18 January 2024

TheWorks.co.uk plc

("The Works", the "Company" or the "Group")

Interim results for the 26 weeks ended 29 October 2023 and trading update for the 11 weeks ended 14 January 2024.

Pressures on sales and profitability seen in H1 FY24 continued into H2. Short-term focus is on margin growth and cost reduction. Guidance for FY24 maintained.

The Works, the family-friendly value retailer of books, arts and crafts, stationery, toys and games, announces its interim results for the 26 weeks ended 29 October 2023 (the "Period" or "H1 FY24") and an update on current trading for the 11 weeks ended 14 January 2024.

H1 FY24 Financial summary

- Delivered total revenue growth of 3.1% to £122.6m (H1 FY23: £118.9m) and total LFL sales growth of 1.6% against a challenging backdrop with softened consumer demand.
  - Maintained store sales growth, with LFL sales up 3.5%. Strong sales delivered in the early summer months after which the rate of growth slowed, primarily due to sector-wide reduced footfall.
  - Online sales declined by 12.2%, echoing broader retail trends. Performance improved throughout the Period, reflecting website improvements and increased demand driven by promotional activity.
- Pre-IFRS 16 Adjusted EBITDA loss of £8.5m (H1 FY23: loss of £6.4m) and Adjusted loss before tax of £7.8m (H1 FY23: loss of £7.3m).[1]
  - Faced tough cost headwinds due to inflation and increase in National Living and Minimum Wages.
  - Product gross margin increased to 57.2% (H1 FY23: 56.3%), albeit less than anticipated, with lower freight costs partially offset by product mix and market-driven promotional activity towards the end of the Period.
- The Group had net bank borrowings of £2.5m at the Period end, reflecting the build-up of stock prior to the peak trading season, and the corresponding low point in cash levels.
- Given pressures on sales and profitability and uncertain trading outlook, focus is now on cost reduction and margin growth in the short-term, with decisive action already underway.
- The Board's expectation for the full year (pre IFRS 16 Adjusted EBITDA of approximately £6.0m), currently remains unchanged.
- The Board is not proposing a dividend or share buyback in the short-term.

	H1 FY24	**H1 FY23 (Restated)[2]**
Revenue	£122.6m	£118.9m
Revenue growth	3.1%	2.4%
LFL sales growth[3]	1.6%	0.6%
Pre-IFRS 16 Adjusted EBITDA	(£8.5m)	(£6.4m)
Loss before tax	(£14.8m)[4]	(£7.3m)
Adjusted[5] loss before tax	(£7.8m)	(£7.3m)
Basic loss per share	(17.6p)	(8.4p)
Net (debt)/cash at bank[6]	(£2.5m)	£7.0m

H1 FY24 Operational summary

- Improved customer proposition through new toys and games ranges, which saw double digit growth, as well as strong performance of summer and extended Halloween seasonal ranges.
- Delivered website improvements to enhance the customer experience, which have resulted in an improvement in key site-performance metrics.
- Optimised store estate with 5 new store openings, 19 refits, 3 relocations and 10 closures. Delivered annual rent savings of £0.5m on lease renewals completed in the Period.
- Operational investments in merchandising team and a new picking process at the Distribution Centre, have been slower than expected in delivering benefits and efficiencies.

- Piloted new EPOS solution, replacing existing end-of-life solution, with rollout to the wider estate planned for the first half of 2024.
- Strengthened leadership team with the appointment of new Commercial Director and Marketing Director in H1, as well as CFO succession early in H2.

Trading update

Overall, LFL sales declined by 4.9% in the 11 weeks ended Sunday, 14 January 2024. This was lower than anticipated and was primarily a result of the challenging consumer environment and subdued demand over the festive period. Family finances were under pressure, meaning many customers prioritised spend on food and essentials, whilst cutting back on gifting. The extended period of discounting seen across the sector continued throughout November and December, resulting in a highly competitive market and pressure to maintain promotional activity.

In addition to the external challenges faced, some ranges, such as kids' books, did not deliver as expected. We also experienced some teething problems at our Distribution Centre following the implementation of a new pick-process (expected to deliver significant savings in the long-term), which intermittently disrupted the flow of stock. Trading has improved post-Christmas in part reflecting a more impactful January sale, and the operational challenges in the DC have eased.

Outlook

We entered the new calendar year with stock levels in line with our original plans, having taken action to reduce planned intake and with seasonal stock selling through as expected. Our cash position improved following Christmas, with £18.4m of cash as of 14 January 2024 and we expect to end the financial year debt-free.

Pressure on profitability from lower sales and margins has increased since our last trading update and we have pivoted to focus on resetting our cost base, growing our gross margin and scaling back non-essential investments and spend in the short-term. The action undertaken is already having the desired impact, albeit with most of the cost savings to be realised in the next financial year.

Given the more positive sales trajectory in recent weeks, coupled with expected benefits from cost action and new ranges, the Board's expectation for FY24 pre IFRS 16 Adjusted EBITDA of approximately £6.0m currently remains unchanged. We remain mindful that the outlook for consumer spend remains unpredictable and of uncertainty relating to external factors such as stock delays and increased freight costs as a result of supply chain disruption in the Red Sea.

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

"Market conditions have been persistently challenging, putting pressure on our sales and profit performance in the first half and throughout the festive period. It is clear that many families celebrated Christmas on tighter budgets this year, and whilst we offered excellent value, we were not immune to this reduced spend. I am proud of the way that our colleagues have rallied together to deliver for customers during these challenging times.

"We have started the new calendar year on an improved sales trajectory, with a strengthened leadership team to drive forward our strategy and exciting Easter and summer toy ranges due to land later this year. However, we are also mindful of external challenges, including recent supply chain disruption in the Red Sea.

"Our focus for the remainder of the year will be on cost reduction, rebuilding margin and profitability, and conserving cash. It is necessary to take this action now to stabilise the profitability of the business during this challenging period, however we remain confident that our "Better, not just Bigger" strategy is the right direction for the business and will enable a return to sustainable growth in the long term."

Interim results presentation

A presentation for sell-side analysts will be held today at 9.30am via video conference call. A copy of the presentation will shortly be made available on the Company's website (www.corporate.theworks.co.uk/investors).

Enquiries:

TheWorks.co.uk plc

Gavin Peck, CEO Rosie Fordham, CFO	via Sanctuary Counsel

Sanctuary Counsel

Ben Ullmann Rachel Miller Kitty Ryder	(0)20 7340 0395 theworks@sanctuarycounsel.com

Footnotes:

(1) Refer to Note 4 of the attached condensed unaudited financial statements.
(2) Refer to Note 13 of the attached condensed unaudited financial statements.
(3) The like for like (LFL) sales increase has been calculated with reference to the FY23 comparative sales figures.
(4) HY24 loss before tax includes a £6.9m net impairment charge. See Financial Report for more details.
(5) Adjusted profit figures exclude Adjusting items. See Note 5 of the attached condensed unaudited financial statements for details of Adjusting items.
(6) Net (debt) / cash at bank, excluding lease liabilities.

Notes for editors:

The Works is one of the UK's leading family-friendly value retailers of books, arts and crafts, stationery, toys and games, offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Group trades from over 520 stores in the UK & Ireland and online.

Chief Executive's Report

Trading performance

The first half of FY24 was characterised by a challenging consumer retail environment, with high inflation and cost of living pressures resulting in softened consumer demand. Against this backdrop The Works delivered total revenue growth of 3.1% and a total LFL sales increase of 1.6%.

Stores delivered a LFL sales increase of 3.5%. We saw stronger sales during the early summer months, driven by soft comparatives with H1 FY23 (due to the impact of the cyber security incident) and a good performance of new toys and games and summer "Out to Play" ranges. Key product categories struggled in late summer and the market became increasingly difficult from mid-late September onwards, resulting in more competition and extensive discounting across the sector, which we responded to with increased levels of promotional activity. Reduced footfall caused by unseasonable weather towards the end of the period further impacted sales, although our extended Halloween range performed well, with further opportunity to grow and refine our offering for this increasingly significant seasonal event in 2024.

Online sales declined by 12.2%. Although weaker than stores overall, consistent with the broader trend seen across the sector,[1] our online performance gradually improved throughout the Period. This was a result of improvements made to the customer experience of the website and the strong performance of online promotional activity implemented in October. The poor weather seen towards the end of the period also saw some customers shift from shopping in store to online, which provided a temporary boost.

Profitability was constrained in the first half with a pre-IFRS 16 Adjusted EBITDA loss of £8.5m (H1 FY23: £6.4m loss) and Adjusted loss before tax of £7.8m (H1 FY23: £7.3m loss).[2] The main impacts on profitability were higher business costs due to inflation and the significant increase in the National Living and Minimum Wages. Profitability was further constrained by operational investments in our merchandising team and a new way of picking at the Distribution Centre being slower than expected to deliver benefits and efficiencies. Product gross margin increased to 57.2% from 56.3% in H1 FY23 but was lower than expected, reflecting the benefit of lower freight rates throughout the Period being partially offset by the product mix (strong sales of lower margin toys, games and fiction books) and elevated levels of market-driven promotional activity towards the end of the Period.

Given the persistent pressure on our sales and profitability, towards the end of the Period we took decisive action to reduce costs across the business. This includes reducing the number of labour hours in stores, reassessing marketing spend and keeping other discretionary costs to a minimum. We are targeting further rent reductions, particularly on low-profit stores, and have strengthened middle-management in the Distribution Centre to drive the expected efficiency savings from the new ways of working. At the same time we have identified opportunities to accelerate margin growth through cost reduction and supplier rationalisation. We are pleased with the action already taken, with some positive impact over the remainder of the current year, but given the lead time for these measures to fully bed in we expect that most of the cost savings will materialise in FY25.

The Group had net bank borrowings of £2.5m at the Period end (H1 FY23: £7m net cash), reflecting the build of stock prior to peak trading season, and the corresponding low point in cash levels. There was £17.5m of headroom within our £20.0m bank facility.

Strategy

Our "better, not just bigger" strategy provides The Works with a clearer purpose and a more focussed brand identity and customer proposition to drive a step-change in sales growth, as well as enabling us to improve the operations of the business. Although the aims of this strategy, to make The Works a more customer-focussed and efficient retailer, are relatively straightforward, the extent of change required across our business to deliver it has always been extensive and complex in nature.

