

# The Carphone Warehouse Group PLC

## Interim Results 2005

3 November 2005

**THE Carphone Warehouse**

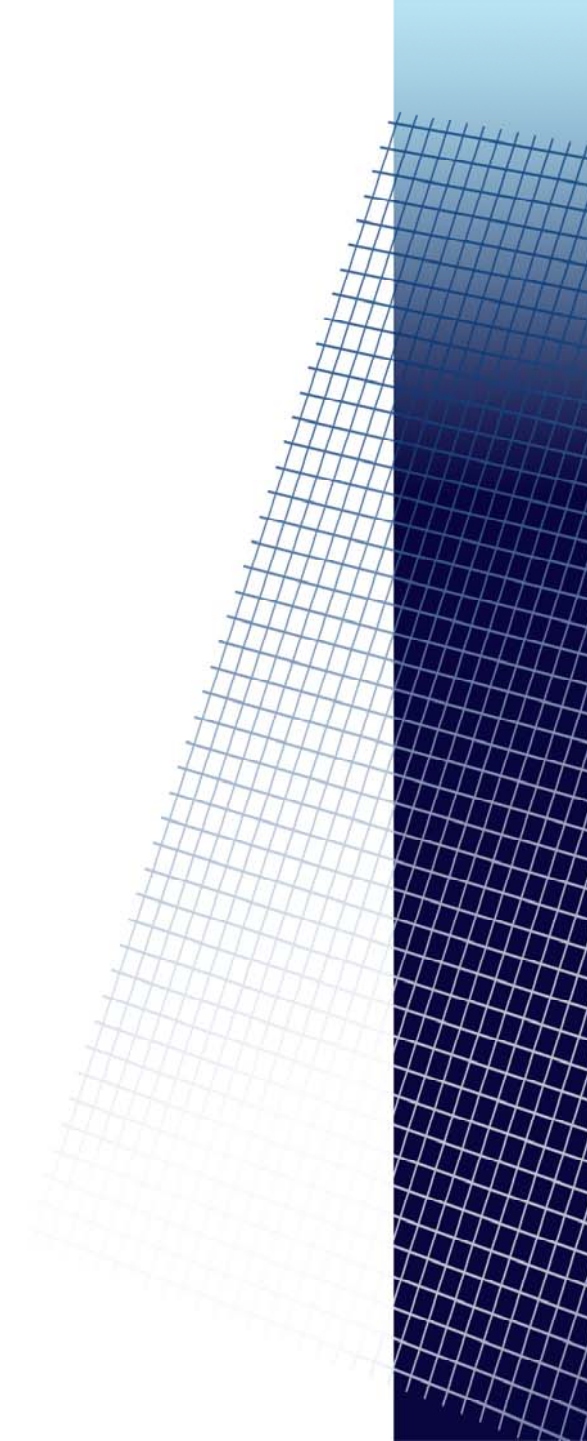
*...for a better mobile life*

# Introduction

Charles Dunstone

**THE Carphone Warehouse**

*...for a better mobile life*



# Agenda

- **Overview**
- **Financial performance**
- **Strategy and outlook**
  - **Broadband**
  - **MVNOs**
  - **Christmas**

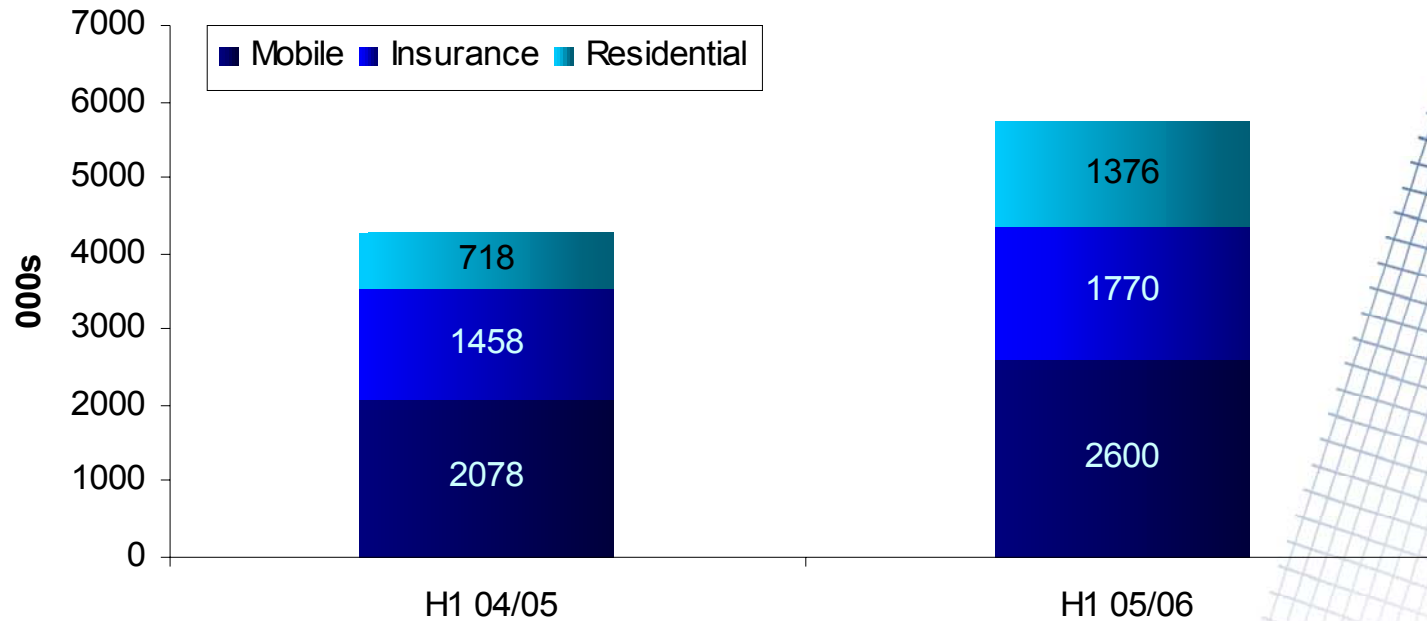
# Headlines

- **Group revenues up 25.0% to £1,290.7m**
- **Retail revenues up 16.6% to £572.8m, +2.3% LFL**
- **Retail gross profit up 19.4% to £165.5m, +3.5% LFL**
- **Total LFL revenues (including Online) +7.5%**
- **EPS up 35.2% to 3.15p**
- **Interim dividend up 36.4% to 0.75p**
- **Significant broadband push announced today**
- **MVNO strategy developing rapidly**
- **Outlook continues to be very positive**

# 125 new stores opened



# Strong growth across all customer bases



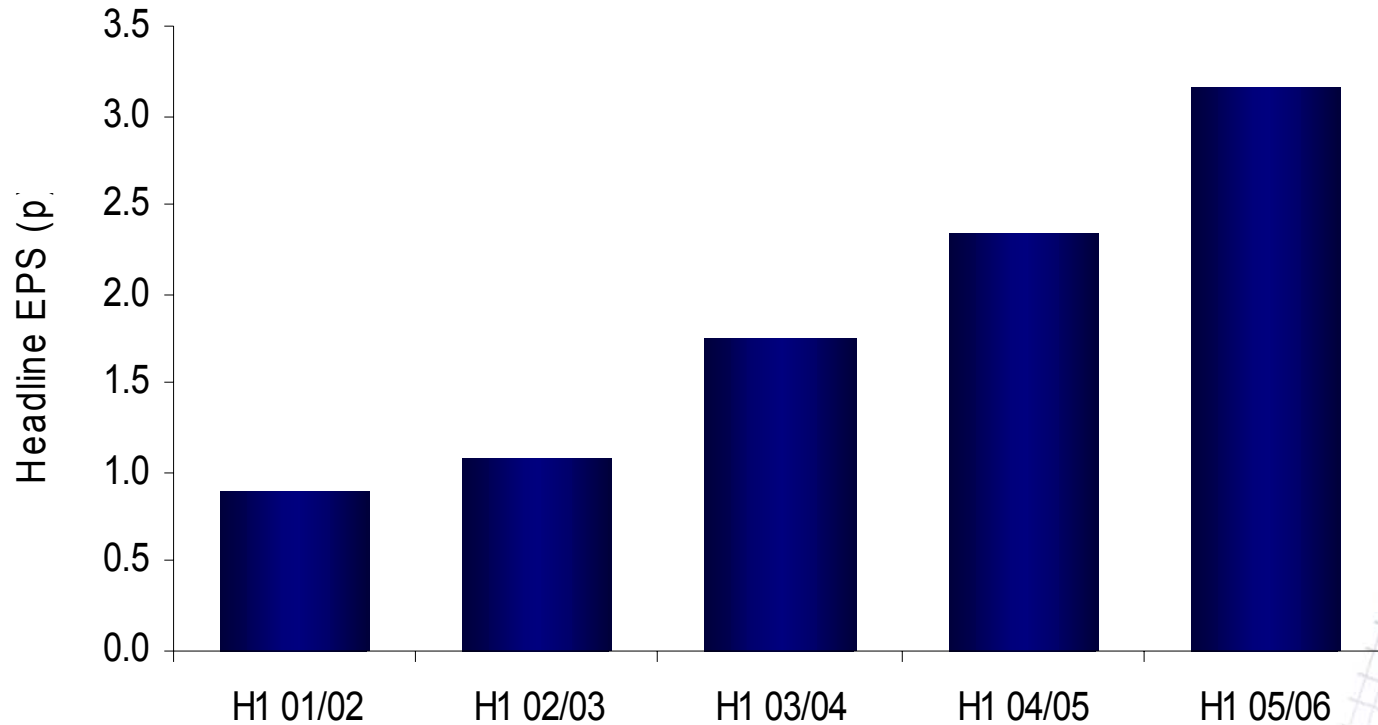
# Financial Performance

Roger Taylor - CFO

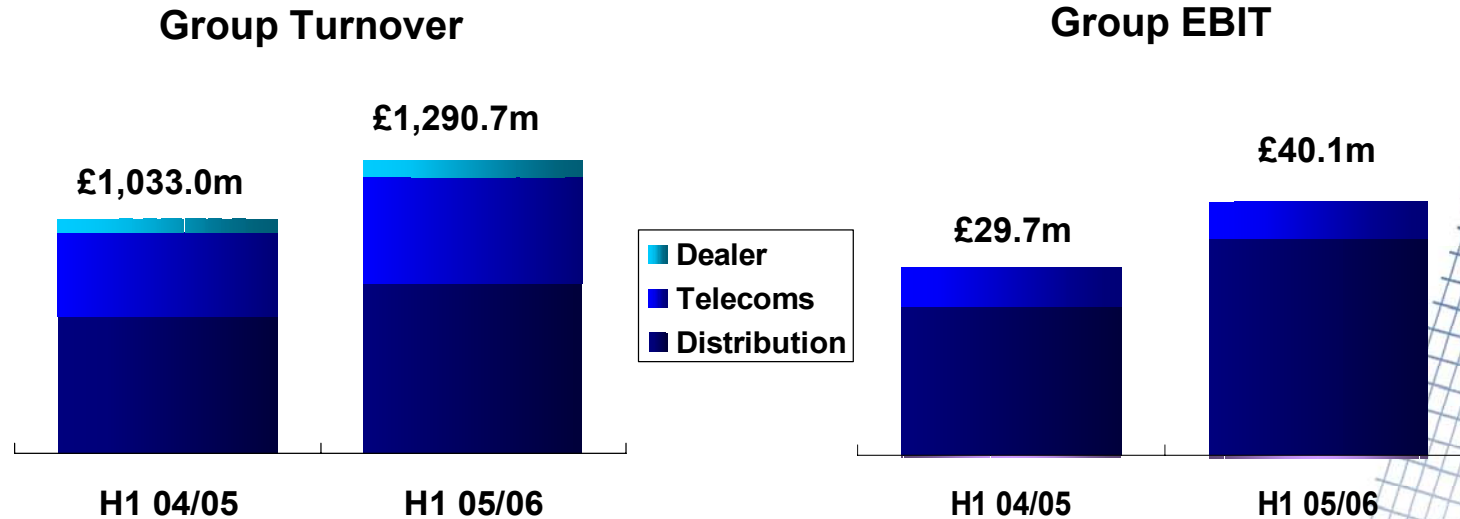
**THE Carphone Warehouse**

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# Strong growth record continuing

