



Global Credit Services
A passion for insight.

**Webinar Presentation:
Toys R Us, Inc.**

April 21, 2016

**Iwan Juwana, CFA
Senior Industry Analyst**

TODAY'S AGENDA

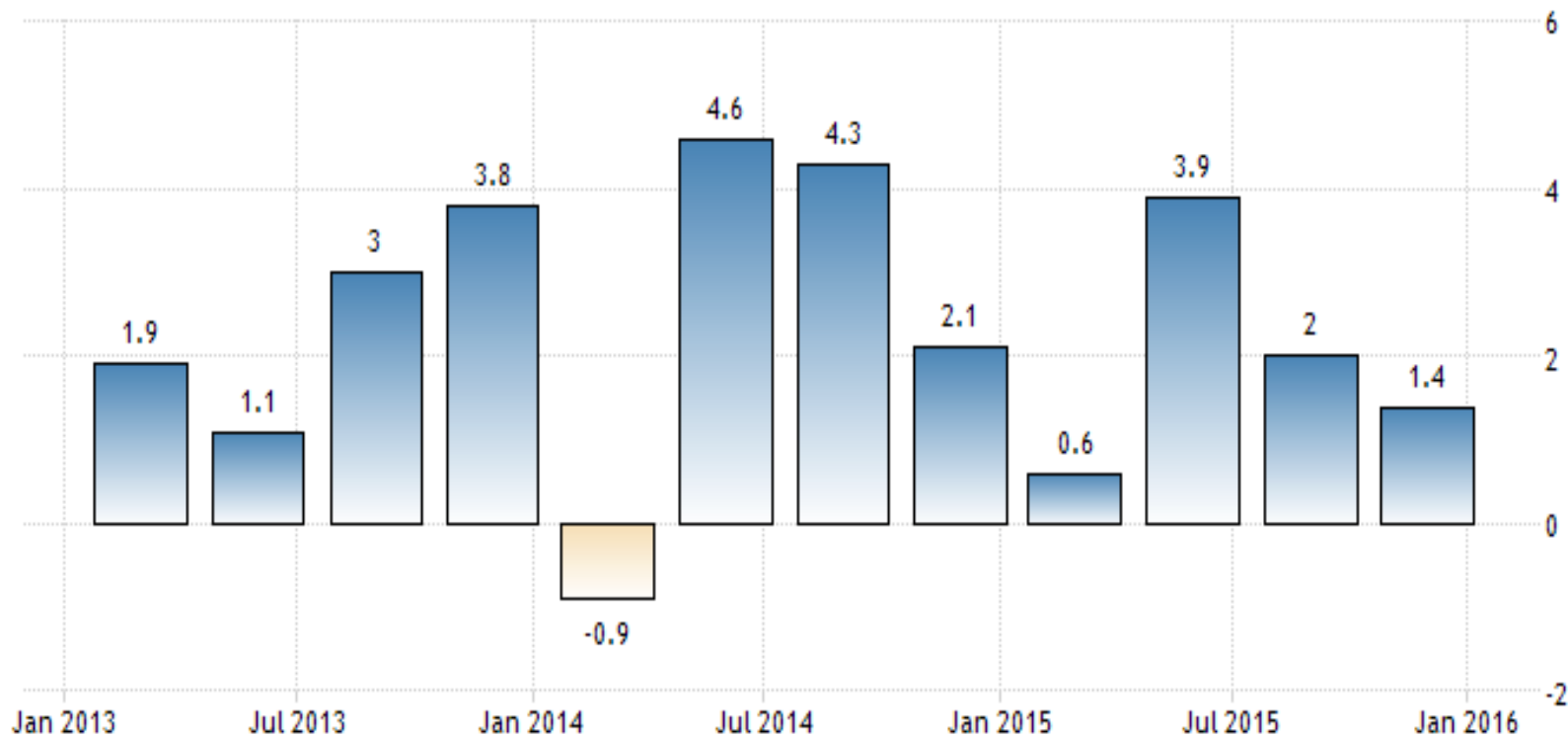
- **Key Economic Factors**
- **Key Industry Issues**
- **Toys R Us**
 - **Company background**
 - **Financial History**
 - **Operating History**
 - **GCS Rating & Outlook**
- **Questions & Answers**
- **Administrative Items**

