



# DSG international plc

## Business Review Renewal & Transformation Programme

15 May 2008

# Agenda

- Issues & strengths of DSGi
- Five point plan
  - Customer focus
  - Portfolio review
  - Business transformation
  - Winning on the internet
  - Costs
- Financials
- Questions & answers

# Significant issues facing DSGi

- DSGi has not kept pace with customers:-
  - core customer needs
  - rise of mass affluence
  - higher purchase frequency
- Competitive pressure from the internet and mass merchants
- Lost edge as specialist proposition
- Business processes inefficient and ineffective
- Complexity has left management stretched
- Tough economic backdrop

# Inherent strengths in DSGi

- Market leading positions with strong brands
- Strong competitive advantages
  - buying & sourcing
  - supplier relationships
  - service agreements
  - delivery and after sales infrastructure
- Competitive edge through:
  - multi-channel and pure-play internet operations
  - selling process in Nordic
  - central supply chain

Country	DSGi rank
UK	1
Nordics	1
Greece	1
Ireland	1
Czech	1
Italy	2
Hungary	5-6
Poland	5-6
Spain	n/a
Turkey	n/a
<b>Europe</b>	<b>2</b>

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# Five Point Plan

## 1. Focus on the customer

- unbeatable combination of **VALUE**, **CHOICE** and **SERVICE**
- major cultural shift

## 2. Focus the portfolio on winning positions

- realise potential of UK market position
- address unprofitable stores and chains
- turnaround Italy

## 3. Transform the business

- broaden choices for customers
- improve the selling process
- upgrade selling space
- sell services more effectively

## 4. Win in the internet market

- grow our pure play business
- become masters of multi-channel retailing

## 5. Reduce cost base

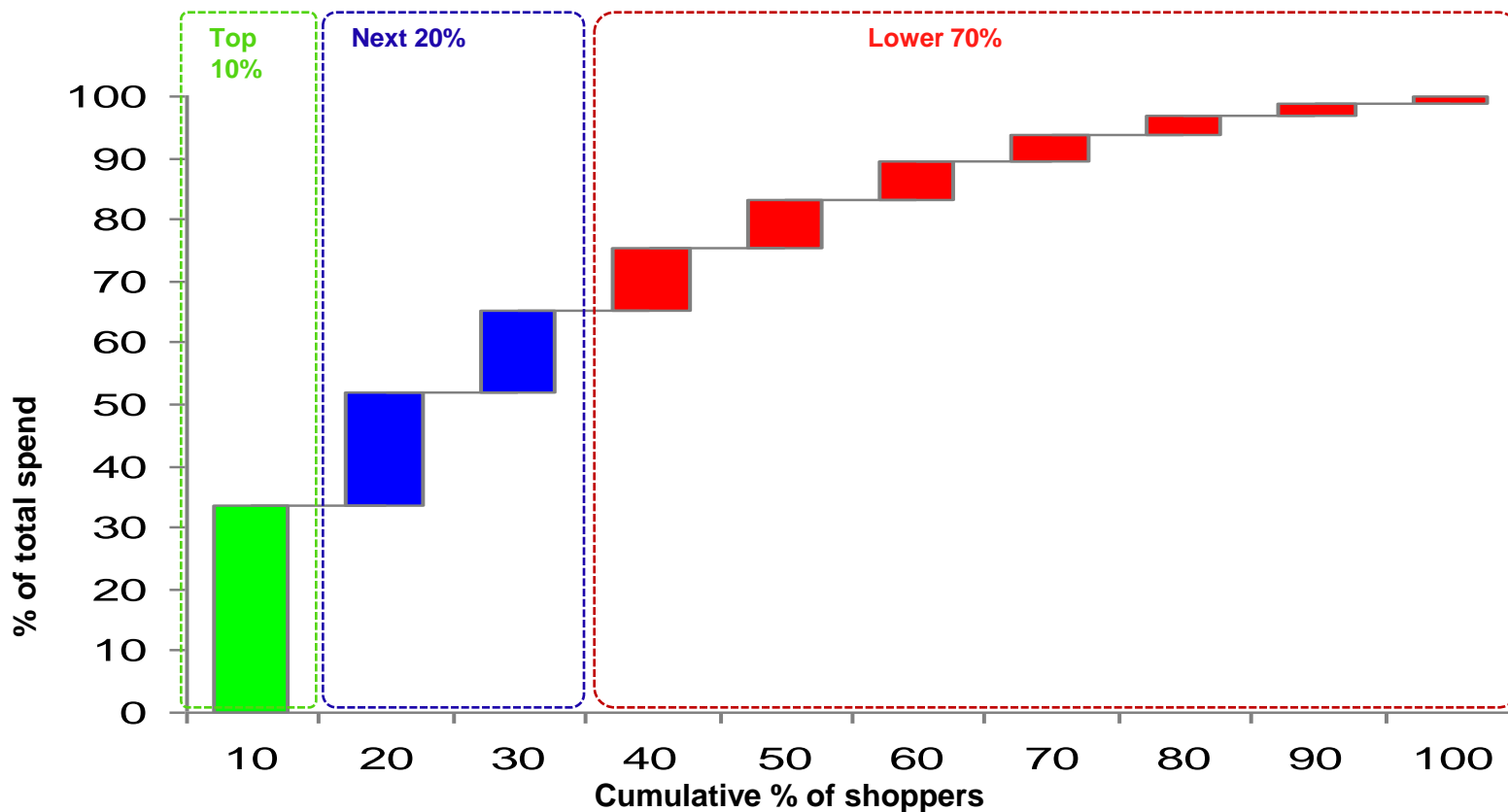
- simplification to make processes better, easier and cheaper
- one set of business processes

