



**mothercare**

**Preliminary Results**

**May 22, 2008**



Ben Gordon

Chief Executive

# Transformational year



- Highly successful year for Mothercare Group
  - Strategic acquisition of ELC
  - Progress in sales, margins and profit, in the UK and Internationally
- Underlying profits up 70.8% to £38.6m
- Multi-channel strategy delivering
- International growth continues
- ELC integration
  - Benefits greater than and ahead of plan

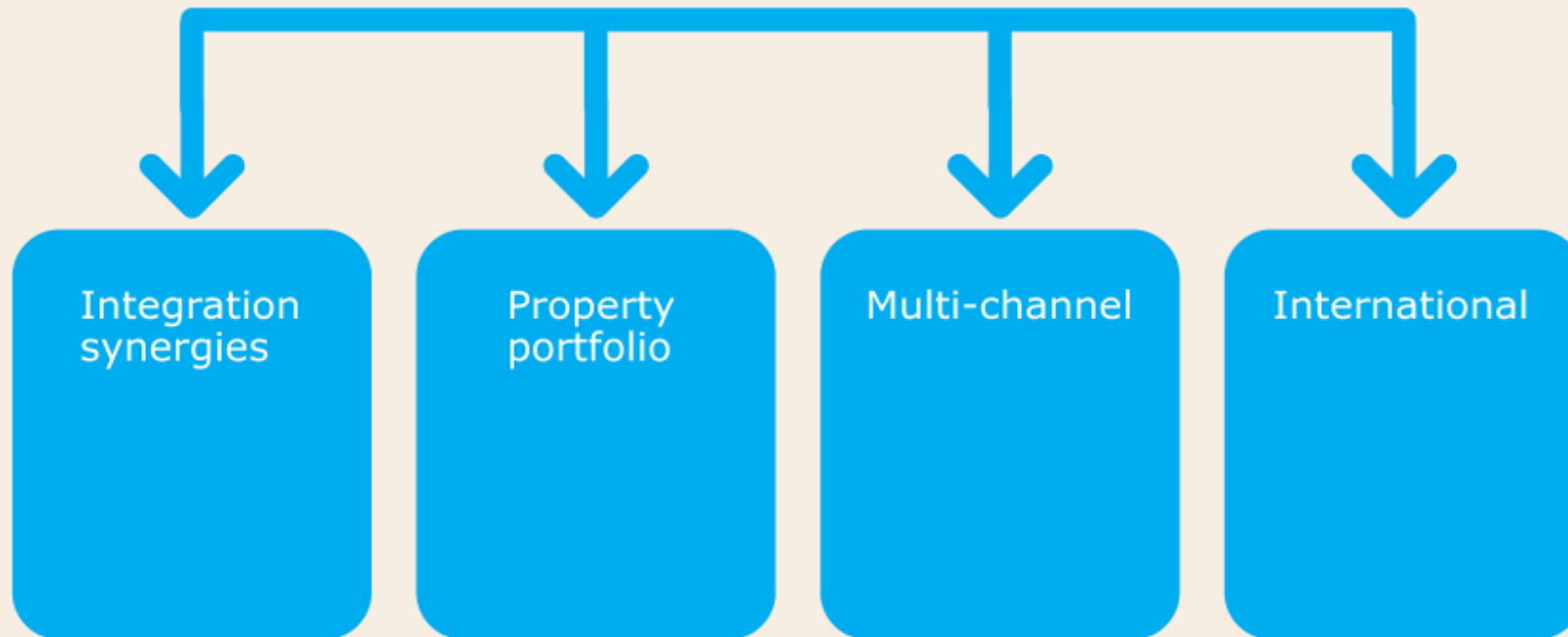
# Mothercare Group growth strategy



**TWO  
BRANDS**



## FOUR LEVERS FOR GROWTH





Neil Harrington

Finance Director

# Introduction

- UK LFL sales +2.9%
- 70 bps improvement in UK gross margin
- International franchisee sales +27.5%; franchisee LFL sales +12.0%
- Underlying profit before tax up 70.8% to £38.6m
- Strong cash generation; year end cash £22.7m
- Dividend +20.0% to 12.0 pence

# First time contribution from ELC

- Statutory results include ELC from 19 June 2007
- Underlying statutory EBITA £4.1m better than proforma EBITA, due to ELC pre-acquisition losses
- Key financials also prepared on a 'proforma' basis (assuming ELC owned for all of 07/08 and 06/07)
- Presentation commences with 'statutory' results but focuses on 'proforma' results



# Income statement – statutory basis

	07/08 £m	06/07 £m	
Revenue	676.8	498.5	+35.8%
<b>Underlying profit from retail operations</b>	<b>38.5</b>	<b>21.0</b>	<b>+83.3%</b>
Financing	0.1	1.6	
<b>Underlying profit before tax</b>	<b>38.6</b>	<b>22.6</b>	<b>+70.8%</b>
Exceptional items	(35.2)	(2.4)	
Other non-underlying items	1.1	(1.3)	
<b>Profit before tax</b>	<b>4.5</b>	<b>18.9</b>	<b>-76.2%</b>



