



mothercare

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preliminary results 22 May 2003

# Ian Peacock

## Chairman



# Agenda

- Introduction Ian Peacock
- Stabilisation Ben Gordon
- Financials Steven Glew
- Delivering the turnaround Ben Gordon
- Questions and answers

# Results summary

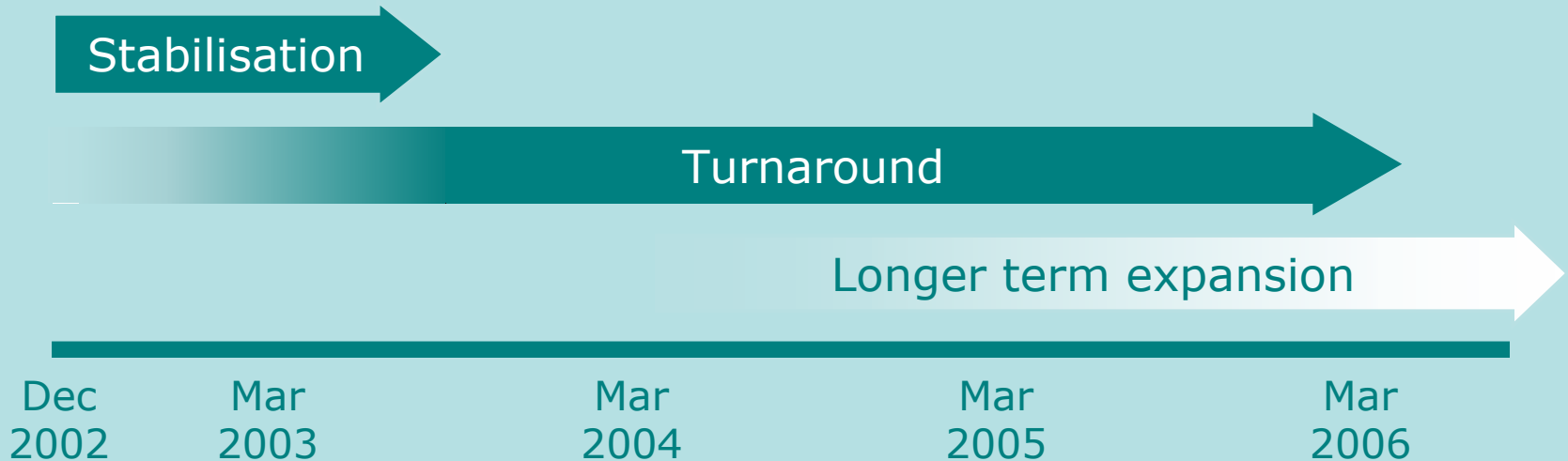
- Group sales up 1.1% to £431.7m
- Adjusted operating loss of £10.4m
- Exceptional charges and one-off items of £14.5m
- Operating cash inflow £8.3m
- Encouraging current trading
  - Like-for-like sales up 2.8%

# Ben Gordon

## Chief Executive



# The recovery programme



- **Distribution**
- **Cash**
- **Trading**

# Stabilisation - Distribution

- Appointment of Colin Astbury, Logistics Director
- Productivity measures and targets
- Warehouse staff reduced by over 100
- New warehouse layout

# Stabilisation - Distribution

- Availability up 10%
- Zero pick rate reduced from 25% to 1%
- Costs (% of sales) reduced from 8.1% to 7.0%



Decision to remain at Daventry



# Stabilisation - Cash

Net cash position (£m)



# Stabilisation - Cash

- Effective cash management and forecasting
- Renegotiated terms with suppliers
- Improved debtor control
- Tighter cash control

# Stabilisation - Cash

Net cash position (£m)



