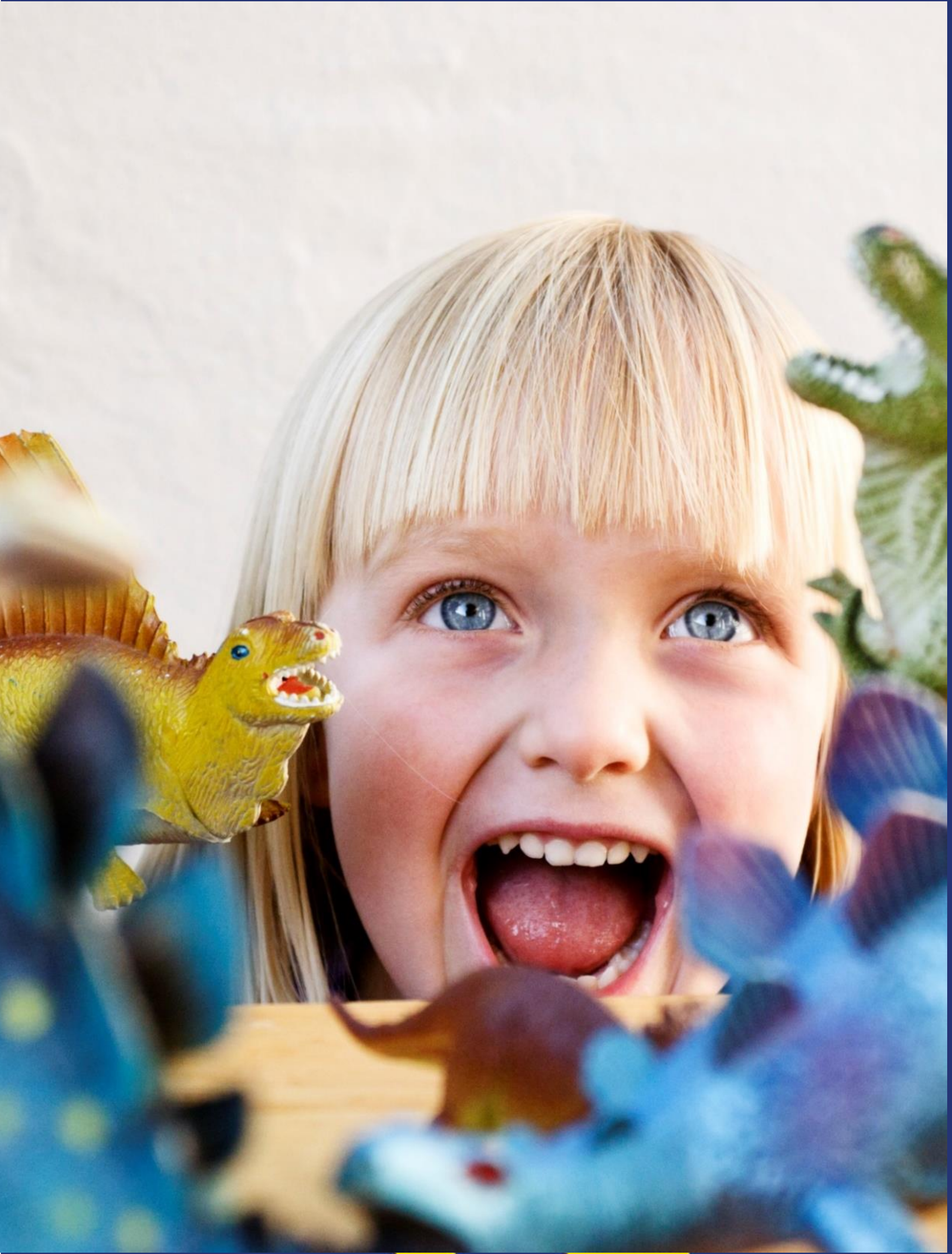
FY23 Results Presentation

52 weeks ended 30 April 2023

30 August 2023

THE WORKS



Agenda

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

Highlights
Gavin Peck, CEO

Highlights

- Resilient performance against backdrop of challenging consumer environment and residual impact of cyber security incident
- Store estate driving strong LFL sales growth; online seeing continued post-COVID channel rebalancing
- Strong financial position – net cash of £10.2m at end of FY23
- 1.6 pence per share final dividend for FY23 confirmed (1)
- Progress on executing "better, not just bigger" strategy accelerated in H2
- Robust current trading supports unchanged expectations for FY24
- Remain positive about medium-term opportunity to step-change sales and profitability

