23 September 2022

TheWorks.co.uk plc

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

Preliminary results for the 52 weeks ended 1 May 2022

The Works delivered a strong financial performance in FY22 and made good strategic progress. There is confidence in the Group's prospects despite the more challenging trading conditions expected in the near term.

The Works, the multi-channel value retailer of arts and crafts, stationery, toys, and books announces its preliminary results for the 52 weeks ended 1 May 2022 (the "Period" or "FY22") and an update on current trading.

Financial highlights

- Strong underlying sales driven by solid progress against the Group's strategic objectives, careful management of supply chain, and increased consumer demand post COVID-19.
  - Total revenue £264.6m, up 46.5% compared with FY21.
  - Two-year LFL sales(1) up 10.5%, with positive growth online and in stores.
  - Two-year total gross sales up 12.7% (1)(2).
- The sales performance and the improvements made throughout the year to operations and proposition, helped to offset the impact of external headwinds,(3) resulting in an increased profit.
  - Pre IFRS 16 Adjusted EBITDA increased to £16.6m (FY21: £4.3m).
  - Profit before tax of £10.2m compared with a loss of £2.8m in FY21.
- Further strengthened the balance sheet, ending the period with net cash of £16.3m excluding lease liabilities (FY21: net cash £0.8m). Bank facilities successfully refinanced post year end (4).
- Reflecting the strong performance and its confidence in the Group's prospects, the Board proposes a final dividend of 2.4 pence per share in respect of FY22.
- Trading since the Group's update on 8 August 2022 has remained resilient however the outlook for FY23 is unchanged, reflecting the Board's desire to remain cautious in light of the uncertain economic conditions.

	FY22 £m	FY21 £m
Revenue	264.6	180.7
Revenue growth/(decline)	46.5%	(19.7%)
Pre-IFRS16 Adjusted (5) EBITDA	16.6	4.3
PBT	10.2	(2.8)
Adjusted (5) PBT	10.1	(3.6)
Basic EPS (pence)	14.0	(3.7)
Adjusted (5) basic EPS (pence)	13.9	(4.9)
Net bank cash	16.3	0.8

Business highlights

We continued to make progress on our strategy of being *"better, not just bigger"*, including:

- Defined the Group's new purpose and brand positioning, *inspiring reading, learning, creativity and play - making lives more fulfilled*. This provides a common goal to show everybody at The Works that they have a role to play in delivering our "*better, not just bigger strategy*".
- Created a more appealing, more customer-focused product proposition, aligned to our purpose. This included overhauling our book strategy to stock more front-list titles, capitalising on the 'BookTok' trend and increasing ranges of popular branded products in our kids and board games ranges.
- Catered for increasingly 'time poor' customers, who seek greater product availability and faster delivery times, by improving our online fulfilment capacity and delivery options.
- Improved the quality of the store estate by opening five new stores, closing seven and relocating six. We undertook 16 store refits as part of our strategy to refresh the store estate, as well as enhancing the in-store experience for customers through better space planning, ranging and merchandising.
- Further strengthened our senior leadership team with the appointment of a new Commercial Director and new 'Heads of' in our Buying, Brand Marketing, Digital Marketing and Profit Protection functions.
- Maintained our high levels of colleague engagement and 13th place on the 'Best Big Companies to work for' ranking.

Trading update and FY23 outlook

When we updated on Q1 trading on 8 August 2022 we noted that store sales had been resilient and online sales more challenging, although significantly higher than pre-COVID levels. The more positive pattern of trading that had developed by the end of Q1 has continued for the subsequent 7 weeks ended Sunday 18 September 2022, with our refreshed outdoor play range performing well, a very good 'Back to School' season and a gradual improvement in our online performance. This resulted in store LFL sales up 7.9% and online sales down by 10.1% (but 40% higher than pre-COVID levels), resulting in a total LFL sales increase of 5.7% during the seven week period. For the year to date (20 weeks ended 18 September 2022) the store LFL is up 4.0%, online sales down by 21.7%, the overall LFL up by 0.8% and total sales were up by 2.3%.

We are encouraged by the strength of recent trading which reinforces our confidence in the resilience of the business and that the ongoing improvements we are making to our proposition are resonating well with customers. Despite the positive recent trading, we remain cautious with regard to how consumer spending might be affected during the remainder of this financial year, by factors such as higher inflation, and therefore the Board's expectations regarding the FY23 result are unchanged (6).

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

"We delivered a strong performance in FY22, with good growth in sales and profits ahead of pre-COVID levels. This was achieved despite some significant external operational challenges and reflects the ongoing appeal of our proposition, the effective execution of our strategy, a strengthened management team and the collective efforts of our amazing colleagues. We closed the year in a much stronger financial position and will be pleased to recommend to shareholders the payment of a dividend.

"Since our last update in August, our online performance has gradually improved and we continue to be encouraged by store sales, which comprise the significant majority of our revenue and have delivered positive LFL sales growth since June. This has all been supported by the ongoing evolution of our proposition, including a strong performance of our improved 'Back to School' range. We have also had significant growth in our books category, driven by our increased representation of front-list authors including Julia Donaldson and Richard Osman. We are well-placed operationally for Christmas and are gearing up to deliver for our customers, maintaining our commitment to provide them with the products they love at fantastic value.

"The Works is a resilient business with a proven track record of delivering robust results during times of economic hardship, however, given current conditions, we maintain our cautious view of the year ahead. We remain confident in our ability to continue making good strategic progress and to deliver growth in the medium-term."

Preliminary results presentation

A presentation for analysts will be held today at 9.30 a.m. via video conference call. A copy of the presentation will shortly be made available on the Company's website (https://corporate.theworks.co.uk/).

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Footnotes:

(1) The like for like (**LFL**) sales increase has been calculated with reference to the FY20 comparative sales figures, or two-year LFL, because the extended periods of enforced store closures during FY21 prevent that period from forming the basis of meaningful comparisons. For the last 5 weeks of the Period, the LFL percentages were calculated with reference to the corresponding weeks in **FY19**, because the equivalent weeks during FY20 were also affected by the first period of lockdown. Similar comparison periods are also used for the total gross sales growth figures quoted.

(2) "**Total sales**" referred to in this statement 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. A reconciliation between the sales figures and the statutory revenue is included in the Financial Report section of this document.

The 52 week comparison periods used for the 2 year LFL and total sales growth calculations uses a literal mapping of calendar weeks between FY22 and the corresponding 52 weeks two/three years prior. Due to the inclusion of a 53rd week in FY21, the FY20/FY19 accounting periods are one week offset from the FY22 52 week period.

(3) Primarily, uncertainty over the impact of the Omicron variant and the ongoing supply chain challenges faced by the sector.

(4) Bank facilities increased to £30.0m (committed revolving credit facility) and maturity date extended to 30 November 2025.

(5) Adjusted profit figures exclude Adjusting items. See Notes 3 and 4 of the attached condensed financial statements.

(6) For reference, the Company compiled estimate of the market's expectation for the FY23 Adjusted EBITDA result is approximately £9.0m.

Notes for editors:

The Works is one of the UK's leading multi-channel 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 500 stores in the UK & Ireland and 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 1 May 2022 or 2 May 2021, but is derived from those accounts. Statutory accounts for FY21 have been delivered to the Registrar of Companies and those for FY22 will be delivered in due course. The auditor has reported on those accounts: their reports were (i) unqualified and (ii) 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

I have greatly enjoyed my first year as Chair of The Works and feel very proud to be part of a business that seeks to enrich the lives of its customers and their families, friends and communities. I have spent a lot of my time getting to know the business, meeting the teams and celebrating too, having joined during The Works' 40th anniversary year.

I have been impressed by the resilience of the business and its ability to adapt to challenging external conditions, whilst also delivering good strategic and financial progress. Over the course of the last year I have also seen The Works become an increasingly modern and efficient business that is being run, for the long-term and in a more professional and structured way by Gavin Peck and his strengthened leadership team. I have seen time and time again exactly why its customers have such a strong affinity to the brand, how it is managing to maintain its position as one of the leading retailers in the value sector and how it has sustained a well-earned reputation for being an incredibly supportive workplace for colleagues.

A standout feature of The Works is its truly unique culture. It is one of the greatest strengths of the business and has developed as a result of strong leadership, a positive work environment and a shared passion for delighting customers. Clarifying the Group's purpose – *To inspire reading, learning, creativity and play - making lives more fulfilled.* – has already had a positive effect on colleagues across the business by helping them to understand the role they can play in inspiring our customers and supporting our communities. Given the current external environment, our purpose has never been more relevant. It is vital that we help our customers to be resourceful, inspire them to get creative and help them see that having fun doesn't need to be costly or excessively consumptive.

This has all been spearheaded by a strengthened leadership team, led by Gavin, and supported by a team of passionate and committed colleagues. On behalf of the Board, I would like to thank colleagues for all they have done, and continue to do, for our business and stakeholders, and for constantly going above and beyond to care for one other.

Performance

All retailers have faced difficult external conditions over the past year, particularly the increased costs and disruption caused by the global supply chain challenges post COVID-19. The Works was also subject to a cyber security incident in March which required swift and extensive action to be taken to protect the business and minimise the impact on trading. Each of these factors in isolation would be enough to test any retailer, let alone both in one year. However, despite the adverse impacts from these events, due to the groundwork that Gavin and colleagues laid before the pandemic, an improved customer proposition and effective execution of our strategy, the business was able to deliver a strong trading performance in FY22, which was well ahead of pre-pandemic levels. Revenue increased to £264.6m (FY21: £180.7m), profit before tax increased to £10.2m (FY21: loss before tax of £2.8m) and the business delivered another record Christmas, demonstrating its resilience in very challenging circumstances.

Strategy

The last year has also demonstrated that the refocused '*better, not just bigger*' strategy, which is already delivering tangible results, is the right strategic direction for the business. If we continue making progress against each of our four strategic pillars the Board and I are confident that we will see more new customers choose The Works as their primary destination for products to read, learn, create and play and that we will earn increased loyalty from existing customers. We will also be very well positioned to deliver sustainable sales and profit growth in the medium-term and to create value for all our stakeholders.

Environmental, Social and Governance (ESG)

The Works has been increasingly focused on its ESG agenda in recent years and has developed three pillars to provide greater clarity and structure, as well as a steering group to drive progress in these areas (more information is included in the Group's FY22 Annual Report). The business has now laid the foundations for a more ambitious and systematic approach to ESG and made some good early progress, but more work needs to be done. In particular, we need to develop a detailed programme of activities and agree metrics to measure progress and targets to reduce our environmental impact. We must also implement the necessary changes to ensure that our reporting is consistent with the recommendations of the Task Force on Climate-related Financial Disclosures. The Works' governance structure is effective and the business has a good track record in protecting its people and supporting its communities, however there are plenty of opportunities to enhance these areas further, for example by promoting greater diversity and inclusion across the business. Our colleagues have shown a desire to engage more in our ESG strategy and already play a role in supporting their local communities, fundraising for our charity partners and protecting the environment, for example through recycling and donating old stock to schools and charities. They are by nature enthusiastic, crafty and resourceful, so will play an important part in driving progress against our ESG pillars.

Dividend

As part of some prudent measures to strengthen the balance sheet and manage the cost base and cash flows during the COVID-19 pandemic, dividends were suspended in FY20 and FY21. Reflecting the Group's strong performance in FY22, and its future potential, the Board will propose the payment of a final dividend of 2.4 pence per share in respect of FY22, subject to shareholder approval at our AGM on 27 October 2022, and will look to maintain the cadence of twice yearly dividend payments thereafter. Whilst the consumer market remains especially volatile, we will review future payment levels based on prevailing conditions, but intend to pursue a progressive dividend policy in due course once conditions stabilise.

Outlook

Our success this year reflects the ongoing appeal of our proposition and the resilience of our business and was achieved despite some significant external challenges. In the current economic environment, characterised by ongoing inflationary pressure and subdued consumer sentiment, our value proposition is more relevant than ever. We are confident that the Group will continue to make good strategic progress in the year ahead and will deliver growth in the medium-term, albeit that the Adjusted EBITDA result for FY23 will be lower than in FY22.

Carolyn Bradley
Chair
23 September 2022

Chief Executive's Review

Introduction

Our financial year started shortly after we emerged from a lengthy period of COVID-19 lockdowns, with stores having just re-opened. Our customers were delighted to be able to shop with us in store again, and it was a real boost to see colleagues back doing the job they love and the retail sector starting to recover from a period beset by disruptions. I am pleased to report that despite the significant challenges arising from global supply chain disruption and a cyber security incident towards the end of the financial year, we delivered a strong financial performance and made good strategic progress in FY22. This was due to our colleagues, who were ready to serve our customers on their return and continued to show incredible resilience, team spirit and passion for the work they do. On behalf of the leadership team, I would like to thank them for all their ongoing support. This year has demonstrated the resilience of the business; I am proud of all that we have achieved and remain confident about the future prospects for The Works.

