

The Carphone Warehouse Analysts' Day

24.3.03

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Opening Remarks

Hans Snook, Chairman

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Today

- Review of strategy and mobile market
- Detailed presentations on Opal and talktalk
- Review of retail operations
- The position in Germany
- Disclosure and reporting
- FY04 financial outlook

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Headlines

- Profits for the current year expected to be within the range of analysts' estimates
 - Q4 in line with expectations
- Intention to pay maiden dividend of 1p for the full year
 - Confident in cash-generating abilities
 - Leaves scope to invest in additional growth opportunities
- Germany close to resolution
 - Plans for closure and change to business model running in parallel
- 31,000 talktalk applications since launch – ahead of expectations

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Strategy

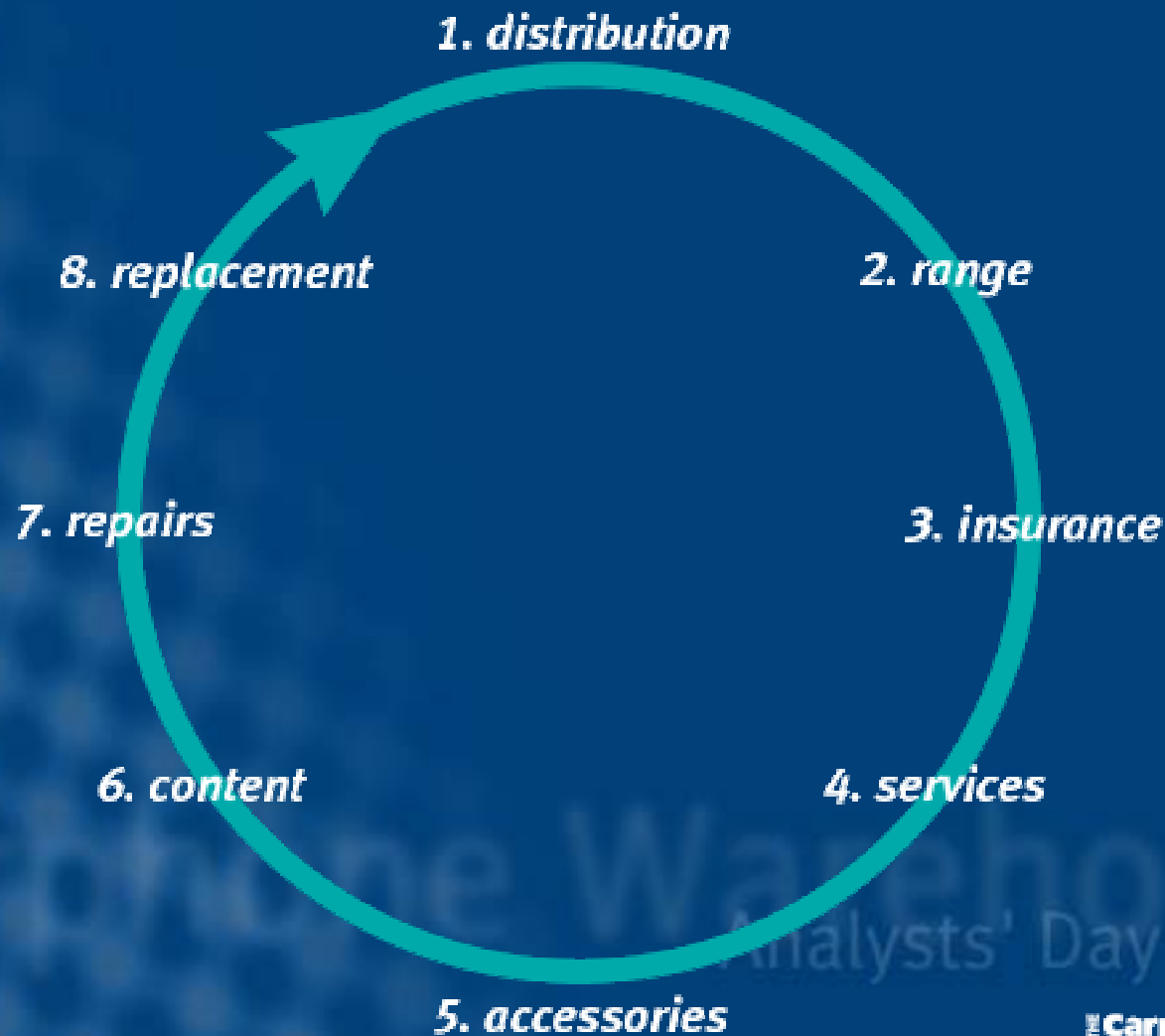
Charles Dunstone, CEO

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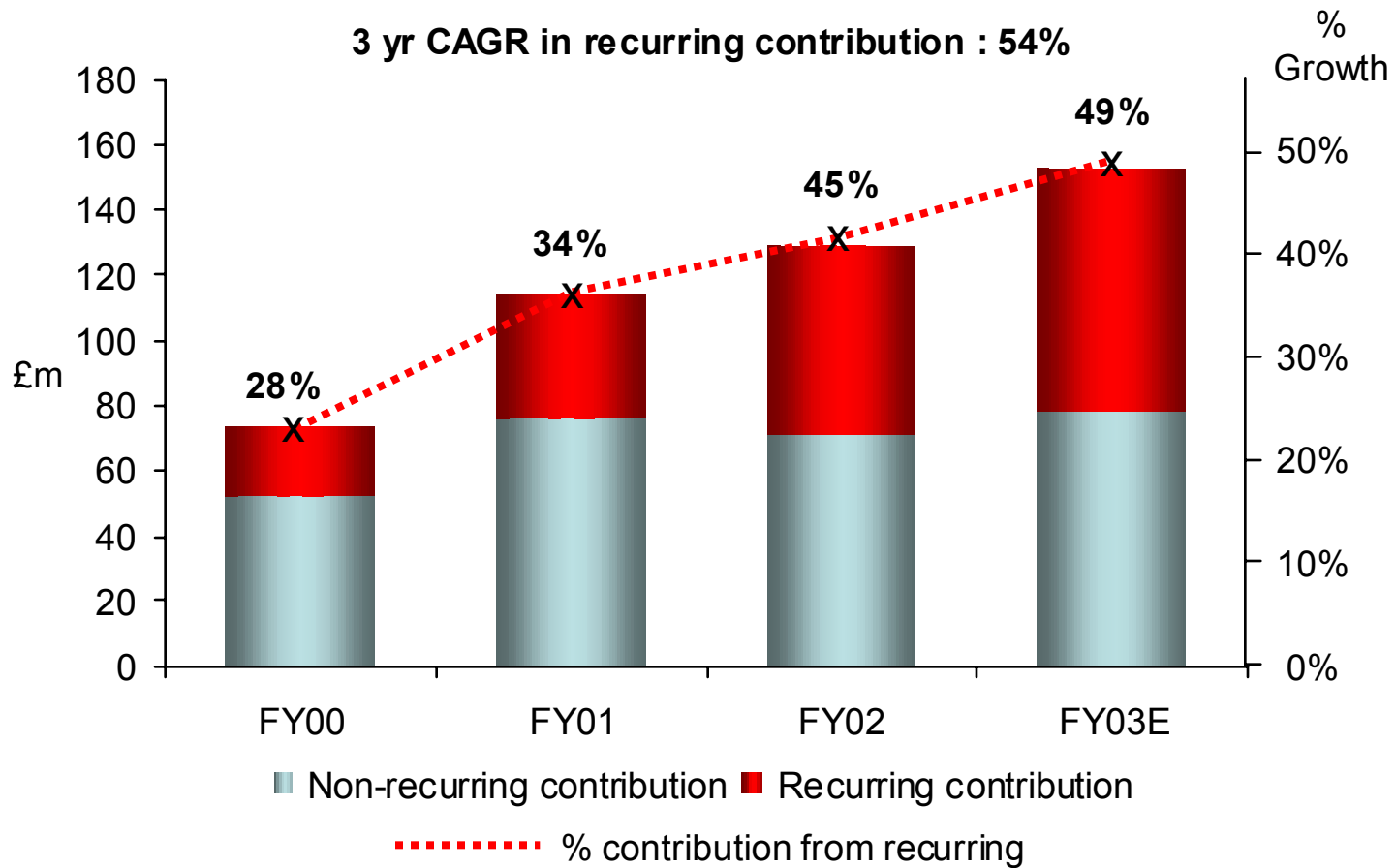
Earning a greater share of the customer lifetime value



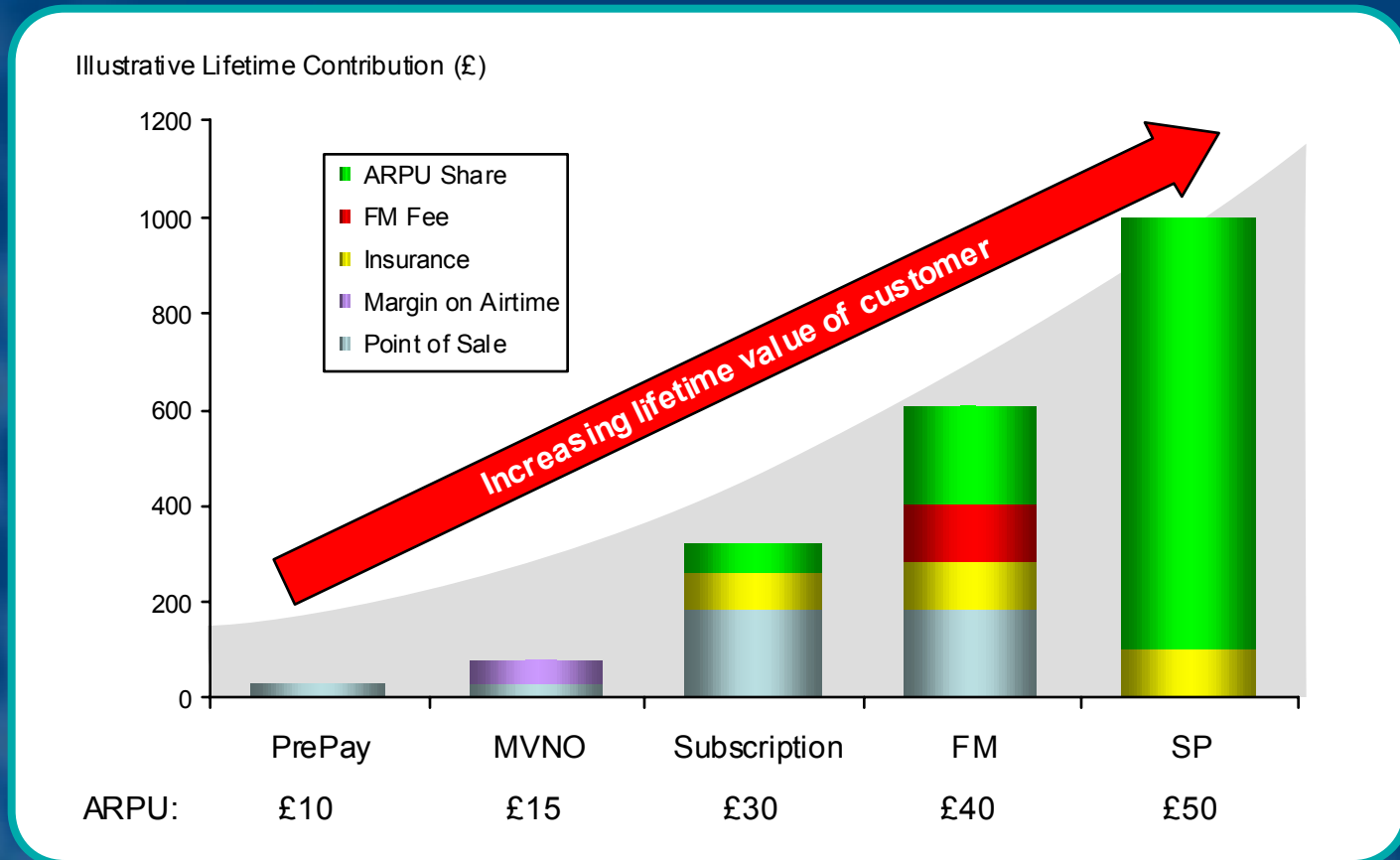
Building out the business model



Evolving the business model



Segmenting the market



- Customer lifetime value increases with ARPU

Leveraging our retail asset

- Identifying relevant and appropriate products and services
- Fixed line
 - UK launch
 - European potential
- Broadband
 - In discussions with a number of parties
- WiFi
 - Home
 - Mobile

