EDISON

WH Smith

Institutional initiation

Separating fact from fiction

Retail

We believe WH Smith's re-rating is set to continue. With a defensible position in travel retail and in spite of a challenging high street environment, it generates a high ROCE and significant FCF, which is returned to shareholders through dividends and share buybacks. Catalysts to realise value include: a cyclical upturn in its domestic travel units; structural growth in its international business; and further cost savings in its high street business. Trading both at a discount to our SOTP valuation and to the sector on FCF yield, we see 12% upside to fair value of 1,665p.

Year end	Revenue (£m)	EBITDA* (£m)	EPS* (p)	EV/EBITDA (x)	P/E (x)	Yield (%)
08/14	1,161	151	79.0	11.5	18.9	2.3
08/15e	1,157	155	86.2	11.2	17.3	2.6
08/16e	1,157	162	93.7	10.7	15.9	3.0
08/17e	1,161	169	102.3	10.2	14.6	3.4

Note: *EBITDA and EPS are normalised, excluding intangible amortisation/exceptional items.

Cyclical recovery in domestic travel business

We believe that improving air and rail passenger trends should add a tailwind to WH Smith's UK travel business. As the macroeconomic environment has improved, consumers have greater disposable income and so we expect an uptick in l-f-l sales growth for WH Smith's travel business. H115 l-f-l growth in this segment was 3%, a meaningful improvement versus prior years.

Significant international growth to come

WH Smith's international business is growing rapidly and should generate a high return on capital, as over 50% of the units are franchised. It has grown from nine units in FY09 to 155 units at H115. We expect it to grow EBIT at 34% pa over the next three years and contribute 10% of Travel EBIT in FY17e.

High Street business is challenged but well managed

WH Smith's high street stores continue to see l-f-l sales declines. Nevertheless, we think the bear case is overdone, because we feel the company should continue to grow gross margins by mix improvement and active space management. We also believe there are still opportunities for the company to reduce operating costs, but acknowledge that this will become more difficult over time.

Valuation – we see 12% upside to our fair value

We believe WH Smith should be valued on a SOTP basis, given its two different businesses have very different drivers, operating models and growth prospects. Our analysis suggests that its travel retail business and its high street segment trade at a discount to peers. This is despite a long track record of outperforming earnings expectations and delivering cash returns to shareholders via dividends and buybacks. We also examine WH Smith's FCF yield of c 6.3% and think this is attractive relative to the sector at c 5.5%.

22 May 2015

Price	1,490p
Valuation	1,665p
Difference	12%
Market cap	£1,745m
Net cash (£m) at H115	£16m
Shares in issue	117.1m
Free float	96%
Code	SMWH
Primary exchange	LSE

Share price performance

%	1m	3m	12m
Abs	5.4	14.4	47.2
Rel (local)	5.3	11.9	39.9
52-week high/low		1,490.0p	995.5p

Business description

WH Smith is one of the UK's leading retailers with two core businesses – stores in travel locations (740 at H115 of which 155 are international) and on the UK high street (621 at H115). These stores sell a wide range of stationery, books and digital accessories as well as news/impulse items such as food and drink.

Next events

Trading update	June 2015
FY15 preliminary results	15 October 2015

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Investment summary

Company description: WH Smith has two distinct businesses

WH Smith has two retail segments – Travel (740 units at H115) and High Street (621 units).

- Travel (of which 155 units are international) sells a range of consumables, books, newspapers and magazines as well as digital accessories. The stores are located in areas with captive customers such as airports, railway stations or hospitals.
- High Street sells stationery, books, newspapers and magazines as well as impulse items such as food and confectionery.
- WH Smith generates high returns on capital employed – 94% and 23% on a lease-adjusted basis. This is driven by high sales densities in its travel business, and an international franchise business that does not require capital to grow.
- WH Smith has a progressive dividend policy (16% CAGR over FY09-14) and has returned over £300m through share buybacks since spinning off Smiths News in 2006.

Travel is the growth driver – we expect 9% EBIT CAGR FY14-17e

- The domestic business should see a cyclical uplift as air and rail passenger numbers continue to improve, driving footfall to WH Smith locations in airports and railway stations. An improving macroeconomic backdrop should lead to increased expenditure as consumers have more disposable income.
- WH Smith's international business should continue to grow rapidly – it has gone from nine to 129 units over FY09-14. We expect 34% EBIT CAGR over the next three years and believe this will contribute c 10% of WH Smith's Travel EBIT in FY17e.

High Street – tough conditions but profit has grown every year

- This segment is exposed to difficult trends in footfall as well as category exposures to print media. Despite this, profits and margins have increased significantly since 2006, as the company has increased gross margins, managed its space actively and introduced concession income via post offices, Costa Coffee concessions and DHL service points.
- WH Smith has reduced opex significantly (over £140m since 2005), so despite significant l-f-l sales declines it has grown profit. Measures include decreases in staff and energy expenditure, increased distribution centre productivity and more use of technology in store.

Valuation – we see 12% upside to our fair value of 1,665p

- Valuing the travel and high street businesses separately, at discounts to quoted peers to account for WH Smith's less favourable category mix, still yields upside.
- WH Smith trades at a c 6.3% FCF yield, a 13% discount to the FTSE 350 general retail sector. We think this is attractive, as cash is returned to shareholders via dividends and buybacks. Given WH Smith's high cash conversion and ROCE we think the discount should narrow.

Risks – market worried about the sustainability of High Street

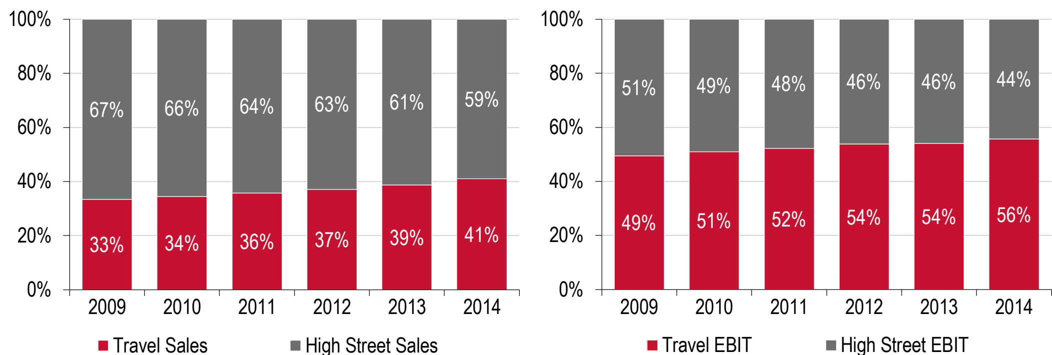
- High Street – the key risk to the business is that High Street profits (c 43% of trading profit) decline significantly if sales fall further, cost cutting has been exhausted and management cannot mitigate this through gross margin management.
- Travel – the main risk would be a decrease in travel footfall (air/rail passengers) for macroeconomic or catastrophe reasons (man-made such as terrorist attacks or natural such as volcanic eruptions).

WH Smith – what do they actually do?

We believe some investors may not fully understand WH Smith's revenue split, store portfolio and category exposure. We set out our view of the company's business mix before discussing the key issues on the story.

WH Smith operates retail stores on the high street (621 units at H115) and in travel locations (740 units at H115) such as airports and railway stations. The stores sell a variety of products such as consumables, stationery, books and newspapers. The businesses have distinct operating models with different customers, product ranges and growth prospects. High Street store trading peaks at Christmas and the back to school season in August/September, whereas peak trading for Travel occurs in the summer. The divisions are also run by separate management teams executing specific strategies. As we will expand on later, they also have different economics.

Exhibit 1: Group mix – High Street is c 60% of sales, but Travel generates >50% of profit

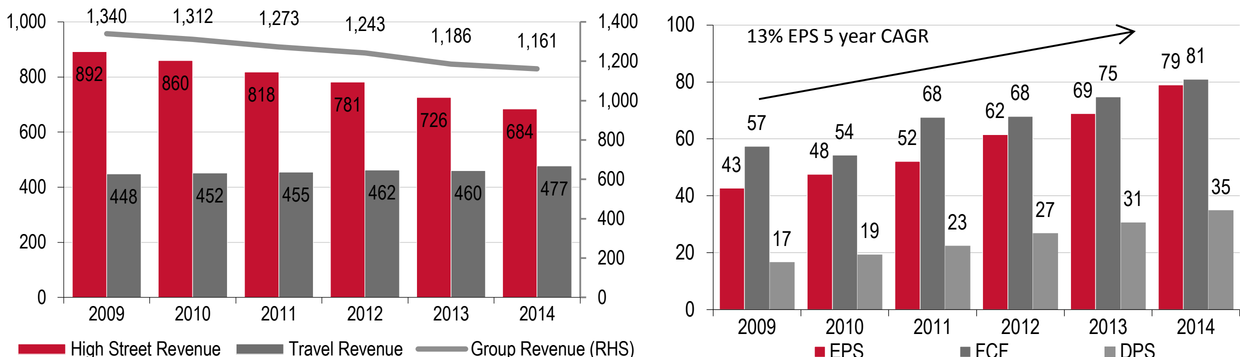


Source: Source: Company data, Edison Investment Research

We believe the Group is run in a shareholder-friendly manner by an equity-incentivised management team. They have a track record of creating value in a difficult environment where many of their competitors have struggled on the high street. Despite a -5% CAGR over FY09-FY14 in High Street sales, profit has grown in this segment at a 3% CAGR. Exhibit 2 details WH Smith's revenue progression over the past five years. Facing strong headwinds, the company has generated significant growth in earnings through diligent category management and capital allocation.

