

Toys R Us

Financing complete

Neutral

Moody's: B3; Outlook, Stable
S&P: B+; Outlook, Stable

Ticker
TOY

We maintain our Neutral on Toys R Us on the completion of the \$950 million notes due 2017 issued by TRU 2005 RE Holding Co. I, LLC. The notes priced in line with our expectations, to yield 11.25% (10.75% coupon, priced at a discount of 97.399%). While we like what Toys R Us is doing with its business and believe it will prove more recession resistant than the rest of retail, the next few quarters will likely be weak, and we believe that bonds trade rich (11-13% range) for a 6.4x levered retailer. We prefer the Toys Delaware bank debt over the bonds or the new propco notes.

High-Yield Retail

Carla Casella, CFA^{AC}

(1-212) 270-6798

carla.casella@jpmorgan.com

Mili Seoni

(1-212) 270-6861

mili.x.seoni@jpmorgan.com

J.P. Morgan Securities Inc.

- We are including our updated capitalization table with the face amount of the bonds issued as well as our updated model with the proceeds and coupon rate.

Table 1: TOY capital structure

				03-May-09	Pro forma	Rent adj Leverage
Cash				470.0	93.3	
Int'l stats						
Debt	Coupon	Maturity	Available	Outstanding		
Multi-currency RC L+150-200	6.81%	7-Apr-13	281.0	0.0	0.0	
UK RE cr facility 5.02%	6.81%	7-Apr-13		526.0	526.0	
UK RE cr facility L+225	6.81%	7-Apr-13		93.0	93.0	
Spanish RE cr facility EURIBOR+150	4.51%	1-Feb-13		173.0	173.0	
French RE cr facility EURIBOR+150	4.51%	1-Feb-13		84.0	84.0	
Total European debt				876.0	876.0	6.9 x
Propco and other debt outside opco						
CMBS L+130	L+130	9-Aug-10		200.0	200.0	
Wayne RE holdings propco TL L+300	L+300	9-Dec-10		1,283.0	0.0	
Toys "R" Us Property Company I due 2017	10.75%	15-Jul-17			925.3	4.7 x
Toys Delaware						
ABL (\$2 bn), L+100-375		21-Jul-10	1,100.0	0.0	0.0	
ABL (\$1.526 bn), L+375-425 due 5/21/12	L+375-425	21-May-12	1,100.0	0.0	0.0	
ABL (\$516.5mn), L+ 100-200 due 7/21/10)	L+100-200	21-Jul-10	between both	0.0	0.0	
\$600 mn CMBS at Opco due 8/9/10	L+130	9-Aug-10		600.0	600.0	
Secured term loan L+425	L+425	19-Jul-12		798.0	798.0	2.4 x
Unsecured term loan L+500	L+500	19-Jan-13		180.0	180.0	
8.75% Debentures	8.75%	1-Sep-21		22.0	22.0	
Capital Leases				107.0	107.0	
Total Toys Delaware Debt				1,707.0	1,707.0	5.1 x
Holdco stats						
TRU Japan, Ltd 0.75-0.89% ST bank lines				25.0	25.0	
Toys Japan T+63 committed lines due '11	TIBOR+0.63	07/03/	153.0	202.0	202.0	
Toys Japan 1.2-2.8% Bank Loans due '10	1.2-2.8%	2010-2014		151.0	151.0	
7.625% Notes '11	7.625%	1-Aug-11		511.0	511.0	
7.875% Notes '13	7.875%	15-Apr-13		394.0	394.0	
7.375% Notes '18	7.375%	15-Oct-18		406.0	406.0	
IRB and other	6% estimate			12.0	12.0	
Total Debt				5,767.0	5,409.3	6.4 x

Source: Company reports and J.P. Morgan estimates.

See page 4 for analyst certification and important disclosures.

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Table 2: TOY summary forecast - BASE CASE

