Speech by Markus Schürholz,
CFO of Praktiker AG

on the occasion of the presentation of the financial results of the nine months 2011

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The spoken word is valid.

Good morning ladies and gentlemen,

Welcome to our telephone conference on the results of the third quarter 2011.

The third quarter was marked by major changes in the management of Praktiker. After the resignation of Mr Werner, Mr Schultheis temporarily took over as CEO as of mid-August until the arrival of Mr. Fox who has taken up office at the beginning of October.

The new colleagues in the board have a lot of experience in the restructuring of ailing companies. They are currently forming their ideas about the future of the Praktiker Group and look forward to presenting these ideas to you in the near future.

In the meantime we had a tough third quarter. In the international business we continued to suffer from a hostile environment, as many of the countries in which we are present still battle with their fiscal deficits and meanwhile also with a cooling down of their economies.

In Germany, we were still busy repositioning the Praktiker brand. But we had to change focus from a strict continuation of the repositioning towards efforts to bring inventories down and thus improve liquidity. Inventories had reached a high level at mid-year. In order to bring them down to normal levels again we offered comprehensive promotions which resulted in the desired decrease of inventories but also had a negative impact on the gross profit margin and thus operating earnings particularly at Praktiker Germany.

But let me take you through the numbers step by step.

In the third quarter of 2011, the Praktiker Group posted net sales of 844.4 million euro - a decline of 7.3 percent in absolute terms and 8.3 percent in like-for-like terms compared to the same quarter last year.

This was a more moderate decline than in the first six months driven by the fact that the sales decline of the Praktiker brand in Germany was reduced from the double digit rate in the first half to a high single digit rate of 9.1 percent in the third quarter.

Thus, for the first nine months, the Praktiker group posted sales of 2.47 billion euros corresponding to a decline of 8.5 percent.

A positive impact came from the Max Bahr brand. Sales of Max Bahr increased by 2.8 percent in the third quarter, which is more than in the first six months and also more than the German DIY industry in total.

In the international business, sales continued to decline at a double digit rate. With 11.6 percent in the third quarter it was even slightly higher than in the first six months of the year. This is a reflection of a continuously adverse overall economic environment, a weakening of the economic cycle in most countries of Eastern Europe and, of course, the still unresolved fiscal problems of many of the countries, above all Greece. In addition, the weakening of most Eastern European currencies also had a negative impact of 2.8 percentage points on sales.

One more word to the sales trend of Praktiker Germany: When comparing the individual months of the third quarter, the sales gap to the previous year became smaller with every month that passed.

On the other hand this trend was strongly supported by promotional activities that were designed to reduce inventories to a normal level again.

We were successful as far as the reduction of inventories is concerned. In contrast, our customers were cherry picking and just bought the special offers. So the share of discounted sales rose to a much higher level than we had anticipated.

This was good for liquidity, but we had to accept a negative impact on the gross profit margin.

We therefore lost the gross margin advantage again which we had gained in the first six months. In the first half year the gross margin had gone up by 1.1 percentage points. In Q3, the gross margin came down by 2.3 percentage points to 32.3 percent. For the first nine months we are therefore left with an overall decline of 0.1 percentage points.

We solved the inventories issue quickly, but at the expense of the gross profit margin.

Work on “Praktiker 2013” continued in the third quarter 2011 as planned and led to a total of 13.6 million euro in extraordinary effects. The bulk of these expenses were attributable to Praktiker Germany again as we continued to spend on the repositioning of the brand.

The fact that we had a positive contribution from Max Bahr relates to the fact that we had set up a provision of 0.7 million euros for expected redundancy payments last year. We only utilized part of it and released more than half in Q3.

In the first nine months of 2011 a total of 41.1 million euros were spent in the context of “Praktiker 2013” – in line with our original plans.

2.4 million euro of these expenses that were related to the changes in the management board in Q3 had – of course – not been foreseen originally.