The key driver of group profit growth has been the Travel business, which has grown profit at 9% CAGR over FY09-14, driven by space growth and margin expansion which we detail later.

Exhibit 2: Exhibit 3: WH Smith runs on the maxim: turnover is vanity, profit is sanity but cash is reality

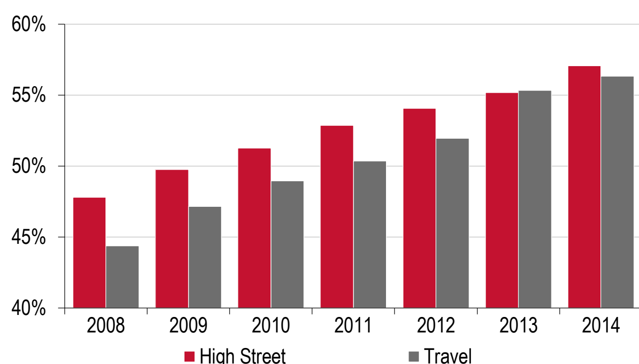


Source: Company data, Note: FCF (per share) is on a company basis.

Travel and High Street segments – different category exposures

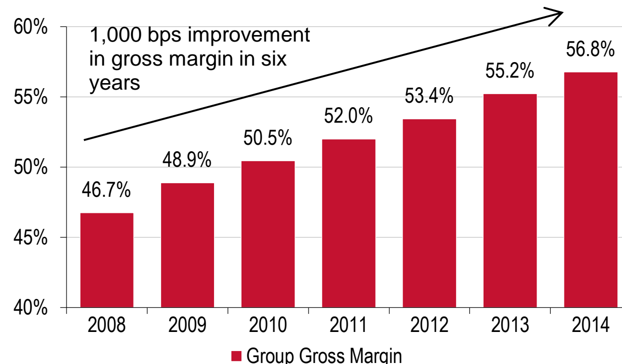
WH Smith has been successful in growing gross margin by changing its category exposure to higher-margin stationery in the high street business. In its travel business it has done this by allocating space away from reading materials and expanding food on the go and journey solutions (travel essentials). The company made the decision to reduce the entertainment exposure from 2005/6 and forgo c £200m of revenue (a quarter of revenue at the time) because they believed they could not generate economic returns from selling CDs, DVDs etc with the increasing penetration of e-commerce in these categories. Below we show our estimate of segment gross margins (not disclosed by the company), as well as the group gross margin progression.

Exhibit 4: Segment gross margin estimates



Source: Company data, Edison Investment Research

Exhibit 5: Strong improvement despite l-f-l headwinds



Source: Company data

Exhibit 6: Estimated High Street category exposure

High Street	% of sales	Gross margin	Contribution to GM
Stationery	50%	65%	33%
News/impulse	20%	35%	7%
Books	25%	50%	13%
Concessions	5%	100%	5%
Total	**100%**		
Gross margin			**57%**

Source: Company data, Edison Investment Research

Exhibit 7: Estimated Travel category exposure

Travel	% of sales	Gross margin	Contribution to GM
Consumables	50%	60%	30%
Books	10%	50%	5%
Newspapers/ magazines	20%	25%	5%
Journey solutions	20%	80%	16%
Total	**100%**		
Gross margin			**56%**

Source: Company data, Edison Investment Research

The key takeaways in our view are:

- the segments have different product ranges to meet different customer needs and circumstances;
- WH Smith's exposure to the challenged print categories of books, newspapers and magazines is less than some investors anticipate; and
- the group's strategy of shifting away from low gross margin categories such as entertainment and newspapers to stationery and concessions has clearly been successful.

L-f-ls have been negative, recently some improvement in Travel

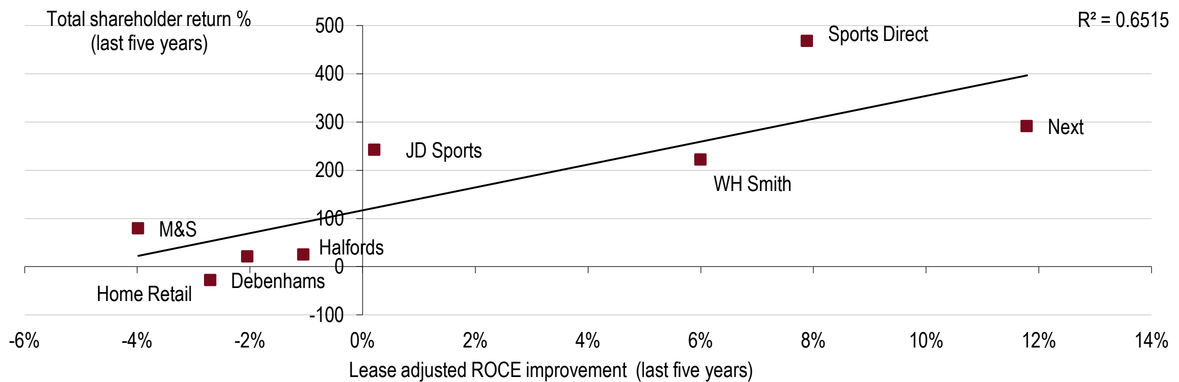
Exhibit 8: High Street and Travel l-f-ls – High Street in structural decline, but Travel is cyclical in our view

	2006		2007		2008		2009		2010		2011		2012		2013		2014		2015
	H1	FY	H1	FY	H1	FY	H1	FY	H1	FY	H1	FY	H1	FY	H1	FY	H1	FY	H1
HS	-6%	**-7%**	-8%	**-6%**	-3%	**-3%**	-6%	**-6%**	-2%	**-4%**	-3%	**-6%**	-3%	**-5%**	-4%	**-5%**	-6%	**-3%**	-4%
Travel	3%	**3%**	4%	**2%**	1%	**1%**	-1%	**-2%**	-4%	**-2%**	-6%	**-3%**	-6%	**-3%**	-6%	**-4%**	-1%	**0%**	3%

Source: Company data

- In our view, this shows that there is more than one way to skin a cat.
- L-f-l growth has not formed part of the company's strategy yet they have generated strong ROCE and total shareholder return (TSR) as the charts below show.

Exhibit 9: General retail TSR vs ROCE improvement – improvement in returns is rewarded by the market…



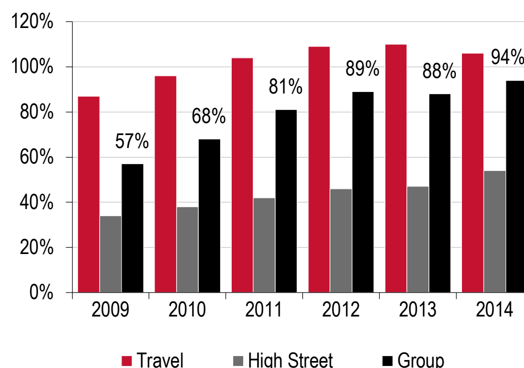
Source: Company data, TSR from Bloomberg – last five years to 31 March 2015. Note: Lease adjusted ROCE adds PV of operating leases (6.5% discount rate) as well as pension deficits to denominator. It is calculated using the latest available FY data.

We analysed the top and bottom four companies in the FTSE 350 ranked by TSR. We found that ROCE improvement correlates to outperformance. Interestingly when we ran the same analysis for sales growth over the last five calendar years, the R^2 is only 34%. Alongside this we note that the top four companies also had the highest absolute ROCE (see exhibit 8). This suggests the market rewards high/improving ROCE as opposed to sales growth.

Retailers typically improve returns by increasing their l-f-l sales growth and therefore sales density. We suggest later in this report that l-f-ls are going to pick up in WH Smith's travel division. However, there are structural drivers of ROCE improvement beyond the mix and cost management strategies too – its franchise businesses.

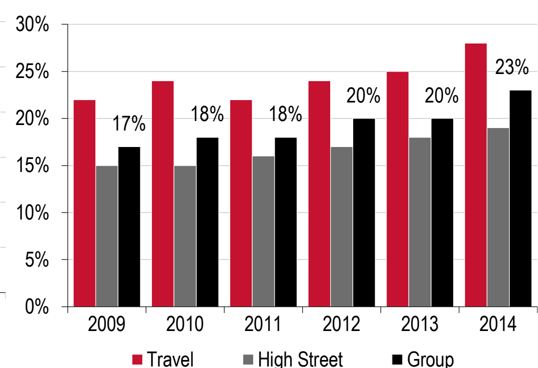
WH Smith generates a high ROCE, despite falling l-f-l sales. This is because of the high sales densities in the travel business, which has high barriers to entry and a captive market. It also operates franchise models which need no capital, both in travel (the international travel business and motorway service stations) and high street (WHSmith Local franchises). These businesses should generate strong franchise income, which is high margin and ROCE enhancing. The exhibits below compare accounting ROCE and lease-adjusted ROCE for WH Smith, as well as benchmarking it against the wider sector. In our view this shows its strategy of gross margin and category management, methodical cost cutting and exposure to markets with high barriers to entry works.

