



14 January 2016

Home Retail Group plc Trading Statement

Home Retail Group, the UK's leading home and general merchandise retailer, today publishes a trading statement for the 18 weeks from 30 August 2015 to 2 January 2016.

John Walden, Chief Executive of Home Retail Group, commented:

"This has been a very eventful period for the Group. Argos traded through a challenging market while launching significant new propositions. During the period we also commenced and progressed discussions for the sale of Homebase to Wesfarmers Ltd., and received an approach from J Sainsbury plc for the potential acquisition of the Group.

"Against this backdrop, whilst Argos trading performance was mixed, I am pleased that we made material steps forward in the Argos Transformation Plan. Total sales at Argos increased 0.9%. They were affected by volatile trading patterns resulting from particularly strong sales during Black Friday week, a shift in consumer demand from both the weeks before and after Black Friday, growth in digital transactions, reduced store footfall particularly on the high streets, and the continuing effects of price deflation. Argos like-for-like sales decreased 2.2% in the period, while new digital concession locations added in the past year contributed 3.1% to growth.

"In October Argos introduced FastTrack, market-leading nationwide propositions for both same-day home delivery and store collection, made possible by our hub & spoke distribution network. FastTrack, together with our now-proven store concession model and improvements in digital channels, drove increases in digital sales, digital participation and home delivery. I continue to believe that the capabilities being developed in the Argos Transformation Plan will position Argos as a retail leader in an increasingly digital future.

"In Homebase, like-for-like sales grew by 5% while total sales declined by 4%. The Homebase Productivity Plan, which includes an aggressive store closure program, overhead reductions and customer proposition improvements, has begun to position Homebase as a smaller, higher quality and more efficient business. Yesterday we announced that we are in advanced discussions to sell Homebase, which would provide good value for shareholders and a growth opportunity for Homebase colleagues. The potential transaction would allow the Group to focus on Argos and its Transformation Plan, with an improved balance sheet and financial position, which I believe would represent an even greater opportunity for building long-term shareholder value.

"As a result of the most recent trading period, we expect that Group benchmark profit before tax for the financial year ending February will be around the bottom of the current range of market expectations of £92m to £118m."¹

¹ This statement constitutes a profit forecast under Rule 28.1 of the City Code. Home Retail Group, will as soon as possible after the date of this announcement and, in any case, prior to the 2 February 2016 deadline under Rule 2.6(a), publish reports on the statement pursuant to the requirements of Rule 28.1(a) unless, prior to such reports becoming available, a dispensation is granted by the Takeover Panel pursuant to Note 2(b) on Rule 28.1

	Latest period (18 weeks to 2 January 2016)	Year-to-date (44 weeks to 2 January 2016)
Argos		
Sales	£1,837m	£3,580m
Like-for-like sales change	(2.2%)	(2.8%)
Net space sales change	3.1%	2.5%
Total sales change	0.9%	(0.3%)
Gross margin movement	Down c.225bps	Down c.75bps
Homebase		
Sales	£434m	£1,250m
Like-for-like sales change	5.0%	5.4%
Net space sales change	(9.0%)	(8.2%)
Total sales change	(4.0%)	(2.8%)
Gross margin movement	Down c.50bps	Down c.100bps

Argos

Argos has made meaningful progress in developing new strategic capabilities since the introduction of its Transformation Plan to 'reinvent Argos as a digital retail leader', including:

- **A national hub & spoke distribution network** which currently supports c.20,000 products in local hubs, making them available for faster fulfilment via home delivery or store collection. Argos has recently further extended this concept to a regional hub trial, with potential to hold substantially more products, including third party products, for same day fulfilment.
- **Introduction of FastTrack Delivery and FastTrack Collection**, market-leading home delivery and store collection propositions that leverage hub & spoke, 844 Argos store locations, and a national home delivery network, offering c.20,000 products for immediate store collection or same day home delivery to c.95% of UK mainland households. Argos has also introduced an express 2-man home delivery service offering leading large item delivery across a broad range of products.
- **Proven digital store model**, including small formats and concessions, which require lower capital outlay and provide customers with fast access to an expanded product range regardless of store stocking capacity. Argos recently extended the concession model to begin trialling collection via convenience stores that hold no Argos stock.
- **Digital development and digital channel capabilities**. Although the Internet is now central to most businesses, the market has both broad variation in digital standards and a shortage of sufficient digital leadership capability. Argos has developed teams with strong digital capabilities, and aggressively shifted the business from a catalogue retailer to a digital specialist.
- **Partnership with Ebay**, which provides over 200,000 Ebay merchants with access to Argos' click and collect capabilities, driving footfall into Argos stores. The partnership has also been recently extended to include the trial of a consumer to consumer parcel drop off service.
- **More universally appealing offer**, including expanded ranges and marketing communications that are beginning to reposition the Argos brand among consumers as more dynamic, while preserving its strong heritage.
- **A more flexible store cost base**, with substantial reductions in the average lease term of Argos stores to below five years, combined with new options for store locations presented by small stores and concessions, Argos has the flexibility to add, eliminate and relocate stores to minimise costs and meet previously unaddressed consumer demand.

Against this strategic backdrop, total sales at Argos in the period grew by 0.9% to £1,837m. Net new space contributed 3.1%, principally as a result of 95 digital concession stores in Homebase and Sainsbury's stores added within the past year. In the recent trading period the store portfolio increased by a net 4 stores to 844. Like-for-like sales declined by 2.2% in the period.

On a category basis, like-for-like sales in electrical products continued to decline, principally driven by declines in video gaming, tablets and white goods, partially offset by good growth in mobiles. Argos achieved positive like-for-like performances in a number of non-electrical product categories such as toys, freetime and furniture, while sales in homewares and jewellery declined.

Similar to last year, the week of Black Friday had a disproportionate effect on Argos trading patterns during the period. Argos performed well over the Black Friday period, achieving total sales growth of 41% on Black Friday itself, its highest ever sales day, and 23% growth during the week of Black Friday. Digital sales increased by 45% for the same week, with digital participation accounting for 62% of total Argos sales in the week versus 52% last year. Consumer enthusiasm for Black Friday resulted in sales shifts from both the weeks before and after the event. Furthermore, during December, Argos experienced a 13% reduction in traditional store walk-in sales, exacerbated in high-street and shopping centre stores, while digital sales overall increased 10% during this same period.

Argos introduced FastTrack Delivery and FastTrack Collection in October. For the months of November and December, Internet sales grew 13% versus the same months last year, and represented 55% of total Argos sales, up from 50% last year. There was a strong take up of the FastTrack delivery offer, such that one-man home delivery grew 82% for these months versus the prior year with customers being offered same-day slots at on average 90% availability. FastTrack delivery also achieved the highest customer satisfaction scores amongst Argos' channels.

For the entire reporting period, Internet sales grew 9% and represented 53% of total sales, up from 49% last year. Within this, mobile commerce sales grew by 9% to represent 31% of total Argos sales, up from 28% in the prior year.

The approximate 225 basis point gross margin decline was principally driven by the anticipated impact of adverse currency and shipping costs, an increased level of promotional sales and the anticipated reversal of the previously disclosed timing benefit recorded during the first half of the current financial year.

Homebase

Total sales at Homebase declined by 4.0% to £434m as a result of the ongoing store closure programme, with a net 6 store closures in the period, resulting in a total of a net 31 store closures year to date, thereby reducing the portfolio to 265 stores. Closed space reduced sales by 9.0% in the quarter.

Like-for-like sales increased by 5.0% in the quarter with sales growth broadly across all product categories, but particularly in big ticket kitchen and bathroom products. This growth continued to be partially supported by both the trade transfer and the stock clearance sales benefits attributable to the previously announced store closure programme and distribution centre closure.

The approximate 50 basis point gross margin decline was principally driven by the anticipated impact of adverse currency and shipping costs together with an adverse sales mix impact from the growth in margin dilutive big ticket products, partially offset by the favourable impact of a reduced level of stock clearance activity.

Enquiries

Analysts and investors (Home Retail Group)

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There will be a conference call for analysts and investors to discuss this statement at 8.30am this morning. The call is also available as a live webcast on the Home Retail Group website www.homeretailgroup.com. An indexed replay will also be available on the website later in the day.

