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Half year results 2017/18

Overview

- UK transformation progressing well
- International challenging, driven by the Middle East
- UK consumer outlook uncertain

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Richard Smothers

chief financial officer

half year results

28 weeks to 7 October 2017

	HY 2017/18 £m	HY 2016/17 £m	% variance
worldwide sales	628	637	(1.4)
total international sales	399	406	(1.7)
total UK sales	229	231	(1.0)
Group revenue	339	348	(2.4)
adjusted EBITDA	13.4	16.9	(21)
adjusted profit/(loss) before tax	(0.7)	5.9	(112)
reported (loss)/profit before tax	(16.8)	(0.8)	-
net (debt)/cash	(37.6)	(15.6)	-

'adjusted' previously defined as 'underlying'

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income statement

28 weeks to 7 October 2017

	HY 2017/18 £m	HY 2016/17 £m	% variance
adjusted profit from operations	1.0	8.3	(88)
share based payments	0.2	(0.5)	
net finance cost	(1.9)	(1.9)	
adjusted profit/(loss) before tax	(0.7)	5.9	(112)
adjusted earnings per share	0.0p	3.4p	(100)
adjusted costs	(15.6)	(10.7)	
adjusted items	(0.5)	4.0	
reported (loss) before tax	(16.8)	(0.8)	-

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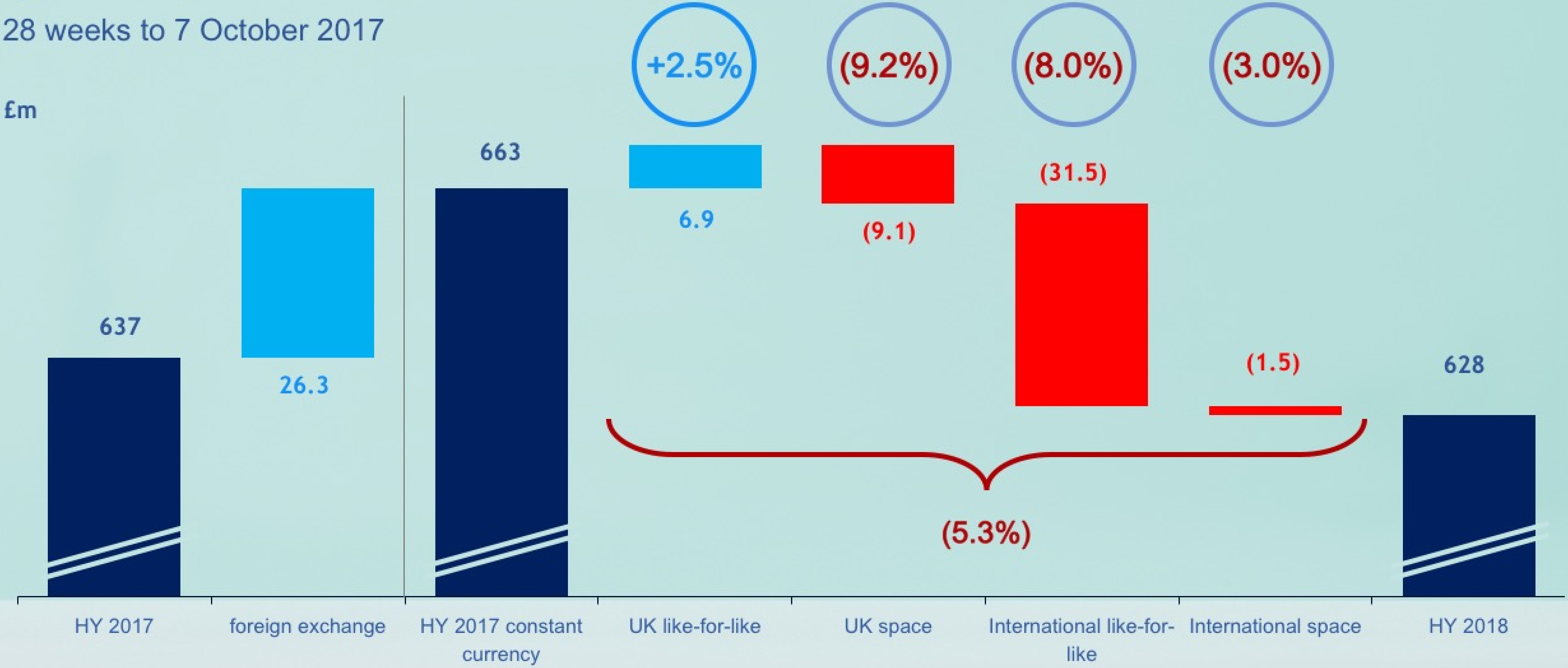
group sales development

