

WHSmith

**WH Smith PLC**  
**Preliminary Results 2010**

14 October 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. Nothing in this presentation should be construed as a profit forecast.

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 preliminary announcement for the year ended 31 August 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).

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**Kate Swann**

Group Chief Executive

# WH Smith PLC

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  - High Street Stephen Clarke
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**Robert Moorhead**  
**Group Finance Director**

# Group financial summary

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	Year to Aug 2010 £m	Year to Aug 2009 £m	Change %
Revenue	1,312	1,340	(2)%
Profit from trading operations <sup>1</sup>	104	97	7%
Profit before tax and exceptional items	89	82	9%
Underlying EPS <sup>2</sup>	45.7p	41.3p	11%
Free cash flow	82	89	(8)%
Final dividend per share	13.3p	11.3p	18%
Total dividend per share	19.4p	16.7p	16%

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

<sup>2</sup> Underlying EPS: profit before exceptional items - diluted (weighted average no. of shares 2010: 151m; 2009: 155m)

# Group profit before tax

	Year to Aug 2010 £m	Year to Aug 2009 £m	Growth %
Travel <sup>1</sup>	53	48	10%
High Street <sup>1</sup>	51	49	4%
<b>Trading operations</b>	<b>104</b>	<b>97</b>	<b>7%</b>
Unallocated central costs	(15)	(14)	
<b>Operating profit</b>	<b>89</b>	<b>83</b>	<b>7%</b>
Net finance cost	-	-	
Pension interest	-	(1)	
<b>Profit before tax<sup>2</sup></b>	<b>89</b>	<b>82</b>	<b>9%</b>

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

<sup>2</sup> Before exceptional items

# Revenue analysis

Revenue	Year to Aug 2010 £m	Year to Aug 2009 £m	Change %	LFL Change %
Travel	452	448	1%	(2)%
High Street	860	892	(4)%	(4)%
<b>Total revenue</b>	<b>1,312</b>	<b>1,340</b>	<b>(2)%</b>	<b>(4)%</b>

LFL sales by category	H1 %	H2 %	Year to Aug 2010 %
Books	(4)%	(3)%	(3)%
Stationery	2%	(1)%	1%
News & Impulse	(1)%	(2)%	(2)%
Entertainment	(42)%	(46)%	(42)%
<b>Total</b>	<b>(4)%</b>	<b>(4)%</b>	<b>(4)%</b>

# Profit from trading operations

	Year to Aug 2010 £m	Year to Aug 2009 £m	Change %
<b>Revenue</b>	<b>1,312</b>	<b>1,340</b>	<b>(2)%</b>
<b>Gross contribution</b>	<b>662</b>	<b>655</b>	<b>1%</b>
<b>Costs</b>	<b>(558)</b>	<b>(558)</b>	
Costs – occupation costs	(241)	(231)	
– store costs	(202)	(209)	
– other costs	(115)	(118)	
<b>Profit from trading operations<sup>1</sup></b>	<b>104</b>	<b>97</b>	<b>7%</b>
Gross margin	50.5%	48.9%	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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	Year to Aug 2010 £m	Year to Aug 2009 £m
<b>Operating profit</b>	<b>89</b>	<b>83</b>
Depreciation and amortisation	39	41
Working capital	3	11
Capital expenditure	(29)	(28)
Tax	(27)	(23)
Provisions	(2)	(1)
Net interest earned <sup>1</sup>	1	-
Non cash items	8	6
<b>Free cash flow</b>	<b>82</b>	<b>89</b>

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

# Group net funds movement

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	Year to Aug 2010 £m	Year to Aug 2009 £m
<b>Free cash flow</b>	<b>82</b>	<b>89</b>
Dividends paid	(26)	(23)
Pension deficit and retirement benefit funding	(13)	(10)
Tax refund and associated interest received	7	6
Net purchase of own shares for employee share schemes	(4)	(8)
Purchase of own shares for cancellation	(35)	-
<b>Net funds movement</b>	<b>11</b>	<b>54</b>
<b>Closing net funds</b>	<b>56</b>	<b>45</b>

