

The logo consists of the text 'WHSmith' in a white serif font, centered within a solid dark blue rectangular background.

WHSmith

# **WH Smith PLC**

## **Interim Results 2006**

12 April 2006

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**Robert Walker**

Chairman

# WH Smith PLC

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- Financial review Alan Stewart
- WHSmith Group review Kate Swann
  - Travel Retail performance
  - High Street Retail performance
  - News Distribution performance

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**Alan Stewart**

Group Finance Director

# Group financial summary

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	6 mths to Feb 2006 <u>£m</u>	6 mths to Feb 2005 <u>£m</u>	<u>Change</u> <u>%</u>
Revenue	1,302	1,359	(4%)
Headline profit before tax <sup>1</sup>	73	70	4%
Profit before tax	76	60	27%
Headline EPS <sup>2</sup>	32.6p	28.4p	15%
EPS <sup>3</sup>	33.1p	23.5p	41%
Interim dividend per share	5.1p	4.5p	13%

1 Headline: Profit before tax, exceptional items and IAS 19 pension interest

2 Headline EPS: profit after tax, before exceptional items and IAS 19 pension interest - undiluted

3 EPS as per IAS 33 - undiluted

# Group revenue

	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m	LFL Change %
High Street Retail	621	670	(6%)
Travel Retail	150	146	3%
<b>Retail</b>	<b>771</b>	<b>816</b>	<b>(5%)</b>
News Distribution	587	599	(2%)
<b>Revenue</b>	<b>1,358</b>	<b>1,415</b>	<b>(3%)</b>
Internal sales	(56)	(56)	-
<b>Total revenue</b>	<b>1,302</b>	<b>1,359</b>	<b>(3%)</b>

## Group profit before tax

	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m	Growth %
High Street Retail	57	54	6%
Travel Retail	13	11	18%
<b>Retail</b>	<b>70</b>	<b>65</b>	<b>8%</b>
News Distribution	20	19	5%
<b>Trading operations</b>	<b>90</b>	<b>84</b>	<b>7%</b>
Support costs	(5)	(7)	
Pension service charge	(5)	(5)	
Share based payments	(4)	(2)	
Internal rents	1	1	
Net finance charges	(4)	(1)	
<b>Headline profit before tax<sup>1</sup></b>	<b>73</b>	<b>70</b>	<b>4%</b>
Pension interest	(2)	(2)	-
<b>Profit before tax<sup>1</sup></b>	<b>71</b>	<b>68</b>	<b>4%</b>

<sup>1</sup> Before exceptional items

# Retail profit and loss

	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m	Change %
<b>Revenue</b>	<b>771</b>	<b>816</b>	<b>(6%)</b>
<b>Gross contribution</b>	<b>330</b>	<b>327</b>	<b>1%</b>
<b>Costs</b>	<b>(260)</b>	<b>(262)</b>	<b>1%</b>
Costs - occupation costs	(94)	(90)	
- store	(95)	(98)	
- central	(71)	(74)	
<b>Divisional profit*</b>	<b>70</b>	<b>65</b>	<b>8%</b>
Gross contribution margin	42.7%	40.1%	260 bps
Stores	674	667	
Average total square feet '000	3,254	3,259	

\* Before interest, tax, share based payments and pension service charges

## Retail LFL sales by category

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	6 months to 28 Feb 2006 %
Stationery	(4%)
Books	(4%)
News & Impulse	2%
Entertainment	(17%)
<b>Total</b>	<b>(5%)</b>

## News Distribution profit & loss

	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m	Change %
<b>Revenue</b>	<b>587</b>	<b>599</b>	<b>(2%)</b>
<b>Gross contribution</b>	<b>65</b>	<b>66</b>	
House costs	(32)	(32)	
Administration costs	(13)	(15)	
<b>Divisional profit*</b>	<b>20</b>	<b>19</b>	<b>5%</b>

\* Before interest, tax, share based payments and pension service charges

# Group free cash flow

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	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m
<b>Profit before tax<sup>1</sup></b>	<b>71</b>	<b>68</b>
Depreciation and amortisation	21	24
Working capital	(23)	(25)
Capital expenditure	(12)	(10)
Fixed asset proceeds	3	-
Tax	-	(3)
Provisions	(1)	(2)
Non cash items	3	2
<b>Free cash flow</b>	<b>62</b>	<b>54</b>