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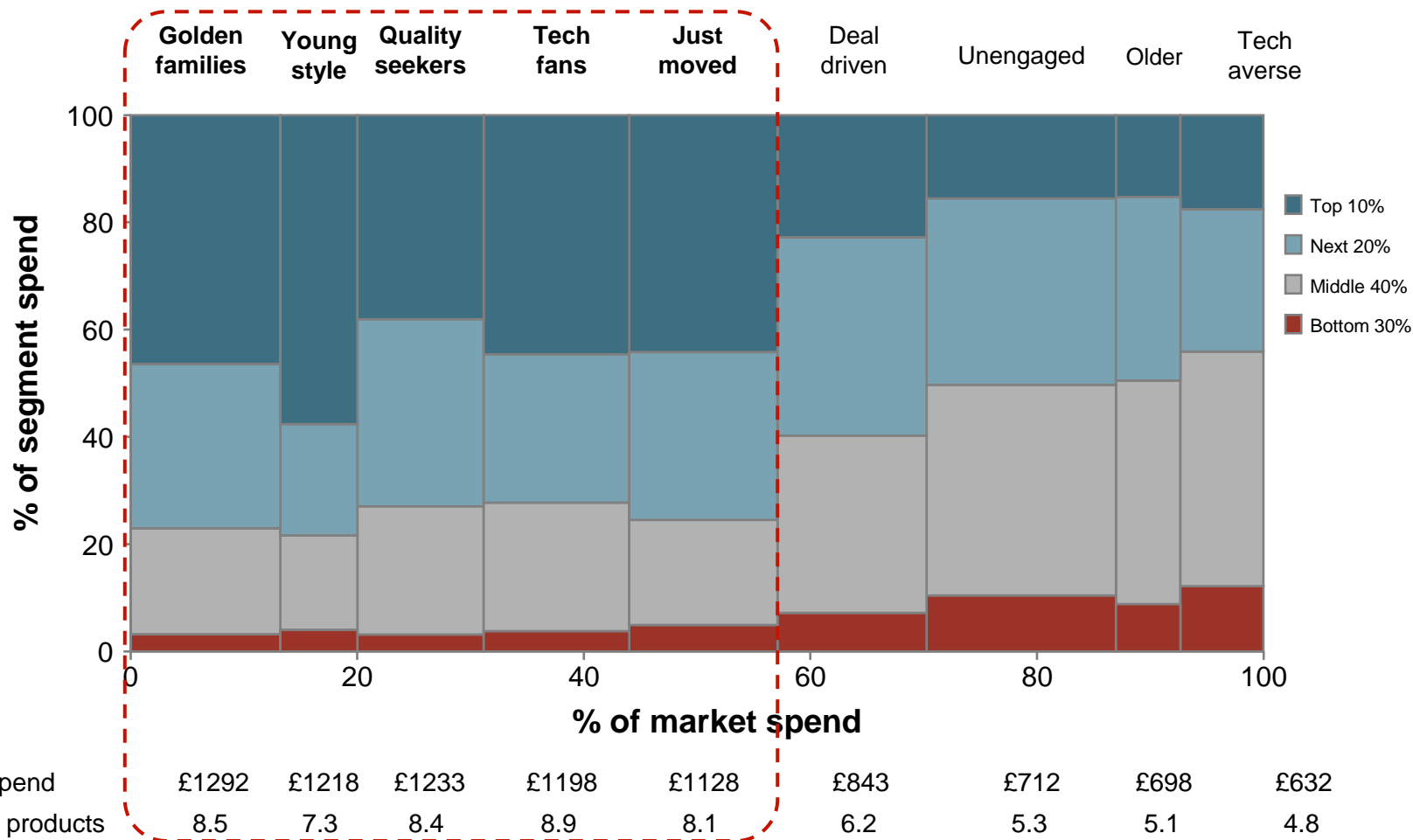
# Top 30% of customers are 2/3rds of spend

Electrical shopper breakdown by annual spend (%)



