Mothercare plc

Interim results

20 November 2014

Mark Newton-Jones

Chief Executive Officer

Overview for H1 2014/15

- Building a digitally led business with a modern store estate
- Financing secured through £100m Rights Issue and banking facilities
- International constant currency sales +11.8% with like-for-like sales +4.9%
- UK like-for-like sales +1.5% with flat gross margins
- Underlying profit before tax £3.3m

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Agenda

Financial results and outlook

Business update

Q&A

Matt Smith

Chief Financial Officer

Half year results – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% variance
Worldwide sales	633.1	637.7	(0.7)
Total International sales	397.5	399.3	(0.5)
Total UK sales	235.6	238.4	(1.2)
Group revenue	372.7	376.3	(1.0)
Underlying profit before tax	3.3	2.0	+65.0
Underlying earnings per share	3.0p	1.9p	+57.9

Income statement – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% variance
Group revenue	372.7	376.3	(1.0)
Underlying profit from operations	**7.5**	**6.1**	**+23.0**
Share based payments	(0.6)	(0.4)	+50.0
Net finance cost	(3.6)	(3.7)	+2.7
Underlying profit before tax	**3.3**	**2.0**	**+65.0**
Exceptional items	(3.2)	(5.1)	+37.2
Other non-underlying items	5.4	(7.9)	-
Reported profit/(loss) before tax	**5.5**	**(11.0)**	**-**

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Exceptional items – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m
Other restructuring costs	(3.2)	(5.1)
Total exceptional items	**(3.2)**	**(5.1)**
Non-cash foreign currency adjustments	5.9	(7.4)
Amortisation of intangibles	(0.5)	(0.5)
Total exceptional and non-underlying items	**2.2**	**(13.0)**

Group sales – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% variance
Worldwide sales	**633.1**	**637.7**	**(0.7)**
International			
International like-for-like sales growth	+4.9%	+4.8%	-
International retail sales	393.2	395.5	(0.6)
International wholesale sales	4.3	3.8	+13.2
Total International sales	**397.5**	**399.3**	**(0.5)**
UK			
UK like-for-like sales growth	+1.5%	(1.4%)	-
UK retail sales	219.0	222.2	(1.4)
UK wholesale sales	16.6	16.2	+2.5
Total UK sales	**235.6**	**238.4**	**(1.2)**

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Underlying profit before tax – 28 weeks to 11 Oct 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% variance
UK	**(13.5)**	**(14.9)**	**+9.4**
International franchise	25.5	25.4	+0.4
International JV profit share	(0.2)	(0.2)	-
Total International	**25.3**	**25.2**	**+0.4**
Corporate	**(4.3)**	**(4.2)**	**+2.4**
Underlying profit from operations	**7.5**	**6.1**	**+23.0**
Share based payments	(0.6)	(0.4)	+50.0
Financing	(3.6)	(3.7)	(2.7)
Underlying profit before tax	**3.3**	**2.0**	**+65.0**

UK operating profit – 28 weeks to 11 October 2014

	H1 FY2014/15 £m
UK operating loss – H1 2013/14	(14.9)
Sales and gross margin	1.0
Benefit of closing loss making stores	1.5
Underlying cost base	(1.1)
UK operating loss - H1 2014/15	**(13.5)**

