



**Dairy Farm International Holdings Ltd**

Jardine House, 33-35 Reid Street  
Hamilton HM EX, Bermuda

To: Business Editor

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For immediate release

**PT HERO SUPERMARKET TBK  
FULL YEAR 2018 RESULTS**

The following announcement was issued today by the Company's 85.8%-owned subsidiary, PT Hero Supermarket Tbk.

For further information, please contact:

Dairy Farm Management Services Limited

Neil Galloway

(852) 2299 1896

Kirsten Molyneux

(852) 2299 1884

Brunswick Group Limited

Zhou Yi

(852) 3512 5042

Issued by: **Dairy Farm Management Services Ltd**

*Incorporated in Bermuda with limited liability*

5/F Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong

South Tangerang, 28<sup>th</sup> February 2019

## PT HERO SUPERMARKET TBK FULL YEAR 2018 RESULTS

### Highlights

- Net revenue down 0.5% at Rp 12,970 billion
- Strong performance from Guardian and IKEA
- Food business Rp 1,380 billion restructuring charge following strategic review
- Net loss of Rp 1,250 billion

### Results

		Full Year		Change %
		2018 Rp billion	2017 Rp billion	
Net Revenue		12,970	13,034	-0.5
Gross Profit		3,694	3,442	7.3
(Loss) / Profit for the year	Underlying	130	(191)	n.m.
	Restructuring charge	(1,380)	-	n.m.
	Total	(1,250)	(191)	n.m.
		Rp	Rp	%
Loss per share		(299)	(46)	n.m.

*Note: numbers are taken from the audited financial statements except underlying profit. Underlying profit is Total profit minus Restructuring charge.*

*n.m. = not meaningful*

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**PT Hero Supermarket Tbk**

Graha Hero | CBD Bintaro Jaya Sektor 7 Blok B7/A7 | Pondok Jaya, Pondok Aren | Tangerang Selatan 15224 - Indonesia  
Phone: +6221 8378 8388 | www.hero.co.id | Call Centre 0-800-1-998877

## **PRESIDENT DIRECTOR'S STATEMENT**

### **Introduction**

Overall our sales declined by 0.5% in 2018. There were solid performances from Guardian and IKEA but these were offset by persistent weakness in our Supermarket and Hypermarket business. Like many other retailers, we face challenges as the food industry adapts to shifts in customer preferences. Customers now want access to products through a multitude of channels, in different formats, ranges and locations and we are paying the price for historically being slow in responding to changing consumer dynamics. This is something we need urgently to address. There is an essential need to reshape and re-energise the competitiveness of our customer offer in our Food business, in order to meet changes in consumer demand, while at the same time significantly improving the supply chain, productivity and operating standards of our stores.

### **Strategic review**

During 2018 we undertook a strategic review across our businesses. While the review highlighted many opportunities to improve our performance, the Food business was clearly the one requiring the greatest level of focus. Change in our Food business is now essential to enable us to compete well.

The biggest issue rests within our Giant brand, which has a strong heritage but now needs to be reenergized to keep pace with the preferences of today's customers. We need to invest in our stores, increasing competitiveness, lowering costs and improving productivity, to ensure that we have an effective and efficient structure to serve our customers consistently well.

Tackling these challenges will take time. There will be few "quick fixes" and no "silver bullets", but by implementing a multi-year transformation programme and delivering long-term improvements, supported by our team members across the company, we will build a better, more profitable and sustainable business over time.

Whilst we are making changes to the dynamics of our Food business, we will continue to invest in the growth of both our Guardian Health and Beauty and our IKEA home furnishing businesses, which are performing well and have good growth potential for the future.

