

Mothercare plc

Pre-close trading update

Mothercare plc ("Mothercare" or "the Company"), the global specialist brand for parents and young children, today issues a pre-close trading update for the financial year ended 25 March 2023 ('FY23'). This update is based upon draft figures pending finalisation of the year end audit.

Highlights

- Unaudited net worldwide retail sales by franchise partners of £322 million for the year, includes no contribution from the Russian market, which was suspended at the end of our previous financial year, representing an increase of 8% in continuing markets.
- Adjusted EBITDA of £6.5 to £7 million for FY23, ahead of analysts expectations
- Net debt of £12.3 million at the year end
- Pension scheme deficit materially reduced to £39 million (March 2020: £124.6 million, March 2022 £78 million)

EBITDA before adjusting items is now expected in the range of £6.5 to £7 million for the financial year to 25 March 2023. For the prior year to March 2022 our Russian territory directly contributed some £5.5 million to our adjusted EBITDA, which coupled with some margin benefit due to shipping delays in last year's results, means there is a year on year improvement in the underlying profitability of the business, once these elements are excluded.

Unaudited net worldwide retail sales by franchise partners were £322 million, compared to £385 million for the previous financial year which included £88 million from Russia. Hence total retail sales for the year to March 2023 were 8% higher than the levels for the previous financial year with the Russian retail sales excluded. Excluding our Middle East markets, as well as Russia, the increase was 17% and our Middle East markets (43% of our total retail sales) reduced by 1%, with Saudi Arabia weakest of these markets reflecting certain local factors some of which are transitory. As previously reported, in many of our territories our partners still need to clear old inventory due to the suppressed demand during Covid-19. These factors will continue to impact the Group results for the financial year to March 2024, which will defer previously anticipated growth notwithstanding ongoing improvements in product and service.

Our medium-term guidance is unchanged for the steady state operation in more normal circumstances and we believe our continuing franchise operations remain capable of exceeding £10 million operating profit and we are now focused on accelerating our growth in both existing and new markets.

Financing

At the year-end Mothercare had total cash of £7.2 million (March 2022: £9.2 million), reflecting ongoing tight control of cash, against the £19.5 million (March 2022: £19.1 million) of the Group's existing loan facility, which remained fully drawn across the year.

With recent increases in interest rates, the interest rate on this loan is currently approximately 18.2%, which coupled with the extended time to return to pre-pandemic retail sales levels, particularly in our Middle Eastern markets, highlighted above, means the Board's current forecasts for continuing operations show the Group may require waivers to future periods covenant tests. We have therefore commenced refinancing discussions with our lender to vary, renegotiate or refinance this debt facility. Additionally we are looking at various financing alternatives (including equity and equity linked structures) to give us both additional flexibility and reduced cash financing costs. For the avoidance of doubt the Group does not require (and is not seeking through this refinancing) additional liquidity.

Pension Schemes

The last full actuarial valuation of the schemes was at 31 March 2020 and showed a deficit of £124.6 million. The Trustees are currently undertaking a triennial actuarial valuation as at 31 March 2023, the results of which will be available later this year. As part of this valuation, the Trustees will review the assumptions used to determine the liabilities, including the mortality assumption. Recent mortality experience for the UK suggests that longevity improvements are not as high as previously expected and this is generally leading to a reduction in pension scheme liabilities. The latest analysis of the pension schemes, including an adjustment for the expected reduction in life expectancies, suggests a deficit of approximately £39 million at 31 March 2023 resulting from total assets at £198 million and total liabilities of £237 million. The results of the formal valuations currently underway may materially differ once the Trustees have completed their assessment.

The current recovery plan is based on the deficit at March 2022 of £78 million with annual contributions for the years ending in March of: 2024 - £4 million; 2025 - £7 million; 2026 - £8 million; 2027 to 2032 - £9 million; 2033 - £0.7 million. These contributions will be reviewed once the actuarial valuation as at 31 March 2023 is completed. Additionally, the Trustees in determining the amount of ongoing cash contributions, recognise the current level of borrowings and would be prepared to look afresh at the valuation assumptions if the covenant improves after the valuation date, for example via an equity linked structure, which could reduce the deficit further.

Clive Whiley, Chairman of Mothercare, commented:

"Once again our results demonstrate the resilience we have introduced to the business over recent years, where we continue to generate both profit and cash. This would not have been possible without the support of all of our colleagues, franchisees and manufacturing partners whom I would like to thank on behalf of the board.

Although our immediate priority remains to support our franchise partners as they emerge from a period of suppressed demand, ultimately for the benefit of our own business, we have also redoubled our efforts to restore critical mass.

Accordingly we are engaged in discussions to drive the Mothercare brand globally by widening the bandwidth of our product offering, alongside penetration into new territories via a variety of routes to market.”

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