



Investor pack, May 2014

Home Retail Group stock tickers: HOME LN – HOME.L – HMRTY (ADRs)



Full-Year Results
52 weeks to 1 March 2014

30 April 2014



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Agenda

▶ **Opening comments**

John Walden

- UK retail market
- Near-term Group priorities

▶ **Group financial review**

Richard Ashton

▶ **Business reviews**

John Walden

- Homebase
- Argos

▶ **Q&A**



- ▶ **The economy has been hard to read through FY14**
- ▶ **Digital continues to impact traditional retailing**
 - Channel and share shifts
 - Consumers are better informed, active across channels
 - Mobile, the tool of choice
- ▶ **Fulfilment is garnering competitive attention**
 - Click & collect coming of age
- ▶ **Financing environment enabling competition from specialty and discount**



Near-term Group priorities

- ▶ **Continued progress of the Argos Transformation plan**
- ▶ **Homebase peak trading, and successful store refit trials**
- ▶ **Diagnose the current Group strategy and structure, and consider priorities going forward**



Richard Ashton
Finance Director



Argos – financial performance

▶ **Sales up 3.0% to £4,051m**

- 3.3% LFL; growth in sales of electrical products more than offset small declines in homewares, furniture and jewellery
- (0.3%) net space; net 3 stores closed reducing the store portfolio to 734

▶ **Gross margin rate down c.50 basis points**

- Adverse sales mix impact
- Adverse impact from net movement of FX and shipping costs
- Positive impact from a reduction in the level of stock clearance activity

▶ **Total costs increased by £5m**

- First half costs reduced by £5m
- Second half costs increased £10m

▶ **Operating profit increased by 12% to £112.3m**



Homebase – financial performance

▶ **Sales up 4.1% to £1,489m**

- 5.9% LFL; growth in sales of big ticket products throughout the year combined with growth in seasonal products which benefitted from good weather during Q2; sales across remaining categories were broadly flat
- (1.8%) net space; net 13 stores closed, in line with our plans, reducing the store portfolio to 323

▶ **Gross margin rate down c.100 basis points**

- Adverse sales mix impact
- Adverse impact from increased level of promotional sales

▶ **Total costs increased by £9m**

▶ **Operating profit increased by 71% to £18.9m**



Financial Services – financial performance

- ▶ **Credit sales increased by 8% to £681m**
- ▶ **Delinquency rate (30+ days) reduced by 50bps**
- ▶ **Operating profit flat at £6m**
- ▶ **Loan book increased by £49m to £524m**
- ▶ **Loan book asset remains fully funded from internal cash generation with no third party financing**



Benchmark operating profit

| £m | FY 14 | FY 13 | Change |
|-----------------------------------|--------------|-------------|------------|
| Argos | 112.3 | 100.3 | 12% |
| Homebase | 18.9 | 11.0 | 71% |
| Financial Services | 6.0 | 6.0 | - |
| Central Activities | (24.2) | (24.0) | (1%) |
| Benchmark operating profit | 113.0 | 93.3 | 21% |

% sales

| | | |
|--------------------------------|-------------|-------------|
| Argos | 2.8% | 2.6% |
| Homebase | 1.3% | 0.8% |
| Total Home Retail Group | 2.0% | 1.7% |



Income statement

| £m | FY 14 | FY 13 | Change |
|-----------------------------------|----------------|----------------|------------|
| Revenue | 5,663.0 | 5,475.4 | 3% |
| Cost of goods | (3,628.7) | (3,473.8) | |
| Gross margin | 2,034.3 | 2,001.6 | 2% |
| Operating and distribution costs | (1,921.3) | (1,908.3) | |
| Benchmark operating profit | 113.0 | 93.3 | 21% |
| Net interest income | 2.4 | 3.8 | |
| Post-tax result of associates | - | (6.0) | |
| Benchmark PBT | 115.4 | 91.1 | 27% |
| % sales | | | |
| Gross margin | 35.9% | 36.6% | |
| Operating and distribution costs | (33.9%) | (34.9%) | |
| Benchmark operating profit | 2.0% | 1.7% | |



Income statement

£m

| | FY 14 | FY 13 | Change |
|--|---------------|---------------|-------------|
| Benchmark PBT | 115.4 | 91.1 | 27% |
| Amortisation of acquisition intangibles | (1.8) | (1.8) | |
| Retirement benefit scheme administration costs | (1.9) | (2.1) | |
| Adjustments in respect of store impairment and property provisions | 2.1 | 14.6 | |
| Exceptional items | (41.4) | 31.3 | |
| Financing fair value remeasurements | 9.0 | (1.1) | |
| Financing impact on retirement benefit obligations | (3.3) | (4.0) | |
| Discount unwind on non-benchmark items | (6.9) | (7.1) | |
| Profit before tax | 71.2 | 120.9 | |
| Taxation on benchmark PBT | (32.5) | (29.7) | (9%) |
| Other taxation | 15.3 | (4.3) | |
| Profit for the year | 54.0 | 86.9 | |
| Benchmark PBT – tax rate | 28.2% | 30.6% | |
| Basic benchmark EPS | 10.4p | 7.7p | 35% |
| Weighted average ordinary shares for basic EPS | 795.0m | 800.6m | |
| Full-year dividend | 3.3p | 3.0p | 10% |



Balance sheet

| £m | 1 Mar 2014 | 2 Mar 2013 | Change |
|------------------------------------|----------------|----------------|---------------|
| Goodwill | 1,543.9 | 1,543.9 | - |
| PPE & intangibles | 650.3 | 604.1 | 46.2 |
| Inventories | 902.4 | 941.8 | (39.4) |
| Financial Services loan book | 524.1 | 474.7 | 49.4 |
| Other assets | 199.7 | 198.8 | 0.9 |
| Invested capital assets | 3,820.4 | 3,763.3 | 57.1 |
| Trade & other payables | (1,162.7) | (1,168.7) | 6.0 |
| Provisions | (236.1) | (217.8) | (18.3) |
| Invested capital liabilities | (1,398.8) | (1,386.5) | (12.3) |
| INVESTED CAPITAL | 2,421.6 | 2,376.8 | 44.8 |
| Retirement benefit obligations | (76.6) | (85.1) | 8.5 |
| Net tax assets | 33.0 | 10.7 | 22.3 |
| Forward foreign exchange contracts | (35.5) | 34.1 | (69.6) |
| Net cash | 331.0 | 396.0 | (65.0) |
| NET ASSETS | 2,673.5 | 2,732.5 | (59.0) |
| TOTAL LEASE COMMITMENTS | 2,627 | 2,962 | (335) |



Cash flow statement

£m

Benchmark operating profit

Exceptional items within operating profit

Retirement benefit scheme administration costs

Amortisation of acquisition intangibles

Adjustments in respect of store impairment and property provisions

Statutory operating profit

Depreciation and amortisation

Movement in trade working capital

Movement in Financial Services loan book

Financing costs charged to Financial Services

Cash flow impact of restructuring charges

Pension scheme deficit recovery payments

Other items

Cash flows from operating activities

FY 14

FY 13

113.0

93.3

(41.4)

31.3

(1.9)

(2.1)

(1.8)

(1.8)

2.1

14.6

70.0

135.3

129.5

124.7

18.4

131.9

(49.4)

(18.0)

3.3

3.1

(28.2)

(9.0)

(22.0)

(8.0)

39.4

(37.9)

161.0

322.1



Cash flow statement

| £m | FY 14 | FY 13 |
|---|---------------|--------------|
| Cash flows from operating activities | 161.0 | 322.1 |
| Net capital expenditure | (173.1) | (78.7) |
| Taxation | (17.6) | (26.1) |
| Net interest | 0.6 | 1.7 |
| Other investments | 25.2 | (11.6) |
| Cash inflow before financing activities | (3.9) | 207.4 |
| Dividends paid | (23.9) | (8.0) |
| Purchase of own shares for Employee Share Trust | (37.1) | - |
| Change in cash and cash equivalents | (64.9) | 199.4 |
| Effect of foreign exchange rate changes | (0.1) | 2.3 |
| Change in financing net cash | (65.0) | 201.7 |
| Opening financing net cash | 396.0 | 194.3 |
| Closing financing net cash | 331.0 | 396.0 |



FY15 modelling assumptions – P&L

| | Argos | Homebase |
|----------------------------|-----------|-----------|
| Net store number change | c.20 | c.(10) |
| Net space change | c.0% | c.(2%) |
| Gross margin rate movement | c.(25bps) | c.(50bps) |

- ▶ Planning for a subdued consumer environment
- ▶ Absolute level of costs expected to increase by c.£20m (FY14: £13m increase)
- ▶ A reduction in PPI profit in Argos of c.£5m
- ▶ Effective tax rate on benchmark PBT estimated at c.26% (FY14: 28.2%)
- ▶ Exceptional costs in FY14 to FY16 in respect of the Argos Transformation plan are still expected to total c.£50m of which £19m was incurred in FY14. Remaining costs expected to be c.£20m in FY15 and c.£10m in FY16
- ▶ Exceptional cost of c.£12m in FY15 in respect of outsourcing the management of the Group's information systems infrastructure and associated services
- ▶ FY15 interim dividend to be held flat at 1.0p



FY15 modelling assumptions – cash flow

- ▶ Trade working capital expected to be neutral (FY14: £18m inflow)
- ▶ Financial Services loan book expected to be a small outflow (FY14: £49m outflow)
- ▶ Capital expenditure of c.£200m (FY14: £173m)
- ▶ Other cash flow items:
 - Cash element of exceptional restructuring charges of c.£30m (FY14: £28m)
 - Purchase of own shares for employee share schemes of c.£40m (FY14: £37m)
 - Pension scheme deficit recovery payment of £22m (FY14: £22m)
- ▶ **Total cash outflow expected to be c.£75m (FY14: £65m outflow)**



Homebase Update



FY14 Homebase trading performance

▶ **Strong sales performance**

- LFL sales up 5.9%
- Strong garden performance in first half
- Big ticket performing well

▶ **Good performance from store refit and multi-channel investments**

▶ **Profit growth of 71%**



Transformed store experience

► Store refits accelerated

- 12 refits completed in FY14

► Refitted stores performing well

- Sales uplifts of 15-20%
- Strong customer feedback
- Version 2 - Worcester

► Improvements / enhancements in service

- Implemented in over 70 stores in FY14
- Full rollout to be completed in FY15

► “Paint us a picture”

- Continued increase in satisfaction driven by great service
- 10% improvement in service ratings





Step changing multi-channel capability

► Online sales growing

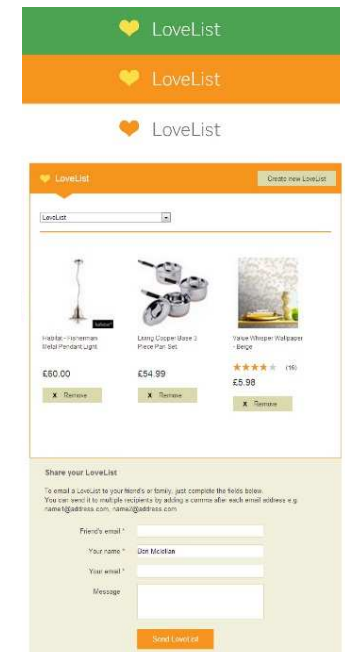
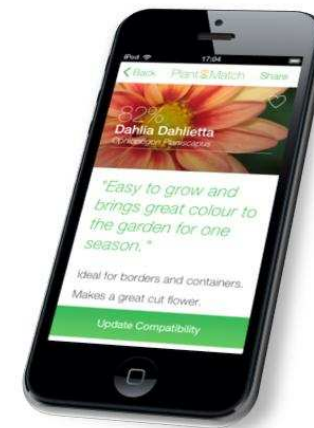
- Sales +53% to 7% participation
- Visitors +30%
- Mobile visits +71%
- Reserve and Collect +47%



► Continual development

- Next day/named day delivery service
- Coupon at till

► Re-launched website





Enhanced products and brands



habitat 



LAURA ASHLEY



QUALCAST



Odina
LIVE • LOVE • COOK



SCHREIBER



hygena



Argos Update



Reinvent



as a digital retail leader



FY14 Argos trading performance

- ▶ **Good sales performance**
 - LFL sales up 3.3%
 - Operating profit of £112m, up 12%
- ▶ **44% of sales digitally-led; sales from mobile commerce up 89% to 18% of sales**
- ▶ **Increased web visits driven by improvements to digital experience**
- ▶ **Check & Reserve increased to 32% of total sales**



Transformation elements





Reposition channels for digital future – Digital: FY14 progress

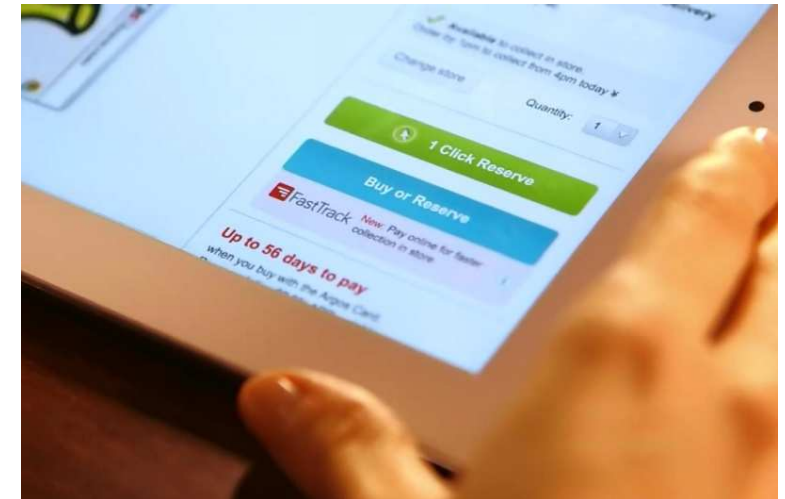
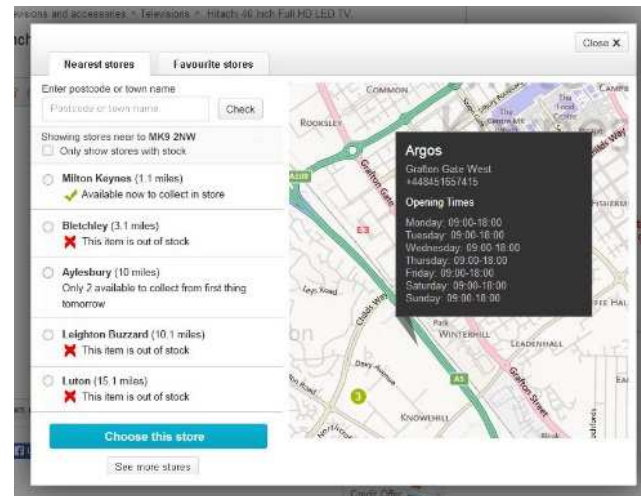
- ▶ **Ongoing improvement of the customer experience across digital channels**
- ▶ **Executed first large scale technology upgrade**
- ▶ **New innovative digital gift guide**
- ▶ **Launched the Digital Innovation Hub**