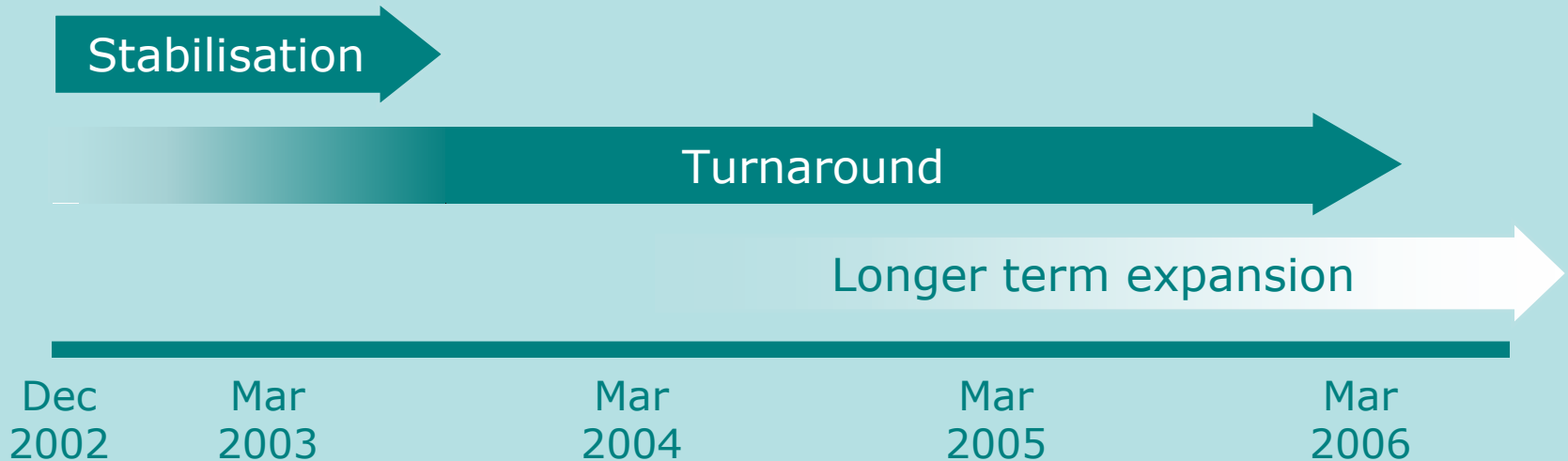
# Stabilisation - Trading



- Availability on top lines
- Full price trading
- Chasing best sellers
- Narrower ranges

Improved current trading  
LFL UK sales up 2.8%

# The recovery programme



- **Distribution**
- **Cash**
- **Trading**

# Steven Glew

## Finance Director



# Financial agenda

- Financial planning
- Cash management
- Bank funding
- Year end
- Cost base

# Profit and loss statement

	2002 / 2003	2001 / 2002
£m	Total	Total
Sales	431.7	426.9
Adjusted loss	(10.4)	3.0
One-off/exceptional	(12.1)	-
Operating (loss)/profit	(22.5)	3.0
Exceptional	(2.4)	(4.1)
Interest	0.1	1.2
(Loss)/profit before tax	(24.8)	0.1
Tax	10.0	-
(Loss)/profit after tax	(14.8)	0.1



# Adjusted operating loss

	£m	Cash element £m	
		2003	2004
Adjusted operating loss	(10.4)		
One-off adjustments	(9.3)	(1.0)	(0.7)
Operating exceptionals	(2.8)	(2.0)	(0.8)
Exceptional items	(2.4)	0.8	(2.7)
		(2.2)	(4.2)
Loss before interest & tax	<u>(24.9)</u>		

# Adjustments to operating loss

	£m
Pensions	3.0
Fixed asset impairment	2.5
Clearance stock	1.7
Business stabilisation costs	1.1
Other	1.0
<b>Total</b>	<b>9.3</b>