Our purpose

The Works' proposition, which resonated particularly well with customers during the pandemic, really strengthened over the course of FY22. To underpin the evolution of our brand, we felt the time was right to redefine our purpose. This purpose is "*to inspire reading, learning, creativity and play – making lives more fulfilled".* This will help focus our colleagues on a common goal and show everybody at The Works that they have a role to play as part of our strategy to make our business *better, not just bigger*. Having now succinctly articulated why we exist the next step is to fully embed this purpose across the business. We believe it will have a truly transformational effect on our performance over the next three years.

Trading performance and financial results

The Works delivered a strong trading performance in FY22, well ahead of pre-COVID levels, demonstrating the strong execution of our strategy. Our first half performance was ahead of our expectations and in H2 FY22 we delivered a record Christmas despite uncertainty over the impact of the Omicron variant and the supply chain challenges faced by the sector. Trading in the second half remained positive, although, as expected, the rate of growth began to slow in the latter months of the period, primarily reflecting the impact of an increasingly challenging consumer environment, and also a cyber security incident towards the end of FY22. Overall, total gross sales [(1)] for the period were £298.4m, an increase of 44.7% compared with FY21 and 12.7% compared with FY20 [(1)]. Two-year LFL sales increased by 10.5%, with growth online and in stores.

This positive trading performance was driven by our '*better, not just bigger'* strategy (see below). This included a greater focus on products that inspire and delight our customers such as front-list books, branded products and extended online product ranges, which engaged existing customers and attracted new ones to shop with us, both in store and online. Our flexible business model also enabled us to capitalise on trends like the 'summer of staycations', Fidget Frenzy and BookTok, which boosted sales of the most in-demand products during the year.

Retail is a sector in which challenges arise constantly but two notable ones arose during the year, which we would not expect to recur and are therefore worth highlighting:

1. Supply chain disruption and ongoing uncertainty surrounding possible COVID-19 related restrictions saw some Christmas trade brought forward into September and October. Our proactive management of the supply chain ensured that we had adequate stock overall, despite some of it arriving later than planned, which meant that, although the sales pattern pre-Christmas was different than in previous years, and sub-optimal compared to our plans, we were still able to deliver a record Christmas performance.
2. We also experienced a cyber-security incident at the end of March 2022, which for a short time impacted our till systems, replenishment deliveries to stores and delayed the fulfilment of online orders. We took swift action to protect the business, which dealt with the immediate threat and enabled us to continue trading online and from more than 95% of our stores. Although the initial impact on trading was minimal, our operational recovery, which also included making significant improvements to security arrangements, took longer than expected, and resulted in a residual impact on sales into the early part of FY23.

Profit performance improved significantly, with FY22 EBITDA increasing to £16.6m (FY21: £4.3m). Our improved sales performance and the operational and proposition improvements we have made throughout the year helped to offset the cost impact of the external headwinds highlighted above, which were also partially offset by £5.8m of COVID-19 business rates relief. On a statutory basis, profit before tax increased to £10.2m (FY21: loss before tax of £2.8m).

[(1)] See footnotes (1),(2) in the Financial review which describe the calculation of gross sales and 2-year sales comparisons.

Strategy

At the FY21 preliminary results we announced an evolution of our strategy, to be a '*better, not just bigger*' version of ourselves. Since then we have made good strategic progress, both behind the scenes to improve our operations and efficiency, as well as more visible changes to sharpen the proposition, improve our stores, our product ranges and how we interact with our customers. We have also strengthened the management team and senior leadership across the business to support the successful execution of our strategy.

Each change made, when considered in isolation, will have a relatively limited impact on our future performance but collectively the changes we have made across the entire business will, we believe, be truly game changing for The Works. These improvements have already helped to drive top and bottom-line growth in FY22 and we believe that if we continue to make good progress against this strategy it will significantly increase sales and will generate much more sustainable returns in the long-term.

Outlined below is an overview of each of the four pillars of our strategy, progress made against them during FY22, and our priorities for the year ahead.

Develop our brand and increase our customer engagement

In line with our purpose, we are improving our customer proposition to help build deeper relationships with our existing customers, drive increased brand loyalty and inspire and attract new customers.

In FY22 we:

- Clarified our purpose to better reflect what we do every day. Articulating why we exist has helped give all colleagues the same 'north star' and is ensuring that everything we do is focused on The Works' customers.
- Evolved our brand to create a new, more modern look and began to focus our communications on inspiring customers.
- Recruited a new Commercial Director to drive forward our customer proposition and further strengthen the commercial function.
- Recruited a new Head of Brand to improve our brand marketing and customer communications, engagement and loyalty.
- Made significant progress in improving our offer by taking a more strategic and customer-focused approach to range selection. Our great value proposition is already well recognised and as a result of the action we have taken this year we are now becoming customers' go-to destination for reading, learning, creativity and play. We have achieved this by:
    - Overhauling our book strategy, stocking many more front-list titles such as David Walliams' *Gangsta Granny Strikes Again* and Richard Osman's *The Man Who Died Twice*. This is helping to increase our market share in the book category, improve our credibility as a bookseller and also drive sales of great value back-list titles which can still represent significant sales opportunities.
    - Capitalising on the BookTok trend. Our flexible business model and strengthened relationships with publishers enable us to respond to trending books highlighted on TikTok and provide customers with the most in-demand books at great value.
    - Increasing our ranges of popular branded products in our Kids Zone, such as Peppa Pig, Paw Patrol and Cocomelon, and board games including Scrabble, Articulate and Elf Monopoly.

In FY23 we will focus on:

- Developing our marketing strategy, deploying our evolved brand and refreshed look to inspire and engage with customers more effectively.
- Ensuring our products and ranges align with our purpose - *to inspire reading, learning, creativity and play – making lives more fulfilled.*
- Further developing our product offering, including extending our range of Children's books (including front-list authors such as Julia Donaldson being introduced) and refreshing our own-brand Art, Craft and Stationery ranges.
- Using data and insight more effectively so that we develop a better understanding of our customers and their preferences.
- Relaunching our *Together* loyalty programme, which has enormous untapped potential, given the relatively low levels of penetration of the scheme (c13% of transactions in FY22).

Enhance our online proposition

We strive to become customers' go-to destination for reading, learning, creativity and play. We believe that our online channel will be an important part of achieving this ambition given the role it can play in providing inspiring content and convenient shopping. We invested in a new web platform in July 2020 which provided the foundation for us to subsequently invest significantly in our online fulfilment capacity and in shortening delivery times. Our online capability is now more efficient and better able to meet increasing customer demand.

In FY22 we:

- Improved our fulfilment capacity and delivery capabilities for increasingly 'time poor' customers, who seek greater product availability and faster delivery times. We extended our next day delivery cut-off from 8pm to 11pm and reduced our standard delivery window from three to five days to a guaranteed three days.
- Further enhanced our complementary online ranges, focusing particularly on expanding online ranges of larger items in our Out2Play range, which performed well during the '*summer of staycations'* in 2021, as well as offering a greater selection of front-list books, branded toys and games.
- Started to optimise our new platform. For example, we have improved the navigation across key product and category pages to help customers find product matches and introduced browse attributes to reduce clicks required to purchase.
- Recruited a Head of Digital Marketing to develop and implement campaigns across new channels, improve efficiency, help attract more people to our website and improve our CRM.

In FY23 we will focus on:

- Further enhancing the online customer experience, including undertaking a usability study to better understand the customer journey and key friction points. Alongside the outputs of this review we will improve the merchandising of products on the site and navigation through the site, supported by better analytics and the introduction of new tooling, including multi-variate testing.

- Launching more targeted online range extensions, building on improvements made in our front-list book, and branded toys and games offers in store.
- Introducing 'Parcelshop' as an alternative delivery option, adding c.11k additional pick-up points, improving convenience for our customers.
- Engaging and retaining more customers through our digital marketing, including building a team to strengthen our in-house capabilities.
- Improving the customer experience between stores and online by making it possible for customers to order from the website when shopping in store and performing an end-to-end review of our click and collect journey.

Optimise our store estate

We already have a strong footprint across the UK and Ireland, with stores conveniently located on high streets, in shopping centres, in retail parks and concessions within garden centres. The broad appeal of our proposition and low-cost model of our stores, which tend to be smaller than those of our competitors, allows us to operate in such locations which often do not suit more specialist retailers. As a result, in these locations, there is often very little direct high street competition.

Our main priority is to optimise our stores to create an environment that inspires our customers, reflects the communities we serve and encourages more shoppers to consider The Works as their primary destination for the products we offer.

In FY22 we:

- Further improved the quality of the store estate, opening five new stores, closing seven and relocating six. Our opening in Bluewater, one of the UK's most high-profile shopping centres, was a particular highlight and the store is trading successfully. As of 1 May 2022 we traded from 525 stores.
- Undertook 16 store refits as part of our strategy to refresh the store estate and bring all stores up to an 'ideal' standard over the next three years. These refits will improve customer experience by modernising the store shopping environment and improving the store layout, whilst also making the stores easier to run operationally.
- Enhanced the in-store experience through better space planning, ranging and merchandising. We also improved customer experience and made our stores easier to shop, for example through better navigation and ensuring that all stock is at an easily accessible height.

In FY23 we will focus on:

- Continuing to grow our brand awareness with selective new store openings, focused on the top locations that we are not yet represented in.
- Optimising our existing stores through relocations and refits, with 40 stores expected to benefit from this activity.
- Further improving our use of space in store to enhance the customer experience and drive improved sales densities, supported by the introduction of new space and merchandising software.
- Increasing our focus on offering excellent customer service in-store, through improved training and continuing to simplify the way we operate our stores to reduce other tasks.

Drive operational improvements

Improving our ways of working to become a more productive and modern retailer is a core part of our "better, not just bigger" strategy. We want to ensure we operate efficiently and in a cost-effective way, as well as providing better product choice and availability for our customers. The progress we have made means that 'behind the scenes' we are already operating more effectively, which we believe will help to generate more sustainable returns in the future.

In FY22 we:

- Invested in our supply chain team and systems, making improvements in our end-to-end stock management processes, including successfully piloting a new stock allocation system that will significantly improve on-shelf availability and drive improved stock turn.
- Renewed our e-commerce logistics contract with iForce. The renewed contract includes additional investment to fund the introduction of automated picking robots and an automated packing machine. This is expected to drive productivity, help to offset the National Living Wage cost headwind in our online fulfilment operation, whilst also reducing our waste packaging.
- Launched a trial to deliver directly to 29 stores (rather than via a third party network), which was subsequently expanded to cover 60 stores, significantly reducing the lead time from picking to delivery and helping to improve on-shelf availability. This will be rolled out to more stores in FY23 although most stores will continue to receive deliveries via a third party network.
- Established a Profit Protection function with an initial focus on reducing store stock loss (e.g. through identifying and reducing high levels of theft).
- Selected a new electronic point of sale (EPOS) solution for stores and began development of this new system ahead of deployment later in FY23. This system replaces the existing outdated system and provides a platform for introducing additional functionality, for example self-service checkout and ordering from our website whilst in store.
- Accelerated the implementation of our existing plans to strengthen IT security measures following the cyber-security incident in March 2022.

In FY23 we will focus on:

- Rolling out our new stock allocation system across our entire store estate.
- Extending our scheme to deliver directly to stores.
- Deploying the new EPOS solution across the store estate, including the functionality to order online whilst in-store.
- Reducing store stock loss through the execution of our profit protection plans, including driving a colleague awareness programme, better utilising data to identify stores with high stock losses and targeting increased activity on these higher risk stores.
- Adopting a continuous improvement approach in relation to all operational processes across the business.

Colleagues

In a challenging and competitive retail environment, our colleagues are fundamental to the delivery of great customer service. Many retail businesses make this claim, but we believe that The Works is unique and fortunate to have a team of colleagues who truly believe in our purpose and are passionate about the job they do. Attracting, retaining, developing, and engaging good people are key to our success and I was very pleased that we have maintained our position on the Best Big Companies to Work for National List, ranking 13th place.

During the year we have strengthened the leadership team through the creation of a number of new roles. Nina Findley, our new Commercial Director, joined the Operational Board in June 2021. Nina has over 20 years' buying experience in highly relevant markets, having spent her early career with Woolworths and Superdrug and more recently holding a variety of senior roles at Homebase. During the period we also strengthened our senior leadership team with the appointment of new 'Heads of' in our Brand Marketing, Digital Marketing, Buying and Profit Protection functions.

We remain focused on further enhancing the engagement and development of our colleagues with further exciting initiatives planned for FY23, including introducing a new Communication and Rewards platform ('MyWorks') and a new learning and development system (our 'Can Do Academy').

Environmental, Social and Governance (ESG)

Having reviewed our approach last year and, as a first step, formed a new ESG steering group, we are increasing our focus on ESG issues and defining our ESG commitments. Working to reduce our impact on the planet and supporting our people and communities is not only the right thing to do, it is a key issue for our stakeholders and will also ensure that we stay relevant as customer demand for more sustainable products continues to grow.

We are currently developing our sustainability strategy to ensure that it addresses environmental issues whilst supporting our growth. We are also engaged in a programme of work to ensure our compliance with the recommendations of the Task Force on Climate-related Financial Disclosures. We have also signed up to the British Retail Consortium's Diversity and Inclusion charter and are gathering baseline data and insight to help further develop our D&I strategy and ensuring its effectiveness.