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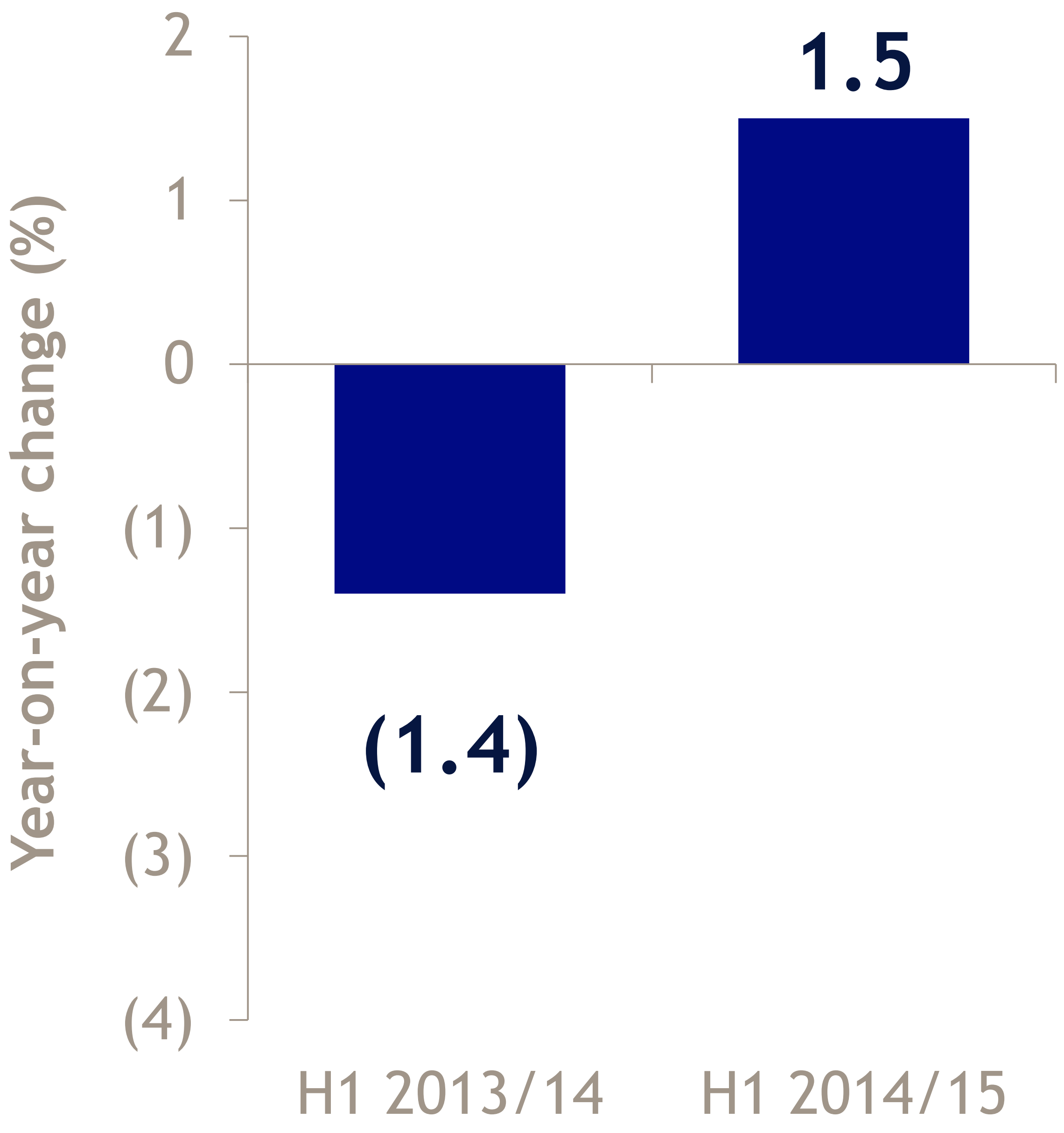
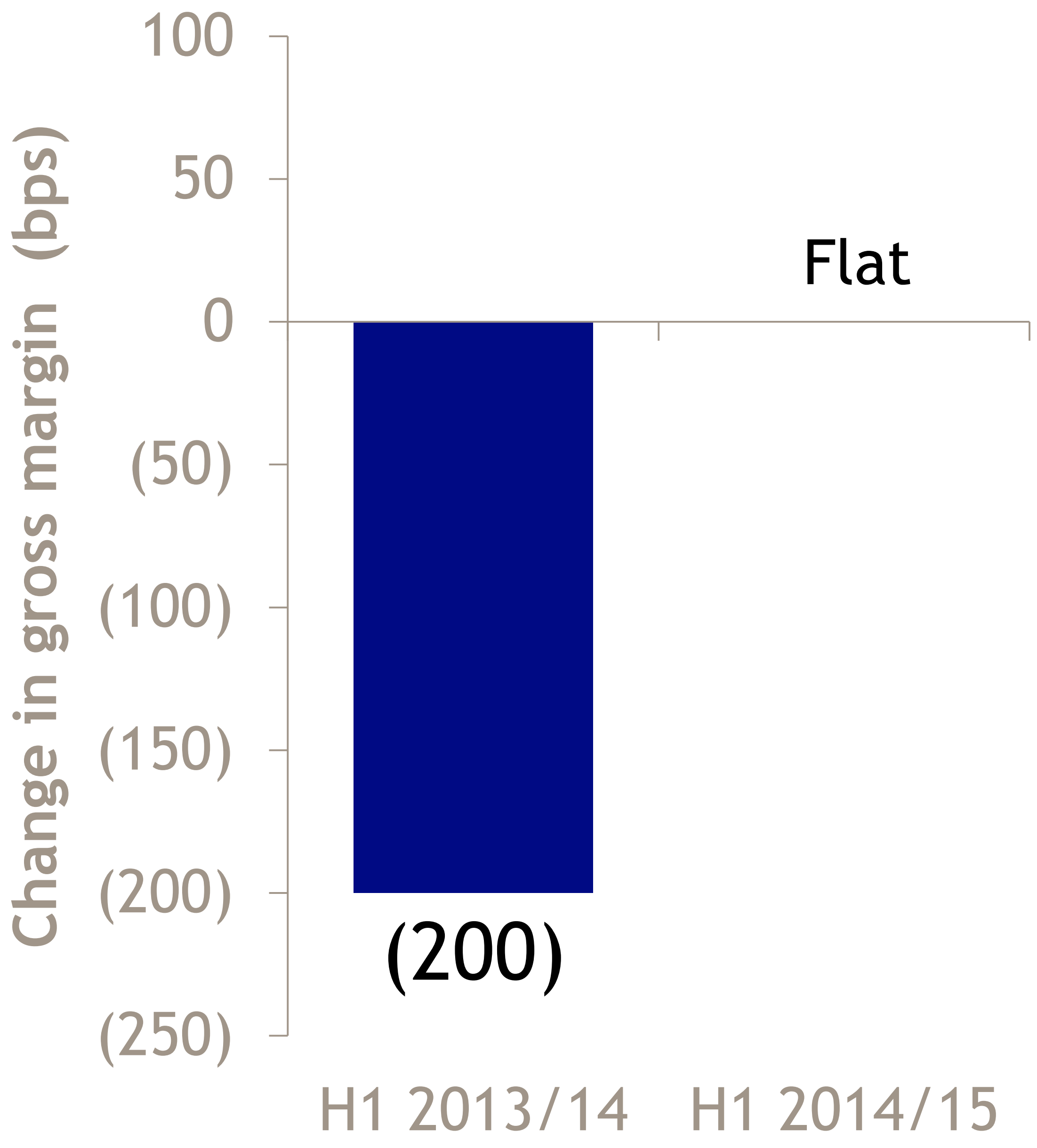
UK like-for-like sales improved with flat gross margin rate





