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What will you discover?

FY21 preliminary results presentation

53 weeks ended 2 May 2021

20 July 2021

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Agenda

- Highlights — Gavin Peck (CEO)
- Financial Review — Steve Alldridge (CFO)
- Business Review — Gavin Peck (CEO)


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Mix & Match
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Highlights

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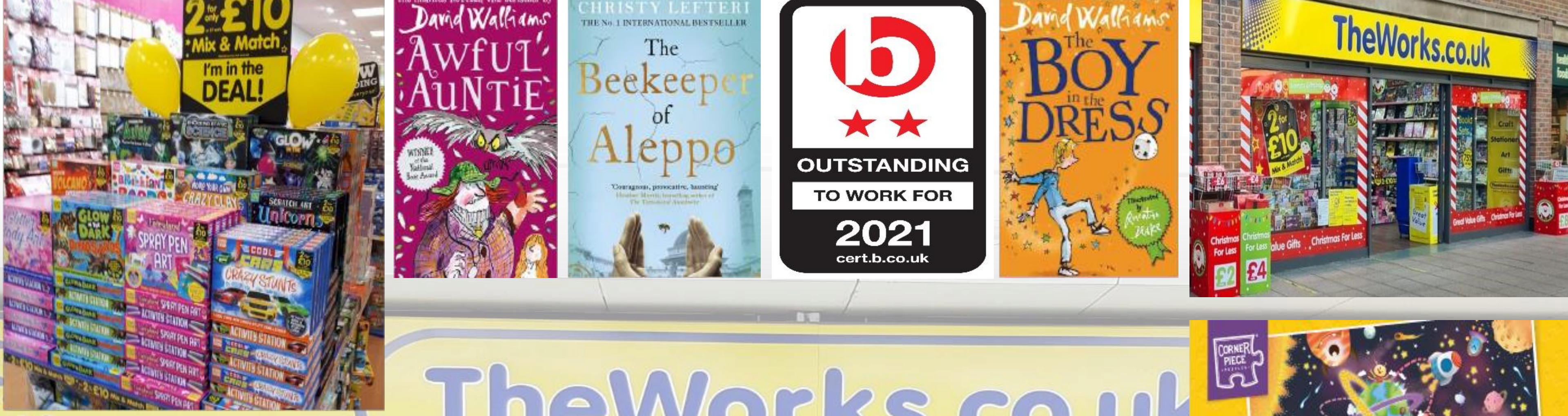
- Resilient performance against backdrop of COVID-19
- Good progress made on refocussed strategy
- Strong trading since coming out of lockdown 3 (2yr LFL +13.0% in 11 weeks to 18 July 2021)
- Peak trading and ongoing global freight challenges still to navigate in FY22
- Emerged from pandemic a stronger business and remain confident about medium-term growth opportunities
- New Chair appointed to support through next phase of growth

	FY21	FY20
Revenue	£180.7m	£225.0m
Total sales growth	(19.7)%	3.5%
LFL sales growth*	27.6%	0.7%
Store LFL*	6.0%	n/a
Online LFL	120.9%	n/a
** for weeks when stores permitted to trade*		
Pre IFRS 16 Adjusted EBITDA	£4.3m	£10.8m
Adjusted PBT	(£3.6m)	£2.4m
Net cash / (debt)	£0.8m	(£7.1m)



Financial Review

Overview

- Adjusted EBITDA £4.3m vs. £10.8m LY (pre IFRS 16)
- Results dominated by COVID-19 impact on sales:

	FY21 £m	FY20 £m	Variance £m	*Variance %*
LFL store sales when stores open	128.9	121.6	7.3	*6.0%*
Online sales (53 weeks)	62.1	28.1	34.0	*120.9%*
Total LFL sales	**191.0**	**149.7**	**41.3**	***27.6%***
Non LFL store sales	15.2	104.9	(89.7)	*(85.5%)*
Total gross Sales	**206.2**	**254.6**	**(48.5)**	***(19.0%)***

Strong underlying performance, online and stores when able to trade

Impact of enforced store closures

- Key drivers of the FY21 result:
  - Total sales declined due to enforced temporary store closures
  - Underlying gross margin % similar to FY20
  - Costs well controlled – property savings, more efficient and effective ways of working
  - Government support used in full to mitigate part of the sales lost to enforced closures and to support colleagues
- Year end stock higher than FY20 due to closures; will be managed through FY22; covered by provisions
- Balance sheet strengthened during year, ending with £0.8m net cash[1]
  - Sustainable improvement - partial unwind in FY22 but majority of benefit will be retained