Key Economic Factors

ECONOMIC OVERVIEW

U.S. GDP

US GDP GROWTH RATE

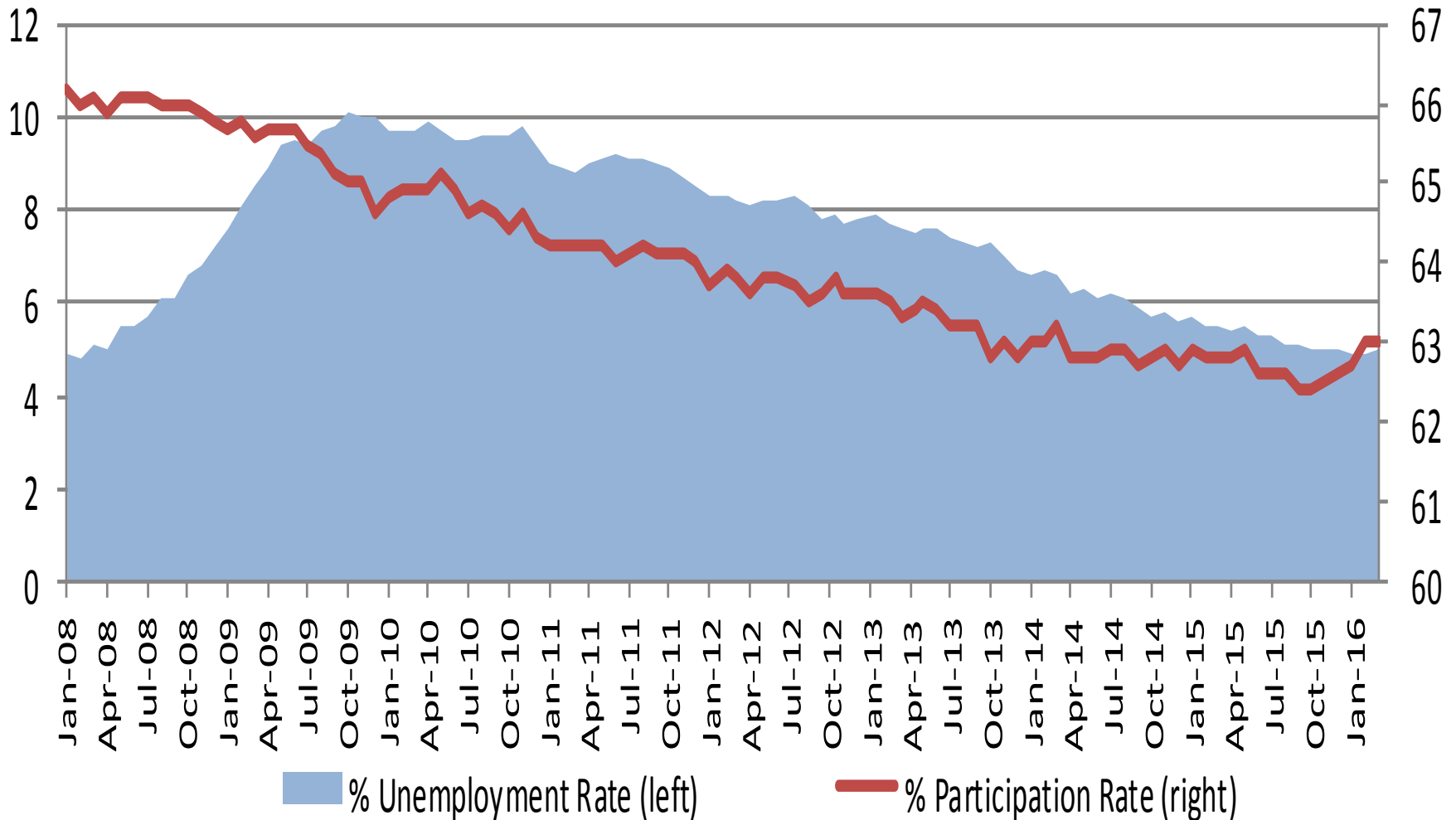


SOURCE: WWW.TRADINGECONOMICS.COM | U.S. BUREAU OF ECONOMIC ANALYSIS

Real GDP growth was up 1.4% in Q4 '15 after rising 2.0% in Q3 '15

ECONOMIC OVERVIEW

U.S. Unemployment Rate

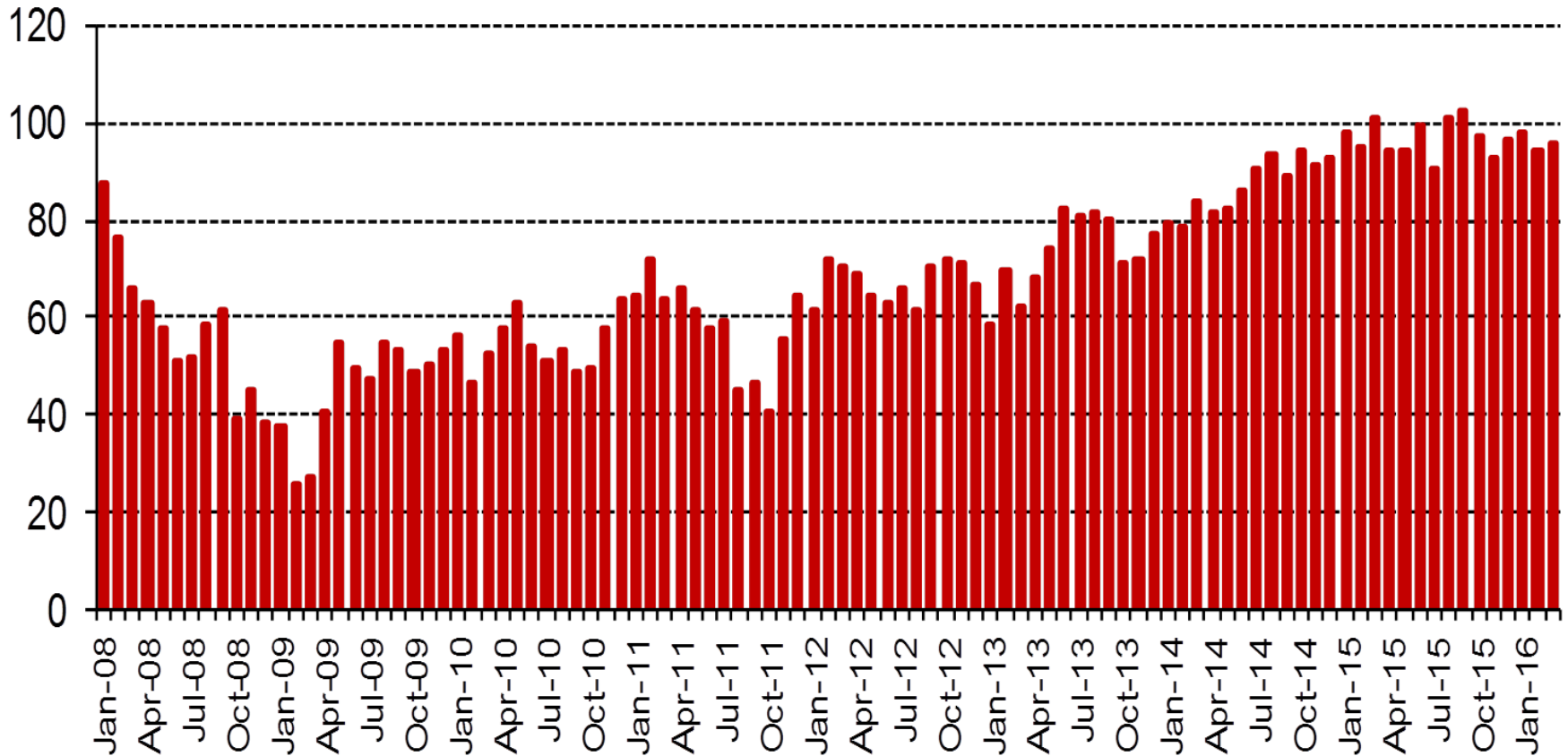


Mar '16 unemployment rate: 5.0%

Mar '16 participation rate: 63.0%

ECONOMIC OVERVIEW

Consumer Confidence

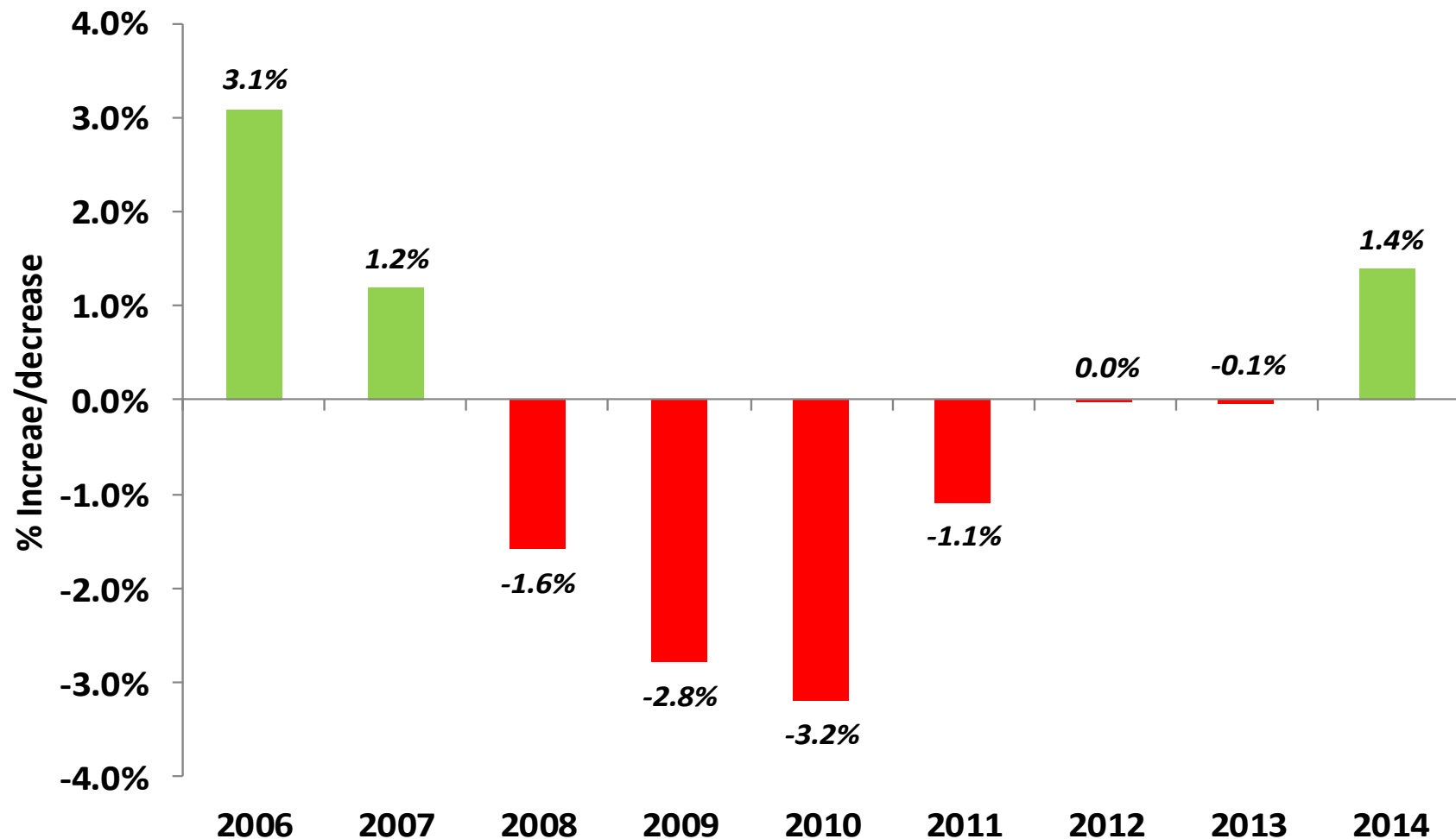


Mar '16 Consumer Confidence: 96.2

Key Industry Issues

INDUSTRY ISSUES

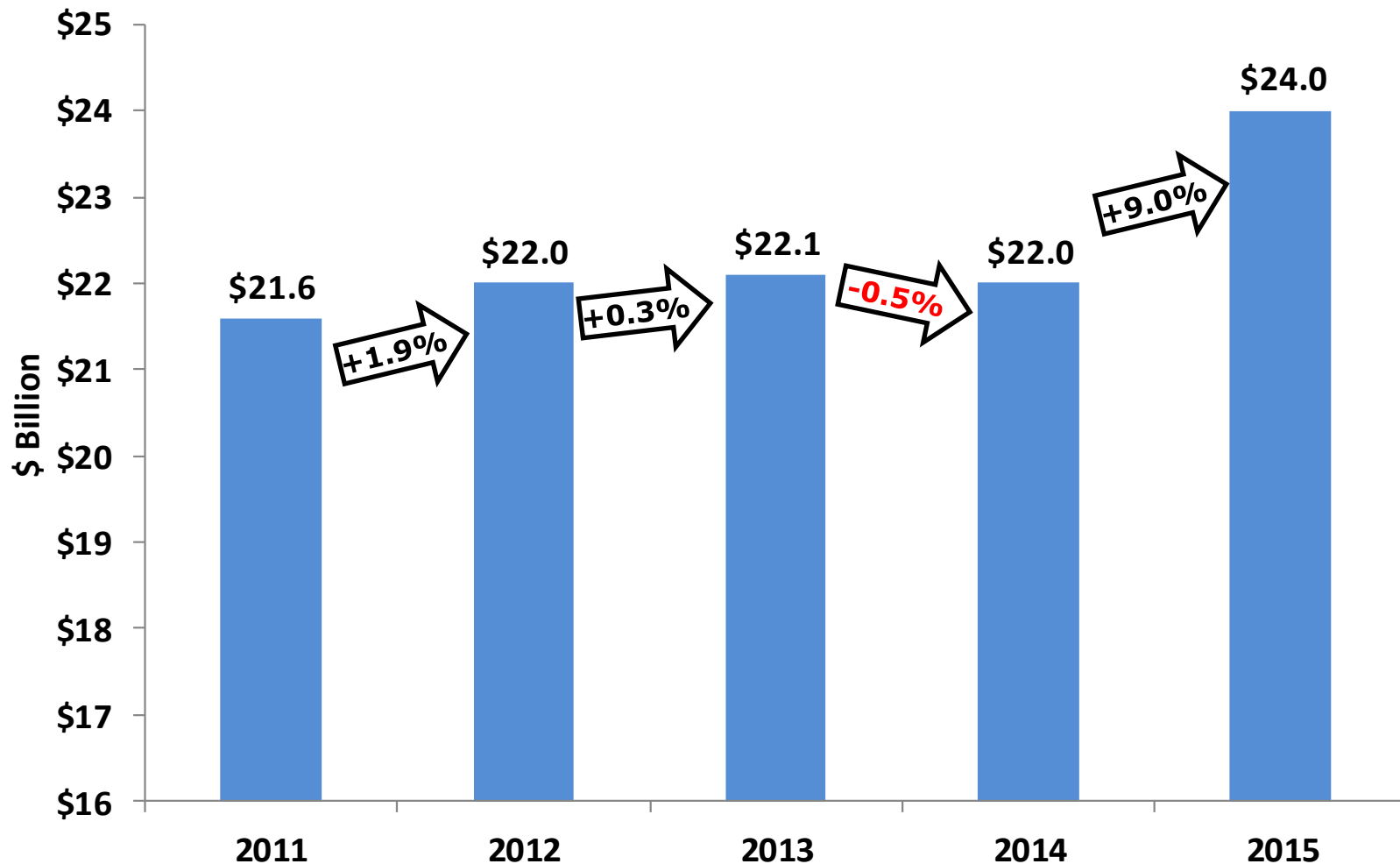
Declining U.S. Birth Rate



Source: CDC/NCHS, National Vital Statistics System

INDUSTRY ISSUES

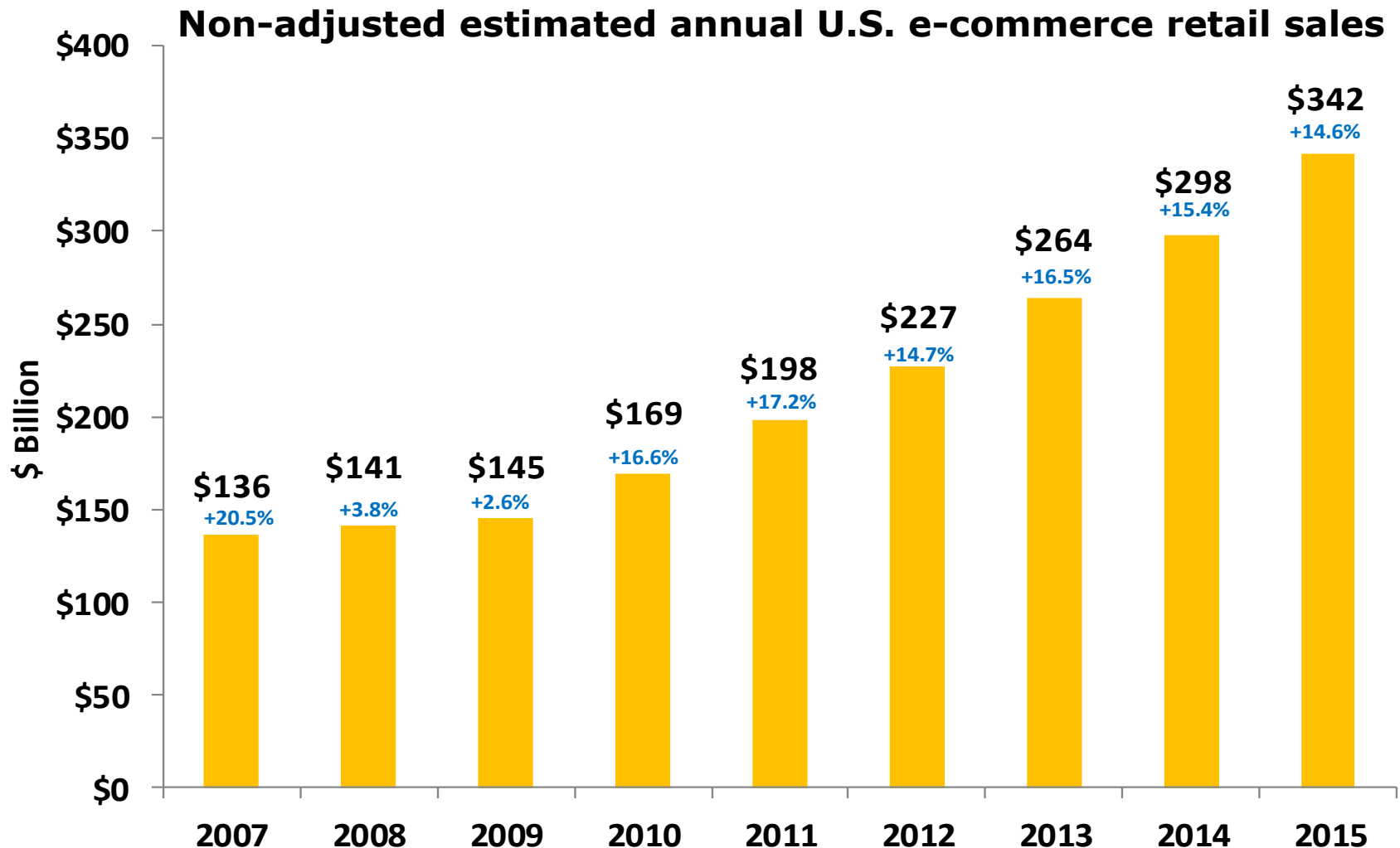
Relatively Flat U.S. Toy Industry Size



Source: The NPD Group

INDUSTRY ISSUES

Rapid Growth Of Online Shopping



Source: U.S. Census Bureau

COMPANY OVERVIEW



Company Profile

- **History:** Founded by Charles Lazarus in 1948 as Children's Bargain Town. Toys R Us name debuted in 1957. IPO was completed in 1978. Babies R Us established in 1996. Acquired by private equity sponsors (Bain Capital, KKR and Vornado Realty Trust) in 2005.
- **Headquarters:** Wayne, New Jersey (approx. 62,000 employees)
- **Store Count (as of January 30, 2016):** 1,622 retail stores and licensed an additional 252 retail stores worldwide.
- **Average store size:** range from 20,000 to 50,000 square feet.
- **Competitors:** discount retailers, department stores, mass merchandisers and internet retailers.

Company Profile (cont'd)

- **Business Strategies:**

- Offering value through omni-channel strategy
- Juvenile integration strategy through side-by-side stores
- Refine in-store customer experience and customer service
- Renovate, update and relocate existing stores
- Enhance product offerings, add private label and exclusive products

- **Store count has been growing steadily**

- Store count grew by 2.0% CAGR from 1,499 stores in 2004 to a total of 1,874 stores in FY2015 including 866 domestic stores, 756 international stores and 252 licensed international stores

- **Distribution Centers**

- As of January 31, 2016, Toys R Us operated 18 distribution centers including 8 that support Domestic operations and 10 that support International operations.

