



Mothercare plc
Annual report
and accounts 2014
www.mothercareplc.com



Financial highlights

Worldwide network sales

(£m)

Mar-14	£1,191.5m
Mar-13	£1,185.1m ¹
Mar-12	£1,163.3m ¹

£1,191.5m + 0.5%¹

International sales

£729.2m + 6.4%¹

UK sales

£462.3m - 7.5%

Note 1: The above figures are on a comparable basis and exclude Australia and New Zealand for FY 2012/13 and FY 2011/12. Including Australia and New Zealand, Worldwide network sales were down 3.0%, International sales were up 0.1% and UK sales were down 7.5%.

Group sales

(£m)

Mar-14	£724.9m
Mar-13	£744.1m ³
Mar-12	£791.7m ³

£724.9m - 2.6%³

International sales

£262.6m + 7.5%³

UK sales

£462.3m - 7.5%

Note 3: The above figures are on a comparable basis and exclude Australia and New Zealand for FY 2012/13 and FY 2011/12. Including Australia and New Zealand, Group sales were down 3.3% compared to £749.4 million last year, International sales were up 5.2% compared to £249.7 million last year and UK sales were down 7.5% compared to £499.7 million last year.

Space across the world

(sq.ft.)

Mar-14	4,392.6k sq.ft.
Mar-13	4,152.5k sq.ft. ²
Mar-12	4,014.2k sq.ft. ²

4,392.6k sq.ft. + 5.8%²

Stores

1,441 + 8.8%²

International space

2,655.8k sq.ft. + 13.1%²

Stores

1,221 + 14.2%²

UK space

1,736.8k sq.ft. - 3.8%

Stores

220 - 13.7%

Note 2: The above figures are on a comparable basis and exclude Australia and New Zealand for FY 2012/13 and FY 2011/12. Including Australia and New Zealand, Space across the world was up 0.6%, International space was up 3.7% and UK space was down 3.8%.

Underlying profit/(loss) before tax

(£m)

Mar-14	£9.5m
Mar-13	£5.9m ⁵
Mar-12	-£1.3m ⁵

£9.5m + 61.0%

International operating profit

£45.3m + 7.6%⁴

UK operating loss

£21.5m reduced by 0.5%

Corporate expenses

£7.8m in line with last year

Note 4: The above figures include Australia and New Zealand for FY 2012/13 as the impact is not material.

Note 5: The above figures have been restated for the IAS19 impact. The statutory loss before tax after exceptional and non-underlying items is £26.3 million for FY 2013/14 compared to a loss of £23.9 million for FY 2012/13 and a loss of £105.8 million for FY 2011/12.

Our brands

Mothercare

At Mothercare, we aim to be the world's leading mother and baby specialist in the markets in which we operate. Our products are designed to meet the needs of mothers-to-be, babies and children up to the age of eight. Our product offering includes **Clothing** with children's ranges from entry price offering mums everyday value to the more premium Little Bird and Baby K ranges and Blooming Marvellous, our maternity range; **Home & Travel** which includes pushchairs, car seats, furniture, bedding, feeding and bathing equipment; and **Toys** mainly for babies. We sell our products through multi-channel retail and wholesale operations in the UK and through franchise operations across our International markets in Europe, the Middle East and Africa, Asia and Latin America.

Mothercare stores

UK – in town: 92

UK – OOT*: 97

International franchise stores: 819

*OOT = Out of town



Early Learning Centre

At Early Learning Centre, we aim to provide children up to the age of eight with toys that nurture and encourage learning through play. The range is mainly own brand and is designed and sourced through our facilities in Hong Kong. The Early Learning Centre range is sold through our multi-channel retail and wholesale operations in the UK and through franchise and wholesale operations across our International markets in Europe, the Middle East and Africa, Asia and Latin America.

Early Learning Centre stores

UK – in town: 31

UK – inserts in Mothercare stores: 128

Note: the figure above refers to 97 OOT Mothercare stores and 31 in town Mothercare stores.