UK gross margin rate flat

- Focus on returning to being a full price retailer
- Volatility in results as we anniversary promotional periods from last year

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Cash flow – 28 weeks to 11 October 2014

	FY2014/15 £m
Operating cash flow	11.1
Working capital	0.0
Capital expenditure	(4.4)
Taxation	(2.0)
Net finance costs	(2.8)
Restructuring	(9.6)
Change in cash during H1 2014/15	**(7.7)**
Opening net debt	(46.5)
Closing net debt	**(54.2)**

Financing secured

- Rights issue successfully completed

Nature	Proceeds investment	Rationale
1. Repayment of term loan	**£40m**	Strengthen balance sheet and reduce interest payments
2. Reshape the UK store estate	**£45m**	
i. UK store closures	£25m	Early exit from significant loss-makers
ii. UK store refurbishments	£20m	Modernisation of store portfolio to drive growth
3. Investment in IT, e-commerce systems and infrastructure	**£10m**	Digitally-led business to reflect consumer expectations and support UK and International growth
4. Underwriting & professional fees	**£5m**	
TOTAL	**£100m**	

- Bank facilities to May 2018

Outlook

Outlook for FY 2014/15 – P&L

International

- Space growth in line with last two years: c.13%
- Retail sales growth in constant currency: 10-13%
- Currency devaluation continuing to impact reported retail sales: (12.4%) in H1 and (c.7%) in H2

UK

- Like-for-likes sales continuing to show improving trajectory vs. FY 2013/14
- Focus on optimising cash margin
- Gross margin rate stabilisation
- Stores reduced by c.35, eliminating c.£3m of losses at store contribution level
- Share based payments of c.£2.0m
- Interest cost of c.£6m

Outlook for FY 2014/15 – Cash

- Trade working capital expected to be neutral (FY 2013/14 (£4.7m))
- Capital expenditure c.£20m (FY 2013/14 £13.8m)
- Other cash flow items:
  - Cash element of exceptional restructuring charges of £15m - £20.0m (FY 2013/14 £14.7m)
  - Pension scheme deficit recovery payment of £6.0m (FY 2013/14 £6.0m)
- Net cash position of c.£30m, following £100m rights issue

Mark Newton-Jones

Chief Executive Officer

Our vision – customers at the heart of our business

Vision: The leading global retailer for parents and young children

The first choice for expectant parents	The first choice for newborn and baby	Great style, quality, innovation and fun for young children

All under one roof online and in store

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Our to-do list

Vision: The leading global retailer for parents and young children

1. Become a digitally led business
2. Supported by a modern retail estate
3. Offering style, quality and innovation in product & great service
4. Stabilise and recapture gross margin
5. Running a lean organisation while investing for the future
6. Expanding further internationally

Supported by digitally led modern stores, IT systems, infrastructure and talented people

1 Becoming a digitally led business

Need to know 2 key facts:
Due date and Birth date

Mobile and tablet sales growing

Digital screen driving customer perception

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2 Supported by a modern retail estate

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2 Supported by a modern retail estate

Store estate

Current Blueprint

Future Blueprint

3 Offering great style, quality and innovation in product and service

4 Stabilise and recapture gross margin

- Reinvest some margin improvements in product quality

5 Running a lean organisation while investing for the future

- Tight control of central costs whilst investing for growth
  - Store refurbishments
  - Brand & marketing
  - E-commerce & IT

