Mothercare plc

Full year results

22 May 2014


Alan Parker
Chairman

Overview for FY 2013/14

- Underlying profit before tax of £9.5m
- Challenging UK performance
- Encouraging International business
- New Board members
- CEO appointment
- Committed to our goal of returning the UK to break-even whilst growing the International business

Agenda

Financial results and outlook

Business update

- International
- UK

Q&A


Matt Smith
Chief Financial Officer

Full year results – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m	% variance ex Australia & NZ	% variance inc Australia & NZ
Worldwide network sales	1,191.5	1,185.1	+0.5	(3.0)
Total International sales	729.2	685.4	+6.4	+0.1
Total UK sales	462.3	499.7	(7.5)	-
Group revenue	724.9	744.1	(2.6)	(3.3)
Underlying profit before tax	9.5	5.9*	61.0	-
Underlying earnings per share	7.7p	4.2p	83.3	-
Net debt	(46.5)	(32.4)	+43.5	-

* Restated for IAS19

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Income statement – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m	% variance ex Australia & NZ
Group revenue	724.9	744.1	(2.6)
Underlying profit from operations	**16.0**	**12.7**	**+26.0**
Share based payments	(0.1)	(0.9)	(88.9)
Net finance cost	(6.4)	(5.9)	+8.5
Underlying profit / (loss) before tax	**9.5**	**5.9***	**+61.0**
Exceptional items	(19.9)	(35.7)	(44.3)
Other non-underlying items	(15.9)	5.9	-
Reported loss before tax	**(26.3)**	**(23.9)**	**+10.0**

* Restated for IAS19

Exceptional items – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m
Impairment of investment in/receivables from JV	(2.6)	(11.1)
UK property restructure	(10.9)	(19.9)
Other restructuring costs	(6.4)	(4.7)
Total exceptional items	**(19.9)**	**(35.7)**
Non-cash foreign currency adjustments	(14.9)	6.9
Amortisation of intangibles	(1.0)	(1.0)
Total exceptional and non-underlying items	**(35.8)**	**(29.8)**

Group network sales – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m	% variance
Worldwide network sales	**1,191.5**	**1,185.1**	**+0.5**
International			
International retail sales	721.9	677.7	+6.5
International wholesale sales	7.3	7.7	(5.2)
Total International sales	**729.2**	**685.4**	**+6.4**
UK			
UK retail sales	432.6	468.2	(7.6)
UK wholesale sales	29.7	31.5	(5.7)
Total UK sales	**462.3**	**499.7**	**(7.5)**

Underlying profit before tax – 52 weeks to 29 March 2014

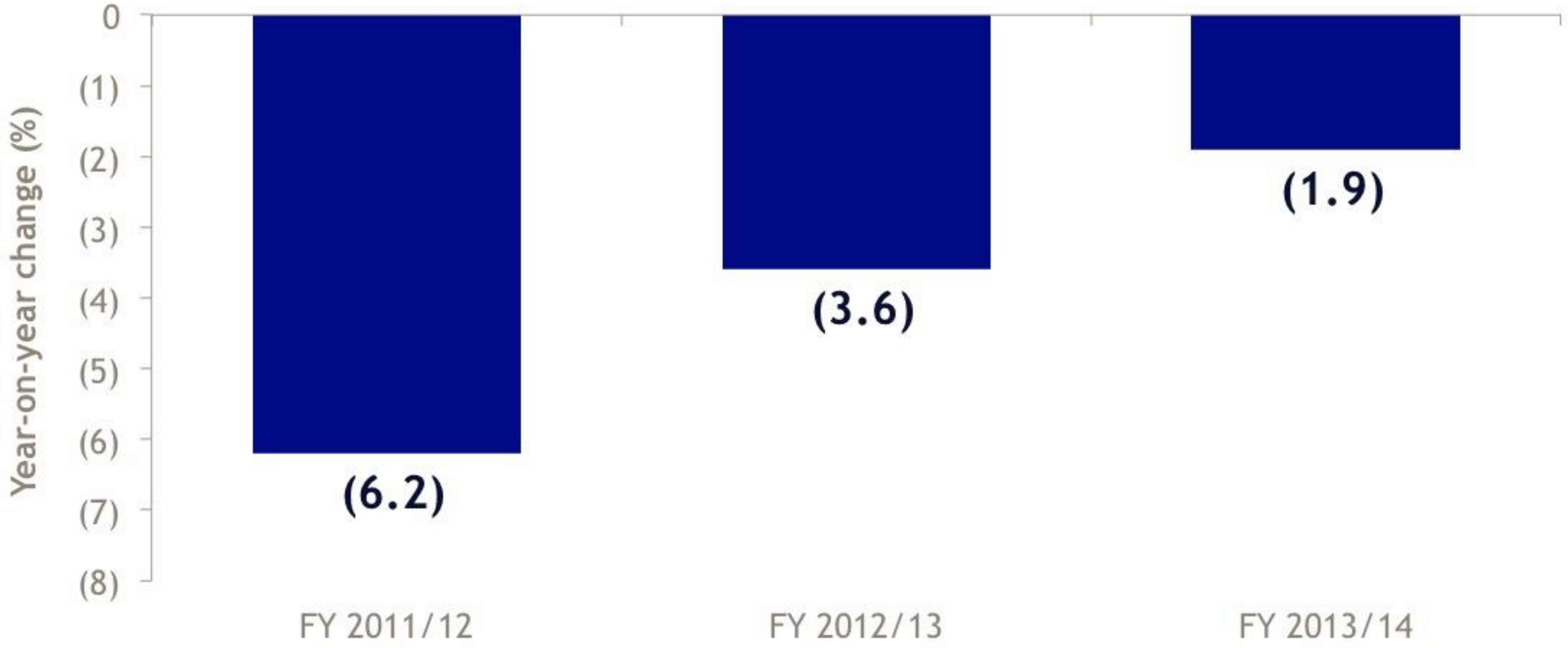
	FY2013/14 £m	FY2012/13 £m	% variance
UK	**(21.5)**	**(21.6)**	**+0.5**
International franchise	45.9	43.5	+5.5
International JV profit share	(0.6)	(1.4)	+57.1
Total International	**45.3**	**42.1**	**+7.6**
Corporate	**(7.8)**	**(7.8)**	**-**
Underlying profit from operations	**16.0**	**12.7**	**+26.0**
Share based payments	(0.1)	(0.9)	(88.9)
Financing	(6.4)	(5.9)	+8.5
Underlying profit before tax	**9.5**	**5.9***	**+61.0**

* Restated for IAS19

UK operating profit – 52 weeks to 29 March 2014

	FY2013/14 £m
UK operating loss – FY 2012/13	(21.6)
Sales and gross margin	(11.5)
Benefit of closing loss making stores	4.2
Cost savings	7.4
UK operating loss – FY 2013/14	**(21.5)**

UK like-for-like sales trend is improving



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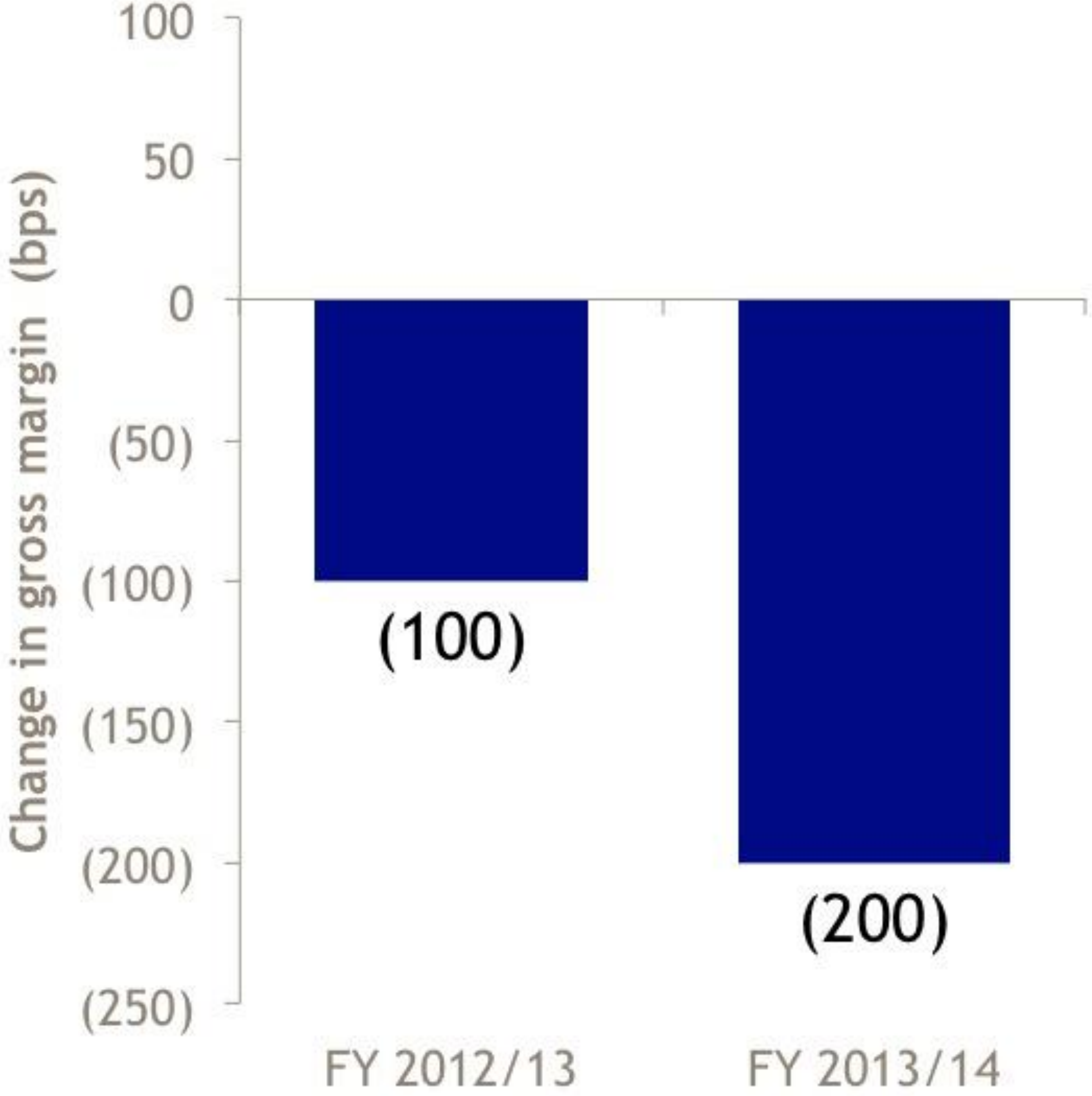
UK gross margins