International franchise stores: 402



Contents

Overview

01 Our brands

02 At a glance

04 Our mission

Strategic report

14 Chairman's statement

15 Strategic pillars

18 Business review

22 Divisional review

24 Financial review

28 KPIs – Financial and non-financial

30 Risks – Principal risks and uncertainties

34 Corporate responsibility

Governance

38 Board of directors

39 Executive committee

40 Corporate governance

47 Audit and Risk Committee

52 Nomination Committee

53 Directors' report

57 Remuneration report

Financial statements

83 Directors' responsibilities statement

84 Independent auditor's report to the members of Mothercare plc

88 Consolidated income statement

89 Consolidated statement of comprehensive income/(expense)

90 Consolidated balance sheet

91 Consolidated statement of changes in equity

92 Consolidated cash flow statement

93 Notes to the consolidated financial statements

Company financial statements

135 Company balance sheet

136 Notes to the company financial statements

139 Five-year record

140 Shareholder information

International

Our International business continues to deliver on its growth potential with space up 13.1%. Profits were up 7.6% at £45.3 million, despite a challenging year impacted by adverse currency moves.

- ▶ International retail sales in constant currencies were up 9.3% with currency devaluation of 2.8% and a wholesale reduction of 0.1% resulting in reported retail sales growth of 6.4% to £7292 million.
- ▶ Like-for-like sales were up 2.5% with all four regions making a positive contribution. Despite the increasing level of currency devaluation over the year, all four regions delivered positive reported retail sales growth.

Store sales

(£m)

Mar-14	£721.9m
Mar-13	£677.7m
Mar-12	£606.2m

£721.9m

International store sales up 6.5%

International now has 1,221 stores over 2.7m sq.ft. Mothercare accounts for 85% of space. Retail sales, through our franchise partners' stores were up 6.5% at 721.9 million excluding Australia and New Zealand and including them were up 0.1%. Our franchise partners' three-year rolling plans envisage double-digit space growth each year, giving us confidence in the future.

- ▶ Europe – 494 stores, 27 countries, space +8.6%
- ▶ Middle East and Africa – 327 stores, 13 countries, space +8.5%
- ▶ Asia – 352 stores, 12 countries, space +28.1%
- ▶ Latin America – 48 stores, 7 countries, space +15.0%

Direct

(£m)

n/a

More markets now with operational websites

Multi-channel is still in its infancy in most of the markets in which our franchise partners operate. Our scalable online platform capable of multiple languages and currencies is allowing our partners the opportunity to pioneer a multi-channel strategy in their territories. Our partners now have transactional websites in Kuwait, Indonesia, Ireland, Russia (both Mothercare and Early Learning Centre), Spain, China (on TMall) and India (Shoppers Stop). There is also a non-transactional website in Colombia. We will continue to work with our partners to launch transactional websites as their markets evolve and mature.

International sales



- Clothing 64%
- Home & Travel 21%
- Toys 15%

Wholesale

(£m)

Mar-14	£7.3m
Mar-13	£7.7m
Mar-12	£6.9m

£7.3m

International wholesale sales down 5.2%

We believe that there is an opportunity to grow our Early Learning Centre business through wholesale, but only in those markets where we do not already have a franchise agreement. This is still a small part of the overall business but we expect this area of our business to grow in the future.

All the above numbers for International exclude Australia and New Zealand for FY 2012/13 and FY 2011/12.

UK

UK losses were slightly reduced to £21.5 million with our Direct business returning to growth. Like-for-like sales growth, whilst down, was on an improving trend.

- Total UK sales were down 7.5% at £462.3 million, with like-for-like sales down 1.9% and gross margins down circa 200 basis points.
- Our goal remains to return the UK to profitability and we closed a further net 35 loss-making stores whilst also rationalising our cost base aimed at operating a lean retail business.

UK sales



Store sales

(£m)

Mar-14	£298.5m
Mar-13	£340.5m
Mar-12	£398.7m

£298.5m

UK store sales down 12.3%

We ended the year with 220 stores (189 Mothercare and 31 Early Learning Centre), closing a further 35 loss-making stores (seven Mothercare and 28 Early Learning Centre) thus reducing space by a further 3.8% year-on-year. We are predominantly closing standalone Early Learning Centre stores, which means the Mothercare format that includes Early Learning Centre shop-in-shops, is the larger of the two brands with 97% of the 1,737k sq.ft. we trade from in the UK. The reduction in space and the decline in like-for-like sales together contributed towards the 12.3% decline in stores sales to £298.5 million.

Direct

(£m)

Mar-14	£134.1m
Mar-13	£127.7m
Mar-12	£130.0m

£134.1m

UK direct sales up 5.0%

Total direct sales were up 5.0% at £134.1 million with Direct in Home up 5.9% at £99.3 million and Direct in Store up 2.7% at £34.8 million. The return to growth for our direct business is testament to the investment in terms of the online platform, customers' experience online and improved delivery options. Next day click-and-collect is now available across all our stores, is free to customers and accounts for a third of all our online orders.