Since launching the strategy we have made good progress in key areas, but did not anticipate facing such a persistently challenging external environment, which has hindered our ability to deliver as expected in recent years. We still believe this is the right strategic direction for the business and are confident that we have made the right investments. However, the combination of an adverse trading environment, significant cost headwinds and slower than expected progress have meant we have now entered an unforeseen and temporary interim period between investment and return. Our present focus is on delivering returns on those investments and

cutting costs where we can, which will see us scaling back non-essential investments. This is a short-term, corrective course to stabilise the profitability of the business to see us through a difficult period.
Updates on our strategic pillars in H1 FY24 include:

- **Develop our brand and increase customer engagement**: We hired a new Commercial Director to improve our product proposition and key categories where we believe there is scope to deliver growth, as well as a new Marketing Director, who will drive our plan to bring our purpose to life and improve customer engagement. New toys and games ranges delivered strong, double-digit, growth despite the broader YoY decline of the toy market. Conversely, changes to our core art, craft and stationery ranges have not delivered the expected sales uplift and books have struggled, partially reflecting the challenging market segment, but also the underperformance of our adult non-fiction and kids' ranges. In spring 2024, we will replan and refocus our kids' book offering alongside further refinement of our adult non-fiction range.
- **Enhance our online proposition**: We delivered improvements to the website to enhance the customer experience, supported by new analytical tools, including revamping our homepage, optimising product pages and improving navigation across the site. These changes have seen an improvement on all key metrics, including conversion. Whilst our online channel is important, representing c.10% of sales, we are a predominantly store-based retailer and will continue to be for the foreseeable future. A review of online priorities for the next 12 to 18 months will be complete by the end of Q1 2024, balancing any investment with necessary cost reductions across the business.
- **Optimise our store estate**: We continued to optimise our store estate with 5 new openings, 19 refits, 3 relocations and 10 closures, meaning we traded from 521 stores at the end of the period. We continue to aggressively target rent reductions on low-profit stores which has seen us deliver rent savings on our existing estate, saving c.£0.5m in annual rent on the 36 lease renewals in H1 (an average saving of 22% on headline rent). The new, simplified store labour structure we introduced at the beginning of FY24 has embedded well and will allow us to drive more efficient use of our store labour budget. In turn, this will help support planned reductions to store labour hours as we move into FY25. Given profitability constraints, we will cut back capital expenditure for the remainder of the year to only essential, or already committed, works.
- **Drive operational improvements:** We strengthened Distribution Centre middle-management to help embed new ways of working and deliver the expected benefits and efficiencies in 2024. We agreed with iForce, our third-party provider for e-commerce, to move to a more modern distribution centre with much higher levels of automation which took place in early-January 2024 and is expected to save us c.£1m per annum in operating costs. Following a review of our business operating model in early 2023, we have improved ways of working across our Buying and newly formed Merchandising teams and identified tactical system improvements. In early 2024 we will have a clear roadmap for future system requirements, although the pace of investment will be balanced with the need to manage costs and cash in the short-term. We also piloted new EPOS software across 19 stores, which will be rolled out to all stores and replace the current end-of-life software in the first half of 2024.

Environmental, Social and Governance (ESG)

As a business we are committed to "Doing Business Better" and our dedicated ESG steering group continues to meet quarterly to ensure we are fulfilling our mission to make positive and sustainable changes for our people, our communities and our planet which will enable us to continue to inspire reading, learning, creativity and play for generations to come.

Progress during the period includes:

- Phased out plastic packaging on cards and roll wrap at Christmas and reworked the packaging on our re-launched core art and craft ranges to be more environmentally friendly.
- Developed a new charity partnership with the National Literacy Trust to help equip children and young people with the literacy skills they need to succeed and thrive. This charity is much better aligned with our purpose, replacing our previous partnership with Cancer Research UK, and customers and colleagues will start to fundraise for the National Literacy Trust alongside our other existing charity partner, Mind.
- Launched a trial takeback scheme with Barnardo's, a children's charity, in 20 stores with the potential to rollout to all eligible stores (c.400) in 2024. Customers can donate new or pre-loved books, toys, games and stationery in our stores, which are collected by Barnardo's and sold in their stores.

- Sustained our strong colleague engagement scores to place 15th in the 'Best Big Companies to Work For' and 10th in Retail Week's 'Top 50 happiest retailers to work for'.

Leadership changes

Following the announcement of the CFO succession at our preliminary results, Rosie Fordham has now been appointed CFO and joined the Board effective 31 December 2023. Together with the appointment of Lynne Tooms as Commercial Director and Simon Peck as Marketing Director, we now have a strengthened leadership team to help steer the business through the next phase of development.

Outlook

The Board's expectation for the full year results currently remains unchanged.[3] Our trading performance in the run up to Christmas was lower than expected, however this is balanced by an improving sales trajectory in recent weeks and optimism about new ranges landing in the spring. Furthermore, operational investments in our merchandising team and a new way of picking at the Distribution Centre are expected to start delivering results in the remainder of the Period, supporting the cost action we have already taken. In line with the normal working capital cycle, we have exited Christmas with significant levels of cash and expect to end the financial year debt-free.

However, there is still a great deal of uncertainty as we move into 2024. We continue to face significant cost headwinds, the consumer outlook remains unpredictable and the supply chain disruption caused by recent attacks on ships in the Red Sea creates the potential for stock delays and increased freight costs, which we are carefully monitoring.

Shareholder return of capital and consultation exercise

Following resolution 2 relating to the declaration of the final dividend not passing at the last AGM on 4 October 2023, we conducted a shareholder consultation exercise. This consultation covered alternative forms of capital distributions, with some of our major shareholders expressing a preference for share buybacks over the payment of dividends at the AGM. The consultation also covered resolutions 13, 14 and 15 as set out in our notice of AGM. We are required under the UK Corporate Governance Code to provide an update within six months of an AGM where more than 20% of votes were cast against a resolution.

We have listened to the views of our shareholders in relation to the above resolutions and taken this consultation exercise into consideration. In light of current trading, we are now focused on retaining cash within the business and the Board will therefore not be proposing any form of shareholder returns in the short-term. The Board will continue to consider shareholder feedback on returns of capital within the context of the Company's cash position on an ongoing basis.

Gavin Peck
Chief Executive Officer
18 January 2024

Footnotes

(1) Data from the British Retail Consortium (BRC) shows a decline in online non-food sales for every month of the period from May through October: https://brc.org.uk/insight/market-insight-hub/?topic=Retail%20Sales#9
(2) The seasonality of the business typically results in a loss in the first half of the financial year, with all profit being substantially generated through Christmas trading in H2. The loss before tax in H1 FY24 was greater than the previous year as a result of a £6.9m net impairment charge.
(3) Revised guidance was announced in the 9 November 2023 trading update. The Company compiled estimate of the market's expectation for the FY24 and FY25 pre IFRS 16 Adjusted EBITDA result is approximately £6.0m and £8.5m respectively.

Financial Report

Overview

This report covers the 26 week period ended 29 October 2023 ("H1 FY24", "H1" or "the Period") and refers to the comparative "H1 FY23" period of the 26 weeks ended 30 October 2022.

The result for the Period was an Adjusted loss before tax of £7.8m compared with a restated loss before tax of £7.3m for H1 FY23. The pre-IFRS 16 Adjusted EBITDA was a loss of £8.5m (H1 FY23: loss of £6.4m). The result reflects the impact on sales and significant cost headwinds faced in the challenging macro-economic environment. The seasonality of the business typically results in a loss in the first half of the financial year, with all profit being substantially generated through Christmas trading in H2.

The table below summarises the movements between the H1 FY23 and H1 FY24 EBITDA results. Revenue increased by 3.1% and the margin rate improved slightly (albeit less than expected) but there were cost headwinds such as the increase in National Living and Minimum Wages (NLMW) and electricity along with investment in IT infrastructure and support centre headcount which more than offset this. Further details are provided below.

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

At the balance sheet date the Group had net debt of £2.5m (H1 FY23: net cash of £7.0m) (excluding lease liabilities). Stock was purchased earlier compared to the prior Period to mitigate the risk of delays to key seasonal lines that we experienced in FY23 and the cash position at the end of the Period fully reflects this build of stock.

(1) The Group tracks a number of alternative performance measures ("APMs") including pre-IFRS 16 EBITDA, pre-IFRS 16 Adjusted EBITDA and like for like ("LFL") sales, as it believes these provide stakeholders with additional helpful information. These are described more fully in Note 1(c) and 4 of the condensed unaudited financial statements.

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

Revenue

Total revenue during the Period increased by 3.1% to £122.6 million (H1 FY23: £118.9 million). LFL sales increased by 1.6%, with store LFLs increasing by 3.5% and online sales decreasing by 12.2%.

The number of stores trading decreased by five, from 526 to 521 at the end of the Period. Five new stores were opened, ten were closed and three stores were relocated to new sites.

The table on the following page shows an analysis of sales and a reconciliation to statutory revenue.

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

The effective VAT rate was higher than in H1 FY23 due to the higher sales mix of toys and games compared to the mix of zero rated books in the comparative year.

Gross profit

	H1 FY24		H1 FY23 (Restated - Note 13)			
	£m	***% of revenue***	**£m**	***% of revenue***	**£m Variance**	***% Variance***
Revenue	122.6		118.9		3.6	3.1
Less: Cost of goods sold	(52.5)		(52.0)		(0.5)	(0.9)
Product gross margin	**70.1**	**57.2**	**66.9**	**56.3**	**3.2**	**4.7**
Overhead costs charged to statutory cost of sales						
Store payroll	(24.8)	(20.2)	(23.0)	(19.4)	(1.7)	(7.6)
Store property and establishment costs	(25.4)	(20.8)	(25.2)	(21.2)	(0.3)	(1.0)
Store PoS & transaction fees	(1.2)	(1.0)	(0.9)	(0.8)	(0.3)	(32.9)
Store depreciation (excluding IFRS 16)	(1.4)	(1.1)	(2.2)	(1.8)	0.8	37.0
Online variable costs	(7.0)	(5.7)	(8.2)	(6.9)	1.2	14.4
IFRS16 impact (excluding Adjusting items)	5.4	4.4	4.0	3.4	1.3	33.4
Adjusting items (net impairment charges)	(6.9)	(5.7)	0.0	0.0	(6.9)	(100.0)
Gross profit per financial statements	**8.6**	**7.0**	**11.4**	**9.6**	**(2.8)**	**(24.2)**

- Product gross margin increased to 57.2% from 56.3% last year. This was due to:
  - A significant reduction in 2023 container freight rates versus 2022 rates. This more than offset the negative margin impact of the factors outlined below.
  - The hedged FX rate on payments made in US dollars during H1 was adverse year on year and continues to be a headwind in H2. Margin was further impacted from the unwind of the adverse hedging adjustment recognised in stock held at FY23 year end.
  - New toys and games ranges delivered as part of improving our customer proposition saw double digit growth in the Period, however these attract a lower margin percentage.
  - Increased promotional activity, particularly in October, also moderated gross margin percentage.
- Store payroll costs increased due to the 9.7% increase in the NLMW and the corresponding retail management increases. These were partially mitigated by the changes to our store labour structure implemented at the start of the Period.
- Store property and establishment costs increased by £0.3m due to:
  - A £0.7m increase in electricity costs year on year as a result of adverse hedged prices and higher non consumption rates due to inflation.
  - Service charges were £0.5m higher than the prior year which included the headwind of £0.2m of one off credits received in the prior Period.
  - Total rent charges were broadly in line with the previous year.
  - £1.3m favourable business rates as a result of the rates revaluation offset the majority of the above increases.
- Online variable costs (marketing and fulfilment) in H1 FY24 were primarily lower due to lower sales volumes, however further cost savings resulted from improvements in the order profile; average order value and average ticket price increased. Efficiencies continued to be delivered as a result of improvements made to the online fulfilment picking process during the prior Period.

