FY22 Results Presentation

52 weeks ended 1 May 2022

23 September 2022

Agenda

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

THE WORKS

Highlights

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- Strong performance as we emerged from the pandemic. Successfully navigated global freight and cyber challenges
- Good progress made on executing "better, not just bigger" strategy
- Strengthened leadership capability across the business
- Further strengthened balance sheet and refinanced bank facilities
- 2.4 pence per share dividend confirmed [1]
- Strong recent store LFLs and gradually improving online sales underpin our unchanged expectation for FY23
- Positive about medium-term growth opportunities

	FY22 £m	FY21 £m
Revenue	264.6	180.7
2-year LFL sales growth	10.5%	27.6% [2]
Year-on-year revenue change	46.5%	(19.7%)
Adjusted EBITDA (pre-IFRS 16)	16.6	4.3
PBT	10.2	(2.8)
Basic EPS (pence)	14.0	(3.7)
FY22 proposed final dividend (pence)	2.4	-
Net cash	16.3	0.8

[1] Subject to shareholder approval
[2] Included for completeness but note that this only included weeks when stores were open

Financial Review

Steve Alldridge, CFO

Overview

- EBITDA £16.6m vs. £4.3m in FY21 [1]
  - First year under new leadership relatively unaffected by COVID
  - Strategic momentum began to leverage inherent strength of proposition, which drove strong sales
  - Record Christmas trading despite sub-optimal stock distribution - due to freight disruption (and incurred much higher freight costs)
  - April sales subdued as we restricted IT operations to strengthen security following cyber incident
  - Gov't financial support reduced as COVID effects receded; £5.8m of rates relief received during FY22 (FY21 total gov't reliefs £31.2m)
  - Inflation began to increase, notably freight costs and National Living Wage
- Another year of positive cash generation ending FY22 with £16.3m net cash
- Strong financial position buttressed with larger/extended term bank facility
- Confirmation of 2.4 pence final dividend (subject to AGM approval)

EBITDA bridge between FY21 and FY22	£m
FY21 adjusted EBITDA (pre IFRS 16)	**4.3**
Increased gross margin due to y-o-y sales increase	51.9
Lower gross margin % (incl. impact of freight costs)	(6.6)
Government furlough relief received in FY21 (nil in FY22)	(15.4)
Reduced COVID-19 business rates relief received in FY22	(8.3)
COVID-19 business grants received in FY21 (nil in FY22)	(1.8)
Resumption of normal operating costs and inflation	(7.5)
FY22 adjusted EBITDA (pre IFRS 16)	**16.6**

[1] Adjusted, pre IFRS 16 basis

THE WORKS

Sales

- 2 year LFL +10.5%, 2 year total sales + 12.7%
- FY22 trading highlights
  - Q1
    - Pent up demand following re-opening of stores (in Apr 2021)
    - Larger than normal sale (included Christmas 2021 residual stock)
    - 'Fidget frenzy' gained momentum at end of Q1
  - Q2
    - 'Fidget frenzy' continued to be notable sales driver into Q2
    - Very successful Back to School season in Aug 2021
    - Early Christmas demand powered sales in Sept & Oct 2021
  - Q3
    - Record Christmas despite stock timing/distribution issues
      - e.g. Christmas accessories did not arrive until early December
    - Possible adverse Omicron impact
    - Smaller than planned January sale due to high sell through of stock
  - Q4
    - Sales driven by front-list books and branded toys and games
    - March cyber security incident reduced sales in April (and beginning of FY23)

2 year LFL sales growth	Stores	Online	Total
Q1	5.7%	96.8%	13.4%
Q2	8.6%	71.0%	15.5%
H1	**7.3%**	**80.6%**	**14.5%**
Q3	(0.3%)	70.0%	7.9%
Q4	3.2%	42.5%	6.8%
H2	**0.9%**	**62.1%**	**7.5%**
Full year	**3.7%**	**69.7%**	**10.5%**

