

WHSmith

**WH Smith PLC**  
**Interim Results 2010**

22 April 2010

# Disclaimer

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This document contains forward-looking statements with respect to the operations, performance and financial condition of WH Smith PLC. By their nature, these statements are subject to risks, assumptions and uncertainties that could cause actual results to differ materially from those expressed or implied because they relate to future events.

Unless otherwise required by applicable law, regulation or accounting standard, we do not undertake to publicly update any forward-looking statements, whether as a result of new information, future developments or otherwise.

The financial information referenced in this presentation does not contain sufficient detail to allow a full understanding of the results of WH Smith PLC. For more detailed information, please see the interim results announcement for the six months ended 28 February 2010 which can be found on the Investor Relations section of the WH Smith PLC website - [www.whsmithplc.co.uk](http://www.whsmithplc.co.uk).

# WH Smith PLC

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- Introduction Robert Walker
- Financial review Robert Moorhead
- Business review Kate Swann
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  - High Street Stephen Clarke
- Summary Kate Swann

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**Robert Moorhead**

Group Finance Director

# Group financial summary

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	6 mths to Feb 2010 £m	6 mths to Feb 2009 £m	Change %
Revenue	716	731	(2)%
Profit from trading operations	70	67	4%
Profit before tax	62	61	2%
Underlying EPS <sup>1</sup>	31.6p	31.2p	1%
Free cash flow (£m)	57	67	(15)%
Interim dividend per share	6.1p	5.4p	13%

<sup>1</sup> Underlying EPS: profit before exceptional items – diluted (weighted average number of shares 2010:152m; 2009:154m)

# Group profit before tax

	6 mths to Feb 2010 £m	6 mths to Feb 2009 £m	Growth %
Travel <sup>1</sup>	23	20	15%
High Street <sup>1</sup>	47	47	-
<b>Trading operations <sup>1</sup></b>	<b>70</b>	<b>67</b>	<b>4%</b>
Central costs	(8)	(6)	
<b>Operating profit</b>	<b>62</b>	<b>61</b>	<b>2%</b>
Net finance income	-	-	
Pension interest	-	-	
<b>Profit before tax</b>	<b>62</b>	<b>61</b>	<b>2%</b>

<sup>1</sup> Stated after directly attributable share-based payment and pension service charges

# Revenue analysis

	6 mths to Feb 2010	6 mths to Feb 2009	Change	LFL Change
	£m	£m	%	%
<b>Revenue</b>				
Travel	213	209	2%	(2)%
High Street	503	522	(4)%	(4)%
<b>Total revenue</b>	<b>716</b>	<b>731</b>	<b>(2)%</b>	<b>(4)%</b>

	6 mths to Feb 2010
	%
<b>LFL sales by category</b>	
Books	(4)%
Stationery	2%
News & Impulse	(1)%
Entertainment	(42)%
<b>Total</b>	<b>(4)%</b>

# Profit from trading operations

	6 mths to Feb 2010 £m	6 mths to Feb 2009 £m	Change %												
<b>Revenue</b>	<b>716</b>	<b>731</b>	<b>(2)%</b>												
<b>Gross contribution</b>	<b>355</b>	<b>351</b>													
<b>Costs</b>	<b>(285)</b>	<b>(284)</b>													
<table> <tbody> <tr> <td>Costs – occupation costs</td> <td>(119)</td> <td>(113)</td> <td></td> </tr> <tr> <td>– store costs</td> <td>(106)</td> <td>(109)</td> <td></td> </tr> <tr> <td>– other costs</td> <td>(60)</td> <td>(62)</td> <td></td> </tr> </tbody> </table>				Costs – occupation costs	(119)	(113)		– store costs	(106)	(109)		– other costs	(60)	(62)	
Costs – occupation costs	(119)	(113)													
– store costs	(106)	(109)													
– other costs	(60)	(62)													
<b>Profit from trading operations<sup>1</sup></b>	<b>70</b>	<b>67</b>	<b>4%</b>												
Gross margin	49.6%	48.0%	160bps												

<sup>1</sup> Before interest and tax and after directly attributable share-based payment and pension service charges

# Group free cash flow

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	6 mths to Feb 2010 £m	6 mths to Feb 2009 £m
<b>Operating profit</b>	<b>62</b>	<b>61</b>
Depreciation and amortisation	19	20
Working capital	1	8
Capital expenditure	(15)	(13)
Tax	(13)	(11)
Provisions	-	(1)
Net interest income <sup>1</sup>	-	-
Non cash items	3	3
<b>Free cash flow</b>	<b>57</b>	<b>67</b>

