Mothercare plc

Full Year Results 2022

Significant improvement in profitability reflects ongoing strategic transformation into an asset-light, global franchising business

Mothercare plc ("Mothercare", "the Company" or "the Group"), the leading specialist global brand for parents and young children, today announces full year results for the 52 week period to 26 March 2022. Comparatives are based on the 52 week period to 27 March 2021.

Key Highlights

- International retail sales by franchise partners of £385.3 million (2021: £358.6 million).
- Adjusted EBITDA of £12.0 million (2021: £2.2 million), ahead of market expectations, reflecting the Group's focus on core international franchise and brand management competencies, as an asset light global franchising business.
- Net borrowings of £9.9 million (2021: £12.1 million) at the year end.
- Pension scheme deficit materially reduced to £60 million as at 30 June 2022 (March 2020: £124.6 million) and agreed reduction in payments with Trustees to significantly reduce annual cash cost going forward.
- Post period end refinancing of the business, improving our financial flexibility notwithstanding the loss of revenue from Russia.
- The significant improvement in profitability evidences the full year impact of the establishment of a cost base that is appropriate for our business but still has the necessary skills and experience to deliver further growth, as the impact of Covid-19 diminishes.

Current Trading & Outlook

- In the first twenty one weeks of FY23, the Group's Franchise Partners recorded total retail sales of £135 million (FY22: £117 million, excluding Russia; £150 million, including Russia) impacted by the permanent closure of the Russian retail business.
- Our medium-term guidance for the steady state operation, in more normal circumstances, of our continuing franchise operations remains that they are capable of exceeding £10 million operating profit.
- Whilst mindful of the inflationary global economic environment, we are now focused upon driving towards restoring critical mass and optimising the Mothercare brand globally over the next five years.

Financial Highlights

- Profit for the 52 weeks to 26 March 2022 of £12.1 million (2021: £21.5 million loss).
- Net debt[3] at £11.0 million (2021: £13.5 million).

Our Group

	2022 52 weeks to 26 Mar 2022 £million	**2021** 52 weeks to 27 Mar 2021 £million	*% change vs. last year*
Turnover	82.5	85.8	(3.8)%
Adjusted EBITDA	12.0	2.2	-
Adjusted operating profit	11.1	0.2	-
Group adjusted profit / (loss) after taxation[2]	9.0	(8.6)	-
Statutory profit / (loss)	12.1	(21.5)	-

Our Franchise partners

	2022 52 weeks to 26 Mar 2022 £million	**2021** 52 weeks to 27 Mar 2021 £million	*% change vs. last year*
Worldwide retail sales[1] £m	385.3	358.6	7.5%
Online retail sales £m	40.9	44.4	(7.9)%
Total number of stores	680	734	(7.4)%
Space (k) sq. ft.	1,828	1,970	(7.2)%

Clive Whiley, Chairman of Mothercare, commented:

"The year under review was bookended by the Covid-19 pandemic and the Ukraine conflict, however, despite the persistence of these difficult global challenges, we have begun to demonstrate the potential of Mothercare as an asset light global franchising business.

This represents an inflection point for the business, with the combined benefits of more normalised circumstances and the updated financing arrangements greatly enhancing our financial flexibility.

Accordingly, whilst mindful of the global inflationary environment and its impact on both consumers and the business we remain positive on the long-term prospects for the Mothercare brand."

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Notes

The Directors believe that alternative performance measures ("APMs") assist in providing additional useful information on the performance and position of the Group and across the period because it is consistent with how business performance is reported to the Board and Operating Board.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Groups performance. Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes. The key APMs that the Group has focused on in the period are as set out in the Glossary.

1 – Worldwide retail sales are total international retail franchise partner sales to end customers (which are estimated and unaudited).

2 – Adjusted loss before taxation is stated before the impact of the adjusting items set out in note 4.

3 – Net Debt is defined as total borrowings including shareholder loans, cash at bank and IFRS 16 lease liabilities.

4 – this announcement contains certain forward-looking statements concerning the Group. Although the Board believes its expectations are based on reasonable assumptions, the matters to which such statements refer may be influenced by factors that could cause actual outcomes and results to be materially different. The forward-looking statements speak only as at the date of this document and the Group does not undertake any obligation to announce any revisions to such statements, expect as required by law or by any appropriate regulatory authority.

5 – The information contained within this announcement is deemed by the Company to constitute inside information for the purses of the Market Abuse Regulation (EU) No 596/2014. Upon the publication of this announcement via a Regulatory Information Service, this inside information is now considered to be in the public domain.

6 – the person responsible for the release of this announcement is Lynne Medini, Group Company Secretary at Mothercare plc, Westside 1, London Road, Hemel Hempstead, HP3 9TD.

7 – Mothercare plc's Legal Entity Identifier ("LEI") number is 213800ZL6RPV9Z9GFO74

Chairman's Statement

The year under review was bookended by the Covid-19 pandemic and the Ukraine conflict. Indeed, even after two years, continuing headwinds from the former prevented 14% of our partners' global stores trading at the year end, with some restrictions still remaining in place today. The latter caused the complete suspension of our franchise partners' retail business in Russia (116 stores and online) on the 9 March 2022.

In this context I am delighted to report that the prior year transition of the business to focus upon our core international franchise and brand management competencies, as an asset light global franchising business, succeeded in generating free cash flow from operations and an adjusted EBITDA of £12 million for the financial year to 26 March 2022, a result ahead of market expectations. Furthermore, we have now completed the refinancing of the business, which is detailed further below and in the Financial Review, without resorting to additional financing requirements or further equity dilution.

The Pandemic and new ways of working with our Partners

Worldwide franchisee retail sales of £385 million, 7% higher than last year, remain significantly impacted by Covid-19 at around 25% down on the total retail sales for similar territories in the year before the pandemic. Online retail sales represented 11% of our total retail sales, slightly down on the 12% for last year, reflecting lower levels of Covid-19 restrictions on store openings, yet still well ahead of the levels achieved in the period prior to the pandemic.

As detailed in the Chief Operating Officer's report, most of the new ways of working with our manufacturing and franchise partners, introduced since the pandemic, are now embedded in the business. However, we are mindful that the pandemic has also had a significant impact on our franchise partners' profitability, inevitably resulting in a need for them to reduce costs and the levels of investment they have been able to make in their businesses. This is likely to mean that the return to pre pandemic levels of trading will take longer and we are working with our partners to assist that recovery, ultimately benefitting both our own business and our franchise partners in the longer term.

Update on Russian business

Given the numerous economic, logistical, reputational and business disruptions experienced since the suspension of the Russian retail business, we withdrew the right to operate Mothercare branded stores in Russia on 27 June 2022. This followed the pausing of operations we announced on 9 March 22.

In the period under review £88 million of our franchisee retail sales came from Russia and the territory directly contributed some £5.5 million to adjusted EBITDA for the year. This represents the single biggest impact on the business for the new financial year and will potentially lead to timing differences as we adjust our cost base. We have already substantially implemented the necessary adjustments to our supply chain, operations and administrative costs to address the consequent diseconomies of scale and maintain our service to our franchise partners.

New Financing Arrangements

At the year-end the Group had net borrowings of £9.9 million (March 2021 £12.1 million). This comprised total cash of £9.2 million (March 2021: £6.9 million), reflecting ongoing tight control of cash, against the £19.5 million (£19.1 million net of the unamortised facility fee) of the Group's loan facility with GB Europe Management Services Limited ("GBB") which remained fully drawn across the year. This modest reduction in net debt, set against the challenging backdrop of the pandemic, demonstrates our progress as a focused, asset light, global franchising business with no directly operated stores and greatly reduced direct costs.

In addition, the warrants issued to certain of the Group's shareholders in relation to the 2021 amendments to the CULS arrangements, expired unexercised on 17 March 2022, reducing potential equity holders' dilution and anticipated cash receipts by £1.8 million.

When we completed the £19.5 million secured four-year loan facility with GBB, in November 2020, the Group contained the Russia retail business and the covenants were therefore set against the then business plan and Group structure. As a result of the termination of our Russian operation, following the commencement of the Ukraine conflict, these covenants were no longer appropriate and we therefore commenced refinancing discussions with GBB to amend the terms to reflect the change.

