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For Immediate Release

WH SMITH PLC

**PROPOSED ACQUISITION OF MARSHALL RETAIL GROUP –
ACCELERATING WH SMITH'S EXPANSION IN US TRAVEL RETAIL**

17 October 2019

WH Smith PLC (“**WH Smith**” or the “**Group**”) is pleased to announce the signing of an agreement to acquire Marshall Retail Group (“**MRG**”), a leading and fast growing US travel retailer, for \$400 million (approximately £312 million)^{1,2} on a cash and debt-free basis (the “**Transaction**”).

STRATEGIC HIGHLIGHTS

- Compelling opportunity to accelerate the growth of WH Smith's International Travel business in the \$3.2 billion³ US airport travel retail market
- Fast growing and highly successful US travel retailer with proven business model and unique capabilities across its airport, resorts and tourist retail channels
- MRG's significant recent store awards provide strong and highly visible near-term growth prospects
- The combination with WH Smith's existing operations, including InMotion, will strengthen the Group's International Travel offering
- The Transaction will broadly double the size of WH Smith's International Travel business
- Clear integration plan with existing strong MRG management team incentivised to drive growth

FINANCIAL HIGHLIGHTS

- Implied 2019E EBITDA multiple of 10.0x including synergies; 13.7x excluding synergies⁴
- 2019E EBITDA of c.\$31.5 million⁵, which does not fully reflect contribution from stores opened year-to-date
- Annual run-rate cost synergies of c.\$11 million expected by the third full year following Completion from procurement savings and operational efficiencies
- 36 awarded stores expected to open between 2020E and 2024E, of which 24 are expected to be opened next year, providing clear visibility into future growth⁶
- MRG expected to deliver a double-digit sales CAGR from 2020E through to 2024E driven by awarded stores adding more than 75% to retail square footage within airports
- Mid-single digit EPS accretion expected in the first full financial year following Completion, and expected to approach double digit EPS accretion in the second full financial year following Completion
- ROIC expected to exceed WACC by the third full financial year following Completion

FINANCING AND STRUCTURE

- Proposed acquisition to be financed through a combination of new debt and equity
- Disciplined financing structure reflecting WH Smith's capital allocation policy
- Approximately £155 million to be raised through an underwritten equity placing
- Remaining consideration to be financed through a new debt facility
- Return to below target leverage of 1.25x expected by the end of WH Smith's first full financial year following Completion
- The Transaction will require shareholder approval, with the Circular convening the General Meeting expected to be published by the end of November 2019
- Completion expected in the first quarter of the 2020 calendar year

Carl Cowling, WH Smith Group Chief Executive effective 1 November 2019, commented:

“We are delighted to announce today the proposed acquisition of Marshall Retail Group. MRG is a highly successful US travel retailer with a fast growing airport business. This acquisition will accelerate the growth of our International Travel business and combined with InMotion, the market leading digital accessories airport retailer that we acquired last year, will significantly enhance our scale and growth opportunities in the US, a large and fast growing travel retail market.

“This is an exciting value creating opportunity, entirely in line with our strategy.

“I would like to take this opportunity to welcome Michael Wilkins, CEO, and the entire team across the Marshall Retail Group to the WH Smith Group and we look forward to working together to further develop our business across North America.”

Michael C. Wilkins, Marshall Retail Group CEO, added:

"I feel very proud to announce that we have reached an agreement with UK based retailer, WH Smith, to acquire Marshall Retail Group. WH Smith is one of the world's oldest retailers with close to 1,600 stores across the world.

"This is an incredible milestone for our business and is testament to the outstanding team at MRG. We are proud of our success, particularly our recent growth in airports, and I'm especially excited about the potential this unlocks for MRG in the years to come.

"We very much look forward to working with such an established and successful global business, with strong heritage, as we continue on our journey together to drive both businesses forward."

OVERVIEW OF MRG

MRG is a leading and fast growing independent US travel retailer that is well known to WH Smith's management team. MRG has complementary travel retail channels in high traffic airports, resorts and tourist locations, and has a highly successful and proven business model with a strong track record of concession and tender wins. MRG aims to differentiate itself from its competitors by its ability to develop distinctive retail experiences tailored to local customers and landlords.

MRG currently operates 170 stores in North America⁷, with 59 of these inside airports, and generates the majority of its revenue through the sale of news, gifts and convenience products. In the financial year ending December 2019, the airports channel is expected to contribute c.\$84 million to MRG's total revenue. MRG's future growth prospects are underpinned by its highly successful airport travel retail business, which has a rapidly increasing footprint. With a further 33 new airport stores expected to open by the end of 2024 following a series of successful tenders, MRG is expected to add approximately 43,000 sq. ft. of airport retail selling space, representing an increase of more than 75% from its current airport footprint of approximately 54,000 sq. ft. These awarded stores provide clear visibility into future growth, with WH Smith expecting MRG to deliver a double-digit sales CAGR from 2020E through 2024E.