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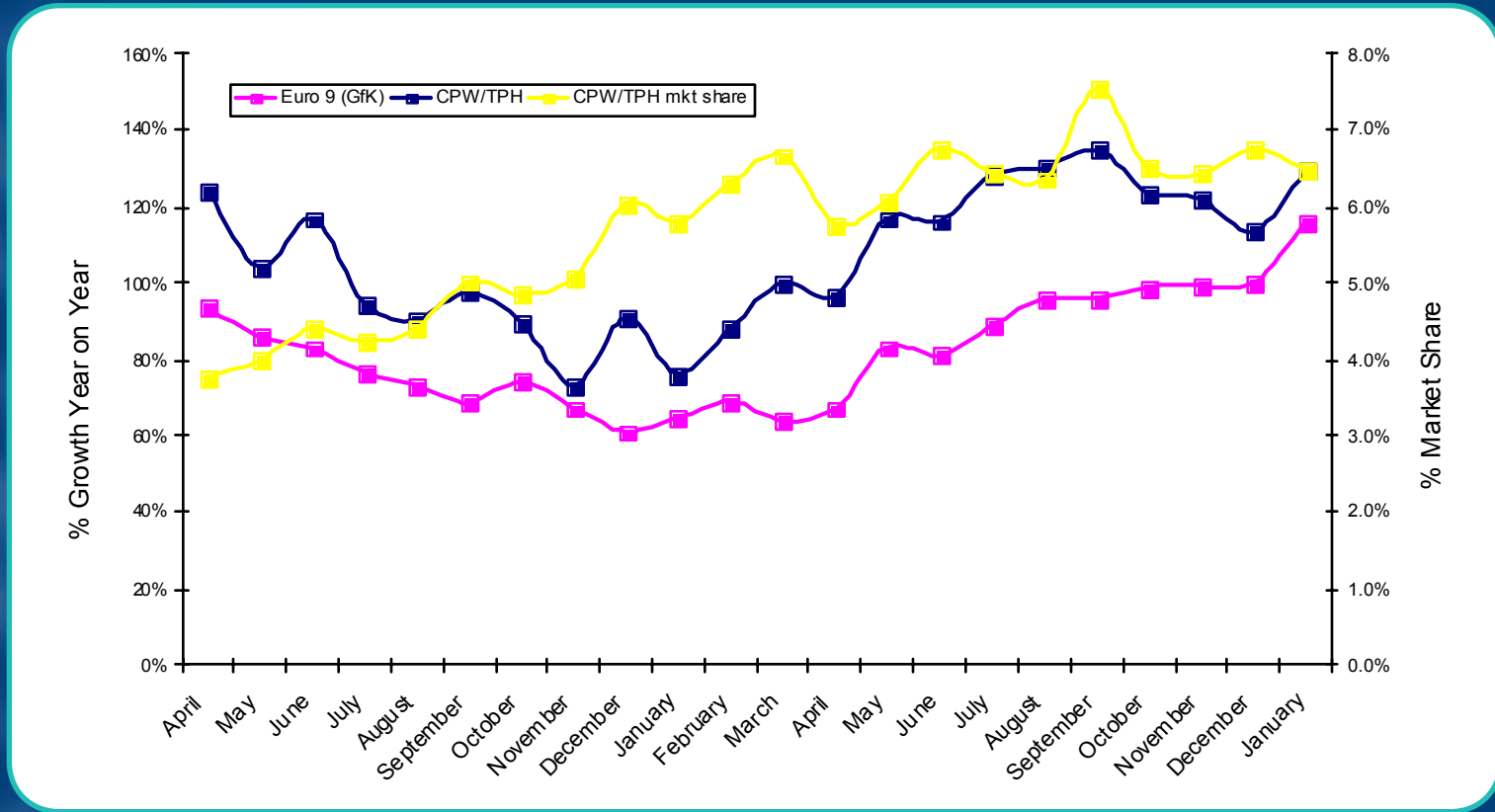
Market outlook

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Handset market

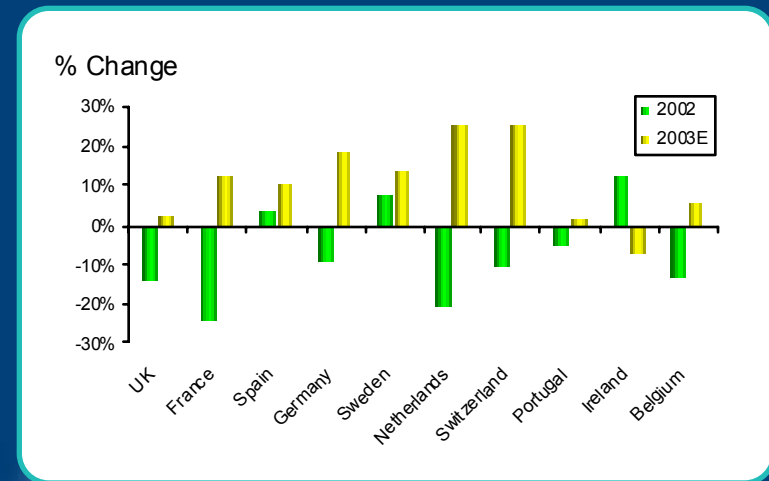
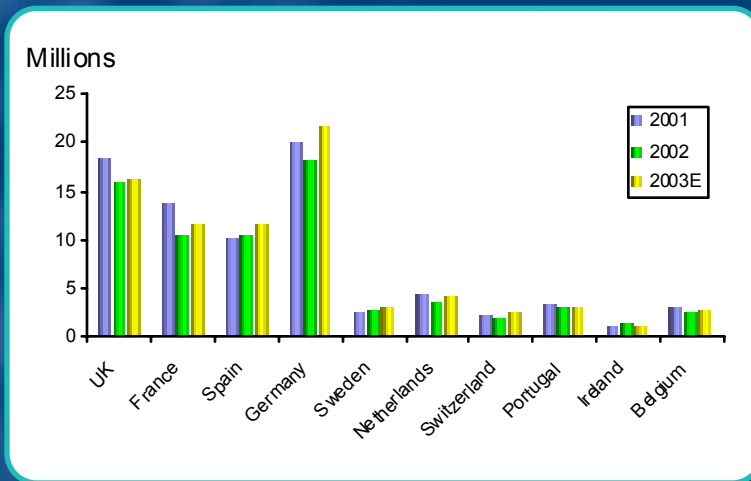


- Year-on-year stability from September / October
- Growth since the new year

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Handset market

- Forecasts for 2003 vary wildly
- Consensus for c.10% growth in W Europe
- Our own forecasts assume flat/low single digit growth



Source : Gfk, UBSW, CSFB

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Handset market

- Product pipeline strong
- Not just Nokia
- Encouraging pricing trends



Motorola
388c



Nokia
7250



Nokia
N-gage



NEC
606



Siemens
SX-1



Motorola
C350

Changes to UK subsidy levels

- CC ruling on termination charges will see subsidies lowered
 - Price and tariff hikes on pre-pay
 - Price rises on subscription reversing some of last year's declines
 - Networks likely to segment distribution channels
- Impact partly offset by falling handset prices

CPW Buyers' Guide Prices

	<u>7210</u>	<u>8310</u>	<u>T68i</u>	<u>6100</u>	<u>6310</u>	<u>A50</u> <small>(cheapest pre-pay)</small>
March	£29.99	Free	Free	£99.99	Free	£49.99
April	£49.99	Free	Free	£49.99	Free	£49.99

*Some prices include trade-in

Opportunities for CPW

- Further UK capacity reduction
 - Networks
 - Independents
- Fresh
 - Pre-pay
 - New contract product
- SIM-free



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UK Retail

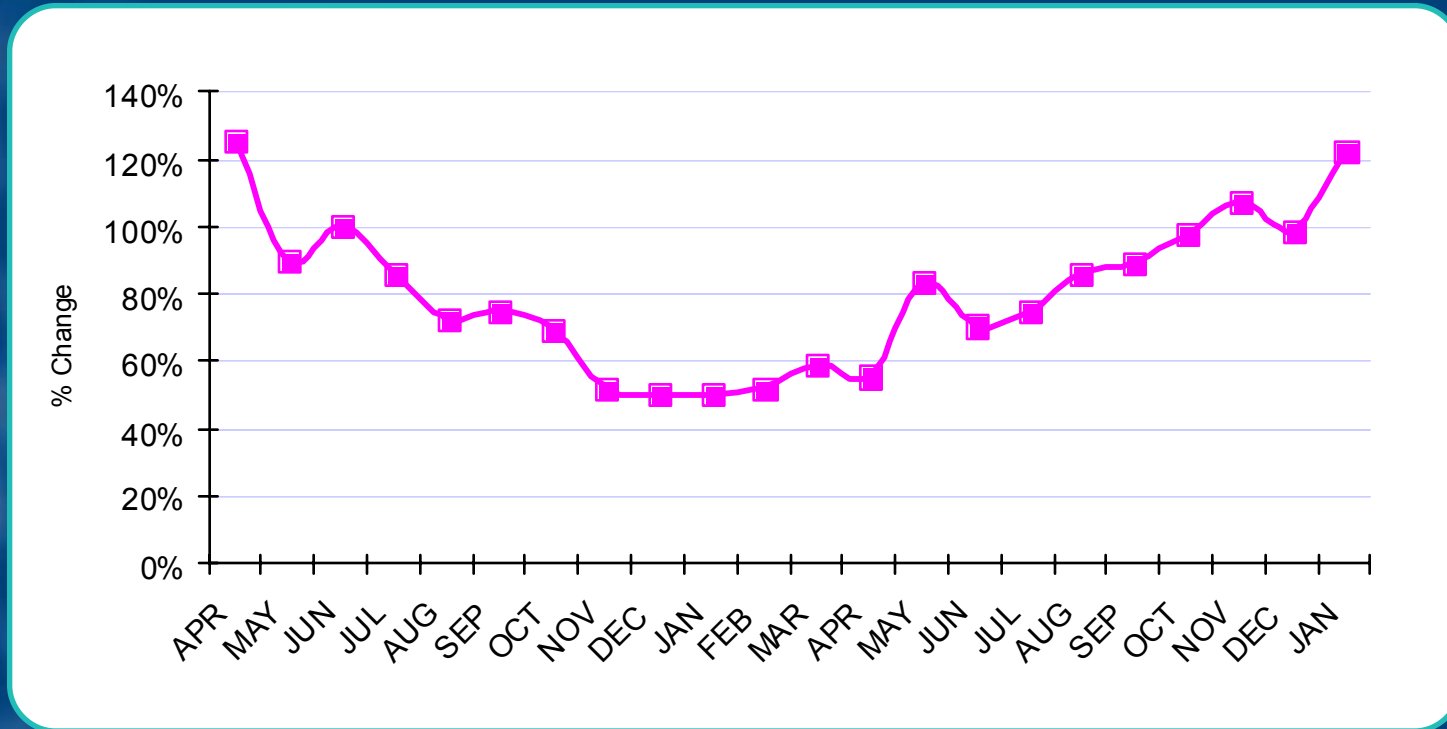


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Market commentary



- Volumes down 15-20% in calendar 2002
- Resurgence of pre-pay
 - Segmenting the market
 - Impact of Virgin
- Increased subscription subsidy last year

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Retail capacity



- 50 new stores planned for FY04
- Further experience stores to open
 - Important for brand building
 - Profitable



- Retail parks

- 70% of new stores
- High proportion of subscription and SME customers



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Unbeatable customer service



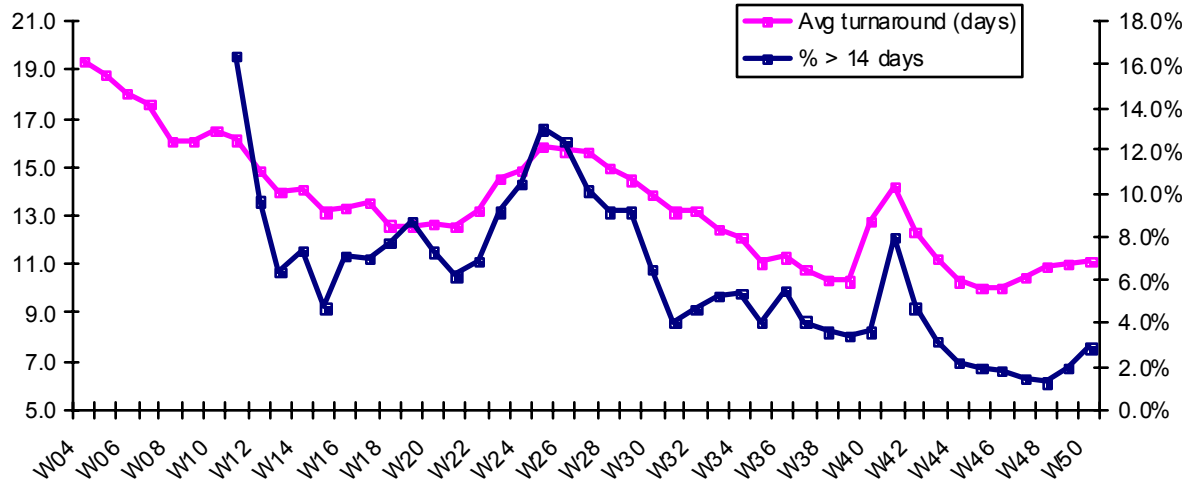
“Staff friendliness, as well as skill in identifying and meeting customer requirements, were keys to success”

