

## **Interim Management Statement Conference Call – 17 January 2008**

### **Operational Review**

**Richard Ashton**  
**Finance Director**

#### **1. Preamble**

Good morning and thank you for joining our call today. I am joined today by Terry Duddy, our Group Chief Executive (CE), who will be available to help with questions in a moment. The trading statement that we have released today covers the 18 weeks ending 5 January 2008, and therefore comprises September through to the first week of January.

#### **2. Highlights**

With regard to the overall performance, as you will have seen from the opening quote to our statement, the results for the period were in line with our expectations. From what we are saying today, we expect our analyst estimates for this year to rise towards the top end of the current range. For the record, the range of estimates for benchmark profit before tax (PBT) is £385 million to £432 million, with consensus of £418 million, so we are talking about a £10-15 million upgrade on consensus.

The main drivers are an Argos upgrade, slightly offset by a small Homebase downgrade, but there are also a couple of other minor changes that I will cover shortly. Delivering group profits at this sort of level will be around 15% growth on last year's £377 million.

You should also note that we are saying that the onset of the consumer slowdown is now more evident. I do not think that it will come as any surprise to you, given what we have said over the last year and other comments and data that are in the market. It does however mean that we anticipate sales growth to be harder to achieve over the next year, and again some analysts have reflected this in recent changes to their forecasts. Consensus for the next year is currently £425 million, although there is a very wide range.

It is also important for me to remind you that while we are entering an increasingly challenging environment, we still believe that our businesses are well positioned in their markets.

#### **2. Argos**

The contribution to sales growth from new space in the period was 2.7%, with the chain reaching 700 stores. Our expectations are to continue opening about 30 stores a year, which will add about 3-4% to the top line. The like-for-like performance came in flat, in line with average analyst expectations, although the range was from minus 2% to plus 2.6%.

We saw further exceptional growth in technology areas. Video-gaming was very strong across hardware, handhelds and software. Satnav was also very good for

us, as was our prepay mobile phone business. Flat-panel TV growth continued, although at a slower rate. We also saw good growth in digital cameras, with one of this year's hot gift items being digital photo frames.

The more traditional gifting areas of toys and jewellery were marginally negative. In toys however, there was a natural offset with the strength of video game systems. We also saw during the period that furniture and homeware became more difficult markets. We continue to have very strong positions and good relative growth, but these are areas that appear to be showing an impact from the consumer slowdown. Finally, areas of older technology continued to see weak market demand as consumers switched to newer forms of entertainment and communication.

Our Internet offering strength was clearly evident in the period; 23% of all sales were ordered over the Internet and it grew by a third. Leading this growth was the ability to order on line and collect in store, which grew by 50%. Seven million customer orders were collected in this way during the period. We saw 250,000 orders alone on the Thursday before Christmas.

Our gross margin ended up broadly flat across the period, slightly better than we were expecting, and we achieved supply chain benefits that, together with foreign exchange benefits, were enough to offset the increased price investment and the negative product mix.

You will note in the statement that we also reference excellent cost productivity. You will remember that we had seen excellent productivity in the first half, with five points of sale growth, but flat operating cost growth after allowing for 3% of underlying inflation on the cost base. As anticipated, cost productivity has been at a slightly reduced rate over peak, but still another excellent performance. The net result of the key trading period for Argos is that this is where the majority of today's £10-15 million profit upgrade is derived from.

### **3. Homebase**

Net new space growth was 2.2% for the quarter, and our guidance looking forward into next year is more like 3%, given the more normal phasing of the store-opening programme. The like-for-like however, was a decline of 6.3%, which was fairly consistent across the business's product categories, with the exception of the big ticket category. Continued growth in big ticket was driven by kitchens. We continue to see benefits from our ranges, the previous mezzanine programme, and the fact that we have further increased the number of stores offering kitchen installation. This will have grown from about 200 stores doing kitchen installation at the half year to about 270 by the end of the financial year, as we progressively roll out the service. However, elsewhere in the big ticket category, there was a decline in bathroom sales, while furniture also became more difficult.

The gross margin was up 200 basis points versus the same period last year. We continued to achieve ongoing supply chain benefits, which drove approximately 100 basis points of the gain, together with foreign exchange benefits, which drove the remaining 100 basis points of the gain.

The net result of the trading period is that we expect to report negligible profit for the second half, with Homebase's profits of course, always being skewed to its seasonal first half. Consensus expectations on Homebase may well therefore come down by a few million pounds to the high 40s.

