# mothercare

## Preliminary Results
## May 20, 2009

# Ben Gordon

Chief Executive

# Mothercare group growth strategy

**TWO BRANDS**

**FOUR LEVERS FOR GROWTH**

- International
- Integration synergies
- Property portfolio
- Multi-channel

# Neil Harrington

Finance Director

# Introduction

- Group sales +6.9% to £723.6m
- Group ‘network’ sales (inc. franchisee sales) +16.4% to £983.0m
- Group profit before tax £42.2m
- Positive year end cash £24.8m
- Dividend +20.8% to 14.5 pence

# Income statement – statutory basis

| | 08/09 £m | 07/08 £m |
|---|---|---|
| Revenue | 723.6 | 676.8 |
| **Underlying profit from operations** | **37.2** | **38.5** |
| Financing | (0.1) | 0.1 |
| **Underlying profit before tax** | **37.1** | **38.6** |
| Exceptional items | (4.6) | (35.2) |
| Other non-underlying items | 9.7 | 1.1 |
| **Profit before tax** | **42.2** | **4.5** |

# Financial highlights – proforma basis

- Group sales +2.8% to £723.6m
- UK LFL sales +1.4%; International LFL sales +6.0%
- Total Direct sales +25.5% to £107.3m
- UK gross margin -40 basis points
- Group underlying profit before tax +12.4% to £37.1m

# Income statement – proforma basis

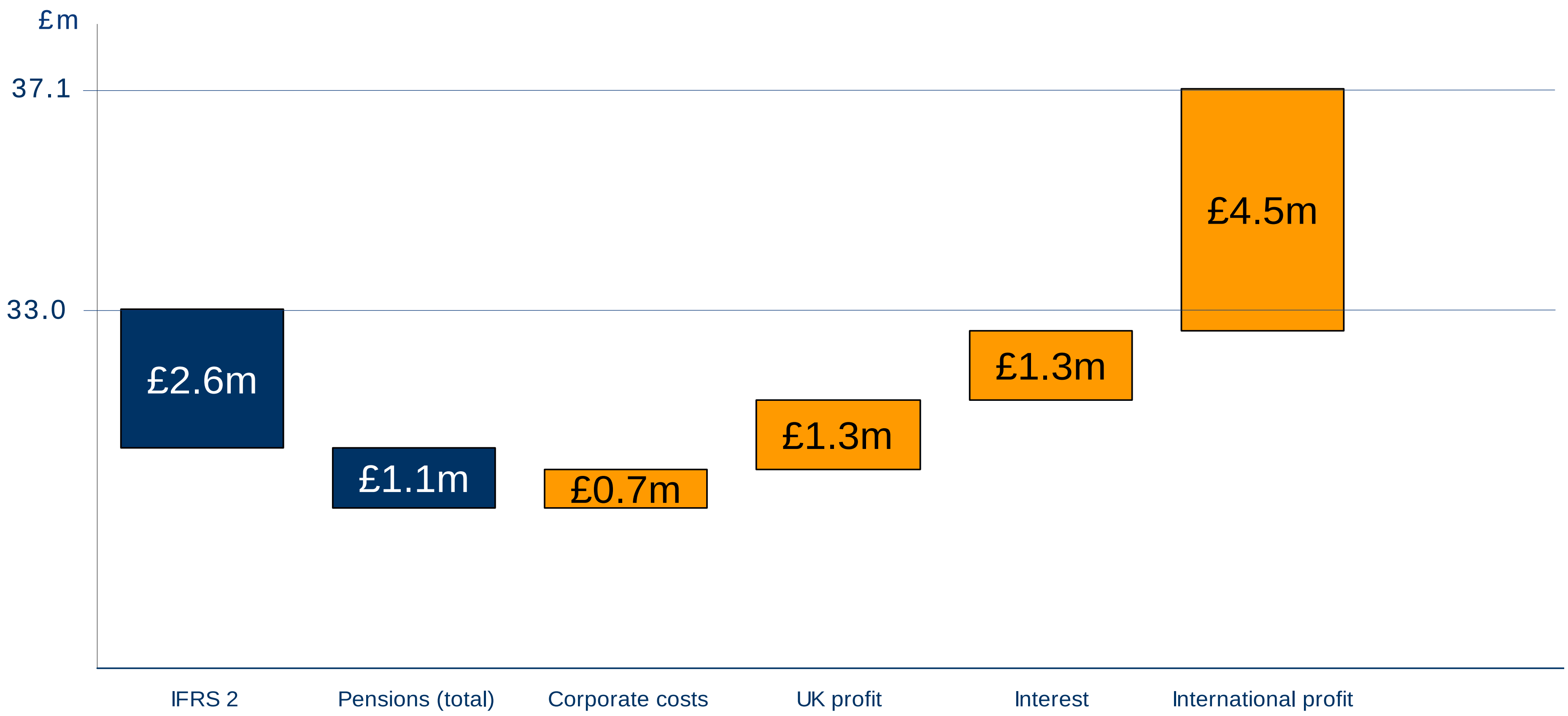
| | 08/09 £m | 07/08 £m |
|---|---|---|
| Revenue | 723.6 | 703.6 |
| **Profit from retail operations** | **37.2** | **34.4** |
| Financing | (0.1) | (1.4) |
| **Underlying profit before tax** | **37.1** | **33.0** |
| Exceptional items | (4.6) | (36.1) |
| Non-cash IAS 39 adjustment | 11.8 | 2.5 |
| Amortisation of intangibles | (2.1) | (2.0) |
| **Profit before tax** | **42.2** | **(2.6)** |
| Underlying EPS – basic | 32.1p | 28.5p |