	FY23 £m	FY22 Restated £m
Revenue	280.1	264.6
Year-on-year revenue growth	5.8%	46.5%
LFL sales growth	4.2%	10.5%(2)
Pre-IFRS16 Adjusted EBITDA	9.0	16.6
PBT	5.0	14.2
Basic EPS (pence)	8.4	22.3
Proposed final dividend (pence)	1.6	2.4
Net cash	10.2	16.3

(1) Subject to shareholder approval
(2) FY22 LFL used 2 year comparative due to COVID store closures in FY21

Financial Review
Steve Alldridge, CFO

Financial highlights

Delivered EBITDA[1] £9.0m vs. FY22 £16.6m (in line with revised expectations)

- Revenue growth of £15.5m driven by strong stores sales and channel shift
- Optimisation of the store estate contributed +£0.6m profit
- Product gross margin % declined due to sales mix (e.g. front list books) and freight
- Lost the benefit of rates relief vs. FY22 (£5.8m total)
- Significant inflation, e.g. freight, National Living Wage, electricity

Effects of cyber incident have been included in underlying EBITDA

- We believe it was material, but was impossible to quantify and treat as Adjusting

Impairments - delayed the results but did not affect headline EBITDA or cash

Extended and right sized bank facility

Board confirms 1.6p final dividend and updated dividend policy

EBITDA bridge between FY22 and FY23	£m
FY22 EBITDA	16.6
LFL stores and online	
Additional margin due to increase in sales	5.9
Lower gross product margin %	(4.5)
No COVID-19 business rates relief	(5.6)
National Living Wage inflation	(2.5)
Electricity price increase	(1.0)
Other	(0.3)
	(8.0)
Non – LFL Stores	
New stores & relocations, net of closures	0.6
No COVID-19 business rates relief	(0.2)
FY23 EBITDA	9.0

[1] Adjusted, pre IFRS 16 EBITDA

Sales

LFL sales growth of +4.2%, gross sales increased +6.1% and statutory revenue up +5.8%

Store LFLs progressively strengthened, whilst online sales lagged:

- Q1
  - Residual impact of cyber security incident
  - Strong comps in Q1 FY22 from post-lockdown pent up demand and clearance sale, plus “fidget frenzy”
- Q2
  - Refreshed outdoor play range performed well
  - Very good ‘Back to School’ season
- Q3
  - Strong store sales over Christmas, which continued into January sale
  - Online sales declined due to consumer concerns about fulfilment (postal strikes) and strengthening of trend back towards store shopping
  - Q3 FY22 comps became weaker due to Omicron, supply chain disruption and low key FY22 January sale
- Q4
  - Steady trading following the January sale
  - Trend of strong store LFLs and weak online sales continued

Higher loyalty points charges

- Due to write back of expired points in FY22

Optimisation of store estate contributed £0.6m to EBITDA

1 Year LFL sales growth	Stores	Online	Total
Q1	1.6%	(28.6%)	(2.4%)
Q2	5.1%	(8.9%)	3.0%
H1	**3.6%**	**(16.9%)**	**0.6%**
Q3	9.9%	(14.2%)	5.9%
Q4	12.0%	(11.7%)	9.4%
H2	**10.7%**	**(13.5%)**	**7.1%**
Full year	**7.5%**	**(15.0%)**	**4.2%**

