FY24 Interim Results and Christmas Trading Update

26 weeks ended 29 October 2023

18 January 2024

Agenda

Strategic Overview	Gavin Peck	(CEO)
Financial Review	Rosie Fordham	(CFO)
Business Review	Gavin Peck	(CEO)

Strategic Overview

Strategic Overview

- "Better, not just Bigger" strategy – opportunity to step-change sales and profitability
  - Building a more purposeful and sustainable brand and customer proposition
  - Transforming and modernising business operations
- Progress-to-date has been hindered by significant external interferences
- Consumer environment has become increasingly challenging
- Short-term focus shifted to rebuilding gross margin, reducing costs and driving return on investments made
- Belief in long-term opportunity from delivering strategy remains

Financial Review
Rosie Fordham, CFO

Overview

Delivered an EBITDA[1] loss of £(8.5)m vs. H1 FY23 loss of £(6.4)m

- Result reflective of a challenging macro economic environment
- Revenue increased by 3.1%
- Product gross margin % improved (albeit less than expected)
- Cost headwinds such as NLMW and electricity impacted profitability

The Group ended the period with net debt of £(2.5)m compared to a H1 FY23 net cash position of £7.0m

- Cash position reflective of prudent pre peak stock builds
- There was £17.5m of headroom within our £20.0m bank facility at the end of the period

	£m
H1 FY23 EBITDA[1]	(6.4)
Additional margin from year-on-year sales increase	2.0
Higher product gross margin percentage	1.1
Variable web running costs	1.2
Payroll Inflation across Stores & Support Centre	(2.0)
Store Distribution costs	(1.7)
IT infrastructure	(0.8)
Electricity (inflation)	(0.7)
Support centre labour investment	(0.7)
Other	(0.4)
H1 FY24 EBITDA[1]	**(8.5)**

[1] Adjusted, pre IFRS 16 basis

Sales

Total revenue growth of 3.1% and total LFL sales growth of 1.6%

- LFL store sales up 3.5%
    - Strong store sales delivered in the early summer months
    - Performance slowed in the second half of the period, primarily due to sector wide reduced footfall

- Online sales declined by 12.2%, echoing broader retail trends
    - Web performance improved throughout the Period
    - Poor weather towards the end of the Period provided a temporary boost online

LFL Sales Growth Detail

	Stores	Online	Total
Q1	6.4%	(13.1%)	4.5%
Q2	1.2%	(11.8%)	(0.5%)
H1	**3.5%**	**(12.2%)**	**1.6%**
11 weeks ended 14 January 2024	-3.9%	-11.2%	-4.9%

Sales Analysis

	H1 FY24 £m	H1 FY23 £m	Variance £m	Variance %
Total LFL sales	130.3	128.2	2.1	*1.6%*
Non LFL Sales	8.7	6.1	2.6	*43.2%*
Total Gross Sales	139.0	134.3	4.7	*3.5%*
VAT	(15.6)	(14.5)	(1.1)	*(7.9%)*
Loyalty points redeemed	(0.8)	(0.9)	0.1	*7.6%*
Total Revenue	122.6	118.9	3.6	*3.1%*

Product gross margin

Product gross margin increased to 57.2% from 56.3% last year

- Beneficial container freight rates, offsetting;
- Hedged FX rate headwind in H1 and into H2
- Toys and games growth at lower margin
- Increased promotional activity, particularly in October

	H1 FY24		H1 FY23 Restated			
	£m	% of revenue	£m	% of revenue	Variance £m	Variance %
Revenue	122.6		118.9		3.6	3.1
Less: Cost of goods sold	(52.5)		(52.0)		(0.5)	(0.9)
Product gross margin	70.1	57.2%	66.9	56.3%	3.2	4.7

