

Workshop Fnac

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- **Introducing Fnac**
- A solid business model
- Current reorganization
- New growth drivers in France
- ... and internationally
- Summary

Fnac's fundamentals: a unique business model based on powerful, distinctive performance drivers

➤ **Tier-one locations**

- **A product mix combining editorial products** (books, CDs), **technical products** (electronics, IT) and **convenience services** (ticketing, photo)



Increase traffic and average basket

- **A leading player in cultural events - many in-store events** (~6000 per year)

➤ **Strong brand**

- ❑ Expertise and advisory service generate confidence
- ❑ French preferred retailer brand*

- **Membership programme encourages strong customer loyalty**

- ❑ 1.8 million members
- ❑ ~50% of revenue



Increase customer loyalty

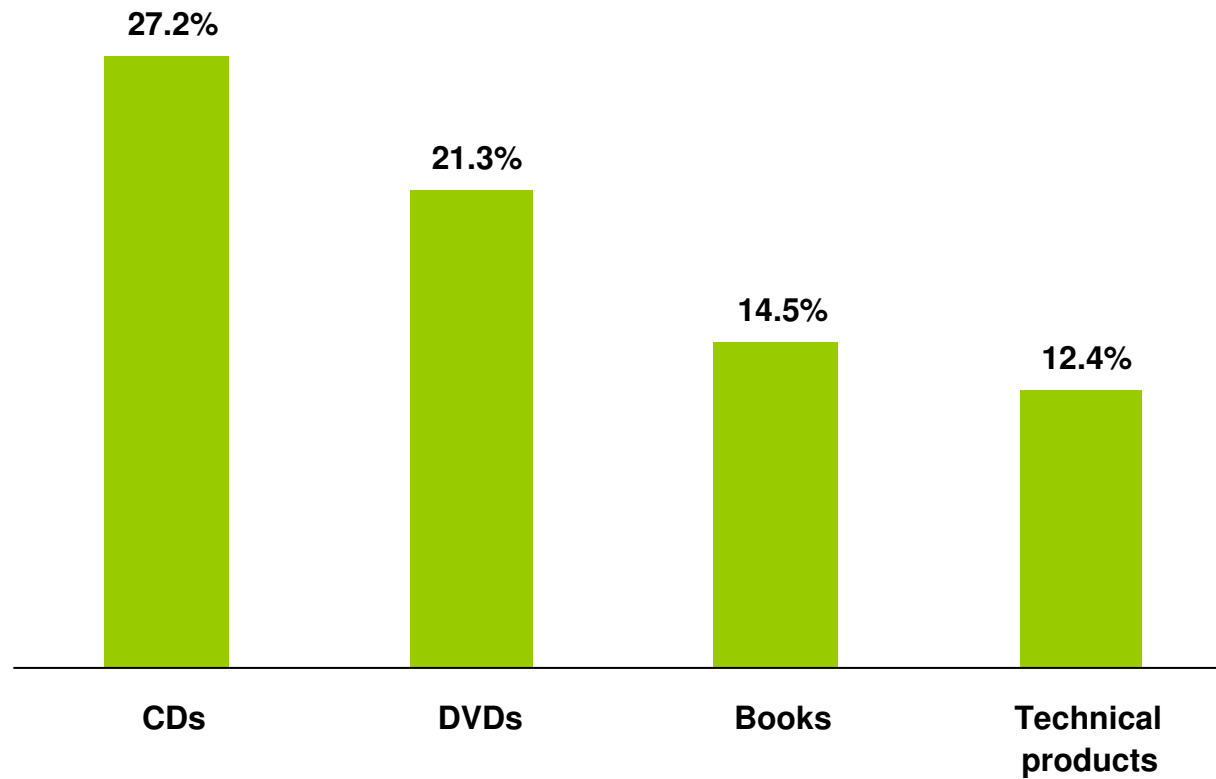
Key figures

- **No. 1 retailer of cultural and technical products in France, Belgium, Spain and Portugal**
- **Present in eight countries:** France, Belgium, Brazil, Spain, Italy, Portugal, Greece and Switzerland
- **Leading positions in France**
 - ❑ No. 1 book seller, No. 1 music retailer, No. 1 video retailer, No. 1 PC seller
- **116 directly operated stores at end-2006** (excluding Fnac Eveil & Jeux and Surcouf)
- **2006 revenue: € 4.5 billion**
 - ❑ 19% audio/video, 17% books, 64% technical products
 - ❑ 64% France (store + internet), 27% international and 9% subsidiaries
- **2006 recurring operating income: € 170 million**
- **19,400 employees at end 2006**