28 weeks to 7 October 2017



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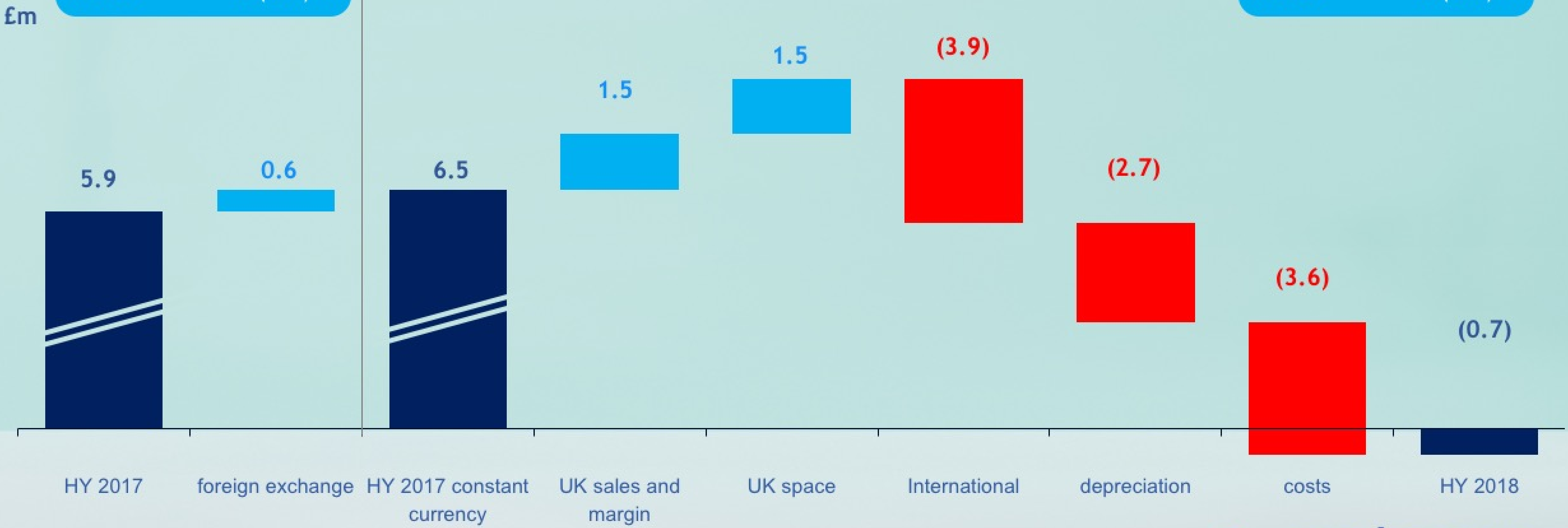
group profit performance