Exhibit 10: ROCE – accounting basis



Source: Company data

Exhibit 11: Lease-adjusted ROCE



Source: Company data

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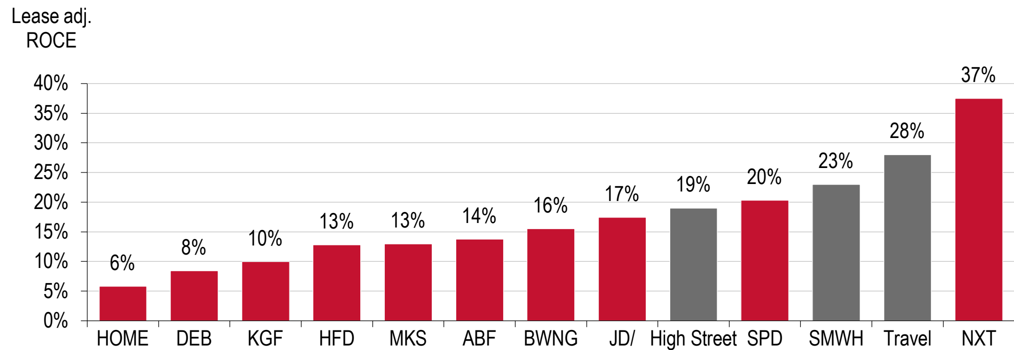
Exhibit 12: Lease-adjusted ROCE for the sector: WH Smith second only to Next….

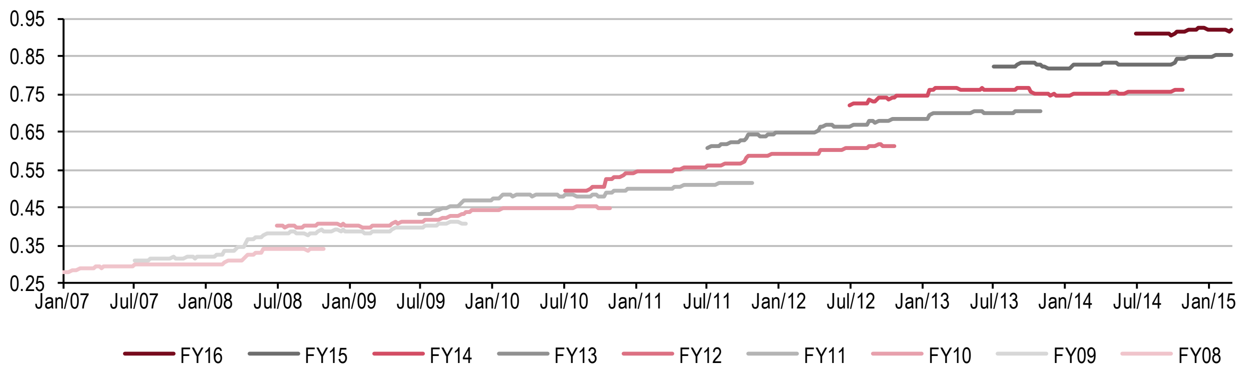


Source: Company data. Lease-adjusted ROCE adds PV of operating leases to capital employed using a 6.5% discount rate.

A history of delivery – both earnings and cash returns

Here we show that WH Smith has consistently met expectations – both analyst EPS estimates, and cash returns to shareholders.

Exhibit 13: Consensus EPS revisions FY08-16 – expectations have consistently been met and exceeded



Source: Bloomberg consensus estimates, Edison Investment Research

WH Smith has returned cash to shareholders in a variety of different ways, striking a balance so as to keep its investors satisfied. With management incentivised between EPS growth and relative dividend growth, as well as total shareholder return, we think this policy will continue.

Exhibit 14: WH Smith has a strong track record of returning cash to owners

£m	Dividend	Special dividend	Buyback	Cash return	Cumulative cash return	Year-end market cap.
2007	17			17	17	749
2008	21	57	33	111	128	605
2009	23		35	58	186	693
2010	26		55	81	267	616
2011	29		50	79	346	694
2012	31		50	81	427	781
2013	34		50	84	511	1042
2014	38		50	88	599	1375
2015e	42		50	92	691	
% of 2007 market cap returned to shareholders from 2007-15e						92%

Source: Company data

Debate one: UK travel – cyclical upswing ahead?

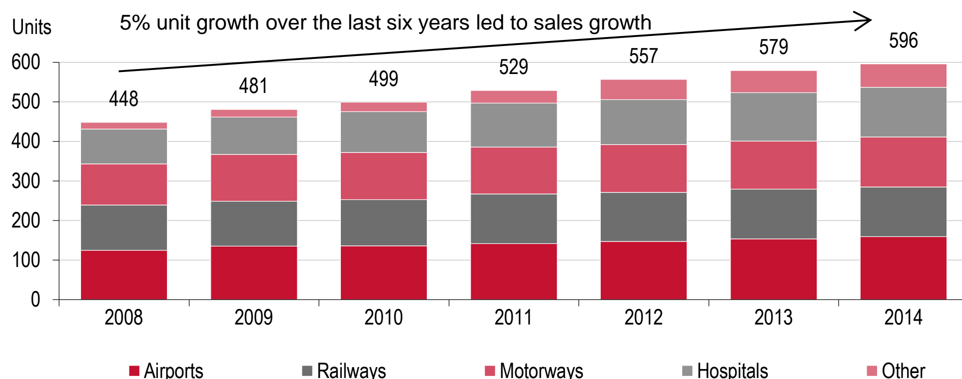
We examined the prospects for WH Smith's largest profit contributor – its domestic travel business. Locations in airports, railway stations, hospitals etc generate impressive sales densities given the captive customer. They also have high barriers to entry relative to the high street because landlords prefer proven operators, with financial strength, a trustworthy brand and products that meet the need of their customers. This is especially true in airports, where the rent structure is largely turnover based. Therefore, a key part of the tender decision is based on the sales per passenger that the tenant can generate. WH Smith has a demonstrable track record in adding value here, as we believe that on average they are able to increase passenger spend by 20-30%. This flows through to the landlords – we think rent/sales exceeds 20% for the airport business. As a result, WH Smith experiences high renewal rates when contracts are renegotiated. It typically seeks to deter landlords from putting out tenders and due to strong sales densities, succeeds more often than not. The success in high-rent environments such as London Heathrow has given the company confidence that it can expand overseas, which we analyse in the next section.

We think the fall in the oil price, the strength of sterling and increased consumer disposable income (and thus propensity to travel) will boost l-f-ls and reinforce management's data-driven approach to mix management and ranging. By our estimates this segment has grown profits at 8% CAGR over the last five years, so the favourable tailwinds and track record give us confidence in our forecast of 7% CAGR over the next three years.

Domestic travel store summary – a variety of styles

The chart below shows the progression of WH Smith's store portfolio in travel locations.

Exhibit 15: WH Smith UK travel store count – steady growth driving sales



Source: Company data

- Airports – 159 units (FY14), selling a tailored range for people on the move.
- Railways – 126 units (FY14), the largest profit contributor.
- Motorway service areas – 126 units (FY14), franchise arrangements with Moto/Roadchef.
- Hospitals – 126 units (FY14). WH Smith acquired this business in 2008 from UNS Group. It is the fastest growing channel, selling a broad convenience range. Also some franchises with M&S Simply Food in the mix.
- Other – 59 units (FY14), includes units in workplaces, bus stations and Funky Pigeon stores.

We are forecasting 17-18 new units ie 3% space growth pa for the next three years. Management believe hospitals are going to be the largest contributor to space growth and see a long-term target of 300 units. With over 220 NHS hospital trusts and dozens of private sector hospitals to target, (and multiple units per hospital), this strikes us as appropriate. We are forecasting an increase of 10

units per year to 156 by FY17e. Management flagged the franchised M&S Simply Food outlets (six at FY14) as strong performers (although at lower gross margins). The company is quoted as saying it would look to transactions that increase shareholder value through franchise arrangements. We believe the M&S units in hospitals are a good example of this. We anticipate a total of 649 domestic travel units at FY17e, but note that this can be lumpy business as it is dependent on tenders/availability.

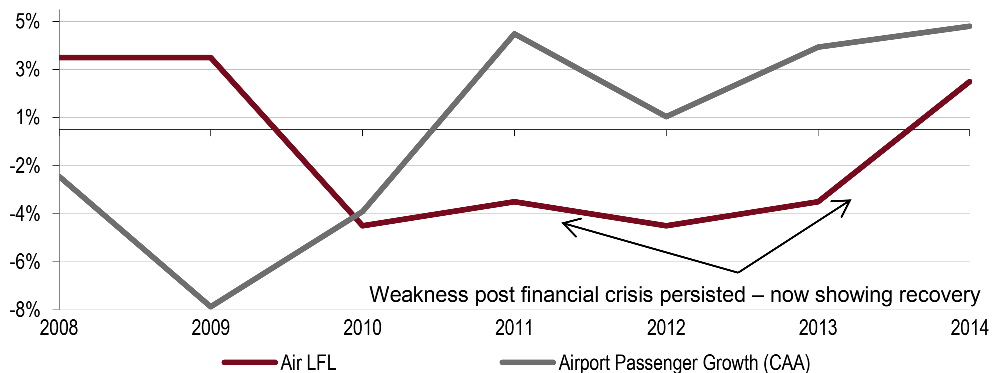
Air and rail to receive boost from increasing passenger growth?

We think WH Smith's most important segments in the Travel business are going to maintain positive l-f-l sales growth. We think a number of macroeconomic factors will aid this:

- increased consumer disposable incomes and expenditure on travel & retail;
- the strength of sterling vs the Euro should bode well for holidaymakers and therefore airport footfall; and
- a lower oil price, which provides a tailwind to disposable income and should encourage travel via air/rail. Air passenger duty (APD) was scrapped for children under 12 from May 2015, and will be for children under 16 from May 2016, adding further cash to customer wallets.