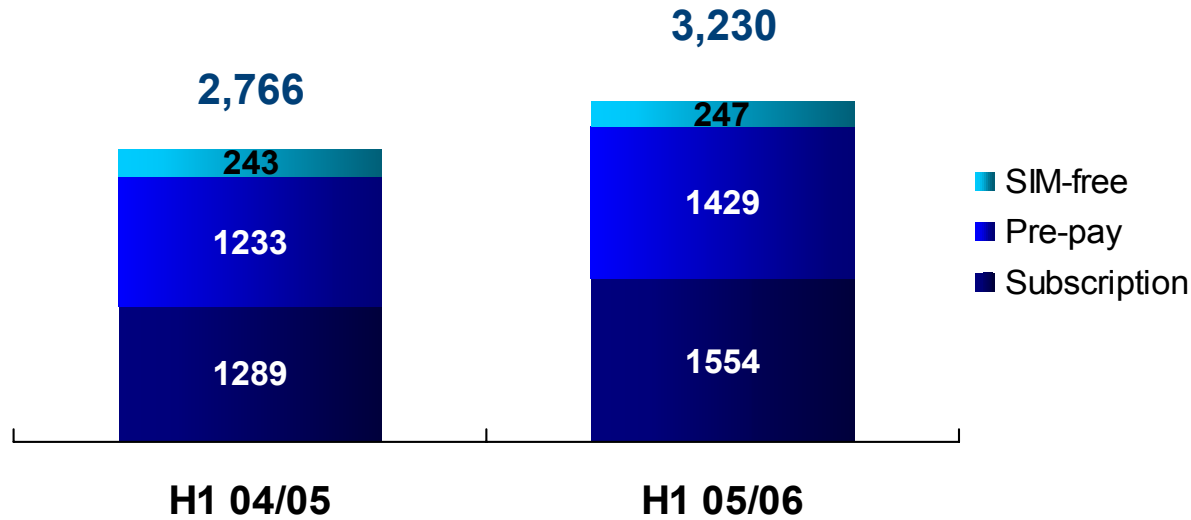


# Summary performance



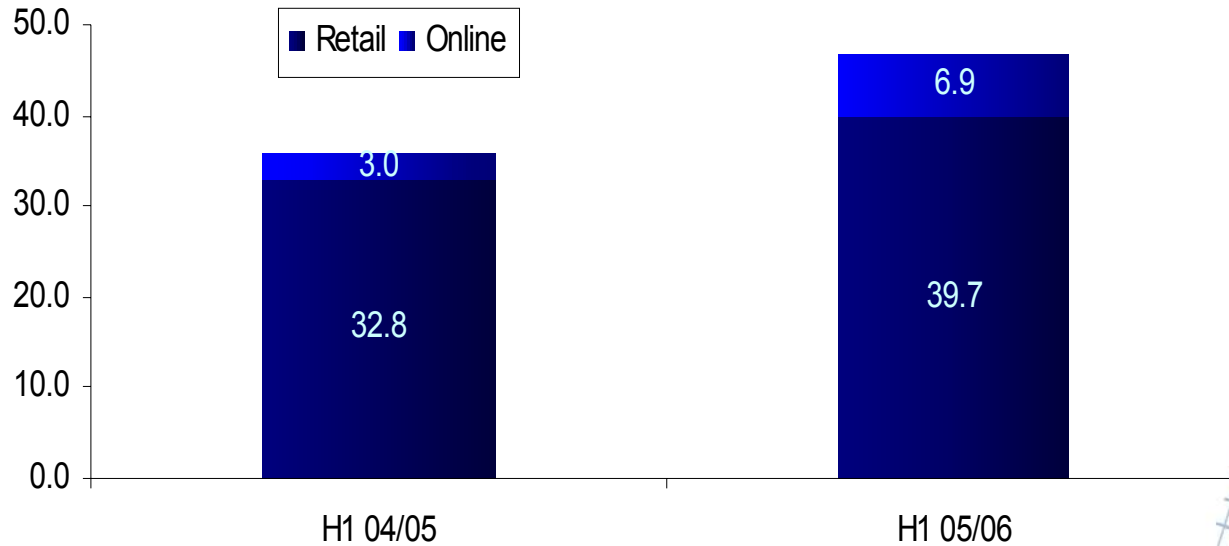
- Strong organic revenue growth across all divisions, driven by new space and customer recruitment
- Group EBIT growth driven by Distribution
- Telecoms EBIT depressed by start-up and recruitment costs, but strong year-on-year performance expected in H2

# Group connections (000s)



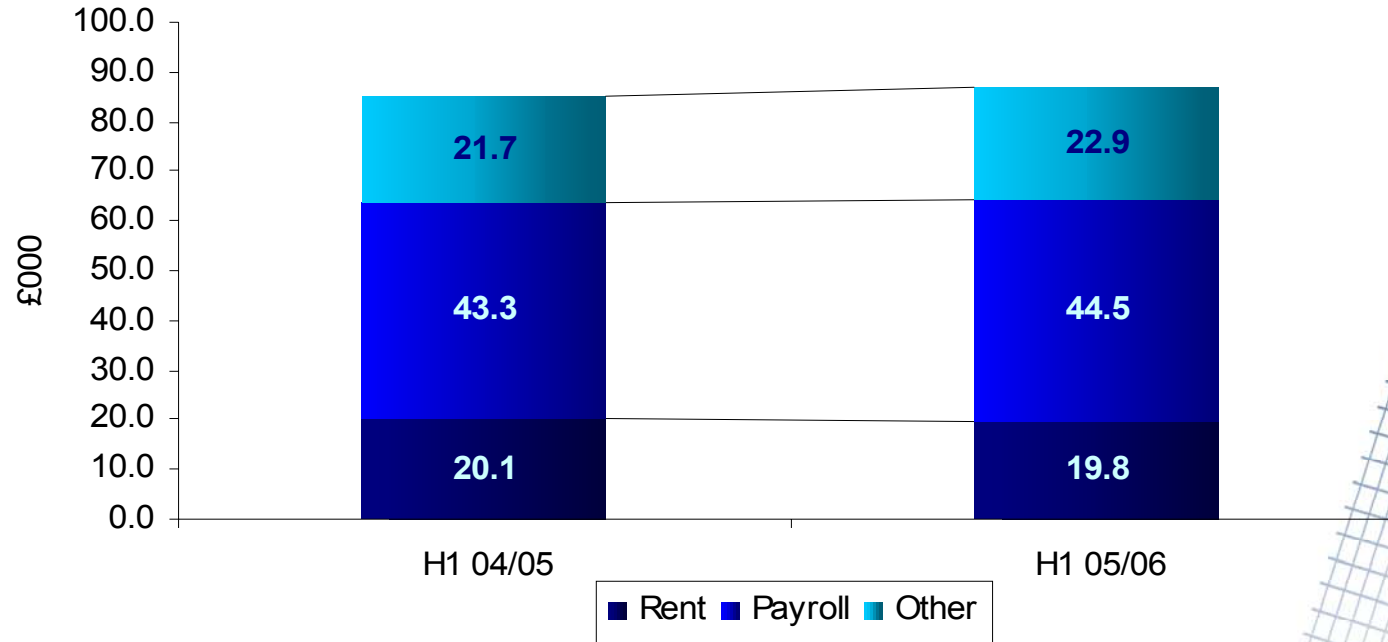
- Includes 330k Online connections (H1 04/05 – 186k)
- Subscription connections up 20.5%
- Connections per owned store fell 3.3%, influenced by number of new stores

# Retail and Online contribution growth



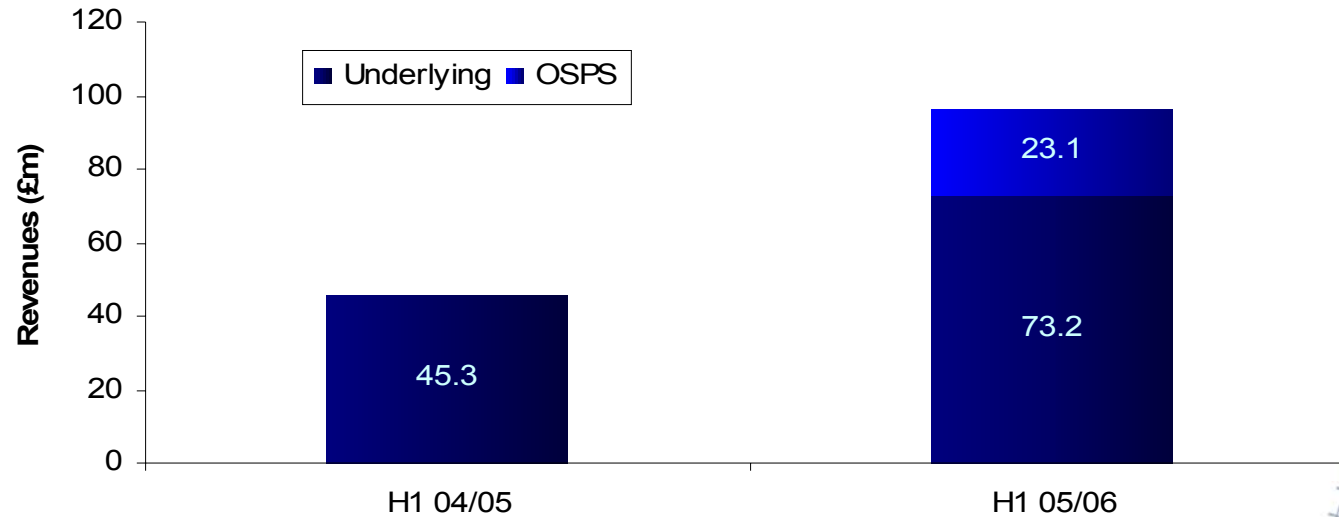
- LFL driven by a 6.2% increase in gross profit per connection
- Franchise operations beginning to make an impact
- Contribution per store up 1.2% to £25,956 despite pre-opening costs and new stores

# Retail direct costs per store



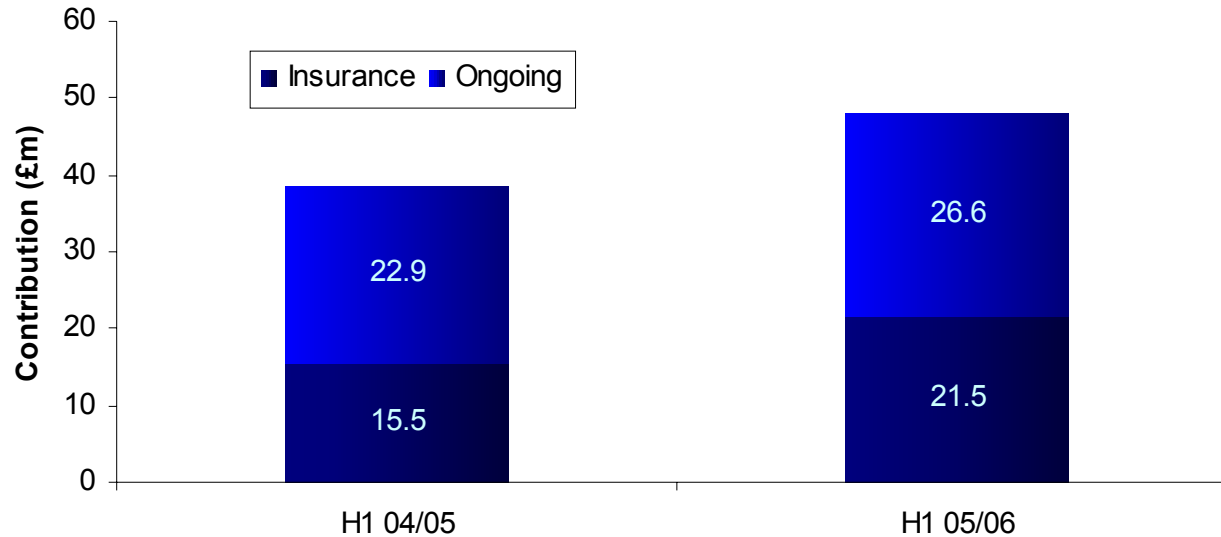
- Total direct costs per store rose 2.3%
- Rent per store fell with lower average size and increasing non-UK weighting
- Payroll increases driven by commission

