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What will you discover?

FY22 interim results presentation
26 weeks ended 31 October 2021

21 January 2022

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Agenda

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

Highlights

Santa's Giftshop
2 for £10
Mix & Match
THE MILLION-COPY BESTSELLER
RICHARD OSMAN
The Man Who Died Twice
THE NEW THURSDAY MURDER CLUB MYSTERY
Kids Favourite Jigsaws for Less
POP 'N' BLOCK
ADDICTIVE POPPING GAME FOR ALL THE FAMILY
David Walliams AWFUL AUNTIE
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#TrendingNow
£3
gemini
DIE-CUTTING & EMBOSSING MACHINE
Helping you create amazing craft projects!
David Walliams
GANGSTA GRANNY STRIKES AGAIN!
MONOPOLY
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MEGA DEAL
2 for only £5
Kids Fun For Less!
THE NO.1 BESTSELLING AUTHORS
KATE ALLINSON
KAY FEATHERSTONE
Pinch of Nom
COMFORT FOOD
100 SLIMMING, SATISFYING RECIPES

Highlights

- Strong H1 trading performance – ahead of expectations and pre-pandemic levels
- Improved H1 profit despite significantly higher freight costs
- Record peak trading performance – supports upgrade to full year expectations (to approx. £15m EBITDA)
- Further strengthened balance sheet
- Bringing forward dividend review – likely to recommend final dividend this year
- Continued successful execution of our *"better, not just bigger"* strategy
- Emerging from the pandemic a stronger business – remain confident about medium-term growth opportunities

	H1 FY22	**H1 FY21 (Restated)**
Revenue	£116.1m	£88.9m
Total sales growth	30.6%	(7.8)%
LFL sales growth[1]	14.5%	10.6%
Pre IFRS 16 Adjusted EBITDA	£2.5m	£1.5m
Reported loss before tax	(£1.0m)	(£4.3m)
Net bank cash	£17.8m	£9.3m

(1) 2 year LFL re: H1 FY22

Financial Review

Overview

- EBITDA[1] £2.5m vs. £1.5m LY (and (£3.9m) in FY20)
  - Sales increased due to strong 2Y LFL growth and uninterrupted trading throughout H1 FY22
  - Higher freight costs and resumption of normal discounting in H1 FY22 lowered product margin %
  - Full government COVID-19 reliefs were received in FY21
  - Resumption of normal activities resulted in other costs increasing e.g. inflation, and investments in capability

Pre IFRS 16 Year on Year EBITDA track:	**£m**
H1 FY21 EBITDA	**1.5**
Gross profit due to increase in sales	17.0
Lower gross product margin % (including freight)	(3.6)
Reduction in government COVID-19 reliefs received vs. H1 FY21	(8.6)
Other costs including reflecting resumption of normal operations, inflation	(3.7)
H1 FY22 EBITDA	**2.5**

- Financial position strengthened
  - Net cash[2] of £17.8m at balance sheet date (incl. c. £10m working capital timing differences; H1 FY21 net cash: £9.3m)
- Increase to FY22 EBITDA forecast to approximately £15m
  - Underpinned by strong H1 result and trading during 11 weeks ended 16/01/22
- Confidence in prospects results in bringing forward review of dividend to FY22 prelims

(1) Adjusted, pre IFRS 16
(2) Excluding IAS 17 / IFRS 16 leases

Sales

	H1 FY22 £m	H1 FY21 £m	Variance £m	Variance %
LFL sales	**116.8**	**95.5**	**21.3**	***22.3%***
Sales from new/closed stores	**15.2**	**6.0**	**9.2**	***153.3%***
Gross Sales	**131.9**	**101.5**	**30.4**	***30.0%***
VAT	(15.1)	(11.9)	(3.2)	*26.9%*
Loyalty points redeemed	(0.7)	(0.6)	(0.1)	*16.7%*
Revenue (per statutory accounts)	**116.1**	**88.9**	**27.2**	***30.6%***