UK gross margin down 200bps

- H1 impacted by Home & Travel clearance and launch of AW13 clothing range
- Highly promotional period in Q3

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Cash flow – 52 weeks to 29 March 2014

	FY2013/14 £m
Operating cash flow	24.8
Working capital	(4.7)
Capital expenditure	(13.8)
Taxation	(1.7)
Net finance costs	(4.1)
Restructuring	(14.7)
Change in cash during FY 2013/14	**(14.1)**
Opening net debt	(32.4)
Closing net debt	**(46.5)**

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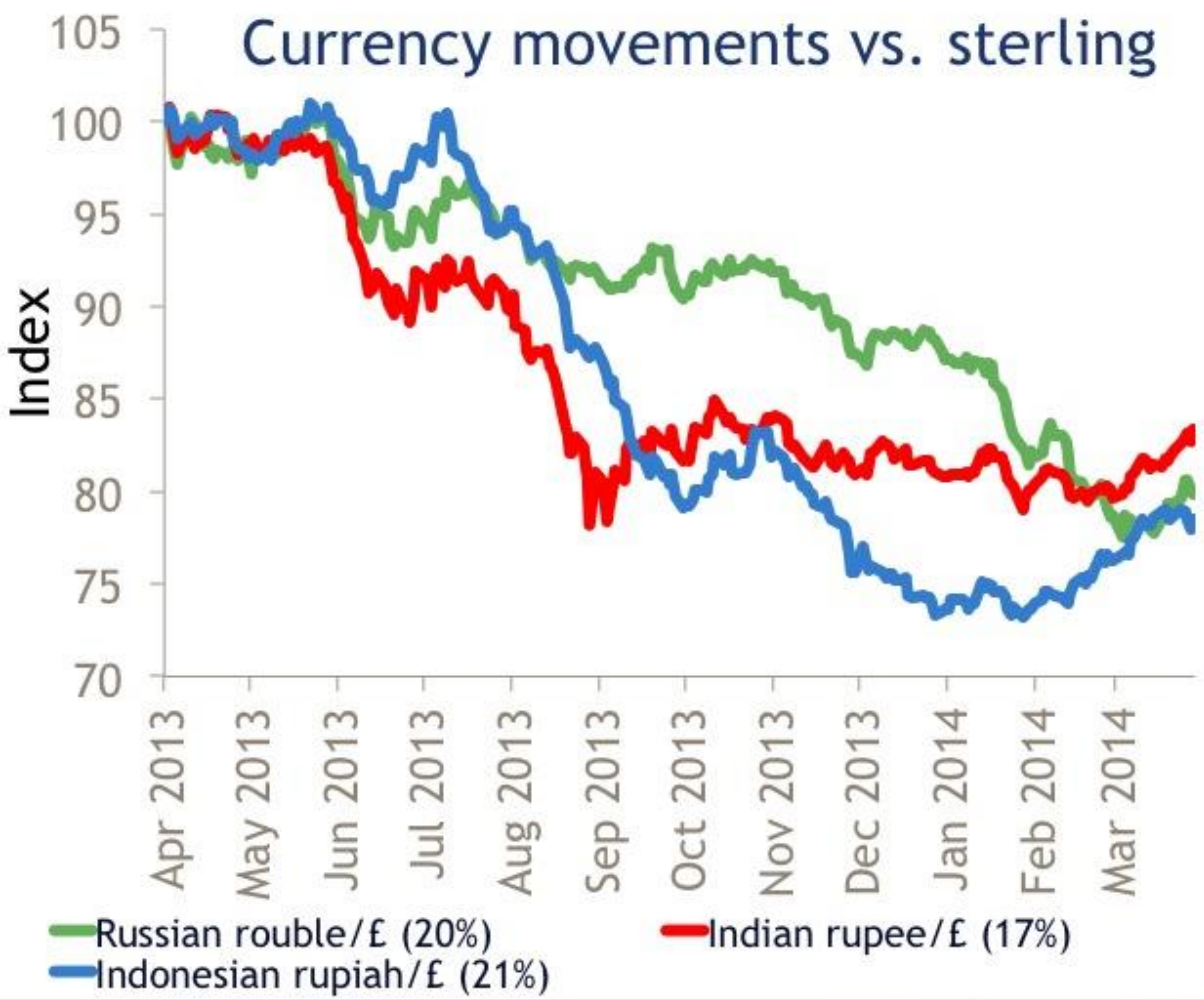
International currency hedging

- Currency impact for FY 2014: (2.8%)
  - H1: +1.4%
  - H2: (6.9%)
- Major currencies hedged for H1
  - Hedged: Russia, Indonesia and India
  - Other currencies under consideration
  - Rolling six month strategy
- Mitigates future volatility



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Operational review

Summary for FY 2013/14

Lean retail	• 220 stores at year end, closed a further 35 loss making stores • Reworked internal processes under a new structure • New teams focusing on Merchandising and Global Range Planning
Restore UK profitability	• 11 stores refitted and two outlet stores opened • Cost savings of c.£7m during year • In store customer satisfaction scores consistently in high 70s
International growth	• Space growth of 13.1% during year with over 150 stores opened • 1,221 stores in 59 countries at year end • Websites in ten International markets • Currency hedging for major currencies
Multi-channel	• Free next-day click-and-collect available in all Mothercare and Early Learning Centre stores • Android and iPhone apps available • New CRM system

