

# WH Smith PLC

## Investec Best Ideas Conference 2020

17 November 2020

## ***WH Smith: Overview***

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- Pre-Covid the business was trading very well
- Responded quickly and took decisive actions to protect colleagues, customers and business, including substantially strengthening the Group's liquidity
- Resilient and versatile Group with robust business model
- Continue to manage the business tightly to protect cash and reduce costs; focused plan around conversion and ATV growth has worked well across all our markets
- Focus on forensic space management
- Encouraging early signs of recovery in North America
- Well positioned to navigate through continued period of uncertainty; anticipate further opportunities ahead
- High Street business returned to profitability in September and October

# Group financial summary<sup>1</sup>

	Year to Aug 2020 £m	Year to Aug 2019 £m	Change %
Revenue	1,021	1,397	(27)%
Headline Group (loss) / profit from trading operations <sup>2</sup>	(43)	177	(124)%
Headline Group (loss) / profit before tax <sup>3</sup>	(69)	155	(145)%
Headline (loss) / earnings per share <sup>3, 4</sup>	(44.2)p	114.7p	(139)%
Free cash flow (£m)	(41)	109	
Cash on deposit	82	2	
Total dividend per share	-	58.2p	

<sup>1</sup> All results are stated before the impact of IFRS 16 – See Appendix 1 for more details

<sup>2</sup> Stated after directly attributable share-based payment and pension service charges, and before non-underlying items, unallocated costs, finance costs and taxation

<sup>3</sup> Headline Group profit before tax is before non-underlying items of £157m (2019: £20m)

<sup>4</sup> Diluted (weighted average number of shares 31 August 2020:120m; 2019: 109m)

