether it be traffic, basket size, units per **transaction**, SKU, all growing at significant amounts. We had 18.5 **million** visits during the course of the six months, which was an increase of 89% on last year, and over 100,000 SKUs-plus now online, demonstrating our program to make online at least 10% of our **business** over the next few years.

Excitingly, we launched our dedicated distribution center in Melbourne. That DC gives us the opportunity to reduce significantly the cost of fulfillment and provide on-time deliveries to our customers. In addition to that, we've expanded our click and collect during the 6 months to 20 stores, all stores being click and collect over the period of the next 6 months.

We gave out over AUD23 **million** in the half of MYER One reward cards which is, again, amongst the highest we've given out in previous years. That AUD23 **million** now pleasingly results in a 4 times multiple. Previously it was 3.5 to 3.8; we're now securing 4 times the value of that MYER One card.

So if we send our customers a AUD20 card, they're spending on average AUD80 with that card and, therefore, it does have an impact, as Mark will talk to you, on points provision and, obviously, gross profit, going forward.

We did call out that we were disappointed with the outages that occurred in our online. We apologized to our customers, and I'll talk more about the action underway with that when we get to that pillar.

During the period of the year, we re-signed Jennifer Hawkins, Kate Peck as our younger face of Miss Shop, Laura, and also Lauren Phillips was re-signed. And, of course, we signed Chris Smith, again to extend Chris's contract, which is a perfect introduction for me to hand over to our Chris Smith, Mark Ashby .

MARK ASHBY , CFO, MYER HOLDINGS LTD : What do you say to a line like that? Okay, I'**m** going to spend a few minutes taking you through a little bit more detail of the profit and loss statement and the balance sheet for the half and see if I can add a bit of color on the operating gross profit margin.

The key callouts, I think, the sales were up 0.3% for the half; comp sales up 1.2%, which is a pleasing performance, taking into account the impact of the refurbs in Adelaide, Indooroopilly and Miranda and the closure of the Dandenong store.

Q2 comp sales of 1.7% was particularly pleasing, although it did come in the last six weeks of the quarter. November and the first three weeks of December were very tough trading conditions with sales lifting significantly from the Monday, pre-Christmas, and over the Boxing Day **sale** period.

Customers responded well to MYER One points and gift card-based initiatives over that period that we used to generate sales. The resulting operating gross profit margin of 41.0% reflects the investment in these programs and the tight trading conditions.

Cash cost of doing **business** was up 2.1%, representing the investment in omni-channel, the cost of refurbs, the increase in store wage costs and hours, and the annualized cost of the new stores. Additionally, the cost of closing Dandenong was absorbed, offset by tight control in support office expenditure.

The resulting EBITDA finished at 9.9% of sales, down from 10.7% last year. Depreciation was up AUD1.7 million for the half, in line with our expectations, with the impact of the current CapEx investment and refurbishments increasing in half 2, taking an annual increase of approximately AUD6 million.

EBIT at AUD127 million was down 10.5% for the half and, offsetting this, the benefits of working capital initiatives and reduced interest rates on finance costs, led to NPAT being down 8.1%.

Comp sales growth for the quarter of 1.7%, on top of 1.7% in Q2 and FY13, makes it six of the last seven quarters of positive comp growth.

MEB growth for the half included growth both from the existing Piper, Trent Nathan and Australian House & Garden brands, supported by the introduction of Milk & Honey and Grab Denim. This growth was offset in part by the exit of the Bain womenswear brand.

Concessions continued to perform strongly, with national brands very strong in areas such as cosmetics, in particular with Napoleon Perdis and MAC, which was offset by the decline in [Apple] sales through reduced new products, and the exit of movies and music category.

Despite overall deflation of 0.1%, in particular in cosmetics at over 4%, we saw strong comp sales growth and particularly in that cosmetics business. November and pre-Christmas was a soft trading period; however, over the half, youth, accessories and womenswear traded well.

Our operating gross profit margin declined by 21 basis points on last year, being the first decline in four years. The positive impacts from MEB growth, so that's Myer exclusive brand growth, increased direct sourcing and reduced shrinkage were offset by a number of factors.

Firstly, the timing in the lift in sales from pre-Christmas to post Christmas, with more products sold on sale than in previous years, has a negative impact on margin.

The positive impact of reinvigorating the MYER One program did lead to an increase in the points expense. This impact is good news for half 2 in the context of more gift cards likely to be issued to MYER One customers.

Also, the increase in concession mix, which was strong, although on a profit basis, whilst it does affect operating gross profit margin, on a profit basis it is accretive. And we did have a reduction in other income, primarily gift card non-redemption income, which affected gross profit. That's also a good news story in that more gift cards are expected to be redeemed.

Given competitive pressures in the market, and the reduced Australian dollar, we expect the operating gross profit margin in half 2 to be flat on last year.

In cash costs in doing business, during the half we saw cost increases come from the annualization of new stores, increases in store labor and outgoings, as well as costs associated with the store optimization project and the closure of Dandenong.

The continued investment in our omni-channel strategy also increased costs during the half, offset in part by the insourcing of our digital services capability. We expect our costs for the year to grow by between 4% to 5%, with omni-channel project operating expenses and refurbishment costs impacting half 2 in particular.

For reference, for those who are modeling half to half, in half 1 FY13 a AUD4 million short-term incentive expense was in the profit and loss statement. By the end of the year, that was reversed out in half 2 to have a zero for the year.

Capital expenditure. AUD32 million was spent in the first half, which was AUD28 million net after landlord contributions. CapEx was roughly split along the lines of one-third spent on store refurbishments, one-third on omni-channel and information technology, and one-third on merchandise and store initiatives.

Half 2 CapEx has major components of the Adelaide, Indooroopilly and Miranda store refurbishments; the commencement of new stores planned to be opened in half 1 2015 at Joondalup and Mount Gravatt; as well as our continued investment in omni-channel and the emporium development opening during the course of the half. For the year, we expect gross CapEx to be approximately AUD90 million.

The business generating operating cash flow of AUD259 (sic - see page 18, "AUD259 million") for the half, which is down 4.8% on last year. The continued focus on working capital has seen further reduction in the inventory of around 3%. Improvement in stock turns of 3.4% to 3.5% and out of stocks moving to under 6%.

This focus has contributed to a reduction in net debt from AUD242 million to AUD230 million after funding AUD33 million for the sass & bide minority share acquisition.

Our covenant ratio has continued to be well clear of our hurdles, which, combined with our cash generated, supports an interim dividend of AUD0.09 per share.

In summary, sales growth has been achieved overall for the half, whilst facing the headwinds of three major refurbishments and the closure of Dandenong in October. This is reflected in comps sales growth 1.7% in Q2 in particular, and 1.2% for the half.

We continue to focus on gross profit margin initiatives, which, during the half, were challenged by the success of the [stock **sale**] and our MYER One initiatives.

Cost headwinds continue into half 2, with the rate of growth to moderate coming into FY15. We continue to focus on working capital and cash management, ensuring balance sheet strength to support the key initiatives of the **business**.

Based on that, I will hand back to Bernie, without any lines about who I'**m** handing back to (laughter).

BERNIE BROOKES : Thanks, Mark. A strong inventory management result. Some sales growth, improved situation from debt perspective, some really impressive metrics, a good solid result and, of course, the **acquisition** of sass & bide.

Let me now take you through our management focus on the five-point plan. Our five-point plan to improve customer service, enhance our newness and our merchandise offer, strengthen our loyalty program, building our omni-channel network, and working hard on optimizing our store network. A well-established plan, that's now in the DNA of all of the management team, that's constantly reviewed and renewed as part of that five-point plan. And there were a number of initiatives during the course of the last half.

Firstly, in regard to customer service. We rolled out a feedbackASAP program, which is a program that generates net promoter scores done independently. We moved from mystery shopper, because of the inadequacy of it, and moved towards an excellent system that gives us immediate feedback, from a customer point of view, instant and independent feedback.

Basically, the customer is called after their visit, provides information as to how they found their time in store, and then that is replayed back to the store management team and their respective staff member that following day. Over 21,000 contacts alone during the course of the half, giving us some really good indices of the performance that occurs in regard to customer service. And we're excited by the improvements that we make and the opportunities that we're recognizing in that area.

We also undertook a very significant engagement program for our premium MYER One customers, and specifically the platinum and **gold** customers, with some great examples that I'll show you later of our scores of those customers, but also, more importantly, such things as keys to the store, special shopping days, etc.

Our customer service technology was introduced and the opportunity to have a lot more active and interface with our customers and actually sell from our customer service center and, again, recognizing that we have six service standards in the **business** so that we're measured right the way through all aspects of the **business**.

Our women's and men's personal shopping has now rolled out to 31 stores, and those personal shoppers are being 35% more productive than an average employee, demonstrating the value that we associate with them as they meet some customers that require, obviously, an enormous help coming in the store level.

We also have rolled out an iPad pilot, which eventually will see 1,200 iPads into our store. And, again, that pilot is taking place now in a number of stores and, over the next quarter, we'll fine tune it. And that will certainly help **purchasers**, both online and in store, as well as providing information into our customers.

As mentioned in the highlights, the 50,000 people surveyed in the Roy Morgan Customer Satisfaction Award for the second year in a row, Myer was seen as the best department store across discount and department stores in Australia.

Part of the work that we undertake is also the work that we undertake in improving efficiency to make it easier for our customers to be served, and also more time for our staff to have customer-facing time with our customers, rather than spend looking at product or working out the back.

In evidence of that is the work that we've done on safety, to reduce our loss time injury frequency rate; the work on shrinkage to give us accuracy of stock levels for the customer; and again, the online booking services in store, where you could book your visit with Santa at Christmas time online, which was a runaway success, and many more opportunities in the that online booking environment, going forward.

Our supplier floor-ready compliance is at record high levels, meaning that they bring the product in pre-hung, pre-steamed, pre-tagged, meaning that we don't have to spend time fiddling with the product out the back. We get it on show and spend the time serving the customer.