Wholesale

(£m)

Mar-14	£29.7m
Mar-13	£31.5m
Mar-12	£31.3m

£29.7m

UK wholesale sales down 5.7%

UK wholesale sales were down 5.7% at £29.7 million. Miniclub, our strategic partnership with Boots, continues to perform well and grew sales. Although UK wholesale sales for ELC were disappointing last year, we expect this area of our business to grow in the future.

Our mission

Building for a stronger future

We are a Global company and our business structures and sourcing operations reflect this. Our products are designed to meet the needs of parents the world over. Our aim of being the world's leading mother and baby specialist can be achieved only if we keep in mind that we are a Global company and therefore our ranges, be it **Home & Travel**, **Clothing** or **Toys**, have been built to accommodate this. Over the next few pages we will aim to bring these themes to life.



We aim to be the world's leading mother and baby specialist, making life easier for families the world over by offering our customers value, choice, service and delivery both in store and online.

Our brands, Mothercare and Early Learning Centre, resonate strongly with families the world over and our presence in 60 countries is testament to the enduring strength of both brands. Our customers trust us to have the products that will enhance their experience of parenthood; catering to the needs of expectant mothers, babies and children up to the age of eight. Many of our customers turn to our staff for advice and our experienced and trained staff are well equipped to help them along their life-changing journeys.

We aim to build on these strengths in the years ahead. We have once again grown underlying profit before tax. International has delivered another year of growth, despite challenging market conditions. In the UK we have slightly reduced losses and recognise that we still have more to do.

International growth

In a year which experienced significant currency devaluation and some geo-political changes, our International business saw profit growth of 7.6%. This is testament to the underlying strength of our International business and the commitment of all our partners across all four of the regions in which we operate.

During the year we opened a further net 152 stores and increased space by 13.1% to 2.7 million sq.ft. and we continue to see further growth opportunities, which our partners plan to capitalise on.

UK rationalising cost base

In the UK, we closed a further net 35 loss-making stores and reduced space by 3.8% to 1.7 million sq.ft. while also reducing costs as planned. It is however not all about costs and closing stores. During the year, we invested in stores where the opportunity was clear and also opened two outlet stores that are helping with stock and margin management.

Overall losses in the UK were slightly reduced and following a disappointing peak trading period we recognise that there is still more to do to return the UK to profitability.



Global

See page [6](#) 

Home & Travel

See page [8](#) 

Clothing

See page [10](#) 

Toys

See page [12](#) 



Overview

Strategic report

Governance

Financial statements

Global Where we are

Our brands, both Mothercare and Early Learning Centre, are easily recognised the world over with new parents seeking out our stores at this most crucial point in their lives.

Number of countries

60

Mothercare sq.ft.

3.95 million

57% International; 43% UK

Early Learning Centre sq.ft.

0.45 million

88% International; 12% UK

Number of franchise partners

42

plus the UK with own stores

A world map with countries colored in blue or grey. Blue indicates the presence of franchise stores, while grey indicates the presence of own stores. The map shows a high density of blue-colored countries across Europe, Asia, and parts of Africa and South America. Grey-colored countries are also present in these regions, as well as in North America and Australia.

● Franchise stores
● Own stores



Ireland Carrick Mines

6,515 sq.ft.
Out of town

The first franchise store was opened on St. Stephens Green in Dublin in 1991. Our partner now has eight out-of-town and 11 high street stores in Ireland and will soon be migrating their online platform to include a wider product range.



UAE Mirdiff Centre

8,525 sq.ft.
Mall

The Alghurair store was opened in 1985. There are now 44 Mothercare mainly mall stores and 45 Early Learning Centre stores in the UAE. An online platform is planned for early 2015.



Increasingly global business

At the end of the year we had 1,441 (1,221 International franchise stores and 220 UK) stores in 60 countries. Space grew by 5.8% with our International partners increasing space by 13.1% offset by a reduction of 3.8% in the UK. This continuing shift in space is also reflected in retail sales. International retail sales were up 6.4% at £729.2 million and now account for 61.2% of worldwide network sales. Sales in the UK were £462.3 million, down 75%, reflecting the reduction in space.

