

NEWS RELEASE FROM EDCON

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Edcon sees direct benefits of cost reduction programmes, highlights excellent cash generation and delivers stable Q3 results

Edcon today reported adjusted EBITDA (earnings before interest, tax, depreciation and amortisation) of R1,340 million for the 13 weeks ended 26 December 2009. This reflects a decline of 8.8%, from R1,469 million in the same third quarter of the previous financial year. However, cash generated from operating activities rose by 42.8%, from R1,670 million to R2,385 million in the quarter, as a direct result of the group's aggressive focus on reducing risk and improving cash flow, thereby positioning Edcon for future growth. In November 2009, Edcon's securitisation structure raised R3.3 billion in external funding through the issuance of three year receivables-backed notes. The proceeds from this issue were used to repay Edcon's existing receivables facility.

Credit sales accounted for 51% of total retail sales in the third quarter, down from 53% for the same period in 2008, due to more stringent credit granting over the past six months.

The consequence of these credit tightening steps together with the impact of the new cellular RICA legislation (Regulation of Interception of Communications Act) and the poor performance of ladieswear, cellular and home textiles, saw sales decrease by 6.4% compared with the third quarter last year. Pleasingly, the gross profit margin was 38.4%, unchanged from last year, and stock levels are down on the same time last year.

The intensive focus on cost management saw store costs increase by just 3.5% despite wage, rent and utilities increases for existing stores as well as the addition of 4.9% trading space. Similarly, other operating costs were 8% lower than last year, primarily from reduced fuel costs in logistics and distribution.

In the debtors' book, collections have improved and bad debts are in line with expectations. The credit and financial services division reported an increase in net profit from R156 million last year to R253 million in the current year.

"We believe that the initiatives to manage inventory, control overheads, reduce credit risk and generate cash will place Edcon in a stronger position for the year ahead," according to Steve Ross, Group CEO.

ENDS (573 words)

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