27 August 2020

TheWorks.co.uk plc
("The Works", the "Company" or the "Group")
Preliminary results for the 52 weeks ended 26 April 2020

"Our performance this year demonstrates the resilience of our business and we are pleased to have delivered a creditable performance despite the challenging backdrop."

TheWorks.co.uk plc the multi-channel value retailer of gifts, arts, crafts, toys, books and stationery, announces today its preliminary results for the 52 weeks ended 26 April 2020 (the "Period" or "FY20").

Financial highlights

- Revenues grew 3.5% to £225.0 million (FY19: £217.5 million), with growth both online and in stores, despite the significant impact of COVID-19 in the latter weeks of the financial year.
- Pre IFRS 16 adjusted EBITDA for the year was £10.8m (FY19: £13.9m), albeit with the adverse trading impact of COVID-19 in the period estimated to be approximately £3.0m.
- Reported loss before tax for the period includes non-cash impairment charges resulting from COVID-19 of £19.5m, relating to goodwill and store assets, which have been treated as adjusting items.
- Despite a very positive performance since the reopening of stores in mid-June 2020, given the continued uncertainty presented by COVID-19, it is not yet possible to provide specific guidance for the financial year ahead and the Board will not be proposing payment of a final dividend for FY20.

	FY20 £m	**FY19 £m Restated[1]**
Revenue	225.0	217.5
Revenue growth	3.5%	13.2%
LFL sales growth[3]	0.7%	3.0%
Pre IFRS 16 adjusted[2] EBITDA	10.8	13.9[1]
Reported (loss)/profit before tax	(18.0)	2.3
Adjusted[2] profit before tax	2.4	6.9[1]
Reported basic earnings per share (pence)	(28.3)	1.9
Adjusted[2] basic earnings per share (pence)	3.0	9.2
Net bank (debt)/cash	(7.1)	3.7
IFRS 16 impact on profit before tax	(3.7)	0.0
Adjusting items before tax excluded from adjusted[2] results	(20.4)	(4.5)

Operational highlights

- Positive LFL sales growth, driven by new and constantly evolving product ranges, our ninth successive record Christmas and new merchandising initiatives for core stationery and art ranges, despite the absence of a Mega Trend[4], which was present in the comparative period.
- A net 37 new stores opened in the year taking the total estate to 534 stores. Refocused strategy at the turn of the calendar year with fewer new stores openings planned and an increased focus on driving improvement and profitability across the existing estate.
- Further development of our multi-channel proposition through development of a new customer website (successfully launched in July 2020) and product proposition changes to increase average product price and drive profitable growth.

- Increased online capacity to meet very strong demand during the lockdown period (sales increased over three times on the equivalent period last year) and reduced marketing and promotional activity, step-changing the profitability of our online channel.
- At the turn of the calendar year, we took decisive action to reduce costs and maximise efficiencies by limiting discretionary spending, reducing administrative costs and unlocking savings in distribution costs as part of the refocussed strategy.
- COVID-19 outbreak intensified management of cost base and cashflows, working with suppliers to review stock intake plans, negotiating with landlords to reduce rent payments and further careful management of all discretionary spend.

Trading update for the 17 weeks to 23 August 2020

- As anticipated, primarily reflecting the impact of the closure of all stores for the first 7 weeks of the financial year, total sales were down 26.0%.
- Stores reopened in a phased manner following the lifting of Government restrictions in the UK and Ireland from 15 June 2020.
- Performance since the reopening of stores has been well ahead of the Boards expectations with overall LFL sales increasing by 0.7% in the 10 weeks to Sunday 23 August.
  - Store LFLs are currently tracking at a high single digit decline with growth in average transaction value partially offsetting lower transaction volumes.
  - Online performance remains strong with sales levels more than double last year's in the same 10 weeks.
- Further investment made to increase online capacity to support sales over the peak Christmas trading period.
- Profit impact from lower sales partially mitigated through the successful execution of our refocused strategy; including higher product margins (reflecting reduced promotional activity) and careful cost management. Support from various Government schemes (furlough scheme and business rates relief) have also provided mitigation.
- Net debt position significantly better than initial expectations following the stronger trading performance and careful cost and cash management.
- Improved liquidity through £7.5m of funding via the Government's CLBILS scheme and an extension of our RCF expiry date to September 2022.

Gavin Peck, Chief Executive Officer of The Works, commented:

"Our performance this year demonstrates the resilience of our business and we are pleased to have delivered a creditable performance despite the challenging backdrop. I am incredibly proud of all colleagues for their relentless hard work over the last year and for their commitment and the can-do attitude they have shown during this challenging period.

"Christmas was a turning point and this positive momentum continued in the following months supported by new products and merchandising initiatives launched during the year driving LFL sales growth. The improved trading performance was supported by the increased focus on cost management.

"The closure of our entire store estate in March had a significant impact on our business, however we responded to the crisis with agility and were ready to bounce back once safe to do so. Our decisive action in response to the COVID-19 pandemic enabled us to protect colleagues and customers, meet the significant increase in online demand, and minimise the financial impact. We are encouraged by the trading performance since lockdown lifted and will continue to focus on improving our online capacity and customer experience in stores under social distancing as we head into peak Christmas trading.

"The current uncertainty means that we are unable to provide specific guidance. We will continue to monitor the situation closely and remain agile ahead of our key trading period. Our performance during the COVID-19 pandemic shows our customer proposition is more relevant than ever and, despite the significant uncertainty that remains, the Board continues to believe that we have many exciting opportunities ahead of us that will enable us to deliver value for all of our stakeholders in the long-term."

Preliminary results presentation

A presentation for analysts will be held today at 9.30am via video conference call. If you would like to attend, please contact theworks@teneo.com. A copy of the presentation will shortly be made available on the Company's website (www.theworksplc.co.uk/investors).

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Footnotes to table on page 1:

[1] As a result of the COVID-19 pandemic and subsequent UK government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified store impairments as adjusting items for the first time. The prior year's adjusted profit measures have increased by £0.1 million, being the net store impairment charge and onerous lease provision charge not treated as an adjusting item in 2019. Please refer to note 1 (c) and note 6 of the extracts from the financial statements.

[2] Adjusted profit figures exclude adjusting items. See Note 1 (c) of the attached extracts from the financial statements for further details.

[3] LFL sales are defined as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from the Company's online store, calculated on a calendar week basis. LFL sales for FY20 are for the year to 22 March 2020 (the day before all stores were closed due to the COVID-19 outbreak). No adjustments have been made for prior year Mega Trend[4].

[4] Mega Trends are defined as any individual product, or collection of products, for which sales exceed 3 per cent. of weekly sales for a temporary period and for which management deem to be material in terms of impacting on the underlying performance of the Company.

The financial information set out in this statement does not constitute the Company's statutory accounts for the periods ended 26 April 2020 or 28 April 2019, but is derived from those accounts. Statutory accounts for FY19 have been delivered to the Registrar of Companies and those for FY20 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified, (ii) included a reference to a material uncertainty that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern as referred to in note 1(b) to the financial statements, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the period ended 26 April 2020 is now complete. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

Chairman's statement

Although much of this report is about the results for the financial year ended April 2020, these now seem to relate to a previous age. The COVID-19 pandemic has since overtaken our lives and has had a significant impact on our business.

The financial year to 26 April 2020 has seen TheWorks.co.uk plc deliver a creditable performance, with sales up 3.5 per cent. compared to the prior year despite the significant impact on our trading performance in the latter weeks of the financial year as a result of COVID-19 and the closure of all our retail stores due to the UK lockdown.

The COVID-19 pandemic has adversely affected the results we report, and may continue to do so in the short to medium term. It is also possible that consumer confidence will once again be impacted by Brexit as the deadline for the UK's departure approaches. Our accounting policies require these external factors to be reflected as non-cash charges in the FY20 accounts, resulting in a £19.5m write down in the carrying values of goodwill and our store assets.

Prior to the onset of COVID-19, the financial year was not without its challenges, with uncertainty brought about by Brexit and its associated impact on consumer confidence, along with the absence of a Mega Trend for us this year resulting in a disappointing first half of the year. We took corrective action, as announced at the turn of the calendar year, to refocus our strategy by opening fewer new stores, with a view to driving improved performance in our existing estate and increasing our focus on cost savings. This action was taken to improve short-term performance but also ensure that we are well-placed to deliver profitable growth in the medium-term.

It was pleasing to see the company return to LFL sales growth in the second half of the year and deliver another record Christmas, our peak trading period, across stores and online. This positive trading momentum continued into the new calendar year and our 4th quarter trading period, supported by other initiatives launched during the year, including new ranges, improved merchandising of our core art and stationery ranges in stores and development of our online proposition. The improved trading performance and the proactive action taken at the turn of the calendar year meant that the business was moving back in the right direction prior to the COVID-19 outbreak.

Since then, the whole country has been facing an unprecedented challenge as it responds to the COVID-19 pandemic and I am incredibly proud of how the management team have navigated through this period of great uncertainty and how our colleagues have pulled together during it. The health and wellbeing of our colleagues and customers has always been our key priority and it will continue to be so as we trade through a period of extended social distancing and beyond.

Despite the circumstances and restrictions, our colleagues have delivered the very best in customer service, supporting the continued strong demand that we have seen online since the lockdown and in our stores since they reopened. I am very proud of the unique culture that has seen the company recognised for the second consecutive year in The Sunday Times' 25 Best Big Companies to work for. I would like to take this opportunity to thank all colleagues across the business for their continued support and dedication this year, particularly through the recent unprecedented period of uncertainty.

Board changes

In January, we were very pleased to appoint Gavin Peck as Chief Executive following a successful period as Chief Financial Officer. Using his deep industry knowledge and financial insights, Gavin has already made a strong mark on the business and the Board has every confidence in his steadfast leadership during this unprecedented period.

Gavin replaced Kevin Keaney who, after nine years in the role, decided to step down as Chief Executive. We thank Kevin for his contribution to the business and in helping establish TheWorks.co.uk plc as a leading multi-channel value retailer. In the year, we also appointed Stephen Alldridge as Interim CFO.

Stephen's experience will be an invaluable support to Gavin and the business as we trade through the uncertain times ahead.

Dividend and outlook

Considering the uncertain consumer outlook, including the impact of social distancing on trading in stores, the Board has taken the prudent decision of not declaring a final dividend for the year. I am pleased that our bank has supported us in refinancing our debt facility, extending our £25m RCF to September 2022, providing additional covenant headroom, and access to a further £7.5m of funding via the Government's CLBILS scheme. This refinancing will help support the business through these uncertain times.

We have performed well since the reopening of our stores in June, with their initial sales well ahead of the Board's expectations and our online performance remaining strong. However, there remains much uncertainty due to COVID-19, in particular how this will impact on peak Christmas trading and the longer-term impact on the retail landscape. Notwithstanding this, the Board remains confident that the Company's differentiated multi-channel value proposition, in particular its focus on children's educational products, arts and crafts, games, activities puzzles and books will continue to resonate with customers in the current environment and position the Company well for the long term.

Chief Executive's Report

Introduction

In my first annual review, I would like to start by saying how delighted I am to have been appointed as the Chief Executive of TheWorks.co.uk. It has been clear to me since joining the business in 2018 that TheWorks.co.uk has both a special culture and a clear purpose; to provide customers with a variety of good quality, great value products in its specialist categories through a truly multi-channel shopping experience. My first months as CEO have clearly been challenging, as they have for the whole retail sector, given the impact of COVID-19. However, I strongly believe that our proposition is more relevant than ever and that, despite the challenges presented by COVID-19, we have many exciting opportunities ahead of us that will enable us to deliver value for all of our stakeholders.

Trading

Our trading performance over the last year demonstrates the resilience of our business. I am pleased to report that our revenues grew 3.5 per cent. in the year, with growth both online and in stores, despite the significant impact of COVID-19 on our trading performance in the latter weeks of the financial year with the closure of all our stores as part of the UK lockdown. The first half of the year was challenging, impacted by dampened consumer sentiment and the absence of a Mega Trend whilst trading against the Squishies Mega Trend in the first half of the previous year. Christmas was a turning point in the year as customers once again reacted well to our core Christmas ranges, complemented by a new 2 for £20 gifts offering and our products linked to the Frozen 2 movie release, resulting in our ninth record Christmas. The momentum from improved Christmas trading continued through to March as we began to see the benefits of new product ranges and merchandising initiatives launched in the first half of the year and our comparators eased as we no longer traded against the Squishies Mega Trend in the prior year. This resulted in overall like-for-like ("LFL") sales growth of 0.7 per cent. in the year to 22 March 2020 (the day before all stores were closed due to the COVID-19 outbreak) with both stores and online delivering positive growth.

We saw a significant increase in sales, both in stores and online, prior to the COVID-19 enforced store closures on 23 March. This reflected strong customer demand for our products to support childrens' ongoing education, mindfulness materials to support mental health and products to "beat the boredom" during the period of lockdown. The strong demand online continued during the lockdown period, with sales up more than three times the equivalent period last year. We reopened our stores in a phased manner from 15 June 2020, as permitted by Government guidelines. Our sales performance since stores reopened has been well ahead of the Board's expectations with overall LFL sales in the 10 weeks to Sunday 23 August of 0.7 per cent. After strong initial sales, store LFLs are currently tracking at a high single digit decline with strong growth in average transaction value partially offsetting significantly lower transaction volumes (reflecting reduced retail footfall). Online performance has remained strong post stores reopening, with sales levels more than double last year's in the same 10 weeks. This robust performance further demonstrates the resilience of our business model and highlights that our proposition is playing an important part in the lives of our customers during these challenging times.

Profit performance

The pre IFRS 16 adjusted EBITDA for the year was £10.8m (FY19: £13.9m), a £3.1m or 22.3 per cent. decline compared to the FY19 result. However, we estimate the adverse trading impact of COVID-19 on this figure to be approximately £3.0m, comprising the net effect of sales lost due to the closure of stores, less the cost savings flowing from actions taken within the business, and from Government support via business rates relief and payroll furlough receipts. As such, in the absence of COVID-19, we would have expected adjusted EBITDA to have been broadly in line with the prior year, reflecting a much stronger performance in the second half of the year as the improved trading performance was supported by the increased focus on cost management.

As noted above, our trading performance was affected by the stores being closed for a period from 23 March. Furthermore, whilst the short to medium term effects of the COVID-19 pandemic are difficult to predict, it seems likely that it will take some time to return to previous levels of trading. It is also possible that consumer confidence will once again be impacted by Brexit, as the deadline for the UK's departure approaches. This has been reflected in non-cash charges being included in the FY20 accounts totalling £19.5m, to write down the carrying values of goodwill and our store assets.