# Online



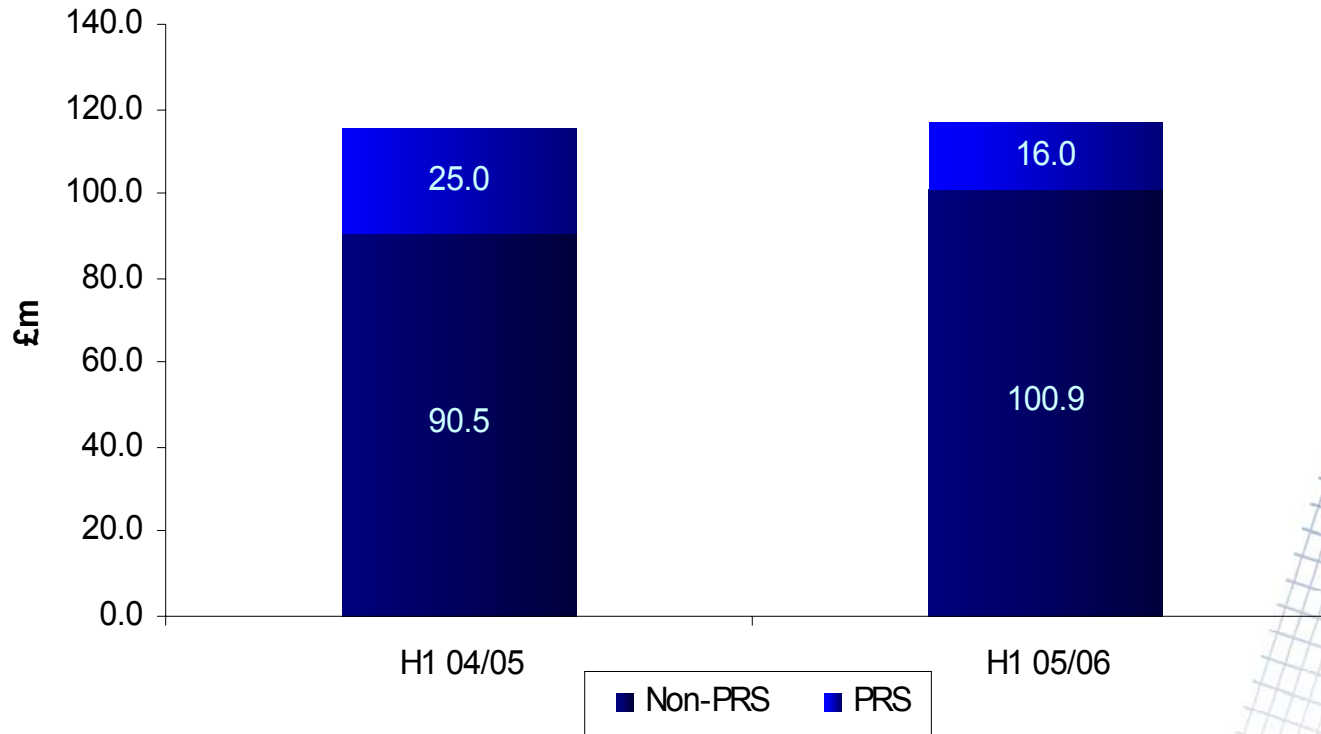
- Revenues up 112.7%
- Underlying growth (ex One Stop Phone Shop) 61.7%
- Significant market share gains in this channel

# Insurance and Ongoing



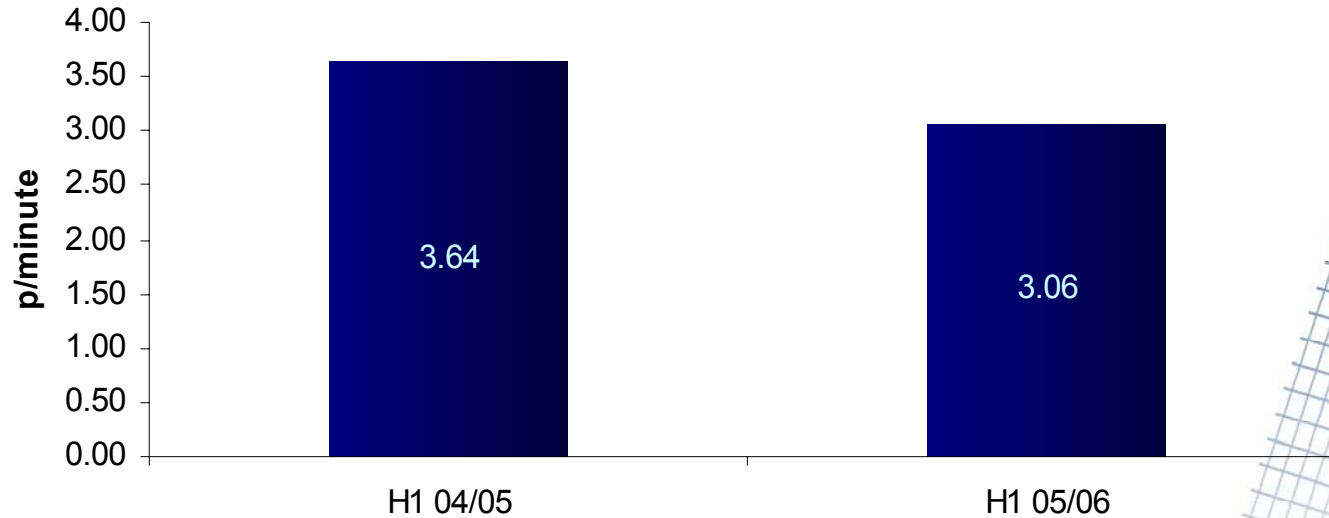
- **Combined growth in contribution of 25.3%**
- **Insurance base up 21.4% year-on-year at 1.8m**
- **Key beneficiaries of physical expansion and Online growth**

# Opal – analysis of revenue trends



- Growth in non-PRS revenues of 11.4%
- PRS volumes steady but PRS revenue per minute in decline

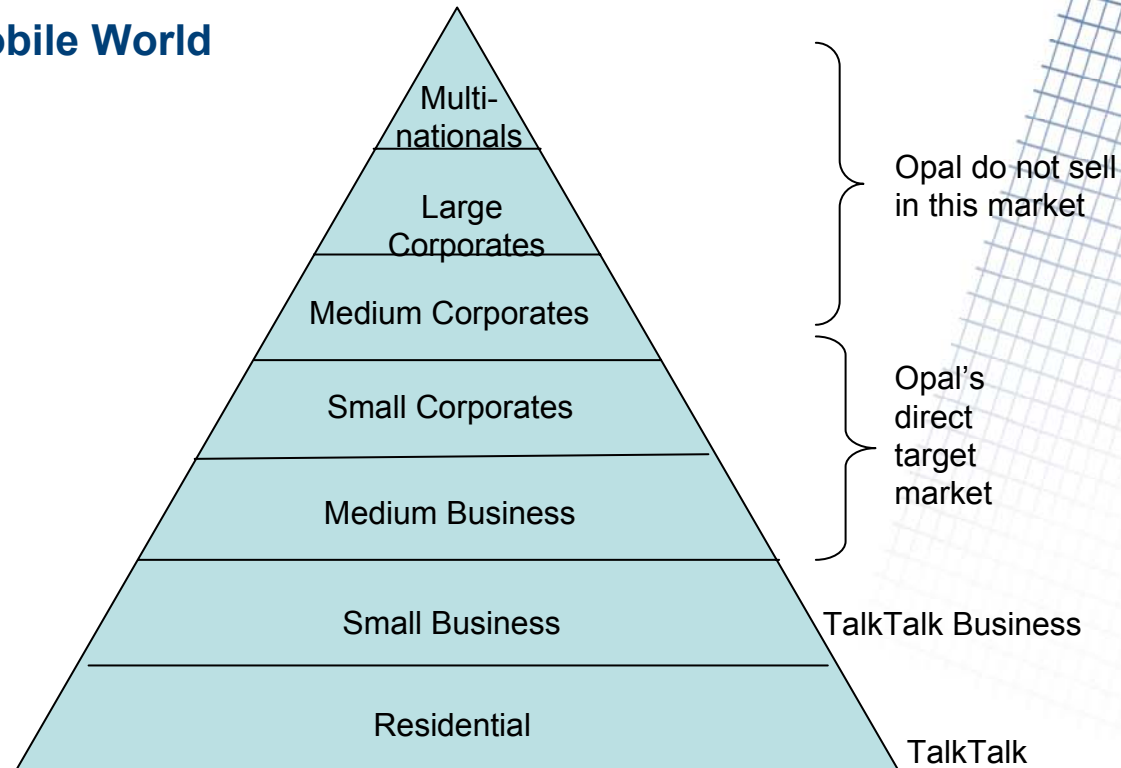
# Non-PRS price per minute erosion



- Revenue per minute in Opal's core non-PRS activities fell 16% year-on-year
  - 12% mobile termination cuts
  - 4% competitive pressures

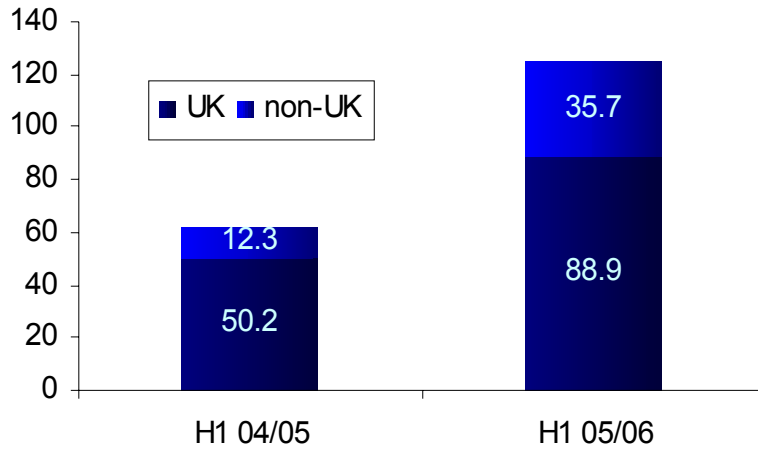
# Opal's recovery strategy

- Expanding target market – TalkTalk Business
- Investing in broader product suite
  - Line rental, broadband, mobile
- Key beneficiary of unbundling strategy
- Continued significant value driver for Group as network provider to TalkTalk and Mobile World

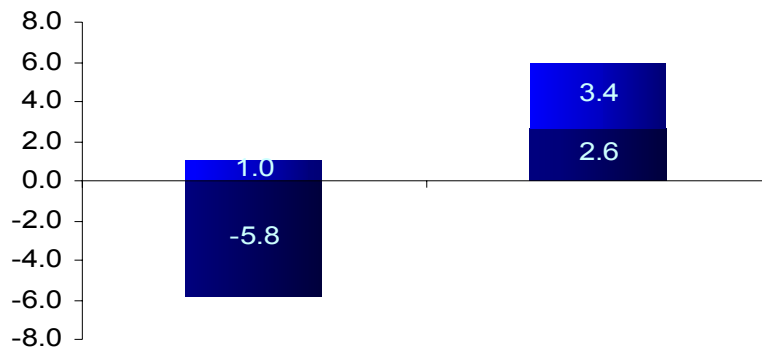


# TalkTalk

Revenue (£m)