We were ecstatic at the results of our employee engagement survey, which is run across 40 retailers throughout the world, and puts us high into the top quartile with an 83% of the people saying they either love or like Myer or enjoy working for us. Really pleasing in regard to our employee engagement, despite the amount of change that's taken place in the **business** over the last few years.

And further improvements in our in-store compliments to complaints ratio. Our complaints, in fact, were down 29%, and the ratio of compliments to complaints was favorable, up some 13%; really starting to make some excellent progress in a never ending journey to enhance our customers' shopping experience.

Our second objective is to make ourselves the first choice when it comes to merchandise, and some of the best-performing brands are listed on the screen, but obviously Lego, MAC, Chanel, Cue, Politix, Seafolly, Benefit, BOSE, T.**M**. Lewin, our own House & Garden and Trent Nathan were amongst some of the best performing brands.

We had consistent growth in Myer exclusive brands, but also in concessions. And as we become increasingly price competitive, as we price harmonize in areas such as cosmetics and menswear, giving us an excellent opportunity to make sure that we attract people into store and online with Myer, rather than alternate international websites. And we're pleased with the progress being three-quarters the way through, if not 80% of our price harmonization work.

Strong performance in cosmetics, we think, is as much about the new brands, the work in establishing the [wow] promotional program, but also as much about being more price competitive in the global market. And that holds a particularly good strength as we become more competitive, going forward.

Very strong response to some of our new brands that I'll touch on in a moment, and our focus continues to be on making sure that we delight our customers with wanted merchandise.

We have now a fully integrated vertical design environment. Development, sourcing, supply chain and marketing, all fully vertically integrated for now 20.2% of our **business**, and that gives us an excellent base to build from. We own products, we develop products, we **purchase** some brands, we have designers at Myer, and we have fusion lines all providing us with multiple opportunities to get the right product for the customer.

Some of the standout brands were Napoleon Perdis into 61 stores; the last few stores are our refurbished stores that they will go into over the next few weeks. And again, having an excellent customer response, running double digit above our expectations with the rollout of Napoleon Perdis , and a lot less cannibalization of other brands than what first thought.

Our Myer exclusive brands continues to grow. This is a AUD350 **million business** and, as you saw, it grew by AUD6.9 **million** alone last year. It now represents 20.2% of our **business**.

Some of the best performers were the rights that we have to House & Garden, Bauhaus, which was a **brand** that we **purchased**; one of our key brands of Blaq performed well; Trent Nathan continuing to go exceptionally well, and you can see some Trent Nathan product outside today; Reserve, Piper, probably our best-performing Myer exclusive **brand** in terms of growth; and great to see Miss Shop back on **board** as one of our big growth platforms as well.

We also grew, at the same time, our international designer **business** some 25%, representing that we can grow both international designer and our very strong Myer exclusive brands at the same time.

Our global sourcing office continues to go from strength to strength, and we now over 10% of our volume being **purchased** through our global sourcing office, over 100 employees, all with very strong governance, ensuring that we're able to provide wanted product particularly well.

We are moving more towards master brands, those master brands of Blaq, of Piper, of Basque, of Trent Nathan and our Myer exclusive brands, to enhance their merchandise offer.

Peter Alexander is now in store and there's some great merchandise of Peter Alexander outside to show you the product; really going very, very well in the early days.

Seafolly, now fit out in all our stores, going from strength to strength. We've recently launched Baker by Ted Baker, beautiful range of childrenswear, going very, very well. Today, we've also announced Aquila, which is a great leather men's shoe range, great long-term **brand** that now comes into Myer as well. And these brands in the store or just about to go in store.

But we've got an exciting repertoire of brands that are coming into Myer and we've listed those on the screen. We're so excited to have Alex Perry as part of the portfolio at Myer. I think Alex is one of Australia's premier designers, and certainly a celebrity in his own right. Fantastic to see him back at Myer and really looking forward to welcoming him through numerous stores in numerous different both Alex Perry range [and Fusion] as well.

Tome, in addition to that, Wrangler Denim, another **brand**; Kurt Geiger, which is going into stores as we speak; Lancel luxury handbags; St Goliath. And also YTTRIUM by Aurelio Costarella, demonstrating our ability to take, as one of Australia's premier designers and establish a value Fusion range that looks beautiful, but at the same time, selling particularly well, and now we've put it on our first runway.

We also today announced L by Lisa Ho . Lisa Ho needs very little introduction; one of Australia's greatest fashion designers, now at Myer, and L by Lisa Ho going into 20 stores from August onwards, with a beautiful range of both casual wear and should also add further to a strong Myer portfolio already.

Our third tier is strengthening our loyalty program, which now represents 70% of our sales. You may recall, at the half-year last half, I spoke about the opportunity for us to strengthen our loyalty program and that, in some cases, we needed to do more for our premium customers.

Well, we've made some excellent inroads and, more importantly, really satisfied some customers. On the right-hand side, you'll notice the deserve the keys to the store, where some of our platinum Myer customers have brought 10 friends along after the store has closed and had a marvelous shopping experience. And now, having our own concierge for those customers, really working hard on satisfying that premium customer.

We gave over AUD23 **million** MYER One reward cards and that's resulted in AUD100 **million** worth of sales as they spend nearly over 4 times the value of those cards.

This is a highly effective tool for us to look at ranging, pricing, promotion, store location, move customers from one store to the other, being able to make sure that we interrogate the data and use it in our daily decision making.

A number of personalized shopping events for our 2,000 platinum customers has been highly successful. Our premium customers, in the last six months, have become more engaged, spent more often, visited the store more frequently and, more importantly, had a good basket size at the same time.

In addition to that, we have now 2.24 **million** emails and over 3.6 **million** mobiles including those platinum customers to ensure we satisfy them and look after them particularly well.

We've strengthened our loyalty program by offering more opportunities to generate reward points. Over 370,000 downloads now of our MYER One app, providing digital gift cards, providing digital reward cards and offers direct on a push notification basis to those customers is also working exceptionally well.

We've had some great support, with Caltex now becoming almost immediately our largest partner. And great to see the support of Caltex in providing MYER One points for our customers as well, not to mention our MYER One **wine** club, which has also gone from strength to strength. And we continue to have one of Australia's most recognized and successful cards in our MYER visa card, also generating points for our customers as well.

Of course, the Commonwealth Bank pay-with-points now into its second year; first year, over AUD40 **million** worth of sales done and now the ability not only to transact, but also to check your balance as well in store.

We continue to focus on customer engagement through our loyalty program. It is a competitive advantage and something that we plan to build consistently over the next few years.

Our number one priority is to make sure we have a stable website available for our customers at all time, and I'll touch on the outage in a moment.

We've made solid progress in regard to our online offer. In November, we undertook a significant upgrade, and that upgrade therefore enabled us to effectively deliver better navigation to our customers and, therefore, with that navigation, we've seen an immediate increase in everything from basket size to order value.

Over 18.5 **million** visits, which was some 89% up on last year, and we continue to see exponential growth in our online offer.

Our basket size and our order value increased significantly, and our conversion particularly is up 63% since we put in the new navigation in November.

Click and collect is now 4.5% of our online sales, representing 20 stores, and will move to all stores during the course of the next 6 months.

Our online **business** has averaged between 1% and 1.5%, fluctuating during the course of the year. In the last couple of months, varying between 1.5% and 2.2%, so we're pleased with the progress to get our online **business** up to 10% over the next few years and proceeding well.

On the right-hand side of the slide, you'll also notice some of the numbers in regard to our digital work and the work that we've undertaken in Pinterest and the followers that we have. Just to call out again the large number of mobile telephone numbers and the large number, obviously, of email addresses, which gives us an excellent base to market both our online offer and our MYER One offer to our customers.

We've invested significant money over the last few years in our core system, over AUD300 **million** alone in IT, and that outage was most disappointing for us. The outage was the result of what took place in regard to the communication between two servers that caused a number of code threads to clog the system.

It wasn't the result of lack of infrastructure spend; it was simply an issue that took us a while to uncover, and then we wanted to make sure that we tested it. So we left the **site** down for a period of quite a few days to test it and robustly test the **site**, and there's no doubt that we disappointed some customers.

Since that day, the **site** has been stable and robust and we're getting some record sales days during that period. In fact, when it came back online, three of the four next days were all record sales days, highlighting both the pent up demand and the ability to take large volumes on that website.

But we learned from it and we continue to invest in online and test our online **business** to make sure it's not only customer friendly, but reliable.

We also have opened our online distribution facility and this has reduced our cost of fulfillment by some 28% alone in the half. Launched in October 2013, managed by Cargo Services, and currently holds 13,000 high-volume SKUs, giving us the ability to fulfill faster, but, more importantly, to fulfill our customers' orders at a lower cost, and giving us the opportunity to make online break-even in this half, which is the plan that we've always echoed before to the market.

Our fifth area, or our fifth tier, is working on optimizing our store network. And that's integral as we have, obviously, a greater use of space and better supply chain, but in addition to that, as we integrate our omni-channel offer with our bricks and mortar offer.

Exciting that we have two new stores that will open very early in the first half of 2015, Joondalup in Western Australia and Mt. Gravatt. We've also reaffirmed that we're going ahead with the Greenhills **site**, just near Maitland, north of New South Wales. In addition to that, we've decided not to proceed with the Plenty Valley store in Victoria.

We've closed our Dandenong store in October 2013, and recently closed our Elizabeth store in February 2014. What we've learnt from closing those stores is that we can convert the majority of customers from Dandenong to Fountain Gate, using our MYER One data, and we convert the majority of customers from Elizabeth to Tea Tree Plaza in South Australia.

As we learnt when we closed Freemantle, the ability to move a lot of those customers to Garden City was evident, giving us more confidence that we can hold a lot of that customer base as we close stores.

Our refurbishments, and they're big refurbishments in 3 of our top 20 stores, are Adelaide, Indooroopilly and Miranda, and Macquarie's also underway that will complete later on in the year. So we've, in fact, got 4 of our top 20 stores all under significant refurbishment at the moment.

