30 August 2023

TheWorks.co.uk plc

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

Preliminary results for the 52 weeks ended 30 April 2023

Resilient performance delivered in FY23 against challenging backdrop. Well-positioned to capitalise on opportunities from execution of strategy and deliver growth in FY24.

The Works, the family-friendly value retailer of arts and crafts, stationery, toys, and books announces its preliminary results for the 52 weeks ended 30 April 2023 (the "Period" or "FY23") and an update on current trading.

Financial highlights

- The Works delivered a resilient performance in FY23 against a challenging backdrop, with revenue increasing by 5.8% to £280.1m (FY22: £264.6m).
- Store sales, which represent 88.8% of total sales, strengthened as the year progressed, with an LFL sales increase of 7.5%(1). Online sales declined by 15.0%, resulting in overall LFL sales growth of 4.2%.
- Product gross margin declined by 170bps due to strategic change in sales mix (increased weighting of front-list books) and higher freight costs.
- Business rates costs increased by £5.8m as COVID-19 reliefs ended.
- Pre IFRS 16 Adjusted EBITDA £9.0m in line with revised expectations (FY22: £16.6m).
- Adjusted PBT of £10.1m (2)(3) (FY22 Restated: £16.5m).
- Strong financial position at end of FY23, with net bank balances of £10.2m (FY22: £16.3m, including higher than usual creditor balances).
- The Board proposes a final dividend of 1.6 pence per share (FY22: 2.4 pence), seeking to balance the objective of continuing to provide a reasonable level of dividend for shareholders whilst maintaining cash reserves during a period in which the Group is seeking to rebuild its profitability. The Board also outlines its updated capital distribution policy.
- Trading during the first 17 weeks of FY24 (to Sunday 27 August 2023) has been in line with expectations, with store LFL sales growing by 5.4% and online sales declining by 18.4%, resulting in overall LFL sales growth of 3.1%.

	FY23 £m	FY22 (restated) (4) £m
Revenue	280.1	264.6
Revenue growth %	5.8%	46.5%
Product gross margin %	57.6%	59.3%
Pre-IFRS16 Adjusted EBITDA (2)	9.0	16.6
Adjusted PBT (2)	10.1	16.5
Profit before tax	5.0	14.2
Adjusted basic EPS (pence) (2)	16.5p	26.0p
Basic EPS (pence)	8.4p	22.3p
Dividend per share (total in respect of year) (pence)	1.6p	2.4p
Net bank cash	10.2	16.3

Business highlights

Following the recovery from the March 2022 cyber security incident, the Company made good strategic progress in FY23, providing solid foundations from which to build on in FY24:

- Continued to refine our customer proposition to more closely reflect our purpose – *to inspire customers to read, learn, create and play – making lives more fulfilled*. Rolled out evolved brand to stores and online to start changing legacy perceptions of The Works and more accurately reflect the business today.
- Refreshed the product offering, launching new own brand products such as "PlayWorks" toy range. Increased book market share by stocking more front-list titles from best-selling authors such as Julia Donaldson and Colleen Hoover.
- Further enhanced the quality of the store estate with 14 new openings (which are trading ahead of expectations), three relocations and 13 store closures. Continued to optimise the existing estate with an investment of c.£1.4m in 34 refits, improving the customer experience by enhancing layouts, improving signage and optimising space utilisation.

- Invested in operational improvements, the significant benefits of which are expected to be fully realised in FY24 and beyond. This included restructuring the distribution centre management team, implementing a new stock allocation system, and introducing a new automated packing machine at our online fulfilment provider, iForce.
- Launched a review of the business operating model to drive effectiveness and efficiencies, improve processes and IT systems, particularly in relation to the flow of stock through the business.
- Restructured management of the online operation to drive improved performance. Increased focus on customer experience of the website and introduced new tools to support analysis and provide insights into how best to improve performance.
- Placed 12th in "Best Big Companies to Work For", up from 13th in each of the past two years and maintained 2* accreditation for 'outstanding' workplace engagement.

Trading update for the 17 weeks ended 27 August 2023

Trading during the first 17 weeks of FY24 has been in line with our expectations, with store LFL sales growing by 5.4% and online sales declining by 18.4%, resulting in total LFL sales growth of 3.1%. Store sales are being driven by growth across all product categories, continuing the trend of positive store LFL growth seen throughout FY23. The Board is comfortable with the compiled estimate of the market's forecast for FY24, an Adjusted EBITDA of approximately £10.0m [5].

Board change

As announced alongside our FY23 results today, Steve Alldridge has advised the Board of his intention to step down from his role as CFO by the end of 2023. In line with our succession plans, we are delighted that Rosie Fordham, our current Head of Finance, will be appointed as CFO when Steve steps down.

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

"The Works delivered a resilient performance in FY23, despite facing some sizeable challenges. Revenue growth was driven by our strong portfolio of stores, bolstered by the sector-wide shift of customers returning to shop in-store post-COVID. Although inflationary pressures increased business costs and dampened consumer confidence, we ended the year in line with our rebased expectations. FY23 also showcased the enduring appeal of our value proposition. I'd like to thank our colleagues who have demonstrated their ongoing dedication to The Works and have continued to show customers how they can read, learn, create and play more on a budget.

"In the first half our focus was on protecting and rebuilding the business, but as the year progressed we were able to make more strategic progress. We have developed our brand and customer proposition, ensured that our ranging is aligned with customer demand and improved our store estate. We've also taken steps to enhance our online proposition and drive significant operational improvements across the business, the benefits of which we expect to be fully realised from FY24 onwards.

"Looking ahead, the macroeconomic environment remains uncertain. However, we are now well positioned to capitalise on strategic opportunities and given the momentum gained in the latter half of FY23 we expect to grow sales and profit in FY24. Reflecting confidence in the Group's prospects, the Board proposes a final dividend of 1.6 pence per share in respect of FY23."

Preliminary 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).

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Footnotes:

(1) LFL sales growth has been calculated with reference to the FY22 comparative sales figures. LFL sales growth is the 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. In FY22, two year comparatives were used because the use of a normal one year LFL comparative was prevented by the various disruptions to store trading brought about by COVID restrictions in the FY21 comparative period.

(2) Adjusted profit figures exclude Adjusting items. See notes 3 (Alternative performance measures) and 4 (Adjusting items) of the condensed financial statements included in this RNS.

(3) The FY23 Adjusted PBT is greater than the pre IFRS 16 Adjusted EBITDA because of the effect of IFRS 16. We would normally expect the Adjusted PBT to be less than the pre IFRS 16 Adjusted EBITDA. Please refer to page 14 of this report and note 3 of the condensed financial statements for further information.

(4) The FY23 results were delayed due to additional work being undertaken, principally in relation to asset impairment charges and related impacts on IFRS 16 calculations. As well as affecting the FY23 result, this also entailed the restatement of comparative figures for prior periods. These issues did not relate to the underlying performance of the business (for example, as represented by the EBITDA) and had no direct cash impact. Information regarding the restatements is included in note 11 of the condensed financial statements (Property, plant and equipment).

(5) The Group's compiled estimate of the market's Adjusted PBT forecast for FY24 is approximately £2.8m

Notes for editors:

The Works is one of the UK's leading family-friendly value retailers of arts and crafts, stationery, toys, and books, offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Group operates a network of over 525 stores in the UK & Ireland, as well as an online store.

Cautionary statement

The financial information set out in this statement does not constitute the Company's statutory accounts for the periods ended 30 April 2023 or 1 May 2022, but is derived from those accounts. Statutory accounts for FY22 have been delivered to the Registrar of Companies and those for FY23 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified, (ii) included a reference to a material uncertainty that may cast significant doubt on the Group's and the parent company's ability to continue as a going concern as referred to in note 1(b) to the financial statements, and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006. The audit of the statutory accounts for the Period is now complete. Whilst the financial information included in this announcement has been computed in accordance with International Financial Reporting Standards ("IFRS") this announcement does not itself contain sufficient information to comply with IFRS.

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

Chair's statement

Introduction

Last year I wrote about the positive effect that the Group's new purpose - *to inspire reading, learning, creativity and play - making lives more fulfilled* – was having on the business soon after it was introduced. This year we embedded the purpose further across the business, informing the implementation of our "better, not just bigger" strategy, inspiring the creation of our ESG plan and providing clarity about the future direction of the business.

The purpose has also helped to guide colleagues as they served customers and reinforced the incredible culture at The Works, one of the enduring strengths and unique attributes of the business. And whilst the economic environment has been extremely challenging, colleagues at The Works have responded thoughtfully to this backdrop, using it as an opportunity to inspire customers to enjoy reading, learning, creativity and play on a budget, whilst also supporting local communities and our charitable causes. I am proud to chair such a creative and purpose-led business and would like to thank everyone at The Works for their efforts.

Performance

I have long been impressed by the resilience of The Works, its ability to adapt to unforeseen circumstances and manage challenging trading conditions. In FY23 these traits were seen again as The Works delivered a resilient performance, with revenue increasing by 5.8% to £280.1m. This growth was delivered despite the business still recovering from a cyber security incident late in the previous financial year and an uncertain macroeconomic backdrop. Thanks to Gavin's steady leadership and the action taken to protect the business, the resonance of our value customer proposition and the patience and flexibility of our colleagues, we ended the year on a more positive sales trajectory. Going into FY24, we can now confidently say that The Works is a more operationally robust business, with greatly strengthened cyber security, and remains financially strong.

The inflationary environment did impact our profit performance, particularly in the first half of the year given rising freight, energy and other business costs. However, as a result of these cost pressures easing and an improvement in store sales growth in the second half, we ended the year in line with our revised profit expectations. Although this is not where we expected to be at the start of the year, it is a creditable performance given the challenges the business faced and we ended the year in a financially secure position.

Strategy

The Works announced its "better, not just bigger" strategy in July 2021, committing to a greater focus on the customer and to strengthening the fundamentals of the business. This strategy not only made The Works more resilient during the COVID-19 pandemic and challenging economic environment that followed, it has also aligned business decisions more closely with our purpose, and ultimately the customer.

Strategic progress was slower in the first half of FY23 as the business was primarily focused on recovering from the cyber security incident and the external environment saw retailers facing great uncertainty. However, more progress was made in the second half of the year and the foundations have now been laid for significant improvements in the year ahead.

The evolved brand has been rolled out across the business and we are now building on this to demonstrate to customers why The Works is the best value destination for reading, learning, creativity and play. This will attract more customers to shop with us and through our relaunched 'Together' loyalty scheme we now have an opportunity to engage more with our growing and loyal customer community. Our active portfolio management continues. Our 14 new stores and 3 relocated stores opened during the year are performing ahead of expectations and, along with our 34 store refits undertaken in the year, continue to improve the overall quality of our store estate.

Our online performance has been disappointing, partly reflecting a normalisation of store / online sales mix post-COVID. Following a review of our website and online operations we now have the right resource and plans in place to improve the customer experience and profitability of this channel. During the year we implemented a number of structural changes to enable improvements in our stock allocation and distribution processes, which will help drive significant operational efficiencies across the business.

Together, these initiatives create a real opportunity for further strategic progress and a step-change in sales growth and improved profitability over the medium-term. We are excited by this potential and remain confident that our "better, not just bigger" strategy is the right direction for the business.

Environmental, Social and Governance (ESG)

The Board has continued to oversee development of the Group's Environmental, Social and Governance plan and to monitor progress. Whilst we have put more structure around the ESG strategy in FY23 and made progress in key areas, the Board recognises that there is still much more to be done.

Progress on ESG was mostly made in the second half of the year, namely the new initiatives to support colleague engagement, wellbeing and career development, as well as the creation of new climate targets and an improved system of monitoring our environmental impact.

We have now set a target to be net-zero by 2045, with an ambition to do so by 2040 (in line with the British Retail Consortium), and we are now fully compliant with the TCFD disclosure recommendations, including the reporting of Scope 3 emissions. We still have a long way to go to reduce our environmental impact but now have both the strategy in place and the mechanisms to track progress, which will guide our decision making in the years ahead.

Although I believe that The Works is already a diverse, inclusive and supportive business, Diversity & Inclusion (D&I) is an area that I feel very strongly about and there is scope for us to do more. This year we conducted a full review of D&I at The Works and undertook a survey to understand colleague perceptions and experiences. Based on these insights we have now developed a strategy through which we can make significant progress to improve our diversity and inclusion in the years ahead. This will inspire colleagues to be even more supportive and embracing of differences, encourage new talent to join The Works and strengthen our special, collaborative and supportive company culture.

CFO Succession

As announced alongside our FY23 results, Steve Alldridge has advised the Board of his intention to step down from his role as CFO by the end of 2023. In line with our succession plans, we are delighted that Rosie Fordham our current Head of Finance, will be appointed as CFO when Steve steps down.

Dividend and outlook

Despite delivering a resilient performance in FY23 and ending the year in a strong financial position, the Board hopes that FY23's EBITDA was a low point and that it will increase progressively in future. Some good strategic progress was made despite challenging trading conditions, and the underlying appeal and relevance of The Works' proposition continues to resonate with customers.

During the period in which the business works to rebuild its levels of profit, a compromise is sought, between maintaining a reasonable dividend for shareholders, whilst ensuring that the Group continues to maintain its cash reserves. Taking this into consideration, along with the Company's resilient FY23 performance, and its confidence in the Group's prospects, the Board proposes a final dividend of 1.6 pence per share in respect of FY23 and outlines its policy in relation to capital distributions, which is included at the end of the financial review.

The Board believes that the business is well positioned to take full advantage of the opportunities ahead, make further strategic progress and grow sales profitably, and we remain confident in the Group's future prospects.

Carolyn Bradley
Chair
30 August 2023

CEO Review

Introduction

The Works delivered a resilient performance in FY23, with sales growth driven by our fantastic network of stores and team of talented colleagues. The economic backdrop was challenging, characterised by high inflation and dampened consumer confidence. This, combined with the residual impact of the cyber security incident at the start of the year, meant that the end result was lower than we had anticipated heading into the year. However, by continuing to focus on our purpose and offering exceptional value for our customers, we have enabled them to continue reading, learning, creating and playing – demonstrating that our value proposition has enduring relevance.

Over the past few years we have dealt with a host of external challenges, such as the COVID-19 lockdowns and global supply chain disruption, as well as internal ones like the cyber security incident. This has meant that our focus has been primarily on protecting and rebuilding the business and supporting our dedicated colleagues. Having established a clearer runway, our strategic progress accelerated in the second half of FY23 and we expect to make even more significant improvements in FY24. We remain confident in our ability to become an even "better, not just bigger" business, driving a step-change in sales and profitability over the medium term.

Trading performance and financial results

The Works has always been a business that demonstrates its resilience when confronted with difficult trading conditions and the same can be said for FY23. The Group delivered a 5.8% increase in revenue to £280.1m and LFL sales growth of 4.2%, with store LFL sales increasing 7.5% and online sales declining by 15.0%. Outlined below are the main factors that contributed to this performance:

- The first quarter was particularly challenging given the residual impact of the cyber security incident, which occurred in March 2022. The action taken to protect the business and rebuild our systems slowed down sales in May and June 2022. However, as a result of this one-off event we have now accelerated the implementation of IT upgrades and have even more robust defences in place. Momentum built following our recovery with an improving store LFL sales performance in the second half of the year.
- Russia's invasion of Ukraine and political turmoil in the UK resulted in rising inflation and declining consumer confidence over the course of the year. Families have seen incomes and discretionary spending impacted. For value retailers like The Works we believe that sales have been impacted by cost-constrained consumers reigning in their spending, but that this has been balanced, to an extent, by shoppers seeking out the best value. This was particularly the case at Christmas, resulting in strong store trading during peak season and into the new calendar year.
- Retailers have witnessed a shift in consumer behaviour post-COVID, with shoppers increasingly returning to shop in-store and less so online. Stores have always been the lifeblood of the business and it has therefore resulted in a net gain for The Works given that stores represent c.90% of sales.

Profitability was constrained, particularly in the first half of FY23 given the lower than anticipated sales growth, high energy and freight costs and the absence of COVID-related business rates support, which had provided a boost in FY22. We revised our profit expectations for the year in August 2022 and have achieved a result in line with our rebased expectations, delivering a Pre-IFRS16 Adjusted EBITDA of £9.0m and Adjusted profit before tax of £10.1m. The statutory Profit before tax was £5.0m, after impairment charges of £5.1m. We believe this level of EBITDA is the low point that we will build from in the years ahead, supported by greater strategic progress that we are now set up to deliver.