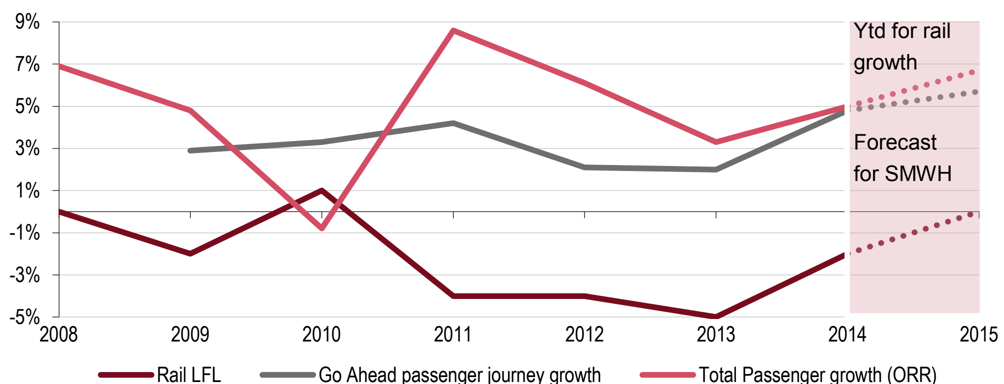
Below, we show passenger growth data for air and rail, as well as WH Smith's l-f-l sales data for these segments. These have suffered as volume growth has been relatively modest (or negative during 2008-2010 for air). With all of these metrics moving to mid-single digit growth rates, supported by an improving economy, WH Smith has already seen some improvement (H1 air l-f-l was 4% and rail l-f-l was 1%), we expect this will continue.

Exhibit 16: WH Smith air l-f-l vs air passenger growth – starting to see upturn from FY14



Source: Civil Aviation Authority (December year end), company data (August year end)

Exhibit 17: WH Smith rail l-f-l vs rail passenger/journey growth – improvement in FY15e

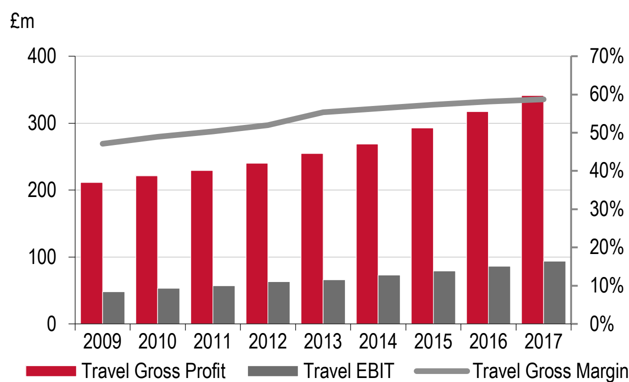


Source: Office for Rail Regulation, Go Ahead (March year end), WH Smith (August year end)

Margin gains to continue

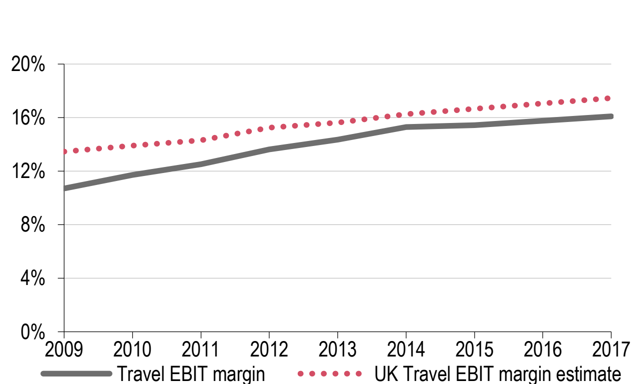
With increased dedication to the higher margin products eg journey solutions (chargers and adapters, souvenirs etc) and consumables, and a continuous focus on efficiency gains we like the prospects for this business. As Exhibit 6 shows, books and newspapers/magazines are c 30% of Travel sales, so this business is largely exposed to growth categories. While WH Smith is required to sell certain items such as newspapers/magazines under its rent agreements, it works intelligently to manage space and range to shift towards more profitable categories. Examples of this are food to go in London rail stations and digital accessories in air. The company is focused on operating efficiently eg installing self-service tills that decrease queues at time-pressured locations such as air/rail as well as save on personnel costs. We anticipate 40bp of margin expansion for the next three years in the UK business, driven by improving l-f-ls and the continuation of the strategy.

Exhibit 18: We forecast 9% EBIT growth 2014-17e



Source: Company data, Edison Investment Research

Exhibit 19: Travel margins – we forecast expansion



Source: Company data, Edison Investment Research

Debate two: International – worth a high multiple?

WH Smith's consistent delivery in the UK gave it the firepower to expand internationally. It operates through three different models: directly run, franchise and JVs, depending upon the geography, location and tender details. In markets it feels it understands the local culture and customer, it looks to open its own stores. In others, it typically enters the market through franchise relationships. The business is focused on winning concessions in airports and railway stations (although there are a small number of outlets in hospitals and shopping malls). This is a high ROCE business as WH Smith provides no capital, but takes a turnover based franchise fee (c 4% of unit sales). At H115, the company had 155 units outside the UK (with 185 tenders won in total). The company expects to grow its store base by c 30 units a year. However, we expect growth to be lumpy because it is dependent on the number of available tenders. As an example, we would draw attention to WH Smith's bid for the licence for 300 units at French railway stations in 2013. WH Smith partnered with Elior to compete with Lagardere whose Relay brand was the incumbent. While in this case the bid was unsuccessful, it demonstrates the scale of their ambitions for this business. We believe WH Smith can compete effectively for the following reasons:

- it has strong expertise serving a wide variety of customers in differing locations;
- it can apply its diligent approach to space management and ranging to help improve throughput and sales density; and
- it has a track record of growing sales per passenger when compared to previous tenants, as shown in Exhibit 19.

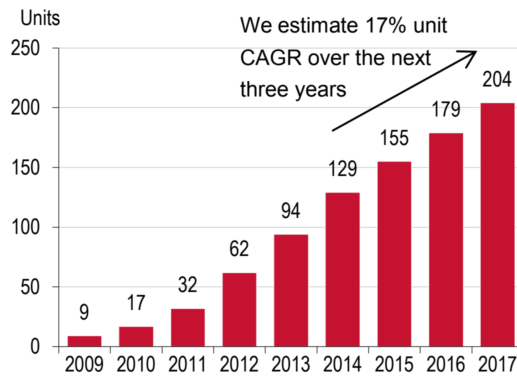
We expect the strong unit growth to continue and forecast over 200 units by FY17e.

Exhibit 20: WH Smith improvement in spend per passenger – strong competitive advantage

Location	% change in spend per passenger
Copenhagen	c 15%
Shannon	c 25%
Muscat	c 45%
Our assessment of average uplift	c 25-35%

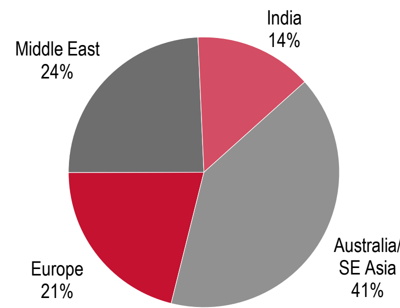
Source: Company data (2010), Edison Investment research

Exhibit 21: International to be a key driver



Source: Company data, Edison Investment Research

Exhibit 22: International unit exposure H115

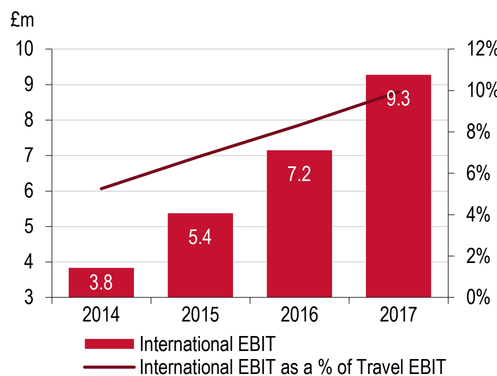


Source: Company data, Edison Investment Research

International travel retail has sound drivers to fuel growth, from increasing passenger traffic, to category growth as well as having strong economics. While the company is coy about the profitability of this business, we have made assumptions to derive our estimates of international EBIT. We estimate the sales density of these stores to be 25% lower than in the UK air and rail business. This is because the UK has very strong passenger throughput relative to other markets.

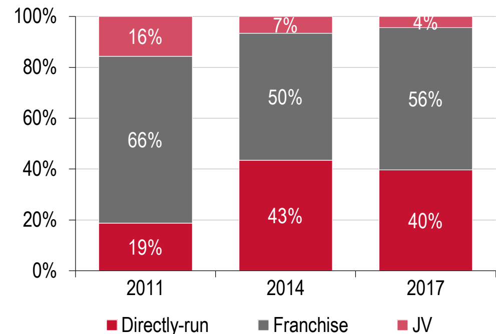
We also estimate a 4% turnover fee for the franchise units and a lower than group EBIT margin on the directly operated international stores, because of the additional costs of international offices (eg in Qatar and Australia) from headcount as well as storage costs. Given the relative immaturity of WH Smith's international business we expect further concession wins as well as some margin improvement. We think international EBIT will more than double over the next three years and contribute c 10% of Travel EBIT.