Reposition channels for digital future – Digital: FY15 plans

- ▶ **New payment gateway providing credit card storage, online prepayment and improved checkout**
- ▶ **Faster, easier search and browse**
- ▶ **Ability to search for products by stock**
- ▶ **Upgraded digital trading capabilities**





Reposition channels for digital future – Stores: FY14 progress

- ▶ **Launched and successfully trialled 6 digital concept stores; strong customer feedback**
- ▶ **Fast Track collection, Wifi, tablet browsers**
- ▶ **Navigators and store service improvements**





Reposition channels for digital future – Stores: FY15 plans

- ▶ **Iterate and further extend pilot of digital concept stores**
- ▶ **Fast Track collection, including voice stock picking**
- ▶ **Trial Argos stores within Homebase**
- ▶ **London small format trial**





Reposition channels for digital future – Catalogue: FY14 progress and FY15 plans

- ▶ **Digital gift guide launched in FY14**
- ▶ **Current catalogue available to browse via Argos website**
- ▶ **Trial of 'mini-sized' catalogue outside London**
- ▶ **Trial of 1,000 page Autumn/Winter catalogue**





More choice available faster – FY14 progress

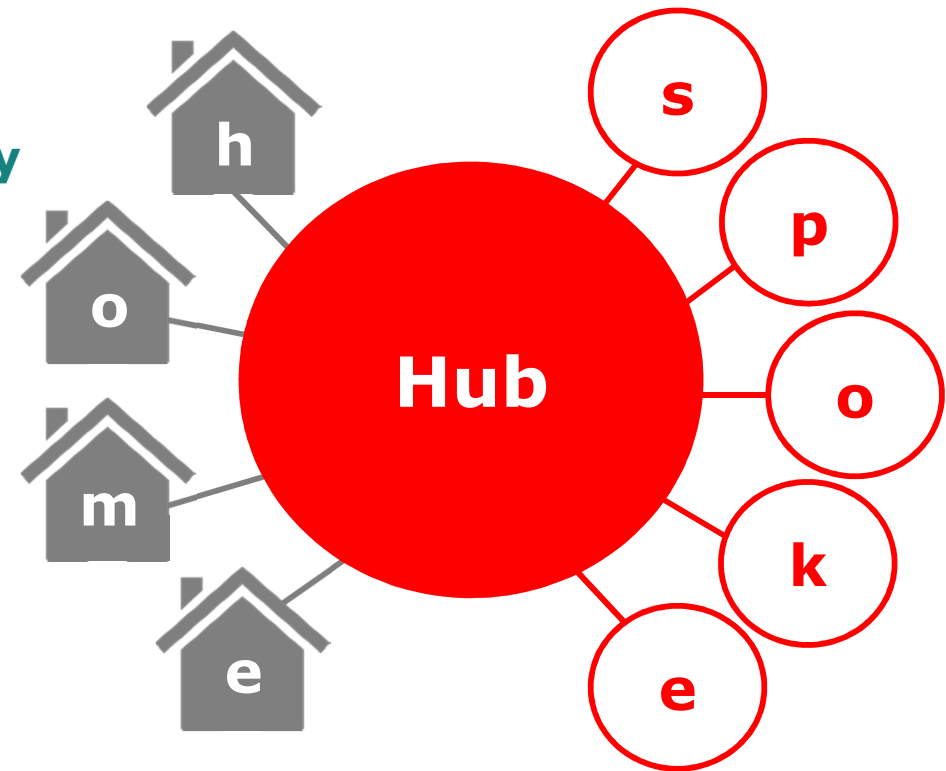
- ▶ **Successful operational trial of 'hub & spoke' same and next day collection**
- ▶ **Implemented upgrade to single view of stock system**
- ▶ **Launched and successfully progressed eBay click & collect trial with over 100 vendors operational at c.150 stores**





More choice available faster – FY15 plans

- ▶ **National roll out of 'hub & spoke' – offering same and next day collection on extended ranges, and improved product availability**
- ▶ **Launch trial of 'hub-to-home' express delivery offer**
- ▶ **Launch trial of next day large item delivery offer**





Universal customer appeal – FY14 progress

- ▶ **Expanded product ranges with c.9,000 new lines, now offering c.43,000 lines**
 - Extended offer of higher specification products, including new lines of existing brands and new brands
- ▶ **Launched dynamic trading tools**
- ▶ **Increased customer registrations to 11.6 million, and improved personalised marketing**

Emma Bridgewater
Feels like home

MONSOON



BABYBJÖRN®



Universal customer appeal – FY15 plans

- ▶ **Continue to grow and enhance product ranges, targeting c.15,000 additional lines in FY15**
- ▶ **Consolidate and focus existing exclusive brands**
- ▶ **Launch two power brands in toys and home categories**
- ▶ **Increase registered customers to further improve customer insight**



FY15 milestones

Reposition Channels for Digital Future

- ▶ Digital improvements including search, payment and checkout
- ▶ Extend digital concept store pilot to a further c.25 stores
- ▶ Trial Argos inserts in Homebase stores
- ▶ Trial London small store format
- ▶ Trial of smaller catalogue

More Choice Available Faster

- ▶ 'Hub & spoke' national rollout
- ▶ Fast Track collection/voice pick national rollout
- ▶ 'Hub-to-home' express delivery trial
- ▶ Express large item delivery trial

Universal Customer Appeal

- ▶ Extend ranges with additional 15,000 lines
- ▶ Add new aspirational brands
- ▶ Launch of two exclusive power brands
- ▶ Further growth of registered customers



Group summary

- ▶ **Successful trading throughout FY14**
- ▶ **Group benchmark EPS growth of 35%**
- ▶ **Increased full-year dividend to 3.3p**
- ▶ **Year-end cash of £331m**
- ▶ **Good progress on strategic growth plans**
- ▶ **Ambitious but achievable plans for FY15**



Q&A



Appendix



IAS19 restatement – PBT & cash flow

| | FY 13 Reported | FY 13 Adjustment | FY 13 Restated |
|---|-------------------|---------------------|-------------------|
| Benchmark PBT | 91.1 | - | 91.1 |
| Amortisation of acquisition intangibles | (1.8) | - | (1.8) |
| Retirement benefit scheme administration costs | - | (2.1) | (2.1) |
| Adjustments in respect of store impairments and property provisions | 14.6 | - | 14.6 |
| Exceptional items | 31.3 | - | 31.3 |
| Financing fair value remeasurements | (1.1) | - | (1.1) |
| Financing impact on retirement benefit obligations | 3.1 | (7.1) | (4.0) |
| Discount unwind on non-benchmark items | (7.1) | - | (7.1) |
| Profit before tax | 130.1 | (9.2) | 120.9 |
| Benchmark operating profit | 93.3 | - | 93.3 |
| Retirement benefit scheme administration costs | - | (2.1) | (2.1) |
| Other items | 44.1 | - | 44.1 |
| Statutory operating profit | 137.4 | (2.1) | 135.3 |
| Movement in retirement benefit obligations | (36.3) | 2.1 | (34.2) |
| All other cash flow items | 100.6 | - | 100.6 |
| Change in financing net cash | 201.7 | - | 201.7 |



Cost productivity

| £m | Argos | | | | | Homebase | | | | | Group | | | | |
|---|-----------|-----------|-------------|-----------|-----------|------------|-----------|-------------|-------------|-----------|------------|-----------|-------------|-----------|-----------|
| | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
| Total sales change | 20 | (40) | (90) | 15 | 35 | 30 | (10) | (20) | (40) | 30 | 45 | (50) | (120) | (10) | 65 |
| Add: underlying cost inflation | 25 | 10 | 25 | 20 | 20 | 10 | 10 | 15 | 15 | 10 | 35 | 20 | 40 | 30 | 35 |
| Equals: potential total operating cost change | 45 | (30) | (65) | 35 | 55 | 40 | 0 | (5) | (25) | 40 | 80 | (30) | (80) | 20 | 100 |
| Versus: actual total operating cost change | (15) | (45) | 0 | (10) | 5 | (40) | (15) | 5 | (15) | 10 | (55) | (60) | 5 | (20) | 15 |
| Equals: cost productivity | 60 | 15 | (65) | 45 | 50 | 80 | 15 | (10) | (10) | 30 | 135 | 30 | (85) | 40 | 85 |
| Total sales change | 2% | (4%) | (8%) | 1% | 3% | 4% | (1%) | (3%) | (5%) | 4% | 2% | (3%) | (6%) | (1%) | 3% |
| Add: underlying cost inflation | 2% | 1% | 2% | 2% | 2% | 1% | 1% | 2% | 2% | 1% | 2% | 1% | 2% | 2% | 2% |
| Equals: potential total operating cost change | 4% | (3%) | (6%) | 3% | 5% | 5% | 0% | (1%) | (3%) | 5% | 4% | (2%) | (4%) | 1% | 5% |
| Versus: actual total operating cost change | (1%) | (4%) | 0% | (1%) | 1% | (5%) | (2%) | 1% | (2%) | 1% | (3%) | (3%) | 0% | (1%) | 1% |
| Equals: cost productivity | 5% | 1% | (6%) | 4% | 4% | 10% | 2% | (2%) | (1%) | 4% | 7% | 1% | (4%) | 2% | 4% |

- All figures are approximates to the nearest whole percentage point or £5m and are based on total costs being the sum of operating costs and distribution costs.
- Group represents the total of Argos, Homebase and all other operating areas. The sum of Argos and Homebase will not therefore necessarily equal the group total.



Net interest and Financial Services

£m

FY 14

FY 13

Net interest

Bank deposits and other interest

0.3

1.9

Financing costs charged to Financial Services

3.3

3.1

Discount unwind on benchmark items

(1.2)

(1.2)

Net interest income

2.4

3.8

Financing fair value remeasurements

9.0

(1.1)

Financing impact on retirement benefit obligations

(3.3)

(4.0)

Discount unwind on non-benchmark items

(6.9)

(7.1)

Income statement net financing charge

1.2

(8.4)

Financial Services

Benchmark operating profit before financing costs

9.3

9.1

Financing costs charged by Group

(3.3)

(3.1)

Benchmark operating profit

6.0

6.0



Exceptional items

| £m | FY 14 | FY 13 |
|--|----------------------|--------------------|
| Payment Protection Insurance | (25.0) | - |
| Argos transformation and other restructuring charges | (27.8) | - |
| Warranty insurance | 11.4 | - |
| Net gain on employee benefits | - | 31.3 |
| Total exceptional items | <u>(41.4)</u> | <u>31.3</u> |



Balance sheet

| £m | 27 Feb 2010 | 26 Feb 2011 | 3 Mar 2012 | 2 Mar 2013 | 1 Mar 2014 |
|------------------------------------|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
| Goodwill | 1,541.0 | 1,541.0 | 1,543.9 | 1,543.9 | 1,543.9 |
| PPE & intangibles | 617.8 | 631.2 | 653.4 | 604.1 | 650.3 |
| Inventories | 935.4 | 1,016.8 | 933.2 | 941.8 | 902.4 |
| Financial Services loan book | 429.4 | 456.1 | 456.7 | 474.7 | 524.1 |
| Other assets | 178.1 | 181.7 | 167.4 | 198.8 | 199.7 |
| Invested capital assets | <u>3,701.7</u> | <u>3,826.8</u> | <u>3,754.6</u> | <u>3,763.3</u> | <u>3,820.4</u> |
| Trade & other payables | (1,104.9) | (1,106.2) | (1,000.7) | (1,168.7) | (1,162.7) |
| Provisions | <u>(219.1)</u> | <u>(207.8)</u> | <u>(235.3)</u> | <u>(217.8)</u> | <u>(236.1)</u> |
| Invested capital liabilities | <u>(1,324.0)</u> | <u>(1,314.0)</u> | <u>(1,236.0)</u> | <u>(1,386.5)</u> | <u>(1,398.8)</u> |
| INVESTED CAPITAL | 2,377.7 | 2,512.8 | 2,518.6 | 2,376.8 | 2,421.6 |
| Retirement benefit obligations | (24.9) | (7.5) | (115.3) | (85.1) | (76.6) |
| Net tax assets | 52.1 | 4.6 | 24.7 | 10.7 | 33.0 |
| Forward foreign exchange contracts | 47.7 | (28.0) | 3.1 | 34.1 | (35.5) |
| Net cash | 414.0 | 259.3 | 194.3 | 396.0 | 331.0 |
| NET ASSETS | <u>2,866.6</u> | <u>2,741.2</u> | <u>2,625.4</u> | <u>2,732.5</u> | <u>2,673.5</u> |



Cash flow – management reporting view

| £m | FY 07 | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|-----------------------------|--------------|------------|------------|------------|--------------|-------------|------------|-------------|
| Benchmark PBT | 377 | 433 | 328 | 293 | 254 | 102 | 91 | 115 |
| Depreciation | 146 | 152 | 159 | 130 | 128 | 126 | 125 | 130 |
| EBITDA | 523 | 585 | 487 | 423 | 382 | 228 | 216 | 245 |
| Working capital - trade | 145 | (33) | (18) | 75 | (63) | 5 | 132 | 18 |
| Working capital - loan book | (18) | (15) | 8 | (5) | (27) | (5) | (18) | (49) |
| Taxation | (102) | (95) | (75) | (107) | (11) | (27) | (26) | (18) |
| Restructuring costs | - | - | (3) | (17) | (7) | (4) | (9) | (28) |
| Pension deficit | - | - | - | (17) | (12) | (10) | (8) | (22) |
| Other | (28) | 43 | 13 | 2 | 7 | 9 | 11 | 10 |
| Operating cash flow | 520 | 485 | 412 | 354 | 269 | 196 | 298 | 156 |
| Capital expenditure | (159) | (208) | (153) | (89) | (143) | (131) | (79) | (173) |
| Dividends | (97) | (119) | (127) | (126) | (124) | (118) | (8) | (24) |
| (Acquisitions)/disposals | (4) | (44) | - | - | - | (25) | (9) | 13 |
| Share purchase - incentives | - | - | (22) | (9) | (7) | - | - | (37) |
| Share purchase - buyback | - | - | - | - | (150) | - | - | - |
| Week 53 - cash flow | - | - | - | - | - | 13 | - | - |
| Total cash flow | 260 | 114 | 110 | 130 | (155) | (65) | 202 | (65) |
| Opening net cash | (200) | 60 | 174 | 284 | 414 | 259 | 194 | 396 |
| Total cash flow | 260 | 114 | 110 | 130 | (155) | (65) | 202 | (65) |
| Closing net cash | 60 | 174 | 284 | 414 | 259 | 194 | 396 | 331 |