<sup>1</sup> Stated before interest received on tax refund

# Group net funds

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	6 mths to Feb 2010 £m	6 mths to Feb 2009 £m
<b>Free cash flow</b>	<b>57</b>	<b>67</b>
Dividends paid	(17)	(15)
Pension deficit and retirement benefit funding	(6)	(5)
Tax refund and associated interest received	7	4
Net purchase of own shares for employee share schemes	(4)	(2)
Purchase of own shares for cancellation	(35)	-
<b>Net funds movement</b>	<b>2</b>	<b>49</b>
<b>Closing net funds</b>	<b>47</b>	<b>40</b>

# Group balance sheet

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	Feb 2010 £m	Aug 2009 £m
Goodwill & other intangible assets	56	56
Property, plant & equipment	159	163
Working capital	(42)	(41)
Corporation tax	(36)	(34)
Provisions	(8)	(8)
Other assets	6	9
<b>Operating assets employed</b>	<b>135</b>	<b>145</b>
Net funds	47	45
<b>Total net assets (excluding pensions)</b>	<b>182</b>	<b>190</b>
Pension liability	(1)	(2)
<b>Total net assets</b>	<b>181</b>	<b>188</b>

# Group key indicators

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	<u>6 mths to Feb 2010</u>	<u>6 mths to Feb 2009</u>	<u>Growth %</u>
Underlying EPS	31.6p	31.2p	1%
Fixed charges cover	1.7x	1.7x	
ROCE	46%	40%	
Free cash flow (£m)	57	67	
Interim dividend per share	6.1p	5.4p	13%

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**Kate Swann**

Group Chief Executive

# Group – overview

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- Good profit performance
- Strong operating performance continues in both divisions
- Travel and High Street continue to make progress with the implementation of their distinct strategies
- Group resilient in uncertain economic conditions but well positioned for recovery in consumer spending
- Group continues to be highly cash generative with strong balance sheet. Completed return of £35m of cash to shareholders
- Interim dividend up 13% YoY

# Travel – overview

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- Profit up 15% to £23m, demonstrating strength of model
  - Compelling consumer proposition
  - Strong track record with landlords
  - Model translates well to new formats and channels
- Sales growth of 2%, LFL sales down 2%
- Gross margin improvement of c. 190bps YoY
- Costs well controlled
- Development of Hospital and Workplace channels
- Further good progress with International trials
- Well-positioned for further growth

# Travel strategy

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- Deliver organic growth in existing space by better meeting customer needs
- Retailing basics and cost control
- More effective use of space
- Renew existing contracts
- Expand CTN format to new profitable locations and channels
- Develop, test and roll out new formats in our categories that meet customer and landlord needs

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**Simon Marinker**

Managing Director, Travel

# Travel – Air

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- In Air LFL sales down 3%; continued outperformance vs passenger numbers
- Passenger mix and purchasing trends different in current climate
- Range development to address areas of opportunity
- Margin and cost management successful
- 4 new units opened in H1; further 5 units due to open in H2
- Small POD format working well; 4 now open



# **Travel – Rail & Motorway**

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## **Rail**

- LFL sales flat
- Focus on mix and space changes
- 5 units due to open in H2

## **Motorway**

- Performance robust, in line with expectations
- 119 units now trading in this channel

# Travel – Hospitals

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- Strong presence in growing and under-developed hospital market with scope for further expansion
- Channel structure different to established travel channels
- Performance in line with expectations
- 4 new units opened in H1, 5 due to open in H2
- Low cost/small format developed with trial planned in H2

# Travel – Workplaces

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- Market potential large but some similarities to hospital channel
- Trial progressing well
- 5 workplace units now open, expect 8-10 by year end