28 weeks to 7 October 2017

UK:	£(8.8)m
International:	£20.8m
Other:	£(6.1)m

UK:	£(9.6)m
International:	£14.9m
Other:	£(5.9)m



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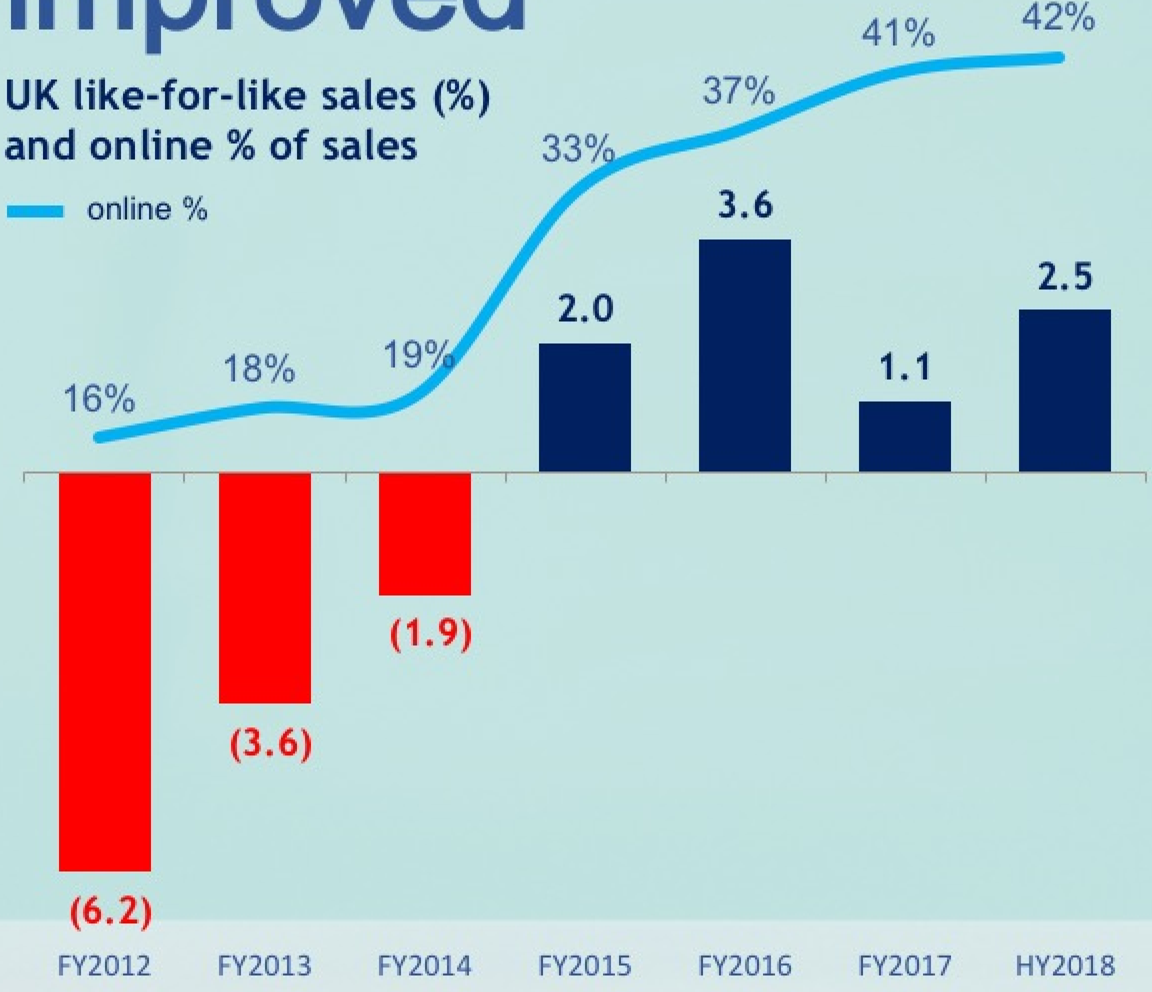
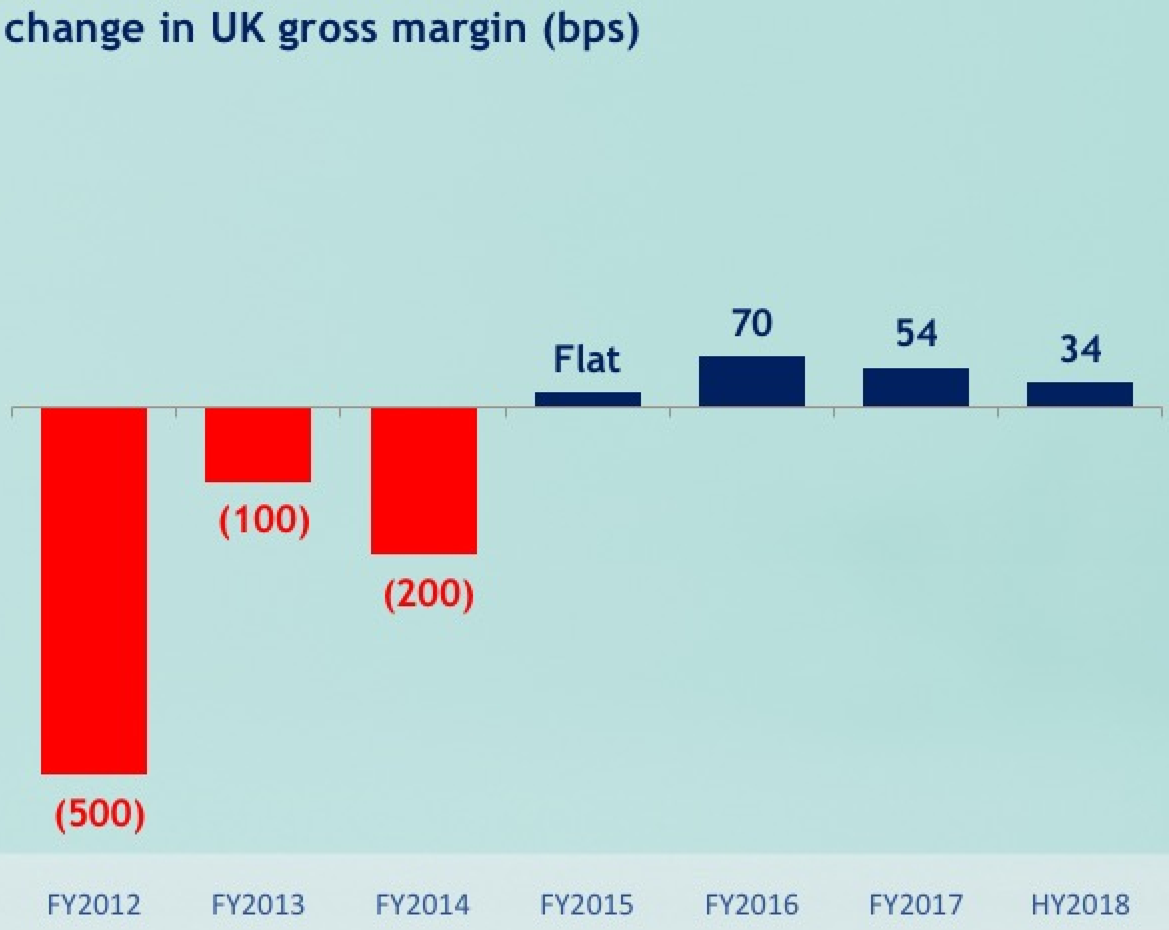
UK sales like-for-like and gross margin improved