Base case	1Q09	2Q09E	3Q09E	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E
Date	03-May-09	01-Aug-09	31-Oct-09	30-Jan-10	30-Jan-10	01-May-10	31-Jul-10	30-Oct-10	29-Jan-09	29-Jan-09
Income Statement										
Net Sales	2,477.0	2,452.8	2,614.7	5,398.7	12,943.2	2,509.5	2,484.5	2,664.2	5,628.3	13,286.4
Cost of sales	1,587.0	1,573.4	1,721.3	3,600.2	8,481.9	1,606.1	1,590.6	1,734.2	3,735.4	8,666.3
Gross Profit	890.0	879.4	893.4	1,798.5	4,461.3	903.4	893.9	930.0	1,892.9	4,620.1
S,G&A	788.0	784.9	849.8	1,149.9	3,572.6	783.0	782.6	857.9	1,181.9	3,605.4
D&A	93.0	92.0	91.3	90.7	366.9	89.9	89.1	88.5	89.3	356.8
Other/Restructuring charges	(12.0)	0.0	0.0	0.0	(12.0)	0.0	0.0	0.0	0.0	0.0
Operating EBIT	21.0	2.5	(47.7)	557.9	533.8	30.5	22.1	(16.4)	621.6	657.9
D&A	93.0	92.0	91.3	90.7	366.9	89.9	89.1	88.5	89.3	356.8
Japanese settlement with McDonalds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other/Restructuring charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	114.0	94.5	43.6	648.6	900.7	120.5	111.3	72.1	710.9	1,014.8
<i>Growth</i>	-1.7%	-32.0%	8.9%	-3.8%	-7.1%	5.7%	17.7%	65.5%	9.6%	12.7%
<i>Margin</i>	4.6%	3.9%	1.7%	12.0%	7.0%	4.8%	4.5%	2.7%	12.6%	7.6%
Rentals	125.0	125.0	125.0	125.8	500.8	125.0	125.0	125.0	125.8	500.8
EBITDAR	239.0	219.5	168.6	774.3	1,401.4	245.5	236.3	197.1	836.7	1,515.5
Interest Expense - Net	94.0	100.2	99.9	100.9	395.0	100.4	105.4	97.7	99.5	403.0
Income Taxes (Benefit)	(31.0)	(24.4)	(36.9)	114.3	21.9	(21.0)	(25.0)	(34.2)	156.6	76.5
Net Income from Continuing Operation	(40.0)	(73.3)	(110.7)	342.8	118.8	(48.9)	(58.2)	(79.8)	365.5	178.5
Net Income to Common Shareholders	(35.0)	(73.3)	(110.7)	342.8	123.8	(48.9)	(58.2)	(79.8)	365.5	178.5
Summary Balance Sheet and CF										
Cash	470.0	528.7	314.1	1,011.7	1,011.7	626.1	894.4	111.3	592.9	592.9
International Debt	876.0	892.1	892.1	892.1	892.1	892.1	892.1	892.1	892.1	892.1
Total Opco Debt	1,719.0	2,089.0	2,089.0	1,704.0	1,704.0	1,704.0	2,004.0	1,554.0	1,076.2	1,076.2
Total Holdco Debt	5,767.0	5,770.4	5,771.2	5,387.0	5,387.0	5,387.7	5,688.5	5,039.3	4,562.3	4,562.3
EBITDA/Net Interest	1.2 x	0.9 x	0.4 x	6.4 x	2.3 x	1.2 x	1.1 x	0.7 x	7.1 x	2.5 x
EBITDAR/Net Interest + 1/3Rent	1.8 x	1.5 x	1.2 x	5.4 x	2.5 x	1.7 x	1.6 x	1.4 x	5.9 x	2.7 x
Senior Debt/EBITDA	1.4 x	1.9 x	1.9 x	1.6 x	1.6 x	1.5 x	1.8 x	1.3 x	0.8 x	0.8 x
Net Debt/EBITDA	5.5 x	5.7 x	5.9 x	4.9 x	4.9 x	5.2 x	5.2 x	5.2 x	3.9 x	3.9 x
Adj total Debt + rent x 8/EBITDAR	6.7 x	6.9 x	6.9 x	6.7 x	6.7 x	6.7 x	6.8 x	6.2 x	5.7 x	5.7 x
Sales Growth										
Sales Growth	-8.9%	-11.5%	-5.7%	-1.1%	-5.7%	1.3%	1.3%	1.9%	4.3%	2.7%
Gross Margin	35.9%	35.9%	34.2%	33.3%	34.5%	36.0%	36.0%	34.9%	33.6%	34.8%
SGA/Total Revenue	31.8%	32.0%	32.5%	21.3%	27.6%	31.2%	31.5%	32.2%	21.0%	27.1%
Receivable Days	5.1	4.0	4.0	6.5	6.5	5.0	4.0	4.0	7.0	7.0
Inventory Days	86.8	85.0	120.0	75.0	75.0	80.0	80.0	115.0	72.0	72.0
Payable Days	54.2	52.0	80.0	58.0	58.0	55.0	52.0	80.0	58.0	58.0
Cash Flow										
Net Income	(40.0)	(73.3)	(110.7)	342.8	118.8	(48.9)	(58.2)	(79.8)	365.5	178.5
D&A	93.0	92.0	91.3	90.7	366.9	89.9	89.1	88.5	89.3	356.8
Change in Working Capital	(575.0)	59.6	(134.7)	658.0	8.0	(374.0)	(8.4)	(79.3)	530.9	69.1
Operating Cash Flow	(515.0)	86.4	(164.5)	1,156.6	563.4	(335.4)	18.0	(79.8)	1,072.0	674.7
Capital Expenditures	(34.0)	(40.0)	(50.0)	(56.0)	(180.0)	(50.2)	(49.7)	(53.3)	(112.6)	(265.7)
Investing Cash Flow	(25.0)	(40.0)	(50.0)	(56.0)	(171.0)	(50.2)	(49.7)	(53.3)	(112.6)	(265.7)
Free Cash Flow	(549.0)	46.4	(214.5)	1,100.6	383.4	(385.6)	(31.7)	(133.1)	959.4	409.0
Changes in Revolver tranche 1	25.0	0.0	0.0	0.0	25.0	0.0	300.0	150.0	(450.0)	0.0
Changes in Revolver tranche 2		370.0	0.0	(370.0)	0.0					0.0
Change in LT Debt	199.0	(357.7)	0.0	(33.0)	(191.7)	0.0	0.0	(800.0)	(27.8)	(827.8)
Financing Cash Flow	223.0	12.3	0.0	(403.0)	(167.7)	0.0	300.0	(650.0)	(477.8)	(827.8)
Exchange Rate Effect	4.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
Ending Cash	470.0	528.7	314.1	1,011.7	1,011.7	626.1	894.4	111.3	592.9	592.9