Non IFRS sales KPIs	Store LFL (2 year)	Online LFL (2 year)	Total LFL (2 year)	FY22 online sales %/total
H1 FY22	*7.3%*	*80.7%*	*14.5%*	*13.7%*
11 weeks ended Sun 16 Jan 2022	*0.6%*	*71.9%*	*9.0%*	*16.4%*

Store numbers

2 May 2021	**527**
Opened (solus)	3
Closed	(5)
Opened (relocated)	4
Closed (due to relocation)	(3)
31 October 2021	**526**

- Strong 2 year LFL sales performance during H1 and in subsequent 11 weeks
- Active management of store portfolio continued but size of estate similar at period end

Product gross margin

	HY1 FY22		HY1 FY21 (restated)			
	£m	% of revenue	£m	% of revenue	Variance £m	Variance %
Revenue	**116.1**		**88.9**		**27.1**	*30.5*
Less: Cost of goods sold	47.0		33.1		13.8	41.7
Product gross margin	**69.1**	***59.5***	**55.8**	***62.7***	**13.3**	***23.9***

Product gross margin (i.e. cost of products sold excluding stores & online costs) decreased to 59.5% from 62.7%

- Product mix strategy
    - In line with strategy, increased sales of front-list books and branded games and toys
    - Lower percentage margin but develops proposition and is profitable. Reflects evolution of focus to emphasise cash margin as well as % margin
- Freight costs
    - Management took early decision to pay higher prices to secure container capacity despite margin cost
    - As a result, stock levels during November/December lower than normal but sufficient to deliver sales
- Discounts
    - Discount levels in H1 FY21 very low when stores were closed and online sales were exceptionally high
    - H1 FY22 discount levels more normal: two “sales” successful in clearing terminal stock; underlying sales strong, minimising requirement for other discounting

Other cost of sales

	HY1 FY22		HY1 FY21 (restated)			
	£m	*% of revenue*	£m	*% of revenue*	Variance £m	*Variance %*
Other costs included in statutory cost of sales						
Store payroll	21.2	*18.3*	19.2	*21.6*	2.0	*10.4*
Store property and establishment costs	20.7	*17.8*	18.1	*20.3*	2.6	*14.5*
Store PoS & transaction fees	1.1	*0.9*	0.7	*0.8*	0.3	*45.4*
Store depreciation (non IFRS 16)	2.6	*2.2*	2.7	*3.1*	(0.1)	*(4.7)*
Online variable costs	8.1	*7.0*	8.7	*9.8*	(0.7)	*(7.6)*
IFRS16 impact	(2.3)	*(2.0)*	(1.1)	*(1.3)*	(1.1)	*100.4*
Adjusting items	(0.1)	-	-	-	-	*N/A*
Total non-product related cost of sales	**51.3**	*44.2*	**48.4**	*54.4*	**3.0**	*6.1*
Statutory gross profit	**17.8**	*15.3*	**7.4**	*8.3*	**10.4**	*139.6*

- Store payroll
  - Reflects FY22 National Living Wage increase, partially mitigated by operational efficiencies and reduced tasking in the stores
  - Furlough payments to colleagues in FY21 were only 80 % of normal wage rate (note – re: FY21, furlough relief is classified as “other operating income” so not included in store payroll costs line)
- Store property and establishment costs
  - Rent & service charge savings of £0.9m
  - Reduction of £3.3m in rates relief vs. H1 FY21 (H1 FY22 £3.9m vs. £7.2m H1 FY21)
  - Stores being open throughout meant maintenance costs increased back to normal level
- Online costs decreased due to lower YoY sales.
  - Online costs as percentage of online sales was higher YoY, due to suppression of advertising in FY21 when stores were forced to close
- IFRS16 impact covered in Appendix (IFRS 16 depreciation charge < rent add back)