Source: Lightspeed survey Oct 2007

# Five segments are 77% of top spenders

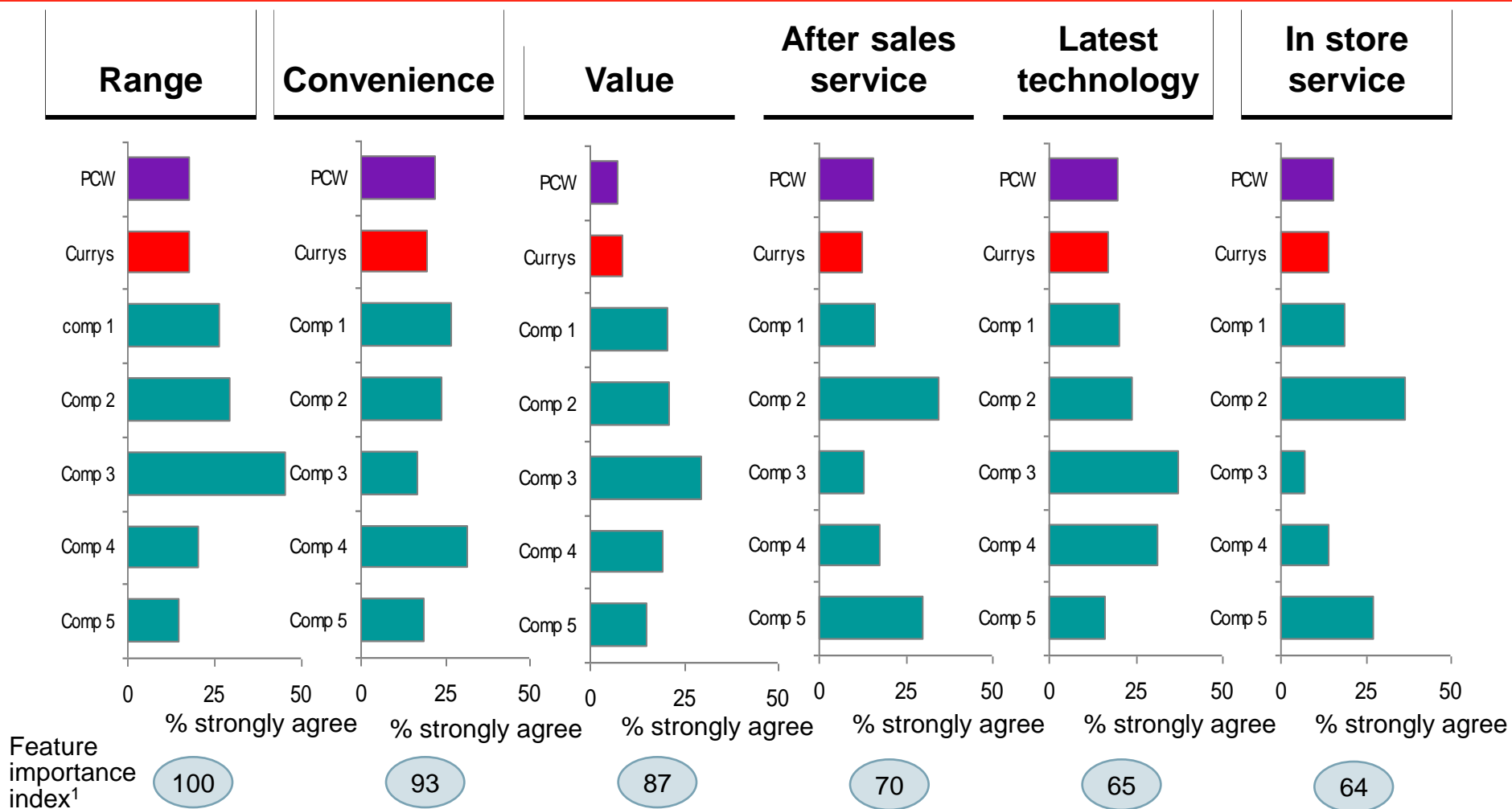


Source: DSGi analysis

## Webcast viewers:

**Please continue to listen  
to the audio feed**

# Key customers ratings



Source: DSGi (Lightspeed) customer survey 2007

# Key actions to focus on customer

**Improve choice of  
product & service**

appeal to more  
customers

**Improve the  
selling process**

help customers make  
the right choices

**Improve  
the stores**

make them easier  
to shop

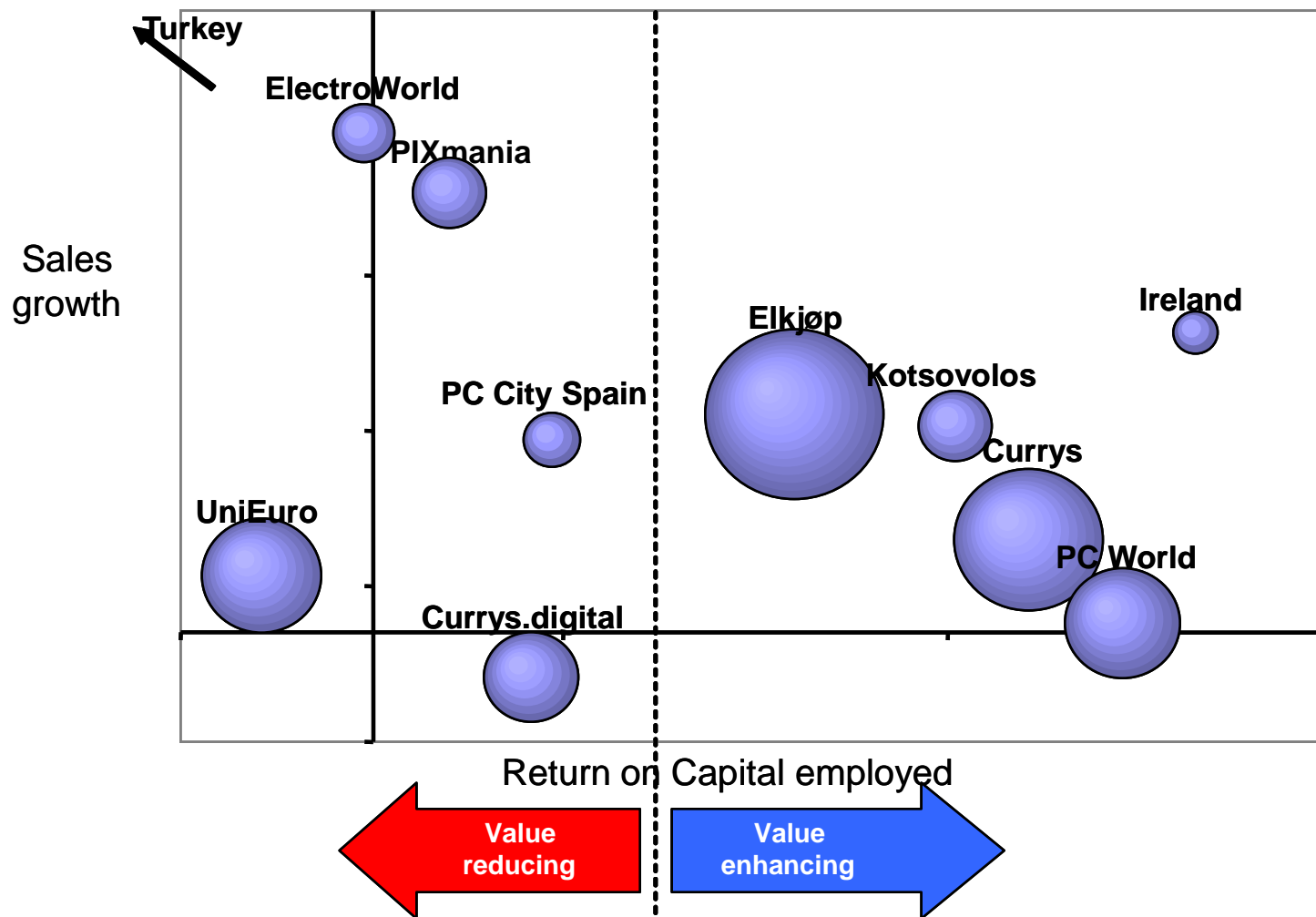
**Improve  
services**

delivery and  
product support

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# Mixed portfolio of business performance



Note: Based on pretax profit for 07/08, lease adjusted, including goodwill

# Route to improved financial performance

- Focus on greatest opportunities
  - New proposition for Currys and PC World
  - Turnaround UniEuro
  - Grow PIXmania
  - Build on current position in Elkjop & Kotsovolos
  
- Address sub scale/loss-making businesses

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# Transforming PC World

- Structural shift in many of its product categories
- Hardware sales growing with market but at low gross margin <10%
- Lost share in higher margin categories
- Failed to deliver for key segments specialist computing offer
- But, format is popular with customers

# Transforming PC World

**PC World will be the destination for computing and new technology products & services**

**Improve choice of product & service**

appeal to more customers

**Improve the selling process**

help customers make the right choices

**Improve the stores**

make them easier to shop

## Only place for...

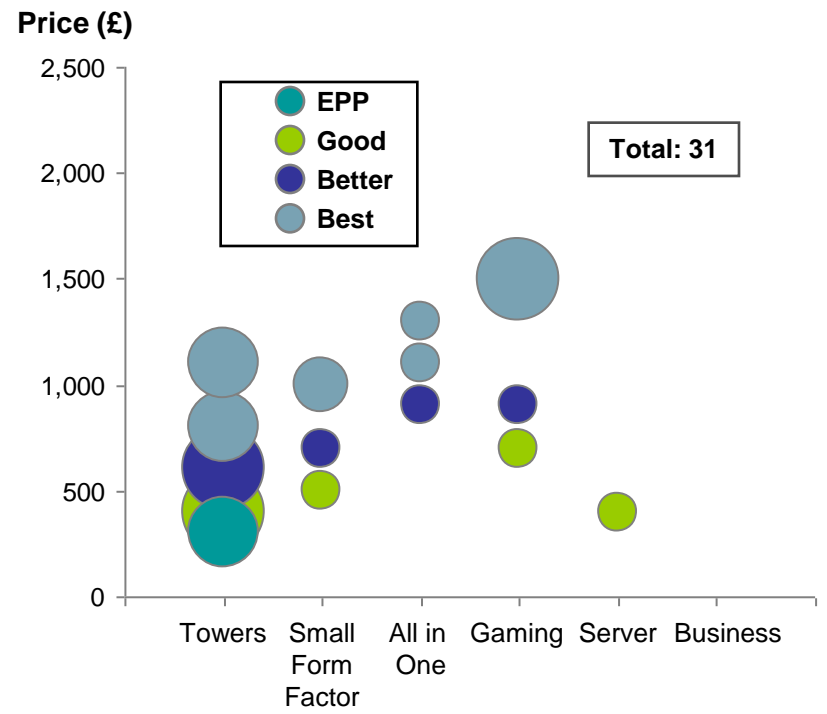
- Laptops & PCs
- Computing peripherals, accessories and essentials
- Digital and computing services
- Convergence technology