Source: J.P. Morgan estimates, Company data.

Table 3: TOY summary forecast - WORST CASE

Worst case	1Q09	2Q09E	3Q09E	4Q09E	2009E	1Q10E	2Q10E	3Q10E	4Q10E	2010E
Date	03-May-09	01-Aug-09	31-Oct-09	30-Jan-10	30-Jan-10	01-May-10	31-Jul-10	30-Oct-10	29-Jan-09	29-Jan-09
Income Statement										
Net Sales	2,477.0	2,436.0	2,580.7	5,229.5	12,723.2	2,363.4	2,326.2	2,500.0	5,129.3	12,318.8
Cost of sales	1,587.0	1,586.0	1,679.1	3,519.8	8,372.0	1,527.7	1,499.0	1,610.5	3,436.6	8,073.8
Gross Profit	890.0	849.9	901.6	1,709.7	4,351.2	835.7	827.2	889.5	1,692.7	4,245.1
S,G&A	788.0	779.5	838.7	1,113.9	3,520.1	737.4	732.8	805.0	1,077.2	3,352.3
D&A	93.0	92.0	91.3	90.7	366.9	89.8	89.0	88.2	88.8	355.9
Other/Restructuring charges	(12.0)	0.0	0.0	0.0	(12.0)	0.0	0.0	0.0	0.0	0.0
Operating EBIT	21.0	(21.6)	(28.4)	505.1	476.2	8.5	5.4	(3.8)	526.7	536.9
D&A	93.0	92.0	91.3	90.7	366.9	89.8	89.0	88.2	88.8	355.9
Japanese settlement with McDonalds	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other/Restructuring charges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBITDA	114.0	70.4	62.9	595.8	843.1	98.3	94.4	84.5	615.5	892.8
<i>Growth</i>	-1.7%	-49.3%	57.1%	-11.6%	-13.0%	-13.7%	34.1%	34.4%	3.3%	5.9%
<i>Margin</i>	4.6%	2.9%	2.4%	11.4%	6.6%	4.2%	4.1%	3.4%	12.0%	7.2%
Rentals	125.0	125.0	125.0	125.8	500.8	125.0	125.0	125.0	125.8	500.8
EBITDAR	239.0	195.4	187.9	721.5	1,343.8	223.3	219.4	209.5	741.3	1,393.5
Interest Expense - Net	94.0	100.2	100.3	102.1	396.6	100.8	107.8	104.8	105.7	419.1
Income Taxes (Benefit)	(31.0)	(30.5)	(32.2)	100.8	7.1	(27.7)	(30.7)	(32.6)	126.3	35.3
Net Income from Continuing Operation	(40.0)	(91.4)	(96.5)	302.3	74.4	(64.6)	(71.7)	(76.0)	294.7	82.5
Net Income to Common Shareholders	(35.0)	(91.4)	(96.5)	302.3	79.4	(64.6)	(71.7)	(76.0)	294.7	82.5
Summary Balance Sheet and CF										
Cash	470.0	460.2	121.1	946.2	946.2	433.7	908.1	71.2	406.9	406.9
International Debt	876.0	892.1	892.1	892.1	892.1	892.1	892.1	892.1	892.1	892.1
Total Opco Debt	1,719.0	2,089.0	2,235.5	1,704.0	1,704.0	1,704.0	2,154.0	2,254.0	1,076.2	1,076.2
Total Holdco Debt	5,767.0	5,770.4	5,917.7	5,387.0	5,387.0	5,387.7	5,838.5	5,739.3	4,562.3	4,562.3