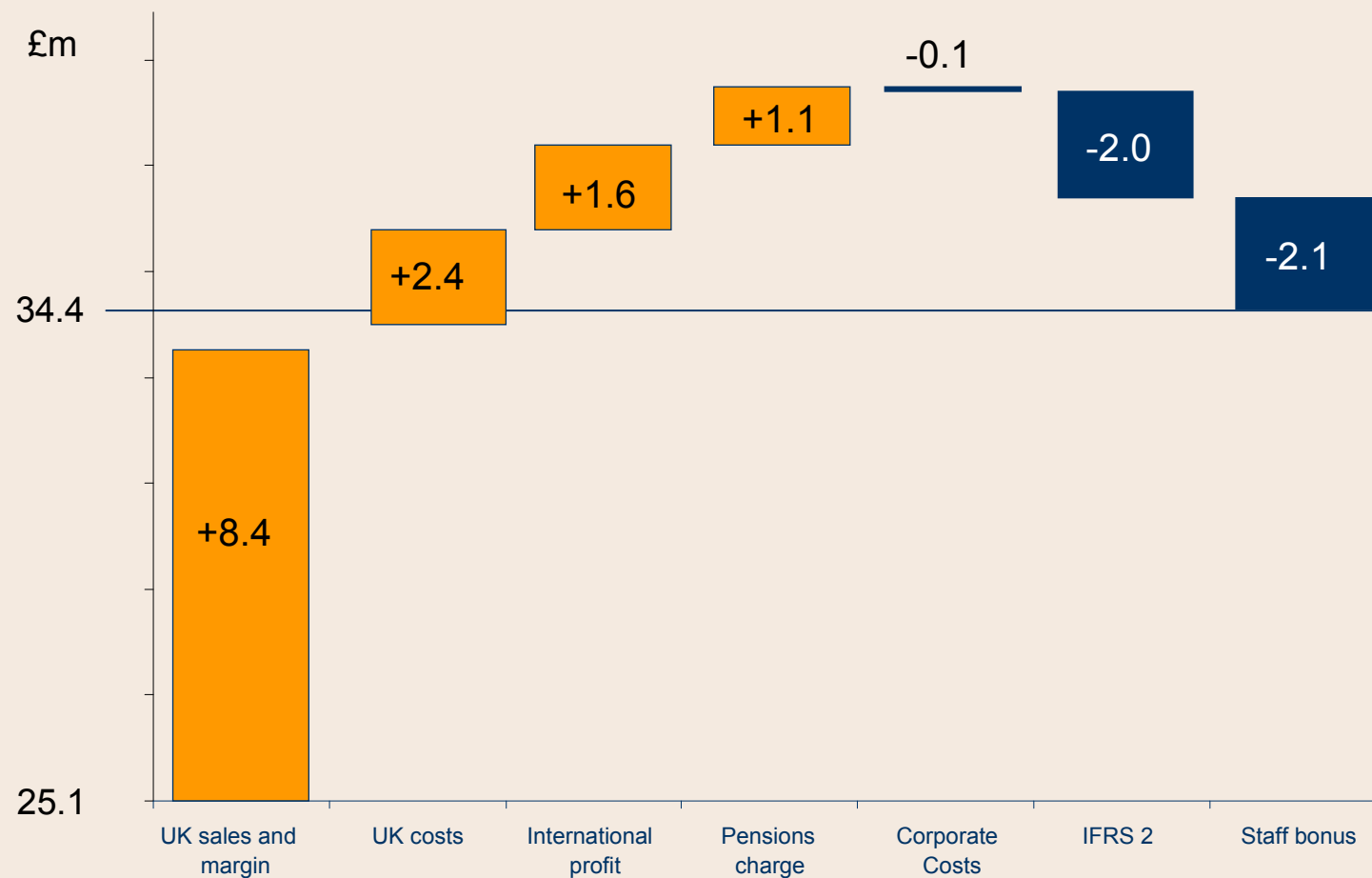
# Financial highlights – proforma basis

- Group sales +3.6% to £703.6m
- UK LFL sales +2.9%
- Total Direct sales +28.6% to £85.5million
- UK gross margin +70 basis points
- UK underlying profit +29.2% to £34.5m
- International underlying profit +20.5% to £9.4m
- Group underlying profit +42.9% to £33.0m

# Income statement – proforma basis

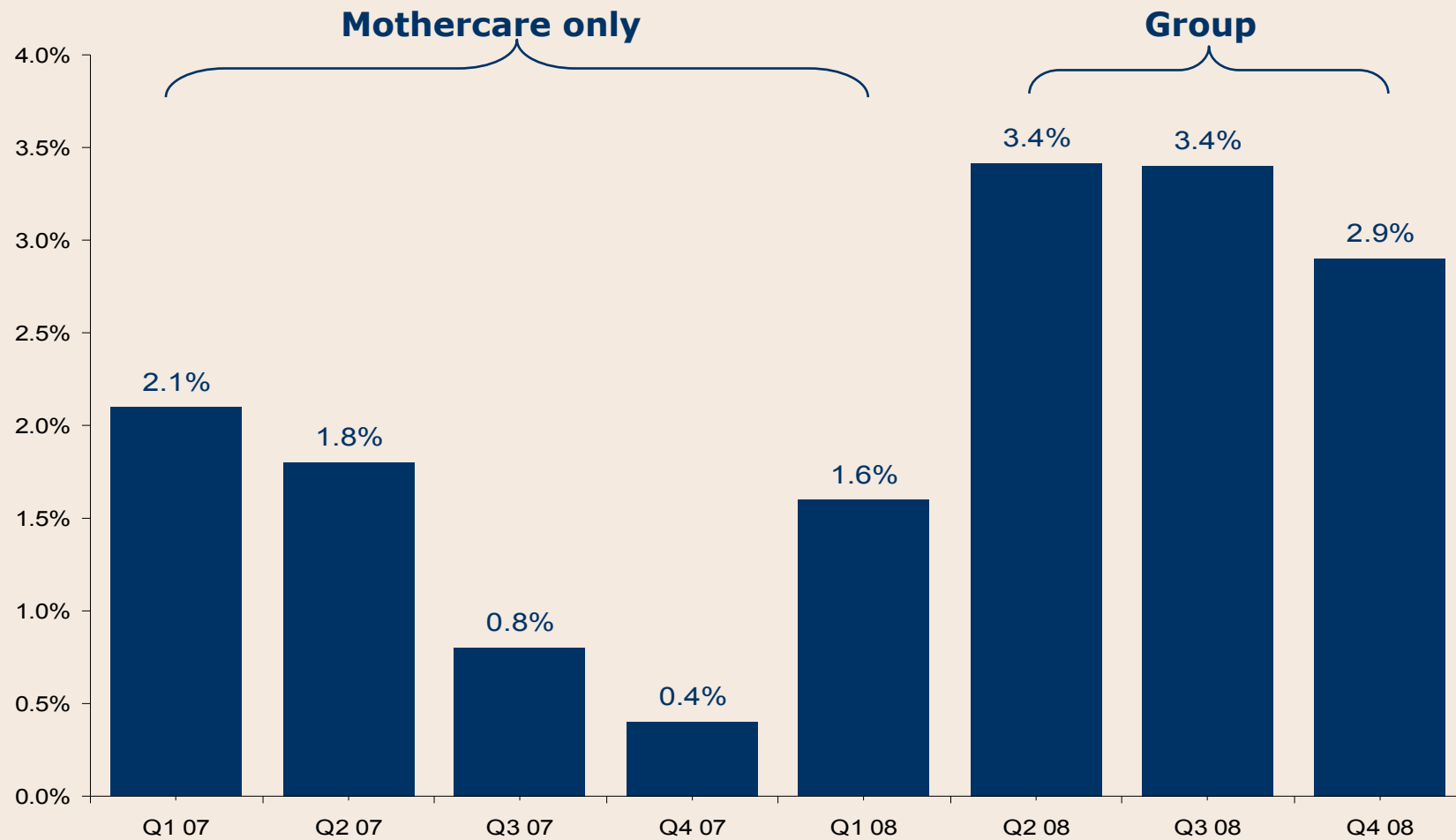
	07/08 £m	06/07 £m	
Revenue	703.6	679.0	+3.6%
<b>Profit from retail operations</b>	<b>34.4</b>	<b>25.1</b>	<b>+37.1%</b>
Financing	(1.4)	(2.0)	
<b>Underlying profit before tax</b>	<b>33.0</b>	<b>23.1</b>	<b>+42.9%</b>
Exceptional items	(36.1)	(3.4)	
Other non-underlying items	0.5	(4.2)	
<b>Profit before tax</b>	<b>(2.6)</b>	<b>15.5</b>	
Underlying EPS – basic	28.5p	20.6p	+38.3%