## Great choice for...

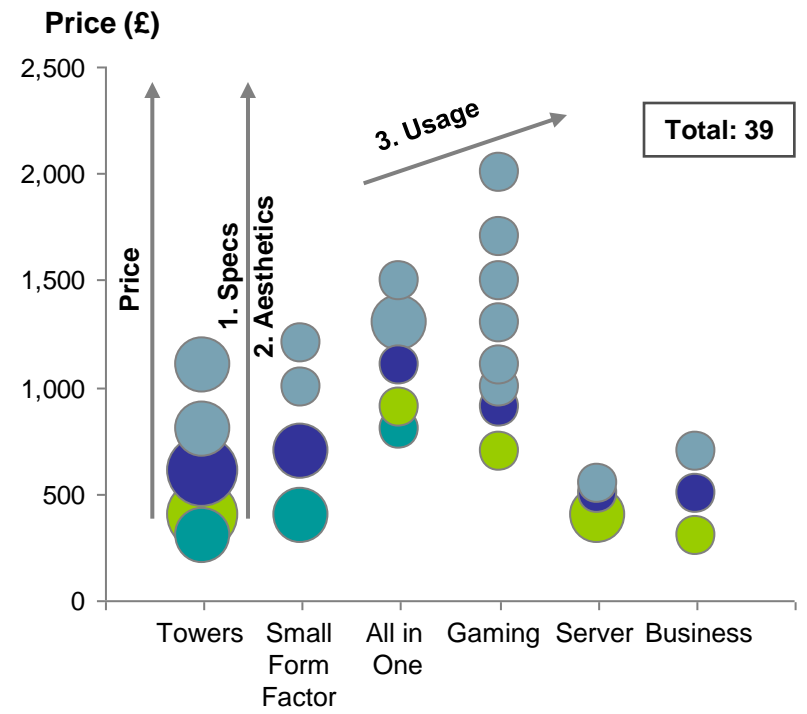
- Audio
- Imaging
- Gaming
- Vision
- Mobile technology (eg PDAs)
- SOHO product and service

# Improving range structure - example

**Current desktops range**

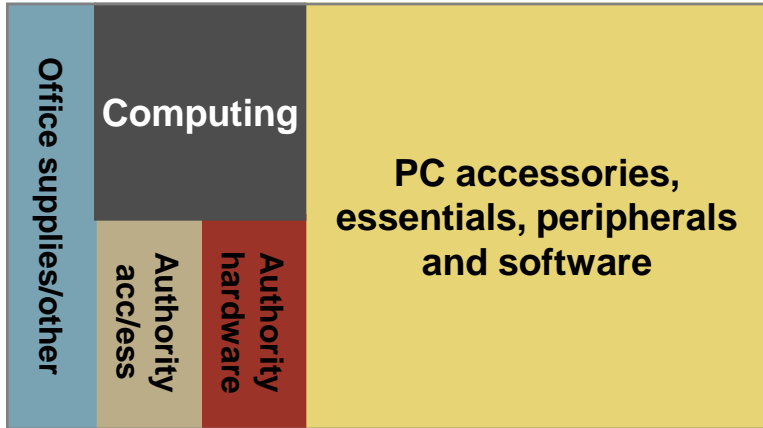


**Future desktops range**



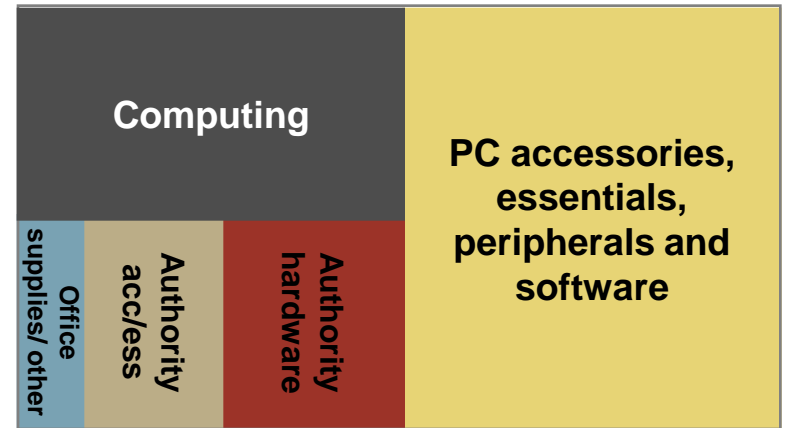
# Significant reallocation of space

## Computing and digital product is underspaced



	Space	
Computing	16%	
PC acc, ess, peri, soft	57%	
Hardware	8%	
Accessories & essentials	8%	<b>3,600 SKUs</b>
Office supplies/other	10%	
<b>Total</b>	<b>100%</b>	

## Major space changes

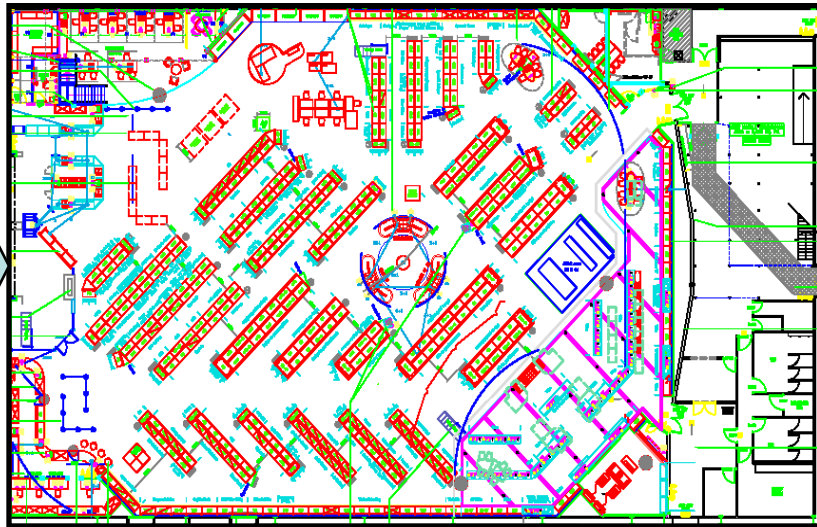


	Space	
Computing	25%	
PC acc, ess, peri, soft	48%	
Authority hardware	13%	
Authority acc, ess	9%	<b>4,100 SKUs</b>
Office supplies/other	5%	
<b>Total</b>	<b>100%</b>	

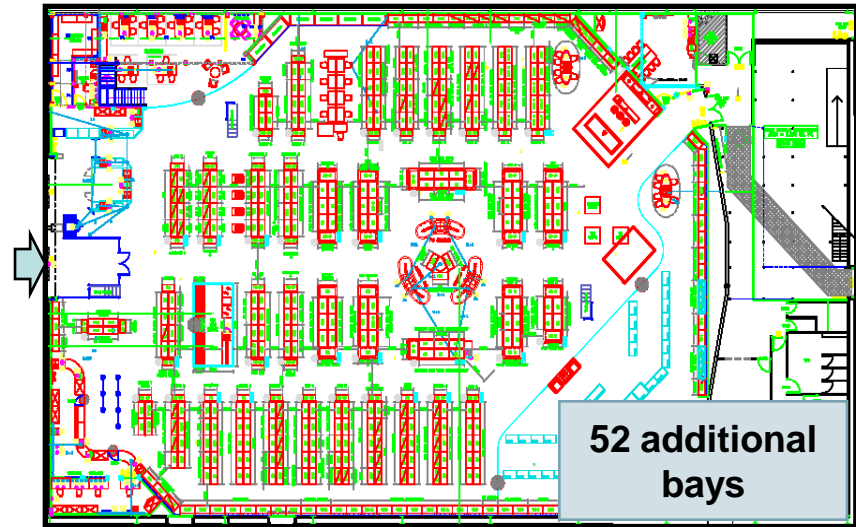
Areas are indicative only, not category position

# Improving navigation at PC World

## Before



## After



### Deliverables

- Introduction of central primary aisle
- Make navigation easier
- Choice of direction rather than racetrack
- Offer customer experience in gaming
- Trial Portable Technology shop in improved location

### Customer Reaction

- Initial customer feedback positive
- Store rated as very easy to navigate
- Different departments easy to find
- High level signage easy to read

