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DX Group Limited

Mid year update
31 December 2008



In accordance with the Guidelines for Disclosure and Transparency in Private Equity this report outlines DX Group Limited's progress during the six months ended 31 December 2008.

Principal activities

The group's continuing activities are the provision of mail services.

The DX Group ('DX') is the leading independent provider of early morning, next day business to business mail and parcel services in the United Kingdom and the Republic of Ireland, and of secure mail services in the UK.

The group offers four main products which have been rebranded since the last year end.

- DX Exchange - a business to business mail service that provides customers with significant cost and performance advantages over the Royal Mail first class and is delivered through a national network comprising 27,500 boxes and 4,500 exchanges in the UK together with 4,900 boxes in 230 exchanges in the Republic of Ireland. The primary markets include the legal, government and financial services sectors.
- DX Mail – a nationwide business to business mail service offering both next day and two day delivery options, serving a number of sectors including insurance and travel; and a nationwide service of business and professional publications for both next day and two/three day services, covering magazines, newsletters, company reports and training material.
- DX Courier - leverages synergies with the DX Exchange delivery infrastructure to create market leading cost advantages for packet delivery to branch networks in high street and retail park locations. The primary focus for packet delivery services is high street retailers and businesses that require regular scheduled deliveries to branch networks.
- DX Secure - provides a highly secure nationwide collection and delivery courier service with flexible redelivery options, ranging from mandatory signature to secure post mail capability. It provides market leading business to consumer mail security at a highly competitive price to customers that range from Government agencies and banks through to theatre ticket agencies.

Acquisition

During the half year the group acquired the 'In-Night' and 'Worldwide Licensing' divisions of Business Direct Plc which were incorporated into the DX Group with effect from 1 September 2008 as DX Business Direct. The operations acquired provide overnight logistical services primarily for field based engineers, delivering parts and equipment nationwide to either an owned network of intelligent drop boxes; direct to engineers' vehicles; or to a network of pick-up and drop-off locations. This acquisition is a logical extension of DX Group's existing operations into a growing market and offers the opportunity for substantial cost savings and profit improvement from the integration of the delivery operations acquired into the group's existing network.

Business update

The general deterioration of the economic environment over the last half year has badly hit many of the sectors served by DX, particularly the legal sector where it is the property departments that are the biggest users of the DX Document Exchange. Postal volumes here are very sensitive to the number of house sales taking place with each sale generating significant correspondence between solicitors, mortgage providers, estate agents and insurers. Other implications of the 'credit crunch' have been a significant reduction in the volume of debit and credit cards issued by the banks, whilst the recession has also impacted the group from the high street retail sector.

This has therefore made the past six months a challenging trading period in which the group has done well to maintain revenues in the majority of product groups. However costs have increased as new business wins have generally been in lower margin products. The group is addressing this issue with a series of planned efficiency cost savings which are designed to ensure that DX is well positioned to grow once the economy recovers.

The regulatory environment

The report of the Independent Review of the UK Postal Services Sector (Hooper Report) was published in December 2008. Hooper rightly identified that the overall health of the postal market is linked to the health of Royal Mail and recommended three key initiatives to stimulate Royal Mail and the market:

- Royal Mail's partial privatisation, involving the sale of a substantial minority stake to one or more private sector companies with experience of transforming a major network industry;
- the transfer of a significant proportion of Royal Mail's pension liabilities to the Government; and
- the transfer of regulatory responsibility from Postcomm to Ofcom

The Government endorsed the broad thrust of Hooper's report and has presented legislation to implement the three key recommendations. However both employee unions and a large number of Labour backbench MPs have already expressed opposition to Royal Mail's partial privatisation creating significant uncertainty about whether the legislation will be passed.

The DX Group is cautiously supportive of the key recommendations if they are structured in such a way that sustainable competition to the Royal Mail is fostered rather than diminished.

Business objectives and strategies

The key elements of the group's strategy for accelerating growth and creating shareholder value continue to be:

- achievement of leading positions in markets capable of long term growth;
- targeted investment in new product development, innovation and marketing to support strong organic growth and profitability;
- investment in new technology to improve both operational efficiency and customer service levels; and
- focussed acquisitions which meet strict rate of return criteria.

Due to the current economic environment the following shorter term strategies have also been developed to run along side the main objectives detailed above:

- control the cost base to address current volume reductions without damaging the medium term prospects of the business;
- roll out the revitalised product offerings developed under the recently revised branding exercise;
- exploit the revenue growth opportunities offered by the Business Direct acquisition (September 2008) and integrate the operational network to deliver profit growth; and
- develop and roll out where appropriate new product opportunities identified.

Conclusion

The directors' continuing aim is to maintain the progress that the DX Group has made since it came into being in September 2006 through further enhancement of the group's product range and to continue the programme of activities to increase the efficiency of the group's operations. Consideration will be given to the development of new services and penetration of new market segments where this will lead to profitable and sustainable growth.

Ian Pain, CFO of DX Group Limited, stated "DX Group volumes are sensitive to movements in the housing, banking and retail sectors. The current economic recession has led to a reduction in volumes across all product categories. Nevertheless we continue to trade profitably and have not experienced the same level of downturn as some of our competitors in the express parcels market. Costs are being carefully managed and a detailed strategy has been developed to ensure that we are best positioned to grow as the economy recovers without any requirement for additional funding".