Other operating income & overheads

	HY1 FY22		HY1 FY21			
Other operating income	**£m**	***% of revenue***	**£m**	***% of revenue***	**£m Variance**	***% Variance***
Furlough benefit	(0.1)	*(0.1)*	4.5	*5.1*	(4.6)	*(102.2)*
COVID 19 retail grant	-	-	0.7	*0.8*	(0.7)	*(100.0)*
	(0.1)	*(0.1)*	**5.1**	*5.8*	**(5.2)**	*(102.0)*
Adjusted distribution costs	4.1	*3.5*	3.4	*3.9*	0.6	*17.8*
Depreciation	-	-	0.1	*0.1*	-	*(15.9)*
Distribution costs	**4.1**	*3.5*	**3.5**	*3.9*	**0.6**	*17.4*
Adj Pre IFRS 16 Admin costs	**11.4**	***9.8***	**9.2**	***10.4***	**2.2**	***23.4***
Depreciation	0.6	*0.5*	1.4	*1.6*	(0.8)	*(56.4)*
Adjusting items	-	-	0.2	*0.2*	(0.2)	*(100.0)*
IFRS 16 impact	(0.2)	*(0.2)*	(0.2)	*(0.2)*	-	*(8.1)*
Administration costs	**11.8**	*10.2*	**10.6**	*12.0*	**1.2**	*11.0*

Retail distribution costs reflected

- A full period of trading for the stores
- Increase in National Living Wage, partly mitigated by operating/efficiency improvements

Key year on year changes in Administrative costs

- Strengthening of senior leadership team, and key functions including supply chain and IT
- Resumption of normal operations, e.g. travel
- Provision for potential FY22 bonus (no bonus cost re: FY21)

Capital expenditure

	H1 FY22 £'m	H1 FY21 £'m	*Variance £'m*
New stores and relocations	0.4	-	*0.4*
Store refits and maintenance	0.6	0.1	*0.5*
IT	0.3	0.3	*-*
Online development	0.1	0.6	*(0.5)*
Other	0.2	0.1	*0.1*
Total	**1.6**	**1.1**	***0.5***

- Three new stores opened plus four relocated
- Corresponding landlord contributions received in H2 FY22
- Store maintenance capex at a more normal level in H1 FY22
- FY22 total capex expected to be in line with previous guidance at approximately £3.5m

Cashflow, liquidity

	H1 FY22	H1 FY21 (1)	*Variance*
	£m	**£m**	***£m***
Cashflow pre-working capital	6.7	3.2	*3.5*
Net movement in working capital	19.7	17.3	*2.4*
Capex	(1.6)	(1.1)	*(0.5)*
Tax	-	(0.1)	*0.1*
Interest/financing costs	(0.2)	(0.8)	*0.7*
Dividends	-	-	-
Cashflow before loan movements	**24.6**	**18.5**	***6.1***
Drawdown/(repayment) of CLBILS loan	(7.5)	7.5	*(15.0)*
Repayment of RCF	-	(10.0)	*10.0*
Exchange rate movements	(0.1)	0.3	*(0.4)*
Net increase in cash	**17.0**	**16.3**	***0.7***
Opening net cash balance excluding IAS 17 leases	**0.8**	**(7.1)**	
Closing net cash balance excluding IAS 17 leases	**17.8**	**9.3**	

- Net cash inflow £17.0m (H1 FY21: £16.3m).
- Positive contributions from increased EBITDA, low capex and negligible interest
- Favourable working capital movement largely due to stock - paid for later due to later receipts
- Approximately £10m favourable timing impact included in creditors – expected to unwind by end FY22
- Assuming this occurs as expected, estimated net cash balance £10m at end of FY22 (excluding IAS 17 leases)
- Strong cash position at half year point, even adjusting for timing difference

(1) £1.9m uncleared credit card transactions reclassified from cash to trade and other payables

Business Review

Strong Trading Performance

- 2yr LFL +14.5%
  - Strong growth in stores (+7.3%) – continued growth in ATV offsetting lower retail footfall
  - Online sales almost double (+80.7%) – despite lower promotions/reduced marketing spend