Strategy

We have continued to deliver on our strategy for sustainable growth, based on four pillars. At the turn of the calendar year, and following the disappointing performance in the first half, I announced a refocus of this strategy, reducing the number of new store openings with a view to driving improved performance in our existing estate and increasing our focus on cost control whilst continuing to develop our digital channel. This action was important to ensure the business was well-placed to deliver profitable growth in the medium term. COVID-19 has clearly had a significant impact on the business and the wider retail sector and, once the true extent of this is clearer, we will reflect on our strategy and adapt it as necessary. For now, our refocused four pillar strategy remains, albeit with accelerating development of our online proposition and capacity and cost control being more important than ever. An update on progress and initiatives in each area is set out below:

1. New store rollout

At its heart, our business has been rooted in bricks and mortar retail, and an important driver of growth in recent years has been the rollout of new stores. We opened a net 37 new stores last year, including our 500th store, located in Winchester. This was an important milestone for our business and our store openings in the year take the total number in our estate to 534 at the end of the financial year. Our disciplined approach to assessing new store opportunities ensured that stores opened in the year were on track to deliver a strong payback of around one year, prior to the impact of COVID-19.

Whilst we continue to believe in the opportunity to make our unique proposition accessible to many more catchments, as noted above, at the beginning of this calendar year we took the decision to refocus our strategy by opening fewer new stores to ensure that the business could focus on driving improvement and profitability through the existing estate.

In the near term, we will continue to undertake selective new store openings but on a much smaller scale than in recent years. These openings will primarily be part of an active portfolio management approach (e.g. taking the opportunity to relocate to a better location or to save property costs) but we will also continue to consider sites on our priority target list where the landlord is willing to fund our upfront capital expenditure.

2. LFL sales growth

Notwithstanding the challenging first half, TheWorks.co.uk has a good track record of delivering LFL sales growth both in store and online, as demonstrated once again by the return to positive LFLs for the full year (prior to the enforced closure of our entire store estate in response to the COVID-19 outbreak). Our strongest point of differentiation remains our ability to offer customers the experience of discovery, driven by a constantly evolving product range and seasonal offerings complementing our core everyday ranges. This element of "discovery" coupled with providing good availability of our "core" lines encourages regular, repeat customer visits.

We launched hundreds of new products across all of our categories in the year and, in the first half of the year, we also introduced new ranges including helium balloons and kids jigsaws that proved popular with our customers. Towards the end of the first half of the year we launched a new merchandising initiative for our core stationery and art ranges, improving product display consistency and availability to aid customers' shopping of these ranges, delivering strong, double digit, sales growth in these categories. We delivered our ninth successive record Christmas with strong LFL sales growth over this

key trading period driven by continued improvements in our Christmas ranges, supported by the launch of a range of products related to the Frozen 2 film and a new 2 for £20 gifting offer.

There was no Mega Trend this year and, as mentioned above, this pulled our LFLs lower in the first half of the year as we traded against the Squishies Mega Trend in the prior year. Whilst we continue to seek, and to be first to market with, the next Mega Trend, as has always been the case, there can be no guarantee that one will materialise each year and therefore we remain focused on driving LFL sales growth through the ongoing improvement of our proposition across all of our product categories. The ongoing improvements to our proposition continue to drive increased average transaction values in stores, offsetting transactional declines from lower retail footfall.

Looking ahead to the current financial year, whilst the trading environment remains uncertain and although we expect our LFL sales to continue to be impacted during this extended period of social distancing, we believe that our unique value proposition will continue to resonate well with customers. We have invested in a new data warehouse and analysis tool that will enable us to better understand our customers and to tailor our product offering and promotions to drive sales growth. We also plan to roll out our new merchandising initiative across other categories, including our craft, kids art and craft and key seasonal ranges and will further refine our approach to space management to enhance our customer offering and drive further improvement in sales densities in our stores.

3. Multi-channel strategy

Our multi-channel offering remains one of our key differentiators in the value retail sector, with our digital channel providing customers with an extended range of products and more flexibility in the way they choose to shop.

We took the decision to make some changes to our online proposition at the start of the year, with a renewed focus on increasing the average ticket price to support profitability. This was achieved through reducing the mix of lines sold at lower price points, with these lines either being dropped from the site or pre-bundled for a multi-buy. This held back online sales growth in the first half of the year but positive momentum began to build again over the peak Christmas trading period and continued through the second half of the year.

Working closely with our third party warehousing and fulfilment partner, we improved productivity, drove cost efficiencies and traded well through the peak Christmas period. Since the COVID-19 outbreak we have successfully increased our capacity to meet the significant increase in customer demand, with online sales post lockdown to the week ended 26 April 2020, up more than three times on the equivalent period last year. We continue to work closely with our partners to plan for increased capacity through peak Christmas 2020 trading.

Our loyalty scheme remains unique to our segment of the market, helping to drive repeat visits and customer engagement. As part of the continuing evolution of the loyalty scheme, we shifted our focus to nurturing our most loyal customers, rather than merely driving high levels of new customer sign ups. We still signed up over 750k new members to our loyalty scheme, and the total number of active members at the year-end was 1.2m. The investment in our customer insights capability, noted above, will ensure that we are able to better access the data that this scheme provides helping us to better understand our customers and to tailor our product offering and promotions to drive sales growth. Prior to the lockdown and store closures our click and collect channel continued to be our fastest growing channel, driving additional footfall to, and sales in, stores.

We plan to continue to invest in our online proposition and in-store technology. We successfully launched, as planned, our new customer website in July 2020, which provides enhanced functionality and an improved customer experience. Our investment in Wi-Fi in stores also opens up further exciting opportunities in the future, for example, enabling access to our expanded ranges and online ordering through terminals within stores.

Historically we have relied on heavy promotional offers and high marketing spend to attract customers and drive our online sales. However, with the increased demand since the onset of COVID-19, and as we sought to manage sales levels within our fulfilment capacity, we have been able to move away from this model resulting in a step change to our online profitability. Online sales have remained materially higher since the reopening of our stores and are likely to continue at these levels in the future, reflecting an acceleration of the ongoing channel shift. Digital growth will therefore become an increasingly important part of our future growth. Our new web platform, the product proposition changes, the investment in increasing our fulfilment capacity and the step change in our approach to promotions and marketing spend mean we now have a significantly more stable and profitable base to build on.

4. Product margin and cost control

As a value retailer, TheWorks.co.uk has always kept a close control of costs, striving to provide customers with great value products, whilst also delivering returns for shareholders. Ensuring progress against this pillar was of even greater importance this year, due to the challenging consumer backdrop, lower LFL sales in the first half (due, in part, to the prior year Mega Trend), the continued headwind of national living and minimum wage increases and the enforced closure of all stores towards the end of the period.

In light of these challenges, we took action to identify cost savings early in the financial year to maximise further efficiencies, limit discretionary spending, reduce administrative costs and unlock savings in distribution costs. Part of the rationale for reducing new store openings was to enable the property team to focus on maximising the rent savings on the 100 plus renewals in 2020 and we began to see the benefit of that starting to come through towards the end of the financial year. We also took action to grow product margins through a range of levers, including direct sourcing from Asia, helping to partially mitigate the adverse impact of foreign exchange rate movements and promotional activity used to drive sales in the first half of the year.

Although our main priority was to ensure the health and safety of colleagues and customers, the COVID-19 outbreak, and subsequent closure of all stores, meant that we took further swift action to manage our cost base and cashflows. This included reviewing all capital expenditure plans, negotiating with landlords to reduce rents, working with suppliers to review stock intake plans and careful management of all discretionary spend, including a significant reduction in both marketing and promotional activity.

Some cost reductions were temporary, for example, income received via the government's furlough scheme, and business rates relief, Director salary and fee reductions, and online marketing expenditure. Store occupancy costs such as energy and consumables also naturally reduced during the period when the stores were closed.

Once we are through the COVID-19 pandemic, further reducing the product cost of goods sold, driving productivity improvements and cost savings in our store estate and through our supply chain and careful control of all central costs, will continue to be a significant focus for the business in the medium-term. The flexibility of our store estate with, on average, less than 3 years to the next exit point, means we remain well-positioned to adapt to the changing retail landscape.

Colleagues

Our strong culture and the "can-do" attitude of our colleagues are the foundations of our business. Every time I visit a store I am blown away by the enthusiasm that our colleagues exude, creating a fun and safe workplace environment and providing customer service which is differentiated from many in the value retail space.

I am incredibly proud that this strong, family, culture was recognised in The Sunday Times "Top 25 Best Big Companies" to work for, for the second year running. It was clear from listening to feedback from our colleagues as part of this survey that they wanted a new set of core values and behaviours that better captured what it means to be part of The Works Family, something that they could better relate

to and be passionate about. We will shortly be launching a new Employer Brand Promise with a set of values and behaviours that capture the sense of the work ethic that we value, the spirit we value, and the core ability of the people we value.

We also launched our Save as You Earn ("SAYE") scheme to encourage share ownership across our workforce. It has been pleasing to see the level of interest from colleagues, with a 10 per cent. uptake. We have also welcomed 1,386 new colleagues this year and have promoted over 400.

Our business has faced unprecedented challenges in recent months and I have been touched by the level of support provided by colleagues across the business and the understanding displayed in response to the difficult decisions we have had to make since the onset of the COVID-19 pandemic. We have made it our priority to keep colleagues informed about each business development and ensured that all furloughed colleagues continued to feel like a valued part of TheWorks family. A Facebook group was launched to keep colleagues connected during this period of uncertainty and their engagement with it has continued post-lockdown, with over 1,500 members.

I would like to take this opportunity to thank our fantastic colleagues across the business for their relentless hard work and commitment over the last year, in particular for how they have come together in recent months to help ensure the future of our business.

During the year we continued to build the management team to drive the business through its next phase of growth, welcoming new directors to lead our Property, Retail Stores and IT teams.

Corporate social responsibility

We view each of our stores as playing an important role at the heart of communities; serving customers in a welcoming store environment, providing employment and contributing to the fabric of local life.

As a responsible business, we recognise the importance of reducing our impact on those we interact with and the environment and communities we operate in. A key part of this includes our commitment to reducing waste packaging which we continue to focus on under our "Keen to be Green" initiative which includes the use of our "ReWorked" logo on products where we have reviewed our packaging to reduce waste. As an example, by reworking the 2020 Christmas card packaging, we saved over 3 tonnes of single use plastic. Other initiatives and changes to packaging this year as part of our re-worked strategy saved a further 4.5 tonnes of single-use plastic waste.

This year we have further developed our partnership with Cancer Research UK. Through the support of both our colleagues and customers we continued to make significant contributions to this worthy cause, and I am incredibly proud that, through the sale of branded products and specific fund-raising activities, we raised £360k this year, taking our total donation to £888k since our partnership began.

Summary and outlook

Despite the challenges our business has faced over the last year, I am pleased that we gained momentum during the second half of the year, with a return to positive LFL growth, before lockdown. We took decisive action at the turn of the calendar year to refocus our strategy, and the initiatives launched to drive further profitable growth will help us navigate these uncertain times.

I am proud of the way we have navigated through the COVID-19 pandemic to date. During this period there have been two key considerations in all the decisions we have taken and will continue to take.

The first is the wellbeing of our colleagues. This is the reason we chose to shut stores before the Government enforced mandatory closures, has been our priority whilst enabling our online sales capacity to increase and was our primary consideration when planning the reopening of stores. We want our colleagues to feel safe whilst at work and will therefore continually review our social distancing measures to ensure they remain effective and appropriate.

The second consideration is the financial viability of our company. We welcome the support provided by the Government to businesses through the coronavirus pandemic, particularly the Coronavirus Job Retention Scheme and the business rates holiday. We have taken costs out of the business wherever possible, carefully managed cash and have agreed a refinancing with our banks which has provided access to a further £7.5m of funding via the Government's CLBILS scheme and extended our £25m RCF expiry date to September 2022.

We look ahead acknowledging that life and consumer behaviours will be different for some time. With an extended period of social distancing being likely, it is hard to predict the timing and extent to which store sales will return to previous levels. The four pillars of our strategy remain unchanged, however, we have refocused our short term priorities to reflect the current environment and our business performance, in particular accelerating our digital growth and focusing on cost control. Once the impact of COVID-19 on the business and the wider retail sector is clearer, and we have greater visibility of what the new normal looks like, we will reflect on our strategy and adapt it as necessary to ensure that it remains appropriate. Despite the challenges ahead, the Board and I remain confident in our multi-channel proposition and believe that, in the current environment, our product offering is more relevant than ever as supported by our performance since the reopening of our stores.

Financial Review

Overview & Covid-19 impact

The "FY20" accounting period relates to the 52 weeks ended 26 April 2020 and the comparative "FY19" accounting period relates to the 52 week period ended 28 April 2019.

The Group tracks a number of alternative performance measures, as it believes that these provide stakeholders with additional helpful information. Alternative performance measures used in this report include EBITDA, adjusted EBITDA and like for like ("LFL") sales. These are described more fully in note 2 of the extracts from the financial statements included within this report.

The statutory profit before tax ("PBT") for the year was a loss of £18.0m (FY19: profit of £2.3m) and the Adjusted PBT was £2.4m (FY19: £6.9m). Costs of £20.4m have been presented on the face of the Consolidated Income Statement as Adjusting Items (note 3), of which, £19.5m relates to non cash impairment charges. The pre IFRS 16 adjusted EBITDA was £10.8m (FY19: £13.9m), a £3.1m or 22.3 per cent. decline compared to the FY19 result.

FY20's financial performance was characterised by a disappointing first half of the year, followed by a much stronger performance over the key Christmas trading period, continuing into a good start to the new calendar year, before ours and the UK Government's response to the COVID-19 situation required the closure of all stores in March.

The closure of the stores for over a month of the financial year had a material impact on the year's trading financial performance, but the financial effects of COVID-19 were broader, requiring revisions to internal forecasts which resulted in impairment charges against the carrying values of goodwill and fixed assets

- We estimate that the adverse trading impact of COVID-19 on the pre IFRS 16 adjusted EBITDA was approximately £3.0m, comprising the net effect of sales lost due to the closure of stores, less the cost savings flowing from actions taken within the business, and from Government support via business rates relief and payroll furlough receipts.