Strategy

Our "better, not just bigger" strategy was announced in July 2021 to build on the existing strengths of the business – our loyal customer base, strong culture and fantastic store network. The strategy aims to provide The Works with a clearer purpose and a more focussed brand identity and customer proposition that will help to drive a step-change in sales growth, as well as enabling us to improve the operations of the business, making The Works a more customer-focussed and efficient retailer.

Since launching the strategy we have made decent progress in some areas, but the reality of the internal and external challenges noted above has meant more of our attention than we anticipated has been focused on protecting the business and not on growth. Strategic progress has been slower than we would have liked, however the business is now well-placed to deliver progress in FY24 and beyond, which we expect will drive the step change growth in sales and profitability that we want to achieve over the medium term.

Below is a summary of the strategic progress made in FY23 and the plans we have to accelerate this in the year ahead.

Develop our brand and increase our customer engagement: We are working hard to ensure that our customer proposition and brand are consistent with our purpose, which will help to change legacy perceptions of The Works as a 'pile it high, sell it cheap' discounter, encourage new customers to shop with us and increase the spend of existing customers.

In FY23 we rolled out our evolved brand to our stores and website to ensure that the visual representation of The Works accurately reflects our purpose and the modern, fun and engaging business that The Works is today. We have completed the first phase of this work and will now begin to more actively communicate this to customers by developing and executing a marketing strategy to bring our purpose and evolved brand to life, particularly through our social channels.

We began to refresh our product offering to be better aligned with our purpose, whilst maintaining our commitment to low prices. This included the launch of new own brand ranges such as our children's toys "PlayWorks" brand and a significantly extended range of front-list books, including titles by authors such as Colleen Hoover and Julia Donaldson, which helped to increase our book market share in terms of value by 0.7% and volume by 1.3% (to 3.9% and 10.3% respectively). There remains an opportunity to further increase market share in all categories and in the year ahead we will conduct an extensive refresh of our core art, craft and stationery ranges and launch new kids pocket money toys ranges.

We relaunched our "Together" loyalty scheme this year and re-engaged store colleagues to promote sign-ups. We welcomed over 700,000 new members in FY23, with over 1.7m active members of the scheme at the end of the year. Our loyalty customers typically spend 30% more than non-loyalty customers and shop more regularly. We will now focus on improving the insight we obtain from the loyalty scheme data through new software that will shortly be available, to support more effective CRM and loyalty activity.

Enhance our online proposition: Our customers and store colleagues want the experience of using our shopping channels to be more consistent and integrated, with the website acting as a shop window for our stores (and vice versa); however, to-date the website has operated too independently. This, combined with the fact that strategic progress in this area has been slower than planned, means that as online sales have declined and costs have risen, the website is not currently profitable.

We restructured the management of the online operation at the beginning of the calendar year to facilitate an increased rate of progress. We have also recently undertaken a series of website usability studies to inform areas of opportunity to improve the site, as well as introducing new tools to support performance analysis and provide insights into how best to improve the customer experience. To improve online profitability, we increased delivery charges to be more in line with peers, scaled back some online promotions and reduced fixed costs by reducing the space utilised at our third-party fulfilment centre.

Plans are in place to enhance the online customer experience and to trial using the new EPOS solution to enable customers to order products from our website whilst in our stores, providing more convenient access to online range extensions. We also expect online sales and profitability to improve as we derive benefit from the new analytical tools introduced in late FY23. There is much more work to be done to improve this channel which we hope will return to sales growth and profitability, in due course.

Optimise our store estate: We believe that a major strength of The Works is our large network of stores in communities across the UK and Ireland, which have been and always will be the main driver of sales.

This year we continued to optimise our store estate with 14 new store openings in great locations and are pleased that these new stores are trading ahead of expectations. We closed 13 stores and relocated a further three, trading from 526 stores at the end of the period. We also invested c.£1.4m in 34 store refits and continued to improve the store experience for customers by enhancing layouts, optimising the space utilisation across categories, and introducing clearer navigation and signage, supported by the evolved brand.

Sales densities in our stores remain relatively low and we believe there is a significant opportunity to increase this through winning new customers, better ranging and customer experience, space optimisation and improved product availability, all supported by a new labour structure put in place at the start of FY24. Whilst the priority in the short to medium term is to improve the existing store estate to realise its potential, in due course we will also consider whether to reintroduce a measured roll out programme, as we believe there is scope for the brand to trade successfully from at least 600 stores in the UK.

Drive operational improvements: Improving the operating effectiveness of the business is pivotal to our success. Although we will always maintain a lean operation, some areas of the business were previously inadequately resourced. This year we continued to invest ahead of time to ensure that we're capable of realising the sales potential we believe The Works can reach.

In FY23 we restructured the distribution centre management team. The new team made an immediate impact, reviewing the operation and proposing a series of improvements in the way we pick and fulfil store deliveries for implementation in FY24. We expect to see significant cost savings and improved product availability in-store as a result of these changes.

We implemented a new stock allocation system, Slimstock, to improve the quality of stock allocation decisions, which should improve store stock availability and therefore sales. At the start of the current calendar year we also significantly strengthened our merchandise planning function, and have been delighted to welcome some excellent new colleagues from respected retailers, which will drive a step change in our capability in this area. Allowing time for the new stock allocation system's algorithms to "learn" The Works' data and for our new merchandising team to get fully up to speed with it, we expect to see further benefits in FY24 and beyond.

Towards the end of FY23 we successfully launched the pilot of our new EPOS software in stores. Plans are in place to roll this new software out across the store estate by the end of FY24.

A new automated packing machine and robotics were introduced to the online fulfilment operation during the year (operated by a third-party provider, iForce). We continue to work with iForce to further improve the fulfilment cost per order and reduce our consumption of packaging.

Late in the financial year, we launched a planned review of the business operating model. The first phase of this project entails documenting our current ways of operating, confirming the desired future ways of working and mapping the plan to migrate to the improved model. There will be significant changes to processes and IT systems over the next two to three years, which will fundamentally improve the way our business buys, moves and allocates stock, driving cost efficiencies and improved product availability for our customers.

Colleagues

In an unpredictable and challenging year, our colleagues have remained steadfast in their dedication to helping customers to read, learn, create and play. We have worked hard to build and maintain our unique culture, underpinned by our values and a team of committed and enthusiastic colleagues. I am proud that 10% of colleagues were promoted in the year and was delighted that we moved up one place to 12th in the "Best Big Companies to Work For" national list, from 13th in each of the past two years. We also maintained our 2* accreditation for 'outstanding' workplace engagement (3* being the highest possible accreditation).

To continue to support the engagement, development and wellbeing of our colleagues, we launched 'MyWorks', a communications and engagement platform to keep colleagues informed about company news and benefits, and to enable access to resources on physical mental and financial wellbeing. We also introduced the 'Can Do Academy', a system to support colleagues' learning and development, and in response to the challenges created by the cost-of-living crisis we launched Wagestream, an app that offers a range of financial wellbeing tools.

Looking ahead to FY24, we will continue to invest in our colleagues, including launching a new Reward and Recognition programme to positively reinforce our values, celebrate success and provide financial incentives linked to our purpose and values.

Environmental, Social and Governance (ESG)

This time last year we were at the fledgling stages of the environmental part of our ESG journey and I am pleased that we have made significant further progress since then. The business is now fully aligned around our mission of "Doing Business Better", which is about making positive and sustainable changes.

A key development was the appointment of a Sustainability Manager in January 2023. The business has also adopted a more structured and rigorous approach to the environment, for example, to set longer-term ambitions to reduce the impact of our products, packaging and waste. We are also continuing to work with a specialist third-party ESG consultancy and during the year we set carbon reduction targets for Scope 1, 2 and 3 emissions and developed roadmaps to achieve them. Our Scope 1 and Scope 2 targets, together with our ambition to achieve net zero by 2040, fully align with the British Retail Consortium's climate action roadmap and we became fully compliant with the Task Force on Climate-related Financial Disclosures (TCFD) in FY23.

We are committed to creating an inclusive environment at The Works where everyone feels they belong and where different experiences, cultures and perspectives are embraced. We completed a review of our existing Diversity and Inclusion (D&I) policies and practices and have now developed a D&I strategy. Implementation of this will increase our collective understanding of D&I, improve training, enhance practical awareness and accountability at all levels and ensure that barriers to inclusion are removed.

"Giving back" is part of our psyche and I am hugely grateful to our colleagues and customers for their generosity in supporting our charity initiatives. We are pleased to be developing a new charity partnership with the National Literacy Trust this year, which is closely aligned to our purpose of inspiring people to read, learn, create and play.

Outlook

I am proud of the way everyone at The Works navigated a challenging year. We expect FY23 to be the low point in The Works' profitability post-COVID given that cost headwinds have now eased, the financial performance improved throughout the second half of the year and we have started to make more meaningful strategic progress, the benefits of which are expected to be realised in FY24 and beyond.

The macroeconomic outlook remains uncertain and we have entered the new financial year with a degree of caution, however, I am encouraged by the enduring appeal of The Works' value proposition and excited by the opportunities presented in the year ahead, which the business is now better equipped to capitalise on. The Board and I are comfortable with the Company compiled estimate of the market's forecast, an EBITDA of £10m for FY24, and remain confident in our ability to deliver profitable growth in the medium term.

Gavin Peck
Chief Executive Officer
30 August 2023

Financial review

The FY23 accounting period relates to the 52 weeks ended 30 April 2023 (also referred to as the Period) and the comparative FY22 accounting period relates to the 52 weeks ended 1 May 2022.

The Group refers to alternative performance measures (APMs) as it believes these provide management and other stakeholders with additional information which may be helpful. These measures are used by management in running the business, and include pre IFRS 16 Adjusted EBITDA ("EBITDA") and like for like ("LFL") sales. Accordingly, reference is made to these measures in this report.

The Group made a profit before tax of £5.0m (restated FY22: £14.2m). This result includes a £5.1m impairment charge, most of which relates to the notional right of use asset created as a result of following the requirements of the IFRS 16 accounting standard. As in previous periods, impairments have been treated as Adjusting items. The Adjusted profit before tax excluding impairment charges was £10.1m (restated FY22: £16.5m).

The Pre IFRS16 Adjusted EBITDA for the Period was £9.0m (FY22: £16.6m). The FY23 Adjusted PBT is greater than the EBITDA because of the effect of IFRS 16. We would normally expect the Adjusted PBT to be less than the EBITDA. Please refer to page 14 of this report and note 3 of the condensed financial statements for further information.

The FY23 results have been published later than originally intended. The delay was due to significant additional work being undertaken, principally in relation to asset impairment charges and related impacts on IFRS 16 calculations. As well as affecting the FY23 result, this also entailed the restatement of comparative figures for prior periods. Whilst the delay has been frustrating, we highlight that the issues in question have not affected the Board's assessment of the underlying performance of the business (for example, as represented by the EBITDA) and had no direct cash impact. Information regarding the restatements is included in note 11 of the condensed financial statements.

Overview

The result for FY23 was in line with the revised forecast we referred to in August 2022. During the Period:

- Revenue increased by £15.5m, driven by 7.5% growth in store LFL sales and sales from new stores exceeding sales forgone from closed stores (through optimisation of the store estate). Online sales declined by 15%.
- The product gross margin percentage declined due to the planned increase in the mix of sales of lower margin books, and increased costs of stock, principally freight. These negative effects were partly offset by supplier rebates which were collected (£0.6m of which related to periods prior to FY23).
- Costs increased due to:
  - The cessation of COVID-19 business rates relief.
  - The increase in the National Living Wage by 6.6% in April 2022.
  - Electricity price inflation.
- There was a net increase in EBITDA of approximately £0.6m due to the opening and closure of stores during the year. Although the number of stores trading had only increased by one at the year end, we benefitted from being able to time the openings and closures such that we had a net six more stores trading during the peak Christmas period. In addition, the average sales levels from the new stores were greater than for the stores which were closed.
- The Group experienced a cyber security incident in March 2022. We believe the residual effects of this adversely affected FY23's result due to the Group taking a measured and cautious approach to reinstating systems whilst simultaneously accelerating the implementation of strengthened IT security. Due to the impossibility of accurately estimating the financial effect, it has been absorbed within the EBITDA result and not identified separately as an Adjusting item.

EBITDA bridge between FY22 and FY23	**£m**
FY22 EBITDA	**16.6**
LFL stores and online	
Increased gross margin due to increase in sales in LFL stores/decline online	5.9
Lower gross product margin % (including impact of higher freight costs)	(4.5)
Cessation of COVID-19 business rates relief (LFL stores)	(5.6)
Increased payroll costs due to National Living Wage inflation	(2.5)
Energy price inflation	(1.0)
Other	(0.3)
	(8.0)
Non – LFL Stores	
Profit Impact; including timing benefit of trading more stores through peak	0.6
Cessation of COVID-19 business rates relief	(0.2)
FY23 EBITDA	**9.0**

We noted in the FY22 Annual Report that the net cash balance on 1 May 2022 was higher than normal as it included the benefit of increased creditor balances. These mostly related to the continuing effect of events connected with COVID-19 (such as rent deferrals) and, as expected, unwound finally during FY23. Therefore, although the FY23 net cash balance of £10.2m is lower than the prior year's £16.3m, it represents a more typical Period-end level, and has grown progressively compared with the £0.8m net cash balance at the end of FY21 and £7.1m of net debt at the end of FY20.

It has been reassuring, particularly during the periods of heightened uncertainty in recent years, to have the benefit of a large (£30.0m at the Period end) revolving credit bank facility, however, there is a cost associated with maintaining such a facility. Our forecasts indicate that even under a sensitised downside scenario, it is unlikely that we would ever use the entire facility. With this in mind, we have recently reduced the size of the facility to £20.0m, which will save approximately £0.15m in annual facility maintenance fees and, at the same time, extended the term of the facility so that it terminates at the end of November 2026 rather than November 2025.

The Board will be recommending to shareholders at the AGM a final dividend of 1.6 pence per share in respect of FY23. Updated information regarding the Group's policy on dividends and capital distributions is included at the end of this report.

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 analysis

Total revenue increased by 5.8% to £280.1 million (FY22: £264.6 million).

Total gross sales [(1)] increased by 6.1% compared to FY22. Two thirds of the total sales increase was from LFL sales [(2)] which grew by 4.2%, with positive growth in stores but a decline in online sales. The remaining sales growth was from the continued optimisation of the store estate (see table and narrative on the following page).

The quarterly LFL sales summary in the table below and the narrative which follows shows how store LFLs strengthened progressively during FY23 but that we were unable to achieve positive sales growth online, due to a combination of internal and external factors.

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%**

(Definitions of gross sales and LFL are included in the footnotes on the following page)

- Q1 highlights
  - Sales in Q1 FY23 were constrained, particularly online, a significant cause of which was the residual impact of the March 2022 cyber security incident.
  - We also annualised against strong FY22 comparatives, which were the result of pent up demand following the end of the final COVID-19 lockdown in April 2021. The strong demand in early FY22 was also driven by a larger than usual post lockdown sale, which included stock that would normally have been sold in January/February 2021, and strong sales of “fidget frenzy” toys.
- Q2 highlights
  - The Works had a good summer 2022. The newly refreshed outdoor play range performed well and the ‘Back to School’ season sales were very good.
  - The LFL sales growth rate softened slightly in the latter part of Q2 due to losing a full trading day for the additional bank holiday in late September, as well as the comparatives in September and October 2021 being strong, when we believe Christmas shopping was brought forward due to consumers' concern about possible further lockdowns affecting Christmas shopping in 2021.
- Q3 highlights
  - In contrast, Q3 comparatives with the prior year weakened due to concerns in late 2021 about the potential effects of the emerging Omicron COVID-19 variant, supply chain disruption, and the FY22 January sale being low key.
  - Sales strengthened sharply just before Christmas, suggesting that consumers shopped much later than in 2021. We delivered strong store sales over Christmas, which continued in the January sale.
  - Online sales were disappointing, impacted by reduced consumer confidence in fulfilment (due to postal strikes in late 2022) as well as the normalisation of shopping behaviour away from online, as seen across the retail industry.