I am therefore pleased to report that on 13 September we agreed revised terms for our debt financing arrangements with GBB, alongside agreeing reduced Deficit Reduction Contributions ("DRC's") with the Mothercare Pension Scheme Trustees of our defined benefit schemes ("Trustees"). This greatly reduces the annual cash cost to the Company and together these arrangements significantly improve our financial flexibility, notwithstanding the loss of revenue from Russia. We explored other potential debt providers as part of the refinancing process.

Revised £19.5m GBB term facility

Mothercare has agreed revised terms to extend the £19.5 million GBB term loan facility by one year to November 2025. The term loan bears an interest rate of 1300 basis points ("bps") over SONIA plus 100bps PIK accrued monthly that rolls up into the principal. The facility is secured on the assets of the Company and contains covenants usual for facilities of this type (see the Financial Review). In addition, the Pension Trustee second ranking secured charge has been increased from £15 million to £25 million.

I would like to thank GBB, on behalf of all stakeholders, for their support over the last three years as the Group's sole lender.

Revised pension contribution plans

Since my appointment in 2018 we have fostered an excellent, mutually beneficial working relationship with the Trustees without whose support all stakeholders could have been materially disadvantaged.

In order to support the new debt financing arrangements, we have reached formal agreement with the Trustees for a further reduction in DRCs. The revised recovery plan now sets out aggregate contributions of £29 million in the financial years March 2023 to March 2027. This represents a £30 million reduction in the aggregate cash payments that were to have been made to the pension schemes in that period under the previous arrangement.

The revised recovery plan agreed with the Trustees includes total contributions (DRCs plus costs) in the financial years to March 2023 £1 million; March 2024 £4 million; March 2025 £7 million; March 2026 £8 million; March 2027 & beyond £9 million aggregating to fully fund a £78 million deficit by March 2033. We are also well advanced in exploring the possibility of further reducing the quantum or uncertainty of subsequent recovery plan contributions through alternative means.

Pension Schemes

The last full actuarial valuation of the schemes was at 31 March 2020 and showed a deficit of £124.6 million, resulting from total assets of £383.7 million and total liabilities of £508.3 million. Based on desktop projections of this valuation provided to the Trustees, as at 30 June 2022 the deficit had reduced to £60 million with total assets at £330 million and total liabilities of £390 million.

Opportunities for growth

As we strive to be the leading global brand for parents and young children Mothercare is in an almost unparalleled position in being a highly trusted British heritage brand, that connects with newborn babies and children across multiple product categories, at the beginning of their life as consumers. Furthermore, at present the Brand's singular route to market is via franchisees.

Yet Mothercare is still not represented in eight of the top ten markets in the world, when ranked by wealth and birth rate, and we have barely scratched the surface in exploring the multiple opportunities available to us in wholesale, licensing or online marketplaces to grow the global presence of the brand.

This year we intend to leverage the full bandwidth of this intrinsic value through connections with other businesses and the development of the product range and licensing beyond our historic limits.

Cost Reduction Programme

The results show a further net reduction in administrative expenses of 25% compared to last year demonstrating our continual review and challenge to costs, whilst still ensuring we operate to the standards of a world class business.

Supply chain model

We continue to evolve our supply chain to reduce cost, complexity and deliver goods to our franchise partners in the quickest way possible. For Autumn/Winter 2022 we expect to deliver 80% of our total shipments direct from the country of manufacturing to our retail partners' markets. Furthermore we closed our remaining UK distribution centre in April 2022 and are also developing a new product option framework as we seek to curtail the impact of input cost inflation on each of our product categories.

Enterprise Resource Planning ("ERP") system

Although our new ERP system is progressing, with the product lifecycle management system going live in the first quarter of the current financial year, the remainder of the system has faced the almost inevitable delays associated with a project of this size and complexity. Hence, as this is currently due to go live around the end of this financial year, we will not reap the full cost savings until the financial year ending March 2024 although the contract for the creation of the ERP is on a fixed basis so costs will not increase commensurate with the delay.

Management & Board changes

We have a PLC Board that we believe is appropriate for a company of our size, nature and circumstances. Our Non-Executive Directors have deeply embedded and relevant skills, continue to directly contribute to the ongoing change process, are regularly appraised and are encouraged to interface with the Operating Board.

During the year we also supplemented the Operating Board via the appointment of a Director of Merchandising and, following our successful transition to becoming an international brand owner and operator, are reinforcing the brand and E-commerce skills within the executive team. This will also facilitate an increasing focus upon step-change growth.

Finally, having satisfactorily dealt with the additional challenges created by the Ukraine conflict, we expect to appoint a new Chief Executive Officer during the current year. A further announcement will be made when appropriate and in the interim the day-to-day management of the Group is being run by the Chief Operating Officer and Chief Financial Officer with oversight from me as Chairman and my fellow Non-Executive Directors.

Dividend Policy

The Company has not paid a dividend since February 2012. The Directors understand the importance of optimising value for shareholders and it is the Directors' intention to return to paying a dividend as soon as this is possible, noting the restriction within the Company's agreements with its lenders and the Pension Trustees and once the Directors believe it is financially prudent for the Group to do so.

Summary and Outlook

First and foremost, on behalf of the Board I would like to thank our colleagues across the business, alongside our manufacturing, franchise and financing partners and shareholders for their unwavering support throughout the last four years. Without this support Mothercare would not have been able to surmount the considerable challenges we have overcome together and be in the position we are today.

This represents an inflection point for Mothercare, with the combined benefits of more normalised circumstances and the updated financing arrangements greatly enhancing our financial flexibility.

The permanent closure of the Russian business is fully reflected in our forecasts, which will reduce our new financial year results by £6 million as previously guided, and we have substantially completed the necessary adjustments to our cost base given the coterminous diseconomies of scale. Our medium-term guidance for the steady state operation, in more normal circumstances, of our continuing franchise operations remains that they are capable of exceeding £10 million operating profit.

As demonstrated at a number of points over the last four years, we have the resilience to deal with major challenges satisfactorily. Whilst mindful of the inflationary global economic environment, we are now focused on restoring critical mass and optimising the Mothercare brand globally over the next five years. This is an exciting prospect for our partners, our colleagues and all our stakeholders alike as we leave behind the turmoil of recent years.

Mothercare plc
Preliminary Results

FINANCIAL AND OPERATIONAL REVIEW

The significant improvement in profitability evidences the full year impact of the establishment of a cost base that is appropriate for our business but still has the necessary skills and experience to deliver further growth, as the impact of Covid-19 diminishes. Coupled with the refinement and improvement of our operating model, we continue to demonstrate we are a profitable and cash generative international business, with reduced risk, lower overheads and an asset-light model.

We have previously highlighted the changes and restructuring that took place across the Group in recent years and the results of these activities are now becoming evident in our improved financial performance. These results are still heavily impacted by COVID-19 and going forwards we expect the growth from sales returning to pre-pandemic levels to significantly mitigate the loss of contribution from our Russia operations.

International retail sales by our franchise partners of £385.3 million (2021: £358.6 million) showed a 7% increase year on year. Whilst the retail sales have increased year on year, they are still significantly impacted by COVID-19 and remain below the levels we would otherwise expect. Retail sales are around 25% down on the total retail sales for similar territories in the period before the pandemic.

The profit from operations in the year was £13.0 million (2021: loss of £2.4 million) reflecting a number of significant changes. To better understand the underlying results, the Group uses a non-statutory reporting measure of adjusted profit, to show results before any one-off significant non-trading items. This involves removing the adjusted items which relate to restructuring and reorganisation costs and are non-recurring (£1.9 million subtracted in year ended 2022 and £2.6 million added back in 2021), together with depreciation and amortisation of £0.9 million (2021: £2.0 million), resulting in an adjusted EBITDA profit for the year of £12.0 million (2021: £2.2 million).