Company Profile (cont'd)

• Merchandise Mix as % of Sales

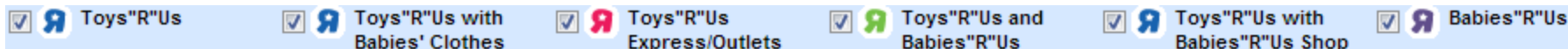
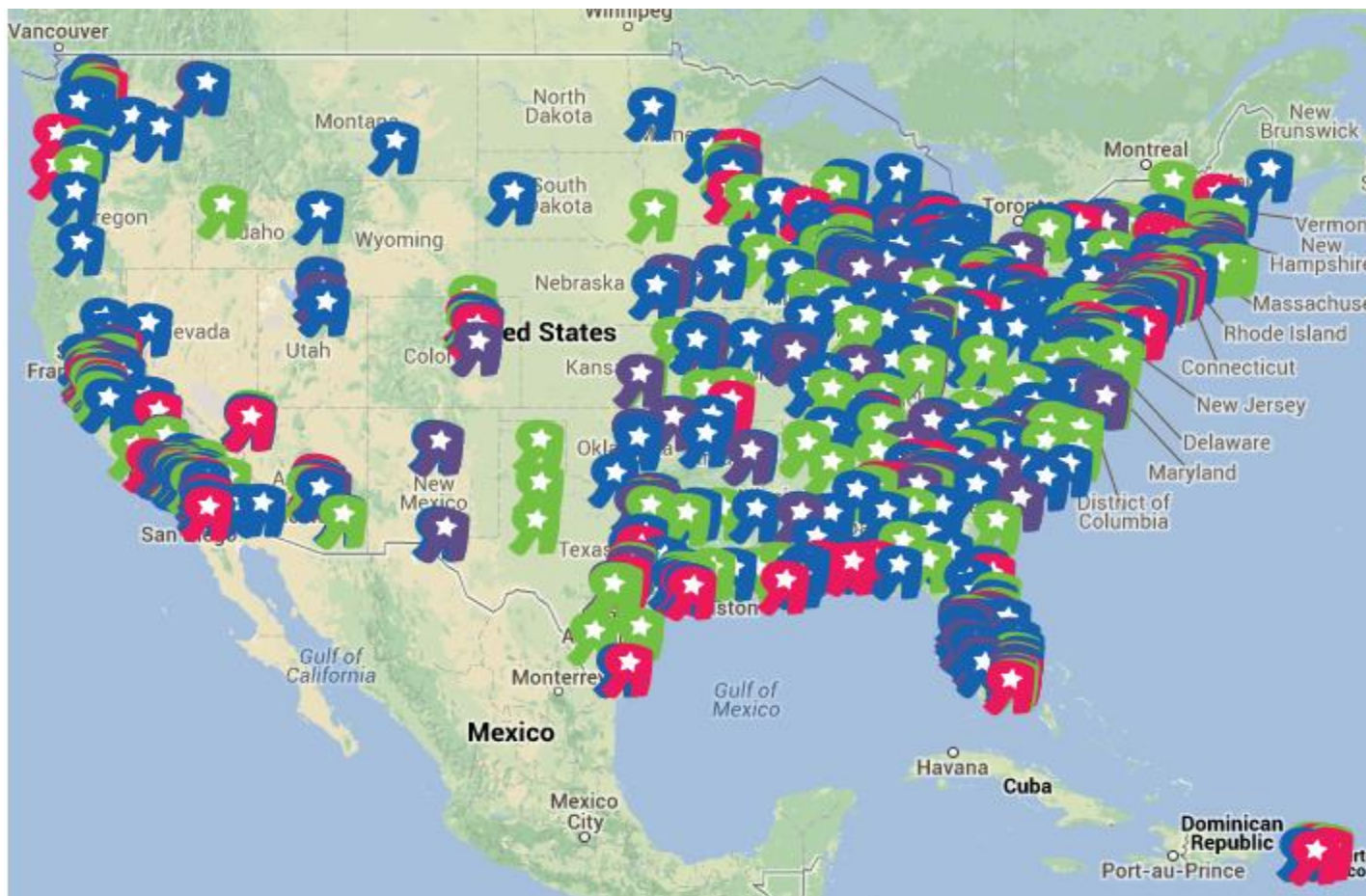
Domestic

	<u>2015</u>	<u>2014</u>
• Baby	36.9%	37.9%
• Core Toy	18.4%	17.2%
• Entertainment	9.0%	10.2%
• Learning	23.5%	22.6%
• Seasonal	11.4%	11.2%
• Other	<u>0.8%</u>	<u>0.9%</u>
• Total	100.0%	100.0%

International

	<u>2015</u>	<u>2014</u>
• Baby	20.5%	20.2%
• Core Toy	23.2%	23.5%
• Entertainment	7.1%	8.5%
• Learning	32.8%	31.1%
• Seasonal	15.7%	15.9%
• Other	<u>0.7%</u>	<u>0.8%</u>
• Total	100.0%	100.0%

Company Profile – Domestic Stores



Company Profile - Segments

- **Toys R Us has two reportable operating segments: Domestic and International**
 - Integrated/side-by-side store business model resulted in two prior domestic segments (Toys & Baby) being consolidated into one Domestic Segment during the third quarter ended fall 2008
- **Domestic segment (~62% net sales)**
 - Largest specialty retailer of toys in the U.S.
 - 866 stores including 361 TRU stores , 224 BRU stores, 213 SBS stores, and 68 permanent Express stores & websites
- **International segment (~38% net sales)**
 - 756 stores and 252 licensed stores including 534 TRU stores, 15 BRU stores, 202 SBS stores, and 6 permanent Express stores & websites
- **Store sizes**
 - Traditional stores: 20,000 – 50,000 square feet
 - SBS stores: 30,000 – 70,000 square feet
 - Juvenile stores: 30,000 – 45,000 square feet
 - Express stores: 2,000 – 7,000 square feet

SWOT Analysis

- **Strengths**

- Integrated store formats and huge distribution network
- International market
- “Pop-up” stores to tap customer spending during holiday season

- **Weaknesses**

- Dependence on key vendors
- High debt level
- Seasonal business

- **Opportunities**

- Exclusive and private label products
- Deliver better in-stock experience

- **Threats**

- Intense competition
- Rising labor costs

Company Profile – Key Executives

- **CEO – David Brandon is the current Chairman of the Board of Directors and CEO of the company since July 2015**
- **CFO – Michael Short has held the position since June 2014 as he replaced Clay Creasey, the former CFO of Toys R Us**
- **CMO – Richard Barry has been the Global Chief Merchandising Officer since 2006 with responsibility in sales, operations and merchandising role of increasing seniority**

Financial History

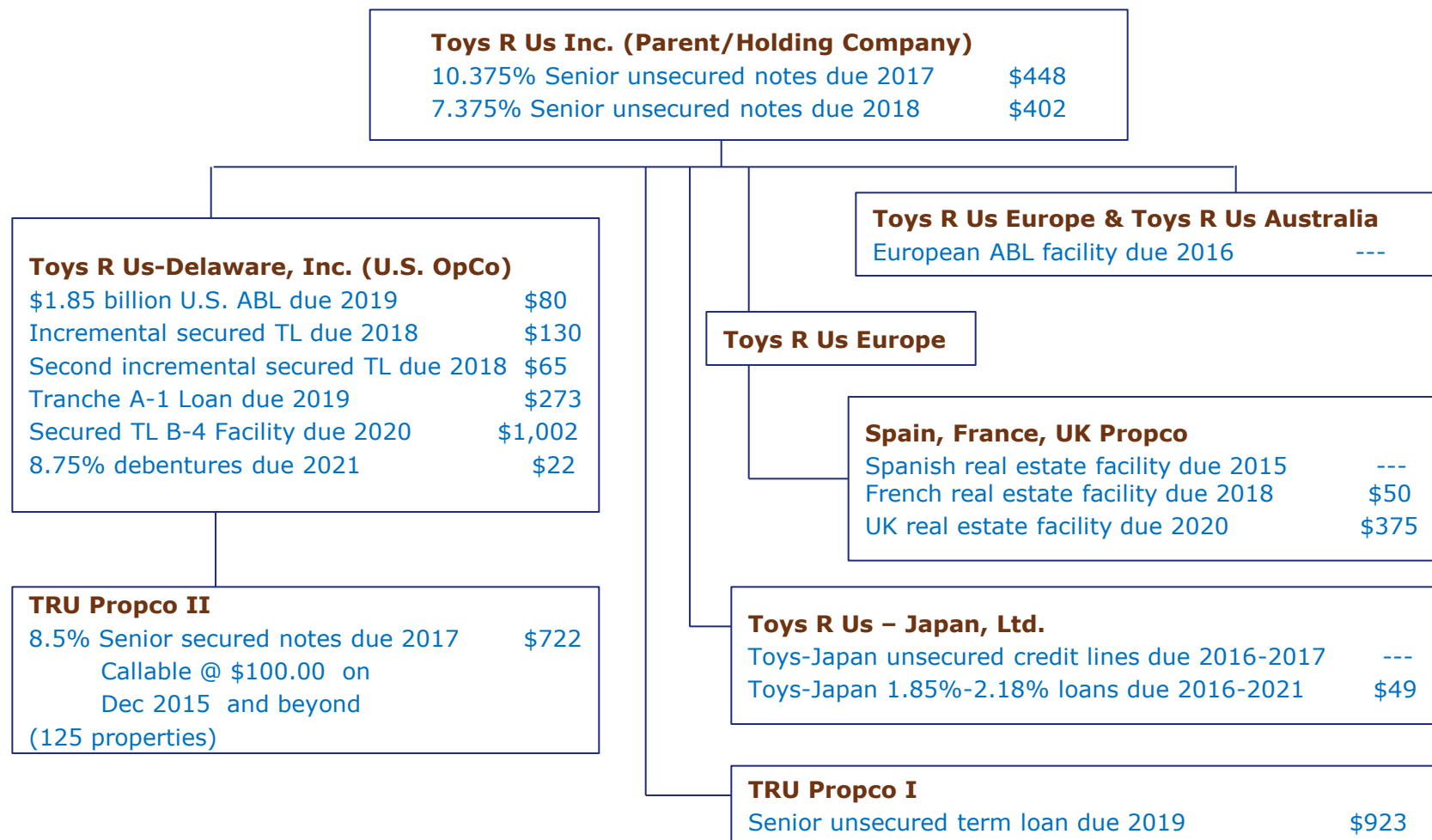
Income Statement – Q4 2015 & FY 2015

	<u>3 Months Ended</u>			<u>12 Months Ended</u>		
	<u>1/30/16</u>	<u>1/31/15</u>	<u>YOY Var.</u>	<u>1/30/16</u>	<u>1/31/15</u>	<u>YOY Var.</u>
<i>Domestic Sales</i>	<i>\$3,054</i>	<i>\$3,085</i>	<i>(1.0%)</i>	<i>\$7,356</i>	<i>\$7,524</i>	<i>(2.2%)</i>
<i>International Sales</i>	<i>\$1,799</i>	<i>\$1,898</i>	<i>(5.2%)</i>	<i>\$4,446</i>	<i>\$4,837</i>	<i>(8.1%)</i>
Net Sales	\$4,853	\$4,983	(2.6%)	\$11,802	\$12,361	(4.5%)
Comps Domestic	1.2%	(4.5%)		(0.6%)	(1.0%)	
Comps International	3.9%	2.2%		3.2%	1.8%	
Consolidated Comps	2.3%	(1.9%)		0.9%	0.0%	
Store Count	1,874	1,814	3.3%			
Gross Margin	34.1%	33.9%	27 bps	35.8%	35.8%	(3 bps)
Adj. EBITDA	\$574	\$529	8.5%	\$800	\$642	24.6%
Adj. EBITDA Margin	11.8%	10.6%	121 bps	6.8%	5.2%	158 bps
Adj. Operating Income	\$447	\$417	7.2%	\$378	\$191	97.9%
Adj. Operating Margin	9.2%	8.4%	84 bps	3.2%	1.5%	166 bps

