



Quarterly Report 3 / 2009

Telephone Press Conference, Thursday, 22 October 2009, 10:00 a.m.

Statement Wolfgang Werner, CEO

Ladies and Gentlemen:

Welcome to our telephone conference on the occasion of the presentation of the third quarter report 2009. Before Mr. Ghabel and I proceed to answer your questions, I will present to you as usual the most significant key financials, complemented by subjects of specific relevance for Praktiker.

Already one year ago, I took the opportunity to explain decisive points on which to focus this year which is marked by worldwide recession, namely: securing earnings and liquidity. Nothing has changed with respect to these priorities up until today. And nothing will change in this respect for the time being.

As a consequence, we will not only continue with the different, already adopted measures to strengthen liquidity, to curb costs and to optimize efficiency, but we will additionally embed them in a medium-term program which we have entitled "Praktiker 2013". This program is building on the results achieved so far, at the same time providing the platform for coordination of all existing measures with the further development of our processes and structures, first in Germany and subsequently also in the group.

The global economic crisis has not only left its traces on our results. What is more, it has triggered innovative ideas at the Praktiker group to improve sales, earnings and efficiency. Now it is imperative to structure and develop these ideas further in such a way that at the end of the day we will emerge from the crisis stronger than before. This is the primordial objective of the program "Praktiker 2013" which we will reach step by step well before 2013. I am certain of that.

Result of operations

But, of course, our primary topic of today is the operational performance in the third quarter. Let me first report on the earnings position of Praktiker Group. As before, it is strongly impacted by the repercussions of the global financial and economic crisis. In the third quarter, the Praktiker Group attained EBITA in the amount of 34.3 million euro, thus missing the prior-year record level by a good 30 percent. However, compared to the trend experienced in the first half of the year, the decline has become distinctly less dramatic – despite the fact that the operating result continues to be heavily distorted by negative exchange rate effects. If the exchange rates had remained constant, we would have achieved EBITA of around 40 million euro, only 10 million euro less than a year ago and, by the way, as much as in 2007.

One important aspect should be considered in this context: the decline in earnings in the third quarter is exclusively attributable to the ongoing, extremely difficult situation in our East and South-East European markets. In Germany, our earnings position improved at both the Praktiker sales division and at Max Bahr. EBITA in Germany rose by almost 9 percent to 18.2 million euro between July and September in year-on-year comparison.

What is particularly gratifying for us is the fact that after a modest performance in the first half year, the Praktiker brand contributed significantly to this improvement. It raised its contribution to earnings in the third quarter by close to 12 percent, to 13 million euro compared to a year earlier. Max Bahr contributed 5 million euro of EBITA, corresponding to a 6.7 percent increase. Consequently Max Bahr has achieved constant earnings throughout the year, a fact that demonstrates how important it is not only to have acquired the brand but also to manage it consistently as a premium brand with a focus on margins.

But you will wonder why we could achieve such a positive progress at Praktiker whilst the first half of the year was falling so drastically short of the comparable prior-year result? The essential reason for this achievement is that we have meanwhile reduced our inventory. Inventories were too high in the first six months. They tied up capital, in our case too much capital. In order to solve the problem, we displayed a firework of marketing campaigns in the first six months or, in other words, we made more price concessions than we had actually had in mind. While this action essentially contributed to running down stocks, it necessarily exerted a negative impact on gross margins and EBITA in the first half of the year. Now we are reaping the benefits of this initiative. To the extent that pressure is easing, we are now able to concentrate again more strongly on gross margins and earnings. The result of these changes is reflected in the satisfactory result of operations in the third quarter.

I already mentioned the unsatisfactory situation prevailing in our international operations. We have succeeded in improving efficiency and effectiveness to a certain extent and reducing costs too. But such measures have not yet been able to compensate for the repercussions of the ongoing substantial decreases in sales. As a result, EBITA of the international business dropped to half of the previous year's level in the third quarter 2009 and only came to 16.1 million euro. On the one hand, this is the consequence of the already mentioned decline in exchange rates in the Praktiker markets outside the eurozone: Had exchange rates stayed unchanged, the contribution to EBITA of the International Segment would have turned out 5.1 million euro higher in the last three months.

