TheWorks.co.uk

16 January 2020

TheWorks.co.uk plc
Interim results for the 26 weeks ended 27 October 2019 and trading update

TheWorks.co.uk plc ("The Works", the "Company" or the "Group"), the multi-channel value retailer of gifts, arts, crafts, toys, books and stationery, announces its interim results for the 26 weeks ended 27 October 2019 (the "Period" or "H1 FY20") and an update on current trading.

Trading Update: 11 weeks to 12 January 2020

- Solid LFL sales, up 1.5% over the period (11 weeks to 13 January 2019: +4.5%), reflecting growth in both stores and online in key Christmas trading period
- Record Christmas sales performance delivered against tough comparatives and a difficult consumer backdrop
- Strong sales of core Christmas offering, including benefits of new product ranges and merchandising initiatives rolled out in the first half, as well as sales of products linked to Frozen 2 film release
- Slower start to post-Christmas sale leading to increased discounting to improve sell-through
- Reflecting seasonal nature of the business, Company will deliver strong cash generation in the second half of its financial year and expects to be broadly debt free by year-end
- Trading is in-line with the Board's full-year expectations

Interim Results: 26 weeks to 27 October 2019

- LFL sales decline of 1.9% (excluding the impact of prior year Mega Trends[4]), impacted by the difficult consumer backdrop
- Adjusted EBITDA loss of £4.3m, reflecting the seasonal nature of the business
- Opened 28 net new stores, with a further 13 opened since the Period end, taking total to 538. Continued strong returns on new store openings, with payback of around one year
- Focus on driving profitable growth in the existing business. No further net new store openings planned for the rest of the current financial year, with a net 20 openings planned for FY21
- Good progress with new web platform and online fulfilment partner, alongside delivering propositional changes to increase average item price online to drive profitable growth
- Launched new merchandising initiatives on core stationery and art ranges to improve consistency and availability of products
- Product margin impacted by FX headwinds and increased promotional activity
- Increased focus on cost control, with savings being realised in store labour, retail distribution, store property costs and through lower discretionary spend
- Further cost savings targeted through operational efficiencies and administrative cost reductions

Financial metric	H1 FY20	H1 FY19 Restated[1]
Adjusted[2] reporting (pre- IFRS16)		
Revenue	£96.4m	£91.5m
Revenue growth	5.4%	15.0%
LFL sales growth[3]	(3.6%)	3.8%
Adjusted[2] EBITDA (loss)	(£4.3m)	(£0.9m)
Adjusted[2] (loss) before tax	(£8.0m)	(£4.4m)
Pro-forma adjusted[2] basic earnings per share	(9.8p)	(5.5p)
Net debt	£14.9m	£4.4m
Statutory reporting (post-IFRS16)		
IFRS16 adjustment to profit before tax	(£0.2m)	-
Adjusting items excluded from adjusted[2] results	(£0.4m)	(£4.7m)
Profit/(loss) before tax	(£8.5m)	(£9.1m)
Basic earnings per share	(10.3p)	(12.9p)
Proposed interim dividend per share	1.2p	1.2p

Board Changes

As announced separately this morning:

- Kevin Keaney has informed the Board that he believes now is the right time for a new CEO to lead The Works through its next phase of development and is stepping down as CEO
- Gavin Peck, CFO, appointed as CEO
- Rosie Fordham, currently Head of Finance, appointed Interim CFO

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

"I am pleased to report that the Company delivered a solid performance during the key Christmas trading period with like-for-like sales up 1.5%. This was driven by growth in both stores and online. However, to ensure we are well placed to deliver profitable growth in the medium-term we have taken action 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. We remain confident in the prospects for the Company with the business trading-in line with the Boards' full-year expectations.

"I am delighted to be taking on the role of CEO. The Works is a great business with fantastic colleagues providing a compelling and differentiated offering for our customers. Building on the Company's established foundations, I look forward to leading The Works in its next phase and creating value for all of our stakeholders."

Interim results presentation

A presentation for analysts will be held today at 9.30am at Investec Bank plc, 30 Gresham St, London, EC2V 7QP. If you would like to attend, please contact Rachel Miller at Teneo on 0207 420 3190. A copy of the presentation will shortly be made available on the Company's website (www.theworksplc.co.uk/investors).

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[1] See Note 5 of the attached Financial Statements for further details of the prior year restatement.

[2] Adjusted profit figures exclude adjusting items. See Note 9 of the attached 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 eCommerce platform, calculated on a calendar week basis. No adjustments have been made for prior year Mega Trends[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 EBITDA impact of Mega Trends has been calculated as the gross margin on sales for the period during which these ranges were classified as "Mega Trends" less an allocation of direct costs associated with selling these products (being store labour and distribution costs, allocated as a % of total sales based on the overall ratios for these as a Company during the period).

Chief Executive Officer's review

Overview

In the first half of its financial year The Works traded against a challenging consumer backdrop which, coupled with the absence of a Mega Trend, led to lower LFL sales. Notwithstanding that, the Group continued with its successful new store opening programme which contributed to total sales growth of over 5% in the Period.

Reflecting on the continued challenges faced by the UK retail sector, including the further rise in rates for the National Living and Minimum Wages, the Board has taken proactive action to refocus the Company's growth strategy. Whilst new store openings remain an important part of future growth, expansion plans are being scaled back in the near term, as outlined below, to focus on driving more profitable growth through the existing business. The Group remains confident in its four pillar growth strategy and its ability to further enhance its status as one of the UK's leading multi-channel value retailers of gifts, arts, crafts, toys, books and stationery. An update on progress in each of the four key strategic pillars is outlined below:

1. New store rollout

The Group's established new store roll out programme and making our unique proposition accessible to many more catchment areas, remains an important driver of sales and profit growth for the business.

In the first half of this year, 33 new stores were opened and five were closed, bringing the total estate to 525 stores as at 27 October 2019. Two stores were relocated during the Period and a further net 13 stores were added following the Period end. We opened stores across a range of formats, including high streets, shopping centres, concessions and retail parks with these new stores trading in line with the Board's expectations and achieving paying back of around one year.

Whilst the UK retail property market remains highly favourable to support our store opening programme, and returns on our new store openings remain strong, as noted above we are scaling back our new store opening programme in the near term. As such, no further net new store openings are planned for the rest of the current financial year, with a net 20 new store openings planned for FY21. Reducing our new store openings will also enable us to leverage our position and focus on achieving further rent reductions in the existing estate through more aggressive renegotiation of rents on lease renewals.

2. LFL sales

In the first half of the current financial year, LFL sales fell by 1.9% (excluding the impact of the Squishies Mega Trend in the prior year), reflecting the difficult consumer backdrop over the Period. When including the prior year Mega Trend, LFL sales fell by 3.6% (H1 FY19: +3.8%).

Despite the challenging backdrop, we have continued to enhance our product proposition through the introduction of new ranges, including Helium Balloons and Kids Jigsaws which were rolled out to substantially all stores through the Period. These new ranges, along with the ongoing refresh of products in our existing ranges, have continued to create product discovery in-stores and online, encouraging repeat visits and further highlighting our exceptional value offering to our customers.

We also launched a new merchandising initiative for our core stationery and art ranges in all stores towards the end of the Period. Notwithstanding the relatively recent launch, we have already seen improved product consistency and availability, delivering strong, double digit, sales growth across these categories. Plans are being developed to implement this new merchandising initiative across other categories, including our core craft range, in the second half of the current financial year.

Towards the end of the Period, and ahead of the release of the film in November, we also successfully launched our new range of Frozen 2 products. Initial sales in the Period were encouraging and we saw a greater contribution to LFL sales growth from this range in the key Christmas trading period following the release of the film.