#### **4. Conclusion**

Finally, we have noted in the statement that we have disposed of our stake in AAGUS. The approximately £3 million gain on disposal will be recognised within benchmark PBT, turning an expected slight negative contribution from associates and joint ventures (JVs) into a small positive.

We have also had a reasonable cash generation during the Christmas trading peak, in line with trading profitability, so the interest income line will now likely be in the low 30s.

#### **Questions and Answers**

##### **Eithne O'Leary, Oriel Securities**

Given the sales decline at Homebase, have your expectations regarding ongoing margin improvements changed?

##### **Richard Ashton**

They have not changed in line with the sales performance. We are still talking about achieving the ongoing supply chain benefits of about 100 basis points over the next 12 months or so, and probably beyond. The bigger issue for margin at both Argos and Homebase is that, with a higher proportion of direct import/direct source (DI/DS), we have been benefiting over the past one or two years from the impact of the weaker dollar. However, some of that benefit is reversing, and although we are relatively safe and locked in for the first half of the year, we could start to see some headwind in terms of a dollar rate impact in the second half of the next financial year.

##### **Eithne O'Leary**

Are you not seeing any particular impetus for greater promotional activity?

##### **Richard Ashton**

No. Our promotions, period-on-period, have been flat all year within Homebase; we have done the same number of 10% events as we did this time last year. At the moment, we see no change; however, if the competitive environment changes, we will have to do what we think is the right thing when we get there. Having said that, we were in this position in 2005, when the market became more promotional and competitive, which we matched. We enhanced our promotions and did more 10% events. If you cast your mind back to 2005, we said that we did not achieve the returns on those extra promotions and we reversed from them in 2006. We hope not to have to go down that road again, given that we know that in the long run it does not help the profitability of the business.

**Robert Miller, Redburn Partners**

What do you think your market share evolution has been in the major categories in Argos over the period?

**Terry Duddy, CE, Home Retail Group**

It is difficult to look at market share, because we do not get all the information. As a headline, if I look at some of the specialist retailers and what they have been reporting, we are not embarrassed by any like-for-like numbers. In terms of furniture, we have said that the market has become a little bit more difficult, which is right, but it is not a big decline – it is flat to slightly negative. In terms of consumer electronics and similar areas, we are outperforming some of the performances that have been reported recently. Overall, I do not think that we have lost market share across the Argos business. In the Homebase business, I think the situation is a little different. We do not have the GfK DIY sheds latest update but we have seen a slight decline in our market share.

**Robert Miller**

In your statement, you said that it is obvious that sales growth in the short-term will be harder to come by. Do you specifically mean 'sales' rather than 'like-for-like sales'? Are you anticipating that nominal sales will be down in the first half of 2008?

**Terry Duddy**

We have tried to leave it as broad as possible and allow people to interpret it as they wish. It is not as though we have spent a long time poring over the statement. By that, we mean that like-for-like growth will be difficult to achieve.

**Richard Ashton**

You also need to bear in mind that next year at Homebase, although we might be in a difficult like-for-like environment again, we are likely to achieve about three points of space growth from the store-opening programme, but we are also going to achieve in the region of five or six points of space growth from the Focus stores that are due to open in readiness for peak this year. There will then be quite a strong space growth number, particularly in the Homebase business, so it is referring more to the like-for-like environment.

**Simon Irwin, JP Morgan**

Are you seeing anything happening in terms of store cards and are there any concerns about bad debts?

Could you talk a little more about your hedging policy, particularly looking forward to the second half of the year?

**Richard Ashton**

In terms of store cards, we made changes to our store card and increased the level at which we accepted accounts over a year ago in August 2006, around the time of the demerger, when we were flagging our cautionary view for the short term. From an application point of view, we are seeing a reduction in the quality of applicants. The average credit score that our applications are being given has fallen in the last nine months of this year. The store card cut-off changes effectively eliminate those; in other words, we are accepting fewer new accounts. Our acceptance rate is about four percentage points lower for the first nine months of this year than it was for the comparable period last year.

That means that we are controlling delinquency and bad debt pretty well. Delinquency rates and the bad debt charge in the Financial Services (FS) P&L are both flat for the first nine months of the year versus the prior year. The pre-emption of that has helped us so far. Clearly, we are closely monitoring it. The FS team looks at those delinquency rates on a daily basis and I sit with them weekly, so we are keeping a close eye on it. If we think it starts to move again, we will look at the store card cut-offs and increase them accordingly. Our penetration on the store cards is relatively flat year-on-year, so the impact of that cut-off increase and the lower acceptance rate has not reduced penetration; it just means that it has not grown this year.