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Focus on repairs

- We repair 750k phones a year
 - Nearly 50% were bought elsewhere
- Represents a significant investment in customer service
- Average turnaround times have fallen from 19 days to 11 days
 - >97% fixed within 14 days



Non-UK Retail

Geoffroy Roux de Bezieux – COO, Europe

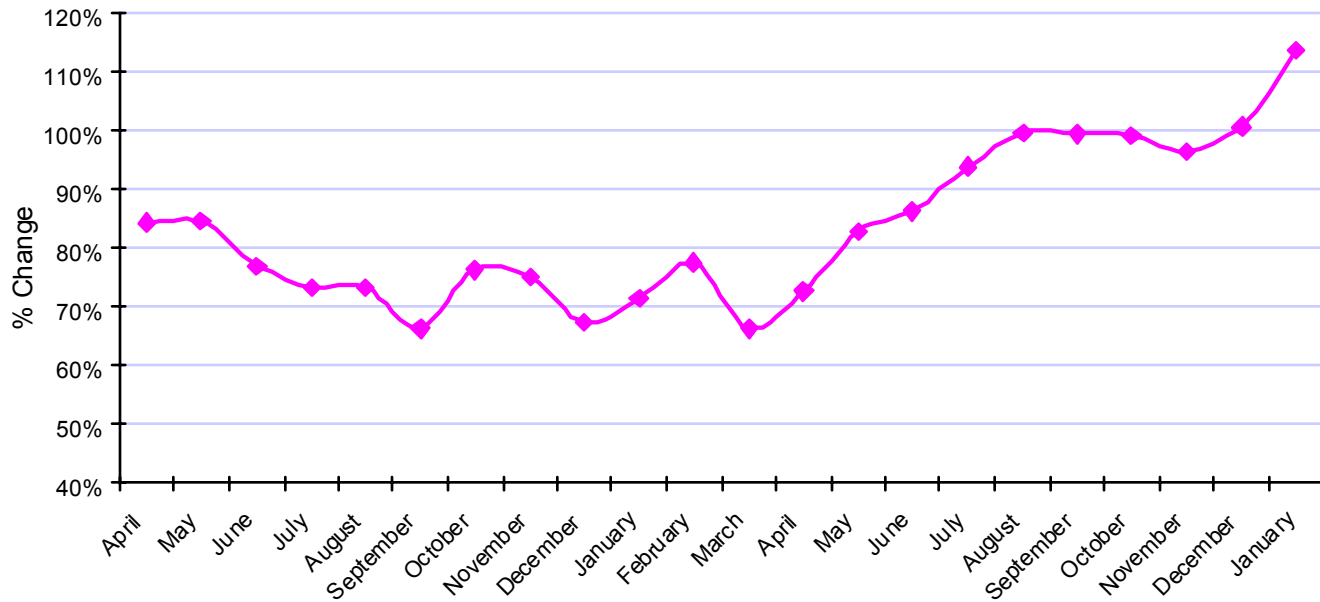
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Market trends

- Volumes down 10-15% in calendar 2002
 - Levelling out from August/September



Non-UK Retail still playing catch-up

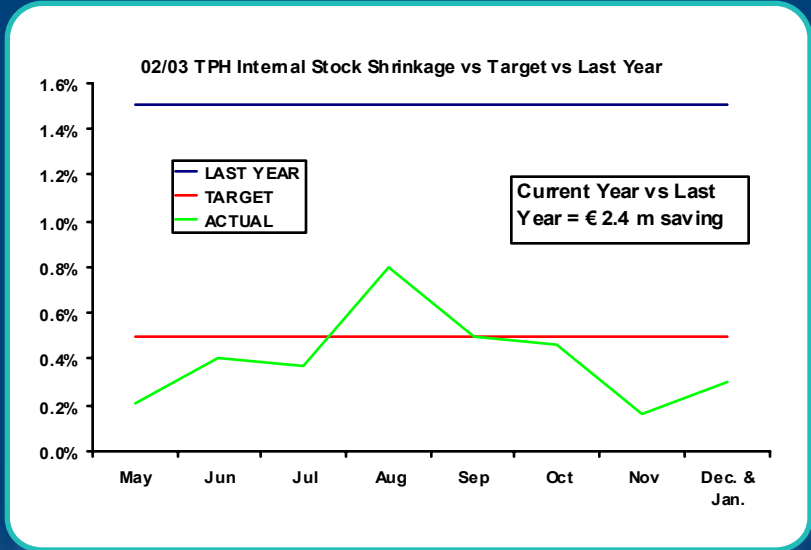
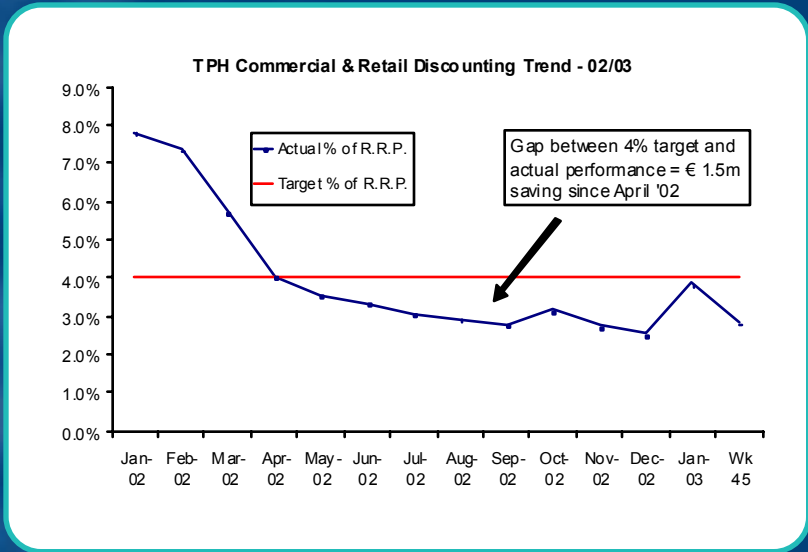
- History
- Scale
- Reputation
- Retail proposition
- ...but the gap is narrowing

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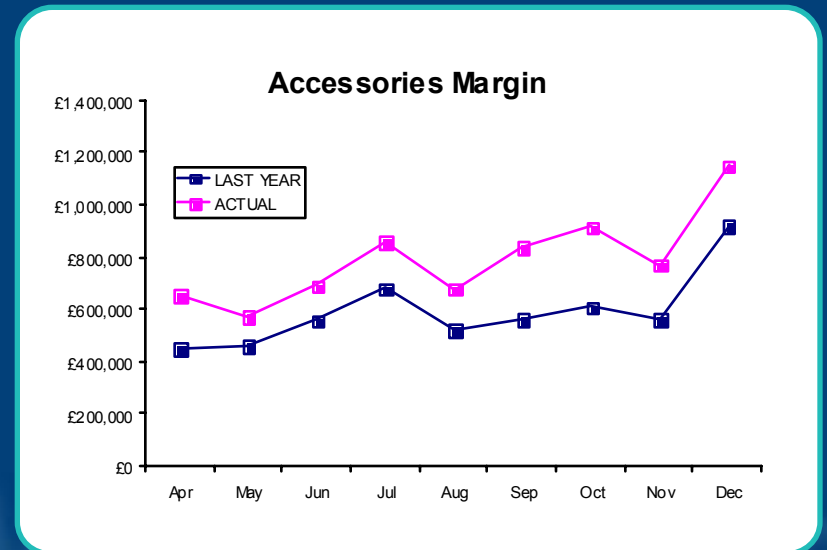
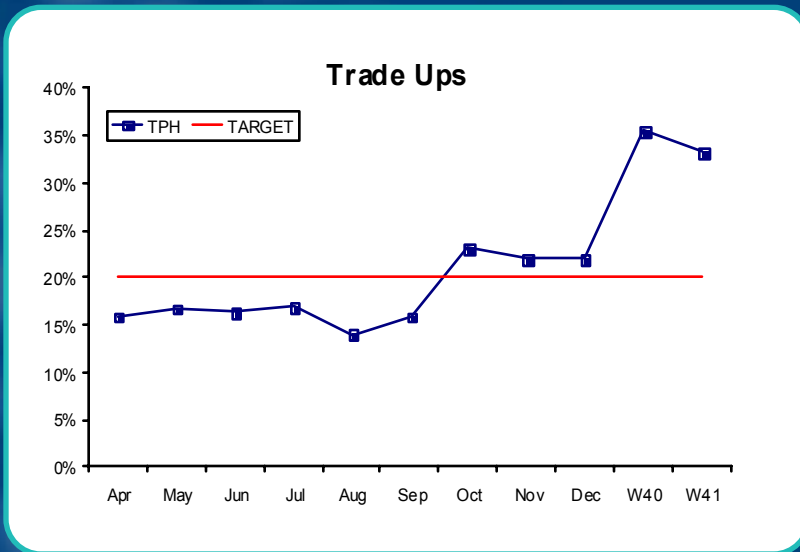
'Back office' KPIs



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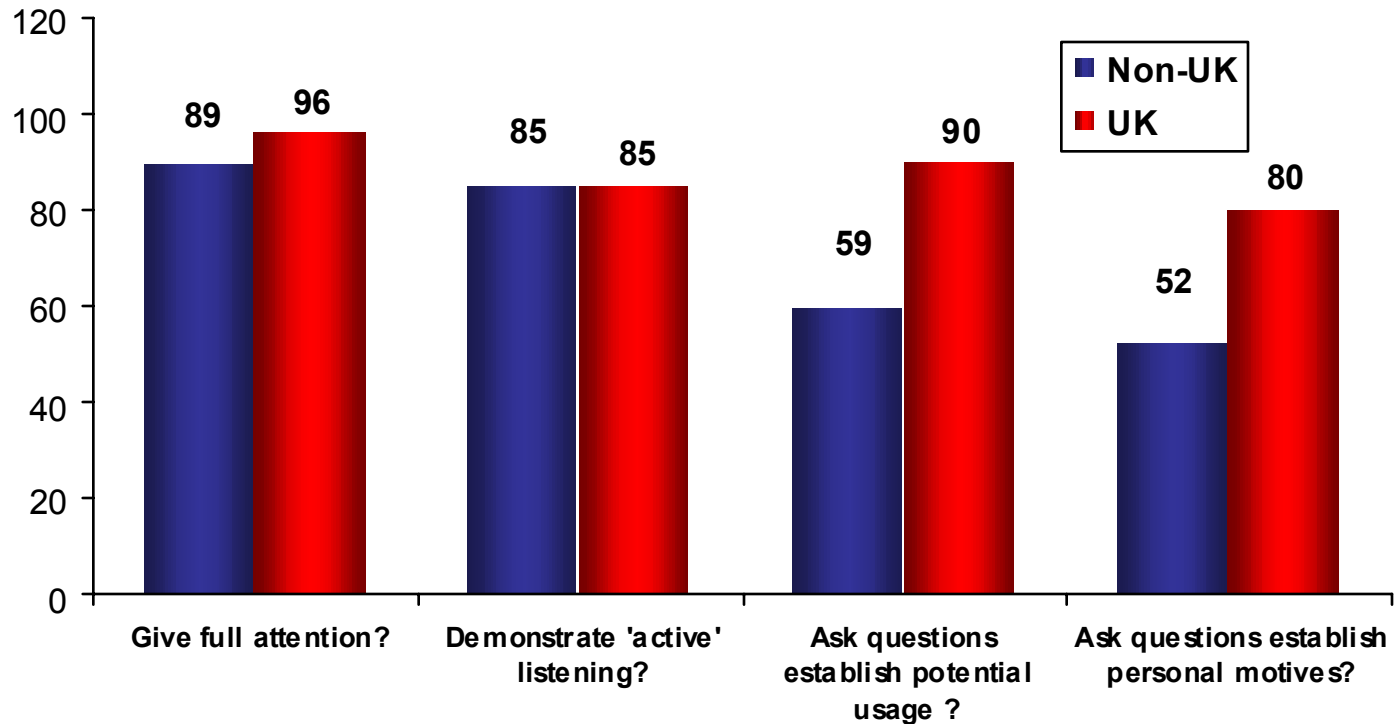
Sales KPIs