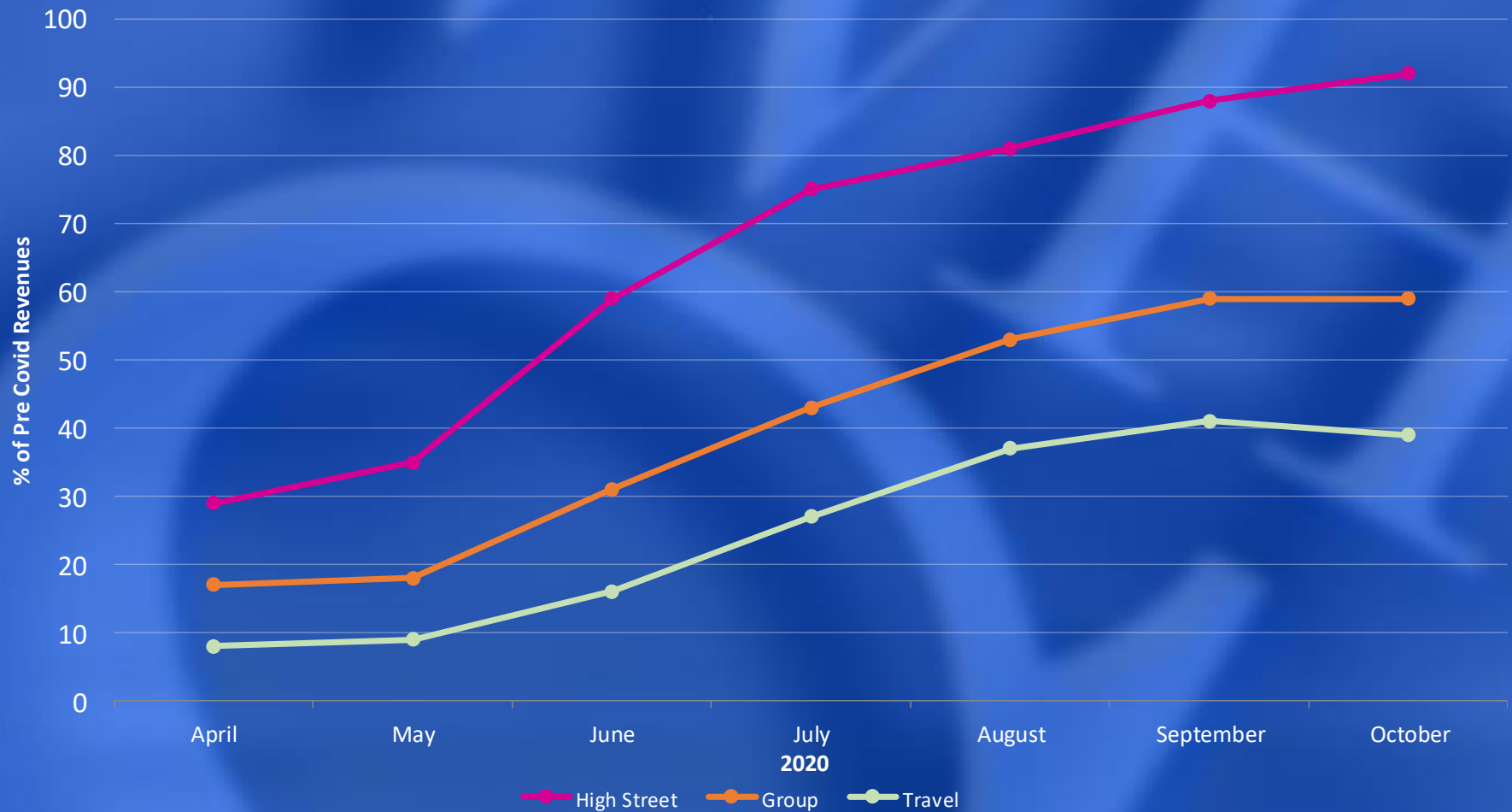
# Revenue analysis

	Year to Aug 2020 £m	Year to Aug 2019 £m	Change %
<b>Total Revenue</b>			
Travel	553	817	(32)%
High Street	468	580	(19)%
<b>Total revenue</b>	<b>1,021</b>	<b>1,397</b>	<b>(27)%</b>
<i>International</i> <sup>1</sup>	209	252	(17)%

	H1 2020 %	H2 2020 %	Year to Aug 2020 %
<b>LFL Revenue</b>			
Travel	2%	(78)%	(43)%
High Street	(4)%	(38)%	(19)%
	(1)%	(64)%	(33)%

<sup>1</sup> Included in Travel. 2020 includes £48m from MRG.

## *Revenues had improved as restrictions were eased*



# Group loss before tax <sup>1</sup>

	Year to Aug 2020 £m	Year to Aug 2019 £m	Change %
Travel trading (loss) / profit <sup>2,3</sup>	(33)	117	(128)%
High Street trading (loss) / profit <sup>2</sup>	(10)	60	(117)%
<b>Group (loss) /profit from trading operations <sup>2</sup></b>	<b>(43)</b>	<b>177</b>	<b>(124)%</b>
Unallocated central costs	(17)	(17)	-%
<b>Group operating (loss) / profit <sup>4</sup></b>	<b>(60)</b>	<b>160</b>	<b>(138)%</b>
Net finance costs	(9)	(5)	(80)%
<b>Headline Group (loss) / profit before tax</b>	<b>(69)</b>	<b>155</b>	<b>(145)%</b>

<sup>1</sup> All results are stated before the impact of IFRS 16 – See Appendix 1 for more details

<sup>2</sup> Stated after directly attributable share-based payment and pension service charges, and before non-underlying items, unallocated costs, finance costs and taxation

<sup>3</sup> Includes MRG from 20 December 2019 and includes InMotion from 30 November 2018

<sup>4</sup> Headline, excludes non-underlying items of £157m (2019: £20m)

## Non-underlying items

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	Year to Aug 2020 <sup>(1)</sup> £m	Cash Outflow Year to Aug 2021 £m
Impairment	55	-
Onerous leases	13	-
Stock	14	-
Restructuring	25	24
Store reinstatement costs	12	3
Other	1	-
	<b>120</b>	<b>27</b>
Transaction costs	11	-
Integration	9	-
Amortisation	3	-
Pensions past service cost	14	-
	<b>157</b>	<b>27</b>

<sup>1</sup> IAS 17 basis



# Group free cash flow<sup>1</sup>

	Year to Aug 2020 £m	Year to Aug 2019 £m
<b>Group operating profit <sup>2</sup></b>	<b>(60)</b>	<b>160</b>
Depreciation, amortisation and impairment <sup>3</sup>	60	49
Non cash items <sup>3</sup>	3	5
	<b>3</b>	<b>214</b>
Capital expenditure	(79)	(59)
Working capital <sup>3</sup>	40	(13)
Net tax refunded/(paid)	5	(27)
Net interest paid	(7)	(4)
Other	(3)	(2)
<b>Free cash flow</b>	<b>(41)</b>	<b>109</b>