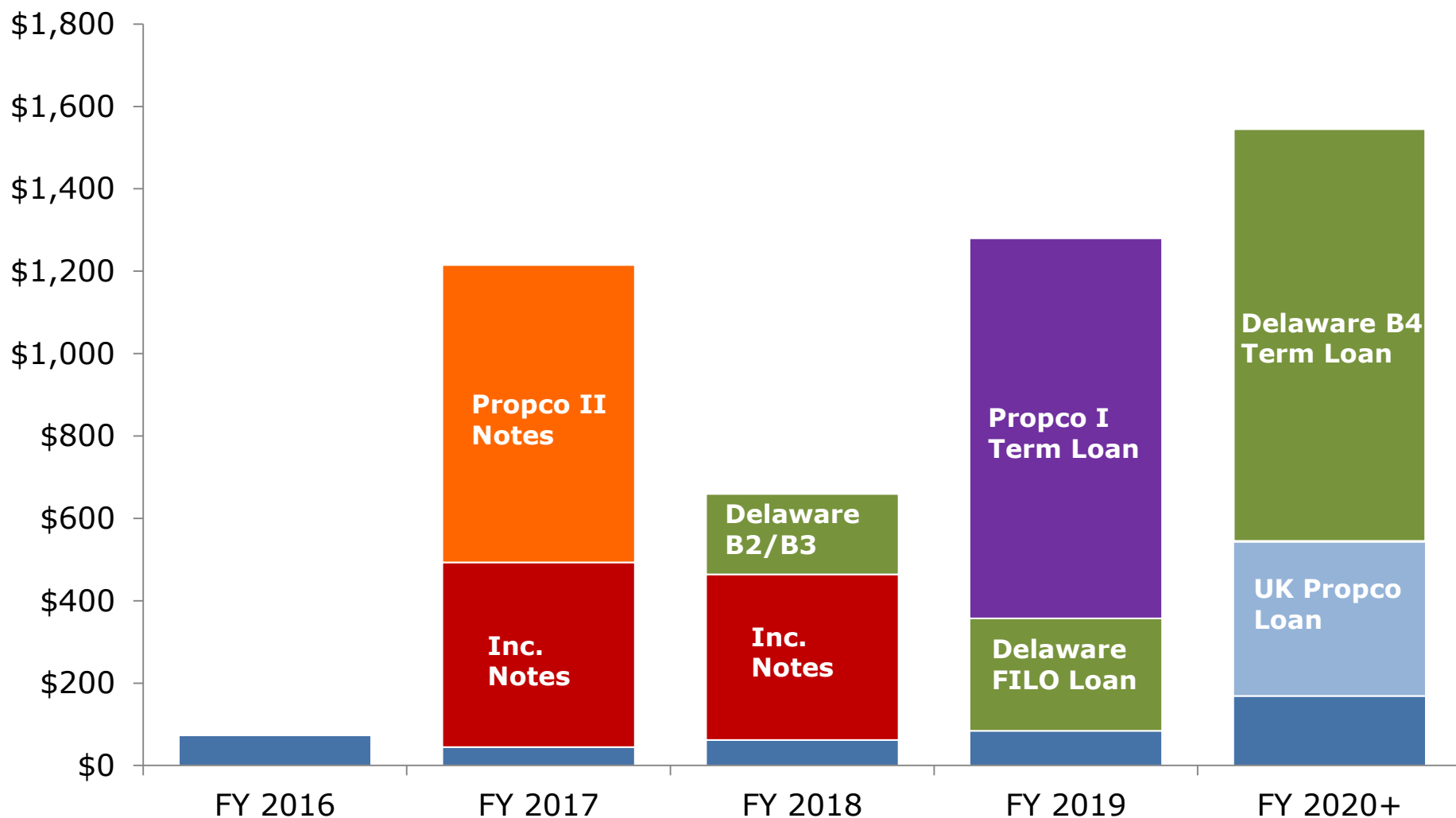
Balance Sheet – FY 2015

<i>\$ in millions</i>	<u>1/30/2016</u>	<u>1/31/2015</u>
Cash & Cash Equivalents	\$680	\$698
Accounts Receivable	\$225	\$225
Inventory	\$2,270	\$2,064
Prepaid Expenses & Other CA	<u>\$113</u>	<u>\$167</u>
Total Current Assets	\$3,288	\$3,154
Total Assets	\$6,968	\$7,115
Accounts Payable	\$1,699	\$1,571
Accrued Expenses & Other CL	\$1,226	\$1,052
ST Debt	<u>\$73</u>	<u>\$176</u>
Current Liabilities	\$2,798	\$2,799
LT Debt	\$4,670	\$4,612
Other Non-Current Liabilities	\$765	\$799
Total Equity	(\$1,265)	(\$1,095)
Total Liabilities and Equity	\$6,968	\$7,115

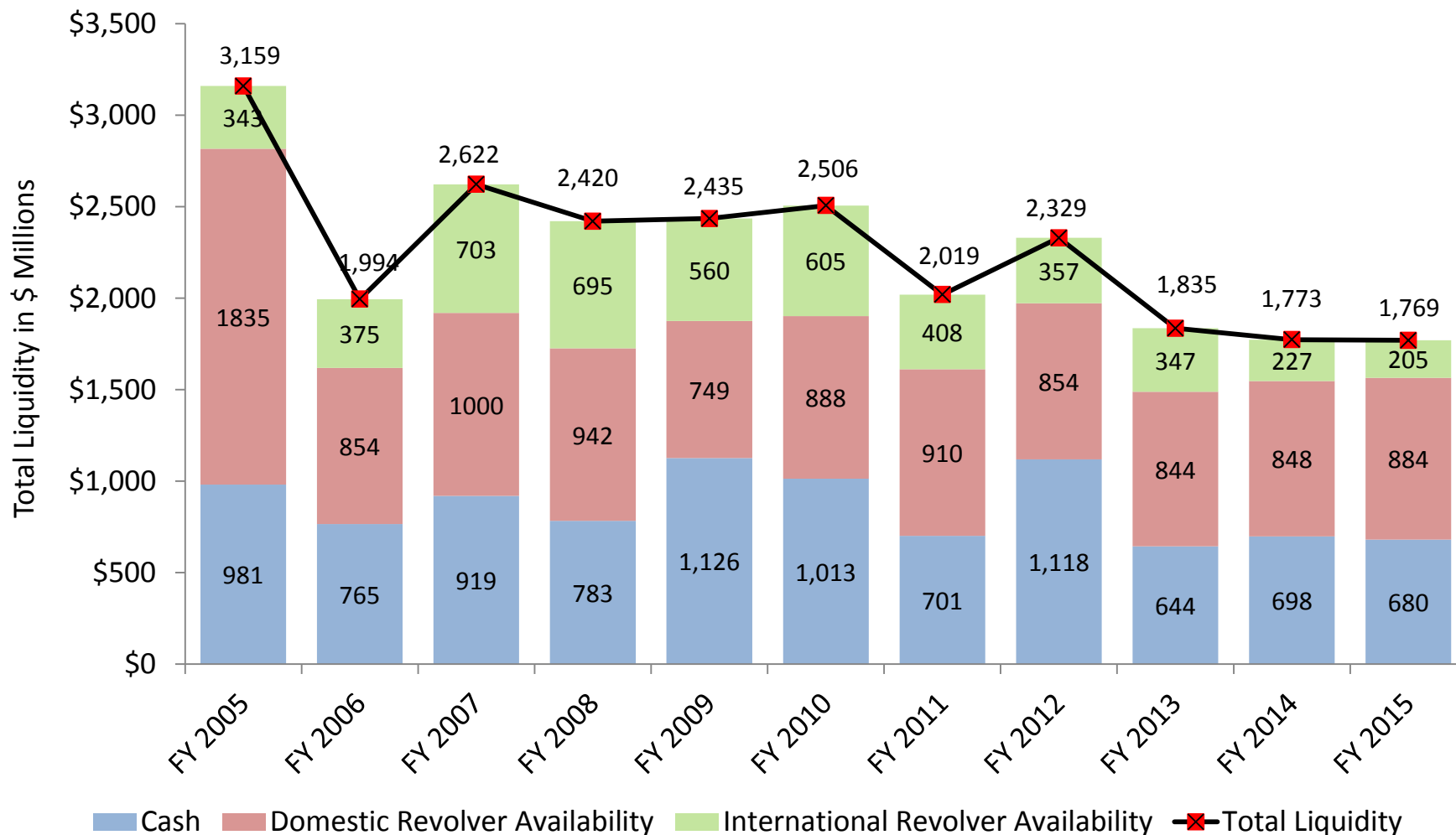
Balance Sheet – Debt Structure as of FY 2015



Balance Sheet – Debt Maturity



Total Liquidity

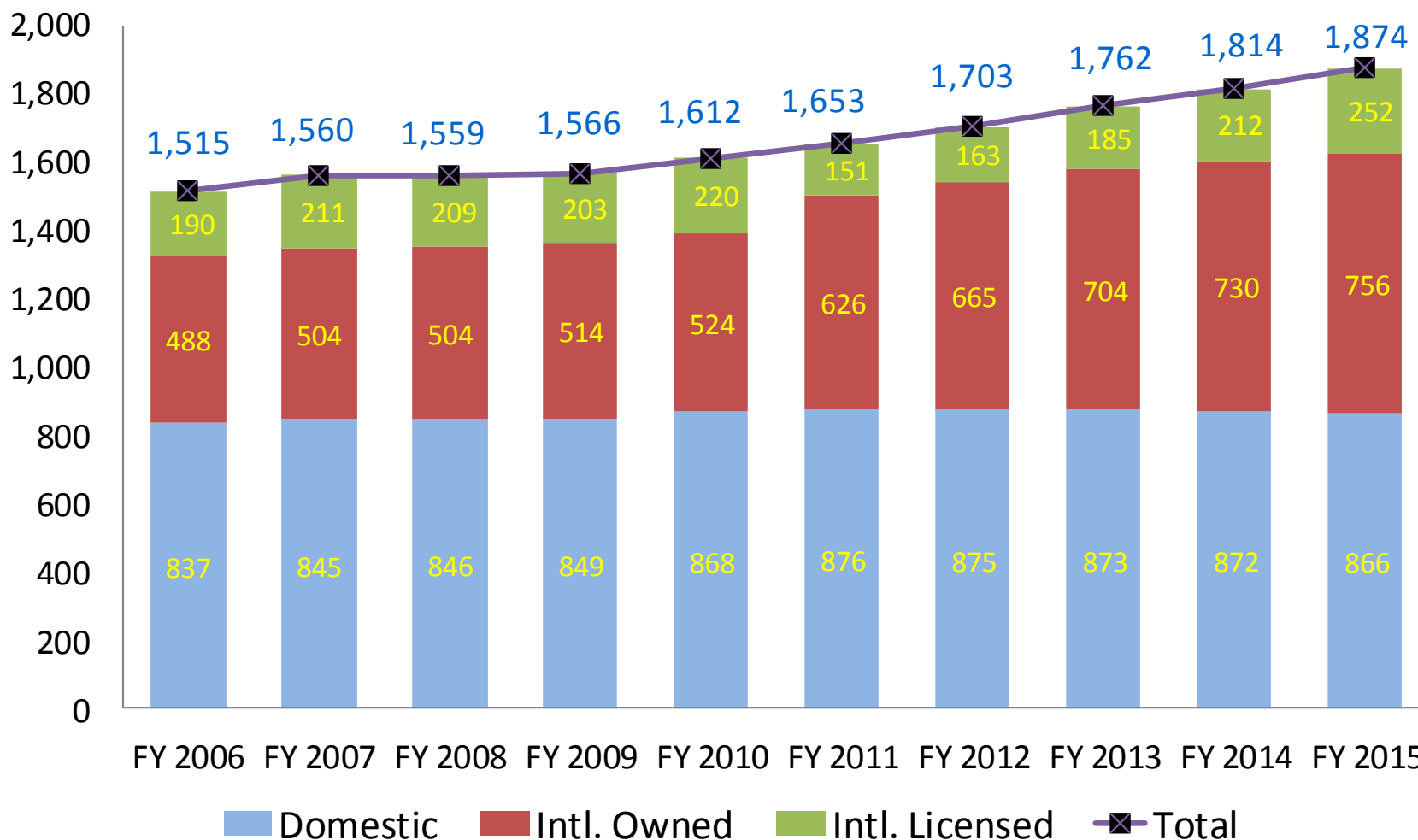


Financial Structure – FY 2015

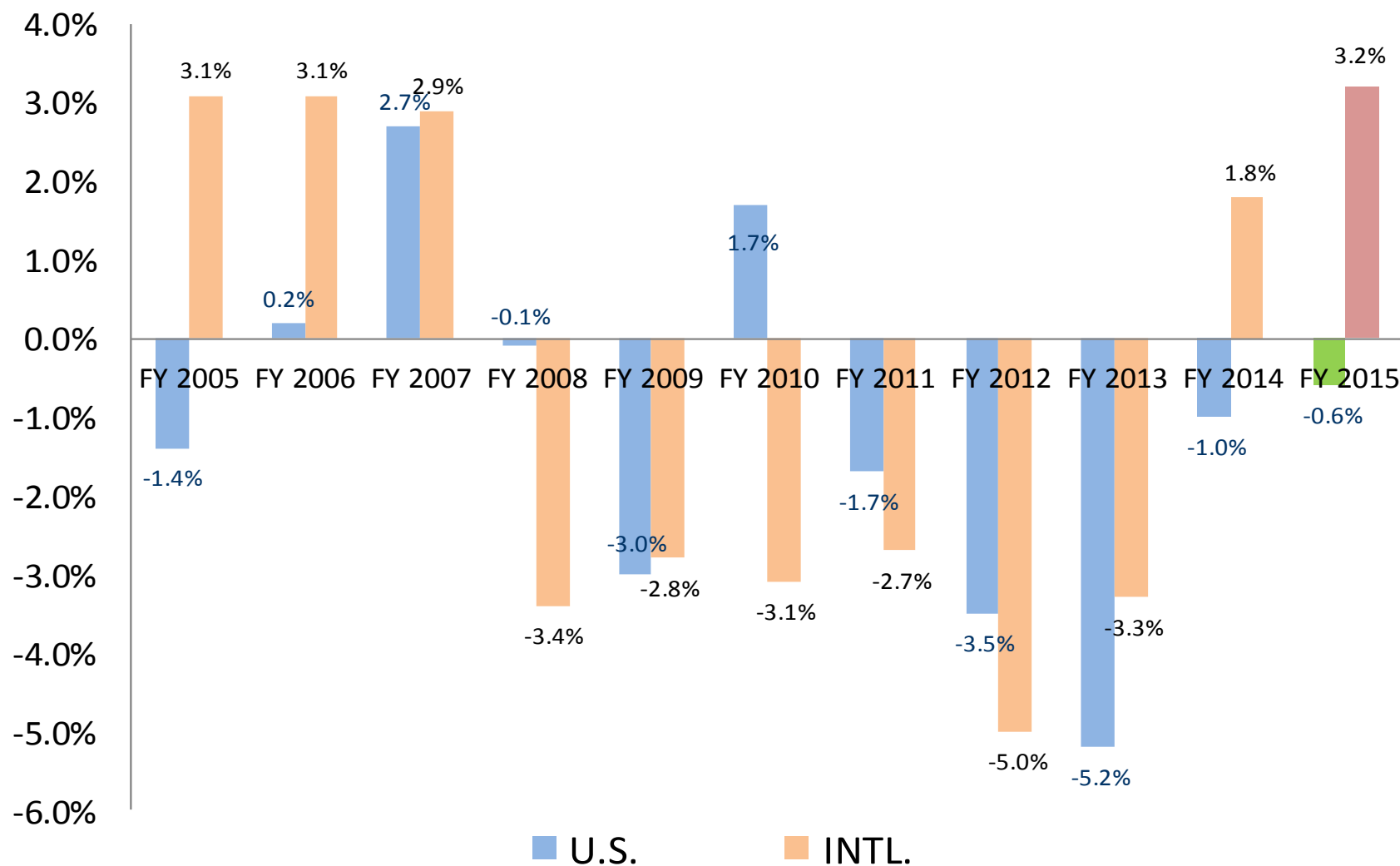
<i>\$ in millions</i>	<u>1/30/2016</u>	<u>1/31/2015</u>	<u>YOY Change</u>
Cash & Cash Equivalents	\$680	\$698	(2.6%)
Revolver Availability (approx.)	\$1,089	\$1,075	1.3%
Total Liquidity	\$1,769	\$1,773	(1.0%)
LTM Free Cash Flow	\$19	\$269	(92.9%)
LTM EBITDAR	\$1,363	\$1,261	8.1%
Total Debt	\$4,743	\$4,788	(0.9%)
EBITDAR/(Interest + Rent)	1.4x	1.2x	0.2x
Rent Adj. Debt/EBITDAR	6.8x	7.7x	(0.9x)
Total Debt/(Debt + Equity)	136.4%	129.7%	6.7%