Fnac fundamentals

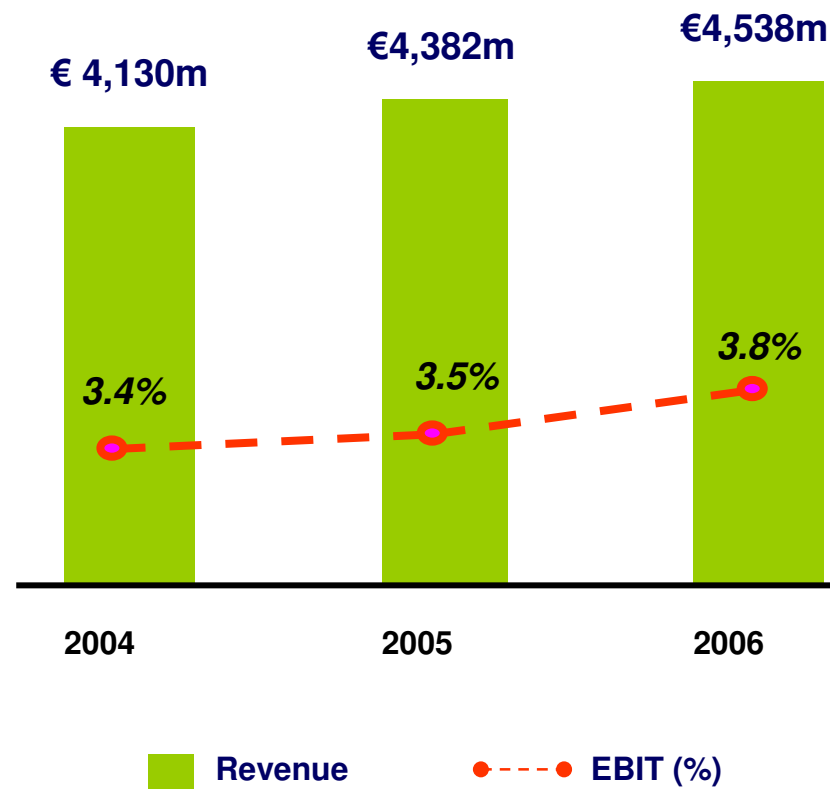
Strong positions in all markets

Fnac's market share in 2006



Fnac's growth

Fnac total revenue and EBIT margin (%) 2004 to 2006



Fnac's growth strategy

➤ Sales growth is driven by:

- ❑ Technical products and increase in the average sales price
 - +10% in revenue and +11% in volume in 2006
- ❑ Increased market share in editorial products
 - +0.8 pt for audio, +1.2 pt for video and +0.2 pt for books between 2004 and 2006
- ❑ Strong growth of Fnac.com
 - Business volume up 28% in 2006
- ❑ Increase in international sales
 - Revenue up 6% (like-for-like) and 10% (in real terms)