<sup>1</sup> All results are stated before the impact of IFRS 16 – See Appendix 1 for more details

<sup>2</sup> Headline, excludes non-underlying items of £157m (2019: £20m)

<sup>3</sup> Headline, excludes non-underlying items



## ***Group net debt (pre-IFRS 16)***

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	<u>£m</u>
<b>Opening net debt</b>	<b>(180)</b>
<u>Movement in year</u>	
Free cash flow	(41)
Dividends	(47)
Pensions	(3)
Non-underlying items	(20)
Acquisition of MRG	(316)
Proceeds from placings	312
Other	(6)
<b>Net debt 31 August 2020</b>	<b>(301)</b>
Cash	108
Term loans	(400)
Finance leases	(9)
	<u><b>(301)</b></u>

# *We have £323m of liquidity at the end of October*



- November cash burn c.£20m
- FY21 capex £55m
- Covenant waivers for February 2021 and August 2021

<sup>1</sup> Maturity 08/11/21

<sup>2</sup> Maturity date 08/12/23



# WH Smith Travel

## *Travel: Key areas of focus*

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- Robust plan in place across all channels and territories; remain focused on initiatives within our control to support in the near-term and position us well for the recovery
- Compelling multi-category proposition

Cost  
Management

Increase ATV  
and Conversion

Category  
Development

Opportunities for  
further  
Growth

- Key areas of focus are relevant for all channels across UK Travel and International
- Good progress with scope to do more



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UK Travel

## UK Travel: Channel performance



H1 Total revenue	H2 Total revenue
3%	(87)%



H1 Total revenue	H2 Total revenue
13%	(40)%



H1 Total revenue	H2 Total revenue
2%	(83)%

## ***UK Travel: Air***

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- Well positioned in Air going into the pandemic
  - Space in all key airport locations
  - High levels of penetration into our stores
  - Convenience and essentials categories
  - Good relationships with landlords; demonstrated we can drive additional value
- Focus on customer conversion and increasing ATV; double-digit increase
- Extended product categories and ranges: health and beauty, wellbeing and hygiene products; scope to do more
- Further opportunities ahead as landlords reconfigure space



## UK Travel: Flagship store opens at Heathrow Terminal 2



## ***UK Travel: Hospital channel***

- Prior to Covid-19, the Hospital channel was our second largest channel in the UK by revenue; resilient performance in H2
- Broad suite of brands and formats, including M&S and Costa, allows us to tailor our offer and meet the needs of our landlords across all our channels
- Strong customer offer aligned to NHS strategy on healthy eating
- Extended product selection for NHS staff
- Strengthened relationships with hospital trusts and NHS staff
- Further opportunities to improve hospital retail offer across the UK

## ***UK Travel: Rail***

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- Challenging second half; further impacted by travel restrictions
- Steady recovery in commuter traffic throughout July and August; stalled by Government 'work from home' announcement in September
- Different customer profile in Rail; lower spend per pax in contrast to Air
- Focused plan around conversion and increasing ATV
- Over the longer-term, Rail will continue to be an integral part of the UK Travel business
- Continue to manage costs tightly