- The IFRS 16 impact in the table above (and in the Administration costs table below) represents the additional IFRS 16 depreciation on the notional right of use asset created, less rent, which is not recognised under IFRS 16. The difference in the size of the adjustment compared with H1 FY23 is due to the FY23 store impairment of Right of Use Assets (“RoUAs”) resulting in a gain on modification of leases. Note 4 of the financial statements provides a reconciliation between pre and post IFRS 16 profit.

Store distribution costs

	H1 FY24		H1 FY23			
	£m	***% of revenue***	**£m**	***% of revenue***	**£m variance**	***% variance***
Distribution costs	(6.7)	(5.5)	(5.0)	(4.2)	(1.7)	(34.0)
Depreciation	(0.1)	(0.1)	(0.0)	(0.0)	(0.1)	(100.0)
Distribution costs	**(6.8)**	**(5.6)**	**(5.0)**	**(4.2)**	**(1.8)**	**(36.1)**

Store distribution costs increased by £1.7m to £6.7m. Note that online fulfilment costs are included within the cost of sales.

- Labour costs in our retail distribution centre increased by £1.4m as a result of the 9.7% increase in the NLMW and a higher mix of agency staff, (which incurs a higher hourly rate).
- Stock was brought into the business earlier to mitigate the risk of delays to key seasonal lines that we experienced in FY23, this resulted in increased volumes, and increased labour costs in September and October. However, costs were further impacted by adverse performance metrics due to; increased average size of product stored and shipped; the higher mix of agency staff, along with inefficiencies as a result of the implementation of a new grid picking process.
- Third party delivery charges increased by £0.3m, primarily due to increased product cube which resulted in higher outbound pallet volumes.

Administration costs

	H1 FY24		H1 FY23			
	£m	***% of revenue***	**£m**	***% of revenue***	**£m variance**	***% variance***
Administration costs	(13.3)	(10.9)	(10.9)	(9.2)	(2.4)	(21.9)
Depreciation	(1.1)	(0.9)	(0.5)	(0.4)	(0.6)	(111.2)
IFRS 16 impact	0.3	0.2	0.2	0.2	0.1	36.4
Administration costs	**(14.2)**	**(11.6)**	**(11.3)**	**(9.5)**	**(2.9)**	**(25.7)**

Administration costs increased by £2.4m to £13.3m.

- Support centre payroll costs increased by £1.0m, £0.3m of which was due to inflationary payrises, which includes the impact of the 9.7% NLMW increase. The remaining increase is due to the annualisation of structural changes made in FY23 (a new Merchandising team was recruited in late FY23).
- £0.8m increase in IT infrastructure costs which included dual running costs as we piloted the new EPOS software, continued investment in the strengthening of our IT security and higher costs as more software transitions to a SaaS basis.

Adjusting items

Due to the challenging macroeconomic environment and the existence of a material brought forwards impairment charge, all cash generating units (CGUs) other than stores which have been open for less than 12 months have been assessed for impairment at the Period end. No impairment review was performed during the 26 weeks ended 30 October 2022 and therefore no impairment charges or reversals were recognised in the comparative interim financial statements. During the 26 weeks ended 29 October 2023, an impairment charge of £10.1m was recognised against 284 stores. An impairment reversal of £2.6m relating to 73 stores and £0.6m relating to the website has also been recognised. The net impact is an impairment charge of £6.9m. Refer also to Note 5 of the condensed unaudited financial statements.

	H1 FY24 £'m	H1 FY23 £'m
Impairment charges	(10.1)	-
Impairment reversals	3.2	-
Total adjusting items	**(6.9)**	**-**

Net financing expense

Net financing costs in the Period were £2.4m (H1 FY23: £2.3m), mostly relating to IFRS 16 notional interest on the calculated lease liability.

Interest relating to bank facilities was £0.3m (H1 FY23: £0.3m) and comprised facility availability charges and amortisation of the cost of setting up the facility.

Loss before tax

The loss before tax was £14.8m (H1 FY23: £7.3m loss) which includes the £6.9m (H1 FY23: Nil) impairment charge recognised in Adjusting items (described above). Due to the seasonality of the business, the first half of the financial year is typically loss making, although the loss for the year was worse than the prior year as a result of the net impairment charge in Adjusting items (H1 FY23: Nil) and the cost variances described above.

Tax

The Group's total income tax credit in respect of the Period was £3.76 million (H1 FY23: £1.99 million). The effective tax rate on the total loss before tax was 25.4% (H1 FY23: 27.4%), the Adjusted tax rate was 32.9% (H1 FY23: 27.4%).

The difference between the total effective tax rate and the Adjusted tax rate relates to certain costs and depreciation charges (including impairment) being non-deductible for tax purposes.

Earnings per share

The basic and diluted losses per share for the Period was 20.5 pence (H1 FY23 restated: 8.4 pence loss).

Capital expenditure

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

Lower leasehold contributions from landlords compared to H1 FY23 resulted in higher new store capex.

The other notable area of capital expenditure was on store refits (19 undertaken in the Period).

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

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

Stock

Stock was valued at £56.1m at the end of the Period (H1 FY23: £53.6m), an increase of £2.5m.

The operating cycle of the business causes maximum stock levels to occur prior to the Christmas sales peak, and therefore stock levels typically increase at the half year end compared with the levels at the year end. In addition to this seasonal build, the stock value was higher than normal at the end of H1 FY23 due to the following:

- Stock was purchased earlier to mitigate the risk of delays to key seasonal lines that we experienced in FY23, such as diaries and calendars.
- The cost value per unit of stock was approximately 3% higher than in the prior year, primarily reflecting inflationary increases in cost prices.
- Stock provision values are lower than the prior year due to the introduction of full '4-wall' counts in FY23 and the subsequent reduction in the obsolescence provision.

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

	H1 FY24 £m	H1 FY23 £m
Gross stock	50.5	46.6
Less: provisions	(1.7)	(3.2)
Stock net of provisions	48.8	43.4
Stock in transit	7.3	10.2
Stock per balance sheet	56.1	53.6

Cashflow

The Group ended the period with net debt of £2.5m. The timing of the October month end (29th October 2023) resulted in payments falling into H2 FY24, thereby creating a favourable timing difference (£3.0m). The cash position at the end of the Period fully reflects the build of stock prior to the peak trading season.

The net cash outflow for the Period was £12.8m (H1 FY23: outflow of £9.3m). The size of the outflow during H1 FY24 was increased by the larger increase in stock as described above, along with increased capital expenditure on new stores.

The table below shows an abbreviated summarised cashflow analysis.

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

Bank facilities

The Group's bank facilities comprise an RCF of £20.0m expiring 30 November 2026. The facility includes financial covenants in relation to the level of net debt to LTM EBITDA and 'Fixed Charge Cover' or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest.

£5.0m was drawn under the Group's RCF facility during October 2023.

Dividends

At the AGM shareholders expressed a preference for share buybacks over dividends and we have continued to consult with our major shareholders. In light of current trading we are focused on retaining cash within the business and the Board is not proposing an interim dividend.

When conditions, such as trade, profit levels and liquidity support returning cash to shareholders we will re-visit the capital distribution policy.

Rosie Fordham
Chief Financial Officer
18 January 2024

Unaudited Condensed Consolidated Income Statement

For the 26 weeks ended 29 October 2023

		26 weeks to 29 October 2023			26 weeks to 30 October 2022 (Restated – Note 13)			52 weeks to 30 April 2023		
		Adjusted	**Adjusting items**	**Total**	Adjusted	Adjusting items	Total	Adjusted	Adjusting items	Total
	Note	**£000**	**£000**	**£000**	£000	£000	£000	£000	£000	£000
Revenue	3	**122,575**	**-**	**122,575**	118,932	-	118,932	280,102	-	280,102
Cost of sales	5	**(106,986)**	**(6,949)**	**(113,935)**	(107,541)	-	(107,541)	(231,150)	(5,052)	(236,202)
Gross profit		**15,589**	**(6,949)**	**8,640**	11,391	-	11,391	48,952	(5,052)	43,900
Other operating income		**4**	**-**	**4**	4	-	4	8	-	8
Distribution expenses		**(6,846)**	**-**	**(6,846)**	(5,031)	-	(5,031)	(10,284)	-	(10,284)
Administrative expenses		**(14,173)**	**-**	**(14,173)**	(11,278)	-	(11,278)	(24,197)	-	(24,197)
Operating (loss)/profit		**(5,426)**	**(6,949)**	**(12,375)**	(4,914)	-	(4,914)	14,479	(5,052)	9,427
Finance income	6	**17**	**-**	**17**	23	-	23	227		227
Finance expense	6	**(2,411)**	**-**	**(2,411)**	(2,364)	-	(2,364)	(4,648)	-	(4,648)
Net financing expense		**(2,394)**	**-**	**(2,394)**	(2,341)	-	(2,341)	(4,421)	-	(4,421)
(Loss) / profit before tax		**(7,820)**	**(6,949)**	**(14,769)**	(7,255)	-	(7,255)	10,058	(5,052)	5,006
Tax	9	**2,573**	**1,184**	**3,757**	1,986	-	1,986	265	-	265
(Loss) / profit for the period		**(5,247)**	**(5,765)**	**(11,012)**	(5,269)	-	(5,269)	10,323	(5,052)	5,271
(Loss) / profit before tax and IFRS 16	4	**(11,311)**	**(2,215)**	**(13,526)**	(9,445)	-	(9,445)	3,025	(1,488)	1,537
Basic (loss)/earnings per share (pence)	10	**(8.4)**		**(17.6)**	(8.4)		(8.4)	16.5		8.4
Diluted (loss)/earnings per share (pence)	10	**(8.4)**		**(17.6)**	(8.4)		(8.4)	16.4		8.4

All results arise from continuing operations. The loss for the period is attributable to equity holders of the Parent company.