- The impact of COVID-19 also resulted in the impairment of store assets and goodwill, of £3.3m and £16.2m, respectively, which have been treated as adjusting items. These items are described in more detail in notes 5 and 6 of the extracts from the financial statements.

The implementation during the year of IFRS 16 also had a material impact on the shape of the financial statements. Note 8 of the extracts from the financial statements includes detail of the transition. Notably, transitioning to accounting under IFRS 16 results in an initial reduction to net assets of £6.1m. The implementation of IFRS 16 does not impact the cash position or cash flows of the Group.

Due to rounding, numbers presented throughout this document may not add up precisely to the totals provided and percentages may not precisely reflect the absolute figures.

Revenue analysis

Total revenue during the year increased by 3.5 per cent. to £225.0 million (FY19: £217.5 million). LFL sales for the period from 29 April 2019 until 22 March 2020, the day before all stores were closed due to the COVID-19 outbreak, increased by 0.7 per cent. compared with the prior year, with growth both in stores and online.

The table on the following page shows the quarterly LFL results, highlighting the return to positive growth during the second half of the year, prior to the closure of the stores. As noted in January's interim results statement, LFLs in the first half of the financial year did not benefit in the same way as in FY19 from a "mega trend".

	FY20 LFL sales inc. VAT £m	FY19 LFL sales inc. VAT £m	LFL sales growth %
Q1	41.5	42.6	(2.5)%
Q2	53.6	56.1	(4.4)%
H1	**95.2**	**98.7**	**(3.6)%**
Q3	91.1	89.9	1.3%
Q4*	32.3	28.4	13.7%
H2	**123.4**	**118.3**	**4.3%**
Full Year	**218.6**	**217.0**	**0.7%**

* Stores and online up until lockdown.

Sales growth of £19.5m was generated from the net effect of 37 new stores opened during the financial year (51 opened and 14 closed), the full year sales effect of stores opened during FY19 prior to being classified as “like for like”, less the reduction in sales from stores closed during the year which traded for a full year during FY19.

The table below shows LFL and non LFL sales growth, with a reconciliation of sales used to calculate the LFL, with revenue.

	FY20 £m	FY19 £m	Variance £m	Variance %
LFL sales pre lockdown (per the preceding table)	218.6	217.0	1.5	0.7%
LFL sales during lockdown	4.9	17.7	(12.8)	(72.4)%
Total LFL sales for period	**223.5**	**234.7**	**(11.3)**	**(4.8)%**
Sales from new/closed stores	**31.2**	**11.7**	**19.5**	**167.5%**
Total Gross Sales	**254.6**	**246.4**	**8.3**	**3.4%**
VAT	(27.9)	(26.9)	(1.1)	(3.9)%
Loyalty Points	(1.7)	(2.0)	0.4	18.0%
Turnover per statutory accounts	**225.0**	**217.5**	**7.6**	**3.5%**

The cost of loyalty points issued declined as a result of an increased focus during the year on the most loyal customers, as part of the continuing evolution of the loyalty scheme. Previously, a greater emphasis had been placed on growing the absolute number of members, which entailed issuing more points.

Product gross margin and adjusted cost of sales

Product gross margin

Product gross margin is the difference between revenue and the cost of goods sold. The product gross margin declined by 90bps to 61.8 per cent. (FY19: 62.6 per cent.).

	FY20 £m	FY19 £m	Variance £m	Variance %
Revenue	225.0	217.5	7.6	3.5%
Cost of goods sold	86.1	81.2	4.8	6.0%
Product gross margin	**139.0**	**136.2**	**2.7**	**2.0%**
Product gross margin %	61.8%	62.6%	(0.9%)	

Adjusted cost of sales

Pre-IFRS 16 cost of sales analysis	FY20 £m	FY20 % of revenue	FY19 £m	FY19 % of revenue	£m Increase	% Increase
Cost of goods sold	86.1	38.2	81.2	37.4	4.8	6.0
Store payroll	42.1	18.7	37.2	17.1	4.9	13.2
Store property costs	45.3	20.1	42.2	19.4	3.1	7.4
Other direct costs	14.5	6.5	14.3	6.6	0.3	1.9
Cost of sales (per internal reporting)	**188.0**	**83.5**	**174.9**	**80.4**	**13.1**	**7.5**
Depreciation within cost of sales	5.2	2.3	4.1	1.9	1.2	28.7
IFRS16 impact (non adjusting element)	(2.7)	(1.2)	0.0	0.0	(2.7)	100.0
Adjusting items	4.1	1.8	0.1	0.0	4.0	>100.0
Cost of sales per statutory accounts	**194.7**	**86.5**	**179.0**	**82.3**	**15.6**	**8.7**

Cost of goods sold

This comprises the cost of finished goods and other related costs including import duty and freight/carriage costs.

The cost of goods sold increased by £4.8m compared with FY19; £2.8m of this increase was due to the increase in revenue. In relation to the increase which was not volume related:

- There were underlying margin improvements as a result of initiatives to improve the bought in margin, for example increasing the proportion of purchases made directly from overseas suppliers rather than via importers and increasing the mix of product sourced from overseas, and increasing the mix of own brand product which carries a higher margin.
- The gains in bought in margin were more than offset by a higher level of discounting during the first half of the year, and unfavourable exchange rate movements compared to FY19, affecting dollar denominated stock purchases throughout the year.

Store payroll

Store payroll costs increased by £4.9m compared with FY19.

- £3.6m or 73 per cent., of the increase was a result of opening new stores; at the end of FY20, the group traded from 534 stores, compared with 497 at the end of FY19.
- The remainder was due to:
  - The 4.9 per cent. statutory increase in national living and minimum wages, which affects the majority of store colleagues and, under normal operations, due to the characteristics of small stores, there is limited scope to mitigate against this.
  - A £0.3m increase in the provision for holiday pay due to colleagues being unable to take holiday during the final quarter of the year due to the COVID-19 lockdown.

Store property costs

This heading includes store rents, business rates and service charges; store utility and maintenance costs are classified within “Other direct costs”, as described below.

Store property costs increased by £3.1m compared with FY19. The increase in store numbers resulted in property costs increasing by £4.0m, which was partially mitigated by like for like rent reductions through negotiations with landlords.

Other direct costs of sale

This classification includes card payment transaction fees, store utility costs, store maintenance costs, online marketing costs, online fulfilment labour costs and store point of sale material costs (window graphics, in-store promotional signage etc.).

This cost category is largely variable in relation to the number of stores and to growth in online sales, and would therefore have been expected to increase by approximately £0.8m due to the opening of additional stores and from increased online sales. In FY19, costs were higher than normal, due to challenges faced fulfilling online sales during the first peak trading period with a new third-party logistics provider; these issues did not recur in FY20, resulting in a year on year saving and there were also other efficiency savings achieved in FY20.

Operating income and expenses (pre. IFRS 16 and adjusting items)

Other operating income

Other operating income was £4.7m (FY19: £0.0m). During the period from the beginning of lockdown in March until the year-end, the Group received £3.6m via the Government's Corona Virus Job Retention Scheme in relation to staff who had been furloughed following the reduction in operations in its distribution centre, and the closure of the Group's retail stores and head office. It also received £1.0m during this period in COVID-19 business rates relief.

Expenses

Expense comparison:	**FY20**		**FY19**			
	£m	**% of revenue**	**£m**	**% of revenue**	**£m Increase**	**% Increase**
Adjusted distribution costs	**12.4**	**5.5**	**11.8**	**5.4**	**0.6**	**5.5**
Depreciation	0.2	0.1	0.2	0.1	(0.0)	(8.1)
Adjusting items	0.0	0.0	0.5	0.2	(0.5)	(100.0)
Distribution costs per statutory accounts	**12.7**	**5.6**	**12.5**	**5.8**	**0.1**	**1.1**
Pre-IFRS 16, adjusted administration costs	**18.5**	**8.2**	**17.0**	**7.8**	**1.4**	**8.5**
Depreciation	1.6	0.7	1.6	0.7	(0.1)	(4.1)
IFRS 16 impact (non adjusting element)	(0.4)	(0.2)	(0.0)	(0.0)	(0.4)	933.5
Adjusting items	16.3	7.2	4.1	1.9	12.1	292.8
Administration costs per statutory accounts	**35.9**	**16.0**	**22.8**	**10.5**	**13.1**	**57.7**

Distribution costs

Distribution costs include the cost of picking and delivery of stock, with the exception of direct labour costs incurred in fulfilling online orders, which are included in "Other direct costs" as described above. Distribution costs increased by £0.6m, 5.5 per cent. compared with FY19.

- A third-party provided online fulfilment services throughout the whole of FY20 whereas this applied only to part of FY19.

- Payroll costs increased due to inflation (statutory increases) and the increased volumes processed.
- Cost savings were achieved as a result of various internal initiatives to improve efficiency.

Administration costs

Administration costs include rent and rates for the Group's head office and distribution centre and the payroll and overhead cost of the head office and retail field support teams. Administration costs increased by £1.4m, 8.5 per cent. compared to the prior year.

- Head office payroll costs increased by £0.6m, principally due to the full year effect of an FY19 investment in supply chain capability, and pay increases in line with inflation.
- The most notable other variances were savings in travel costs, and increases in IT costs and professional fees. Professional fees included advice in connection with maximising the use of capital allowances, supply chain capacity during the peak trading period, and the full year effect of certain plc costs including company secretarial services.

Adoption of IFRS 16 - Leases

During the period, the Group adopted IFRS 16 'Leases' for the first time. IFRS 16 specifies how to recognise, measure, present and disclose leases and replaces IAS17 'Leases'.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 April 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 and related interpretations.

The net impact on profit before tax for the period was an expense of £3.7m, which includes additional impairment charges relating to IFRS 16 of £2.8m. Before the additional impairment charge, the impact of the transition would have been an expense of £0.9m. Further information is provided in notes 1(b) (ii), 2 and 8 of the extracts from the financial statements. The net impact on Adjusted EBITDA was a credit of £23.4m, principally because IFRS 16 does not recognise the concept of rental charges.

Adjusting items

Adjusting items before tax in the period amounted to £20.4m (2019: £4.5m), analysed below. £19.5m relates to impairment of store property, plant and equipment, and goodwill to reflect the uncertainties associated with the current environment. Refer also to note 3 of the extracts from the financial statements.

	FY20 £m	FY19 £m
Within cost of sales		
Impairment charges (net)	3.3	0.0
Provision for previously underpaid duty	0.8	0.0
Other	0.0	0.1
	4.1	0.1
Within distribution expenses		
FY19 E-commerce fulfilment upgrade	0.0	0.5
	0.0	0.5
Within administration expenses		
Impairment of goodwill	16.2	0.0
FY19 Financing costs and IPO	0.0	4.1
Other	0.1	0.0
	16.3	4.1
Within finance expenses		
FY19 accrual release arising on IPO refinance	0.0	(0.2)
	0.0	(0.2)
Total adjusting items (before tax)	**20.4**	**4.5**

Net financing expense

Net financing costs in the year were £4.5m (FY19: £0.8m), including £4.0m relating to interest on lease liabilities as a result of introducing IFRS 16. FY19's comparative included costs relating to the 2018 IPO, and part of FY19's net financing expense reflected the pre-IPO capital structure, which had higher levels of debt.

Bank interest payable was £0.4m (FY19: £0.2m), reflecting greater use of the Group's bank facilities during the year.

Foreign exchange

Over one-third of the Group's stock purchases are made in US dollars. The Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations.

Adverse FX movements compared to FY19 increased the cost of sales in FY20 by £1.3m. FY20's average hedged rate was c. $1.27.

For FY21, most of the anticipated dollar requirements have been hedged via forward contracts, at an average rate of c. $1.30.

Hedge accounting is used to account for FX hedging contracts, to minimise unnecessary volatility in earnings.

Profit/loss before tax

The statutory loss before tax was £18.0 million in the year (FY19: £2.3 million profit).

Adjusted profit before tax

Adjusted profit before tax was £2.4 million in the year (FY19: £6.9 million). The adjusted profit before tax margin of the Group decreased from 3.2 per cent. to 1.1 per cent.

Tax

The Group's total income tax credit in respect of FY20 was £0.3m (FY19: charge of £1.2m). The effective tax rate on the total loss before tax was 1.5 per cent. (28 April 2019: 51.80 per cent.) whilst the adjusted tax rate was 21.7 per cent. (28 April 2019: 21.6 per cent.).

The difference between the total effective tax rate and the adjusted tax rate for FY20 relates to goodwill impairment within adjusting items (notes 3 and 5) being non-deductible for tax purposes (FY19: related to certain non-recurring costs associated with the listing being non-deductible for tax purposes).

A provision of £0.8m has been included in connection with a review of duty rates paid on goods imported during the previous three years, which has been treated as an adjusting item. The rates of duty vary by product category, and judgements are required in the application of rates to individual products. The Company has been working with HMRC to quantify the underpayment, and the provision reflects the Company's best estimate of the average applicable rate, based on samples reviewed.

Earnings per share

The basic and diluted loss per share for the year were 28.3 pence (FY19: earnings of 1.9 pence).

Before adjusting items, basic and diluted underlying earnings per share for the year were 3.0 pence (FY19: 9.2 pence).

Capital expenditure

Gross capital expenditure amounted to £8.7 million in the year (FY19: £8.5m), of which £4.8 million related to new stores. Other capex included £1.4 million development costs of the new web platform (which was subsequently launched in July 2020) and £0.6 million to install Wi-Fi in stores and replace hand held product scanning devices to improve efficiency.

	FY20 £'m	FY19 £'m	Variance £m
New stores and relocations	4.8	5.0	0.2
Store refits and rebrands	0.4	0.7	0.3
IT hardware and software	0.8	1.0	0.2
Web development	1.4	0.4	(1.0)
Other	1.3	1.3	0.0
Total capital expenditure (per additions)	**8.7**	**8.5**	**(0.2)**
Capital expenditure on finance lease	0.0	(0.3)	(0.3)
Net capital expenditure (per cashflow)	**8.7**	**8.2**	**(0.5)**

As a consequence of both the decision to open fewer new stores (taken pre COVID-19), and of the decision to reduce capital expenditure to preserve liquidity in light of COVID-19, capital expenditure during FY21 is expected to be approximately £3.0m.

A small number of new stores will open, where the Company was legally committed prior to the decision to reduce the opening programme; in addition, the Board will consider, on a case by case basis, opportunities to open stores in strategically important locations, where the landlord is prepared to fund fit out costs, such that the store is cash generative immediately following opening.