In terms of the hedging policy, I will focus on Argos, since it is predominantly an Argos issue given the volume of buying we do at Argos, and the higher level of DI/DS. We set final pricing a few weeks before a catalogue will launch and we forward-buy the currency, so that we are 90% bought at the point at which we set final pricing. In terms of the catalogue that goes out this Saturday, 90% of the currency was bought by the middle of December, so we know the rates that we have on that catalogue already. For the July catalogue, and more importantly to your point, for the second half, it means that we started buying that currency around the middle of December and will buy it through to the middle of June, ready for final pricing and a July catalogue launch.

We are likely to see an ongoing foreign exchange (FX) benefit in the first half of the year from the hedging that we have already put in place. Given the fact that the rate has fallen quite significantly over the last four or five weeks, we are likely to see a headwind on FX in the second half of the year. That is more than likely, given the current level of the pound/dollar and the general consensus forecasts of where that rate might go.

### **Simon Irwin**

Do you think that the consensus for next year is appropriate?

### **Richard Ashton**

There is a very broad range at the moment. The consensus prior to today's release ranged between £385 million and £464 million, with an average consensus of £425 million. Our two brokers have both reduced their numbers slightly off the back of this morning's results, and the statement about our view on short-term sales growth to about £400 million, with one slightly above £400 million.

**Andrew Hughes, UBS**

In terms of the opening programme in Homebase stretching beyond 12 months, and given that the market is down, are you still seeing decent returns or do you think you ought to pull in your horns slightly, particularly as you digest the Focus stores?

**Richard Ashton**

We are constantly looking at it. Only last week, in fact, Terry and I were going through the store-opening programme for the next few years, with a more pessimistic view of sales and asking what that does to some of the returns and re-running the viability of those particular stores. Clearly, it does not help the returns – that is stating the blindingly obvious. However, at the vast majority of stores, the returns are still at a level that is in excess of our hurdle rate. One in particular is running a little short of the hurdle rate and Terry and I have been arguing about it for the last six months: he would love to open it but I keep telling him that he cannot. He will probably win at the end of the day. He will get a way of pushing it up.

**Andrew Hughes**

Are you prepared to sacrifice some market share to maintain your profit outlook?

**Richard Ashton**

We have been playing the margin game for a few years in the Homebase business, which has helped to support the profit numbers relatively well. The share that we have lost this year is relatively small and almost equates to the share gain we made this time last year. Over a two-year period our share is relatively flat, but our margins are up. The trade-off between margin gains versus cutting margins to gain that extra little bit of volume probably would not have helped the profitability of the Homebase business.

**Andrew Hughes**

Is there anything that you can say on any impact from Tesco and John Lewis in terms of their multi-channel offerings? Are they doing anything that you think you should be doing?

**Richard Ashton**

Tesco talks relatively bullish about how it has performed and says that it went quite well but, as we said today in our statement, our multi-channel offer went exceptionally well over Christmas. We have had growth of 50% in Internet Check and Reserve, which is a fantastic performance. We have had seven million Check and Reserve orders over peak trading. On the Thursday before Christmas, when customers are desperately searching the high street for stock and can come onto Argos, Check and Reserve, guarantee the product for when they pick it up, we had 250,000 Check & Reserve orders in that particular day on the run up to Christmas. It sounds to me like businesses with a strong multi-channel offering

have done well. I would not say that our model has suffered because Tesco has done well; it sounds like Tesco has done well on their multi-channel offer, as we have.

**Andrew Hughes**

Do you think that you need more stores or that your existing stores need to be bigger if Check and Reserve is growing so quickly?

**Richard Ashton**

I do not think it is particularly either of those. I think we need to continue with our store-opening programme and entering catchments where we do not necessarily trade, or ones that are able to accommodate more than one store. Check and Reserve as an offering, does not really require a larger store size because the product is already in the store, and the customer simply has to reserve it and have it put to one side for them. It requires no extra stock or space in the store, so we do not need to change the operating model for the stores.

**Bruce Hubbard, Citigroup**

Over the last year or so, you have made quite clear forward-looking statements about the consumer. It took a while to come through, but it is now. From your experience of Argos and Homebase in the past, what is your sense of where we are in the process of the slowdown in terms of individual categories either fading or not fading? How far down the down cycle do you think we are?