Operating History

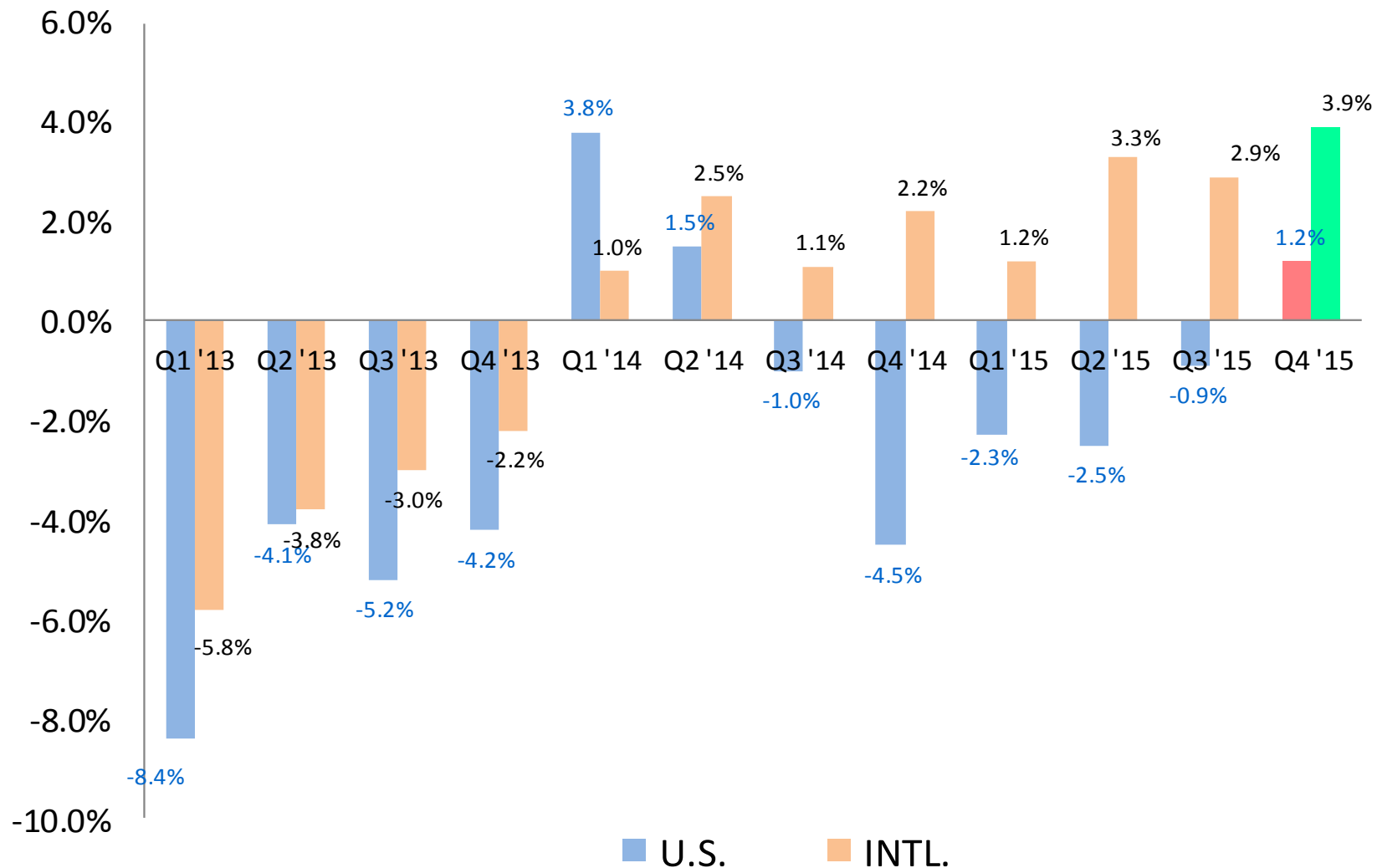
Store Count - Including Licensed & Franchised Stores



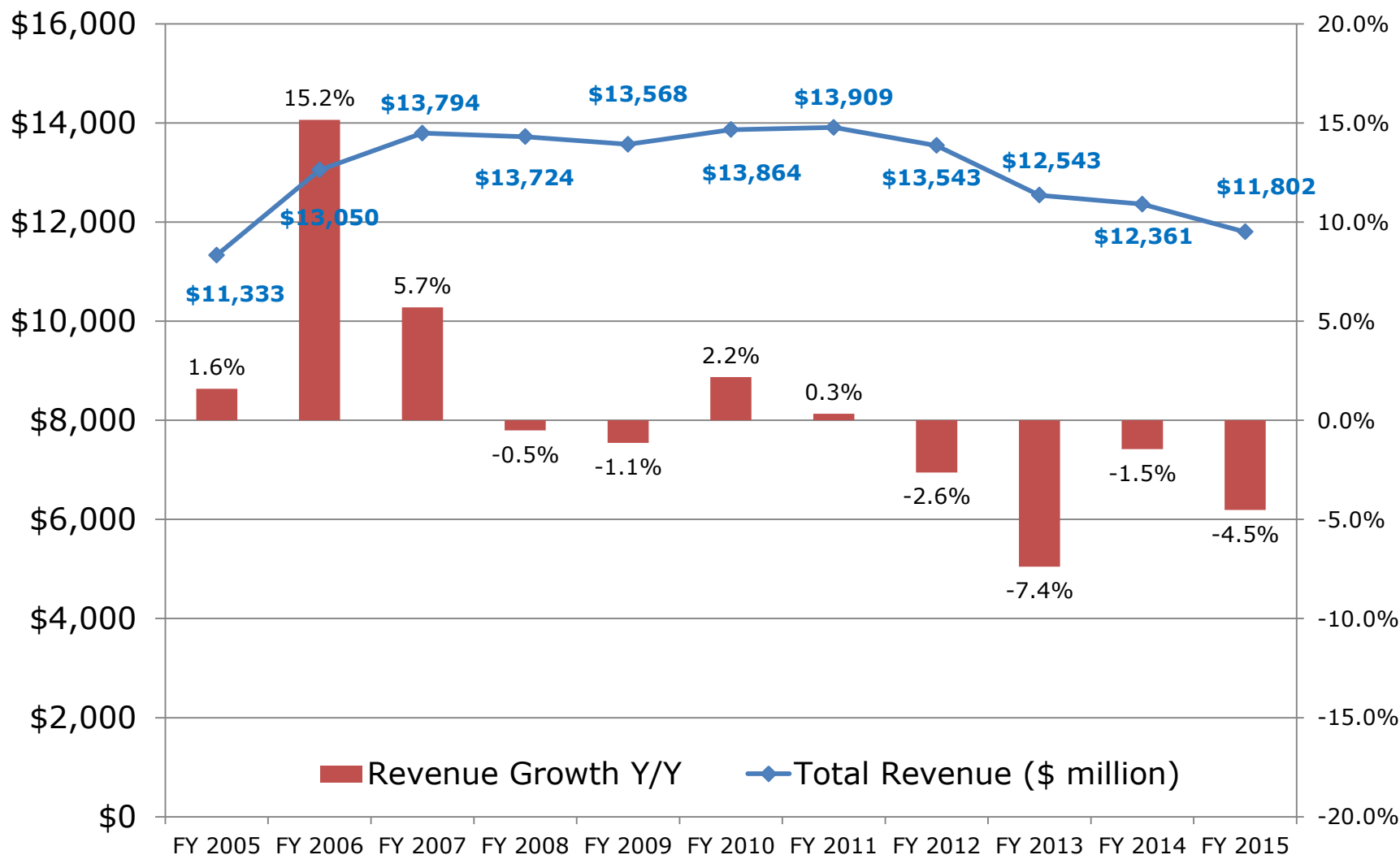
Same-Store Sales (Last 10 Years)



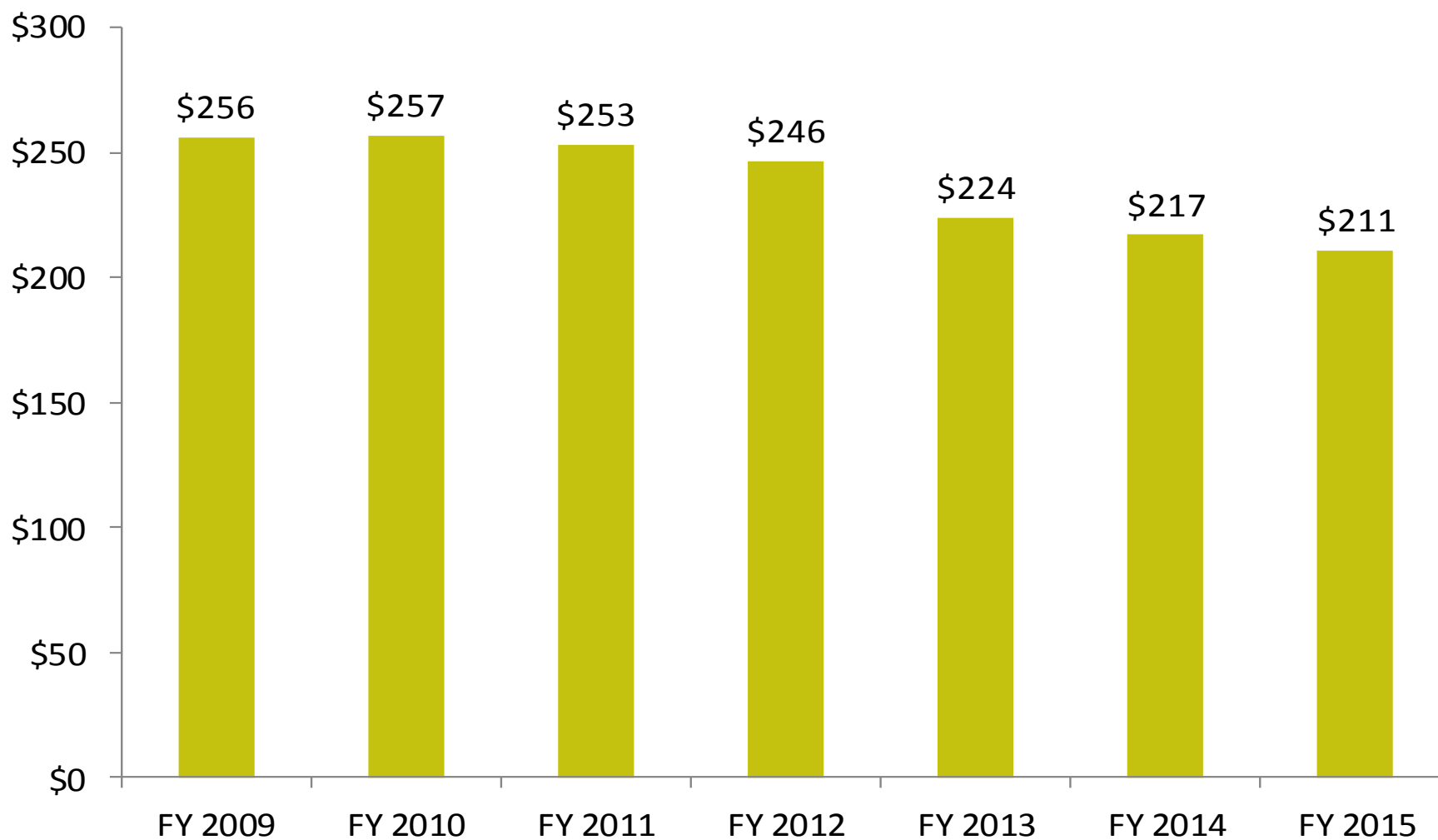
Same-Store Sales (Last 12 Quarters)



