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Castorama Russia

Company presentation

June 2008

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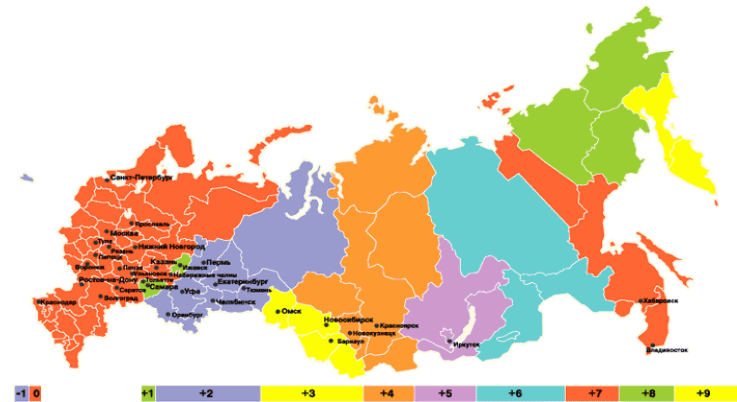
- Format – key elements of positioning
- Targeted customer types
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1. Russia overview : facts and figures

1. Russia overview: facts and figures

Macro-economic overview

- One of the largest consumer markets in Europe
- The fastest growing economy in Europe
- Large home owning population
- Fast developing home construction and renovation market
- High demand for DIY and DIFM products and services
- Highly fragmented competition



- **No 5** European economy
- Fastest real GDP growth in Europe: for 2007 is **8,1%**
- January-April 2008 GDP growth is **8,3%**
- Population **142.2 m people**
- 2007 statistics
 - retail sales: **\$ 430,3 bn** (+15.2% YOY)
 - ave income per capita: **+20% YOY**
 - New housing: **+60,4 m sq. m**
- Home ownership
 - **80%** own apartments
 - **50%** have dachas (country house)
 - **72%** live in cities/towns
- Russia ranks **No 2** in the retail development index

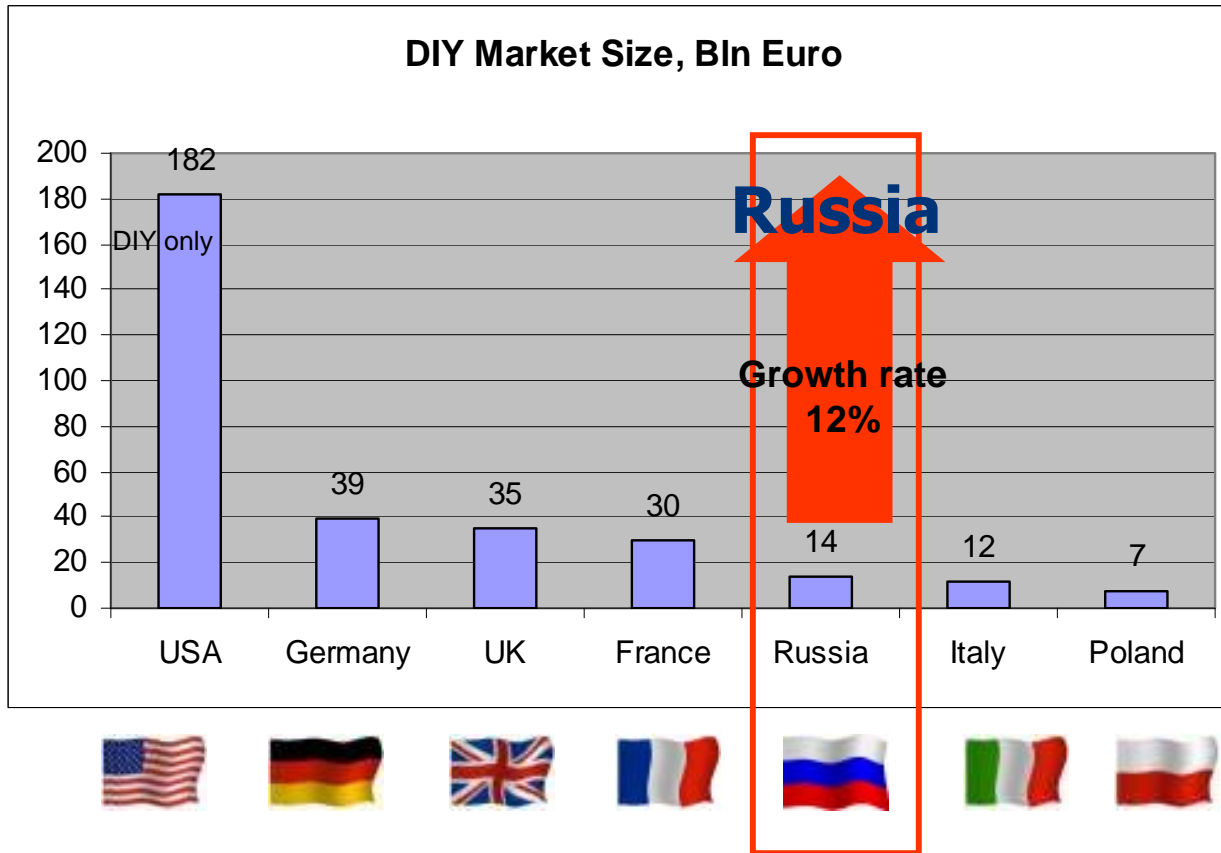
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2. Russian DIY market