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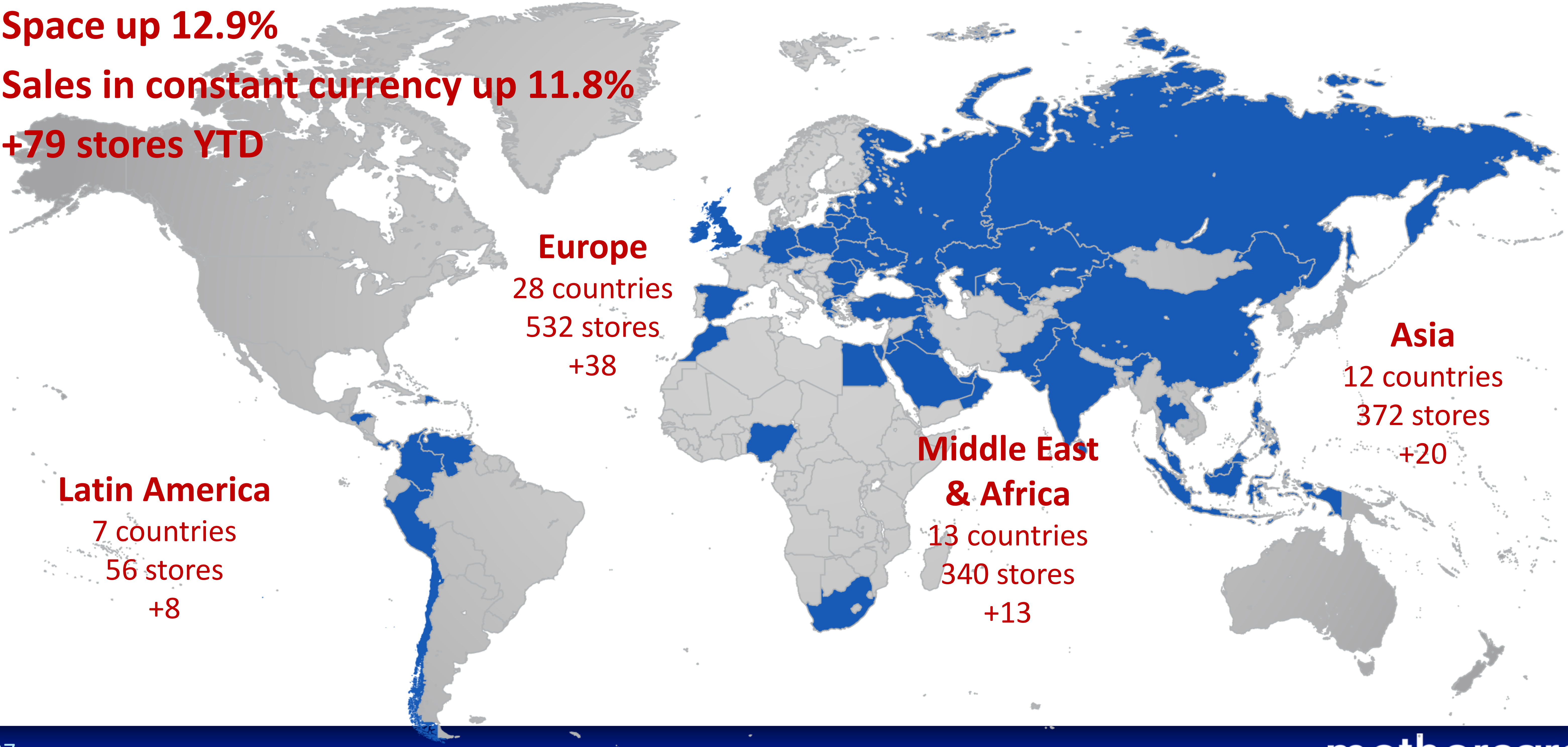
6 Expanding further Internationally

Space up 12.9%

Sales in constant currency up 11.8%

+79 stores YTD



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Summary

- Building a digitally led business with a modern store estate
- Financing secured through £100m Rights Issue and banking facilities through to May 2018
- International constant currency sales +11.8% with like-for-like sales +4.9%
- UK like-for-like sales +1.5% with flat gross margins
- Underlying profit before tax £3.3m

Q&A


TRAVEL
dreams
pushchairs
NURSERY
BABYCARE
toys
soft play
mothercare For that wonderful, frustrating, hilarious
1to8
BOYS
1to8
GIRLS
ADVENTURE

Appendices

Banking facilities secured to May 2018

- **Facility:**
  £50 million Revolving Credit Facility
- **Term:**
  May 2018
- **Covenant package:**
  Revised to provide increased and appropriate headroom and flexibility
- **Margins:**
  Reduced leading to lower expected interest costs

Group balance sheet – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	FY2013/14 £m
Non current assets			
Fixed assets	62.7	75.0	67.3
Intangibles	42.9	44.6	44.2
Deferred tax	21.0	20.7	18.5
Net current assets			
Working capital	48.8	52.1	46.9
Net debt	(54.2)	(48.0)	(46.5)
Other	(7.7)	(17.4)	(24.4)
Non current liabilities			
Pensions	(63.5)	(55.8)	(49.7)
Other provisions	(37.3)	(40.3)	(41.1)
Net assets	**12.7**	**30.9**	**15.2**