3. Multi-channel proposition development

We successfully delivered propositional changes during the Period, with the objective of increasing the average price of items sold online to drive improved 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 strategy impacted on sales as customers adjusted to the revised range, but we believe this has now stabilised and we have a rebased platform from which to drive profitable growth in the medium term.

A key building block for medium-term sales growth online is the new web platform which will bring with it enhanced functionality and an improved customer experience. Development of this new platform began during the Period and is on track for launch by July 2020.

We have continued to work closely with our third party warehousing and fulfilment partner to drive productivity improvements, cost efficiencies and enhanced customer service, with the operation performing well through peak Christmas trading this year.

Our click and collect channel continues to grow strongly, driving increased footfall to our stores and providing the benefit of ongoing strong “add-on” conversion of these customers in store. We have also continued to sign new customers up to our loyalty scheme, providing an opportunity to drive further targeted customer engagement with our brand and more frequent visits to our stores and website.

4. Product margin and cost control

Product gross margin fell, in comparison to the prior year, due to the impact of an adverse movement in the US$ exchange rate (given the year on year impact of our hedges) and increased promotional activity to drive sales. The Group expects to grow product margins in the medium term through a range of levers including increased direct sourcing from the Far East.

Strong control of costs remains central to the Group’s philosophy and culture to ensure that we are able to deliver great value to our customers whilst generating returns for investors. We continue to achieve strong savings on lease renewals and have successfully implemented process improvements, through a change to the way pallets are picked and fulfilled, to unlock savings in our retail distribution costs. During the Period we also increased our focus on cost control given the lower LFL sales levels, with careful management of discretionary costs.

Work is underway to identify further cost savings, such as through further operational efficiencies and administrative cost reductions, to help mitigate the rise in labour costs as a result of the ongoing increases in national living and minimum wages faced by many in our sector and to drive improvement in our net profit margin, profit growth and overall quality of earnings.

Outlook

Since the end of the Period, the Group has delivered an improved LFL sales performance and continues to trade in line with the Board's expectations for the full financial year. As noted above, we have taken proactive action to refocus the Company's growth strategy to help ensure a return to profitable growth. We remain confident of the Group's growth opportunities given our differentiated proposition, offering a wide range of new products at outstanding value, through our unique multi-channel offering, which continues to resonate well with customers.

Gavin Peck
Chief Executive Officer
16 January 2020

Financial review

IFRS16 has been adopted by the Group from 29 April 2019, and replaces IAS 17 Leases and its related interpretations. It has been adopted using the modified retrospective transition approach, therefore neither the 52 weeks ended 28 April 2019 nor the 26 weeks ended 28 October 2018 have been restated, and continue to be shown under IAS 17. Comparisons on a consistent GAAP basis (i.e. pre-IFRS16) have been presented where possible to help aid a year-on-year comparison of financial performance.

Revenue

Total revenue during the Period grew by 5.4% to £96.4m (H1 FY19: £91.5m) reflecting growth from new stores openings offset by lower LFL sales (both in store and online).

Adjusted cost of sales and operating costs

Cost of sales and operating costs (excluding adjusting items as detailed in note 9 of the attached Financial Statements) are broken down as follows:

	H1 FY20		**H1 FY19**	
	£'000	**% of revenue**	**£'000**	**% of revenue**
Pre-IFRS16 and depreciation				
Cost of goods sold	36,346	37.7	32,824	35.9
Store wages	20,639	21.4	18,165	19.9
Store property costs	22,074	22.9	20,800	22.7
Other direct costs	6,296	6.5	6,138	6.7
Cost of sales	**85,355**	**88.5**	**77,927**	**85.2**
Distribution costs	5,797	6.0	5,244	5.7
Administrative costs	9,550	9.9	9,210	10.1
Operating costs	**15,347**	**15.9**	**14,454**	**15.8**
Reconciliation to statutory costs (reflecting IFRS16 adjustments and depreciation)				
Store property costs	(10,873)	-	-	-
Other direct costs	(206)	-	-	-
Cost of sales under IFRS16	**74,276**	**77.0**	-	-
IFRS 16 ROUA depreciation	9,428	9.8	-	-
Non IFRS 16 depreciation	2,355	2.4	1,950	2.1
Statutory Cost of sales	**86,059**	**89.3**	**79,877**	**87.3**
Distribution costs	(64)	-	-	-
Administrative costs	(538)	-	-	-
Operating costs under IFRS16	**14,745**	**15.3**	-	-
IFRS 16 ROUA depreciation	535	0.6	-	-
Non IFRS 16 depreciation	1,107	1.1	827	0.9
Statutory Operating costs	**16,387**	**17.0**	**15,281**	**16.7**

The overall ratio of cost of sales (excluding depreciation and pre-IFRS16) to revenue increased to 88.5% (H1 FY19: 85.2%) with the following movements in sub-categories:

- **Cost of goods sold:** principally comprises the cost of finished goods purchased from third party suppliers and other related costs such as import duty and freight/carriage costs. The increase in this cost ratio reflects improvements in the underlying product margins being more than offset by an adverse movement in the US$ exchange rate (given the year on year impact of our hedges) and increased promotional activity as noted above. This cost ratio is expected to be marginally higher than last year in the second half of the year, reflecting the US$ exchange rate continuing to be a headwind albeit with promotional activity returning to more normalised levels.

- **Store wages:** includes wages and salaries (including bonuses) for store based colleagues, together with National Insurance, employers' pension contributions, overtime, holiday and sick pay. This cost has increased as new stores have been opened and pay increases (reflecting the increase in national living and minimum wages) have been awarded. The increase in the cost ratio reflects these factors and the impact of lower LFL sales in the first half, with only partial mitigation as a result of steps taken to manage hours in stores more effectively. As previously noted, our ability to mitigate this cost headwind is limited given a large number of our stores work on the minimum of two colleagues in store for large portions of the year. Notwithstanding this, further work is underway to identify and access efficiency savings (e.g. through the use of new hand held terminals for stock taking and initiatives to reduce the time spent on merchandising) to help mitigate the ongoing headwind as national living and minimum wages increase further (with a proposed 6.2% increase in the over 25s rate proposed for April 2020 versus a c5% increase in recent years).

- **Store property costs:** consists principally of store rents, business rates and service charges. This cost has also increased as new stores have been opened but has stayed relatively constant as a ratio of revenue as rent and rates savings in the existing estate have mostly offset the impact of lower LFL sales in the Period. Whilst we continue to focus on driving savings in these costs within the existing estate (e.g. through negotiating lower rents on expiry) these savings are more modest than other retailers given the relatively short average lease length within our portfolio, with less than three years to the next exit point, meaning that many of our lease terms have been negotiated in the past five years. Notwithstanding this, as noted above, reducing our new store openings will enable us to focus on achieving further rent reductions in the existing estate through more aggressive renegotiation of rents on lease renewals.

- **Other direct costs:** includes payment transaction fees, eCommerce warehouse/third party fulfilment costs, store utility costs, store maintenance, online marketing costs and point of sale costs. This cost category is largely variable in respect of existing stores and increases with new store openings and growth in eCommerce sales, however targeted cost savings across a number of areas has meant that the ratio has reduced marginally in the Period.

Overall operating costs (excluding depreciation and pre-IFRS16) as a percentage of revenue remained broadly flat at 15.9% on an adjusted basis with the following movements in sub-categories:

- **Distribution costs:** includes costs associated with running the Group's distribution centre, costs relating to store deliveries and the cost of fulfilling customer orders online. These costs are mostly variable in nature, linked to store numbers and eCommerce sales levels. This cost ratio has increased slightly as a result of pay increases awarded to colleagues working in our distribution centre (reflecting the increase in national living and minimum wages) and the impact of a full period of fixed costs associated with utilising our third party warehousing and fulfilment partner for eCommerce sales. This was offset, in part, by targeted efficiency savings within our distribution centre.