2. Russian DIY market

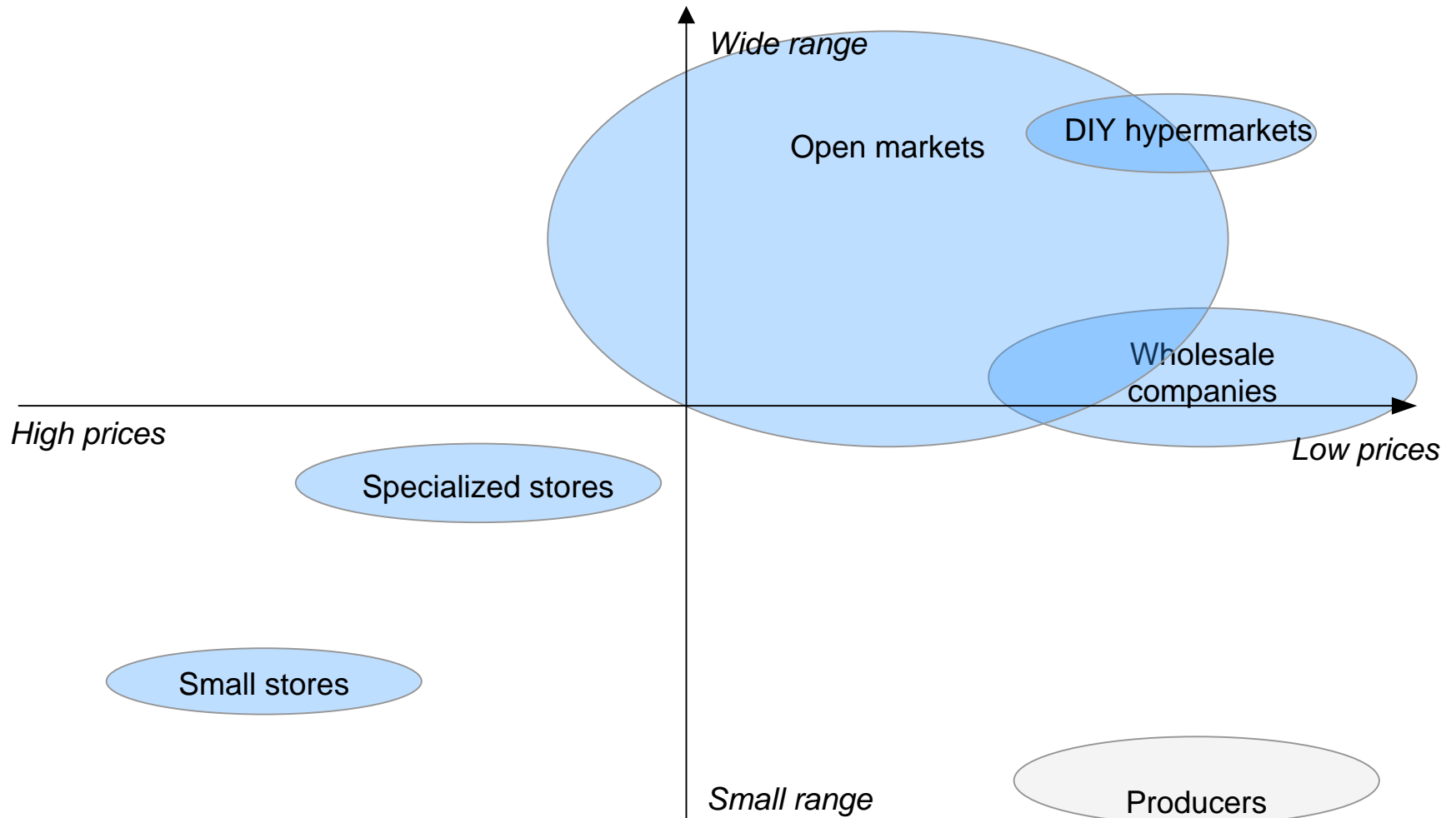
Market size – a great opportunity



•Organised retail formats are developing fast , but open air markets today still represent 75% of the market. Their share however is rapidly declining and could become as low as 20% in 5-10 years time.