**Terry Duddy**

I wish that I knew that; I am definitely not an economist in that sense. We have been saying for a while that this downturn was coming, and for you, I guess it felt like a phoney war. It clearly has arrived now, in terms of the Homebase business, and in particular furniture, which has been a relative good grower for us in the past, but which has now slowed slightly. Our view is not going to come as any surprise in terms of its insight. We just think that 2008 will be difficult and I would expect the DIY market, as it sits right now, to be slightly similar to 2005-06. Last year was such an odd year, with fantastic growth in the early part of the season, a late Easter compared to this year, and depressed sales in the second half due to the weather.

**Bruce Hubbard**

Are there any pointers yet that it might be worse?

**Terry Duddy**

I do not think so. Overall, the Argos number came through and we were very pleased with it. We have said that December was relatively strong for Argos but I do not think that that is an indicator of what we are going to see in the future; October and November will be, and those are running at the kind of levels where we would expect Argos to be next year.

## **Bruce Hubbard**

That is interesting because Argos has clearly gained share in a number of categories, yet there are some quite apocalyptic statements from many furniture specialists, for example, and one wonders about the extent to which that ripples out across the market.

## **Terry Duddy**

Many of them are driven by the specific time at which sales come through. We are potentially in a slightly different market. We have seen that downturn, but just not at the levels that we have seen reported. Kitchens go on performing well, but that is much more about what Homebase is doing. It is one of the better performers due to initiatives such as kitchen installation. Bathrooms have been declining for a while, as has the whole market, but the decline in furniture indicates where Homebase will be going forward.

## **Bruce Hubbard**

Your answer to Andrew Hughes's question on the relationship between Homebase margin and revenue was couched in terms of maximising profit. If we step back from it, conceptually you look as if you are going to achieve 700 basis points progression over three years, which is extremely unusual in retail, particularly during a downturn. Do you ask big questions about that and where you are perceived in terms of price and positioning?

## **Richard Ashton**

We do, but we need to remember where some of that has come from. It is not being driven by increasing prices. A few hundred basis points have been driven by better efficiency and management of our stock base to reduce shrinkage, breakage, theft and loss. We have delivered that benefit and we will take it through the P&L to help protect us. There is an element of windfall to the margin gains that we are achieving from FX, and that might become something of a headwind in the second half. The other piece is driven by improved buying. We have not been taking the gains and putting them into lower prices, but this is also not about driving margin gains from increasing prices.

## **John Baillie, SG Securities**

In terms of costs at Argos, a feature of this year has been cost control. Can you help us understand your ability to sustain that and the flexibility of the cost base through 2008 if the worst happens and there is a like-for-like sales decline?

## **Richard Ashton**

As we have said before, each year it becomes increasingly difficult to do this on the cost base. We have done an exceptionally good job in the first half this year in terms of the cost base and saw another very strong performance; not quite the level of the first half, but not far off. When we did the first half release, we were

guiding to a level of cost productivity that was below the first half, which this is, but it is closer to the first half than we thought.

We have been trying to manage the infrastructure more efficiently, we have taken out annexation that we have previously had to run with, and we have sweated our existing assets harder, which have saved us annexation costs. We have also benefited from changes in the product mix within the business. For example, a 36-inch-screen TV a year or two ago was an older technology in a large box that required home delivery only and two men to deliver it; now, it comes as a flat screen that can be sold through a store and the customer can take it home in the back of their car. There are a range of efficiencies that can be gained, even in terms of storing them in warehouses. You can fit four or five flat-screen TV boxes into the space where previously one 36-inch cathode ray tube (CRT) television was stored. You need to recognise the change in your product mix and adapt your operations accordingly to eke out the benefits that you can achieve. We did that quite well over peak, as well as managing headcount and the influx of temporary resource. All of that has worked well for us in the P&L.

### **John Baillie**

Sales growth from new space is 3-4%; what would an underlying cost figure be?

### **Richard Ashton**

Underlying cost inflation will still be around the three percentage points that we have seen this year. What happens to costs in total next year becomes a function of your view of like-for-like, because we are a partially volume-driven market. I cannot give you a cost number without then saying, 'That is because I think this is going to be the like-for-like'. You have to form a view on what the like-for-like will be and then you can form a view on cost productivity, which will get you to your cost number.

### **John Baillie**

At the time of the Focus acquisition, the guidance was that Focus would deliver £10 million of earnings before interest and tax (EBIT). Clearly the market has moved on, would you want to revise that figure?