# PC World – Current layout



# PC World - New layout



# PC World - New layout

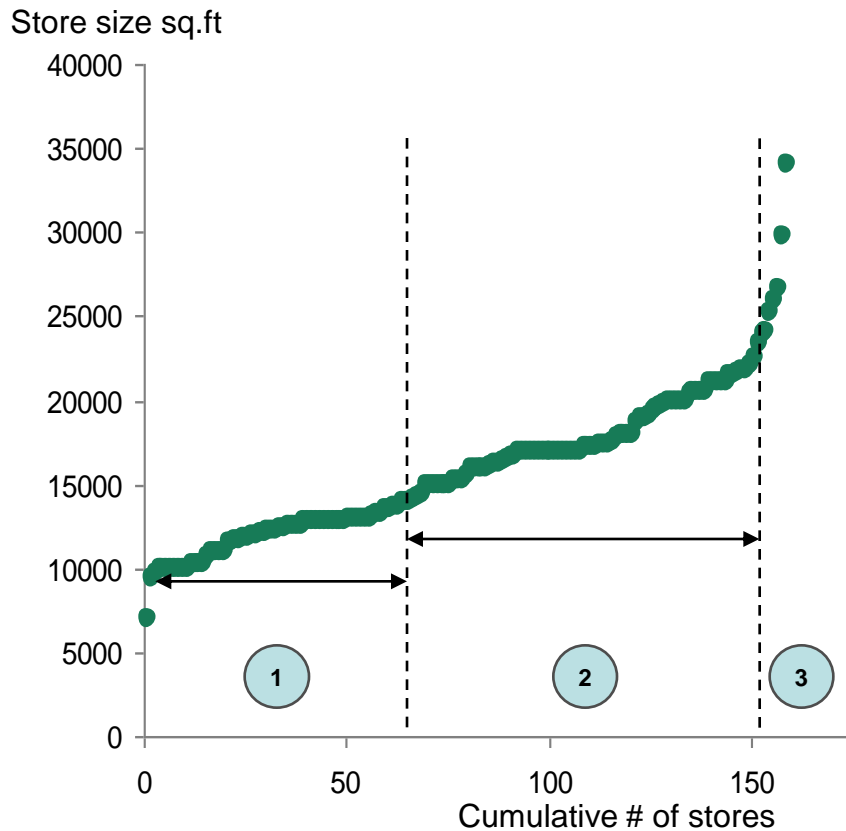


# We will reinvigorate the selling service

- Selling is service
- Successful Nordic selling model
  - Improved product knowledge
  - Establishing needs
  - Delivering complete solution
- Improved training programme
- Systematic roll out across the Group
- Better incentive and remuneration package for store colleagues

# PC World – store portfolio

Store estate varies in size up to 34,000 sq.ft



Common store model with three variances on product offer

- 1 **65 Smaller stores (~10-14,000 sq ft)**
  - Dense up to take full offer
  - Limited interaction space
- 2 **84 Medium stores (14-22,000sq ft)**
  - Take full offer
  - Opportunity to use additional space for more interactivity; better displays of core/new products
- 3 **9 Large stores (>22,000sq ft)**
  - Potential large store format

# Transforming Currys

The destination for electrical goods for everyone

**Improve choice of product & service**

appeal to more customers

**Improve the selling process**

help customers make the right choices

**Improve the stores**

make them easier to shop and more contemporary

**Only place for...**

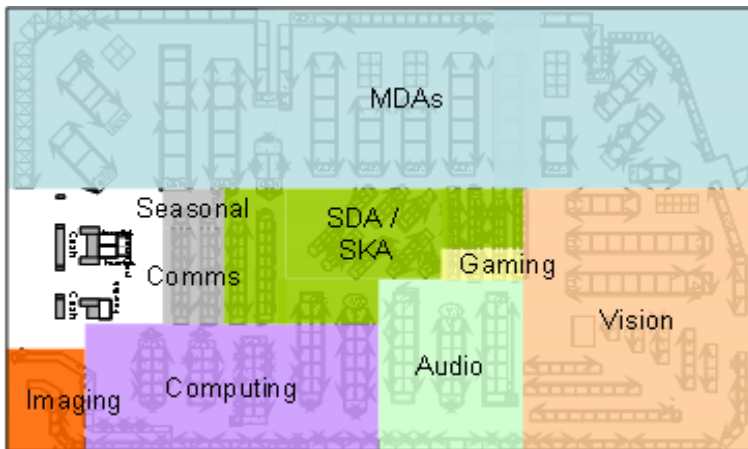
- Vision
- Audio
- Home appliances
- Imaging
- SDA (Floorcare/Microwaves)

**Great choice for...**

- Gaming
- Mobile technology
- Computing
- SKAs (inc. Personal care)

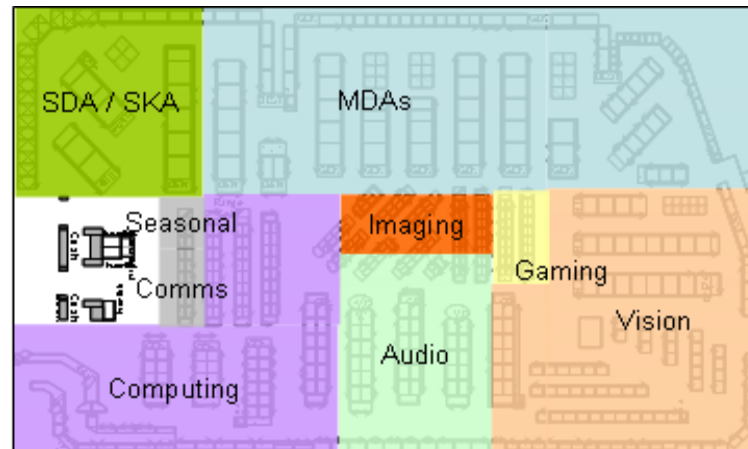
# Rebalancing Currys space and intensifying ranges

**Current store layout, by Zone**



	<u>% of space</u>	<u># SKUs</u>
Vision	20	180
Audio	6	140
MDA	42	540
Computing	10	235
Gaming	18	705
Imaging		
SDA / SKA		
Other		
<b>Accessories Mix</b>	<b>4</b>	<b>600</b>
<b>Total</b>	<b>100</b>	<b>2,400 SKUs</b>