# Strong growth in International – proforma basis

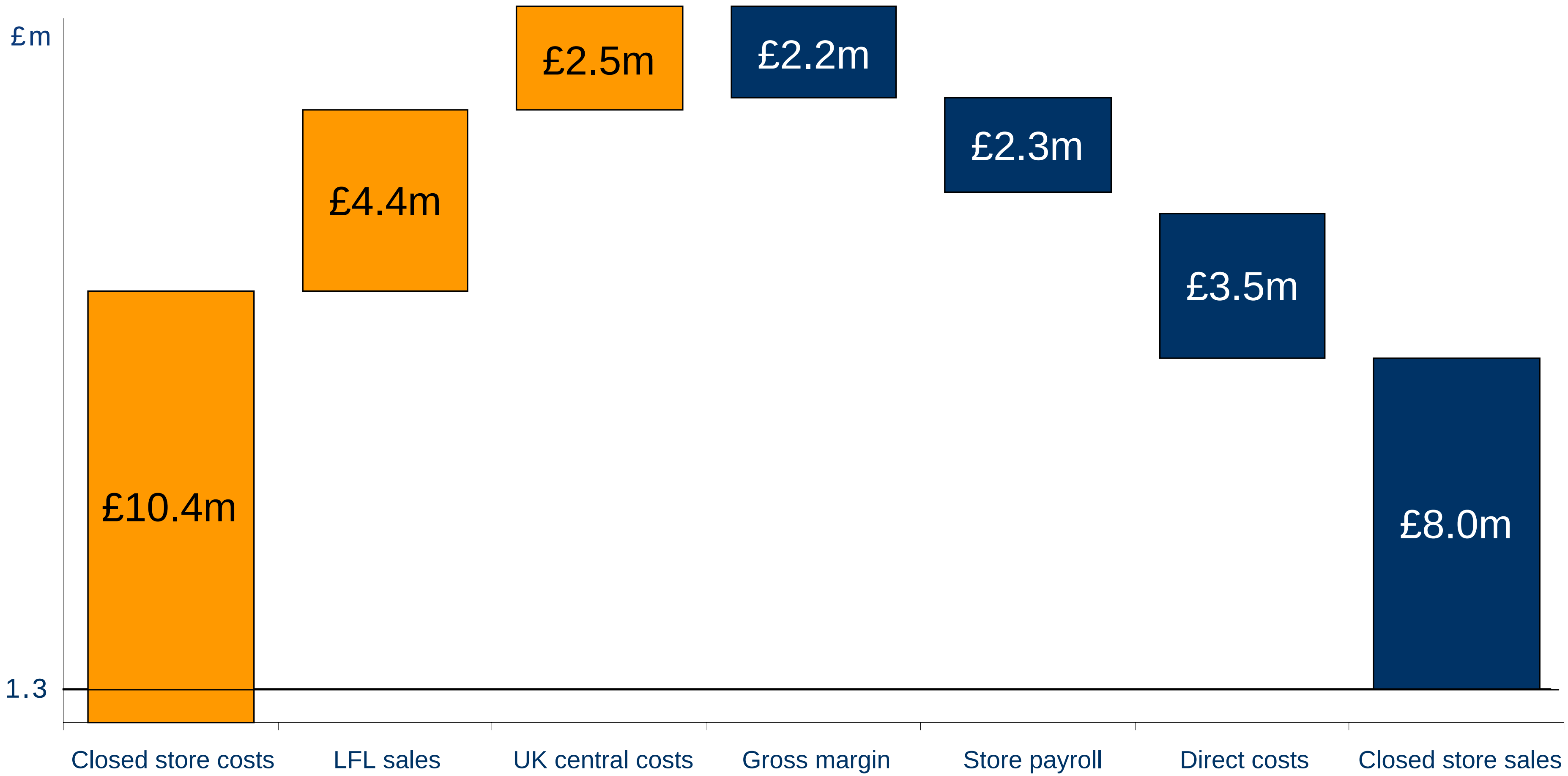
| **Revenue** | **08/09 £m** | **07/08 £m** | |
|---|---|---|---|
| UK | 578.8 | 587.3 | -1.4% |
| International retail sales | 404.2 | 286.8 | +40.9% |
| 'Network' sales | 983.0 | 874.1 | +12.5% |

| **Underlying profit** | **08/09 £m** | **07/08 £m** | |
|---|---|---|---|
| UK | 32.1 | 34.5 | -7.0% |
| International | 13.9 | 9.4 | +47.9% |
| Corporate | (8.8) | (9.5) | -7.4% |
| Financing | (0.1) | (1.4) | |
| **Total** | **37.1** | **33.0** | **+12.4%** |

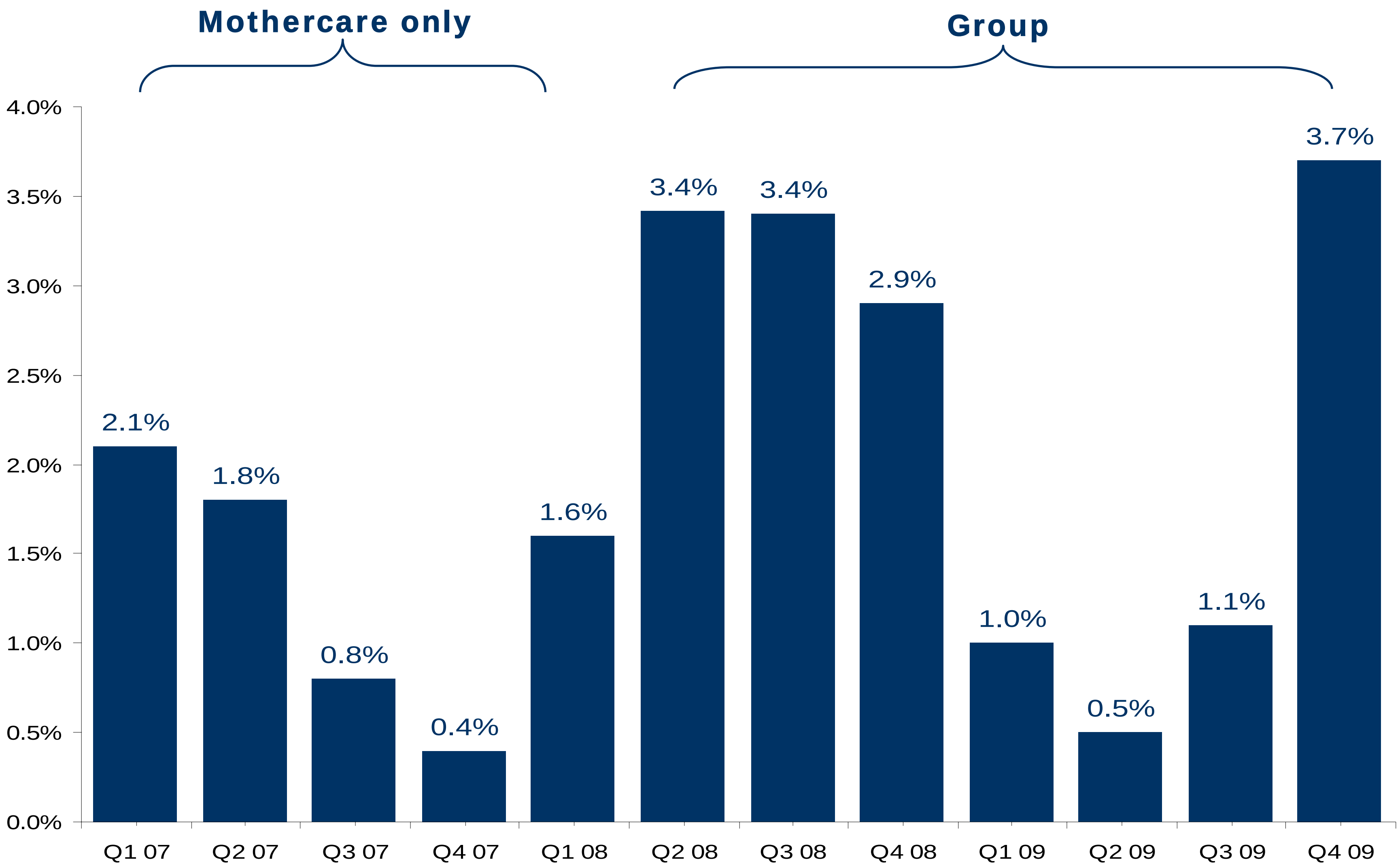
# £4.1m growth in group underlying profit – proforma basis



# UK profit up £1.3 million – proforma basis



# 15 consecutive quarters of UK LFL growth



# International

- International profit up 47.9% to £13.9m
- 115 new franchise stores; total 609 stores in 50 countries
- International franchisee retail sales up 40.9% (+6.0% LFL)
- Natural currency hedge: US$ revenues pay Far East suppliers

# Franchisee retail sales – proforma basis

| | 08/09 | 07/08 | |
|---|---|---|---|
| **Franchisee retail sales** | **£404.2m** | **£286.8m** | +40.9% |
| Franchisee retail sales at constant currency | £438.6m | £360.0m | +21.9% |
| Franchisee like-for-like sales | 6.0% | 12.0% | |
| **Underlying PBT** | **£13.9m** | **£9.4m** | +47.9% |

# Integration of Early Learning Centre

- Integration substantially complete
- 84 ELC inserts
- Relocated ELC distribution centre
- Total benefits ahead of plan – 2008/09 estimate £10.0m