MRG's expertise in large, multi-brand and multi-category store concepts, alongside its differentiated ability to develop localised store concepts that create a strong "sense of place", means that it is well positioned to continue to expand in the growing US airport travel retail market. The addition of WH Smith's complementary expertise in airport essentials and InMotion's market leadership in tech accessories is expected to further support these growth prospects.

Alongside its airport stores, MRG is also a leading player in resorts and tourist locations (primarily in Las Vegas, NV). The stable and captive nature of customers using these channels means they share a number of similar characteristics to WH Smith's Travel business. Resorts and tourism channels are expected to achieve revenue of c.\$68 million and c.\$51 million respectively in the financial year ending December 2019.

MRG is expected to deliver revenue of c.\$204 million and EBITDA of c.\$31.5 million⁵ for the financial year ending December 2019, and has demonstrated a track record of delivering store openings and sales growth whilst maintaining increasing margins.

Following Completion, MRG's experienced management team will continue to run MRG from its headquarters in Las Vegas, NV, and will be incentivised to drive continued growth in the business.

ACCELERATING THE GROWTH OF WH SMITH'S INTERNATIONAL TRAVEL BUSINESS AND SIGNIFICANTLY ENHANCING SCALE IN THE ATTRACTIVE US TRAVEL RETAIL MARKET

WH Smith's strategic focus on growing its Travel business has resulted in over a decade of strong and consistent profit growth in the division, with the Travel business now generating the significant majority of the Group's trading profit. Within WH Smith's overall Travel strategy, International Travel has been a source of sustained growth over the past five years and, in 2018, WH Smith successfully expanded into the fast growing US travel retail market through the acquisition of InMotion. The integration of InMotion is now complete and the performance of the business is ahead of WH Smith's initial expectations. The Group's continued focus on this part of its strategy is further supported by its recently announced tender win that will launch the WH Smith brand into US airports.

The Directors believe that the acquisition of MRG represents a rare and compelling opportunity to accelerate its expansion in the large and fast growing US travel retail market. The Transaction will meaningfully enhance WH Smith's scale in the US and the breadth of its offering to landlords, and will broadly double the size of WH Smith's International Travel business.

The combination of MRG's distinctive retail offering, WH Smith's complementary expertise in airport news, books and convenience, and InMotion's market leadership in tech accessories is expected to result in a platform that is well placed to drive further growth in the US. Following the Transaction, the Group will be able to access all relevant categories in the \$3.2 billion US airport travel retail market³, ranging from News & Gift products (such as news, magazines, books, travel accessories, and food-to-go) to Specialty products (such as digital accessories, souvenirs, gifts, apparel, and licensed brand retailing). This enhanced offering is expected to present substantial future opportunities for WH Smith to compete in increasingly sophisticated tenders.

ATTRACTIVE FINANCIAL RETURNS

The Transaction is expected to result in strong financial returns given MRG's anticipated growth profile and the incremental value creation from the combination that WH Smith expects to deliver. Annual run-rate cost synergies of c.\$11 million are expected by the third full year following Completion from procurement savings and operational efficiencies. Furthermore, WH Smith anticipates benefiting from additional growth opportunities from the opening of new InMotion stores in resort and tourist locations where MRG operates.

WH Smith expects the Transaction to result in mid-single digit EPS accretion in the first full financial year following Completion, and to approach double digits EPS accretion in the second full financial year following Completion.

ROIC is expected to exceed WACC by the third full year following Completion, and it is anticipated that the Transaction will enhance the Group's growth profile, margins and free cash flow.

FINANCING STRUCTURE IN LINE WITH DISCIPLINED APPROACH TO CASH AND CAPITAL ALLOCATION

WH Smith's disciplined approach to cash and capital allocation remains unchanged, and the Group continues to be focused on maintaining a prudent balance sheet, cash generation and value creation for shareholders. The Transaction is consistent with WH Smith's strategy of allocating capital to growth areas of the business where the Group is able to generate strong returns and enhance shareholder value. Through a combination of ordinary dividends, buybacks and special dividends, WH Smith has returned c.£1 billion to Shareholders since 2007.

The Transaction will be financed through a new £200 million term loan facility provided by the Group's existing relationship banks, alongside a c.£155 million underwritten equity placing. In addition, reflecting the increased scale of the Group, the existing revolving credit facility will be expanded to £200 million from the current £140 million.

WH Smith's share buyback programme is being suspended to support near-term deleveraging, with the Group expecting to return to below its target 1.25x net debt/EBITDA leverage ratio by the end of the first full financial year following Completion. WH Smith's progressive dividend policy remains unchanged.

TIMETABLE TO COMPLETION

The size of the Transaction means that it constitutes a class 1 transaction for the purposes of the Listing Rules and accordingly is conditional on the approval of Shareholders at a General Meeting.

A circular containing further details of the Transaction, the Directors' recommendation, the notice of the General Meeting and the Resolution (the "**Circular**"), is expected to be published by the end of November 2019.

The completion of the Transaction is subject to a number of customary conditions, including consent from certain store landlords (which may be waived by WH Smith) and US HSR regulatory approval. The Transaction is expected to complete in the first quarter of the 2020 calendar year.