## ***UK Travel: Cost management***

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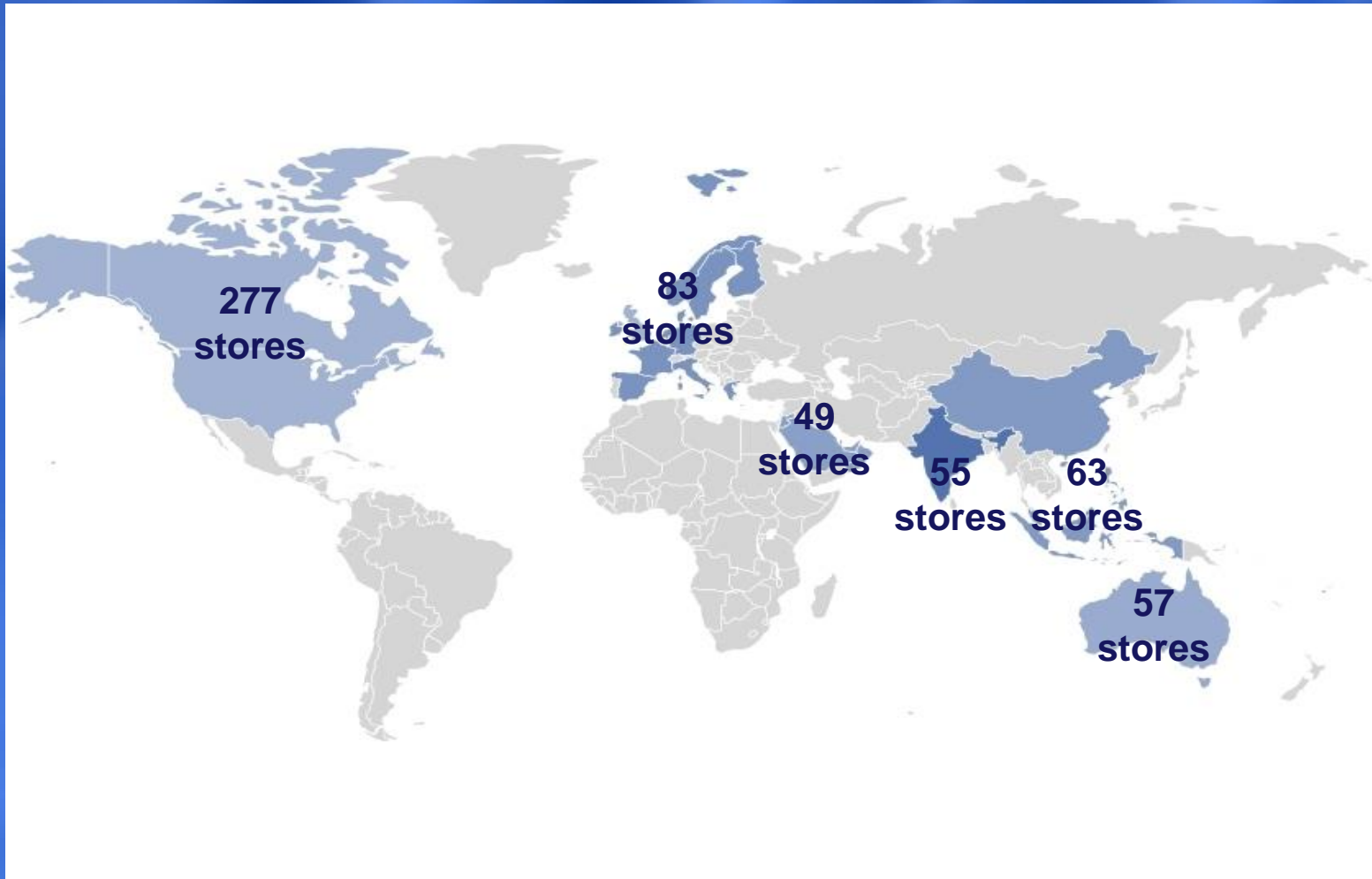
- Continue to manage the business tightly across all channels to protect cash and reduce costs
  - Reduced exposure to rent guarantees
  - Took decisive action to reduce headcount
- Accessed Government support schemes, where appropriate
- Expect to benefit from efficiencies as our markets recover





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International

## **WH Smith North America: now represents c.50% of International store base with 277 stores**



Stores: 69% directly-run; 27% franchise with the balance joint-venture

## ***WH Smith North America***

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***Highly successful US travel retailer with proven business model and unique capabilities***