# Property restructure – almost complete

| | Out of town openings | In town closures | Downsizes | ELC inserts | **Total stores impacted** | **%** |
|---|---|---|---|---|---|---|
| Completed | 7 | 38 | 3 | 55 | **103** | 71 |
| Agreed | 9 | 16 | 2 | - | **27** | 19 |
| In negotiation | 2 | 9 | 4 | - | **15** | 10 |
| **Total** | **18** | **63** | **9** | **55** | **145** | **100** |

**90% completed or agreed**

# Property restructure - effects

- LFL +1.4%; total UK sales down 1.4% driven by planned space reduction
- £10.4m reduction in UK store occupancy costs
- 26.3% increase in Direct in Store sales to £45.1m
- At least £5.0m of PBT from 2009/10 (including £2.4m delivered in 2008/09)
- Almost 50% of remaining leases expire in the next three years

# Defined benefit pension schemes

| | 09/10 Estimate £m | 08/09 Actual £m | 07/08 Actual £m |
|---|---|---|---|
| Income Statement | | | |
| Service cost | 3.0 | 2.5 | 3.8 |
| Return on assets/interest on liabilities | 1.2 | (1.6) | (3.7) |
| **Net charge** | **4.2** | **0.9** | **0.1** |
| Cash Funding | | | |
| Regular contributions | (3.0) | (2.1) | (2.2) |
| Deficit contributions | (2.0) | (2.6) | (1.5) |
| **Total cash funding** | **(5.0)** | **(4.7)** | **(3.7)** |
| Balance Sheet | | | |
| **Net (liability) / asset** | **N/A** | **(25.4)** | **2.0** |

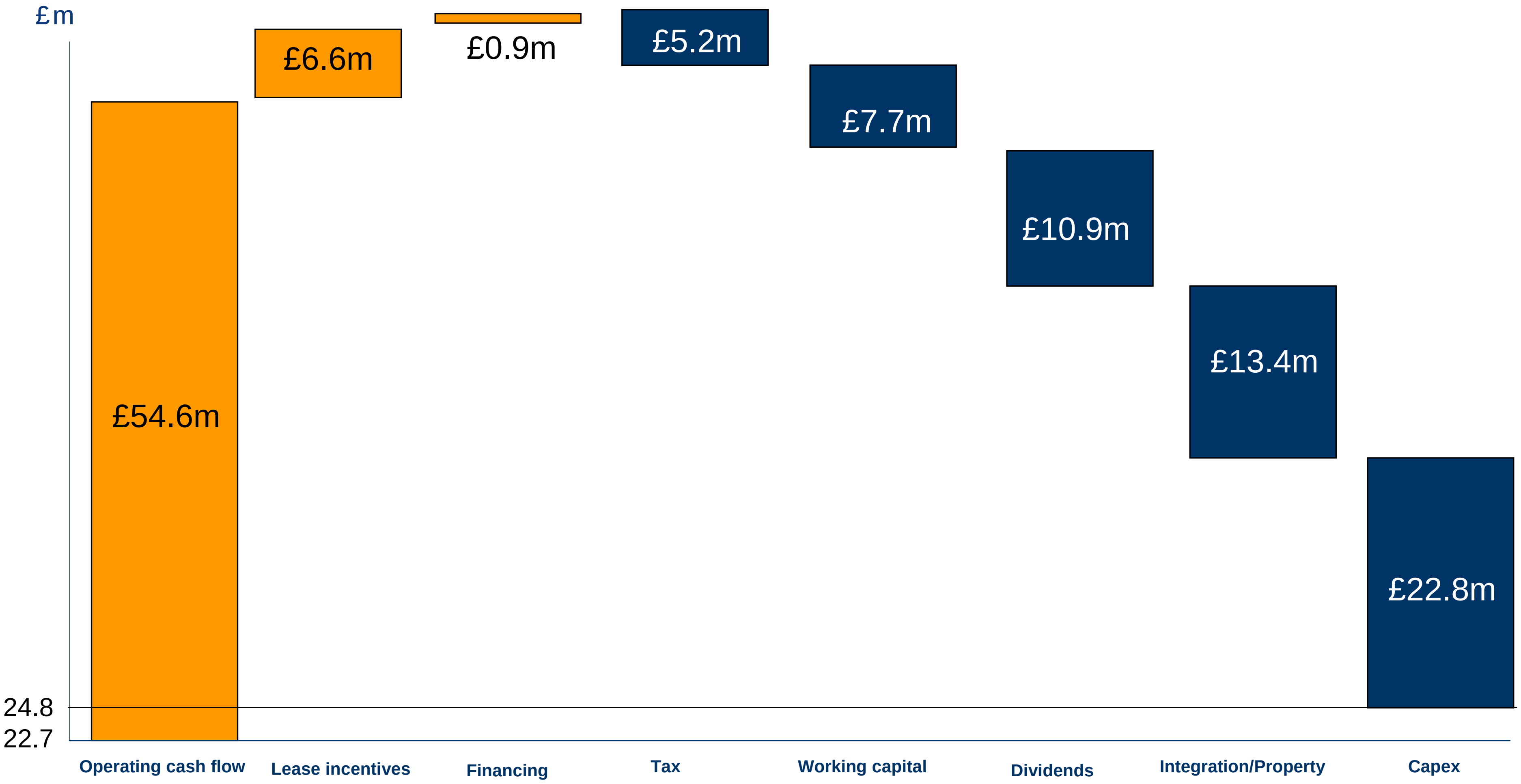
# Changes to pension schemes

- Triennial valuation of defined benefit schemes complete
- Schemes closed to new members
- Cap of 2.5% on revaluation of pension benefits
- Members contributions increased by up to 3.0%
- Annual company contributions increased by approximately £1.0m p.a.
- One-off company contribution of £3.0m in 2009/10
- Above actions eliminate deficit over 10 years