# Exceptional items

	£m
Operating exceptionals	
Redundancy costs	2.0
Distribution	0.8
Total	2.8

Exceptional items	
Loss on disposal of stores	2.4
Total	2.4

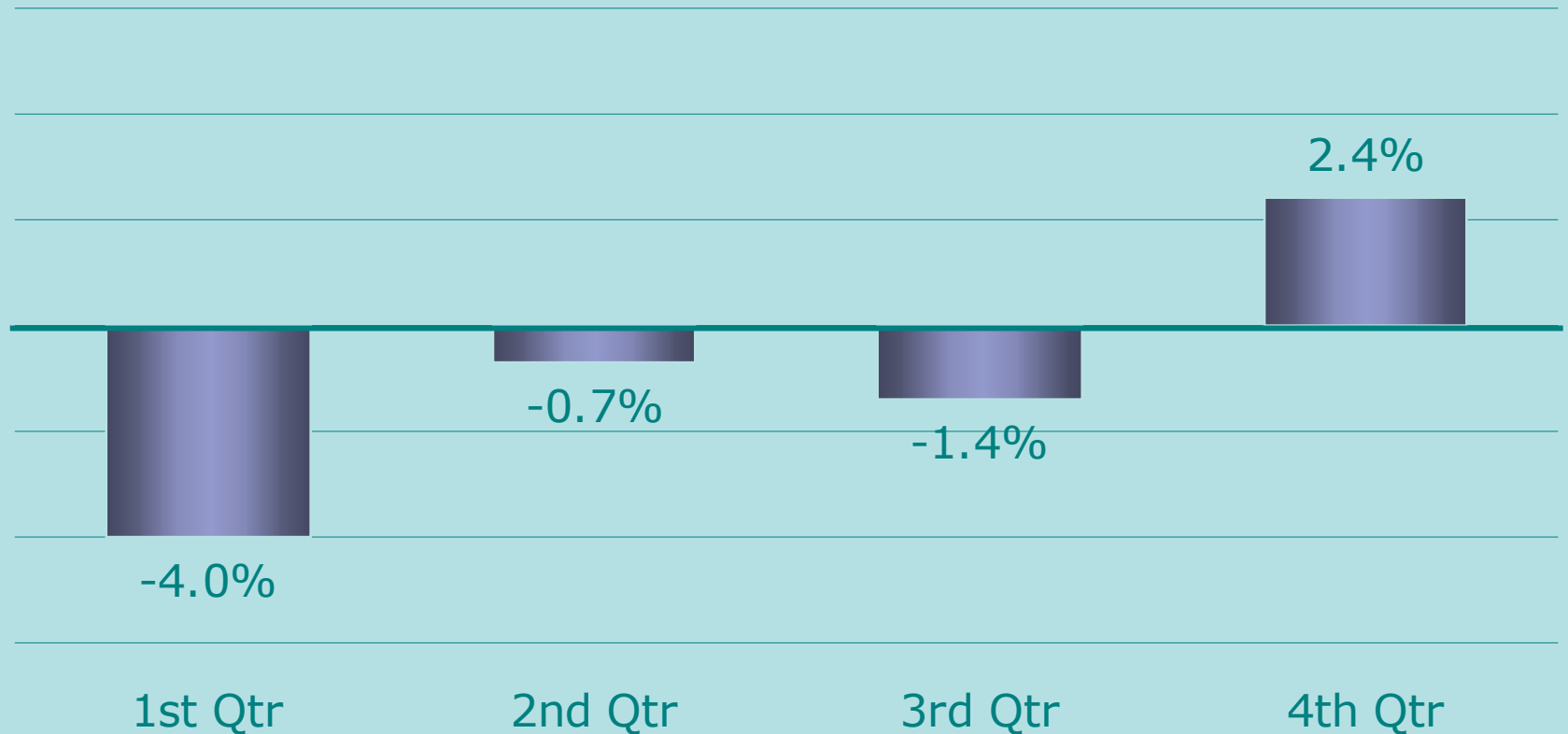
# Loss reconciliation

	£m
Adjusted operating loss	(10.4)
Improved trading February / March	1.1
Previously reported restructuring costs	1.1
Distribution costs in stock	(0.6)
Expected loss (January 2003)	(12.0)

# Sales

	Channel (decrease)/increase 02/03 vs 01/02
Like for like	(1.0)%
New space	1.7 %
Closures	(2.1)%
UK stores	(1.4)%
Direct	21.9 %
Total UK	(0.7)%
International	19.0 %
Total	1.1 %