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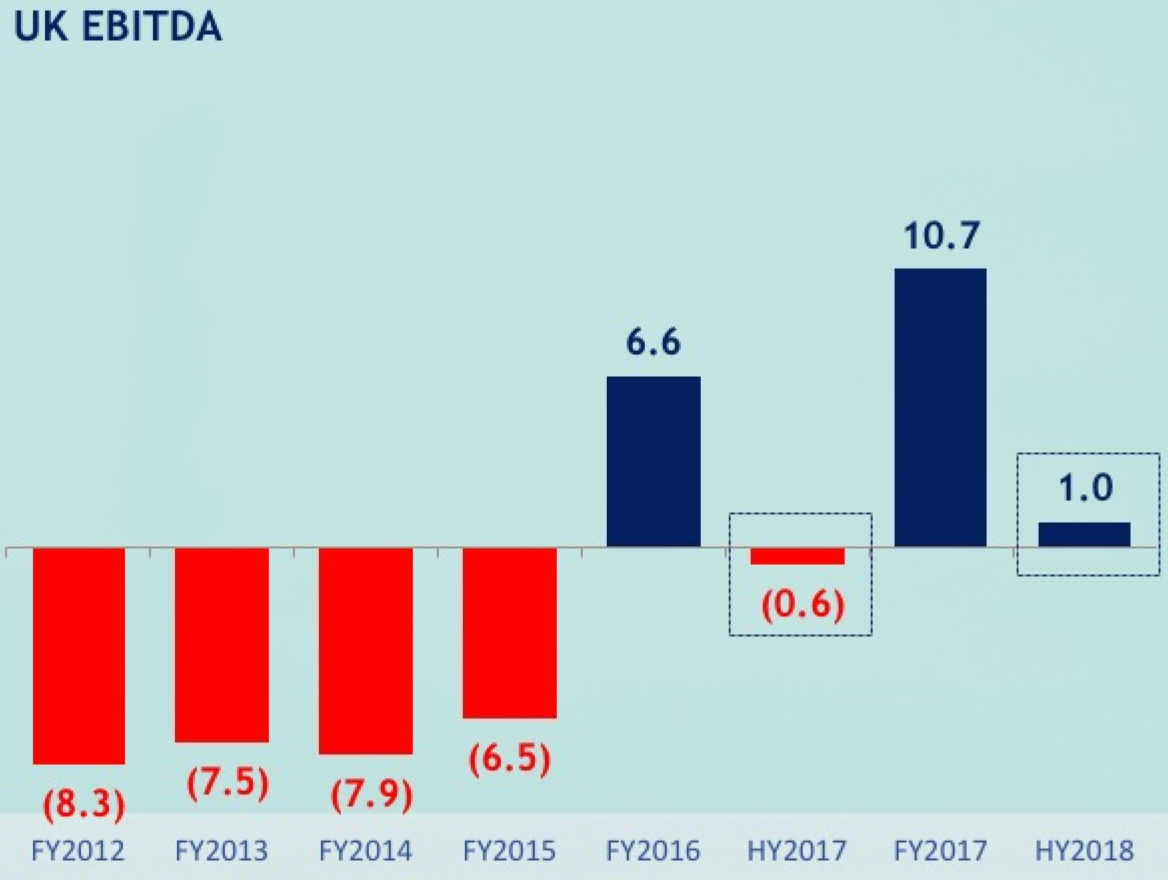
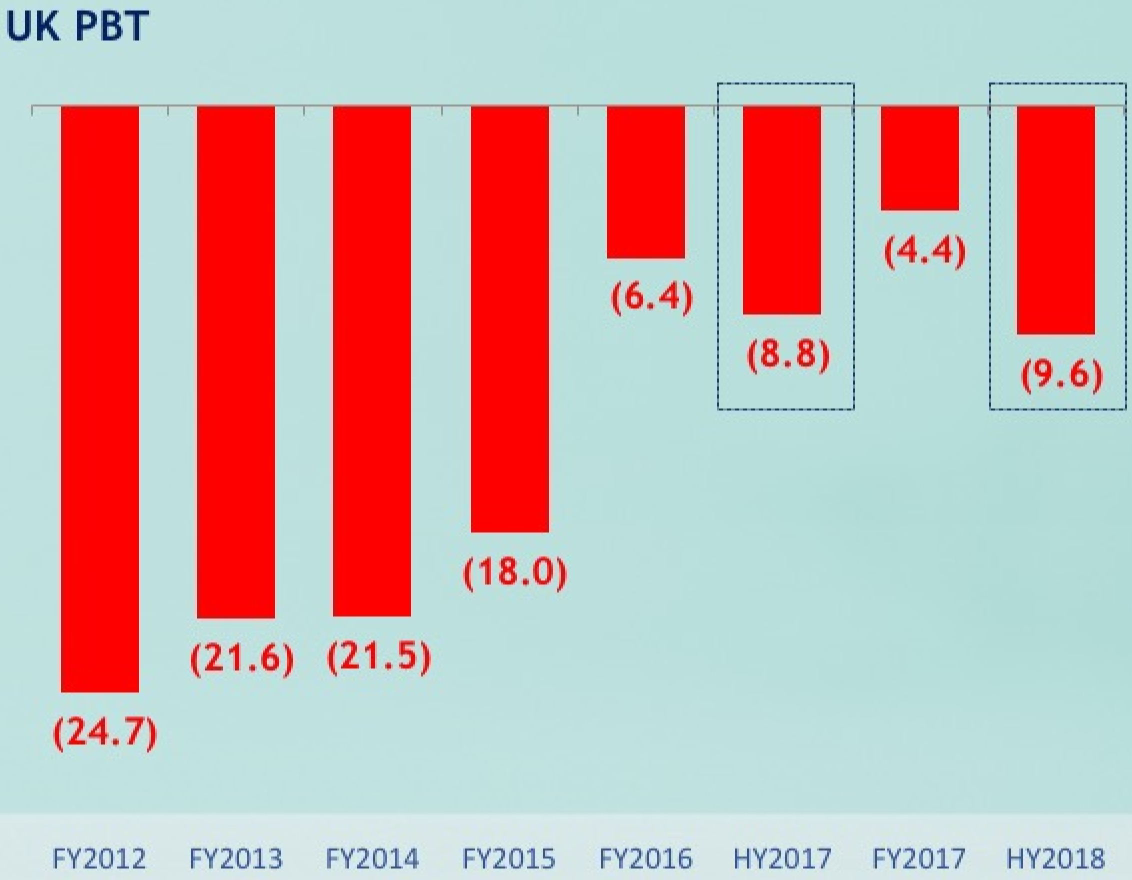
UK business moving towards sustainability and improved resilience