Oro forma group balance sheet – unaudited

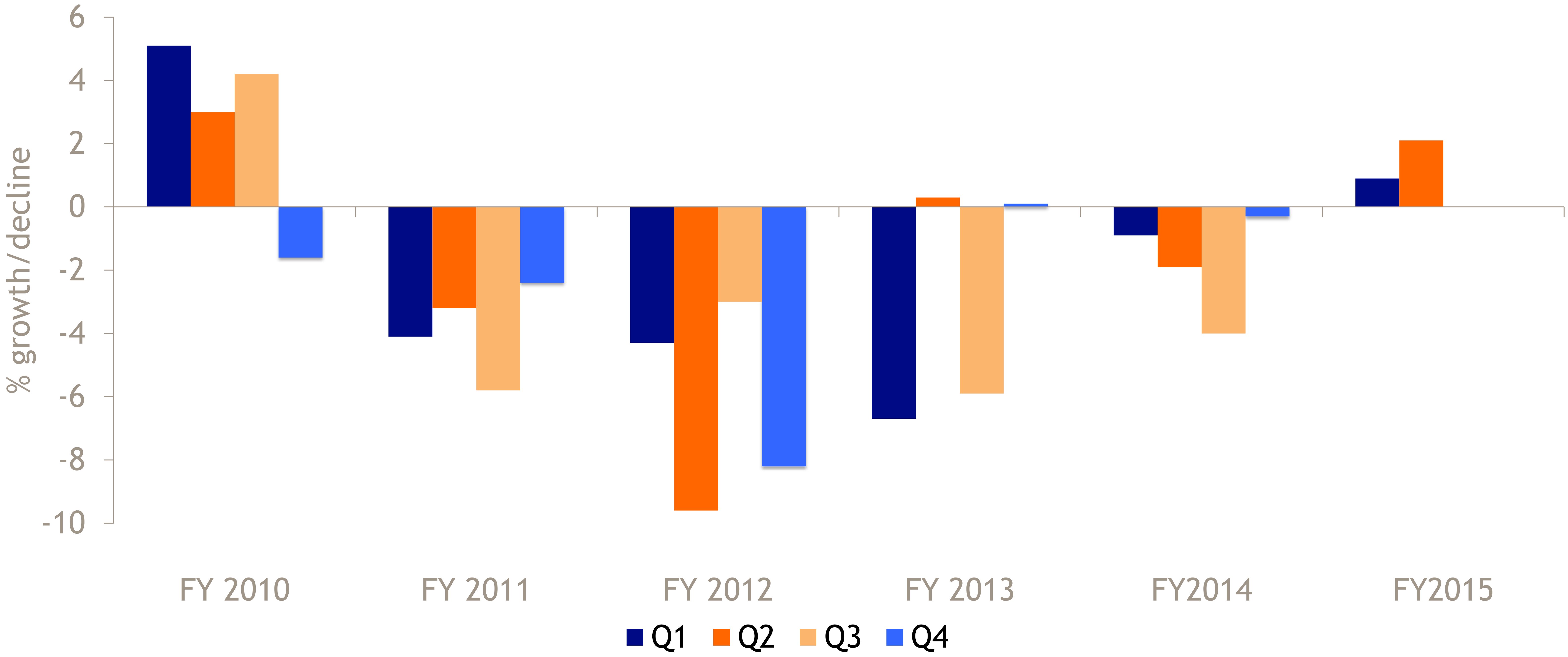
(summary taken from Rights Issue Prospectus)

	FY2013/14 £m	Rights issue £m	Impact of repaying debt £m	Pro forma FY2013/14 £m
Non current assets				
Fixed assets	67.3			67.3
Intangibles	44.2			44.2
Deferred tax	18.5			18.5
Net current assets				
Working capital	46.9			46.9
Net debt	(46.5)	94.5	(1.2)	46.8
Other	(24.4)			(24.4)
Non current liabilities				
Pensions	(49.7)			(49.7)
Other provisions	(41.1)			(41.1)
Net assets	**15.2**	**94.5**	**(1.2)**	**108.5**

UK summary - 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% change
UK like-for-like sales growth	+1.5%	(1.4%)	-
Retail sales	£219.0m	£222.2m	(1.4)
Wholesale sales	£16.6m	£16.2m	+2.5
Total UK sales	£235.6m	£238.4m	(1.2)
Underlying loss from operations	(£13.5m)	(£14.9m)	**+9.4**