- Sales growth being driven by:
  - Improved customer offer – e.g. front-list books, branded toys and games
  - Operational improvements – e.g. better availability, increased focus/simplicity in stores
  - Favourable external factors – e.g. hobbies continued post-lockdowns, UK staycations, “fidget frenzy”, early Christmas purchases

- Positive momentum continued into key Christmas trading period (2yr LFL +9%)
  - Record peak trading performance - positive growth in stores (+0.6%) and online (+71.9%)
  - Strong operational execution, partially mitigating supply chain disruption and Omicron impact
  - Clean seasonal stock position removing the need for big January sale event

- Trading environment remains uncertain, but we enter 2022 in a strong position

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

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

1. Developing brand and increasing customer engagement

- New clarity of purpose – "Inspiring People to Do" – and customer focus to drive:
  - Improved customer proposition
  - New customers to our brand
  - Increased loyalty of, and engagement with, existing customers

- Key progress made in H1:
  - Clarified our purpose, developing plans to bring this to life
  - Improved customer offer and credibility as a brand
    - Front-list books (e.g. Richard Osman, celebrity biographies)
    - Wider offer of branded board games (e.g. Scrabble, Articulate)
    - Extended Kids branded offering, books and non-books (e.g. Paw Patrol, Peppa Pig)
  - Strengthened our Commercial Team
  - Reviewed Loyalty scheme and customer insight approach

2. Enhancing our online proposition

- Digital channel almost double pre-pandemic levels, with step change in profitability

- Significant further growth potential – opportunities include:
  - Attracting new customers to the brand through improved digital marketing
  - Further improving customer experience on new platform (e.g. better navigation/shopability)
  - Launching more targeted range extensions (e.g. large toys difficult to stock in stores)
  - Further enhancing multi-channel credentials (e.g. order in store, C&C improvements)

- Key progress made in H1:
  - Introduced new complementary range extensions (e.g. paddling pools)
  - Continued to develop new platform (e.g. improving navigation/product attribution)
  - Recruited new Head of Digital Marketing, evolving our approach in this area
  - Invested in fulfilment capacity and capability, supporting improved customer service levels

3. Optimising our store estate

- Store estate remains lifeblood of business and will be for many years to come
  - Focus on optimising existing store estate through:
    - Improving customer experience – e.g. better ranging, availability, merchandising, navigation, retail discipline and customer service
    - Relocations/refits of oldest stores – bringing estate up to "ideal store"
    - Driving down rents in existing stores – c.100 lease events per annum
  - Selected new store openings – expect net 10 max pa

- Key progress made in H1:
  - Enhanced in-store shopping experience – supported 18% growth in ATV
  - Driven improved retail disciplines – focus and simplicity
  - Continued active portfolio management
    - 3 new stores, 5 closures, 4 relocations – strong payback on new/relocated stores
    - Further savings in existing store rents
    - Retained flexibility – just over 2 years (on average) to next lease exit/break

4. Improving our operational capabilities

- Becoming a more agile and modern business – improving operational capability and efficiency

- Business-wide improvement initiatives, including:
  - End to end stock management improvements (e.g. import supply chain, store fulfilment)
  - Implementing automation in parts of online fulfilment operations
  - Investing in systems and software (e.g. store EPOS, supply chain, data analytics)
  - Investment in people to support delivery of plans

- Key progress made in H1:
  - Invested in new allocation/replenishment tool – pilot launched pre-peak
  - Expanded Supply chain team – capacity and capability
  - Further refined stock management processes and controls – improved availability/stock turn
  - Launched store “direct delivery” trial – reduced lead time/improved availability
  - Implemented a new store labour model – key to driving future productivity improvements
  - Completed tender for new EPOS system – rollout planned for FY23
  - Recruited Head of Profit Protection – joined January 2022

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- Continued successful execution of our “better, not just bigger” strategy
- Short-term trading environment remains uncertain, with some significant cost headwinds in FY23, but we:
  - Are emerging from the pandemic a stronger business
  - Remain confident in our medium-term growth opportunities