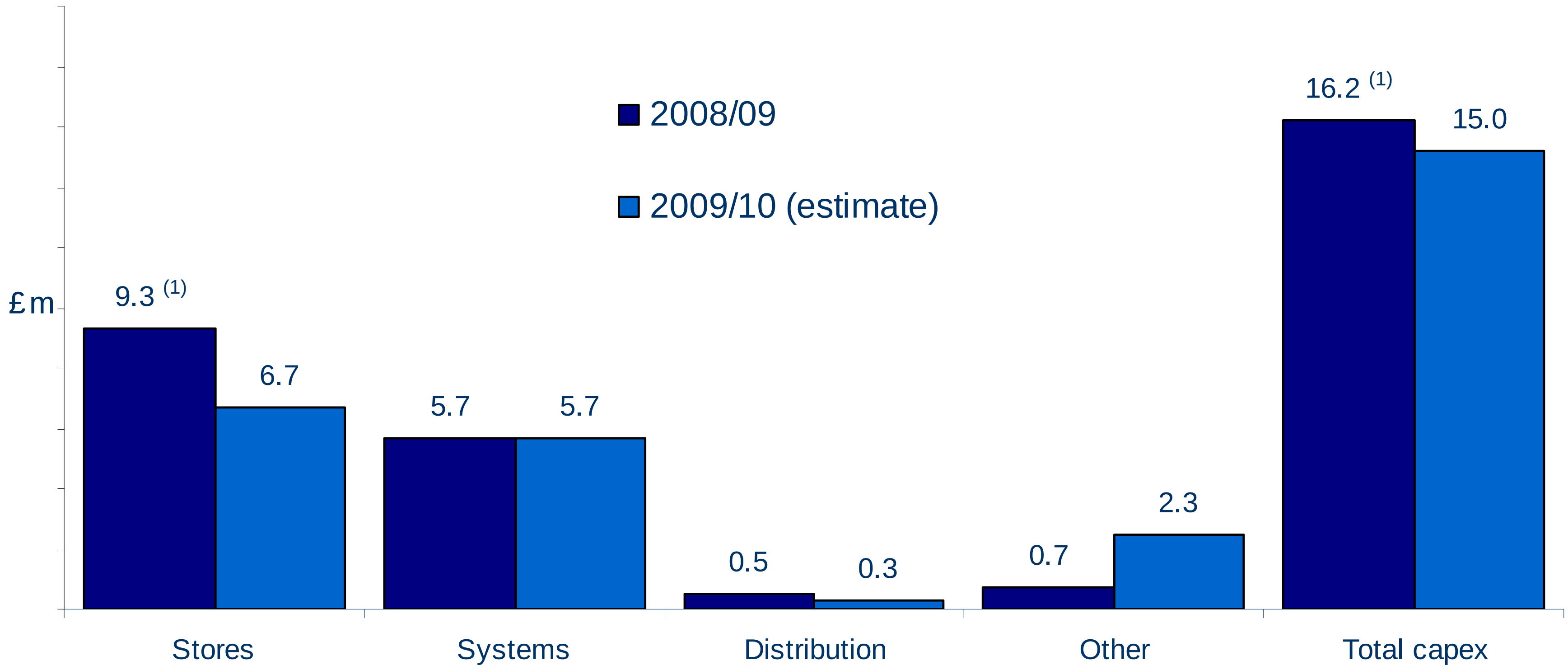
# Group balance sheet

| | 08/09 £m | 07/08 £m |
|---|---|---|
| Non current assets | | |
| – Fixed assets | 93.1 | 96.6 |
| – Intangibles | 104.5 | 104.2 |
| Net current assets | | |
| – Working capital | 33.1 | 27.7 |
| – Cash | 24.8 | 22.7 |
| – Other | 3.7 | (23.7) |
| Non current liabilities | (33.4) | (27.7) |
| – Pensions | (25.4) | 2.0 |
| – Tax | (1.8) | (3.8) |
| – Net assets | 198.6 | 198.0 |

# Group cash flow



# Group capex




[1] Net of landlords' contributions of £6.6m in 2008/09

# Guidance for 2009/10

- Difficult consumer environment; planning cautiously
- International and Direct continue strong growth
- 100 overseas franchise stores
- Up to £10.0m working capital outflow (International, Direct)
- UK gross margin under pressure due to weakness of Sterling. Partly offset by currency gains in International
- Controllable costs reducing; pension costs increasing
- Total property strategy benefits £5.0m (including £2.4m in 08/09)
- Debt free - well placed for an uncertain 2009/10

# Ben Gordon

Chief Executive

# Two world class brands

# Innovation in clothing

Baby K

bymyleeneklass

# Exclusive rights deal


Marble Arch, London

# High play value toys

# Summer range

# Direct sourcing

- Teams in China, Hong Kong, India
- Driving efficiencies, margins, savings
- Great success with own brand products

# Mothercare group growth strategy

**International**
- Brands travel
- Franchise model
- Infrastructure

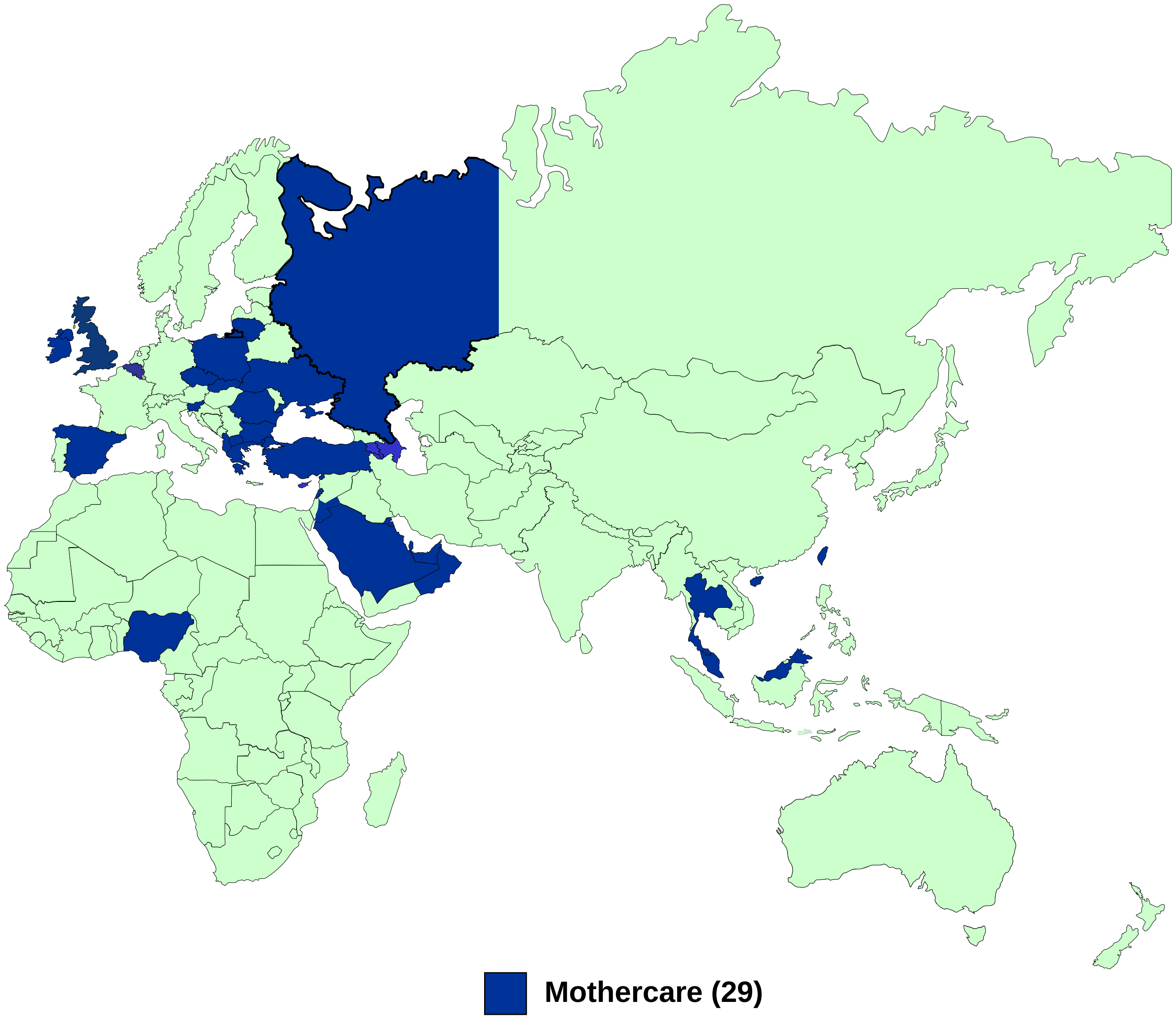
**Integration Synergies**
- ELC inserts
- Cost synergies
- Completion