### **Richard Ashton**

I do not think that it would change that much. We made the Focus acquisition only two or three months ago and we had quite a view on where we thought we were trading and on the outlook for the next year or so. We have been cautious on our view of the market ever since we put out our first trading statement at the point of demerger. It just took longer for our cautiousness to turn out to be the case and for interest rates to impact the business than we – or anybody else – thought it would. That was within our thinking when we made the acquisition and said that it would probably be a couple of years before we could return to decent volume growth on some of these stores.

### **Rod Whitehead, Deutsche Bank**

Thinking ahead to next year, you mentioned some exceptional performance at Argos in games, satnav and flat-panel TV, whereas furniture is weakening. It is unlikely that TVs or games will be that strong, so will any other categories step up to the mark and give you some growth in a tough market?

**Terry Duddy**

Some of that technology will continue, but I do not think that they will be at that growth level, particularly in terms of flat-panel TVs, which have slowed from the fantastic rate a year ago. Second, versus what was a Christmas quarter, there is a change in the mix. Our potential December performance is partly enhanced by the fact that furniture falls out of the mix quite a bit; it comes back again going forward into the new year. A couple of areas where we have started to see the decline, then start to become a bigger part of our mix. This is our way of indicating to you that overall Argos will find it difficult next year.

**David Jeary, Investec**

First, could you talk me through the Argos cost benefit efficiency in the second half versus the first half?

Second, this year and last, you had a weak performance in jewellery. What is your view of that category within your overall mix?

Finally, in the new catalogue, you have a big increase in new lines coming through. Is that broadening or deepening the range? In other words, are you going to try to appeal to more categories? Do you want to increase the market share of the consumer's wallet or are you just deepening the offer in existing categories?

**Terry Duddy**

We have spoken about jewellery being weak and about the market being against us, because it tends to be white gold and diamonds that have performed well. However, it has only ever been marginal. Going back a couple of years, we had to increase our prices in jewellery, as a result of the gold price increases. That has held off for a while but, as you look forward, that issue is going to come back again. Our jewellery weakness is partly about the shape of the market and partly about, overall, if it contains gold it has to be slightly more expensive. For our customer, that makes it more difficult. Having said that, the comment that I made about specialist retailers relates to jewellery too; this year, we did not perform that badly versus some of competitors.

**David Jeary**

Could you quantify that?

**Terry Duddy**

We were better than the overall Signet figures; we were in the region of the H Samuel figures, although I would have thought that they would have performed better. None of that, however, makes me feel great about it. We keep working on jewellery. It is a great margin provider for us and I think that we manage it

quite well. Next year however, it might be more difficult as gold prices keep coming through.

The catalogue that is coming out this Saturday is really more of a reflection of what we did in the very last edition – the autumn/winter catalogue. It is the same broad product range. We have extended sports and leisure and there is some more furniture and homeware, so there is some broadening and deepening of the range, but the new catalogue, other than the seasonal differences, will look similar to the autumn/winter one. Year-on-year, however, it is a big increase.

### **Richard Ashton**

In terms of cost, in the first half, total sales at Argos were up 5% and the cost base was up about 3%. Stripping out underlying cost inflation, the cost base was nil. Off 5% sales growth, that is five points of productivity. Now we expect to achieve productivity in the second half, not at five points, but if we are looking at a sales growth of around two to three points there, that will tell you that the cost base stripping, out the underlying cost inflation, will be down in the second half year-on-year.

### **Robert Miller**

I absolutely agree with your outlook comments about the DIY market – that it could be like 2005-06 – so I cannot resist asking whether you suspect that profit performance can be any better than it was in 2005-06, when Homebase profits declined by £60 million.

### **Richard Ashton**

We do. First of all, next year, we are looking at 9-10% space growth. Assuming that like-for-like growth in 2005-06 was the same, in that year space growth was about 2%. This year, we are looking at about 3%, plus the Focus acquisition of about 6%, so we are going to have a significant element of space growth. To compare it, you could imagine how well protected the Argos business was in 2005-06, partly due to the business model and partly due to the fact that it had the Index acquisition on almost the same timeframe as the Focus acquisition. The space growth in Index at Argos in 2005-06 was very robust, which helped protect the business model there. We have a similar benefit coming through Homebase this year.

The gross margin in 2005-06 in Homebase was flat; this year, we are guiding to 100 basis points of margin which, on the sales number dropping straight to the bottom line, is another £15 million on the profit number.

The third impact is that we were running on an underlying cost inflation of about 4%, which we now expect to be about 3%. Again, that will give us a small benefit in terms of supporting the profit.