With the transition to IFRS 16, the separate analysis of fixed asset additions funded via a finance lease is no longer applicable, but the comparative is retained for FY19 to allow the totals in the table above to be linked to the financial statements.

Inventory

Inventory levels were £26.6m at the end of FY20 (FY19: £25.2m), an increase of 5.5 per cent. Given that the stores were closed during April, we are satisfied with this level of increase.

The loss of sales due to the store closures during lockdown has not created a heightened risk with regard to stock levels during FY21. This is a result of careful management of orders and working with suppliers to reduce or delay the intake of stock, and of higher than expected online sales since the beginning of the crisis, as well as store sales since re-opening.

Cashflow

The table on the following page shows an abbreviated summarised cashflow presentation to aid the description of the significant cashflow movements during the period. “Cashflow pre-working capital” in the table below is derived from management reports; the financial statements include a statutory consolidated cashflow statement.

	FY20	FY19	Variance
	£m	£m	£m
Cashflow pre-working capital	9.2	10.6	(1.4)
Working capital	(8.1)	(0.3)	(7.8)
Capex	(8.7)	(8.2)	(0.5)
Tax paid	(1.0)	(1.2)	0.2
Interest	(0.2)	(1.4)	1.1
IPO financing cashflows	0.0	(2.7)	2.7
Dividends	(2.3)	(0.8)	(1.5)
Cashflow before drawdown of RCF	(11.1)	(3.8)	(7.3)
Drawdown of RCF	10.0	0.0	10.0
Net decrease in cash and cash equivalents[1]	(1.1)	(3.8)	2.7

[1] Note that this total is cash and cash equivalents and excludes exchange rate movements.

During the year the Group drew down £10.0m of its £25.0m revolving credit facility ("RCF"). Prior to taking account of this the net cash outflow for the year was £11.1m (FY19: £3.8m).

Working capital outflows of £8.1m include a year-end debtor of £3.7m in relation to furlough receipts (received post year-end), an inventory increase of £1.4m and a £3.0m reduction in creditors which was timing related.

Borrowing, bank facilities and financial position

The Group's net drawing on its bank facilities as at 26 April 2020 was £7.1m (FY19: cash in hand of £3.7m). Please refer to note 7 of the extracts from the financial statements.

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with its lending bank to enhance and extend the facilities, as follows:

- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m term facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure

These enhancements to the facility provide useful additional headroom, and greater certainty as to the availability of funding, and indicate continued support for the business from its bank.

As a result of the COVID-19 pandemic, the Board has taken steps to reduce costs and increase liquidity. It has also produced scenarios to quantify the possible impacts on liquidity of applying differing assumptions about how the pandemic might affect future trading. Further details are included in note 1 (b) of the extracts from the financial statements.

Dividends

At the time of IPO, the Board stated an intention to adopt a progressive Dividend Policy. A final dividend of 2.4 pence per share in respect of FY19 was paid in September 2019 and an interim dividend of 1.2 pence per share in respect of FY20 was paid in March 2020.

As noted above, the Group has emerged from the spring 2020 COVID-19 lockdown period with adequate liquidity. Notwithstanding this, the outlook remains uncertain, and continuing to maximise liquidity will remain a top priority until the Board has sufficient certainty about the future to take a different stance or, the liquidity buffer reaches a level where maintaining a higher level of liquidity would be deemed unnecessary. Consequently, the Board will not be proposing payment of a final dividend in relation to FY20.

Gavin Peck

Director
27 August 2020

Consolidated Income Statement

For the year ended 26 April 2020

	Note	52 weeks to 26 April 2020			52 weeks to 28 April 2019 (Restated – Note 1c)		
		Result before adjusting items £000	**Adjusting items £000**	**Total £000**	**Result before adjusting items** £000	Adjusting items £000	Total £000
Revenue		**225,042**	**-**	**225,042**	217,469	-	217,469
Cost of sales		**(190,557)**	**(4,110)**	**(194,667)**	(178,882)	(130)	(179,012)
Gross profit		**34,485**	**(4,110)**	**30,375**	38,587	(130)	38,457
Other operating income		**4,677**	**-**	**4,677**	8	-	8
Distribution expenses		**(12,656)**	**-**	**(12,656)**	(12,025)	(495)	(12,520)
Administrative expenses		**(19,619)**	**(16,295)**	**(35,914)**	(18,668)	(4,148)	(22,816)
Operating profit / (loss)	4	**6,887**	**(20,405)**	**(13,518)**	7,902	(4,773)	3,129
Finance income		**12**	**-**	**12**	20	-	20
Finance expenses		**(4,466)**	**-**	**(4,466)**	(1,064)	240	(824)
Net financing expense		**(4,454)**	**-**	**(4,454)**	(1,044)	240	(804)
Profit / (loss) before tax		**2,433**	**(20,405)**	**(17,972)**	6,858	(4,533)	2,325
Taxation		**(529)**	**799**	**270**	(1,481)	276	(1,205)
Profit / (loss) for the period		**1,904**	**(19,606)**	**(17,702)**	5,377	(4,257)	1,120
Profit before tax and IFRS 16	2,3	**3,338**	**(17,560)**	**(14,222)**	6,858	(4,533)	2,325
Basic earnings per share (pence)		**3.0**		**(28.3)**	9.2		1.9
Diluted earnings per share (pence)		**3.0**		**(28.3)**	9.2		1.9

Profit for the period is attributable to equity holders of the Parent.

Consolidated Statement of Comprehensive Income

For the year ended 26 April 2020

	2020 £000	2019 £000
(Loss)/Profit for the year	**(17,702)**	1,120
Items that may be recycled subsequently into profit and loss		
Cash flow hedges - changes in fair value	**932**	96
Cash flow hedges - reclassified to profit and loss	**(91)**	2
Cost of hedging reserve - changes in fair value	**312**	37
Cost of hedging reserve - reclassified to profit and loss	**(197)**	(17)
Tax relating to components of other comprehensive income	**(248)**	-
Other comprehensive income for the period, net of income tax	**708**	118
Total comprehensive loss/income for the period attributable to equity shareholders of the Parent	**(16,994)**	1,238

Consolidated Statement of Financial Position

As at 26 April 2020

	Note	2020	2019
		£000	£000
Non-current assets			
Intangible assets	5	**3.194**	18,494
Property, plant and equipment	6	**21,061**	20,786
Right of use assets	8	**116,763**	-
Deferred tax assets		**1,802**	351
		142,820	39,631
Current assets			
Inventories		**26,594**	25,157
Trade and other receivables		**8,130**	17,589
Derivative financial asset		**1,531**	158
Current tax asset		**687**	-
Cash and cash equivalents	7	**6,546**	3,687
		43,488	46,591
Total assets		**186,308**	86,222
Current liabilities			
Bank overdraft	7	**3,605**	-
Interest-bearing loans and borrowings	7	**9,938**	(45)
Lease liabilities	7	**22,002**	275
Trade and other payables		**26,189**	46,646
Provisions		**979**	218
Derivative financial liability		**-**	25
Current tax liabilities		**-**	300
		62,713	47,419
Non-current liabilities			
Interest-bearing loans and borrowings	7	**(11)**	(91)
Lease liabilities	7	**110,200**	494
Provisions		**-**	63
		110,189	466
Total liabilities		**172,902**	47,885
Net assets		**13,406**	38,337
Equity attributable to equity holders of the parent			
Share capital		**625**	625
Share premium		**28,322**	28,322
Merger reserve		**(54)**	(54)
Share-based payment reserve		**1,506**	1,373
Hedging reserve		**1,171**	144
Retained earnings		**(18,164)**	7,927
Total equity		**13,406**	38,337

Consolidated Statement of Changes in Equity

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
Balance at 29 April 2018	-	51,500	(51,500)	-	-	7,950	7,950
Total comprehensive income for the period							
Profit for the period	-	-	-	-	-	1,120	1,120
Other comprehensive expense	-	-	-	-	118	-	118
Total comprehensive income for the period	-	-	-	-	118	1,120	1,238
Hedging gains and losses and costs of hedging transferred to the cost of inventory (note 24)	-	-	-	-	26	-	26
Transactions with owners of the Company							
Effect of group reconstruction							
Bonus issue of shares	54	(54)	-	-	-	-	-
Capital reduction	-	(51,446)	51,446	-	-	-	-
Second bonus issue	393	-	-	-	-	(393)	-
Issue of shares on IPO	178	28,322	-	-	-	-	28,500
Share based payment charges	-	-	-	1,373	-	-	1,373
Dividend (note 11)	-	-	-	-	-	(750)	(750)
Total transactions with owners	625	(23,178)	51,446	1,373	-	(1,143)	29,123
Balance at 28 April 2019	**625**	**28,322**	**(54)**	**1,373**	**144**	**7,927**	**38,337**
Transition to IFRS 16	**-**	**-**	**-**	**-**	**-**	**(6,139)**	**(6,139)**
Restated Balance at 29 April 2019	**625**	**28,322**	**(54)**	**1,373**	**144**	**1,788**	**32,198**
Total comprehensive income for the period							
(Loss)/Profit for the period	**-**	**-**	**-**	**-**	**-**	**(17,702)**	**(17,702)**
Other comprehensive income	**-**	**-**	**-**	**13**	**695**	**-**	**708**
Total comprehensive income for the period	**-**	**-**	**-**	**13**	**695**	**(17,702)**	**(16,994)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory (note 24)	**-**	**-**	**-**	**-**	**332**	**-**	**332**
Transactions with owners of the Company							
Share based payment charges	**-**	**-**	**-**	**120**	**-**	**-**	**120**
Dividend (note 11)	**-**	**-**	**-**	**-**	**-**	**(2,250)**	**(2,250)**
Total transactions with owners	**-**	**-**	**-**	**120**	**-**	**(2,250)**	**(2,130)**
Balance at 26 April 2020	**625**	**28,322**	**(54)**	**1,506**	**1,171**	**(18,164)**	**13,406**

[1]Hedging reserve includes £137,387 (2019: £19,090) in relation to changes in forward points which are recognised in other comprehensive income and accumulated as a cost of hedging within the hedging reserve.

Consolidated Cash Flow Statement
For year ended 26 April 2020

	2020	2019
	£000	£000
(Loss) / Profit for the year (including adjusting items)	**(17,702)**	1,120
Adjustments for:		
Depreciation of property, plant and equipment	**5,261**	4,912
Impairment of property, plant and equipment	**509**	176
Reversal of impairment of property, plant and equipment	**(176)**	(135)
Depreciation of right of use assets	**20,611**	-
Impairment of right of use assets	**2,991**	-
Amortisation of intangible assets	**1,170**	1,049
Impairment of intangible assets	**16,180**	-
Derivative exchange loss / (gain)	**(290)**	(16)
Financial income	**(12)**	(20)
Financial expense	**425**	801
Interest on lease liabilities	**4,041**	23
Loss on disposal of property, plant and equipment	**299**	403
Loss on disposal of right of use asset	**795**	-
Profit on disposal of lease liability	**(870)**	-
Share based payment charges	**120**	1,351
Taxation	**(270)**	1,205
Operating cash flows before changes in working capital	**33,082**	10,869
Decrease / (Increase) in trade and other receivables	**6,336**	(365)
Increase in inventories	**(1,410)**	(3,635)
(Decrease) / Increase in trade and other payables	**(13,822)**	3,643
Increase in provisions	**792**	102
Cash flows from operating activities	**24,978**	10,614
Corporation tax paid	**(1,039)**	(1,221)
Net cash inflow from operating activities	**23,939**	9,393
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(6,625)**	(7,120)
Acquisition of intangible assets	**(2,050)**	(1,044)
Interest received	**12**	20
Net cash outflow from investing activities	**(8,663)**	(8,144)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(19,829)**	(241)
Payment of lease liabilities (interest)	**(4,041)**	(23)
Other interest paid	**(230)**	(1,357)
Proceeds from share issue	**-**	28,500
Dividends paid	**(2,250)**	(750)
Repayment of bank borrowings	**-**	(31,200)
Issue of bank loan	**10,000**	-
Net cash outflow from financing activities	**(16,350)**	(5,071)
Net decrease in cash and cash equivalents	**(1,074)**	(3,822)
Exchange rate movements	**328**	89
Cash and cash equivalents at beginning of year	**3,687**	7,420
Cash and cash equivalents at end of year	**2,941**	3,687

Notes

1. Accounting policies

(a) General information

TheWorks.co.uk plc (the Company) is a public limited company (11325534) domiciled in the United Kingdom and its registered office is Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham, B46 1AL. These consolidated financial statements for the year ended 26 April 2020 comprise the Company and its subsidiaries (together referred to as 'the Group').

TheWorks.co.uk plc is one of the UK's leading multi-channel value retailers of; gifts, arts & crafts, stationery, toys, and books offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Works sells its quality products at affordable prices across four specialist categories comprising; Kids; Arts, Crafts & Hobbies, Stationery and Family Gifts, which are supplemented by both seasonal and regional offerings.

The Group operates a network of over 500 stores in the UK & Ireland. Stores can be found on high-streets, in retail parks, shopping centres, factory outlets and as concessions in various locations. The Works also has a significant and growing online presence that enables customers to shop any time of the day, with an extended range of products not available in stores. This multi-channel offering is one of the first of its kind in the value retail sector and includes a popular Click & Collect service, driving additional footfall and sales in store.

These extracts from the consolidated financial statements are presented in pounds sterling and all values are rounded to the nearest thousand (£000), except when otherwise indicated.

(b) Basis of preparation

The financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) and IFRS Interpretations Committee (IFRS IC) interpretations, as adopted by the European Union, and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

The preparation of financial statements in conformity with Adopted IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, future budgets and forecasts, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant judgements and estimates relate to the classification of adjusting items, hedge accounting, and impairment of property, plant and equipment, right of use assets and intangibles, and are described in Note 1(v).

(i) Going concern

The financial statements have been prepared on a going concern basis, which the directors consider appropriate for the reasons set out below.

The Directors have assessed the prospects of the Group, taking into account the Group's current position and the potential impact of the principal risks documented on pages 44 to 50.

The Group operates a plan, within which, scenario planning and stress testing has been carried out.

In assessing the basis of preparation the Directors have considered:

- The external environment.
- The Group's financial position and bank facilities.
- Measures taken to increase and maintain liquidity.