**Illustrative new store layout, by Zone**



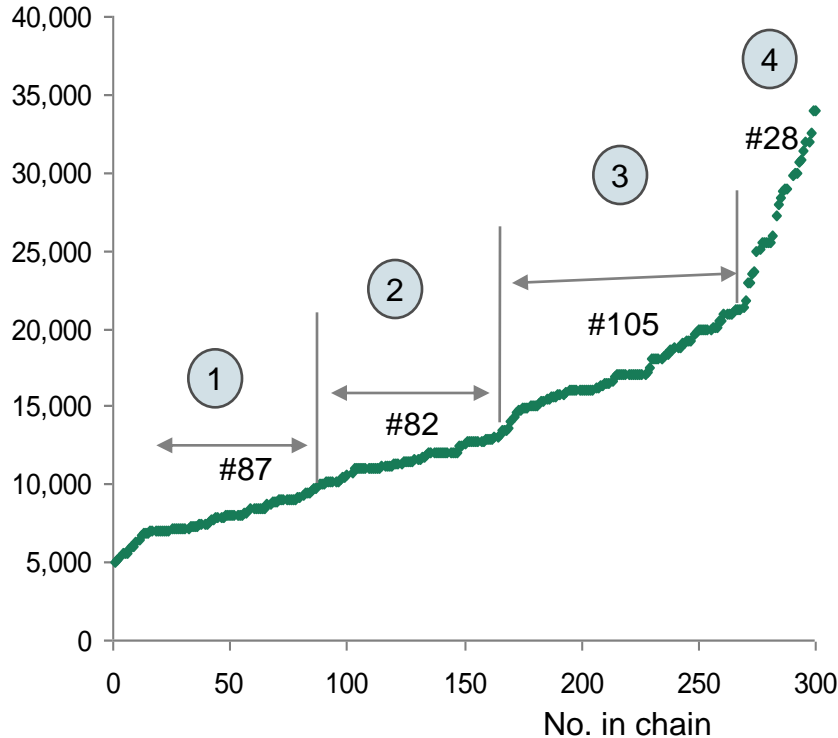
	<u>% of space</u>	<u># SKUs</u>
Vision	20	190
Audio	6	140
MDA	33	650
Computing	13	280
Gaming	18	1,040
Imaging		
SDA / SKA		
Other		
<b>Accessories Mix</b>	<b>10</b>	<b>1,700</b>
<b>Total</b>	<b>100</b>	<b>4,000 SKUs</b>

Areas are indicative only, not category position

# Rebalancing Currys store portfolio

Different solutions needed to optimise the store portfolio

Store Size

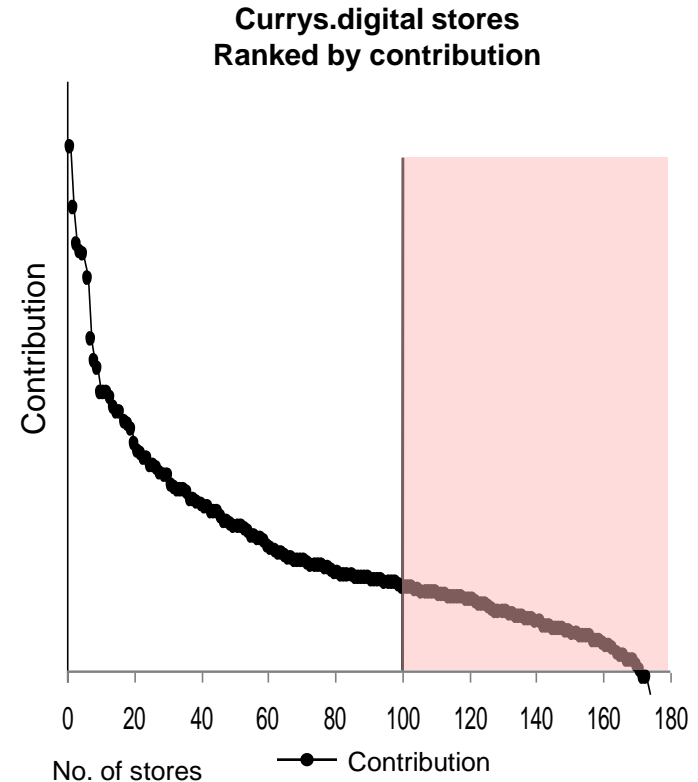


Proposed changes increase the densities of all stores

- 1 <10,000 sqft stores
  - Niche destination stores
  - Focus on high contributing categories
  - Consider mezzanine floor case by case
- 2 10-14k sq ft stores
  - Build mezzanines to accommodate full proposition
- 3 14-24k sq ft stores
  - Stretch offer, use space effectively to enhance sales and margin – e.g. demo areas
- 4 >24,000 sq ft stores
  - Potential large store format

# Currys.digital – store portfolio

- 100 attractive catchments
  - 22 stores in Flagship catchments
  - 16 stores in attractive London catchments
  - 62 stores in “other attractive” catchments
- Remaining stores can be run for cash
  - Phased exit programme
  - Average lease length 4-5 years



# Transforming Currys.digital

The high street destination for the latest portable technology

**Improve choice of product & service**

appeal to more customers

**Improve the selling process**

help customers make the right choices

**Improve the stores**

make them easier to shop and more contemporary

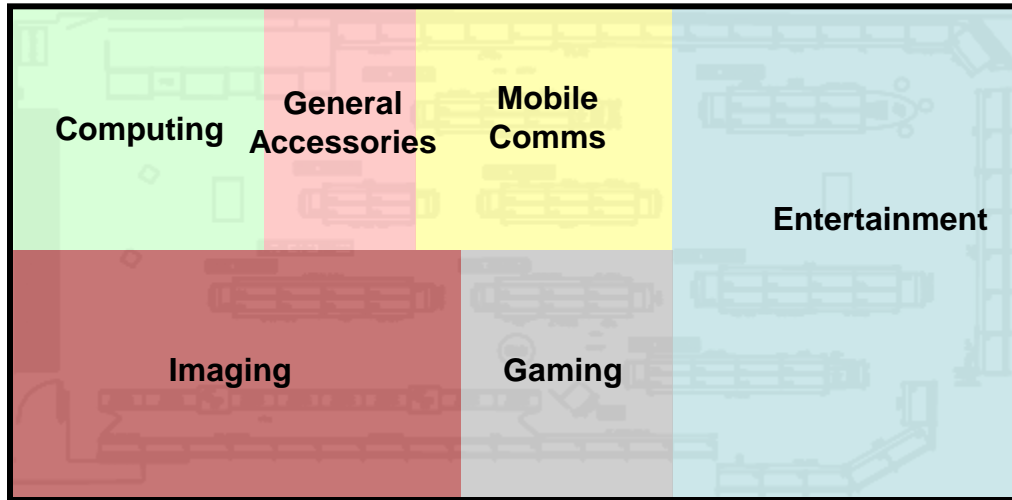
## Only place for...

- Imaging, incl. accessories
- Laptops, incl. accessories
- Vision, incl. accessories
- Mobile technology (audio, PDAs etc), incl. accessories

## Great choice for...

- Gaming
- Printers & scanners
- Other accessories

# Currys.digital – Store proposition



	<u>Hardware</u> <u>% of space</u>	<u>Accessories</u> <u>% of space</u>	<u>Total</u> <u>% of space</u>
Entertainment	33	12	45
Imaging	15	5	20
Computing	7	13	20
Gaming	4	1	5
Mobile Cmms	3	2	5
General Access	-	5	5
<b>Total</b>	<b>62</b>	<b>38</b>	<b>100</b>

MDA, SDA, fixed line phones, desktops and office supplies removed releasing 10.2% of space

*Areas are indicative only, not category position*

# Large format stores







- Internationally large format stores are working well
  - 3,500 to 5,000 Square metres
- Better offer for customers
- Greater densities and profitable
- UK is challenging due to expensive retail space, so:
  - intensive merchandising
  - mezzanine space
  - one store trial