International update

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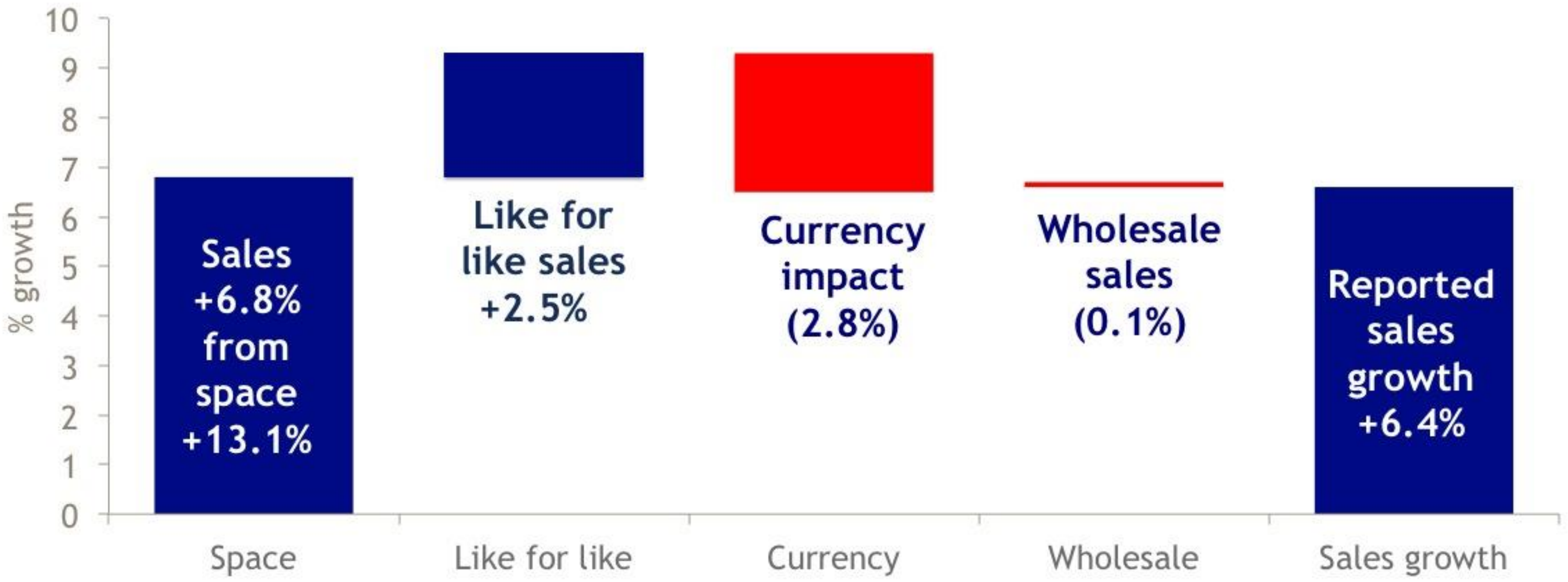
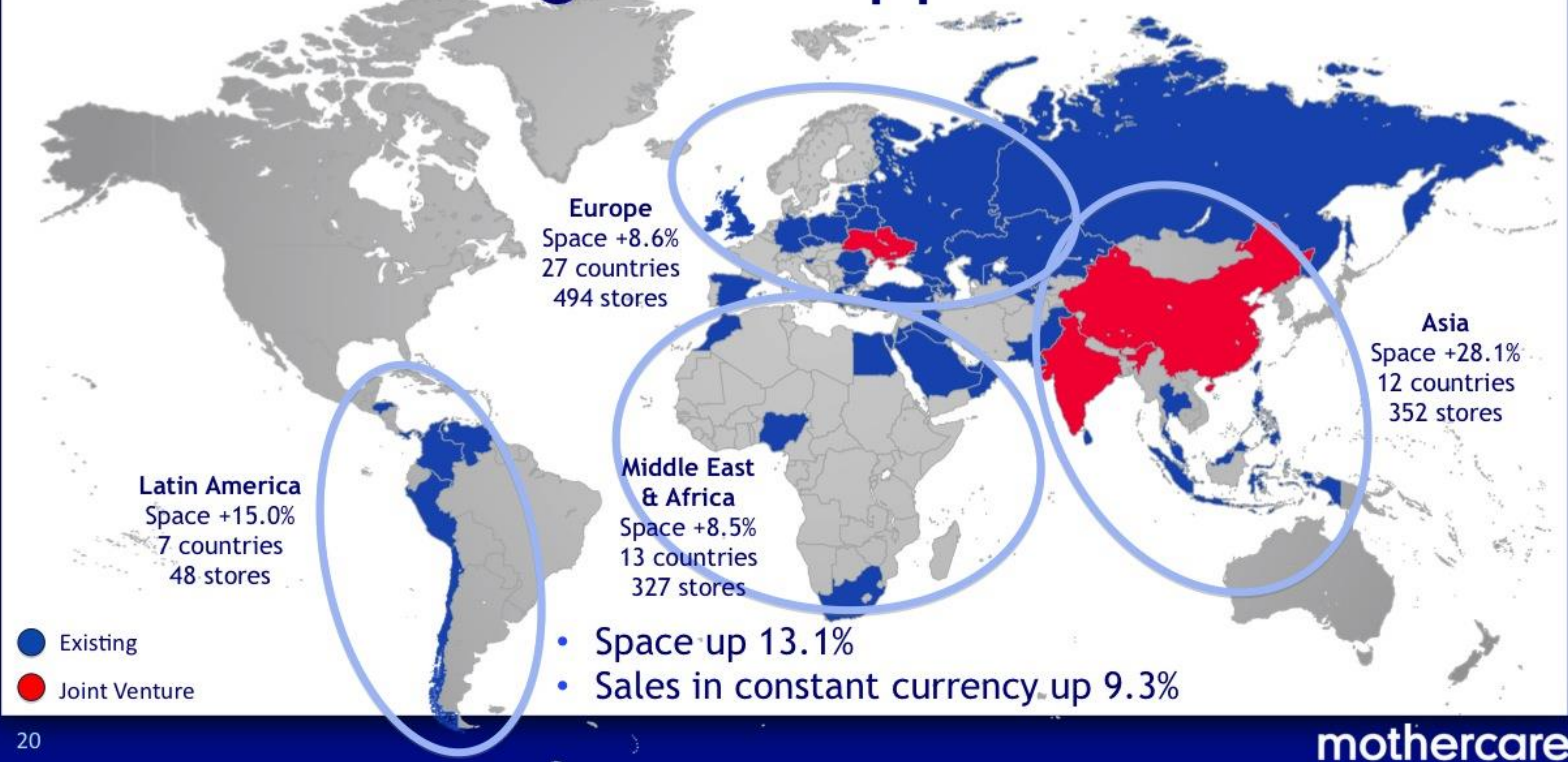
International growth for FY2014



- Profit growth +7.6% to £45.3 million

International growth opportunities



- Space up 13.1%
- Sales in constant currency up 9.3%

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International – Europe

- 494 stores in 27 countries
- Space up 8.6%
  - Opened 61 stores
  - Plan to open c.60 stores in FY 2014/15

Turkey: Zorlu, Istanbul, 2,000sq.ft., Carrick Mines in Dublin 6,515 sq.ft

International – Middle East & Africa

- 327 stores in 13 countries
- Space up 8.5%
  - Opened 18 stores
  - Plan to open c.20 stores in FY2014/15

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International – Asia

- 352 stores in 12 countries
- Space up 28.1%
  - Opened 62 stores
  - Plan to open c.60 stores in FY 2014/15

China – Lion Square flagship store on the High Street – 4,144 sq.ft.

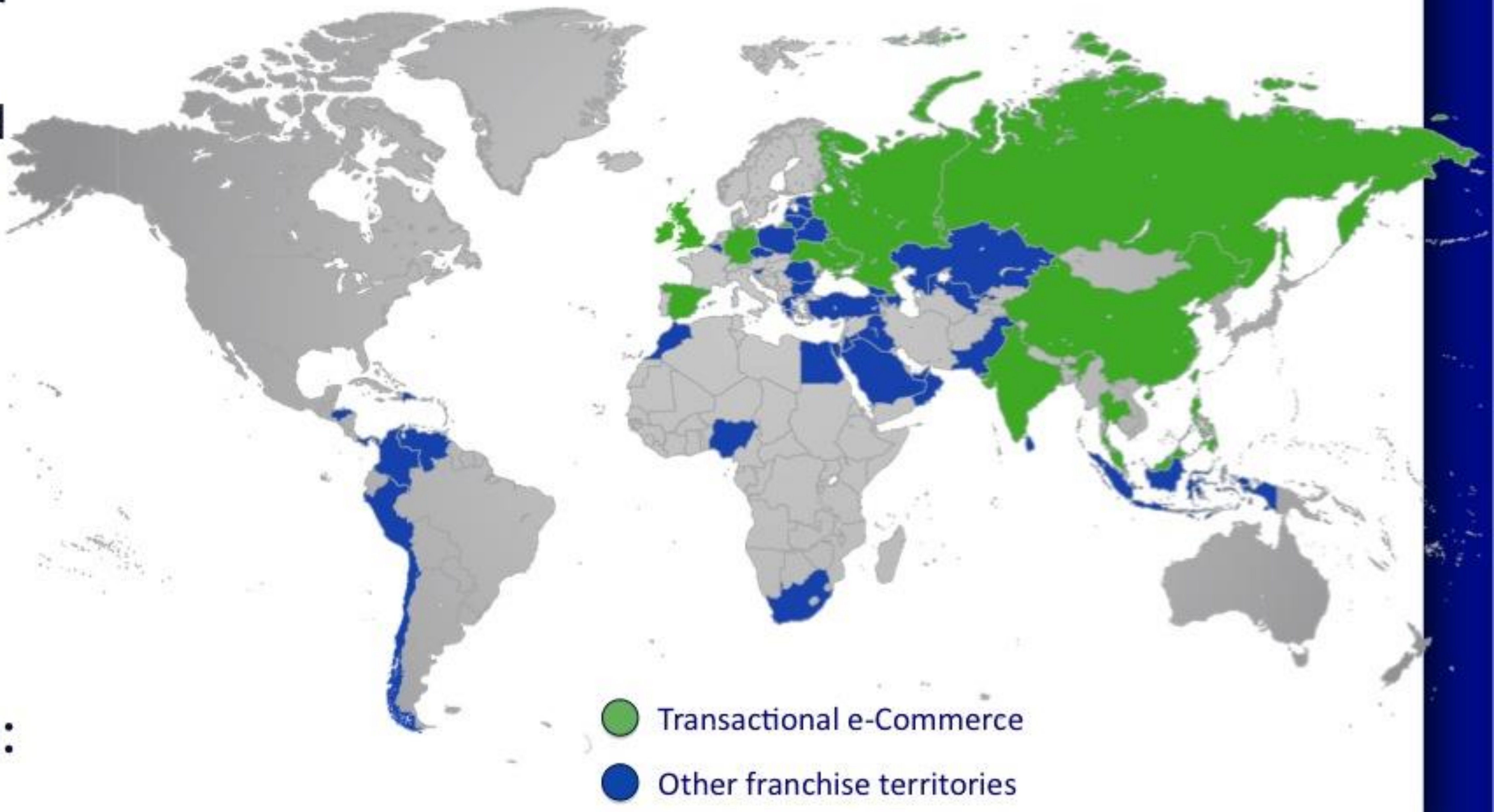
International – Latin America

- 48 stores in 7 countries
- Space up 15.0%
  - Opened 11 stores

Bogota, Colombia

International – Online websites

- Live, fully transactional websites in:
  - Russia (Mothercare and Early Learning Centre)
  - Ukraine
  - Kuwait
  - Indonesia
  - China (T-Mall)
  - Ireland
  - India
  - Spain
- Product only website in:
  - Colombia