- The potential impact on the financial performance of the business of the risks described in the Strategic Report.
- The output of a "Base Case" scenario financial model, which includes the impact on the Group's three year plan of the recent COVID-19 lockdown, and an estimate of the most likely continued effect on trading.
- The resilience of the Group to the manifestation of a more severe impact of these risks, evaluated via a revised model referred to as the "Reasonable Worst Case" ("RWC") scenario financial model.
- The availability and expected effectiveness of any mitigating actions that would be taken in response to circumstances arising such as those modelled under the RWC.
- The Board has considered the impact on the Group's cash flows, headroom and covenants.

These factors are described below.

The Base Case and RWC scenario models cover a period of three years. The outputs of the models for the first eighteen months of this period (the "Going Concern Period") have been used to make a judgement regarding using the Going Concern basis of preparation of the financial statements.

External environment

There continues to be significant uncertainty as to the future impact on the Group of the COVID-19 global pandemic; the potential effects of this have been considered as part of the Group's viability assessment and its confirmation of the adoption of the going concern basis. In March 2020, all of the Group's retail stores closed to protect its employees and customers, in accordance with various national government requirements.

The online channel traded successfully throughout the period of lockdown; certain retail concession stores reopened in May 2020, with the majority of stores opening during June when the easing of government restrictions permitted. Sales from the online channel, during lockdown, and store sales since the end of lockdown, have been better than the Board's initial expectations. Despite this, there remains uncertainty, for example, over how long social distancing measures will be required to be in place and the possible effects on the level of consumer demand.

The lack of clarity arising from the UK leaving the European Union also creates increased levels of economic and consumer uncertainty and, consequently, the longer-term impact this may have on the Group also remains uncertain.

Financial position and bank facilities

The cash and borrowings of the Group at the period end are shown in note 7 (Borrowings) of the extracts from the financial statements.

The Group's net debt balance drawn from its principal lending bank at 26 April 2020 was £7.1m (2019: net cash of £3.7m), which comprised a draw-down of £10.0m against its revolving credit facility ("RCF") and cash balances of £2.9m.

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with HSBC to enhance and extend the facilities, as follows:

- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m term facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure.
- The EBITDA and net debt covenants are based on limits set and measured every month. The EBITDA covenant is measured with reference to EBITDA over the last twelve months (LTM). The

group's ability to meet the EBITDA covenant is heavily influenced by trading during the peak months of November and December.

Measures to maintain liquidity

The Directors have implemented a number of measures to maintain or improve liquidity including cutting costs, temporarily suspending dividends, scaling back capital expenditure, agreeing rent reductions and/or deferrals with landlords, cancelling or deferring stock purchases and agreeing revised payment terms with suppliers.

The Group will also benefit from approximately £13m of business rates relief between the beginning of lockdown and the end of FY21. In addition, the government's job retention scheme to help meet the cost of furloughed roles contributed cash savings of approximately £8m, between the beginning of lockdown, and the end of July 2020.

As a result of the steps taken by the Board and the support received from the Government schemes, the Group's cost base was significantly lower than normal during the lockdown period. Although the reopening of stores has inevitably resulted in expenditure increasing from lockdown levels, operating and overhead cost savings will be maintained to the fullest extent possible.

Given the foregoing, and as noted above, to assist the Board in confirming the continued appropriateness of using the going concern basis in the preparation of the financial statements, and in making its assessment of the Group's viability, two financial scenarios have been prepared to quantify the possible impacts on liquidity of applying differing assumptions. These scenarios cover the FY21 to FY23 financial years (the "Projection Period"). It is emphasised that these are not forecasts, but models used to assist the Board in connection with viability and going concern considerations.

Potential impact of risks on financial scenarios

The "Principal risks and uncertainties" section on pages 44 to 50, sets out the risks that the Board considers could threaten its business model, future performance, solvency or liquidity.

It is considered unlikely that all risks would manifest themselves simultaneously and/or all in a direction that would adversely affect the business. The Directors have estimated what a reasonably likely combination of risks might be that could materialise within the next three years and how the business might be affected. The most prominent risks in the near term would appear to be connected with COVID-19, which could affect sales, costs and liquidity. Other risks, such as market and economic environment could have similar manifestations to COVID-19, and Brexit could impact these areas as well as supply chain.

Taking these factors into consideration, the Directors have prepared scenarios which seek to show how these risks might affect the business, in a Base Case and RWC scenario, as described below.

The Base Case incorporates the Board's estimate of the most likely level of risk impact arising from the factors noted above. The RWC assumes that the effects are more severe, particularly in relation to COVID-19.

Base case scenario

The Base Case scenario has been modelled using the following key assumptions/incorporating the following information:

1 The closure of the Group's retail stores during lockdown, with the majority of stores remaining closed until mid-June 2020.
2 Continuing social distancing measures and a potential downturn in the economy have been assumed to have an adverse impact on store sales throughout the Projection Period. Sales during the peak pre-Christmas 2020 trading season have been assumed to be 10% lower than in FY20 and sales throughout FY21 are modelled as being below FY20 levels. Only a partial recovery has been assumed in FY22, such that sales in the model are still lower than in FY20.
3 Online revenue as a proportion of total revenue is higher than previously, reflecting the strong growth experienced during lockdown, albeit sales are not expected to continue to grow at the same rate.
4 An improved gross margin rate reflecting the expected benefits of implementing improved sourcing strategies.

5 The impact of cost saving measures implemented or identified.
6 Significantly reduced capital expenditure, of approximately £3.0m in FY21 and £3.5 million per annum in FY22 and FY23.
7 Initiatives to preserve cashflow, for example, revised supplier and landlord payment terms already agreed, and the suspension of dividend payments.

Under the Base Case scenario, the Group expects to have sufficient financial resources to continue to be viable and the Going Concern basis of preparation of the financial statements is appropriate.

Reasonable Worst Case scenario

Under the RWC scenario, store revenues are 10% and 7% lower than in the Base Case in FY21 and FY22 respectively, and 20% and 30% below FY20 levels on a like-for-like basis during November and December 2020 respectively, illustrating a situation whereby trading is affected more severely by social distancing measures and the potential consequences of a more severe and sustained economic downturn. Note that the Base Case model for FY21 already incorporates an assumption of lower sales post lockdown than in FY20, and only a partial recovery in FY22.

This scenario does not build in the benefit of additional mitigation that, in practice, would be implemented in these circumstances. These may include, further reducing stock purchases, stock liquidation, and further reductions in capital expenditure. In addition, other than to the extent that they are directly variable with revenue, the company's forecast cost base has not been significantly reduced in this RWC scenario.

Actual trading results since the beginning of the FY21 financial year have been better than factored into the Base Case and RWC assumptions. This, together with the opportunity to take mitigating actions as described above, and the assumption that the Group would continue to be able to access the liquidity from its bank facilities, in the opinion of the Board, provides sufficient financial resources for the Group to continue to be viable under the RWC, albeit with limited headroom.

Conclusion regarding basis of preparation

In addition to the foregoing, in considering the appropriateness of adopting the going concern basis of preparation, the Directors also took account of the fact that it is difficult to predict with confidence the overall impact of COVID-19 on the Group's profitability in the next financial year.

As there remains considerable uncertainty over the potential development of the COVID 19 pandemic, any future Government response and the economic impact of those developments on the cash flow forecasts of the Group, it is difficult to rule out the potential for further increases in local social distancing measures or even the possibility of a further national lockdown and the effect that that will have on the forecast cash flows. Whilst the RWC referred to above, after mitigating actions, shows headroom, as the level of headroom is relatively small, a further decline over and above the 20% and 30% sales declines in November and December 2020, could result in a potential breach of the EBITDA covenant later in 2021. Whilst the Group believes that it would have time before a potential breach to mitigate further, there is no certainty as to the size of the potential breach and, therefore, whether the mitigating actions could resolve this in time.

In light of this level of uncertainty over the duration and severity of any disruption, there are scenarios under which the Group could breach its EBITDA covenant, which represents a material uncertainty that may cast significant doubt on the Group's and the Company's ability to continue as a going concern.

Based on all of the above considerations, and having carefully considered the material uncertainty and mitigating actions available, the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis.

(ii) New accounting standards

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 29 April 2019:

- IFRS 16 Leases.
- IFRIC 23 Uncertainty over Income Tax Treatments.
- Amendments to IFRS 9 Prepayment Features with Negative Compensation.

- Amendments to IAS 28 Long-term Interests in Associates and Joint Ventures.
- Amendments to IAS 19 Plan Amendment, Curtailment or Settlement.
- Annual Improvements to IFRS Standards 2015-2017 Cycle (Amendments to IFRS 3, IFRS 11, IAS 12 and IAS 23).

The nature and effect of the changes to the Group's accounting policies as a result of the adoption of IFRS 16 is set out below. Details of the impact of the adoption to IFRS 16 are given in note 6 (property, plant and equipment), note 7 (borrowings) and note 8 (impact on transition).

The adoption of the other standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

IFRS 16

In the current period, the Group has applied IFRS 16 (as issued by the IASB in January 2016) that is effective for annual periods that begin on or after 1 January 2019. The date of initial application of IFRS 16 for the Group is 29 April 2019.

IFRS 16 provides a single model for lessees which recognises a right-of-use asset ("RoUA") and a lease liability for all leases, with exceptions available for short-term and low-value leases. The impact of IFRS 16 is to recognise a lease liability and a corresponding asset in the Group Balance Sheet for leases previously classified as operating leases.

The most significant impact has been that the Group's retail store operating leases are now recognised on the Group Balance Sheet as right-of-use assets representing the economic benefits of the Group's right to use the underlying leased assets, together with the associated future lease liabilities. Previously lease rentals payable under operating leases were not recognised in the Consolidated Balance Sheet and were charged to the Consolidated Income Statement on a straight-line basis over the term of the relevant lease.

The Group adopted IFRS 16 from 29 April 2019 using the modified retrospective transition approach as described in paragraph C5 (b) of the standard. The comparative information presented for the 52 weeks ended 28 April 2019 has not been restated and therefore continues to be shown under IAS 17 'Leases.'

(c) Alternative Performance Measures

In reporting financial information, the Group presents alternative performance measures (APMs). These are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The following items were included in Adjusting Items in the 52 weeks ended 26 April 2020:

- Impairment charges, including those resulting from the COVID-19 pandemic. As a result of the COVID-19 pandemic and subsequent UK government restrictions introduced on 23 March 2020 that has resulted in significant and unprecedented market and business disruption, the Group has classified store impairments as adjusting items for the first time. The impact of the COVID-19 pandemic on the Group's operations is discussed within the principal risks and uncertainties on pages 44 to 50 as well as set out within the basis of preparation in note 1 (b) above.

  The prior year has been restated on a consistent basis. The restatement of the prior year has no impact on the prior year's statutory measures of reported profit or on the Group's cash flows or financial position for the year ended 28 April 2019. The prior year's adjusted profit measures have increased by £0.1 million, being the net store impairment charge and onerous lease provision charge not treated as an adjusting item in 2019.

- Under-declared duty and penalties for late payment associated with the misclassification of certain imported goods in prior years.

Refer to note 3 below for a summary of the adjusting items.

(d) Critical accounting judgements and key sources of estimation uncertainty

The preparation of consolidated financial statements requires the Group to make estimates and judgements that affect the application of policies and reported amounts.

Critical judgements represent key decisions made by management in the application of the Group accounting policies. Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty. Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

The estimates which have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next 12 months are discussed below.

Critical accounting judgements

Adjusting items

The directors believe that the adjusted profit and earnings per share measures provide additional useful information to shareholders on the performance of the business. These measures are consistent with how business performance is measured internally by the Board and Operating Committee. The profit before tax and adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies. The classification of adjusting items requires significant management judgement after considering the nature and intentions of a transaction. The Group's definitions of adjusting items are outlined within both the Group accounting policies and Note 6. These definitions have been applied consistently year on year, with additional items included this year relating to store impairments, including those resulting from the COVID-19 pandemic.

Note 3 provides further details on current year adjusting items and their adherence to Group policy.

Hedge accounting

The Group is exposed to foreign currency risk, most significantly to the US dollar as a result of sourcing certain products from Asia which are paid for predominantly in US dollars. The Group hedges these exposures using forward foreign exchange contracts and hedge accounting is applied when the requirements of IFRS 9 are met, which include that a forecast transaction must be "highly probable".

The Group has applied judgement in assessing whether the forecast purchases remain "highly probable", particularly in light of the decline in expected sales resulting from the COVID-19 pandemic and the related temporary store closures.

The Group's policy is that approximately 50% of the forecast purchase requirements are initially hedged, approximately 12 months prior, with incremental hedges taken out over time, as the buying period approaches and therefore as certainty increases over the forecast purchases. As a result of this progressive strategy, reducing the supply pipeline of inventory, should this occur, does not immediately lead to over-hedging and the disqualification of "highly probable". If the forecast transactions were no longer expected to occur, any accumulated gain or loss on the hedging instruments would be immediately reclassified to profit or loss.

Key sources of estimation uncertainty

Impairment of property, plant and equipment, right of use assets and intangibles

Property, plant and equipment, right-of-use assets and intangible assets are reviewed for impairment if events or changes in circumstances indicate that the carrying amount may not be recoverable. The Directors consider an individual retail store to be a cash-generating unit ('CGU'). The UK government trade restrictions implemented on 23 March 2020 as a result of the COVID-19 pandemic are considered an impairment trigger and as a result all stores have been tested for impairment.

Management performs an impairment review for each CGU that has indicators of impairment. When a review for impairment is conducted, the recoverable amount of an asset or CGU is determined based on value-in-use calculations using the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "three-year Plan") and are discounted using the Group's pre-tax discount rate.

The three-year plan has regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows reflect the Board's current best estimate of the range of possible impacts arising from

COVID-19, which anticipates a significant reduction in sales and profits in the short to medium-term compared to previous estimates. Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on management's future expectations.

Pre-tax discount rates are derived from the Group's weighted average cost of capital, which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta).

Goodwill is reviewed for impairment annually on the same basis as described above for the period covered by the three-year plan together with a terminal value based on an assumed long-term growth rate.

The value in use method requires the Group to determine appropriate assumptions (which are key sources of estimation uncertainty) in relation to the growth rates of sales and cash margins, operating costs, long-term growth rates and the post-tax discount rate used to discount the assumed cash flows to present value. Future events could cause the forecasts and assumptions used in impairment reviews to change with a consequential adverse impact on the results and net position of the Group as actual cash flows may differ from forecasts and could result in further material impairments in future years.

See notes 5 and 6 below for further details on the Group's assumptions and associated sensitivities.