ANALYST PRESENTATION

An analyst presentation will be held at 60 Victoria Embankment, London, EC4Y 0JP at 09:00am BST today. The slides accompanying the presentation will be available on WH Smith's website, www.whsmithplc.co.uk, shortly after the conclusion of the presentation.

The preceding summary should be read in conjunction with the full text of the following announcement and its appendices. The defined terms set out in Appendix II apply to this Announcement.

Enquiries:

WH Smith PLC

Investors: Mark Boyle +44 (0) 20 3981 1285
Media: Nicola Hillman +44 (0) 1793 563 354

Greenhill – Lead Financial Adviser

London: Charles Gournay, Dean Rodrigues +44 (0) 20 7198 7400
New York: Richard Steinman, Samuel Sandford +1 212 389 1500

Barclays – Joint Financial Adviser and Corporate Broker

Mark Astaire, Stuart Jempson +44 (0) 20 7623 2323

J.P. Morgan Cazenove – Sponsor, Joint Financial Adviser and Corporate Broker

Edmund Byers, Behzad Arbabzadah +44 (0) 20 7742 4000
Nicholas Hall, Ed Digby

Brunswick – Public Relations Adviser

Fiona Micallef-Eynaud, Alice Gibb +44 (0) 20 7404 5959

About WH Smith

WH Smith is listed on the London Stock Exchange (LSE: SMWH) and is a constituent of the FTSE 250 Index. The Group is a leading global retailer in news, books and convenience for the world's travelling customer. With approximately 1,600 stores in locations across the globe, WH Smith offers customers a wide range of books, newspapers & magazines, travel accessories, and food & drink.

It has two businesses, Travel and High Street. The Travel business operates from 586 units in UK airports, railway stations, motorway service areas and hospitals, and 433 units outside of the UK (including InMotion). Travel currently accounts for approximately two-thirds of Group trading profits. The High Street business operates from 576 stores, with an extensive reach across the UK and a presence on nearly every significant UK high street. High Street sells a wide range of products, across the following categories: Stationery (including greetings cards), Books, and News and Impulse (including newspapers, magazines and confectionery).

The Group employs around 14,000 people, primarily in the UK.

Important notices

This Announcement contains inside information and is issued on behalf of the Group by Ian Houghton, Company Secretary. This Announcement is issued at 7.00am BST on 17 October 2019.

This Announcement is not intended to, and does not constitute, or form part of, any offer to sell or issue or any solicitation of an offer to purchase, subscribe for, or otherwise acquire, any securities or a solicitation of any vote or approval in any jurisdiction. WH Smith shareholders are advised to read carefully the Circular once it has been published. Any response to the Transaction should be made only on the basis of the information in the Circular to follow.

Each of Greenhill & Co. International LLP ("**Greenhill**"), which is authorised and regulated in the UK by the Financial Conduct Authority ("**FCA**"); J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove ("**J.P. Morgan Cazenove**")), which is authorised by the Prudential Regulatory Authority ("**PRA**") and regulated by the FCA and the PRA in the UK; and Barclays Bank PLC ("**Barclays**"), which is authorised by the PRA and regulated by the FCA and the PRA in the UK (together, the "**Financial Advisers**"), are acting exclusively for WH Smith and no one else in connection with the Transaction and accordingly will not be responsible to anyone other than WH Smith for providing the protections afforded to their clients, or for providing advice in connection with the Transaction, the contents of this Announcement or any other transaction, arrangement or other matter referred to in this Announcement as relevant.

Apart from the responsibilities and liabilities, if any, which may be imposed on each of the Financial Advisers under FSMA or the regulatory regime established thereunder, the Financial Advisers accept no responsibility whatsoever for the contents of this Announcement, including its accuracy, completeness or verification or for any other statement made or purported to be made by it, or on its behalf, in connection with the Transaction, or any other matter referred to herein. Subject to applicable law, each of the Financial Advisers accordingly disclaims, to the fullest extent permitted by law, all and any liability whether arising in tort, contract or otherwise (save as referred to above) which it might otherwise have in respect of this Announcement or any such statement.

The securities of the Group have not been and will not be registered under the US Securities Act of 1933, as amended (the "**Securities Act**"), or under the securities laws of any state or other jurisdiction of the United States, and may not be offered, sold, pledged or transferred, directly or indirectly, in, into or within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable securities laws of any relevant state or other jurisdiction of the United States. There has been and will be no public offering of the securities of the Group in the United States.