	FY23 £m	FY22 £m	Variance £m	*Variance %*
Total LFL sales	**297.0**	**285.0**	**12.0**	***4.2%***
Sales from new/closed stores	**19.6**	**13.4**	**6.3**	***46.9%***
Total Gross Sales	**316.6**	**298.4**	**18.3**	***6.1%***
VAT	(35.1)	(33.5)	(1.7)	*5.0%*
Loyalty points	(1.4)	(0.3)	(1.1)	*404.6%*
Statutory revenue	**280.1**	**264.6**	**15.5**	***5.8%***

THE WORKS

Product gross margin

	FY23		FY22 Restated			
	£m	% of revenue	£m	% of revenue	Variance £m	*Variance %*
Revenue	280.1		264.6		15.5	*5.8*
Less: Cost of goods sold	118.8		107.7		11.1	*10.3*
Product gross margin	161.3	57.6	157.0	59.3	4.4	*(1.7)*

Product gross margin rate decreased by 170bps to 57.6% (FY22: 59.3%).

- Planned growth in front-list books (≈ 100bps impact, lower margin but higher priced so higher "volume" of margin per book)
- Higher freight costs, especially in H1 (≈ 100bps impact in-year, although difficult to estimate precisely)
- Slight rate increase due to stock provision movements, supplier rebates, price increases in Q4

Margin dynamics in FY24

- Freight costs have stabilised, we do not anticipate further issues. Lower freight rates in FY24 partly offset by more expensive FX hedges
- Prices on some lines increased in Q4 FY23. Prices in FY24 have been broadly steady, and inflation is showing signs of normalising

Operating costs included in cost of sales

- Store payroll costs increased due to:
  - National Living Wage inflation
  - Timing of new store openings/closures (i.e. we traded more stores through peak)
- Store property costs
  - COVID-19 rates relief ceased (£5.8m in FY22)
  - Increased due to electricity cost inflation
  - Increased due to timing of new store openings/closures – analogous to the effect on store payroll
- Online trading costs
  - Volume related savings partially offset by higher costs per unit
- Adjusting items
  - All due to impairments
  - Change of approach required allocation of all overheads to individual stores to calculate impairment, and retrospective restatements
  - No cash impact. Impairment methodology not representative of individual store contributions in reality
- IFRS 16 effect
  - IFRS 16 very distorting on FY23 results due to effect of impairment adjustments on prior year right of use asset
  - Its effect in FY23 was to increase PBT by £3.5m (restated FY22 PBT increased by £5.5m)

	FY23		FY22 Restated		Variance	
	£m	% of revenue	£m	% of revenue	£m	%
Store payroll	46.8	*16.7*	43.6	*16.5*	(3.3)	*(7.5)*
Store property/establishment costs	51.8	*18.5*	43.7	*16.5*	(8.1)	*(18.5)*
Store PoS & transaction fees	2.3	*0.8*	2.1	*0.8*	(0.2)	*(10.1)*
Store depreciation	3.7	*1.3*	3.4	*1.3*	(0.2)	*(6.7)*
Online variable costs	18.4	*6.6*	18.7	*7.1*	0.3	*1.5*
Adjusting items (impairments)	5.1	*1.8*	2.3	*0.9*	(2.8)	*(100.0)*
IFRS16 effect	(10.7)	*(3.8)*	(9.6)	*(3.6)*	1.1	*11.2*
Operating costs incl. in cost of sales	**117.4**	*41.9*	**104.2**	*39.4*	**(13.2)**	*(12.7)*
Statutory gross profit	**43.9**	*15.7*	**52.8**	*19.9*	**(8.9)**	*(16.8)*

Retail distribution and admin costs

- Retail distribution costs increased by £1.2m
  - NLW and transport costs inflation
  - Higher volumes handled
  - Additional storage costs during pre-Christmas stock build
- Admin costs increased by £0.1m
  - Depreciation and IFRS 16 £0.4m
  - £2.3m decrease in bonus costs
  - Other payroll costs increased by £1.3m due to headcount increases and inflation
  - Other admin costs increased by £0.7m
    - IT software licence and maintenance
    - Audit fees
    - Stock taking costs