# £9.3m growth in profit from retail operations



- Proforma basis

# Momentum in UK LFL sales



- Including Direct

# Underlying growth in UK and International

## Revenue £m

	07/08	06/07	%
UK	587.3	578.2	+1.6 %
International	116.3	100.8	+15.4 %
	703.6	679.0	+3.6 %

## Underlying Profit £m

	07/08	06/07	%
UK	34.5	26.7	+29.2 %
International	9.4	7.8	+20.5 %
Corporate	(9.5)	(9.4)	+1.1 %
Financing	(1.4)	(2.0)	-30.0 %
	33.0	23.1	+42.9 %

- Proforma basis

# Integration of Early Learning Centre

- Integration benefits greater and ahead of schedule
- Now opening 80 ELC inserts in time for Christmas trading 2008 and moving ELC DC
- Benefits achieved 07/08 £2.0m - previous estimate £1.0m
- New estimate 08/09 £6.0m – previous estimate £3.0m
- New estimate 09/10 > £10.0m (= £12.0m cash) – previous estimate > £8.0m

# Integration exceptional costs

- £18.8m exceptional charge £14.5m cash; £4.3m non-cash
- £5.2m spent, £13.6m provided;
  - ELC inserts in Mothercare stores
  - restructuring of ELC London and Swindon Head Offices
  - integration of all shared functions, including redundancy
  - move of ELC DC Swindon to Daventry
  - realignment of International franchise agreements
  - programme/project management and consulting costs
- £5.0m integration capex



# Property restructure - rationale

- Strategic opportunity through ELC acquisition
- Track record of rightsizing
- Improve chain dynamics
  - Focus on sales per square foot
  - Reduce operational gearing
- Shift from In Town to Out of Town

# Property restructure – key elements

- Acquisition of ELC – opportunity to accelerate and optimise combined portfolio through:
  - Accelerating the existing Mothercare rightsizing programme
  - Closing low contribution stores, by consolidating both brands into one store (2 into 1)
  - Rolling out new OOT format
  - Shifting the focus from In Town to Out of Town (63 IT closures, 18 OOT openings)

# Reshaping the portfolio

	<b>OOT Openings</b>	<b>IT Closures</b>	<b>Downsize</b>	<b>Total stores impacted</b>
Rightsizing				
- Resites	15	15	-	30 <sup>(1)</sup>
- Downsizes	-	-	9	9
2 into 1	-	17	-	17
Closures	-	31	-	31
New stores	3	-	-	3
	<b>18</b>	<b>63</b>	<b>9</b>	<b>90</b>
New ELC inserts				40
New OOT refits				15
				<b>145</b>

(1) 15 resites = 15 openings and 15 closures = 30 stores affected

# Property restructure - effects

- ELC trading in 80 Mothercare stores before Christmas
- Overall 63 IT closures, 18 OOT openings
- Improved sales densities
- Annualised profit benefits of £5m p.a. (= cash £6m) starting 2009/10
- Additional 50-store 'pipeline'

# Property restructure – costs

- Exceptional cost £16.3m: cash cost £8.3m, non-cash cost £8.0m
- Capex costs £15.0m over two years
- Total cash costs (revenue and capex) £23.3m over two years – funded from operating cash flow
- Estimated annualised profit benefit £5.0m (= £6m cash)

# Exceptional costs – strong ROI

	Integration £m	Property £m	Total £m
Income statement charge	18.8	16.3	<b>35.1</b>
Estimated annual benefits – profit	10.0	5.0	<b>15.0</b>

- 43% return; payback 2.3 years

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Cash – revenue	14.5	8.3	<b>22.8</b>
Cash – capex	5.0	15.0	<b>20.0</b>
	19.5	23.3	<b>42.8</b>
Estimated annual benefits – cash	12.0	6.0	<b>18.0</b>

- 42% return on cash; payback 2.4 years

# International

- International profit up 20.5% to £9.4m
- 77 new franchise stores; total 494 stores in 48 countries
- International franchisee retail sales +27.5% (+12.0% LFL)
- Now mostly moved from wholesale to royalty model
- 'Published sales' = sales at cost. Relic of wholesale model - no longer a profit driver
- Focus on 'franchisee retail sales'. Driver of royalty and therefore profit



# Franchisee retail sales

	05/06 <sup>(1)</sup>	06/07 <sup>(1)</sup>	07/08 <sup>(2)</sup>
<b>Franchisee retail sales as published</b>	<b>£169.4m</b>	<b>£196.8m</b>	<b>£286.8m</b>
Franchisee retail sales at current rates of exchange	£160.7m	£199.2m	£286.9m
Franchise like-for-like sales	7.0%	12.0%	12.0%
<b>Underlying PBT</b>	<b>£5.3m</b>	<b>£8.1m</b>	<b>£9.4m</b>