On the other hand, sales were negatively affected by the general economic trend. In nominal terms, sales plummeted in the third quarter by 15.5 percent to 304.5 million euro. Like for like, the decrease was even 18.9 percent. Compared to the second quarter, these parameters only improved insignificantly. But nonetheless, they may be taken as an indicator that the bottom of the economic recession in East and South-East Europe has meanwhile been reached and light at the end of the tunnel is becoming visible.

Sales

Be it as it may: the business situation outside Germany naturally depressed group sales. In the third quarter, they amounted to 968 million euro. This is 4.8 percent down from the previous year. Again, changes in the exchange rates strongly impacted our financial parameters in the current financial year. Exchange-rate adjusted, sales only dropped 0.8 percent.

These were the bad news. Now to the good ones: as in the second quarter, in year-on-year comparison the Praktiker Group again gained ground on the highly competitive German market. The two main sales divisions, Praktiker and Max Bahr, increased net sales by 1.3 percent each. In total, sales in Germany ran up to 663.5 million euro in the period from July to September.

What is noteworthy in this context is the performance of the Praktiker brand, because the slight gain in sales was attained despite the fact that the number of promotions was distinctly reduced in the third quarter. We can confidently infer from this that the Praktiker brand as a whole is well positioned, sales and earnings are aligned much better again than one year ago. And we have meanwhile established a broad marketing base. Praktiker continues to stand for aggressive price campaigns, but this is no longer its only distinguishing mark. With the “sleeves up” campaign we have succeeded in anchoring a much more differentiated price leadership image of the Praktiker brand. For the third time in succession, we have conquered rank one in the “competitive price” discipline in the business-to-customer benchmarking study of “Kundenmonitor Deutschland”. This definitely proves that two factually diverging objectives can quite well be put into a reasonable balance: securing liquidity and earnings on the one hand, stimulation of sales on the other.

Speaking of securing liquidity: also in this respect we have reached our goal! The cash and cash equivalents ran up to 294 million euro as per 30 September 2009. This is around 60 million euro more than at the end of 2008. We have also improved the net financial position as well as the net working capital. More details may be provided by my colleague Thomas Gabel, our lord of the numbers.

Conclusion and outlook

Ladies and Gentlemen:

Now I would like to present the last part of my statements, conclusion and outlook:

1. Overall, in the course of the year 2009 the Praktiker Group has so far firmly held its ground in a persistently difficult market environment. We therefore maintain our guidance and predict a moderate decrease in sales and reasonable, positive EBITA for the full year.
2. In Germany, we succeeded in increasing sales and earnings in the third quarter. The Praktiker brand has made a substantial contribution to this positive trend because it is constantly improving its ability to establish a balance between the pursuit of reasonable margins and an aggressive price policy.
3. The international business, focused on East and South-East Europe, continues to be strongly affected by the repercussions of global recession, in a dual sense: negative exchange rate effects account for around two thirds of the decline in sales and almost 30 percent of the decline in EBITA. Consumer demand has become by far more sluggish than in Germany.
4. In the short term, little will change in this diversity of trends, but in the longer term the indications of increasing economic activity have already become more numerous – in Germany already for 2010, presumably a little later in our international markets.

Ladies and Gentlemen:

For the Praktiker Group, an economic uptrend combined with a consistently low rate of inflation and, in the best case, a moderate increase in unemployment will provide the most favorable environment for returning to the road of success and hence, for further profitable growth. And this applies not least to countries outside Germany where the existing enormous market potential will not be depleted by the current, temporary depression. This has prompted us to continue strengthening our network of stores, albeit at a reduced pace – as will be demonstrated again next week in Albany where we are going to open the first large-scale home improvement and DIY center. This entry to a new emerging market which has so far been untapped is a clear signal against depression. And this improved starting base will enable us to expand further the dominant position of the Praktiker brand in this region once the crisis is overcome. Albany is a suitable starting point for such a move, may be with a certain symbolic power too: it is actually one of the very few countries worldwide which is still reporting economic growth in the crisis year 2009.

I thank you for your attention and am looking forward to your questions.