Exhibit 23: Int'l EBIT growth 2014-17e



Source: Company data, Edison Investment Research

Exhibit 24: International mix development



Source: Company data, Edison Investment Research

Exhibit 24 shows the latest tender the company has won in international airports. They span a variety of different formats, brands and sizes. We believe they demonstrate WH Smith's credibility as an international travel retailer and partner of choice with many landlords.

Exhibit 25: WH Smith international tender wins in FY15

Location	Total units in location	Sq ft acquired
Doha, Qatar	8	8,902
Bali	11	7,534
Sydney	4 new 2 existing	N/A
Melbourne	4 new 5 existing	4,520
Nadi, Fiji	2	N/A

Source: The Moodie Report, Edison Investment research

Financial comparison to publicly listed travel retailers

WH Smith has grown its travel business at respectable rates – mitigating a bear point that its UK exposure does not merit a premium rating. It also has a high margin, high ROIC and impressive EBITDA per sq ft.

Exhibit 26: WH Smith travel segment peer comparison – all generate high sales and profit densities

Company or division	Last three years' sales CAGR	Last three years' EBITDA CAGR	Sales per sq ft	EBITDA per sq ft	EBITDA margin FY14	ROIC (FY14)	Units (in UK)	Comment
WH Smith (Travel)	2%	8%	£872	£154	18%	101%	725 (596)	We forecast 7% sales growth and 9% EBITDA CAGR for FY14 -17e
Dufry (DUFN)	17% (c4% ex-acquisitions)	14%	£969	£133	14%	73%	1,688	Dufry continues to consolidate space, is in the process of acquiring 50.1% of WDF (sees €100m of synergies). Consensus sees 16% EBITDA CAGR for next three years
World Duty Free (WDF)	7%	2%	£1,366	£181	12%	121%	519 (24)	
Lagardere Travel Services	9%	7%	N/A	N/A	6%	N/A	3,194	Guidance is for 5-10% sales growth pa and 100bp of margin expansion until FY16e

Source: Company data, Edison Investment research. Note: Sales and EBITDA per sq ft calculated at average FX rate for year. WDF is for 2013. ROIC denominator is net fixed assets + net working capital. We used this to compare returns as DUFN and WDF have high goodwill and intangibles relative to total assets.

We highlight the following:

- WH Smith has higher margins and higher EBITDA/per sq ft, despite lower sales productivity. In our view this alleviates the concerns that its category mix is not as attractive as its peers'. Dufry and WDF are less exposed to travel essentials and more focused on beauty, luxury goods, beverages and tobacco.
- WDF has very high returns on tangible capital, driven by its strong sales densities and negative working capital (a trait the other comps also share).
- It has meaningful lower units than the competitors – it should have scope to grow this for many years to come.

We note that Dufry's acquisition of WDF (14x 2014 EBITDA, 26x EBIT) is likely to be a net negative for WH Smith. While it highlights the premium that can be paid for travel retailers, Dufry's bargaining power with landlords probably increases substantially. However, it could be argued that since Dufry will be integrating WDF (and Nuance, acquired last year for $1.7bn, c 10x 2013 EBITDA), it will be focused on managing that process and its Hudson News business (which competes with WH Smith) may become less important to the Group.

Prior to its acquisition, WDF had guided the market to 8% sales CAGR, 5% EBITDA CAGR for the next three years. With synergies of €100m targeted, generously assuming all of these are retained, this would lead to 11% EBITDA CAGR for the business.

WDF's business mix in 2014 was 45% duty paid, 55% duty free but c 20% of revenue is similar to WH Smith. As we expect WH Smith's international EBIT to grow at 34% CAGR over the next three years, we believe 20x forward EBIT is an appropriate multiple.

We believe WH Smith has units in important locations both at home and abroad, and is unlikely to sell this division given it is the main driver of group profitability. A demerger of the high street and travel businesses remains a possibility, but as the shares have rerated over the last twelve months we think it is unlikely in the near term.

Debate three: Are High Street profits secure?

WH Smith's High Street business has delivered profit growth every year since before the demerger from Smiths News. In FY06, revenues and EBIT were £1,021m and £42m respectively. Sales have declined every year since, and ten years on we are forecasting revenues of £646m, and EBIT of £59m for FY15. How has c 40% decline in sales been accompanied by a c 40% increase in profit? The company highlights four pillars to its strategy:

- gross margin management – moving away from low margin categories;
- active space management – optimising returns on space;
- cost savings initiatives – efficiency savings both in store (front and back) and DC savings; and
- third-party opportunities – eg post office concessions or newer trials of WH Smith Local.

Other growth drivers include funkypigeon.com and Cardmarket, which is a trial of 20 value-for-money greeting cards stores which are direct competitors to Card Factory.

We also examine the category we believe the market is most worried about; books.

The key question investors has is whether a business that is facing a consistent decline in sales and growing profit through cost cutting proves sustainable?

Strategy – ruthlessly manage for cash; dead right in our view

WH Smith has been dealing with declining categories for many years. It managed declines in entertainment by shifting away from this category into stationery. However, as footfall has deteriorated on the high street, this category has also had negative l-f-l performance. Value has been created by managing for margin.

We believe this experience has aided the company in managing the decline in books, newspapers and magazines.

Exhibit 27: L-f-l sales by category – recent results are improving but still in overall decline

Category	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	H115
Stationery	3%	-4%	-3%	0%	-4%	-3%	-2%	-1%	-3%	-1%	1%
Books	-2%	-5%	1%	-2%	-1%	1%	-4%	-7%	-10%	-7%	-4%
News & impulse	1%	3%	1%	-1%	-2%	-2%	-3%	-4%	-4%	-1%	0%
Entertainment	-12%	-19%	-32%	-18%	-35%	-42%	-55%				
Total	**-3%**	**-4%**	**-4%**	**-2%**	**-6%**	**-4%**	**-5%**	**-5%**	**-5%**	**-3%**	**-2%**

Source: Company data, Edison Investment Research

Gross margin management – a sustainable strategy

WH Smith's high street gross margin has expanded 14% since FY06 from 43.2% to 57.1% in FY14 by our estimates, an average of 200bp a year. This has been accomplished by allocating space away from entertainment and into stationery and impulse/food items. Prices are also flexed more – with weekday pricing different to weekends as consumers are more time pressured during the week. Given that there is no contractual obligation for WH Smith to stock newspapers and magazines on the high street, we believe they can adapt its product offer and not lose as much gross profit as it does in sales. We are modelling a 150bp improvement for FY15e (H115 improvement was 180bp) and an average of 125bp pa to FY17e. This reflects our acknowledgment

that it is a more challenging strategy to execute over time. Below, we show a sensitivity analysis for what the High Street EBIT could look like in FY20. We assume:

- gross margin reaches 65% (125bp pa expansion) with the stationery increasing to 70% of sales at 70% gross margin and books and news/impulse each declining 10% in the mix (from 45% currently as shown in Exhibit 6);
- we continue to assume 5% l-f-l declines every year; and
- gains in gross margin are leveraged to EBIT margin at the same rate.

Exhibit 28: High Street profit scenario - l-f-l declines and 125bp of GM growth pa lead to flattish profits

High Street	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Sales (£m)	**892**	**860**	**818**	**781**	**726**	**684**	**646**	**611**	**580**	**551**	**524**	**498**
Growth	-4.3%	-3.6%	-4.9%	-4.5%	-7.0%	-5.8%	-6%	-6%	-5%	-5%	-5%	-5%
L-f-l	-6%	-4%	-6%	-5%	-6%	-5%	-5%	-5%	-5%	-5%	-5%	-5%
Space contribution	-1.7%	-0.4%	-1.1%	-0.5%	1.0%	0.8%	-0.5%	-0.5%	0.0%	0.0%	0.0%	0.0%
Gross profit (£m)	**444**	**441**	**432**	**422**	**401**	**390**	**379**	**365**	**353**	**342**	**332**	**321**
Gross margin	**49.8%**	**51.3%**	**52.9%**	**54.1%**	**55.2%**	**57.1%**	**58.6%**	**59.8%**	**60.8%**	**62%**	**63%**	**65%**
Change (bp)	220	150	160	120	200	190	150	125	100	125	125	125
EBIT (£m)	**49**	**51**	**52**	**54**	**56**	**58**	**59**	**59**	**58**	**58**	**58**	**57**
EBIT margin	**5.5%**	**5.9%**	**6.4%**	**6.9%**	**7.7%**	**8.5%**	**9.1%**	**9.6%**	**10.0%**	**10.5%**	**11.0%**	**11.5%**
Change (bp)		44	43	56	80	77	60	50	40	50	50	50
GM growth/EBIT margin growth		3.4	3.7	2.2	2.5	2.5	2.5	2.5	2.5	2.5	2.5	2.5

Source: Company data, Edison Investment Research estimates. Note – The shaded years represent our explicit forecast period.

Margin expansion is aided by the group's ability to track and monitor every square metre drop in every aisle of every store. It uses this data to reconfigure the store layout to maximise sales density and gross profit per sq ft twice per year. This type of analysis led WH Smith to start adding Post Office concessions (now 108 in High Street stores, which drive footfall) as well as improving markdowns and intra-category mix. We believe the high gross margins are sustainable for the following reasons:

- around 25% of its stationery is own brand, which carries a higher than average gross margin;
- WH Smith continues to innovate by launching new ranges, and the full range is only available in c 100 stores out of the c 600 on the high street, so there should be potential upside from extending this across the store estate; and
- the company maintains a regional sourcing office in Hong Kong to better manage supplier relationships and lower costs. It also has flexible sourcing, with capabilities in Europe, which currently look relatively attractive due to exchange rate movements.