- **Administration costs**: includes items such as central administration costs, central IT costs, support centre salaries and remuneration, insurance, costs relating to divisional and area sales managers and rent and business rates for the Group's head office and distribution centre. Total administration costs in the first half increased by only £0.3m to £9.6m, reducing as a percentage of sales. This reflects the impact of a full period of costs associated with being a plc offset by careful management of discretionary costs given the lower LFL sales levels and the Group beginning to leverage the investment in central infrastructure and people in recent years.

Depreciation (pre-IFRS16) increased from £2.8m to £3.4m primarily reflecting the impact of capital expenditure on new stores in recent years. Depreciation on right of use assets (linked to IFRS16) of £10.0m has been recognised in H1 FY20.

Foreign exchange

With over one third of the Group's cost of goods sold expense relating to products sourced in US dollars, the Group takes a prudent but flexible approach to hedging the risk of exchange rate fluctuations.

As noted above, in the first half of the current financial year we faced into a headwind from foreign exchange due to the fall in the value of Sterling and its impact on our average US dollar hedge rates. At the date of this announcement, the Group has hedged all of its foreign exchange requirement for the remainder of FY20 and substantially all of its requirements for FY21. Based on the exchange rates achieved the Group will continue to face into a headwind for the remainder of FY20 with this then becoming a tailwind in FY21 (albeit with H1 of FY21 expected to be broadly neutral year on year).

Adjusted EBITDA (pre-IFRS16)

There is a significant amount of seasonality in our business and, as in previous years, the Group currently makes all of its profit in the second half of the financial year. The Group delivered an adjusted EBITDA loss of £4.3m in the Period (H1 FY19: loss of £0.9m). This increased loss largely reflects lower LFL sales (noting that the prior year period benefited from a Mega Trend), lower product margins (reflecting increased promotional activity and the foreign exchange headwind) and higher wage costs due to the increase in national living and minimum wages offset, in part, by careful management of other cost lines.

Net financing costs

Net financing costs in the Period (pre-IFRS16) were £0.2m (H1 FY19: £0.7m; £0.2m on a proforma basis assuming the IPO and debt refinancing had occurred at the start of the equivalent period last year).

Including IFRS16 Leases interest charges, net financing expenses increased to £2.1m as shown below:

	H1 FY20	H1 FY19
	£'000	£'000
Bank interest receivable	-	(1)
Bank interest payable	164	619
Loan issue cost amortisation	31	89
IFRS16 Leases interest	1,904	11
Net finance expense	**2,099**	**718**

Adjusted profit before tax (pre-IFRS16)

The Group delivered an adjusted loss before tax (pre-IFRS16) of £8.0m in the Period (H1 FY19: loss of £4.4m). As noted above, given the seasonality in our business and, as with prior years, the Group currently makes all of its profit in the second half of the financial year.

Statutory results differ from the adjusted results and can be reconciled as follows:

	H1 FY20	H1 FY19
	£'000	£'000
		Restated
Adjusted loss before tax pre IFRS16	**(7,953)**	**-**
IFRS16 adjustment to loss before tax	**(172)**	-
Adjusted loss before tax post IFRS16	**(8,125)**	**(4,372)**
Duty provision	**(350)**	-
Relocation of eCommerce fulfilment operations	**-**	(155)
IPO-related costs	**-**	(2,984)
Staff incentives on IPO	**-**	(1,212)
Write-off of capitalised costs associated with the repaid loan	**-**	(386)
Statutory loss before tax	**(8,475)**	(9,109)

Further detail on the adjusting items is set out in Note 9 to the attached Financial Statements.

HMRC Duty Review

During the Period, HMRC have undertaken a review of import duty paid by the Company over the past three years. As part of this review HMRC have identified potential underpaid duty on a number of product areas, including Stationery, Canvases and Toys. HMRC's review is ongoing and no formal Right to be Heard letter or statement of underpaid duty or penalties has been served by HMRC at this stage.

Import duty is payable at various rates depending on the tariff classification assigned to the relevant product code. The tariff classifications for the goods under review spans various chapters of the UK Trade Tariff. There is judgement required in determining the applicable product code in a number of cases and the rate of import duty due. The Company has engaged independent experts to assist it in its assessment of the extent of the potential liability, which is ongoing.

Provision for underpaid duty of £350k relating to Stationery, Canvases and Toys has been made and included as an adjusting item in the Period, as there is a reasonable expectation that this amount will become payable.

Work on reviewing other purchases of Toys initially classified as zero rated is ongoing which may identify additional potential liabilities. The maximum potential additional liability on these items is approximately £500k (including an allowance for interest and penalties) which has been disclosed as a contingent liability on the basis that until our review is complete and negotiations with HMRC finalised, it is uncertain whether there is a liability and, to the extent that there may be, it cannot be quantified reliably at this stage. Any liability that does become due will reflect the product code applicable to each SKU, which will be subject to discussion with HMRC, and is expected to be clarified by the year-end. Any future charge will also be treated as an adjusting item in line with the Company's adjusted items policy, however there will clearly be a cash outflow.

The majority of these charges relate to incorrect classifications in prior periods, however, in light of the review the Company has reviewed its internal processes and controls, across all of its product areas, to ensure that the risk of future incorrect classifications is significantly reduced.

Capital expenditure

Excluding IFRS16 Leases right-of-use asset additions, capital expenditure totalled £4.6m in the Period of which £2.9m related to new stores. In the equivalent period last year, capital expenditure totalled £4.6m of which £2.9m related to new stores. Other capex of £1.7m in the Period (£1.7m in the prior year) includes £0.5m relating to investment in the new web platform, £0.5m investment in business systems, and £0.4m of minor store works and capital repairs. Following the decision to reduce the number of new store openings in the second half of the year, capital expenditure (pre-IFRS16 Leases additions) for the full year is expected to be c£9m. Capital expenditure will likely remain at this level in the near term as savings from opening fewer new stores are invested in projects to support cost saving initiatives (e.g. technology in stores and the distribution centre).

Total additions to Fixed Assets, including IFRS16 Leases right of use assets, were £115.5m in the Period, reflecting the above investments plus the capitalisation of new operating lease events in the Period, including new store openings.

Net debt

As at 27 October 2019, net debt (excluding unamortised debt costs capitalised of £0.1m and IFRS16 Leases liabilities) was £14.9m.

Including IFRS16 Leases liabilities, net debt increases to £127.0m as shown below:

	FY20 **£'000**	**FY19** **£'000**
Current liabilities – RCF and finance lease obligations	14,390	4,244
Non-current liabilities – finance lease obligations net of unamortised debt costs capitalised	419	347
Total borrowings	14,809	4,591
Add back: Unamortised debt costs capitalised	104	167
Gross debt	14,914	4,758
Less: Cash	-	(322)
Net debt	**14,914**	**4,436**
IFRS16 Leases liabilities	112,082	-
Net debt including IFRS16 Leases liabilities	**126,996**	**-**

Net debt (pre-IFRS16) represented c1.4x adjusted EBITDA (pre-IFRS16) for the 52 weeks ended 27 October 2019 (H1 FY19: 0.4x). The higher net debt at the end of the Period reflects higher stock levels and the loss made in the Period.

As in previous years, the Company will deliver cash generation in the second half of its financial year and is therefore expected to be broadly debt free (pre-IFRS16 Leases) by year-end.

Dividend policy

The Board is pleased to be declaring an interim dividend of 1.2p per share (FY19: 1.2p per share), calculated as a third of the full year dividend of 3.6p per share in FY19. This dividend will be paid on 12 March 2020 to shareholders on the register at close of business on 14 February 2020.

The Board intends to continue to adopt a progressive dividend policy and maintain a capital structure that is conservative yet efficient in terms of providing long term returns to shareholders.