We are not saying that we think profits will grow at Homebase, because we think that it will be difficult and there will be the possibility that they are going to be down. I do not think we expect them to be down by £60 million if the like-for-like

numbers are at similar levels to 2005-06, because of those three factors that are very different to the 2005-06 scenario.

**Robert Miller**

The gross margin guidance and the Focus stores give you £25 million of relative leeway.

**Richard Ashton**

Yes; they give you that and you have the underlying cost inflation. We are probably just in a better position on cost productivity than we were two or three years ago.

**Paul Smiddy, HSBC**

Why is it taking you so long to relaunch the Focus stores and how many of them will have mezzanines?

**Richard Ashton**

I would argue that it has not taken us that long. We announced the stores six to eight weeks ago. We have to go through the process of legal assignment of the leases, each of which has to be done individually. We are at the behest of the landlords to do those. Once they come on board, it will take around eight weeks to fit them out and prepare them for trading, and that is on a steady flow basis.

We open about 15 stores a year, which we try to phase so that we are doing two or three at any one time. To suddenly try to do 30 is quite a challenge, not just for our suppliers, but also for the fitters. Our statement always was that we would try to have these stores open and ready for peak trading in March. We already have two open, so we are ahead of schedule in that respect. The first two that were assigned were fitted out within seven weeks and are already open for trading. We will have a few more open before the end of the year and a few more will run into the new year, but we would still be hoping to have them open for the peak trading period.

**Paul Smiddy**

How many of them will have mezzanines?

**Richard Ashton**

None of them will have mezzanines. These stores are not capable of taking them.

**Bruce Hubbard**

Does the environment that you expect in 2008 potentially prompt further asset write-downs on Homebase under International Financial Reporting Standards (IFRS) rules? Maybe completely irrelevant and presumably, that is outside your benchmark.

**Richard Ashton**

We do not focus on it because it is outside the benchmark for exactly that purpose. That is a piece of work that we are actually involved in doing at the moment as we go through into the year end.

**Bruce Hubbard**

I bet you are enjoying that one!

**Richard Ashton**

We do! We have to have an updated view of a three-year plan, which we will have by the end of February. Clearly it goes through the audit process. But there is the possibility that we are going to end up with further asset impairment charges coming through on the Homebase businesses. We said previously that we would get those even if we invested in some of the un-invested stores simply because of the nature of the returns. They are underperforming stores that will be made better, but they will still not make a great return in total. It will just be a good return on the particular investment. However, you cannot look at it under IFRS that way. You have to look at it in the totality of the store. It is a possibility, but as we said before, it is a non-cash item, it is below benchmark PBT, and it is almost impossible to predict or forecast.

**Bruce Hubbard**

It is quite eccentric as well. On a similar basis, I assume you would not be doing that on Argos given the flatter profile?

**Terry Duddy**

There is much less chance on Argos, given particularly the profit growth we have seen this year within the Argos business. We will be coming off a higher base. Therefore, even if we have a more challenging two or three-year period, there are not really – as of last year end – there were no loss-making stores in the Argos portfolio. It is less likely that you will end up with impairment issues. If there are any, it will be the odd outlier store here and there.

**Andrew Hughes**

I have another follow up question on the parallels with 2005 when we obviously saw a number of small and mid-sized casualties. Could you update us in your thinking of, not so much package deals as you have just done one at Homebase, but whether you would be interested in picking up additional legs to the group if competing brands did struggle?

**Terry Duddy**

Yes. It depends on the price, as all these things do. In reality, what tends to happen is that it is actually a case of picking up infrastructure or property that seems to come through, as both Index and Focus did. We will keep an open mind on that. It depends on the prices that happen to be available.

**Andrew Hughes**

That goes for package deals and outright businesses?

**Terry Duddy**

Yes, it depends on the size and the circumstances. It is hard to predict, but we always keep our eyes open.

**Andrew Hughes**

As a final question, does your fixed charge cover have an estimate for this year and next of approximately two times still?

**Richard Ashton**

No. It will be a bit higher than that. If you go to the higher level of benchmark PBT at the upper end of the range of around 430, add back your depreciation of approximately 150, lease rental expense of approximately 350, and then take off the interest, that will get you to a number around 900 of EBITDAR. Over the fixed charges, that will take you to a high two point something for this year, with the possibility that it will reduce slightly next year from a reduced profit level, exacerbated by a higher fixed charge level with higher rents.

**Richard Ashton**

Thank you all for your time today. I look forward to speaking to you with our second half trading statement in the middle of March.