Movement in working capital

| £m | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|------------------------------------|-------------|---------------|------------|--------------|---------------|
| Inventories | (5.1) | (81.4) | 93.2 | (8.6) | 39.4 |
| Trade & other receivables | 16.4 | (0.8) | 16.9 | (22.9) | (25.0) |
| Trade & other payables | 63.2 | 19.0 | (105.4) | 163.4 | 4.0 |
| Total trade working capital | 74.5 | (63.2) | 4.7 | 131.9 | 18.4 |
| Financial Services loan book | (4.9) | (26.7) | (4.7) | (18.0) | (49.4) |
| Total working capital | 69.6 | (89.9) | - | 113.9 | (31.0) |



Financial Services loan book

| £m | 27 Feb 2010 | 26 Feb 2011 | 3 Mar 2012 | 2 Mar 2013 | 1 Mar 2014 |
|---------------------------------------|----------------|----------------|---------------|---------------|---------------|
| Revolving gross loan book | 277 | 289 | 277 | 281 | 299 |
| Promotional gross loan book | 220 | 241 | 258 | 266 | 295 |
| Total gross loan book | 497 | 530 | 535 | 547 | 594 |
| Provision | (68) | (74) | (78) | (72) | (70) |
| Total net loan book | 429 | 456 | 457 | 475 | 524 |
| Provision % of gross loan book | 13.6% | 14.0% | 14.7% | 13.2% | 11.8% |
| Delinquency (30+ days) | 8.5% | 7.0% | 6.5% | 6.2% | 5.7% |



Capital expenditure

| £m | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|--|--------------|--------------|--------------|--------------|--------------|
| New stores | (25) | (10) | (12) | - | (3) |
| Store enhancement & refurbishment | (24) | (52) | (49) | (25) | (28) |
| Distribution & supply chain | (5) | (7) | (9) | (7) | (23) |
| Other | (35) | (56) | (65) | (49) | (121) |
| Gross capital expenditure | (89) | (125) | (135) | (81) | (175) |
| Purchase of central office freehold | - | (21) | - | - | - |
| Acquired brands – intangible assets | (2) | - | - | - | - |
| Total gross capital expenditure | (91) | (146) | (135) | (81) | (175) |
| Property, plant & equipment | (74) | (102) | (97) | (56) | (72) |
| Intangible assets | (17) | (44) | (38) | (25) | (103) |
| Total gross capital expenditure | (91) | (146) | (135) | (81) | (175) |
| Proceeds from disposals | 2 | 3 | 4 | 2 | 2 |
| Total net capital expenditure | (89) | (143) | (131) | (79) | (173) |
| Depreciation | (130) | (128) | (126) | (125) | (130) |
| Gross capital expenditure to depreciation ratio | 0.7x | 1.1x | 1.1x | 0.6x | 1.3X |



Store lease profile

| | ARGOS | | | HOMEBASE | | | TOTAL | | |
|------------------------------------|--------------|--------------|--------------|-------------|-------------|-------------|--------------|--------------|--------------|
| | FY12 | FY13 | FY14 | FY12 | FY13 | FY14 | FY12 | FY13 | FY14 |
| FY 13 | c.30 | - | - | c.10 | - | - | c.40 | - | - |
| FY 14 | c.40 | c.35 | - | c.20 | c.20 | - | c.60 | c.55 | - |
| FY 15 | c.45 | c.40 | c.35 | c.10 | c.10 | c.10 | c.55 | c.50 | c.45 |
| FY 16 | c.55 | c.55 | c.55 | c.20 | c.20 | c.20 | c.75 | c.75 | c.75 |
| FY 17 | c.60 | c.65 | c.70 | c.5 | c.5 | c.5 | c.65 | c.70 | c.75 |
| FY 18 | - | c.80 | c.80 | - | c.15 | c.15 | - | c.95 | c.95 |
| FY 19 | - | - | c.90 | - | - | c.15 | - | - | c.105 |
| Total expiries & breaks | c.230 | c.275 | c.330 | c.65 | c.70 | c.65 | c.295 | c.345 | c.395 |
| Total store portfolio | 748 | 737 | 734 | 341 | 336 | 323 | 1,089 | 1,073 | 1,057 |
| Total of store portfolio | 31% | 37% | 45% | 19% | 21% | 20% | 27% | 32% | 37% |
| Average remaining years | 7.1 | 6.3 | 5.5 | 10.0 | 9.3 | 8.9 | | | |



Capital structure metrics

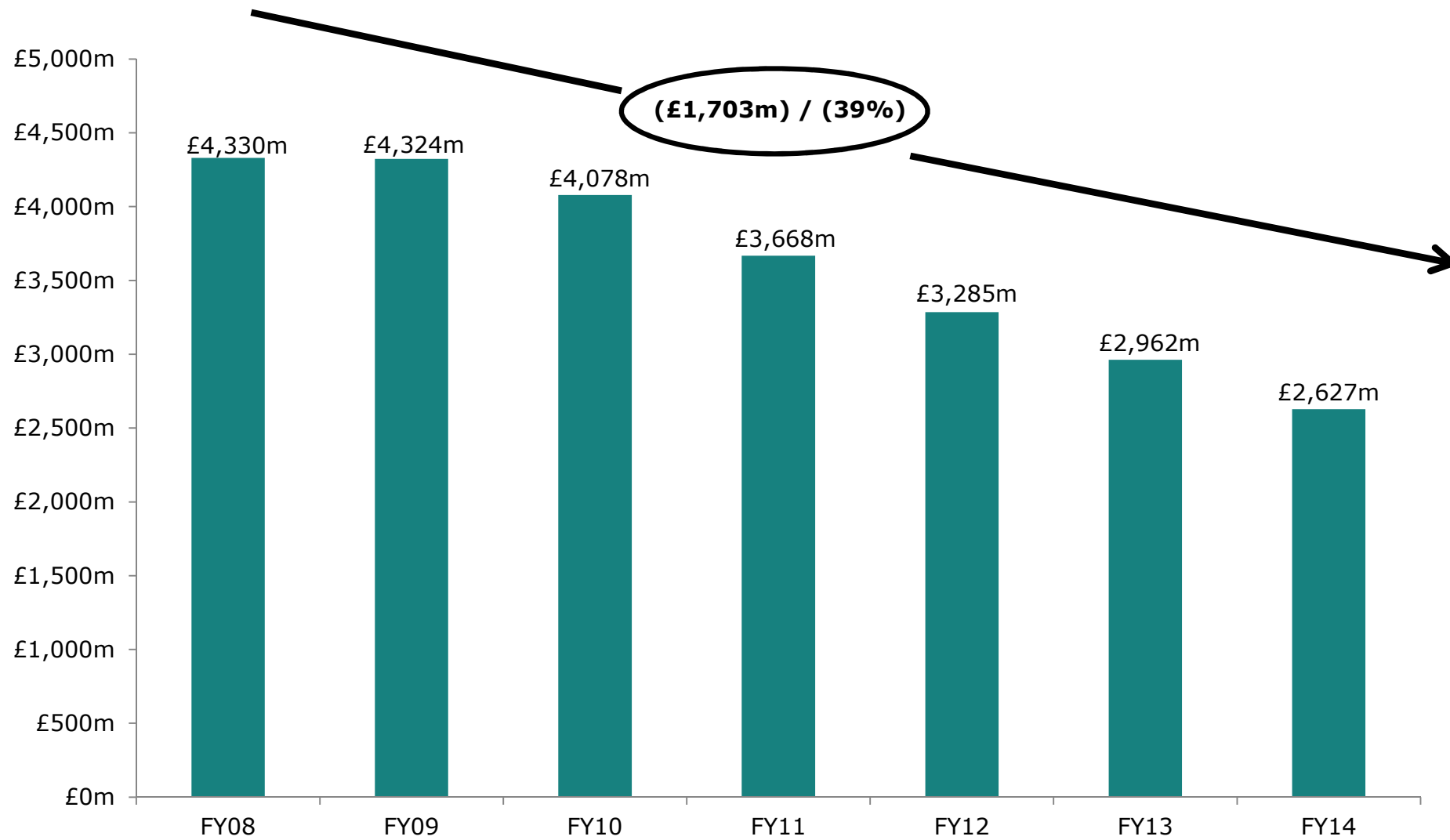
| £m | FY 06 | FY 07 | FY 08 | FY 09 | FY 10 | FY 11 | FY 12 | FY 13 | FY 14 |
|---|--------------------------|--------------------------|----------------|----------------|----------------|----------------|--------------------------|----------------|----------------|
| Benchmark PBT | 337.1 | 376.7 | 432.9 | 327.7 | 292.9 | 254.1 | 101.6 | 91.1 | 115.4 |
| Add : benchmark dpr and amort | 134.9 | 147.5 | 151.6 | 159.4 | 130.1 | 127.5 | 124.5 | 122.9 | 127.7 |
| Add : lease rental expense | 299.2 | 328.2 | 344.8 | 372.8 | 379.1 | 370.8 | 363.6 | 353.9 | 347.9 |
| Deduct : interest income | (9.5) | (16.6) | (33.3) | (29.7) | (5.2) | (3.2) | (3.4) | (3.8) | (2.4) |
| Total EBITDAR | 761.7¹ | 835.8¹ | 896.0 | 830.2 | 796.9 | 749.2 | 586.3¹ | 564.1 | 588.6 |
| Total lease commitments | 4,043 | 4,206 | 4,330 | 4,324 | 4,078 | 3,668 | 3,285 | 2,962 | 2,627 |
| <u>Lease multiplier methodology (x8)</u> | | | | | | | | | |
| Financing net (debt)/cash | (200) | 60 | 174 | 284 | 414 | 259 | 181 ² | 396 | 331 |
| Capitalised lease rental expense | (2,394) | (2,626) | (2,758) | (2,982) | (3,033) | (2,966) | (2,909) | (2,831) | (2,783) |
| Total adjusted net debt | (2,594) | (2,566) | (2,584) | (2,698) | (2,619) | (2,707) | (2,728) | (2,435) | (2,452) |
| Adjusted net debt / EBITDAR ratio | 3.4x | 3.1x | 2.9x | 3.2x | 3.3x | 3.6x | 4.7x | 4.3x | 4.2x |
| <u>Lease discount methodology (NPV)</u> | | | | | | | | | |
| Financing net (debt)/cash | (200) | 60 | 174 | 284 | 414 | 259 | 181 ² | 396 | 331 |
| Capitalised lease rental expense | (2,795) | (2,920) | (3,057) | (3,304) | (3,148) | (2,874) | (2,702) | (2,362) | (2,046) |
| Total adjusted net debt | (2,995) | (2,860) | (2,883) | (3,020) | (2,734) | (2,615) | (2,521) | (1,966) | (1,715) |
| Adjusted net debt / EBITDAR ratio | 3.9x | 3.4x | 3.2x | 3.6x | 3.4x | 3.5x | 4.3x | 3.5x | 2.9x |
| Fixed charge cover (EBITDAR/rent+interest) | 2.6x | 2.7x | 2.9x | 2.4x | 2.1x | 2.0x | 1.6x | 1.6x | 1.7x |

1 The total EBITDAR has been calculated on a 52-week pro forma basis for FY 06, FY 07 & FY 12

2 The net cash position for FY12 is as at the 52-week proforma year end date. Net cash as at 3 March 2012 was £194m



Gross lease commitments





Financial calendar

| | |
|-------------------|---|
| 21 May 2014 | - <i>Final ex-dividend date</i> |
| 12 June 2014 | - <i>Interim Management Statement</i> |
| 2 July 2014 | - <i>Annual General Meeting</i> |
| 23 July 2014 | - <i>Final dividend to be paid</i> |
| 11 September 2014 | - <i>Second Quarter Trading Statement</i> |
| 22 October 2014 | - <i>Half-Year Results</i> |
| 12 November 2014 | - <i>Interim ex-dividend date</i> |
| 15 January 2015 | - <i>Interim Management Statement</i> |
| 21 January 2015 | - <i>Interim dividend to be paid</i> |
| 12 March 2015 | - <i>End of Year Trading Statement</i> |



Investor relations contacts

For investor information and related services, including copies of all presentations, visit:

www.homeretailgroup.com/investor-centre/

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Investor Pack
May 2014



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Section 1: Group overview

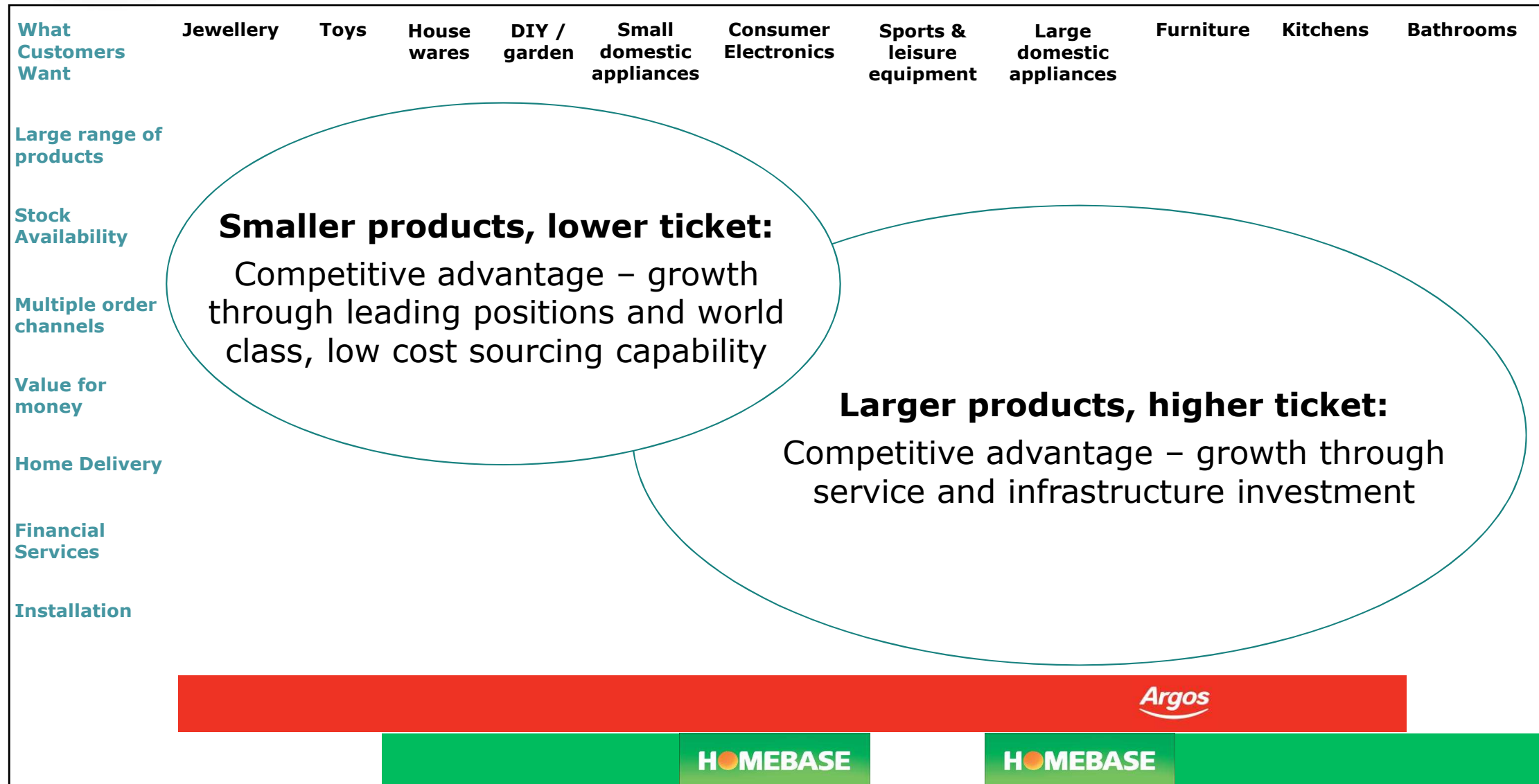


Home Retail Group – history

- ▶ Argos was purchased by GUS plc in April 1998. At acquisition, the Argos proposition was primarily a single-channel catalogue store offering through 435 stores, selling a smaller range of general merchandise. Its core categories were jewellery, toys, electricals and housewares.
- ▶ In 2000, Argos Retail Group was created with the combination of Argos, the GUS home shopping businesses in the UK and Europe, and the Reality UK home delivery operations. GUS subsequently sold the other non-Argos operations between 2003 and 2006.
- ▶ In December 2002 GUS plc acquired Homebase, the UK's second largest home improvement retailer, which operated from 272 stores. The acquisition expanded the combined product portfolio of Argos and Homebase and offered the opportunity to increase sales in common product areas such as indoor and outdoor furniture, housewares, gardening products and power tools. This overlap in products drove scale economies in merchandise buying and the benefit from significant synergies in operating the two businesses. The Homebase business also gave access to a different customer demographic than the one primarily served by Argos.
- ▶ In 2000, a financial services operation was launched, which offered a range of credit and insurance products to Argos customers. This offering was developed, operated and funded in-house to ensure that the financial services products fully supported the retail offering. Following the acquisition of Homebase, the business has supported the launch of the Homebase store card.
- ▶ In October 2006 GUS demerged, creating Home Retail Group plc.