[1] Excluding leases

Note - FY21 is 53 weeks

Summary income statement

Adjusted, pre IFRS 16 EBITDA	FY21 £'m	FY20 £'m	*Variance %*
Revenue	**180.7**	**225.0**	***(19.7%)***
Product gross margin	111.5	138.9	*(19.7%)*
Other operating costs exc. D&A	(124.3)	(131.8)	*5.6%*
Other operating income	17.1	3.7	*362.2%*
Pre IFRS 16 Adjusted EBITDA	**4.3**	**10.8**	***(60.4%)***
Pre IFRS 16 depreciation	(7.1)	(7.1)	***(0.3%)***
Pre IFRS 16 net financing expense	(0.6)	(0.4)	***(45.0%)***
Pre IFRS 16 Adjusted PBT	**(3.4)**	**3.3**	***(201.7%)***

Adjusted Pre IFRS 16 PBT vs. statutory PBT	FY21 £'m	FY20 £'m	*Variance %*
Pre IFRS 16 Adjusted PBT	**(3.4)**	**3.3**	***(201.7)%***
Total adjusting items	0.7	(17.6)	*n/a*
Pre-IFRS16 PBT	**(2.7)**	**(14.2)**	***81.1%***
IFRS16 impact on PBT	(0.1)	(3.8)	***97.0%***
Statutory PBT	**(2.8)**	**(18.0)**	***84.4%***

- Other operating income includes furlough scheme and business support grants; rates relief is netted off within operating costs
- Financing charges include cost of refinancing in 2020; underlying interest costs de-minimis
- FY21 Adjusting items predominantly impairment reversals; other adjusting items immaterial
- IFRS 16 has minimal effect on PBT for FY21; however, will continue to include pre IFRS 16 measures in reporting
- FY21 PBT not subject to impairment charges, resulting in much smaller statutory loss

Revenue

	FY21 £m	FY20 £m	Variance £m	*Variance %*
LFL store sales when stores open	128.9	121.6	7.3	*6.0%*
Online sales (53 weeks)	62.1	28.1	34.0	*120.9%*
Total LFL sales	**191.0**	**149.7**	**41.3**	***27.6%***
Non LFL store sales	15.2	104.9	(89.7)	*(85.5%)*
Total gross Sales	**206.2**	**254.6**	**(48.5)**	***(19.0%)***
VAT	(24.3)	(27.9)	0.0	*(12.9%)*
Loyalty Points	(1.2)	(1.7)	0.5	*(28.3%)*
Revenue	**180.7**	**225.0**	**(44.4)**	***(19.7%)***
Total store sales (LFL plus non-LFL)	144.1	226.5	(82.5)	(36.4%)

- In contrast to previous years, and in line with evolved strategy, store openings did not materially affect sales
- 527 stores at year end vs. 534 at the end of FY20
- Slightly higher effective VAT rate due to high online sales/lower mix of book sales
- Loyalty points cost reduced in line with lower sales
- Note for completeness: FY21 was a 53 week period. Immaterial EBITDA impact

Product gross margin

Product gross margin	FY21 £m	FY20 £m	Var £m	*Var %*
Revenue	180.7	225.0	(44.3)	*(19.7%)*
Cost of goods sold	69.1	86.1	17.0	*19.7%*
Product gross margin	**111.5**	**138.9**	**(27.4)**	***(19.7%)***
Product gross margin %	61.7%	61.8%		*(0.1%)*

- Underlying gross margin percentage in line with FY20
  - Lower discounting throughout year, especially online
  - Higher freight costs during H2 offset this gain
  - Year on year FX rates were broadly similar (US$1.30)
  - COVID-19 travel restrictions prevented progress on direct sourcing
- Significantly higher stock provisions than FY20
  - Unable to complete all store stock counts; provision covers larger outstanding adjustment to stock file
  - Lockdown 3 coincided with January sale period so higher level of terminal stock to clear – *provisions cover any consequential FY22 margin risk*
  - But - year on year P&L effect of higher provisions reduced due to the lower volume of in-year adjustments to stock file