UK like-for-like progression



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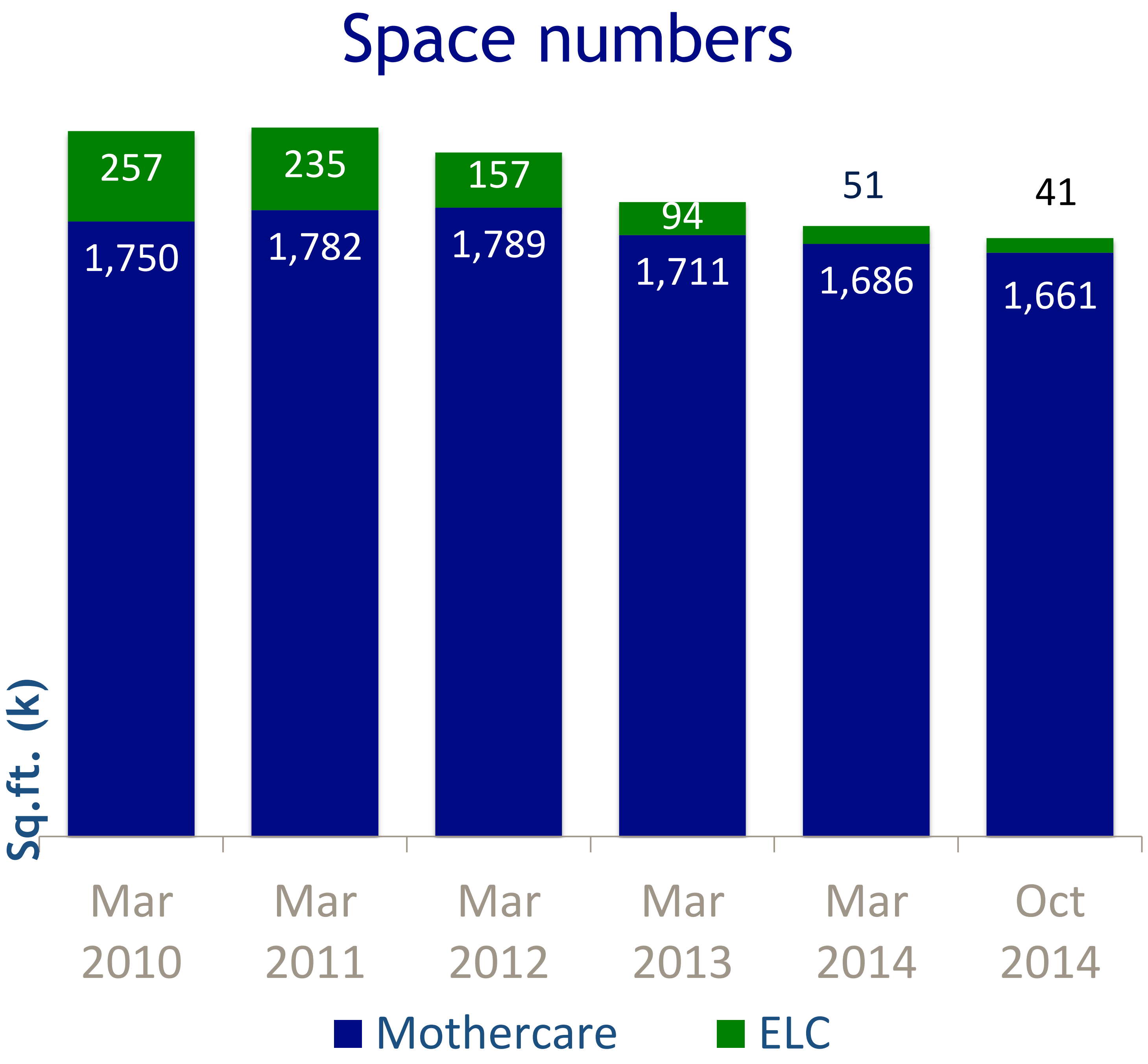
UK store and space numbers



International summary – 28 weeks to 11 October 2014

	H1 FY2014/15 £m	H1 FY2013/14 £m	% variance
Constant currency growth	11.8%	11.9%	-
Total International sales	£397.5m	£399.3m	(0.5)
Underlying profit from operations	£25.5m	£25.4m	+0.4
Underlying profit margin (excl. JVs)	6.4%	6.4%	-
International JV profit share	(£0.2m)	(£0.2m)	-
Underlying profit from operations (incl. JVs)	£25.3m	£25.2m	+0.4
Underlying profit margin (incl. JVs)	6.4%	6.3%	-

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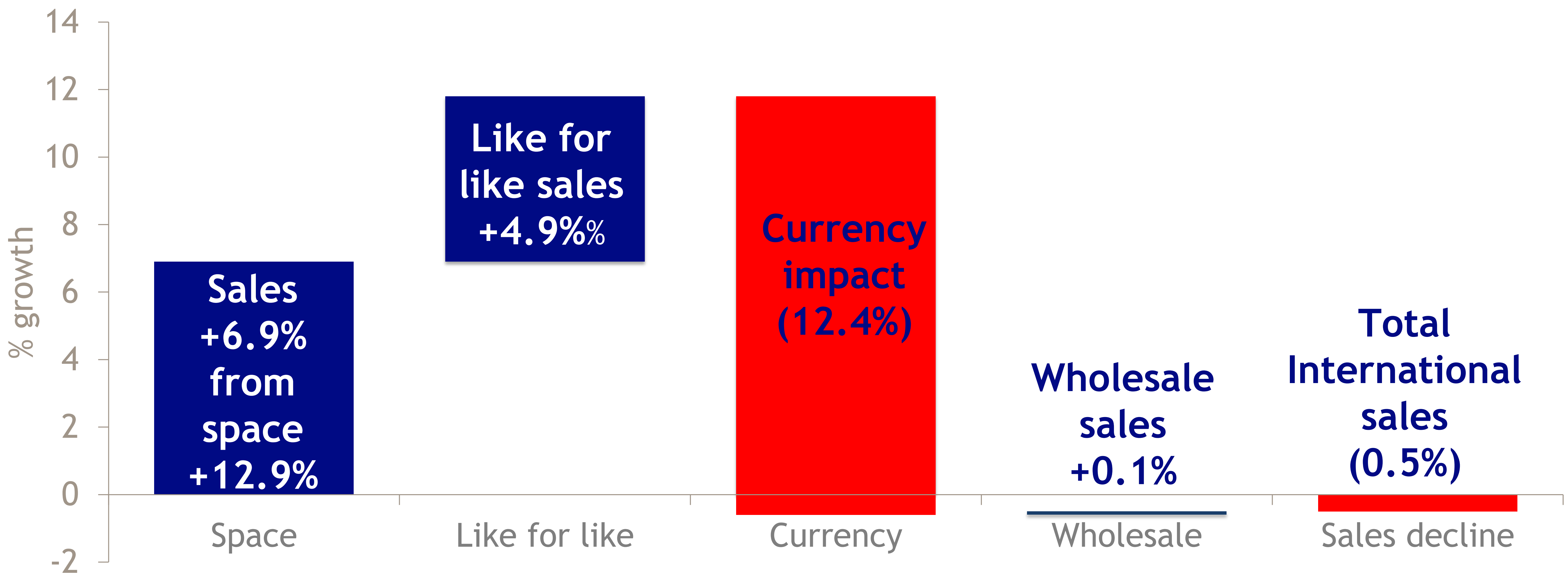
International growth for H1 2014/15