The Works has always been a business that gives back and I am very proud of the fundraising efforts of our colleagues and grateful for the generosity of our customers. Our commercial and fundraising partnership with Cancer Research UK continues and last year we were delighted to enter into a nationwide partnership with MIND, SAMH and Inspire - three leading charities that do incredible work to support people's mental health.

Outlook

Overall, we are pleased with the performance delivered in FY22. However, we are not immune from the current inflationary pressures, which have increased business costs and we anticipate may weigh on consumer spending levels over a much more sustained period than initially expected. In this environment, our value proposition is more relevant than ever, and we are confident that the Group will continue to make good strategic progress in the year ahead and will deliver growth in the medium-term, albeit the Adjusted EBITDA result for FY23 will be lower than in FY22.

Gavin Peck
Chief Executive Officer
23 September 2022

Financial review

The FY22 accounting period relates to the 52 weeks ended 1 May 2022 (also referred to as the Period) and the comparative FY21 accounting period relates to the 53 weeks ended 2 May 2021.

As is described in the financial statements, the Group tracks a number of alternative performance measures (APMs), as it believes that these provide management and other stakeholders with additional helpful information. APMs used in this report include EBITDA, Adjusted EBITDA and like for like ("LFL") sales.

The Group made a profit before tax of £10.2m (FY21: loss before tax of £2.8m). Adjusting items in FY22 were insignificant and the adjusted profit before tax was £10.1m (FY21: adjusted loss before tax of £3.6m). The adjusting items related to net impairment reversals.

The pre IFRS 16 Adjusted EBITDA was £16.6m (FY21: £4.3m).

Overview

The Group delivered a strong performance in FY22, the first year under the leadership of the new management team that was relatively unaffected by COVID-19 disruption. FY22's performance was characterised by the following factors:

- Strong underlying sales throughout the year driven by solid progress against the Group's strategic objectives beginning to leverage the inherent strength of the proposition.
- Significant disruption to global freight operations in the autumn of 2021 resulted in much higher freight costs and a less than ideal flow of stock into the business, despite which, the Group achieved a record Christmas trading period.
- A cyber security incident occurred at the end of March 2022. Operations in the last month of the financial year (and the beginning of FY23) were intentionally restricted to allow the deployment of strengthened system security measures alongside a carefully staged system recovery plan.
- As the effects of COVID-19 reduced, the level of Government financial support reduced correspondingly, although the Group received £5.8m of business rates relief during FY22.
- The effects of inflation began to have an impact, particularly in the form of higher freight costs and an increase in the National Living Wage.

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

The strong financial performance resulted in another year of healthy cash generation, even allowing for favourable working capital timing differences which slightly flattered the comparison; the closing net cash balance was £16.3m, which compares well with the £0.8m balance at the end of FY21 (and, for reference, £7.1m of net debt at the end of FY20).

Despite the healthy cash position and our confidence in the inherent ability of the Group to generate strong positive cash flow, with the increasingly bleak tone of external predictions about the near-term economic outlook, we considered it prudent to buttress the Group's financial position by refinancing the Group's bank facilities. This was formally completed shortly after the year end and increases the size of the facility to £30.0m and extends the expiration date to the end of November 2025.

As a further indication of the Board's confidence in the prospects of The Works, dividends will be reinstated, assuming that shareholders at the AGM approve the Board's recommendation of a 2.4 pence per share dividend in respect of FY22.

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 46. 5% to £264.6 million (FY21: £180.7 million).

The enforced closure of stores during certain periods in FY21 prevents meaningful comparisons of FY22's sales performance with that year, so FY20 is used as a comparison period for trading performance. Total gross sales (1) in FY22 increased by 12.7% compared to FY20 and two-year LFL sales (2) increased by 10.5%, with positive growth continuing both online and in stores.

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

- Q1 highlights
  - Pent up demand following the recent re-opening of stores (in April 2021) was supported by a sale which was larger than usual as it included stock we were unable to sell in January/February 2021 when we would normally have held a post-Christmas sale.
  - During summer 2021, "fidget frenzy" stock became very popular at the end of Q1, which then combined with a strong back to school performance in August to create a positive start to Q2.
- Q2 highlights
  - Sales during September and October were stronger than expected, likely to have been helped by Christmas demand beginning early. We hypothesise that customers sought to minimise risks of not being able to shop before Christmas and/or of stocks being scarce due to widely reported issues with supplies due to the global freight/supply chain challenges.
- Q3 highlights
  - Record Christmas despite the overall stock mix and its distribution to stores not being as well executed as we had planned due to the supply chain disruption, for example, Christmas accessories did not arrive until early in December. The Omicron COVID-19 variant may have reduced sales from consumers who were being more cautious about going out.
  - The January sale event was smaller than planned because terminal stock levels were low and we had not bought stock specifically for the sale period.
- Q4 highlights
  - Developments to the product proposition, with front list books and branded toys and games being highlights, sold well as we emerged from the January sale.
  - A cyber security incident at the end of March caused limited immediate/direct interruption to trading, but the cautious approach taken to the recovery affected sales in April (and into the beginning of FY23).

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

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

(1) **"Total 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. The 52-week comparison periods used for the LFL and total sales growth calculations use a literal mapping of calendar weeks between FY22 and the corresponding 52 weeks two/three years prior. Due to the inclusion of a 53rd week in FY21, the FY20/FY19 statutory accounting periods are one week offset from the 52-week period used in the LFL and total sales comparisons.

(2) **LFL sales** increase has been calculated with reference to the **FY20** comparative sales figures, or two-year LFL, because the extended periods of enforced store closures during FY21 prevent that period from forming the basis of meaningful comparisons. For the last 5 weeks of the Period, the LFL percentages are calculated using the corresponding weeks in **FY19**, because the equivalent weeks during FY20 were also affected by the first period of enforced store closures. Similar comparison periods are also used for the total sales growth figures quoted.

The number of stores trading reduced by two during the period, from 527 to 525. Despite this small change in the net number of stores at the year end, the sales from new/closed stores in the previous table shows a significant increase compared with the prior year due to the relative timing of store openings/closures as well as the effect of the periods of enforced store closures in FY21. The one-year LFL percentage growth is relatively low by comparison, because a significant one-year LFL decline in online sales partially offset a high store LFL (also due to the periods of closure in FY21).

Most of the capital cost of opening the new stores continued to be funded via capital contributions from landlords, reducing the impact on the Group's cashflow. The new stores are trading successfully with sales levels above their financial appraisal targets.

Store numbers	**FY22**	**FY21**
Stores at beginning of period	527	534
Opened in the period	5	4
Closed in the period	(7)	(11)
Relocated *(excluded from opened/closed above, **NIL** net effect on store numbers)*	*6*	*2*
Stores at end of period	**525**	**527**

The cost of loyalty points redeemed during the year increased as expected, in line with the sales increase, but the reported cost reduced due to the write back of points previously issued and accounted for, which have subsequently expired, and can no longer be redeemed.

We have noted that books sold well during FY22, increasing their participation of total sales. As they are zero rated for VAT, this benefited the effective VAT rate which was 11.2% compared with 11.8% in FY21.

Gross profit

	FY22		**FY21 (Restated *)**			
	£m	**% of revenue**	**£m**	**% of revenue**	**Variance £m**	**Variance %**
Revenue	**264.6**		**180.7**		**84.0**	*46.5*
Less: Cost of goods sold	107.7		69.0		38.7	*56.1*
Product gross margin	**157.0**	***59.3***	**111.7**	***61.8***	**45.3**	**40.5**
Other costs included in statutory cost of sales						
Store payroll	43.6	*16.5*	37.7	*20.8*	5.9	*15.7*
Store property and establishment costs	43.7	*16.5*	36.7	*20.3*	7.0	*19.1*
Store PoS & transaction fees	2.1	*0.8*	1.4	*0.8*	0.7	*47.7*
Store depreciation	5.0	*1.9*	5.2	*2.9*	(0.2)	*(4.0)*
Online variable costs	18.7	*7.1*	24.5	*13.6*	(5.8)	*(23.8)*
IFRS16 impact	(4.7)	*(1.8)*	(4.2)	*(2.3)*	(0.5)	*11.1*
Adjusting items	-	-	(1.0)	*(0.5)*	0.9	*(97.0)*
Total non-product related cost of sales	**108.4**	*41.0*	**100.4**	*55.6*	**8.0**	*8.0*
Gross profit per financial statements	**48.6**	*18.4*	**11.3**	*6.3*	**37.2**	*328.8*

(*) See Note 5 of condensed financial statements

The product gross margin decreased by 250bps to 59.3% (FY21: 61.8%).

- The gross margin was affected by much higher freight costs than normal, particularly in H2 FY22 (these have remained high into FY23 but we expect them to abate in FY24, offsetting the adverse effect of a weaker pound).
- The FY21 comparative included unusually low discounting, particularly online, when the stores were closed due to restrictions.
- The product mix included a greater proportion of front-list books and branded games and toys, which sell at a lower percentage margin, although contribute positively to the cash margin.

Store payroll costs increased due to the National Living Wage increase, which was partially mitigated by operational efficiencies and reduced tasking in the stores. Also, in FY21, when colleagues were furloughed, only 80 % of the normal wage rate was paid.

Store property and establishment costs increased due to a year-on-year reduction in the value of COVID-19 business rates relief received (£5.8m was received in FY22) and higher energy costs, which were partially offset by further rent savings (energy costs have also increased significantly in FY23, although this is factored into our forecast).

The increase in store point of sale (PoS) and transaction fees, which are volume related costs, was broadly in line with the increase in sales.

Although on a two year LFL basis, online sales grew by 69.7%, on a one year LFL basis, compared to the exceptionally high sales levels in FY21 when stores were closed, online sales declined, with a corresponding decrease in volume related costs including marketing and fulfilment costs.

Other operating income/expense

The other operating expense was £0.1m (FY21: other operating income of £17.1m). In FY21 the income related to the Government Coronavirus Job Retention Scheme and the COVID-19 Retail, Hospitality and Leisure Grant Fund (the COVID-19 rates relief received is netted off rates costs within the cost of sales, as described in the previous section).

	FY22		**FY21**			
Other operating income	**£m**	***% of revenue***	**£m**	***% of revenue***	**Variance £m**	***Variance %***
Coronavirus Job Retention Scheme grants	(0.1)	-	15.3	*8.5*	(15.4)	*(100.7)*
COVID 19 retail business grant	-	-	1.8	*1.0*	(1.8)	*(100.0)*
	(0.1)	-	**17.1**	*9.4*	**(17.2)**	*(100.7)*

Distribution costs

	FY22		**FY21 (Restated *)**			
	£m	***% of revenue***	**£m**	***% of revenue***	**Variance £m**	***Variance %***
Adjusted distribution costs	9.0	*3.4*	6.4	*3.5*	2.7	*42.5*
Depreciation	0.1	-	0.1	*0.1*	-	*(16.0)*
IFRS 16 impact	-	-	-	-	-	*(91.0)*
Distribution costs per statutory accounts	**9.1**	*3.4*	**6.4**	*3.6*	**2.7**	*41.8*

(*) See Note 5 of condensed financial statements

Retail distribution costs were higher during the period as the stores were trading throughout, in contrast to the prior year, and therefore volume driven labour and pallet delivery costs increased. In addition, the increase in the National Living Wage rate increased staff costs although some of the inflationary increase was mitigated by operating/efficiency improvements.

Administration costs

	FY22		**FY21 (Restated *)**			
	£m	***% of revenue***	**£m**	***% of revenue***	**Variance £m**	***Variance %***
Pre-IFRS 16, Adjusted administration costs	23.2	*8.8*	17.8	*9.9*	5.4	*30.1*
Depreciation	1.2	*0.5*	1.7	*0.9*	(0.5)	*(28.2)*
IFRS 16 impact	(0.4)	*(0.1)*	(0.4)	*(0.2)*	0.0	*(6.9)*
Adjusting items	-	-	0.2	*0.1*	(0.2)	*(100.0)*
Administration costs per statutory accounts	**24.0**	*9.1*	**19.3**	*10.7*	**4.7**	*24.5*

(*) See Note 5 of condensed financial statements

The increase in administrative costs reflects investments made to strengthen the senior leadership team and key functions including supply chain and IT, and an accrual for FY22 bonus (there was no bonus cost in respect of FY21). There were also higher software maintenance/licence costs and the cost of resuming normal activities such as travel which were suppressed for periods during FY21.

IFRS 16 Leases

The Group continues to include information to enable stakeholders to see the effect of IFRS 16. The net impact of IFRS 16 was to increase the profit before tax in FY22 by £0.9m (FY21: £0.7m increase).

	FY22	FY21
		(Restated *)
	£m	£m
Profit/(loss) before tax before IFRS 16	9.3	(3.5)
Profit/(loss) before tax post IFRS 16	10.2	(2.8)
Net impact on profit/(loss)	**0.9**	0.7

(*) See Note 5 of condensed financial statements

Net financing expense

Net financing costs in the period were £5.2m (FY21: £5.5m), mostly relating to notional IFRS 16 lease interest.