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cash flow

28 weeks to 7 October 2017

	HY 2017/18 £m	HY 2016/17 £m
adjusted profit from operations	1.0	8.3
depreciation and amortisation	12.3	9.6
retirement benefit schemes	(5.4)	(4.4)
working capital	(5.3)	(6.8)
other movements	(2.5)	(5.9)
cash generated from operations	0.1	0.8
capital expenditure	(12.4)	(25.1)
interest and tax	(1.4)	(1.0)
adjusted free cashflow	(13.7)	(25.3)
adjusted items	(8.9)	(2.1)
free cashflow	(22.6)	(27.4)
drawdown on facility*	24.5	30.0
payment of facility fee	(0.6)	-
purchase of own shares	-	-
other movements	0.9	(1.7)
change in cash during year	2.2	(0.9)
opening net cash/(debt) from year-end	(0.9)	13.5
closing net (overdraft)/cash	**1.3**	**14.4**
Borrowing (including facility fee)*	(38.9)	(30.0)
statutory closing net (overdraft)/cash	**(37.6)**	**(15.6)**

* statutory cash includes Revolving Credit Facility

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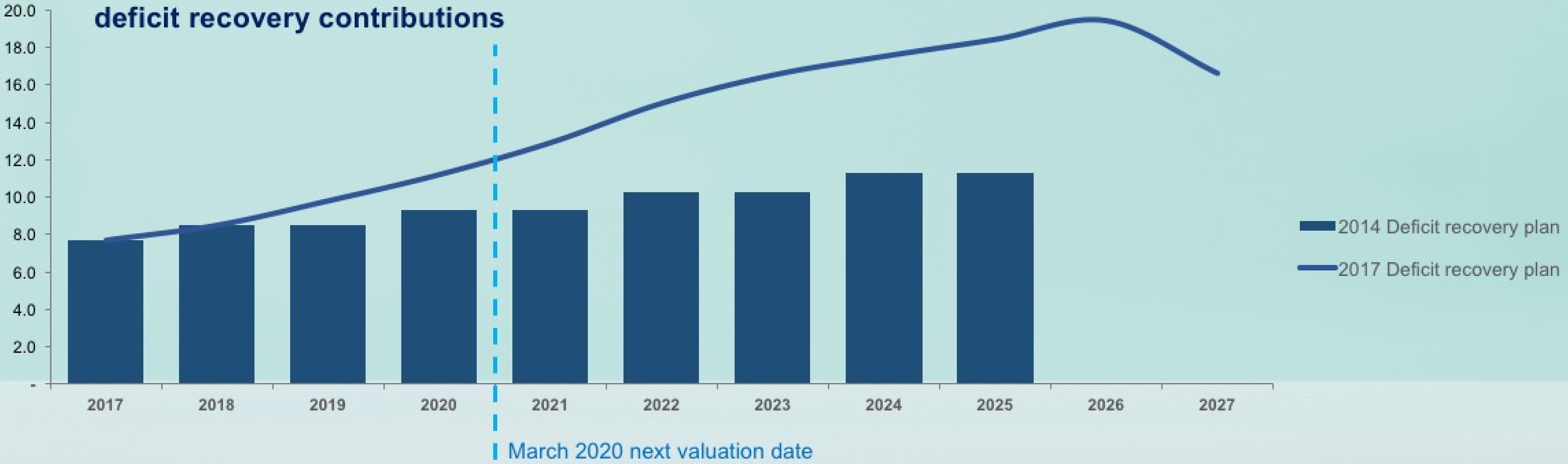
capital expenditure

- £12.4m invested in the business
    - £1.4m invested in store portfolio – one store re-site
    - £8.6m invested in IT and digital
    - £2.0m invested in infrastructure and warehousing systems
    - £0.4m invested in base maintenance

pension tri-annual valuation

- **the 2017 tri-annual valuation has been concluded ahead of time**
  - actuarial deficit 2014 £89.9m. Actuarial deficit 2017 £139.4m
  - increase driven by lower discount rates, offset by contributions, good investment growth, trend on lower mortality



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Mark Newton-Jones

chief executive officer

our vision, six pillars and four foundations

The Leading Global Retailer for Parents & Young Children

uniting mums (and dads) to take on parenting together

become a digitally led business	supported by a modern retail estate and a great service	offering style, quality and innovation in product	stabilise and recapture gross margin	running a lean organisation whilst investing for the future	expanding further internationally

physical and digital as one

all are built off a foundation of Modern Systems, Infrastructure, Governance and Talented People

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the future of our brand – 2020 and beyond

- true specialist supported by data-driven actions
- half our turnover digitally generated
- supported by a network of regional stores
- products and services focused on the core customer
- a leaner, simpler organisation
- export our brand internationally

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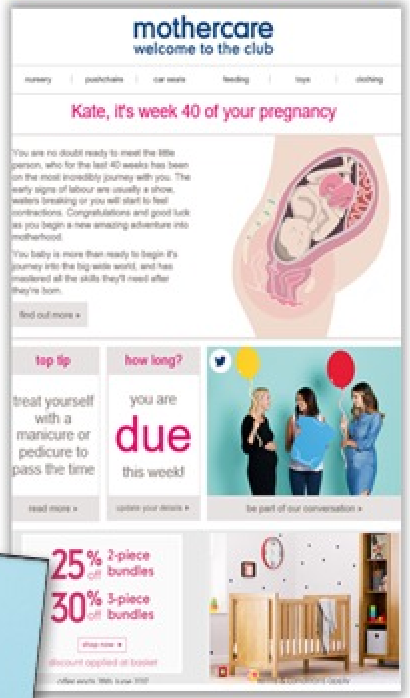
being a digitally led business