(1) Mothercare only

(2) Mothercare and ELC

# Pension schemes in surplus

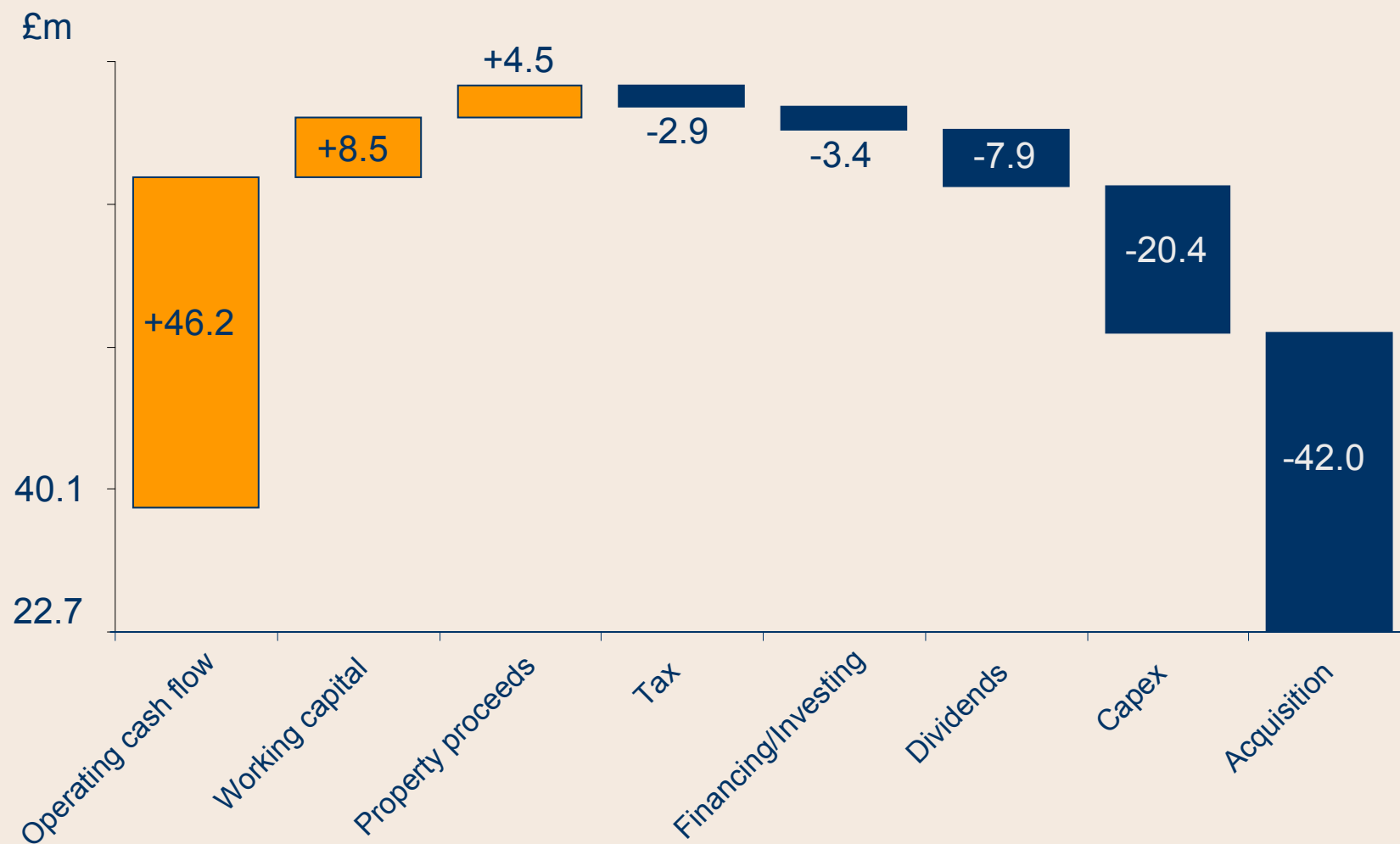
	07/08 £m	06/07 £m
<u>Income Statement</u>		
Service cost	3.8	5.0
Return on assets/interest on liabilities	(3.7)	(3.8)
<b>Net/charge<sup>(1)</sup></b>	<b>0.1</b>	<b>1.2</b>
<u>Cash Funding</u>		
Regular contributions	(2.2)	(3.0)
Additional contributions	(1.5)	(1.5)
<b>Total cash funding</b>	<b>(3.7)</b>	<b>(4.5)</b>
<u>Balance Sheet</u>		
<b>Net asset</b>	<b>2.0</b>	<b>2.0</b>

(1) Estimate of net charge for 08/09 is £0.6m

# Group balance sheet

		07/08 £m	06/07 £m
Non current assets	- Fixed assets	96.6	85.4
	- Intangibles	104.2	5.2
	- Pensions	2.0	2.0
Net current assets	- Working capital	28.0	36.5
	- Cash	22.7	40.1
	- Provisions	(24.0)	(2.9)
Tax		0.6	-
Non current liabilities		(32.1)	(15.3)
Net assets		198.0	151.0
Net assets per share		227p	206p

# Group cash flow



# Guidance for 2008/09

- Acquisition benefits £6.0m
- 08/09 includes ELC losses 1 April 2008 to 19 June 2008 (£4.1m in 2007/08)
- International and Direct grow strongly
- At least 100 overseas franchise stores opened annually
- UK gross margin +20 bps (cost inflation more than offset by sourcing gains)
- Controllable costs contained
- UK store distribution costs flat @ 5.7% of sales (fuel inflation offset by efficiency gains)
- Well placed for 2008/09