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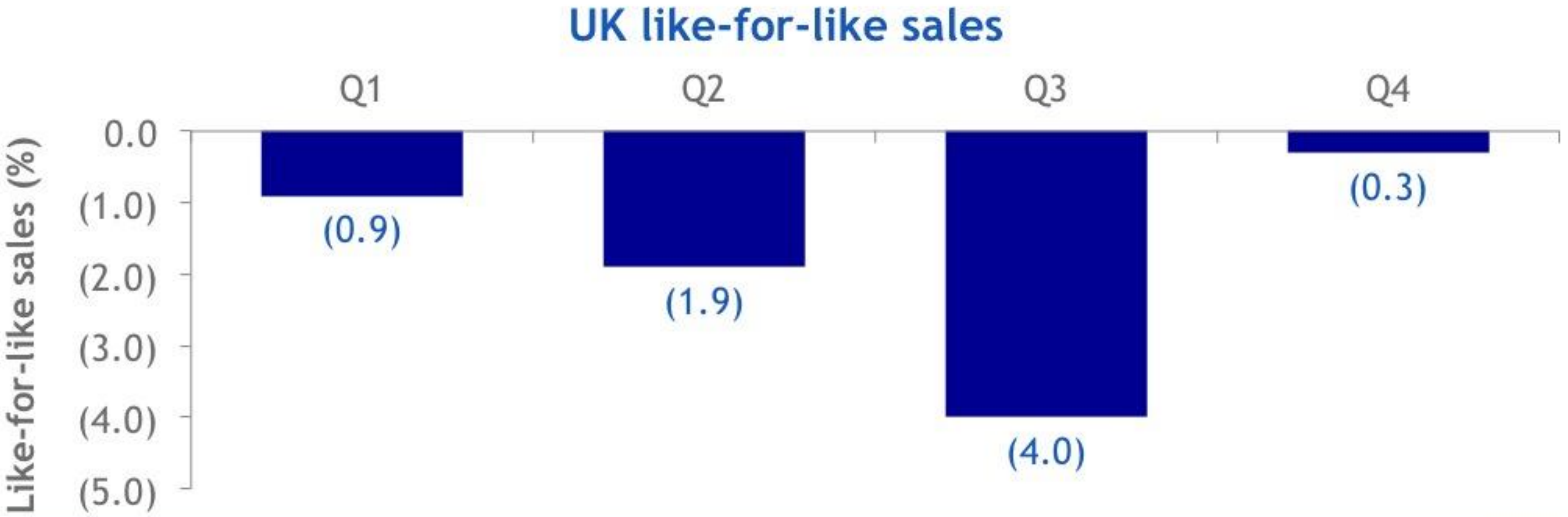
UK update

UK trading performance

- Weak Q3 trading
- Gross margin pressure from promotional activity
- Home & Travel market competitive



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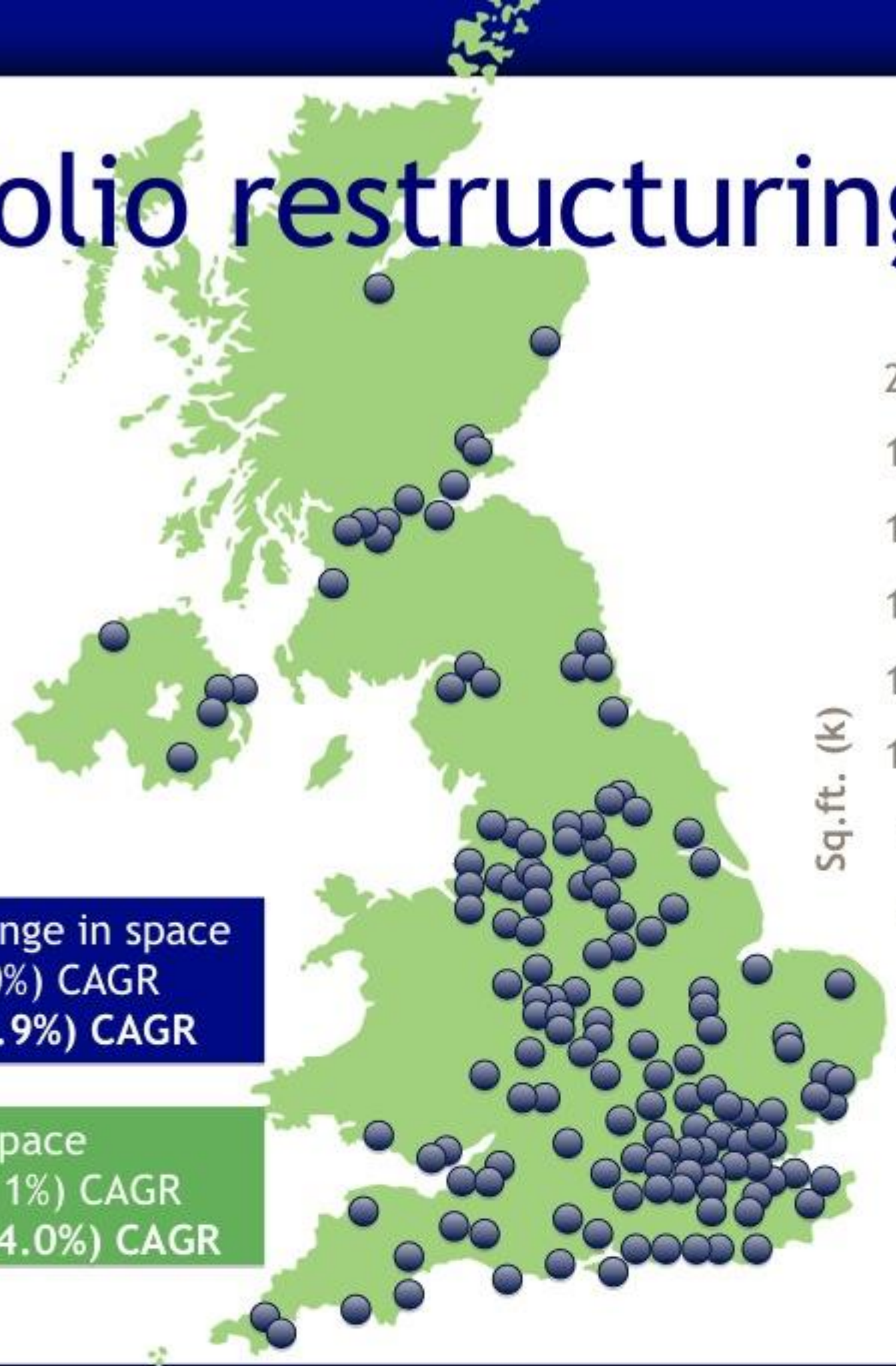
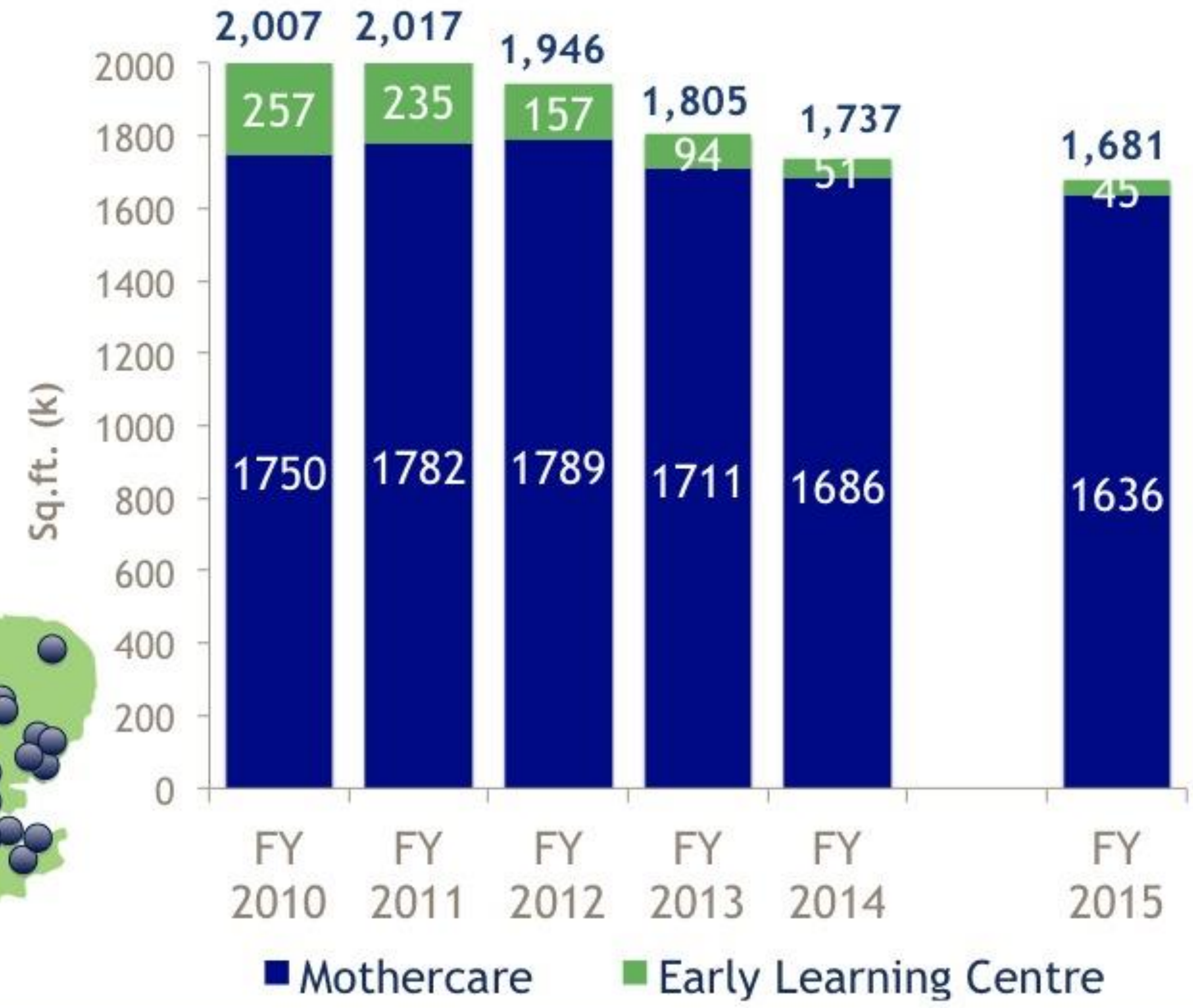
Moving to multi-channel