	FY22 £m	FY21 £m	Var £m	Var %
Store LFL sales	219.3	128.9	90.4	70.1%
Online sales	41.7	62.1	(20.4)	(32.9%)
Total LFL sales for Period (1 year LFL)	**261.1**	**191.0**	**70.1**	***36.7%***
Sales from new/closed stores	37.3	15.2	22.1	*145.8%*
Total Gross Sales	**298.4**	**206.2**	**92.2**	***44.7%***
VAT	(33.5)	(24.3)	(9.2)	*38.0%*
Loyalty points redeemed	(0.3)	(1.2)	0.9	*(77.0)%*
Revenue (per statutory accounts)	**264.6**	**180.7**	**83.9**	***46.4%***

THE WORKS

Product gross margin

	FY22		FY21			
	£m	% of revenue	£m	% of revenue	Variance £m	Variance %
Revenue	264.6		180.7		84.0	*46.5*
Less: Cost of goods sold	107.7		69.0		38.7	*56.1*
Product gross margin	157.0	*59.3*	111.7	*61.8*	45.3	40.5

- Product gross margin decreased 250bps to 59.3% (FY21: 61.8%)
  - Freight costs much higher than normal, particularly in H2 FY22
  - FX rate in FY22 was comparable to FY21
  - Low discounting in FY21 created difficult margin comps (especially when stores were closed due to restrictions)
  - Front-list books and branded games and toys sold very well, increasing their mix. These products achieve lower % margin (although cash profitable)
- Note re FX and freight in FY23 and FY24
  - Freight has remained expensive in FY23 but we expect costs to abate in FY24
  - This should offset adverse FX effect of a weaker pound vs. FY23 hedged rate

Costs included in cost of sales

	FY22		FY21 (Restated)			
	£m	% of revenue	£m	% of revenue	Variance £m	Variance %
Store payroll	43.6	*16.5*	37.7	*20.8*	5.9	*15.7*
Store property and establishment costs	43.7	*16.5*	36.7	*20.3*	7.0	*19.1*
Store PoS & transaction fees	2.1	*0.8*	1.4	*0.8*	0.7	*47.7*
Store depreciation	5.0	*1.9*	5.2	*2.9*	(0.2)	*(4.0)*
Online variable costs	18.7	*7.1*	24.5	*13.6*	(5.8)	*(23.8)*
IFRS16 impact	(4.7)	*(1.8)*	(4.2)	*(2.3)*	(0.5)	*11.1*
Adjusting items	-	-	(1.0)	*(0.5)*	0.9	*(97.0)*
Total other costs within cost of sales	**108.4**	*41.0*	**100.4**	*55.6*	**8.0**	*8.0*
Gross profit per financial statements	**48.6**	*18.4*	**11.3**	*6.3*	**37.2**	*328.8*

- Store payroll costs
  - National Living Wage (NLW) inflation partly offset by store efficiencies/less tasking
  - FY21 comp figures include 20% furlough saving
- Store property costs
  - Less COVID-19 rates relief (£5.8m in FY22 vs. £14.2m in FY21)
  - Higher energy costs (have also increased significantly in FY23, although this is factored into our forecast)
  - Rent savings albeit rate of savings is levelling off
- Store point of sale and transaction fees are volume impacted and increased in line with sales
- Online marketing and fulfilment costs also volume/sales related and fell due to 1yr LFL sales reduction

Other costs

	FY22		FY21 (Restated)			
	£m	*% of revenue*	£m	*% of revenue*	Var. £m	*Var. %*
Distribution costs	9.1	*3.4*	6.4	*3.6*	2.7	*41.8*
Administration costs	24.0	*9.1*	19.3	*10.7*	4.7	*24.5*