- 42% sales online
- 82% sales from mobile
- 2.9m active database*
  - early stage personalisation
  - ‘my mothercare’ +28% acquisition
  - preparing for GDPR
- c.7,500 videos
  - buying guides, advice, content from influencers and experts
- social engagement

lifestage



advice, support, relevancy, emotion

high open rate
high engagement

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* Individual customers transacting over 12 months. Active engagements is 3.2m

supported by a modern retail estate and great service

- 75% of estate in modern ‘club’ format
- opened one new store; closed 10
- specialism
  - 2,500 specialist advisers
  - 275 supplier training sessions
- community reach
  - 32,000 attendees at
    2 Expectant Parent Events;
    c.£8m revenue
  - monthly new mums meet ups
  - NCT Partnership

parent friendly place
nct
www.nct.org.uk

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Office Outlet

product style, quality and innovation

- 40% of Home and Travel brands are now exclusive
  - 116 new exclusive branded products launched
- 27% of Home and Travel ‘best’
- 20% of Clothing and Footwear ‘best’
- 20% of Toy range ‘best’
- buy is now focused on core categories

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stabilise and recapture gross margin

- options reduced
- full price sales 60% of all product
- cost price increase from inflation materially reduced through negotiation
- selling price increases of between 3-5%

full price sales

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running a lean organisation while investing for the future

- stock position reduced by £6m to £120m
- investment in warehousing consolidation and merchandising planning systems now complete
- plans to accelerate business simplification and central overhead savings

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expanding further internationally

‘exporting our brand around the globe’

- opened 68 new stores; closed 83
- 127 stores in modern ‘club’ format
- online now 3.4% of International sales (c.2% H1 FY16/17) growing +57% in constant currency
- online sales now active in 23 countries across 30 websites and marketplaces
- online in three new markets: India, Pakistan and United Arab Emirates

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outlook

outlook for UK consumer

- UK performance over the last eight weeks has been volatile
- many contributory factors
  - weak September last year
  - strong October last year
  - milder weather October this year
  - holding back for Cyber week
  - interest rate increase
  - high levels of personal debt
  - sub-inflation pay increases

Fashion retailer like-for-like data – BDO

Source: BDO high street sales tracker – 8 weeks to 29 October 2017

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outlook for H2 2017/18 – P&L

UK

- like-for-like sales outlook uncertain
- gross margin flat
- share based payments c.£2m (FY £3m)
- finance costs: c.£2m (FY £4m)

International

- retail sales in constant currency broadly flat
  - Middle East weakness offset by other markets
- space growth flat to low single digit
- strong online growth, high double digit
- timings of shipments and US$ pass-through; 50% of H1 profit shortfall recovered

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outlook for H2 2017/18 – cash

- trade working capital expected to be neutral
- lower capital expenditure c.£20-30m reflecting timing of investment
- other cash flow items:
  - cash element of exceptional restructuring charges of £12m, higher, reflecting faster cost savings (FY 2016/17 £12.5m)
  - pension scheme contributions of £11.7m (FY 2016/17 £9.6m)
- net debt of £30-40m, following investment into business
- headroom on covenants. Gearing 1.1x*

*Last 12 months basis

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H2 sensitivities for modelling assumptions

UK

- 1% change in like-for-like sales
  - impact of c.£2m on sales
  - impact of £0.7m to £0.9m on gross profit assuming no change in margin rate
- 10 basis point change in margin
  - impact of c.£0.2m assuming flat sales

International

- 1% reduction in constant currency sales
  - impact of £0.2 to £0.3m
- 1% change in currency impact
  - impact of £0.2m to £0.3m

summary

- UK transformation progressing well
- International challenging, driven by the Middle East
- UK consumer outlook uncertain


