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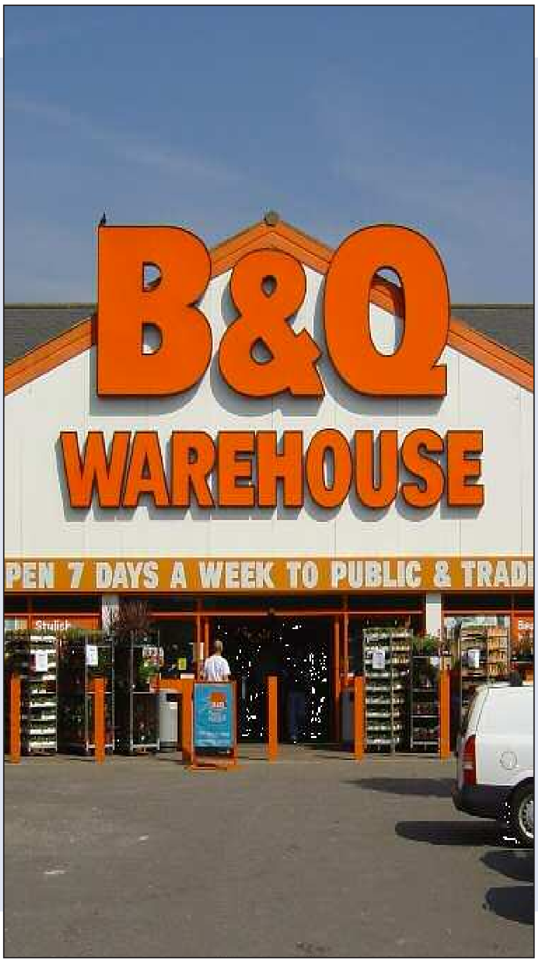

UK DIY & Gardening Retailers 2008

Sector in front line as recession bites

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About Verdict Research

Authorative analysis...

Verdict's analysts and consultants work closely with retailers, suppliers, consultancies, investment banks and property companies to identify the key issues, sector and company data and strategies driving the changing retail market.

Our research identifies how retailers can enhance product, store and brand performance as well as the factors that determine future retail success. Our specialist in-store auditing team continuously collects price and product data across locations, brands, fascias, ranges and retail sectors.

> **"Verdict are the company of choice for any research analysis and insight into retailing"**
>
> **Sir Stuart Rose**
> Executive Chairman
> Marks & Spencer

Rigorous research methodology...

Our in-house retail expertise and rigorous research methodology ensure our reports provide complete and accurate analysis of the major players, issues and trends together with a detailed examination of the strategic implications for the retail market.

For key players in the retail industry, our reports are the first source of information on sector forecasts, retailer performance, store and product portfolio developments and trading strategy.

Global, European and UK analysis across nine core sectors...

Verdict Research reports covers nine core sectors, five year forecasts, strategic issues, key locations, How Britain Shops consumer surveys and the main European retail markets. Also available are a daily news service, weekly newsletter and tailored consultancy portfolios to suit individual business information needs.

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A key source for independent analysis and comment...

Verdict Research is regarded as a key source by the BBC, ITV, Sky News and the UK's leading broadsheets including the FT, Times, The Independent and Daily Telegraph. Leading trade publications often refer to Verdict's opinion and research including Retail Week, Drapers, DIY Week, Cabinet Maker and The Grocer.

In addition Verdict regularly appears in the international media. News sources quoting Verdict analysts and data include CNN, the International Herald Tribune, The Australian, Los Angeles Times, and New York Times.

UK DIY & Gardening Retailers 2008

Sector in front line as recession bites...

In 2008 the UK DIY and Gardening market shrunk in value by 4.1%, far more severe a decline than in 2005 and 2006, leaving the market almost £1.0bn smaller than its 2004 peak. With UK market conditions set to worsen in 2009, DIY retailers have little option but to prioritise cost control and debt reduction to defend their positions.

UK DIY & Gardening Retailers 2008 is a new report published by Verdict Research that provides five years of UK DIY market data and details the key drivers and trends shaping this sector across the UK. This report analyses key operating statistics for all the leading players to provide a proprietary benchmark of the leading UK DIY retailers.

6 Key Retailers Profiled

B&Q

Focus

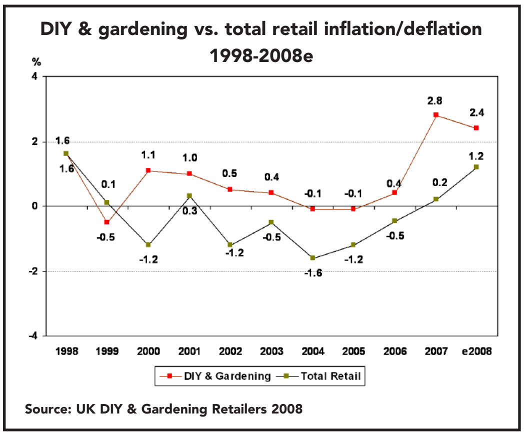
Home Retail Group

Wickes

Wilkinson

Wyevale Garden Centres

Understand the key issues and developments in the DIY and Gardening sector and identify the winning strategies for retailers in the face of rising challenges with this new report...



"In general, inflation in DIY and gardening products has tracked significantly above that of the retail average. One reason for this is that consumers are not especially price sensitive in DIY – consumer research for Verdict's How Britain Shops 2008 reports reveals that DIY is one of only two sectors where price has the lowest level of importance as a driver of loyalty. Range and convenience are considered far more important..."