We've been handing back space in a lot of targeted stores, and I think there's no better example than giving a floor at Adelaide, giving a floor back at Miranda, reducing the space at Indooroopilly and, similarly, reducing some space at Macquarie. We'll continue to optimize our space to improve not only our sales per square meter, but our gross profit per square meter at the same time. And as each of the leases come up, it's a good opportunity for us to do and review exactly that.

We haven't put our indicative store schedule in the front of the pack for a while, but we thought we'd take the time to provide you the latest update in regard to our store program. September/October we're excited to open both Joondalup in Western Australia and Mount Gravatt, which is called Garden City, in Queensland. Both of those are 12,000 to 12,500 square meter stores, and both have good strong catchments of 200,000 to 300,000 people.

In addition to that, we are also having an extension that will be completed in May to the Myer Store in Melbourne, at long last. The Emporium development, in its complete stage, will see us take a floor of 7,000 square meters, and that will see us put a full range of men's sport, plus sizes for men, men's shoes, personal shopping and styling for men, and also a world class toy destination, which includes Lego, Barbie and Thomas the Tank.

And in those environment, a good opportunity then for us to us better the space in other categories back in the main store that goes on to the Bourke Street Mall. We're excited by the opportunity to extend Myer Melbourne and look forward to some sales enhancement from that.

So it's an exciting next few months as we have completed the three refurbishments, and Macquarie land later on in the year. And more importantly, we have the extension to Melbourne all giving us some excellent comp sales growth over the next few years.

Our improvements in productivity also stretched significantly to the [sales] network and, as you know, we've been working hard at enhancing sales per square meter by looking at the SLA/GLA ratio, and we started this back in 2006. Today, we're up at 71.9%, and our focus is not only on sales per square meter, but also on gross profit per square meter.

We do that by making our new stores more productive, between 80% and 85% SLA/GLA ratio, and an example of that is Melbourne, which runs at 90% SLA/GLA ratio. By making sure that the refurbishments also we use some of the space in the back that was wasted, as well as giving space back. Store closures, such as low sales per square meter store, such as Dandenong to be an example, and Elizabeth, and, as mentioned, the space hand backs as well.

So for us, we continue to enhance our comparable sales per square meter for the second year in a row as sales per square meter continues to enhance.

Before I go to the outlook a few words in regard to some of the strategic initiatives that we've undertaken at Myer. We often review and reaffirm our current strategy and, as some of you would be aware, we recently had Bain spend an extended period in the office reviewing our overall strategy, our way forward, and our five pillars and some of the opportunities within those five pillars, and that was some really good advice that they provided us.

The plan is to renew and continue to reinvigorate that five-pillar plan and my appointment, reappointment back to Myer, has given us the opportunity to renew and reinvigorate that plan and drive it even harder and faster, and I'**m** excited by that.

The management and myself are focused on the five-point plan, making sure we drive the customer and the customer appreciation and, more importantly the customer visit to Myer. The online **business**, making sure we've got new product, making sure our loyalty system is strong and, at the same time, we're using our space better.

We looked at all these things, and continue to, with the critical eye and refocused on all of those elements. One element, and only one element of that growth platform, was the opportunity to **merge** with David Jones on a nil premium merger and unlock, as you would be aware and as we've communicated, AUD85 **million** worth of synergies per annum.

We believe there is significant value creation in this of over AUD900 **million**, on a blended multiple basis, to be able to share both teams of shareholders within that benefit.

We welcome the David Jones' appointment of strategic advisers, to review the proposal, and look forward to moving forward in that review. We will comment very little on this, for obvious reasons, beyond that message today.

Lastly, the outlook; we still see a cautious consumer and, therefore, reasonably patchy, from a sales point of view. Our second half 2014 will get some sales benefit of the gradual completion of the Melbourne City store expansion at Emporium. Also, the benefit of key category growth, some of that driven by the new brands that I've talked about today and, of course, the exponential growth that we're experiencing in online.

In the second half of 2014, we will be impacted by the annualization of both Dandenong and Elizabeth store closure, and the store refurbishment are expected to more than offset the sales benefits. So in many cases, it will be a net of some gain.

We expect the second half gross profit margin to be flat, and I think Mark's explained that, as we continue to invest to keep that sales line up. And FY14 cash cost of doing **business** a 4% to 5% increase, and one of the contributing factors there obviously is the [STIP] program that was written back last year.

Our earnings momentum expected to improve for the full year 2015. Our two new stores, Emporium, and the completed major refurbishments, will give us a very exciting 2015. I think the opportunity to have two new stores of 12,000 square meters, 7,000 square meters in Emporium and, more importantly, to have three big refurbishments and Macquarie also come online later in the year, have 4 of our top 20 stores all back humming, I think is quite exciting to all of us.

Our online growth, the number of new brands that we've echoed today, the growth that we're experiencing in Myer exclusive brands, and the moderation of the cost headwinds as we've now swallowed all the extra costs of the Fair Work Act, and swallowed a lot of the costs that we've had in refurbishments and new stores, and that provides us with an excellent opportunity and a very buoyant future beyond this year.

Thanks for the opportunity today to give you that update. We'll now go to questions both in the room and also online.

Questions and Answers

MICHAEL SIMOTAS, ANALYST, DEUTSCHE BANK RESEARCH: Michael Simotas, Deutsche Bank . I'd just like to try to understand the guidance for CODB growth a little bit better. So you've stuck to the guidance of 4% to 5%, notwithstanding much lower run rate than that in the first half. Could you just talk about the drivers in the second half in a little bit more detail please?

BERNIE BROOKES : Sure. Mark?

MARK ASHBY : One of the first things to consider, Michael -- sorry, it's Mark here, for those who can't see me. One of the first things to consider is there was a AUD4 **million** OpEx for the STI program in half 1 of last year, which was minus AUD4 **million** in half 2 of last year. So when you look at the first half number, basically you could say comparing the last year you really should back out AUD4 **million** to see what the true run rate is.

The second major component is the investment in the omni-channel and online **business**, the project OpEx is coming through, pretty heavily in the second half of the year as the new drops in the order management system come in, in the next phases, which I think is 6 and 7, or 5, 6, and 7, and that's very OpEx heavy.

And we also have the completion of the refurbishments in the three major refurbishments, and the last of that OpEx really flows through during this half. We also have your wage increases, etc., and annualization of other costs. But in terms of probably the main components to consider, that's what I would be taking into account.

MICHAEL SIMOTAS: Okay. And on the wage increases, it looks like the EBA that was signed back in 2010, which has expired has not been re-signed, can you just talk about what that means for the underlying wages growth, relative to what you saw last year?

MARK ASHBY : We've had an underlying wage growth of round about 2.5% to 3.2%, depending on the year over the last few years, reflecting the enterprise agreement. And in addition to that, we've had a number of penalty rates for post 5 pm during the week day, for Saturday penalty rates and Sunday penalty rates. We've now put in a good portion of those penalty rates and don't expect, over the next year, too much more to happen there because we are actually ahead of the pack in regard to the implementation of penalty rates.

However, in regard to the EBA, we're in discussions with the Shop Distributive Association now and, over the next few months, I'**m** sure we'll settle on a good way forward. But we don't see the level of wage growth, going forward, indicative of the level of wage growth in the past.

MICHAEL SIMOTAS: And just the last one from me; shouldn't all of that mean that wage growth in the second half should be much lower than what it was both last year and in the first half as well?

MARK ASHBY : Yes, it will come back, there's no doubt about it. I think we haven't got another EBA hit to take us, and we haven't got any one-offs associated with introducing the Fair Work Act maintenance and the better off overall test.

MICHAEL SIMOTAS: Okay. Thank you.

MICHAEL COURTNEY, ANALYST, BOFA MERRILL LYNCH : Michael Courtney, Merrill Lynch . Mark, just a quick one for you first of all. You mentioned there's some pressures for gross margin in the second half due to FX; how big of a headwind in basis points is that, can you give any rough idea there?

MARK ASHBY : No, it's a bit of a moving target at the moment, Michael. We're very well hedged, so we have dropped our internal costing rate; obviously, when it was up above [1] it started to come down. It's enough to try and put pressure on how much, if any, price increases you can push through. But what we're trying to do is offset that really by better sourcing it and pushing more volume through our Hong Kong and Shanghai office.

So it just makes it a little bit more difficult in terms of getting margin accretion because normally, what we would expect as we're sourcing about 60% odd through MSAL, the Hong Kong, Shanghai offices at the moment, of our exclusive brands.

As we would increase that, you'd expect to see that flow through and you can pick up 10 to 12 basis points just on the MEBs alone and, quite often, 15-plus basis points. I think that flow through that we expected, we're assuming we may not be able to pick that up in the second half.

Also, just considering the impact -- the actuarial calculation on the MYER One points provision, and that's what we use to determine the expense that comes through, takes into account the likelihood of customers actually converting to a gift card and then redeeming that gift card. And in the first half, there was a substantial increase. Now it's a good news story but it just flows through your P&L, so where that calculation's [been]. So we also expect that to come through as well.

MICHAEL COURTNEY: Okay, thanks for that. Bernie, just a bigger picture question on the strategy; if someone was to give me a presentation from today and it didn't have any numbers in it, I would think that you're doing really well, in terms of you're doing everything you can to engage the customer. You're trying to take out costs where you can. But there's obviously a disconnect because earnings this year -- EBIT this year will be down 15%, maybe 20%, right?

So part of the problem is that you're not growing gross profit dollars this year. So what is it that's not working there in terms of your strategy?

BERNIE BROOKES : It's a good question. I'll take your first part of your comment as actually a bit of compliment, if you don't mind. We don't get many, so I'm going to take that and we'll put that in the bank (laughter), thanks, because the Myer team are here.

I think moving forward, there is a key question. I think, firstly, there are a lot of things that the business is really delivering on. I'm very proud, I'm very pleased that the guys have done a good job to achieve those, but you're right. I'd encourage you to look at probably three or four things.