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questions & answers


Appendix

store and space numbers

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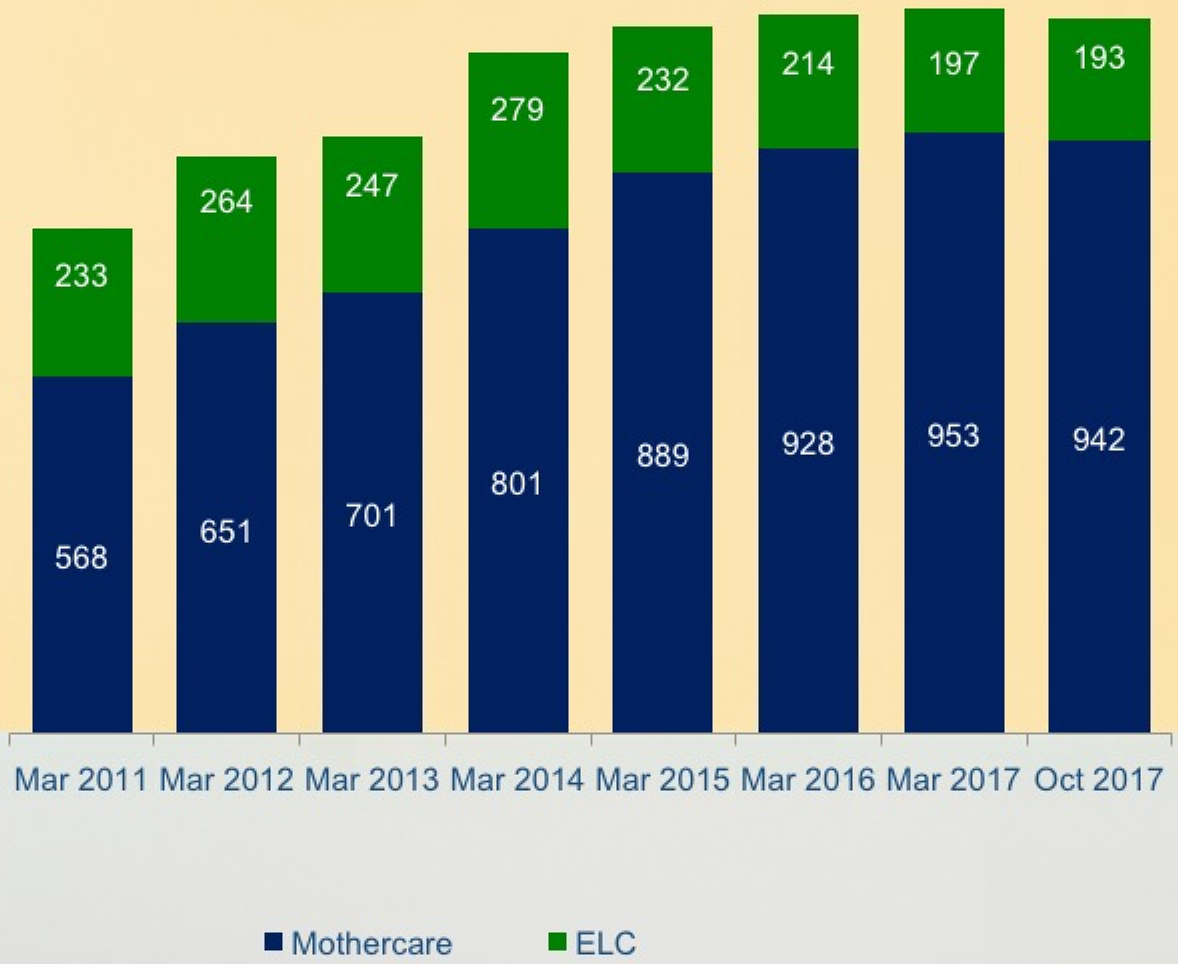
international store and space numbers



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currency impact

28 weeks to 7 October 2017

	sales £m	Adjusted operating profit £m
Russia	12.7	0.2
Saudi Arabia	3.9	0.2
United Arab Emirates	2.6	0.2
China	0.6	0.0
Kuwait	1.2	0.1
Indonesia	0.9	0.0
Other currencies	4.4	(0.1)
Total currency impact	**26.3**	**0.6**

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currency impact

28 weeks to 7 October 2017

	HY 2017/18	HY 2016/17	% variance
average:			
Russia	75.02	88.95	+15.7%
Saudi Arabia	4.84	5.17	+6.4%
United Arab Emirates	4.74	5.03	+5.8%
China	8.75	9.03	+3.1%
Kuwait	0.39	0.41	+5.0%
Indonesia	17,215	18,186	+5.3%
closing:			
Russia	77.11	81.58	+5.5%
Saudi Arabia	5.02	4.87	(3.2)%
United Arab Emirates	4.92	4.77	(3.3)%
China	8.90	8.66	(2.8)%
Kuwait	0.40	0.39	(3.5)%
Indonesia	18,051	16,889	(6.9)%

pension scheme

	HY 2017/18 £m	HY 2016/17 £m	FY 2016/17 £m
income statement			
running costs	(1.7)	(1.6)	(3.2)
net (interest on liabilities)/return on assets	(1.1)	(1.3)	(2.9)
net DB charge	**(2.8)**	**(2.9)**	**(6.1)**
DC charge	**(1.1)**	**(1.1)**	**(2.0)**
total pension charge	(3.9)	(4.0)	(8.1)
cash funding			
regular contributions	(2.6)	2.4	(2.6)
deficit contributions	(4.5)	3.6	(9.1)
DB cash funding	**(7.1)**	**6.0**	**(11.7)**
DC cash funding	**(1.1)**	**(1.1)**	**(2.0)**
total cash funding	(8.2)	4.9	(13.7)
balance sheet			
fair value of schemes' assets	344.4	329.4	329.6
present value of defined benefit obligations	(408.6)	(435.9)	(409.7)
net liability	**(64.2)**	**(106.5)**	**(80.1)**

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