- Q4 highlights
  - Trading was steady following the January sale, with store sales continuing to grow positively, and online sales continuing to be in decline. The rate of overall sales growth increased slightly during this quarter as the prior year comparatives weakened due to the aftermath of the March 2022 cyber security incident.

The table below shows the reconciliation of LFL sales used for year-on-year comparisons, with statutory revenue.

	FY23 £m	FY22 £m	Variance £m	Variance %
Total LFL sales for Period[2]	**297.0**	**285.0**	**12.0**	***4.2%***
Sales from new/closed stores (optimisation of store estate)	**19.6**	**13.4**	**6.3**	***46.9%***
Total Gross Sales[1]	**316.6**	**298.4**	**18.3**	***6.1%***
VAT	(35.1)	(33.5)	(1.7)	*5.0%*
Loyalty scheme costs - points redeemed by customers	(1.4)	(0.3)	(1.1)	*404.6%*
Revenue (per statutory accounts)	**280.1**	**264.6**	**15.5**	***5.8%***
Loyalty points as % sales	(0.5%)	(0.1%)		
VAT as % of sales	(11.1%)	(11.2%)		

(1) "Total gross sales" include VAT and are stated prior to deducting the cost of loyalty points which are adjusted out of the sales figure in the calculation of statutory revenue.

(2) LFL sales growth has been calculated with reference to the FY22 comparative sales figures. In FY22's Annual Report, two year comparatives were used because the use of a normal one year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period.

The year on year increase in the cost of loyalty points shown in the table above is larger than normal because the FY22 comparative was unusually low (as reported last year) due to the write back of expired points previously issued and accounted for. The underlying cost of loyalty points redeemed by customers during the year increased in the way we expected, both as a result of the year on year increase in sales, and due to the additional focus placed by the business on signing up new members and encouraging existing members to re-engage with the loyalty scheme.

Store numbers

Store numbers	**FY23**	**FY22**
Stores at beginning of period	525	527
Opened in the period	14	5
Closed in the period	(13)	(7)
Relocated *(excluded from opened/closed above, **NIL** net effect on store numbers)*	*3*	*6*
Stores at end of period	**526**	**525**

The number of stores trading increased by one during the period, from 525 to 526. Despite this small change between the beginning and end of year numbers, the additional sales from new/closed stores in the table above shows a notable increase compared with the prior year. This was principally because we benefitted from being able to time the openings and closures such that a net six more stores were trading during the peak Christmas period, and secondarily because the new stores individually also generated more sales than the stores that were closed. The new stores are trading with sales levels at or above their financial appraisal targets.

Product gross margin and gross profit

	FY23		FY22 (Restated)		Variance	Variance
	£m	***% of revenue***	**£m**	***% of revenue***	**£m**	***%***
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)***
Other costs included in statutory cost of sales						
Store payroll	46.8	*16.7*	43.6	*16.5*	(3.3)	*(7.5)*
Store property and 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 (impairment charges)	5.1	*1.8*	2.3	*0.9*	(2.8)	*(100.0)*
IFRS16 impact	(10.7)	*(3.8)*	(9.6)	*(3.6)*	1.1	*11.2*
Total non-product related cost of sales	**117.4**	*41.9*	**104.2**	*39.4*	**(13.2)**	*(12.7)*
Gross profit per financial statements	**43.9**	*15.7*	**52.8**	*19.9*	**(8.9)**	*(16.8)*

The product gross margin rate decreased by 170bps to 57.6% (FY22: 59.3%). The most significant factors in the year on year movement were:

- An increase in the sales mix of front-list, lower margin books (as has been described previously) which reduced the margin percentage by approximately 100bps. We believe this generated incremental cash margin due to selling higher volumes of items which were higher priced.
- Higher freight costs, which remained high on a spot basis during H1 before falling significantly in H2. The interval between incurring the freight cost and selling the goods is such that the higher rates continued to affect FY23's margin for some time after the spot rates had fallen. This timing factor makes it difficult to estimate the precise impact on the margin rate, our best estimate of which is approximately 100bps.
- There was a small year on year margin rate increase due to other factors including stock provision movements, supplier rebates/retrospective discounts and pricing changes. Towards the end of FY23, prices of some lines were increased to reflect the rise in inflation generally experienced during the year, to ensure that the business achieves an acceptable balance between offering value to customers and a reasonable margin.

Store payroll costs increased by £3.3m.

- The annual rise in the National Living Wage (NLW) accounted for £2.1m or 64% of the year on year increase, including the additional cost of maintaining sensible differentials between pay grades for colleagues paid more than the NLW, in light of the increased base wage level.
- The optimisation of the store estate, entailing the opening of 14 stores, the closure of 13, and the relocation of 3 stores, created an additional £0.7m of store payroll costs. This increase appears disproportionately high given that only one more store had been added by the year end, however, the timing of the openings and closures which benefitted the sales line (i.e. having more stores trading during the Christmas peak) also incurred corresponding additional costs.

Store property and establishment costs increased by £8.1m.

- The largest component of the increase was £5.8m of business rates charges. These costs had been comparatively lower in FY22 due to COVID relief, but payments resumed in full during FY23.
- Electricity costs increased by £1.0m due to inflation.
- Despite a year on year reduction in like for like rents, total rent charges increased by £1.0m
    - The ongoing process of renegotiating and renewing expiring leases resulted in a reduction of £0.6m in rents in the LFL store estate, including the release of accruals established in some situations where the effective date of the decrease was backdated to a prior period, due to the protracted nature of the rent negotiations (in these situations, we continue to accrue for the higher rent level until the reduction is confirmed in writing).

- The timing of opening and closing stores referred to above, plus the full year cost of stores opened part way through FY22, resulted in additional rent costs of £0.7m (i.e. effectively a "volume" related increase).
- During COVID-19 rent negotiations with landlords (for example, where we were seeking rent concessions in respect of enforced store closures), concessions were sometimes informally agreed via a credit note, to be formalised subsequently. A provision is maintained for credit notes relating to amounts that have not been recovered after 2 years (although we still pursue and expect to recover most of the amount provided for), and this provision increased by £0.5m during FY23.
- Turnover rents increased by £0.4m due to sales increases in the 129 stores where the rent is based wholly or partially on a percentage of turnover. Turnover rent mechanisms typically look back to earlier periods to calculate the applicable rent and, in FY22, the look back periods often included periods during FY21 when stores were closed due to COVID-19 restrictions. There have also been sales increases in some stores (overall store LFL sales growth was 4.2%) which have triggered the payment of, or increased, turnover rents.

- Service charges increased by £0.3m due to the new/closed store timing effect described above, and service charge inflation.

Online variable costs decreased by £0.3m.

- The decrease was due to the year on year decrease in sales, and the consequential reduction in marketing, fulfilment, transaction and other variable costs which were £1.3m lower than in FY22.
- These savings were partially offset by higher costs at the iForce fulfilment facility (third party operated) and higher packaging costs. The efficiency of the operation has been reviewed with iForce, and changes have been implemented for FY24 which are expected to reduce the fulfilment cost per unit, including a reduction in the space allocated in the facility.

Adjusting items and prior year adjustment

- Adjusting items were £5.1m in FY23 (restated FY22: £2.3m), and comprised impairment charges. The prior period comparatives have been restated to reflect the allocation of central overheads to individual stores, which resulted in a higher impairment charge being required in respect of FY22 and prior periods. This is described in note 11 of the condensed financial statements.
- 70% or £3.6m of the £5.1m FY23 impairment charge relates to the notional "right of use" asset which arises through the operation of IFRS 16.
- Consistent with the approach the Group has taken previously, impairment charges (and reversals) are treated as Adjusting items. As well as being consistent, this is appropriate due to the size of the total impairment charge, which is more reflective of the broader UK macro-economic environment impacting many retail businesses than of the underlying performance of individual stores.

IFRS 16 impact

- IFRS 16 has had the effect of significantly increasing the Adjusted profit before tax in FY23, by £7.0m compared with the non IFRS 16 figure (see note 3 of the condensed financial statements). This £7.0m broadly comprises £10.7m included within cost of sales per the table above and £0.4m included within administrative costs, less £4.1m of IFRS 16 interest charges.
- Due to the restatement of impairment charges in relation to prior periods, there is a significantly greater IFRS 16 impact than reported in previous years, particularly on Adjusted profit. The additional impairment charges reduced the net book value of the IFRS 16 "right of use" asset, as a result of which, the IFRS 16 depreciation charges were reduced. Meanwhile, the actual rents paid were unaffected, resulting in a greater disparity between the rents and the IFRS 16 P&L charges. Please refer to note 3 of the condensed financial statements for a detailed analysis of the impact of IFRS 16 on the profit before tax.

Distribution costs to stores

	FY23		FY22			
	£m	***% of revenue***	**£m**	***% of revenue***	**Variance £m**	***Variance %***
Adjusted distribution costs	**10.2**	***3.6***	**9.0**	***3.4***	**(1.2)**	***(12.9)***
Depreciation	0.1	-	0.1	-	-	*3.1*
Distribution costs per statutory accounts	**10.3**	***3.7***	**9.1**	***3.4***	**(1.2)**	***(12.7)***

The costs of picking stock and delivering it to stores increased by £1.2m compared with FY22.

- Distribution labour costs increased by £0.5m, due to wage rate inflation from the increase in the NLW, and an increase in the volume of items picked. Approximately half of the cost increase was due to inflation, and the remainder to the increase in volumes.

- The costs of delivering pallets from the DC to stores increased by £0.4m. Higher volumes accounted for £0.15m with the remainder due to inflation passed on by the pallet delivery company to which we outsource this task.
- Storage costs of £0.15m were incurred to accommodate additional stock prior to the Christmas sales peak. This was a precaution taken to mitigate against the risk of a repetition of the disruption experienced in the prior year.

Administration costs

Administration costs (before depreciation and IFRS 16) decreased by £0.3m compared with FY22. The largest change was a £2.3m decrease in bonus costs, as no bonus will be paid in respect of FY23.

Head office salary and related costs (NI, pension etc.) increased by £1.3m due to the planned growth in headcount as well as wage rate inflation. Average salary rates for head office staff (including management) increased by 3.0%, a significantly lower rate than the 6.6% increase in the National Living Wage.

There was a net increase of £0.7m in other administration costs, due principally to IT software licence and maintenance costs, higher audit fees, and stock taking costs.

	FY23		FY22			
	£m	***% of revenue***	**£m**	***% of revenue***	**Variance £m**	***Variance %***
Pre-IFRS 16, Adjusted administration costs	22.9	8.2	23.2	8.8	0.3	1.4
Depreciation	1.8	0.6	1.3	0.5	(0.5)	(34.7)
IFRS 16 impact	(0.4)	(0.2)	(0.4)	(0.1)	0.1	13.8
Administration costs per statutory accounts	24.2	8.6	24.1	9.1	(0.1)	(0.3)

Net financing expense

Net financing costs in the period were £4.4m (FY22: £5.2m), mostly relating to IFRS 16 notional interest.

Gross cash interest payable was £0.3m, in relation to facility availability charges (FY22: £0.4m). £0.2m of interest was received in FY23 (FY22: £Nil).

	FY23 £m	**FY22 £m**
Bank interest receivable	(0.2)	-
Bank interest payable (including non-utilisation costs)	0.3	0.4
Other interest payable (amortisation of facility set-up costs)	0.2	0.3
IFRS 16 notional interest on lease liabilities	4.1	4.5
Net financing expense	**4.4**	**5.2**

Tax

	FY23 £m	**FY22 (Restated) £m**
Current tax (credit)/expense	(0.4)	1.3
Deferred tax expense/(credit)	0.1	(1.0)
Total tax expense	**(0.3)**	**0.3**

The impairment charges noted above, by reducing the taxable profits of prior periods, created available brought forward tax losses, which significantly reduced the effective tax rate and overall tax charge for FY23. As a result, there was a net tax credit of £0.3m (restated FY22: £0.3m expense) consisting of a £0.4m current tax credit and a £0.1m deferred tax charge. The £0.3m overall tax credit equated to an effective tax rate of (5.3%) (restated FY22: 1.9%).

The average headline corporation tax rate for FY23 was 19.5%, as the rate changed from 19% to 25% 11 months into the financial year (FY22: 19.0%). Deferred tax has been calculated at a rate of 25.0% in both periods.

Earnings per share

The Adjusted basic EPS for the year was 16.5 pence (restated FY22: 26.0 pence).

The Adjusted diluted EPS was 16.4 pence (restated FY22: 25.6 pence).

The difference between the Adjusted basic and Adjusted diluted EPS figures is due to the exclusion from the diluted EPS calculation of outstanding potentially dilutive share options.

Capital expenditure

	FY23 £m	FY22 £m	Variance £m
New stores and relocations (net of landlord contributions to investment)	1.1	0.5	0.6
Store refits, maintenance and lease renewal costs	3.0	0.9	2.1
IT hardware and software	2.4	1.4	1.0
Other	0.2	0.2	0.0
Total capital expenditure	**6.7**	**3.0**	**3.7**

Capital expenditure in the Period was £6.7m (FY22: £3.0m).

- ***New stores and relocations*** – the net investment in new stores and relocations increased by £0.6m compared with FY22. 14 new stores were opened and 3 stores relocated to new units (FY22: 5 new stores, 6 relocations). In FY23, approximately 50% of the capital costs of opening the stores was funded by landlord contributions, a lower proportion than in FY22 when most of the investment was landlord funded.
- ***Store refits, maintenance and lease renewal costs*** – 34 stores were refitted in FY23 at a cost of £1.4m (FY23: 16 refits costing £0.4m). Maintenance capex was £1.2m (FY22: £0.4m) and lease renewal costs were £0.4m (FY22: £0.2m).
- ***IT hardware and software*** – the largest item of expenditure was the cost of configuring and testing the new store EPOS software prior to its implementation in stores during FY24.

FY24 capex is expected to be approximately £7.0m.

Inventory

Stock levels were £33.4m at the end of FY23 (FY22: 29.4m).

	FY23 £m	FY22 £m	Variance £m	Variance %	Provisions as % of gross stock FY23 %	FY22 %
Gross stock	31.3	29.8	(1.5)	(5.0)		
Unrecognised shrinkage provision	*(0.4)*	*(1.9)*	*(1.5)*	*(78.9)*	*1.3*	*6.4*
Obsolescence provision	*(0.6)*	*(1.3)*	*(0.7)*	*(53.8)*	*1.9*	*4.4*
Total provisions	(1.0)	(3.3)	*(2.3)*	*(69.7)*	*3.2*	*10.7*
Net stock on hand	30.2	26.6	(3.6)	(13.5)		
Stock in transit	3.2	2.8	(0.4)	(14.3)		
Stock per balance sheet	**33.4**	**29.4**	**(4.0)**	**(13.6)**		

Gross stock, £31.3m, increased by 5% compared with FY22. This is a lower percentage increase than the corresponding year on year increase in the cost of sales (10%) and is due to an increase in the average cost per unit of stock (due to mix as well as an increase in overall cost prices), as the number of units in stock at the Period end declined year on year.

Stock provisions decreased significantly, due to both volume and rate effects.

- The provision for unrecognised shrinkage decreased due to the introduction of full "4-wall" stock counts in all stores between Christmas and the year end. As a result, the time elapsed between the date of the most recent store stock count and the year end, which is one of the key variables affecting the calculation, was significantly less than in the prior year, resulting in a lower provision. The other key variable, the underlying weekly rate of store stock loss, was not materially different to the rate in FY22.
- There was a further reduction in the stock obsolescence provision (it was £1.8m at the end of FY21), due to continued improvements in the management of terminal and slow moving stocks.

Cash flow

The table shows a summarised non IFRS 16 presentation cash flow. The net cash outflow for the year was £6.1m (FY22: inflow of £15.5m).