Operating cost savings

Driving cost efficiencies and savings from the high street business has been a long running strategy at WH Smith. The company has a history of under promising and over delivering, as we show in Exhibit 28. Bears question the sustainability of continuous cost cutting but we believe it is an embedded part of the WH Smith culture. There is a high degree of equity participation amongst employees (the Employee Benefit Trust is the 13th largest shareholder according to Thomson Reuters). We believe this leads to a greater focus on delivering on the cost strategy and therefore the bottom line. For example, a DC manager wrote to the CFO highlighting an opportunity to cut distribution costs and improve productivity, which was later adopted.

Exhibit 29: WH Smith High Street cost savings 2005-17e

(£m)	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Target at beginning of year	20	12	7	8	9	12	11	13	13	12	6	4	0
Projection at interims	20	18	10	8	15	12	11	13	13	12			
Further savings identified	0	1	0	0	0	0	3	5	5	2	5	2	4
Total saving	**20**	**22**	**10**	**8**	**15**	**12**	**14**	**18**	**18**	**14**	**11**	**6**	**4**

Source: Company data

When looking at the cost savings over time, it is worth noting that the company typically announces a conservative plan and upgrades expectations over time. For example in 2010, the targets for 2011, 2012 and 2013 were £11m, £8m and £6m respectively. As the Exhibit shows, the company actually delivered a cumulative £50m over those three years, or double the 2010 projection. Hence we believe the current expectations are likely to be exceeded. The exhibit below gives examples of some of the cost savings achieved to date and some that we believe are still available.

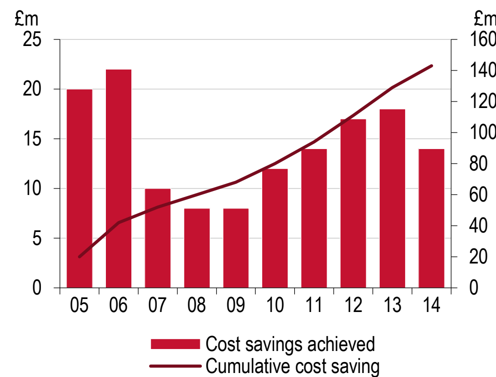
Exhibit 30: Selection of WH Smith's operating cost savings

Cost savings achieved	Areas for further cost savings
Distribution centre productivity enhancements.	c 100 stores have rent reviews in FY15. WH Smith will typically negotiate for a 15-20% rent reduction and if a reduction is not made, the store becomes a candidate for closure if its profit per store would weaken with higher rents.
More targeted marketing spend.	Improving delivery solutions.
Energy efficiencies eg lighting.	Renegotiation of marketing contracts.
Technology investments eg tablets to connect to back office systems.	More self-checkout tills in stores.
Back office tasks moved to shop floor.	

Source: Company data, Edison Investment Research

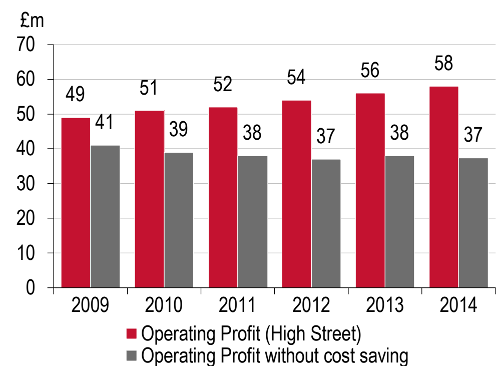
As the charts below show, the cost reduction strategy is vital to WH Smith's profitability on the high street, as without savings the sales declines would lead to a fall in profit.

Exhibit 31: Opex vs cumulative cost savings



Source: Company data, Edison Investment Research

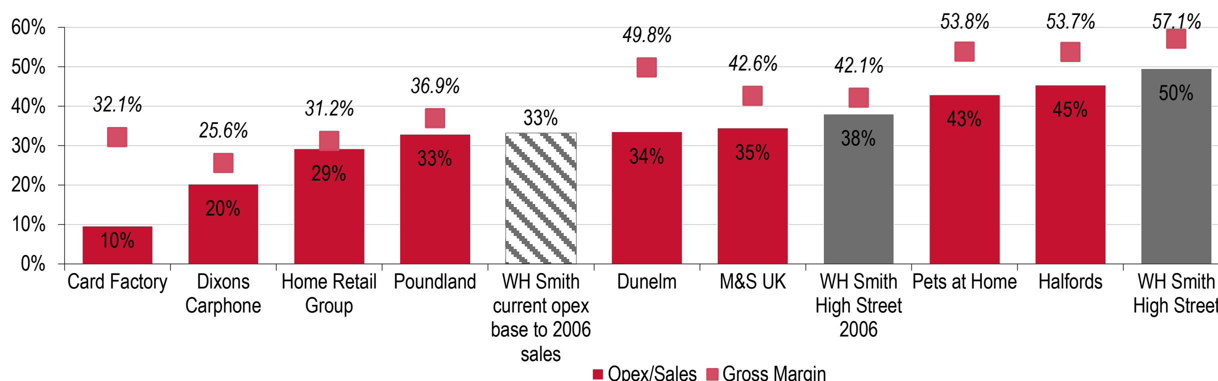
Exhibit 32: High Street EBIT development



Source: Company data, Edison Investment Research

Below, we benchmark WH Smith's high street opex to sales to its retailing peers. While it appears that WH Smith has the highest operating costs to sales (an increase of 1,200bp in eight years), given the scope of its cost cutting, it would be unfair to say the company has become less efficient over time. We think it is more useful to compare the current opex base to 2006 sales. On this basis, it is similar to discounters such as Poundland and Dunelm.

Exhibit 33: FTSE 350 Hardlines/speciality retailers – GM and opex/sales ratios



Source: Company data, Edison Investment Research

WH Smith Local – potential profit driver

We believe that third party opportunities such as post offices are a great tool for the company to drive footfall and generate income from their store estate without spending capital. Another opportunity that the company is trialling (50 stores signed) is franchises with newsagents. The newsagents take on the WH Smith Local brand and gain access to its stationery range and benefit from buying power. Below, we present a stylised example of the addition to High Street EBIT. We assume average weekly turnover of £8,000 per week for a newsagent and a 10% sales uplift. There are 17,500 newsagents that are affiliated with the National Federation of Retail Newsagents (NFRN) but there are many more independents.

Exhibit 34: Sensitivity of WHS Local EBIT and impact on High Street EBIT

(£)			
Newsagent average weekly turnover	**8,000**		
Average annual turnover	416,000		
Average annual turnover (including 10% uplift)	457,600		
Average revenue ex VAT	366,080		
4% franchise fee	14,643		
Number of stores	**50**	**200**	**500**
Addition to EBIT	732,160	2,928,640	7,321,600
% Addition to High Street EBIT	1%	5%	13%

Source: Edison Investment Research

Trends in book sales

We think there is too much emphasis placed on the sale of books and WH Smith's mix has shifted away from the category over time. We estimate c 17% of WH Smith's gross profit comes from books (22% of High Street and 9% of Travel). While there has been an inexorable shift to ebooks in categories such as adult fiction, children's books and non-fiction have not faced such strong declines. WH Smith's book mix is around 40% children's, 40% non-fiction and 20% adult fiction. According to data from Nielsen Bookscan, there were 237 million physical book purchases in the UK in 2008, which fell to 184 million in 2013, which is a -5% CAGR for the period. However, the decline for 2014 was 1.3%. Adult fiction continued to perform poorly with volume down 8%. Recent data from booksellers has been positive however, with Foyles reporting December sales up 8% in 2014 over the prior year and Waterstones reporting 5% sales growth for December. We do not believe that printed books will see resurgence, but with ebook penetration at 15% and growth in penetration slowing we do not think l-f-l book sales will deteriorate.

Stationery is a £6bn market with modest growth in the UK according to the CEO of Paperchase, and WH Smith should be capable of taking share from independents in our view. According to OC&C, the UK greeting card market grew at a rate of 1.2% between 2009 and 2012, so some of

WH Smith's categories are experiencing growth which could lead to improvement in revenue trends.

Outlook for High Street

We believe the difficult environment for High Street will persist and forecast -6% sales CAGR from 2014-17e and c 50bp of EBIT margin expansion as detailed in Exhibit 27. This leads us to flat profits in this segment for our explicit forecast period – which will likely prove conservative. This is due to anticipating lower gross margin growth than the company has historically delivered.

Regardless of our views (as well as the bears') it is noteworthy that Paperchase were considering a sale of their business for £150m in October 2014 (source: Retail Gazette). With retail sales of £114m and pre-exceptional EBITDA of £7.3m, in the year to March 2014, this implies 1.3x EV/Sales and 21x EV/EBITDA. We value WH Smith's High Street business at 0.9x EV/Sales and 10x EBIT as can be seen in Exhibit 35 in the valuation section.

Debate four: Are management suitably incentivised?

The current management team have long tenures at WH Smith, and have executed a plan outlined by the previous chief executive, Kate Swann. Brief biographies are shown below.

Stephen Clarke (chief executive) – Stephen joined the company in 2004 as marketing director for the High Street business. He later became MD of this segment in 2008, joined the board in 2012 and become chief executive in 2013 on Kate Swann's departure from WH Smith. Prior to this he worked at Dixons in a number of store, product and marketing roles.