The first is, there are a lot of costs this year that are not repeated in future years, getting our cost base right with the investment of service. We invested AUD23 million worth of service two years ago, extra wages in store, which needed to do. And that's now into the business as a higher cost base. We've had the Fair Work Act, which has had a significant impact on EBA, GRA and generally penalty rates as well, but has also added to that.

When you refurbish three stores, you're looking at capital investments at circa AUD30 million to AUD40 million, some of that paid by landlords. And then you've got an enormous amount of OpEx that goes with it, and that will affect us by about AUD40 million alone this year in top line growth for those three stores as well. Now we've just started Macquarie, which finishes later in the year, and there's a few more million dollars as well.

We're also investing very heavily. If I said back in 2006, I would have said our CapEx expenditure would be coming well and truly down, probably closer to AUD50 million than AUD90 million, where it is at the moment. And as you invest that, you get the appreciation associated with it, and that investment will taper off. But what's happened is omni-channel needs a significant amount of investment.

So we've gone through a pretty stormy period and I think we've echoed, in this presentation, that 2015 starts two new stores, three refurbishments, the completion of Macquarie halfway through the year. The only refurbishment that will start some time after Christmas will be Warringah, so we won't have a large number of refurbishments impacting us as well.

And I think, from our point of view, 2015 was always going to be that year. But I put this that the business -- and if you look at the business and let's be frank, if you look at the last four years, that EBIT has come down for four years running. We certainly acknowledge that.

But have a look at two things, which is we've had four years of gross profit growth. This year, we invested that gross profit benefit to make sure we kept the sales line up and we achieved 1.7% comp, one of our best comps for the quarter. So we've got those levers in charge. Get to that June/July/August period, new stores starting to come online, Melbourne starts to come online and we're looking forward to getting the benefits of all that hard work. So stick with us.

MICHAEL COURTNEY: Just to follow up, the costs that you talk about coming off, so I understand 4% to 5% this year; that obviously drops back pretty significantly next year. But the problem still remains that at the gross profit line. I take it you've had a history of growing that.

BERNIE BROOKES : Yes.

MICHAEL COURTNEY: But with concessions continuing to grow, with headwinds from the dollar coming through, you're still going to be needing gross profit dollar growth, going forward. And it just seems that this half, we've had a period where the consumer is apparently out and spending. This should have been a better half. So what didn't work at the gross profit line?

BERNIE BROOKES : So I think looking at consensus first actual, it was actually a little better than what most people thought. I think first to acknowledge the fact that, yes, we probably should have had a better half, but it was better than what most people thought because we'd given an honest appraisal of what we saw during these quarters of the six months.

I think the GP holds the key to the comments that you're making, so let's come back and break that down. We could have posted an increase in GP in this half quite comfortably. And Mark and the management team and myself made the decision in about the third week of December to say, we've had a tough November, the first three weeks of December have been pretty difficult, and we look [posting] pretty poor quarter.

And in retail, top line growth is the key to making the whole engine work. So, therefore, we made the decision to invest. Our GP, at that stage, was running well above last year ,and everyone would have ticked the box for our GP this half. We decided then that we were going to invest very heavily in the stock-take **sale** to try and compensate for a poor November and a first three weeks of December.

At the same time, all the specialty businesses in town went on promotion about the third week of December, including our own sass & bide **business** that went on special as well because they run independently. Everybody went berserk on promotions because they'd all had a similar time.

So we revved up our stock-take **sale**. We ran bounce back on points; we revved up our points; we had double points day. We increased our advertising and our marketing and that gave us a home run through the best stock-take **sale** we'd had in 10 years. And that saved our bacon from what was a pretty disappointing November and first couple of weeks of December.

That's the way we manage the **business** and so we wanted to keep the top line up. So Mark and I debated to say, did we want to please all the market and give it a little tick in GP? We can get GP growth but I think my job, as a Managing Director, is to actually fiddle with those levers and try and get a balance between the GP. So we could have got our fifth year in a row of GP growth.

The GP growth for us comes predominantly from -- if shrinkage is, you would say, probably the best you'd get, there may be 5 basis points, maybe 10 basis points more in shrinkage. There isn't much more in shrinkage. Overseas sourcing provides a very good opportunity for us to continue, from an overseas sourcing point of view. And that's probably going to increase by AUD10 **million** or AUD20 **million** a year, moving more towards overseas sourcing and that gives us a little bit.

Markdowns, well, in a department store retail **business**, markdowns are as good as your loyalty program; you need them to clear stock. We spend roughly between 9% and 11% in any one year on markdowns and that probably isn't going to change too much. We can do a bit of tweaking, going forward.

So the secret is our ability to optimize our mix with GP. And how we do that is firstly, by making sure that we've got Myer exclusive brands. We've bought licenses, Australia House & Gardens is a great example. We've gone from zero to AUD10 **million** in sales on Australia House & Garden. We design, we set up a design-led **business**, particularly in our youth **business**, to become more fast fashion and that's working well for us.

We've stretched the **brand** into other areas, e.g., sass & bide intimate apparel, sass & bide sunglasses, and a number of initiatives in stretching brands. We've moved Trent Nathan into a number of areas and we'll continue to do that. We've bought some new brands, Bauhaus is an example, Grab Denim, which have all been successful.

We've also taken the **brand** into more stores. As we've been confident with Trent Nathan, we've moved it into more stores. And we've **purchased** a number of brands along the way, as well as the new brands. Today, we've announced L by Lisa Ho , which is another good example.

So that's the driver for us from a GP point of view. We're confident that that'll continue. It's how much of it we have to invest back into making the top line grow. Sorry for the long answer, but it was a king hit.

MICHAEL COURTNEY: No, that's good. Thanks a lot, Bernie.

BERNIE BROOKES : We might go online; we've got quite a few. Andrew McLennan, CBA.

ANDREW MCLENNAN, ANALYST, CBA: One question from me. In terms of the strong second quarter 2014 results, I was just wondering which categories actually worked quite well. Was it driven by MEB outperforming, or was there something else going on?

BERNIE BROOKES : No, the driver for the second quarter was almost the same as the drivers for the full year. We had an improved result in youth. It took us a while to get youth correct, and we bore the benefit of that particularly in the second quarter.

Our cosmetic **business** continues to grow from strength to strength. Women's footwear and women's accessories were also a strong grower in that quarter. So if I break it down, the difference between the full half year and the second quarter was a better result in footwear and accessories, an even better result in cosmetics, and certainly driving in the youth **business** as well.

ANDREW MCLENNAN: And they'll tend to be the high gross margin categories?

BERNIE BROOKES : Yes, and I think you've got to look at cosmetics as understanding what I would call the direct product profitability. Because we only pay half the wages, so a slightly lower GP, we pay half the wages; we have limited cost associated with activity-based costing of fit out, etc. So lucratively, it's amongst the best direct product profitability environment.

ANDREW MCLENNAN: Okay. And just with respect to inventory, how are you feeling about your inventory balance at the moment? It looks reasonable. Are there any issues in terms of the mix there?

BERNIE BROOKES : No, I think previous years we've called out that aged inventory is the best it's been, and exactly the same is the case this year. We continue to get better at inventory, as we use our Retech merchandise system, our forecasting system. We move and more lines to automatic replenishment, and we manage our sourcing office in **China** a lot smarter.

So I still think there's juice in inventory. We haven't had inventory problem now for three or four years. The team do a great job getting on to it and I think, even despite having inventory in the distribution center for omni-channel, we still manage to keep our inventory well under control.

There's no issue with aged stock. Some years we've had a few extra computers or a few TVs we've had to clear. It's the cleanest it's been.

ANDREW MCLENNAN: Okay. And a final one from me, Bernie, if I can? Just in relation to what should be the elephant in the room in the department store space, Target. You haven't made mention of that at all.

I'**m** just wondering if you are just wanting to measure your own game, or if you can explain to use what kind of impact do you think Target may have had on the clearance activity over the half and what might be anticipated for the second half.

BERNIE BROOKES : We didn't see any noticeable impact when they were clearing large quantities of stock. My observations, looking at the discount department store performance, is there was a bit of movement taking place across department store share during that period as Target went very, very aggressively clearing what was a quantum of stock that they had.

But in our stores that are located in shopping centers next to Target, we didn't see any impact on our price points. A couple of areas we were watching was, obviously, intimate apparel as well as entry price points in womenswear and menswear and we saw no impact.

And I think, as we do our research, that Target customer goes to Target to **buy** something and then they'll come to Myer to **buy** something else. We don't see much in the way of cannibalization of any of the discount department stores because we've moved a lot into our own space that sits between the discount department stores and the more premium department store.

ANDREW MCLENNAN: Okay. Thanks very much.

BERNIE BROOKES : Richard Barwick, CLSA.

RICHARD BARWICK, ANALYST, CLSA: You talked about moving or deciding to get aggressive and your plans for the stock-take **sale** in the third week of December. Are you saying that through November and the early weeks of December you felt like you were tracking in line with the rest of the market?

BERNIE BROOKES : We thought November we were a little poorer than the rest of the market, and we thought the first three weeks of December was pretty much in line with the market. So our sort of intelligence said we miscued in November and, ideally, we were about the same as everyone else. Everyone was squealing after a couple of weeks of December that it was pretty tough, as we were.

But I think November was an area that we miscued. And, as we've evaluated that, next November we need to look at both our marketing, our early run up to December, our setup for Christmas and we've got a number of initiatives underway to do that. So I'd put November down to as much self imposed as it was the market.

RICHARD BARWICK: Can you give any more color, Bernie, in terms of what was driving November?

BERNIE BROOKES : We were disappointed with our womenswear performance through the month of November and early December. We were disappointed with menswear. They're our two big engine rooms and November for us was disappointing. So I don't want to give month-by-month analysis of the **business**, but disappointed in our main fashion areas.

We've seen some improvement, particularly in menswear, in the last couple of months and womenswear, been clearing a little bit of stock, but we've got some good signs, going forward. But we were disappointed in November in those two areas.