	FY23 £m	FY22 £m	*Variance* *£m*
Cash flow pre-working capital movements	6.7	19.1	(12.4)
Net movement in working capital	(2.8)	7.3	(10.1)
Net Cash effect of Investing Activities	(6.5)	(2.9)	(3.6)
Tax paid	(1.5)	(0.2)	(1.3)
Interest and financing costs	(0.7)	(0.2)	(0.5)
Dividends	(1.5)	-	(1.5)
Purchase of treasury shares	(0.5)	-	(0.5)
Cash flow before loan movements	(6.7)	23.1	(29.8)
Drawdown/(repayment) of bank borrowings	(4.0)	(7.5)	3.5
Drawdown/(repayment) of RCF	4.0		4.0
Exchange rate movements	0.6	(0.1)	0.7
Net increase in cash and cash equivalents	**(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**	

As noted at the end of FY22, the cash balance at that time included favourable working capital timing differences which have unwound in FY23 and resulted in a negative movement in working capital during the Period. In most years, there would be expected to be a broadly neutral or slightly positive movement in working capital. The other main year on year variable which affected the cashflow was the reduction in profit level compared with FY22.

Bank facilities and financial position

The Group ended the Period in a strong financial position, with net positive bank balances of £10.2m (FY22: £16.3m). At the Period end the Group had liquidity availability of £40.0m, including its undrawn £30.0m bank facility.

Since the Period end, the Group has implemented a reduction in the size of the facility, which was undrawn throughout most of FY23, to £20.0m, and simultaneously extended its term such that it now expires on 30 November 2026 rather than 30 November 2025. The reduction in the facility will save approximately £0.15m in annual cash interest costs, and the smaller facility continues to provide liquidity availability significantly in excess of the actual anticipated requirement.

Basis of preparation of the financial statements

The Directors believe that it is appropriate to prepare the financial statements on a going concern basis. We note for completeness that, despite the Directors' confidence in the Group's financial position and prospects, note 1 (b) of the financial statements includes reference to a "material uncertainty " in relation to the adoption of the going concern basis of preparation of the financial statements. The reasons for this are explained in the note.

Capital distributions and FY23 final dividend recommendation

Following a strong performance in FY22, the Group paid a final dividend of 2.4 pence per share in respect of that year, in November 2022. The FY22 Annual Report stated that future payment levels will be reviewed based on conditions at the time, with the Group confirming its intention to resume a progressive dividend policy in due course once conditions stabilise.

The business has an ongoing capex requirement (including discretionary capex) approximately in line with its non-IFRS 16 depreciation charge and generates strong cashflows. However, in setting the capital distribution policy, the Board is mindful of the principal risks that the Group faces, as outlined in the FY23 Annual Report. At present two of these risks, in relation to macro-economic conditions and the execution of the Group’s strategy, are at increased levels. In these circumstances, we will operate with a capital structure and capital distribution approach that ensures the business remains financially resilient, whilst making appropriate returns to shareholders.

Our objective is to ensure that, under normal circumstances, ordinary dividends (in pence per share) are 2.5x covered by Adjusted EPS. We do not believe that normal circumstances apply in the context of setting the FY23 dividend, as outlined below.

FY23 dividend

As noted previously in the report, the Board hopes that FY23's EBITDA was a low point and that it will increase progressively in future. During the period in which the business works to rebuild its levels of profit, a compromise is sought, between maintaining a reasonable dividend for shareholders, whilst ensuring that the Group continues to maintain its cash reserves.

We believe that in FY23, the effects of

- impairment charges (including the effect of prior year adjustments on earlier periods);
- IFRS 16, and
- an unusually low tax charge,

have resulted in an Adjusted EPS which is inconsistent with our perception of the underlying profitability as represented by the Adjusted pre IFRS 16 EBITDA. Using EBITDA as an alternative reference point for illustration, if the FY23 dividend was set by pro rating using the ratio of the FY23 EBITDA (£9.0m) to the FY22 EBITDA (£16.6m), it would be 1.3 pence per share.

Taking into account the foregoing and, in seeking to achieve a reasonable compromise between returns to shareholders and prudence, the Board will propose at the forthcoming AGM a final dividend for FY23 of 1.6 pence per share (amounting to a £1.0m total payment).

Although this is a smaller dividend than was paid in relation to FY22, we believe that it is in keeping with FY23's performance (for example, the EBITDA did not meet the threshold for payment of executive bonuses). However, it does not reflect a reduction in the Board's belief in the future prospects of the business, in which it remains confident.

Indicative outlook for FY24 dividend

As previously noted, the Company compiled estimate of the market's forecast for FY24 is an EBITDA of approximately £10.0m. If the actual result for FY24 transpires to be in line with this forecast, it is anticipated that the total dividend for FY24 would grow approximately in proportion with the EBITDA. Assuming that the effects of non-cash accounting variables such as IFRS 16, and tax, are more neutral in FY24, we would expect that the resulting cover from this approach would be more in line with the 2.5x objective outlined above.

Other forms of distribution

It is anticipated that distributions will be made solely via ordinary dividends for the foreseeable future.

In the event that performance improves at a faster rate than anticipated, and that this is sustained, or that for some other reason the Group accumulates cash reserves which it deems surplus to requirements for operation and investment purposes, and for which it can envisage no requirement to maintain on the balance sheet, other forms of distribution will be considered, such as share buy backs.

Decisions as to the quantum and frequency of such alternative distributions would be made at the time, in light of the specific circumstances.

Share buybacks for the purposes of share schemes

To avoid dilution of existing shareholder interests, the Board's intention is for the Group to purchase shares in the market for re-issue under employee share schemes.

Steve Alldridge
Chief Financial Officer
30 August 2023

Consolidated income statement

For the period ended 30 April 2023

	Note	52 weeks to 30 April 2023 Result before Adjusting items £000	Adjusting items £000	Total £000	52 weeks to 1 May 2022 (Restated – Note 11) Result before Adjusting items £000	Adjusting items £000	Total £000
Revenue		**280,102**	**-**	**280,102**	264,630	-	264,630
Cost of sales	4	**(231,150)**	**(5,052)**	**(236,202)**	(209,598)	(2,262)	(211,860)
Gross profit		**48,952**	**(5,052)**	**43,900**	55,032	(2,262)	52,770
Other operating income/(expense)	2	**8**	**-**	**8**	(111)	-	(111)
Distribution expenses		**(10,284)**	**-**	**(10,284)**	(9,128)	-	(9,128)
Administrative expenses		**(24,197)**	**-**	**(24,197)**	(24,116)		(24,116)
Operating profit	5	**14,479**	**(5,052)**	**9,427**	21,677	(2,262)	19,415
Finance income		**227**	**-**	**227**	16		16
Finance expenses		**(4,648)**	**-**	**(4,648)**	(5,192)	-	(5,192)
Net financing expense		**(4,421)**	**-**	**(4,421)**	(5,176)	-	(5,176)
Profit before tax		**10,058**	**(5,052)**	**5,006**	16,501	(2,262)	14,239
Taxation	7	**265**	**-**	**265**	(276)	-	(276)
Profit for the period		**10,323**	**(5,052)**	**5,271**	16,225	(2,262)	13,963
Profit before tax and IFRS 16	3	**3,025**	**(1,488)**	**1,537**	10,980	(2,191)	8,789
Basic earnings per share (pence)	9	**16.5**		**8.4**	26.0		22.3
Diluted earnings per share (pence)	9	**16.4**		**8.4**	25.6		22.0

Profit for the period is attributable to equity holders of the Parent.

Consolidated statement of comprehensive income

For the period ended 30 April 2023

	FY23 £000	FY22 (Restated - Note 11) £000
Profit for the year	5,271	13,963
Items that may be recycled subsequently into profit and loss		
Cash flow hedges - changes in fair value	(2,862)	4,181
Cash flow hedges - reclassified to profit and loss	(62)	(321)
Cost of hedging - changes in fair value	(162)	(83)
Cost of hedging - reclassified to profit and loss	91	94
Tax relating to components of other comprehensive income	262	-
Other comprehensive (expense)/income for the period, net of income tax	(2,733)	3,871
Total comprehensive income for the period attributable to equity shareholders of the Parent	2,538	17,834

Consolidated statement of financial position

As at 30 April 2023

	Note	FY23 £000	FY22 (Restated - Note 11) £000
Non-current assets			
Intangible assets	10	**916**	1,617
Property, plant and equipment	11	**11,733**	9,896
Right-of-use assets	11, 12	**67,463**	76,621
Deferred tax assets	13	**4,854**	4,708
		84,966	92,842
Current assets			
Inventories	14	**33,441**	29,387
Trade and other receivables	15	**7,507**	8,427
Derivative financial asset		**-**	2,393
Current tax asset		**1,149**	-
Cash and cash equivalents	16	**10,196**	16,280
		52,293	56,487
Total assets		**137,259**	149,329
Current liabilities			
Lease liabilities	12, 17	**23,449**	25,434
Trade and other payables	18	**34,479**	35,958
Provisions	19	**565**	204
Derivative financial liability		**1,048**	-
Current tax liability		**-**	740
		59,541	62,336
Non-current liabilities			
Lease liabilities	12, 17	**74,766**	85,702
Provisions	19	**1,298**	913
		76,064	86,615
Total liabilities		**135,605**	148,951
Net assets		**1,654**	378
Equity attributable to equity holders of the Parent			
Share capital		**625**	625
Share premium		**28,322**	28,322
Merger reserve		**(54)**	(54)
Share based payment reserve		**2,780**	2,252
Hedging reserve		**(331)**	2,227
Retained earnings		**(29,688)**	(32,994)
Total equity		**1,654**	378

These financial statements were approved by the Board of Directors on 30 August 2023 and were signed on its behalf by:

Steve Alldridge
Chief Financial Officer

Company registered number: 11325534

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 2 May 2021	625	28,322	(54)	1,601	(1,203)	(20,463)	8,828
Cumulative adjustment to opening balance (Note 11)	-	-	-	-	-	(26,494)	(26,494)
Restated balance at 2 May 2021	625	28,322	(54)	1,601	(1,203)	(46,957)	(17,666)
Total comprehensive income for the period							
Profit for the period (Restated - Note 11)	-	-	-	-	-	13,963	13,963
Other comprehensive income	-	-	-	-	3,871	-	3,871
Total comprehensive income for the period	-	-	-	-	3,871	13,963	17,834
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 25)	-	-	-	-	(441)	-	(441)
Transactions with owners of the Company							
Share-based payment charges	-	-	-	651	-	-	651
Total transactions with owners	-	-	-	651	-	-	651
Balance at 1 May 2022 (Restated - Note 11)	625	28,322	(54)	2,252	2,227	(32,994)	378
Total comprehensive income/(expense) for the period							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**5,271**	**5,271**
Other comprehensive expense	**-**	**-**	**-**	**-**	**(2,733)**	**-**	**(2,733)**
Total comprehensive income/(expense) for the period	**-**	**-**	**-**	**-**	**(2,733)**	**5,271**	**2,538**
Hedging gains and losses and costs of hedging transferred to the cost of inventory (Note 25)	**-**	**-**	**-**	**-**	**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 £170k (FY22: £175k) 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.

Consolidated cash flow statement

For the period ended 30 April 2023

	FY23 £000	FY22 (Restated - Note 11) £000
Profit for the year (including Adjusting items)	**5,271**	13,963
Adjustments for:		
Depreciation of property, plant and equipment	**4,458**	4,040
Impairment of property, plant and equipment	**944**	1,389
Reversal of impairment of property, plant and equipment	**(574)**	(573)
Depreciation of right-of-use assets	**14,840**	15,094
Impairment of right-of-use assets	**6,126**	6,165
Reversal of impairment of right-of-use assets	**(2,562)**	(6,094)
Amortisation of intangible assets	**878**	567
Impairment of intangible assets	**1,118**	1,375
Derivative exchange (gain)/loss	**(721)**	289
Financial income	**(227)**	(16)
Financial expense	**518**	692
Interest on lease liabilities	**4,130**	4,500
Loss on disposal of property, plant and equipment	**149**	179
Profit on disposal of right-of-use asset and lease liability	**(1,105)**	(441)
Loss on disposal of intangible assets	**14**	-
Share-based payment charges	**528**	651
Taxation	**(265)**	276
Operating cash flows before changes in working capital	**33,520**	42,056
Decrease/(increase) in trade and other receivables	**1,033**	(1,514)
Increase in inventories	**(3,129)**	(892)
(Decrease)/increase in trade and other payables	**(1,443)**	9,336
Increase in provisions	**746**	399
Cash flows from operating activities	**30,727**	49,385
Corporation tax paid	**(1,508)**	(222)
Net cash inflow from operating activities	**29,219**	49,163
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(7,296)**	(2,818)
Capital contributions received from landlords	**1,928**	882
Acquisition of intangible assets	**(1,309)**	(1,015)
Interest received	**227**	16
Net cash outflow from investing activities	**(6,450)**	(2,935)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(22,672)**	(25,969)
Payment of lease liabilities (interest)	**(4,130)**	(4,500)
Payment of RCF fees	**(336)**	-
Other interest paid	**(321)**	(157)
RCF drawdown	**4,000**	-
Repayment of bank borrowings	**(4,000)**	(7,500)
Dividend paid	**(1,492)**	-
Purchase of treasury shares	**(473)**	-
Net cash outflow from financing activities	**(29,424)**	(38,126)
Net (decrease)/increase in cash and cash equivalents	**(6,655)**	8,102
Exchange rate movements	**571**	(137)
Cash and cash equivalents at beginning of year	**16,280**	8,315
Cash and cash equivalents at end of year	**10,196**	16,280

Notes to the condensed consolidated financial statements

(Forming part of the financial statements)

1. Accounting policies

Where accounting policies are particular to an individual note, narrative regarding the policy is included with the relevant note; for example, the accounting policy in relation to inventory is detailed in Note 17 (Inventories).

(a) General information

TheWorks.co.uk plc is a leading UK multi-channel value retailer of arts and crafts, stationery, toys, games and books, offering customers a differentiated proposition as a value alternative to full price specialist retailers. The Group operates a network of over 500 stores in the UK & Ireland and online.

TheWorks.co.uk plc (the 'Company') is a UK-based public limited company (11325534) with its registered office at Boldmere House, Faraday Avenue, Hams Hall Distribution Park, Coleshill, Birmingham B46 1AL.

These consolidated financial statements for the 52 weeks ended 30 April 2023 (FY23 or the 'Period') comprise the results of the Company and its subsidiaries (together referred to as the 'Group') and are presented in pounds sterling. All values are rounded to the nearest thousand (£000), except when otherwise indicated.

(b) Basis of preparation

The Group financial statements have been prepared in accordance with UK-adopted International Accounting Standards.

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of policies, and the reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience, future budgets and forecasts, and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods. The Group's significant judgements and estimates relate to going concern and fixed asset impairment; these are described in Note 1(f).

(i) Going concern

The 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 documented in the Strategic report on pages [•] to [•]. The financial statements have been prepared on a going concern basis, which the Directors consider appropriate having made this assessment.

The Group has prepared cash flow forecasts for a period of at least twelve months from the date of approval of these financial statements (the going concern assessment period), based on the Board's forecast for FY24 and its 3 Year Plan, referred to as the 'Base Case' scenario. In addition, a 'severe but plausible' 'Downside Case' sensitivity has been 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 have 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 risks described in the Strategic report;
- the output of the Base Case scenario, which mirrors the Group's 3 year plan and therefore represents their 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.

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 end of FY23 the Group held net cash at bank of £10.2m (FY22: net cash at bank of £16.3m).

After the Period end, the Group extended the tenor of its bank facility by one year and it now expires on 30 November 2026. At the same time, following a review of the historic utilisation of the facility, the Group's anticipated future cash requirements, and the costs of maintaining the facility, the Group requested that HSBC reduce the size of the facility from £30m to £20m.

The facility includes two financial covenants which are tested quarterly:

1. the "Leverage Ratio" or level of net debt to LTM (last twelve months') EBITDA must not exceed 2.5 times during the life of the facility.
2. the "Fixed Charge Cover" or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest. This covenant increases in steps to reflect the expectation of progressively improving financial performance during the life of the facility, as follows: until October 2023, the ratio must be at least 1.20 times; for the following 12 months the ratio must be at least 1.25 times, and thereafter at least 1.30 times.

The Group expects to be able to operate and have sufficient headroom within these covenants during the forecast period.

Potential impact of risks on financial scenarios

It is considered unlikely that *all* the risks described in the Strategic report would manifest themselves to adversely affect the business at the same time. The Base Case scenario/the Group's 3 year financial plan, implicitly already takes into account the risks described, and assumes that they manifest themselves in a way or to an extent that might be considered "neutral".