2. Russian DIY market

Types of POPs



2. Russian DIY market

Differs by region

Moscow



- All key international players are already here. Still low levels of penetration by large box retailers.

St. Pet



- Very competitive market, international and local players in all formats.

Regions



- No strong local players
- Big interest in DIY big box format

2. Russian DIY market

Competitor overview : "Federalization" of local players

OBI

federal

- 12 stores, 5 regions
- aggressive regional expansion
- ave store size 12 000 sq.m

K-РАУТА
СТРОЙ-МАСТЕР

- 8 stores, 1 region
- expansion to North-West region
- ave store size 6 000 sq.m

Бауцентр

federal

- 7 stores, 3 regions + 2 new regions in 2008
- aggressive regional expansion
- ave store size 11 000 sq.m

LEROY MERLIN

federal

- 5 stores, 3 regions + 4 new in 2008
- aggressive regional expansion
- ave store size 14 000 sq.m

7 federal operators + Castorama

Максидом

federal

- 8 stores, 2 regions
- started regional expansion
- ave store size 15 000 sq.m

federal

СТРОЙ АРСЕНАЛ
СТРОИТЕЛЬНЫЙ ГИПЕРМАРКЕТ

- 3 stores, 3 regions
- strong in Ural region
- ave site size 6-13 000 sq.m

federal

Метрика
СТРОИТЕЛЬНЫЙ МАГАЗИН

- 9 stores, 2 regions
- started regional expansion
- ave store size 10 000 sq.m

ХОУМ ЦЕНТР

federal


- 2 stores, 2 regions + 2 new stores in 2008
- started regional expansion
- store size 5 - 15 000 sq.m

2008 Competitive environment

Rostov-on-Don

Existing:  


Volgograd

New: 

Krasnodar

Existing:  (2) 






New: 



Moscow

Existing:  


New:  


Saint Petersburg

Existing:  
 



New:  (2) 

Ufa


Existing: 
 СТРОЙ АРСЕНАЛ
 СТРОИТЕЛЬНАЯ ГИПЕРМАРКЕТ

New: 

Chelyabinsk


New:  

Omsk


Existing:  


New: 

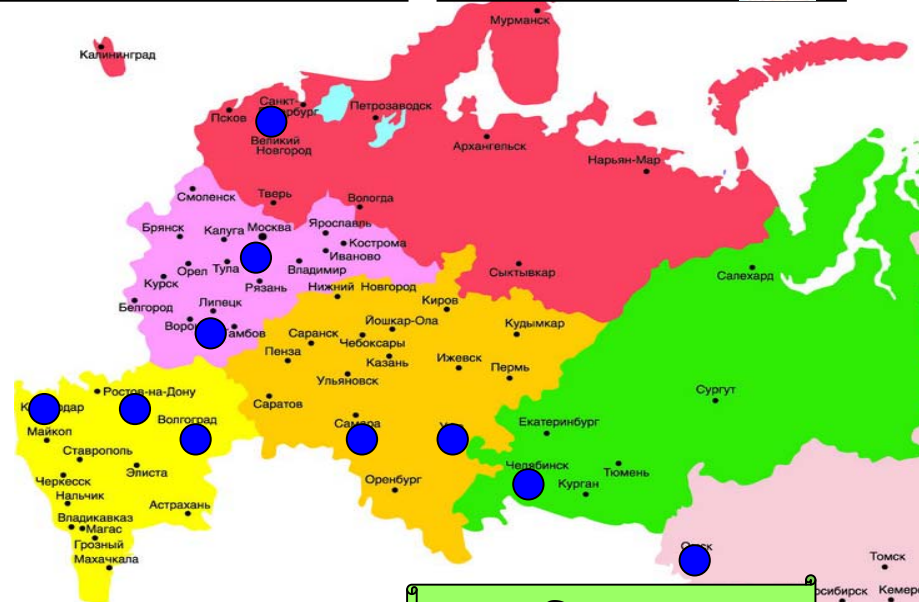
Voronezh

New: 