And we were also disappointed in our marketing November as well, which we've reviewed as well. We need to move more, as I think most of the industry is, towards a more digital marketing environment. We didn't do enough of it in November.

RICHARD BARWICK: And are you concerned, Bernie, that obviously consumer sentiment has weakened a little bit, even since November/December. And you've obviously had to compete -- promote far more aggressively in the stock take to, as you say, to boost and drive sales.

Are you worried that you're moving towards a bit more of a reliance on discounting to push the sales along, particularly with that backdrop of a slightly weaker consumer sentiment?

BERNIE BROOKES : We could have to. I think you've got the Medicare levy increase to hit, the superannuation levy increase and the Schoolkids Bonus, which also gets removed as well over the next six months or so. So we've got a couple of things that will continue to impact consumer sentiment. So I don't think we're in anything except a patchy consumer environment.

And we've also got the structural challenge that continues to occur in the industry in regard to online and international competitors, so it's never easy. But I think, going forward, if we do need to spend more aggressively on markdowns, then at least we've got the gross profit lever at our disposal to reinvest back in markdowns.

And the only other thing I'd encourage you to think about is that everybody thinks that markdowns are a bad thing. When they're funded by suppliers, which the majority are, they're actually quite a good thing and they drive significant traffic.

And remember that the stock-take **sale** month, January, is a more profitable month for us than December. So that's indicative of a), the engineered stock that we run, but also the fact that those markdowns are funded by our trade partners.

RICHARD BARWICK: Right. And just last one from me, you're talking about sales being patchy, can you give some sort of color around maybe CBD stores versus more suburban or regional stores, or any comment across the different states?

BERNIE BROOKES : I might answer it the same way I answered it with Elizabeth Knight and I got her to Wikipedia the word patchy. But I think in [evident], we're seeing some weeks really good, Richard, other weeks not so good. So it's still highly fluctuating.

We're seeing the customer respond very aggressively to when we do super Saturdays and the promotions, so they're waiting, as we encourage them to, to a promotional environment. We're seeing them respond very, very well to newness, when we've got a new product that is hot, a new fashion trend that's hot, a particular shoe or a boot. That also works particularly well for us.

So at the moment we're seeing good growth still in Western Australia on a comp store basis, because without Fremantle; continued good growth in New South Wales, and we're really pleased with our New South Wales **business**. And our Sydney CBD store, our Brisbane CBD store, are particularly going well; Adelaide, obviously, is being impacted by the refurbishment.

If we break it down to mid, low socioeconomic areas, which we do almost on a monthly basis, we are seeing a greater fallout in what you would call the lower socioeconomic stores. But if I mentioned any of them I'd be on the front page of their local paper, but you can guess where they are.

RICHARD BARWICK: Understood, okay. All right, great. Thank you, Bernie.

BERNIE BROOKES : Phil Kimber, Goldman Sachs .

PHIL KIMBER, ANALYST, GOLDMAN SACHS : Just a question clarifying what you just said there to Richard. You'd mentioned December -- or January being more profitable than December, but then I thought you were saying that the fact that sales skewed into January was why your gross profit margin wasn't as good. So I just wanted to check if I've interpreted that correctly.

And then secondly, is that because you funded the markdowns this time rather than the suppliers?

BERNIE BROOKES : No, the main one is mix, Phil. I think if you look at the mix that happens in the stock-take **sale** we sell large volume in the stock-take **sale** of concessions, and the concessions all joined our super Saturday for the first time, and they've joined a lot of our stock-take **sale**, which they hadn't done before.

In addition to that, our Myer exclusive **brand** percentage declines during the stock-take **sale** because there's a lot of branded merchandise on at very, very good sales as well.

PHIL KIMBER: Okay. Can I ask (multiple speakers) --

BERNIE BROOKES : Sorry, Phil, just to fully answer that, sorry. The points scenario, where we gave a lot of points, bounce back points, to drive the MYER One, to drive traffic, also is, for want of a better word, a markdown by stealth.

PHIL KIMBER: Okay. And then just in terms of my understanding, and maybe I got this wrong, was that the costs were going to skew to the first half was the guidance that you were giving earlier in the year. I know you said it was a tale of two halves, partly because the refurb's skewed to the first half from a sales impact. But I also was under the impression that costs and some of the omni-channel investment was going to skew to the first half.

Was that right? And, if it was, what changed -- why did the cost rollout change over the year as well?

BERNIE BROOKES : A combination of the STIP holdback that will go in the second half. Also the fold over of the investment in omni-channel that was going to be first half has gone more into the second half and so, therefore, the rollout of what's called PIMs and DAMs, which is the OpEx associated with product information system that we roll out as part of our omni-channel. And phase 5, 6 and 7 of order management in omni-channel also rolls into the second half. And we've still got some costs with the refurbished stores.

So there's been a bit of juxtaposition of costs from the end of the first half to this half we're in now.

PHIL KIMBER: Okay. And then one last one from me. You were giving some great detail to Michael's question earlier about gross profit and you ran through the drivers. I was just getting the sense from there that, in the last three or four years when you have done a fantastic job on gross profit percentage margin, you had markdowns and shrinking helping as well as the mix issues you've talked about.

It looks like a few of those drivers disappear and, if anything, you get maybe some headwinds from FX. So should we, therefore, think going forward, that the 40-odd basis point increase in GP margin isn't going to be of that magnitude? Hopefully, you'll get percentage margin increase, but the basis point will be lower.

BERNIE BROOKES : It's a good question. I think the juice in shrinkage is -- and the juice in -- is probably less there than it was in the past. The juice in moving procurement to Asia is less there than it was in the past. I think markdowns is always there as an opportunity, depending on the customer, so I think we'll make the starting gross. The key question is, how much we have to spend of that to drive the top line environment for the customer, and I think that's almost the month-by-month proposition.

So the mix turns that at 20%, 21%, you get a good mix of GP, you save money on shrinkage, you spend markdowns when you have to. So the key word is in control, and it largely depends on the customer propensity to **purchase** and how relevant our offer is.

If we continue to deliver a disappointing offer in November, then we're going to have to spend more in markdowns and spend more of that GP. So we'll get the GP, it's how much of it we have to give away.

PHIL KIMBER: Okay. But obviously, on the flipside, you've got the -- you're going to -- these new stores, the GP dollars are probably going to be driven more from sales over the next few years than percentage margin.

BERNIE BROOKES : I think you need to spend less of your GP when you're getting top-line growth, and those two new stores, the three refurbishments and the extension of Melbourne will give us some good top-line growth at last and therefore, hopefully, the potential to pocket more of that GP. But I think Mark wants to add something on the cost base too, Phil.

MARK ASHBY : Yes. Phil, just on the GP, going forward, there's probably not a lot of steam left in shrinkage. It is improving, but we don't have the same sort of opportunities there. The mix is the big opportunity for us in terms of percentage, and that's getting the MEBs back on track to a full 1% shift in mix each year.

And it depends; in the first half, we've already explained what's happened, but that's still very much the strategy, going forward. And as we do that, there's also the quantity of MEBs that we currently source through our sourcing offices, or we source through local suppliers. So we still have probably another 30-or-so-% of our MEB sales that we can move to direct source over the next couple of years.

And that gives you a significant growth in terms of your gross margin on those particular items, because you're taking out the wholesale margin. So there are some opportunities to continue to grow and really, the focus continues to be on exclusive **brand** mix. And Bernie's already touched on markdowns, so markdowns are always going to be a focus and an opportunity.

PHIL KIMBER: That's great. Thanks, Mark. Thanks, Bernie.

BERNIE BROOKES : Tom Kierath, Morgan Stanley .

TOM KIERATH, ANALYST, MORGAN STANLEY : Just a follow-on from Phil's question. I think at the full-year result, you said kind of AUD11 **million** of one-off type costs. Can you indicate how much landed of that in the first half and how you expect it to look for the second half?

MARK ASHBY : I haven't done the exercise, Tom, but AUD11 **million** is still AUD11 **million** for the full year. In terms of the timing, while Bernie's answering the next question, I might see if I can work it out for you.

TOM KIERATH: Sure. I'll follow on. The CapEx looks like it's going to step up a fair bit in the second half; can you maybe indicate where that's going and then how we should think about D&A I guess in that context into 2015?

MARK ASHBY : It's Mark again, Tom; you're not giving me a chance to answer your other question (laughter). Yes, the CapEx in half 2, the three refurbs, well, two complete, so the bulk of the spend starts to come through in half 2 for Adelaide and Indooroopilly in terms of cash. Obviously, Miranda's still underway.

We also kicked off Macquarie in New South Wales and we start spending on the two new stores, not a huge amount, but a couple of **million** dollars gets spent on the two new stores which don't open until FY15.

On top of that, we've got phases 6 and 7, or 4, 5 and 6, or whatever it is, of your order management system that start to come through and also, on what's called the PIMs and DAM system, which is part of the omni-channel investment. So it's very much skewed to half 2.

TOM KIERATH: And then, sorry, last question. The concession margin looks like it's come back a bit this period and in the last half as well. How should we think about the concession margin, going forward? Are you having to give these guys better terms to keep them there?

BERNIE BROOKES : No. I've got a sore foot from making sure we don't give them better terms, but rest assured, the margin is as much about mix. We're seeing a good result in things such as services, cafes, etc., in our store that are included in that concession margin and that affects your mix. So our average concession margin of 22%, 24%, you've got some at 28% and some at 12% and 15%, depending -- you don't get apparel at 12% and 15%, but you get things like cafes, services in store, beauty services in store at a lower margin and that service component does have a mix impact.

And so I think, going forward, you'd see certainly no more in concession margin, but you'd see it taper out where it is at the moment as that mix has increased.

We're doing a lot of things like eyebrows in store and even haircuts in some store and a lot of cafes and this sort of thing that you naturally get a lower margin for because they're using less space, less attractive space.

TOM KIERATH: Thanks.

BERNIE BROOKES : Rob Freeman, Macquarie.