# Italy - a significant turnaround

- UniEuro performing against market trend
  - Electrical market has been growing
  - Specialist chains have been growing share
- Customer proposition undifferentiated and unappealing
  - Range proposition poor – 50% of competitors SKU density
  - Store portfolio not aligned with move to shopping centres
- Failed on basic retail processes
  - Stock availability low
  - Low stock turn
  - Ineffective merchandising
  - Advertising not value creating

# Promotional activity ineffective

	No. of national fliers/store	Average no. of SKUs per fliers/store	Price of avg SKU in promo (€)
 	25	132	104
	13	113	195
	~20 <sup>1</sup>	118	212
	~25 <sup>1</sup>	88	190
	~20 <sup>1</sup>	86	200
<b>Total</b>	<b>20-24</b>	<b>90-100</b>	<b>150-200</b>

# Italy – Fix the basics

- Improve sales densities
  - With just market average sales densities UniEuro would deliver 2% to 3% return on sales
  - Improve stock availability to >90%
  - Get the right range
  - Reinvigorate the sales process
  - Implant PC City as the computing department in UniEuro
- Reduce costs
  - Rebalance marketing spend to sales ratio
  - Close 43 loss making stores in poor locations
  - Rationalise costs across the business
- Transform the business
  - Introduce multi-channel
  - Increase in store and after sales services

## Italy - summary

- Store closure costs of £40m over 2 years
- Costs as a % of sales reduced by 3 percentage points over 2 years - £10m p.a. cost reduction plans
- Margin improved due to better ranges, accessories, promotions and selling process
- No incremental capital expenditure
- Return to profitability in 3-4 years

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# The internet is an opportunity

- Will be c.30% of the market AND our business
- Customers want to research and buy online
- But will never replace the stores
  - Social need to get out
  - Touch and feel
  - Reassurance & explanation
- Multi-channel approach is what customers want

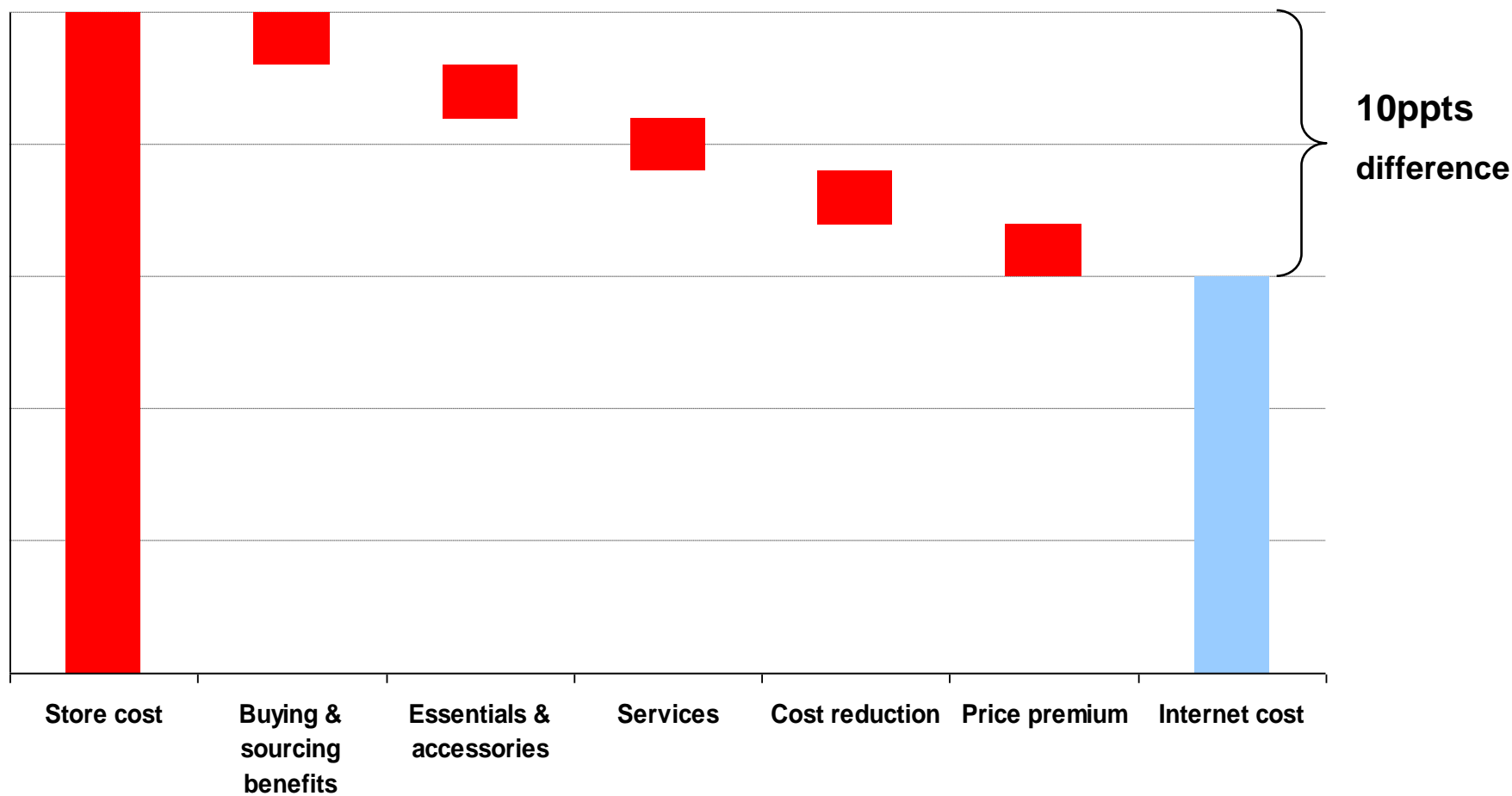


# Already £1bn of internet sales

- Competitive advantages:-
  - Europe's leading online electricals specialist in PIXmania
  - Pan-European logistics platform
  - Strong supplier relationships
  - Scale
  - Pure-play and multi-channel approach



# Store economics work vs the internet



# Winning in the internet market

- Implement PIXmania platform across all internet operations
- Pan-European logistics infrastructure
- Long-tail warehouse to serve all channels
- Use skills of specialist electrical retailer
- Multi-channel pricing expected to align more closely with internet

# Internet – Performance & targets

- Sales growth of over 20% per annum
- Grow multi-channel sales ahead of market share
- Increase attachment rates
- Targeting EBIT margins of 2-3%
  - Higher potential in the future?