- Other income immaterial in FY22
  - In FY21 it comprised £17.1m of COVID reliefs
  - £14.2m rates relief was netted off FY21's property costs i.e. total of £31.2m reliefs were received in FY21
- Retail distribution costs increased by £2.7m
  - Increased as the stores traded throughout FY22
  - Inflation from NLW
  - Inflation partially offset through operating/efficiency improvements
- Administrative costs increased by £4.7m
  - Strengthened senior leadership team and functional specialists (e.g. supply chain and IT)
  - Accrual for FY22 bonus (none re: FY21).
  - Increased software maintenance/licence costs
  - Resumption of normal operating activities e.g. meetings, travel

Other points

- IFRS 16
  - We continue to report the effect of IFRS 16 - allows dialogue with stakeholders to more closely relate to how the business operates
  - Its effect in FY22 was to increase PBT by £0.9m (FY21: increased BPT by £0.7m)
- Interest
  - Cash interest paid was £0.3m (FY21: £0.9m including CLBILS facility set up fee Aug 2020)
  - Cash interest mostly relates to facility availability charges
- PBT £10.2m vs (£2.8m) in FY21
- Tax
  - FY22 effective tax rate lowered by effect of deferred tax calculation
  - The previously planned increase in tax rate created a D.T. benefit. This is likely to reverse if tax increase is reversed, although we will benefit from the lower headline C.T. rate

Capex

- FY22 capex was £3.0m
  - Maintained tight control post COVID to strengthen balance sheet
  - Low new store/relocation capex, mostly funded by landlords
  - 16 store refits and routine maintenance
  - Began to increase IT capex, e.g. 'Slimstock' replenishment system development
- FY23 capex expected to be approximately £7.5m in line with strategy
  - More store refits/maintenance
  - Investment in systems e.g. store EPOS roll out

	FY22 £m	FY21 £m	*Variance £m*
New stores and relocations	0.5	0.6	*(0.1)*
Store refits and maintenance	0.9	0.7	*0.2*
IT hardware and software	1.2	0.6	*0.6*
Online development expenditure	0.2	0.5	*(0.3)*
Other	0.2	0.1	*0.1*
Total capital expenditure	**3.0**	2.4	*0.6*

Cash and liquidity

- Positive cashflow enabled us to further strengthen balance sheet and fund dividend
  - Strong balance sheet important given market sentiment re future uncertainty
  - Repaid £7.5m CLBILS term loan; no debt at end of FY22
  - Note favourable working capital timing difference (however, note also that we flagged similar at end of FY21)
- Low tax payment due to previous low profits; expect this to normalise in FY23 and beyond
- Comfortable capacity to pay proposed dividend
- Refinancing completed post year-end
  - Increases facility to £30.0m
  - Extends expiry date to 30 November 2025
  - We see this as a prudent measure in this economic environment, despite facility arguably being larger than necessary

	FY22	FY21	*Variance*
	£m	£m	*£m*
Cash flow pre-working capital	19.3	14.8	*4.5*
Net movement in working capital	7.4	(1.2)	*8.6*
Capex	(3.0)	(2.4)	*(0.6)*
Tax paid	(0.2)	0.0	*(0.2)*
Interest and financing costs	(0.3)	(0.9)	*0.6*
Dividends	0.0	0.0	*0.0*
Cash flow before loan movements	23.2	10.3	*12.9*
Drawdown/(repayment) of CLBILS loan	(7.5)	7.5	*(15.0)*
Drawdown/(repayment) of RCF	0.0	(10.0)	*10.0*
Exchange rate movements	(0.1)	0.2	*(0.3)*
Net increase in cash and cash equivalents	**15.5**	**7.9**	***7.7***
Opening net cash excl. IAS 17 leases	**0.8**	**(7.1)**	
Closing net cash excl. IAS 17 leases	**16.3**	**0.8**	

Business Review
Gavin Peck, CEO

Our New Purpose

To inspire **reading**, **learning**, **creativity** and **play** – making lives more fulfilled.

Underpinning this Purpose:

We believe in the importance of **FUN & FULFILMENT** and taking time out to do the things you love.

We want reading, learning, creativity and play to be **ACCESSIBLE TO EVERYONE**, affordable, convenient and inclusive.

We want to be the **GO-TO PLACE** to inspire customers to embrace their free time.