The Downside Case scenario assumes that there are more severely negative effects than in the Base Case. In particular, the Downside Case assumptions are that macroeconomic conditions are significantly worse, resulting in reduced consumer spending and lower sales. It should be noted that the Base Case already takes into account the current subdued consumer market conditions. The Downside Case assumes that conditions become worse still from the second half of the FY24 financial year.

Base Case scenario

The Base Case scenario assumptions reflect the following factors:

- Store sales (which represent over 85% of total sales) during the first part of FY24 are above the Base Case requirement but online sales are below it. The Group is implementing plans to improve its online profitability in the medium term; in the short term, costs relating to the online business are being tightly controlled to ensure that they reflect the reduced sales level.
- The Base Case gross margin percentage reflects the expected full year effect in FY24 of targeted price increases applied since the beginning of 2023 and also significantly lower ocean container freight costs. These favourable factors are partially offset by a less favourable hedged FX rate than in FY23.
- Anticipated further inflationary effects, in particular the increase in the National Living Wage. In respect of other costs, notably property occupancy costs, it is not expected that there will be further significant inflationary effects during FY24 and FY25, following the significant increases (for example in electricity costs) already experienced during FY23.
- 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 on pages [36 to 42], the impact on the Group's financial performance and position is not expected to be material in the short term.
- The plan makes provision for dividend payments.

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. This is consistent with the normal pattern experienced prior to COVID-19.

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 circumstances such as are described below

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 5% lower than in the Base Case from October 2023 until January 2025.
- In this scenario online sales are assumed to be lower than in the Base Case during FY24 despite the Group's attempts to increase them, but show recovery in FY25.
- The product gross margin assumptions are the same as in the Base Case other than in January 2024 when it is lower, to allow for the clearance of stock which is assumed would have accumulated due to the inability to reduce stock purchases immediately in response to the lower sales level. Expected FX requirements are hedged until mid FY25, and freight rates are hedged until the end of 2023. Beyond that time, it is not anticipated that there will be any interruption to global freight systems as was experienced as a result of the COVID pandemic, which were a consequence of unique circumstances. 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 dividend payments.
- The combined financial effect of the modified assumptions in this scenario compared with the Base Case, during FY24 and FY25, including implementing some of the mitigating activities available, would result in:
    - a reduction in store net sales of approximately £34m.
    - a reduction in online net sales of approximately £1m.
    - a reduction to EBITDA of approximately £9m.

Under this scenario the Group will draw on its bank facility prior to Christmas 2023 but, as a result of the mitigating actions that would be taken in H2 FY24 in response to a downturn in sales, particularly in reducing the value of stock bought for resale, it would not make subsequent use of the bank facility.

The bank facility financial covenants are complied with during the pre-Christmas 2023 period when the facility is being used, but the forecast indicates that the Fixed Charge covenant will not be complied with throughout FY25, although at this time, the facility is not expected to be in use under this scenario.

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 cash headroom at the quarterly covenant testing points in FY25 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 small borrowing requirement could arise. 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. 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 recent 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.

Going concern and basis of preparation conclusion

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) New accounting standards

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 2 May 2022:

- Annual Improvements to IFRS 2018-2020 (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Property, Plant and Equipment – Proceeds before Intended Use (Amendments to IAS 16)
- References to the Conceptual Framework (Amendments to IFRS 3)
- COVID-19 Related Rent Concessions beyond 30 June 2021 (Amendments to IFRS 16)

The adoption of the standards and interpretations listed above has not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

As at the date of approval of these financial statements, the following standards and interpretations, which have not been applied in these financial statements, were in issue, but not yet effective:

- Insurance Contracts (IFRS 17)
- Initial Application of IFRS 17 and IFRS 9 – Comparative Information (Amendments to IFRS 17)
- Extension to the Temporary Exemption from Applying IFRS 9 (Amendments to IFRS 4)
- Disclosure of Accounting Policies (Amendments to IAS 1)
- Deferred Tax Related to Assets and Liabilities Arising from a Single Transaction (Amendments to IAS 12)
- Definition of Accounting Estimates (Amendments to IAS 8)

The adoption of the standards and interpretations listed above is not expected to have a material impact on the financial position or performance of the Group.

(c) 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 financial statements are described in the context of the matters to which they relate, in the following notes:

Description	**Note**
Going concern	1(b)(i)
Impairment of intangible assets, property, plant and equipment and right-of-use assets	10, 11

2. Other operating income/(expense)

Accounting policy

The business was classified as a 'non-essential retailer' during the COVID-19 pandemic and was therefore required to close its shops during periods of lockdown in the FY20 and FY21 financial years. Accordingly, the Group made full use of the support schemes available from the Government to partially mitigate the loss of profit caused by the various periods of closure of the retail stores.

The £119k charge noted in the prior period is to correct an immaterial overstatement of the Coronavirus Job Retention Scheme (CJRS) income reported in respect of FY21.

The COVID-19 business rates relief received during the year was £227k (FY22: £5,828k), which is included within cost of sales.

	FY23 **£000**	FY22 £000
COVID-19 furlough scheme grants receivable	**-**	(119)
Rent receivable	**8**	8
	8	(111)

3. Alternative performance measures (APMs)

Accounting policy

The Group tracks a number of 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.

Like-for-like (LFL) sales

The FY23 like-for-like (LFL) sales increase has been calculated with reference to the FY22 comparative sales figures. In FY22's Annual Report, two-year comparatives were used because the use of a normal one-year LFL comparative was prevented by the various disruptions to store trading brought about by COVID-19 restrictions in the FY21 comparative period. Furthermore, for the last five weeks of FY22, it was necessary to calculate the LFL percentages with reference to the corresponding weeks in FY19, because the equivalent weeks during FY20 were also affected by enforced store closures. Similar comparison periods were also used for the total sales growth figures.

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.

A reconciliation of IFRS revenue to sales on an LFL basis is set out below:

	FY23 **£000**	FY22 £000
Total LFL sales	**297,009**	285,012
Non-LFL store sales	**19,621**	13,359
Total gross sales	**316,630**	298,371
VAT	**(35,144)**	(33,467)
Loyalty points	**(1,384)**	(274)
Revenue per consolidated income statement	**280,102**	264,630

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 6 for a description of Adjusting items. Pre-IFRS 16 EBITDA is used for the bank facility LTM EBITDA covenant calculations.

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

	FY23 £000	FY22 (Restated - Note 11) £000
Pre-IFRS 16 Adjusted EBITDA[1]	**9,000**	16,562
Income statement rental charges not recognised under IFRS 16	**24,865**	24,434
Foreign exchange difference on euro leases	**(152)**	120
Post-IFRS 16 Adjusted EBITDA[1]	**33,713**	41,116
Profit on disposal of right-of-use assets and lease liability recognised under IFRS 16	**1,105**	441
Loss on disposal of property, plant and equipment	**(149)**	(179)
Loss on disposal of intangible assets	**(14)**	-
Depreciation of property, plant and equipment	**(4,458)**	(4,040)
Depreciation of right-of-use assets	**(14,840)**	(15,094)
Amortisation	**(878)**	(567)
Finance expenses	**(4,648)**	(5,192)
Finance income	**227**	16
Tax credit/(charge)	**265**	(276)
Adjusted profit after tax	**10,323**	16,225
Adjusting items (including impairment charges and reversals)	**(5,052)**	(2,262)
Tax charge	**-**	-
Profit after tax	**5,271**	13,963

1 Also adjusted for profit and loss on disposal of right-of-use assets and liabilities, property, plant and equipment and intangible assets.

Profit before tax and IFRS 16

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

	FY23			FY22 (Restated - Note 11)		
	Adjusted £000	**Adjusting items £000**	**Total £000**	Adjusted £000	Adjusting items £000	Total £000
Profit/(loss) before tax and IFRS 16 adjustments	**3,025**	**(1,488)**	**1,537**	10,980	(2,191)	8,789
Remove rental charges not recognised under IFRS 16	**24,737**	**-**	**24,737**	24,308	-	24,308
Remove hire costs from hire of equipment	**128**	**-**	**128**	126	-	126
Remove depreciation charged on the existing assets	**151**	**-**	**151**	89	-	89
Remove interest charged on the existing liability	**34**	**-**	**34**	31	-	31
Depreciation charge on right-of-use assets	**(14,840)**	**-**	**(14,840)**	(15,094)	-	(15,094)
Interest cost on lease liability	**(4,130)**	**-**	**(4,130)**	(4,500)	-	(4,500)
Loss on disposal of right-of-use assets	**(297)**	**-**	**(297)**	(1,899)	-	(1,899)
Profit on disposal of lease liability	**1,402**	**-**	**1,402**	2,340	-	2,340
Foreign exchange difference on euro leases	**(152)**	**-**	**(152)**	120	-	120
Additional impairment charge under IAS 36	**-**	**(3,564)**	**(3,564)**	-	(71)	(71)
Net impact on profit/(loss)	**7,033**	**(3,564)**	**3,469**	5,521	(71)	5,450
Profit/(loss) before tax	**10,058**	**(5,052)**	**5,006**	16,501	(2,262)	14,239

Adjusted profit metrics

Profit measures including operating profit, profit before tax, profit for the period and earnings per share are calculated on an adjusted basis by adding back or deducting Adjusting items. These adjusted metrics are included within the consolidated income statement and consolidated statement of other comprehensive income, with further details of Adjusting items included in Note 6.

4. Adjusting items

Adjusting items are unusual in nature or incidence and sufficiently material in size that in the judgement of the Directors merit disclosure 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.

The Directors believe that the Adjusted profit and earnings per share measures included in this report provide additional useful information to users of the accounts. These measures are consistent with how business performance is measured internally. The profit before tax and Adjusting items measure is not a recognised profit measure under IFRS and may not be directly comparable with adjusted profit measures used by other companies.

If a transaction or related series of transactions has been treated as an Adjusting item in one accounting period, the same treatment will be applied consistently year on year.

In relation to FY23, the items classified as 'Adjusting', as shown below, were related to transactions that had been treated as Adjusting in prior periods.

	FY23 £000	FY22 (Restated - Note 11) £000
Cost of sales		
Impairment charges[1]	**8,188**	8,929
Impairment reversals[1]	**(3,136)**	(6,667)
Total cost of sales	**5,052**	2,262
Total Adjusting items	**5,052**	2,262

1 These relate to fixed asset impairment charges and reversals of prior year impairment charges.

5. Operating profit

Operating profit before Adjusting items is stated after charging/(crediting) the following items:

	FY23 £000	FY22 (Restated - Note 11) £000
Loss on disposal of property, plant and equipment	**149**	179
Loss on disposal of intangible assets	**14**	-
Profit on disposal of right-of-use assets and lease liability	**(1,105)**	(441)
Depreciation	**19,298**	19,134
Amortisation	**878**	567
Operating lease payments:		
- Hire of plant and machinery[1]	**371**	389
- Other operating leases[1]	**2,136**	1,549
Net foreign exchange loss/(gain)	**392**	(128)
Cost of inventories recognised as an expense	**119,085**	106,954
Staff costs	**62,235**	60,031

1 These balances relate to non-IFRS 16 operating lease rentals during the year; please refer to Note 15 for further details of these balances.

Auditor's remuneration:

	FY23 £000	FY22 £000
Fees payable to the Group's auditor for the audit of the Group's annual accounts	**500**	450
Amounts payable in respect of other services to the Company and its subsidiaries		
Audit of the accounts of subsidiaries	**40**	40
Audit related assurance services (provision of turnover certificates required under certain leases)	**1**	1
Total services	**541**	491

6. Staff numbers and costs

The average number of people employed by the Group (including Directors) during the year, analysed by category, was as follows:

	Number of employees	
	FY23	FY22
Store support centre colleagues	**243**	216
Store colleagues	**3,564**	3,468
Warehouse and distribution colleagues	**147**	140
	3,954	3,824

The corresponding aggregate payroll costs were as follows:

	FY23 £000	FY22 £000
Wages and salaries	**57,189**	55,600
Social security costs	**4,156**	3,654
Contributions to defined contribution pension schemes	**890**	777
Total employee costs	**62,235**	60,031
Agency labour costs	**2,035**	1,505
Total staff costs	**64,270**	61,536

7. Taxation

Accounting policy

The tax expense represents the sum of the tax currently payable and deferred tax.

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from net profit as reported in the income statement because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the balance sheet date.

Deferred tax

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited in other comprehensive income, in which case the deferred tax is also dealt with in other comprehensive income.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case the current and deferred tax are also recognised in other comprehensive income or directly in equity, respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Recognised in consolidated income statement

	FY23 **£000**	FY22 (Restated[1]) £000
Current tax expense		
Current year	**230**	1,288
Adjustments for prior years	**(611)**	3
Current tax (credit)/expense	**(381)**	1,291
Deferred tax credit		
Origination and reversal of temporary differences	**(212)**	(111)
Increase in tax rate	**(172)**	(1,120)
Adjustments for prior years	**500**	216
Deferred tax credit	**116**	(1,015)
Total tax expense	**(265)**	276

[1] The FY22 corporation tax charge has been restated to reflect the tax impact of the restatements documented in Note 11.

The UK corporation tax rate for FY23 was 19.5% on average with the UK corporation tax rate changing from 19.0% to 25.0% 11 months into the financial year (FY22: 19.0%). Taxation for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

An increase in the UK corporation rate from 19.0% to 25.0% (effective 1 April 2023) was substantively enacted on 24 May 2021. As the deferred tax assets and liabilities should be recognised based on the corporation tax rate applicable when they are anticipated to unwind, the assets and liabilities on UK operations have been recognised at a rate of 25.0% (FY22: 25.0%). Assets and liabilities arising on foreign operations have been recognised at the applicable overseas tax rates.

Reconciliation of effective tax rate

	FY23 £000	FY22 (Restated – see above) £000
Profit for the year	**5,006**	14,239
Tax using the UK corporation tax rate of 19.5% (FY22: 19.0%)	**976**	2,705
Non-deductible expenses	**147**	182
Effect of tax rates in foreign jurisdictions	**(13)**	(40)
Tax (over)/under provided in prior periods	**(111)**	219
Utilisation of unrecognised tax losses brought forward	**(1,211)**	(1,756)
Deferred tax not recognised	**(18)**	86
Losses carries forwards	**137**	-
Change in tax rate	**(172)**	(1,120)
Total tax (credit)/expense	**(265)**	276

The Group's total income tax credit in respect of the period was £265k (FY22: expense of £276k). The effective tax rate on the total profit before tax was (5.3)% (FY22: 1.9% on the profit before tax) whilst the effective tax rate on the total profit before Adjusted items was (2.6)% (FY22: 1.7% on the profit before Adjusted items). The difference between the total effective tax rate and the Adjusted tax rate relates to fixed asset impairment charges and reversals within Adjusting items being non-deductible for tax purposes.

The current year tax credit recognised above relates to an adjustment to the prior year corporation tax creditor recognised; this was higher than the corporation tax payable when the FY22 corporation tax computations were finalised due to the inclusion of the super deduction in the final year-end tax computations.

8. Dividends

Accounting policy

At the balance sheet date, dividends are only recognised as a liability if they are appropriately authorised and are no longer at the discretion of the Company. Unpaid dividends that do not meet these criteria are disclosed in the notes to the financial statements.

	Pence per share	**FY23 £000**	FY22 £000
Final dividend for the year ended 1 May 2022	2.4p	**1,492**	-
Total dividend paid to shareholders during the year		**1,492**	-

Dividend equivalents totalling £603k (FY22: £375k) were accrued in the year in relation to share-based long-term incentive schemes.

The Board has recommended the payment of a 1.6 pence per share final dividend in respect of FY23 (FY22: 2.4 pence).

9. 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 is based on the weighted average number of shares in issue for the period, adjusted for the dilutive effect of potential ordinary shares. Potential ordinary shares represent shares that may be issued in connection with employee share incentive awards.

The Group has chosen to present an Adjusted earnings per share measure, with profit adjusted for Adjusting items (see Note 6 for further details) to reflect the Group's underlying profit for the year.