Charitable activities

The Group continues to develop its association with Cancer Research UK. Through the support of both our colleagues and customers we continue to make significant contributions to this important organisation. In the Period we have supported a range of fund raising initiatives raising, in aggregate, £133k, taking the total monies raised since our association began to £613k. We are very proud of this fantastic achievement and a huge thank you goes to our colleagues and customers in helping us achieve this.

Risks and Uncertainties

There are a number of risks and uncertainties which could have a material negative impact on the Group's performance over the remainder of the current financial year. These could cause our actual results to materially differ from historical or expected results. The Board does not believe that these risks and uncertainties are materially different to those set out in the FY19 Annual Report and Accounts.

Rosie Fordham
Interim Chief Financial Officer
16 January 2020

Notes:

1. Background information

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, Craft & Hobbies; Stationery; and Family Gifts, which are supplemented by both seasonal and regional offerings.

The Group operates a network of 538 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.

2. Percentage Movements

Percentage changes have been calculated before figures were rounded to £0.1m or £0.1k (as appropriate).

3. Cautionary statement

This announcement is based on information from unaudited management accounts and contains certain forward-looking statements with respect to the financial condition, results of operations, and businesses of TheWorks.co.uk plc. These statements and forecasts involve risk, uncertainty and assumptions because they relate to events and depend upon circumstances that will occur in the future. There are a number of factors that could cause actual results or developments to differ materially from those expressed or implied by these forward-looking statements. These forward looking statements are made only as at the date of this announcement. Nothing in this announcement should be construed as a profit forecast. Except as required by law, TheWorks.co.uk plc has no obligation to update the forward-looking statements or to correct any inaccuracies therein.

Condensed Consolidated Income Statement
For the 26 weeks ended 27 October 2019

		26 weeks to 27 October 2019			26 weeks to 28 October 2018 (Restated - note 5)			52 weeks to 28 April 2019		
			Adjusting			Adjusting			Adjusting	
		Adjusted	**Items**	**Total**	Adjusted	items	Total	Adjusted	items	Total
	Notes	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000	£000
Revenue	8	**96,416**	**-**	**96,416**	91,500	-	91,500	217,469	-	217,469
Cost of sales	9	**(86,059)**	**(350)**	**(86,409)**	(79,877)	-	(79,877)	(179,012)	-	(179,012)
Gross profit		**10,357**	**(350)**	**10,007**	11,623	-	11,623	38,457	-	38,457
Other operating income		**4**	**-**	**4**	4	-	4	8	-	8
Distribution expenses	9	**(5,909)**	**-**	**(5,909)**	(5,356)	(155)	(5,511)	(12,025)	(495)	(12,520)
Administrative expenses	9	**(10,478)**	**-**	**(10,478)**	(9,925)	(4,196)	(14,121)	(18,668)	(4,148)	(22,816)
Operating profit/(Loss)		**(6,026)**	**(350)**	**(6,376)**	(3,654)	(4,351)	(8,005)	7,772	(4,643)	3,129
Finance income	10	**-**	**-**	**-**	1	-	1	20	-	20
Finance expenses	9, 10	**(2,099)**	**-**	**(2,099)**	(719)	(386)	(1,105)	(1,064)	240	(824)
Net financing expense		**(2,099)**	**-**	**(2,099)**	(718)	(386)	(1,104)	(1,044)	240	(804)
Profit/(Loss) before tax		**(8,125)**	**(350)**	**(8,475)**	(4,372)	(4,737)	(9,109)	6,728	(4,403)	2,325
Taxation	13	**1,995**	**66**	**2,061**	916	476	1,392	(1,481)	276	(1,205)
Profit/(Loss) for the period attributable to equity holders	3	**(6,130)**	**(284)**	**(6,414)**	(3,456)	(4,261)	(7,717)	5,247	(4,127)	1,120
Basic earnings per share (pence)	14	**(9.8)**		**(10.3)**	(5.5)		(12.3)	9.0		1.9
Diluted earnings per share (pence)	14	**(9.8)**		**(10.3)**	(5.5)		(12.2)	9.0		1.9

All results arise from continuing operations.

Condensed Consolidated Statement of Comprehensive Income
For the year ended 27 October 2019

	26 Weeks to 27 October 2019	26 Weeks to 28 October 2018 (Restated - note 5)	52 Weeks to 28 April 2019
	£000	£000	£000
Profit for the year	**(6,414)**	(7,717)	1,120
Items that may or may not be recycled subsequently into profit and loss			
Cash flow hedges – changes in fair value	**(29)**	-	96
Cash flow hedges – reclassified to profit and loss	**138**	-	2
Cost of hedging reserve – changes in fair value	**(820)**	-	37
Cost of hedging reserve – reclassified to profit and loss	**(9)**	-	(17)
Tax relating to components of other comprehensive income	**88**	-	-
Other comprehensive income for the period, net of income tax	**(632)**	-	118
Total comprehensive income for the period attributable to equity shareholders of the Parent	**(7,046)**	(7,717)	1,238

Condensed Consolidated Statement of Financial Position
As at 27 October 2019

	Note	**27 October 2019**	28 October 2018 (Restated - note 5)	28 April 2019
		£000	£000	£000
Non-current assets				
Intangible assets	15	**18,744**	17,630	18,494
Property, plant and equipment	16	**121,966**	21,582	20,786
Deferred tax assets		**2,494**	307	351
		143,204	39,519	39,631
Current assets				
Inventories		**42,511**	36,288	25,157
Current tax asset		**1,967**	1,535	-
Derivative financial asset		**156**	301	158
Trade and other receivables		**9,988**	13,300	17,725
Cash and cash equivalents		**-**	322	3,687
		54,622	51,746	46,727
Total assets		**197,826**	91,265	86,358
Current liabilities				
Bank overdraft	18	**7,123**	-	-
Interest bearing loans and borrowings	18	**7,000**	4,000	-
Lease liabilities	18	**18,283**	244	275
Trade and other payables		**45,566**	56,277	46,646
Provisions		**145**	96	218
Derivative financial liability		**1,005**	-	25
Current tax liability		**-**	-	300
		79,122	60,617	47,464
Non-current liabilities				
Lease liabilities	18	**94,590**	514	494
Provisions		**-**	-	63
		94,590	514	557
Total liabilities		**173,712**	61,131	48,021
Net assets		**24,114**	30,134	38,337
Equity attributable to equity holders of the Parent				
Share capital	17	**625**	625	625
Share premium	17	**28,322**	28,322	28,322
Merger reserve		**(54)**	(54)	(54)
Share based payment reserve		**1,468**	1,401	1,373
Hedging reserve		**(519)**	-	144
Retained earnings		**(5,728)**	(160)	7,927
Total equity		**24,114**	30,134	38,337

Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders						
	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve[1] £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
For the 26 Weeks Ended 27 October 2019							
Balance at 28 April 2019	625	28,322	(54)	144	1,373	7,927	38,337
Transition to IFRS16	-	-	-	-	-	(5,830)	(5,830)
As at 29 April 2019 (Restated)	**625**	**28,322**	**(54)**	**144**	**1,373**	**2,097**	**32,507**
Total comprehensive income for the period							
Loss for the period	-	-	-	-	-	(6,414)	(6,414)
Other comprehensive income	-	-	-	(720)	-	88	(632)
Total comprehensive income for the period	**-**	**-**	**-**	**(720)**	**-**	**(6,326)**	**(7,046)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	57	-	-	57
Transactions with owners of the Company							
Share-based payment charges	-	-	-	-	95	-	95
Dividend	-	-	-	-	-	(1,500)	(1,500)
Total transactions with owners	**-**	**-**	**-**	**-**	**95**	**(1,500)**	**(1,405)**
Balance at 27 October 2019	**625**	**28,322**	**(54)**	**(519)**	**1,468**	**(5,729)**	**24,113**
For the 26 Weeks Ended 28 October 2018 (Restated – note 5)							
Balance at 29 April 2018	-	51,500	(51,500)	-	-	7,950	7,950
Total comprehensive income for the period							
Share-based payment charges	-	-	-	-	1,401	-	1,401
Loss for the period	-	-	-	-	-	(7,717)	(7,717)
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**1,401**	**(7,717)**	**(6,546)**
Transactions with owners of the Company							
Effect of Group reconstruction	625	(23,178)	51,446	-	-	(393)	28,500
Total transactions with owners	**625**	**28,322**	**(54)**	**-**	**-**	**-**	**28,500**
Balance at 28 October 2018	**625**	**28,322**	**(54)**	**-**	**1,401**	**(160)**	**29,904**
For the 52 Weeks Ended 28 April 2019							
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	-	-	-	26	-	-	26
Transactions with owners of the Company							
Effect of Group reconstruction	625	(23,178)	51,446	-	-	(393)	28,500
Share-based payment charges	-	-	-	-	1,373	-	1,373
Dividend	-	-	-	-	-	(750)	(750)
Total transactions with owners	**625**	**(23,178)**	**51,446**	**-**	**1,373**	**(1,143)**	**29,123**
Balance at 29 April 2019	**625**	**28,322**	**(54)**	**144**	**1,373**	**7,927**	**38,337**

1 Hedging reserve includes £500,161 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 (52 weeks ended 28 April 2019: £19,090).

Condensed Consolidated Cash Flow Statement
For the 26 weeks ended 27 October 2019

	27 October 2019	28 October 2018 (Restated – note 5)	28 April 2019
	£000	£000	£000
Cash Flows From Operating Activities			
(Loss) / profit for the period	**(6,414)**	(7,717)	1,120
Adjustments for:			
Depreciation, amortisation and impairment	**13,439**	2,780	6,002
Derivative exchange (gain) / loss	**25**	(212)	73
Net finance costs	**2,099**	1,104	804
(Gain) / Loss on sale of property, plant and equipment	**(7)**	(2)	403
Staff incentives on IPO	**-**	1,212	1,212
Foreign exchange movements on IFRS 16	**130**		
Share based payment charges	**95**	-	139
Increase / (decrease) in Provisions	**(136)**	93	102
Taxation	**(2,061)**	(1,392)	1,205
Operating cash flows before changes in working capital	**7,170**	**(4,134)**	**11,060**
(Increase) / decrease in trade and other receivables	7,702	4,091	(365)
(Increase) / decrease in inventories	(17,324)	(14,793)	(3,635)
Increase / (decrease) in trade and other payables	(883)	12,854	3,643
IFRS 16 movements in accruals and prepayments	3,880	-	-
Cash inflows from operating activities	**545**	**(1,982)**	**10,703**
Corporation tax paid	(272)	(438)	(1,221)
Net cash inflow from operating activities	**273**	**(2,420)**	**9,482**
Cash flows from investing activities			
Acquisition of property, plant and equipment	(3,994)	(4,372)	(7,120)
Acquisition of intangible assets	(810)	(250)	(1,044)
Interest received	-	1	20
Net cash from investing activities	**(4,804)**	**(4,621)**	**(8,144)**
Cash flows from financing activities			
Interest paid	(143)	(1,247)	(1,357)
Payment of lease liabilities	(11,636)	(110)	(264)
Proceeds from share issue	-	28,500	28,500
Dividends paid	(1,500)	-	(750)
Proceeds from bank borrowings	7,000	4,000	4,000
Repayment of bank borrowings	-	(31,200)	(35,200)
Net cash from financing activities	**(6,279)**	**(57)**	**(5,071)**
Net (Decrease) in cash and cash equivalents	(10,810)	(7,098)	(3,733)
Cash and cash equivalents at beginning of year	3,687	7,420	7,420
Cash and cash equivalents at end of year	**(7,123)**	**322**	**3,687**

Notes to the condensed consolidated interim financial statements

1 Reporting Entity

TheWorks.co.uk plc ('the Company') is a public limited company domiciled in the United Kingdom and its registered office is Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham, B46 1AL. These condensed consolidated interim financial statements ('interim financial statements') as at and for the 26 weeks ended 27 October 2019 comprise the Company and its subsidiaries (together referred to as 'the Group').

2 Basis of Accounting

These unaudited interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting, and should be read in conjunction with TheWorks.co.uk Plc financial statements for the 52 weeks ended 28 April 2019 which have been filed at Companies House. They do not include all of the information required for a complete set of IFRS financial statements. However, selected explanatory notes are included to explain events and transactions that are significant to an understanding of the changes in the Group's financial position and performance since the last annual financial statements.

This is the first set of the Group's consolidated financial statements where IFRS 16 Leases has been applied. Changes to significant accounting policies are described in Note 22.

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

3 Alternative Performance Measures ("APM")

Adjusted earnings before interest, tax, depreciation and amortisation (adjusted EBITDA)

Adjusted EBITDA is a key measure used by the Board of Directors. Adjusted EBITDA represents adjusted profit for the period before; net finance expense, taxation, depreciation and amortisation, loss on disposals of property, plant and equipment, and adjusting items. Adjusting items are gains or losses incurred in a period which are not expected to be recurring.

Adjusted EBITDA is not a defined performance measure in IFRS. The Group's definition of adjusted EBITDA may not be comparable with similarly titled performance measures and disclosures by other entities. The following table provides a reconciliation of adjusted EBITDA to profit after tax.

	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018 (Restated - note 5)	52 weeks ended 28 April 2019
	£000	£000	£000
Non IFRS16 Adjusted EBITDA	**(4,256)**	**(876)**	**13,783**
IAS17 income statement charges not recognised under IFRS16	11,464	-	-
Profit on disposal of RoUA recognised under IFRS16	74	-	-
Onerous lease provision not recognised under IFRS16	206		
Post IFRS16 Adjusted EBITDA	**7,488**	**(876)**	**13,783**
Gain / (Loss) on disposals of property, plant and equipment	(76)	2	(9)
Depreciation	(12,548)	(2,305)	(4,912)
Amortisation	(560)	(475)	(1,049)
Finance expenses	(2,099)	(719)	(1,064)
Finance income	-	1	20
Impairment of property, plant and equipment	(330)	-	(41)
Tax charge	1,995	916	(1,481)
Adjusted Profit / (loss) after tax	**(6,130)**	**(3,456)**	**5,247**
Adjusting items	(350)	(4,737)	(4,403)
Tax charge	66	476	276
Profit / (loss) after tax	**(6,414)**	**(7,717)**	**1,120**

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 eCommerce platform, calculated on a calendar week basis. No adjustments have been made for Mega Trends (see below).

Adjusted profit metrics

To allow the Board of Directors to see the profit based on underlying trade only key profit measures (including operating (loss) / profit, (loss) / profit before tax, (loss) / profit for the period and earnings per share) have been adjusted for certain adjusting items, principally costs relating to a provision regarding an ongoing HMRC review of the Group's Duty rates. In the prior period these related to the IPO, debt refinancing and the set up costs in relation to the relocation of the eCommerce warehouse to a third-party supplier. 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 9. These adjusted profit measures are not defined performance measure in IFRS. The Group's definition of adjusted profit measures may not be comparable with similarly titled performance measures and disclosures by other entities.

Leverage

Is calculated as the ratio of net debt to adjusted EBITDA for the previous 12 months.

Mega Trends

These are defined as any individual product, or collection of products, for which sales exceed three 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.

4 Use of judgements and estimates

In preparing these interim financial statements, management has made judgements and estimates that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expenses. Actual results may differ from these estimates.

The significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those described in the last annual consolidated financial statements, except for new significant judgements and key sources of estimation uncertainty related to the accounting policies described in Note 22.