**Property Portfolio**
- Parenting centres
- Landmark stores
- High street

**Multi-channel**
- Widest choice
- Int'l websites
- Gurgle.com

# Mothercare International – 2004/05

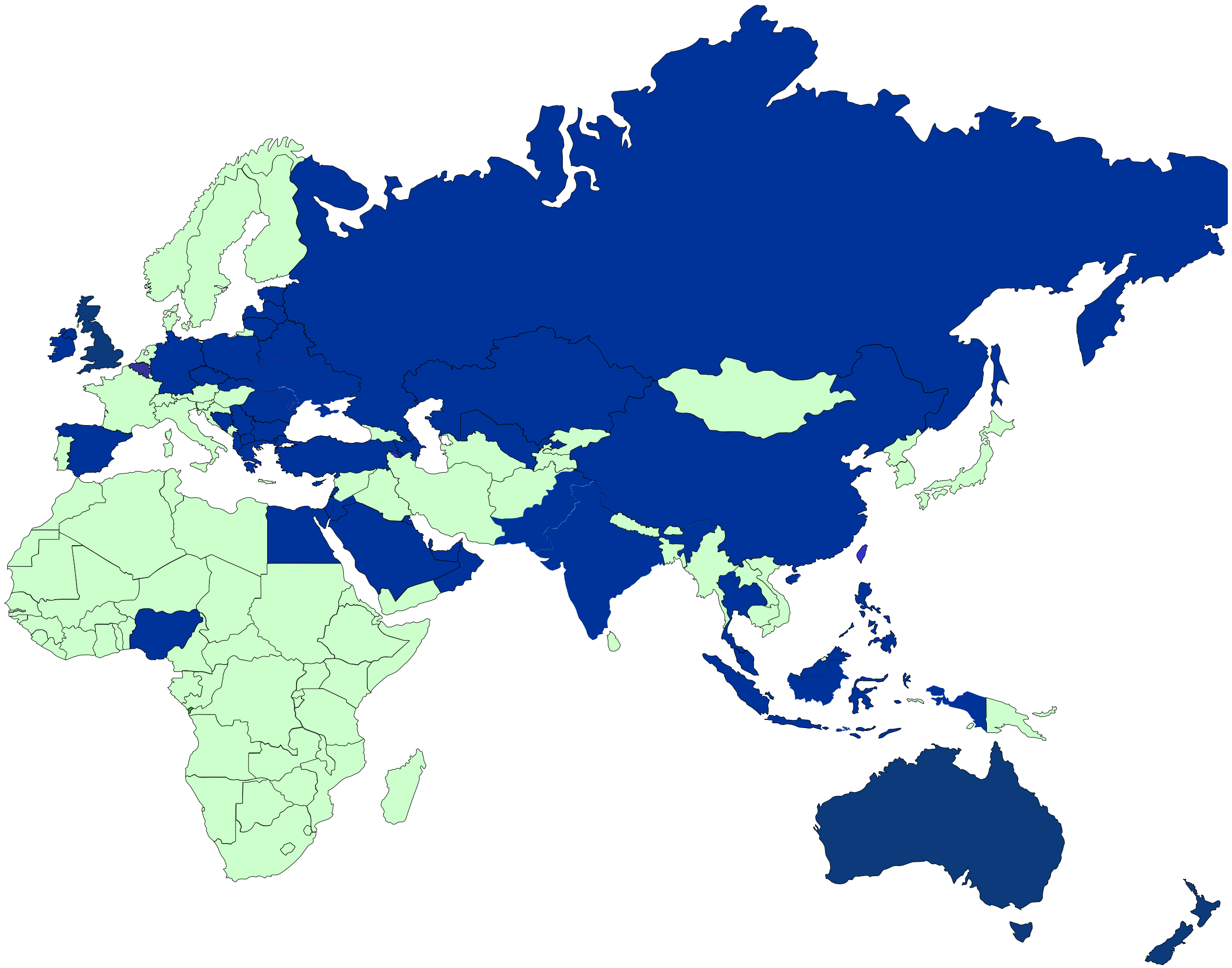
BELGIUM
CYPRUS
CZECH REPUBLIC
EIRE
GIBRALTAR
GREECE
MALTA
POLAND
ROMANIA
RUSSIA
SLOVAKIA
SLOVENIA
SPAIN
TURKEY
UKRAINE




BRUNEI
HONG KONG
MALAYSIA
SINGAPORE
TAIWAN
THAILAND
BAHRAIN
KUWAIT
LEBANON
OMAN
QATAR
SAUDI ARABIA
UNITED ARAB EMIRATES
NIGERIA

# Mothercare group International – 2008/09

ALBANIA
ARMENIA
AZERBAIJAN
BELARUS
BELGIUM
BULGARIA
CYPRUS
CZECH REPUBLIC
EIRE
ESTONIA
GERMANY
GIBRALTAR
GREECE
KAZAKHSTAN
LATVIA
LITHUANIA
MACEDONIA
MALTA
POLAND
ROMANIA
RUSSIA
SERBIA
SLOVAKIA
SPAIN
TURKEY



Mothercare & ELC (51)

UKRAINE
BRUNEI
CHINA
HONG KONG
INDONESIA
BAHRAIN
EGYPT
JORDAN
KUWAIT
LEBANON
MALAYSIA
PHILIPPINES
SINGAPORE
TAIWAN
THAILAND
OMAN
QATAR
SAUDI ARABIA
UNITED ARAB EMIRATES
NIGERIA
UZBEKISTAN
INDIA
PAKISTAN
AUSTRALIA
NEW ZEALAND

