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What will you discover?

Interim Results
26 Weeks ended 25 October 2020

22 January 2021

THE SUNDAY TIMES
25
BEST BIG COMPANIES TO WORK FOR
2020

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Agenda

• Highlights	Gavin Peck (CEO)
• Financial Review	Stephen Alldridge (Interim CFO)
• Business Review	Gavin Peck (CEO)


2 for £10
Mix & Match
I'm in the DEAL!
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Awful Auntie
Christy Lefteri
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The Boy in the Dress
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Peppa Pig
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10 in 1 Puzzle
300
MISSION TO SPACE
WATERCOLOUR PENCILS
Crawford & Black
Acrylic Paints
Blooming Paris
1000
Deep Box Frame

Highlights

Summary and outlook

- Robust performance against backdrop of COVID-19
  - Positive EBITDA for the first half
  - Positive sales growth (stores and online) outside periods of enforced store closures
- Continued progress against strategic objectives – will emerge as a stronger business
- Further COVID-19 trading restrictions will have an adverse impact on H2
- Remain excited about medium-term growth opportunities

	H1 FY21	H1 FY20	*Variance*
Revenue	£88.9m	£96.4m	*(7.8)%*
Total sales growth	(7.8)%	5.4%	*n/a*
LFL sales growth	10.6%	(3.6%)	*n/a*
Pre IFRS 16 Adjusted EBITDA	£1.5m	(£3.9m)	*£5.4m*
Adjusted loss before tax	(£4.1m)	(£7.8m)	*£3.7m*
Interim dividend	0.0p	1.2p	*(1.2p)*
Net bank cash/(debt)	£11.3m	(£14.1m)	*£25.4m*

Financial Review

Overview

- H1 Adjusted EBITDA £1.5m vs. (£3.9m) LY (pre IFRS 16)
- Positive LFL's throughout Period

LFL sales growth %		
	FY21	FY20
Q1 *	6.1%	(2.5%)
Q2	12.2%	(4.4%)
H1	10.6%	(3.6%)

* Stores and online from 8th week

- Growth in EBITDA result driven through:
  - Strong trading performance
  - Improved product gross margin
  - Efficiencies/tight cost control
  - Use of Government support
- Liquidity position strong, improved during the Period. Significantly better than expected and than last year

Summary income statement

Adjusted, pre IFRS 16 EBITDA	H1 FY21 £'m	H1 FY20 £'m	*Variance %*
Revenue	**88.9**	**96.4**	***(7.8%)***
Product gross margin	55.8	60.1	*(7.1%)*
Other operating costs exc. D&A	(66.6)	(64.0)	*(4.0%)*
Other operating income	12.3	0.0	*n/a*
Pre IFRS 16 Adjusted EBITDA	**1.5**	**(3.9)**	***n/a***
Pre IFRS 16 depreciation	(4.2)	(3.4)	***(24.0%)***
Pre IFRS 16 net financing expense	(0.3)	(0.2)	***(47.2%)***
Pre IFRS 16 Adjusted PBT	**(3.0)**	**(7.5)**	***60.0%***

Adjusted Pre IFRS 16 PBT vs. statutory PBT	H1 FY21 £'m	H1 FY20 £'m	*Variance*
Pre IFRS 16 Adjusted PBT	**(3.0)**	**(7.5)**	***60.0%***
Total adjusting items	(0.2)	(0.7)	*(71.0%)*
Pre-IFRS16 PBT	**(3.2)**	**(8.2)**	***60.5%***
IFRS16 adjustment to PBT	(1.0)	(0.3)	***(245.3%)***
Statutory PBT	**(4.3)**	**(8.5)**	***49.7%***

- 7.8% drop in revenue reflects stores closed for c. 27% of the Period
- Margin % improvements and cost savings mitigated some of the lost sales
- Full use of Government support consistent with being classified as “non-essential” retailer
- Prudent approach to impairment at FY20 year end resulted in no further charges
- Adjusting items minimal (only disclosed separately for consistency)
- Pre IFRS 16 continues to be used for internal reporting. Bridge included between pre and post IFRS 16 measures - for reference