5 Prior Period Restatements

Staff Incentives on IPO

On 10 July 2018, the Company entered into three nil cost option agreements with respect to staff incentives pre-IPO. 757,726 shares were awarded for no consideration. 456,636 shares were subject to lock-up arrangements under which no shares could be sold for twelve months post-IPO. The charge was omitted from the prior year comparatives and therefore the October 2018 figures have been adjusted to increase the share based payment reserve by £1,212k and increase adjusting administrative expenditure by £1,212k. This has also resulted in a £230k decrease in the corporation tax charge on adjusting items and a corresponding increase in the corporation tax debtor.

Merger Reserve

The prior year October 2018 comparatives omitted the adjustment required to reflect the various steps of the Group reconstruction in line with TheWorks.co.uk Plc financial statements for the 52 weeks ended 28 April 2019.

6 Going Concern

The Directors have a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Accordingly, the financial statements have been prepared on a going concern basis.

7 Operating Segments

IFRS 8 requires segment information to be presented on the same basis as that used by the Chief Operating Decision-Maker for assessing performance and allocating resources.

The Group has only one reportable segment, which reflects the Group's management and reporting structure as viewed by the Board of Directors, which is considered to be the Group's Chief Operating Decision-Maker.

8 Revenue

The Group's operations and main revenue streams are as those described in the latest annual financial statements. The Group's revenue is derived from the sale of goods to customers.

Disaggregation of Revenue

In the following table, revenue is disaggregated by primary geographical market.

	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018 (Restated – note 5)	52 Weeks Ended 28 April 2019
	£000	£000	£000
Sale of goods			
– UK	**94,454**	89,711	212,780
– Republic of Ireland	**1,962**	1,789	4,689
Total revenues	**96,416**	91,500	217,469

Seasonality of operations

The Group's revenue is subject to seasonal fluctuations as a result of the Christmas period. The peak period is from October through to January therefore the first half of the year from April to October is expected to have lower revenue and results than the second half. The Group attempts to minimise the seasonal impact by managing its inventories to meet demand during this peak period.

9 Adjusting items

During the period adjusting items were incurred in relation to the following;

	26 weeks ended 27 October 2019	26 weeks ended 28 October 2018 (Restated - note 5)	52 Weeks Ended 28 April 2019
	£000	£000	£000
Cost of Sales			
Duty Provision[1]	**350**	-	-
Total Cost of Sales	**350**	-	-
Distribution expenses			
Relocation of eCommerce[2]	**-**	155	495
Total distribution expenses	**-**	155	495
Administrative expenses			
Professional fees – one-off non-operational activities[3]	**-**	2,984	2,936
Staff incentives on IPO[4]	**-**	1,212	1,212
Total Administrative expenses	**-**	4,196	4,148
Finance expenses			
Write-off of capitalised costs, interest and fees associated with loan repaid on IPO[5]	**-**	386	(240)
Total finance expenses	**-**	386	(240)
Total adjusting items	**350**	4,737	4,403

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

2 This includes the loss on disposal of the fixed assets associated with the eCommerce 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 eCommerce warehouse and order fulfilment.

3 Professional fees relate to IPO and refinancing costs in the prior year.

4 Staff incentive on IPO represents nil cost share options awarded to an employee in preparation of the IPO in the prior year.

5 In the prior year this included £386,000 in relation to capitalised loan costs written off 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.

10 Finance income and expense

	26 weeks ended 27 October 2019 £000	26 weeks ended 28 October 2018 (Restated - note 5) £000	52 Weeks Ended 28 April 2019 £000
Finance income			
Bank interest receivable	-	1	20
Total Finance Income	-	1	20
Finance expense			
Bank interest payable	**164**	619	928
Other interest payable	**31**	89	112
Interest payable on lease liabilities	**1,904**	11	24
Total adjusted finance expense	**2,099**	719	1,064
Write off of capitalised costs, interest and fees associated with loan repaid on IPO[1]	-	386	(240)
Total finance expense	**2,099**	**1,105**	**824**

1 Refer to note 9 for further details

11 Share based payment arrangements

During the period 1,044,915 share options were awarded under The Works.co.uk 2018 Long Term Incentive Plan and 185,185 share options under The Works.co.uk 2018 Long Term Incentive (CSOP Options) Plan to key management and senior employees both with a three year vesting period. In addition, 79,118 restricted stock awards were granted to key management and senior employees, with a two year vesting period. The IFRS2 charge in the Income Statement is £93,708 (52 weeks ended 28 April 2019: £139,182).

A Save As You Earn ("SAYE") scheme was set up during the period to encourage share ownership across our workforce. A UK tax-qualified scheme under which eligible employees (including Company Directors) may save up to the maximum monthly savings limit of £250 (as determined by the Remuneration Committee) over a period of three years. Savings were capped at a lower limit than the prevailing HMRC limit at the time eligible employees are invited to participate as determined by the Remuneration Committee. Under the scheme, participants are granted an option to acquire shares at up to a 20% discount to the price on grant. The number of shares under option is that which can be acquired at that price using savings made.

12 Employee Benefits

The group operates a defined contribution scheme. The pension cost charge for the period represents contributions payable by the group to the scheme and amounted to £400,000 (26 weeks ended 28 October 2018: £263,000; 52 weeks ended 28 April 2019: £547,000).

13 Income tax expense

Income tax expense is recognised at an amount determined by multiplying the loss before tax for the interim reporting period by management's best estimate of the weighted average annual income tax rate expected for the full financial year, adjusted for the tax effect of certain items recognised in full in the interim period. As such, the effective tax rate in the interim financial statements may differ from management's estimate of the effective tax rate for the annual financial statements.

The Group's total income tax credit in respect of the 26 weeks ended 27 October 2019 was £2.061 million (26 weeks ended 28 October 2018: £1.392 million). The effective tax rate on total loss before tax was 24.32% (26 weeks ended 28 October 2018: 15.28%) whilst the adjusted tax rate was 24.55% (26 weeks ended 28 October 2018: 20.96%). The difference between the total effective tax rate and the adjusted tax rate relates to certain underlying costs and depreciation charges being non-deductible for tax purposes (for the 26 weeks ended 28 October 2018 the difference relates to certain non-recurring costs associated with the listing being non-deductible for tax purposes).

14 Earnings per share

Basic earnings per share is calculated by dividing the loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period. The Group has chosen to present an alternative earnings per share measure, with profit adjusted for adjusting items to reflect the adjusted profit for the year. Adjusted profit is not a recognised profit measure under EU IFRS and may not be directly comparable with 'adjusted' profit measures used by other companies.

Diluted earnings per share is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential Ordinary shares. Potential Ordinary shares represent employee share incentive awards and Save As You Earn (SAYE) share options.

				Proforma	Proforma
	27 October 2019	28 October 2018 (Restated - note 5)	28 April 2019	28 October 2018 (Restated - note 5)	28 April 2019
	Number	Number	Number	Number	Number
Number of shares in issue	**62,500,000**	**59,862,315**	58,536,226	62,500,000	62,500,000
Number of dilutive share options	**3,885**	167,031	30,109	135,549	30,109
Number of shares for diluted earnings per share	**62,503,885**	60,029,345	58,566,335	62,635,549	62,530,109
	£000	£000	£000	£000	£000
Profit for the financial period	**(6,414)**	(7,717)	1,120	(7,717)	1,120
Adjusting items	**284**	4,261	4,127	4,261	4,127
Total adjusted profit / (loss) for adjusted earnings per share	**(6,130)**	(3,456)	5,247	(3,456)	5,247
	pence	pence	pence	pence	pence
Basic earnings per share	**(10.3)**	(12.9)	1.9	(12.3)	1.8
Diluted earnings per share	**(10.3)**	(12.9)	1.9	(12.3)	1.8
Adjusted basic earnings per share	**(9.8)**	(5.8)	**9.0**	(5.5)	8.4
Adjusted diluted earnings per share	**(9.8)**	(5.8)	**9.0**	(5.5)	8.4

15 Intangible assets

	Goodwill £000	**Software £000**	**Total £000**
Cost			
Balance at 28 April 2019	16,180	6,365	**22,545**
Additions	-	810	**810**
Balance at 27 October 2019	**16,180**	**7,175**	**23,355**
Amortisation			
Balance at 28 April 2019	-	4,051	**4,051**
Amortisation charge for the year	-	560	**560**
Balance at 27 October 2019	**-**	**4,611**	**4,611**
Net book value			
At 28 April 2019	16,180	2,314	**18,494**
At 27 October 2019	**16,180**	**2,564**	**18,744**

Goodwill impairment testing

No goodwill impairment has arisen in any of the reported periods.