Portfolio restructuring progressing



Mothercare: Change in space
2012-2015E: (3.0%) CAGR
2012-2014A: (2.9%) CAGR

ELC: Change in space
2012-2015E: (34.1%) CAGR
2012-2014A: (44.0%) CAGR



Investment in stores

White City and St Enoch

Clothing focussed store trial

Woolwich, Surrey Quays and Peckham

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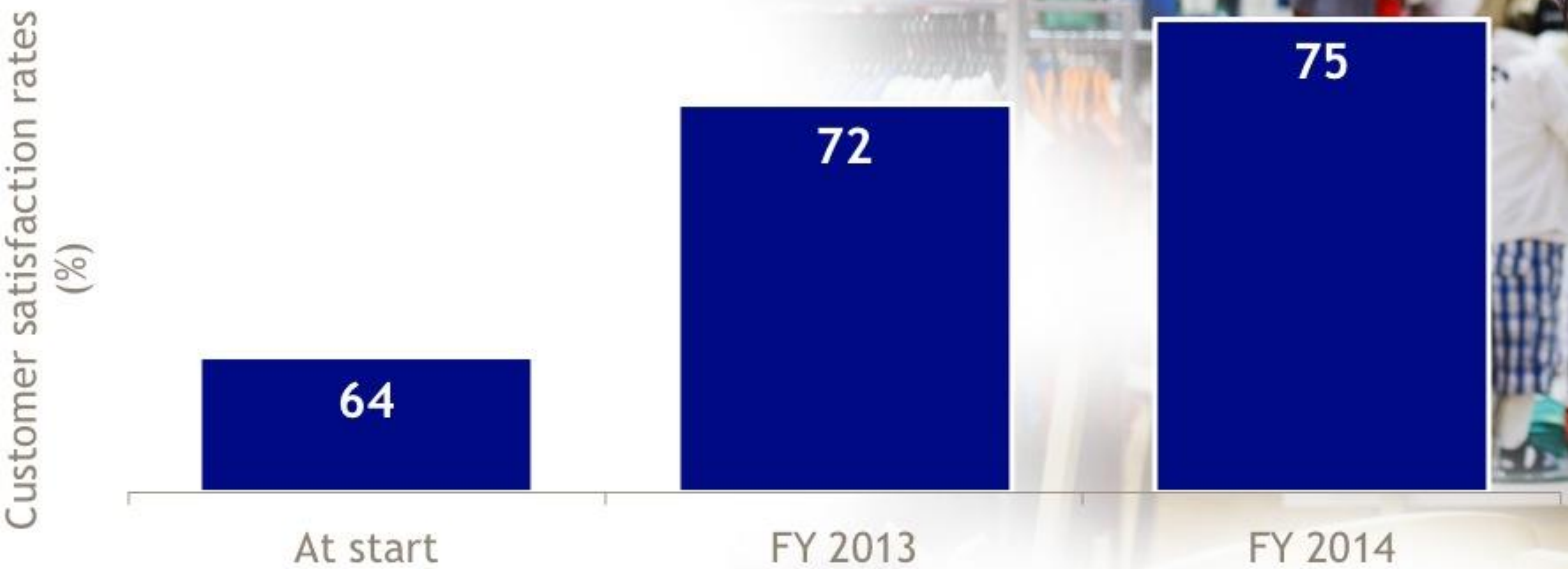
Improving customer service

Highly satisfied customers:

1. Spend 20% more
2. Are twice as likely to return



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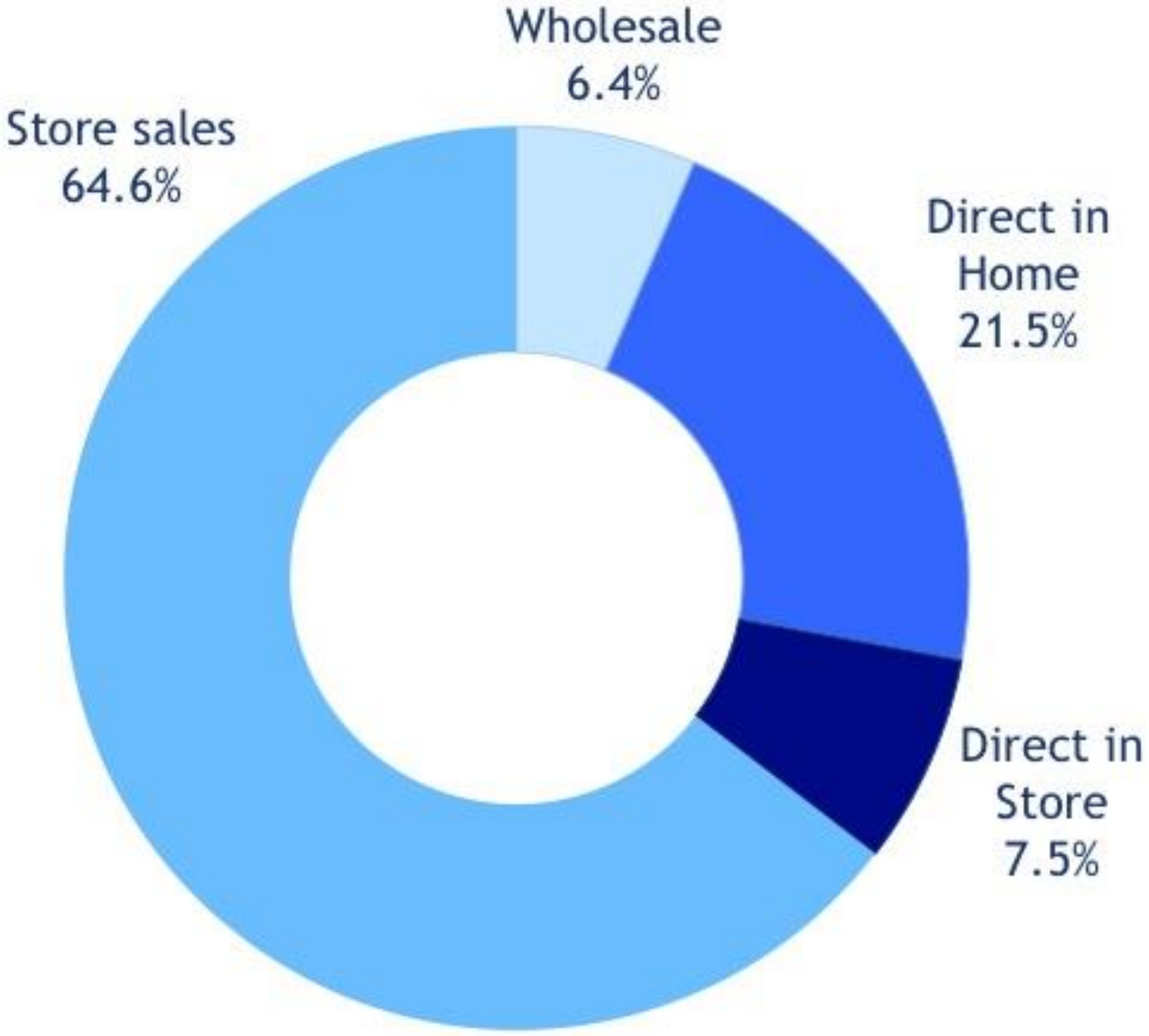
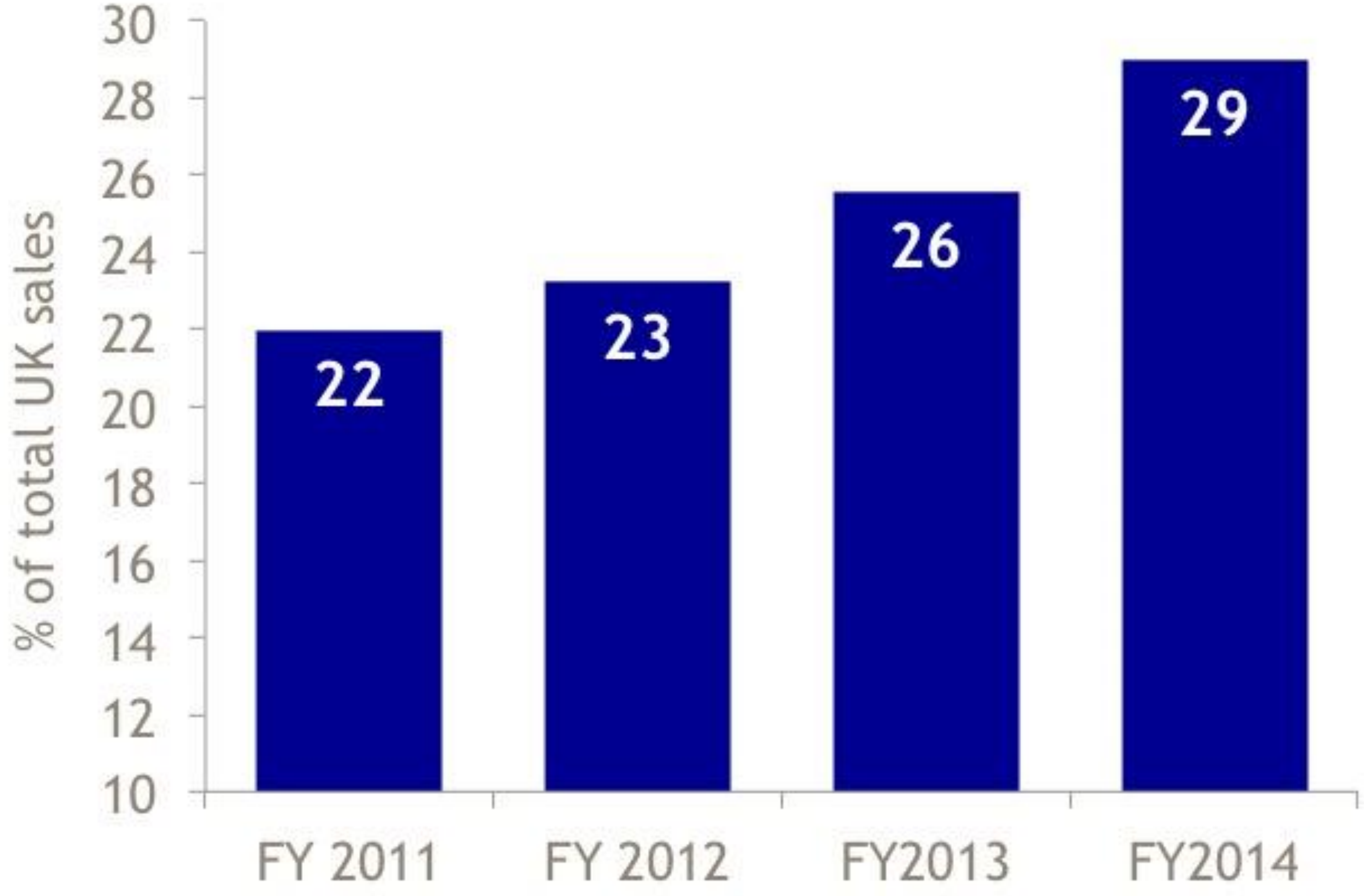
Multi-channel growing in importance