### **Strengthening for the future**

During the year we began the urgent work required to rebalance our Food proposition to prevent further deterioration of our businesses. We have begun addressing key areas where we have fallen behind, most notably in store format development. As an example, with stronger consumer insight and intelligence to analyse our customer offering and product selection, we will make better decisions on store space growth. We are also in the process of redesigning our proposition in Fresh and Grocery and streamlining General Merchandise and Apparel. We have pilot propositions already underway and are redefining space and trialing a range of innovations in our formats. This will place greater emphasis on fresh food, range optimization and, where relevant, even repurposing the space altogether. While it remains very early days for our re-modelled stores, the initial customer response has been encouraging.

Inevitably, there are significant adjustment costs associated with this level of business correction but, in the longer term, these essential changes will deliver the quality, service, value and, most importantly, trust our customers expect. It will also provide PT Hero with the greatest opportunity to deliver improving and sustainable returns over time.

We remain committed to being a market leader and growing our business in Indonesia. However, to be successful over the long-term, we must realign and reshape our formats to ensure they are fit for purpose and support the preferences of our customers. By repurposing and remodeling our stores, we will build a stronger Food business and the early progress achieved gives us confidence that we are on the right track.

### **2018 Performance**

Sales in Food declined by 5% to Rp 10,341 billion, with an underlying loss (excluding restructuring charge) of Rp 157 billion, Rp 276 billion better than in 2017. The significant challenges faced by Giant Supermarkets and Hypermarkets resulted in lower sales and increased losses, while our Hero stores contributed positively to the business, as we raise operating standards in quality, freshness, and availability.

Our Non-Food businesses performed well. Overall sales grew 21% to Rp 2,629 billion, driven primarily by strong beauty category promotions in our Health and Beauty businesses and supported by increased visits to the IKEA Alam Sutera store, plus an increasing contribution from e-commerce. This drove a 35% underlying profit increase to Rp 380 billion.

We are very encouraged by the improvements in our Guardian Health and Beauty business, which continues to provide a significant growth opportunity. Having experienced trading difficulties a couple of years ago, Guardian is now recovering well and adding more network space to the store base. We plan to invest further in the expansion and format development of our Health and Beauty business in Indonesia.

We are also continuing to invest in our IKEA business, accelerating the growth of our store network. We have also revamped and relaunched our online platform. Construction has now started on a second IKEA store on a site acquired in Jakarta Garden City, and an additional site in Bandung has been secured. We are also in the process of converting one of our Giant Hypermarkets into an IKEA store as a pilot, in an effort to repurpose underperforming Food space, while accelerating the development of the IKEA business.

### **Transforming Food**

In recognition of the challenges facing our Food business, we have taken decisive action to reset this business, which will have a significant one-off financial impact on our reported 2018 results. We have impaired underperforming assets, written off poor quality stock, and incurred various related business correction costs in relation to resetting and reshaping this business, allowing us to build for the future and draw a line under the weakness of the past. In aggregate, we have incurred a non-trading charge of Rp 1,380 billion to reset our Food business. It is worth noting that the majority of this relates to non-cash items. This is clearly a significant decision, but it is necessary if we are to move forward, clear of legacy issues that will otherwise continue to constitute a drag on future financial performance.

<i>Restructuring charge</i>	<i>2018 (Rp billion)</i>
Impairment of assets	1,287
Business correction costs	93
Total non-trading adjustments	1,380

## **Prospects**

Looking to the year ahead, there is much work to do as we address our many challenges, but I see distinct and clear opportunities. Our comprehensive, strategic, fundamental multi-year transformation plan is in place, and will move the company, and all its potential, into a new era of retail. However, its successful implementation will require time, effort, resolve and determination.

Our business may be changing in the face of consumer demands, but we remain firmly committed to offering the trust, quality, value and service that our customers expect and providing valued work opportunities to our team members. Through this transformation we will build a more profitable and sustainable business, with the right balance and mix in our retail portfolio, capable of prospering despite the significant ongoing industry change.

## **Patrik Lindvall**

President Director

28<sup>th</sup> February 2019

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For further information contact:

Patrik Lindvall, President Director

PT Hero Supermarket Tbk

Tel: +62-21-8378 8388

E-mail: [extcomm@hero.co.id](mailto:extcomm@hero.co.id)