Actual interest payable was £0.7m, in relation to the Group's bank facilities (FY21: £0.6m), and comprised facility availability charges and the amortisation of the initial costs of establishing the bank facility in August 2020 (the cost of the new facility will be amortised from FY23).

	FY22 £m	FY21 £m
Bank interest payable (including non-utilisation costs)	0.4	0.3
Other interest payable (amortisation of facility set-up costs)	0.3	0.3
IFRS 16 notional interest on lease liabilities	4.5	4.9
Total finance expense	**5.2**	5.5

Tax

	FY22 £m	FY21 £m
Current tax expense	2.1	0.0
Deferred tax credit	(0.6)	(0.5)
Total tax expense/credit	**1.4**	(0.5)

The UK corporation tax rate for FY22 and FY21 was 19.0%**.** The UK corporation rate is due to increase from 19% to 25% on 1 April 2023, although we understand that this decision is now under review.

Deferred tax assets and liabilities are recognised based on the corporation tax rate applicable when they are anticipated to unwind. Therefore, the deferred tax assets and liabilities have been largely recognised at a rate of 25.0% (FY21: 19.0%), which creates a deferred tax credit that reduced the Group's effective tax rate for FY22.

The total tax expense was £1.4m (FY21: credit of £0.5m). The effective tax rate was 14.1% (FY21: 17.9% on the loss before tax).

Earnings per share

The basic EPS for the year was 14.0 pence (FY21: loss per share of 3.7 pence) and the diluted EPS was 13.7 pence (FY21: diluted loss per share of 3.7 pence).

Capital expenditure

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

Capital expenditure in the Period was £3.0m (FY21: £2.4m) and comprised

- The cost of opening five new stores and relocating six others to new sites. Most of the new store capex was funded by landlord contributions.
- Store maintenance including 16 refits.
- Increased IT development expenditure, reflecting the implementation of the Group's strategy to improve its systems.

FY23 capex is expected to be approximately £7.5m.

Inventory

Stock levels were £29.4m at the end of FY22 (FY21: 29.1m), an increase of 1.0%.

	FY22 £m	FY21 £m	Variance £m	Variance %	Provisions as % of gross stock FY22 %	FY21 %
Gross stock	29.8	31.0	(1.2)	(3.9%)		
Shrinkage provision	*(1.9)*	*(2.6)*	*0.7*	*(26.9%)*	*6.4%*	*8.4%*
Obsolescence provision	*(1.3)*	*(1.8)*	*0.5*	*(27.8%)*	*4.4%*	*5.8%*
Total provisions	(3.2)	(4.4)	1.2	(27.3%)	10.7%	14.2%
Net stock on hand	26.6	26.7	0.1	0.4%		
Stock in transit	2.8	2.5	0.3	13.9%		
Stock per balance sheet	**29.4**	**29.1**	**0.3**	**1.0%**		

Stock levels at the end of FY22 were as planned and were not affected as they had been at the previous two year ends by issues related to COVID-19. The level of stock provisions has reduced significantly since the end of FY21:

- The provision for unrecognised stock loss (shrinkage) is lower as, unlike in FY21, it was possible during FY22 to complete store stock counts which enabled stock adjustments to be made during the year to recognise losses, requiring a lower unrecognised loss provision at the Period end.
- The obsolescence provision is lower because a significant quantity of terminal stock was sold or written off during FY22 which resulted in a lower level requiring a provision at the end of the year.

Cash flow

The table shows a summarised non IFRS 16 presentation cash flow; the financial statements include a statutory consolidated cash flow statement. The net cash inflow for the year was £15.5m (FY21: £7.9m).

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

- The cash flow pre working capital shown in the table deducts IFRS 16 notional lease and interest payments from the statutory operating cash flow before changes in working capital, and adds back the £7.5m CLBILS loan repayment.
- The tax paid in FY22 was lower than we would expect to pay in relation to normal years, due to previous low levels of taxable profits.
- During the year the Group repaid its £7.5m CLBILS term loan.

The year end cash balance was higher than expected as it included favourable working capital timing differences, most of which have unwound in FY23. The cash position provides the Group with a high degree of available liquidity and comfortably allows for the payment of the final dividend the Board will recommend at the AGM.

Bank facilities and financial position

The financial position of the Group continued to improve during the period, at the end of which, there were no borrowings.

At the period end, the Group held net cash (excluding lease liabilities) of £16.3m (FY21: £0.8m) resulting in headroom of approximately £35.0m within its previous bank facility limit.

The Group's bank facilities were renewed shortly after the period end and now comprise a larger revolving credit facility ('RCF') of £30.0m which expires on 30 November 2025. The facility includes standard financial covenants in relation to leverage and fixed charge cover.

Dividend

In light of the strong performance in FY22, the robust balance sheet, and its confidence in the future prospects of the business despite the short-term concerns as regards the external economic environment, the Board will be recommending a 2.4 pence per share dividend in respect of FY22, which will be subject to shareholder approval at our AGM on 27 October 2022. If approved by shareholders, the dividend will be paid on 24 November 2022 to shareholders on the register on the record date of 4 November 2022.

We hope to maintain the cadence of twice yearly dividend payments thereafter; whilst the consumer market remains especially volatile, we will review future payment levels based on conditions at the time, but intend to resume a progressive dividend policy in due course once conditions stabilise.

Steve Alldridge
Chief Financial Officer
23 September 2022

Consolidated income statement
For the period ended 1 May 2022

		52 weeks to 1 May 2022			53 weeks to 2 May 2021 (Restated – Note 3, Note 5)		
	Note	**Result before Adjusting items £000**	**Adjusting items £000**	**Total £000**	Result before Adjusting items £000	Adjusting items £000	Total £000
Revenue		**264,630**	**-**	**264,630**	180,680	-	180,680
Cost of sales		**(216,082)**	**29**	**(216,053)**	(170,342)	975	**(169,367)**
Gross profit		**48,548**	**29**	**48,577**	10,338	975	11,313
Other operating income	2	**(111)**	**-**	**(111)**	17,081	-	17,081
Distribution expenses		**(9,128)**	**-**	**(9,128)**	(6,440)	-	(6,440)
Administrative expenses		**(24,004)**	**-**	**(24,004)**	(19,088)	(199)	(19,287)
Operating profit	5	**15,305**	**29**	**15,334**	1,891	776	2,667
Finance income		**16**	**-**	**16**	18	**-**	18
Finance expenses		**(5,192)**	**-**	**(5,192)**	(5,486)	-	(5,486)
Net financing expense		**(5,176)**	**-**	**(5,176)**	(5,468)	-	(5,468)
Profit/(loss) before tax		**10,129**	**29**	**10,158**	(3,577)	776	(2,801)
Taxation	6	**(1,436)**	**-**	**(1,436)**	502	-	502
Profit/(loss) for the period		**8,693**	**29**	**8,722**	(3,075)	776	(2,299)
Profit/(loss) before tax and IFRS 16	3	**9,525**	**(241)**	**9,284**	(3,395)	(94)	(3,489)
Basic earnings per share (pence)	8	**13.9**		**14.0**	(4.9)		(3.7)
Diluted earnings per share (pence)	8	**13.7**		**13.7**	(4.9)		(3.7)

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

Consolidated statement of comprehensive income

For the period ended 1 May 2022

	FY22 £000	FY21 £000
Profit/(loss) for the year	**8,722**	**(2,299)**
Items that may be recycled subsequently into profit and loss		
Cash flow hedges – changes in fair value	**4,181**	(2,865)
Cash flow hedges – reclassified to profit and loss	**(321)**	252
Cost of hedging reserve – changes in fair value	**(83)**	(90)
Cost of hedging reserve – reclassified to profit and loss	**94**	(160)
Tax relating to components of other comprehensive income	**-**	536
Other comprehensive income/(expense) for the period, net of income tax	**3,871**	(2,327)
Total comprehensive income/(expense) for the period	**12,593**	(4,626)

Consolidated statement of financial position
As at 1 May 2022

	Note	**FY22 £000**	FY21 (Restated – Note 10) £000
Non-current assets			
Intangible assets	9	**2,672**	2,463
Property, plant and equipment	10	**13,970**	17,524
Right-of-use assets	10, 11	**94,351**	112,542
Deferred tax assets	12	**3,477**	2,852
		114,470	135,381
Current assets			
Inventories	13	29,387	29,132
Trade and other receivables	14	8,427	6,913
Derivative financial asset		2,393	-
Current tax asset		-	704
Cash and cash equivalents	15	16,280	8,315
		56,487	45,064
Total assets		170,957	180,445
Current liabilities			
Interest-bearing loans and borrowings	16	-	7,095
Lease liabilities	11, 16	25,434	31,552
Trade and other payables	17	35,958	26,188
Provisions		204	718
Derivative financial liability		-	1,649
Current tax liability		1,115	-
		62,711	67,202
Non-current liabilities			
Lease liabilities	11, 16	85,702	104,362
Provisions		913	-
Derivative financial liability		-	53
		86,615	104,415
Total liabilities		149,326	171,617
Net assets		**21,631**	8,828
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		**2,252**	1,601
Hedging reserve		**2,227**	(1,203)
Retained earnings		**(11,741)**	(20,463)
Total equity		**21,631**	8,828

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
Balance at 26 April 2020	625	28,322	(54)	1,506	1,171	(18,164)	13,406
Total comprehensive income for the period							
Loss for the period	-	-	-	-	-	(2,299)	(2,299)
Other comprehensive income/(expense)	-	-	-	14	(2,341)	-	(2,327)
Total comprehensive income/(expense) for the period	-	-	-	14	(2,341)	(2,299)	(4,626)
Hedging gains and losses and costs of hedging transferred to the cost of inventory	-	-	-	-	(33)	-	(33)
Transactions with owners of the Company							
Share-based payment charges	-	-	-	81	-	-	81
Total transactions with owners	-	-	-	81	-	-	81
Balance at 2 May 2021	625	28,322	(54)	1,601	(1,203)	(20,463)	8,828
Total comprehensive income for the period							
Profit for the period	**-**	**-**	**-**	**-**	**-**	**8,722**	**8,722**
Other comprehensive income	**-**	**-**	**-**	**-**	**3,871**	**-**	**3,871**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**3,871**	**8,722**	**12,593**
Hedging gains and losses and costs of hedging transferred to the cost of inventory	**-**	**-**	**-**	**-**	**(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	**625**	**28,322**	**(54)**	**2,252**	**2,227**	**(11,741)**	**21,631**

1. Hedging reserve includes £175,956 (FY21: £155,124) 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 1 May 2022

	FY22 £000	FY21 (Restated - Note 10) £000
Profit/(loss) for the year (including Adjusting items)	**8,722**	(2,299)
Adjustments for:		
Depreciation of property, plant and equipment	**5,005**	5,187
Impairment of property, plant and equipment	**416**	957
Reversal of impairment of property, plant and equipment	**(175)**	(1,000)
Depreciation of right-of-use assets	**20,029**	23,311
Impairment of right-of-use assets	**710**	4
Reversal of impairment of right-of-use assets	**(980)**	(874)
Amortisation of intangible assets	**806**	947
Derivative exchange gain	**289**	(444)
Financial income	**(16)**	(18)
Financial expense	**692**	617
Interest on lease liabilities	**4,500**	4,869
Loss on disposal of property, plant and equipment	**244**	262
Loss on disposal of right-of-use assets	**2,066**	373
Profit on disposal of lease liability	**(2,340)**	(464)
Loss on disposal of intangible assets	**-**	311
Share-based payment charges	**651**	81
Taxation	**1,436**	(502)
Operating cash flows before changes in working capital	**42,055**	31,318
(Increase)/decrease in trade and other receivables	**(1,514)**	1,217
Increase in inventories	**(892)**	(2,284)
Increase in trade and other payables	**9,336**	167
Increase/(decrease) in provisions	**399**	(261)
Cash flows from operating activities	**49,384**	30,157
Corporation tax paid	**(222)**	(30)
Net cash inflow from operating activities	**49,162**	30,127
Cash flows from investing activities		
Acquisition of property, plant and equipment	**(1,936)**	(1,869)
Acquisition of intangible assets	**(1,015)**	(526)
Interest received	**16**	18
Net cash outflow from investing activities	**(2,935)**	(2,377)
Cash flows from financing activities		
Payment of lease liabilities (capital)	**(25,969)**	(14,327)
Payment of lease liabilities (interest)	**(4,500)**	(4,869)
Payment of RCF fees	**-**	(619)
Other interest paid	**(157)**	(279)
Repayment of bank borrowings	**(7,500)**	(10,000)
Issue of bank loan	**-**	7,500
Net cash outflow from financing activities	**(38,126)**	(22,594)
Net increase in cash and cash equivalents	**8,101**	5,156
Exchange rate movements	**(136)**	218
Cash and cash equivalents at beginning of year	**8,315**	2,941
Cash and cash equivalents at end of year	**16,280**	8,315

Notes

(Forming part of the condensed financial statements)

1. Accounting policies

Where accounting policies are particular to an individual note, narrative regarding the policy is included with the relevant note.