ROB FREEMAN, ANALYST, MACQUARIE RESEARCH: Whereabouts are the costs that you've incurred on the DJ's proposal sitting in the income statement?

MARK ASHBY : We've swallowed, is the easiest answer. There was cost of Bain, cost of some consulting work, cost of work undertaken from a legal point of view and it was a small amount of money that's been swallowed in the half. [I think] they're in admin costs.

ROB FREEMAN: Was it less than AUD5 **million** or --?

MARK ASHBY : A lot less than AUD5 **million**, but that's about as close as you can get, Rob.

ROB FREEMAN: Okay. Just in terms of the AUD12 **million** reduction in inventory on the PCP, how much of that was Dandenong?

BERNIE BROOKES : Maybe AUD400,000, AUD500,000 or something like that.

MARK ASHBY : Yes. It would be less than AUD1 **million**, from a Dandenong point of view, because we were using it predominately as a clearance store anyway and transferring stock in from other stores for the last six months because it was a pretty difficult trading environment. So it's negligible, but certainly less than AUD1 **million**.

That inventory reduction has come across four areas. It's come across womenswear. We had a lot of youth this time last year, which we don't have any more. Our stockholding in entertainment and electronics is down. Our stockholding in books is down, and music and DVDs, there would have been CBD stores in that last year that's not this year.

In addition to that, we've had the Townsville store is a new store, would have been on top of there, so it's consistent; it's not any one-off lucky prize that we've got out of anything. It's been good managed inventory control.

ROB FREEMAN: Okay. And then the CapEx quoted is a gross CapEx number. What are you expecting just in terms of net spend?

MARK ASHBY : The forecast, at the moment, is to receive about AUD10 **million** worth of landlord contribution, so I think that takes the AUD90 **million** down to AUD80 **million**.

ROB FREEMAN: Okay. And then just the last one for me, what is your formal gearing policy?

MARK ASHBY : Formal gearing policy?

BERNIE BROOKES : I think we look at gearing relative to total balance sheet, inventory, stock turns, creditor days, all of the above. There's not a written policy. We've obviously got a covenant that's in the pack to look at, but at the moment, if it's 1.1 to EBITDA or 1 to EBITDA, we don't have any defined policy. We'll look at that as we look at all the other metrics in the **business**.

But I would add that our debt is down, obviously, despite the fact we paid AUD30 **million** for sass & bide as well.

ROB FREEMAN: Sure. I was just wondering if you talk about staying in a range of 20% to 30% net debt to total capital or anything like that.

MARK ASHBY : Well, probably the best guidance I can give you on that is net debt to EBITDA around 1 to 1 is where we like to keep an eye on.

ROB FREEMAN: Okay. Thanks, guys.

BERNIE BROOKES : Ben Gilbert, UBS .

BEN GILBERT, ANALYST, UBS : Just had a quick question on the online side of things. Just wondering how the financials are stacking up there from a GP and a cost perspective, in terms of that path to getting to 16% EBIT margins. I know historically you've said target 35% for gross profit margin, [I can see it there at 21%.]

MARK ASHBY : The gross profit margin still continues to be better than our average gross profit margin and that's because of the mix of Myer exclusive brands and the mix of apparel that's on there, but that is changing; it's coming back to be more in line with the rest of our business.

The cost of doing business is, when you add it all together, actually greater at the moment than the GP margin so, therefore, there's not a lucrative profit getting online. But as we've consistently said, we've put in our omni-channel fulfillment capability, which already 13,000 SKUs is starting to generate an average of 28% across the whole business cost of fulfillment. And we expect online to break even as it gets to that run rate of AUD50 million, which have been in the last couple of presentations, and it will get to AUD50 million run rate comfortably in this half and, therefore, will start to break even.

And then the upside largely reflects, as it goes from AUD50 million to AUD300 million, where you get enormous efficiency and economy of scale with being able to organize delivery at a lower cost, picking at a lower cost, and order specific lines for online straight into the distribution center out of our hubs in China.

BEN GILBERT: Great. And secondly from me, you just alluded before on pricing, are you seeing suppliers coming to you asking for price increase now with currency, or are they're beginning to flag it? And what are your expectations around the inflation over the next 6 to 12 months?

BERNIE BROOKES : I think, surprisingly, the apparel trade and general suppliers to departments stores have learned, over the last few years, to ride the currency wave, knowing that they've probably gone from AUD0.48 a few years ago to AUD1.10-plus. So they've all got pretty good at hedging, at minimizing their cost.

The first thing they've done, potentially, is they've stopped above the line advertising. Then they may well reduce some of their markdowns, reengineer their products, reduce their supply chain costs. So at the moment, for all those reasons, we're not seeing any significant number of cost increases come from our manufacturers.

Going forward, we could but the beauty of it is, if there are increases from an Estee Lauder or [specific] brands, then the same for the whole of the trade. But at the moment, we're not forecasting any inflation at all. Deflation for the first half was about 0.25% to 0.5% and that was driven predominantly by cosmetic deflation. So we're still not seeing any joys that we would have if we would get some good inflation in the business.

BEN GILBERT: Great. And finally from me, just how see February and March from a trading perspective. Has it been relative to other Q2s?

BERNIE BROOKES : Pretty much in line with the first half, quite patchy; some weeks really good, some weeks not so good. It's almost becoming a day-by-day proposition. That 7.30 text in the morning is either a -- it means you have a really good day or a really bad day, but it's all over the place. So it's still very patchy. And really, I think still saying that we have to continually have an offer for the customer and have to continually raise our sights to attract them in because they've got lots of offers out there with international department stores, international retailers, online, etc. So patchy is the answer; still very similar to what it was throughout the whole over the half-year.

BEN GILBERT: So a similar run rate to the half-year, then, and I suppose you say patchy week to week?

BERNIE BROOKES : Yes. Less predictable is probably another word to use as well.

BEN GILBERT: Great. Thank you.

BERNIE BROOKES : Shaun Cousins, JPMorgan .

SHAUN COUSINS, ANALYST, JPMORGAN : Just a question on D&A, I'm not sure, Mark, if you answered Tom's question about what you think D&A will be in FY15. Should we anticipate another AUD6 million increase, particularly given the shift in CapEx towards online and technology, which has got a shorter useful life?

MARK ASHBY : Sorry, did you say for 2015, Shaun? (multiple speakers)

BERNIE BROOKES : 2015/2016.

MARK ASHBY : Goodness, I'm just trying to recover from half 1, [not thinking about] 2015, 2016. (laughter). I couldn't give you an answer and do it justice at the moment, but the way to look at it is that our CapEx spend will probably be about AUD80 million, going forward, on average each year. It goes up and down. I think next year it might be a bit less. The year after is probably is looking to be a little bit more, so if I average it at AUD80 million. Once upon a time, you used to be able to use a -- just divide it by 8 and that would give you roughly what the depreciation was going to be. It's probably -- you've got to divide it maybe by 7 and get a bigger number.

The counterbalance to that is, we do get a drop-off of about AUD4 million a year, pretty consistently, in terms of assets that have become fully depreciated. So that's probably the best way I can think about it at the moment, Shaun. (multiple speakers)

SHAUN COUSINS: Okay, fantastic. Just maybe on MYER One, can you talk a bit about what that does in terms of as the customer is more engaged in MYER one and you're getting more use out of it, how does that actually help you potentially drive store range, or over time reduce your marketing costs as you can actually be more targeted and more effective at communicating with your customer that's engaged in this program more?

BERNIE BROOKES : So under a sort of umbrella of customer relationship management, we're able to ascertain from the data that we have from MYER One, the frequency at which a customer visit, what they buy when they visit, whether they shop online and then shop in store, how many stores they shop at, what departments that they do actually transact in and, slowly but surely, build up a pretty good DNA of that customer by number.

And therefore when, if I take the formals buyer it's looking at their ranging, they can see that a customer may well buy three shirts and not buy any ties, so we target them with ties. It might see that they bought a suit but they haven't bought a shirt before the racing carnival, so we can target them with an offer there accordingly.

What that enables us to do, I think, is make the offer through the EDM, or the direct marketing email, to the 2.3 million customers that we have, 2.2 million email addresses, more relevant to them. So I think the first thing, it helps with the more relevant offer and it saves us putting an ad in the paper or an ad on TV for shirts when very few of them effectively might purchase a shirt. So the opportunity to move more towards a lower cost digital environment is certainly very evident.

And I think, if you look at our super Saturday, which is a good success for us, it's driven as much by the direct email, the Facebook post, as it is driven by the page in the press and the TV advertisement the night before, but you need all of it. You don't need one of them, you need to do a total package, and that's what's happening in the media buying world. You're spending the money but you fragmenting it across multiple means but I think, eventually, more of that will fall back.

So to come back to your question more specifically, the first one is being able to optimize your media spend by targeting the customers with more relevant or pertinent offers and using their DNA, understand what they bought and what they haven't bought.

The second thing is to assist your ranging. So if you can look at it and say, well, when we didn't have in this store a Van Heusen shirt, the customer bought a T.M. Lewin shirt, then you know effectively that you don't need to have Van Heusen in that particular store. So it assists our buyers in making decisions on what they're ranging, what the demand is. If there's a store that there's a high purchasing of suits, but you've got a very poor shirt range, it enables you effectively to deliver a better shirt range in individual store.

And if I take my local store, Castle Hill, it's a very good store for suits and shirts, and particularly shirts, and so the MYER One customer was under-purchasing on shirts, so they've increased the shirt range and put T.M. Lewin in that store as an example. So it enables us to effectively range.

The third part of your question was in regard to store location and we can transfer between 62%, which was the ACT example, up to about 80%, which was the Forest Hill example, of transferring those customers to nearby stores by tagging them as a customer that comes into stores and they go to nearby stores because we can tag where they've been and what they purchase. So it does become a really strong database of information.