<sup>1</sup> Before exceptional items

## Group net debt movement

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	6 mths to Feb 2006 £m	6 mths to Feb 2005 £m
<b>Free cash flow</b>	<b>62</b>	<b>54</b>
Dividends paid	(16)	(14)
Pension deficit and retirement benefit funding	(9)	(64)
Sale and leaseback proceeds	5	-
Net disposals	9	206
Finance leases	-	(3)
Corporate advisory and financing costs	-	(10)
Purchase of own shares	-	(7)
Cash returned to shareholders	-	(205)
<b>Net debt movement</b>	<b>51</b>	<b>(43)</b>

## Group balance sheet

	Feb 2006 £m	Feb 2005 £m	Aug 2005 £m
Goodwill & other intangible assets	32	35	33
Property, plant & equipment	204	207	219
Working capital	(28)	(12)	(38)
Corporation tax	(21)	(28)	(27)
Deferred tax	18	34	41
Provisions	(15)	(18)	(17)
<b>Operating assets employed</b>	<b>190</b>	<b>218</b>	<b>211</b>
Net debt	(12)	(15)	(63)
<b>Total net assets (excluding pensions)</b>	<b>178</b>	<b>203</b>	<b>148</b>
Pension liability	(87)	(145)	(103)
<b>Total net assets</b>	<b>91</b>	<b>58</b>	<b>45</b>

# Group key indicators

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	<u>6 mths to Feb 2006</u>	<u>6 mths to Feb 2005</u>	<u>Growth %</u>
Headline EPS <sup>1</sup>	32.6p	28.4p	15%
Interim dividend per share	5.1p	4.5p	13%
Free cash flow (£m)	62	54	
Fixed charges cover	1.7x	1.7x	
ROCE	41%	33%	

<sup>1</sup> Headline EPS: profit after tax, before exceptional items and IAS 19 pension interest - undiluted

# Current trading

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	LFL sales 6 mths to 28 Feb 2006	LFL sales 6 weeks to 8 April 2006
High Street Retail	(6)%	(4%)
Travel Retail	3%	2%
<b>Retail</b>	(5%)	(3%)
News Distribution	(2%)	1%
<b>Total sales</b>	(3%)	(1%)

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**Kate Swann**

Group Chief Executive

## Group overview

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- Good profit performance across the Group
- Another strong performance from Travel Retail with sales growth, margin growth and well controlled costs
- Continued profit improvement in High Street Retail
- Industry leading performance from News Distribution in a tough market
- Central costs well controlled and pension scheme substantially de-risked
- Intention to separate the Retail and News businesses
- Delivery of value to shareholders remains on track

## Travel Retail

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- Another strong performance with profit up 18%
- LFL sales growth of 3%
  - Airport sales up 6%
  - Rail sales down 1%
- Average transaction value increased through range improvements and targeted promotional activity
- Gross margin driven by mix changes and improved buying
- Costs controlled tightly
- Good progress with store development

## **Travel Retail - Airport stores**

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- Continued strong growth; LFL 2% ahead of passenger growth
- Improved product ranges
- More efficient use of space, e.g. improved queuing systems and increased fixture densities
- Good progress with contracts
  - Heathrow T4 – renewed
  - Heathrow T5 – negotiations underway
- New specialist book stores are trading well
- Further opportunities for new openings

## Travel Retail – Rail stores

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- Total rail LFL sales down 1%
  - London rail LFL sales down 2%
  - Regional rail LFL sales up 1%
- Trialling new layouts with space rebalanced by category in regional rail stores
- Focus on London rail performance in H2. Programme includes:
  - Improving customer service through the staff flexibility
  - Improved ranging in core categories e.g. books
  - Extended opening hours