Costs

Pre IFRS 16 Adjusted EBITDA analysis	FY21 £'m	*% of revenue*	FY20 £'m	*% of revenue*	Variance £m	*Variance (%)*
Revenue	**180.7**		**225.0**		**(44.4)**	*(19.7)*
Cost of goods sold	69.1	*38.3*	86.1	*38.2*	16.9	*19.7*
Store payroll	37.7	*20.8*	42.1	*18.7*	4.4	*10.5*
Store property costs	32.7	*18.1*	44.3	*19.7*	11.6	*26.1*
Other direct selling costs	20.3	*11.2*	14.5	*6.5*	(5.8)	*(39.8)*
Cost of sales	**159.9**	*88.5*	**187.0**	*83.1*	**27.1**	***14.5***
Distribution costs	15.0	*8.3*	12.4	*5.5*	(2.5)	*(20.4)*
Administrative costs	18.8	*10.4*	18.5	*8.2*	(0.3)	*(1.7)*
Operating costs	**33.8**	*18.7*	**30.9**	*13.7*	**(2.8)**	***(9.2)***
Other operating income	**17.1**	*9.5*	**3.7**	*1.6*	**13.4**	*362.2*
Pre IFRS 16 Adjusted EBITDA	**4.3**	*2.4*	**10.8**	*4.8*	**(6.5)**	*(60.2)*

- Store payroll costs reduced due to furlough. National Living Wage inflation partially mitigated by savings due to simplification of tasks – early benefits of implementing strategy
- Lower overall property costs due to rates relief and rent savings. Full year effect of FY20 new stores is an increase in property costs masked by the savings.
- Higher online fulfilment costs reflected in other direct selling costs and distribution costs
- Other operating income includes furlough and business grants (rates relief netted off store property costs)

Capital expenditure

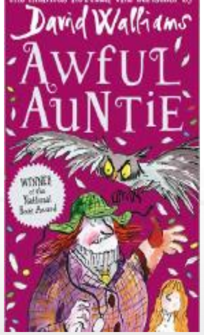
	FY21 £'m	FY20 £'m	*Variance £'m*
New stores and relocations	0.6	4.8	*4.2*
Store refits and rebrands	0.7	0.4	*(0.3)*
IT hardware and software	0.6	0.8	*0.2*
Web development	0.5	1.4	*0.9*
Other	0.1	1.3	*1.2*
Total capital expenditure	**2.4**	**8.7**	***6.3***

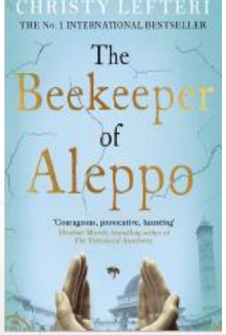
- Capex lower than c. £3.0m guided to last year; partially reflecting efforts to preserve cash
- Refocussed strategy resulted in significant reduction is expenditure on new stores
- Other capex mainly comprises store maintenance and modest investment in systems
- FY22 capex will be c. £3.5m, whilst we continue to strengthen balance sheet
- Thereafter, may look to raise capex slightly
    - To increase mix of self funding for selected new store openings – to reduce rent costs
    - To allow modernisation of systems – but no major ERP type projects
    - To allow slight increase in store maintenance expenditure – but not a major refit programme

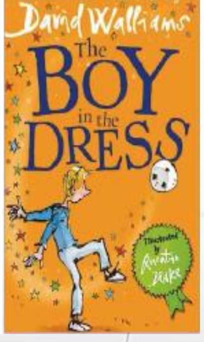
Cashflow, liquidity

	FY21 £'m	FY20 £'m	*Variance £'m*
Cashflow pre-working capital	3.3	9.2	*(5.9)*
Working capital	7.7	(8.1)	*15.8*
Capex	(2.4)	(8.7)	*6.3*
Tax paid	0.0	(1.0)	*1.0*
Interest and facility costs	(0.9)	0.1	*(1.0)*
Dividends	0.0	(2.3)	*2.3*
FX adjustment	0.2	0.3	*(0.1)*
Total movement in net cash/(bank debt)	**7.9**	**(10.5)**	***18.4***
Net cash/(debt)	**0.8**	**(7.1)**	***7.9***

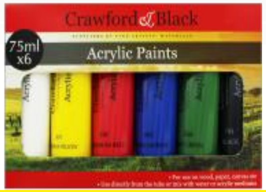
- Year end net cash position reflects focus on strengthening balance sheet
- Bank facilities refinanced during the year. £30m headroom within bank facility at year end
- Positive cashflow driven by working capital inflow and tighter control of capex
- Working capital movements include
  - Receipt of prior year furlough claim £3.7m
  - Higher than planned year end stock due to lockdown 3
  - Deferred rent payments. Some may convert to rent free; estimated unwind during FY22 at least £2m, built into internal forecasts