	FY23		FY22		Variance	
	£m	*% of revenue*	£m	*% of revenue*	£m	*%*
Distribution costs	10.3	*3.7*	9.1	*3.4*	(1.2)	*(12.7)*
Administration costs	24.2	*8.6*	24.1	*9.1*	(0.1)	*(0.3)*

Other points

Interest

- 93% of the interest charge was non-cash IFRS 16 notional interest
- Bank interest payable (facility availability charges) was £0.3m (FY22: £0.4m)
- £0.2m of interest was received in FY23 (FY22: nil)

Tax

- Prior period adjustment to impairment charges (particularly to IFRS 16 "asset") resulted in an unexpected tax credit for FY23

EPS

- Adjusted basic EPS 16.5 pence (restated FY22: 26.0 pence), significantly higher than expected
- Due to distortions caused by impairment and IFRS 16, and the related tax credit

Dividend

- We hope FY23 EBITDA was a low point and profit will now increase progressively
- While the business works to rebuild profit, we seek a compromise between distributions and cash
- Propose 1.6p dividend for FY23 which reflects that compromise

THE WORKS

Capex

Capex was £6.7m (FY22: £3.0m)

- New stores and relocations
  - 14 new stores, 3 relocations, 13 closed (FY22: 5 new stores, 6 relocations)
  - Approximately 50% landlord funded vs. almost 100% in FY22
- Store refits, maintenance and lease renewal costs
  - 34 stores refitted costing £1.4m (FY22: 16 costing £0.4m)
  - Maintenance capex £1.2m (FY22: £0.4m)
  - Lease renewal costs £0.4m (FY22: £0.2m)
- IT
  - Configuring and testing new EPOS ahead of FY24 rollout

FY24 capex expected to be approximately £7.0m

- Comprising broadly similar projects to FY23

	FY23 £m	FY22 £m	Variance £m
New stores and relocations	1.1	0.5	(0.6)
Store refits and maintenance	3.0	0.9	(2.1)
IT	2.4	1.4	(1.0)
Other	0.2	0.2	0.0
Total capex	**6.7**	**3.0**	**(3.7)**

Cash and liquidity

Year end net cash £10.2m

- Lower profits and unwind of creditors were the most significant differences compared with FY22
- "Normal" cashflows fully resumed in FY23 but were lower in FY22, i.e. capex, tax, dividends

Bank facilities and financial position

- Extended facility until November 2026 and reduced to £20.0m to save £0.15m annual cash interest costs

	FY23 £m	FY22 £m	Variance £m
Cashflow pre-working capital	6.7	19.1	(12.4)
Net movement in working capital	(2.8)	7.3	(10.1)
Capex	(6.5)	(2.9)	(3.6)
Tax	(1.5)	(0.2)	(1.3)
Interest	(0.7)	(0.2)	(0.5)
FY22 dividend	(1.5)	-	(1.5)
Purchase of treasury shares for EBT	(0.5)	-	(0.5)
Cashflow before loan movements	(6.7)	23.1	(29.8)
Repayment of loan	-	(7.5)	7.5
Exchange rate movements	0.6	(0.1)	0.7
Net change in cash	**(6.1)**	**15.5**	**(21.6)**
Opening net cash balance excluding IAS 17 leases	**16.3**	**0.8**	
Closing net cash balance excluding IAS 17 leases	**10.2**	**16.3**	