Robert Moorhead (CFO and COO) – Robert joined WH Smith in 2004 as retail finance director and joined the board in 2008 when he became CFO. Previous experience includes roles at Specsavers and World Duty Free as group FD and finance & IT director respectively.

We believe there is a strong equity culture at WH Smith. This is due to various policies the company has implemented. For example the top 40 executives participate in a co-investment plan, the CEO and CFO must build and maintain a minimum 200 percent and 150 percent shareholding (relative to their base salary) respectively.

The current targets under the incentive plans are based on relative TSR (40%), EPS growth (30%) and relative dividend growth (30%). Bonuses are paid out on a sliding scale with a full payout requiring 12% EPS growth, and upper quartile TSR and dividend growth relative to the FTSE 350 general retailers.

Financials and forecasts

At the group level, we think WH Smith can deliver 9% EPS CAGR and double-digit dividend growth for the next three years, without growing sales.

Our EPS estimates factor in £50m of share repurchases per annum, in line with the company's history and the aim of returning cash to shareholders. We also show FCF per share growth, and note that WH Smith has a strong history of converting profits into cash. This is due to its diligent working capital management and low capex model (smaller store formats in travel locations as well as franchise models). We are ahead of consensus on 2016e and 2017e EPS.

EDISON

Exhibit 35: Edison estimates from 2014-17e – we forecast 9% EPS and FCFPS growth

(£m)	2014	2015e	2016e	2017e
High Street				
Revenue	684	646	611	580
EBIT	58	59	59	58
Travel				
Revenue	477	511	546	581
EBIT	73	79	86	93
Central Costs	-15	-15	-15	-15
Group Revenue	1161	1157	1157	1161
Growth	-2.1%	-0.3%	0.0%	0.4%
Group EBIT	**116**	**123**	**130**	**136**
Growth	8%	6%	6%	5%
PBT	114	120	127	134
EPS	**79**	**86**	**94**	**102**
Growth	15%	9%	9%	9%
Consensus EPS		86	93	100
Difference		0.1%	1.2%	2.8%
FCFPS	**82**	**88**	**95**	**105**
Growth	6%	7%	8%	10%
DPS	**35**	**39**	**44**	**50**

Source: Company data, Edison Investment Research, Bloomberg consensus for EPS on 21 May 2015

Valuation – 12% upside to our target of 1,665p

We think WH Smith should be valued on a SOTP basis because the different segments have different returns and growth profiles. Taking the average of our SOTP analysis (1620p) and a FCF yield comparison to the FTSE 350 General Retail index (1710p), yields 1,665p for 12% upside.

Sum of the parts

As Exhibit 35 shows, WH Smith's travel and high street businesses trade at a discount to their respective peer groups.

First we allocated central costs to the business segments on the proportion to EBIT that each segment produces. We then compared the segments to publicly quoted peers.

- We value the domestic travel business at a 20% discount to the average of Dufry/WDF's forward EV/EBIT. This is to reflect Dufry's scale and arguably better business mix. We expect this segment will also grow more slowly compared to Dufry.
- We value the international EBIT at a smaller discount (6%). This is because we anticipate higher growth, due to its relative immaturity and the high ROCE of the franchise model.
- We place the High Street business at a 20% discount to the FTSE 350 general retailers (ex AO World and Just Eat) on EV/EBIT, reflecting concerns over WH Smith's slower growth and category exposures. We note that the 10x multiple for this business is similar to Debenhams and Kingfisher (where consensus expects sales declines for the next few years).
- We note that despite these discounts, our SOTP analysis shows 9% upside to the current share price.

  In our view, this is largely because there is investor unease with the high street business. We think this is unjustified given the track record of growth and ROCE improvement.

Exhibit 36: WH Smith SOTP – still upside as WH Smith trades at a discount to quoted peers

Sum of the parts	FY16e trading profit	Allocation of central cost	FY16E EBIT	Multiple	EV	Comment
Travel	76	-8.0	68	17.0	1,155	20% discount to Dufry, World Duty Free
International Travel	7	-0.8	6	20.0	129	6% discount to Dufry, World Duty Free
High Street	59	-6.2	53	10.0	528	20% discount to FTSE 350 general retail (ex AO/ and JE/)
Total	142	-15	127	14		
Total Enterprise Value					**1,812**	
Pension deficit (actuarial)					-15	Guidance for FY15e – plan is actually in surplus but asset ceiling is not considered
Contingent liability					-7	Related to Smiths News demerger
Net debt/(cash)					-25	2016e net cash
Equity value					1,814	
Shares outstanding 2016e					112	Assumes buyback programme continues
Fair value					**1,620**	
Current price					1,490	
Upside					**9%**	

Source: Edison Investment Research estimates

FCF yield

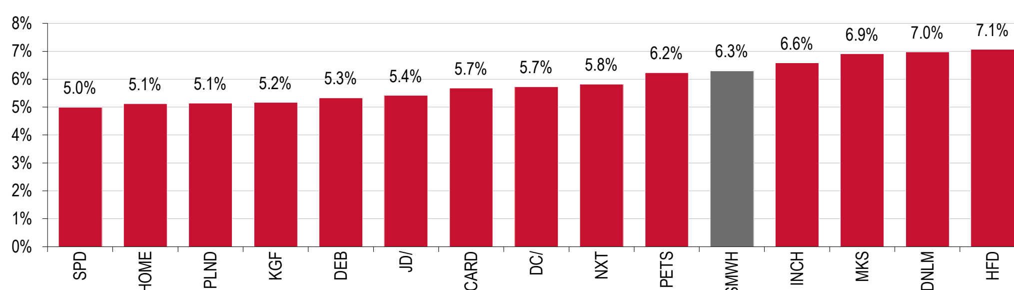
We think a 6.3% FCF yield is attractive, especially since 3% is returned to shareholders via the dividend and £50m per annum through the company's share buyback programme. WH Smith also has a better cash conversion then the peer group. Hence we believe it should trade in line with the sector (c 5.5%), given that now does on a P/E basis.

Exhibit 37: Attractive FCF yield – if WH Smith rerates to a sector multiple 15% upside

WH Smith	2016E FCF/share	95
	2016E FCF Yield	6.3%
FTSE 350 Gen. Retail	2016E FCF Yield	5.5%
WH Smith fair value	in line with sector	**1,710**
Upside		**15%**

Source: Edison Investment Research

Exhibit 38: Sector FCF yield – WH Smith offers compelling relative value

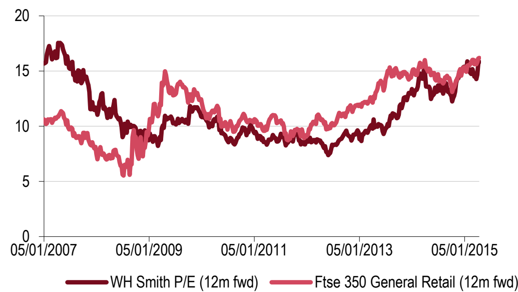


Source: Bloomberg consensus, Edison Investment Research. Note: Edison estimates for WH Smith. Chart does not include AO World, Just Eat, Saga, AA plc.

P/E and relative charts – WH Smith has started to re-rate

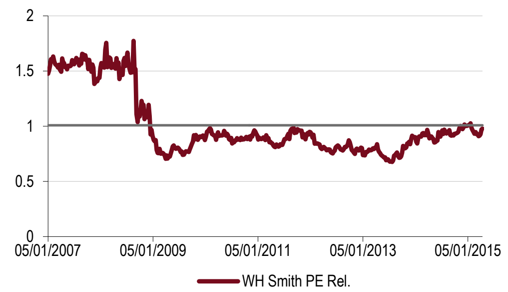
The following charts show how WH Smith has traded relative to the FTSE 350 general retail sector on a P/E basis. It is interesting to note that WH Smith did trade on a sector premium when the domestic travel business was experiencing positive l-f-l sales growth. On consensus numbers for FY16e, WH Smith trades in line with the sector. On our numbers it trades at a 2% discount. We expect 9.5% EPS CAGR over the next 3 years compared to median sector growth of 8.4% (ex AO/ and JE/). This is below the 13% CAGR delivered over the past five years and 12% required for a maximum payout on management incentives. We have taken a conservative stance on High Street EBIT growth, which is the reason for our lower growth expectations relative to history.

Exhibit 39: WH Smith vs general retail P/E



Source: Bloomberg data, Edison Investment Research

Exhibit 40: Traded at a premium pre 2008



Source: Bloomberg data, Edison Investment Research

Catalysts

Here we outline the key catalysts that would cause us to upgrade our earnings expectations and/or expect a further re-rating in the shares.

- **Evidence of l-f-l improvement in UK travel:** H115 results were very encouraging with air and rail delivering 4% and 1% respectively. We expect this to continue given a UK economic recovery.
- **International unit growth/disclosure of profitability:** the international business is the fastest growing segment of WH Smith on our estimates. We think it will grow to £9m of EBIT in 2017e and further disclosure on the profitability of this business would be appreciated by investors.
- **High Street savings:** confirmation of current (and future) cost-saving targets for the high street business. The current savings are £11m/£6m/£4m for FY15-17e. WH Smith typically gives conservative targets in earlier years only to raise them once it can confirm it can deliver them.
- **Category mix shift:** the market is clearly concerned about print categories. WH Smith has shown it can manage category decline effectively over the past decade. If they can demonstrate a continued emphasis on shifting to higher margin categories, it would be positive for the shares.
- **EPS upgrades:** our earnings estimates currently assume relatively flat high street profits and similar to current growth rates for the travel business. Given our positive view on the UK business, there is scope to upgrade estimates if it outperforms and if the high street business continues to grow profits.