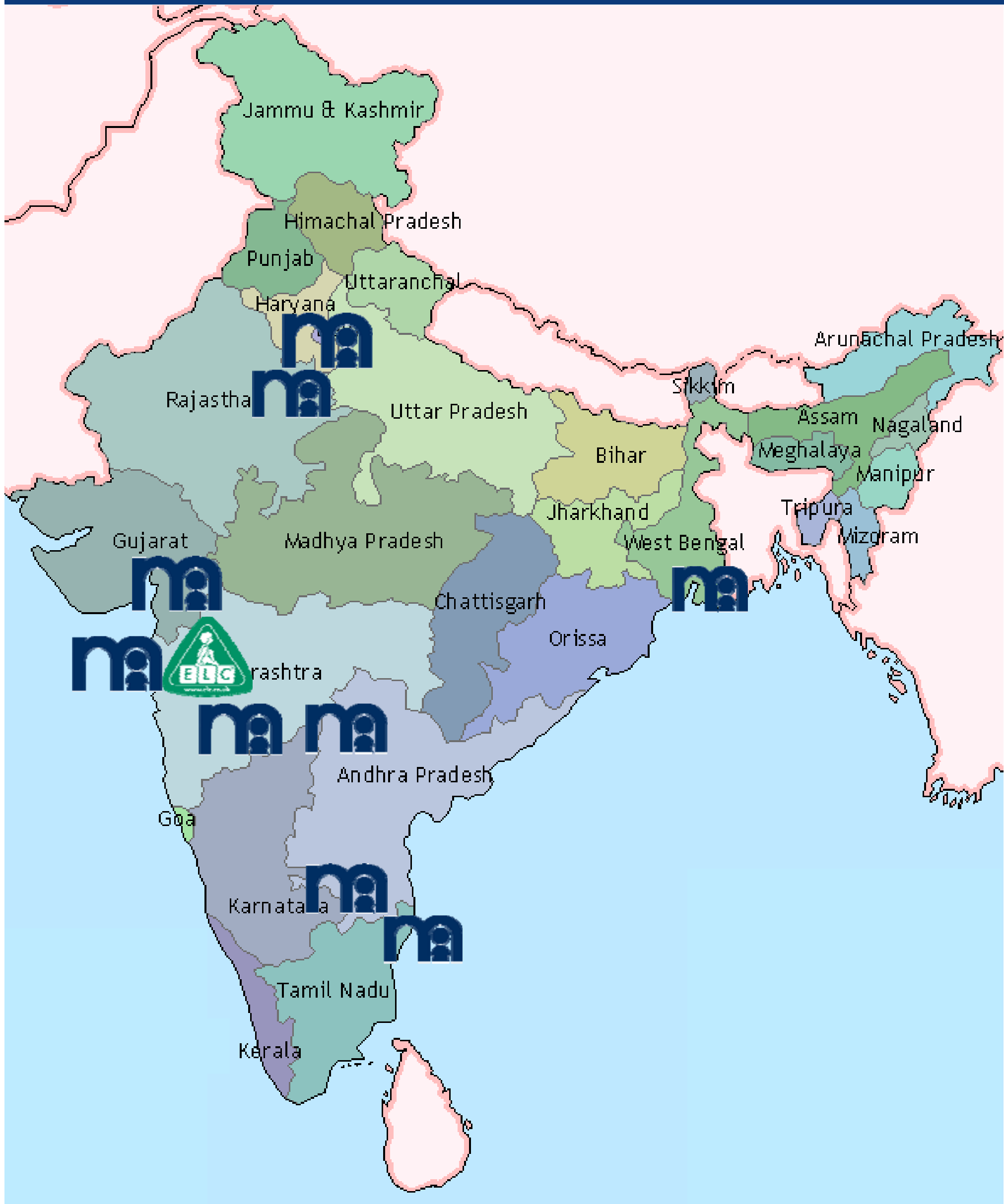
# Russia growth story

Moscow, Russia

# Middle East – Dubai Mall

# Middle East – Dubai Mall

# India opportunity




**Ahmedabad**
*Freeway Mall*

**Bangalore**
*Icon*
*Mantri*

**Chennai**
*Kuppu Arcade*

**Delhi**
*Citywalk Saket*
*Great India Place*
*MGF Saket*
*Rojouri Gardens*

**Hyderabad**
*Begumpet*
*City Centre*
*GVK*

**Jaipur**
*Triton Mall Suncity*

**Kolkotta**
*SouthCity*

**Mumbai**
*Bandra*
*Juhu*
*Inorbit Mall*
*Nirmal Lifestyle*
*Oberoi Mall*
*Pune*
*Transocean*
*Vashi Inorbit*

**Pune**
*Castle Maine*

**Mumbai**
*Juhu*
*Inorbit Mall*

# China growth

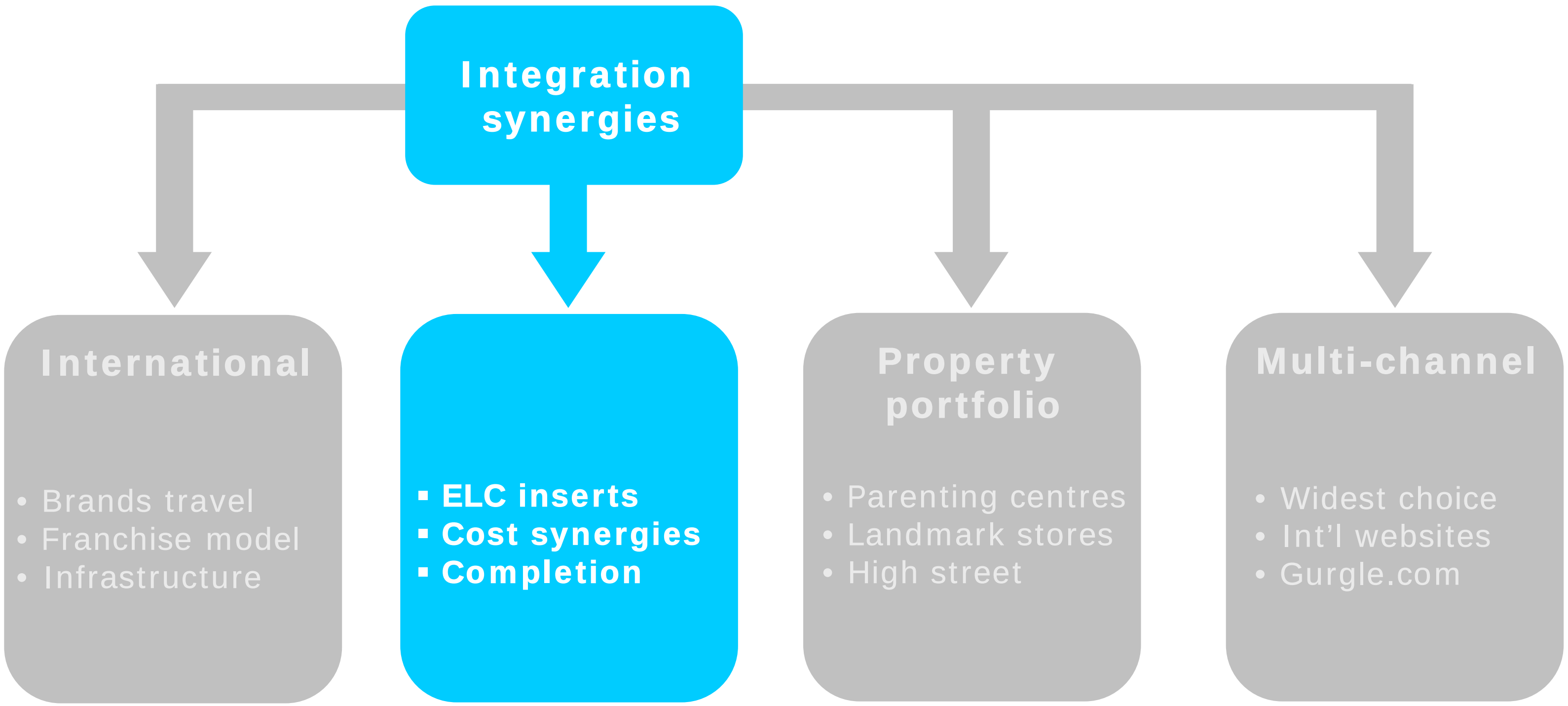

Shanghai, China

# ELC – now in 29 countries


United Arab Emirates

- 12 Mothercare franchisees in 29 countries
- Stores up from 92 to 164
- Plans for 50 more stores in 6 countries

# Mothercare group growth strategy



# ELC inserts in OOT Stores

# Synergies

- ☑ ELC inserts
- ☑ ELC warehouse move to Daventry
- ☑ ELC & MTC field management teams combined
- Under-way: Integration of ELC head office into Watford HQ
- ☑ Delivery of £10.0m synergies