Ben Gordon

Chief Executive

# Mothercare own brand





# ELC own brand





# ELC own brand



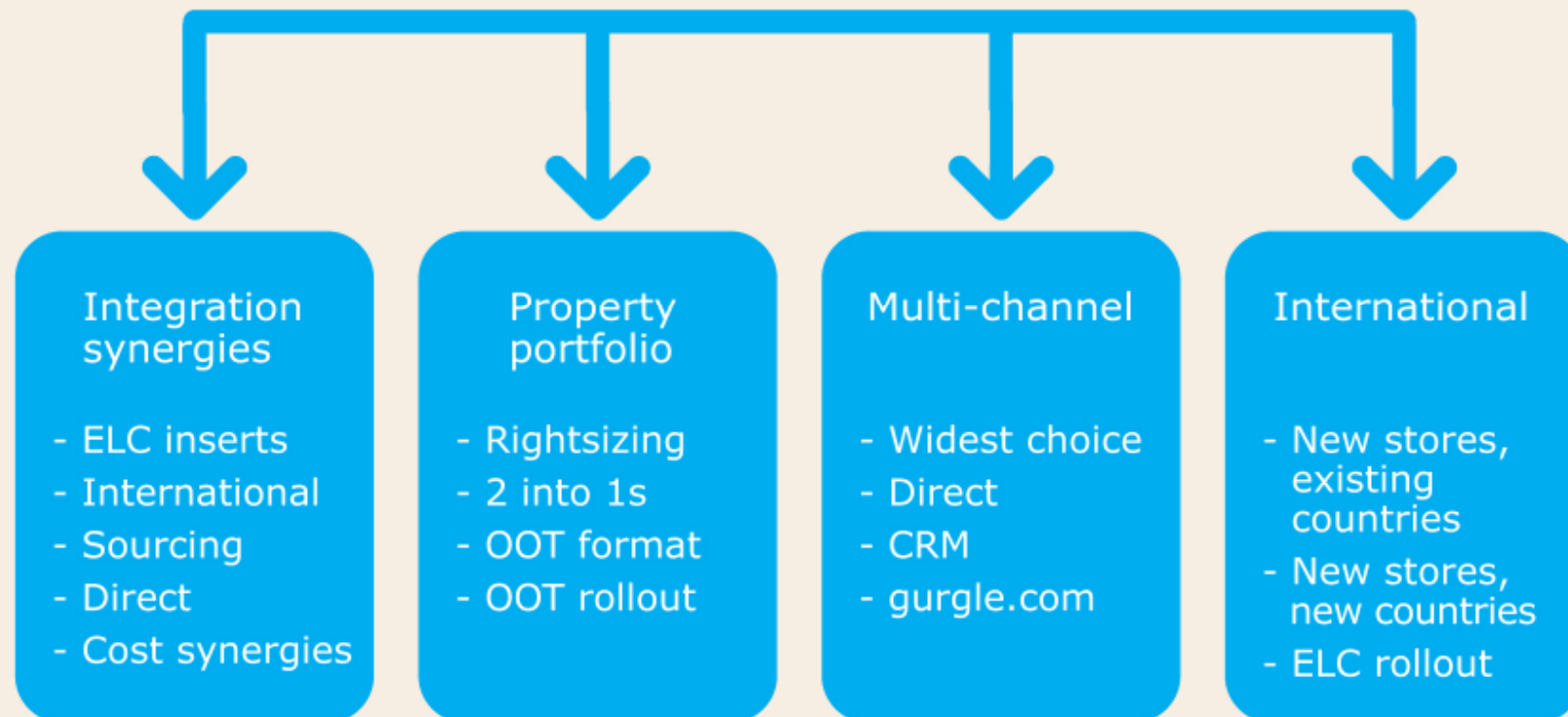
# Mothercare Group growth strategy



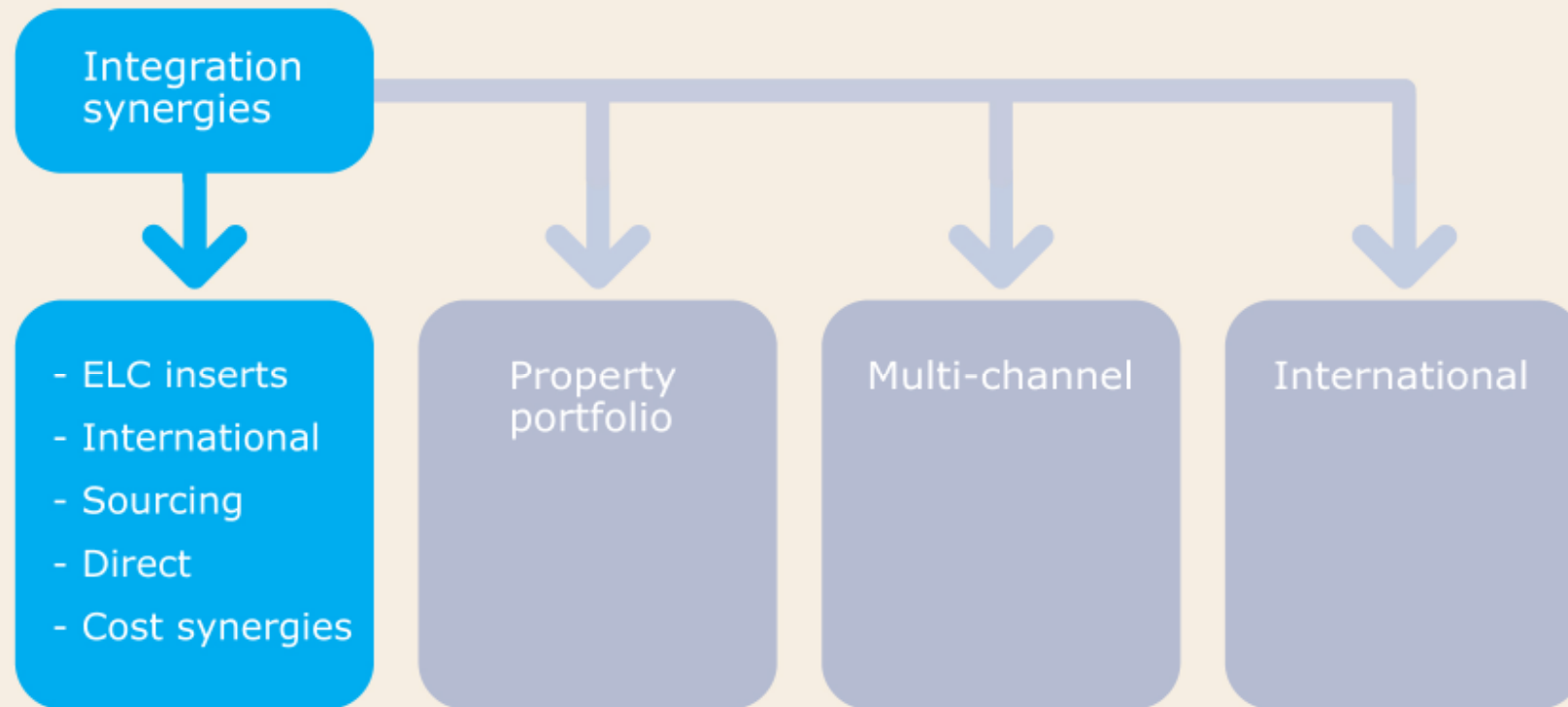
**TWO  
BRANDS**



## FOUR LEVERS FOR GROWTH



# Mothercare Group growth strategy



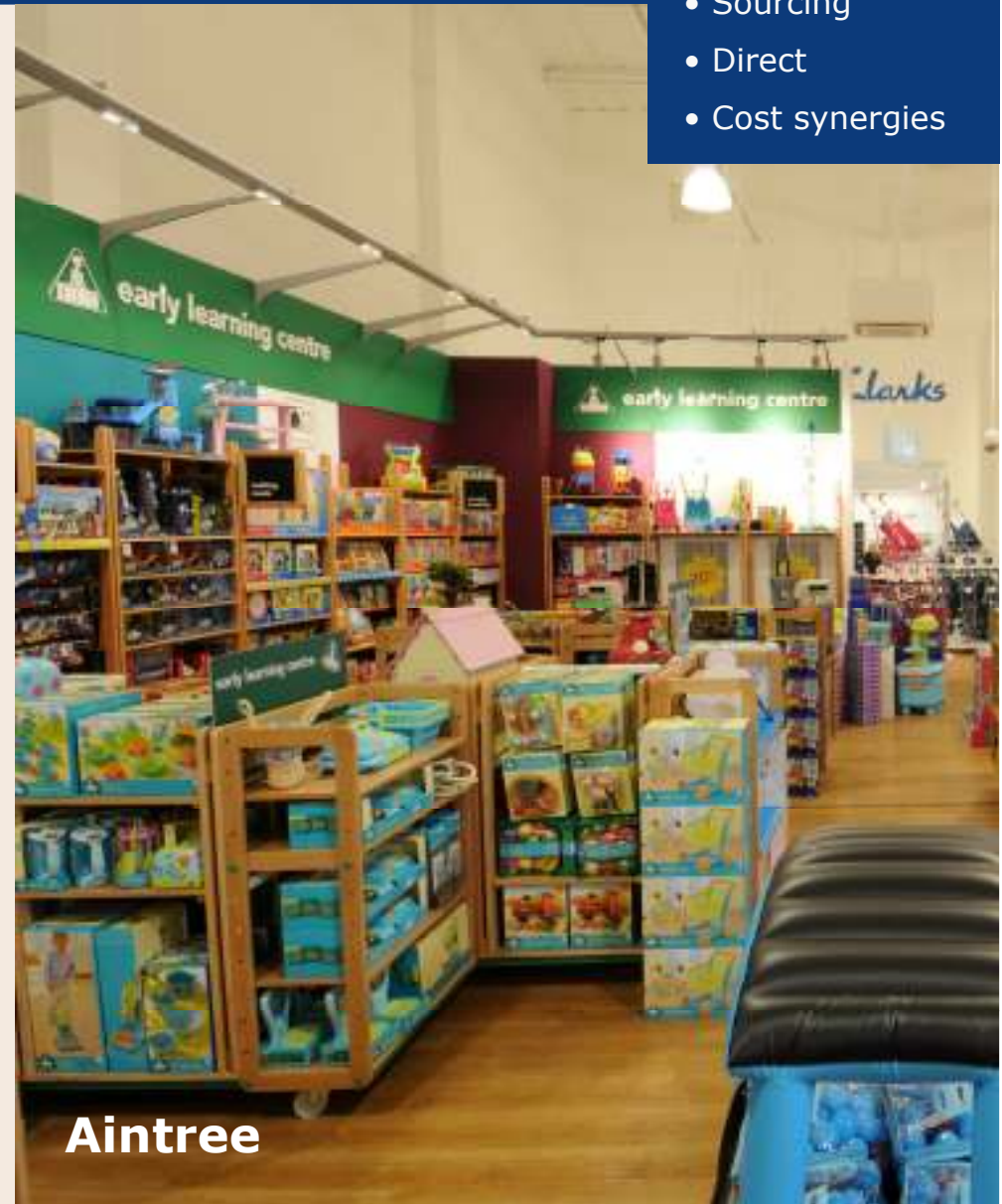


# ELC in OOT stores

- 20 tested over Christmas
- Outperformed expectations