(a) General information

TheWorks.co.uk plc is one of the UK's leading multi-channel 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 500 stores in the UK & Ireland and an online store.

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 1 May 2022 (FY22 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 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 the inventory shrinkage provision; these are described in Note 1(b) and 13, respectively.

(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 at the end of this report.

The Group has prepared cash flow forecasts for a period of at least twelve months from the date of approval of these financial statements, based on the Board's forecast for FY23 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 represents the Group's estimate of the most likely financial performance over the forecast period;
- measures to maintain or increase liquidity in the event of a significant downturn in trading;
- the resilience of the Group to these risks having a more severe impact, evaluated via the Downside Case which shows the impact on the Group's cash flows, bank facility headroom and covenants; and
- the response to situations in which consumer market conditions are even more severe than the Downside Case.

These factors are described below.

External environment

The risks which were most prominent in the Board's consideration of going concern are those relating to the economy and the market, with the nature of these risks having altered significantly since last year's Annual Report. COVID-19 was the dominant factor in making this judgement in relation to the financial statements for FY20 and FY21, but the Board's assessment is that there is now only a residual risk associated with this. Instead, the risk of weaker consumer demand is now considered to be the greatest risk, due to the factors that have been widely reported externally in recent months, including a much higher level of inflation and concerns about its effect on household budgets and consumer spending on discretionary items.

The potential adverse impact on trading in the event of a further weakening of consumer demand due to general economic or market weakness is considered to be of a smaller magnitude than the impact of the full national lockdowns which were experienced during periods of the COVID-19 pandemic.

Risks relating to Brexit are not considered significant for the Group and therefore are not expected to have any bearing on the basis of preparation of the financial statements.

Financial position and bank facilities

The cash and borrowings of the Group at the period end are shown in the financial statement Notes 19 (Cash and cash equivalents) and 20 (Borrowings). In addition, Note 25 (Financial instruments) describes the Group's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments and hedging activities; and its exposure to credit risk and liquidity risk.

At 1 May 2022 the Group held net cash (excluding lease liabilities) of £16.3m (FY21: net cash (excluding lease liabilities) of £0.8m).

The Group's bank facilities were renewed in June 2022, and now comprise a larger revolving credit facility (RCF), increased to £30.0m which terminates at the end of November 2025. The facility includes two financial covenants which are structured in a way that is typical for a retail business of this size. The covenants are tested quarterly:

1. the level of net debt to LTM (last twelve months' rolling) EBITDA (maximum ratio 2.5x).
2. the "Fixed Charge Cover" or ratio of LTM EBITDA prior to deducting rent and interest, to LTM rent and interest (minimum ratio 1.20x until 31 October 2023, 1.25x until 31 October 2024 and 1.30x thereafter).

The bank facility is larger than the Group expects to use, and has been sized in this way to provide the Board and stakeholders with additional assurance as to the availability of liquidity, given the current heightened levels of uncertainty as regards the economy and external environment, and to provide such assurance beyond the going concern period.

Potential impact of risks on Base Case and Downside Case scenarios

The 'Principal risks and uncertainties' are set out at the end of this report and represent the main risks that the Board considers could threaten the Group's business model, future performance, solvency or liquidity.

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

During FY22 the Group experienced a cyber security incident. This had a limited immediate/direct impact on trading towards the end of FY22 and there was a residual effect on trading during early FY23 as the Group took the decision to implement a very cautious and low risk approach to reinstating its systems, whilst simultaneously introducing significantly strengthened cyber security measures. As a result of these measures the Board considers that the risk of a material impact from any future cyber security attack is lessened.

The Downside Case scenario takes into consideration the same risks as the Base Case but assumes that their effects are more severe, especially the level of disruption that could be experienced if consumer spending weakens significantly from its already reduced level, during the coming peak trading season.

Base Case scenario

The Base Case scenario assumptions are aligned with the Group's internal forecast:

- during FY22 sales were adversely impacted during the peak trading season by significant disruptions to the flow of stock into the business due to problems in the ocean freight system and store sales were also affected by the Omicron COVID-19 variant. The Base Case assumes that sales are not affected by these factors during the going concern period;
- online sales levels during the early part of FY23 have been lower than expected. The Base Case assumes that online sales improve from their recent levels but not to the level initially expected, despite the fact that the Group plans to implement measures to improve online sales;
- the gross margin assumptions include provision for the continuation for a longer period than initially expected of higher than normal ocean container freight costs, until the end of FY23. Thereafter it is assumed that any reduction in freight rates will, broadly, be offset by a less favourable currency exchange rate than the hedged rate during FY23;

- the Base Case provides for known or expected inflationary increases including those associated with significantly higher electricity prices which are assumed to double and not to reduce during the going concern period, and wage rates including further increases in the National Living Wage;
- capital expenditure levels are in line with the Group's strategic plan, which would enable a reduction in capital expenditure in the event of a Downside scenario occurring;
- the plan allows for the resumption of dividend payments.

Under the Base Case scenario, the Group's forecasts show that it will not draw on its bank facility at any point. Whilst it may not be relevant given it is not envisaged that the facility would be used under the Base Case scenario, nevertheless the Base Case indicates that the financial covenants are complied with at all times.

The output of the Base Case model scenario therefore indicates that the Group would have sufficient financial resources to continue to meet its liabilities as they fall due over the going concern period.

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

During the COVID-19 pandemic the Group demonstrated that it was capable of taking measures to maintain or improve liquidity, and subsequently, during FY22, the Group has continued to generate positive cashflow.

If deemed necessary, mitigating actions would be taken in response to a significant downturn in trading, which would increase liquidity. These may 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 have been noted as additional measures that may be taken in practice 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 conditions compared to the Base Case:

- store LFL sales are assumed to be 5% lower than the Base Case during the peak period prior to Christmas 2022, to allow for the possibility that consumer spending is adversely affected for the reasons described above. Recent store sales levels have been slightly above the Base Case level;
- online sales are assumed to be lower than in the Base Case, reflecting the possibility that the recent performance is due to external factors beyond our control, such as a shift in consumer shopping patterns away from online sales, and/or the failure by the Group to successfully implement some or all of its plans to improve the online sales performance;
- the gross margin assumptions are consistent with the Base Case, which the Board believes already takes a sufficiently cautious view of expected freight rates, even allowing for a severe but plausible Downside scenario;
- volume related costs in the Downside Case are lowered where they move directly with sales levels, for example, online fulfilment and marketing costs are assumed to reduce to correspond with the lower online sales. The model also reflects certain steps which could be taken to mitigate the effect of lower sales levels, depending on management's assessment of the situation at the time. These include adjustments to stock purchases, reducing capital expenditure, reductions in headcount or labour usage, a reduction in discounts allowed as part of the Group's loyalty scheme and suspending the payment of dividends.

Under the Downside Case scenario, due to the mitigations built into the model, the Group's forecasts show that it will not draw on its bank facility at any point during the going concern period. Again, whilst it may not be relevant if the facility is not actually required, nevertheless the Downside Case also indicates that the financial covenants are complied with at all times.

Having considered the output of the Downside Case and the additional mitigating steps available, the Board's conclusion is that the business would continue to have adequate resources to continue in operation under this severe but plausible set of assumptions.

Consideration of more severe scenarios

Given the current rate of inflation and its potential impact on consumer confidence and spending, the Board believes that the Works value proposition positions it well to benefit from any tendency consumers may have to trade down in pursuit of better value. However, the Board also recognises that more severe downside scenarios than those modelled might arise.

Accordingly, it has considered a range of more severe possibilities than are reflected in the Downside Case, including a 10% reduction in sales between January 2023 and April 2024 on the basis that consumers may prioritise Christmas, but cut back on spending thereafter if their disposable incomes reduce for a sustained period. In these circumstances, in addition to the measures included in the Downside Case, further mitigating measures would be required and are available which when implemented, would generate additional profit and/or cash and provide further liquidity headroom and/or further headroom in relation to the financial covenants. Such measures could include further reductions in capital expenditure and further reductions in discretionary expenditure in areas such as travel, training and professional fees.

Conclusion regarding basis of preparation

The current economic environment, characterised by higher inflation than has been experienced for a number of years, and a high level of uncertainty about how long the situation will persist and whether it will become worse before it improves, creates a higher than normal level of uncertainty with regard to the strength of consumer spending. However, the Board's assessment is that, despite this, the overall level of risk is not as high as was represented by COVID-19, which resulted in a complete inability to operate the majority of the Group's business for significant periods of time. The resilience demonstrated by the business during those periods, in very challenging conditions, provides additional assurance about the Group's ability to continue as a going concern in the event of an extended economic downturn due to high inflation etc.

Consequently, the Directors are confident that the Group will have sufficient funds to continue to meet its liabilities as they fall due for at least twelve months from the date of approval of the financial statements and have therefore prepared the financial statements on a going concern basis.

(ii) New accounting standards

The Group has applied the following new standards and interpretations for the first time for the annual reporting period commencing 3 May 2021:

- COVID-19 Related Rent Concessions (Amendments to IFRS 16)
- Interest Rate Benchmark Reform; Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and 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:

- IFRS 17 – Insurance Contracts
- Property, Plant and Equipment – Proceeds Before Intended Use (Amendments to IAS 16)
- Reference to the Conceptual Framework (Amendments to IFRS 3)
- Onerous Contracts – Cost of Fulfilling a Contract (Amendments to IAS 37)
- Annual Improvements to IFRS Standards 2018-2020
- Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)
- Definition of Accounting Estimates (Amendments to IAS 8)
- Deferred Tax Related to Assets and Liabilities Arising From a Single Transaction (Amendments to IAS 12)
- Classification of Liabilities as Current or Non-Current (Amendments to IAS 1 Presentation of Financial Statements)

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 accounting policies.

Where a significant risk of materially different outcomes exists due to management assumptions or sources of estimation uncertainty, this will represent a key source of estimation uncertainty.

Estimates and judgements are continually evaluated and 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)
Inventory – shrinkage provision	13

2. Other operating income

Accounting policy

The business was classified as a 'non-essential retailer' and was therefore required to close its shops during periods of lockdown in the prior financial year. 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. Support was received through three mechanisms, described below, and as summarised in the table:

1. the Coronavirus Job Retention Scheme (CJRS), the Government's support measure relating to employment. This provided grants to cover wages of furloughed colleagues with payments available of up to 80% of colleagues' wages, up to a maximum of £2,500 per month plus National Insurance and auto-enrolled pension contributions, to the extent these could be claimed;
2. business rates relief; and
3. local business support grants.

Amounts received relating to the CJRS scheme and local business support grants must be classified as a government grant and accounted for in accordance with IAS 20 Government Grants. Such grants are recognised in the income statement in the period in which the associated costs for which the grants are intended to compensate are incurred. The grant income is reported as 'other operating income' in the income statement. The £119k charge noted below is a correction of an immaterial overstatement of the CJRS income reported in respect of the prior period.

The total business rates relief received during the year was £5,828k (FY21: £14,165k).

	FY22 £000	FY21 £000
COVID-19 furlough scheme grants receivable	**(119)**	**15,309**
COVID-19 business grants receivable	**-**	**1,765**
Rent receivable	**8**	**7**
	(111)	**17,081**

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

LFL sales are normally defined by the Group as the year-on-year growth in gross sales from stores which have been opened for a full 63 weeks (but excluding sales from stores closed for all or part of the relevant period or prior year comparable period), and from the Company's online store, calculated on a calendar week basis. The LFL sales increase has been calculated with reference to the FY20 comparative sales figures, or two-year LFL, because the extended periods of enforced store closures during FY21 prevent that period from forming the basis of meaningful comparisons. For the last 5 weeks of the Period, it has been necessary to calculate the LFL percentages with reference to the corresponding weeks in FY19, because the equivalent weeks during FY20 were also affected by the first period of enforced store closures. Similar comparison periods are also used for the total sales growth figures quoted. The measure is used widely in the retail industry as an indicator of sales performance.

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

	FY22 £000	FY21 £000
LFL store sales when stores were open	**219,308**	128,901
Online sales	**41,747**	62,084
Total LFL	**261,055**	190,985
Non-LFL store sales	**37,360**	15,176
Total gross sales	**298,415**	206,161
VAT	**(33,511)**	(24,290)
Loyalty points	**(274)**	(1,191)
Revenue per consolidated income statement	**264,630**	180,680
Memo: total store gross sales (LFL plus non-LFL)	**256,668**	144,077

EBITDA, Adjusted EBITDA and Adjusted profit after tax

EBITDA is defined by the Group as earnings before interest, tax, depreciation, amortisation and profit/loss on the disposal of fixed assets. Adjusted EBITDA is calculated by adding back or deducting Adjusting items to EBITDA. See Note 4 for a description of Adjusting items.