	FY23 Number	FY22 Number
Number of shares in issue	**62,500,000**	62,500,000
Number of dilutive share options	**621,130**	940,673
Number of shares for diluted earnings per share	**63,121,130**	63,440,673

	£000	£000 (Restated - Note 11)
Total profit for the financial period	**5,271**	13,963
Adjusting items	**5,052**	2,262
Adjusted profit for Adjusted earnings per share	**10,323**	16,225

	Pence	Pence (Restated - Note 11)
Basic earnings per share	**8.4**	22.3
Diluted earnings per share	**8.4**	22.0
Adjusted basic earnings per share	**16.5**	26.0
Adjusted diluted earnings per share	**16.4**	25.6

10. Intangible assets

Accounting policy

Goodwill

Goodwill arising on consolidation represents any excess of the consideration paid and the amount of any non-controlling interest in the acquiree over the fair value of the identifiable assets and liabilities (including intangible assets) of the acquired entity at the date of the acquisition. Goodwill is recognised as an asset and assessed for impairment annually or as triggering events occur. Any impairment in value is recognised within the income statement. Goodwill was fully impaired in FY20.

Software

Where computer software is not an integral part of a related item of computer hardware, the software is treated as an intangible asset. Capitalised software costs include external direct costs of goods and services (such as consultancy), as well as internal payroll related costs for employees who are directly working on the project. Internal payroll related costs are capitalised if the recognition criteria of IAS 38 Intangible Assets are met or are expensed as incurred otherwise.

Capitalised software development costs are amortised on a straight-line basis over their expected economic lives, normally between three and seven years. Computer software under development is held at cost less any recognised impairment loss. Any impairment in value is recognised within the income statement and treated as an Adjusting item.

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 1 May 2022	16,180	9,058	25,238
Additions	-	1,309	1,309
Disposals	-	(1,057)	(1,057)
Balance at 30 April 2023	16,180	9,310	25,490
Amortisation and impairment			
Balance at 1 May 2022	16,180	7,441	23,621
Amortisation charge for the year	-	878	878
Impairment charges	-	1,118	1,118
Disposals[1]	-	(1,043)	(1,043)
Balance at 30 April 2023	16,180	8,394	24,574
Net book value			
At 1 May 2022	-	1,617	1,617
At 30 April 2023	-	916	916

1. During FY23 the Group reviewed assets on the fixed asset register with a nil net book value. Following this review intangible assets with a cost and accumulated depreciation of £1,043k were deemed to no longer be in use by the Group and have therefore been disposed of.

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 3 May 2021	16,180	8,043	24,223
Additions	-	1,015	1,015
Balance at 1 May 2022	16,180	9,058	25,238
Amortisation and impairment			
Balance at 3 May 2021 (Restated[2])	16,180	5,499	21,679
Amortisation charge for the year (Restated[2])	-	567	567
Impairment charge (Restated[2])	-	1,375	1,375
Balance at 1 May 2022 (Restated[2])	16,180	7,441	23,621
Net book value			
At 3 May 2021 (Restated[2])	-	2,544	2,544
At 1 May 2022 (Restated[2])	-	1,617	1,617

2. These balances have been restated to reflect the impact of the prior period restatements in Note 11.

Goodwill impairment testing

Goodwill of £16.2m was impaired to £Nil in FY20; therefore, no further impairment testing is necessary in relation to this.

Impairment of other intangible assets

Please refer to Note 11 for details of impairment of tangible and intangible assets.

11. Property, plant and equipment

Accounting policy

Items of property, plant and equipment are stated at their cost of acquisition or production, less accumulated depreciation and accumulated impairment losses.

Depreciation is charged on a straight-line basis over the estimated useful lives as follows:

- Leasehold property improvements: over the life of the lease.
- Fixtures and fittings: 15% per annum straight line or depreciated on a straight-line basis over the remaining life of the lease, whichever is shorter.
- Computer equipment: 25 to 50% per annum straight-line.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date, with the effect of any changes in estimate accounted for on a prospective basis. An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sale proceeds and the carrying amount of the asset and is recognised in profit or loss.

IFRS 16

IFRS 16 creates the concept of right-of-use assets. The accounting policy and description of the accounting treatment in respect of IFRS 16 is included within Note 15.

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 30 April 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 FY23 pre-tax discount rate has been calculated on a post-IFRS 16 basis. FY22's originally reported impairment was calculated on a pre-IFRS 16 basis discounted using a pre-IFRS 16 WACC of 17.9%; however, when the prior year restatements documented below were calculated, the cash flows were produced on a post-IFRS 16 basis and discounted using a post IFRS 16 WACC to ensure consistency of approach.

	FY23	FY22 (Restated)
Pre-tax discount rate	**12.78%**	11.48%
Medium-term growth rate	**1.0%**	2.0%

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(b)(i) (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 the end of FY23, 87% (FY22: 91%) of central costs have been allocated by category using appropriate volumetrics.

Cash flows beyond the corporate plan period (2027 and beyond) 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 FY23, 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 (FY22 restated: an impairment charge of £7,540k was recognised against 200 stores with a recoverable amount of £26,528k, and an impairment charge of £1,389k was recognised against the website). An impairment reversal of £3,136k has been recognised in FY23 relating to 100 stores with a recoverable amount of £18,090k as at 30 April 2023 (FY22 restated: an impairment reversal of £6,667k was recognised relating to 108 stores with a recoverable amount of £24,950k).

A net impairment charge of £5,052k (FY22 restated: £2,262k) 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 £8,981k. An increase in sales of 5% from the Base Case plan would decrease the net impairment charge by £5,827k;
- a reduction in gross margin of 2% would result in an increase in the net impairment charge of £2,320k. An increase in gross margin of 2% would decrease the net impairment charge by £2,063k;
- a 200-basis point increase in the pre-tax discount rate would result in an increase in the net impairment charge of £1,412k, while a 200 basis point decrease in the pre-tax discount rate would result in a decrease in the net impairment charge of £1,387k;
- a 100 basis point decrease in the medium-term growth rate would result in an increase in the net impairment charge of £493k, while a 100 basis point increase in the medium-term growth rate would result in an increase in the net impairment charge of £481k;
- increasing the percentage of central costs allocated across CGUs from 87% to 97% would result in an increase in the net impairment charge of £2,234k. Decreasing the percentage of central costs allocated across CGUs from 87% to 77% would result in a decrease in the net impairment charge of £2,000k.

Whilst the Directors consider their assumptions to be realistic, should actual results be different from expectations, then it is possible that the value of property, plant and equipment included in the balance sheet could become materially different to the estimates used.

	RoUA – property £000	RoUA – plant and equipment £000	Leasehold improvements £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 1 May 2022 (Restated[2])	151,091	2,421	10,729	3,818	27,259	195,318
Additions	9,530	13	933	1,109	4,772	16,357
Disposals[1]	(6,570)	-	(4,254)	(1,271)	(12,836)	(24,931)
Balance at 30 April 2023	154,051	2,434	7,408	3,656	19,195	186,744
Depreciation and impairment						
Balance at 1 May 2022 (Restated[2])	75,483	1,408	8,686	3,507	19,717	108,801
Depreciation charge for the year	14,483	357	1,315	307	2,836	19,298
Impairment charge	6,126	-	9	388	547	7,070
Impairment reversals	(2,562)	-	(172)	-	(402)	(3,136)
Disposals	(6,273)	-	(4,190)	(1,230)	(12,792)	(24,485)
At 30 April 2023	87,257	1,765	5,648	2,972	9,906	107,548
Net book value						
At 1 May 2022 (Restated[2])	75,608	1,013	2,043	311	7,542	86,517
At 30 April 2023	66,794	669	1,760	684	9,289	79,196

1. During FY23 the Group reviewed assets on the fixed asset register with a nil net book value. Following this review, fixed assets with a cost and accumulated depreciation of £17,502k were deemed to no longer be in use by the Group and have therefore been disposed of. The totals disposed of by category were as follows: £3,995k leasehold improvements, £1,172k plant and equipment, £12,375k fixtures and fittings.
2. These balances have been restated to reflect the impact of the prior period restatements discussed below.

	RoUA – property £000	RoUA – plant and equipment £000	Leasehold improvements £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 3 May 2021 (Restated[2])	154,319	1,913	10,410	3,376	26,167	196,185
Additions (Restated[2])	2,540	508	548	476	1,499	5,571
Disposals	(5,768)	-	(229)	(34)	(407)	(6,438)
Balance at 1 May 2022 (Restated[2])	151,091	2,421	10,729	3,818	27,259	195,318
Depreciation and impairment						
Balance at 3 May 2021 (Restated[2])	64,619	976	7,712	2,784	17,049	93,140
Depreciation charge for the year (Restated[2])	14,662	432	1,268	341	2,431	19,134
Impairment charge (Restated[2])	6,165	-	134	411	844	7,554
Impairment reversals (Restated[2])	(6,094)	-	(252)	(8)	(313)	(6,667)
Disposals	(3,869)	-	(176)	(21)	(294)	(4,360)
Balance at 1 May 2022	75,483	1,408	8,686	3,507	19,717	108,801
Net book value						
At 3 May 2021 (Restated[2])	89,700	937	2,698	592	9,118	103,045
At 1 May 2022 (Restated[2])	75,608	1,013	2,043	311	7,542	86,517

2 These balances have been restated to reflect the impact of the prior period restatements discussed below.

Prior Period Restatements

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 FY21 closing accumulated depreciation has been increased by £1,768k with a corresponding decrease in closing FY21 reserves.

The FY22 in year depreciation charge has increased by £537k, reducing adjusted profit before tax and closing property, plant and equipment net book value. In the consolidated cash flow statement, the FY22 adjustment has increased the 'depreciation of property, plant and equipment' by £537k, 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 £344k reduction in the right-of-use asset NBV at 3 May 2021, and a £743k reduction at 1 May 2022, 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 the current year, the directors have 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 at 2 May 2021 and 1 May 2022.

The FY21 closing impairment balance relating to right-of-use assets has increased by £26,681k, the closing impairment balance relating to property, plant and equipment has increased by £5,638k, and the closing impairment balance relating to intangible assets has increased by £281k. The adjustment to closing FY21 reserves is therefore £32,600k.

The FY22 reassessment resulted in a £173k higher net impairment charge relating to right-of-use assets, a £479k higher net impairment charge relating to property, plant and equipment, and a £1,375k higher net impairment charge relating to intangible assets. Therefore, the reduction in total profit before tax relating to FY22 impairment charges is £2,027k. These adjustments have resulted in the restatement of a number of reconciling items in the consolidated cash flow statement relating to impairment charges, reversal of impairment charges, and profit / loss on disposal of fixed assets, however they have no overall impact on net cash flows from operating, financing and investing activities or on 'net increase in cash and cash equivalents'.

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 and FY22, resulting in the depreciation charge in FY21 and FY22 being overstated. The FY21 closing accumulated depreciation has been reduced by £5,120k relating to right-of-use assets, £1,946k relating to property, plant and equipment and £362k relating to intangible assets, with a corresponding increase in closing FY21 reserves.

The FY22 in year depreciation charge has decreased by £4,748k relating to right-of-use assets, £1,658k relating to property, plant and equipment, and £239k relating to intangible assets, increasing adjusted profit before tax by £6,645k. 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. Please refer to notes 10 and 16 for restated taxation disclosures.

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 FY22 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	**FY22 restated balance**	
Income statement								
Revenue	**264,630**	-	-	-	-	-	**264,630**	
Cost of sales	**(216,053)**	(425)	-	(2,027)	6,645	-	**(211,860)**	
Gross profit	**48,577**	(425)	-	(2,027)	6,645	-	**52,770**	
Other operating income	**(111)**	-	-	-	-	-	**(111)**	
Distribution expenses	**(9,128)**	-	-	-	-	-	**(9,128)**	
Administrative expenses	**(24,004)**	(112)	-	-	-	-	**(24,116)**	
Operating profit	**15,334**	(537)	-	(2,027)	6,645	-	**19,415**	
Net financing expense	**(5,176)**	-	-	-	-	-	**(5,176)**	
Profit before tax	**10,158**	(537)	-	(2,027)	6,645	-	**14,239**	
Taxation	**(1,436)**	-	-	-	-	1,160	**(276)**	
Profit after tax	**8,722**	(537)	-	(2,027)	6,645	1,160	**13,963**	

Summarised consolidated statement of financial position

		Adjustments						
	Per FY22 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	**FY22 restated balance**	
Non-current assets								
Intangible assets	**2,672**	-	-	(1,657)	602	-	**1,617**	
Property, plant and equipment	**13,970**	(2,304)	743	(6,117)	3,604	-	**9,896**	
Right-of-use assets	**94,351**	-	(743)	(26,853)	9,866	-	**76,621**	
Deferred tax assets	**3,477**	-	-	-	-	1,231	**4,708**	
	114,470	(2,304)	-	(34,627)	14,072	1,231	**92,842**	
Current assets	**56,487**	-	-	-	-	**-**	**56,487**	
Total assets	**170,957**	(2,304)	-	(34,627)	14,072	1,231	**149,329**	
Liabilities								
Tax liability	**(1,115)**	-	-	-	-	375	**(740)**	
Other liabilities	**(148,211)**	-	-	-	-	-	**(148,211)**	
Total liabilities	**(149,326)**	-	-	-	-	375	**(148,951)**	
Net assets	**21,631**	(2,304)	-	(34,627)	14,072	1,606	**378**	
Equity attributable to equity holders of the Parent								
Retained earnings	**(11,741)**	(2,304)	-	(34,627)	14,072	1,606	**(32,994)**	
Other reserves	**33,372**	-	-	-	-	-	**33,372**	
Total equity	**21,631**	(2,304)	-	(34,627)	14,072	1,606	**378**	

		Adjustments						
	Per FY21 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	**FY21 restated balance**	
Non-current assets								
Intangible assets	**2,463**	-	-	(281)	362	-	**2,544**	
Property, plant and equipment	**17,524**	(1,768)	344	(5,638)	1,946	-	**12,408**	
Right-of-use assets	**112,542**	-	(344)	(26,681)	5,120	-	**90,637**	
Deferred tax assets	**2,852**	-	-	-	-	842	**3,694**	
	135,381	(1,768)	-	(32,600)	7,428	842	**109,283**	
Current assets								
Tax asset	**704**	-	-	-	-	(396)	**308**	
Other current assets	**44,360**	-	-	-	-	**-**	**44,360**	
	45,064	-	-	-	-	**(396)**	**44,668**	
Total assets	**180,445**	(1,768)	-	(32,600)	7,428	446	**153,951**	
Total liabilities	**(171,617)**	-	-	-	-	-	**(171,617)**	
Net assets	**8,828**	(1,768)	-	(32,600)	7,428	446	**(17,666)**	
Equity attributable to equity holders of the Parent								
Retained earnings	**(20,463)**	(1,768)	-	(32,600)	7,428	446	**(46,957)**	
Other reserves	**29,291**	-	-	-	-	-	**29,291**	
Total equity	**8,828**	(1,768)	-	(32,600)	7,428	446	**(17,666)**	

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 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**

	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 2 May 2021	625	28,322	(54)	1,601	(1,203)	(20,463)	8,828
Cumulative adjustment	-	-	-	-	-	(26,494)	(26,494)
Restated balance at 2 May 2021	**625**	**28,322**	**(54)**	**1,601**	**(1,203)**	**(46,957)**	**(17,666)**

12. IFRS 16

Accounting policy

IFRS 16 establishes principles for the recognition, measurement, presentation and disclosure of leases.

IFRS 16 requires the use of a single definition of leases, which recognises a right-of-use asset (RoUA) and a lease liability for all leases, with exceptions only permitted for short-term and low-value leases. Accordingly, the impact of IFRS 16 is to require recognition of a lease liability and a corresponding RoUA in relation to leases previously classified as operating leases, which were hitherto accounted for via a single charge to the profit and loss account.

The most significant impact is that the Group's retail store operating leases are recognised on the balance sheet as right-of-use assets representing the economic benefits of the Group's right to use the underlying leased assets, together with the associated future lease liabilities.

Under IFRS 16, the Group recognises right-of-use assets and lease liabilities at the lease commencement date.

Identifying an IFRS 16 lease

At the inception of a contract, the Group assesses whether it is, or contains, a lease. A contract is, or contains, a lease if it conveys the right to control the use of an asset for a period of time, in exchange for consideration. Control is conveyed where the Group has both the right to direct the asset's use and to obtain substantially all the economic benefits from that use. For each lease or lease component, the Group follows the lease accounting model as per IFRS 16, unless the permitted recognition exceptions can be used.

Recognition exceptions

The Group leases many assets, including properties, IT equipment and warehouse equipment.