# Group balance sheet

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	2010	2009
	£m	£m
Goodwill & other intangible assets	56	56
Property, plant & equipment	158	163
Working capital	(49)	(41)
Corporation tax	(30)	(27)
Other assets	4	2
Provisions	(8)	(8)
<b>Operating assets employed</b>	<b>131</b>	<b>145</b>
Net funds	56	45
<b>Total net assets (excluding pensions)</b>	<b>187</b>	<b>190</b>
Pension liability	(1)	(2)
<b>Total net assets</b>	<b>186</b>	<b>188</b>

# Group key indicators

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	Year to Aug 2010 £m	Year to Aug 2009 £m	Growth %
Underlying EPS <sup>1</sup>	45.7p	41.3p	11%
Fixed charges cover	1.5x	1.5x	
Free cash flow	82	89	
Final dividend per share	13.3p	11.3p	18%
Total dividend per share	19.4p	16.7p	16%
ROCE (after capitalised operating leases)	18%	17%	

<sup>1</sup> Diluted weighted average no. of shares 2010: 151m; 2009: 155m

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**Kate Swann**

Group Chief Executive

# Group – overview

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- Good profit performance
- Good operating performance continues in both divisions
- Strong cash generation – up to £50m return of cash announced today.
- Proposed final dividend up 18% YoY
- Travel and High Street continue to make good progress with the implementation of their distinct strategies
- Group resilient with strong record of profit growth and cash generation

# Travel – overview

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- Profit up 10% to £53m, demonstrating strength of model
- Sales growth of 1%, LFL sales down 2%
- Gross margin improvement of c.170 bps YoY
- Costs well controlled
- Positioned to continue to grow
  - Well-positioned for recovery in Air passenger numbers
  - Space opportunities in UK Air and Regional Rail
  - Further potential to grow space in Hospitals
  - Workplace stores performing well and roll out underway
  - International stores performing well with new locations added

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**Simon Marinker**

Managing Director, Travel

# Travel – Air

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- In Air LFL sales down 4%
- Passenger numbers soft as expected; we continue to outperform
- Medium term forecasts show return to growth; we are well positioned for the recovery
- Margin and cost management successful
- 7 new units opened in the year; further 8 units due to open during 2010/11

# Travel – Rail

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- In Rail, LFL sales up 1%
- Focus on mix and space changes
- Plan to refit key sites during 2011
- New space opportunities identified in Regional Rail
  - Market is fragmented with many different landlords
  - Targeting sites with over 2m passengers p.a.
  - Opened 4 new Regional Rail stores in the year
  - Expect to open around 6 new sites during 2011

# Travel – Rail

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# **Travel – Motorway**

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- Performance robust, in line with expectations
- 119 units now trading in this channel
- Franchise operation provides useful experience

# Travel – Hospitals

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- Strong presence in growing and under-developed hospital market with scope for further expansion
- Structure of hospital channel different to established travel channels
- 103 units now open in this channel
- Performance continues to be encouraging and in line with expectations
- 9 new units opened in the year
- Anticipate opening around 50 new units in next 5 years

# Travel – Workplaces

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- Market potential large - economics and speed of rollout similar to Hospital channel
- 8 workplace units now open and trading
  - Locations include business parks, locations in offices and locations just outside offices
  - Early days, but stores are performing well
- Anticipate opening around 40 in next 5 years



# Travel – International update

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## Current locations

- To date, we have opened stores in 6 international locations
- In each location, we are choosing the most appropriate operating model: directly-run, joint venture or franchise
- Where appropriate, working with partners that have strong local links in each territory

<i>Location</i>	<i>Date opened</i>	<i>No. units</i>
Copenhagen	November 2008	5
Shannon	January 2009	2
Stockholm	March 2009	1
Muscat (Oman)	April 2010	4
Calais Eurotunnel	May 2010	1
Delhi	July/August 2010	3 (further 3 still to open)