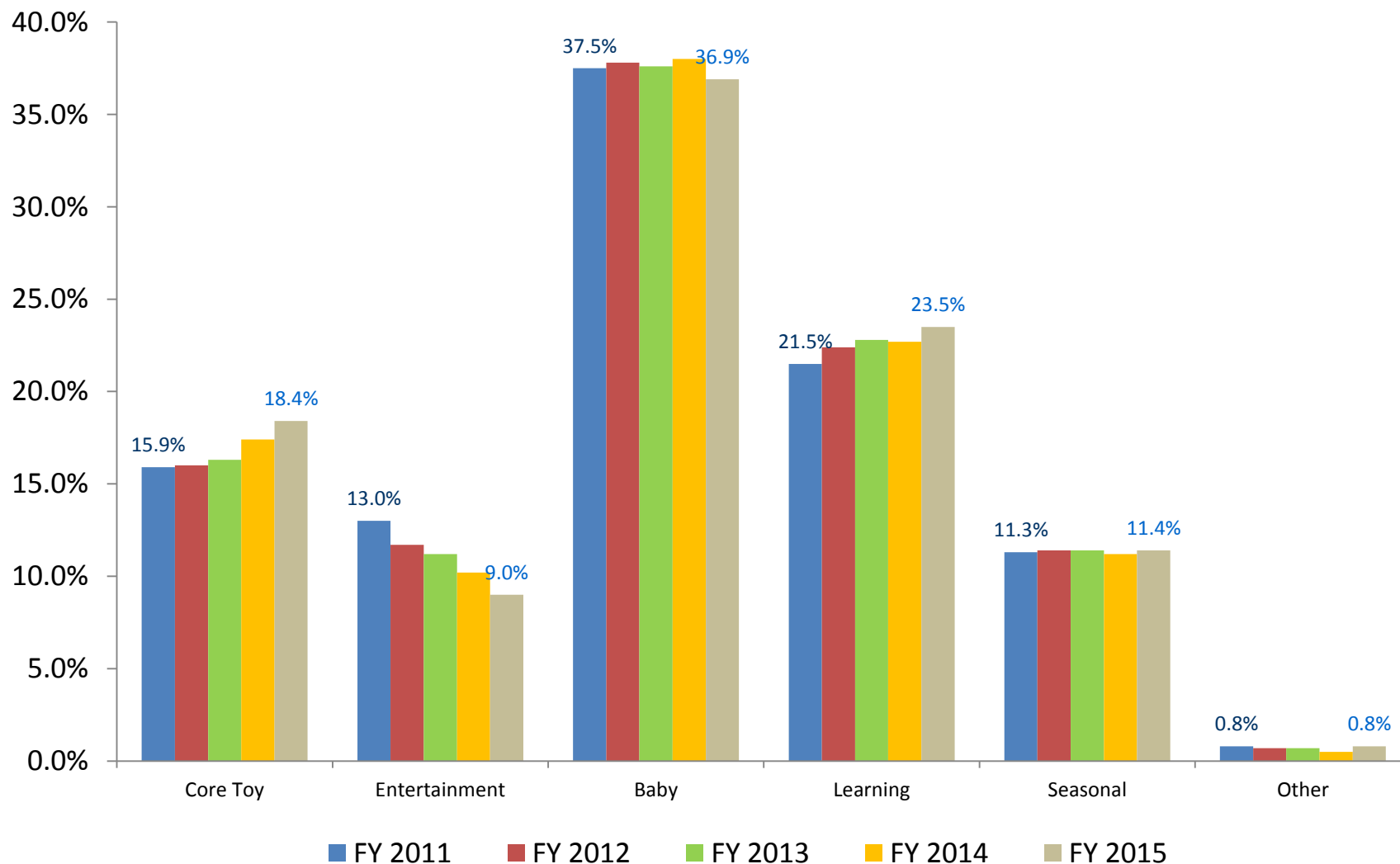
Total Revenue and Revenue Growth Y/Y



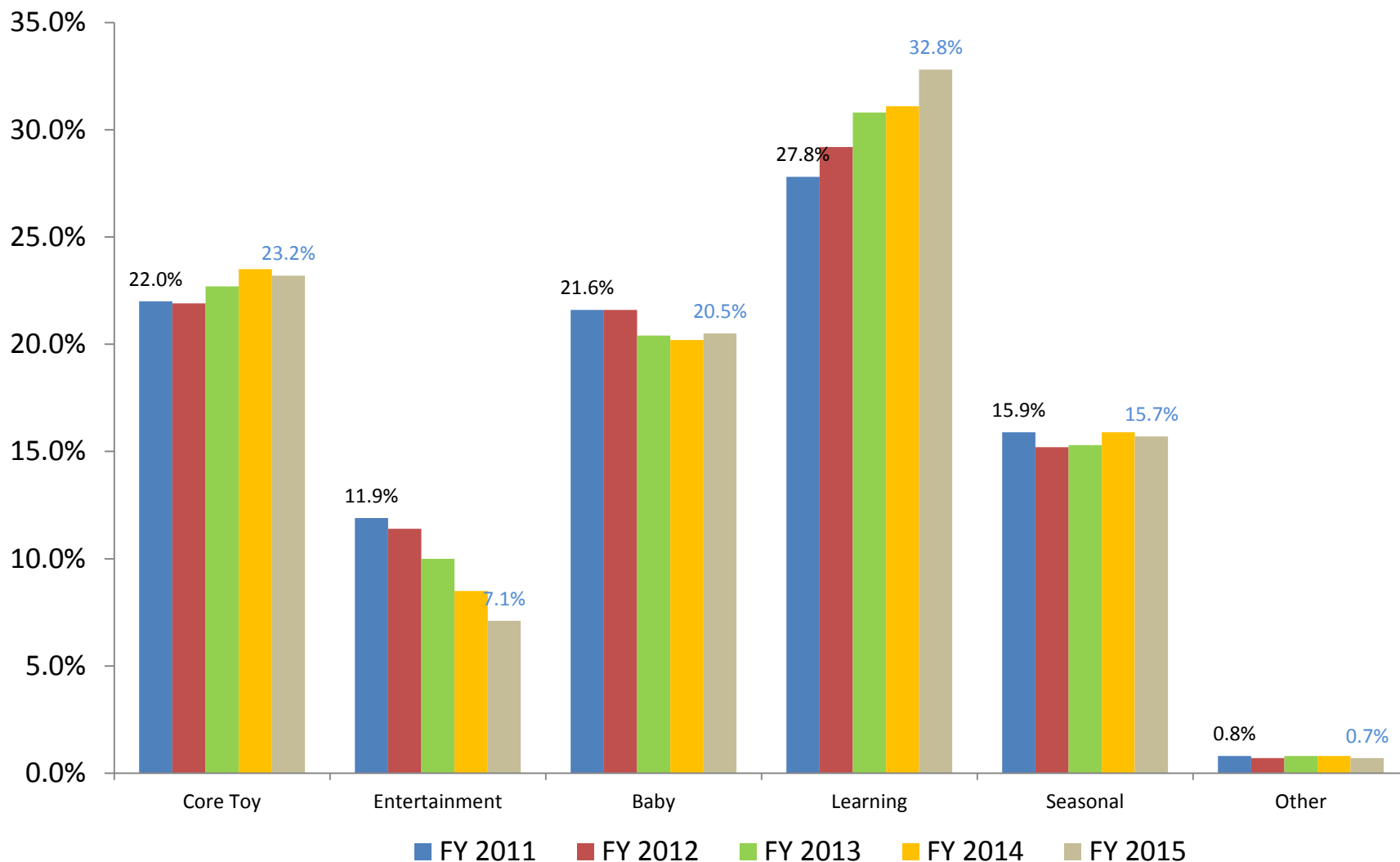
Net Sales Per Square Foot



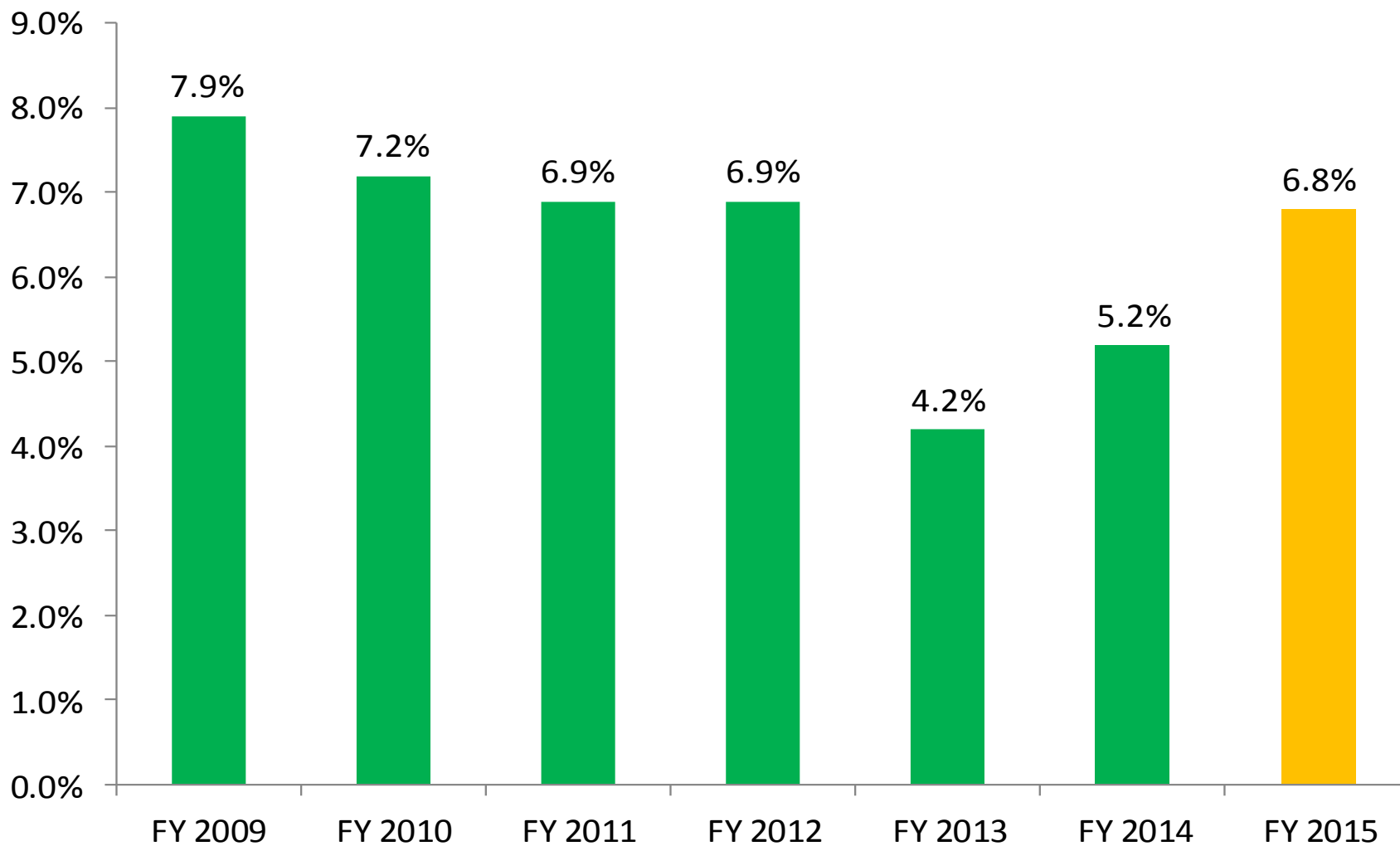
Merchandise Mix - Domestic



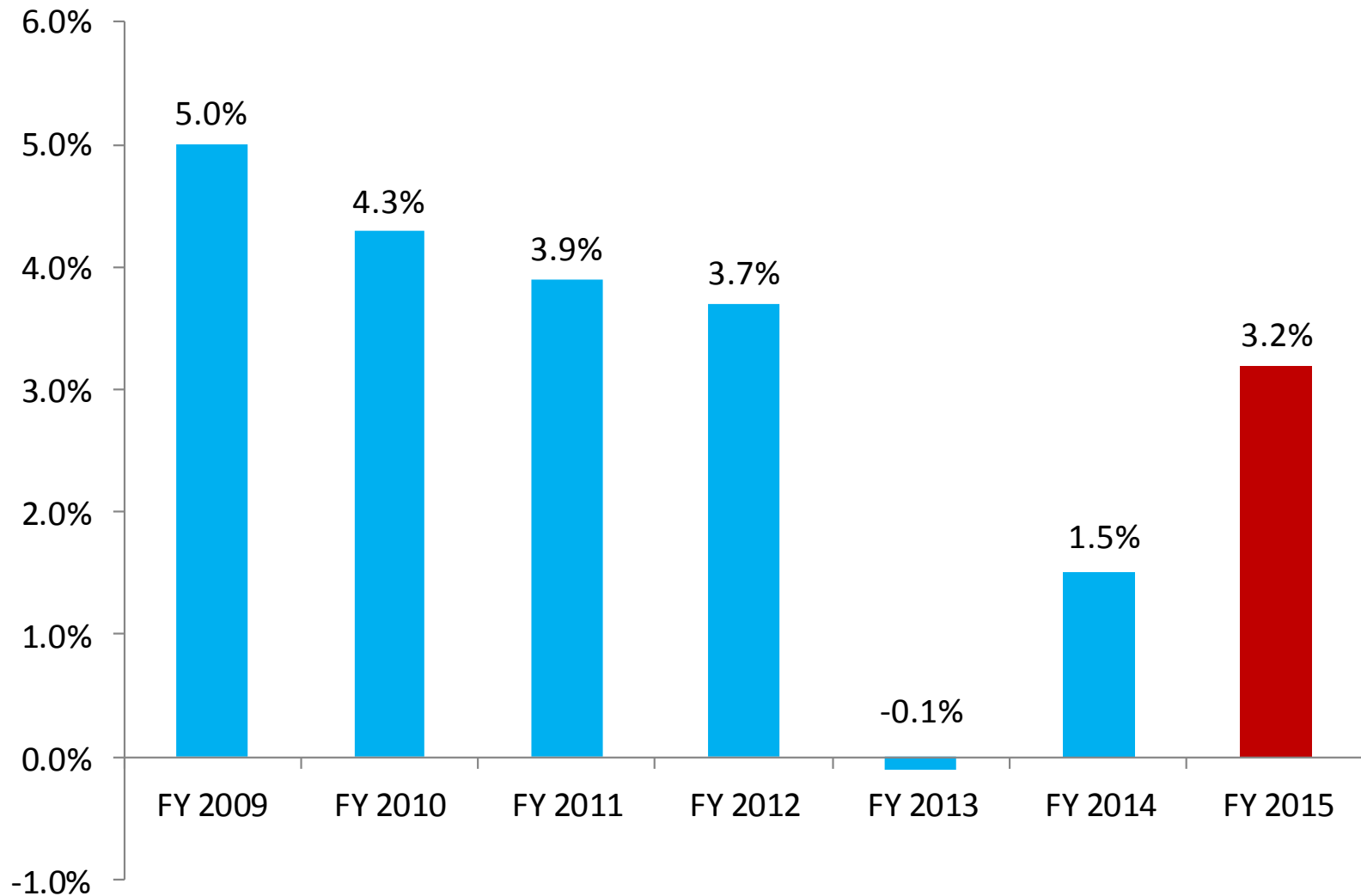
Merchandise Mix - International



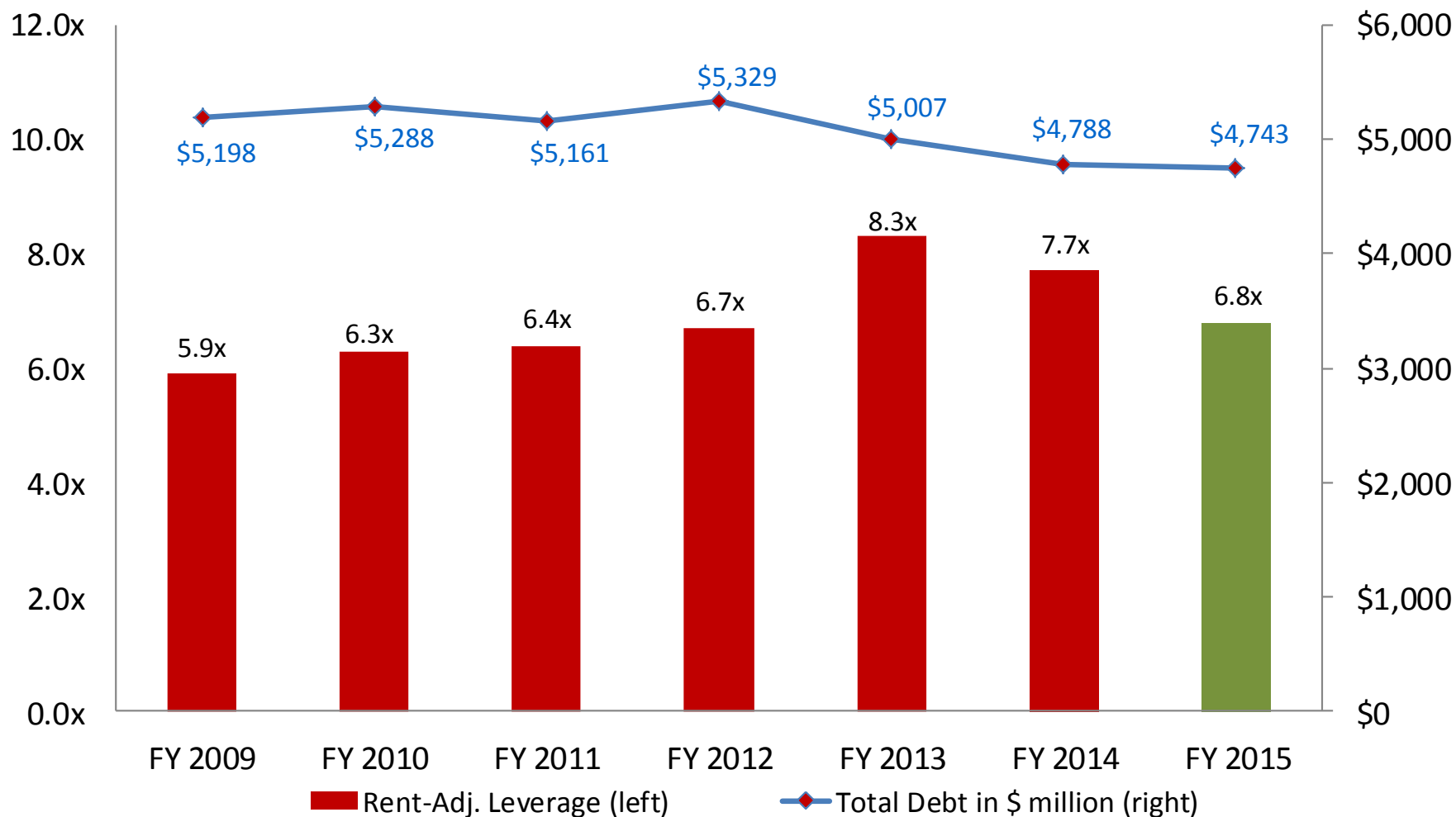
Adj. EBITDA Margin



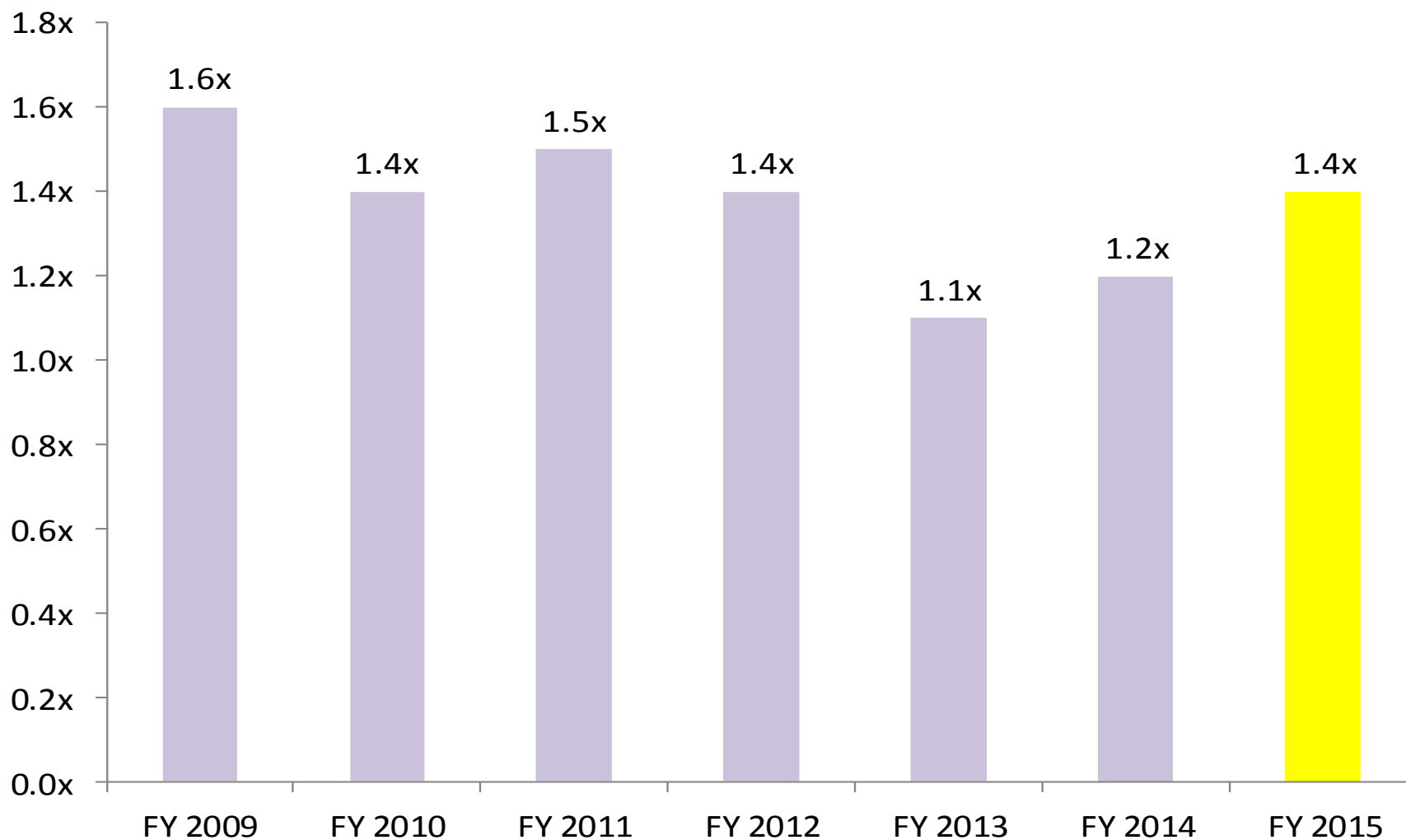
Operating Margin



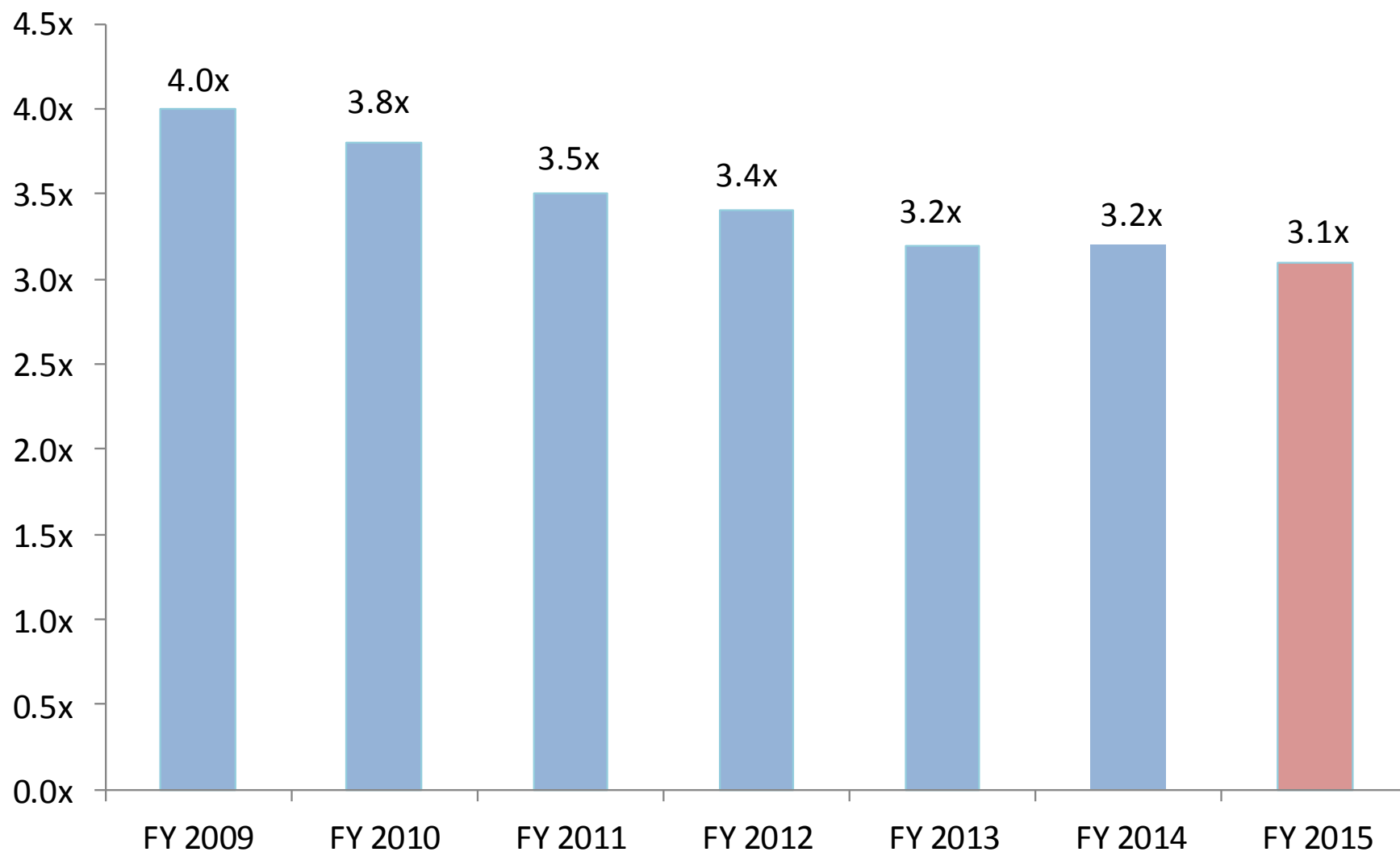
Rent-Adj. Leverage And Total Debt



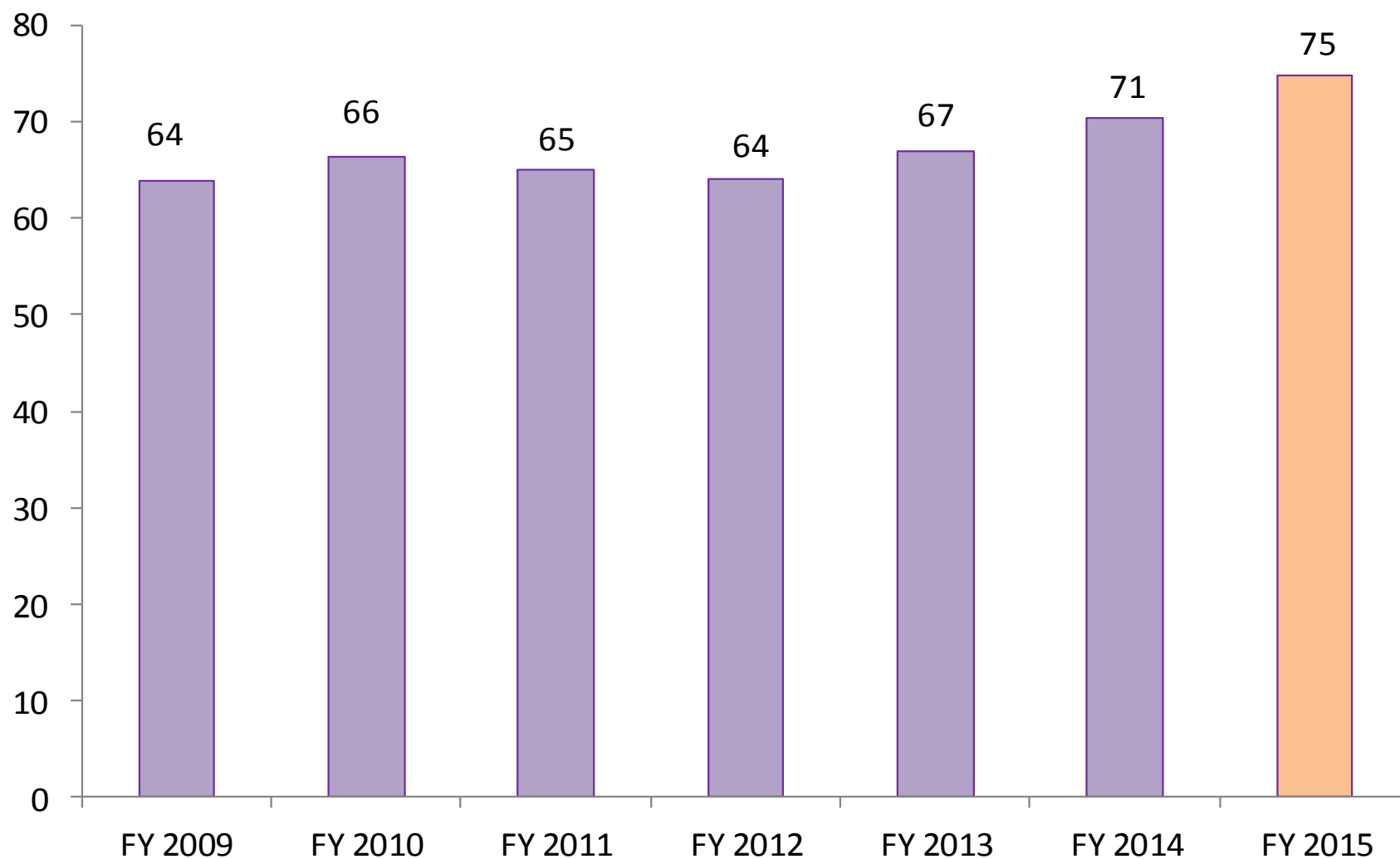
Rent-Adj. Interest Coverage



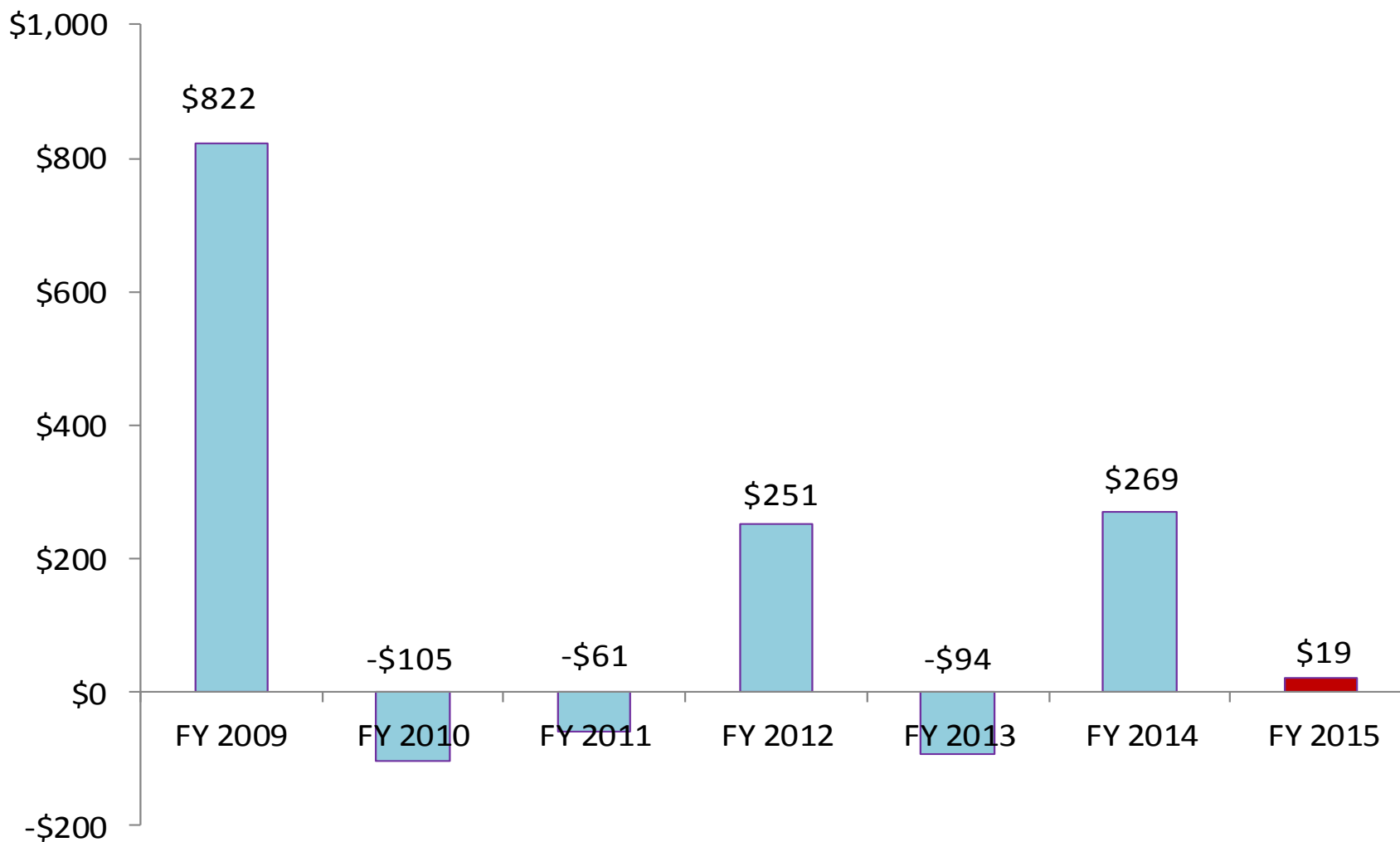
Inventory Turns



Payable Days



Free Cash Flow (\$ million)



GCS Rating & Outlook

- **Currently rated as a high risk, “E-” credit with a stable outlook.**
- **Q4 2015 and FY 2015 results still showed mixed results but the company made significant progress from last year. Net sales were weak but bottom-line results showed improvement.**
- **Domestic and international comps also improved in Q4 and fiscal 2015, thanks to improvements in Learning and Core Toy category.**
- **Total liquidity is sufficient at approximately \$1.8 billion.**
- **Focus on International market like China is important as it is the fastest growing market.**
- **The company is working on refinancing its 2017 and 2018 debt maturities. We are hopeful that TRU could get this done sooner than later.**
- **Once the company can successfully refinance its debt, we believe that TRU does not have to worry about credit events.**



Questions & Answers

CONTACT INFORMATION

- **Iwan Juwana, CFA – Senior Industry Analyst**
 - Phone: (917) 388-8821
 - Email: juwana@globalcreditservices.com

ADMINISTRATIVE ITEMS

Upcoming Webinars

- **Stein Mart**
 - **Tuesday, May 10 – 2:00pm (ET)**
 - **Rob Pike, Senior Industry Analyst**
- **Big Lots & Tuesday Morning**
 - **Tuesday, June 14 – 2:00pm (ET)**
 - **Rafay Khalid, CFA, Senior Industry Analyst**

ADMINISTRATIVE ITEMS

GCS Analyst Rating Definitions

Rating/Risk	Financial Structure	Liquidity	Cash Flow	Revenues	Operating Profitability