Fulfilled by our brand that is:

Fun	Creative	Friendly
Empowering	Confident	Value-led

All brought to life by our family of colleagues who are:

Crafty	Caring	Can-do

Helping us to fulfil our ambition of becoming one of the most loved retailers in the UK – the go-to place for reading, learning, creativity and play.

THE WORKS

Our "Better, not just Bigger" Strategy

Our Strategic Pillars

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

Our Strategic Enablers

- Our Colleagues
- Our Systems and Data
- Our ESG Commitments

THE WORKS

Develop our Brand and Increase Customer Engagement

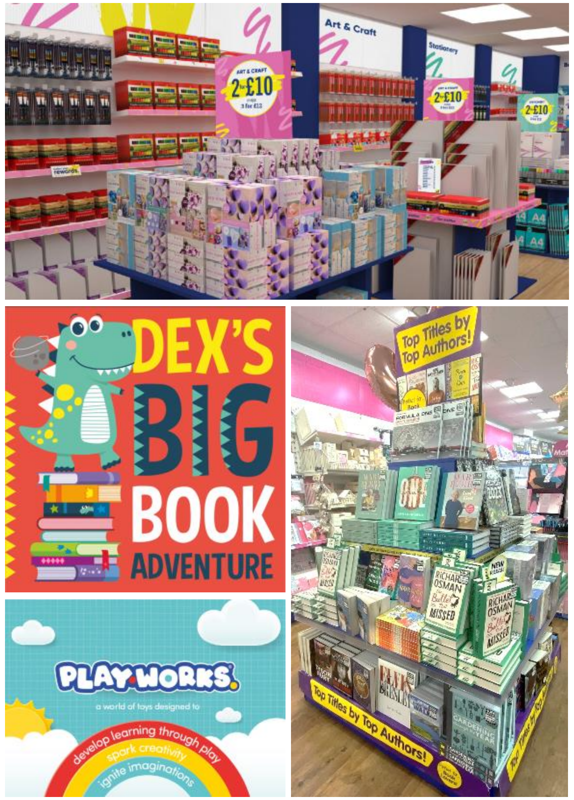
Objective: *Reach new customers, increase existing customer engagement and evolve external perceptions of The Works.*

Delivered in FY22:

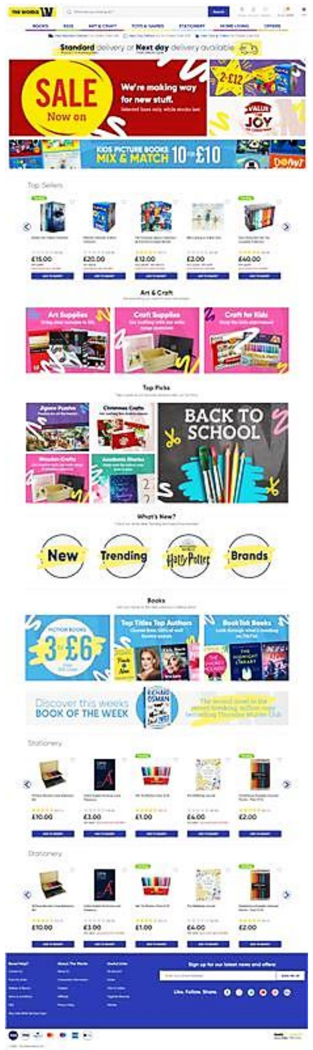
- Purpose defined, with brand evolution developed to support its communication
- Further investment in Commercial functions (buying and marketing)
- Improved product offer, aligned to our new purpose
    - Adult books category overhauled
    - Extension of branded offer in Toys and Games

Underway in FY23:

- Launch brand evolution, supported by brand marketing strategy
- Further develop product offer, including:
    - Further development of adult books proposition
    - Kids books overhaul
    - Own-brand refresh
- Establish customer insight and analysis capabilities
- Relaunch loyalty scheme