Business Review



Good progress on our refocussed strategy: "Being Better, Not Just Bigger"

Our purpose: "We are people who do, inspiring people to do"				
Our building blocks	1. Develop our brand and increase our customer engagement 2. Enhance our online proposition 3. Optimise our store estate 4. Improve our operational capabilities			
Our enablers	Develop our people	Drive operational efficiency	Invest in our systems and data	Build on our existing ESG credentials
Our values	**Crafty, Caring, Can-do**			

1. Developing our brand and increasing our customer engagement

- Proposition has resonated particularly well with customers during COVID-19. Confidence in:
  - Increased clarity of purpose
  - Opportunity to increase loyalty of, and engagement with, existing customers
  - Ability to attract new customers

- Key work underway to support this:
  - Key brand differentiators being defined
  - New marketing structure and plans to bring our brand to life
  - Product proposition and trading strategy evolving
    - Aligned to new purpose and brand differentiators
    - Online range extensions to complement core store ranges
    - New Commercial Director a key enabler to this evolution
  - Reviewing how best to develop and leverage our loyalty scheme
  - Customer insight and analysis being developed to support decision making

2. Enhancing our online proposition

- Online channel remains:
  - A key differentiator in the value retail sector
  - An opportunity to attract new customers to the brand

- FY21 was a transformational year for our online business
  - Sales more than doubled – growth from new and existing customers
  - New web platform successfully launched in July 2020
  - Invested to increase capacity
  - Step change in online profitability

- Well placed, with clear plans, for continued digital growth
  - Improved customer SLAs – implemented July 2021
  - Increasing focus on online range extensions
  - Improving customer experience on new web platform
  - Improving CRM and customer engagement, supported by new email service provider
  - Increasing fulfilment capacity, capability and efficiency
  - Continued development of multi-channel proposition

3. Optimising our store estate

- Store estate remains lifeblood of business and will be for many years to come

- New store rollout scaled-back from turn of 2020 – focus on driving improvements through existing store estate
  - Improving customer experience through better ranging, merchandising and navigation
  - Refit programme to bring estate up to "ideal store" – trials underway
  - c.100 lease events per annum – further rental savings and exit of small tail of loss-makers

- Continued active store portfolio management strategy in FY21
  - 5 new openings; 2 relocations; 12 closures => net 7 closures
  - Further reduction in existing store rents
  - Retained flexibility – just over 2 years (on average) to next lease exit or break

- Selected new store openings part of active portfolio management – expect net nil openings
  - Priority target list of 100 locations identified
  - Predominantly landlord funded in near-term
  - Retail property market conditions likely to remain favourable in the medium-term

4. Improving our operational capabilities

- Continuing journey to becoming a more agile and modern business

- Initial focus on supply chain
  - End to end stock management review underway
  - Targeting improved product availability and increased efficiency

- Priority areas of focus
  - Improving our import supply chain
  - Refining our approach to range planning and management of stock and intake
  - Enhancing the way we allocate and replenish stock
  - Drive better ranging, availability and merchandising of our ranges
  - Improving space planning and merchandising in our stores
  - Reduce cost of goods sold through increased direct sourcing

- Investment in systems and people to support delivery of plans

Our key enablers

- Developing our people
  - New purpose and values defined – embedding in FY22
  - Record annual colleague engagement score achieved in FY21
  - Investing in capability and capacity across IT, Supply Chain and Digital
  - New leadership team in place

- Driving operational efficiency
  - New store labour model launched – renewed focus on reducing “tasking” in stores
  - Supply chain and loss prevention other key areas of focus for FY22

- Investing in our systems and data
  - Key projects underway across Digital, Supply Chain and Stores
  - Data access and performance reporting project underway
  - Improving our security and core server estate

- Building our ESG credentials
  - ESG Steering Group established in May 2021 – plans developed under four key pillars
  - Reached £1m milestone with CRUK; launched new partnership with mental health charities

Current trading – 11 weeks to 18 July 2021

- Strong sales performance – ahead of internal plan

- 2yr LFL +13.0%
  - Positive LFLs in stores – strong growth in ATV offsetting lower retail footfall
  - Online sales double 2019 levels – despite lower promotions and reduced marketing spend