The Group has elected to account for lease payments as an expense on a straight-line basis over the lease term or another systematic basis for the following types of leases:

(i) leases with a term of 12 months or less;

(ii) leases where the underlying asset has a low value; and

(iii) concession leases where the landlord has substantial substitution rights.

For leases where the Group has taken the short-term lease recognition exemption and there are any changes to the lease term or the lease is modified, the Group accounts for the lease as a new lease.

For leases where the Group has taken a recognition exemption as detailed above, rentals payable under these leases are charged to income on a straight-line basis over the term of the relevant lease except, where another more systematic basis is more representative of the time pattern in which economic benefits from the lease asset are consumed.

Lessee accounting under IFRS 16

Upon lease commencement, the Group recognises a right-of-use asset and a lease liability.

Initial measurement

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset, or to restore the underlying asset or the site on which it is located at the end of the lease, less any lease incentives received.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the incremental borrowing rate as the rate implicit in the lease cannot be readily determined.

Variable lease payments that depend on an index or a rate are included in the initial measurement of the lease liability and are initially measured using the index or rate as at the commencement date. Amounts expected to be payable by the Group under residual value guarantees are also included. Variable lease payments that are not included in the measurement of the lease liability are recognised in profit or loss in the period in which the event or condition that triggers payment occurs unless the costs are included in the carrying amount of another asset under another accounting standard.

The Group has applied judgement to determine the lease term for some lease contracts that include renewal options. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, which significantly affects the value of lease liabilities and right-of-use assets recognised.

The payments related to leases are presented under cash flows from financing activities and cash flows from operating activities in the cash flow statement.

Subsequent measurement

After lease commencement, the Group values right-of-use assets using a cost model. Under the cost model, a right-of-use asset is measured at cost less accumulated depreciation and accumulated impairment.

The lease liability is subsequently increased by the interest cost on the lease liability and decreased by lease payments made. It is re-measured to reflect changes in: the lease term (using a revised discount rate); the assessment of a purchase option (using a revised discount rate); the amounts expected to be payable under residual value guarantees (using an unchanged discount rate); and future lease payments resulting from a change in an index or a rate used to determine those payments (using an unchanged discount rate).

The re-measurements are matched by adjustments to the right-of-use asset. Lease modifications may also prompt re-measurement of the lease liability unless they are determined to be separate leases.

Depreciation of right-of-use assets

The right-of-use asset is subsequently depreciated using the straight-line method, from the commencement date to the earlier of either the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property, plant and equipment. In addition, the right-of-use asset is reduced by impairment losses, if any, and adjusted for certain re-measurements of the lease liability.

Determining the lease term

Termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility. At the commencement date of property leases, the Group determines the lease term to be the full term of the lease, assuming that any option to break or extend the lease is unlikely to be exercised. Leases will be revalued if it becomes likely that a break clause is to be exercised. In determining the likelihood of the exercise of a break option, management considers all facts and circumstances that create an economic incentive to exercise the termination option. For property leases, the following factors are the most relevant:

- the profitability of the leased store and future plans for the business; and
- if there are any significant penalties to terminate (or not extend), the Group is typically reasonably certain to extend.

COVID-19 concessions

The Group elected to account for qualifying COVID-19 related rent concessions as variable lease payments, recognising the concession in the period in which the event or condition that triggers the payments occurs. Rent concessions are qualifying if the following conditions are met:

(i) the concession is a direct consequence of the COVID-19 pandemic;

(ii) the change in lease payments resulted in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;

(iii) the reduction in lease payments only affects payments due on or before 30 June 2022; and

(iv) there is no substantive change to other terms and conditions of the lease.

The Group has applied this practical expedient consistently to all lease contracts with similar characteristics and in similar circumstances.

Amounts recognised in the statement of financial position

Right-of-use assets

	FY23 £000	FY22 (Restated - Note 11) £000
Land and buildings	**66,794**	75,608
Plant and equipment	**669**	1,013
Total right-of-use assets	**67,463**	76,621

Additions to the right-of-use assets during FY23 were £9,543k (FY22: £3,048k).

Lease liabilities

Lease liabilities included in the statement of financial position as at the financial year end:

	FY23 £000	FY22 £000
Current	**23,449**	25,434
Non-current	**74,766**	85,702
	98,215	111,136

Maturity analysis – contractual undiscounted cash flows:

	FY23 £000	FY22 £000
Less than one year	**27,163**	31,592
One to two years	**22,926**	27,283
Two to three years	**18,039**	23,655
Three to four years	**12,944**	18,977
Four to five years	**9,185**	13,102
More than five years	**21,718**	21,862
Total undiscounted lease liabilities	**111,975**	136,471

Amounts recognised in the statement of profit and loss

	FY23 £000	FY22 (Restated - Note 11) £000
Depreciation charge on right-of-use assets (RoUA)	**14,840**	15,094
Interest cost on lease liability	**4,130**	4,500
Profit on disposal of RoUA / lease liability	**(1,105)**	(441)
Foreign exchange difference on euro leases	**(152)**	120
Additional impairment charge under IAS 36	**3,564**	71
Operating lease rentals – hire of plant, equipment and motor vehicles		
– Low-value leases	**371**	389
Total plant, equipment and motor vehicle operating lease rentals	**371**	389
Operating lease rentals – store leases		
– Stores with variable lease rentals	**877**	454
– Concession leases (the landlord has substantial substitution rights)	**977**	943
– Low-value leases	**13**	(11)
– Lease is expiring within 12 months or has rolling break clauses	**53**	87
– Lease has expired	**397**	484
– Variable lease payments as a result of COVID-19 concessions	**(181)**	(408)
Total store operating lease rentals	**2,136**	1,549

Depreciation of right-of-use asset by class:

	FY23 £000	FY22 (Restated - Note 11) £000
Land and buildings	**14,483**	14,662
Plant and equipment	**357**	432
Total right-of-use asset depreciation	**14,840**	15,094

13. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		Liabilities	
	FY23 £000	FY22 (Restated[1]) £000	FY23 £000	FY22 (Restated[1]) £000
Property, plant and equipment	2,876	2,868	**-**	-
Leases	1,362	1,645	**-**	-
Temporary timing differences	354	195	**-**	-
Financial assets/liabilities	262	-	**-**	-
Tax assets	4,854	4,708	**-**	-

Movement in deferred tax during the year

	Fixed assets £000	Leases £000	Temporary timing differences £000	Financial assets/ liabilities £000	Total £000
At 1 May 2022 (Restated[1])	**2,868**	**1,645**	**195**	**-**	**4,708**
Adjustment in respect of prior years	**(499)**	**-**	**-**	**(598)**	**(1,097)**
Deferred tax (charge)/credit to profit and loss	**507**	**(283)**	**159**	**-**	**383**
Deferred tax credit in equity profit and loss	**-**		**-**	**860**	**860**
At 30 April 2023	**2,876**	**1,362**	**354**	**262**	**4,854**

[1] The FY22 deferred tax asset has been restated to reflect the tax impact of the restatements documented in Note 11.

Movement in deferred tax during the prior year

	Fixed assets £000	Leases £000	Temporary timing differences £000	Financial assets/ liabilities £000	Total £000
At 1 May 2022 (Restated[1])	**1,574**	**1,420**	**372**	**328**	**3,694**
Adjustment in respect of prior years	**-**	**-**	**(216)**	**-**	**(216)**
Deferred tax (charge)/credit to profit and loss (Restated[1])	**1,294**	**225**	**39**	**(328)**	**1,230**
Deferred tax credit in equity profit and loss	**-**	**-**	**-**	**-**	**-**
At 1 May 2022 (Restated[1])	**2,868**	**1,645**	**195**	**-**	**4,708**

[1] The FY22 deferred tax asset has been restated to reflect the tax impact of the restatements documented in Note 11.

Tax losses carried forward for which no deferred tax asset has been recognised total £9,273k (FY22: £14,288k) with an expiry date of April 2024.

14. Inventories

Accounting policy

Inventories comprise stocks of finished goods for resale and are valued on a weighted average cost basis and carried at the lower of cost and net realisable value. 'Cost' includes all direct expenditure and other attributable costs incurred in bringing inventories to their present location and condition.

The process of purchasing inventories may include the use of cash flow hedges to manage foreign exchange risk. Where hedge accounting applies, an adjustment is applied such that the cost of stock reflects the hedged exchange rate.

Inventory summary

	FY23 £000	FY22 £000
Gross stock value	**31,278**	29,817
Less: stock provisions for shrinkage and obsolescence	**(1,037)**	(3,252)
Goods for resale net of provisions	**30,241**	26,565
Stock in transit	**3,200**	2,822
Inventory	**33,441**	29,387

The cost of inventories recognised as an expense during the period was £119.1m (FY22: £107.7m).

Stock provisions

The Group makes provisions in relation to stock quantities, due to potential stock losses not yet reflected in the accounting records, commonly referred to as unrecognised shrinkage and, in relation to stock value, where the net realisable value of an item is expected to be lower than its cost, due to obsolescence.

Shrinkage provision

During the prior financial year, the Group carried out 'tactical' (perpetual inventory basis) stock counts in its retail stores on a regular basis, such that at the end of the financial year a significant proportion of stock in stores had been counted and stock file adjustments made to correct errors indicated by the counts. In addition, full four wall counts (i.e. a controlled count of all stock in a store) had been performed in 71 stores during the last 6 weeks of the financial year, with an additional 53 four wall counts performed in the month following the financial year end.

During FY23, full four wall counts were performed in 524 stores during the last 13 weeks of the financial year. Through these counts, the Group established that its accounting records reflected the actual quantities of stock in stores. This process also provides the Group with an indication of the typical percentage of stock loss, which is used to calculate, by extrapolation, unrecognised shrinkage at the balance sheet date. The stock records were updated to reflect the results of the stock counts, which occurred nearer to the end of the financial year than the counts undertaken in FY22, as a result of which, the provision required for unrecognised shrinkage materially decreased compared with the value at the end of FY22, by £1.4m to £0.4m.

The unrecognised shrinkage provision was £0.4m at the Period end (FY22: £1.9m), representing 1.9% of gross store stock (FY22: 8.6%). The provision relates to store stock with a value of £20.9m (FY22: £22.2m). This represents management's best estimate of the likely level of stock losses experienced.

Obsolescence provision

Generally, the Group's inventory does not comprise a large proportion of stock with a 'shelf life'. Stock lines which are slow selling because they have been less successful than planned or which have sold successfully and become fragmented as they reach the natural end of their planned selling period, are usually discounted and sold during 'sale' events, for example the January sale. This stock is referred to as terminal stock.

During FY23, a high degree of focus has been placed on clearing terminal stock and at the period end the Group held significantly less terminal stock than the prior year. Consequently, the obsolescence provision has reduced by £0.7m to £0.6m.

The Group has considered the impact of customer preferences and ESG considerations on potential stock obsolescence, and these factors are not deemed to have a material impact on the level of provision required.

15. Trade and other receivables

	FY23 £000	FY22 £000
Current		
Trade receivables	**2,864**	2,606
Other receivables	**359**	1,793
Prepayments	**4,284**	4,028
Trade and other receivables	**7,507**	8,427

Trade receivables are attributable to sales which are paid for by credit card and are classified as finance assets at amortised cost; they are all current. No credit is provided to customers. The value and nature of trade receivables is such that no material credit losses occur; therefore, no loss allowance has been recorded at the period end (FY22: £Nil).

Other receivables relate to stock on water deposits paid, and other accounts payable debit balances. Prepayments relate to prepaid property costs and other expenses.

16. Cash and cash equivalents

	FY23 £000	FY22 £000
Cash and cash equivalents per balance sheet	**10,196**	16,280
Net cash and cash equivalents	**10,196**	16,280

The Group's cash and cash equivalents are denominated in the following currencies:

	FY23 £000	FY22 £000
Sterling	**8,208**	12,198
Euro	**1,949**	3,102
US dollar	**39**	980
Net cash and cash equivalents	**10,196**	16,280

At 30 April 2023, the Group held net cash (excluding lease liabilities) of £10.2m (FY22: net cash (excluding lease liabilities) of £16.3m). This comprised cash of £10.2m (FY22: cash of £16.3m).

For the year ended 30 April 2023, the Group's bank facilities comprise an RCF of £30.0m expiring 30 November 2025. Since the Period end, the facility was extended by a year and reduced in size by £10.0m.

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.

17. Borrowings

Accounting policy

Interest-bearing bank loans and overdrafts, loan notes and other loans are recognised in the balance sheet at amortised cost. Finance charges associated with arranging non-equity funding are recognised in the income statement over the life of the facility. All other borrowing costs are recognised in the income statement in accordance with the effective interest rate method. A summary of the Group's objectives, policies, procedures and strategies with regard to financial instruments and capital management can be found in Note 25. At 30 April 2023, all borrowings were denominated in sterling (FY22: sterling).

	FY23 £000	FY22 £000
Non-current liabilities		
Lease liabilities	**74,766**	85,702
Non-current liabilities	**74,766**	85,702
Current liabilities		
Lease liabilities	**23,449**	25,434
Current liabilities	**23,449**	25,434

Reconciliation of borrowings to cash flows arising from financing activities

	FY23 £000	FY22 £000
Borrowings at start of year (excluding overdrafts)	**111,136**	143,009
Changes from financing cash flows		
Payment of lease liabilities (capital)	**(22,672)**	(25,969)
Payment of lease liabilities (interest)	**(4,130)**	(4,500)
Proceeds from loans and borrowings[1]	**4,000**	-
Repayment of bank borrowings[1]	**(4,000)**	(7,500)
Total changes from financing cash flows	**(26,802)**	(37,969)
Other changes		
Lease liability additions	**10,991**	3,634
Disposal of lease liabilities	**(1,402)**	(2,340)
The effect of changes in foreign exchange rates	**152**	(120)
Interest expense	**4,140**	4,922
Total other changes	**13,881**	6,096
Borrowings at end of year (excluding overdrafts)	**98,215**	111,136

1 £4.0m was drawn under the Group's RCF from 29 September 2022 until 31 October 2022.

Net debt reconciliation

	FY23 £000	FY22 £000
Net debt (excluding unamortised debt costs)		
Cash and cash equivalents	**(10,196)**	(16,280)
Net bank cash	**(10,196)**	(16,280)
Non-IFRS 16 lease liabilities	**268**	485
Non-IFRS 16 net cash	**(9,928)**	(15,795)
IFRS 16 lease liabilities	**97,946**	110,651
Net debt including IFRS 16 lease liabilities	**88,018**	94,856

18. Trade and other payables

	FY23 £000	FY22 £000
Current		
Trade payables	**22,960**	20,091
Other tax and social security	**2,610**	2,792
Accrued expenses	**8,909**	13,075
Trade and other payables	**34,479**	35,958

Trade payables and accruals principally comprise amounts outstanding for trade purchases and operating costs. The Group has financial risk management policies in place to ensure that all payables are paid within agreed credit terms.

The Directors consider that the carrying amount of trade payables approximates to their fair value.

Accrued expenses comprise various accrued property costs, payroll costs and other expenses, including £484k (FY22: £453k) of deferred income in relation to the customer loyalty scheme. The decrease in the balance from FY22 is due to a decrease in the bonus accrual held at year end.

The Group has net US dollar denominated trade and other payables of £6.6m (FY22: £4.9m).

19. Provisions and contingent liabilities

Accounting policy

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are the best estimate of the expenditure required to settle the obligation at the end of the reporting period and are discounted to present value where the effect is material.

	HMRC VAT £000	Property £000	Total £000
Balance as at 3 May 2021	-	718	718
Provisions made during the year	-	399	399
Balance as at 1 May 2022	**-**	**1,117**	**1,117**
Provisions made during the year	**514**	**450**	**964**
Provisions used during the year	**-**	**(218)**	**(218)**
Balance as at 30 April 2023	**514**	**1,349**	**1,863**

Maturity analysis of cash flows:

	HMRC VAT £000	Property £000	Total £000
Due in less than one year	514	51	565
Due between one and five years	-	760	760
Due in more than five years	-	538	538
	514	**1,349**	**1,863**

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 13.2 years for the head office. The average remaining term of the store estate is 4.8 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 £514k on the basis that 50% of the SKUs under review are concluded to be standard rated, and the 50% mixed rated.