The improvement in adjusted EBITDA of £9.8 million is made up of an increase of £5.1 million of gross profit and a reduction of £4.7 million of net costs. Gross profit increased over the previous financial year by £5.1 million, approximately £3.0 million as a result of the previously highlighted delays in shipping at the end of our financial year FY21. This moved margin of around £1.5 million into this financial year FY22, with the remainder largely being an increase in royalties from the higher level of retail sales. The net year on year cost reductions of £4.7 million, were made up of: £2.5 million of lower staff costs as we progress to a team that has the appropriate skills and experience for the current business; pension scheme running costs reduced by £1.7 million to £1.7 million; IT costs reduced by £0.6 million; impairment of receivables lower by £0.5 million; other net cost savings of £0.4 million, partially offset by the absence of around £1.0 million of the £2.0 million other income, from the warehouse that was rented last year before assignment, which related to costs included within depreciation.

The Group recorded a profit for the 52 weeks to 26 March 2022 of £12.1 million (2021: loss of £21.5 million). The adjusted profit for the year was £9.0 million (2021: loss of £8.6 million). The adjusted items are detailed in note 6.

Our Russian territory, which ceased contributing to the Group's retail sales and revenue on the 9 March 2022, generated £88.2 million (23%) of total retail sales for the financial year to March 2022 and £77.3 million (22%) of the previous year's total retail sales. Russia contributed around £5.5 million (2021: £5.0 million) to adjusted EBITDA for the year. The Group will not be affected by any further write offs in relation to items such as stock or debt, as a result of the Russian termination.

Retail space at the end of the year was 1.8 million sq. ft. from 680 stores (2021: 2.0 million sq. ft. from 734 stores).

REVISION TO LOAN TERMS

As a result of the termination of our Russian operation in March 2022, the Group was unable to meet its covenant obligations under the loan agreement with our lender Gordon Brothers for the first quarter of the financial year to March 2023. We have therefore agreed the following amendments to the loan:

- Loan to remain at £19.5 million and not amortising.
- Term extended from 26 November 2024 to 26 November 2025.
- Interest rate of 13% per annum plus SONIA, with SONIA not less than 1%, payable in cash, plus a 1% per annum payment-in-kind coupon that accrues monthly into the principal (which becomes

due when the loan is repaid). Previously the interest rate was 12% per annum plus SONIA with a floor of 1%.

- Covenants revised to reflect the current results and forecasts of the Group and previous defaults waived.
- The facility remains secured over the assets of the Group as a whole and early repayment charges if it is repaid prior to term have been reset.

Whilst there is some uncertainty particularly around the time and levels of recovery in retail sales post COVID-19, coupled with the heightened global economic uncertainty, in the short term and the resultant impact on the Group's profitability and cash generation our forecasts show that we are able to comply with our revised commitments to our lender and the pension schemes for the foreseeable future. As at the balance sheet date the Group had net borrowings of £9.9m, being cash of £9.2 million against the term, loan of £19.1 million, which is a drawdown of £19.5m net of the unamortised facility fee, reflecting the continuing tight control of cash.

PENSION SCHEME CONTRIBUTIONS

Coupled with the revised terms for the term loan we also revised the schedule of contributions to our pension schemes' deficits. The value of the deficit under the full actuarial valuation at 31 March 2020 was £124.6 million; the Group's deficit payments were previously calculated using this as the basis. The previously agreed annual contributions to the pension schemes, for the years ending in March, were as follows: 2023 – £9.0million; 2024 – £10.5 million; 2025 – £12.0 million; 2026 to 2029 – £15 million; 2030 – £5.7 million.

As at 31 March 2022 the deficit had reduced to £78 million and the following revised annual contributions have now been agreed with the trustees, for the years ending in March as follows: 2023 - £1 million; 2024 - £4 million; 2025 - £7 million; 2026 - £8 million; 2027 to 2032 - £9 million: 2033 - £0.7 million. Mainly due to increasing interest rates the deficit had reduced still further to £60m by the end of June 2022. These deficits are on an actuarial technical provisions basis, which is used to determine the contributions required and produces different figures from those included in the balance sheet, which are required to be from applying IAS 19.

OPERATING MODEL

The Group continues to work towards its goal of becoming an asset light business. We continue to use our tripartite agreement ('TPA') process, whereby the franchise partners commit to paying the manufacturing partners for the product when due and in return the manufacturing partners were generally willing to re-extend credit terms that had sometimes been lost because of the UK retail administration. The TPA process has resulted in a substantial reduction in our working capital requirement and has been an instrumental element of our successful navigation through the impact of COVID-19.

We have subsequently further improved the TPA model whereby the franchise partner is invoiced directly by the manufacturing partner. This allows the manufacturing partners the opportunity to obtain credit insurance in relation to the franchise partners debt, which due to MGB's limited trading history was sometimes difficult to obtain for invoices raised to MGB. Additionally, this model removes the Group's exposure to the debt and working capital requirement for these products. Where this is the case, under IFRS 15 the Group is the agent in the transaction – previously the Group was the principal. Hence for these products the creditors and stock will not be recognised by the Group and whilst the associated revenue and cost of sales will also be excluded there will be no material impact on the absolute margin earned. The responsibility for design, quality control and choice of manufacturing partner for these products, are unchanged and remains with the Group.

For the spring/summer 2023 season, currently in production, we expect some 50% of the products by value are invoiced directly to franchise partners by our manufacturing partners. This figure now excludes Russia that was invoiced direct. We continue to work with our larger franchise partners to move them to this basis. For some of the smaller franchise partners we are obtaining bank guarantees or letters of credit to reduce our debt exposure.

We are also moving more product direct from manufacturing partners to franchise partners. For spring/summer 2023, we expect 80%, by value, to be shipped in this way. As we now move the majority of our products in this way, post year end, we have been able to exit from our UK warehouse service provider and now only have a warehouse in China for consolidation of smaller orders that cannot be viably shipped direct.

These new ways of working are being accepted by both our franchise and manufacturing partners as they are beneficial for all. Our franchise partners have the potential of reduced distribution recharges, shorter delivery times and improved surety and availability of product. In turn, manufacturing partners have greater security of payment through credit insurance or simply dealing directly with some of our well capitalised franchise partners.

ENTERPRISE RESOURCE PLANNING ("ERP") SYSTEM

Unfortunately, as is often the case when delivering a complicated integrated system, the ERP project has faced significant delays, which have only come to light during the development of the system. Despite the delay in the finance and operations elements, the product lifecycle management ("PLM") went live in May 2022 and is proving to be a significant improvement over our legacy systems. When the full system is complete both manufacturers and franchisees will be able to link to the PLM through bespoke portals to place, manage and progress orders. The full ERP system is currently expected to go live around the end of this financial year and the provider is on a fixed price contract, so this cost will not significantly increase due to the delay. We have also managed to realise some of the IT costs savings early as highlighted above and there are further annual IT costs savings of approximately £1 million once the full ERP is live.

BALANCE SHEET

The balance sheet strengthened in the current year, closing the year at a net asset of £1.5 million compared with a net liability of £43.0 million for the prior year. The balance sheet benefited from a swing in the defined benefit pension scheme to an asset position of £12.4 million at year end (2021: £25.6 million liability). The move in the defined benefit scheme from a liability to an asset position was driven mainly by an increase in the discount rate placing a lower value on the liabilities. The increase in the discount rate reflects the increase in corporate bond yields during the period.

Net current assets

Current assets of £19.6 million (2021: £32.8 million) decreased by £13.2 million, principally due to lower inventory and trade receivable balances which were partially offset by an increase in cash.

Current liabilities of £14.1 million (2021: £31.2 million) decreased by £17.1 million, principally as a result of decreases in trade and other payables and provisions. In part due to those franchise partners now being invoiced directly by manufacturing partners we do not record the stock, payable and resultant receivable on these transactions.

Net current assets increased to £5.5 million in the current year, up from £1.6 million in the prior year, driven by the improvement in operating performance year on year and lower payables year on year.

The Group's working capital position is closely monitored and forecasts demonstrate the Group is able to meet its debts as they fall due.