Variety of store formats to meet customer needs

As in the UK, our International partners use a variety of store formats to serve the needs of their customers. This varies from the smaller shop-in-shop format to a mid-sized high street store to the larger OOT (out of town) or large store in a mall. We work with our partners to determine the best format for any particular location.

Our product is also carefully designed to meet the needs of our customers across all the markets in which we operate.

China Wanfujing

1,700 sq.ft.
Shop-in-shop

The first franchise store was opened in China in 2008 and there are now 54 mall format stores and 13 shop-in-shops in department stores. A small selection of ELC toys are ranged in 45 out of 67 stores in this market.



Azerbaijan

3,100 sq.ft.
High Street

Our first franchise store was opened in 2005 in Baku on Fountain Square. There are now three high street and two mall stores in Azerbaijan where Mothercare is proving to be very popular.



Home & Travel In & Out

Room sets to buggy systems...

Over the last year we have improved our product displays. We have introduced room sets to showcase our furniture and bedding ranges and worked alongside key pushchair manufacturers to ensure better display of our product.

Bugaboo

Bugaboo was able to give us exclusivity on the Cameleon Navy pushchair for a seven week period. It proved very popular with our customers, selling three times the expected volume for the period.



Little Beep Beep Mobile

The Little Beep Beep Mobile soothes baby to sleep with a sweet lullaby and gentle rotating toys. This mobile coordinates with the cute Little Beep Beep range to create a gorgeous and colourful nursery.



New Padstow furniture range

We introduced our new Padstow range into stores in December 2013. It is a versatile range made of solid wood and has been a great success with customers looking for furniture that will last the test of time.



Room sets help drive sales

In December 2013, we introduced room sets to our largest stores in the UK. They have successfully brought together the display of our new furniture and bedding ranges. This has made it easier for customers to visualise how the product might look in their homes and has resulted in a healthy uplift in sales.



Improved product displays for branded goods

We are the most important route to market for many of our branded goods suppliers. Customers like to come into stores to look over big-ticket items before they buy. We have worked with our largest suppliers to introduce better display fixtures and improve the level of expertise and service of our store colleagues. The result is improved visual displays, more knowledgeable staff and ultimately improved sell-through rates.



Clothing

Practical style

Maternity to value essentials...

Our clothing ranges from maternity, through to newborn and children to eight years have done well as customers have responded positively to the improved fashion and value. Our hard work over the last two years is beginning to come through as evidenced by volumes sold.

Blooming Marvellous

The relaunched Blooming Marvellous maternity range with a younger, more fashionable range at lower retail prices has resonated with customers. Our jeans, nursing tops, dresses and swimwear that are comfortable, fit well and flatter are proving to be a success with mums.



Boys ranges

Our boys ranges have responded particularly well to the improved value and updated designs that are now making their way into stores. Mums are looking for practical clothing suitable for rough and tumble and our ranges meet these needs.



Improved store formats

We refitted 11 stores during the year. Our clothing ranges have benefited from the improved lighting, displays and ranges and the results are coming through in volumes sold.

In January, we rebranded an Early Learning Centre store in White City, London to the Mothercare format with mainly clothing and a small, focused Home & Travel range. The uplift in sales has been encouraging and we are trialling a further three such stores.



Stars and Dreams

The newly introduced premium priced Stars and Dreams range for newborn babies has performed well as a gifting option.

Toys

Playful learning

Early Learning Centre encourages learning through play. Over the last few years we have been investing in ranges that encourage logical thought and dexterity through touch, textures and shapes.

Shape sorter

Children learn through interactive play and we aim to provide parents with the best tools to do so. Our shape sorter is robust, colourful, with varied shapes that keeps the interest of toddlers for hours on end.



First gadgets set

Children like to emulate their parents and 'my first gadgets set' is just the toy for role playing. It combines sound with light and texture to keep children engaged for hours.



Toy Box range

The Toy Box range was widened and introduced in time for peak trading. It proved popular over Christmas, as it was particularly interesting for toddlers grappling with dexterity and the price points are attractive.

Renewed investment in product development

We have over the last few years invested in product. Over a third of all our ranges are new for the season. This means that we are always ensuring parents have something new for their children while also allowing us to offer products that are not easily available elsewhere on the high street.

In the UK we have been closing stores, but the Early Learning Centre continues to have a place. The brand performs extremely well in the shop-in-shop formats which are located in our larger Mothercare stores. These shop-in-shops have play areas that allow children to explore in a relaxed atmosphere.