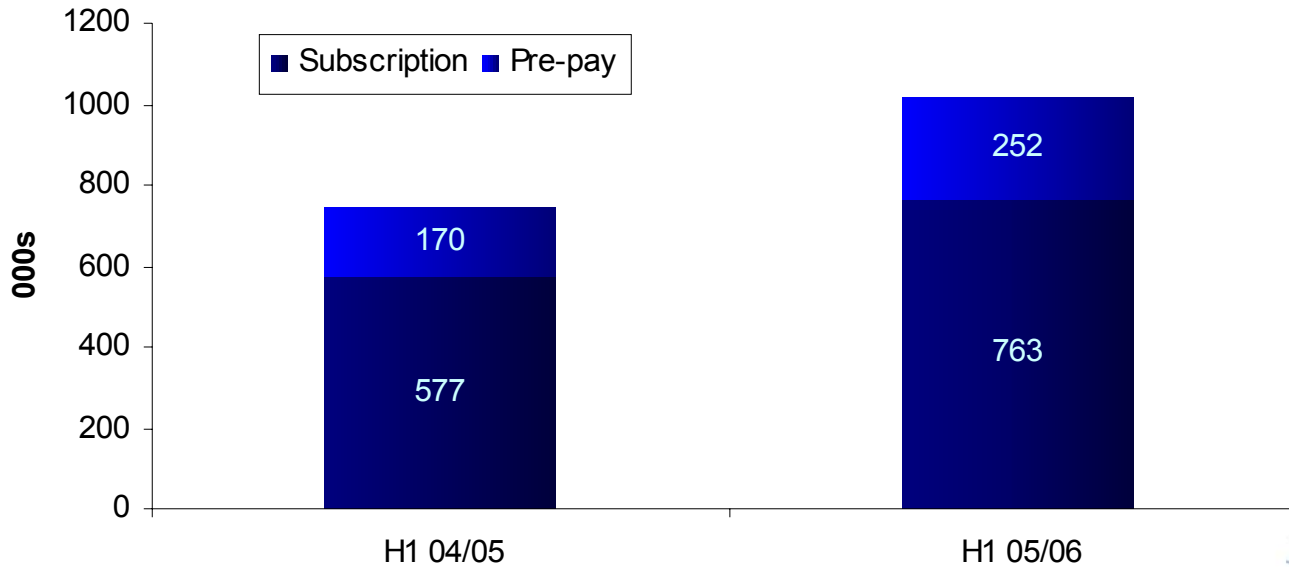


Contribution (£m)



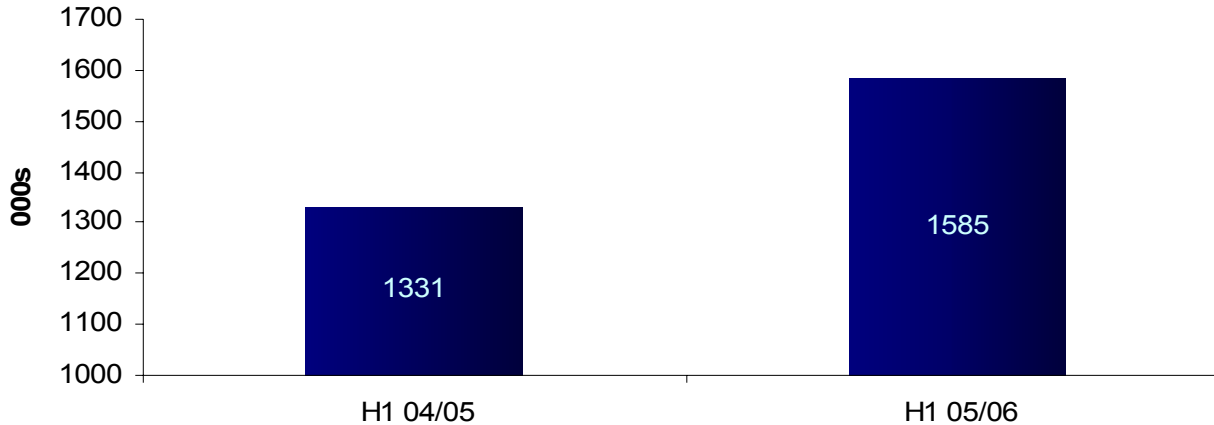
- Top line growth driven by continued customer acquisition strategy
- UK contribution per customer consistent year-on-year at around £4
- UK marketing weighted to H1, as last year
- UK CPS market in a transitional stage with a number of players reviewing strategy

# The Phone House Telecom



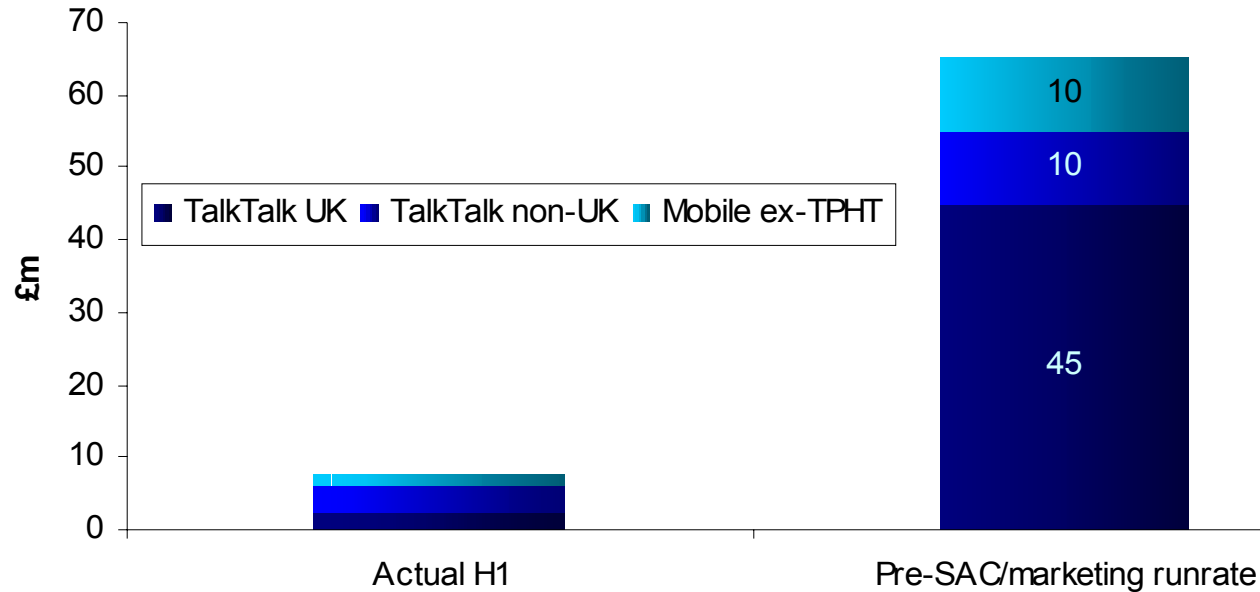
- **TPHT achieving strong customer growth through successful distribution strategy**
- **Blended ARPU has fallen from £32.3 to £29.8 year-on-year as we pursue a more mass market approach**
- **This year's profitability weighted towards H2 volume bonuses – visibility very good**

# MVNO/FM operations



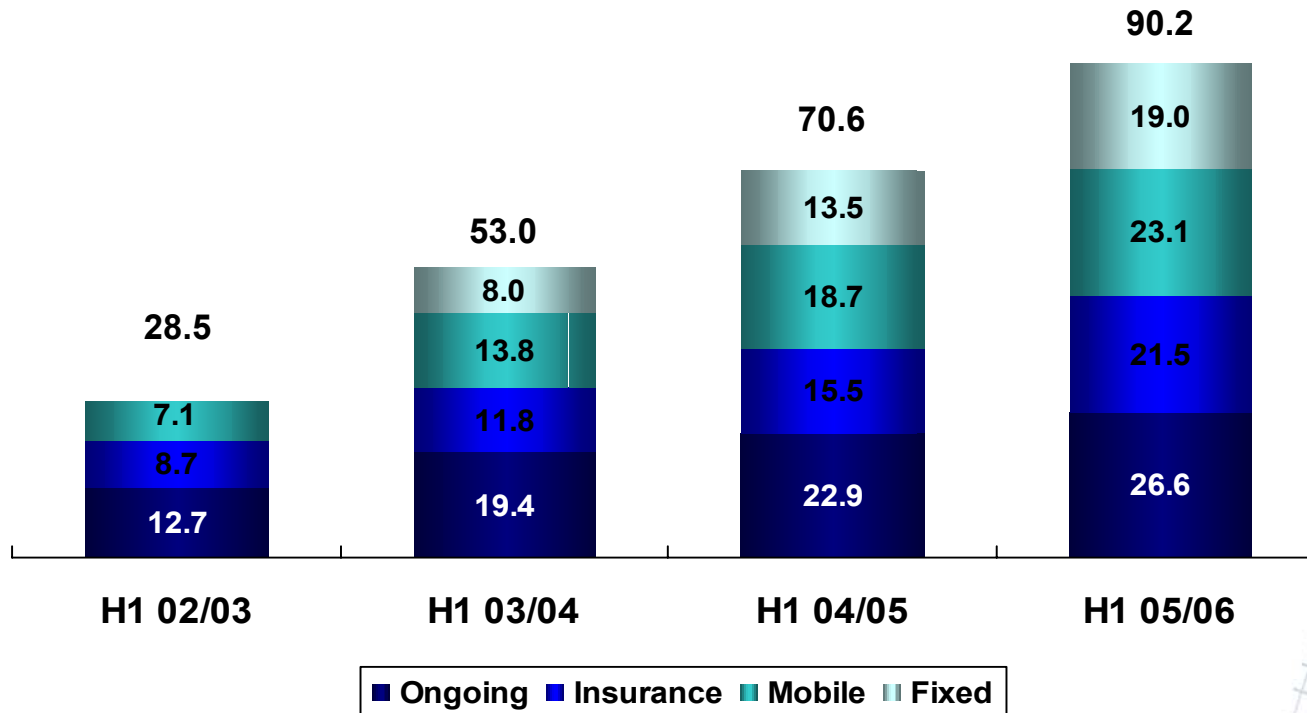
- **Strong customer growth set to accelerate further, driven by MVNO strategy**
- **Blended ARPU will increase as MVNO customers become a greater proportion of the base**
- **Short term impact on profitability from SAC, but lifetime value is very attractive**

# TalkTalk/MVNO – current runrate



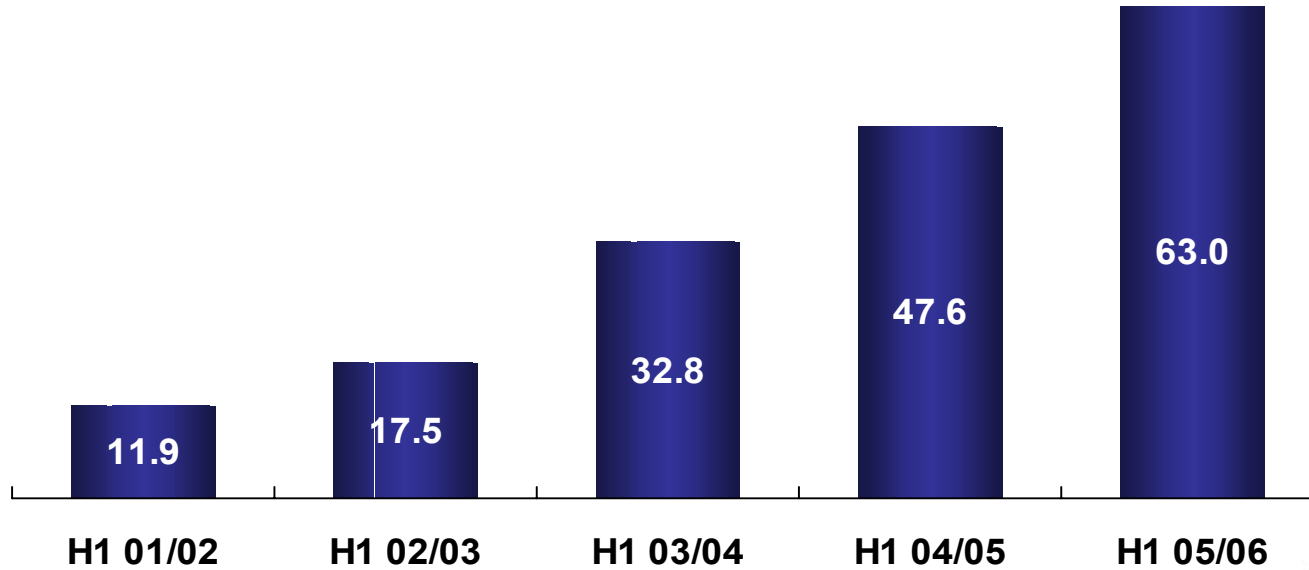
- Strong focus on customer acquisition continues
- H1 net contribution of £7.6m
- Annualised runrate pre-SAC of c. £65m

# Contribution from recurring revenues (£m)



- Recurring revenues accounted for 66% of group contribution in H1, the same level as in H1 04/05

# Non-UK contribution (£m)



- Non-UK operations represented 45.8% of Group contribution in H1

# Support costs

£m	H1 05/06	H2 04/05	H1 04/05
Support costs	53.9	52.5	45.4

- Support costs growth driven by further business expansion but runrate broadly in line with H2 last year