	26 March 2022 £ million	27 March 2021 £ million
Intangible fixed assets	**3.6**	1.1
Property, plant and equipment	**1.2**	1.7
Retirement benefit obligations asset/(liability)	**12.4**	(25.6)
Net borrowings (excluding IFRS 16 lease liabilities)	**(9.9)**	(12.1)
Derivative financial instruments	**0.2**	0.8
Other net liabilities	**(6.0)**	(8.9)
Net assets / (liabilities)	**1.5**	(43.0)
Share capital and premium	**198.1**	198.1
Reserves	**(196.6)**	(241.1)
Total equity	**1.5**	(43.0)

Pensions

The Mothercare defined benefit pension schemes were closed with effect from 30 March 2013.

The defined benefit scheme had a temporary surplus at the end of the year of £12.4 million (2021: £25.6 million deficit). The swing of £38 million to a surplus position was mainly due to the assumptions used to place a value on the scheme liabilities. The liabilities are valued using a discount rate that is based on corporate bond yields with an increase in yields placing a lower value on the liabilities. Over the year, changes in the financial market conditions resulted in the discount rate increasing by 85 basis points and long-term inflation expectations increasing by 35 basis points. The combination of these resulted in a reduction in the liabilities by £36 million with the increase in inflation partially offsetting the increase in the discount rate. An allowance was also made for the potential impact of the Covid-19 pandemic on future improvements which resulted in a fall in life expectancies, reducing liabilities by £6 million. The returns on the scheme assets were however lower than expected resulting in an asset experience loss of £7 million and the company contributions over the year exceeded the income statement charge by £3 million.

The Group's deficit payments are calculated using the full triennial actuarial valuation as the basis rather than the accounting deficit / surplus. The value of the deficit under the full actuarial valuation at 31 March 2020 was £124.6 million.

Details of the income statement net charge, total cash funding and net assets and liabilities in respect of the defined benefit pension schemes are as follows:

£ million	**52 weeks ending 26 March 2023***	**52 weeks ended 26 March 2022**	**52 weeks ended 27 March 2021**
Income statement			
Running costs	(1.7)	(1.7)	(3.4)
Net (expense) / income for interest on liabilities / return on assets	0.4	(0.5)	0.2
Net charge	(1.3)	(2.2)	(3.2)
Cash funding			
Regular contributions	(1.0)	(1.0)	(1.3)

Deficit contributions	–	(4.3)	(3.2)
Total cash funding	(1.0)	(5.3)	(4.5)
Balance sheet**			
Fair value of schemes' assets	n/a	395.8	403.4
Present value of defined benefit obligations	n/a	(383.4)	(429.0)
Net (liability)/surplus	n/a	12.4	(25.6)

* Forecast
** The forecast fair value of schemes' assets and present value of defined benefit obligations is dependent upon the movement in external market factors, which have not been forecast by the Group for 2023 and therefore have not been disclosed.

In consultation with the independent actuaries to the schemes, the key market rate assumptions used in the valuation and their sensitivity to a 0.1% movement in the rate are shown below:

	2022	**2021**	**2021 Sensitivity**	**2021 Sensitivity £ million**
Discount rate	2.8%	2.0%	+/– 0.1%	–6.3 /+6.4
Inflation – RPI	3.5%	3.1%	+/– 0.1%	+5.1 /–5.6
Inflation – CPI	2.9%	2.4%	+/– 0.1%	+1.9 /–1.9

The Group has a deferred tax liability of £0.4 million (2021: £nil). In 2021, no deferred tax asset was recognised as there was not considered to be enough certainty over the recoverability. In the comparative period, the deferred tax liability arose as a temporary difference due to the surplus on the pension scheme.

Net debt

The Group's borrowings (including lease liabilities) of £20.2 million (2021: £20.4) has remained fairly consistent year on year. Net debt (Note 27) stood at £11.0 million at year end (2021: 14.7 million). The decrease resulting from warrant options of £1.2 million which expired during the year.

The Group regularly reviews its financing arrangements and remains confident of its ability to access additional financing successfully when needed. The Group's amended and extended committed facility will mature in 2025, this together with its cash and cash equivalents are considered adequate to meet its projected cash requirements.

Leases

Right-of-Use assets of £0.9 million (2021: £1.2 million) and lease liabilities of £1.1 million (2020: £1.4 million) represented the Group's head office leases.

Working capital

The Group only purchases stock directly needed to fulfil franchise partner orders and is gradually moving all franchise partners to direct shipments thereby reducing our stock holdings at year end. Stock held in our UK distribution centres also reduced significantly prior to the closure of the facility in early FY23. The year end stock decreased by £3.8m from £5.9 million in 2021 to £2.1 million at the year end. £1.7 million of the decrease relates to stock in transit with £2.1 million being a reduction in the stocks held at our distribution centres.

Trade receivables fell by £8.2 million to £3.4million (2021: £11.6 million) driven by strong credit control measures and the direct invoicing referred to above. Trade creditors decreased to £4.7 million (2021: £11.8 million) due to similar reasons.

INCOME STATEMENT

	52 weeks to 26 March 2022 £million	52 weeks to 27 March 2021 £million
Revenue	**82.5**	85.8
Adjusted EBITDA (EBITDA before exceptionals)	**12.0**	2.2
Depreciation and amortisation (note 7)	**(0.9)**	(2.0)
Adjusted result before interest and taxation	**11.1**	0.2
Adjusted net finance costs	**(3.1)**	(8.7)
Adjusted result before taxation	**8.0**	(8.5)
Adjusted costs	**3.1**	(12.9)
Loss before taxation	**11.1**	(21.4)
Taxation	**1.0**	(0.1)
Total profit/(loss)	**12.1**	(21.5)
EPS – basic	**1.6p**	(5.7)p
Adjusted EPS – basic	**2.1p**	(2.3)p

Foreign exchange

The main exchange rates used to translate International retail sales are set out below:

	52 weeks ended 26 March 2022	52 weeks ended 27 March 2021
Average:		
Euro	**1.2**	1.1
Russian rouble	**106.1**	96.9
Chinese Renminbi	**8.8**	8.8
Kuwaiti dinar	**0.4**	0.4
Saudi riyal	**5.1**	4.9
Emirati dirham	**5.0**	4.8
Indonesian rupiah	**19,644**	18,954
Indian rupee	**101.8**	96.9
Closing:		
Euro	**1.2**	1.1
Russian rouble	**144.6**	102.9
Chinese Renminbi	**8.4**	9.0
Kuwaiti dinar	**0.4**	0.4
Saudi riyal	**4.9**	5.2
Emirati dirham	**4.8**	5.1
Indonesian rupiah	**18,924**	19,965
Indian rupee	**100.1**	100.5

The principal currencies that impact the translation of International sales are shown below. The net effect of currency translation caused worldwide sales and adjusted loss to decrease by £16.4 million (2021: £26.1 million) and £0.9 million (2021: £1.4 million) respectively as shown below:

	Worldwide sales £ million	**Adjusted Profit/(loss) £ million**
Euro	**–**	–
Russian rouble	**(4.5)**	(0.3)
Chinese Renminbi	**–**	–

Kuwaiti dinar	**(0.8)**	(0.1)
Saudi riyal	**(2.4)**	(0.2)
Emirati dirham	**(1.3)**	(0.1)
Indonesian rupiah	**(0.5)**	–
Indian rupee	**(0.5)**	–
Other currencies	**(6.4)**	(0.2)
	(16.4)	(0.9)

Net finance costs

Financing costs include interest receivable on bank deposits, less interest payable on borrowing facilities, the amortisation of costs relating to bank facility fees and the net interest charge on the liabilities/assets of the pension scheme.

Finance costs decreased by £17.1 million year on year explained by the conversion of shareholder loans to equity in the prior year. Interest on borrowings was £2.5 million in the current year (2021: £6.2 million) The prior year cost included convertible shareholders loans which were converted into equity in March 2021. Fair value movements on shareholder loan embedded derivatives of £9.1million in prior year was nil in the current year due to the loan being converted into equity in March 2021. Fair value costs on warrants issued to shareholders of £1.2 million in prior year was a gain of £1.2million in the current year as the options expired unexercised in March 2022.

The net interest income/costs on the defined benefit asset and liability was a cost of £0.5 million in the current year, a swing from the income of £0.2 million in 2021.