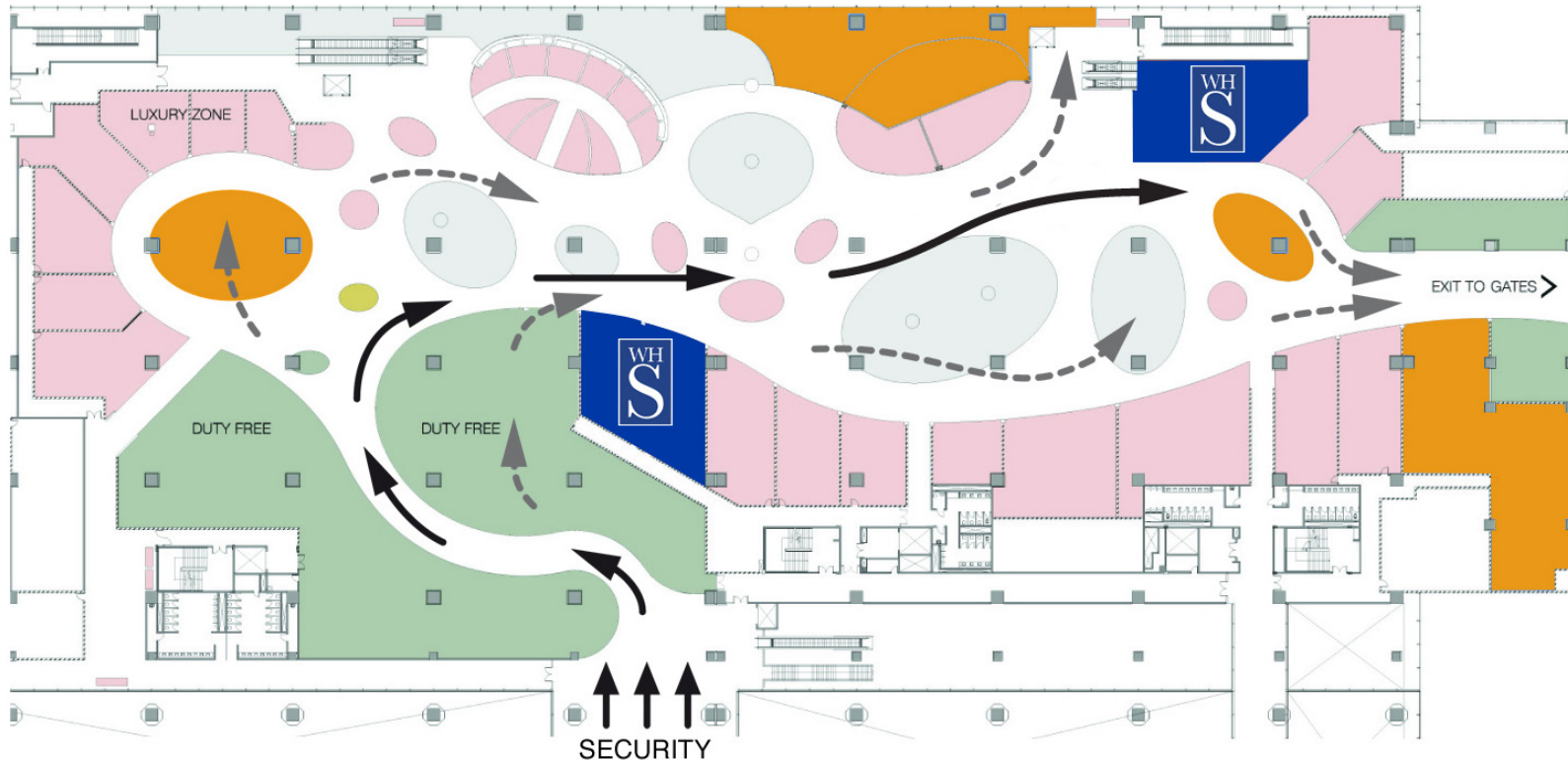
# Travel – International Trials

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- Trials continue to explore new growth opportunities in international travel retail locations
- Where appropriate, working with partners that already have a strong foothold in each territory
- Trials progressing well
- Additional trials added

	<i>Shannon</i>	<i>Copenhagen</i>	<i>Stockholm</i>	<i>Delhi</i>	<i>Dublin</i>	<i>Muscat (Oman)</i>
<b>Directly run</b>	2 units open				3 units A/W 2010	
<b>Joint venture</b>		5 units open				
<b>Franchise</b>			1 unit open	6 units A/W 2010		4 units S/S 2010

