

WHSmith

WH Smith PLC
Preliminary Results 2008

9 October 2008

WH Smith PLC

- Introduction
- Financial review
- Business review
 - Travel
 - High Street

Robert Walker

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Kate Swann

WHSmith

Alan Stewart
Group Finance Director

Group financial summary

	Year to Aug 2008 £m	Year to Aug 2007 £m	Change %
Revenue	1,352	1,299	4%
Profit before tax and exceptional items ¹	76	66	15%
Profit before tax	76	76	-
Underlying EPS ²	35.3p	29.3p	20%
EPS including exceptional items ³	35.3p	33.1p	7%
Final dividend per share	9.7p	8.1p	20%
Total dividend per share – ordinary	14.3p	11.8p	21%
– special	33.0p	-	

¹ Exceptional items : 2007 - £10m pension curtailment gain

² Underlying EPS : profit after tax and before exceptional items – diluted (weighted average number of shares 2008:167m; 2007: 181m)

³ EPS as per IAS 33 - diluted

Group profit before tax

	Year to Aug 2008 £m	Year to Aug 2007 £m	Growth %
High Street ¹	47	44	7%
Travel ¹	41	36	14%
Trading operations	88	80	10%
Central costs	(15)	(14)	
Internal rents	1	1	
Operating profit²	74	67	10%
Net finance income	2	1	
Pension interest	-	(2)	
Profit before tax²	76	66	15%

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

² Before exceptional items

Profit from trading operations

	Year to Aug 2008 £m	Year to Aug 2007 £m	Change %												
Revenue	1,352	1,299	4%												
Gross contribution	632	591	7%												
Costs	(544)	(511)	(6)%												
<table> <tbody> <tr> <td>Costs – occupation costs</td> <td style="text-align: center;">(217)</td> <td style="text-align: center;">(196)</td> <td></td> </tr> <tr> <td>– store costs</td> <td style="text-align: center;">(207)</td> <td style="text-align: center;">(194)</td> <td></td> </tr> <tr> <td>– other costs</td> <td style="text-align: center;">(120)</td> <td style="text-align: center;">(121)</td> <td></td> </tr> </tbody> </table>				Costs – occupation costs	(217)	(196)		– store costs	(207)	(194)		– other costs	(120)	(121)	
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– store costs	(207)	(194)													
– other costs	(120)	(121)													
Profit from trading operations¹	88	80	10%												
Gross margin	46.7%	45.5%	120bps												
Total square feet '000	3,369	3,236													

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

Revenue analysis

	Year to Aug 2008 £m	Year to Aug 2007 £m	Change %	LFL Change %
Revenue				
High Street	939	961	(2)%	(3)%
Travel	413	338	22%	1% ¹
Total revenue	1,352	1,299	4%	(2)%

	H1 %	H2 %	Year to Aug 2008 %
LFL sales by category			
Books	2%	(6)% ²	(2)%
Stationery	-	-	-
News & Impulse	(2)%	(1)%	(1)%
Entertainment	(15)%	(23)%	(18)%
Total	(2)%	(3)%	(2)%

¹ Travel LFL sales excluding tobacco : 3%

² Harry Potter and the Deathly Hallows released in prior year

Group free cash flow

	Year to Aug 2008 £m	Year to Aug 2007 £m
Operating profit¹	74	67
Depreciation and amortisation	42	41
Working capital	2	9
Capital expenditure	(39)	(32)
Tax	(21)	(8)
Provisions	(3)	(2)
Net interest earned ²	2	2
Non cash items	6	4
Free cash flow	63	81

¹ Stated before exceptional items

² Stated before interest received on tax refund

Group net debt movement

	Year to Aug 2008 £m	Year to Aug 2007 £m
Free cash flow	63	81
Return of cash to shareholders	(90)	-
Dividends paid	(21)	(17)
Acquisitions and associated costs	(24)	-
Pension deficit and retirement benefit funding	(10)	(35)
Tax refund and associated interest received	15	14
Purchase of own shares	(9)	(12)
Sale and leaseback and fixed asset proceeds	3	2
Other items	-	(4)
Net finance leases	-	(1)
Corporate advisory and financing costs	-	(6)
Net (debt) / funds movement	(73)	22
Closing net (debt) / funds	(9)	64

Group balance sheet

	2008	2007
	£m	£m
	<hr/>	<hr/>
Goodwill & other intangible assets	55	35
Property, plant & equipment	177	176
Available for sale investments	-	4
Working capital	(24)	(20)
Corporation tax	(31)	(25)
Deferred tax	1	3
Provisions	(8)	(10)
Operating assets employed	<hr/> 170	<hr/> 163
Net funds	(9)	64
Total net assets (excluding pensions)	<hr/> 161	<hr/> 227
Pension liability	-	-
Total net assets	<hr/> 161 <hr/>	<hr/> 227 <hr/>

Group key indicators

	Year to Aug 2008 £m	Year to Aug 2007 £m	Growth %
Underlying EPS ¹	35.3p	29.3p	20%
Final dividend per share	9.7p	8.1p	20%
Total dividend per share – ordinary	14.3p	11.8p	21%
– special	33.0p	-	
Free cash flow (£m)	63	81	
Fixed charges cover	1.4x	1.4x	
ROCE – after capitalised lease costs	17%	15%	

