

# News Release



Release Date: 16 01 2004

## Q3 Trading Statement

Group sales for the third quarter ended 31 December 2003 were up by 5.2% from good growth in Boots The Chemists and continuing strong growth in Boots Healthcare International.

Sales growth (%):

	Actual	
Boots Group PLC	5.2	Like for Like
Boots The Chemists	5.4	4.1
- Health	7.0	6.4
- Beauty & Toiletries	5.5	4.2
- Other	1.6	-1.4
		Local Currency
Boots Healthcare International	13.6	9.9

Chief Executive Officer, Richard Baker said:

"Boots The Chemists has had a good Christmas. Customers responded well to the improvements we have made in our product ranges, value for money and service. Boots Healthcare International has had another good quarter of double digit growth.

The actions we have undertaken over the last few days underline our determination to build a modern, efficient and competitive Boots The Chemists."

## Boots The Chemists - A second Christmas of good growth

Christmas trading delivered the sixth consecutive quarter of good growth building on the strong performance in 2002.

Like for Like Sales Growth (%)

	Q1	Q2	Q3	Q4
02/03	0.8	5.7	7.5	4.1
<b>03/04</b>	<b>4.6</b>	<b>2.9</b>	<b>4.1</b>	

Customer response in the quarter to the focus on choice, value and service was positive. The Christmas range was wider and, based on lessons from last year, included more beauty and fragrance gifts. It was made available in significantly more stores, and the popular 'Mix & Match' offer was broadened. Weekly offers on big ticket items, such as digital cameras and fitness equipment, underpinned customer interest throughout the period.

Emphasis on retailing basics driven by improved execution in store increased sales. Significantly greater flexibility was given to store managers to extend opening hours and recruit staff to replenish shelves and reduce queues.

By category, sales in Health were up 7.0%. Strong Dispensing continues to drive growth. In OTC healthcare we regained market leadership in vitamin sales and there was some small contribution from a higher incidence of colds and flu before Christmas. In Beauty & Toiletries, sales were up 5.5% with strong contributions from electrical and Christmas beauty gifts. Cosmetics and fragrances again grew faster than the market due to new product introductions and premium line sales. Sales in Other areas were up 1.6%. Baby category showed robust growth and sales of digital cameras were particularly strong. However, traditional photo developing continues to decline with the market shift to digital.

Gross profit progressed well in the quarter. The gross margin percentage was in line with the guidance given at the interim results in November, down 30 bps year on year. Remaining Christmas stocks were at a similar level to last year and early clearance activity has gone well.

In November we reported that proposed changes to the Government's reimbursement on a limited range of generic medicines would reduce profits. Now

finalised, gross profit will fall by £6m in the second half, and by £12-15m in a full year in line with previous estimates.

### **Boots Healthcare International - Growing market share**

Boots Healthcare International sales were up 9.9% in local currency in the third quarter. All three major brands showed strong growth.

### **Quarter 4 - Accelerated action**

At the interim results announcement in November some of the issues and opportunities facing Boots The Chemists were set out. Management also declared its intention to accelerate and expand existing change programmes to make the business more modern, increasingly efficient and more competitive. In Quarter 4 immediate priorities are:

Modern - increase opening hours to meet changing customer shopping patterns

Efficient - reduce overheads and simplify head office structure

Competitive - bring forward further price investment under 'Lower Prices You'll Love'

Extending opening hours in Quarter 4 and next year will enable community chemists to reflect local surgery hours, convenience stores to open when needed, and larger stores to open on increasingly busy Sundays. The anticipated Quarter 4 cost before any sales increase is £4m. The cost in a full year would be £16-20m, before any sales benefit which is expected to grow over time.

Yesterday the Company announced its intention to further restructure its head office with the loss of around 900 jobs to improve speed of decision making and reduce costs. This is part of the 'Getting in Shape' programme previously announced, which is intended to reduce annualised costs by in excess £100m over three years. The major restructuring would reduce layers of management and deliver a simpler business. The costs associated with the head office reorganisation programme, falling in the fourth quarter of 2003/04, will be £30m and were not previously in market forecasts.

The company also announced plans to strengthen the store organisation in all three key areas of pharmacy, sales and operations creating an additional 290 roles over the next year.

Customer response to the 'Lower Prices You'll Love' programme has been positive. Over 1,500 items, representing around 12% of counter sales, are now at significantly lower prices than a year ago and the 170 lower prices introduced in Quarter 3 contributed to that quarter's growth. It is now intended to continue to invest in this area, alongside other elements of the Boots offer, through Quarter 4. The fourth quarter's investment is around £5m at sales and gross profit.

### **Guidance**

Management remain confident about the current year's trading and expect Group profits for the current financial year to be in line with market expectations apart from the £30m costs that would arise from the head office reorganisation.

Having delivered a strong Christmas and set out the initiatives for the fourth quarter, management's focus is now on completing its plans for the coming year. Guidance to the market for the 2004/05 financial year will be given at the appropriate time.

### **For further information please contact:**

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Richard Baker, Chief Executive Officer, Howard Dodd, Chief Financial Officer and Peter Baguley, Director of Investor Relations, will host a conference call for analysts at 08.15 BST.

UK dial in number: 0845 245 3471  
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A replay facility will be available for seven days:  
UK dial in number: 0845 7000 145  
International dial in number: +44 (0) 1452 55 00 00  
US dial in number: 1866 247 4222  
Access number: 887035#