In the third quarter we were able to reduce expenses before special effects. Selling expenses came down by 1.4 percent, administrative expenses by 9.2 percent. That was not sufficient to compensate the decline of the gross profit. EBITA before special effects in Q3 therefore came in at 3.5 million euros, as compared to 40.0 million euro in the third quarter of the previous year.

The reported EBITA for the third quarter is negative at 10.1 million euros against a positive result of 32.0 million euros in the same quarter last year. The largest part of the decline came from Praktiker Germany as EBITA was minus 28.3 million euros in Q3 2011 against a profit of 9.7 million euros in Q3 2010. The international business posted a profit of 13.0 million euros, 3.9 million euros less than in the same quarter last year.

Max Bahr performed as the brand increased its EBITA in Q3 by 18.3 percent to 6.4 million euros.

This brings reported EBITA for the first nine months of the year to minus 153.6 million euros. Before all extraordinary effects from “Praktiker 2013” as well as from the impairments and additions to provisions which we had to take into account in the second quarter the minus is reduced to 21.5 million euros.

The net financial result for the third quarter 2011 reached minus 22.1 million euros against a minus of 6.1 million euros in the same period one year earlier.

The interest result in Q3 came to minus 11.2 million euros which was 2.6 million euros more than last year due to the fact that the outstanding debt had been roughly 200 million euros higher than the year before. We had issued a corporate bond in the beginning of the year which was partly used to pay back the convertible bonds in September. Therefore, Q3 was the last quarter in which we had to burden the interest payments for both financial instruments.

The other financial result declined by 13.5 million euros, mainly due to negative currency effects.

After nine months, we report a tax benefit of 11.0 million euros. For the first half we had originally calculated a tax benefit of 4.6 million euros, the difference had to be charged to the third quarter.

Therefore the net result for the third quarter is stated at minus 25.9 million euros and at minus 348.4 million euros for the first nine months of the year.

As I had mentioned in my introductory remarks, securing liquidity had top priority in the third quarter.

At the end of the third quarter cash and cash equivalents amounted to 187.1 million euros. This is less than what we had recorded at the middle of the year. But it is actually more when taking into consideration that the convertible bonds with a volume of 147.1 million euros have been paid back in the meantime.

Net of the convertible bonds we have thus increased our cash and cash equivalent position during the third quarter by more than 30 million euros.

This was only possible because we were able to reduce inventories. At mid-year, inventories were up on previous year´s level by 64.4 million euros, at the end of September they were down by 6.1 million euros, reaching 814.8 million euros.

The increase in cash and cash equivalents is an important achievement as we also increased capex at the same time. Capital expenditure reached 21.2 million euros in the third quarter and were thus 8.2 million euros higher than in the corresponding quarter one year earlier. The increase related mainly to Praktiker Germany, and here mainly to the repositioning of the brand.

Despite the decrease in inventories, net working capital increased by 56.1 million euros versus last year to a level of 408.1 million euros as trade payables came down even more strongly reflecting the efforts to adjust ordering to the declining sales. Compared to the end of Q2 when working capital was still 117.9 million euros higher than a year before, the plus of 56.1 million euros at the end of Q3 reflects a major improvement.

The increase in cash and cash equivalents helped to reduce net debt from 350.4 million euros at mid year to 314.3 million euros at the end of September.

Ladies and gentlemen, let me sum up.

In the third quarter, group sales were down.

The sales decline at Praktiker Germany was more moderate than in the first half.

The international business still suffered from an adverse overall economic environment. Moreover most Eastern European currencies devalued further.

Max Bahr, on the contrary, performed as it managed to increase sales more strongly than the industry on average.

Gross profit and gross profit margin for the group were down.
We accepted the decline in so far as the top priorities were on reducing inventories and maintaining comfortable liquidity levels – two targets which we have successfully achieved.

Nevertheless, as we stated in our report, we do not expect to see a major change in the prevailing sales and earnings trends in the fourth quarter. We expect sales and earnings to be significantly down for the full financial year of 2011.

Thank you very much for your attention. I would like to answer your questions now.