TheWorks.co.uk

What will you discover?

Preliminary Results
52 Weeks ended 28 April 2019

3 July 2019



Agenda

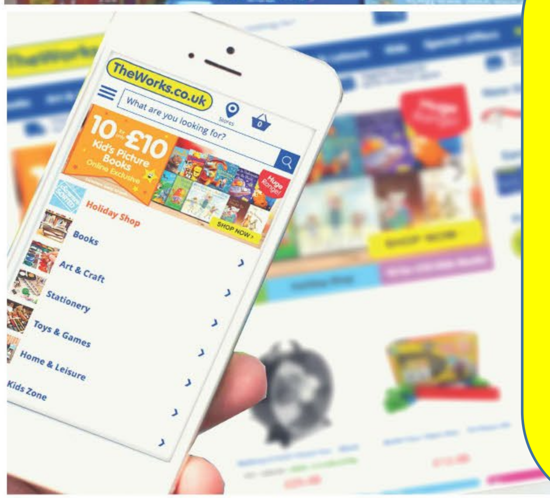
- Introduction and key messages
  Kevin Keaney (CEO)

- Financial review
  Gavin Peck (CFO)

- Business review
  Kevin Keaney (CEO)

- Questions

Introduction



We remain well positioned in the growing discount sector

Viewed as a specialist by discount retailers and as a discounter by the full price specialists

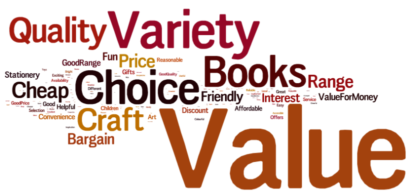
Source: Management

Our strong proposition resonates well with customers

The Works continues to be associated with value, variety and choice

Q. If you had three words to describe The Works, what would they be?

Base: All respondents – database survey (2,387)



Top 5 words / descriptions:

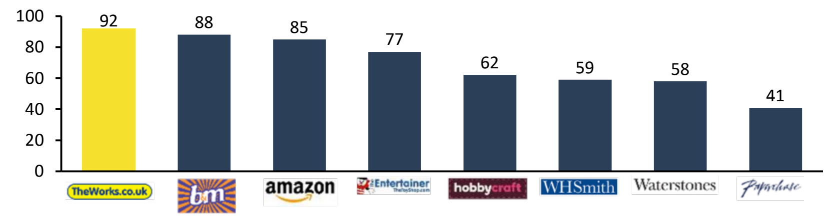
	2012	2016	2018
1	Cheap	Value	Value
2	Value	Cheap	Variety
3	Variety	Variety	Choice
4	Book	Books	Books
5	Interesting	Quality	Quality

Leading the way in value for money

Ranking of criteria (out of 15 criteria) in customer purchasing decision within [category]; 1= most important

Consumer ratings	Books	Arts and Crafts	Stationery	Toys and Games
Value for money	2	2	1	1
Range / choice	1	1	2	3

Value for money rating[1]

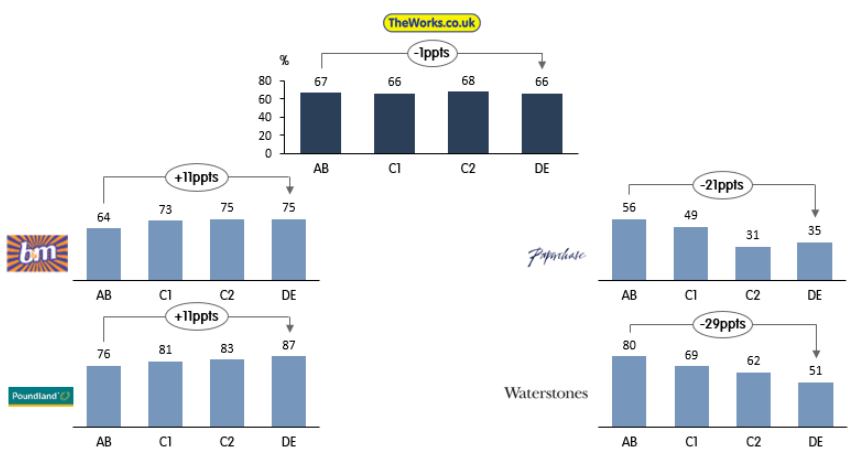


1. Value for money rating calculated by assessing consumers' ratings of relative level of quality and price

The Works is relevant across all social grades – another point of difference

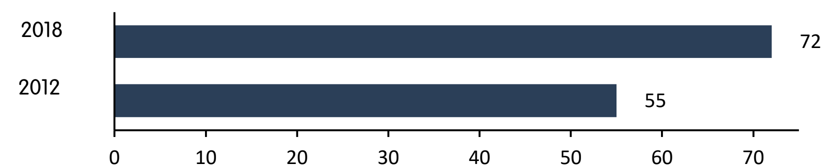
Q. Which of the following retailers have you ever bought from?