- Rollout into all Mothercare OOTs
  - 40 as of today
  - 40 before Christmas
- Turns ELC into an OOT brand

## Integration synergies

- **ELC inserts**
- International
- Sourcing
- Direct
- Cost synergies



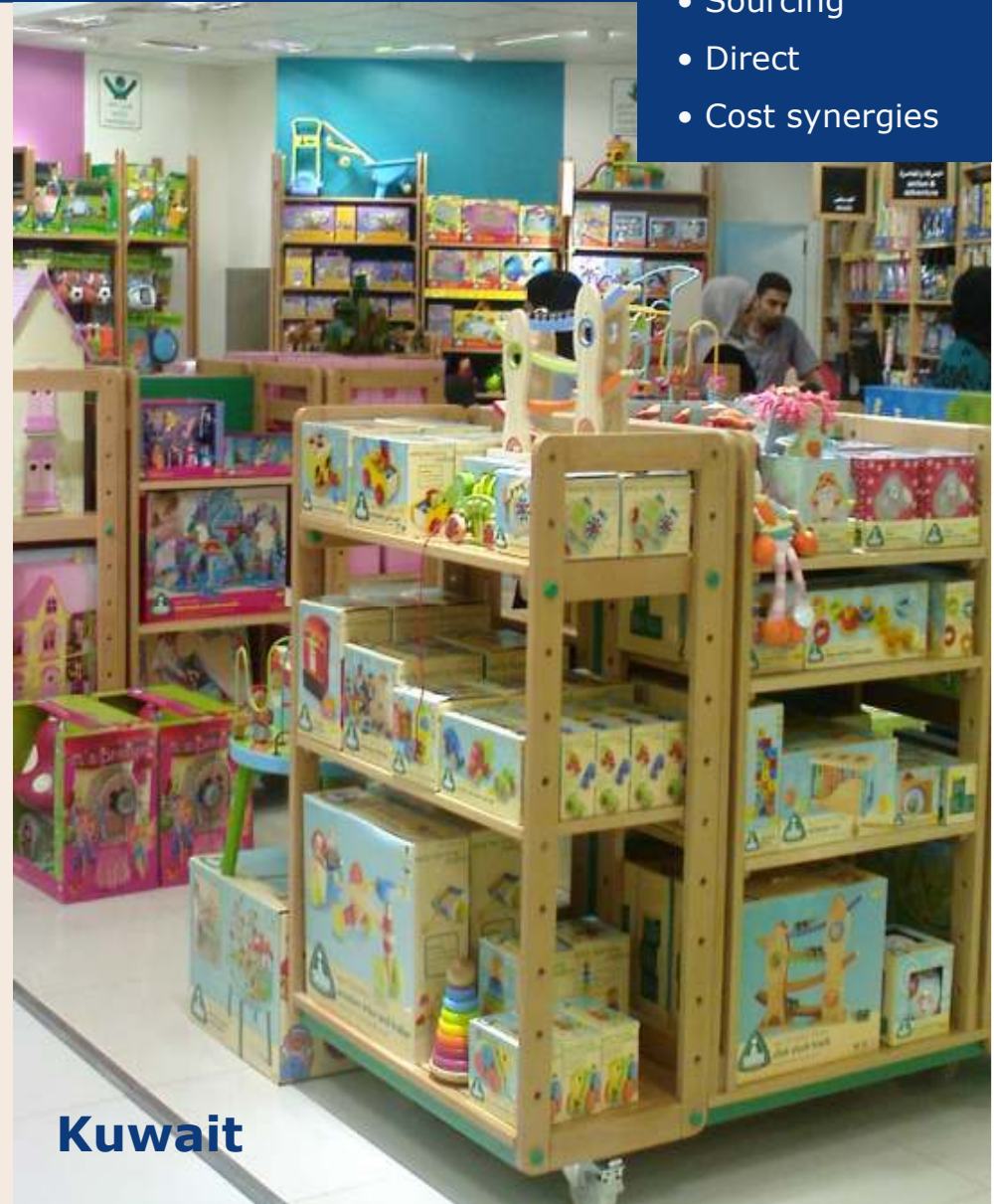
**Aintree**

# ELC international growth

- ELC brand travels well
  - Currently under-developed
- At acquisition
  - 25 countries with Mothercare but no ELC
- Opportunity to leverage Mothercare franchisees