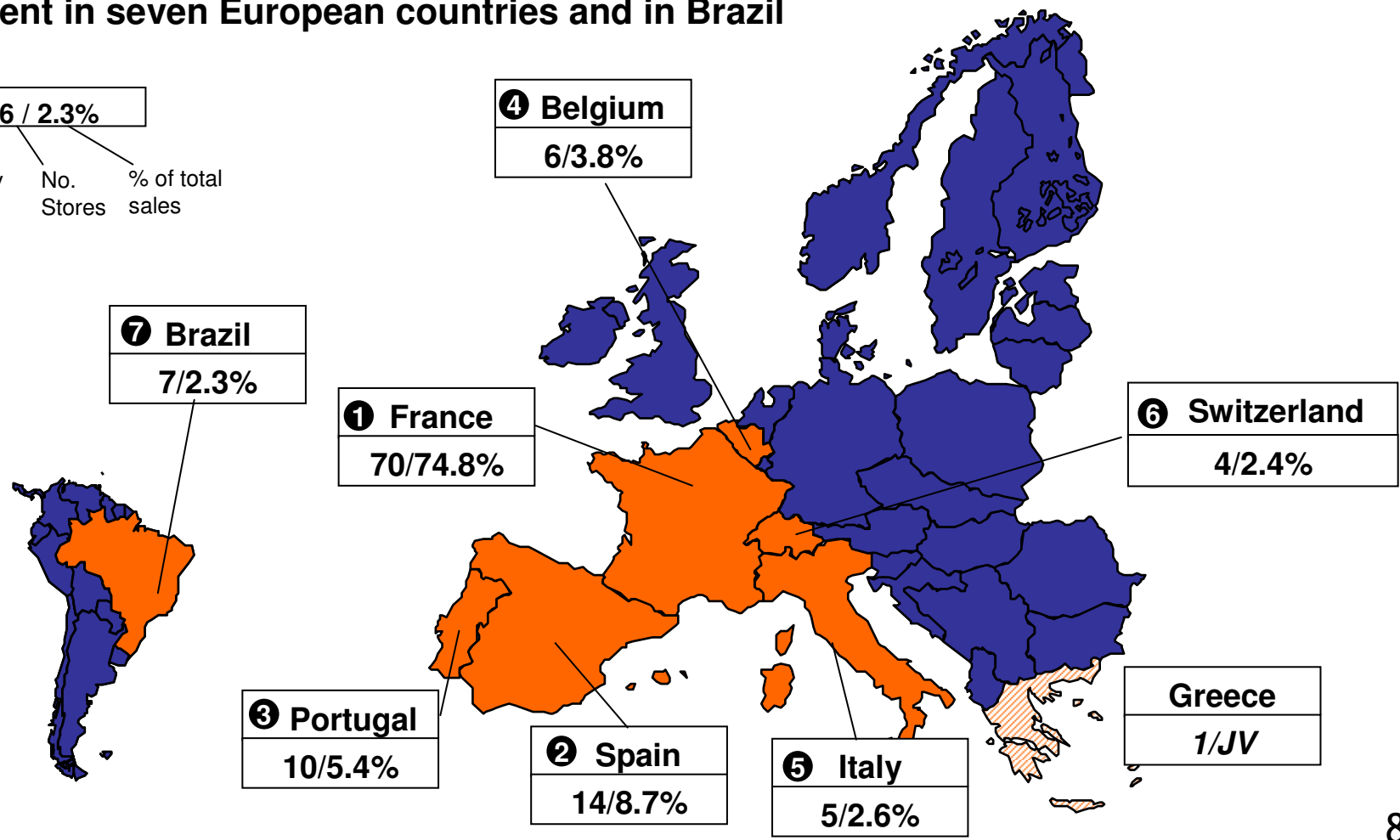
➤ Margins have held up well in a tough environment

- ❑ Higher price quartile positioning
- ❑ Increase in software and accessory sales

Fnac international network

Present in seven European countries and in Brazil

7	6	2.3%
Country ranking	No. Stores	% of total sales



Fnac.com : profitable growth

- **Fnac's click-and-mortar strategy**
- **The leading site in terms of audience in France**
 - ❑ More than 7 million single visitors in December
- **More than 1 million references**
 - ❑ Over 100,000 products can be delivered within 24 hours to the customer's doorstep or via a network of 3,500 parcel delivery outlets
- **On-line business activities: €364 million, up 28% in 2006**
 - ❑ Highest EBIT margin among European peers: 4.3%
- **Fnac.com has moved into the download market**
 - ❑ Fnacmusic
 - More than 1.2 million audio titles, a new subscription offer of unlimited streaming subscription, catalogue of DRM-free titles (~300,000)
 - 5.2 million downloads in 2006
 - ❑ Video, software and game download offering
 - Video: 1,300 titles