# UK Sales - Like for like trend



# Achieved gross margin %

%	02/03	01/02	Increase / (decrease)
Achieved gross margin	41.8	41.6	0.2
First half	41.0	41.8	(0.8)
Second half	42.7	41.4	1.3
Total	41.8	41.6	0.2
Underlying gross margin	42.0	41.3	0.7
First half	41.0	41.8	(0.8)
Second half	43.2	40.7	2.5
Total	42.0	41.3	0.7

# Operating costs

	02/03	%	01/02	%	increase
Operating cost (excluding adjustments)	190.9	44.2%	174.7	40.9%	9.3%

of which:

Distribution	35.1	8.1%	24.3	5.7%	44.5%
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# Sales & profit by channel

(Before interest, tax, exceptionals and adjustments)

Channel	Sales			Underlying (loss) / profit	
	£m	02/03	01/02	Growth %	
UK stores	369.3	374.7	(1.4)	(15.9)	(1.0)
Direct	16.2	13.3	21.9	0.7	0.0
International	46.2	38.9	19.0	4.8	4.0
Total	431.7	426.9	1.1	(10.4)	3.0

# Direct

- Sales up 22% to £16.2m
- Operating profit £0.7m
- Active customers up 16%
- Home delivery and range extension platform

# International

- Sales up 19% to £46.2m
- Operating profit up 20% to £4.8m
- 174 franchise stores open
- 20 franchise stores to open this year
- Like for like franchise sales up 5%

# Balance sheet

£m	29 March 03	30 March 02
Fixed assets		
Tangible fixed assets	85.6	88.6
Investments	4.9	5.0
	90.5	93.6
Other net assets		
Stock	48.0	55.1
Debtors	25.6	35.2
Cash at bank and on hand	7.7	12.3
Creditors and provisions	(61.2)	(70.8)
Net assets	110.6	125.4

# Capital expenditure

£m	2003–2006
High Street refit	15
Other store spend	5
Total store capex	20
Systems	15
Other	7
Total capex	42

£m	03/04	04/05	05/06
Estimated phasing	12	15	15

# Cashflow

£m	02/03	01/02
(Loss) / profit	(19.7)	3.0
Depreciation	14.3	11.6
Working capital	17.5	(11.5)
Exceptional costs	(3.8)	(13.6)
Total operating inflow / (outflow)	8.3	(10.5)
Capital expenditure	(13.4)	(10.7)
Sales of fixed assets	1.4	-
Interest	0.1	1.2
Taxation	-	(0.1)
Dividend	(1.0)	(1.7)
Acquisition of shares	-	(0.7)
Total outflow	(12.9)	(12.0)
Cashflow	(4.6)	(22.5)

# Pensions

- Estimated actuarial valuation
- Estimated 100% funded
- FRS 17 deficit - £32m (£22m net of tax)
- Company pension cash contributions increased to £2m from £1.5m