2. Alternative Performance Measures ("APM")

The Group tracks a number of alternative performance measures in managing its business, which are not defined or specified under the requirements of IFRS because they exclude amounts that are included in, or include amounts that are excluded from, the most directly comparable measure calculated and presented in accordance with IFRS, or are calculated using financial measures that are not calculated in accordance with IFRS.

The Group believes that these alternative performance measures, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. These alternative performance measures are consistent with how the business performance is planned and reported within the internal management reporting to the Board. Some of these alternative performance measures are also used for the purpose of setting remuneration targets.

These alternative performance measures should be viewed as supplemental to, but not as a substitute for, measures presented in the consolidated financial statements relating to the Group, which are prepared in accordance with IFRS. The Group believes that these alternative performance measures are useful indicators of its performance. However, they may not be comparable with similarly-titled measures reported by other companies due to possible differences in the way they are calculated.

Like-for-like sales

These are defined as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from its e-commerce platform, calculated on a calendar week basis. The measure is used widely in the retail industry as an indicator of sales performance. A reconciliation of revenue to revenue on a like-for-like basis is set out below. Like-for-like sales include a full 52 weeks of trading for the year ended 28 April 2019, as such the reconciliation below shows LFL sales pre lockdown and post lockdown:

	2020 £000	2019 £000
LFL sales pre lockdown	**218,583**	217,037
LFL sales during lockdown	**4,873**	17,677
Total Like-for-like sales	**223,456**	234,714
FY19 and FY20 New Stores	**30,950**	6,374
Closed Stores	**98**	4,686
Temporary Closures	**130**	593
Total gross sales	**254,634**	246,367
VAT	**(27,931)**	(26,872)
Loyalty points	**(1,661)**	(2,026)
Turnover per consolidated income statement	**225,042**	217,469

EBITDA, Adjusted EBIDTA and Adjusted profit after tax

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets. Adjusted EBITDA is calculated by adding back or deducting Adjusting Items to EBITDA. See note 1 for a description of Adjusting Items.

As consequence of the adoption of IFRS 16 during the year, the Group has shown another measure of Adjusted EBITDA, which removes the impact of IFRS 16 to allow the reader to compare against the prior year. The following table provides a reconciliation of Adjusted EBITDA to profit after tax, and shows the impact of IFRS 16 on adjusted EBITDA:

	52 weeks ended 26 April 2020 £000	52 weeks ended 28 April 2019 (Restated - Note 1c) £000
Non IFRS 16 Adjusted EBITDA	**10,809**	13,872
IAS 17 income statement charges not recognised under IFRS 16 (see note 28)	**23,433**	-
Foreign exchange difference on euro leases	**(89)**	-
Loss on disposal of RoUA recognised under IFRS 16	**(795)**	-
Profit on disposal of lease liability recognised under IFRS 16	**870**	-
Post IFRS 16 Adjusted EBITDA	**34,228**	13,872
Loss on disposals of property, plant and equipment	**(299)**	(9)
Depreciation	**(25,872)**	(4,912)
Amortisation	**(1,170)**	(1,049)
Finance expenses	**(4,466)**	(1,064)
Finance income	**12**	20
Tax charge	**(529)**	(1,481)
Adjusted profit / (loss) after tax	**1,904**	5,377
Adjusting items (including impairment charges and reversals)	**(20,405)**	(4,533)
Tax charge	**799**	276
Profit / (loss) after tax	**(17,702)**	1,120

Profit before tax and IFRS 16

The following tables provides a reconciliation of profit / (loss) before tax and IFRS 16 adjustments to profit / (loss) before tax.

	52 weeks ended 26 April 2020		
	Adjusted	**Adjusting Items**	**Total**
	£000	**£000**	**£000**
Profit / (loss) before tax before IFRS 16 adjustments	**3,338**	**(17,560)**	**(14,222)**
Remove IAS 17 rental charge	23,292	-	23,292
Remove hire costs from hire of equipment	141	-	141
Remove depreciation charged on the existing assets	298	-	298
Remove interest charged on the existing liability	30	-	30
Depreciation charge on Right of Use Asset	(20,611)	-	(20,611)
Interest cost on lease liability	(4,041)	-	(4,041)
Loss on disposal of RoUA	(795)	-	(795)
Profit on disposal of lease liability	870	-	870
Foreign exchange difference on euro leases	(89)	-	(89)
Additional impairment charge under IAS 36	-	(2,991)	(2,991)
Onerous lease provision not applicable under IFRS 16	-	146	146
Net Impact on profit / (loss)	**(905)**	**(2,845)**	**(3,750)**
Profit / (loss) before tax	**2,433**	**(20,405)**	**(17,972)**

Adjusted profit metrics

Key profit measures include operating profit, profit before tax, profit for the period and earnings per share are calculated on an adjusted basis by adding back or deducting Adjusting Items. See note 1 for a description of Adjusting Items. These adjusted metrics are included within the consolidated income statement and statement of other comprehensive income, with further details of adjusting items included in Note 3 below.

3. Adjusting items

During the period, the items analysed below have been classified as adjusting:

	2020	2019 (Restated - Note 1c)
	£000	£000
Cost of sales		
Onerous lease provision charges[1]	**-**	89
Impairment charges[2]	**3,500**	176
Impairment reversals[2]	**(176)**	(135)
HMRC duty provision[3]	**786**	-
Total Cost of sales	**4,110**	130
Distribution expenses		
Relocation of e-commerce[4]	**-**	495
Total distribution expenses	**-**	495
Administrative expenses		
Goodwill impairment[5]	**16,180**	-
Salary costs[6]	**115**	-
Professional fees – one off non-operational activities[7]	**-**	2,936
Staff incentives on IPO[8]	**-**	1,212
Total administrative expenses	**16,295**	4,148
Finance expenses		
Write off capitalised costs, interest and fees associated with loan repaid on IPO[9]	**-**	(240)
Total finance expenses	**-**	(240)
Total adjusting items	**20,405**	4,533

[1] This relates to onerous lease provision charges for loss making stores in the prior year.

[2] These relate to fixed asset impairment charges and reversals of prior year impairment charges.

[3] This relates to a provision recognised regarding an ongoing HMRC review of the Group's Duty rates

[4] This includes the loss on disposal of the fixed assets associated with the e-commerce picking tower at the Group's distribution centre in Coleshill, Birmingham, which was disposed in the prior year following completion of the transition to the third party logistics provider for the e-commerce warehouse and order fulfilment.

[5] This relates to the impairment of goodwill during the year. Refer to note 5 below for further detail.

[6] Salary costs relate to payments to past Directors.

[7] Professional fees relate to IPO and refinancing costs incurred in the prior year.

[8] Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO.

[9] This includes £386,000 in relation to capitalised loan costs written off in the prior year on the loan repaid on IPO, offset with a release of £626,000 of interest and fees in relation to the borrowing facilities repaid on IPO.

4. Operating profit

Operating profit (before adjusting items) is stated after charging / (crediting) the following items:

	2020 **£000**	2019 £000
Loss on disposal of property, plant and equipment	**299**	9
Loss on disposal of RoUA	**795**	-
Profit on disposal of lease liability	**(870)**	-
Depreciation	**25,872**	4,912
Amortisation	**1,170**	1,049
Adjusting items (see note 6)	**20,405**	4,533
Operating lease payments:		
- Hire of plant and machinery[1]	**345**	509
- Other operating leases[1]	**4,730**	26,138
Net foreign exchange losses	**208**	84
Cost of inventories recognised as an expense	**86,398**	81,369
Staff costs	**54,401**	48,213

[1] For the year ended 26 April 2020 these balances relates to non IFRS 16 operating lease rentals during the year, please refer to note 8 for further details of these balances

5. Intangible assets

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 29 April 2019	**16,180**	**6,365**	**22,545**
Additions	**-**	**2,050**	**2,050**
Balance at 26 April 2020	**16,180**	**8,415**	**24,595**
Amortisation and impairment			
Balance at 29 April 2019	**-**	**4,051**	**4,051**
Amortisation charge for the year	**-**	**1,170**	**1,170**
Impairment charges	**16,180**	**-**	**16,180**
Balance at 26 April 2020	**16,180**	**5,221**	**21,401**
Net Book Value			
At 29 April 2019	**16,180**	**2,314**	**18,494**
At 26 April 2020	**-**	**3,194**	**3,194**

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 29 April 2018	16,180	5,321	21,501
Additions	-	1,044	1,044
Balance at 28 April 2019	16,180	6,365	22,545
Amortisation			
Balance at 29 April 2018	-	3,002	3,002
Amortisation charge for the year	-	1,049	1,049
Balance at 28 April 2019	-	4,051	4,051
Net Book Value			
At 29 April 2018	16,180	2,319	18,499
At 28 April 2019	16,180	2,314	18,494

Goodwill impairment testing

Goodwill of £16.2 million arose in 2015 when The Works Investments Limited acquired The Works Stores Limited (TWSL) in a share for share transaction. As such, all of the goodwill has been allocated to one cash generating unit (CGU) being TWSL.

Goodwill is not amortised but is tested annually for impairment with the recoverable amount being determined from value in use calculations. Goodwill is monitored by management at a country level and has been tested for impairment on that basis.

The annual impairment test has resulted in an impairment charge of £16.2 million, reflecting the adverse impact of COVID-19 on the business' short to medium prospects. The basis on which the value in use has been determined is described below.

The key assumptions for the value in use calculation are those regarding the discount rate, long-term growth rates and expected trading performance (sales, cash margin and operating costs).

The post-tax cash flows used for impairment testing are based on the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "Three-year Plan"), which have regard to historical performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives not committed. The Three-Year Plan reflect the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipate a significant reduction in sales and profits in the short to medium term compared to previous estimates.

Cash flows beyond this three-year period are extrapolated using a long-term growth rate based on the Group's current view of achievable long-term growth. The Group's current view of its achievable long-term growth is 2%, reflecting its best estimate.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The rate used to discount the forecast cash flows is 14.0% (last year: 10.26%), which reflects the additional risks presented by COVID-19 as at 26 April 2020.

As a result of this analysis, the goodwill balance has been impaired to nil. No further downside sensitivities have therefore been performed by management.

6. Property, plant and equipment

	RoUA - property	**RoUA - plant and equipment**	**Land and buildings**	**Plant and equipment**	**Fixtures and Fittings**	**Total**
Cost						
Balance at 29 April 2019	**-**	**-**	**9,253**	**2,529**	**21,457**	**33,239**
Adoption of IFRS 16	**103,086**	**841**	**-**	**-**	**-**	**103,927**
Adoption of IFRS 16 – Transfer to RoUA	**-**	**457**	**-**	**(457)**	**-**	**-**
Additions	**36,350**	**426**	**1,366**	**503**	**4,756**	**43,401**
Disposals	**(966)**	**-**	**(28)**	**(36)**	**(475)**	**(1,505)**
Balance at 26 April 2020	**138,470**	**1,724**	**10,591**	**2,539**	**25,738**	**179,062**
Depreciation and impairment						
Balance at 29 April 2019	**-**	**-**	**3,329**	**1,756**	**7,368**	**12,453**
Depreciation charge for the year	**20,152**	**459**	**1,092**	**609**	**3,560**	**25,872**
Impairment charge	**2,991**	**-**	**152**	**17**	**340**	**3,500**
Impairment reversals	**-**	**-**	**-**	**(176)**	**-**	**(176)**
Disposals	**(171)**	**-**	**13**	**(21)**	**(232)**	**(411)**
Balance at 26 April 2020	**22,972**	**459**	**4,586**	**2,185**	**11,036**	**41,238**
Net Book Value						
At 29 April 2019	-	-	5,924	773	14,089	20,786
At 26 April 2020	**115,498**	**1,265**	**6,005**	**354**	**14,702**	**137,824**

	RoUA - property	RoUA - plant and equipment	Land and buildings	Plant and equipment	Fixtures and Fittings	Total
Cost						
Balance at 29 April 2018	-	-	7,214	1,696	17,534	26,444
Additions	-	-	2,178	863	4,408	7,449
Disposals	-	-	(139)	(30)	(485)	(654)
Balance at 28 April 2019	-	-	9,253	2,529	21,457	33,239
Depreciation and impairment						
Balance at 29 April 2018	-	-	2,358	753	4,640	7,751
Depreciation charge for the year	-	-	1,078	990	2,844	4,912
Impairment charge	-	-	-	176	-	176
Impairment reversals	-	-	-	(135)	-	(135)
Disposals	-	-	(107)	(28)	(116)	(251)
Balance at 28 April 2019	-	-	3,329	1,756	7,368	12,453
Net Book Value						
At 29 April 2018	-	-	4,856	943	12,894	18,693
At 28 April 2019	-	-	5,924	773	14,089	20,786

Right-of-use assets
From 29 April 2019, the Group has adopted IFRS 16 Leases. Refer to notes 1 (b) ii and 8 for the accounting policy and restatements respectively. As shown above, there are two separate right-of-use asset classes recognised on adoption of the new leasing standard: property and plant and equipment.

Impairment losses
For impairment testing purposes, the Group has determined that each store is a separate CGU. Each CGU is tested for impairment at the balance sheet date if any indicators of impairment have been identified. The UK government trade restrictions implemented on 23 March 2020 as a result of the COVID-19 pandemic are considered an impairment trigger for all stores and as a result all stores have been tested for impairment.

The key assumptions for the value in use calculation are those regarding the discount rate, long-term growth rates and expected trading performance (sales, cash margin and operating costs).

The value in use of each CGU is calculated based on the Group's latest forecast cash flows, covering a three-year period to April 2023 (the "Three-year Plan"), which has regard to historic performance and knowledge of the current market, together with the Group's views on the future achievable growth and the impact of committed cash flows. The cash flows include estimates of ongoing capital expenditure required to maintain the store network, but exclude any significant growth capital initiatives not committed. The Three-year Plan reflects the Board's current best estimate of the range of possible impacts arising from COVID-19, which anticipate a significant reduction in sales and profits in the short to medium-term compared to previous estimates.

Cash flows beyond the three-year period are extrapolated using an estimated average long-term growth rate of 2.0% across all CGUs, which is based on inflation forecasts by recognised bodies.

Management estimates discount rates that reflect the current market assessment of the time value of money and the risks specific to the Group. The post-tax discount rate is derived from the Group's post-tax weighted average cost of capital (WACC) which has been calculated using the capital asset pricing model, the inputs of which include a country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The post-tax WACC is subsequently adjusted to reflect the specific amount and timing of the future tax cashflows to obtain the pre-tax rate of 16.3% (last year: 10.26%), which reflects the additional risks presented by COVID-19 as at 26 April 2020.