Enhance our Online Proposition



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

Delivered in FY22:
- Improved fulfilment capacity and delivery capabilities
- Further enhanced complementary online ranges
- Started optimisation of new platform
- Recruited new Head of Digital Marketing

Underway in FY23:
- Enhance online customer experience, supported by
  - Usability study
  - Improved analytics and new tooling
  - Brand evolution
- Refine online range extension strategy
- Introduce Parcelshop as alternative delivery option
- Activate revised Digital Marketing strategy, including enhancing in-house capabilities
- Enable in-store ordering from the website

Optimise our Store Estate

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

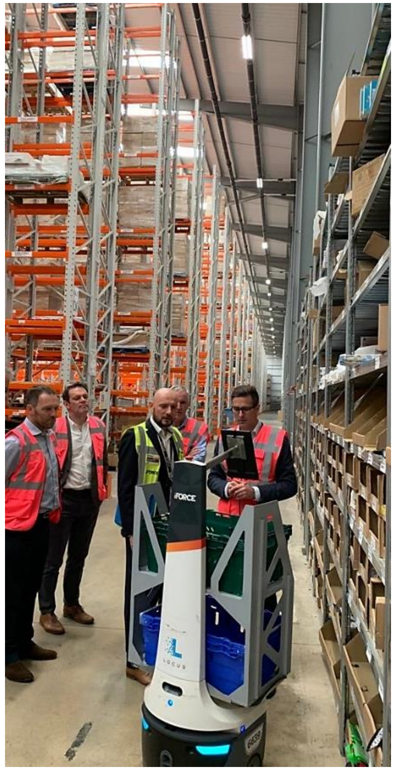
Delivered in FY22:

- Ongoing portfolio management, improving overall estate
  - 5 new stores, 6 relocations, 7 closures
- Undertook 16 store refits
- Improved customer experience in stores
  - Better space planning, ranging and merchandising
  - Improved 'shopability' through navigation and flow
- Driven improved retail disciplines – focus and simplicity

Underway in FY23:

- Improve store look and feel through brand evolution
- Ongoing portfolio management – targeted new stores, relocations and closures
- c40 refits as part of 3 year programme to bring all stores up to "ideal" standard
- Introduce space and merchandising software
- Operational focus on customer service versus "tasking"

Drive Operational Improvements



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

Delivered in FY22:

- Invested in supply chain team and systems
- Renewed online fulfilment contract, enabling investment in automation
- Launched a trial to deliver directly to stores from our DC (rather than via 3rd party)
- Established a profit protection function
- Selected new EPoS solution for stores
- Accelerated IT security measures post-cyber incident

Underway in FY23:

- Rollout of new stock allocation system
- Deploy new EPoS solution to all stores
- Execution of profit protection strategy
- Ongoing review of ways of working, particularly across Supply Chain