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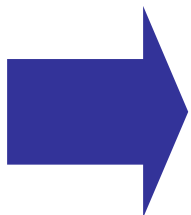
Fnac model

A unique product mix (I)

➤ Two effects that are driving change in Fnac's product mix

- ❑ Solid growth in technical products
 - Market up 9% in 2006
 - Boosted by GPS up 88%, LCD TV up 78%

- ❑ Drop in Audio (since 2004) & Video (since 2006) markets
 - Audio down 14%
 - Video down 7%
 - Books up 1%



Increased percentage of technical products in total sales

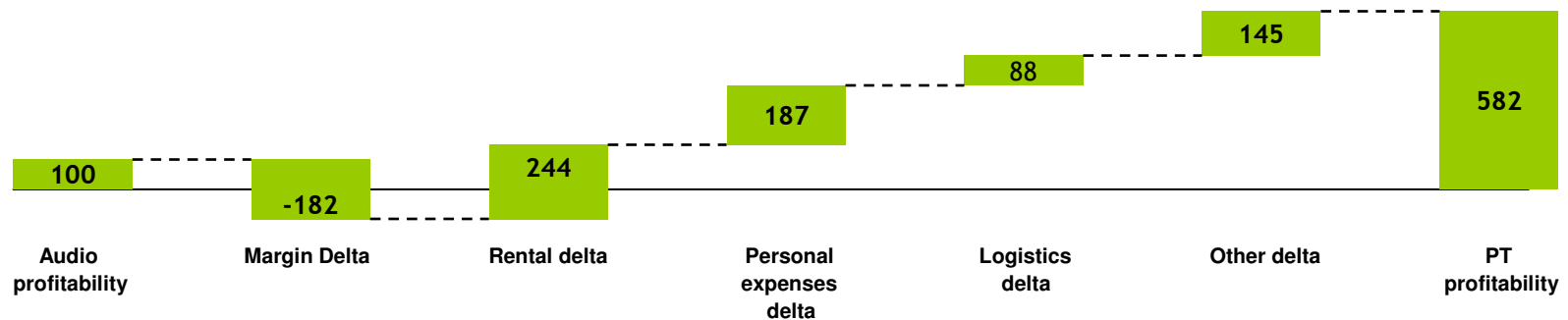
62% in 2006 versus 55% in 2000

Fnac model

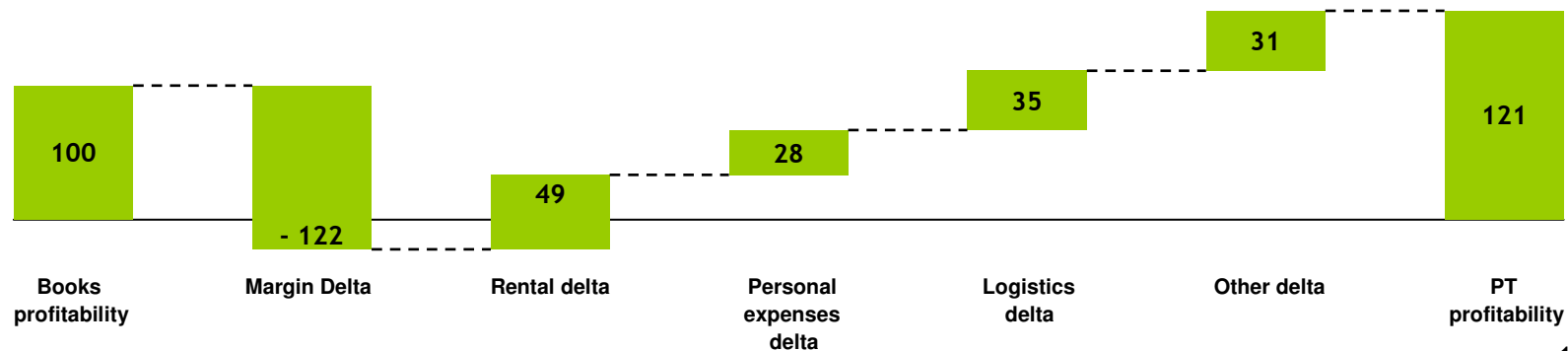
A unique product mix (II)