- Good development in some revenue / profit drivers



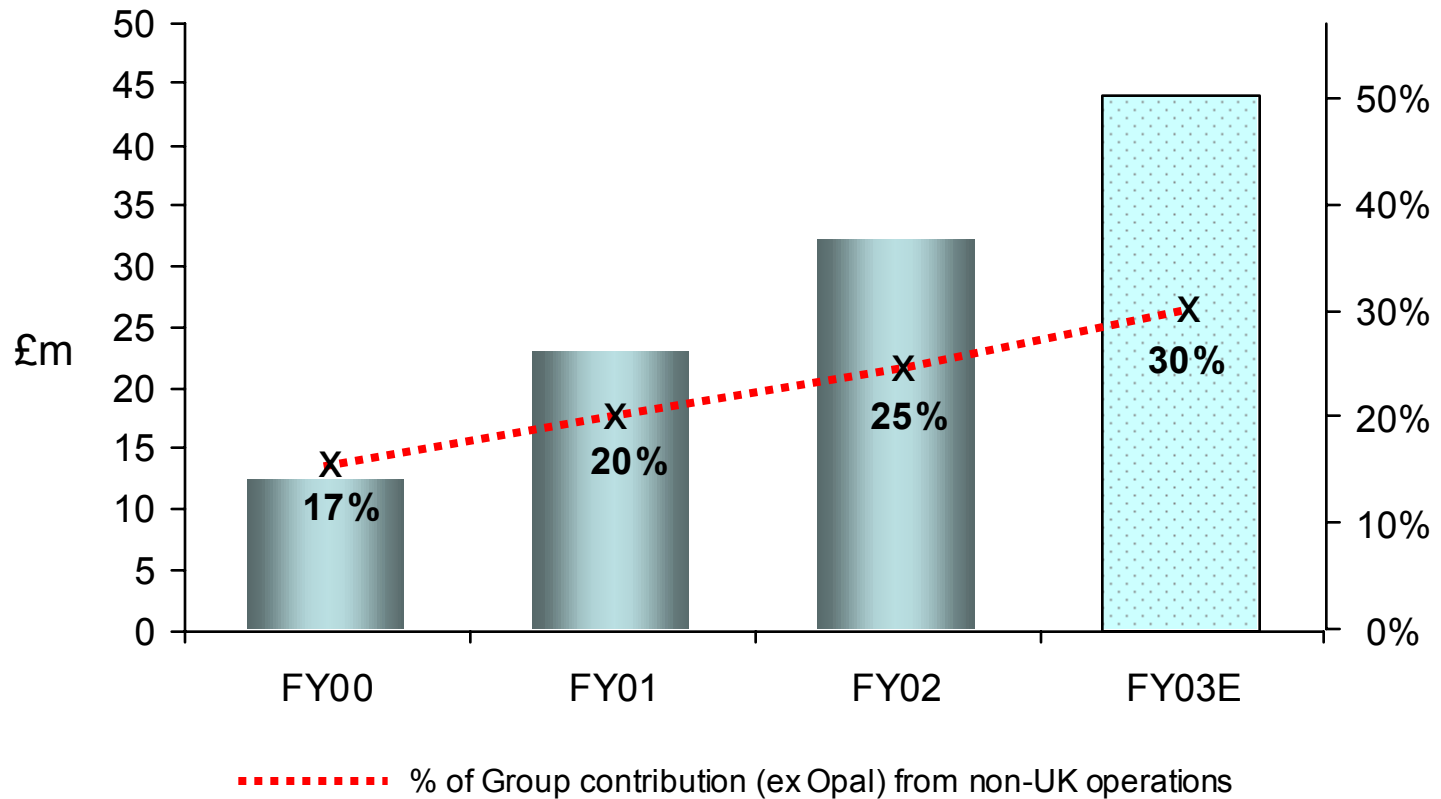
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Customer experience needs improvement



- Europe still lags behind UK in selling ability and passion

Increasing contribution to Group – to be completed/scaled



Germany

- Trading continues in line with plan
 - Losses halved this year
- Business in its existing form cannot break even
- Two options being pursued for immediate execution:
 - Closure (approx £4m cash cost, £15m non-cash write-off)
 - Transforming deal to improve the business model
- Solution achieved by preliminary results date
- We will not lose money in Germany next year



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Growth opportunities

- Store openings
 - France, Spain
- Market share gains
 - Capacity coming out
- Database marketing and advertising campaign
- B2B
- Franchises
- Evolution of business model

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Telecoms Services

Andrew Pinnington CEO, CPW Services

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Agenda

- Strategic Reasoning
- Commercial Structure
- Key Financial Drivers

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The Carphone Warehouse proposition

Retail

- Talk one-on-one with an expert, impartial sales consultant
- Identify the right phone, network and tariff for the individual customer
- Provide independent and value-added advice

Services

- Look after the customer in between purchases
- Provide consistent “CPW-style” service outside the retail environment
- Promote further benefits to the customer

Customer receives highest quality of service throughout their life with CPW - our major differentiating factor

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Strategic alignment

“Our strategy must be more in line with mobile networks rather than the handset manufacturers”

Handset Manufacturers

- High Frequency Replacement
- Customer loyalty to them
- Direct Relationships
- ARPU unimportant
- Carriers becoming a commodity

Networks



- Reduced churn
- Build network loyalty
- Own direct relationship
- Higher spending
- Customer information



Our Telecoms Services business aligns us with the networks

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Telecoms Services activities



UK :



FRANCE :



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Telecoms Services financials

Payment Mechanisms

- Fixed monthly management fee per customer
- Variable payment linked to:
 - Billable revenue from base
 - ARPU
 - Churn
 - Customer service performance (quantitative & qualitative)



Recurring, ongoing revenue streams from customers acquired in distribution business

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Alignment of behaviour

We now care about, and work with, the network on:

- Quality of customer acquired (e.g. high tier handset, low tier tariff)
- ARPU (mix of customer and incentives in retail price, post PoS communication)
- Churn (quality of acquisition, upgrade strategy, customer communication, commercials)



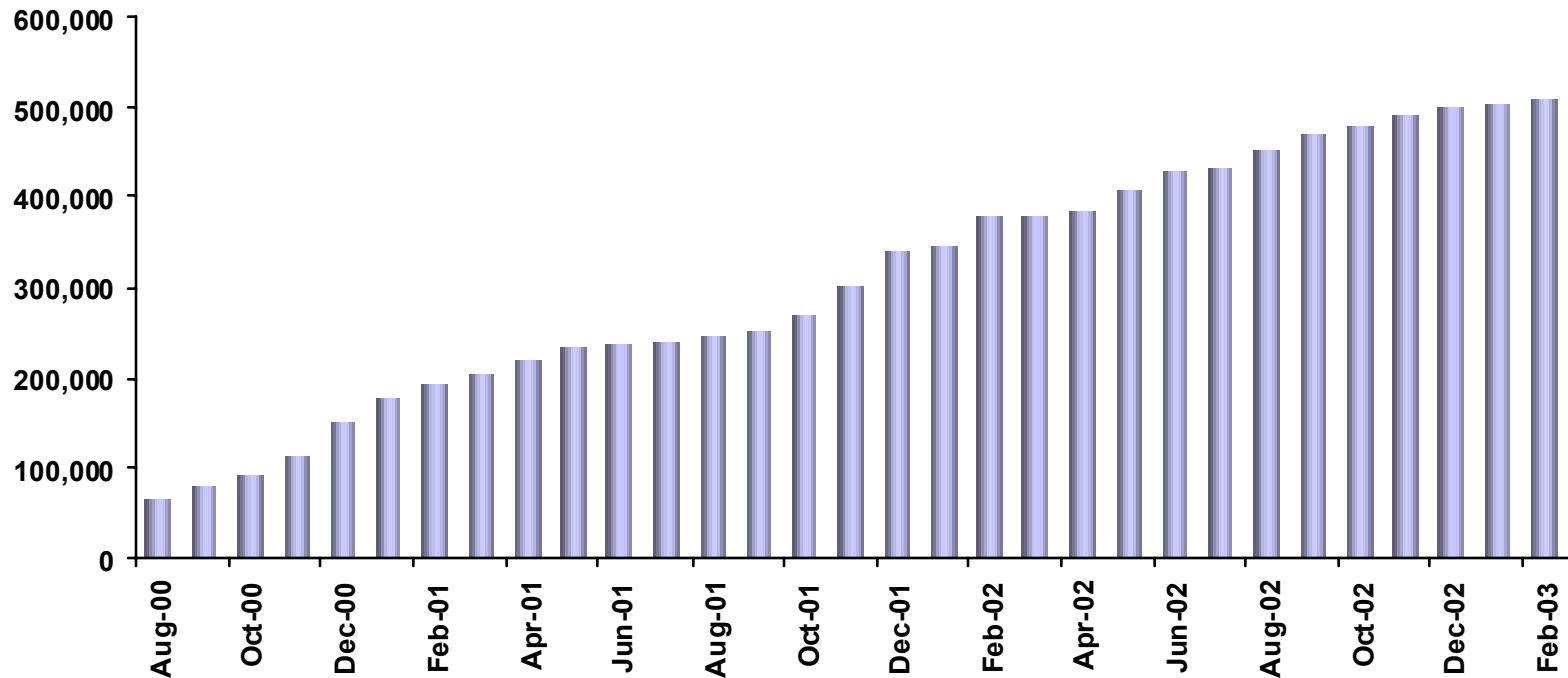
The networks' interests are our interests as well

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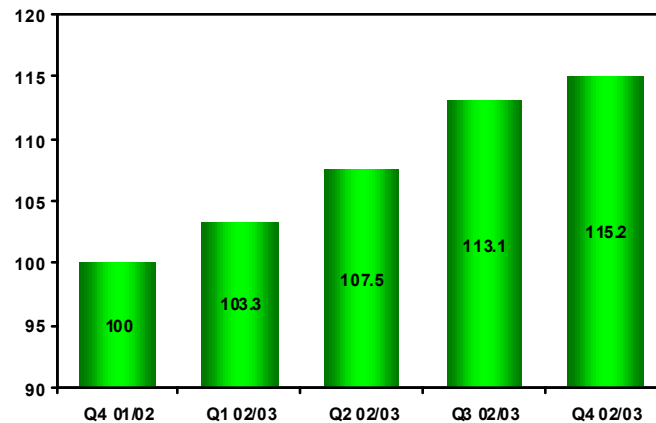
Growth of UK base under management



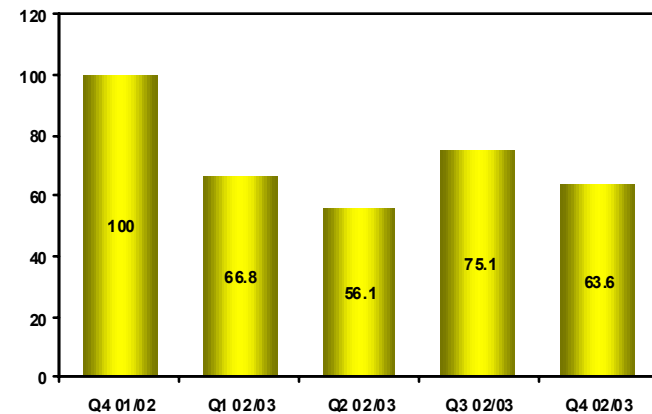
The retail business provides the pipeline to the Services business

Performance - revenue key indicators

ARPU on UK customer base (indexed to Q4 2001/02)



