

# Strategy Update

## Strategic and financial progress

In May 2005, the Group refocused its strategy and defined three clear objectives:

- Focus on two customer groups: R&D engineers (EEM) and Maintenance engineers (MRO);
- Implement the Enterprise Business System (EBS) in Europe and Asia Pacific;
- Reduce the cost base by £10m p.a.

The implementation of the new strategy has proceeded well with the clearer focus on R&D engineers and Maintenance engineers supporting growth across the Group. The implementation of EBS in Europe and Asia Pacific is complete, benefits are being delivered and the £10m p.a. cost saving target has been met. Since 2006 headline operating profit has increased by £27m and free cash flow has increased by £48m.

The Group is an increasingly diverse business that operates in 27 countries directly and another 38 via distributors. 61% of sales now come from International markets. It sells to 1.6m customers worldwide who are based in a broad range of service and manufacturing industries.

## Competitive position

The Group has now built a strong platform for growth. It has:

- Leading positions in growing markets for high-service distribution. The Group is the number one high-service distributor internationally having been the first to globalise its operations. It has delivered strong International sales growth of around 10% p.a. since March 2004;
- World-class global infrastructure and systems including a global e-Commerce platform, integrated systems, centralised purchasing and supplier management and global inventory, logistics and supply-chain management;
- Strong R&D, maintenance and e-Commerce customer propositions. The Group distributes the broadest range of technologies for R&D engineers and has the leading high-service offer for maintenance engineers worldwide. Our e-Commerce capabilities are leading edge, with 70 transactional web sites in 17 languages that are constantly developing in innovative new ways;
- A stable and profitable UK business.

## Growth drivers

The Board has reviewed the strategy of the business going forward and has identified four key areas of focus that will drive future performance:

- Focus on fast growing international markets;
- Accelerate development of the Group's R&D and Maintenance offers;
- Exploit the full potential of e-Commerce;
- Leverage the Group's global infrastructure and increase operating margins.

## Focus on fast growing international markets

There is significant growth potential in the three International regions of Asia Pacific, Continental Europe and North America. The greatest opportunity is in Asia Pacific where the Group is investing to accelerate future revenue growth with a particular focus on China.

## Accelerate the development of the Group's R&D and maintenance offers

The Group is accelerating the expansion of its product range for R&D engineers, as well as deepening its relationship with select, world-class electronic suppliers. New industry-standard packaging options, at competitive prices, were recently introduced on over 40,000 products in the major markets of Europe and the UK. This expands the Group's customer base to a large potential market beyond R&D engineers to customers involved in prototyping and small batch manufacturing. The initial customer reaction to the launch has been positive.

## Chief Executive's Review



Ian Mason  
Group Chief Executive

To develop our offer to maintenance engineers the Group is focused on enhancing and more effectively promoting its ranges in high growth areas such as Process Control and Automation (PCA). Ranges in areas where customers do not value an extensive choice are being rationalised. The range of own brand products is being expanded to drive both sales and profitability and global product sourcing is increasing.

### Exploit the full potential of e-Commerce

Although the catalogue remains an important channel for our customers, e-Commerce represents an opportunity to fundamentally enhance many aspects of our business model. Rapid growth of this channel has taken e-Commerce sales to 33% of Group revenue. e-Commerce enables the Group to more rapidly introduce new products, as it reduces the constraint of the traditional annual catalogue publication cycle. It enables the Group to offer a wider product range than is practical in a paper catalogue; an ability that has already been successfully exploited by selling the Group's US and Japanese extended ranges to UK and European customers.

Customers are being encouraged to switch to e-Commerce and as a result our ability to reduce off-line costs is increasing. In addition, e-Commerce is helping the Group form deeper relationships with key suppliers, for example by embedding supplier-generated content in the Group's site and providing links from supplier sites.

### Leverage the Group's global infrastructure and increase operating margins

International growth is driving operating cost leverage through economies of scale and the exploitation of fixed costs within the Group's cost base. There is significant scope for the Group to achieve further operating cost leverage as the business expands. The Group's past investment in its EBS systems is now providing cost benefits in many areas, including inventory cost management and more sophisticated, targeted discounting. Additionally the Group is targeting further cost saving opportunities.

### Performance framework

The Group has set a five year performance framework which includes a number of Key Performance Indicators.

	KPI's	2008
International sales growth	7%-10% p.a.	8%
International share of Group sales	70%	61%
UK Contribution	Stable	Increasing
Sales via e-Commerce	50%+	33% <sup>(1)</sup>
Underlying gross margin	Stable	Stable
Cost as % of sales <sup>(2)</sup>	Reducing	Reducing <sup>(3)</sup>
Capex	Below depreciation <sup>(4)</sup>	Below depreciation <sup>(4)</sup>
Return on Capital employed <sup>(5)</sup>	25%+	24%

<sup>(1)</sup> Exit rate

<sup>(2)</sup> International and Process costs

<sup>(3)</sup> Excluding the one off North American warehouse move costs

<sup>(4)</sup> Including amortisations

<sup>(5)</sup> Headline operating profit expressed as a percentage of net assets plus net debt



Ian Mason  
Group Chief Executive