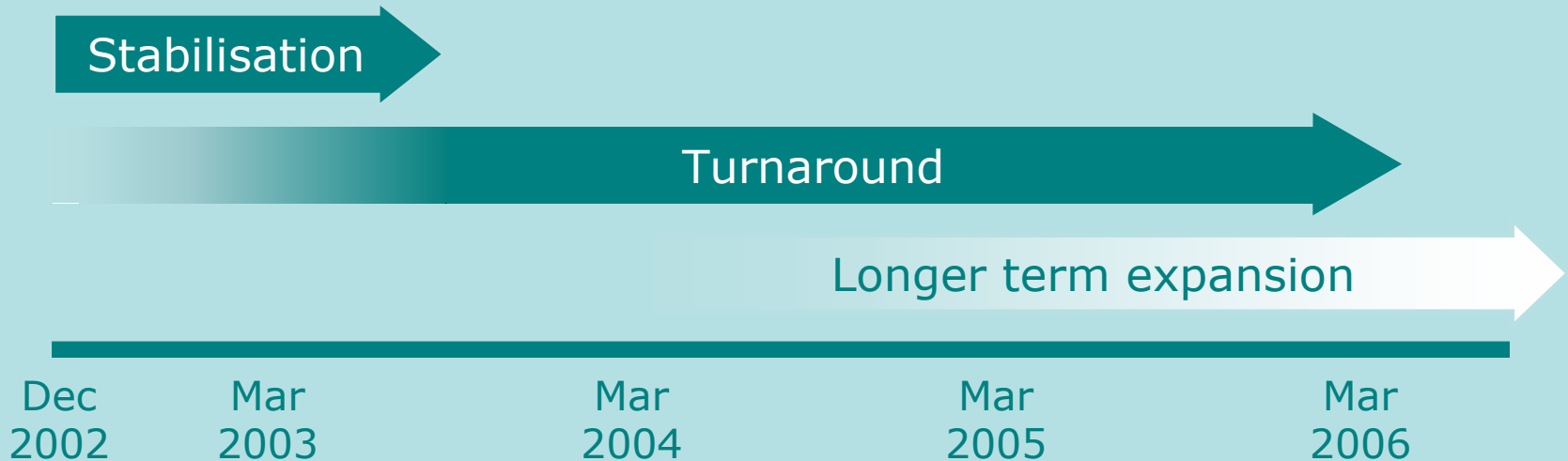
# Ben Gordon

## Chief Executive





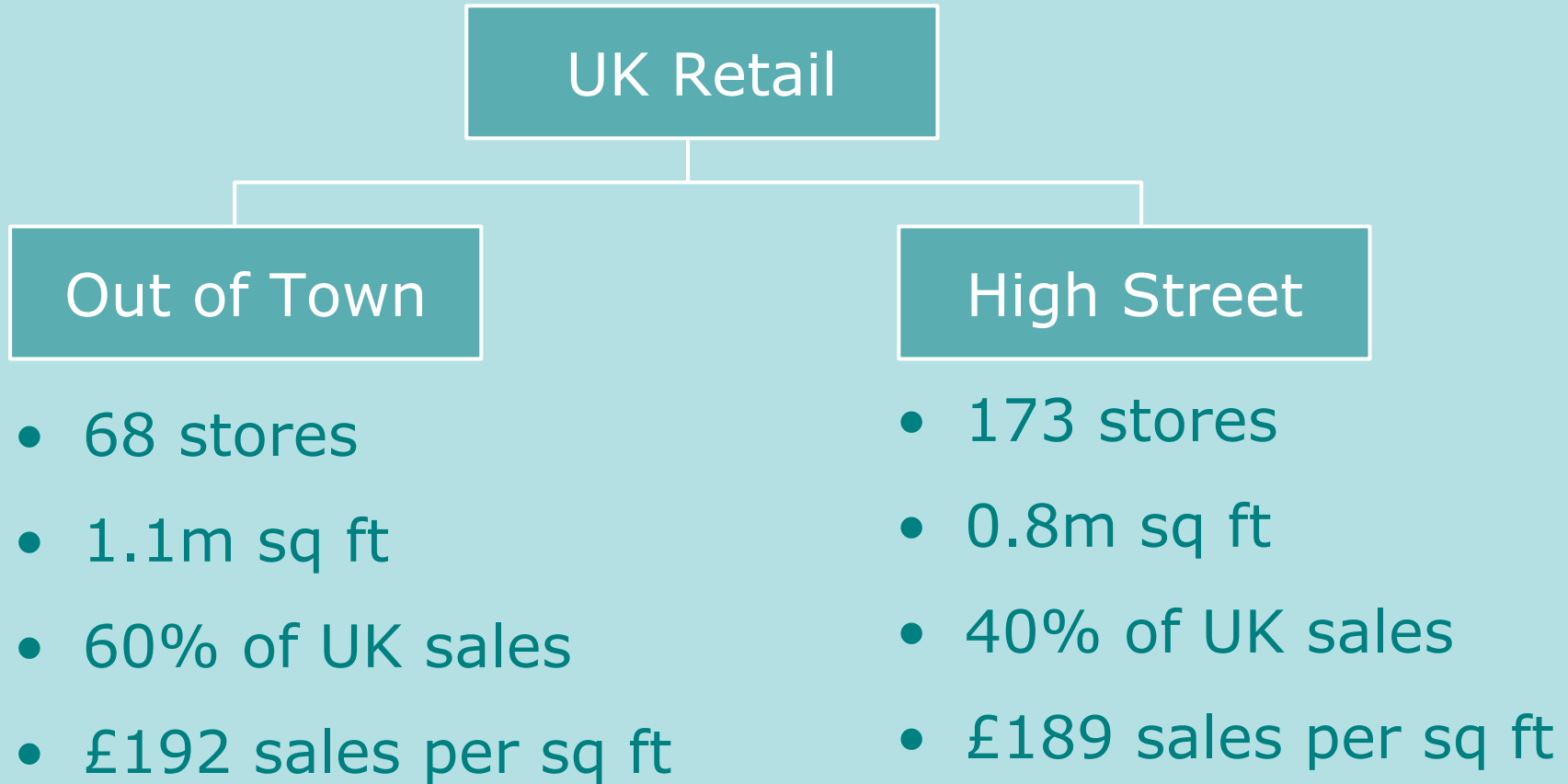
# The recovery programme



- Distribution
- Cash
- Trading

- **Store proposition**
- **Product & Sourcing**
- **Supply chain**
- **Customer service**
- **Infrastructure**

# Turnaround – Store proposition



# Turnaround – Store proposition

## High Street

- Wrong product mix
- Weak visual merchandising
- Tired shopping environment
- Operating in highly competitive environment



Two new store propositions

# Turnaround – Store proposition

## **Mother & Baby**

- Mothers-to-be and babies up to 2 years
- Maternity and clothing
- Nursery and bedding
- Travel best sellers

# Turnaround – Store proposition: Mother & Baby



# Turnaround – Store proposition

## **Mothercare Lite**

- Targeting 0-8 years
- 60% of floor space allocated to clothing
- Full clothing range
- Selected home travel and toys



# Turnaround – Store proposition: Mothercare Lite



mothercare

# Turnaround – Store proposition

- Positive customer reaction
- Performance ahead of chain
- Full evaluation
- Second trial phase in Summer 2003
- Roll-out in Spring 2004
- Update on plans in November 2003



# Turnaround

## Store environment



# Turnaround – Store environment

£15

per sq ft

- New flooring
- Paint and decoration
- Some fixtures
- Direct in-store point
- Some new POS

£25

per sq ft



- New fixtures wherever appropriate
- Lighting upgrade
- Some new till points / features

£50

per sq ft



- Structural change where necessary
- New lighting scheme throughout
- Many new fixtures, features etc...

# Turnaround – Store environment



Before re-fit



After re-fit

# Turnaround – Out-of-Town stores



# Turnaround – Out-of-Town stores

- Important part of the business
- Performing well
- No immediate investment plans
- Company wide initiatives will benefit Out-of-Town stores



# Turnaround

## Product & Sourcing



# Turnaround – Product

## Issues

- Design
- Quality
- Complex ranging
- Price not value

# Turnaround – Product



High quality basics, contemporary and premium



# Turnaround – Product

Improving design

30% reduction  
in SKUs

Buying best sellers in  
50% greater depth



# Turnaround – Product

## New Head of Quality

- Supplier review
- Specification checks
- Improving quality in Travel

# Turnaround – Sourcing

- Establishing long term partnerships
- 10% reduction in suppliers to date
- Increase direct sourcing