The Group also reports another measure of Adjusted EBITDA, which removes the impact of IFRS 16, to provide a measure that is consistent with internal reporting and is as used by the Group in its investment appraisals. The table provides a reconciliation of Adjusted EBITDA to profit/(loss) after tax and the impact of IFRS 16:

	FY22 £000	FY21 £000
Non-IFRS 16 Adjusted EBITDA[1]	**16,562**	4,285
IAS 17 income statement charges not recognised under IFRS 16	**24,433**	27,454
Foreign exchange difference on euro leases	**120**	59
Post-IFRS 16 Adjusted EBITDA[1]	**41,115**	31,798
Loss on disposal of right-of-use assets recognised under IFRS 16	**(2,066)**	(353)
Profit on disposal of lease liability recognised under IFRS 16	**2,340**	464
Loss on disposals of property, plant and equipment	**(244)**	(262)
Loss on disposals of intangible assets	**-**	(311)
Depreciation of property, plant and equipment	**(5,005)**	(5,187)
Depreciation of right-of-use assets	**(20,029)**	(23,311)
Amortisation	**(806)**	(947)
Finance expenses	**(5,192)**	(5,486)
Finance income	**16**	18
Tax (charge)/credit	**(1,436)**	502
Adjusted profit/(loss) after tax	**8,693**	(3,075)
Adjusting items (including impairment charges and reversals)	**29**	776
Tax charge	**-**	-
Profit/(loss) after tax	**8,722**	(2,299)

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.

	FY22			**FY21 (Restated[1])**		
	Adjusted £000	**Adjusting items £000**	**Total £000**	**Adjusted £000**	**Adjusting items £000**	**Total £000**
Profit/(loss) before tax before IFRS 16 adjustments	**9,525**	**(241)**	**9,284**	(3,395)	(94)	(3,489)
Remove IAS 17 rental charge	**24,306**	**-**	**24,306**	27,331	-	27,331
Remove hire costs from hire of equipment	**126**	**-**	**126**	124	-	124
Remove depreciation charged on the existing assets	**276**	**-**	**276**	329	-	329
Remove interest charged on the existing liability	**31**	**-**	**31**	44	-	44
Depreciation charge on right-of-use assets	**(20,029)**	**-**	**(20,029)**	(23,311)	-	(23,311)
Interest cost on lease liability	**(4,500)**	**-**	**(4,500)**	(4,869)	-	(4,869)
Loss on disposal of right-of-use assets	**(2,066)**	**-**	**(2,066)**	(353)	-	(353)
Profit on disposal of lease liability	**2,340**	**-**	**2,340**	464	-	464
Foreign exchange difference on euro leases	**120**	**-**	**120**	59	-	59
Additional impairment charge under IAS 36	**-**	**270**	**270**	-	870	870
Net impact on profit/(loss)	**604**	**270**	**874**	(182)	870	688
Profit/(loss) before tax	**10,129**	**29**	**10,158**	(3,577)	776	(2,801)

1 In the prior year financial statements, the allocation of fixed asset impairment charges between the right-of-use asset and property, plant and equipment categories was incorrect. The prior year balances have therefore been restated, resulting in an increase in the right-of-use asset balance of £801k, and a decrease in the property, plant and equipment balances of £801k. As such, this has increased the prior year loss before tax before IFRS 16 adjustments by £801k.

Adjusted profit metrics

Key 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 4.

4. Adjusting items

Adjusting items are those items of income and expenditure that, by reference to the Group, are material in size and unusual in nature or incidence and that in the judgement of the Directors should be disclosed separately on the face of the financial statements to ensure both 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 shareholders. 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 FY22, the items classified as 'Adjusting', as shown below, related to impairments and impairment reversals.

	FY22 £000	FY21 £000
Cost of sales		
Impairment charges[1]	**1,126**	961
Impairment reversals[1]	**(1,155)**	(1,873)
HMRC duty provision[2]	**-**	(63)
Total cost of sales	**(29)**	(975)
Administrative expenses		
Salary and other costs[3]	**-**	322
Packaging waste costs provision release[4]	**-**	(123)
Total administrative expenses	**-**	199
Total Adjusting items	**(29)**	**(776)**

1. These relate to fixed asset impairment charges and reversals of prior year impairment charges.
2. This related to a provision recognised regarding a HMRC review of the Group's duty rates.
3. Salary and other costs related to payments to past Directors, and other associated costs.
4. This related to the release of a provision recognised regarding packaging waste cost penalties from FY18.

5. Operating profit

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

	FY22 £000	FY21 £000
Loss on disposal of property, plant and equipment	**244**	262
Loss on disposal of intangible assets	**-**	310
Loss on disposal of right-of-use assets	**2,066**	353
Profit on disposal of lease liability	**(2,340)**	(464)
Depreciation	**25,034**	28,498
Amortisation	**806**	947
Adjusting items (see Note 4)	**(29)**	(776)
Operating lease payments:		
- Hire of plant and machinery[1]	**389**	392
- Other operating leases[1]	**1,549**	439
Net foreign exchange losses	**(128)**	135
Cost of inventories recognised as an expense	**106,954**	69,364
Staff costs	**60,031**	49,989

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.

Expenses reclassification

Certain online costs relating to fulfilment and website maintenance previously treated as distribution or administrative expenses have been reclassified to cost of sales in the FY22 accounts as this more accurately reflects their nature. The prior year balances have been reclassified to maintain consistency; the effect on gross profit, distribution expenses and administrative expenses is summarised in the table below:

	Per FY21 financial statements £000	Adjustment £000	FY21 restated balance £000
Cost of sales	(159,758)	(9,609)	(169,367)
Gross profit	**20,922**	**(9,609)**	**11,313**
Other operating income	17,081	**-**	17,081
Distribution expenses	(15,075)	**8,635**	(6,440)
Administrative expenses	(20,261)	**974**	(19,287)
Operating profit	**2,667**	**-**	**2,667**

6. 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

	FY22 £000	FY21 £000
Current tax expense		
Current year	**2,059**	-
Adjustments for prior years	**3**	22
Current tax expense	**2,062**	22
Deferred tax credit		
Origination and reversal of temporary differences	**(17)**	(423)
Increase in tax rate	**(825)**	-
Adjustments for prior years	**216**	(101)
Deferred tax credit	**(626)**	(524)
Total tax expense/(credit)	**1,436**	(502)

The UK corporation tax rate for FY22 and FY21 was 19.0%**.** Tax for other jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

Deferred tax assets and liabilities are recognised based on the corporation tax rate applicable when they are anticipated to unwind. An increase in the UK corporation rate from 19% to 25% (effective 1 April 2023) was substantively enacted on 24 May 2021 (although this is now under review). The deferred tax liability as at 1 May 2022 was therefore calculated using a 25% rate.

Assets and liabilities arising on foreign operations have been recognised at the applicable overseas tax rates.

Reconciliation of effective tax rate

	FY22 £000	FY21 £000
Profit/(loss) for the year	**10,158**	(2,801)
Tax using the UK corporation tax rate of 19%	**1,930**	(532)
Non-deductible expenses	**182**	105
Effect of tax rates in foreign jurisdictions	**(40)**	4
Tax under/(over) provided in prior periods	**219**	(79)
Utilisation of unrecognised tax losses brought forward	**(116)**	**-**
Deferred tax not recognised	**86**	**-**
Change in tax rate	**(825)**	-
Total tax expense/(credit)	**1,436**	(502)

The Group's total income tax expense in respect of the period was £1,436k (FY21: credit of £502k). The effective tax rate on the total profit before tax was 14.1% (FY21: 17.9% on the loss before tax) whilst the effective tax rate on the total profit before Adjusted items was 14.2% (FY21: 14.0% on the loss 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.

7. 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.

No dividends were paid to shareholders during FY21 or FY22.

Dividend equivalents totalling £175k (FY21: £74k) were accrued in the year in relation to share-based long-term incentive schemes.

The Board has recommended the payment of a 2.4 pence per share final dividend in respect of FY22 (FY21: £Nil).

8. 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 4 for further details) to reflect the Group's underlying profit for the year.

	FY22 Number	FY21 Number
Number of shares in issue	**62,500,000**	**62,500,000**
Number of dilutive share options	**940,673**	**–**
Number of shares for diluted earnings per share	**63,440,673**	**62,500,000**

	£000	£000
Profit/(loss) for the financial period	**8,722**	**(2,299)**
Adjusting items	**(29)**	**(776)**
Total Adjusted profit/(loss) for Adjusted earnings per share	**8,693**	**(3,075)**

	pence	pence
Basic earnings per share	**14.0**	**(3.7)**
Diluted earnings per share	**13.7**	**(3.7)**
Adjusted basic earnings per share	**13.9**	**(4.9)**
Adjusted diluted earnings per share	**13.7**	**(4.9)**

9. 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.

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, as well as internal payroll related costs for employees who are directly associated with 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.

	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	**16,180**	**5,580**	**21,760**
Amortisation charge for the year	**-**	**806**	**806**
Balance at 1 May 2022	**16,180**	**6,386**	**22,566**
Net book value			
At 3 May 2021	**-**	**2,463**	**2,463**
At 1 May 2022	-	2,672	2,672

	Goodwill £000	Software £000	Total £000
Cost			
Balance at 27 April 2020	16,180	8,415	24,595
Additions	-	526	526
Disposals	-	(898)	(898)
Balance at 2 May 2021	16,180	8,043	24,223
Amortisation and impairment			
Balance at 27 April 2020	16,180	5,221	21,401
Amortisation charge for the year	-	947	947
Disposals	-	(588)	(588)
Balance at 2 May 2021	16,180	5,580	21,760
Net book value			
At 27 April 2020	-	3,194	3,194
At 2 May 2021	-	2,463	2,463

Goodwill impairment testing

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

10. 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 sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in the profit or loss in the period in which they are incurred.

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 11.

Impairment of tangible and intangible assets

The carrying amounts of the Group's tangible and intangible assets with a definite 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).

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 pre-tax 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. Where the carrying value exceeds the recoverable amount a provision for the 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. For intangible assets that have an indefinite useful life the recoverable amount is estimated at each annual balance sheet date.

Measuring recoverable amounts

The key assumptions for the value in use calculations are those regarding the growth rates of sales and gross margins, operating costs, long-term growth rates, maintenance capital expenditure and the pre-tax discount rate used to discount the assumed cash flows to present value.

Impairment triggers

In FY21, due to COVID-19 and its impact on the UK economy and the Group, an impairment review was performed on all stores. As at 1 May 2022 only stores with an indicator of impairment have been included within the impairment assessment, including 38 stores with a budgeted loss at EBITDA level and an additional 30 stores which have historically been loss making and management is considering the closure or relocation of the store at the lease break date. An additional 50 stores with a prior year impairment charge have also been included in the FY22 assessment.

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 historical data from both 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 country risk-free rate, equity risk premium, Group size premium, a forecasting risk premium and a risk adjustment (beta). The post-tax WACC is subsequently adjusted to reflect the specific amount and timing of the future tax cash flows.

	FY22	FY21
Pre-tax discount rate	**17.9%**	**16.8%**
Long-term growth rate	**2.0%**	**2.0%**

Cash flow forecasts are derived from the most recent Board-approved corporate plans that form the Base Case on which the value in use calculations are based, and which 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);
- operating cost estimates reflect expected changes in the variables that underpin them and, in particular, expected increases in the National Living Wage; and
- maintenance capital expenditure includes estimates of ongoing capital expenditure required to maintain the store network, but excludes any significant growth capital initiatives not committed.

Cash flows beyond the corporate plan period (2026 and beyond) have been determined using the long-term growth rate; this is based on management's future expectations, reflecting, amongst other things current market conditions and future trends and has been based on historical data from both external and internal sources. Severe weather has been considered when modelling forecasts and it is not deemed to have a material affect on the projected numbers in the impairment review.

Impairment charge

As at the end of FY21, an impairment charge of £2,588k was recorded against right-of-use assets, property, plant and equipment relating to 80 stores. Evidence is available from internal reporting that indicates that the economic performance of 48 of these stores has improved and is expected to continue to do so. As a result, an impairment reversal of £1,155k has been recognised relating to these stores. Conversely, during FY22 an impairment charge of £1,126k was recognised against 39 stores, reflecting the underperformance of these stores for a variety of reasons. A net reversal of £29k has therefore been shown as an Adjusting item on the face of the consolidated income statement.

Sensitivity analysis

Whilst the Directors believe the assumptions adopted are realistic, reasonably possible changes in key assumptions could occur which would cause the recoverable amount of certain stores to be lower or higher than the carrying amount. The Directors consider that the only key assumption, that could reasonably be different and cause a material change in the impairment charge, is sales growth. A reduction in sales of 5% from the Base Case plan to reflect a potential downside scenario would result in an increase in the impairment charge of £422k relating to a total of 41 stores, and a decrease in the impairment reversal of £212k relating to 46 stores. An increase in sales of 5% from the Base Case plan would increase the impairment reversal by £189k relating to 53 stores and decrease the impairment charge by £321k to relating to 33 stores.

Reasonably possible changes to other key assumptions, including a 200 basis point increase in the pre-tax discount rate across all stores, or a 200 basis point reduction in the long-term growth rate would not result in a significant change to the impairment charges or reversals, either individually or in combination.