Base: All respondents who ever bought from [retailer] – market survey (various)

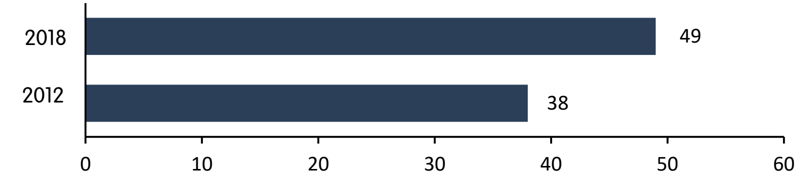


Increasing awareness and frequency, but still a big opportunity for further penetration

Percentage of respondents aware of The Works – market survey



Percentage of respondents who have ever bought from The Works – market survey



Source: Pragma Report (July 2018)

Our proven multi-channel model addresses three modern trends of retailing: Value, Convenience & Online

Stores (c90% of Sales)

High Street

Shopping Centres

Factory Outlets

Concessions

Retail Parks

E-commerce (c10% of Sales)

Fulfilment

FREE CLICK & COLLECT

NEXT DAY DELIVERY

Channels

Devices

Customer

Customer Engagement

CRM

Customer Services

Loyalty

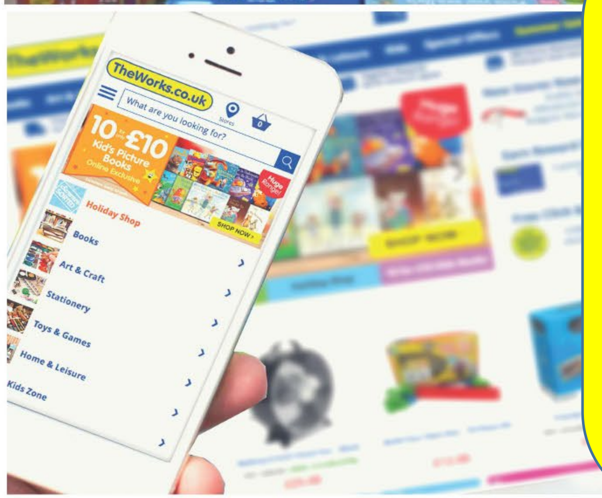
We have a proven four pillar growth strategy

FY19 key messages and FY20 outlook

- We have achieved good growth in what has been a very difficult year for retail
- We are delivering against the strategy set out at the time of our IPO
- New store opening performance has been particularly pleasing – there has never been a better time to open new stores
- Positive LFL growth delivered in both stores and online
- We are in a strong financial position
- Strong cash generation is funding our new store rollout programme and dividend policy
- The consumer backdrop remains subdued – we are now assuming that this will continue for the foreseeable future
- We remain confident in our future prospects and well-placed to tap into the three growing trends of modern retailing:

Value | Convenience | Online

Financial Review



Financial highlights

	FY19 £'m	FY18 £'m	YOY Change
Revenue	**217.5**	**192.1**	**13.2%**
LFL sales growth	**3.0%**	**4.7%**	
Adjusted EBITDA	**13.8**	**13.2**	**4.2%**
Adjusted EBITDA post-Mega Trends	**13.2**	**12.0**	**9.6%**
Adjusted PBT	**6.7**	**4.2**	**58.6%**
Adjusted, proforma, basic EPS	**8.4**	**5.1**	**64.7%**
Dividends (pence per share)			
Interim	1.2		
Proposed Final	2.4		
Total ordinary dividend	**3.6**		
Net (debt)/cash	**2.9**	**(24.5)**	

FY19: Squishies Mega Trend generated £0.6m EBITDA (FY18: Spinners Mega Trend generated £1.2m EBITDA)

£7.4m after normalising net finance charges to reflect the full year impact of the post-IPO debt structure