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# One Group - common operating model

- Drives cost efficiencies through simplified and automated processes
- Easier sharing of best practice
- Improves decision making
- Enables more group buying
- Improves supply chain and margin through better visibility and management of stock
- Lower cost IT and process development

# Improving operating costs

- Step Change programme being introduced
  - Better for customers, easier for staff and cheaper
  - £50m target in year 1
  - Will set targets for future years
- Focus this year is
  - Head office
  - Supply chain
  - Stock management
- Will re-invest in customer proposition

# Summary

Year 1

Year 2

Year 3

**UK**

Broaden ranges  
Improve selling  
Trial formats

Develop customer proposition further

Format roll out

Optimise store portfolio

**Italy**

Improve business

Develop business

**Costs**

Supply chain  
Head office  
Stock management

Further step  
change

One Group implementation

**Portfolio**

Resolve weaker positions



# **DSG international plc**

**Kevin O'Byrne**

**Group Finance Director**

# Route to improved financial performance

- Focus on greatest opportunities
  - New proposition for Currys and PC World
  - Turnaround UniEuro
  - Grow PIXmania
  - Build on current position in Elkjop & Kotsovolos
  - Step change plan to simplify and reduce costs
- Address sub scale/loss-making businesses

# Plan improves the key value drivers

**Sales  
per m<sup>2</sup>**

**Costs  
%**

**Margin  
%**

**Asset  
efficiency**

# Plan improves the key value drivers

Value Driver	Plan Actions	Impact
<b>Sales per m<sup>2</sup></b>	<ul style="list-style-type: none"><li>• Improved ranges</li><li>• More effective selling process</li><li>• Better stores - easier to find product</li></ul>	<ul style="list-style-type: none"><li>• Conversion +</li><li>• ARP +</li><li>• Margin £ +</li></ul>
<b>Margin %</b>	<ul style="list-style-type: none"><li>• Higher accessories penetration</li><li>• Mix across all price points</li><li>• Increased sale of services</li></ul>	<ul style="list-style-type: none"><li>• Reduce decline in margin %</li></ul>

# Plan improves the key value drivers - cont'd

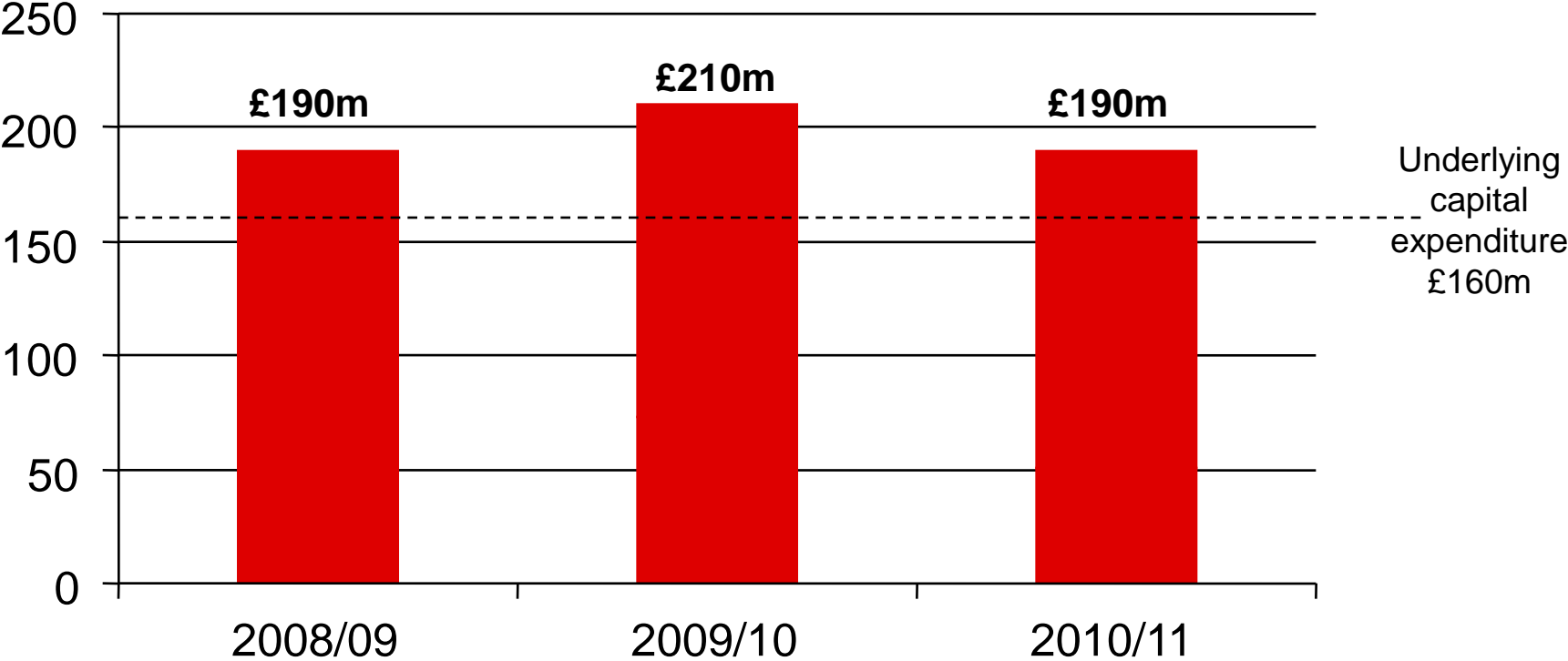
Value Driver	Plan Actions	Impact
<b>Costs %</b>	<ul style="list-style-type: none"><li>• Step-change cost reduction</li><li>• Better, easier, cheaper processes</li><li>• Space utilisation - mezzanines, eliminate non-performing space</li></ul>	<ul style="list-style-type: none"><li>• £50m savings year 1</li><li>• Further savings in years 2/3</li><li>• Re-invested in customer proposition</li></ul>
<b>Asset Efficiency</b>	<ul style="list-style-type: none"><li>• Maintain stock turn on wider range</li><li>• Monitor return on new investment</li><li>• Address non-performing assets</li></ul>	<ul style="list-style-type: none"><li>• No w/capital increase over 3 years</li><li>• Store investments payback &lt;4 years</li><li>• Improve group ROCE</li></ul>

# Financial overview

- Plan will deliver 3-4% return on sales over the medium term
- Short term environment impacts plan
- 2008/09
  - A difficult year
  - Lack of visibility due to uncertain environment
  - Net finance moves from income to cost
  - Impact from plans not yet significant
- 2009/10 onwards
  - Greater impact from plan

# Capital Cost Impact of Transformation Plan

## Capital Expenditure £ million



# Costs

**Exceptional  
Costs**

**(£14m)**



**Saving in 12  
months from Jul 08**

**£50m**

**Aiming for material additional savings in 09/10**

# Working Capital

Stock in  
year 1

(£25m)

Stock-turn  
improvements  
08/09 & 09/10

Supply chain  
improvements  
08/09 & 09/10

£25m.

# Year to 3 May 2008

- Trading statement issued this morning
- Not the focus for this meeting
- Areas to cover
  - Exceptional restructuring costs
  - Dividend

# Exceptional Restructuring Costs in 2007/08

## Estimated charges

	Goodwill impairment £m	Other charges £m	Total £m
Italy	240*	100	340
UK	-	25	25
Other overseas	15	15	30
<b>Total</b>	<b>255</b>	<b>140</b>	<b>395</b>
Incremental cash cost		20	20

\* Goodwill of £135m remaining on balance sheet

# Dividend

- 2007/08
  - Reduced by 50%
  - Final dividend of 3.43p
  - Full year dividend of 5.45p
- 2008/09
  - Dividend of 4.44p
    - Interim 1.01p, final 3.43p
- Dividend cover objective of 2.0x
- Target to grow in line with earnings



# DSG international plc

John Browett

Chief Executive

# Five Point Plan

- 1. Focus on the customer**
- 2. Focus the portfolio on winning positions**
- 3. Transform the business**
- 4. Win in the Internet market**
- 5. Reduce cost base**



# DSG international plc

## Business Review Renewal & Transformation Programme

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