Cautionary statement regarding forward-looking statements

This Announcement may contain "**forward-looking statements**" with respect to certain of the Group's plans and its current goals and expectations relating to its future financial condition, performance, strategic initiatives, objectives and results. Forward-looking statements sometimes use words such as "**aim**", "**anticipate**", "**target**", "**expect**", "**estimate**", "**intend**", "**plan**", "**goal**", "**believe**", "**seek**", "**may**", "**could**", "**outlook**" or other words of similar meaning. By their nature, all forward-looking statements involve risk and uncertainty because they are based on numerous assumptions regarding WH Smith's present and future business strategies, relate to future events and depend on circumstances which are or may be beyond the control of WH Smith and/or MRG and which could cause actual results of trends to differ materially from those made in or suggested by the forward-looking statements in this Announcement, including, but not limited to, domestic and global economic business conditions; market-related risks such as fluctuations in interest rates; the policies and actions of governmental and regulatory authorities; the effect of competition, inflation and deflation; the effect of legislative, fiscal, tax and regulatory developments in the jurisdictions in which WH Smith and MRG and their respective affiliates operate; the effect of volatility in the equity, capital and credit markets on profitability and ability to access capital and credit; a decline in credit ratings of WH Smith and/or MRG; the effect of operational and integration risks; an unexpected decline in sales for WH Smith or MRG; inability to realise anticipated synergies; any limitations of internal financial reporting controls; and the loss of key personnel. Any forward-looking statements made in this Announcement by or on behalf of WH Smith speak only as of the date they are made. Save as required by the Market Abuse Regulation, the Disclosure Guidance and Transparency Rules, the Listing Rules or by law, WH Smith undertakes no obligation to update these forward-looking statements and will not publicly release any revisions it may make to these forward-looking statements that may occur due to any change in its expectations or to reflect events or circumstances after the date of this Announcement.

WH SMITH PLC

PROPOSED ACQUISITION OF MARSHALL RETAIL GROUP

17 October 2019

1. Introduction

WH Smith PLC (“**WH Smith**” or the “**Group**”) is pleased to announce the signing of an agreement to acquire Marshall Retail Group (“**MRG**”), a leading and fast growing US travel retailer, for \$400 million (approximately £312 million)^{1,2} on a cash and debt-free basis (the “**Transaction**”).

2. Background and rationale for the Transaction

Over the past 10 years, WH Smith has made the growth of its Travel business one of the Group’s core strategic priorities, with the contribution of the Group’s Travel business to Group trading profit increasing from c.49% to c.66% in the 10 years between the financial years ended 31 August 2009 and 31 August 2019. Since the opening of its first international store in Copenhagen Airport in 2009, WH Smith has sought to develop its International Travel business significantly, with International Travel contributing over 17% of the Group’s total Travel trading profit in the financial year ended 31 August 2019.

In 2018, WH Smith successfully expanded into the fast growing US travel retail market through the acquisition of InMotion. The integration of InMotion is now complete and the performance of the business is ahead of WH Smith’s initial expectations.

The acquisition of MRG is expected to broadly double the size of WH Smith’s International Travel business, and significantly enhances the Group’s scale and growth opportunities in the attractive US airport travel retail market.

The Directors believe that the Transaction is highly attractive for the following reasons:

Compelling opportunity to accelerate the growth of WH Smith’s International Travel business in the United States

The Directors consider the acquisition of MRG to be an important step in growing the international footprint of WH Smith Travel, and in significantly accelerating its presence in the United States, a large and fast growing travel retail market.

The Group’s International Travel business is expected to be a key driver of future growth and value creation for Shareholders, as demonstrated by its strong performance this financial year, with revenue up 20% and a record 45 new unit wins in the financial year ended 31 August 2019. The Group has also announced today a tender win that will launch the WH Smith brand into US airports.

Through the acquisition of MRG, the Directors believe WH Smith will be well positioned to compete for new multi-unit tender opportunities across multiple categories in the \$3.2 billion US airport travel retail market, which grew at a CAGR of over 5% between 2013 and 2018³. The market is underpinned by continued long-term passenger growth, with North American passenger traffic expected to increase from c.1.9 billion in 2017 to c.2.5 billion in 2027E, growing at a CAGR of 2.9%⁴.

Fast growing and highly successful US travel retailer with proven business model and unique capabilities across channels

MRG is a highly successful US travel retailer, with complementary retail channels across airports, resorts and tourist locations. It has a proven business model, with a distinctive retail offering tailored to local consumers in high traffic locations, as well as expertise in large, multi-brand and multi-category stores. Localised formats and brands help to drive a strong “sense of place” and are a key driver of differentiation for landlords. As an example, in a recent multi-brand and multi-category airport tender process, MRG was the standout winner versus other competitors due to their proposed concept, design expertise, and customer service excellence.

MRG has a strong track record of concession wins in US airports, with sales generated through its airport channel expected to increase to c.\$84 million for the year ending December 2019, implying a c.32% CAGR over the last two years. Furthermore, MRG is a leading player, and benefits from longstanding relationships and expertise, in high return resort and tourism channels (primarily in Las Vegas), which benefit from a stable and captive market base. Similar to WH Smith’s Travel business, these markets are characterised by highly visible stores; consistent footfall; consistent flow of new customers; “impulse driven” purchases; high inventory turn; and insulation from e-commerce. Continued growth in these channels is expected to be supported by a number of long-term trends, including a growing presence for major sporting events and conventions in Las Vegas. MRG’s attractive business model is described in more detail in paragraph 4 below (*Information on Marshall Retail Group*).