## Integration synergies

- ELC inserts
- **International**
- Sourcing
- Direct
- Cost synergies



**Kuwait**



# In-house sourcing

## Integration synergies

- ELC inserts
- International
- **Sourcing**
- Direct
- Cost synergies





# Multi-channel synergies

## Integration synergies

- ELC inserts
- International
- Sourcing
- **Direct**
- Cost synergies

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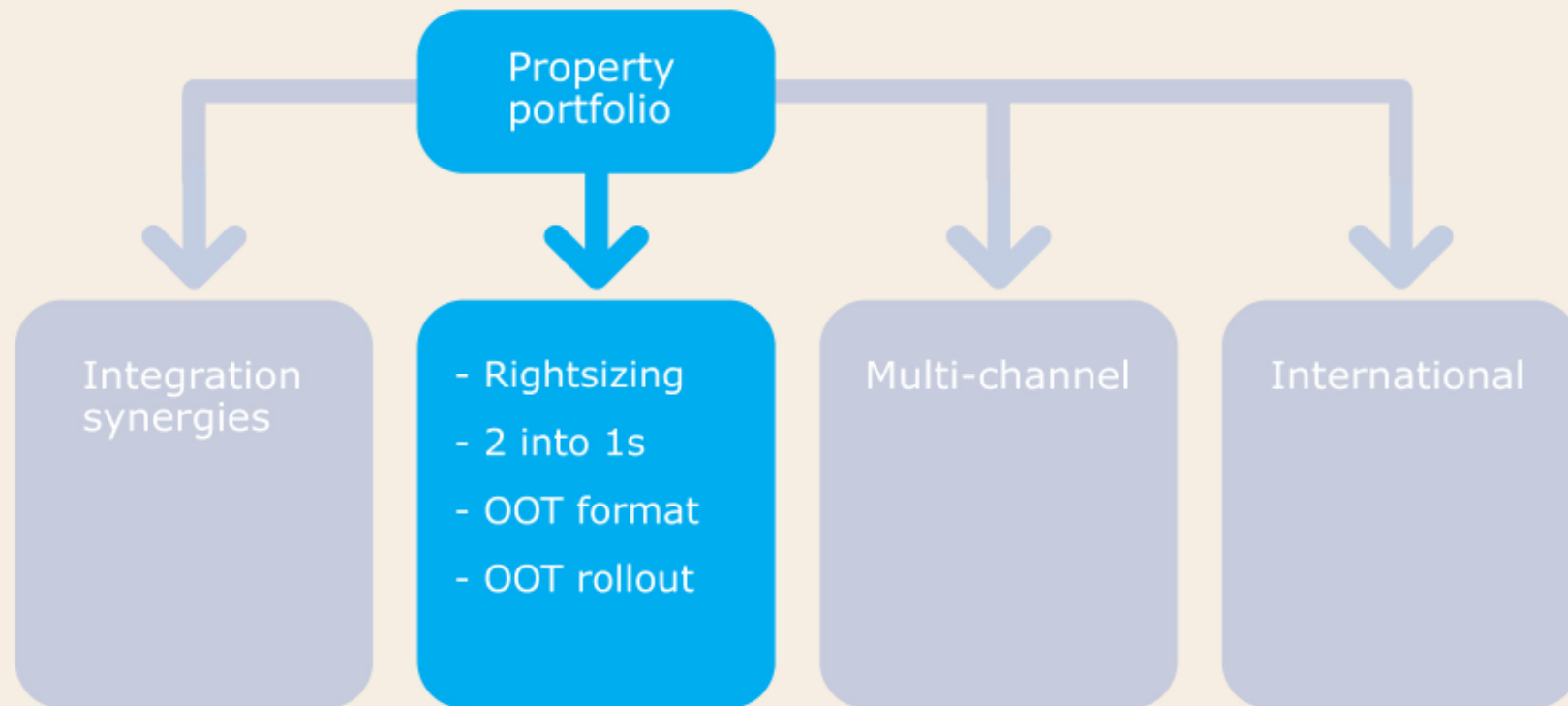
# Cost synergies

## Integration synergies

- ELC inserts
- International
- Sourcing
- Direct
- **Cost synergies**

- Earnings enhancing day 1
- Fully integrated back office
- ELC warehouse move in June
- New target - at least £10m synergies by 09/10
- No disruption to Mothercare