Unaudited Condensed Consolidated Statement of Comprehensive Income

For the 26 weeks ended 29 October 2023

	26 weeks to 29 October 2023	26 weeks to 30 October 2022 (Restated - Note 13)	52 weeks to 30 April 2023
	£000	£000	£000
(Loss) / profit for the period	**(11,012)**	(5,269)	5,271
Items that may or may not be recycled subsequently into profit and loss			
Cash flow hedges - changes in fair value	**2,423**	(498)	(2,862)
Cash flow hedges - reclassified to profit and loss	**(278)**	(1,258)	(62)
Cost of hedging reserve - changes in fair value	**(357)**	56	(162)
Cost of hedging reserve - reclassified to profit and loss	**135**	47	91
Tax relating to components of other comprehensive income	**(525)**	-	262
Other comprehensive income / (expense) for the period, net of income tax	**1,398**	(1,653)	(2,733)
Total comprehensive (expense) / income for the period attributable to equity shareholders of the Parent	**(9,614)**	(6,922)	2,538

Unaudited Condensed Consolidated Statement of Financial Position
As at 29 October 2023

	Note	**29 October 2023**	30 October 2022 (Restated - Note 13)	30 April 2023
		£000	£000	£000
Non-current assets				
Intangible assets	12	**1,583**	1,920	916
Property, plant and equipment	13	**9,426**	10,161	11,733
Right of use assets	13	**57,602**	73,852	67,463
Deferred tax assets		**8,087**	6,694	4,854
		76,698	92,627	84,966
Current assets				
Inventories	14	**56,118**	53,571	33,441
Trade and other receivables		**9,390**	10,469	7,507
Derivative financial assets	18	**1,134**	1,775	-
Current tax asset		**1,170**	747	1,149
Cash and cash equivalents		**2,458**	10,971	10,196
		70,270	77,533	52,293
Total assets		**146,968**	170,160	137,259
Current liabilities				
Interest bearing loans and borrowings	15	**5,000**	4,000	-
Lease liabilities	15	**22,110**	23,830	23,449
Trade and other payables		**60,028**	66,948	34,479
Provisions	16	**276**	204	565
Derivative financial liabilities	18	**84**	-	1,048
		87,498	94,982	59,541
Non-current liabilities				
Lease liabilities	15	**66,713**	81,128	74,766
Provisions	16	**893**	767	1,298
		67,606	81,895	76,064
Total liabilities		**155,104**	176,877	135,605
Net (liabilities) / assets		**(8,136)**	(6,717)	1,654
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		**2,782**	2,512	2,780
Hedging reserve		**1,035**	290	(331)
Retained earnings		**(40,846)**	(38,412)	(29,688)
Total equity		**(8,136)**	(6,717)	1,654

Unaudited Condensed Consolidated Statement of Changes in Equity

	Attributable to equity holders						
For the 26 Weeks Ended 29 October 2023	Share capital £000	Share premium £000	Merger reserve £000	Hedging reserve[1] £000	Share based payment reserve £000	Retained earnings £000	Total equity £000
At 30 April 2023	**625**	**28,322**	**(54)**	**2,780**	**(331)**	**(29,688)**	**1,654**
Total comprehensive income / (expense) for the period							
Loss for the period	**-**	**-**	**-**	**-**	**-**	**(11,012)**	**(11,012)**
Other comprehensive income	**-**	**-**	**-**	**-**	**1,398**	**-**	**1,398**
Total comprehensive income / (expense) for the period	**-**	**-**	**-**	**-**	**1,398**	**(11,012)**	**(9,614)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	**-**	**-**	**-**	**-**	**(32)**	**-**	**(32)**
Transactions with owners of the Company							
Share-based payment charges	**-**	**-**	**-**	**2**	**-**	**-**	**2**
Acquisition of treasury shares	**-**	**-**	**-**	**-**	**-**	**(146)**	**(146)**
Total transactions with owners	**-**	**-**	**-**	**2**	**-**	**(146)**	**(144)**
Balance at 29 October 2023	**625**	**28,322**	**(54)**	**2,782**	**1,035**	**(40,846)**	**(8,136)**

For the 26 Weeks Ended 30 October 2022	£000	£000	£000	£000	£000	£000	£000
As at 1 May 2022	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(11,741)**	**21,631**
Cumulative adjustment to opening balance (Note 13)	-	-	-	-	-	(21,253)	(21,253)
Restated balance at 1 May 2022	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(32,994)**	**378**
Total comprehensive expense for the period							
Loss for the period	-	-	-	-	-	(5,269)	(5,269)
Other comprehensive expense	-	-	-	-	(1,653)	-	(1,653)
Total comprehensive expense for the period	**-**	**-**	**-**	**-**	**(1,653)**	**(5,269)**	**(6,922)**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	-	(284)	-	(284)
Transactions with owners of the Company							
Share-based payment charges	-	-	-	260	-	-	260
Acquisition of treasury shares	-	-	-	-	-	(149)	(149)
Total transactions with owners	**-**	**-**	**-**	**260**	**-**	**(149)**	**111**
Balance at 30 October 2022	**625**	**28,322**	**(54)**	**2,512**	**290**	**(38,412)**	**(6,717)**

For the 52 Weeks Ended 30 April 2023	£000	£000	£000	£000	£000	£000	£000
Balance at 1 May 2022	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(32,994)**	**378**
Total comprehensive (expense) / income for the period							
Profit for the period	-	-	-	-	-	5,271	5,271
Other comprehensive expense	-	-	-	-	(2,733)	-	(2,733)
Total comprehensive (expense) / income for the period	**-**	**-**	**-**	**-**	**(2,733)**	**5,271**	**2,538**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	-	175	-	175
Transactions with owners of the Company							
Share based payment charges	-	-	-	528	-	-	528
Dividend	-	-	-	-	-	(1,492)	(1,492)
Own shares purchased by employee benefit trust	-	-	-	-	-	(473)	(473)
Total transactions with owners	**-**	**-**	**-**	**528**	**-**	**(1,965)**	**(1,437)**
Balance at 30 April 2023	**625**	**28,322**	**(54)**	**2,780**	**(331)**	**(29,688)**	**1,654**

[1] Hedging reserve includes £391k 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 (£NIL for the 26 weeks ended 30 October 2022, £170k for the 52 weeks ended 30 April 2023).

Unaudited Condensed Consolidated Cash Flow Statement

For the 26 weeks ended 29 October 2023

	26 weeks to 29 October 2023	26 weeks to 30 October 2022 (Restated – Note 13)	52 weeks to 30 April 2023
	£000	£000	£000
Cash Flows From Operating Activities			
(Loss) / profit for the period	**(11,012)**	(5,269)	5,271
Adjustments for:			
Depreciation of property, plant and equipment	**2,420**	2,249	4,458
Impairment of property, plant and equipment	**2,787**	-	944
Reversal of impairment of property, plant and equipment	**(293)**	-	(574)
Depreciation of right-of-use assets	**14,789**	8,000	14,840
Impairment of right-of-use assets	**6,874**	-	6,126
Reversal of impairment of right-of-use assets	**(2,140)**	-	(2,562)
Amortisation of intangible assets	**374**	452	878
Impairment of intangible assets	**450**	-	1,118
Reversal of impairment of intangible assets	**(729)**	-	-
Derivative exchange loss / (gain)	**344**	(390)	(721)
Financial income	**(17)**	(23)	(227)
Financial expense	**275**	330	518
Interest on lease liabilities	**2,136**	2,034	4,130
(Profit) / loss on disposal of property, plant and equipment	**(174)**	(18)	149
Profit on disposal of right of use assets and lease liability	**(2,583)**	(39)	(1,105)
Profit relating to lease modifications	**(4,595)**	-	-
(Profit) / loss on disposal of intangible assets	**(67)**	-	14
Share based payment charges	**2**	260	528
Taxation	**(3,757)**	(1,986)	(265)
Operating cash flows before changes in working capital	**5,084**	5,600	33,520
(Increase) / decrease in trade and other receivables	**(1,823)**	(1,706)	1,033
Increase in inventories	**(23,217)**	(24,030)	(3,129)
Increase / (decrease) in trade and other payables	**25,559**	29,706	(1,443)
(Decrease) / increase in provisions	**(694)**	(146)	746
Cash inflows from operating activities	**4,909**	9,424	30,727
Corporation tax paid	**-**	(1,487)	(1,508)
Net cash from operating activities	**4,909**	7,937	29,219
Cash flows from investing activities			
Acquisition of property, plant and equipment	**(3,092)**	(2,744)	(7,296)
Capital contributions received from landlords	**659**	971	1,928
Acquisition of intangible assets	**(695)**	(755)	(1,309)
Interest received	**17**	23	227
Net cash outflows from investing activities	**(3,111)**	(2,505)	(6,450)
Cash flows from financing activities			
Payment of finance lease liabilities (capital element)	**(11,788)**	(12,223)	(22,672)
Payment of finance lease liabilities (interest)	**(2,136)**	(2,028)	(4,130)
Payment of RCF costs	**(60)**	(336)	(336)
Other interest paid	**(349)**	(304)	(321)
RCF drawdown	**5,000**	4,000	4,000
Repayment of bank borrowings	**-**	-	(4,000)
Dividend paid	**-**	-	(1,492)
Purchase of treasury shares	**(146)**	(149)	(473)
Net cash from financing activities	**(9,479)**	(11,040)	(29,424)
Net decrease in cash and cash equivalents	**(7,681)**	(5,608)	(6,655)
Exchange rate movements	**(57)**	299	571
Cash and cash equivalents at beginning of Period	**10,196**	16,280	16,280
Cash and cash equivalents at end of Period	**2,458**	10,971	10,196

Notes to the Unaudited Condensed Consolidated Interim Financial Statements
For the 26 weeks ended 29 October 2023

1 Accounting Policies

(a) General Information

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 unaudited condensed consolidated interim financial statements (‘interim financial statements’) as at and for the 26 weeks ended 29 October 2023 comprise the results of the Company and its subsidiaries (together referred to as ‘the Group’).

(b) Basis of preparation

The 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 30 April 2023. The interim financial statements 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.

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

(i) Going concern

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

The Directors have assessed the prospects of the Group, taking into account its current position and the potential impact of the principal risks which have been identified through the Group’s risk evaluation process.

In preparing its FY23 Annual Report and financial statements (which were approved on 30 August 2023), the Group prepared a cash flow forecast. On 9 November 2023, the Group issued its half year trading update and included a revision to the profit forecast reflecting the adverse impact on sales and significant cost headwinds faced in the challenging macro-economic environment. The revised forecast covers a period of 18 months from the date of approval of these unaudited condensed financial statements, and is henceforth referred to as the ‘Base Case’ scenario. In addition, a ’severe but plausible’ ‘Downside Case’ sensitivity was prepared to support the Board’s conclusion regarding going concern, by stress testing the Base Case to indicate the financial headroom resulting from applying more pessimistic assumptions.

In assessing the basis of preparation the Directors considered:

- The external environment.
- The Group’s financial position including the quantum and expectations regarding availability of bank facilities.
- The potential impact on financial performance of the principal risks.
- The output of the Base Case scenario, which represents the Group’s estimate of the most likely financial performance over the forecast period.
- Measures to maintain or increase liquidity in the event of a significant downturn in trading.
- The resilience of the Group to these risks having a more severe impact, evaluated via the Downside Case which shows the impact on the Group’s cash flows, bank facility headroom and covenants.
- The response to situations in which consumer market conditions are more severe than the Downside Case.

These factors are described below.

External environment

The risks which are considered the most significant to this evaluation relate to the economy and the market, specifically their effect on the strength of trading conditions, and the Group’s ability to successfully execute its strategy. The risk of weaker consumer demand is considered to be the greater of these risks, due to the continued high level of inflation and its potential effect on economic growth and consumer spending.