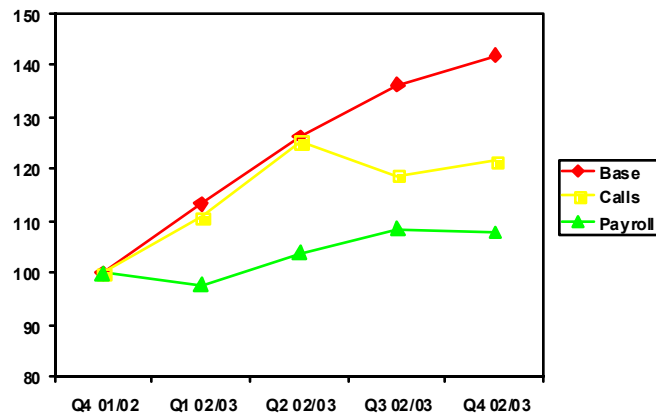
Churn on UK customer base (indexed to Q4 2001/02)



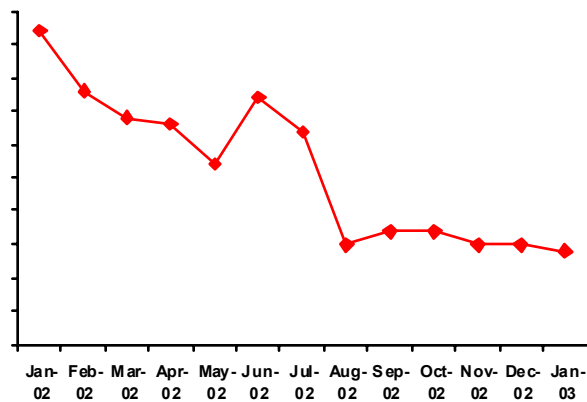
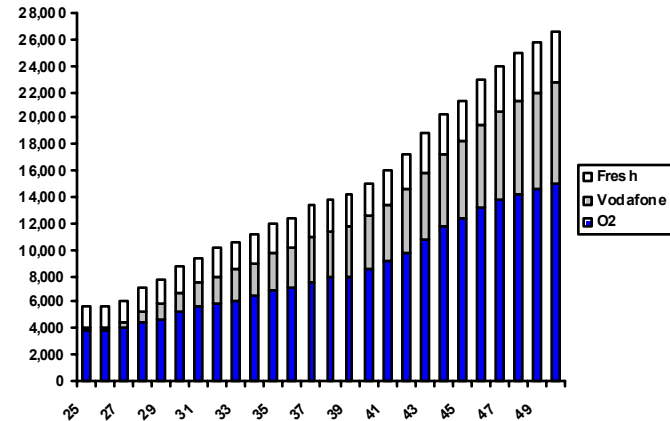
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Performance - cost key indicators

Payroll efficiency
(indexed to Q4 2001/02)



Online Billing Registrations
(Last 6 months)



Percentage of debt outstanding
after 30 days
(Q4 2001/02 - Q4 2002/03)

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Summary

- Strategic alignment with networks in a changing environment
- Rapid growth of recurring revenue streams
- Increasing efficiency

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Opal

David Goldie CEO

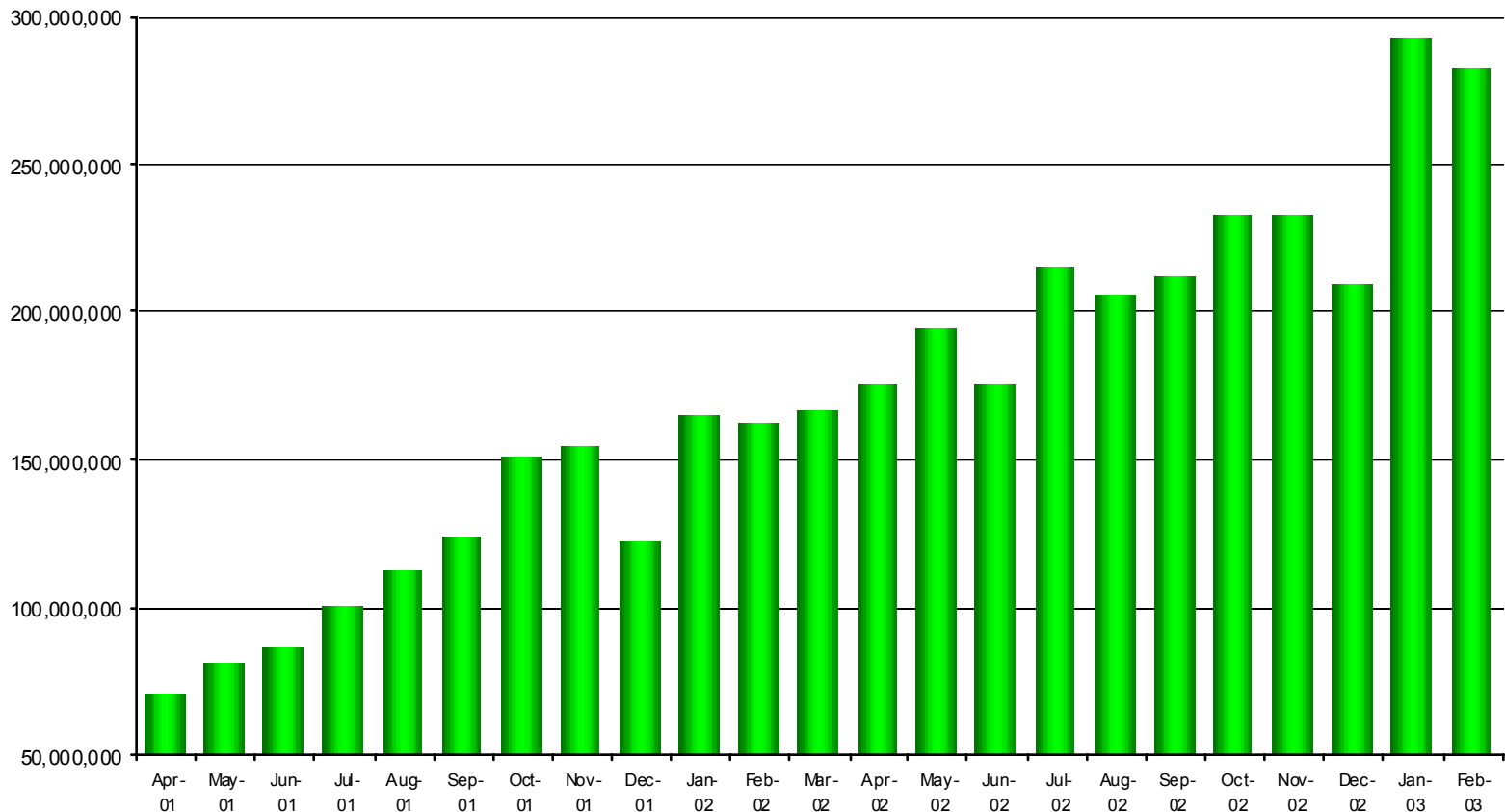
Neil McArthur COO

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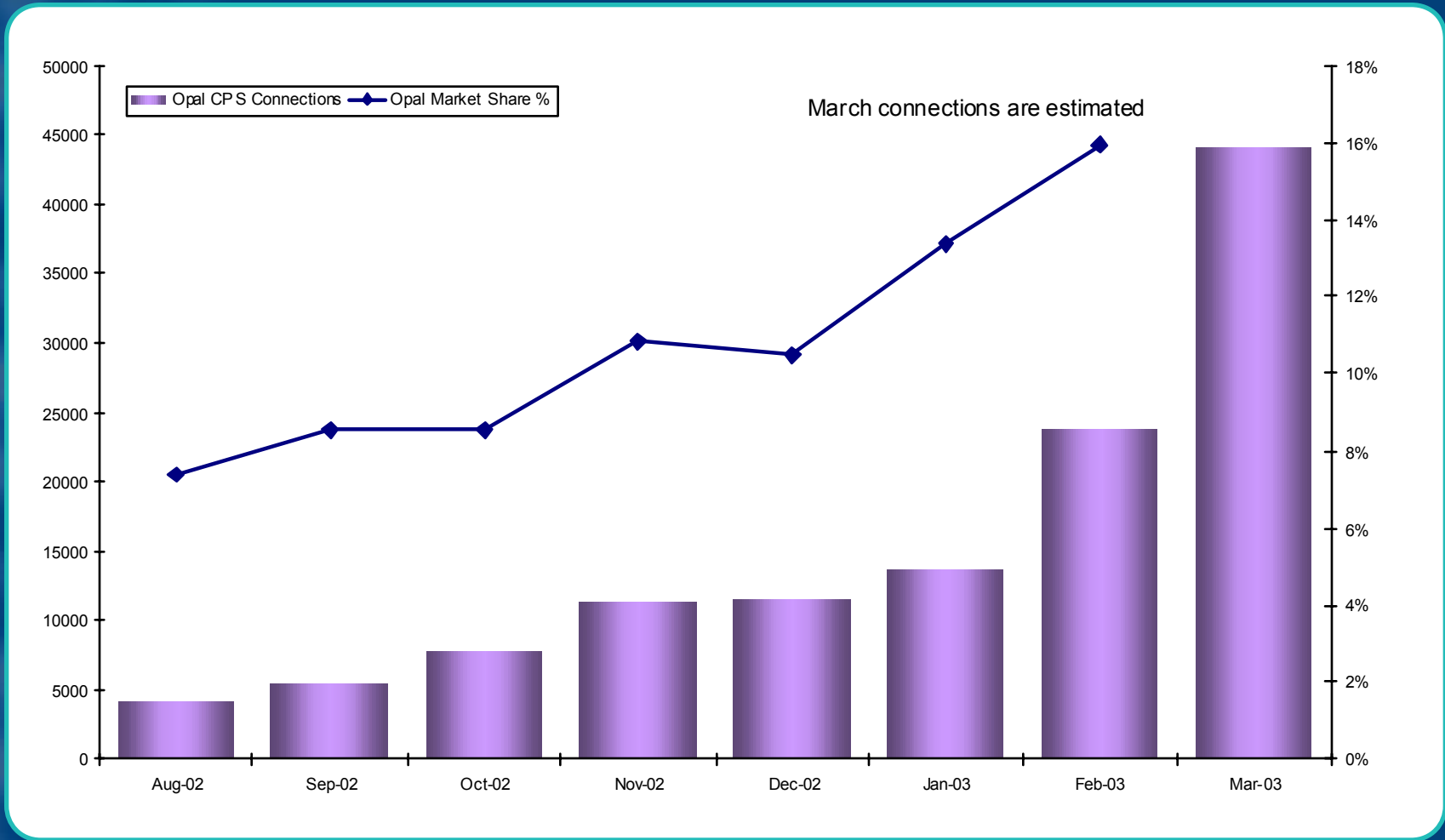
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Progress - monthly switched minutes



Progress - carrier pre-selection connections





Features of recent success

- Talk-Talk successful launch
- Corporate Account wins since November include:
 - Travis Perkins, National Express, Securicor, Cattles plc
 - Strong pipeline of new business
- Exceptional growth in reseller business (140% growth Feb 03 vs Feb 02) - poised for further growth
- New direct sales teams in Scotland and N.Ireland
- Gross margins steady, overheads in control

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Summary of Opal products



Out-bound Telephony



- Basic IDA Telephony
- On-switch LCR
- Direct Connect
- Extension Billing
- Featureline IDA

- TPS Service –
Datagard

- Callgard – Screening

- Carrier Pre-Select

- Call Recording
(Opal Replay)

In-Bound Non- Geographic Services



- All NGN ranges
0800/0845/0870/09xx
- Personal Numbering
- Divert on busy
- Geographic Plan
- Time Plans

- Call Ration

- Premium Rate
- Number Porting –
BT/C&W
- Call Recording
(Opal Replay)

Interactive Voice IVR



- Data Capture

- Booking Systems
- Database Activation's
- 2Stage Dial-up
- Calling Cards
- Mobile Ring Tones &
Logos
- Auto Attendant

- Queue Manager

- Credit Card Payment
(Opal Autopay)

Call Statistics



- Opal Call Care

- Total Calls
- Engaged Calls
- CLI Analysis
- Unique CLI's

- TLI

- Lost Calls

- IVR Stats

Data Services



- My Opal Dial Up
Internet Service

- Bulk SMS
- IPCS



Engineering strategy

- To focus investment and activity on service creation, sales support and optimisation of costs
- To own, control & develop the service creation environment - to supply the most advanced products & services.
- To be the most cost-efficient UK operator