Samara

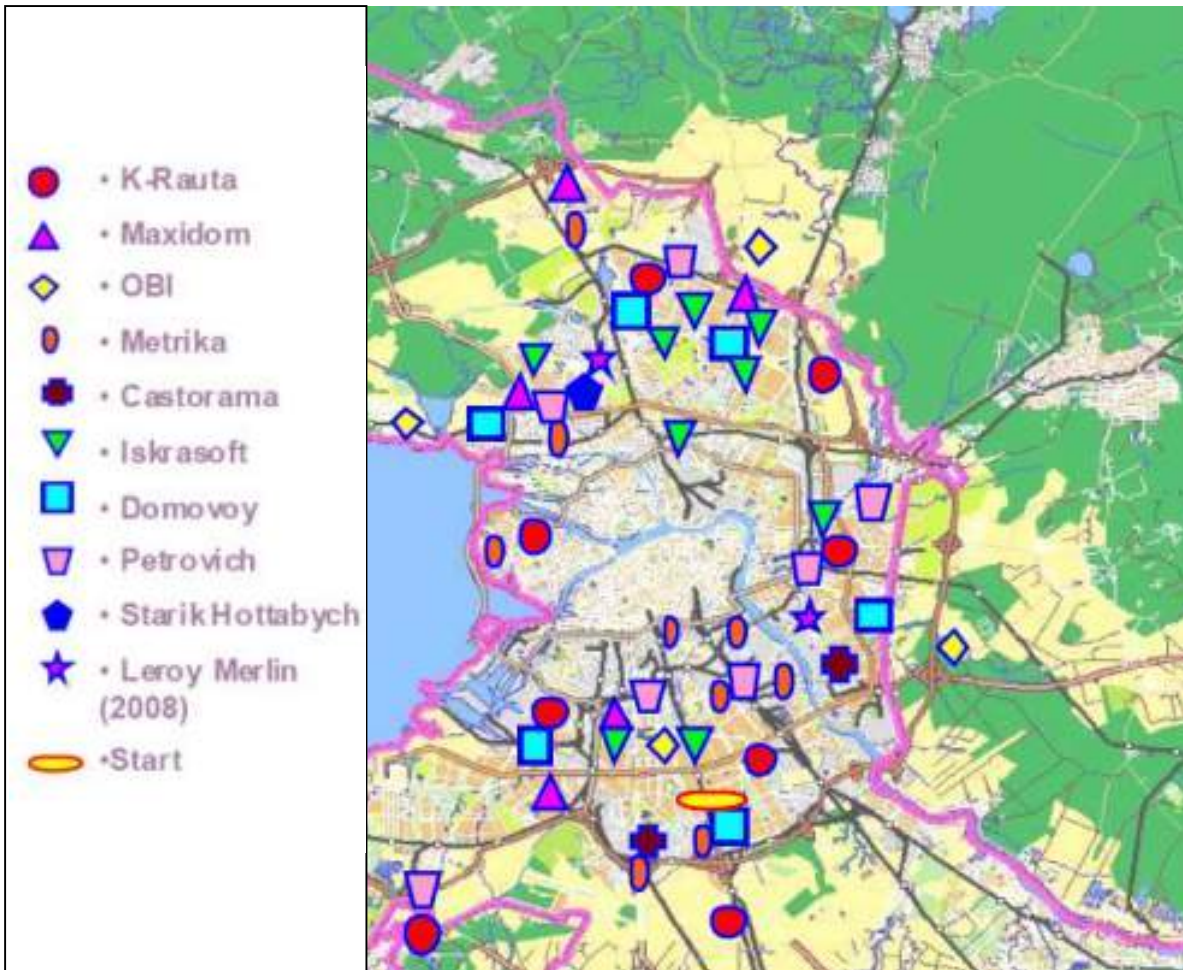
Existing: 

New:  (2)



2. Russian DIY market

St. Pet DIY market: example of the strongest competition



DIY market statistic:

- Number of DIY big boxes:
 - St. Pet: **42**
 - Moscow: 9
 - Samara: 1
- DIY sq. m per 1000 population (big boxes only):
 - St. Pet: **77 sq. m.**
 - Moscow: 19 sq. m.
 - Samara: 10 sq. m.