Improved margins

# Turnaround Supply chain



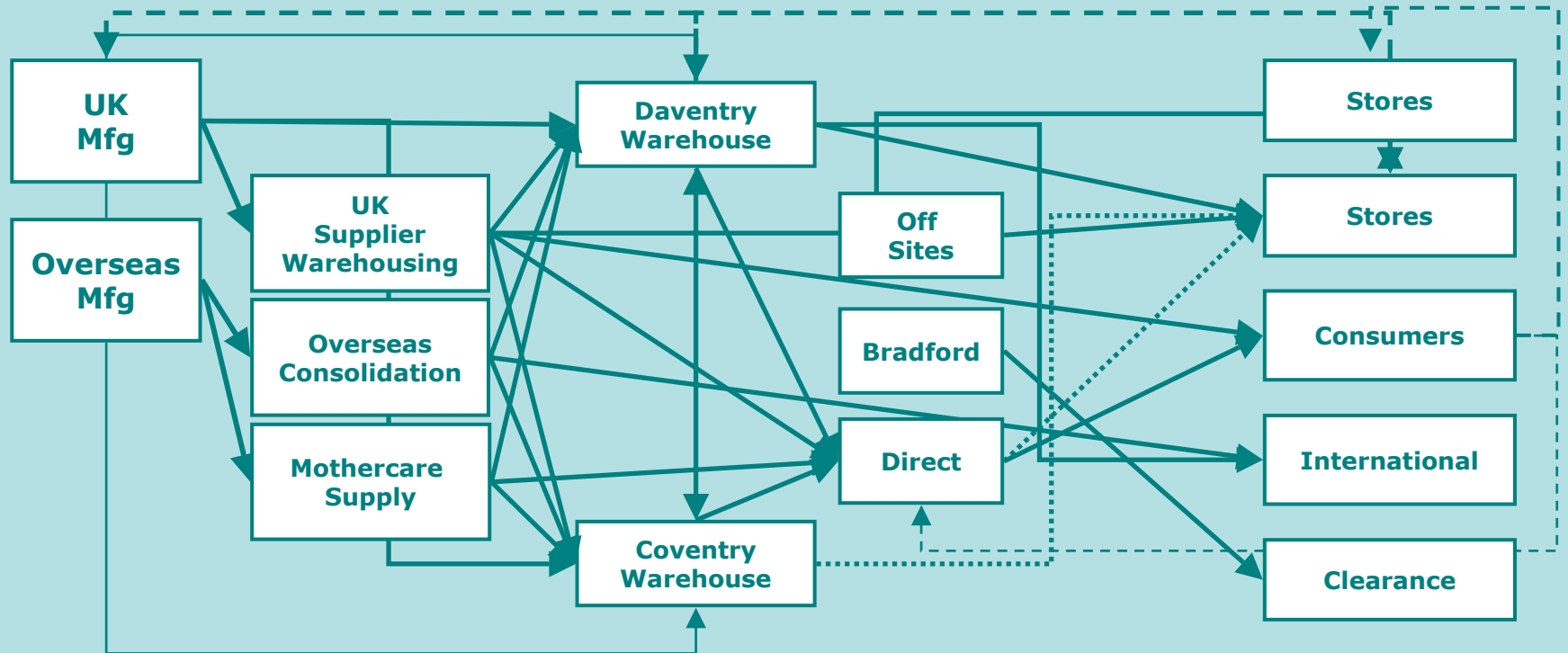
# Turnaround – Supply chain

## Issues

- Distribution costs
- Availability
- Too much stock
- Poor data accuracy

# Turnaround – Supply chain

## Current supply chain



# Turnaround – Supply chain

- Best route from supplier to store by product category
- Design optimal supply chain and warehouse
- Overhaul processes and systems

# Turnaround

## Customer service





# Turnaround – Customer service

Best stores  
excellent

Worst need  
urgent attention

Need greater  
consistency



# Turnaround – Customer service

- 38% of time spent facing the customer
- Initiatives to release more time
- Training programme
- More effective measurement