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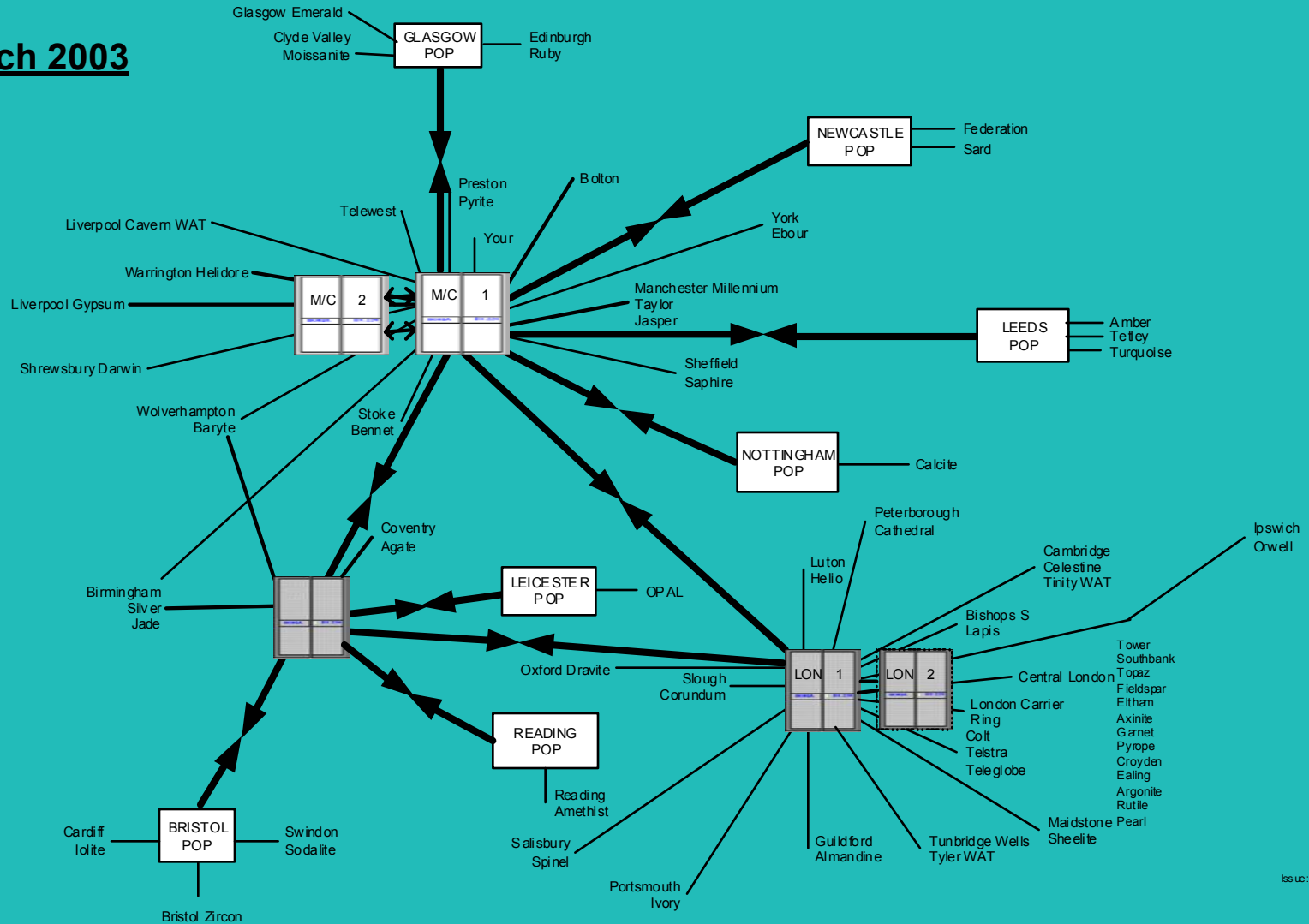
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A network owner or reseller?



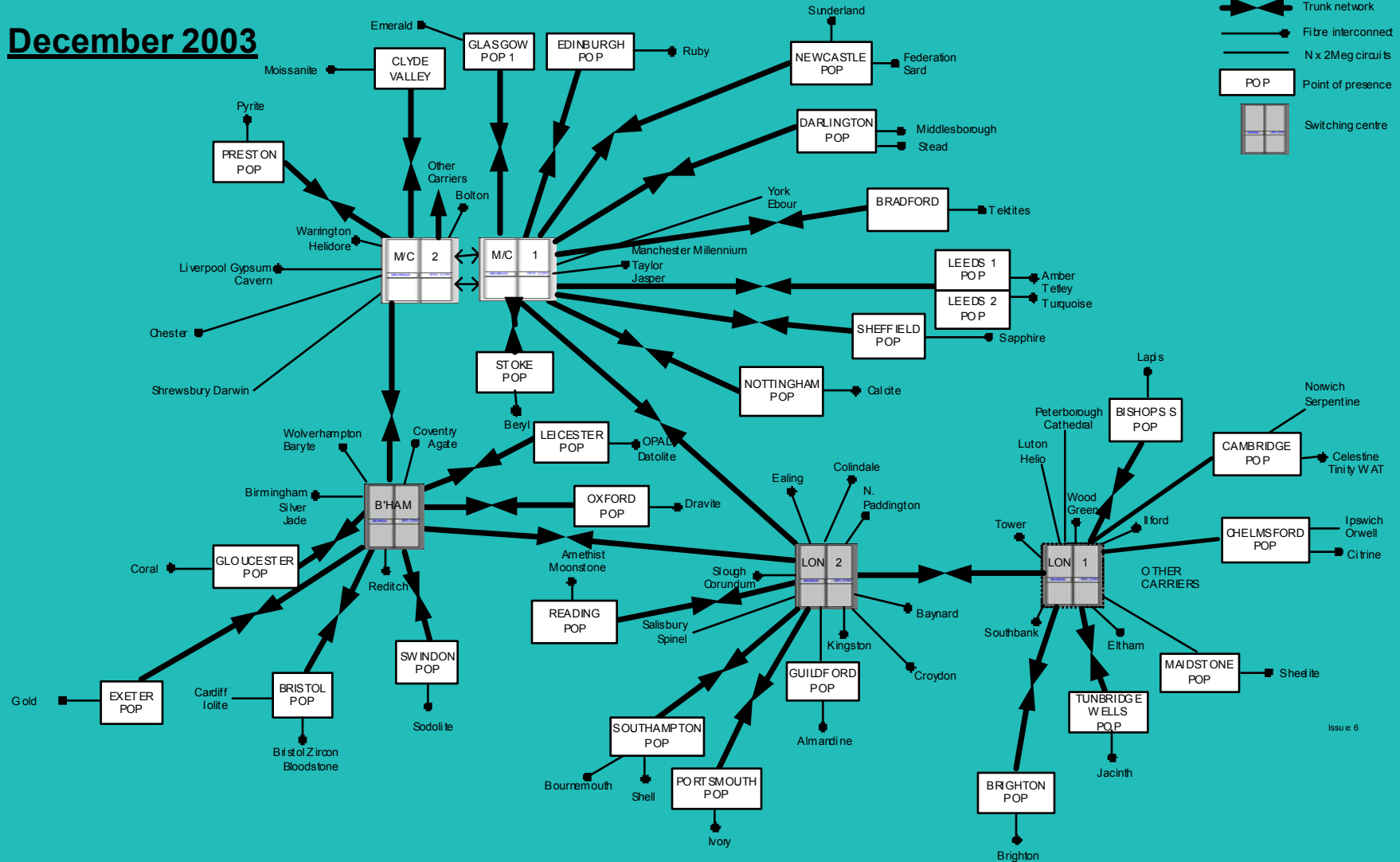
March 2003



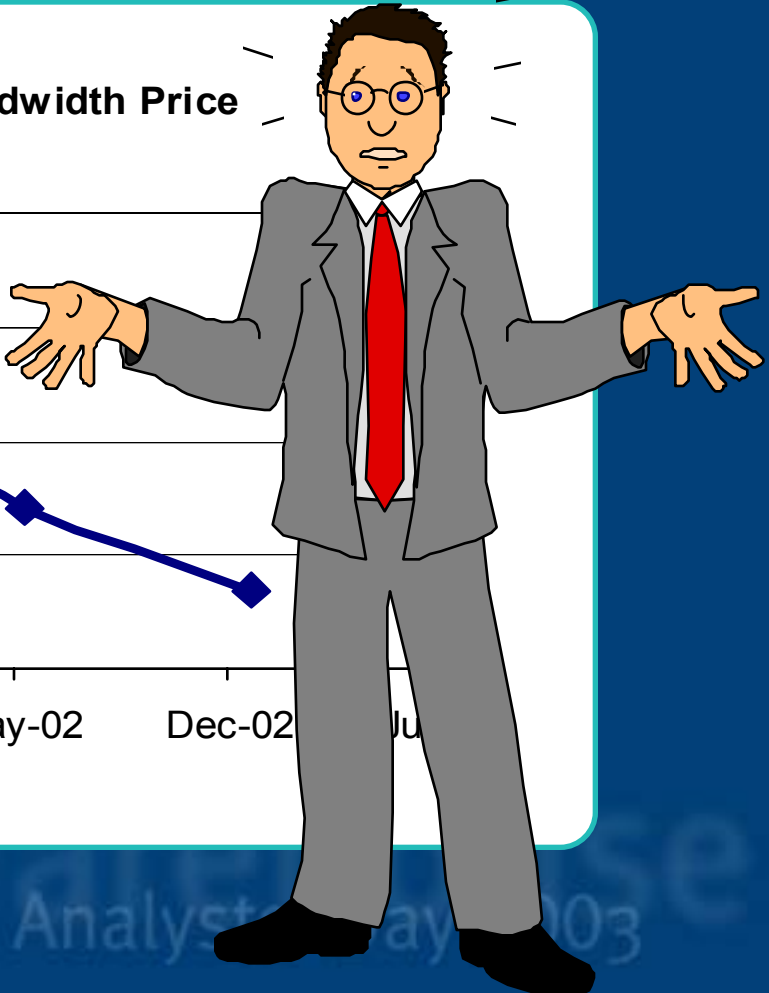
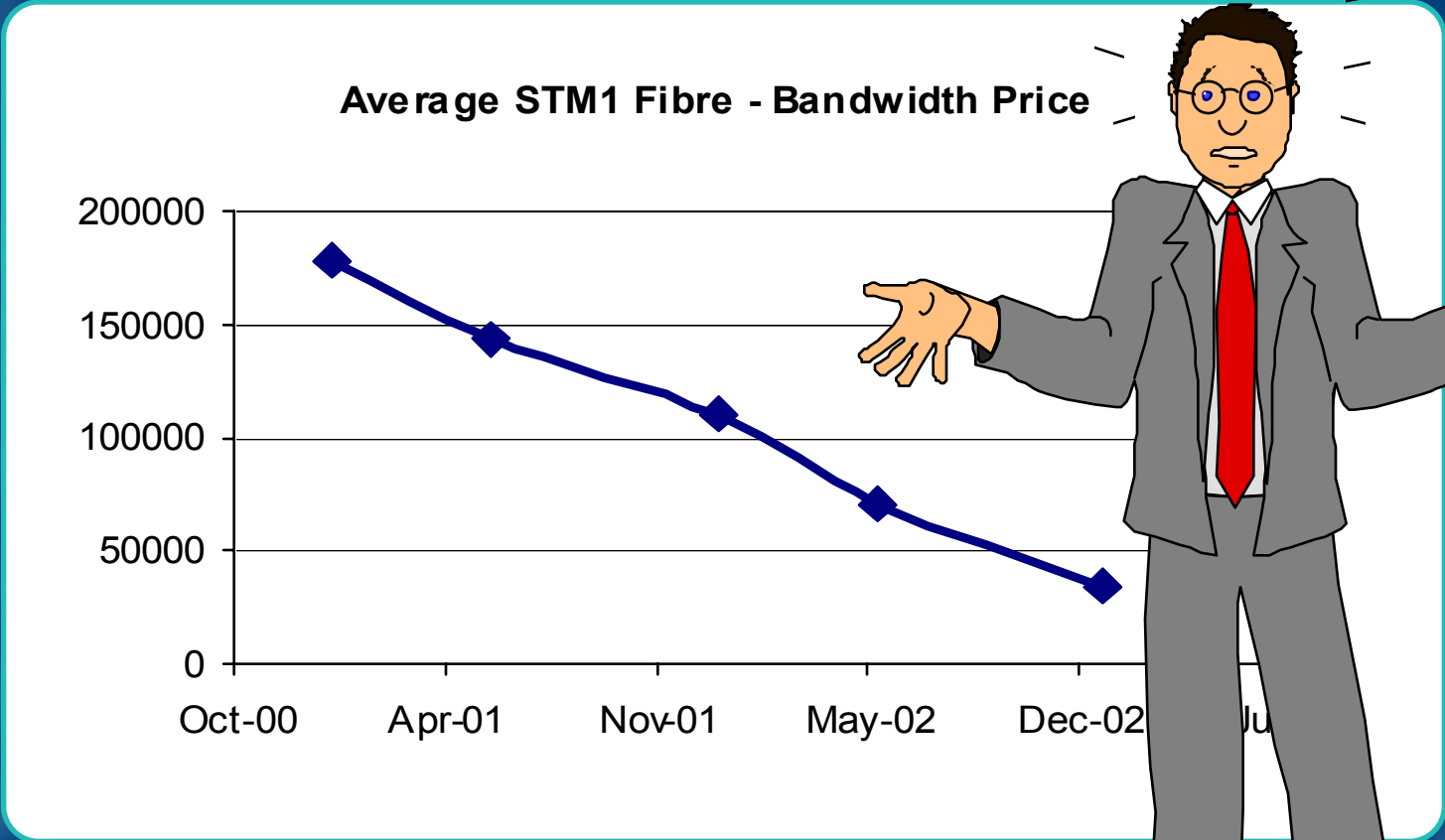
National trunk interconnect network