Operating Costs included in cost of sales

	H1 FY24		H1 FY23 (Restated)			
	£m	*% of revenue*	£m	*% of revenue*	£m Variance	*% Variance*
Store payroll	(24.8)	(20.2)	(23.0)	(19.4)	(1.7)	(7.6)
Store property and establishment costs	(25.4)	(20.8)	(25.2)	(21.2)	(0.3)	(1.0)
Store PoS & transaction fees	(1.2)	(1.0)	(0.9)	(0.8)	(0.3)	(32.9)
Store depreciation (excluding IFRS 16)	(1.4)	(1.1)	(2.2)	(1.8)	0.8	37.0
Online variable costs	(7.0)	(5.7)	(8.2)	(6.9)	1.2	14.4
IFRS16 impact (excluding Adjusting items)	5.4	4.4	4.0	3.4	1.3	33.4
Adjusting items (net impairment charges)	(6.9)	(5.7)	0.0	0.0	(6.9)	(100.0)
Total non-product related cost of sales	(61.4)	*(50.1)*	(55.5)	*(46.7)*	(5.9)	*(10.7)*
Statutory gross profit	8.6	*7.0*	11.4	*9.6*	(2.8)	*(24.2)*

Store payroll costs increased by £1.7m

- NLMW increases and corresponding retail management increases

Store property and Establishment Costs increased by £0.3m

- £1.3m Business rates revaluation benefit
- Rent savings on lease renewals, offset with timing of store openings/closures
- £0.7m increase in energy costs and £0.5m increase in service charge

Online variable costs reduced ahead of sales reduction rate

- Lower sales volumes, offset with more profitable order profile

IFRS 16

- Significant prior year impairment charges to RoUAs result in a favourable variance

Adjusting items

- Relate to store impairments which reflect the revision to profit forecasts in November 2023

THE WORKS

Other costs

	H1 FY24		H1 FY23 (Restated)			
	£m	*% of revenue*	£m	*% of revenue*	£m Variance	*% Variance*
Distribution costs (Excl Dep'n and IFRS16)	(6.7)	(5.5)	(5.0)	(4.2)	(1.7)	(34.0)
Administration costs (Excl Dep'n and IFRS16)	(13.3)	(10.9)	(10.9)	(9.2)	(2.4)	(21.9)

Store distribution costs increased by £1.7m, impacted by:

- £1.4m increase in labour costs
- £0.3m increase in third party delivery charges

Administrative costs increased by £2.4m

- £1m growth in support centre payroll (inflation and structure investment)
- £0.8m growth in IT infrastructure (inclusive of new EPOS dual running costs and strengthening IT security)

Net financing costs in the Period were £2.4m (H1 FY23: £2.3m)

- Mostly relating to IFRS 16 notional interest
- Bank interest accounts for £0.3m

Tax

- The Group does not expect to pay corporation tax in FY24 due to brought forward losses

Capex

Capital expenditure in the Period was £3.1 million (H1 FY23: £2.5m)

- Lower leasehold contributions from landlords YoY
- 19 Store refits vs 21 in the prior period

Capital expenditure for the full year is still expected to be approximately £6.5m.

	H1 FY24 £m	H1 FY23 £m	Variance £m
New stores and relocations	(0.6)	(0.0)	(0.6)
Store refits and maintenance	(1.6)	(1.2)	(0.4)
IT hardware, software, projects	(0.9)	(1.3)	0.4
Total capital expenditure	**(3.1)**	**(2.5)**	***(0.6)***

Stock

Stock was valued at £56.1m at the end of the Period, an increase of £2.5m

The operating cycle of the business causes maximum stock levels prior to the Christmas sales peak.

The stock value was higher than normal at the end of H1 FY24 due to the following:

- Prudent pre peak stock build
- The cost value per unit of stock was approximately 3% higher
- Stock provision values are lower than the prior year

The higher stock level at the end of H1 is expected to unwind in the second half of the year resulting in the year end stock value being broadly in line with the prior year.

	H1 FY24	H1 FY23
	£m	£m
Gross stock	*50.5*	*46.6*
Less: provisions	*(1.7)*	*(3.2)*
Stock on hand, net of provisions	***48.8***	***43.4***
Stock in transit	*7.3*	*10.2*
Net stock	***56.1***	***53.6***

Cash

The Group ended the period with net debt of £2.5m

- £17.5m of headroom within our £20.0m bank facility at the end of the period
- The Works typically experiences cash outflow during H1

Factors influencing H1 FY24 cash flows are as follows:

- The larger than usual increase in H1 stock
- Increased capital expenditure on new stores
- Favourable timing variance due to the timing of H1 month end

£18.4m cash at 14 January 2024 and expect to be debt free at year end.