Business Review
Gavin Peck, CEO

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

Develop our Brand and Increase Customer Engagement

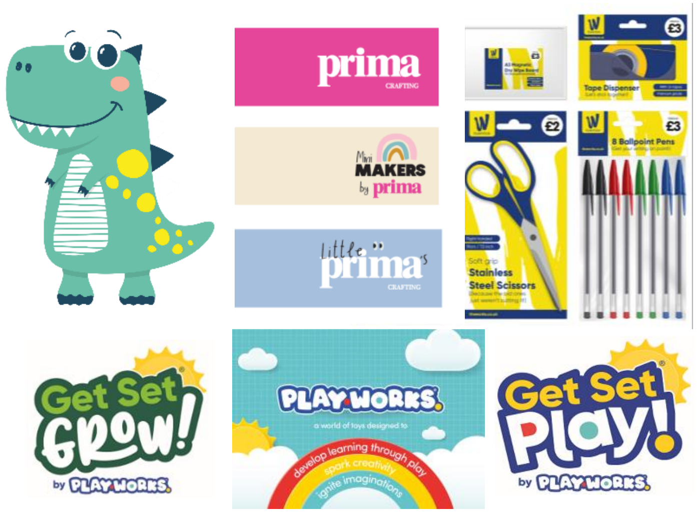
Objective: *Reach new customers, increase existing customer engagement and evolve external perceptions of The Works*

Delivered in FY23:

- Launched brand evolution, aligned to new purpose
- Further developed product offer, including:
  - Fine-tuning of adult books proposition; revamped kids book proposition
  - Refreshed seasonal ranges
  - Launched own-brand kids toys range “Playworks”
- Relaunched loyalty scheme
  - 0.7m additional members registered (over 1.7m active members)
  - Average loyalty customer ATV +30% versus non-loyalty customer

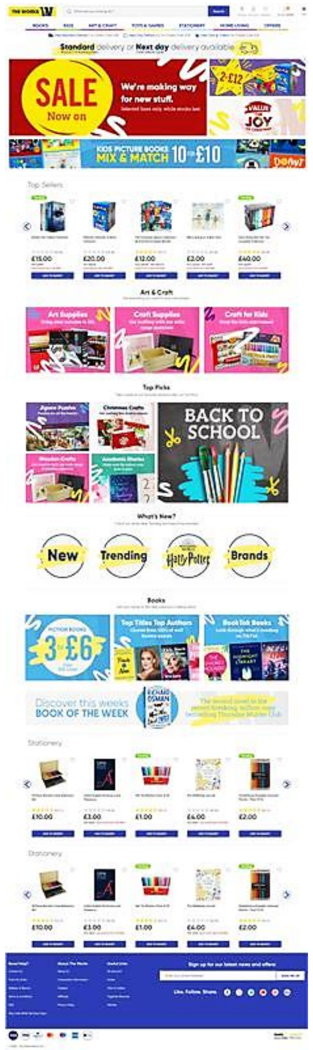
Progressing in FY24:

- Bring evolved brand to life through new marketing strategy
- Enhance product offer, including:
  - Own-brand overhaul planned in stationery, art and craft ranges
  - Launch new kids pocket money toys ranges
- Improve CRM underpinned by customer insight and analysis



THE WORKS

Enhance our Online Proposition



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

Delivered in FY23:

- Increased focus on enhancing online customer experience, supported by:
  - Brand evolution applied to website
  - Usability studies commissioned
- In-house Digital Marketing capabilities strengthened
- Restructured online management to improve execution of strategy

Progressing in FY24:

- Further enhance online customer experience, supported by:
  - Web developments to address feedback from usability study
  - Implementation of new tooling and improved analytics
- Improve online profitability
- Enable in-store ordering from the website

Optimise our Store Estate

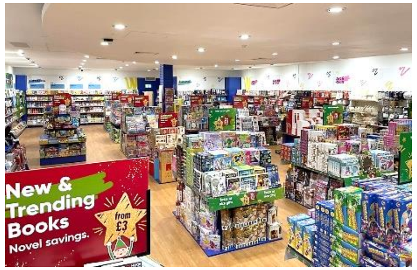
Objective: *Create a store environment that can inspire our customers and reflect the communities we serve*

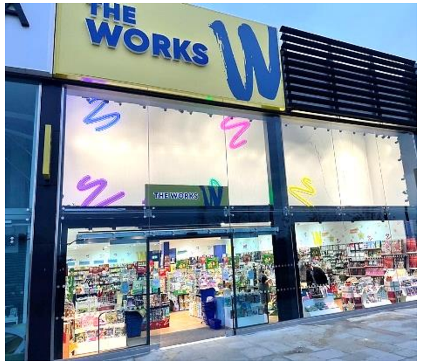
Delivered in FY23:

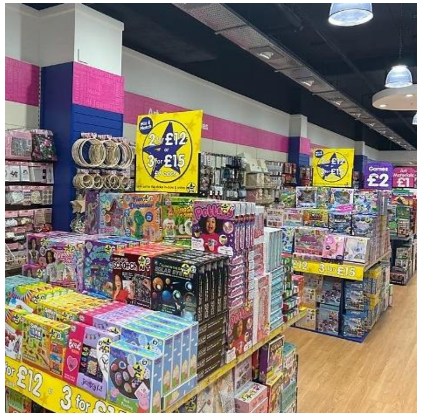
- Improved store look and feel through brand evolution
- Prudent portfolio management, improving overall quality of estate
  - 14 new stores, 3 relocations, 13 closures
- Completed 34 store refits (c. £1.4m investment)
  - Part of 3-year programme to bring all stores up to ideal standard
- Continued focus on enhancing customer experience in-store
  - Better layouts and improved space utilisation
  - Clearer navigation/signage
  - Colleague focus on customer service/experience

Progressing in FY24:

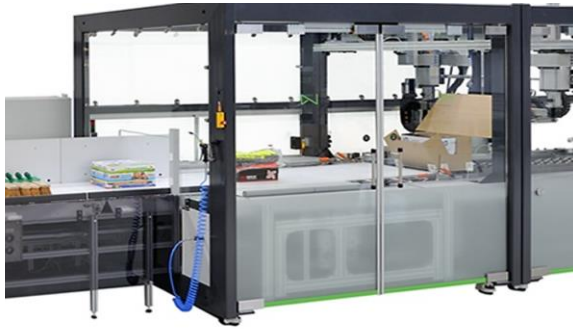
- Ongoing portfolio management to improve overall quality of estate
  - Up to 15 new (incl. relocations) and 15 closures
- c. 30 further store refits
- New store labour structure in place
  - Improve customer experience and store efficiency







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 FY23:
- Continued focus on enhancing end to end stock flows in the business
  - New stock allocation system implemented
  - Internal ways of working review – Merchandise Planning established
- Implemented partial automation for online fulfilment operations
- New DC management team in place

Progressing in FY24:
- Review business operating model to identify future process and systems improvements
- Leverage new stock allocation system and Merchandise Planning function
- Implement improvements in DC picking and store fulfilment methodology to drive efficiencies and improved on-shelf availability
- Transition to new online fulfilment facility in Q1 of CY24
- Execute profit protection strategy

Our Strategic Enablers

Our Colleagues

Placed 12th in Best Big Companies to work for in 2022 (up from 13th)

Launched new Communication and Rewards platform ("MyWorks")

Launched performance cycle, supported by new "Can-Do Academy" (L&D system)

Invested in capacity and capability across the business

Our Systems and Data

New EPOS software developed for rollout in FY24

New stock allocation system implemented

New data warehouse under construction – supports improved insight/analysis capabilities

Website development capabilities established in-house

Further cyber security improvements

Our ESG Commitments

Established mission of "Doing Business Better"