December 2003



Opal owns its network but leases bandwidth





Network engineering drives margin

- Supplier competition leads to reducing trunk-fibre costs
- Replacing rented BT interconnects with fibre
- Capex only to meet traffic growth or make immediate efficiency gains (03/04 projection £8m)
- Procuring infrastructure inexpensively
- Growing traffic faster than operational overheads.
 - Eg. 4% growth in engineering staff vs 74% traffic growth yoy
- Developing premium priced value-added products
- Optimising the ingress & egress cost of traffic to/from BT local loop

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Traffic management

- Opal's network expansion is focused on connecting to the largest viable number of BT exchanges - Why?
- Opal's greatest cost is the call-price paid to BT for ingress and egress, generally charged at "single-tandem" rates
- BT's price is based on the type and number of switches to which we connect. The lowest price available is for calls connected via local exchanges
- Today 14% egress & 2% ingress is at local exchange prices
- This year we plan to average >25% ingress & egress at local exchange prices, in 2004 we are aiming for 70%
- A local exchange call is 27% cheaper than a single tandem call

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Probable cost-savings in 2003

- Replacement of non-fibre BT interconnects saves £2m
- Routing calls via local exchanges saves >£2m pa
- c4% reduction in BT call costs due to regulated annual price review saves >£3m pa
- Total cost savings over £7m in 2003
- These cost savings and Opal's improving economies of scale should allow us to deliver customer value, and to remain competitive

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talktalk

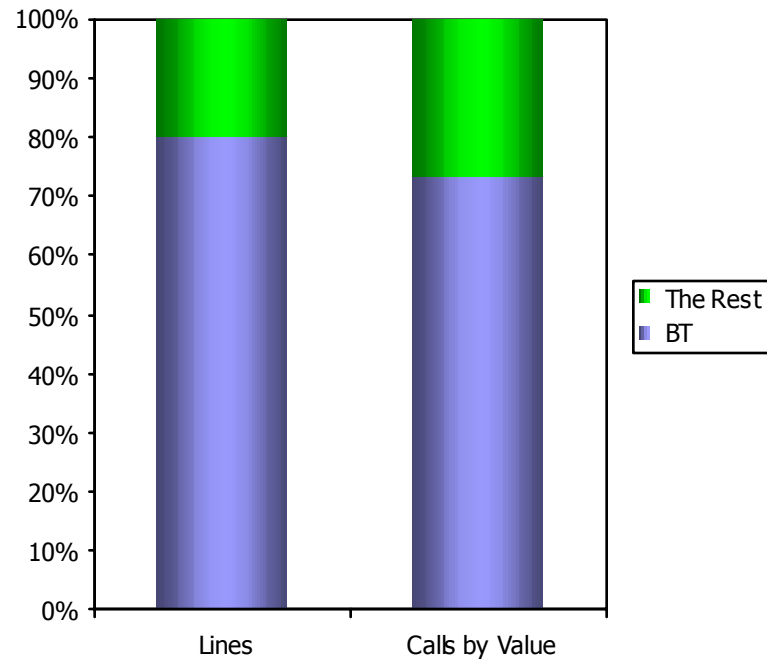


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BT remain dominant



- 25m residential lines
- £7.8bn residential spend
- £49 / quarter call spend

Sources :

Oftel Research – “Market Information – Fixed Update December 2002”
Oftel Research – “Consumers’ Use of Fixed Line Telecoms Services Residential Survey – Q11 November 2002” : Figure includes line rental.
BT Half Year Results To September 2002

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Market opportunity

- Carrier Pre Select Phase III from July 2003
 - Calls routed from residential BT lines to Opal network
 - No dialler boxes
 - No codes
 - Customer hears dial tone and dials
 - Maximum Volume of Calls Captured
 - No dialler leakage
 - Calls from all extensions captured
 - Full Features supported
 - Opal network supports BT-branded services such as call divert, call answer

Proposition - "Beating BT Together"

- Talk240 - "BT Together for Free"
 - 240 minutes off peak local for free
 - BT Together charged at £2 a month on top of line rental
- Talk Local
 - Unlimited local calls for £3
 - BT Together equivalent £5 added to line rental
- Talk UK
 - Unlimited national calls for £7
 - BT Together equivalent for £9 added to line rental
- PLUS
 - Low cost of calling mobiles
 - 25% below BT Standard prices for 3 selected mobiles
 - 15% below BT Standard prices for all mobiles
 - Low international call prices

£500 Challenge

We are so convinced that talktalk will save you money over BT that if we can't prove it we'll give you £500'

Financial model

- Single Customer View
 - £15 monthly ARPU
 - 35% gross call margin
 - 15-20% net margin

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Competitive advantage

- Complementary Network Use
 - Opal network used for business traffic
 - Talktalk residential customer generate off peak minutes
 - Calls carried for low incremental capital requirement
- Low CPW Cost of Acquisition
 - Able to work store asset
 - Add on sale to existing transaction
 - Incremental costs
 - 4 minutes sale time
 - Leaflets / Buyers Guide

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Routes to market

- CPW Brand
 - In store
 - Inbound telesales
 - Outbound telesales
 - Web
- Affinity Partners
 - Major retail chain
 - Discussions ongoing with other distribution channels

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Performance so far

- 31,000 applications
- Improving trend
- Penetration varies by store
 - 2-40%
- ARPUs in line with expectations

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Trading update, new disclosure and FY04 guidance

Roger Taylor - CFO

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Trading update

- PBT and EPS for FY03 will be within the range of analysts' expectations
- Subscription growth in February and March maintained at January rate, with slower pre-pay

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Modifications to disclosure

- As from FY03 preliminary results, we are going to simplify the presentation of our numbers
- Intention to make the group easier to analyse and more comparable with other companies' disclosure
- We will provide two years' worth of historical full year and interim results showing divisional EBIT split

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Pro forma disclosure

<u>Division</u>	<u>Revenues</u>	<u>Contribution</u>	<u>Support Costs</u>	<u>EBITDA</u>	<u>Depreciation</u>	<u>EBIT</u>
Distribution						
- Retail/Online	X	X				
- Ongoing	X	X				
- Insurance	X	X				
	<u>X</u>	<u>X</u>	(X)	X	(X)	X
Wholesale	X	X	(X)	X	(X)	X
Telecoms Services						
- Mobile	X	X				
- Fixed Line	X	X				
	<u>X</u>	<u>X</u>	(X)	X	(X)	X
- UK		X				
- Non UK		X				

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Reporting timetable

- Moving away from short term trading updates
- Concentrating on quarterly trends
- Quarterly update 2-3 weeks post each quarter end:
 - Revenues
 - Connections
 - Customers
 - Margin trends if material
- No current trading in results announcements unless exceptional in nature
- Effective from FY03 preliminary results

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Context of FY04 guidance

- Confident of achieving existing consensus forecasts for PBT and EPS for FY04
- Expecting a flat/low-growth European handset market in 2003
- Full year contribution from Opal
- Unwinding of German losses
- Talktalk
- Changes in Telecoms Services bases

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Trends for FY04

<u>Business Unit</u>	<u>Trend</u>	<u>Remarks</u>
Retail	+	100 store openings, LFL growth
Ongoing	+	Continued growth of base
Insurance	+	Base growth, third party opportunities
Wholesale	-	Reduced activity
Telecoms - Mobile	+/-	Growth in the base offset by transfer of SFR base
Telecoms - Fixed	++	Full year contribution from Opal; talktalk

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Connections

- Double digit growth in connections: low single digit LFL connection growth, growth from new stores
- Subs growth double digit
- Pre-pay growth low single digit (negative LFL): decreasing subsidy and increasing tariffs
- SIM free opportunities
- Upgrade mix effect on subscription cash margins
- Resultant lower single digit LFL gross profit growth, plus new stores growth

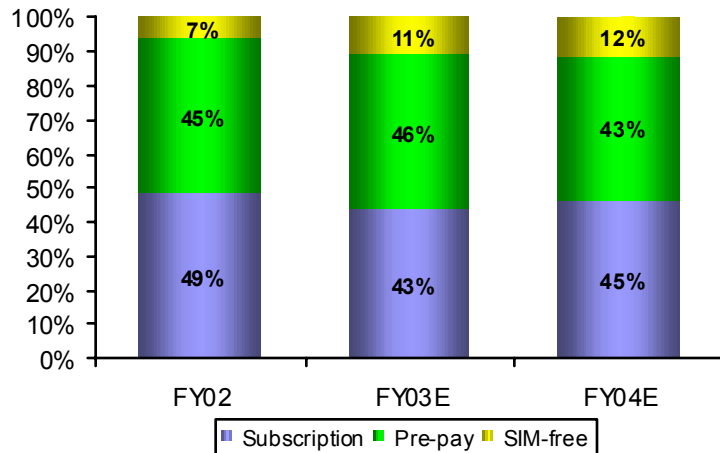
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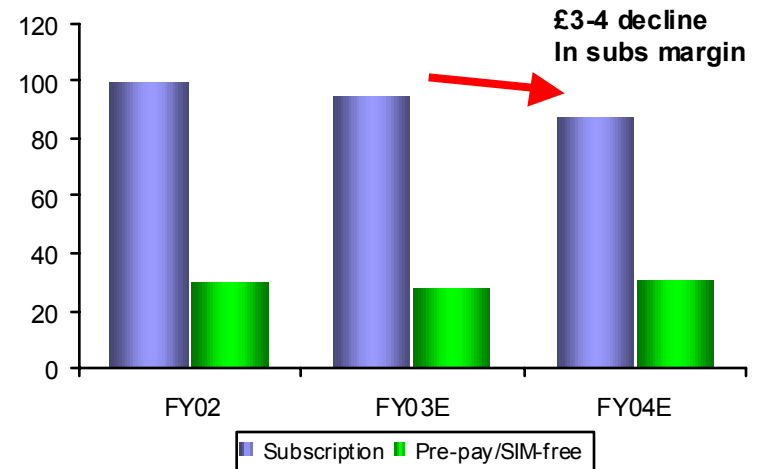
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Mix and Margin

Mix Progression



Margin Progression



- Total connections for FY03 estimated range to be 4.25 – 4.35m (of which c.225k online)