# Travel – International Trials: Delhi



COLOUR KEY

- RETAIL UNITS
- CATERING UNITS
- DUTY FREE
- LOUNGE SEATING
- INFORMATION
- WHS UNITS
- PASSENGER FLOW

INTERNATIONAL DEPARTURES  
DELHI AIRPORT T3

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**Kate Swann**

Group Chief Executive

# High Street – overview

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- Continue to make progress delivering our strategy
  - Focus on building on our authority in our core categories
  - Rebalance mix of business away from Entertainment
- LFL sales down 4%, down 1% excluding Entertainment
- Strong gross margin performance up by c. 150bps driven by further mix changes
- Cost savings of £5m delivered in line with plan
- Further strong cash generation

# High Street strategy

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- Rebuild position as Britain's most popular stationer, bookseller and newsagent
- Retailing basics and cost control
- Drive the gross margin by category mix management
- Focus on core categories, rebuilding authority as a specialist
- Reduce our reliance on entertainment
- Use our space more effectively
- Plan not predicated on sales growth in the short/medium term
- As we rebuild our authority in core categories we become better placed to benefit in sales terms

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**Stephen Clarke**

Managing Director, High Street

# Category performance

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## Books

- Strategy to build on our authority remains unchanged
- Tough and competitive books market
- Further good share performance vs general retail market
- Flexible promotional plan enabled us react quickly to market trends, whilst preserving gross margin
- Additional space for children's books

# Category performance - Books

**MORE BOOKS ADDED!**

UP TO **70% OFF**

**BESTSELLER SALE**

**MUST END SUNDAY**

Book Title	Discount
GUINNESS WORLD RECORDS 2010	HALF PRICE
PETER KAY	HALF PRICE
THE BOOK OF TOM	HALF PRICE
THE BOOK OF JOHN	HALF PRICE
Jack Collins	60% OFF
MARTINA COLE	HALF PRICE
GORDON RAMSAY'S WORLD KITCHEN	60% OFF
JENSON	HALF PRICE
JAMIE OLIVER	70% OFF
Delia's HOW TO CHEAT	70% OFF

**BUY 1 GET 1 HALF PRICE**

**Vampire Fest!**

**Tasted Stephenie Meyer? Now try these...**

**ALL 'Vampire Diaries'**

**ALL 'House of Night'**

**And many more!**

Interim Results 2010



# Category performance

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## Stationery

- Strategy to build on market-leading position in stationery remains unchanged
- Good performance in both general and seasonal stationery
- Additional space for general stationery at Christmas
- Additional space for seasonal stationery post Christmas to increase gross margin
- Good stock and markdown management
- New ranges rolled out successfully enhancing our children's offer

# Category performance

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## News & Impulse

- Magazine market challenging, maintained market share
- Further development of strongly-growing bookazine category
- Continued growth from impulse categories

## Entertainment

- LFL sales down in line with our strategy
- Now completed exit from music and multimedia as planned
- Space rebalancing in H1, with more planned for H2
  - extend the ranges within our core categories
  - introduce additional services, usually on a concession basis
  - improve store layouts
  - increase space for end of season lines

# Continue to optimise use of space

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- Continue to rebalance space within our stores within categories
- Additional services
  - 82 Post Offices well-established and performing in line with plan
  - 3 further Post Offices planned and provisionally scheduled to open late 2010
- Continue to progress additional concession opportunities, e.g. Gift card mall
- As we rebalance space, we take opportunity to refit stores as appropriate
- 4 new stores opened in H1; 6 planned for H2



# Margin optimisation

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- Margin growth of c. 150 bps, delivered through continued focus on category mix management
- Additional margin growth from:
  - Better buying terms
  - Improved mark-down and promotional management
  - Shrinkage control
  - Far East buying office opened and performing well
- Mix improvements continue to be a driver of profit growth

# Cost efficiency improvements

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- Continued successful and focussed cost control
- Delivered savings of £5m in H1 as planned
- Savings from across the business, including:
  - Variable costs associated with Entertainment
  - Store efficiencies through improved use of technology
  - Further supply chain efficiencies
- Birmingham DC now fully operational
  - All appropriate product now relocated
  - Cost reduction
  - Improved efficiency
  - Medium term opportunities

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**Kate Swann**

Group Chief Executive

# Summary

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- Good profit performance from the Group
- Further progress with execution of High Street plan
- Good performance from Travel with opportunities for growth
- Continued uncertainty over consumer spending, however we are a well-balanced group
- Strong balance sheet, highly cash generative business
- Returned £35m to shareholders via share buyback in H1
- Interim dividend up 13% YoY
- Continue to focus on delivering value for shareholders

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