Technical products are more profitable than Audio and Books

Comparative profitability of Technical Products and Audio in 2006, base 100



Comparative profitability of Technical Products and Books in 2006, base 100



Fnac model

A unique product mix (III)

Technical products are more profitable than Audio and Books

- **Continue optimization of selling space allocation / increase sales density**
- **Benefit from “best-in-class” logistic platform**
- **Adequate incentive schemes and adapt sales force to market trends**

Fnac model

Integrated click-and-mortar to enhance customer value (I)

Fnac.com, a cost-effective model

- **Business activities up 28% in 2006**
- **Genuine integrated multi-channel offering**
 - ❑ Reinforce synergies between stores and fnac.com
 - ❑ Broaden products and services offering
- **Third year of profitability**
- **Outperforming peers**
 - ❑ Unlike its main competitors, Fnac.com is opposed buying up market share “at any price”

Fnac model

Integrated click-and-mortar to enhance customer value (II)

➤ Objectives

⇒ **More customer service, less stock and a broader range of products in-store**

- ❑ Reinforce marketing, sales and logistics synergies between the stores and Fnac.com
- ❑ Simplify access to products through a multi-channel approach
- ❑ Broaden “products and services” offering to our store and on-line customers

➤ Principles

- ❑ Pre-order of technical products on-line or in store and pick-up from the store
- ❑ Customer orders for editorial products (delivery or free in-store collection)

➤ Next stages

- ❑ Meeting point with salesforce (H2 2007)
- ❑ On-line after sales service information (H2 2007)
- ❑ Pre-order of editorial products on fnac.com (H1 2008)

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Current reorganization – Cost efficiency

- **Reduction in overhead costs**
- **Reduction in rental costs**
- **Reduction in indirect purchases**
- **Back office reorganization**
 - ❑ Reduce certain structural costs in the traditional “6P” stores
 - ❑ Standardise the organization of store-based HR and Finance activities to match the workload
 - ❑ Introduce a job search process for employees affected by the project

Current reorganization – CD&DVD sectors

- Objective: maintain CDs & DVD's volume that will preserve traffic and Fnac concept, despite the decline in the market
 - ❑ **Challenge no. 1: work on price/price image**
 - Revive interest in the back catalogue by lowering prices
 - Develop operations & innovation in high volume / high visibility merchandising
 - ❑ **Challenge no. 2: work on profitability**
 - Preserve margin volumes
 - Reorganize selling space: 25% to 30% reduction
 - Adapt workforce using the GPEC process

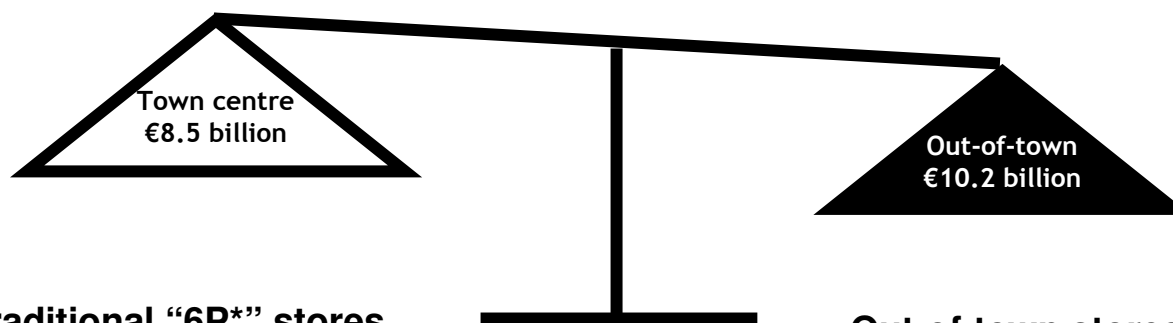
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 - ❑ **Services**
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Development in France: primarily out of town

- Fnac Périphérie: a store situated on the outskirts of major cities to bring stores closer to customers and respond to new consumption patterns