Significant recent store awards provide strong and highly visible near-term growth prospects

MRG’s store count is expected to grow significantly over the next few years, with 36 awarded stores⁵ due to open between 2020E and 2024E (of which 24 are scheduled to be opened next year), providing clear visibility into future growth through adding approximately 43,000 sq. ft. of airport retail selling space to its current airport footprint. This represents an increase of more than 75% from its current footprint of approximately 54,000 sq. ft. These awarded stores provide clear visibility into future growth, with WH Smith expecting MRG to deliver double-digit sales CAGR from 2020E through 2024E.

Combination with WH Smith’s existing operations will strengthen the Group’s International Travel offering

MRG is highly complementary to WH Smith International Travel’s existing offering, particularly its leadership in tech accessories through InMotion and WH Smith’s expertise in the news, books and convenience market, and in space management. Following the Transaction, the Group will be able to access all relevant categories in the \$3.2 billion US airport travel retail market³, ranging from News & Gift products

(such as news, magazines, books, travel accessories, and food-to-go) to Specialty products (such as digital accessories, souvenirs, gifts, apparel, and licensed brand retailing). This enhanced offering is expected to present substantial future opportunities for WH Smith to compete in increasingly sophisticated tenders.

The Transaction is expected to result in strong financial returns

The \$400 million Transaction enterprise value¹ implies a 2019E EBITDA multiple of 10.0x including synergies; 13.7x excluding synergies⁴.

The Directors believe that the Transaction is financially attractive for the following reasons:

- MRG is expected to generate total sales of c.\$204 million in the financial year ending December 2019, with an EBITDA margin of greater than 15%, generating an expected EBITDA of c.\$31.5 million⁵, which does not fully reflect contribution from stores opened year-to-date;
- awarded stores provide clear visibility into future growth, with a 20% increase expected from 2019 to 2020E and double-digit sales CAGR expected from 2020E through 2024E, driven by awarded stores adding more than 75% to retail square footage within airports;
- annual run-rate cost synergies of c.\$11 million expected by the third full year following Completion from procurement savings and operational efficiencies;
- additional incremental value creation from combination expected to be derived from anticipated growth opportunities for InMotion stores in MRG locations;
- mid-single digit EPS accretion expected in the first full financial year following Completion, and expected to approach double digit EPS accretion in the second full financial year;
- ROIC expected to exceed WACC by the third full year following Completion;
- the Transaction is expected to enhance Group growth, margins, and free cash flow; and
- the Group intends to finance the Transaction through a disciplined financing structure, reflecting its existing capital allocation policy, with a return to below target leverage of 1.25x expected by the end of WH Smith's first full financial year post-Completion.

3. Synergies

WH Smith believes that the Transaction presents an opportunity to deliver annual run-rate pre-tax cost synergies of \$11 million through procurement savings and operational cost efficiencies⁹. Approximately 80% of the cost synergies are expected to arise through procurement savings, to be achieved primarily through the application of best practices in sourcing and buying as well as from access to better harmonised terms. The remaining 20% of the cost synergies are expected to be generated from operational cost efficiencies.

WH Smith expects to realise approximately half of these synergies in the first full financial year following Completion, with around 85% of the benefit achieved in the second full financial year following Completion and full pre-tax cost synergies realised in the third full financial year following Completion and thereafter. In order to achieve these synergies, WH Smith expects to incur one-off exceptional operating costs of approximately \$3 million. This is in addition to incremental capital expenditure of approximately \$1.5 million, primarily relating to IT and digital equipment.

Furthermore, WH Smith anticipates benefiting from additional growth opportunities from the opening of new InMotion stores in resort and tourist locations where MRG operates. This opportunity has not been quantified and any potential benefit will be in addition to the announced synergies (\$11 million).

The synergies indicated above are contingent on the Transaction and could not be achieved by WH Smith and MRG operating independently. Both the beneficial elements and relevant costs associated in achieving these synergies are reflected above.

4. Information on Marshall Retail Group

MRG is a leading and fast growing independent US travel retailer that is well known to WH Smith's management team. MRG has complementary retail channels in high traffic airports, resorts and tourist locations. It has a highly successful and proven business model with a strong track record of concession and tender wins. Furthermore, MRG is differentiated from its competitors by its ability to develop distinctive retail experiences tailored to local customers and landlords.

MRG currently operates 170 stores in North America⁷, with 59 of these inside airports, and generates the majority of its revenue through the sale of news, gifts and convenience products. In the financial year ending December 2019, the airports channel is expected to contribute c.\$84 million to MRG's total revenue. MRG's future growth prospects are underpinned by its highly successful airport travel retail business, which has a rapidly increasing footprint. With a further 33 new airport stores expected to open by the end of 2024 following a series of successful tenders, MRG is expected to add approximately 43,000 sq. ft. of airport retail selling space to its current airport footprint, representing an increase of more than 75% from its current footprint of approximately 54,000 sq. ft. These awarded stores provide clear visibility into future growth, with MRG expected by WH Smith to deliver a double-digit sales CAGR from 2020E through 2024E.

MRG's expertise in large, multi-brand and multi-category store concepts, alongside its differentiated ability to develop localised store concepts that create a strong "sense of place", means that it is well positioned to continue to expand its share of the growing US airport travel retail market. The addition of WH Smith's complementary expertise in airport essentials and InMotion's market leadership in tech accessories is expected to further support these growth prospects.