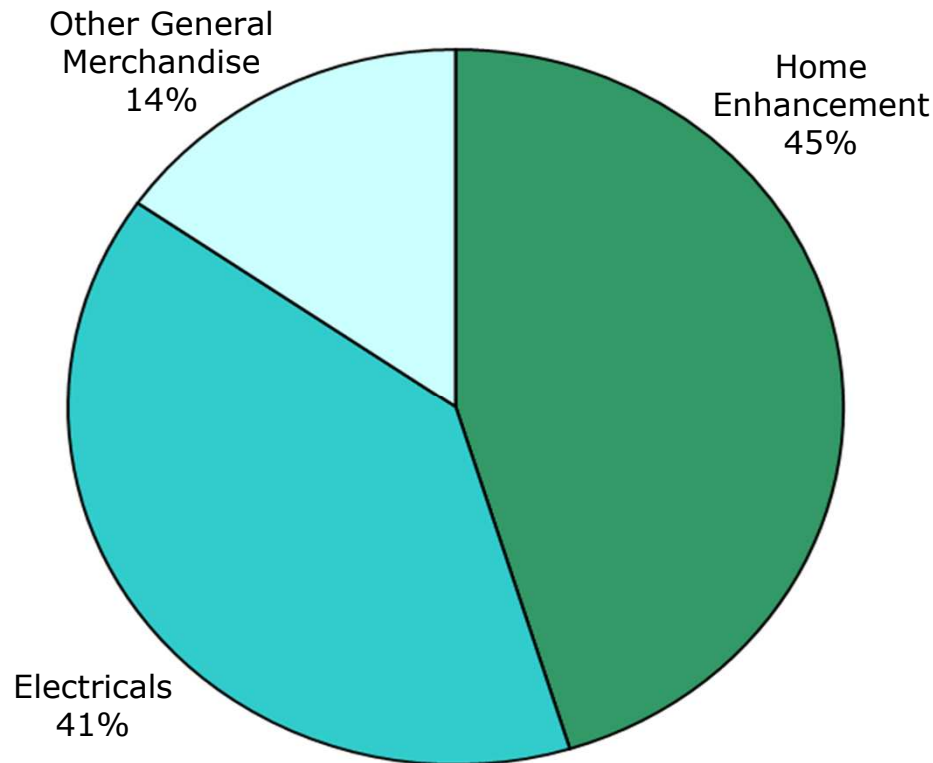
Home Retail Group product categories





Home Retail Group is the UK's leading home and general merchandise retailer

Home Retail Group retail sales: £5.5bn

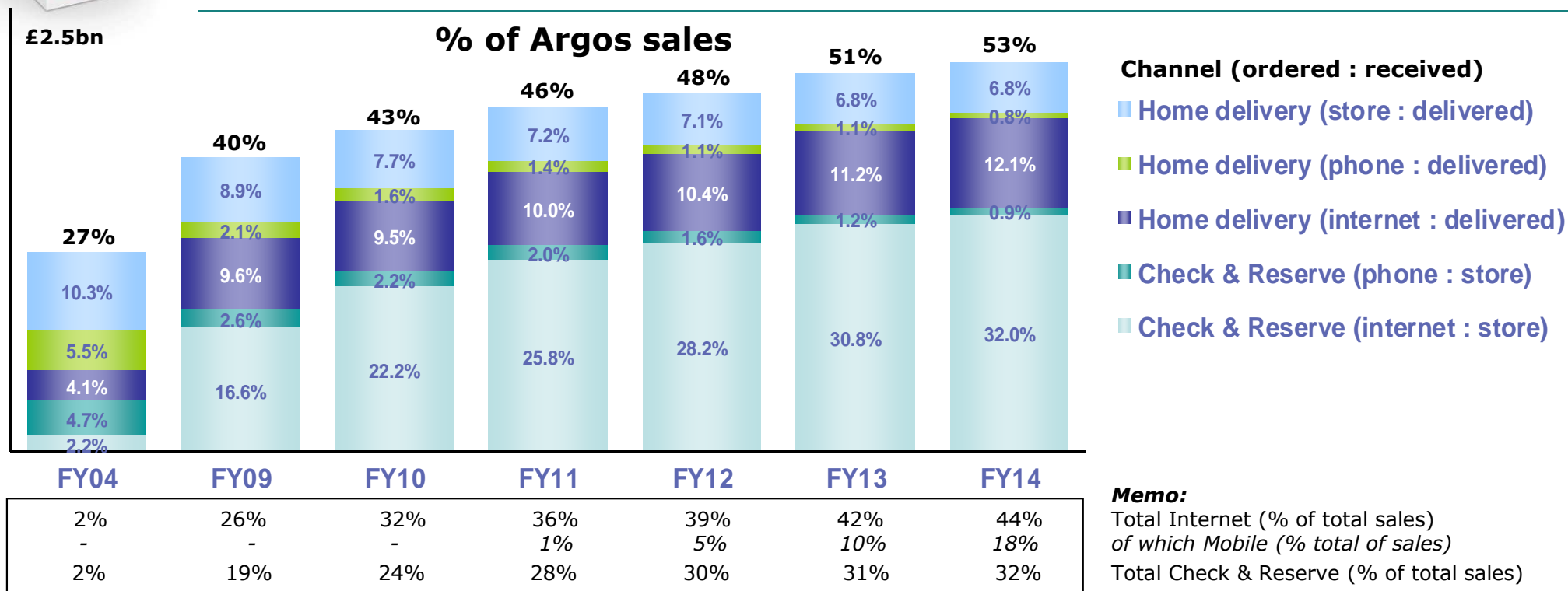


52 weeks to 1 March 2014

- ▶ Home enhancement markets
 - Housewares
 - Furniture
 - DIY/decorating
 - Fitted kitchens and bathrooms
 - Horticulture, garden furniture and outdoor living
- ▶ Electricals
 - Consumer electronics
 - Computers, tablets, e-readers
 - VGS
 - Photography
 - Telecoms
 - Office equipment
 - Audio-visual goods
 - Satellite navigation
 - Accessories
 - Small and large domestic appliances
- ▶ Other general merchandise
 - Jewellery
 - Toys
 - Sports & leisure equipment



Multi-channel leadership



► 53% of Argos sales are multi-channel

- Online Check & Reserve via a mobile device is the fastest growing channel
- Internet orders in total represent 42% of all sales
- Mobile shopping (included within Check & Reserve and Home Delivery) now represents 18% of total sales in FY14.

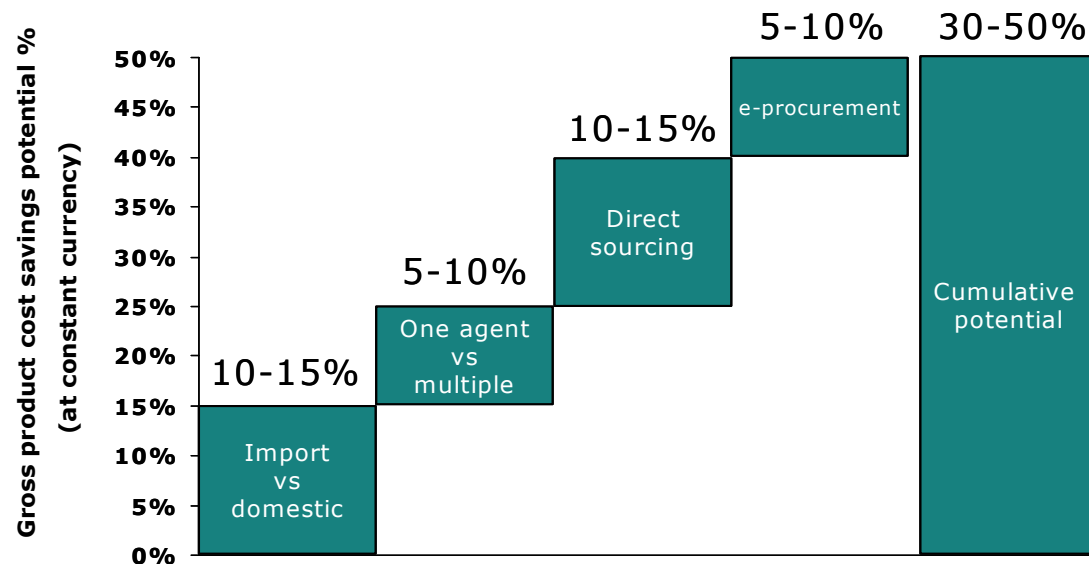
► Homebase embarking on multi-channel opportunities

- Launch of new site and apps, multi-channel sales penetration now 7% of total sales in FY14
- Circa 38,000 Homebase products online, of which around 32,000 are transactional

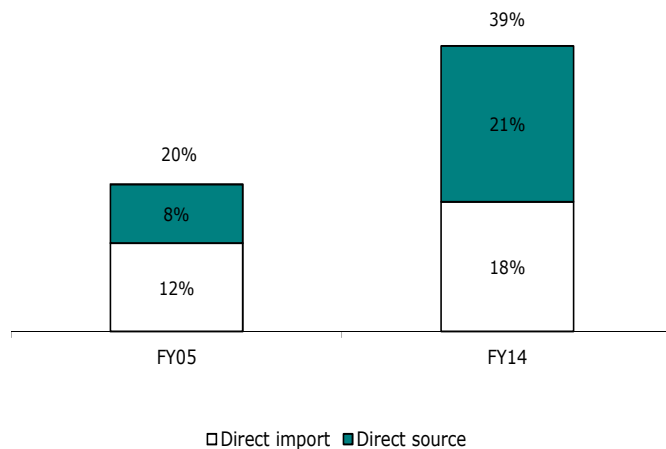


Leveraging scale

Strategic Sourcing – the potential benefits

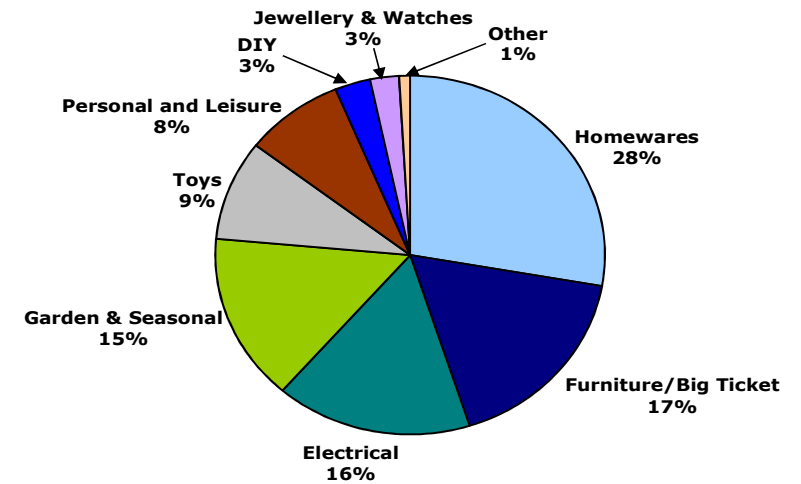


Home Retail Group DI/DS % of sales

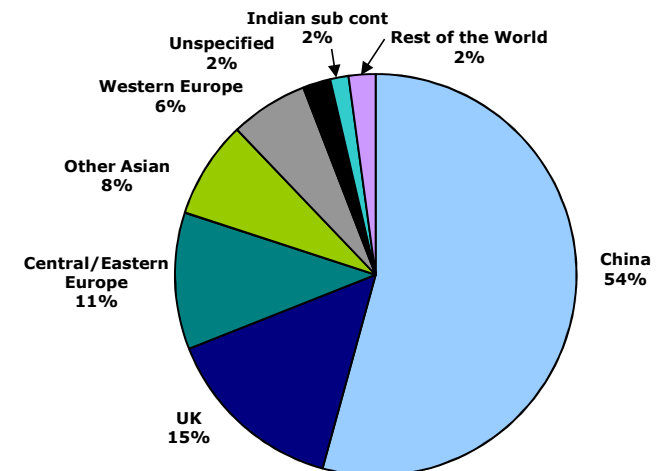


Sourcing initiatives across both businesses and all major product groups

Direct sourcing by product category



Home Retail Group cost of sales analysis by country of origin





Section 2: Argos



Argos – history

The journey to store

- ▶ Created in 1973 as part of a loyalty scheme. Green shield stamps could be collected at petrol stations etc and exchanged for gifts selected from a mini-book.
- ▶ Expanded into a catalogue so that customers could make direct purchases from the gift book and collect in store.
- ▶ Argos was purchased by GUS plc in April 1998. At acquisition, the Argos proposition was primarily a single-channel catalogue store offering through 435 stores, selling a smaller range of general merchandise. Its core categories were jewellery, toys, electricals and housewares.
- ▶ The use of the catalogue makes Argos a non or low-display based format with a smaller proportion of customer area.
- ▶ The average store size including the stock room is c. 15k sq ft with customer areas occupying c. 3k sq ft. The total c.734 store estate covers 11m sq ft.
- ▶ The catalogue, which is collected from store bi-annually, now holds c.20,000+ products.
- ▶ c.25 million catalogues are printed in two print runs each year (spring/summer and autumn/winter).
- ▶ Customers can chose to order in-store, online, on the phone or through our smartphone and tablet apps and have the option to Check & Reserve for immediate collection in-store or have the product home delivered for a very competitive fee.