Year-end position benefits from timing of April payment runs – broadly cash/debt-free post this timing impact

A reconciliation of adjusted PBT to statutory PBT is provided in the appendix

Ongoing improvement in product margin offset by increased costs

	FY19 £'m	% of revenue	FY18 £'m	% of revenue
Revenue	**217.5**		**192.1**	
Cost of goods sold	81.2	37.4%	74.5	38.8%
Store wages	37.2	17.1%	30.9	16.1%
Store property costs	42.2	19.4%	37.6	19.6%
Other direct costs	14.3	6.6%	11.6	6.0%
Cost of sales	**174.9**	**80.4%**	**154.7**	**80.5%**
Distribution costs	11.8	5.4%	9.1	4.7%
Administrative costs	17.0	7.8%	15.1	7.9%
Operating costs	**28.8**	**13.3%**	**24.2**	**12.6%**
Adjusted EBITDA	**13.8**	**6.3%**	**13.2**	**6.9%**

Note:
- *The above figures exclude depreciation, impairment and gains/losses on disposals of property, plant and equipment and amortisation of software*
- *Payment transaction fees, online marketing costs and point of sale costs, historically included within cost of goods sold, have been allocated to Other direct costs above (both for FY19 and FY18, consistent with their treatment within the half year results)*

Key highlights

- **Further improvement in product margins**
  - Multiple levers driving – see later
  - FX accounts for c50% of FY19 improvement

- **NLW/NMW headwind partially mitigated**
  - Continues to impact store wages ratio – ability to mitigate limited in absence of lone-working
  - Further pressure on distribution labour costs – partially mitigated through efficiency savings

- **Ongoing rent and rates savings in existing portfolio**
  - Rent saving opportunity exists, but remains more limited than for many other retailers given flexible/short lease terms

- **Outsourcing of e-Commerce fulfilment to a 3rd party provider**
  - Other direct costs – increased labour costs given peak operational challenges
  - Distribution costs – underlying increase reflecting fixed costs of running an additional distribution facility

- **Operating costs increase**
  - Further investment in key functions including those linked to growing the estate (e.g. field sales structure) and our buying team
  - £0.5m incremental costs associated with being a plc

Strong cash generation, with self-funding roll out

	FY19 £'m	FY18 £'m
Adjusted EBITDA	**13.8**	**13.2**
Share based payment charges	0.1	0.0
Derivative exchange loss/(gain)	0.1	(0.5)
Increase in provisions	0.1	0.0
Adjusted Operating Cashflow before working capital	**14.1**	**12.8**
Net capital expenditure	(8.2)	(7.5)
Net working capital movement	(0.4)	3.6
Net interest paid	(1.3)	(3.1)
Corporation tax	(1.2)	(0.7)
Free Cashflow	**3.0**	**5.1**

April payment runs impacting versus FY17 position

New debt-structure post-IPO

Disciplined approach to predictable capital expenditure

	FY19 £'m	FY18 £'m
New stores and relocations	5.0	5.3
IT hardware and software	1.0	0.7
Web development	0.4	0.3
Store refits and rebrands	0.7	0.4
Other	1.3	1.2
Total capital expenditure	**8.5**	**7.8**
Capital expenditure on finance lease	(0.3)	(0.3)
Net capital expenditure	**8.2**	**7.5**

IFRS16

Key points to note

- Operating leases meeting IFRS16 criteria represented by a fixed ("right-of-use") asset with corresponding lease liability (notional debt)
- Operating lease expense replaced by asset depreciation and notional interest charge in relation to the lease liability
- Our flexible lease terms create complexity
  - Concession leases
  - Turnover rents
  - Short-term leases

  Not classified as leases under IFRS16
- Elected the modified retrospective adoption method which requires no re-statement of comparatives
- Modest improvement to FY20 PBT (on a like-for-like store basis before the future impact of renegotiation on rent reviews, renewal and/or extensions)
- No impact on business operations, cash flows or future store opening strategy