Discontinued operations

There were no discontinued operations presented for the current financial 52 week period ended 26 March 2022.

The total statutory profit after tax for the Group is £12.1 million (2021: £21.5 million loss).

Taxation

The tax credit comprises corporation taxes incurred and a deferred tax credit. The total tax credit from operations was £1.0 million (2021: £0.1 million charge) – (see note 9).

Earnings per share

Basic adjusted earnings per share were 2.1 pence (2021: 2.3 pence losses). Statutory earnings per share were 1.6 pence (2021: 5.7 pence losses).

CASHFLOW

Statutory net cash flow from operating activities was an inflow of £8.1 million compared with an outflow of £2.6 million in the prior year; this was driven by the increase in operating profit and prudent management of working capital. Working capital benefited from a large decrease in receivables relative to 2021 partially offset by the decrease in payables.

Cash outflow from investing activities of £2.9 million (2021: £0.4 million), was mainly driven by our investment in our new Enterprise Resource Plan system which is planned to be put into operation in FY24.

Cash outflow from financing activities was £3.0 million (2021: £3.8 million net inflow). The inflow in the prior year was driven by the cash receipt of £7.3 million on the Group's new four-year term loan.

Going concern

As stated in the strategic report, the Group's business activities and the factors likely to affect its future development are set out in the principal risks and uncertainties section of the Group financial statements. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.

The consolidated financial information has been prepared on a going concern basis. When considering the going concern assumption, the Directors of the Group have reviewed a number of factors, including the Group's trading results and its continued access to sufficient borrowing facilities against the Group's latest forecasts and projections, comprising:

- A Base Case forecast, which excludes any income from Russia and
- A Sensitised forecast, which applies sensitivities against the Base Case for reasonably possible adverse variations in performance, reflecting the ongoing volatility in our key markets.

In making the assessment on going concern the Directors have assumed that it is able to mitigate the material uncertainty in relation to levels of recovery in retail sales post COVID-19 coupled with the heightened global economic uncertainty. The impact of these issues on the future prospects of the Group is not fully quantifiable at the reporting date, as the complexity and scale of these issues at a global level is outside of what any business could accurately reflect in a financial forecast. However, we have attempted to capture the impact on both our supply chain and key franchise partners based on what is currently known. We have modelled a substantial reduction in global retail sales as a result of subdued, consumer confidence or disposable income, throughout the remainder of FY23 with recovery in FY24.

The Sensitised scenario assumes the following additional key assumption:

- A delayed recovery that assumes that retail sales remain subdued throughout the majority of the forecast period as a result of consumer confidence returning more slowly post COVID-19, coupled with the potential impact on customers' disposable income due to the current heightened global economic uncertainty.

The Board's confidence in the Group's Base Case forecast, which indicates the Group will operate within the terms of its revised borrowing facilities, which now includes more appropriate covenants following the cessation of the Russian operation and the Group's proven cash management capability, supports our preparation of the financial statements on a going concern basis.

However, if trading conditions were to deteriorate beyond the level of risks applied in the Sensitised forecast, or the Group was unable to mitigate the material uncertainties assumed in the Base Case Forecast and the Group were not able to execute further cost or cash management programmes, the Group would at certain points of the working capital cycle have insufficient cash. If this scenario were to crystallise the Group would need to renegotiate with its lender in order to secure waivers to potential covenant breaches and consequential cash remedies or secure additional funding. Therefore, we have concluded that, in this situation, there is a material uncertainty that casts significant doubt that the Group will be able to operate as a going concern without such waivers or new financing facilities.

Treasury policy and financial risk management

The Board approves treasury policies, and senior management directly control day-to-day operations within these policies. The major financial risk to which the Group is exposed relates to movements in foreign exchange rates and interest rates. Where appropriate, cost effective and practicable, the Group uses financial instruments and derivatives to manage the risks, however the main strategy is to effect natural hedges wherever possible.

No speculative use of derivatives, currency or other instruments is permitted.

Foreign currency risk

All International sales to franchisees are invoiced in Pounds sterling or US dollars. The Group therefore has some currency exposure on these sales, but they are used to offset or hedge in part the Group's US dollar denominated product purchases. Under the tripartite agreements, there has been an increased level of currency matching between purchases and sales, improving the Group's ability to hedge naturally.

Interest rate risk

The principal interest rate risk of the Group arises in respect of the drawdown of the £19.5 million term loan. These borrowings were at a fixed rate of 12% plus SONIA in the current year, from FY23 to FY25 interest would be charged at 13% per annum plus SONIA, with SONIA not less than 1%, plus a 1% per annum compounded payment to be made when the loan is repaid, these expose the Group to future cash flow risk. The interest exposure is monitored by management but due to low interest rate levels during the period the risk is believed to be minimal and no interest rate hedging has been undertaken.

In the comparative period, the Group was exposed to interest rate risk from the Revolving Credit Facility ('RCF') and shareholder loans.

Credit risk

The Group has exposure to credit risk inherent in its trade receivables.

The Group has no significant concentrations of credit risk.

The Group operates effective credit control procedures in order to minimise exposure to overdue debts. Before accepting any new trade customer, the Group obtains a credit check from an external agency to assess the credit quality of the potential customer and then sets credit limits on a customer by customer basis. IFRS 9 'Financial Instruments' has been applied such that receivables balances are held net of a provision calculated using a risk matrix, taking micro and macro-economic factors into consideration as detailed in note 3.

Shareholders' funds

Shareholders' funds amount to a surplus of £1.5 million, an improvement from the deficit of £43.0 million achieved in the comparative period. This was principally driven by temporary net actuarial gains of £31.9 million on the Group's defined benefit pension scheme and profits for the year of £12.1 million.

Directors' responsibility statement

The 2022 Annual Report and Accounts which will be issued in September 2022, contains a responsibility statement which sets out that as at the date of approval of the Annual Report on 13 September 2022, the directors confirm to the best of their knowledge:

- that the consolidated financial statements, prepared in accordance with UK-adopted International Accounting Standards in conformity with the requirements of the Companies Act 2006, give a true and fair view of the assets, liabilities, financial position and profit or loss of the group; and
- the parent company financial statements which have been prepared in accordance with United Kingdom Accounting Standards comprising FRS 101 'Reduced Disclosure Framework' and applicable law, give a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company: and
- the Strategic Report and Directors' Report include a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

Consolidated income statement

For the 52 weeks ended 26 March 2022

		52 weeks ended 26 March 2022			52 weeks ended 27 March 2021		
	Note	**Before adjusted items £ million**	**Adjusted items[1] £ million**	**Total £ million**	Before adjusted items £ million	Adjusted items[1] £ million	Total £ million
Revenue	3	**82.5**	**–**	**82.5**	85.8	–	85.8
Cost of sales		**(54.9)**	**–**	**(54.9)**	(63.3)	–	(63.3)
Gross profit		**27.6**	**–**	**27.6**	22.5	–	22.5
Administrative expenses		**(16.0)**	**1.9**	**(14.1)**	(23.3)	(2.6)	(25.9)
Other income		**–**	**–**	**–**	2.0	–	2.0
Impairment losses on receivables		**(0.5)**	**–**	**(0.5)**	(1.0)	–	(1.0)
Profit/(loss) from operations	3	**11.1**	**1.9**	**13.0**	0.2	(2.6)	(2.4)
Finance costs	5	**(3.1)**	**1.2**	**(1.9)**	(8.9)	(10.3)	(19.2)
Finance income	5	**–**	**–**	**–**	0.2	–	0.2
Profit /(loss) before taxation		**8.0**	**3.1**	**11.1**	(8.5)	(12.9)	(21.4)
Taxation		**1.0**	**–**	**1.0**	(0.1)	–	(0.1)
Profit/(loss) for the period		**9.0**	**3.1**	**12.1**	(8.6)	(12.9)	(21.5)
Profit/(loss) for the period attributable to equity holders of the parent		**9.0**	**3.1**	**12.1**	(8.6)	(12.9)	(21.5)
Profit/(loss) per share							
Basic	8			**1.6p**			(5.7)p
Diluted	8			**1.6p**			(5.7)p

