

D R A F T

T/A

Guidelines for B.A.T Stores : July 1987

Although Argos and The Jewellers Guild are technically subsidiaries of B.A.T Stores they should be considered individually, with separate budgets and plans prepared for each business.

ARGOS

General

1. The prime objective for Argos should continue to be the maintenance of rapid rates of growth in sales turnover and profits through the expansion and extension of Argos in the UK.
2. However, Argos should also continue to consider the potential for launching or acquiring retailing businesses based on new concepts which might provide longer-term profitable growth opportunities.

Financial Guidelines

3. ^{Return:} Argos should achieve a minimum historic cost return of 20 per cent of average net trading assets employed during the year.
4. ^{Dividend:} The ~~minimum~~ ~~dividend~~ declarations expected from Argos are as follows: —

	<u>1987</u>	<u>1988</u>	<u>1989</u>	<u>1990</u>	<u>1991</u>	<u>1992</u>
£m	23	27	32	39	49	60

5. ^{Debt/Equity:} Argos should seek to maximise its year-end cash deposits with BATIF and peak borrowings during the year should be kept below 50 per cent of equity.

Specific Priorities

6. Argos should develop plans to secure an accelerated growth in sales and profits, with the specific objective of achieving trading profits of £100m by 1989 or 1990. Priority should be given to the development of Argos rather than the introduction of new retailing concepts and, in particular, plans should be developed for extending the chain of Superstores and, subject to a satisfactory final evaluation of the pilot stores, Best Sellers. When seeking suitable properties for expansion, preference should be given to securing parcels of properties rather than to obtaining sites through the acquisition of a single, large retailing operation.
7. Argos should continue to investigate whether, and to what extent, it might be appropriate to reformat the existing conventional showrooms.
8. Further consideration should also be given to developing Argos' involvement in Corporate Sales.
9. In reviewing the potential for an extension into new areas of retailing, a first option to be considered should be the possibility of entering the mail-order business, probably through acquisition.
10. Other options should also be considered but on the understanding that if it were decided to go ahead it is likely that the CPC would wish to have one option tested at a time and to have the accelerated Argos development plan firmly established before testing new concepts.

/...

201791806

11. Argos should take steps to relieve the current pressures on its senior management and to provide sufficient management capacity both to support the committed Argos expansion plans and to continue the review of new retailing development options.
12. There should also be continuing emphasis on improving productivity and efficiency and on maintaining I.T. systems, computer processing capacity and other support equipment at levels which will safeguard the competitive advantage of the business.

THE JEWELLERS GUILD

1. The immediate priority for The Jewellers Guild is to achieve the targetted levels of performance in 1987 and to complete the evaluation of the concept by reference to the experience obtained during the year.
2. At the same time, plans should be prepared for the further expansion of the business in 1988 and beyond on the assumption that the pilot operation is judged to have been successful.

Financial Guidelines

3. As The Jewellers Guild is still in a development stage, its performance during 1987 will be monitored against key operating criteria, including first year annualised average sales of at least £420th per store for new openings, an adjusted gross margin of 44 per cent; ~~and~~ an average branch contribution of 17.2 per cent; ~~and~~
4. In the longer term, The Jewellers Guild should achieve a minimum historic cost return of 20 per cent of average net trading assets employed during the year.
5. Formal dividend and debt/equity guidelines will be developed after the assessment of The Jewellers Guild's 1987 performance.

GJB/DJA
21st July 1987

201791807