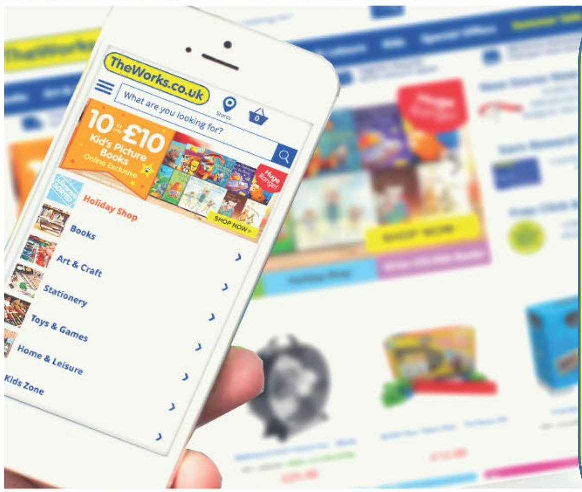
	£'m
FY20 OPENING BALANCE SHEET IMPACT	
Right of use assets	103.8
Lease liability	(114.2)
Net assets impact of IFRS16	**(10.4)**
De-recognise	
Prepayments	(1.9)
Rent free	5.6
Equity impact	**(6.7)**
ILLUSTRATIVE FY20 P&L IMPACT*	
EBITDA increase = removal of operating lease charges for IFRS16 leases	**21.9**
Right of use asset depreciation	(18.0)
EBIT increase	**3.9**
Lease liability interest charge	(3.5)
Net PBT increase	**0.4**

** assumes we do not renew, extend, cancel or exit any of the current leases on new terms and excludes the impact of new Stores*

FY20 Guidance

New Store Openings	• Net 50 new stores – similar opening profile to FY19 • Payback within 12 months
LFL Sales Growth	• Likely to be below recent historic levels in the absence of a Mega Trend and given the current economic environment • H1 broadly flat in the absence of a Mega Trend
Margin Enhancement	• Product margins flat given FX headwind • Marginal progression in Gross Profit Margin – targeted cost/efficiency savings offsetting impact of NLW/NMW headwind • Operating costs growth ahead of sales growth – annualised impact of plc Costs (c£0.3m) and eCommerce 3PL (c£0.5m)
Capex	• c£10m reflecting investment in new web platform and WIFI/new HHTs in-store – depreciation charge to increase
Capital Structure	• Progressive dividend policy • Year-end debt position to be broadly in line with FY19
IFRS16 Impact	• As per previous slide


Business Review

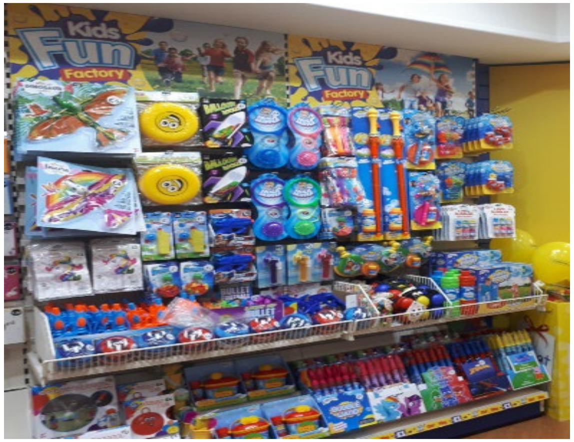


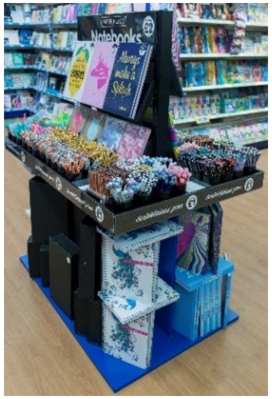
Rollout of profitable new stores

- New store rollout remains our biggest growth driver
- Continuing track record of delivery in FY19
  - 50 net new stores opened – trading from 497 stores at the end of the years
  - Payback in under 12 months – ahead of historic average
  - Improving returns on retail parks
- Flexible lease terms ensuring we continue to benefit from favourable retail property market conditions
  - Less than 3 years on average to next break or expiry
  - Opportunity to relocate to improve pitch or lease terms
- New sales forecasting tool (developed with CACI) – supports existing disciplined approach
- Up to 10 years of growth remaining at 50 net new stores pa