During the year, the Group has recognised an impairment charge against property, plant and equipment of £3.5m. The stores subject to an impairment charge were impaired to their 'value in use' recoverable amount of £121.3m, which is their carrying value at the period end. These impairments have been recognised within adjusting items (see note 6). Furthermore there were prior year impairment reversals of £0.2m.

As disclosed in the accounting policies (note 1), the impairment charge represents a significant accounting judgement due to assumptions used in calculating the pre-tax WACC in addition to assumptions used within the forecast cash flows. Cash flows used within the impairment model are based on assumptions which are sources of estimation uncertainty and movements in these assumptions could lead to further impairments. Management has performed sensitivity analysis on the key assumptions in the impairment model using reasonably possible changes in these key assumptions across the store portfolio. The impairment charge relates to 100 stores which continue to have a residual book value. Their carrying value is sensitive to any change in the underlying assumptions and reasonably possible changes could result in an additional impairment or a reversal of the impairment, but not a material one at an individual store level.

A total reduction in sales of 5% from the three-year plan to reflect a potential downside scenario would result in an increase in the impairment charge of £1,750k. A reduction in the long-term growth rate to 0% would result in an increase in the impairment charge of £402k. A 1% reduction in cash margin or a 3% increase in operating costs would increase the impairment charge by £265k and £853k respectively. Reasonably possible changes of other key assumptions, including a 20 basis point increase in the pre-tax discount rate across all stores, would not result in a significant increase to the impairment charge, either individually or in combination.

7. Borrowings

	2020 £000	2019 £000
Non-current liabilities		
Lease liabilities	**110,200**	494
Unamortised debt issue costs	**(11)**	(91)
Non-current liabilities	**110,189**	403
Current liabilities		
Bank overdraft	**3,605**	-
Secured bank loans	**10,000**	-
Lease liabilities	**22,002**	275
Unamortised debt issue costs	**(62)**	(45)
Current liabilities	**35,545**	230

At the time of the Group's IPO in 2018, new bank facilities were put in place, principally comprising a £25m revolving credit facility provided by HSBC, with a term of three years, expiring in July 2021.

On 13 August 2020, the Group completed an agreement with HSBC to enhance and extend the facilities, as follows:

- The term of the RCF is extended, to expire in September 2022, with step downs from the initial £25.0m facility, of £2.5m in January 2021 and £2.5m in January 2022, to reflect the profile of the expected facility requirement.
- Provision of an additional £7.5m facility, under the Government's CLBILS scheme, which also expires in September 2022. No repayments are due until the expiry date.
- The facility includes financial covenants in relation to the level of EBITDA, net debt and capital expenditure.

Reconciliation of borrowings to cashflows arising from financing activities

	2020 £000	2019 £000
Borrowings at start of year (excluding overdraft[1])	**633**	31,458
Additional lease liabilities recognised on adoption of IFRS 16	**115,314**	-
Restated borrowings at start of year (excluding overdrafts[1])	**115,947**	31,458
Changes from financing cashflows		
Payment of lease liabilities (capital)	**(19,829)**	(241)
Payment of lease liabilities (interest)	**(4,041)**	(23)
Proceeds from loans and borrowings	**10,000**	-
Repayment of bank borrowings	**-**	(31,200)
Total changes from financing cashflows	**(13,870)**	(31,464)
Other changes		
Lease liability additions	**36,729**	307
Disposal of lease liabilities	**(870)**	-
The effect of changes in foreign exchange rates	**89**	-
Interest expense	**4,104**	332
Total other changes	**40,052**	639
Borrowings at end of year (excluding overdrafts[1])	**142,129**	633

[1]The bank overdraft has been excluded in this reconciliation as it is included within the net cash and cash equivalents balance reconciled within the consolidated cash flow statement. There was no overdraft as at 28 April 2019.

Net debt reconciliation

	2020 £000	2019 £000
Net debt (excluding unamortised debt costs)		
RCF	**10,000**	-
Bank overdraft	**3,605**	-
Cash and cash equivalents	**(6,546)**	(3,687)
Net debt / (cash) from bank	**7,059**	(3,687)
Non IFRS 16 lease liabilities	**952**	769
Non IFRS 16 net debt / (cash)	**8,011**	(2,918)
IFRS 16 lease liabilities	**131,250**	-
Net debt / (cash) including IFRS 16 lease liabilities	**139,261**	(2,918)

8. Transition to IFRS 16 - Leases

The Group has applied IFRS 16 using the modified retrospective approach, under which the cumulative effect of initial application is recognised as an adjustment to the opening balance of retained earnings at 29 April 2019 with no restatement of comparative information. Comparative information continues to be reported under IAS 17 and related interpretations.

IFRS 16 introduced a single, on Balance Sheet accounting model for leases. As a result, the Group, as a lessee has recognised right of use assets (RoUA) (representing its right to use the underlying assets) and lease liabilities representing its obligation to make lease payments. Lessor accounting remains similar to previous accounting policies.

Definition of a lease

The Group now assesses whether a contract is or contains a lease based on the new definition of a lease. Under IFRS 16 a contract is, or contains, a lease if the contract conveys a right to control the use of an identified asset for a period of time in exchange for consideration.

On transition to IFRS 16, the Group elected to apply the practical expedient to grandfather the assessment of which transactions are leases. It applied IFRS 16 only to contracts that were previously identified as leases. Contracts that were not identified as leases under IAS 17 were not reassessed. Therefore, the definition of a lease under IFRS 16 has been applied only to contracts entered into or changed on or after 29 April 2019.

At inception or on reassessment of a contract that contains a lease component, the Group allocates the consideration in the contract to each lease and non-lease component on the basis of their relative stand-alone prices. However, for leases of properties in which it is a lessee, the Group has elected not to separate non-lease components where the lease does not stipulate an amount and will instead account for the lease and non-lease components as a single lease component.

As a lessee

The Group leases many assets, including properties, IT equipment, motor vehicles and warehouse equipment. As a lessee, the Group previously classified leases as operating or finance leases based on its assessment of whether the lease transferred substantially all of the risks and rewards of ownership. Under IFRS 16, the Group recognises right-of-use assets and lease liabilities for most leases.

The Group has elected not to recognise right-of-use assets and lease liabilities for motor vehicle leases and leases of low-value assets. The Group continues to recognise the lease payments associated with these leases as an expense on a straight line basis over the lease term.

The Group recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, and subsequently at cost less any accumulated depreciation (straight-line) and impairment losses, and adjusted for certain re-measurements of the lease liability.

Lease Liability

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the Group's incremental borrowing rate. These include the following elements:

- Future fixed lease rental payments;
- Variable lease payments that depend on an index or a rate (these are initially measured at the index or rate as at the commencement date);
- Amounts expected to be payable by the Group under residual value guarantees;
- The exercise price of a purchase option if there is reasonable certainty that the Group will exercise that option;
- Payments of penalties for terminating the lease earlier, if the conditions reflect the Group exercising an option to terminate the lease;
- Estimate of costs to be incurred in dismantling and removing the asset where specifically stipulated in the lease agreement assessed under the IAS 37 requirements.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured when there is a change in one of the following:

- A lease extension has been agreed prior to the term expiry
- Change in future lease payments as a result of re-negotiation of terms
- Change in future lease payments as a result of a change in the index rate
- Change in the Groups estimate of the amount expected to be payable under a residual value guarantee
- The Group changes its assessment of whether it will exercise a purchase, extension or termination option.

The Group's incremental borrowing rates used to discount future lease payments at adoption on 29 April 2019 range between 1.195% and 3.926%. These have been determined based on comparable bond yields and are lease specific varying by lease length.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the amount of lease liabilities and right-of-use assets recognised.

Transition

Previously, the Group classified property leases and equipment leases as operating leases under IAS 17. Leases are typically made for fixed periods of time. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Some leases provide for additional rent payments that are based on changes in local price indices which are not yet known.

At transition, for leases classified as operating leases under IAS 17, lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as at 29 April 2019. Right-of-use assets are measured at their carrying amount as if IFRS 16 had been applied since the lease commencement date, discounted using the lessee's incremental borrowing rate as at 30 April 2019, adjusted by the amount of any prepaid or accrued lease payments and lease incentives.

In applying IFRS 16 – Leases for the first time, the Group has used the following practical expedients permitted by the standard:

(i) the use of a single discount rate for portfolios of leases with reasonably similar characteristics
(ii) reliance on previous assessments of whether leases are onerous instead of performing an impairment review
(iii) accounting for low-value operating leases and operating leases with a remaining lease term of less than 12 months as at 29 April 2020 on straight-line basis as an expense without recognising a right-of-use asset or a lease liability
(iv) the use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date the Group relied on its assessment made applying IAS 17 – Leases and IFRIC 4 – Determining whether an Arrangement contains a Lease.

The Group leases a number of items of IT equipment. These leases were classified as finance leases under IAS 17. For these finance leases, the carrying amount of the right-of-use asset and the lease liability at 29 April 2019 were determined by discounting the future cashflow payments due to interest not being included in the liability as at 29 April 2019.

Impact on transition

On transition to IFRS 16, the Group recognised right-of-use assets and lease liabilities, recognising the difference in retained earnings. The impact on transition is summarised below:

	£000
Right of use assets	104,384
Lease liabilities	(116,083)
Property, plant and equipment	(458)
Deferred tax asset	1,378
Accruals and prepayments	(1,889)
Rent free creditor	6,529
Net impact on retained earnings	**(6,139)**

	£000
Operating lease commitments disclosed at 28 April 2019	135,057
Additional lease commitments not included in 2019 Annual Report	1,248
Restated operating lease commitments	**136,305**
Discounted under the lessee's incremental borrowing rate as at 29 April 2019	(17,334)
Exempt under IFRS 16	(3,656)
Finance lease liabilities as at 28 April 2019	768
Lease liability recognised as at 29 April 2019	**116,083**
Comprising:	
Current lease liabilities	18,944
Non-current liabilities	97,139

Right of use assets

The Group presents right-of-use assets that do not meet the definition of investment property as a separate line item in the Consolidated Statement of Financial Position. The carrying amount of right-of-use assets are as detailed below. An impairment adjustment to the right-of-use assets of £94k in relation to previous onerous lease provisions was recognised at the date of initial application

	Right of Use Assets		
	Property	**Plant and equipment**	**Total**
Cost			
At 28 April 2019	-	-	-
Restatement for IFRS 16	103,086	1,298	104,384
At 29 April 2019	**103,086**	**1,298**	**104,384**
Additions	36,350	426	36,776
Disposals	(966)	-	(966)
At 26 April 2020	**138,470**	**1,724**	**140,194**
Depreciation and impairment			
At 28 April 2019	-	-	-
Depreciation charge	20,152	459	20,611
Impairment charge	2,991	-	2,991
Disposals	(171)	-	(171)
At 26 April 2020	**22,972**	**459**	**23,431**
Net Book Value			
At 26 April 2020	**115,498**	**1,265**	**116,763**

Lease Liabilities

Lease liabilities included in the statement of financial position are as follows (2019 figures represent the finance lease liability):

	2020 **£000**	2019 £000
Current	**22,002**	275
Non Current	**110,200**	494
Total discounted lease liabilities	**132,202**	769

Please refer to note 19 for a detailed reconciliation of lease liabilities to cash flows arising from financing activities.

Maturity analysis – contractual discounted cash flows

	2020 **£000**
Less than 1 year	22,002
2 to 5 years	76,835
More than 5 years	33,365
Total discounted lease liabilities	**132,202**

Impact in the period

As a result of initially applying IFRS 16, in relation to the leases that were previously classified as operating leases, the Group recognised £116,763k right-of-use assets and £132,202k of lease liabilities as at 26 April 2020. Also, in relation to those leases under IFRS 16, the Group has recognised depreciation, impairment and interest costs, instead of operating lease expenses. During the 52-week period ended 26 April 2020, the Group recognised £20,611k of depreciation charges, £2,845k of impairment charges and £4,011k of interest costs from these leases.

The impact on the profit / (loss) for the period is summarised below:

	£000
Profit / (loss) before tax before IFRS 16 adjustments	**(14,222)**
Remove IAS 17 rental charge	23,292
Remove hire costs from hire of equipment	141
Remove depreciation charged on the existing assets	298
Remove interest charged on the existing liability	30
Depreciation charge on Right of Use Asset	(20,611)
Interest cost on lease liability	(4,041)
Loss on disposal of RoUA	(795)
Profit on disposal of lease liability	870
Foreign exchange difference on euro leases	(89)
Additional impairment charge under IAS 36	(2,991)
Onerous lease provision not applicable under IFRS 16	146
Net Impact on profit / (loss)	**(3,750)**
Profit / (loss) before tax	**(17,972)**

Rental expense in the period

During the period ended 26 April 2020 the rental charge recognised in the consolidated statement of comprehensive income was £5,075k as disclosed in note 7. These operating lease payments are split out as follows (table on following page):

	2020 £000
Operating lease rentals – hire of plant and equipment	
Motor vehicle lease payments	326
Low value leases	19
Total plant and equipment operating lease rentals	**345**
Operating lease rentals – store leases	
Stores included within IFRS 16 RoUA and lease liabilities as at 26 April 2020[1]	2,769
Stores leases excluded from IFRS 16 assessment due to:	
- Concession leases, the landlord has substantial substitution rights	1,347
- Low value leases	1
- Lease has rolling break clauses	228
- Lease has expired and the premises is occupied on a flexible, rolling basis[1]	385
Total store operating lease rentals	**4,730**
Total operating lease rentals	**5,075**

[1] Relate to temporary or rolling lease agreements. Inclusion of leases where initial agreed term has expired with no new agreed terms is considered as follows:

- Where the intention is to renew and continue to occupy, balances relating to the lease are included within RoUA and lease liabilities as at 26 April 2020. Assumptions are made re: lease term and rent based on average agreed lease terms and annual rentals agreed during the financial year
- For all remaining stores, the Groups intention is to occupy the property on a rolling month to month basis, and there is no obligation to remain in the property. As such, these leases are excluded from the IFRS 16 balances a s at 26 April 2020.

Principal risks and uncertainties

The Board and the senior management team are collectively responsible for managing The Group's exposure to risks and uncertainties. In determining the Group's risk appetite and how risks are managed, the Board, Audit Committee and the senior management team look to ensure an appropriate balance is achieved which enables the Group to achieve its strategic and operational objectives and facilitates the long-term success of the Group.