## **Travel Retail - Rail stores**

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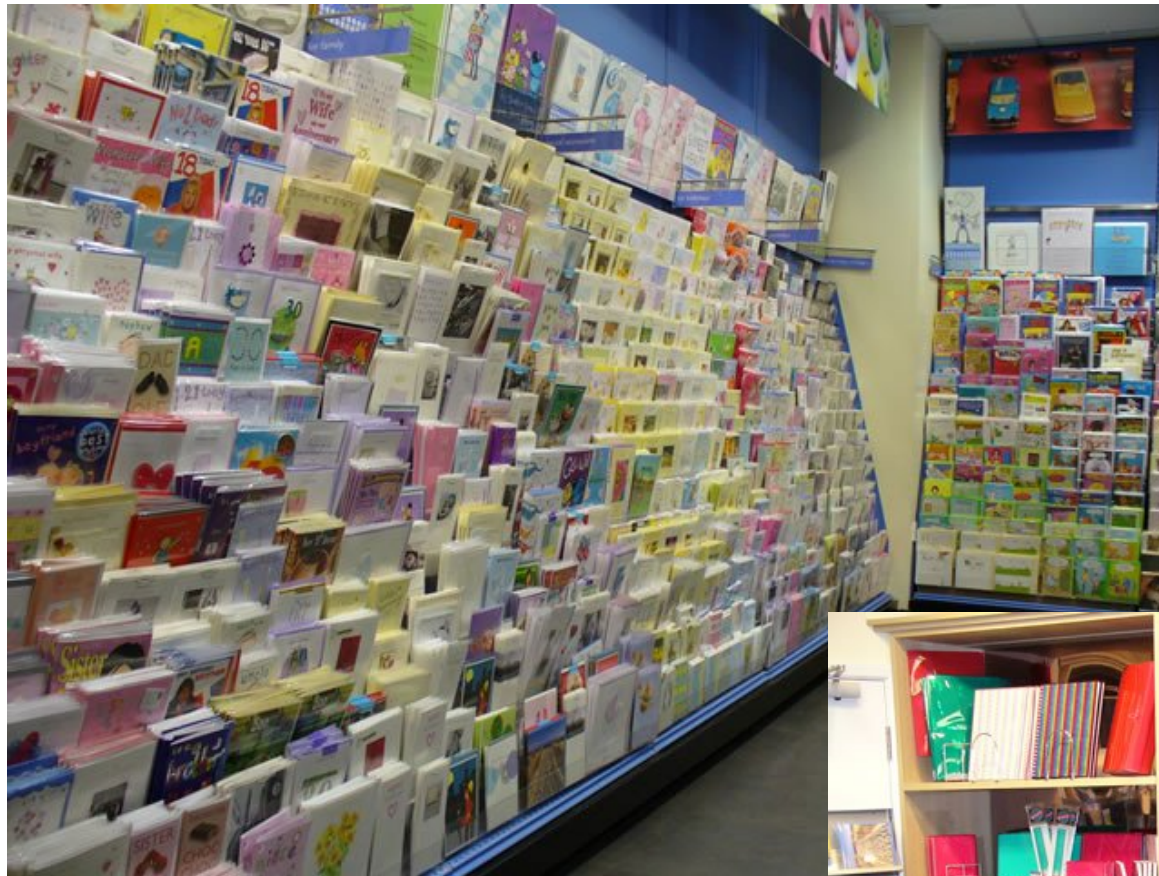
### New formats

- Specialist stationery stores opened at London Bridge and Charing Cross stations
- Specialist book store opened at London Liverpool Street station



# WHSmith Stationers





## Charing Cross Station



**Interim Results 2006**



Liverpool Street 75

# Liverpool Street Station



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## Travel Retail – new channels

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- Motorway service stations
- Franchise agreement with Moto
- Trial stores in Leigh Delamere (M4) and Birch (M62)



## High Street Retail

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- Good profit improvement in line with our plan
- LFL sales down 6% in tough trading conditions
- Strong gross margin performance up by c. 250 bps
- Focused cost control; savings delivered ahead of schedule
- Turnaround plan on track

## **High Street Retail turnaround plan**

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

## Margin optimisation programme

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- Margin growth from category mix management
- Additional margin growth from:
  - Improved price and promotion management
  - Better buying terms
  - Far East sourcing
  - Reduction in shrinkage and improved mark down management
- Mix improvements will continue to be a key driver of profit growth

## Cost efficiency improvements

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- October we targeted £48m of savings over 4 years to 2008; £12m in 2006
- In H1 delivered savings of £9m; plan ahead of schedule
  - Consolidated distribution into two warehouses, completely withdrawing from one warehouse in February
  - Created shared services facility in IT to improve efficiency and procurement
  - Staff flexibility programme meaning more efficient flexing with sales
  - New more efficient marketing communication package launched – “Think WHSmith”, leading to substantial awareness improvements

## Books

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- Strategy to rebuild our authority in books as a popular book specialist remains unchanged
- Market, as expected, highly competitive in H1
- H1 profit improved well YOY
- Second consecutive period of share stabilisation versus the general High Street
- Some excellent shares on key titles reinforces WHSmith's book credentials
- In categories where we have started more in depth work we have seen good results e.g. Kids
- Much more to do and will replicate this work in other sub-categories