Risks to the investment case

Here we examine the key risks to our investment case. WH Smith is the sixth most shorted stock in the UK market (according to shorttracker.co.uk) with a short interest of 8.5% (having been as high as 13.5% in 2013).

- **High Street profits decline:** there are a couple of elements to the bear case for the high street – firstly that declining sales trends accelerate and the company cannot shift mix to growing/higher margin categories any longer, which alongside a decrease in footfall would lead to a significant hit to profitability. There is also the possibility that cost cuts are exhausted as the company has cumulatively taken over £140m out of the 2005 cost base.
- **Category declines:** further l-f-l declines in books and newspapers/magazines as they transition into a more digitally-focused world. As ebooks (either on dedicated readers or tablets) and online subscriptions take share from print, WH Smith could suffer from falling sales.

- **Competitive environment worsens:** discounters have grown their share of the UK high street, including eg Poundland and Card Factory and continue to expand aggressively. It is possible that these companies take share from WH Smith, exacerbating a difficult sales environment.
- **Growth investments do not replace potentially lost high street profit:** the profitability of funkypigeon.com as well as the trials of cardmarket and WHS Local are not disclosed. There is a risk that these businesses do not generate significant returns to compensate for a deteriorating high street business.
- **Catastrophe risk hurts demand for travel:** the largest risk to the travel segment is either a natural disaster (earthquake or volcanic eruption) or a man-made event (terrorist attack/disease outbreak) that causes a decline in air travel and footfall to WH Smith's store locations.
- **International growth does not materialise:** if WH Smith does not win as many tenders as we expect or not at the pace we anticipate, either due to increased competition for tenders or poor landlord negotiations, it could miss growth expectations.
- **Cyclical downturn:** Retailers are cyclical and WH Smith is no exception, if we were to see a downturn in growth and consumer expenditure, both segments of WH Smith would be hit.

Exhibit 41: Financial summary

£m	2009	2010	2011	2012	2013	2014	2015e	2016e	2017e
Year end 31 August	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS	IFRS
PROFIT & LOSS									
Revenue	1,340	1,312	1,273	1,243	1,186	1,161	1,157	1,157	1,161
EBITDA (adjusted)	121	125	129	136	142	151	155	162	169
Operating Profit (before amort. and except.)	83	89	93	102	107	117	123	130	136
Intangible Amortisation	4	5	6	6	6	5	2	2	2
Exceptionals	0	0	0	0	0	(1)	0	0	0
Other	0	0	0	0	0	0	0	0	0
Operating Profit	83	89	93	102	107	116	123	130	136
Net Interest	(1)	0	0	0	(1)	(3)	(3)	(3)	(2)
Profit Before Tax (norm)	82	89	93	102	106	114	120	127	134
Profit Before Tax (FRS 3)	82	89	93	102	103	112	120	127	134
Tax	(18)	(20)	(20)	(22)	(22)	(20)	(20)	(22)	(23)
Profit After Tax (norm)	64	69	73	80	84	94	99	105	112
Profit After Tax (FRS 3)	64	69	73	80	81	92	99	105	112
Average Number of Shares Outstanding (m)	150.0	145.0	140.0	130.0	122.0	119.0	115.1	112.0	109.0
EPS - normalised (p)	42.7	47.6	52.1	61.5	68.9	79.0	86.2	93.7	102.3
EPS - normalised and fully diluted (p)	41.3	45.7	51.4	59.7	66.1	77.7	84.7	92.1	100.5
EPS - (IFRS) (p)	42.7	47.6	52.1	61.5	66.4	77.3	86.2	93.7	102.3
Dividend per share (p)	16.7	19.4	22.5	26.9	30.7	35.0	39.0	44.3	50.3
EBITDA Margin (%)	9.0	9.5	10.1	10.9	12.0	13.0	13.4	14.0	14.6
Operating Margin (before GW and except.) (%)	6.2	6.8	7.3	8.2	9.0	10.1	10.6	11.2	11.7
BALANCE SHEET									
Fixed Assets	232	228	239	237	230	222	231	235	236
Intangible Assets	56	56	56	54	55	56	61	63	65
Tangible Assets	163	158	151	155	149	147	151	153	152
Other	13	14	32	28	26	19	19	19	19
Current Assets	262	285	259	246	233	235	234	238	248
Stocks	151	151	154	151	148	144	145	146	148
Debtors	56	57	57	54	51	54	52	52	52
Cash	47	56	41	36	31	34	33	37	44
Other	8	21	7	5	3	3	3	3	3
Current Liabilities	(281)	(300)	(307)	(305)	(288)	(294)	(295)	(295)	(296)
Creditors	(242)	(246)	(248)	(246)	(232)	(230)	(231)	(231)	(232)
Short term borrowings	(2)	0	0	0	0	(12)	(12)	(12)	(12)
Long Term Liabilities	(25)	(27)	(97)	(83)	(73)	(62)	(56)	(50)	(44)
Long term borrowings	0	0	0	0	0	0	0	0	0
Other long term liabilities	(25)	(27)	(97)	(83)	(73)	(62)	(56)	(50)	(44)
Net Assets	188	186	94	95	102	101	113	127	144
CASH FLOW									
Operating Cash Flow	130	124	128	132	138	137	156	160	167
Net Interest	0	1	0	0	0	(1)	(3)	(3)	(2)
Tax	(17)	(16)	(14)	(13)	(13)	(11)	(14)	(15)	(16)
Capex	(28)	(45)	(63)	(46)	(48)	(44)	(60)	(55)	(50)
Acquisitions/disposals	0	0	0	0	0	0	0	0	0
Financing	(8)	(12)	3	4	1	(3)	(10)	0	0
Dividends	(23)	(17)	(18)	(19)	(20)	(20)	(24)	(26)	(28)
Net Cash Flow	(29)	(14)	(1)	(1)	3	26	(2)	18	30
Opening net cash/(debt)	(2)	(45)	(56)	(41)	(36)	(31)	(22)	(21)	(25)
HP finance leases initiated	0	0	0	0	0	0	0	0	0
Other	18	2	0	0	0	(13)	0	0	0
Closing net cash/(debt)	(45)	(56)	(41)	(36)	(31)	(22)	(21)	(25)	(32)

Source: Company data, Edison Investment Research

EDISON

Contact details	Revenue by geography
Victoria House 4th Floor 37-63 Southampton Row Bloomsbury Square London, WC1B 4DA United Kingdom 01793 616161	N/A

CAGR metrics		Profitability metrics		Balance sheet metrics		Sensitivities evaluation	
EPS 12-16e	11.1%	ROCE 15e	144%	Gearing 15e	N/A	Litigation/regulatory	○
EPS 14-16e	9.0%	Avg ROCE 12-16e	156%	Interest cover 15e	40.9	Pensions	○
EBITDA 12-16e	4.4%	ROE 15e	88%	CA/CL 15e	-0.8	Currency	◖
EBITDA 14-16e	3.4%	Gross margin 15e	58.0%	Stock days 15e	109.0	Stock overhang	○
Sales 12-16e	-1.8%	Operating margin 15e	10.6%	Debtor days 15e	16.5	Interest rates	○
Sales 14-16e	-0.2%	Gr mgn / Op mgn 15e	5.5x	Creditor days 15e	165.9	Oil/commodity prices	◖

Management team

Chairman: Henry Staunton

Henry Staunton joined the board in September 2010. He has extensive finance, media and retail expertise. He is currently a non-executive director of Capital and Counties Properties. Previously he was finance director of Granada and ITV.

Chief Executive: Stephen Clarke

Stephen Clarke was appointed chief executive on 1 July 2013. He joined WHSmith in August 2004 as marketing director for High Street retail. In 2006 he was appointed commercial and marketing director and in 2008 became managing director for High Street retail. Stephen joined WHSmith from Argos where he had been head of product marketing since 2001. His career began at Dixons where he carried out a number of store, product and marketing roles.

CFO and COO: Robert Moorhead

Robert Moorhead was appointed group finance director and joined the board on 1 December 2008. He joined WH Smith in 2004 as finance director – retail. Previously, he was appointed group finance director at Specsavers Optical in 2002, and finance and IT director of World Duty Free Europe in 2001. He held a number of roles at B&Q and Kingfisher which he joined in 1991. He started his career at Price Waterhouse.

Principal shareholders	(%)
Aberdeen Asset Management	5.9%
Royal London Asset Management	5.1%
M&G Investment Management	3.4%
Troy Asset Management	3.3%
Norges Bank Investment Management	3.1%
Franklin Templeton	3.1%
JPMorgan Asset Management	3.1%

Companies named in this report

Dufry (DUFN), World Duty Free (WDF), Lagardere (MMB), Sports Direct International (SPD), Home Retail Group (HOME), Dixons Carphone (DC/), Poundland (PLND), Dunelm (DNLM), Kingfisher (KGF), JD Sports Fasion (JD/), N Brown Group (BWNG), Card Factory (CARD), Next (NXT), Pets at Home (PETS), Inchcape (INCH), Halfords (HFD), Debenhams (DEB), Marks & Spencer Group (MKS), Just Eat (JE/), AO World (AO/), Dignity (DTY), Associated British Foods (ABF)

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