- **Quantify key UK DIY and gardening market trends and accurately predict future opportunities** based on this report's company profiles detailing market growth and share of six profiled operators and make informed strategic decisions using this report's ten year datasets.

- **Benchmark your competitive strategies using the company profiles contained in this report** for key retailers including B&Q, Focus, Home Retail Group, Wickes, Wilkinson and Wyevale Garden Centres.

- **Assess the growth potential and the challenges facing the key UK DIY and gardening retailers** with this report's in-depth analysis of market drivers, key issues and outlook.

- **Develop more effective strategic responses** using this report's actionable recommendations on how retailers can cope with the changing the UK DIY and gardening market.

UK DIY & Gardening Retailers 2008

This report answers key questions including...

- What measures are UK DIY and gardening retailers taking to cut their costs and protect their margins?
- How are the UK DIY and gardening retailers dealing with the economic downturn?
- What were the key factors driving the UK DIY and Gardening market growth in 2007?
- How have UK DIY and gardening channels of distribution changed since 2003?
- Which UK DIY and gardening retailers are gaining market share?

Key Market Data

DIY and gardening expenditure

DIY/Hardware specialist performance

Channels of distribution

Leading retailers market shares, key operating statistics, store portfolios and space allocation.

Key issues examined in this report...

Key strategy responses by DIY specialists 2009

- Expansion plans cut back
- Disposal of non-core assets
- Rightsizing becomes a priority
- Store refurbishment programmes
- Value promotion becomes essential
- Capitalising on the environmental agenda
- Range development and diversification
- Multichannel development

Source: UK DIY & Gardening Retailers 2008

"With the exception of Focus, the majority of retailers in the sector have thus far refrained from downsizing their core estate. However, Verdict believe that, with economic conditions set to deteriorate further in 2009, pressure will grow on all DIY retailers to dispose of their weaker stores to shore up average sales densities in a shrinking market..."

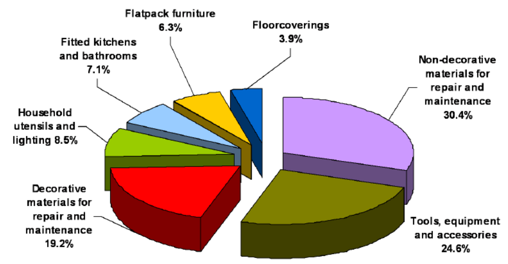
- **House Price Inflation.** The fortunes of the DIY and gardening market and the housing market have always been closely connected and for the last 10 years this relationship has worked in the DIY market's favour. Despite the dramatic 1.5% cut in November and the suspension of stamp duty for homes priced under £175,000, first time buyers are deferring purchases until house prices bottom out and their withdrawal from the market is perpetuating the decline.
- **Multichannel Development.** Retailers in the sector have been slow to develop online service because the threat of losing business to pure-play specialists is limited. The Internet has been perceived as an unattractive market for DIY & gardening retailers to invest in. The vast range of products, awkward packaging and distribution, low margins and low average transaction values, have all compromised the profitability of the service.
- **Expansion Plans Cut Back.** In recent years the growth in the sector has been primarily driven by steady space expansion. However, economic conditions have forced the major players to reassess their activity. This has been primarily triggered by the need to meet much tighter corporate capital expenditure objectives as major retailers seek to prevent net debt ballooning in a weak market.

Chapter 2: Market Analysis

DIY Expenditure

- Spending on the three largest DIY categories, non-decorative materials, tools and accessories and decorative materials, is set to be £9.0bn, or 74.1% of the DIY total. Of these, non-decorative materials has been particularly exposed to inflation from rising commodity prices but has suffered from lower levels of demand as consumers cut back on major home improvement projects. The one exception is insulation which has become of greater interest to consumers as they seek to reduce their energy costs.

Figure 4: DIY expenditure – principal components % 2008e



Source: UK DIY & Gardening Retailers 2008

- As a result Verdict expect demand to fall for this segment by 4.6% in 2008. In tools and equipment, there has been less inflationary pressure with increasing competition from own brand products exerting downward pressure on the prices of branded products – sales in this category are set to fall by 4.2% this year. Demand will decline by less in decorative products, with consumers responding to advertising and repainting rooms. However, sales of exterior paint have been adversely impacted in 2008 by poor Summer weather.

- In household utensils and lighting, there has been considerable interest in lighting with DIY retailers promoting energy efficient lighting heavily as an easy way for consumers to cut the cost of living while also reducing their carbon footprint. These low cost products also act as footfall drivers, encouraging consumers to think more generally about lighting and while in-store they may well be likely to make other purchases.

- The downside for DIY specialists is that non-specialists also see lighting as an opportunity and have been competing hard to maximise their sales in this lucrative category. The resilience of lighting has made up for weakness in household utensils. This is an area which has become much more important to B&Q and Homebase especially, but is particularly challenging with grocers and department stores also improving their lighting offers.

- In kitchens and bathrooms, DIY specialists have benefited from store refurbishments that merchandise these products much more effectively and this has enabled them to claim market share from MFI which has entered administration. Refurbishments to kitchens and bathrooms are seen as classic ways to add value to homes, but as the housing market has deteriorated consumers increasingly aim to economise and the mainstream DIY retailers have capitalised on this opportunity.

- Of the remaining categories, flatpack furniture sales have been weak with retailers. Furniture has felt the brunt of the consumer downturn and with DIY retailers not promoting this sector as actively as other product areas; sales are set to drop by 5.1% in 2008.

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