Revenue

	H1 FY21 £'m	H1 FY20 £'m	Variance £'m	*Variance %*
LFL sales during lockdown	7.5	24.9	(17.4)	*(69.9%)*
LFL sales post lockdown	**87.9**	**79.5**	**8.4**	***10.6%***
Total LFL sales	95.4	104.4	(9.0)	*(8.6%)*
Sales from new/closed stores	6.0	4.7	1.3	*27.7%*
Total Gross Sales	**101.4**	**109.1**	**(7.7)**	***(7.1%)***
Revenue	**88.9**	**96.4**	**(7.5)**	***(7.8%)***

- Consistent with FY20 prelims, have split the LFL to show periods when stores not open/open
    - (note that LFLs for H2 will be difficult to interpret due to multiple restrictions on trading)
- Store LFL broadly flat overall; strengthened as period progressed
    - Back to School delayed but strong when it came
    - September & October “sale” successful driving volumes yet limited margin impact
    - Early Christmas purchases evident from store/market comments
- Online sales strong throughout
- Impact from new stores immaterial compared with previous years, in line with reduced focus on new store openings.

Product gross margin

Product gross margin	FY21 £m	FY20 £m	Var £m	*Var %*
Revenue	88.9	96.4	(7.5)	*(7.8%)*
Cost of goods sold	33.1	36.3	(3.2)	*(8.8%)*
Product gross margin	**55.8**	**60.1**	**(4.3)**	***(7.1%)***
Product gross margin %	62.7%	62.3%	0.4%	

- Executed plan to significantly reduce discounting compared with H1 FY20
- Strong online demand due to closure of stores supported even lower levels of discounting
- Higher postage income benefitted margin
- Slight favourable FX impact during H1 FY21 vs. H1 FY20
- Note re: FY22 – higher freight rates may be margin headwind if disruption to container traffic persists

Costs

Pre IFRS 16 Adjusted EBITDA analysis	FY21 £'m	*% of revenue*	FY20 £'m	*% of revenue*	Variance £m	*Variance (%)*
Revenue	**88.9**		**96.4**		**(7.5)**	***(7.8%)***
Cost of goods sold	33.1	*37.3*	36.3	*37.7*	(3.2)	*(8.8%)*
Store payroll	19.2	*21.6*	20.6	*21.4*	(1.4)	*(6.8%)*
Store property costs	23.2	*26.1*	21.7	*22.5*	1.5	*7.1%*
Other direct costs	7.9	*8.9*	6.3	*6.5*	1.6	*25.8%*
Cost of sales	**83.5**	***93.9***	**85.0**	***88.2***	**(1.4)**	***(1.7%)***
Distribution costs	6.7	*7.6*	5.8	*6.0*	1.0	*16.4%*
Administrative costs	9.4	*10.6*	9.5	*9.9*	(0.1)	*(1.3%)*
Operating costs	**16.2**	***18.2***	**15.3**	***15.9***	**0.8**	***5.4%***
Other operating income	**(12.3)**	***(13.8)***	**(0.0)**	***(0.0)***	**(12.3)**	***> 100%***
Pre IFRS 16 Adjusted EBITDA	**1.5**	***1.7***	**(3.9)**	***(4.1)***	**5.4**	***(137.8)***

- Reduced in-store tasking and higher ATV lowered store payroll costs despite National Living Wage inflation (CJRS relief classified within Other operating income)
- Store property costs included full rates charge including inflation on multiplier – relief classified within Other operating income. Also includes full cost of last year new stores. Underlying rents decreased due to continued negotiations with landlords
- Higher online sales resulted in cash increase in fulfilment and marketing costs year on year but a lower percentage of online sales. Invested in higher online fulfilment throughput capacity
- Additional costs of PPE equipment mitigated by tight control of costs and temporary closure of head office

Capital expenditure

	FY21 £'m	FY20 £'m	*Variance £'m*
New stores and relocations	0.0	2.6	*(2.6)*
Store refits and rebrands	0.1	0.2	*(0.1)*
IT hardware and software	0.3	0.4	*(0.1)*
Web development	0.6	0.4	*0.2*
Other	0.1	0.5	*(0.4)*
Total capex	**1.1**	**4.1**	***(3.0)***