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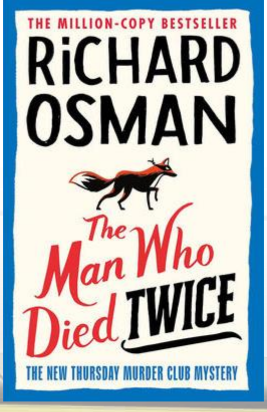
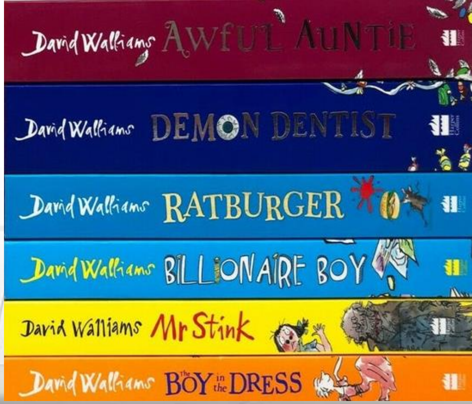
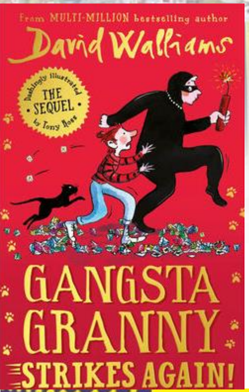




Appendices



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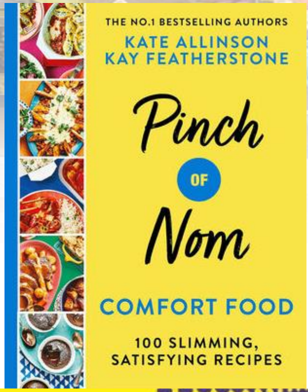

IFRS 16 – impact on PBT

	HY1 FY22 £m	HY1 FY21 £m	Variance £m
Deduct non IFRS 16 components			
IAS 17 rental charge	12.4	12.8	(0.4)
Non IFRS 16 depreciation on leased assets	0.5	0.6	(0.1)
Non IFRS 16 interest on leased assets	-	-	-
	12.9	**13.4**	**(0.4)**
Add IFRS 16 charges			
Depreciation on right of use asset	(10.4)	(12.0)	1.6
Notional interest charge	(2.3)	(2.4)	0.1
	(12.8)	**(14.4)**	**1.6**
Net IFRS 16 increase/(decrease) to PBT	**0.1**	**(1.0)**	**1.2**

Immaterial net impact on H1 FY22 PBT;

Pre IFRS 16 EBITDA to pre IFRS 16 PBT reconciliation

	H1 FY22 £m	H1 FY21 £m	
Adjusted EBITDA pre IFRS 16	**2.5**	**1.5**	
Pre IFRS 16 net financing expense	**(0.4)**	**(0.3)**	
Loss on disposal of PPE	(0.2)	(0.2)	
Loss on disposal of intangibles	-	(0.6)	Old web platform write off
Depreciation of PPE	(2.6)	(2.6)	
Amortisation of intangibles	(0.4)	(0.6)	
Depreciation on "old" finance leases	(0.2)	(0.2)	
Interest on "old" finance leases	-	-	
Sub total - D&A	**(3.3)**	**(4.2)**	
Total EBITDA vs PBT add backs	**(3.7)**	**(4.5)**	
Adjusted PBT pre IFRS 16	**(1.2)**	**(3.0)**	

Summary balance sheet extract

Summary balance sheet extract	H1 FY22 £m	H1 FY21 £m	Movement £m
Non current assets	124.4	136.8	(12.5)
Stock	40.0	38.5	1.5
Other current assets	16.0	9.7	6.3
Gross cash	17.8	16.8	1.0
Total assets	198.2	201.9	(3.7)
Interest bearing borrowings	27.7	29.6	2.0
Other current liabilities	65.8	55.6	(10.2)
Non current liabilities	94.5	107.2	12.7
Total liabilities	188.0	192.5	4.5
Net assets	**10.2**	**9.4**	**0.8**