An emerging risk has been noted in relation to the possible effects of climate change, but this is not expected to have a material financial impact on the Group during the forecast period.

Financial position and bank facilities

At the Period end the Group held net debt (excluding lease liabilities) of £2.5m (HY23: £7.0m) (Note 15).

The Group’s bank facilities comprise a £20.0m revolving credit facility (RCF) which terminates at the end of November 2026. The facility includes two financial covenants which are structured in a way that is typical for a retail business of this size and are tested quarterly:

1. The level of net debt to LTM (last twelve months’) EBITDA (maximum ratio 2.5x).
2. The “Fixed Charge Cover” or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest (minimum ratio 1.20x until 31 October 2025, 1.25x until 31 October 2026 and 1.30x thereafter). In December 2023, the Group agreed an Amendment to the facility agreement which resulted in a reset of the

fixed charge cover. Prior to the amendment, the ratios were, minimum ratio 1.20x until 31 October 2024, 1.25x until 31 October 2025 and 1.30x thereafter).

Potential impact of risks on Base Case and Downside Case scenarios

The 'Principal risks and uncertainties' section of the Strategic report on pages 49 to 53 of the Group's FY23 Annual Report, sets out the main risks that the Board considers relevant.

It is considered unlikely that all the risks would manifest themselves to adversely affect the business at the same time. The Directors have estimated what the most likely combination of risks might be that could materialise within the going concern assessment period and how the business might be affected; this combination of risks is reflected in the Base Case assumptions. As noted above, the most prominent risk in the near term is considered to be the risk of lower consumer spending due to a weakened economy, which could affect sales, costs and liquidity.

The Downside Case scenario takes into consideration the same risks as the Base Case but assumes that their effects are more severe, especially if consumer spending weakens further.

Base Case scenario

The Base Case scenario assumptions reflect the following factors:

- The Base Case sales growth in H2 FY24 reflects the trading results over the Christmas period to end of December 2023.The remaining forecast period reflects a stabilising consumer environment, and product proposition changes and operational improvements, offset with supply chain risk
- The Base Case gross margin percentage reflects the expected continuation of discounting, offset with favourable freight rates from stock purchased earlier in the year. FY25 and FY26 margin reflects improvements as a result of implementing operational changes in the buying team following the appointment of the new commercial director, favourable hedged FX rates, offset with temporarily higher ocean container freight costs expected as a result of the disruption in the Red Sea.
- Anticipated further inflationary effects, in particular the increase in the National Minimum Wage. In respect of other costs, notably property occupancy costs, it is not expected that there will be further significant inflationary effects during FY25, following the significant increases (for example in electricity costs) already experienced.
- Capital expenditure levels are in line with the Group's strategic plan. A significant proportion of the Group's capital expenditure is discretionary, particularly over a short-term time period. As a result, if required, it can therefore be reduced substantially, for example, in the event the Group needing to preserve cash.
- The anticipated costs of the Group's net zero climate change commitments have been incorporated within the Base Case model. As set out in the climate related disclosures in the annual report, the impact on the Group's financial performance and position is not expected to be material in the short term.

Under the Base Case scenario, the Group expects to make routine operational use of its bank facility each year as stock levels are increased in September-October, prior to peak sales occurring.

The output of the Base Case model scenario indicates that the Group has sufficient financial resources to continue to operate as a going concern and for the financial statements to be prepared on this basis.

Measures to maintain or increase liquidity in the event of a significant downturn in trading

If necessary, mitigating actions can and would be taken in response to a significant downturn in trading such as is described below, which would increase liquidity.

These include, for example, delaying and reducing stock purchases, stock liquidation, reductions in capital expenditure, the review of payment terms and the review of dividend levels. Some of these potential mitigations have been built into the Downside Case model, and some are additional measures that would be available in the event of that scenario, or worse, actually occurring.

Severe but plausible Downside Case scenario

The Downside Case makes the following assumptions to reflect more adverse macroeconomic conditions compared to the Base Case:

- Store LFL sales are assumed to be 0.5% lower than the Base case for the remaining year to go in FY24),4.5% lower than the Base Case in FY25 and 4.3% lower in FY26
- In this scenario online sales are assumed to be lower than in the Base Case during the forecast Period by 4.4% in FY25 and 4.1% in FY26.
- The product gross margin assumptions are 1.0 percentage lower than the Base Case for FY25 and 1.2% lower than FY26, reflecting a scenario of increased and extended disruption in the Red Sea adversely impacting container freight rates. The majority of expected FX requirements are hedged until the end of FY25. Other gross margin inputs are relatively controllable, including via the setting of selling prices to reflect any systematic changes in the cost price of goods bought for resale.
- Volume related costs in the Downside Case are lowered where they logically alter in a direct relationship with sales levels, for example, forecast online fulfilment and marketing costs. The model also reflects certain steps which could be taken to mitigate the effect of lower sales, depending on management's assessment of the situation at the time. These include adjustments to stock purchases, reducing capital expenditure, reductions in

labour usage, a reduction in discounts allowed as part of the Group's loyalty scheme and the suspension of FY25 capital contribution payments.

- The combined financial effect of the modified assumptions in this scenario compared with the Base Case, during the forecast period, including implementing some of the mitigating activities available, would result in a reduction in store net sales of approximately £13.9m.
- a reduction in online net sales of approximately £1.4m.
- a reduction to EBITDA of approximately £6.5m.

Under the Downside Case scenario, the Group expects to make routine operational use of its bank facility each year as stock levels are increased, prior to peak sales occurring.

The bank facility financial covenants are complied with during the period.

On the basis of this Downside Case scenario with the "severe but plausible" set of assumptions as described, the business would continue to have adequate resources to continue in operation.

However, the Fixed charge covenant headroom at the quarterly testing points falling within the going concern period is limited, and there are reasonably plausible scenarios in which this headroom could be eroded and create a borrowing requirement. For example, if sales decreased by a further 1% during the going concern period compared with the Downside Case, a breach of the covenant could arise, however the Group would likely be in a net cash position at this point. The Group has a strong relationship with its bank, HSBC, and has a recent track record of working collaboratively with the bank to resolve potential covenant issues, for example, a waiver was agreed by HSBC in 2021 as noted in the Group's FY21 Annual Report and, as noted above, in December 2023 a covenant amendment was agreed. Despite this strong relationship with the bank and the recent evidence of successfully managing comparable situations, if a borrowing requirement arose when the financial covenants are not complied with, there is a risk that the Group would not be able to utilise its borrowing facilities if required.

The Directors believe that, should such a situation arise in practice, it would have time before a potential breach to mitigate further, and potentially to make arrangements with the bank, as has occurred previously, to adjust the covenant levels to prevent a breach. Furthermore, the Group has successfully managed through challenging conditions during the COVID pandemic, and the Directors believe it unlikely that comparably challenging conditions will be experienced during the forecast period, despite the concerns regarding the current macroeconomic conditions. Nevertheless, despite the Directors' confidence in relation to these matters, there is no certainty as to whether the mitigating actions would provide the level of liquidity required in the time available to implement them, nor whether the bank would make adjustments to the financial covenants.

Conclusion regarding basis of preparation

Based on all of the above considerations the Directors believe that it remains appropriate to prepare the financial statements on a going concern basis. However, these circumstances indicate the existence of a material uncertainty related to events or conditions that may cast significant doubt on the Group's and the Company's ability to continue as a going concern and, therefore, that the Group and Company may be unable to realise their assets and discharge their liabilities in the normal course of business. The financial statements do not include any adjustments that would result from the basis of preparation being inappropriate.

(ii) Accounting policies

The interim financial statements have been prepared on a basis consistent with the accounting policies published in the Group's financial statements for FY23.

(c) Alternative performance measures and Adjusting items

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

The Group believes that these APMs, which are not considered to be a substitute for or superior to IFRS measures, provide stakeholders with additional helpful information on the performance of the business. They are consistent with how the business performance is planned and reported internally, and are also consistent with how these measures have been reported historically. Some of the APMs are also used for the purpose of setting remuneration targets.

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

The key APMs that the Group uses include: like-for-like sales growth (LFL); Pre-IFRS 16 Earnings before interest, tax, depreciation and amortisation (Pre-IFRS 16 EBITDA), Profit before tax and IFRS 16, Pre-IFRS 16 Adjusted EBITDA, Adjusted Profit; and Adjusted earnings per share. The APMs used by the Group and explanations of how they are calculated and how they can be reconciled to a statutory measure where relevant, are set out in Note 4.

"Adjusted" measures are calculated by adding back or deducting Adjusting Items. Adjusting items are material in size and unusual in nature or incidence and, in the judgement of the Directors, should therefore be disclosed separately on the face of the financial statements to ensure that the reader has a proper understanding of the Group's financial performance and that there is comparability of financial performance between periods.

Refer to Note 5 for information regarding items that were treated as Adjusting.

(d) Key sources of estimation uncertainty

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

Critical judgements represent key decisions made by management in the application of the Group's accounting policies. Where a significant risk of materially different outcomes exists, this will represent a key source of estimation uncertainty.

Estimates and judgements are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may differ from these estimates.

Key sources of estimation uncertainty which are material to the interim financial statements are described in the context of the matters to which they relate, in the following notes:

Description	**Note**
Going concern	1
Impairment of intangible assets, property, plant and equipment and right-of-use assets	13

2 Segmental reporting

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

The Group has one operating segment with two revenue streams, bricks and mortar stores and online. This 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. Aggregation is deemed appropriate due to both operating segments having similar economic characteristics, similar products on offer and a similar customer base.

3 Revenue

The Group's revenue is derived from the sale of finished goods to customers. The following table shows the primary geographical markets from which revenue is derived.

	26 weeks ended 29 October 2023 £000	26 weeks ended 30 October 2022 £000	52 weeks ended 30 April 2023 £000
Sale of goods			
– UK	**120,588**	116,933	275,305
– EU (Republic of Ireland)	**1,987**	1,999	4,797
Total revenues	**122,575**	118,932	280,102

Seasonality of operations

The Group's revenue is subject to seasonal fluctuations as a result of peaking during the approach to Christmas, from October to December. Therefore, the first half of the financial year, from April to October, typically produces lower revenue and profit than the second half.

4 Alternative performance measures ("APMs")

Like-for-like ("LFL") sales

LFL sales are defined by the Group as the year-on-year growth in gross sales from stores which have been trading for a full financial year prior to the current year and have been trading throughout the current financial period being reported on, and from the Company's online store, calculated on a calendar week basis. The measure is used widely in the retail industry as an indicator of sales performance. LFL sales are calculated on a gross basis to ensure that fluctuations in the VAT rates of products sold are excluded from the like-for-like sales growth percentage figure.