***Largest travel retail market in the world***

***Distinctive retail offering tailored to local consumers in high traffic locations***

***Strong track record of concession wins in US airports***

***85% of passengers are domestic***

***Clear integration plan with existing strong management***

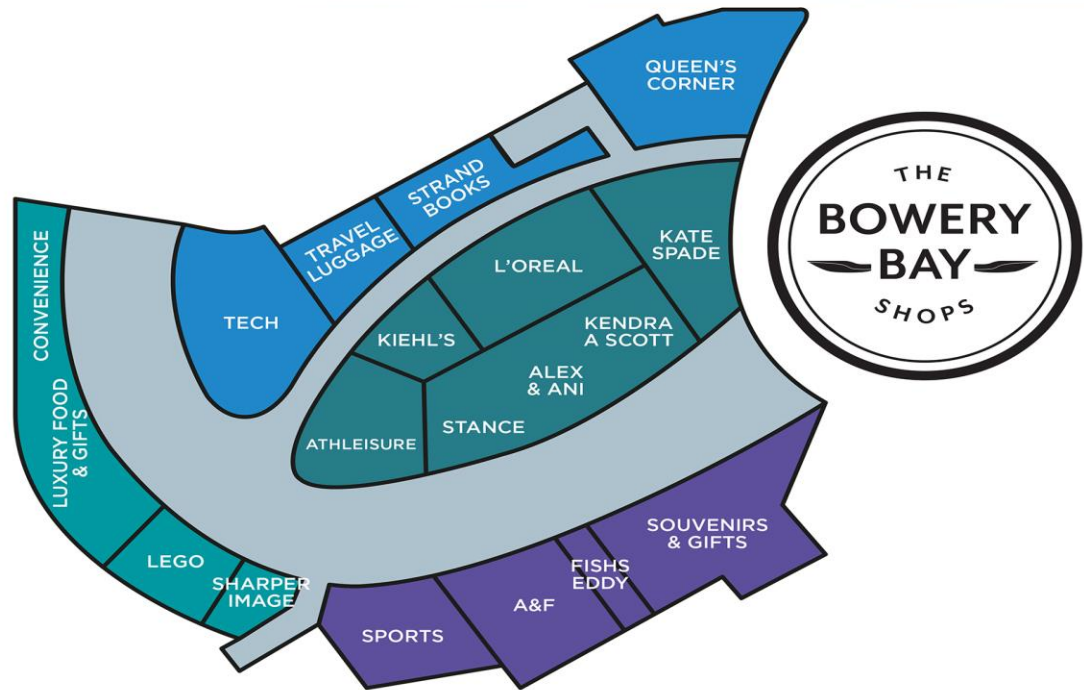


## ***WH Smith North America***

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- Encouraging early signs of recovery; total revenue in October of 44% compared to 2019 levels
- Responded quickly at point of outbreak to manage the business tightly and reduce cost base
- Good pipeline of contract wins ahead; MRG continues strong win rate observed prior to acquisition
- Continue to invest in new stores where we see attractive opportunities for profitable growth; 8 new stores won in the second half
- Las Vegas proving to be resilient; visitors continue to travel by car and good growth at McCarran International Airport
- MRG and InMotion integration on track; took advantage of exceptional circumstances and executed quickly; will deliver over £5m per year
- More focused North American business; better placed to win further tenders

# WH Smith North America



## ***WH Smith International***

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- WH Smith still has a relatively small market share of the international NBC market
- Recovery by territory will be variable by passenger profile
- Focused on areas in our control:
  - Increasing ATV
  - Re-negotiated rents
  - Lease extensions
  - Worked with Government support schemes
- Continued success with new store wins and openings, including units in Tenerife, Berlin and Schiphol
- Well positioned to benefit from further opportunities ahead

## ***WH Smith Travel: Looking ahead***

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- Very challenging second half; business significantly impacted by Covid-19
- Responded quickly to protect the business; cost base under control
- Hospital channel is likely to improve first
- Expect gradual improvement in Air; domestic travellers to return first, particularly in North America, followed by international and inter-continental passengers
- Expect Rail to recover as Government restrictions are lifted
- Robust plan in place to drive ATV and conversion and extend user clauses; expect to emerge in a stronger position



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High Street



## *High Street*

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- Our High Street strategy has served us well for many years and it is as relevant today as it has ever been; focused on creating sustainable profits
- Resilient performance from High Street; 203 High Street stores with Post Offices remained open in the first lockdown to continue to serve their communities with vital postal and banking services
- Strong performances from digital businesses throughout lockdown
- Greater focus on initiatives within our control
  - Driving ATV; c.15% increase in ATV
  - Category development: electrical accessories, working from home ranges
  - Strong growth from key digital channels
- Performance has improved month on month; business returned to profitability across September and October