# Depreciation, amortisation, tax and dividend

£m	H1 05/06	H1 04/05	% Change
Depreciation	23.4	20.2	15.5%
Amortisation of intangibles	20.2	11.6	73.4%

- **IFRS disclosure of amortisation of intangibles comprises software costs previously included within depreciation, and SAC amortisation costs previously charged directly against business units**
- **Amortisation of acquired intangibles will be disclosed separately and excluded from headline earnings**
- **Tax rate of 25% expected for full year**
- **Interim dividend increased 36.4% - similar increase planned for full year**

# Cash flow (£m)

£m	H1 05/06	H1 04/05
EBITDA	86.5	62.1
Working capital	(57.3)	(13.6)
Cash generated from operations	29.2	48.5
Taxation and interest	(7.3)	(11.9)
Operating intangibles	(37.3)	(19.3)
Net capex (ex freeholds)	(45.7)	(23.7)
Freehold acquisitions	(5.3)	-
Acquisitions and investments	(4.2)	(22.5)
Dividends	(11.0)	(7.9)
<b>Net cash outflow</b>	<b>(81.6)</b>	<b>(36.9)</b>
Opening net debt	(68.4)	(40.6)
Share issues and FX	(9.1)	(9.1)
Fair value of current asset investments	3.2	-
Closing net debt	(156.0)	(86.6)

# Working capital

£m

Expected working capital movement		20
Additional current assets absorption	40	
Accelerated creditor payments	20	
Cashback provisions	(30)	
	<hr/>	
Additional working capital movement		30
		<hr/>
Actual movement		50
		<hr/>

- **Stock profile should reverse by year-end**
- **Payment profile assisting margin**

# Highlights of H1

- **25% growth in revenue driven by space growth, like-for-like and customer recruitment**
- **Strengthening competitive position in Retail and Fixed Line**
- **Recurring revenue streams provide strong earnings visibility**
- **35.2% growth in EPS despite continued significant investment in new growth areas**
- **36.4% growth in interim dividend with intention to reflect similar level of growth in full year dividend**

# Strategy and outlook

Charles Dunstone

**THE Carphone Warehouse**

*...for a better mobile life*

# Current UK fixed line position

- **Customers acquired to date:**
  - > 1m voice customers
  - < 100k line rental customers
  - c. 70k broadband customers
  - c. 200k MVNO customers
- **Future in bundled services with option of mobile**



# Delivery of bundled services

- 3 options for delivery:
  - CPS/WLR/IP Stream
  - CPS/WLR/partial unbundling (“PULL”)
  - Full unbundling (“FULL”)
- The customer has perfect visibility of cost and bandwidth, so the service as currently delivered is commoditised and low margin
- The regulator has set out to encourage investment, with local loop unbundling (“LLU”) the preferred route for the creation of real competition at the local access level
- Our analysis suggests the cost economics of LLU are compelling

# Cash costs of delivering residential services

Monthly (£)	CPS+WLR +IPStream	CPS+WLR +PULL	FULL	FULL
Customers /exchange	250	250	250	500
Monthly rental	16.40	9.70	6.70	6.70
Other opex	2.50	4.50	4.50	3.00
<b>Total cash costs</b>	<b>18.90</b>	<b>14.20</b>	<b>11.20</b>	<b>9.70</b>

Source: Ofcom, BT, Goldman Sachs

- Assumes a “triple play” voice/line rental/broadband customer
- Excludes SAC and costs to serve, which are broadly the same under all structures
- FULL is >£9 cheaper per customer month to deliver than CPS/WLR/IPStream

# Economics of voice/line rental customers

Monthly (£)	CPS+WLR	FULL
Bundled customers /exchange	N/A	250
Monthly voice rental	8.40	6.70
Additional network opex	0.00	1.00
Ingress/termination upside	0.00	(1.00)
Total costs less incremental benefits	8.40	6.70

Source: Ofcom, BT, Goldman Sachs

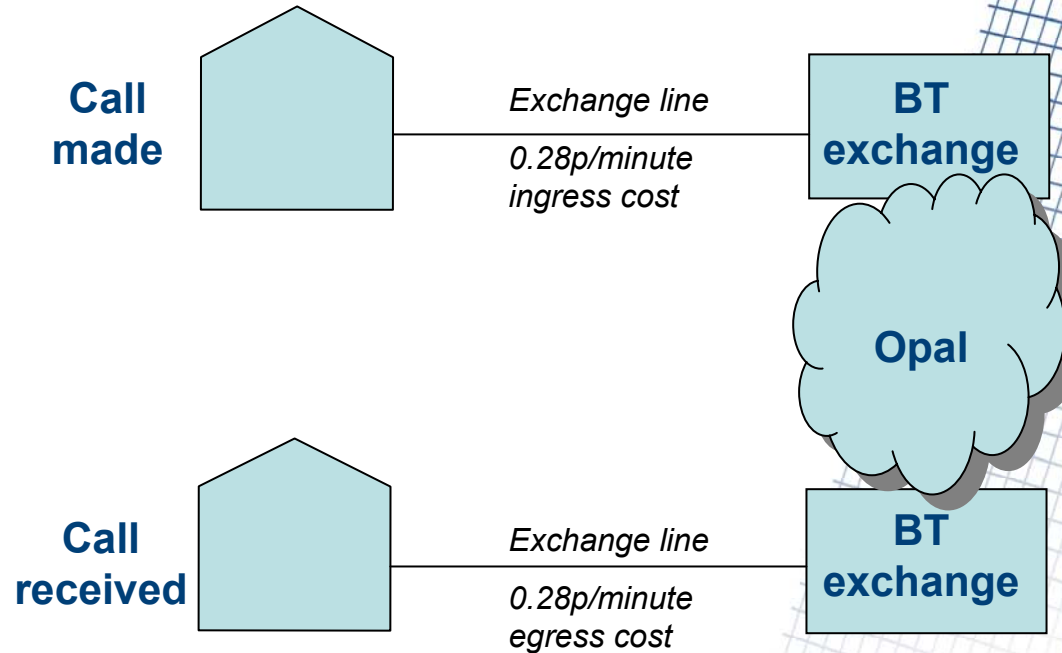
- Assumes exchange opex covered by bundled voice/broadband customers
- Voice-only customers incur some incremental backhaul costs
- £1.50-£2 potential benefit per customer month on unbundling voice/line rental customers, even if they don't want broadband