Direct now 29% of UK sales



Direct growing in importance



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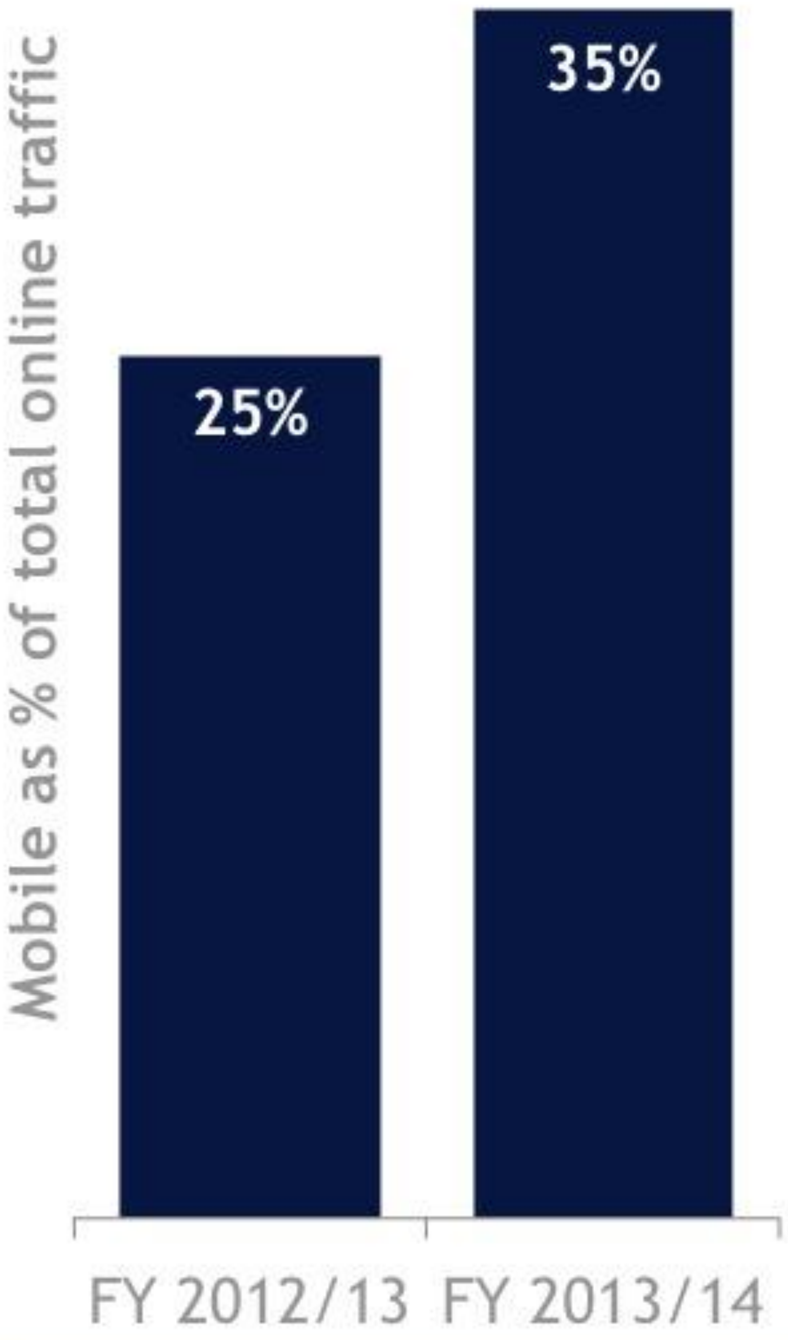
Mobile commerce meets customer needs



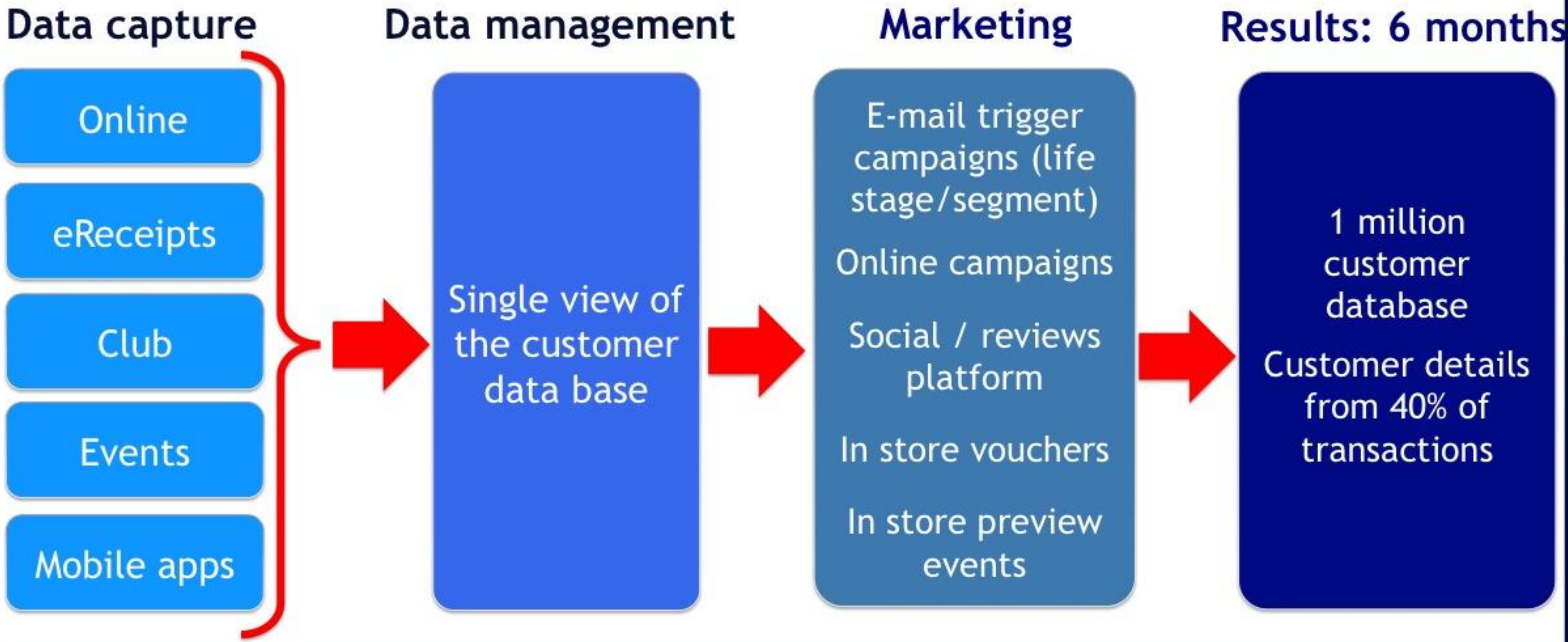
LBP LOVED BY PARENTS WINNER Best Family App 2013 lovedbyparents.com