Recruited a Sustainability Manager

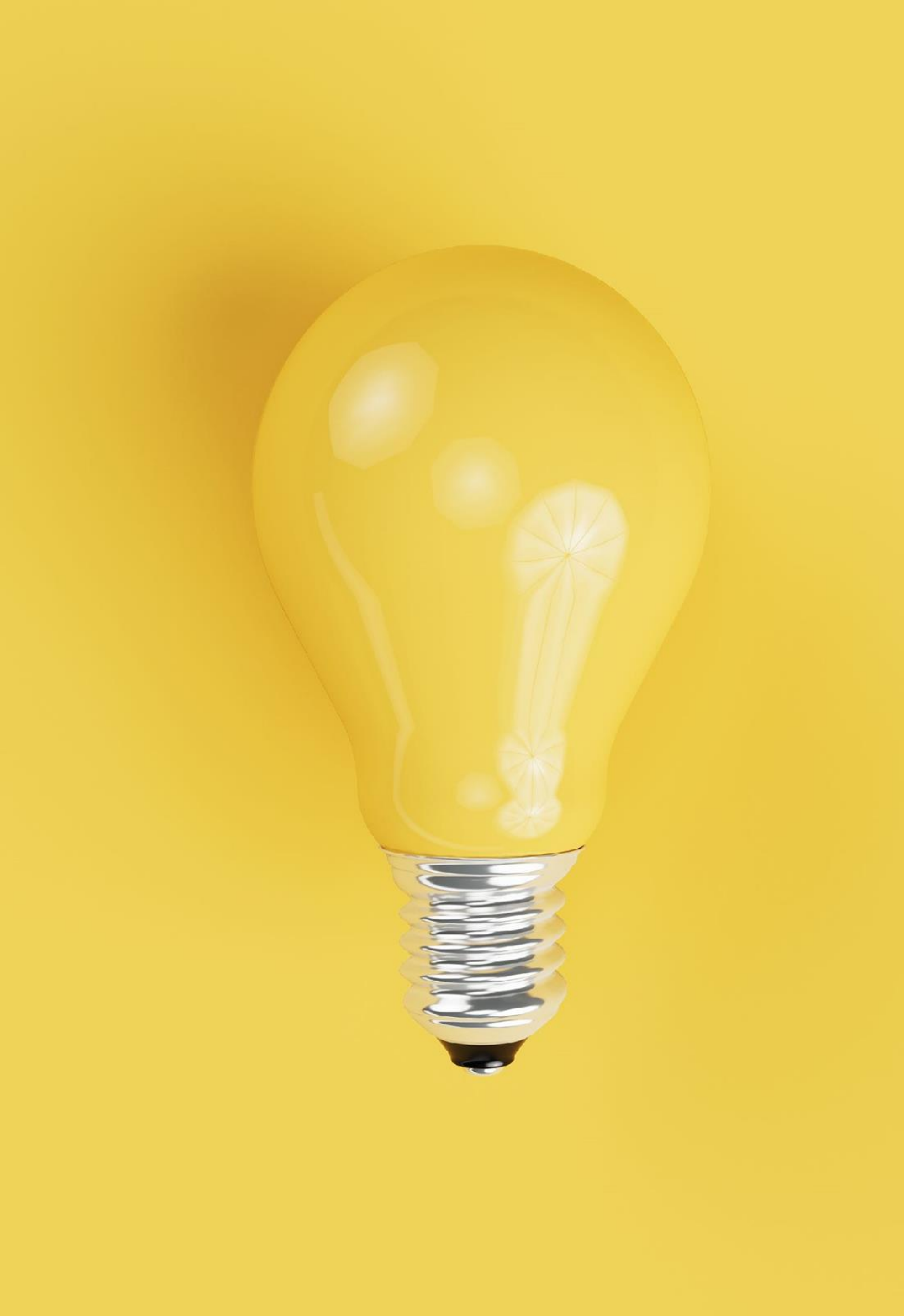
Environmental strategy developed with 3rd party, including setting of net zero targets

External review of D&I across the business completed

THE WORKS

Current Trading – 17 weeks to 27 August

- Robust sales performance in light of external trading environment
  - Total LFLs +3.1% (stores +5.4%, online -18.4%)
- Growth driven by:
  - Strong performance of “Get, Set, Play” outdoor fun range
  - New range launches across toys and games
  - Further operational improvements
- Cautiously optimistic ahead of peak trading periods of Back to School and Christmas



Summary

- Resilient performance against backdrop of challenging consumer environment and residual impact of cyber security incident
- Store estate driving strong LFL sales growth; online seeing continued challenges
- Strong financial position – net cash of £10.2m at end of FY23
- 1.6 pence per share final dividend for FY23 proposed
- Progress on executing “better, not just bigger” strategy accelerated in H2
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Q&A