Argos - overview

Competitive strengths

- ▶ Convenience: unique way to shop that integrates stores, internet and telephone, whether at home or whilst on the move
- ▶ Choice: information-rich catalogue of 20,000+ products with around an additional 23,000 products available online only
- ▶ Value: history of reinvesting cost and buying efficiencies
- ▶ Supported by extensive Home Retail Group infrastructure capabilities
 - Sourcing and logistics
 - Home delivery
 - Financial Services
- ▶ Proposition attracts large, loyal customer base
- ▶ Our unique stock system provides transparency and flexibility which enables certainty and immediacy of stock across our nationwide network of stores, allowing a fully convenient offer to our customers

Routes to growth

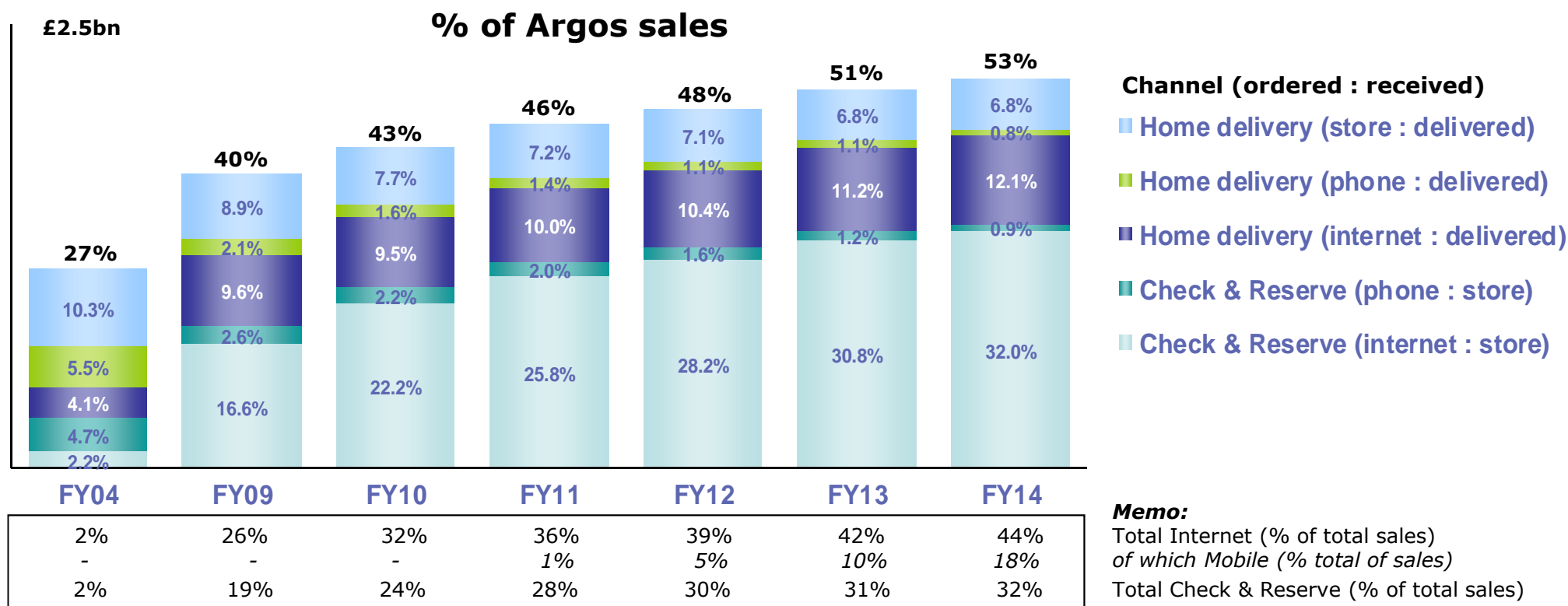
- ▶ Transforming Argos into a digital retail leader:
- ▶ Reposition channels for a digital future
- ▶ More choice available faster
- ▶ Universal customer appeal
- ▶ Supported by a lean and flexible cost base





Convenience rooted in multi-channel offer

- ▶ Unique customer convenience through a leading and well-invested infrastructure
- ▶ 53% or £2.1bn of total sales in FY14 are multi-channel, with the internet being 44% or £1.8bn of this
- ▶ Online Check & Reserve via a mobile device is the fastest growing channel
- ▶ Mobile shopping, now 18% of total sales in FY14.
- ▶ Unmatched scale in delivery – c.4 million 'two-man' and c.8 million 'one-man' products a year

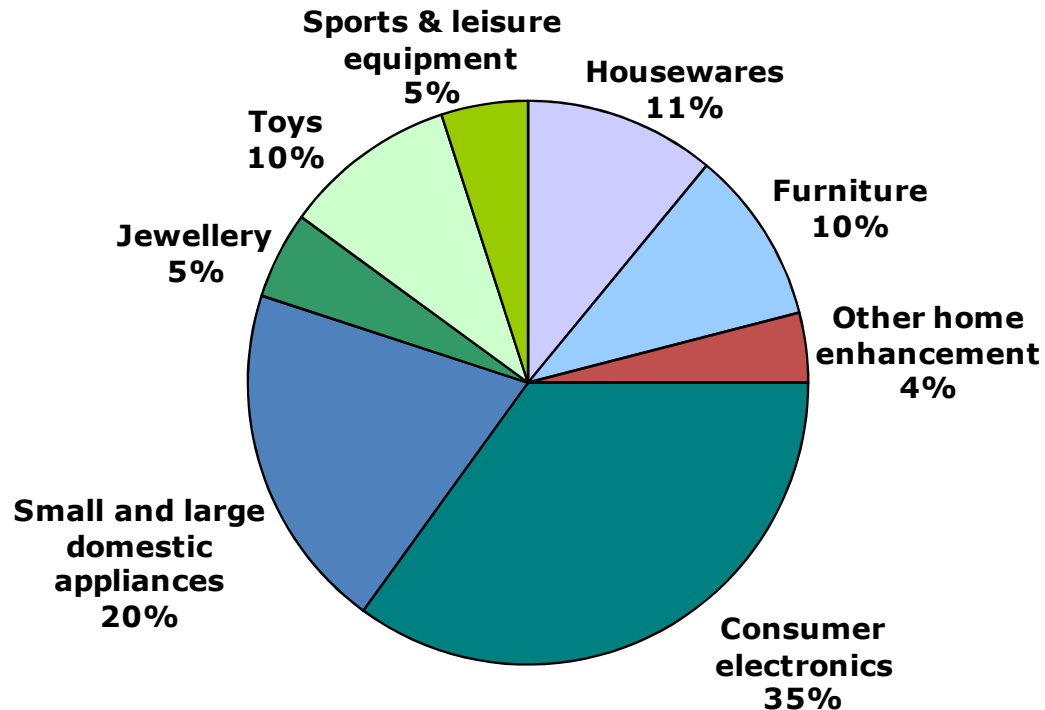




Choice - key support to market leadership

► Gaining share across a broad range of categories

Sales mix



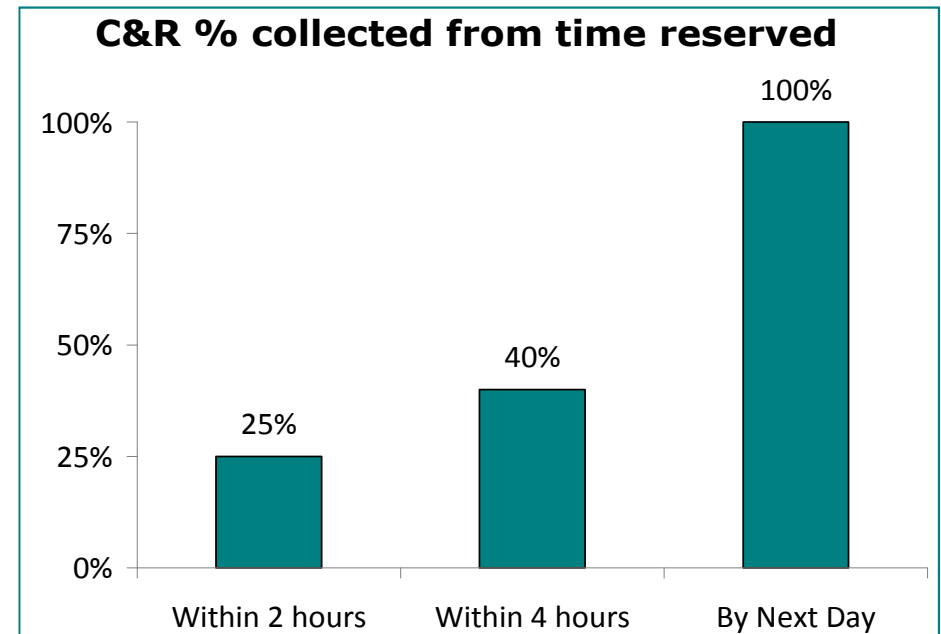
52 weeks to 1 March 2014

| Product market | No of SKUs |
|----------------------------|------------|
| Homewares | 7,600 |
| Furniture | 4,600 |
| Other home enhancement | 2,000 |
| Consumer electronics | 6,400 |
| Small domestic appliances | 1,600 |
| Large domestic appliances | 2,300 |
| Jewellery | 4,100 |
| Toys | 5,000 |
| Sports & leisure equipment | 9,400 |



Extending leadership in multi-channel

- ▶ **Growth in website traffic to 738m visits in FY14 (inclusive of apps)**
- ▶ **53% of total Argos sales in FY14 were multi-channel**
- ▶ **Internet represented 44% of total FY14 sales, of which almost 75% are collected in store**
- ▶ **Check & Reserve - competitive advantage and critical for Peak and hot selling products**
- ▶ **Immediacy, certainty of availability and locality key convenience**



| Check and Reserve % of Total Sales | | |
|------------------------------------|----------|------|
| | Non-Peak | Peak |
| Television | 40% | 47% |
| VGS | 33% | 41% |
| Computers/Tablets | 43% | 50% |
| Toys | 31% | 43% |



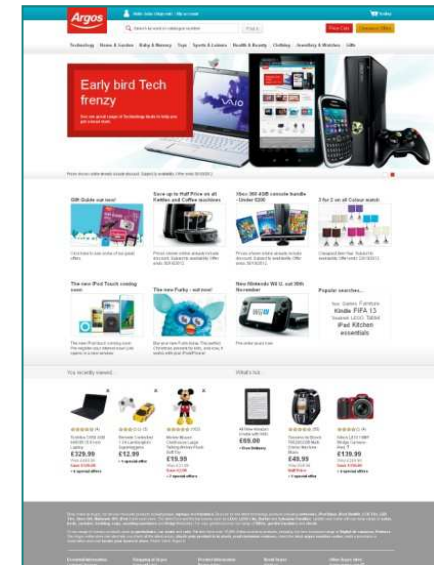
Reinvent as a digital retail leader





Reposition channels for digital future - Online, mobile, tablet

- ▶ **Create world class digital customer experiences**
 - Full features, rich content, and consistency across all devices
 - Transactional smartphone apps
 - A rich and dynamic digital catalogue for tablets
- ▶ **Build a contemporary multi-channel IT infrastructure**
- ▶ **Develop large scale customer data collection, insight and personalisation capabilities**





Reposition channels for digital future - Integrated, modern store experiences

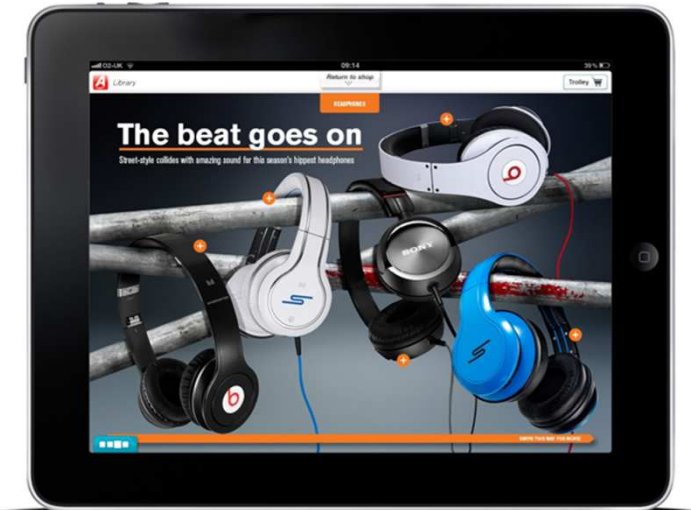
- ▶ **Exploit strategic advantage of efficient Argos collection points in local markets**
- ▶ **Focus stores on product pick-up and customer service for digitally dominated transactions**
- ▶ **Rapid innovation of store experience**
 - Fast Track store collection
 - Free Wi-Fi in all stores
 - Web-based browsers to replace catalogues





Reposition channels for digital future - Catalogue

- ▶ **Shift paper catalogue to supporting role in digital offer**
- ▶ **Actively test alternatives to current catalogue – frequency, size, distribution, design**
- ▶ **Improve catalogue quality with more inspirational content and digital channel integration**
- ▶ **Develop a market leading digital catalogue**
- ▶ **Innovative digital Christmas gift guide launched**





More choice available faster - Stocking and fulfilment

- ▶ **Retailers are increasingly competing on the basis of speed and cost of fulfilment**
- ▶ **Argos is uniquely positioned to efficiently provide more products, faster**
- ▶ **Introduce market leading fulfilment options**
 - Same day / next day store collection and home delivery
 - Faster delivery options for large items
 - Enable expansion of our product lines





More choice available faster - Store network delivers advantage

- ▶ **'Hub & spoke' distribution model**
- ▶ **Leveraging existing store network and replenishment routes**
- ▶ **Will enable all stores to offer market leading immediacy on a wider range**
- ▶ **Trials started in early 2013, national roll out to commence in 2014**



Universal customer appeal - Expand target customers

- ▶ **Extend our ranges to build authority and choice**
 - Obtain appropriate brands and ranges to meet the needs of broader customer sets
 - Differentiate ourselves with exclusive brands
- ▶ **Ensure competitive pricing and value perception**
- ▶ **Reposition brand and customer experiences for universal appeal**