Breakdown of retail in France town centre versus out-of-town locations (2006)

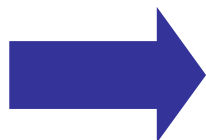


Traditional “6P*” stores

- 2006 : inauguration Valenciennes, Marseille la Valentine
- 2007: opening Aix, extension Paris Montparnasse and Orléans

Out-of-town stores/ “Périphérie”

- 2006 opening Bordeaux Lac
- 2007: openings Bayonne and Thiais



Fnac will open an average of 5 stores p.a. in France over the next three years, 4 of which will be out-of-town stores

New growth drivers in France Fnac Périphérie

➤ Three objectives:

- ❑ Step up our site finding capabilities
- ❑ Reduce our opening costs
- ❑ Improve our productivity

➤ Principles:

- ❑ Specifics: introduction of creative leisure products, games and toys, gaming zone, expansion of self-service and low-priced product ranges
- ❑ Significantly lower investment and cost structure than “traditional” Fnac
- ❑ Operate without a back-office store

❑ Initial findings

- ❑ First results are highly satisfactory and are above budget for revenue and operating income
- ❑ technical products represent ~73% of revenue (vs. 63% for smaller traditional Fnac stores)

=> In 2011 out-of-town revenue from 20 stores ~10% of France revenue

Out-of-town development Illustration (I)

- Introduction of new concepts



Out-of-town development Illustration (I)

- Testing new product categories
- New merchandising

Creative leisure



Price-based merchandising, based on self-service



New growth drivers in France Services

➤ Objectives/challenges

- ❑ Development of tie-in and personal services
- ❑ By 2010, close to €200 m revenues in services
- ❑ Higher profitability and a new traffic builder

➤ Work-in progress

- ❑ Creation of a Service Department, creation of Form@home subsidiary approved under the “Borloo” Act
- ❑ Launch of initial service offerings (Internet site, call-centers and corners)
- ❑ Development of a new range of services (6 to 16 references, particularly support modules) (April/May 2007)
- ❑ Monthly insurance (Summer 2007)

New growth drivers in France

Downloading

- **Music: Fnacmusic, second biggest player on the French market**
 - ❑ Launch of a listening service (“Fnacmusic illimité”): Access to 1 million titles for €9.99/month
 - ❑ Launch of a DRM-free downloading service: Access to 300,000 titles in MP3 format
- **Video On Demand: Launch of an offering in 2006: 1,300 references**
- **Games and software: Launch of downloading services in 2006**
- **Ticketing: Launch of printable tickets and e-tickets**
- **Photo: Further expansion of on-line photo ordering**

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International development

Another growth driver

➤ Consolidate Fnac's international market share by capitalising on all profit drivers

- ❑ Solid revenue growth, up 11% in 2006
- ❑ Favourable cost structures
- ❑ Scale effects associated with the opening of new stores
- ❑ Synergies (indirect purchases, IT)

➤ Ensure all countries are profitable by 2009

- ❑ Spain, Portugal, Brazil and Belgium are already profitable
- ❑ Switzerland will break-even in 2007 and Italy in 2009