A MINIMAL Risk	Strong financial structure – low leverage, strong coverage, high quality capitalization. ¹	Strong liquidity – both cash & short-term investments, as well as proven access to unsecured credit	Strong cash flow – from profitable continuing business, adequate capital investment, strong management of working capital. ²	Dependable revenues – organic growth; competitive dominance.	High quality operating profitability – margins better than industry norms.
B LOW Risk	Solid financial structure – modest leverage, strong coverage, tangible equity, longer debt capital.	Solid liquidity – both proven access to unsecured credit with committed lines backing any commercial paper; adequate cash, short-term investments.	Solid cash flow – from profitable continuing business, adequate capital investment, solid management of working capital.	Dependable, growing organic revenues – strong competitive position.	Solid quality operating profitability – solid margins vis-à-vis industry.
C MODERATE Risk	Stable financial structure – moderate leverage, acceptable coverage, moderate-quality capitalization; some elements of financial structure may pose risks.	Dependable liquidity – committed unsecured bank lines with moderate usage and availability, securitization programs, adequate cash holdings.	Cash flow – from profitable continuing business, capital investment, and adequate management of working capital; cash flow may be erratic some years.	Dependable revenue base – organic growth in line with economic environment.	Operating profitability – margins at or better than industry norms.
D ELEVATED Risk	Risky financial structure – heavier leverage, marginal coverage, lower quality capitalization.	Defensive liquidity – secured bank lines usually in use, availability still sufficient.	Cash flow occasionally negative – capital investment constrained, defensive management of working capital.	Revenue base stagnant – little organic growth, uncertain competitive standing.	Weaker operating profitability – margins at or below industry norms