SHAUN COUSINS: Great. And just in terms of space and stores, can you confirm that, over the next few years, you want to have flat square meterage and if that's an SLA or a GLA number? And how we should think about the opportunity for you to generate rental savings, or as you potentially give back some space or negotiate a rent savings in one store, you might actually have certain leases coming off and you don't pay an enormous amount of rent and some of these are long leases so you might actually get a bit of an increase in rent, so overall rent might not be a big pool of savings?

BERNIE BROOKES : Yes, there's about three questions in one there, so let me break it down. So I think firstly, SLA will stay fairly flat. Although we've got new stores, we give back space at places such as Warringah, and a little bit of space back at Macquarie. And there's a number of stores that we're in negotiations to refurbish and all of them we start at the point of giving space back, so that'll be the first one.

Our GLA is now about 1.1 million square meters and we expect it to stay at about 1.1 million. The focus is, obviously, on productivity and that is to gain a greater SLA percentage relative to GLA and you've seen, from the graph that we've presented today, that we continue to do that. As we look at the three new stores that we refurbished, all of them will have a good increase in SLA/GLA ratio and that's productivity.

But the other part that's important to us is profit per square meter as well. It's just as important as sales per square meter, so that gives us another option to look at.

So going forward, GLA remains fairly stable. New stores, compensated by hand back of space under refurbishments. SLA continues to increase as a percentage as we get better and better at supply chain as well. The impact on rentals is when you give space back in store, and if it's a level at Miranda or a level at, say, a store at Adelaide, and it might be one-fifth of the floor, you don't get a rent reduction on one-fifth because it's normally pretty dismal space and pretty much space that doesn't have a high value, but we do get some reduction for it depending on the negotiation.

But we don't see any significant change in rent as a percentage of our business, which averages about 8%, going forward. All of our forecasts pretty much stable at the base rent at around about 8%. We'll get some pluses when we give a bit of space back. We'll get some minuses as we roll out the new stores, so reasonably stable once we've got past the hump that we're now with the couple of new stores.

SHAUN COUSINS: Great. Thank you.

BERNIE BROOKES : Grant Saligari, Credit Suisse .

GRANT SALIGARI, ANALYST, CREDIT SUISSE : Bernie, I was just wondering whether there's any insights you can share with us on potential cannibalization of the store sales from growth in online, or is there a significant net addition from the online growth?

BERNIE BROOKES : Pretty hard to put an accurate number on it, Grant, because the database is still not necessarily large. We've got about 50% of our online customers as MYER One customers, which is below the average. And when they're signing up at a rapid rate, that will get larger as each quarter goes on. And as we track those customers to see their spend, we're actually not seeing the 30% to 40% that we thought would be cannibalized in online and in store.

So I don't think this is an exact science and I wouldn't put my name on it, but I do think we're not going to see the level of cannibalization that we thought we'd see, largely because that MYER One customer, as we're seeing, is still spending in store and increasing their basket size in store and buying online as well.

What we don't really know is the 50-odd-% that make up the bulk of our purchasers that we don't have in MYER One information, or they haven't given us in MYER One information, so pretty hard to find out.

But the lessons from overseas retailers that they're saying -- the John Lewis, etc., saying 30% to 40% is cannibalization, but they make it up when they come into store from a click and collect point of view because they buy something else as well. So I know that's not an accurate answer, but that's all the things that we're optically seeing as we look at the data.

GRANT SALIGARI: That's helpful. And I guess, in terms of the prospective growth of online within the business, are you still seeing significant growth in terms of customers coming to the website? Or is it now, primarily, a conversion gain for you to get that online sales growth?

BERNIE BROOKES : No, the good news is that, because it's still in our infancy and we're delivering improvements to the site on a weekly basis, the growth for the last six months has been 89%. So 89% visits up at 18.5 million people that have visited our website, so that says that we're still getting new people to the site. They're spending significantly more in their basket when they come to the site. Our conversion has increased about 60-odd-%.

So all of the indices said that there's still plenty of growth to go in customer attraction, basket size and getting our existing customers to shop. And the 1,200 iPads, once completely rolled out, will also give us another avenue to get growth in, say, smaller stores, with the endless aisle concept as well.

GRANT SALIGARI: Okay. I appreciate that. Thanks Bernie.

BERNIE BROOKES : Daniel Broeren, CIMB.

DANIEL BROEREN, ANALYST, CIMB RESEARCH: Just a question from me on the positioning of the Myer brand. If you look at the list of fashion brands coming into store on slide 24, I think it's fair to say that, whilst they're a very good brands, they're not a top tier, premium brands.

So is it fair to say that Myer is further differentiating itself from DJ's there? And has the apparent repositioning of Target down-market created an opportunity that you're looking to exploit?

BERNIE BROOKES : I understand that interpretation. I think the best way to think of it is, if we had 68 stores that were all the same, then you'd be able to answer that question in concrete terms. The reality is that a Melbourne CBD store, and a Sydney CBD store, make up the bulk of our international designer **business** that's trading up 25%. And we treat those very differently to what we do Dubbo, or what we do Toowoomba, or what we do Townsville.

So the answer is that, depending on which store you go into, we do have a slightly different market position. If you go to Dubbo, a Cue dress at AUD200 or AUD300, a beautifully Australian styled Cue dress could, in fact, be the aspirational product in Dubbo that you wear to the Dubbo races, or the Dubbo **Gold** Cup. And then similarly, when you got to Townsville, it's the same, but when you go to the Melbourne or Sydney races, you want to wear an international designer.

So the answer is that it's very significantly by region. And one of the advantages of the AUD100 **million** that we spent on Retech, it gives us the chance to vary the store offer relevant to the clientele that's in that store and there's no cookie-cutter approach.

And if you think you go to a supermarket, the base range is the same. Our **business**, the base range is quite small and it's quite different in each individual store. And that is the beauty of a department store that everybody continually criticizes. The advantage is the ability to vary the offer in an individual region based on the social and demographic impact is quite sizeable. And we're certainly seeing that in our stores. So we're not moving up or down; we just continue to have 180,000-odd SKUs and we pick the right range for that customer in each individual store.

DANIEL BROEREN: Okay, thanks. And if you could just give us a little commentary around the press commentary recently about Myer and its freestanding store strategy? What should we expect around acquisitions in that space? And also, just how do you envisage that **business** looking medium term?

BERNIE BROOKES : I know this is going sound like a really odd statement, but I wouldn't necessarily believe what you read in the press. There was an article saying that it was going to part of a strategy to go to 500 stores. I think most people internally found it quite surprising; our **Board** found that quite surprising as well.

Our plan with freestanding stores has always been the same plan, and that is that we already have a number of freestanding stores. We've got about 20 of them under the sass & bide ownership. We have a store in Hobart that is a home store that we've had for three or four years. We have QV furniture store in the middle of Melbourne that we've had for about three years. We've got a childrenswear store in Colonnades in South Australia.

And from time to time in shopping centers, we take short-term leases on freestanding stores for Basque or Vue or Heritage quite frequently. So freestanding stores has always been part of our trial and dip our toe in the water strategy.

What we will do in Victoria is open two or three freestanding stores under different names, using some of our more successful Myer exclusive brands. And that provides another opportunity for us to examine them, use them as a nursery, understand how they work, use the sass & bide learnings as well.

We don't have anything written in any plan that says we're going to open 100, 200, 300, 400, 500. So if I use Mark's term, in your modeling, I certainly wouldn't build any significant growth platform out of freestanding stores. It's a few hundred thousand dollars' investment, and it's going to be interesting to see what the potential is of taking MEBs into a freestanding store. And we will keep you posted on the outcome, as we roll those couple of stores out over the next six months.

DANIEL BROEREN: Okay. But you've now got a very senior executive running what is a pretty small **business**. So it's fair to assume that it is an important growth angle for you.

BERNIE BROOKES : I have this really interesting management philosophy that if you want something to trial effectively and work, you put the right resources at it. And I've only learnt that by screwing it up in the past, by not allocating the right resources at it. So, yes, we've taken a senior executive and moved her into that area to make sure it's trialed effectively. But I wouldn't read into that that it's suddenly going to be another Country Road or another Cue.

DANIEL BROEREN: Okay. Thanks, Bernie.

BERNIE BROOKES : Anthony Vogel, BBY.

ANTHONY VOGEL, ANALYST, BBY: I'll just start off with a couple of clarifications, if I could? Did you mention earlier that the impact of the refurbishments was about AUD40 million in terms of sales?

BERNIE BROOKES : Yes, it's about AUD40 million a year. This year it'll be AUD40 million. I think we actually called that out last year, too. But it will be about AUD40 million was our forecast and that's going to be pretty right. So we've had Indooroopilly not quite as bad as we thought, Miranda worse than we thought, and certainly Adelaide about where we thought it would be.

So add those three together and it's about AUD40 million in lost sales for those three stores. And in addition to that, we're starting to get a bit of an impact on Macquarie now, as Macquarie gets into the guts of the refurbishment as well.

ANTHONY VOGEL: Okay, thank you. Secondly, on the MYER One card, would it be fair to say that most of the products targeted fall under the MEB category?

BERNIE BROOKES : On the MYER One card -- sorry, Anthony, I'm not sure the -- under the MYER One card, most of the product would fall under the --

ANTHONY VOGEL: Your promotions.

BERNIE BROOKES : Yes, sorry, I'm with you now. It might be a little bit higher. So if at 20.2%, you'll probably find that, because we fund the markdowns in that and we keep a really high level on stock, it's a little bit higher but it's not dramatically skewed. So the MYER One points allocation may well be a little bit higher in MEBs, but nothing to totally change the dramatic of the mix.

ANTHONY VOGEL: And the promotions also occur across the national brands categories as well?

BERNIE BROOKES : They do, and particularly some of the national brands that are finding it pretty tough at the moment with all the international competitors that come in. And I think whether it's Tommy or Nordica or a lot of those we're seeing, them being quite aggressive to fight what's happening outside their door.

ANTHONY VOGEL: Okay. And just finally, you mentioned some of the negative aspects of FX. I'm wondering if there was any positive aspects to it, such as the lower Australian dollar encouraging Australians to spend within Australia. And secondarily, if by chance there'd be any offshore consumption in Australia.