- Profit growth +0.4% to £25.3 million

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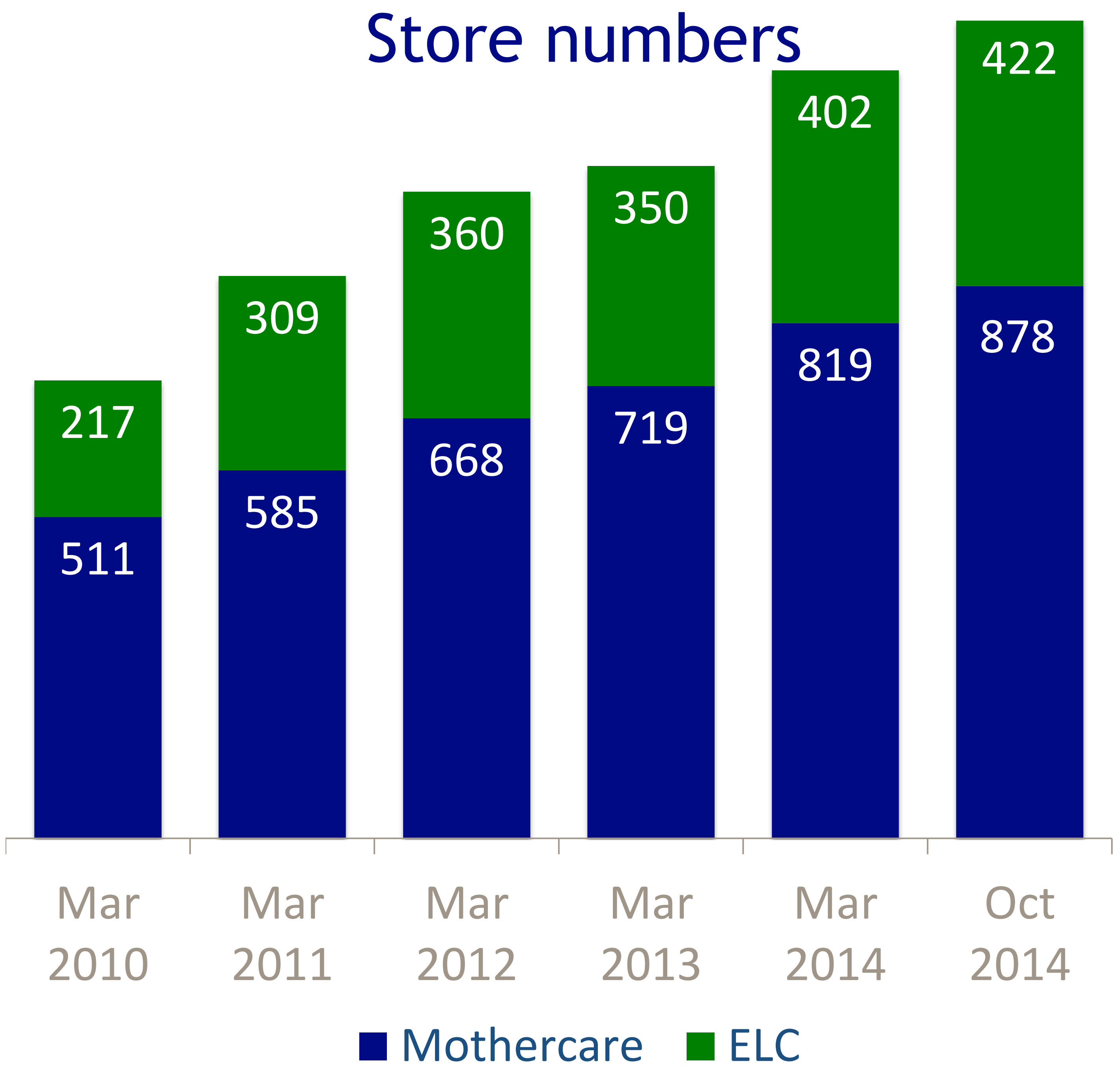
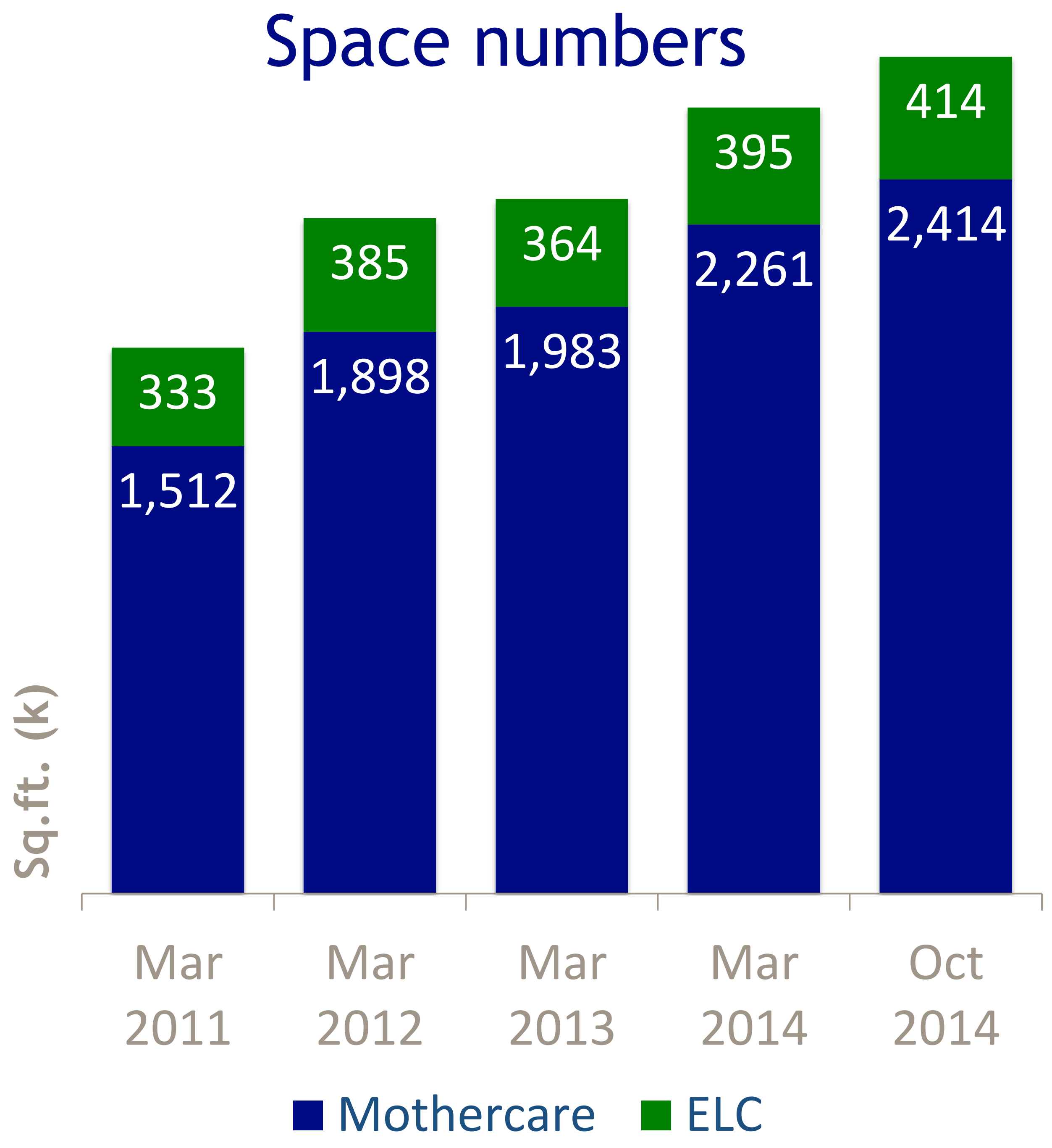
International store and space numbers