# Mothercare group growth strategy

**Property portfolio**

**International**

- Brands travel
- Franchise model
- Infrastructure

**Integration synergies**

- ELC inserts
- Cost synergies
- Completion

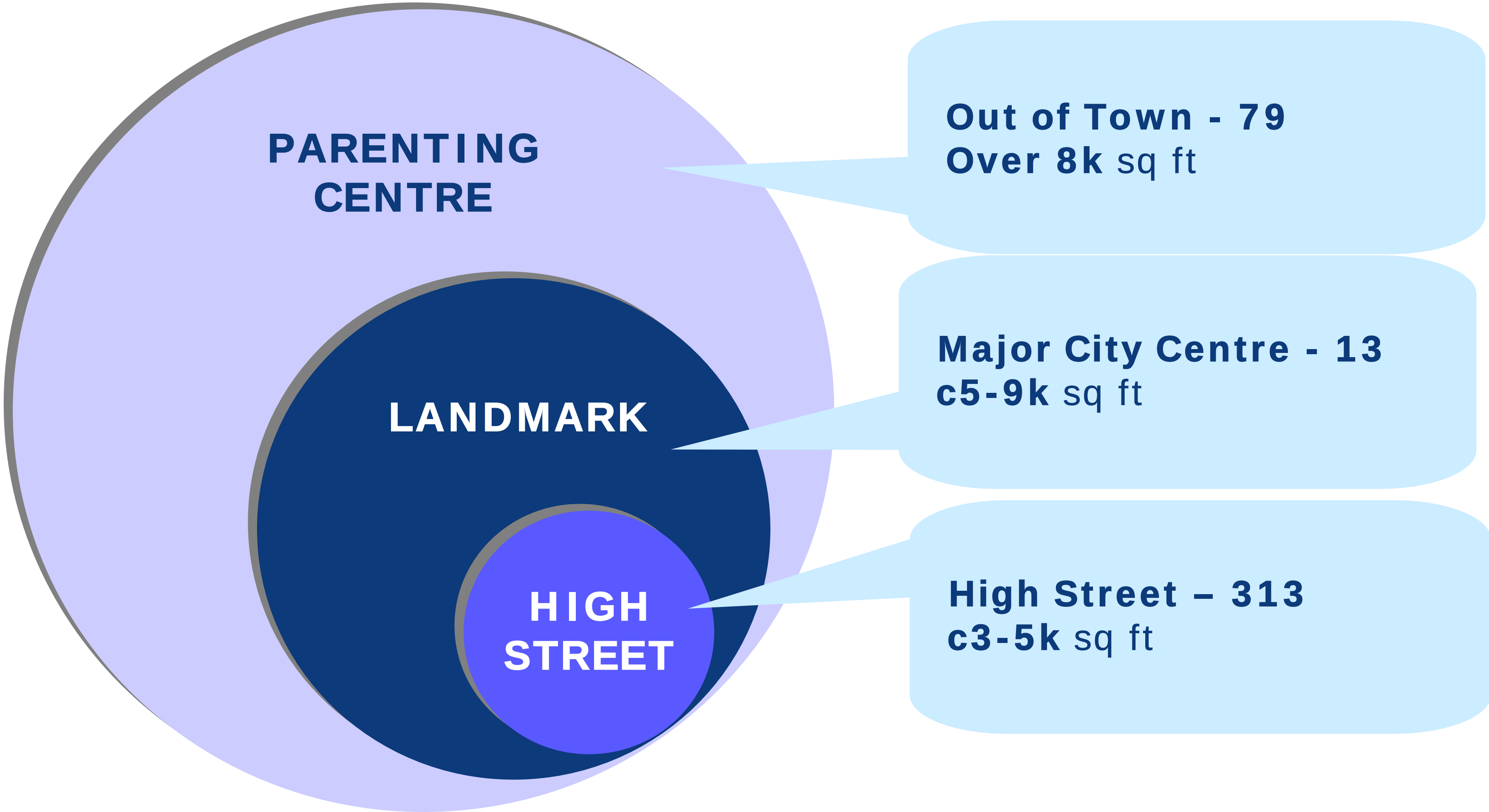
**Property portfolio**

- **Parenting centres**
- **Landmark stores**
- **High Street**

**Multi-channel**

- Widest choice
- Int'l websites
- Gurgle.com

# Mothercare property strategy



# Parenting centres - OOT

# Landmark stores – major cities


- Larger in town stores
- High traffic locations
- Major city centres and shopping malls
- Bigger and better fit
- 10 new Landmark stores