BERNIE BROOKES : Yes, it's an astute question. I think one of the real benefits we get is people no longer getting on a plane, taking one bag and coming back with six bags because they're buying our stuff overseas. So, therefore, we see that benefit in making travel probably less affordable. And, therefore, on a reciprocal basis, you get a lot more people traveling within Australia, and I think there's some good signs there for tourism.

So, therefore, from our point of view, it means they're shopping more in our stores and they're not getting on their week trip to Las Vegas and going shopping and spending a whole lot of money at the shopping centers over in Las Vegas. So I think it does make that a lot more attractive from our point of view.

The other thing is purchasing on overseas websites, and if you go to an overseas website of an ASOS or something and the dollars move from [AUD1.10 to AUD0.90], suddenly that item's 20% to 25% more expensive. And that makes us less attractive, and makes our item more attractive.

And I think one of our plans, eventually, is to open our website up overseas as well, with currency differentiation, and that may give us an opportunity to capitalize on that. So it's an astute question.

ANTHONY VOGEL: And in the current half, did you experience a pickup in volumes because of the reduction in the dollar?

BERNIE BROOKES : We experienced a big increase in volume. I don't know whether it's the dollar; my inkling is yes. I think people that were going online and going to any one of a dozen major fashion websites, suddenly saw that product go up by 20% to 30% because of the dollar. And there's no doubt that might encourage them to come back.

But we've got to deliver an attractive website with inspiration to make sure we're competing with them. So it's a shame that we weren't more ready in our online space, but I think if we had a -- some of the digital stuff we've done this year with our fashion presentations, and 30,000 people watching online, the number of views, we're getting there to have not only an inspirational site, but also one that now becomes even more price competitive, despite the anomaly of those overseas sites not playing GST.

ANTHONY VOGEL: Okay, great. And just finally, while I'm on volume, I assume you experienced a pickup in volume with the CPH program?

BERNIE BROOKES : With the Commonwealth Bank?

ANTHONY VOGEL: The cost price harmonization.

BERNIE BROOKES : Sorry, with the price harmonization or Commonwealth Bank, I'm not sure?

ANTHONY VOGEL: Yes. Harmonization, CPH.

BERNIE BROOKES : Sorry, yes. So as we've tracked each individual line in, say, cosmetics or in menswear, the pleasing part is, we've seen exponential growth the first year. My worry was, when you get to year two and three, whether the night cream that was AUD90 now becomes AUD60, and whether you continue to get growth. And the answer is, yes, it is.

If cosmetics was a one-hit wonder of one year because of the price reductions, then you wouldn't be seeing it getting growth on growth. And that's an indication that we're winning the hearts of the customer back as we make those items price competitive. And we're seeing the same in areas such as men's polos and cameras, and a few other areas, as they become more price competitive. So definitely, yes.

ANTHONY VOGEL: Thanks very much for your answers.

BERNIE BROOKES : Craig Woolford , Citigroup .

CRAIG WOOLFORD , ANALYST, CITI: I just wanted to ask a question of clarification about sales. It seems like the sales outlook for 2015 should be better, with the reduction in [lease earns]. But you did say that space would remain at 1.1 million square meters, so is there going to be some store closures in 2015 we should be aware about?

BERNIE BROOKES : Now, if you were doing a waterfall chart, you'd have the chart that said 1.1 million square meters. Then, you'd take off the annualization of the reduction in space in Adelaide, the reduction in space in --

MARK ASHBY : Indooroopilly.

BERNIE BROOKES : In Indooroopilly, and the reduction in space at Macquarie, the reduction in space at Warringah --

MARK ASHBY : Dandenong.

BERNIE BROOKES : And the reduction in space by the closure of Dandenong and Elizabeth. You would add in there the two new stores of 12,000 or 12,500 square meters, and you would add in there the 7,000 square meters of Melbourne. And it's a net sum gain in square meterage.

CRAIG WOOLFORD : Yes, so that's in GLA. I guess, another way to think about it would be the AUD40 million hit to sales from refurbs. Once they're finished their refurb, do you expect the full AUD40 million to be recovered, because there will be less space for those stores that have been refurbished?

BERNIE BROOKES : As we've learnt, if you take Liverpool, where we gave a floor back, we actually had double-digit growth.

So there is no doubt that -- I think you've got to -- if that space was well used, then the argument would go that you're going to get less volume, because you're losing space. But that space that we give away is pretty average space, at best. I think you've seen some of those 16,000, 18,000, 20,000 square meter stores that have a whole lot of impotent space, and that's exactly what these stores have had.

The top floor at Adelaide, as an example, was pretty poorly [trafficated], and I think, if anything, it makes it a much better shopping experience. There's no better example than taking 110,000 square meters in Myer Melbourne, and converting it to 35,000 square meters, and getting roughly the same volume.

So I think it is a matter of the productivity, the customer shopability, and you still fit the range in. So we've still got a way to go at places like Roselands to reduce space where it's grossly over-spaced.

CRAIG WOOLFORD : Yes. So a strategic question, there's been a lot of questions about sales, and mine would be similar. I'm interested, do you think the department stores, and particularly Myer, can actually win market share in non-food retailing?

BERNIE BROOKES : I think if you -- it's a complex answer. If you take what's happening at the moment with the arrival of international competitors, they do steal a lot of the growth. If you take 120 international competitor stores over the next five years, then that's got to come from somewhere.

If you take the discount department stores, continue to roll out stores in multiple locations, that volume's got to come from somewhere. If you take some of the expansion plans of some of the specialty stores, some to decline their store footprint, some to incline their footprint, it is going to become very much a matter of stealing share to gain sales momentum.

And I think if you, therefore, look that we go to a place such as Mount Gravatt, where we haven't been before, Joondalup, where there's no store close by, refurbish some of those stores to make them better and grow online, then we're probably well primed to gain some of that market share.

The market's not going to grow; people are certainly quite frugal and sensitive to spending a dollar. So the reality is that it then becomes some game of what you can share -- what you can steal from everyone else.

I think the overseas retailers have started with significant expansion plans and then, quite a few of those have been subdued. And that reflects the finding out of the cost of rent, the finding out of the cost of labor. So ideally, they may move to be a showroom that, therefore, encourages people to go to their online **site**, because they've got a bricks and mortar location in Australia as well.

So I do think we are yet to go through potentially a greater sorting out of specialty stores. But for us, I think our game plan has been consistent in space productivity, and rolling out in the locations, to steal share. And that is a steal share gain.

CRAIG WOOLFORD : Yes, I agree. That's certainly the prize or the opportunity, if you can actually improve that sales line. The sass & bide performance, can you just give a bit more color about how that performed, both in sales and profitability?

BERNIE BROOKES : Sure. So we've had, in the first two years of owning sass & bide, 105% profitability growth, and 40% sales growth. And so we're quite confident that, going forward, we've opened the established base. We had very strong sales in this half, and continuing to go well.

We have got to revisit the **brand** from the point of view of expanding it into a number of new areas, which we plan to do. We've got some opportunity to bring some of the **brand** stretch back into our **business** here, which is also part of it. We've done AUD5 **million** in intimate apparel in the first six months alone. So we think there's some good opportunity there.

So sass & bide's growth is about, a) stretching the **brand** in the store to areas they're not in, for example, leather goods, shoes, belts, etc. It's also about capitalizing on some of the franchises that they have already in sunglasses. It's about us taking the **brand** back into our store in areas such as intimate apparel, and such things as denim. So to us, there's still plenty of opportunity in sass & bide.

In regard to the number of stores, we probably expect two or three more freestanding stores in sass & bide over the next couple of years, and a couple more in New Zealand, which continues to go well. And we've got the store in New York that's opened, that we'll watch with interest, as we learn a lot there over the next 12 months.

CRAIG WOOLFORD : Right. Thanks, Bernie.

BERNIE BROOKES : I think we'll make this the last question, which is David Thomas , CLSA.

DAVID THOMAS , ANALYST, CLSA: Just a quick one. Can you confirm or not whether the engagement of Bain included them looking at the potential profitability or improvement of store closures with the merger of DJ and Myer?

BERNIE BROOKES : I think the proposed merger between David Jones and Myer, for us, is something that, once we get into any discussions or any evaluations, will be looked at in that sense.

So don't plan to hold an audience through the media or investment community as to anything that might happen under any potential merger. So I think it's of no interest to us in taking that through this audience. Sorry, David.

DAVID THOMAS : That's alright, okay. Secondly, just wanted to clarify your sales comment for the second half 2014. Effectively, you're suggesting that the closure of Dandenong and Elizabeth, and the store refurbishments, would more than offset the sales benefit. So is the way to think about that is that total sales in the second half 2014 will be less than like-for-like sales? Is that the right starting point?

BERNIE BROOKES : That's one starting point. It depends upon what happens with our ability to execute our five-point plan. It depends upon the consumer and their ability to spend. It depends upon economic policy, the Australian dollar.

This is a **business** that does have a lot of slings and arrows that can have an impact on the **business**. So that's the reason we don't provide guidance. If we now give you the sales, we've given you -- we've told you our costs are going up; we've given you a pretty good impact on GP.

If we give you the top line, we've suddenly got guidance. And we don't plan to manage the **business** to guidance; we plan to manage it with the customer firmly in our sight. So I think that's obviously our number one driver.

DAVID THOMAS : Sorry, Bernie, I was just really trying to clarify the statement you actually did make, which was --

BERNIE BROOKES : Yes, and the statement I made was fine, it gets you to that base, exactly right. So let me say yes, it gets you to that base that you've got, a net sum gain in regard to refurbishments, new stores, spot on. But then from there, trying to predict our sales has all those other influences.

DAVID THOMAS : Yes, okay. All right. Thanks for your help.

BERNIE BROOKES : No more questions from the floor? Can I thank you for your interesting questions. And Mark and I look forward to catching up with you over the next few weeks in our roadshow, etc. Thanks very much.

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