[1] Includes adjusted costs (property costs, restructuring costs and impairment charges) and movement on warrant options. Adjusted items are considered to be one-off or significant in nature and /or value. Excluding these items from profit metrics provides readers with helpful additional information on the performance of the business across the periods because it is consistent with how the business performance is reviewed by the Board

Consolidated statement of comprehensive income

For the 52 weeks ended 26 March 2022

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Profit / (loss) for the period	**12.1**	(21.5)
Items that will not be reclassified subsequently to the income statement:		

Remeasurement of net defined benefit liability:		
Actuarial gain / (loss) on defined benefit pension schemes	**35.0**	(56.7)
Deferred tax relating to items not reclassified	**(3.1)**	10.2
	31.9	(46.5)
Items that may be reclassified subsequently to the income statement:		
Exchange differences on translation of foreign operations	**–**	–
Deferred tax relating to items reclassified	**–**	–
	–	–
Other comprehensive income / (expense) for the period	**31.9**	(46.5)
Total comprehensive income / (expense) for the period wholly attributable to equity holders of the parent	**44.0**	(68.0)

Consolidated balance sheet

As at 26 March 2022

	26 March 2022 £ million	27 March 2021 £ million
Non-current assets		
Intangible assets	**3.6**	1.1
Property, plant and equipment	**0.3**	0.5
Right-of-use leasehold assets	**0.9**	1.2
Retirement benefit obligations	**12.4**	–
	17.2	2.8
Current assets		
Inventories	**2.1**	5.9
Trade and other receivables	**8.1**	17.4
Derivative financial instruments	**0.2**	2.6
Cash and cash equivalents	**9.2**	6.9
	19.6	32.8
Total assets	**36.8**	35.6
Current liabilities		
Trade and other payables	**(12.1)**	(24.9)
Derivative financial instruments	**–**	(1.8)
Lease liabilities	**(0.3)**	(0.3)
Provisions	**(1.7)**	(4.2)
	(14.1)	(31.2)
Non-current liabilities		
Borrowings	**(19.1)**	(19.0)
Lease liabilities	**(0.8)**	(1.1)
Retirement benefit obligations	**–**	(25.6)
Provisions	**(0.9)**	(1.7)
Deferred tax liability	**(0.4)**	–
	(21.2)	(47.4)
Total liabilities	**(35.3)**	(78.6)
Net assets/(liabilities)	**1.5**	(43.0)
Equity attributable to equity holders of the parent		
Share capital	**89.3**	89.3
Share premium account	**108.8**	108.8
Own shares	**(1.0)**	(1.0)
Translation reserve	**(3.7)**	(3.7)
Retained loss	**(191.9)**	(236.4)
Total equity	**1.5**	(43.0)

Consolidated statement of changes in equity

For the 52 weeks ended 26 March 2022

	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Retained earnings £ million	Total equity £ million
Balance at 27 March 2021	**89.3**	**108.8**	**(1.0)**	**(3.7)**	**(236.4)**	**(43.0)**
Items that will not be reclassified subsequently to the income statement	–	–	–	–	31.9	31.9
Other comprehensive income	–	–	–	–	31.9	31.9
Profit for the period	–	–	–	–	12.1	12.1
Total comprehensive income	**–**	**–**	**–**	**–**	**44.0**	**44.0**
Adjustment to equity for equity-settled share-based payments	–	–	–	–	0.5	0.5
Balance at 26 March 2022	**89.3**	**108.8**	**(1.0)**	**(3.7)**	**(191.9)**	**1.5**

	Share capital £ million	Share premium account £ million	Own shares £ million	Translation reserve £ million	Retained Earnings £ million	Total Equity £ million
Balance at 28 March 2020 as previously reported	**87.4**	**91.7**	**(1.0)**	**(3.7)**	**(172.1)**	**2.3**
Prior year adjustment – income statement	–	–	–	–	(1.3)	(1.3)
Prior year adjustment – other comprehensive income	–	–	–	–	(5.0)	(5.0)
Balance at 28 March 2020 as restated	**87.4**	**91.7**	**(1.0)**	**(3.7)**	**(178.4)**	**(4.0)**
Items that will not be reclassified subsequently to the income statement	–	–	–	–	(46.5)	(46.5)
Other comprehensive expense	–	–	–	–	(46.5)	(46.5)
Loss for the period	–	–	–	–	(21.5)	(21.5)
Total comprehensive (expense)/income	**–**	**–**	**–**	**–**	**(68.0)**	**(68.0)**
Conversion of shareholder loans	1.9	17.1	–	–	9.5	28.5
Adjustment to equity for equity-settled share-based payments	–	–	–	–	0.5	0.5
Balance at 27 March 2021	**89.3**	**108.8**	**(1.0)**	**(3.7)**	**(236.4)**	**(43.0)**

Consolidated cash flow statement

For the 52 weeks ended 26 March 2022

	Note	**52 weeks ended 26 March 2022 £ million**	52 weeks ended 27 March 2021 £ million
Net cash flow from operating activities	10	**8.1**	(2.6)
Cash flows from investing activities			
Purchase of property, plant and equipment		**(0.1)**	(0.2)
Purchase of intangibles – software		**(2.8)**	(0.2)
Cash used in investing activities		**(2.9)**	(0.4)
Cash flows from financing activities			
Interest paid		**(2.5)**	(1.4)
Repayments of leases		**(0.4)**	(1.5)
Drawdown of loan facility		**–**	7.3
Net cash outflow / (inflow) from financing activities		**(3.0)**	3.8
Net increase in cash and cash equivalents		**2.2**	0.8
Cash and cash equivalents at beginning of period		**6.9**	6.1
Effect of foreign exchange rate changes		**0.1**	–
Cash and cash equivalents at end of period		**9.2**	6.9

Notes

1. General information

The Group's business activities, together with factors likely to affect its future development, performance and position are set out in the Chairman's statement, the Chief Executive's review and the Financial review and include a summary of the Group's financial position, its cash flows and borrowing facilities and a discussion of why the Directors consider that the going concern basis is appropriate.

Whilst the financial information included in this preliminary announcement has been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006, this announcement does not itself contain sufficient information to comply with all the disclosure requirements of IFRS.

The financial information set out in this announcement does not constitute the Group's statutory accounts for the 52 week period ended 26 March 2022 or the 52 week period ended 27 March 2021, but it is derived from those accounts. Statutory accounts for 2021 have been delivered to the Registrar of Companies and those for 2022 will be delivered in September 2022. The auditor has reported on the 2022 accounts: their report includes a material uncertainty over going concern. The 2021 financial statements are available on the Group's website (www.mothercareplc.com).

2. Accounting Policies and Standards

Going concern

As stated in the strategic report, the Group's business activities and the factors likely to affect its future development are set out in the principal risks and uncertainties section of the Group financial statements. The financial position of the Group, its cash flows, liquidity position and borrowing facilities are set out in the financial review.

The consolidated financial information has been prepared on a going concern basis. When considering the going concern assumption, the Directors of the Group have reviewed a number of factors, including the Group's trading results and its continued access to sufficient borrowing facilities against the Group's latest forecasts and projections, comprising:

- A Base Case forecast which excludes any income from Russia; and
- A Sensitised forecast, which applies sensitivities against the Base Case for reasonably possible adverse variations in performance, reflecting the ongoing volatility in our key markets.

In making the assessment on going concern the Directors have assumed that it is able to mitigate the material uncertainty in relation to levels of recovery in retail sales post COVID-19 coupled with the heightened global economic uncertainty. The impact of these issues on the future prospects of the Group is not fully quantifiable at the reporting date, as the complexity and scale of these issues at a global level is outside of what any business could accurately reflect in a financial forecast. However, we have attempted to capture the impact on both our supply chain and key franchise partners based on what is currently known. We have modelled a substantial reduction in global retail sales as a result of subdued, consumer confidence or disposable income, throughout the remainder of FY23 with recovery in FY24.

The Sensitised scenario assumes the following additional key assumption:
The Board's confidence in the Group's Base Case forecast, which indicates the Group will operate within the terms of its revised borrowing facilities which now includes more appropriate covenants following the cessation of the Russian operation and the Group's proven cash management capability, supports our preparation of the financial statements on a going concern basis.