Home Retail Group will announce details of trading for the remaining eight weeks of the current financial year from 3 January 2016 to 27 February 2016 on Thursday 10 March 2016, and its full-year results on Wednesday 27 April 2016.

Disclosure requirements of the City Code on Takeovers and Mergers (the "Code")

Following the announcement made on 5 January 2016 by J Sainsbury plc. Home Retail Group is in an Offer Period as defined by the Code.

Under Rule 8.3(a) of the Code, any person who is interested in 1% or more of any class of relevant securities of an offeree company or of any securities exchange offeror (being any offeror other than an offeror in respect of which it has been announced that its offer is, or is likely to be, solely in cash) must make an Opening Position Disclosure following the commencement of the offer period and, if later, following the announcement in which any securities exchange offeror is first identified. An Opening Position Disclosure must contain details of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror(s). An Opening Position Disclosure by a person to whom Rule 8.3(a) applies must be made by no later than 3.30 pm (London time) on the 10th business day following the commencement of the offer period and, if appropriate, by no later than 3.30 pm (London time) on the 10th business day following the announcement in which any securities exchange offeror is first identified. Relevant persons who deal in the relevant securities of the offeree company or of a securities exchange offeror prior to the deadline for making an Opening Position Disclosure must instead make a Dealing Disclosure.

Under Rule 8.3(b) of the Code, any person who is, or becomes, interested in 1% or more of any class of relevant securities of the offeree company or of any securities exchange offeror must make a Dealing Disclosure if the person deals in any relevant securities of the offeree company or of any securities exchange offeror. A Dealing Disclosure must contain details of the dealing concerned and of the person's interests and short positions in, and rights to subscribe for, any relevant securities of each of (i) the offeree company and (ii) any securities exchange offeror, save to the extent that these details have previously been disclosed under Rule 8. A Dealing Disclosure by a person to whom Rule 8.3(b) applies must be made by no later than 3.30 pm (London time) on the business day following the date of the relevant dealing.

If two or more persons act together pursuant to an agreement or understanding, whether formal or informal, to acquire or control an interest in relevant securities of an offeree company or a securities exchange offeror, they will be deemed to be a single person for the purpose of Rule 8.3.

Opening Position Disclosures must also be made by the offeree company and by any offeror and Dealing Disclosures must also be made by the offeree company, by any offeror and by any persons acting in concert with any of them (see Rules 8.1, 8.2 and 8.4).

Details of the offeree and offeror companies in respect of whose relevant securities Opening Position Disclosures and Dealing Disclosures must be made, can be found in the Disclosure Table on the Panel's website at www.thetakeoverpanel.org.uk, including details of the number of

relevant securities in issue, when the offer period commenced and when any offeror was first identified. You should contact the Panel's Market Surveillance Unit on +44 (0)20 7638 0129 if you are in any doubt as to whether you are required to make an Opening Position Disclosure or a Dealing Disclosure.

Rule 26.1 disclosure

A copy of this announcement will be available on the Company's website at www.homeretailgroup.com/investor-centre by no later than 12 noon (London) time on 14 January 2016.

The content of the website referred to in this announcement is not incorporated into and does not form part of this announcement.

Further information

This announcement does not constitute an offer to sell or issue or the solicitation of an offer to buy or acquire securities of the Company or any of its affiliates in any jurisdiction or an inducement to enter into investment activity.

This announcement contains statements about Home Retail Group that are or may be forward looking statements. All statements other than statements of historical facts included in this announcement may be forward looking statements. Without limitation, any statements preceded or followed by or that include the words "targets", "plans", "believes", "expects", "aims", "intends", "will", "may", "anticipates", "estimates", "projects" or words or terms of similar substance or the negative thereof, are forward looking statements. Forward looking statements include statements relating to the following: (i) future capital expenditures, expenses, revenues, earnings, synergies, economic performance, indebtedness, financial condition, dividend policy, losses and future prospects; (ii) business and management strategies and the expansion and growth of Home Retail Group's operations and potential synergies resulting from the Transaction; and (iii) the effects of government regulation on Home Retail Group's business.