

# News Release



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PR05007

Strictly Embargoed until RNS announcement

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## Trading and corporate development update

- **BTC Q4 total sales +1.1%; –0.9% Like for Like (LFL)**
- **BTC Q4 underlying LFL +0.7%**
- **BTC and Group performance for 04/05 expected to be in line with revised market forecasts**
- **Lower consumer spending and infrastructure costs expected to lead to lower BTC operating profits in 05/06**
- **Proposed sale of Boots Healthcare International**
- **Continued return of cash to shareholders**

### Q4 Trading Update

Boots The Chemists had a difficult fourth quarter with LFL sales down 0.9%. Adjusting for the leap day in February 2004 and other calendar effects underlying LFL is up 0.7%. Although a slow down on the rate of growth seen earlier in the year, it remains ahead of that reported by the BRC.

Q4 sales grew strongly in the core pharmacy and beauty businesses. Sales growth in Health is estimated at 2.8% helped by the continued investment in the pharmacy business, which is expected to be up 3.9%. Beauty and Toiletries sales growth is estimated at 0.5% with the investment in beauty halls and the No7 relaunch helping to offset a difficult quarter in Toiletries. The trends identified in the March update have continued. Sales in Lifestyle are expected to be down 2.0%.

The full year is expected to deliver overall LFL growth of 2.3% with the second half, despite a good Christmas in comparison to other retailers, showing the effects of the consumer slowdown.

Gross margin for the year is estimated to be down 80 bp which is better than guidance given at the start of the year. This is due to the benefits from Getting in Shape, good initial results from better buying and an improved sales mix.

BTC operating profit is expected to be in line with revised market forecasts at around £470m.

Boots Healthcare International sales are estimated to be up 5.7% for the year on a comparable basis with operating profit slightly ahead of current market expectations at around £85m.

Management expect full year Group pre-exceptional pre-tax profits to be in line with revised market expectations at around £475m.

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Management expects that lower consumer spending and higher infrastructure costs are likely to lead to lower operating profits in 2005/06.

Sales growth is expected to remain subdued. With Quarter 4 underlying Like for Like of 0.7% as a guide we expect a Like for Like of between 0-2%. New space is expected to add a further 2% to sales.

Gross margin is anticipated to be broadly stable year on year which will allow continued investment in lower prices in competitive markets where there is growing demand for value. Better buying and mix management are expected to broadly balance the cost of this price investment.

Operating costs are expected to be up 6% year on year as a result of the ongoing effect of renewing the operating infrastructure of the business and adding space on the Edge of Town. Underlying costs remain tightly controlled with the benefits from Getting in Shape and other productivity improvements offsetting inflation and the costs of selling higher volumes.

### **Proposed Sale of Boots Healthcare International (BHI)**

The Board announces the proposed sale of BHI. BHI is a recognised global leader in the over the counter medicines business with brands such as Nurofen, Strepsils and Clearasil.

BHI is entering the final year of a successful 4 year growth strategy which has seen profits increase significantly from £50m to over £80m. Tremendous value has been created over that period. The organic prospects for growth remain strong and the business has significant potential. However, the global OTC market is consolidating and it is believed that BHI's future will be better outside the Group. Its sale would also allow fuller focus on modernising BTC.

Market conditions are good to realise full value for shareholders. The sale process will be launched shortly and is expected to complete within the current financial year.

The intention is to return a significant proportion of the proceeds to shareholders.

Goldman Sachs have been appointed to advise on the disposal.

### **Proposed sale and leaseback**

Boots The Chemists is shortly to commence the marketing of 300 of its small stores, typically in market towns for sale and leaseback. The proceeds of the sale are expected to be in the region of £250m and marketing activity will commence this month with an aim of completing over the summer. The proceeds will be used to pay down short term borrowings and the transaction will be broadly earnings per share neutral.

## **Capital structure and shareholder returns**

The Group maintains its ongoing commitment to deliver value and returns to shareholders through returning surplus cash where appropriate. £1.7bn has been returned over the last three years through the combination of buybacks and dividends.

Building on the very substantial returns in recent years, shareholders will also benefit from the return of a significant proportion of the BHI sale proceeds and the completion of the existing £700m share buyback programme. The first £350m tranche of the existing buyback programme is nearing completion and the remaining £350m will be returned over the next two to three years in line with BTC performance.

Alongside the sale of BHI, the overall capital structure of the Group will continue to be managed to determine the most appropriate balance sheet for the ongoing BTC business whilst maintaining a strong investment grade rating.

### **Commenting on the announcement Chief Executive, Richard Baker, said:**

"The final quarter's trading reflected the general slowdown in UK retail. It is clear that we are now, and will be for the foreseeable future, operating in a much more difficult trading environment in which sales growth will be hard fought for and cost pressures will continue to rise. This will impact the Group's performance in the short term. However these tougher trading conditions only underline the need for us to continue with the significant range of initiatives to improve our competitive position and to deliver the modernisation of the business's operations.

"We have made significant progress already, but as I stated when I joined the company, there is still much to do and there will be no quick fixes. We have started to tackle the major issues facing the company. If we were to have any chance of competing effectively in the medium term we needed to reduce prices on core lines. This we have done and will continue to do so, with improved buying terms and the benefits of Getting in Shape mitigating the impact of this. We now open to suit our customer's needs and are making the necessary investment in new stores to address our lack of presence out of town. Our systems were inefficient and becoming obsolete. We have been re-engineering our supply chain to improve availability and efficiencies, whilst handling higher volumes. We have renewed every till across the chain and have overhauled our financial and management information systems through the introduction of an SAP Backbone system. We have also made cost efficiency a way of life, with the getting in shape programme reducing headcount by over 1,000 people and contributing over £110m to cost reduction and gross margin improvement across the Group.

"I would be the first to acknowledge the many challenges that Boots faces in addressing its legacy, and the highly competitive environment in which it operates. It has been tough for both our people and our shareholders to face the reality that BTC was operating an unsustainable model. Re-investment was minimal and profits were inflated by unrealistic pricing. We are now tackling these issues.

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“We must not lose sight of the many strengths on which BTC’s future is being built. We have a rejuvenated, growing pharmacy business which customers trust, complemented by a strong beauty and cosmetics business. We are competing strongly in the core toiletries area and holding market shares. Our own brands offer the opportunity to drive growth and margins. We are building better systems, greater efficiencies and swifter responses to our customers needs. We continue to generate substantial profits and cash for the benefit of our shareholders. I have every confidence in the future for Boots.”

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Chief Executive, Richard Baker and Chief Financial Officer, Howard Dodd, will host an analyst briefing this morning at 09.30 BST at:

The City Presentation Centre  
4 Chiswell Street  
Finsbury Square  
London  
EC1Y 4UP

There will be a live audiocast of the presentation on the corporate website at [www.boots-plc.com](http://www.boots-plc.com).

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