St. Pet is an exception, the only major city in Russia with such level of competition. Even in St. Pet Castorama can deliver the required levels of sales (highest in the city per store) and profit to justify investment

2. Russian DIY market

Observed DIY Customer Behaviour – average Castorama customer

Customer do want to shop in **one place**

Customers do need wide **range, quality, low prices, brands and service, advice, education**

Customer **values are changing**, attitude to home renovation is changing, purchases are becoming more aspirational. Customers paying more attention to home improvement ideas



Customers are ready to shop in DIY hypermarkets

Share of DIYers (vs. DIFM) varies from 45% to 75% depending on income level

Customers visit 3-5 POPs and **compare price**

Consumers, who spend >20 000 RUR (£ 387), make about 70% of total spending. Thus **market is driven by projects**

All new apartments are **Shell & Core**

Men and women

25-60 years old

Married/live together

Have a car

Well educated

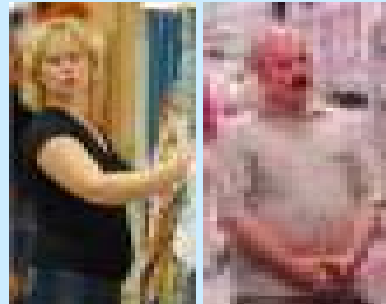
Have a dacha

2. Russian DIY market

Customers: regional difference

Moscow, St. Pet

- **Wealthiest, experienced, sophisticated** customer
- Moscow/St. Pet is a magnet for **active, innovative people**
- **High income** enables to have more
- People are more **career oriented, energetic, dynamic**
- People are **used to civilized retail**, demanding the best service
- Dacha is mostly for leisure, pleasure, BBQ



Regions

- **Lower income**, lower level of living, but developing fast
- More **traditional**, family oriented, are not ready to take risk, don't trust government, thus e.g. credit penetration is low
- **Shop at open markets** - civilized retail has just started developing
- Dacha is a source of living: crop fruit/vegetables for winter



No big difference in terms of **demographics**, **key difference is in psychographics, lifestyle and thus in purchasing behavior**

2. Russian DIY market

Customer behavior: ideal POP

Ideal POP:

- convenient location
- affordable prices
- wide range
- good service



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3. Castorama Russia: overview



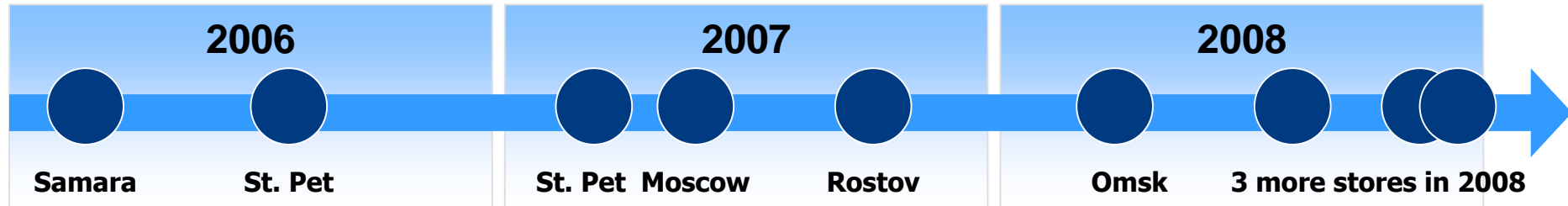
3. Castorama Russia: overview

Company overview



РЕМОУТ – ЭТО
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Hypermarket for
home and renovation



Key figures of Castorama Russia

- People: **1600**
- Ave store size: **11-13 000 sq. m**
- Range: **35 000 SKUs**