Goodwill of £16.2 million was generated during the year ended 27 April 2015 when the Group acquired The Works Stores Limited ('TWSL'). As such, all of the goodwill has been allocated to one CGU being TWSL. The goodwill is not expected to be deductible for income tax purposes.

The Group tests goodwill annually for impairment, or more frequently if there are indications that goodwill might be impaired.

At 27 October 2019, no indications of impairment exist.

Computer software

In accordance with IAS 38 Intangible Assets, computer software has been reclassified from Property, Plant and Equipment to Intangible Assets. In the prior interim period software was classified within plant and equipment in property, plant and equipment. Computer software is carried at cost less accumulated amortisation and any provision for impairment. Costs relating to development of computer software are capitalised if the recognition criteria of IAS 38 'Intangible Assets' are met or expensed as incurred otherwise.

16 Property, plant and equipment

	RoUA - Property £000	RoUA -Plant & Equipment £000	Land and buildings £000	Plant & equipment £000	Fixtures & fittings £000	Total £000
Cost						
Balance at 28 April 2019	-	-	9,253	2,529	21,457	33,239
Adoption of IFRS16	103,086	578	-	-	-	103,664
Adoption of IFRS16 - Transfer to RoUA	-	720	-	(720)	-	-
Additions	7,000	40	916	485	2,594	11,035
Disposals	(640)	-	34	(14)	(200)	(820)
Balance at 27 October 2019	**109,446**	**1,338**	**10,203**	**2,280**	**23,851**	**147,118**
Depreciation and impairment						
Balance at 28 April 2019	-	-	3,329	1,756	7,368	12,453
Depreciation charge for the year	9,326	614	555	417	1,636	12,548
Net Impairment losses	341	-	-	(11)	-	330
Disposals	(66)	-	22	(9)	(126)	(179)
Balance at 27 October 2019	**9,601**	**614**	**3,906**	**2,153**	**8,878**	**25,152**
Net book value						
At 28 April 2019	-	-	5,924	773	14,089	**20,786**
At 27 October 2019	**99,845**	**724**	**6,297**	**127**	**14,973**	**121,966**

Capital Commitments

As at 27 October 2019, the Group had capital commitments at £1,304,735 (28 April 2019: £294,000, 28 October 2018: £435,553).

Impairment losses

Property, plant and equipment is reviewed for impairment if events or changes in circumstances indicate that the carrying value may not be recoverable. When a review for impairment is conducted the recoverable amount is estimated based on either value-in-use calculations or fair value less costs of disposal. Value-in-use calculations are based on management's estimates of future cash flows generated by the assets and an appropriate discount rate. Consideration is also given to whether the impairment assessments made in prior years remain appropriate based on the latest expectations in respect of recoverable amount.

At 27 October 2019, an indicator of impairment exists with regards to the recoverable amount of certain assets associated with fifteen loss-making stores. The recoverable amount has been calculated and compared to the carrying value of the assets to assess if an impairment is required.

In calculating the recoverable amount of these assets, cash flow forecasts for those stores have been prepared, derived from the most recent financial budgets. These cash flows include targeted performance improvements. The rate used to discount the forecast cash flows is 10.26 per cent (2018: 10.26 per cent).

At 27 October 2019, an impairment loss has been recognised of £505,951 (52 weeks to 28 April 2019: £176,015) against seven stores (2018: five stores).

17 Capital and reserves

Share Capital

As at the 27 October 2019 the company had the following capital:

	£000
Share capital	625
Share premium	28,322

Dividends

	Pence per share	**26 weeks ended 27 October 2019 £000**	26 Weeks ended 28 October 2018 (Restated - note 5) £000	52 weeks ended 29 April 2019 £000
Final dividend for the year ended 28 April 2019	2.4p	**1,500**	-	-
Interim dividend for the year ended 28 April 2019	1.2p	-	-	**750**
Total dividend paid to shareholders in the period		**1,500**	**-**	**750**

Consistent with our dividend policy, we announce today an interim dividend of 1.2p per share. This will utilise an estimated £750,000 of shareholder funds. The interim dividend will be paid on 12 March 2020 to shareholders on the register at close of business on 14 February 2020. No dividend was declared by the Company during the period to 28 October 2018.

18 Loans and Borrowings

	26 weeks ended 27 October 2019 £000	26 Weeks ended 28 October 2018 (Restated - note 5) £000	52 weeks ended 29 April 2019 £000
Non-current liabilities			
Lease liabilities	94,590	514	494
Unamortised debt issue costs[1]	-	-	-
Non-current liabilities	94,590	514	494
Current liabilities			
Bank overdraft	7,123	-	-
Interest bearing loans and borrowings	7,000	4,000	-
Lease liabilities	18,283	244	275
Unamortised debt issue costs[1]	-	-	-
Current liabilities	32,406	4,244	275

1 In 2018, current unamortised debt issue costs of £356,186 were recognised in non-current liabilities. For the current period end these have been reclassified to trade and other receivables.

At the period end, Group borrowing facilities consisted of a £25 million revolving credit facility terminating 14 June 2021. Borrowings under the facility attracts interest at LIBOR plus a margin in the range 1.5% to 2.5%, subject to a leverage ratchet (LIBOR plus 1.75% at 27 October 2019). The facilities are subject to financial covenants typical to an arrangement of this nature.

At 27 October 2019 the company had drawn down £7 million of its £25 million revolving credit facility.

19 Contingent liabilities

Withholding Tax

The Group followed a particular treatment on withholding tax with a previous lender. While this treatment is considered correct, there is a possibility it may be challenged. No provision has been made for interest/penalties should this approach be challenged. It if were to be successfully challenged, the expected interest/penalties due would be in the range of £100k-£200k, (52 weeks to 28 April 2019: £100k-£200k).

HMRC Duty Review

During the Period, HMRC have undertaken a review of import duty paid by the Company over the past three years. As part of this review HMRC have identified potential underpaid duty on a number of product areas, including Stationery, Canvases and Toys. A provision for underpaid duty of £350k relating to Stationery, Canvases, and Toys has been made and included as an adjusting item in the Period as there is a reasonable expectation that this amount will become payable.

Work on reviewing over $19m of purchases on Toys, put through at zero duty is ongoing. At this stage, we cannot determine a reliable estimate of the further potential obligation as this will vary depending on the duty rates attached to each item included within the HMRC review. Based on our initial observations the additional expected liability is expected to be up to £500k. We hope to have further certainty regarding this liability by the financial year end.