# Mothercare and ELC high street


# Mothercare group growth strategy

**Multi-channel**

**International**

- Brands travel
- Franchise model
- Infrastructure

**Integration synergies**

- ELC inserts
- Cost synergies
- Completion

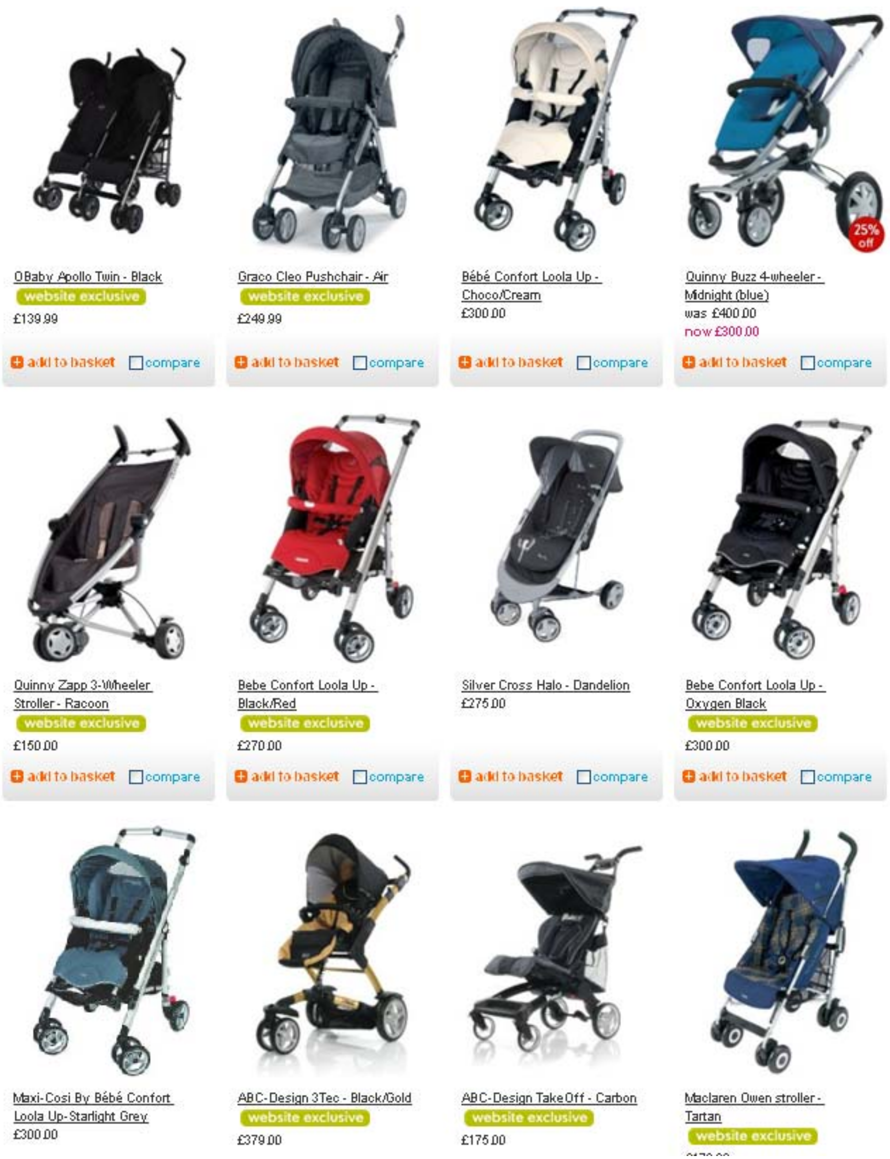
**Property portfolio**

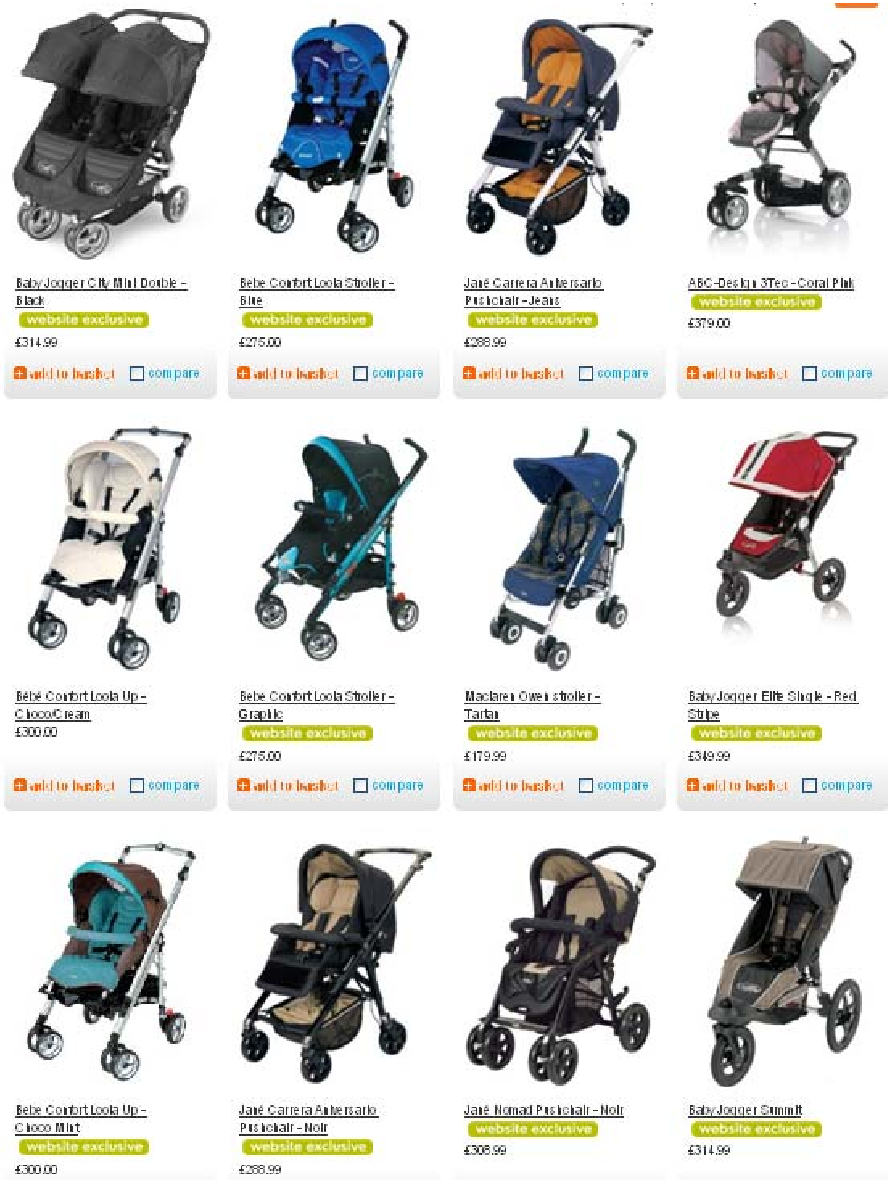
- Next phase
- Parenting centres
- Landmark stores
- High street

**Multi-channel**

- Widest choice
- Int'l websites
- Gurgle.com

# Widest choice – Home and Travel



# Wider clothing range online

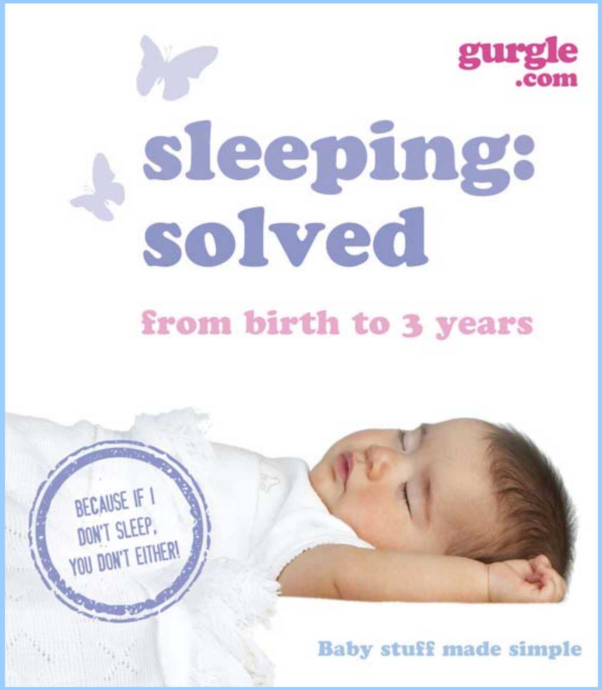
- 2/3 of clothing range online
- 100% of clothing online in a year
- More Home and Travel than in store

# ELC website

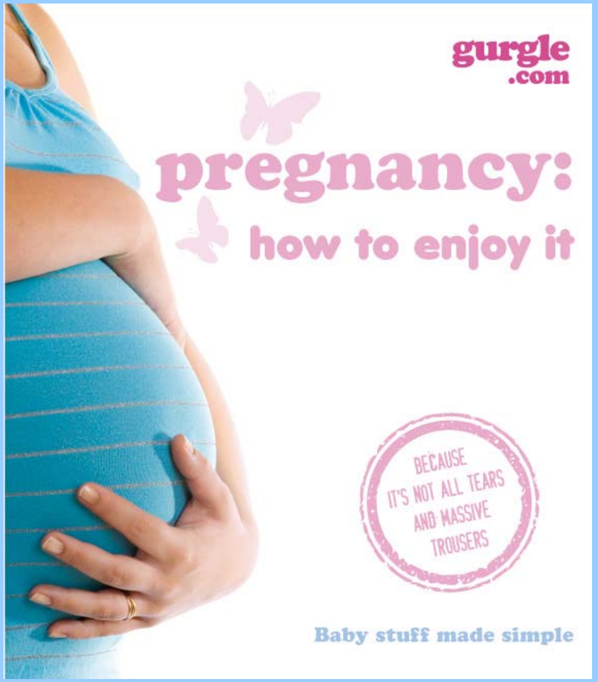
# International web rollout

- Trial sites pre Christmas
- Transactional early 2010
- Local languages
- Mothercare to manage look and functionality
- Countries to run trading and fulfilment

# Gurgle.com


gurgle
.com
sleeping:
solved
from birth to 3 years
BECAUSE IF I DON'T SLEEP, YOU DON'T EITHER!
Baby stuff made simple


gurgle
.com
feeding:
solved
from breastfeeding
to first foods
BECAUSE MY FOOD NEVER LOOKS AS GOOD WHEN YOU'RE WEARING IT!
Baby stuff made simple


gurgle
.com
pregnancy:
how to enjoy it
BECAUSE IT'S NOT ALL TEARS AND MASSIVE TROUSERS
Baby stuff made simple

# Summary and Outlook

# Q&A

# Appendix: Key store data as of March 2009

| | March 2007 | October 2007 * | March 2008 * | October 2008 * | March 2009 * |
|---|---|---|---|---|---|
| **Total UK Stores** | | | | | |
| Total stores | 225 | 438 | 425 | 411 | **405** |
| High street | 152 | 361 | 348 | 335 | **326** |
| Out of town | 73 | 77 | 77 | 76 | **79** |
| Selling area (000s sq. ft.) | 1,792 | 2,114 | 2,070 | 2,023 | **2,007** |
| Sales per sq. ft. ** | 231 | 275 | 284 | 288 | **288** |
| **International Stores** | | | | | |
| Europe | 151 | 183 | 198 | 237 | **261** |
| Middle East | 103 | 154 | 163 | 186 | **196** |
| Far East | 58 | 75 | 77 | 83 | **85** |
| Other | 16 | 50 | 56 | 66 | **67** |
| Total | 328 | 462 | 494 | 572 | **609** |

* Including ELC
** Full year UK sales compared to year end UK store square footage