¹ Underlying EPS: profit after tax and before exceptional items – diluted (diluted weighted average number of shares 2008:167m; 2007:181m)

WHSmith

Kate Swann

Group Chief Executive

Group – overview

- Strong profit performance across the Group
- Good performance from Travel with integration of acquisitions proceeding in line with our plan
- Further progress in delivery of High Street strategy
- Strong cash generation in both High Street and Travel
- Return of £90m of cash to shareholders

Travel – overview

- Continued delivery of our strategy with profit up 14% to £41m
- Total sales growth of 22% with LFL sales up 1%, 3% excluding tobacco
- Underlying gross margin improvement of 50 bps YoY
- Further operational performance improvement including tight cost control
- Travel now a leading player in four key sales channels
 - Acquisition of UNS and 23 units from Alpha
 - Franchise agreement with RoadChef

Travel strategy

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

Travel – Air

- In air LFL sales growth of 3% with continued outperformance versus passenger numbers
- Further progress with new formats
 - Expansion of books-only store portfolio
- Integration of 23 Alpha units proceeding in line with plan
 - Re-branding of units complete, refit programme commences Autumn 2008



Before



After

Travel - Rail and Motorways

- In rail LFL sales growth flat
- Development of smaller formats
- Motorway units continue to perform in line with expectations
- 104 units now open in Motorways, 15 still to open



Before



After

Travel - Hospitals

- Rapid expansion of Hospital portfolio through acquisition of UNS in March 2008
- WHSmith portfolio increased from 8 units in 7 hospitals to 80 retail units and 8 coffee shops in 69 hospitals
- WHSmith now has significant presence in this growing and underdeveloped market
- Opportunity to further grow our presence; 7 units currently planned for 2008/09 with more going forward
- Integration programme proceeding according to plan

Travel business development

- Good progress renewing contracts with 12 contracts renewed covering 36 units
- 27 refits completed
- 146 new units

	Acquired	Won
Air	23	20
Rail/Other	-	6
Hospital	80	-
Motorway	-	17

- 34 further new business wins due to open in 08/09
 - 15 in Air
 - 6 in Hospitals
 - 13 in Motorways

High Street – overview

- Strategy continues to be delivered in line with our plan
- LFL sales down 3%
- Strong gross margin performance up by c. 190 bps
- Cost savings delivered in line with plan, further £10m of cost savings identified
- Continued good cash generation
- Post Office rollout completed
- Expansion into un-served catchments with 9 stores opened and an additional 7 stores acquired

High Street strategy

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

Category performance

- Books:
 - Strategy to rebuild authority remains unchanged
 - 2007 Harry Potter impacted market growth in the 2nd half
 - Further good share performance vs general high street
 - Improved ranges and promotional programme
 - Ongoing focus on in-store execution

- Stationery:
 - Core sub-categories remain our focus
 - Development of stronger range of 'digital' items
 - Strong, competitive Back to School offer
 - Stock position well managed, supporting margin growth

Category performance

- News and Impulse:
 - Magazine market continues to be challenging
 - Market share in news and magazines stable
 - Further growth from impulse categories
 - Mix management driving gross margin growth

- Entertainment:
 - LFL sales down in line with our strategy
 - Further space rebalancing during 08/09
 - Long term outlook remains unchanged

Margin optimisation

- Margin growth from category mix management
- Additional margin growth from:
 - Better buying terms
 - Improved sourcing
 - Improved mark-down and promotional management
 - Shrinkage control
- Mix improvements continue to be a driver of profit growth

Cost efficiency improvements

- Continued successful and focused cost control
- In October 2007, targeted £23m savings over next 3 years
- Delivered savings of £8m in 2008; in line with schedule
- Savings from across the business, including:
 - Closure of off-site stock rooms
 - Supply chain and scanner efficiencies
- Further savings of £10m identified

	2008 Actual	2009 Forecast	2010 Forecast	2011 Forecast	Total £m
October 2007	8	9	6		23
Further Savings Identified	-	-	3	7	10
Total Savings	8	9	9	7	33

Post Offices and other services

- Integration of Post Offices into High Street stores completed
 - 82 Post Offices now open
- Bureau de Change opened in further 50 stores during H2
- Agreement to offer DHL services in 400 stores
 - Extends our delivery services offer to a larger group of stores
 - Rollout to commence in late Autumn 2008
- Supports our strategy to enhance our offer and improve use of space



Christmas 2008

- Challenging consumer environment
- Expect a competitive Christmas season
- Christmas plan competitive but profitable
- Active management of entertainment category and mix continues
- Christmas range focused on offering value and choice in our core categories
- Flexible management of stock

Summary

- Strong profit performance from the Group
- Good performance from Travel with significant business expansion
- Continued progress in implementing High Street plan
- Strong cash generation
- Challenging trading environment, however we are well-positioned
- Continue to focus on delivering value for shareholders

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