20 Financial Instruments

The following table details the Group's expected maturity for its financial liabilities. The tables below have been drawn up based on the undiscounted contractual maturities of the financial liabilities including interest that will be payable on those liabilities. The inclusion of information on non-derivative financial liabilities is necessary to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

Contractual maturity of financial liabilities	Within 1 year £000	2-5 years £000	5+ years £000	Total £000
27 October 2019				
Interest bearing	14,123	-	-	14,123
Non-interest bearing	45,711	-	-	45,711
Lease liabilities	18,283	94,590	-	112,873
Finance lease liability	-	-	-	-
Derivative				
Forward currency contracts	1,005	-	-	1,005
	79,122	**94,590**	**-**	**173,712**
28 October 2018				
Interest bearing	4,000	-	-	4,000
Non-interest bearing	52,562	-	-	52,562
Finance lease liability	244	514	-	758
Fixed interest rate instruments	4,026	-	-	4,026
Forward currency contracts	-	-	-	-
	60,832	**514**	**-**	**61,346**
28 April 2019				
Non Derivative				
Non-interest bearing	47,158	-	-	47,158
Finance lease liability	275	494	-	769
Derivative				
Forward currency contracts	25	-	-	25
	47,458	**494**	**-**	**47,952**

Fair value measurements

Financial instruments carried at fair value are measured by reference to the following fair value hierarchy, based on the degree to which the fair value is observable*;*

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

Derivative financial instruments are carried at fair value under a Level 2 valuation method. All other financial instruments carried at fair value are measured using the Level 1 valuation method.

There were no transfers between the levels during the current or prior period.

Derivative Financial Instruments

The fair value of derivative financial instruments at the Balance Sheet date is as follows;

	27 October 2019	28 October 2018	28 April 2019
	£000	£000	£000
Net Derivative Financial Instruments			
Foreign exchange contracts	**(849)**	301	133

Classification of financial instruments

The table below shows the classification of financial assets and liabilities as at 28 April 2019. The fair value of financial instruments have been assessed as approximately their carrying value.

	Mandatorily at FVTPL	**Cash flow hedging instruments**	**Financial assets at amortised cost**	**Other financial liabilities**
	£000	**£000**	**£000**	**£000**
As at 27 October 2019				
Financial assets measured at fair value				
Derivative financial instruments	-	156	-	-
Financial assets not measured at fair value				
Trade and other receivables	-	-	9,887	-
Financial liabilities measured at fair value				
Derivative financial instruments	-	(1,005)	-	-
Financial liabilities not measured at fair value				
Unsecured bank overdraft	-	-	-	(14,123)
Lease liability	-	-	-	(112,873)
Trade and other payables	-	-	-	(45,566)
As at 27 October 2019	-	(849)	9,887	(172,562)

	Mandatorily at FVTPL	Cash flow hedging instruments	Financial assets at amortised cost	Other financial liabilities
	£000	£000	£000	£000
As at 28 October 2018				
Financial assets measured at fair value				
Derivative financial instruments	-	301	-	-
Financial assets not measured at fair value				
Trade and other receivables	-	-	14,835	-
Cash and cash equivalents	-	-	322	-
Financial liabilities measured at fair value				
Derivative financial instruments	-	-	-	-
Financial liabilities not measured at fair value				
Unsecured bank overdraft	-	-	-	(4,000)
Finance lease liability	-	-	-	(758)
Trade and other payables	-	-	-	(56,277)
As at 28 October 2018	-	301	15,157	(61,035)

	Mandatorily at FVTPL	Cash flow hedging instruments	Financial assets at amortised cost	Other financial liabilities
	£000	£000	£000	£000
As at 28 April 2019				
Financial assets measured at fair value	-	-	-	-
Derivative financial instruments	-	158	-	-
Financial assets not measured at fair value				
Trade and other receivables	-	-	17,725	-
Cash and cash equivalents	-	-	3,687	-
Financial liabilities measured at fair value				
Derivative financial instruments	-	(25)	-	-
Financial liabilities not measured at fair value				
Unsecured bank loans	-	-	-	-
Unsecured bank overdraft	-	-	-	(768)
Trade and other payables	-	-	-	(46,646)
As at 28 April 2019	-	133	21,412	(47,414)

21 Related parties

Identity of related parties with which the Group has transacted

Balances and transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its associates are disclosed below.

Trading Transactions

There were no transactions with related parties who are not members of the Group in the current period. During the prior year, Endless LLP was a related party of the group. The management fee paid during the prior year was £25,000.

22 Changes in significant accounting policies

Except as described below, the accounting policies applied in these interim financial statements are the same as those applied in the last annual financial statements.

The Group has adopted IFRS 16 Leases from 29 April 2019. A number of other new standards are effective from 29 April 2019 but they do not have a material effect on the Group's financial statements. The changes in accounting policies are also expected to be reflected in the Group's consolidated financial statements as at and for the year ended 26 April 2020.

IFRS16

IFRS 16 introduced a single, on Balance sheet accounting model for lessees. 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.

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. The details of the changes in accounting policies are disclosed below.

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 presents lease liabilities in 'interest bearing loans and borrowings' in the statement of financial position. 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 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 29 April 2019, adjusted by the amount of any prepaid or accrued lease payments and lease incentives.

The Group used the practical expedients when applying IFRS 16 to leases previously classified as operating leases under IAS 17:

- Applied the exemption not to recognise right-of-use assets and liabilities for leases with less than 12 months of lease term remaining where extension is judged to be highly unlikely or termination highly probable or extension not easily pre-determined
- Excluded initial direct costs from measuring the right-of-use asset at the date of initial application as these are already included in property, planta and equipment

- Applied exemption where right-of-use asset would be less than £5,000 when new

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:

	29 April 2019
	£000
Right of use assets included in property, plant and equipment	104,384
Lease liabilities	(116,083)
Deferred tax asset	1,989
Accruals and prepayments	(2,650)
Rent free creditor	6,529
Net impact on retained earnings	**(5,831)**

	£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 using 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 lease liabilities	97,139

The Group presents right-of-use assets that do not meet the definition of investment property in 'property, plant and equipment', this is where it presents underlying assets of the same nature that it owns. The carrying amount of right-of-use assets are as below.

Right of Use Asset	**27 October 2019 £000**	**29 April 2019 £000**
Properties	99,794	103,086
Plant & Equipment	328	382
Computer Equipment	786	916
Total Right of Use Assets	**100,908**	**104,384**

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 £94,238,864 of right-of-use assets and £105,987,269 of lease liabilities as at 27 October 2019. Also in relation to those leases under IFRS 16, the Group has recognised depreciation and interest costs, instead of operating lease expense. During the 26-week period 27 October 2019, the Group recognised £9,941,429 of depreciation charges and £1,903,879 of interest costs from these leases.

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

	£000
Profit / (loss) before tax before IFRS16 adjustments	**(8,303)**
Remove IAS17 rental charge	11,393
Remove hire costs from hire of equipment	71
Remove depreciation charged on the existing assets	146
Remove interest charged on the existing liability	14
Depreciation charge on Right of Use Asset	(9,941)
Interest cost on lease liability	(1,904)
Profit on disposal of RoUA	74
Foreign exchange difference on euro leases	(130)
Additional impairment charge under IFRS16	(101)
Onerous lease provision not applicable under IFRS16	206
Net Impact on profit / (loss)	**(172)**
Profit / (loss) before tax	**(8,475)**

Responsibility statement of the directors in respect of the half-yearly financial report

We confirm that to the best of our knowledge:

- the condensed set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted by the EU;
- the interim management report includes a fair review of the information required by:
  (a) DTR 4.2.7R of the Disclosure Guidance and Transparency Rules, being an indication of important events that have occurred during the first half of the financial year and their impact on the condensed set of financial statements; and a description of the principal risks and uncertainties for the remaining half of the year; and
  (b) DTR 4.2.8R of the Disclosure Guidance and Transparency Rules, being related party transactions that have taken place in the first half of the current financial year and that have materially affected the financial position or performance of the entity during that period; and any changes in the related party transactions described in the last annual report that could do so.

On behalf of the Board of Directors

Gavin Peck	Rosie Fordham
Chief Executive Officer	Interim Chief Financial Officer