However, if trading conditions were to deteriorate beyond the level of risks applied in the Sensitised forecast, or the Group was unable to mitigate the material uncertainties assumed in the Base Case Forecast and the Group were not able to execute further cost or cash management programmes, the Group would at certain points of the working capital cycle have insufficient cash. If this scenario were to crystallise the Group would need to renegotiate with its lender in order to secure waivers to potential covenant breaches and consequential cash remedies or secure additional funding. Therefore, we have concluded that, in this situation, there is a material uncertainty that casts significant doubt that the Group will be able to operate as a going concern without such waivers or new financing facilities.

Adoption of new IFRSs

The same accounting policies, presentation and methods of computation are followed in this yearly report as applied in the Group's last audited financial statements for the 52 weeks ended 27 March 2021.

Standards issued but not yet effective

At the date of authorisation of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue and endorsed by the UKEB, but not yet effective:

- Extension of the temporary exemption from applying IFRS 9
- Amendment to IFRS 16, 'Leases' – COVID-19 related rent concessions
- IFRS 17, 'Insurance Contracts' – replacing IFRS 4
- Property, Plant and Equipment: Proceeds before intended use - amendments to IAS 16
- Reference to the Conceptual framework – amendments to IFRS 3
- Onerous contracts: Cost of fulfilling a contract – amendments to IAS 37

The Directors anticipate that adoption of these standards and interpretations in future periods will have no material impact on the Group's financial statements.

Retirement benefits

Payments to defined contribution retirement benefit schemes are charged as an expense as they fall due.

For defined benefit schemes, the cost of providing benefits is determined using the Projected Unit Credit Method, with actuarial valuations being carried out at each balance sheet date. Actuarial gains and losses are recognised in full in the period in which they occur. They are recognised outside of the income statement and presented in other comprehensive income.

Past service cost is recognised immediately to the extent that the benefits are already vested.
The retirement benefit obligation recognised in the balance sheet represents the present value of the defined benefit obligation less the fair value of scheme assets. Any asset resulting from this calculation is limited to past service cost, plus the present value of available refunds.

The Group has an unconditional right to a refund of surplus under the rules.

In consultation with the independent actuaries to the schemes, the valuation of the pension obligation has been updated to reflect: current market discount rates; current market values of investments and actual investment returns; and also for any other events that would significantly affect the pension liabilities. The impact of these changes in assumptions and events has been estimated in arriving at the valuation of the pension obligation.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS). A full definition is shown in the glossary at the end of this document.

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the performance and position of the Group because they are consistent with how business performance is reported to the Board and Operating Board.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with prior year except where expressly stated.

The key APMs that the Group has focused on during the period are as follows:

Group worldwide sales:
Group worldwide sales are total International retail sales. Total Group revenue is a statutory number and is made up of receipts from International franchise partners, which includes royalty payments and the cost of goods dispatched to international franchise partners.

Constant currency sales:
The Group reports some financial measures on both a reported and constant currency basis. Sales in constant currency exclude the impact of movements in foreign exchange translation. The constant currency basis retranslates the previous year revenues at the average actual periodic exchange rates used in the current financial year. This measure is presented as a means of eliminating the effects of exchange rate fluctuations on the year on year reported results.

Profit/(loss) before adjusted items:
The Group's policy is to exclude items that are considered to be significant in both nature and/or quantum and where treatment as an adjusted item provides stakeholders with additional useful information to assess the year-on-year trading performance of the Group. On this basis, the following items were included within adjusted items for the 52-week period ended 26 March 2022:

• costs associated with restructuring and redundancies;

- movement on embedded derivatives in the shareholder warrants;
- historic claims received against a subsidiary of Mothercare UK Limited (in administration);
- movement on the expected outcome related to the administration of Mothercare UK Limited (in administration).

3. Segmental information

IFRS 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reported to the Group's executive decision makers (comprising the executive directors and operating board) in order to allocate resources to the segments and assess their performance. Under IFRS 8, the Group has not identified that its operations represent more than one operating segment.

The results of franchise partners are not reported separately, nor are resources allocated on a franchise partner by franchise partner basis, and therefore have not been identified to constitute separate operating segments.

Revenues are attributed to countries on the basis of the customer's location. The largest International customer represents approximately 24% (2021: 23%) of Group sales.

	52 weeks ended 26 March 2022 £ million	**52 weeks ended 27 March 2021 £ million**
Sale of goods to franchise partners	**59.9**	68.1
Royalties income	**22.6**	17.7
Total revenue	**82.5**	85.8

4. Adjusted items

The total adjusted items reported for the 52-week period ended 26 March 2021 is a net gain of £3.1 million (2021: £12.9 million cost). The adjustments made to reported profit before tax to arrive at adjusted profit are:

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Adjusted costs from continuing operations:		
Property related income / (costs) included in administrative expenses	**0.5**	(0.5)
Restructuring and reorganisation income / (costs) included in administrative expenses	**1.4**	(2.1)
Restructuring income / (costs) included in finance costs	**1.2**	(10.3)
Adjusted items before tax	**3.1**	(12.9)

Property related income / (costs) included in administrative expenses – £0.5 million (2021: £(0.5) million)

The current year income relates to credits arising from the settlement of the lease liability relating to a claim on a previous UK retail store.

The prior year charge included:

- £(0.3) million in relation to the Group's warehouse facility, which became vacant as a result of the cessation of the UK operations, which comprises £0.2 million of dilapidations cost and £0.1 million of loss on disposal, as the warehouse was assigned to a new tenant in March 2021 and the IFRS 16 asset and liability were disposed of.

- £(0.2) million in relation to settlement of a lease which reverted to Mothercare when the tenant went into administration.

Restructuring and reorganisation income / (costs) included in administrative expenses – £1.4 million (2021: £(2.1) million)

The current year income includes:

- £1.6 million credits arising in relation to the profit on disposal of Mothercare UK Limited business which went into administration. Of this £0.8 million relates to the true-up of the financial asset arising on the revolving capital facility, which was valued at the end of financial year 2021 based on the information available at the time, whilst assuming the worst-case outcome. The remaining £0.8 million relates to recovery of holding and handling costs incurred in liquidating stock owned by Mothercare UK Limited, these costs were expensed in previous years as there was no certainty of recovery of these.
- £(0.2) million provision to settle a legal claim received against a subsidiary.

The prior year charge included:

- £(1.3) million of legal and professional costs for the Group and also the pension funds in relation to the refinancing which took place and resulted in the raise of a loan for £19.5 million and the settlement of the revolving capital facility previously held by the Group.
- £(1.3) million of restructuring costs, comprising of legal and professional fees incurred in the transition of the Group from the FTSE to AIM stock exchange, and severance pay for roles no longer required as a result of the reduction in size of the Group.
- £1.4 million of credits arising in relation to the profit on disposal of Mothercare UK Limited business, which went into administration. Of this, £0.8 million relates to the true-up of the financial asset arising on the revolving capital facility, which was valued at the end of financial year 2020 based on the information available at the time, whilst assuming the worst-case outcome; and the remaining £0.6 million were amounts arising on tax adjustments.
- £(0.7) million of costs incurred on the relocation of the Group's head office.
- £(0.2) million of costs incurred on the implementation of a new ERP system for the Group; these are the amounts which were determined not to meet the conditions for capitalisation as they were part of the research stage of the project.

Restructuring income /(costs) included in finance costs – £1.2 million (2021: £(10.3) million)

The £1.2 million income relates to 15.0 million 12 pence warrants issued in prior year. The warrant options issued to the shareholders expired in March 2022 without the shareholders exercising the warrants. The prior year charge related to increases in the fair value of embedded derivatives relating to shareholder loans due to the uncertainty in the UK market. The shareholder loans converted to equity in March 2021 and were fair valued immediately prior to their transfer to share capital and share premium.