Alongside its airport stores, MRG is also a leading player in resorts and tourist locations (primarily in Las Vegas, NV). The stable and captive nature of customers using these channels means they share a number of similar characteristics to WH Smith's Travel business. Resorts and tourism channels are expected to achieve revenue of c.\$68 million and c.\$51 million respectively in the financial year ending December 2019.

MRG is expected to deliver revenue of c.\$204 million and EBITDA of c.\$31.5 million⁵ for the financial year ending December 2019, and has demonstrated a track record of delivering store openings and sales growth whilst maintaining increasing margins.

\$ million	Year ending 31 December 2017	Year ending 30 December 2018	Year ending 29 December 2019E
Sales	163.2	179.1	204.0
EBITDA	23.7	26.8	31.5
<i>EBITDA margin</i>	<i>14.5%</i>	<i>15.0%</i>	<i>15.4%</i>

MRG's historical financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("**US GAAP**"). In its audited US GAAP financial statements for the year ending 30 December 2018, MRG reported an operating profit of \$15.7 million, and had gross assets of \$250 million, of which \$183 million related to its balance sheet goodwill (which will not transfer to WH Smith).

In accordance with the Listing Rules, the Circular when published will include full historical financial information on MRG for the last three years, prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("**IFRS**"), in a form consistent with the accounting policies adopted by WH Smith in its own annual consolidated accounts. Such IFRS financial information may differ from the summary financial information for MRG set out above as described below. While WH Smith believes that it has identified what it believes to be the material differences between WH Smith and MRG accounting policies, there may be additional differences not noted below.

i) Income Statement and Balance Sheet Presentation

The presentation of certain income statement and balance sheet financial statement items may be realigned to conform to WH Smith presentation.

ii) IFRS first-time adoption (IFRS 1)

For first-time adopters of IFRS, full retrospective application is subject to certain optional exemptions, designed to reduce the burden where the cost of retrospective application might exceed the benefits. Certain exemptions are applicable and may be applied to the MRG historical financial information under IFRS, including setting the cumulative translation adjustment to zero at the date of IFRS transition; electing not to restate prior business combinations under IFRS; and electing to use a previous valuation of property, plant, and equipment as the deemed cost for IFRS.

iii) Impairment of assets

MRG has recognised long-lived asset and goodwill impairments in historical periods. Differences exist in the impairment models under US GAAP and IFRS that may result in different impairment conclusions and charges in MRG's IFRS financial statements, including differences in how assets are grouped for purposes of the impairment test; the use of a two-step impairment approach under US GAAP whereby the recoverability of assets is tested first using undiscounted cash flows; and the requirement to reverse impairments under IFRS if the assets have recovered in value, which is prohibited under US GAAP.

iv) Share-based payments

Differences can occur between the US GAAP and IFRS treatment of share-based payments, including the option of recognising share-based payment expense over the vesting period using a straight-line method rather than using a graded-vesting schedule as required by IFRS.

v) Income taxes

There are differences that exist between US GAAP and IFRS in the accounting for income taxes, including, but not limited to, the recognition and presentation of deferred taxes, tax bases, deferred taxes on share-based payments and uncertain tax positions.

The forecast sales, EBITDA and EBITDA margin for MRG's financial year ending December 2019 is prepared on the basis of MRG's US GAAP management accounts for the eight months ended 31 August 2019 and the projected financial performance of MRG for the remaining four months of 2019.

5. Integration and Management

MRG has a strong existing management team, led by Michael Wilkins (CEO) and David Charles (President / COO), who have been known to WH Smith's management team for a number of years, and will continue to run the business following Completion. WH Smith has put in place a clear integration plan to facilitate their transition into the Group. MRG management will be incentivised to drive the continued

growth of the business, aligned with the objectives of the Group going forward. WH Smith expects to incur one-time costs of approximately \$2-3 million as part of integrating MRG into the Group¹⁰.

6. Key terms of the Transaction

On 17 October 2019, WH Smith USA Holdings Inc., a wholly owned subsidiary of WH Smith ("**WH Smith USA**"), and MRG Acquisition Holdings, LLC, a Delaware limited liability company wholly owned by the MRG Shareholders ("**MRG Holdings**"), entered into a stock purchase agreement (the "**SPA**"), which sets out the terms and conditions for WH Smith USA to purchase all of the issued and outstanding common stock of Marshall Retail Group Holding Company, Inc. (the "**MRG Shares**"). Upon Completion, WH Smith will, indirectly, hold all equity interests in MRG.

The total consideration for the MRG Shares is \$400 million (the "**Purchase Price**"), which is subject to adjustments in relation to indebtedness, working capital, cash and transaction expenses of MRG.

Under the SPA, MRG Holdings made customary representations and warranties to WH Smith and WH Smith USA, and WH Smith and WH Smith USA made customary representations and warranties to MRG Holdings. The fundamental title and capacity warranties survive for a period of six years from the date of Completion (the "**Completion Date**"), while all other representations and warranties survive for a period of 12 months after the Completion Date.