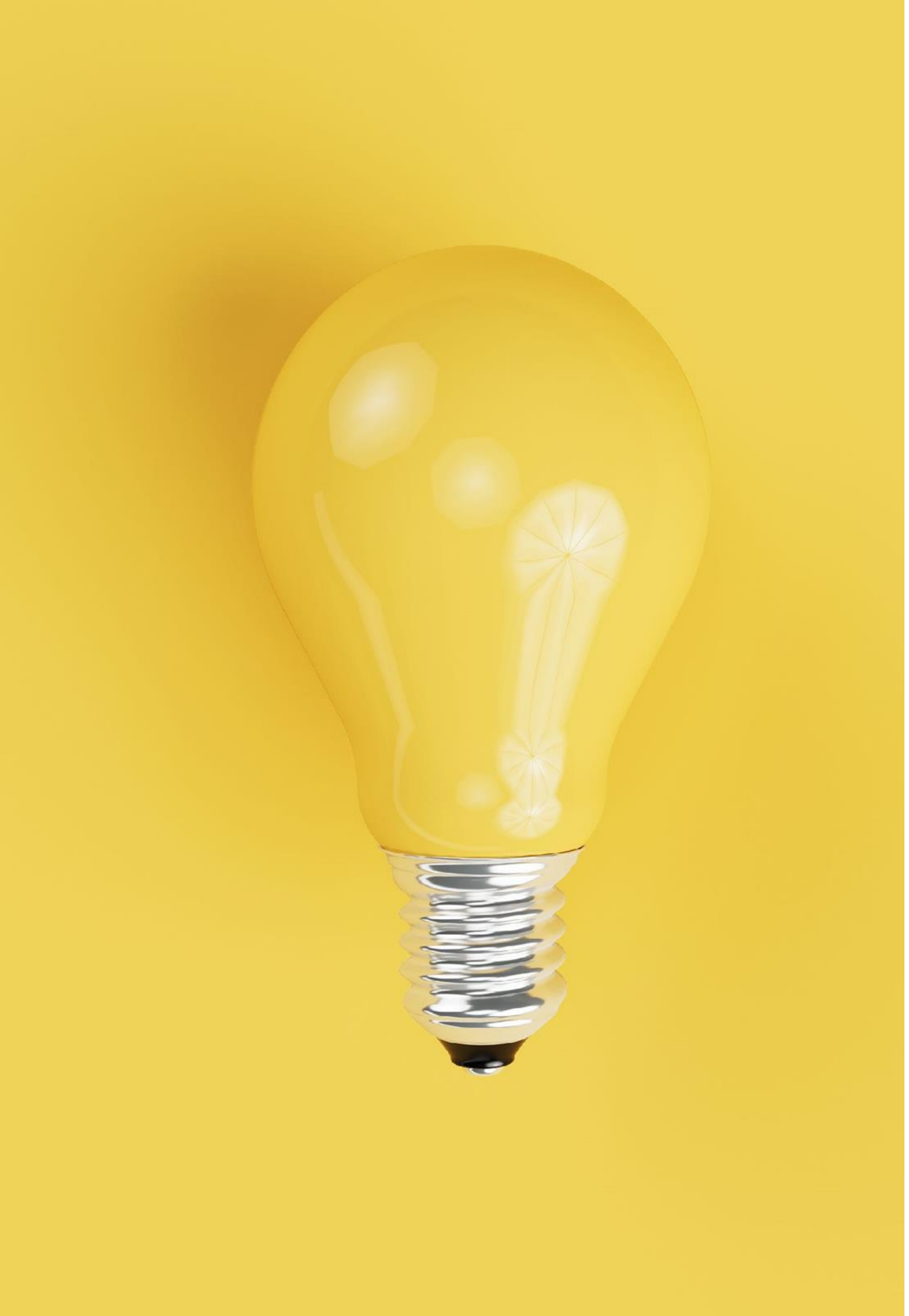
Our Strategic Enablers

Our Colleagues	Our Systems and Data	Our ESG Commitments
Maintained status as 13th Best Big Company to work for	Cyber security improvements	ESG Steering Committee established
New Communication and Rewards platform (FY23)	EPOS replacement selected, with rollout in FY23	Environmental strategy being developed with 3rd party
New performance cycle, supported by new L&D system (FY23)	New stock allocation system piloted, with implementation in FY23	D&I project underway
Investing in capacity and capability across the business	New data warehouse under construction – supports improved data/insight capabilities	Continued support of charity partnerships – CRUK and Mind

THE WORKS

Current Trading – 20wks ended 18 Sept

- Robust sales performance in light of external trading environment
  - Total LFLs +0.8% (stores: +4.0%, online -21.7%)
- Start of FY23 impacted by two key factors:
  - As we implemented stronger security following cyber incident in March, sales in May/early June were affected by limited access to systems
  - Post-COVID shopping trends normalising year on year
- Progressive improvement in underlying performance continued in last 7 weeks
  - Total LFLs +5.7% (stores: +7.9%; online -10.1%)
  - Strong Back to School performance and further evolution of book strategy
- Well-placed operationally for Christmas trading



Summary

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- Further strengthened balance sheet and refinanced bank facilities
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Q&A