# CPS/PULL/FULL comparison

## Existing CPS/WLR customer

### TalkTalk customer

- £10.50 line rental to BT or TalkTalk



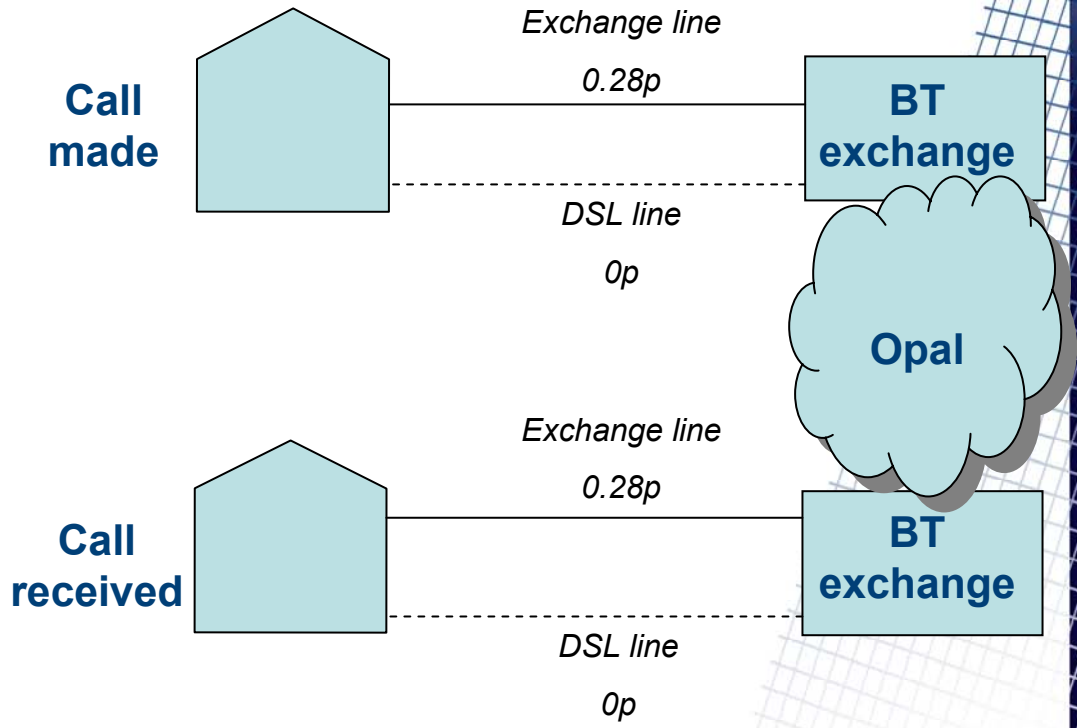
### Any other customer

# CPS/PULL/FULL comparison

## PULL customer

### TalkTalk customer

- £10.50 line rental to BT or TalkTalk
- £15 broadband access



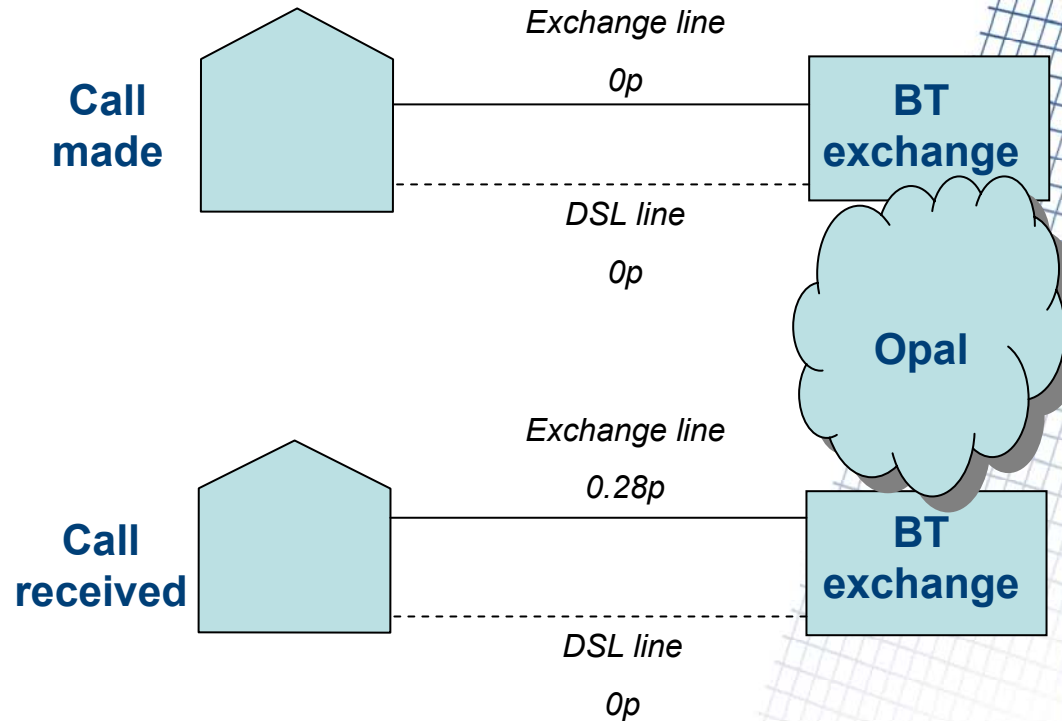
### Any other customer

# CPS/PULL/FULL comparison

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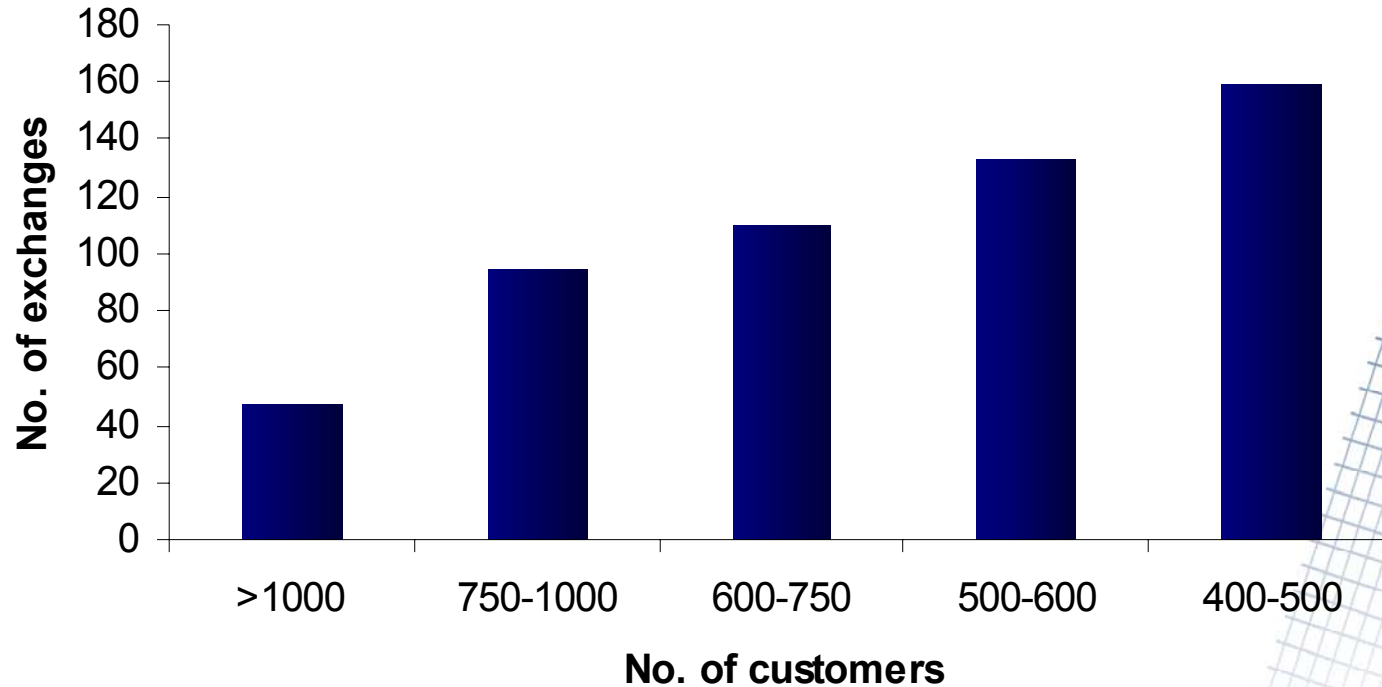
## FULL customer



# Investment strategy

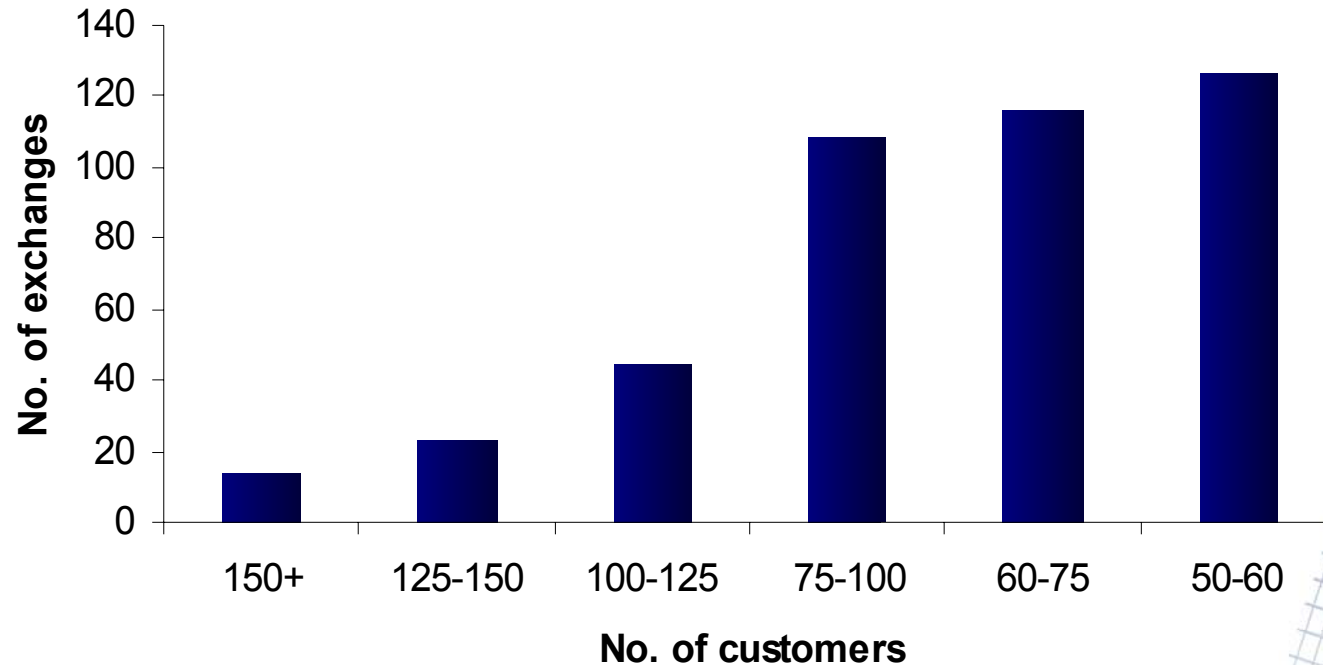
- Aiming to unbundle up to 1,000 exchanges
- Total incremental capex of £10-15m a year over next three years
  - Opal's existing capex runrate set to decline from current level of £15m a year
- Fully unbundling allows us to take over the exchange line and the DSL line
- Significant additional opportunity in FULL through improved cost of delivery and voice upside
- However, processes for FULL are behind those for PULL so we will be working hard with Openreach and the Office of The Adjudicator to ensure rapid delivery of strategic migration systems

# Where are our voice customers?



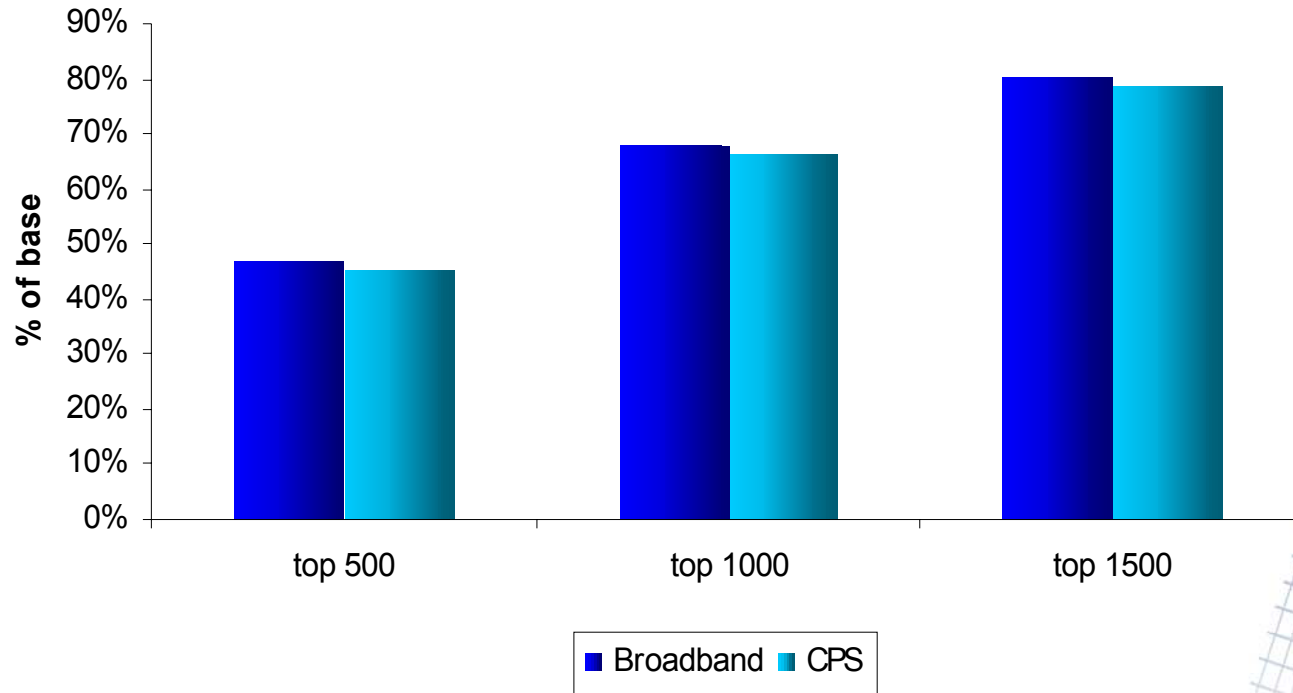
- Over 500 exchanges already have more than 400 TalkTalk voice customers

# Where are our broadband customers?



- Over 400 exchanges already have more than 50 TalkTalk Broadband customers

# How many exchanges will give us meaningful reach?



- 500 exchanges gets us to c. 46% of our customers
- 1,000 exchanges takes coverage up to c. 67%

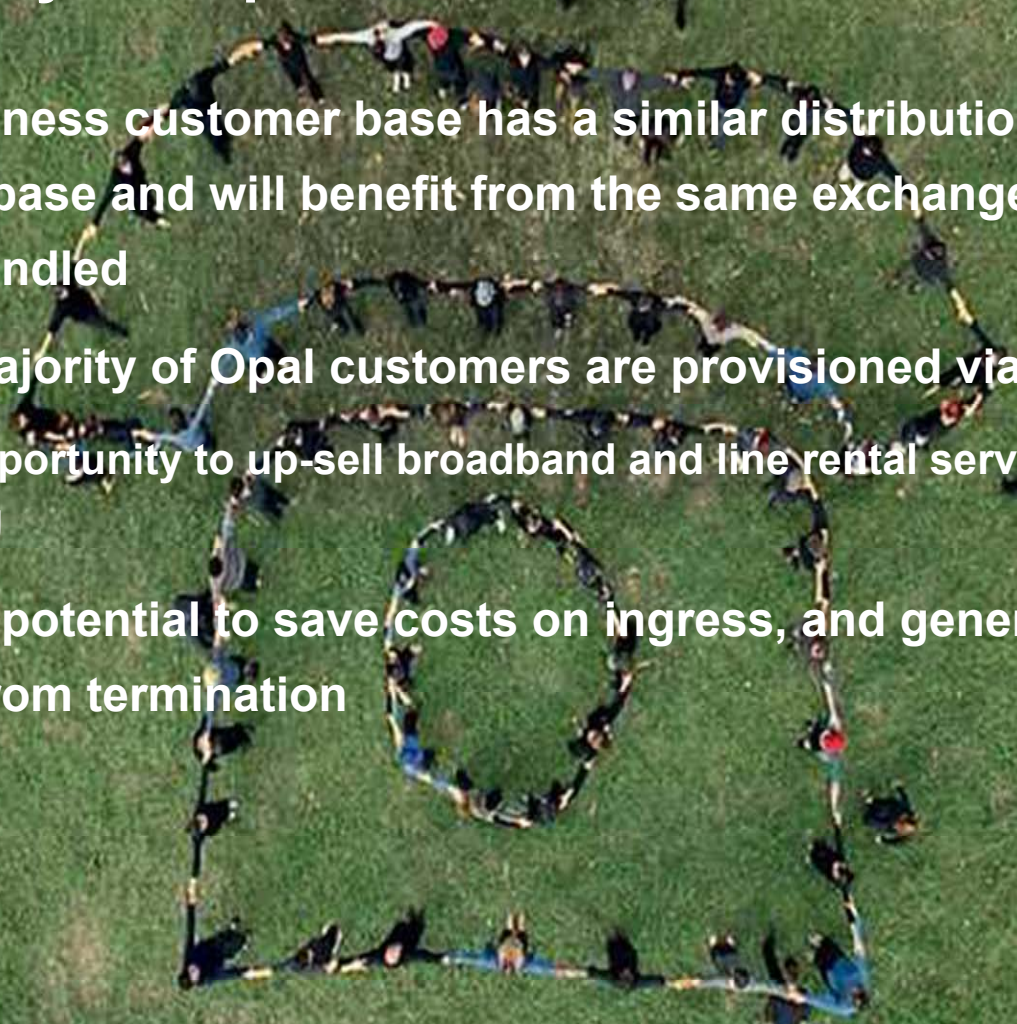
# Where are our stores?