5. Net finance costs

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Interest and bank fees on bank loans and overdrafts	–	1.8

Other interest payable	**2.5**	6.2
Net interest expense on liabilities/return on assets on pension	**0.5**	–
Interest on lease liabilities	**0.1**	0.9
Fair value movement on embedded derivatives	**–**	9.1
Fair value movement on warrants	**(1.2)**	1.2
Interest payable	**1.9**	19.2
Net interest income on liabilities/return on assets on pension	**–**	(0.2)
Net finance costs/(income)	**1.9**	19.0

6. Taxation

The (credit) / charge for taxation on profit / (loss) for the period comprises:

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Current tax:		
Current year	**1.7**	0.9
Adjustment in respect of prior periods	**–**	(0.6)
	1.7	0.3

UK corporation tax is calculated at 19% (2021: 19%) of the estimated assessable profit for the period. The increase in the corporation tax rate from 19% to 25% was substantively enacted by the balance sheet date and will be effective from 1 April 2023. As a result, the relevant deferred tax balances have been remeasured. Deferred tax balances are expected to unwind after 1 April 2023. The impact of the change in tax rate has been recognised in tax expense in profit or loss, except to the extent that it relates to items previously recognised outside profit or loss.

Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The (credit) / charge for the period can be reconciled to the (loss)/profit for the period before taxation per the consolidated income statement as follows:

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Profit/(loss) for the period before taxation	**11.1**	(21.4)
Profit/(loss) for the period before taxation multiplied by the standard rate of corporation tax in the UK of 19% (2021: 19%)	**2.1**	(4.1)
Effects of:		
Expenses not deductible for tax purposes	**1.2**	0.1
Impact of difference in current and deferred tax rates	**0.1**	–
Income not taxable	**(1.0)**	–
Impact of overseas tax rates	**0.6**	0.9
Impact of overseas taxes expensed	**–**	(0.7)
Deferred tax recognized in other comprehensive income	**(3.1)**	–
Adjustment in respect of prior periods – current tax	**–**	(0.6)
Adjustment in respect of prior periods – deferred tax	**–**	(0.2)
Deferred tax not recognised/written off	**(0.9)**	4.7
(Credit)/charge for taxation on profit/(loss) for the period	**(1.0)**	0.1

7. Dividends

There was no final dividend for the period (2021: £nil) and no interim dividend was paid during the period (2021: £nil).

8. Earnings per share

	52 weeks ended 26 March 2022 million	52 weeks ended 27 March 2021 million
Weighted average number of shares in issue	**563.8**	379.0
Dilutive potential ordinary shares	**10.1**	–
Diluted weighted average number of shares	**573.9**	379.0
Number of shares at period end	**563.8**	563.8

	£ million	£ million
Profit/(loss) for basic and diluted earnings per share	**12.1**	(21.5)
Adjusted items (note 6)	**(3.1)**	12.9
Tax effect of above items	**–**	–
Adjusted profits / (losses) from continuing operations	**9.0**	(8.6)

	Pence	Pence
Basic earnings / (losses) per share	**1.6**	(5.7)
Basic adjusted earnings / (losses) per share	**2.1**	(2.3)
Diluted earnings / (losses) per share	**1.6**	(5.7)
Diluted adjusted earnings / (losses) per share	**2.1**	(2.3)

Analysis of shares by class	**26 March 2022 million**	27 March 2021 million
Ordinary shares at period end date	**563.8**	563.8
SAYE options	**3.7**	2.6
Value creation plan	**–**	0.4
LTIP options	**11.3**	10.7
Warrants	**–**	15.0
Total	**578.8**	592.5

Where there is a loss per share, the calculation has been based on the weighted average number of shares in issue, as the loss renders all potentially dilutive shares anti-dilutive.

9. Share Capital and Share Premium

On 12 March 2021, the Group's shares were transferred from the London Stock Exchange to instead be listed on AIM. Following this, on 17 March 2021, the shareholder loans – previously held within borrowings with the option to convert classified as a financial liability – converted to equity. The agreements entitled the shareholders to 189,644,132 ordinary 1 pence shares, giving rise to £1.9 million of share capital, £17.1 million of share premium and £9.5 million of distributable profits.

10. Notes to the cash flow statement

	52 weeks ended 26 March 2022 £ million	52 weeks ended 27 March 2021 £ million
Profit / (loss) from operations	**13.0**	(2.4)
Adjustments for:		
Depreciation of property, plant and equipment	**0.3**	0.3
Amortisation of right-of-use assets	**0.3**	1.5
Amortisation of intangible assets	**0.3**	0.2
Profit on sale of property, plant and equipment	**–**	(0.1)
(Loss) / gain on adjusted foreign currency movements	**(0.1)**	0.1

Equity-settled share-based payments	**0.5**	0.5
Movement in provisions	**(3.4)**	0.4
Net gain on financial derivative instruments	**(0.6)**	(0.8)
Payments to retirement benefit schemes	**(5.2)**	(4.5)
Charge to profit from operations in respect of retirement benefit schemes	**1.7**	3.4
Operating cash inflow / (outflow) before movement in working capital	**6.8**	(1.4)
Decrease in inventories	**3.8**	3.8
Decrease in receivables	**11.7**	0.9
Decrease in payables	**(12.9)**	(5.1)
Net cash inflow / (outflow) from operating activities	**9.4**	(1.8)
Income taxes paid	**(1.3)**	(0.8)
Net cash inflow / (outflow) from operating activities	**8.1**	(2.6)

Analysis of net debt

	27 March 2021 £ million	Cash flow £ million	Foreign exchange £ million	Other non–cash movements[1] £ million	**26 March 2022 £ million**
Term loan	(19.0)	–	–	(0.1)	**(19.1)**
Cash at bank	6.9	2.2	0.1	–	**9.2**
IFRS 16 lease liabilities	(1.4)	0.4	–	(0.1)	**(1.1)**
Net debt	(13.5)	2.6	0.1	(0.2)	**(11.0)**
Warrants	(1.2)	–	–	1.2	**–**
Net debt and financial liabilities	(14.7)	2.6	0.1	1.0	**(11.0)**

[1] Non-cash movements comprise

- Term loan - unwinding of £0.1 million of the facility fee charged on the term loan.
- Non-cash movements on IFRS 16 lease liabilities represents the of interest accrued on lease liabilities.
- Non-cash movements on the warrants represents the expiration of the warrant options issued to shareholders which were not exercised at year end.

The Group had outstanding borrowings at 26 March 2022 of £19.1 million (2021: £19.0 million).

In November 2020, the Group drew down on a four-year term loan of £19.5 million (£19.1 million net of prepaid facility fees) with Gordon Brothers. The loan is secured on the assets and shares of specific Group subsidiaries. Interest amounts payable on this facility are not materially sensitive to changes in LIBOR; the interest rate payable is 12% plus SONIA.

The Group also holds a financial asset of £0.2 million (2021: £2.6 million) reflecting the expected proceeds from the wind-down of the UK operations by the administrators of Mothercare UK Limited. The total expected repayment due is £0.2 million (2021: £2.6 million).

The Group held shareholder loans which converted to equity in March 2021, and therefore there are no outstanding amounts at the current financial period end.

11. Events after the balance sheet date

Refinancing of borrowing

In the first half of FY23 the group renegotiated its existing loan facility. The total amount available under the facility remained the same. The interest rate increased to 13% per annum plus SONIA, with SONIA not less than 1%, plus a 1% per annum compounded payment to be made when the loan is repaid. Previously the interest rate was 12% per annum plus SONIA with a floor of 1%. The repayment date has been extended from FY25 to FY26.

Cessation of Mothercare Business in Russia

Following the pausing of operations in Russia that we announced on 9 March 2022, on 27 June 2022 Mothercare terminated its license and supply agreements with its franchise partner in Russia given the numerous economic, logistical and business disruptions and the associated uncertainty and the detrimental impact on the Mothercare brand if operations resumed. With effect from that date the franchise partner has no right to operate any Mothercare branded stores in Russia. The impact of the termination on the future performance of the group has been outlined in the Chairman's review above.

Defined benefit scheme contributions

In order to support the new debt financing arrangements, the Trustees of the schemes agreed a further reduction in contributions after the balance sheet date. Details of these are provided in the financial and operational review above.