Pre-IFRS 16 Adjusted EBITDA (EBITDA) and Adjusted profit after tax

EBITDA is defined by the Group as pre-IFRS 16 earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets, after adding back or deducting Adjusting items. See Note 5 for a description of Adjusting items. Pre-IFRS 16 EBITDA is used for the bank facility LTM EBITDA covenant calculations.

The table provides a reconciliation of pre-IFRS 16 EBITDA to profit/(loss) after tax and the impact of IFRS 16:

	26 weeks ended 29 October 2023	26 weeks ended 30 October 2022 (Restated - Note 13)	52 weeks ended 30 April 2023
	£000	£000	£000
Pre-IFRS 16 Adjusted EBITDA	**(8,486)**	(6,389)	9,000
Income statement rental charges not recognised under IFRS 16	**13,179**	12,242	24,865
Foreign exchange differences on euro leases	**45**	(123)	(152)
Post-IFRS 16 Adjusted EBITDA	**4,738**	5,730	33,713
Profit on disposal of right-of-use assets and lease liability recognised under IFRS 16	**2,583**	39	1,105
Profit on modification of leases recognised under IFRS 16[1]	**4,595**	-	-
Profit / (loss) on disposal of property, plant and equipment	**174**	18	(149)
Profit / (loss) on disposal of intangible assets	**67**	-	(14)
Depreciation of property, plant and equipment	**(2,420)**	(2,249)	(4,458)
Depreciation of right-of-use-assets	**(14,789)**	(8,000)	(14,840)
Amortisation	**(374)**	(452)	(878)
Finance expenses	**(2,411)**	(2,364)	(4,648)
Finance income	**17**	23	227
Tax credit / (charge)	**2,573**	1,986	265
Adjusted (loss) / profit after tax	**(5,247)**	(5,269)	10,323
Adjusting items (including impairment charges and reversals)	**(6,949)**	-	(5,052)
Tax (charge) / credit in relation to Adjusting items	**1,184**	-	-
(Loss) / profit after tax	**(11,012)**	(5,269)	5,271

1 Brought forward impairment charges result in a large discrepancy between the right-of-use asset and the lease liability for impaired stores. As such, where lease modifications arise due to a reduction in rental charges or lease term, any reduction to the lease liability must also be applied to the right-of-use asset. Where this reduction takes the right-of-use asset below zero, the credit is taken to the statement of comprehensive income.

Profit before tax and IFRS 16

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

	26 weeks ended 29 October 2023			26 weeks ended 30 October 2022 (Restated - Note 13)			52 weeks ended 30 April 2023		
	Adjusted £000	**Adjusting items £000**	**Total £000**	Adjusted £000	Adjusting items £000	Total £000	Adjusted £000	Adjusting items £000	Total £000
(Loss) / profit before tax before IFRS 16 adjustments	**(11,311)**	**(2,215)**	**(13,526)**	(9,445)	-	(9,445)	3,025	(1,488)	1,537
Remove rental charges not recognised under IFRS 16	**13,117**	**-**	**13,117**	12,172	-	12,172	24,737	-	24,737
Remove hire costs from hire of equipment	**62**	**-**	**62**	70	-	70	128		128
Remove depreciation charged on the existing assets	**-**	**-**	**-**	104	-	104	151	-	151
Remove interest charged on the existing liability	**14**	**-**	**14**	19	-	19	34	-	34
Depreciation charge on right of use asset	**(14,789)**	**-**	**(14,789)**	(8,057)	-	(8,057)	(14,840)	-	(14,840)
Interest cost on lease liability	**(2,136)**	**-**	**(2,136)**	(2,034)	-	(2,034)	(4,130)	-	(4,130)
Profit on disposal of right-of-use assets and lease liability	**2,583**	**-**	**2,583**	39	-	39	1,105	-	1,105
Profit on modification of leases	**4,595**	**-**	**4,595**	-	-	-	-	-	-
Foreign exchange difference on euro leases	**45**	**-**	**45**	(123)	-	(123)	(152)	-	(152)
Additional net impairment charge under IAS 36	**-**	**(4,734)**	**(4,734)**	-	-	-	-	(3,564)	(3,564)
Net Impact of IFRS 16 on (loss) / profit before tax	**3,491**	**(4,734)**	**(1,243)**	2,190	-	2,190	7,033	(3,564)	3,469
(Loss) / profit before tax	**(7,820)**	**(6,949)**	**(14,769)**	(7,255)	-	(7,255)	10,058	(5,052)	5,006

Other adjusted profit metrics

Other key profit measures including operating profit, profit before tax, profit for the period, and earnings per share are also calculated on an Adjusted basis by adding back or deducting Adjusting items. These adjusted metrics are included within the consolidated income statement and statement of other comprehensive income, with details of Adjusting items included below in Note 5.

5 Adjusting items

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

	26 weeks ended 29 October 2023 £000	26 weeks ended 30 October 2022 £000	52 weeks ended 30 April 2023 £000
Within cost of sales			
Impairment charges[1]	**10,110**	-	8,188
Impairment reversals[1]	**(3,161)**	-	(3,136)
Total within cost of sales	**6,949**	-	5,052
Total Adjusting items before tax	**6,949**	-	5,052

[1] These relate to fixed asset impairment charges and reversals of impairment charges.

6 Finance income and expense

	26 weeks ended 29 October 2023 £000	26 weeks ended 30 October 2022 £000	52 weeks ended 30 April 2023 £000
Finance income			
Bank interest receivable	**17**	23	227
Total finance income	**17**	23	227
Finance expense			
Bank interest payable	**(210)**	(147)	(295)
Amortisation of capitalised loan costs	**(65)**	(183)	(223)
Interest payable on lease liabilities	**(2,136)**	(2,034)	(4,130)
Total finance expense	**(2,411)**	(2,364)	(4,648)

7 Share based payments

During the Period, 2,716,687 shares were awarded under “TheWorks.co.uk 2018 Long Term Incentive Plan” and 1,416,375 warded under the Save As You Earn Scheme. (26 weeks ended 30 October 2022: nil and nil, 52 weeks ended 30 April 2023: 2,682,726 and 2,349,307 respectively).

During the Period, 856,250 restricted stock awards were granted to key management and senior employees (26 weeks ended 30 October 2022: nil, 52 weeks ended 30 April 2023: 1,097,879).

Expense recognised in the income statement

The IFRS 2 charge recognised during the Period was as follows:

	26 weeks ended 29 October 2023 £000	26 weeks ended 30 October 2022 £000	52 weeks ended 30 April 2023 £000
LTIP –- Share based payment (credit) / expense	**(155)**	119	275
RSA - Share based payment expense	**121**	94	199
SAYE - Share based payment expense	**36**	47	54
Total IFRS 2 charges	**2**	260	528

8 Employee benefits

The Group operates a defined contribution pension scheme. The pension charge for the period represents contributions payable by the group to the scheme and amounted to £484k (26 weeks ended 30 October 2022: £431k; 52 weeks ended 30 April 2023: £890k).

9 Tax

The income tax expense or credit is 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 Period was £3.76 million (26 weeks ended 30 October 2022: £1.99 million, 52 weeks ended 30 April 2023: £0.27m). The effective tax rate on the total loss before tax was 25.4% (26 weeks ended 30 October 2022: 27.4%; 52 weeks ended 30 April 2023: (5.3%)), the Adjusted tax rate was 32.9% (26 weeks ended 30 October 2022: 27.4%, 52 weeks ended 30 April 2023: (2.6%)).

The difference between the total effective tax rate and the Adjusted tax rate relates to certain costs and depreciation charges (including impairment) being non-deductible for tax purposes.

10 Earnings per share

Basic earnings per share is calculated by dividing the profit or loss for the period attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the period.

Diluted earnings per share uses 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. In the event that there are losses per share, diluted EPS is deemed to be the same as Basic EPS.

The Group has chosen to present an Adjusted earnings per share measure, with profit adjusted for Adjusting items (see Note 5 for further details) to reflect the Group's underlying (loss) / profit for the Period.

	29 October 2023	30 October 2022 (Restated – Note 13)	30 April 2023
	Number	Number	Number
Number of shares in issue	**62,500,000**	62,500,000	62,500,000
Number of dilutive share options (nil in the event of a loss)	**-**	-	621,130
Number of shares for diluted earnings per share	**62,500,000**	62,500,000	63,121,130

	£000	£000	£000
(Loss) / profit for the financial period	**(11,012)**	(5,269)	5,271
Adjusting items	**5,765**	-	5,052
Total Adjusted (loss) / profit for Adjusted earnings per share	**(5,247)**	(5,269)	10,323

	Pence	Pence	Pence
Basic (loss) / earnings per share	**(17.6)**	(8.4)	8.4
Diluted (loss) / earnings per share	**(17.6)**	(8.4)	8.4
Adjusted basic (loss) / earnings per share	**(8.4)**	(8.4)	16.5
Adjusted diluted (loss) / earnings per share	**(8.4)**	(8.4)	16.4

11 Dividends

	Pence per share	**29 October 2023**	30 October 2022	30 April 2023
Final dividend for the year ended 1 May 2022	2.4p	**-**	-	**1,492**
Total dividend paid to shareholders during the year		**-**	-	**1,492**

12 Intangible assets

	Goodwill £000	**Software £000**	**Total £000**
Cost			
Balance at 30 April 2023	16,180	9,310	**25,490**
Additions	-	695	**695**
Disposals	-	(2)	**(2)**
Balance at 29 October 2023	**16,180**	**10,003**	**26,183**
Amortisation / Impairment			
Balance at 30 April 2023	16,180	8,394	**24,574**
Amortisation charge	-	374	**374**
Impairment charge	-	450	**450**
Impairment reversal		(729)	**(729)**
Disposals	-	(69)	**(69)**
Balance at 29 October 2023	**16,180**	**8,420**	**24,600**
Net book value			
At 30 April 2023	-	916	**916**
At 29 October 2023	**-**	**1,583**	**1,583**

13 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 30 April 2023	154,051	2,434	7,408	3,656	19,195	**186,744**
Additions	8,324	-	159	28	2,246	**10,757**
Disposals	(6,632)	(1,109)	(316)	4	(352)	**(8,405)**
Balance at 29 October 2023	**155,743**	**1,325**	**7,251**	**3,688**	**21,089**	**189,096**
Depreciation and impairment						
Balance at 30 April 2023	87,257	1,765	5,648	2,972	9,906	**107,548**
Depreciation charge	14,643	146	536	121	1,763	**17,209**
Impairment charges	6,874	-	432	260	2,095	**9,661**
Impairment reversals	(2,140)	-	(123)	(87)	(83)	**(2,433)**
Disposals	(7,970)	(1,109)	(238)	(75)	(525)	**(9,917)**
Balance at 29 October 2023	**98,664**	**802**	**6,255**	**3,191**	**13,156**	**122,068**
Net book value						
At 30 April 2023	66,794	669	1,760	684	9,289	**79,196**
At 29 October 2023	**57,079**	**523**	**996**	**497**	**7,933**	**67,028**

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a measurable useful life are reviewed at each balance sheet date to determine whether there is any indication of impairment to their value. If such an indication exists, the asset's recoverable amount is estimated and compared to its carrying value. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the CGU to which the asset belongs. The Directors consider an individual retail store to be a cash generating unit (CGU), as well as the Company's website.