3. Castorama Russia: overview

Format & positioning: providing the elements for completing projects



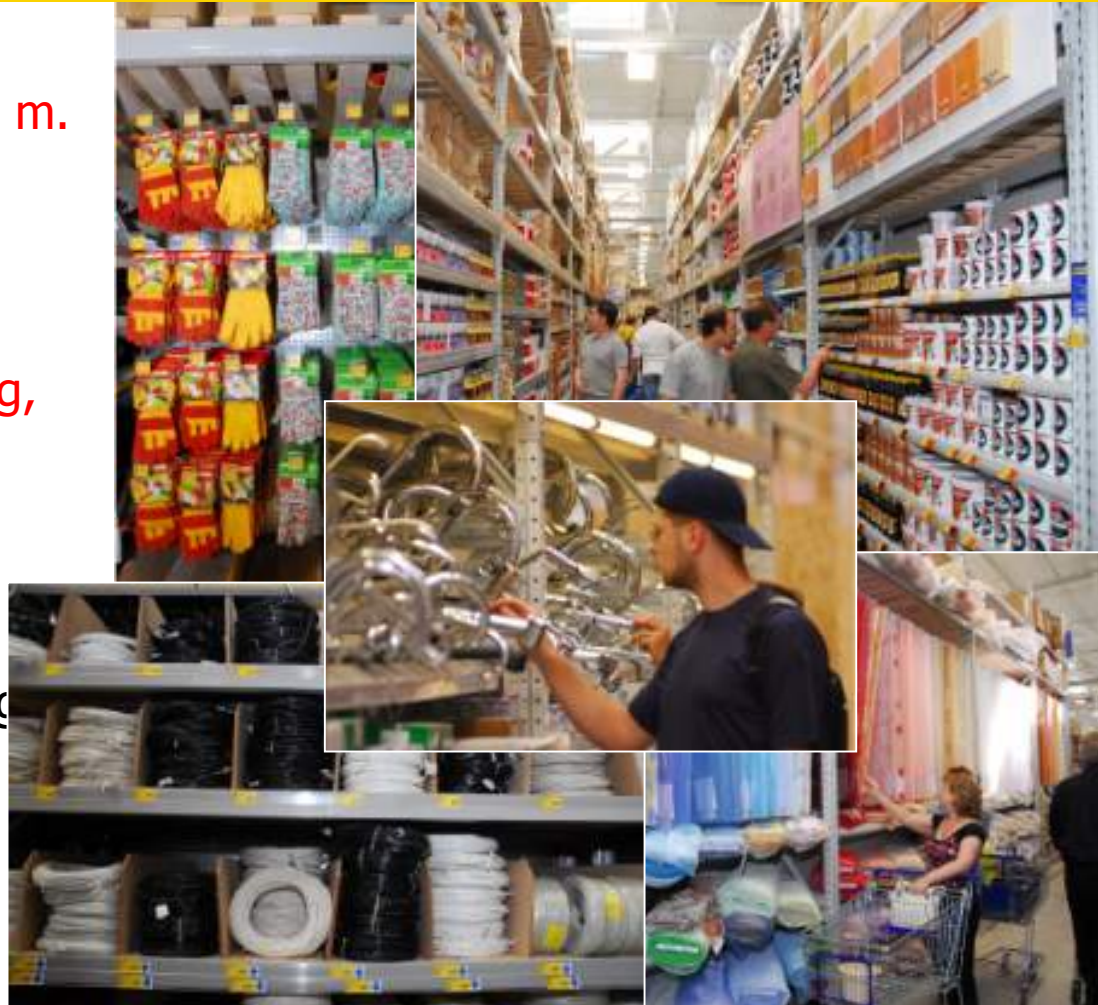
Castorama has **all the quality products** at **affordable prices** for home, business and dacha (building, renovation, decoration and home improvement) and **advice and services** to enable you to complete the projects

PEMOHT – ЭТО
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3. Castorama Russia: overview

Format & positioning: widest range for renovation & dacha

- Total space is **11000–13000 sq. m.**
- Range is over **35 000 SKUs**
- The main categories are **building, timber, decor, lighting, showrooms, flooring, ceramics, tools, hardware, garden**
- Most of the offered product range are goods supplied by **Russian companies**



3. Castorama Russia: overview

Format & positioning: lowest prices

- Our pricing strategy: **Every Day Low Prices**
- Any time, whenever customers would like to purchase anything in Castorama they might be sure that they will always find **high quality goods on the lowest prices**. They shouldn't wait for sales to buy a product with maximum benefit



3. Castorama Russia: overview

Targeted types of customer

Trade customer

Small legal construction organizations

Illegal crews

Retail customer

Active DIY:

- are currently into renovation or have recently completed it. The whole scope of works was done/is being done by themselves
- higher percentage of males,
- visit DIY store **8-9** times a year
- spent on DIY goods on average **2000 RUR** (70 USD)

28%

Active LSEDI:

- are currently into renovation or have recently completed it. Some share of works were done / are being done by professionals
- bigger share of young (25-34) buyers
- visit DIY store **7-8** times a year
- spent on DIY goods on average **3000 RUR** (110 USD)

40%

Passive DIY:

- are not conducting renovation. Intend to do all works by themselves in case if start it
- visit DIY store **6-7** times a year
- spent on DIY goods on average **1000 RUR** (35 USD)

14%

Passive LSEDI:

- are not conducting renovation. Intend to hire professionals to conduct some share of works
- higher percentage of females
- visit DIY store **5-6** times a year
- spent on DIY goods on average **1000 RUR** (35 USD)

18%

- We mostly aim at Active DIY and Active LSEDI since they report the heaviest expenses per one visit.
- More than 65% of Castorama visitors are active (currently into renovation or have recently completed it).