Whilst the Directors consider their assumptions to be realistic, should actual results, including the rates of growth in sales, 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	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 3 May 2021	**154,047**	**1,913**	**10,682**	**3,376**	**26,167**	**196,185**
Additions	**3,126**	**508**	**(38)**	**476**	**1,498**	**5,570**
Disposals	**(5,768)**	**-**	**(229)**	**(34)**	**(407)**	**(6,438)**
Balance at 1 May 2022	**151,405**	**2,421**	**10,415**	**3,818**	**27,258**	**195,317**
Depreciation and impairment						
Balance at 3 May 2021	**42,442**	**976**	**5,555**	**2,762**	**14,384**	**66,119**
Depreciation charge for the year	**19,597**	**432**	**808**	**640**	**3,557**	**25,034**
Impairment charge	**710**	**-**	**155**	**15**	**246**	**1,126**
Impairment reversals	**(980)**	**-**	**(54)**	**(8)**	**(113)**	**(1,155)**
Disposals	**(3,702)**	**-**	**(147)**	**(21)**	**(258)**	**(4,128)**
Balance at 1 May 2022	**58,067**	**1,408**	**6,317**	**3,388**	**17,816**	**86,996**
Net book value						
At 3 May 2021	**111,605**	**937**	**5,127**	**614**	**11,783**	**130,066**
At 1 May 2022	**93,338**	**1,013**	**4,098**	**430**	**9,442**	**108,321**

	RoUA – property £000	RoUA – plant and equipment £000	Land and buildings £000	Plant and equipment £000	Fixtures and fittings £000	Total £000
Cost						
Balance at 27 April 2020	140,992	1,724	10,591	2,539	25,738	181,584
Additions	18,404	189	151	859	859	20,462
Disposals (Restated[1])	(5,349)	-	(60)	(22)	(430)	(5,861)
Balance at 2 May 2021 (Restated[1])	154,047	1,913	10,682	3,376	26,167	196,185
Depreciation and impairment						
Balance at 27 April 2020	25,494	459	4,586	2,185	11,036	43,760
Depreciation charge for the year	22,794	517	975	594	3,618	28,498
Impairment charge (Restated[2])	4	-	150	49	758	961
Impairment reversals	(874)	-	(149)	(49)	(802)	(1,874)
Disposals (Restated[1])	(4,976)	-	(7)	(17)	(226)	(5,226)
Balance at 2 May 2021 (Restated[1])	42,442	976	5,555	2,762	14,384	66,119
Net book value						
At 27 April 2020	115,498	1,265	6,005	354	14,702	137,824
At 2 May 2021 (Restated[2])	111,605	937	5,127	614	11,783	130,066

1. In the prior year financial statements leases which had expired and had a nil net book value were not captured within the IFRS 16 disposals assessment. The carried forwards property right-of-use asset cost and depreciation figures were incorrectly grossed up by £4,725k; as such these prior year balances have been adjusted. Note that this adjustment has no impact on the FY21 closing net book value of the right-of-use assets or property, plant and equipment.
2. In the prior year financial statements, the allocation of fixed asset impairment charges between the right-of-use asset and property, plant and equipment categories was incorrect. The prior year balances have therefore been restated, resulting in an increase in the right-of-use asset balance of £801k, and a decrease in the property plant and equipment balances of £801k:

	Per FY21 financial statements	**Adjustment**	**FY21 restated balance**
	£000	**£000**	**£000**
Right-of-use assets	111,741	801	112,542
Property, plant and equipment	18,325	(801)	17,524

11. 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 twelve months or less; and

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

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 rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the Group uses the incremental borrowing rate.

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.

Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These terms are used to maximise operational flexibility. The Group has applied judgement to determine the lease term for some lease contracts in which it is a lessee that includes renewal options and break clauses. The assessment of whether the Group is reasonably certain to exercise such options impacts the lease term, and therefore the amount of lease liabilities and right-of-use assets recognised.

Judgements in determining the lease term

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Extension options (or periods after termination options) are only included in the lease term if the lease is reasonably certain to be extended (or not terminated).

For property leases the following factors are the most relevant:

- The profitability of the leased store and future plans for the business.
- 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 was 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 balance sheet

Right-of-use assets

	FY22 £000	FY21 (Restated – Note 10) £000
Land and buildings	**93,338**	111,605
Plant and equipment	**1,013**	937
Total right-of-use assets	**94,351**	112,542

Additions to the right-of-use assets during FY22 were £3,634k (FY21: £18,593k).

Lease liabilities

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

	FY22 £000	FY21 £000
Current	**25,434**	31,552
Non-current	**85,702**	104,362
	111,136	135,914

Maturity analysis – contractual undiscounted cash flows:

	FY22 £000	FY21 £000
Less than one year	**31,592**	35,978
Two to five years	**83,017**	86,601
More than five years	**21,862**	30,158
Total undiscounted lease liabilities	**136,471**	152,737

Amounts recognised in the statement of profit and loss:

	FY22 £000	FY21 (Restated - Note 10) £000
Depreciation charge on right-of-use assets (RoUA)	**20,029**	23,311
Interest cost on lease liability	**4,500**	4,869
Loss on disposal of RoUA	**2,066**	353
Profit on disposal of lease liability	**(2,340)**	(464)
Foreign exchange difference on euro leases	**120**	59
Additional impairment charge under IAS 36	**(270)**	(870)
Operating lease rentals – hire of plant and equipment		
- Low-value leases	**389**	392
Total plant and equipment operating lease rentals	**389**	392
Operating lease rentals – store leases		
- Stores with variable lease rentals	**454**	20
- Concession leases (the landlord has substantial substitution rights)	**943**	1,310
- Low-value leases	**(11)**	(23)
- Lease is expiring within 12 months or has rolling break clauses	**87**	98
- Lease has expired	**484**	149
- Variable lease payments as a result of COVID-19 concessions	**(408)**	(1,115)
Total store operating lease rentals	**1,549**	439

Depreciation of right-of-use asset by class:

	FY22 £000	FY21 £000
Land and buildings	**19,597**	22,794
Plant and equipment	**432**	517
Total right-of-use asset depreciation	**20,029**	23,311

Other lease rental commitments:

Non-cancellable operating lease rentals for leases excluded from the IFRS 16 assessment are as follows:

	FY22			**FY21**		
	Motor vehicle leases £000	**Concession store leases £000**	**Total £000**	**Motor vehicle leases £000**	**Concession store leases £000**	**Total £000**
Less than one year	**386**	**589**	**975**	247	326	573
Between one and five years	**200**	**729**	**929**	230	51	281
More than five years	**-**	**-**	**-**	-	-	-
Total operating lease commitments	**586**	**1,318**	**1,904**	477	377	854

12. Deferred tax assets

Recognised deferred tax assets

Deferred tax assets are attributable to the following:

	Assets		**Liabilities**	
	FY22 £000	FY21 £000	**FY22 £000**	FY21 £000
Property, plant and equipment	**1,637**	732	**-**	-
Leases	**1,645**	1,420		
Temporary timing differences	**195**	372	**-**	-
Financial assets/liabilities	**-**	328	**-**	-
Tax assets	**3,477**	2,852	**-**	-

Movement in deferred tax during the year

	Fixed assets £000	Leases £000	Temporary timing differences £000	Financial assets/ liabilities £000	Total £000
At 3 May 2021	732	1,420	372	328	2,852
Adjustment in respect of prior years	-	-	(216)	-	(216)
Deferred tax credit/(charge) to profit and loss	905	225	39	(328)	841
Deferred tax credit/(charge) in equity profit and loss	-	-	-	-	-
At 1 May 2022	**1,637**	**1,645**	**195**	**-**	**3,477**

13. 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

	FY22 £000	FY21 £000
Gross stock value	**29,817**	31,045
Less: stock provisions for shrinkage and obsolescence	**(3,252)**	(4,391)
Goods for resale net of provisions	**26,565**	26,654
Stock in transit	**2,822**	2,478
Inventory	**29,387**	29,132

The cost of inventories recognised as an expense during the period was £107.7m (FY21: £69.0m).

Stock provisions

The Group makes provisions in relation to stock quantities, due to stock losses not yet reflected in the accounting records, commonly referred to as 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.

The calculation of stock provisions entails the use of estimates and judgements combined with mechanistic calculations and extrapolations. The shrinkage provision represents a key source of estimation uncertainty.

Shrinkage provision

As at the end of FY21 the unrecognised shrinkage provision was £2.6m, which was significantly higher than the amount usually required in a normal, non-COVID-19 impacted year. This was due to the closure of stores for extended periods of FY21, which significantly interrupted the stock counting process and the corresponding routine process of correcting the stock file.

During the course of FY22, the Group has 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) were performed in 71 stores during the last 6 weeks of the financial year, and an additional 53 four wall counts were performed in the month following the financial year end. Through these processes, the Group establishes that its accounting records are maintained to reflect 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 stock counts during the financial year, as a result of which the provision required for unrecognised shrinkage materially decreased compared with the value at the end of FY21, by £0.7m, to £1.9m.

The percentages used in calculating the unrecognised shrinkage provision were based on data obtained from the full 4-wall counts performed towards the end of the financial year and during the first month of FY23. The shrinkage provision was £1.9m at the period end (FY21: £2.6m), representing 8.6% of gross store stock (FY21: 12.3%). The provision relates to store stock with a value of £22.2m (FY21: £21.2m). This represents management's best estimate of the likely level of stock losses experienced, but the actual level of stock loss will only be established once all products in all locations have been counted. A 20% increase / (decrease) in the shrinkage percentage used would result in an increase / (decrease) to the shrinkage provision of £334k to £2.3m / (£1.6m). This represents a reasonably possible range of estimation uncertainty with regard to the unrecognised shrinkage provision

The shrinkage provision has been estimated based on the results the four wall counts which may not be representative of the store population as a whole. Due to the level of the provisions, combined with the risk that the sample on which it is based may not be representative of the populations as a whole, the calculation of the stock shrinkage provision is considered a key source of estimation uncertainty for the FY22 financial statements.

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 the prior financial year, the closures of the stores due to the COVID-19 pandemic interrupted the orderly process of selling through terminal stock, particularly during the UK-wide lockdown implemented between January and April 2021, which coincided with the period when the January sale would normally have taken place. As a result, at the end of FY21, the Group carried a higher than normal level of terminal stock and the obsolescence provision was higher than normal, at £1.8m.

During FY22 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 £0.5m to £1.3m.

14. Trade and other receivables

	FY22 **£000**	FY21 £000
Current		
Trade receivables	**2,606**	2,214
Other receivables	**1,793**	423
Prepayments	**4,028**	3,362
Accrued income	**-**	914
Trade and other receivables	**8,427**	6,913

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 (FY21: £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.

The accrued income balance in the prior year relates to the COVID-19 furlough scheme Government grants receivable as detailed in Note 2.

15. Cash and cash equivalents

	FY22 £000	FY21 £000
Cash and cash equivalents per balance sheet	**16,280**	**8,315**
Net cash and cash equivalents	**16,280**	**8,315**

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

	FY22 £000	FY21 £000
Sterling	**12,198**	3,385
Euro	**3,102**	1,138
US dollar	**980**	3,792
Net cash and cash equivalents	**16,280**	8,315

At 1 May 2022 the Group held net cash (excluding lease liabilities) of £16.3m (FY21: net cash (excluding lease liabilities) of £0.8m). This comprised cash of £16.3m (FY21: cash of £8.3m and a draw down of £7.5m against a term loan).

For the year ended 1 May 2022 the Group's bank facilities comprised a revolving credit facility (RCF) of £22.5m, with an expiry date of 30 September 2022. The RCF limit reduced to £20.0m in January 2022 and remained at this level until its expiry. From 10 June 2022 the Group's bank facilities comprised an RCF of £30m expiring 30 November 2025.

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.

16. 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 1 May 2022 all borrowings were denominated in sterling (FY21: sterling).

	FY22 £000	FY21 £000
Non-current liabilities		
Lease liabilities	**85,702**	**104,362**
Non-current liabilities	**85,702**	**104,362**
Current liabilities		
Secured bank loans	**-**	7,500
Lease liabilities	**25,434**	31,552
Unamortised debt issue costs	**-**	(405)
Current liabilities	**25,434**	38,647

Reconciliation of borrowings to cash flows arising from financing activities:

	FY22 £000	FY21 £000
Borrowings at start of year (excluding overdrafts)	**143,009**	142,129
Changes from financing cash flows		
Payment of lease liabilities (capital)	**(25,969)**	(14,327)
Payment of lease liabilities (interest)	**(4,500)**	(4,869)
Proceeds from loans and borrowings	**-**	7,500
Repayment of bank borrowings	**(7,500)**	(10,000)
Payment of RCF fees	**-**	(619)
Total changes from financing cash flows	**(37,969)**	(22,315)
Other changes		
Lease liability additions	**3,634**	18,593
Disposal of lease liabilities	**(2,340)**	(464)
The effect of changes in foreign exchange rates	**(120)**	(59)
Interest expense	**4,922**	5,125
Total other changes	**6,096**	23,195
Borrowings at end of year (excluding overdrafts)	**111,136**	143,009

Net debt reconciliation

	FY22 £000	FY21 £000
Net debt (excluding unamortised debt costs)		
RCF	**-**	7,500
Cash and cash equivalents	**(16,280)**	(8,315)
Net bank cash	**(16,280)**	(815)
Non-IFRS 16 lease liabilities	**485**	766
Non-IFRS 16 net cash	**(15,795)**	(49)
IFRS 16 lease liabilities	**110,651**	135,148
Net debt including IFRS 16 lease liabilities	**94,856**	135,099

17. Trade and other payables

	FY22 £000	FY21 £000
Current		
Trade payables	**20,091**	15,309
Other tax and social security	**2,792**	194
Accrued expenses	**13,075**	10,685
Trade and other payables	**35,958**	26,188

Trade payables and accruals principally comprise amounts outstanding for trade purchases and ongoing costs. The Group has financial risk management policies in place to ensure that all payables are paid within the pre-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 £453k (FY21: £677k) of deferred income in relation to the Group's customer loyalty scheme. The increase in the balance from FY21 is due to an increase in the bonus accrual.

