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WH Smith PLC

Interim Results 2011

14 April 2011

Disclaimer

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 2011 which can be found on the Investor Relations section of the WH Smith PLC website - www.whsmithplc.co.uk.

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Kate Swann

Group Chief Executive

WH Smith PLC

- Introduction Kate Swann
- Financial review Robert Moorhead
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Robert Moorhead

Group Finance Director

Group financial summary

	6 mths to Feb 2011 £m	6 mths to Feb 2010 £m	Change %
Revenue	686	716	(4)%
Profit from trading operations ¹	72	70	3%
Profit before tax	64	62	3%
EPS ²	35.2p	31.6p	11%
Free cash flow (£m)	74	64	16%
Interim dividend per share	7.2p	6.1p	18%

¹ Stated after directly attributable share-based payment and pension service charges

² Diluted (weighted average number of shares 2011:145m; 2010:152m)

Group profit before tax

	6 mths to Feb 2011	6 mths to Feb 2010	Growth
	£m	£m	%
Travel ¹	25	23	9%
High Street ¹	47	47	-
Trading operations ¹	72	70	3%
Central costs	(8)	(8)	
Operating profit	64	62	3%
Net finance costs	(1)	-	
Pension interest	1	-	
Profit before tax	64	62	3%

¹ Stated after directly attributable share-based payment and pension service charges

Revenue analysis

	6 mths to Feb 2011	6 mths to Feb 2010	Change	LFL Change
Revenue	£m	£m	%	%
Travel	213	213	-	(3)%
High Street	473	503	(6)%	(6)%
Total revenue	686	716	(4)%	(5)%

LFL sales by category	6 mths to Feb 2011 %
Stationery	(2)%
Books	(3)%
News & Impulse	(4)%
Entertainment	(53)%
Total	(5)%

Profit from trading operations

	6 mths to Feb 2011 £m	6 mths to Feb 2010 £m	Change %
Revenue	686	716	(4)%
Gross contribution	352	355	
Costs	(280)	(285)	
Costs – occupation costs	(117)	(119)	
– store costs	(104)	(106)	
– other costs	(59)	(60)	
Profit from trading operations¹	72	70	3%
Gross margin	51.3%	49.6%	170bps

¹ Before interest and tax and after directly attributable share-based payment and pension service charges

Group free cash flow

	6 mths to Feb 2011 £m	6 mths to Feb 2010 £m
Operating profit	64	62
Depreciation and amortisation	19	19
Working capital	-	1
Capital expenditure	(17)	(15)
Net tax received / (paid)	5	(6)
Provisions	(1)	-
Net interest income	-	-
Non cash items	4	3
Free cash flow	74	64

Group net funds

	6 mths to Feb 2011 £m	6 mths to Feb 2010 £m
Free cash flow	74	64
Dividends paid	(19)	(17)
Pension deficit and retirement benefit funding	(7)	(6)
Net purchase of own shares for employee share schemes	(7)	(4)
Purchase of own shares for cancellation	(27)	(35)
Net cash movement	14	2
Closing net funds	70	47

Group balance sheet

	Feb 2011 £m	Aug 2010 £m
Goodwill & other intangible assets	55	56
Property, plant & equipment	154	158
Working capital	(48)	(49)
Corporation tax	(49)	(30)
Provisions	(8)	(8)
Other assets	5	4
Operating assets employed	109	131
Net funds	70	56
Total net assets (excluding pensions)	179	187
Pension liability	-	(1)
Total net assets	179	186

Return of cash to shareholders

- Consistent record of growing dividends
- Supplemented by buybacks and a special dividend
- Whilst continuing to invest in the business

Financial Year	Ordinary Dividend ¹ £m	Buyback £m	Special Dividend £m	Total £m
2011	29	50 ²		79
2010	26	35		61
2009	23			23
2008	21	33	57	111
2007	17			17
	116	118	57	291

¹ Cash dividend paid

² £40m returned at 13 April 2011

Group key indicators

	<u>6 mths to Feb 2011</u>	<u>6 mths to Feb 2010</u>	<u>Growth %</u>
EPS	35.2p	31.6p	11%
Fixed charges cover	1.7x	1.7x	
ROCE	59%	46%	
Free cash flow (£m)	74	64	
Interim dividend per share	7.2p	6.1p	18%

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Kate Swann

Group Chief Executive

Group – overview

- Another good profit performance from the Group
- Strong operating performance continues in both divisions in a challenging environment
- Travel and High Street continue to make progress with the implementation of their distinct strategies and the development of some newer initiatives
- Group continues to be highly cash generative with strong balance sheet; optimal use of cash continues to be a focus
- Returned £40m to shareholders via the share buyback and interim dividend up 18% YoY
- Group continues to be resilient with strong record of profit growth and cash generation

Travel – overview

- Profit up 9% to £25m, demonstrating strength of model
- Total sales in line with last year, LFL sales down 3%
- Gross margin improvement of c.150 bps YoY
- Costs well controlled
- Well-positioned for further growth in the UK
 - Well-placed to benefit from recovery in economy
 - Space opportunities in UK Air and Regional Rail
 - Further opportunities to develop the Hospital channel
 - Good progress in Workplace channel

Travel – overview

- International: a further opportunity for WHSmith
- Existing international stores continue to perform well
- Additional opportunities identified in non-airport locations
- 24 units now open internationally, with further 4 units previously announced
- 12 units recently agreed giving a total of 40 units
- Will develop this opportunity in a pragmatic and low risk way, utilising direct, joint venture and franchise operating models