Continued growth in LFL Sales

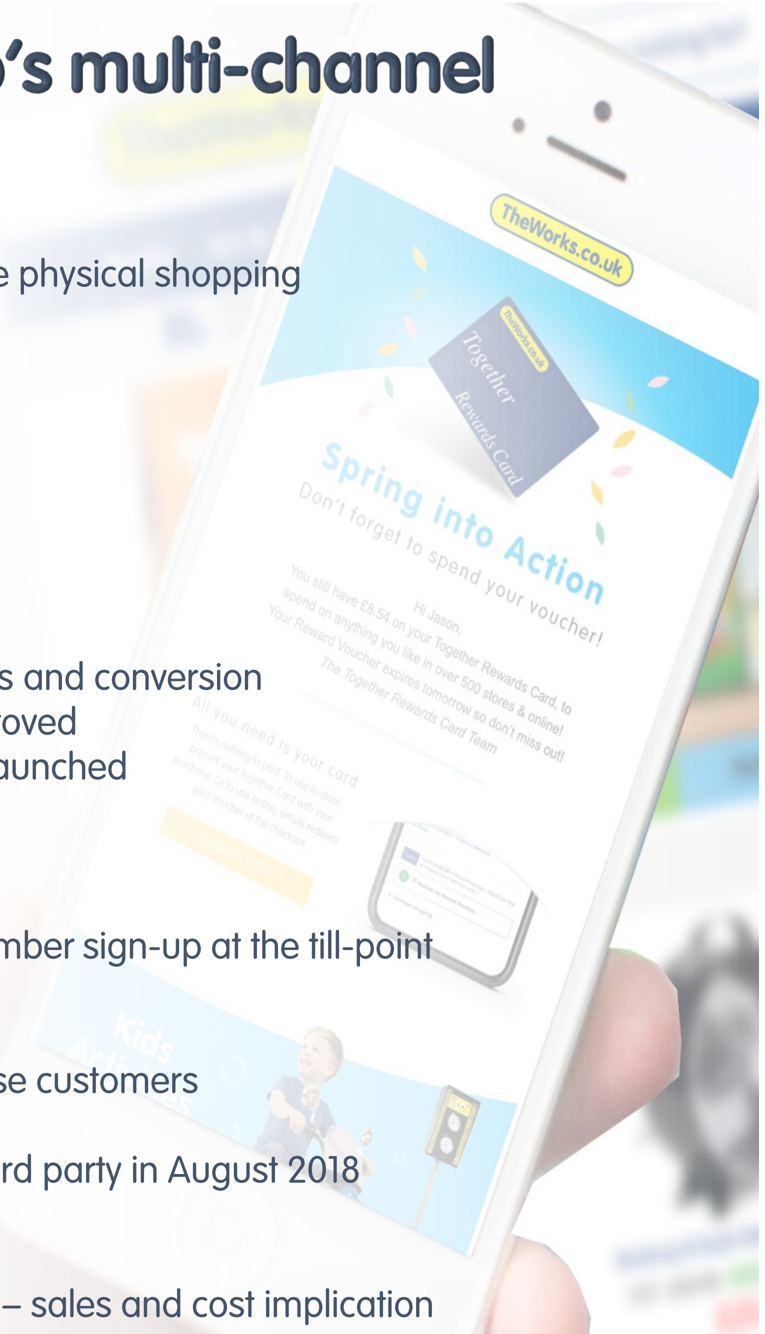
- LFLs +3% (FY18: +4.7%)
  - Positive growth in stores and online
- Ongoing refresh of product offering
  - Thousands of new lines introduced – driving "product discovery"
  - New ranges launched
    - "Pen Bars"
    - Own-brand "Corner Piece" adult jigsaws
    - Online range extensions, including "Crafters Companion"
    - Successful trial of helium balloons
- Further strong growth in Art, Craft and Hobbies Zone
- Very strong seasonal performance
  - Summer "Out to Play" – nimble trading through prolonged hot weather
  - "Back to School" – strong growth across Stationery Zone
  - Delivered our 8th consecutive record Christmas
- Identified and capitalised on Squishies Mega Trend
- Store look and feel refreshed – new in-store POS and zoning





Further development of the Group's multi-channel proposition

- Continued growth of our online channel – an integrated part of the physical shopping experience
- Click and Collect – continues to be our fastest growing channel
  - Refreshed the online customer journey
  - Improved in store processes
  - Driving an additional 0.5m customer visits a year
  - Increased add-on sales generated in-store
- Further enhancements to web functionality – strong growth in visits and conversion
  - Overall site look and feel and mobile customer journey improved
  - Successful "Holiday Shop" and "Christmas Shop" concepts launched
- Soft-launch of e-commerce trading site in Republic of Ireland
- Strong growth in loyalty membership following introduction of member sign-up at the till-point in January 2018
  - Increased active members by 0.7m to 1.8m during the year
  - Opportunity to drive further, targeted, engagement with these customers
- Outsourced online warehousing and fulfilment operations to a third party in August 2018
  - Key enabler to future range expansion in the medium term
  - Enables efficient servicing of store estate
  - Operational challenges in first peak trading period together – sales and cost implication



