

Pets at Home

Six month trading update April to September 2011

Market share gains and new store openings continue to drive growth

We are pleased to report that Pets at Home, despite a difficult economic backdrop, has continued to grow in the first half of the year with overall sales growth of 6.4%, fuelled by the contribution from new store openings. Total company LFL was also positive at +1.3%, which was a robust performance in the context of weak consumer confidence and pressures on disposable income in the period.

Overall, we have continued to grow our market share in our key dog and cat food categories and are confident we are firmly on track for a record year of new store openings with 32 expected to open this fiscal year.

The trading environment remains challenging

The macro economic climate remains difficult and there is no doubt that the reduction in disposable incomes is having an impact on virtually all consumer facing businesses. In this difficult environment, we have still seen good growth across most of our food categories – particularly across our Advanced Nutrition ranges, supported by the strong performance of our own brands. Performance in Accessories and Pets has however been somewhat weaker, which is not unexpected given that these are the areas of our offer which are most likely to be impacted by a deterioration in economic conditions and the consequent impact on consumer confidence .

Record new store openings forecast

We have continued to deliver on our promise to bring the Pets at Home experience to more and more customers across the UK and remain on track to deliver a record year of new store openings with 32 forecast to open in the full financial year. In the first half we have opened 15 new stores and we expect to have another 11 open before Christmas including our 300th store in Salford and two flagship stores at Fort Kinnaird in Edinburgh and at Birtall in Leeds. The stores opened to date have performed ahead of expectations and we are particularly encouraged by the performance of the four local stores that opened in the first half, taking the total number of local stores to six.

Having opened 14 new joint venture vets practices in 2010/11 we are well on track to open 20 new practices in the current financial year. In-store practices continue to be our primary focus, and in the first half we have opened ten practices in both new and existing stores. Our joint venture practices continue to trade well with YTD LFL running at +13.9%.

Expanding our service offering

In addition to the growth in our joint venture vets practices we have also continued to grow our service offer in other areas. We now have 48 grooming salons open across the estate and will continue to expand the operation in both new and existing stores – with six Groom Rooms opened so far this year and nineteen targeted for the full year.

With over 8,000 full grooms performed in each four week period we are delivering an increasingly popular service to customers whilst also further enhancing the experience of visiting a Pets at Home

store. The recent introduction of spa packages has been well received and we continue to expand the range of services on offer.

At the beginning of this financial year we launched our insurance offering, with policies covering dogs, cats and rabbits. The policies on offer are primarily annual or lifetime policies, with lifetime policies proving to be the most popular product so far. We are pleased with progress to date with the number and type of policies sold in line with expectations.

Range expansion and innovation

We continue to focus on delivering a unique and differentiated offer for our customers which has innovation at its core. For example, we are encouraged by the continued growth of the Advanced Nutrition segment of the dog food market and in particular the growth of our own brands. The early part of the financial year saw the introduction of our new own brand Advanced Nutrition range of dog and cat food to replace the previous Silver brand. Customers have reacted positively to the new range with sales outperforming those of the old range. Similarly, our other Advanced Nutrition own brand, Wainwrights, continues to go from strength to strength, delivering strong growth resulting from new product development implemented last year.

More generally, we continue to invest in the resource necessary to enable us to scour the world for the most innovative products, resulting in the launch of a number of exciting new products in the first half. For example, this year has seen us incorporate more lifestyle and fashion into our core ranges, introducing more colours and themes that reflect human trends - as was seen in the successful Summer Brights bedding range and will be a feature of future accessory ranges. The pipeline for the remainder of this year is strong with several key range changes due for launch.

Customer service remains key to our success

Our store colleagues remain central to our success and we continue to invest in the necessary training and development to ensure our colleagues can deliver the customer service we aspire to. Our internal measure of success in respect of customer service remains Net Promoter Score which measures the difference between very positive advocates (promoters) of shopping at Pets at Home compared with those customers who are detractors. This year we have established our Fish4Opinion website which allows our customers the opportunity to give us their Net Promoter Score feedback directly via the website. To date we have received over 67,000 ratings from our customers giving us a very strong NPS score of 75% for the first half with performance currently improving period on period towards our target of 80% which we believe would position the business as one of the leading retailers in the UK for those retailers that use this performance measure.

E-commerce continues to progress

We have reached some notable milestones in our e-commerce business in the first half. In particular we exceeded our one million visitors per period target and added an extra 2,000 SKU's to the range available on the site.

Continued investment to support future growth

In the first six months of the year we commissioned a second - 300,000 sq ft - distribution centre, based in Northampton, which will be focused on servicing our Southern stores. We are currently in the ramp up phase with these stores being progressively transferred to the new operation over the remainder of the financial year. The establishment of this facility has also enabled us to relocate our multi-channel operation from an external third party facility into Northampton, enabling us to leverage both operational and cost benefits.

We also started to put in place the infrastructure necessary to establish a global sourcing operation in Hong Kong which will begin operations in April next year. This investment will give us near country quality control and sourcing expertise and – we expect – will deliver significant benefits for our business.

We will also be enhancing our retail systems with the implementation of SAP. This programme will commence in January 2012 and run over two years, adopting a highly structured and staged approach.

Future prospects

We have delivered a robust first half performance against the backdrop of a very challenging economic environment. We have no reason to believe that there will be any significant improvement in the environment over forthcoming months and expect trading conditions to remain difficult. That said, given the strength of our core business and the continued investments made in new stores, our people and our infrastructure we remain confident about the future prospects of Pets at Home and believe we are strongly positioned to take advantage of any future recovery.