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Simon Marinker

Managing Director, Travel

Travel – Air

- In Air LFL sales down 3%
- Passenger numbers soft as expected with variability between different airports
- Medium-term forecasts show return to growth; we are well positioned for the recovery
- Margin and cost management successful
- 2 new units opened in H1; further 5 units due to open in H2

Travel – Rail and Motorway

Rail

- In Rail, LFL sales down 4%
- LFL London mainline rail down 3%, regional rail down 6%
- Refit programme completed with 8 mainline units refitted in H1
- 1 new unit opened in H1; further 5 to open in H2
- In addition plan to open 3 units under the Funky Pigeon brand

Motorway

- Performance in line with expectations
- 119 units trading, all bar 4 units operate as franchises

Travel – Hospitals and Workplace

Hospitals

- Strong presence in growing and under-developed hospital market with scope for further expansion
- In Hospital LFL sales up 1%
- 105 units now open in this channel
- 3 new units opened in H1; further 6 to open in H2
- Anticipate opening c. 10 new units per annum

Workplace

- 12 workplace units now open and performing well
- 5 units opened in H1; further 3 to open in H2
- Anticipate opening around 8 new units per annum

Travel – International

- Opened 24 stores internationally, including 8 stores opened during H1
- In each location, we continue to choose the most appropriate operating model

<i>Location</i>	<i>Channel</i>	<i>Date opened</i>	<i>No. units</i>	<i>Model</i>
Copenhagen	Air	Nov '08	5	Joint venture
Shannon	Air	Jan '09	2	Direct
Stockholm	Air	Mar '09	1	Franchise
Oman	Air	Apr'10	4	Franchise
Calais	Rail	May '10	1	Direct
Delhi	Air	Aug/Nov '10	6	Franchise
Dublin	Air	Nov '10	3	Direct
Melbourne	Air	Dec '10	1	Direct
Mumbai	Air	Jan '11	1	Franchise

- Performance continues to be encouraging with brand and offer well received

Travel – International

Melbourne



Delhi



Travel – International

New locations

- Units previously agreed
 - 1 unit in Oman opened in April
 - 1 unit in Sydney opened in April
 - 2 units in Melbourne

- 12 further units now agreed
 - India: 4 hospital units
2 mall units
1 rail unit
 - Kuwait: 5 units in air

- Total of 40 units now opened or planned internationally

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Group Chief Executive

High Street – overview

- LFL sales down 6%, down 3% excluding Entertainment
- Market shares encouraging
- Strong gross margin performance up by c. 180 bps
- Cost savings of £7m delivered, £1m ahead of plan
- Continued strong cash generation

High Street – overview

- Continue to rebalance the mix of business away from Entertainment
- Stationery: further develop market leading performance
 - economically attractive with some growth areas
- Books: market positioning popular mass market bookseller
 - eBooks
- News and Magazine : authoritative range, flexible space
- Mix will continue to drive gross margin
- Cost savings targets in place for next 3 years
- Continue to invest in the High Street estate
 - over 100 refits in the last 12 months
 - 8 new stores opened in H1 and a further 30 new stores planned to open in H2, including 22 stores acquired from BBS
- Well positioned for challenging economic environment

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Stephen Clarke

Managing Director, High Street

Category performance - Stationery

- Strategy to build on market-leading position in stationery remains unchanged
- Good performance in both general and seasonal stationery given difficult weather conditions before Christmas
- Post-Christmas stock position in line with plan
- Further progress with new ranges within existing and adjacent stationery markets, e.g. educational toys
- Re-launched personalised greeting cards offer in 2010 through Funky Pigeon brand
 - Personalised greetings cards is profitable growth market
 - Encouraging performance supported by strong marketing activity, however it is still early days



Category performance - Books

- Market performance continues to vary by sub-category
 - Non-fiction hardback performance improved YoY
 - Fiction and Kids annualised strong publishing from 2009/10
- Maintained good share performance vs general retail market
- Market positioning well established

WHSmith and eBooks

- eBooks seeing growth, but no impact detectable on overall market performance
 - UK eBook market growth of 300% p.a., around 1-2% of total book sales
- WHSmith core market is lighter book buyers, so less impacted by eBooks
- eBooks provide incremental opportunity for WHSmith
- Developing a strong presence in early eBooks market
 - Competitive range and pricing
 - Apps for Apple and Android tablets and phones all launched
 - Text functionality for free extract downloads just launched
 - Further third party partnership agreed

Category performance

News & Impulse

- Magazine market continues to be challenging
- Maintained market share in news and magazines
- Further development of strongly-growing bookazine category
- Continued development of seasonal confectionery ranges

Category performance

Entertainment

- LFL sales down in line with our strategy
- Now accounts for less than 5% of the business
- Progress with space rebalancing, more planned for H2
 - Extend ranges within core categories
 - Additional services
 - Improve store efficiency by improving layouts
 - Increase space for end-of-season ranges
- New stores generally have no entertainment offer

Margin optimisation and Cost efficiency

Margin optimisation

- Margin growth of c.180 bps, delivered through continued focus on category mix management
- Additional margin growth from:
 - Better buying terms and improved sourcing
 - Improved mark-down and promotional management

Cost efficiency

- Delivered savings of £7m in H1, slightly ahead of plan
- Savings from across the business
- Maximised operational flexibility to maintain tight cost control during challenging weather before Christmas

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Kate Swann

Group Chief Executive

Summary

- Good profit performance from the Group in a challenging environment
- Further strong performance from Travel with opportunities for growth
- Resilient performance from High Street with high levels of cash generation
- Highly cash generative Group
- Good progress with share buyback and Interim dividend up 18% YoY
- Expecting economic environment to be challenging; our plans reflect this
- Resilient Group with growth opportunities
- Focused on driving both businesses to maximise value creation for shareholders

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