3. Castorama Russia: overview

Customer communication



For customers
renovation with
Castorama is

**simple,
interesting,
exciting!**

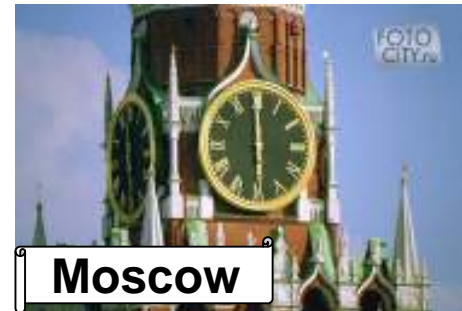


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3. Castorama Russia: highlights

3. Castorama Russia: Achievements Highlights

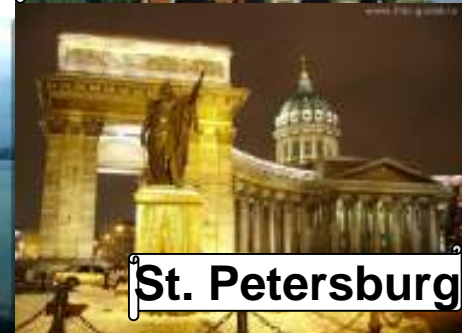
- **Samara:** February 2006
- **St. Petersburg:** July 2006, April 2007
- **Moscow:** June 2007
- **Rostov-on-Don:** December 2007
- **Omsk:** April 2008



Moscow



Omsk



St. Petersburg



Rostov-on-Don



Samara

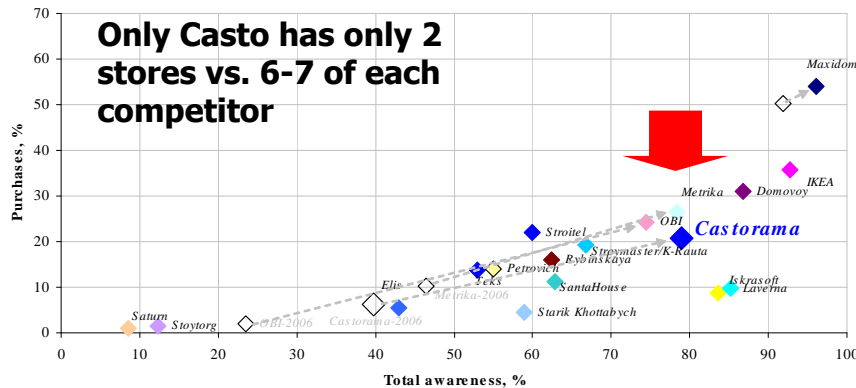
3. Castorama Russia: Achievements Highlights

Brand Awareness 2007

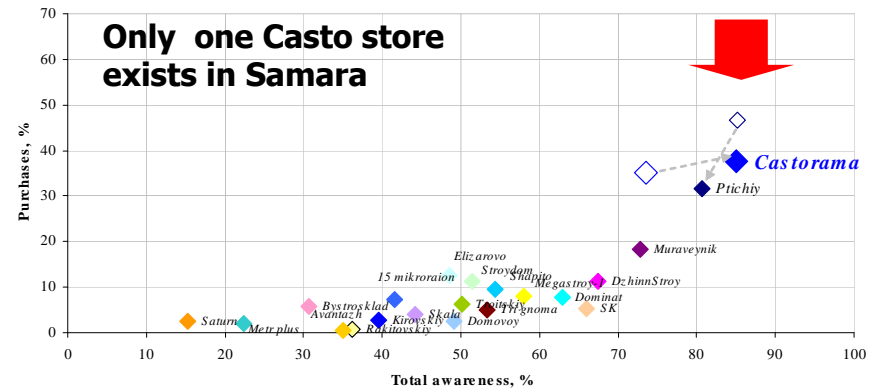
Castorama is **#2 top of mind DIY store** in **St. Pet**

Castorama is an absolute leader in **Samara** after 2 years of operation

St. Petersburg



Samara



3. Castorama Russia: Achievements Highlights

Customer Satisfaction 2007

We have carried out **21 waves** of Satisfaction Study, over **30 000 interviews**

Over 85% of visitors are satisfied with Castorama

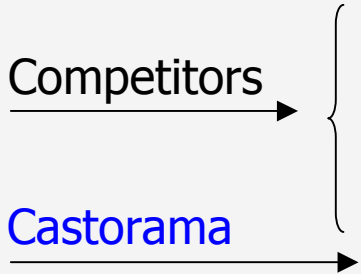
Over 80% are ready to recommend Castorama

