

Pets at Home

Six month trading update April to September 2012

Strong performance in key categories and new store openings continue to drive growth

We are pleased to report that Pets at Home has continued its track record of growth in the first half of the year with overall sales growth of 11.2%. This growth can be attributed both to new stores performance and to established stores delivering a strong performance when set against the continued economic headwinds negatively impacting overall consumer confidence. Total company LFL was positive at +3.2%, reflecting strong growth in the key specialist areas of our business where we can leverage both our colleagues' expertise and a strong product offer. We continue to grow market share in our key dog and cat food categories.

We have maintained strong returns in the areas where we have chosen to invest significantly, such as new stores, and we remain confident that the evolution of our proposition continues to deliver strong returns for all stakeholders, supporting our decision to further increase the pace of growth of our vets and grooming businesses.

The trading environment remains challenging

The business continues to demonstrate its resilience against a backdrop of difficult trading conditions, as consumers rein in spending due to continuing constraints on disposable incomes. Our food business continues to grow as we leverage our specialist credentials particularly in the area of Advanced Nutrition food ranges across both dog and cat. Accessories remain challenging as the impact of pressure on disposable incomes is felt more keenly in these categories.

Continued investment in future growth

Having opened a record 32 new stores in the previous financial year we remain on track to equal that number of openings in the current financial year. In the first half we opened 12 new stores and we had 21 new stores open for Christmas. We are very encouraged by the performance of both this year and last year's cohort of new stores with performance ahead of expectations. In nearly half the new stores opened this year we have opened with both a Companion Care vet and a Groom Room grooming salon and going forward, in as many new locations as possible, we will endeavour to incorporate our full service offer into the new store design.

In the last financial year we opened what was then a record 19 new joint venture vet practices however our aspirations for the current year are significantly higher as we expect to open 27 new vets practices. This level of practice openings solidifies our position as the second largest vet chain in the UK with circa 120 practices open by year end, with the core chain of practices continuing to trade well.

In addition to the growth outlined above we also continued to invest in the expansion of our grooming business, The Groom Room, both in respect of new salons and in infrastructure to operate an in-store a chain of salons which will number 85 by the financial year end. Establishing the first truly national chain of groomers is now well within sight.

We are very encouraged by the performance of the Groom Rooms as the average number of grooms per four week period averaged over 10,000 in the first half year. Our stylists have a unique relationship with the dogs and cats they groom, and their owners, and we believe there is a significant opportunity to build upon this going forward by providing more general advice on the health and wellbeing of the cats and dogs in their care.

Range expansion and innovation

The first half year has seen us continue to invest in what we believe is at the core of our business - innovation. Our global reach is paying off as we continue to bring new, unique, innovative products to market, be that specialist shampoos, indestructible dog toys or dog toys with squeakers that only dogs can hear. Our customers also continue to respond to the frequent range change in areas such as cat accessories and dog bedding where the introduction of themed collections brings regular freshness to the offer. The first half of the year has seen us invest in optimising our advanced nutrition food offer, both from a space allocation perspective but also the introduction of key specialist brands into the range, specifically Eukanuba, Arden Grange and Burns. To support this we doubled the number of trained nutrition consultants in store and advertised the availability of this service as part of our autumn TV advertising campaign. Whilst specialist brands are a key element of our offer, we continue to see the strong growth in our own brand offer Wainwrights. The results from all this activity have seen us increase our market share in these specialist markets.

Customer service and pet welfare remain key to our success

Having established our Fish4Opinion website last year, we now have a body of data which enables us to measure our levels of customer service in a much more granular way. This has meant in the first half of the year we have been able to target improvements in customer service at specific times of the week and also in specific pet categories. Overall our primary measure of customer service, Net Promoter Score, has improved from 75% in the first half last year to 84% in the first half this year whilst we have also delivered improvements in the specific target areas referenced above.

Whilst a significant proportion of capital investment was focused on future growth, we continued to upgrade and improve both our aquatic systems and animal housings to ensure pet welfare standards are maintained to the highest possible standard. In addition we signed a ground-breaking deal with the RSPCA to boost animal welfare in the UK, one consequence of which was the opening, in November, of the first ever in-store RSPCA adoption centre in our Stockport store.

E-commerce expansion accelerates

The growth in our e-commerce business mirrored the performance of the stores with significant growth coming from food and in particular advanced nutrition food. Overall LFL's increased by 28.5% with visitor numbers now reaching 1.5m per four week period.

We continue to build an extended range on the site both in terms of specialist, breed specific, dog food brands as well as extending our range of accessories. Having successfully completed a deliver to store trial in the first half of the year we will look to roll this across the chain in 2013 making this extended range available to all stores.

On 12 December 2012 we acquired Ride-Away, a significant e-commerce business in the £2.8bn equestrian market. This acquisition further enhances both our specialist credentials and our e-commerce offer and in Ride-Away we believe we have acquired a business which shares many of the values which have made our existing business successful.

Laying down the foundations for future growth

At the very beginning of the new financial year we opened our Global Sourcing Office in Hong Kong with a full team of colleagues. Over the first half of the year we have focused on sharing with our supplier base our expectations in respect of these key vendor relationships. We are very encouraged by the progress made to date and we fully expect to realise the commercial benefits anticipated when we commenced the investment in 2011.

Following extensive customer research and analysis of other loyalty schemes in the first half of the current financial year, we concluded there would be a significant benefit from establishing a loyalty scheme for our own customers. As a consequence, in November we launched the Pets at Home VIP (Very Important Pets) Club which rewards loyalty by earning Lifelines for nominated animal re-homing charities. The Lifelines earned by customers swiping their card will turn into financial rewards for the nominated re-homing charities. The initial sign-up and customer reaction to the club has been positive and beyond our initial expectations and whilst the programme is still in its infancy we strongly believe the VIP club will have a significant role to play in the future growth of the business.

Future prospects

We have delivered a pleasing first half performance in a period which incorporated a number of significant events, including the Queen's Golden Jubilee, the Olympics and the European Football Championships, none of which significantly impacted our overall results.

However, the economic environment remains very challenging, with consumers being more selective in how they spend their disposable income, the value of which remains under significant pressure. We see no prospect of any discernable improvement in the macro-economic environment in the short to medium term, however we remain confident that our strategy, which leverages the talent and friendly expertise of our colleagues coupled with a unique and differentiated offer will continue to see us out-perform our peers. Our confidence in the future is reinforced by our continued investment in the growth of the business as we take the full Pets at Home experience to more pet lovers in the UK.

We would like to thank all our colleagues and partners for their efforts so far this financial year and look forward to 2013 with optimism.