# Books

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- Work on store environment, increased range and service levels receiving positive feedback
  - Will expand space to books in late Summer/early Autumn
- Made good progress operationally in H1
  - Availability consistently over 97% for top lines
  - Industry Returns Initiative (IRI) – signed up with 5 of 7 top publishers
  - Shortlisted in the BA / PA Awards for Bookseller of the Year
- Investing £1.5m in systems to improve core stock and ranging processes
  - New line management
  - In season / core stock management
  - Churn and returns processes

## Stationery

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- Tough market with consumer spending down
- Focused on core categories, successfully removing unprofitable ranges e.g. electronics
- LFL sales down 4%; gross margin up strongly YoY driven by mix management and sourcing benefits
- Mixed performance at a sub-category level
- Encouraging trials of extended ranges in art & craft, SOHO, core stationery
- Stationery trial store in Barnet performing well

# Stationery

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- Full category reviews in key areas
  - 4 completed, 7 underway
- Space expanded to stationery in late Summer / early Autumn
- Following trials new ranges are also being rolled out to stores, in some cases in the expanded space:
  - New wrap range to all stores in Spring 06
  - New educational learning range to c.300 stores in Spring 06
  - Additional core stationery range to c.50 stores by August 06
  - New pen range and planograms by May 06
- New stationery environment refitted into 10 stores in June 06
- Two additional stationery stores in H2



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## News & Impulse

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- Held share in news and magazines
  - Strong newspaper / DVD promotions
  - Strong magazine and promotions
  - Good bookazine growth
- Good snacking and confectionery growth
- Further range development planned in late Summer
  - Additional space to snacking/confectionery in c.100 stores
  - Additional space to bookazines in late Summer
  - C.40 new bookazine titles this year
  - New signage and layouts in magazines
- Implementing supply chain improvements including Sales-based Replenishment (SBR) from Summer 06

## Entertainment

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- Market remains very challenging
- Focused on maximising profit and delivering profitable sales
- Tightly controlled stock to reflect sales patterns while maintaining availability levels
- Moved to consolidator to protect margins and stock
- Planning to move selectively and gradually space towards other core categories

## News Distribution

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- Industry leading performance with profit up 5%
- Tough market with slower consumer spending and costs rising
- Overall sales down 2%

Newspapers	-1%
Magazines	-3%
Partworks/Oneshots	-13%

# News Distribution

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- Continued efficiency improvements
  - Centralisation of newspaper copy management
  - Central cost savings
- Continued investment in service developments
  - Sales-based replenishment
  - Key performance indicators
  - New revenue streams
- Good progress with contracts

## **News Distribution – contracts: renewals**

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- **Newspapers**
  - Guardian - agreed in March
  - Northern & Shell - agreed in March
  - FT - agreed in April
- **Magazines**
  - Northern & Shell – agreed in March
- Brings total to c. 85% of revenue now contracted
- Average length of the new contracts is 5 years

## News Distribution – contracts: new business

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New business from March 2006

Frontline	Magazines	Newcastle, Blackpool, Croydon, Derby, Oxford, Northampton, Cambridge/Bury St. Edmunds
Comag	Magazines	Derby
Northern & Shell	Magazines	Derby
Northern & Shell	Newspapers	Derby, Grantham

## OFT update

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- Fresh draft opinion to be issued by end of May 2006
- Following consultation, a final opinion is expected to be published in the autumn
- Improvements made in recent years mean we are well placed to respond to any changes in the market
- We remain focused on meeting the needs of publisher and retailer customers

# Intention to separate Retail & News Distribution

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- Separation will allow increased focus on the respective strategies of the Retail and News businesses
- An independent News Distribution business will be
  - even more responsive to publisher needs and will continue to invest in publisher facing service
  - able to work more effectively with other retailers, free of the link to a key retail competitor
  - better placed to maximise its technological investments, win new business and develop new revenue streams
- Retail will benefit from greater focus - High Street continuing the delivery of its recovery plan and Travel continuing on its growth path
- Separation is likely to be via a demerger of the Retail business

## **Group summary**

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- Good profit performance across the Group
- Continued improvement in High Street Retail
- Another excellent performance from Travel Retail and an industry leading performance from News
- Tough trading conditions continue however we continue to plan accordingly
- Intention to separate the Retail and News businesses
- Delivery of value to shareholders remains on track