EBITDA/Net Interest	1.2 x	0.7 x	0.6 x	5.8 x	2.1 x	1.0 x	0.9 x	0.8 x	5.8 x	2.1 x
EBITDAR/Net Interest + 1/3Rent	1.8 x	1.4 x	1.3 x	5.0 x	2.4 x	1.6 x	1.5 x	1.4 x	5.0 x	2.4 x
Senior Debt/EBITDA	1.4 x	2.0 x	2.1 x	1.7 x	1.7 x	1.7 x	2.2 x	2.2 x	0.9 x	0.9 x
Net Debt/EBITDA	5.5 x	5.9 x	6.3 x	5.3 x	5.3 x	6.0 x	5.8 x	6.5 x	4.7 x	4.7 x
Adj total Debt + rent x 8/EBITDAR	6.7 x	7.0 x	7.0 x	7.0 x	7.0 x	7.1 x	7.3 x	7.1 x	6.1 x	6.1 x
Sales Growth										
Sales Growth	-8.9%	-12.1%	-6.9%	-4.2%	-7.3%	-4.6%	-4.5%	-3.1%	-1.9%	-3.2%
Gross Margin	35.9%	34.9%	34.9%	32.7%	34.2%	35.4%	35.6%	35.6%	33.0%	34.5%
SGA/Total Revenue	31.8%	32.0%	32.5%	21.3%	27.7%	31.2%	31.5%	32.2%	21.0%	27.2%
Receivable Days	5.1	4.0	4.0	6.5	6.5	5.0	4.0	4.0	7.0	7.0
Inventory Days	86.8	85.0	120.0	75.0	75.0	80.0	80.0	115.0	72.0	72.0
Payable Days	54.2	50.0	65.0	58.0	58.0	50.0	50.0	50.0	58.0	58.0
Cash Flow										
Net Income	(40.0)	(91.4)	(96.5)	302.3	74.4	(64.6)	(71.7)	(76.0)	294.7	82.5
D&A	93.0	92.0	91.3	90.7	366.9	89.8	89.0	88.2	88.8	355.9
Change in Working Capital	(575.0)	9.2	(422.2)	979.3	(8.7)	(484.6)	60.9	(690.9)	1,161.3	46.8
Operating Cash Flow	(515.0)	17.9	(435.6)	1,430.6	497.9	(465.2)	70.9	(686.9)	1,616.0	534.9
Capital Expenditures	(34.0)	(40.0)	(50.0)	(56.0)	(180.0)	(47.3)	(46.5)	(50.0)	(102.6)	(246.4)
Investing Cash Flow	(25.0)	(40.0)	(50.0)	(56.0)	(171.0)	(47.3)	(46.5)	(50.0)	(102.6)	(246.4)
Free Cash Flow	(549.0)	(22.1)	(485.6)	1,374.6	317.9	(512.5)	24.4	(736.9)	1,513.4	288.5
Changes in Revolver tranche 1	25.0	0.0	0.0	0.0	25.0	0.0	450.0	700.0	(1,150.0)	0.0
Changes in Revolver tranche 2		370.0	146.5	(516.5)	0.0					0.0
Change in LT Debt	199.0	(357.7)	0.0	(33.0)	(191.7)	0.0	0.0	(800.0)	(27.8)	(827.8)
Financing Cash Flow	223.0	12.3	146.5	(549.5)	(167.7)	0.0	450.0	(100.0)	(1,177.8)	(827.8)
Exchange Rate Effect	4.0	0.0	0.0	0.0	4.0	0.0	0.0	0.0	0.0	0.0
Ending Cash	470.0	460.2	121.1	946.2	946.2	433.7	908.1	71.2	406.9	406.9

Source: J.P. Morgan estimates, Company data.

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Carla Casella, CFA
(1-212) 270-6798
carla.casella@jpmorgan.com

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J.P.Morgan