WH Smith has obtained a \$40 million warranty and indemnity insurance (the "**R&W Policy**") in respect of the warranties and indemnities contained in SPA, subject to certain specified limitations agreed with the insurers.

WH Smith's sole recourse for MRG's breach of non-fundamental warranties is an indemnity escrow account of \$1.5 million and the R&W Policy. For breaches of fundamental warranties, WH Smith's first source of recovery would be the indemnity escrow account and the R&W Policy, and once such account has been utilised and coverage been exhausted, MRG Holdings would be liable for excess damages up to the Purchase Price. WH Smith also has additional escrows and indemnities relating to specific items, including a litigation matter and the delayed opening of certain stores.

Completion of the Transaction is conditional upon, among others, the satisfaction or waiver of the following conditions (the "**Conditions**"):

- (i) the approval of the Transaction (as a Class 1 transaction under the Listing Rules) by Shareholders (the "**Shareholder Approval**") passing an ordinary resolution (the "**Resolution**") at the General Meeting;
- (ii) obtaining consent from certain store landlords;
- (iii) the expiration or termination of the applicable waiting period under the HSR Act and under any other applicable competition laws; and
- (iv) the representations and warranties of WH Smith USA and MRG Holdings being true and correct as at the Completion Date, subject to certain exemptions based on materiality, material adverse effect and similar standards.

The SPA contains customary termination rights, including upon mutual consent of the parties, by either party for a material breach of the SPA by the other party, by MRG Holdings if WH Smith does not hold the General Meeting or obtain Shareholder Approval, or by either party if the Transaction has not closed by 31 March 2020.

Under the SPA, WH Smith has agreed to pay a break fee of \$10 million to MRG Holdings if, among others, the General Meeting has not been convened by 31 January 2020, if the Board of Directors of WH Smith changes its recommendation that the Shareholders vote in favour of the Transaction, or the Shareholder Approval has not been obtained by 31 March 2020.

7. Capital allocation policy

WH Smith's disciplined approach to cash and capital allocation remains unchanged, and the Group continues to be focused on maintaining a prudent balance sheet, cash generation and value creation for Shareholders. The Transaction is consistent with WH Smith's strategy of allocating capital to growth areas of the business where the Group is able to generate strong returns and enhance shareholder value. Through a combination of ordinary dividends, buybacks and special dividends, WH Smith has returned c.£1 billion to shareholders since 2007.

WH Smith's share buyback programme is being suspended to support near-term deleveraging, with the Group expecting to return to below its target 1.25x net debt/EBITDA leverage ratio by the end of the first full financial year following Completion. WH Smith's progressive dividend policy remains unchanged.

8. Financing the Transaction

WH Smith intends to finance the Transaction from (i) the net proceeds of a placing announced separately today to raise approximately £155 million before expenses, representing approximately 7% of WH Smith's existing share capital as at 16 October 2019 (the "**Placing**"); and (ii) drawings from a new £200 million term loan facility (see below).

On 17 October 2019, WH Smith entered into a term credit facility agreement of up to £200 million with, among others, (i) Banco Santander S.A., London Branch, Barclays Bank PLC, BNP Paribas Fortis SA/NV and HSBC UK Bank PLC (as mandated lead arrangers and original lenders) and (ii) Banco Santander S.A., London Branch (as agent) for, among other things, the financing of the Transaction, refinancing of any of MRG's existing debt, and the payment of any related fees and expenses.

In addition, WH Smith obtained additional commitments of £60 million under the terms of its existing revolving credit facility of originally £140 million between, among others, (i) WH Smith, (ii) Barclays Bank PLC, HSBC Bank PLC, Santander UK plc and BNP Paribas (as mandated lead arrangers and bookrunners and original lenders) and (iii) Banco Santander S.A., London Branch (as facility agent).

The Placing has been underwritten subject to the conditions set out in the Placing and Sponsor's Agreement.

9. Publication of the Circular and General Meeting

The size of the Transaction means that it constitutes a Class 1 transaction for the purposes of the Listing Rules and accordingly is conditional on the approval of the Shareholders at the General Meeting.

The Circular containing further details of the Transaction, the Directors' recommendation, the notice of the General Meeting and the Resolution is expected to be sent to WH Smith shareholders by the end of November 2019. Subject to satisfaction of the Conditions, Completion is expected to occur in the first quarter of calendar year 2020.