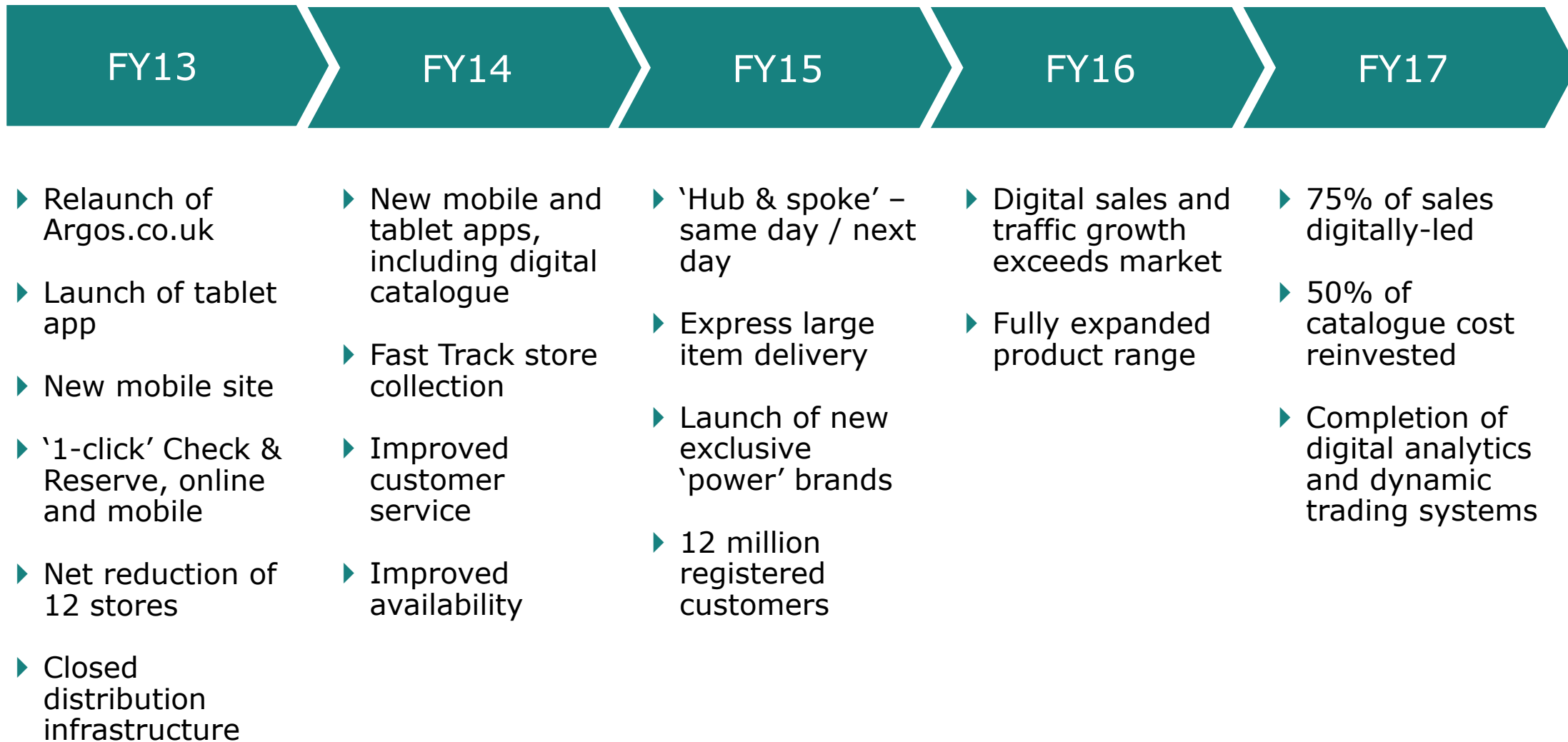
Universal customer appeal - Fewer, stronger exclusive brands

- ▶ **Argos aims to double penetration of exclusive brands to a third of all sales by FY18**
- ▶ **Strengthen exclusive brand offer through fewer, stronger power brands**
- ▶ **Enhance product quality and design to meet needs of new customer segments**





Milestones



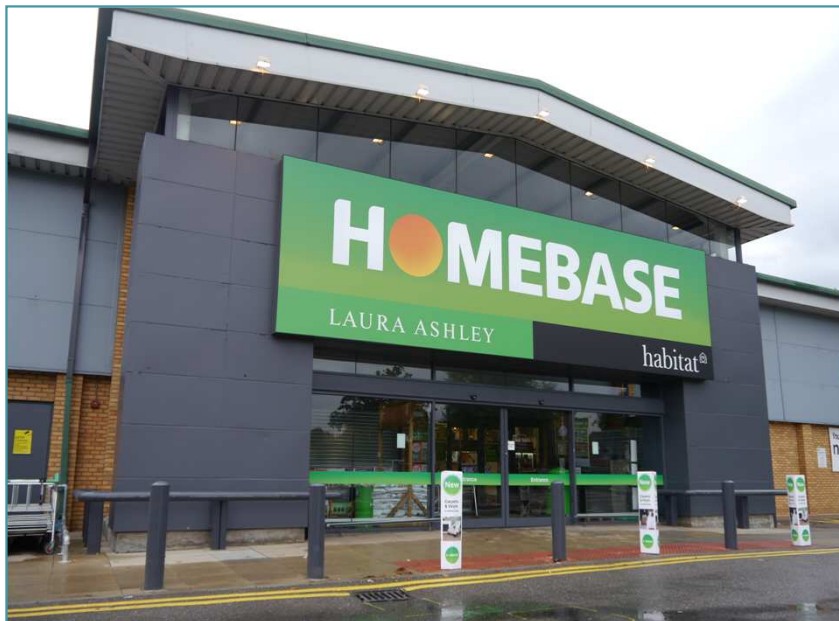


Section 3: Homebase



Homebase – history

- ▶ In December 2002 GUS plc acquired Homebase, the UK's second largest home improvement retailer, which operated from 272 stores.
- ▶ The acquisition expanded the combined product portfolio of Argos and Homebase and offered the opportunity to increase sales in common product areas such as indoor and outdoor furniture, housewares, gardening products and power tools.
- ▶ This overlap in products drove scale economies in merchandise buying and the benefit from significant synergies in operating the two businesses.
- ▶ The Homebase business also gave access to a different customer demographic than the one primarily served by Argos.





Confidence in market positioning

► Comprehensive offer and clearly differentiated

- Over 38,000 products – branded, own brand and exclusive
- 5 broad areas – Decorating, DIY, Big Ticket, Home, Garden
- Known for offering stylish products

► High quality service

- Enhanced in-store service from engaged staff
- Reliable and cost effective home delivery
- Award winning installation service (90%+ MORI recommendation rate)

► Promotions and loyalty programme

- Continue to support value for customers through our programme of promotional offers
- Internet marketing of growing importance
- 7.1m active Nectar customers



'Decorating' 18%

(paint, wallcoverings, tiling, flooring, etc)



'DIY' 19%

(tools, hardware, materials, decorative fittings, core electricals, plumbing, etc)



'Big Ticket' 18%

(kitchens, bathrooms, bedrooms, furniture, fireside, etc)



'Home' 17%

(lighting, cookshop, bathroom accessories, storage, soft furnishings, accessories, etc)






'Seasonal' 28%

(garden maintenance, exterior paints, woodcare outdoor living, horticulture, seasonal, etc)

52 weeks to 1 March 2014



Clear market positioning

| Trade | DIY enthusiasts | Home and Garden enhancers |
|--|---|---|
| | Male Average income More C2DE Older | Female Above average income More ABC1 Households with children |
| | |  |
| |  | |
|  | | |



Renewal plan

- ▶ **Rollout store refits**
- ▶ **Improving customer service**
- ▶ **Exclusive brands**
- ▶ **Growing multi-channel**
- ▶ **Management of store estate**





Store refits

- ▶ **Refits evolving**
 - Ruislip in October 12
 - Battersea in May 13
- ▶ **Refitted stores performing well**
- ▶ **Strong return on investment**
 - c.£800k capital outlay
 - c.£200k revenue outlay
 - Sales uplifts of 15% - 20%
 - Space reconfiguration
 - Transactions increased at higher ATV
 - Improved densities
 - Strong customer feedback
- ▶ **Accelerated plans for refits**
 - FY14 – 12 refits completed, 15 to date
 - FY15 – c.25 stores





Customer service

► Improve processes & enhance service

- Strong results for initial 18 store trial
- Implemented in over 70 stores in FY14
- Full rollout to be completed in FY15

► “Paint us a picture”

- Online customer service tool to give immediate feedback
- Great response rates and improved customer engagement
- 10% improvement in service ratings





Multi-channel

► Investment driving online sales growth

- FY14 sales participation +53% to 7%
- Visitors +30%
- Mobile visits +71%
- Reserve and Collect +47%



► Continual development

- Next day & named day delivery service
- Wi-Fi installed in all stores

► Redevelopment of website

- Launch of new website
- App development





Enhanced products and brands



habitat 



LAURA ASHLEY



QUALCAST



Odina
LIVE • LOVE • COOK



SCHREIBER

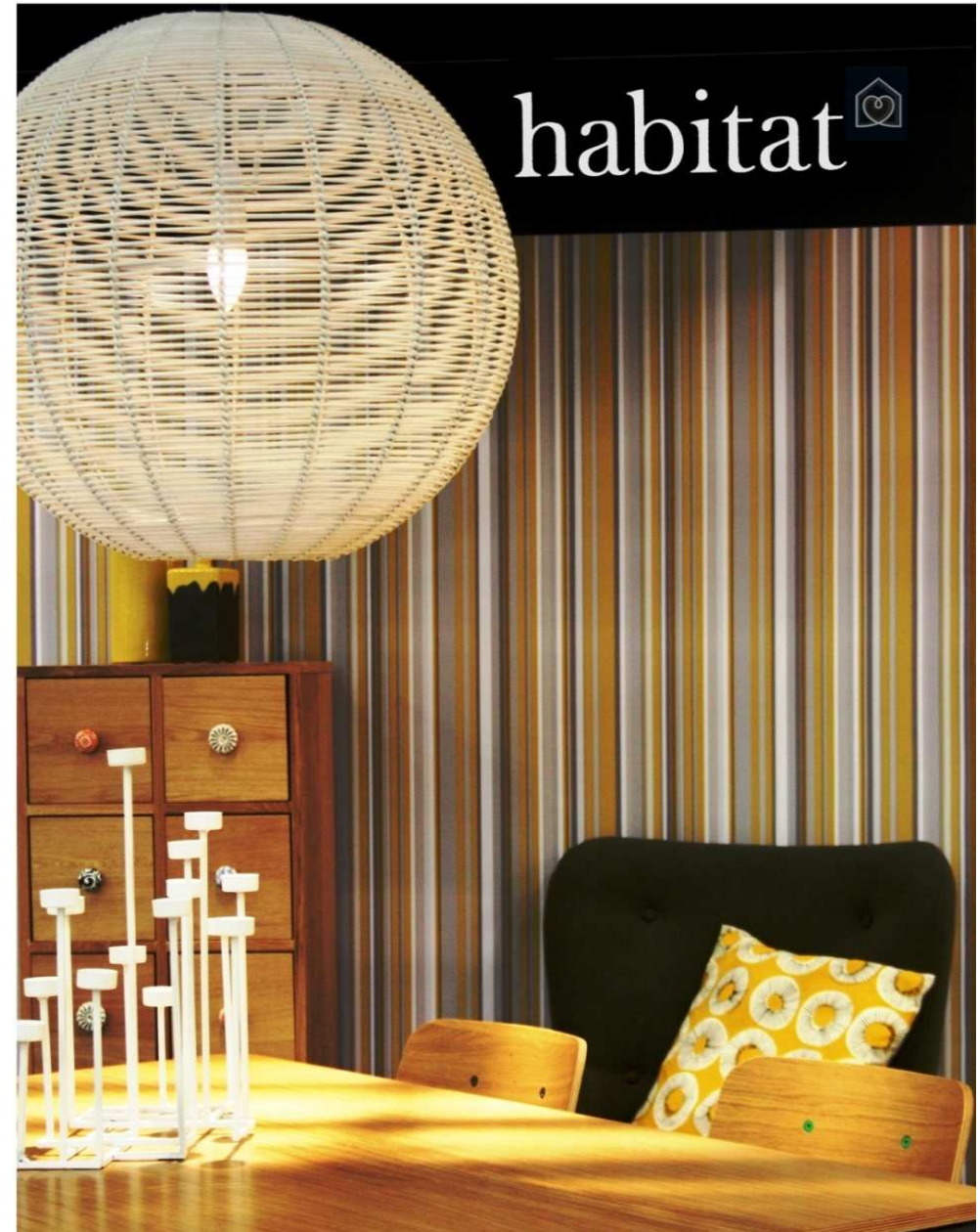


hygena



Launch of Habitat ranges

- ▶ **The Habitat range in Homebase includes decorating, lighting, cookshop, home enhancements and furniture; with more to come**
- ▶ **Almost 300 Homebase stores now range Habitat products**
- ▶ **Full launch campaign started in October 2012 accompanied by national TV advertising campaign**
- ▶ **Habitat concessions now available in 15 locations**





- ▶ **Italian design, German quality custom-built kitchens**
- ▶ **Exclusive to Homebase**
- ▶ **Targets upper mid segment of kitchen market**
- ▶ **Currently in 49 stores**
- ▶ **Potential to roll out to over 100 stores**



Odina
LIVE • LOVE • COOK



Big ticket product initiatives

Kitchens



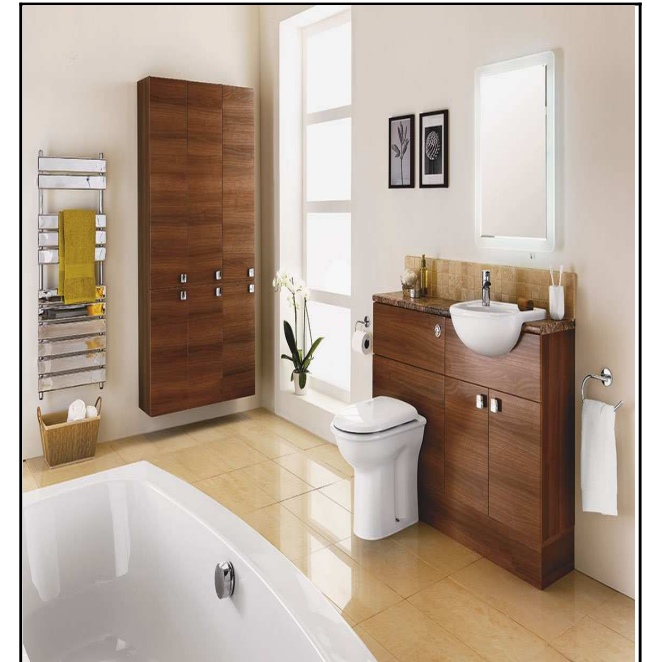
- Widened distribution of best sellers
- Odina kitchens extended to 49 stores
- Schreiber mid-range kitchen offer in 317 stores

Bedrooms



- Stylish mid market offer
- Schreiber branding
- In c.290 stores
- Uses c.400 sq ft selling space
- Density above average

Bathrooms



- 116 stores have had upgraded bathroom displays
- Removed discontinued displays and cascaded out best sellers

Kitchens



- All stores
- Recommendation rate 93% (*independently verified*)
- Drives ATV and attachment

Bathrooms



- All stores (except ROI)
- Drives ATV and attachment
- Significant category growth effect
- Recommendation rate 90% (*independently verified*)

Bedrooms



- Offer now in c.290 stores
- Simple installation
- Range growth and rollout potential
- High density
- Recommendation rate 94% (*independently verified*)



Section 4: Financial Services

Financial Services – history



Buy now
Pay monthly

Fix your payments over 24, 36 or 48 months when you spend £199 or more, so you'll always know how much you have to pay each month.