Continuing to deliver margin enhancement

- Further growth in product gross margin – multiple levers driving
  - Mix management – overall and within categories
  - Lower mark-downs, supported by:
    - "Aged stock" remaining at historic lows
    - Strong sell-through of seasonal ranges
    - Careful management of Squishies stocks
  - Further own-brand development (e.g "Corner Piece" jigsaws)
  - Product-engineering, focused on maintaining value for money
  - Better buying (e.g. leveraging scale)
  - Further strengthening of the buying team
  - Favourable FX rate in first part of the year

- Cost control remains central to the Group's philosophy and culture
  - Leveraging scale and recent investments in people
  - Continue to focus on negotiating improved rental terms

Other Updates

- **Our colleagues**
  - We have created over 350 new jobs
  - We have promoted over 450 colleagues
  - We made the Sunday Times Top 25 Big Companies to work for at the first attempt

- **Our communities**
  - We raised over £0.2m in our strategic partnership with CRUK – over £0.5m now raised together
  - "Keen to be Green" and "Reworked" initiatives launched

Further delivery planned in FY20

New Store Rollout

- Net 50 new stores to open
- 70%+ to be open prior to peak Christmas trading period
- Strong pipeline of opportunities – a net 9 new stores already opened

LFL Sales Growth

- Thousands of new lines planned – driving "product discovery"
- Helium Balloons rollout to 450+ stores
- Kids Jigsaws launch – driven by own "Corner Piece" brand
- Disney movies – includes Frozen 2 in our Golden Quarter
- Core range opportunity – improved merchandising and availability

Multi-Channel Strategy

- Further web-exclusive range developments
- Re-platform of website – planned to go live in Q1 FY21
- Working with our 3rd party fulfilment provider to ensure efficient delivery of peak online trading

Margin Enhancement

- Further growth in product gross margin – offsetting FX headwind
- Opportunity for retail distribution efficiencies following outsourcing of eCommerce fulfilment and warehousing to 3rd party
- Renewed focus on cost control – "every penny counts"

Tactical promotions and marketing to help drive sales in the current environment

Summary

- We have achieved good growth in what has been a very difficult year for retail
- We are delivering against the strategy set out at the time of our IPO
- New store opening performance has been particularly pleasing – there has never been a better time to open new stores
- Positive LFL growth delivered in both stores and online
- We are in a strong financial position
- Our strong cash generation is funding our new store rollout programme and dividend policy
- The consumer backdrop remains subdued – we are now assuming that this will continue for the foreseeable future
- We remain confident in our future prospects and well-placed to tap into the three growing trends of modern retailing:

Value | Convenience | Online

Our investment highlights

Differentiated proposition within attractive growth market segments

Proven multi-channel model

Well invested infrastructure to support growth

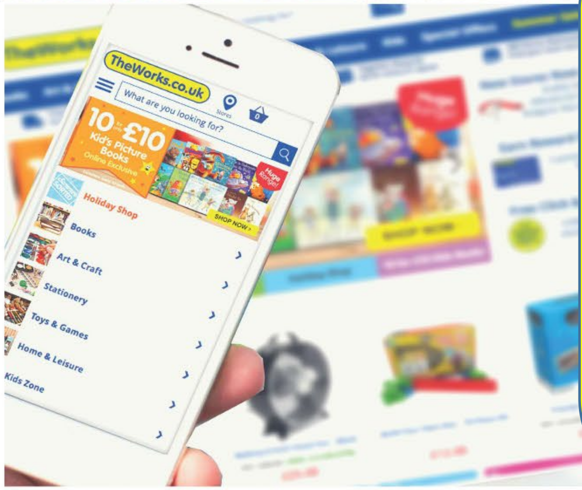
Highly experienced management team

Clear four pillar strategy for growth

Strong and consistent track record of delivering profitable growth


2 for £10

Questions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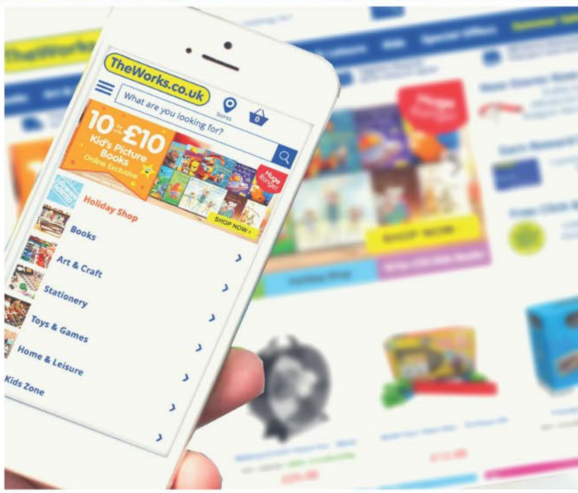
NAVAL STRIKE
TUMBLE

Appendices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Balance Sheet

	FY19 £'000	FY18 £'000
Non-current assets		
Intangible assets	18,494	18,499
Property, plant and equipment	20,786	18,693
Deferred tax assets	351	299
	39,631	**37,491**
Current assets		
Inventories	25,157	21,495
Trade and other receivables	17,589	17,224
Derivative financial asset	158	89
Current tax asset	0	0
Cash and cash equivalents	3,687	7,420
	46,591	**46,228**
Total assets	**86,222**	**83,719**
Current liabilities		
Interest-bearing loans and borrowings	230	209
Trade and other payables	46,646	43,905
Provisions	218	119
Derivative financial liability	25	0
Current tax liabilities	300	287
	47,419	**44,520**
Non-current liabilities		
Interest-bearing loans and borrowings	403	31,249
Provisions	63	0
	466	**31,249**
Total liabilities	**47,885**	**75,769**
Net assets	**38,337**	**7,950**
Equity attributable to equity holders of the parent		
Share capital	625	
Share premium	28,322	51,500
Merger reserve	(54)	(51,500)
Share-based payment reserve	1,373	
Hedging reserve	144	
Retained earnings	7,927	7,950
Total equity	**38,337**	**7,950**

Cash Flow

	FY19 £'000	FY18 £'000
Cash flows from operating activities		
(Loss) / profit for the period	1,120	1,785
Adjustments for:		
Depreciation	4,912	4,077
Amortisation	1,049	939
Impairment of property, plant and equipment	41	135
Derivative exchange loss/(gain)	73	(451)
Net finance costs	804	3,604
Gain / Loss on sale of property, plant and equipme	403	237
Adjusting items - staff incentives on IPO	1,212	0
Share based payment charges	139	0
Increase in provisions	102	0
Taxation	1,205	787
	11,060	**11,113**
Increase in trade and other receivables	(365)	(3,257)
Increase in inventories	(3,635)	(2,449)
Increase in trade and other payables	3,643	9,296
	10,703	**14,703**
Tax paid	(1,221)	(705)
Net cash from operating activities	**9,482**	**13,998**
Cash flows from investing activities		
Acquisition of property, plant and equipment	(7,120)	(6,754)
Acquisition of intangible assets	(1,044)	(698)
Proceeds from sale of property, plant and equipme	0	9
Interest received	20	20
Net cash from investing activities	**(8,144)**	**(7,423)**
Cash flows from financing activities		
Interest paid	(1,357)	(3,075)
Payment of finance lease liabilities	(264)	(173)
Proceeds from share issue	28,500	0
Dividends paid	(750)	0
Repayment of bank borrowings	(31,200)	0
Net cash from financing activities	**(5,071)**	**(3,248)**
Net increase/(decrease) in cash and cash equivale	(3,733)	3,327
Cash and cash equivalents at beginning of period	7,420	4,093
Cash and cash equivalents at end of period	**3,687**	**7,420**

Reconciliation to Statutory Results

Adjusted results	FY19 £'m	FY18 £'m
<u>**Reconciliation to statutory results**</u>		
Adjusted profit before tax	6.7	4.2
Relocation of eCommerce fulfilment operations	(0.5)	0.0
Relocation of support centre	0.0	0.0
Staff incentives on IPO	(1.2)	0.0
Costs relating to IPO and refinancing	(2.9)	(1.5)
Packaging waste cost penalty	0.0	(0.2)
Write-off of capitalised costs associated with repaid loan	0.2	0.0
Statutory profit before tax	**2.3**	**2.6**