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Pension scheme

		H1 2014/15 £m	H1 2013/14 £m	FY2013/14 £m
Income statement	Service cost	-	-	-
	Running costs	(0.6)	(0.6)	(1.1)
	Return on assets/(interest on liabilities)	(1.1)	(1.5)	(2.7)
	(Exceptional) gains on curtailment	-	-	-
	Net DB charge	**(1.7)**	**(2.1)**	**(3.8)**
	DC charge	**(1.3)**	**(1.3)**	**(2.0)**
	Total pension charge	**(3.0)**	**(3.3)**	**(5.8)**
Cash funding	Recurring payments	(0.5)	(0.5)	(0.6)
	Deficit contribution	(2.7)	(2.6)	(5.6)
	DB cash funding	**(3.2)**	**(3.1)**	**(6.2)**
	DC cash funding	**(1.3)**	**(1.2)**	**(2.0)**
	Total cash funding	**(4.5)**	**(4.3)**	**(8.2)**
Balance sheet	Fair value of assets	259.8	242.4	253.3
	Present value of defined benefit obligations	(323.3)	(298.2)	(303.0)
	Net DB liability	**(63.5)**	**(55.8)**	**(49.7)**

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Sensitivities for modelling assumptions

Using FY2013/14 as a base and assuming no change to external factors:

- UK sales of £462m
  - 1% change in like-for-like sales
    - Impact of circa £4.5m on sales
    - Impact of circa £1.2-1.5m on gross profit assuming no change in margin rate
  - 10 basis point change in margin
    - Impact of circa £0.5m assuming flat sales
- International sales of £729m
  - 1% change in currency impact
    - Impact of £0.4 to £0.5m