E HIGH Risk	Weak financial structure – heavy leverage, weak coverage, short-to-medium-term debt capital, little if any tangible equity.	Weaker liquidity – secured bank lines mostly in use with little availability; defensive cash hoarding may be evident.	Cash flow frequently negative – capital investment limited, defensive management of working capital; asset sales material ongoing source of cash.	Revenue base declining – weak competitor that's losing market share.	Weak operating profitability or losses – margins below industry norms.
F DISTRESSED Risk	Extremely weak financial structure – overwhelming leverage, inadequate interest coverage, impending debt maturities, negative tangible equity.	Little or no liquidity – secured bank lines near limits with no effective availability; defensive cash hoarding.	Negative cash flow – inadequate capital investment, cash conversion cycle lengthening, working capital eroding; marketable assets mostly sold already.	Declining revenues – eroding competitive standing, losing market share.	Operating losses – on continuing business.

¹Quality of capitalization includes tangible equity and maturity of debt capital. High quality capital includes tangible equity and long term unsecured and subordinated debt. Elements that weaken capitalization include goodwill and debt maturing within next couple of years.

²Management of working capital emphasizes the cash conversion cycle: turnover of receivables, inventory, payables and unearned income.

ADMINISTRATIVE ITEMS

Map of GCS Scores & Ratings To Agencies

Global Credit Services				
Score		Rating		
From	To		S&P / Fitch	Moody's
-	-	0	NR	NR
1.00	1.32	A+	AAA	Aaa
1.00	1.32	A+	AA+	Aa1
1.33	1.65	A	AA	Aa2
1.66	1.99	A-	AA-	Aa3
2.00	2.32	B+	A+	A1
2.33	2.65	B	A	A2
2.66	2.99	B-	A-	A3
3.00	3.32	C+	BBB+	Baa1
3.33	3.65	C	BBB	Baa2
3.66	3.99	C-	BBB-	Baa3
4.00	4.32	D+	BB+	Ba1
4.00	4.32	D+	BB	Ba2
4.33	4.65	D	BB-	Ba3
4.66	4.99	D-	B+	B1
5.00	5.32	E+	B	B2
5.00	5.32	E+	B-	B3
5.33	5.65	E	CCC+	Caa1
5.33	5.65	E	CCC	Caa2
5.66	5.99	E-	CCC-	Caa3
6.00	6.32	F+	CC+	Ca1
6.00	6.32	F+	CC	Ca2
6.33	6.65	F	CC-	Ca3
6.66	6.99	F-	C	C
6.66	6.99	F-	D	D