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New store openings

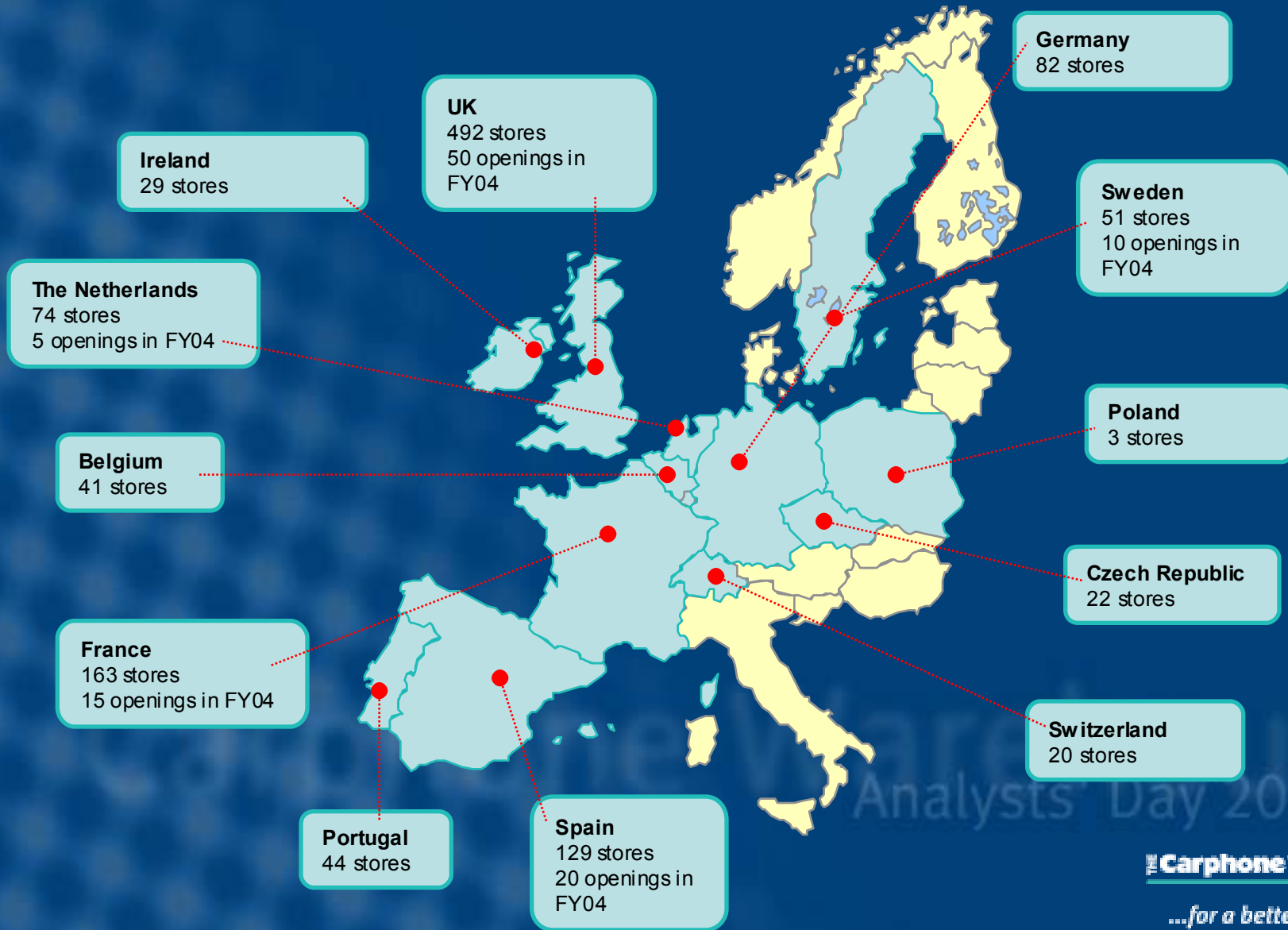
- Plan to open 100 new stores in FY04, including 10-15 relocations
- Focus on UK, France, Spain
- Trialling franchise model (France, Netherlands)
- Total space growth 10%
 - Average space growth 8%

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Store openings



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Retail costs

- Average rent per store increase of 10% from £37,500 per store
 - Larger stores
 - Upgrade of portfolio
 - Turnover related rent in Europe
 - 3/5 year renewal effect
- Payroll and other
 - Variable costs in line with margin growth
 - Repairs costs more under control

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Ongoing revenue

- approx 2m customers on the base, 25% churn
- 70% of new subscription customers join the base
- Small increase in ARPU, with ARPU share staying steady
- Leads to growth of 10% in FY04

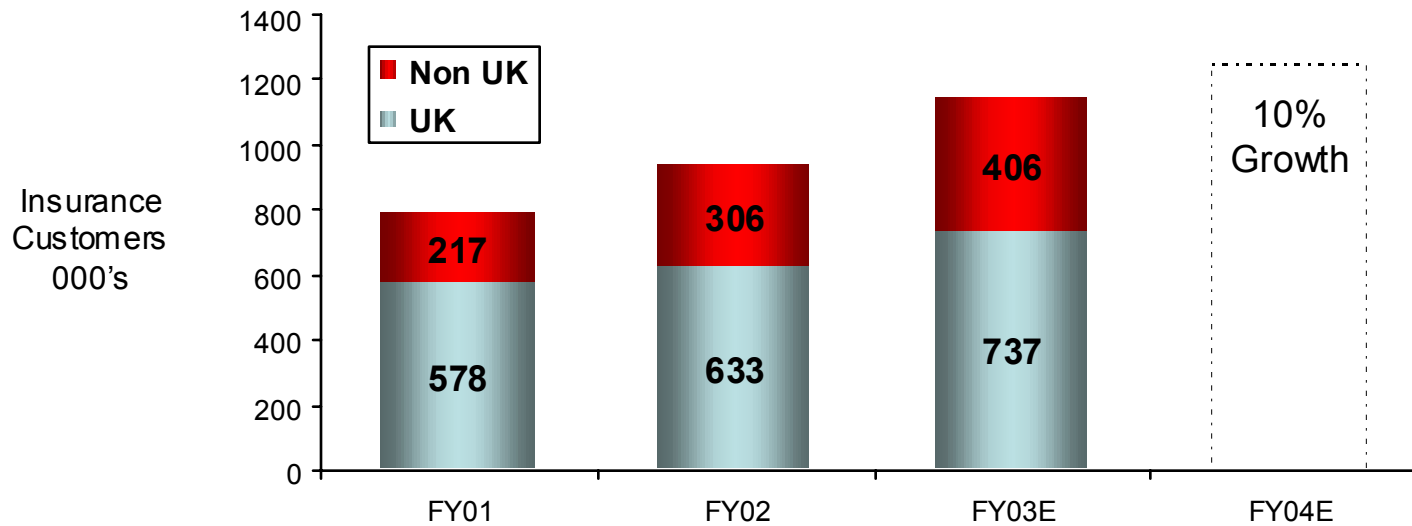
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Insurance

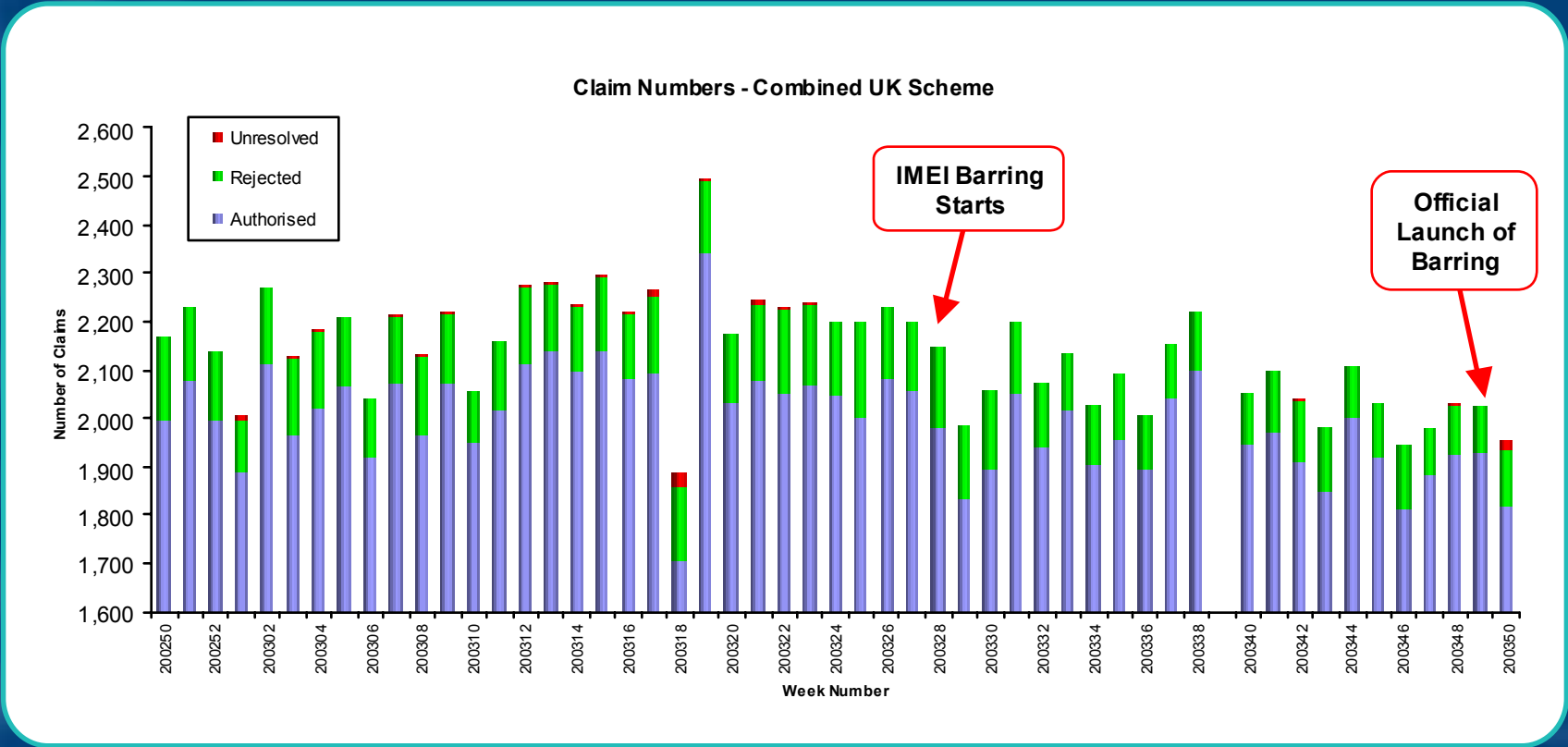
- Customer growth through increased penetration, churn management and third party opportunities
- Average premium and contribution margin of c.35% stable



Insurance



- Increase in average claim value offset by better claims management



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Distribution - summary

- Revenue growth driven by connections
- Contribution margin of 13-14%
- Full cost allocated EBIT margin of 4-5%
- European distribution generating c25% of divisional EBIT

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Wholesale

- This time last year we said:
 - “Estimate 50-60% REDUCTION in contribution for FY03”
- This year we are saying the same
- Slower wholesale market in Q1 2003
- Dealer business remaining active
- Continued benefits from Wholesale for stock management and Group buying
- Fully allocated EBIT % of 0.5 – 0.75%

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Telecom Services - mobile

- Continued growth expected in managed customer base
 - All relevant Voda/O2 customers
 - Le Mans SFR contract
 - Change to Orange contract
- Own customer base will see profits fall
 - Customer base transfer back to SFR: annual impact -£3m
 - Opportunities for Fresh will offset some of this

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Base numbers and revenue guidance

	<u>Managed</u>	<u>Own</u>
Base	1m+	150,000
ARPS	£3	£20

- Contribution margin of c20%

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Telecom Services – fixed line

- Opal
 - FY03 annualised revenue of c.£150m
 - Revenue growth c.40% in FY04
 - Targeting contribution % of 10%
- Talktalk
 - 10% penetration of UK mobile connections
 - £15 monthly ARPU at 15% contribution margin, heading to 20%

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Telecoms Services - summary

- Revenue driven by mobile bases, talktalk penetration and Opal minutes of use
- Blended contribution % of c.11-13%
- Fully costed EBIT range of 6-7%

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Support costs, depreciation, interest and tax

- Support costs growth of 6-7%
 - Property costs
 - Increased headcount and management investment
 - Fully allocated for FY03 onwards
- Depreciation
 - Core depreciation £33-34m
 - Additional £7-8m impact from Opal
- Interest
 - Full year impact of Opal financing
 - Improved working capital management
- Tax
 - Impact of change to tax regime on CFCs
 - Further tax losses to be utilised

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Working capital, capex and cash generation

- Anticipating working capital of c.6% of revenue, equating to c.£20m
- Total capex of £40-45m anticipated
 - £35-38m CPW (of which c.£15m new stores)
 - £6-8m Opal
 - Excluding Warrington
- Targeting free cash flow/EBITDA ratio of 30%
- Ability to finance growth and return cash to shareholders
 - Maiden dividend proposed
 - Commitment to progressive policy

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FY05 and beyond

- Targeting medium term annual EBIT growth of 10% in Distribution, and 15-20% in Telecoms
- Long term low growth handset market
- More scope for retail roll-out
- Further affinity/management deals
- Development of business model across Europe

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Closing remarks

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Key messages

- A good year in a mixed market
- Close alignment with networks
- Reasons for optimism
 - Forecasts based on a flat/low growth market
 - Recurring profit streams
 - talktalk
 - Third party/affinity opportunities
- Dividend

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