- With 624 stores across the UK we have a very wide physical presence
- Retail customer database analysis shows customers in 95% of UK postcodes
- 90% of our stores are in densely-populated or high catchment areas – High Streets, Shopping Centres, Retail Parks and Arterial Routes
- We are therefore well positioned to leverage our physical presence in LLU areas



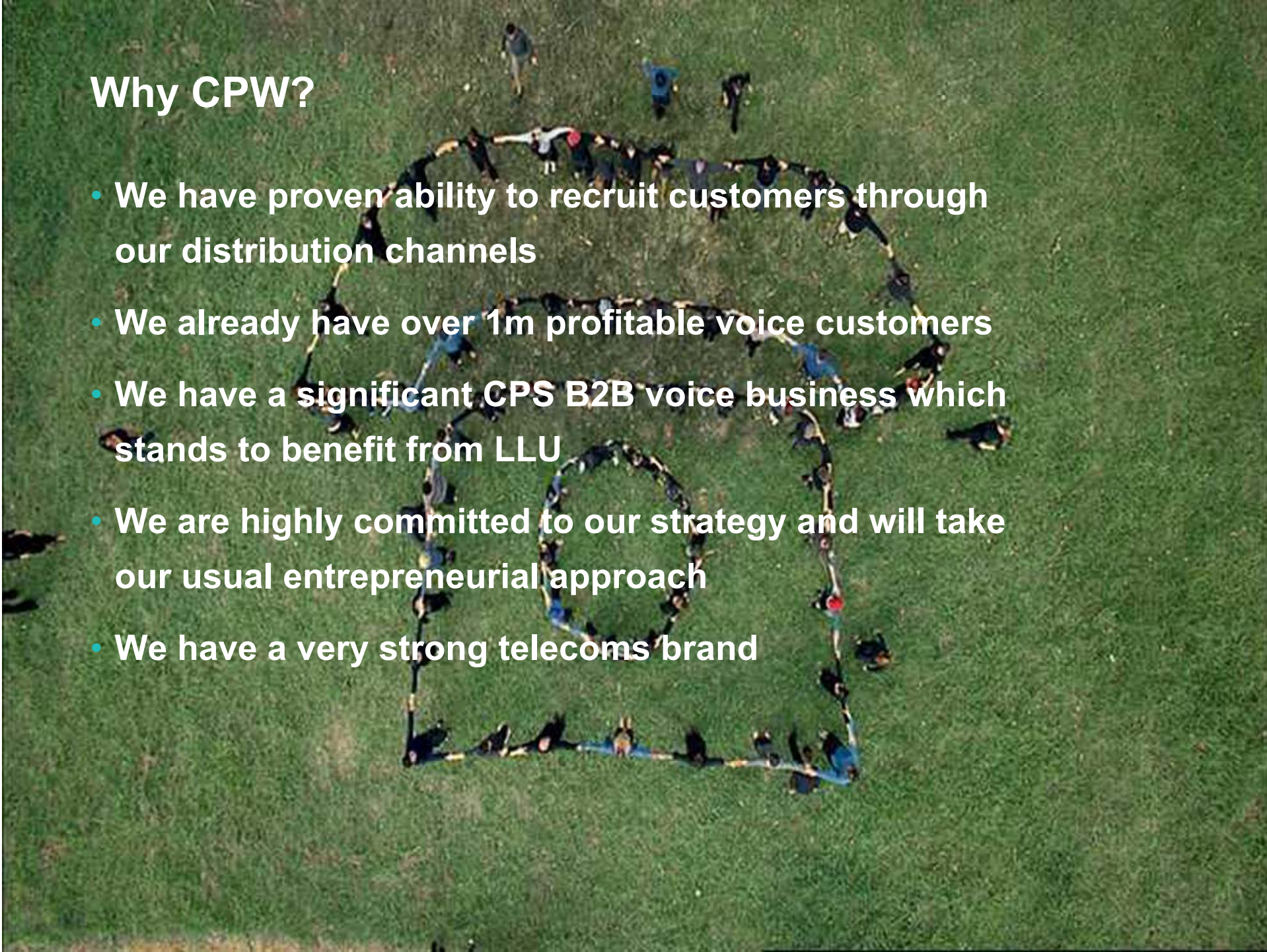
# Opportunity for Opal

- **Opal's business customer base has a similar distribution to TalkTalk's base and will benefit from the same exchanges being unbundled**
- **The vast majority of Opal customers are provisioned via CPS**
  - **Major opportunity to up-sell broadband and line rental services over LLU**
- **Significant potential to save costs on ingress, and generate revenues from termination**



# Why CPW?

- We have proven ability to recruit customers through our distribution channels
- We already have over 1m profitable voice customers
- We have a significant CPS B2B voice business which stands to benefit from LLU
- We are highly committed to our strategy and will take our usual entrepreneurial approach
- We have a very strong telecoms brand



# Competitive landscape

Operator	Broadband customers (000s)	FULL/PULL	Own distribution	Wholesale product
Bulldog/C&W	c. 80	FULL	No	No
Wanadoo	769	PULL	Orange	No
BSkyB/Easynet	21 (UK Online)	PULL, currently	No	Yes
AOL	>1,000	?	No	N/A
Tiscali	>600	?	No	N/A

## Next steps

- **Unbundling programme starts in earnest in January 2006**
- **Proposition still being finalised – further details in Q1 of calendar 2006**
- **Value-added services, wholesale proposition etc will follow**



# MVNO strategy

Brand	Country	Target market	Distribution
	UK	Cheapest calls and texts in market	Stores, web
	UK	Pre-pay international calling card market	Stores, web, third party
	UK	Families	Stores, to TalkTalk customers
	France	Regional service in Brittany	Stores, web, third party
	France	Mass market	Stores, web, third party
			

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# pay as you go

Our top-selling pay as you go phones make perfect gifts. In fact, with prices this low, you'll be tempted to keep one for yourself!

**don't pay more!**

## revive your phone

Give your handset a new lease of life with a great value pay as you go SIM card

**free**  
 • the UK's biggest mobile network  
 • 1yr unlimited 3K call anytime, any network  
 • 100MB 3G network, any time

**get started mobile world**  
**£9.99**  
 • 1 year unlimited calls  
 • 100MB and 100min 3G call anytime, any network  
 • 1yr unlimited 3K call anytime, any network

**£4.99**  
 • 1 year unlimited calls  
 • 100MB and 100min 3G call anytime, any network

**free**  
 • 1 year unlimited calls  
 • 100MB and 100min 3G call anytime, any network

**£4.99**  
 includes £2.00 of calls on registration

**£4.99**  
 includes £5 of calls

**£9.99**  
 includes £2.00 of calls on registration

**£9.99**

**MOTOROLA C139**

**£19.99**

**EXCLUSIVE**

**features...**

- colour screen
- built-in games
- compact size

**£10 additional top-up required**

**total price £29.99**



orange

**NOKIA 1100**

**£19.99**

**features...**

- slim design
- easy to use
- built-in flashlight

**£10 additional top-up required**

**total price £29.99**



orange

**MOTOROLA V220**

**£49.99**

**EXCLUSIVE**

**features...**

- available in 3 colours
- integrated camera
- built-in games

**£10 additional top-up required**

**total price £59.99**



orange

**MOTOROLA L6**

**£89.99**

**features...**

- VGA camera
- Bluetooth
- ultra slim design

**£10 additional top-up required**

**total price £99.99**



orange

**PANASONIC VS6**

**£99.99**

**EXCLUSIVE**

**features...**

- 2 megapixel camera
- Bluetooth
- automatic flip opening
- 16 million colour screen

**£10 additional top-up required**

**total price £109.99**

**2 MEGAPIXEL CAMERA**



orange

**NOKIA 2600**

was ~~£39.99~~

**£28.99**

save £11

**features...**

- colour screen
- built-in games
- easy to use

**£10 additional top-up required**

**total price £38.99**

**COLOUR SCREEN**



orange

**NEC E122**

**£39.99**

**EXCLUSIVE**

**features...**

- integrated camera
- colour screen
- built-in games

**£10 additional top-up required**

**total price £49.99**

**CHEAPEST CAMERA PHONE AROUND!**



orange

**NOKIA 3220**

was ~~£79.99~~

**£44.99**

save £30

**features...**

- integrated camera
- built-in games
- flashing call lights

**£10 additional top-up required**

**total price £54.99**



orange

**MOTOROLA HOT PINK RAZR**

was ~~£199.99~~

**£129.99**

save £70

**features...**

- integrated camera
- built-in games
- super slim design

**£20 additional top-up required**

**total price £149.99**

**LIMITED EDITION**

**ONLY AVAILABLE AT THE CARPHONE WAREHOUSE**

**WALK A HOT PINK MILE**

**SEE PAGE 3 FOR DETAILS**



orange

**SAMSUNG D500**

**£179.99**

**features...**

- 1.3 megapixel camera
- Bluetooth
- MP3 player

**£10 additional top-up required**

**total price £189.99**



orange

\* Sales are limited to maximum of two handsets per customer. Purchases must be made using a credit or debit card.



# our best pay monthly deals

If you're looking for a new mobile phone, you'll love these money-saving offers. Take a break from Christmas shopping and try some Christmas saving instead!



**MOTOROLA HOT PINK RAZR**

up to **9 months half price line rental!**  
save £148\*\*

**LIMITED EDITION**

**free** plus...

9 months half price line rental/texts\*\*. Includes 200 mins & 50 half price texts per month. Normally £33, now only **£16.50/month**.

**ONLY AVAILABLE AT THE CARPHONE WAREHOUSE**



**SAMSUNG D600**

up to **9 months half price line rental!**  
save £135

**free** plus... **2 MEGAPIXEL CAMERA**

9 months half price line rental. Includes 200 mins per month. Normally £30, now only **£15/month**.



**NOKIA 6680**

up to **12 months half price line rental!**  
save £247\*\*

**FREE BLUETOOTH HEADSET**

**free** plus...

12 months half price line rental/texts\*\*. Includes 200 mins & 50 half price texts per month. Normally £33 now only **£16.50/month**.

**plus...**

**free** Nokia HS-36W Bluetooth headset



**NOKIA 6630**

up to **6 months half price line rental!**  
save £289\*\*

**WITH FREE SAT NAV**

**free** plus...

12 months half price line rental. Includes 500 mins & 100 texts per month. Normally £30, now only **£15/month**.

**plus...**

**free** Nokia 6630 Sat Nav with every 6630 brought on 3.5gb & fuel 600



Prices subject to 10% monthly subscription and credit clearance agreement on selected items. \*\*Based on rental offer on other handset. Offer by the handset or device listed by independent third party. Carphone Warehouse is a subsidiary of Carphone Warehouse Group. For full details of each handset's handset offer, see page opposite for terms and conditions. \*Half price line rental offers on handsets subject to subscription to a 3 month 2GB bundle.

**don't pay more!**

**trade-in an old handset!**

Bring your old phone into one of our stores and receive the following discounts when you purchase a new phone

**£20**  
all pay monthly phones, and upgrades  
(£10 for handset, £5 for charger and £5 for manual)

**£10**  
all pay as you go phones  
(£5 for handset, £2.50 for charger and £2.50 for manual)



Trade-in discounts apply when you trade-in a functional handset, handset and charger from a selected list of digital handsets. Add-in costs for battery, SIM & the phone is already due so we will pay you the maximum available! Excludes prepaid handsets, pay-as-you-go handsets, pay-as-you-go handsets, all bills, insurance premiums, repair kits, handsets, all handsets, legal, diagnosis, camera or other mobile content, or apply to a combination. \*Should you return your handset, you will receive credit for the value of £10 to be used in any future purchase.

**MOTOROLA ROKR**

up to **9 months half price line rental!**  
save £214

**free** plus...

9 months half price line rental. Includes 200 mins per month. Normally £30 now only **£15/month**.

**PLUS 100 FREE ITUNES\* WORTH £70**



**SONY ERICSSON K608i**

up to **9 months half price line rental!**  
save £135

**free** plus...

9 months half price line rental. Includes 500 mins & 100 texts per month. Normally £30 now only **£15/month**.



**SONY ERICSSON K750i**

up to **12 months half price line rental!**  
save £180

**free** plus...

12 months half price line rental. Includes 200 mins per month. Normally £30 now only **£15/month**.