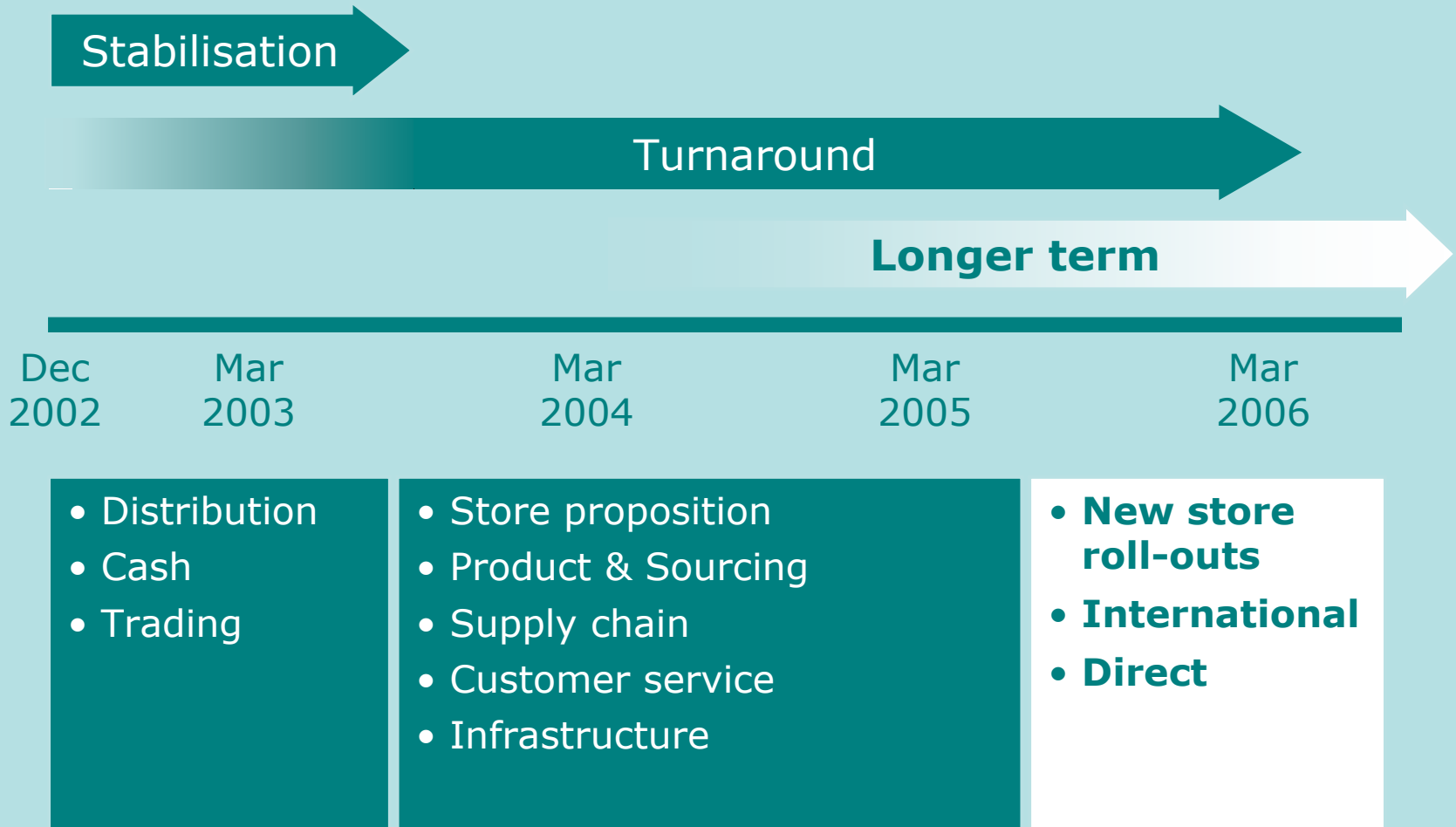
# Turnaround Infrastructure



# Turnaround – Infrastructure

- Investing in new systems
  - EPOS
  - Merchandising
  - Central systems
- Improved data accuracy
- Retail disciplines

# The recovery programme



# Longer term

- Expansion of UK store portfolio
- Grow international business
- Drive potential of Mothercare Direct

# Summary

- Business now stable
- Clear turnaround programme
- Full benefits to be realised in 3 years
- Good progress underway
- Encouraging current trading