PayPal etail awards RetailWeek Drapers 2013 WINNER

Retail Systems awards 2013 WINNER

MOBILE RETAIL AWARDS BEST MOBILE APP 2013

CRM system driving loyalty



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Product focus

Clothing

Home & Travel

Toys

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: (c.10%) in H1 and (c.5%) in H2

UK

- Like-for-likes sales continuing to show improving trajectory
- Focus on optimising cash margin
- Gross margin rate movement (c.100bps)
- Stores reduced by c.25, eliminating c.£3m (annualised) of losses at store contribution level
- Costs reduced by c.£5m (annualised)
- Normalised share based payments of c.£2.0m

Outlook for FY 2014/15 - Cash

- Trade working capital expected to be neutral (FY 2013/14 (£4.7m))
- Capital expenditure c.£15.0m (FY 2013/14 £13.8m)
- Other cash flow items:
  - Cash element of exceptional restructuring charges of c.£7.0m (FY 2013/14 £16.7m)
  - Pension scheme deficit recovery payment of £6.0m (FY 2013/14 £6.0m)
- Closing net debt c.£50m

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Summary

- International constant currency sales up 9.3% with the UK like-for-like sales down 1.9%
- Underlying profit before tax £9.5m - International profits up 7.6% and UK losses flat on last year
- Continued growth opportunities for International with closure of loss-making stores in the UK continuing
- Returning the UK to profitability

Q&A

Appendix

Full year results – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m	% variance inc Australia & NZ	% variance ex Australia & NZ
Worldwide network sales	1,191.5	1,228.4	(3.0)	+0.5
Total International sales	729.2	728.7	+0.1	+6.4
Total UK sales	462.3	499.7	(7.5)	-
Group revenue	724.9	749.4	(3.3)	(2.6)
Underlying profit before tax	9.5	5.9*	61.0	-
Underlying earnings per share	7.7p	4.2p	83.3	-
Net debt	(46.5)	(32.4)	+43.5	-

* Restated for IAS19

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Group network sales – 52 weeks to 29 March 2014

	FY2013/14 £m	FY2012/13 £m	% variance inc Australia & NZ
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International			
International retail sales	721.9	721.0	+0.1
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Total International sales	**729.2**	**728.7**	**+0.1**
UK			
UK retail sales	432.6	468.2	(7.6)
UK wholesale sales	29.7	31.5	(5.7)
Total UK sales	**462.3**	**499.7**	**(7.5)**

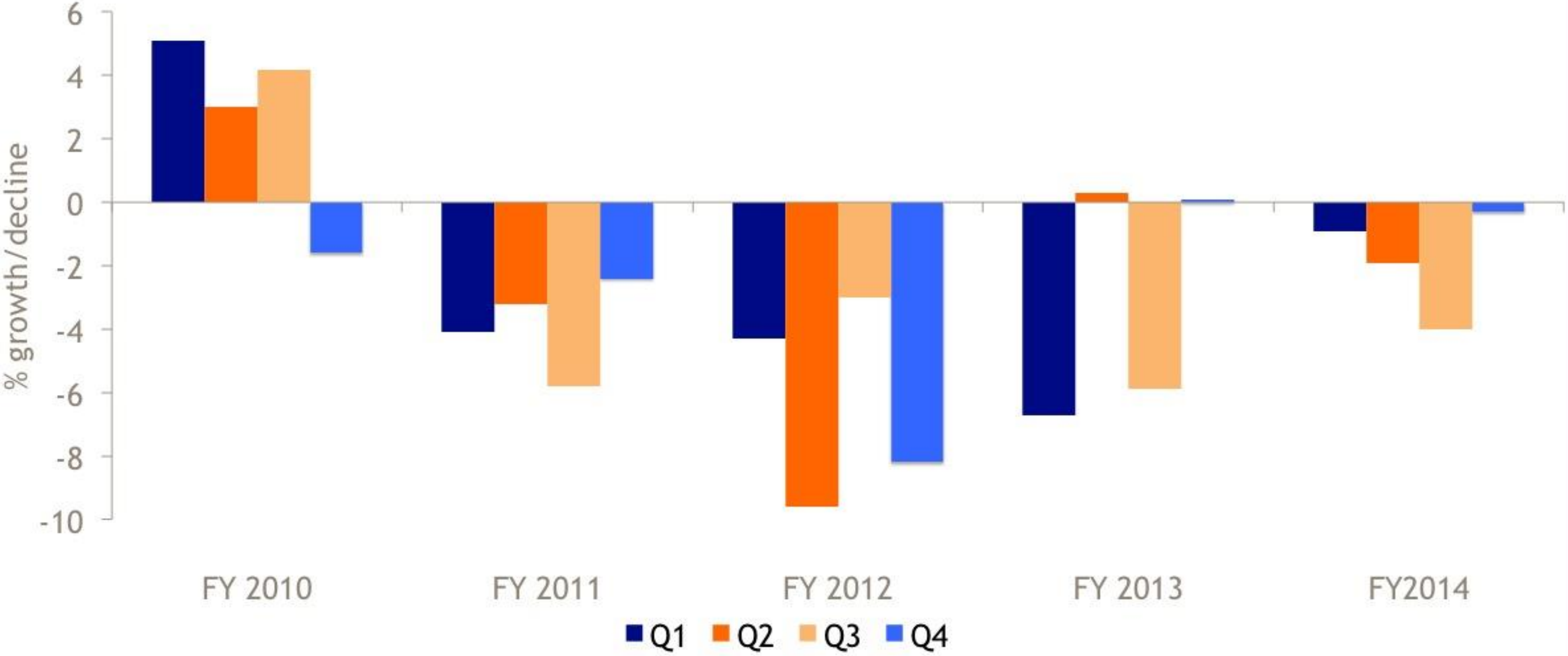
Group balance sheet – 52 weeks to 29 March 2014

	FY 2013/14 £m	FY2012/13 £m
Non current assets		
Fixed assets	67.3	77.6
Intangibles	44.2	46.5
Deferred tax	18.5	21.7
Net current assets		
Working capital	46.9	45.4
Net debt	(46.5)	(32.4)
Other	(24.4)	(13.9)
Non current liabilities		
Pensions	(49.7)	(61.6)
Other provisions	(41.1)	(44.5)
Net assets	**15.2**	**38.8**

UK summary - 52 weeks to 29 March 2014

	FY2013/14	FY2012/13	% change
UK like-for-like sales growth	(1.9%)	(3.6%)	-
Retail sales	£432.6m	£468.2m	(7.6)
Wholesale sales	£29.7m	£31.5m	(5.7)
Total UK sales	£462.3m	£499.7m	(7.5)
Underlying loss from operations	(£21.5m)	(£21.6m)	+0.5%

UK like-for-like progression



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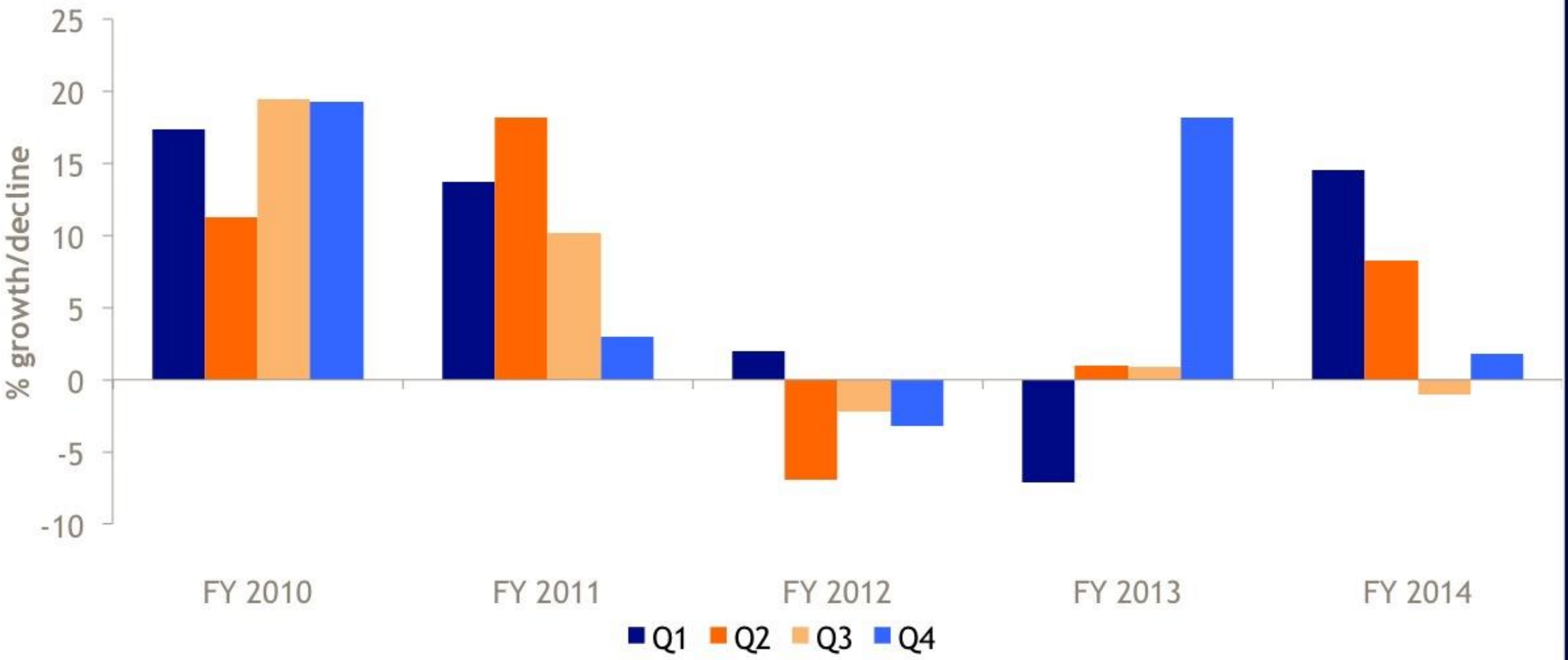
Direct in Home progression