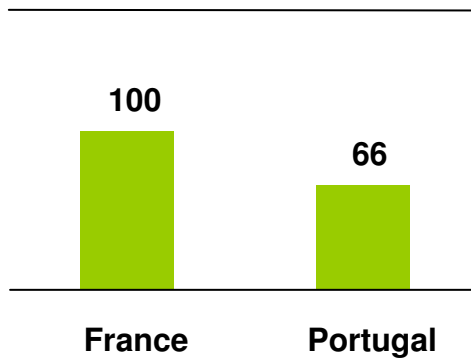
International development

Another growth driver

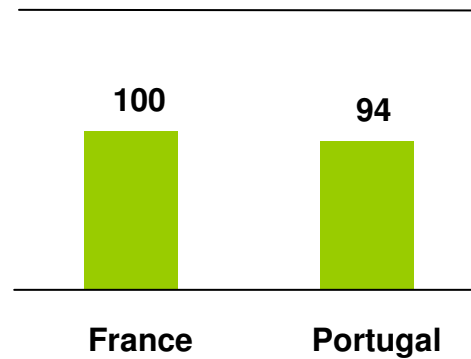
An example: Portugal

Operating performance

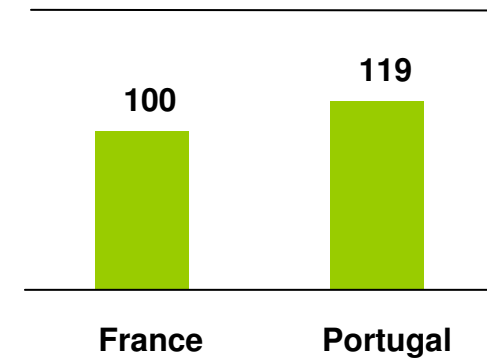
Average investment for a store opening (base 100)



Cost structure (base 100)

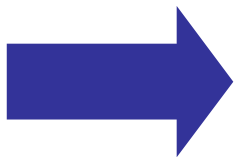


Operating profitability (base 100)



International development Another growth driver

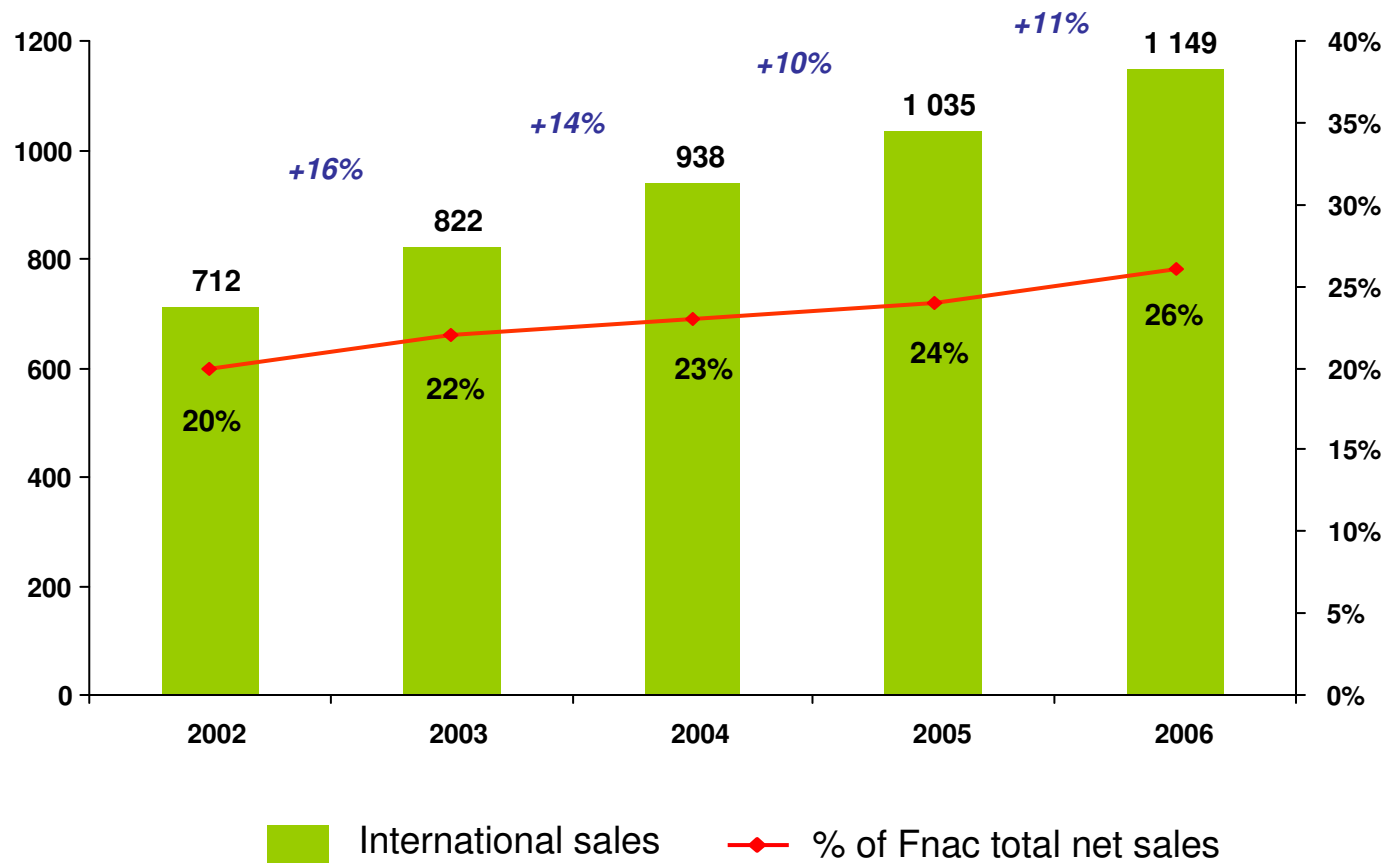
- 26% of Fnac's 2006 revenue was generated outside France, an increase of 11%
- Approximately 10 new stores in 2007
- ~35 additional stores in 2008 -2010