**SONY ERICSSON W550i**

up to **9 months half price line rental!**  
save £135

**free** plus...

9 months half price line rental. Includes 200 mins & 100 texts per month. Normally £30 now only **£15/month**.



**NOKIA 6230i**

up to **3 months half price line rental!**  
save £272.49\*

**FREE BLUETOOTH CARKIT AND INSTALLATION**

**free** plus...

3 months half price line rental. Includes 250 mins & 100 texts per month. Normally £35 now only **£17.50/month**



**MOTOROLA U6 PEBL**

up to **12 months half price line rental!**  
save £180

**free** plus...

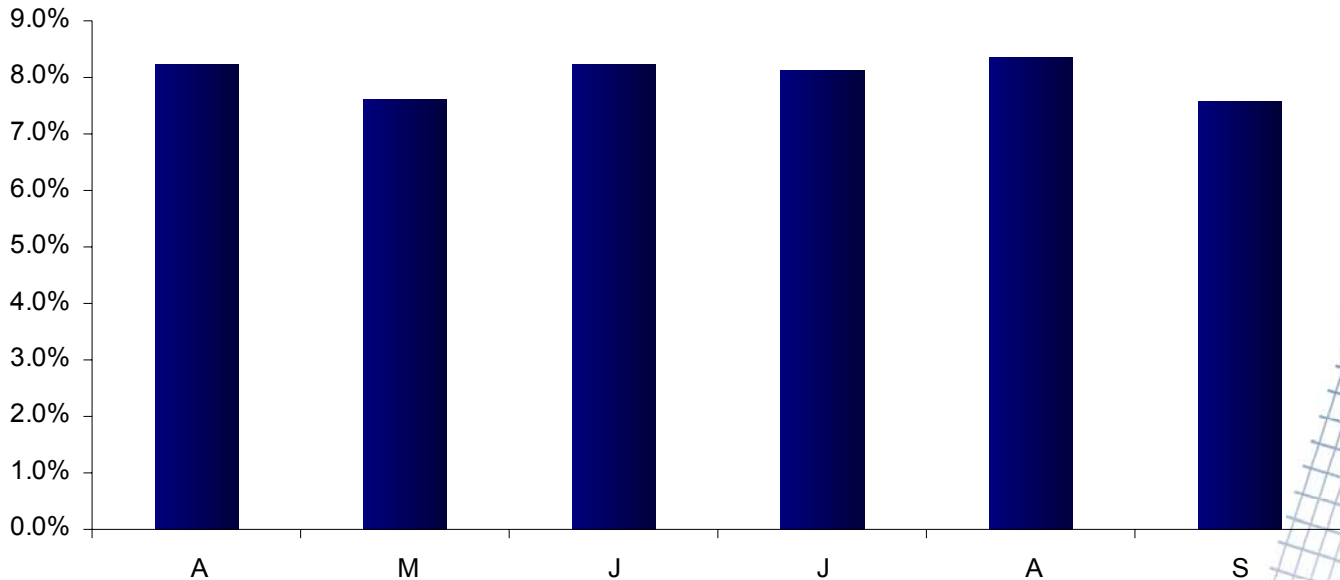
12 months half price line rental. Includes 200 mins per month. Normally £30, now only **£15/month**.



best pay monthly deals

# Status of 3G

3G volumes as % of total



- **3G still not taking off in earnest**
- **Not a 3G Christmas for most – not yet cheap enough for mass market pre-pay**
- **GPRS handset pipeline continues to be very strong**

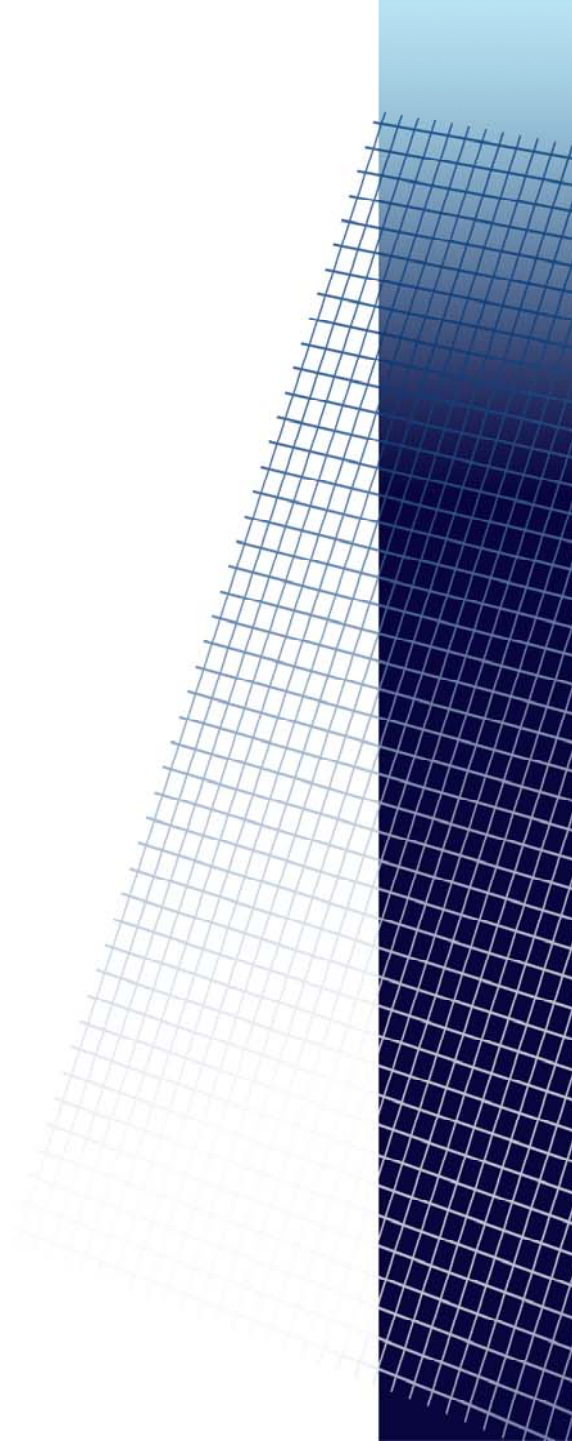
# Summary outlook

- **Shorter term**
  - **Another good Christmas anticipated, driven by strong buying**
  - **Network competition and handset pipeline remain favourable**
  - **Further momentum in customer recruitment**
- **Longer term**
  - **3G take-up will accelerate next year**
  - **Continued focus on physical expansion and market share gains**
  - **Broadband strategy to drive significant long term value**

# Appendix

**THE Carphone Warehouse**

*...for a better mobile life*

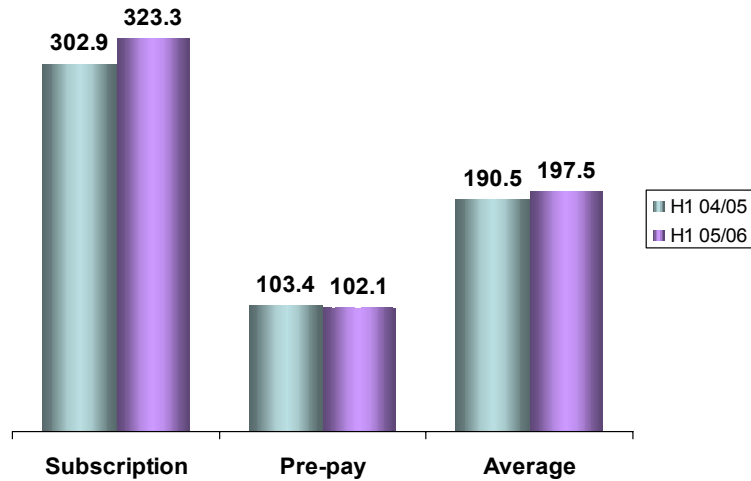


# Distribution

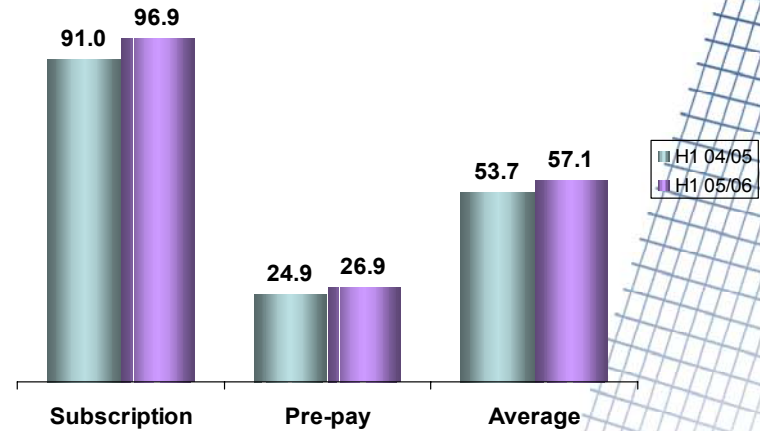
£m	H1 05/06	H1 04/05	% change
Revenue	752.0	607.4	23.8%
Retail	572.8	491.4	16.6%
Online	96.3	45.3	112.7%
Insurance	56.4	47.8	17.9%
Ongoing	26.6	22.9	15.7%
Contribution	94.7	74.2	27.6%
Retail	39.7	32.8	21.2%
Online	6.9	3.0	131.4%
Insurance	21.5	15.5	39.0%
Ongoing	26.6	22.9	15.7%
EBITDA	55.4	41.0	35.1%
EBIT	34.8	23.8	46.0%
EBIT %	4.6%	3.9%	

# Revenue & gross profit per connection

### Average Revenue per Connection



### Average Gross Profit per Connection



# Telecoms Services

£m	H1 05/06	H1 04/05	% Change
Revenue	475.6	372.9	27.6%
Fixed	256.4	192.1	33.5%
Mobile	219.2	180.8	21.3%
Contribution	42.1	32.2	30.7%
Fixed	19.0	13.5	41.2%
Mobile	23.1	18.7	23.6%
EBITDA	28.4	20.6	37.9%
EBIT	5.9	6.3	(6.9)%
EBIT %	1.2%	1.7%	

# Fixed Line Business

£m	H1 05/06	H1 04/05	% Change
Revenue	131.7	129.6	1.6%
Opal	116.9	115.5	1.2%
Xtra	14.8	14.1	4.9%
Contribution	13.0	18.3	(28.7)%
Opal	12.7	18.1	(30.0)%
Xtra	0.3	0.1	166.6%
Contribution %	9.9%	14.1%	

# Fixed Line Residential

£m	H1 05/06	H1 04/05
Customers (000s)	<b>1,376</b>	<b>718</b>
UK (inc Broadband)	<b>1,127</b>	<b>648</b>
non-UK	<b>249</b>	<b>70</b>
Revenue	<b>124.6</b>	<b>62.5</b>
UK	<b>88.9</b>	<b>50.2</b>
non-UK	<b>35.7</b>	<b>12.3</b>
Contribution	<b>6.0</b>	<b>(4.8)</b>
UK	<b>2.6</b>	<b>(5.8)</b>
non-UK	<b>3.4</b>	<b>1.0</b>

# Telecoms Services - Mobile

£m	H1 05/06	H1 04/05	% Change
Revenue	219.2	180.8	21.3%
TPHT	167.2	142.0	17.8%
MVNO/FM	52.0	38.8	34.0%
Contribution	23.1	18.7	23.6%
TPHT	21.5	16.1	33.0%
MVNO/FM	1.6	2.5	(36.0)%
Contribution %	10.5%	10.3%	

# Store Portfolio

	March 2005	Opened	Closed / Sold	September
UK	601	35	12	624
France	185	17	2	200
Spain	239	52	-	291
Netherlands	116	10	3	123
Germany	74	15	1	88
Sweden	69	6	-	75
Portugal	50	4	1	53
Belgium	45	6	-	51
Ireland	34	1	-	35
Switzerland	48	1	3	46
Total	1,461	147	22	1,586

## Connections by country (000's)

	H1 05/06	H1 04/05	% Change
UK	1,604	1,331	20.4%
Spain	491	408	20.5%
France	329	303	8.7%
Netherlands	137	137	0.0%
Sweden	129	135	(4.6%)
Ireland	131	114	15.1%
Portugal	113	100	13.9%
Belgium	140	110	27.2%
Germany	84	66	27.8%
Switzerland	71	62	14.2%
Total	3,230	2,766	16.8%

# Services by country