With our Monthly Payment Plans, you can:

- Make fixed monthly payments
- Know exactly when your plan will be paid in full
- Have no deposits and no surprises.

Representative Example for the Monthly Payment Plan:

When you borrow £300 on a Monthly Payment Plan at a fixed interest rate of 29.9% APR

| No. of months | Amount per month | Total payable |
|---------------|------------------|---------------|
| 24 | £16.24 | £389.76 |
| 36 | £12.16 | £437.76 |
| 48 | £10.20 | £489.60 |

Representative variable **29.9% APR***



Apply for an Argos Card at the till today!

With your Argos Card, you can pay up to 55 days later on everything. Pay off the balance of any buy now, pay later plan by the due date and you'll have no interest to pay. If you choose to spread the cost further, then interest will be charged on the whole balance from the date of purchase and you will have to make a minimum monthly payment to pay your terms and conditions plus any charges incurred. Interest rates may vary depending on your circumstances. All credit is provided, subject to credit checks, by Home Retail Group Credit Services Limited, Tringham House, Station Road, B11 1AA. Certain services provided by our partners only. Argos Total Insurance - current Argos Card as a payment option. Argos Limited also exclusively in relation to some credit as a credit intermediary for Home Retail Group Credit Services Limited. Head Office: Home Retail Group Credit Services, Ambury, 400 - 400 Ambury, Bedford, MK43 0JL. Bedford, Bedfordshire MK43 0JL. Registered in England Number: 0800 1012. *The APR shown on the Argos Card is a variable and is variable. The interest rate for the Fixed Payment Plan will be fixed. Monthly Payment Plan rates on the Fixed Payment Plan.

Argos Card

Buy now, pay later on everything

Spend over £99

Pay 6 months later

Spend over £50

Pay 3 months later

Plus, you can also...

Pay 12 months later on any:

- Large kitchen appliance for £249.99 or more
- Jewellery item for £250 or more
- Furniture item for £199 or more
- Fitted kitchen

Or pay 9 months later on any:

- TV for £299 or more



Apply for an Argos Card at the till today!

Representative variable 29.9% APR



- ▶ In 2000, a financial services operation was launched, which offered a range of credit products to Argos customers.
- ▶ The range of credit products comprises a revolving credit offer together with a suite of promotional credit products which includes a range of 'Buy Now Pay Later' (BNPL) offers. In addition, 'Interest Free Credit' is selectively offered on big ticket purchases.
- ▶ This offering was developed, operated and funded in-house to ensure that the financial services products fully supported the retail offering.
- ▶ In addition, Homebase also offers loans for expenditure over £1,000 via a third party, off balance sheet agreement with Barclays Personal Finance.



Financial Services – financial objective

- ▶ Financial Services' financial objective is to achieve on the revolving (i.e. interest bearing) element of receivables a return in line with historic financial services industry norms; promotional credit products are recharged at cost to the Argos and Homebase businesses.

Illustration

| | |
|---|--------|
| Financial services historic norm – pre-tax return on equity | 20-25% |
| Financial services historic norm – debt to equity ratio | 9 to 1 |
| Home Retail Group revolving loan book @ 1 March 2014 | £300m |
| Equity component at 9 to 1 ratio | £30m |
| Pre-tax return on equity at 20-25% | c.£6m |

- ▶ To recover costs of promotional credit, Financial Services charges both Argos and Homebase a fee at 1-3% of promotional credit sales
- ▶ Market rate for the provision of our suite of promotional credit products is estimated to be 3-5% of promotional credit sales
- ▶ The cost advantage to Argos and Homebase of in-house provision is therefore in the region of £15m.



Section 5: Other Group information



UK and US retailers

Product market

Home enhancement

Homewares
Furniture
Home improvement
Horticulture, garden furniture and outdoor living

UK competitors

Specialist



Generalist



Examples of similar US formats

Specialist

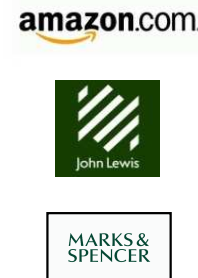


Generalist



Electrical

Consumer electronics
Small domestic appliances
Large domestic appliances



Other general merchandise

Jewellery
Toys
Sports & leisure equipment





FY14 trading performance

| | Q1 13 wks to 1 Jun | Q2 13 wks to 31 Aug | Q3 18 wks to 4 Jan | Q4 8 wks to 1 Mar | H1 26 wks to 31 Aug | H2 26 wks to 1 Mar | FY 52 wks to 1 Mar |
|----------------------------|---|--|---|--|--|---|---|
| Argos | | | | | | | |
| Sales | £828m | £889m | £1,808m | £526m | £1,717m | £2,334m | £4,051m |
| Like-for-like change | 1.9% | 2.7% | 3.8% | 5.2% | 2.3% | 4.1% | 3.3% |
| Net new space contribution | (0.7%) | (0.3%) | (0.2%) | 0.0% | (0.5%) | (0.1%) | (0.3%) |
| Total sales change | 1.2% | 2.4% | 3.6% | 5.2% | 1.8% | 4.0% | 3.0% |
| Gross margin movement | Down c.75bps | Down c.50bps | Down c.50bps | Flat c.0bps | Down c.75bps | Down c.50bps | Down c.50bps |
| Homebase | | | | | | | |
| Sales | £422m | £400m | £464m | £203m | £822m | £667m | £1,489m |
| Like-for-like change | 1.4% | 11.0% | 4.7% | 9.3% | 5.9% | 5.9% | 5.9% |
| Net new space contribution | (1.2%) | (1.7%) | (2.4%) | (2.4%) | (1.5%) | (2.3%) | (1.8%) |
| Total sales change | 0.2% | 9.3% | 2.3% | 6.9% | 4.4% | 3.6% | 4.1% |
| Gross margin movement | Down c.200bps | c.0bps | Down c.75bps | Down c.75bps | Down c.100bps | Down c.75bps | Down c.100bps |

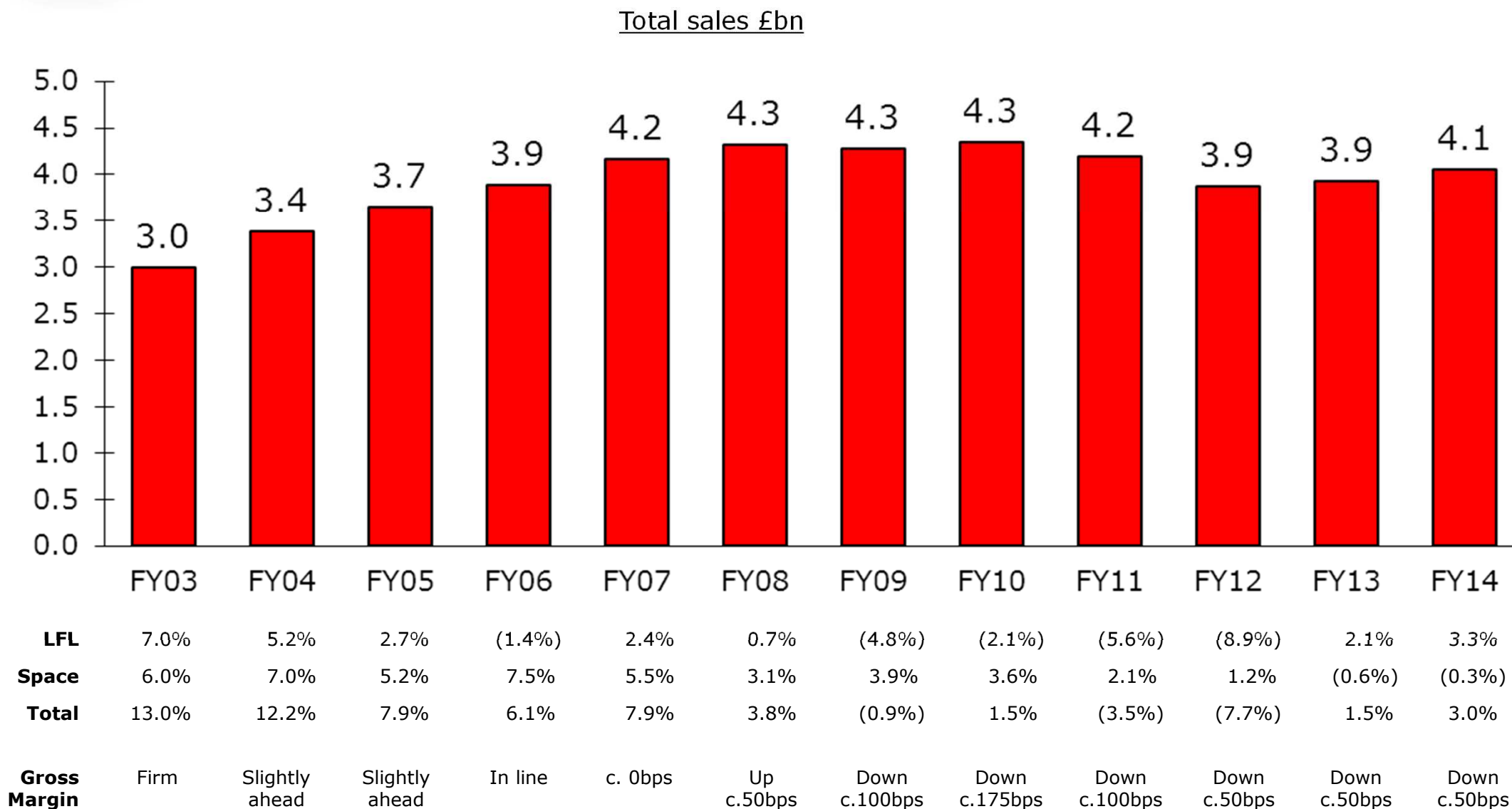


FY13 trading performance

| | Q1 13 wks to 2 June | Q2 13 wks to 1 Sept | Q3 18 wks to 5 Jan | Q4 8 wks to 2 Mar | H1 26 wks to 1 Sept | H2 26 wks to 2 Mar | FY 52 wks to 2 Mar |
|----------------------------|--|--|---|--|--|---|---|
| Argos | | | | | | | |
| Sales | £819m | £867m | £1,744m | £501m | £1,686m | £2,245m | £3,931m |
| Like-for-like change | (0.2%) | 1.4% | 2.7% | 5.2% | 0.6% | 3.2% | 2.1% |
| Net new space contribution | 0.4% | (0.4%) | (1.1%) | (0.9%) | 0.0% | (1.0%) | (0.6%) |
| Total sales change | 0.2% | 1.0% | 1.6% | 4.3% | 0.6% | 2.2% | 1.5% |
| Gross margin movement | Down c.25bps | Down c.75bps | Down c.50bps | Down c.75bps | Down c.50bps | Down c.50bps | Down c.50bps |
| Homebase | | | | | | | |
| Sales | £421m | £366m | £453m | £191m | £787m | £644m | £1,431m |
| Like-for-like change | (8.3%) | (3.7%) | (3.9%) | (1.5%) | (6.2%) | (3.2%) | (4.9%) |
| Net new space contribution | 0.2% | (0.2%) | (0.6%) | (1.3%) | 0.0% | (0.8%) | (0.3%) |
| Total sales change | (8.1%) | (3.9%) | (4.5%) | (2.8%) | (6.2%) | (4.0%) | (5.2%) |
| Gross margin movement | Up c.225bps | Up c.75bps | Down c.50bps | Up c.50bps | Up c.150bps | Down c.25bps | Up c.75bps |