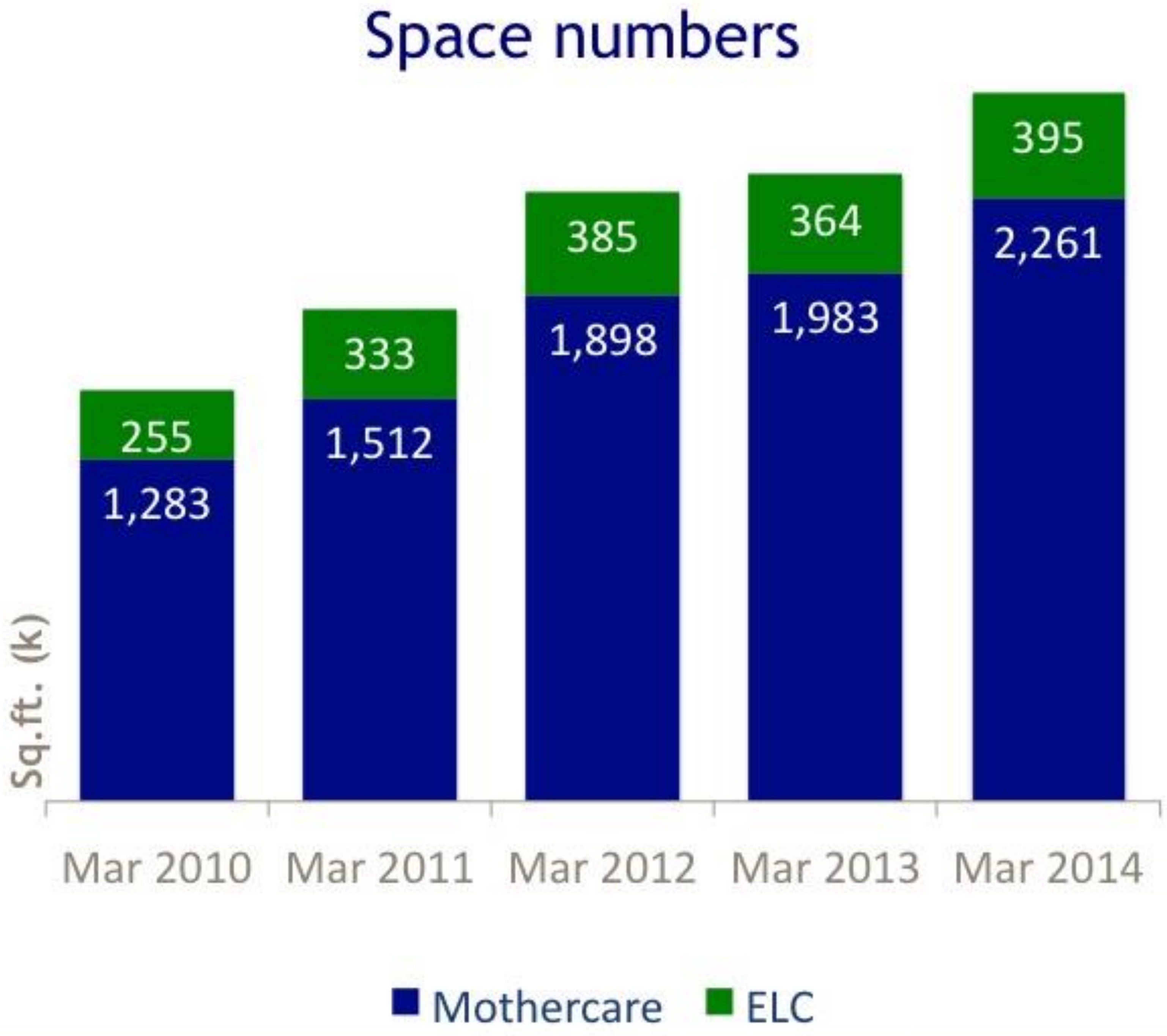


UK store and space numbers

International summary – 52 weeks to 29 March 2014

	FY2013/14	FY2012/13	% variance ex Australia & NZ
Constant currency growth	9.3%	15.0%	-
Total International sales	£729.2m	£685.4m	+6.4
Underlying profit from operations	£45.9m	£43.5m	+5.5
Underlying profit margin (excl. JVs)	6.3%	6.3%	-
International JV profit share	(£0.6m)	(£1.4m)	(57.1)
Underlying profit from operations (incl. JVs)	£45.3m	£42.1m	+7.6
Underlying profit margin (incl. JVs)	6.2%	6.1%	+10 bps

International store and space numbers



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Pension scheme

		FY2014/15 (estimate) £m	FY2013/14 £m	FY2012/13 £m
Income statement	Service cost	-	-	(2.4)
	Running costs	(1.1)	(1.1)	(0.8)
	Return on assets/(interest on liabilities)	(2.1)	(2.7)	(2.6)
	(Exceptional) gains on curtailment	-	-	3.3
	Net DB charge	**(3.2)**	**(3.8)**	**(2.5)**
	DC charge	**(2.1)**	**(2.0)**	**(0.7)**
	Total pension charge	**(5.3)**	**(5.8)**	**(3.2)**
Cash funding	Recurring payments	(0.6)	(0.6)	(2.0)
	Deficit contribution	(5.8)	(5.6)	(5.2)
	DB cash funding	**(6.4)**	**(6.2)**	**(7.2)**
	DC cash funding	**(2.1)**	**(2.0)**	**(0.7)**
	Total cash funding	**(8.5)**	**(8.2)**	**(7.9)**
Balance sheet	Fair value of assets	n.a.	253.3	234.8
	Present value of defined benefit obligations	n.a.	(303.0)	(296.4)
	Net DB liability	**n.a.**	**(49.7)**	**(61.6)**

Pension scheme

£m	FY2013/14				
	Old IAS 19 and pre-reclassification	Amendments to IAS 19 [1]	Amendments to IAS 19 [2]	Reclassification [3]	New IAS 19 and reclassified
Service cost	-	-	-	-	-
Running costs	-	-	(1.1)	-	(1.1)
Return on assets/interest on liabilities	(1.1)	(2.7)	1.1	2.7	-
Included in Admin expenses	**(1.1)**	**(2.7)**	**-**	**2.7**	**(1.1)**
Return on assets/interest on liabilities	-	-	-	(2.7)	(2.7)
Included in finance cost	**-**	**-**	**-**	**(2.7)**	**(2.7)**
(Exceptional) gains on curtailments	-	-	-	-	-
Included in exceptional	**-**	**-**	**-**	**-**	**-**
Net DB charge	**(1.1)**	**(2.7)**	**-**	**-**	**(3.8)**

[1] Amendments to IAS 19: The expected return on assets is replaced by interest on the assets calculated using the discount rate
[2] Amendments to IAS 19: Running costs are reported as a separate cost, previously accounted for as a deduction to the expected return on assets
[3] Reclassification: Reclassification of return on assets/ (interest) on liabilities from administration expenses to finance costs.

Pension scheme

£m	FY2012/13				
	Old IAS 19 and pre-reclassification	Amendments to IAS 19 (1)	Amendments to IAS 19 (2)	Reclassification (3)	New IAS 19 and reclassified
Service cost	(2.4)	-	-	-	(2.4)
Running costs	-	-	(0.8)	-	(0.8)
Return on assets/interest on liabilities	(1.0)	(2.4)	0.8	2.6	-
Included in Admin expenses	**(3.4)**	**(2.4)***	**-**	**2.6***	**(3.2)**
Return on assets/interest on liabilities	-	-	-	(2.6)	(2.6)
Included in finance cost	**-**	**-**	**-**	**(2.6)**	**(2.6)**
(Exceptional) gains on curtailments	3.3	-	-	-	3.3
Included in exceptional	**3.3**	**-**	**-**	**-**	**3.3**
Net DB charge	**(0.1)**	**(2.4)**	**-**	**-**	**(2.5)**

* Net impact is +£0.1m on UK segmental result

(1) Amendments to IAS 19: The expected return on assets is replaced by interest on the assets calculated using the discount rate

(2) Amendments to IAS 19: Running costs are reported as a separate cost, previously accounted for as a deduction to the expected return on assets

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Exceptional cash costs

	Cash utilisation (£ million)				
	FY2013	FY2014	FY2015	FY2016	Total
	Actual	Actual	Estimate	Estimate	
Total	**15**	**14**	**9**	**2**	**40**

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Sensitivities for modelling assumptions

Using the year just ended 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