APPENDIX I

KEY NOTES

1. Purchase price for 100% of Marshall Retail Group Holding Company, Inc., on a debt-free cash-free basis subject to customary closing adjustments.
2. Based on GBP:USD foreign exchange rate of £1:\$1.282, as at 19:00 BST on 16 October 2019.
3. US airport travel retail market size excluding Duty Free and Food & Beverages, per AXN Factbook.
4. Acquisition multiple calculated based on purchase price of \$400 million, divided by expected EBITDA of \$31.5 million for the financial year ending December 2019 less \$2.3 million of pre-tax profit attributable to minority partners (having minority partners is mandatory under some US airport lease contracts). This amount will be recognised, on a post-tax basis, as a non-controlling interest in WH Smith's income statement going forward.
5. EBITDA on a fully consolidated basis excluding certain non-recurring items. As is mandatory in some US airport lease contracts (and consistent with InMotion), MRG has minority partners. The share of post-tax profit attributable to those minority partners will be recognised as a non-controlling interest in WH Smith's income statement going forward.
6. Based on stores awarded to date (33 airport, 3 tourist / resort); awarded stores may be subject to delayed opening.
7. Of which the only location outside of the United States is Vancouver Airport, Canada.
8. North American passenger traffic, per ACI World Traffic Forecasts
9. The cost bases for MRG and WH Smith used as the basis for the synergies set out in paragraph 3 of this announcement (*Synergies*) are those contained in MRG's unaudited management accounts for the 12 months to 31 August 2019, and WH Smith's preliminary accounts for the financial year ended 31 August 2019, respectively. The MRG cost basis has been adjusted for the growth in airport locations per guaranteed contract wins.
10. One-time integration costs of approximately \$2-3 million are prior to, and separate from, the costs of realising the synergies set out in paragraph 3 of this announcement (*Synergies*).

APPENDIX II
DEFINITIONS

The definitions set out below apply through this document, unless the context requires otherwise.

£ or GBP	the lawful currency of the UK;
Announcement	this announcement, made by WH Smith on 17 October 2019 in relation to the Transaction;
Barclays	Barclays Bank PLC;
CAGR	compound annual growth rate;
Circular	the circular expected to be sent to WH Smith shareholders by the end of November 2019 containing further details of the Transaction the Directors' recommendation, the notice of the General Meeting and the Resolution;
Chief Executive or CEO	Chief Executive Officer;
Completion	completion of the Transaction;
Completion Date	the date upon which the Transaction becomes effective;
Conditions	the conditions of the Transaction as set out in the SPA;
COO	Chief Operating Officer
Director(s)	the Directors of WH Smith;
Disclosure Guidance and Transparency Rules	the disclosure guidance and transparency rules made by the FCA under Part 6 of FSMA;
EBITDA	earnings before interest, tax, depreciation and amortisation;
EPS	earnings per share;
FCA or Financial Conduct Authority	the UK Financial Conduct Authority or its successor from time to time;
Financial Advisers	Greenhill, J.P. Morgan Cazenove and Barclays;
FSMA	the Financial Services and Markets Act 2000, as amended, modified or re-enacted from time to time;
General Meeting	the general meeting of the Shareholders to be held to consider and, if thought fit, pass the Resolution in connection with the Transaction;
Greenhill	Greenhill & Co. International LLP;
Group	see WH Smith
HSR	the United States Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended from time to time;
IFRS	International Financial Reporting Standards, as adopted by the European Union;
J.P. Morgan Cazenove	J.P. Morgan Securities plc (which conducts its UK investment banking activities as J.P. Morgan Cazenove);
Listing Rules	the listing rules made by the FCA under Section 73A of FSMA;
London Stock Exchange or LSE	the London Stock Exchange plc or its successor(s);
Market Abuse Regulation or MAR	Regulation (EU) No 596/2014 of the European Parliament and of the Council of 16 April 2014 on market abuse (market abuse regulation);

Marshall Retail Group or MRG	Marshall Retail Group Holding Company, Inc., a Delaware corporation;
MRG Holdings	MRG Acquisition Holdings, LLC., a Delaware limited liability company;
MRG Shareholders	the shareholders of Marshall Holdings;
MRG Shares	the issued and outstanding common stock of MRG;
NV	the US state of Nevada;
Placing	the placing of new ordinary shares in the WH Smith to institutional investors to raise approximately £155 million before expenses;
PRA	Prudential Regulatory Authority;
Purchase Price	the total consideration for the MRG Shares pursuant to the SPA, being \$400 million;
R&W Policy	the warranty and indemnity insurance obtained by WH Smith in respect of the warranties and indemnities contained in the SPA;
Resolution	the resolution to be proposed at the General Meeting to approve the Transaction;
ROIC	return on invested capital;
Shareholder Approval	the approval of the Transaction (as a Class 1 transaction under the Listing Rules) by Shareholders;
Shareholders	the holders of ordinary shares of WH Smith
SPA	the Stock Purchase Agreement dated 17 October 2019 between WH Smith, WH Smith USA and MRG Holdings
Sq. ft.	square foot;
Transaction	the proposed acquisition of Marshall Retail Group by WH Smith, pursuant to the SPA;
UK	United Kingdom of Great Britain and Northern Ireland;
US or United States	United States of America, its territories and possessions, any State of the United States of America and the District of Columbia;
US dollar or USD or \$	the lawful currency of the US;
US GAAP	accounting principles generally accepted in the United States;
WACC	weighted average cost of capital;
WH Smith or WH Smith plc or the Group	WH Smith plc, a public limited company incorporated in England and Wales, with registered number 05202036;
WH Smith USA	WH Smith USA Holdings Inc., a Delaware corporation wholly owned by WH Smith