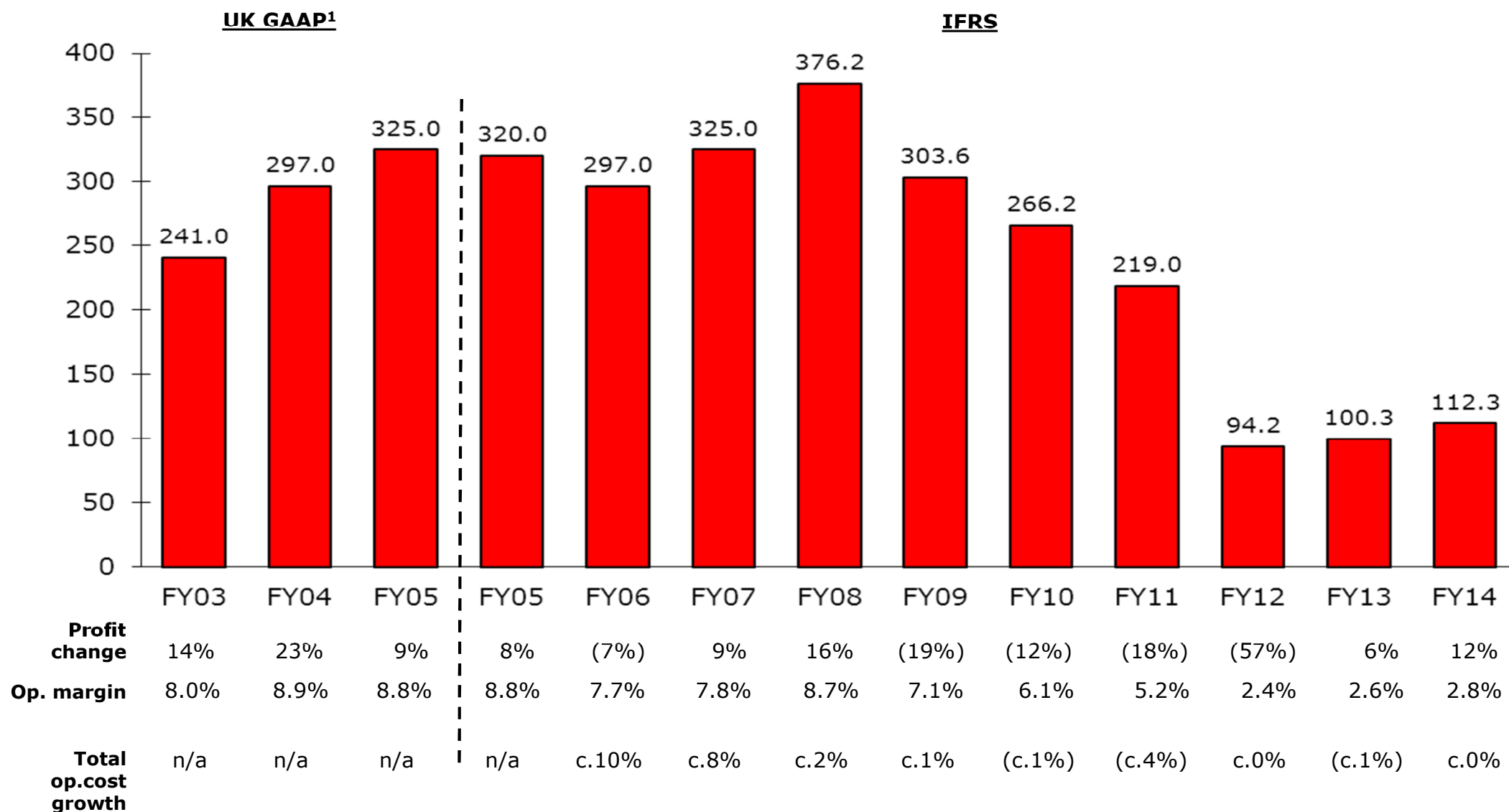
Argos sales and gross margin record





Argos operating profit record

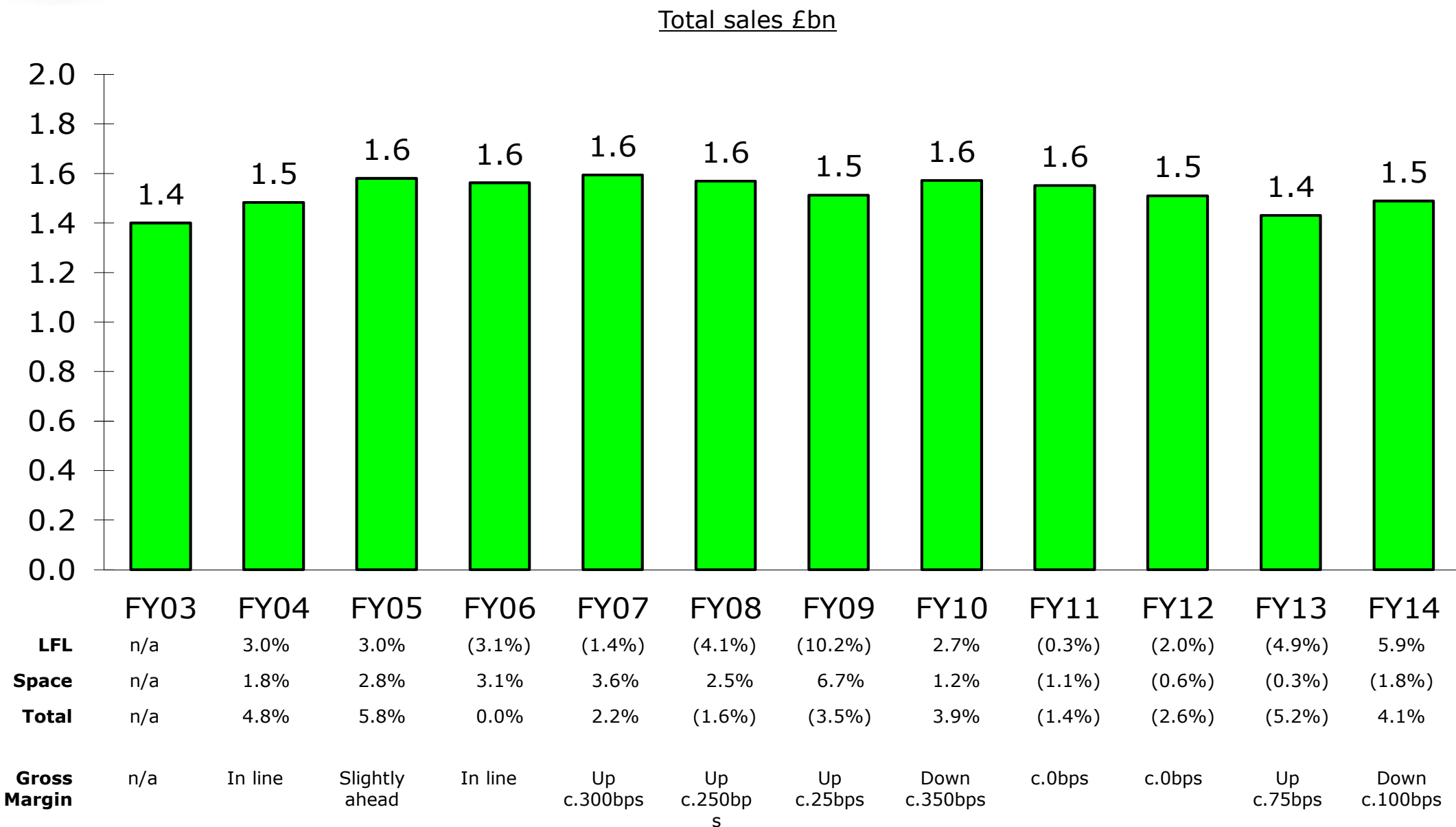
Benchmark operating profit £m



¹ UK GAAP operating profit is also before goodwill amortisation



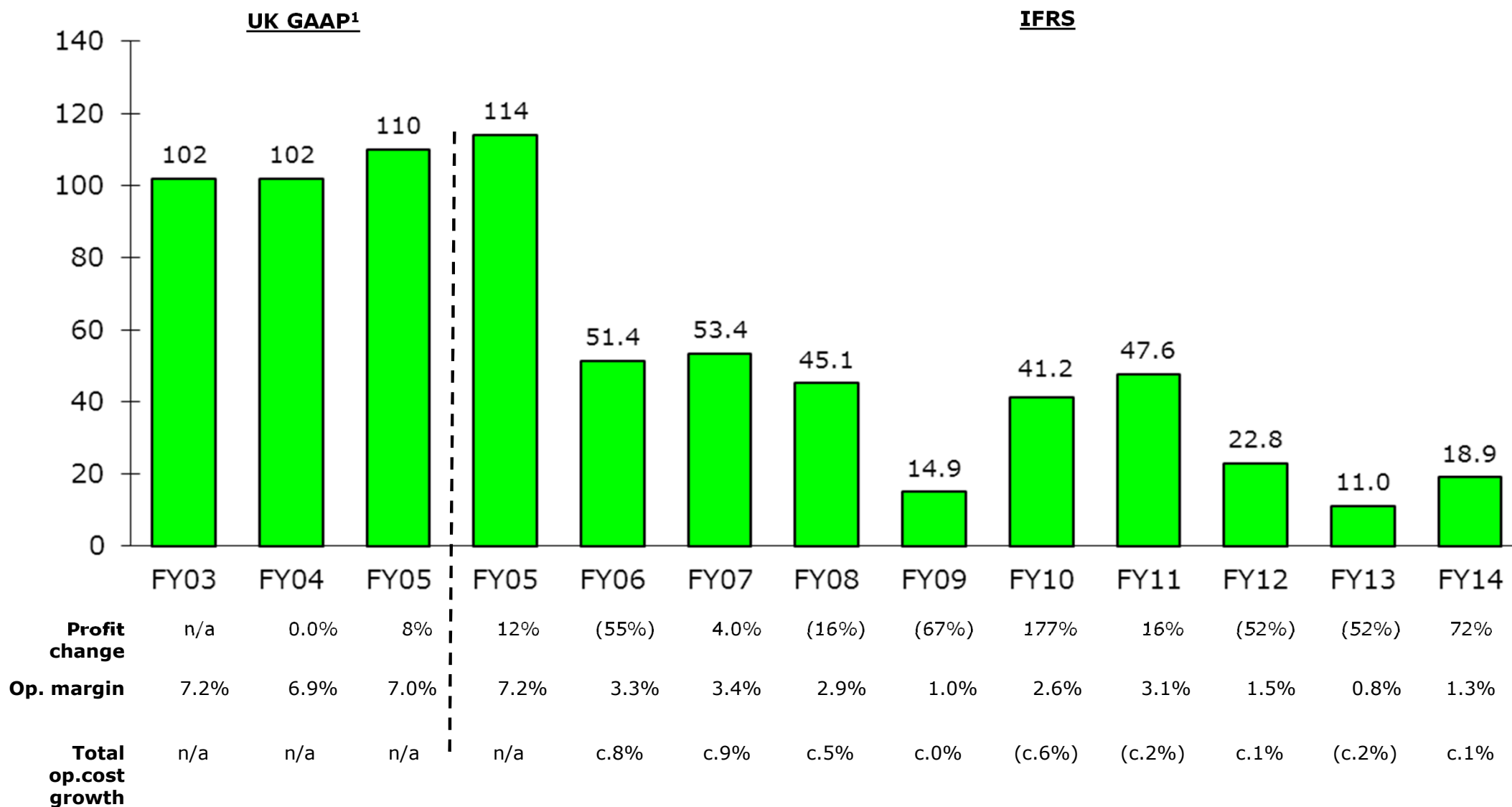
Homebase sales and gross margin record





Homebase operating profit record

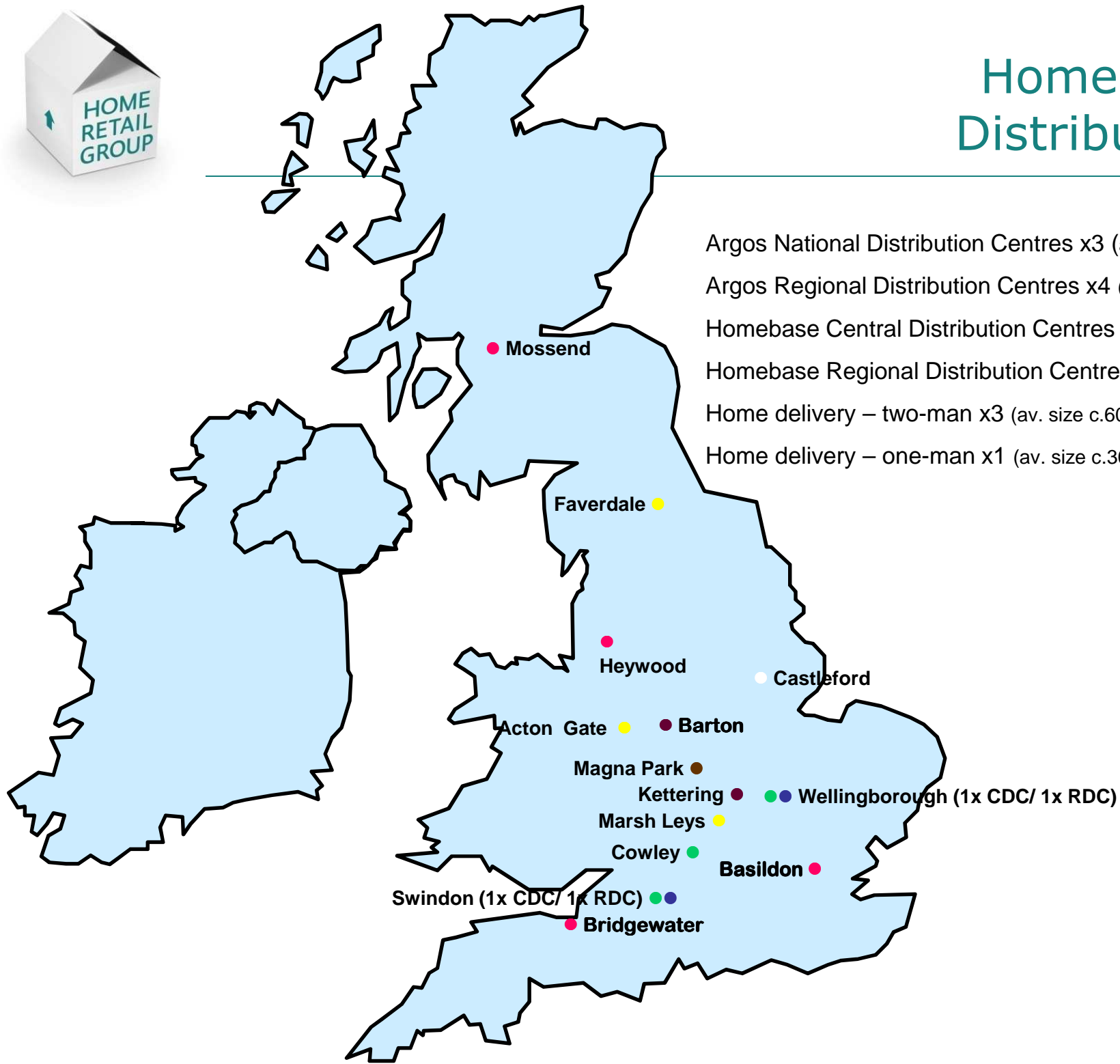
Benchmark operating profit £m



¹ UK GAAP operating profit is also before goodwill amortisation



Home Retail Group Distribution Centres



Argos National Distribution Centres x3 (av. size c.600k sq.ft.)

Argos Regional Distribution Centres x4 (av. size c.350k sq.ft.)

Homebase Central Distribution Centres x3 (av. size c.300k sq.ft.)

Homebase Regional Distribution Centres x2 (av. size c.300k sq.ft.)

Home delivery – two-man x3 (av. size c.600k sq.ft.)

Home delivery – one-man x1 (av. size c.300k sq.ft.)





The senior management team

John Walden, Chief Executive

John started his retail career in the 1990s as Chief Operating Officer of Peapod, a pioneer in online supermarket retailing. He joined Best Buy, the giant US electricals retailer, in 1999 as President of its internet and direct channels division, and over an 8 year career also served as Executive Vice President, Human Capital and Leadership, and ultimately as Executive Vice President of its Customer Business Group. John later moved to Sears where, as Chief Customer Officer and Executive Vice President, he led marketing, merchandising and the internet, catalogue and home services divisions. More recently, he was President and Chief Executive Officer of Inversion Inc, a retail consultancy. John joined Argos as Managing Director in February 2012 and became Chief Executive of Home Retail Group in March 2014.

Richard Ashton, Finance Director

Richard started his career at PricewaterhouseCoopers and joined GE in 1994, spending eight years in a variety of positions including Chief Financial Officer of GE Capital's pan-European equipment-financing business, assistant to GE Capital's Chief Financial Officer in the US and various finance roles in the UK. He joined Argos Retail Group as Finance Director in 2001 and, in October 2006, became Finance Director of Home Retail Group.

Paul Loft, Managing Director of Homebase

Paul was appointed as Homebase Managing Director in February 2003, following its acquisition by GUS in 2002. He had previously been Managing Director of GUS Home Shopping and prior to that, Finance Director for Argos since June 1999. Before joining GUS he spent 11 years with the Burton Group and was Finance Director of Debenhams and Managing Director of Shoe Express and Shoe City, part of the Sears Retail Group.

Mark Willis, Director of Investor Relations

Mark began his career in industry, training with the Chartered Institute of Management Accountants. He held a variety of roles at Lloyds-TSB, Mercedes-Benz and Tesco before joining Home Retail Group in 2006. Since joining, Mark has held both financial and strategic operational roles across Commercial and Distribution functions. In 2010 Mark became Head of Trading Finance for Homebase before moving to the role of Director of Investor Relations for Home Retail Group in May 2013.



Investor relations contacts

For investor information and related services, including copies of all presentations, visit:

www.homeretailgroup.com/investor-centre/

www.homeretailgroup.com/investor-centre/adrs/

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