# Mothercare Group growth strategy



# Rightsizing for profitability

## Property portfolio

- Rightsizing
- 2 into 1s
- OOT format
- OOT rollout



Reading



# 2 into 1s

## Property portfolio

- Rightsizing
- **2 into 1s**
- OOT format
- OOT rollout



Weston-super-Mare

# New OOT format

## Property portfolio

- Rightsizing
- 2 into 1s
- **OOT format**
- OOT rollout



Aintree

# OOT rollout

## Property portfolio

- Rightsizing
- 2 into 1s
- OOT format
- **OOT focus**





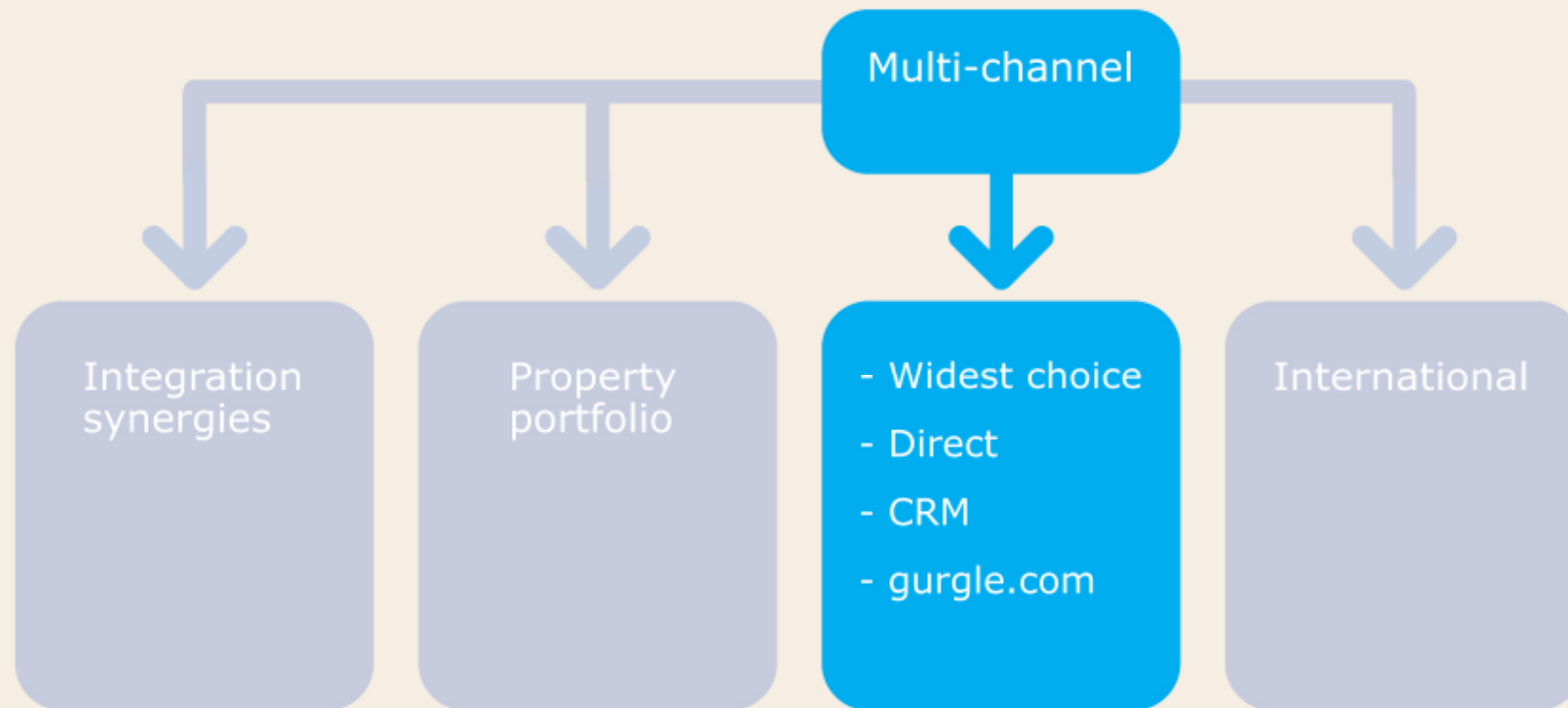
# Property summary

- Rightsizing
- 2 into 1s
- OOT format
- OOT rollout

- 145 stores impacted over the next two years
- 80 ELC inserts in Mothercare stores by Christmas '08
- OOT estate will have full or partial refit by the end of year
- Transformed property estate – impacts 1/3rd portfolio



# Mothercare Group growth strategy



# Widest Choice

## Multi-channel

- Widest choice
- Direct
- CRM
- gurgle.com

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# Marketing opportunities

## Multi-channel

- Widest choice
- Direct
- CRM
- gurgle.com



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### 20% off your birthday buys

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**CLUB MEMBERS RECEIVE:**

- 20% off your birthday buys
- party games, themes and ideas
- a birthday treat for your child
- personalised gift ideas
- party invites & thank you cards
- online games for children
- special offers



# gurgle.com

## Multi-channel

- Widest choice
- Direct
- CRM
- **gurgle.com**

**gurgle.com**  
Baby stuff made simple

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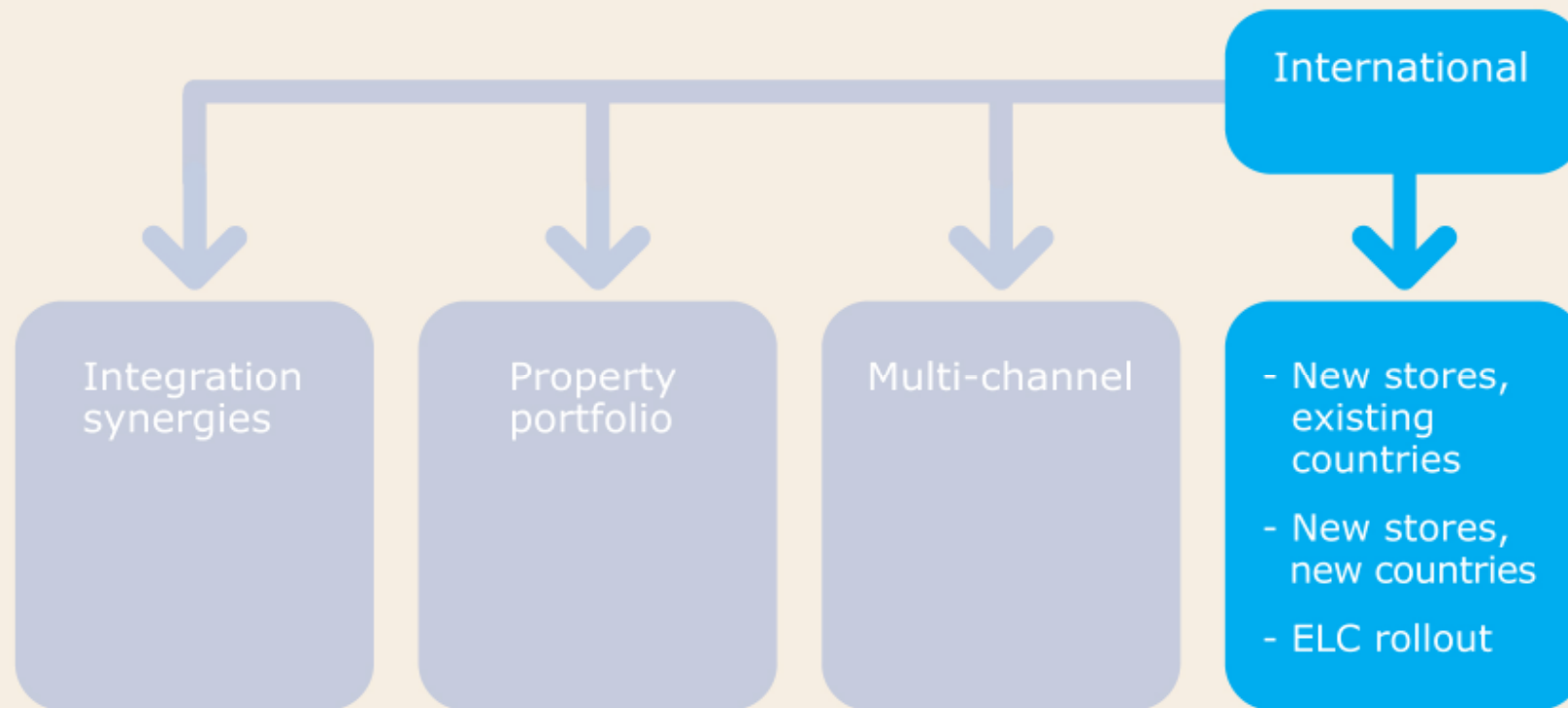
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called parenting

# Mothercare Group growth strategy





# Greece

## International

- New stores, existing countries
- New stores, new countries
- ELC rollout



# India

## International

- **New stores, existing countries**
- New stores, new countries
- ELC rollout

mothercare



Delhi



# New stores, new countries

## International

- New stores, existing countries
- **New stores, new countries**
- ELC rollout



Shanghai



# ELC International rollout

- Opened ELC in
  - Indonesia
  - India
  - Ireland
- Rollout plans developed for all countries in which we trade
- At least 50 stores opening p.a.

## International

- New stores, existing countries
- New stores, new countries
- **ELC rollout**



Indonesia

# Summary

- A transformational year for the Group
- ELC integration & benefits ahead of plan
- Well placed for growth