About 80% of visitors consider Castorama prices as low

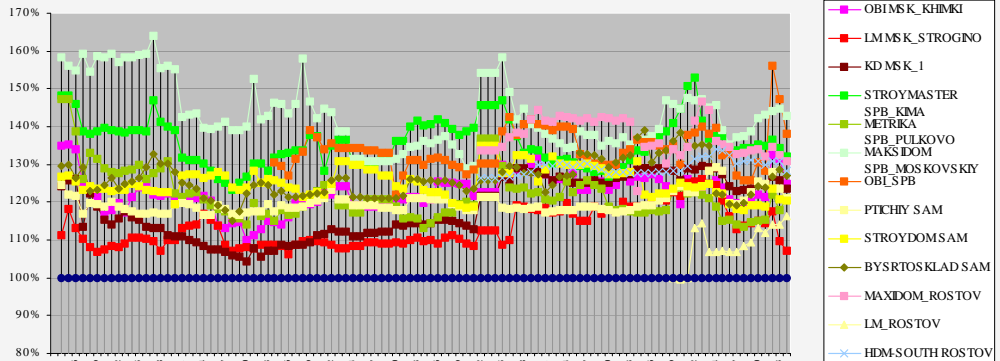
Over 85% of visitors consider Castorama range as wide

Price Position 2007

Castorama has been price Leader from its launch for **103 weeks**



General price index



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3. Castorama Russia: priorities in 2008 & beyond

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Key priority – PEOPLE

Recruitment



- Staff cost increasing - Salaries continue to boom in Moscow /Regions
- Regional structure testing in HO
- Regional recruitment



Training

- Based on Rostov store experience the existing Training Store Program is effective and will be implemented in New stores
- Professional growth programs

Retention



- Company bonus together with retention schemes for management and Line staff
- Motivation for Line staff and Store management - PGP

3. Castorama Russia: priorities in 2008 & beyond

Key priority - *CUSTOMER OFFER*

Price



- Adherence to Pricing (EDLP) policy based on the benchmark basket
- Regional pricing
- Strengthening of the price positioning via special campaigns and leaflet



Range

- Range review process
- Own Import increase (KAL)
- Seasonal calendar development
- Development of new logistics solutions
- Own brands development – introduction of the key KGF own brands

Service

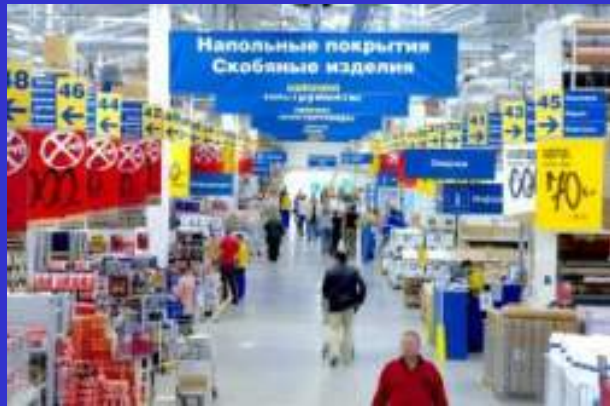


- Expert Advice demonstrations
- Stock availability improvements
- Showroom development
- Continue to develop our customer service proposition: improvement of customer delivery, installation service

3. Castorama Russia: priorities in 2008 & beyond

Key priority - *PROPERTY*

Leasehold



- Additional focus on leasehold proposals
- Additional focus and staff to follow property development companies with aim to sign multiple store contracts



Expansion

- Add focus for the larger regional cities for 2008-09
- Seek opportunities for cheaper land to develop pipeline 2009 onwards
- Develop Moscow City with primarily leaseholds and seek complimentary expansion in Moscow Oblast

Blue print



- Development of design & permits process to speed up store opening program
- Focus on optimization of the blue print construction and fit-out costs
- New smaller and/or trade format (s) development to capture small city opportunities and professional trade

Conclusion

- Russia is a very **attractive, large and growing** home improvement market
- **Great opportunity** for sales growth and & good returns
- **Castorama Russia:**
 - developed a **successful customer proposition** for capturing this market
 - got **good initial results**
 - got **a young and ambitious team of professionals** to deliver growth opportunities
 - got clear **plans for profitable expansion**

Moscow store visit

- **Location:** South-East of Moscow
- **Size:** selling space **8 875** square metres
- **Product mix:** building, timber, decor, lighting, showrooms, flooring, ceramics, tools, hardware, garden
- **Staff:** 228