- Refocussed strategy resulted in significant reduction is expenditure on new stores
- Other capex is mainly maintenance
- FY21 full year capex expected to be c. £3m – unchanged
- FY22 capex under review pending final FY21 profit/cash position

Cashflow, liquidity

	H1 FY21 £m	H1 FY20 £m	*Variance £m*
Cashflow pre-working capital	0.7	(4.5)	*5.2*
Working capital	19.3	(7.5)	*26.8*
Capex	(1.1)	(4.1)	*3.0*
Tax paid	(0.1)	(0.3)	*0.2*
Interest and financing costs	(0.8)	(0.1)	*(0.7)*
Dividends	0.0	(1.5)	*1.5*
Cashflow before drawdown of facils.	**18.0**	**(17.9)**	***35.9***
(Repayment)/drawdown of facilities	(2.5)	7.0	*(9.5)*
Net increase/(decrease) in cash and cash equivalents[1]	**15.5**	**(10.9)**	***26.4***

[1] Cash and cash equivalents excluding exchange rate movements.

- Positive cashflow driven by improved profitability, lower capex and working capital inflow
- Suspension of dividends implemented as precautionary measure to further increase resilience
- Significant working capital inflow a result of better working capital management and timing effects
  - Stock at Period end £4.0m lower than last year
  - Higher creditor due to negotiated extensions to payment terms, plus c. £4.0m timing difference
  - FY20 comp. worse than normal due to creditor unwind during H1 FY20 and high closing stock

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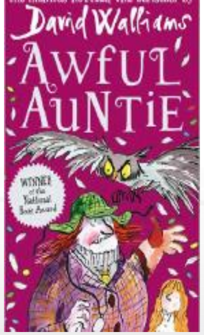
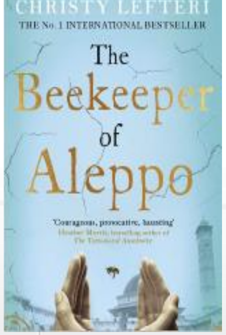
IFRS 16

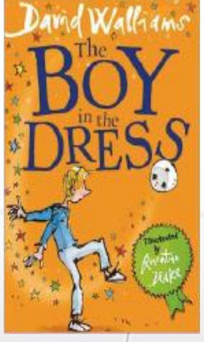
IFRS 16 accounting impact on PBT	H1 FY21 £m	H1 FY20 £m
Add back rent charges	12.8	11.5
Depreciation of right of use asset	(11.4)	(9.8)
Loss on disposal of right of use assets	(0.4)	(0.6)
Profit on disposal of lease liabilities	0.5	0.6
Lease liability interest charge	(2.4)	(1.9)
Foreign exchange difference on euro leases	(0.1)	(0.1)
Impact on adjusted PBT	**(1.0)**	**(0.3)**
Treated as adjusting:		
Impairment of RoUA	0.0	0.0
PBT impact	**(1.0)**	**(0.3)**

Increased IFRS 16 impact on PBT due to:

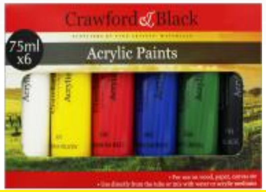
- Conclusion of lease negotiations brought additional cohort of stores within IFRS 16 calculation
- Incremental borrowing rate estimate higher for H1 FY21







Business Review



Four pillar growth strategy

- Optimise store estate
- LFL Sales Growth
- Accelerate multi channel development
- Margin and efficiency improvement

Always good quality great value for money

Store estate

- New store rollout scaled-back from turn of 2020 – focus on existing estate
  - Average of c100 lease expiry or break events per annum – opportunity to drive rent savings or, selectively, relocate
  - Improving supply chain and retail operational efficiencies

- Continued active store portfolio management strategy in H1 FY21
  - 2 new openings; 2 relocations; 6 closures => net 4 closures
  - Further reduction in existing store rents
  - Retained flexibility – just over 2 years (on average) to next lease exit or break