The recoverable amount of an asset is the greater of its fair value less disposal cost and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, the present value of future cash flows is discounted using a discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset concerned.

The carrying value represents each CGU's specific assets, as well as the IFRS 16 right-of-use asset, plus an allocation of corporate assets where these assets can be allocated on a reasonable and consistent basis.

Where the carrying value exceeds the recoverable amount an impairment loss is established with a charge being made to the income statement. When the reasons for a write down no longer exist, the write down is reversed in the income statement up to the net book value that the relevant asset would have had if it had not been written down and if it had been depreciated.

Measuring recoverable amounts

The Group estimates the recoverable amount of each CGU based on the greater of its fair value less disposal cost and its value in use (VIU), derived from a discounted cash flow model which excludes IFRS 16 lease payments. In assessing the fair value less disposal cost the ability to sublease each store has been considered and it is concluded that this is not applicable for the majority of the store estate. Where it is deemed reasonable to assume the ability to sublet the potential cash inflows generated are insignificant, therefore the VIU calculation is used for all stores. A proportion of 'click and collect' sales are included in store cash flows to reflect the contribution stores make to fulfilling such orders. The key assumptions applied by management in the VIU calculations are those regarding the growth rates of sales and gross margins, medium-term growth rates, central overhead allocation and the discount rate used to discount the assumed cash flows to present value.

Projected cash flows for each store are limited to the useful life of each store as determined by its current lease term unless a lease has already expired or is due to expire within 12 months of 29 October 2023 where the intention is to remain in the store and renew the lease. For these leases, an average lease term is used for cash flow projections.

Projected cash flows for the website are limited to 60 months as this is in line with the average useful economic life of the assets assigned to the web CGU.

Impairment triggers

Due to the challenging macroeconomic environment and the existence of a material brought forwards impairment charge, all CGUs other than stores which have been open for less than 12 months have been assessed for impairment.

Key assumptions

The key financial assumptions used in the estimation of the recoverable amount are set out below. The values assigned to the key assumptions represent management's assessment of current market conditions and future trends and have been based on historic data from external and internal sources. Management determined the values assigned to these financial assumptions as follows:

The pre-tax discount rate is derived from the Group's weighted average cost of capital, which has been estimated using the capital asset pricing model, the inputs of which include a company risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The discount rate is compared to the published discount rates of comparable businesses and relevant industry data prior to being adopted. The pre-tax discount rate has been calculated on a post-IFRS 16 basis.

	29 October 2023
Pre-tax discount rate	**12.78%**
Medium term growth rate	**1.0%**

While the online CGU is in a different stage of establishment to that of the store CGUs, the same pre-tax discount rate has been used in the impairment assessment. Given that the website is not performing in line with expectations, all assets relating to the web CGU are fully impaired, as such an increase in the pre-tax discount rate used for the web assessment would not increase the impairment charge recognised.

Cash flow forecasts are derived from the most recent Board-approved corporate plans that form the Base Case on which the VIU calculations are based. These are described in Note 1 (Going concern).

The assumptions used in the estimation of future cash flows are:

- rates of growth in sales and gross margins, which have been determined on the basis of the factors described in Note 1(b)(i) (Going concern);
- central costs are reviewed to identify amounts which are necessarily incurred to generate the CGU cash flows. As a result of the analysis performed at 29 October 2023, 91% (FY23: 87%) of central costs have been allocated by category using appropriate volumetrics.

Cash flows beyond the corporate plan period have been determined using the medium-term growth rate; this is based on management's future expectations, reflecting, amongst other things, current market conditions and expected future trends and has been based on historical data from both external and internal sources. Immediately quantifiable impacts of climate change and costs expected to be incurred in connection with our net zero commitments, are included within the cash flows. The useful economic lives of store assets are short in the context of climate change scenario models therefore no medium to long-term effects have been considered.

Impairment charge

During the 26 weeks ended 29 October 2023, an impairment charge of £10,111k was recognised against 284 stores with a recoverable amount of £32,704k (52 weeks ended 30 April 2023: an impairment charge of £7,572k was recognised against 209 stores with a recoverable amount of £24,055k, and an impairment charge of £616k was recognised against the website). An impairment reversal of £2,577k has been recognised during the 26 weeks ended 29 October 2023 relating to 73 stores with a recoverable amount of £16,544k and an impairment reversal of £585k was recognised relating to the website (52 weeks ended 30 April 2023: an impairment reversal of £3,136k was recognised relating to 100 stores with a recoverable amount of £18,090k). No impairment review was performed during the 26 weeks ended 30 October 2022 and therefore no impairment charges or reversals were recognised in the comparative interim financial statements.

A net impairment charge of £6,949k (52 weeks ended 30 April 2023: £5,052k, 26 weeks ended 30 October 2022: nil) has therefore been shown on the face of the consolidated income statement. In line with the previously adopted treatment, impairment charges and reversals have been shown as Adjusting items.

Sensitivity analysis

Whilst the Directors believe the assumptions adopted are realistic, reasonably possible changes in key assumptions could still occur, which could cause the recoverable amount of certain stores to be lower or higher than the carrying amount. The impact on the net impairment charge recognised from reasonably possible changes in assumption are detailed below:

- a reduction in sales of 5% from the Base Case plan to reflect a potential Downside Scenario would result in an increase in the net impairment charge of £4,498k. An increase in sales of 5% from the Base Case plan would decrease the net impairment charge by £5,600k;
- a reduction in gross margin of 2% would result in an increase in the net impairment charge of £907k. An increase in gross margin of 2% would decrease the net impairment charge by £871k;
- a 200 basis point increase in the pre-tax discount rate would result in an increase in the net impairment charge of £1,558k, while a 200 basis point decrease in the pre-tax discount rate would result in a decrease in the net impairment charge of £1,714k;
- a 100 basis point decrease in the medium-term growth rate would result in an increase in the net impairment charge of £631k, while a 100 basis point increase in the medium-term growth rate would result in an increase in the net impairment charge of £744k;
- increasing the percentage of central costs allocated across CGUs from 91% to 100% would result in an increase in the net impairment charge of £2,617k. Decreasing the percentage of central costs allocated across CGUs from 91% to 81% would result in a decrease in the net impairment charge of £1,306k.

Prior period restatements

The following adjustments were identified when completing the FY23 full year financial statements, and therefore adjustments have been made to the FY23 half year comparatives.

Leasehold assets useful economic lives

In prior years, leasehold assets were being depreciated over a life longer than the life of the lease they relate to. To correct this, leasehold improvements depreciation has been restated. The FY22 closing accumulated depreciation was increased by £2,305k with a corresponding decrease in closing FY22 reserves.

The FY23 half year depreciation charge has increased by £273k, reducing adjusted profit before tax and closing property, plant and equipment net book value. In the consolidated cash flow statement, the FY23 half year adjustment has increased the ‘depreciation of property, plant and equipment’ by £273k, however there is no overall impact on net cash flows from operating, financing and investing activities or on ‘net increase in cash and cash equivalents’.

Lease incentives received and initial direct costs incurred at the inception of a lease

In prior years, landlord capital contributions, and capitalised legal fees incurred upon negotiation of lease agreements were recorded within leasehold improvements rather than included within the initial measurement of the IFRS 16 right-of-use asset. Therefore, the costs and accumulated depreciation amounts relating to these assets have been reclassified from ‘leasehold improvements’ into ‘RoUA property’, resulting in a £1,410k reduction in the right-of-use asset NBV at 30 October 2023, with a corresponding increase in the NBV of leasehold assets. This adjustment has no impact on the consolidated income statement or consolidated cash flow statement.

Central cost allocation within fixed asset impairment assessment

In prior years, when assessing the impairment of right-of-use assets, property, plant and equipment and intangible assets, central costs were not allocated to each cash generating unit (CGU). During FY23 H2, the directors reconsidered the allocation of central costs and based on the existence of a consistent store estate and cost base, concluded that certain costs can be allocated to individual CGUs on a reasonable and consistent basis. The directors additionally considered whether a consistent allocation was appropriate in earlier periods and concluded that an allocation became appropriate following the change in strategy to “Better not just Bigger”, the implementation of which occurred following the appointment of Gavin Peck as CEO in January 2020 over a protracted period as a result of COVID-19, that ultimately resulted in a more consistent store estate and cost base. The directors have applied judgement to conclude that the effect of the revised allocation of central costs in 2023 should be reflected by restating the impairment opening balances.

The FY22 closing impairment balance relating to right-of-use assets was increased by £26,853k, the closing impairment balance relating to property, plant and equipment has increased by £6,117k, and the closing impairment balance relating to intangible assets has increased by £1,657k. The adjustment to closing H1 FY23 reserves is therefore £34,627k.

No additional impairment review was performed at H1 FY23, and therefore this adjustment has no impact on the statement of profit or loss or statement of other comprehensive income for the comparative half year period.

Depreciation reduction due to impairment restatement

As a result of the impairment adjustment detailed above the net book value of fixed assets was lower at the start of the FY21, FY22 and FY23, resulting in the depreciation charge in FY21, FY22 and H1 FY23 being overstated. The FY22 closing accumulated depreciation was reduced by £9,867k relating to right-of-use assets, £3,604k relating to property, plant and equipment and £602k relating to intangible assets, with a corresponding increase in closing FY22 reserves.

The FY23 H1 year depreciation charge has decreased by £3,115k relating to right-of-use assets, £491k relating to property, plant and equipment, and £74k relating to intangible assets, increasing adjusted profit before tax by £3,680k. These adjustments decrease the 'depreciation of property, plant and equipment', 'depreciation of right-of-use assets' and 'amortisation of intangible assets' balances in the consolidated cash flow statement, however there is no overall impact on 'net increase in cash and cash equivalents'.

Corporation tax restatement

The above adjustments have resulted in restatements to the corporation tax charges, current tax assets / liabilities and the deferred tax asset.

The following tables summarise the impact of the above restatements on the Group's consolidated financial statements including the impact of current and deferred corporation tax.