# Travel – International update

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## Performance to date

- Whilst it is early days, performance to date has been encouraging
- We have demonstrated that we can add value and deliver improved performance

<i>Location</i>	<i>Indicative % change in spend per PAX</i>
Copenhagen	Mid teens
Shannon	High twenties
Muscat (Oman)	Mid forties
Stockholm	N/A

- Brand and offer well received by customers and landlords
- Units recently opened in Calais and Delhi have started trading well

# Travel – International update



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# **Travel – International update**

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## **New locations**

- Stores previously agreed and opening soon
  - Dublin: 3 units due to open Autumn/Winter 2010
  - Delhi: 3 further units due to open Autumn/Winter 2010
- 6 further units now agreed:
  - Oman: 1 unit due to open Spring 2011
  - Mumbai: 1 unit due to open Summer 2011
  - Sydney arrivals: 1 unit due to open Spring/Summer 2011
  - Melbourne: 3 units with the first two opening Summer 2011
- We will adapt our offer and operating model to ensure potential is maximised in each location

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**Kate Swann**

Group Chief Executive

# High Street – overview

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- LFL sales down 4%, down 1% excluding Entertainment
- Market shares encouraging
- Strong gross margin performance up by c.150 bps
- Cost savings of £12m delivered in line with plan
- Continued strong cash generation
- Continue to make progress delivering our strategy
  - Continue to rebalance mix of business away from Entertainment
  - Mix will continue to drive gross margin
  - Focus on building our authority in our core categories
  - Further opportunities in Stationery and Books
  - Further cost savings identified, total now £25m over 3 years

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**Stephen Clarke**

Managing Director, High Street

# Category performance - Stationery

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- Strategy to build on market-leading position in stationery remains unchanged
- Strong shares in both general and seasonal stationery
- Additional space for general stationery at Christmas
- Seasonal stationery lines performed well over Christmas and benefited from additional space post-Christmas
- Good stock and markdown management
- Continue to develop new ranges within existing and adjacent stationery markets, e.g. educational toys
- Introduced further stationery ranges online

# Category performance - Stationery

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## Personalised greetings cards

- Profitable growth market; builds on our strong presence in cards
- Existing personalised greetings cards offer at [whsmith.co.uk](http://whsmith.co.uk)
- Launched new improved offer through Funky Pigeon brand
- Stand-alone website with links from WHSmith website
- Supported by strong marketing activity through key card seasons
- Further update at Interims

# Category performance - Stationery

The screenshot shows the Funky Pigeon website homepage. At the top, there is a navigation bar with the logo 'funkypigeon.com' and a search bar. Below the navigation bar, there are several promotional banners and product categories. The main banner features a parrot holding a tablet and advertises 'FREE Delivery' and 'Personalise it ...'. Below this, there are six product category tiles: Birthday, Spoof, Humour, Photo Upload, Top Gear, and Funky Kids. On the right side, there are two more category tiles: 'Top 40 Cards' and 'Notebooks'. The website also includes a sidebar with a menu, social media links, and payment options.

Navigation: Home, Cards, Calendars, Posters, Gifts

Search: Search, VIEW BASKET

Welcome To Funky Pigeon | Order By 2pm Mon - Fri For Same Day Despatch | FREE UK Delivery On All Cards

Categories: Cards, Photo Upload Cards, Christmas Box Sets, Calendars, Notebooks, Photo Notebooks, Mugs, Photo Upload Mugs, Posters, Door Hangers, Gift Experience's, Help

Follow us: Facebook, Twitter, YouTube, etc.

Pay Securely: PayPal, VISA, MasterCard, Maestro, DELTA, etc.

