

Instore plc

Strategy Review

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AGENDA

1. Background
2. Progress to date
3. Looking ahead
 - Brand name options
 - Store format
 - Store portfolio
 - Product offer
4. Conclusions
 - Business
 - Financial

BACKGROUND

Poundstretcher – core business

- Dated stores – many different fascias
- Questionable store standards and offer
- Poorly defined product range
- Poor presentation and display standards
- Stock management out of control

But

- Despite the above some very profitable stores
- Strong value /price perception

BACKGROUND

Instore – launched Sept 03

- New stores 17 } mostly
- Conversions 121 } out of town
- Aimed at 'mass' market
- Product offer: fashion, homewares and seasonal
- De-listed traffic generating products
- Format has worked in some but not other locations (no discernible pattern)

BACKGROUND

Instore (cont)

- Average pay back 3.8 years
- c.40 stores significantly below target

No meaningful difference to Poundstretcher in: -

- Customer profile
- Shopping habits

Overall brand change has made no significant difference despite investment of £16m

PROGRESS TO DATE

- Sales momentum good:-
 - Total sales +6.4%
 - LFL sales +7.3%
 - *Poundstretcher* +6.0%
 - *Instore* +8.5%
- Tighter stock control across both brands
- Stock reduced from £84m (16wks) to £66m (11wks) - *this is a major 'win' for the business*

PROGRESS TO DATE

- Cash flow stronger
- Advertising and promotional activity increased
- Teams restructured and strengthened
- DC improving – Aldata scheduled for Sept 06
- Re-focussed on basic retail disciplines
- Product availability improved
- Average unit price up 5.2% year-on-year

LOOKING AHEAD

- Brand Name Options
- Store Format
- Store Portfolio
- Product Offer

Brand Name Options

Instore or Poundstretcher? - Key Performance Indicators

- Little difference in performance.
- Average payback better on new Instores than conversions
- Instore densities psf better
- Both brands' OOT sales density better than High Street
- YTD sales performance LFL Instore ahead

		<u>Instore</u>	<u>Poundstretcher</u>
• YTD LFL	Flow	+3.4%	+0.5%
	Basket size	+5.0%	+5.4%

- Top 12 stores sales per sq. ft = 50/50 Instore/Poundstretcher
- No discernible difference in products sold, customer profile or shopping frequency

Research: Shoppers and Non-shoppers

- 681 face to face interviews (12 locations, both brands)
(with shoppers)
- 8 focus groups (of 8 people) (8 locations)
(with shoppers)
- 400 face to face interviews (4 locations)
4 focus groups
(non-shoppers)

Research Findings

- Neither brand has a particularly strong identity
- Poundstretcher name not well regarded, '£' sign disliked
- Instore name gives no incentive to visit
- Instore name preferred by customers and non-customers – more modern

LOOKING AHEAD

Brand Name/Store Format

Research Findings (cont)

- Store environment, together with store standards and product offer, are more important to consumers than brand name
- Insufficient branded products and promotional activity
- Positive on homeware and seasonal departments; negative on fashion
- Strong price and value perception for Poundstretcher - less so for Instore

- Remain in 'value', convenience, variety store sector
established position, growing "value" market, opportunity to be a more effective and profitable participant
- Store format to be refreshed
simple; cost effective; easy to roll out; strong value emphasis
- Envisaged store footprint: 6,500 – 9,000 sq ft
- Location: town centre (not High Street); district and local centres (rather than out of town parks)

Completed detailed review of store profitability, condition and long term viability: -

Results: -

- 25 stores to be progressively withdrawn from (7 resited)
- 24 stores require a full refurbishment @ £0.9m
- 90 stores require a re-lay/ major refit @ £1.4m
- Dilapidations to be incurred as required to improve store portfolio over 3 years

- Reduce fashion exposure
- Extend homewares and seasonal
- Re-introduce health & beauty aids to drive traffic flow
- Increase promotional activity
- Launch 'specials' programme to add interest and drive traffic flow
- Add high value merchandise in some categories
- Add new complementary product categories
- Develop 'own brands' strategy

- Maintain both brands
- New store branding to be based on store catchment, regional strengths, local market conditions
- Avoid the cost of writing off Instore brand and related assets = £2.4m
- Update the existing Poundstretcher fascias

CONCLUSIONS

Business (cont)

- Implement the refurbishment and re-lay programmes effective March 07
- Increase “value” perception through promotional and regular specials activity; stronger in store message
- Improve execution of retail basics across the store portfolio

Financial

- LFL Sales growth target next 3 years: average 5%
- Increase advertising spend by approximately 20% or £1m pa
- Increase sales densities to match industry norms - through more effective space utilisation
- Progressively reduce gross margin – through changing mix; stronger promotional activity; ‘specials’ and selective price activity

CONCLUSIONS

Financial (cont)

- Reduced markdowns through improved stock turn & declining fashion mix
- Consistently reduce DC & HO cost base
- Return to profitability next year with progressive improvement thereafter

Financial (cont)

Key Indicators

	<u>YR1</u>	<u>YR2</u>	<u>YR3</u>
• Stock cover (weeks)	10.0	9.0	8.5
• Store openings	12	15	20
• Capital expenditure	£9.5m	£8.0m	£8.0m

SUMMARY

Now

- Key issues examined, gripped, under control
- Basic disciplines strengthened
- Trading resilient in difficult conditions

Future

- Build on established base in value market
- Top line growth is key target
- Limited capex and estate improvements
- Progressively improve profitability