Objective: double sales to over €2 billion by 2010

International development Another growth driver

International sales trends* (*Internet included*)



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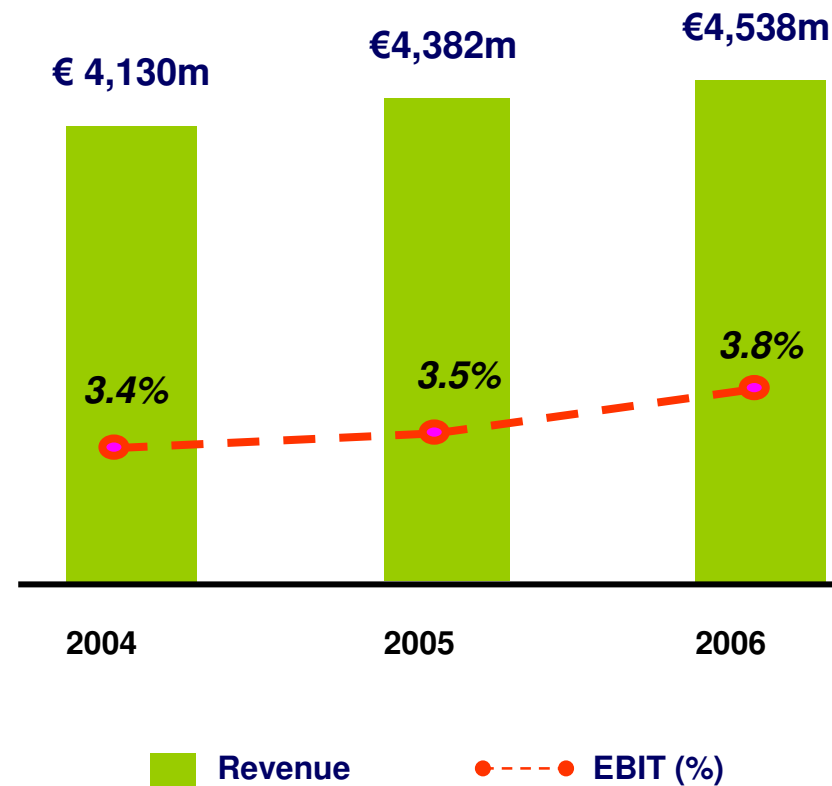
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2004-2006

Revenue and recurring operating income

Fnac total revenue and EBIT margin (%) 2004 to 2006



Summary - continued

- **Ensure strong revenue growth driven by**
 - ❑ **Significant growth** in technical products, market share gain in editorial products, acceleration of internet growth and development of services
 - ❑ **Expansion of store network**
 - Five new stores per year in France, including four out-of-town stores
 - About 40 additional international stores
- **Gross margin management**
 - ❑ **France**: increase in higher margin product categories and services
 - ❑ **International**: reach suitable economies of scale
- **Improve operating margin as a result of better product mix and reorganizational activities** (Back office, overhead, ...)
- **Improve working capital efficiency**