Refinancing

Mothercare plc (â€œMothercareâ€ or the â€œCompanyâ€), the specialist global brand for parents and young children, is pleased to announce a refinancing with GB Europe Management Services Ltd (â€œGordon Brothersâ€) of the Companyâ€™s existing debt facilities.

The Board of Mothercare believes that these new secured debt facilities of Â£8 million, taken together with the gross consideration of Â£16 million from Reliance Brands Holding UK Limited (â€œReliance) announced earlier today, delivers a de-leveraged Mothercare that can once more move forward with confidence and invest appropriately in the Companyâ€™s future development.

Clive Whiley, Chairman of Mothercare, commented:

â€œTodayâ€™s agreements with Reliance and Gordon Brothers strengthen our operations in South Asia and support a material reduction in our bank facilitiesÂ and leverage. Â

We have worked closely with Gordon Brothers for over five years now andÂ value its ongoing support for Mothercare. Â The revised facility agreement and related arrangements reflect the strength of that ongoing relationshipÂ and trust alongside recognising the accretive nature of the joint-venture to our equity valuation.Â For Mothercare, the reduction in the required facility size, funded by the formation of the joint venture, and the resulting significantly reduced cash interest cost, greatly improves our flexibilityÂ for FY25 and beyond.

Taking todayâ€™s developments togetherÂ with the inherent strength of the businessâ€™s brand,Â we believe Mothercare can approach 2025Â and beyondÂ with a renewed and growing sense of confidenceÂ at the opportunities ahead, notwithstanding our ongoing cautious shorter term outlook, given the continuing challenges facing our Middle East operations.â€

New Financing Arrangements with Gordon Brothers

Mothercare has applied the proceeds received from Reliance towards a refinancing of the Companyâ€™s existing debt facilities with Gordon Brothers. Under the terms of these new financing arrangements, the previous Â£19.5m term loan (which attracted interest at a rate of 13% per annum, plus SONIA, plus PIK interest of 1% per annum) has been replaced with:

- an Â£8m 2 year term loan facility, which attracts interest at a rate of 4.8% per annum, plus SONIA (with a floor of 5.2%), plus PIK interest of 1% per annum, rising to 2% per annum through the term of the loan; andÂ Â
- the granting to Gordon Brothers of new warrants to subscribe up to 43.4m new ordinary shares of Mothercare at a subscription price of 8.5p per share (the â€œWarrantsâ€). These Warrants, which are exercisable for 5 years from the date of issue, contain certain anti-dilution rights which will operate so as to secure for Gordon Brothers the right to subscribe for an aggregate equity interest representing approximately 7% of the Companyâ€™s issued share capital (following exercise in full of the Warrants).

Overall Financial Impact of the Joint Venture Arrangements and Refinancing

For the financial year ended 30 March 2024, the intellectual property assets that were transferred to JVCO 2024, which had no associated balance sheet carrying value, generated Mothercare retail sales under the previous franchise arrangements of approximately Â£24 million (approximately 9% of the total retail sales), and contributed approximately Â£0.9 million to adjusted EBITDA.

The result of the restructuring of its operations in South Asia and the associated sale of the 51% stake in JVCO 2024, Mothercare estimates will result in a taxable gain of Â£29 million and â€“ after the use of certain preexisting tax losses â€“ a cash tax cost of approximately Â£3 million. Taking into account this and other pre-completion adjustments, refinancing expenses, transactional costs and associated additional pension deficit payments, Mothercare expects to apply approximately Â£11.5 million of net cash proceeds to refinance the existing Gordon Brothers facilities as outlined above.

Following the completion of these transactions, we expect to announce the preliminary results for the year ended 30 March 2024 tomorrow.

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