	H1 FY24	H1 FY23	Variance
	£m	£m	£m
Operating cash flows before changes in working capital	5.1	5.6	(0.5)
Deduct from statutory presentation: rent payments	(13.9)	(14.3)	0.4
Deduct from statutory presentation: RCF drawdown	(5.0)	(4.0)	(1.0)
Non IFRS cashflow before working capital movements	(13.8)	(12.6)	(1.1)
Net movements in working capital	(0.2)	3.8	(4.0)
Capex	(3.1)	(2.5)	(0.6)
Tax paid	0.0	(1.5)	1.5
Interest and financing costs	(0.4)	(0.6)	0.2
Cashflow before loan movements	(17.5)	(13.4)	(4.1)
Drawdown of RCF	5.0	4.0	1.0
Exchange rate movements	(0.1)	0.3	(0.4)
Purchase of treasury shares by EBT	(0.1)	(0.1)	0.0
Net decrease in cash and cash equivalents	(12.8)	(9.3)	(3.5)
Opening net cash balance excluding IAS 17 leases	10.2	16.3	
Closing net (debt)/cash balance excluding IAS 17 leases	(2.5)	7.0	

Business Review
Gavin Peck, CEO

Trading performance and action taken

- Trading since end of H1 lower than expected, with total LFLs -4.9% (stores -3.9%; online -11.2%)

- Decisive action already taken:
  - Rebuilding gross margin
  - Reducing costs
    - Store labour efficiencies
    - DC efficiencies
    - Online fulfilment savings
    - Rent savings
    - Marketing cost optimisation

- Post Christmas trading has improved slightly, reflecting more impactful sale driving customer visits

- Remain cautious given uncertain outlook for consumer spend and supply chain disruption in the Red Sea

Our "Better, not just Bigger" Strategy

Our Strategic Pillars

Develop our brand and increase customer engagement	Enhance our online proposition	Optimise our store estate	Drive operational improvements

Our Strategic Enablers

Our Colleagues	Our Systems and Data	Our ESG Commitments

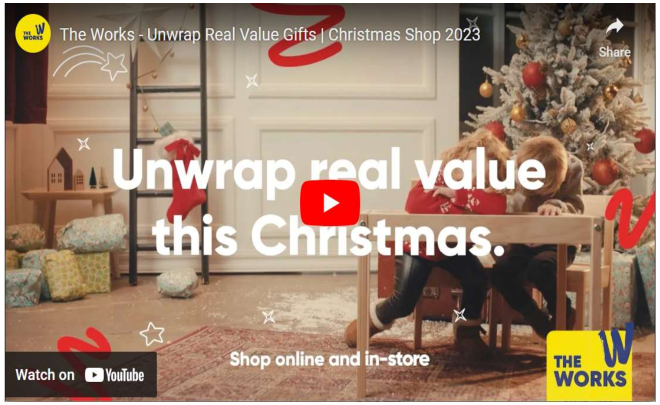
Develop our Brand and Increase Customer Engagement

Objective: Reach new customers, increase existing customer engagement and evolve external perceptions of The Works.

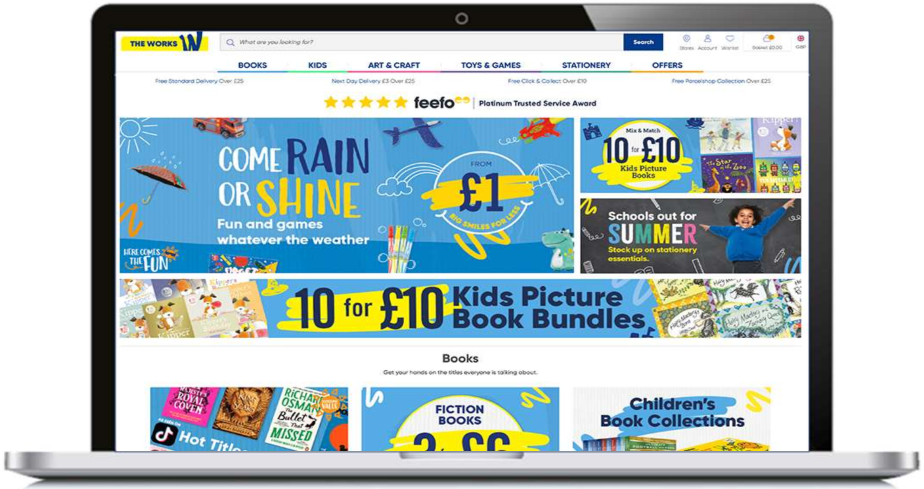
Key progress in FY24 to date:

- Further developed product offer
- Brand marketing strategy being reviewed in light of cost management
- Strengthened leadership team to drive progress in this area

Develop our brand and increase customer engagement



Enhance our Online Proposition



Objective: Increase awareness of our website and make it a more inspiring destination for our customers

Key progress in FY24 to date:

- Enhanced online customer experience, driving improvement in site KPIs
- Improved online profitability
- Online roadmap being developed for execution in 2024

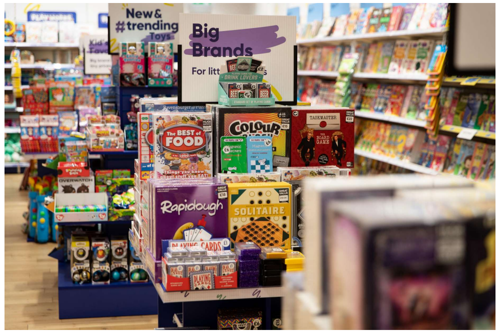
Enhance our online proposition

Optimise our Store Estate

Objective: Create a store environment that can inspire our customers and reflect the communities we serve

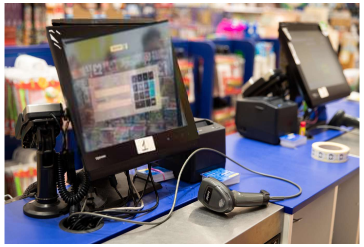
Key progress in FY24 to date:

- Ongoing portfolio management, improving overall estate
- Continued to drive significant rent savings on lease renewals
- Undertaken 19 store refits
- New store labour structure successfully embedded



Optimise our
store estate

Drive Operational Improvements



Objective: Improve our ways of working to become a better and more modern retailer, whilst ensuring we continue to operate efficiently and in a cost-effective way

Key progress in FY24 to date:

- Continued focus on enhancing end to end stock flows in the business
- Implemented new pick process in DC – expected to drive cost savings and improved on-shelf availability
- Successfully piloted new EPoS solution; rollout to all stores in H1 of CY24

Drive operational improvements

Summary

- Transformational "Better, not just Bigger" strategy
  - Opportunity to step-change sales and profitability
  - Progress-to-date has been hindered by significant external interferences
- Consumer environment increasingly challenging; Christmas trading below expectations
- Decisive action taken, with short-term focus shifted to:
  - Rebuilding gross margin
  - Reducing costs
  - Driving return on investments made
- Full year expectations unchanged noting:
  - Consumer environment remains uncertain
  - Red Sea disruption creates increasing uncertainty
- Balance sheet remains robust – expect to be debt-free at year-end
- Confident in the long-term opportunity

Q&A

Disclaimer

This presentation is being made only to and directed at: (a) persons who have professional experience in matters relating to investments falling within Article 19 of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "FPO"); or (b) high net worth entities, and other persons to whom it may otherwise lawfully be communicated, falling within Article 49 of the FPO (all such persons together being referred to as "relevant persons"); or (c) any other person to whom this promotion may lawfully be directed. Any person who is not a relevant person should not act or rely on this presentation or any of its contents.

This presentation may contain forward looking statements with respect to certain of the plans and current goals and expectations relating to the future financial conditions, business performance and results of TheWorks.co.uk plc ("TheWorks"). By their nature, all forward-looking statements involve risk and uncertainty because they relate to future events and circumstances that are beyond the control of TheWorks, including amongst other things, TheWorks' future profitability, competition in the markets in which TheWorks and its subsidiaries operate and its ability to retain existing customers and win new customers, changes in economic conditions generally, terrorist and geopolitical events, legislative and regulatory changes, changes in taxation regimes, exchange rate fluctuations and volatility in TheWorks' share price. As a result, TheWorks' actual future financial condition, business performance and results may differ materially from the plans, goals and expectations expressed or implied in these forward-looking statements. TheWorks undertakes no obligation to publicly update or revise forward-looking statements, except as may be required by applicable law and regulation (including the Listing Rules). No statement in this presentation is intended to be a profit forecast or be relied upon as a guide to future performance.

18 January 2024