- Rollout programme effectively remains on hold
  - Selected new store openings
    - Most will be landlord funding upfront capex
    - Priority target list of 100 locations identified
  - Expect net nil openings in FY22

- Retail property market conditions likely to remain favourable in the medium-term

LFL sales performance

- Positive LFL sales growth in H1 and through Christmas (excluding enforced closures)
  - Stores – strong growth in Average Transaction Values offsetting subdued footfall
  - Online – increased capacity supporting sales growth of over 100% (outside peak)

- Proposition continues to resonate well with customers in current environment
  - “Beat the Boredom” range (e.g. art, craft, jigsaws and books)
  - Children’s education – books and educational toys
  - Mental health and wellbeing – books, including adult colouring/puzzles
  - Strong demand for seasonal ranges – Out2Play, Back to School and Christmas

- Continue to develop building blocks to support medium-term LFL sales growth
  - Further refinement of our proposition, informed by customer insight and analysis
  - Continued development of space management and merchandising in stores
  - Increased focus on improving operations in our existing stores
  - Improved stock management processes to improve availability
  - Further development of our online proposition (see over)

Multi-channel proposition development

- Continues to be a key differentiator in the value retail sector

- 2020 was a transformational year for our online business
  - Sales almost doubled (3-5 years growth in 12 months)
  - Invested to increase capacity during first lockdown and peak 2020
  - Online profitability step changed
    - Reduced promotional and marketing activity
    - Fulfilment efficiencies driven with 3rd party provider
  - New web platform successfully launched in July 2020

- Well placed, with clear plans, for continued digital growth
  - Increased focus on online range extensions
  - Optimisation of new web platform
  - Improved CRM and customer engagement
  - Continued development of multi-channel proposition
  - Further investment in fulfilment capacity

Product margin and cost control

- Cost control engrained in the culture of the business – increased focus in 2020
  - Store labour cost efficiencies
  - Ongoing reduction in property costs
  - Discretionary costs carefully managed
  - Government COVID-19 support schemes

- Continued improvement in underlying product margins
  - Better sourcing from the far east
  - Targeted and controlled approach to discounts and promotions

- Medium-term opportunity to drive further cost savings
  - Product margin growth expected through multiple levers
  - Supply chain efficiencies
  - Retail labour efficiencies
  - Property cost savings in the existing estate

- Continue to invest in areas to support future growth

Beyond COVID-19: Positioned for growth

- Proposition more relevant than ever
- Store portfolio management offers multiple opportunities for profitable growth
  - Flexibility of existing store estate
  - New store openings
- Well-placed for further digital growth
  - New web platform delivered
  - Profitability step-changed
  - Fulfilment capacity increased
  - Improving customer engagement
- Margin improvement opportunity through
  - Improved product margins
  - Cost efficiencies
- Selective investments underway to support growth
- Balance sheet is robust
- New directors embedded in the business
- Strong culture and colleague engagement further developed during COVID-19

Summary and outlook

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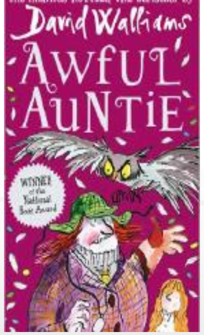
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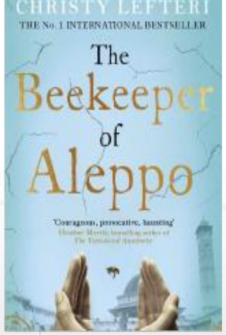
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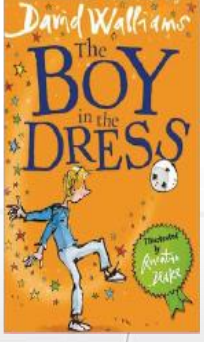
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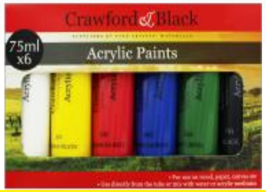
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