The Board has assessed the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity and reviews the Group's most significant risks at least twice a year.

Risks and uncertainties in addition to those detailed below, not presently known to management, or deemed less material currently, may also have an adverse effect on the business. Further, the exposure to each risk will evolve as mitigating actions are taken or as new risks emerge. The principal risks and uncertainties facing the Group as at the date of the Annual Report are set out below, together with details of how these are currently mitigated.

Risk	Description	Mitigation	Change in level of risk from prior year
COVID-19	COVID-19 has created an unprecedented challenge. We believe the risks to the Group posed by the COVID-19 pandemic are as follows: • Potential for significant and prolonged impact on economic conditions • The potential for further government restrictions on trading and social distancing following the initial easing of lockdown restrictions may adversely affect operations (including the ability to trade, the ability of the third party logistics provider and parcel delivery provider to service online fulfilment) • Potential increase in employee absenteeism • Supply chain disruption, including disruption to stock availability and potential cost inflation • Liquidity risk: the risks listed above could adversely impact liquidity. • Increased pressure on IT systems through remote working.	The health and wellbeing of colleagues, customers and wider communities is the Board's overriding priority. Events are closely monitored by the Board which evaluates the potential impacts and designs appropriate response strategies. The Group maintains a prudent approach to costs, however a number of additional temporary measures were also taken to reduce costs and/or conserve cash, including; • Utilised government support including rates relief and job retention scheme. • Worked with landlords to reduce store rent payments whilst stores were closed; • Careful management of stock intake; • Suspended non-essential capital investment, including new store rollout programme (with the exception of a small number of stores which were legally committed); • Minimised discretionary operational expenditure; • Not proposing a final dividend for FY20. The Group has worked with the third party logistics partner to increase capacity safely to meet increased online sales demand particularly in the upcoming peak season. The Group has implemented changes to stores, the distribution centre and store support centre (including hygiene and social distancing measures and enabling the majority of head office colleagues to be able to work remotely where practical to do so). The mitigations implemented for the initial period of lockdown will, where appropriate, be continued following the lifting of lockdown. In the event of escalations from the current state of alert, locally or nationally, further mitigation steps along the lines described above will, as appropriate, be re-introduced. Bank facilities have been extended and increased.	New risk

Risk	Description	Mitigation	Change in level of risk from prior year
Finance	Insufficient finance available and/or insufficient headroom in banking facilities leading to a lack of liquidity. Potential for breach of banking covenants if financial performance is significantly worse than planned. Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement.	Covenant headroom monitored on an ongoing basis and forecast covenants calculated on a monthly basis and included in Board report. Bank facilities have been extended and increased, with increased covenant headroom. Stakeholder management undertaken, with bi-annual meetings now in place with key credit insurers. Refocus of strategy to reduce costs and manage capex to minimise credit insurer risk Maintain constructive dialogue with suppliers, for example, to discuss extending credit terms if required in the event that additional liquidity is needed.	New risk
Market	The Group generates most of its revenue from the sale of books, toys, art and craft and stationery products. Although the Group has a proven track record of understanding customers' needs within these categories, these markets are highly competitive, with increasing competition from 'hard discounters' and customers' tastes and shopping habits can change quickly. Failure to effectively predict and respond to these changes could affect the Group's sales, performance and reputation. Most of the Group's sales are derived from physical shops. The challenges facing the high street could significantly impact on the Group's future strategy and growth plans.	Ongoing focus on 'product discovery' and development of "own brand" offering, helps differentiate The Works, bringing unique, quality, products to market at great prices. Experienced trading team monitors emerging trends and has a track record of responding to changing consumer tastes. Competitor pricing and product offering closely monitored, with key developments discussed at weekly trading meetings and at Board level on a regular basis. A Customer research project to understand customer perceptions of the proposition was undertaken during the year. The output of this project will inform decisions taken to ensure proposition remains relevant. Customer feedback is monitored and reported against regularly. Sales data, insight from Loyalty card database and various online feedback channels are used to drive purchasing and marketing decisions. During the year we have invested in a new data warehouse and analysis tool to better analyse sales and customer data to drive improved decision making. We continue to invest in online capability. A new web platform was launched in July 2020 to support the development of the multi-channel offer. Plans for further online product ranges are developing, including broadening partnerships with "drop ship" vendors.	Same risk level
Economic environment	The Group's business is sensitive to general economic, consumer spending and business conditions. A general decline in economic conditions or a reduction in consumer confidence could impact upon customer spending and subsequently have an adverse effect on the Group's revenue and profitability.	The Group's proposition as an alternative to full price specialist retailers, offering quality good value products, positions it well for customers looking to trade-down in times of economic uncertainty. Sales trends are monitored at weekly trading meetings, attended by senior management, with mitigating actions agreed to drive sales and/or reduce costs accordingly. The senior management team has significant relevant experience.	Increased risk level

Risk	Description	Mitigation	Change in level of risk from prior year
	This risk is currently heightened due to COVID-19 and potential concerns regarding Brexit.		
Brand and reputation	'TheWorks.co.uk' is the Group's key brand asset. Protecting and enhancing the Group's brand and reputation is vital to the success of the Group. Failure to protect the brand, in particular regarding product quality and safety, could result in the Group's reputation, sales and future prospects being adversely affected.	Values of the business are well communicated to colleagues and the senior management team leads by example. Intellectual property guidance and education is provided to design and sourcing teams. Customer and market research focuses on understanding brand perception. Customer product reviews are monitored closely, with swift action taken to remove products from sale where quality issues are identified. The Group has established an in-house product quality assurance team to work with suppliers to ensure product quality, safety and ethical production. Third-party facilitated technical and ethical audits are in place and all suppliers are required to deliver a valid product safety test certificate ahead of an order being fulfilled. Launched 'keen to be green' and 'reworked' logos last year – see Corporate Social Responsibility Report for further details.	Same risk level
Supply chain	The Group uses third parties, including many in Asia, for the supply of products. This creates a number of potential areas of risk, including the potential for supplier failures and the risks of manufacturing and importing of goods from overseas and potential disruption at various stages of the supply chain. This disruption risk may be heightened due to COVID-19, although to date, the operations of the business have not been materially affected. Brexit uncertainty also continues to heighten this risk, in particular the uncertainty over the UK's trading relationship, and terms, with other countries and the possible risk of imports being delayed at UK ports. Suppliers may fail to act or operate in an ethically appropriate manner.	An experienced buying team is responsible for the sourcing of our products. Strong relationships are maintained with key suppliers. The supplier base is continually reviewed. Supply options are diversified and/or changed where needed, providing greater flexibility and reducing reliance on individual suppliers. Tighter controls have been introduced throughout the import process, supported by the freight forwarder. We maintain relationships with other freight forwarders to mitigate the risk of over-reliance on one provider. We conduct business fairly, ethically and with respect to human rights. We are committed to the prevention of slavery, forced labour or servitude, child labour and human-trafficking, in our business and supply chain. We have an established Ethical Trading Code of Conduct and Human Rights Policy for our partners, manufacturers and suppliers. All suppliers must sign our Terms and Conditions of Purchase which state the supplier has read, understood and agrees to conform to our Ethical Trading Code of Conduct. Independent monitoring of suppliers is undertaken using third-party auditors having local country knowledge and an understanding of social and ethical requirements. The audits take place directly in the factories and monitor workplace conditions,	Increased risk level

Risk	Description	Mitigation	Change in level of risk from prior year
		interview workers and evaluate operating conditions. These are based on the internationally recognised Ethical Trade Initiative ('ETI') Base Code. We also conduct independent product testing as part of our Product Surveillance Test Programme. We continue to develop our supply chain management procedures and supplier audit programme. Suppliers have direct contact with our in-house Quality Assurance function. We have updated and published our Modern Slavery Act Statement on the Group's corporate website and have registered the statement with the Modern Slavery Registry and TISC (Transparency in the Supply Chain). The Group is adopting a "wait and see" approach to Brexit planning. For example, measures which might be taken, such as building stock levels in anticipation of potential disruption to imports, could be counterproductive if, for example, demand is subsequently adversely affected by further restrictions related to COVID-19, and the action taken to mitigate the potential risks of Brexit create other problems.	
Loss of key personnel	The Group's strategy and long-term success is heavily dependent on the quality of the Board and senior management team. There is a risk that a lack of succession planning for the senior management team and development of key colleagues, could harm future prospects and result in increased costs.	Succession plans continue to be developed for each member of the senior management team and are discussed at Nomination Committee meetings. Objectives and development programmes are currently being put in place to support future leaders. High-calibre candidates want to join a successful and growing retail business, evidenced by recent recruitment experience. The Group's remuneration policy (set out in the Directors' Remuneration Report) is designed to ensure management incentives support the long-term success of the Group for the benefit of all stakeholders.	Same risk level
Business continuity	Significant disruption to key parts of the operation, in particular, internal IT systems, the store support centre or a distribution centre, could severely impact The Group's ability to supply stores or fulfil online sales resulting in significant financial or reputational damage.	A disaster recovery plan and strategy is in place. Disaster recovery dry run exercises are undertaken throughout the year. The Group maintains appropriate business interruption insurance cover. Investment in an emergency generator at the store support centre insulates it from the effect of power cuts. System recovery is captured as part of the Business Continuity plan and any part of that could be invoked depending on the nature of the issue with the system. An in-house development team	Same risk level

Risk	Description	Mitigation	Change in level of risk from prior year
		maintains the internal systems and can be deployed immediately a problem arises.	
Regulation and compliance	The Group is exposed to a growing number of legal and regulatory compliance requirements including: the Bribery Act, the Modern Slavery Act, tax evasion rules, GDPR, Gender Pay Gap reporting, National Living and Minimum Wage, Environmental and Listing Rules. Failure to comply with these regulations could lead to financial claims, penalties, damages, fines or reputational damage which, in some cases, could be material and could significantly impact the financial performance of the business.	The Group's CFO and Company Secretary oversee regulatory compliance with support from external advisers. Senior management team members are aware of the key compliance requirements within their business units and liaise with the CFO and external advisers to identify and manage issues. The Group has a number of policies and procedures governing behaviours in all key areas, some addressing mandatory requirements (e.g. anti-bribery and corruption, adherence to national living wage requirements) and others adopted voluntarily. A whistle-blowing policy and procedure is in place, allowing colleagues to confidentially report any concerns or inappropriate behaviour. The Group has a GDPR policy, a data supervisor and an established monthly GDPR governance meeting, with minutes and actions from this meeting circulated to the senior management team. An out-sourced internal audit function is used.– See Report of the Audit Committee for further details.	Same risk level
IT systems and cyber security	The Group is reliant on the efficiency, reliability and resilience of key IT systems. Failure to develop and maintain these systems, or any prolonged system performance problems or cyber-attack, could seriously affect the Group's ability to trade and/or could lead to significant fines and reputational damage.	Recovery of key business systems is captured as part of the Business Continuity Plan with enhanced working from home capabilities deployed in Q4. Support contracts, with appropriate SLAs, are in place for all third-party systems with in-house systems supported by an experienced in-house development team. Operational practices for maintaining security have been reviewed with revised and more frequent patching cycles adopted. More frequent vulnerability scans and penetration tests are used to validate the robustness of security. A Design Review Group meets weekly to assess changes and design security into new systems and changes. An audit of Cyber Security was completed by our third party internal audit provider in the latter part of the year and all recommendations are being adopted. The IT investment strategy is reviewed regularly with the Operating Board including security and infrastructure investment programmes.	Increased risk level due to perception of external environment

Risk	Description	Mitigation	Change in level of risk from prior year
Cost inflation	Increases in costs, such as raw materials, commodity and wage costs, could adversely impact the Group's ability to deliver its forecast profit growth. This risk is currently heightened due to: ● COVID-19 pandemic uncertainty and potentially increased costs to mitigate health and safety risks, along with unknown impacts on imports and supply chain costs. • Brexit uncertainty and its potential impact on the value of sterling and uncertainty over duty rates post-Brexit potentially impacting the cost of products sourced from Asia. ● The current political focus on raising national living and minimum wages given most of the Group's colleagues are paid the national minimum or living wage.	Budgets and forecasts prepared by the Group include the expected impact of the national living wage and other known cost inflation (e.g. in electricity prices) and, therefore, the Board's strategic planning takes these into account. Cost control remains central to the culture and philosophy of the business with 'margin enhancement' being a key growth pillar of our strategy. Cost mitigation strategies are in place to offset, where possible, increases in national minimum and living wages (e.g. through productivity improvements in the distribution centre). Hedging policy is in place to manage exposure to foreign exchange rate fluctuations in the short term. Flexible nature of the Group's product offering means it has the ability to adapt or change products to meet margin targets, supported by the continued growth in own brand offering. The flexible nature of our property leases, with less than three years on average to the next exit point, ensures we are able to lower property costs through reduced rents.	Same risk level
Stock management	Ineffective controls over the management of stock could impact on the achievement of gross margin objectives, whilst lack of sufficient product availability could impact on sales.	Stock cover levels are set as part of the annual budget process with stock cover by product group, and at a total level, reviewed on a weekly basis against these budgeted levels. Perpetual Inventory counts are undertaken in stores and at distribution centres to monitor stock losses. 'Aged stock' is monitored closely with regular markdown action on slow-moving product lines. An action plan is being generated following an end-to-end stock process review finalised in the year with a view to implement key improvements in the coming year.	Same risk level
Store expansion	New store rollout has been de-emphasised as a pillar of the strategy. The ability to identify a set number of suitably profitable new store locations is therefore less critical than in previous years.	A store location modelling tool supports the new store assessment and sign-off process. UK retail vacancy rates continue to run at high levels, providing opportunities which will be pursued selectively. Each new store opening is approved by the CEO and CFO and will be subject to particularly close scrutiny in light of tighter capex constraints.	Reduced risk level

Risk	Description	Mitigation	Change in level of risk from prior year
Seasonality of sales	The Group historically makes all of its profit in the second half of the financial year, with the peak Christmas trading period contributing substantially all of this profit. Interruptions to supply, adverse weather or a significant downturn in consumer confidence around this peak trading period could have a significant impact on the sales and profitability of the Group.	We continue to explore opportunities to reduce seasonality by growing the year-round appeal of the proposition. Weekly trading meetings, attended by all members of senior management, ensure action is taken to maximise sales based on current and expected trading conditions. The Group has invested in increased capacity in its online fulfilment operation for the peak season of FY21.	Increased risk level due to potential effect of COVID-19 during November and December 2020.