Summarised consolidated income statement

		Adjustments					
	Per FY23 H1 financial statements	Leasehold asset useful economic life reduction	Landlord contributions and legal fees incorporation within RoUA	Impairment charge increase	Depreciation charge reduction	Taxation impact of restatements	**FY23 H1 restated balance**
Income statement							
Revenue	**118,932**	-	-	-	-	-	**118,932**
Cost of sales	**(111,004)**	(217)	-	-	3,680	-	**(107,541)**
Gross profit	**7,928**	(217)	-	-	3,680	-	**11,391**
Other operating income	**4**	-	-	-	-	-	**4**
Distribution expenses	**(5,030)**	(1)	-	-	-	-	**(5,031)**
Administrative expenses	**(11,223)**	(55)	-	-	-	-	**(11,278)**
Operating profit	**(8,321)**	(273)	-	-	3,680	-	**(4,914)**
Net financing expense	**(2,341)**	-	-	-	-	-	**(2,341)**
Profit before tax	**(10,662)**	(273)	-	-	3,680	-	**(7,255)**
Taxation	**1,986**	-	-	-	-	-	**1,986**
Profit after tax	**(8,676)**	(273)	-	-	3,680	-	**(5,269)**

Summarised consolidated statement of financial position

		Adjustments					
	Per FY23 H1 financial statements	Leasehold asset useful economic life reduction	Landlord contributions and legal fees incorporation within RoUA	Impairment charge increase	Depreciation charge reduction	Taxation impact of restatements	**FY23 H1 restated balance**
Non-current assets							
Intangible assets	**2,901**	-	-	(1,657)	676	-	**1,920**
Property, plant and equipment	**13,351**	(2,578)	1,410	(6,117)	4,095	-	**10,161**
Right-of-use assets	**89,133**	-	(1,410)	(26,853)	12,982	-	**73,852**
Deferred tax assets	**5,463**	-	-	-	-	1,231	**6,694**
	110,848	(2,578)	-	(34,627)	17,753	1,231	**92,627**
Current assets							
Tax asset	**372**	-	-	-	-	375	**747**
Other current assets	**76,786**	-	-	-	-	-	**76,786**
	77,158	-	-	-	-	375	**77,533**
Total assets	**188,006**	(2,578)	-	(34,627)	17,753	1,606	**170,160**
Total liabilities	**(176,877)**	-	-	-	-	-	**(176,877)**
Net (liabilities) / assets	**11,129**	(2,578)	-	(34,627)	17,753	1,606	**(6,717)**
Equity attributable to equity holders of the Parent							
Retained earnings	**(20,566)**	(2,578)	-	(34,627)	17,753	1,606	**(38,412)**
Other reserves	**31,695**	-	-	-	-	-	**31,695**
Total equity	**11,129**	(2,578)	-	(34,627)	17,753	1,606	**(6,717)**

Summarised consolidated statement of changes in equity

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
Reported balance at 30 October 2022	625	28,322	(54)	2,512	290	(20,566)	11,129
Cumulative adjustment	-	-	-	-	-	(17,846)	(17,846)
Restated balance at 30 October 2022	**625**	**28,322**	**(54)**	**2,512**	**290**	**(38,412)**	**(6,717)**

	Attributable to equity holders of the Company						
	Share capital £000	Share premium £000	Merger reserve £000	Share-based payment reserve £000	Hedging reserve[1] £000	Retained earnings £000	Total equity £000
Reported balance at 1 May 2022	625	28,322	(54)	2,252	2,227	(11,741)	21,631
Cumulative adjustment	-	-	-	-	-	(21,253)	(21,253)
Restated balance at 1 May 2022	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(32,994)**	**378**

14 Inventory

	29 October 2023 £000	30 October 2022 £000	30 April 2023 £000
Goods for resale	50,530	46,626	31,278
Less: stock provisions for shrinkage and obsolescence	(1,682)	(3,214)	(1,037)
Goods for resale net of provisions	**48,848**	**43,412**	**30,241**
Stock in transit	7,270	10,159	3,200
Inventory	**56,118**	**53,571**	**33,441**

A provision of £1.7m for stock obsolescence and shrinkage is included in the balance sheet at the Period end (30 October 2022: £3.2m, 30 April 2023: £1.0m). The provision is an estimate, which is based on stock ageing and historical trends and is reviewed by management during the year.

15 Borrowings and cash

	29 October 2023 £000	30 October 2022 £000	30 April 2023 £000
Non-current liabilities			
Lease liabilities	66,713	81,128	74,766
Non-current liabilities	**66,713**	**81,128**	**74,766**
Current liabilities			
Revolving credit facility (RCF)	5,000	4,000	-
Lease liabilities	22,110	23,830	23,449
Current liabilities	**27,110**	**27,830**	**23,449**

The Group's bank facilities comprise an RCF of £20.0m expiring 30 November 2026. The facility includes financial covenants in relation to the level of net debt to LTM EBITDA and 'Fixed Charge Cover' or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest.

None of the Group's cash and cash equivalents (FY22: £Nil) is held by the trustee of the Group's employee benefit trust in relation to the share schemes for employees.

Net debt reconciliation

	29 October 2023 £000	30 October 2022 £000	30 April 2023 £000
Net debt (excluding unamortised debt costs)			
RCF	5,000	4,000	-
Cash and cash equivalents	(2,458)	(10,971)	(10,196)
Net debt / (cash) at bank	2,542	(6,971)	(10,196)
Non IFRS 16 lease liabilities	139	362	268
Non IFRS 16 net debt / (cash)	**2,681**	**(6,609)**	**(9,928)**
IFRS 16 lease liabilities	**88,684**	104,596	97,946
Net debt including IFRS 16 lease liabilities	**91,365**	**97,987**	**88,018**

16 Provisions

	HMRC VAT Provision £000	Property £000	Total £000
Balance at 30 April 2023	514	1,349	1,863
Provisions made during the period	-	-	-
Provisions used during the period	-	(327)	(327)
Provisions released during the period	(367)	-	(367)
Balance as at 29 October 2023	147	1,022	1,169

Property provision

In accordance with IAS 37 Provisions, the Group recognises provisions for the cost of reinstating certain Group properties at the end of their lease term, based on the conditions set out in the terms of the individual leases. The timing of the outflows will match the ends of the relevant leases, which range from 1 to 10 years for stores and 12.7 years for the head office. The average remaining term of the store estate is 5.2 years.

HMRC VAT provision

HMRC initiated a VAT review in August 2022 in respect of FY19 to FY22 and have reviewed 4 years of sales data. In the initial output of their review, HMRC have identified a number of areas where they disagree with the VAT treatment applied by the business.

Management accepts that there is a possibility that the VAT rate charged is incorrect for some SKUs under review, predominantly activity sets that include books and activity resources, and that the rate may be concluded to be mixed or standard rate. HMRCs view is that these rates are not zero, and therefore we believe it appropriate to recognise a provision for a potential liability for £147k following a detailed review, allocating a revised VAT rate to each SKU under review.

17 Share Capital

As at 29 October 2023, 30 October 2022 and 30 April 2023 the company had the following share capital:

	£000
Share capital	625
Share premium	28,322

18 Financial Instruments

The following table details the Group's expected maturities for its financial liabilities based on the undiscounted contractual maturities of the financial liabilities, including interest that will be payable.

Contractual maturity of financial liabilities	**Within 1 year £000**	**2-5 years £000**	**5+ years £000**	**Total £000**
29 October 2023				
Non Derivative				
Interest bearing	5,000	-	-	5,000
Non-interest bearing	65,532	893	-	66,425
Undiscounted lease liabilities	25,785	43,110	19,928	88,823
Derivative				
Forward currency contracts	84	-	-	84
	96,401	**44,003**	**19,928**	**160,332**
30 October 2022				
Non Derivative				
Interest bearing	4,000	-	-	4,000
Non-interest bearing	62,219	-	-	62,219
Undiscounted lease liabilities	24,902	60,820	19,236	104,958
Derivative				
Forward currency contracts	-	-	-	-
	91,121	**60,820**	**19,236**	**171,177**

30 April 2023				
Non Derivative				
Interest bearing	-	-	-	-
Non-interest bearing	31,950	760	538	33,248
Undiscounted lease liabilities	27,163	63,094	21,718	111,975
Derivative				
Forward currency contracts	1,048	-	-	1,048
	60,161	**63,854**	**22,256**	**146,271**

Fair value measurements

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

- Level 1 fair value measurements are derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are 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:

	29 October 2023	30 October 2022	30 April 2023
	£000	£000	£000
Net Derivative Financial Instruments			
Foreign exchange contracts	**1,050**	1,775	(1,048)

Classification of financial instruments

The tables below show the classification of financial assets and liabilities as at 29 October 2023. The fair values of financial instruments have been assessed to be approximately equivalent to their carrying values.

	Cash flow hedging instruments	**Financial assets at amortised cost**	**Other financial liabilities**
	£000	**£000**	**£000**
Financial assets measured at fair value			
Derivative financial instruments	1,134	-	-
Financial assets not measured at fair value			
Trade and other receivables	-	9,390	-
Cash and cash equivalents	-	2,458	-
Financial liabilities measured at fair value			
Derivative financial instruments	(84)	-	-
Financial liabilities not measured at fair value			
RCF	-	-	(5,000)
Lease liabilities	-	-	(88,823)
Trade and other payables	-	-	(60,028)
As at 29 October 2023	**1,050**	**11,848**	**(153,851)**

	Cash flow hedging instruments £000	**Financial assets at amortised cost £000**	**Other financial liabilities £000**
Financial assets measured at fair value			
Derivative financial instruments	1,775	-	-
Financial assets not measured at fair value			
Trade and other receivables	-	10,469	-
Cash and cash equivalents	-	10,971	-
Financial liabilities not measured at fair value			
RCF	-	-	(4,000)
Lease liabilities	-	-	(104,958)
Trade and other payables	-	-	(66,948)
As at 30 October 2022	**1,775**	**21,440**	**(175,906)**

	Cash flow hedging instruments £000	Financial assets at amortised cost £000	Other Financial Liabilities £000
Financial assets not measured at fair value			
Trade and other receivables	-	7,507	-
Cash and cash equivalents	-	10,196	-
Financial liabilities measured at fair value			
Derivative financial instruments	(1,048)	-	-
Financial liabilities not measured at fair value			
Lease liabilities	-	-	(98,215)
Trade and other payables	-	-	(34,479)
As at 30 April 2023	**(1,048)**	**17,703**	**(132,694)**

19 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. There were no transactions with related parties who are not members of the Group during the financial period.

20 Contingent liabilities

There were no contingent liabilities noted at the end of the Period.

Responsibility statement of the Directors in respect of the interim financial statements

We confirm that to the best of our knowledge:

- the condensed unaudited set of financial statements has been prepared in accordance with IAS 34 Interim Financial Reporting as adopted for use in the UK;
- 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.

By Order of the Board

Rosie Fordham
Chief Financial Officer
18 January 2024

Principal 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 actual results to differ materially from historical or expected results. The Board does not believe that these risks and uncertainties are materially different to those published in the Group's Annual Report for the period ended 30 April 2023.

These risks are associated with:

1. Economy
2. Design and execution of strategy
3. Supply chain
4. Liquidity
5. IT systems and cyber security
6. Brand and reputation
7. Seasonality of sales
8. People
9. Environmental (including climate change)
10. Regulation and compliance
11. Business continuity

Detailed explanations of these risks are set out on pages 50 to 53 of the FY23 Annual Report which is available at https://corporate.theworks.co.uk/application/files/6616/9341/6897/30.08.23_WRKS_AR23_pdf_for_web.pdf