# Instore plc Full Year Results for the year to February 25th 2006
# Strategic Overview for Financial Year 2006/7

## Highlights

### 2005 - significant change in a difficult year

- H1 saw completion of move to the new DC
- Name change to Instore plc in August
- However, performance of the new format stores has in some cases been below expectation
- Costs ran ahead of plan especially in DC
- Exceptional items totalled £6.6 million
- Final outcome post tax loss of £3.6 million

## 2005/6 Results

### Profit & Loss Account

| Year | **2005/6** | 2004/5 |
|---|---|---|
| Sales | **£268.6m** | £276.1m |
| Gross Profit | **£35.3m** | £35.7m |
| Operating Profit | **£3.5m** | £6.9m |
| Exceptional Items | **(£6.6m)** | £0.7m |
| (Loss)/Profit before interest & tax | **(£3.1m)** | £7.6m |
| Interest | **(£0.2m)** | (£0.1m) |
| **(Loss)/Profit before taxation** | **(£3.3m)** | £7.5m |

### Exceptional Items

| Year | **2005/6** |
|---|---|
| Store Closure provision | **(£2.9m)** |
| Shrinkage losses | **(£1.6m)** |
| Distribution move costs | **(£0.4m)** |
| Impairment charges | **(£0.9m)** |
| Bad debt | **(£0.8m)** |
| **TOTAL** | **(£6.6m)** |

## 2005/6 Results continued

### Cash Flow

| Year | **2005/6** | 2004/5 |
|---|---|---|
| Operating (Loss)/Profit | **(£3.1m)** | £7.6m |
| Non cash movements | **£8.9m** | £5.8m |
| Working capital | **£1.9m** | £0.5m |
| Operating cash flow | **£7.7m** | £13.9m |
| Interest | **(£0.2m)** | (£0.1m) |
| Tax | **(£1.7m)** | £0.3m |
| | **£5.8m** | £14.1m |
| Capital expenditure | **(£10.4m)** | (£18.1m) |
| Share issue | **£0.0m** | £24.5m |
| Other cash movements | **£0.9m** | (£0.1m) |
| **Total Cash Flow** | **(£3.7m)** | £20.4m |

### Trading Margin

- Bought in margin improved by 0.2% on last year
- Markdowns reduced by 18%
- Gross margin +1.8% on last year
- The …instore format delivering higher margins than Poundstretcher

BUT…

- The performance of the new format stores has in some cases been below expectation
- Customer recognition of the …instore name has been slow to build
- Stockturn improvement essential for a value retail business

### Capital Expenditure Summary

| Year | **2005/6** | 2004/5 |
|---|---|---|
| Stores | **£7.5m** | £9.6m |
| Distribution | **£0.4m** | £6.2m |
| IT & Security | **£2.4m** | £2.3m |
| **Total** | **£10.3m** | £18.1m |

## Strategic Overview

### New Management Team

- Trevor M.Coates appointed CEO Feb 28th
- Gary J. Brown agreed to stay as FD
- New appointments to operational board
  - Store Operations and Logistics
  - Buying
  - Distribution Centre Manager

## Strategic Overview continued

### The original concept for ...instore

- Mass market variety retailer
- Quality, value for money, directly sourced products
- Broad range of non-food categories, focus on home and family
- Focused on seasonal and promotional events through the year
- Re-branded as …instore to distance Poundstretcher heritage

### Development of ...instore

- Now three years of trading the …instore brand
- Began 2005/6 with 87 …instore outlets
- 41 stores converted in the year
- 13 new stores opened
- A total of 141 stores now trading
- Accounted for approx. 50% of 2005/6 sales

### Retail branding issues

- Launching a new retail brand into a competitive UK value market was never going to be easy – and it wasn't
- The …instore brand still scores relatively lowly in unprompted customer recognition surveys
- Nearly half of total sales and store contribution generated by the Poundstretcher brand

### Initial observations

- Value, price and range are essential to any variety offer
- Value and price need improving in many categories
- Generally over-ranged, over supplied and overstocked
- Poundstretcher store portfolio requires investment
- Fascia names and related store concepts under review
- New store and refurbishment programmes on hold

### Areas for urgent review

- Value and price proposition
- Ranging
- Market position
- Direct sourcing
- Management team
- Retail branding
- Overheads and infrastructure
- Store portfolio
- Stockturn and cash flow
- DC effectiveness and related systems

## Outlook and Prospects

### Initial thoughts

- Clearly current format is not working effectively
- Major re-think needed to deliver sustainable top-line growth
- Looking at every issue – including retail branding
- Thorough review already well under way
- No easy fixes – the year ahead will be another difficult one

### Strengths of the business

- A national store estate of over 300 locations
- Particular regional strengths (eg Scotland and N.Ireland)
- Poundstretcher brand name known for value and bargains
- Some product categories showing good growth
- Research evidence shows that customers recognise that we offer some good value in core categories
- Current infrastructure has capacity for significant growth

### Our store estate

| | £stretcher | …instore | [as % tot] | Total |
|---|---|---|---|---|
| Mar 04 | 327 | 7 | [ 2%] | 334 |
| Mar 05 | 232 | 87 | [27%] | 319 |
| **Mar 06** | **174** | **141** | **[45%]** | **315** |

### Capital expenditure

- Total spend was £10.3 million in 2005/6
- Minimal growth overall planned for 2006/7
- Refurb programme on hold pending brand review
- Maximum 12 new stores in pipeline for 2006
- Continued investment in software development
- Investment in Aldata and Wide Area Network (WAN)
- Solid logistics a key requirement before rollout
- Rigorous assessment of projected returns

## Outlook and Prospects continued

### Current trading

| Year | 2006/7 |
|---|---|
| **8 weeks ended 22/04/06** | |
| Total sales | **+7.1%** |
| LFL Growth | **+6.9%** |
| **Easter on Easter - 3 weeks** | |
| Total sales | **+10.0%** |
| LFL Growth | **+10.8%** |

### 2006/7 timetable - key dates

- Strategy review update and AGM — Sept 2006
- Interim results announcement — Oct 2006
- Christmas trading report — Jan 2007
- 2006/7 prelims announcement — April 2007