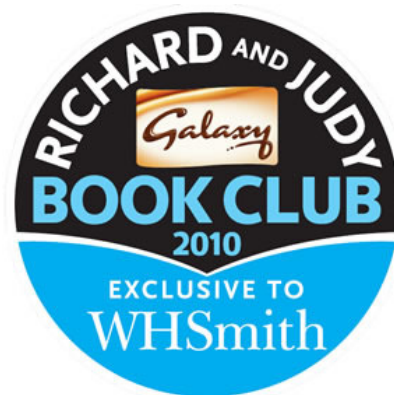
Product Categories:

- FREE Delivery: FREE UK standard delivery, cards from £1.79
- Personalise it ...: NEWS, Birthday Girl Special, HAPPY BIRTHDAY SAMANTHA JOHNSON, WORLD EXCLUSIVE! Many Happy Returns
- £5 FREE when you use prepay
- Top 40 Cards: TopGear
- Notebooks: JA Smit
- Birthday: HA PEA BIR DAVID
- Spoof: UK! SAMANTHA JOHNSON BIRTHDAY EXCLUSIVE
- Humour: Humour
- Photo Upload: Gorgeo Birthday hot
- Top Gear: TopGear
- Funky Kids: happy birthday

# Category performance - Books

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- Market soft, but varied by sub-category and improved during the year
- Further good share performance vs general retail market
- Authority in books continues to develop well
  - Children's Bookseller of the Year
  - Exclusive Richard and Judy Book Club



# The eBooks Market

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- eBooks seeing growth, but not impacting overall market performance
  - UK eBook market growth of 300% p.a., around 0.5% of total book sales
  - 60% eBook downloads are Fiction, but physical Fiction Books market up 5%
  - Some eBook demand will be incremental
  - In the more mature US market, eBooks accounted for c.4% of total book sales this year
- Range of eReading devices available and consumer preferences evolving
- eBooks market continues to develop as consumer preferences evolve
  - Publisher positions different
- eBooks will affect different retailers differently
  - Differential nature of retailers' customers will make any impact uneven

# WHSmith and eBooks

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- Mass market specialist positioning strong and sustainable
- WHSmith core market – lighter book buyers
- New developments provide incremental opportunities
- Developing a strong presence in embryonic eBooks market
- Hardware:
  - available instore and online
- eBook downloads:
  - Competitive range and pricing
  - eBook store now accessible via PC, tablet and mobile devices
  - Dixons preferred partner
  - Samsung exclusive bookstore in the UK
  - iPad App launched this week and Android App launch autumn 2010

# Category performance

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## News & Impulse

- Magazine market continues to be challenging
- Maintained market share in news and magazines
- Further development of strongly-growing bookazine category
- Continued growth from impulse categories

# Category performance

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## Entertainment

- LFL sales down in line with our strategy
- Now accounts for less than 5% of the business
- Progress with space rebalancing, more planned post-Christmas
  - Extend ranges within core categories
  - Additional services
  - Improve store efficiency by improving layouts
  - Increase space for end-of-season ranges
- As we make space changes, we invest in appropriate store refits
- New stores generally have no Entertainment offer

# 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
  - Far East office
- Mix improvements will continue to be a driver of profit growth

# Cost efficiency improvements

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- Continued successful and focused cost control
- Delivered savings of £12m in 2010
- Savings from across the business, including:
  - Variable costs associated with Entertainment
  - Store efficiencies through use of technology
  - Supply chain efficiencies via Birmingham DC
- Further savings of £13m identified; total of £25m over next 3 years

	<b>2010 Actual</b>	<b>2011 Forecast</b>	<b>2012 Forecast</b>	<b>2013 Forecast</b>	<b>Total £m</b>
October 2009	<b>12</b>	7	5	-	<b>24</b>
Projected at Interims	<b>12</b>	7	5	-	<b>24</b>
Further Savings Identified	-	4	3	6	<b>13</b>
Total Savings	<b>12</b>	11	8	6	<b>37</b>

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**Kate Swann**

Group Chief Executive

# Summary

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- Good profit performance from the Group
- Highly cash generative business, further return of cash announced
- Proposed dividend up 18% YoY
- Record profit in Travel with opportunities for growth
- High Street continues to deliver profit growth and high levels of cash generation
- Not expecting any improvement in consumer spending; our plans reflect this
- Resilient Group with growth opportunities
- Focused on driving both businesses to maximise value creation for shareholders

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