## ***Digital businesses performed well***

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- Good performance from all digital channels
- Strong performances over key trading periods from Funky Pigeon
- Good results from WH Smith website; investment is paying back
- Cult Pens continues to deliver good growth
- Key digital channels have performed strongly throughout Covid-19 pandemic
- Robust infrastructure has enabled continuity of supply



## High Street

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- Cost efficiencies key to strategy; £23m of cost savings delivered in the year
- Savings delivered through combination of initiatives with rent savings the biggest contributor to cost savings
- Reduction in rent of c.45%
- Rolling programme of lease renewals with c.400 renewals due to expire over next 3 years
- Plan to close c.25 stores in current financial year as leases expire
- Continue to see opportunities for further savings

	2020	2021	2022	2023	Total 2021–23 £m
<b>Total savings (£m)</b>	<b>23</b> <sup>(1) (2)</sup>	<b>21</b> <sup>(1) (3)</sup>	<b>8</b>	<b>5</b>	<b>34</b>

(1) Includes rates benefit in 2020 of £15m and additional £6m in 2021

(2) Furlough benefit in 2020 of c.£8m

(3) Before reversal of 2020 furlough benefit

## ***Looking ahead***

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- Responded quickly; took difficult but decisive actions to protect the business
- Financially strong; managed liquidity of the Group
- Well positioned for the longer term with successful strategy; important travel retailer for landlords
- Continue to invest in new stores and store formats in the UK and North America where we see attractive opportunities for profitable growth
- Highly cash generative High Street business
- Resilient and versatile Group; well positioned to benefit as our key markets recover

# Appendix

## IFRS 16 – Impact on balance sheet

£m	31 Aug 2020 (Pre-IFRS 16)	IFRS 16 Adjustment	31 Aug 2020 (Post-IFRS 16)
Goodwill and other intangible assets	495	(2)	493
Property, plant and equipment	190	2	192
Right-of-use assets	-	413	413
Investments in joint ventures	2	-	2
	687	413	1,100
Inventories	150	-	150
Payables less receivables	(226)	43	(183)
Working capital	(76)	43	(33)
Derivative financial asset	-	-	-
Net current and deferred tax liability	17	11	28
Provisions	(27)	13	(14)
<b>Operating assets employed</b>	601	480	1,081
Net (debt) / funds	(301)	(550)	(851)
<b>Net assets excluding pension liability</b>	300	(70)	230
Pension liability	(4)	-	(4)
Deferred tax asset on pension liability	1	-	1
<b>Total net assets</b>	297	(70)	227

# IFRS 16 – Impact on income statement

£m	31 Aug 2020 Pre-IFRS 16	IFRS 16 Adjustment	31 Aug 2020 Post-IFRS 16
Revenue	1,021	-	1,021
Travel trading (loss) / profit <sup>1,2</sup>	(33)	6	(27)
High Street trading (loss) / profit <sup>1</sup>	(10)	6	(4)
Group (loss) / profit from trading operations <sup>1</sup>	(43)	12	(31)
Unallocated central costs	(17)	-	(17)
Headline Group operating (loss) / profit <sup>3</sup>	(60)	12	(48)
Finance costs	(9)	(11)	(20)
Headline Group (loss) / profit before tax	(69)	1	(68)
Income tax (credit) / expense	16	-	16
<b>Headline (loss) / profit for the period</b>	<b>(53)</b>	<b>1</b>	<b>(52)</b>
Headline (loss) / earnings per share	(44.2)p	-	(43.3)p

<sup>1</sup> Stated after directly attributable share-based payment and pension service charges, and before non-underlying items, unallocated costs, finance costs and taxation

<sup>2</sup> Includes MRG from 20 December 2019

<sup>3</sup> Headline, excludes non-underlying items of £157m under IAS 17; £212m under IFRS 16

## ***IFRS 16 – Impact on cash flow statement***

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<b>£m</b>	31 Aug 2020 (Pre-IFRS 16)	IFRS 16 Adjustment	31 Aug 2020 (Post-IFRS 16)
Net cash inflow from operating activities	15	66	81
Net cash outflow from investing activities	(395)	-	(395)
Net cash inflow from financing activities	440	(66)	374
<b>Total cash flow</b>	60	-	60