20. Related party transactions

Identity of related parties with which the Group has transacted

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

Transactions with key management personnel

The compensation of key management personnel (including the Directors) is as follows:

	FY23 £000	FY22 £000
Key management remuneration - including social security costs	**3,132**	2,077
Pension contributions	**184**	134
Long-Term Incentive Plan - including social security costs	**313**	621
Total transactions with key management personnel	**3,629**	2,832

Further details on the compensation of key management personnel who are Directors are provided in the Group's Directors' remuneration report.

21. Subsidiary undertakings

The results of all subsidiary undertakings are included in the consolidated financial statements. The principal place of business and the registered office addresses for the subsidiaries are the same as for the Company.

Company	Active/ dormant	Direct/ indirect control	Registered number	Class of shares held	Ownership
The Works Investments Limited	Active	Direct	09073458	Ordinary	100%
The Works Stores Limited	Active	Indirect	06557400	Ordinary	100%
The Works Online Limited	Dormant	Indirect	08040244	Ordinary	100%

Principal risks and uncertainties

Risk management framework

The Board is responsible for ensuring that appropriate risk management processes and controls are in place. The Board has delegated responsibility for overseeing risk management processes and controls to the Audit Committee. Day-to-day risk management is the responsibility of the senior management team.

Risks are identified and assessed using a bottom-up review process. Senior management determines the potential risks that could affect their areas of responsibility and the likelihood and impact. This information is used to create the Group's primary risk register and capture principal risks which are subsequently considered by the Audit Committee and the Board.

Risk appetite

The Board determines the Group's risk appetite. Where a conflict exists between risk management and strategic ambitions, the Board seeks to achieve a balance which facilitates the long-term success of the Group.

Principal and emerging risks and changes in principal risks

The Board conducts a robust assessment of the principal risks facing the Group and emerging risks, including those that could threaten the operation of its business, future performance or solvency. The Board formally reviews the Group's principal risks at least twice a year.

A detailed operational risk review was undertaken by the Head of Finance during November 2022. This review included discussions with members of the Operations Board covering current, principal and emerging risks affecting their respective areas of responsibility and broader corporate risks. Following this review, the Group's primary risk register and its principal risks and mitigation plans were updated, and considered by the Audit Committee and the Board in January 2023, March 2023 and July 2023.

A climate risk workshop, facilitated by INESG, the Group's specialist third-party ESG consultancy, was held in August 2022. Members of the Operations Board participated in the workshop which covered: an introduction to climate change and climate scenarios; risk classification; transition and physical risks identified; and how to approach climate change as a material risk to the business. Using the outputs from the workshop the Group's first climate risk register was developed and subsequently reviewed and approved by the Board in January 2023.

The principal risks and uncertainties facing the Group as at the date of its FY23 Annual Report are set out in order of priority the following pages, together with details of how these are currently mitigated.

During the year the main changes to the principal risks were as follows:

- Removal of COVID-19 risk: Given the significantly reduced impact of risks associated with COVID-19 this risk is no longer considered to be a principal risk.
- Renaming of 'Market' risk: The 'Market' risk has been renamed 'Design and execution of strategy', and has been altered to reflect the importance of the Group's strategy and the direct correlation between successful strategic execution and market performance. This risk has also been assessed as having a high priority and ranked accordingly.

During the year a geopolitical emerging risk was identified. Approximately two thirds of the Group's stock is sourced from China and if drastic economic sanctions were to be imposed on China this could have a material impact on the Group's ability to obtain stock. Moving the product mix away from goods sourced from China could mitigate this risk; however, a significant lead time would be required to do this. Currently the probability of this risk crystallizing is considered to be very low. Accordingly, this emerging risk will be maintained on our secondary risk register and we will continue to monitor it.

The Group may be exposed to other risks and uncertainties not presently known to management, or currently deemed less material, that may subsequently have an adverse effect on the business. Further, the exposure to each risk will evolve as mitigating actions are taken or as new risks emerge or the nature of risks change.

<table>
<tr><th>Risk, profile change and link to strategy</th><th>Mitigation</th></tr>
<tr><td>1. Economy

A deterioration in macro-economic conditions or a reduction in consumer confidence could impact customer spending and reduce the Group's revenue and profitability.

Change from prior year

Increased risk level. Inflation remains high and the cost-of-living challenge looks likely to persist for some time. Although we have not yet observed any quantifiable effect on our business, this could impact consumer spending and, as a result, the Group's sales. The current economic environment, including the following issues, is also causing costs to be higher which could impact profitability:

Raw materials and energy costs. Our energy rates are hedged in the short term, but at higher rates than those which prevailed historically.

Continued increases in National Living and Minimum Wages – affects the business because most of the Group's colleagues are paid the National Minimum or Living Wage.

Geopolitical issues, including the Russian invasion of Ukraine, which has had direct inflationary effects.

FX rates. The pound is now stronger compared with the dollar than during certain points in FY23. There is reduced risk in FY24 due to the Group's hedging policies, although we remain indirectly exposed to FX rates, through indirect sourcing which represents approximately 60% of purchases for resale.

Freight rates, which have significantly affected our costs in recent years, are now at pre-COVID levels, and are not expected to represent a threat for the foreseeable future.</td><td>• Take account of expected impact in the strategic planning process, budgets and forecasts.

• Control costs while making carefully considered investments in certain areas to support growth.

• Increase direct sourcing to improve gross margin. While this initiative was delayed by COVID-19 in China, momentum should increase in FY24.

• Operate stores on flexible short-term leases to benefit from reductions in rents through the rolling renegotiation of leases.

• Store estate can be adapted relatively quickly in the event of material local changes in demand.</td></tr>
<tr><td>2. Design and execution of strategy (previously ‘Market’ risk)

The Group generates its revenue from the sale of books, toys and games, arts and crafts and stationery.

Although it has a track record of understanding customers’ needs for these products, the market is competitive. Customers’ tastes and shopping habits can change quickly. Failure to effectively predict or respond to changes could affect the Group’s sales and financial performance.

Failure to effectively execute the ‘better, not just bigger’ strategy (e.g. due to insufficient capacity or inadequate capability) would have an adverse impact on the Group’s ability to grow, particularly if the envisaged sales growth drivers fail to increase sales. Furthermore achieving increased sales growth could be more challenging if consumer confidence is impacted by deteriorating economic conditions.

Change from prior year

Increased risk level. The Board believes that the previous risk rating needs to increase to reflect the significant impact this risk could have on the profitability of the Group and therefore increased the risk rating.</td><td>• Increased strategic focus on developing the brand and increasing customer engagement to further differentiate the Group from competitors.

• Emerging trends monitored by a recently strengthened trading team that has a track record of responding to changing consumer tastes.

• Monitor competitors’ propositions and discuss key developments at weekly trading meetings and at Board level on a regular basis.

• Monitor and review customer feedback.

• Use sales data and online feedback channels to inform purchasing and marketing decisions.

• Flexible lease terms allow the Group to adapt its store portfolio (which continues to be highly relevant to customers) to suit evolving shopping habits.

• Ongoing investment in the Group’s online capability ensures complementary digital and store propositions, as customers increasingly engage with both channels.

• Significant investments have been made to date and further investment is planned in FY24 to drive operational improvements.</td></tr>
</table>

<table>
<tr><th>Risk, profile change and link to strategy</th><th>Mitigation</th></tr>
<tr><td>3. Supply chain

The Group uses third parties, including many in Asia, for the supply of products. Risks include the potential for supplier failures, risks associated with manufacturing and importing goods from overseas, potential disruption at various stages of the supply chain and suppliers failing to act or operate ethically.

Failure to execute the restructuring of the supply chain team successfully to implement necessary changes to the stock process could prevent the right stock getting to the right stores at the right time and materially impact sales growth.

Supply chain disruption due to COVID-19 restrictions potentially being maintained in certain parts of the world, particularly China, could cause disruption to stock availability and cost inflation. Any significant increase in geopolitical tensions between the West and China could affect the ability to purchase stock.

Due to the Group's low level of exposure to sales outside the UK risks connected with Brexit are low.

Change from prior year

Unchanged level of risk.</td><td>• Strengthened buying and supply chain teams and further investment is ongoing in FY24.

• Ongoing review of supplier base and diversification and change implemented as appropriate to provide flexibility and reduce reliance on individual suppliers.

• Independent monitoring of suppliers undertaken by third-party auditors with local country knowledge and an understanding of social and ethical requirements.

• In-house product quality assurance team undertakes product testing as part of a product surveillance test programme.

• Implement policies that reinforce the Group's values and its commitment to conduct business fairly, ethically and with respect to human rights which suppliers are required to adhere to.

• Proactive management of supply chain to ensure stock levels are appropriate.

• Continue to review freight costs (including measures to mitigate them) and monitor alternative sourcing arrangements where practicable.</td></tr>
<tr><td>4. IT systems and cyber security

The Group relies on key IT systems. Failure to develop and maintain these, or any prolonged system performance problems or lack of service, could affect the Group's ability to trade and/or could lead to significant fines and reputational damage.

Reliable systems and data integrity are key to the execution of the strategy. Ensuring systems and processes are fit for purpose will enable the delivery of improvements to the proposition.

Change from prior year

Reduced risk. The Group experienced a cyber security incident at the end of March 2022. Actions taken in response to the incident have significantly reduced the risk of the business suffering major loss or disruption in the event of subsequent attacks.</td><td>• Modern two-factor authentication for access, combined with up-to-date end point detection capabilities (to monitor devices and assess unexpected/risky activity) and network segmentation, lowers the probability of malicious entry and speed of movement of malware across the business.

• 24/7/365 Security Operations Centre, established in FY23, monitors and responds to any unusual activities in systems or networks.

• Enhanced working from home capabilities established in response to the pandemic have reduced the level of dependence on a single-site head office.

• Regular IT investment strategy review undertaken by the Operations Board, including security and infrastructure investment programmes.

• Further strengthened in-house IT capabilities during FY23.</td></tr>
</table>

Risk, profile change and link to strategy	Mitigation
5. Brand and reputation The Group's brand is vital to its success. Failure to protect the brand, in particular product quality and safety, could result in the Group's reputation, sales and future prospects being adversely affected. Diversity and inclusion issues have become more prominent in customer preferences; failure to stock a diverse range of products and ensure inclusivity could create reputational damage. **Change from prior year** Unchanged level of risk. Developing our brand and increasing customer engagement is a strategic aim. In autumn 2022 we launched an updated brand to ensure that the visual representation and tone of voice of The Works aligns with its purpose and reflects the more modern, fun and engaging business we are today.	• Communicate to colleagues our clarified purpose and values. • Provide intellectual property guidance and education to design and sourcing teams. • Monitor customer product reviews and take appropriate action to remove products from sale and take other actions as appropriate where quality issues are identified. • In-house product quality assurance team works with suppliers to ensure product quality, safety and ethical production. • Conduct third-party technical and ethical audits. • Monitor the Group's ESG responsibilities and implement processes to ensure the Group operates in a responsible way. • Recruiting a D&I manger to lead our D&I strategy including reviewing our product range to ensure inclusivity. • Operate brand tracking that provides feedback from customers and highlights potential brand damaging issues.
6. Seasonality of sales The Group generally makes substantially all of its profit in the second half of the financial year during the peak Christmas trading period. Interruptions to supply, adverse weather or a significant downturn in consumer confidence or a failure to successfully execute strategy in this period could have a significant impact on the short-term profitability of the Group. **Change from prior year** Unchanged level of risk.	• Continue to develop the year-round appeal of the proposition. • Hold weekly trading meetings to ensure that immediate action is taken to maximise sales based on current and expected trading conditions. • Plan rigorously for product proposition, supply chain and retail operations to ensure the success of the peak Christmas trading period.
7. People The Group's success is strongly influenced by the quality of the Board, senior management team and staff generally. A lack of effective succession planning and development of key colleagues could harm future prospects. **Change from prior year** Unchanged level of risk.	• Discuss and review succession plans at Nomination Committee meetings. • Establish development programmes to support future leaders. • Operate the 'Can Do Academy' to facilitate training and development. • Launched a new employee communications and engagement platform MyWorks. • Well-managed search and recruitment processes, together with appealing proposition and welcoming culture, enables recruitment of high-calibre executives. • Implement a Remuneration Policy designed to ensure management incentives support the Group's long-term success for the benefit of all stakeholders, including a Long-Term Incentive Plan for Executive Directors and restricted share awards for Operations Board members.

Risk, profile change and link to strategy	Mitigation
8. Environmental (including climate change) There is an increased focus on sustainable business from consumers and regulators. In our business this applies to products and packaging in particular. Failure to respond to these demands could affect the Group's reputation, sales and financial performance. Supply chain disruptions due to more extreme weather events created as a result of global warming could damage operations, in particular the flow of stock which could adversely impact sales. There are increased reporting and disclosure requirements relating to climate change and environmental impact including new taxes, regulation and compliance risks as noted in risk 9 below. **Change from prior year** Increased level of risk. Reporting and disclosure requirements are continuing to increase and achievement of the Group's longer-term environmental ambitions are dependent on effective implementation of the Group's sustainability strategy and suppliers taking steps to reduce their environmental footprint.	• An ESG steering group meets quarterly and reports to the Board and the Operations Board on a regular basis. • Implementing initiatives to reduce our impact on the environment. • Retain specialist third-party ESG consultancy, Inspired Energy, to assist in the further development of the Group's environmental strategy and ensure compliance with TCFD requirements. • Appointed a Sustainability Manager in January 2023 to lead the development and implementation of our environmental strategy. • Working with third-party logistics providers to explore and invest in energy efficient solutions within the supply chain. • Developed a climate risk register.
9. Regulation/compliance The Group is exposed to an increasing number of legal and regulatory compliance requirements including the Bribery Act, the Modern Slavery Act, the General Data Protection Regulation (GDPR) and the Listing Rules. Failure to comply with these laws and regulations could lead to financial claims, penalties, awards of damages, fines or reputational damage which could significantly impact the financial performance of the business. There are extensive and increasingly onerous laws and regulations (including reporting and disclosure requirements) surrounding climate change and environmental reporting. Failure to comply with these could result in financial penalties, legal consequences and/or reputational damage. **Change from prior year** Unchanged level of risk.	• Oversight of regulatory compliance by Group CFO and Company Secretary with support from external advisers. • Implement policies and procedures in relation to both mandatory requirements and measures the Group has adopted voluntarily (e.g. anti-bribery and corruption, adherence to National Living Wage requirements). • Operate a Whistleblowing Policy and procedure which enable colleagues to confidentially report any concerns or inappropriate behaviour. • Operate a GDPR Policy which is overseen by a suitably experienced data supervisor and monitored by members of a GDPR governance monitoring group who meet regularly and report key issues to the senior management team. • Retain experienced advisers where necessary to cover gaps in expertise in the in-house team.

Risk, profile change and link to strategy	Mitigation
10. Liquidity Insufficient liquidity available and/or insufficient headroom in banking facilities. Potential for breach of banking covenants if financial performance is significantly worse than forecast. Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement. **Change from prior year** Unchanged level of risk.	• Financial forecasts and covenant headroom monitored and reported to the Board and the bank monthly. • Strategy focuses on driving like-for-like sales and improving efficiency, rather than previous store rollout plan, which is a less capital intensive strategy. • The Group's bank facility at year end FY23 comprised a committed RCF of £30m with an expiry date of 30 November 2025. Since the Period end, the Group has implemented a reduction in the size of the facility, which was undrawn throughout most of FY23, to £20.0m, and simultaneously extended its term such that it now expires on 30 November 2026. • Careful management of banking relationship increases the likelihood of a supportive response in the event that it should be needed.
11. Business continuity Significant disruption to the operation, in particular internal IT systems, Support Centre or Distribution Centre, could severely impact the Group's ability to supply stores or fulfil online sales resulting in financial or reputational damage. **Change from prior year** Unchanged level of risk.	• IT recovery plans fully tested in the response to the March 2022 cyber security incident. • Implemented new cloud back-ups which improve the flexibility of any disaster recovery plan response. • Enhanced business continuity plan in place including system recovery. • Subscribe to a cloud-based technology recovery centre to improve speed and execution of a recovery. • Undertake disaster recovery dry run exercises. Emergency generator installed at the Group's Support Centre to insulate the business from the impact of power cuts. • Maintain appropriate business interruption insurance cover.