- Sales growth being driven by:
  - Continued strong demand for categories popular during COVID-19 pandemic
  - Early success from delivery against strategic objectives

- Key trading periods are still ahead of us

- Global freight market challenges continue to create additional cost and uncertainty

- Positive trading post lockdown 3 positions us well for the rest of the year

Highlights

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- Good progress made on refocussed strategy
- Strong trading since coming out of lockdown 3 (2yr LFL +13.0% in 11 weeks to 18 July 2021)
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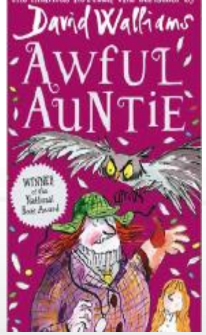
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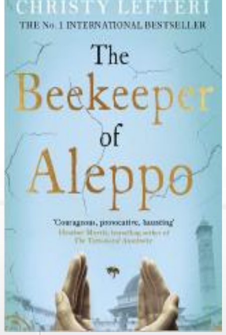
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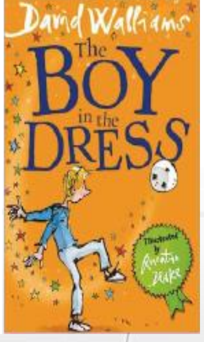
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Questions


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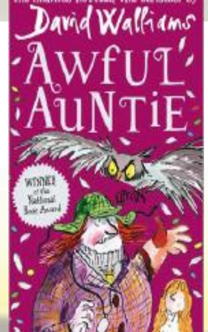
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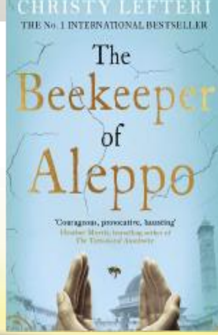
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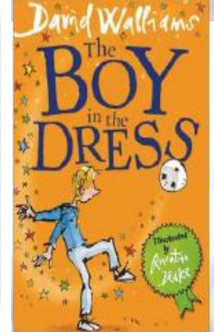
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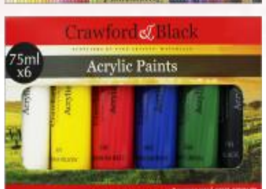
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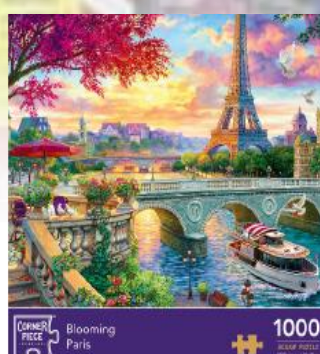
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Deep Box Frame


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Appendices

IFRS 16 – impact on PBT

	FY21 £'m	FY20 £'m
Rents excluded from IFRS 16 calculation	27.6	25.9
Right of use asset depreciation	(22.9)	(22.8)
Lease liability interest charge	(4.9)	(4.0)
IFRS 16 charges	(27.7)	(26.8)
IFRS 16 effect on Adjusted PBT	**(0.2)**	**(0.9)**
IFRS 16 effect on Adjusting items (impairment)	0.1	(2.9)
PBT impact of IFRS 16	**(0.1)**	**(3.8)**

Relatively small net impact on PBT for FY21; analysis included for reference.

Board changes

Carolyn Bradley

- Extensive marketing and commercial experience at Tesco including
    - Group Brand Director
    - UK Marketing Director
    - Chief Operating Officer for Tesco.com.
- Non-executive roles since leaving Tesco in 2013 including
    - Senior Independent director and Rem Co Chair at the SSP Group plc
    - Senior Independent director at Marston's plc
    - NED at B&M Value Retail S.A.
    - Deputy Chair at Cancer Research UK.
- Graduated from Cambridge University before joining Tesco, where she led many innovations such as the Clubcard loyalty scheme, the 'Every Little Helps' service campaign and the grocery home delivery business.

Summary balance sheet extract

Summary balance sheet extract	**FY21 £'m**	**FY20 £'m**
Non current assets	135.4	142.8
Stock	29.1	26.6
Other current assets	7.6	10.3
Gross cash	8.3	6.5
Total assets	180.4	186.3
Interest bearing borrowings	7.1	13.5
Other current liabilities	60.1	49.2
Non current liabilities	104.4	110.2
Total liabilities	171.6	172.9
Net assets	**8.8**	**13.4**
Memo: net cash/bank borrowings	*0.8*	*(7.1)*