The Group has net US dollar denominated trade and other payables of £4.9m (FY21: £2.9m).

18. 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:

	FY22 £000	FY21 £000
Key management remuneration – including social security costs	**2,077**	1,965
Pension contributions	**134**	124
Long Term Incentive Plan – including social security costs	**621**	29
Total transactions with key management personnel	**2,832**	2,118

Further details of the compensation of key management personnel who are Directors are provided in the Group's Directors' remuneration report which is included in the FY22 Annual Report.

19. 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%

20. Post balance sheet events

On 10 June 2022, the Group renewed its bank facility, increasing the size of the committed facility to £30.0m and extended the expiry date to the end of November 2025, providing significant additional liquidity headroom.

Principal risks and uncertainties

Our risk management framework

The Board is ultimately 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 and Risk 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 across all areas of the business. Senior management determine the potential risks that could affect their areas of responsibility and their likelihood of occurrence and impact. This information is used to create a primary risk register which collates the 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 assesses 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 October and November 2021. This review included discussions with each Operational Board member 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 2022 and July 2022.

The principal risks and uncertainties facing the Group are set out in the table on the following pages, together with details of how these are currently mitigated.

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

- Removal of store expansion risk: store expansion activity and specifically new store openings no longer represent a risk. The Group's strategy is now focused on optimising its store estate and new store openings are a less significant strategic priority.
- Addition of environmental (including climate change) risk: Following the risk review described above this risk is now considered to be a principal risk.
- Reduced likelihood and impact of risks associated with COVID-19.
- As a result of experiencing a cyber-security incident in March 2022 we have significantly increased our cyber-security capabilities. As a result, the risks of a similar event in the future causing significant damage or disruption, have reduced. We continue to monitor our systems diligently and implement appropriate mitigation measures.

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 economic conditions or a reduction in consumer confidence could impact customer spending and have an adverse effect on the Group’s revenue and profitability.

Change from prior year

Increased risk level. COVID-19 trading restrictions were lifted at the start of FY22, and the risks connected with the pandemic are now lower. However this risk is currently heightened due to:

Supply chain costs described below.
Raw materials and energy costs.
Increases in National Living and Minimum Wages given most of the Group’s colleagues are paid the National Minimum or Living Wage.
The war in Ukraine.
FX rates.

Link to strategy

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

</td><td>

The Group’s proposition as an alternative to full price specialist retailers positions it well for customers looking to trade down in times of economic uncertainty.
Monitor sales on a daily basis and ongoing review of pricing and margins.
Review sales trends data at weekly trading meetings attended by experienced senior management and, if required, agree and implement mitigating actions to drive sales and/or reduce costs. Take account of expected impact in the Group’s strategic planning process, budgets and forecasts.
Continue to focus on cost control across the business while making carefully considered investments in certain areas to support the Group’s growth strategy.
Increasing the use of direct sourcing as part of a three-year plan to improve the margin on key products purchased. This has been delayed by the ongoing effects of COVID-19 in China, the Group’s key supply source.
FX hedging policy in place to smooth the short-term effects of exposure to foreign exchange rate fluctuations (substantially all FY23 USD requirements hedged) and continue to hedge energy costs as appropriate.
Operate store estate on flexible short-term property leases to ensure the Group benefits from reductions in rental costs through the rolling renegotiation of its leases and can flex its store estate relatively quickly in the event of material local changes in demand.

</td></tr>
<tr><td>
2. Market

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

Although it has a track record of understanding customers’ needs within these categories, 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.

Change from prior year

Same risk level.

Link to strategy

Develop our brand and increase customer engagement.
Enhance our online proposition.
Optimise our store estate.

</td><td>

Focus on development of our brand and increasing customer engagement is designed to further differentiate the Group from competitors.
Emerging trends monitored by a recently strengthened trading team that has a proven track record of responding to changing consumer tastes.
Closely 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 react to changes in local market conditions.
Ongoing investment in the Group’s online capability will ensure that it remains relevant as customers shopping behaviours increasingly involve online engagement prior to store purchases as well as those made directly via the website.

</td></tr>
</table>

Risk, profile change and link to strategy	Mitigation
3. IT systems and cyber security The Group relies on its IT systems for many aspects of its operation. Failure to develop and maintain these systems, or any prolonged system performance problems or cyber-attack, could affect the Group's ability to trade and/or could lead to significant fines and reputational damage. **Change from prior year** The Group experienced a cyber-security incident at the end of March 2022, which temporarily affected till systems, replenishment deliveries to stores and delayed the fulfilment of online orders. Action was taken swiftly to protect the business, which reduced the immediate threat and enabled trade to continue online and in the majority of stores. As part of the operational recovery plan we have embedded significantly increased security capabilities across the business, which has taken more time than merely reinstating the previous arrangements after scanning for residual security issues. While this lengthened process has created a degree of short term operational difficulty, it has resulted in a significant reduction in the risk of the business suffering major loss or disruption in the event of a future cyber-security incident. **Link to strategy** • Develop our brand and increase customer engagement. • Enhance our online proposition.	• Systems and data are key to the execution of the strategy. Ensuring systems and processes are fit for purpose will deliver efficiency and capability improvements. • Significantly enhanced IT security across all operations including upgraded malware detection and response capability to detect, defend and isolate any attack, introduced extensive network segmentation to limit the progress of any attack and established a new Security Operations Centre to monitor and respond to any unusual activities in our systems or networks. • Refreshed mandatory training for colleagues to raise • awareness of cyber-security issues. • 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 Operating Board including security and infrastructure investment programmes. • Further strengthened in-house IT capabilities during FY22. • Diligent monitoring of systems on an ongoing basis.
4. Supply chain The Group uses third parties, including many in Asia, for the supply of products. This creates a number of potential areas of risk, including 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. Supply chain disruption has been heightened due to COVID-19 resulting in uneven demand and supply patterns. During FY22, the main supply chain impact was a very significant increase in ocean freight rates and difficulty importing stock due to problems in the ocean freight system. Due to the Group's low level of exposure to sales outside the U.K., risks connected with Brexit are low albeit there still remains a higher level of complexity than previously in exporting goods to the Group's ten stores in Ireland. **Change from prior year** Unchanged level of risk. **Link to strategy** • Develop our brand and increase customer engagement. • Enhance our online proposition.	• Buying and supply chain teams strengthened progressively since mid-2020. • 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. • Developed a series of product technical requirements that provide guidance for our buyers and suppliers during product • sourcing, development and manufacture. • 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 such costs) and monitor alternative sourcing arrangements where practicable.

Risk, profile change and link to strategy	Mitigation
5. Brand and reputation Protecting and enhancing the reputation of the Group's key brand asset – 'TheWorks.co.uk' – is vital to the Group's 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. **Change from prior year** Same risk level. **Link to strategy** Develop our brand and increase customer engagement.	• Developing our brand and increasing customer engagement is a strategic aim. During the year we evolved and modernised our brand which will be rolled out across the business during Autumn 2022.. • In conjunction with our brand evolution, 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 including the processes in place to ensure the Group operates in a responsible way.
6. Regulation and compliance The Group is exposed to a growing 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, in some cases, could be material and could significantly impact the financial performance of the business. There are significant 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** Higher risk level. Regulatory requirements relating to climate change and environmental reporting have increased, which increase this risk level. The Group is now subject to the TCFD disclosure requirements . **Link to strategy** Develop our brand and increase customer engagement.	• Oversight of regulatory compliance by Group CFO and Company Secretary with support from external advisers. • Implement policies and procedures in relation to mandatory requirements and measures the Group has adopted voluntarily. • Operate a Whistleblowing Policy and procedure which enables colleagues to confidentially report any concerns or inappropriate behaviour. • Operate a GDPR Policy which is overseen by a 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. • Entered into a partnership with Salford Trading Standards, one of ten local trading standards authorities, to access greater consensus on regulatory interpretations and new legislation, particularly following Brexit.
7. Seasonality of sales The Group historically makes all of its profit in the second half of the financial year, with the peak Christmas trading period contributing substantially all of this. Interruptions to supply, adverse weather or a significant downturn in consumer confidence in this period could have a significant impact on the short-term profitability of the Group. **Change from prior year** Same risk level. **Link to strategy** Develop our brand and increase customer engagement. Enhance our online proposition.	• Continue to focus on reducing seasonality, where possible, by growing 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. • Enhanced online fulfilment operation to increase capacity during the peak season.

<table>
<tr><th>Risk, profile change and link to strategy</th><th>Mitigation</th></tr>
<tr><td>8. People

The Group’s success is dependent on the quality of the Board and senior management team. A lack of effective succession planning and development of key colleagues could harm future prospects.

Change from prior year

Reduced risk level compared to the previous year following recent appointments to the Operational Board and senior management team.

Link to strategy

• Develop our brand and increase customer engagement.
• Enhance our online proposition.
• Optimise our store estate.
• Drive operational improvements.</td><td>• Continue to develop succession plans which are discussed at Nomination Committee meetings.
• Establishing development programmes to support future leaders.
• 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 Operational Board members.</td></tr>
<tr><td>9. 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

Reduced risk as described above due to the implementation of additional security measures following cyber-security incident.

Link to strategy

• Develop our brand and increase customer engagement.
• Enhance our online proposition.
• Optimise our store estate.
• Drive operational improvements.</td><td>• Business continuity plan in place including system recovery. Following the cyber-security incident referred to above, this plan has been enhanced in a number of areas including the implementation of new cloud based back-ups which improve the flexibility of any disaster recovery plan response. Further enhancements are planned in the coming year including subscription to a cloud-based technology recovery centre to improve system recovery speed and execution.
• Undertake disaster recovery dry run exercises. The scope of these exercises has been updated and a number of dry runs will take place in FY23.
• 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.</td></tr>
<tr><td>10. 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 as a result of extreme weather events 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. Regulations and compliance risk above.

Change from prior year

New risk this year

Link to strategy

• Develop our brand and increase customer engagement.
• Drive operational improvements.</td><td>• Initiatives to reduce our impact on the environment are being implemented, for example, reducing waste packaging in products sold and in parcel delivery packaging for online sales, and reducing our use of single use plastic.
• Engaged a specialist ESG consultancy to assist in the development of the Group’s environmental strategy and ensure compliance with TCFD requirements.
• Recruiting a Sustainability Manager to lead and implement our environmental strategy.
• Working with our third-party logistics providers to explore and invest in energy efficient solutions within the supply chain process.</td></tr>
</table>

Risk, profile change and link to strategy	Mitigation
11. Liquidity Insufficient liquidity available and/or insufficient headroom in banking facilities. Potential for breach of banking covenants if financial performance deteriorates significantly compared with plans. Availability of credit insurance to suppliers may be reduced or removed resulting in an increased cash requirement. **Change from prior year** Strengthened balance sheet and less capital intensive strategy reduce this risk to a lower level than the previous year. A new revolving credit facility has also recently been secured and increased to £30m. **Link to strategy** • Develop our brand and increase customer engagement. • Enhance our online proposition. • Optimise our store estate. • Drive operational improvements.	• Financial forecasts and covenant headroom monitored and reported to the Board monthly. • Strategy focuses on driving LFL sales and improving efficiency, rather than previous store rollout plan, which is a lower risk, less capital intensive strategy. • The bank facilities have been increased to £30m and extended to 30 November 2025.
12. COVID-19 The risks relating to COVID-19 appear to have reduced significantly since last year. The residual risks are: The potential for medium-term adverse economic impact following the cessation of Government support schemes. Further supply chain disruption due to restrictions potentially being maintained in certain parts of the world, particularly China, which could cause disruption to stock availability and cost inflation. **Change from prior year** The risk is deemed to be lower than that reported at the prior year end, following the successful roll out of the vaccination programme and the removal of government restrictions . **Link to strategy** • Develop our brand and increase customer engagement. • Enhance our online proposition. • Optimise our store estate. • Drive operational improvements.	• Continue to prioritise and promote the health and wellbeing of colleagues, customers and the wider community. • Focus on maximising the potential of the business in the broadest sense to increase its resilience. • The Group is now better able to flex its online fulfilment capacity to meet demand in the event of any future restrictions being imposed on retail store trading. • Successful navigation through the pandemic demonstrated the relevance of the Group's proposition to customers and its ability to react to such an event.